



**BOYD** WATTERSON

A S S E T M A N A G E M E N T

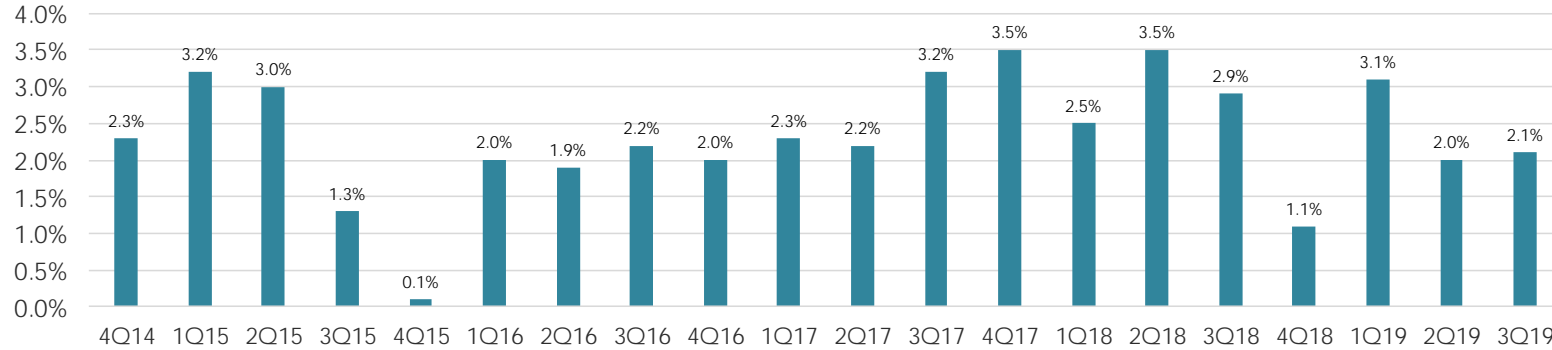
**Montgomery County**

Investment Portfolio Review

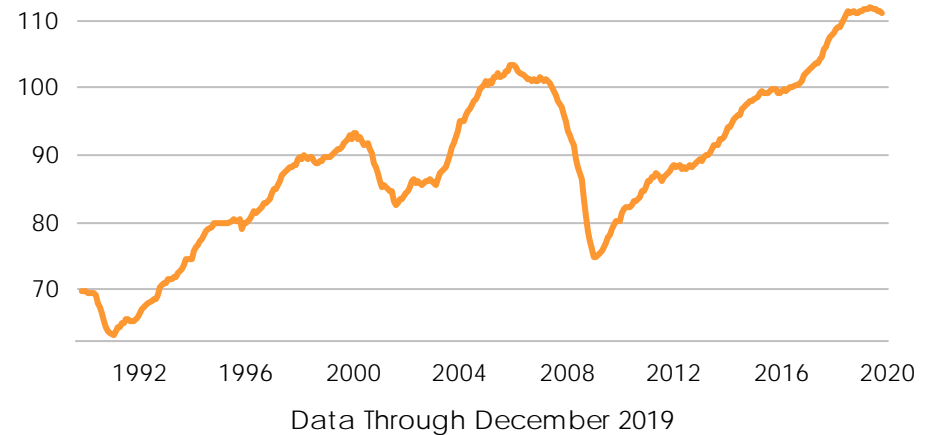
December 31<sup>st</sup>, 2019

# Our Macro View

**Real GDP:  
 Percent Change from Preceding Quarter**



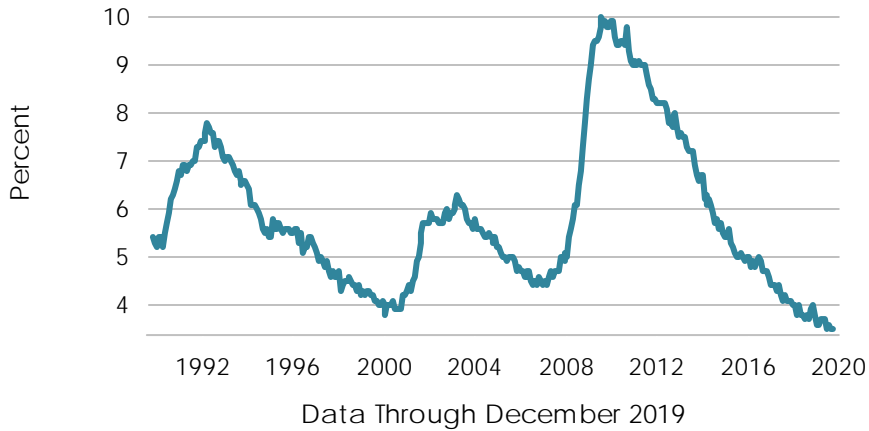
**Composite Index of 10 Leading Indicators**



Source: The Conference Board

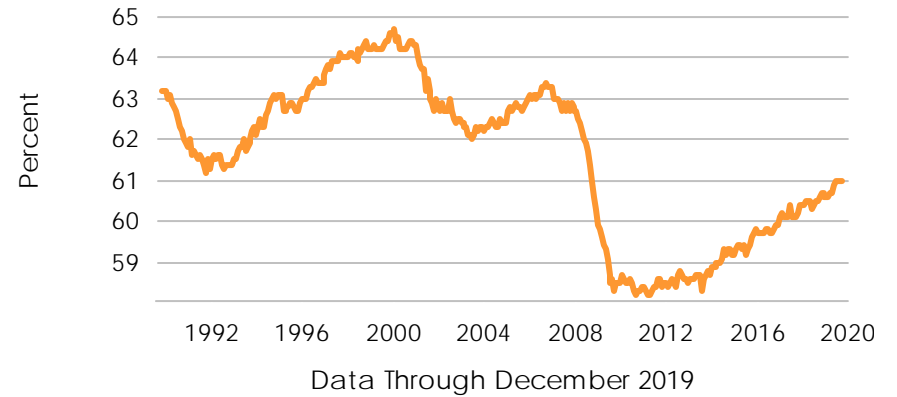
- Economic growth should center around 2.0% in 2020.
- The Fed's 'mid-cycle adjustment' has reduced recession fears and extends the runway for the current economic growth cycle.
- Areas of concern include trade policy, central bank missteps and economic growth not materializing in Europe.

