



VICE FUND

Vice Fund Monthly Update – March 2019

The Vice Fund has been investing in Alcohol, Tobacco, Gaming, and Defense industries since 2002. During that time, these industries have come to offer great leverage to globalization and international growth. On rare occasions, we believe the vice industries have been fundamentally undervalued by the market and offered great opportunity to investors. We believe the Vice Fund currently offers one of those rare opportunities as we will highlight below.

In this report, we will give a quick over view of the performance of the fund during the month, explain the relative value of vice industries compared to the S&P 500, and highlight the underlying drivers of performance in the month.

March Performance

The Vice Fund has experienced a strong rebound as we came off the lows of December, up almost 21% from 12/24/18 through 03/31/19. We were encouraged to see that the fund's underlying value has begun to be recognized by the market in the new year. This relative strength has led to a 2.10% relative outperformance by the fund in the first quarter. However, this relative value was tempered by concerns in the defense sector, primarily associated with Boeing and the 737 Max airplane which contributed almost 60 basis points of underperformance in the month despite our fortunate trimming of the position prior to the crash in Ethiopia, which we will discuss in a moment. Gaming also took a bit of a breather after being on a relative tear during the start of the year. Overall, we still view the portfolio as undervalued relative to the market and given the growth prospects of our holdings. The year to date performance numbers can be seen below.

Fund Performance and Relative Return

	MARCH	YEAR TO DATE
USA MUTUALS VICE FUND	-0.38%	15.75%
S&P 500 INDEX	1.94	13.65%
RELATIVE RETURN	-2.32%	+2.10%

For USA Mutuals Vice Fund holdings and current standard performance information, [click here](#).

Relative Value

We would like to further highlight the relative value of the portfolio by looking at the underlying "Vice Index" and in particular what the forward P/E ratios of these sectors are doing. While we do not view P/E as a good tool for valuation work, it can be very useful in evaluating changes in relative value. We saw valuations in the Vice Industries compress significantly in 2018, leading to significant underperformance relative to the S&P 500. This created a tremendous value opportunity in our industries, value that we believe is still there.

As you can see from the chart below, vice industries on average compressed valuations almost 9% more than the overall S&P 500 in 2018. During the recovery and relative outperformance of the first quarter, Vice

Industry valuations continued shrink relative to the S&P 500. We believe that this indicates that the Vice Fund is like a coiled spring of value. Remember, the Vice Fund outperformed the S&P 500 by 2.10% in the first quarter, yet it is even cheaper today on a relative forward P/E basis.

% Change in Forward Price/Earnings Ratio

PERIOD	TOBACCO	AEROSPACE	CASINOS	BEVERAGES	VICE AVG	S&P 500	RELATIVE
2018	-41.8	-31.4	-40.3	-15.3	-32.2	-23.3	-8.9
Q1 2019	17.8	4.1	3.8	5.7	7.8	11.5	-3.7

Underlying Drivers

Turning to the underlying drivers of performance in the month, the biggest news involved the second crash of a relatively new Boeing 737 Max passenger jet, killing all 157 passengers and crew on March 10th. This tragedy grounded the 737 Max fleet around the world while raising questions about the plane’s safety profile, causing order cancellations, and slowed new orders coming in for the most important jet in Boeing’s lineup. The consequence investigation is ongoing, but the result in the market was a significant sell off in Boeing that dragged down the rest of the aviation and defense sector with it. Defense names comprised 4 of our 10 worst performing stocks in the quarter with Boeing leading the way. Additionally, Gaming experienced a breather after strong returns in the first two months of the year. Five gaming names were in our bottom ten performing names for the month, though they remain in our top performing names for the first quarter.

On the positive side, the largest contributions to performance came from Tobacco, Cannabis, and Alcohol. Tobacco rebounded on news that FDA leadership was changing while Cannabis grew on positive earnings in Canada coupled with continued takeover speculation. Alcohol delivered some positive specific operational stories that were well received.

Conclusion

As we look to the second quarter and the rest of the year, we view the Vice Fund as being undervalued in terms of growth opportunities and in earnings potential. We believe that the coiled spring of value in the Vice Fund may deliver significant relative performance as we move forward.



Disclaimers

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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. Read it carefully before investing.

Past performance does not guarantee future results. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

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.

For USA Mutuals Vice Fund holdings and current performance information [click here](#).

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Definitions

Basis points - one hundredth of one percent

Relative Return - Relative return is a measure of the return of an investment portfolio relative to its benchmark

Forward P/E (Price-to-Earnings) - A forward P/E ratio is a way to help determine a security's stock valuation.

