Clifford
CAPITAL PARTNERS

Quarterly Portfolio Commentary – First Quarter 2018
Clifford Capital All Cap Value Portfolio

Summary of the *Clifford Capital All Cap Value Portfolio* Composite Historical Return* (unaudited)

	1st Quarter 2018	One-year return	3-year, annualized	5-year, annualized	Since Inception**
Portfolio, net of fees	(0.13%)	10.63%	11.57%	14.05%	15.83%
Russell 3000® Value, total return[1]	(2.82%)	6.81%	7.86%	10.71%	12.74%

* Individual account performance may differ slightly from the overall Composite.
** August 1, 2010, annualized

We hope that you are enjoying the beginning of spring (even though there's still snow on the ground here in Chicago!). We are grateful for your investment with Clifford Capital Partners and thank you for your support.

Much of the following will sound familiar to those of you who read our February update, but given that conditions haven't changed much, we feel that it's worth repeating. The stock market started off on a rocky note in 2018, while the All Cap Value Portfolio (the "Portfolio) acted much like my own personal weight-loss efforts in recent months – up and down but ending around the same value as it began!

In our last quarterly letter, we mentioned that we had witnessed an increase in speculative risk-taking and a heightened amount of the wrong kind of fear—the fear of missing out on more stock market gains. Borrowing from that letter: "*When speculative fevers burn high, we will remain extra cautious to ensure that our stock investments are priced with appropriate expectations.*" Our caution remains, but it's safe to say that the speculative fever afflicting the stock market has broken!

Even though sharp stock market declines may cause some anxiety, we believe that the volatility we witnessed in recent times (especially during February and March) is a welcome sign of healing more than it is a symptom of major sickness (not unlike the course of an actual fever).

We aren't fond of losing money, even in the short term, but when markets turn decidedly negative there is often nowhere to hide when you invest in stocks. That said, the Portfolio held up relatively well so far this year during the downdrafts, outperforming its benchmark and most of its peer group. At the same time, we are excited about the potential for this volatility to unearth new bargains, which could add to the Portfolio's long-term returns. We strongly believe in our investment philosophy of buying stocks that we believe are mispriced because of low expectations, which we would expect to see more in times of market stress than market euphoria.

Volatility is a Long-term Friend

The current period of volatility has not yet resulted in a plethora of undervalued stocks, in our opinion, but it's helped move the stocks of some companies we'd like to own closer to the prices we want. We've

[1] The Russell 3000® Value Index is a capitalization-weighted index which is designed to measure performance of Russell 3000 Index companies, respectively, with lower price-to-book ratios and lower forecasted growth values. Numbers presented include the reinvestment of dividends (total return).

added some new investments in 2018 already, and our pool of potential investment ideas continues to fill up, thanks to the stock market's volatility. As always, we will be selective and cautious – only purchasing investments when we believe there's a significant discount to what we believe a stock is worth, with at least three times more potential upside than potential downside.

You've likely noticed that we haven't discussed anything about the potential reasons for the market's newfound volatility. While there are many theories and explanations for what causes these events (including rising interest rates and trade wars), we believe our time is far better spent researching individual companies, looking for investment bargains. We are bottom up investors, looking at stocks one by one, based on their individual long-term merits. In most cases, even though the reasons for these short-term market declines may seem important in the moment, they become mere afterthoughts a few years (or less) later, while the individual bargains that arise during these short-term events can lead to strong future returns.

We aren't sure if this volatility is the start of something more nefarious or simply a blip, but we are confident in our investment process, which is designed to take advantage of opportunities when the market offers investment bargains. As noted above, we usually find more bargains in times of stress than in times of calm, so while we will tread with caution (always striving to minimize the potential for loss), we are encouraged that the market is starting to provide more compelling investment prospects.

Significant Portfolio Changes

We purchased two new Core Value stocks for the Portfolio during the quarter: Harley-Davidson (ticker: HOG) and AutoZone (ticker: AZO) and we did not eliminate any positions.

