Q1 2021 Market Synopsis

Economic & Market Update:

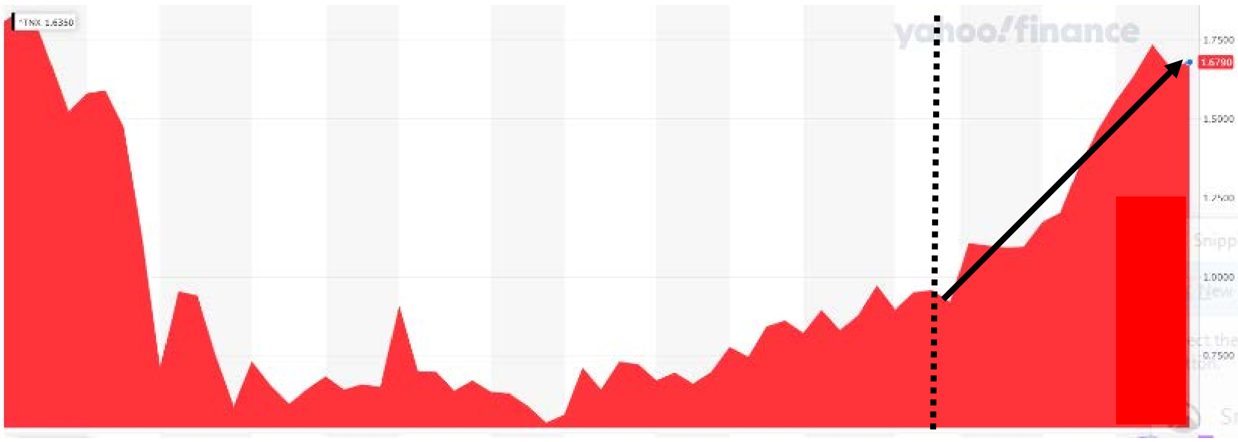
The first quarter of 2021 started off much like 2020 with no shortage of dramatic headlines; the COVID-19 pandemic raged on with all time high case numbers and we endured a contentious election aftermath like we have not seen in decades. Despite all these challenges, just like the cold and very snowy winter transitioned to a warmer and more pleasant spring, we see a return of life and strong growth for the US economy. Just as importantly we also look forward to a return to a much more 'normal' way of life as we exit the worst of the pandemic.

Despite all the negative health and economic impacts imposed on the world by COVID-19, the first quarter of 2021 was somewhat volatile, but generally positive for most stocks, alternative/private investments, and risk assets. The global stock market (ACWI) was up 4.9%, with foreign stocks slightly underperforming their US counterparts. All private/alternatives were up between 2% to 4% with one notable exception (our consumer lending fund; LENDX), which we will address later in the newsletter.

Select 2021 YTD Asset Class Returns (3/31/2021)	
Alternative Lending (LENDX)	+ 23.0%
Nat Gas/Oil Pipeline Companies (TPYP)	+ 18.5%
DJ US Real Estate (US Real Estate)	+ 7.9%
S&P 500 (US Stock Market)	+ 6.3%
MSCI EAFE (Foreign Developed Stock Market)	+ 4.0%
MSCI Emerging Market (Emerging Stock Market)	+ 3.2%
Private Real Estate Equity (TIPWX)	+ 2.9%
Middle Market Lending (CCLFX)	+ 2.7%
Private Farmland, Timberland, Infrastructure (VCRRX)	+ 1.6%
High Yield Bonds	+ 0.6%
Insurance Linked Securities (XILSX)	+ 0.5%
Municipal (Tax Free Bonds)	- 0.7%
TIPS (Treasury Inflation Bonds)	- 1.7%
Investment Grade Corporate Bonds	- 5.5%
US Mid/Long Treasury Bonds	- 5.7%

** GPB Holdings II, Mosaic, BREIT, and KKR Fund Performance included within the private investment section on page 6.*

Below: ***Chart of the 10 Year Treasury Yield 1/1/2020 – 3/31/2021***



The bond market experienced one of the worst quarters in several years due to rapidly rising rates, increasing inflation expectations, and very low yields. The 10-year **Treasury rate rose from 0.92% to 1.7% within the quarter.** This rapid rise in rates caused most bond classes to return between **– 1%** and **– 8%** for the period. Bonds will generally provide good diversification vs. stocks and be relatively stable over the long term. However, in the current environment Warren Buffet described the long-term prospect for bonds as "return-free risk". For the most part we agree with this sentiment and have acted upon this sentiment over the last few years to find suitable bond replacements.

