# Linde Hansen
# Contrarian Value Strategy
# Commentary 3Q - 2016

## Market Review

Summer rally? Well, stocks were up, but the lion's share of the move took place rapidly during the first two weeks of July. After that, large cap indices cycled sideways while smaller cap indices methodically added to the gain. Given the political and social upheaval in the world it's somewhat surprising that US equity markets were so stable while the news cycle was so volatile.

The universe of stocks from which we screen was significantly stronger, advancing on average 8.7% on an equal weighted basis and reflective of growing demand for smaller capitalization stocks. The Russell 2000 index of small companies was up 9.0% whereas the Russell 1000 (the 1000 largest companies by capitalization) was up only 4.0%.

Low-volatility/dividend-paying stocks as emblemized by utilities and real estate investment trusts (REITs) garnered much attention earlier in the year and were standout performers through July. As "Fed watchers" began to kvetch about the potential for rising interest rates the low-vol infatuation faded only to be replaced by a surge in the prices for small capitalization companies with little or no earnings. The rationale for this divergence currently escapes us.

## Portfolio Review

The Linde Hansen Contrarian Value Fund I Class share advanced 4.19% for the quarter ending September 30. This was ahead of the S&P 500 (up 3.85%) but slightly behind the Russell Mid Cap Value Index (up 4.45%).

The biggest contributors to our portfolio were Chemtura (3.8% of portfolio) and Endo International (3.3% of portfolio). Chemtura agreed to be acquired by Lanxess, a global specialty chemical company originating from Germany, at a 32% premium to the price at which it began the quarter. Endo, a specialty pharma company added to the portfolio earlier in the year, advanced as a result of strong second quarter earnings. *(1)*

On the negative side of the ledger, EQT Corporation (3.5% of portfolio) and Gulfport Energy (3.5% of portfolio) were our biggest detractors. Both of these companies are engaged in the exploration and production of oil & gas with a focus on natural gas. And, both traded down despite natural gas prices trending higher and earnings results that we found satisfactory. Accordingly, the unexpected price weakness gave us the opportunity to add to our holdings. *(1)*

## Current View

Halloween is coming and while it generally has little impact on the thinking of investors, it's probably top of mind more than usual given the horror show that has become our presidential election. Looking at the candidates and listening to their blather makes one wonder if they are both possessed by an evil spirit. It's outright embarrassing. The trailer truck filled with the Republican candidate's baggage and dirty laundry seems to suggest the Democrat will win the White House. What happens in the Congress and Senate may be more important and we will be attuned to any changes in policy or programs regardless of who wins. Change brings opportunity but given the current circumstances, continued gridlock remains a possible outcome.

Politics aside, earnings and cash flow are what count and the release of third quarter earnings has commenced. Earnings growth in aggregate has been lackluster in recent quarters. Return-on-capital, as we measure it, was in a solid uptrend post the "great recession" as sales and margins recovered in normal cyclical manner. But the trajectory changed and it has been slowly trending downward for the last eighteen months. Is this an end-of-cycle sign or is it the result of a prolonged reduction in interest rates which have lowered hurdle rates pressuring nominal return-on-invested-capital?

The specter of low rates may be coming to an end. It appears negative interest rate policies have done little to spur growth where enacted. It's just not natural and may have an unintended negative impact on confidence. The Federal Reserve Board seems to have taken notice and a long awaited interest rate hike may occur in December. As monetary policy begins to contract investors will begin to look for fiscal stimulus to fill the void.

As of October 17, 2016 the median price-to-normalized-earnings-per-share (P/NEPS)(2) of the companies in our valuation screen was 20.1 times. It has generally been above 20.0 times since March of 2014, a level consistent with the 2007 peak.

Valuations would be judged to be high if not for artificially depressed interest rates and it feels like companies are stretching to sustain end-of-cycle profitability levels. The ability of companies to sustain and improve profitability levels remains our biggest concern. Should current levels of profitability contract sharply, stock prices would likely be negatively impacted.

At Linde Hansen, we are aware of these big picture issues but we try not to encumber our investment methodology with a stringent top-down perspective. Our primary objective is to build a concentrated portfolio of companies that we believe are undervalued relative to their normal earnings power while having managements that are trying to drive their return-on-invested-capital higher. When we find companies that fit our criteria for investment, they are added to the portfolio.

