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MARKET REVIEW

2nd QUARTER 2021

EXECUTIVE SUMMARY

- Equity & fixed income asset classes produced positive returns with equities continuing to surge.
- US small value companies continue to provide the strongest return of 138% from the March 2020 low.
- Fed reaffirms accommodative policy and pushes tapering timeline to late 2022.
- COVID-19 vaccine distribution and re-opening provide strong GDP jump.

Quarterly Market Review

Second Quarter 2021

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"We don't have to be smarter than the rest. We have to be more disciplined than the rest." - Warren Buffett

After a challenging 2020 followed by a rough start to the new year, the fading of the pandemic—in combination with enormous fiscal stimulus—finally has the US surging. With over 50% of the country having received at least one dose of the vaccine, and well over 70% of the country having some form of immunity, we are finding ourselves well on our way to herd immunity as we enter the third quarter (*see Exhibit 1*).

Household net worth increased by 17% from the end of 2019, with a large portion of that percentage driven by an increase in housing values, stimulus checks, and positive returns in the market. Furthermore, fiscal stimulus has put more cash in the hands of people who are likely to spend it—bypassing the top 10% of US income earners who typically spend just 64% of their after-tax income and instead providing benefits to the bottom 90% of income earners who spend approximately 99% of their after-tax income. This stimulus has provided much needed relief to those who have been most adversely affected by the pandemic as well as an opportunity for those individuals to positively contribute to the surge in GDP.

The economy will still face challenges related to strained supply chains and labor market distortion, and additional pressures are mounting on the Federal Reserve to begin unwinding some of their pandemic-related stimulus.

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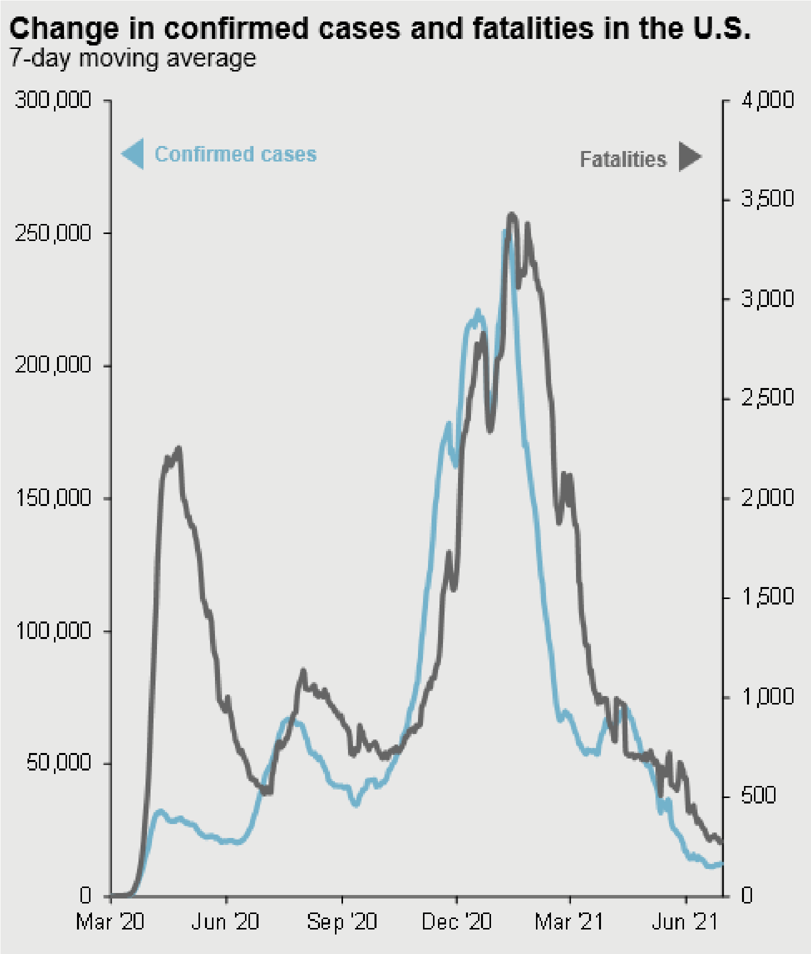
Current distortions in the unemployment market, however, should be eliminated with the expiration of enhanced benefits in early July and September. The result of this elimination should be an unemployment rate trending toward sub 5% by year end—a decrease from today's rate of 5.8%.



