Item 7. Financial Statements and Financial Highlights for Open-End Management Investment Companies:

M3SIXTY

M3Sixty Small Cap Growth Fund
Institutional Class Shares (Ticker Symbol: MCSCX)

A series of the
360 Funds

ANNUAL FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

May 31, 2025

Investment Adviser:

M3Sixty Capital, LLC
4300 Shawnee Mission Parkway, Suite 100
Fairway, KS 66205

IMPORTANT NOTE: *The Securities and Exchange Commission (the "SEC") adopted rule and form amendments which have resulted in changes to the design and delivery of annual and semi-annual reports (the "Reports"). The Reports are now streamlined to highlight key information about the M3Sixty Small Cap Growth Fund (the "Fund"). Certain information previously included in the Reports, including the Fund's financial statements, will no longer appear in the Reports, but will be available online within the Annual and Semi-Annual Financial Statements and Additional Information, delivered free of charge, and filed with the SEC.*

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COMMON STOCK - 98.35%	**Shares**	**Value**
Auto Parts & Equipment - 2.48%		
Dorman Products, Inc.[(a)]	1,312	$ 169,655
Gentherm, Inc. [(a)]	3,258	89,155
		258,810
Banks - 5.33%		
First Financial Bankshares, Inc.	3,591	126,619
Glacier Bancorp, Inc.	4,283	177,616
Hope Bancorp, Inc.	6,888	69,155
Lakeland Financial Corp.	1,286	76,993
WesBanco, Inc.	3,467	106,714
		557,097
Building Materials - 3.38%		
Boise Cascade Co.	748	64,986
Modine Manufacturing Co.[(a)]	1,575	143,010
UFP Industries, Inc.	1,489	145,267
		353,263
Chemicals - 1.22%		
Quaker Chemical Corp.	559	60,618
Rogers Corp.[(a)]	1,010	67,236
		127,854
Commercial Services - 4.19%		
Barrett Business Services, Inc.	2,536	104,800
CBIZ, Inc. [(a)]	2,236	161,529
EVERTEC, Inc. - Puerto Rico	2,400	86,952
Healthcare Services Group, Inc.[(a)]	6,004	84,656
		437,937
Computers - 3.13%		
ExlService Holdings, Inc.[(a)]	3,288	151,215
Maximus, Inc.	991	71,857
Qualys, Inc.[(a)]	748	103,635
		326,707
Distribution & Wholesale - 1.04%		
SiteOne Landscape Supply, Inc.[(a)]	929	108,516
Diversified Financial Services - 1.00%		
Evercore, Inc.	454	105,096
Electrical Components & Equipment - 1.30%		
Insteel Industries, Inc.	3,895	136,403

COMMON STOCK - 98.35% (continued)	Shares	Value
Electronics - 6.03%		
Badger Meter, Inc.	649	$ 161,095
Napco Security Technologies, Inc.	3,793	105,825
NVE Corp.	1,030	73,295
OSI Systems, Inc.[a]	937	205,306
Plexus Corp.[a]	644	84,531
		630,052
Engineering & Construction - 5.89%		
Exponent, Inc.	1,444	110,235
MasTec, Inc.[a]	1,358	211,753
Sterling Infrastructure, Inc.[a]	1,560	293,296
		615,284
Food - 3.05%		
J & J Snack Foods Corp.	806	92,827
Performance Food Group Co.[a]	2,523	225,960
		318,787
Hand & Machine Tools - 0.94%		
Franklin Electric Co., Inc.	1,134	97,966
Healthcare - Products - 7.04%		
CONMED Corp.	1,537	87,225
Globus Medical, Inc.[a]	3,118	184,523
iRadimed Corp.	1,763	102,042
LeMaitre Vascular, Inc.	1,862	153,056
Omnicell, Inc.[a]	1,405	42,670
UFP Technologies, Inc.[a]	709	166,048
		735,564
Healthcare - Services - 7.13%		
Addus HomeCare Corp.[a]	1,168	129,543
Amedisys, Inc. [a]	1,223	115,048
Ensign Group, Inc.	2,061	303,503
Pediatrix Medical Group, Inc.[a]	5,281	74,726
U.S. Physical Therapy, Inc.	1,628	122,084
		744,904
Home Builders - 1.00%		
Century Communities, Inc.	2,015	104,518
Household Products & Wares - 0.79%		
WD-40 Co.	340	82,834

COMMON STOCK - 98.35% (continued)	Shares	Value
Internet - 2.35%		
ePlus, Inc.[a]	1,872	$ 133,605
HealthStream, Inc.	1,891	52,986
Ziff Davis, Inc.[a]	1,806	58,587
		245,178
Leisure Time - 0.85%		
YETI Holdings, Inc.[a]	2,920	89,235
Machinery - Diversified - 3.80%		
Albany International Corp.	2,206	145,750
Cactus, Inc. - Class A	2,863	117,383
Cognex Corp.	3,045	91,259
Columbus McKinnon Corp.	2,947	42,908
		397,300
Metal Fabricate & Hardware - 2.24%		
RBC Bearings, Inc.[a]	639	233,791
Miscellaneous Manufacturing - 1.46%		
Fabrinet - Thailand[a]	655	152,530
Oil & Gas Services - 3.26%		
Aris Water Solutions, Inc. - Class A	5,344	117,782
Innovex International, Inc.[a]	6,165	85,077
RPC, Inc.	9,848	43,725
Select Water Solutions, Inc.	11,704	94,100
		340,684
Pharmaceuticals - 6.23%		
Amphastar Pharmaceuticals, Inc.[a]	4,099	105,385
Catalyst Pharmaceuticals, Inc.[a]	4,066	101,487
Corcept Therapeutics, Inc. [a]	701	54,370
Harmony Biosciences Holdings, Inc.[a]	4,402	151,869
Pacira BioSciences, Inc.[a]	5,635	145,608
Supernus Pharmaceuticals, Inc.[a]	2,924	92,691
		651,410
REITS - 1.35%		
Getty Realty Corp.	2,952	86,376
LTC Properties, Inc.	1,548	54,784
		141,160
Retail - 7.38%		
American Eagle Outfitters, Inc.	8,246	90,376
Jack in the Box, Inc.	1,535	29,111
La-Z-Boy, Inc.	3,402	142,510
Lithia Motors, Inc.	561	177,786
Ollie’s Bargain Outlet Holdings, Inc.[a]	1,284	143,102
Shake Shack, Inc. - Class A[a]	959	124,469
Texas Roadhouse, Inc.	329	64,224
		771,578