Currently, our alternative/private investment suite has replaced between roughly 60% and 100% of a normal portfolio allocation (depending on risk level). Since inception, this unique suite of investments has produced 5% average annualized total returns, higher cash flows, no interest rate sensitivity, and no more volatility than bonds.

We view this allocation as one of the most important aspects of creating portfolios that are in a position to deliver on client's long term performance requirements and generate solid cash flows, while not increasing volatility within the portfolio to maintain our client's retirement goals.

The major factors which impacted markets in Q1 2021 are highlighted below:

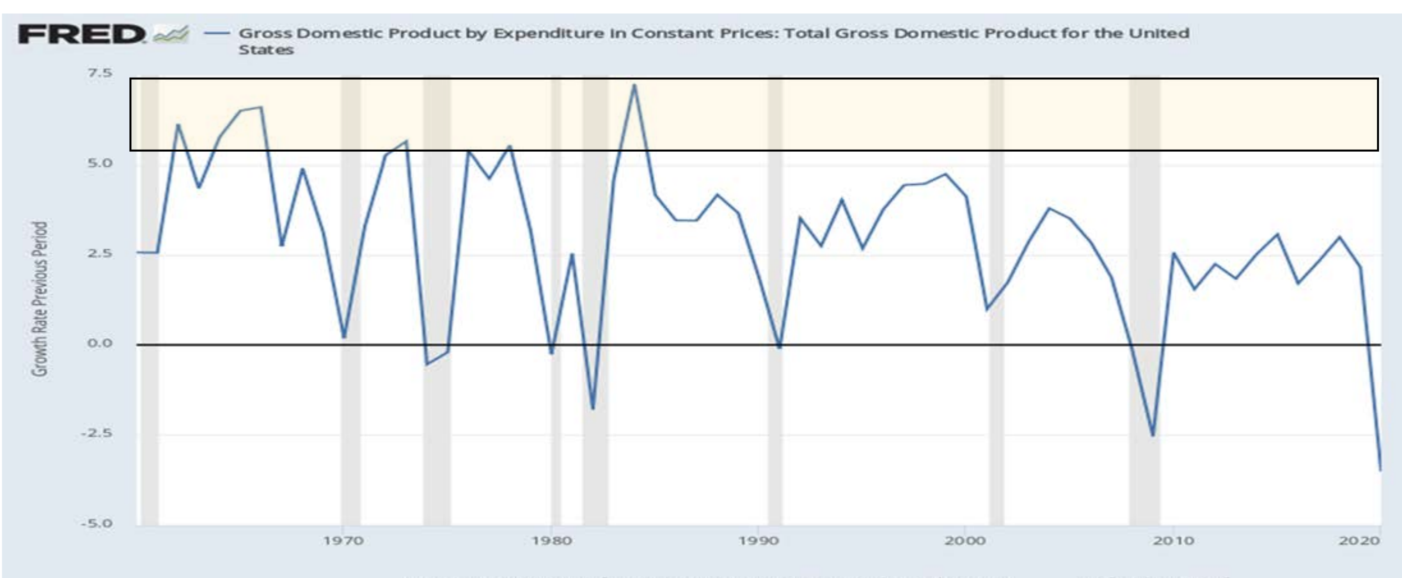
- **Rapidly Rising Interest Rates:** We have been anticipating rising rates since March and April of 2020, when the 10-year Treasury fell below 0.5%. At that point we began a movement out of all classes of bonds and into some cash and/or alternative investments. In the first quarter of 2021 this proved quite beneficial with rapidly rising rates and increased inflation. Other assets outside of bonds were also impacted including highly valued/speculative growth and technology, healthcare, consumer staples, and utility stocks.

From this point through early 2022, with expected rapid economic expansion, immense fiscal and monetary stimulus, record savings, falling unemployment, and a reopening of the economy we expect further rate increases. We believe the 10 year Treasury to be in the range of 1.9% to 2.4% later this year. This of course, would likely place continued pressure on bonds and other interest rate sensitive assets for the rest of 2021.

