

Hillman Capital Management
4th Quarter 2017
Market Commentary

At Hillman Capital Management (HCM) we strive to prudently add value for our clients over the long term. In doing so, we work hard to construct and maintain portfolios appropriate for the goals, risk tolerance and time horizon for each client. Within the equity component of our portfolios, we take a long-term approach to investing, investing in companies that we believe to enjoy sustainable competitive advantage. Our goal is to purchase securities of advantaged firms when they sell at a discount to estimates of intrinsic value. We believe that our approach may offer a prudent way to control risk, with the potential to outperform the market over time. Within that context, we offer a quarterly commentary.

Investor euphoria reigned as Congress passed a bill legislating, among other things, a large drop in corporate tax rates. The S&P 500 TR Index climbed 6.64% for the quarter, bringing its total return for 2017 to 21.83%. This is the benchmark's 9th consecutive annual gain, bested during those 9 years only by the 26.46% and 32.39% gains in 2009 and 2013 respectively. Internationally, Developed Markets performed well, causing the MSCI EAFE Index to rise 4.23% for the quarter and 25.03% for the year. Small Cap Stocks lagged, with the Russell 2000 TR Index increasing by 3.34% for the quarter and 14.65% for the year. Emerging markets were the standout performer, as the MSCI Emerging Markets Index rose by 7.44% for the quarter and 37.28% for 2017.

The domestic credit markets continue to anticipate a gradual tightening of short term rates on the path to normalization. The yield on the benchmark Ten Year US Treasury Note ended the quarter at 2.40%, after settling at 2.33% on September 30, 2017. The yield on the German Ten Year Government Bond and the Japanese Ten-Year Government Bond dipped slightly, ending the quarter at 0.427% and 0.050% respectively.

Lower tax rates should provide a one-time boost in corporate profits, but we expect continued moderate growth from this higher base. As investors cheer their good fortune, it is important to recognize that Economics is a zero-sum game, that tax reform may have unintended consequences, and that the US Economy is rather complex. In the face of uncertainty, we shall continue to dispassionately manage our clients' asset allocations appropriately, judge the competitive position of the companies that we follow and remain diligent about valuation.

We will continue to focus our energies on making prudent long-term investment decisions within the context of our clients' needs. Our equity strategies continue to be driven by our core belief that competitively advantaged companies will outperform their peers through economic cycles and market cycles. Our goal is to invest in great enterprises at attractive prices. We will continue to invest according to this precept for the long-term interests of our clients.

Disclosure:

Past performance is not indicative of future results. Hillman Capital Management, Inc. is an independent registered investment advisor. More information about the about the advisor including its investment strategies and objectives can be obtained by visiting www.hillmancapital.com. The firm maintains a complete list and description of composites, which is available upon request. Visit our website for a fully compliant performance presentation.
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