Fund Commentary Q4 2018

SATURNA CAPITAL

SEXTANT MUTUAL FUNDS

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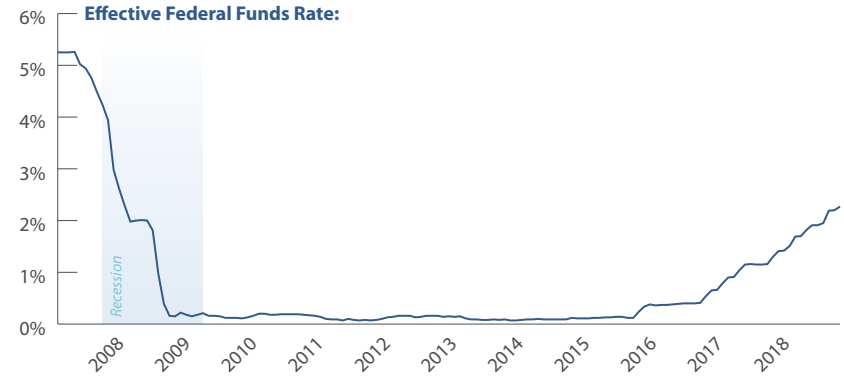
Environment

Just when 2018 was shaping up to be the third consecutive year of excellent stock market performance, the fourth quarter arrived, volatility reappeared, and major indices surrendered their gains for the year. The S&P 500 Index, which had been up over 9% through September, plummeted -13.52% in the fourth quarter, leading to a full year loss of -4.38%. While certainly not pleasant, US investors fared better than those overseas, as most European and Asian markets registered double-digit declines for the year. Why the reversal in sentiment? Any number of potential culprits have been mentioned but let's examine three: rising interest rates, rising debt levels, and rising trade friction between the US and China.

The US Federal Reserve started raising rates in December 2015 and accelerated the process last year with four consecutive hikes. By the time the December meeting arrived, the conversation had evolved from "policy normalization" to determining the appropriate rate level for current economic conditions. Many believed that a December "pause" would be appropriate, but political commentary infringing on Fed independence made that impossible and the final hike of 2018 was adopted. With historically low unemployment, rising wages, a buoyant consumer, and inflation hovering around the 2% target rate, the move seemed reasonable, although the stock market reacted badly. Whether that reflected valid concern over choking off economic growth or behavioral overreaction remains to be seen.

Despite the Fed's actions over the past year, historically low interest rates persist to this day, encouraging corporations to further leverage their balance sheets, despite the higher interest costs. One could argue US corporations have acted rationally, if not entirely prudently, by raising debt levels when presented with a low interest rate environment. The argument would be more convincing if the debt had been used to invest in productive assets rather than to buy back stock. Most troubling, however, is that corporate debt to GDP, which usually peaks during recessions, has jumped to record highs during a period of solid economic growth.[1]

Fed Funds Rate on the Rise….Will it Continue?



Source: Federal Reserve Bank of St. Louis Economic Research (FRED)

This obviously begs the question, what happens to debt levels when the US enters a recession? Historical evidence predicts sharp increases. Furthermore, what happens to earnings when previously digestible interest payments suddenly balloon in the face of reduced sales and margins? Were such developments to occur, we certainly do not need to ask what happens to stock prices. As of today, various measures of recession risk in 2019 remain low, although the market consensus of no further federal funds rate hikes in 2019 belies the Fed's more aggressive take, which projects two increases.

One potential monkey wrench increasing the odds of economic distress, would be a deterioration in the state of the US-China trade relations leading to the imposition of President Trump's threatened 25% tariffs. To an extent, the tariffs address an issue that was already being tackled by the market as a stagnant labor pool and rising costs in China have pushed lower value-added activities out to Vietnam, Bangladesh, and others. The stakes, however, are much larger than the import into the US of some Chinese-made consumer goods. China has not opened its market nearly to the extent of the US and employs multiple barriers to effective investment such as foreign ownership restrictions and technology transfer requirements. Of course, China's respect for intellectual property has been problematic for decades. Several have argued, however, that the stakes are even greater still and encompass the emergence of a great power rivalry between China and the United States and a possible re-ordering of the entire global trade system.

Outlook

In 2016, the National Football League's Cleveland Browns compiled a record of one and fifteen, an exercise in futility exceeded only by their winless campaign the following year. Under returning coach Hue Jackson, 2018 started with promise, but nosedived before management fired Jackson, replacing him with Defensive Coordinator Gregg Williams. Subsequently, the Browns compiled a five and three record, finishing the season with seven wins, eight losses, and one tie, and coming within a whisker of notching their first winning season since 2007 before losing their final game 24-26.

We mention this bit of sports trivia to illustrate the point that leadership matters, and a change at the top can make a meaningful difference to organizational success, be it in sports, the corporate world, or government. Examples abound, including the sea change in fortunes at Microsoft following Steve Ballmer's replacement by Satya Nadella. In the nearly five years since Mr. Nadella was appointed, Microsoft stock has appreciated 175%, compared to a 20% decline during the 14 years of Mr. Ballmer's reign. In fairness, Steve stepped in during the peak of the dot-com bubble and led the company through the Global Financial Crisis, but the numbers are what they are. More recently, the shares of Lowe's experienced a surge when Marvin Ellison, a long-time Home Depot executive, replaced Robert Niblock as CEO and quickly began a major renovation of the executive suite. Of course, General Electric's travails illustrate that if the wrong coach roams the sidelines for too long, the damage may require more than a change of leadership to overcome.

