

# Horizons 1Q | 2015

A Quarterly Newsletter for Homestead Funds' Shareholders

## In This Issue

Roth IRA Advantages.....	3
Q4 Market Summary.....	4
Homestead News Briefs.....	5
What's New Online? .....	6

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## Charting a Course for Growth

### Fund Company Welcomes New Chief Executive Officer

We're pleased to introduce Stephen Kaszynski as director, president and chief executive officer of Homestead Funds and RE Advisers, the fund company's investment advisor. Steve, who assumed his new roles on January 31, 2015, is an industry veteran with more than 35 years in the money management business.

We asked Steve to share a bit about his past and explain what drew him to this new opportunity. If you have feedback on your experience as a Homestead Funds' shareholder or suggestions for Steve, he'd love to hear from you. Send an email to [stephen.kaszynski@homesteadfunds.com](mailto:stephen.kaszynski@homesteadfunds.com).

### Background and career

When I was very young, my family relocated from Fort Smith, Arkansas, to Chicago. I was born in a hospital that was most likely powered by the Arkansas Valley Electric Cooperative.

My father was stationed at Camp Chaffee before working as a research scientist, and my mother was a teacher in the Chicago public school system.

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**Stephen Kaszynski, CFA**  
*Director, President and CEO*

BA, Economics, Knox College  
MBA Finance, University of Chicago

*Steve joined Homestead Funds in 2015 as director, president and CEO. He is also director, president and CEO of the fund company's investment advisor, RE Advisers. Steve has broad responsibility for shaping the strategic vision and directing the business activities of the fund company and its related money management entity.*

## Small-Company Stock Fund Wins Prestigious Lipper Award



Lipper named Homestead's Small-Company Stock Fund the top fund in the small-cap core category for the 10-year period ending November 2014. Announced annually, the Lipper awards recognize funds that have delivered consistently strong risk-adjusted three-, five- and 10-year performance relative to their peers, based on Lipper's proprietary performance-based methodology. The fund's track record was recognized at a March 31, 2015, awards dinner and ceremony in New York City.

*Past performance does not guarantee future results.* In determining the universe of funds considered for an award, Lipper includes those registered for sale in the respective country as of the end of the calendar year that have at least 36 months of performance history. The calculation periods end at November-end of the respective evaluation year. Share prices of small-capitalization stock funds may be more volatile than those of large-capitalization stock funds. Smaller companies may have limited product lines, markets or financial resources, or their management teams may have less depth and expertise, compared with large-capitalization companies.

► **There may still be time to fund an IRA for tax-year 2014. See page 3 for IRA strategies.**



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We moved again about a decade later to Rockville, Maryland, where I attended high school. Rockville is very close to NRECA and Homestead Funds' office in Arlington, Virginia. I still have family here. So after living in many different areas of the country, this feels to me like coming home.

I returned to Illinois for college, graduate school and my first job as an investment and loan officer with a small bank. The constant in my career has been investment management with a focus where it should be, on the client. My roles have included many other aspects of the business as well: process improvement, marketing and business development, team building and mentoring. I tend to gravitate to positions where I see a collaborative culture and an opportunity to lead talented professionals. I believe Homestead Funds has some of the best money managers in the business, and our roots in serving the interests of our co-op members run deep.

I'm proud to be a part of NRECA. Rural electric co-ops have touched many members of my immediate family. My wife, Marilyn, spent her earliest years on a farm in rural Pennsylvania, and my in-laws still speak highly of the help they got from Northwestern REC.

### Developing a long-range view

I'm settling in and have started to work with the different departments — portfolio management, operations, client services and marketing. My first goal is to develop a strategic plan that will support the continued growth and success of the fund company. Collectively, we're developing a long-range view of where we'd like the business to be and determining the best way to get there.

Homestead Funds' roots are with the co-operative community. We value that. Cherish that. And want to make sure anything we do supports that. We also have an opportunity to grow the business in new ways. That's very exciting.

Growing revenue by delivering top-notch and affordable money management provides budget support for the association that could help offset member dues or fees for service. In this way, the profits generated by RE Advisers stay in the co-op community. If you are an employee of a member co-op, you should really think of Homestead Funds as a local business supporting you and your community.

### Looking ahead

The financial services industry is constantly changing. Demographic changes spur product innovation. Advances in technology reshape services. And there are many ways products are brought to market — offered direct to investors, via fund supermarkets, or through brokers or financial advisors. It's a complex marketplace.

When I consider where we may have opportunities to improve or expand the services we provide, I think about how the average person is dealing with retirement. What are the challenges for maximizing income, preserving wealth and passing along some financial support to the next generation? The marketplace today offers so many one-size-fits-all investment programs. Are there more personalized solutions RE Advisers or Homestead Funds could offer? Our investors deserve all of the experience and knowledge we can bring to their personal investment needs.

