FS INVESTMENTS®

Monthly commentary

September 2021

FS Chiron Capital Allocation Fund

Class I: CCAPX

Overall Morningstar Rating™

★★★★★

Based on the risk-adjusted returns out of 417 funds in the Morningstar World Allocation category as of 9/30/2021.[1]

Chiron AUM: $1.6 billion

Performance insights

The fund returned -1.22% in September, outperforming its blended benchmark, which declined –2.82%.[2] Our equity hedge was a contributor, while equities, precious metals-related investments, and fixed income were detractors.

- **Energy sector leads:** Overweight exposure to energy equities contributed to performance. Energy stocks, the top performing sector in the S&P 500 YTD, have been supported by a recent uptick in commodity prices.[2]
- **Consumer discretionary stocks lag:** The fund's exposure to the consumer discretionary sector detracted from performance with U.S. consumer stocks the top decliners.
- **Japan adds to performance:** The fund's overweight to Japanese stocks contributed to performance. After lagging for much of the year, Japan has gotten a boost from increasing vaccinations and optimism around a new prime minister.
- **EM equities decline:** Emerging markets exposure detracted from performance with Chinese stocks the top decliner.

Positioning

- **Holding in neutral:** We continued to run our net equity exposure close to our 60/40 benchmark and have considerably reduced the fund's equity beta over the past few months.
- **Balanced from a sector standpoint:** We made modest changes to the portfolio in September, including adding to overweights in the consumer discretionary and energy sectors, as well as having trimmed exposure to the technology sector. However, the portfolio in general remains fairly balanced compared to our benchmark.
- **Fixed income market is challenged:** Our fixed income allocation has increased closer to the benchmark in recent months, although these assets are mostly liquid and low-duration. We continue to see challenges given yield and duration levels.
- **Prioritizing flexibility:** Our 9% cash position and T-bill exposure provides us with ample liquidity and flexibility to maneuver should markets provide an attractive entry point in the short- to medium-term.

Total returns[3,4,5,6,7]

								As of 6/30/2021		
	MTD	QTD	YTD	1 year	3 year	5 year	Since inception	1 year	5 year	Since inception
CCAPX (Class I; inception 11/30/2015)	-1.22%	-3.63%	8.73%	30.19%	10.61%	10.04%	9.40%	52.35%	11.83%	10.57%
Morningstar World Allocation category	-2.53%	-1.23%	7.34%	18.41%	6.93%	7.07%	—	25.33%	8.06%	—
Benchmark	-2.82%	-0.59%	5.94%	15.52%	10.07%	9.27%	8.83%	22.19%	10.13%	9.35%
MSCI ACWI (Net)	-4.13%	-1.05%	11.12%	27.44%	12.58%	13.20%	12.08%	39.26%	14.61%	12.86%
Bloomberg Barclays U.S. Aggregate Bond Index	-0.87%	0.05%	-1.55%	-0.90%	5.36%	2.94%	3.45%	-0.33%	3.03%	3.60%

Total annual fund operating expenses, Class I: 1.13%.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be higher or lower. 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 the original cost. Performance for periods less than one year are cumulative. The Fund's other share classes may have different performance characteristics.

1 The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. For the three-year period, FS Chiron Capital Allocation Fund was rated against 417 funds in the Morningstar World Allocation category and received five stars. For the five-year period, FS Chiron Capital Allocation Fund was rated against 361 funds in the Morningstar World Allocation category and received five stars.

