“Diversification” New Rules?

December 2023 | CE Version

Successful Portfolio Construction has evolved!

- Diversification is the key to MPT (Modern Portfolio Theory)
- Apply a “new way” of portfolio construction
- Correlation matters
- Build a position to create true diversification

Historically – Portfolio Construction

- Suitability
  - Client objectives
  - Investment horizon
  - Risk tolerance

- Diversification (60/40)
  - Equities – multiple sectors (Style Boxes)
  - Fixed Income – Gov/Corporate/Muni/etc.

- Rebalance
  - Evaluate existing investments
  - Rebalance to maintain diversification

Current – Portfolio Construction “Four Key Elements”

- Suitability
  - Client objectives
  - Investment horizon
  - Risk tolerance

- Maintain a “Diversified Portfolio”
  - Establish more than two core return streams
  - Evaluate how return streams interrelate

- Correlation should be a main driving factor

- Rebalance
  - Evaluate existing
  - Rebalance to maintain diversification

Modern Portfolio Theory (MPT)

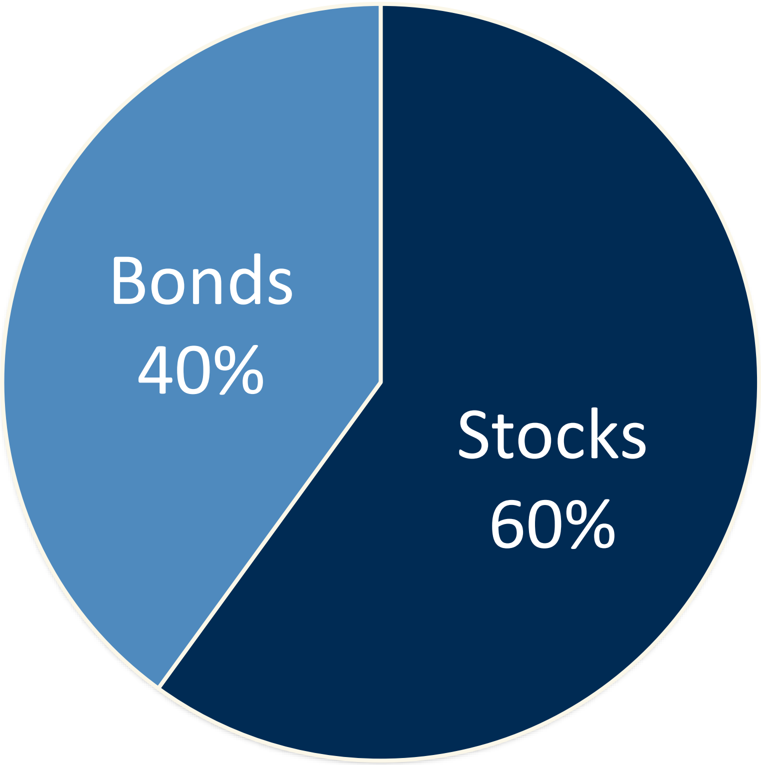
Portfolio risk can be reduced by diversification ***by:***

- Investing in assets that have low, positive correlation
- Or better still, a **negative correlation**

Harry Markowitz, PhD

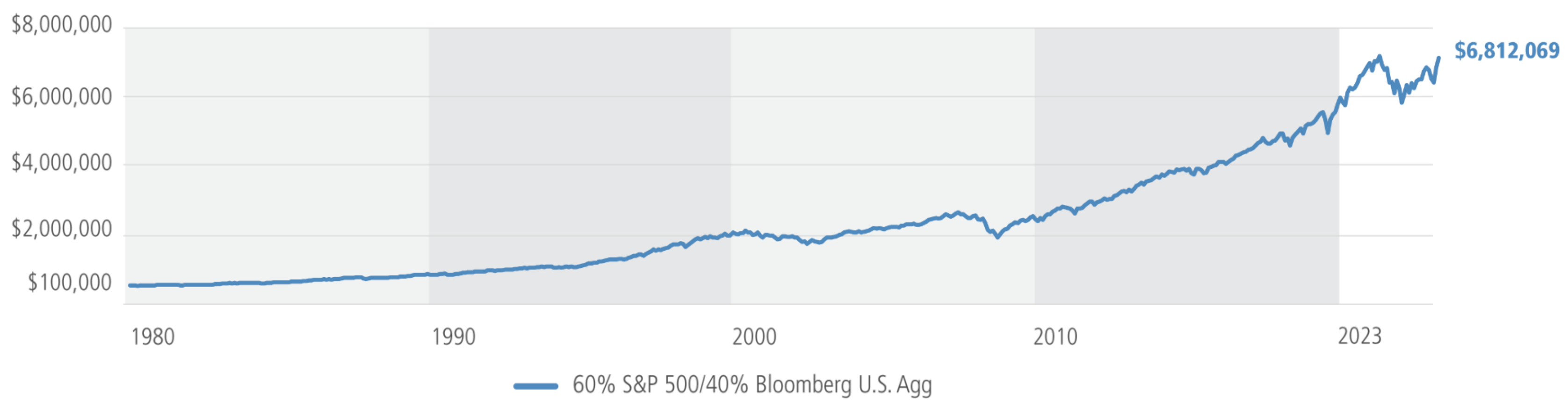
Source: https://www.studocu.com/my/document/university-teknologi-mara/portfolio-management/fin377-chapter-5-none/28262955

How do you Accomplish This?



How do you Accomplish This?

