July 2022

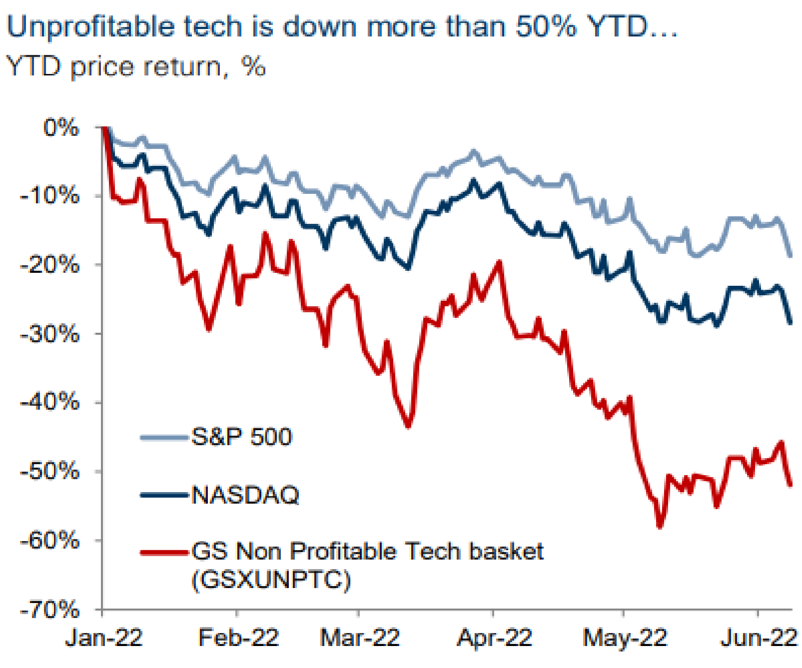
INVESTMENT PERSPECTIVES

Finding the Silver Lining

While the pandemic lockdown of 2020 led to one of the swiftest declines in the history of the stock market, the first half of 2022 saw one of the steepest first-half declines in the past 50 years. Periods like these are fueled by an increase in uncertainty and an explosion of negative headlines in the financial press. Geo-political conflicts, rising interest rates and inflation levels that haven't been seen in 40 years are the backdrop for this heightened sense of uncertainty. Of course, uncertainty brings along market volatility, and price declines in financial assets as people react to the world around them. Although client portfolios were not immune to these dynamics, we are buoyed by the strength and prospects of the businesses we own. What is the source of this optimism? In this *Investment Perspectives*, we provide our views on where we see the silver linings in this challenging environment for investors.

Why Market Declines Bring Optimism

One of the most important reasons for our optimism is the return to fundamental investing. We have always given special importance to the price we pay for our investments. Paying a high price for even the best businesses can lead to subpar investing results. With the strong returns we saw in 2021, we were fascinated by the historically high valuations that accompanied the rise in the market averages. Companies not producing any profit were priced for perfection. As shown below, the reality of these lofty valuations set-in and many of these prices quickly retreated.



Note: GSXUNPTC is a GMD basket; data as of June 10, 2022.
Source: Bloomberg, Goldman Sachs, Goldman Sachs GIR.

As value investors, we strive to be opportunistic buyers. The recent price declines saw us identify multiple opportunities within our existing portfolio, allowing us to put more capital to work during the quarter.

Our continued focus on solid companies gives us confidence in the future. We favor companies with strong balance sheets, producing products that generate recurring revenues and run by honest and able management teams. This focus has served us well in past investment cycles and is the bedrock of our investment process. It involves a disciplined approach to monitoring and reviewing a company's changing fundamentals, and the impact on our investment thesis. This approach, coupled with price declines, has aided our ability to take advantage of lower prices when the broad market tumbles. Such was the case in the first half of 2022.

Lastly, we construct client portfolios in a way to maximize portfolio returns for a given level of risk. We achieve this by sizing positions appropriately and rebalancing the portfolio to take advantage of opportunities or to reduce risk. Managing the portfolios with this discipline, allows us to better protect capital in declining markets.

