

# MARKETFIELD FUND

DECEMBER 31, 2016

## FUND OVERVIEW

### OBJECTIVE

The investment objective of the Fund is capital appreciation.

### STRATEGY & PROCESS

The Fund seeks long-term growth of capital above that of the broad equity market over a full market cycle, with volatility that is lower than that of the broad equity market. Correlation between the Fund and the broad equity market may vary considerably over a full market cycle. The Fund has a broad investment charter that allows it to utilize equity securities, fixed income instruments, commodities, futures, and options. Additionally, with respect to 50% of the Fund's net assets, the Fund may engage in short sales of securities to profit from an anticipated decline in the price of the security sold short. The use of short selling could result in increased volatility of returns.

## FUND FACTS

CUSIP Class I	89834E245
CUSIP Class A	89834E278
CUSIP Class C	89834E252
CUSIP Class R6	89834E229
Inception Date	7/31/2007
Benchmark	S&P 500 Index
Net Assets	\$612.5 million
Number of Holdings	85

## PORTFOLIO ALLOCATION

(Excluding Cash) (As of 12/31/16)

Equity Long*	93.1%
Equity Short*	-34.3%
Fixed Income Long	1.3%

\*Option deltas not reflected. Equity Long includes notional value of long future positions of 3.1%.

## PERFORMANCE

Quarterly Average Annual Total Return As of 3/31/17

	Tickers	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	Since Inception
Class I (7/31/2007)	MFLDX	-0.48%	0.35%	-3.36%	-3.36%	-8.07%	0.62%	4.02%
Class A (Max. 5.5% load) (10/05/12)	MFADX	-5.87%	-5.19%	-8.88%	-8.88%	-9.97%	-0.74%	3.16%
Class A (NAV) (10/05/12)	MFADX	-0.42%	0.35%	-3.58%	-3.58%	-8.26%	0.40%	3.78%
Class C (Max. 1.0% CDSC) (10/05/12)	MFCDX	-1.57%	-0.85%	-5.32%	-5.32%	-8.98%	-0.37%	2.99%
Class R6 (6/17/13)	MFRIX	-0.48%	0.42%	-3.28%	-3.28%	-7.92%	0.72%	4.07%
S&P 500® Index (7/31/2007)	SPXT	1.98%	3.82%	11.96%	11.96%	8.87%	14.66%	6.98%
HFRI Macro Disc. Th. Index (12/31/07)	HFRIMDT	0.98%	2.03%	0.52%	0.52%	-0.15%	0.75%	-

Performance data quoted represents past performance. Past performance is no guarantee of future results. Due to market volatility, current performance may be less or higher than the figures shown. Investment return and principal value will fluctuate, so that upon redemption, shares may be worth more or less than their original cost. For performance information current to the most recent month-end, visit our web site at <http://www.marketfield.com/fund/>.

Total Annual Fund Operating Expenses are: Class I: 2.66%, Class A: 2.91%, Class C: 3.67%, and Class R6: 2.64%. Expenses include Dividend Expense on Securities Sold Short and Broker Fees and Charges on Short Sales.

Performance data for the classes varies based on differences in their fee and expense structures. The performance figures for Class I shares reflect the historical performance of the then-existing shares of MainStay Marketfield Fund (the predecessor to the Fund, for which the Adviser served as the investment sub-advisor) for periods from October 5, 2012 to April 8, 2016. The performance figures for Class I shares also reflect the historical performance of the then-existing shares of the predecessor fund to MainStay Marketfield Fund (which was subject to a different fee structure, and for which a predecessor entity to the Adviser served as the investment adviser) for periods prior to October 5, 2012. The returns in the table below for periods prior to October 5, 2012 have been calculated using the expenses of the predecessor fund to the MainStay Marketfield Fund. Performance figures for Class A and Class C shares, first offered on October 5, 2012, include the historical performance of Class I shares through October 4, 2012 and are adjusted to reflect differences in fees and expenses. Performance figures for Class R6 shares, first offered on June 17, 2013, include the historical performance of Class I shares through June 16, 2013. Performance data for the classes varies based on differences in their fee and expense structures. The returns in the table above for periods prior to October 5, 2012 have been calculated using the expenses of the predecessor fund to the MainStay Marketfield Fund. Performance data for the classes varies based on differences in their fee and expense structures. Unadjusted, the performance for the newer classes would likely have been different because of differences in certain fees and expenses attributable to each share class.

