2019 Review & 2020 Outlook

Table of Contents

Diving Deep into Harpswell's Fund Managers	Page 2
A Canary in the Coal Mine	Page 2
2020 Market Outlook	page 3
Chasing Performance	page 9
Where is Everyone Going?	page 9
Opportunities in Emerging Markets	page 12
Happiness Lab	page 13
The Markets in 2019	page 14

Diving Deep into Harpswell's Fund Managers

Harpswell's team takes great pride in the managers with whom we engage. The firm believes there are some markets and asset classes where skilled fund managers are more likely to beat their respective index and there are also areas where few can consistently outperform. For the latter, we sometimes find passive funds to be the best option; for the former, we exhaust our network, contacts and other resources to identify who we feel is best for each particular mandate.

Harpswell's process for identifying and engaging managers is intense and relies on the experience and knowledge our team has gained from time spent as multibillion-dollar allocators and fund managers. We don't chase performance; we chase people and well-reasoned strategies as we feel those factors are the drivers for managers who can consistently beat their peers.

Harpswell's team recognizes the notion that those advisors who simply screen for the best performing funds over the last year or two are simply chasing performance. We believe that strategy rarely works over the long run. Harpswell looks for talented people with integrity and a sustainable strategy which capitalizes off their particular strengths. With our overriding focus on people and process, rather than just performance, we tend to arrive at managers who all have a few common characteristics.

Our managers tend to value good governance and a sustainable business model, and they recognize these qualities in corporate management often go hand-in-hand with leaders who see beyond the next quarter or two and aren't looking for shortcuts. Our managers look to make investments in firms where leadership values diversity, collaboration, and hard work all while making investments in their people. The managers we utilize also commonly arrive at a reasonably concentrated portfolio where they have high conviction in each investment, and they know the companies inside-and-out. They tend to look significantly different than their benchmark and we recognize this as being a byproduct of both capabilities and confidence. We do not want managers whose portfolio simply mirrors the index as we can get that performance for little or no fee at all. *(continue to page 8)*

A Canary in the Coal Mine: BBB Bonds

The notion that half the existing investment grade bonds are now rated "BBB" by credit agencies is concerning. BBB is only one grade above "junk" bonds and it serves as a barometer of both investors' willingness to take risks and issuers' interest in taking advantage of very low rates.

Low rates have fostered a glut of BBB bonds for two reasons. First, investors such as retirement plans and insurance companies need higher-yielding investments; a heightened appetite for BBB's is their response. Second, the cost of borrowing for companies is set by adding a premium onto what is considered to be the "risk free rate" (usually Treasury Bond Yields). When Treasury Bond Yields are at historic lows, issuers are not worried about the premium they are being charged and issue as much as they can justify. *(continue to page 7)*

2020 Market Outlook

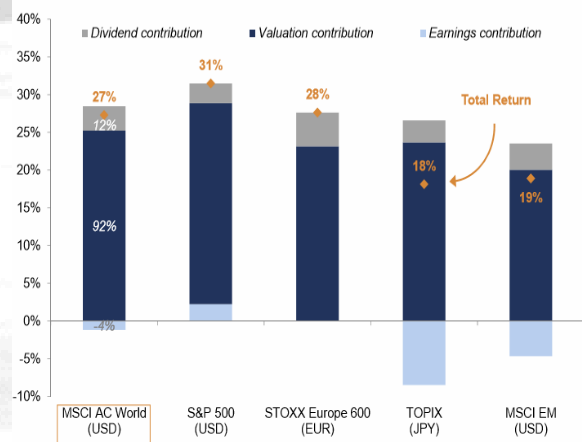
Harpswell's 2020 outlook starts by examining the drivers and sources of performance in 2019 and assesses how they set the stage for the coming year. We then look at macro indicators and a current snapshot of the economy through numerous figures and factors. We will discuss exogenous risks and conclude with our long-term market assumptions and a concise summation.

2019…What happened?

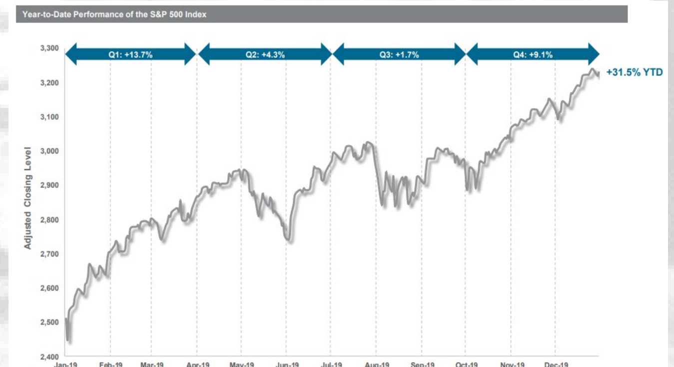
It seems as though the last few years have all started with the same tone where market prognosticators suggest, "next year will not be like the recent past and we need to adjust to lower prospective future returns." Expectations in January of 2019 were certainly muted, and the market soothsayers appeared to have once again missed something as the S&P 500 was up 31.5% and bonds returned 8.7%.

What happened? Well, there were a few factors at play. First, investors concern over earnings growth escalated as the "Trump Tax Cuts" were viewed as a one-and-done phenomena. In January of last year, expectations for earnings growth in 2019 were a fraction of what was realized in 2018 and some felt the market was going to readjust to a lower growth trajectory. Second, a number of geopolitical and macro concerns captivated investors and the market tended to bounce and bob on a weekly basis based on the outlook for a myopic time horizon. The Federal Reserve also reversed course and shifted from tightening policy to a very expansionary (supportive) posture. This propelled the market as investors felt the Fed was going to be there if/when the market falls and they were clearly pandering to the equity markets. Surprisingly, the support from the Fed helped the markets shake off the perceived risks associated with an inverted yield curve (the phenomena where yields for 2yr bonds exceed those for 10-year bonds –a condition which has preceded 5 of the last 5 recessions).