COMMON STOCK - 98.35% (continued)	Shares	Value
Semiconductors - 6.97%		
Diodes, Inc.[a]	2,950	$ 130,980
Kulicke & Soffa Industries, Inc. - Singapore	3,519	113,136
MACOM Technology Solutions Holdings, Inc.[a]	1,390	169,038
Onto Innovation, Inc.[a]	567	52,130
Photronics, Inc. [a]	4,298	71,820
Synaptics, Inc. [a]	1,203	70,688
Ultra Clean Holdings, Inc.[a]	2,940	56,948
Vishay Precision Group, Inc.[a]	2,467	63,451
		728,191
Software - 3.87%		
ACI Worldwide, Inc.[a]	2,857	132,165
Consensus Cloud Solutions, Inc.[a]	2,128	46,752
Donnelley Financial Solutions, Inc.[a]	1,414	77,035
PDF Solutions, Inc.[a]	2,605	46,108
SPS Commerce, Inc.[a]	731	102,896
		404,956
Telecommunications - 1.72%		
A10 Networks, Inc.	10,411	179,694
Transportation - 1.19%		
Landstar System, Inc.	905	124,184
Water - 0.74%		
California Water Service Group	1,628	76,923
TOTAL COMMON STOCK (Cost $10,392,071)		10,278,406
INVESTMENTS AT VALUE (Cost $10,392,071) - 98.35%		$ 10,278,406
OTHER ASSETS IN EXCESS OF LIABILITIES, NET - 1.65%		172,868
NET ASSETS - 100.00%		$ 10,451,274

Percentages are stated as a percent of net assets.

[a] Non-income producing security.

The following abbreviations are used in this portfolio:
REITS - Real Estate Investment Trusts

The accompanying notes are an integral part of these financial statements.

M3SIXTY SMALL CAP GROWTH FUND
STATEMENT OF ASSETS AND LIABILITIES

Assets:		
Investments, at cost	$	10,392,071
Investments, at value	$	10,278,406
Cash and cash equivalents		178,243
Due from Adviser		6,162
Receivables:		
Interest		1,009
Dividends		3,558
Prepaid expenses		3,713
Total assets		10,471,091
Liabilities:		
Payables:		
Fund shares redeemed		2
Due to administrator		6,433
Accrued Trustee fees		1,506
Accrued expenses		11,876
Total liabilities		19,817
Commitments and contingencies[(a)]		—
Net Assets	$	10,451,274
Sources of Net Assets:		
Paid-in beneficial interest	$	10,722,678
Total Accumulated Deficit		(271,404)
Total Net Assets (Unlimited $0 par value shares of beneficial interest authorized)	$	10,451,274
Institutional Class Shares:		
Net assets	$	10,451,274
Shares Outstanding (Unlimited $0 par value shares of beneficial interest authorized)		1,042,884
Net Asset Value, Offering and Redemption Price Per Share	$	10.02

(a) See Note 9 in the Notes to the Financial Statements.

The accompanying notes are an integral part of these financial statements.

		For the Year Ended May 31, 2025
Investment income:		
Dividends	$	72,689
Interest		11,415
Total investment income		84,104
Expenses:		
Advisory fees (Note 5)		64,422
Accounting and transfer agent fees and expenses (Note 5)		68,625
Reports to shareholders		21,749
Trustee fees and expenses		17,440
Pricing fees		15,491
Legal fees		12,880
Compliance officer fees		9,364
Miscellaneous		9,334
Audit fees		9,000
Non-12b-1 shareholder servicing expense		6,224
Custodian fees		5,780
Registration and filing fees		3,470
Insurance		1,670
Total expenses		245,449
Less: fees waived and reimbursed (Note 5)		(165,727)
Net expenses		79,722
Net investment income		4,382
Realized and unrealized gain:		
Net realized gain on:		
Investments		85,104
Net realized gain on investments		85,104
Net change in unrealized depreciation on:		
Investments		(500,666)
Net change in unrealized depreciation		(500,666)
Net realized and unrealized loss on investments		(415,562)
Net decrease in net assets resulting from operations	$	(411,180)

The accompanying notes are an integral part of these financial statements.

	For the Year Ended May 31, 2025	For the Period Ended May 31, 2024 (a)
Increase (decrease) in net assets from:		
Operations:		
Net investment income	$ 4,382	$ 9,807
Net realized gain on investments	85,104	116,050
Net change in unrealized appreciation(depreciation) on investments	(500,666)	387,001
Net increase (decrease) in net assets resulting from operations	(411,180)	512,858
Distributions to shareholders from:		
Distributable earnings - Institutional Class	(347,627)	(26,394)
Total distributions	(347,627)	(26,394)
Beneficial interest transactions (Note 3):		
Increase in net assets from beneficial interest transactions	4,524,271	6,199,346
Increase in net assets	3,765,464	6,685,810
Net Assets:		
Beginning of year/period	6,685,810	—
End of year/period	$ 10,451,274	$ 6,685,810

(a) The M3Sixty Small Cap Growth Fund commenced operations on June 28, 2023.

The accompanying notes are an integral part of these financial statements.

The following tables set forth the per share operating performance data for a share of beneficial interest outstanding, total return, ratios to average net assets and other supplemental data for the years/period indicated.