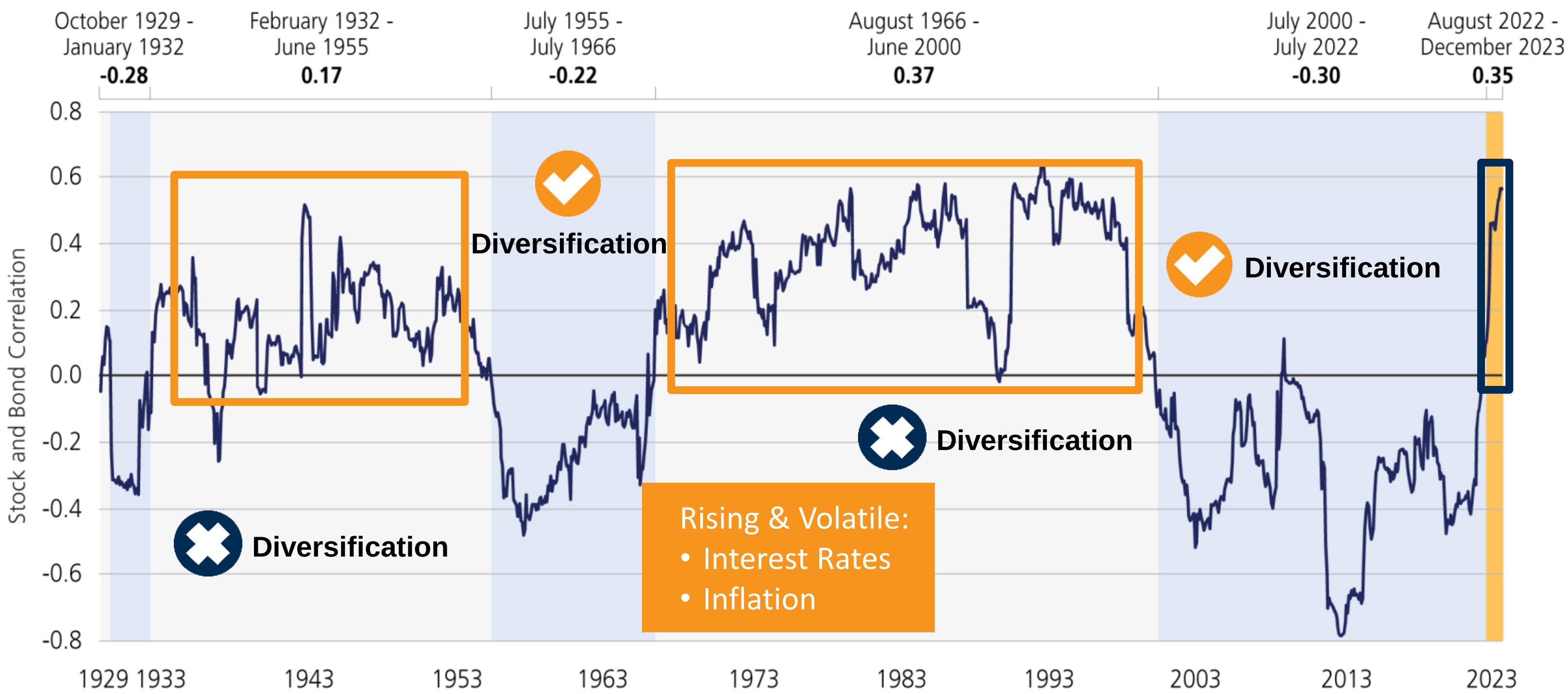
Growth of a Hypothetical $100,000 Investment* – January 4, 1980 - December 31, 2023



Asset Class	Index	2022 Max Drawdown
US Large Cap	S&P 500	-23.87%
US Small Cap	Russell 2000	-25.10%
US Value	Russell 3000 Value	-17.97%
US Growth	Russell 3000 Growth	-30.57%
Foreign Development	MSCI EAFE NR	-27.09%
Emerging Markets	MSCI EM NR	-29.42%
Investment Grade Bonds	Bloomberg US Agg Bond	-15.72%
High Yield Bonds	Bloomberg US Corp High Yield	-14.74%
Real Estate	FTSE Nareit All REITs	-28.34%
Commodities	S&P GSCI	-17.16%

Source: Morningstar Direct. **Past performance is not a guarantee of future results.** *Assumes reinvestment of dividends and capital gains.