In the political arena we see the same phenomenon. It's difficult to deny that a major chunk of Turkey's problems can be traced to President Reycep Tayyip Erdogan having overstayed his welcome. David Cameron will likely go down as the one of the worst Prime Ministers in the history of the United Kingdom due to his unnecessary and pandering decision to hold a referendum on the UK's membership in the EU. Meanwhile, Theresa May's attempts to negotiate the exit have been clumsy and, in the event of a no-deal Brexit, she will stand alongside Mr. Cameron, as the UK economy will surely suffer greatly under such a development.[2]

Of course, the United States currently seems cursed with a surfeit of poor leadership, and we take no sides in making that statement. Donald Trump meet Nancy Pelosi. Mitch McConnell allow me to introduce you to Chuck Schumer. As of writing, the government is into its third week of shutdown, with no end in sight. On the international front, nobody knows how the aforementioned trading relations with China – arguably the most significant economic issue of 2019 – will develop. Although it may seem easy to pin both on the President, the shutdown is a failure of the entire political class and a strong argument can be made that China has been treated too leniently ever since its ascension to the World Trade Organization in 2001.

Indeed, country-level governance generates the most angst as we look ahead to 2019. Apart from the US and the UK, we see weakening leadership in Germany as Angela Merkel nears retirement, while the glow has definitely come off Emmanuel Macron in France courtesy of the Yellow Vest movement and his own hubris. Italy has reached agreement with the EU regarding its budget, but the issue will surely arise again. Turkey, Hungary, and Poland have become decidedly less democratic in recent years, while Brazil's newly-installed president seems eager to follow the same path toward "illiberalism." In China,

President Xi Jinping must be feeling economic pressure based on his decision to make a New Year speech calling for the reunification of Taiwan with the Motherland, a reliable topic for fanning nationalist fervor and distracting attention from domestic issues.

The political calculus will become more challenging if the fourth quarter stock market malaise accurately predicts a downturn in future economic and corporate performance. The jury on that count remains decidedly out. The final US jobs report of the year showed "…one of the strongest months of job gains in the last decade, with employers adding 312,000 to payrolls in December."[3] After years of lackluster growth, wages also rose a solid 3.2%; the unemployment rate ticked up to 3.9% but that was primarily due to a surge of workers entering the labor force.[4] Less buoyant harbingers include the decline in the US 10-Year Government Bond Yield from 3.23% last November to 2.66% on January 4 and concomitant flattening of the yield curve, the December Chinese Caixin Manufacturing PMI dropping below 50 (the dividing line between growth and contraction),[5] a weakening US housing market, and indications that European growth may be rolling over. The more pessimistic indicators, as well as negative pre-announcements from market bellwethers such as FedEx, have led to a sharp reduction in earnings estimates, according to FactSet. To be sure, estimate reductions are the normal state of affairs but after positive tax reform-driven revisions in the first and second quarters of 2018, estimates were downgraded by 1.1% in the third quarter and a further 3.8% in the fourth quarter.[6]

Taking all of the above into account, our sense heading into 2019 is one of cautious optimism, recognizing that conditions are balanced on a knife-edge. We believe the Sextant Funds are well-positioned for positive or negative economic developments given our focus on low-debt, cash-generative, high-quality companies led by excellent management teams. Such characteristics are defensive in the event of a downturn, while the low debt focus will also be an advantage in the event economies regain momentum and the Fed continues with its rate normalization policy.

Sextant Growth Fund

As of December 31, 2018

The significant Technology exposure in the Sextant Growth Fund led it to bear the full brunt of the fourth quarter market sell-off, dropping -16.00%, compared to declines of -13.52% and -15.43% for the S&P 500 Index and the Morningstar Large Growth category, respectively. Regardless, the Fund posted excellent full year numbers, with a positive return of 0.42% against losses in the S&P 500 and Morningstar Large Growth category of -4.38% and -2.09%, respectively.

Despite weakness at the end of the year, Adobe and Amazon were the largest contributors of 2018 and we see both companies as well positioned for future growth. Microsoft enjoyed a solid 2018 and, for a time, captured the crown as the largest market capitalization company in the world, a title that was subsequently claimed by Amazon at the start of the new year.

We believe payments will continue to migrate away from cash toward electronic, making Mastercard a clear beneficiary. Within the Healthcare sector, Abbott Labs has successfully integrated recent acquisitions, broadening its product portfolio, while Edwards progresses from strength to strength with leading technology in heart valves. Nike has been plagued by weak growth in North America until recently and the recovery has done much for the share price. Starbucks has also experienced North American sales short of expectations but seems to be moving back on track. RPM, an Ohio-based mini-conglomerate focusing on residential and commercial coatings and other products, received a boost when an activist investor disclosed a stake and made a number of recommendations for improved performance.

Stanley Black & Decker clearly suffered from the imposition of tariffs, with much of their power tool line produced in China. Facebook's challenges were legion throughout 2018; due to concerns over corporate governance and unimpressive senior management responses to developments throughout the year, we have sold the position. Celgene, DowDuPont, and CVS have all been eliminated from the portfolio.

The top holdings of the Fund remained largely stable though, at the bottom of the list, Stanley Black & Decker was replaced by RPM.

10 Largest Contributors YTD	Return	Contribution
Adobe Systems	29.10%	1.51
Amazon.com	28.43%	1.22
Mastercard, Class A	25.32%	0.85
Abbott Laboratories	29.04%	0.83
Microsoft	20.80%	0.80
Edwards Lifesciences	35.90%	0.72
Nike, Class B	19.86%	0.52
RPM International	14.83%	0.44
Amgen	15.17%	0.29
Starbucks	14.75%	0.26

10 Largest Detractors YTD	Return	Contribution
Stanley Black & Decker	-28.13%	-1.07
Facebook, Class A	-24.95%	-0.77
Celgene	-34.72%	-0.74
Ally Financial	-20.66%	-0.52
DowDuPont	-23.87%	-0.45
TE Connectivity	-23.96%	-0.44
Apple	-5.39%	-0.42
Alaska Air	-15.55%	-0.29
CVS Health	-15.09%	-0.28
Worldpay, Class A	-8.77%	-0.27

Top 10 Holdings	Portfolio Weight
Amazon.com	6.51%
Apple	6.40%
Adobe Systems	5.96%
Alphabet, Class A	5.92%
Microsoft	5.45%
Mastercard, Class A	4.77%
Abbott Laboratories	4.26%
JP Morgan Chase	3.57%
Home Depot	3.05%
RPM International	3.00%

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Sextant International Fund

As of December 31, 2018

While suffering from the very weak international environment, the Sextant International Fund Investor shares' one year return of -3.94% significantly outperformed the MSCI EAFE Index, which slumped -13.36%, the MSCI ACWI ex-USA Index, which dropped -14.20%, and the Morningstar Foreign Large Growth Category, which recorded a -14.08% decline.

