



Letter to Shareholders

September 30, 2014

Dear Shareholder:

The Green Owl Intrinsic Value Fund (the “Fund”) lost 0.38% in the quarter ended September 30, 2014, versus a 1.13% gain for the Standard & Poor’s 500 (S&P 500). For the first nine months of the calendar year, the Fund has gained 1.82% while the S&P 500 is up 8.34%.

*The performance data quoted above represents past performance. **Past performance is no guarantee of future results.** Current performance may be lower or higher than the performance data quoted. The investment return and principal value vary so that an investor’s shares when redeemed may be worth more or less than the original cost. The gross total annual fund operating expense is 1.54%. The Adviser has contractually agreed to limit its fees and to assume other expenses of the Fund until February 28, 2015, so that the total annual fund operating expense does not exceed 1.10%. 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 1-888-695-3729.*

Performance so far this year, at least on a relative basis, continues to be lackluster. Keep in mind that we are in the business of chasing value, not performance, and to do as well as our benchmark has this year would have required us to take on more risk than we think is prudent. We will not chase returns by buying shares of highly priced social media stocks, early-stage biotechnology companies, utilities (yes, even utilities are expensive!), or other hot growth stories with poor fundamentals and uncertain prospects. “Fear of Missing Out” is not an emotion we possess. We are more concerned with the risk of suffering a permanent loss of capital than about the risk of missing opportunities, especially those that are short-term in nature. Our view is that short-term stock gains and losses are fleeting while long-term price appreciation is driven by company fundamentals and the multiple applied to those fundamentals. We feel very strongly that our portfolio companies share strong fundamentals and are content to wait patiently for the market to place more appropriate multiples on their strong and growing free cash flows. We are very grateful for a client base that shares our focus on the long-term, thus allowing us to deviate from a benchmark over short time periods. It is a very meaningful advantage.

The results for the Fund’s complete history through September 30, 2014, along with corresponding benchmark returns, are provided below.

Green Owl vs. S&P 500
Annualized Equity Performance (Net of Fees)

	1-Year	Since Inception (12/28/2011)
Green Owl	12.68%	19.54%
S&P 500	19.72%	19.99%

Green Owl vs. S&P 500
Cumulative Equity Performance (Net of Fees)

	1-Year	Since Inception (12/28/2011)
Green Owl	12.68%	63.70%
S&P 500	19.54%	65.39%

The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment in the Fund 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 1-888-695-3729.

Fundamentals vs. Expectations

“The stock market is filled with individuals who know the price of everything, but the value of nothing.” - Phil Fisher

Suppose there’s a horse race between two horses and 100 bettors wagering on the outcome by each buying a \$2 betting ticket. Ignoring the house’s take, the total pot is \$200. Horse A is a relative newcomer, but has performed strongly in warm-ups, while Horse B is an established horse who has run well for a long period of time and shows few signs of slowing down. Rational bettors could easily disagree over which horse is the better bet to win, so the field splits evenly. If 50 bet on Horse A and 50 bet on Horse B, the 50 winners will pocket the whole \$200, or \$4 per person. Each winner will have doubled their \$2 bet.

Now assume a similar race except this time a report is released by Horse A’s promoter stating that Horse A has the potential, untested as it may be, to run much faster than Horse B. Based on this report, the consensus view becomes that Horse A is such an overwhelming favorite that 80 of the 100 bettors wager on her. The house being no fool, as anyone familiar with horseracing knows, will adjust the odds on Horse A. In this case, the odds will change from 2-to-1 down to 5-to-4. If Horse A wins, the 80 bettors with winning tickets will share the \$200 pot, but will only take home a

paltry \$2.50 despite putting \$2 at risk. If Horse B wins, the 20 bettors who stood by their original analysis will be rewarded with a significantly larger payday, returning home with \$10 in exchange for the \$2 they put at risk.

As this example illustrates, the cost of being right with the overwhelming majority is that the potential reward does not adequately compensate the bettor for the risk being assumed. Meanwhile, bettors who chose Horse B, whose analysis showed they had a 50% chance of losing \$2 and a 50% chance of winning \$10, were being more-than-adequately compensated for the risk they were assuming. In the event that Horse A does win the race, bettors with 20/20 hindsight may deem a wager on Horse B a foolish act, but the asymmetric relationship between reward and risk offered by a wager on Horse B before the race is the bet we will take every time.

Similar reasoning holds true for the stock market. When a majority of investors agree on the attractiveness of a company and buy its stock, the price of that stock rises. In doing so, it reduces the potential gain that would result from continued operational success. It also increases the potential loss if the company disappoints on expectations. Just like in horse racing, if an investor believes they know the winner, but everybody else does too, it doesn't necessarily make you a lot of money and could ultimately cost you.

