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Dear Friends, Clients and Potential Investors,

Inaugural letters are a tricky thing, first impressions are important. I could just write something generally bland about us. Avoid ruffling feathers. Play it safe.

Or I could write it as I see it.

I want to make this first communication with the investor universe one that is personal in nature and indicative of my desire to operate openly and transparently. I recognize there will be readers who vehemently disagree with the opinions and views expressed in this letter. Others will wholeheartedly agree and many more may simply scratch their head. Regardless, I prefer to make my position and intentions entirely clear.

To put it simply, Alternative Mutual Funds ("AMFs") are a game changing innovation that will likely alter the way we construct portfolios[1]. I firmly believe we are seeing the most significant and disruptive development in the hedge fund universe since the inception of the industry. In my view it is a sea change of epic proportions and like it or not, it's not going away.

From the perspective of the dedicated hedge fund investor, the immediate benefits of AMFs, relative to traditional hedge funds, are incredibly obvious. I acknowledge that for much of our audience, mutual fund vehicles have been an area of expertise and focus within their client portfolios for years. Much of what readers may take for granted in using mutual fund structures is highly disruptive when applied to hedge fund strategies. This intersection of hedge funds and mutual funds is a heated area of debate for good reason.

Interestingly, the term "hedge fund" has come to represent a legal structure rather than a reference to an investment approach or particular strategy. We have often heard the refrain "a hedge fund is a fee structure in search of a strategy." Traditional hedge funds, as many of us know, utilize a limited partnership format (private non-registered vehicles) that allows for both a management fee and an incentive allocation on profits earned by the partnership.

The Shifting Landscape of Hedge Funds

Hedge funds began as a cottage industry driven by individuals who wanted to invest without institutional constraints. Few managers existed, most of them were unknown, and the universe

[1] See end of document for comparison of Alternative Mutual Funds./'40 Act Vehicles versus Hedge Funds

for these strategies was virtually non-existent. Today, hedge funds are a multi-trillion dollar industry with an entire ecosystem of ancillary businesses and service providers. Ironically, the industry has become precisely what the original hedge fund managers were trying to escape from. By our estimation, over 8,000 hedge funds exist today.

I am hard pressed to identify other industries that have seen this degree of over-proliferation and competition without any corresponding change to fees. For the most part, the hedge fund industry has seen minimal fee compression, with many managers believing a 2% management fee and a 20% incentive fee is appropriate (I suspect many think otherwise but would never say so). Perhaps more importantly, the vast majority of hedge funds, both small and large, still take their performance fee without any benchmark or mechanism to claw back incentive fees taken in shorter time frames.

Long/short investing used to be a novel investment strategy that commanded a premium, just as merger arbitrage and emerging markets had in the past, based on the complexity of implementation. We think that many hedge fund strategies, while still highly valued, have evolved into common offerings. So why have we seen little improvement if any in fees and where are the more investor friendly structures?

It is not the hedge fund manager's fault. They are commercial market participants charging fees that the market will bear. It is not the fault of those who originally invested in these vehicles, most notably high net worth individuals, who can no longer command the influence they once held as institutions now provide the majority of net flows into the industry. Years ago I spoke at an investment conference, immediately following the head of one of the largest institutional consulting firms in the world. This individual had received a question from the audience as to why hedge fund fees have not come down and his response was, "I don't know, but I wish they would." Case in point. Those that have the power to help lead the industry to a better place are either afraid or unwilling to do so.

As I began constructing this letter, I recalled an excerpt from the book, *"More Money than God",* authored by Sebastian Mallaby. Within the book is a discussion of A.W. Jones who is credited with being the first hedge fund manager whose investments were defined as being both long and short various market securities (stocks in this case). He was compensated by **only** an incentive fee, with the logic described below:

> *"Jones wanted to avoid drawing attention to the tax loopholes devised for him by Richard Valentine, an attorney at the firm of Seward & Kissel. Valentine was a creative genius who could be cartoonishly absentminded in his personal dealings: He once phoned a colleague's home and launched into a lengthy exposition of his latest tax idea, oblivious to the fact that he was talking to his colleague's five year old. It was Valentine who realized that if managers took a share of a hedge fund's investment profits rather than a flat management fee, they could be taxed at the*

capital gains rate: Given the personal tax rate of the time, that could mean handing 25 percent to Uncle Sam rather than 91 percent. Jones duly charges his investors 20 percent of the upside, claiming he had been inspired to do so by Mediterranean history rather than tax law. He told people that his profit share was modeled after Phoenician merchants, who kept a fifth of the profits from successful voyages, distributing the rest to their investors. Dignified by this impressive cover story, Jones performance fee (termed a "performance reallocation" in order to distinguish it from an ordinary bonus that would attract normal income tax) was happily embraced by successive generations of hedge funds.

