SHAREHOLDER LETTER

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

SMEAD value fund

877.701.2883 | SMEADCAP.COM

4TH QUARTER 2015 (12/31/15)

Performance

Average Annualized Total Returns as of December 31, 2015

	ONE MONTH	QTR	YTD	ONE YEAR	THREE YEAR	FIVE YEAR	ANNUALIZED SINCE INCEPTION 1/2/2008
SVFAX (w/ load)	-9.02%	-1.16%	-4.40%	-4.40%	14.47%	14.83%	6.67%
SVFAX (w/o load)	-3.48%	4.87%	1.44%	1.44%	16.75%	16.20%	7.47%
SVFFX	-3.43%	4.98%	1.74%	1.74%	17.20%	16.69%	7.88%
SMVLX	-3.47%	4.91%	1.49%	1.49%	16.89%	16.40%	7.68%
RUSSELL 1000 VALUE	-2.16%	5.64%	-3.83%	-3.83%	13.08%	11.27%	5.10%
S&P 500 INDEX	-1.59%	7.04%	1.38%	1.38%	15.13%	12.57%	6.52%

Investor Shares Gross Expense Ratio 1.37%   A Shares Gross Expense Ratio 1.38%   I1 Shares Gross Expense Ratio 1.10%

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 18months 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 2015 U.S. stock market ended up being "much ado about nothing." The main indexes fell in price for the year and total returns were limited to gains via dividends, despite a strong comeback in the fourth quarter. The Smead Value Fund ("the Fund") rebounded in the fourth quarter of 2015 to a small gain for the year of 1.74%. In 2015, the S&P 500 gained 1.38% and the Russell 1000 Value Index had a loss of 3.83%. The Fund (SVFFX) gained 4.98% in the quarter versus a gain of 7.04% for the S&P 500 Index and a gain of 5.64% for the Russell 1000 value.

While we are always happy to beat the index for the year, we will only be satisfied with long-run outperformance. We subscribe to what Andy Grove wrote in his book, "Only the paranoid survive." Our current efforts are devoted to how to make money over the next 5-10 years.

In 2015, the S&P 500 basked in the glory of very large gains in a few mega-cap favorites. The "FANG" stocks (Facebook, Amazon, Netflix and Google) were responsible for outsized gains in an otherwise dismal year for the index. We are not proud at our firm (we like to own companies which go up in value each year), but we limit ourselves to companies that fit our eight criteria for stock selection that we believe we understand well.

Our victories in the quarter and the year stuck to the market's overall pattern. Amgen, Tegna and PayPal gave us the most positive attribution in the fourth quarter.

NVR, eBay and Home Depot provided a 2.85% gain for the year, mirroring the narrow nature of the winner's column in the year.

The weak part of our portfolio in the 4th quarter was tied to the way the economy failed to strengthen (as we had expected) more than the crowd anticipated. Consumer-oriented companies like Nordstrom, H&R Block and American Express ran into fall weather without cold temperatures and the highest U.S. savings rates in 25 years.

On an annual basis, Nordstrom (which had been a big winner for us over the prior five years) was a big loser. They continue to invest in the future and paid a short-term price in profits. They paid a one-time dividend of $4.80 in the quarter.

A few stocks we've been early on, Navient (which we sold) and News Corp (which we have added to), hurt our annual numbers. We have a tendency to commit the value investor's typical sin; our mistakes are associated with buying too early. Let it be said that we constantly ask ourselves this question, "Where are we wrong?"

2016: The Year of the Foolish Critic

An effective strategy for judging stock market psychology comes from looking to see which outstanding stock pickers are being singled out for criticism. This happens when they underperform the S&P 500 Index and are invested in out-of-favor parts of the stock market. This also happens when the stock market is limiting its favor to a narrow group of futuristic companies and the historically smart stock picker is not willing to bend their will to the current trend.

Bill Miller beat the stock market for 15 straight years and became admired for what we believe he is: a great stock picker. He reached his low point in 2011 when his bets on economically-sensitive home builders, banks and airlines caused him to temporarily lose sizable money in the U.S. stock market. Here is a quote from an article in the *Wall Street Journal* on November 18th of 2011, titled "The Long Climb and Steep Descent of Legg Mason's Top Stock Picker";

In a business that thrived for decades by nurturing the cult of the star stock picker, no star had sparkled more brightly than Mr. Miller's—or fell to earth with such a thud.

His difficult circumstance and media criticism in late 2011 was one of many clues for us that we were reaching a point of maximum pessimism in U.S. stocks. Along with favorable fundamental factors, we plugged our nose as lonely contrarians and bought banks and looked for ways to participate in home building through companies which fit our eight criteria for stock selection. Bill Miller's portfolio doubled in value from the beginning of 2012 to the end of 2013, no surprise given the level of criticism.