## REGIONS EXPOSURE (As of 12/31/16)

	LONG	SHORT	NET
U.S.	46.20	34.10	12.10%
Emerging Markets	23.60	0.20	23.40%
Japan	5.20	0.00	5.20%
Europe	13.10	0.00	13.10%
Canada	3.40	0.00	3.40%
Other	1.60	0.00	1.60%



## PORTFOLIO MANAGEMENT

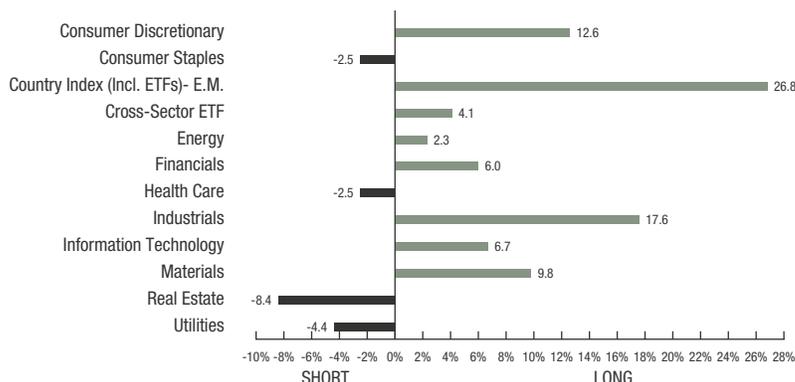


**Michael C. Aronstein**  
 President, Chief Investment Officer  
 Portfolio Manager  
 Marketfield Asset Management LLC



**Michael Shaoul**  
 Chairman, CEO  
 Portfolio Manager  
 Marketfield Asset Management LLC

## SECTORS NET EXPOSURE



## BEFORE YOU INVEST

**Before considering an investment in the Fund, you should understand that you could lose money.**

*The Fund regularly makes short sales of securities, which involves the risk that losses may exceed the original amount invested. The Fund may also use options and futures contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates, and currency exchange rates. However, a mutual fund investor's risk is limited to the amount invested in a fund. Investments in absolute return strategies are not intended to outperform stocks and bonds during strong market rallies.*

*Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. These risks may be greater for emerging markets. Investing in smaller companies involves special risks, including higher volatility and lower liquidity. Investing in mid-cap stocks may carry more risk than investing in stocks of larger, more well-established companies. This risk is usually greater for longer-term debt securities. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in asset-backed and mortgage-backed securities involve additional risks such as credit risk, prepayment risk, possible illiquidity and default, and increased susceptibility to adverse economic developments. The Fund involves the risk that the macroeconomic trends identified by portfolio management will not come to fruition and their advantageous duration may not last as long as portfolio management forecasts. The Fund may invest in derivatives, which may increase the volatility of the Fund's NAV and may result in a loss to the Fund.*

Notional value is the total value of a leveraged position's assets. Correlation is a statistical measure of the degree to which the movements of two variables (stock/option/convertible prices or returns) are related. Option Delta is the relationship between the option price and the underlying price, which reflects the sensitivity of the price of the option to changes in the price of the underlying security.

The S&P 500® Index is a trademark of McGraw Hill Financial Inc. The S&P 500® Index is widely regarded as the standard index for measuring large-cap U.S. stock market performance. The securities holdings and volatility of the Fund differ significantly from the stocks that make up the S&P 500 Index. The HFRI Macro Discretionary Thematic Index is a broad-based hedge fund index, consisting of strategies that are primarily reliant on the evaluation of market data, relationships, and influences, as interpreted by an individual or group of individuals who make decisions on portfolio positions. These strategies employ an investment process most heavily influenced by top-down analysis of macroeconomic variables. An investment cannot be made directly into an index.

Regions and Sectors Exposures are subject to change and are not recommendations to buy or sell any security. Only equities and equity instruments classified in Regions and Sectors Exposures. Options premiums, and not delta exposure, are used in Sectors and Regions Exposures, when applicable. Options premiums, and not delta exposure, are used in Sectors and Regions Exposures, when applicable. The Global Industry Classification Standard (GICS®) was developed by and/or is the exclusive property of MSCI, Inc. and Standard & Poor Financial Services LLC ("S&P"). GICS is a service mark of MSCI and S&P and has been licensed for use by U.S. Bancorp Fund Services, LLC.