I'm very excited about this opportunity to take the fund company into its next quarter century. We have a top-quality portfolio management staff with great track records in multiple asset classes. We are committed to working as a team, bringing energy and momentum to growing the business and supporting NRECA's mission of member service. Helping our investors meet their individual investment goals is quite simply the right thing to do. ✨

# Taxes Can Take a Bite Out of Retirement Account Distributions. Here's Where a Roth IRA Can Help.

A Roth IRA allows you to avoid future taxation of your retirement funds by making nondeductible contributions now. Contributions for the 2014 tax year can be made any time beginning January 1, 2014, **up to and including April 15, 2015.**

## Planning distributions for tax efficiency

Just as you diversify your portfolio by asset class, it's also a smart move to spread your retirement assets across accounts with different tax characteristics. For example, if you have made pretax contributions to a Traditional IRA or 401(k), you'll owe income taxes on that money when it's distributed to you. If you have also funded a Roth IRA with after-tax contributions, those distributions are income tax-free, provided you are at least age 59 ½ and the account has been open for at least five years.

Maintaining both types of accounts gives you the flexibility to take distributions in the most tax-advantaged way.

“Retirement investors who have, over time, accumulated assets in either a Traditional IRA or 401(k) account *plus* a Roth IRA account can make some choices as to how much to withdraw from the taxable account versus the nontaxable account. For the taxable Traditional IRA or 401(k) account, they would have to satisfy the Required Minimum Distribution rules, but beyond that if the extra money they needed affected their tax bracket, they could look to the Roth IRA, where qualified withdrawals are tax-free. You have the opportunity to create a strategy that works for you,” says Homestead Funds senior client relationship advisor Alaina Schrager.

A Roth IRA may also factor into your estate planning needs. There is no age at which the original account owner must take Required Minimum Distributions, and Roth assets can provide tax-free income to your beneficiary, distributed in periodic payments made over his or her life expectancy.

*(continued on page 4)* ►

***A relatively new tax rule eliminated the income restrictions that used to prohibit taxpayers with MAGIs of more than \$100,000 from converting a traditional IRA to a Roth IRA. Now anyone can convert.***

## Investing for Retirement

In addition to IRA accounts — Traditional and Roth — Homestead Funds offers a range of services to help you reach your retirement goals, including:

- Help understanding your retirement plan distribution options
- Assistance in rolling money held in an employer-sponsored 401(k) or other retirement plan to an IRA with Homestead Funds. If considering an IRA rollover, evaluate any applicable fees, charges, limitations or restrictions
- Help setting up a program of systematic withdrawals to meet monthly income needs

A client services associate would be happy to help you. Please call 800.258.3030.



**Alaina Schrager**  
Senior Client Relationship Advisor and  
Registered Representative

Homestead Funds does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstance. Diversification does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.

## IRS rules for Roth IRAs

- Contributions to a Roth IRA are nondeductible regardless of your income level or participation in an employer-sponsored retirement plan.
- Contributions are limited to \$5,500 a year (\$11,000 for couples) for the 2014 and 2015 tax years. Investors ages 50 and older can make an additional \$1,000 catch-up contribution annually.
- Income thresholds determine whether you are eligible for a Roth IRA. For 2015, single taxpayers with modified adjusted gross incomes (MAGIs) between \$116,000 and \$131,000, and married couples filing jointly with MAGIs between \$183,000 and \$193,000 are eligible for a partial contribution. Taxpayers earning less than these thresholds may make the full contribution. Those earning more are not eligible.
- Qualified distributions are tax-free. To qualify, you must have maintained the Roth IRA for five years and:
  - Be at least 59 ½ years old
  - Withdraw up to \$10,000 (lifetime limit) and use the money for a first-time home purchase
  - Become permanently disabled

## Conversion of a Traditional IRA to a Roth IRA

There are no longer any income restrictions on converting a traditional IRA to a Roth IRA. (Prior to 2010, taxpayers with MAGIs of more than \$100,000 were prohibited from making the conversion.) If you have a traditional IRA and your contributions were not tax-deductible, investment earnings and capital gains will be taxed but contributions will not. The withdrawal from your traditional IRA will count as income but will not affect your eligibility for the Roth conversion.

If you have a traditional IRA that has declined in value, you may want to consider whether converting to a Roth IRA is appropriate given your situation. You may be paying taxes on a smaller amount than you would have several years ago.

Because IRA rules are complex, ask your financial advisor whether maintaining a Roth IRA, or converting a traditional IRA to a Roth account, is suitable given your situation.

### Call Us for Help

A client services associate would be happy to help you consider whether a Roth IRA is right for you. Please call 800.258.3030. ✨

## Q4 Market Summary

While most of 2014 proved relatively calm, the sharp drop in oil prices in the fourth quarter, and a one-day “flash crash” in the Treasury market in October, offered investors a somewhat wilder ride at year-end than they had experienced earlier.

