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People, Planet...Profits?

Hamilton Point recently released its 2017 Global Core Sustainability Report, making this an excellent time to be reminded that when evaluating investment opportunities we often find similarities with the past. We have learned that innovation may benefit society tremendously but not necessarily those who manufacture and market the breakthrough product or service. We conclude that both the introduction of the internet in the 1990s and the more recent advent of clean energy technology served to improve our lives on this planet but often at the economic expense of those investing in the innovators themselves.

By way of background, over the last eight years Hamilton Point has engaged a summer undergraduate intern to update our analyses of all 35 (or so) companies held in our Global Core Equity Strategy in terms of their energy conservation, water usage, waste reduction and supplier relationships. As the attached proprietary scatter graph illustrates, each company is ranked on two scales: the degree to which the company's industry is relatively clean and the behavior of that particular outfit within the constraints of its sector. The cleanest and best behaving companies can be found in or near the top right quadrant.

I'm Good

Many large companies are doing a lot to improve their environmental impact and, in the process, reduce expenses in ways that benefit shareholders. Visit www.hamiltonpoint.com/2017-sustainability-report to see the full report with examples of reductions in water use, greenhouse gas production and landfill deposits as well as supplier audits for potentially contentious ingredients like palm oil and cotton. Fortunately, our investment focus on high-quality management teams and value-added industries naturally directs us to companies who generally behave darned well on these measures.

While the term "sustainability" is broad in scope, for the rest of this newsletter we will focus on the renewable energy side of that equation. It is a given that most companies—and many individuals—are trying to limit their resource consumption and purchase/generate as much as possible from renewable sources like wind and solar. Listed below are a few Hamilton Point companies[1] covered in our sustainability report and their impressive renewable energy statistics:

- **Alphabet (Google)** uses 100% renewable energy and is the world's largest renewable consumer
- **Apple** is using 96% renewable energy and has installed 485 megawatts of wind power in China
- **Nike** and **eBay** have goals of 100% renewable energy by 2025
- **Johnson & Johnson** completed a 100 megawatt wind purchase agreement and targets 100% renewable use by 2050

Notably, some of the companies we own are not only becoming more sustainable internally but also marketing products, complementary to core business strategies, that contribute directly. As examples, **John Deere** makes sophisticated GPS driven devices that save farmers energy and water. **Danaher's Hach** division is one of the world's largest water treatment and analysis companies. Finally, **eBay** facilitates reuse of electronics, apparel and other items resulting in expected avoidance of 2.5 million tons of carbon by 2020.

1) For a free list of all recommendations made by Hamilton Point during the last year, please contact us.

CONTINUED ON REVERSE >

We admire the progress these statistics represent, but an interesting question is begged—"if corporate America and others are so focused on renewable energy, why hasn't Hamilton Point been investing directly in wind and solar companies?" The reason is that transformational inventions may be wise to use and generate a lot of "buzz" around certain companies, but they do not automatically make good *public* market investments.

To illustrate, we looked at two funds specializing in solar and wind—the **Guggenheim Solar ETF (NYSE: TAN)** and the **First Trust Global Wind ETF (FAN)—** each of which own 25-45 companies in their respective segments. Had Hamilton Point invested $100,000 ($50,000 in each) back when each fund began trading in 2008, our total investment would be worth less than $32,000 now. Alternatively, a $100,000 investment in the S&P 500 over the same period would be worth nearly $220,000…a sobering difference.[2]

Here We *Don't* Go Again

This reminds us of our stance almost 20 years ago regarding the internet. In our January 2000 newsletter, "The Sky Is Rising!" we applauded the wonders of the web but cautioned investors who were ignoring fundamentals and investing because, as they confidently said, "the internet is the future!" We quote from then:

> *"Paradoxically, some of today's hottest internet stocks may offer the worst investment returns….Those who implement an internet strategy (i.e. manufacturers and their customers) will benefit far more than those trying to bring those parties together." January, 2000*

Sound familiar? Knee-jerk tech investors in January 2000 probably performed similarly to those jumping on the solar and wind strategies in 2008.

The point here is that our emphasis on quality has benefits for long-term investors beyond just a good citizenship report on Global Core holdings, which generally comprise our clients' largest equity allocation. The companies we own generally take advantage of innovations like the internet and sustainable energy to waste less time and resources. Moreover, these productive activities are likely contributing to a rise in corporate profit margins so, indeed, the "sky is rising" for them as reflected in profit growth.

Incidentally, **Exxon,** our worst rated holding on last year's report, was subsequently sold as part of a decision to own less exposure to companies tied primarily to fossil fuels. Though it was a factor in the case of Exxon, a "bad report" does not necessarily trigger a sell decision; likewise a "good report" does not necessarily imply we want to own a company for our clients.

A Plug Nickel?