**Diversification does not assure a profit nor protect against loss in a declining market.**

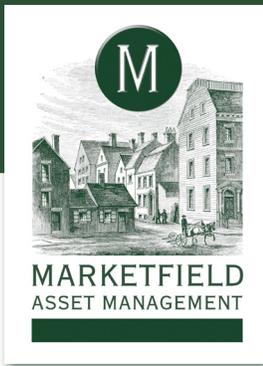
**For more information about Marketfield Fund, call 800-311-6583 for a prospectus or summary prospectus. Investors are asked to consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus or summary prospectus contains this and other information about the investment company. Please read the prospectus or summary prospectus carefully before investing.**

The Marketfield Fund is managed by Marketfield Asset Management LLC and distributed by Quasar Distributors, LLC.

## CONTACT US

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## COMMENTARY

Chairman's Report December 2016

2016 was a story of two halves with generally poor performance in the first few months of the year and much better performance during the second half of the year. Although this can partly be traced to the better performance by broad equity market indexes it also reflects the decision made to reengage with risk during the second quarter and to use the brief periods of market turbulence caused by Brexit and the US election to increase the portfolio's net exposure.

Although we were unable to completely repair the damage done in the early part of the year we finished 2016 with a portfolio that had positive performance for two consecutive quarters and is well positioned to take advantage of the reflationary pressures that we believe will be a key characteristic of 2017. We recognize that we have a long way to go to repair the damage of recent years but view gains recorded during the second half of 2016 as a helpful start to this process.

We started 2016 with a portfolio in a defensive posture, which was appropriate given the difficulties present in credit and equity markets towards the end of 2015. We navigated the initial steep drawdown by markets successfully but were too slow to trim hedges during the initial rebound. We did, however, see enough evidence of repair in commodity sectors and emerging markets to justify a reentry into these areas during the second quarter. The majority of new long side positions created in 2016 are either in emerging markets (mostly in the form of country ETFs) or equities of key commodity producers. Both areas have generated positive returns since they were created, with the typical volatile moves in both directions that characterize the early stages of bull markets. What we have not yet enjoyed is a period of synchronized gains across multiple commodity sectors and emerging markets, which would indicate a broad allocation to reflation is taking place.

We reengaged with Japanese exposure during the brief post-election sell off which proved to be a helpful decision and after a difficult 18 months between May 2015 and November 2016 the Nikkei 225 Index appears to have commenced a second leg of its bull market that has the potential to move beyond its 2015 high. We also added to European exposure in the 4th quarter with an allocation to European banks which we believe will benefit from a stronger domestic economy and rising local long term yields.

Our US exposure remains split between longs and shorts. The former are in economically sensitive sectors including metals, mining, agricultural, energy, technology, industrials, homebuilding and transportation. Our short exposure is mostly targeted towards bond proxies and defensive sectors including real estate, utilities, staples and healthcare. In other words we are positioned to benefit from a continued reallocation away from defensive sectors (which were the dominant destination for capital flows between mid-2014 and mid-2016) towards cyclical and globally integrated companies.

Our short allocation is consistent with our belief that the other great turning point in 2016 took place at the mid-year point, when global sovereign yields generated what we expect to be their cycle lows. The rush into long duration bonds was matched by ferocious flows into low volatility equity products and defensive sectors, all of which made important peaks around the same time that bond yields reached their all-time lows.

January 20, 2017

Michael Shaoul

Chairman, CEO & Portfolio Manager



**COMMENTARY (CONTINUED)**

In the first quarter of 1979, the wage and salary component of GDP was up more than 13.5% on a twelve-month basis. Exactly thirty years later, in the first quarter of 2009, the same series showed a decline of nearly 5%.

Expectations, valuations and positioning were similarly turned upside-down.

The inflationary peak that unfolded between 1979 and 1982 involved both structural and cyclical components of price indices. Commodity prices, particularly energy and precious metals peaked around the same time as wage and salary growth. Bond and equity valuations hit secular lows from which historic bull markets commenced.

Three and a half decades on, fears of an intractable hyperinflationary future have given way to widespread anxiety over the threat of unrelenting deflation, just as the secular forces that have weighed on the inflation are beginning to abate.

Our focus here will be the global labor situation and its potential for driving costs and prices meaningfully higher over the next several years.

Labor costs are somewhat unique in the array of inputs into the price structure in that they are virtually inelastic (in the downward direction) and hardly influenced by monetary policy. This latter observation accounts for the flaw in the belief that there is a direct trade-off between inflation and employment in the decision path of monetary policy.

