Clough Global Long/Short Fund – Fourth Quarter 2018 Portfolio Commentary

For the fourth quarter of 2018, the Clough Global Long/Short Fund (the "Fund") had a total return of -14.07% for Class I, compared to -13.52% for the S&P 500 Index and -8.26% for the HFRI Equity Hedge Total Index. See total returns chart for performance for all other share classes.

For the quarter, the Fund underperformed its long/short benchmark, the HFRI Equity Hedge Total Index by 581 basis points, and underperformed its long-only benchmark, the S&P 500 Index, by 55 basis points. The Fund carried an average long exposure of 82%, and an average short exposure of 19% for the quarter, which resulted in an average net investment level for the Fund of approximately 63%.

The Fund finished Q4 in the bottom quartile of its Morningstar Long/Short Equity category and finished the year in the 3rd quartile.

During the quarter, the long book detracted 17.8% from returns while the short book contributed 4.1% to returns. By region, the portfolio had most of its losses in U.S. equities. By sector, the greatest detractor was Healthcare.

For the full year, the long book detracted 12.0% from performance while the short book contributed 3.5% to returns.

The following is a summary of the key themes currently expressed in the Fund:

Healthcare

The Fund's average exposure to Healthcare during the year was 16%. Healthcare positions contributed 74 basis points to returns, with contributions from both the long book and the short book.

While the broad market failed to find a consistent direction throughout the year, the Fund managed to generate healthcare profits within both the long and short portfolios. The largest contributors by sub-sector were in the biotechnology and medical device industries. Importantly, the Fund had four long positions in these subsectors that were acquired by strategic investors during the year. We continue to believe that there is a disparity between what cash flush, multinational drug companies would pay to buy their future pipelines and how much equity investors value those same companies. Buyout targets offered one of the few safe havens for equity investors in the therapeutics space. We expect continued deal activity for the foreseeable future and continue to add strategic assets to the portfolio.

The healthcare industry is tightly tethered to the U.S. federal government, as a supplier of goods and services, the de facto insurance back office for the Affordable Care Act, and as the subject of multi-level government oversight and regulation. As such, we monitor Washington D.C. as a source of potential idea generation stemming from U.S. Food & Drug Administration (FDA) trends, major legislative changes, and headwinds created by common stump rhetoric such as drug list prices and inflated costs.

The large cap pharmaceutical rally, which began mid-summer, did in fact portend the major risk-off period from October-December. The rally was at least partly triggered by the willingness of drug company CEOs to "play ball" with the Trump White House through the delay of announced price hikes until after the mid-term elections by executives such as Pfizer's Ian Reed. Wall Street read, correctly, that the quid was that major drug price legislation would be quietly placed on the back-burner. We have now seen several single digit percentage price increases in January. While the drumbeat of "lower prices" persists, Secretary of Health and Human Services ("HHS") Alex Azar has recently lauded "good behavior" from Merck, Gilead and Amgen, who each announced lower prices on some products. While this is a directional public relations win for the Administration, branded prices (which investors focus on) continue to march higher.

Based on IQVIA's (a leading healthcare information provider) retail level prescription data, as reported by RBC Capital Markets, brand drug pricing inflation reached double digit levels during December, when compared to 2017 – which is higher than the 8% price increase average for the balance of 2018. The high single digit price increases seen in January will likely be mirrored again at mid-year, before mitigating into the 2020 election cycle.

The actual statistics – not the HHS Secretary's selective calculus - underpin an outlook for continued revenue growth for the major established branded companies. In contrast, we expect generic pricing to continue to be competitive (flat to lower) with pockets of strength where there are monopoly or duopoly suppliers. We are not currently invested in this sub-sector as it searches for a valuation and sentiment bottom, but we believe an opportunity will present itself to build generic drug company positions.

Consumer Dynamism in Asia

The Fund's average exposure to emerging markets (primarily China and India) during the year was 18%, which detracted 505 basis points from performance. With the MSCI India Index and MSCI China Index down 7.10% and down 18.65% respectively, emerging market exposure presented a clear headwind, especially relative to the Fund's more domestic-oriented benchmarks and peer group.

The China negatives are legion, well known, and priced in. China's gross domestic product ("GDP") reportedly slowed to 6.4% in 2018 and perhaps less. Either way, it was the slowest real rate of growth in 30 years. Exports and industrial activity are slowing. China's population is peaking, and the working age population will soon be declining. The number of births was the lowest since 1961 and China's long standing "one child" policy guarantees they will continue to decline. The fear is that China will grow old, with accompanying social costs before it becomes rich. Political reform has seemingly stopped, and its government is moving back to the type of autocracy which sooner or later becomes sclerotic. Under authoritarian regimes resources are misallocated and autocracies generally fail.

Why Even Consider Investing in China?

For one, much of this is priced in the market and the stocks have become cheap. Historically, price to earnings ratios in China have ranged from 9x to 37x and they are at 11x today. The MSCI China Index, which includes many financial stocks, sells at 7.7x earnings. Stocks are down so much in China that even a little good news should rally the market.

While China's industrial sector is coming under pressure and producers of industrial goods from iPhones and appliances to precision machines and automobiles are experiencing declining sales, China's current account balance is positive, its currency is strong and China's consumer economy is still vibrant. Many consumer and technology companies are experiencing growing sales as consumer incomes rise. China's consumer economy, with its 40% savings rate, is still looking at years of future growth.

Secondly, we believe consumer company profits are about to benefit from the "accelerator effect," the tendency of consumers to accelerate spending on higher-end goods and services as incomes rise. This dynamic promise growth in the consumer economy well above the national average. Per capita incomes in China average about $9,500 US dollars, and the number of high-income consumers is accelerating. The number of middle-class Chinese will rise from 300 million to 500 million by 2026. As this occurs, the growth in consumer spending could equal the total dollar value of US consumer spending.

A key reason for China's poor performance in 2018 was the government's efforts to force the economy to deleverage while monetary policy was restrictive. Now, government spending is rising, and household taxes are being reduced while the People's Bank of China ("PBOC") is taking a more accommodative stance - reducing interest rates and bank reserve requirements. We note that Chinese equities stabilized in the fourth quarter while developed market stocks materially weakened.

For the moment, the market's attention is focused on the tariff issue. We have no particular insights here, except to note that China never does anything that is not in its best interest. The absence of a trade deal means further deterioration in employment, which is something we think China will try to avoid at all costs. Our belief is that China will bend enough to allow President Trump to declare victory, so we are willing to fade the tariff issue in the portfolio and increase exposure to China.

While we still view China and India as the two Asian consumer markets to focus on, we are temporarily moving focus in the portfolio away from India, given political risks surrounding India's national elections in the spring. We'd prefer revisiting the region when we have a clearer view on the political strength of Prime Minister Modi's administration.

Information Technology & Communication Services

During the year, the Fund's average net exposure to Information Technology and Communication Services was 14% and detracted 387 basis points from performance.

As we see it, there are generally two kinds of technological developments that promise commercial use. One is the invention of something you never thought you needed until it appeared, like the copying machine, smartphone or cloud processing services developed by Amazon and Salesforce.com. The other is the development of a technology which is widely anticipated and where a large number of companies are vying to gain the dominant footprint, like 5G or cybersecurity. The first often provides monopoly profits to the company which develops the franchise because it holds a huge first mover advantage. Xerox's copying machine back in the 1950s or Apple Inc.'s iPhone in more modern times are good examples. The second ends up being far less profitable for participants because competition is a reality from the beginning, meaning no one gains that coveted first-mover advantage.

The introduction of 5G is obviously the latest development in telecommunications. It will offer upload/download speeds of 500 mgs per second, compared with 40 mgs per second with 4G, and we believe it will be the major catalyst of telecom spending for years. Because spectrum propagation is low (signals can only travel short distances), it will involve the construction of massive antenna arrays. But it is not obvious today where the profitable investments in the technology lie.

We are skeptical that significant money will be made in companies that build the 5G infrastructure. We believe the opportunities are more likely to be found in companies which provide the unique technologies critical to supporting 5G adoption. This should occur not only on the wireless side, but also on the wireline side, since that infrastructure will need to be upgraded to transport much larger quantities of data. In other words, we think the profitable investments may reside in odd quarters.

In that vein, we recently added Samsung Electronics Co Ltd. to the portfolio. The stock has fallen 28% from its mid-2017 levels, largely because its cyclical businesses are weakening. The stock is valued at seven times earnings, two times EBITDA and at the lowest price to book ratio in 20 years, trading essentially at book value, or the value of its depreciated plant. The company throws off prodigious amounts of free cash flow, enough to pay a 6% dividend and to buy back stock. Any signs of fundamental bottoming in semiconductor demand should be positive for the stock.