Luxury hotel operator Belmond's position as the 2018 top contributor results from the Fund's large position in the company and its acquisition by diversified French luxury goods firm LVMH, which was announced in December of last year. The Dutch firm Wolters Kluwer provides data and information to the medical, legal, accounting, and regulatory segments and has, for many years benefitted from the print to digital transition. The next transition for the company will be the evolution from providing data to providing solutions. Wolters is the most gender diverse company in the portfolio with a female CEO and a majority of women in the executive suite. Nice, which provides commercial crime and fraud detection software, had a strong 2018 as multiple companies reported data breeches.

In a year when major indices are down by double-digit percentages, every fund will have some losers. In the case of Sextant International, Panamanian-based airline Copa, and German Chemical conglomerate BASF suffered for various reasons. Copa enjoyed good sales but was damaged by increasing costs and reduced profitability. BASF was affected by tariffs and a generally moribund economic environment in Europe, which still accounts for nearly half of its sales. Borrowing short and lending long becomes less profitable as the yield curve compresses, accounting for the presence of Mitsubishi UFJ, Toronto-Dominion Bank, and Australia & New Zealand Banking Group among the losers. Canadian telecom incumbent BCE didn't perform too badly on its local exchange, but when translated into US dollars, the weakening loonie exacerbated losses.

Among the top 10 holdings over the fourth quarter, Unilever replaced Toronto-Dominion Bank due to the former's resilient performance during the fourth quarter sell-off.

10 Largest Contributors YTD	Return	Contribution
Belmond, Class A	104.33%	4.02
Wolters Kluwer	15.55%	1.26
NICE Systems ADR	17.73%	1.03
Dassault Systemes ADR	11.22%	0.55
Novartis ADR	5.88%	0.25
Total ADR	-0.81%	0.17
Air Canada	5.37%	0.05
Toyota Motor ADS	-5.87%	0.02
Sinopharm Group	-0.65%	-0.03
SK Telecom ADR	-3.67%	-0.04

10 Largest Detractors YTD	Return	Contribution
Copa Holdings, Class A	-39.15%	-2.36
BASF ADR	-33.67%	-2.21
Mitsubishi UFJ Financial ADR	-31.05%	-0.70
Toronto-Dominion Bank	-12.46%	-0.57
Australia & New Zealand Banking ADR	-19.16%	-0.50
BCE	-13.30%	-0.48
ASML Holding	-9.68%	-0.47
Novo Nordisk ADR	-11.88%	-0.43
Industria de Diseno Textil	-24.51%	-0.38
MercadoLibre	-6.93%	-0.37

Top 10 Holdings	Portfolio Weight
Wolters Kluwer	9.67%
NICE Systems ADR	7.13%
Belmond, Class A	7.00%
Dassault Systemes ADR	6.61%
ASML Holding	5.13%
MercadoLibre	4.83%
Novartis ADR	4.67%
BASF ADR	4.64%
Unilever ADR	4.31%
Fomento Economico Mexico ADR	4.25%

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Sextant Global High Income Fund

As of December 31, 2018

The Sextant Global High Income Fund returned -4.20% in the fourth quarter of 2018, ending the period with $8.6 million of total net assets, including 5.4% cash. Despite the decline in value, the Fund outperformed the S&P Global 1200 equity benchmark which returned -12.91%, the Bloomberg Barclays Global High Yield Corporate fixed income benchmark which returned -4.23%, and the Morningstar World Allocation peer group which returned -8.08%. For the year, the Fund returned -1.23%, compared to the S&P Global 1200 Index, Bloomberg Barclays Global High Yield Corporate Index, and its Morningstar peer group, which returned -8.17%, -3.47%, and -8.26%, respectively.

The Fund's investments in Brazil were among its biggest contributors to performance during the quarter. Brazil's election of Jair Bolsonaro to its Presidency — with his platform of privatization and deregulation for the economy — has been seen as a positive for the corruption and scandal plagued country despite a number of controversial proposals he has advanced. Brazilian toll-road operator CCR returned 41.52% in the quarter, while Itau Unibanco returned 25.04%. The Fund's investment in a Brazilian government bond returned 7.40% due primarily to strength in Brazil's currency relative to the US dollar.

On the flip-side, the sharp decline in oil prices during the quarter hurt the Fund's investments in energy companies. A barrel of West Texas crude oil declined in price from $75.37 on the first day of the quarter to $45.15 on the last (-40.10%). Oil services company National Oilwell Varco returned -40.25%, the Norwegian oil company Equinor (formerly Statoil) returned -24.19%, and Chinese oil company CNOOC returned -22.83% for the fourth quarter.

The Fund added two new equity investments during the quarter: semiconductor equipment manufacturer Applied Materials, and software company Micro Focus International.

The share price of Applied Materials declined 35.96% in 2018 due to worries about peaking microchip demand and concerns about trade tensions and tariffs impacting logistics and supply chains. Our analysis indicates that long-term chip demand should be robust and that investors may have overreacted to near-term forecasts based on the heavy cyclicality the industry has demonstrated in the past.