- **Historic Levels of Fiscal & Monetary Stimulus:** Since March of 2020 there have been three ~ $+ trillion stimulus packages passed to combat the pandemic and its economic impacts. The first two, passed during the Trump administration, amounted to roughly $4 trillion in total funds injected into the economy. Over the past month the Biden administration passed the $1.9 trillion Covid Relief Bill. This will again add funds into varied areas of the US economy.

  On top of the roughly $6 trillion already approved and working its way through the economy, the new administration just announced plans for another $2+ trillion to be utilized mostly for infrastructure build out and improvements over the next decade.

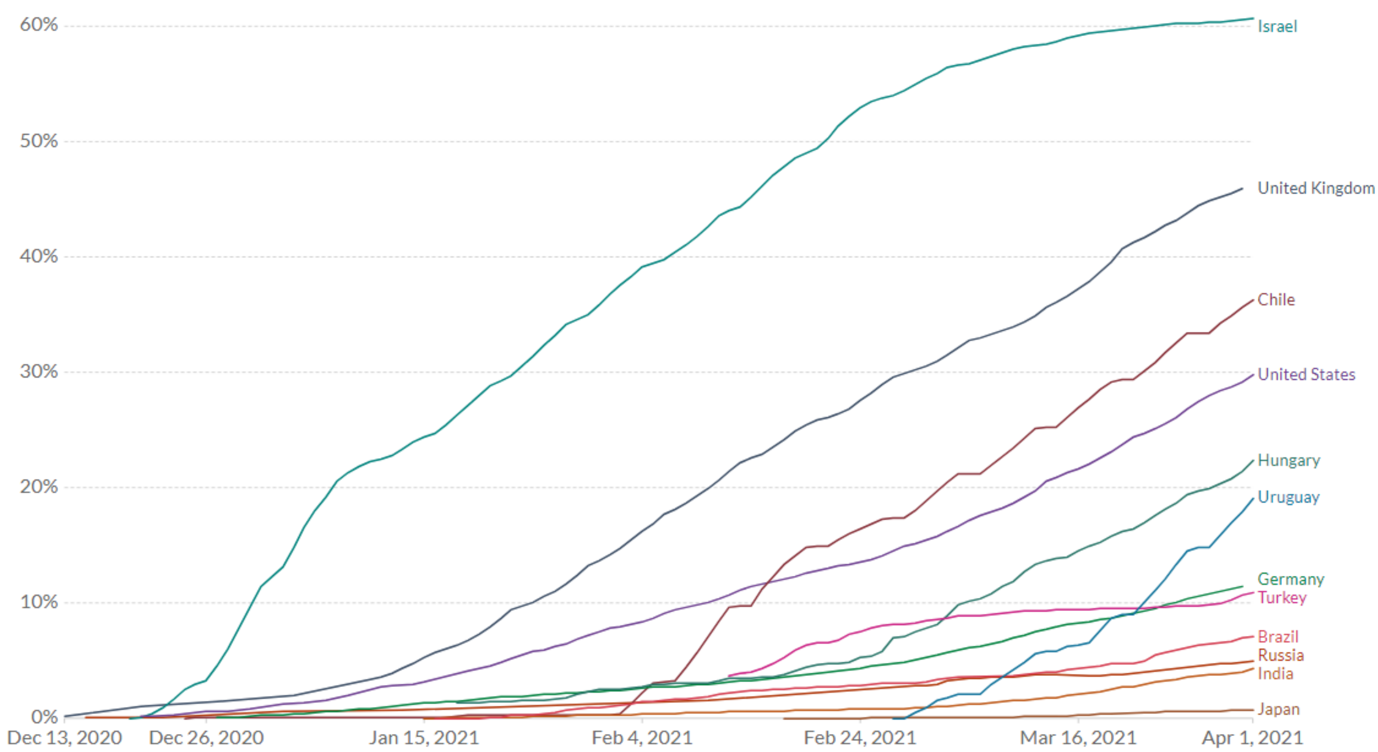
  When this powder keg of fiscal stimulus is combined with a still very accommodative Fed, record levels of consumer savings (eager to be spent), and a reopening of the economy economic growth of 7% to 9% is possible this year. **We have not seen that rate of economic growth since 1984!**