The nature of the dynamic random-access memory ("DRAM") cycle is changing from the perspective of both supply and demand. As to supplies, ever since 2012 memory has become a three-company oligopoly consisting of Samsung, SK Hynix and Micron Technology (the only US manufacturer). Because the industry is so consolidated, overcapacity is easily managed, as evidenced by the greater than 20% cut in capital spending during rapid unit demand growth. SK Hynix reported a more than 40% cut in spending. The sources of demand have also changed. DRAM is now used by a much broader spectrum of customers. Demand used to be limited by the needs of smartphones, gamers and laptops, but now data centers and industrial uses dominate. Production is estimated to decline 4% in 1H19, following a 50% rise in 2018 as cloud spending accelerated, but we believe data center investment and related demand for chips will reaccelerate later in 2019 as memory chip inventory depletes.

It is the emergence of 5G which really determines the future for both DRAM and Samsung's stock. With rapid speed and bandwidth, 5G will allow the downloading of movies in a matter of minutes and the memory needs in the new phones will be immense. Moreover, Samsung will deliver the first 5G enabled handset in North America this year and will be a key supplier of 5G telecom equipment to telecom carriers globally.

Xilinx Inc. was also recently added to the portfolio. The company is a manufacturer of field programmable gate arrays ("FPGA") which will be used extensively in the base stations supporting 5G installations. The company's chips are not only critical to all 5G deployments, but they also provide the technology that corporate users require to upload their computing and software needs to the cloud. The company's chips are also a key source of driver assisted automotive technologies.

We also added component suppliers Lumentum Holdings and Broadcom Inc. to the portfolio. Both stand to potentially benefit from an overall gain in telecom spending. Lumentum is the quality manufacturer of optical components. Its stock is trading at depressed levels because of its Apple exposure and decreased spending on 4G. We expect its valuation to rise as investors begin to understand the company's exposure to 5G spending. Broadcom has a high quality, high frequency filter product line which is also key to any 5G rollout.

The Short Book

For the year, short positions carried an average weighting of -20% in the Fund, which helped to lower overall volatility and contributed 348 basis points to performance.

Because indexing has indiscriminately allocated capital to stocks on the basis of their capitalization, rather than their return on investment, some companies in bad businesses with bad managements and bad balance sheets have gotten a free pass. That dynamic seems to be changing and we see increasing opportunities on the short side.

With European economies slowing and the continent's banks displaying increasingly weak balance sheets, we are maintaining our current strategy of staying short a variety of European banks.

Technological innovation creates an array of investment opportunities on both the long and short sides. From our perspective, several legacy tech companies which generate revenues by maintaining legacy systems are in a state of decline. Their franchises, whether in hardware or software, are eroding. They may claim opportunities in the cloud, but too often they are in no position to compete with the likes of Amazon.com, Microsoft or Google (Alphabet).

In Conclusion

Serious market declines like those experienced in 2018 often anticipate an economic problem like recession, or a decline in profits, but recessions do not come out of nowhere. One cause of recessions had been when inventories became seriously overbuilt and the manufacturing economy failed to clear them. This was a common event in the 1950s and 1960s, but technological improvements have mitigated the risk of this type of inventory overbuild. More serious recessions sometimes occur when the economy's capital stock becomes overbuilt, and this excess capacity causes pricing and profitability to collapse, rendering debt unserviceable. The boom and subsequent collapse of the dot-com driven technology cycle at the turn of the century and the housing crisis in 2007-2009 are recent examples of these investment-driven, cyclical bear markets. With those recent examples of investment-driven recessions, it is worth noting the level of investment in the current period of expansion has been the weakest in decades. Money and credit have risen during this expansionary period at rates we are accustomed to seeing at the bottoms of recessions, not closer to tops.

What we have seen is a tightening of monetary policy, and this tends to affect the economy with a lag. With 250 basis points of interest rate hikes and $600 billion of quantitative tightening in the pipeline, the US economy will certainly slow in 2019 and 2020, but we believe it is unlikely to fall into recession.

