



# Denali Quarterly Fund Review

*As of December 31, 2024*

---

AUTHOR

Connor Allen

PUBLISHED

January 17, 2025

## Denali Structured Return Strategy Fund - Year End Review

Dear Investors,

As we reflect on the year 2024, we would like to express our gratitude for your trust and support. We are constantly mindful of the responsibility that trust entails, and it shapes how we approach every decision we make.

This year marked an exciting milestone as the Fund evolved from an idea into a reality, growing from \$0 in assets to over \$70 million in assets by year-end. We remain committed to our goal of using income from the underlying income-producing portfolio to fund upside participation in the S&P 500 index. The aforementioned success would not have been possible without your belief in a strategy that is still in its early stages.

At Liquid Strategies, we prioritize accessibility and transparency, values that we hope you've seen reflected in our communications and team's dedication. Our portfolio management and sales teams remain readily available to support our constituents in whichever way is most helpful. We are energized by the progress made in 2024 and look forward to working together in 2025 as we navigate the opportunities ahead.

Sincerely,

Connor Allen, Mark Garfinkel and the Liquid Strategies Team

## Strategy Overview

Due to the complex nature of the Denali Structured Return Strategy, we thought that it would be helpful to provide a concise summary of how we manage the Fund and its underlying mechanics.

Each quarter, we evaluate the expected accrued income from the income-producing segment of the portfolio and allocate a comparable amount of that expected return to call spread options on the S&P 500. These options allow the Fund to participate in potential upside in the S&P 500 from the beginning to the end of the calendar quarter. Historically, the expected income accrual from the private credit portfolio ranges from 2-2.5%, which if that amount is spent on call spread options, translates into approximately an average of 5% potential upside per quarter. However, this potential upside or cap can vary slightly, depending on market volatility, as demonstrated in the Fund's prior three quarters.

- Q2 2024: 4.95% of potential upside
- Q3 2024: 4.94% of potential upside
- Q4 2024: 4.70% of potential upside due to heightened implied volatility prior to the election

### Portfolio Composition and Risk Management

At the beginning of each quarter, the portfolio consists of 97.5-98% income-producing assets and 2-2.5% allocated to SPX call spread options. This allocation reflects our expectations of the income accrual from the underlying portfolio, which have ranged between 2-2.5% per quarter over the last three quarters. The amount allocated to SPX options matches this income accrual expectation. It is designed in this way to create the objective of offsetting potential losses in equity markets from the call spread options with the income generated from the underlying portfolio which is substantially composed of private credit. This approach aims to deliver a flat return for the quarter, even in scenarios where the S&P 500 experiences severe losses.

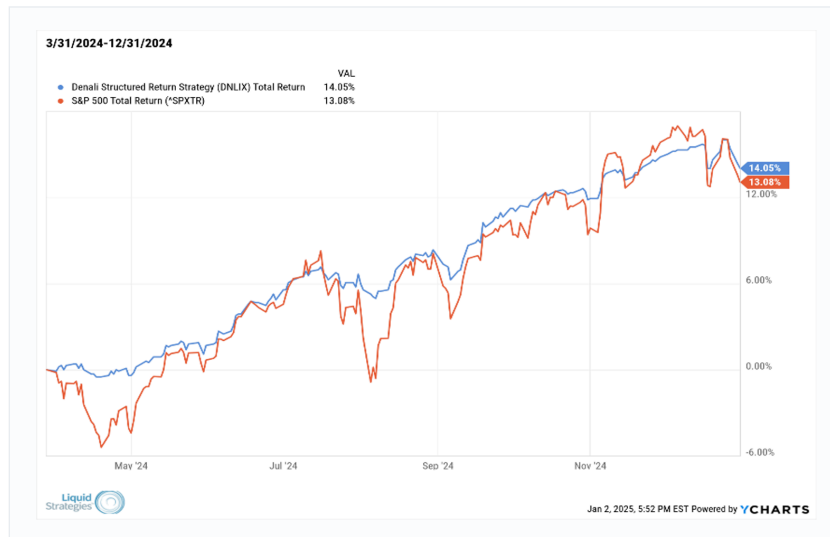


This is a hypothetical example intended for illustrative purposes only.

**Performance Review**

As of December 31, 2024, the Denali Structured Return Strategy Fund delivered a net total return of 14.62%, compared to the S&P 500's total return of 16.18%. As noted in the Q3 commentary, the strategy's first full quarter of options exposure started on March 31, 2024, rather than March 11, 2024, as the former marks the initiation of our first full-quarter call spread option purchase. From March 31st through year-end, the Fund achieved a net total return of 14.05%, outperforming the S&P 500's return of 13.08%.