Above: ***Annual GDP growth in the US from 1960 through 2020. The yellow shaded area represents current estimates for 2021 GDP growth (1984 is highest year depicted)***

- **COVID-19 Pandemic & Mass Vaccination:** Through late January the pandemic ravaged on with record high case counts and hospitalizations, despite the first vaccinations being administered nationwide. Since then, the daily amount of vaccinations administered continue to increase and full availability to the adult population expected in May or June.. **Currently 30% of the entire population of the US has had at least 1 dose, with 17% fully inoculated.** Outside of Israel, the US, Chile, and the UK are leading the charge worldwide in vaccination rates. Hopefully Europe and other hard-hit areas of the world start to make significant progress within the next couple months.

Below: ***National Vaccination Rates among different countries (at least 1 dose)***



- **Sector and Industry Performance Reversal:** In 2020 with plummeting interest rates, no inflation, and increased need for healthcare and technology services, those two sectors were not surprisingly the best performers. Healthcare was up a very respectable +13.9%, while technology was in a world of its own with a +44% return. So far in 2021, with economic conditions doing a ‘180’, we see the laggards of 2020 rising and the past leaders taking a breather. So far in 2021 sectors that benefit from higher rates, inflation, and economic growth such as energy, financials, and industrials are the best performers. Energy, after a poor 2020, surged 33% in Q1 2021 with both financials and industrials up in the mid-teens.

Healthcare, consumer staples, and technology stocks, the stalwarts during the pandemic are taking a well-deserved break with returns between breakeven and + 3% on the year.

This trend can continue through 2021 and possibly into 2022, but we do think the secular growing sectors will retake their position as leaders over the long term.

Traphagen 2021 Portfolio Changes & Performance Update

Through the first quarter of 2021 the vast majority of client portfolios are near breakeven (most conservative) to up mid-single digits for most others risk levels. We are very pleased with these results; as despite rapidly rising rates/inflation expectations, many interest rates sensitive companies down 20% to 40% off of their February highs, and all bonds down in the quarter, our client portfolios have proved resilient.

The three most critical components of the positive performance within portfolios this year are summarized below:

- **Reallocation to alternative/private investments from bonds:** Over the past several years (and especially in 2020) Traphagen has been reallocating the majority or all traditional bonds within a portfolio to alternative/private investments. Since the inception of this strategy in 2013, the average annual return of our alternative suite has been 5.0% per year while the bond market aggregate has averaged 2.6%. This return enhancement has been accomplished without any increase in volatility within the portfolios. In addition, since the bond aggregate currently yields around 2%, we think future bonds returns are likely to be even lower going forward.

- **LENDX (Stone Ridge Consumer Lending Fund) performance:** This fund represents between 3% and 6% of most client portfolios and has provided a roughly 5.5% average yearly return with very low volatility since we first allocated funds. That historical return/risk fund profile temporarily changed in December 2020. In the early years of the fund to obtain better lending terms on the underlying loans within the strategy, Stone Ridge made several small equity investments (less than 1% of fund assets) in companies such as SoFi, Lending

Club, and Upstart. Upstart (UPST) went public in December of 2020 and since Stone Ridge's initial private investment in the company, it is up roughly 15X and now represents roughly 15% of the entire fund. LENDX fund holders have accrued the full benefit of this, with the Upstart stake returning an 'excess' 30% above the return of the underlying loan strategy. The 2021 year to date return of the fund is + 23.5% (2.3% of which is from the base loan strategy), and this has obviously been a great boost to client portfolios overall. Stone Ridge does plan to sell the stock position when they are legally able in the June/July time period. It is also important to note the volatility of the fund will be much higher than normal until such time as they do exit the Upstart stock position.

- **Rotation into small cap, value, and cyclical stocks:** Starting in mid/late 2020 Traphagen thought with an eventual reopening of the economy and extensive government stimulus we would see a significant surge in economic growth sometime in 2021. In anticipation of this we pared back a portion of our technology and larger cap stock holdings in favor of sectors that would benefit from vastly higher economic growth, rising rates, and inflation. The largest fund allocations we made were into 'AVUS' and 'DON' which are both smaller/mid cap focused with a significant value stock component. DON is up 18% and AVUS is up 11.7% year to date, while the SP500 is up 7.5% reflecting the outperformance of the 'reopening trade'.

