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MARKET REVIEW

2nd QUARTER 2020

EXECUTIVE SUMMARY

- Global equities rebound across the board, providing the best quarterly return since 1998.
- US market continues to outperform International, while International and Emerging Market valuations continue to present attractive buys.
- Compared to Value, Growth company valuations are at an all-time high.
- Federal Reserve continues to reaffirm its willingness to provide all support necessary to foster functioning markets.

Quarterly Market Review

Second Quarter 2020

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"For better or worse, the US economy probably has to regard the death of equities a near-permanent condition."
– Business Week, August 1979

Kevin Floyd
CFA, CFP®, AIF®
Director of Investments

Earlier this year, the quote above from 1979 may have crossed your mind. History does not always repeat, but it does tend to rhyme. Additionally, in the second quarter you may have seen headlines such as: "Decade of Job Gains Erased in April," "At Least a Fourth of US Economy Goes Idle from Lockdown," "Virus Shrinks Economy by 4.8%," and "Fastest Fall Since 2008 Crisis;" but you probably didn't see this headline:

"US Stocks Close Out Best Quarter Since 1998."

After a lackluster first quarter due to COVID-19, the markets began looking past the pandemic with some confidence provided by government support programs and the Federal Reserve reaffirming its willingness to do any and everything to support functioning markets. The overall global stock market was up 19% in the second quarter, compared to a 21% drop seen in the first quarter; bonds continued to provide stability with +1-3% returns.

What will the market do if there is a second wave of COVID-19? To the surprise of most, the market was significantly more positive over the last three months. This is a great example of why it's important to stay disciplined in a risk-appropriate and well-diversified portfolio. We do not know what the remainder of the year will bring; but we do know that over the long-term, investors are rewarded for being invested in a globally diversified, evidence-based portfolio.

- Overview:

› The Tale of Two Markets
› Global Valuations
› Quarterly Market Summary
› Long-Term Market Summary
› World Stock Market Performance
› World Asset Classes
› US Stocks
› International Developed Stocks
› Emerging Markets Stocks

Quarterly Market Review

The Tale of Two Markets

Long-Term Investors, Don't Let a Recession Faze You

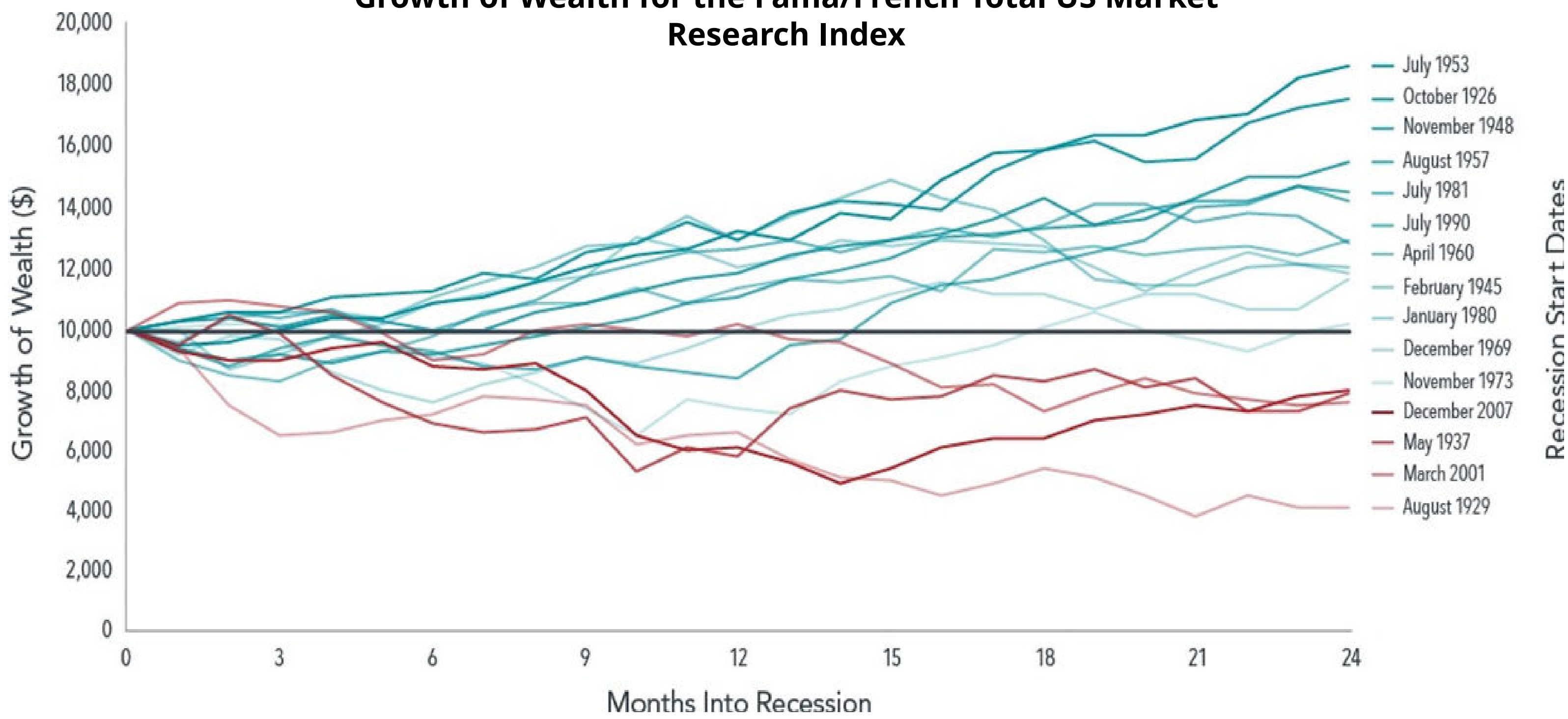
With activity in many industries sharply curtailed in an effort to reduce the chances of spreading the coronavirus, some economists say a recession is inevitable. From a markets perspective, we have already experienced a drop in stocks, as prices have likely incorporated the growing chance of recession. Investors may be tempted to abandon equities and go to cash because of the general perception of recessions and their impact. But across the two years that follow a recession's onset, equities have a history of positive performance.

