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July 22, 2021

Dear Client,

This letter contains news and views that I feel will be of interest to you. As always, please call us at your convenience to set up your quarterly investment meeting.

**Contents:**



**Going, Sebastien, Fisher & Le Bouef, LLP News:**

- GSF&L constantly researches asset classes that may be suitable for clients' portfolios to add diversification (reduce risk). We offer Insurance-Linked Securities, Alternative Lending, Market Insurance, and other Alternative Strategy Securities, Realty, and Real Assets, so feel free to contact us for more details. The strategies have a low to moderate correlation to a Global Equities/Global Fixed Income mix; therefore, adding diversification to portfolios.
- Please make note of the above letterhead indicating our other office located in Oil Center in Lafayette. We have been operating in Lafayette since early 2017. Should you wish to meet or come visit please do not hesitate to do so.
- We are pleased to announce that we have admitted Amy Broussard Spellman, CPA as an associate partner to the firm. GSF&L welcomes all of the clients from Broussard and Broussard, CPA who are following Amy and are now part of our firm. We look forward to continuing to service your needs for many years to come.
- Craig has attended several conferences online that included but were not limited to the following: Environmental, Social, and Governance (ESG) investing, Tactical High Yield Solutions, Tactical Asset Allocation in 2021, Global Risk Trends, and Alternative Strategies.

**Investment Views:**

- ***Market Watch - Through June 30, 2021 - Year-to-date returns –*** Dow Jones Industrial Average 14.16%, S&P 500 14.40%, NASDAQ Composite 12.91%, Russell 2000

16.86%, Morgan Stanley Capital International Europe, Australasia, Far East 9.25%, Barclays US Aggregate Bond -2.25%.

- **American Institute for Economic Research Rates of Interest (As of June 23, 2021 – Average National Rates) –**

| | | | |
|---|---|---|---|
| Federal Funds Rate | 0.10% | 10-Year TIPS | -0.83% |
| 3-Month Treasury Bill | 0.04% | 10-Year Muni Bonds – Nat'l | 0.95% |
| 10-Year Treasury Note | 1.48% | 15-Year Mortgage Fixed | 2.24% |
| 30-Year Treasury Bond | 2.10% | 30-Year Mortgage Fixed | 32.93% |
| Savings | 0.06% | Money Market | 0.09% |
| 12-month CD | 0.14% | | |

- ***Northern Trust – Weekly Economic Commentary – July 01, 2021 –*** The most frequently asked questions we receive from our colleagues and clients concern on inflation. The alarm is understandable. Rapid, uncontrolled inflation in the 1970s and 1980s eroded wealth and led to a prolonged period of malaise. The data suggest that we are probably standing at the peak of inflation. After months of gains, used car prices have leveled off in the most recent Manheim Used Vehicle Value Index. Lumber prices have fallen from the peak seen in early May. In these markets, we are witnessing how the best cure for high prices is high prices: there will always be a price point at which a purchase is reconsidered, and prices then fall from that peak.

- ***Bureau of Economic Analysis – June 24, 2021 -*** Real Gross Domestic Product (GDP) – the value of goods and services produced by the nation's economy less the value of the goods and services used up in production increased at an annual rate of 6.4% in the first quarter of 2021, according to the "third" estimate released by the Bureau. Personal income decreased 2.0% in May as compared to a 13.1% decrease in April.

- ***Bureau of Labor Statistics – July 13, 2021 –*** On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers (CPI-U) increased 0.9% in June after rising 0.6% in May. This was the largest 1-month change since June 2008 when the index rose 1.0%. Over the last 12 months, the all items index increased 5.4% before seasonal adjustment, this was the largest 12-month increase since a 5.4% increase for the period ending August 2008. The index for all items less food and energy rose 0.9% in June after increasing 0.7% in May.