Finally, while earnings growth slightly surpassed early expectations, a majority of the 2019 returns were the byproduct of "multiple expansion" rather than earnings growth. As the chart below highlights, 92% of the market rally in 2019 was the result of the market simply trading at a richer multiple than it did in the previous year. Thus, unless earnings accelerate in the future, we could very easily see the market underperform as the multiples compress to their previous levels. Factors which are most likely to drive multiple compression include rising interest rates, geopolitical events, macro-economic deterioration, increased bankruptcies/credit down-grades, or simply a consensus view that the market cycle has peaked.



It is worth noting that 2019 proved to be among the best years for both bonds and stocks as we rarely see both asset classes up to this degree in the same year.



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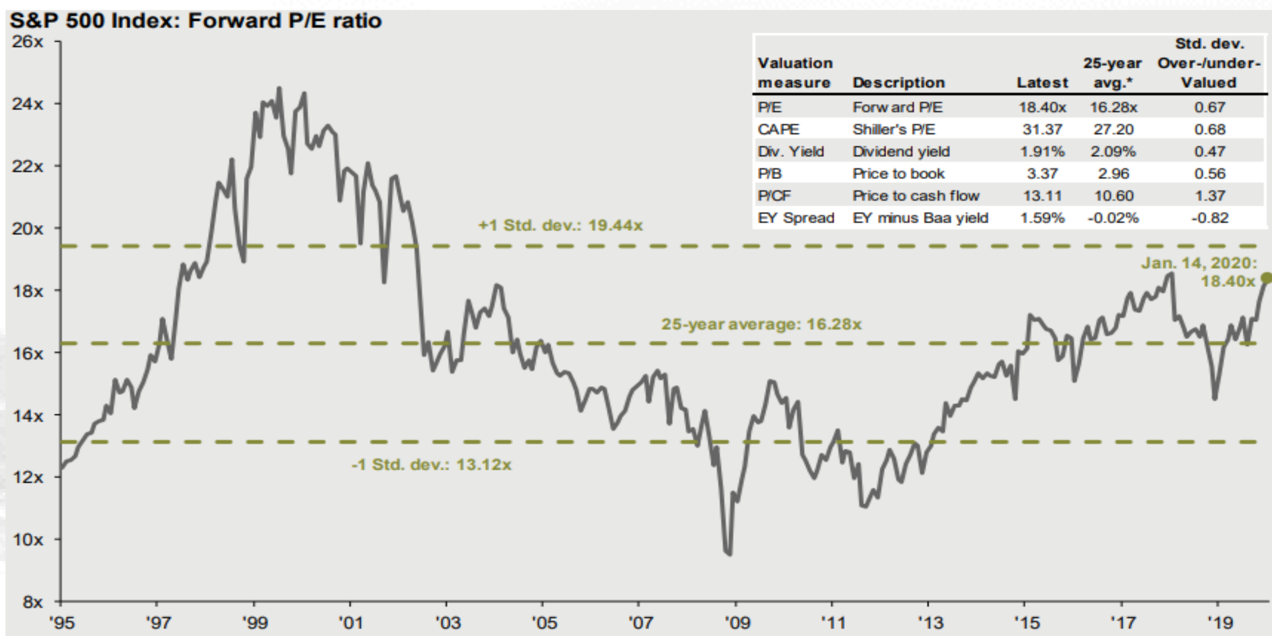
2020 Market Outlook *(continued from page 3)*

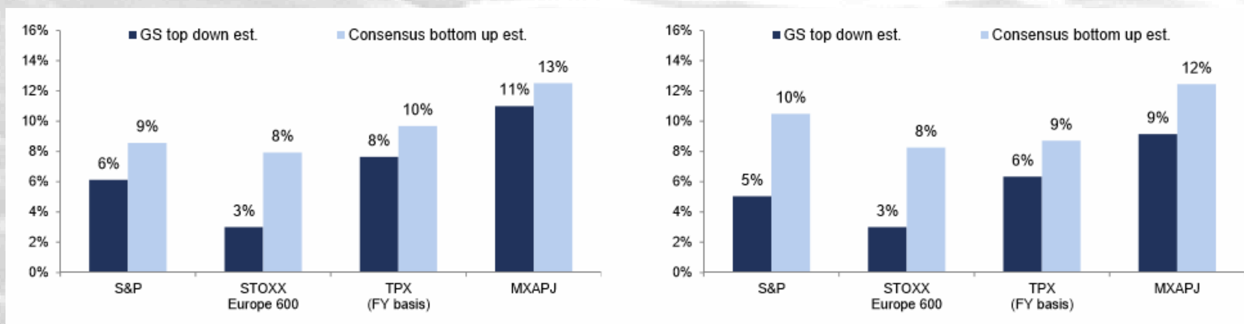
2020, Where do we stand?

Markets are certainly not cheap, yet they are at a level where accelerated growth could propel them higher. The standard barometer for market affordability is the Price-to-Earnings ratio (P/E) where you assess how many dollars you are spending to buy each dollar of earnings. As the graph below highlights, the S&P 500 trades at 18.4 P/E ratio compared to the 25-year average of 16.28. Thus, markets are rich but not extraordinarily stretched.



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	18.40x	16.28x	0.67
CAPE	Shiller's P/E	31.37	27.20	0.68
Div. Yield	Dividend yield	1.91%	2.09%	0.47
P/B	Price to book	3.37	2.96	0.56
P/CF	Price to cash flow	13.11	10.60	1.37
EY Spread	EY minus Baa yield	1.59%	-0.02%	-0.82

According to Goldman Sachs, earnings for both domestic and international companies is expected to grow 8-13% in 2020 and 8-12% in 2021, from a consensus bottoms-up approach. This simply means they forecast the earnings growth for each company in the respective index and then roll that up to an aggregate estimate. From a “top down” approach, where Goldman’s economists make macro projections and then extrapolate earnings growth, expectations are a bit more muted (3-11% for 2020 and 3-9% for 2021). Thus, from an earnings perspective, the market should have a solid foundation for moderate growth and appreciation.



