

# 13D Activist Fund

*A Qualitatively Analyzed Portfolio of Activism*

July 19, 2017

Class I YTD: 11.35%

S&P 500 YTD: 9.34%

AUM: \$292 million

In the second quarter of 2017, the I shares returned 4.99%, net of fees and expenses (versus 3.09% for the S&P500). The Fund continues to exhibit strong performance over the past 18 months similar to our first three and a half years, interrupted only by the Valeant-plagued six-month period of late 2015. Since our inception on December 28, 2011, the Fund has returned an annual 16.04%, after fees and taxes, versus 15.22% for the S&P500. We continue to strongly believe in the outsized and non-correlated returns we think activism offers and are excited for the future as each year shareholder activism becomes more prevalent and accepted by large and mainstream investors.

The economic advantages of shareholder activism are well documented but it is also starting to be recognized for its contributions to corporate governance. While Shareholder Activism is comprised of various different strategies, corporate governance strategies represent the largest part of shareholder activism, and the largest part of our portfolio. Of the 371 activist 13Ds filed over the past five years, 242 (65.2%) contained corporate governance strategies, such as board composition. Likewise, of the 35 positions in our portfolio, 27 (77%) have either activist investors or directors appointed by activist investors on the Board totaling 53 new directors. Many of these companies had previously exhibited poor corporate governance standards and are now instituting best corporate governance standards. But it is not the fact that these companies may now have unitary boards instead of classified boards or majority voting instead of plurality voting that creates shareholder value; it is the fact that the corporate cultures at these companies have changed to allow such practices and the boards are starting to prioritize shareholder value. We take tremendous comfort in the fact that there is an activist representative on 27 of our boards creating shareholder value and looking out for shareholder interests.

Therefore, I want to dedicate the remainder of this letter to the eight companies that do not have activist representation on their boards. As there are other activist strategies, such as strategic M&A, operational and financial/balance sheet activism, we are very unlikely to ever have activist directors on the boards of all of our portfolio companies. We are also unlikely to have board representation at new positions as the average time it takes for an activist to get a board seat without resorting to a proxy fight is 158 days. We also rarely see activist board representation when the investment has been working from the beginning absent any activism, and we have some of those in our portfolio too. However, the main reason why a company in our portfolio does not have activist board representation is because it is a strategic activist play that is progressing. This accounts for half of the eight companies:

- **Whole Foods (JANA):** This is a new position and was a quick activist campaign as JANA filed a 13D April 10, 2017 when the stock was trading at \$34.03 per share and the Company agreed to be sold to Amazon on June 16, 2017 for \$42.00 per share. JANA had put together a potential slate of directors if a sale did not happen, but obviously did not need to proceed with a proxy fight. In many long/short portfolios, having a company taken out at a meaningful premium is quite fortuitous. In catalyst-oriented portfolios it is somewhat expected. In the *Activist Spotlight* column I write for *Barron's*, I stated on April 17, 2017: “[Whole Foods] would be a tremendous asset for many strategic players, including Amazon.com.”
- **Gigamon Inc. (Elliott):** This is also a new position acquired in the second quarter of 2017. Elliott filed its 13D on May 8, 2017 with the plan to encourage the Company to undertake a strategic review process

including, without limitation, a potential sale of the Company or certain of its businesses or assets. On June 3 it was reported that the Company was working with Goldman Sachs in preparing to hold talks with potential suitors interested in acquiring the Company. I would expect this sales process to progress and if it does not for Elliott to pursue board representation.

- **Advisory Board (Elliott):** Elliott filed its 13D on January 12, 2017 with boilerplate 13D language. In our report on this filing, we stated that while there are operational improvements that could be done, it is much more likely a strategic play and there are many strategic or private equity buyers who would be interested in all or parts of the Company. On February 6, the Company announced the exploration of strategic alternatives and it has recently been reported that ABCO is close to being acquired by UnitedHealth and Vista Equity.
- **Imperva Inc. (Elliott):** Imperva is a June 2016 13D filing of Elliott where Elliott encouraged the Company to pursue strategic opportunities. The Company ran a strategic review that reportedly saw interest from companies including Cisco and IBM but put the sales process on hold because they thought they could get a higher price in the future. Elliott is still a 7.0% beneficial holder with a total 10.93% economic exposure and we think Imperva is still a takeover candidate, particularly if the Trump administration allows the repatriation of foreign cash, as Cisco would be one of the largest beneficiaries.

