"Those who have knowledge don't predict and those who predict don't have knowledge." — *Lao Tzu*

First, I must begin by apologizing for the delay in sending out the Quarterly Update for the 4th Quarter of 2018. Obviously, considering the fact that the first quarter of 2019 is almost over, some may view this update as being "old news".

However, considering the fact that Zest is one of our largest positions, and is currently under-performing the reason for the delay is important and warranted due to pending information regarding the lawsuit between Zest and Walmart. Therefore, I wanted to wait for clarity regarding the situation so I could adequately update investors regarding the status of ZEST.

For our investors who understand the **"Nepsis Investment Process"** - which is to *"Own great businesses over time and use volatility to take advantage of buying more when on sale"*, the first quarter of 2019 presented significant information regarding ZEST.

As many of our clients know, ZEST has had a negative impact as it pertains to portfolio performance over the last couple of years. Therefore, we receive countless questions from clients concerning the status and performance of Zest.

"Nepsis", in a nutshell, means Ultimate Clarity. We often tell our clients that the more they understand about the businesses they own and why they own them, the more inclined they are to *"stick to the process"*.

As I have written many times in the past, I believe ZEST has significant potential over the long-term. Obviously, no one expected to be in a situation where a $2 billion lawsuit would result from alleged improprieties from Walmart, including stealing Zest trade secrets, unjust enrichment, and fraud, among others.

While the performance of Zest has had a SHORT-TERM impact on portfolios, we make our investment decisions for our clients based on our buy disciplines. One such discipline includes understanding if the long-term fundamentals of the business have gotten better, worse or unchanged. It is my personal belief at this point that the long-term fundamentals have gotten better.

That said, regardless of the short-term impact (and yes, three years is short-term!), and understanding that there are certainly no guarantees, we do believe that ZEST has tremendous long-term potential.

The progress relating to the Zest vs Walmart lawsuit is progressing extremely well. This includes what I believe to be significant progress as it relates to discovery and demands by Zest attorneys.

There are many details pertaining to this lawsuit that I will not cover in this update. However, I continue to have strong belief that Walmart's alleged stealing of Zest technology actually happened and that it will be proved in the end.

It is my belief that if it is determined that Walmart is found guilty; it will have a significant impact on ZEST stock. Therefore, we will continue to monitor the lawsuit as well as the other long-term fundamentals of the company.

While we stick to an investment process, some investors may feel uncomfortable with their position in any company. If this is true for you, it is of utmost importance that you communicate your thoughts with your advisor.

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Last quarter, our update had the quote, "You make most of your money in a bear market, you just don't realize it at the time." – *Shelby Cullom Davis*

I believe that quote was important considering the sizable correction in the 4th quarter of 2018. In fact, it was the **FIRST 20% correction we had seen since the financial crisis!** Frankly, according to the data we have seen from Morningstar, 20% corrections come on an average of once every five years. I have written many times in the past that we were more than due for a 20% correction.

At the same time, we believe in the idea of ***"Investing with Clarity"*** and having the ability to ***"Know what you own and why you own it".***

Bluntly, volatility creates opportunities to take advantage of buying great businesses on sale. That is exactly what we did during this correction. This is part of the reason why we have seen a significant rebound in portfolios, including ANOTHER PURCHASE of one of our positions.

In December, we began purchasing a company we had quite successfully owned in the past, Celegene (CELG). We decided to purchase it again in the mid $60's in December, only to see it get purchased at the start of the year by Bristo Myers for a very healthy premium (We exited the position in the mid to upper $80s).

Additionally, as our clients know, **we are a "Global Asset Allocation" strategy.** We own companies all over the world, and while we believe in **DIVERSIFICATION, WE ALSO BELIEVE IN ASSET ALLOCATION** for long-term investing.

Unfortunately, the emerging market and international markets have seen poor performance over the last 10 years, topping off with the China stocks getting absolutely hammered with President Trump's tariff and trade war talks. Investors should know, tariff talks and trade wars do not necessarily impact long-term fundamentals of great businesses. Therefore, we took the massive correction in Chinese companies as a tremendous opportunity to purchase positions on sale!

So far in 2019, these decisions along with our continuous attention to our Nepsis Investment Strategy have paid off quite well.

We have been quite pleased with the performance of most of the other companies we own, including the TWO companies we had purchased in 2018, Mazor Robotics and Valadis Insurance, which were purchased by other companies in 2018.

The Thought Process Behind How Nepsis Invests for Our Clients

Let me be very clear, it's the combinations of these beliefs (and others) that encompass our Investment Process:

1. Portfolios should not only be diversified, but also, asset allocated both in the United States and outside the United States. The Nepsis portfolio strategy is categorized as "Unconstrained Global Asset Allocation Strategy". For appropriate allocation, we own businesses in the U.S. and in International and Emerging Markets.
2. Risk is not the same as volatility. Because we believe in the power of Strategic Cost Averaging® (SCA), volatility should be considered an opportunity to take advantage of continually investing in great businesses over time as long as the long-term fundamentals have not changed.
3. Portfolios should be allocated in a manner which enables investors to emotionally handle volatility over short periods of time based on their personal risk tolerances and investment objectives.
4. Investors should be aware of what they own in their portfolios and why they own it.
5. Investors should benefit from the Flexibility & Transparency of a time-tested Investment Philosophy & Strategy.
6. No one position should "make or break" the long-term objectives of the portfolio.

Bottom Line: Invest With Clarity®

As Nepsis, Inc. continues to grow, we appreciate your continued confidence and support. We believe successful investing requires "Investing with Clarity®". We look forward to continually providing you with the Clarity needed to be a successful investor long-term.

Respectfully,

Mark Pearson
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Nepsis, Inc.

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