



Manager's Commentary

Second Quarter 2019

"In the stock market, the only way to get a bargain is to buy what most investors are selling."

– Sir John Templeton

The first half of 2019 U.S. stocks saw no shortage of uncertainty as Mr. Market digested the effects that tariffs and trade restrictions may have on corporate earnings growth and the current business cycle. Nevertheless, U.S. stocks as measured by the S&P 500 Index managed to rally 18.54% during the first half of the year in response to solid year-over-year earnings improvement. Despite an uplift in valuations in the first half, domestic stock valuations still seem reasonable relative to the current interest rate environment with the S&P 500 Index trading at 16.3X forward earnings estimates according to FactSet, which is consistent with its five-year average of 16.6X. The inverse of the current PE multiple is an earnings-yield of 6.02%, compared to the 10-year treasury yield of 2.18% at June 28, 2019. So as long as earnings expectations materialize in the months ahead, we believe the relationship between the earnings yield on stocks and interest rates indicates that the potential reward for holding stocks outweighs the underlying downside risk.

While international trade uncertainties and a recent decline in long-term interest rates have clouded many economic forecasts, we remain constructive on stock prices in the second half of 2019. Although not true for every company, we see the potential for stable earnings momentum for many of the companies in our portfolios which can be supported by improved pricing power and the benefits of greater consumption. Recent discussions with several corporate management teams suggest cautious optimism regarding the prospects for growth in the remainder of the year. We have also observed that balance sheets are generally carrying more debt than a couple of years ago but seem manageable across most corporations. Lastly, we do not see the typical signs (such as a significant increase in inventories or overbuilding of manufacturing capacity) that would signal a coming recession in 2019. However, we do see some inflationary pressures in labor costs for certain industries, which are consistent with the latter stages of an economic cycle. Based on the recent changes in the interest rate landscape, we believe P/E multiples for the average U.S. stock could expand modestly in the months ahead and see further gains being supported by modest earnings growth for most of the economically sensitive sectors of the market.

Although financial markets in the back half of 2019 will likely face no shortage of unique challenges, investors in the Hodges Funds can be assured that we are not changing our core investing discipline, which is designed to seek out quality companies running great businesses with excellent management teams that are trading at reasonable prices. Moreover, we are not attempting to forecast or market time interest rates, currency fluctuations, or commodity prices. Instead, we are focused on the fundamentals of individual companies and our research team is rigorously gathering and analyzing firsthand information from a broad scope of publicly traded companies. Although the macro conditions impacting the market can seem overwhelming at times, we always fall back to the idea that the long-term performance of stock prices is determined by the future earnings and cash flows of each underlying business. Furthermore, we see this as an ideal environment for active portfolio managers to carefully select individual stocks that can potentially generate long-term value for shareholders.

Returns (Retail Class) as of 6/30/2019:	<u>3 months</u>	<u>1 Year*</u>	<u>3 Year*</u>	<u>5 Year*</u>	<u>10 Year*</u>	<u>Since Inception*</u>
Hodges Fund (10/9/1992)	-2.25%	-17.16%	5.42%	2.02%	12.32%	9.15%
S&P 500® Index	4.30%	10.42%	14.19%	10.71%	14.70%	9.90%
Hodges Small Cap Fund (12/18/2007)	1.93%	-6.18%	8.51%	2.23%	15.30%	8.65%
Russell 2000® Index	2.10%	-3.31%	12.30%	7.06%	13.45%	8.04%
Hodges Small Intrinsic Value Fund (12/26/2013)	-0.09%	-15.40%	5.15%	2.67%	n/a	4.54%
Russell 2000® Index	2.10%	-3.31%	12.30%	7.06%	n/a	7.02%
Russell 2000® Value Index	1.38%	-6.24%	9.81%	5.39%	n/a	5.68%
Hodges Small-Mid Cap Fund (12/26/2013)	15.41%	-8.08%	7.52%	4.00%	n/a	4.95%
Russell 2500® Index	15.82%	4.48%	12.56%	7.79%	n/a	7.93%
Hodges Blue Chip Equity Income Fund (9/10/2009)	13.12%	5.52%	10.96%	7.72%	n/a	10.61%
Russell 1000® Index	14.00%	9.30%	13.52%	10.63%	n/a	13.39%

