Quarterly Market Review April 2020

Harpswell CAPITAL ADVISORS, LLC

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What is your favorite recipe?

The "new normal" has certainly shaken up a lot of industries and most of our routines, that's for sure! While the restaurant industry is clearly among the hardest hit from COVID-19, it appears as though home cooking has been the beneficiary of our inability to pay a visit to our favorite eatery. According to Google, the number of recipe searches have surpassed the tally on both Thanksgiving and Hanukkah/Christmas!

Google's Top Recipe Searches for 2019

1) Shepherd's pie
2) Chicken parmigiana
3) Ham glaze
4) Charoset
5) Snickerdoodle cookies
6) Chaffle
7) Chicken cacciatore
8) Popeyes chicken sandwich
9) Tater tot casserole
10) King cake

Market Outlook

I know many investors dread even peaking at their investment statements much less wading through their advisors' recap of what was metaphorically a financial root canal. We want to give you a high-level overview of the quarter and leave you with the confidence of knowing we are dedicated to doing a great job for each and every client!

First, I must give kudos to my Harpswell colleagues. The Harpswell team has not missed a beat during the crisis, remaining ever-focused on being your investment partner. Second, aside from closing our office to the public and implementing a protocol of having no more than two professionals in the office at a time (with the remainder working from home), there are no changes in Harpswell's operations, focus and work. There are a lot more early morning and weekend hours in the office, but we remain grateful to be fortunate enough to be able to carry on.

What happened

It was almost the perfect storm. All that was missing was an act of aggression from a foreign adversary to make it the absolute perfect storm. First, let us reflect on the markets in 2019. The S&P 500 was up 31.5% and the tech heavy Nasdaq was up 36.7%. That's a significant return given earnings were hardly up at all. In fact, over 90% of 2019's returns came from multiple expansion (the market becoming more expensive rather than earnings driving performance). For example, Apple was up 85% last year all while both sales and earnings slid lower. The bottom line, the equity markets had a very impressive 10 year run and were in a fragile state coming into 2020.

OK, so what happened? Foremost, we were (are) hit with the novel Coronavirus. The pandemic has ground the economy to a halt and there remains a lot of uncertainty about when things will return to the new normal. *(continue to page 2)*

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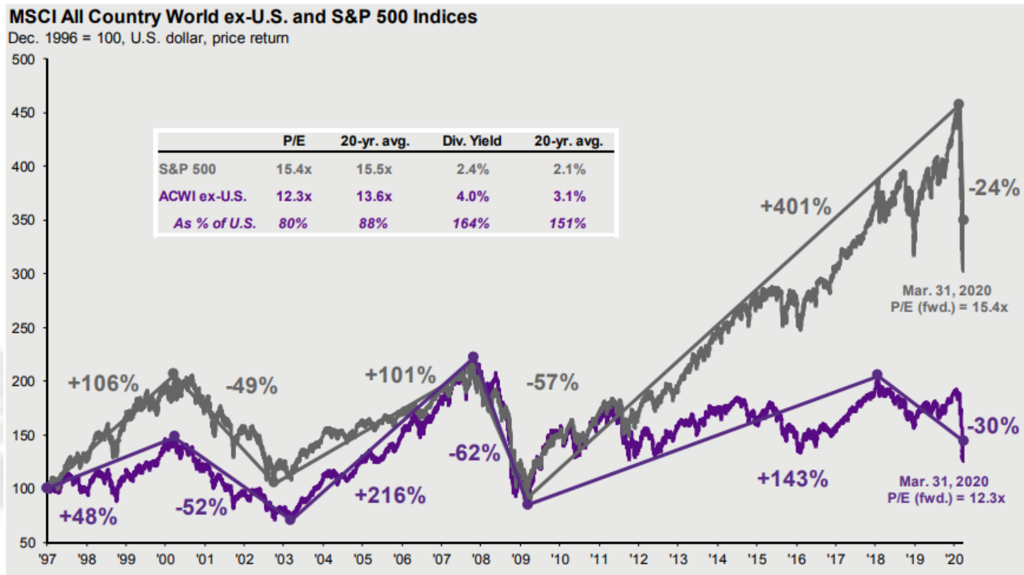
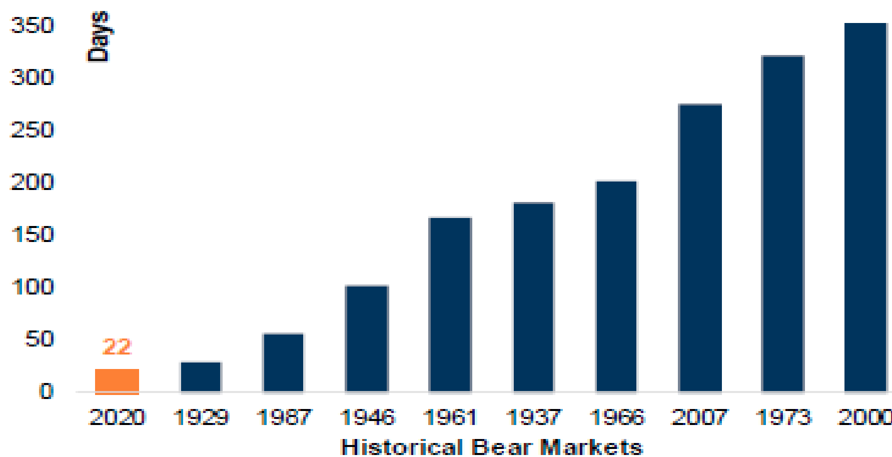
Market Outlook *(continued from cover)*

