Eric Kuby, CIO of North Star Investment Management

Wallace Forbes: Wallace (Wally) Forbes, CFA, was President of the Forbes Investors Advisory Institute (FIAI) from 1993 through 2014, the division of Forbes Media that publishes the Forbes Special Situation Survey, Forbes Investor and is responsible for the Forbes participation in the Forbes/CFA Institute Investment Course published by Wiley. He hosts an interview program with leading money managers that appears on the Investing section.

Wallace Forbes: Tell us about your small-cap dividend strategy.

Eric Kuby: We look for companies that have market caps under $1 billion and have more than 3% dividend yields. What we've found is that about half of the companies that trade and have yields greater than 3% actually are in the $1 billion and under market cap area. But, in general, people ignore that entire universe of stocks, instead focusing on the other half that have the larger market caps.

If you only focus on the large-cap dividend players you're missing out on half of the investable universe. That's the universe we focus on in the **North Star Dividend Fund** (NSDVX). We're looking for companies that not only have 3% yields, but that also have a consistent history of dividend payments and dividend growth.

We're value investors so we're looking for companies that have moats around their business which allow them to earn higher returns on equity, prudent balance sheets with lower than average leverage, and management teams that have aligned their interests with those of their shareholders. We have found that this strategy provides superior risk adjusted returns with much lower volatility. Additionally, the Fund has a very low correlation to the S&P 500 and the Russell 2000, or for that matter, the other dividend strategies that people typically use, such as the IShares Select Dividend ETF (DVY).

Forbes: How many stocks do you have in the fund?

Kuby: We generally have about 50. We like to have a concentrated portfolio, which allows us to really get to know all the companies. We make it a point of visiting our portfolio companies and doing in-depth research on them.

After the index dominated market rally in 2017, we think it is a particularly timely to look at this type of portfolio. In the thirteen-month period that ended at the end of this January, there was historic outperformance by large-cap growth stocks over small-cap value companies, with the former returning over 35%, and the latter under 15%. As a result, with think that the current relative valuations for the holdings in our Fund are particularly compelling. In sharp contrast to this recent underperformance, historically small-caps have outperformed large-caps, value has outperformed growth, dividend payers have outperformed non-dividend payers. There's only been a few times in my 35 year career when the divide between growth and value investors has been this wide. So, we're digging in and focusing in on low-volatility value stocks with nice dividend yields.

Since the end of January, the market has entered a more volatile, lower return phase. In these more challenging markets, the return you get from the dividends becomes a more important part of the overall return. Also, a portfolio with lower volatility and a lower beta adds value to investors as well in this environment.

Forbes: That's very interesting, Eric. Very different.

Kuby: We think it's a very differentiated strategy.

Forbes: What are some of your fund's currently holdings?

Kuby: Our oldest holding—and when I say it's old, it's old in a variety of ways—is a company called **Acme United Corporation** (NASDAQ: ACU). We've been shareholders of Acme United for more than 20 years, so it's old for us because we've been invested for so long, but it's also old in that it's a 150-year-old company. Acme supplies cutting, measuring and safety products to home, school, office, hardware and industrial markets. It's been a terrific company; it has doubled in size over the last ten years, with a consistent growth trajectory.

The cutting and measuring equipment part of the business is the cash cow. And the primary part of that is the Westcott scissor line, which is one of the oldest scissor lines, and the global leader in scissors. They sell 60 million units of scissors a year. The have expanded into hunting and fishing knives, garden shears, and other cutlery.

The safety solutions business is primarily industrial first-aid kits. If you go into any store, say Walmart for example, or into most businesses, you'll find some sort of first aid kit in the supply room. Acme is one of the largest suppliers of those first aid kits for companies and stores around the U.S., with a more modern approach to the business. They use a technology-based bar code system to allow their customers to scan the box to replenish supplies, rather than having a route-based system with service person replenishing the supplies manually.

Our newest holding, which is a recent addition to the portfolio, is **Collectors Universe** (NASDAQ: CLCT). It provides the authentication and grading services for collectibles, such as coins and trading cards. Without these kinds of items being graded they are very hard to collect because the value is largely determined by the grade that they get.

