FS INVESTMENTS®

Monthly commentary

April 2023

FS Chiron SMid Opportunities Fund

Class I: CSMOX

Assets under management

CSMOX: $36.6 million

Performance insights

The fund returned -0.89% in April, underperforming its benchmark, which gained 0.28%.[1]

- **Health care names contribute:** The fund's investments in the health care sector contributed most to return in April as investors favored defensiveness within the SMid space.[1]
- **Technology holdings lag:** Tech stocks detracted most from return last month. Unlike in large caps, smaller technology firms have lagged in recent months. Semiconductor stocks bore the brunt of the decline.[1]
- **Developed Europe holdings outperform:** The fund's holdings in developed Europe, where they are roughly equal weight, contributed to performance in April. Much of the gain can be attributed to strong performance from U.S. utilities holdings.[1]
- **U.S. stocks detract:** SMid stocks in the U.S., where the fund continues to be underweight, underperformed and detracted from return last month. Tech and consumer holdings drove much of the declines.[1]

Positioning

- **Tweaking sector exposures, broadly balanced:** The fund's exposure is evolving and adapting to our view that markets, especially in the U.S., are entering a late-cycle environment. Holdings in developed markets are geared toward growth at a reasonable price (GARP), while we increased our allocation to traditional defensives last month. The cyclical exposure we have in the portfolio is mostly represented in emerging markets (EM).
- **U.S. remains an underweight:** We maintained the fund's U.S. exposure at a modestly underweight level last month while continuing to hold an overweight in emerging markets. We believe valuations in the U.S. remain largely unappealing compared to those available in other parts of the world.[1]
- **Playing it down the factor fairway:** The readings from our quantitative models have moved toward growth in many regions, and our portfolio has reacted by reducing exposure to the value factor and increasing defensiveness. Still, we believe valuation remains a crucial element for investing today and are thus favoring a GARP strategy, where the market is skeptical of a stock's strong earnings growth rate and, thus, assigns a modest multiple.

Total returns[2,3]

								As of 3/31/2023		
	MTD	**QTD**	**YTD**	**1 year**	**3 year**	**5 year**	**Since inception**	**1 year**	**5 year**	**Since inception**
CSMOX (Class I; inception 10/02/2017)	-0.89%	-0.89%	2.93%	-8.41%	10.57%	2.12%	3.35%	-15.10%	2.23%	3.57%
MSCI ACWI SMid (Net)	0.28%	0.28%	4.57%	-1.84%	12.22%	4.24%	4.91%	-9.44%	4.35%	4.93%
Morningstar Global Small/Mid Stock category	-1.20%	-1.20%	5.44%	-3.35%	10.85%	4.52%	3.90%	-11.52%	4.74%	4.19%

Gross expense ratio, Class I: 1.48%. Net expense ratio, Class I: 1.20%. Chiron has contractually agreed to waive fees and reimburse expenses to the extent necessary to keep total annual fund operating expenses (not including excluded expenses) from exceeding 1.20% of the average daily net assets of the Fund's Class I shares until February 28, 2024.

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 is cumulative. The Fund's other share classes may have different performance characteristics. Please call 877-924-4766 or visit our website at www.fsinvestments.com for performance data current to the most recent month-end.

Outlook

- **Models point to growth, defensiveness.** Our models sit firmly in a growth setting in the U.S. and Europe, which equates to a more defensive portfolio posture. Meanwhile, emerging markets and developed Asia continue to operate on a different cycle clock and remain in a value setting. Our quantitative work continues to emphasize the importance of valuation, suggesting to us that a GARP strategy within equities is the optimal path forward.
- **Narrow market rally points to late-cycle environment.** The defining characteristic of the equity market's positive start to 2023 has been the narrowness of its composition. There are a multitude of ways to illustrate this; the Nasdaq 100 has gained 21.4% year-to-date (YTD), while the S&P 500 Equal-Weight and the Russell 2000 Indexes have returned just 3.26% and 0.88%, respectively. Nearly half of the MSCI ACWI Index's 8.8% YTD return can be attributed to 10 U.S. stocks, which together comprise just 14% of the global equity benchmark. This is a classic late-cycle market signal. When risks to the backdrop rise—as they have with the ongoing bank stress and the upcoming debt ceiling deadline—investors generally flock to what they consider to be the most stable cash-flowing large caps, which in recent years has been U.S. megacap technology stocks. While this investor behavior is unsurprising, we continue to believe the market is overstating the defensiveness of many of these firms as we enter a potential cyclical downturn.[1]
- **SMid underperformance will provide entry points** After beating global large caps (MSCI ACWI Large Cap Index) by 5% from the end of September through early March, global SMid stocks (MSCI ACWI SMid Index) turned lower following the March banking stress. Much of that can be attributed to U.S. financials—the Russell 2000 Banks Index has shed -29.58% since March 8—but there has also been a general investor flight to larger, more stable tech names. Relative valuations, while still historically attractive for SMids, did not move much; however, earnings estimates have been declining faster for small and mid-caps. Given our expectation that estimates for the S&P 500 remain too high for the coming year, we are preparing for significant opportunities to arise in the SMid space over the second half of the year and believe any durable market rebound will begin there. In the meantime, the portfolio is positioned somewhat defensively, with any cyclical exposure focused in emerging markets, where economic momentum is stronger.[1]
- **A hiatus in the secular spending story.** Our core view is that deglobalization and the myriad paradigm shifts being undertaken today, from the energy transition to artificial intelligence, will fundamentally change the investing landscape. While capital spending growth is set to slow this year and wary investors are rewarding companies for capital discipline, we view this as a seminal opportunity to invest in the companies that will benefit most from this spending at attractive entry points.

