

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

*From: Bill Gela, Investment Consultants*

*January 11, 2021*

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

*Enclosed is your Plan Summary Report for the quarter ending 12-31-2020, covering your mix of funds. This past 3-month period ending December 31 was rather exceptional 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 fourth quarter 2020 total return was +19.0%, and the S&P 500 Index was up +12.1% for the fourth quarter. For the 12 months ending 12-31-2020 the S&P 500 Index was up +18.4%. According to Morningstar<sup>TM</sup> 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” regarding a one-time Morningstar change affecting this Fund’s rankings.] Your passive “index funds” (vs. 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 performed well on average over the past 12 months ending 12-31-2020 – 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 12-31-2020 (with the S&P 500 Index up +18.4%) three of your six domestic stock-oriented funds outperformed the S&P 500 Index (a significant accomplishment, for this period).<sup>1</sup> For this time period, the place to be invested (regarding equities) was in U.S. growth-oriented companies (including many which make up the S&P 500 Index) and particularly “science and technology” companies. Your top performing stock-oriented fund was the Loomis Sayles Small Cap Growth Fund at a +34.1% total return for the 12 months ending 12-31-2020, and your Harbor Bond Fund returned +8.9% 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 +8.3% & +18.2% for the past 5 years ending 12/31/2020. This compares to a +15.2% annualized total return for the S&P 500 Index for the same 5-year period: 3 of your 7 stock-oriented funds exceeded the S&P 500 Index’ return for this 5-year period {all of your domestic stock funds had double-digit annualized returns}. Your foreign large cap fund lagged dramatically – as most foreign stock funds dramatically lagged U.S. stock funds for the 5-year period, see footnote #1 below.]*

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<sup>1</sup> According to Lipper (1/11/2021 Wall Street Journal), for the past 12 months ending 12/31/2020 the S&P 500 Index outperformed the Dow Jones World (ex. U.S.) Index -- +18.4% versus +11.6%. One of your stock-oriented funds is a foreign/international fund. For the 5-year period ending 12/31/2020 the S&P 500 Index also significantly outperformed the Dow Jones World (ex. U.S.) Index, with an annualized total return of +15.2% versus +9.2%.

<sup>2</sup> According to Lipper, the average intermediate-term (U.S.) taxable-bond fund total return was +8.8% for the previous 12 months ending 12/31/2020.

# 4th QUARTER, 2020 PLAN SUMMARY REPORT – BROASTER COMPANY

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

## 2020 – What a Year It Was!

In the January 4, 2021 Wall Street Journal, there were several articles that reflected on the 2020 financial markets and on investors during 2020. These include – “Investors Bet on ‘Everything Rally’”, “New Army of Individual Investors Arrives, Flexes Its Muscle”, and “Lessons From a Crazy Year In Financial Markets”. Some of the highlights and information from those articles are included below:

- The stock market plummeted in February and into March of 2020, bottoming out in March. Amazingly, the S&P 500 Index (of large U.S. companies’ stocks) ended the year up +16% for the full year.<sup>1</sup> *From its low point in March through the end of the year, the S&P 500 Index was up an astounding +68%!*
- Why, in the face of the Covid-19 pandemic, and given the financial hardships experienced by so many people, has the stock market gone up so much – particularly technology stocks?<sup>2</sup>
  1. Certainly, very significant factors in the stock market’s rise were the government’s two stimulus packages, which injected (& are in the process of injecting) massive amounts of money into the economy, through individuals and businesses.
  2. Another significant factor was the millions of people stuck at home (many who became new investors). These people had extra time available to them, and many chose to learn about the markets. One of the WSJ articles observed that, “Others, unable to bet on sports or visit casinos, found the stock market’s outsize swings presented the perfect outlet to make bets.” Perhaps a bit dramatic; but the point that there are a lot of new, inexperienced investors is real. Citadel Securities estimates that, on peak trading days in 2020, individual traders accounted for nearly 25% of U.S. trading activity, and that their share of total trading doubled from 10% in 2019 to 20% in 2020. Looking forward, it is unknown how this new dynamic will affect the stock market.
  3. A number of companies (particularly technology companies, such as Zoom) thrived in the environment in which many millions of people were at home a lot, and working from home.
- Following are “the lessons investors say they have learned from 2020, an unforgettable year.”
  1. “Markets don’t perfectly reflect the economy.”
  2. “It pays not to try to time the markets”. According to a Fidelity analysis, “The returns of a hypothetical investor who put \$10,000 into an S&P 500 index fund at the start of 1980 and missed the market’s five best days through the end of August 2020 would be 38 percentage points lower than those of someone who stayed invested the whole period.”
  3. “Forecasts are just forecasts” – “If anything, myriad examples of [market] calls gone wrong show there is plenty of humility to be learned from markets, which regularly prove the smartest investors and strategists wrong.”
  4. “The tech trade is only getting bigger.” Rather amazing are the following → “In 2020, electric-car maker Tesla Inc. became the most valuable auto maker in the world and Airbnb made its debut on the public market with a valuation greater than that of Marriott International Inc., Hilton Worldwide Holdings Inc. and Hyatt Hotels Corp combined.”

