# Linde Hansen Contrarian Value Strategy Commentary

4Q 2017

Linde, Hansen & Co.

## Market Review

The party continued in the final quarter of 2017 with the S&P 500 posting its best quarterly return of the year. The market has been quite strong for quite a while now, advancing for nine consecutive quarters. Optimism runs high and speculative juices are flowing (Bitcoin) while volatility remains low. In fact, the CBOE Market Volatility Index, the "VIX", has steadily declined and recently set an all-time low reflecting a high level of complacency in the stock market. The risk premium in the market has shrunk.

The median return for the 2,276 stocks which passed our initial screen on September 30, 2017 was 3.54% for the quarter. The average return on an equal weighted basis was 4.08%. Approximately 63% of the stocks advanced during the quarter, consistent with earlier quarters, but not an overwhelming surge.

Leadership changed during the quarter. After dominating for the first three quarters, technology stocks did not lead the market. Rather, it was the laggards time in the sun. Retailers, which had been left for dead, bounced back along with energy stocks which had also struggled this year.

Laggards for the quarter remained the same for the second quarter in a row. Healthcare stocks on-average hovered around breakeven while communication stocks, based on a wide dispersion, retreated on-average during the quarter.

## Portfolio Review

The Linde Hansen Contrarian Value Fund, Class A share was down 0.29% during the third quarter, underperforming the Russell Mid Cap Value Index (+5.50%) and the return of the S&P 500 (+6.64%).

Kennametal (4.9% of assets) was the biggest contributor to the portfolio as its shares surged after a strong earnings result and an optimistic outlook provided at their annual analyst meeting.

The largest detractor from the portfolio was Celgene (2.93% of portfolio), which fell after clinical trials for the use of Revlimid to treat follicular lymphoma failed to show superior benefit when compared to existing treatments.

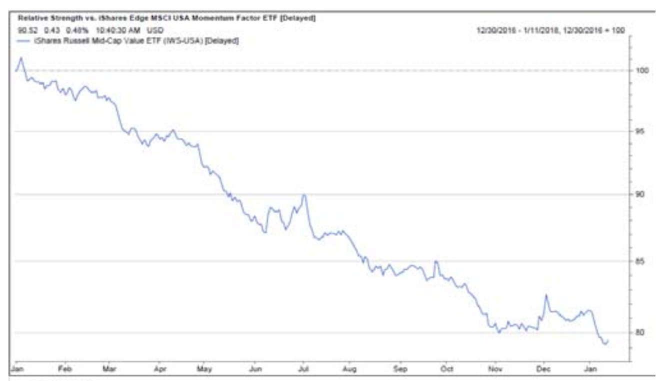
## Current View

As value investors and contrarians, we are familiar with feeling alone in our convictions. This year has been difficult and maintaining our discipline has been challenging. There have been times before like this when we are out of sync with the market and our approach to investing feels antiquated. The speculative internet frenzy of 1999 comes to mind.

However, the make-up of today's equity market is different than 1999's bubble. Back then, wild-eyed speculators were chasing "tech-telecom-media" (TTM) stocks while non-tech stocks were being sold to fund purchase of this small segment of the market. Dot-coms and internet related stocks went up while everything else went down.

Today the market has been disaggregated into factors which are neatly packaged into ETF's and passive mutual funds that enable traders to "play" various themes. The chart below from Factset shows the steady relative year-to-date decline experienced by the Russell Mid-Cap Value ETF relative to the iShares Momentum Factor ETF. The momentum ETF buys the best performing stocks while shunning the worst without regard for valuation or business fundamentals. It is the fuel that feeds bubble creation.

Money flows drive stock price changes at the margin. This year the trend has seen money flowing out of active - and especially out of active value - and into passive index and systematic factor portfolios. It has created a strong headwind for anyone pursuing a value strategy. Valuation in some parts of the market has become frighteningly high while other sectors of the market, particularly




those with strained fundamentals, are being pushed to levels that are probably way too low. This creates opportunity for those with patience and fortitude.

While it's hard to tell when the trend will reverse, it seems the worm has begun to turn. Momentum has begun to fade and commentary surrounding the valuation discrepancy between different sectors of the market has been on the rise. Markets are a reflection of human behavior and history has shown the herd mentality tends to push a good thing too far. Be careful when everyone is fishing off the same side of the boat because when the fish start biting on the other side of the boat the rush to change position is likely to be fast and violent. Right now our portfolio is set up on the quiet side of the boat. We believe we are well positioned for what we believe will be the eventual portfolio repositioning.

As of December 26, 2017, the median price-to-normalized-earnings-per-share (P/NEPS) of the companies in our valuation screen is 23.6 times, well above the level set during the 2007 peak and the highest it has been since the great recession. While valuation alone is seldom enough to spur a market sell-off, it is a blinking yellow light. Perception that valuation is high might influence the speed with which investors "de-risk" should something shock the market.

Patience is warranted and a cash cushion in the portfolio at this time is prudent, in our opinion.

Long term success comes from disciplined investing. And while we find the current market environment difficult given our contrarian value discipline, we remain dedicated to our investment process. We invest stock-by-stock: when we find a situation where the stock is attractively valued and there are strong catalysts to drive the return on invested capital higher, we will add it to the portfolio. We believe this is the best way to build solid real returns over the long term.

| Linde Hansen Contrarian Value Fund Performance as of 12/31/2017 | | | | |
|---|---|---|---|---|
| | Three Months | One Year | Five Years | Since Inception (1) |
| **Linde Hansen Contrarian Value Fund Class A (LHVAX)** | -0.29% | 0.00% | 7.23% | 7.17% |
| **Linde Hansen Contrarian Value Fund Class A - With Sales Charge (2)** | -5.49% | -5.23% | 6.08% | 6.20% |
| **Linde Hansen Contrarian Value Fund Class I (LHVIX)** | -0.21% | 0.29% | 7.51% | 7.45% |
| **Russell Midcap Value Index Total Return** | 5.50% | 13.34% | 14.68% | 14.02% |

***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, 2018 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 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.

**The S&P 500 Index –** An unmanaged composite of 500 large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks.

**Return on invested capital (*ROIC*)** - A calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments. The measure gives a sense of how well a company is using its money to generate returns.

***Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.***

***Fund holdings are represented as a percent of LHVAX at NAV as of 12/31/2017. Portfolio Holdings are subject to change and should not be considered investment advice. 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. 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.*** **6070-NLD-1/19/2018**

| For more information please contact your Financial Advisor or; | |
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