Last year was an extremely challenging one for investment markets. There was considerable downward pressure that significantly impacted both stock and bond price levels. There was a movement toward high-quality companies in 2022 with a severe sell-off in momentum and other highly valued technology stocks. Key stock market indices were down sharply and the bond market, particularly longer-term issues, was also extremely weak as interest rates rose.

The actions by the Federal Reserve to move interest rates higher to reduce the recent significant increases in rates of inflation softened demand in many sectors, including housing and consumer durables (cars, appliances, etc.). Interestingly, higher prices have not appeared to materially reduce demand and interest in travel. With COVID-19 having a dramatic effect on hospitality and certain leisure activities in 2020 and 2021, higher costs for energy, labor and other costs in travel-related areas have not appeared to significantly reduce demand for flights, cruises, hotels and many restaurant businesses.

While there is a high level of negative expectations for the U.S. and worldwide economies in the near term, we are more optimistic about the short-term performance in the U.S. Events could develop that change (and lower) the forecasts, but for now, most companies are generating strong earnings results. Despite a significant reduction in force in some industries (recent announcements from Amazon and other technology companies regarding layoffs), unemployment levels remain at historically low levels. There continues to be far more jobs available than individuals to fill them. Although the unemployment rates will probably increase, it is unlikely that unemployment would increase to levels normally seen during a severe recession. For those reasons and others, in the near term we anticipate the economy to perform better than projected by most forecasters.

Longer term our concerns increase. There is little interest by most Americans in federal government fiscal responsibility. Programs that are not properly funded are likely to continue to be proposed with a number potentially passed. Major commitments for Social Security, Medicare, the Affordable Care Act and Medicaid are heading for a huge set of problems as the trust funds for both Social Security and Medicare are expected to be depleted in the next 10 to 12 years. The current strategy for defense spending appears to also require more than inflationary increases. All of these and other factors could generate even higher levels of deficits and that could easily impact the rate of future inflation, interest rates and the value of the U.S. dollar. Thus we are more optimistic than many about the short-term performance of the economy and we have greater levels of concern than most about longer-term economic performance.

THE FUNDS

The Diversified Equity Fund, the 100% stock Fund, materially outperformed its benchmark in the last quarter and 12 months of 2022 as the Fund benefited from positive stock selection with value oriented investments. As interest rates increased, equities witnessed a price correction with the overvalued stocks reversing outsized gains from the previous two years. The Diversified Equity Fund carries a heavier weight in Information Technology and stock selection in this sector was especially impactful. Value style stocks outperformed last year as the securities were already priced at lower valuations and less impacted by the negative dynamics of rising interest rates. In terms of sector allocation, the Fund benefited from an underweight in the economically sensitive Consumer Discretionary sector. Interestingly, the overall Energy sector that includes upstream and midstream oil & gas companies performed well last year with the higher price of oil - and while these type of holdings are excluded from UMFF investments, the Fund's relative performance exceeded the benchmark (Energy makes up 5% of the benchmark's weight) even without those companies. The Fund is overweight the Utility sector by 7% which benefited relative performance as the utilities have stable cash flows.

The Growth & Income Fund, offers a mix of half equities and half fixed income securities. The Fund outperformed its blended benchmark in 4Q 2022 and over the 2022 year. The relative outperformance came from strong security selection in the Fund for both equities and bonds that more than offset the asset allocation equity overweight. In the continued rising interest rate environment in 2022, both stocks and bonds were negatively effected. Higher valued stocks with uncertainty around profits were especially vulnerable as the cost of financing increased. Long-term bonds were also especially vulnerable as holders of existing bonds were stuck with low yields until they reached maturity. The Fund's stock performance benefited from strong security selection with a focus on value within equities. On the fixed income side, the Fund outperformed by investing in short duration bonds with an average effective maturity of 1.4 years compared to the benchmark's 3.9 years. The Fund's fixed income investments are solely in investment grade securities with the majority having an S&P credit rating of A and above.

<u>The Balanced Income Fund</u> offers a mix of 30-40% equities and 60-70% fixed income securities, and also outperformed its blended benchmark last quarter, as well as last year. These results were driven by the avoidance of momentum stocks and an overweight in non-cyclical equities, although the lack of participation in the Energy sector weighed on performance. The Fund's fixed income holdings beat their corresponding blended benchmark due to their shorter duration. An asset allocation of overweighting equities and underweighting fixed income versus the blended benchmark weighed on the Fund's relative performance as equities fell more than bonds in the downward market. Mitigating the impact of the equity overweight was the sector overweight in Utilities as this equity sector is less correlated with the overall stock market than other more economically cyclical sectors.

<u>The Bond Fund</u> of 100% bonds' underlying holdings have an aggregated effective maturity of 1.5 years versus the benchmark's 2.9 years outperformed its benchmark by 300 basis points last year. The Bond Fund slightly underperformed its blended benchmark over the past quarter as it increased 1.1% versus the benchmark's 1.2% when fixed income yields started to normalize after the inflation rate fell lower. The year-over-year Consumer Price Index rate dropped to 6.5% in December from its annual high of 9.1% in June. The inflation rate annual high also happened to be the 40-year high as investors became increasingly concerned with pricing pressure. The Federal Reserve reacted by increasing its effective interest rate from 0% to above 4%, and fixed income securities therefore sold off, with longer-term bonds (which are much more sensitive to changes in market rates) dropping in price far more significantly.

<u>Current Challenges</u>:

- Inflation is a key risk for the market as year-over-year core inflation that excludes volatile food and energy prices was 5.7% last month and may prove to be more resilient than investors anticipate.
- Russia's war on Ukraine is a key geopolitical risk and market risk as both countries are major commodity producers that adds uncertainty to commodity supply levels and therefore prices.
- Highly politicized environment may lead to a delay in raising the federal government's debt ceiling.
- Leading economic indicators point to an upcoming US recession.

<u>Current Opportunities</u>

- China is moving away from its zero Covid policy that will lead to increased global economic activity.
- The Unemployment rate at 3.6% is still very low and at pre-pandemic levels.

<u>Please refer to the UMFF Q4 2022 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.