

**INVESTMENT CONSULTANTS**  
(A Registered Investment Advisor)

**From: Bill Gela, Investment Consultants**

**July 8, 2020**

**Topic: The Broaster Company 401(k) Plan – Quarterly Plan Summary Report**

*Enclosed is your Plan Summary Report for the quarter ending 6-30-2020, covering your mix of funds. This past 3-month period ending June 30 was very good for the overall U.S. stock market and it was up similarly for the aggregate international stock markets, and lastly it was up solidly for short- & intermediate-term U.S. bond funds. According to Lipper Fund Services, the average U.S. stock mutual fund's second quarter 2020 total return was +23.5%, and the S&P 500 Index was up +20.5% for the second quarter. For the 12 months ending 6-30-2020 the S&P 500 Index was up +7.5%. According to Morningstar™ all of your funds have performed solidly-to-well for both 5 and 10 years relative to similar “peer group” funds, with the exception of the Templeton Global Bond Fund’s 5-year relative performance that lagged significantly. [Note: See footnote #7 in the attached “Plan Summary Report” for input regarding a one-time Morningstar change affecting this Fund’s rankings.] Your passive “index funds” (versus actively-managed funds) strive to mirror their indices’ performances at all times -- no more, no less.*

*Relative to similar “peer group” funds, your fund mix has continued to perform solidly on average over the past 12 months ending 6-30-2020 – 4 funds within the top 25% of their peer groups’ funds and 1 fund within the bottom 25% of its peer group’s funds. For the past 12 months ending 6-30-2020 (with the S&P 500 Index up +7.5%) one of your six domestic stock-oriented funds outperformed the S&P 500 Index (not an easy task, for this period).<sup>1</sup> For this time period, the place to be invested (regarding equities) was in large U.S. growth-oriented companies (including many stocks which make up the S&P 500 Index). Your top performing stock-oriented fund was the Fidelity Contrafund at a +17.9% total return for the 12 months ending 6-30-2020, and your Harbor Bond Fund returned +8.5% for the same 12-month period.<sup>2</sup>*

*[Note: To put your funds’ returns into perspective during the past five years’ market conditions, your 7 stock-oriented funds have annualized total returns (compounded each year) of between +2.0% & +14.1% for the past 5 years ending 6/30/2020. This compares to a +10.7% annualized total return for the S&P 500 Index for the same 5-year period: 2 of your 7 stock-oriented funds exceeded or were within 0.75% per year of the S&P 500 Index’ return for this 5-year period – for the 10-year period, 6 of your 7 stock-oriented funds exceeded or were within 2% per year of the S&P 500 Index’ return (a strong +14.0% per year). Your foreign large cap fund lagged dramatically – as most foreign stock funds dramatically lagged U.S. stock funds for this 5-year period, see footnote #1 below.]*

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<sup>1</sup> According to Lipper (7/6/2020 Wall Street Journal), for the past 12 months ending 6/30/2020 the S&P 500 Index outperformed the Dow Jones World (ex. U.S.) Index -- +7.5% versus -4.2%. One of your stock-oriented funds is a foreign/international fund. For the 5-year period ending 6/30/2020 the S&P 500 Index also significantly outperformed the Dow Jones World (ex. U.S.) Index, with an annualized total return of +10.7% versus +2.5%.

<sup>2</sup> According to Lipper, the average intermediate-term (U.S.) taxable-bond fund total return was +6.3% for the previous 12 months ending 6/30/2020.

## 2nd QUARTER, 2020 PLAN SUMMARY REPORT – BROASTER COMPANY

Prepared by: *Investment Consultants (an affiliate of Compensation & Capital)*

### Is there such a thing as “too far apart”?

In a 3-month period, 39 million jobs were lost (as reported by Morningstar), but the S&P 500 Index was down just 4.6% (thru 6/29/2020)! As reported in the 7/1/2020 Wall Street Journal, for the second quarter, “U.S. stocks recovered with their best quarter in percentage terms in more than 20 years.” (Of course, this followed the terrible “COVID-19 shutdown” quarter.) This represents a huge *disconnect* between the U.S. stock market and the U.S. economy. Are these two “too far apart”? Who knows to what degree that question is even relevant; but this leads us to the question, “where from here”? As always, the answer is not perfectly clear, but the following two bullet items highlight some issues that could lead to higher-yet market levels and some that could lead to lower market levels.