Market commentary

- Global small and mid-cap equities (MSCI ACWI SMid Index) returned -1.38% in March, underperforming global large caps (MSCI ACWI Large Cap Index) by more than 500 basis points (bps) as investors flocked to perceived quality. In the U.S., the S&P 1000 Index returned -3.80%, underperforming the S&P 500 by 747 bps.[1]
- U.S. interest rates were largely flat across the yield curve, declining early in the month on continued fallout from the banking stress before recovering mid-month. The 3-month/10-year spread finished at -166 bps, the lowest for a month-end since the early 1980s. The Bloomberg Agg gained 0.61% and has now risen 3.59% YTD.[1]
- Data continues to paint a resilient picture of the U.S. economy. Gross domestic product (GDP) grew at a below-consensus 1.1% in Q1, but an inventory drawdown detracted more than 2% from the headline. Real final sales to domestic purchasers—a stronger gauge of domestic demand—rose at a healthy 3.2% pace, lifted by strong consumption.[4] Inflation data from March showed that price growth continues to slow, albeit at a gradual pace. Labor market data were mixed but broadly show the worker shortage that has defined the COVID era may be softening.[5]
- The MSCI Europe SMid Index returned 1.77% in April, significantly outperforming stocks in the U.S. A rebound in bank and energy stocks as fears around financial stresses abated, supported a market that has a high weighting to those sectors.[1]
- The MSCI Emerging Markets SMid Index gained 0.88%, outperforming developed markets and large cap EM stocks. [1]

Fund overview

FS Chiron SMid Opportunities Fund is an actively managed strategy that strives to be well-diversified across industries, regions and sectors while generating long-term capital appreciation.[6]

Strategy

- Dynamically invests in global SMid companies across developed and emerging markets, providing localized expertise in international markets
- Utilizes the quantitative and fundamental research process that drives asset and security selection across the FS Chiron platform
- Targets best opportunities for growth through a market cycle regardless of style, region, industry or sector

Diversification does not ensure a profit or guarantee against a loss.

1 Bloomberg Finance, L.P., as of April 30, 2023.
2 The MSCI ACWI SMid Cap Index captures mid and small cap representation across 23 developed markets and 24 emerging markets countries.
3 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.
4 U.S. BEA, as of March 31, 2023.
5 U.S. BLS, as of April 30, 2023.
6 Effective July 16, 2021, the Fund has been renamed FS Chiron SMid Opportunities Fund. Prior to that date, the Fund operated under the name Chiron SMid Opportunities Fund.

INDEX DEFINITIONS

Basis points (bps) refers to a common unit of measure for interest rates and other percentages. One basis point is equal to 1/100 of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument. **Bloomberg U.S. Aggregate Bond Index (The Agg)** 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). **Gross domestic product (GDP)** is the total monetary or market value of all finished goods and services produced within a country's borders over the course of a specific time period. **Morningstar Global Small/Mid Stock category** consists of fund that invest primarily in small to medium-sized companies listed around the globe. Stocks in the bottom 30% of the capitalization of their equities market are defined as mid/small cap. **MSCI Europe SMid Cap Index** captures small and mid-cap representation across 15 developed markets in Europe. **MSCI Emerging Markets SMid Cap Index** captures small and mid-cap representation across 27 Emerging Markets (EM) countries. **MSCI All Country World Index (ACWI) Large Cap Index** is a stock index maintained by Morgan Stanley Capital International (MSCI), that captures large-cap representation across 23 developed markets and 26 emerging markets countries. With 1,435 constituents, the index covers about 70% of the free float-adjusted market capitalization in each country. **MSCI All Country World Index (ACWI) SMid Cap Index** is a stock index designed to track broad global mid and small-cap equity-market performance. Maintained by Morgan Stanley Capital International (MSCI), the index is comprised of the stocks of about 8,000 companies from 23 developed countries and 27 emerging markets. **Nasdaq 100** is a basket of the 100 largest, most actively traded U.S. companies listed on the Nasdaq stock exchange. **Real final sales to domestic purchasers** is gross domestic purchases less change in private inventories. **The Russell 2000 Banks Index** tracks the performance of bank stocks that are included in the Russell 2000 Index, which measures the small-cap segment of the U.S. equity universe. **S&P 500 (Standard & Poor's 500 Index)** is a market capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. **S&P 1000 (Standard & Poor's 1000 Index)** is a market capitalization-weighted index of the 1000 largest U.S. publicly traded companies by market value. **S&P 500 Equal-Weight Index** includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index.

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To determine if the Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk, charges and expenses. This and other information can be found in the Fund (full and summary) prospectus, which can be obtained by calling 877-924-4766 or by visiting www.fsinvestments.com. Please read the prospectus carefully before investing.

RISK FACTORS

Investing involves risk, including possible loss of principal. Investments in smaller companies typically exhibit higher volatility and lower trading volume. 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. The Fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund's gains or losses. The Fund's use of futures contracts, forward contracts, purchased options, and swaps is subject to correlation, leverage, liquidity and market risk. Value and growth investment styles may increase the risks of investing in the Fund. If the Adviser's assessment of market conditions or a company's value is wrong, the Fund could suffer losses or produce poor performance relative to other funds. In addition, "value stocks" can continue to be undervalued by the market for long periods. If a growth company does not meet expectations, the price of its stock may decline significantly, even if it has increased earnings. Many growth companies do not pay dividends. Companies that do not pay dividends often have greater stock price declines during market downturns. REIT investments are subject to changes in economic conditions, credit risk and interest rate fluctuations. A large percentage of the Fund's shares are held by a small number of shareholders, including persons and entities related to the Adviser. A large redemption by one or more of these shareholders could materially increase the Fund's transaction costs, which would negatively impact the Fund's performance and could cause adverse tax consequences for the remaining shareholders of the Fund. There is no assurance that the Fund will meet its objective.

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