

BOYD WATTERSON

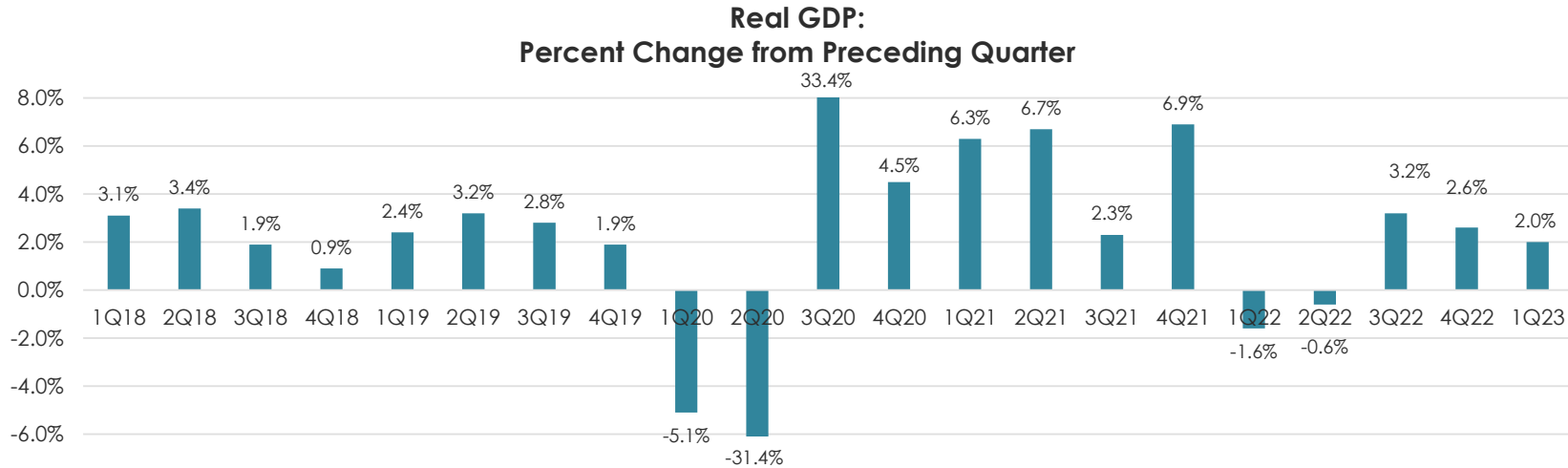
A S S E T M A N A G E M E N T

Montgomery County

June 30, 2023

This material was prepared exclusively for Montgomery County

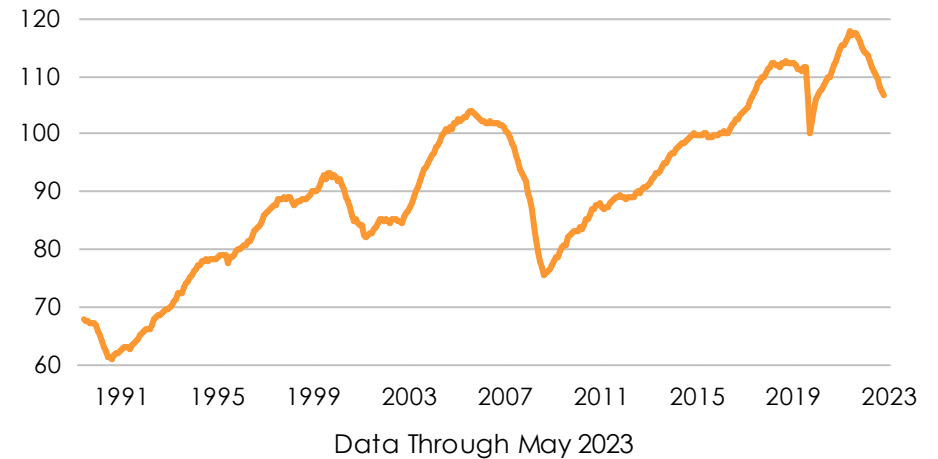
Our Macro View



Source: U.S. Bureau of Economic Analysis.

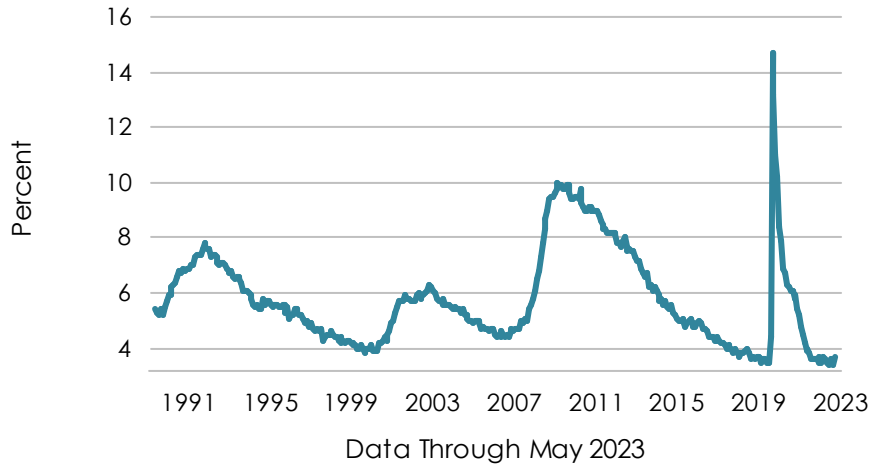
- The U.S. economy continues to show resiliency, as real GDP grew at an annualized pace of 2.0% in the first quarter of 2023. Furthermore, personal consumption increased at a 4.2% annualized rate in the quarter, its strongest reading since June 2021.
- Despite the mixed signals from the U.S. economy, our expectations for a slow down in growth remains as the impact from monetary policy tightening continues to work its way through the system and consumers feel the strain of elevated prices.
- The Bloomberg consensus estimate for U.S. Real GDP growth for 2023 is now 1.3%, while the FOMC's most recent projection is 1.0%, both somewhat higher than their respective estimates from the prior quarter.