Data covering the past century's 15 US recessions show that investors tend to be rewarded for sticking with stocks. Exhibit 1 shows that in 11 of the 15 instances, or 73% of the time, returns on stocks were positive two years after a recession began. The annualized market return for the two years following a recession's start averaged 7.8%.

Recessions understandably trigger worries over how markets might perform, but history can provide comfort to investors who are wondering whether now is the time to move out of stocks.

Exhibit 1

Growth of Wealth for the Fama/French Total US Market Research Index



Quarterly Market Review

The Tale of Two Markets (cont.)

The Tale of Two Markets

So-called “market experts” routinely deem asset classes over time to be broken; meaning, investing in X asset class won’t provide a reasonable return in the future. This can lead investors to abandon their current strategy (at the worst time) in order to chase the latest “winners” with the hope of increased return. We have heard this mantra for value investing, amongst others. See Exhibit 2.

Exhibit 2

Pundits and Their “Crystal ball”

Asset Class	Warning Date	Source	Warning Statement	Return Since Warning
US Stocks	Aug 1979	*Business Week* "The Death of Equities"	"For better or worse, the US economy probably has to regard the death of equities as a near-permanent condition"	8429%
REITs	Nov 1998	*Barron's* "Eviction Notice"	"Real-estate funds continue to take a beating as investors worry about deflation... real estate is losing its power to diversify a portfolio"	525%
Small Value Stocks	Feb 2000	*John West's Experience:* Board Meeting Rebalance Decision	"Small-cap value is a dead asset class"	375%
Value Stocks	Jun 2019	*CNBC* "Is Value Investing Dead? It Might Be and Here's What Killed it"	"Value investing might have lost its value"	-3%
Emerging Market Stocks	Jul 2019	*Financial Times* "Does Investing in EM Still Make Sense?"	"The basic calculations are changing for EM as that growth potential dims - and with it, part of the core rationale for investing in the asset class"	-3%

www.researchaffiliates.com/documents/A%20Quick%20Survey%20of%20Broken%20Asset%20Classes.pdf

If the investor would have heeded Business Week’s advice for stocks in 1979 and sold their $10,000 US stock portfolio, moving into short-term government bonds, it would be worth $54,600 today–that is a 500% gain! However, if the investor stayed disciplined and held onto their $10,000 US stock portfolio, it would be worth $842,900 today, or 15 times as much as if they had pulled the ripcord and moved to bonds.

How about the last two rows on Exhibit 2–is investing in Emerging Markets and Value companies different? We do not believe so; and history is on our side. However, trends tend to persist longer than most would anticipate. In this case, the outperformance of Growth (i.e. expensive) versus Value (less expensive) has prevailed over the last few years.