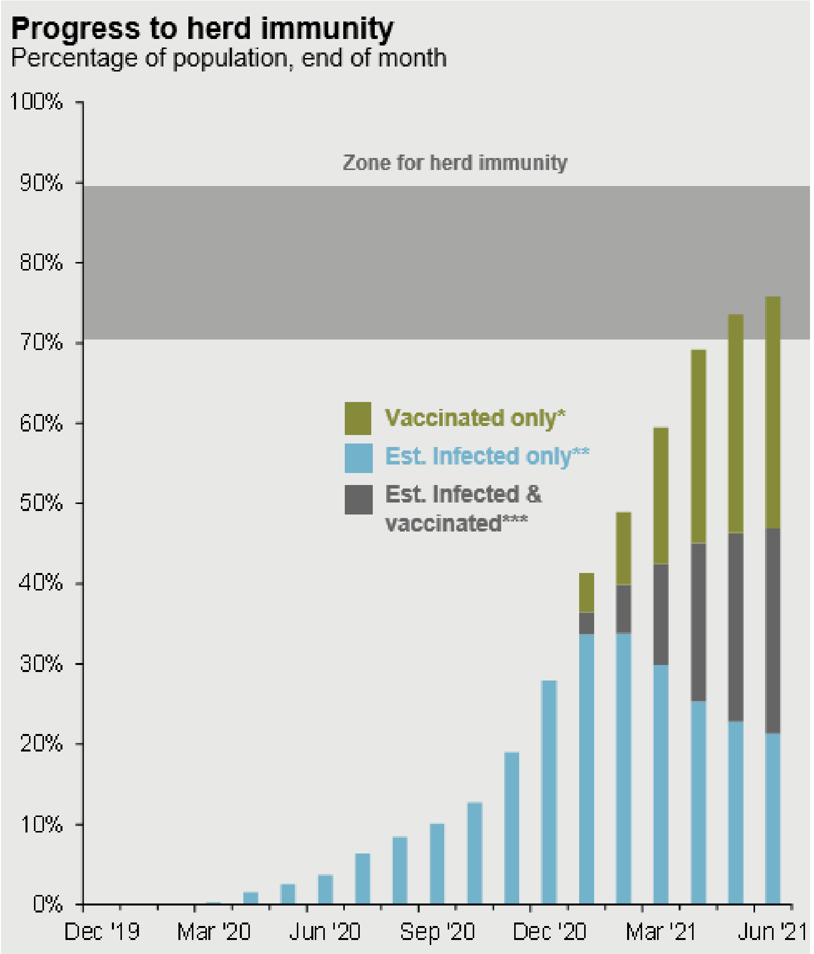


Exhibit 1: JP Morgan

Quarterly Market Review

Second Quarter 2021

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Market Update

The market continued its upward trend in the second quarter with positive returns across equity and fixed income asset classes. Global equities returned 7.3% for the quarter and +42% over the last 12 months, with the US market returning 8.2% (+44% since July 2020), and international providing a respectable 5.6% QTD return (+36% since July 2020). Fixed income markets experienced a positive uptick due to a fall in interest rates as fears of the Federal Reserve reducing their accommodative policy in the near term subsided. Fears of inflation spiked in May, but have calmed due to the Fed and economists forecasting these inflation increases as "transitory," or unsustainable over the long-term due to:

- One-off factor of pent-up demand: Increased demand causes a short-term increase in inflation.
- Spending re-orientating: Due to the social distancing rules enforced in 2020, spending shifted toward goods. As the economy continues to re-open, spending is likely to adjust more toward services.
- Decrease in income replacement payments: Income replacement programs will begin to fade over the next few months, which is likely to reduce the risk of overheating.
- Waning of initial pandemic-related effects: Last year, a substantial pullback in demand as the pandemic hit led to depressed prices that, today, will contribute to higher year-over-year increases in inflation measures. However, this should be temporary as the time period becomes normalized.