Stock & Bond Correlation

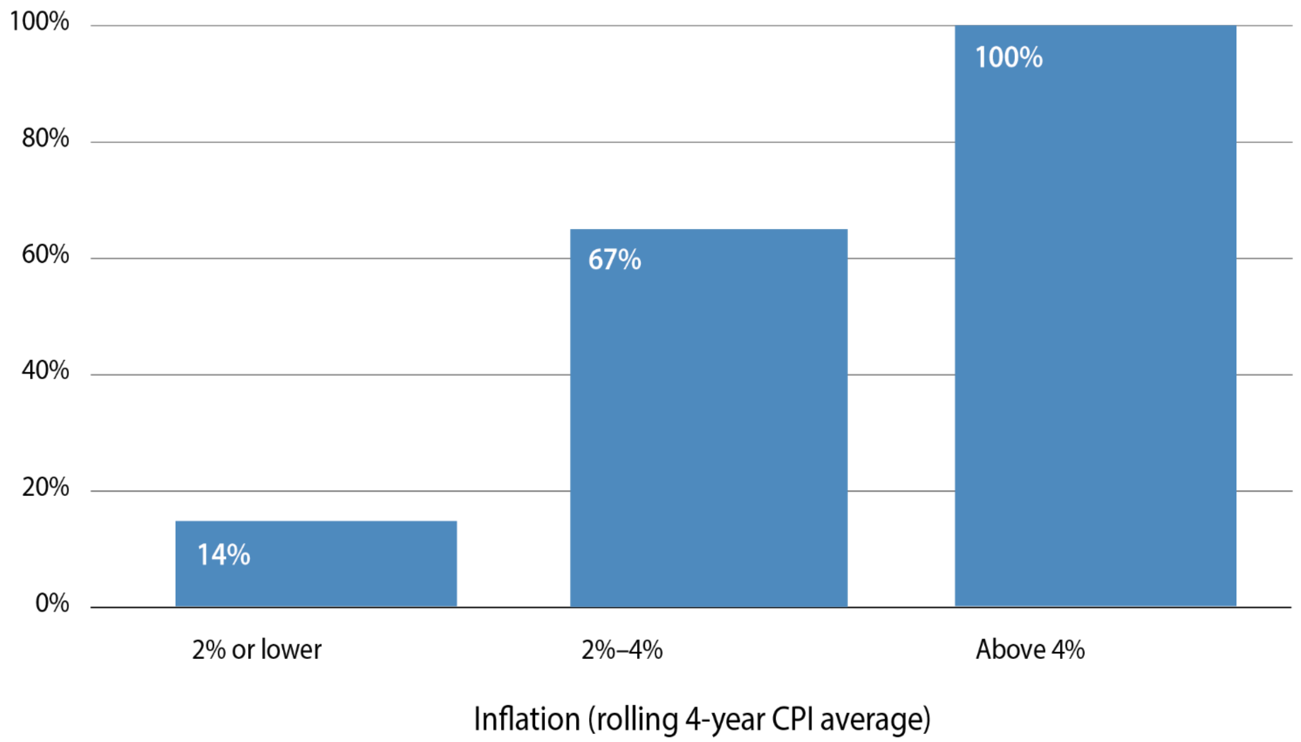


Source: Morningstar Direct. Past performance is not a guarantee of future results. Time period is 1/31/1929-12/31/23

Correlation - Inflationary Environments

During periods of rising inflation, stocks and bonds have been positively correlated.

Percent of Time Positive Stock & Bond Correlation – January 1976 – December 2023



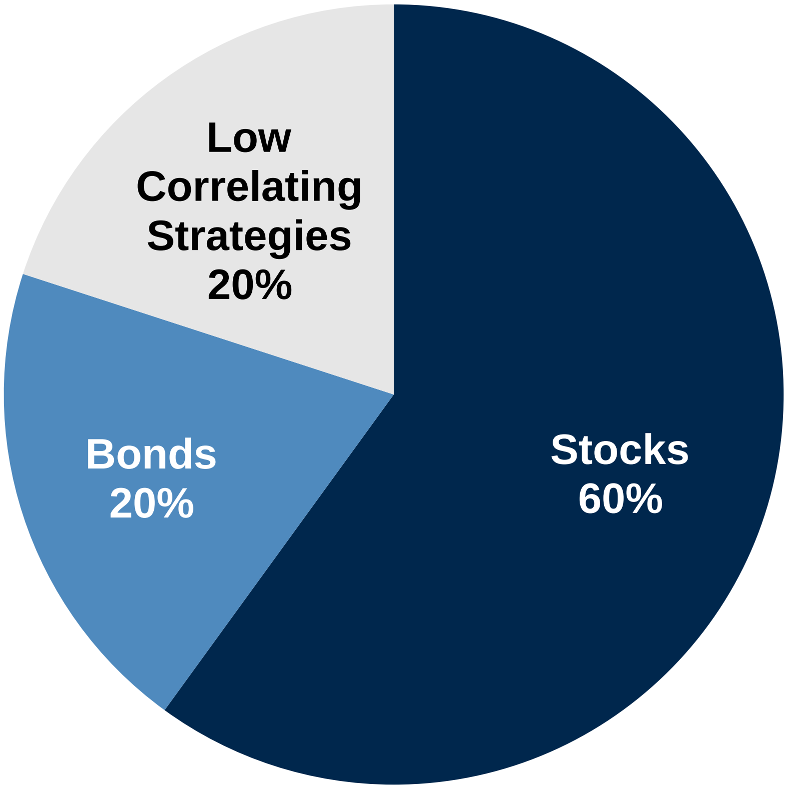
Source: Morningstar Direct. Inflation as defined by the Consumer Price Index, measured on a rolling 4-year basis. Stocks represented by the S&P 500 Index; Bonds represented by the Bloomberg U.S. Aggregate Bond Index. Past performance is not a guarantee of future results.

What should you expect from bonds?

RETURN

DIVERSIFICATION

Building a Diversified Portfolio



Portfolio of the Future: Is There a Better Way to Diversify?

1980's	Return	Sharpe
60 S&P / 40 BBg U.S. Agg	**15.7%**	**0.5**
60 S&P / 20 BBg U.S. Agg / 20 CISDM CTA	**18.8%**	**0.8**

1990's	Return	Sharpe
60 S&P / 40 BBg U.S. Agg	**14.1%**	**1.0**
60 S&P / 20 BBg U.S. Agg / 20 CISDM CTA	**14.6%**	**1.1**

2000's	Return	Sharpe
60 S&P / 40 BBg U.S. Agg	**2.3%**	**0.0**
60 S&P / 20 BBg U.S. Agg / 20 CISDM CTA	**2.7%**	**0.0**

2010's	Return	Sharpe
60 S&P / 40 BBg U.S. Agg	**9.8%**	**1.2**
60 S&P / 20 BBg U.S. Agg / 20 CISDM CTA	**9.9%**	**1.2**