Outlook

- **Market cycle moving rapidly:** Within our quantitative work, our valuation spreads were broadly stable across developed markets during September, while Emerging Market spreads widened modestly. Our quantitative model continued to show a Value setting for most developed markets, including the U.S., while Europe moved from Growth to Neutral as growth stocks lagged and valuation spreads saw modest tightening. Spread levels in EMs appear attractive, although we are moving cautiously due to delta variant concerns in many EM countries and the events in China.
- **Rates remain star of the show:** We are mindful of the outsized influence of interest rates on nearly every asset class; the duration of the Barclays Agg has risen significantly this year and we've spoken frequently about the increased sensitivity to yield moves in the equity market. The end of September illustrated the risks of this rate reliance, as the 10-year Treasury rose 24 bps in a week and high-multiple growth stocks plummeted.[2] Given economic growth headwinds—central bank tightening, China uncertainty and inflation, to name a few—are increasing in both number and consequence, we believe the short term is fraught with potential for these types of rapid market adjustments. We continue to emphasize stock selection, seeking out companies with strong margins and individual catalysts, over factor rotation, preferring not to get caught too far on one side of the rates debate.
- **This part of the cycle calls for balance:** We believe the market and economy have quickly entered a mid-cycle regime, as still-strong growth rates have collided with rising risks to create a complicated backdrop. We have balanced our portfolio to match the current environment and will remain disciplined in adhering to our free cash flow framework in what we still believe to be an attractive global market.
- **Ready to be opportunistic:** While poor market breadth and wavering investor sentiment make investing in the very short-term tricky, we believe the next quarter will offer significant opportunities for active managers. We are well prepared to capitalize on appealing entry points given the increased level of liquidity held in the portfolio.
- **New secular trends are emerging:** Over the medium term, we expect to see signs of a new global macro regime emerging, with U.S.-China tensions taking centerstage and driving trends toward deglobalization, onshoring and a larger role for industrial policy across many regions.

Market commentary

- Global equities recorded a monthly loss for the first time since January as concerns around policy tightening and headwinds to economic growth tempered market enthusiasm. The S&P 500 fell -4.65%, underperforming the MSCI EAFE and MSCI Emerging Markets indexes by 182 bps and 69 bps, respectively.[2]
- Global yields climbed amid hawkish signals from central banks and persistent inflation concerns. The 10-year Treasury yield rose 18 bps, sending the Bloomberg Barclays U.S. Aggregate Bond Index down -0.87% for the month.[2]
- Consumer spending rebounded in September as retail sales increased 0.7%, beating expectations.[8] Still, measures of consumer confidence reflect increased caution as the consumer deals with elevated inflation and delta variant concerns. Business sentiment remains robust, with the ISM Manufacturing Index climbing to 59.9, while strong durable goods orders bode well for capital expenditures.[9]
- The Federal Reserve all but announced at its September meeting that the central bank would begin to curtail their large-scale asset purchases in November. While this was expected, Chair Powell also stated that they would look to end tapering by the middle of next year, a quicker process than many expected. Alongside a more aggressive dot plot, markets took the meeting as a moderately hawkish surprise.
- European equities declined in September amid the broader global risk-off sentiment. The Eurozone PMI data showed a moderate disappointment, but levels remain reflective of robust demand. Headline CPI rose to 3.4% y/y, the highest level in over a decade amid an acute energy supply crunch.[2] This puts the ECB in the same precarious position as the Fed: responding to significant price pressures that still appear to be driven primarily by supply factors.
- The FTSE 100 returned -0.19%, outperforming the U.S. and Europe despite persistently high COVID case counts.[2] However, the country is dealing with violent energy price increases that could crimp near-term economic growth.
- MSCI Japan Index rose 4.36%, leading developed markets.[2] After lagging significantly for much of the last two years, the recent move has come on the heels of increased vaccination and optimism around the country's income prime minister, Fumio Kishida.
- MSCI Emerging Markets Index declined in September and ended Q3 down -8.03%.[2] Chinese stocks fell as the financial troubles at property developer China Evergrande became the latest in a line of crises hitting the country's financial markets. Despite the support of booming commodity prices, markets in Brazil plunged amid rapidly rising inflation and political uncertainty in the country.

Fund overview

FS Chiron Capital Allocation Fund is an actively managed and flexible strategy designed to dynamically invest in the global markets across market cycles.[3]

Strategy

- Ability to invest in a global opportunity set across developed and emerging markets
- Combines proprietary quantitative and fundamental research to quickly identify opportunities
- Targeting best opportunities for growth through a market cycle regardless of style, size, region, industry or sector

2 Bloomberg Finance, L.P., as of September 30, 2021.

3 Effective July 16, 2021, the Fund has been renamed FS Chiron Capital Allocation Fund. Prior to that date, the Fund operated under the name Chiron Capital Allocation Fund.

