



BOYD WATTERSON

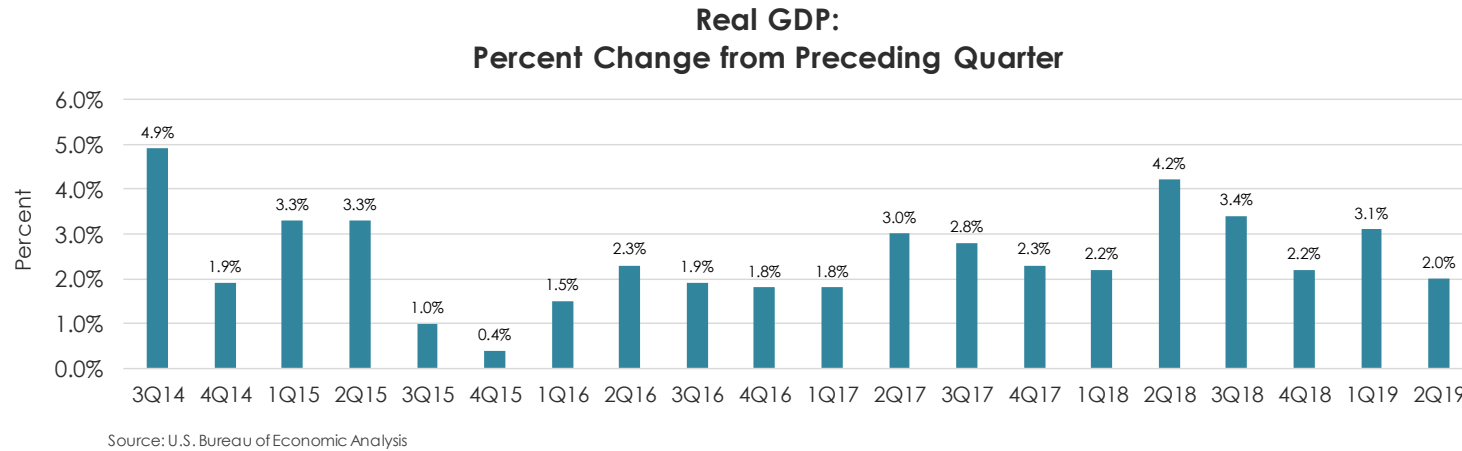
A S S E T M A N A G E M E N T

Montgomery County

Investment Portfolio Review

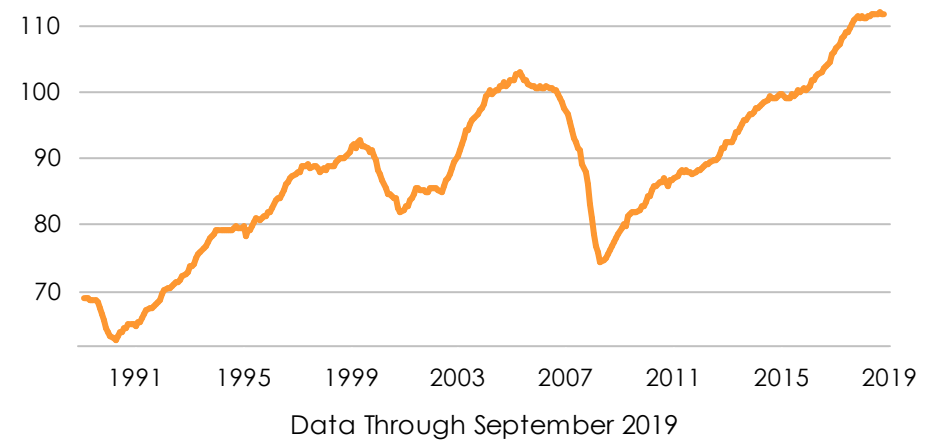
September 30, 2019

Our Macro View



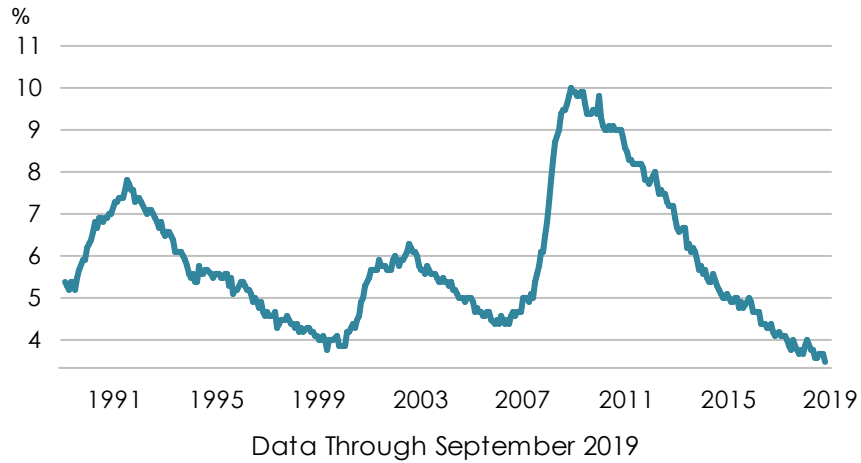
- We expect economic growth in the US to continue in 2019, however, at a slower pace than in 2018.
- Real GDP growth between 2.0%-2.5%.
- We see few signs of recession based on the US Leading Economic Index, strong employment backdrop, and a high level of consumer confidence.
- Areas of concern include tariff-induced trade wars and slower economic growth in Europe and China.

