2024 HEDGE FUND OUTLOOK

We believe that 2024 presents a complex yet potentially rewarding landscape for hedge funds. Navigating a confluence of macroeconomic, geopolitical, and fundamental crosscurrents will be key to success. This report delves into our views of recent industry trends as well as the prospective opportunities we see for alpha generation in the coming year.

Industry-Wide

We believe that hedge funds should have a higher expected return when short-term interest rates are higher. As we have written about in the past[1], we think today's higher short-term interest rates should directly increase the expected return of hedge funds for several reasons, including higher rebates on collateral posted for short positions, higher interest earned on unencumbered cash when investing on margin (*e.g.*, through futures and derivatives), and higher yields for credit-oriented strategies. And this is to say nothing of the potential second-order effects of higher rates, such as increased volatility and dispersion, which could increase alpha opportunities. In other words, we expect hedge funds to maintain their returns above cash in higher rate environments, such that their expected total returns are higher, whereas that may not be true of other asset classes. Indeed, AQR recently published an interesting research piece, which shows empirical evidence that supports this claim and is well worth a read.[2]

We continue to seek aligning fee structures that account for the above relationship between risk-free rates and hedge fund expected returns. If the expected total return of a particular hedge fund strategy rises when short-term interest rates rise (due to no particular skill of the manager), we think a fair incentive fee structure would include a performance-fee hurdle that is tied to the risk-free rate. In fact, this is one reason we have included meaningful hurdles in our own incentive-fee structures since inception. We are also pleased to be invested with several underlying managers who also have incorporated hurdles into their incentive-fee structures. We believe that if short-term rates remain meaningfully higher than zero for an extended period, this will become more topical across the industry, and managers that take a proactive approach ultimately will benefit from increased alignment and stronger relationships with their limited partners.

We believe the explosive growth of multi-PM platforms (aka "pod shops") brings heightened risks. We have been surprised by the continued growth of multi-PM platforms in recent years, despite their generally high levels of leverage, exorbitant fees, and in some cases, increasingly demanding liquidity terms. We will admit that historical realized

[1] https://www.evanstoncap.com/uploads/downloads/Evanston-Capital-Modeling-the-Expected-Return-for-Hedge-Funds-Should-It-Be-Higher-Today.pdf
[2] https://www.aqr.com/Insights/Research/Alternative-Thinking/Honey-the-Fed-Shrunk-the-Equity-Premium

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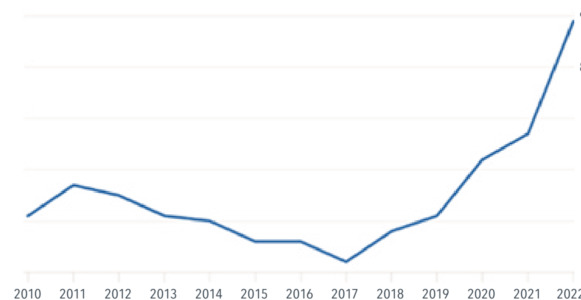
returns, especially for the largest incumbents, have been attractive, but the seemingly insatiable investor appetite for these investment models has led to rapid growth among comparatively smaller peers and several notable new entrants as well. According to Goldman Sachs, as of mid-2023, there were 55 pod shops managing a combined total of $368 billion in assets (and commanding much more than that with leverage) compared to 29 with a total of $149 billion five years ago.[3]



Source: Financial Times, Goldman Sachs[4]

As with all strategies, there is only so much PM talent and alpha to go around, so we wonder whether the influx of capital will result in downward pressure on future returns for the group. Moreover, we believe the continued ascent of pod shops portends growing risks. One such risk is contagion. With so much capital pursuing similar investment strategies with similar risk frameworks and high levels of leverage, we believe steep, simultaneous losses across pod shops are possible if some or all seek to exit overlapping trades, or more broadly deleverage their portfolios, at the same time. Such an episode is not without precedent (recall in 2007, the deleveraging/drawdown spiral of quantitative equity market-neutral strategies, which had similar crowding and leverage characteristics), and Ken Griffin, the founder of Citadel, himself acknowledged the possibility when speaking at a November Bloomberg conference.[5]

The second is a risk that managers need to contend with on a more regular basis—more extreme short-term moves in factors and individual securities. Because pod shops typically operate with tight stop-losses and severe consequences (*i.e.*, being fired) for drawdowns beyond certain thresholds, their PMs often invest with limited tolerance for uncertainty or volatility in the near-term. That, combined with the overlap among pod shop portfolios, can lead to sharper moves that are sometimes unjustified by fundamentals. Many of our existing and prospective managers lament the size of the swings they see in certain holdings on incremental news that should

[3] https://www.bloomberg.com/news/articles/2023-11-30/ken-griffin-s-citadel-hedge-fund-rivals-draw-scrutiny-over-crowding-leverage
[4] https://www.ft.com/content/86eb1c4f-ef5f-4bf9-93b1-74a484dd4a20
[5] https://www.bloomberg.com/news/articles/2023-11-30/ken-griffin-s-citadel-hedge-fund-rivals-draw-scrutiny-over-crowding-leverage

not significantly affect the value of these businesses longer term, citing the increased market impact of pod shops. A healthcare manager, for instance, told us that pod shops can represent 80% of the trading volume of certain stocks in his universe, and their focus on short-term datapoints can exacerbate price action. As another anecdote, a technology manager highlighted that this past earnings season was one of the most volatile he had seen, with 20%-40% one-day moves that are more characteristic of takeovers than routine earnings announcements.