So, what now? There is no “correct answer”, but → the level of your portfolio’s vulnerability to shocks is always greater *if your asset allocation is not appropriate* to your portfolio’s ‘time horizon’; that is, the time you have until you anticipate permanently withdrawing money from your account. For most retirement plan participants, it is advisable to diversify across multiple categories of mutual funds, both stocks & bonds.

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<sup>1</sup> Even more amazing → the NASDAQ Composite Index, heavily weighted towards companies in the information technology sector, was up a dramatic 44% for the full 2020!

<sup>2</sup> The “Everything Rally” refers to the fact that, “Following an early-year collapse, the broad U.S. equity gauge, global stocks and an index of raw materials each rose at least 35% from the end of March through the end of the year, only the third time in figures going back five decades that all of those investments have climbed so much in such a short time, according to Dow Jones Market Data.”

## BROASTER COMPANY - 4th Quarter, 2020 Plan Summary Report

### Funds' Performances for Periods Ended December 31, 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 fourth quarter 2020 total return was +19.0%; and for the 12-month period ending December 31, 2020, the total return was +19.1%. [For 12 months: the S&P 500 index returned +18.4%; the small-cap stock index returned +20.0% <sup>2</sup>; & the Dow Jones World (ex. U.S.) Index returned +11.6%]. The 3-month total return for intermediate-term U.S. bonds was +1.6%, taking the previous 12-month return to +8.8%. 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 December 31, 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>	+32.5% (\$1,325)	<b>18.2%</b>	<b>51</b>	47
(Vang Total Stock Market Index/Adm) [NASDAQ Code = VTSAX] [LB]	+21.0% (\$1,210)	<b>15.4%</b>	<b>14</b>	15
(Vanguard Equity-Income/Adm) [NASDAQ Code = VEIRX] [LV]	+3.1% (1,031)	<b>10.7%</b>	<b>26</b>	4
<b>Mid Cap Fund:</b>				
(Vanguard Mid Cap Index/Adm) [NASDAQ Code = VIMAX] [MB]	+18.2% (\$1,182)	<b>13.3%</b>	<b>19</b>	11
<b>Small Cap Funds:</b>				
(Loomis Sayles SmCap Growth Instl) [NASDAQ Code = LSSIX] [SG]	+34.1% (\$1,341)	<b>18.0%</b>	<b>45</b>	34
(Vanguard Tax-Mged Small Cap/Adm) [NASDAQ Code = VTMSX] [SB]	+11.1% (\$1,111)	<b>12.2%</b>	<b>26</b>	7
<b>International Fund:</b>				
(T. Rowe Price Overseas Stock) [NASDAQ Code = TROX] [LB]	+9.2% (\$1,092)	<b>8.3%</b>	<b>34</b>	22
<b>Allocation Fund – 50% to 70% Equity:</b>				
(T. Rowe Price Capital Appreciation) [NASDAQ Code = PRWCX] [LB]	+18.2% (\$1,182)	<b>13.1%</b>	<b>3</b>	1
<b>Bond-Oriented Funds:</b>				
(Harbor Bond Institutional) <sup>6</sup> [NASDAQ Code = HABDX]	+8.9% (\$1,089)	<b>5.0%</b>	<b>44</b>	62
(Templeton Global Bond Adv) <sup>7</sup> [NASDAQ Code = TGBAX]	-4.2% (\$958)	<b>1.4%</b>	<b>89</b>	80
(Vanguard Sht-Term Inv-Grade/Adm) [NASDAQ Code = VFSUX]	+5.3% (\$1,053)	<b>3.4%</b>	<b>12</b>	14

(Endnotes on next page) →

## BROASTER COMPANY - 4th 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 December 31, 2019, one year later (on December 31, 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 December 31, 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.