	Institutional Class	
	For the Year Ended May 31, 2025	For the Period Ended May 31, 2024 [a]
Net Asset Value, Beginning of Year/Period	$ 10.78	$ 10.00
Investment Operations:		
Net investment income[b]	0.01	0.02
Net realized and unrealized gain (loss) on investments	(0.25)	0.81
Total from investment operations	(0.24)	0.83
Distributions:		
From net investment income	(0.01)	(0.02)
From net realized capital gains	(0.51)	(0.03)
Total distributions	(0.52)	(0.05)
Net Asset Value, End of Year/Period	$ 10.02	$ 10.78
Total Return[c]	(2.70)%	8.37%[d]
Ratios/Supplemental Data		
Net assets, end of year/period (in 000's)	$ 10,451	$ 6,686
Ratio of expenses to average net assets:		
Before fees waived and expenses absorbed	3.04%	4.89%[e]
After fees waived and expenses absorbed	0.99%	1.01%[e]
Ratio of net investment income (loss):		
Before fees waived and expenses absorbed	(2.00)%	(3.64)%[e]
After fees waived and expenses absorbed	0.05%	0.24%[e]
Portfolio turnover rate	22.03%	18.74%[d]

(a) The M3Sixty Small Cap Growth Fund commenced operations on June 28, 2023.
(b) Net investment income per share is based on average shares outstanding.
(c) Total Return represents the rate that the investor would have earned or lost on an investment in the Fund, assuming reinvestment of dividends. Had the Adviser not waived fees/reimbursed expenses, total returns would have been lower.
(d) Not annualized.
(e) Annualized.

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
May 31, 2025

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The M3Sixty Small Cap Growth Fund (the "Fund") is a series of 360 Funds (the "Trust"), which was organized on February 24, 2005 as a Delaware statutory trust. The Trust is registered as an open-end management investment company under the Investment Company Act of 1940 (the "1940 Act"). The Fund is a diversified fund, and it's investment objective is to seek long-term capital appreciation over a complete market cycle.

The Fund commenced operations on June 28, 2023.

The Fund offers one class of shares, institutional shares.

The following is a summary of the significant accounting policies followed by the Fund in the preparation of its financial statements. The Fund is an investment company that follows the accounting and reporting guidance of Accounting Standards Codification Topic 946 applicable to investment companies.

a) Security Valuation – All investments in securities are recorded at their estimated fair value, as described in Note 2.

b) Investments in Small-Cap Companies - The Fund may invest in securities of companies with small market capitalizations. Certain small-cap companies may offer greater potential for capital appreciation than larger companies. However, investors should note that this potential for greater capital appreciation is accompanied by a substantial risk of loss and that, by their very nature, investments in small-cap companies tend to be very volatile and speculative. Small-cap companies may have a small share of the market for their products or services, their businesses may be limited to regional markets, or they may provide goods and services for a limited market. For example, they may be developing or marketing new products or services for markets that are not yet established or may never become established. In addition, small companies may have or will develop only a regional market for products or services and thus be affected by local or regional market conditions. In addition, small-cap companies may lack depth of management, or they may be unable to generate funds necessary for growth or potential development, either internally or through external financing on favorable terms. Such companies may also be insignificant in their industries and be subject to or become subject to intense competition from larger companies. Due to these and other factors, the Fund's investments in small-cap companies may suffer significant losses. Further, there is typically a smaller market for the securities of a small-cap company than for securities of a large company. Therefore, investments in small-cap companies may be less liquid and subject to significant price declines that result in losses for the Fund.

c) Federal Income Taxes – The Fund has qualified and intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). It is the policy of the Fund to comply with the requirements of the Code applicable to regulated investment companies and to distribute substantially all of its net investment company taxable income and net capital gains. Therefore, no provision for federal income taxes is required.

As of and during the year ended May 31, 2025, the Fund did not have a liability for any unrecognized tax expenses. The Fund recognizes interest and penalties, if any, related to unrecognized tax liability as income tax expense in the Statement of Operations. During the year ended May 31, 2025, the Fund did not incur any interest or penalties. The Fund identifies its major tax jurisdictions as U.S. Federal and Delaware State.

In addition, accounting principles generally accepted in the United States of America ("GAAP") requires management of the Fund to analyze all open tax years (tax years ended 2024 and 2025), as defined by the Internal Revenue Service statute of limitations for all major jurisdictions, including federal tax authorities and certain state tax authorities. As of the year ended May 31, 2025, the Fund did not have a liability for any unrecognized tax benefits. The Fund has no examinations in progress and is not aware of any tax positions for which it is reasonably possible that the total tax amounts of unrecognized tax benefits will significantly change in the next 12 months.

d) Distributions to Shareholders – Dividends from net investment income and distributions of net realized capital gains, if any, will be declared and paid at least annually. Income and capital gain distributions, which are determined in accordance with income tax regulations, are recorded on the ex-dividend date. GAAP requires that permanent financial reporting differences relating to shareholder distributions be reclassified to paid-in beneficial interest.

NOTES TO THE FINANCIAL STATEMENTS
May 31, 2025

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

f) Segment Reporting – The Fund has adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update 2023-07, Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures ("ASU 2023-07"). Adoption of the standard impacted financial statement disclosures only and did not affect the Fund's financial position or the results of its operations. An operating segment is defined in Topic 280 as a component of a public entity that engages in business activities from which it may recognize revenues and incur expenses, has operating results that are regularly reviewed by the public entity's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and has discrete financial information available. The Fund operates as a single reportable segment, an investment company whose investment objective is included in Note 1. In connection with the adoption of ASU 2023-07, the Fund's Adviser has been designated as the Fund's CODM, who is responsible for assessing the performance of the Fund's single segment and deciding how to allocate the segment's resources. To perform this function, the CODM reviews the information in the Fund's Financial Statements.

g) Other – Investment and shareholder transactions are recorded on trade date. The Fund determines the gain or loss realized from the investment transactions by comparing the original cost of the security lot sold with the net sales proceeds. Dividend income is recognized on the ex-dividend date or as soon as information is available to the Fund and interest income is recognized on an accrual basis. Withholding taxes on foreign dividends have been provided for in accordance with the Fund's understanding of the applicable country's tax rules and rates.

2. SECURITIES VALUATIONS

Processes and Structure

The Fund's Board of Trustees (the "Board") has adopted guidelines for valuing securities including in circumstances in which market quotes are not readily available and has delegated authority to M3Sixty Capital, LLC (the "Adviser"), as the Fund's Valuation Designee, to apply those guidelines in determining fair value prices, subject to review by the Board.