Composite Index of 10 Leading Indicators



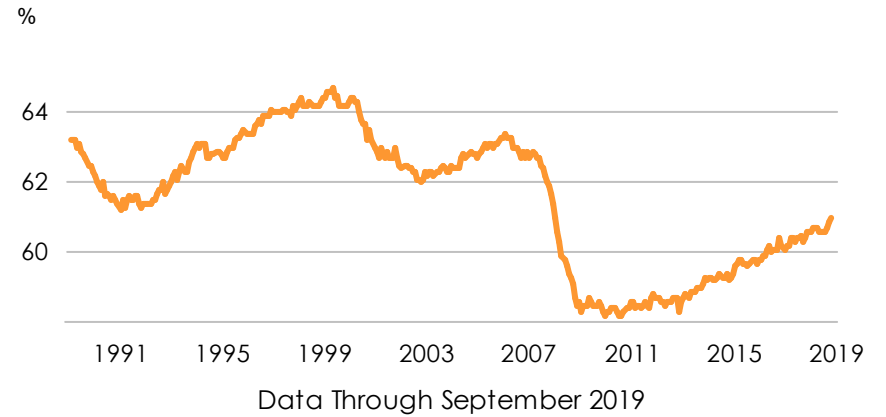
Source: The Conference Board

CIVILIAN UNEMPLOYMENT RATE



Source: The Conference Board

RATIO, CIVILIAN EMPLOYMENT TO WORKING-AGE POPULATION



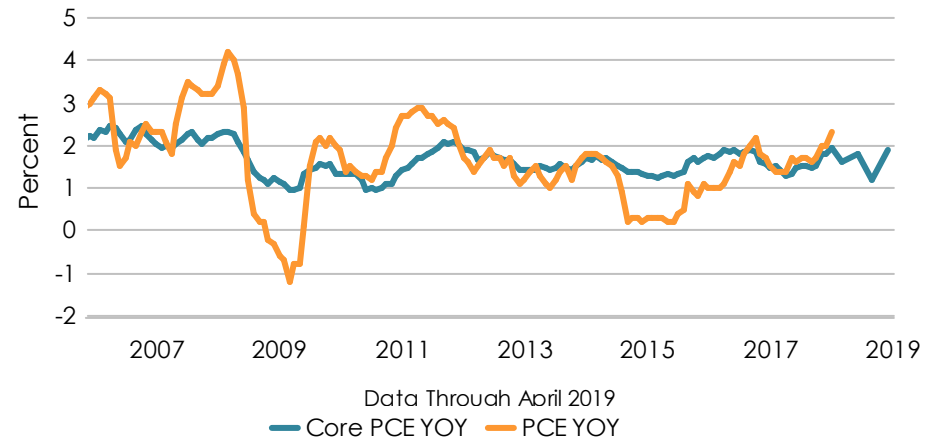
Source: The Conference Board

- The unemployment rate remained unchanged from the prior quarter at 3.7%.
- The measure of underemployed workers has fallen to pre-recession lows.

Inflation: Struggling to Move Higher

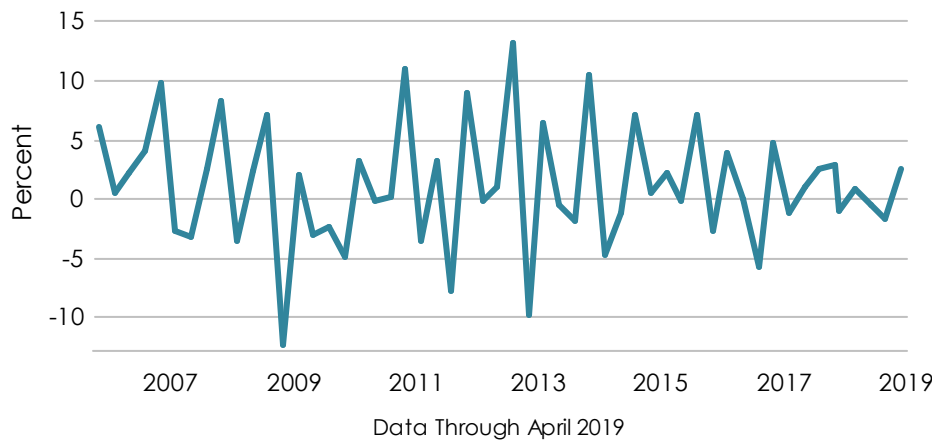
- Core PCE inflation has dropped below the Fed's target rate of 2.0%.
- The 10-year TIPS breakeven rate implies that the market expects an inflation rate of 1.52% over the next 10 years, down from 1.70% at the end of June.