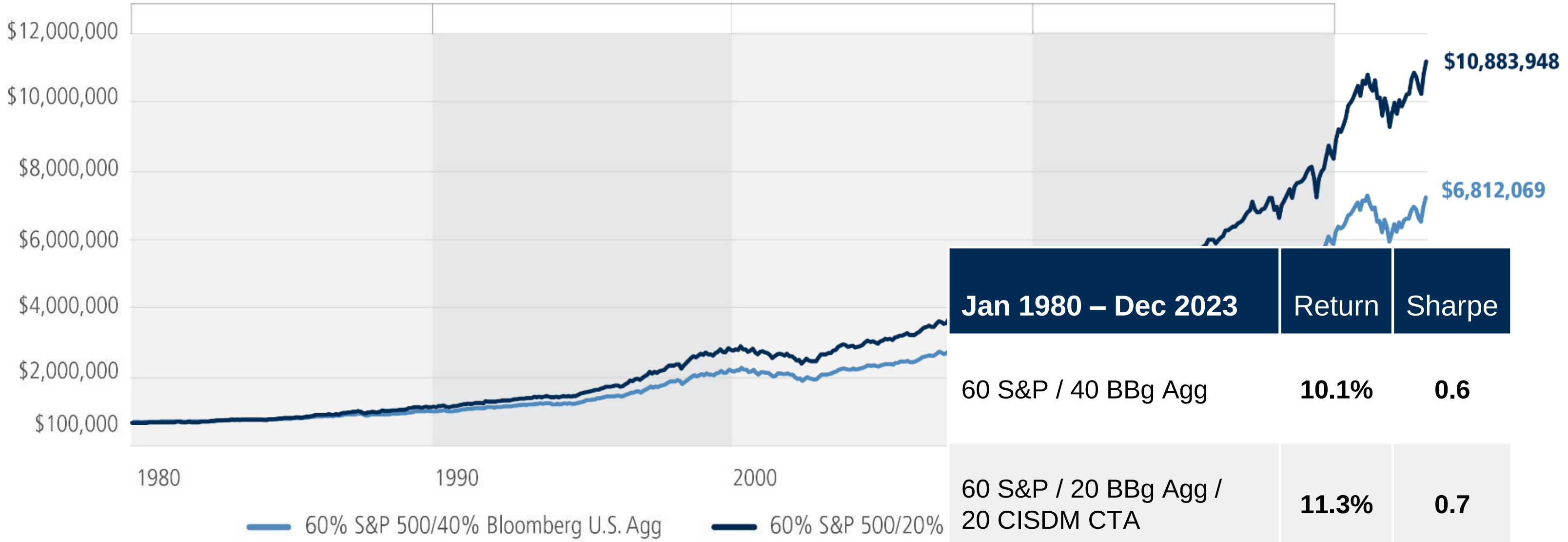
Jan 2020-Dec 2023	Return	Sharpe
60 S&P / 40 BBg U.S. Agg	**7.1%**	**0.4**
60 S&P / 20 BBg U.S. Agg / 20 CISDM CTA	**9.0%**	**0.6**

Jan 1980 – Dec 2023	Return	Sharpe
60 S&P / 40 BBg Agg	**10.1%**	**0.6**
60 S&P / 20 BBg Agg / 20 CISDM CTA	**11.3%**	**0.7**

Source: Morningstar Direct. Past performance is not a guarantee of future results.

60/20/20 Benefits

Growth of a Hypothetical $100,000 Investment – January 4, 1980 - December 31, 2023



Jan 1980 – Dec 2023	Return	Sharpe
60 S&P / 40 BBg Agg	**10.1%**	**0.6**
60 S&P / 20 BBg Agg / 20 CISDM CTA	**11.3%**	**0.7**

Source: Morningstar Direct. Past performance is not a guarantee of future results.

Finding Low-Correlating Solutions - Entering 2022

Assets investors thought provided diversification turned out to be highly correlated to equities and moved as such.

Morningstar U.S. Category Group - Alternative

Morningstar Category	Net Assets 12/31/22	Returns 1/1/22-12/31/22	Correlation[1] to S&P 500 Index
Options Trading	$34.2B	-9.55%	0.91
Multi-strategy	$29.3B	-3.00%	0.91
Relative Value Arbitrage	$18.3B	-3.86%	0.82
Event Driven	$19.3B	-1.32%	0.87
Systematic Trend	$21.4B	14.53%	-0.04
LoCorr Macro Strategies Fund I	$2.4B	15.40%	0.01[2]
LoCorr Long/Short Commodities Strategy Fund I	$1.4B	6.06%	-0.19[2]

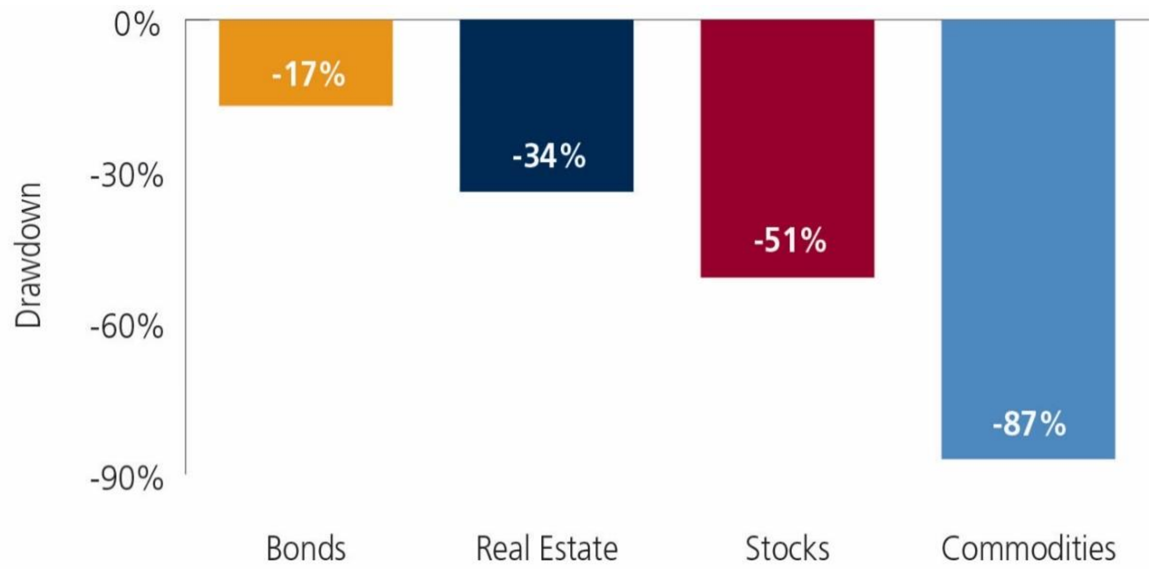
Source: Morningstar Direct. [1]Since common inception 4/1/07, until 12/31/21. [2]Since common inception 1/1/2012.