Acting as long-term investors, we seek to buy securities that trade at a price less than our estimate of business value. The key to doing this successfully is to always focus on the distinction between fundamentals and expectations. These are two very different things. In horse racing terms, expectations would be the odds on the tote board, while fundamentals would be the horse's prior track record, the track conditions, the jockey, etc. As shown above, if expectations (odds) are so high, great fundamentals (fastest horse, best jockey) can be irrelevant in terms of actually making money.

In the first horse race example, there was disagreement on the fundamentals (which horse would win) and therefore the odds (the price) allowed a bettor to make money with a correctly placed bet. The way you make money in horse racing is exploiting differences between expectations and fundamentals -- what the odds on the tote board say about how fast the horse is going to run. Investing in stocks is no different. In the stock market, the key to successful investing is to explicitly distinguish between fundamentals – the value of the company based on financial results in the future – and expectations – the market price and what it implies about those results.

Over the years, many studies have been undertaken looking at whether past company-specific performance could be used to predict future stock price performance. In one such study in 1993, the National Bureau of Economic Research published a working paper (No. 4360) entitled “Contrarian Investment, Extrapolation and Risk.” The three authors studied strategies of buying stocks with high prices relative to earnings or book value or the fastest growth in sales or earnings (i.e. proxies for

stocks that had performed well in the recent past) versus ones with low prices or slower growth relative to those same criteria (i.e. proxies for those that had performed poorly).

In the study, stocks were grouped into deciles – the highest decile was made up of the fastest growing companies over the previous five years, while the lowest decile was made up of the slowest growing companies. Surprisingly, the lowest decile significantly bested the stock market performance of the highest decile in subsequent years. How does one explain this seeming paradox? We would chalk it up to fundamentals vs. expectations. Companies that had achieved superior growth in the previous five years had created high expectations among investors; and in the stock market, higher expectations translate into higher prices. As typically happens in ensuing years, the companies with the highest past growth failed to grow materially faster than companies with slower past growth. The disappointed expectations caused these former fast growers to underperform in the stock market and, by default, the former slow growers outperformed.

What the study starkly demonstrates is that the ability to distinguish between price and value – two very distinct, yet often conflated, concepts – is far more important than just picking stocks that have done well in the past. As Warren Buffett would say, “Price is what you pay. Value is what you get.”

The key questions we’re always asking ourselves are what is reflected in the stock price and is reality going to unfold in a way that is different than that? It's also important to spell out why our opinion is different. Is it that we can be more patient in holding a stock that's cheap and in plentiful supply? Is it that, by dint of our research efforts, we feel more certain than the majority of investors? Is it that we handicap the odds or the range of outcomes differently?

One of the most recent examples to illustrate how we attempt to differentiate between fundamentals and expectations has been our decision to overweight financials, particularly large diversified banks, in recent years. In the wake of the Great Recession, with balance sheets full of toxic loans and an increasingly uncertain regulatory environment looming, many financial-related companies were reviled by investors. Expectations for this group were unmistakably low and this was clearly reflected in their stock prices as many were trading below book value (book value can often be thought of as a proxy for liquidation value). In effect, these companies were being priced as worth more dead than alive. We did not agree with this sentiment as we saw the fundamentals ultimately turning positive; not quickly mind you, but over a period of several years. In light of the prices being offered by the market (based on extremely low expectations), we saw this group offering significant upside (based on improving fundamentals) with limited downside. Odds were set as if they were lame horses, and therefore we could make money even if they ultimately finished in the middle of the pack (i.e. they did not need to win for us to do well). Since that time we’ve seen significant gains in many of our holdings including banks such as **Bank of America (BAC)**, **Bank of New York Mellon (BK)**, **Wells Fargo (WFC)**, investment bank **Goldman Sachs (GS)**, and insurance company **American International Group (AIG)**.

The return on a stock will be a function of the relationship between the price today and the cash flows it will produce in the future. The future cash flows, in turn, will be a function of the fundamental performance of the company. In order to achieve superior results, we must spend our time ferreting out asymmetries in the market's pricing mechanism versus our estimate of the company's future operating results. Doing this effectively produces situations where the upside potential exceeds the downside risk. This is what successful investing is all about.

