**UMFF FUND OVERVIEW ______________________________________________ as of DECEMBER 2021**

The year 2021 was a strong one for investments and will be long remembered. The unanticipated continuation and increased severity of the COVID-19 coronavirus and its mutations dominated the health and economic environments worldwide. With all of the remarkable medical advances that were developed and produced during the last couple of years, and those to be expected in 2022, the number of tragedies from illnesses, hospitalizations, and deaths have, nevertheless, been staggering. Through unimaginable government levels of spending, much of the economy has flourished during this challenging time period. There have been and will continue to be major disruptions which will greatly affect parts of the economy, both short and long term.

With the dramatic changes in the worldwide environment, we believe that specific investment strategies and individual selections of companies are exceptionally key and are likely to become even more important investment management factors in the future. With market valuations presently very high by historic and mathematical standards, volatility in both the equity and fixed income markets is likely to remain high.

Our baseline forecast, always subject to ongoing reviews and adjustments, is currently as follows:

- Fueled by unprecedented government spending and pent-up demand, we anticipate that the U.S. Economy will continue to be strong in the short and short-intermediate term;
- Interest rates will trend higher, with the possibility of a larger increase than is expected by the market. Probabilities are that inflation will remain high and potentially increase, and that the U.S. dollar may weaken (given exceptionally high debt and anticipated increasing federal budget deficits);
- Valuations of stocks will tighten (lower multiples) with the economy expanding more than the pace of stock market earnings in the next two years; and
- There will continue to be major changes in the structure of the economy.

Our focus is in the industry groups of Technology, Health Care and Infrastructure. With market valuations at extremely high levels, many of our Technology investments are focused on out of favor companies with more reasonable valuations which have generally concentrated their businesses in targeted technologies. We continue to seek additional equity investments in Infrastructure as government programs are funded. Health Care has become increasingly attractive as certain expected product demands are projected to have much higher growth potential than existed a few years ago combined with relatively attractive stock valuations.

**THE FUNDS**

The Diversified Equity Fund, the 100% stock Fund, increased by 4.5% in the fourth quarter of 2021. While Growth stocks have dominated the markets in general, Value oriented equities have historically been more protected against interest rate hikes that are expected to occur over the coming year as the inflation rate (defined by the Consumer Price Index) increased 6.8% year-over-year, a three decade high, while the unemployment rate is relatively low at 4.2%. These dynamics impact The Federal Reserve official's plans to tame inflation with an expected four interest rate hikes that may come in March, June, September and December. In addition to the interest rate hikes, the Federal Reserve is now expected to unwind its large balance sheet that expanded from $4.2 trillion to $8.8 trillion over the past two years. An increase in this risk-free rate of return would adversely impact both the fixed income and equity markets. Our equities are positioned to outperform in the macro scenario of greater-than-expected inflation and interest rate movements. On an aggregate basis, the securities in the Diversified Equity Fund trade at much lower valuation multiples than the corresponding benchmark with underlying fundamentals such as low debt levels that would mitigate the impact of higher interest rates. Although the Fund is equal-weight the Information Technology sector to the benchmark at 27% allocation, its holdings have less exposure to the momentum FAANG stocks that have been driving the Russell 3000 index total returns. The Fund is over-weight the Health Care sector as we see attractive valuation coupled with continued investments in innovative health care solutions that include newly sequenced vaccines, effective anti-viral pills and increased diagnostic testing.

The Growth & Income Fund, offers a mix of half equities and half fixed income securities. The Fund's performance was 3.8% for the 2021 fourth quarter and 11.3% for the 2021 year. Similar to the Diversified Equity Fund, the Growth & Income Fund's security holdings are positioned to outperform in the scenario of higher inflation accompanied by higher interest rates. On the equity side, The Fund is underweight the benchmark in both the Consumer Staples and Consumer Discretionary sectors as the increase in inflation will reduce consumer purchasing power adversely impacting these sectors. This will be especially true if access to consumer credit becomes more stringent due to monetary tightening. The Fund is instead overweight Utilities that are protected by monopolistic regulation where they can pass on generation price increases to their consumers. The Utility sector's high dividend rates have provided the yield missing from low yielding investment grade corporate, municipal and Treasury government bonds.

<u>The Balanced Income Fund</u> offers a mix of 30-40% equities and 60-70% fixed income securities and performed in line with its blended benchmark up 7.0% for the year and 2.2% for Q4 of 2021. On the equity side, the Fund is far more value oriented than the benchmark with a Price to Earnings ratio of 20x compared to the latter's 29x. The Fund is also over-weight the Utility and Industrial sectors compared to the benchmark as they respectively provide dividend yield and capital appreciation. On the fixed income side, the bond securities have far lower duration than the benchmark and therefore are less sensitive to interest rate hikes. The Fund's bonds on average mature in 1.5 years compared to the benchmark's 2.9 years. As Treasury yields have been at historically low levels, the Fund has mostly corporate bonds that benefit from their yield spread over Treasury bonds.

<u>The Bond Fund,</u> with 100% bonds, decreased 0.5% for the fourth quarter of 2021 with a -0.4% performance over the year but outperformed the blended bond benchmark that was down 1% for the year as interest rates increased. Although investment grade bonds are far less volatile than equities, the fixed income asset class decreased in value due to their yields becoming less attractive as newly issued bonds had higher interest rates. The positioning in shorter-term bonds will be less adversely impacted compared to longer-term bonds where investors wait for the principal to be returned. The fixed income securities remain high quality, investment grade, short duration and mostly in corporate debt with a small position in municipal debt. The securities are selected to offer capital protection for Fund participants.

<u>Current Challenges</u>:

- Increased COVID-19 cases and hospitalization rates leading to greater death and economic disruptions.
- Higher interest rate environment as markets now expect the Federal Reserve to become more hawkish against heightened inflation adversely impacting equity and fixed income investments.
- Geopolitical tensions between Ukraine and Russia as Russian soldiers amass along the border, increasing the risk of war and economic uncertainty from a commodity producing nation.

<u>Current Opportunities</u>

- COVID-19 cases could fall as rapidly as they have risen leading to a normalized economy with the population having herd immunity against the virus.
- Unemployment has decreased materially and returned to relatively low levels stimulating the economy.

<u>**Please refer to the UMFF Q4 2021 Fund Fact pages, which are provided separately, for portfolio performance, sector allocation and other characteristics of each Fund.**</u>

1. This document may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements.

2. Past performance is not indicative of any specific investment or future results. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor.