

BOYD WATTERSON

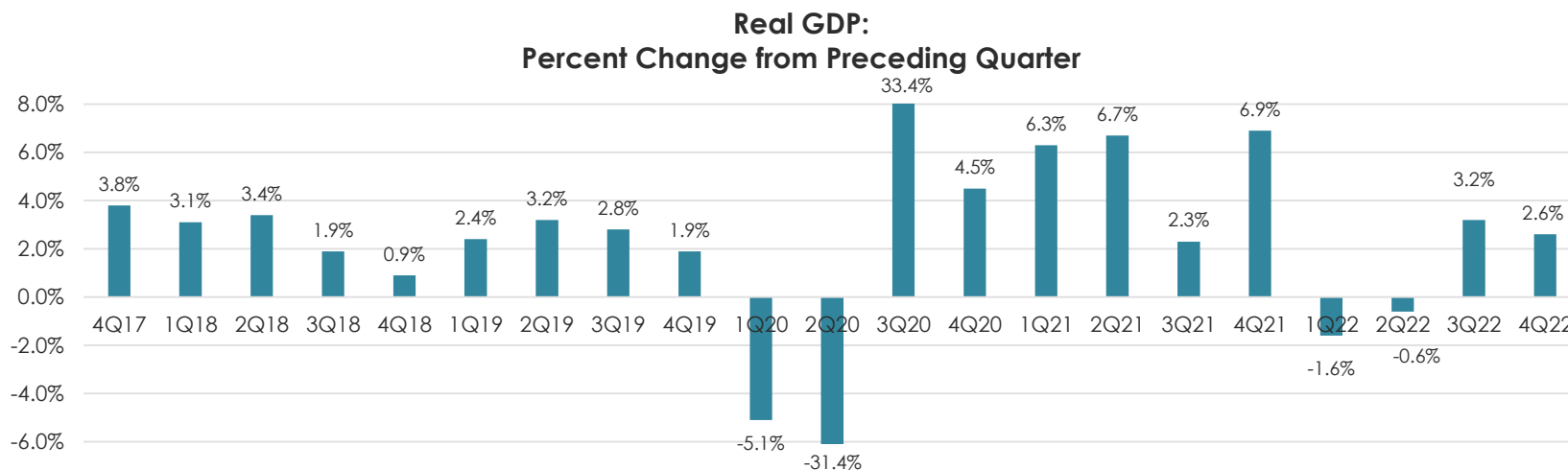
A S S E T M A N A G E M E N T

Montgomery County

March 31, 2023

This material was prepared exclusively for Montgomery County

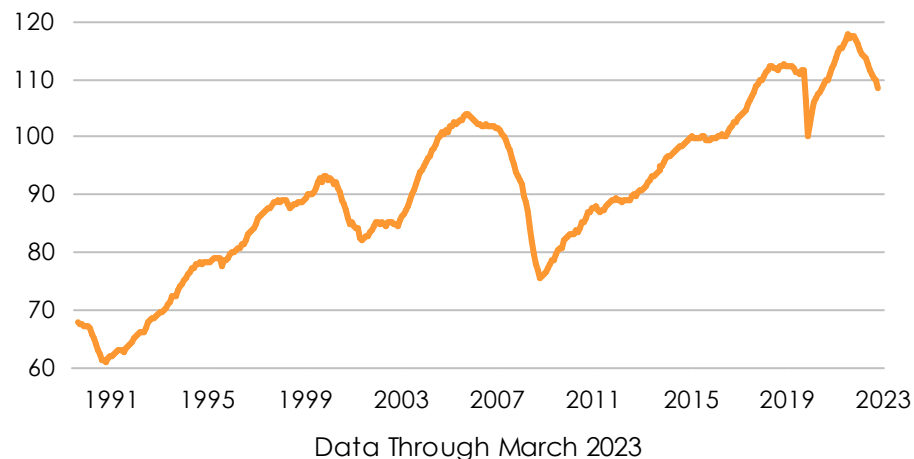
Our Macro View



Source: U.S. Bureau of Economic Analysis.

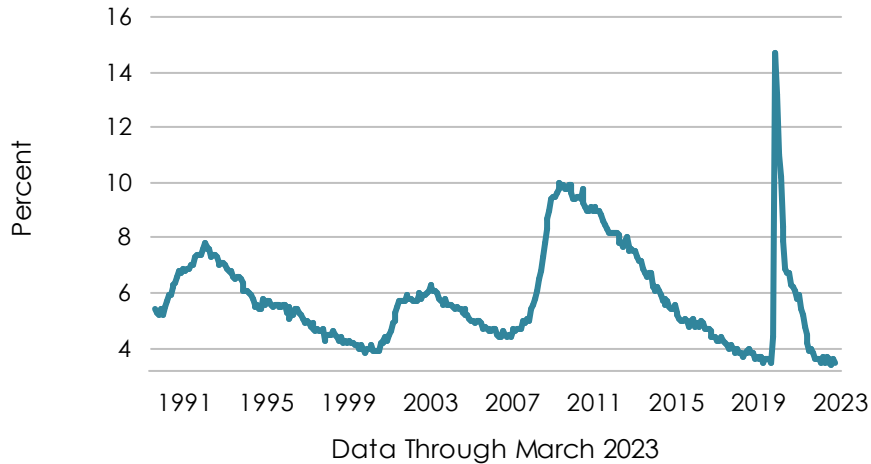
- U.S. Real GDP grew 2.1% in 2022, a significant slowdown from 5.9% in 2021 but consistent with growth trends seen prior to the pandemic. The economy continues to give conflicting signals with weakness in manufacturing, slowing services growth, gradually moderating inflation, offset by a labor market that remains strong.
- We expect growth to slow materially this year as higher interest rates continue to work through the economy, now coupled with the likelihood for tightening credit standards which may reduce the availability of credit broadly. This has raised the odds of a recession in 2023.
- The Bloomberg consensus estimate for U.S. Real GDP growth for 2023 is now 1.0%, while the FOMC's most recent projection is 0.4%. Both project growth at or slightly above 1% in 2024.