In modern, developed economies, a generalized decline in wage rates in response to deterioration in business conditions is almost unheard of. Wage rates may stagnate, but real declines occur only during periods of extreme distress where monetary policy has provoked recession and high unemployment. There is no middle ground. A moderate increase in the funds rate and a gradual tightening of credit conditions will not provoke orderly declines in labor costs, particularly in services, unionized manufacturing and, of course, the public sector, where wage cuts are as common as snow in Malaysia.

The absence of downward elasticity in labor costs tends to exaggerate and elongate real wage cycles.

During the 1960s and early 1970s, real wages rose steadily, driven largely by the strength of industrial unions and the absence of any real global manufacturing competition for U.S. goods.

Real wages peaked in 1973 and began a long retreat during the recession of 1974-5. Nominal wages continued to rise during the great inflation of the 1970s, but the relentless gains in relative living standards enjoyed by wage earners were in the early stage of a twenty-year decline. Real wages have yet to return to their early 1970s peak. The consequences of this cycle are still in the forefront of contemporary political debate.

It might be argued that the very success of the labor movement during the post-war period drove wages to levels that made American manufacturing uncompetitive and invited waves of foreign competition, initially from Japan. In our most heavily unionized industries, import substitution began in the late 1960s and never really abated.

The "hollowing out" of traditional blue-collar sectors and the decline of real compensation within them were consequences of structural, secular factors and not the result of any particular fine-tuning of monetary policy.

We are now half a century removed from the heyday of the American worker. The long depression has weighed on capacity and labor, to the point at which both are showing signs of scarcity.

Shortages of skilled and semi-skilled workers are beginning to have serious effects across a range of industries, from construction, transportation and logistics to many portions of the service sector.

The secular low in the availability of labor that we postulate is not confined to the U.S. China, Japan and much of Western Europe are in similar straits.

The U.S. is, however, something of a special case. The confluence of capacity repatriation, rhetorical (if not actual) protectionism, accelerated infrastructure spending and restrictions on immigration has the potential to exacerbate any upward pressures on wages.

It is clear to us that the first stage of real wage acceleration in the domestic economy will be met with widespread political approval. The Federal Reserve will be loath to be seen as a counterforce to the expansion of real wages that has been an explicit goal during the past decade. Even in the instance where they aimed to slow the pace of wage gains, there is little in the monetary arsenal, short of an extreme tightening to the point of recession that would ameliorate the scarcity of labor.

An inflationary cycle that was organized around a fundamental shortage of labor and a consequent rise in its real cost would be far more durable than a commodity driven expansion of prices. Supply and demand are substantially more elastic for commodities

**COMMENTARY (CONTINUED)**

than labor. The supply response that ends bull markets in highly priced commodities can be accomplished in the course of a few years at most. Structural changes in the composition and availability of labor can take decades.

The critical external variable surrounding the non-labor portions of the inflation equation (commodities and globally traded goods) is the course of the U.S. dollar.

Thus far, expectations of deflation that have arisen in the aftermath of the U.S. election are broadly supportive of the dollar. It is assumed that the rises in rates across the yield curve and more hawkish rhetoric from the Federal Reserve will continue to hold differentials in the dollar's favor.

One of the wild cards in this scenario is the prospect for economic improvement in Europe. For the past two years, the perception of crisis has overshadowed what appears to be a gradually stabilizing and slowly strengthening economic climate.

The withdrawal of Britain and the social disruptions caused by migrants fleeing turmoil in the Middle East have created a false narrative of collapse around the European Union (EU). The European Central Bank (ECB) seems to have adopted the perspective of the glass being 80% empty, going so far as to hold base rates below zero. At the moment, two-year rates across the Eurozone remain broadly negative in spite of much improved economic data and gradually rising inflation.

We see the possibility of an abrupt change in the rhetorical and, eventually, actual posture of the ECB right at the point where institutional positioning indicates a general skepticism about any positive surprises. Labor metrics across the Eurozone are improving rapidly, manufacturing Purchasing Managers Indices (PMIs) are at cycle high and solidly in the expansion range. Nonetheless, the ECB has expanded the monetary base at a three month annualized rate in excess of 50%.

A similar degree of expansion persists at the Bank of England, partially provoked by their pending divorce from Europe but nevertheless at the same point where the ratio of unemployed persons to job openings in Britain is at an historic low.

There is no modern precedent for the divergence between aggregate central bank accommodation in the major economies and the substantial improvements in macroeconomic data, particularly in labor metrics. Normally, we would be at a point in monetary policy where all central banks were well along in a tightening cycle and yield curves were flattening rapidly.