**Craig's Thoughts and Views:**

**Alternative Lending Update**

The Stone Ridge Alternative Lending Risk Premium Fund (LENDX) offers exposure to consumer and small business loans, which have historically been profitable for banks. Consumers and small businesses have traditionally turned to banks for credit. Alternative lending leverages technology to underwrite efficiently and offer a streamlined experience: borrowers can get a loan online, without cumbersome paperwork and without stepping into a bank lobby. Because of these advantages, "alternative" lending is increasingly becoming mainstream. According to S&P Global Market Intelligence, Transunion, and the Federal

Reserve, the market size is $200 billion, 38% of consumers have a personal loan, and 33% of small businesses have applied for alternative loans.

LENDX is the largest alternative lending fund in the US, public or private, with $2.4 billion total assets under management. This scale offers a number of advantages: ability to diversify across 160,000+ loans, 14+ lending platforms, covering 3 continents.

Alternative loans offer a number of interesting characteristics that make it an appealing asset class. They have been historically profitable, as interest rates have exceeded credit losses on average over time. Consumer loans typically have 3-5 year terms with fixed payments, which result in low duration. In contrast, government and corporate bonds generally have longer maturities. A near-zero correlation to equities and bonds make alternative loans a diversifying addition to investors' portfolios.

The opportunity now and going forward with alternative loans is that credit cards remain one of the most common ways for consumers to borrow money. However, banks have charged high interest rates, despite historically low Federal Funds rates. Alternative lenders operate with less overhead than banks, allowing them to potentially offer better loan economics to borrowers. In addition, banks (particularly large banks) pulled away from small business lending post-financial crisis because of their high cost structure and manual approach to small business lending. Alternative lenders have filled the void by leveraging technology to underwrite more efficiently

The historical performance through June 30, 2021 of the fund has been +1.83% QTD, +22.48% YTD, +37.51% 1-yr, +13.09% 3-yr, +10.45% 5-yr, and +11.2% since inception. The correlation to the S&P 500 and Barclays Bond Aggregate has been 0.00 and -0.06, respectively since inception.

During 2020, the fund delivered consistent performance, realizing the benefits of the previous year's cycle of credit tightening by platforms. COVID-19 was devastating to financial and labor markets beginning in late February. Unemployment rose to Depression-era highs and interest rates dropped to 150-year lows. However, platforms quickly and significantly tightened credit and raised rates. Upstart, one of LENDX's largest underwriters, had a successful initial public offering (IPO) and reaped the rewards of an early investment helping the fund return +10.15% for 2020.

With Upstart and SOFI going public, LENDX exited both equity positions having helped the fund earn +22.48% year-to-date. The original strategic rationale for the equity investments had been to align incentives and secure loan capacity at preferential economic terms. The result was a very large 21.5% dividend distribution that took place in June 2021. LENDX investors may have noticed a significant one-day drop (Jun 28) in their TD Ameritrade account owning the fund equal to about 21.5% of the net asset value ownership in the fund due to the fund going ex-dividend. This is typical of stocks and mutual funds paying out dividends because the cash is paid out by the company or the fund; therefore, the value drops in proportion to the distribution paid. However, the TD Ameritrade account received the distribution on July 1 and the market value of the account was restored for the dividend received. In essence, the net effect on your account was zero.

Should you have questions or wish to discuss the fund in more detail feel free to contact Craig or Darren.

**Reinsurance and Hurricane Season**

Hurricane season officially started in the U.S. on June 1 and lasts through November 30, with the peak season occurring during the period August through October. Hurricane risk is the largest risk in the Stone Ridge Funds (SRRIX and SHRIX/SHRMX), so intuitively it drives the largest share of the premiums. Another way to think about this is that the monthly premiums during the three months of peak season are about three times the premiums earned during the other nine months of the fund year. In 1953, the U.S. government began assigning names to tropical storms, starting with the letter “A” and progressing in the alphabet. From 2001 to 2020, there was an average of 14 named storms per year, with a peak of 30 storms in 2020 (source National Oceanic and Atmospheric Administration - NOAA). Looking at the long-term historical probability (1851-2020) of one, two, or three or more tropical storms being active on any given day during hurricane season, from mid-August to mid-October, you should be more surprised if there isn’t a tropical storm blowing somewhere over the Atlantic.