Returns are annualized for periods greater than one year. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 888.628.2887. Investment performance reflects fee waivers in effect. In the absence of such waivers, total return would be reduced. Performance data shown with load for Class A shares reflects a 5.75% sales load and for Class C shares reflects a 1.00% CDSC. Performance data shown without the load does not reflect the current maximum sales charges for Class A shares (up to 5.75% front-end) and Class C shares (1.00% CDSC). Had the sales charge been included, the Fund's returns would be lower. Since Inception performance as of 12/31/23 for LFMIX (3/22/11) -6.58% 1-year, 5.15% 5-year, 4.85% 10-year; LCSIX (1/1/12) -3.07% 1-year, 4.05% 5-year, 8.12% 10-year.

Do You Have Time to Recover?

- Investments can decline, sometimes significantly
- Different investments can decline at the same time
- Drawdowns can create large losses, which may take years to recover and break even

Largest drawdowns for each asset class from January 1, 2000 through December 31, 2023

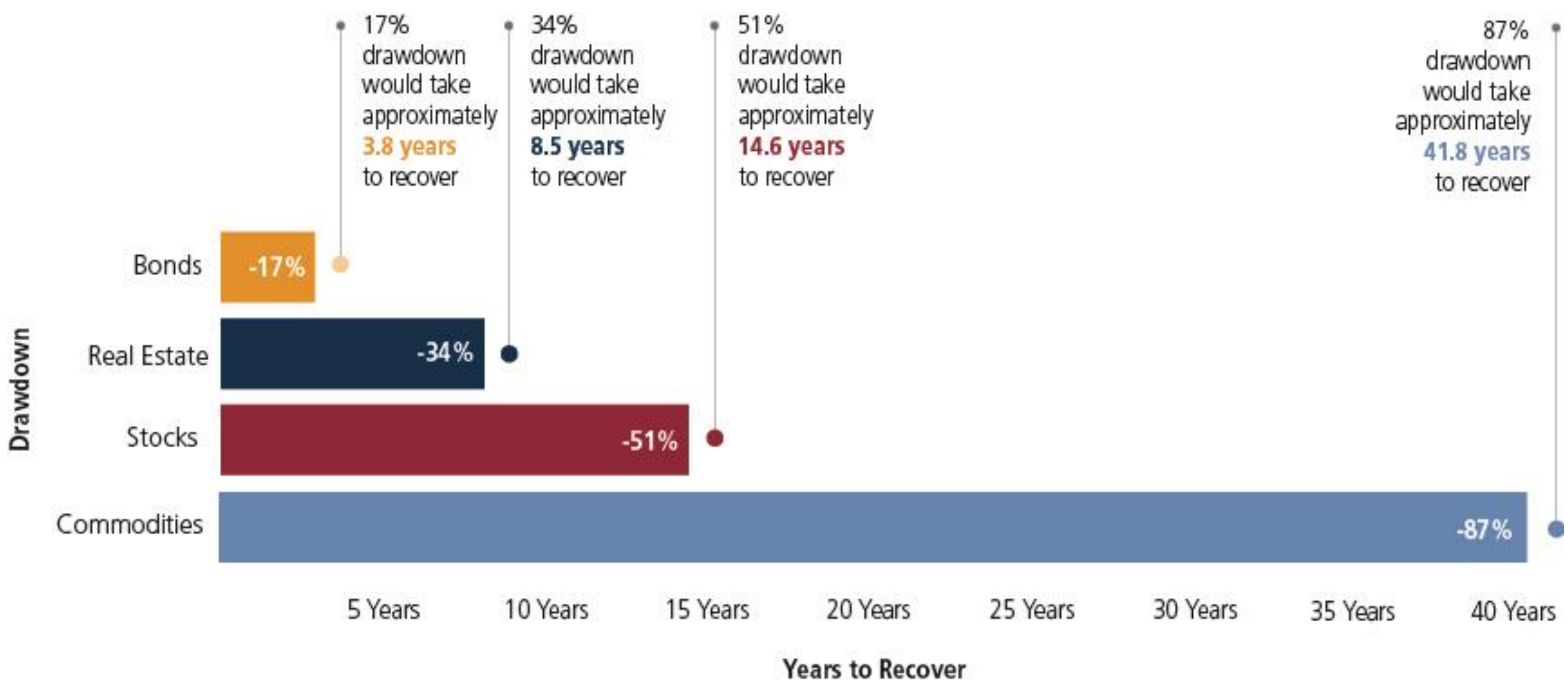


Calculated using monthly returns. Time Periods of Largest Drawdowns: Bonds, 8/1/20-6/30/22; Real Estate, 5/1/06-3/31/12; Stocks, 11/1/07-2/28/09; Commodities, 7/1/08-4/30/20. Source: Bonds, Bloomberg Aggregate Bond Index; Real Estate, S&P CoreLogic Case-Shiller 20-City Composite Home Price SA Index; Stocks, S&P 500 TR Index; Commodities, S&P GSCI Index

Recovery Time from Hypothetical Drawdowns

How long can it take to climb back from losses in your portfolio?

Recovery Time from Hypothetical Drawdowns (assuming a 5% average annual return during recovery)



