<u>UMFF FUND OVERVIEW</u> **<u>as of JUNE 2021</u>**

The most recent 18-month time period has been an extraordinarily challenging one. With the impact of the pandemic beginning in February 2020, in addition to the immense and extremely tragic results from deaths and sickness, there was also an enormous adverse economic impact. Because of unprecedented proactive government policies and actions, the U.S. was very successful in mitigating a severe economic disaster which could have been an economic depression, equal or worse than that of the 1930s.

The present economic conditions and stock market are quite volatile and complicated. With a base of enormous levels of government intervention and support, the short-term economy is likely to be very strong. Job openings are plentiful and have resulted in significant problems for many companies seeking to hire. Consumer spending has recovered far more quickly than the market appeared to anticipate and corporate earnings have trended to exceed positive forecasts. Examples of economic progress also include the resurgence of travel (airlines), far greater and sooner than had been projected. Housing prices in many parts of the country have been exceptionally strong. While remarkable increases in prices for lumber and other commodities have dropped from recent higher levels, these costs remain well above levels that existed a year ago. Car rental markets have requests for reservations that now often exceed availability. Values of used cars have soared and demand for gasoline has greatly increased.

With the truly impressive resurgence of the economy, valuations in equity markets are, in our view, extremely high. With the mounting increases in federal government debt, we believe that there are very high eventual risks for significant increases in inflation and interest rates. Such changes could also include related market reductions in exchange rates for the U.S. dollar. It is important to note that from an economic perspective, we are in a much better place today than might have been thought possible a year ago, when looking at projected conditions for July 2021.

<u>THE FUNDS</u>

<u>The Diversified Equity Fund</u>, the 100% stock Fund, increased 3.5% in the second quarter of 2021 and 15.6% YTD compared to its Russell 3000 benchmark index which increased 8.2% in Q2 and 15.1% YTD. Investors witnessed a shift between the first and second quarters with value-based stocks rallying in Q1 while growth-based stocks caught up in Q2 of 2021. Growth oriented stocks, led by mega-technology companies, did very well as the 10-year bond yields settled down to 1.47%, having rallied to a high of 1.74% at the end Q1 after beginning the year at 0.91%. The change in 10-year bond yield impacts equities as it reflects different expectations on inflation. With the 10-year yield decreasing, and inflationary fears having subsided more recently, growth stocks with cash flows well out into the future benefited as those cash flows are discounted at lower rates.

The Diversified Equity Fund Technology sector investments represent a quarter of its holdings (similar to the benchmark index), and our value focus on high quality companies with strong fundamentals yielded a sector return of 3.7% in Q2. This lagged the benchmark's Technology sector return of 11.5% which is allocated towards Mega Tech companies (Microsoft, Amazon, Google, Apple, and Facebook) which performed extraordinarily well. These companies are benefiting from an increased user base as many people continue to work remotely from home using Mega Tech software and shop online using their platforms. As the companies have grown in market-capitalization, they have come to dominate benchmark indices such as the Russell 3000 which has its security holdings weighted by market capitalization. Investments in the index can therefore lead to a momentum effect where higher priced securities are driven even higher in price.

The benchmark index's Energy sector also performed very well this past quarter as fossil fuel companies benefited from an increased oil price of $75 per barrel, up from $40 last year due to strong demand as the global economy continued to open up post-vaccinations. To support UMFF's sustainable environment goal which incorporates a shift away from fossil fuel related companies as part of your investment policy, we are instead focused on the renewable energy sector which has become more competitive due to these higher energy prices. We continue to search for value based opportunities within the clean energy space.

<u>The Growth & Income Fund,</u> offers a mix of half equities and half fixed income securities. The Fund underperformed its blended benchmark this past quarter by 1.9% but outperformed its benchmark YTD by 1.7% with a 9% total YTD return. The fund maintained overweights in the Utility, Industrial, and Health Care sectors and is underweighted the Financials and Consumer sectors. The strong Utility exposure enables the fund to

generate dividend income while reducing volatility on a relative basis. We also overweighted industrials with the belief that the economic cycle will continue to expand, benefiting cyclical industrial earnings. An infrastructure bill that may be signed this year will further boost industrial companies. We avoid Consumer companies facing an inflation risk as the purchasing power of consumers would be under pressure while inventory costs rise. We continue to overweight small and mid-capitalization holdings as we see greater inefficiencies in these areas where we can invest in underpriced securities.

On the fixed income side, the fund has been rotating from very safe and liquid US Treasury bonds with very low yields to slightly higher yielding corporate bonds. We continue to manage the duration of the fund to an average effective maturity of 2 years versus the benchmark's 3.8 years. This short-term positioning protects fund participants against the risk of a spike in interest rates if inflation doesn't continue to show signs of dropping back down to rates the Federal Reserve is targeting.

The Balanced Income Fund offers a mix of 30-40% equities and 60-70% fixed income securities and underperformed its blended benchmark this past quarter by 0.9%, but outperformed its benchmark YTD by 1.7% with a total YTD return of 6.1%. The equity holdings results were in line with the Diversified Equity and Balanced Income fund investment strategy with an overweight in Industrials and underweight in Consumer companies. The fixed income holdings were short duration with 40% of the securities to mature within 1 year, and we shifted positioning from US Treasury holdings to corporate bonds in the search for yield.

The Bond Fund of 100% bonds beat its blended benchmark both over the past quarter and YTD with total returns of 0.4% and -0.1% respectively. The fund's underlying holdings have an aggregated effective maturity of 2.5 years versus the blended benchmark's 2.9 years. Many of the top holdings are in the financial sector with investment grade bank bonds offering a spread over government bonds. Overall, short-term yields remain low as the Federal Reserve continues its quantitative easing program. This dynamic would change if inflation picks up as we would anticipate higher yields.

Current Challenges:

- Very high valuations within the stock market as they trade at record highs and record multiples. The S&P 500 is trading at 31x Price to Earnings, well above its 70 year average of 17x.
- Inflation remains a key concern as housing prices have dramatically increased. The cost of rent represents 40% of the consumer price index which can drive it higher quickly.
- Higher oil prices as OPEC constrains supply while global demand levels increase.
- Political infighting that can stall legislation including an anticipated infrastructure bill.

Current Opportunities

- Hiring in the United States accelerated in June with payrolls increasing the most in 10 months.
- Infrastructure stocks may benefit from a super-cycle if an infrastructure bill is passed.
- Renewable energy has become more cost competitive offering investment opportunities.

Please refer to the UMFF Q2 2021 Fund Fact pages, which are provided separately, for portfolio performance, sector allocation and other characteristics of each Fund.

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.