Micro Focus International has a primary business of providing software solutions that marry the legacy mainframe

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10 Largest Contributors QTD	Return	Contribution
CCR	41.52%	0.84
Itau Unibanco Holding ADR, Class A	25.04%	0.66
United States Treasury Bond *(6.125% 11/15/2027)*	3.39%	0.24
Federal Republic of Brazil *(8.50% 01/05/2024)*	7.40%	0.14
Orange ADR	3.96%	0.07
Hopewell Highway Infrastructure	3.12%	0.06
Colombia Republic *(8.375% 02/15/2027)*	2.54%	0.04
Petrobras International Finance *(6.75% 01/27/2041)*	4.38%	0.04
Colony TX NFM Sales Tax Revenue *(7.625% 10/01/2042)*	4.45%	0.03
Colony TX NFM Sales Tax Revenue *(7.00% 10/01/2027)*	1.75%	0.02

10 Largest Detractors QTD	Return	Contribution
Equinor ADR	-24.19%	-0.90
CNOOC ADR	-22.83%	-0.84
National Oilwell Varco	-40.25%	-0.81
Total ADR	-17.88%	-0.48
South32 ADR	-16.13%	-0.46
Royal Dutch Shell ADR, Class A	-13.18%	-0.37
Nutrien	-17.84%	-0.36
Lincoln National *(4.5090% 04/20/2067)*	-13.41%	-0.34
Microchip Technology	-8.40%	-0.26
VF	-7.72%	-0.23

Top 10 Holdings		Portfolio Weight
United States Treasury Bond *(6.125% 11/15/2027)*	*Bond*	7.37%
Mexico Bonos Desarrollo *(6.50% 06/10/2021)*	*Bond*	4.79%
Itau Unibanco Holding ADR, Class A	*Equity*	3.50%
BHP Group ADR	*Equity*	3.36%
Microchip Technology	*Equity*	3.34%
CNOOC ADR	*Equity*	3.01%
Jefferies Group *(5.125% 01/20/2023)*	*Bond*	2.97%
T-Mobile *(6.50% 01/15/2026)*	*Bond*	2.96%
Equinor ADR	*Equity*	2.95%
SK Telecom ADR	*Equity*	2.80%

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Sextant Short-Term Bond Fund, Sextant Bond Income Fund

As of December 31, 2018

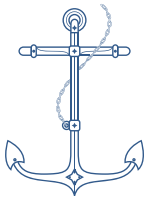
The Sextant Short-Term Bond Fund returned 0.81% in the fourth quarter, compared to its benchmark, the FTSE US BIG Govt/Corp 1-3 Year Bond Index, which returned 1.15%. The Morningstar Short-Term Bond Category returned 0.45%. For the year, the Sextant Short-Term Bond Fund returned 1.08%, compared to its benchmark and its Morningstar category, which returned 1.56% and 0.92%, respectively. The Sextant Bond Income Fund returned 1.03% during the quarter, compared to the 1.64% return of its benchmark, the FTSE US BIG Bond Index, and the 0.24% average return of the Morningstar Long-Term Bond category. For the year, the Sextant Bond Income Fund returned -1.13%, compared to its benchmark and its Morningstar category, which returned -0.01% and -3.26%.

During the fourth quarter of 2018, the US Federal Reserve Bank (FED) increased the Federal Fund's target rate from 2.25% to 2.50%. Notably, Chairman Powell has not ignored the widespread impacts of less accommodative monetary policy or the decline in global US dollar liquidity. The strong US dollar and weakening economic fundamentals may have convinced Chairman Powell to slow the pace and even reduce the number of future tightenings.

Modest US economic growth and moderate inflation kept the window open for the US Federal Reserve Bank to withdraw more of their experimental monetary policy. Their gradual policy reversal challenged investor complacency, drove bond yields higher, softened US asset prices, and provoked price volatility. Policy tightening has yet to induce a disorderly interest rate spike or liquidity shortfall. It has nonetheless left a significant footprint. Flatter yield curves, wider credit spreads, peaking equity, bond, commodity, and housing prices all imply the Fed's policy normalization may have arrived late in the economic cycle. Concern is rising that policy normalization may influence the business cycle's turning point.

Foreign capital has flowed out of emerging bond markets and widened sovereign spreads back to levels last seen in 2015 and 2016 when Mario Draghi felt compelled to deliver his "whatever it takes" speech. As signs of a maturing credit cycle proliferate, high-yield credit spreads are also widening as investors demand higher premiums for riskier debt.

Despite the tense situations in Ukraine and Syria, events in the Eurozone remain the near-term focus of bond investors. The uncertainty of a no-deal Brexit, a notable slowing in German economic growth and inflation, widening Italian credit spreads, and a significant decline in European bank indexes are making the planned withdrawal of hyper accommodative European Central Bank (ECB) policy less certain. Should the ECB join the US Federal Reserve and withdraw their ultra-easy monetary policy, a second policy tightening may expand the knock-on effects mentioned above. With an ECB leadership transition planned for the spring of 2019, the future of ECB policy becomes even more uncertain.



In a reversal of a near decade long trend, in 2018, short-term bonds performed better that longer-term

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Sextant Short-Term Bond Fund Top 10 Holdings	Portfolio Weight
United States Treasury Note *(3.625% 02/15/2021)*	8.88%
United States Treasury Note *(2.50% 08/15/2023)*	4.82%
McCormick & Co. *(2.70% 08/15/2022)*	4.68%
Honeywell International *(4.25% 03/01/2021)*	4.46%
Burlington Northern Santa Fe *(3.05% 09/01/2022)*	3.83%
Gilead Sciences *(2.55% 09/01/2020)*	3.83%
3M *(2.00% 06/26/2022)*	3.73%
Adobe Systems *(4.75% 02/01/2020)*	3.73%
Qualcomm *(2.60% 01/30/2023)*	3.71%
Juniper Networks *(4.60% 03/15/2021)*	3.70%

