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

SMEAD
value fund

877.701.2883 | SMEADCAP.COM

3RD QUARTER 2018 (9/30/18)

Performance

Average Annualized Total Returns as of September 30, 2018

	ONE MONTH	QTR	YTD	ONE YEAR	THREE YEAR	FIVE YEAR	TEN YEAR	ANNUALIZED SINCE INCEPTION 1/2/2008
SVFFX	0.59%	7.74%	6.00%	14.58%	13.04%	11.88%	12.90%	9.00%
SVFAX (w/ load)	-5.20%	1.49%	-0.24%	7.78%	10.58%	10.27%	11.85%	8.03%
SVFAX (w/o load)	0.57%	7.69%	5.83%	14.36%	12.79%	11.58%	12.51%	8.63%
SMVLX	0.53%	7.60%	5.66%	14.15%	12.70%	11.56%	12.64%	8.76%
RUSSELL 1000 VALUE	0.20%	5.70%	3.92%	9.45%	13.55%	10.72%	9.79%	6.98%
S&P 500 TR INDEX	0.57%	7.71%	10.56%	17.91%	17.31%	13.95%	11.97%	8.90%

Investor Shares Gross Expense Ratio 1.29% A Shares Gross Expense Ratio 1.30% I1 Shares Gross Expense Ratio 1.03%

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.

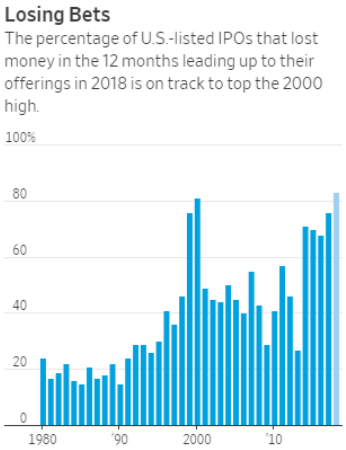
Investor Class shares of the Fund commenced operations on January 2, 2008. I1 Class shares of the Fund commenced operations on December 18, 2009. Performance shown for I1 Class shares prior to its inception reflects the performance of Investor Class shares. Class A shares of the Fund commenced operations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

The majority of large-cap U.S. common stocks made good money in the third quarter of 2018. The Smead Value Fund made 7.60%, which ranks among the top 25% of quarters since the fund incepted in 2008. This was just below the return of the S&P 500 Index of 7.71% and above the return of the Russell 1000 Value Index of 5.70%. We aim to create wealth over long stretches of time and our long-time shareholders saw their wealth get compounded in a quarter like this.

We didn't invade the advantage the S&P has held all year against the Fund, but we are beating our large value peers on average. Our investor class shares returned 5.66% through the first three quarters and the S&P 500 was up 10.56%, while the Russell 1000 Value returned 3.92%. To say that the humiliation of value by growth-oriented disciplines continues to accelerate would be an understatement!

It is unlikely that the index's return advantage from the stock market's infatuation with today's glamour tech stocks will be rectified this year. We've told people you can't hold your breath until this tech bubble breaks, but the chart below shows how dangerous the disregard for risk is:



Source: *The Wall Street Journal*.

Many of our holdings made multi-year highs and we feel very good about the performance of the companies we have purchased in the last three years. Our bio/pharma companies have become stalwarts this year and have rewarded our patience. They still look very cheap relative to the broader list of large-cap stocks and we believe have the best future pipelines they have had in years.

Our courage in the face of Amazon's consistently scary entry into businesses like grocery, video content, physical retail and pharmacy has opened doors for us to buy historically wonderful companies at prices similar to bear market lows. Our best contributor for the quarter was Discovery Inc. (DISCA), which dominates the un-scripted TV content market worldwide and was purchased within the last year. Walgreen's (WBA) rebounded nicely from an Amazon spook outing in late June when we picked up shares below $61/share. Lastly, Target (TGT), who was supposed to die last year from all of its invincible competition, had a very good quarter as earnings picked up and has been a blessing to the portfolio from the moment we started with it less than a year and one half ago.

On the downside, our willingness to hold winners to a fault showed why it is so hard to get multi-decade ten-times your money winners. Our best performing stock of 2017 is our biggest detractor this year, NVR (NVR). It has pulled back from $3,700 earlier in the year to around $2,500 at the end of the quarter. However, it has been terrific over the last six years.