Portfolio Activity

We consider most equities in our universe of investable companies to be fairly valued to slightly overvalued. The sizeable appreciation in the stock market from its March 2009 lows has left few companies selling at attractive discounts to our estimate of their intrinsic value. Our research efforts, while exhaustive, have uncovered relatively few of the asymmetries necessary for a company to make its way into the portfolio. As has happened many times recently, our analytical deep-dives on promising opportunities leave us wanting a cheaper entry price. Valuation risk – or the risk of overpaying – is one of only a handful of market risks that is somewhat within an investor's control; all you have to do is refuse to buy if the price is too high given the fundamentals. However, despite the lack of actionable ideas, we don't consider this research time unproductive. It's extremely important to continue to learn about as many companies as we can so we can be prepared to act if the environment worsens (i.e. get a meaningful market correction) and it's imperative to have done the homework ahead of trouble so we are ready to pounce when prices are more to our liking.

That said, we still managed to initiate two new positions during the quarter, **Valmont Industries (VMI)** and **Viacom (VIAB)**. Valmont is a leading manufacturer of center-pivot irrigation systems for farms, concrete and steel transmission structures utilized by electric utilities, and engineered metal structures and components used in the lighting, traffic control, and wireless communications industries. In other words, they make sprinklers, electricity towers, light poles, and traffic lights. While these businesses may not seem to be the most exciting, they are important, niche industries dominated by a small oligopoly of players, which creates the conditions for rational pricing, high barriers to entry, and strong long-term growth prospects. With Valmont holding a leading position in each industry, it has enjoyed earning high returns on capital and abundant growth in free cash flow.

While the businesses Valmont competes in display attractive growth prospects, they can also show signs of cyclicity. Recently, the irrigation business has been under pressure as corn prices have fallen dramatically from over \$7 per bushel to under \$4. While the resulting fall-off in farmer income will likely dampen their appetite to invest in irrigation systems in the near term, we believe this is a short-term setback and not a long-term impediment to Valmont's prospects due to the value proposition offered to farmers by the types of irrigation systems Valmont produces. With the current valuation likely incorporating a drearier outlook for earnings growth over the next several

years than we deem likely, we believe the recent weakness in Valmont's shares represent an attractive entry point.

Viacom operates in two segments; Media Networks (cable stations) and Filmed Entertainment (movies). Network properties include MTV, Nickelodeon, Comedy Central and BET, among others, while Paramount Pictures is its prime film studio. Creating, producing, and distributing content is a good business, in our opinion. On the network side of the business, where most of Viacom's intrinsic value resides, the company generates revenues in relatively equal parts through the placement of advertising and affiliate fees paid by the cable/satellite companies to access their roster of channels. While advertising revenues can be cyclical, affiliate fees have shown steady growth, and we anticipate that this will be the case looking forward.

While recent advertising and ratings trends have been a headwind, the company continues to generate a strong stream of free cash, typically a hallmark of content producers. We find the valuation of Viacom shares attractive at approximately 13x our estimate of next twelve months' earnings per share (and slightly lower on a free cash flow basis). Viacom is one of the most aggressive repurchasers of its own shares we have come across, and management has indicated they will continue use the company's ample free cash flow to retire shares. As long as the company's shares trade below intrinsic value, aggressive buybacks will boost shareholder value and, in our opinion, represent the best use of its cash flow.

We eliminated three holdings (Goldman Sachs, **Hertz (HTZ)** and **Vodafone (VOD)**) that approached our fair value estimates while trimming one other (**Apple (AAPL)**), and cycled the proceeds into several current holdings we felt were particularly undervalued (AIG, Bank Of America, **Bed Bath & Beyond (BBBY)**, **Boeing (BA)**, **Citigroup (C)**, and **General Motors (GM)**). We will touch on a few of these and our reasons for buying/selling below.

We trimmed our Apple position as strong performance year-to-date has moved it closer to what we believe is fair value. Interestingly, it wasn't long ago that market sentiment toward the shares of Apple was exceptionally grim. To the outside world, it looked pretty dumb for anyone to still be holding shares in what was considered a former rising star. But we didn't know from sentiment. Besides its low valuation, what had attracted us initially to Apple was its cash laden balance sheet, which had only grown stronger as the stock price moved lower. Our belief was that Apple's cash hoard could be deployed in ways which would substantially benefit current shareholders. Fortunately, the company felt this way as well. Since June of 2012, management has deployed over \$70 billion towards share repurchases and dividends and has authorized at least another \$100 billion of the same through the end of 2015. We don't think it was coincidental that sentiment around the shares brightened just as the market came to the realization that a torrent of cash was coming to Apple shareholders, causing its shares to return over 100% (including dividends) since.