We have described wage rates as uniquely inelastic and unresponsive to changes in monetary policy meant to gently dampen the pace of inflation. Central banks appear now to be irretrievably behind the curve of labor market conditions and wage inflation.

Since the crises of 2008-2011, monetary policy has been focused on restoring solvency to property markets, banking systems and governments entangled in their collapse. The process has been asynchronous. The Federal Reserve and the Peoples' Bank of China acted decisively in 2008. The ECB and the Bank of England held back until 2011 and the Bank of Japan held off until the very end of 2012.

When aggressive balance sheet expansion finally became the fashion among all major central banks, market responses were profound.

With the support of global quantitative easing, a new credit cycle emerged, driven by the interplay among corporate borrowers, income-starved savers and liability burdened institutions. The epicenter was located in global bond markets, where aggregate issuance dwarfed all prior cycles.

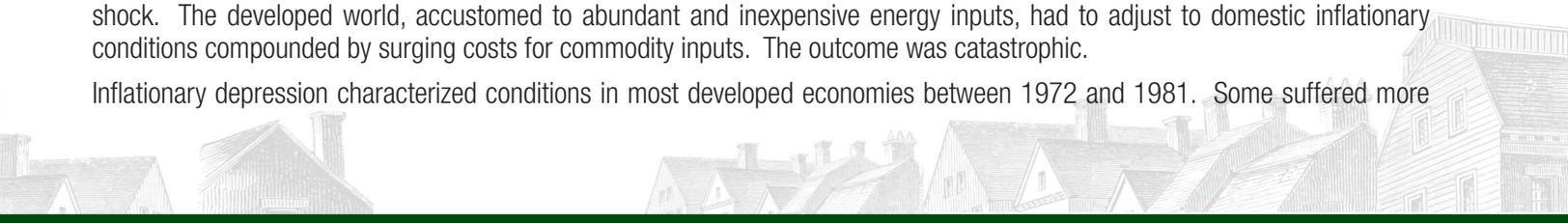
Individuals hardly partook of the credit jamboree and have restored their balance sheets to pristine condition. Debt service costs as a proportion of disposable income are at record lows for U.S. households. Confidence is rising, but there remains a general uneasiness about the employment picture weighing on spending and investment decisions. That now appears to be changing.

Further tightening in the global labor picture has the potential to trigger a combination of accelerating wage gains, increasing confidence and rising prices in industries that are dependent on abundant, inexpensive labor. Where competition precludes adequate price increases, margins will suffer.

A global inflationary cycle driven at its core by rising real labor costs, will exhibit very different dynamics than the inflation of the 1960s and 1970s or those associated with World Wars I and II.

The chronic, mid-level inflationary trends of the 1960s metastasized into more destructive form with the addition of an oil price shock. The developed world, accustomed to abundant and inexpensive energy inputs, had to adjust to domestic inflationary conditions compounded by surging costs for commodity inputs. The outcome was catastrophic.

Inflationary depression characterized conditions in most developed economies between 1972 and 1981. Some suffered more



**COMMENTARY (CONTINUED)**

than others. Equities in Great Britain fell by more than 80%, as did many institutional favorites in the U.S. market.

Those whose business strategies assumed permanently abundant and inexpensive energy supplies were faced with radical restructuring or bankruptcy. The concurrent pressures of rising costs and spectacularly higher interest rates undermined great swaths of American industry. More businesses filed for bankruptcy in 1982 than in 2009.

In the late 1960s, artificially suppressed oil prices masked a market that was increasingly tight and completely beholden to Middle Eastern supplies. Demand was inflexibly integrated in the structures of all developed economies. Family sedans powered by battleship engines were the pride of Detroit.

Once OPEC asserted its pricing powers, Western economies experienced their worst aggregate performance since the 1930s.

Almost a decade passed before structural changes in supply and demand allowed energy prices (and those of other commodities) to stabilize and finally retreat. Economic dynamics were compounded by soaring financing costs, inverting yield curves, a collapsing bond market and the most restrictive monetary policy in the annals of the Federal Reserve. The Western economic picture was grim.

Underlying questions of inflation and deflation across economic regions are two distinct supply/demand relationships. The first involves the market or markets in question e.g., natural gas, automobiles, memory chips, etc. The supply demand balance in each of these will largely determine its price, at least in a relative sense. The overall price level for a national economy will be the aggregate of all the internal market prices for goods and services in relation to the supply and demand for money. The willingness of a population to hold or spend money determines the effective aggregate purchasing power across the full array of goods and services. A high level of money supply can encounter an equally high demand to hold money, in which case there will be no inflation of the overall price level.