### CIVILIAN UNEMPLOYMENT RATE



Source: The Conference Board

### RATIO, CIVILIAN EMPLOYMENT TO WORKING-AGE POPULATION



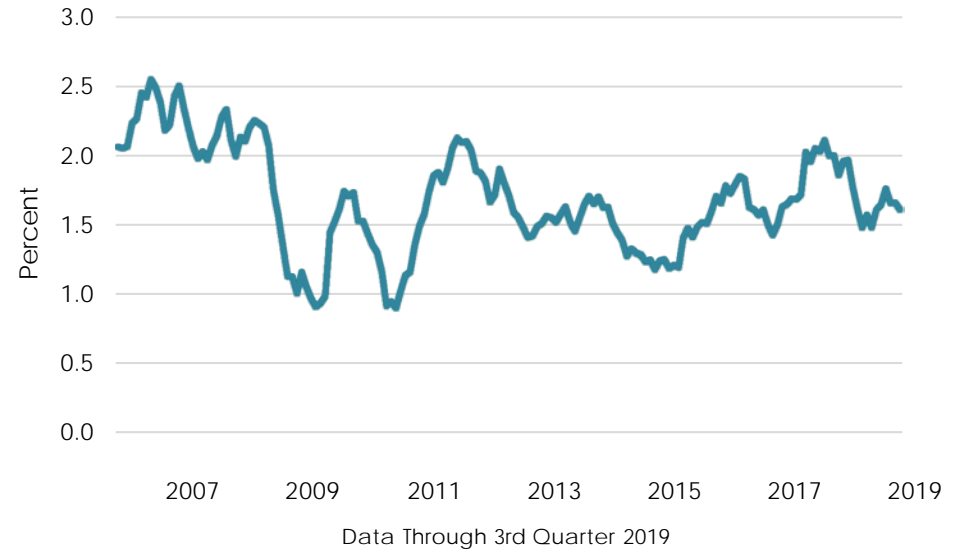
Source: The Conference Board

- The unemployment rate remained unchanged from the prior quarter at 3.5%.
- The measure of underemployed workers has fallen to pre-recession levels.

# Inflation: Struggling to Move Higher

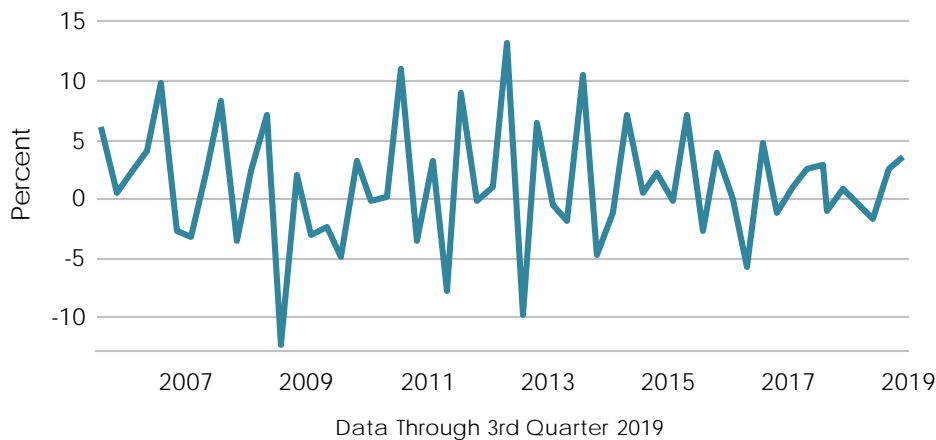
- Core PCE inflation has dropped below the Fed's target rate of 2.0%.
- The 10-year TIPS breakeven rate implies that the market expects an inflation rate of 1.78% over the next 10 years, up from 1.52% at the end of September.

**CORE PCE YOY**



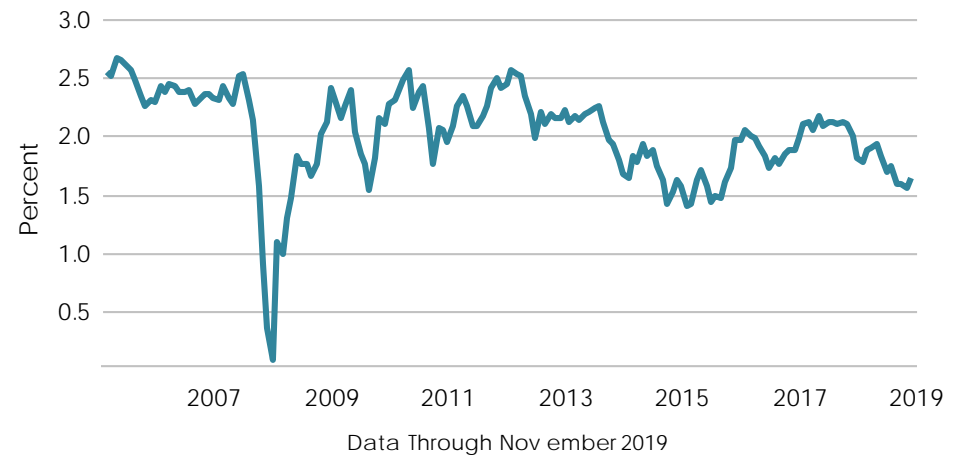
Source: Federal Reserve Bank of St. Louis