The growth of pod shops also leads to opportunity. This is not all bad news. On one hand, managers do need to adapt to the risks described above to some degree—perhaps by being more patient, being even more discerning on valuation, and remaining attuned to potential factor risks building in their portfolios, such as momentum, which might make them more susceptible to these short-term flows. On the other hand, more inefficient price moves, by definition, create more opportunities for the skilled managers that can spot them. To take full advantage, we believe they need to have done thorough fundamental work, have courage in their convictions, and be able to endure being "wrong" for longer periods than before.

Long/Short Equity

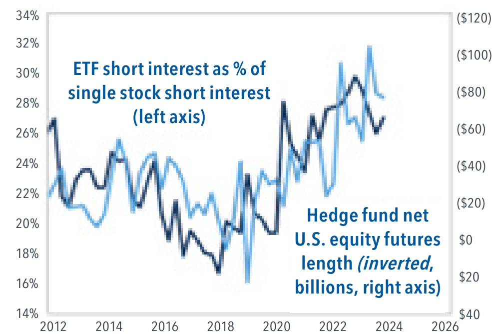
We see significant white space for fundamental stock-pickers with medium- to long-term investment horizons. We all know that a significant share of capital within equities has moved into passive investment products, such as exchange-traded funds ("ETFs"). According to Bloomberg, assets in U.S. ETFs have more than doubled to $8 trillion over the past five years with more than 1,000 new ETFs launched in that time.[6] Within active management, we also believe that capital allocations have become more barbelled by investment horizon with one strong trend toward shorter-term, trading-oriented strategies (such as the pod shops discussed above) and another toward the ultra-long-term approaches of private equity and venture investing. Meanwhile, according to data compiled by Morgan Stanley, investors have been shrinking allocations to long/short equity more so than other hedge fund strategies for several years.[7] We believe this leaves less competition and more prospective alpha for fundamental stock-pickers with a multi-year horizon.

The lack of competition seems even more compelling for skilled short-sellers. More and more managers appear to be throwing in the towel on alpha shorting. The closure of Jim Chanos' fund, Kynikos,[8] is just the most recent example in a string of managers that have either wound down or shifted toward more long-biased or long-only approaches in recent years. Even for those that have stuck with shorting, more of that exposure is

[6] https://www.bloomberg.com/news/articles/2023-12-15/bofa-goldman-sachs-jpmorgan-are-keeping-8-trillion-etf-market-humming
[7] Morgan Stanley Prime Brokerage–Strategic Content Group, *Quarter Vantage Points*, October 5, 2023.
[8] https://www.reuters.com/business/finance/short-seller-jim-chanos-close-hedge-funds-wsj-2023-11-17/

being implemented through blunt hedges rather than single stocks. Data from Goldman Sachs show that the median short interest among S&P constituent stocks is near historic lows and that hedge funds are increasingly relying upon macro hedging instruments, such as ETFs and futures, extending a shift away from single-stock shorts that began in the "meme stock" craze of early 2021. Add to this dynamic the largely macro-driven rally to end 2023, which lifted most stocks regardless of quality, and we see a rich sea of shorting opportunities that managers can prosecute.

Source: Goldman Sachs' Hedge Fund Trend Monitor.
Data Source: FactSet, Goldman Sachs Global Investment Research



Source: Goldman Sachs' Hedge Fund Trend Monitor.
Data Source: CFTC, Goldman Sachs Global Investment Research

So, while it can be uncomfortable to swim against the tide, we hold the contrarian view that traditional long/short equity has attractive return potential in what appear to be less crowded waters. We do still expect return dispersion *within* long/short equity to be wide, so manager selection will be critical to ultimate results, and we will continue to focus on investment talent rather than top-down bets. Having said that, we do think a few themes are worth noting.

We believe that AI, one of last year's hottest themes in equities, is more than a passing fad. It can be hard to distinguish which new technologies will become embedded in our daily life and change behaviors versus those that end up being a passing fad. We believe that AI has the potential to be (and may already be) ubiquitous and increase productivity in many different industries, business models, and use cases. Increased efficiency in computer programming is just one example where leveraging AI to assist in writing code is already having a measurable impact.[9] We believe that we are still in the early phase of rapid technological adoption and innovation, and we expect that to lead to both winners and losers over time, not just within the tech sector, but more broadly. Several of our long/short equity managers effectively captured returns tied to AI in 2023, most notably in the building blocks that power it: semiconductors. The continued robust demand for semiconductors as well as the strong competitive position of certain companies with the most sophisticated chip technology are awe-inducing. However, we see robust alpha potential expanding to other parts of the AI tech stack and to other industries in the years ahead.

