A SHARE CLASS - **SVFAX**
I1 SHARE CLASS - **SVFFX**
INVESTOR SHARE CLASS - **SMVLX**

SMEAD
value fund

877.701.2883 | SMEADCAP.COM

3RD QUARTER 2019 (9/30/19)

Performance

Average Annualized Total Returns as of September 30, 2019

	ONE MONTH	QTR	YTD	ONE YEAR	THREE YEAR	FIVE YEAR	TEN YEAR	ANNUALIZED SINCE INCEPTION 1/2/2008
SVFFX	0.98%	1.25%	17.13%	5.52%	13.44%	9.66%	14.03%	8.70%
SVFAX (w/ load)	-4.84%	-4.64%	10.19%	-0.80%	10.98%	8.11%	12.97%	7.79%
SVFAX (w/o load)	0.96%	1.18%	16.90%	5.25%	13.20%	9.40%	13.64%	8.34%
SMVLX	0.98%	1.19%	16.94%	5.36%	13.14%	9.37%	13.75%	8.47%
RUSSELL 1000 VALUE	3.57%	1.36%	17.81%	4.00%	9.43%	7.79%	11.46%	6.72%
S&P 500 TR INDEX	1.87%	1.70%	20.55%	4.25%	13.39%	10.84%	13.24%	8.49%

Investor Shares Gross Expense Ratio 1.31% A Shares Gross Expense Ratio 1.27% I1 Shares Gross Expense Ratio 1.02%

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 877-807-4122. Performance for SVFAX (w/load) reflects maximum sales charge of 5.75%. Performance for SVFAX does not reflect maximum sales charge of 5.75%. If reflected, the load would reduce the performance amount quoted. SVFAX imposes a 1.00% redemption fee on purchases of $1,000,000 or more that are redeemed within 18 months of purchases. Performance data does not reflect the redemption fee. If it had, returns would be reduced.

Investor Class shares of the Fund commenced operations on January 2, 2008. I1 Class shares of the Fund commenced operations on December 18, 2009. Performance shown for I1 Class shares prior to its inception reflects the performance of Investor Class shares. Class A shares of the Fund commenced operations on January 24, 2014. Performance shown for Class A shares prior to its inception reflects the performance of Investor Class shares, adjusted to reflect Class A expenses.

Dear Shareholder

In the third quarter of 2019, the Smead Value Fund (SMVLX) nearly fought the indexes to a draw. The Fund returned 1.19% versus a similar gain of 1.70% for the S&P 500 Index and the 1.36% gain for the Russell 1000 Value Index. The market swung from loving growth and hating value in July and August to hating growth and loving value in the month of September. To say there is a lack of conviction in the U.S. stock market would be an understatement, but that understatement has been true most of the time.

Through the first nine months of the year the Fund returned 16.94% versus a return of 20.55% for the S&P 500 Index and a return of 17.81% for the Russell 1000 Value Index.

Our portfolio was led on the upside by Target (TGT) and our two homebuilders, NVR (NVR) and Lennar (LEN). As interest rates fell in 2019, investors correctly identified a renewal of a trend which started from housing's bottom in 2012. Millennials are buying new homes based on powerful family formation and shopping at Target to make their household work on a week-to-week basis.

On the downside, investors sold off non-tech media companies like Discovery Inc. (DISCA), as they feared a reduction in cable subscribers and don't trust new streaming revenue to replace it. Pfizer was greeted by a very negative reaction on their plan to split their products, which are not patent protected, off into a joint venture with Mylan Labs (MYL). We are former owners

of Mylan and don't have any great affection for them. However, we believe that investors have over-reacted to this combination. Lastly, we joined with other value-oriented managers by losing some market value in the energy business via Occidental Petroleum (OXY).

If the pivot toward value becomes a longer-term trend, we think that it will work in our favor, even though the early stage usually sees a dash-for-trash which almost never includes the kind of quality companies we own. If you want to know what that looked like, go back and look at the year 2009, coming off the March lows. The companies with the worst balance sheets and most inconsistent free-cash-flow exploded to the upside in 2009 from the market lows, just as they did in September. We are glad we are fighting a five-to-ten-year battle and not trying to win all the time. And we are glad that people can't always get money for nothing.