Given the nature of the performance in 2019, and a rather leveraged economy with mutual fund and ETF liquidity misaligned with that in the underlying investments, markets were quick to interpret the events and reflect a pretty bad outcome. On top of the Coronavirus, we have an all-out oil war with Russia and Saudi Arabia flooding the market with cheap oil in hopes of weakening each other. Historically, low oil prices were a tailwind for our economy; however, our leveraged energy sector is backed by our banks which comprise a significant portion of our overall economy. Banks are also being hit with very low rates, which is good for consumers but bad for banks.



The unique nature of this market drawdown is multifaceted. First, it was remarkably precipitous, and it hit both bonds and stocks alike.



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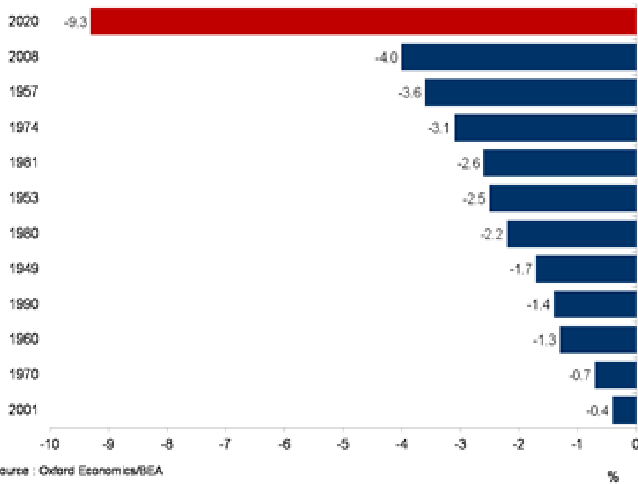
Market Outlook *(continued from page 2)*

Oxford Economics assumes 10-12 weeks of social distancing from mid-March, and they anticipate real GDP will likely contract by over 9% peak to trough, with output falling 32% annualized in Q2. No sector will escape the shock, but they suggest consumer outlays will be hit hard with a contraction around 40% (annualized), while business investment plunges 42% as an oil shock amplifies the COVID-19 shock.



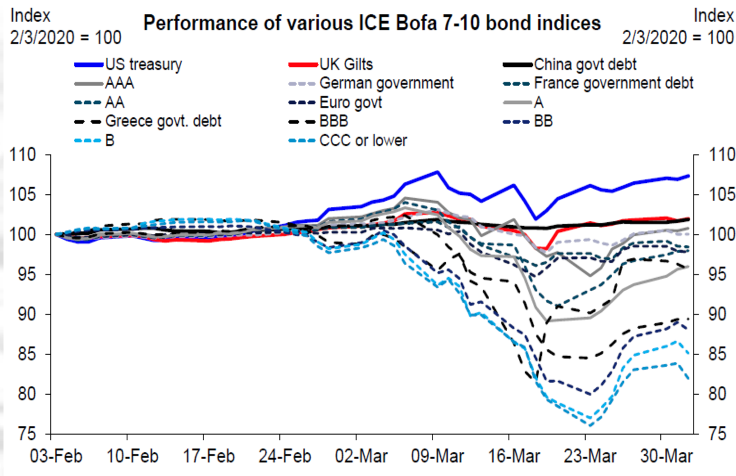
With that said, unprecedented monetary and fiscal policy stimulus should serve as a lifeline to the global economy. But even with the synchronized global monetary and fiscal policy response, the 2020 economic figures will ultimately be dictated by the efficacy of these policies along with the gradual relaxation of social distancing measures, as developments warrant.

While we feel the economic impact of these events is substantial, we also believe it was over-reflected in the markets, given what the available facts suggest at this time. Greed and fear are what make markets go too far up as well as too far down. With this in mind, we know that fear can very easily drive markets further into dislocation territory. Thus, we don't try to catch the falling knife and don't anticipate any strategic moves which perceive an ability to time the absolute bottom of the sell-off.

What did we do?

Over the last month, we continuously evaluated each and every portfolio. In fact, we turned our monthly portfolio evaluation procedures into a daily exercise (absent a few calm days). Over the last five years, we have refined our process and added efficiencies that allow us to do what once took days in only hours. We evaluated portfolio risks and reflected on the areas that we felt would best serve each client. We refrained from simply adding risk to portfolios but did trade to take advantage of what we perceived as opportunities.

As a means to maintain a balanced level of risk, Harpswell took a contrarian position in our fixed income (bond) investments. Over the last couple years, we have seen many investors flock to exotic fixed income investments with the promise of maintaining yield levels consistent with years past. While products such as leveraged loans (which are exactly what they sound like) and MLPs were go-to investments for yield seekers, Harpswell headed in the opposite direction. Over the last year, we slowly migrated up in quality and down in duration, and this move served our clients well over the last quarter.