[9] https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/unleashing-developer-productivity-with-generative-ai

We are also constructive on alpha opportunities in out-of-favor corners of the market, such as biotech and real estate. Until the late-year rally, certain interest-rate sensitive sectors, such as biotech and real estate, continued to be shunned by investors. Both sectors recovered from lows in October 2023 to post gains for the year, but they still significantly underperformed the broader market, as measured by the S&P, and remain well below their respective peaks. As of year-end, the SPDR S&P Biotech ETF (XBI) has approximately halved since February 2021, and the S&P 500 Real Estate Sector Index (Net Total Return) has shed almost 20% since its high at the end of 2021.[10] In addition, we believe both sectors have high dispersion potential, given breakthrough drug discoveries and failures in biotech as well as the ongoing evolution of real estate in the post-pandemic world. Other unloved areas include small-cap stocks and European equities, both of which have lagged significantly as U.S. mega-caps dominated performance and garnered more share of portfolios over the past year. We note with interest that the current valuation gap between each cohort and U.S. large-cap stocks is wide versus history, perhaps creating rich stock selection opportunities from here.[11]

Two newer themes are building within Asia. Managers remain divided, at best, in their views on China given its tensions with the U.S., well-publicized property-sector woes, and sluggish economy. Despite government stimulus measures, a recent Bloomberg survey shows Chinese consumers have a cautious outlook and are curtailing their spending.[12] This is not to say that stock selection opportunities do not exist—in fact, controversy can be good for alpha potential. However, we believe managers likely need to remain selective, especially on the long side, and it is still challenging to efficiently short Chinese stocks relative to their developed market counterparts. Meanwhile, we have seen two more bullish themes emerge within Asia over the past year. First, the outlook for Japan seems brighter with rising prices and wages (in a welcome break from decades of deflationary pressures) as well as renewed focus on corporate governance and shareholder returns. The latter is supported by Tokyo Stock Exchange reforms, including the potential delisting of stocks with price-to-book ratios that remain chronically below 1x.[13] Some of our managers believe this could spur a monumental shift in management behavior, leading to increased share buybacks, spin outs, sales/purchases of listed subsidiaries, and other corporate actions that could benefit shareholders. Second, some of our managers believe that India has become a more attractive source of alpha. They believe the country's strong economic growth, modernized financial system, favorable demographics (*i.e.*, a large, young working population with growing consumer power), and broadly stable legal and political system create a long potential path for value creation, similar to China in the early days of its

[10] Sources: Wall Street Journal (https://www.wsj.com/market-data/quotes/etf/XBI/historical-prices); Nareit (https://www.reit.com/data-research/reit-indexes/monthly-index-values-returns)

[11] Sources: Wall Street Journal (https://www.wsj.com/market-data/quotes/etf/XBI/historical-prices); S&P Dow Jones Indices (https://www.spglobal.com/spdji/en/indices/equity/sp-500-real-estate-index/#overview)

[12] https://www.bloomberg.com/news/articles/2023-12-19/china-s-once-spendthrift-upper-middle-class-are-tightening-their-belts

[13] https://www.japantimes.co.jp/news/2023/04/18/business/tse-market-reform-ramp-up/

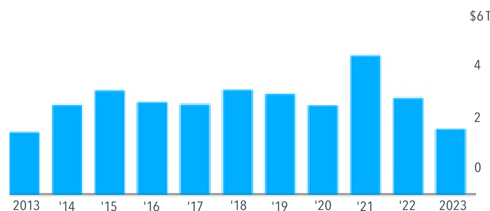
economic rise. In addition, India could be a beneficiary of corporate and investor efforts to diversify away from China—for example, Apple has been investing heavily in India, tripling its iPhone production in the country in 2022 alone.[14]

Energy transition remains an important long-term trend, globally. We still believe goals to decarbonize over time and numerous government initiatives designed to support that effort will benefit some companies greatly while disadvantaging others. That should provide a good long/short backdrop for managers that have expertise in cyclical sectors, such as energy and industrials. While last year's rising interest rate environment and lingering concerns about a potential recession likely have extended the timeline for this theme to begin playing out, we think it is important to maintain a long-term perspective—this is not a transition that will happen overnight. Some concerns also have been raised about the potential ramifications that a U.S. Presidential election might have for the momentous Inflation Reduction Act of 2022 ("IRA"). Most of our managers believe there is broad, bipartisan support for much of the IRA, so its impact still should be significant even if we see a change in administrations.