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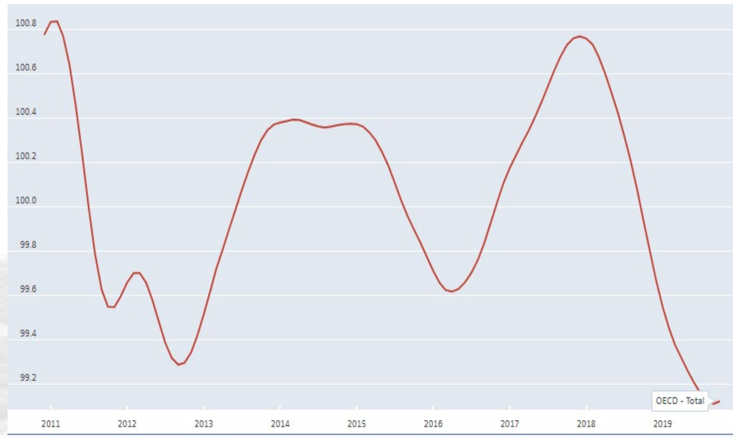
2020 Market Outlook *(continued from page 4)*

Looking more broadly at a composite of leading global economic indicators (below), the economy appears to be cooling off and we are at a juncture where the markets' optimism has thus far been able to shake off the data. We would suggest that further economic degradation would likely be precipitously reflected in both the stock market (going down) and the bond market (going up as investors seek a safe haven and accept lower rates).

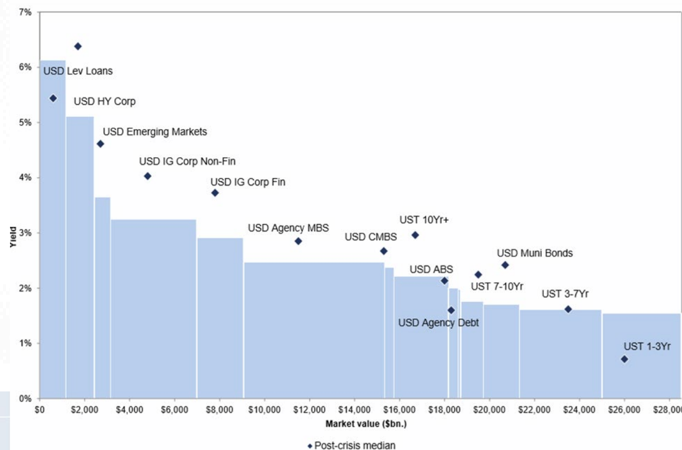


Source: OECD

From a macro-economic perspective, the economy appears to support current valuations; however, continued weakness in leading indicators would likely lead to a rush for the door for some investors as they ring the cash register after the longest economic expansion in modern history.

Finally, one source of support for the stock market and riskier bonds is the fact that global yields are extremely low across all asset classes and that leaves investors reaching for higher yields and embedding more risk in their portfolios. A rumbling of heightened volatility could set off a chain of liquidations where investors sell funds and ETFs while the underlying managers try to maintain balance. Liquidity risk is one worth watching.

This graph (upper right) highlights the yields each class of fixed income assets are currently paying. We would suggest some of these "investments" carry inherent risks levels on par with those for equities and therefore would not be expected to necessarily preserve capital in volatile markets.



Assess exogenous risks that might derail the market

The list of potential sources of market volatility is not a short one. With that said, we have noted numerous times that the market tends to "climb the wall of worry" and the threat of these events alone would not drive the markets downward. We do, however, maintain a vigilant eye on them as well as the new ones which will surely surface.

Potential Market Disruptors

Event	Probability	Potential impact
Presidential Conviction	4	3
War	3	3-4
Heightened Populism	3	2-3
Deflation	3	2
Credit event	3	3-4
Liquidity Event	2	1-4
Cyber Event	1	2-5
Terrorism	3	1-4
Interest rate Spike	3	2-3
Government Budget Crises	2	2-5
Escalated Trade Tensions War	2	2-5
Brexit	2	4-5
Fiscal Policy changes	3	2-4
Monetary Policy Uncertainty	4	2-5
Weakening economic data	2	3-4
Rising unemployment	2	3-4
Accelerated Wealth Gap	2	5
Yield Curve Inversion	3	2
Left Field	5	1-5
	1 High Probability - 5 Low Probability	1 High Impact - 5 Low Impact

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 (continued from page 5)

Harpswell market assumptions (long-term expectations)

Harpswell's team reviews the firm's long-term (10+ year) market assumptions twice a year. We feel these returns are attainable by each asset class, yet we also assume a wide range in disparities and acknowledge that it is unlikely to pan out precisely as we expect. We also see varying degrees of volatility over the next decade and feel current levels are relatively low. We operate under the assumptions noted in the chart below and feel short-term forecasts are an exercise in futility. With that said, we do have muted expectations, relative to 2019, and feel there are plenty of potential catalysts for volatility and "buying opportunities" (which is quite a pleasant euphemism). ✥

	Harpswell 10 Year Assumptions	
Asset Class	Returns	Standard Deviation
Cash	2.15%	0.75%
Inflation	1.90%	
US Large Cap Equities	7.00%	16.00%
US Small Cap Equities	8.00%	20.00%
ACWI Equities	7.75%	18.00%
Int'l Developed	7.75%	18.50%
Emerging Mkts	9.50%	25.00%
Private Equity	9.00%	25.00%
Treasuries	2.50%	3.50%
Core bonds	3.00%	3.50%
Corporate Bonds	3.50%	6.00%
Corporate Bonds - HY	5.00%	10.60%
1-3 yr Gov't Bonds	2.75%	1.10%
1-3 yr Corp Bonds	3.25%	1.10%
Municipal Bonds - interm	2.50%	4.50%
Municipal Bonds - HY	4.00%	6.50%
Dev'l Int'l Bonds	3.00%	7.00%
Emerging Mkt Bonds - Sov	4.50%	9.00%
Commodities	4.50%	17.60%
REITs	6.00%	20.00%
Gold		
Hedge Funds/ Alts	5.25%	7.00%