Quarterly Market Review

The Tale of Two Markets

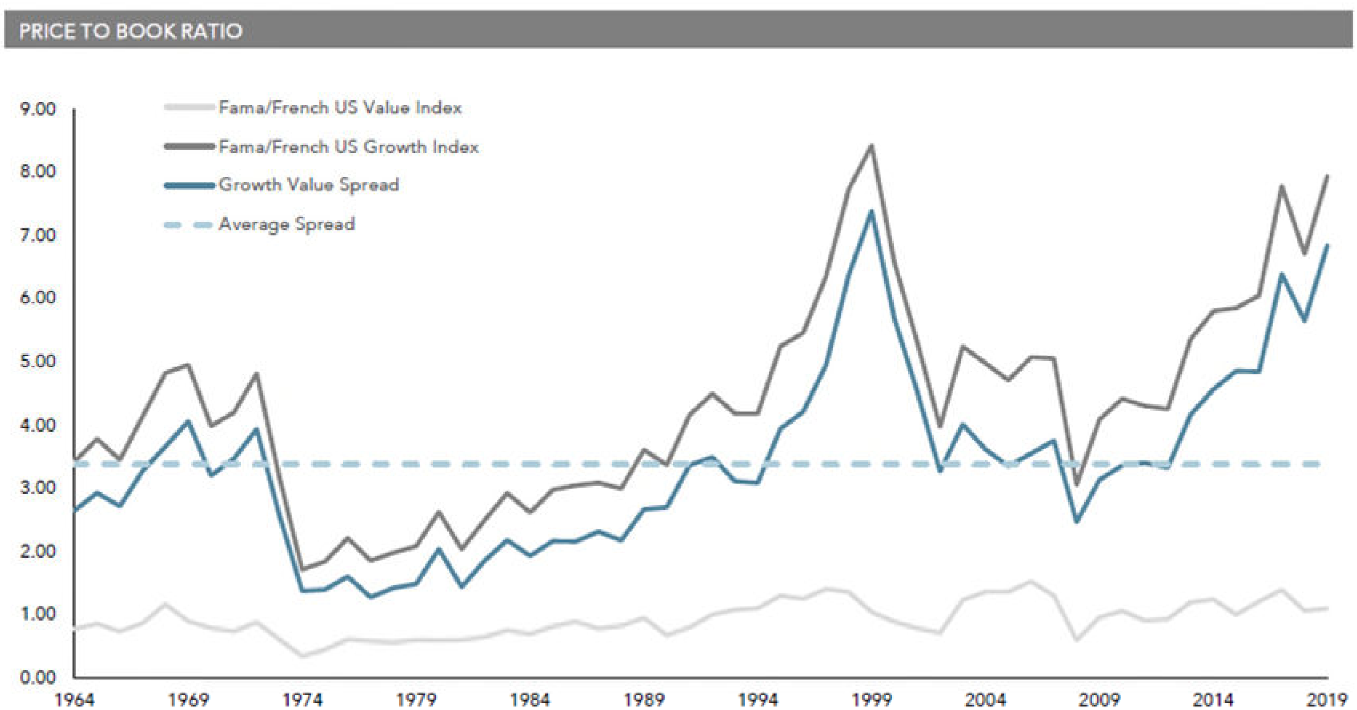
The Tale of Two Markets (cont.)

This does not necessarily indicate that less expensive companies are underperforming or being valued less; it's that investors are willing to pay increasingly more for Growth stocks they really like. For example, the chart below illustrates how much investors are willing to pay for Growth and Value companies in terms of Price-to-Book (P/B)–the higher the number, the more an investor is willing to pay. At the end of 2019, investors were willing to pay approximately 8x P/B for Growth companies, compared to approximately 1x P/B for Value; resulting in a valuation spread between Growth and Value of 7x.

Currently, the valuation has increased to ~9.5x for Growth and ~1.5x for Value (a spread of 8x), well above the historical average P/B spread of 3.5x. According to investment group AQR, valuation spreads between Growth and Value companies are at all-time highs: 100th percentile for US and Developed International stocks, and 98th percentile for Emerging Markets. We are not going to forecast that, over the next quarter or even the next year, investors will not continue to pay more and more for Growth stocks; but over time, investments and valuations do revert to averages.