History is quite instructive in this case that the genesis of the performance fee never had anything to do with the alignment of interests between the manager and the investor! While it is not surprising that managers take what investors have been willing to pay, the irony is that perhaps the most economically lucrative industry in existence has actually expanded fees over time. The additional luxury of stable management fees has come without any compromise for investors in the form of reduced incentives fees or hurdle rates.

I have faced a personal quandary as a result of these critical issues. While I believe that the investment approach hedge funds utilize is a necessary part of any investment portfolio, I could no longer come to terms with the imbalance between hedge fund manager compensation and the net return to investors.

We have long been aware of the '40 Act universe but were skeptical that we could find good hedge fund managers within these structures for the following reasons:

1. The assumption that any manager with true long/short talent would refuse to accept daily liquidity and lower fees.
2. The assumption that true hedge fund portfolios would be unable to exist in a '40 Act structure.
3. The assumption that those who couldn't run a hedge fund defaulted to becoming a mutual fund manager.

I believe that each of these assumptions was entirely incorrect.

<u>Assets Do Not Necessarily Correlate With Performance</u>

At Balter Capital we built our business focusing on right-sized managers. We believe that unfettered asset growth is the enemy of performance. Nothing scales indefinitely and this reality is no more apparent than in the asset management business. We believe that managers with an appropriate asset base are more nimble and opportunistic than their larger peers and are therefore could potentially generate better risk adjusted returns over a market cycle.

One of the most frequently asked questions I receive when discussing our strategy revolves around the dynamics of capital raising in the hedge fund community. The core question is, "why would a hedge fund manager charging a management fee and incentive fee with locked up capital agree to your terms?" It's a good question with a great answer.

Over 3,000 hedge funds report to our firm. We have found scores of hedge managers with strong 3 to 12 year track records who manage relatively modest amounts of money. Where's the capital and why isn't it finding these managers?

The short form answer is that performance does not always translate into assets under management (AUM) in the hedge fund community. The long form answer can be summarized as follows:

1. 80% of hedge fund assets flow to only 20% of hedge fund managers.
2. The longer a hedge fund manager is "small", the more likely it is they will stay small.
3. Historically non-institutional sources of initial capital have a diminished appetite for traditional hedge funds.

The AIMA's (the Alternative Investment Management Association) 1st Quarter 2014 issue included a short essay titled, "*Brand is the New Performance*", by AIMA member Thomas Walek. He wrote the following:

> *The dichotomy between short-term performance and long-term success is played out nearly every year in the various hedge fund rankings. In 2013 a Bloomberg Markets comparison of the 10 largest hedge funds in the world versus the 10 top-performing large hedge funds (funds with at least $1 billion in assets) shows no overlap between the biggest and the best. In fact, not a single one of the 10 largest hedge funds in the world for 2013 shows up in the list of the 100 top-performing hedge funds for that same year.*

The largest brand name managers will likely always be able to set their own terms. The income received by these managers on management fees alone is staggering. Whether the manager is a brand name or a startup, the compensation structure is so lucrative that the thought of reducing fees and providing more investor friendly structures is anathema, in my opinion. Why become investor friendly when investors are enabling the status quo?

I am not making a broad statement that the hedge fund industry is littered with individuals of compromised integrity, all of whom are over-compensated. I am pointing out that hedge fund managers are capitalists and if someone wants to invest in their hedge fund structure, then, as a manager, they will gladly accept that capital. It doesn't mean the arrangement is fair or equitable.