Composite Index of 10 Leading Indicators



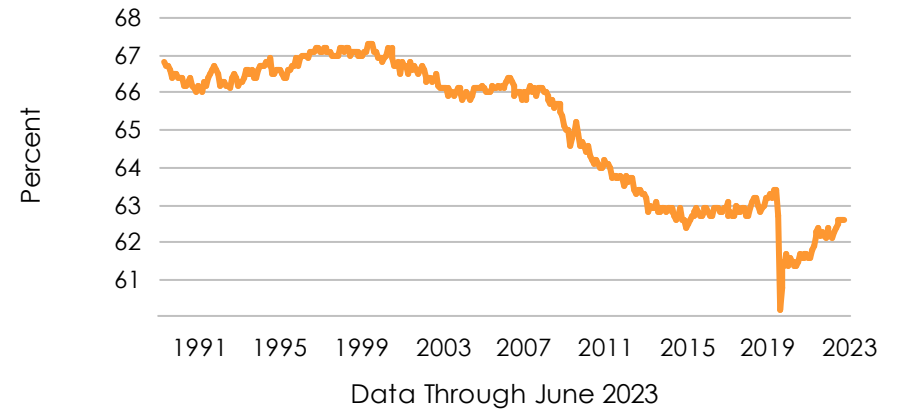
Source: The Conference Board

CIVILIAN UNEMPLOYMENT RATE



Source: The Conference Board

CIVILIAN LABOR FORCE PARTICIPATION RATE



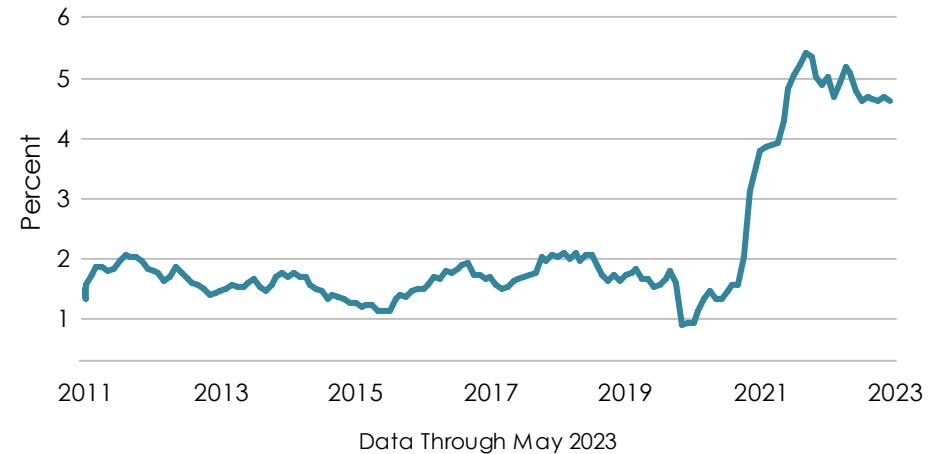
Source: The Federal Reserve Board

- The labor market remained strong with the unemployment rate hovering near historic lows at 3.6% and payroll growth averaging 244,000 per month during the second quarter, albeit at a slower pace than the first quarter's average of 312,000 per month.
- Although initial jobless claims have increased from relatively low levels for much of the year, with several June readings exceeding 260,000, we will likely need to see readings consistently above 300,000 before they have a significant impact on economic growth going forward.
- We continue to expect a softening of labor market conditions as the year progresses, largely due to the cumulative effects of monetary policy tightening, persistent inflation, and the resulting economic uncertainty facing businesses of all sizes.

Inflation

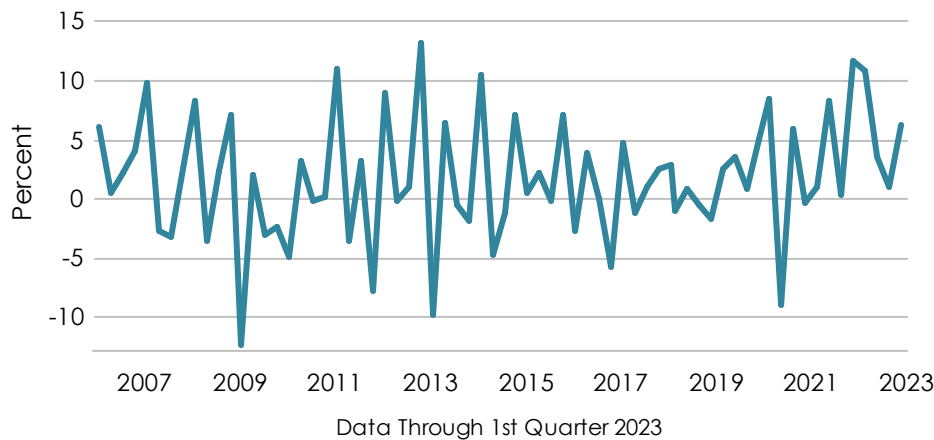
- Year-on-year core PCE has hovered around 4.6% for the first five months of this year, while the headline readings have fallen below the core measures given the decline in energy prices. As shelter prices moderate, we expect further progress in the core measures as that dynamic impacts the Index in the second half of this year.
- Highlighting the slow progress on reducing inflation, the FOMC's June projections for core PCE reflect a reduction to 3.9% by year-end 2023 and 2.6% by year-end 2024. We continue to expect the road to the Fed's 2% target to be long and uneven given the resilience of the economy thus far.