Source: LoCorr Fund Management

Example of Sequence of Returns Risk

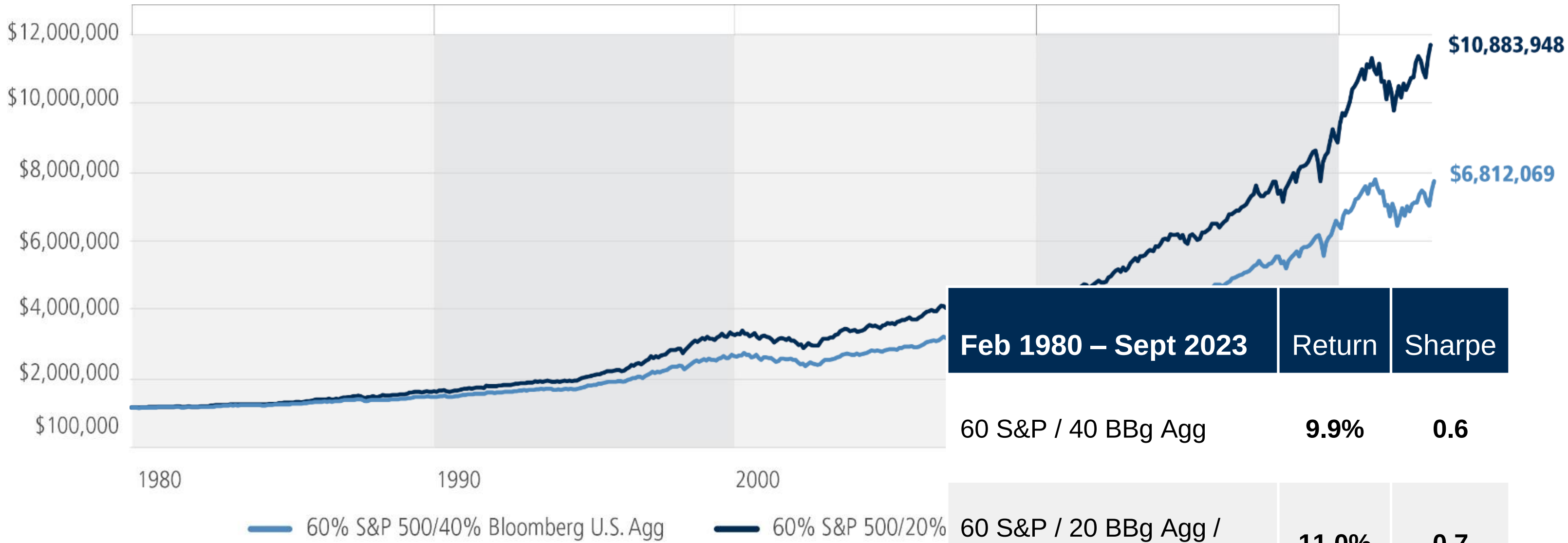
The order of investment returns has an impact on your overall portfolio.

	Hypothetical Scenario A Returns	Hypothetical Scenario B Returns
Year 1	20%	10%
Year 2	-20%	10%
Year 3	30%	10%
Arithmetic Average Return*	10%	**10%**
$100,000 Invested Originally Would Now Be Worth	$125,000	$133,000

*Source: LoCorr Fund Management. *Calculated using arithmetic methodology. An arithmetic mean is the sum of a series of numbers divided by the number of items in that series.*

60/20/20 Benefits

Growth of a Hypothetical $100,000 Investment – January 4, 1980 - December 31, 2023

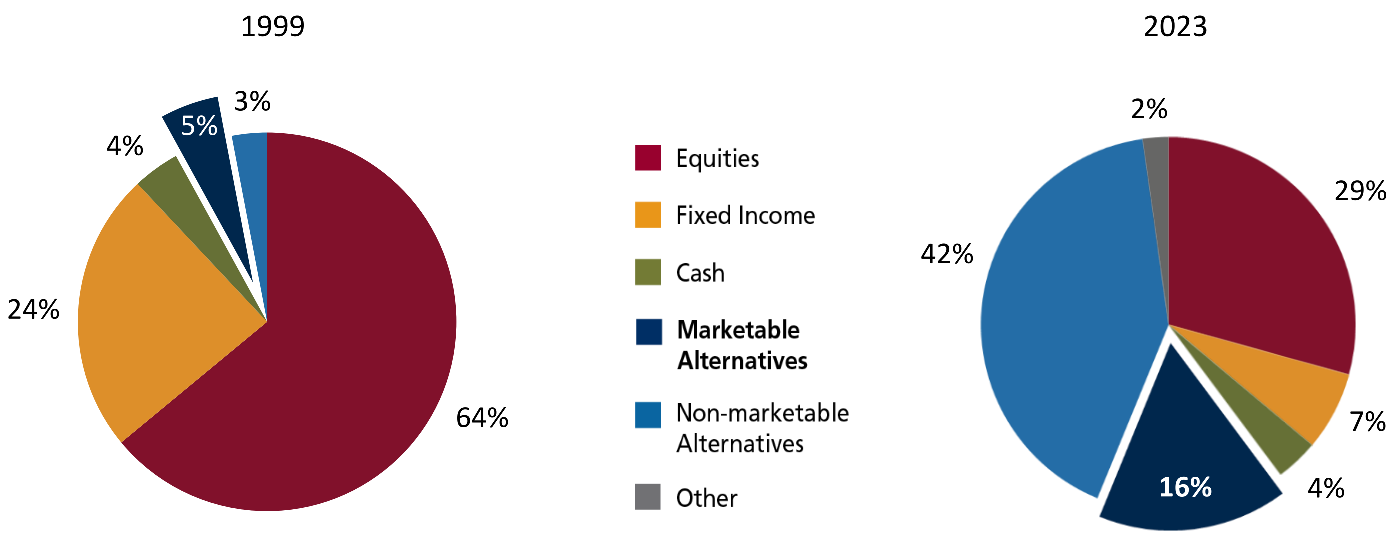


Feb 1980 – Sept 2023	Return	Sharpe
60 S&P / 40 BBg Agg	**9.9%**	**0.6**
60 S&P / 20 BBg Agg / 20 CISDM CTA	**11.0%**	**0.7**

Source: Morningstar Direct. Past performance is not a guarantee of future results.