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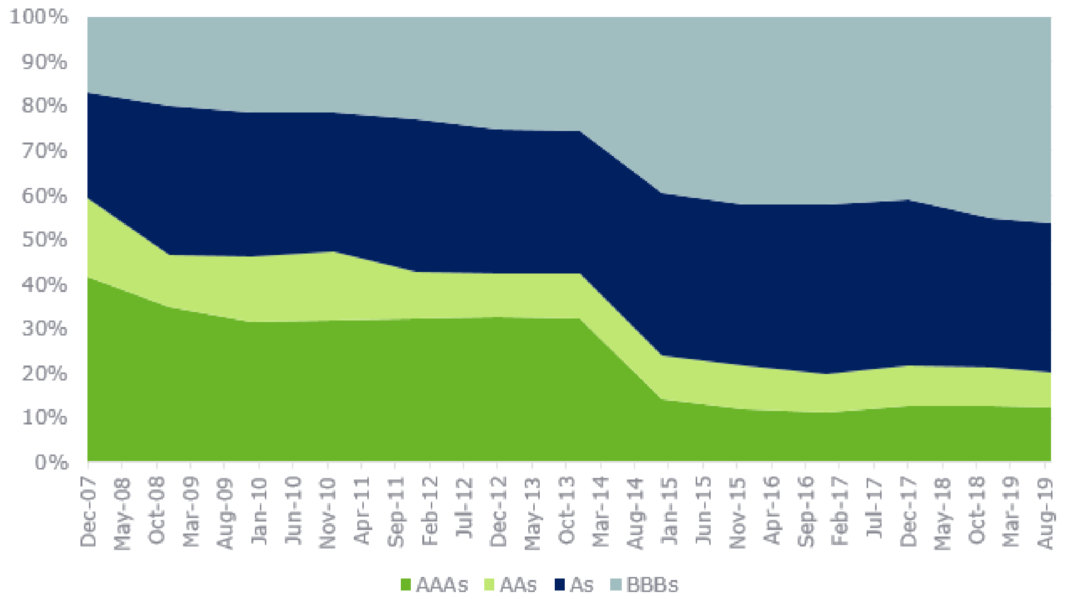
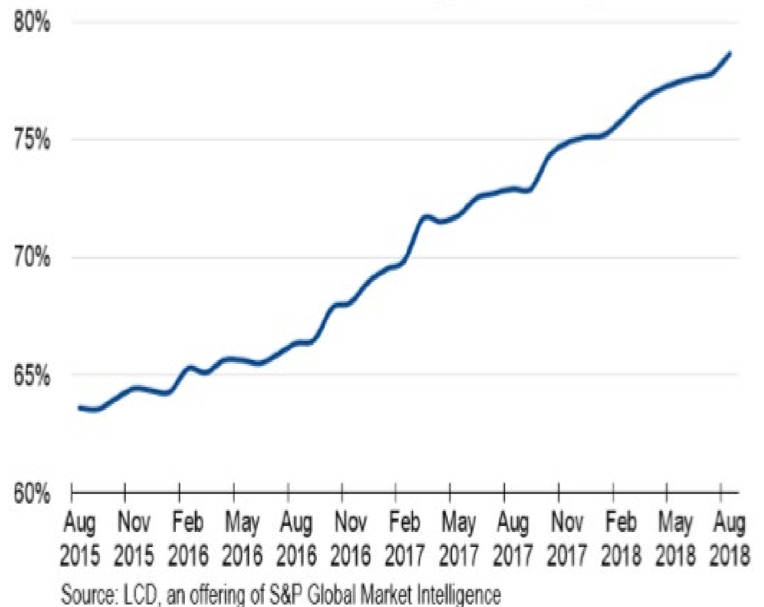
A Canary in the Coal Mine: BBB Bonds *(continued from page 2)*



The primary problem is not necessarily the proportion of the bond market that is BBB. While that alone is a yellow flag, the real red flag relates to two concerning factors. First, a very high proportion of the BBB bonds, according to Moody's, have cashflow coverage ratios (a statistic which indicates how easily they can pay their interest with internally generated cashflow) and debt ratios (the amount of debt versus equity) on par with BB, or junk, bonds. This means a lot of BBB bonds are at risk of becoming junk and this would likely come to fruition if we were to experience an economic downturn (thus perpetuating an economic spiral). Second, almost 80% of bonds are now considered to be "covenant-lite," which means bond holders have far less control over the flow of capital prior to and during turbulent times. Historically, bond investors were protected by a structure which precluded companies from taking action which could disadvantage bond holders relative to stock holders but the stock folks now very clearly have the upper hand. ⌖



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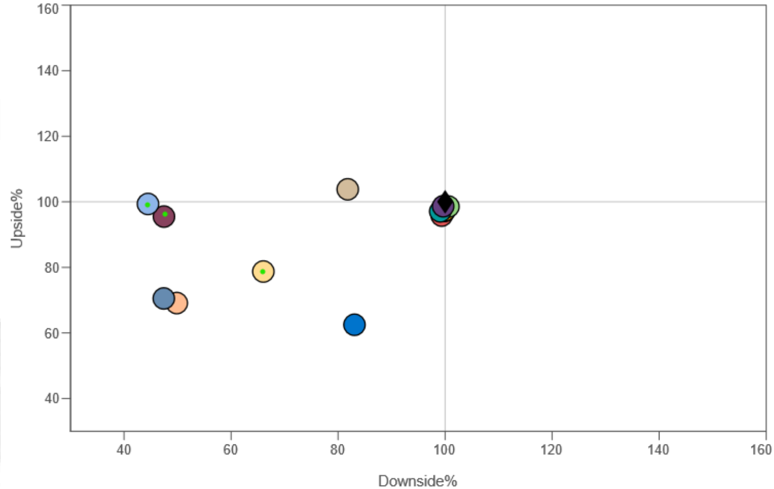
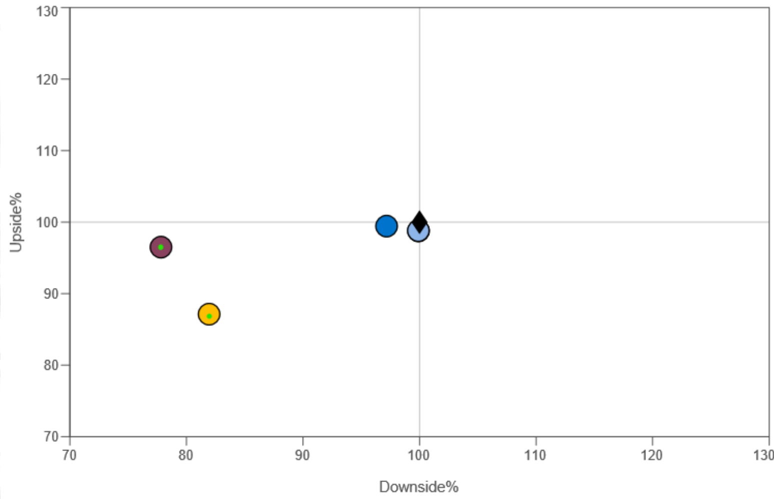
Diving Deep into Harpswell's Fund Managers *(continued from page 2)*