CORE PCE YOY



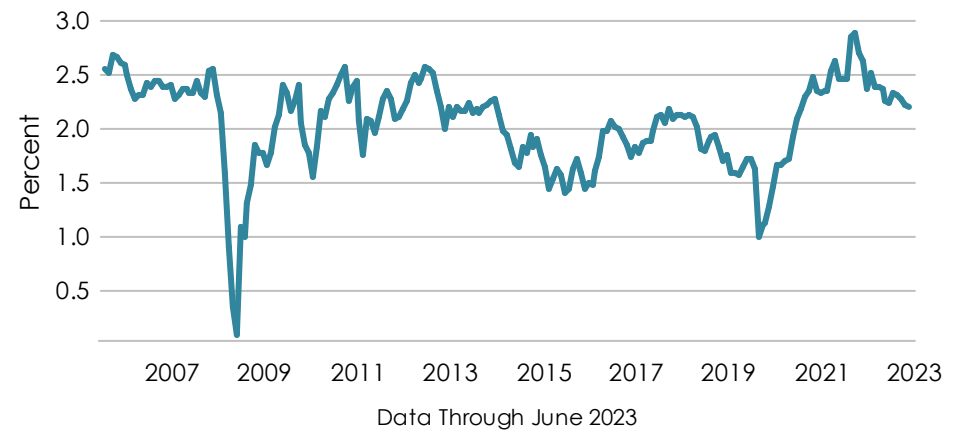
Source: FactSet

CHANGE IN UNIT LABOR COST



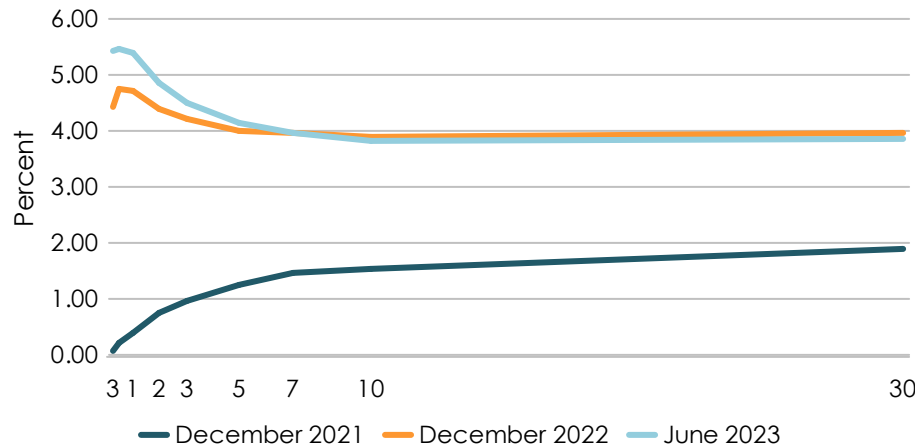
Source: Federal Reserve Bank of St. Louis

US 10-YEAR TIPS BREAKEVEN RATE



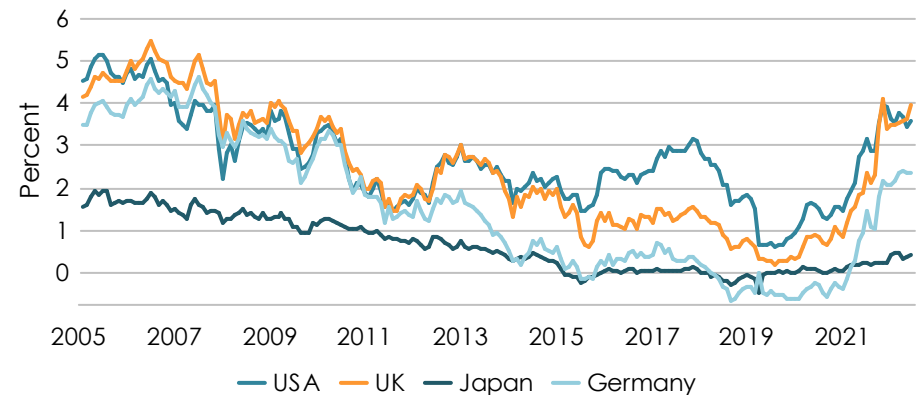
Source: Federal Reserve Bank of St. Louis

US TREASURY YIELD CURVES



Source: Federal Reserve Bank of St. Louis

GLOBAL INTEREST RATES 10-YEAR



Source: Federal Reserve Bank of St. Louis

- For the tenth consecutive meeting, the FOMC increased their short-term policy rate twenty-five basis points in May, which included a softening of, but not an end to, their view on further policy tightening. At their June meeting, the Committee opted for a 'hawkish pause,' which included no change to their policy rate and a simultaneous update to the 'dot plot,' which showed the possibility of an additional fifty basis points of tightening by the end of the year.
- Investors dialed back their expectations for interest rate cuts, acknowledging the increasing probability of a higher for longer outcome for short-term interest rates. At the end of the quarter, the FOMC's median projection for the year-end 2024 fed funds rate was 4.6%, while the futures market was priced for a more dovish 4.1%.
- Investors adjusted to the FOMC's updated projections, pushing interest rates higher across the yield curve, most notably in shorter maturities inside of three years. As a result, the yield curve inverted further as the yield differential between three-month Treasury bills and ten-year Treasury notes increased twenty-two basis points, ending the quarter at -145 basis points.
- Bond investors have continually underpriced the FOMC throughout this tightening cycle, while the Committee has generally delivered on their projections thus far. As such, we remain reluctant to fight the Fed and have positioned portfolios for some additional policy tightening and the potential for further yield curve flattening.