Hierarchy of Fair Value Inputs

The Fund utilizes various methods to measure the fair value of its investments on a recurring basis. GAAP establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The three levels of inputs are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.
- Level 2 – Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.
- Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Fund's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTES TO THE FINANCIAL STATEMENTS
May 31, 2025

2. SECURITIES VALUATIONS (continued)

Fair Value Measurements

A description of the valuation techniques applied to the Fund's major categories of assets and liabilities measured at fair value on a recurring basis follows.

Equity securities (common stock and REITs) – Securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded, and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy. Certain foreign securities may be fair valued using a pricing service that considers the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments such as American Depositary Receipts and the movement of the certain indexes of securities based on a statistical analysis of the historical relationship and that are categorized in Level 2. Preferred stock and other equities traded on inactive markets or valued by reference to similar instruments are also categorized in Level 2.

Money market funds – Money market funds are valued at their net asset value of $1.00 per share and are categorized as Level 1.

The following table summarizes the inputs used to value the Fund's assets and liabilities measured at fair value as of May 31, 2025.

Financial Instruments - Assets **Security Classification (1)**	**Level 1 (Quoted Prices)**	**Level 2 (Other Significant Observable Inputs)**	**Totals**
Common Stock (2)	$ 10,278,406	$ —	$ 10,278,406
Totals	$ 10,278,406	$ —	$ 10,278,406

(1) As of and during the year ended May 31, 2025, the Fund held no securities that were considered to be "Level 3" securities (those valued using significant unobservable inputs). Therefore, a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value is not applicable.

(2) All common stock held in the Fund are Level 1 securities. For a detailed break-out of common stock by industry, please refer to the Schedule of Investments.

During the year ended May 31, 2025, no securities were valued using alternative procedures approved by the Board.

Pursuant to Rule 2a-5, securities for which market quotations are not readily available will have a fair value determined by the Valuation Designee (as defined by Rule 2a-5) in accordance with the fair value policies and procedures adopted by the Board and the Adviser. The Board will oversee the Valuation Designee's fair value determinations.

Growth Company Risk

Securities of growth companies can be more sensitive to the company's earnings and more volatile than the market in general. Growth stocks may also fall out of favor and may underperform relative to the overall equity market at times.

3. BENEFICIAL INTEREST TRANSACTIONS

Transactions in shares of beneficial interest for the Fund for the year ended May 31, 2025 were as follows:

	Sold	**Redeemed**	**Reinvested**	**Net Increase**
Institutional Class				
Shares	428,485	(36,859)	31,278	422,904
Value	$ 4,583,506	$ (406,425)	$ 347,190	$ 4,524,271

NOTES TO THE FINANCIAL STATEMENTS
May 31, 2025

3. BENEFICIAL INTEREST TRANSACTIONS (continued)

Transactions in shares of beneficial interest for the Fund for the period ended May 31, 2024 were as follows:

	Sold	Redeemed	Reinvested	Net Increase
Institutional Class				
Shares	627,690	(10,113)	2,403	619,980
Value	$ 6,278,376	$ (103,972)	$ 24,942	$ 6,199,346

4. INVESTMENT TRANSACTIONS

For the year ended May 31, 2025, aggregate purchases and sales of investment securities (excluding short-term investments) for the Fund were as follows:

Purchases	Sales
$ 5,884,488	$ 1,757,346

There were no government securities purchased or sold during the year ended May 31, 2025.

5. ADVISORY FEES AND OTHER RELATED PARTY TRANSACTIONS

The Fund has entered into an Investment Advisory Agreement (the “Advisory Agreement”) with the Adviser. Pursuant to the Advisory Agreement, the Adviser manages the Fund’s operations and investments in accordance with the stated policies of the Fund. As compensation for the investment advisory services provided to the Fund, the Adviser will receive a monthly management fee equal to an annual rate of 0.80% of the Fund’s net assets.

The Adviser has entered into an Amended Expense Limitation Agreement with the Fund under which it has agreed to waive or reduce its fees and to assume other expenses (exclusive of interest, borrowing expenses, distribution fees pursuant to Rule 12b-1 Plans, taxes, acquired fund fees and expenses, brokerage fees and commissions, dividend expenses on short sales, litigation expenses, expenditures which are capitalized in accordance with GAAP and, other extraordinary expenses not incurred in the ordinary course of the Fund’s business) of the Fund in an amount that limits “Total Annual Fund Operating Expenses” to not more than 0.99% through at least June 30, 2026. These fee waivers and expense reimbursements are subject to recoupment from the Fund within three years of the date on which the waiver or reimbursement occurs, provided that the recoupment payments do not cause Total Annual Fund Operating Expenses (after the repayment is taken into account) to exceed (i) the expense limit then in effect, if any, and (ii) the expense limit in effect at the time the expenses to be repaid were incurred. Before June 30, 2026, this agreement may not be modified or terminated without the approval of the Board. Please see the table below for information regarding the management fees earned, fee waivers and expenses reimbursed during the year ended May 31, 2025, as well as amounts due to (from) the Adviser at May 31, 2025.

Advisory fees earned	$ 64,422
Fees waived and reimbursed	165,727
Payable to (Due from) Adviser	(6,162)

The amounts subject to repayment by the Fund, pursuant to the aforementioned conditions, are $325,329, of which $159,602 can be repaid no later than May 31, 2027 and $165,727 can be repaid no later than May 31, 2028.

The Fund has entered into an Investment Company Services Agreement (“ICSA”) with M3Sixty Administration, LLC (“M3Sixty”), an affiliate of the Adviser. Pursuant to the ICSA, M3Sixty will provide day-to-day operational services to the Fund including, but not limited to: (a) Fund accounting services; (b) financial statement preparation; (c) valuation of the Fund’s portfolio securities; (d) pricing the Fund’s shares; (e) assistance in preparing tax returns; (f) preparation and filing of required regulatory reports; (g) communications with shareholders; (h) coordination of Board and shareholder meetings; (i) monitoring the Fund’s compliance; and (j) maintaining shareholder account records.

