Clifford
CAPITAL PARTNERS FUND

# Clifford Capital Partners Fund

## *Quarterly Commentary – Third Quarter 2018*

We hope that this letter finds you well. We are grateful for your investment in the Clifford Capital Partners Fund ("the Fund") and thank you for your support.

| | 3rd Quarter 2018 | Year-to-Date | One-Year Return | 3-Year Return, Annualized | Total Return, Since Inception (01/30/14) | Total Return, Annualized Since Inception |
|---|---|---|---|---|---|---|
| Institutional Class (CLIFX) | 3.06% | 7.47% | 13.36% | 18.43% | 74.46% | 12.67% |
| Investor Class (CLFFX) | 3.01% | 7.36% | 13.22% | 18.21% | 72.90% | 12.45% |
| Russell 3000® Value[1] | 5.39% | 4.17% | 9.46% | 13.75% | 55.18% | 9.88% |

***(Performance data quoted represents past performance; past performance does not guarantee future results. 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. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling (800) 628-4077. Short term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns.)***

The third quarter was positive for the overall stock market and the Fund. The Fund lagged its benchmark during the quarter, thanks mostly to a disappointing investment outcome in Diebold Nixdorf (ticker: DBD – 0.00% of the Fund at September 30) as we'll describe below. Overall, we are pleased with the composition of the Fund today and feel good about its long-term prospects. In fact, we believe the Fund is significantly more attractive—based on our internal reward/risk ratings—going into the fourth quarter than it was coming into 2018, despite its growth thus far in 2018. As long-term investors, our views should always be considered through a multi-year lens, but we are very encouraged by the value we see in the Fund today.

**The Haves and Have Nots - Redux**
In our Q4 2015 Fund commentary, we wrote the following:

> "As we've mentioned in past letters, there was wide divergence in the fortunes of different stocks (there were the "Haves" and the "Have Nots") in 2015. In general, popular companies with good business momentum had fantastic stock price performance as investors clamored for growth. Meanwhile, companies that were undergoing struggles in their business or resided in less popular industries (such as brick and mortar retailers right now) experienced dismal stock price performance."

Brick and mortar retailers are no longer in the market's most despised doghouse, but we see a very similar type of marketplace today. Even though broad market indices are at or near all-time highs, we have observed an increasing amount of diversion in various pockets of the market, with many stocks at or near their annual—or in some cases multi-year—low prices. For example, after the first 9 trading days of October 2018, in which the market experienced a meaningful decline, but far less than what would be considered a "correction", we noted that the number of stocks trading at one-year lows far exceeded those trading at one-year highs. Per Bloomberg as of October 11, 2018, the U.S. stock market had 639 stocks trading at their 52-week low, compared to 30 stocks trading at 52-week highs. In several cases, these are stocks of good companies that are simply out of favor and are now sporting attractive valuations.

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[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).

**Dividend Stocks are Have Nots (and we are finding good opportunities among them)**
As we also described in our last letter, stocks with higher dividend yields have been out of favor in recent times. That trend continued in the 3rd quarter. We believe this result is a function of higher interest rates, as demand has declined for dividend stocks that were held as "bond equivalents".

Refreshing the data we showed last quarter, we looked at the simple average performance of the stocks in the Russell 3000 Index (a good representation of the broad market), sorted by dividend yield as of September 30, 2018 and noted that the high dividend yielding stocks continued to lag, while those with lower yields outperformed.

***We Are Finding Opportunities in Lagging Dividend Stocks***

| Dividend Yield | Q3 Return | Year-to-date Return | One-Year Return |
|---|---|---|---|
| 0-1% | 5.29% | 14.57% | 23.41% |
| 1-2% | 2.76% | 7.27% | 14.64% |
| 2-3% | 1.74% | 3.63% | 7.96% |
| 3-4% | (0.42%) | 0.92% | 4.46% |
| 4-5% | (1.68%) | (0.99%) | 2.42% |
| 5% + | (0.96%) | (0.98%) | (0.51%) |

Data Source: Bloomberg as of September 30, 2018

We think this trend has led to some compelling investment opportunities in select individual dividend-paying companies that we believe are wrongly caught up in the ebbing tide of a trade rotation out of dividend stocks.

**Momentum Stocks are in the "Have" Camp (and we think it makes more sense to look the other way)**
Momentum stocks—popular stocks with strong recent price momentum—continue to perform very strongly this year, while companies that have even relatively minor stumbles are punished. The MSCI USA Momentum Index[2] (the "Momentum Index"), which we think is a good proxy for Momentum stocks in general, increased by 8.85% during Q3 alone and has outperformed broad market indices like the S&P 500, and significantly outperformed value indices like the Russell 3000 Value. As shown in the table below, the last several years have been characterized by Momentum extremes.