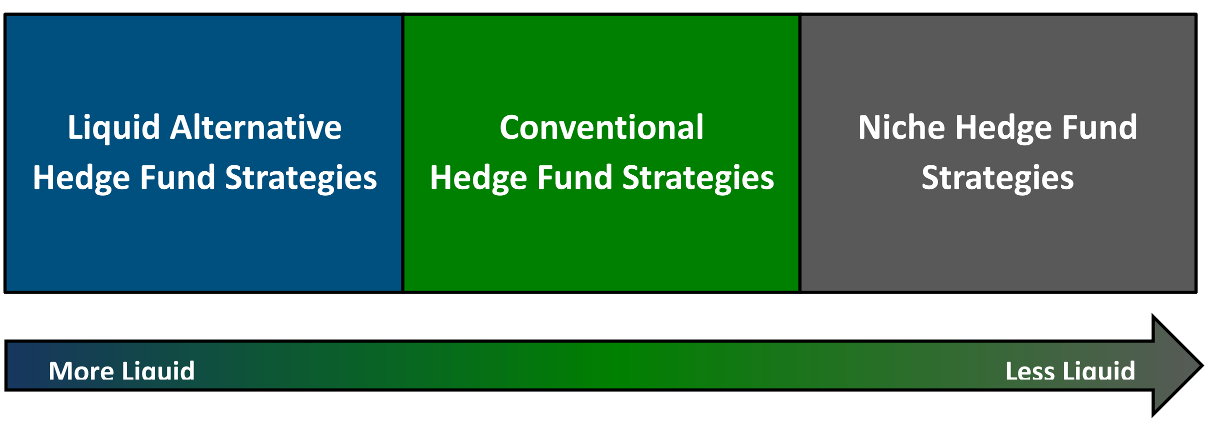
What's the Solution?

If Balter Liquid Alternatives ("BLA") wanted to provide a solution for the myriad issues we have with traditional hedge fund structures – without sacrificing returns – we needed to observe the competition and work on how we could seek to improve upon current offerings. We noted that some of our larger, well known competitors were convincing large "brand name" hedge funds to provide a '40 Act product for use in a multi-manager format. However, these hedge funds would not agree to run the same portfolio they do in their higher fee vehicles. This could mean anything from an entirely different portfolio to one that only uses indices for short selling. Think of the conflict of interest present in running two portfolios, with one of those vehicles providing significantly lower economics to the hedge fund manager. While I saw structural benefits of the approach, I felt disadvantaged as an investor.

The only solution that made sense to me was to have hedge fund managers run "pari-passu[2]" portfolios within any vehicle we created. In other words, we wanted to hire hedge managers whose '40 Act portfolio would be a mirror image of their hedge fund portfolio. For those that are invested or considering investing in a vehicle where the manager is being chosen for their hedge fund performance record, it only makes sense to have this requirement.

Changing Our Lens

Adjusting to our evolving views, we began to incorporate into our analysis whether the usage of the traditional private partnership structure for a given strategy was appropriate. The question we ask ourselves upon any initial contact with a hedge fund manager is whether the strategy is one that can be done in a '40 Act format or is a less liquid private structure required? Based on an answer to this question, we began to categorize hedge funds into 3 distinct buckets.



[2] Pari passu is a Latin phrase that means "with an equal step" or "on equal footing."

Utilizing this process to conduct a full review of our universe, we realized just how many existing hedge fund strategies can be run within ’40 Act constraints. Whether the manager is willing to do so is another question entirely. Equally as important, we recognized that there are strategies that belong in less liquid traditional structures that were not conducive to a ’40 Act wrapper. While investors can still quibble as to whether the fees are appropriate, there are hedge funds that can’t be removed from consideration altogether, just because they are unwilling to offer daily liquidity. With that said, I do have to consider my other options for any given strategy presented to us.

Manufacturing the Right Products

As a firm, we are directly interacting with the hedge fund universe on a regular basis. The investment team at Balter Capital Management annually reviews materials on at least 750 hedge funds, conducts at least 200 manager due diligence calls annually, and at least 50 on-site manager meetings. We have a long history of sourcing hedge fund managers. Prior to forming our first vehicle, we identified what we believe to be the 3 main impediments for a properly constructed AMF portfolio:

1. The potential for adverse manager selection
2. Misaligned manager incentives/interests
3. Overdiversification within existing multi-manager vehicles

How do we attempt to overcome these identifiable impediments as a manufacturer?

1. Adverse selection is a function of **sourcing** and **capital**. Therefore, we needed to be able to offer high quality managers sizable assets on Day 1.
2. To ensure proper alignment of manager and investor interests, the solution was requiring a **pari-passu** or an “equal footing” approach. We wanted sub-advisors to provide us with the same portfolio they use in their hedge fund structure. This ensures the purity of the portfolio and removes the potential for conflicts of interest.
3. Overdiversification was the easiest to solve. Simply restrict the number of managers and be willing to **limit the scale** of the product in return for a higher quality product.