**CHANGE IN UNIT LABOR COST**



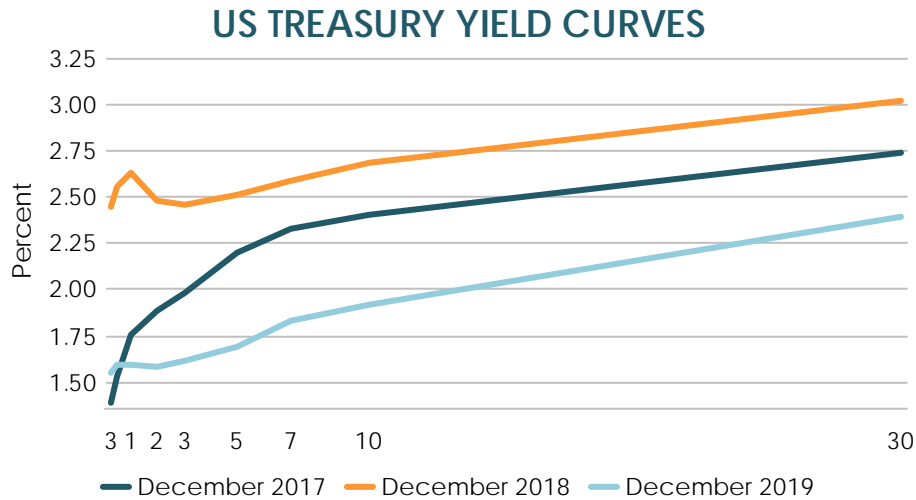
Source: Federal Reserve Bank of St. Louis

**US 10-YEAR TIPS BREAKEVEN RATE**

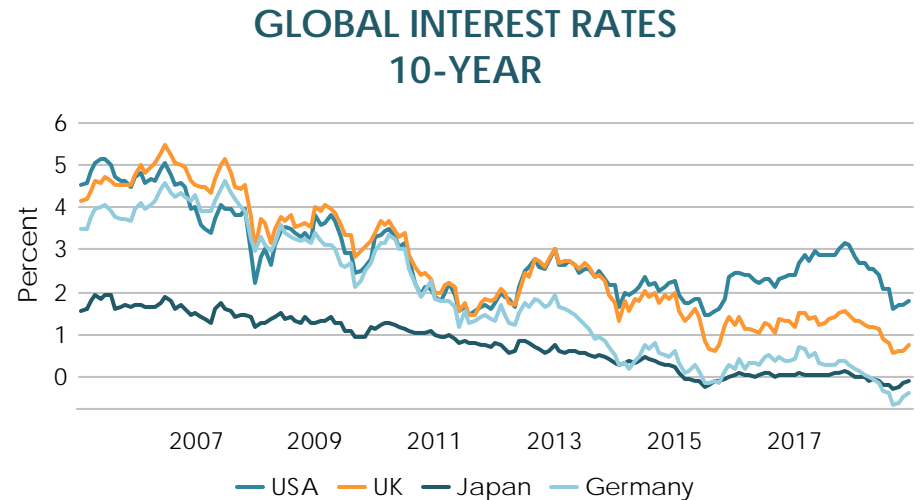


Source: Federal Reserve Bank of St. Louis

# Interest Rates



Source: Bloomberg



Source: Federal Reserve Bank of St. Louis

- Even though global interest rates increased in the 4Q19, they will continue to remain low and hold long-term U.S. rates down.
- Although the German 10-Year Bund yield remained negative, it increased from -0.57% at the start of the quarter to -0.19% as of December 31st.
- We expect Fed to remain on hold and interest rates to be range bound with the 10-year Treasury yielding between 1.50% - 2.25%.
- The yield curve is no longer inverted, as measured by the difference between the 10-year and 3-month Treasury yield, and ended the quarter at 0.37%, up from -0.14% at the end of 3Q19.

## Our Economic Outlook

- Economic growth should center around 2% in 2020, with inflation continuing to trend below target.
- The FOMC's "mid-cycle adjustment" has reduced recession fears and, in our opinion, likely extends the runway for the current economic growth cycle.
- We expect Fed policy will take a back seat in 2020 as the FOMC has increased the threshold necessary to adjust rates in either direction.
- Trade uncertainty continues, tensions ease, but real progress is pushed down the road.
- Election uncertainty, with the polarization of candidates, could have significant implications for both the economic environment and the risk markets.

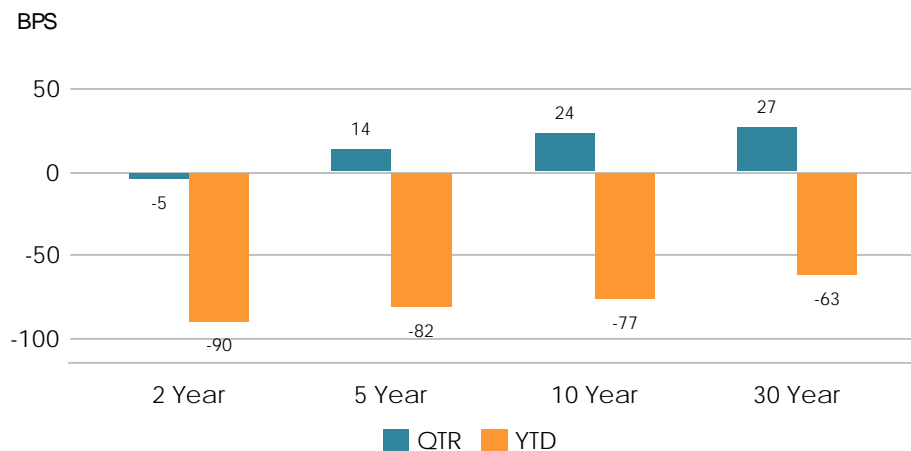
## Fixed Income

- Fixed income returns surprised sharply on the upside in 2019, significantly reducing their potential returns for the coming year, in our view.
- With Fed policy likely on hold, interest rates should remain rangebound with the 10-year Treasury yielding between 1.5% - 2.25%.
- Tighter valuations, moderate earnings growth expectations, and elevated leverage metrics caused us to adopt a more conservative view on credit.
- Our increasingly cautious view on risk coupled with our positive outlook for the consumer have led us to move up in quality and focus more on the securitized sectors, specifically, agency MBS and consumer focused ABS.
- We have increased portfolio liquidity in anticipation of higher volatility with the expectation this may lead to more opportunities to tactically add value at more attractive valuations.