Sextant Bond Income Fund Top 10 Holdings	Portfolio Weight
United States Treasury Note *(3.625% 02/15/2021)*	9.60%
United States Treasury Bond *(5.375% 02/15/2031)*	4.58%
Intel *(4.00% 12/15/2032)*	3.33%
Apple *(4.50% 02/23/2036)*	3.32%
Microsoft *(4.20% 11/03/2035)*	3.27%
Cincinnati Financial *(6.92% 05/15/2028)*	2.72%
United States Treasury Bond *(6.125% 08/15/2029)*	2.66%
Puget Sound Energy (7.02% 12/01/2027)	2.61%
United Technologies *(6.05% 06/01/2036)*	2.57%
Lowe's *(5.80% 10/15/2036)*	2.54%

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Sextant Core Fund

As of December 31, 2018

The Sextant Core Fund's fourth-quarter return of -7.34% outperformed the benchmark Dow Jones Moderate Portfolio Index return of -7.70% for the same period. The largest contributor to performance in the fourth quarter of 2018 were fixed income positions with equity positions detracting. For the calendar year 2018, the Fund produced a total return loss of -4.62%, compared to the benchmark return loss of -5.21%.

Equities

The Sextant Core Fund's mandate specifies a 60% allocation to equity securities, with two-thirds being US-domiciled companies and one-third foreign-domiciled companies. The Fund averaged an equity allocation of 59.8% in the fourth quarter, a reduction from 62.6% in the third quarter of 2018. Positions in the Consumer Staples and Utilities sectors positively contributed to performance, while detractors were notable in the Energy and Financial Services sectors. Positions in the Technology sector contributed both positively and negatively to the Fund's performance.

At quarter end, the two largest equity sectors allocations were Technology at 22.0% and Healthcare at 16.0% of the equity portion of the portfolio. The Fund held 58 equity positions with an average market capitalization of $130 billion and an average position size of 1.0%

Sixty percent of the Fund's equity portion is valued below the fourth-quarter-end 15.3x price-to-earnings multiple projected for the S&P 500 in 2019. Likewise, 65% of the Fund's equity portion yields more than the S&P 500's projected 2019 dividend yield of 2.1% at fourth-quarter-end. Equity capital allocation will remain near the 60% mandate level, and focus remains biased to value and income characteristics with an emphasis on value.

Fixed Income

During the fourth quarter of 2018, the US Federal Reserve Bank (FED) increased the Federal Fund's target rate from 2.25% to 2.50%. Notably, Chairman Powell has not ignored the widespread impacts of less accommodative monetary policy or the decline in global US dollar liquidity. The strong US dollar and weakening economic fundamentals may have convinced Chairman Powell to slow the pace and even reduce the number of future tightenings.

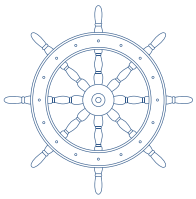
Modest US economic growth and moderate inflation kept the

Continued on page 11

10 Largest Contributors YTD	Return	Contribution
CA	34.79%	0.48
Abbott Laboratories	29.04%	0.35
Pfizer	24.82%	0.28
Xilinx	28.77%	0.26
RPM International	14.83%	0.25
Amgen	15.17%	0.20
Nextera Energy	14.30%	0.18
ConocoPhillips	15.62%	0.17
HP	-0.21%	0.11
United States Treasury Bond *(6.25% 8/15/23)*	1.78%	0.07

10 Largest Detractors YTD	Return	Contribution
NXP Semiconductors	-29.00%	-0.51
Mitsubishi UFJ Financial ADR	-31.05%	-0.39
Celgene	-32.77%	-0.38
Parker Hannifin	-24.00%	-0.37
3M	-16.91%	-0.33
Ally Financial	-20.66%	-0.32
PNC Financial Services Group	-16.98%	-0.31
Citigroup	-28.49%	-0.28
Infineon Technologies ADR	-25.92%	-0.28
Aviva ADR	-18.92%	-0.22

Top 10 Holdings		Portfolio Weight
United States Treasury Bond *(6.25% 8/15/23)*	*Bond*	3.92%
United States Treasury Note *(2.75% 11/15/2023)*	*Bond*	2.73%
Welltower Inc *(4.25% 4/15/2028)*	*Bond*	2.67%
Gilead Sciences *(3.70% 04/01/2024)*	*Bond*	1.92%
United States Treasury Note *(2.00% 11/30/2022)*	*Bond*	1.89%
Union Pacific *(3.375% 02/01/2035)*	*Bond*	1.69%
Legrand France Yankee *(8.50% 02/15/2025)*	*Bond*	1.62%
Toronto-Dominion Bank	*Equity*	1.60%
Johnson & Johnson	*Equity*	1.59%
Qualcomm *(3.25% 05/20/2027)*	*Bond*	1.58%



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Sextant Global High Income Fund, *continued*

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computing centers common in financial services firms with modern cloud computing and mobile applications. The company's sizable acquisition of Hewlett Packard Enterprises in 2016 appears to have been more than it could chew, and the integration has gone poorly and led to turnover problems in the company's workforce. As a result of these issues, the company's share price declined 45.19% in 2018. However, the management team that led the acquisition has been replaced, and we believe the new management's renewed attention on the core businesses will, in time, drive results that outlast a temporary period of noise and uncertainty.

The fourth quarter was marked by a sharp decline in US equity markets. The S&P 500 returned -13.52%, which was worse than the developed international benchmark MSCI EAFE (-12.50%) and the MSCI Emerging Markets Index (-7.47%). Meanwhile, the US government yield curve continued to flatten, with the spread between 10-year and two-year US Treasury Notes narrowing to just 0.11% at points in December. Periods when this spread became negative in the past were usually followed by a recession, reflecting investors' efforts to lock in longer-term rates before interest rates fall in response to recessionary economic conditions. This flattening yield curve may have spooked the equity markets, especially after the Federal Reserve went ahead with a widely-forecast interest rate increase in December, because raising short-term interest rates can flatten the curve even more if long-term rates do not rise in tandem.