*Average Annualized

	<u>HDPMX</u>	<u>HDPSX</u>	<u>HDSVX</u>	<u>HDSMX</u>	<u>HDPBX</u>
Gross Expense Ratio	1.33%	1.30%	1.38%	1.86%	1.45%
Net Expense Ratio	1.18%**		1.29%**	1.40%	1.30%**

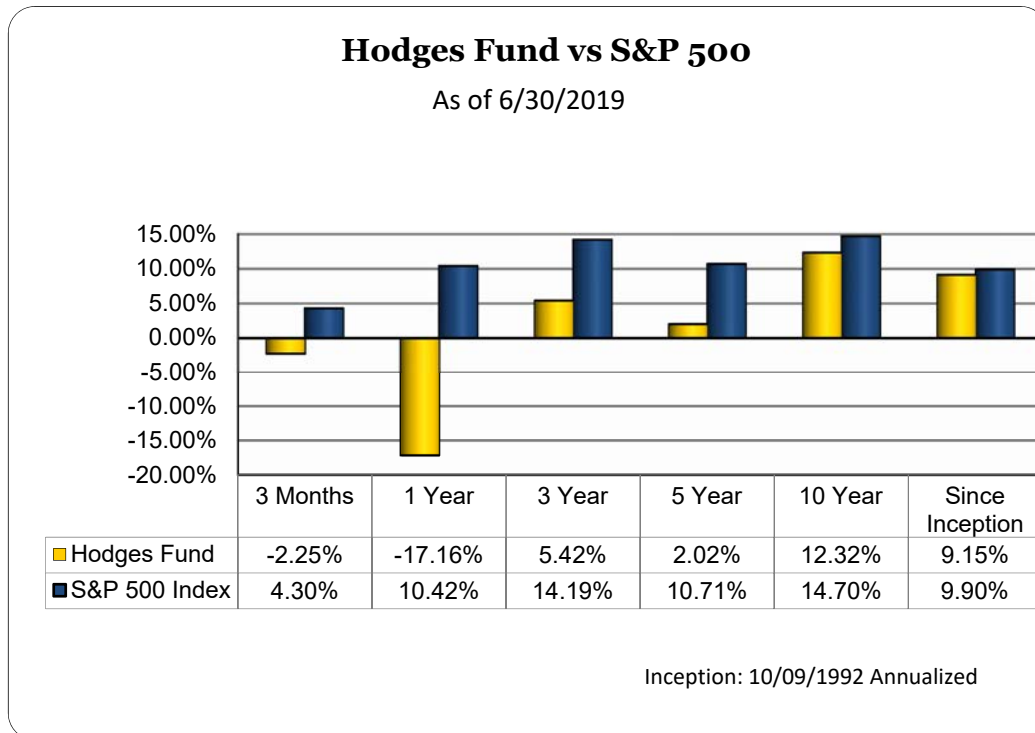
**The Advisor has contractually agreed to reduce its fees until at least July 31, 2019.

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 Funds may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 866-811-0224. The Funds impose a 1.00% redemption fee on shares held for thirty days or less (60 days or less for Institutional Class shares). Performance data quoted does not reflect the redemption fee. If reflected, total returns would be reduced.

Hodges Fund (HDPMX)

The Hodges Fund's second quarter 2019 return amounted to a loss of 2.25% compared to a gain of 4.30% for the S&P 500 Index. Although the Fund's relative performance lagged in the second quarter, the Fund's year to date performance amounted to a gain of 24.23% compared to a gain of 18.54% for the S&P 500 for the period ending June 30, 2019. Lackluster relative performance in the June quarter was mainly attributed to declining share prices among a handful of consumer related names that included home goods retailer, At Home Group (HOME), and online food ordering platform, Waitr Holdings (WTRH).