The second worst performer is Lennar (LEN), one of the few homebuilders larger than NVR. These homebuilder stocks are victims of their run up in 2017 through the end of January 2018. Higher interest rates and higher home prices have cause economists and other business cycle followers to fear a cyclical top in home building. We think it is a temporary lull and we believe we will get rewarded in a big way over the next five to ten years with our confidence in the secular trend toward home buying by millennials. The last of our weakest performers is eBay (EBAY), which has already been a multi-decade winner and has been deemphasized in our portfolio as we move away from glam tech as much as we can within our discipline.

Jerry Maguire Stock Market

The actor, Tom Cruise, is as enigmatic as the U.S. stock market. He has made many terrific movies over the years and today's stock market reminds us of his classic sports movie, *Jerry Maguire*. Jerry was a top sports agent for a large agency and then suddenly, out of nowhere, was dumped out on the street with one client and a top college recruit to work with.

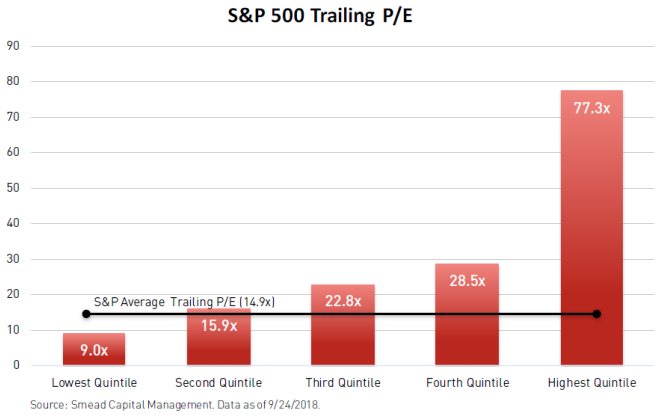
Stock pickers like us were very popular from 2011-2015. We provided optimism to advisor's who needed it and our quality/value approach found alpha. However, a big trend developed in 2016-2018 and the stock market went all-in on revenue growth stories, especially in technology stocks. These companies garnered the vast majority of the gains made as the stock market extended its bull run.

Source: Fundstrat. Data for the time period 10/1/1995 - 9/30/2018

Many investors have kicked value strategies and active stock pickers out of their agency. As a result, the money in the stock market has flowed to the ETFs tracking the S&P 500 Index and those chock-full of glam tech favorites like the QQQ, which owns the 100 largest NASDAQ stocks.

Source: Topdown Charts, Thomson Reuters. Data for the time period 1/1/2007 - 9/30/2018

Maguire reacted like many of our value peers. He chased after a player he thought would be the number one draft pick, only to find out that he and his family had signed up elsewhere. As the chart below shows, the top draft picks in the stock market are historically overpriced.



Source: Smead Capital Management. Data as of 9/24/2018.

Many value managers have rationalized the mania surrounding the FAANG stocks (Facebook, Amazon, Apple, Netflix and Google parent Alphabet) and bought the least egregious ones in large quantities. When you try to squeeze the last profits out of an over-extended trend in a stock market mania, managers tend to go outside of their discipline for stock selection. We believe the discipline of buying quality merchandise, when it is out of favor, is what made them successful in the first place.

Jerry still had his skills, but his style of shepherding athletes was very out of favor. When the first-round draft pick dumped him, Jerry hit bottom. He was left with one undervalued athlete, Rod Tidwell. Tidwell, along with Jerry's new girlfriend, reminded Jerry of the values which really matter in life and in business. We at Smead Capital Management don't need to be reminded of our values or to keep to our discipline.