Despite these worries, and the corresponding equity declines, we believe there may be a more benign explanation for the flattening curve. Stronger economic growth in the US compared to other parts of the world has allowed the Federal Reserve to raise short-term interest rates well above levels in Europe or Japan. For example, an investor might borrow in euros at an interest rate that is close to zero through a German bank, convert to dollars, and invest the proceeds in US Treasurys at a much higher rate. This strategy, known as a carry trade, has been profitable in recent years, with relatively stable exchange rates moderating the currency risks of such a strategy. With weaker economic growth in other economies capping interest rates there, this type of trade may fuel extra demand for US Treasurys, holding down longer-term rates even as the Fed lifts short-term rates.

Sextant Short-Term Bond Fund, Sextant Bond Income Fund, *continued from page 9*

bonds and high-rated investment grade credit returned more than low-rated, high-yield credit. These outcomes are also consistent with "risk-off" periods late in economic and credit cycles.

These events have presented US based bond investors with a significant opportunity. While US treasury security nominal yields have fallen 20-35 basis points this quarter, zero-coupon inflation swap rates have fallen even more. In other words, despite lower nominal yields, real yields have widened out significantly to levels not seen since 2009-2011. Real bond yields are as attractive as they have been in eight years.

If the Fed and ECB continue to withdraw excess capital, marginal borrowers may be confronted with higher refinancing costs, more stringent covenants and less overall available credit. As central banks try to suffocate their overextended artificial credit cycle, it is more important than any time in the last 10 years for investors to stay focused on credit risk.

Finally, there should be no doubt that the top priority for all central banks is to prevent global deflation. If central banks' policy tightening begins to accelerate disinflation, central banks will be sorely tempted to abandon their tightening and return to QE ("quantitative easing") and ZIRP ("zero interest rate policy"). After 10 years of anticipating central bank behavior, it seems likely that bond investors' appetite for high quality bonds of all maturities will surge.

Sextant Core Fund, *continued from page 10*

window open for the US Federal Reserve Bank to withdraw more of their experimental monetary policy. Their gradual policy reversal challenged investor complacency, drove bond yields higher, softened US asset prices, and provoked price volatility. Policy tightening has yet to induce a disorderly interest rate spike or liquidity shortfall. It has nonetheless left a significant footprint. Flatter yield curves, wider credit spreads, peaking equity, bond, commodity, and housing prices all imply the Fed's policy normalization may have arrived late in the economic cycle. Concern is rising that policy normalization may influence the business cycle's turning point.

Morningstar Sustainability Ratings™

Sextant Growth Fund

Investor Shares (SSGFX)

Z Shares (SGZFX)

Among 1,252 Large Growth Funds

Sextant International Fund

Investor Shares (SSIFX)

Z Shares (SIFZX)

Among 354 Foreign Large Growth Funds

The Sextant Bond Income Fund has not yet received a Sustainability Rating.

Sextant Core Fund

SCORX

Among 697 Allocation 50% – 70% Equity Funds

Sextant Short-Term Bond Fund

STBFX

Among 473 Short-Term Bond Funds

Sextant Global High Income Fund

SGHIX

Among 392 World Allocation Funds

The Morningstar Sustainability Rating and the Morningstar Portfolio Sustainability Score are not based on fund performance and are not equivalent to the Morningstar Rating ("Star Rating").

Morningstar Sustainability Ratings are as of November 30, 2018. The Morningstar Sustainability Rating™ is intended to measure how well the issuing companies of the securities within a fund's portfolio are managing their environmental, social, and governance ("ESG") risks and opportunities relative to the fund's Morningstar category peers. The Morningstar Sustainability Rating calculation is a two-step process. First, each fund with at least 50% of assets covered by a company-level ESG score from Sustainalytics receives a Morningstar Portfolio Sustainability Score™. The Morningstar Portfolio Sustainability Score is an asset-weighted average of normalized company-level ESG scores with deductions made for controversial incidents by the issuing companies, such as environmental accidents, fraud, or discriminatory behavior. The Morningstar Sustainability Rating is then assigned to all scored funds within Morningstar Categories in which at least ten (10) funds receive a Portfolio Sustainability Score and is determined by each fund's rank within the following distribution: High (highest 10%), Above Average (next 22.5%), Average (next 35%), Below Average (next 22.5%), and Low (lowest 10%). The Morningstar Sustainability Rating is depicted by globe icons where High equals 5 globes and Low equals 1 globe. A Sustainability Rating is assigned to any fund that has more than half of its underlying assets rated by Sustainalytics and is within a Morningstar Category with at least 10 scored funds; therefore, the rating it is not limited to funds with explicit sustainable or responsible investment mandates. Morningstar updates its Sustainability Ratings monthly. Portfolios receive a Morningstar Portfolio Sustainability Score and Sustainability Rating one month and six business days after their reported as-of date based on the most recent portfolio. As part of the evaluation process, Morningstar uses Sustainalytics' ESG scores from the same month as the portfolio as-of date.

The Fund's portfolios are actively managed and is subject to change, which may result in a different Morningstar Sustainability Score and Rating each month.

The Funds were rated on the following percentages of Assets Under Management:

Sextant Growth Fund	*96%*
Sextant International Fund	*93%*
Sextant Core Fund	*70%*
Sextant Short-Term Bond Fund	*65%*
Sextant Global High Income Fund	*69%*

The Sextant Growth and Sextant International Funds offer two share classes – Investor Shares and Z Shares, each of which has different expense structures.