HFG Portfolio Update

Here at HFG, we are not attempting to predict whether there will be unexpected inflation, large swings in interest rates, etc.—but rather to construct a portfolio that can weather market cycles and disruptions. For our equity portfolio, we're continuing to incorporate a globally diversified approach while leaning toward lower-priced (i.e., value) and profitable companies.

As always, we're continuing to scour the investment universe to find investment managers who provide the best value for their fee. In fixed income, the overall portfolio remains shorter term, diversified, and high in quality, with additional protection incorporated should inflation continue to increase.

In addition to incorporating Private Real Estate and Reinsurance into our alternative investment allocation, our team is continuing to research ways to build out this asset class for specific client scenarios; especially for instances where clients hold excess cash but would like to invest in a portfolio that reacts differently than their longer-term retirement accounts.

Quarterly Market Review

Inflation: Exchange Between Eugene Fama & David Booth

With the economy starting to recover from the COVID-19 pandemic and investor concerns turning increasingly toward inflation, Dimensional Founder, David Booth, talked with Nobel laureate Eugene Fama about inflation and how investors should think about it in their portfolios. Excerpts from their conversation have been edited for clarity.

ON PREDICTING INFLATION

David Booth: Gene, you are a founding Director of Dimensional and have been involved in our research and corporate governance for more than 40 years. People may not know that you've also done a lot of research on inflation and interest rates.

We always tell people, "We don't try to forecast. We try to be prepared for various outcomes." Inflation is one of those things you want to be prepared for. There's a pickup in inflation risk that wasn't there, say, 10 years ago. Does that cause you to worry?

Eugene Fama: Historically, what's happened is, when there's a spike, the spike persists for a long time. Inflation tends to be highly persistent once you get it. Once it goes down, it tends to be highly persistent on the downside. You've got to be prepared for that. Predicting next month's inflation may not be very hard because this month's inflation can be a pretty good predictor of next month's inflation, or next quarter's inflation, or even the next six months' inflation. Persistence is a characteristic of inflation.

We haven't been in a period of high inflation, or even moderate inflation, for at least 10 years, so I'm not particularly concerned that inflation will be high soon.

ON HOW INVESTORS SHOULD THINK ABOUT INFLATION AND THEIR FINANCIAL GOALS

Booth: Conditions change, so is there anything about the current environment and the risk of inflation heating up that would cause you to change your portfolio?

Fama: I don't think anybody predicts the market very well. Market timing is risky in the sense that you've always emphasized: You may be out of the stock market at precisely the time when it generates its biggest returns. The nature of the stock market is you get a lot of the return in very short periods of time. So, you basically don't want to be out for short periods of time, where you may actually be missing a good part of the return.

I think you take a long-term perspective. You decide how much risk you're willing to take, and then you choose a mix of bonds, stocks, Treasury Inflation-Protected Securities, and whatever else satisfies your long-term goals. And you forget about the short term. Maybe you rebalance occasionally because the weights can get out of whack, but you don't try to time the market in any way, shape, or form. It's a losing proposition.

Booth: As you get to the point in life where you actually need to use your portfolio, does that change the kinds of allocations you'd want?

Fama: The classic answer to that was, yes, you'd shift more toward short-term hedges, short-term bonds. Once you had enough accumulated wealth that you thought you could make it through retirement, you'd want to hedge away any uncertainty that might disturb that. That's a matter of taste and your willingness to take risk and your plans for the people you will leave behind, like your charities or your kids. All of that will influence how you make that decision. But the typical person who thinks they'll spend all their money before they die probably wants to move into less risky stuff as they approach retirement.

Booth: The notion of risk is pretty fuzzy. For example, if I decide that I want to hold Treasury bills or CDs when I retire, and you did that 40 years ago when we started the firm, and you've got that 15% coupon, that's pretty exciting. With $1 million at 15%, you're getting $150,000 a year. Today you might get less than 1%.

Fama: Right, but I remember when inflation was running at about 15%, so not much better off!

Booth: Those are different kinds of risks.

Fama: When you approach retirement, you're basically concerned about what your real wealth will look like over the period of your retirement, and you have some incentives to hedge against that. You face the possibility, for example, that if you invest in stocks, you have a higher expected return, but you may lose 30% in a year and that might be devastating for your long-term consumption.

Booth: I think part of planning is not only your investment portfolio, but what to do if you experience unexpected events of any kind. We're kind of back to where we start our usual conversation: "Control what you can control." You can't control markets. What you can do is prepare yourself for what you'll do in case bad events happen. Inflation is just one of many risk factors long-term investors need to be prepared for.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2021

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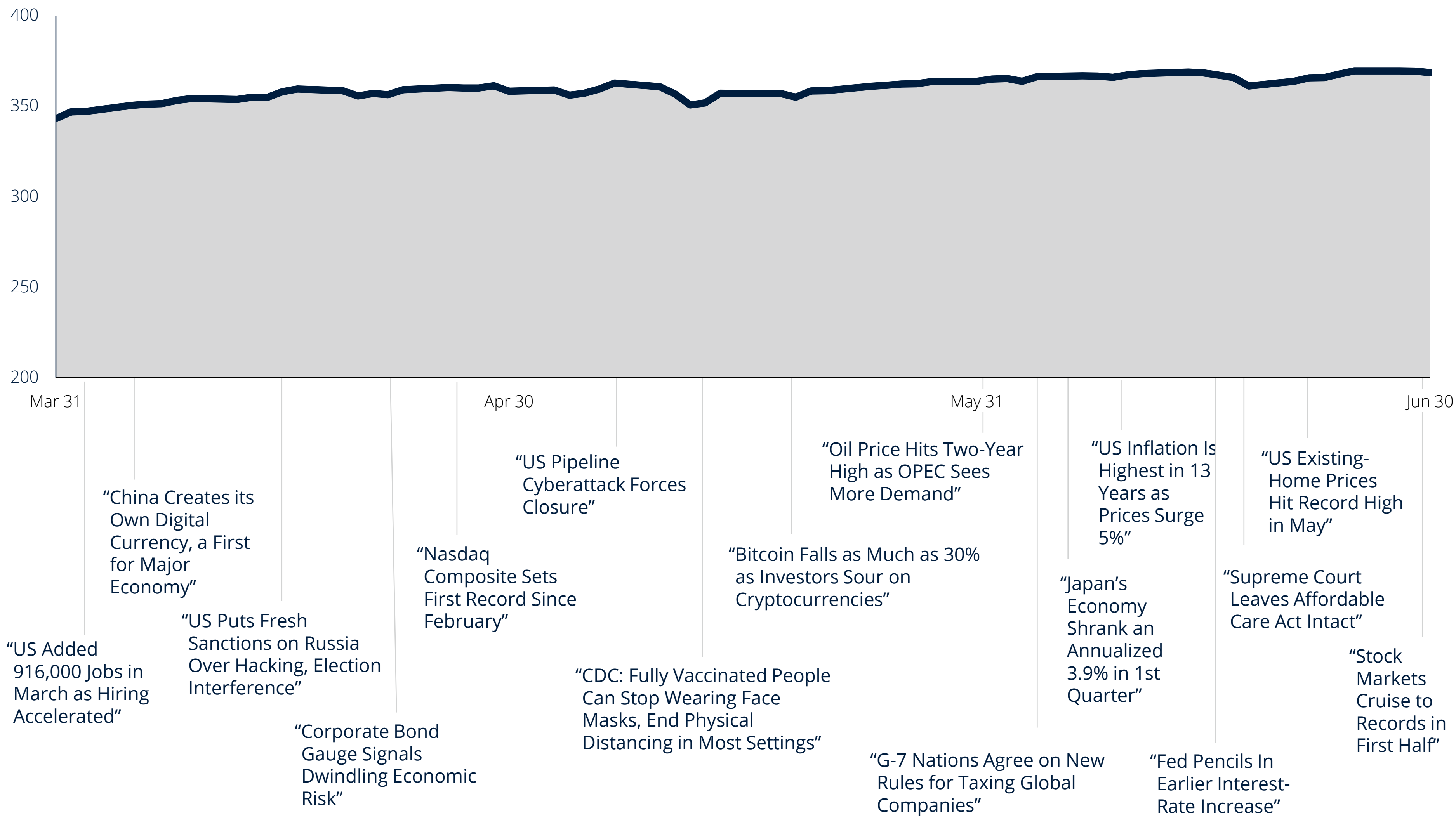