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Market Outlook *(continued from page 3)*

What we expect

We like to handicap odds of outcomes. This process recognizes the wide spectrum of potential outcomes and enables us to also consider the economic impact of the tails (best and worst extreme case scenarios). For most of the scenarios we consider, the markets rebound a bit more over months with a heightened level of volatility, relative to history (*i.e.*, not the last quarter). There are some better scenarios and some worse. All are driven by three primary factors: (1) any rapid deviations of the Coronavirus activity from expectations; (2) public (mostly monetary & fiscal) policies; and (3) large scale liquidity driven meltdown. One big difference from today and 2008, is the notion that we know the Fed/Congress can roll out supportive policies to put a floor in the markets (policy effectiveness was more opaque in the GFC of 2008). We often refer to such public policies as “pulling a rabbit out of a hat.” Not that it is magic, but the policies are illusions as they actually compound long-term risks in exchange for near-term financial prosperity. The REAL depression will come when there are no more rabbits in the hat!

Performance

Finally, on performance, the market goes up and the market goes down. We all need to maintain our perspective beyond the immediate days and weeks and focus on the fact that, over time, all historical market selloffs were eventually surpassed. If we all maintain objectivity, evaluate risks and opportunities with an eye on avoiding carnage, and judiciously position for the future, we will look back on the Coronavirus sell-off of 2020 with a sense of satisfaction that we at Harpswell did what we were supposed to do. We pledge to you that we are in your corner and executing with an objective and logical perspective. Thank you for the trust you place in Harpswell. ❖

COVID 19: Working Remotely

How Harpswell Has Navigated COVID-19

On March 31, 2020, the Governor of Maine issued an Executive Order, commonly referred to as a “Stay-at-Home Order.” It requires all persons living within the State of Maine to stay at their home or residence with a few outlined exceptions, including to conduct essential business operations or perform minimal office functions for non-essential businesses.

Following this Executive Order, Harpswell has implemented several protocols to ensure the safety of our employees and others. The offices are closed to the public, and all meetings are taking place using either remote-meeting technology or the phone. Harpswell staff are working from home to the greatest extent possible (and have been doing so since mid-March). Those who come into the office do so according to a schedule to ensure that no more than two employees are in the office at any time. Harpswell employees are practicing required social distancing and are taking all efforts to minimize their personal risk.

Although the current crisis is novel, Harpswell has had business continuity plans and processes in place for everything from a blizzard to an inaccessible office. Our remote-working capabilities are well-practiced and allow us to continue operations seamlessly.

The team is carefully reviewing each portfolio on a daily basis while the market has been in flux. In preparation for the quarter, the team carefully ensured that each portfolio was within its policy target ranges and, in some cases, made select rebalancing trades where opportunistic.

As we navigate these challenging times, Harpswell’s staff misses the collegiality of a normal office routine but are eager to do our part to “flatten the curve” and put this crisis behind us. ❖

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Pearls of Wisdom: Warren Buffet

Berkshire Hathaway released its annual report on Feb. 22, 2020. As usual, Chairman Warren Buffett's letter is of interest to investors who look to the oracle of Omaha for pearls of wisdom. This year's letter had a few key messages and the tone was noticeably more somber and reassuring than that in previous letters. In fact, it seemed as though the letter was meant to front-run the inevitable "ultimate risk" which has concerned investors for decades. Note: Charlie Munger, Buffett's long-time investment partner, is 96 and Buffett turns 90 this year.

"Charlie and I long ago entered the urgent zone [regarding age]. That's not exactly great news for us. But Berkshire shareholders need not worry: Your company is 100% prepared for our departure."

The common themes regarding long-term investing, which are present most years, were certainly echoed this year. Buffett often opines on resilience and the economic tailwinds he sees in the USA, along with the power of compounding. This year, he expanded on those themes and discussed how retained earnings versus companies distributing cash through dividends can propel long-term returns. This topic had a two-fold significance. First, it is at the core of Buffett's beliefs that retained earnings are a more efficient means of investing versus reinvesting the dividends. Second, discussions on the prospects of Berkshire Hathaway someday distributing a dividend have been common for years (decades) and Mr. Buffett has contested the merits of the company sending cash out the door to its shareholders.

Mr. Buffett constantly comments on the promise our equity markets have over the long run, and that optimistic attitude was reiterated this year.

Note: Charlie Munger, Buffett's long-time investment partner, is 96 and Buffett turns 90 this year.

Indeed, he also recognized the inherent volatility that comes with equity investments (last minute edit??) and warned against investors utilizing leverage in their investment portfolio.

"That rosy prediction comes with a warning: Anything can happen to stock prices tomorrow. Occasionally, there will be major drops in the market, perhaps of 50% magnitude or even greater. But the combination of The American Tailwind, about which I wrote last year, and the compounding wonders described by Mr. Smith, will make equities the much better long-term choice for the individual who does not use borrowed money and who can control his or her emotions. Others? Beware!"

Finally, the letter discussed Berkshire Hathaway' perpetual hunt for acquisitions and outlined the three key criterion that he uses in assessing potential deals. The criteria were quite simple. First, prospective acquisition targets must earn good returns on the net tangible capital required in their operations. Second, they must be run by honest and able managers. Finally, the prospective transaction needs to be available at a sensible price.

Harpswell's team appreciates the message Mr. Buffet consistently sends in his annual letter. The nuggets of financial insights spread throughout the letter are always interesting, yet the Oracle of Omaha's message on Berkshire Hathaway's principles make for much better lessons. ❖

What to buy at the BoTTOM?

