

# Edgar Lomax Value Fund

## Market Commentary

(through 09/30/20)

We are pleased to provide an update regarding the performance of the Edgar Lomax Value Fund through September 30, 2020. The Edgar Lomax Company is the Fund's investment advisor. We are considered a traditional large-cap value manager, and seek to achieve above-average long-term results by participating fully in rising markets while limiting "bear market" losses.

As you probably are aware, the market's recent narrow focus on "growth" stocks continued during the third calendar quarter as investors literally threw money—in a growing emotional state, in our view—into the best performers from the second quarter. As before, the S&P 500 index got an enormous boost from the index's biggest five components (the "Big 5": Apple, Microsoft, Amazon.com, Alphabet ["GOOGL"] and Facebook); further, the most expensive stocks (that is, most "growthy") in terms of price-to-earnings ratios, or P/Es, were generally the quarter's best performers, even among the index's "value" half of stocks comprising the S&P 500 Value index. The following data is telling:

	<u>Quarter</u> <u>Performance</u>	
S&P 500	8.9%	
S&P 500, Excluding the Big 5's 12.7% rise	5.4%	Note: Statistics calculated using FactSet Data.
S&P Value	4.8%	
10% of S&P Value with lowest P/Es <sup>+</sup>	-0.2%	

In this environment, the Fund's "large-cap value" portfolio gained 0.3% during the quarter.

### Average Annual Total Return as of September 30, 3030:

	<u>One Year</u>	<u>Five Years</u>	<u>Ten Years</u>	<u>Fifteen Years</u>
Edgar Lomax Value Fund	-13.42%	7.45%	9.29%	6.41%
S&P 500 Index	15.15%	14.15%	13.74%	9.19%
S&P 500 Value Index	-2.68%	8.84%	10.35%	6.58%
Lipper Large-Cap Value Funds Index	-2.41%	8.52%	9.76%	6.38%
Morningstar Large-Cap Value Category	-4.53%	7.17%	9.09%	6.02%

*Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling (866) 205-0524 or visiting [www.edgarlomax.com](http://www.edgarlomax.com). Before deducting fees that the Advisor contractually waived or expenses of the Fund that the Advisor absorbed, the gross expense ratio is 0.97%\*; however, after such waivers or absorptions, the Fund's maximum net expense ratio is 0.71%. Including the voluntary performance-based waiver arrangement, actual Total Annual Fund Operating Expenses (the net expenses that investors paid) were 0.71% for the fiscal year ended October 31, 2019.*

\* Figures are from the Fund's prospectus dated February 28, 2020. The Advisor has contractually agreed to waive its fees and/or absorb expenses of the Fund to ensure that Net Annual Fund Operating Expenses do not exceed 0.70% (excluding acquired funds fees and expenses, interest, taxes and extraordinary expenses) through at least February 27, 2021. In addition, the Advisor has voluntarily agreed to waive a portion of its investment advisory fee contingent upon the Fund's performance versus the S&P 500 Value Index. While the Advisor may discontinue its voluntary waiver any time after February 27, 2021, it has no current intention of doing so.

<sup>+</sup> This is the return for the 10% of stocks in the S&P Value Index with the lowest P/Es'

Historically, the degree of incredible “growth” preference we have seen thus far in 2020 has not been sustainable. For instance, the Fund experienced this type of environment during the 1999-2000 “high-tech” era. The following happened:

<u>Portfolio</u>	<u>1-Year Perf. from 6/30/99 thru 6/30/00</u>	<u>6-Month Perf. from 6/30/00 thru 12/31/00</u>
Edgar Lomax Value Fund	-19.7%	24.7%
S&P 500	7.2%	-8.7%
S&P 500 Value	-5.1%	10.6%

Please note that, at the height of the market’s focus on “high-tech” stocks, the Fund trailed the S&P 500 by -26.9% over the 1-year period shown above, and then reversed sharply to outperform the index over the next six months by 33.4%. In early 2000, we repeatedly informed clients of our belief that investors were unrealistically projecting unusually high earnings’ growth rates (for the S&P’s “growth” stocks) into the indefinite future. *We believe investors are making that same mistake today.*

We will conclude by discussing the Fund’s most impactful holdings. Pfizer benefited from encouraging study results for their COVID-19 vaccine candidate which finished Phase 3 (final phase) of the clinical trials in November. On top of the promising news, Pfizer has a high dividend yield of 4.2% and remains one of our top holdings. Hopes of increased consumer spending along with improved credit card delinquency rates helped boost Capital One’s performance. Finally, with COVID-19 boosting residential and healthcare shipments, UPS reported stellar earnings this past quarter. It should continue to perform well with the holiday season coming up and management finding ways to increase profitability.

As for detractors, after Cisco’s strong performance during the second quarter, investors were disappointed with the earnings guidance released. Even so, Cisco has a strong balance sheet and remains attractive with a low P/E of 15. Exxon Mobil, along with the rest of the energy sector, continued to struggle with the year to date decline in the oil price. However, Exxon maintained their dividend with a tremendous yield of 10.5%.

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*Must be preceded or accompanied by a prospectus.*

**Mutual fund investing involves risk; principal loss is possible. “Value” investing as a strategy may be out of favor in the market for an extended period. Value stocks can perform differently from the market as a whole and from other types of stocks. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.**

Investment performance reflects expense waivers in effect. In the absence of such waivers, total return would be reduced.

The opinions expressed are those of the investment advisor, are subject to change, and forecasts made cannot be guaranteed. Fund holdings and sector allocations are subject to change and should not be considered recommendations to buy or sell any security. As of September 30, 2020, the Fund held the following: 5.32% in Pfizer, 3.30% in Capital One, 1.24% in UPS, 5.02% in Cisco, and 3.08% in Exxon Mobil. The Fund held no Apple, Microsoft, Amazon, Alphabet or Facebook

The price-to-earnings ratio is calculated by dividing the current price of a stock by the company’s trailing 12 months’ earnings per share.

The Dividend Yield is calculated by dividing a company’s per-share projected annual dividend payment by the company’s stock price per share.

The S&P 500 Value Index is a capitalization-weighted index of stocks in the S&P 500 Index which exhibit strong value characteristics. The S&P 500 Index is an unmanaged capitalization-weighted index of 500 stocks designed to represent the broad domestic economy. Lipper Averages are compiled by Lipper, Inc., an independent mutual fund research and rating service. Each Lipper average represents a universe of funds with similar investment objectives. You cannot invest directly in an index.

Each Morningstar category average represents a universe of funds with similar objectives.

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