

13D Activist Fund

A Qualitatively Analyzed Portfolio of Activism

October 10, 2017

Class I YTD: 11.85%

S&P 500 YTD: 14.24%

AUM: \$300 million

In the third quarter of 2017, the I shares returned 0.45%, net of fees and expenses (versus 4.48% for the S&P500). Over the past 18 months, the fund is up 31.8%, net of fees and expenses, versus 23.2% for the S&P500. Yet most meetings I have had with financial advisors over that time ended with “I just cannot get excited about US equities right now” or “I am waiting for a correction.” In contrast, one financial adviser who is not a market timer, with the exception of adding after downturns, showed me a chart depicting annualized returns for the S&P500 and pointed out that over the past 40 years (including 2017) the S&P500 has had only six down years (and two of those were less than 5%). It got me thinking about market timing and led me to the following items:

- *The Price of Volatility in the Short Term.* The S&P500 has averaged approximately a 10% return since inception but in the past 40 years has only finished a calendar year with a return between 7.5% and 12.5% three times.
- *The Power of Compounding.* A \$10,000 investment in the S&P500 on January 1, 1995 would have grown to \$65,453 by the end of 2014. But had you tried to market time and missed the ten best days as a result, the \$10,000 would have only grown to \$32,665. While the chances of missing the 10 best days is admittedly slim, it is not as slim as you would think – six of those ten best days occurred within two weeks of the 10 worst days – the times when most money is taken out of the markets.
- *The Penalty to Market Timing.* A 2003 Dalbar/Lipper study of all U.S. equity Mutual Funds, between 1984 and 2002, found that the average equity mutual fund returned 9.3% annually, but the average mutual fund investor realized an annual return of only 2.7%. This is due to the phenomenon of mutual fund investors buying after periods of strong returns and selling after downturns.
- *The Oracle.* Warren Buffet has stated: “You are making a terrible mistake if you stay out of a game that you think is going to be very good over time because you think you can pick a better time to enter it.”
- *The Reality.* As reported in the Wall Street Journal this month, if you had bought the S&P500 on the day it hit its top on October 9, 2007 (exactly ten years ago), and held it through the subsequent panic and market collapse until today, you would have more than doubled your money. In fact, a \$10,000 investment in the S&P500 on October 9, 2007 would have yielded \$20,352 by October 9, 2017 if held straight through, and this is assuming it was bought at the absolute worst time.

During the quarter we sold five positions and added three new positions. We exited: (i) Whole Foods after the catalyst of selling the company was realized, (ii) Bioverativ, which was a profit taking sale for ValueAct and us after the stock soared by more than 30% over our five month holding period, (iii) Brinks, a longer term position for us (27 months) during which the activist (Starboard) achieved its operational goals resulting in a 143% appreciation in the stock price during our holding period, (iv) Advisory Board after the catalyst of selling the company was realized and (v) Pandora, a failed activism campaign costing the Fund 109 basis points and teaching us a valuable lesson – in strategic activism it is important to have more than one potential buyer.

During the quarter, we added ADP (Pershing Square), NXPI (Elliott) and Seagate (ValueAct) to the portfolio. ADP is a widely publicized activist battle where the company is vociferously fighting Pershing Square’s quest for board seats. This is the type of activism campaign we like – a strong, predictable company that is a good investment

without activism but where we believe the activism will make it even better. The only thing that would make us like it even more is if the activism campaign was not such an uphill battle for Pershing.

NXPI is a rare example of “reactive activism” in our portfolio. Elliott does not have an activist agenda as much as it is reacting to a potential transaction that it believes does not create sufficient value for shareholders. Qualcomm agreed to buy the company over a year ago through a tender offer at \$110 per share. Since the deal was signed, the NASDAQ is up 21.81% and NXPI’s peers are up an average of 22.80%. Accordingly, this could be a situation where the offer price is artificially keeping the price of the Company’s stock down, and at this point Qualcomm, or someone else would pay more for the Company. Elliott, and others believe, that if Qualcomm walked away from the deal and nobody replaced them, the stock would still go up. Qualcomm needs at least 70% of the shareholders to tender their shares at \$110 to consummate the acquisition. The stock is currently trading over \$114 and we do not believe there is a chance this deal gets done below \$120 per share.

Seagate is a typical ValueAct investment – a good business in a rational industry with strong cash flow that is misunderstood by the market. This is a similar investment to ValueAct’s Microsoft investment in that the market is focused on one of the more visible parts of Seagate’s business, the traditional PC business, which happens to be one of the smallest parts of the Company’s operations. Hard drives is what is driving Seagate’s growth and hard drives are the backbone of the cloud and other distributive storage businesses. Seagate is one of two big players in this market and has valuable intellectual property. This is as amicable as shareholder activism gets with ValueAct being invited by the company to invest and given a board observation seat. The Company’s Chairman and CEO (until October), Stephen Luczo was on the Board of Microsoft with ValueAct partner Mason Morfit and director Mike Cannon was on the Board of Adobe with ValueAct partner Kelly Barlow.

The total return for the 13D Activist Fund, net of fees and expenses, and the S&P 500 for the period ending September 30, 2017 are:

	<u>1 Year</u>	<u>5 Year</u>	<u>Inception*</u> <u>Cumulative</u>	<u>Inception*</u> <u>Annualized</u>
13D Activist Fund I	18.92%	14.59%	127.82%	15.38%
S&P 500	18.61%	14.22%	125.07%	15.38%

* Inception Date is December 28, 2011

We will be making our tax distribution on November 7 this year, with a record date on November 6. As a tax aware fund, we do what we can to minimize the amount of this distribution and have made a series of 31 day sales to that end. We have been able to prevent any distribution during the past two fiscal years, but this year we will have a minor distribution of approximately 1.9% of assets.

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 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 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

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