Today's Investment Landscape

- Traditional approaches to asset allocation might not provide the level of confidence investors seek or the level of risk management you might be seeking
- Endowments and universities face the same challenges individual investors face: finding ways to balance long-term performance while addressing risk
  - Many institutions have broadened their portfolios by adding low-correlating investments while reducing exposure to traditional stocks and bonds
  - Many of those low-correlating solutions are now available to all investors

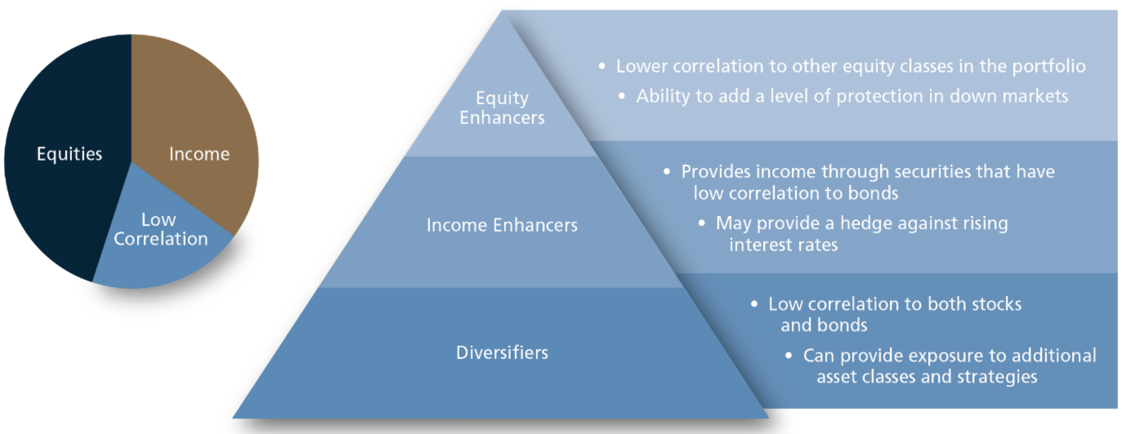


Source: 2023 NACUBO-Common fund Study of Endowments, www.nacubo.org. Data is based on endowments with greater than $1B in investment assets.

Building a Modern Portfolio

The Legacy Two-Dimensional Portfolio

The Modern Three-Dimensional Portfolio



The Sleeve Approach

Hedged Core Sleeve[1]

Seeks to provide:

- Low correlation to nearly all asset classes
- Differentiated return stream
- Crisis alpha

Correlation to S&P 500[2]

-0.11

Correlation to BBg U.S. Agg[2]

0.01

1/1/2012 – 12/31/2023	Return	Std Dev	Sharpe Ratio
60 SPY / 40 AGG	9.12	9.39	0.86
60 SPY / 20 AGG / 10 LCSIX / 10 LFMIX	9.58	8.93	0.94

[1]The Hedged Core Sleeve is a hypothetical portfolio of LFMIX/LCSIX equally weighted and rebalanced monthly. [2]1/1/2012-12/31/2023

Source: Morningstar Direct. Past performance is not a guarantee of future results.

Building the 20% Low-Correlating Sleeve

How do you build a 20% low-correlating sleeve in your client portfolios?

Follow these easy steps:

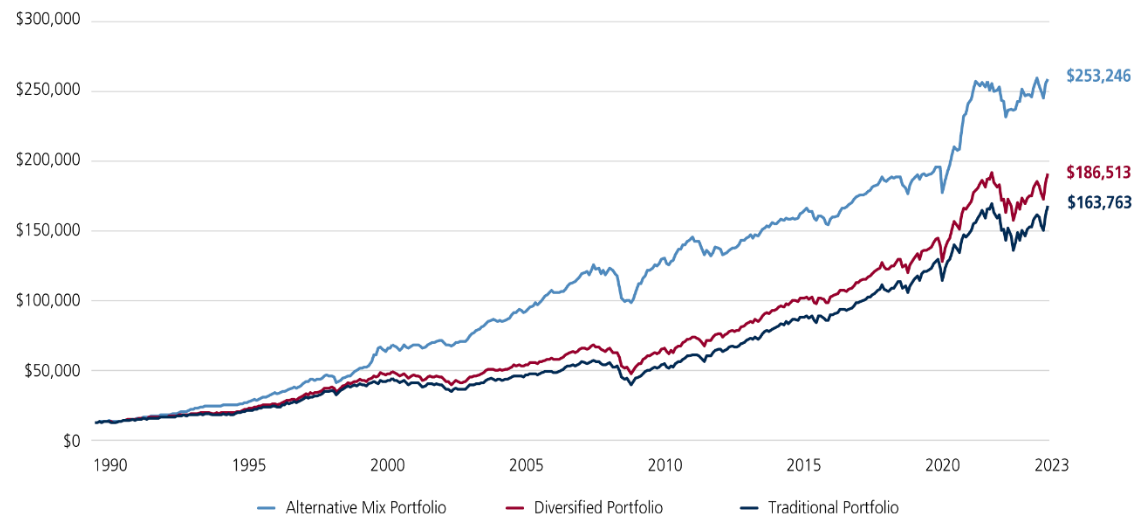
1

Step 1: Understand Why to Build the Sleeve

Build a portfolio that has the potential to:

- **Hedge** against rising interest rates
- **Mitigate** losses in an equity downturn
- **Participate** in a rising equity market

Growth of Hypothetical $10,000 Investment | February 1, 1990 – December 31, 2023



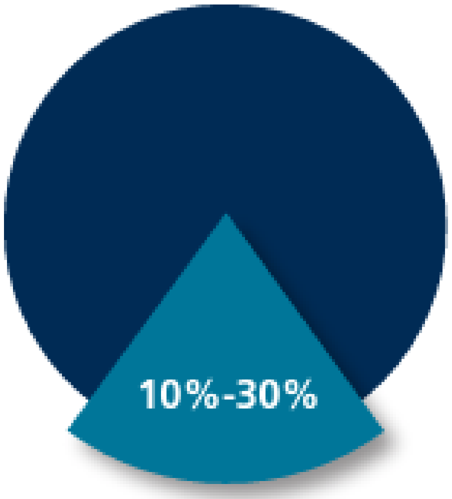
February 1, 1990 - December 31, 2023

	Alternative Portfolio	Diversified Portfolio	Traditional Portfolio
Average Annual Return	10.00%	9.01%	8.59%
Standard Deviation	7.14%	8.90%	9.39%
Max Drawdown	-21.71%	-31.51%	-32.54%