While the Hodges Fund has adapted to an everchanging investment landscape over the past 27 years, the core investment philosophy has not changed, and the portfolio remains focused on investments where we have the highest conviction. The number of positions held in the Fund at the end of the recent quarter was 35. Top ten holdings at the end of the quarter represented 41.15% of the Fund's holdings and included Texas Pacific Land Trust (TPL), Commercial Metals Co. (CMC), Matador Resources Co. (MTDR), American Airlines Group (AAL), Twitter Inc. (TWTR), Capri Holdings (CPRI), Eagle Materials Inc. (EXP), Cleveland Cliffs Inc. (CLF), Twilio Inc. (TWLO) and Yeti Holdings Inc. (YETI).

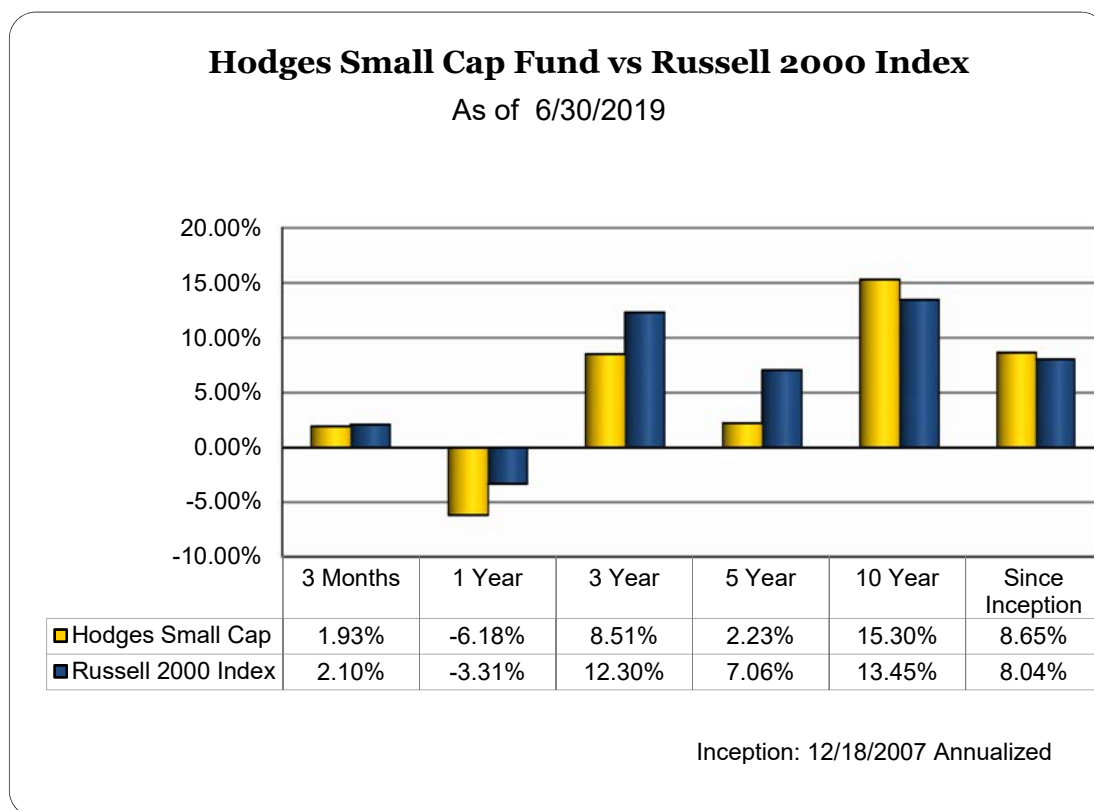


Hodges Small Cap Fund (HDPSX)

The Hodges Small Cap Fund experienced a 1.93% gain in the second quarter of the 2019 compared to a gain in the Russell 2000 Index of 2.10%. The year-to-date return on the Fund amounted to 18.92% compared to 16.98% for the Russell 2000 Index for the period ending June 30, 2019. Lagging performance in the most recent quarter reflected relative weakness in a few of the Fund's technology and consumer stocks. Over the past year, we think it is worth noting that small caps, as measured by the Russell 2000 index, have declined 6.24% while the broader market, as measured by the S&P 500, has experienced a gain of 4.30% for the twelve months ending June 30, 2019. Although it is not that unusual for small cap performance to deviate from the border market, the degree of divergence over the past year has been unusual. According to data recently published by Strategas, such a divergence of >-10% between the Russell 2000 and the S&P 500 has only occurred three other times (1984, 1991, & 1998). Although this is a small sample size, in each of these three instances small cap performance caught up with the broader market in the proceeding twelve months. Looking ahead, we currently view the risk reward for

holding small cap stocks as attractive and expect this segment of the market to potentially generate above average relative risk adjusted returns in the remainder of 2019.