- Higher levels: (1) There is a saying in investing circles, “don’t fight the Fed!” This suggests that if the Federal Reserve Bank (and Congress, in this case) pump massive amounts of liquidity/money into the economy, this will prop up the stock market, regardless of what is going on in the economy – at least in the short term. Current examples of stimulus are – stimulus checks to individuals and businesses, tax breaks, and giving incentives to financial institutions to lend money to individuals and businesses. (2) With the upcoming U.S. elections (including for President), those currently in power will do almost whatever they can (hopefully within reason) to prop up the economy and the stock market. & (3) There remain huge amounts of “cash” in the hands of potential investors, which could be invested in the stock market, possibly moving stock prices higher.
- Lower levels: (1) Coming into 2020, many asked -- will the “up” market, since early 2009, continue its march upward? After all, no “Bull Market” lasts forever. (2) Congress passed, and the President signed a \$2 trillion-plus stimulus package. Once this works its way through the economy, then what? Will this result in a reestablishment of economic growth – particularly if the unemployment level does not drop dramatically from its current, brutally high level? Even if the stimulus works reasonably well in the medium- to long-term (& there is no guarantee of that), the Federal Government will be another \$2 trillion-plus in debt, added to the already \$22 trillion-plus debt level that it had in coming into 2020! Additionally, state and local governments are hemorrhaging money. (3) What will happen if COVID-19 levels continue to spike back up in the near-term, and/or if we experience a second wave of COVID-19 in the coming fall/winter? & (4) Lastly, of course, there continue to be global challenges and conflicts that can always adversely affect the stock markets – e.g., involving North Korea, China, Iran, Russia, among others. Sometimes when the Western world is focused on its own issues, entities that the West considers to be “bad global actors” act badly – sometimes for strategic purposes, and sometimes merely to distract their own populace from difficult issues and hardships that they are facing.

As always, keep in mind that whether the markets are up or down in the short term is dramatically less important than a long-term investor’s doing the best things possible for the attainment of his or her portfolio’s long-term goals (such as establishing an appropriate asset allocation for his or her investment portfolio, and selecting appropriate mutual funds). Having stated all of the above -- somehow, this point in time feels different! If we are in the process of establishing a “new normal”, how will this affect investing strategies? Certainly, there will be more to follow on this!

If a Participant continuously bought funds over her/his investing lifetime, by retirement she/he was typically better off if the funds had fluctuated in price, versus if the funds steadily rose in price. This process is called “dollar cost averaging.” That is, with price fluctuations that allow you to “buy low” at different times, you may attain a larger overall return on your investments. Many 401(k) Plan Participants who purchased stock funds in the first quarter, have seen those funds substantially increase in value, thus far through July 1.

## BROASTER COMPANY - 2nd Quarter, 2020 Plan Summary Report

### Funds' Performances for Periods Ended June 30, 2020

The following report is intended to help you in evaluating your investments <sup>1</sup>, and in selecting your mix of mutual funds for the future. The average diversified U.S. stock mutual fund's second quarter 2020 total return was +23.5%; and for the 12-month period ending June 30, 2020, the total return was +0.5%. [For 12 months: the S&P 500 index returned +7.5%; the small-cap stock index returned -6.6% <sup>2</sup>; & the Dow Jones World (ex. U.S.) Index returned -4.2%]. The 3-month total return for intermediate-term U.S. bonds was +4.2%, taking the previous 12-month return to +6.3%. Remember that one quarter does *not* make your retirement investing a success or a failure, nor does it insure success or failure for the next quarter -- investing is a long-term proposition.

