INVESTMENT CONSULTANTS
(A Registered Investment Advisor)

From: Bill Gela, Investment Consultants ***October 14, 2019***
Topic: The Broaster Company 401(k) Plan – Quarterly Plan Summary Report

Enclosed is your Plan Summary Report for the quarter ending 9-30-2019, covering your mix of funds. This past 3-month period ending September 30 was up modestly for the overall U.S. stock market and it was down modestly for the aggregate international stock markets, and lastly it was up modestly for the overall U.S. bond market. According to Lipper Fund Services, the average U.S. stock mutual fund's third quarter 2019 total return was -0.3%, and the <u>S&P 500 Index was up +1.7% for the third quarter</u>. <u>For the 12 months ending 9-30-2019 the S&P 500 Index was up +4.3%</u>. According to Morningstar™ 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 9-30-2019 – 4 funds within the top 25% of their peer groups' funds and 2 funds within the bottom 25% of their peer groups' funds. For the past 12 months ending 9-30-2019 (with the S&P 500 Index up +4.3%) two of your six domestic stock-oriented funds were at +3.7% or above.[1] For this time period the place to be invested (regarding equities) was in large U.S. companies (including many which make up the S&P 500 Index). Your top performing stock-oriented fund was the Vanguard Equity-Income Fund at a +6.5% total return for the 12 months ending 9-30-2019, and your Harbor Bond Fund returned +9.9% for the same 12-month period.[2]

[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 +3.3% & +11.6% for the past 5 years ending 9/30/2019. This compares to a strong +10.8% annualized total return for the S&P 500 Index for the same 5-year period: 4 of your 7 stock-oriented funds were within 1.0% or exceeded the S&P 500 Index' return for this 5-year period – all of your domestic stock-oriented funds were above +9.1% annualized. Your foreign large cap fund lagged dramatically – as most foreign stock funds dramatically lagged U.S. stock funds for this period, see footnote #1 below.]

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1 According to Lipper (10/7/2019 Wall Street Journal), for the past 12 months ending 9/30/2019 the S&P 500 Index outperformed the Dow Jones World (ex. U.S.) Index -- +4.3% versus -1.5%. One of your stock-oriented funds is a foreign/international fund. <u>For the 5-year period ending 9/30/2019 the S&P 500 Index also significantly outperformed the Dow Jones World (ex. U.S.) Index, with an annualized total return of +10.8% versus +3.2%</u>.

2 According to Lipper, the average intermediate-term (U.S.) taxable-bond fund total return was +5.9% for the previous 12 months ending 9/30/2019.

Retirement Investing – Several Relevant Topics

The topics of investing and the weather are alike in several ways:

- Many people talk about both and they have an opinion regarding what the future will hold. Often this is based on which website they use or which weather (or investment) person they recently listened to on TV or the radio.
- Everyone can know with certainty what happened yesterday, but often they don't know and don't care why it happened. Of course, that doesn't keep many of us from over-reacting to what happened yesterday.
- There is no shortage of "experts" who talk about what happened and what will happen. Most of the time (in both areas – investing and weather forecasting) the "experts" who we see and listen to are well-dressed, attractive, and articulate (and/or good writers) and often are "fast talking". Associated with these personal characteristics, they get compensated well; and often (particularly weather people) they can retain their jobs, regardless of the accuracy of their forecasting, as long as we keep listening to and watching them. [When was the last time you read an article that gave statistics on how often a weather person or a market forecaster was right or wrong? As an economist, who forecasted the US economy, once admitted – "(He was) often wrong, but never in doubt!"]

So what is a long-term investor to do? [The remainder of this write up will NOT address helping you with the weather! Although the first topic below, diversification, has application regarding the weather in Chicago.] Investment advisors often define *diversification* simply as *"don't put all of your eggs in one basket"*! That is, do NOT invest only in one investment category such as stocks, bonds, real estate, or money market funds; nor only in U.S. investments or only in foreign investments. [The weather equivalent of diversification is – if you drive to work on a nice day in Chicago, always bring layers of clothing and an umbrella; not merely the clothing that accommodates the moment.] Chicago weather and the financial markets often change, and they are both unpredictable. We Chicagoans are at risk if we only have a single seasonal wardrobe when we go to work!

Diversification

In hindsight it is always very clear what your asset allocation strategy should have been – for instance, for the past 10 years the place to be invested was -- 100% U.S. large company stocks (preferably "growth-oriented, tech-oriented). Of course, we all have to decide today what to invest in, *for the future*; without the benefit of knowing with confidence what will happen. As a result, virtually all credible financial advisors suggest that long term investors invest in a mix of different types of stocks and bonds and money market funds, often times in different proportions depending on investors' specific situations – including investors' ages, current savings levels, the timing of their spending needs, etc. Recently I read an article in the July, 2019 Morningstar Fund Investor titled "What's the Best Diversifier for Equity Risk?" by Christine Benz. Several significant takeaways were: (1) high-quality bonds have been among the best equity diversifiers over the past decade; (2) in the financial crisis (2008 thru early 2009), given the global flight to quality and liquidity, Treasury bonds (and little else) was the place to be invested; & (3) "As you might expect if you're even a casual observer of global markets, all the equity indexes, both U.S. and non-U.S., tended to have high correlations (i.e., they move in the same direction) with one another over all trading periods. In other words, own small caps and foreign stocks for their return potential, but not to diversify your U.S. large caps."