These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

Global Valuations

What is the Investment Climate?

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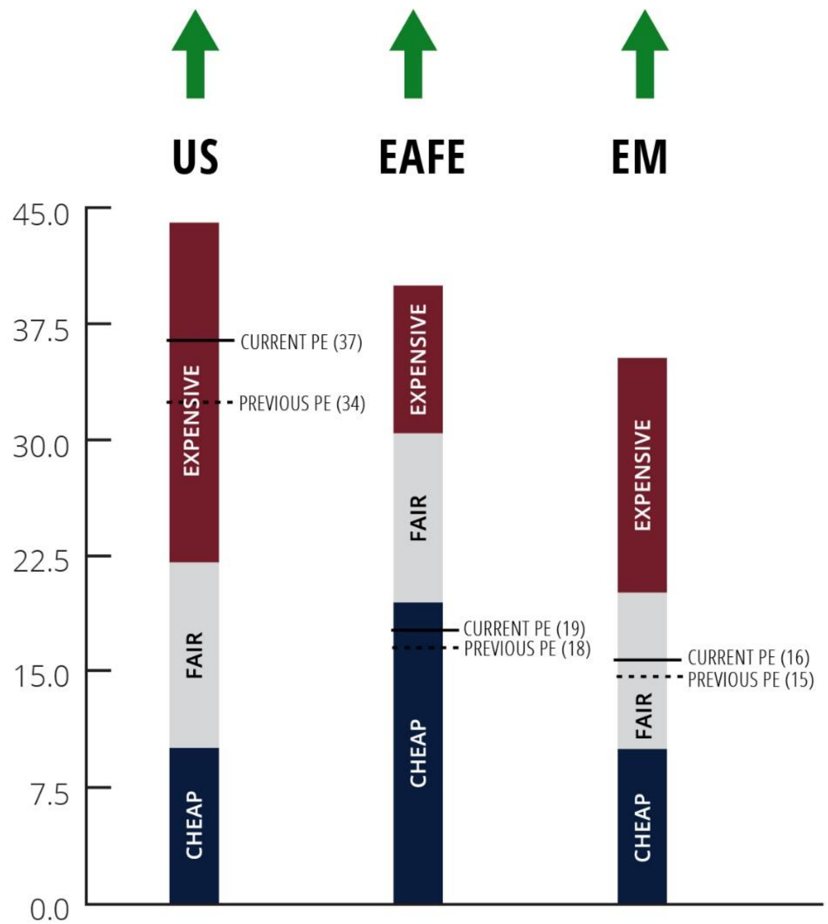
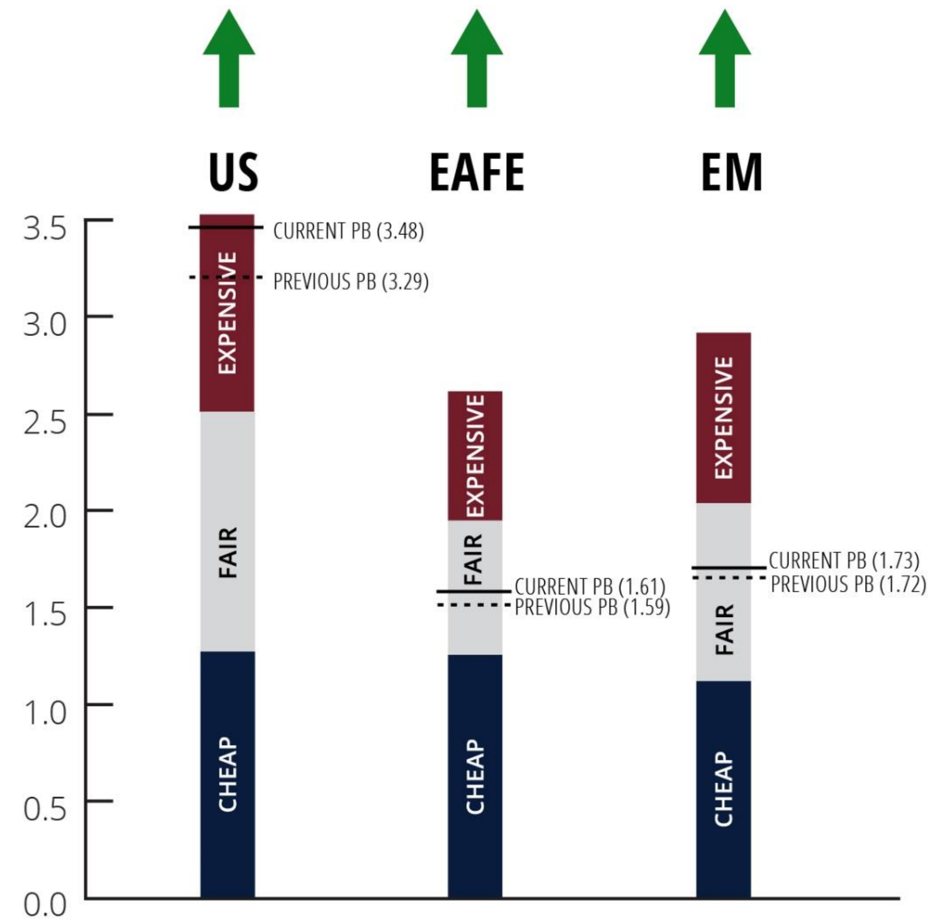
Price-to-Earnings (CAPE)