Warren Buffett is arguably the best stock picker of all time. He has compounded the investment of his and fellow shareholders in Berkshire Hathaway at 20% per year on average since he took it over in 1965. In our view, he is the best stock picker and business analyzer in U.S. history. Despite this deserved respect and the high regard he is held in, here are recent (Q4 2015) headlines which describe his current portfolio of common stocks:

- "Buffett's Really Bad Week"
- "3 of Warren Buffett's Top Holdings Trading Near 1-Year Lows"
- "Warren Buffett's top stocks are dogs this year"

For those who haven't followed his career, some important background would be helpful. This is not the first time that Buffett has been criticized and appeared out of step with prevailing wisdom on Wall Street. In 1969, he closed his partnership (hedge fund) because the U.S. stock market appeared out of kilter and he wasn't finding the kind of bargains he believed could produce outstanding long-term returns. The 1973-1974 bear market in stocks proved him prescient and laid bargains like the *Washington Post* and See's Candy in front of him.

In 1999, Buffett spoke at the Sun Valley-based Allen and Co. conference amid big concerns that he had completely lost his stock-picking touch. Everything internet-related had gone wild and stock market pundits felt that the kinds of "old economy" companies which Buffett liked were ill-prepared to succeed in a tech-dominated world. Ironically, his talk in Idaho explained why all those riding high from the tech bubble were going to get their head handed to them. They soon did, and Buffett's portfolio rallied against the indexes and put him back in the usual high esteem.

The months surrounding the peak of the tech bubble in 1999-2000, when Buffett was getting filleted in the press, was a great time to invest in Berkshire Hathaway and buy Buffett's stock portfolio. A recent MarketWatch article analyzed how Buffett's stocks did from 2000-2014:

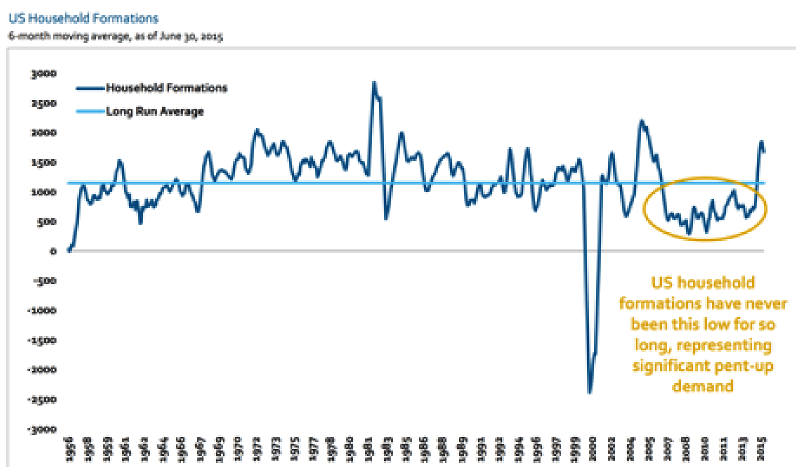
2000-2014	Clone	S&P 500
Return	10.53%	4.31%
Volatility	14.19%	15.24%
Sharpe (1.83%)	0.61	0.16
Drawdown	-42.98%	-50.95%

Source: http://www.marketwatch.com/story/how-to-piggyback-on-warren-buffett-and-other-legendary-money-managers-2016-01-06. Data from 1/1/2000 - 12/31/2014. Past performance is no guarantee of future results.

Why is Smead Capital Management telling you this story and doing so at this time? First, we own Berkshire Hathaway shares in our portfolio. The stock under-performed the S&P 500 in 2015 and trades very close to 1.2 times book value. Buffett has said, and Vice Chairman Charlie Munger has reiterated, that Berkshire Hathaway would buy back shares at 1.2 times book and in some ways put a floor underneath the stock if it fell that far.

We believe that Berkshire Hathaway is undervalued and symptomatic of recent criticism Buffett has received. Buffett has positioned the company to benefit from the rebound in the U.S. housing market. Berkshire Hathaway owns the second-largest residential real estate brokerage firm, two of the three largest banks, the largest manufactured home builder (Clayton Homes), Shaw Carpet, Benjamin Moore Paint, Acme Brick, Burlington Northern Railroad, Mid-American Energy, Marmon Group and many other companies which would thrive if housing makes a big comeback in the U.S.

Most portfolio managers and indexes are poorly positioned to make money from a rebound in housing and a much stronger U.S. economy. Look at the chart below:



Source: Bloomberg. Past performance is no guarantee of future results.

Buffett can see that household formation was worse from 2007-2013 than it had been in nominal terms since the early 1960's when the U.S. population was only 180 million people. We have 325 million people today (unless Donald Trump orders a large number to leave in 2017) and our largest population group happens to be at the age that households are formed. We view this as a five-standard deviation statistical anomaly because in the early 1960s the greatest generation was about done having kids and the baby boomers weren't yet old enough to do so. Hence, the dearth of nominal households back then made complete sense. The paucity of household formations this time came from the perfect storm of the worst financial meltdown since the 1930s combined with a secular change in the age of marriage and first children in the U.S.

