

BOYD WATTERSON

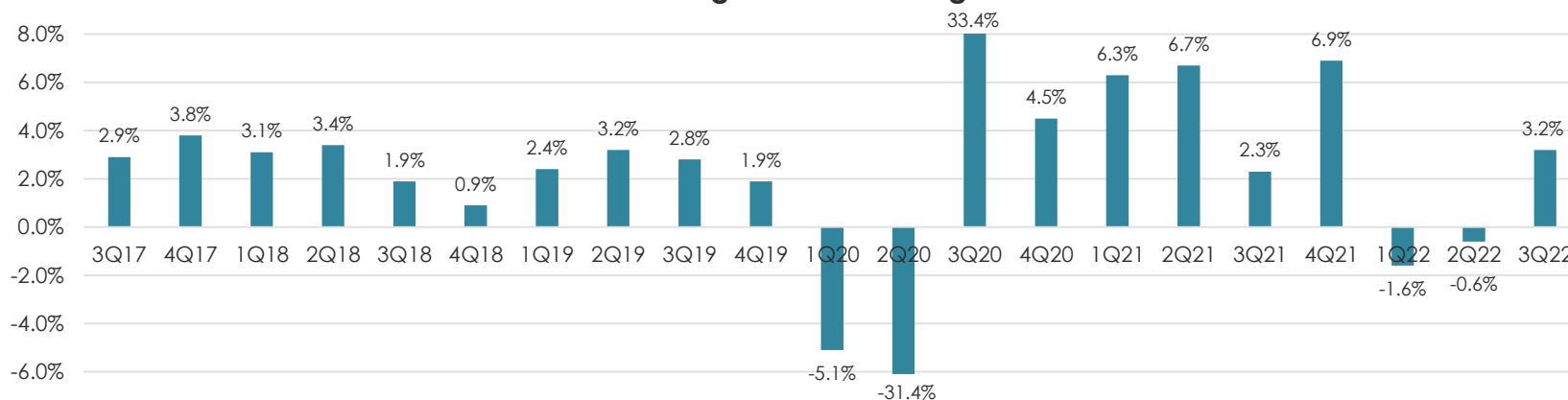
A S S E T M A N A G E M E N T

Montgomery County

December 31, 2022

Our Macro View

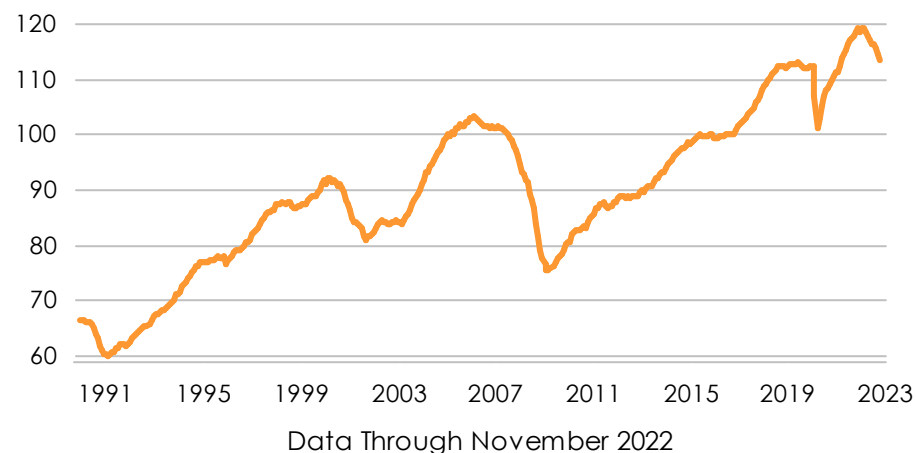
Real GDP: Percent Change from Preceding Quarter



Source: U.S. Bureau of Economic Analysis.

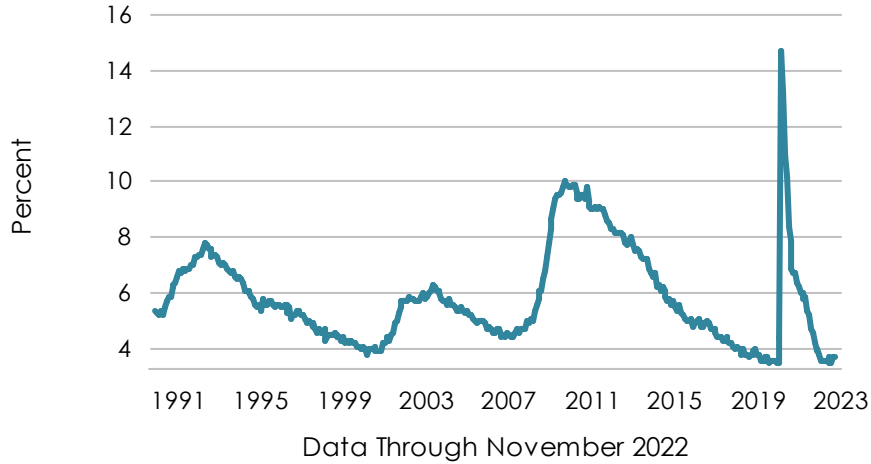
- Following two negative quarters in the first half of 2022, growth turned positive in the third and early fourth quarters. Economic data remains mixed, with slowing activity in the manufacturing and services sectors, while the labor market remains strong and consumer confidence is improving.
- Expectations are for growth to slow, if not turn negative, in 2023 as the interest rate increases continue to work through the economy. This should result in lower consumption, softer payroll growth, and moderating inflation.
- The Bloomberg consensus estimate for U.S. Real GDP growth for 2023 is now 0.3%, down from the 0.7% estimate last quarter. The FOMC's most recent projection is similar, at 0.5%. Both project growth modestly back above 1% in 2024.