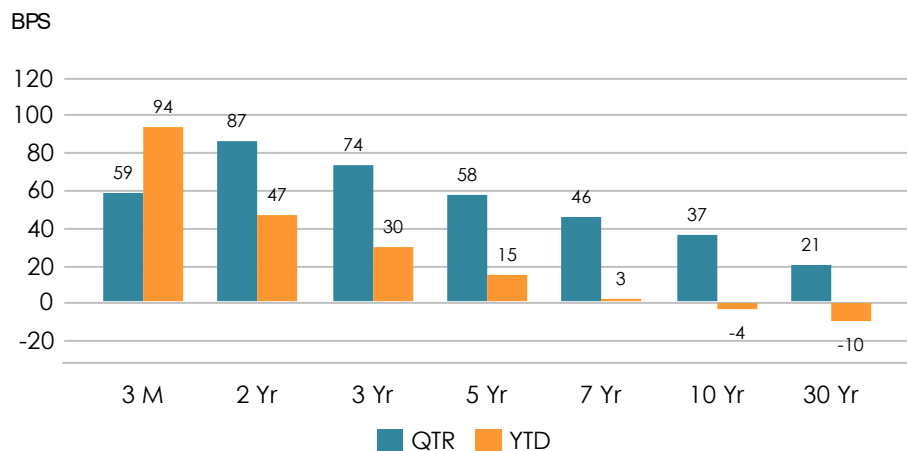
Our Economic Outlook

- While the regional banking turmoil seems to have abated and the debt ceiling was resolved, the Federal Reserve has indicated additional rate hikes may be necessary to bring down inflation which could put more pressure on the economy and the banking system.
- Despite the mixed signals from the U.S. economy, our expectation for a slowdown in growth remains as the impact from monetary policy tightening continues to work its way through the system and consumers feel the strain of elevated prices.
- Inflation decelerated in the second quarter but remains uncomfortably high. As the negative growth in shelter prices is reflected in the inflation indices, it will likely result in further declines in the inflation trends in the second half of the year.
- Despite a slowdown in cyclical parts of the economy, the labor markets remain strong. Initial jobless claims have gradually increased this year from relatively low levels but likely need to consistently exceed 300,000 before they have a significant impact on economic growth going forward.
- As the FOMC downshifts the pace of their policy actions and pivots to a more data dependent phase, the market is currently expecting at least one more rate hike by the end of 2023. We continue to expect a bumpy landing for the U.S. economy as the Fed remains acutely focused on the inflation battle while simultaneously hoping to avoid a severe recessionary outcome.

Fixed Income

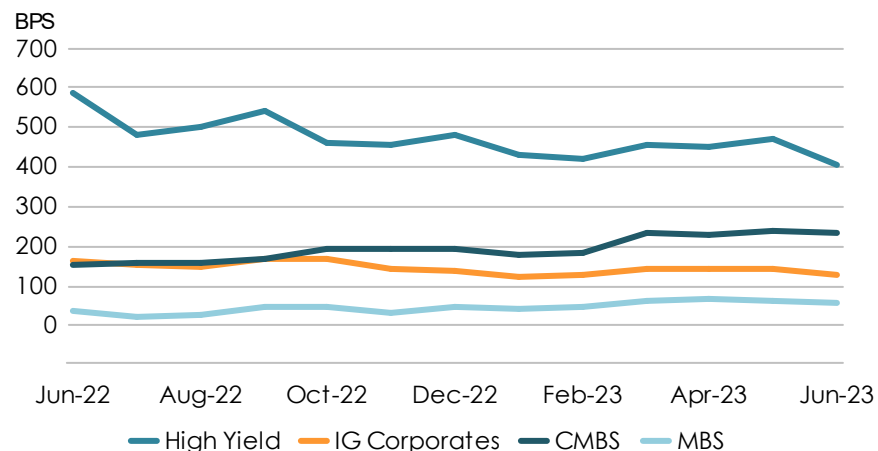
- Interest rate volatility is expected to remain elevated, despite a resolution to the debt ceiling and stabilization in the banking sector. The market's focus has now turned to the resiliency of the economy, stickiness of inflation, and the response from the Fed.
- While the yield curve could flatten further over the near term, a steepening trend may emerge later this year as the FOMC likely nears the end of their tightening cycle.
- Corporate bonds have been resilient in the face of a highly uncertain economic outlook. While we recognize the recent spread tightening tilts the risk/reward profile somewhat less favorably looking forward, we are reluctant to reduce corporate exposure further as recession odds have become milder than previously thought.
- Our preference on the security selection side is centered on credit exposures more at the front end of the curve with a greater emphasis on higher quality and lower beta in intermediate and longer-term maturities.
- We have become more constructive on the agency mortgage-backed sector given its underperformance over the last few years. The relative cheapness of the sector combined with limited origination may offset the bank-related selling pressures and the fact that the Fed is no longer an indiscriminate buyer of mortgages.

US TREASURY YIELD CHANGE



Source: Intercontinental Ex change

US SPREAD SECTORS



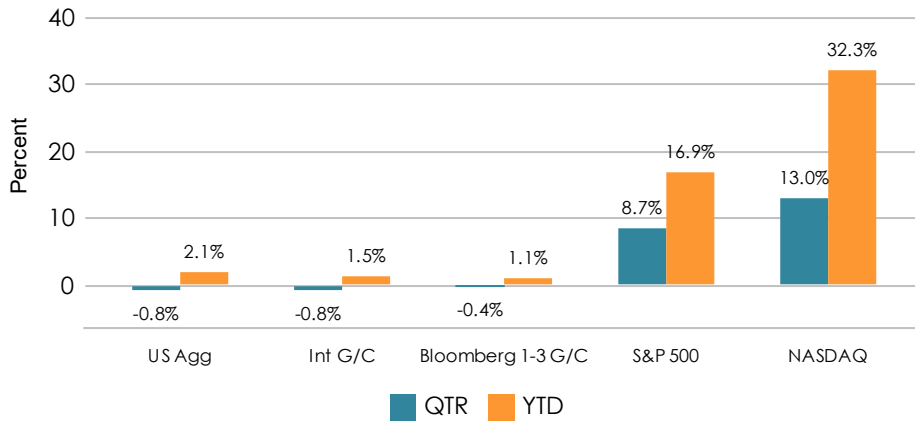
Source: Bloomberg, Intercontinental Ex change

- The FOMC increased their policy rate for the 10th consecutive meeting in May, taking the range up to 5.0% - 5.25%. The Committee opted to 'pause' the tightening cycle at their June meeting yet maintained a somewhat hawkish outlook.
- The FOMC's median 2023 economic projections released following the June meeting reflected stronger growth, lower unemployment, and higher core inflation. The accompanying updated 'dot plot' likely surprised the market as the median fed funds rate projection increased 50 basis points, to 5.6% for 2023.
- This updated outlook from the Fed resulted in sharply higher interest rates across the yield curve, most notably in two and three-year maturities. Prospects for interest rate cuts have been pushed into 2024, yet the market continues to expect more cuts than the FOMC currently projects.
- The yield curve inverted further, with the yield differential between two-year and ten-year Treasuries reaching its sharpest inversion in over forty years, at -106 basis points.

- For the quarter, total returns were mixed across the credit spectrum given the move higher in interest rates, yet tighter credit spreads resulted in positive excess returns relative to Treasuries for both investment grade (IG) and high yield (HY) corporate bonds.
- Investment grade corporate bond spreads tightened 15 basis points during the second quarter, which resulted in an excess return of 1.35%. Lower quality outperformed higher quality, while financials were the top performing industry for the quarter.
- Similarly, HY corporate spreads tightened 53 basis points in the second quarter, bringing the year-to-date tightening to 76 basis points. HY corporates posted positive total and excess returns for the quarter. The CCC-rated cohort generated the strongest excess return at 5.66%.
- All three securitized sectors outperformed Treasuries in the second quarter, yet only ABS posted a positive total return as well. Agency MBS led excess returns at 0.74%, followed by ABS and CMBS, both with 0.57% excess returns for the quarter.