4 The Morningstar category is compiled by Morningstar, an independent mutual fund research and rating service. The Morningstar category represents a universe of funds that is similar in investment objective to the Fund. The category is unmanaged and does not reflect any fees, expenses, or sales charges. You cannot invest directly in the category.

5 The blended benchmark consists of a 60% weighting of the MSCI ACWI Index and a 40% weighting of the Bloomberg Barclays U.S. Aggregate Bond Index.

6 The MSCI ACWI (Net) is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world and is calculated with dividends reinvested after deduction of withholding tax.

7 The Bloomberg Barclays U.S. Aggregate Bond Index is an investment grade index of bonds denominated in U.S. dollars.

8 U.S. Census Bureau, as of August 31, 2021.

9 Institute of Supply Management, as of September 30, 2021.

Morningstar ratings are specific metrics of performance and do not represent absolute performance of any fund. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics. The Fund's other share classes may have different performance characteristics.

DEFINITIONS

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). **Consumer Price Index (CPI)** is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. **The Financial Times Stock Exchange 100 Index (FTSE 100 Index)** is a share index of the 100 companies listed on the London Stock Exchange with (in principle) the highest market capitalization. The **ISM Manufacturing Index** is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms. **Morningstar World Allocation category** consists of world-allocation portfolios that seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds and cash. While these portfolios do explore the whole world, most focus on the U.S., Canada, Japan and the larger markets in Europe. **Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) Index** is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world and is calculated with dividends reinvested after deduction of withholding tax. **MSCI EAFE Index** is an equity index which captures large and mid cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. **MSCI Emerging Markets Index** captures large and mid cap representation across 27 Emerging Markets (EM) countries. **MSCI Japan Index** is designed to measure the performance of the large and mid cap segments of the Japanese market. **Retail sales** tracks consumer demand for finished goods by measuring the purchases of durable and non-durable goods over a defined period of time.

The indexes referenced herein are the exclusive property of each respective index provider and have been licensed for use by FS Investments. The index providers do not guarantee the accuracy and/or completeness of the indexes and accept no liability in connection with the use, accuracy, or completeness of the data included therein. Inclusion of the indexes in these materials does not imply that the index providers endorse or express any opinion in respect of FS Investments. Visit www.fsinvestments.com/investments/index-disclaimers-and-definitions for more information.

Securities offered through FS Investment Solutions, LLC (member FINRA/SIPC). FS Investment Solutions, LLC is an affiliated broker-dealer that serves as the wholesaling distributor of non-traded funds sponsored by FS Investments. An investment in any fund sponsored by FS Investments involves a high degree of risk and may be considered speculative. Investors are advised to consider the investment objectives, risks, and charges and expenses of the applicable fund carefully before investing. The applicable fund's prospectus contains this and other information. Investors may obtain a copy of the applicable fund's prospectus free of charge at http://www.fsinvestments.com or by contacting FS Investments at 201 Rouse Blvd., Philadelphia, PA 19112 or by phone at 877-628-8575. Investors should read and carefully consider all information found in the applicable fund's prospectus and other reports filed with the U.S. Securities and Exchange Commission before investing.

RISK FACTORS

Investing involves risk, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. In addition to the normal risks associated with investing, international investments may involve risk or capital loss from unfavorable fluctuation in currency values, differences in generally accepted accounting principles or from social, economic or political instability in other nations. Emerging markets involve heightened risks related to these factors as well as increased volatility and lower trading volume. REIT investments are subject to changes in economic conditions, credit risk and interest rate fluctuations. The Fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund's gains or losses.

Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions, there can be no assurance that actual results will not differ materially from expectations. Past performance is no guarantee of future results. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Chiron Investment Management, LLC.

NOT A DEPOSIT   NOT FDIC INSURED   MAY LOSE VALUE   NO BANK GUARANTEE   NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

FS Chiron Capital Allocation Fund is distributed by SEI Investments Distribution Co. (SIDCO). SIDCO is not affiliated with Chiron Investment Management, LLC.