Composite Index of 10 Leading Indicators



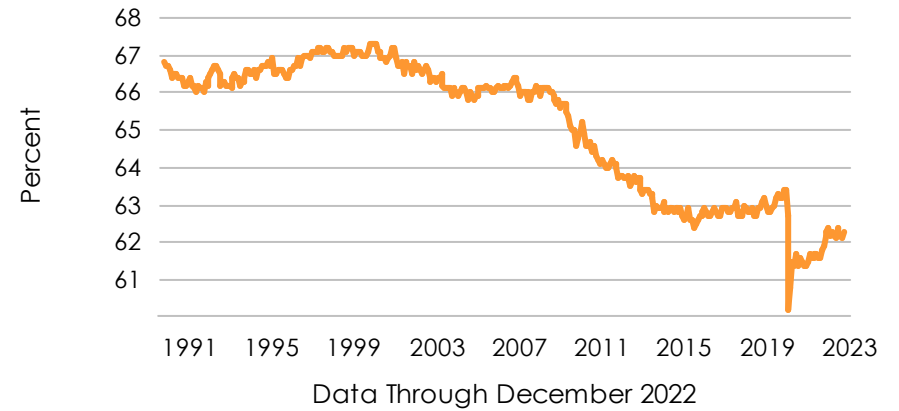
Source: The Conference Board

CIVILIAN UNEMPLOYMENT RATE



Source: The Conference Board

CIVILIAN LABOR FORCE PARTICIPATION RATE



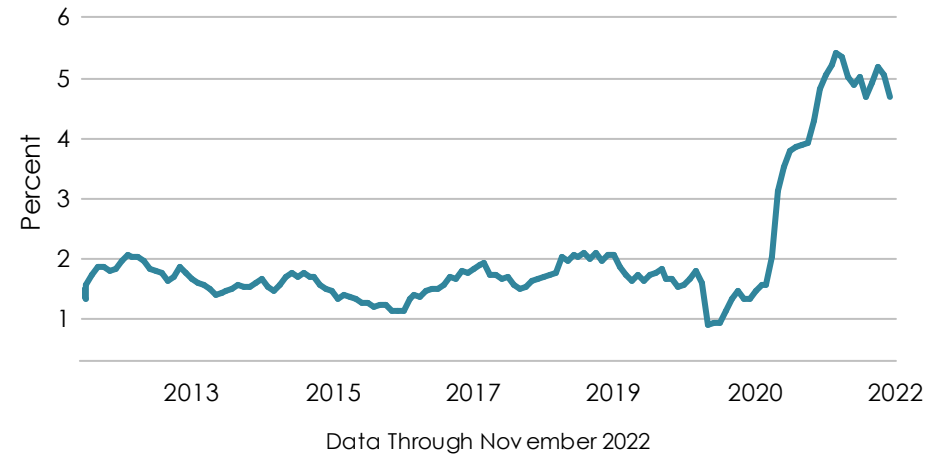
Source: The Federal Reserve Board

- The labor market remained the bright spot in the U.S. economy with a 3.5% unemployment rate at year-end, elevated job openings, and payroll growth averaging 247,000 jobs over the last three months.
- Higher frequency labor market data, such as initial jobless claims, remained relatively low and stable over the fourth quarter. Conversely, continuing jobless claims drifted higher during the quarter, which bears watching to see if this is an early sign of future labor market weakness.
- The FOMC's efforts to cool demand through tighter monetary policy should result in a more balanced supply and demand situation in the labor market. While this may result in higher levels of unemployment, it should also help reduce inflationary pressures through more normalized wage growth.

Inflation

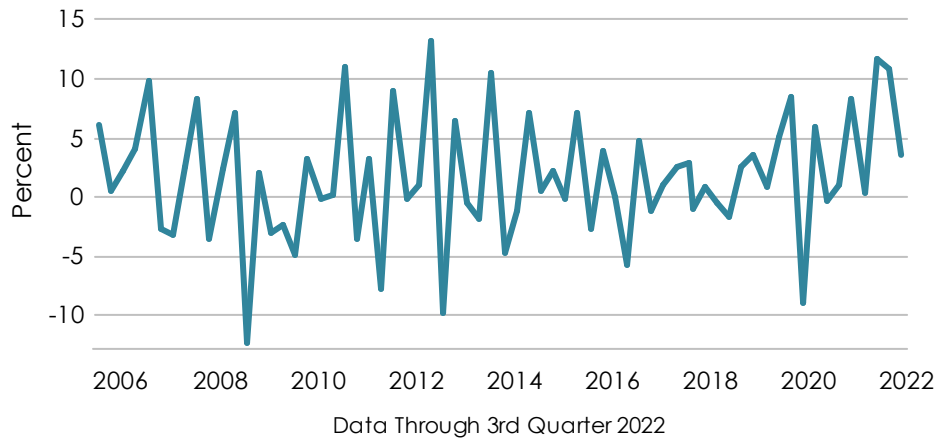
- The fourth quarter saw inflation measures begin to moderate with Core PCE YOY declining to 4.7%, down from 5.2% in September. While this is positive news, inflation readings across the board remain uncomfortably above the FOMC's 2% average inflation target. The Committee's recent projections reflect this measure declining to 3.5% in 2023 and 2.5% in 2024.
- The FOMC has been unwavering in their commitment to utilize their policy tools to bring inflation back down to their target rate. Breakeven rates in the TIPS market continue to express confidence in their ability to do so, as breakeven yields across the maturity spectrum closed the year below 2.5%.

