FS INVESTMENTS®

Monthly commentary
April 2023

FS Chiron Real Asset Fund
Class I: FSRLX

Overall Morningstar Rating™
★★★★
Based on the risk-adjusted returns for Class I out of 381 funds in the Morningstar Global Allocation category as of 4/30/2023.[1]

Performance insights

The Fund returned -0.54% in April. The fund's fixed income investments contributed to performance while our equities and commodities investments detracted.

- **Equities detracted:** The fund's equity positions detracted from performance in April as select holdings in China and U.S. financials performed poorly last month driven primarily by increased trade tensions between the U.S. and China and weaker-than-expected Q1 earnings.
- **Commodities detracted slightly**: The fund's commodities allocation detracted from performance, as gains in our precious metals' positions were offset by declines in energy, industrial metals and agriculture. Commodities ex-precious metals struggled broadly last month with industrial metals prices slumping to a six-month low.
- **Fixed income was the top contributor**: The fund's fixed income allocation led performance in April, fueled by price gains in corporate bonds following the stronger-than-expected Q1 earnings season. Our inflation-linked bond positions also rose last month aided by falling inflation expectations.

Positioning

- **Maintained net equity exposure:** Our net equity exposure remained largely unchanged during the month. We reallocated toward more defensive sectors including communication services, healthcare and consumer staples. We pared exposure to technology and financials to reduce downside risk driven by banking system uncertainty and our belief that lofty tech valuations are likely to normalize in the second half of the year.
- **Modified international exposures:** While the portfolio remains tilted toward the U.S. overall, we have modestly increased our exposure to emerging markets, specifically Asia. We believe China's reopening and accommodative monetary policy may drive relative outperformance in emerging Asia. Furthermore, we expect the end of the Fed rate hike cycle to cause dollar weakening, which will serve as a tailwind for emerging markets.
- **Maintained commodities:** We maintained the fund's exposure to commodities. The market faces crosscurrents in the near term. The easing of lockdown measures in China will likely continue to increase commodity demand, which must be weighed against the potential for demand to wane as global growth slows. However, we continue to believe there are secular trends in the commodities markets and limited supply that should remain supportive for prices, supporting our roughly 20% weight to the asset class.
- **Maintained fixed income exposure:** Our allocation to fixed income overall was largely unchanged in April and is comprised of inflation protected, corporate and sovereign bonds. Elevated long-term interest rates have increased the attractiveness of fixed income, but we are mindful of the potential for moderating economic growth to weigh on corporate issuers and remain selective while investing in this asset class.

Total returns

							As of 3/31/2023	
As of 4/30/2023	MTD	QTD	YTD	1 year	3 year	Since inception	1 year	Since inception
FSRLX (Class I; inception 12/31/2018)	-0.54%	-0.54%	2.31%	-8.63%	9.90%	6.01%	-11.19%	6.27%

Gross expense ratio, Class I: 2.89%. Net expense ratio, Class I: 1.20%.[2] 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 with more or less than the original cost. Performance for periods less than one year are cumulative. Not all investors can invest in the I-share class. 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.

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 Real Asset Fund Class I was rated against 381 funds in the Morningstar Global Allocation category and received four stars.

Outlook

- **Banking system crisis fuels economic uncertainty**: Though April was surprisingly calm for most of the month following volatility in March, concerns over the health of regional U.S. banks were stoked in the last days of the month as signs of First Republic's eventual failure began surfacing. Substantial uncertainty remains around contagion of the broader banking system and the implication for future growth.
- **Inflation remains above Fed target:** Despite inflation continuing to edge modestly lower in March, core inflation remained resilient. The broad composition of pricing pressures includes more sticky sources that are slower to respond to changing market conditions, making a return to a more normalized 2% inflation rate unlikely in the near term. We continue to emphasize stock selection, seeking companies with strong margins and pricing power.
- **Continuation of the war in Ukraine and reduced OPEC+ output could fuel energy price increases**: Geopolitical tensions in eastern Europe continue to cause uncertainty across the energy and broader commodities complex. Russia has curtailed natural gas flows to Europe via the Nord Stream pipeline, hindering Europe's ability to build supply stores. Adding further fuel to energy prices was OPEC's surprise decision early last month to reduce output starting in May. This is another potential factor exerting upward pressure on fuel costs with implications for consumer price inflation globally.
- **End of zero-COVID in China could increase demand for commodities:** As the world's second-largest economy continues to come back online after years of severe lockdowns, we expect an increase in demand for energy and raw materials used in manufacturing, which will likely continue to keep commodity prices elevated.
- **Supply shocks may create sustained commodities opportunity:** A confluence of factors impacting food-related supply chains will prove difficult to navigate in the short and medium term. Diminished output from Russia and Ukraine has contributed to rising prices. Plus, unpredictable weather patterns and fertilizer shortages have caused farmers to scale back planting.
- **Attractive entry points for companies best positioned to benefit from capex spending:** The myriad paradigm shifts including deglobalization, artificial intelligence and renewable energy will require significant investments in materials, semiconductors and technology hardware, to name a few. While capital spending has largely declined year to date, we feel there are attractive entry points for those companies investing in capex that will benefit most from this spending.
- **Secular trends to drive demand for traditional and next generation real assets:** We believe accessing the full opportunity set in real assets requires a blend of traditional real assets (energy, commodities, infrastructure, real estate) and next generation real assets. This includes those investments that will play a critical role in the trend toward automation, the rebuilding of supply chains, decarbonization and more equitable access to health and basic needs, including food supply.