While we don't intentionally screen for factors relating to capital preservation and long-term performance, we have found that these qualities tend to be a byproduct of Harpswell's process. In fact, we recently assessed our managers for factors relating to "up capture" and "down capture" and were pleased with what we found. Up/down capture reflects the percentage of performance a manger tends to deliver when the market is going in that direction. Thus, if you have a manager who has 90% up capture and 70% down capture, you are only giving up 10% of the positive performance for the manager who also has the tendency to preserve three times that magnitude (30%) when markets fall.

The two graphs to the right represent our roster of international and emerging market managers compared to their peers and their indices. The managers that are highlighted with a green dot are ours. As the two charts to the right highlight, our managers have historically had very attractive up capture (roughly 99%, 96% and 80% for our international managers and over 85% and 95% for our emerging markets managers). Their up capture alone is noteworthy; however, we are particularly pleased with the managers' ability to preserve value in down markets (especially as we get in the latter innings of a prolonged market run with more than enough prospects for a market disruption). Two of our international managers' down capture is approximately 50% and the third is below 70%. The emerging market managers have also done well here.

We believe our efforts to identify managers who manage high convection, concentrated portfolios serves our clients well. More importantly, we devote considerable thought to the sizing of each investment to help us build the portfolio which we feel can deliver performance, preserve capital and help our clients fulfill their goals.





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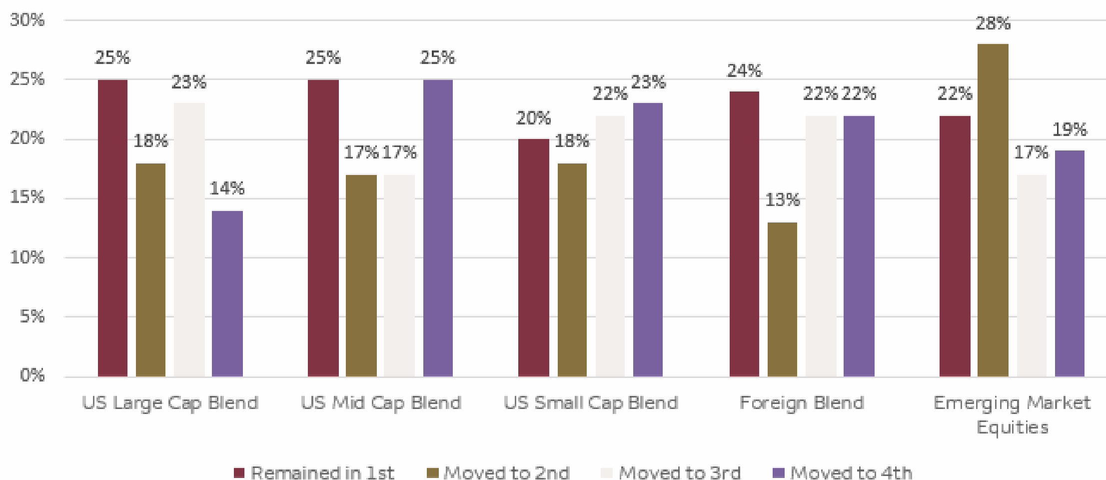
Chasing Performance

Wells Fargo Investment Institute recently conducted a study titled "Past is Not Prologue When It Comes to Fund Performance." We found the study to be interesting and highly relevant to Harpswell's approach to choosing managers. The study, which was conducted over 20 years, identified top tier managers in one 5-year period and then evaluated their relative performance in the following 5-year period. The results were not a surprise to Harpswell's investment team. The Wells Fargo Investment Institute's study highlighted how simply picking the best managers over a 5-year period rarely yields top-tier performance in the future. In fact, as the graph below highlights, you have less than a 25% chance of achieving top tier performance when you chase the winners with respect to 5-year performance. Thus, we believe our approach of focusing more on the factors that drive sustainable performance, rather than performance alone, makes sense. ❖

"What's past is prologue" **from The Tempest, William Shakespeare**



Source: Morningstar Direct as of June 30, 2019. Quartiles divide the data into four equal regions. Expressed in terms of rank (1, 2, 3, 4), the quartile measure shows how well a fund has performed compared to all other funds in its peer group. The top 25% of funds are in the first quartile. Past performance is no guarantee of future results.

Where's Everyone Going?

Population shifts across the US has been evolving ever since the country's genesis in 1776. First, the country's population clearly migrated west for most of the United States' first two centuries. It was the frontier that offered opportunity and promise for those willing to make the trek.

The phrase, "Go West, young man"–often credited to the American author and newspaper editor Horace Greeley—captures the spirit of America's westward expansion, which was also related to the then-popular concept of Manifest Destiny. No one has yet proven who first used this phrase in print. *Source: Wikipedia*

Then, after the emergence of air-conditioning fostered a more welcoming environment in the country's more tropical climates, folks migrated south. Now, there is a new wave of migration and this one is more related to states' fiscal policies than comfort or opportunity.