CORE PCE YOY



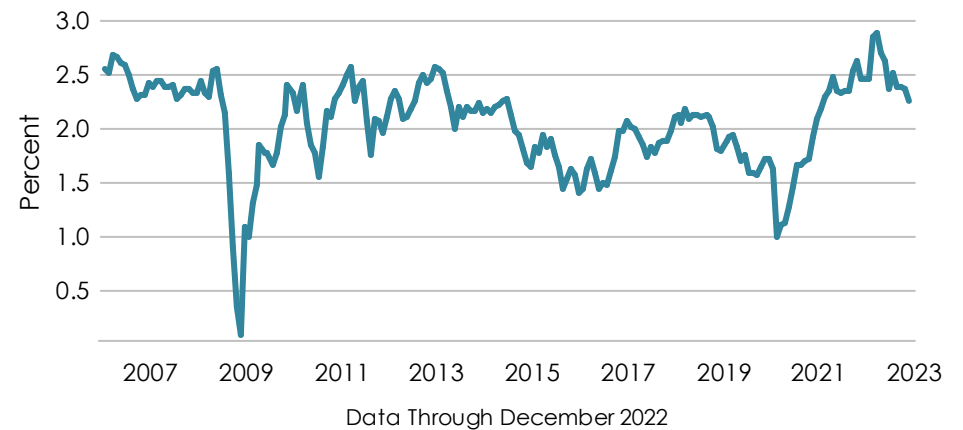
Source: FactSet

CHANGE IN UNIT LABOR COST



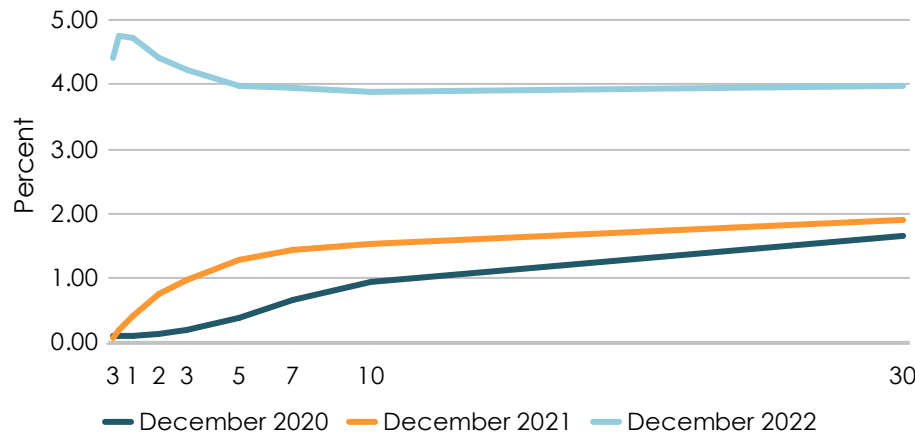
Source: Federal Reserve Bank of St. Louis

US 10-YEAR TIPS BREAKEVEN RATE



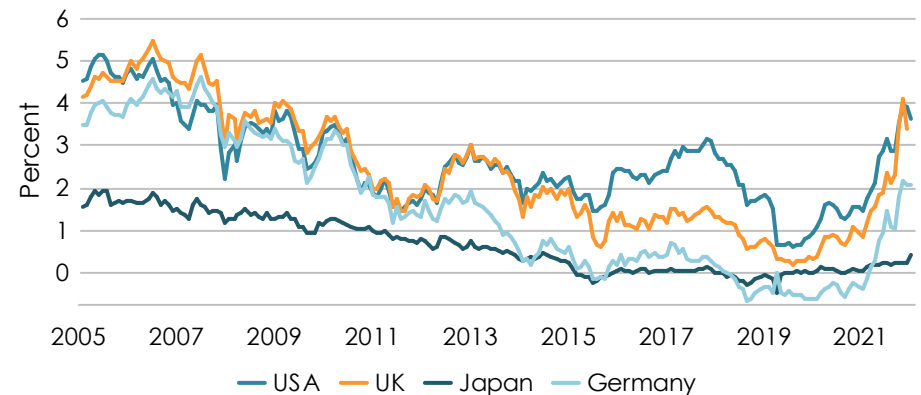
Source: Federal Reserve Bank of St. Louis

US TREASURY YIELD CURVES



Source: Federal Reserve Bank of St. Louis

GLOBAL INTEREST RATES 10-YEAR



Source: Federal Reserve Bank of St. Louis

- The FOMC increased their policy rate at seven consecutive meetings in 2022, totaling 425 basis points. The Committee increased their 2023 terminal rate projection again in the fourth quarter, to 5.1%, an increase of 50 basis points from their September projection.
- The bond market's view is somewhat different, as the federal funds futures market reflected a 2023 terminal rate just under 5% at year-end, with rate cuts potentially occurring later this year. The Fed's 'dot plot' projections indicate the potential for rate cuts sometime in 2024.
- While Fed tightening has pushed short-term interest rates sharply higher, the uncertain economic outlook has tempered the increases somewhat further out the yield curve. This has resulted in a sharply inverted yield curve between 2-year and 10-year Treasury maturities (-55 basis points at year-end), which has historically indicated a greater probability of an economic recession.
- The differing views between bond investors and the FOMC will likely keep volatility elevated in the bond market, as the FOMC has indicated further policy tightening, while simultaneously reducing their balance sheet holdings of Treasury and agency MBS at a pace of \$95 billion per month. Any policy pivot will be heavily dependent on incoming data, yet based on comments from Fed officials, a pause and hold strategy seems more likely than interest rate cuts later this year.

