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Investors Look to U.S. in Times of Global Volatility

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Mark Santero: I'd like to welcome all of our attendees to the Homestead Funds webinar series, Investment Insights and Business Strategies. We thought it appropriate this quarter to discuss "Investors Look to the U.S. in Times of Global Volatility." Certainly we've experienced that so far year to date, and we'd like to give all of our investors an update on what we see going forward.

The meeting format follows our typical agenda where we go through our capital markets review. We'll discuss the relative strength of U.S. investment markets, which is our specific topic today. And then we're going to touch on our Rural America Growth & Income Fund, which is celebrating its one-year anniversary, and how that is relevant to the strengths that we see in the U.S. investment market. All attendees are on mute. You are able to submit your questions using the Q&A feature. As always, this meeting is being recorded, and you'll get the recording via email next week. Those of you that are looking for CEU credits, proof of attendance will be provided in the post-event email.

As of May 1, RE Advisers, formerly the investment advisor to the Homestead Funds, changed its name. We are now Homestead Advisers, where we align the investment manager to the actual name of the fund group. Hopefully this avoids some confusion on who RE Advisers is. We've been around since 1990. We've got $7.9 billion under management [as of March 31, 2022], and we are the investment manager to the funds.

Let's get to the market review and outlook. Typically I do this on my own, but last quarter, I brought in a couple of our investment professionals given the volatility in the markets and given the amount of uncertainty that we see. With me today, I'd like to introduce Mauricio Agudelo, who is our head of fixed income; Jim Polk, senior equity manager on the equity team; along with Prabha Carpenter, who is also a senior equity portfolio manager. Between myself and our investment professionals, we hope to make some sense of what's going on out there. So, let's get right into it.

What has caused the volatility that we've experienced all of this year [Slide 6]? We can go back to the fourth quarter of last year. So no surprises: Inflation is at a 40-year high. Uncertainty about how much the Fed is going to tighten. Off-cycle, on-cycle. Is it a quarter basis point? 25 basis points? Is it 50 basis points? We also have a continued event going on in the Ukraine with Russia. COVID is still an issue causing lockdowns in China, which obviously affects supply chain. And, up until recently, our stocks — richly valued. Any one of these events would cause volatility in the market. We now have these events happening all at once. And to help make sense of it, I'm going to bring in our team to talk about individual asset classes.

It's been a bumpy ride for stocks [Slide 7]. This chart shows you from the beginning of the year what we've experienced. And hopefully to bring a little context to this slide, I'm going to ask Jim and Prabha to share their thoughts.

Jim Polk: Thanks, Mark. Mark said on the previous slide, you have a confluence of events that are going on, and the biggest issue right now is the market trying to figure out whether the Fed will be able to engineer a soft landing and will be able to raise rates at a pace that will slow the economy without sticking us into a recession. And that's really the crux of it. Inflation at a 40-year high, supply chain issues that are causing part of that. You've got demand from all the stimulus from the past couple of years that has created a lot of demand. So all these things are coming together, and the market's really concerned about whether the Fed can engineer a soft landing.

When you came into the beginning of the year, on a forward 12-month basis, stocks were around 22.5 times coming into the year, and they are about 16.5 times now. Without earnings having come down at this point, what you've really seen in the market is a lot of multiple compression, which has actually driven most of the decline in the market. The bigger question is, what does the E look like? What does the earnings look like? Even at 16.5 times, if we do end up going into a

recession, that 16.5 times could be something much higher than that. And so that's really what we think the market is wrestling with.

I saw on a news article the other day that strategists for their year-end S&P 500 targets are at the widest spreads, other than one other time, than they've ever been. So there's a lot of uncertainty out there, and I thought that was kind of interesting. Mark, I'll turn it back to you.

Mark Santero: Thank you, Jim. Not only has it been a bumpy ride for stocks, but bonds — the fixed-income market — has seen no refuge as the yields on even investment-grade and Treasuries have surged. Here to bring in some thoughts on that and these unprecedented times, I've asked Mauricio for his comments.

Mauricio Agudelo: Good afternoon, everyone. This has certainly been the worst start to the year for the fixed-income market [Slide 8]. As we can see from this table, if the year ended today, this would be by far the worst total return for a calendar year going back to 1976. We are certainly living in unique times, given the events previously mentioned by Mark. Unfortunately the bond market has not provided that downside protection that investors seek in these times of volatility, and this can be explained by the highest inflation we have seen in the last 40 years.