# Our Portfolio Review



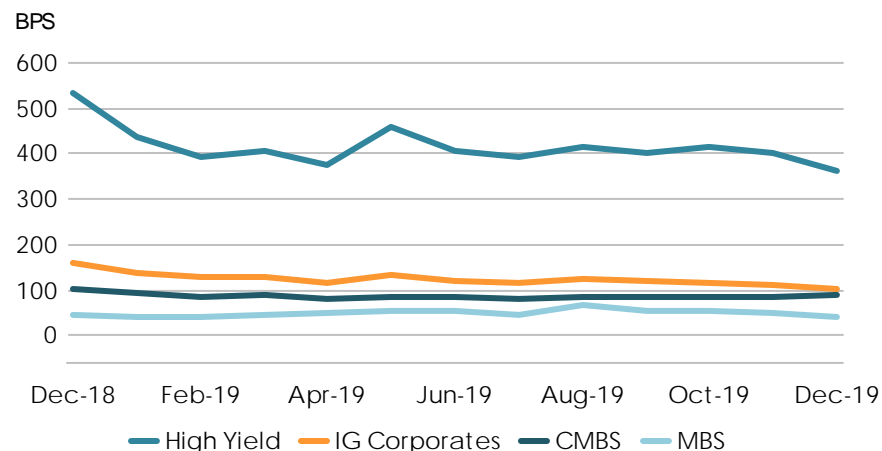
## US TREASURY YIELD CHANGE



Source: U.S. Department of the Treasury

- Two-year Treasury yields declined 5 bps during the quarter while 10-year Treasury yields rose 24 bps.
- The FOMC cut interest rates one time during the 4th quarter. The fed funds rates is now 1.50%-1.75%.
- The 2s-10s yield curve steepened by 30 bps in 4Q19.
- The 2s-30s yield curve steepened by 33 bps in 4Q19.

## US SPREAD SECTORS

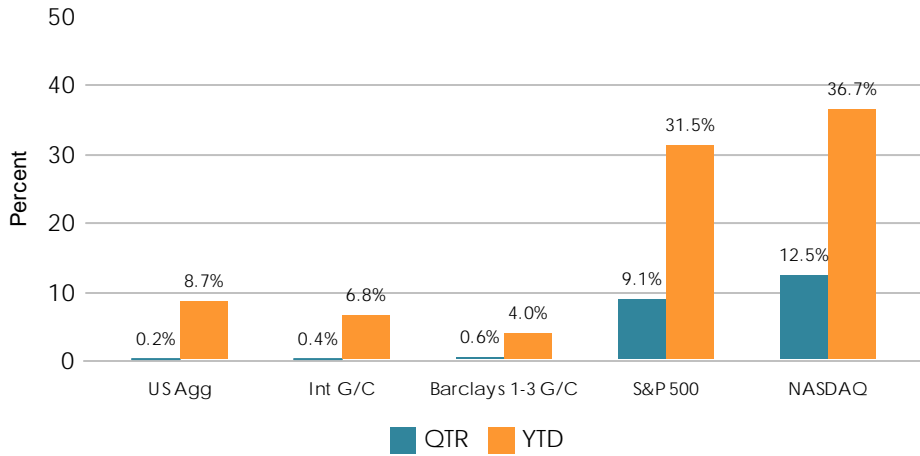


Source: Bloomberg, BofA Merrill Lynch Indices

- Investment grade and high yield sectors outperformed U.S. Treasuries in the 4Q19.
- Longer maturity corporate securities outperformed short and intermediate securities on an excess return basis.
- BBB-rated securities generated greater excess returns in the 4Q19 versus BB, B, and CCC-rated high yield securities.
- MBS and ABS generated positive excess returns for the quarter, while CMBS excess returns were modestly negative versus U.S. Treasuries.