Performance Summary

As of December 31, 2018

Average Annual Total Returns (Before Taxes)	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**Expense Ratio[A]** *Gross*	*Net*
Sextant Growth Investor Shares (SSGFX)	0.42% ▲	6.94% ▲	6.28% ▲	10.48% ▲	0.76%	0.76%
Sextant Growth Z Shares (SGZFX)[B]	0.67% ▲	n/a	n/a	n/a	0.51%	0.51%
S&P 500 Index	-4.38% ▼	9.25% ▲	8.49% ▲	13.11% ▲	n/a	
Sextant International Investor Shares (SSIFX)	-3.94% ▼	8.88% ▲	3.26% ▲	5.55% ▲	1.04%	1.04%
Sextant International Z Shares (SIFZX)[B]	-3.71% ▼	n/a	n/a	n/a	0.79%	0.78%
MSCI EAFE Index	-13.36% ▼	3.38% ▲	1.00% ▲	6.81% ▲	n/a	
Sextant Core Fund (SCORX)	-4.62% ▼	4.43% ▲	2.91% ▲	6.08% ▲	0.73%	0.73%
Dow Jones Moderate Portfolio Index	-5.21% ▼	5.52% ▲	4.11% ▲	8.21% ▲	n/a	
Sextant Global High Income Fund (SGHIX)[C]	-1.23% ▼	10.87% ▲	4.11% ▲	n/a	1.06%	0.75%
S&P Global 1200 Index	-8.17% ▼	7.38% ▲	5.29% ▲	10.28% ▲	n/a	
Bloomberg Barclays Global High Yield Corporate Bond Index	-3.47% ▼	6.66% ▲	2.94% ▲	11.05% ▲	n/a	
Sextant Short-Term Bond (STBFX)	1.08% ▲	1.01% ▲	1.01% ▲	1.78% ▲	0.88%	0.60%
FTSE USBIG Government / Corporate 1-3 Index	1.56% ▲	1.20% ▲	0.98% ▲	1.49% ▲	n/a	
Sextant Bond Income (SBIFX)	-1.13% ▼	2.60% ▲	2.95% ▲	4.13% ▲	0.86%	0.65%
FTSE US Broad Investment-Grade Bond Index	-0.01% ▼	2.07% ▲	2.51% ▲	3.36% ▲	n/a	

Performance data quoted represents past performance, is before any taxes payable by shareowners, and is no guarantee of future results. *Current performance may be higher or lower than that stated herein. Performance current to the most recent month-end is available by calling toll-free 1-800-728-8762 or visiting www.sextantfunds.com. Average annual total returns are historical and include change in share value as well as reinvestment of dividends and capital gains, if any. 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. Shares of a Fund may only be offered for sale through the Fund's prospectus or summary prospectus.*

[A] *By regulation, expense ratios shown are as stated in a Fund's most recent prospectus or summary prospectus, dated March 28, 2018, and incorporate results from the fiscal year ended November 30, 2017. Expense ratios of Sextant Core, Sextant Global High Income, Sextant Short-Term Bond, and Sextant Bond Income Funds are restated to reflect the ending of the Distribution (12b-1) Fees, as approved by the Board of Trustees on March 14, 2017. Higher expense ratios may indicate higher returns relative to a Fund's benchmark. The Adviser has voluntarily capped actual expenses of Sextant Global High Income at 0.75%, Sextant Short-Term Bond at 0.60% and actual expenses of Sextant Bond Income at 0.65% through March 31, 2019.*

[B] *Z Shares of Sextant Growth and Sextant International Funds began operations June 2, 2017.*

[C] *Sextant Global High Income Fund began operations March 30, 2012. Its annualized since inception return as of December 31, 2018, was 4.67%.*

The S&P 500 Index is an index comprised of 500 widely held common stocks considered to be representative of the US stock market in general. The MSCI EAFE Index is an international index focused on Europe, Australasia, and the Far East. The MSCI ACWI Ex-US Index, produced by Morgan Stanley Capital International, measures equity market performance throughout the world excluding US-based companies. The S&P Global 1200 Index is a global stock market index covering nearly 70% of the world's equity markets. The Bloomberg Barclays Global High Yield Corporate Bond Index is a rules-based, market-value weighted index engineered to measure the non-investment grade, fixed-rate, taxable, global corporate bond market. The Dow Jones Moderate Portfolio Index is a broad-based index of stock and bond prices. The FTSE Gov./Corp. Investment Grade Index 1-3 Years is a broad-based index of shorter-term investment grade US government and corporate bond prices. The FTSE US Broad Investment-Grade Bond Index is a broad-based index of medium and long-term investment grade bond prices. Investors cannot invest directly in the indices.

A Fund's 30-Day Yield, sometimes referred to as standardized yield, current yield, or SEC yield, is based on methods of computation prescribed in SEC Form N-1A. Calculated by dividing the net investment income per share during the preceding 30 days by the net asset value per share on the last day of the period, the 30-Day Yield provides an estimate of a Fund's investment income rate, but may not equal the actual income distribution rate.

About The Authors

Scott Klimo CFA
Vice President and Chief Investment Officer

Sextant Growth Fund, Portfolio Manager
Sextant International Fund, Deputy Portfolio Manager

Scott Klimo, Chief Investment Officer and Portfolio Manager, joined Saturna Capital in May 2012. He received his BA in Asian Studies from Hamilton College in Clinton, NY and also attended the Chinese University of Hong Kong and the Mandarin Training Center in Taipei, Taiwan. Mr. Klimo has over 30 years experience in the financial industry with the first several years of his career spent living and working in a variety of Asian countries and the past 20 years working as a senior analyst, research director, and portfolio manager covering global equities. Mr. Klimo is a chartered financial analyst (CFA) charterholder. He is a supporter of various environmental organizations and served for several years on the Board of Directors of the Marin County Bicycle Coalition.