The Fed pivoted back in the fourth quarter of 2021 to remove accommodation and to increase borrowing rates in order to attain inflation. For fixed-income investors, the majority of your return comes from your coupon, your income. And in 2021, that income was very low. We were coming off of very low levels of Treasury yields, and credit spreads were really, really tight. So not a lot of coupon there to cushion any of this downside that we have experienced so far in 2022.

So far this year, the Fed has increased rates twice [Slide 9]: the first time in March by 25 basis points, the second time in May by 50 basis. The market is currently anticipating a couple more rate increases coming up of 50 basis points each for the June and the July meetings, and subsequently about 25 basis points for the following meetings for the rest of this year. Additionally, the Fed is looking to remove accumulation and reduce the size of the balance sheet through a process called quantitative tightening, and this is beginning in June. We still have a lot of dynamics. We are still mindful of the volatility that we are experiencing across asset classes, Mark.

Mark Santero: So everybody understands, when we say five to seven rate hikes, each rate hike is 25 basis points. We've had three already, and the general feeling in the market is that we'll experience one off-cycle in June of 50 basis points, which would be two, and another one in July, which would be another two. And that's what's priced in bonds right now. So that would be two in May, two in June, two in July. That's six, plus the one in March would be seven, already in '22. And then with the general feeling that a pause in the off-cycle in August to see how the economy responds to this increase in cost of capital. And what does increase in cost of capital mean? Mortgage rates, your credit card balances, car loans, buying on store credit, et cetera. Taking a look in August to see, after these expected rate hikes, how many more times, if necessary, the Fed would have to tighten this year or in '23, as well as the stance on quantitative easing policies.

What does that all mean if we have rising rates [Slide 10]? The biggest concern with rising rates is, will that cause recession risk? And we've seen where we've had the two-year bond yield higher than the 10-year, what is called an inverted yield curve. We've talked about this in the past. Every recession has been proceeded by an inverted yield curve. We have been inverted at certain points this year, but not every inverted yield curve leads to a recession. We still have persistent supply and demand imbalances. The strength of the consumer balance sheets — consumers still have strong savings rates. And the Fed policy is basically people taking educated guesses. What does it mean for '22 into '23? What do we see in the markets? And I'm going to ask first Prabha and Jim to talk about the equity side, and then Mauricio, their thoughts on the likelihood of a recession in '22 and '23, which is again, six months away.

Prabha Carpenter: Thanks, Mark. Thank you everyone for joining us today. As the slide says, past recession triggers have been different. Some of us remember the ‘70s oil embargo — energy-related, it may seem familiar but not quite the

same. And the last crisis that the U.S. economy endured was the global financial crisis. And it was housing- and mortgage-related — abuses on the housing overbuilding, overextending housing credit, mortgage credit — that created problems on a massive scale.

Here we have a pandemic-induced problem. We had huge fiscal support in the U.S. for consumers and small businesses to get us out of the pandemic. And this has led to supply and demand imbalances, spurring inflation on a level not seen in decades.

As everyone has said, the Fed has raised rates and is focused on fighting inflation. And the markets on the equity side are a concern for the reasons Jim and Mark have said. You have a discount rate mechanism with the Fed raising rates; it impacts valuations. So you've had multiple contractions as rates rise. We're in the early stages of this impact of interest rate increases, but you're beginning to see, as Mark mentioned on housing and autos and in credit, some demand pullback.

We're mostly through the first quarter earnings. We kept our fingers crossed, but the charts have showed the S&P down 22-odd percent; there's been no place to really hide. It's been all capitalizations, all sectors. We have seen in the last week some consumer-related names that have also felt the brunt of costs. So what we're going to see is wage costs, input costs, transportation costs beginning to impact margins, and you'll start seeing that in the second quarter results. Now I'll turn it back to Jim and Mark.

Mark Santero: Jim or Mauricio, any thoughts on recession risk?

Jim Polk: I have nothing to add on the equities side. Mauricio?

Mauricio Agudelo: We saw so far the first rating for GDP for Q1, and that came in with a negative print, I believe. Next week we will get the second grading of that. We do see signs of a slowdown, particularly the housing market. When you look at mortgage rates coming into the year, say we were around three, three and a quarter for a 30-year mortgage; right now — correct me if I'm wrong — but I believe we are around five and a half, and this is still with home appreciation, massive home appreciation, throughout the pandemic. So there has to be some level of pause to bring balance back into demand and supply.

