ASHDON
Investment Management

At quarter end the broad US market was up +6.07% while international markets were up +8.53% (MSCI EAFE Index). The market held on to the quarter's gains in spite of a modest sell-off at the end of March. Bonds were also positive with the benchmark Barclay's Aggregate index advancing 0.82%. Our portfolio funds responded well to the first quarter market rally. While the market rally has been good for investors we must acknowledge that the post-election rally may have brought significant returns forward.

The pervasive weakness that we have expected since 2014 has not come to pass. It has become clear that Chinese policy changes in 2016 worked to stabilize commodity prices and prevent a dangerous deflationary spiral. The US Federal Reserve's FOMC has responded by beginning to raise rates to more normal levels. Longer maturity rates are higher as well, but remain low compared to historical levels, perhaps indicating that inflation and/or growth are expected to remain modest. However, US wages continue to grow and that could fuel both inflation and growth. We continue to believe that economic growth will remain modest with limited upside but as events over the last 6-months have unfolded; we perceive reduced downside risk from here. Even though the weakness in growth and earnings in 2016 didn't lead to a recession or market sell-off, most of the factors that restrain growth and inflation remain in place. Only time will tell how the balance shifts.

The post-election environment includes an element of exuberance for stocks based on the promise of business-friendly policies to come. Almost every investment professional we encounter believes the broad US market is overpriced and that promised policy changes will come slower than hoped. Our international manager conversations reveal a more positive view than domestic manager conversations. International managers are finding opportunity in their markets. Broadly speaking, Asian and European markets are not at peak valuations like the US market. Further, expectations of a weakening US dollar make international stocks more attractive to US investors. (*Please see a previous market view on our website: "Why The USD Could Weaken"*)

We purchased Colgate-Palmolive (ticker CL) for some portfolios in January. Colgate is a well-known brand with a wide variety of well-established products (for example Colgate toothpaste, Palmolive dish soap, Irish Spring body soap and Hill's Science Diet pet food). The stock sold-off during the fourth quarter when the company announced slowing sales. Using the slower-growth assumptions, our analysis indicated that we could take advantage of the lower price and established a position in this quality compounder. Similarly, Atlanta-based EIC (ticker EICVX) purchased UPS during Q1. They liked the stock because of its competitive position and strong business execution that has produced 20% returns on invested capital and high margins for decades. They bought the stock after a slightly disappointing quarterly earnings report that was followed by a drop in the stock price. The manager funded the purchase from sales of several companies that had reached price targets. The investing activity we have described here is present in virtually all our fund managers' portfolios. Good managers are able to find value in quality, long-term compounders if they are patient.

Last quarter, we noted that we had been able to identify high quality companies with solid prospects. This remains the case, and we will continue to add positions as the market presents entry points.

Thank you for your trust and confidence.

214 East Grundy Street Tullahoma, TN 37388
Phone: 931 461-5733 Fax: 931 461-5735
INFO@ASHDON.COM