



*“Americans love to fight. All real Americans love the sting and clash of battle. When you were kids, you all admired the champion marble shooter, the fastest runner, the big-league ball players and the toughest boxers. **Americans love a winner and will not tolerate a loser.**”*

*--General George S. Patton*

Dear Shareholders:

Our goal as your fund manager is to compound capital at above-market rates by investing in exceptional businesses at attractive prices. We seek out businesses that are competitively advantaged, have a history of winning, and will compete aggressively to maintain their competitive edge and win in their respective markets.

Home Depot, our newest and 29<sup>th</sup> position in the Union Street Partners Value Fund, is a business we believe is competitively positioned to continue delivering industry-leading growth and profitability in a sector that has attractive long-term fundamentals. Recent volatility in capital markets has driven HD shares down more than 30% from their 52-week highs, giving us the opportunity to initiate our position at what we believe is an attractive price.

Our long-term investment case for HD has three key points:

1. HD has a dominant position in the home improvement space and numerous deep-rooted advantages over competition:
  - a. 2,300 physical stores situated in the most desirable and convenient locations;
  - b. HD is the preferred choice of professional contractors;
  - c. Decades of large investments in the supply chain and digital infrastructure, continually updated, have put HD years ahead of the competition.
2. We believe the long-term fundamentals for the US housing market remain strong. HD provides exposure to this market without the business risk typically associated with home builders;
3. Opportunity to buy an exceptional business at an attractive valuation.



## Home Depot's competitive advantages drive industry-leading profitability and growth

HD's competitive advantages over its largest competitor, Lowe's, are clear from measures of efficiency and profitability:

<i>Sales per store</i>	<b>10-Yr Avg</b>	<b>3-Yr Avg</b>
Home Depot (Millions)	<b>\$ 42.47</b>	<b>\$ 56.96</b>
Lowe's (Millions)	<b>\$ 33.10</b>	<b>\$ 43.57</b>
<i>% Difference</i>	<i>28.3%</i>	<i>30.7%</i>

<i>Profit Margin</i>	<b>10-Yr Avg</b>	<b>3-Yr Avg</b>
EBITDA Margin* Home Depot	<b>15.6%</b>	<b>16.5%</b>
EBITDA Margin* Lowe's	<b>11.0%</b>	<b>12.2%</b>
<i>% Difference</i>	<i>41.4%</i>	<i>35.2%</i>
Net Profit Margin* Home Depot	<b>8.6%</b>	<b>10.3%</b>
Net Profit Margin* Lowe's	<b>5.2%</b>	<b>7.1%</b>
<i>% Difference</i>	<i>67.9%</i>	<i>45.1%</i>
Free Cash Flow Margin* Home Depot	<b>9.3%</b>	<b>10.6%</b>
Free Cash Flow Margin* Lowe's	<b>6.7%</b>	<b>7.6%</b>
<i>% Difference</i>	<i>39.0%</i>	<i>39.5%</i>

Source: Company Financials

### Advantage HD: Retail footprint

HD was founded in 1978 and opened its first stores in 1979. Ten years later, the company became America's leading home-improvement retailer, surpassing Lowe's, which was founded in 1946. Aggressive and smart expansion in HD's first 30 years meant it usually had the first pick in choosing locations near its customers. Today, 90% of the US population lives within 10 miles of one of HD's roughly 2,300 stores, helping drive HD's roughly 30% advantage in sales per square foot over Lowe's. *Convenience is key in retail.*

### Advantage HD: The preferred choice of professional contractors

Estimates peg HD's percentage of sales to professional contractors at 50%, twice that of Lowe's. Professional contractors are the desired customer because their orders are more frequent and typically larger, resulting in higher sales and profitability per store.

We believe HD's exclusive line of professional-grade brands drives contractor loyalty. As an example, two of the top-selling power tool brands, Milwaukee and Ryobi, are sold only at HD. Brand loyalty is very powerful in the power tool industry: Parts, like battery packs, are not compatible across different brands. Once a contractor has chosen his brand, it is highly likely he is going to stick with it.



### **Advantage HD: Aggressive investment in its best-in-class supply chain and digital assets for decades**

By 2008 HD had largely saturated the US market with its 2,234 stores and focused future investments on upgrading its supply chain, IT infrastructure, and online presence to help blend its competitively advantaged physical footprint with new digital assets.