Speaking of supply, the Fed is addressing the demand side of the economy. We'll be looking to see what happens on the supply side. As you mentioned, the lockdowns — they still continue to disrupt supply chain, so we're still seeing a lot of that.

The corporate side on fixed income, we are cautiously optimistic because corporations were able to extend the maturity profile and refinance debt, really attractive levels in 2020 and 2021. We have seen less new issuance in corporate bonds so far year to date. And that has been able to provide some stability for the investment-grade corporates. On the other hand, we welcome the yield profile of corporate bonds right now. When you have three-to-five-year maturity corporate bonds yielding between 3% and 5%, that starts to add up for investors. As I mentioned before, we were coming off of really low yields, and we were not really earning any coupon. Everything was based on capital appreciation of the bonds. As a fixed-income investor, I'm excited about that because you're putting income back into fixed income. I'll leave it at that for now.

Mark Santero: Great, thank you. If we can go to the next slide [Slide 11]. Thank you, Jim, Prabha and Mauricio. So what do we see ahead for '22? This slide really hasn't changed since '21. Higher costs of goods and services. Inflation is here to stay. I think we can take out the "not transitory" — even the Fed has admitted to that in the fourth quarter. So prices, labor costs, costs for goods and services are not going to come down. We've reestablished new levels. As I said, higher wages to keep up with inflation, and labor shortages to persist. Rising interest rates, as Mauricio has eloquently stated, rising yields on bonds as a result of inflation and Fed tightening.

Let's look at that and put that in perspective. Those of us who have been around a while, I'll raise my hand, coming into this business in '82, the past decade plus hasn't really been normal types of interest rate environments. When you talk about investment-grade bonds in the three-to-five year, we are in the 3% to 5% yield, and that's what we're going to now. So are we going back to normal and leaving those anomalies of flat interest rate markets? Equity markets, this is the one that I don't need it. What we see ahead for '22: Will equity markets perform positively but at a modest pace? I think that one of these "see aheads" might be in question. But certainly the last bullet point here on volatile markets will most certainly continue through '22. We're still dealing with the pandemic, the shutdowns in China, inflation. We haven't even talked about midterm elections. And the global hot spot, one big hot spot. So what does that all mean?

Our special topic is, what does it mean for domestic markets? At Homestead Advisers, when we look at the Homestead Funds, we do have an international portfolio, but primarily we are invested in the domestic markets, domestic equities, domestic fixed income. So what's our view on the U.S. markets. And for us, we're of the belief that the U.S. markets can provide ballast in times of volatile cycles, that we're currently in, for our investors.

The U.S. economy, the largest global economy — we provide a quarter the growth [Slide 13]. Roughly 70% of U.S. GDP comes from our massive consumer base. When you look at how other countries perform, they want their goods in the U.S. because of our consumer base. When you look at volatile times, typically international investors come to U.S. Treasuries, come to U.S. fixed income and equities, because of the stability of our markets. So, why do we remain optimistic on U.S. markets? It's because of our scope and size of our economy. So, let's talk about that and what that means going forward in the U.S. markets.

So we've seen declines; we've been through this for decades. What's happened in the past, and how has the market recovered? So I'm going to ask Prabha to give us a little bit of a history lesson here and make some sense on this very telling slide [Slide 14].

Prabha Carpenter: Thank you, Mark. It's a compelling slide. As equity investors, we're perpetual optimists. The equity market, as you can see from these charts, bounces back after declines. The average bull market, the total return is 166% in this time frame, and it lasts 61 months. And the average bear market, a 34% negative return, and it lasts 13 months. We all remember in March of 2020, everything just happened, and the recovery was almost instantaneous. The Fed is doing the right thing in terms of getting inflation in check by raising rates, even though it may be painful in the short term. Over the long haul, we believe, for all the reasons Mark mentioned, the recovery of the U.S. economy, and it's the super tanker that leads the global economy.

We have a long-term view with our quality companies that have strong business models, strong financials, strong cash flow growth and strong managerial prowess to weather these storms. The Fed is doing the right things. We also have faith in technology and automation, which are disinflationary. And we think the pandemic-induced supply chain bottlenecks will be ameliorated with reopening and more vaccination and more growth. So there's nearshoring, onshoring and other issues also that may benefit the U.S. in particular.