When there is little or no demand to hold monetary assets, the basis for devaluation and inflation—perhaps hyperinflation, is set. This dynamic was at work in Germany during the 1920s and in Venezuela at present. Local supply and demand conditions for economic goods mean little once the normal demand to hold money has collapsed.

For a general inflationary environment to develop, certain pivotal elements of the global economy have to arrive at supply /demand conditions that enable sustained increases in real costs. Widespread and enduring shortages of critical global inputs are rare, normally prompted by war, pandemic or large-scale agricultural failures.

In addition to favorable supply demand relationships in important markets, the monetary and credit background must be sufficiently generous to allow the price rise in the scarce inputs to be absorbed without simply withdrawing demand from other aspects of the economy and thereby diminishing prices there. In tight monetary conditions, pricing becomes a zero sum affair across the economy, with aggregate nominal expenditures stable. Price increases for one sector will come at the expense of others, and the overall level of prices will remain relatively stable.

It is our sense that the supply/demand fundamental for labor markets in a large portion of the world economy are much tighter than is currently recognized. Employers and employees have been struggling within a regulatory morass that is likely to be less burdensome in short order.

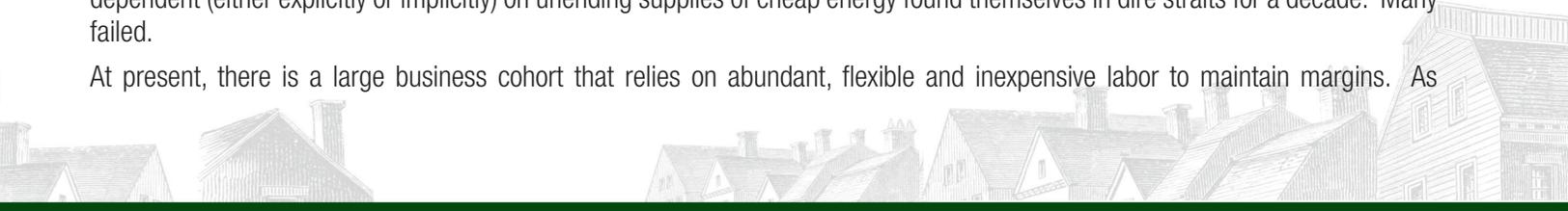
At this point in the cycle, we assume that the demand to hold liquid assets will not overwhelm current supply and prevent the fundamentals in labor markets from exerting upward pressure on wages. We will go further and assert that even under conditions of clear labor-driven inflation, the major central banks will be unable and unwilling to decrease money and credit sufficiently to arrest the demand for labor, even at accelerating cost.

With this structural background, we envision a long cycle of wage inflation which will be passed through to final prices in sectors where supply and demand are roughly in balance or tilted in favor of sellers. This may be particularly apparent in large portions of the service sector, where external competition and import substitution have little effect.

A secular inflation lead by wages and services has little precedent in modern U.S. economic history. Parallels can be drawn with wartime, but during both World Wars price controls and rationing were imposed.

From an investor's perspective, the oil shocks of the early 1970s might be the most useful analogue. Those businesses that were dependent (either explicitly or implicitly) on unending supplies of cheap energy found themselves in dire straits for a decade. Many failed.

At present, there is a large business cohort that relies on abundant, flexible and inexpensive labor to maintain margins. As



**COMMENTARY (CONTINUED)**

competition for workers intensifies, companies without distinctive product or service advantages will find it difficult to retain quality workforces. Technology and automation will be the ultimate solution, but successful implementation will take years of outsized capital investment and managerial expertise.

In the current environment, we are inclined to own businesses with stable workforces, relatively generous compensation structures, and access to populations in parts of the world where labor is more abundant. We remain concerned that headline inflation in the U.S. will be recast from a desirable outcome of policy to a disruptive and intractable threat.

January 20, 2017

Michael C. Aronstein

President, CIO & Portfolio Manager

The foregoing represents the opinions of the Chairman, CEO & Portfolio Manager and of the President, CIO & Portfolio Manager, respectively, and are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

The Nikkei 225 Index is a price-weighted index comprised of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange. One cannot invest directly in an Index.

Duration is an approximate measure of a bond's price sensitivity to changes in interest rates.

