

Commentary

Morningstar Rating™

Overall Rating as of September 30, 2017



As of 9/30/17, Class A shares rated 4 stars among 148 US Municipal Single State Intermediate 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 A: **LMMDX**
 Class C: **LMMCX**
 Class I: **LMMIX**

Portfolio Management



R. Scott Pierce, CFA
Portfolio Manager

R. Scott Pierce, CFA manages the Fund and is a Managing Director and the Head of Fixed Income within 1919 Investment Counsel. He has over 25 years of industry experience.

About 1919 Investment Counsel

1919 Investment Counsel is the investment advisor to the 1919 Funds and manages approximately \$10.9 billion in assets as of September 30, 2017. 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 Scott Pierce provides insight into current opportunities in the Maryland municipal market.

Q1: What are your thoughts on the level and type of state and local bond issuance?

Currently, Maryland's 30-day municipal bond supply totals over \$16 billion - the highest level since May 2017. The uncertainty surrounding broader healthcare and tax reform fostered caution among local issuers. Many postponed borrowing needs despite the attractive interest rate environment, but it seems that is reversing somewhat.

Certain frequent issuers, such as hospital systems, are highly capital intensive and often raise funds in the municipal bond market to pay for specific enhancements to their facilities. As a result, we expect issuance to increase at a steady pace and have positioned the 1919 Maryland Tax-Free Income Fund to take advantage of these new opportunities as they arise. For example, we recently purchased a high-quality Prince George's County hospital bond which we believe offered value in what still is a difficult market, as well as a bond issued by MedStar Health.

The Fund is structured defensively and maintains an option-adjusted duration of 3.52 years as of September 30, 2017 compared with its benchmark the Barclays Municipal Bond Index which currently has a duration of 6.33 years. The Fund has an average maturity of just 7.21 years.

Q2: Would you please comment upon the anticipated Federal Reserve balance sheet unwinding?

The Federal Reserve's balance sheet reduction will begin this year as the Committee initially will allow \$10 billion of Treasury and mortgage backed securities to roll off every month. The pace of tapering will increase quarterly by an additional \$10 billion each month culminating in a total monthly reduction in reinvestment of \$50 billion.

From our perspective, the question will be who will be buying these securities? In the aftermath of hurricanes Harvey and Irma, many insurance companies will need to raise cash for insurance payouts and may have less demand for fixed income securities, Treasuries included. While banks will likely pick up some of the slack, we expect the Federal Reserve's balance sheet reduction to modestly

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pressure yields higher over the next six to eighteen months as \$600 billion of annual issuance is absorbed by more price-discriminate buyers.

Q3: Why does Maryland continue to be a high quality state to invest in?

Despite Maryland's challenge with its pension funding, the state is wealthy, creating jobs and is conservatively managed from a leverage perspective. As such, we believe it is well deserving of its AAA rating, and most local governments are

extremely high quality as well. As an example of its conservative debt management, Maryland's Capital Debt Affordability Committee limits the amount of general obligation debt to 4% of aggregate personal income, while debt service is limited to 8% of the state's total revenues. Despite the fact that Maryland hospitals are not subject to this limitation, the Maryland Cost Review Commission regulates the market and provides stability to the sector. In our opinion there are plenty of high-quality names to choose from and the Fund benefits accordingly. ■

Disclosure

Past performance does not guarantee future results.

Municipal bonds, taxable debt obligations and other asset classes have different risk-return profiles, which should be considered when investing. All investments contain risk and may lose value.

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 A shares of the Fund were rated against 148, 136, and 119 US Municipal Single State Intermediate Funds over the 3-, 5- and 10-year periods, respectively. With respect to these funds, Class A shares of the Fund received Morningstar Ratings of 4, 3, and 4. 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. ©2017 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. Bonds are subject to a variety of risks, including interest rate, credit and inflation risks. As interest rates rise, bond prices fall, reducing the value of a fixed-income investment. Municipal securities purchased by the Fund may be adversely affected by changes in the financial condition of municipal issuers and insurers, regulatory and political developments, uncertainties and public perceptions, and other factors. The fund is non-diversified, meaning it concentrates its assets in fewer individual holdings than a diversified fund, specifically in the State of Maryland issues. The Fund is susceptible to adverse economic, political, tax, or regulatory changes specific to Maryland, which may magnify other risks and make the Fund more volatile than a municipal bond fund that invests in more than one state. Income from tax-exempt funds may become subject to state and local taxes and a portion of income may be subject to the Federal Alternative minimum tax for certain investors. Please see the Fund's prospectus for a more complete discussion of these and other risks, and the Fund's investment strategies.

Duration is the measure of the price sensitivity of a fixed income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows. **Bloomberg Barclays Municipal Bond Index** is an unmanaged index that is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year. One cannot invest in an index. **Bond ratings** are grades given to bonds that indicate their credit quality as determined by a private independent rating service such as Standard & Poor's. The firm evaluates a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade.

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.

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.

Nothing contained in this communication constitutes tax or investment advice. Investors must consult their tax advisor for advice and information concerning their particular situation. The Prince George's County hospital bond and MedStar Health bond represents 2.26% and 2.06% of the portfolio respectively as of 10/19/17. 1919 Funds are distributed by Quasar Distributors, LLC.