Mark Santero: Thanks, Prabha. I think one of the points that Prabha raised was technology, is leading innovator in new technologies. I view when we have labor shortages, that's where U.S. innovation comes into play, and we come up with new technologies to replace where labor shortages exist. And so I think we're on the verge of possibly some new technologies to come out where we are experiencing labor shortage. They're not around the corner, but these are some of the drivers that have kept the U.S. markets at the forefront of innovation and growth. Keep that in perspective. Let's look at the next slide [Slide 15].

From the bond perspective, it's been brutal. We've had to comfort Mauricio and Ivan over the past 18 months given the volatility in Treasuries and investment grade. But this historic slide could put in perspective what we're experiencing now and basically why the U.S. may be a place to invest. So Mauricio, share your thoughts on this slide, please?

Mauricio Agudelo: I appreciate your comfort and understanding during this period because there is no other way to describe it, but it has been brutal. The sell-off has been broad-based across the credit quality spectrum. As we see on this chart, on the right-hand side, this is the rates shock that we are living through, and as for AAA-rated securities, AAs, single As, triple Bs and going down the credit quality spectrum to high yield to the triple Cs. As we see here, AAA paper has underperformed, and this is driven strictly by duration. When rates go up in such a fast fashion, you are going to see this type of returns in the fixed-income market. Unlike the COVID scare in 2020, the market was trying to differentiate between those companies that could perhaps not make it past the pandemic. So you saw the lower-quality companies underperforming. As I mentioned before, I welcome higher income for our investors right now. And as Prabha mentioned, we are going through some short-term pain to hopefully put us in better footing long term. I'm not going to call the peak of the higher rate cycle, because that's nearly impossible, but I will say that we have seen some stability in the Treasury market, this higher level of rates — for instance, the 10-year Treasury hit a high of about 3.13%, 3.15%, earlier this month, and now as of today we see it around 2.75%. The two-year Treasury is inside of 2.50%, as of today, May 24th. So we are seeing some stability, and I welcomed that going forward.

Mark Santero: Great. Thank you, Mauricio. Thank you, Prabha. Again, I don't want to show my age, but I remember back in '82, '83, the 10-year was at 10%*. It just puts things in perspective, and we're a hair under 3% now. And we're coming from where the 10-year was below 2%. So, a little yield actually helps the fixed-income markets. As you can see, the U.S. markets, whether it's on the equity side or on the fixed-income side, American ingenuity, investments, technology and the kinds of companies that we buy, either equity, securities or fixed-income securities, we think are well positioned going forward.

We started a new fund last year, the Rural America Growth & Income Fund. And that was a product that is near and dear to all of our hearts from being part of NRECA that supports our rural electric cooperatives around the country, as an association, and as everybody knows, Homestead Advisers is a subsidiary. And we started this fund, and many people that said, Oh, you're starting this because of the infrastructure bill. But, this was on the drawing board for a good a year plus before we launched it — almost two years — because we saw the value in investing not only in America but in the rural counties where are our co-ops and their members exist.

We just had our one-year anniversary, May 1st, and with me today to talk a little bit about the fund, is Mark and Ivan, both portfolio managers: Mark Iong on the equity side and Ivan Naranjo on the fixed-income side. The Rural America Growth & Income Fund — Ivan, why don't you just put in perspective the fund, the investment objective, and what you and Mark are trying to achieve in running this portfolio.

Ivan Naranjo: Hello, everyone. It is my pleasure to explain the Rural America Growth & Income Fund's objective and investment criteria. As Mark said, in the year plus that we were making this concept into an actual product, we developed a multifaceted approach to make sure that investments in the Rural America Growth & Income Fund were aligned to our objectives. So let's discuss those further.

As you can see here, investments to be included in the fund need to meet at least one of the three following criteria [Slide 18], the first one being at least 10% of the company's revenues are derived from, or at least 10% of the capital expenditures are made or committed to, the economic drivers of rural America. The second one is headquarters or material business operations by an NRECA member. And third, headquarters or material business operations as well in a rural area as defined by the U.S. Census Bureau. As far as key economic drivers of rural America, we'll discuss it on the next slide and I'll let Mark Iong, go for it.

