INVESTMENT CONSULTANTS
(A Registered Investment Advisor)

From: Bill Gela, Investment Consultants ***October 6, 2020***
Topic: The Broaster Company 401(k) Plan – Quarterly Plan Summary Report

Enclosed is your Plan Summary Report for the quarter ending 9-30-2020, covering your mix of funds. This past 3-month period ending September 30 was 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 intermediate-term U.S. bond funds. According to Lipper Fund Services, the average U.S. stock mutual fund's third quarter 2020 total return was +7.5%, and the <u>S&P 500 Index was up +8.9% for the third quarter</u>. <u>For the 12 months ending 9-30-2020 the S&P 500 Index was up +15.1%</u>. 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 relative performances 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 performed well on average over the past 12 months ending 9-30-2020 – 5 funds within the top 30% of their peer groups' funds and 1 fund within the bottom 30% of its peer group's funds. For the past 12 months ending 9-30-2020 (with the S&P 500 Index up +15.1%) three of your six domestic stock-oriented funds were within 0.2% or outperformed the S&P 500 Index (not an easy task, for this period).[1] For this time period, the place to be invested (regarding equities) was in large U.S. growth-oriented companies (including many which make up the S&P 500 Index). Your top performing stock-oriented fund was the Fidelity Contrafund at a +35.1% total return for the 12 months ending 9-30-2020, and your Harbor Bond Fund returned +7.6% 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 +5.5% & +17.8% for the past 5 years ending 9/30/2020. This compares to a +14.1% annualized total return for the S&P 500 Index for the same 5-year period: 3 of your 7 stock-oriented funds exceeded or were within 0.6% per year of the S&P 500 Index' return for this 5-year period. 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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1 According to Lipper (10/5/2020 Wall Street Journal), for the past 12 months ending 9/30/2020 the S&P 500 Index outperformed the Dow Jones World (ex. U.S.) Index -- +15.1% versus +3.9%. One of your stock-oriented funds is a foreign/international fund. <u>For the 5-year period ending 9/30/2020 the S&P 500 Index also significantly outperformed the Dow Jones World (ex. U.S.) Index, with an annualized total return of +14.1% versus +6.5%</u>.

2 According to Lipper, the average intermediate-term (U.S.) taxable-bond fund total return was +7.8% for the previous 12 months ending 9/30/2020.

3rd QUARTER, 2020 PLAN SUMMARY REPORT – BROASTER COMPANY

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

A Lot of Moving Parts!

The first paragraph in the previous Quarterly Report follows: "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 leads us to the question, 'where from here'?" This question remains unanswered. We are dealing with many issues simultaneously, each of which can impact the financial markets, including:

* COVID-19, and the related business shutdowns & higher unemployment levels all over the world.
* Will there be another large amount of government stimulus $ injected into the U.S. economy? The first "coronavirus stimulus" injection led to significant stock market gains.
* Will there be a "second wave of COVID-19", along with a rough flu season?
* Well-publicized U.S. social issues and resultant marches; and, in some cases, rioting and looting.
* Hurricanes and related flooding, in the Gulf Coast areas; & fires on the West Coast of the U.S.
* Oh, yes → there is a Presidential election coming up in the United States!

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, what should a long-term investor do?

Rebalancing is one of the recurring topics in these quarterly reports, and it is a broadly accepted and a well-tested investing strategy. It means that once you have decided on an <u>initial percentage mix of different types of investment categories</u> [1] that are best for you (called your "<u>target allocation</u>") → *at least annually* you review the percentages that you have in each type of investment. <u>Anytime a category's allocation percentage has moved 5% or more away from its target allocation percentage mix, consider adjusting the category's allocation back to its initial percentage</u>. ***Rebalancing is intended to keep an investor's overall portfolio risk level somewhat constant.*** [Note: Periodically you should revisit your original "target allocation" and make adjustments based on your current financial situation, your age, and your comfort level with the stock market.]