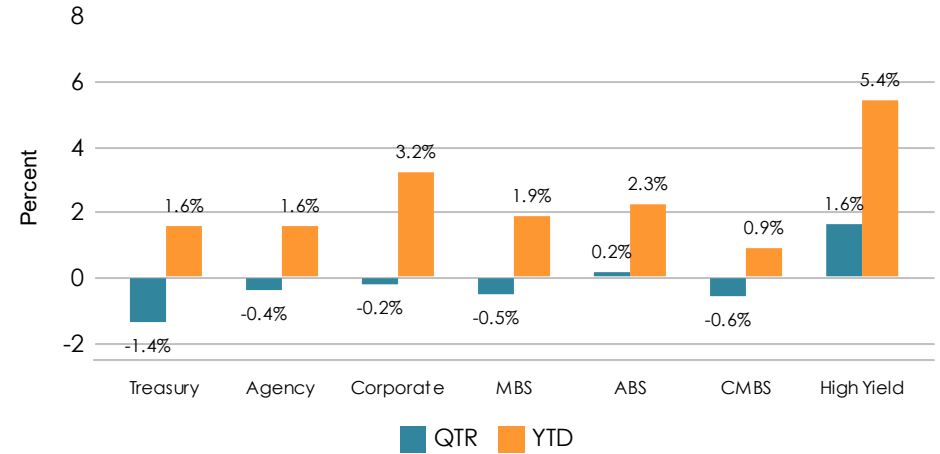
Total Returns

INDEX RETURNS



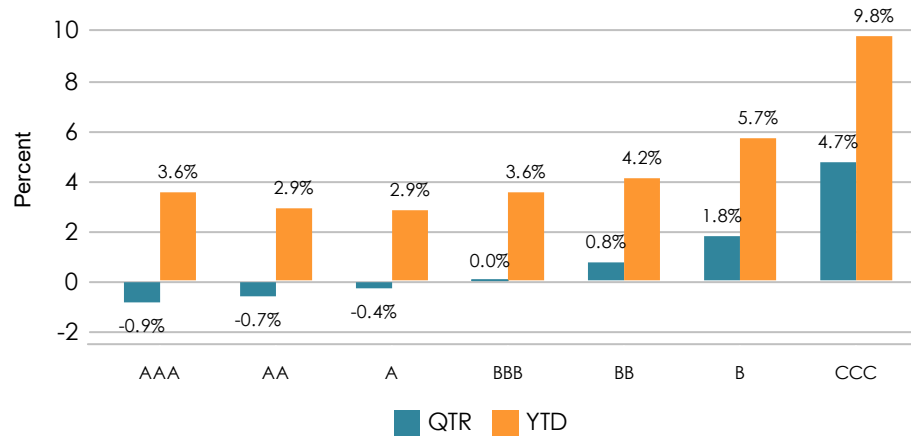
Source: Intercontinental Exchange Returns are calculated gross of fees.

SECTOR RETURNS



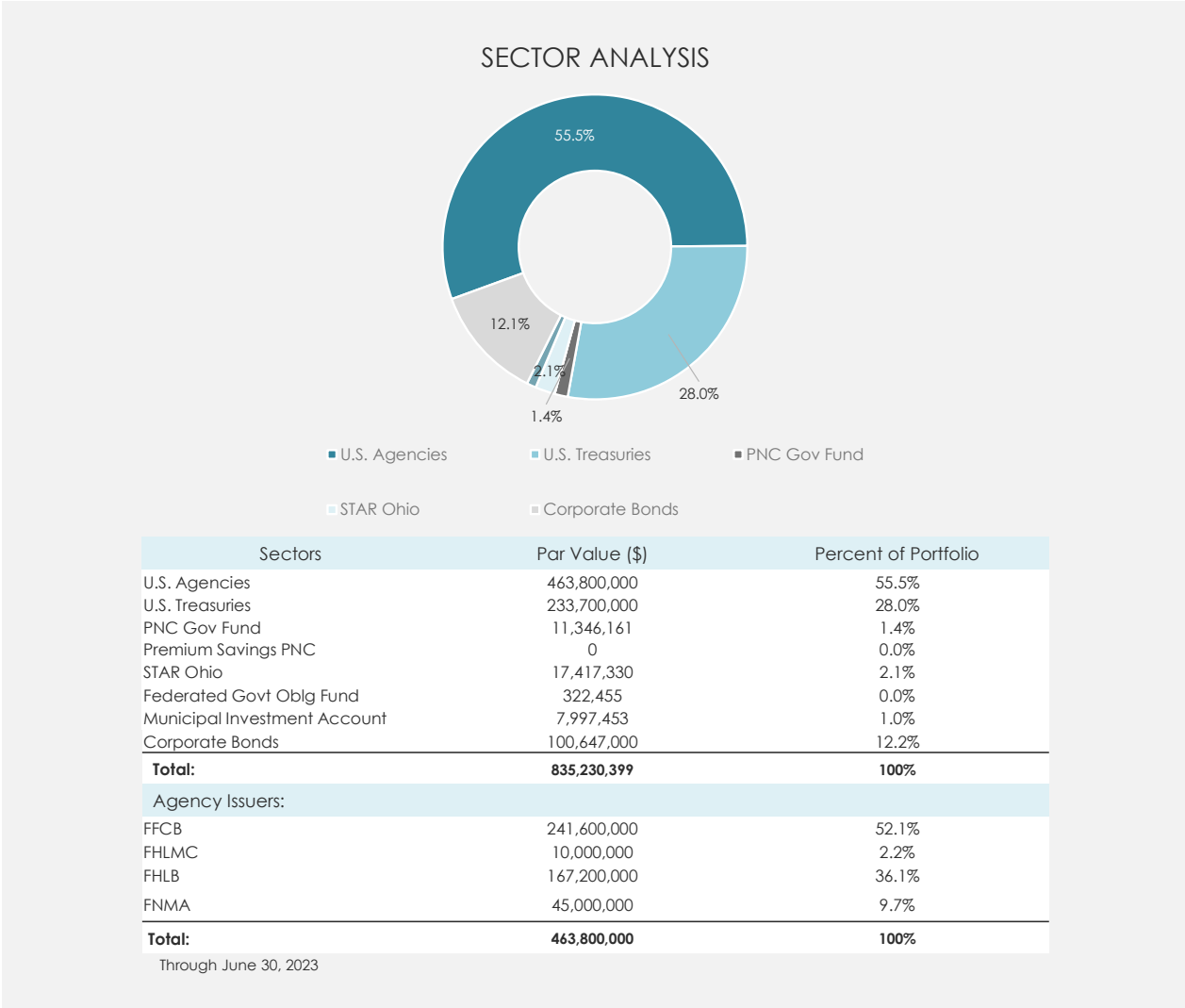
Source: Intercontinental Exchange Returns are calculated gross of fees.

