

A MATTER OF TRUST

SECOND QUARTER 2018



Joby
Mills



Chris
Klemme



Todd
Wetsel



Alisa
Scott



Terry
Wright



Terri
Wright



Bryan
Limmer



Jason
Carter



Kevin
Rider



Buffy
Haden



Shannon
Van Campen



Hunter
Vagrosky



Scott
Richardson





SECOND QUARTER INVESTMENT UPDATE



Todd Wetsel

Todd has 15 years of trust and banking experience. He started his career with Bank of America while attending West Texas A&M University. After graduating with a Bachelor of Business Administration, he went to work for the trust department at Herring Bank where he served as an assistant trust administrator. Todd enlisted in the United States Army in 2005 and served two tours of duty in Iraq. In 2010, he joined Happy State Bank where his principal duties include market research and portfolio management. Todd has attended the Texas Trust School and Texas Graduate Trust School offered by the Texas Bankers Association. He is a member of the Amarillo East Rotary Club and serves on the board of the Wesley Community Center Foundation.

The second quarter of 2018 was one in which we saw the U.S. market rebound from a negative first quarter while the challenges in international and emerging markets grew more difficult. The Federal Reserve raised interest rates again and the U.S. Administration began implementing tariffs against Chinese goods.

The U.S. Economy and Markets

GDP growth in the U.S. continues to improve at a very healthy pace and is expected to be 4.8% for Q2. Corporate earnings growth this quarter is estimated at 19% as we are still benefiting from the recent tax cuts. Estimates are still for double digit growth rates this year, however slowing to single digit growth rates in 2019.

Overall, the U.S. stock market rose 3.89%. The large company segment grew at 3.5%, however small cap stocks gained over 7.7%. As we have discussed in previous newsletters, small cap stocks have a higher expected return than large cap stocks over time, and value stocks have a higher expected return than growth stocks. This long-term outperformance is referred to as the small cap premium and value premium. In the second quarter, the small cap premium was positive (small cap stocks outperformed large cap stocks) due in large part to concerns over international trade. Most small companies have not been affected as much as they only do business inside the U.S. Overall, the value premium

had mixed results as value stocks led the way in the small cap space; however, they underperformed growth in the large cap segment.

Interest Rates

The Federal Reserve Bank raised the Fed Funds Rate to the range of 1.75%-2.00%. Consensus expectations continue to call for one or possibly two additional rate hikes this year. According to the minutes from the June meeting, the Federal Reserve members seem to be increasingly worried about inflation and are looking to achieve a balance in interest rates that no longer promotes growth but also doesn't hinder it. There is no indication that the Fed intends to deviate from their current path of gradual rate increases.

One consideration the Fed has to keep in mind is the slope of the yield curve. The yield curve is still relatively flat due to the fact that long-term rates have not moved in a meaningful way. The Fed will

“ GDP growth in the U.S. continues to improve at a very healthy pace and is expected to be 4.8% for Q2. ”

likely be hesitant to raise short-term rates higher than long-term rates. Historically an inverted yield curve, short rates higher than long rates, often precedes a recession (however the timing of such a recession is often many months later). The yield on the

INDEX RETURNS

	U.S. Stock Market	International Developed	Emerging Markets	Global Real Estate		U.S. Bond Market	Global Bond ex U.S.
Q2 2018	STOCKS					BONDS	
	3.89 	-.075 	-7.96 	6.05 		-0.16 	0.48 

10 Year Treasury climbed to over 3.1% but ended the quarter at 2.9%.

Unemployment

The unemployment rate in May was 3.8%, the lowest since 1969. However, in June it edged up to 4% as more workers re-entered the workforce. The labor market is very tight with many companies struggling to find new employees. Government data shows that more people are choosing to leave their jobs for better opportunities at the highest rate in years. This could lead to increased wage growth across the economy. Worker productivity, which has been stagnant in recent years, may also improve as workers are able to find jobs that better fit their skills.

Wage Growth

The U.S. is experiencing better wage growth than we have seen in years in large part due to the tight labor market. Hourly earnings increased 2.7% year over year. There is strong evidence that the lower rungs of the pay scale are seeing improving growth.

Increased wages, however are beginning to chip away at corporate

profit margins. Rising employment costs can stoke inflation as companies generally attempt to pass along those higher costs to customers. It remains to be seen how much this will affect inflation and the markets. The Fed has stated they are watching the labor markets closely.