Taking a contrarian stance often leads to a situation we refer to as "investing smart vs. looking smart." While our analysis leads us to believe a certain investment has merit (in this case, Apple), it

may take some time for other investors to share the same view, thus creating a lag where we may look out of touch. While we don't turn out to be correct 100% of the time, our batting average on these types of situations has been pretty good. Instead of being scared out of such a stock when the price falls, our conviction coupled with a lower stock price creates a pleasant situation where we can accumulate more shares than we otherwise would at higher prices. It also produces a state of affairs amenable for a shareholder-friendly management team to engage in share repurchase activity as they can buy in more shares than would have been possible given a higher stock price. More shares retired by the company bestows a greater percentage of the ownership on those shareholders that do not sell and increases earnings per share at a faster rate than would have otherwise been possible.

We sold out of Hertz, a relatively new holding, after the company badly missed our earnings target and announced certain accounting deficiencies that will cause them to restate recent years' financial results. Call us frustrated bulls because we had higher hopes for Hertz but felt the current situation was a bit too murky even for our liking. Even so, we turned a decent profit on the investment, proving that investing only when a sufficient margin of safety exists is a worthwhile pursuit.

We believe Bed Bath & Beyond's current valuation represents one of the largest asymmetries in our portfolio. Our investment philosophy is predicated on taking a private business owner approach to investment analysis with the explicit goal of trying to arbitrage the difference between our three- to five-year time horizon and the typical investment horizon of several days to several months employed by many other investors. Bed Bath & Beyond's valuation suggests other investors are highly concerned that the company will forever bleed market share to online competition, leading to a future of lackluster sales and declining margins. Is this expectation grounded in reality vis-à-vis Bed Bath's fundamentals and operating environment?

The retail industry is in the throes of what is likely a once-in-a-generation change – the emergence of omni-channel retailing. In our opinion, the last time a change this dramatic happened in the retail industry was the emergence of big-box retailing, when Wal-Mart led the charge to forever declining pricing. Omni-channel retailing, the catchphrase that has sprung up to capture this new movement, is the evolution of multi-channel retailing, but is concentrated more on a seamless approach to the consumer experience through all available shopping channels.

Essentially, shopping patterns are changing. American consumers no longer make a primary weekly trip to the big-box retailer within 20 minutes of their home, sprinkling in satellite visits to specialty retailers. Rather, shoppers have never been better educated before they step into a store, if they make it to the store at all. Excluding the financial crisis, online shopping has been growing at greater than 15% annually for a decade (compared to low single digits for retail sales as a whole). Consumers are largely visiting multiple sites, or mobile apps, before making a purchase online or in-store. Importantly, pricing has become transparent, with retailers unable to as effectively hide margin in various products as they have in the past. This new reality of fully transparent pricing is most evident in retailers who note that shopper conversion rates within stores are higher in locations that offer free Wi-Fi. In this new world, it is the norm rather than an exception that consumers are more

likely to make a purchase if they can first use their phone to check prices at competing retailers before purchasing the goods sitting on the shelf in front of them.

In light of these changes, the popular narrative is that brick-and-mortar retailers will face indefinite market share losses to Amazon and other online only retailers, margin pressure, and ultimately declining earnings. While the retailing-is-dead story seems to have engrained itself in the minds of many investors, it is interesting to note that it does not appear to be playing out nearly as neatly in reality. While traditional retailers have ceded market share, and in aggregate could very well continue to do so, many of the stronger retailers have embraced the changing world and invested heavily in their own omni-channel capabilities.

Many retailers historically viewed their websites as an advertisement for a shopper to come to their store. However, since recognizing this view had become dated, retailers have invested aggressively in IT and developed online and mobile shopping experiences that they view as extensions of their stores and, more importantly, an extension of their relationship with their customers. In addition to looking to maintain “share of mind,” these companies have developed the ability to use their physical locations as an advantage instead of a noose by repurposing their existing infrastructure of shopping destinations as distribution facilities. As a result, a consumer can order in a store for delivery, shop online and pick up the desired goods in a store, or simply buy online with delivery speeds matching Amazon.

Additionally, many of these retailers have taken the important steps of matching e-tailers on price, establishing competitive, free shipping thresholds (sometimes tied to existing loyalty programs), and competing on customer service. While the shopping experience on Amazon is undoubtedly delightful, being able to return a good to the store down the block or seek advice from a knowledgeable sales associate is still an advantage in the minds of many shoppers.

While adapting to the new environment has required increased investment and can cannibalize some traditional in-store sales, an effective omni-channel approach can preserve market share and, after a ramp-up period, likely grow total profitability in a fashion not dissimilar to historic norms.

