13D Activist Fund

A Qualitatively Analyzed Portfolio of Activism

January 6, 2020

Class I YTD Net Return: 27.15% Russell 2500 YTD: 27.77% AUM: $347 million

In the fourth quarter of 2019, the I shares returned 11.33%, net of fees and expenses (versus 8.54% for the Russell 2500). While we did not beat our benchmark for the year, we are very happy with the performance of the fund in a year when small/mid cap value funds faced serious headwinds from the continued outperformance by large cap and growth stocks. During 2019 the Russell 2500 Growth index outperformed the Russell 2500 Value index by 909 basis points and the Russell 1000 (large cap) outperformed the Russell 2500 (small and mid-cap) by 366 basis points.

The total return for the 13D Activist Fund, net of fees and expenses, for the period ending December 31, 2019 are:

as of 12/31/19	Since Inception*	4Q19	YTD	1 Year	3 Year	5 Year	Inception Cumulative*	
13D Activist Fund I	13.59%	11.33%	27.15%	27.15%	10.84%	7.72%	177.40%	
Russell 2500 TR	13.05%	8.54%	27.77%	27.77%	10.33%	8.93%	167.09%	
S&P 500 TR	14.97%	9.07%	31.49%	31.49%	15.27%	11.70%	205.51%	
Lipper Percentile Rank	11th	N/A	57th	57th	22nd	39th	11th	
Position / Mid Cap Core Group	21/ 201	N/A	194/ 344	194/ 344	68/ 314	100/ 259	21/ 201	
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
13D Activist Fund I	21.27%	36.58%	15.46%	-10.92%	19.57%	23.78%	-13.47%	27.15%
Russell 2500 TR	17.88%	36.80%	7.07%	-2.90%	17.59%	16.81%	-10.00%	27.77%
S&P 500 TR	16.00%	32.39%	13.69%	1.38%	11.96%	21.83%	-4.38%	31.49%

* Inception Date is December 28, 2011

While there are minor indications that this may be starting to revert or at least flatten, it is uncertain when this will start to happen. In a challenging environment like this for small/mid cap value funds, we are happy that several realized activist catalysts allowed us to close that growth/value gap meaningfully while we wait for a more favorable, or even neutral, environment for value investing.

In our eight years since inception we have had six very strong years (outperformed the Russell 2500 on a gross basis all six years and on a net basis four of the six years) and two poor years. When we self-analyze this performance we think it is important to focus on the two years that did not work. While we have meaningfully outperformed the Russell 2500 since inception and there is no indication that our process is broken or even fractured, we still think it is important to self-reflect to understand what went wrong in those two years and see if there was something we could have done differently.

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In 2015, our first underperforming year, we were having a good year through the end of August when the bottom fell out on activism because of the implosion of Valeant Pharmaceuticals, a high profile activist stock that went from $257 in July of 2015 to $101 by year end and ultimately to $8.51 per share in 2017. With a minor interruption, we had owned Valeant since 2012 when we started buying it at $48 per share; and because we were able to use our agility and catalyst-focused investment process to exit Valeant at an average price of $116.48 per share, it was actually a very good investment for us. However, the impact it made on the entire activist community sent activist investments, including the Fund's portfolio, into a five-month tailspin as everyone was divesting themselves of anything activist without regard to the intrinsic value of the underlying portfolio positions. This was a short-term dislocation for activist stocks that we had recognized at the time - at the beginning of 2016, we published an article entitled: "2015/2016: Activist Opportunity, Not Obituary" that detailed how activism has historically rebounded after market selloffs like the one we saw at the end of 2015. The following two years had results consistent with what we predicted in that article. What could we have done differently in 2015? We have thought about this a lot and have determined we would not have done anything differently at the time. In fact, the lesson we take from this is that it was our liquid structure, discipline to our strategy and focus on activist catalysts that allowed us to get out of Valeant when we determined that the catalyst of growth by acquisition was no longer tenable because Valeant was playing defense. What have we learned from this? We keep a closer eye on activist situations that could potentially have an impact on the entire activist industry. However, we have not seen anything like this since or prior to Valeant and don't think we will see anything like it again. This was a confluence of events which each on its own is extremely unlikely, and all of them together is astronomically against the odds: (i) two of the top three activists in the world (ValueAct and Pershing Square) having 13D filings on the same company; (ii) one activist, much less two, having a 13D filing on an $88 billion company (a minimum $4.4 billion position each); and (iii) alleged material fraudulent practices at that company resulting in a 97% decline in its market capitalization over a two year period. There always has been, and will continue to be high profile, bad activist investments (i.e., JC Penney, General Electric). These investments will clearly adversely affect portfolios that hold them, but we believe our catalyst focus, agility and liquidity greatly mitigates those risks. But there has never before been, and we believe will never again be, an activist implosion the size and scope of Valeant that has had/could have such an impact on the entire activist industry.