Composite Index of 10 Leading Indicators



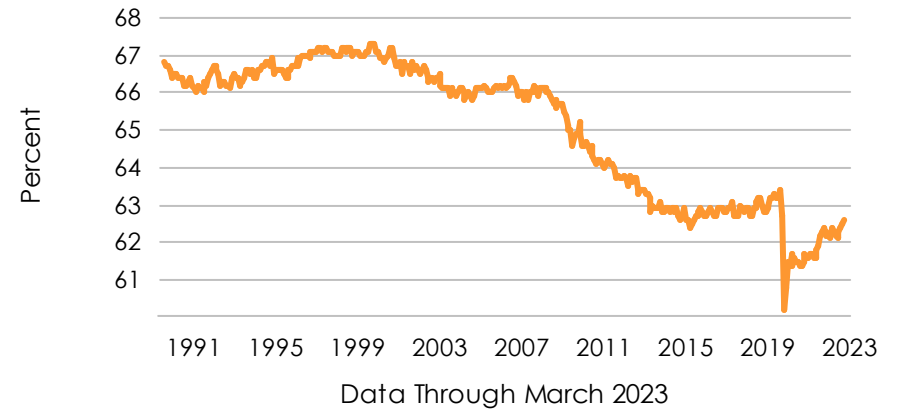
Source: The Conference Board

CIVILIAN UNEMPLOYMENT RATE



Source: The Conference Board

CIVILIAN LABOR FORCE PARTICIPATION RATE



Source: The Federal Reserve Board

- The labor market continues to show resilience as the unemployment rate fluctuated in a tight range over the first quarter, yet remained at 3.5% in March, just above the cycle low of 3.4%. Furthermore, despite expectations for a slowdown, nonfarm payroll growth averaged 345,000 per month during the quarter, a surprising increase from the average pace of 284,000 the prior quarter.
- Potential early signs of softening in the labor market are emerging as initial unemployment claims have begun to move higher while the JOLTS survey has shown a more pronounced reduction in job openings recently. However, the supply of and demand for labor remains out of balance as there is still approximately 1.7 job openings for every unemployed worker in the U.S.
- As the cumulative effects of interest rate increases, layoff announcements, and tightening credit conditions further increase economic uncertainty, labor market trends will likely soften, resulting in slower payroll and wage growth and a higher rate of unemployment.

Inflation

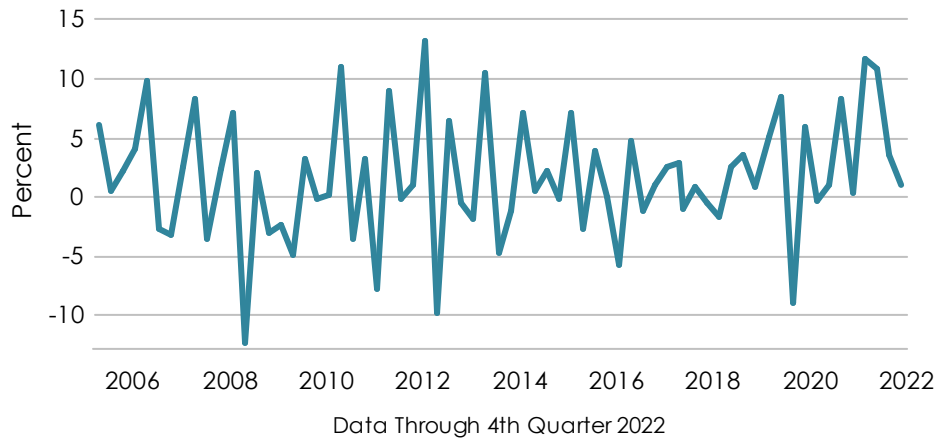
- While core PCE year-on-year declined three consecutive months to end 2022, trends thus far in 2023 have been mixed. The most recent reading of 4.6% remains well above the FOMC's average inflation target of 2%. The Committee's recent projections reflect this measure declining to 3.6% in 2023 and 2.6% in 2024, both of which are slightly higher than their December projections.
- Given the persistence of core inflation, short-term TIPS breakeven rates moved somewhat higher in the first quarter, while longer-term breakevens continue to reflect confidence in the Fed's ability to bring inflation back down to their target level.

CORE PCE YOY



Source: FactSet

CHANGE IN UNIT LABOR COST



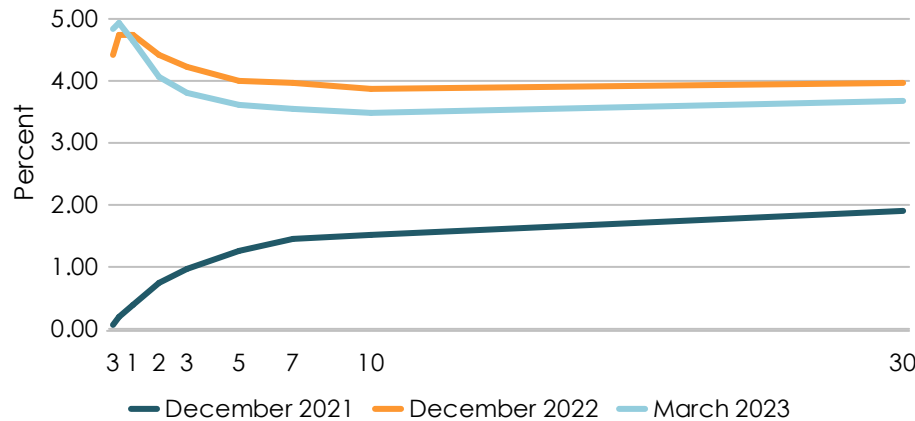
Source: Federal Reserve Bank of St. Louis