For the year ended May 31, 2025, M3Sixty earned $68,625, including out of pocket expenses, pursuant to the ICSA.

5. ADVISORY FEES AND OTHER RELATED PARTY TRANSACTIONS (continued)

The Fund has also entered into a Chief Compliance Officer Service Agreement (“CCO Agreement”) with M3Sixty. Pursuant to the CCO Agreement, M3Sixty agrees to provide a Chief Compliance Officer (“CCO”), as described in Rule 38a-1 of the 1940 Act, to the Fund for the year and on the terms and conditions set forth in the CCO Agreement.

For the year ended May 31, 2025, M3Sixty earned $9,364 of fees pursuant to the CCO Agreement.

Certain officers and a Trustee of the Fund are also employees of M3Sixty and the Adviser.

The Fund has entered into a Distribution Agreement with Matrix 360 Distributors, LLC (“Matrix 360”), an affiliate of the Adviser and M3Sixty. Pursuant to the Distribution Agreement, Matrix 360 provides distribution services to the Fund. Matrix 360 serves as underwriter/distributor of the Fund. During the year ended May 31, 2025, no commissions were paid to Matrix 360.

6. TAX MATTERS

For U.S. Federal income tax purposes, the cost of securities owned, gross appreciation, gross depreciation, and net unrealized appreciation/(depreciation) of the Fund’s investments at May 31, 2025 were as follows:

Cost	Gross Appreciation	Gross Depreciation	Net Depreciation
$ 10,397,737	$ 1,180,934	$ (1,300,265)	$ (119,331)

The difference between book basis unrealized depreciation and tax-basis unrealized depreciation for the Fund is attributable primarily to the tax deferral of losses on wash sales.

The tax character of distributions paid by the Fund during the year ended May 31, 2025 were as follows:

Ordinary Income	Long-Term Capital Gains
$ 296,870	$ 50,757

The tax character of distributions paid by the Fund during the period ended May 31, 2024 were as follows:

Ordinary Income
$ 26,394

The Fund’s tax basis distributable earnings are determined at the end of each fiscal year. As of May 31, 2025, the Fund’s most recent fiscal year end, the components of distributable earnings presented on an income tax basis were as follows:

Undistributed Ordinary Income	Undistributed Long-Term Capital Gains	Capital Loss Carryforwards	Post-October Capital Losses & Post-December Ordinary Loss	Net Unrealized Depreciation	Total Accumulated Deficit
$ 217	$ —	$ —	$ (152,290)	$ (119,331)	$ (271,404)

Under current tax law, net capital losses realized after October 31st and net ordinary losses incurred after December 31st may be deferred and treated as occurring on the first day of the following fiscal year. As of May 31, 2025, the Fund elected to defer post-October losses of $152,290. The Fund did not elect to defer any post-December losses.

Under the Regulated Investment Company Modernization Act of 2010 (the “Act”), net capital losses recognized after December 31, 2010, may be carried forward indefinitely, and their character is retained as short-term and/or long-term. As of May 31, 2025, the Fund did not have any capital loss carryforwards for federal income tax purposes available to offset future capital gains.

During the year ended May 31, 2025, the Fund utilized no capital loss carryforwards.

NOTES TO FINANCIAL STATEMENTS
May 31, 2025

6. TAX MATTERS (continued)

In accordance with accounting pronouncements, the Fund may record reclassifications in the capital accounts. These reclassifications have no impact on the net asset value of the Fund and are designed generally to present distributable earnings on a tax basis which is considered to be more informative to the shareholder. Permanent book and tax differences, primarily attributable to the reclassifications of net investment losses, capital losses and distributions in excess of accumulated earnings, resulted in reclassifications for the year May 31, 2025 as follows:

Accumulated Deficit	Paid-in Capital
$ 939	(939)

7. NEW ACCOUNTING PRONOUNCEMENTS AND REGULATORY UPDATES

In September 2023, the SEC adopted a final rule relating to "Names Rule" under the 1940 Act. The amendments expanded the rule to require more funds to adopt an 80 percent investment policy, including funds with names suggesting a focus in investments with particular characteristics (e.g., growth or value) or with terms that reference a thematic investment focus (e.g., environmental, social, or governance factors). The amendments will require that a fund review its name for compliance with the rule. If needed, a fund may need to adopt an 80 percent investment policy and review its portfolio assets' treatment under such policy at least quarterly. The rule also requires additional prospectus disclosure and reporting and record keeping requirements. The amendments to the Names Rule became effective on December 11, 2023. Following a recent extension by the SEC, fund groups with net assets of $1 billion or more must comply by June 11, 2026, while smaller fund groups (less than $1 billion in net assets) have until December 11, 2026. Management has decided to retain the Fund's name and, therefore, it expects to file an amendment to its registration statement that will adopt an 80% policy and comply with the new rule by the compliance date.

8. BENEFICIAL OWNERSHIP

The beneficial ownership, either directly or indirectly, of more than 25% of the voting securities of a fund creates a presumption of control of the fund, under Section 2(a)(9) of the 1940 Act. As of May 31, 2025, Charles Schwab & Co. held 29.41% of the Fund's shares and National Financial Services, LLC held 34.17% of the Fund's shares in omnibus accounts for the sole benefit of their customers. The Trust does not know whether any of the underlying beneficial shareholders of the omnibus accounts held by Charles Schwab & Co. and National Financial Services, LLC own more than 25% of the voting securities of the Fund. Shareholders with a controlling interest could affect the outcome of proxy voting or direction of management of the Fund.

9. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Trust may enter into contracts that may contain a variety of representations and warranties and provide general indemnifications. The Trust's maximum exposure under these arrangements is dependent on future claims that may be made against the Fund and, therefore, cannot be estimated; however, management considers the risk of loss from such claims to be remote.

