1919 FUNDS

1919 Financial Services Fund

December 31, 2018

Commentary

Morningstar Rating™

Overall Rating as of December 31, 2018

★★★★

As of 12/31/18, Class I shares rated 4 stars among 96 Financial funds, based upon risk-adjusted returns derived from a weighted average of the performance figures associated with 3-, 5- and 10-year (if applicable) Morningstar Ratings metrics.

Tickers

Class I: **LMRIX**
Class A: **SBFAX**
Class C: **SFSLX**

Portfolio Management

Christopher J. Perry, CFA
Portfolio Manager

Mr. Perry is a Principal at 1919 Investment Counsel. His primary responsibilities are as an Equity Research Analyst covering the Financial Services Sector and Portfolio Manager for the 1919 Financial Services Fund. He has over 26 years of industry experience.

About 1919 Investment Counsel

1919 Investment Counsel is the investment advisor to the 1919 Funds and manages approximately $11.8 billion in assets as of December 31, 2018. The cornerstone of 1919's investment process is proprietary, fundamental research with an emphasis on quality, risk management and diversification.

In addition to the 1919 Funds, 1919 Investment Counsel provides customized equity and fixed income strategies for institutions, family offices and high net worth individuals.

Portfolio Manager Christopher Perry provides insight into current opportunities in the banking sector.

Q1. *Would you please provide an overview of the 2018 results of the various areas within the financial sector?*

The Fund invests in a diversified portfolio of companies across a broad range of financial subsectors including banks, insurance and fintech companies. As we look back at 2018, there have been a number of interesting developments that have set the stage for 2019:

- **It's Steady As You Go For Banks -** Banks have demonstrated good operating leverage with double-digit earnings growth and well-managed expense control. Overall, net interest margins were stable and capital return continued to improve with increased buybacks and dividend growth. Loan growth was an area of focus as financing via non-banks (capital markets and private equity) provided competition. However, widening spreads have increased the cost of capital markets transactions, which should encourage greater loan growth for banks in 2019. In fact, we have already seen a sequential pick-up in loan growth during the fourth quarter of 2018.
- **Fintech Continues To Aim High And Exchanges Are Beneficiaries Of The Pick-Up In Market Volatility -** Fintech companies continued to demonstrate high double-digit revenue growth. Increased market volatility has led to higher volume trading on financial exchanges and trading platforms such as ICE (Intercontinental Exchange) and CME Group which in turn has boosted revenues.*
- **Strong Organic Growth For Insurance -** Property and Casualty insurance companies experienced strong organic growth and profitability in 2018. Net interest income increased for both Life and Property and Casualty insurance companies as holdings in investment portfolios matured and they were able to reinvest at higher interest rates. Many insurance companies continue to streamline operations and refocus on high growth potential business lines.

Q2. *It's been a challenging time for financial stocks more recently. Where are you seeing opportunity for banks, in particular, as we move forward in 2019?*

Overall, we expect strong earnings growth for Financial stocks as we move forward in 2019. The earnings growth estimate for the S&P Financial Index in 2019, per financial data research firm FactSet, is 9.4% compared with 8.2% for the S&P 500 Index. As we consider banks in 2019, we estimate earnings growth of 8.6% for our large-cap bank holdings (those over $10 billion in market cap), 12.1% for our mid-cap bank holdings (those between $1 billion and $10 billion in market cap) and 18.7% for our small-cap bank holdings (those less than $1 billion in market cap).

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Q3. *What catalysts for growth do you anticipate will provide opportunity for Financial Services in 2019?*

There are a number of catalysts for growth in 2019 including attractive valuations, potential mergers and acquisitions (M&A) activity and a finer-tuned regulatory approach:

- **Attractive Valuations -** We believe valuations will be a growth catalyst for Financials in 2019. Large-cap and mid-cap banks, in particular, are now trading at a significant discount to their historical 20-year averages but are better regulated, capitalized and managed than before the Great Recession. Given their growth prospects, we believe banks represent a compelling opportunity. Valuations also appear attractive within the Life Insurance subsector and we believe deserve investor interest. Lastly, broadly speaking, many mid-size companies that are attractively priced, demonstrate operational efficiencies, and operate in attractive markets, are potential targets for M&A activity.
- **M&A -** We expect M&A volumes to be strong in 2019 as the focus on realizing shareholder value continues. Attractive valuations, increasing technology costs, and an aging, share-owning CEO population are catalysts for M&A, as are positive regulatory developments — such as raising the Systemically Important Financial Institution (SIFI) threshold from $50 billion to $250 billion.
- **A More Focused Regulatory Approach -** From a regulatory perspective, pro-business agency leadership is now in place and plans to reduce the regulatory burden continue. In fact, the Federal Reserve has segmented banks into categories so that larger more complex banks will be subject to different restrictions than smaller, less complex operations. This should prove positive for the industry as smaller, overly-regulated banks enjoy a degree of regulatory relief. ■

Disclosure

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history without adjustment for sales load. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating™ for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating™ metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Class I shares of the Fund were rated against 96, 92, and 77 Financial funds over the 3-, 5- and 10-year periods, respectively. With respect to these funds, Class I shares of the Fund received Morningstar Ratings of 3, 4, and 5 as of 12/31/18. Ratings shown are for the highest and lowest rated share classes only, when available. Other share classes have different expense structures and performance characteristics. Classes have a common portfolio. ©2019 Morningstar Inc. All Rights Reserved. The information contained herein (1) is proprietary to Morningstar (2) may not be copied or distributed and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance is no guarantee of future results.**

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. In addition to normal risks associated with equity investing, narrowly focused investments typically exhibit higher volatility. The financial services sector may be subject to greater governmental regulation, competitive pressures and rapid technological change and obsolescence, which may have a materially adverse effect on the sector. Fixed income securities are subject to a number of risks, including credit, market and interest rate risks. Additionally, the Fund's performance will be influenced by political, social and economic factors affecting investments in companies in foreign countries. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. Please see the Fund's prospectus for a more complete discussion of these and other risks, and the Fund's investment strategies.

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security. *ICE and CME Group represented 3.1% and 0.3% of the portfolio respectively as of 12/31/18. **Diversification does not assure a profit or protect against loss in a declining market. Earnings growth is not a measure of the Fund's future performance. The S&P 500 Index** is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. **The S&P 500 Financial Index** is an unmanaged index that comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer financials sector**.** It is not possible to invest directly in an index.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectus contains this and other important information about the investment company, and may be obtained by calling 1.844.828.1919. Read it carefully before investing.

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