Exhibit 3

Expensive Companies Get More Expensive



Closing Remarks

As always, we are continuing to keep a close eye on your portfolios, looking for new investment and rebalancing opportunities to capture gains and reallocate into attractive sections of the market. Over the last few months, you may have noticed several new funds. On the equity side (stock) of your portfolio, we are continuing to focus on investing in undervalued and profitable companies. Recently, we've incorporated "Core" funds into the portfolio. This strategy still follows our tenets of investing, but has allowed the portfolios to capture a larger portion of the market (i.e. an additional 1,500 stocks around the globe) in an extremely cost-effective manner.

Next, over the last several months the Trust Investment Committee has focused on how best to navigate this fixed income landscape of low rates. We have incorporated several new funds, each having a very specific purpose: providing dry powder for rebalancing and ballasting the portfolio, and increasing overall diversification and protection of government-backed and securitized bonds.

Next steps

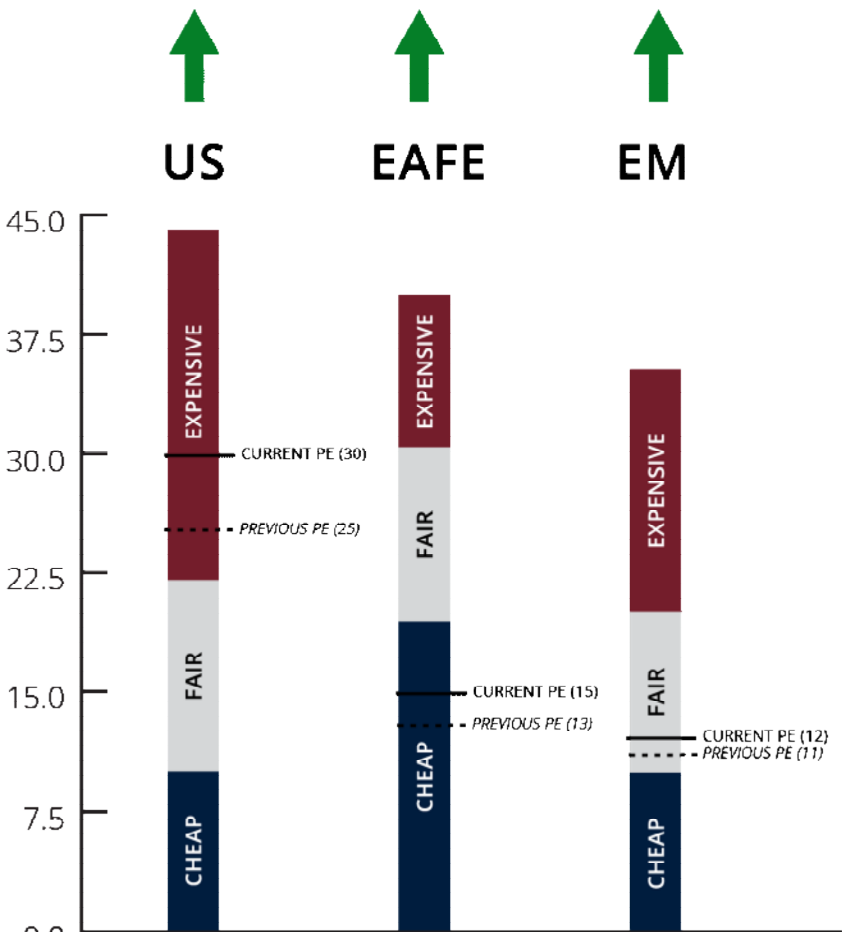
As a firm, we are reviewing alternative investment options and their role of providing uncorrelated returns as a complement to fixed income and stock portfolios. We have a skeptical eye in general, as we are approached daily with the latest and greatest investment idea and product (only upside potential, no downside). This is never more true than in the alternative investment space. By sticking to our core tenets of being diversified and capturing areas of the markets that persistently and reliably provide attractive returns in a cost-effective manner, we are confident we will have some exciting additions in the coming months.

1. Nelson D. Schwartz, "Coronavirus Recession Looms, Its Course 'Unrecognizable,'" New York Times, March 21, 2020; Peter Coy, "The U.S. May Already Be in a Recession," Bloomberg Businessweek, March 6, 2020. Dimensional Fund Advisors, Q3 2020 Market Review.