Bed Bath’s historically sound management team was uncharacteristically slow to adopt omni-channel strategies and is now playing catch-up. As a result, many investors see Bed Bath’s recent results as an affirmation of the fearful narrative associated with retail in general. While gross margins have declined from a record high of 41.4% in 2012 to 39.7% last year, the assumption that the decline is the beginning of a never-ending trend seems off-base. Declining margins are the result of increased couponing expenses from unsustainably low levels, a shifting mix to lower margin consumables related to the new retail formats acquired in recent years, and offering free online shipping for orders over \$49, which is necessary to compete in the new omni-channel world. In addition to gross margin compression, profit margins are being negatively impacted by the fact that the company has begun the necessary process of investing heavily in its e-commerce platform. This investment

includes an updated website, data centers, and distribution centers dedicated to shoring up its omni-channel offering.

Importantly, we agree that Bed Bath has likely lost some market share to Amazon, as well as to some of its more traditional competitors who have invested earlier in omni-channel capabilities. However, the jump from this data point to concluding that Bed Bath is a dramatically shrinking retailer in the mold of Best Buy is quite the leap. Looking at comparable sales data for several retailers makes this abundantly clear:

	2013	2012	2011	2010	2009	2008
Bed Bath & Beyond	2.4%	2.7%	5.9%	7.8%	4.4%	-2.4%
Best Buy	-0.8%	-2.9%	-1.7%	-1.8%	0.6%	-1.3%
Staples	4.0%	-2.0%	0.0%	-1.0%	-2.0%	-9.0%
Wal-Mart	-0.4%	2.1%	0.9%	-1.1%	0.0%	3.3%
Target	-0.4%	2.7%	3.0%	2.1%	-2.5%	-2.9%

Source: Bloomberg

In our opinion, the key to analyzing Bed Bath & Beyond is to realize that the company has grown its sales at a healthy level despite having a poor, or potentially non-existent, omni-channel strategy during a period where changes in shopping patterns have accelerated. What could be a better testament to the strength of Bed Bath's competitive advantage than being able to compete fairly effectively while spotting its peers a large head start? We see no reason Bed Bath's management, having woken up to its mishandling of the situation, will fail to implement the same strategies that many of its peers have successfully implemented as described above. The magnitude of the spending the company has included in its guidance towards this new endeavor makes it clear that it has realistically assessed the situation and has made what we believe is the correct decision to depress near term margins in exchange for long-term gain.

There are always challenges. However, the near-term challenges which are priced into the stock as if it were a permanent change create the opportunity for high risk-adjusted returns. In other words, the current stock price implies a certain set of probabilities, while our analysis suggests something different. In the case of Bed Bath, the current quotation implies declining earnings forever. Were we to prove incorrect in our analysis and margins were to decline meaningfully from currently depressed levels, we believe earnings per share would approach \$4 vs. the \$5 currently expected. Given the strength of the brand and pristine balance sheet, earnings even at this depressed level would imply fairly limited downside from today's prices.

Interestingly, company management has the vast majority of their wealth tied up in Bed Bath stock. As such, they are highly aligned with shareholders' interests and are acting in a manner that reflects it. As the company continues to make the necessary investments to the benefit of long-term intrinsic value, but to the detriment of near-term earnings, management has outlined ambitions to repurchase

greater than 20% of the shares outstanding at prevailing valuations. As such, if the company is able to grow earnings through this investment cycle by a mere 1% annually over the next three years, we believe the company will likely earn in excess of \$6.25 per share. At a current market quotation of approximately \$64 per share, it takes very little for the presumed market odds to prove wildly pessimistic. While we can never be certain, investments in above-average companies with asymmetric payoff profiles tend to do well over time.

We are honored that our shareholders entrust their assets to this Fund. We thank you and welcome your questions and comments

As of 9/30/14, American International Group 3.5%, Apple 3.8%, Bank of America 3.4%, Bank of New York Mellon 3.4%, Bed Bath & Beyond 3.7%, Boeing 3.6%, Citigroup 2.1%, General Motors 3.7%, Goldman Sachs 0.0%, Hertz 0.0%, Valmont Industries 1.5%, and Viacom 3.0%, Vodafone 0.0%, and Wells Fargo 3.1% of the Fund's total net assets. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.

The S&P 500 Index is a broad market-weighted average of U.S. blue-chip companies. This index is unmanaged and investors cannot actually make investments in this index.

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The Fund's prospectus contains important information about the Fund's investment objectives, potential risks, management fees, charges and expenses, and other information and should be read and considered carefully before investing. You may obtain a current copy of the Fund's prospectus by calling 1-888-695-3729.

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