Mark Iong: We definitely share everyone's excitement on the call today about investing in the U.S. during periods of global uncertainty, and in particular, we are perhaps even more optimistic about the opportunity in rural America, just given our view that the overall U.S. economy cannot flourish without the support and growth of our rural communities. And based on our research, we do believe the stars are aligned for an inflection point in the rural American economy.

On a macro level, we see several positive forces at play. One, strong labor market trends as unemployment rate and wage growth in rural counties have been outperforming metro areas since the pandemic began. Two, key sectors such as agriculture manufacturing and commodities have been thriving, or at least a bit more resilient in the overall economy. Now these industries make up a disproportionately high percentage of the rural economy compared to the rest of the country. And third, as Mark mentioned, there's significant government fiscal stimulus in the form of a new $1.2 trillion bipartisan infrastructure bill that was passed last November to help invest in America's neglected infrastructure, and all of that funding should start to flow down to the state local levels in the coming years. And in turn, we do believe this should help spur a long-awaited renaissance in reshoring manufacturing back here into the U.S.

On this slide [Slide 19], you can see a list of some of the key economic drivers that we believe will help empower this revival. Broadly speaking, these economic themes can be grouped into what we think are three categories. The first bucket includes essential products that are exported from rural America to the rest of the country. Agriculture is usually the first one that comes to mind, and we look across the entire value chain, agriculture machinery and chemical companies that help farmers do their job better or down the street process, food and beverage companies that source raw materials from farmers locally, or even industrial transportation companies are responsible for moving these products through the rest of the country.

The second bucket consists of companies that are addressing these under-invested infrastructure needs. And that includes broadband and wireless communication services, which we often talk about is the country's new electricity, especially given a quarter of the rural population still lacks access to broadband internet.

And then there are also other areas of infrastructure needs, such as highway and road, waterways, power infrastructure, which will all receive significant funding from the infrastructure bill. And last but not least, the third bucket comprises what we would call local champions that are keenly focused on serving small and rural businesses and consumers. For example, in the consumer sectors, there are rural retail businesses that are providing key products and services to local consumers. In the financial services sector, there are regional and community banks serving the under-banked population. In health care, there are service providers focused on medically underserved areas. And finally in technology, there is a wide array of companies that provide software or payment services or process automation to enroll businesses. And this goes on. We try to be as comprehensive as possible, but certainly we recognize these factors are dynamic and can change over time.

Here is a map that shows the headquarters of the fund's equity holdings [Slide 20]. And you can see a wide dispersion of our holdings across the different U.S. geographies, especially in the yellow highlighted rural areas, which make up 97% of the country's landmass. As discussed in the previous slide, while many of the companies in the fund are based on the contribution to rural economic factors, as Ivan mentioned at the beginning we also have two other criteria that are based on the locations of the company's headquarters and their key physical operations in, for example, an NRECA co-op service area or in a rural county as designated by the U.S. Census Bureau. And our fund strives to capture these companies that are important employers and taxpayers in these local communities. In this investible universe, we'll find many companies in middle America that we will consider as underappreciated, hidden gems, simply because they are companies that folks don't often hear about on Wall Street. But in fact, they are making a strong impact as the engines of the rural economy.

In aggregate we think this presents an exciting subset of the stock market. It's highly differentiated from other funds out there by focusing more on Main Street-type of companies as opposed to Wall Street darlings. As you can hopefully tell from this presentation, we've been thoughtful in our investment approach by developing this multifaceted strategy to identify those industries and companies that we think are making a significant impact on society and at the same time can generate strong investment returns for our shareholders over the long run. With that, I'll pass it back to Ivan to discuss some of the debt securities of the fund.

Ivan Naranjo: Thank you, Mark. As part of fixed income, we are able to invest in other kinds of securities, like municipals and obviously securitized and agency type of paper. In this particular slide, showing how the Federal Farm Credit Bank, also known as FFCB, is one of our important holdings in the portfolio, particularly obviously in the fixed-income sleeve [Slide 21]. So what is the FFCB? It is an agency that issues debt on behalf of banks in the farm credit system, and it supports rural communities and U.S. agriculture directly with reliable, consistent credit and financial services. It is a network of co-ops owned by its borrowers, obviously farmers, ranchers, agricultural co-ops and rural customers.