US 10-YEAR TIPS BREAKEVEN RATE



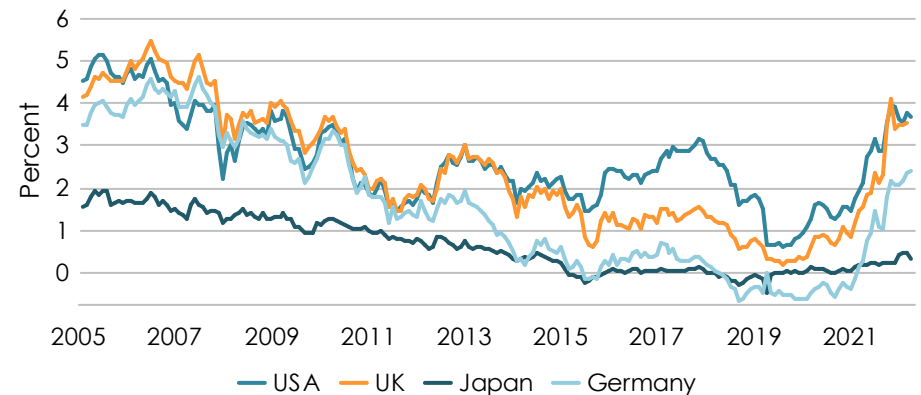
Source: Federal Reserve Bank of St. Louis

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 delivered two additional 25 basis point rate increases in the first quarter, taking their policy rate to a range of 4.75% - 5.00%. Importantly, the updated median projections from their March policy meeting continued to indicate a terminal rate of 5.1%, or one additional 25 basis points increase.
- Bond market expectations for the Fed have fluctuated significantly over the last three months yet ended the third quarter essentially where they began, with a peak rate below 5% and interest rate cuts coming in the second half of this year. This continues to be in sharp contrast to the FOMC's messaging with respect to their projected policy path.
- The bond market has continued to express their view with a sharply inverted Treasury yield curve. The yield differential between 3-month Treasury bills and 10-year Treasury notes flattened an additional 76 basis points to end the third quarter at -123 basis points. Some would argue this is a flashing red signal for an imminent economic recession.
- Growing economic uncertainty, now combined with the prospects for significantly tighter credit conditions, will likely keep interest rate volatility elevated, as the FOMC appears keenly focused on the inflation battle. While flexibility with the monetary policy path will be crucial in managing the economic outlook, we believe the market's expectation for a policy pivot in the near-term is overly optimistic. We currently expect the Fed to hold rates higher somewhat longer than the market projects, given our view of more persistent inflation trends over the near term.

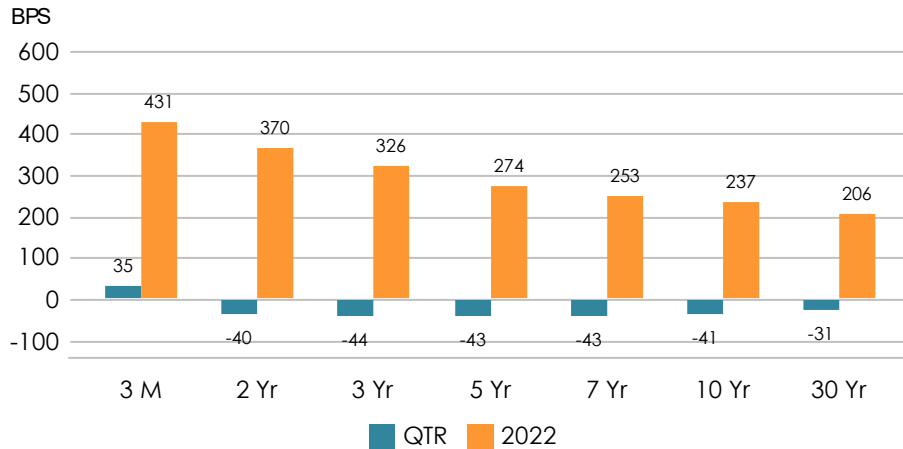
Our Economic Outlook

- The recent bank failures of Silicon Valley Bank and Signature Bank may have lasting impacts on the economic and monetary policy outlooks.
- Our expectation for slowing growth this year has increased as banks will likely tighten credit standards, reducing the availability of credit broadly. This, coupled with higher interest rates and persistent inflation, raise the odds of a recession in 2023.
- After three monthly declines to end 2022, year-on-year core PCE inflation has been mixed thus far in 2023, underscoring the unevenness the economy is likely to experience as the FOMC continues to battle elevated inflation.
- Payroll growth has remained strong, yet more recently wage growth has moderated somewhat, and the unemployment rate has ticked higher on continued improvement in the participation rate.
- Despite the stress in the banking system, the FOMC increased their policy rate twenty-five basis points at the March meeting, while continuing to signal the potential for one additional move of this magnitude this year. We believe the FOMC is close to ending the tightening cycle, and while the probability of rate cuts this year has increased, we believe the market has priced this in too aggressively.

Fixed Income

- Interest rate volatility is expected to remain elevated as uncertainty surrounding the outlook for the economy, inflation, and the Fed take center stage.
- The market may be overlooking the potential stickiness in inflation and the Fed's willingness to hold rates higher for longer.
- We believe it is too early to position the portfolio for the end of this cycle, but we have begun to take steps to move in that direction by extending portfolio durations closer to the benchmark.
- The yield curve could continue to flatten over the near term but is expected to steepen as the year progresses and we get closer to a Fed pivot.
- The credit markets have been resilient but may be underappreciating the risks to the economy. Risk premiums continue to remain relatively low while liquidity risks have increased as a result of the recent stress within the banking system.