The Hodges Small Cap Fund remains well diversified across industrials, transportation, financial services, technology, and consumer-related names, which we believe can contribute to the Fund's long-term performance. The Fund has recently taken profits in several stocks that appeared fairly valued relative to their underlying fundamentals and established several new positions that we view as having an attractive risk/reward profile. The total number of stocks held in the Fund at the end of the recent quarter was 51 compared to 54 at the beginning of the quarter. The top ten holdings at the end of the quarter represented 34.01% of the Fund's holdings and included Texas Pacific Land Trust (TPL), Exact Sciences Corp. (EXAS), Commercial Metals Co. (CMC), Cleveland Cliffs Inc. (CLF), Eagle Materials Inc. (EXP), Century Communities Inc. (CCS), Brooks Automation Inc. (BRKS), NCR Corp. (NCR), Hilltop Holdings Inc. (HTH) and Yeti Holdings (YETI).

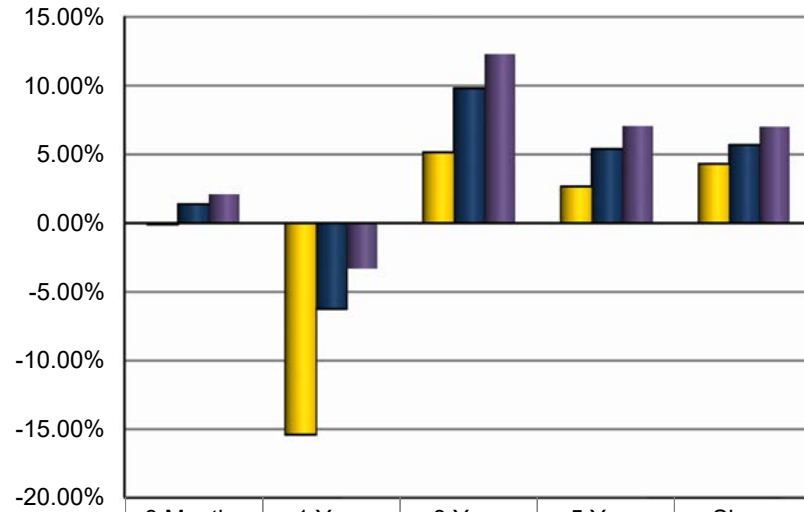


Hodges Small Intrinsic Value Fund (HDSVX)

The Hodges Small Intrinsic Value Fund experienced a loss of 0.09% in the June quarter of 2019 compared to a gain of 1.38% for its benchmark, the Russell 2000 Value Index. As a result, the Funds year-to-date performance amounted to a gain of 13.12% compared to a gain of 13.47% for the Russell 2000 Value Index for the period ending June 30, 2019. The Fund's relative performance in the recent period was adversely impacted by weakness among a few consumer discretionary and healthcare stocks, which included apparel retailer, Tilly's Inc (TLYS), and medical device provider, Nuvectra Corp (NVTR). The top ten holdings at June 30, 2019 represented 40.82% of the Fund's holdings and included Commercial Metals Co. (CMC), Century Communities Inc. (CCS), Brunswick Corp. (BC), Northwest Pipe Co. (NWPX), Ceko Environmental Corp. (CECE), Tower International Inc. (TOWR), Eagle Materials Inc. (EXP), Team Inc. (TISI), Ezcop Inc. (EZPW), and Regis Corp. (RGS).