RETURNS BY QUALITY

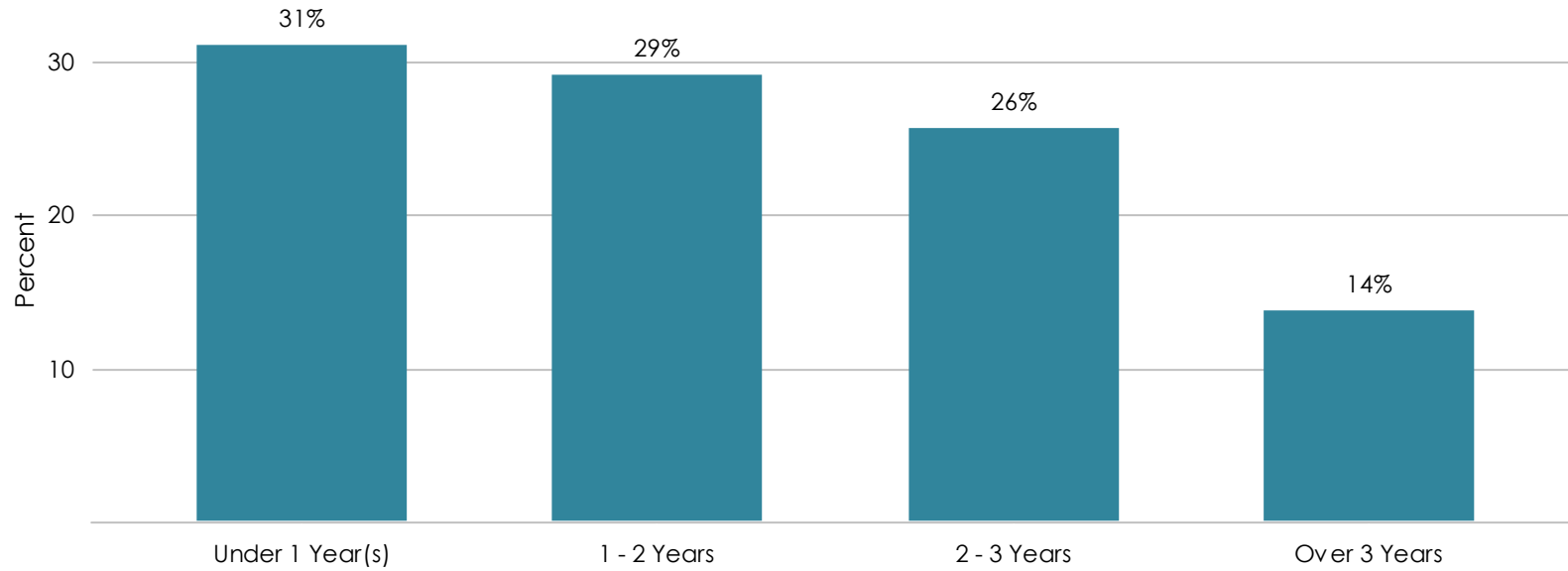


Source: Intercontinental Exchange Returns are calculated gross of fees.

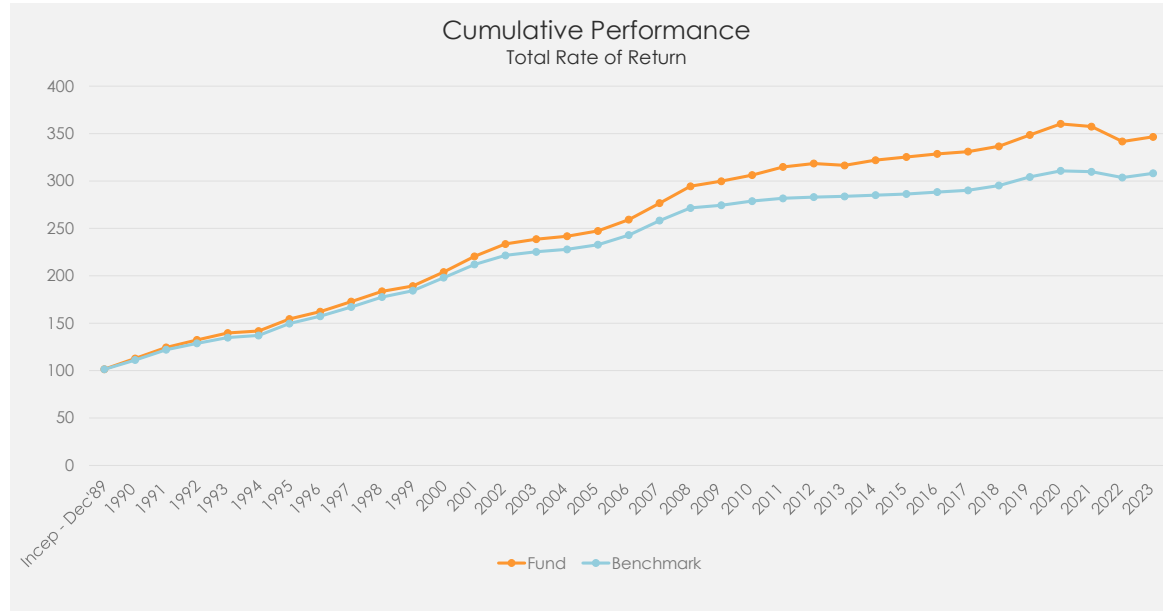
Our Portfolio View



MATURITY DISTRIBUTION



Maturity	Market Value	Percent
Under 1 Year(s)	\$ 245,878,545	31.2%
1 - 2 Years	230,127,083	29.2
2 - 3 Years	202,673,424	25.7
Over 3 Years	109,577,147	13.9
Total	\$ 788,256,199	100.0%
Effective Average Maturity of Portfolio:		1.62 yrs