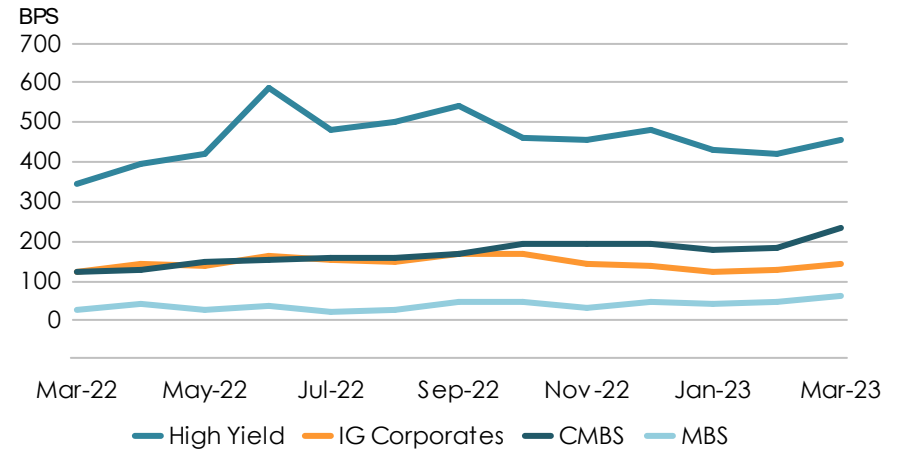
US TREASURY YIELD CHANGE



Source: Intercontinental Exchange

- The FOMC delivered two additional 25 basis point rate increases in the first quarter, bringing the cumulative increase to 475 basis points, and the current policy target range to 4.75% - 5.00%.
- During the first quarter, short-term interest rates moved higher as a result of the Fed's rate hikes, while intermediate and longer-term interest rates declined on the heels of the two large bank failures and growing uncertainty over the economic outlook.
- The yield curve remained sharply inverted with the yield differential between 2-year and 10-year Treasuries virtually unchanged at -56 basis points. A closely watched recession indicator, the 3m-10yr Treasury yield differential, increased 76 basis points to end the quarter at -123 basis points.
- The FOMC's most recent median policy rate projections indicate one additional 25 basis point increase. The 'dot plot' indicates a policy rate in the low 4% range by the end of 2024.

US SPREAD SECTORS

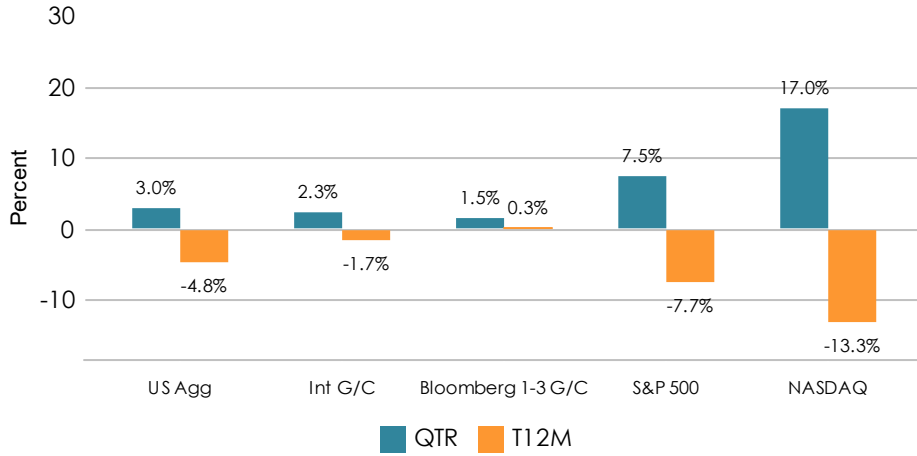


Source: Bloomberg, Intercontinental Exchange

- While credit spread performance was mixed during the first quarter, the decline in interest rates resulted in positive total returns across the fixed income landscape.
- Investment grade (IG) corporate bonds saw spreads widen 7 basis points, led by weakness in financials (regional banks and REITs), while industrials were modestly tighter. Despite the widening, IG corporate bonds generated a total return of 3.45% and an excess return relative to similar duration Treasuries of 0.31%.
- On the other hand, high yield corporate bond spreads tightened 23 basis points during the first quarter, resulting in a total return of 3.72% and an excess return of 1.40%. Interestingly, high yield performance was led by CCC-rated issuers.
- While all three securitized sectors posted positive total returns, only ABS generated a positive excess return, at 0.40%. CMBS saw spreads widen the most of the three given the stress in the banking system, coupled with concern over the large amount of CRE loans that are due to mature in the next couple years.