Trade

There are signs that global trade growth is slowing and had been doing so even prior to the initiation of tariffs by the U.S., China and others. Even though the size of the tariffs are very small in comparison to the total amount of global trade, there are concerns a global trade war could erupt. Prospects of a trade war plagued the market, which drove much of the volatility during the quarter. U.S. fiscal spending and tax cuts seem to be helping to offset concerns that tariffs may slow growth.

International and EM

Many of the world economies in Europe and the emerging markets appear to be slowing. The European Central Bank is claiming that Europe is in nothing more than a soft patch. The rising U.S. dollar, U.S. interest

rate hikes and trade tensions are all putting pressure on economies particularly in the emerging markets.

International developed stocks were down slightly while emerging markets were down close to 8%. Both the small cap and value premiums were negative in the second quarter. The negative performance this quarter reversed a

“ Prospects of a trade war plagued the market driving much of the volatility during the quarter. ”

yearlong trend of international and emerging market outperformance over the U.S.

HAPPY Continues to Grow

I am excited to announce that we have added another person to our team. His name is Scott Richardson and he comes to us with over a decade of investment management experience. He will add depth to our research and analysis team as well as serving as a portfolio manager. His biography is on page five. Scott is looking forward to meeting each of you in the near future.

HAPPY Investing!

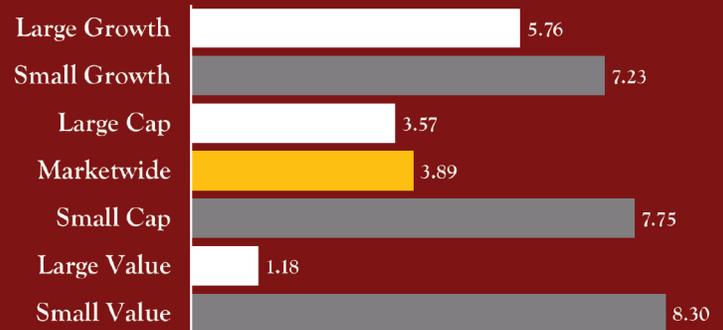


MARKET SUMMARY

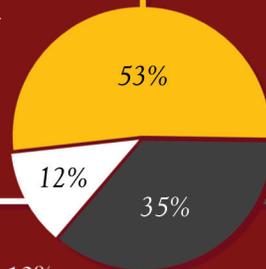
US STOCKS

In the second quarter, U.S. markets were positive while the international and emerging markets declined. REITs (Real Estate Investment Trusts) rebounded in the U.S. after several negative quarters. The small cap value segment was the strongest performer in the U.S., however the small cap and value premiums were both negative in the international and emerging markets. For a more detailed quarterly report please see the publications tab at www.happytrust.com.

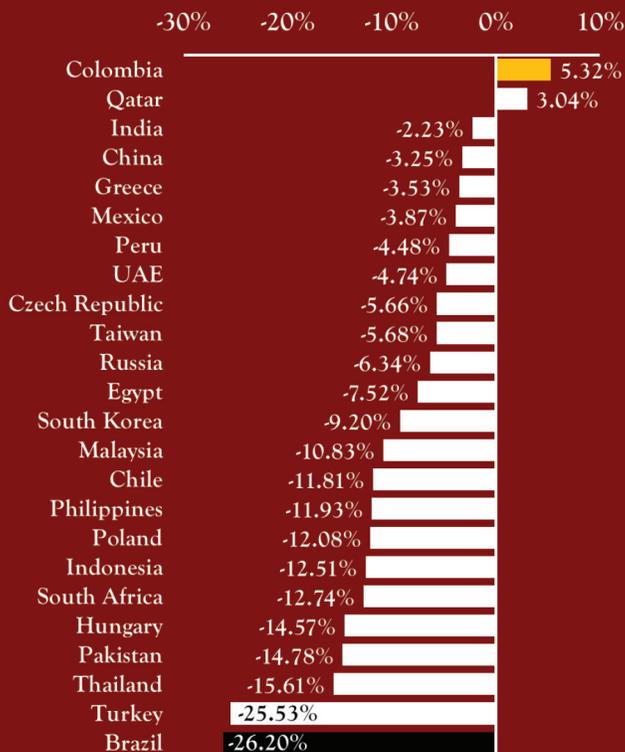
RANKED RETURNS FOR THE QUARTER (%)