Investment Performance
Through June 30, 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	June 30, 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	1.44	246.7
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	1.49	208.2
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	1.93	---
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	5.41	---
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	2.25	690.1
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	0.97	558.2
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	1.29	706.8

*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 March 31, 2023 To June 30, 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						
U S Treasury Note 3.25% 06/30/27	4/10/23	4/12/23	11,000,000	\$10,946,044.54	98.59	\$10,845,312.50
Federal Farm Credit Bank 3.88% 04/26/27	4/21/23	4/26/23	10,500,000	\$10,470,705.00	99.72	\$10,470,705.00
U S Treasury Note 3.13% 08/31/27	5/3/23	5/5/23	10,500,000	\$10,418,985.23	98.67	\$10,360,136.72
U S Treasury Note 3.63% 03/31/28	6/14/23	6/16/23	10,500,000	\$10,410,682.31	98.39	\$10,330,605.47
U S Treasury Note 4.13% 06/15/26	6/15/23	6/20/23	5,000,000	\$4,983,091.06	99.61	\$4,980,273.44
United States Treas Nts 3.88% 11/30/27	6/15/23	6/20/23	10,000,000	\$9,968,831.11	99.48	\$9,947,656.25
U S Treasury Note 4.00% 06/30/28	6/30/23	7/5/23	10,500,000	\$10,440,491.68	99.38	\$10,434,785.16
Total Purchases				<u>\$67,638,830.93</u>		<u>\$67,369,474.54</u>

Appraisal Summary

Investment Portfolio Review
Period Ending June 30, 2023

	<u>Market Value</u>	<u>Percent</u>	<u>Income</u>
Liquid Reserves	18,616,889	2.4	964,355
Liquid	18,616,889	2.4	964,355
U.S. Treasuries	227,775,106	28.8	4,819,125
U.S. Government Agencies	446,857,489	56.5	6,499,025
Corporate Bonds	98,202,812	12.4	2,545,818
Fixed	772,835,408	97.6	13,863,968
Total Market Value	791,452,297	100.0%	14,828,323

Portfolio Appraisal

Investment Portfolio Review
Period Ending June 30, 2023

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
322,455	Federated Govt Oblg Fund	5.180		322,455	100.000	322,455
877,104	Money Market	5.180		877,104	100.000	877,104
17,417,330	STAR Ohio	5.180		17,417,330	100.000	17,417,330
18,616,889	Liquid Reserves			18,616,889		18,616,889
18,616,889	Liquid			18,616,889		18,616,889
15,500,000	U S Treasury Note	1.250	7/31/2023	15,476,992	99.693	15,452,459
8,500,000	U S Treasury Note	0.250	3/15/2024	8,432,266	96.469	8,199,844
10,500,000	U S Treasury Note	0.375	7/15/2024	10,495,078	94.973	9,972,129
11,000,000	U S Treasury Note	0.750	11/15/2024	10,999,570	94.055	10,346,016
20,000,000	U S Treasury Note	2.875	4/30/2025	19,933,594	96.297	19,259,375
15,200,000	U S Treasury Note	3.000	9/30/2025	15,161,406	96.246	14,629,406
11,200,000	U S Treasury Note	3.875	1/15/2026	11,132,625	98.133	10,990,875
5,000,000	U S Treasury Note	4.125	6/15/2026	4,980,273	98.992	4,949,609
21,000,000	U S Treasury Note	3.250	6/30/2027	20,646,484	96.172	20,196,094
10,500,000	U S Treasury Note	3.125	8/31/2027	10,360,137	95.637	10,041,855
10,500,000	U S Treasury Note	3.625	3/31/2028	10,330,605	97.672	10,255,547
10,500,000	U S Treasury Note	4.000	6/30/2028	10,434,785	99.453	10,442,578
17,000,000	U S Treasury Notes	0.250	11/15/2023	16,985,977	98.160	16,687,227
16,000,000	U S Treasury Notes	0.375	4/15/2024	15,980,938	96.137	15,381,875
16,500,000	U S Treasury Notes	0.250	5/15/2024	16,463,906	95.621	15,777,481
25,300,000	U S Treasury Notes	2.000	5/31/2024	25,280,234	96.938	24,525,188
10,000,000	U S Treasury Notes	3.500	1/31/2028	9,947,656	97.105	9,710,547
234,200,000	U.S. Bonds/Notes			233,042,527		226,818,104
234,200,000	U.S. Treasuries			233,042,527		226,818,104
10,000,000	Fannie Mae	2.500	2/05/2024	9,999,900	98.229	9,822,936
10,000,000	Fannie Mae	1.750	7/02/2024	9,914,000	96.432	9,643,199
10,000,000	Fannie Mae	1.625	10/15/2024	9,981,000	95.411	9,541,137
15,000,000	Fannie Mae (callable)	0.500	8/14/2025	14,973,000	91.104	13,665,535
10,000,000	Federal Farm Credit Bank	1.600	8/14/2023	9,980,300	99.547	9,954,686
15,000,000	Federal Farm Credit Bank	1.700	9/25/2023	14,994,150	99.147	14,872,010