This outperformance was largely driven by a tactical decision during Q3 to close our short call position, which enabled participation above the short call strike level. That decision, along with solid performance from the underlying income producing portfolio, led to the outperformance over the trailing 9 months. While this performance is commendable, the Fund's real success lies in the lower volatility and strong downside protection versus the S&P 500 Index as illustrated below.

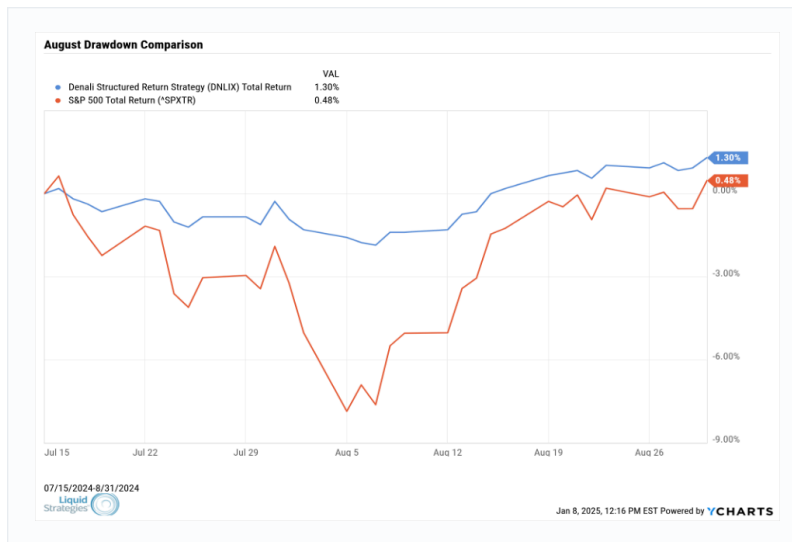


\*Inception 03/14/2024. Performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value of an investment will

fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance, please call 1-800-632-4027.

Over the trailing nine months, the Fund experienced a maximum drawdown of -2.04% compared to the S&P 500's drawdown of -8.45% in early August. This episode was attributed to the unwinding of the yen carry trade that caused significant market disruption. The "yen carry trade" became a popular strategy, where investors borrowed yen at low interest rates to invest in higher-yielding risk assets and arbitrage the difference. In early August, the unwinding of this trade strategy disrupted U.S. equity markets, as investors rushed to sell off securities in order to meet margin requirements. The Bank of Japan alluded to raising rates on Japanese government bonds which made the yen more expensive to borrow, prompting a wave of deleveraging in the aforementioned trade. This created volatility across global markets, as investors reduced risk exposure by selling off risk assets, including U.S. equities.

Since March 31st, Denali exhibited 41.17% of the volatility observed in the S&P 500. The Fund's lower volatility compared to the S&P 500 can largely be attributed to its modest allocation to SPX options and the lower delta of these options at the start of each quarter. Delta measures how much an option's price is expected to change in response to a \$1 move in the underlying asset, in this case the S&P 500 Index.



\*Using

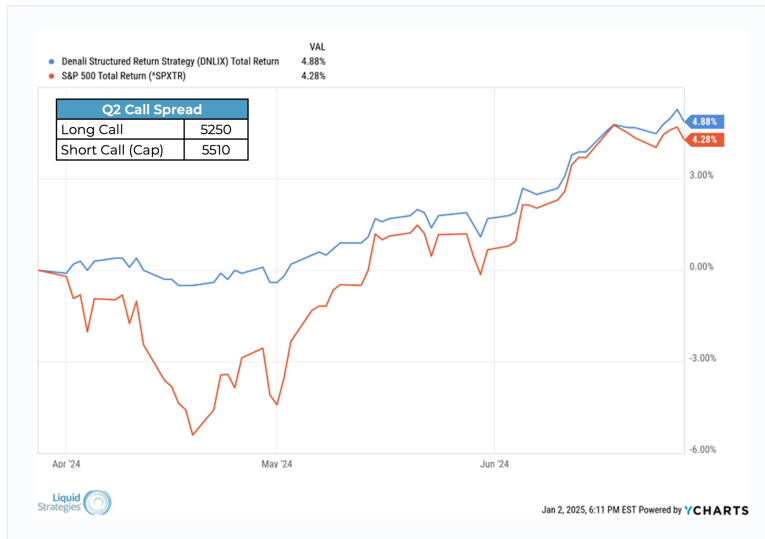
daily returns. Source: YCharts.

Past performance is no guarantee of future results.

The most effective way to evaluate the performance of this strategy is by analyzing it on a full - quarter basis. The Fund is intentionally structured in quarterly intervals, aiming to capture capped upside potential in the S&P 500, while minimizing equity downside risk. Any equity downside is limited to the small options allocation. Our goal is to offset the potential total loss in our options with the income generated from the underlying income producing portfolio which is substantially comprised of private credit exposure.