Global Valuations

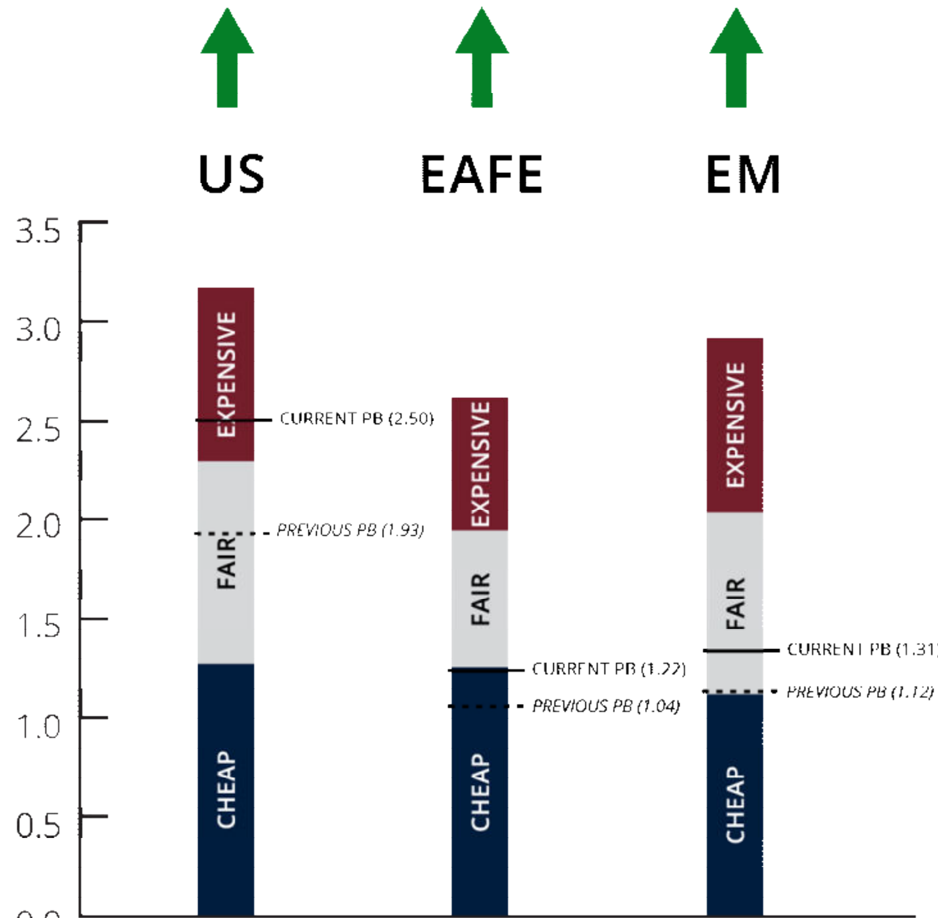
What is the Investment Climate?

Price to Earnings (CAPE)



As of 7/6/2020

Price to Book Value



As of 7/6/2020

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

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Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
2Q 2020	**STOCKS**				**BONDS**	
	22.03%	**15.34%**	**18.08%**	**11.17%**	**2.90%**	**1.76%**
Since Jan. 2001						
Avg. Quarterly Return	2.1%	1.4%	2.7%	2.3%	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%	-3.0%	-2.7%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2016 Q4**	**2015 Q2**

Long-Term Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
1 Year	STOCKS					BONDS	
	6.53%	-5.42%	-3.39%	-15.91%		8.74%	4.00%
5 Years							
	10.03%	2.01%	2.86%	1.62%		4.30%	4.49%
10 Years							
	13.72%	5.43%	3.27%	6.97%		3.82%	4.20%

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]).

World Stock Market Performance

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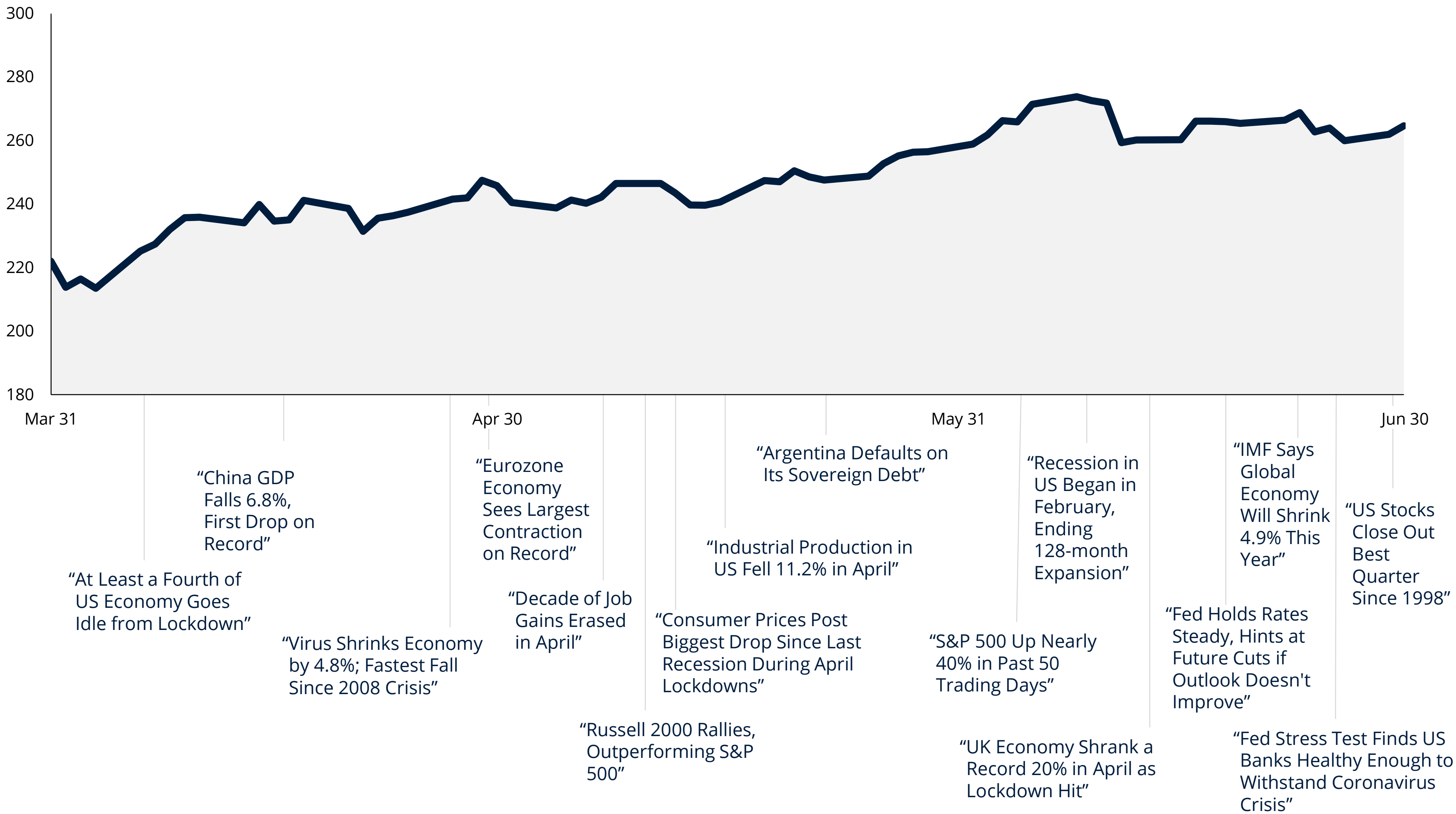
MSCI All Country World Index with Selected Headlines from Q2 2020



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 2020, 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.**