Rod Tidwell was an under-sized wide receiver with a good track record. His contract was coming up and he wanted his agent to validate his value in the marketplace. He repeated his plea to Jerry repeatedly by saying, "Show me the money!" Rod was annoying, but he was loyal. He had been in the league long enough to know what matters in the long run and he knew he was very undervalued. Our stocks which look like Rod include:

- Walgreens Boots Alliance (WBA) is undervalued on dependability
- Berkshire Hathaway (BRKB) is undervalued on financial strength
- Discovery Communications (DISCA) is undervalued by free-cash flow
- NVR (NVR) is undervalued by research analysts
- Amgen (AMGN) is undervalued on new biotech drugs and shareholder friendliness

There are a few things we think we know after running our portfolio for over ten years. First, like Rod Tidwell, we have done well for our team (investors) and have not deviated away from our discipline. We buy companies which screen well for quality when they get deep in the dog house (are willing to catch passes across the middle). **We waste no time chasing or worrying about expensive first round draft picks and will not get trapped late in a stock market trend tempting fate by hoping that extremely popular securities will stay popular forever!** History shows that even mega-successful companies like Coca-Cola and Disney hit the wall for many years after an unbelievable run in the stock market that ended in a mania in 1972 known as the "Nifty-Fifty."

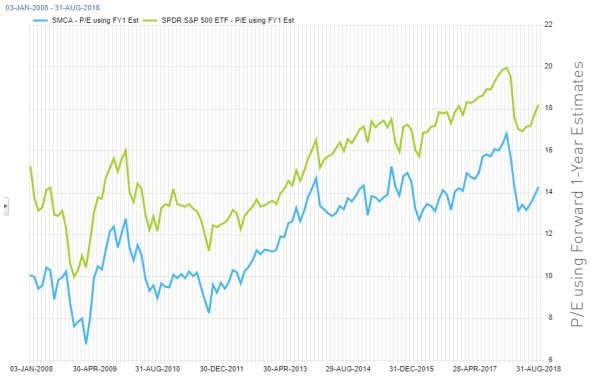
		P/E Multiple (Valuation)	Earnings	Price
Disney	1972	81.6	$0.03	$2.20
	1982	20.7	$0.06	$1.32
	Change	-75%	136%	-40%
Coca-Cola	1972	47.6	$0.06	$3.09
	1982	13.4	$0.16	$2.17
	Change	-72%	149%	-30%

Source: Bloomberg. Data as of 12/31/1972 and 12/31/1982.

History rhymed in 1999 when the tech bubble became a massive mania and mega-successful companies like Microsoft, Intel and Cisco became the darlings. They were considered the "safe way" to play glam tech in the late 1990s as the internet captured our imaginations. The chart below shows their meteoric rise and ultimate collapse in 2000-2003. Notice that 15 years later, not one of them returned to the price that their shares hit in early 2000.

Source: Bloomberg. Data for the time period 3/29/1996 - 12/31/2014.

We own numerous stocks which look as undervalued as Rod Tidwell, and our portfolio looks as cheap to the Russell 1000 Value and the S&P 500 as Rod did in the movie.



Source: FactSet. Forward P/E data for the time period 1/3/2008 – 8/31/2018.

To summarize, we feel like Jerry Maguire, because our investment discipline is temporarily out-of-favor and we view our portfolio as loaded with Rod Tidwell-like common stock holdings. We don't get to know when the over-priced first round draft picks will hit the skids or when Rod Tidwell will go crazy on Monday Night Football. We also don't know when the over-extended market darlings will disappoint the investors who are overcommitted to them. We do like relying on our eight criteria for stock selection and the fact that we believe our risk adverse discipline will come back into favor. After all, we hope we had you at "Hello."

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) measures a company's current share price relative to its per-share earnings. Beta tests are a trial of machinery, software, or other products, in the final stages of its development, carried out by a party unconnected with its development. A stalwart is a loyal, reliable, and hardworking supporter or participant in an organization or team. Bear market is a market in which prices are falling, encouraging selling. Alpha is a measure of performance on a risk-adjusted basis. Bull run is a financial market of a group of securities in which prices are rising or are expected to rise.

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 9/30/2018: Discovery Inc. Class A 7.21%, Amgen Inc. 6.47%, Target Corp. 5.84%, Berkshire Hathaway Inc. B 5.82%, American Express Co. 5.62%, Walgreens Boots Alliance Inc. 5.22%, Aflac Inc. 4.93%, JPMorgan Chase & Co. 4.56%, NVR Inc. 4.40%, and The Home Depot 4.34%. 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. 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.

SMEAD CAPITAL MANAGEMENT
600 University Street, Suite 2412
Seattle, WA 98101

Shareholder Services 877.807.4122
Sales Desk 877.701.2883

info@smeadcap.com

SMEADCAP.COM

SVF000379 1/31/2019