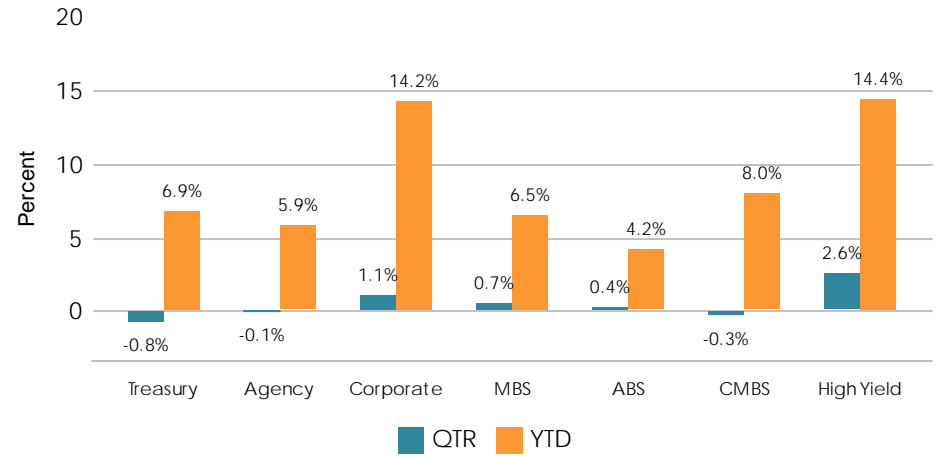
# Total Returns

## INDEX RETURNS



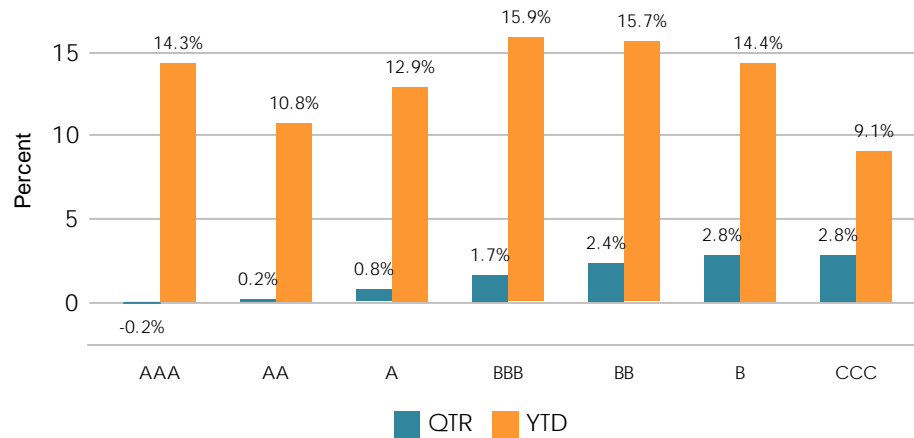
Source: Interactive Data Corporation

## SECTOR RETURNS



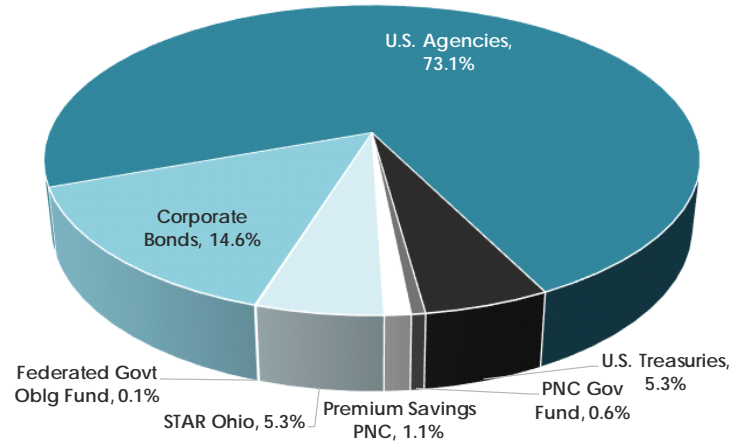
Source: Interactive Data Corporation

## RETURNS BY QUALITY



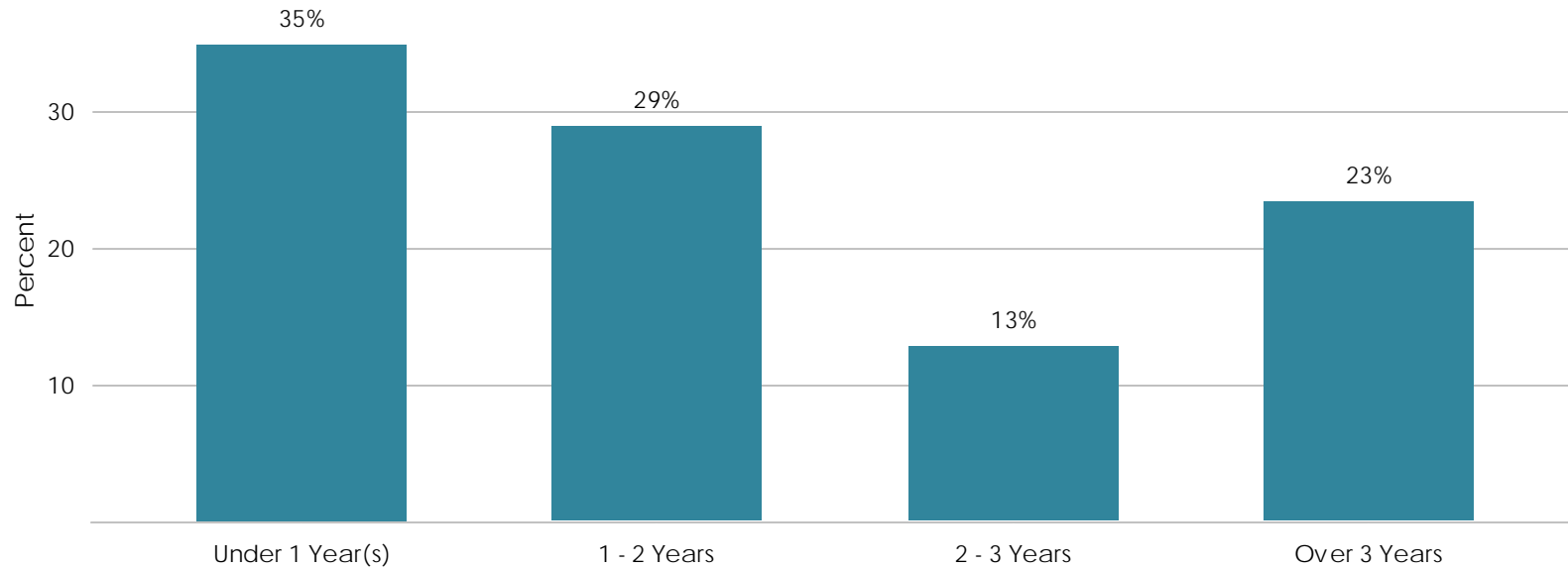
Source: Interactive Data Corporation

SECTOR ANALYSIS

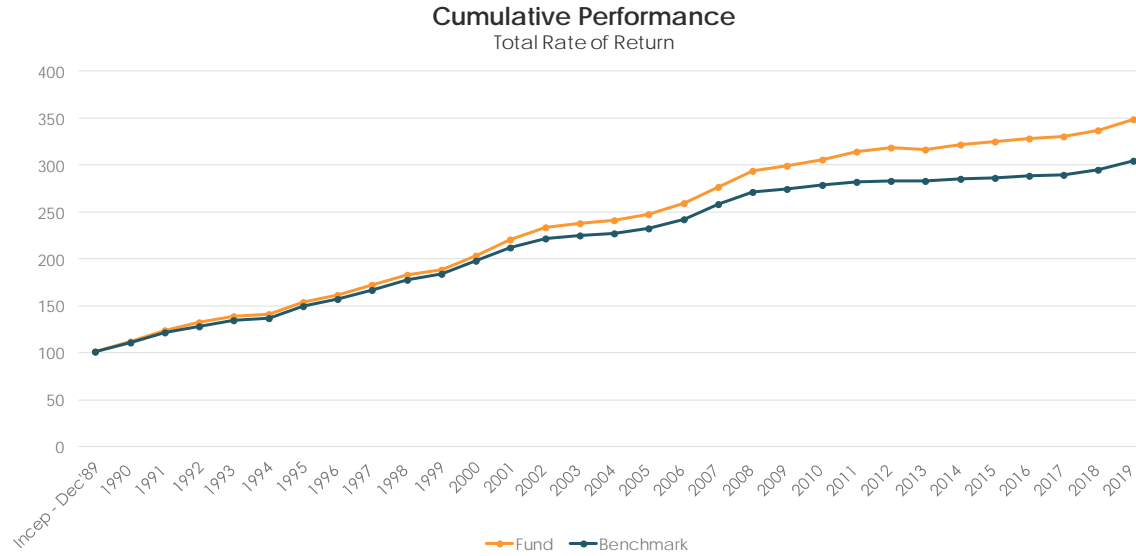


Sectors	Par Value	Percent of Portfolio
U.S. Agencies	416,470,000	73.1%
U.S. Treasuries	30,000,000	5.3%
PNC Gov Fund	3,352,190	0.6%
Premium Savings PNC	6,280,472	1.1%
STAR Ohio	30,297,441	5.3%
Federated Govt Oblg Fund	309,328	0.1%
Municipal Investment Account	0	0.0%
Corporate Bonds	83,000,000	14.6%
<b>TOTAL</b>	<b>572,637,713</b>	<b>100.0%</b>
Agency Issuers:		
FFCB	218,000,000	52.3%
FHLMC	24,000,000	5.8%
FHLB	45,000,000	10.8%
FNMA	129,470,000	31.1%
<b>TOTAL</b>	<b>416,470,000</b>	<b>100.0%</b>

## MATURITY DISTRIBUTION



Maturity	Market Value	Percent
Under 1 Year(s)	\$ 199,196,421	34.9%
1 - 2 Years	165,289,963	28.9
2 - 3 Years	73,301,754	12.8
Over 3 Years	133,715,197	23.4
<b>Total</b>	<b>\$ 571,503,335</b>	<b>100.0%</b>
Effective Average Maturity of Portfolio:		1.93 yrs



### Investment Performance

Through December 31, 2019

	Nov. '89-1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Since Inception