**Performance of Momentum Index vs. S&P 500 and Russell 3000 Value**

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 (thru 9/30) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Returns | Momentum Index | 17.64% | 18.21% | 6.09% | 15.10% | 34.80% | 14.69% | 9.30% | 5.13% | 37.82% | 16.54% |
| | S&P 500 | 26.45% | 15.06% | 2.11% | 15.99% | 32.37% | 13.68% | 1.37% | 11.95% | 21.82% | 10.56% |
| | Russell 3000 Value | 19.71% | 16.22% | -0.10% | 17.55% | 32.72% | 12.69% | -4.14% | 18.38% | 13.19% | 4.17% |
| Relative Returns | Momentum vs. S&P 500 | -8.81% | 3.15% | 3.98% | -0.89% | 2.43% | 1.01% | 7.93% | -6.82% | **16.00%** | 5.98% |
| | Momentum vs. Russell 3000 Value | -2.07% | 1.99% | 6.19% | -2.45% | 2.08% | 2.00% | **13.44%** | **-13.25%** | **24.63%** | **12.37%** |

Data Source: Bloomberg, as of September 30, 2018

We believe the market conditions that generally accompany a strong Momentum-led market can be dangerous. These include high investor expectations, speculative excitement, fear of missing out on large gains, and a

[2] The MSCI USA Momentum Index is based on the MSCI USA Index, its parent index, which captures large and mid cap stocks of the U.S. market (the parent index covers ~85% of total U.S. stock market capitalization). It is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum.

general apathy to valuation levels. Oftentimes this fervor is accompanied by disdain for companies that don't belong to the exclusive club of momentum popularity—leading to strong value investment opportunities for those willing to move against the crowd.

Our value investment style at Clifford Capital (especially our buy discipline) is the antithesis of momentum investing. Most momentum investing is based primarily on continuation of short-term trends and how a stock's price has been doing: strong price momentum stocks will be bought, and weak price momentum stocks will be shorted. A stock's price momentum is the most important factor and its valuation is a secondary consideration.

We are very sensitive to the relationship between price and value and generally believe that investment risk and prices move in opposite directions. Conversely, momentum investing is characterized by the expectation that strong stock price momentum will be sustained – strength begets strength, or 'buy high and sell even higher'. Our investment philosophy is based on the belief of buying low (when stocks trade at discounts to our estimates of fair value—usually because of negative short-term sentiment) and selling high (when those discounts are no longer present).

Thanks to the strength of the momentum trade, we are finding what we believe are excellent investment opportunities among the anti-Momentum "Have Nots".

**Smaller Value Companies are Among the "Have Nots" and We See Opportunity**
In what we believe is a tangent to the Momentum trade, large popular growth stocks have been leading the market, while small and mid-cap value stocks have lagged. We continue to find more compelling individual stock opportunities in the latter.

Historically, smaller value stocks have also been a fruitful area of investment when the momentum trade turns south. The Momentum Index has declined in only 6 of the prior 39 calendar years, and in 5 of those 6 years, the Russell 2000 Value index was a better option than the Momentum Index, Large Caps (represented by the S&P 500) and Small Cap Growth (Russell 2000 Growth index). Although history cannot predict the future, we see solid value in many smaller companies today and believe they are poised for solid long-term returns.

**The Momentum Index vs. S&P 500 and Small Caps**
**(*calendar years when the Momentum Index was down*)**

| | 1981 | 1994 | 2000 | 2001 | 2002 | 2008 |
|---|---|---|---|---|---|---|
| Momentum Index | -18.71% | -0.94% | -9.47% | -17.21% | -12.15% | -40.89% |
| S&P 500 | -9.73% | 1.31% | -9.10% | -11.92% | -22.10% | -37.00% |
| Russell 2000 Value | 10.54% | -3.66% | 22.68% | 14.05% | -11.44% | -28.96% |
| Russell 2000 Growth | -10.51% | -3.13% | -22.45% | -9.24% | -30.27% | -38.56% |
| Small Value vs. Momentum | 29.24% | -2.72% | 32.15% | 31.26% | 0.71% | 11.93% |
| Small Value vs. S&P 500 | 20.27% | -4.97% | 31.78% | 25.97% | 10.66% | 8.04% |
| Small Value vs. Small Growth | 21.05% | -0.53% | 45.13% | 23.29% | 18.83% | 9.60% |

Data Source: Bloomberg

Additionally, given that value strategies are often predicated on reversion to the mean, we also are encouraged that Value stocks (and particularly small- and mid-cap value stocks) have lagged Growth strategies over the past decade. We believe there are more current investment opportunities in these areas that have lagged.