The fact that large cap domestic growth stocks have handily outperformed almost every other asset class over the last decade is no secret. Large companies such as Amazon, Google, Facebook, Apple and Microsoft (often referred to as FANG stocks – see chart below) all generated excess returns well above those for almost every equity index, both domestic and international.

Why did the FANGs perform so well?

There are three common elements that contributed to the FANGs outsized returns. First, they all have scale and a business model that has high fixed costs and minimal marginal costs. Thus, it is hard to break into their markets because the high barrier associated with the fixed costs. Also, as they grow, a higher proportion of their revenue falls to the bottom line (*i.e.*, with low marginal costs, growth leads to higher profit margins as there are minimal additional costs are associated with new business). Second, they have a "moat" around their business which further impedes competition. A moat is a factor that differentiates your product and inhibits competitors from moving into your space. For example, Google's moat is the byproduct of their technological advantage which makes all other search engines effectively obsolete. Try "Binging" the term "Google's Moat." You will find that none of the search results on Bing's first page of results are applicable, while all of the search results on Google for "Google's Moat" were relevant to the moat and this point. ☺ Finally, none of these companies have meaningful amounts of debt. In aggregate, they have hundreds of billions of dollars in cash and this is expected to fuel future growth. *(continue to page 7)*

Harpswell's team has dedicated considerable research to studying market tendencies both before and after significant market sell offs (how timely!) The FANGs were most certainly the place to be during the exuberance and euphoric stages, but what about in an era of hope? *(continue to page 7)*

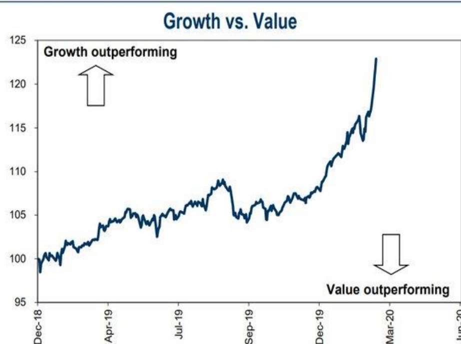
What to buy at the Bottom? *(continued from page 6)*

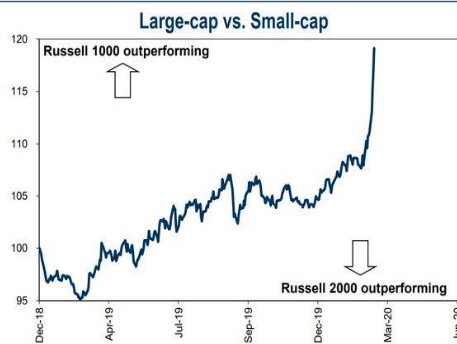
There is a case to be made for and against the FANGs during the dismay and hope stages of the market cycle (see diagram to the left). They all have exceptionally high profit margins and they also have tons of cash. This translates into sustainable profit margins and not credit issues. Credit issues are the grim reaper for most companies who perish at the bottom of the cycle. With that said, they likely didn't sell off as much as their smaller and more value-oriented brethren who probably got clobbered during the era of despair. That was certainly the case this year.

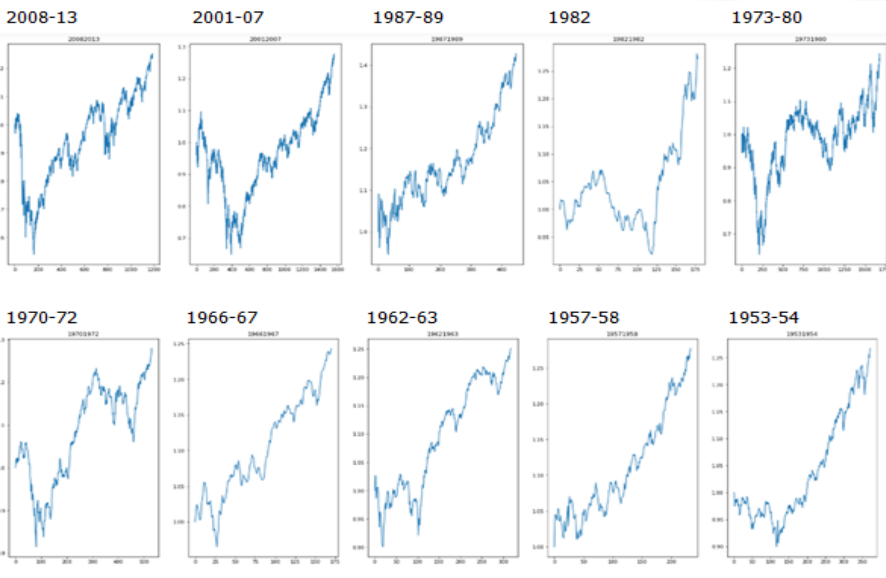
Thus the FANGs look attractive but other asset classes are trading at a huge discounts to them.

As depicted to the right, this dispersion between growth and value, as well as that for large and small cap stocks, is at a historic level.