Market commentary

- Equity markets climbed in April, although market breadth—especially in the U.S.—was quite weak. The MSCI ACWI Index rose 1.48% while the S&P 500 gained 1.56%. Based on the MSCI Emerging Markets Index, emerging markets equities lagged.[3]
- 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 Treasury yield spread finished at -166 basis points (bps), the lowest for a month-end since the early 1980s. The Bloomberg Agg gained 0.61% and has now risen 3.59% year to date (YTD).[2]
- Commodities prices edged lower in April as the Bloomberg Commodities Total Return Index lost -0.75%. Negative performance was driven by weaker prices for agriculture, industrial metals and energy. Precious metals were the exception, with gold and silver gaining 3.60% and 6.14%, respectively, in April, fueled by growing demand for safe havens and the impending end of central bank rate hike cycles.
- Though headline Consumer Price Index (CPI) surprised on the downside in March, the inflation print showed core inflation remained resilient, growing at a 4.7% annualized rate. The Atlanta Fed's sticky inflation indicator, a measure of price pressures that are slower to respond to market conditions, remains elevated only falling 0.10% from the five-month high in February. Fed officials spoke out after the March CPI report stating inflation remains elevated and is supportive of further tightening.
- There were no notable policy moves from central banks in April, although markets spent most of the month increasing forward expectations and pushing rate cuts back for the Fed, European Central Bank and Bank of England, as economic data came in strong and banking system fears receded. Futures markets gradually added an additional rate hike to forward pricing across all three banks in April.

Fund overview

FS Chiron Real Asset Fund is an actively managed, dynamic inflation solution that invests in the continuously evolving real asset markets and companies across market cycles.

Strategy

- Blends traditional and next generation real assets and companies to capture strong total returns driven by cyclical and secular trends
- Utilizes the quantitative and fundamental research process that drives asset and security selection across the FS Chiron platform
- Offers a dynamic inflation solution through changing economic and inflationary cycles

2. FS Fund Advisor, LLC 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 0.25% of the average daily net assets of the Fund's Class I shares until April 11, 2024.

3. Bloomberg Finance L.P., as of April 30, 2023.

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.

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.

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 Commodity Total Return Index** is composed of futures contracts and reflects the returns on a fully-collateralized investment in the Bloomberg Commodity Index (BCOM), which combines BCOM returns with the returns on cash collateral invested in 13 week (3 month) U.S. Treasury bills. **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). **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. **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 Emerging Markets Index** captures large and mid-cap representation across 27 Emerging Markets (EM) countries. **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.

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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RISK FACTORS

Investing in the Fund involves risk, including the risk that a shareholder may receive little or no return on their investment or that a shareholder may lose part or all of their investment. The Fund is subject to interest rate risk and will decline in value as interest rates rise. The Fund may engage in leveraging and other speculative investment practices that may increase the risk of loss of investment, and accelerate the velocity of potential losses. In addition to the normal risks associated with investing, international and emerging markets may involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles or from social, economic, or political instability in other nations. The Fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund's gains or losses.

Investments in commodities are subject to higher volatility than more traditional investments. In addition to the normal risks associated with investing, REIT investments are subject to changes in local economic conditions, credit risk, possible lack of availability of financing and changes in interest rates or property values. Bitcoin futures contracts involve the risk that changes in their value may not move as expected relative to changes in the value of Bitcoin. Futures contracts exhibit "futures basis," which refers to the difference between the current market value of Bitcoin (the "spot" price) and the price of the cash-settled Bitcoin futures contracts. As a result, the use of Bitcoin futures contracts involves risks that are in addition to, and potentially greater than, the risks of investing directly in securities and other more traditional assets, and may be considered a speculative investment. The Fund is classified as a "non-diversified" investment company, which means that the percentage of its assets that may be invested in the securities of a single issuer is not limited by the 1940 Act.

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