The latest trend in US migration is one that may have considerable consequences. It has become clear that the states which rank among the most (income) tax burdensome states have been experiencing an elevated level of taxpayers fleeing for more fiscally friendly ones. While tax rates hardly explain a majority of the moves, it is clear that taxes are playing a roll.

Where's Everyone Going? (continued from page 9)

0% Tax States have attracted 332,000 Americans in 2019

How High Are Income Tax Rates in Your State?

Top State Marginal Individual Income Tax Rates, 2019

WA
OR 9.90%
CA 13.30%
NV
ID 6.93%
MT 6.90%
WY
UT* 4.95%
CO* 4.63%
AZ 4.54%
NM 4.90%
ND 2.90%
SD
NE 6.84%
KS 5.70%
OK 5.00%
TX
MN 9.85%
IA 8.53%
MO 5.40%
AR 6.90%
LA 6.00%
WI 7.65%
IL* 4.95%
MI* 4.25%
IN* 3.23%
OH 5.00%
KY* 5.00
TN** 2.00%
MS 5.00%
AL 5.00%
GA 5.75%
FL
SC 7.00%
NC* 5.25%
VA 5.75%
WV 6.50%
PA* 3.07%
NY 8.82%
VT 8.75%
NH** 5.00%
ME 7.15%
MA* 5.05%
RI 5.99%
CT 6.99%
NJ 10.75%
DE 6.60%
MD 5.75%
DC 8.95%
AK
HI 11.00%

Note: (*) State has a flat income tax. (**)State only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.

Top State Marginal Individual Income Tax Rate
Lower Higher

TAX FOUNDATION @TaxFoundation

NET DOMESTIC MIGRATION

NET DOMESTIC MIGRATION PER 1,000 RESIDENTS, JULY 1, 2016 — JULY 1, 2017

-14.7 — -9 | -9 — -6 | -6 — -3 | -3 — 0 | 0 — 3 | 3 — 6 | 6 — 9 | 9 — 14.6

WA 8.9
OR 9.3
CA -3.5
NV 13.0
ID 14.6
MT 8.3
WY -14.7
UT 5.8
CO 6.6
AZ 9.1
NM -3.6
ND -8.8
SD 2.3
NE -1.8
KS -4.9
OK -2.7
TX 2.8
MN 1.4
IA -0.9
MO -0.2
AR 1.6
LA -5.9
WI -0.4
IL -8.9
MI -1.3
IN -0.1
OH -0.7
KY 0.2
TN 6.1
MS -3.3
AL 0.8
GA 4.0
FL 7.8
SC 9.9
NC 6.5
VA -1.5
WV -5.7
PA -2.0
NY -9.6
VT -1.5
ME 4.0
NH 3.5
MA -3.4
RI -3.6
CT -6.2
NJ -6.4
DE 4.7
MD -4.0
DC 1.7
AK -13.4
HI -9.5

SOURCE: US Census Bureau BUSINESS INSIDER

The graphs highlight the respective income tax rates in each state (top) and the relative in/outflows of domestic migration (bottom).

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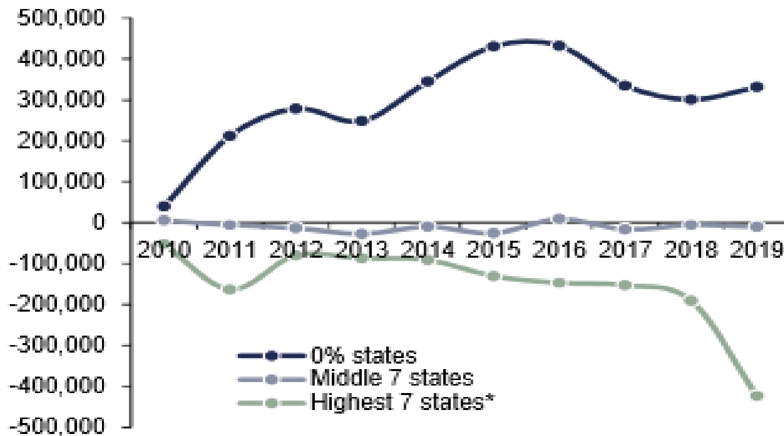
Where's Everyone Going? *(continued from page 10)*

O% tax states have consistently seen net inflows, while the (7) states with the highest tax rates have seen an increasing number of their citizens migrating out. In many cases, higher taxing states are experiencing the departures of many of their highest taxpayers and this has stressed state budgets. Connecticut and New Jersey, for example, have had pressure on their credit ratings associated with this phenomenon. The graph below illustrates the inflow of "0% States" versus the "highest 7 states".



Source: US Census Bureau; Tax Foundation; Tax Policy Center; BofA Global Research. *New York is only included in the top-7 states by top marginal tax rate in 2019 after Vermont reduced its top marginal rate by 0.2ppt to 8.75%, below New York's top rate of 8.82%.

These projections tend to paint a rosier picture than the new reality and the result is a heightened level of state liabilities being paid by a smaller state population. Furthermore, this cycle of migration leading to higher taxes for the ones who remain can very well feed a loop where higher taxes force more departures and fewer inflows, therefore compounding the impact. Finally, a possible response to fiscal migration may–take one of two distinct paths: either a tax invoked to curtail the impact of those leaving (*i.e.*, an exit tax) or new policies which compare better to those in the states where the masses are heading.

"The U.S. population grew last year at the slowest rate since World War I as the birth rate and immigration declined," the Census Bureau reported last week. WSJ, Jan 7, 2020. This diminished growth compounds the adverse impact of tax-flight for those states experiencing an outflow of fiscal migrants. In fact, Maine was just announced as one of the 4 states in the US where death rates exceeded birthrates in 2019, and this is just another headwind we face here at home (Harpswell is a Maine-based firm). We will note that the other rural New England regions are likely experiencing the same phenomena.

Eventually, the impact of the fiscal refugees who are migrating to more tax friendly states will be material for the states experiencing outflows and we believe this is a threat worth monitoring. Governments have borrowed and spent for centuries at rates which were based on demographic forecasts. As populations shift, liabilities will become much more burdensome for those left behind.