<b>Total Return</b>																						
Fund	89.21%	7.84%	8.08%	5.95%	2.16%	1.31%	2.31%	4.82%	6.69%	6.46%	1.80%	2.16%	2.80%	1.14%	-0.62%	1.75%	1.03%	1.02%	0.73%	1.69%	3.54%	248.62%
Benchmark*	84.27	7.48	7.04	4.49	1.73	1.13	2.14	4.39	6.29	5.17	1.04	1.58	1.05	0.46	0.28	0.45	0.43	0.72	0.64	1.73	3.07	204.30
<b>Yield at Period End</b>																						
Fund at Cost	---	6.05	5.07	4.62	3.80	3.18	3.55	4.62	4.62	3.99	2.95	2.03	1.69	1.33	1.20	1.07	0.94	1.10	1.39	2.05	2.03	---
STAR Ohio	---	6.01	1.80	0.96	0.53	1.57	2.67	5.29	4.53	1.10	0.10	0.14	0.02	0.07	0.02	0.07	0.30	0.78	1.24	2.49	1.86	---
U.S. T Bills**	67.28	6.18	4.42	1.78	1.15	1.33	3.07	4.85	5.00	2.06	0.21	0.13	0.10	0.11	0.07	0.04	0.05	0.33	0.85	1.87	2.28	132.20
1-3 yr. Treasury**	93.18	8.00	8.30	5.76	1.90	0.91	1.67	3.96	7.32	6.61	0.78	2.35	1.55	0.43	0.36	0.62	0.54	0.89	0.42	1.58	3.55	229.55
1-3 yr. Agency**	95.22	8.51	8.67	6.11	2.19	1.18	1.75	4.50	6.76	7.05	2.17	2.32	1.53	0.85	0.42	0.70	0.70	0.96	0.65	1.78	3.48	248.12

\* Total Return of Benchmark Components. Benchmark is 1/3 weighting each.  
 \* Total Return of Benchmark calculated using monthly constituent index performance, then linked.  
 \*\* YoY Return of each Benchmark

# Transaction Summary

*Investment Portfolio Review*  
 Period From January 1, 2019 To December 31, 2019