**Morningstar's U.S. Equity mutual fund category performance as of September 30, 2018**
***(bottom 4 categories highlighted in bold for each time period)***

| Fund Category | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|
| Small Growth | 18.91% | 24.40% | 18.36% | 11.73% | 12.57% |
| Large Growth | 15.66% | 23.22% | 17.67% | 14.01% | 12.58% |
| Mid-Cap Growth | 13.51% | 20.33% | 15.84% | 11.72% | 11.94% |
| Large Blend | 8.44% | 15.39% | 15.18% | 11.91% | 10.84% |
| Small Blend | 8.11% | 12.03% | 14.67% | **9.72%** | 10.71% |
| Mid-Cap Blend | **5.93%** | **11.66%** | **12.75%** | **9.74%** | **10.67%** |
| Small Value | **4.71%** | **8.37%** | **13.74%** | **8.30%** | **9.99%** |
| Large Value | **4.51%** | **10.84%** | **13.47%** | 10.19% | **9.69%** |
| Mid-Cap Value | **3.30%** | **8.96%** | **12.60%** | **9.34%** | **10.42%** |

Data Source: Morningstar.com as of September 30, 2018

To reiterate, at Clifford Capital we focus on finding individual stocks one by one, based on their own merits (a "bottom up" focus), and not based upon market-level analysis. However, we have noted that the investments we are finding in our bottom up research are consistently within areas that we'd consider "Have Nots" in today's marketplace. We are happy to be finding significant value in the marketplace today, even though broad market indices remain near all-time highs. We will remain disciplined and adhere to our long-term value philosophy, seeking opportunity in stocks where expectations are unrealistically low, and the odds are in our favor that we're investing in an undervalued asset.

**Significant Fund Changes**

We purchased two new stocks during the quarter: Core stock General Mills (ticker: GIS – 2.19% of the Fund at September 30), and Contrarian stock, NCR Corp. (ticker: NCR – 1.71% of the Fund at September 30). We sold out of the Fund's Contrarian position in Diebold Nixdorf.

***Additions***

**GIS:** General Mills is best known for its cereal brands, including Cheerios and Lucky Charms (a personal favorite during my childhood), but the company has a diverse lineup of strong food brands, which we think are still valuable. The stock has lagged since its recent purchase of a fast-growing pet food company, Blue Buffalo, which we believe has led to investment opportunity. We think the company will be able to pass along the inflationary cost pressures that it is currently facing, and we also believe that with even modest sales growth, the company's ability to return cash to shareholders should result in solid long-term returns.

**NCR**: NCR competes in the same ATM and point-of-sale technology market as Diebold Nixdorf (we essentially swapped the two). We have seen signs that the industry is turning for the better (both Diebold and NCR reported positive order trends in their most recent quarterly reports), but company-specific challenges have obscured the improving industry backdrop. Given Diebold's liquidity issues (as we describe below), we believe NCR will have a multi-year opportunity to gain market share from it, leading to solid growth and shareholder returns for NCR.

***Sales***

**DBD:** We sold out of Diebold Nixdorf during early August. The stock fell sharply after reporting disappointing earnings. A few days afterwards, in the midst of our deep dive investment review, which we perform for any stock that declines significantly, we were analyzing the firm's just-issued quarterly SEC filing, from which we determined that the company was facing a potential cash crunch, due to a confluence of several negative events. As such, we liquidated the position. As of the date of this writing, the stock is significantly below where we sold it, even though the company has taken steps to avoid a catastrophic cash crunch. We believe the company simply won't be able to operate effectively when it's in poor financial shape (the financial equivalent of running a marathon after living like a couch potato for a couple of years!).

We were very disappointed with our investment in Diebold. We overestimated the company's balance sheet strength, which led to an investment loss. Our process is designed to minimize this type of outcome, given our focus on every company's balance sheet strength, but we missed the mark here. Our #1 priority as investors is to avoid permanent capital loss—which we believe is the true definition of investment risk. Historically we've done a solid job avoiding this risk, but we're not perfect and it really stings when it happens!