As of 6/30/2021

Price-to-Book Value



As of 6/30/2021

Cyclically Adjusted Price-to-Earnings or "CAPE" is a valuation metric, where the current market price is divided by the last ten years of average earnings (adjusted for inflation). The price you pay is what you get, and by utilizing average earnings over a longer period (10 years), we can put into perspective whether the current market price is trending toward expensive, undervalued, or fairly valued historically.

Quarterly Market Summary

Index Returns

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2Q 2021	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	8.24%	5.65%	5.05%	10.17%	1.83%	0.35%

Since Jan. 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Avg. Quarterly Return	2.4%	1.7%	3.1%	2.6%	1.2%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2001 Q3**	**2008 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.4%	-2.7%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2021 Q1**	**2015 Q2**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]).

Long-Term Market Summary

Index Returns as of June 30, 2021

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	STOCKS				BONDS	
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	44.16%	33.60%	40.90%	34.83%	-0.33%	0.05%
5 Years	17.89%	10.36%	13.03%	4.62%	3.03%	2.80%
10 Years	14.70%	5.70%	4.28%	6.85%	3.39%	4.12%

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World Asset Classes

Second Quarter 2021 Index Returns (%)

Equity markets around the globe posted positive returns in the second quarter. Looking at broad market indices, US and non-US developed markets outperformed emerging markets for the quarter.

Value performance was mixed in the US, with small value outperforming small growth but large value underperforming large growth. Value underperformed growth in non-US developed markets and outperformed in emerging markets.

Small caps underperformed large caps in the US and non-US developed markets but outperformed in emerging markets.

REIT indices outperformed equity market indices in the US and non-US developed markets.