Your holding in Progressive is one example of this process. We bought the company during March 2020, when the markets were petrified by Covid fears. We were attracted to their market leading brand, strong balance sheet and recession-resistant business characteristics. Yet, the market was swooning, and the stock was falling independently of the direction of its fundamentals. Since then, the company has performed well operationally, and its stock has generated strong returns.

Bonds as a Ballast

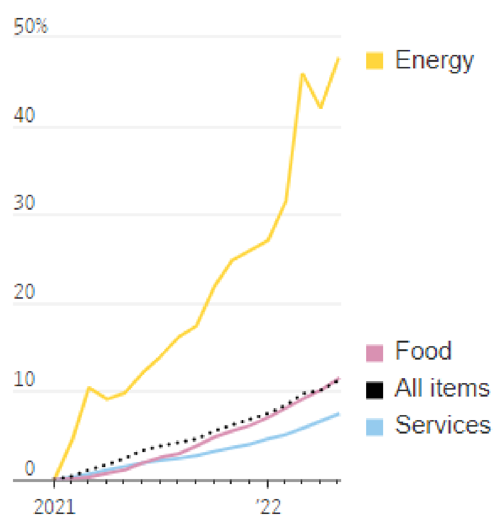
Another area we are hopeful for strong future returns is in bonds. While the common narrative is you don't own bonds in an inflationary environment, we still see a place for them. First, it's important you differentiate what type of bonds we own as there are many different types. We focus exclusively on high quality bonds which have a few advantages over other types. Historically, when stocks go down, bonds tend to go up in value or are "uncorrelated" to stock returns. Therefore, they have been considered the 'shock absorbers' for your portfolio. While this dynamic hasn't materialized this year, the diversification benefits of bonds and their income potential preserve them as an important asset class in most portfolios. Lastly, the liquidity they provide make them a good source of cash, should the need arise.

As you have probably heard us say, we run bonds in a laddered strategy. This means we buy a bond in each successive year or maturity. Thus, if interest rates do rise, as a bond matures, we then buy a new bond at the end of the ladder (currently 8 year). By owning a laddered bond strategy, it will benefit from a rising rate environment over time. While you may see short term losses as bonds reset to higher rates, eventually you will recoup those losses if held to maturity. Higher interest rates will benefit the future potential return of your bond portfolio. It important to focus on the long-term benefits versus the short-term narrative with bonds.

Investing with an Inflation Backdrop

With the recent inflationary pressure, costs have risen across the board – gas prices (increased 50% since 2021), home prices, used car prices, fertilizers, and food (with prices of wheat, corn, and soybeans all soaring). This dynamic has put pressure on both businesses and consumers' financial positions. Thus, the Federal Reserve has started raising interest rates causing both bond and stock market declines. To put this decline in context, we are coming out of a highly speculative period for a handful of assets. Highlighted by sky-high valuations of unprofitable companies, record public offerings aided by SPACs, and speculation in all-manner of digital assets. Nonetheless, this broad market sell-off has made many investors concerned about where, or even if to invest. Yet, we believe these are one of the best times to be looking for long-term buying opportunities. We are long-term investors, not short-term traders. Investing with a long-term horizon and detaching decision making from the crowd are important elements to investing success over time.