2018 was our other year of poor performance. Due to the nature of activism, and 13D activism in particular, we are a small/mid cap value fund. During 2018 the Russell Midcap Growth index outperformed the Russell Midcap Value index by 754 basis points and the Russell 1000 (large cap) outperformed the Russell 2500 (small and mid-cap) by 522 basis points. As a fund of small and mid-cap value stocks, there was nothing we could do to get out of the way of this. Could we have done anything differently? Not a lot - we offer exposure to 13D activism and we do not sway from our strategy or principles because of short term moves in the market. Unfortunately, there will be years, or periods, where certain types of stocks underperform, and we could be on the short end of that, but we continue to offer what we believe is the best and purest exposure to shareholder activism. Of course, we can always do better in analyzing activist catalysts and we always strive to improve from our experience and growing knowledge. Also, activists can do better in implementing agendas and closing valuation gaps and some years may be more challenging for them in that sense as well. But we will continue to focus on 13D shareholder activism and provide what we believe to be the best portfolio of activist catalysts. So, what have we learned from this? Although we do believe that shareholder activism offers an understandable and repeatable source of alpha and it is a resilient strategy that can thrive in many different economic environments, the markets are cyclical, and no strategy can outperform every market in every year. So, this has just strengthened our belief in long term investing in strategies you believe in over full economic cycles. Even with these two poor years, the Fund has averaged a 13.59% return since inception, net of fees and expenses, versus 13.05% for the Russell 2500. Looking forward, if we can avoid one or both of these environments, we are even more confident in our ability to generate even more alpha for our investors.

Before I discuss new and exited portfolio positions, I want to discuss a recent Institutional Investor article that I think illustrates some of the unique advantages of our investment structure and process as well as the growth/value headwind we have experienced. A January 7, 2020 article by Michelle Celarier entitled *Hedge Funds' Stock Winners – and Losers – of the Decade* discussed data of Novus Research. It named the five top hedge fund attributers of the decade as Apple, Charter Communications, Amazon, Facebook and Netflix. With Google/Alphabet coming in seventh, all five FAANG stocks were in the top seven. These are mega cap growth

stocks that we will never own (except for a brief period where we owned Netflix early in its life) and our investors do not expect us to own – they have plenty of ways to get access to FAANG stocks. Despite this, we have averaged 13.59% annually since inception, net of fees and expenses, versus 13.05% for the Russell 2500. But what is more interesting about the article is the top five losers – Kraft Heinz, IBM, Valeant (now Bausch Health), Wells Fargo and NXP Semiconductor. We owned two of these stocks – Valeant and NXP; but they were not losers for us. Because of our agility and catalyst focused process, these two were profitable investments for us, with Valeant being our 9th best position since our inception. Having the agility to sell quickly is nice but is meaningless if you do not have a process that enables you to take advantage of that ability. Our process of focusing on the activist catalyst is integral to this. As discussed above, we sold Valeant when the activist catalyst of growth by acquisition was no longer tenable, despite the fact that both ValueAct and Pershing Square remained 13D filers in the stock with very large positions. In NXP, the activist catalyst was strategic – with Elliott opposing Qualcomm's acquisition of NXP. This activist catalyst was satisfied when Qualcomm raised its offer from $110 per share to $127.50 per share, and we quickly sold our position then at $125.66, even though Elliott did not get out for several months when the stock was trading at $109.56.

During the fourth quarter, we exited three positions and added four new investments. We exited Citrix Systems (CTXS) when Elliott sold down below 5% and exited its 13D. We exited Alliance Data Systems (ADS) when ValueAct partner Kelly Barlow resigned from the board, indicating the activist catalyst was gone and signaling to us ValueAct would soon start selling its 10.19% position. A week later ValueAct reported it decreased its position to 2.70%. Finally, we exited Bloomin' Brands (BLMN) when the stock was at $22.50 and JANA reported a decrease in its position from 9.01% to 7.34%. We had already started to decrease this position when the stock neared $23 per share as the activist catalyst of a sale in the mid-$20s weakened. JANA still has a 7.39% position and we continue to monitor this stock.