- By 2010 HD was the first brick-and-mortar retailer with apps on the top three smart phone platforms.
- In 2017 HD committed over \$11 billion to digitally transform its supply chain.
- By 2021 HD had an estimated 59% online market share in home improvement and ranked as a top-five online retailer.

In HD's Q4 2021 conference call, then-chairman and CEO Craig Menear explained how these investments paved the way for HD to grow at an unprecedented rate through the pandemic: "We've grown the business by over \$40 billion over the last two years. For context, prior to the pandemic, it took us nine years from 2009 to 2018 to grow the business by over \$40 billion. So to achieve that level of growth in two years' time is truly a testament to our investments, our teams and their exceptional execution."

Bold, aggressive, and winning investments have made HD into the winner it is today. We expect to see similar results from the company and its management team in the future. Ted Decker, HD's current CEO, has been with company for 22 years; the rest of the executive team has an average tenure of over 19 years.

### **Home Depot provides exposure to the US housing market without the risk of a home builder**

Home price appreciation has historically been one of the largest drivers of home-improvement demand. While we don't believe the past few years of home price appreciation is sustainable, we do believe that the long-term fundamentals for the market remain strong.

America has chronically underinvested in new homes since the financial crisis in 2008. Freddie Mac recently estimated that we are short 3.8 million homes—clearly an opportunity for home builders. However, we consider most home builder business models too risky to merit long-term investment. The speculative nature of land deals and high levels of leverage required to compete as a home builder can create extremely volatile business conditions. Also, ambiguous zoning regulations and the general disdain for new housing developments (i.e. not in my backyard, or NIMBY) make for a challenging backdrop despite a clear need for new homes.

HD's economics are driven more by home remodels than new development. Two main factors drive our positive long-term outlook for the remodeling business:

1. Demographic tailwinds are in place for the baby boom generation to downsize homes as they age, making way for younger generations to upsize homes as their families grow.
2. The US housing stock is aging rapidly due to underinvestment in new building.



These two powerful forces should provide a strong tailwind for America's home-improvement retailers.

### **Home Depot is an exceptional business at an attractive price**

The S&P 500 index consists of 500 of America's largest publicly traded companies. Some of the businesses in the index are exceptional, some average, and some below-average. Taken together the current price to earnings valuation of the S&P 500 is 18.

With HD shares down more than 30% from their 52-week high, the price to earnings ratio of HD sits right at the market average of 18. We believe exceptional business should earn a higher multiple than average and are pleased to have been able to add HD to the portfolio at an attractive price.

### **Conclusion**

Like most Americans, we like winners. HD has a winning culture, winning assets, and an attractive valuation. We are optimistic about the contribution this company will make to the portfolio's long-term performance. Don't bet against the USA.

Sincerely,

Bernie 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 August 31, 2022, Home Depot represented 1.02% 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.*

*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. Factors such as domestic economic growth and market conditions, interest rate levels, and political events affect the securities markets and may affect the value of the fund. Non-diversification increases the risk that the value of the Fund could go down because of the poor performance of an individual security in the Fund's portfolio. Undervalued securities are, by definition, out of favor with investors, and there is no way to predict when, if ever, the securities may return to favor. REITs may be subject to, among other factors, certain risks associated with the direct ownership of real estate, including declines in the value of real estate, risks related to general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses, and variations in rental income. MLPs are generally considered interest-rate-sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns. To the extent the Fund invests in other investment companies, the Fund will indirectly bear its proportionate share of any expenses (such as operating expenses and advisory fees) that may be paid by certain of the investment companies in which it invests. Investment in ETFs carry specific risk and market risk. If the area of the market representing the underlying index or benchmark does not perform as expected, the value of the investment in the ETF may decline. Read the prospectus carefully for more information about these and other risks associated with investing in the Fund.*

***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.***

***\*Price to earnings ratio; P/E: A ratio equal to a stock's market capitalization divided by its after-tax earnings over a 12-month period.***

***\*Net profit margin: A company's after-tax earnings over a 12-month period divided by a 12-month period of revenue.***

***\*EBITDA margin: A company's operating profit as a percentage of its revenue. The acronym EBITDA stands for earnings before interest, taxes, depreciation, and amortization.***

***\*Free Cash Flow margin: A company's net cash flow provided by operating activities less capital expenditures, expressed as a percentage of the Company's net sales for such calendar year***

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