When we look at our portfolio construction, we own securities like the FFCB as an agricultural risk-free asset. And as you can see, it's right on target. It goes to where it needs to go. As Mark just said, we've been thoughtful on what securities go in this portfolio and how the process goes into actually acquiring rural America exposure.

Our top 10 holdings — as I mentioned, FFCB is a very key holding for the fund and that would fall into financial services as part of the key economic rural drivers. Additionally, we serve holdings like Zoetis in animal health; Jack Henry & Associates, Paycom and Block Inc. technology; Deere & Co. and Fastenal and agribusiness value chain; Crown Castle International and American Tower as part of infrastructure development. And these are some examples of how our holdings connect with our key rural economic drivers.

As far as our asset mix, the portfolios is an actively managed balance fund [Slide 23]. So it means that the portfolio has both stocks and bonds. Our asset mix as of March 31st, 2022, was very much 60% equities, 40% fixed income, which is what we targeted. During our portfolio construction phase with this product, we were able to find a good amount of compelling opportunities, both in equity and fixed income, and therefore we decided to go with this mix. Additionally, we wanted to leverage both our equity and fixed-income teams in this innovative fund. Nonetheless, this is a very exciting product, and it's been a very exciting first year for us as we go from concept to an actual product that's doing what we have. Thank you for your time. And Mark, I'll pass it over to you.

Mark Santero: Thank you, Mark. Thank you, Ivan. It goes without saying, this is a product that took a couple of years to create, and if you feel strongly about the U.S. markets as we do, this fund is even more specific in that it invests in businesses in our rural communities. If you're looking for a diversifier, a growth and income fund, it's a good fund to consider. We're very proud of our commitment to rural economies.

That concludes our general overview of the markets, the opportunity in the U.S., and specifically the rural opportunities that we have and are investing in within the Rural Growth & Income Fund.

So I will open it up to questions. Mark, any questions that you see from the audience?

Mark Edwards: Thank you, Mark. We do have several questions so far. The first is, which business sectors have been most affected by inflationary pressures, and which sectors have been most affected by supply chain shortages?

Mark Santero: Interesting. A very good question. I am going to punt this one over to Jim and Prabha from a sector standpoint on inflation and supply chain.

Jim Polk: Certainly on the supply chain side, well, both have been pretty widespread. On the supply chain side, it's been a lot on the industrial side, a lot on retail. Companies have likened it to whack-a-mole, trying to get some components, and that works, and then they can't get the others. To be honest, I'm not quite sure who has seen more inflationary pressures. I don't know if Mark or Prabha have a thought on that.

Prabha Carpenter: As Jim said, it's been interrelated. The automotive sector has experienced some huge supply chain issues because of getting access to semiconductor equipment and technology chips, basically. The retail sector has been hurt with supply chain issues. And then the transport sector has been hurt with fuel and wage costs spiraling. So there's an interdependence, and it's difficult to parse and separate. I don't know if Mark Iong has anything to add.

Mark Iong: It's really across the board: a tight labor market, higher raw materials, higher freight and travel costs are being felt across all business sectors. As Prabha mentioned, at the core of the problems is the semiconductor. Globally, the entire industry is seeing the supply and demand imbalances across the board, from the most powerful chips that folks need to even the smallest microcontrollers — folks call them the golden screw — said that they see a need and that, for example, inside these auto vehicles and industrial machinery and manufacturing companies, they're just missing those few golden screws before the final product can come off the assembly line. And as a result, a lot of companies have had to go to the gray market where they have to pay extraordinary prices for semiconductor and other components. And as a result, it has certainly impacted the profitability of these companies, and we are certainly starting to see that creep up on margins and earnings in recent quarters.

Mark Santero: Thank you. I would just add, when it comes to affected by inflationary pressures, I think those business sectors will start to see those driven by consumer spending — obviously, retail. We've started to see some shift in earnings of the major retail outlets — Target, Walmart. You're starting to see some shifts in consumer spending as a result of inflation going away from higher-cost goods like refrigerators and washing machines and furniture into more consumer staples as a percentage of their spending habits. So I think the jury is still out as we see the Fed tightening and inflation taking more hold of people's wallets. So those sectors affected — it's still in the process.

Mark, any other questions? We're coming up on 50 minutes. If we haven't answered a question that you all have submitted, we'll certainly reply via email. But Mark, we probably have time for maybe one or two more.

Mark Edwards: All right, Mark. We do have two more. First one that we've received is, if 70% of U.S. GDP is driven by consumers, at what point are the consumers going to be affected by the cost of gas and diesel?