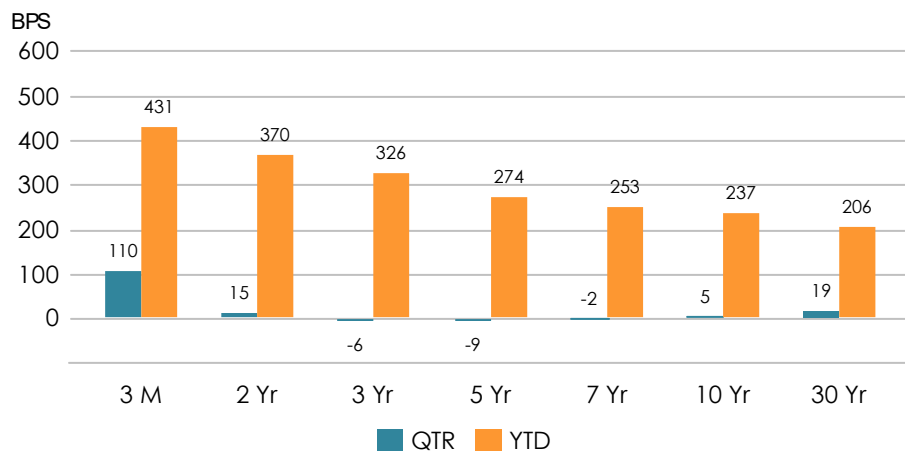
Our Economic Outlook

- The Federal Open Market Committee (FOMC) continued to aggressively tighten monetary policy with an additional 125 basis in the fourth quarter, bringing the year-to-date total to a staggering 425 basis points.
- We expect growth to slow and possibly turn negative this year as the FOMC's rate increases work through the economy. However, we remain optimistic a severe recession can likely be avoided.
- Inflation readings have begun to decline in recent months yet remain well above the Fed's 2% average inflation target. We believe slowing demand and improving supply chains should result in further improvement in 2023.
- The supply and demand imbalance in the labor market has kept payroll growth robust and wage growth elevated, presenting a headwind to the Fed's inflation battle.
- The FOMC increased their median projection for the 2023 federal funds rate to 5.10%, a fifty basis point increase over their prior projections. The bond market continues to push back on the FOMC with fed funds futures reflecting a lower peak rate and a sharply inverted yield curve. The futures market is pricing in rate cuts in late 2023, while the Fed's projections indicate that could occur in 2024.

Fixed Income

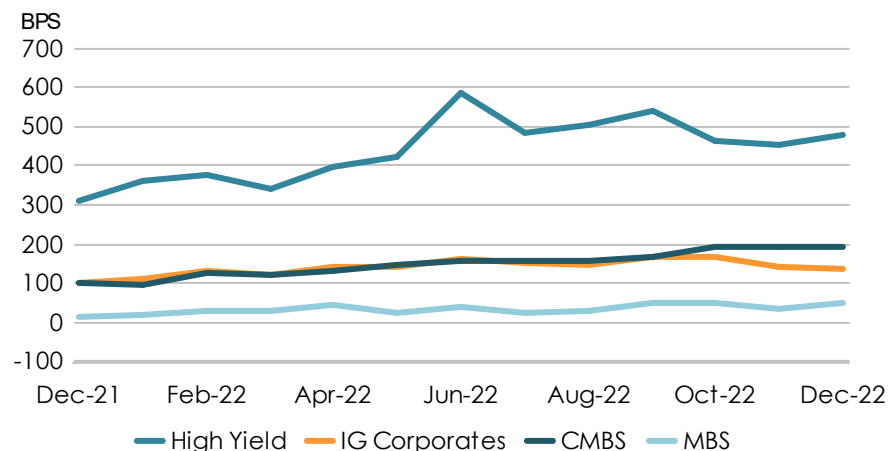
- Short-term rates have further to rise as the Fed will remain active in fighting inflation, while longer-term rates are closer to peaking. This should result in the yield curve continuing to flatten and further invert over the near term.
- Credit spreads are currently at the tighter end of recent ranges and do not provide an adequate cushion to insulate investors against a more dire economic outcome.
- We believe corporations/analysts will likely continue to reduce earnings expectations in Q1 of 2023 which should result in wider credit spreads.
- Based on our macro view and valuations, our portfolios currently maintain a defensive bias with a preference for higher quality and lower beta.
- Following many years of very low interest rates and a tough 2022 for bond investors, the reset in interest rates provides a more attractive forward looking return profile for fixed income investors.

US TREASURY YIELD CHANGE



Source: BofA Merrill Lynch Indices

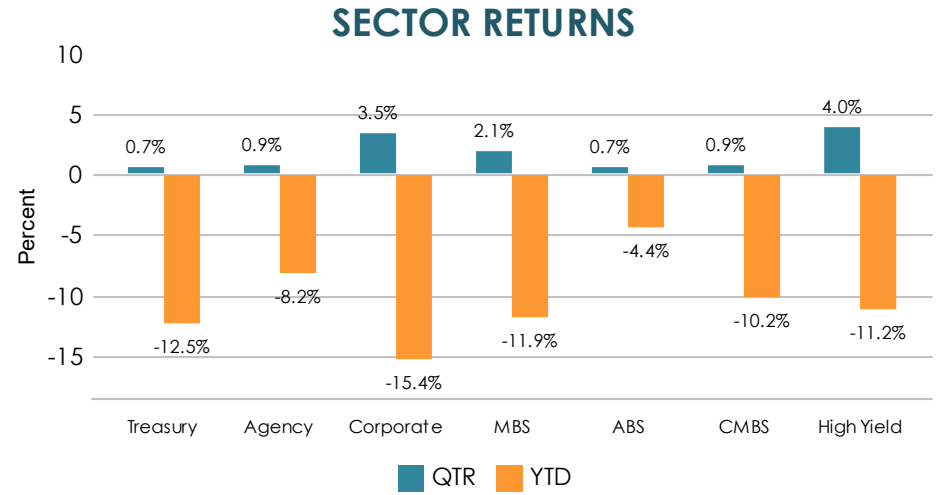
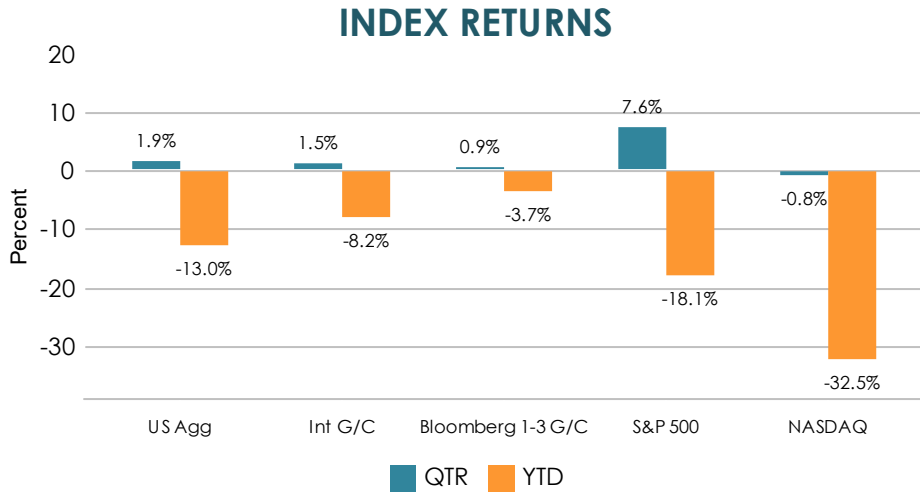
US SPREAD SECTORS