Hodges Small Intrinsic Value Fund vs Russell 2000 Value Index & Russell 2000 Index

As of 6/30/2019



	3 Months	1 Year	3 Year	5 Year	Since Inception
■ Hodges Small Intrinsic Value	-0.09%	-15.40%	5.15%	2.67%	4.31%
■ Russell 2000 Value Index	1.38%	-6.24%	9.81%	5.39%	5.68%
■ Russell 2000 Index	2.10%	-3.31%	12.30%	7.06%	7.02%

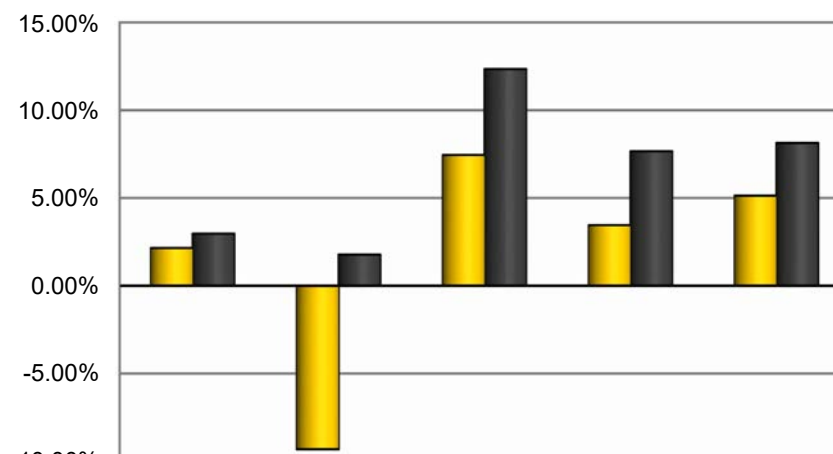
Inception: 12/26/2013 Annualized

Hodges Small-Mid Cap Fund (HDSMX)

For the second quarter of 2019, the Hodges Small-Mid Cap Fund experienced a return of 2.15% compared to a return of 2.96% for the Russell 2500 Index. On a year-to-date basis, the Fund's return has amounted to 17.89% compared to 19.25% for the Russell 2500 Index. The Fund's relative performance in the recent quarter was attributed to just a handful of detractors, which included retailer Conn's Inc. (CONN) and energy producer WPX Energy (WPX). Top ten holdings at the end of the quarter represented 43.31% of the Fund's holdings and included WPX Energy Inc. (WPX), Live Nation Entertainment Inc. (LYV), Goosehead Insurance Inc. (GSHD), Tandem Diabetes Care Inc. (TNDM), Eagle Materials Inc. (EXP), Kansas City Southern (KSU), Fortinet Inc. (FTNT), Five Below Inc. (FIVE), D.R. Horton Inc. (DHI) and Triumph Bancorp Inc. (TBK).

Hodges Small-Mid Fund vs Russell 2500 Index

As of 6/30/2019



	3 Months	1 Year	3 Year	5 Year	Since Inception
■ Hodges Small-Mid Cap	2.15%	-9.31%	7.45%	3.45%	5.13%
■ Russell 2500 Index	2.96%	1.77%	12.34%	7.66%	8.13%

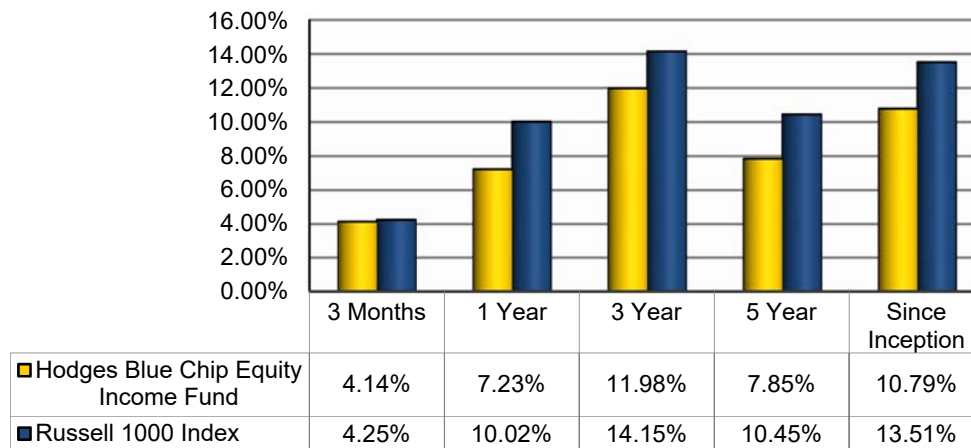
Inception: 12/26/2013 Annualized

Hodges Blue Chip Equity Income Fund (HDPBX)