Alternative mix portfolio represents the CISDM Hedge Fund Index. Diversified portfolio represents stocks (50%), bonds (30%), and the alternative mix portfolio (20%), rebalanced monthly. Traditional portfolio represents stocks (60%) and bonds (40%), rebalanced monthly. Stocks represented by the S&P 500 TR Index, Bonds represented by the Bloomberg U.S. Aggregate Bond Index. **Past Performance does not guarantee future results. Index performance is not representative of fund performance. Please call 888-628-2887 for most recent fund performance. It is not possible to invest directly in an index.**

Step 2: Determine How Much to Allocate

- For any allocation to have a meaningful long-term impact, we feel 10%-30% is sufficient
- Short term, build a sleeve that may help protect client assets and your practice



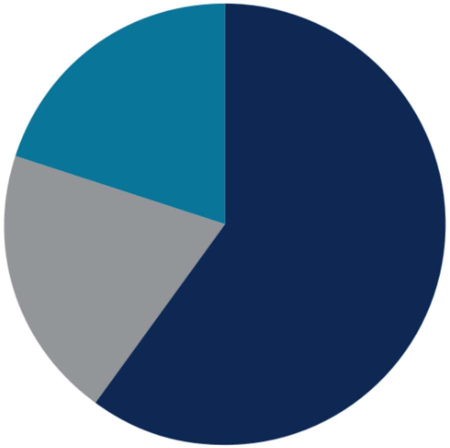
Step 3: Identify What to Put in the Sleeve

For example:

- Long/Short Commodities
  - Potential to hedge against inflation

- Long/Short Equities
  - Potential to smooth out equity returns while mitigating downside risk

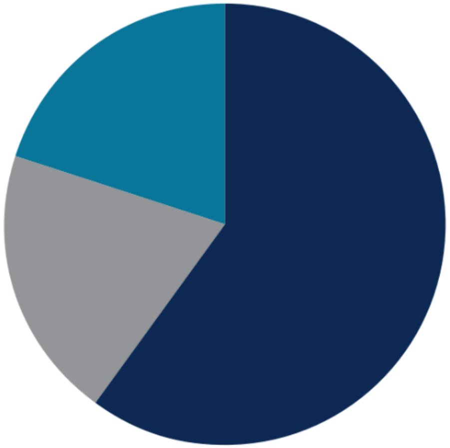
- Managed Futures
  - Globally diversified long short trading in equities, bonds, currencies and commodities
  - Potential to provide true portfolio diversification – Historically "near zero" correlation to equities and bonds
  - Traditionally an excellent source of alpha during market declines



Step 4: Decide Where to Take the Money From

We recommend reducing the fixed income allocation.

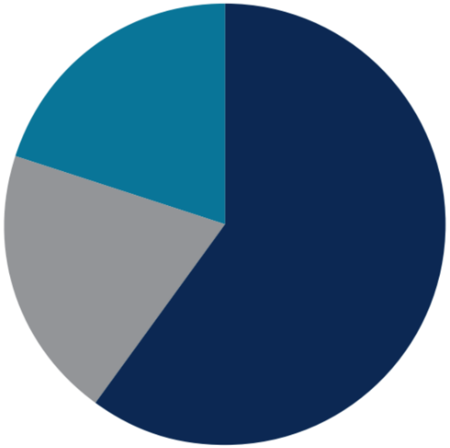
- 10-Year Yields are currently at 3.88%
- Stocks and bonds have been moving together recently
- Bond returns have been declining for 40+ years



As of 12/31/23

Step 5: Have the Conversation with Your Client

- Reiterate how well their portfolio has done until recently
- Discuss the desire to help mitigate risk by adding an additional sleeve of assets to their portfolio which can offer the potential for:
  - Lower portfolio risk due to its ability to move independently of stocks and bonds
  - Some downside protection and upside potential regardless of how stocks and bonds are performing



Summary: Portfolio Construction

- Determine suitability
- Provide true diversification
  - Utilize three asset classes
- Smooth our clients returns (prepare for downturns)
- Focus on correlation
- Create a “sleeve” not just one solution
- Create an “all weather” portfolio
  - Correlation is “critical”

Disclosure

The performance of various indices is shown for comparison purposes only. The securities and other instruments included in those indices are not necessarily included in any LoCorr Fund portfolio and criteria for inclusion in those indices are different than those for investment in any such portfolio. The performance of those indices was obtained from published sources believed to be reliable, but which are not warranted as to accuracy or completeness. Unless noted otherwise, index returns do not reflect fees or transaction costs and reflect reinvestment of net dividends. Past performance is not a guarantee of future results.

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice.

Diversification does not assure a profit nor protect against loss in a declining market.

The S&P 500 Index represents the S&P 500 Total Return Index unless indicated otherwise. The referenced indices are shown for general market comparisons and are not meant to represent any Fund discussed within. One cannot invest directly in an index. Bloomberg Aggregate Bond Index performance as of 12/31/23 is 5.53% 1-Yr, 1.10% 5-Yr, and 1.81% 10-Yr. S&P 500 Index performance as of 12/31/23 is 26.29% 1-Yr, 15.69% 5-Yr, and 12.03% 10-Yr. CISDM CTA Index performance as of 12/31/23 is 0.88% 1-Yr, 9.36% 5-Yr, and 6.42% 10-Yr.

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 952.513.8195.

The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1.855.LCFUNDS, or visiting www.LoCorrFunds.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. The Funds invest in foreign investments and foreign currencies which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets. The Funds may make short sales of securities, which involves the risk that losses may exceed the original amount invested. Investing in commodities may subject the Funds to greater risks and volatility as commodity prices may be influenced by a variety of factors including unfavorable weather, environmental factors, and changes in government regulations. Investing in derivative securities derive their performance from the performance of an underlying asset, index, interest rate or currency exchange rate. Derivatives can be volatile and involve various types and degrees of risks, and, depending upon the characteristics of a particular derivative, suddenly can become illiquid. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset-Backed, Mortgage-Backed, and Collateralized Mortgage-Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments.

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