How can investors feel comfortable insuring against hurricanes with all these tropical storms? The answer is that only a small number of tropical storms have become damaging hurricanes. NOAA recently updated its hurricane statistics based on data from 1991-2020. During this period, there was an annual average of 14 named storms, of which 7 were hurricanes, 1.8 were landfalling hurricanes, and 0.4 were landfalling hurricanes that caused more than $10 billion of insured loss.

In 1992, there were only six named storms, which is well below the historical average. However, the first storm of that year, Hurricane Andrew, became a Category 5 that directly hit the Miami-Dade area. The hurricane caused $15.5 billion of insured loss in 1992 dollars. On the other hand, 2020 saw 30 named storms, the highest number on record. However, only one of these storms, Hurricane Laura, became a hurricane that caused significant insured losses of $9-$13 billion. The impact to SRRIX was -1.75% and to SHRIX/SHRMX -0.30%, and these funds ended the year with total returns of +6.7% and +6.87%, respectively. Many named storms do not translate directly to insured losses.

Colorado State University and to a lesser extent other organizations make seasonal forecasts, which make for good headlines. While seasonal forecasts have some ability to predict tropical storm and hurricane formation, the predictive power for landfalling hurricanes or insured losses may not be concerning. As posted on its website, “NOAA does not make seasonal hurricane landfall predictions. Hurricane landfalls are largely determined by the weather patterns in place as the hurricane approaches, and those patterns are only predictable when the storm is within several days of making landfall.”

For the trailing 12-month period, SRRIX returned +4.97% and SHRIX/SHRMX returned +7.06%. SRRIX has a correlation to the S&P 500 of 0.03 and to the Barclays Bond Aggregate of -0.05 since inception. SHRIX/SHRMX has a correlation of 0.05 and -0.05 to the S&P 500 and Barclays Bond Aggregate, respectively.

**GSF&L, LLP Registered Investment Advisors:**

We can never know what the future holds, but we can make informed decisions regarding investment strategies and portfolio allocations. We (GSF&L) make changes based on our perception of opportunities in the capital markets. We assimilate fundamental, technical, and economic information to make informed decisions. Of course, it is important to have long-term focus on portfolio management, but with a critical analysis of intermediate strategies.

Managing risks and opportunities are important to portfolios and reaching one's financial needs and goals. Having a complimentary understanding of investment horizon and attitude toward risk are equally important. Markets and economies do not always behave as we expect them to. That is the problem with investing! There is no luck to professional investing. You can no more have a successful, disciplined approach by luck or accident than you can win a chess tournament by luck or accident.

If you know of someone who may fit our financial and investment planning philosophy, please mention our name. We are a small organization and intend to remain so. A solid organization makes it possible for us to spend our time managing our business rather than each other. Because everyone has so much to do, much gets done. We will forego any growth opportunity that may detract from our ability to serve our clients as they have become accustomed to. We never expect to be among the biggest, but our attention to be among the best is not subject to compromise.

Regards,

Craig

Craig C. Le Bouef, MBA, CPA/PFS, CFP®

NASDAQ composite measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S&P 500 is made up of 500 common stocks representing major U.S. industry sectors. The Dow Jones Industrial Average contains 30 stocks that trade on the New York Stock Exchange (NYSE) which reflect the performance of 30 large American companies. The Morgan Stanley Capital International Europe, Australia, and Far East Index (MSCI EAFE) is a market-weighted aggregate of 20 individual country indexes that collectively represent many of the major markets of the world, excluding Canada and the U.S. The Lehman Brothers U.S. Aggregate Bond Index tracks performance of debt instruments issued by corporations and the U.S. Government and its agencies. The returns for this index are total returns, which includes reinvestment of dividends. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 8% of the total market capitalization of the Russell 3000 index.

All indices are unmanaged. It is not possible to invest in an index.

Past performance is no guarantee of future results. Diversification does not assure against market loss.