Style and Size







Looking at the Bears of the past

While past market patterns (see chart to the left) have no baring on our current conditions, it is helpful to reflect on previous market corrections as a means to conceptualize how the catalysts which lead to each sell off translated into volatility. Looking back at the market corrections since 1950, we can see that the rate of markets' recoveries often mirror the slope of the selloff. *(continue to page 8)*

"History doesn't repeat itself, but it often rhymes."

-Mark Twain

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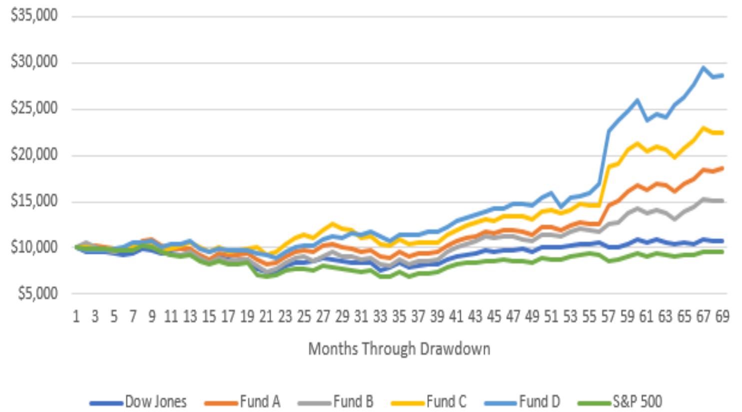
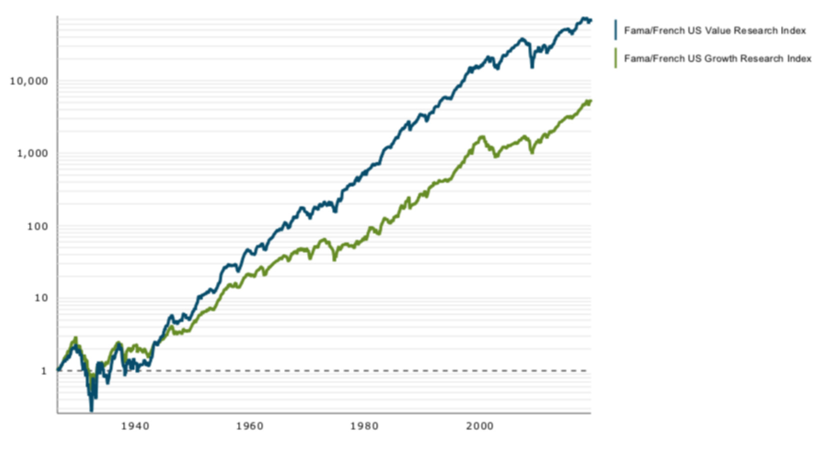


What to buy when the market "goes on sale"

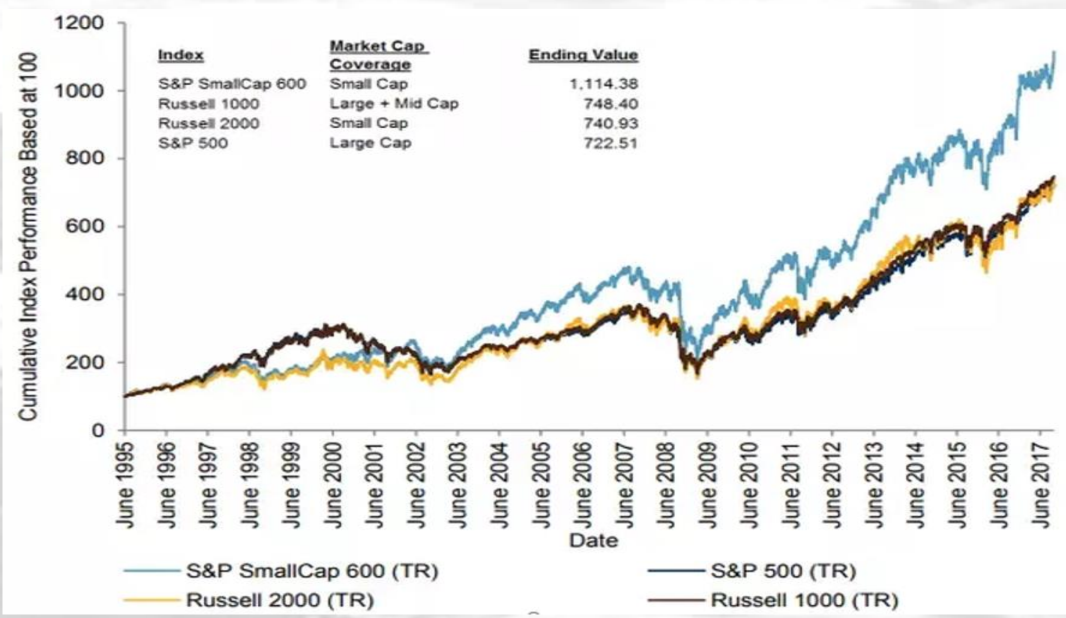
Harpswell created a composite of four asset classes for periods following the last three market corrections and compared them to the S&P 500 and the Dow Jones (see chart to right). While history makes no promises about future performance, we did find that smaller and more value-oriented funds did outperform during the dismay-to-relief eras. Please reach out for more color on this work.