Phelps McIlvaine
Vice President

Sextant Short-Term Bond Fund, Sextant Bond Income Fund, Sextant Core Fund, Portfolio Manager

Phelps McIlvaine, Vice President, joined Saturna Capital in 1993. He serves Saturna as Portfolio Manager and a Research Analyst for Idaho Tax-Exempt Fund, Sextant Short-Term Bond Fund, Sextant Bond Income Fund, and Sextant Core Fund. He also acts as Director for Saturna's wholly-owned brokerage subsidiary, Saturna Brokerage Services. Mr. McIlvaine was born in Illinois in 1953, and has a BA in economics (University of Denver, 1975 Phi Beta Kappa). Mr. McIlvaine entered the investment business in 1976 and traded US bond and derivative markets from 1977 to 1986 for commercial banks in Boston and Chicago. From 1987 to 1993 he managed fixed income derivative hedge funds in Chicago and London. He serves on the Endowment Committees of the Nooksack Salmon Enhancement Association and the Bellingham Interfaith Coalition.

Bryce Fegley MS, CFA, CIPM
Senior Investment Analyst

Sextant Global High Income Fund, Portfolio Manager

Bryce Fegley, CFA, CIPM, Investment Analyst & Sextant Global High Income Fund Portfolio Manager, joined Saturna Capital in 2001 and worked in brokerage/trading and later as an investment analyst. Beginning in 2010, he spent two years as President of our Malaysian subsidiary, Saturna Sdn Bhd, directing its research and fund management operations. In 2012 he returned to Saturna Capital headquarters. Prior to joining Saturna, Mr. Fegley worked in brokerage operations in Seattle from 1997-2000. Originally from upstate New York, he studied at the University of Colorado at Boulder earning his BA in English Literature. Mr. Fegley earned an MS in Computational Finance and Risk Management from the University of Washington in December 2017. His volunteer activities include a board role with the Whatcom Family YMCA.

Chris Paul MBA, CFA
Senior Investment Analyst

Sextant Core Fund Fund, Portfolio Manager

Chris Paul, Senior Investment Analyst, joined Saturna Capital in August 2016. He earned an MBA Finance from New York University and a BS in Computer Science from Syracuse University. Mr. Paul is a Chartered Financial Analyst® (CFA®) charterholder and Portfolio Manager of the Sextant Core Fund. His experience includes research and management positions at asset management firms and investment banks, as well as finance and operations roles at technology companies.

Performance data quoted herein represents past performance and does not guarantee future results.

Footnotes

[1] *Goldfard, Sam and Ensign, Rachel Louise. Corporate Debt Is Reaching Record Levels, The Wall Street Journal, December 29, 2018. https://www.wsj.com/articles/corporatedebtisreachingrecordlevels11546099201*

[2] *Perhaps we should be gentler with Ms. May. As we were recently told during corporate meetings in London, "Half the people voted for Brexit, half voted against and 75% oppose any deal that may be struck."*

[3] *Kitroeff, Natalie. Strong Hiring and Fed Chief's Reassurance on Rates Delight Investors, The New York Times, January 3, 2019. https://www.nytimes.com/2019/01/04/business/economy/jobs-report.html*

[4] *The Employment Situation – December 2018, US Bureau of Labor Statistics. https://www.bls.gov/news.release/archives/empsit_01042019.htm*

[5] *China Caixin Manufacturing PMI, Trading Economics. https://tradingeconomics.com/china/manufacturing-pmi*

[6] *Butters, John. Largest Cuts to Quarterly S&P 500 EPS Estimates Since Q3 2017, Factset, January 4, 2019. https://insight.factset.com/largest-cuts-to-quarterly-sp-500-eps-estimates-since-q3-2017*

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Effective maturity *and* ***modified duration*** *are measures of a fund's sensitivity to changes in interest rates and the markets. A fund's effective maturity is a dollar-weighted average length of time until principal payments must be paid. Longer maturities typically indicate greater sensitivity to interest rate changes than shorter maturities. Modified duration differs from effective maturity in that it accounts for interest payments in addition to the length of time until principal payments must be paid. Longer durations tend to indicate greater sensitivity to interest rate changes than shorter durations. Call options and other security specific covenants may be used when calculating effective maturity and modified duration.*

Forward price-to-earnings *is a quantification of the ratio of price-to-earnings (PE) using forecasted earnings for the PE calculation. While the earnings used are estimates and are not as reliable as current earnings data, the benefit in using estimated PE is that the forecasted earnings can either be for the next 12 months or for the next full-year fiscal period.*

The ***Growth Fund*** *may invest in smaller companies, which involve higher investment risks in that they often have limited product lines, markets and resources, or their securities may trade less frequently and have greater price fluctuation than those of larger companies.*

The ***International Fund*** *involves risks not typically associated with investing in US securities. These include fluctuations in currency exchange rates, less public information about securities, less governmental market supervision, and lack of uniform financial, social, and political standards.*

The ***Core Fund*** *involves the risks of both equity and debt investing, although it seeks to mitigate these risks by maintaining a widely diversified portfolio that includes domestic stocks, foreign stocks, short and long-term bonds, and money market instruments.*

Investment in the ***Global High Income Fund*** *entails the risks of both equity and debt securities, although it seeks to mitigate these risks through a widely diversified portfolio that includes foreign and domestic stocks and bonds. Issuers of high-yield securities are generally not as strong financially as those issuing higher quality securities. Investments in high-yield securities can be speculative in nature. High-yield bonds may have low or no ratings and may be considered "junk bonds."*

The risks inherent in the ***Short-Term Bond*** *and* ***Bond Income Funds*** *depend primarily on the terms and quality of the obligations in their portfolios, as well as on bond market conditions. When interest rates rise, bond prices fall. When interest rates fall, bond prices rise. Bonds with longer maturities (such as those held by the Bond Income Fund) usually are more sensitive to interest rate changes than bonds with shorter maturities (such as those held by the Short-Term Bond Fund). The Funds entail credit risk, which is the possibility that a bond will not be able to pay interest or principal when due. If the credit quality of a bond is perceived to decline, investors will demand a higher yield, which means a lower price on that bond to compensate for the higher level of risk.*