

# Spectrum Income Fund

September 30, 2018

## Third Quarter Commentary

### Market Commentary

As most major domestic indexes rallied to new all-time highs, the bifurcation between returns in the U.S. versus the rest of the world increased. The U.S. economy maintained its strong growth, prompting the Fed to continue on its path of raising rates 0.25% each quarter, and indicated that it is committed to continuing this course through next year. While rising rates that are driven by positive economic activity have historically been a tailwind for our strategy, a sharp rise in rates can cause short term dislocations in higher yielding equity sectors such as real estate investment trusts (REITs) and master limited partnerships (MLPs). The investment team believes the best environment for the Fund is generally one of steady growth with stable or gradually rising interest rates, roughly what was seen in the third quarter. With third quarter earnings on the horizon, we will continue to monitor the effects of tightening on corporate profits and forward guidance; as always, the investment team will focus on the sustainability of cash flow and distributions in current and prospective holdings. Additionally, the Fund's holdings are largely small- to medium-sized, domestically-focused companies with less operating risk than most equities, which makes the portfolio an interesting alternative to globally-exposed securities which may be affected by trade policy conflicts.

Energy markets--sometimes a significant factor for the portfolio--ended roughly flat during the third quarter. Global crude inventories remained tight, with demand steady despite some slowdowns in emerging market demand. Supply disruptions in Iran, Venezuela and Libya largely offset marginal capacity increases from OPEC and U.S. shale. The bulk of the Fund's energy-related holdings are midstream pipelines, whose revenue and cash flows are based on the volumes transported, rather than the commodity price, despite the fact that these securities occasionally trade in sympathy with prices.

### Portfolio Commentary

LoCorr Spectrum Income Class I share (the Fund) gained +4.78% during the quarter. The Fund's diversification potential and complementary nature to traditional bonds were evident, as it significantly outpaced the +0.02% return from the Bloomberg Barclay's U.S. Aggregate Bond Index. During the period, the Fund benefitted from significant gains by MLPs, C-Corp, business development companies (BDCs), and publicly traded partnership (PTP) holdings. Positions in Closed-End Funds (CEFs) were modest detractors during the quarter.

*Continued on reverse side ...*

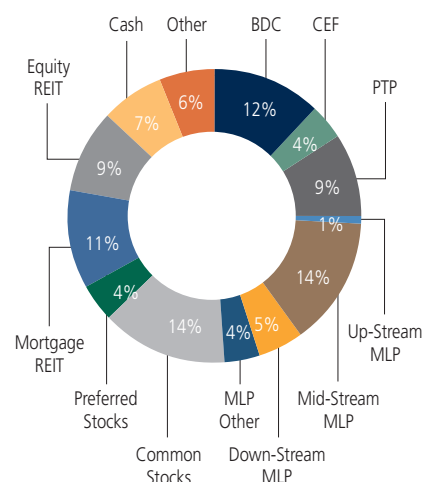
## Average Annual Total Returns

As of September 30, 2018

	3Q18	YTD	1 Year	3 Year	Since Inception*
Class A - LSPAX without Load	4.69%	8.08%	8.60%	6.24%	0.93%
Class A - LSPAX with Load	-1.37%	1.88%	2.33%	4.17%	-0.32%
Class C - LSPCX without Load	4.68%	7.65%	7.89%	5.46%	0.19%
Class C - LSPCX with Load	3.68%	6.65%	7.89%	5.46%	0.19%
Class I - LSPIX	4.78%	8.37%	8.84%	6.55%	1.21%
S&P 500 Index	7.71%	10.56%	17.91%	17.31%	12.34%
BBgBarc U.S. Agg Bond Index	0.02%	-1.60%	-1.22%	1.31%	2.31%

## Spectrum Income Fund Sector Allocation

As of September 30, 2018 (Subject To Change)



\*January 1, 2014. The Fund's total annual fund operation expenses are 2.99% for Class A; 3.74% for Class C; and 2.74% for Class I.

Performance data quoted represents past performance; past performance does not guarantee future results. 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 their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Short term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns. Performance data current to the most recent month end may be obtained by calling 952.513.8195. The Fund imposes a 2.00% redemption fee on shares sold within 60 days. Investment performance reflects fee waivers in effect. In the absence of such waivers, total return would be reduced. Performance data shown with load for Class A shares reflects a 5.75% sales load and for Class C shares reflects a 1.00% CDSC. Performance data shown without the load does not reflect the current maximum sales charges for Class A shares (up to 5.75% front-end) and Class C shares (1.00% CDSC). Had the sales charge been included, the Fund's returns would be lower. Performance data for the Class A Shares does not reflect the 1.00% CDSC, which only applies to no-load transactions of \$1 million or greater.