Q2 2024

Q2 of 2024 marked the Fund's first full quarter. Low volatility at the start of the quarter, driven by the strong market rally in Q1, enabled the Fund to purchase options at favorable prices. This, combined with the strong performance of the income producing allocation, allowed the Fund to outperform its benchmark. The Fund delivered a return of 4.88%, compared to the S&P 500 Total Return of 4.28%.



Past performance is no guarantee of future results

**Q3 2024**

Q3 highlighted the value of active management in enhancing the Fund's performance. Below is an excerpt from the Denali Q3 commentary:

*"In Q3, the fund posted a return of 6.07%, compared to the S&P 500's 5.89%. During this quarter, we tactically closed our short call position during the intra-quarter drawdown on September 10th for a modest gain. While we execute a systematic approach, there will be situations that arise, such as the one in Q3, that require opportunistic decision-making."*

Closing the short call intra-quarter (designated by the arrow below), with a minimal cost of less than 5 basis points to the Fund, allowed Denali to exceed its cap of 5740. As illustrated in the chart below, this decision resulted in a 5 basis point cost, but enabled an additional 1.13% of outperformance beyond the original cap. Q3 demonstrates the benefits of the flexibility that we have running the strategy, where we blend a largely systematic approach with the experience and expertise of the portfolio management team.



*Past performance is no guarantee of future results.*

#### Q4 2024

In Q4, the market experienced a notable upward shift in implied volatility (see chart below), driven by the anticipation of the upcoming election and the residual effects of one of the largest volatility spikes in history, which occurred in August. As a result, the Fund was able to secure only 4.70% of potential upside through call spread options, compared to nearly 5% in the two preceding quarters.

Despite this slightly reduced upside participation, the S&P 500 did not exceed its cap of 6010, allowing the Fund to achieve full participation for the quarter. The Fund delivered a net total return of 2.52%, outperforming the S&P 500 Total Return of 2.41%.



*Past performance is no guarantee of future results.*

#### Heading Into 2025

The S&P 500 has now posted five consecutive positive quarters, highlighting the strength of the current market environment. Historically, since 1990, such streaks have typically resulted in continued momentum, with the average outcome being another positive quarter. The longest streak of consecutive positive calendar quarters occurred between Q1 1995 and Q2 1998, spanning an impressive 14 quarters. Such extended periods of positive performance are rare and often highlight a period of economic expansion.

On December 31st, we closed our options spread for Q4 2024 at a modest gain and invested into the new call spread for Q1 of 2025. The strikes are 5890 | 6180, giving investors full market participation above the 5890 level and up to the cap of 6180. The spread width is 4.92%, just shy of 5%.

As highlighted previously, the Denali Strategy's strength lies not in attempting to outperform the market during the upward movements, but in its potential to mitigate drawdowns during periods of equity market stress. This characteristic is central to our approach and to our performance demonstrated to date.

Rather than chasing upward market momentum, our primary objective is to position the portfolio strategically to weather potential downturns while meeting performance expectations. By focusing on managing risk through a disciplined allocation between income-producing assets and S&P 500 call spread options, the Fund seeks to provide stability and resilience, regardless of market direction. As we look ahead to the upcoming year, we remain committed to this philosophy and will accept whatever market movements lie ahead.

## Disclosures

The Fund's shares require a minimum initial investment of \$1,000 and \$100 for subsequent investments. Distributions are not guaranteed. As a RIC, the Fund must distribute an amount equal to at least 90% of its taxable investment income, annually. There is no assurance a change in market conditions or other factors will not result in a change in future distributions.

The management fee is 1.65% with an expense cap at 1.99%. Total annual expenses are 3.16%. Total annual expenses (after fee waiver and expense reimbursement) are 2.77%. The Adviser and the Fund have entered into an Expense Limitation Agreement under which the Adviser has agreed to waive its management fees and to pay or absorb the ordinary operating expenses of the Fund (excluding borrowing costs, dividends, and interest on securities sold short, brokerage commissions, acquired fund fees and expenses and extraordinary expenses), to the extent that its management fees plus the Fund's ordinary annual operating expenses exceed 1.99% per annum of the Fund's average daily net assets. Such Expense Limitation Agreement will expire on July 31, 2025, and may not be terminated by the Adviser, but it may be terminated by the Board of Trustees, upon 60 days written notice to the Adviser. Any waiver and reimbursement by the Adviser is subject to repayment by the Fund within the three years from the date the Adviser waived such payment, if the Fund is able to make the repayment without exceeding the lesser of the expense limitation in place at the time of the waiver and reimbursement or the current expense limitation and the repayment is approved by the Board of Trustees.