10. SUBSEQUENT EVENTS

In accordance with GAAP, Management has evaluated the impact of all subsequent events of the Fund through the date the financial statements were issued and has determined that there were no events requiring recognition or disclosure in the financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
M3Sixty Small Cap Growth Fund and the
Board of Trustees of 360 Funds

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of M3Sixty Small Cap Growth Fund (the "Fund"), a series of 360 Funds (the "Trust"), including the schedule of investments, as of May 31, 2025, the related statement of operations for the year then ended, the statement of changes in net assets and the financial highlights for the year then ended and for the period June 28, 2023 (commencement of operations) through May 31, 2024, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of May 31, 2025, the results of its operations for the year then ended, the changes in its net assets and the financial highlights for the year then ended and for the period June 28, 2023 (commencement of operations) through May 31, 2024, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We have served as the auditor of one or more of the Funds in the Trust since 2023.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of May 31, 2025 by correspondence with the custodian. We believe that our audit provides a reasonable basis for our opinion.

TAIT, WELLER & BAKER LLP

Philadelphia, Pennsylvania
July 30, 2025

ADDITIONAL INFORMATION
May 31, 2025 (Unaudited)

The Fund files its complete schedules of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-PORT. The Fund's Forms N-PORT are available on the SEC's website at http://www.sec.gov.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge, upon request, by calling 1-877-244-6235; and on the SEC's website at http://www.sec.gov.

Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-months ended June 30th is available without charge, upon request, by calling 1-877-244-6235; and on the SEC's website at http://www.sec.gov.

Shareholder Tax Information - For the year ended May 31, 2025, the Fund paid $296,870 of ordinary income and $50,757 of long-term capital gain distributions. Tax information is reported from the Fund's fiscal year and not calendar year, therefore, shareholders should refer to their Form 1099-DIV or other tax information which will be mailed in 2026 to determine the calendar year amounts to be included on their 2025 tax returns. Shareholders should consult their own tax advisors.

360 FUNDS
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Fairway, KS 66205

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Fairway, KS 66205

INVESTMENT SUB-ADVISER
Bridge City Capital, LLC
One Centerpointe Drive
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Lake Oswego, OR 97035

ADMINISTRATOR & TRANSFER AGENT
M3Sixty Administration, LLC
4300 Shawnee Mission Parkway
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Fairway, KS 66205

DISTRIBUTOR
Matrix 360 Distributors, LLC
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Fairway, KS 66205

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6224 Turpin Hills Dr.
Cincinnati, Ohio 45244

CUSTODIAN BANK
Huntington National Bank
7 Easton Oval
Columbus, OH 43219

Item 8. Changes in and Disagreements with Accountants for Open-End Management Investment Companies.

N/A

Item 9. Proxy Disclosures for Open-End Management Investment Companies.

N/A

Item 10. Remuneration Paid to Directors, Officers, and Others of Open-End Management Investment Companies.

Trustee fees paid by the Funds are within Item 7. Statement of Operations as Trustee fees and expenses.

Item 11. Statement Regarding Basis for Approval of Investment Advisory Contract

At meetings of the Board held on April 17, 2025 and April 23, 2025 (the "Meetings"), the Board considered the approval of the renewal of the Advisory Agreement between the Trust and the Adviser for the Fund.

Legal Counsel ("Counsel") reviewed with the Board a memorandum that summarized, among other things, the fiduciary duties and responsibilities of the Board in reviewing and approving the renewal of the Advisory Agreement between the Trust and the Adviser concerning the Fund. Counsel discussed with the Trustees the types of information and factors that they should consider to make an informed decision regarding the approval of the continuation of the Advisory Agreement, including the following material factors: (i) the nature, extent, and quality of the services provided by the Adviser; (ii) the investment performance of the Fund and the Adviser; (iii) the costs of the services provided and profits realized by the Adviser from the relationship with the Fund; (iv) the extent to which economies of scale would be realized if the Fund grows and whether advisory fee levels reflect those economies of scale for the benefit of the Fund's investors; and (v) the Adviser's practices regarding possible conflicts of interest (collectively, the "Material Factors").

In assessing these factors and reaching its decisions, the Board considered information furnished for its review and consideration throughout the year at Board meetings, as well as information prepared or presented in connection with the annual renewal process, including information in the Adviser's presentation during the Meetings. The Board requested and was provided with information and reports relevant to the annual renewal of the Advisory Agreement, including (i) reports regarding the services and support provided to the Fund and its shareholders by the Adviser; (ii) quarterly assessments of the investment performance of the Fund from the Adviser; (iii) periodic commentary on the Fund's performance; (iv) presentations about the Adviser's investment philosophy, investment strategy, personnel, and operations; (v) compliance and audit reports concerning the Fund and the Adviser; (vi) disclosure information contained in the registration statement of the Trust; and (vii) a memorandum from Counsel that summarized the fiduciary duties and responsibilities of the Board in reviewing and approving the Advisory Agreement, including the Material Factors set forth above.

The Board also requested and received various informational materials including, without limitation: (i) documents about the Adviser, including its financial condition, a description of personnel and the services provided to the Fund, information on investment advice, performance, summaries of Fund's expenses, compliance program, current legal matters, and other general information; (ii) comparative expense and performance information for other mutual funds with strategies similar to the Fund; and (iii) benefits to be realized by the Adviser from its relationship with the Fund. In addition, the Board had an extensive discussion with the Adviser regarding the matters discussed below.

(1) The nature, extent, and quality of the Adviser's services.

The Board considered the Adviser's contractual duties and responsibilities. The Board reviewed the services provided by the Adviser to the Fund, including, without limitation, the Adviser's processes for formulating investment recommendations and assuring compliance with the Fund's investment objectives and limitations; its coordination of services for the Fund among the Fund's service providers; and its efforts to promote the Fund, grow assets, and assist in the distribution of the Fund's shares. The Board considered the Adviser's personnel and operating methods, succession plans, the education and experience of its staff, and its compliance program. The Board also considered the Adviser's processes for the due diligence review, selection, and oversight of the sub-adviser, as well as the Adviser's commitment to dedicating appropriate resources to support the Fund's operations. After reviewing the preceding and further information, including the expanded ownership program at the Adviser, the Board concluded that the nature, extent, and quality of the services provided by the Adviser were satisfactory and adequate for the Fund.