Chart A



Fundamentally, smaller companies tend to have higher debt levels and less cash on hand. Thus, when a recovery is in sight, concerns over debt turn into attractive leverage to the upwardly trending cycle and that optimism drives outperformance. In fact, while it certainly does not feel like the case recently, value investing has outperformed growth (see chart A to the left) and small cap has handedly outperformed large cap stocks over time (see chart B below).

Chart B – Cumulative Performance of the S&P SmallCap 600 Versus the Russell 2000



Index	Market Cap Coverage	Ending Value
S&P SmallCap 600	Small Cap	1,114.38
Russell 1000	Large + Mid Cap	748.40
Russell 2000	Small Cap	740.93
S&P 500	Large Cap	722.51

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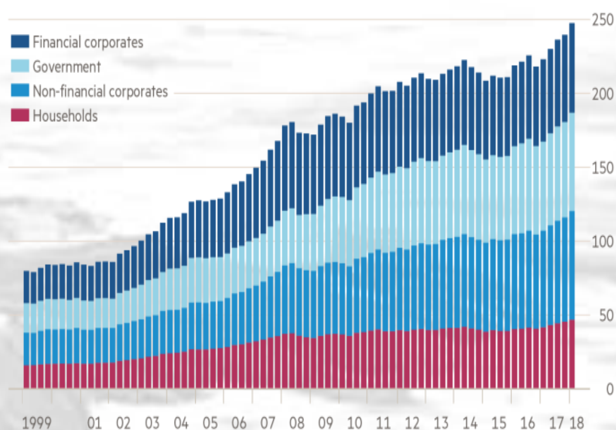
Optimism or Greed?

Most financial crises are accompanied by excessive optimism (or greed) and/or excessive leverage. That was certainly the case with the dot.com crash of 2000, as well as the great financial crises of 2008. While you would assume that we learned a lesson from the GFC and conducted our financial affairs with a more prudent and sage posture, that is not the case. The market clearly did not learn that debt impedes future growth and increases the economy's susceptibility to recessions (or depressions). Instead, we learned that banks fail when they become over-leveraged, so we need laws to prevent that from happening.

As global debt levels continue to escalate (see chart below). What has changed is who (supposedly) stands behind the debt and backstops the losses in the event of a crisis. The market very efficiently sniffs out the path of least resistance when it comes to piling on debt, and the new "limitless" sources of liabilities are governments, corporations and households.



Economists gauge the relative threat associated with leverage by comparing it to GDP. The problem with looking at debt levels as a percentage of GDP is it appears as though "all is good" when GDP is elevated, and that phenomenon thwarts the perceived need to deleverage during more prosperous years. Furthermore, increasing debt levels pull future economic activity to the present day; therefore, new debt actually artificially raises GDP and that too sends the wrong message.

We consider the inability of our society to deleverage to be a moral hazard. Given that we piled on debt in 2019, a year with markets hitting all-time highs and unemployment at record low levels, we find it hard to envision any successful meaningful debt reduction absent an enormous crisis.

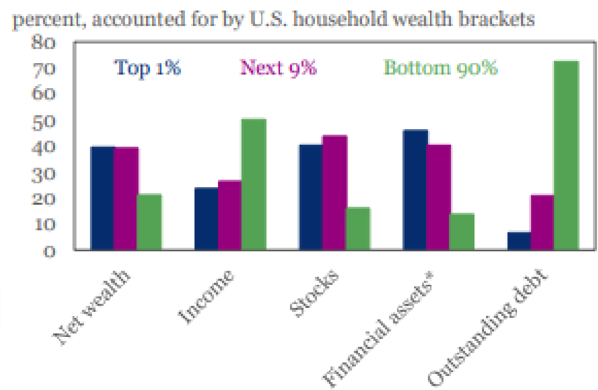
The origins of future crises more likely will be rooted in consumer and government debt. Corporate debt has its cycles; however, there are factors that should curtail excessive leverage issued by corporations. First, unlike heads of households and our politicians, the leaders of corporations are technically fiduciaries; meaning they are expected to act in the best interest of investors. Fiduciary duties fall into two broad categories: the duty of loyalty and the duty of care. Both categories combine to create a liability for corporate leaders who breach the obligation and load up on debt. While we know its not perfect, the corporate checks and balances should enable corporations to wean debt issuance as they approach crisis levels.

While we see government debt (municipal and federal) as the cause of the unavoidable big market crash, we fear consumer debt is a hidden danger that could lead to challenging long-term financial conditions, slower economic growth and expanded inequality. *(continue to page 10)*

Optimism or Greed?

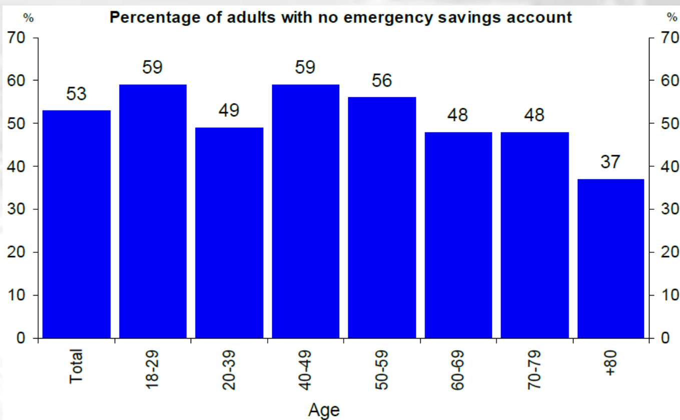
As suggested by the graph to the right, most of household debt is the obligation of the bottom 90%. When the bottom 90% is indebted to the top 10% we live in a cycle of perpetually growing financial disparity. This ultimately leads to populism (analogous to two cheetahs and a gazelle voting on what is for dinner).