Event-Driven

After two slow years, we expect more corporate event activity in 2024. The rising rate environment from 2022-2023 generally was inhospitable to deal-making and capital markets activity. Potential sellers preferred to wait for more market/macro stability and, perhaps more importantly, improved valuations, while heightened volatility and rising financing costs stymied potential buyers. According to Bloomberg, global M&A volumes in 2023 were the lowest in a decade[15], and per EY, global IPO proceeds in 2023 were down 33% from a year earlier.[16]

Global Deal Values Hit Lowest Level in a Decade



Source: Bloomberg (See Footnote 15)

Global IPO Activity by IPO Proceeds (U.S.$b), 2019-2023

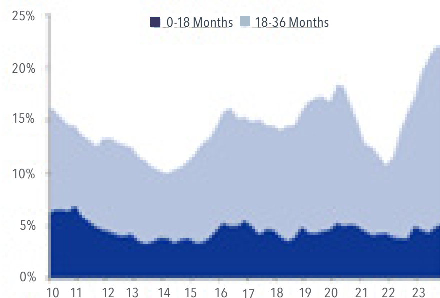
Source: EY (See Footnote 16)

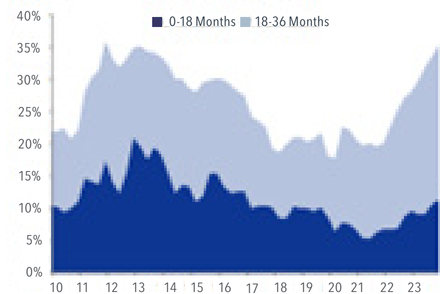
[14] https://www.forbes.com/sites/betsyatkins/2023/08/07/manufacturing-moving-out-of-china-for-friendlier-shores/?sh=1baa41713541
[15] https://www.bloomberg.com/news/articles/2023-12-19/dealmakers-to-miss-3-trillion-mark-for-first-time-in-10-years
[16] https://www.ey.com/en_gl/ipo/trends/

We believe that two-year period of relative inaction has led to a backlog of prospective M&A transactions, and we believe there is only so long that some of the older IPO candidates can delay going public or being acquired, as venture capital and private equity sponsors must, eventually, exit. While some buyers and sellers may still be far apart on valuations, a stabilization in interest rates and the potential for cuts in 2024 may enable corporate event activity to rise.[17] Interestingly, we have seen several hedge funds that pursue equity capital markets strategies either launching or reopening for additional capital recently, with this very thesis in mind. These strategies are usually a small part of larger equity, event-driven, or multi-strategy managers' portfolios and are less commonly offered in a stand-alone format, partly because they are capacity-constrained and partly because the number of deals, and therefore capital deployment, can be highly variable over time. Nonetheless, it is a niche where we do believe there is structural alpha, and several of our existing managers and a few prospects in our pipeline may benefit if we see a more event-rich environment.

Within credit, two potential paths seem more likely to us. Either we achieve the hoped-for economic soft-landing, but rates remain relatively high versus the "free money" era; or we see a slowdown, and rates decline more materially, depending upon the recession's severity. In the former scenario, we believe that rising interest expense and the prospect of refinancing at still-high rates will become an issue for some leveraged borrowers as significant 2025 maturities near.

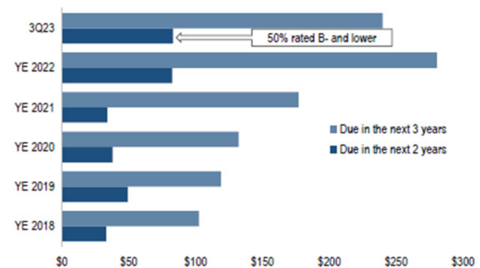
The notional share of U.S. High Yield (top chart) and European High Yield (bottom chart) maturing within 36 months.





Source: Goldman Sachs Credit MarketStrats Team, *GS Credit | View and Trades | Dec-23 and Beyond.* Bloomberg, Goldman Sachs Investment Research.

U.S leveraged loan maturity wall ($B)



Source: PitchBook | LCD . Data Through Nov. 22, 2023

[17] https://www.bloomberg.com/news/articles/2023-12-06/moelis-sees-huge-backlog-of-deals-after-fed-s-rate-hike-regime

We find the statistics within leveraged loans of particular interest, since (1) this comprises floating rate debt, so companies are already beginning to feel the pinch from higher interest expense, and (2) there is both a high volume of loans coming due in the next two years and a high proportion that is lower-rated.[18] In fact, we have already seen our credit/distressed managers taking advantage of these types of situations, buying into loans at a discount in the secondary market, where the issuer needs liquidity, then working directly with the company to provide new debt at attractive terms. If the latter scenario plays out, operational performance and coverage ratios could deteriorate further, especially for already weak or cyclical businesses, leading to potential stressed or distressed situations. Our managers have been picking their spots carefully when it comes to investing in distressed debt, as the companies that default early in any credit cycle tend to do so with good reason (*i.e.*, they are fundamentally bad businesses). Many are of the view that some recent bankruptcy filings should have happened years ago, but the timeline was extended either due to ultra-low rates or outside/governmental support during the pandemic.

In both scenarios, we expect opportunities to be more issuer-specific versus widespread, though there may be some concentration within industries. According to S&P Global Ratings, issuers within media/entertainment, consumer products, and healthcare, each account for over 10% of the CCC- and C-rated cohort.[19] We believe this set-up, with higher potential divergence in individual security performance based upon refinancing prospects and business fundamentals, plays to the strengths of skilled credit and distressed hedge funds. In addition, with credit spreads tightening back under 4% into year-end, the ability to short can be highly valuable, especially if managers can correctly identify negative catalysts, such as downgrades, so-called "priming" transactions[20], or bankruptcies.