Second, the fact that Buffett's stocks are deeply out of favor speaks volumes to the psychology of the stock market as we enter 2016. Buffett is getting hit hard with criticism on American Express, IBM and Bank of America. Sounds very much like the same ridicule Bill Miller got in 2011. American Express has had some of its own issues with Costco, IBM has had severe currency headwinds and is changing the mix of their business, and Bank of America continues to be dragged down by regulatory issues and historically-depressed interest rates.

In the late 1960s, Buffett was faced with the development of the Nifty-Fifty. This was a group of seemingly invincible companies whose earnings growth looked uninterruptible, which had ultra-high P/E ratios and Buffett wasn't willing to own. Almost nothing else in the U.S. stock market besides them worked between 1970 and the beginning of 1973. In 1998 and 1999, nothing seemed to work except for tech stocks and Buffett didn't find anything there that interested him.

Today, we have a narrow market like those two previous junctures. A recent report shows that you lost money in the S&P in 2015 if you didn't own 10 glamour stocks which had stunningly good years. Among them were Facebook, Amazon, Netflix and Google, affectionately called the "FANG" stocks. Much like the previous times when Buffett's approach fell out of favor, high P/E ratios and massive faith in the future are invested in these glamour favorites.

Value investors need to buy inexpensive and meritorious companies which do much better than the low business expectations attached to them. Academic studies have proven that buying inexpensive common stocks with low expectations outperform over one- to seven-year holding periods. Buffett has made a career out of doing this.

Low business expectations are attached to companies which appear to be losers from Amazon taking everyone else's business in online commerce. Netflix is supposed to kill everyone in the cable and network TV business. Facebook and Google are supposed to be grabbing the advertising dollars which used to go to "old economy" newspapers, magazines and TV channels. Therefore, as of December 31st 2015, you paid an average of 350 times last twelve month earnings for these glamour stocks and 10-15 times earnings for the companies which they are supposed to destroy.

History has been cruel when the maniacal affection for expensive stocks with bright futures gets broken. Many of the Nifty-Fifty stocks lost 60-90% of their value in the 1973-1974 bear market and tech stocks lost 80% of their value on average from March of 2000 to March of 2003. Buffett didn't look like he'd lost his touch once the high-priced favorites got their comeuppance.

Where does that put us as we look out into 2016? Buffett's privately-owned and publicly-traded businesses are clearly out of favor and could remain that way until the infatuation with glamour stocks is hitting the wall. We choose to prepare well ahead of time, especially when it comes to undo risk in expensive common stocks. Our old adage is, "If there's going to be a hurricane in Miami, we don't want to be in Palm Beach!"

As long-duration common stock investors, we like Buffett's American Express, which could return to favor later on and reward us for getting involved. They are having very high acceptance from 25-35 year old credit card users and dominate households in the U.S. with over $100,000 annual income. Their balance sheet is powerful, return on equity is excellent even in the middle of the current difficulties and their P/E ratio is nearly half that of Visa and MasterCard.

We like eBay and Nordstrom, whose businesses are supposed to get severely damaged by Amazon. Both are very reasonably priced with very-addicted customer bases and a growth strategy where the expenses are front-loaded and the benefits can go on for years.

We like Tegna, Gannett and Comcast, which Netflix, Alphabet (Google) and Facebook are supposed to be terrorizing. These businesses gush free-cash flow and a recent study has shown that TV/newspaper advertising is proving to be much stickier than internet-related ads.

Lastly, we like betting alongside Warren Buffett on housing making a big comeback over the next five years. We see it benefitting NVR, the fifth-largest home builder and a builder of starter homes in 15 states. We like mortgage loans and the pickup in velocity of money that housing demand could cause, which would benefit Bank of America, JP Morgan and Berkshire Hathaway. Thank you for your confidence and trust in our investment discipline.

William Smead
Portfolio Manager

Tony Scherrer, CFA
Co-Portfolio Manager

Cole Smead, CFA
Co-Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible.

As of 12/31/2015 the fund held, 6.24% of Amgen Inc., 6.15% of NVR Inc., 5.58% of Tegna Inc., 4.94% of JPMorgan Chase & Co., 4.84% of Berkshire Hathaway Inc. Class B, 4.52% of Bank of America Corporation, 4.46% of American Express Co., 4.40% of Cabelas Inc., 4.30% of Wells Fargo & Co., and 4.23% of Aflac Inc. 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 U.S. 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 U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. Price/Earnings (P/E) is the ratio of a firm's closing stock price and its trailing 12 months' earnings/ share. Price / Book (P/B) is the current price divided by the most recent book value per share. Alpha is the excess return of a fund relative to the return of its benchmark. Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model (CAPM), a model that calculates the expected return of an asset based on its beta and expected market returns. A Dutch auction tender for public offer is a structure in which the price of the offering is set after taking in all bids and determining the highest price at which the total offering can be sold. In this type of auction, investors place a bid for the amount they are willing to buy in terms of quantity and price. Volatility is a statistical measure of the dispersion of returns for a given security or market index. Sharpe Ratio is a measure that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment. Drawdown is the peak-to-trough decline during a specific record period of an investment, fund or commodity. Free cash flow is a measure of financial performance calculated as operating cash flow minus operating expenditures.

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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