CORE PCE AND PCE YOY



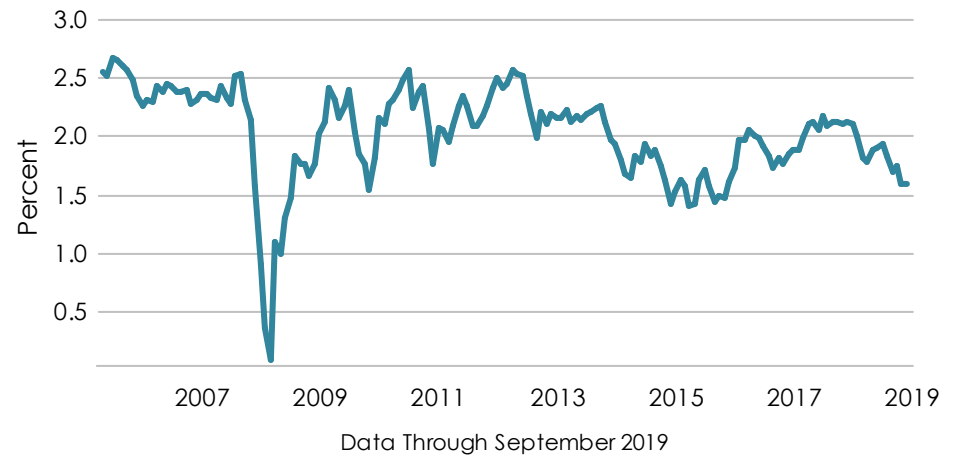
Source: Federal Reserve Bank of St. Louis

CHANGE IN UNIT LABOR COST



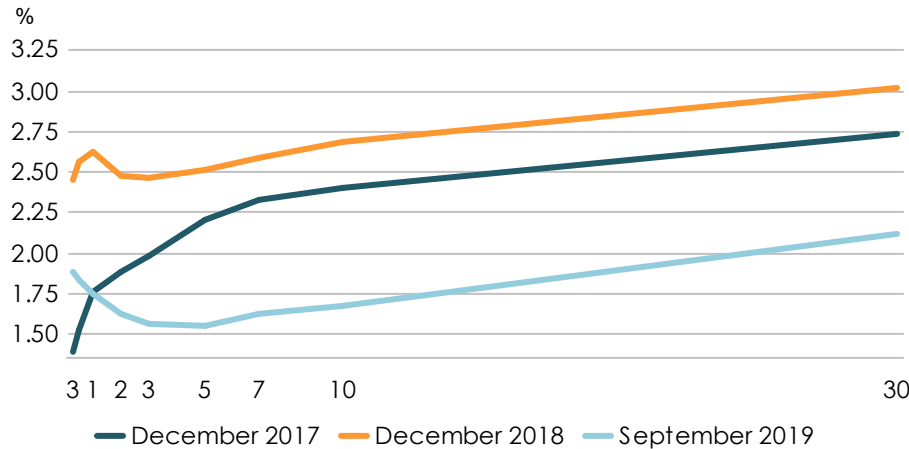
Source: Federal Reserve Bank of St. Louis

US 10-YEAR TIPS BREAKEVEN RATE



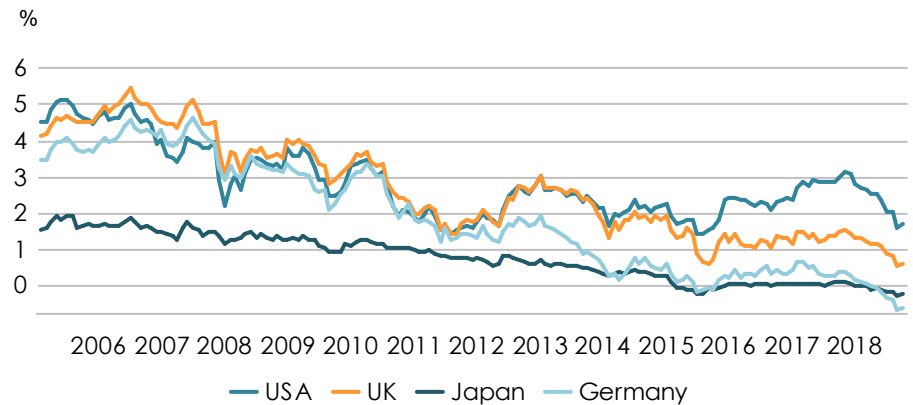
Source: Federal Reserve Bank of St. Louis

US TREASURY YIELD CURVES



Source: Bloomberg

GLOBAL INTEREST RATES 10-YEAR



Source: Federal Reserve Bank of St. Louis

- Global interest rates decreased in the 3Q19, they continue to remain low and hold long-term U.S. rates down.
- The German 10-Year Bund yield remained negative, decreasing from -0.33% at the start of the quarter to -0.57% as of September 30th.
- We expect the Fed to remain true to their word, with no pre-set course of action, and interest rate decisions will be determined meeting-by-meeting. However, we believe economic data will further support Fed accommodation before the year is over.
- The yield curve remained inverted, as measured by the difference between the 10-year and 3-month treasury yield, and ended the quarter at -0.14%.