Fund Type	Periods Ended June 30, 2020:		Fund Ranking <sup>4</sup>	
	1-Year Total Return (Growth of \$1,000) <sup>3</sup>	5-Year Average Return	5 Years	10 Years
<b>Stock-oriented:</b>				
<b>Large Cap Funds:</b>				
(Fidelity Contrafund) [NASDAQ Code = FCNTX] [LG] <sup>5</sup>	+17.9% (\$1,179)	<b>14.1%</b>	<b>39</b>	46
(Vang Total Stock Market Index/Adm) [NASDAQ Code = VTSAX] [LB]	+6.5% (\$1,065)	<b>10.0%</b>	<b>30</b>	18
(Vanguard Equity-Income/Adm) [NASDAQ Code = VEIRX] [LV]	-5.5% (\$945)	<b>7.2%</b>	<b>11</b>	4
<b>Mid Cap Fund:</b>				
(Vanguard Mid Cap Index/Adm) [NASDAQ Code = VIMAX] [MB]	-0.2% (\$998)	<b>7.0%</b>	<b>10</b>	5
<b>Small Cap Funds:</b>				
(Loomis Sayles SmCap Growth Instl) [NASDAQ Code = LSSIX] [SG]	+2.9% (\$1,029)	<b>9.0%</b>	<b>42</b>	26
(Vanguard Tax-Mged Small Cap/Adm) [NASDAQ Code = VTMSX] [SB]	-11.1% (\$889)	<b>4.4%</b>	<b>17</b>	9
<b>International Fund:</b>				
(T. Rowe Price Overseas Stock) [NASDAQ Code = TROXX] [LB]	-2.9% (\$971)	<b>2.0%</b>	<b>48</b>	14
<b>Allocation Fund – 50% to 70% Equity:</b>				
(T. Rowe Price Capital Appreciation) [NASDAQ Code = PRWCX] [LG]	+6.3% (\$1,063)	<b>9.8%</b>	<b>1</b>	1
<b>Bond-Oriented Funds:</b>				
(Harbor Bond Institutional) <sup>6</sup> [NASDAQ Code = HABDX]	+8.5% (\$1,085)	<b>4.4%</b>	<b>25</b>	57
(Templeton Global Bond Adv) <sup>7</sup> [NASDAQ Code = TGBAX]	-6.1% (\$939)	<b>0.6%</b>	<b>84</b>	50
(Vanguard Sht-Term Inv-Grade/Adm) [NASDAQ Code = VFSUX]	+5.0% (\$1,050)	<b>3.0%</b>	<b>8</b>	14

(Endnotes on next page) →

## BROASTER COMPANY - 2nd Quarter, 2020 Plan Summary Report

(continued)

### Endnotes:

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- <sup>1</sup> Remember that past performance is absolutely *not* a guarantee of future performance.
  - <sup>2</sup> Russell 2000 Index. All statistics in this paragraph are from the Wall Street Journal (Source: Lipper).
  - <sup>3</sup> If an investor had put \$1,000 into each fund on June 30, 2019, one year later (on June 30, 2020) each fund would have been worth the amount in italics and parentheses below.
  - <sup>4</sup> Example -- “35” below means that the fund ranked in the top 35% in investment performance, as compared to funds with a similar investment style or objective, for the 5-year period or for 10 years ending June 30, 2020. This is commonly stated as “the fund ranked in the 35<sup>th</sup> percentile of its peer group.” For percentile rankings, lower is better – a 35<sup>th</sup> percentile fund outperformed 65% of peer group funds for the time period stated. Data supplied by Morningstar.
  - <sup>5</sup> The following categories are as defined by Morningstar. Small Cap, Mid Cap, and Large Cap refer to the average size of the companies whose stock is held in the fund. For your stock funds (and the stock holdings of your allocation fund): [first letter] L = Large Cap, M = Mid Cap, S = Small Cap; [second letter] G = Growth, V = Value, B = Blend (Value/Growth). Example – [LV] means a large cap, value style. A “Value” style means that typically the fund portfolio manager buys stocks that he/she thinks will both grow in price *and* currently can be purchased at a price that is a good value. A “Growth” style manager focuses on buying stocks that are anticipated to grow in price, regardless of the current price of the stock (that is, even if based on historical standards, the stock price seems expensive already). An “Allocation Fund” is a “balanced fund” that holds a mixture of predominantly U.S. stocks and fixed income securities (e.g., bonds and money market securities). A “Foreign or International Equity” fund holds predominantly non-U.S. stocks, whereas a “World Stock” fund holds non-U.S. and U.S. stocks.
  - <sup>6</sup> Morningstar categorizes the Harbor Bond Fund as an intermediate core-plus bond fund – a new category as of 2019. When interest rates rise, this fund will tend to drop in value more than short-term bond funds, in the short term. This fund, as with most of your funds, is intended for use as a long-term investment. Over time it is diversified across various bonds, including corporate and government bonds.
  - <sup>7</sup> Historically this fund was categorized as a “world bond” fund by Morningstar. Over time it has been diversified across various geographies worldwide. In 2019, it was recategorized as a “nontraditional bond” fund. Michael Hasenstab (its long time, award winning portfolio manager) remains as the fund’s lead portfolio manager, and continues to invest in the fashion that he has invested in the past. The manager’s contrarian style can, and has resulted in “up” and “down” periods of performance.