The Hodges Blue Chip Equity Income Fund experienced a gain of 4.14% in the second quarter of 2019 compared to a gain of 4.25% for the Russell 1000 Index. Year-to-date the Fund's return has amounted to 17.79% compared to 18.84% for the Russell 1000 Index for the period ending June 30, 2019. Looking ahead, we see the current investing landscape as offering plenty of attractive high-quality dividend-paying stocks with solid upside potential, as well as dividend income supported by stable corporate profits. The Blue-Chip Equity Income Fund remains well diversified in companies that we believe can generate above average income and total returns on a risk adjusted basis. Top ten holdings at the end of the quarter represented 48.90% of the Fund's holdings and included Home Depot Inc. (HD), Apple Inc. (AAPL), Microsoft Corp. (MSFT), Boeing Co. (BA), Union Pacific Corp. (UNP), Amazon.com Inc. (AMZN), Walt Disney Corp. (DIS), Caterpillar Inc. (CAT), Visa Inc. (V) and Texas Instruments (TXN).

Hodges Blue Chip Equity Income Fund vs Russell 1000 Index

As of 6/30/2019



Inception: 9/10/2009 Annualized

In conclusion, we remain optimistic regarding the long-term investment opportunities surrounding the Hodges Mutual Funds. By offering five distinct mutual fund strategies that cover most major segments of the domestic equity market, we can serve the diverse needs of most financial advisors and individual investors. Our entire investment team of portfolio managers, analysts, and traders are rigorously studying companies, meeting with management teams, observing trends, and attempting to navigate today's volatile financial markets. Feel free to contact us directly if we can address any specific questions.

The above discussion is based on the opinions of Eric Marshall, CFA, and is subject to change. It is not intended to be a forecast of future events, a guarantee of future results, and is not a recommendation to buy or sell any security. Portfolio composition and company ownership in the Hodges Funds are subject to daily change.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the Hodges Funds, and it may be obtained by calling 866-811-0224, or visiting www.hodgesmutualfunds.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. Options and future contracts have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates and currency exchange rates. These risks may be greater than risks associated with more traditional investments. Short sales of securities involve the risk that losses may exceed the original amount invested. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer term debt securities. Investments in small and medium capitalization companies involve additional risks such as limited liquidity and greater volatility. Funds that are non-diversified are more exposed to individual stock volatility than a diversified fund. Investments in companies that demonstrate special situations or turnarounds, meaning companies that have experienced significant business problems but are believed to have favorable prospects for recovery, involve greater risk.

Value investing carries the risk that the market will not recognize a security's inherent value for a long time, or that a stock judged to be undervalued may be appropriately priced or overvalued.

Diversification does not assure a profit or protect against a loss in a declining market.

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

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

The S&P 500 Index is a broad-based unmanaged index of 500 stocks that is widely recognized as representative of the equity market in general. The Russell 1000 Index is a subset of the Russell 3000 Index and consists of the 1,000 largest companies comprising over 90% of the total market capitalization of all listed stocks. The Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization. The Russell 2500 Index consists of the smallest 2,500 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization. The Russell 3000 Index is a stock index consisting of the 3000 largest publicly listed companies, representing about 98% of the total capitalization of the entire U.S. stock market. You cannot invest directly in an index. The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect value characteristics.

Cash Flow: A revenue or expense stream that changes a cash account over a given period.

Price/earnings (P/E): The most common measure of how expensive a stock is.

Earnings Growth is not a measure of the Fund's future performance.

Forward Earnings Yield: The same earnings per share for the projected 12-month period divided by the current market price per share.

Hodges Capital Management is the Advisor to the Hodges Funds.

Hodges Funds are distributed by Quasar Distributors LLC.

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