During the quarter we bought: ForeScout Technologies, Inc. (FSCT), Medifast Inc. (MED), Instructure, Inc. (INST) and Howard Hughes Corporation (HHC). ForeScout is an all-star grouping of a first class activist, Keith Meister of Corvex Management, with a first class technology investor, Josh Resnick of Jericho Capital. Jericho has owned a position in the Company since the second quarter of 2018 and has an average cost of $38.40 per share. Corvex started acquiring its position in the second quarter of 2019 and has an average cost of $30.13 per share. We initiated our position at $28.51 per share. Cybersecurity is an industry with secular tailwinds with more devices like phones, printers, cameras, etc., becoming networked. This allows for many opportunities for hackers to gain access to sensitive company or customer information through gateways as innocent and simple as lighting or HVAC. ForeScout is a market leader in protecting these networks, with an approximate 35% market share for each of it and Cisco with Hewlett Packard a distant third. Moreover, ForeScout has an impressive list of customers, such as the US government, JP Morgan, Humana, Sony, Dell, etc. It is hard to believe that it is only a $1.2 billion company. But the opportunity comes from the fact that it was very recently a $1.8 billion company, having dropped precipitously in the beginning of October when it announced that revenue for the quarter would be light $9 million from $100 million to $91 million. A $9 million revenue drop caused an $800 million drop in market value. This highlights the challenge and opportunity for ForeScout – moving from a perpetual licensing business to a subscription-based business, much in the way that Adobe and Autodesk have, also with the urging and assistance of activists. A recurring revenue model that is more predictive will largely prevent issues like this. While this type of transformation may lead to lower EBITDA and revenue in the short term, the increased, more predictable and more stable revenue and cash flow in the long term will result in higher valuation multiples for the Company. However, navigating this process in the short term, properly communicating it to the market and making sure the Company is reporting the right metrics is integral, and this is where an engaged stockholder like Corvex could be valuable to the Company. When Adobe went through this process ValueAct was extremely valuable with their support for management and giving the company cover with other shareholders and the market in general. Corvex could play a similar role here. There is also evidence that management is already on this path. In their October 10 press release, CEO Michale DeCesare stated that the Company is: "committed to increasing the predictability in our long-term revenue model through new term-based licensing and forthcoming Software-as-a-Service (SaaS) offerings. We recognize the importance of these initiatives to our shareholders and they have the full attention of the management team." Moreover, this could even be easier than the Adobe transformation as ForeScout is already at 45% subscription based recurring revenue model versus Adobe which was south of 15% at the beginning of its transformation. North of 70% they should get credit from the market for the transformation

in the form of a higher multiple. The other possibility here is strategic. Not that Corvex is pushing for this, but this industry has been ripe for consolidation with private equity doing deals at 5 times revenue (Thoma Bravo/Sophos) versus the 3 times ForeScout trades at. ForeScout's market position, customer base and maintenance revenue stream could be very attractive to a private equity investor or a strategic. Since our investment, it has been reported that ForeScout is working with advisors to explore strategic options, including a potential sale.

Engaged Capital filed a 13D on Medifast Inc. for the second time, previously being a 13D filer in May of 2014 when they had an average cost of $29.62 per share and sold their last share in the first quarter of 2018 when the stock was trading at $97 per share. However, by September of 2018, Medifast stock was trading at $248.98 per share. Since then it has consistently dropped to the low $100s before reporting disappointing earnings causing the stock to drop to $74.36. Engaged bought approximately half of its position before the November 5 drop and half after, resulting in an average cost of $92.67 per share. We are in at $87.04 per share. The most recent drop in stock price was due to a series of operational missteps that the Company came out with, including falsified orders from a credit card scam, a supply chain issue resulting in sending wrong products to many customers and IT challenges regarding a new piece of software to help coaches. The first one is the price of doing business in a cyber world but the last two are self-inflicted issues resulting from the Company's quick growth (revenue has gone from $302 million in 2017 to $698 million today). Medifast is a very good business – it has a non-cyclical product that works, a coaching model that delivers and is hard to replicate, is asset light with capex at approximately 1% of sales resulting in a ROIC in the triple digits, an unlevered balance sheet with $96 million in cash, gross margins of 76% with two-thirds of its cost being variable and 20% forecasted annual growth in the US. Despite this, the Company is trading at 8.5x 2019 EBITDA and 7.5x 2020 EBITDA. The first opportunity is to stabilize the stock by making sure there are no more operational missteps. Secondly, the Company can continue to increase the number of its coaches. They have gone from 10,000 coaches in 2014 to 30,000 today, compared to a company like Tupperware that has 200,000. Also, there is a huge opportunity for international growth. Medifast does not have any international sales and all other direct selling players of size generate a majority of their sales from overseas. Furthermore, the CEO who was hired in 2016, Daniel R. Chard, had previously run and expanded Nu Skin Enterprises, Inc.'s international business. However, the main opportunity here is for the Company to go private. All of these improvements could be done as a private company and there are many negatives for multi-level marketers like Medifast being public. First, it is an un-liked sector due in part to negative press from companies like Herbalife. However, unlike Herbalife, the Medifast customer relationship is with the company not the coaches – 90% of product is sold directly to customers. Second, small, less liquid companies like this see tremendous volatility in the public markets due to momentum algorithms, short-sellers and fast traders that can lead to tremendous price dislocation in short periods of times like we saw here between February 2018 and November 2019. Engaged's Item 4 language is relatively boilerplate with two glaring additions in this 13D filing: (i) in the boilerplate language regarding discussions with others, they add discussions with "potential acquirers, service providers and financing sources", language not included in past 13Ds and (ii) in the boilerplate language regarding discussion about a potential sale of the Company, they add for the first time "(in which the Reporting Persons may participate)." Clearly, Engaged is thinking that Medifast would operate much better as a private company. Moreover, they started buying the stock at $112 per share so must feel that the Company is worth substantially more than that. Based on Engaged's history and investing philosophy, I would not be surprised if they were targeting a sell price in the $150s. Since our investment, Engaged has announced that it is considering a bid to take the Company private.