We approached managers that we had come to know over the years and discussed what we wanted to do. At the same time, we approached our largest family office client with a proposal. We knew how to build these vehicles correctly, but the key element would be a large and stable capital base. Without these elements, it would have been difficult to corral the manager set we desired.

While we have been critical of hedge fund manager’s fee structure, we do believe that managers should continue to manage their limited partnership vehicle while also sub-advising for a '40 Act Fund. We believe that a combination of these investment approaches may be the formula for a successful hedge fund firm going forward.

I am more than happy to discuss the relevant aspects of the capital that we utilized to launch our first fund and our partnership with a leading Family Office. We expect all of our vehicles – present and future – to have the same characteristics that are required to build what we believe to be the highest quality liquid alternative product family possible.

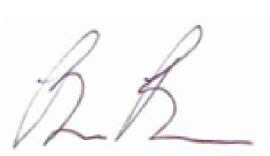
Closing Remarks

I'm not here with a message that investing in hedge funds is wrong. I have always firmly believed that long/short investing is the most effective way to deploy capital. That said, up until recently investors had no alternative to paying high fees and enduring long lock-ups offered by traditional hedge funds. This is no longer the case and I believe that the flexibility that innovation offers investors is nothing short of revolutionary.

I expect there to be significant pushback from those who want the status quo to remain intact. Many hedge fund managers will likely provide excuses for their inability to offer a liquid version of their strategy based on the "sophistication" and composition of their portfolios. Some of these managers may be justified, but most are not. There will always be benefits and draw-backs with each structure, but as a fiduciary we will stand behind the approach that provides the maximum potential benefit for each client. Alternative Mutual Funds may prove to be part of that equation for every portfolio moving forward.

I look forward to discussing, debating and deliberating further as we move into a new era of hedge fund investing.

Best Regards,



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Balter Long/Short Equity Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus may be obtained by [clicking here] or a free hard copy is available by calling 1-855-854-7258. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. The Fund is non-diversified and may hold a significant percentage of its assets in the securities of fewer companies, and therefore events affecting those companies have a greater impact on the Fund than on a diversified fund. The Fund may use derivatives which may not perform as anticipated by the Sub-Advisers, may not be able to be closed out at a favorable time or price, or may increase the Fund's volatility. Increases and decreases in the value of the Fund's portfolio may be magnified when the Fund uses leverage. The fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested. When the Fund invests in ETFs or mutual funds, it will bear additional expenses based on its pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The Fund also will incur brokerage costs when it purchases ETFs. The value of the Fund's investments in REITs may change in response to changes in the real estate market such as declines in the value of real estate, lack of available capital or financing opportunities, and increases in property taxes or operating costs.

Investments in debt securities typically decrease when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investing in foreign securities exposes investors to economic, political and market risks, and fluctuations in foreign currencies. These risks are enhanced in emerging markets. The fund may invest in the securities of small and medium sized companies. Small and medium company investing subjects investors to additional risks, including security price volatility and less liquidity than investing in larger companies. Investments in IPOs can be volatile and can fluctuate considerably. IPOs can have a magnified impact on funds with a small asset base. Certain Sub-Advisers may be purchasing securities at the same time other Sub-Advisers may be selling those same securities, which may lead to higher transaction expenses compared to the Fund using a single investment management style.

The Balter Long/Short Equity Fund is distributed by Quasar Distributors, LLC and Balter Liquid Alternatives, LLC is the Investment Adviser

[1] **Hedge Fund structures versus '40 Act structures** - '40 Act Funds (also referred to as Alternative Mutual Funds or "AMFs") are mutual fund structures defined by the Investment Company Act of 1940 that may employ alternative investment strategies. The key differences of AMF's compared to traditional hedge fund structures:

Traditional Hedge Fund	Alternative Mutual Fund
▪ Quarterly redemptions typical	▪ Daily liquidity
▪ Short positions not typically disclosed	▪ Quarterly full holdings transparency
▪ Typical performance fee of 20%	▪ No performance fees*
▪ High minimum investment of > $1,000,000	▪ Lower minimum investment
▪ Unlimited leverage	▪ Leverage restricted to 250% gross exposure
▪ Tax Reporting – K1	▪ Tax Reporting – 1099

** While mutual funds do not have performance fees they do have expenses which apply*