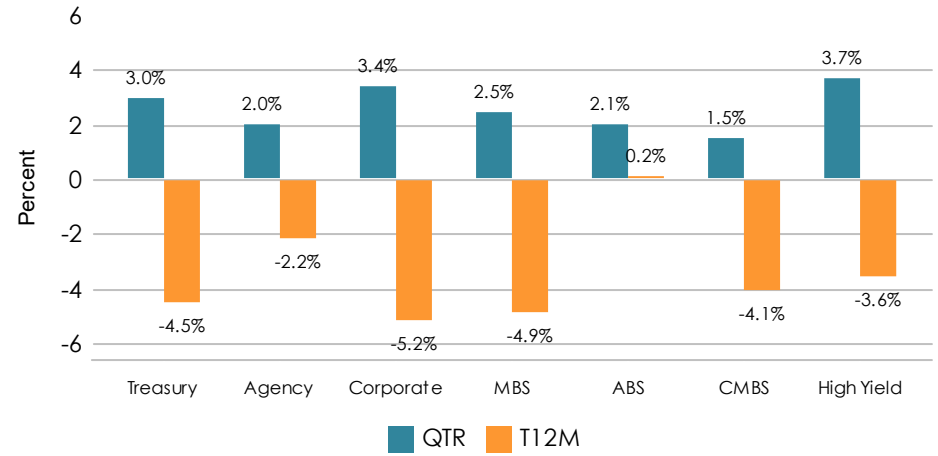
Total Returns

INDEX RETURNS



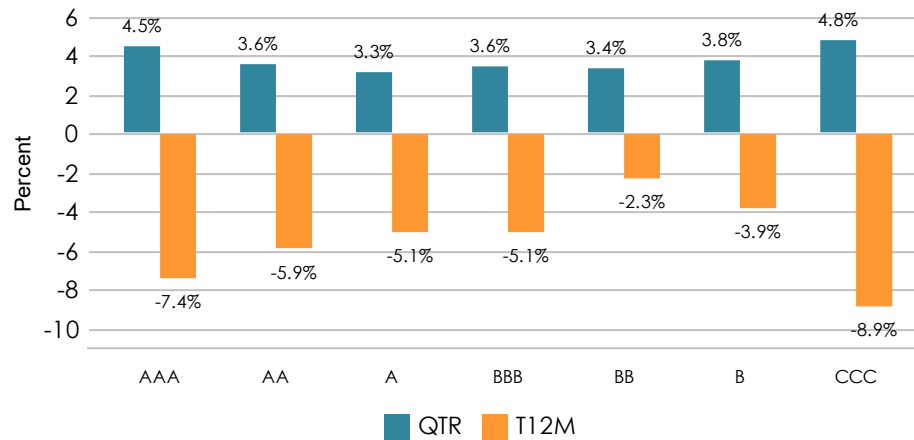
Source: Intercontinental Exchange Returns are calculated gross of fees.

SECTOR RETURNS



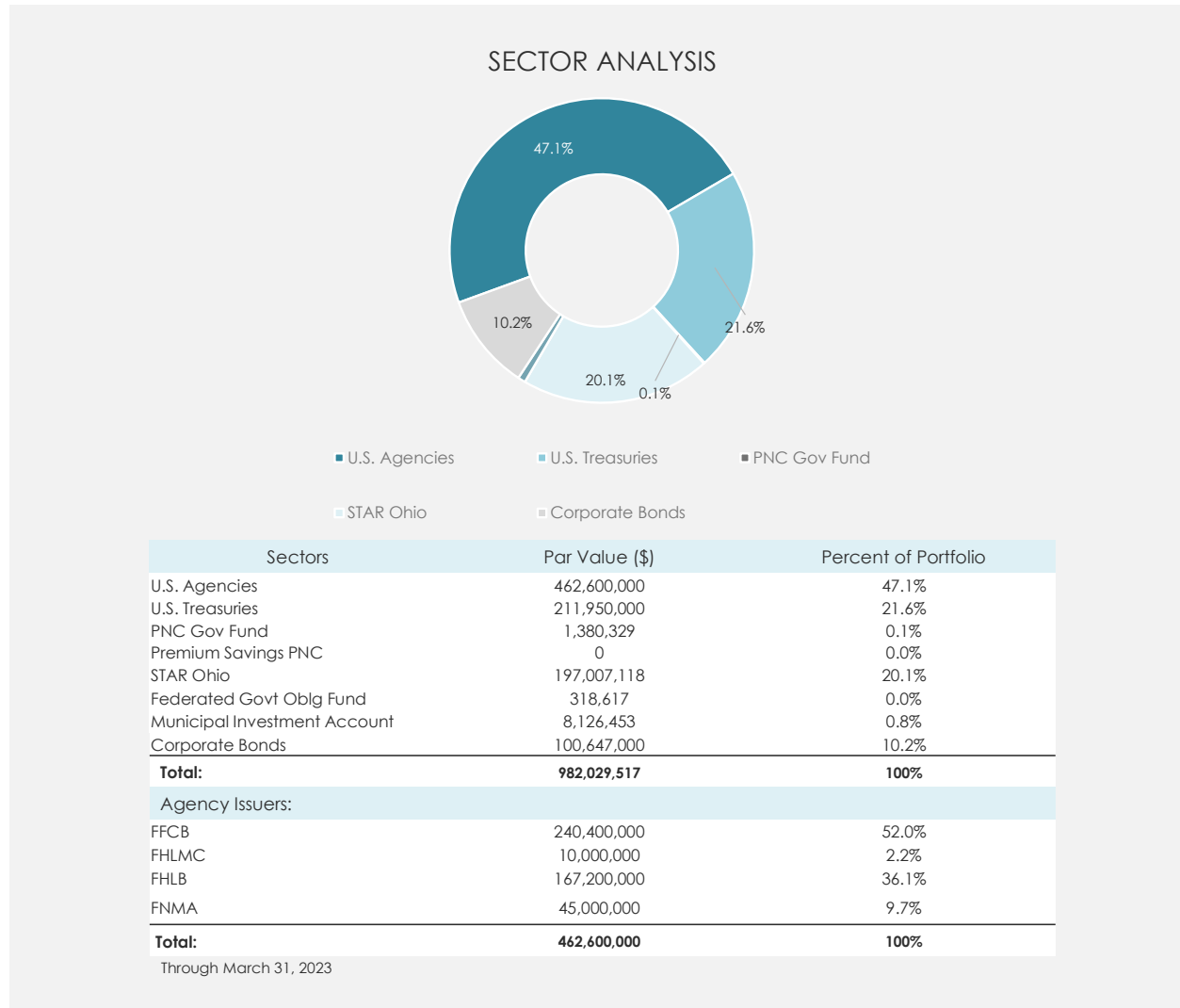
Source: Intercontinental Exchange Returns are calculated gross of fees.