*Commentary continued.*

MLPs, as measured by the Alerian MLP Index, rallied +6.57% in the quarter and provided a nice tailwind for the portfolio's holdings in this sector. The TFIP team continues to see improving fundamentals in energy infrastructure, as cash flow growth is supportive of improving distribution coverage ratios. In addition, the manager believes the trend toward structure simplification (eliminating incentive distribution rights, conversion to C-Corps, etc.) could make the sector more attractive to additional investor classes. Top performers in this sector included: Crestwood Equity Partners, which continues to execute on their growth initiatives, while maintaining financial discipline; and Energy Transfer Partners, which rallied on the announcement that the firm was conducting a simplification transaction, eliminating incentive distribution rights (IDRs) and emerging with a cleaner structure.

BDC holdings were notable contributors to the Fund in the quarter, as small business optimism continues to track higher. The loans that these firms make to small businesses are usually tied to short-term interest rates, and benefit accordingly when the Fed raises rates, provided credit quality is maintained. Strong performers in this sector included PennantPark Investment Corporation and Newtek Business Services Corp.

PTP positions were also strong, led by healthy gains in Blackstone Group LP and Ares Management LP. Another strong performer was CenturyLink, which reported a strong quarter and announced accelerated synergy benefits from its Level 3 merger. Detractors from performance included: L Brands, which suffered from weakness in some core product lines; Seagate Technology, which sold-off on NAND pricing deterioration; and Washington Prime, a mall REIT which tends to react unfavorably to sharp moves higher in rates.

There were three thematic changes to the portfolio in the quarter. The sub-adviser added to exposure in gold, as the underlying commodity rallied off of technical support, and the underlying economic conditions could produce an environment conducive to higher prices. Exposure to data center REITs was reduced early in the quarter after a significant run up in price, avoiding a correction as rates rose. Finally, the investment team added several undervalued midstream-energy names that generate strong cash flows, which support high levels of distribution coverage. The manager continued to add or sell individual securities in accordance with changes in valuation.

The mentioned securities were held in the Fund, as of September 30, 2018, as follows; Crestwood Equity Partners LP 3.00%, Energy Transfer Partners 1.72%, PennantPark Investment Corp. 0.91%, Newtek Business Services Corp. 1.06%, Blackstone Group LP 1.16%, Ares Management LP 1.02%, CenturyLink 2.05%, L Brands 0.00%, Seagate Technology 0.94%, Washington Prime 2.72%

Fund holdings and sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security. Opinions expressed are subject to change at any time, are not guaranteed, and should not be considered investment advice. **Diversification is no guarantee of future returns.**

**S&P 500 Total Return Index** is a capitalization-weighted unmanaged benchmark index that includes the stocks of 500 large capitalization companies in major industries. This total return index includes net dividends and is calculated by adding an indexed dividend return to the index price change for a given period. **Barclays Capital U.S. Aggregate Bond Index** is the most common index used to track the performance of investment grade bonds in the United States. One cannot invest directly in an index. **Alerian MLP Index** is a market-cap weighted, float-adjusted index created to provide a comprehensive benchmark for investors to track the performance of the energy MLP sector. **Basis Points (bps)** - A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

*The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1.855.LCFUNDS, or visiting [www.LoCorrFunds.com](http://www.LoCorrFunds.com). Read it carefully before investing.*

**Mutual fund investing involves risk. Principal loss is possible. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund. The Fund invests in foreign investments and foreign currencies which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in small - and medium-capitalization companies involve additional risks such as limited liquidity and greater volatility. Investments in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The Fund's portfolio will be significantly impacted by the performance of the real estate market generally, and the Fund may be exposed to greater risk and experience higher volatility than would a more economically diversified portfolio. Property values may fall due to increasing vacancies or declining rents resulting from economic, legal, cultural, or technological developments. Investments in Limited Partnerships (including master limited partnerships) involve risks different from those of investing in common stock including risks related to limited control and limited rights to vote on matters affecting the Limited Partnership, risks related to potential conflicts of interest between the Limited Partnership and the Limited Partnership's general partner, cash flow risks, dilution risks and risks related to the general partner's limited call right. Underlying Funds are subject to management and other expenses, which will be indirectly paid by the Fund. Investments in Real Estate Investment Trusts (REITs) involve additional risks such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments.**

TFIP is the sub-adviser for the LoCorr Spectrum Income Fund.

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