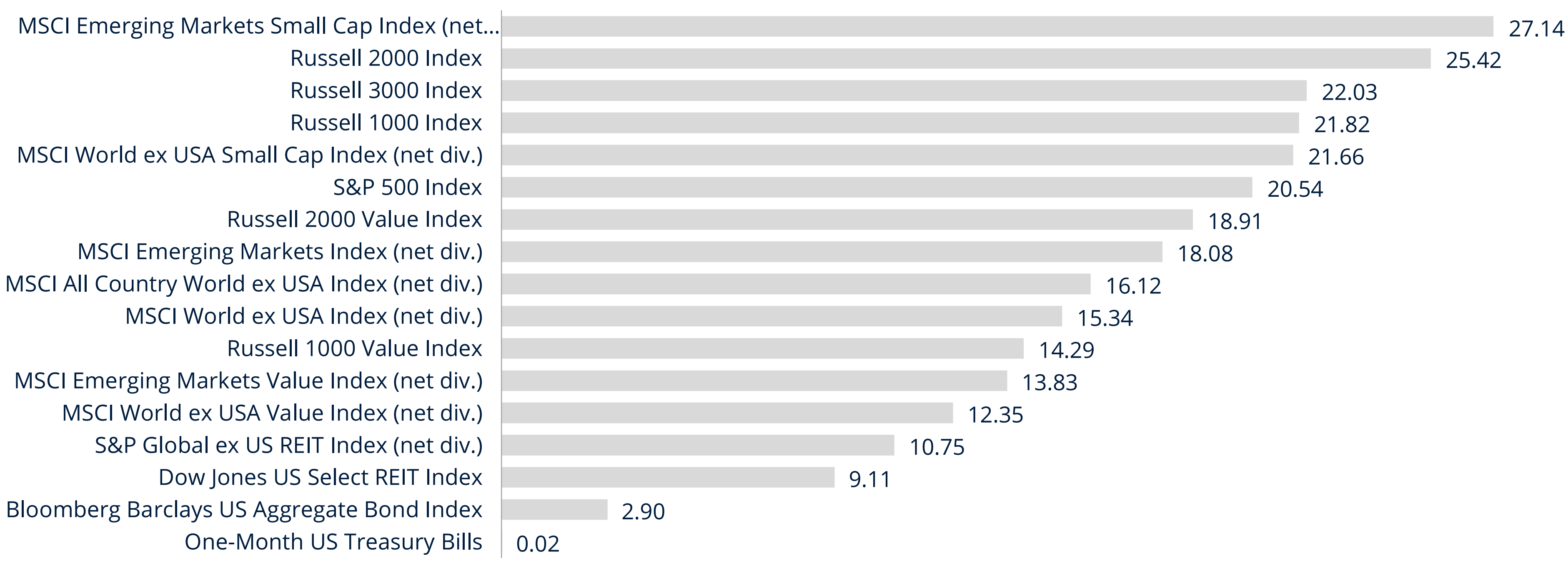
World Asset Classes

Second Quarter 2020 Index Returns (%)

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

Value stocks underperformed growth stocks, and small caps outperformed large caps.

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



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US Stocks

Second Quarter 2020 Index Returns

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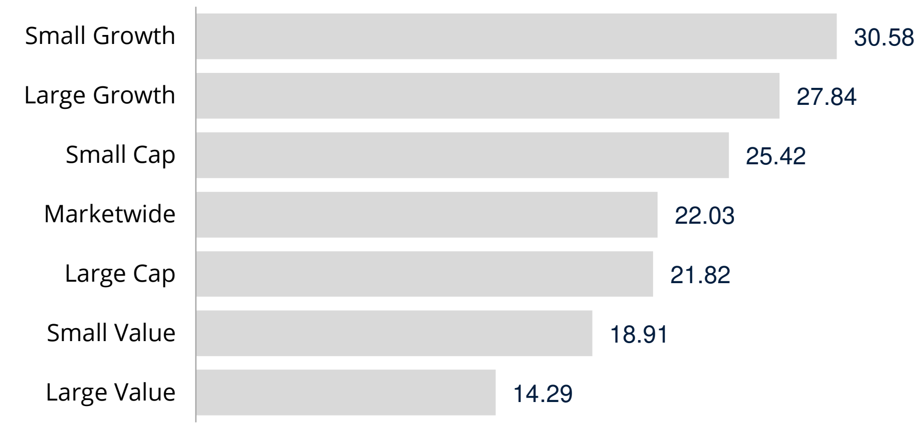
The US equity market posted positive returns for the quarter, outperforming non-US developed markets and emerging markets.

Value underperformed growth in the US across large and small cap stocks.

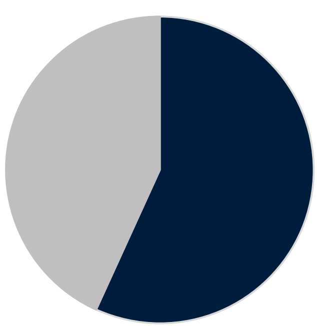
Small caps outperformed large caps in the US.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



57%

US Market

$30.5 trillion

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	9.81	23.28	18.99	15.89	17.23
Large Cap	-2.81	7.48	10.64	10.47	13.97
Small Growth	-3.06	3.48	7.86	6.86	12.92
Marketwide	-3.48	6.53	10.04	10.03	13.72
Small Cap	-12.98	-6.63	2.01	4.29	10.50
Large Value	-16.26	-8.84	1.82	4.64	10.41
Small Value	-23.50	-17.48	-4.35	1.26	7.82

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International Developed Stocks