Our Economic Outlook

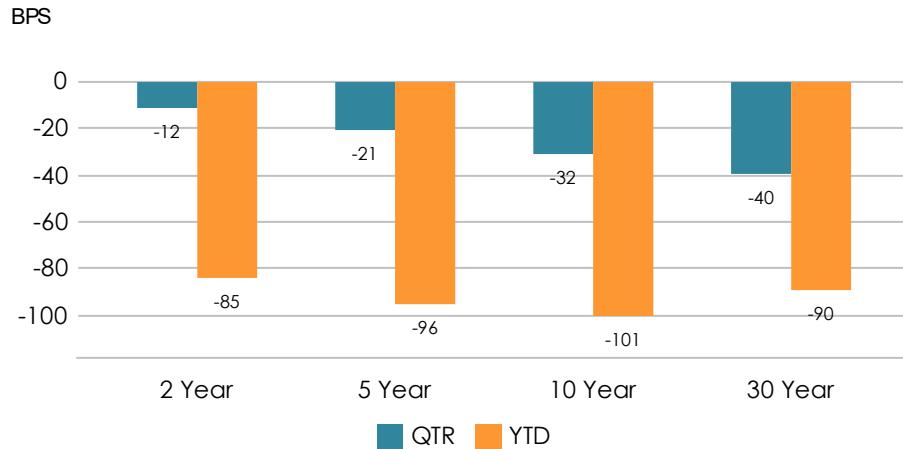
- Economic growth in 2019 is expected to stabilize around 2.0%, as domestic economic measures are showing signs of growth, albeit at a much slower rate than 2018.
- Although recession fears will continue to build, we do not believe the U.S. economy will experience a recession in 2019.
- Wages have been rising, however, not to levels that have pressured core inflation.
- The market is pressuring the Fed to cut interest rates in an effort to extend the economic growth cycle.
- Tariffs are now being used as both economic and non-economic foreign policy tools.

Fixed Income

- Our forecast for up to two rate cuts in the fed funds rate through year-end 2019 is different from the market's view of three rate cuts by year-end 2019.
- We are less positive on credit sectors than we were heading into the year as valuations have retraced a significant portion of the spread widening experienced in Q4.
- We believe credit will outperform U.S. Treasuries based primarily on income generation, not spread-narrowing.
- We believe the recent underperformance of MBS is overdone and mortgages should perform well, especially if rates remain steady or drift higher.
- We believe TIPS yields are becoming attractive and warrant keeping a close eye on this asset class.

Our Portfolio Review

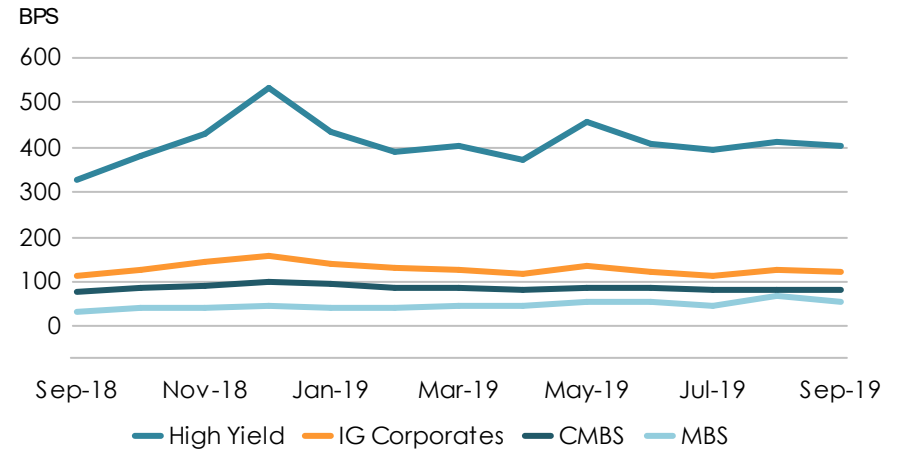
US TREASURY YIELD CHANGE



Source: U.S. Department of the Treasury

- Two-year Treasury yields declined 12 bps during the quarter while 10-year Treasury yields declined 32 bps.
- The FOMC cut interest rates two times during the 3rd quarter. The fed funds rate is now 1.75%-2.00%.
- The 2s-10s yield curve flattened by 20 bps in 3Q19.
- The 2s-30s yield curve flattened by 28 bps in 3Q19.

US SPREAD SECTORS

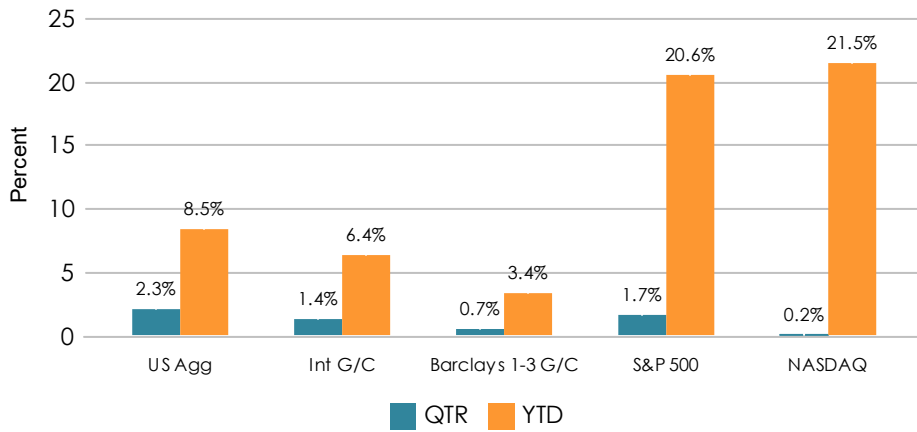


Source: Bloomberg, BofA Merrill Lynch Indices

- Investment grade and high yield sectors outperformed U.S. Treasuries in the 3Q19.
- Short/intermediate maturity corporate securities outperformed longer maturity securities on an excess return basis.
- For the second consecutive quarter, BB and B-rated high yield securities generated positive excess returns, while CCC-rated securities underperformed US Treasuries.
- CMBS and ABS generated positive excess returns for the quarter, while MBS excess returns were flat versus US Treasuries.

