



## **The Covered Bridge Fund Annual Shareholder Letter**

*10/28/20*

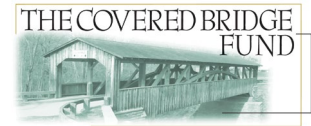
Dear Fellow Shareholders,

The 12-month period ended September 30, 2020 was an extremely volatile period for the U.S. equity market. For this period, The Covered Bridge Fund (TCBIX) was down 13.42%. The Fund's performance was lower than the benchmark and the peer group for the one-year, three-year and since inception periods. This is a substantial change from one year ago and is a function of the current market environment which, while frustrating, we believe to be temporary.

The Fund owns large capitalization dividend paying stocks which have significantly underperformed the S&P 500 since the inception of the Fund and accelerated during this period. We believe a more appropriate benchmark would be the Russell 1000 value index or the BXM (CBOE buy write index) which the Fund more closely represents. We hesitate to change the Fund's benchmark after this sustained period of underperformance due to factors that are out of our control and, in our opinion, will turn to the Fund's favor in the future. The current performance in the S&P 500 is being driven by a select group of low or non-dividend paying securities which, given the Fund's mandate, the Fund will never own. Environments such as these tend to reach an extreme and then reverse for multiple years. We have no plans to change the Fund's strategy in the foreseeable future.

The 12-month period ended September 30<sup>th</sup>, 2020 illustrated dramatic divergence of performance in the underlying sectors of the market. For example, the S&P Energy sector was -45.24% compared to the Information Technology sector that was +47.2% in the same period. Of course, the driver behind this environment was a global pandemic and widespread economic disruption. Many of the "work from home" stocks performed well as households adjusted to living under quarantine and the temporary economic shutdown. Meanwhile, demand for energy understandably fell, resulting in a considerable surplus of oil in the market, placing greater downward pressure on prices. We believe this sector is undervalued and is positioned to rebound as the global economy moves forward. We prefer to own positions in the integrated energy companies such as Exxon Mobil Corporation (1.7%) and Chevron Corporation (1.8%) as they are the largest companies in this space with the ability to emerge from the current economic environment while gaining market share. However, Exxon and Chevron's stock prices have had a challenging year, -48.08% and -36.18% respectively.

The second worst performing area of the stock market over the year ended September 30<sup>th</sup>, 2020 was the Financial sector, returning a disappointing -11.93%. The banking industry has been particularly disadvantaged with the current interest rate environment. The Federal Reserve lowered the Federal Funds Rate to zero with the goal to provide a monetary policy that stimulates and supports the U.S. economy. While the front end of the yield curve fell, the long end of the curve was also driven down



as investors around the world viewed U.S. Treasuries as the risk-off trade in a volatile period. The U.S. 30 Year Treasury Note hit a low of 0.99% in March 2020. This low and the relatively flat yield curve made it difficult for banks to generate profit. We believe banks will benefit from a steepening of the yield curve going forward and they are priced attractively relative to the overall market. Our largest bank holdings are JPMorgan Chase & Co (3.2%) and Citigroup Inc. (1.7%). These companies have a trailing 1-year performance of -15.37% and -35.37% respectively. We believe these companies are good long-term investments and are positioned to outperform in the coming years. The investment management industry has also lagged in this period. We continue to favor Invesco (3.6%). While down 27.95% over the period, it has a dividend yield greater than 4% and has a forward price-to-earnings multiple of 8.5. More recently, we have seen consolidation and mergers in the industry, and we believe this is the beginning of the market recognizing the attractive valuations of these companies.

Going forward, we feel very encouraged by the opportunity that lies ahead. Volatility has returned to the U.S. equity market in a big way and should remain elevated for the foreseeable future. This may allow the Fund to generate much greater income from option premiums going forward. Given the current levels of volatility, we are taking in more than twice the premium than we had in the first three months of 2020. This occurred because the VIX (CBOE Volatility Index) spiked to over 80 during March and remained over 25 as of the end of September. This spike in volatility created higher option prices which, in turn, may generate greater income to the portfolio.