Additions

HOG: Harley-Davidson is America's foremost motorcycle company and it boasts one of the strongest vehicle brands in the world. After several years of lackluster sales results, the consensus opinion is that Harley's future is bleak because there are fewer potential riders as its core customer base of baby boomers ages. We believe that demand has indeed declined in the United States, but we think it's due more to cyclical pressures that should abate over the next several years, rather than a steep secular decline. Additionally, we think HOG's international operations have tremendous promise, and its financial services division is a cash cow (hog and cow in the same sentence!), which should lead to solid long-term cash flows and good shareholder returns, given what we believe is a bargain stock price today.

AZO: AutoZone is one of America's largest auto parts retailers. We think it is one of the most well-run companies we follow, and it has a tremendous record of stable cash flows and good capital allocation (principally through repurchasing its own shares), which we expect to continue. In the past decade, AZO has repurchased about 57% of its total shares outstanding, while maintaining a strong balance sheet and growing its business prudently. Like many retailers today, the threat of potential future competition from Amazon.com (ticker: AMZN) has taken a toll on the sentiment surrounding AutoZone, which has led to an investment opportunity, in our view. We think the majority of AutoZone's business is related to things that can't wait (e.g. when your car battery dies, you usually won't wait for 2 days for it to come to your house), and even when online shipping to the home is available for AZO's customers, they typically choose to buy online and pick up their parts at the nearest store. So, we believe that AutoZone's large network of physical stores is an advantage for an auto parts retailer. We also think that if Amazon really wants to get into the auto parts business, buying AutoZone could be better than building out the distribution necessary to supply the tens of thousands of parts that customers need.

Individual Stock Performance

Contributors: The two greatest contributors during the quarter were Abercrombie & Fitch (ticker: ANF) and Target (ticker: TGT).

ANF: Abercrombie & Fitch—a specialty retail apparel company—again reported better than expected quarterly results and the stock continued to climb closer to our fair value estimate. The company's Hollister brand is one of the best performing retailers in the country right now and its namesake brand Abercrombie & Fitch, is beginning to show some improvement. While the stock is no longer the bargain it was just a few months ago, we still see it as a solid holding.

TGT: Target's stock returned about 7% during the quarter—only a modest amount—but given that it was the Portfolio's largest holding throughout the quarter, it had a reasonably large contribution. We think Target stores continue to be a destination for middle-income consumers, and its 'cheap chic' allure differentiates the company from its competition. Target continues to be one of our favorite holdings.

Detractors: The two largest detractors this quarter were Devon Energy (ticker: DVN) and Compass Minerals (ticker: CMP).

DVN: Devon's stock fell alongside other oil and gas stocks during the quarter, but it was hit particularly hard because of a disappointing forecast for its oil production in 2018. We think Devon has rich assets and a strong management team. Even though its fortunes are ultimately tied to the price of the commodities it extracts from the ground, we think Devon can differentiate itself through better capital allocation and solid operations.

CMP: Compass Minerals' core salt business (mining salt that's used to de-ice roads) had a difficult quarter, given some operational problems at its geographically-advantaged and very profitable salt mine. The company will need to spend some money to fix these issues, so early 2018 results may not be stellar, but we continue to believe it's an excellent company with attractive long-term prospects.

Final Comments

Thank you for your investment with Clifford Capital. We believe the Portfolio still trades at a solid discount to its weighted average fair value estimate with about 32% potential upside (if each stock in the Portfolio immediately moved to its fair value estimate, the Portfolio would appreciate by 32%) and about 1.6 times more potential upside than potential downside, based on our analysis at the end of March.

We will continue to focus on building long-term wealth through disciplined portfolio management.

Sincerely yours,

Ryan Batchelor, CFA, CPA
Principal and Portfolio Manager
Clifford Capital Partners, LLC