Security	Trade Date	Settle Date	Quantity	Purchases	Price	Cost
<b>Purchases</b>						
Bank of America Corp 2.63% 04/19/21	3/15/19	3/19/19	8,000,000	\$8,050,460.00	99.54	\$7,962,960.00
U S Bancorp 2.63% 01/24/22	3/15/19	3/19/19	8,000,000	\$8,007,123.33	99.69	\$7,975,040.00
Fannie Mae 2.50% 02/05/24	3/19/19	3/20/19	10,000,000	\$10,029,066.67	100.00	\$9,999,900.00
J P Morgan Chase MTN 2.29% 08/15/21	6/20/19	6/24/19	10,000,000	\$10,075,637.50	99.93	\$9,993,400.00
Fannie Mae 1.75% 07/02/24	7/9/19	7/10/19	10,000,000	\$9,914,972.22	99.14	\$9,914,000.00
Exxon Mobil Corp 1.90% 08/16/22	8/13/19	8/16/19	2,000,000	\$2,000,000.00	100.00	\$2,000,000.00
Exxon Mobil Corp 1.90% 08/16/22	8/14/19	8/16/19	3,000,000	\$3,007,860.00	100.26	\$3,007,860.00
Federal Home Loan Bank 1.50% 08/15/24	8/15/19	8/16/19	10,000,000	\$10,004,800.00	100.05	\$10,004,800.00
Bank of New York Mellon 1.95% 08/23/22	8/20/19	8/23/19	5,000,000	\$4,998,400.00	99.97	\$4,998,400.00
Federal Home Loan Bank 1.50% 08/15/24	8/22/19	8/23/19	10,000,000	\$9,982,716.67	99.80	\$9,979,800.00
Federal Farm Credit Bank 1.50% 09/06/22	8/29/19	9/6/19	10,000,000	\$9,998,800.00	99.99	\$9,998,800.00
Federal Farm Credit Bank 1.45% 09/05/24	8/29/19	9/5/19	10,000,000	\$9,991,500.00	99.92	\$9,991,500.00
Disney (Walt) Co 1.65% 09/01/22	9/3/19	9/6/19	5,000,000	\$4,989,150.00	99.78	\$4,989,150.00
Federal Farm Credit Bank 1.60% 08/14/23	9/12/19	9/13/19	10,000,000	\$9,993,188.89	99.80	\$9,980,300.00
Federal Farm Credit Bank 1.60% 09/17/24	9/16/19	9/17/19	19,000,000	\$18,833,370.00	99.12	\$18,833,370.00
Federal Farm Credit Bank 1.70% 09/25/23	9/17/19	9/25/19	15,000,000	\$14,994,150.00	99.96	\$14,994,150.00
Paccar Financial Corp 2.00% 09/26/22	9/27/19	10/1/19	3,000,000	\$3,002,633.33	100.06	\$3,001,800.00
Federal Farm Credit Bank 1.50% 10/16/24	10/10/19	10/16/19	10,000,000	\$9,967,900.00	99.68	\$9,967,900.00
Federal Farm Credit Bank 1.63% 10/23/23	10/15/19	10/23/19	10,000,000	\$9,994,200.00	99.94	\$9,994,200.00
Fannie Mae 1.63% 10/15/24	10/23/19	10/24/19	10,000,000	\$9,983,708.33	99.81	\$9,981,000.00
Federal Farm Credit Bank 1.60% 11/01/23	10/23/19	11/1/19	10,000,000	\$9,990,300.00	99.90	\$9,990,300.00
American Honda Finance 1.95% 05/20/22	11/18/19	11/21/19	4,000,000	\$3,998,640.00	99.97	\$3,998,640.00
American Honda Finance 1.95% 05/20/22	11/25/19	11/27/19	6,000,000	\$6,001,950.00	100.00	\$6,000,000.00
<b>Total Purchases</b>				<b>\$197,810,526.94</b>		<b>\$197,557,270.00</b>

# Appraisal Summary

*Investment Portfolio Review*  
*Period Ending December 31, 2019*

	<u>Market Value</u>	<u>Percent</u>	<u>Income</u>
Liquid Reserves	40,239,431	7.0	724,310
<b>Liquid</b>	<b>40,239,431</b>	<b>7.0</b>	<b>724,310</b>
U.S. Treasuries	30,271,753	5.3	600,000
U.S. Government Agencies	419,488,023	73.0	7,832,175
Corporate Bonds	84,334,645	14.7	2,034,600
<b>Fixed</b>	<b>534,094,422</b>	<b>93.0</b>	<b>10,466,775</b>
<b>Total Market Value</b>	<b>574,333,853</b>	<b>100.0%</b>	<b>11,191,085</b>