Instructure (INST) is an April 2019 13D filing of Praesidium Investment Management. Praesidium knows this space extremely well and was also a 13D filer on Cornerstone OnDemand Inc. (CSOD), a competitor to Instructure's corporate business, Bridge (see below). Instructure is a software company that has two applications to help users with learning, assessment and performance management. Canvas is a learning management software with best-in-class technology that, among other things, helps teachers coordinate course content and monitor student performance and also provides students with a portal to view all assignments across different courses, submit papers and take exams. Canvas' customers are deeply entrenched and include some of the most prestigious schools in the world representing 6+ million students in the US with a growing presence internationally. Canvas has an approximate 40% market share, a ~97% customer renewal rate and ~25-30% annual FCF growth. Instructure's other software is called Bridge which is an employee development and engagement platform aligned

with the latest trends in human capital management. The Company entered into this space as a way to reaccelerate growth, but the different software, source code, R&D and salesforce required has made a far more expensive than anticipated project. Further, while the market is highly competitive, Bridge's low brand awareness has made it difficult to penetrate the market. While the Company does not report segmented performance, Praesidium's analysis shows that Bridge significantly masks the Company's total profitability – in 2019, Canvas is estimated to have approximately $230 million of revenue and $50 - 55 million of adjusted EBITDA while Bridge is estimated to have approximately $16 million of revenue and lose $60 - 65 million in EBITDA. While the entire Company currently has a $1.7 billion enterprise value, Praesidium estimates the value of Canvas alone to be $2.5 – 3 billion. While there are multiple paths to value creation here, such as a sale of one or both of the businesses or a rollup of the fragmented education software industry into a diversified platform, almost any avenue for optimal value creation involves a separation of the two businesses. A strategic acquirer may be interested in Bridge to integrate it into a broader suite of products using its existing sales channels, but if there are no interested buyers, just shutting down Bridge would create value for the Company by making a potential acquisition of the Canvas business easier or providing more free cash flow to build a diversified platform. On December 4, 2019 it was announced that Thoma Bravo would be acquiring Instructure for $47.60 per share, and this is where we got interested. The closing price of the stock the day before was $52.96 per share, and even worse, the day before the announcement the Company's CEO reported selling 12,616 shares for $53.24 per share. Further analysis showed us that this was likely a flawed process with poor corporate governance that did not maximize shareholder value and would likely receive opposition from many shareholders. Since then, both Rivulet Capital (5.23%) and Praesidium (7.53%) have opposed the transaction. We think it is very likely that this deal gets voted down at this price and either one of three things happen: (i) Thoma Bravo increases its price; (ii) a second suitor comes in who will pay more or (iii) the deal does not happen and Praesidium or other shareholders convince management to monetize the Bridge business and pursue other value initiatives. In any case, we believe the stock is worth more than the $48.02 we paid for it. If we are wrong and the deal does go through, our downside is limited to $0.42 per share in that situation.

