VICE FUND

June 2018

Since its inception in 2002, the Vice Fund has been investing in Gambling, Alcohol, Tobacco, and Aerospace/Defense sectors. From inception until March 31, 2018, the Fund has been able to outperform the S&P 500 by 1.28% annually after fees because, we feel, the investor community has underestimated the growth potential of these vice sectors.

Frankly, in good times and bad, these sectors are here to stay. Today, we believe the trends that have supported the Fund's outperformance have evolved into significant domestic and international opportunities that the market continues to underestimate. Growth potential is readily apparent in the Gaming Sector where three factors should drive this space looking forward.

1. Macau

The growth of gaming in Chinese Macau is a well-known story, blending with the overall economic growth of China. Yet, many investors we speak with are astonished when they hear the sheer size of the growth or that it does not appear to be slowing down.

When China modified gaming in Macau to its current form in February 2002, the market was an underdeveloped opportunity. Look at the chart below to see the glaringly obvious increase in operations since then.

	2001	2017	% change
Visitors	10 million	32.6 million	226%
Casinos	11	40	264%
Gaming Revenue	$2.22 billion	$33.1 billion	1391%
Per Visitor Revenue	$222	$1015	357%

When you consider that Las Vegas closed $10 billion during 2017, $33 billion in revenue for Macau becomes that much more impressive. But, keep these facts in mind.

- Macau has opened 5 casinos in the past 2 years and 3 more are expected to open this year.
- Spending per visitor is up 65% over the past 10 years, or 5% annually.
- Visitors have gone up by 3.5% annually over the past 5 years.
- Almost all (87%) of visitors are from China.

What does that mean?

- Growth does not appear to be slowing down and Macau appears to be growing faster than China overall.
- Growth is directly tied to Chinese consumers, particularly VIPs, increasing income and spending.
- Growth concentrates in the six companies that have licenses to operate casinos in Macau. They are SJM, MGM Macau, Wynn Macau, Sands Macau, Galaxy, and Melco.

As of March 31, 2018, the Vice Fund has direct investments in Macau gaming that represent 12% of assets as of date and when combined with their parent companies, represent 25% of assets.

2. Sports Betting

The recent ruling by the Supreme Court in the case of NCAA v Christie has opened the door to domestic sports betting. There will likely be huge sums wagered on NFL, NBA, MLB, and other games as states pass laws opening domestic markets. However, what matters for investors is not how much is wagered, but how much revenue is generated for the casinos and sports books. This offers another opportunity for casinos to grow significantly. The best comparison is probably Great Britain.

	Great Britain 2017	USA Low	USA High
Sports Gaming Revenue	£5.3 billion	$34.7 billion	$50.0 billion
Accounts	28 million	138 million	138 million

A few notables:

- 28 million remote accounts with access via phone or computer means the average gambler has multiple accounts across online providers. We would expect something like that to happen in the United States.
- Not every state will legalize sports betting so this population/GDP comparison is not apples to apples as significant portions of the population will not be able to participate for the foreseeable future.

This may be a rough number but it gives us a good idea of the potential size. Additionally, unlike China where the benefit is concentrated in six casinos, this opportunity is wide open for competitors. The ratio of digital betting to in-person is surprisingly high in Great Britain with only 35% remote betting. However, we would lean towards digital betting leading the way in the United States. This means a lot of small private and start-up companies will be vying for a share of the sports gaming pie. Regional Casinos like Penn and Boyd should benefit directly. Larger casinos like MGM, Wynn, Sands, and Caesars should be able to leverage their physical assets to claim market share both in physical and digital realms. Overall, we believe that 20% of our portfolio may benefit from the growth of sports betting in the United States with significant overlap to the Chinese gambling growth opportunity.

3. Japan

The last opportunity we would like to highlight is Japan. The government of Japan approved the first of two Casino Gambling bills in December 2016. Since then the government has been working towards releasing the regulatory structure of the market in the second bill. We do not know when this will occur and it could delay into 2019. Prime Minister Abe and his party want this in place for the 2020 Olympics in Tokyo so there is political support. Should these bills move forward, the opportunity for international casinos to partner with Japanese business interests to create Las Vegas and Macau style casino resorts in Japan would be fairly significant.

Population: 127 Million (10th in the world)
Economy: $4.84 trillion (3rd in the world)

So real gaming could be quite an opportunity for the large international players that can operate in Japan. Low estimates place it near the $10 billion of Las Vegas. High estimates are closer to $28 billion, which would be like adding another Macau to international gaming. Should this move forward we believe the companies most likely to benefit are already operating overseas such as Wynn, MGM, and Sands. Along with other Macau operators, though that could depend on the behind the scenes state of relationships between the players and governments. We estimate that 15% of the portfolio could directly benefit from legal casino gaming in Japan.

Conclusion

In our opinion, the opportunity is there for the Gaming sector to potentially grow faster than the overall market or even faster than emerging markets. Macau and Sports Betting could offer growth now while Japan offers new possibilities in the future. Investors should not ignore these trends, and the Vice Fund is invested in companies that we believe may directly benefit from the long-term growth of gaming.

If you would like to know more about how we invest or have additional questions about the Vice Fund or USA Mutuals, please contact us at 1.800.MUTUALS, email at FA.sales@usamutuals.com or visit us at www.usamutuals.com.

The above includes discussion about the estimated growth of certain sectors. It is impossible to predict future growth and actual results may vary. The potential growth or decline of any sector does not represent the performance of the Fund. Each of these sectors has its own set of investment characteristics and risks that may differ from actual investments and investors should consider these risks carefully prior to making any investment decisions. Past performance does not guarantee future results.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other information about the investment company, and they may be obtained by contacting 866.264.8783 or going to www.usamutuals. com. Read it carefully before investing.

Mutual fund investing involves risk; principal loss is possible. The Fund will concentrate its net assets in industries that have significant barriers to entry including the alcoholic beverages, tobacco, gaming and defense/aerospace industries, the Fund may be subject to the risks affecting those industries, including the risk that the securities of companies within those industries will underperform due to adverse economic conditions, regulatory or legislative changes or increased competition affecting those industries, more than would a fund that invests in a wide variety of industries.

The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. The Fund invests in smaller companies, which involve additional risks, such as limited liquidity and greater volatility. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could result in losing more than the amount invested. If a security sold short increases in price, the Fund may have to cover its short position at a higher price than the short sale price, resulting in a loss.

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