# Portfolio Appraisal

*Investment Portfolio Review*  
*Period Ending December 31, 2019*

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
309,328	Federated Govt Oblg Fund	1.800		309,328	100.000	309,328
3,352,190	Money Market	1.800		3,352,190	100.000	3,352,190
6,280,472	PNC Bank Mny Mkt Sav	1.800		6,280,472	100.000	6,280,472
30,297,441	STAR Ohio	1.800		30,297,441	100.000	30,297,441
<b>40,239,431</b>	<b>Liquid Reserves</b>			<b>40,239,431</b>		<b>40,239,431</b>
<b>40,239,431</b>	<b>Liquid</b>			<b>40,239,431</b>		<b>40,239,431</b>
15,000,000	U S Treasury Notes	2.000	2/28/2021	14,984,180	100.410	15,061,530
15,000,000	U S Treasury Notes	2.000	5/31/2021	14,970,117	100.551	15,082,620
<b>30,000,000</b>	<b>U.S. Bonds/Notes</b>			<b>29,954,297</b>		<b>30,144,150</b>
<b>30,000,000</b>	<b>U.S. Treasuries</b>			<b>29,954,297</b>		<b>30,144,150</b>
15,000,000	Fannie Mae	1.500	2/28/2020	14,994,600	99.981	14,997,105
10,000,000	Fannie Mae	1.500	6/22/2020	9,989,400	99.930	9,992,970
8,470,000	Fannie Mae	1.750	9/11/2020	8,468,560	100.070	8,475,895
6,000,000	Fannie Mae	2.875	10/30/2020	5,995,800	101.007	6,060,408
20,000,000	Fannie Mae	1.500	11/30/2020	19,952,700	99.965	19,993,040
10,000,000	Fannie Mae	1.250	8/17/2021	9,995,300	99.472	9,947,170
10,000,000	Fannie Mae	1.375	10/07/2021	9,966,350	99.620	9,962,010
20,000,000	Fannie Mae	2.000	1/05/2022	19,967,000	100.771	20,154,140
10,000,000	Fannie Mae	2.500	2/05/2024	9,999,900	103.094	10,309,370
10,000,000	Fannie Mae	1.750	7/02/2024	9,914,000	100.114	10,011,400
10,000,000	Fannie Mae	1.625	10/15/2024	9,981,000	99.544	9,954,410
10,000,000	Federal Farm Credit Bank	2.550	5/15/2020	9,978,880	100.360	10,035,960
20,000,000	Federal Farm Credit Bank	2.690	9/04/2020	19,986,000	100.779	20,155,760
5,000,000	Federal Farm Credit Bank	2.700	12/21/2020	4,995,650	101.183	5,059,125
8,000,000	Federal Farm Credit Bank	2.700	4/09/2021	7,993,120	101.426	8,114,104
15,000,000	Federal Farm Credit Bank	2.700	7/02/2021	14,993,100	101.694	15,254,085
16,000,000	Federal Farm Credit Bank	1.720	7/26/2021	15,996,160	100.253	16,040,432
15,000,000	Federal Farm Credit Bank	1.950	11/02/2021	15,000,000	100.689	15,103,320
10,000,000	Federal Farm Credit Bank	1.760	11/29/2021	9,952,900	100.355	10,035,540
10,000,000	Federal Farm Credit Bank	2.010	12/08/2021	10,000,000	100.744	10,074,440



# Portfolio Appraisal

*Investment Portfolio Review*  
*Period Ending December 31, 2019*

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
10,000,000	Federal Farm Credit Bank	1.500	9/06/2022	9,998,800	99.720	9,971,960
15,000,000	Federal Farm Credit Bank	1.850	9/20/2022	14,961,300	100.640	15,095,955
10,000,000	Federal Farm Credit Bank	1.600	8/14/2023	9,980,300	99.875	9,987,510
15,000,000	Federal Farm Credit Bank	1.700	9/25/2023	14,994,150	100.226	15,033,915
10,000,000	Federal Farm Credit Bank	1.625	10/23/2023	9,994,200	99.951	9,995,130
10,000,000	Federal Farm Credit Bank	1.600	11/01/2023	9,990,300	99.857	9,985,740
10,000,000	Federal Farm Credit Bank	1.450	9/05/2024	9,991,500	98.595	9,859,530
19,000,000	Federal Farm Credit Bank	1.600	9/17/2024	18,833,370	99.250	18,857,462
10,000,000	Federal Farm Credit Bank	1.500	10/16/2024	9,967,900	98.753	9,875,330
15,000,000	Federal Home Loan Bank	2.125	2/11/2020	14,946,450	100.053	15,007,905
10,000,000	Federal Home Loan Bank	2.675	12/22/2020	9,999,280	100.972	10,097,230
20,000,000	Federal Home Loan Bank	1.500	8/15/2024	19,984,600	99.227	19,845,400
10,000,000	Freddie Mac	2.500	4/23/2020	9,985,800	100.267	10,026,660
14,000,000	Freddie Mac	1.375	5/01/2020	13,961,040	99.908	13,987,092
<b>416,470,000</b>	<b>U.S. Agencies</b>			<b>415,709,410</b>		<b>417,357,503</b>
<b>416,470,000</b>	<b>U.S. Agencies &amp; Related</b>			<b>415,709,410</b>		<b>417,357,503</b>
8,000,000	Bank of America Corp	2.625	4/19/2021	7,962,960	100.916	8,073,296
5,000,000	Bank of New York Mellon	1.950	8/23/2022	4,998,400	100.221	5,011,045
5,000,000	Berkshire Hathaway Inc	2.900	10/15/2020	4,990,507	100.864	5,043,200
10,000,000	J P Morgan Chase MTN	2.295	8/15/2021	9,993,400	100.246	10,024,640
8,000,000	U S Bancorp	2.625	1/24/2022	7,975,040	101.586	8,126,880
<b>36,000,000</b>	<b>Financial</b>			<b>35,920,307</b>		<b>36,279,061</b>
10,000,000	American Honda Finance	1.950	5/20/2022	9,998,640	100.363	10,036,280
8,000,000	Apple Inc	2.850	5/06/2021	7,942,840	101.543	8,123,408
8,000,000	Cisco Systems Inc	2.900	3/04/2021	7,952,890	101.333	8,106,672
5,000,000	Disney (Walt) Co	1.650	9/01/2022	4,989,150	99.754	4,987,725
5,000,000	Exxon Mobil Corp	1.902	8/16/2022	5,007,860	100.552	5,027,600
8,000,000	John Deere Capital Corp MTN	3.125	9/10/2021	7,964,960	102.306	8,184,456
3,000,000	Paccar Financial Corp	2.000	9/26/2022	3,001,800	100.568	3,017,049
<b>47,000,000</b>	<b>Industrial</b>			<b>46,858,140</b>		<b>47,483,190</b>

# Portfolio Appraisal

*Investment Portfolio Review*  
*Period Ending December 31, 2019*

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
83,000,000	Corporate Bonds			82,778,447		83,762,251
529,470,000	Fixed			528,442,154		531,263,904
569,709,431	Total Portfolio			568,681,585		571,503,335

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