

Bluestone

FINANCIAL INSTITUTIONS FUND

September 2018 Review

Dear Investors and Friends:

Since the post-election rally witnessed in late 2016, small cap banks have generated price returns below the broader U.S. stock market and their own rates of Core Value growth. Since year-end 2016, the community bank market has appreciated 9.1% as measured by the SNL U.S. Bank NASDAQ Index. Fortunately, the Bluestone Financial Institutions Fund materially outperformed during this period, returning 25.2% on a net basis. Although it's always difficult to predict how equity markets will behave, we think the banking industry's strong earnings and tangible book value growth bode well for its relative performance over the intermediate term. For perspective, we project most of the companies in our portfolio to grow franchise value in excess of 15% over the next 12 months.

On a year-to-date basis, Bluestone Financial Institutions Fund has returned 3.65% on a net basis compared to our benchmark of 1.57%. In 2018, we have witnessed some contraction in valuation multiples for the space, reflective of concerns regarding a flatter yield curve and the pending midterm elections. The spread between the 10-Year Treasury and 1-Year Treasury, for example, narrowed from 160 bps at the end of 2016 to 46 bps as of September 30, 2018. Although this trend has created headwinds for community banks, key profitability metrics have expanded markedly over the same period and appear well positioned to continue to do so. Moreover, in the event the yield curve begins to normalize in a manner consistent with the strength of the U.S. economy, we think U.S. bank stocks would likely stage a major rally.

Looking forward, earnings season slated later this month and the midterm elections thereafter could also serve as positive catalysts for the industry and our fund. We anticipate 3Q18 fundamentals to be characterized by healthy revenue growth, improving efficiency, and pristine credit quality. Further, while Republicans seem likely to lose the House on Election Day, they could fare better than the polls suggest as they did two years ago. Either way, we see little threat to a favorable operating environment for the group.

Bluestone Financial Institutions Fund: Performance History

	<u>2015'</u>	<u>2016'</u>	<u>2017'</u>	<u>September</u> <u>YTD</u>	<u>Since</u> <u>Inception</u> ³
BFIF Net Return ¹	10.93%	18.77%	20.78%	3.65%	107.66%
Benchmark Return ²	5.03%	15.85%	2.49%	1.57%	50.48%
Outperformance / (Underperformance)	5.90%	2.92%	18.30%	2.08%	57.18%
Weighted Average Portfolio Beta	64%	56%	28%	31%	50%
Dow Jones Industrial Average	-2.23%	13.42%	25.08%	7.04%	81.56%
S&P 500 Index	1.38%	11.96%	21.83%	10.56%	108.98%

1. Net of management fees of 1.5% and performances fees of 15.0%

2. Monthly SNL U.S. Bank NASDAQ Index return multiplied by the fund's monthly portfolio beta

3. 3/31/2013 - 9/30/2018.

Best regards,

Ted Peters, Chairman & CEO

Jason O'Donnell, CIO