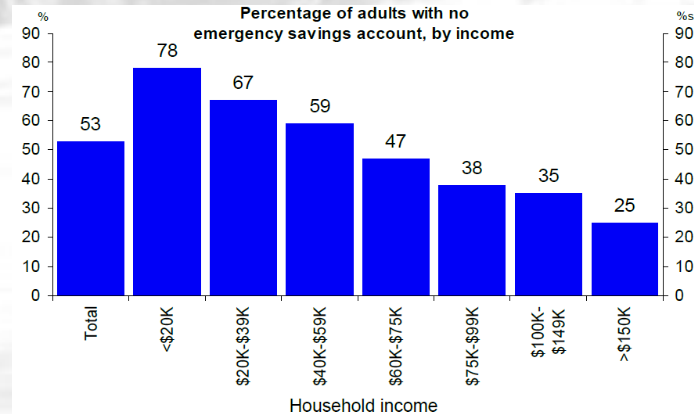
Concern grows when the disparity reaches a point where a majority of the lower 90% do not have enough resources to weather a financial storm.



Source: NBER, IIF; *excludes primary residence

As the two graphs below highlights, an intolerable portion of the US population do not have emergency savings to help them meet their needs in trying times.





It is often said that the seeds of bankruptcy are sowed in good times. That can be said for financial and societal crises too. The time to address public policy is in the good times when we have options; not when the concerns have already progressed into realities.

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COVID: Impact on Supply Chains

We are consistently reminded that the world we live in is getting smaller by the day. Economies are not independent of one another and are frequently inseparable. In the wake of the COVID-19 pandemic, supply chains to industries all over the world are displaying weaknesses that might have been corrected long ago.

One-thousand of the world's largest companies, or their suppliers, own more than 12,000 facilities in quarantined areas (Resilinc), predominantly in China. During the 2003 SARS epidemic, China made up 4.3% of global GDP. The current landscape looks much different. Today, China represents about 16% of global GDP, four times higher than the previous decade.

Shipping times for freightliners by sea to the U.S. and Europe run an average of 30 days, however ports all over are already feeling the effects. We can infer that if Chinese suppliers stopped operations in late January, then the last shipments reaching port would be late February. Depending on the industry and company-specific inventory, we can assume we might see some shortages in imports through March and April. These shortages could continue until we see operations start back up again from points of origin.

Industries worldwide are dependent on suppliers in areas hit hardest by this virus. COVID-19 will have countless detrimental effects and, moving forward, it will be especially important to understand how our supply chains are key arteries for our economies. ❖

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March 2020 Flash Report

Overview: Coronavirus – The outbreak continued to take its toll on Domestic and Global economies prompting Congress to take an extraordinary measure by passing a $2.2 Trillion Fiscal package to assist businesses and consumers. Initial unemployment claims were in excess of 3M breaking the previous record of 695K in 1982. **Domestic GDP** – Goldman Sachs now estimates real GDP growth of 0% in the 1st quarter from its original estimate of 0.7%. For the 2nd quarter, it sees U.S. growth contracting to -5.0% from its initial forecast of 0%. However, Goldman raised its 3rd quarter U.S. GDP estimate to 3% from 1% as they expect economic activity to recover after April with stronger growth in the 2nd half. **Federal Reserve** – the Fed lowered the target range for its Federal Funds rate to 0-1/4%. It will maintain that range until it's confident that the US economy has weathered the impact of the Coronavirus outbreak. The Fed also uncapped the amount of assets it could purchase to increase its balance sheet and expanded the scope of eligible securities.

Equities: Domestic – The Coronavirus outbreak continued to weigh on stocks as large portions of the economy shut down. The **S&P 500** fell 12.4% in March, resulting in a loss of 19.6% YTD. Large Growth companies lost 9.8% where Healthcare was the best performing sector. However, Large Value firms faired much worse, falling 17.1%, led by Energy and Financials. The Russell 2000 plunged 21.7% in the month. The index is down 30.6% in 2020. In the month, Small Value was down significantly, falling 24.7%, while Growth lost 19.1%. Small Value is down 35.7% this year.

International – EAFE added to 2020 losses by falling 13.2% in March. A stronger Dollar contributed 1.2% to the month's loss. Virus outbreaks in Europe & Asia heightened investor concerns with Italy & Spain the hardest hit European markets along with Australia in the Far East.

Emerging Mkts – the markets were negative again in March, losing 15.4% and 23.6% for 2020. Brazil was down 38.2% in the month leading Latin America to a 34.5% loss in March. China lost only 6.6% in March and has been the best performing emerging market this year.

Fixed Income: Short term yields declined materially in March by 120bps following the Fed's rate cut. Yields on the **90 Day T-bill** closed at 0.07%. More significantly, the **10 Year Treasury** yield fell by 47bps to 0.66% closing at another record low. The yield curve ended the month slightly positive across all maturities . The **30 Year Treasury** yield closed at 1.31%, 34bps lower than February. Rates moved lower as investors flocked to low risk assets, reacting to the significant economic uncertainty associated with the viral outbreak.

