FINTRUST FUNDS

FINTRUST INCOME AND OPPORTUNITY FUND

TICKERS: Institutional Class: HIOIX, Class A: HROAX
PORTFOLIO MANAGERS: Allen Gillespie, CFA, David Lewis, CFA, John Mills

Dear Fellow Shareholders,

Performance

In the fourth quarter, the Institutional Class of our Fund gained 6.59% bringing the year-to-date return to 13.28%. The fund's factsheet contains additional information, including the performance of other shares classes.

A Balanced Approach Toward Investing

In times past, investors might seek to balance the need for income and return against risks by investing in a balanced portfolio of blue-chip, dividend paying stocks and investment grade bonds which paid reasonable amounts of interest. Today, such a portfolio would produce a combined yield of less than 2%, as modern markets have three distinguishing characteristics:

1) **Regular, technology driven disruption.** Even Blue-Chip companies are being challenged by regular, technology driven disruption of business models. It wasn't that long ago that Eastman Kodak, a Dow Jones Industrial Average stock fell into bankruptcy after its business was disrupted by the camera phone.

2) **Lack of Dividends.** Blue-chip companies are increasingly choosing to re-invest or hoard cash, or at best return it in the form of modest dividends and uncertain buyback activities. Of the 10 largest companies in the S&P 500 as of September 30, five do not pay a dividend, and only two have dividend yields higher than short-term interest rates.

3) **Historically low interest rates**. As of the end of December 2019, investment grade bond investors find that the benchmark 10-year Treasury bond yields 1.92%.

Identifying and investing in a diversified portfolio of great businesses at reasonable prices is still a sound, long-term investment philosophy, but we believe it does require some modernization of investment processes and techniques for balanced investors and those that need income from their portfolios.

Investment Philosophy

We believe that intellectual property is the key driver of business value in the modern economy. In order to identify high quality businesses and avoid technology driven disruption, it is critical that the modern analyst understand, measure, and value the intangible assets of a company relative to its competitors. The valuation of intangibles requires an analysis of patents, trademarks, copyrights, and brands. Companies that look expensive on traditional metrics, might in fact be cheap, when one considers the strategic value of intangibles. Conversely, other companies might appear cheap relative to history when they are, in fact, expensive due to their economic positioning.

We also believe in building a diversified portfolio across economic sectors. This is a plausible method of diversification because intellectual property is not just a technology industry story. Patents and intellectual property are playing an increasing role throughout the economy.

Third, we recognize that regular cashflow may help to buffer stormy markets or provide income to investors. We believe, however, that utilizing the listed options markets is a better way to create cashflow streams and control risk than relying solely on dividend paying stocks and low yielding bonds.

Outlook & Approach

In our view, markets can only do three things:

1) **they may go up in value.**
2) **they may go down in value.**
3) **or they may trade back and forth in a limited trading range.**

At any given moment, various factors may make one market environment more likely than the others, but we do not believe we have any particularly special talent for making that call. As a result, we believe in taking a methodical approach to portfolio construction, risk management, and security selection. Our goal is to create a portfolio that balances the risk return trade-off in an acceptable way for all three market environments.

First, we seek to participate in strongly trending up markets like the one we experienced in 2019. We, however, are also mindful about the need to prudently manage risk. We believe 2018's fourth quarter decline was a good test of our risk management strategies, as the fund lost 7.05% while the market lost 13.52% during that period. Finally, we believe the fund's option strategies are capable of producing results in a trading range market, but we are yet to experience this type of market.

We believe that if we properly structure the portfolio and manage risk, investments in companies with great intellectual property and good management teams will reward us over time.

Valuations – A Bifurcated Marketplace

The investment environment continues to be one characterized by equity valuations which are in the very upper percentiles of historical averages. There is no question that today's high equity valuations are due in large part to historically low interest rates. In fact, according to Bloomberg, there were recently over $15 trillion of negative yielding bonds globally.

In November 2018, when the S&P 500 Index was trading at lower price levels, Goldman Sachs looked at the United States equity markets on nine valuation metrics. Goldman found the market averages to be in the 83rd percentile of valuations, while the median stock appeared to be in the 95% percentile of valuations. The only valuation measured by which stocks looked undervalued in the Goldman Sachs study was stock valuations compared to bond yields. Goldman Sachs found that stocks were in the 32nd percentile of valuations when compared to bonds.

While stock returns where highly positive in 2019, valuations measures deteriorated due to the run up in prices. Fidelity recently estimated that the stocks are now in the 60th percentile of valuations when compared to bonds. In addition, our annual Ben Graham (Warren Buffet's mentor) analysis of the 30 Dow Jones Industrial Average stocks continues to suggest that stocks offer slightly worse than average valuations and returns. Stock return estimates, however, continue to look favorable relative to cash and fixed income yields.

As a result of today's valuation extremes, we are currently taking a balanced approach toward the risk return trade-off**.**

The Economic Climate

The Federal Reserve cut interest rates for a third time in October. As a result, equity markets are once again at an interesting crossroads. In 2018, as the Federal Reserve raised interest rates to 2.5%, money began to leave the equity markets. In the fourth quarter of 2018, the S&P 500 declined 13.52% while our fund declined 7.05% by comparison. Meanwhile, the Trump tax cuts reduced corporate tax rates from 34% to 20%, and thereby increased the cashflow available to investors. Together these two effects accounted for roughly a 35% decline in corporate valuations in 2018. We were quite encouraged by the improved valuation situation.

Unfortunately, 2018's fourth quarter's equity market decline caused the Federal Reserve to panic. The Fed quickly ended its "neutral policy" and returned to spiking the punch bowl by cutting interest rates three times in 2019. The 30% cut in short-term interest rates from 2.5% to 1.75% led the S&P 500 to a 31.49% rebound in 2019, despite earnings being flat for the year. **As a result, equities are once again back into the upper percentiles of valuations at a time when some economic indicators are beginning to send clear recessionary signals.**

Conclusion

Thank you for investing and joining us as fellow shareholders in the FinTrust Income and Opportunity Fund. We continue to work hard to justify your confidence and trust in our stewardship of your hard-earned savings. We also remain dedicated to providing you with the information we would like to have if our roles were reversed. This is so you will be able to make an informed decision about whether this Fund remains an appropriate investment for you and your family. Please do not hesitate to contact us directly at (864) 288-2849.

Shape the future,

Allen R. Gillespie, CFA

Managing Partner of Investments