See "Management of the Fund." The Adviser uses call option spreads to capture a portion of positive equity market returns without exposing the Fund to significant equity market losses. Generally, when the Fund purchases a call option, the Fund has the right, but not the obligation, to buy an asset at a specified price (strike price) within a specific time period or at the end of a time period. Call options can expire worthless in a flat or down equity market, but are not further linked to equity losses. The Adviser anticipates investing in call spreads on a quarterly basis by investing in call options primarily with three-month maturities and strike prices that are near (within one percent above) the then-current level of the S&P 500® Index while writing the same amount of call options with three-month maturities and strike prices that are approximately 5% higher than the then-current level of the index. The purchased call options are commonly referred to as being at-the-money if the strike price is at the then-current level of the index, or out-of-the money if the strike price is above the then-current level of the index. Investment

Advisory services are provided through Liquid Strategies, LLC located at 3550 Lenox Rd NE, Ste 2550 Atlanta, GA 30326.

The statements contained herein are based upon the opinions of Liquid Strategies and the data available at the time of publication and are subject to change at any time without notice. This communication does not constitute investment advice and is for informational purposes only, is not intended to meet the objectives or suitability requirements of any specific individual or account, and does not provide a guarantee that the investment objective of any model will be met. An investor should assess his/her own investment needs based on his/her own financial circumstances and investment objectives. Neither the information nor any opinions expressed herein should be construed as a solicitation or a recommendation by Liquid Strategies or its affiliates to buy or sell any securities or investments or hire any specific manager. Any offering may only be made pursuant to the securities laws, an offering document and related subscription materials all of which must be read and completed in their entirety. Liquid Strategies prepared this update utilizing information from a variety of sources that it believes to be reliable.

It is important to remember that there are risks inherent in any investment and that there is no assurance that any investment, asset class, style or index will provide positive performance over time. Diversification and strategic asset allocation do not guarantee a profit or protect against a loss in a declining markets. Past performance is not a guarantee of future results. All investments are subject to risk, including the loss of principal.

[Glossary of Terms](#)

[Liquid Strategies ADV](#)

**RISK FACTORS:** An investment in the Fund's shares is subject to risks. The value of the Fund's investments will increase or decrease based on changes in the prices of the investments it holds. This will cause the value of the Fund's shares to increase or decrease. You could lose money by investing in the Fund. By itself, the Fund does not constitute a complete investment program. Before investing in the Fund, you should consider carefully the following risks the Fund faces, together with the other information contained in the prospectus.

Since the Fund is non-diversified, it is subject to a higher reduction of capital and volatility than a fund more proportionately allocated among a large number of securities. An investment in the Fund involves risk. The Fund is new with no significant operating history by which to evaluate its potential performance. There can be no assurance that the Fund's strategy will be successful. The Fund may leverage its investments by "borrowing." The use of leverage increases both the risk of loss and profit potential.

- Shares of the Fund are not listed on any securities exchange, which makes them inherently illiquid.
- There is no secondary market for the Fund's shares, and it is not anticipated that a secondary market will develop.
- Shares of the Fund are not redeemable. Thus, an investment in the Fund may not be suitable for investors who may need the money they invest in a specified time frame.

- 
- Although the Fund will offer to repurchase at least 5% of outstanding shares on a quarterly basis in accordance with the Fund's repurchase policy, the Fund will not be required to repurchase shares at a shareholder's option nor will shares be exchangeable for units, interests or shares of any security.
- 
- The Fund is not required to extend, and shareholders should not expect the Fund's Board of Trustees to authorize, or repurchase offers in excess of 5% of outstanding shares.
- 
- Regardless of how the Fund performs, an investor may not be able to sell or otherwise liquidate his, her or its shares whenever such investor would prefer and, except to the extent permitted under the quarterly repurchase offer, will be unable to reduce the shareholder's exposure on any market downturn.
- 
- The Fund may invest a portion of its assets in securities that have speculative characteristics, e.g., lower-rated or unrated debt commonly referred to as "high-yield bonds" or "junk bonds." The Fund will invest in call option spreads that may expire worthless and fail to provide participation in positive equity market returns.
- 

*Investors should consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus contains this and other important information about the investment company. For a prospectus or summary prospectus with this and other important information about the Fund, please visit the Documents section at [www.LSfunds.com/DNLIX](http://www.LSfunds.com/DNLIX) or call 1-800-632-4027. Read the prospectus carefully before investing.*

**Shareholder Services: 1-800-632-4027**

Investment Professionals: 770-350-8700 or [info@LSfunds.com](mailto:info@LSfunds.com)

**Distributed by Foreside Fund Services, LLC, which is not affiliated with the Adviser.**