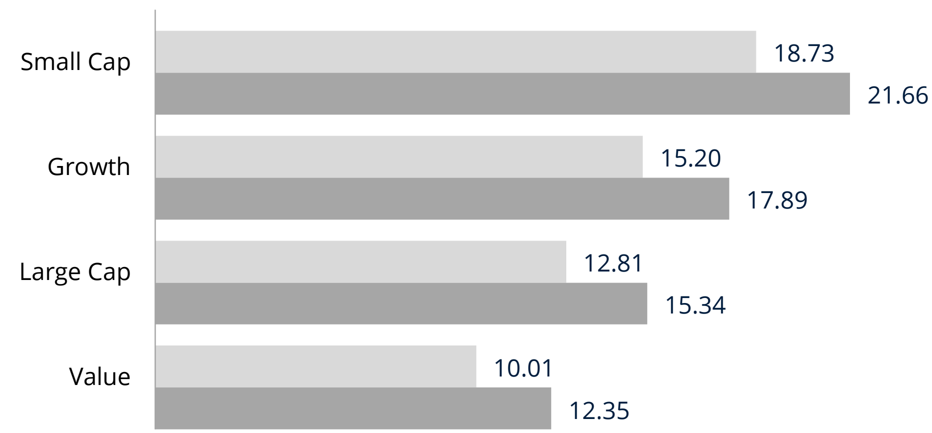
Second Quarter 2020 Index Returns

Developed markets outside the US underperformed both the US equity market and emerging markets equities for the quarter.

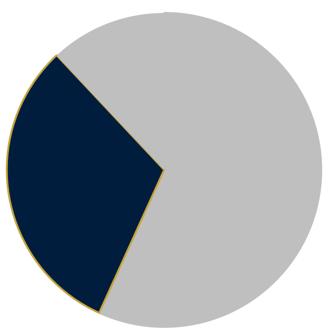
Small caps outperformed large caps in non-US developed markets.

Value underperformed growth across large and small cap stocks.

Ranked Returns (%)



World Market Capitalization—International Developed



31%

International Developed Market

$16.7 trillion

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-3.11	4.25	5.93	5.29	7.36
Large Cap	-11.49	-5.42	0.84	2.01	5.43
Small Cap	-12.87	-3.20	0.53	3.56	7.26
Value	-19.96	-15.14	-4.42	-1.46	3.36

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Emerging Markets Stocks

Second Quarter 2020 Index Returns

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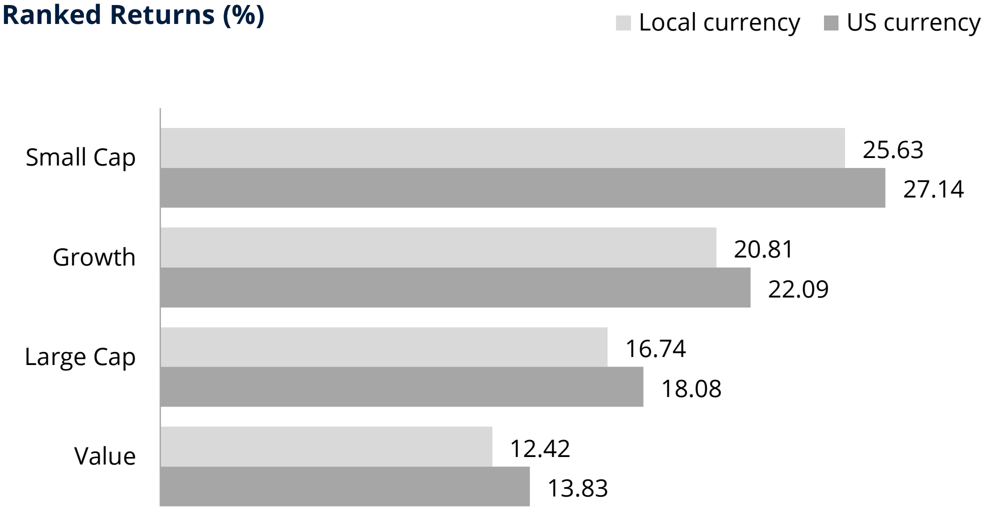
Emerging markets underperformed the US equity market but outperformed developed ex US equities for the quarter.

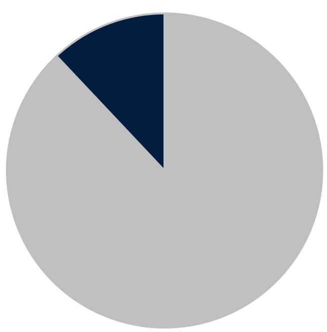
Value stocks underperformed growth stocks.

Small caps outperformed large caps.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



12%

Emerging Markets
$6.4 trillion

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-1.52	9.67	6.19	6.35	5.76
Large Cap	-9.78	-3.39	1.90	2.86	3.27
Small Cap	-12.74	-8.82	-2.95	-1.38	1.78
Value	-18.05	-15.74	-2.64	-0.80	0.66

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