The boom in private credit is beginning to prompt some caution. With almost any market or investment strategy, there are often reasons to be concerned when there is a proliferation of assets, and the rapid rise of private credit is no exception. The media has reported increased caution surrounding the market's size, opacity, illiquidity, and lack of regulatory oversight from both Wall Street and Capitol Hill.[21] While we believe the private credit market serves an essential function and, at times, can provide an attractive illiquidity premium to investors, we believe that premium is lower today than in the recent past as yields in liquid credit markets have increased. In addition, it surprises us to sometimes hear private credit positioned as a diversifying strategy, an assertion we view as dangerous. Private credit strategies are still long (only) risky assets. Not marking those assets to market as often as one

[18] https://pitchbook.com/newsletter/back-to-the-maturity-wall

[19] https://www.spglobal.com/ratings/en/research/articles/231116-default-transition-and-recovery-higher-rates-for-even-longer-could-push-the-u-s-speculative-grade-corporat-12916045

[20] When distressed borrowers take on structurally senior debt, shifting collateral or assets away from existing lenders or otherwise affecting the seniority of existing lenders' claims.

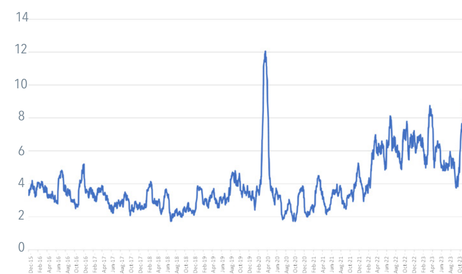
[21] https://www.bloomberg.com/news/articles/2023-11-29/senators-warn-of-hidden-dangers-lurking-in-private-credit-boom; https://www.bloomberg.com/news/articles/2023-11-28/ubs-chair-kelleher-warns-bubble-is-forming-in-private-credit; https://www.bloomberg.com/news/articles/2023-11-02/pimco-sounds-alarm-on-under-regulated-private-credit-markets

would more liquid credit instruments, or simply lacking efficient price discovery mechanisms, does not make them uncorrelated from a fundamental economic standpoint. In addition, as in high yield and broadly syndicated loans, our managers have noted a maturity wall looming in private debt, too, with approximately 30% of deals maturing by the end of 2025.[22] While we expect many of these issuers will ultimately be able to refinance, in large part due to the significant amount of dry powder among private credit managers, we still expect a pickup in defaults. Defaults may help separate the wheat from the chaff—while many private credit managers have substantial expertise in working out bad loans, there are others, especially some newer entrants, that lack this experience.

Macro

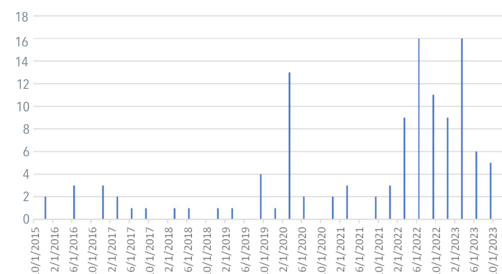
Interest rate policy will, again, be a focal point of 2024. Like 2023, when market participants were focused on the duration of the hiking cycle and where the terminal policy rate would land, much of 2024 likely will be spent focused on the reverse: when will cuts begin and how many will there be? We do not expect that to be a smooth and predictable process. Given the sharp rally into year-end, the market seems to be pricing in a soft-landing with near certainty, while also pricing in even more rate cuts than the Fed's latest "dot plot" suggests. Those two things could be incompatible in that more aggressive easing seems likely only if the economy continues to weaken or goes into a recession. We expect to see continued volatility as the market tries to reconcile incremental macroeconomic data points with central bank rhetoric. We may need only look at the magnitude of the moves in 10-year Treasuries recently to portend what the coming year may hold.

Rolling 25-day Average Daily Move in 10yr Yield (bps)



Data Source: Wall Street Journal. Data from 9/14/2015 to 12/14/2023

Number of Days With 10yr Yield Change >= 10bps



Data Source: Wall Street Journal. Data from 9/14/2015 to 12/14/2023

Layer on increased geopolitical risks and the U.S. Presidential election (not to mention national elections in 39 other countries![23]), and we expect rates markets will remain volatile in the year ahead. That should provide ample trading opportunities for our macro

[22] Source: Hein Park, Bank of America Merrill Lynch.
[23] https://www.bloomberg.com/news/newsletters/2023-11-01/2024-is-election-year-in-40-countries-and-podcast-elon-inc-launches-next-week

managers, which can express a diverse range of directional and relative value bets in both rates and their derivatives (*e.g.*, views on duration, the volatility of rates, the shape of yield curves, and/or the spread between different sovereign bonds).