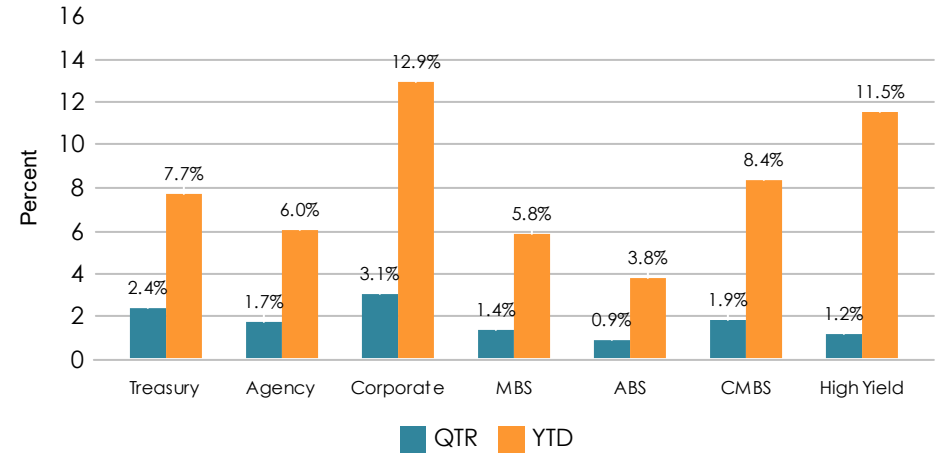
Total Returns

INDEX RETURNS



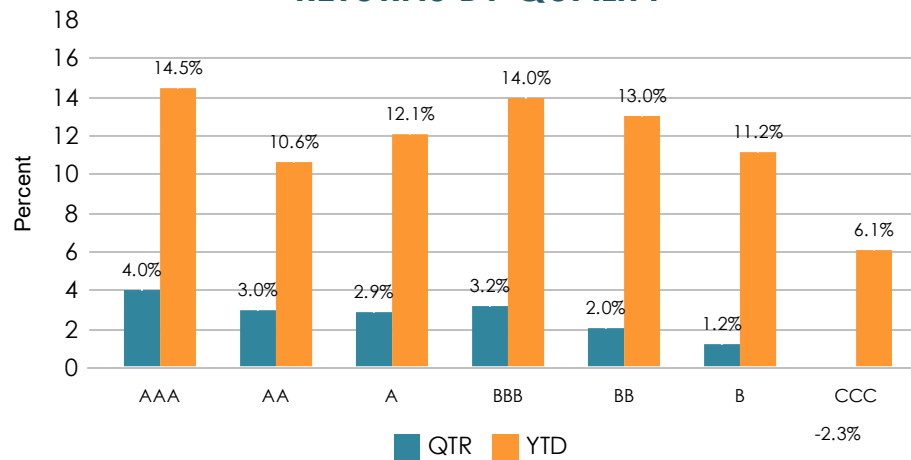
Source: Interactive Data Corporation

SECTOR RETURNS



Source: Interactive Data Corporation

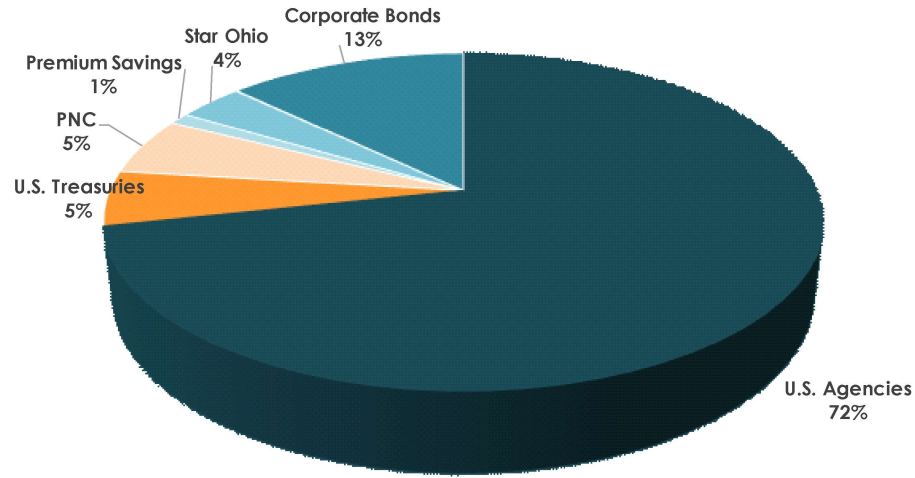
RETURNS BY QUALITY



Source: Interactive Data Corporation

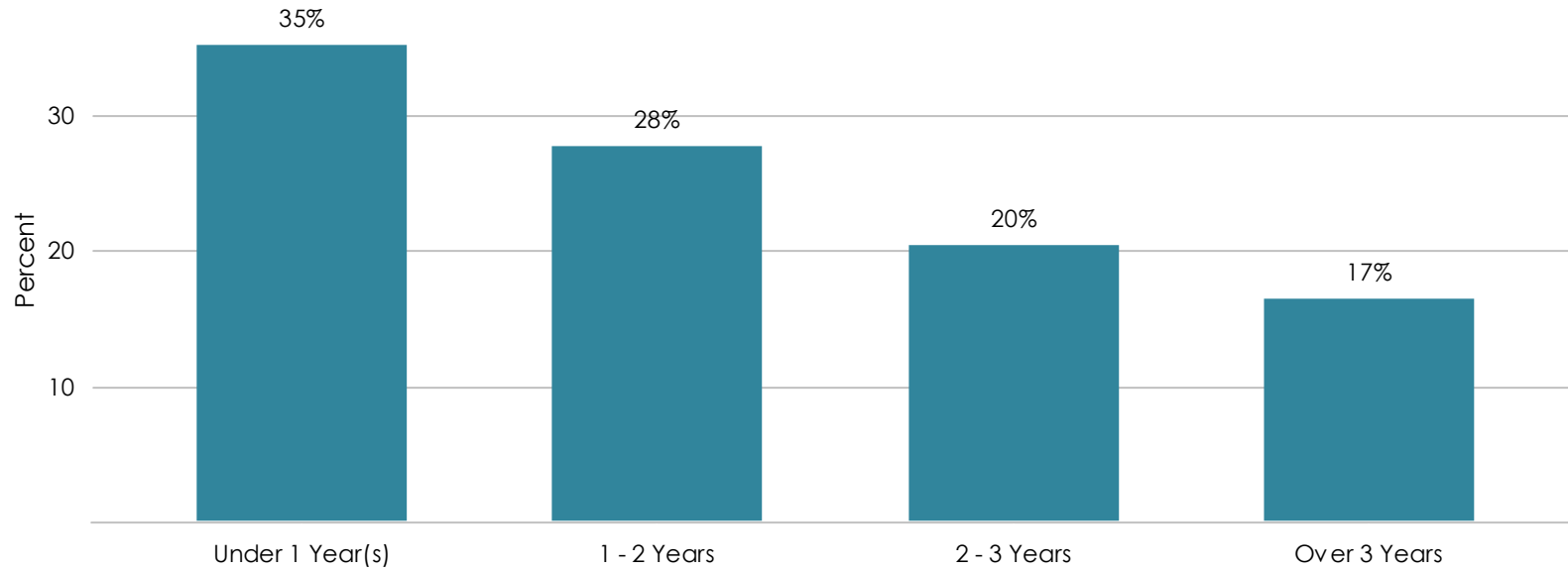
SECTOR ANALYSIS

As of September 30, 2019



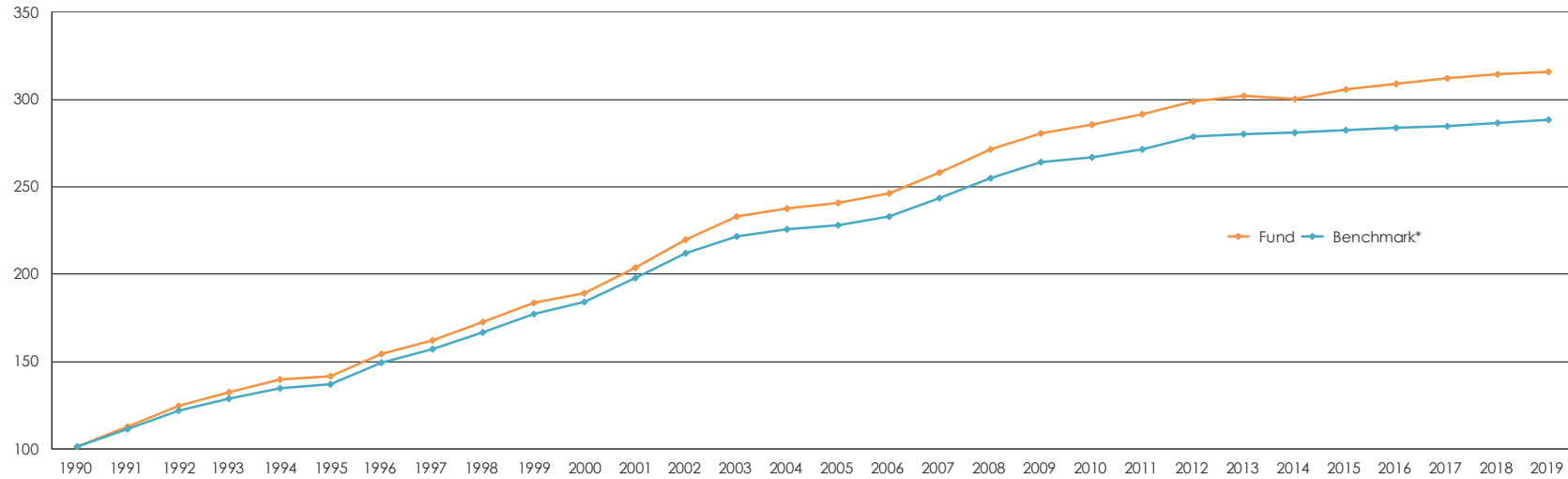
Sectors	Par Value	Percent of Portfolio
U.S. Agencies	406,470,000	71.6%
U.S. Treasuries	30,000,000	5.3%
PNC Gov Fund	31,121,359	5.5%
Premium Savings PNC	6,258,653	1.1%
STAR Ohio	20,191,274	3.6%
Federated Govt Oblg Fund	308,083	0.1%
Municipal Investment Account	0	0.0%
Corporate Bonds	73,000,000	12.9%
Total	567,349,369	100.0%
Agency Issuers:		
FFCB	198,000,000	48.7%
FHLMC	44,000,000	10.8%
FHLB	45,000,000	11.1%
FNMA	119,470,000	29.4%
Total	406,470,000	100.0%