While we don't think a recession is imminent, we are less dismissive of the impact from recent changes in liquidity, which can have a dramatic effect on stock prices. In the current environment, liquidity seems capable of suddenly flowing out of the market, as happened in the 4th quarter. One consequence of the Dodd-Frank legislation was to force banks to manage their balance sheets much more conservatively, so they would be able to withstand a major economic shock. The net effect is that banks have all but stopped lending to financial companies. Much of that burden has moved to private investors, like hedge funds, private equity firms and financial companies which float collateralized loan obligations to fund loans. When Pacific Gas and Electric Company was first threatened with bankruptcy a few weeks ago, it was two hedge funds that offered to buy its bonds. Investors can also remove liquidity rapidly, and terms like "risk-on" and "risk-off" have been added to the lexicon to describe how our new, more volatile world behaves. Equity declines precipitated by these sudden swings in liquidity, though volatile, quickly burn themselves out once the sellers are depleted.

Behind this short-term volatility lie important long-term positives for financial assets. The global savings glut continues to grow and the demand for investment returns is growing with it. Demographics, debt burdens and shrinking demand are causing many economies to slow, while virtually every measure of inflation is rolling over. While these deflationary factors would be a negative if the Fed tightened into them, monetary authorities in the US have publicly taken a "patient approach to policy making" and seem inclined to gauge the impact of recent interest rate increases and quantitative tightening before acting further.

Meanwhile, the impact of tax reform, technological advances and deregulation on profits and cash flows will not dissipate overnight, allowing profits to remain buoyant. Easier global monetary policies suggest overall levels of liquidity will remain ample. Households, corporations and private equity firms may be fickle, but they still sit on trillions of dollars in excess liquidity. Global demand is sluggish (at best) and corporate earnings growth is slowing, but investors still need returns. In this environment, growth becomes scarcer and the price of growth increases. In other words, in an investment world where economies are slowing and exchange-traded fund ("ETF") flows have inflated the major equity indexes, we think capital will flow to small and mid-capitalization equities, specifically in biotech, information technology, and emerging markets. Meanwhile, this period of heightened volatility is providing us with more opportunities to utilize a short book in seeking to reduce volatility and generate alpha, as it did for the portfolio in 2018.

Charles I. Clough, Jr.

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Total Returns (As of 12/31/2018[1,2])

	Q3 2018	YTD	1 YEAR	3 YEAR	SINCE INCEPTION
Clough Global Long/Short Fund - I	-14.07%	-10.03%	-10.03%	0.26%	0.14%
Clough Global Long/Short Fund - Investor (NAV)	-14.11%	-10.28%	-10.28%	-0.03%	-0.18%
Clough Global Long/Short Fund - A (NAV)	-14.11%	-10.28%	-10.28%	-0.03%	-0.18%
Clough Global Long/Short Fund - A (MOP)	-18.84%	-15.20%	-15.20%	-1.89%	-1.58%
Clough Global Long/Short Fund - C (NAV)	-14.26%	-10.93%	-10.93%	-0.73%	-0.75%
Clough Global Long/Short Fund - C (CDSC)	-15.12%	-11.82%	-11.82%	-0.73%	-0.75%
S&P 500 Index[3]	*-13.52%*	*-4.38%*	*-4.38%*	9.26%	*7.23%*
HFRI Equity Hedge (Total) Index[3]	*-8.26%*	*-6.90%*	*-6.90%*	3.62%	*2.45%*

As of the latest prospectus, the gross expense ratio for the Fund's Class INV, Class C, and Class I shares is 4.00%, 4.52%, and 3.41%, net expense ratio is 2.51%, 3.16% and 2.16% and net expense ratio excluding acquired fund fees and expenses and dividend and interest expenses on short sales is 1.95%, 2.60% and 1.60%, respectively. Clough Capital Partners L.P. (the "Adviser") has agreed contractually to limit the operating expenses of each class of the Fund (excluding Rule 12b-1 Distribution and Service Fees, Shareholder Services Fees, acquired fund fees and expenses, interest, taxes, brokerage costs and commissions, dividend and interest expense on short sales, and litigation, indemnification and extraordinary expenses as determined under generally accepted accounting principles) to an annual rate of 1.60% through February 28, 2020.