"Money for Nothin": *Have we met Dire Straits?*

Now look at them yo-yo's, that's the way you do it
You play the guitar on the MTV
That ain't workin' that's the way you do it
Money for nothin' and your chicks for free
Now that ain't workin' that's the way you do it
Lemme tell ya, them guys ain't dumb
Maybe get a blister on your little finger
Maybe get a blister on your thumb
We got to install microwave ovens, custom kitchen deliveries
We got to move these refrigerators, we gotta move these color TV's

-Dire Straits, "Money for Nothing"

When baby-boomer adults were in their twenties, we sang along with Mark Knopfler and Dire Straits. Their song, "Money for Nothing" defined the era of music videos. We got cable in 1981 and will admit that we were glued to the TV watching music videos of the bands and performers we loved.

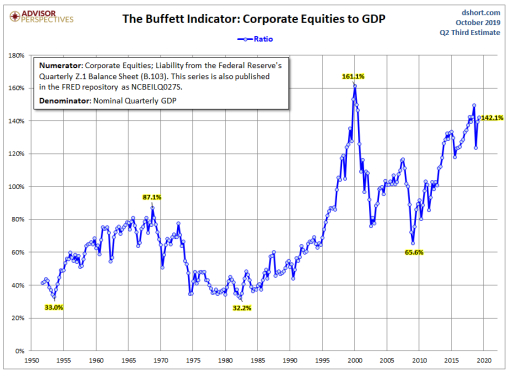
Today, there is a song being played in the U.S. economy, and those same baby boomers are rocking out on the lowest interest rates of the last 80 years. We call it "Money for Nothin' and Bonds Issued Free!" Bond investments have gone up in value off and on for 38 years and owners of common stock investments have had an immense tailwind provided by minuscule interest rates. "Lemme tell you them guys (and gals) ain't dumb." Just look at the returns the last 38 years.

In effect, theory has played out in practice. The net present value of future profits is discounted using the prevailing rate of interest. If that rate is 7%, $1,000 paid to you in ten years is worth $508.35 now. If that rate is 2%, $1,000 paid in ten years is worth $820.35. Stocks are priced 60% higher, in theory, based on the decline in interest rates. When rates go down like that and you own common stocks and long-term bonds you won't "get a blister on your little finger" or "on your thumb!"

Could this be a tough era for equities?

What have the "yo-yo's" been up to with their investments? Investors have been trained to own the stock market and recent reports show that those owning the stock market via indexes now exceed those owning stocks individually or via stock-picking mutual funds. In other words, "that's the way you do it." We like to say that the stock market does what it must do to frustrate the most people, so let's consider how investors will get frustrated this time.

Stocks are expensive compared to history, but not compared to interest rates:



Source: Advisor Perspectives. Data for the time period 1/1/1971 – 6/30/2017.

Growth stocks are over-valued compared to history and valuation matters dearly to ten-year returns:

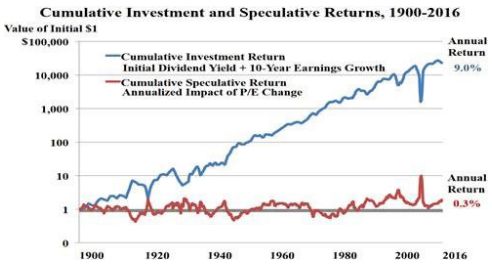
Price-to-earnings levels – current vs. historical (as of 9/3/2019)

	Hist. Median (1951 – 2018)	Current (9/3/19)	Implied Price Change to get to median
Growth P/E	19.7	32.5	-39%
Value P/E	11.0	10.3	7%
Value Advantage			**46%**

Source: Fama French, YCharts Inc., Aviance Capital Partners. Data as of 9/3/2019. P/E: Price to earnings ratio. Please see disclosures at the end.

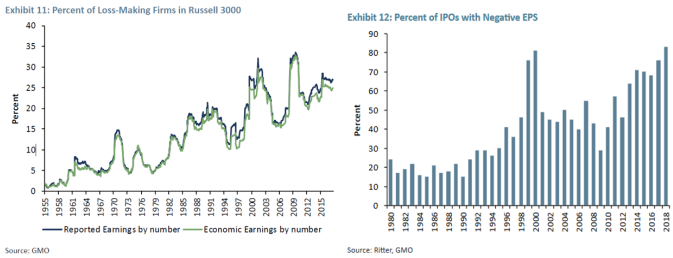
Source: Kenneth French's Data Library and Schroders. Data for the time period 1/31/1926 - 12/29/2017.