We also believe Japan is likely to grab macro mindshare and provide a potential source of returns. As mentioned above, Japan's decades-long battle with deflation may be at a turning point, and there is increased speculation about whether/when the Bank of Japan ("BoJ") will move away from its negative interest-rate policy. Certainly, pressure seems to be mounting for some change after three years of significant depreciation in the yen.

USD-JPY Exchange Rate

Source: Bloomberg

That has the potential to start reversing if the BoJ increases policy rates, especially if other developed markets, such as the U.S., Europe, and UK, simultaneously ease. And while rising Japanese bond yields may sound like an isolated event, it could have profound ripple effects. Japanese investors have been large buyers/holders of foreign debt and, as of October 2023, remain the largest non-U.S. holder of U.S. Treasuries.[24] If some of that capital begins to favor domestic bonds instead, that could reduce the demand for other developed market sovereign bonds.

We believe California Carbon Allowances ("CCAs") have an attractive risk/reward profile in the near-term. The state of California has administered an active cap-and-trade program since 2013, which imposes a compliance obligation on corporate entities that are heavy emitters of carbon. These entities are required to buy CCAs, which are carbon credits that give them the right to emit carbon into the atmosphere. The CCA market has developed into an actively traded one that allows for limited participation from financial speculators, and there is also a reasonably liquid CCA futures and options market. CCAs have performed well over the past several years due to favorable supply/demand dynamics, strong auction results, and more recently,

[24] https://www.reuters.com/markets/us/foreign-holdings-us-treasuries-august-hit-highest-since-december-2021-data-2023-10-18/

rising expectations that the state will begin implementing changes to the program over the coming year, reducing the supply of allowances to achieve even more ambitious reductions in greenhouse gas emissions by 2030. It is this last component that, we believe, could serve as a meaningful positive catalyst for CCA prices in the next year. While any potential changes need to go through a multi-step process to be approved, and implementation is not likely before the end of 2024, we believe that prices will start to move in advance of that, similar to what happened in the European carbon market when regulators tightened that program. We have been involved in researching CCAs since early 2021, and we have exposure to CCAs through an existing investment.

Relative Value

We continue to seek uncorrelated sources of return within relative value but are less willing to accept low expected returns in exchange. With higher returns on cash and, in our opinion, strong total return potential across many hedge fund strategies today, we want to make sure that, within relative value, we are not trading too much expected return in exchange for lack of correlation. Rather, we are seeking relative value strategies that can provide both reasonably high expected risk/return *and* diversification benefits. This narrows our focus and reinforces a strong competition for capital across all managers, as we weigh these quantitative inputs against more qualitative assessments (*e.g.*, our conviction in the manager's edge, the breadth of their opportunity set, and their expected performance in stressed markets, among other factors). We believe our existing relative value exposure does offer the potential for both high expected returns and low to minimal correlation with risk assets and other hedge funds.

We are constructive on the prospects for select systematic strategies. We continue to favor systematic investment approaches that are grounded in economic/fundamental rationale and/or predictable, price-insensitive capital flows that create inefficiencies. We are uninterested in "black boxes" that lack sufficient transparency to understand the underlying signals/models that drive expected alpha. In addition, we look for managers that can differentiate from peers, such as hunting in less efficient, more capacity-constrained corners of the market and/or benefiting from a smaller trading footprint. We are excited by the progress that an existing systematic manager has made in expanding their set of strategies and believe they can offer a diversifying, yet still high, expected source of returns to our portfolios.

IMPORTANT FUND INFORMATION AND DISCLOSURES

The Fund is a continuously-offered, non-diversified, registered closed-end fund with limited liquidity. The Fund's shares are subject to legal restrictions on transfer and resale and you should not assume you will be able to resell your shares. **No assurance can be given that the Fund will achieve its objectives.** This quarterly letter does not constitute an offer to sell or a solicitation of an offer to purchase the Fund's securities. Any such offer will be made only by means of the Fund's Prospectus.

Attribution by Strategy represents the portion of the Fund's net return that Evanston Capital Management, LLC ("Evanston Capital" or "ECM") determines is attributable to each of the Long/Short Equity ("LS"), GAA/Macro, Event Driven ("ED"), and Relative Value strategies (collectively, "Strategies"). The Attribution by Strategy Returns are based on unaudited results and presented net of management fees and administrative expenses. The Fund's 2024 audited financials will be delivered to Fund investors no later than 60 days after the Fund's 3/31 fiscal year-end. The Fund's monthly net returns used to calculate Attribution by Strategy are based on the fee and expense structures of Class I and Class A shares. ECM subjectively determines what percentage of an underlying hedge fund's assets should be assigned to a given Strategy. Additionally, the Attribution by Strategy calculation assumes that each underlying fund's monthly net returns are directly attributable to the Strategy allocation exposures assigned by ECM. For example, if ECM determines that an underlying fund should be classified as 50% LS and 50% ED and such underlying fund generates a 2% net return for a given month, ECM will attribute 50% of such return to LS and 50% of such return to ED.

The contents of this Fund quarterly letter are solely for informational purposes, are current as of the date set forth on this quarterly letter, and are subject to change from time to time. Neither the Fund nor ECM is obligated to notify you of changes to this information.