Oil’s price decline, which generated concerns over a potential deflationary spiral and possible global recession, also complicated Fed efforts to raise short-term rates. With oil prices so weak, it was not surprising that yields at the long end of the Treasury market would drop also. Generally, bond investors in 2014 did better the farther they went out on the yield curve — which was the exact opposite of 2013.

The S&P 500 Index, a barometer for large-capitalization performance, returned 4.93 percent for the quarter and 13.69 percent for the year, while the small-cap benchmark, the Russell 2000 Index, returned 9.73 percent for the quarter and 4.89 percent for the year. ✨

### Highlights

- The Federal Reserve (Fed) held fast to its commitment to end the fiscal stimulus policy known as Quantitative Easing (QE) during the fourth quarter, while setting the stage for a rate increase sometime in 2015 — a move likely to spur increased market volatility.
- The rapid decline in oil prices dominated economic news in the fourth quarter as burgeoning supplies exceeded global demand.
- The U.S. economy continued to demonstrate broad strength through the quarter, supported by resurgence in consumer spending. As if setting the stage for continued market leadership in 2015, the U.S. easily outperformed most of its overseas counterparts.

The Standard & Poor’s 500 Stock Index is a broad-based measure of U.S. stock market performance and includes 500 widely held common stocks. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10 percent of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices do not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.

# Homestead Funds News Briefs

## Kiplinger's Personal Finance: Oldies but Goodies

The Small-Company Stock Fund was one of six funds magazine editors named consistently good performers. The article appears in the February issue published in January. Filtering from a list of 1,500 stock funds, Homestead's Small-Company Stock Fund earned the top spot for consistently above-benchmark returns (rolling periods 10/03 – 10/14). Past performance does not guarantee future results.



## Barron's: Homestead's Ashton on the Artistry of Investing

Small-Company Stock Fund portfolio manager Mark Ashton was profiled in the December 15, 2014, issue of the financial newspaper Barron's. In the article, Mark discusses a number of the aspects of the fund's patient, buy-and-hold approach and the team's focus on research.



## 2015 NRECA Annual Meeting

Homestead Funds' representatives, including fund company president Steve Kaszynski (profiled on page 1), were in Orlando, Florida, for NRECA's annual meeting in February. We enjoyed meeting with shareholders and friends in the cooperative network.

## NRECA Directors Conference

If you attended this year's March meeting in Reno, Nevada, we hope you had a chance to visit with the Homestead Funds' team, on hand to present fund information and speak with investors about their accounts.

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## Mutual Fund Fees Matter

Mutual fund fees can vary widely from fund to fund, depending on the type of investments the fund contains and the fund family's focus. Higher fees can erode your net investment return over time. Homestead Funds is pleased to offer many choices to investors on a budget and those who want a good value. Homestead Funds makes investing affordable in these ways:

- All no-load funds, so you pay no sales commissions
- No transaction fees
- No 12b-1 fee
- Low service charges and investment minimums
- Lower-than-average fund expense ratios

**Investors are advised to consider fund objectives, risks, charges and expenses before investing. The prospectus contains this and other information and should be read carefully before you invest. To obtain a prospectus, call 800.258.3030 or visit [homesteadfunds.com](http://homesteadfunds.com).**

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# What's New on Our Website?

Homestead Funds launched a redesigned and expanded website in November 2014. Here are a few of the new sections that we hope you will check out for yourself online.

## What do Homestead Funds' portfolio managers think about the markets?

We've added quarterly market reviews and an ad hoc Perspectives series to share our portfolio managers' views and strategies:

- Quarterly market review covering developments in the stock and bond markets
- Our Perspectives, a Q&A with a member of the management team

## How are my funds performing? How are they invested?

We've added information about portfolio composition and interactive charts.

- Overview includes Lipper and Morningstar industry rankings
- Prices and Performance allows you to look up a Fund's historical share price
- Composition shows how portfolio assets are invested — by industry, security type or country — and top holdings for the equity funds.

## Where can I get help with financial planning decisions?

Investment planning offers information by topic. Check out:

- Investing by life stage can help you focus by calling out the considerations that are likely to be most relevant for you.
- Investing basics has mini-tutorials that can help you get up to speed as an investor. Every investor should understand the concepts of diversification and balancing risk and return. We make it easy. ✨

*Diversification does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.*



This newsletter contains general information that may not be suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

This document may contain forward-looking statements based on the portfolio managers' expectations and projections about the methods by which they expect to invest. Those statements are sometimes indicated by words such as "expects," "believes" and "will." In addition, any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual returns could differ materially and adversely from those expressed or implied in any forward-looking statements as a result of various factors.

Homestead Funds' investment manager, RE Advisers Corporation, and distributor, RE Investment Corporation, are indirect, wholly owned subsidiaries of NRECA. RE Investment Corporation, Distributor. 04/15