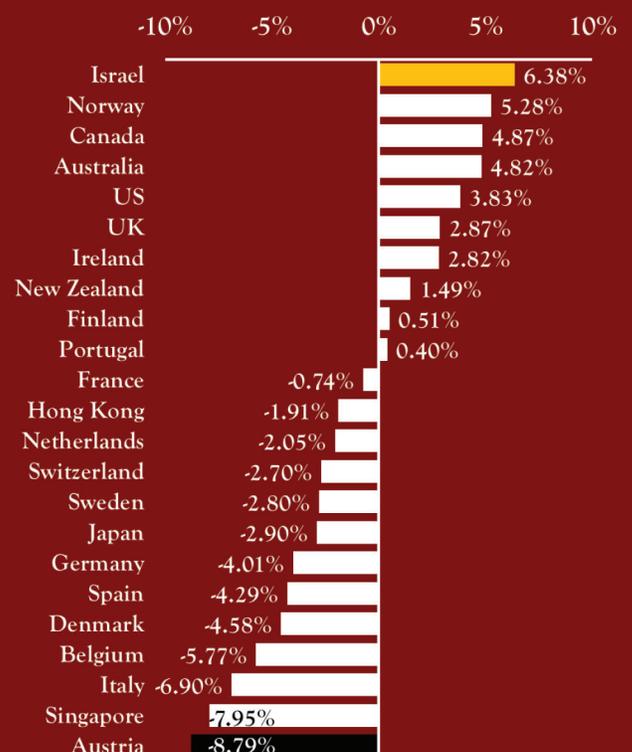
WORLD MARKET CAPITALIZATION



EMERGING MARKETS STOCKS



INTERNATIONAL DEVELOPED STOCKS



MEET THE TEAM



**Shannon
Van Campen**
Trust Officer
Addison Office

Shannon is an original employee of Signature Bank in Dallas, joining the company in November 2008, which was acquired by Happy State Bank & Trust Company in March 2013. She began her start in banking as a Teller and Customer Service Representative, before transitioning to trust in August 2015 where she works in Trust Administration. Shannon was promoted to Trust Officer in April 2018 and is continuing her education through the Texas Trust School offered by the Texas Banker’s Association. Shannon is a native Texan, born and raised in Irving, Texas. She and her husband, Ryan, were married in October 2013. Together

they have 3 “fur” children, Abby, Foxy, and Daphne. When she isn’t working, Shannon enjoys the physical and mental challenges of strength and conditioning training through Crossfit. She finds one thing that separates Crossfit from other programs is its strong community. Shannon is also involved in a leadership program provided through Happy State Bank. The three year program is focused on teaching, developing, and implementing strong leadership skills to be used in and outside of the workplace. In her free time, Shannon enjoys rock painting, napping, and binge watching Netflix.



Kevin Rider
Vice President
Trust Real Estate
Management
Amarillo Office

Kevin has 14 years of Trust and Banking experience with an emphasis in Farm and Ranch Management. He began his banking career in 2004 with U. S. Trust as a Farm and Ranch Manager, managing properties in Texas, New Mexico, Oklahoma, and Colorado. Prior to working in banking, he spent nine years in the sorghum seed industry. With Happy Trust Company, his primary duties include managing specialty assets such as farms, ranches, homes, commercial properties, and oil/gas interests. Kevin grew up in Claude, TX and graduated from Texas Tech University earning his B.S. in Agriculture Economics in 1995. While attending

Texas Tech he married his high school sweetheart Trena, and they have been married for 24 years. They have three children, Sheridan, Ashton, and Austin and live in Bushland, TX where Trena teaches first grade. Sheridan, their oldest daughter, lives in Amarillo. Ashton will be a Junior and Austin will be in seventh grade, both attending Bushland ISD. Kevin’s two favorite things to do are attending his children’s various activities and going to anything related to Texas Tech athletics. He also enjoys golfing, hunting, camping, and working in the yard. Kevin is active with the St. Thomas Men’s Club, delivers for Meals on Wheels, and coaches youth sports.