Source: Bloomberg, BofA Merrill Lynch Indices

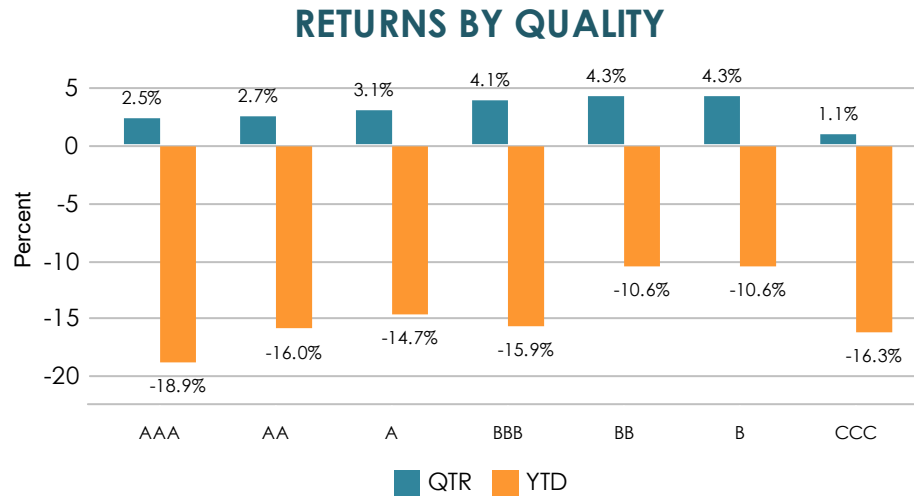
- Seven consecutive interest rate hikes in 2022, totaling 425 basis points, resulted in the most aggressive tightening cycle experienced in more than two decades.
- For 2022, interest rates were higher across the yield curve, however, to widely varying magnitudes. Short-term yields experienced the sharpest increases given their higher correlation to the Fed's policy rate, while intermediate and long-term interest rates increased in excess of 200 basis points.
- The inversion of the yield curve increased during the fourth quarter as the yield differential between 2-year and 10-year Treasuries moved from -45 to -55 basis points at year-end. The 3m-10yr Treasury yield differential inverted as well, declining 105 basis points during the quarter, ending the year at -47 basis points.
- The FOMC has indicated the pace and magnitude of tightening may slow at future Committee meetings, but their work is not done. The December 'dot plot' projects approximately 75 basis points of tightening in 2023 from the current level.
- Higher interest rates and wider credit spreads resulted in negative total and excess returns for nearly all fixed income sectors in 2022.
- Investment grade corporate bond spreads tightened 29 bps in the fourth quarter yet for the full year were 40 bps wider. For 2022, this resulted in excess returns of -1.36% and, when coupled with higher interest rates, resulted in a total return of -15.45%.
- High yield corporate bonds had a similar experience, with spreads 64bps tighter in the fourth quarter, but 169bps wider for the full year. This resulted in excess returns of -3.03% and a total return of -11.22% for 2022.
- The securitized sectors posted negative total returns as well, with ABS the best performer at -4.43% for the year. CMBS followed with a total return of -10.21%, and agency MBS was the weakest of the three securitized sectors with a total return of -11.89%.

Total Returns



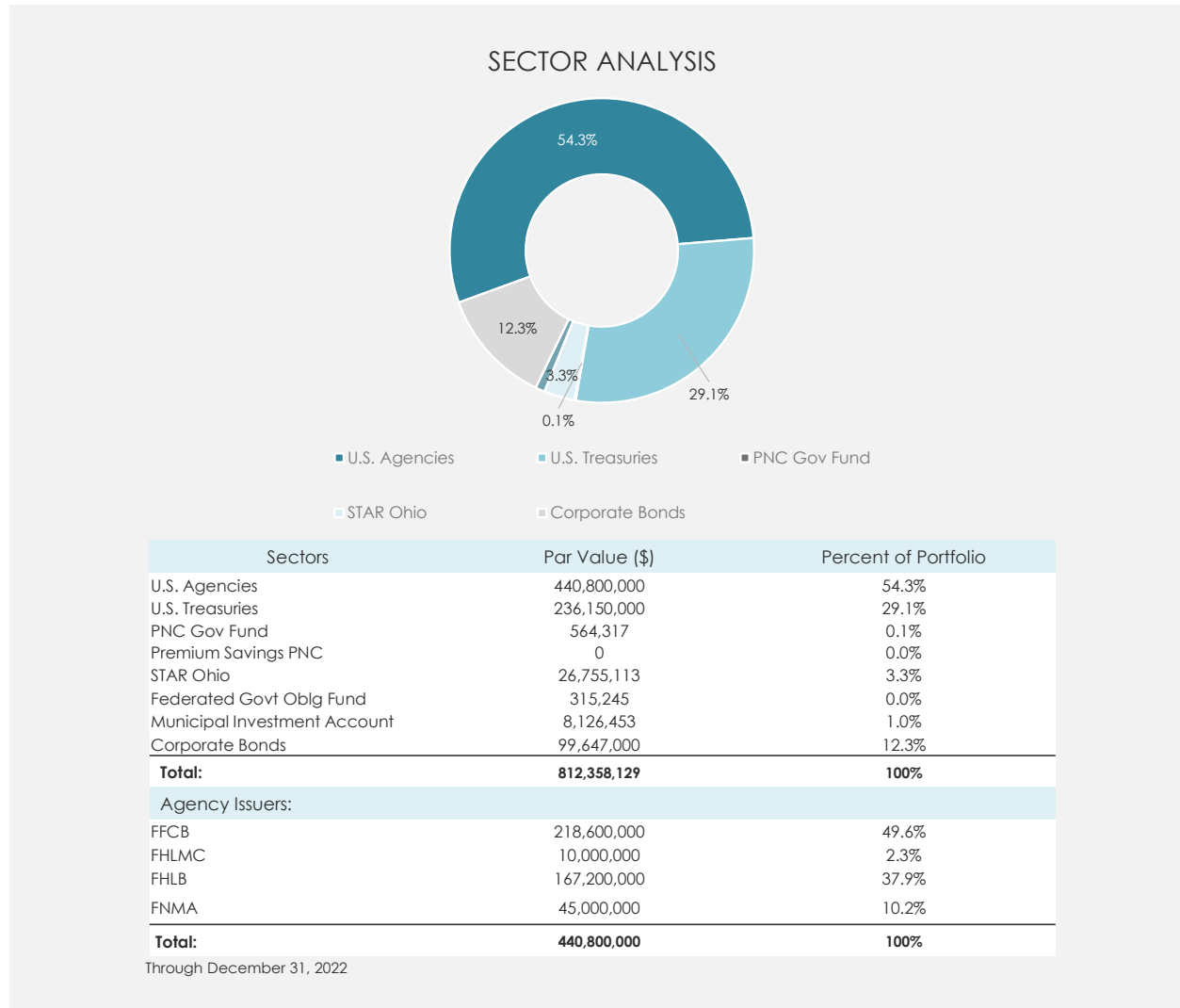
Source: Intercontinental Exchange Returns are calculated gross of fees.