Example -- what if a long-time 401(k) Plan Participant last "rebalanced" his/her Plan investments on 1/1/2010; and he/she had a "target allocation" of 50% stock funds (more risky/volatile) and 50% money market funds (less risky/more stable). Further, let's assume that the Participant had $100,000 on 1/1/2010. We know that the S&P 500 Index rose 257% for the 10-year period ending 12/31/2019. In this example, for simplicity, assume that the 10-year stock funds' performance matched the S&P 500; and that the money market funds returned 0.0%; and that there were no contributions to his/her account. <u>Coming into 2020, the Participant's asset allocation would have increased to 78% stock funds and 22% money market funds – NOT 50% - 50%!</u> In dollars this would mean that the Participant would have had about $228,500, coming into 2020 -- $178,500 in stock funds. The Participant's account balance would have dropped about $30,650 in the first quarter – down to about <u>$197,850 on 3/31/2020</u>. Instead, if the Participant had come into 2020 with a 50% - 50% asset allocation (his/her "target allocation"), he/she would have had an account balance of <u>$208,880 on 3/31/2020 → $11,030 more</u>.

Given the example, "Is a Participant, particularly one near retirement, comfortable with a risk level in his/her portfolio, which could have resulted in a 3-month drop in value from $228,350 to $197,850?" Whether "yes" or "no" -- <u>do *not* get surprised by your plan balance's being riskier than you think it is</u>, perhaps the result of the stock market's growth! <u>Such an increased exposure to stock market losses *may be unacceptable* to you</u>.

[1] The broad categories are stocks, bonds, and money market investments; and perhaps sub-categories of these -- e.g., world bonds.

BROASTER COMPANY - 3rd Quarter, 2020 Plan Summary Report
Funds' Performances for Periods Ended September 30, 2020

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 2020 total return was +7.5%; and for the 12-month period ending September 30, 2020, the total return was +9.0%. [For 12 months: the S&P 500 index returned +15.1%; the small-cap stock index returned +0.4% [2]; & the Dow Jones World (ex. U.S.) Index returned +3.9%]. The 3-month total return for intermediate-term U.S. bonds was +2.4%, taking the previous 12-month return to +7.8%. 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, 2020: 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]	+35.1% *($1,351)*	**17.8%**	**44**	45
(Vang Total Stock Market Index/Adm) *[NASDAQ Code = VTSAX] [LB]*	+15.0% *($1,150)*	**13.7%**	**25**	19
(Vanguard Equity-Income/Adm) *[NASDAQ Code = VEIRX] [LV]*	-2.8% *($972)*	**9.5%**	**17**	5
Mid Cap Fund:				
(Vanguard Mid Cap Index/Adm) *[NASDAQ Code = VIMAX] [MB]*	+7.1% *($1,071)*	**10.3%**	**13**	7
Small Cap Funds:				
(Loomis Sayles SmCap Growth Instl) *[NASDAQ Code = LSSIX] [SG]*	+18.0% *($1,180)*	**13.6%**	**43**	28
(Vanguard Tax-Mged Small Cap/Adm) *[NASDAQ Code = VTMSX] [SB]*	-8.2% *($918)*	**7.1%**	**28**	8
International Fund:				
(T. Rowe Price Overseas Stock) *[NASDAQ Code = TROSX] [LB]*	+2.8% *($1,028)*	**5.5%**	**42**	20
Allocation Fund – 50% to 70% Equity:				
(T. Rowe Price Capital Appreciation) *[NASDAQ Code = PRWCX] [LB]*	+11.9% *($1,119)*	**11.7%**	**3**	1
Bond-Oriented Funds:				
(Harbor Bond Institutional) [6] *[NASDAQ Code = HABDX]*	+7.6% *($1,076)*	**4.8%**	**27**	57
(Templeton Global Bond Adv) [7] *[NASDAQ Code = TGBAX]*	-3.4% *($966)*	**1.7%**	**81**	70
(Vanguard Sht-Term Inv-Grade/Adm) *[NASDAQ Code = VFSUX]*	+4.9% *($1,049)*	**3.1%**	**10**	15

(Endnotes on next page) →

BROASTER COMPANY - 3rd Quarter, 2020 Plan Summary Report

(continued)

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, 2019, one year later (on September 30, 2020) 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, 2020. 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 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.

[7] 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.