Profits and free-cash flow matter, something temporarily lost on market participants:

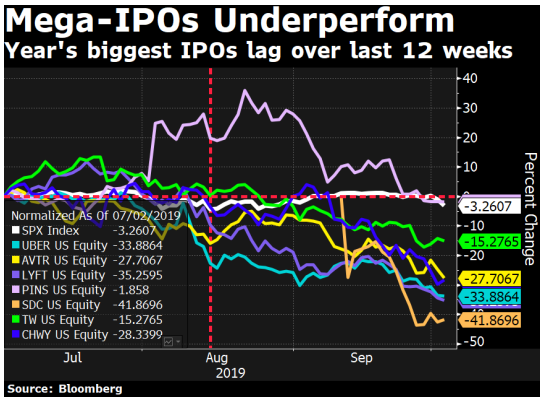


Source: The Bogle eBlog. Data for the time period 1/1/1900 - 12/31/2016.

It appears to us that Wall Street is shoveling trashy initial public offerings (IPOs) at the stock market like at other historical index peaks:



Source: GMO. Data for the Percent of Loss-Making Firms as of 12/31/2018. Data for Percent of IPOs is for the time period 1/1/1980 - 12/31/2018.



Source: Bloomberg, Data for the time period 7/2/2019 - 9/30/2019.

Inflation matters to price-to-earnings ratios (P/E):

Valuations by Inflation Regime

Inflation	Avg CAPE
Less Than 2%	20.9
2% to 6%	20.6
6% to 10%	11.2
10% or higher	9.9

S&P 500: 1945-2019

Table: Ben Carlson • SOURCE: Robert Shiller

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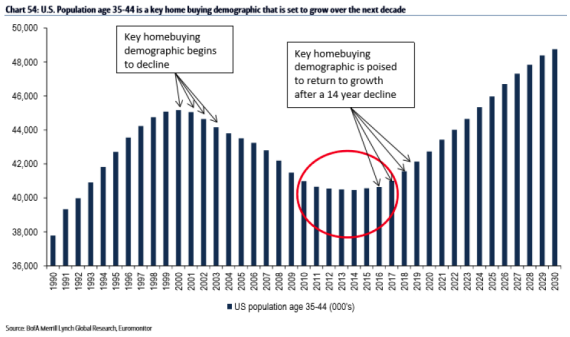
Source: https://awealthofcommonsense.com/2019/08/the-impact-of-interest-rates-inflation-on-stock-market-valuations/. Data as of 6/30/2019 .

Who can win in a tougher era for indexes?

Follow Millennial age and spending in households:



Source: BofA Merrill Lynch Global Research Data for the time period 1/1/1990-12/31/2030. Forecasted data is projected.

In an environment where the number of 30-45-year-old Americans is exploding, we believe you must point your portfolio toward them.

We got to install microwave ovens, custom kitchen deliveries
We got to move these refrigerators, we gotta move these color TV's

We will rely on earnings growth while assuming that higher interest rates are going to contract P/E ratios via reducing the net present value of the future earnings streams.

Figure: Industries where Millennial will transform sectors as their spending dwarfs that of the Boomers
2018-2028

Category	Millennials	Boomers	Total	Millennial share of Growth
Mortgage interest and charges	163.4%	(32.4%)	43.9%	93%
Kids Apparel	110.9%	(27.3%)	47.3%	87%
Other apparel products and services	155.4%	(18.3%)	46.2%	86%
Footwear	148.2%	(18.6%)	46.2%	85%
Apparel and services	130.7%	(16.5%)	46.5%	77%
Vehicle finance charges	106.3%	(28.5%)	44.9%	68%
Other entertainment supplies, equipment, and services	124.6%	(34.7%)	42.8%	67%
Furniture	116.4%	(16.9%)	46.2%	67%
Toys, hobbies, and playground equipment	98.6%	(4.7%)	48.3%	66%
Cellular phone service	105.2%	(18.9%)	46.1%	63%
Gasoline and motor oil	107.6%	(9.0%)	47.5%	59%
Household furnishings and equipment	126.9%	(3.9%)	48.2%	59%
Tobacco products and smoking supplies	102.1%	(21.1%)	45.3%	58%
Vehicle purchases (net outlay)	95.4%	(12.6%)	46.9%	56%
Vehicle rental, leases, licenses, and other charges	102.5%	(12.0%)	46.9%	55%
Maintenance and repairs	115.5%	(7.8%)	47.3%	55%
Pets	125.4%	(9.8%)	47.3%	54%
Alcoholic beverages	98.6%	(8.0%)	47.6%	52%
Vehicle insurance	118.7%	(11.7%)	47.0%	51%
Small appliances, miscellaneous housewares	101.3%	(12.7%)	47.1%	50%

Source: Fundstrat

To be *transformed* by Millennials…

These industries will see a big substitution of consumer spending—Millennials replace Boomers

Source: Fundstrat, "The Long Game," 2019 Strategy. Data for the time period 1/1/2018 - 12/31/2028. Forecasted data is projected.