Certain statements made herein constitute forward-looking statements. These statements reflect ECM's current views about, among other things, future events and financial performance, and results may differ, possibly materially, from these statements. Neither ECM nor the Fund is obligated to update or revise the statements made or information presented herein.

Fund Liquidity/Tenders: The Fund intends to conduct quarterly tender offers. Each repurchase offer is expected to be limited to the repurchase of approximately 5-25% of the outstanding shares, in the Board of Trustees' discretion. No Fund investor can require the Fund to redeem shares, regardless of how the Fund performs.

Early Withdrawal Fee: Shareholders who seek to sell their shares back to the Fund less than one year after purchasing the shares will be subject to a 3% early withdrawal fee payable to the Fund.

Fund Fees and Expenses:
Portfolio Fund Fees and Expenses: The Fund is a "fund of funds" that invests in Portfolio Funds managed by Portfolio Managers unaffiliated with ECM. Portfolio Funds' management fees range from approximately 1% to 3% per annum, and incentive fees that a Portfolio Fund may charge range from approximately 15% to 35% of profits per annum.[8] Portfolio Fund fees and expenses may be substantially higher or lower as a result of the Fund's investments in new or different Portfolio Funds. The Fund anticipates that its total annual expenses, taking into account the Expense Limitation Agreement and the Portfolio Fund fees and expenses, but excluding any sales load that may be assessed, will be approximately 4.97% with respect to Class I and 5.72% with respect to Class A, as described in detail in the Fund's Prospectus. Actual expenses may be higher or lower than estimates provided due to the Portfolio Funds' fees and expenses.

Distribution and Service Fee. The Fund pays Foreside Fund Services, LLC (the "Distributor") a distribution and/or service fee equal to 0.75% per annum of the aggregate value of the Class A shares outstanding, determined as of the last calendar day of each month (prior to any repurchases of shares and prior to the Fund's management fee ("Management Fee") being calculated) ("Distribution and Service Fee") in accordance with a plan adopted by the Fund in compliance with the provisions of Rule 12b-1 under the Investment Company Act of 1940, as amended (the "1940 Act"). The Distribution and Service Fee is payable quarterly, and the Distributor pays all or a portion of the Distribution and Service Fee to certain financial intermediaries. ECM also pays a fee out of its own resources to financial intermediaries. Please see the Fund's Prospectus for more detailed information.

Management Fee and Management Fee Waiver. ECM contractually agreed to waive a portion of the Management Fee from July 1, 2014 through June 30, 2015, such that it equaled 0.90% per annum (the "Management Fee Waiver") for such period. Class I's performance data through June 30, 2015 is shown net of the reduced 0.90% Management Fee. From July 1, 2015 through December 31, 2018, the Management Fee Waiver was terminated, and performance for Class I is shown net of a 1.2% Management Fee during such period. Effective January 1, 2019, Class I's Management Fee is 1.0% per annum.

Performance shown prior to Class A's inception date (06/01/2015) is based on the performance of Class I Shares, adjusted to reflect Class A's fees and expenses. Performance shown through December 31, 2018 for Class A reflects a Management Fee of 1.20% per annum. Effective January 1, 2019, Class A's Management Fee is 1.0% per annum with a distribution and service fee of 0.75% per annum.

Expense Reimbursement. Effective August 1, 2023 through July 31, 2024, ECM has contractually agreed to limit the Fund's total annualized expenses (excluding any borrowing and investment-related costs and fees, taxes, extraordinary expenses, and the Portfolio Fund Fees and Expenses) to 1.5% with respect to Class I and 2.25% with respect to Class A (the "Expense Limitation Agreement"). Prior to January 1, 2019, ECM had contractually agreed to limit the Fund's total annualized expenses to 1.7% with respect to Class I and 2.45% with respect to Class A. ECM and the Fund may continue to renew the Expense Limitation Agreement for one-year terms thereafter, and may terminate it with 30 days' prior written notice to the other party. ECM will be permitted to recover from the Fund expenses it has borne in later periods, if Class I and Class A's expenses fall below the annual rate of 1.5% and 2.25%, respectively. The Fund is not obligated to pay any such amount more than 3 years after the fiscal year-end in which ECM deferred a fee or reimbursed an expense.

Please review the Fund's Prospectus for information about other fees, including the Fund's operating expenses.

Additional Fund Exposures Information: The Fund and Portfolio Fund exposures generally reflect the value of cash positions as well as the economic value of underlying positions, including derivatives positions such as futures and options. ECM has not received the most recent exposures from the majority of the Portfolio Funds as of the date hereof. Consequently, the most recent exposure information previously received by ECM for such Portfolio Funds is used herein.

STRATEGY DEFINITIONS

Long/Short Equity: Seek to profit by taking positions in equities and generally involve fundamental analysis in the investment decision process. Long/short equity strategies may aim to have a net long directional bias, a net short directional bias, or be neutral to general movements in the stock market. Long/short equity Portfolio Managers tend to be "stock pickers" and typically shift allocations between long and short investments based on market conditions and outlook.