MATURITY DISTRIBUTION



Maturity	Market Value	Percent
Under 1 Year(s)	\$ 200,511,764	35.2%
1 - 2 Years	158,078,511	27.8
2 - 3 Years	116,392,667	20.4
Over 3 Years	94,227,338	16.6
Total	\$ 569,210,280	100.0%
Effective Average Maturity of Portfolio:		1.82 yrs

CUMULATIVE PERFORMANCE
 Total Rate of Return



INVESTMENT PERFORMANCE
 through April 30, 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
Total Return																							
Fund		89.17%	7.84%	7.74%	5.95%	2.13%	1.31%	2.31%	4.82%	6.69%	6.46%	1.81%	2.16%	2.80%	1.14%	-0.62%	1.75%	1.05%	1.04%	0.73%	1.69%	3.02%	245.78%
Benchmark*		83.96	7.56	7.03	4.73	1.73	1.15	2.17	4.40	6.35	5.36	1.09	1.63	1.06	0.46	0.28	0.48	0.49	0.32	0.64	1.73	2.56	196.82
Yield at Period End																							
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	2.05	---
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	2.40	2.17	---
U.S. T Bills		66.09	5.96	4.09	1.70	1.08	1.24	2.93	4.76	5.00	2.45	0.29	0.21	0.10	0.12	0.07	0.24	0.21	0.83	0.86	1.83	2.26	130.50
1-3 yr. Treasury		92.39	8.01	8.31	5.78	1.88	0.89	1.65	3.95	7.32	6.60	0.79	2.35	1.55	0.43	0.36	0.72	0.54	0.89	0.42	1.58	3.03	227.11
1-3 yr. Agency		94.33	8.71	8.70	6.49	2.26	1.31	1.92	4.46	6.74	7.03	2.19	2.33	1.53	0.85	0.42	0.70	0.70	-0.77	0.65	1.78	2.91	243.99

*Total Return of Benchmark Components. Benchmark is 1/3 weighting each.

Transaction Summary

Investment Portfolio Review
 Period From January 1, 2019 To September 30, 2019

<u>Security</u>	<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Purchases</u>	<u>Price</u>	<u>Cost</u>
Purchases						
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
Total Purchases				\$147,873,828.61		\$147,625,230.00

Appraisal Summary

Investment Portfolio Review
Period Ending September 30, 2019

	<u>Market Value</u>	<u>Percent</u>	<u>Income</u>
Liquid Reserves	57,879,369	10.1	1,250,194
Liquid	57,879,369	10.1	1,250,194
U.S. Treasuries	30,248,829	5.3	600,000
U.S. Government Agencies	409,289,469	71.6	7,634,675
Corporate Bonds	74,064,800	13.0	1,839,600
Fixed	513,603,098	89.9	10,074,275
Total Market Value	571,482,467	100.0%	11,324,469