The two business units are professional sports authenticators (PSA) for cards, and professional coin grading services (PCGS) for coins. These are the recognized standards for rating collectibles, which provides a tremendous moat around the business. CLCT has developed this market over the last 30 years. I think it's a terrific company in a very interesting business, trading at a very reasonable value. So, that's our most recent purchase.

At North Star, we find it really exciting when we are able to find companies like CLCT that exhibit all the characteristics that we are looking for. And in this $1 billion and under market cap universe, there are about 4,000 different companies. but only a select group make it into the portfolio.

Forbes: Can you tell us about another one of your holdings?

Kuby: A company we've been invested in for quite a while, which has recently come under a lot of pressure, is **Consolidated Communications** (NASDAQ: CNSL).

This is a telecommunications services company that provides services in 24 different states. What's interesting is that it has been a big investor in building out fiber networks. They're a top ten fiber provider in the U.S. with 36,000 fiber network miles. Since we've been invested in the company it has made a series of acquisitions and it has done a terrific job integrating, upgrading, and continuing to grow the company.

In 2016, Consolidated struck a deal to buy Fairpoint Communications, which doubled the size of the company. Investors have been concerned that the acquisition is going to hamper CNSL's ability to maintain its current dividend payout rate. We have been invested with this management team for about a decade, and we have a lot of confidence in them. They have indicated that the integration is going according to plan, with the possibility of even greater synergies than they originally forecasted. They have a very attractive capital structure with no debt maturity for the next four years. We think that over time investors will regain confidence in the company, and the share price will reflect a more reasonable dividend yield.

They have paid 51 consecutive dividends, of course dividend are always subject to the board approving them. But they have been very committed to the dividend. On the last conference call CEO Bob Udell said they have never felt that the dividend was more comfortably covered. They have a lot of cash flow. Nevertheless, there's been a lot of concern about the dividend and that's what has provided a big selloff in share price. Our experience with the management of the company suggests that this selloff is an opportunity.

Forbes: Thanks Eric.

Kuby: Thanks for the opportunity to share our ideas with your readers.

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Mutual Funds have investment risks including loss of principal. There is no guarantee the fund will meet its objective. In general, the price of a fixed income security falls when interest rates rise. There is a risk that issuers and counterparties will not make payments on securities and other investments held by the Fund, resulting in losses to the Fund. The Fund may invest in high yield securities, also known as "junk bonds". High yield securities provide greater income and opportunity for gain, but entail greater risk of loss of principal. Foreign common stocks and currency strategies will subject the Fund to currency trading risks that include market risk, credit risk and country risk. Municipal securities are subject to credit risk where a municipal security might not make interest and principal payments as they come due. The Advisor follows an investing style that favors value investments. At times when the value investing style is out of favor, the Fund may underperform other funds that use different investing styles. Investments in lesser known, small and medium capitalization companies may be more vulnerable than larger, more established organizations. As with any investment, there are risks associated with REITs. Investments in lesser-known, small and medium capitalization companies may be more vulnerable than larger, more established organizations. The Advisor does not attempt to keep the portfolio structure or fund performance consistent with any market index. Increased portfolio turnover may result in higher brokerage commissions, and other transaction costs may result in taxable capital gains.

The security holdings are presented to illustrate examples of the securities that the fund has bought and the diversity of areas in which the funds may invest, and may not be representative of the fund's current or future investments. Portfolio holdings are subject to change and should not be considered to be investment advice.

As of March 20, 2018, The North Star Dividend Fund (NSDVX), owned 84,000 shares of ACME United Corporation (ACU) or 2.1% of the Fund, 106,000 shares of Collectors Universe (CLCT) or 2.0% of the Fund and 147,000 shares of Consolidated Communications (CNSL) or 2.1% of the Fund.

Investors should carefully consider the investment objectives, risks, charges and expenses of the North Star Funds. No-Load Mutual funds are sold without sales charge; however, they have ongoing expenses, such as management fees. This and other important information about each of the Funds are contained in the prospectus, which can be obtained at www.nsinvestfunds.com or by calling (855)580-0900. The prospectus should be read carefully before investing. The North Star Funds are distributed by Northern Lights Distributors, LLC member FINRA/SIPC. 4499-NLD-4/24/2018