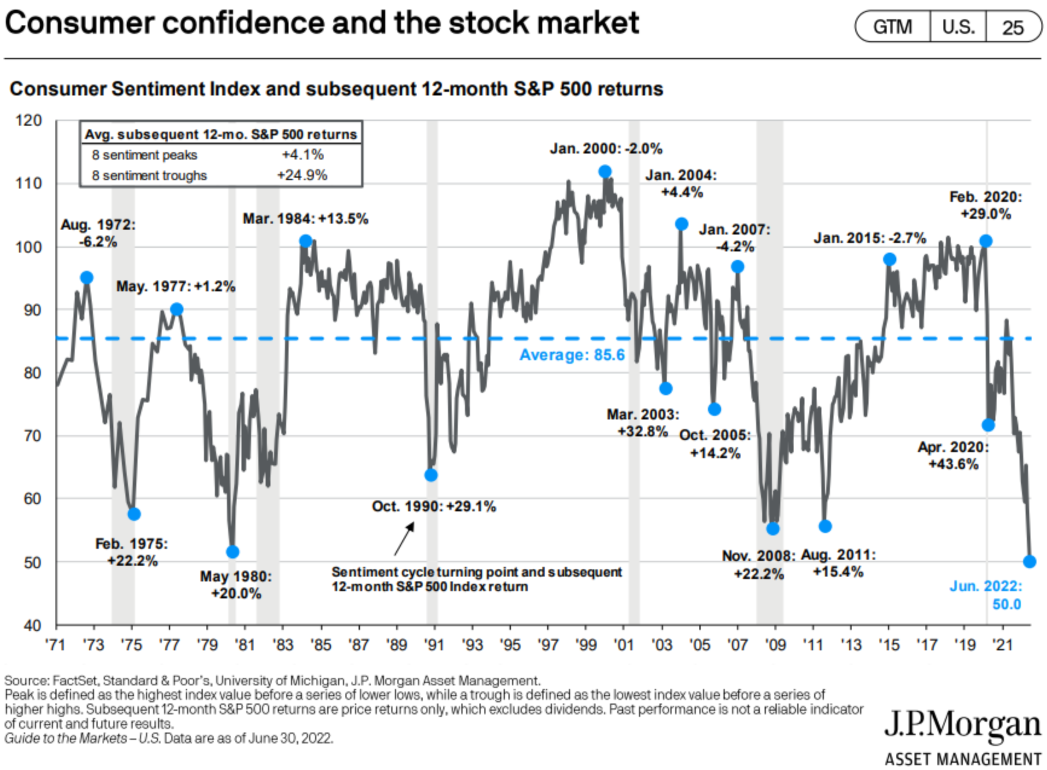
Consumer-price index, change since January 2021



Note: Seasonally adjusted
Source: Labor Department

Sentiment… An Indicator of Market Mood

Without question, there has been much for consumers to be jittery about this year. The markets mood can often be linked to consumer confidence, and we registered very bearish levels in June. While this doesn't indicate a bottom in the markets or that consumer sentiment won't go even lower, it has historically acted as a good contrarian indicator for future returns. As detailed in the chart below, when consumer confidence troughs, strong returns often follow. While we may see continued weakness in this index, it has a track record of presenting investors with long-term buying opportunities, if they are paying attention.



The results for investors this year have been challenging, but they can't be called unique. Historically, a decline of 20% happens approximately every 5 years (more common than people realize!). While we will never pretend to be market forecasters, we remain confident in the positioning of the client portfolios we manage. We believe our commitment to a long-term, disciplined investment process will yield stronger results in the years ahead.

PLEASE SEE IMPORTANT DISCLOSURES BELOW:

As of June 30, 2022, Hutchinson Capital Management (HCM) held:
61,985 shares of Valero Energy Corporation (VLO)

As of June 30, 2022 (Prices in USD unless noted otherewise)
Valero Energy Corporation (VLO) closed at $106.28

As of June 30, 2022, the following were the ten largest holdings of HCM:

Name of Issuer	% of Equity Portfolio	6/30/22 Closing Price
Berkshire Hathaway Inc Class B	6.87%	$273.02
Progressive Corp	6.11%	$116.27
Apple Inc.	5.96%	$136.72
Bank of America Corp	5.85%	$31.13
Markel Corp	5.47%	$1,293.25
Store Cap Corp Com	4.95%	$26.08
Microsoft Corp	4.88%	$256.83
Jacobs Engineering Group Inc	4.44%	$127.13
CVS Health Corp	3.95%	$92.66
CDK Global, Inc.	3.86%	$54.77

For a complete list of holdings, please see our most recent 13F filing on the following SEC website:
http://www.sec.gov/edgar/searchedgar/companysearch.html

HCM's investment decision making process involves a number of different factors, not just those discussed in this document. The views expressed in this material are subject to ongoing evaluation and could change at any time.

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