Event Driven: Seek to invest in opportunities that are created by significant transaction events, such as spin-offs, mergers and acquisitions, and reorganizations.

Relative Value: Seek to profit by exploiting pricing inefficiencies between related instruments, while remaining long-term neutral to directional price movements in any one market. Short selling is an integral part of this strategy.

Global Asset Allocation/Macro: Seek to exploit opportunities in various global markets. Portfolio Funds employing these strategies have a broad mandate to invest in markets and instruments they believe provide the best opportunity.

INDEX AND OTHER DEFINITIONS

An investor cannot invest in an index. Please note that the indices or performance benchmarks below are composed of securities which for the most part are dissimilar to the positions held directly or indirectly by the Fund, and these indices or benchmarks do not have similar risk/return profiles to that of the Fund. However, these indices or benchmarks have been included herein because they represent various asset classes to which an investor may choose to compare the Fund's performance.

S&P 500 Index: is composed of 500 publicly traded stocks representing all major U.S. industries.

S&P 500 Real Estate Index: comprises those companies included in the S&P 500 that are classified as members of the GICS Real Estate sector.

Alpha: Measures a manager's value added relative to a passive strategy, independent of the market movement.

IMPORTANT RISK FACTORS CONCERNING THE FUND

As described in the Fund's Prospectus and Statement of Additional Information, **an investment in the Fund is speculative, involves a substantial degree of risk, and an investor could lose all or substantially all of his or her investment. There can be no assurance the Fund will achieve its investment objectives or avoid significant losses.**

The Fund is only available to "eligible investors" who can bear significant risk and do not require a liquid investment. Please see the Fund's Prospectus for important information about the Fund's terms, risks, and other disclosures.

The Fund's Portfolio Managers may, in some cases, be recently organized or may manage Portfolio Funds that are recently organized and have no or a very limited operating and performance history. The Fund is managed by ECM, and its success will depend, in large part, on ECM's skill and expertise. Although ECM has over 20 years managing privately offered fund of hedge fund products, ECM's experience managing registered investment companies is limited to the Fund, which launched in 2014.

The Fund's shares are subject to restrictions on transfer and have limited liquidity. The Fund does not list its shares for trading on any national securities exchange; there is no secondary market for the shares, and none is expected to develop. An investment in the Fund's shares is not suitable for investors that require liquidity, other than liquidity provided through the Fund's repurchase policy. There can be no guarantee that an investor will be able to sell any of its shares when it desires to do so. The Fund's repurchase offer policy may decrease its size over time absent significant new investments in the Fund. It could force the Fund to maintain more liquid investments, sell assets prematurely, substantially increase the Fund's ratio of illiquid to liquid securities for non-redeeming investors, and/or reduce the investment opportunities available to the Fund and cause its expense ratio to increase.

The Portfolio Funds are not registered under the 1940 Act, and therefore are not subject to the 1940 Act's restrictions and protections, such as fee limitations, asset coverage requirements, and reporting requirements. The Portfolio Managers may use investment strategies and techniques that are not generally permissible for registered investment companies, and Portfolio Funds may be less transparent in providing portfolio holding and valuation information.

ECM relies on the valuation of the Portfolio Funds to value the Fund's shares. Fair value estimates may prove to be inaccurate and may be subject to later adjustments from time to time. Similarly, inaccurate or delayed information that a Portfolio Manager may provide could adversely affect ECM's ability to accurately value the Fund's shares.

The net asset values received by ECM or the Fund's administrator from Portfolio Funds may be estimates only, and, unless materially different from the actual valuations, generally will not be subject to revision. ECM relies on these estimates in calculating the Fund's net asset value for, among other things, reporting the performance data reflected herein. Portfolio Funds are typically audited on an annual basis.

The Fund may borrow money for portfolio management and other purposes, and may have to pledge assets when borrowing, which could affect the Fund's operations in the event of an uncured default. The Portfolio Funds may use leverage to purchase instruments, sell securities short, and/or other means, which would increase any loss incurred. Consequently, the Portfolio Funds may be subject to major losses if market disruptions destroy any hedged positions, which would negatively impact the Fund's performance.

The Fund intends to meet the requirements necessary to qualify for favorable tax treatment as a "regulated investment company," or "RIC" under Subchapter M of the Internal Revenue Code. If the Fund fails to satisfy the applicable requirements, it may lose its status as a regulated investment company, and in such case, all of its taxable income would be subject to U.S. federal income tax at regular corporate rates without any deduction for distributions to shareholders. Disqualification as a RIC would have a material adverse effect on the value of the Fund's shares and the Fund's distribution amounts.

You should consult with your own legal, tax, financial, and other professional or advisers before investing in the Fund.

Before investing, you should consider carefully the Fund's investment objectives, limited liquidity, risks, charges, and expenses. The Prospectus contains this and other information about this investment company. You can obtain a copy of the Prospectus by contacting ECM at investorrelations@evanstoncap.com or calling 847-328-4961 or by requesting a copy from your financial professional. Please read the Prospectus carefully before you invest.

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