MEET THE TEAM



Hunter Vagrosky

Trust Officer
Amarillo Office

Hunter joined Happy State Bank & Trust Company in May 2015. He was born and raised in Amarillo, Texas. Hunter graduated from West Texas A&M University with his Bachelor of Business Administration in both Finance and Economics, and has continued his education by attending the Texas Trust School offered by the Texas Bankers Association. Since joining Happy State Bank, Hunter has performed in multiple roles as a Teller, Trust Operations Specialist, and now in Trust Administration. He was recently promoted to Trust Officer in April 2018. Hunter serves on the board of One Chair at a Time, a non-profit that specializes in

helping youth with physical disabilities. He is also a member of the Amarillo Area Estate Planning Council, and part of Happy State Bank's 3-year Leadership Program. Hunter enjoys volunteering his time, and giving back to the community by working at many events held by United Way, One Chair at a Time, as well as many other non-profit organizations. Hunter married his wife, Katie, in June 2017. Though no children quite yet, most friends consider their dog, Nahla, their "fur child." Hunter and Katie both enjoy being outdoors, traveling, attending Oklahoma City Thunder basketball games, and spending time with friends and family.



Scott Richardson

Vice President
Trust Investment Officer
Amarillo Office

Scott grew up in a household where his father was a lifelong Boy Scout professional. As a Boy Scout, one of the first lessons to learn is the 12 points of the Scout Law which include being Trustworthy, Loyal and Helpful. These 12 principles have dominated Scott's upbringing and career. Scott graduated from Texas Tech University in 2001. Three years after graduation he ended up in Amarillo, TX working for AG Edwards in the financial services industry. Scott left AG Edwards to work for an independent financial planning group in town and spent 11 great years there. He entered into a new endeavor with Happy Trust Company in July 2018 and is

excited for the new opportunities and possibilities that lie ahead. Scott spends much of his free time with his family. He and his wife Sonia have two boys, Jack and Luke. One of his favorite activities is playing the guitar while his sons sing along. Scott is proud to serve with the local Boy Scout district. He actively volunteers with the Cub Scout pack at Windsor Elementary in Amarillo as well as serving as the District Committee Chairman for the Golden Eagle District in the Golden Spread Council of the BSA. According to Scott, his "ability to give back to the youth of Amarillo, including my own boys, has been the most rewarding experience of my life."



Assets Under Management (AUM)

\$420 MILLION

- Investment Management
- Farm & Ranch Management
- Oil & Gas Management
- Personal Trust Administration
- Agency Services for Trustees and Executors
- Custodial Accounts
- Estate Administration
- Employee Benefit Plans & IRAs



Personal Trusts 43%

Investment Agencies 27%

Retirement Accounts 8%

Custody 22%

19 EMPLOYEES



285

TOTAL YEARS OF EXPERIENCE



15 YEARS ON AVERAGE



3 YEAR AUM GROWTH RATE

48%

4 TRUST LOCATIONS

AMARILLO, LUBBOCK, DALLAS & FORT WORTH

HAPPY

to serve you!





HAPPY TRUST COMPANY

CREATING, MANAGING & PRESERVING WEALTH

For more information about investments
and trust services please visit:
happytrust.com AND dimensional.com



AMARILLO



Joby Mills, J.D.
Senior Vice President
Director of Trust Services
(806)349-9893
jmills@happybank.com



Todd Wetsel
Senior Vice President
Senior Trust Investment Officer
(806)349-9901
twetsel@happybank.com



Alisa Scott, J.D.
Senior Vice President
Senior Trust Officer
(806)349-9880
ascott@happybank.com



Terri Wright
Vice President
Trust Officer
(806)379-5409
terri.wright@happybank.com



Buffy Haden
Vice President
Trust Operations Officer
(806)349-9890
bhaden@happybank.com



Kevin Rider
Vice President
Trust Officer - Farm and Ranch
(806)349-9940
krider@happybank.com



Scott Richardson
Vice President
Trust Investment Officer
(806)342-2457
srichardson@happybank.com



Terry Wright
Senior Trust Officer
Oil and Gas
(806)379-5410
terry.wright@happybank.com



Hunter Vagrosky
Trust Officer
(806)349-9891
hvagrosky@happybank.com

LUBBOCK

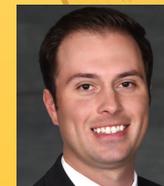


Bryan Limmer
Senior Vice President
Senior Trust Officer
(806)798-4827
blimmer@happybank.com

DALLAS/FORT WORTH



Chris Klemme, J.D.
Senior Vice President
Senior Trust Officer
(972)07-4959
klemme@happybank.com



Jason Carter, J.D.
Vice President
Trust Officer
(817)989-3960
jcarter@happybank.com



Shannon Van Campen
Trust Officer
(972)407-4947
svancampen@happybank.com