RETURNS BY QUALITY

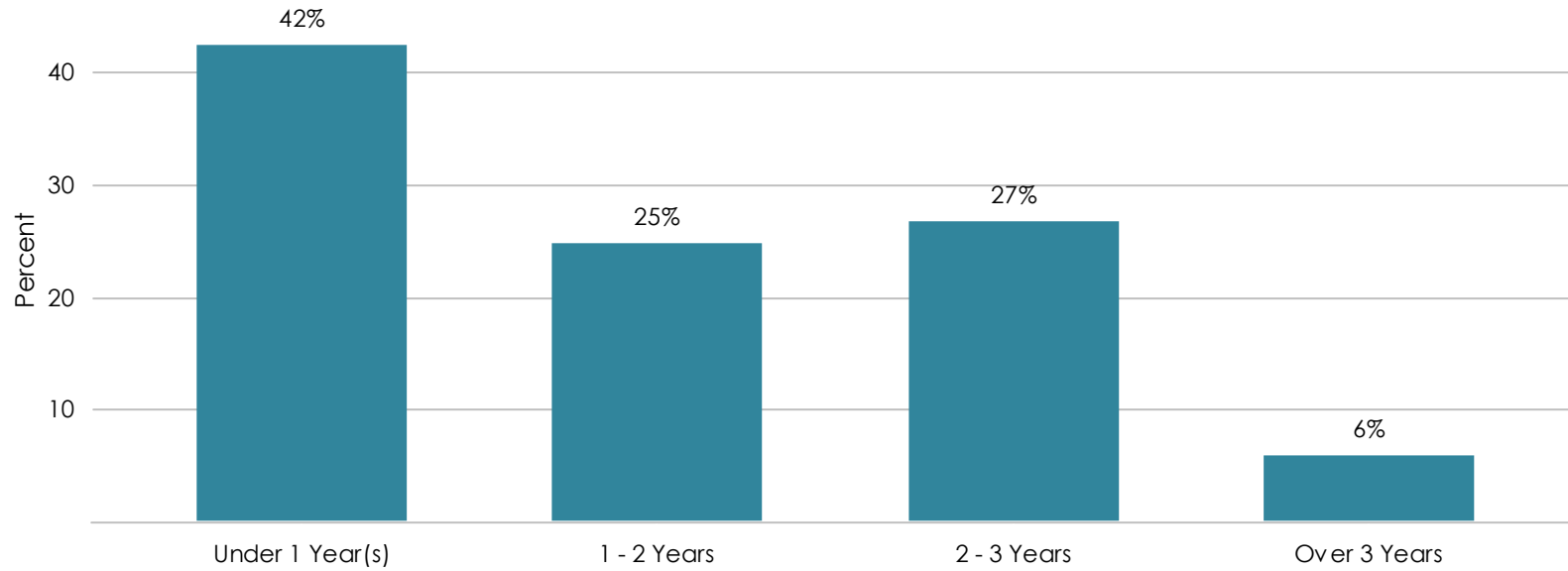


Source: Intercontinental Exchange Returns are calculated gross of fees.

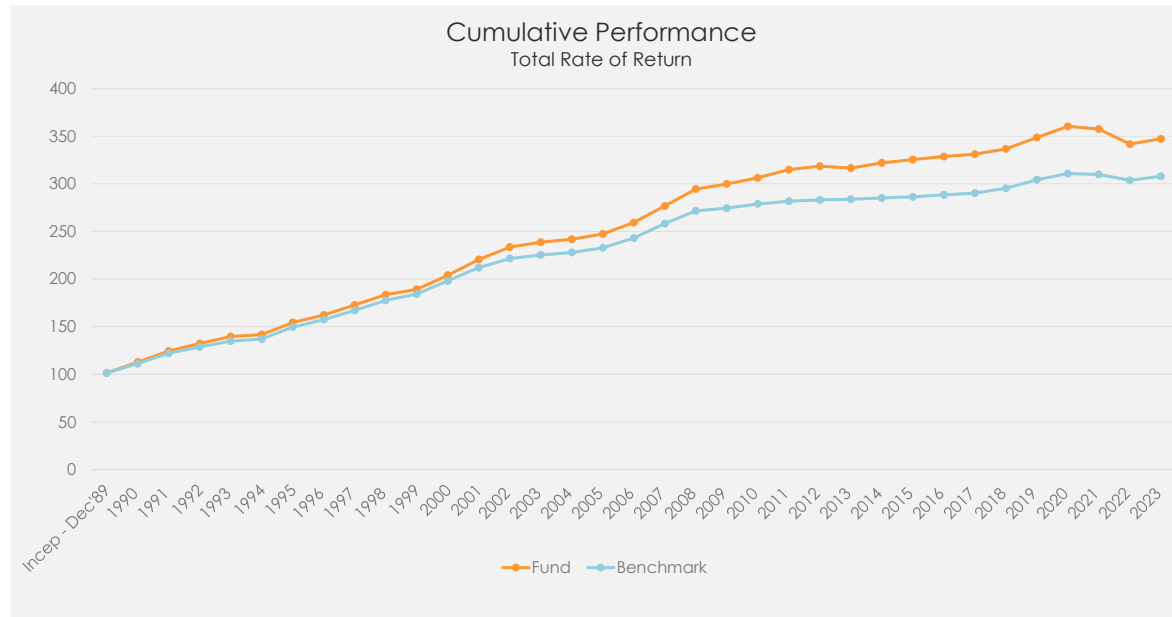
Our Portfolio View



MATURITY DISTRIBUTION



Maturity	Market Value	Percent
Under 1 Year(s)	\$ 399,379,415	42.5%
1 - 2 Years	233,150,585	24.8
2 - 3 Years	251,851,297	26.8
Over 3 Years	55,638,185	5.9
Total	\$ 940,019,483	100.0%
Effective Average Maturity of Portfolio:		1.27 yrs