So, as we head to Halloween, try to keep your head about you and not let the scary landscape overwhelm your good judgment. *"We ain't afraid of no ghosts".*

(1) Percent of LHVAX at NAV as of 9/30/2016. Portfolio Holdings are subject to change and should not be considered investment advice.
(2) Price-to-normalized-earnings-per share (P/NEPS): Normalized Earnings Per Share (NEPS) is derived from proprietary Linde Hansen & Co. calculations. It is an estimate of how much a company would be earning today if it were to achieve its historical average return on invested capital

| LindeHansen Contrarian Value Fund Performance as of 9/30/2016 | Three Months | One Year | Since Inception (1) |
|---|---|---|---|
| Linde Hansen Contrarian Value Fund Class A (LHVAX) | 4.14 | 5.74 | 8.24 |
| Linde Hansen Contrarian Value Fund Class A - With Sales Charge (2) | -1.33 | 0.17 | 7.00 |
| Linde Hansen Contrarian Value Fund Class I (LHVIX) | 4.19 | 5.94 | 8.52 |
| Russell Midcap Value Index Total Return | 4.45 | 17.26 | 13.66 |

(1) Inception date of the fund is February 8, 2012. (2) The maximum sales charge for Class A Shares is 5.25%. Class A Share investors may be eligible for a reduction in sales charges. The total annual fund operating expense ratio, gross of any fee waivers or expense reimbursements, is 1.77% for Class A and 1.52% for Class I.

***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. Past performance is no guarantee of future results. The Fund's investment adviser has contractually agreed to reduce its fees and/or absorb expenses of the fund, at least until March 31, 2017 to ensure that the net annual fund operating expenses will not exceed 1.40%, and 1.15% for (Class A), and (Class I) shares, respectively, subject to possible recoupment from the Fund in future years. Please review the Fund's prospectus for more detail on the expense waiver. Results shown reflect the waiver, without which the results could have been lower. A Fund's performance, especially for very short periods of time, should not be the sole factor in making your investment decisions. For performance information current to the most recent month-end, please call toll-free 1-855-754-7933.***

**Russell 1000 Index-** an index measuring the performance of approximately 1,000 of the largest companies in the U.S equity market.

**Russell 2000 Index-** 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. The Russell 2000 Index is widely considered a benchmark for small cap stocks in the United States.

**Russell Mid-Cap Value Index-** measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. Investors are not able to invest directly in the index referenced in this illustration and unmanaged index returns do not reflect any fees, expenses or sales charges. The referenced index is shown for general market comparisons and is not meant to represent the Fund.

**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.

***Mutual Funds involve risk including the possible loss of principal. There is no assurance that the fund will meet its investment objectives, you may lose money by investing in the Fund.***

***Investing in undervalued securities involves the risk that such securities may never reach their expected market value, either because the market fails to recognize a security's intrinsic worth or the expected value was misjudged. A value investment style may go in and out of favor causing the Fund to underperform other investment styles. The Fund is 'non-diversified', and thus invests its assets in a smaller number of companies than many other funds and as a result a change in the value of a single security may have significant effects on the Fund's value. Investments in foreign securities carry special risks, including foreign political instability, greater volatility, less liquidity, financial reporting inconsistencies, and adverse economic developments, all of which may reduce the value of foreign securities. Many of these risks can be even greater when investing in countries with developing economies and securities markets.***

| For more information please contact your Financial Advisor or; | |
|---|---|
| Mutual Fund Inquiries | 1-855-754-7933 |
| Separate Account Inquiries / Composite Performance | (973) 593-8300 |
| Visit the Linde Hansen website | www.lindehansen.com |

***Smaller capitalization companies may have a narrower geographic and product/service focus and be less well known to the investment community, resulting in more volatile share prices and liquidity. Larger capitalization companies pose the risk that larger, more established companies may be unable to respond quickly to new competitive challenges such as changes in consumer tastes or innovative smaller competitors. Mid-Capitalization companies may be more vulnerable to adverse business or economic events than larger, more established companies. Mid-sized companies may pose risks including liquidity, market and financial resources and may depend upon a relatively small management group. Investments in companies involved in special situations, such as reorganizations or restructurings, may involve greater risks when compared to the Fund's other strategies. Failure to anticipate changes affecting these types of investments may result in permanent loss of capital.*** **6713-NLD-10/21/2016**