To illustrate, allow us to critique yet another "hot stock" with good sustainability metrics that violates, in our view, reliable investment fundamentals…**Tesla**. The company is exciting, represents the future of automobiles and the cars arguably present a good value since buyers are not paying for profits at the manufacturing level. However, the company trades at over seven times revenue and loses lots of money.[3] When we are asked about Tesla we are reminded of the old saying, "who am I to tell a chicken he can't fly...even with a fully charged battery?"

For comparison, eBay trades at four times revenues and makes lots of profit. We certainly embrace innovation at every turn because we think the investment merits of doing so are often solidly justified; however, our ultimate aim is that new ideas help our investors grow their wealth over the long term—not separate them from it when markets finally, and inevitably decide that quality fundamentals matter.

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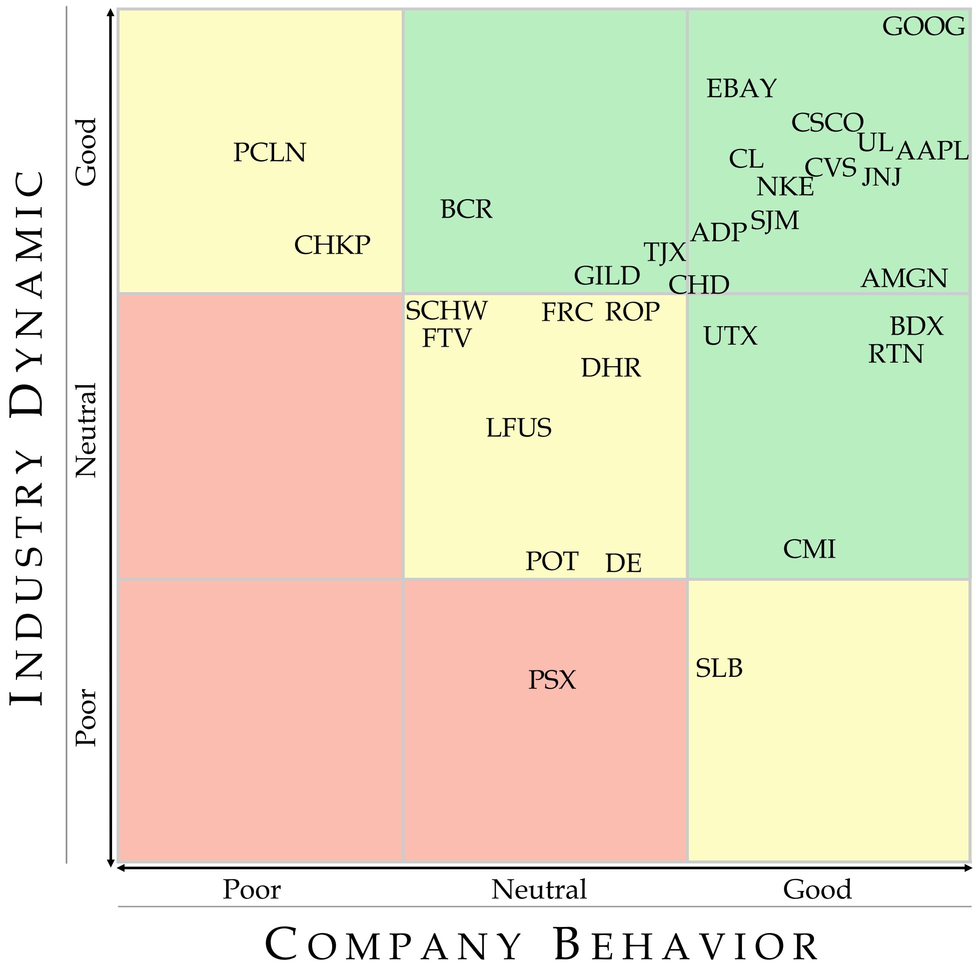
Hamilton Point Investment Advisors, LLC is an independent and independent-minded wealth advisory firm. Please contact us for a complimentary review of your portfolio. In addition, visitors to the firm's website, www.HamiltonPoint.com, can read past investment newsletters.

2) Based on returns through 8/31/2017, from inception dates of 4/15/2008 and 6/6/2008, respectively.
3) Based on Factset latest twelve months revenue through June 2017 and valuation as of September 2017.

The Hamilton Point Sustainability Matrix

This chart is a graphic representation of all companies in our Global Core Equity Strategy as of June 30, 2017. The upper right box depicts what we believe to be the highest-rated companies, while the companies with Poor ratings are located to the bottom left.