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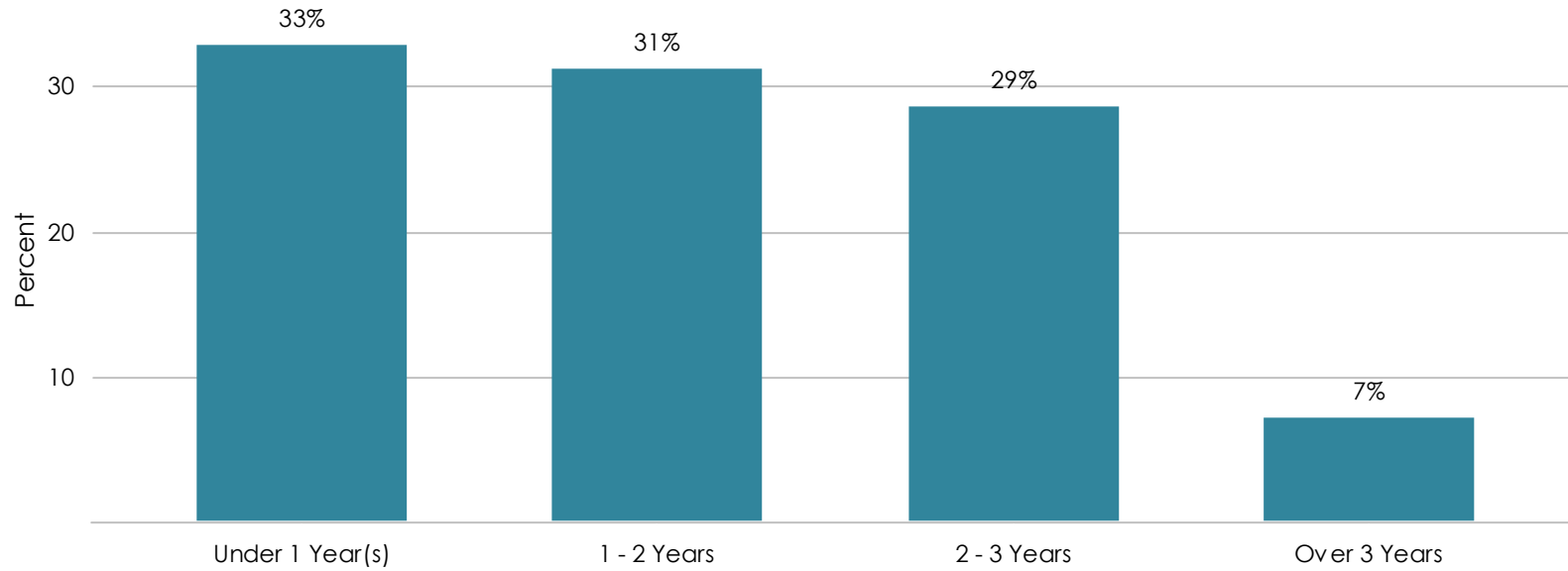


Source: Intercontinental Exchange Returns are calculated gross of fees.