In contrast, **Municipal** yields rose in March. The **1 Year Municipal** yield closed at 1.07%, trading at a 92bps premium to a comparable Treasury. Tax-exempt yields are now at a premium to Treasury yields. The **30 Year Municipal** yield closed at 2.08% which is 77bps higher than the 30 Year Treasury. The tax -exempt premium over Treasuries represents a significant dislocation in the fixed income markets.

International yields moved modestly as investors redeployed to US Treasuries in a flight to quality. **German** rates rose by 10bps ending with a negative 0.7% yield for the **2 Year Bund** and 13bps higher to a negative 0.48% for the **10 Year**. The **UK 10 Year Gilt** yield fell by 9bps to 0.35%. The **Japanese 10 Year Gov't** bond yield rose by 17bps to 0.0%. The **2 Year Yield** also increased by 11bps to negative 0.16%.

High Yield bonds lost 11.5% in March maintaining an average yield of 5.9%. The Aggregate Bond Index lost 0.6% in the month reflecting an approximate yield of 1.8
%.

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
Domestic Equities						
Dow Jones	-13.6%	-22.7%	-22.7%	-13.3%	4.4%	6.9%
S&P 500	-12.4%	-19.6%	-19.6%	-7.0%	5.1%	6.7%
Russell LG Value	-17.1%	-26.7%	-26.7%	-17.1%	-2.2%	1.9%
Russell LG Growth	-9.8%	-14.1%	-14.1%	0.9%	11.3%	10.4%
Russell 2000	-21.7%	-30.6%	-30.6%	-24.0%	-4.6%	-0.2%
NASDAQ	-10.1%	-14.0%	-14.0%	0.6%	10.4%	10.7%
MLP Index	-47.2%	-57.2%	-57.2%	-61.0%	-28.9%	-20.7%
REIT Index	-19.5%	-24.2%	-24.2%	-16.8%	-0.5%	1.7%
International Equities						
EAFE	-13.2%	-22.7%	-22.7%	-13.9%	-1.3%	-0.1%
EAFE Small Companies	-17.2%	-27.5%	-27.5%	-17.8%	-2.5%	1.3%
Emerging Markets	-15.4%	-23.6%	-23.6%	-17.4%	-1.3%	0.0%
China	-6.6%	-10.2%	-10.2%	-5.6%	7.2%	3.8%
Fixed Income						
US Agg	-0.6%	3.1%	3.1%	8.9%	4.8%	3.3%
US High Yield	-11.5%	-12.7%	-12.7%	-7.0%	0.8%	2.8%
Municipal Bonds	-3.6%	-0.6%	-0.6%	3.9%	4.0%	3.2%
Currencies						
EURO	0.2%	-1.8%	-1.8%	-1.8%	1.0%	0.5%
British Pound	-2.5%	-6.1%	-6.1%	-4.5%	-0.3%	-3.5%
Japanese Yen	0.6%	1.1%	1.1%	3.1%	1.4%	2.5%
Commodities						
Bloomberg Commodity	-12.8%	-23.3%	-23.3%	-22.3%	-8.6%	-7.8%
S&P GSCI Crude Oil	-54.7%	-66.8%	-66.8%	-66.0%	-26.0%	-23.6%
Gold	1.8%	4.5%	4.5%	22.2%	7.7%	5.4%

Commodities: WTI Crude Oil fell significantly by $**25.08/barrel to $20.22/**barrel at month's end. Oil prices continued a dramatic pullback as a result of demand destruction due to the viral outbreak and a price war between Russia and Saudi Arabia. **Gold** prices remained steady, increasing by **$4/oz to $1591/oz** in March. Investors had been moving to Gold as a safe harbor investment but in March assets moved primarily into US Treasuries.

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GRATITUDE

We are honored to serve our clients 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!

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Harpswell invests in stocks, bonds, mutual funds and sometimes alternative investments. Each asset class, along with each individual investment, carries varied degrees of risk of loss. Harpswell analyses investments from a long-term fundamental perspective and aims to engineer portfolios that have an attractive risk and reward balance. Despite a strong bias for diversification, all Harpswell portfolios do carry risks of losses, particularly in times of escalated market volatility. Harpswell does focus on capital preservation yet extraordinary markets can potentially generate material losses.

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Alternative investments are designed only for sophisticated investors who are able to bear the economic risk of losing all of their investment. Alternative investments: (1) often engage in leveraging and other speculative investment practices that may increase the risk of investment loss; (2) can be highly illiquid; (3) are not required to provide periodic pricing or valuation information to investors; (4) may involve complex tax structures and delays in distributing important tax information; (5) are not subject to the same regulatory requirements as mutual funds; and (6) often charge high fees.

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Market index information shown herein, such as that of the S&P 500 Stock Index, is included to show relative market performance for the periods indicated and not as standards of comparison, since these are unmanaged, broadly based indices which differ in numerous respects from the portfolio composition of the Fund. Market index information was compiled from sources that Harpswell Capital Advisors believes to be reliable. No representation or guarantee is made hereby with respect to the accuracy or completeness of such data.

Index Definitions

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.

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