



BOYD WATTERSON

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

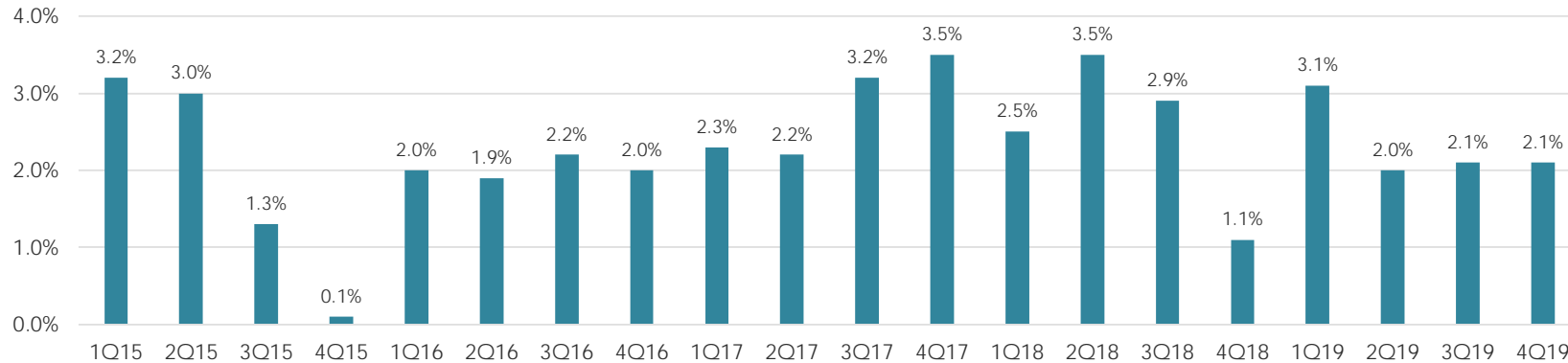
Montgomery County

Investment Portfolio Review

March 31, 2020

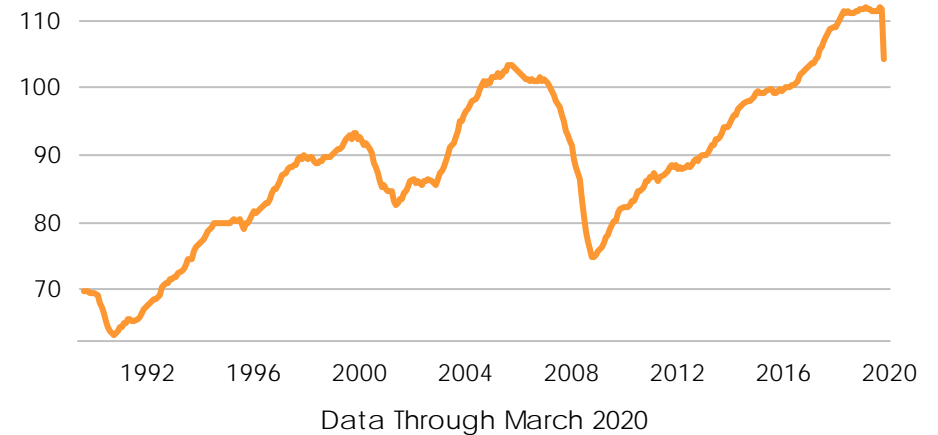
Our Macro View

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



Source: U.S. Bureau of Economic Analysis.

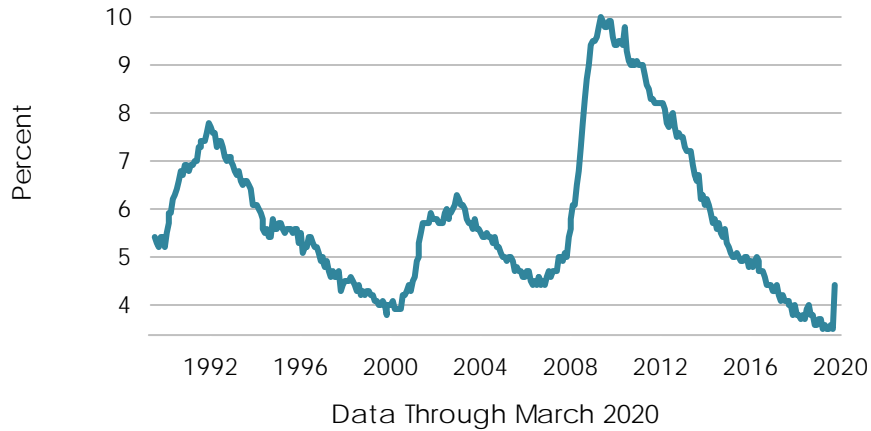
Composite Index of 10 Leading Indicators