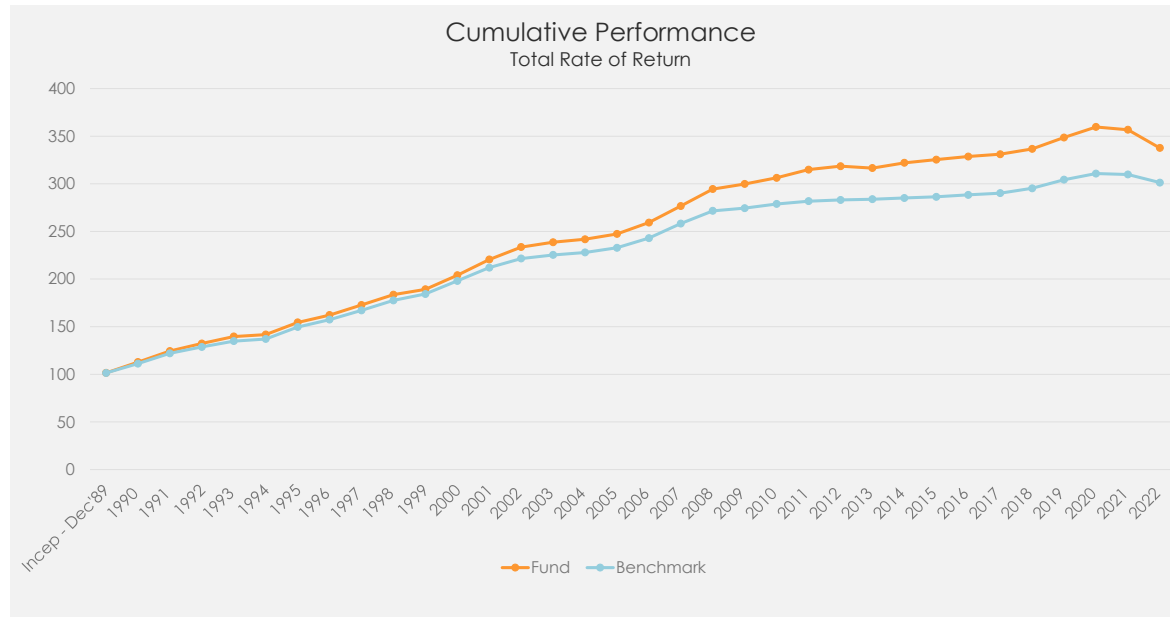
Our Portfolio View



MATURITY DISTRIBUTION



Maturity	Market Value	Percent
Under 1 Year(s)	\$ 250,769,673	32.9%
1 - 2 Years	237,964,884	31.2
2 - 3 Years	218,124,516	28.6
Over 3 Years	54,983,463	7.2
Total	\$ 761,842,535	100.0%
Effective Average Maturity of Portfolio:		1.53 yrs



Investment Performance Through December 31, 2022

	Nov. '89- 1999	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Dec. 31, 2022	Since Inception
Total Return																							
Fund (%)	89.21	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	3.37	-0.80	-4.40	241.8
Benchmark* (%)	84.27	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	2.12	-0.31	-1.98	203.7
Yield at Period End																							
Fund at Cost	---	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	2.03	0.89	1.50	---
STAR Ohio	---	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	1.86	0.09	4.58	---
U.S. T Bills**	67.28	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	0.55	0.05	1.45	143.1
1-3 yr. Treasury**	93.18	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	3.10	-0.55	-3.65	234.1
1-3 yr. Agency**	95.22	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	2.67	-0.42	-3.75	252.3

*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 September 30, 2022 To December 31, 2022

<u>Security</u>	<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Purchases</u>	<u>Price</u>	<u>Cost</u>
Purchases						
Federal Farm Credit Bank 4.00% 09/29/27	9/30/22	10/3/22	7,300,000	\$7,293,462.44	99.87	\$7,290,218.00
U S Treasury Note 3.25% 06/30/27	12/16/22	12/20/22	10,000,000	\$9,953,957.21	98.01	\$9,801,171.88
Total Purchases				<u>\$17,247,419.65</u>		<u>\$17,091,389.88</u>

Appraisal Summary

Investment Portfolio Review
Period Ending December 31, 2022

	<u>Market Value</u>	<u>Percent</u>	<u>Income</u>
Liquid Reserves	27,844,482	3.6	1,119,348
Liquid	27,844,482	3.6	1,119,348
U.S. Treasuries	228,898,104	29.9	2,710,563
U.S. Government Agencies	410,645,095	53.7	4,869,450
Corporate Bonds	96,929,549	12.7	2,398,318
Fixed	736,472,748	96.4	9,978,331
Total Market Value	764,317,230	100.0%	11,097,679

Portfolio Appraisal

Investment Portfolio Review
Period Ending December 31, 2022

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
315,245	Federated Govt Oblg Fund	4.020		315,245	100.000	315,245
774,123	Money Market	4.020		774,123	100.000	774,123
26,755,113	STAR Ohio	4.020		26,755,113	100.000	26,755,113
27,844,482	Liquid Reserves			27,844,482		27,844,482
27,844,482	Liquid			27,844,482		27,844,482
10,000,000	U S Treasury Note	0.125	1/31/2023	9,994,531	99.699	9,969,860
10,250,000	U S Treasury Note	1.375	6/30/2023	10,236,387	98.426	10,088,645
15,500,000	U S Treasury Note	1.250	7/31/2023	15,476,992	98.031	15,194,836
8,500,000	U S Treasury Note	0.250	3/15/2024	8,432,266	94.840	8,061,383
10,500,000	U S Treasury Note	0.375	7/15/2024	10,495,078	93.715	9,840,054
11,000,000	U S Treasury Note	0.750	11/15/2024	10,999,570	93.391	10,272,966
20,000,000	U S Treasury Note	2.875	4/30/2025	19,933,594	96.836	19,367,180
15,200,000	U S Treasury Note	3.000	9/30/2025	15,161,406	96.742	14,704,814
10,000,000	U S Treasury Note	3.250	6/30/2027	9,801,172	96.840	9,683,980
35,400,000	U S Treasury Notes	0.500	3/15/2023	35,319,813	99.238	35,130,323
15,000,000	U S Treasury Notes	0.250	6/15/2023	14,986,680	98.063	14,709,375
17,000,000	U S Treasury Notes	0.250	11/15/2023	16,985,977	96.156	16,346,554
16,000,000	U S Treasury Notes	0.375	4/15/2024	15,980,938	94.664	15,146,256
16,500,000	U S Treasury Notes	0.250	5/15/2024	16,463,906	94.160	15,536,433
25,300,000	U S Treasury Notes	2.000	5/31/2024	25,280,234	96.383	24,384,848
236,150,000	U.S. Bonds/Notes			235,548,543		228,437,507
236,150,000	U.S. Treasuries			235,548,543		228,437,507
10,000,000	Fannie Mae	2.500	2/05/2024	9,999,900	97.630	9,763,010
10,000,000	Fannie Mae	1.750	7/02/2024	9,914,000	95.765	9,576,490
10,000,000	Fannie Mae	1.625	10/15/2024	9,981,000	95.047	9,504,690
15,000,000	Fannie Mae (callable)	0.500	8/14/2025	14,973,000	90.013	13,501,995
9,300,000	Federal Farm Credit Bank	0.350	6/08/2023	9,264,801	98.220	9,134,497
10,000,000	Federal Farm Credit Bank	1.600	8/14/2023	9,980,300	98.084	9,808,400
15,000,000	Federal Farm Credit Bank	1.700	9/25/2023	14,994,150	97.834	14,675,130
10,000,000	Federal Farm Credit Bank	1.625	10/23/2023	9,994,200	97.549	9,754,940