Target (TGT) sells in four of the five largest spending categories for 30-40-year-old shoppers. Homebuilders have more work to do than they've had since the 1970's and the index has a tiny representation in home building. Banks stand ready to loan money to millennial households and could see interest rate spreads go up as the lending rates increase faster than the deposit rates.

The spending chart shows that millennials will grow their use of gasoline and operate cars and vans in the suburbs. Energy is likely to grow in importance as we add the largest adult population group to ownership of vans and SUVs. We are accumulating shares of Occidental Petroleum (OXY) to take advantage of this opportunity.

Lastly, inflation could be caused by too many millennials wanting the same things at the same time. Remember, the definition of inflation is too much money chasing too few goods.

Who loses as money regains a higher cost and bonds are declining in value?

Technology investments and the FAANG stocks have been the main game in town as interest rates fell. Investors have flooded money into the companies who provided revenue growth in an era where it was hard to come by. They flooded the IPO market with "money" buying "nothin'" and in the process have massively diluted growth investor choices and damaged growth stock performance.

In our opinion, bonds are a freight train headed for a collapsed bridge at high speeds. Low rates have pumped up low-volatility stocks and momentum stocks and opened the door to a mini-collapse in P/E multiples.

Finally, the S&P 500 Index is loaded with over-priced stocks from the prior list and appears ready to repeat the 1966-1982 period. As a reminder, interest rates went

up constantly as baby boomers formed households and P/E ratios went down to 6 at the lows in August of 1982. It won't matter that you got your equity exposure cheaply if you go more than a decade without making money.

I shoulda learned to play the guitar
I shoulda learned to play them drums

If we are correct, in ten years interest rates will normalize towards historical averages around 5%. If that is the case and millennials drive the economy forward, people will wish they'd learned stock picking or how to select stock pickers. Just like we all wished we had "learned to play the guitar" or "play them drums" back in the early 1980s.

William Smead
Portfolio Manager

Tony Scherrer, CFA
Co-Portfolio Manager

Cole Smead, CFA
Co-Portfolio Manager

The recent growth in the stock market has helped to produce short-term returns for some asset classes that are not typical and may not continue in the future. The price-earnings ratio (P/E Ratio or P/E Multiple) measures a company's current share price relative to its per-share earnings. Alpha is a measure of performance on a risk-adjusted basis. Beta is a measure of the volatility of a security or a portfolio in comparison to the market. FAANG is an acronym for the market's five most popular and best-performing tech stocks, namely Facebook, Apple, Amazon, Netflix and Alphabet's Google. Growth investing is focused on the growth of an investor's capital. Leverage is using borrowed money to increase the potential return of an investment. Momentum is the rate of acceleration of a security's price or volume. Parabolic mania, or a bubble, is an economic cycle characterized by the rapid escalation of asset prices followed by a contraction. Profit margin is calculated by dividing net profits by net sales. Quality is assessed based on soft (e.g. management credibility) and hard criteria (e.g. balance sheet stability). Value is an investment tactic where stocks are selected which appear to trade for less than their intrinsic values. Volatility is a statistical measure of the dispersion of returns for a given security or market index.

The information contained herein represents the opinion of Smead Capital Management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

The Smead Value Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company, and it may be obtained by calling 877-807-4122, or visiting www.smeadfunds.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible.

The following were the top ten holdings in the Fund as of 9/30/2019: NVR Inc. 7.82%, Target Corp. 6.65%, American Express Co. 5.95%, Amgen Inc. 5.78%, Discovery Inc. Class A 5.60%, The Home Depot Inc. 4.65%, Occidental Petroleum Corp. 4.58%, JPMorgan Chase & Co. 4.53%, Bank of America Corporation 4.09% and The Walt Disney Co. 3.97%. Fund holdings are subject to change at any time and should not be considered recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk.

The S&P 500 Index is a market-value weighted index consisting of 500 stocks chosen for market size, liquidity, and industry group representation. The Russell 1000 Value Index is an index of approximately 1,000 of the largest companies in the US equity markets; the Russell 1000 is a subset of the Russell 3000 Index. The Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. Information is provided for information purposes only and should not be considered tax advice. Please consult your tax advisor for further assistance.

Small- and Medium-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies.

Active investing generally has higher management fees because of the manager's increased level of involvement while passive investing generally has lower management and operating fees. Investing in both actively and passively managed funds involves risk, and principal loss is possible. Both actively and passively managed funds generally have daily liquidity. There are no guarantees regarding the performance of actively and passively managed funds. Actively managed mutual funds may have higher portfolio turnover than passively managed funds. Excessive turnover can limit returns and can incur capital gains.

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