1 *The performance data quoted for periods prior to September 30, 2015 is that of an unregistered investment fund (the "Predecessor Fund") that was managed by the Adviser and was reorganized into the Fund as of the date the Fund commenced investment operations. The Predecessor Fund was not a registered mutual fund and therefore was not subject to the same investment and tax restrictions as the Fund. Performance information reflects all fees and expenses incurred by the Predecessor Fund, and has not been adjusted to reflect Fund expenses. If it had been so adjusted, the Predecessor Fund's performance might have been higher or lower for a given period depending on the amount of such expenses incurred for any given period. Performance information for Class A and Class C have been adjusted to reflect 12b-1 fees and shareholder services fees, as applicable. The Predecessor Fund commenced operations on January 2, 2015.*

2 *Total return for periods greater than one year are annualized*

3 *Sources: Hedge Fund Research, Inc., Bloomberg. The "HFRI" returns shown herein are those of the HFRI Equity Hedge (Total) Index, which is an index designed by Hedge Fund Research, Inc. to represent the performance of investment managers who maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed by such managers to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. The S&P 500 tracks the performance of the equity securities of a representative sample of 500 U.S. based large-cap companies. The S&P 500 is an unmanaged, market-value weighted index with each stock's weight in the index proportionate to its market value. S&P 500 reflects the reinvestment of dividends. Both indices referenced herein reflect the reinvestment of dividends. It is not possible to invest directly in an index.*

The performance data quoted represents past performance. Past performance does not guarantee future results and current performance may be lower or higher than the performance quoted. Performance reflects the deduction of management fees and other applicable expenses. For the most current month-end performance data please call 1-855-425-6844.

Maximum Offering Price (MOP) for Class A shares includes the Fund's maximum sales charge of 5.50%. On December 1, 2017 Class A shares were renamed Investor Class shares and such shares are offered without an initial sales charge or a contingent deferred sales charge. Contingent Deferred Sales Charge (CDSC) performance for Class C shares includes a 1% CDSC on C shares redeemed within 12 months of purchase. Performance shown at Net Asset Value (NAV) does not include these sales charges and would have been lower had it been taken into account.

Investment returns and value of the Fund shares will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost.

Contingent Deferred Sales Charge (CDSC) performance for Class C shares includes a 1% CDSC on C shares redeemed within 12 months of purchase. Performance shown at Net Asset Value (NAV) does not include these sales charges and would have been lower had it been taken into account.

Effective June 29, 2018, Class A shares of the Clough Global Long/Short Fund were added as a new available share class. Performance for Class A Shares prior to June 29, 2018 reflects the historical performance of the respective Fund's Investor Class Shares, calculated using the fees and expense of Class A Shares.

An investor cannot invest in an index.

Past performance is not a guarantee of future returns.

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The information in this letter represents the opinions of the Portfolio Managers and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. This letter has been prepared from original sources and data believed to be reliable. However no representations are made as to the accuracy or completeness thereof. The information set forth in this letter, including, without limitation, information relating to the investment themes and portfolio allocations of the Fund, is subject to change at any time without notice to the recipients of this letter. An investment in the Fund involves a high degree of risk and is suitable only for sophisticated investors. No guarantee or representation is made that the Funds' investment program, including, without limitation, their investment objectives, will be successful.

Risks

An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, annual report or semi-annual report which contains this and other information visit www.cloughglobal.com or call 1-855-425-6844. Read them carefully before investing.

Investing involves risks, including loss of principal. The Fund's use of derivatives (which may include forward foreign currency contracts, futures, participation notes, and swaps) may reduce the Fund's returns and/or increase the volatility of the Fund's net asset value. Foreign investing involves special risks such as currency fluctuations and political uncertainty.

S&P 500: The Standard & Poor's composite index of 500 stocks, a widely recognized, unmanaged index of common stock prices. Index performance does not reflect fund performance. An investor cannot invest directly in an index.

HFRI Equity Hedge (Total) Index (HFRI): An index designed by Hedge Fund Research, Inc. to represent the performance of investment managers who maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed by such managers to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. The HFRI family of indices reserves the right to revise historical performance data for a period of up to four months following the as of date. The performance shown was calculated using current, available data at the time of publication, but is subject to change outside of the control of the Fund and its affiliates. An investor cannot invest directly in an index.

ALPS Portfolio Solutions Distributor, Inc. is the distributor for the Clough Global Long/Short Fund.

Clough Capital Partners L.P. is the Investment Adviser.

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