(2) Investment Performance of the Fund and the Adviser.

The Board compared the Fund's short—and long-term performance to its benchmarks, comparable funds with similar objectives and size managed by other investment advisers (its "peer group"), and category indices (*e.g.*, Morningstar category). The Board also considered the consistency of the Adviser's management of the Fund with its investment objective and policies.

The Board considered the benchmark and category performance of the Fund over the year ending December 31, 2024. During that period, the Fund underperformed its category average, median, and benchmark, the Russell 2000® Growth Total Return Index. The Board considered the Adviser's explanation for the underperformance and its expectations that performance will improve. After considering the Fund's performance, as presented at the Meetings, the Board concluded it was within a reasonable range for its category. Based on the preceding, the Board concluded that the investment performance information presented for the Fund was satisfactory.

(3) The costs of the services provided and profits realized by the Adviser from the relationship with the Fund.

The Board considered the Adviser's staffing, personnel, and operating methods; the Adviser's financial condition and commitment to the Fund and its assets and overall expenses. The Trustees considered the financial statements of the Adviser and the financial stability and productivity of the firm. The Board considered the Adviser's strategic plans to manage costs related to its operations. The Trustees considered the fees and expenses of the Fund (including the management fee) relative to its category averages and median as of March 27, 2025, noting that its management fee and net expense ratios were above them but substantially below the maximum and, therefore, within a reasonable range. The Trustees further recognized that the Fund is smaller than most of its peers by a magnitude of over 10 times, which affects the net expense ratios of the Fund and the Adviser's ability to provide breakpoints in its management fee.

The Trustees acknowledged that the Adviser has agreed to waive or reduce its fees and to assume other expenses of the Fund, if necessary, to limit their annual operating expenses (with industry-standard exceptions) to not more than 0.99% through June 30, 2026. The Board also noted that the Adviser does not realize any profit for managing the Fund and is waiving all of its management fees and reimbursing some Fund expenses. The Board recognized that the Adviser pays the sub-advisory fee from the management fee and considered the impact of such sub-advisory fees on the Adviser's profitability. Following this analysis, further consideration, and discussion of the preceding, the Board concluded that the management fee is fair and reasonable.

(4) The extent to which economies of scale would be realized if the Fund grows and whether advisory fee levels reflect these economies of scale for the benefit of the Fund's investors.

The Board considered the Fund's fee arrangements with the Adviser. The Trustees determined that although the management fee would stay the same as asset levels increase, the shareholders of the Fund would benefit from the expense limitation arrangement. The Board noted that while a breakpoint schedule in the Advisory Agreement would be beneficial, such a feature only has benefits if the Fund's assets were enough to realize the effect of the breakpoint. The Board further noted that lower expenses for the Fund's shareholders are realized immediately with the expense limitation arrangements with the Adviser. The Board further noted that the Fund's assets were at such levels that the expense limitation arrangement was providing benefits to the Fund's shareholders. Following further discussion of the Fund's asset levels, expectations for growth, and expense structure, the Board determined that the Fund's fee arrangements, considering all the facts and circumstances, were fair and reasonable and that the expense limitation arrangement provided savings and protection for the benefit of the Fund's investors.

(5) Possible conflicts of interest and benefits derived by the Adviser.

The Board evaluated the potential for conflicts of interest and considered such matters as the experience and ability of the advisory and compliance personnel assigned to the Fund, the fact that the Adviser does utilize soft dollars, the basis of decisions to buy or sell securities for the Fund; and the substance and administration of the Adviser's code of ethics. Based on the preceding, the Board determined that the Adviser's standards and practices for identifying and mitigating possible conflicts of interest were satisfactory.

Regarding the Adviser's potential conflicts of interest, the Board considered (i) the experience and ability of the advisory and compliance personnel assigned to the Funds; and (ii) the substance and administration of the Adviser's code of ethics and other relevant policies described in its compliance manual and Form ADV. The Board, including the Independent Trustees, determined that the Adviser's compliance policies and operational controls were reasonably designed to eliminate or mitigate these conflicts of interest.

In considering the Advisory Agreement, the Board, including the Independent Trustees, did not identify any single factor as controlling, and each Trustee may have attributed different weights to the numerous factors. The Board reached the following conclusions regarding the Advisory Agreements, among others: (a) the Adviser demonstrated that it possesses the capability and resources to perform the duties required of it under the Advisory Agreements; (b) the Adviser maintains an appropriate compliance program; and (c) each Fund's advisory fee is reasonable considering the Adviser's proposed services. Based on their conclusions, the Board, including the Independent Trustees, determined that renewal of the Advisory Agreements was in the best interests of each Fund and its future shareholders.

At the Meetings, following the presentation and review of the 15c materials by the Sub-Adviser, the Board considered the approval of the renewal of the Sub-Advisory Agreement between the Trust and the Sub-Adviser for the Fund.

Following the presentation and review of the 15c Materials by the Sub-Adviser, the Board considered the approval of the Sub-Advisory Agreement. In assessing these factors and reaching its decisions, the Board considered information furnished for its review and consideration throughout the year at Board meetings, as well as information prepared or presented in connection with the annual renewal process, including information in the Sub-Adviser's presentation during the Meetings. The Board requested and was provided with information and reports relevant to the renewal of the Sub-Advisory Agreement, including (i) reports regarding the services and support provided to the Fund and its shareholders by the Sub-Adviser; (ii) quarterly assessments of the investment performance of the Fund from the Sub-Adviser; (iii) periodic commentary on the Fund's performance; (iv) presentations about the Sub-Adviser's investment philosophy, investment strategy, personnel, and operations; (v) compliance and audit reports concerning the Fund and the Sub-Adviser; (vi) disclosure information contained in the registration statement of the Trust; and (vii) a memorandum from Counsel that summarized the fiduciary duties and responsibilities of the Board in reviewing and approving the Sub-Advisory Agreement, including the Material Factors set forth above.