We continue to believe that we are in a period of great uncertainty that will take months and quarters to work through and shutting down the economy while leaving markets open only creates even greater uncertainty going forward. We plan to navigate this by sticking to the Fund's discipline of buying what we believe to be good large cap companies that pay above average dividends and overwriting approximately half of each position. The Fund will also carry an above average cash position along with some index puts which should help to mitigate risk. This will be a long process but sticking to the Fund's discipline may yield positive results and generate income in this trying time.

Thank you for being a Covered Bridge Fund shareholder.

Sincerely,

**John Schonberg, CFA &  
Michael Dashner, CFA**



Performance As of 9/30/2020

	3-Month	YTD	1-Year	3-Year	5-year	Since Inception 10/1/13
TCBIX	-1.52%	-17.32%	-13.42%	-0.99%	4.15%	3.70%
TCBAX	-1.59%	-17.53%	-13.71%	-1.27%	3.89%	3.42%
TCBAX With Load	-6.80%	-21.87%	-18.28%	-3.03%	2.77%	2.63%
BXM Index	6.52%	-9.58%	-5.66%	0.79%	4.62%	5.19%
Russell 1000 Value Index	5.59%	-11.58%	-5.04%	2.61%	7.63%	7.22%
S&P Index	8.93%	5.57%	15.15%	12.28%	14.15%	12.55%

Maximum Sales Charge of 5.25%

*There is no assurance that the fund will achieve its investment objectives. \*The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's investment adviser has contractually agreed to reduce its fees and/or absorb expenses of the Fund, at least until January 31, 2021, the Fund's gross total annual operating expenses would be 1.80% for Class A and 1.55% for Class I. The net annual fund operating expenses are 1.76% and 1.51% of the Fund's average daily net assets for its Class A and Class I shares, subject to possible recoupment from the Fund in future years. Please review the fund's prospectus for more information regarding the fund's fees and expenses. For performance information current to the most recent month-end, please call 855-525-2151.*

*Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. There is no assurance that the Fund will achieve its investment objectives.*

*The advisor has not previously managed a mutual fund. Investments in foreign securities could subject the Fund to greater risks including currency fluctuation, economic conditions, and different governmental and accounting standards. Higher portfolio turnover will result in higher transactional and brokerage costs. Selling covered call options will limit the Fund's gain, if any, on its underlying securities. The Fund continues to bear the risk of a decline in the value of its underlying stocks. Option premiums are treated as short-term capital gains and when distributed to shareholders, are usually taxable as ordinary income, which may have a higher tax rate than long-term capital gains for shareholders holding Fund shares in a taxable account.*

*Important Definitions: The S&P 500 Index: An unmanaged composite of 500 large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. You cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The Russell 1000 Index: a subset of the Russell 3000 Index, represents the 1000 top companies by market capitalization in the United States. The BXM: tracks the performance of a hypothetical covered call strategy on the S&P 500 Index. Call Option: An agreement that gives an investor the right (but not the obligation) to buy a stock, bond, commodity or other instrument at a specified price within a specific time period. Put Options: An option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time. This is the opposite of a call option, which gives the holder the right to buy shares. Covered Call: An options strategy whereby an investor holds a long position in an asset and writes (sells) call options on that same asset in an attempt to generate increased income from the asset. This is often employed when an investor has a short-term neutral view on the asset and for this reason holds the asset long and simultaneously has a short position via the option to generate income from the option premium. the Volatility Index, or VIX: is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.*

***Important Risk Information: Mutual funds involve risk including the possible loss of principal. Investors should carefully consider the investment objectives, risks, charges, and***



*expenses of the Covered Bridge Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained at [www.THECOVEREDBRIDGEFUND.com](http://www.THECOVEREDBRIDGEFUND.com) or by calling +1-855-525-2151. The prospectus should be read carefully before investing. The Covered Bridge Fund is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Stonebridge Capital Advisors, LLC is not affiliated with Northern Lights Distributors, LLC. 7379-NLD-11/3/2020*