While we strive to avoid Diebold situations, we are usually not concerned about short-term stock declines when we believe long-term value is intact (our definition of investment opportunity). In fact, our process is centered on this idea: we strive to buy investments when they are trading at meaningful discounts to a reasonable estimate of fair value, due to low short-term expectations or overly negative sentiment. In these cases, we believe having a long-term view (3-5 years) differentiates us from most market participants and is a competitive advantage in a hyper-competitive field.

**Individual Stock Performance**
**Contributors**: The two greatest contributors during the quarter were Target (ticker: TGT – 4.75% of the Fund at September 30) and Fastenal (ticker: FAST – 2.99% of the Fund at September 30).

**TGT**: Target rose alongside other retailers during the quarter, which continued after it posted very strong quarterly sales and better than expected earnings during its most recent earnings report. We think the company's multiyear strategy to remodel its stores, improve its online experience, and introduce several new in-house brands is taking hold. We continue to believe Target is a differentiated retailer that can thrive in today's complex and ever-changing retail marketplace.

**FAST**: Fastenal is an excellent company with high returns on capital and solid management. The stock rose during the quarter, based on strength in its industrial end markets. We expect the company to generate modest long-term growth in sales, with stronger growth in profits as the company's business model becomes more efficient over time.

**Detractors**: The two largest detractors this quarter were Diebold Nixdorf, discussed above, and Hanesbrands (ticker: HBI – 2.07% of the Fund at September 30).

**HBI**: Hanesbrands dropped during the quarter, because of Target's decision to not renew Hanes' exclusive-to-Target C9 brand of activewear. HBI stock dropped over 20% on this news, which we believe was an overreaction. We believe this brand represents less than 5% of HBI's profits, and given Target's push toward its own brands, we do not think it represents a loss of confidence in Hanes' quality. We believe Hanesbrands growth will increasingly come from outside the United States, and we think the strength of its brands is underestimated.

**Final Comments**
Thank you for your investment in the Fund. We have high conviction in the Fund's stocks and we are invested alongside you. We appreciate your support, and we will continue to strive to prudently manage your money.

Sincerely yours,

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

***The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling (800) 628-4077, or by going to the Clifford Capital Partners Funds website at www.cliffordcapfunds.com and clicking on the "Prospectus" link. Read it carefully before investing.***

## Risks of the Fund

**The Fund invests in common stocks**, which subjects the Fund and its shareholders to the risks associated with common stock investing, including the financial risk of selecting individual companies that do not perform as anticipated. Over time, the stock markets tend to move in cycles. The value of the Fund's investments may increase or decrease more than the stock markets in general.

**Investing in the securities of small-cap and mid-cap companies generally involves substantially greater risk than investing in larger, more established companies**. These companies are typically subject to greater changes in earnings and business prospects than are larger, more established companies, and may be more vulnerable than larger companies to adverse business or economic developments; the risk exists that the companies will not succeed; and the prices of the companies' shares could dramatically decline in value. Companies with large market capitalizations go in and out of favor based on various market and economic conditions. Prices of securities of larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the Fund's value may not rise as much as the value of funds that emphasize companies with smaller market capitalizations.

**The Fund is a focused fund** and is currently expected to hold stocks of between only 25 and 35 companies once fully invested. Focusing investments in a small number of companies may subject the Fund to greater share price volatility and therefore a greater risk of loss because a single security's increase or decrease in value may have a greater impact on the Fund's value and total return.

**Because the Fund invests primarily in value stocks** (stocks that the Adviser believes are undervalued), the Fund's performance may at times be better or worse than the performance of stock funds that focus on other types of stock strategies (e.g., growth stocks), or that have a broader investment style.

***The Clifford Capital Partners Funds are distributed by First Dominion Capital Corp., Member FINRA/SIPC***

## Fees and Expenses of the Fund

The following table describes the expenses and fees that you may pay if you buy and hold shares of the Fund.

| **Shareholder Fees** (fees paid directly from your investment) | **Investor Class** | **Institutional Class** |
|---|---|---|
| Redemption Fee (as a percentage of the amount redeemed on shares after holding them for 60 days or less) | 2.00% | None |
| **Annual Fund Operating Expenses** (expenses that you pay each year as a percentage of the value of your investment) | | |
| Management Fees | 0.90% | 0.90% |
| Distribution and Service 12b-1 Fees | 0.20% | 0.00% |
| Other Expenses[1] | 0.00% | 0.00% |
| Total Annual Fund Operating Expenses | 1.10% | 0.90% |

*1. Based on estimated amounts for the current fiscal year.*