Finally, we would expect this phenomenon to expand where populations eventually shift across country borders therefore putting pressure on those countries with elevated liabilities and taxes. Ultimately, barring more constructive fiscal policies in those geographies with depleting populations, new taxes in the form of either an exit toll or elevated real estate taxes are a likely result.

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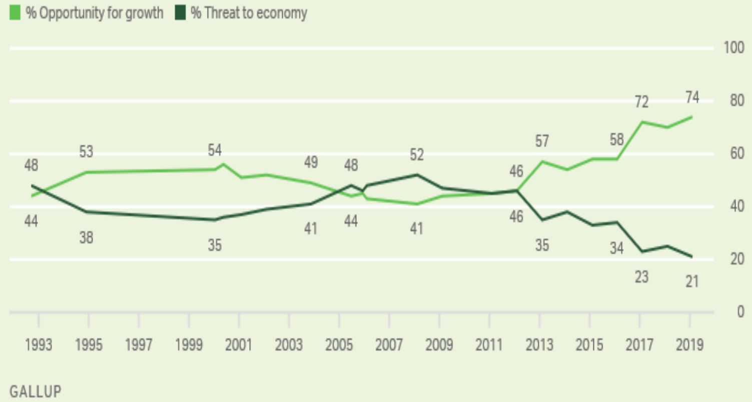
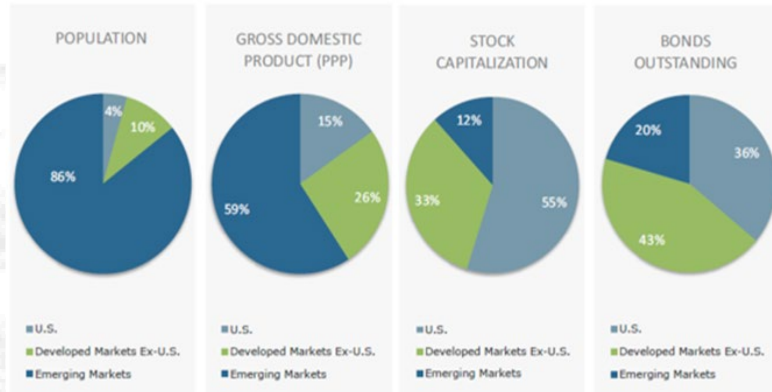
Opportunities in Emerging Markets

The Trans-Pacific Partnership (TPP) of 2016 marked the largest trade deal ever negotiated, and one of the shortest lived. The idea began in 2008 under the Bush administration and continued through the Obama administration's "Pivot to Asia." It took five years of negotiations, but was finally signed in 2016 by 12 nations, representing about 40% of global GDP and 33% of global trade.



In 2017, the Trump administration dismantled TPP suggesting the plan was unfair and hurt US exports and manufacturing. It should be noted that both presidential candidates in 2016 opposed TPP for these reasons. This political shift away from globalization was not unique to the United States; these sentiments are evident in various nations and trade blocks. In contrast, public opinion in the US is seeing a record high in positive sentiments toward free trade (Gallup).

These evolving sentiments, along with the open opportunity for trade in Asia and emerging markets, gives a new perspective in a region with a growing middle class and more of a consumer driven economy. Currently, emerging economies make up approximately 86% of the world's population and almost 60% of the world's GDP. The Asian Pacific region alone makes up 47% of the world's GDP(IMF).
Source: Wells Fargo



While equities in emerging markets keep pace with their domestic counterparts, the fundamentals for growth are present and the valuations are now even more compelling. Veteran investor Howard Marks suggests, domestic markets are in their "baby boomer" years, international developed markets are even more seasoned and emerging markets' economies are considered to be in their teenage years. See cited their growing middle class growing and their more diversified economies as setting a foundation for growth. As the US continues to negotiate with China and other countries individually on trade, we look forward to the next phase of growth and opportunity in this region.

We wanted to share a great podcast, or online class opportunity with you! The Happiness Lab is the byproduct of Yale University's most popular class and we think you will like it! It covers a wide breadth of happiness related topics and is exceptionally interesting! Let us know what you think!

The Happiness Lab

You might think more money, a better job, or Instagram-worthy vacations would make you happy. You're dead wrong. In "The Happiness Lab" podcast, Yale professor Dr Laurie Santos will take you through the latest scientific research and share some surprising and inspiring stories that will forever alter the way you think about happiness. She's changed the lives of thousands of people through her class "Psychology and the Good Life," and she'll change yours, too.

GRATITUDE

We are honored to serve the institutions and families who have entrusted their assets to Harpswell, and we are steadfast in our commitment to work hard to align Harpswell with your best interests. Harpswell is grateful to be partnered with such an esteemed and kind natured group of investors and very much appreciate our partnership.

Thank you.

2019 Year-End Market Overview

Overview: PM Boris Johnson scored a significant victory this month in Britain's elections, increasing the likelihood that a split from the European Union will occur. Britain's government announced that it will legislate to ensure a post-Brexit transition period does not extend beyond 2020. **Economy:** Real GDP increased 2.1% in the 3rd quarter according to the latest estimate by the Bureau of Economic Analysis. The **Federal Open Market Committee** met in December and maintained the rate in a range of 1.50% to 1.75%. **Markets:** The S&P 500 returned 31.5% in 2019 driven by multiple expansion. In contrast, the Index fell 4.4% in 2018 despite 21.7% earnings growth, resulting in multiple contraction. When looking at both years together, 2019 returns can be attributed to earnings growth rather than just valuations. Currently, the forward P/E ratio is about 18x versus a historical average of 16x. Also, the **US & China** tentatively agreed to a Phase 1 trade deal which resulted in the December market increases.