Good Companies

GOOG	Alphabet Inc.
AMGN	Amgen Inc.
AAPL	Apple Inc.
ADP	Automatic Data Processing, Inc.
BDX	Becton, Dickinson and Company
CSCO	Cisco Systems, Inc.
CHD	Church & Dwight Co., Inc.
CL	Colgate-Palmolive Co.
BCR	C.R. Bard, Inc.
CMI	Cummins Inc.
CVS	CVS Health Corporation
EBAY	eBay Inc.
GILD	Gilead Sciences, Inc.
JNJ	Johnson & Johnson
NKE	NIKE, Inc.
RTN	Raytheon Company
SJM	The J. M. Smucker Company
TJX	The TJX Companies, Inc.
UL	Unilever PLC
UTX	United Technologies Corporation

Neutral Companies

CHKP	Check Point Software Technologies Ltd.
DHR	Danaher Corporation
DE	Deere & Company
FRC	First Republic Bank
FTV	Fortive Corporation
LFUS	Littelfuse, Inc.
POT	Potash Corporation of Saskatchewan Inc.
ROP	Roper Technologies, Inc.
SLB	Schlumberger Limited
SCHW	The Charles Schwab Corporation
PCLN	The Priceline Group Inc.

Poor Companies

PSX	Phillips 66

Guide to the Hamilton Point Sustainability Matrix

Hamilton Point created the Sustainability Matrix to confront the challenges of evaluating companies in vastly different sectors of the economy who face inherently different levels of difficulty in lowering the environmental footprint of their business. Our matrix accounts for the nature of the industry that each company is a part of on the vertical axis by rating it on a spectrum from poor to good. Industries like oil exploration and production which face higher potential environmental risks and whose products also create pollution are given a Poor rating, while most consumer product related industries with much less environmentally damaging activities are given ratings of Good. This axis alone cannot inform us as to how each business is confronting the sustainability challenges it faces compared to other companies in its specific industry. Thus, the horizontal axis is devoted to our evaluation of each company's efforts to decrease its environmental footprint as best it can, relative to other companies that share similar challenges. For companies like **Schlumberger** and **Phillips 66**, this means spill prevention, cleaner fossil fuel research and R&D devoted to finding renewable energy sources. For **Colgate-Palmolive** or **Nike**, this means finding ways to create less waste during manufacturing, using less electricity in their facilities and striving to create organic or low impact product lines to fulfill the needs of consumers.

We feel our two-dimensional matrix thus allows for a more holistic and informative assessment of the effort each company devotes to creating a sustainable business in ways that a standard one-dimensional rating system — such as a one-to-five star score — could not.

Endowment Style Management

Hamilton Point Investment Advisors manages portfolios on a separate account, fee-only basis. The firm distinguishes itself by employing a hybrid, endowment-style approach, combining both individually researched and purchased core bonds and equities with the diversifying benefits of funds specializing in international and small-capitalization sectors. Hamilton Point takes a comprehensive approach to wealth management, seeking to understand our clients' financial or other circumstances when formulating an investment strategy.

Investment Team

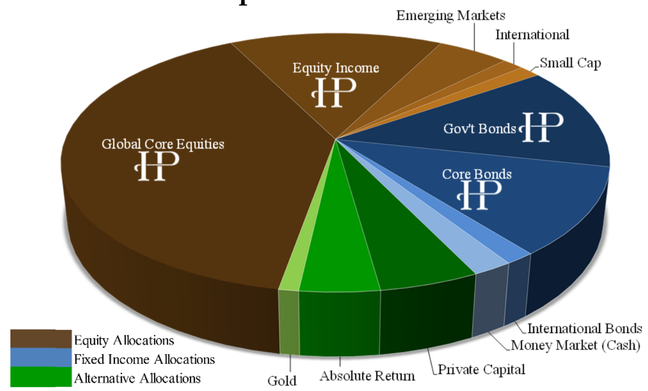
	Industry Experience
Andrew C. Burns, CEO/CIO	35+ years
Richard S. Woods, CFA, CPWA®	17 years
Nathan G. Byrd, CFA, CFP®	10 years
David C. Stephan, CFA	7 years

Client Profile

- Assets under management of $361.3 million; clients located in 18 States
- Independent firm registered with the SEC
- Top 15 relationships range from $5.2 million - $56.5 million in assets as of most recent quarter end
- Preferred minimum of $1 million

Balanced Institutional Strategy Characteristics

Sample Portfolio Assets[1]



Portfolio Statistics[2]

As of 6/30/2017

Equity Portfolio	
Forward P/E	19.4x
Est. Long-Term EPS Growth	10.7%
Dividend Yield	1.9%

Fixed Income Portfolio	
Average Credit Quality	AA-
Average Duration (Years)	4.3
Yield	2.9%

[1]Chart provided for demonstration purposes. The allocations of the Balanced Institutional Strategy Composite accounts may vary from what is presented in the Sample Portfolio Asset Allocation chart and do not include private investments allocations, which may not be appropriate for all investors.
[2]The Equity and Fixed Income Statistics are those of the Balanced Institutional Strategy Composite as of 6/30/2017 and not those of a Balanced Institutional Strategy representative account.

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