Portfolio Appraisal

Investment Portfolio Review
Period Ending December 31, 2022

<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	1.600	11/01/2023	9,990,300	97.262	9,726,190
10,000,000	Federal Farm Credit Bank	1.450	9/05/2024	9,991,500	95.141	9,514,140
19,000,000	Federal Farm Credit Bank	1.600	9/17/2024	18,833,370	95.305	18,107,893
10,000,000	Federal Farm Credit Bank	1.500	10/16/2024	9,967,900	94.950	9,494,990
10,000,000	Federal Farm Credit Bank	4.250	9/30/2025	9,930,600	99.906	9,990,600
5,500,000	Federal Farm Credit Bank	3.320	2/25/2026	5,494,060	97.436	5,358,975
7,300,000	Federal Farm Credit Bank	4.000	9/29/2027	7,290,218	99.829	7,287,502
5,000,000	Federal Farm Credit Bank (callable)	0.400	10/15/2024	4,994,500	92.552	4,627,625
10,000,000	Federal Farm Credit Bank (callable)	0.670	8/04/2025	10,000,000	90.607	9,060,680
10,000,000	Federal Farm Credit Bank (callable)	0.680	8/04/2025	10,000,000	90.631	9,063,080
7,000,000	Federal Farm Credit Bank (callable)	0.540	11/03/2025	6,989,500	89.584	6,270,894
15,000,000	Federal Farm Credit Bank (callable)	0.560	12/01/2025	15,000,000	89.428	13,414,275
15,000,000	Federal Farm Credit Bank (callable)	0.500	12/23/2025	15,000,000	89.100	13,364,940
10,000,000	Federal Farm Credit Bank (callable)	0.600	12/09/2025	10,000,000	89.481	8,948,050
20,000,000	Federal Home Loan Bank	1.500	8/15/2024	19,984,600	95.035	19,007,000
12,000,000	Federal Home Loan Bank (callable)	0.520	9/30/2024	12,000,000	92.817	11,138,088
12,000,000	Federal Home Loan Bank (callable)	0.625	12/30/2024	12,000,000	92.203	11,064,336
15,000,000	Federal Home Loan Bank (callable)	0.680	6/30/2025	15,000,000	90.452	13,567,860
15,000,000	Federal Home Loan Bank (callable)	0.600	12/15/2025	15,000,000	89.308	13,396,245
15,000,000	Federal Home Loan Bank (callable)	0.520	1/28/2026	15,000,000	88.719	13,307,865
6,000,000	Federal Home Loan Bank (callable)	0.600	2/18/2026	6,000,000	88.938	5,336,280
20,000,000	Federal Home Loan Bank (callable)	0.875	3/17/2026	20,000,000	89.350	17,869,920
10,000,000	FFCB (callable)	0.610	5/23/2025	9,990,000	91.053	9,105,260
10,500,000	FFCB (callable)	0.650	6/09/2025	10,492,125	90.997	9,554,706
10,000,000	FFCB (callable)	0.740	6/30/2025	10,000,000	91.043	9,104,340
10,000,000	FHLB (callable)	0.500	7/29/2024	10,000,000	93.379	9,337,940
7,200,000	FHLB (callable)	1.000	4/29/2026	7,200,000	89.396	6,436,534
11,000,000	FHLB (callable)	0.475	8/23/2024	11,000,000	93.000	10,229,967
8,000,000	FHLB (callable)	0.550	12/17/2024	7,997,200	92.169	7,373,496
7,500,000	FHLB (callable)	0.570	3/27/2025	7,500,000	91.334	6,850,050
8,500,000	FHLB (callable)	0.810	3/27/2026	8,500,000	89.086	7,572,327
10,000,000	Freddie Mac (callable)	0.750	4/30/2025	10,000,000	91.605	9,160,470

Portfolio Appraisal

Investment Portfolio Review
Period Ending December 31, 2022

Par / Shares	Description	Rate	Maturity	Cost	Price	Market Value
440,800,000	U.S. Agencies			440,247,224		409,361,670
440,800,000	U.S. Agencies & Related			440,247,224		409,361,670
10,000,000	Bank of America Corp	3.875	8/01/2025	9,939,900	97.431	9,743,150
5,000,000	Bank of New York Mellon	3.350	4/25/2025	4,996,750	96.894	4,844,725
10,000,000	J P Morgan Chase	3.125	1/23/2025	9,909,940	96.567	9,656,690
4,000,000	KeyBank NA	1.250	3/10/2023	3,998,120	99.383	3,975,328
7,500,000	State Street Corp	3.550	8/18/2025	7,367,025	97.291	7,296,863
8,000,000	TRUIST FINL CORP	2.850	10/26/2024	7,836,280	96.468	7,717,464
4,000,000	U S Bancorp	1.450	5/12/2025	3,791,240	92.786	3,711,436
2,047,000	US Bancorp	2.400	7/30/2024	2,018,670	96.175	1,968,700
50,547,000	Financial			49,857,925		48,914,356
5,000,000	Caterpillar Financial SE	0.450	9/14/2023	4,996,600	96.943	4,847,155
5,000,000	Caterpillar Finl Svcs	0.450	5/17/2024	4,994,800	94.133	4,706,630
6,000,000	Exxon Mobil Corp	2.709	3/06/2025	5,901,680	95.685	5,741,112
5,000,000	Intuit Inc	0.650	7/15/2023	4,998,800	97.791	4,889,565
7,100,000	John Deere Capital Corp	3.400	6/06/2025	7,065,054	97.107	6,894,576
2,000,000	Paccar Financial Corp	0.350	8/11/2023	1,997,442	97.184	1,943,680
5,000,000	Paccar Financial Corp	3.550	8/11/2025	4,992,700	97.269	4,863,460
7,000,000	Toyota Mtr Cr Corp	2.500	3/22/2024	6,883,870	97.020	6,791,386
7,000,000	Unitedhealth Group Inc.	0.550	5/15/2024	6,991,870	94.385	6,606,957
49,100,000	Industrial			48,822,816		47,284,521
99,647,000	Corporate Bonds			98,680,741		96,198,876
776,597,000	Fixed			774,476,508		733,998,053
804,441,482	Total Portfolio			802,320,990		761,842,535

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