Investment Performance Through March 31, 2023

	Nov. '89- 1999	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Mar 31, 2023	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	1.60	247.2
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	1.39	207.9
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	2.27	---
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	5.14	---
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	1.07	403.2
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	1.55	752.0
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	1.58	809.0

*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 December 31, 2022 To March 31, 2023

<u>Security</u>	<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Purchases</u>	<u>Price</u>	<u>Cost</u>
Purchases						
Comcast Corp 3.95% 10/15/25	2/3/23	2/7/23	5,000,000	\$4,990,644.44	98.58	\$4,929,200.00
Federal Farm Credit Bank 3.63% 10/26/26	2/3/23	2/6/23	6,300,000	\$6,252,856.75	99.15	\$6,246,513.00
U S Treasury Note 3.88% 01/15/26	2/8/23	2/10/23	11,200,000	\$11,163,796.27	99.40	\$11,132,625.00
Federal Farm Credit Bank 4.13% 12/01/27	2/24/23	3/1/23	15,500,000	\$15,387,935.00	99.28	\$15,387,935.00
U S Treasury Notes 3.50% 01/31/28	3/27/23	3/29/23	10,000,000	\$10,002,766.75	99.48	\$9,947,656.25
Total Purchases				\$47,797,999.21		\$47,643,929.25

Appraisal Summary

Investment Portfolio Review
Period Ending March 31, 2023

	<u>Market Value</u>	<u>Percent</u>	<u>Income</u>
Liquid Reserves	198,691,866	21.1	9,318,649
Liquid	198,691,866	21.1	9,318,649
U.S. Treasuries	207,254,427	22.0	3,305,063
U.S. Government Agencies	438,343,615	46.5	5,737,200
Corporate Bonds	98,077,174	10.4	2,545,818
Fixed	743,675,216	78.9	11,588,081
Total Market Value	942,367,082	100.0%	20,906,729

Portfolio Appraisal

Investment Portfolio Review
Period Ending March 31, 2023

Par / Shares	Description	Rate	Maturity	Cost	Price	Market Value
318,617	Federated Govt Oblg Fund	4.690		318,617	100.000	318,617
1,366,131	Money Market	4.690		1,366,131	100.000	1,366,131
197,007,118	STAR Ohio	4.690		197,007,118	100.000	197,007,118
198,691,866	Liquid Reserves			198,691,866		198,691,866
198,691,866	Liquid			198,691,866		198,691,866
10,250,000	U S Treasury Note	1.375	6/30/2023	10,236,387	99.206	10,168,646
15,500,000	U S Treasury Note	1.250	7/31/2023	15,476,992	98.844	15,320,789
8,500,000	U S Treasury Note	0.250	3/15/2024	8,432,266	95.941	8,155,019
10,500,000	U S Treasury Note	0.375	7/15/2024	10,495,078	94.984	9,973,362
11,000,000	U S Treasury Note	0.750	11/15/2024	10,999,570	94.535	10,398,872
20,000,000	U S Treasury Note	2.875	4/30/2025	19,933,594	97.660	19,532,040
15,200,000	U S Treasury Note	3.000	9/30/2025	15,161,406	97.801	14,865,722
11,200,000	U S Treasury Note	3.875	1/15/2026	11,132,625	100.031	11,203,494
10,000,000	U S Treasury Note	3.250	6/30/2027	9,801,172	98.273	9,827,340
15,000,000	U S Treasury Notes	0.250	6/15/2023	14,986,680	99.118	14,867,715
17,000,000	U S Treasury Notes	0.250	11/15/2023	16,985,977	97.254	16,533,163
16,000,000	U S Treasury Notes	0.375	4/15/2024	15,980,938	95.715	15,314,368
16,500,000	U S Treasury Notes	0.250	5/15/2024	16,463,906	95.359	15,734,301
25,300,000	U S Treasury Notes	2.000	5/31/2024	25,280,234	97.195	24,590,411
10,000,000	U S Treasury Notes	3.500	1/31/2028	9,947,656	99.477	9,947,660
211,950,000	U.S. Bonds/Notes			211,314,481		206,432,902
211,950,000	U.S. Treasuries			211,314,481		206,432,902
10,000,000	Fannie Mae	2.500	2/05/2024	9,999,900	98.098	9,809,840
10,000,000	Fannie Mae	1.750	7/02/2024	9,914,000	96.480	9,648,040
10,000,000	Fannie Mae	1.625	10/15/2024	9,981,000	96.090	9,608,970
15,000,000	Fannie Mae (callable)	0.500	8/14/2025	14,973,000	91.965	13,794,735
9,300,000	Federal Farm Credit Bank	0.350	6/08/2023	9,264,801	99.140	9,219,983
10,000,000	Federal Farm Credit Bank	1.600	8/14/2023	9,980,300	98.830	9,883,020
15,000,000	Federal Farm Credit Bank	1.700	9/25/2023	14,994,150	98.559	14,783,790
10,000,000	Federal Farm Credit Bank	1.625	10/23/2023	9,994,200	98.284	9,828,410