Mark Santero: That's a really interesting point. As I just alluded to when we talk about inflation hitting business sectors, certainly energy, certainly groceries — right now the consumer still has a decent savings position as a result of the pandemic where there wasn't a lot of spending. You're going to see a slowdown, certainly in home buying, certainly in using debt as a structure to fund capital expenditures, whether it's houses, whether it's new appliances.

So you're going to see people start to shift their spending habits and do away with leisure travel. The costs of airfares are going up, the cost of traveling, using your car. So as you see these prices at inflated levels, and if they don't basically level out, you're going to see people shift their spending habits away from luxury items, away from luxury travel. They're going to stop dining out. We've seen this before, and the consumer, which drives the economy, is going to shift that 70% powerhouse to more basic needs as opposed to luxury items. I don't know if any of the PMs [portfolio managers] feel any differently, but we've seen these spending habits as prices rise. This is basically the reaction of the consumer.

Prabha Carpenter: That's absolutely correct. And we've seen it, and the consumer isn't a monolith. There are various segments, and certain segments are absolutely feeling the price impact. And, they're having to choose between food and spending on some discretionary item at the retailers.

Mark Santero: Great. You said you had two more, so one more I think would work.

Mark Edwards: Okay, Mark. Last question here is, what were the portfolio managers' takeaways from earnings sessions?

Mark Santero: Prabha? Jim?

Jim Polk: The demand is still there. Consumer balance sheets are still in good shape. There have been some shifts in what they're spending on. But some of that's actually good things. Remember everybody was hunkered down, they were buying their furniture, their refrigerators, and now they're not as hunkered down and they're going out and they're buying luggage or they're buying some other things. So I think that the demand piece is actually still pretty good. The concern is now starting to creep up, and I think Mark Iong touched on this, is on the margin side of things and the concerns that there will be some margin pressure going forward as it becomes more and more difficult to find

components. And then your cost of goods sold goes up. I think that's what we'll be watching over the next several quarters. Prabha, you, anything? Mark?

Mark Iong: Sometimes it's important to take a step back in times of market volatility, like we are witnessing right now, and look at the numbers. If you look at what companies reported for the first quarter, it is clear that inflation supply chain issues are with us. And many companies have powered through with strong pricing and revenue growth. I think the S&P 500 are those companies reporting in aggregate 14% revenue growth and earnings growth of 11% for the first quarter, and the forecast for the full year 2022 still expecting overall revenue and earnings growth to be up double digits, 10%, despite all the angst about the economy and the market. With that said, there are some increasing risks to the outlook, as Mark talked about, several large retailers having reported last week about weakness in the consumer. But there is maybe some optimism as being reported by these companies.

Mark Santero: I think one thing to also add that Mauricio touched on, we had in 2020 and 2021 unprecedented issuance of debt by U.S. companies at extremely low levels. So we have some cash rich company's balance sheet, and it's to continue to invest in R&D [research and development] and to continue to drive the economy. It may not factor into earnings right away but certainly down the road.

I want to thank all of our shareholders, all of our investors. If you'd like more information, that is my phone number. That is my email. Please don't hesitate. If you'd like to hear more about the Rural America Growth & Income Fund, we'd be happy to speak to you more about the portfolio and how that might fit into your asset allocation. So thank you. We wish everyone a wonderful Memorial Day, and please remember those that we have lost in service. Thank you very much.

*Speaker originally stated 9%. Transcript has been corrected to 10%.

Rural America Growth & Income Fund top holdings as of March 31, 2022:

Federal Farm Credit Bank, 10/21/25, 0.52%	3.20%
Federal Farm Credit Bank, 04/28/27, 1.20%	3.10%
Zoetis Inc.	2.50%
Jack Henry & Associates, Inc.	2.50%
Deere & Co.	2.50%
Crown Castle International Corp.	2.20%
American Tower Corp.	2.10%
Paycom Software, Inc.	2.10%
Fastenal Co.	1.90%
Block, Inc.	1.90%
Total	24.00%

Fed funds rate is the target interest rate set by the Federal Reserve at which commercial banks borrow and lend their excess reserves to each other overnight.

Standard & Poor's 500 (S&P 500) Stock Index is a broad-based measure of U.S. stock market performance and includes 500 widely held common stocks.

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