



“Forged in the fire of Controversy.” It’s a saying we are fond of as it aptly describes our value approach when managing the Union Street Value Partners Fund (USPFX). Everyone wants to buy at “attractive” prices, but are they really willing to be a buyer in a sea of sellers? As we often say, prices often become attractive when a company or sector is forged in the fire of controversy and uncertainty. In light of the recent bear market in the energy sector, we wanted to highlight our current thoughts on portfolio companies Exxon and Chevron. Since June 8th, 2022, or just 16 trading days:

- The S&P 500 Energy sector has fallen 21.6%, dramatically underperforming the S&P 500 index’s return of 8.2%
- Chevron is down 19.9%
- Exxon is down 17.2%

Three major themes underpin our bullish sentiment for the Exxon and Chevron:

1. There is a fundamental supply shortage that will take multiple years to address;
2. Valuations are deeply discounted;
3. Oil and gas businesses are unloved and underrepresented in indexes.

Years of underinvestment leading to supply shortages

After oil prices collapsed in 2020, oil and gas producers slashed capital expenditures dramatically across the globe. A recent report by the International Energy Forum and IHS Markit indicates that “[u]pstream investment in the oil and gas sector in 2021 was depressed for a second consecutive year at \$341 billion—nearly 25% below 2019 levels. Meanwhile, oil and gas demand is now near pre-pandemic highs and will continue to rise for the next several years, particularly in developing countries.”

While oil and gas related capital expenditure is beginning to rise, the size and scope of energy projects that can move the supply needle higher take years to yield an increase in output. To assume that companies can course-correct years of





underinvestment in a short period is naïve. Just as the current supply shortage took years to materialize, it will take years to bring on enough new supply to satisfy future demand growth.

While politicians worldwide would like to see higher levels of investment in supply, the assurances and incentives needed to boost investment to levels we believe are necessary simply do not exist in the current environment. When perception of oil companies shifts from being the villain to part of the solution, we would expect a meaningful increase in capital expenditures.

Valuations are deeply discounted

Chevron (23.3% ytd) and Exxon (39.8% ytd) have performed well over the past year but are still inexpensive based on forward earnings and cash flows.

Valuation considerations should become more important than they have been in the recent past as interest rates continue to rise. Narratives about future earnings years down the road will be discounted at a higher rate while businesses like Exxon and Chevron that are currently delivering enormous cash flow and earnings today should re-rate higher. Considering the current inexpensive valuations, both Chevron and Exxon have focused on returning capital to shareholders via dividends and stock buybacks leading to very attractive total shareholder yields.

<i>Company</i>	<i>Market Cap (B)</i>	<i>Forward Price to Earnings Multiple</i>	<i>Dividends (B)</i>	<i>Share Buybacks (B)</i>	<i>Total Cash Return to Shareholders</i>	<i>Shareholder Yield</i>
Chevron	\$ 284.47	9.5x	\$ 11.16	\$ 10.00	\$ 21.16	7.3%
Exxon	\$ 360.82	9.3x	\$ 14.83	\$ 20.00	\$ 34.83	9.4%

Source: Company filings and McGinn Investment Management, Inc.

Based on our expectations of future earnings and a PE multiple rerating to a market average of 16 times earnings, ***we believe the fair value for Chevron is over 50% higher and Exxon 65% higher.***





Unloved and underrepresented

Investor sentiment in oil and gas has been weak considering the sector's poor returns over the past decade. Big tech ruled the roost and has been a consensus long for the better part of the past five years (rightly, we may add). The stories were sexy, Environmental, Social, and Governance (ESG) scores admirable, and many investors are familiar with the products. Valuations soared and tech companies became concentrated index bets. The opposite is true for Energy investments, as the S&P 500 sector allocation to Energy is less than half of its long-term average 10%.

In light of what we think will be a favorable interest rate environment for businesses trading at inexpensive valuations, we expect to see a return to a more normalized S&P 500 energy allocation as high-valuation names falter and low valuation businesses like Chevron and Exxon garner increased levels of investor attention. ***An estimated \$13.5 trillion dollars is either indexed or benchmarked to the S&P 500, which leads us to believe we could see hundreds of billions of dollars reallocated to energy names as the index rebalances to more normalized weightings and valuations.***

Conclusion

We believe the best portfolios are forged in the fire of controversy and uncertainty. A confluence of bad news and short-term weakness can create opportunity in quality businesses. We view recent price weakness in shares of Exxon and Chevron as a long-term opportunity.

Think long-term, stay optimistic, and don't bet against the USA!
Sincerely,

Bernard F. McGinn, CFA, and McCoy Penninger, CFA
Portfolio Managers for the Union Street Partners Value Fund





Fund holdings are subject to change at any time and should not be considered recommendations to buy or sell any security.

As of June 30, 2022, Exxon and Chevron represented 4.12% and 3.89% of the Fund's net assets, respectively.

The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index.

Forward earnings are an estimate of a company's future earnings.

Forward cash flows are an estimate of a company's future cash flows.

Forward Price to Earnings multiple is a ratio equal to a stock's market capitalization divided by an estimate of the company's future earnings for the next twelve-month period.

Before investing, you should carefully consider the Fund's investment objectives, risks and charges and expenses. The Fund's prospectus contains this and other important information and should be read carefully before investing. To obtain a current copy of the Fund's prospectus, call 1-800-673-0550.

There can be no guarantee that any strategy will be successful. All investing involves risk, including the potential loss of principal. There are risks associated with investing in the Fund that may adversely affect the Fund's performance. The principal risks associated with an investment in the Fund include market risk, non-diversification risk, risk of investing in undervalued securities, REITs, Master Limited Partnerships ("MLPs"), investment companies and ETFs.

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