Portfolio Appraisal

Investment Portfolio Review
Period Ending June 30, 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	1.625	10/23/2023	9,994,200	98.843	9,884,303
10,000,000	Federal Farm Credit Bank	1.600	11/01/2023	9,990,300	98.718	9,871,809
10,000,000	Federal Farm Credit Bank	1.450	9/05/2024	9,991,500	95.698	9,569,837
19,000,000	Federal Farm Credit Bank	1.600	9/17/2024	18,833,370	95.643	18,172,234
10,000,000	Federal Farm Credit Bank	1.500	10/16/2024	9,967,900	95.415	9,541,518
10,000,000	Federal Farm Credit Bank	4.250	9/30/2025	9,930,600	98.773	9,877,279
5,500,000	Federal Farm Credit Bank	3.320	2/25/2026	5,494,060	96.486	5,306,736
6,300,000	Federal Farm Credit Bank	3.625	10/26/2026	6,246,513	97.316	6,130,903
10,500,000	Federal Farm Credit Bank	3.875	4/26/2027	10,470,705	98.041	10,294,306
7,300,000	Federal Farm Credit Bank	4.000	9/29/2027	7,290,218	98.967	7,224,626
15,500,000	Federal Farm Credit Bank	4.125	12/01/2027	15,387,935	99.500	15,422,488
5,000,000	Federal Farm Credit Bank (callable)	0.400	10/15/2024	4,994,500	93.713	4,685,665
10,000,000	Federal Farm Credit Bank (callable)	0.670	8/04/2025	10,000,000	91.083	9,108,259
10,000,000	Federal Farm Credit Bank (callable)	0.680	8/04/2025	10,000,000	91.540	9,153,980
7,000,000	Federal Farm Credit Bank (callable)	0.540	11/03/2025	6,989,500	90.688	6,348,166
15,000,000	Federal Farm Credit Bank (callable)	0.560	12/01/2025	15,000,000	90.334	13,550,108
15,000,000	Federal Farm Credit Bank (callable)	0.500	12/23/2025	15,000,000	90.019	13,502,806
10,000,000	Federal Farm Credit Bank (callable)	0.600	12/09/2025	10,000,000	90.359	9,035,870
20,000,000	Federal Home Loan Bank	1.500	8/15/2024	19,984,600	95.915	19,182,929
12,000,000	Federal Home Loan Bank (callable)	0.520	9/30/2024	12,000,000	93.746	11,249,567
12,000,000	Federal Home Loan Bank (callable)	0.625	12/30/2024	12,000,000	93.221	11,186,531
15,000,000	Federal Home Loan Bank (callable)	0.680	6/30/2025	15,000,000	91.814	13,772,040
15,000,000	Federal Home Loan Bank (callable)	0.600	12/15/2025	15,000,000	89.818	13,472,710
15,000,000	Federal Home Loan Bank (callable)	0.520	1/28/2026	15,000,000	89.720	13,457,966
6,000,000	Federal Home Loan Bank (callable)	0.600	2/18/2026	6,000,000	89.035	5,342,102
20,000,000	Federal Home Loan Bank (callable)	0.875	3/17/2026	20,000,000	90.005	18,001,063
10,000,000	FFCB (callable)	0.610	5/23/2025	9,990,000	92.006	9,200,608
10,500,000	FFCB (callable)	0.650	6/09/2025	10,492,125	91.926	9,652,223
10,000,000	FFCB (callable)	0.740	6/30/2025	10,000,000	91.926	9,192,603
10,000,000	FHLB (callable)	0.500	7/29/2024	10,000,000	94.793	9,479,266
7,200,000	FHLB (callable)	1.000	4/29/2026	7,200,000	90.043	6,483,113
11,000,000	FHLB (callable)	0.475	8/23/2024	11,000,000	94.441	10,388,508
8,000,000	FHLB (callable)	0.550	12/17/2024	7,997,200	93.245	7,459,565

Portfolio Appraisal

Investment Portfolio Review
Period Ending June 30, 2023

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
7,500,000	FHLB (callable)	0.570	3/27/2025	7,500,000	92.422	6,931,636
8,500,000	FHLB (callable)	0.810	3/27/2026	8,500,000	89.917	7,642,957
10,000,000	Freddie Mac (callable)	0.750	4/30/2025	10,000,000	92.414	9,241,358
10,000,000	United States Treas Nts	3.875	11/30/2027	9,947,656	98.582	9,858,203
473,800,000	U.S. Agencies			473,035,232		445,375,344
473,800,000	U.S. Agencies & Related			473,035,232		445,375,344
10,000,000	Bank of America Corp	3.875	8/01/2025	9,939,900	97.162	9,716,249
5,000,000	Bank of New York Mellon	3.350	4/25/2025	4,996,750	96.157	4,807,831
10,000,000	J P Morgan Chase	3.125	1/23/2025	9,909,940	96.725	9,672,479
7,500,000	State Street Corp	3.550	8/18/2025	7,367,025	96.345	7,225,890
8,000,000	TRUIST FINL CORP	2.850	10/26/2024	7,836,280	95.990	7,679,194
4,000,000	U S Bancorp	1.450	5/12/2025	3,791,240	93.252	3,730,093
2,047,000	US Bancorp	2.400	7/30/2024	2,018,670	96.455	1,974,435
46,547,000	Financial			45,859,805		44,806,171
5,000,000	Caterpillar Financial SE	0.450	9/14/2023	4,996,600	99.045	4,952,245
5,000,000	Caterpillar Finl Svcs	0.450	5/17/2024	4,994,800	95.720	4,786,001
5,000,000	Comcast Corp	3.950	10/15/2025	4,929,200	97.484	4,874,212
6,000,000	Exxon Mobil Corp	2.709	3/06/2025	5,901,680	95.985	5,759,119
5,000,000	Intuit Inc	0.650	7/15/2023	4,998,800	99.916	4,995,791
7,100,000	John Deere Capital Corp	3.400	6/06/2025	7,065,054	96.828	6,874,803
2,000,000	Paccar Financial Corp	0.350	8/11/2023	1,997,442	99.468	1,989,352
5,000,000	Paccar Financial Corp	3.550	8/11/2025	4,992,700	96.953	4,847,663
7,000,000	Toyota Mtr Cr Corp	2.500	3/22/2024	6,883,870	97.890	6,852,299
7,000,000	Unitedhealth Group Inc.	0.550	5/15/2024	6,991,870	95.832	6,708,206
54,100,000	Industrial			53,752,016		52,639,691
100,647,000	Corporate Bonds			99,611,821		97,445,862
808,647,000	Fixed			805,689,581		769,639,310

Portfolio Appraisal

Investment Portfolio Review
Period Ending June 30, 2023

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
827,263,889	Total Portfolio			824,306,470		788,256,199

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