Equities: 2019 was an outstanding year for equities. The **S&P 500** rose 3.0% in Dec to end the year 31.5% higher. The **R1000 Growth** index increased 3%, closing out the year with a 36.4% gain due in part to increases in the Technology & Communications sectors. YTD, the **R1000 Value** index returned 26.5% even though Energy lagged throughout the year. The tech heavy **NASDAQ** earned 36.7% in 2019.
The **R2000** index rose by 25.5% for the year; while significant in itself, it trailed large cap stocks. Small Growth stocks earned 28.5% for 2019, outperforming Value by approximately 6%.
EAFE rose in Dec by 3.3% and 22.7% for 2019. The weaker Dollar added 1.9% to the month's return with little currency effect for the year.
Europe gained 3.9% in Dec, ending the year with a 24.6% increase. The **Pacific** countries finished the year with a 19.6% return. **Canada** had an outstanding year, earning 28.5%.

The **Emerging Mkts** increased sharply in Dec, earning 7.5% for a YTD return of 18.9%. **China** rose 8.3% for the month, gaining 23.7% YTD. **Russia** had an outstanding year, posting a 52.7% return. Excluding **Brazil**, which earned 26.7% for 2019, **Latin America** was the worst region with a 4.2% return YTD.

Fixed Income: Short term yields remained stable in Dec in response to the Fed holding rates constant at its December meeting. Yields fell slightly in the month as the **90 Day T-bill** yield decreased by 3bps to 1.54% while the **10 Year Treasury** yield increased by 14bps to 1.92%. The yield curve remains basically flat from 3 months to 5 Years after which longer term yields are modestly higher. The **30 Year Treasury** yield closed at 2.39%. Yields ended the year considerably lower than at year end 2018.

The **30 Year Municipal** yield remained stable, closing at 2.2%. The **1 Year Municipal** yield was unchanged at 1.1%. The tax-exempt spread discount has widened in the past few months. For 30 Year maturities, the municipal yield is now 10% lower than a comparable Treasury.

A significant amount of debt securities in both Europe & Asia continued to carry negative yields at year's end. **German** rates moved marginally by 3bps ending with a negative 0.62% yield for the **2 Year Bund** but higher by 17bps to negative 0.19% for the **10 Year**. The **UK 10 Year Gilt** yield increased by 12bps to 0.81%. The **Japanese 10 Year Gov't** bond yield increased by 6bps to a negative 0.03%, while the 2 Year yield also increased by 4bps to negative 0.14%.

High Yield bonds rose in Dec by 2.0% with an average yield of 5.5%. High Yield bonds continue to attract investors seeking higher yields, moving up 14.3% YTD. The Aggregate Bond Index gained 8.7% in 2019.

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
Domestic Equities						
Dow Jones	1.9%	6.7%	25.3%	25.3%	15.7%	12.6%
S&P 500	3.0%	9.1%	31.5%	31.5%	15.3%	11.7%
Russell LG Value	2.8%	7.4%	26.5%	26.5%	9.7%	8.3%
Russell LG Growth	3.0%	10.6%	36.4%	36.4%	20.5%	14.6%
Russell 2000	2.9%	9.9%	25.5%	25.5%	8.6%	8.2%
NASDAQ	3.6%	12.5%	36.7%	36.7%	19.9%	14.9%
MLP Index	8.5%	-4.1%	6.6%	6.6%	-4.5%	-7.0%
REIT Index	0.8%	0.6%	28.1%	28.1%	10.2%	8.4%
International Equities						
EAFE	3.3%	8.2%	22.7%	22.7%	10.1%	6.2%
EAFE Small Companies	4.4%	11.6%	25.5%	25.5%	11.4%	9.3%
Emerging Markets	7.5%	11.9%	18.9%	18.9%	12.0%	6.0%
China	8.3%	14.7%	23.7%	23.7%	15.8%	7.7%
Fixed Income						
US Agg	-0.1%	0.2%	8.7%	8.7%	4.0%	3.1%
US High Yield	2.0%	2.6%	14.3%	14.3%	6.4%	6.1%
Municipal Bonds	0.3%	0.7%	7.5%	7.5%	4.7%	3.5%
Currencies						
EURO	1.9%	2.9%	-2.0%	-2.0%	2.1%	-1.4%
British Pound	2.6%	7.9%	4.0%	4.0%	2.4%	-2.9%
Japanese Yen	0.7%	-0.5%	0.9%	0.9%	2.5%	2.2%
Commodities						
Bloomberg Commodity	5.0%	4.4%	7.7%	7.7%	-0.9%	-3.9%
S&P GSCI Crude Oil	11.0%	13.5%	34.1%	34.1%	3.5%	-8.1%
Gold	3.6%	3.3%	18.0%	18.0%	9.0%	4.4%

Commodities: **WTI Crude Oil** rose by $**5.8/barrel to $61.2/**barrel at month's end. Oil prices increased in the month as the US and China agreed to a Phase 1 trade deal in principal. Investors are anticipating improved Global growth resulting in higher demand for oil. **Gold** prices increased by **$50/oz to $1520/oz** in December. The Dollar weakened during the month which helped gold prices move higher.

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The S&P 500 Stock Index is an unmanaged market capitalization index of 500 US equities generally considered to be representative of US stock market activity. The Morgan Stanley Capital International World Index is a market capitalization-weighted equity index of over 1,500 stocks traded in 22 world markets. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ Stock Market. The Index is market value-weighted. The SB World Bond Index is a market capitalization weighted index of 18 Government bond markets composed of sovereign debt denominated in the domestic currency. The Lehman Aggregate Index is a benchmark index made up of the Lehman Brothers. The Hennessee Hedge Fund Indices® are calculated from performance data obtained from publicly available information, internally developed data and other third party sources believed to be reliable. MSCI EAFE is a stock market index that is commonly used as a benchmark for the performance of major international equity markets. The MSCI Emerging Market Index is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. The Russell 1000 seeks to track the investment results of an index composed of large- and mid-capitalization U.S. equities. The Russell 2000 seeks to track the investment results of an index composed of small-capitalization U.S. equities. The Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Barclays Capital Global Aggregate Bond Index is designed to be a broad based measure of the global investment-grade, fixed rate, fixed income corporate markets outside the United States. The Barclays Capital US Gov/Credit bond Index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year.