Pershing Square filed its second 13D on Howard Hughes Corporation (HHC), but there is a little more history here. In 2008, Pershing Square acquired a large position in General Growth Properties at an average price of $0.62 per share. In 2013, they exited that investment at $19.46 per share, making over a 3,000% return on their investment and got a position in a spun-off entity called Howard Hughes to boot. Bill Ackman has been Chairman of Howard Hughes since the spinoff in 2010 and Pershing Square has maintained at least a 12% economic interest in the Company ever since. They now have acquired more common stock taking them over the 5% beneficial ownership threshold and increased their economic ownership from 12.5% to 14.8%. So, this is not a new investment for Pershing Square, but one they have been intimately involved in for almost a decade, making it their longest single investment in their history. The Company recently ran a sales process that attracted a great deal of interest with eight lead bidders, seven of whom were private equity. The problem is that this type of company has a very long-term timeline for value creation and does not fit into private equity's 10 year timeline to exit. So, a sale never happened and instead the Company promoted Paul Layne as CEO and announced they will be selling at least $2 billion of non-core assets and use the proceeds to reinvest in their Master-Planned Communities (MPCs) and buy back stock at the right price. Former CEO David Weinreb did an excellent job growing the business, but now it needs a CEO with a lean, disciplined management style to focus on operations. Accordingly, the Company has already announced a $50 million cost cutting initiative that includes relocating the headquarters from Dallas to the Woodlands, one of its MPCs. MPC's are large-scale (typically 10,000+ acres) privately owned developments, where the owner has substantial control over planning, zoning, the release of property for sale and development. This leads to higher land value and less volatility than standalone properties because successful MPC owners control the supply of land to the market and take a longer-term approach to planning, conservation, design, and community building. The best example of this is Donald Bren's privately held Irvine Company where he turned a $337 million investment in 1977 to a net worth of $17 billion today by never selling and continually developing with a long-term vision. Howard Hughes has four MPCs in addition to New York's South Street Seaport, which it plans to continue to own. Its MPCs are in Hawaii, Las Vegas, Houston and Maryland and have over 50 million square feet of developable capacity remaining, an amount that it can work on developing for decades to come. While this is technically a new 13D, it is important to note that Pershing Square, vis a vis Bill Ackman as Chairman of HHC, has been integral in every decision this Company has made since inception, including to explore a sale, not to sell and to refocus on operations and generating free cash flow.

There is one structural development we would like to inform you of. You may have noticed that on January 3 our mutual fund assets dropped from approximately $350 million to approximately $300 million. This was actually a positive development. The largest institutional investor in the mutual fund became the founding investor in a private investment vehicle that will invest pari passu with the mutual fund. As to not have any effect on the investors in the mutual fund, of which I am still a large one (my entire investment is in the mutual fund), or the underlying positions, we executed this transaction through a distribution-in-kind. While the assets in the mutual fund have gone down, the assets in the strategy remain the same and we believe will ultimately increase because of this development. We are already talking to some new institutional investors who are considering making an investment and splitting it between both entities. This will make the parent of both funds even stronger and more stable with increased growth opportunities.

We appreciate your continued support and 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, which can be obtained on the web at www.13DActivistFund.com or by calling 1-877-413-3228, 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.

The Lipper Mid-Cap Core Funds Peer Group have been presented as investment strategies with similar investment styles. Lipper rankings are based on total return of a fund's stated share class, are historical and do not represent future results. 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 3000 Growth Index is a market capitalization weighted index based on the Russell 3000 index. The Russell 3000 Growth Index includes companies that display signs of above average growth. The index is used to provide a gauge of the performance of growth stocks in the United States. Russell 3000 Value Index is a market-capitalization weighted equity index maintained by the Russell Investment Group and based on the Russell 3000 Index, which measures how U.S. stocks in the equity value segment perform. Included in the Russell 3000 Value Index are stocks from the Russell 3000 Index with lower price-to-book ratios and lower expected growth rates. The Russell 1000 Index is an index of approximately 1,000 of the largest companies in the U.S. equity market. The Russell 1000 is a subset of the Russell 3000 Index. It represents the top companies by market capitalization. The Russell 1000 typically comprises approximately 90% of the total market capitalization of all listed U.S. stocks. It is considered a bellwether index for large-cap investing. The Russell 2500 Index is a broad index, featuring 2,500 stocks that cover the small- and mid-cap market capitalizations. The Russell 2500 is a market cap-weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of United States-based listed equities. The Russell Midcap Index is a market capitalization weighted index comprised of 800 publicly traded U.S. companies with market caps of between $2 and $10 billion. The 800 companies in the Russell Midcap Index are the same 800 of the 1,000 companies that comprise Russell 1000 Index. The Russell 1000 Index is a compilation of the largest 1,000 publicly traded U.S. companies. The average Russell Midcap Index member has a market cap of $8 billion to $10 billion, with a median value of $4 billion to $5 billion. The index is reconstituted annually so that stocks that have outgrown the index can be removed and new entries can be added.

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 Foreside Financial Services, LLC.

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