Of the other four situations where there is no activist board presence, one (Hain Celestial Inc. – Engaged Capital) is a new filing (6/29/17) where directors have already been nominated; one (Deckers – Marcato) is a strategic situation where the board is exploring a sale and Marcato has threatened a proxy fight; and the other two (Trinity Industries – ValueAct and Terex Corp. – Marcato) are value investments that have been working so well, no activism is necessary.

The total return for the 13D Activist Fund and the S&P 500 for the period ending June 30, 2017 are:

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	<u>Past 1 month</u>	<u>1 Year</u>	<u>5 Year</u>	<u>Inception*</u> <u>Cumulative</u>	<u>Inception*</u> <u>Annualized</u>
13D Activist Fund I	0.95%	26.79%	15.95%	126.81%	16.04%
S&P 500	0.62%	17.90%	14.63%	115.42%	15.22%

\* Inception Date is December 28, 2011

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Please feel free to call with any questions.



Ken Squire

*Please remember that past performance may not be indicative and is no guarantee of future results. The fund performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Investment return and principal value will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. Fund performance, especially for very short periods of time, should not be the sole factor in making your investment decisions. There is neither a front end load nor a deferred sales charge for the 13D Activist Fund I Class Shares. The A Class shares are subject to a maximum front end load of 5.75%. Shares held for less than 30 days of both classes are subject to a 2.00% redemption fee. The total operating expense ratio (including indirect expenses such as the costs of investing in underlying funds), as stated in the fee table in the Fund's prospectus dated January 30, 2017, is 1.51% for I Class, 1.76% for A Class and 2.51% for C Class. For most recent month end information, please visit [www.13DActivistFund.com](http://www.13DActivistFund.com) or call toll-free 1-877-413-3228.*

Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings correspond directly to any comparative indices. Past performance may not be indicative of future results and does not reflect the impact of taxes on non-qualified accounts. The data herein is not guaranteed. You cannot invest directly in an index.

The S&P 500 Index is an unmanaged composite of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks

*Mutual Fund investing involves risk including loss of principal. Overall stock market risks will affect the value of individual instruments in which the Fund invests. Factors such as economic growth, market conditions, interest rate levels, and political events affect the U.S. securities markets. When the value of the Fund's investments goes down, your investment in the Fund decreases in value and you could lose money. The Fund is a non-diversified investment company, which makes the value of the Fund's shares more susceptible to certain risks than shares of a diversified investment company. The Fund has a greater potential to realize losses upon the occurrence of adverse events affecting a particular issuer. The value of small or medium capitalization company stocks may be subject to more abrupt or erratic market movements than those of larger, more established companies or the market averages in general. An investor should also consider the Fund's investment objective, charges, expenses, and risk carefully before investing.*

***Before investing, please read the Fund's prospectus and shareholder reports to learn about its investment strategy and potential risks. This and other information about the Fund is contained in the Fund's prospectus, which can be obtained on the web at [www.13DActivistFund.com](http://www.13DActivistFund.com) or by calling 1-877-413-3228. Please read the prospectus carefully before investing. The 13D Activist Fund is distributed by ALPS Distributors, Inc., member FINRA [www.finra.org](http://www.finra.org)***

*The views expressed in this update are as of the date of this letter. These views and any portfolio holdings discussed in this update are subject to change at any time based on market or other conditions. The Fund disclaims any duty to update these views, which may not be relied upon as investment advice. In addition, references to specific companies' securities should not be regarded as investment recommendations or indicative of the Fund's portfolio as a whole.*