The Board also requested and received various informational materials including, without limitation: (i) documents about the Sub-Adviser, including its financial condition, a description of personnel and the services provided to the Fund, information on investment advice, performance, summaries of Fund's expenses, compliance program, current legal matters, and other general information; (ii) comparative expense and performance information for other mutual funds with strategies similar to the Fund; and (iii) benefits to be realized by the Sub-Adviser from its relationship with the Fund. In addition, the Board had an extensive discussion with the Sub-Adviser regarding the matters discussed below.

(1) The nature, extent, and quality of the Sub-Adviser's services.

The Board considered the Sub-Adviser's contractual duties and responsibilities. The Board reviewed the services provided by the Sub-Adviser to the Fund, including, without limitation, the Sub-Adviser's processes for formulating investment recommendations and assuring compliance with the Fund's investment objectives and limitations; its coordination of services for the Fund among the Fund's service providers; and its efforts to promote the Fund, grow assets, and assist in the distribution of the Fund's shares. The Board considered the Sub-Adviser's personnel and methods of operating, succession plans, the education and experience of its staff, and its compliance program. The Board also considered the Sub-Adviser's commitment to dedicating appropriate resources to support the Fund's operations. After reviewing the preceding and further information, including the expanded ownership program at the Sub-Adviser, the Board concluded that the nature, extent, and quality of the services provided by the Sub-Adviser were satisfactory and adequate for the Fund.

(2) Investment Performance of the Fund and the Sub-Adviser.

The Board compared the Fund's short—and long-term performance to its benchmarks, comparable funds with similar objectives and size managed by other investment advisers (its "peer group"), and category indices (*e.g.*, Morningstar category). The Board also considered the consistency of the Sub-Adviser's management of the Fund with its investment objective and policies.

The Board considered the benchmark and category performance of the Fund over periods, the year ending December 31, 2024, which was presented during the renewal of the Fund's advisory agreement. The Board considered the Adviser's and Sub-Adviser's explanations for the underperformance and their expectations that performance will improve. The Trustees also considered the Fund's performance relative to other clients in the Sub-Adviser's Small Cap Growth Composite, noting that the fund's performance trailed the composite performance slightly, due to the higher fees associated with managing the fund. Based on the preceding, the Board concluded that the investment performance information presented for the Fund was satisfactory.

(3) The costs of the services provided and profits realized by the Sub-Adviser from the relationship with the Fund.

The Board considered the Sub-Adviser's staffing, personnel, and operating methods; the Sub-Adviser's financial condition and its commitment to the Fund, and its asset levels and overall expenses. The Trustees considered the financial statements of the Sub-Adviser and the financial stability and productivity of the firm. The Trustees considered the fees and expenses of the Fund (including the management fee) relative to their categories as of March 31, 2025, which was presented to them during the renewal of the Fund's advisory agreement. In considering the Sub-Adviser's profitability, the Board noted the Adviser's undertaking to maintain expense limitations for the Fund; it also noted that the Adviser pays the sub-advisory fee out of the advisory fees it receives under the Advisory Agreement. The Board further considered that the Adviser and Sub-Adviser are unaffiliated and negotiated the Sub-Advisory Agreement at arm's length. The Board noted that the Sub-Adviser did not expect to profit from managing the Fund's portfolio until assets reach at least $25 million. Consequently, the Sub-Adviser's profitability was not a substantial factor in the Board's deliberations. For similar reasons, the Board did not consider the potential economies of scale in the Sub-Adviser's management of the Fund as a substantial factor. The Board also compared the sub-advisory fees paid by the Adviser to fees charged by the Sub-Adviser to manage comparable separate accounts. The Board considered the amount retained by the Adviser and the sub-advisory fee paid to the Sub-Adviser relative to their services to the Fund. Based on the preceding, the Board concluded that the sub-advisory fee was satisfactory.

(4) The extent to which economies of scale would be realized if the Fund grows and whether sub-advisory fee levels reflect these economies of scale for the benefit of the Fund's investors.

The Board noted that the adviser pays the Sub-Advisory fee from the adviser's management fee. The Board noted that, although the sub-advisory fee would stay the same as asset levels increase, shareholders of the Fund benefit from the Adviser's expense limitation arrangement for the Fund. Following further discussion of the Fund's asset levels, expectations for growth, and expense structure, the Board observed that economies of scale are not a primary factor but will be considered in the future as the Fund's asset levels grow.

(5) Possible conflicts of interest and benefits derived by the Sub-Adviser.

The Board evaluated the potential for conflicts of interest and considered such matters as the experience and ability of the sub-advisory and compliance personnel assigned to the Fund, the fact that the Sub-Adviser does utilize soft dollars, the basis of decisions to buy or sell securities for the Fund; and the substance and administration of the Sub-Adviser's code of ethics. Based on the preceding, the Board determined that the Sub-Adviser's standards and practices for identifying and mitigating possible conflicts of interest were satisfactory.

Regarding the Sub-Adviser's potential conflicts of interest, the Board considered (i) the experience and ability of the advisory and compliance personnel assigned to the Funds; (ii) the substance and administration of the Adviser's code of ethics and other relevant policies described in its compliance manual and Form ADV; and (iii) the Adviser's oversight of the Sub-Adviser. The Board, including the Independent Trustees, determined that the Sub-Adviser's compliance policies and operational controls were reasonably designed to eliminate or mitigate these conflicts of interest.

In considering the Sub-Advisory Agreement, the Board, including the Independent Trustees, did not identify any single factor as controlling, and each Trustee may have attributed different weights to the numerous factors. The Board reached the following conclusions regarding the Sub-Advisory Agreements, among others: (a) the Sub-Adviser demonstrated that it possesses the capability and resources to perform the duties required of it under the Sub-Advisory Agreements; (b) the Sub-Adviser maintains an appropriate compliance program; and (c) the Fund's advisory and sub-advisory fees and their respective profitability are reasonable considering the Adviser's and Sub-Adviser's services. Based on their conclusions, the Board, including the Independent Trustees, determined that renewal of the Sub-Advisory Agreements was in the best interests of each Fund and its future shareholders.