Bluestone
FINANCIAL INSTITUTIONS FUND

December 2018 Review

Dear Investors and Friends:

After *sitting pretty* through the first nine months of 2018, U.S. equities and especially small caps devalued sharply in the fourth quarter. As a result of the selloff, the DJIA and Russell 2000 indices posted losses of 5.6% and 11.0%, respectively, for 2018. While there are a multitude of drivers behind the decline, most center on concerns regarding slowing economic growth globally and the possibility of recession at home longer-term. That stated, most economists are calling for U.S. GDP growth near 2.5% in 2019, down modestly from an estimated ~3.0% in 2018.

For their part, U.S. bank stocks underperformed the broader stock market last year, with most of the major bank indices down 15.0-18.0%. For 2018, Bluestone Financial Institutions Fund returned -9.80% on a net basis compared to our benchmark of -15.71%. The industry's weaker performance was caused by a steady flattening of the yield curve, which is likely negating the benefits of rising interest rates, as well as concerns credit costs will trend higher as the economy slows. Fortunately, with valuation multiples near historic lows, U.S. bank stock prices stabilized in late December and appreciated in the opening weeks of the new year. Although the slope of the yield curve represents a headwind for near-term earnings growth, the banking industry remains fundamentally healthy and is unlikely to post materially higher credit costs anytime soon, in our view. Criticized loans, a harbinger of future losses, declined a remarkable 16% annualized over the six month period ended September 30, 2018 for mega cap, regional, and super community banks.

Looking forward, the bank space will report 4Q18 financial results over the next few weeks. We are anticipating a moderation in revenue growth, tight cost controls, and stable credit metrics across every asset class. Assuming no improvement in the yield curve, we expect Core Value for the group to grow 7% annualized this year and community bank acquisitions to continue. In addition, we envision only 1-2 rate hikes in 2019, a *Goldilocks* pace in our opinion provided GDP growth falls in line with forecasts. Despite our wariness of market timing, we can't help but see far more upside potential than downside risk for 2019.

Bluestone Financial Institutions Fund: Performance History

	2015	2016	2017	2018	4/1/13-12/31/18
BFIF Net Return[1]	10.93%	18.77%	20.78%	-9.80%	80.73%
Benchmark Return[2]	5.03%	15.85%	5.28%	-15.71%	28.72%
Outperformance / (Underperformance)	**5.90%**	**2.92%**	**15.50%**	**5.91%**	**52.00%**
Russell 2000 Index	-4.41%	21.31%	14.65%	-11.01%	55.35%
Dow Jones Industrial Average	-2.23%	13.42%	25.08%	-5.63%	60.07%

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

2. Represents the SNL U.S. Bank NASDAQ Index for periods since 2016. Represents the monthly SNL U.S. Bank NASDAQ Index return multiplied by the fund's monthly portfolio beta for the 4/1/13-12/31/16 period.

Best regards,

Ted Peters, Chairman & CEO

Jason O'Donnell, CIO