Is the Stock Market Too High?

Recently I read another article by Christine Benz (this time in the September, 2019 Morningstar Fund Investor) titled "A Good Time to Dial Back Risk?". A significant takeaway follows: "Even if you're sold on the concept of de-risking, how should you do it? …. You have some flexibility around de-risking …. You don't have to take your equity exposure down all in one go, much as it seems a reasonable time to do so. Instead, you could take a more deliberate approach, dollar-cost averaging [1] into a higher position in more-conservative securities."

[1] Dollar-cost averaging is a strategy in which an investor places a fixed dollar amount into (or takes a fixed dollar amount out of) a given investment (usually common stock) on a regular basis (such as monthly), *regardless* of what is occurring in the financial markets.

BROASTER COMPANY - 3rd Quarter, 2019 Plan Summary Report
Funds' Performances for Periods Ended September 30, 2019

The following report is intended to help you in evaluating your investments [1], and in selecting your mix of mutual funds for the future. The average diversified U.S. stock mutual fund's third quarter 2019 total return was -0.3%; and for the 12-month period ending September 30, 2019, the total return was -0.8%. [For 12 months: the S&P 500 index returned +4.3%; the small-cap stock index returned -8.9% [2]; & the Dow Jones World (ex. U.S.) Index returned -1.5%]. The 3-month total return for intermediate-term U.S. bonds was +1.0%, taking the previous 12-month return to +5.9%. 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 September 30, 2019: 1-Year Total Return *(Growth of $1,000)* [3]	**5-Year Average Return**	Fund Ranking [4] **5 Years**	10 Years
Stock-oriented:				
Large Cap Funds:				
(Fidelity Contrafund) *[NASDAQ Code = FCNTX] [LG]* [5]	-1.3% *($987)*	**11.6%**	**45**	41
(Vang Total Stock Market Index/Adm) *[NASDAQ Code = VTSAX] [LB]*	+2.9% *($1,029)*	**10.4%**	**27**	14
(Vanguard Equity-Income/Adm) *[NASDAQ Code = VEIRX] [LV]*	+6.5% *($1,065)*	**9.6%**	**10**	5
Mid Cap Fund:				
(Vanguard Mid Cap Index/Adm) *[NASDAQ Code = VIMAX] [MB]*	+3.7% *($1,037)*	**9.2%**	**15**	8
Small Cap Funds:				
(Loomis Sayles SmCap Growth Instl) *[NASDAQ Code = LSSIX] [SG]*	-6.9% *($931)*	**11.2%**	**27**	15
(Vanguard Tax-Mged Small Cap/Adm) *[NASDAQ Code = VTMSX] [SB]*	-8.8% *($912)*	**9.9%**	**5**	3
International Fund:				
(T. Rowe Price Overseas Stock) *[NASDAQ Code = TROSX] [LB]*	-3.3% *($967)*	**3.3%**	**34**	16
Allocation Fund – 50% to 70% Equity:				
(T. Rowe Price Capital Appreciation) *[NASDAQ Code = PRWCX] [LG]*	+10.6% *($1,106)*	**10.4%**	**1**	1
Bond-Oriented Funds:				
(Harbor Bond Institutional) [6] *[NASDAQ Code = HABDX]*	+9.9% *($1,099)*	**3.6%**	**26**	66
(Templeton Global Bond Adv) [7] *[NASDAQ Code = TGBAX]*	+1.0% *($1,010)*	**0.8%**	**83**	42
(Vanguard Sht-Term Inv-Grade/Adm) *[NASDAQ Code = VFSUX]*	+5.9% *($1,059)*	**2.5%**	**11**	18
Money Market Fund:				
(TD Bank USA Institutional MMDA) *[NASDAQ Code = N/A]*	+0.4% *($1,004)*	**0.1%**	(-N/A-)	

(Endnotes on next page) →

Endnotes:

[1] Remember that past performance is absolutely *not* a guarantee of future performance.

[2] Russell 2000 Index. All statistics in this paragraph are from the Wall Street Journal (Source: Lipper).

[3] If an investor had put $1,000 into each fund on September 30, 2018, one year later (on September 30, 2019) each fund would have been worth the amount in italics and parentheses below.

[4] 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 September 30, 2019. This is commonly stated as "the fund ranked in the 35th percentile of its peer group." For percentile rankings, lower is better – a 35th percentile fund outperformed 65% of peer group funds for the time period stated. Data supplied by Morningstar.

[5] 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.

[6] Morningstar categorizes the Harbor Bond Fund as an intermediate core-plus bond fund – a new category as of several months ago. 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.

[7] Historically this fund was categorized as a "world bond" fund by Morningstar. Over time it has been diversified across various geographies worldwide. Recently it has been recategorized as a "nontraditional bond" fund. Michael Hasenstab (its long time, award winning portfolio manager) remains as the fund's lead portfolio manager, but this recategorization and associated "historical re-rankings" has been significantly affected, negatively – e.g., as of June 30, this fund ranked in the 26th percentile & in the 14th percentile for the past 5 years and 10 years respectively (versus all "world bond" funds").