- **Allocation to 'TPYP' (oil/natural gas pipeline stocks):** Although a material laggard last year, we felt this security was undervalued and primed to rebound with rising rates, commodity prices, and inflation. The sector also yielded around 6.5% in dividend income alone at the start of 2021. Year to date, with a much-improved backdrop, this security is up just shy of 20%, and still offers value and a 5.6% yield to investors.

Private Investment Update *(for accredited investors only; $1M+ with Traphagen)*

Private Equity (GPB Fund II): As we expressed in our early March communication, we were disappointed to hear of the securities charges filed against three former executives of GPB Capital.

GPB has since issued three additional letters to investors with more detailed information on the recently appointed SEC monitor, financial statements, new management, and the recent ADV filing. This week, the monitor issued his recommendation to the court for a continuation of his monitorship for an additional 180 days, while GPB continues business operations. Both GPB management and the monitor have stated they have developed a good working relationship and continue to work towards their shared goal of maximizing value and returns for investors.

Private Equity (KKR Fund): I-Capital completed their acquisition of this well diversified private equity fund from Artivest over the past month. The fund strategy will remain largely unchanged under new management with a few small enhancements/ changes. These changes include KKR taking a larger and more active role in the fund, less cash held within the fund (which minimizes cash drag), and other actions which will reduce total fund fees. The total return of the fund in 2020 was + 10.7% with much smaller drawdowns and less volatility than the public stock market.

Private Real Estate Credit (Mosaic): Traphagen remains very pleased with Mosaic and their performance through COVID-19 and very challenging times for most real estate investments. Their final 2020 return was + 7.8%, with the Q4 2020 interest payment set to be paid to investors within the next week or so. They continue to actively work on the 14.5% of the portfolio that is deemed 'non-performing' in addition to selling off pieces of other commitments and loans which ultimately add to investor returns and yield. Currently, they do not believe there will be any loss of principal on any of their non-performing loans. Their strong focus on protection of investor capital is one of the main reasons we initially invested in the fund and continue to like its future prospects.

Private Real Estate Equity (Blackstone Fund): This is a private real estate equity fund mainly comprised of industrial/warehouse and multi-family residential properties, along with some newer investments in self-storage and single-family housing. After a great 2020 (especially compared to publicly traded real estate) with a return of + 6.9%, the fund has started strong in 2021 with a + 2.8% return through February. The fund currently yields 4.7% in rental income per year (paid monthly).

2021 Market and Economic Outlook Update:

With the vaccine rollout accelerating, people starting to return to normal or ‘near-normal’ spending patterns, the economy reopening, and the government pouring money into the economy we continue to look for accelerating economic growth and corporate earnings for the remainder of 2021. As we mentioned prior, we are looking for GDP growth in 2021 of 7% to 9%, which would be the highest yearly GDP growth recorded since the 1980s.

In addition, the current unemployment rate of around 6% is poised to come down over the remainder of the year and most likely will be in the upper 4% to low 5% range by the end of 2021. Our Traphagen Recession Index (TRI) which helped signal the 2020 recession, is currently showing very low levels of recession risk (25%). Traphagen does not see any significant risk of an economic slowdown/recession through at least early/mid 2022 (outside of a black swan event).

Along with this growth and spending surge, comes the likelihood of continued rising interest rates and inflation for at least the next 6 – 9 months. This is not a bad thing to a point, as higher inflation is actually the stated goal of the Federal Reserve. That being said, if an investor is overweight speculative stocks with little or no earnings, virtually any type of traditional bonds, utility companies, or other interest rate sensitive securities, a portfolio can be vulnerable to material losses. Traphagen has positioned client portfolios in a fashion where they can not only survive this changing environment; but can thrive.

We hope all our clients the best as we exit the cold/snowy winter of 2021 and put the worst of the COVID-19 pandemic well behind us. We are very optimistic as we look ahead to the rest of the year in terms of the economy, the stock market, economic growth, and most importantly the chance to return to ‘normal’ lives and the simple joys we lived without for the past year.

As always we thank you for the continued trust you place in us as a firm.

Best regards,
Your Traphagen Investment Team