Portfolio Appraisal

Investment Portfolio Review
Period Ending March 31, 2023

<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	98.223	9,822,260
10,000,000	Federal Farm Credit Bank	1.450	9/05/2024	9,991,500	96.012	9,601,200
19,000,000	Federal Farm Credit Bank	1.600	9/17/2024	18,833,370	96.150	18,268,405
10,000,000	Federal Farm Credit Bank	1.500	10/16/2024	9,967,900	95.839	9,583,890
10,000,000	Federal Farm Credit Bank	4.250	9/30/2025	9,930,600	100.455	10,045,470
5,500,000	Federal Farm Credit Bank	3.320	2/25/2026	5,494,060	98.082	5,394,510
6,300,000	Federal Farm Credit Bank	3.625	10/26/2026	6,246,513	99.075	6,241,700
7,300,000	Federal Farm Credit Bank	4.000	9/29/2027	7,290,218	100.389	7,328,434
15,500,000	Federal Farm Credit Bank	4.125	12/01/2027	15,387,935	101.578	15,744,544
5,000,000	Federal Farm Credit Bank (callable)	0.400	10/15/2024	4,994,500	94.008	4,700,425
10,000,000	Federal Farm Credit Bank (callable)	0.670	8/04/2025	10,000,000	92.408	9,240,820
10,000,000	Federal Farm Credit Bank (callable)	0.680	8/04/2025	10,000,000	92.430	9,243,010
7,000,000	Federal Farm Credit Bank (callable)	0.540	11/03/2025	6,989,500	91.525	6,406,715
15,000,000	Federal Farm Credit Bank (callable)	0.560	12/01/2025	15,000,000	91.124	13,668,645
15,000,000	Federal Farm Credit Bank (callable)	0.500	12/23/2025	15,000,000	90.817	13,622,535
10,000,000	Federal Farm Credit Bank (callable)	0.600	12/09/2025	10,000,000	91.171	9,117,130
20,000,000	Federal Home Loan Bank	1.500	8/15/2024	19,984,600	95.987	19,197,480
12,000,000	Federal Home Loan Bank (callable)	0.520	9/30/2024	12,000,000	94.271	11,312,568
12,000,000	Federal Home Loan Bank (callable)	0.625	12/30/2024	12,000,000	93.868	11,264,208
15,000,000	Federal Home Loan Bank (callable)	0.680	6/30/2025	15,000,000	92.673	13,900,965
15,000,000	Federal Home Loan Bank (callable)	0.600	12/15/2025	15,000,000	91.126	13,668,885
15,000,000	Federal Home Loan Bank (callable)	0.520	1/28/2026	15,000,000	90.558	13,583,670
6,000,000	Federal Home Loan Bank (callable)	0.600	2/18/2026	6,000,000	90.552	5,433,132
20,000,000	Federal Home Loan Bank (callable)	0.875	3/17/2026	20,000,000	91.082	18,216,500
10,000,000	FFCB (callable)	0.610	5/23/2025	9,990,000	92.714	9,271,400
10,500,000	FFCB (callable)	0.650	6/09/2025	10,492,125	92.757	9,739,496
10,000,000	FFCB (callable)	0.740	6/30/2025	10,000,000	92.800	9,279,970
10,000,000	FHLB (callable)	0.500	7/29/2024	10,000,000	94.741	9,474,140
7,200,000	FHLB (callable)	1.000	4/29/2026	7,200,000	90.951	6,548,508
11,000,000	FHLB (callable)	0.475	8/23/2024	11,000,000	94.517	10,396,826
8,000,000	FHLB (callable)	0.550	12/17/2024	7,997,200	93.828	7,506,256
7,500,000	FHLB (callable)	0.570	3/27/2025	7,500,000	93.038	6,977,850
8,500,000	FHLB (callable)	0.810	3/27/2026	8,500,000	90.842	7,721,604

Portfolio Appraisal

Investment Portfolio Review
Period Ending March 31, 2023

<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	Freddie Mac (callable)	0.750	4/30/2025	10,000,000	93.148	9,314,800
462,600,000	U.S. Agencies			461,881,672		437,414,737
462,600,000	U.S. Agencies & Related			461,881,672		437,414,737
10,000,000	Bank of America Corp	3.875	8/01/2025	9,939,900	97.737	9,773,720
5,000,000	Bank of New York Mellon	3.350	4/25/2025	4,996,750	96.303	4,815,135
10,000,000	J P Morgan Chase	3.125	1/23/2025	9,909,940	96.805	9,680,460
7,500,000	State Street Corp	3.550	8/18/2025	7,367,025	96.395	7,229,595
8,000,000	TRUIST FINL CORP	2.850	10/26/2024	7,836,280	95.455	7,636,432
4,000,000	U S Bancorp	1.450	5/12/2025	3,791,240	92.082	3,683,272
2,047,000	US Bancorp	2.400	7/30/2024	2,018,670	96.127	1,967,714
46,547,000	Financial			45,859,805		44,786,328
5,000,000	Caterpillar Financial SE	0.450	9/14/2023	4,996,600	97.959	4,897,960
5,000,000	Caterpillar Finl Svcs	0.450	5/17/2024	4,994,800	95.448	4,772,420
5,000,000	Comcast Corp	3.950	10/15/2025	4,929,200	98.873	4,943,665
6,000,000	Exxon Mobil Corp	2.709	3/06/2025	5,901,680	97.068	5,824,104
5,000,000	Intuit Inc	0.650	7/15/2023	4,998,800	98.855	4,942,725
7,100,000	John Deere Capital Corp	3.400	6/06/2025	7,065,054	97.984	6,956,892
2,000,000	Paccar Financial Corp	0.350	8/11/2023	1,997,442	98.255	1,965,094
5,000,000	Paccar Financial Corp	3.550	8/11/2025	4,992,700	97.686	4,884,290
7,000,000	Toyota Mtr Cr Corp	2.500	3/22/2024	6,883,870	97.573	6,830,124
7,000,000	Unitedhealth Group Inc.	0.550	5/15/2024	6,991,870	95.377	6,676,376
54,100,000	Industrial			53,752,016		52,693,650
100,647,000	Corporate Bonds			99,611,821		97,479,978
775,197,000	Fixed			772,807,973		741,327,617
973,888,866	Total Portfolio			971,499,839		940,019,483

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