Portfolio Appraisal

Investment Portfolio Review
Period Ending September 30, 2019

Par / Shares	Description	Rate	Maturity	Cost	Price	Market Value
308,083	Federated Govt Oblg Fund	2.160		308,083	100.000	308,083
31,121,359	Money Market	2.160		31,121,359	100.000	31,121,359
6,258,653	PNC Bank Mny Mkt Sav	2.160		6,258,653	100.000	6,258,653
20,191,274	STAR Ohio	2.160		20,191,274	100.000	20,191,274
57,879,369	Liquid Reserves			57,879,369		57,879,369
57,879,369	Liquid			57,879,369		57,879,369
15,000,000	U S Treasury Notes	2.000	2/28/2021	14,984,180	100.352	15,052,740
15,000,000	U S Treasury Notes	2.000	5/31/2021	14,970,117	100.465	15,069,720
30,000,000	U.S. Bonds/Notes			29,954,297		30,122,460
30,000,000	U.S. Treasuries			29,954,297		30,122,460
15,000,000	Fannie Mae	1.500	2/28/2020	14,994,600	99.830	14,974,440
10,000,000	Fannie Mae	1.500	6/22/2020	9,989,400	99.721	9,972,130
8,470,000	Fannie Mae	1.750	9/11/2020	8,468,560	99.869	8,458,879
6,000,000	Fannie Mae	2.875	10/30/2020	5,995,800	101.082	6,064,890
20,000,000	Fannie Mae	1.500	11/30/2020	19,952,700	99.646	19,929,280
10,000,000	Fannie Mae	1.250	8/17/2021	9,995,300	99.251	9,925,130
10,000,000	Fannie Mae	1.375	10/07/2021	9,966,350	99.433	9,943,340
20,000,000	Fannie Mae	2.000	1/05/2022	19,967,000	100.716	20,143,100
10,000,000	Fannie Mae	2.500	2/05/2024	9,999,900	103.770	10,377,020
10,000,000	Fannie Mae	1.750	7/02/2024	9,914,000	100.570	10,057,020
10,000,000	Federal Farm Credit Bank	1.875	12/12/2019	9,997,300	100.007	10,000,730
10,000,000	Federal Farm Credit Bank	2.550	5/15/2020	9,978,880	100.447	10,044,730
20,000,000	Federal Farm Credit Bank	2.690	9/04/2020	19,986,000	100.808	20,161,580
5,000,000	Federal Farm Credit Bank	2.700	12/21/2020	4,995,650	101.036	5,051,800
8,000,000	Federal Farm Credit Bank	2.700	4/09/2021	7,993,120	101.338	8,107,016
15,000,000	Federal Farm Credit Bank	2.700	7/02/2021	14,993,100	101.580	15,236,955
16,000,000	Federal Farm Credit Bank	1.720	7/26/2021	15,996,160	99.906	15,984,880
15,000,000	Federal Farm Credit Bank	1.950	11/02/2021	15,000,000	100.422	15,063,315
10,000,000	Federal Farm Credit Bank	1.760	11/29/2021	9,952,900	100.053	10,005,270
10,000,000	Federal Farm Credit Bank	2.010	12/08/2021	10,000,000	100.593	10,059,290

Portfolio Appraisal

Investment Portfolio Review
Period Ending September 30, 2019

Par / Shares	Description	Rate	Maturity	Cost	Price	Market Value
10,000,000	Federal Farm Credit Bank	1.500	9/06/2022	9,998,800	99.678	9,967,820
15,000,000	Federal Farm Credit Bank	1.850	9/20/2022	14,961,300	100.634	15,095,160
10,000,000	Federal Farm Credit Bank	1.600	8/14/2023	9,980,300	99.979	9,997,890
15,000,000	Federal Farm Credit Bank	1.700	9/25/2023	14,994,150	100.376	15,056,355
10,000,000	Federal Farm Credit Bank	1.450	9/05/2024	9,991,500	99.048	9,904,760
19,000,000	Federal Farm Credit Bank	1.600	9/17/2024	18,833,370	99.697	18,942,373
15,000,000	Federal Home Loan Bank	2.125	2/11/2020	14,946,450	100.072	15,010,860
10,000,000	Federal Home Loan Bank	2.675	12/22/2020	9,999,280	101.057	10,105,740
20,000,000	Federal Home Loan Bank	1.500	8/15/2024	19,984,600	99.460	19,891,920
20,000,000	Freddie Mac	1.250	10/02/2019	19,978,500	99.997	19,999,400
10,000,000	Freddie Mac	2.500	4/23/2020	9,985,800	100.341	10,034,080
14,000,000	Freddie Mac	1.375	5/01/2020	13,961,040	99.706	13,958,826
406,470,000	U.S. Agencies			405,751,810		407,525,979
406,470,000	U.S. Agencies & Related			405,751,810		407,525,979
8,000,000	Bank of America Corp	2.625	4/19/2021	7,962,960	100.893	8,071,448
5,000,000	Bank of New York Mellon	1.950	8/23/2022	4,998,400	100.054	5,002,710
5,000,000	Berkshire Hathaway Inc	2.900	10/15/2020	4,990,507	101.123	5,056,160
10,000,000	J P Morgan Chase MTN	2.295	8/15/2021	9,993,400	100.167	10,016,740
8,000,000	U S Bancorp	2.625	1/24/2022	7,975,040	101.227	8,098,120
36,000,000	Financial			35,920,307		36,245,178
8,000,000	Apple Inc	2.850	5/06/2021	7,942,840	101.564	8,125,128
8,000,000	Cisco Systems Inc	2.900	3/04/2021	7,952,890	101.505	8,120,432
5,000,000	Disney (Walt) Co	1.650	9/01/2022	4,989,150	99.775	4,988,760
5,000,000	Exxon Mobil Corp	1.902	8/16/2022	5,007,860	100.435	5,021,765
8,000,000	John Deere Capital Corp MTN	3.125	9/10/2021	7,964,960	102.215	8,177,192
3,000,000	Paccar Financial Corp	2.000	9/26/2022	3,001,800	100.134	3,004,017
37,000,000	Industrial			36,859,500		37,437,294
73,000,000	Corporate Bonds			72,779,807		73,682,472

Portfolio Appraisal

Investment Portfolio Review
Period Ending September 30, 2019

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
509,470,000	Fixed			508,485,914		511,330,911
567,349,369	Total Portfolio			566,365,283		569,210,280

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