July 10, 2017

"Beware lest you lose the substance by grasping at the shadow"
-Aesop

The first half of 2017 has been a bifurcated environment. On the economic side, the synchronized global expansion that took hold in 2016 continues to provide a favorable business climate while, on the political side, the Trump administration is struggling to stay on message. The muddled political communication risks swamping a much needed comprehensive tax reform along with the rest of the administration's agenda. For now the market remains focused on the continued strength of the economy while the window for tax reform is narrowing.

As fundamental investors we believe the value of stocks is driven by a company's ability to generate free cash flow and reinvest successfully in its business. During the first quarter the average company in the S&P 500 was projected to increase earnings by 9% but reported actual earnings expansion of 14%. Companies owned in client portfolios reported earnings growth of 18%, higher than the overall market growth as many companies owned at Ayrshire Capital are also benefitting from secular growth trends. While we're pleased that the economic backdrop remains positive we are wary that stock valuations are near the high end of historic valuations which provides little leeway should the economy stall.

The minutes from the most recent Federal Reserve meeting portray an encouraging economic backdrop which mitigates some of our concern about the current market valuation. Labor conditions continue to strengthen and the US GDP is expected to accelerate through 2017 and 2018. Inflation pressures remain below the Fed's target level of 2%. Furthermore, all indications are that the Federal Reserve intends to normalize monetary policy. The Fed Funds rate is now 1.0-1.25%, up from near zero 18 months ago, and the Fed is preparing to shrink its balance sheet by allowing its $4.5 trillion bond purchase program to wind down. We consider these to be very constructive steps forward in preparing the Fed to reequip itself to fight the next recession.

At the beginning of the year we were hopeful that the Trump administration would introduce legislation enabling American companies to repatriate offshore funds in a tax efficient way. Even Senate Minority Leader, Chuck Schumer, had spoken favorably about repatriation legislation. Unfortunately, the new administration chose to lead with an ambitious and controversial overhaul of health insurance and the low hanging fruit of profit repatriation has been deferred. The window for tax reform legislation is closing and we wonder if Republican congressional leaders will begin proposing separate legislation in an attempt to get something accomplished. It's been over 30 years since the last overhaul of the tax code and any progress in this area would most certainly be a positive.

During the quarter we made a few changes in client portfolios. We sold our investment in American Eagle Outfitters as results failed to live up to our expectations. We also sold our long term investment in Diageo. We purchased shares in FMC Corporation as we think its planned

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acquisition of DuPont’s crop protection business will be accretive to earnings. Additionally, we like FMC’s lithium business and we think the company may spin it off to shareholders at some point.

Thank you for entrusting Ayrshire Capital Management LLC with the management of your investments. We look forward to speaking with you in the coming months.

Sincerely,

JM Sam Nevin, Jr.
Managing Partner