Source: The Conference Board

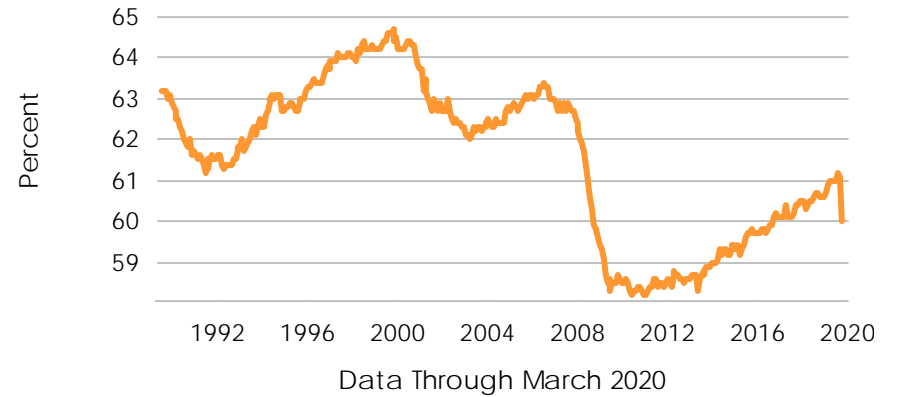
- Economic growth should center around 2.0% in 2020.
- The Fed's 'mid-cycle adjustment' has reduced recession fears and extends the runway for the current economic growth cycle.
- Areas of concern include trade policy, central bank missteps and economic growth not materializing in Europe.

CIVILIAN UNEMPLOYMENT RATE



Source: The Conference Board

RATIO, CIVILIAN EMPLOYMENT TO WORKING-AGE POPULATION



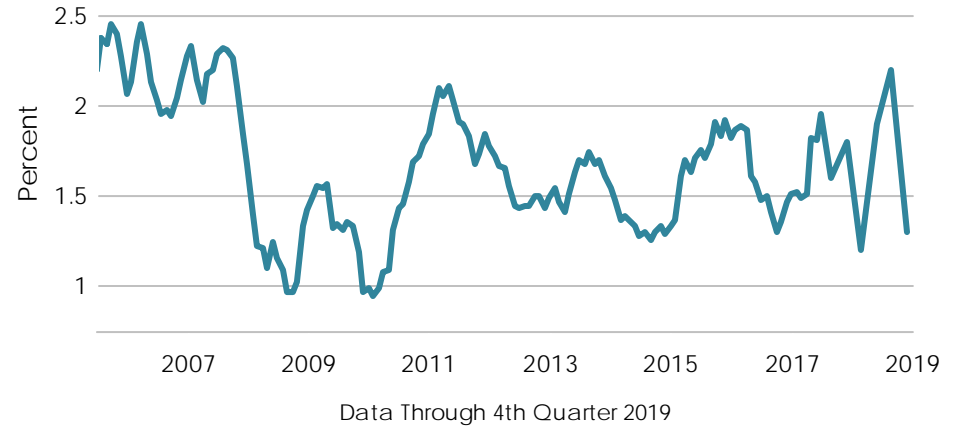
Source: The Conference Board

- The unemployment rate jumped from 3.5% in February to 4.4% in March.
- Initial jobless claims soared to a record level of 6.6 million people.
- Nonfarm payrolls declined by over 700,000 in the month of March.

Inflation

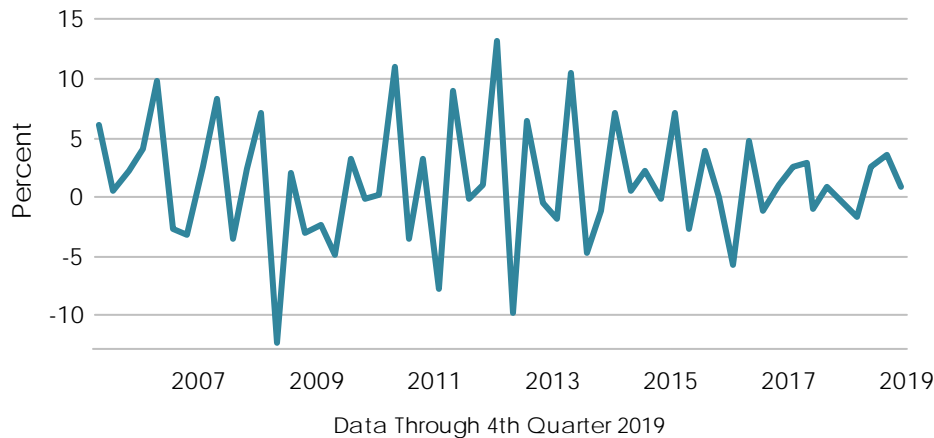
- The economic impact from COVID-19 has led to a significant decline in inflation expectations.
- The implied rate of inflation as measured by the 10-year TIPS breakeven rate was nearly cut in half, declining from 1.78% to 0.93% in 1Q20.

CORE PCE YOY



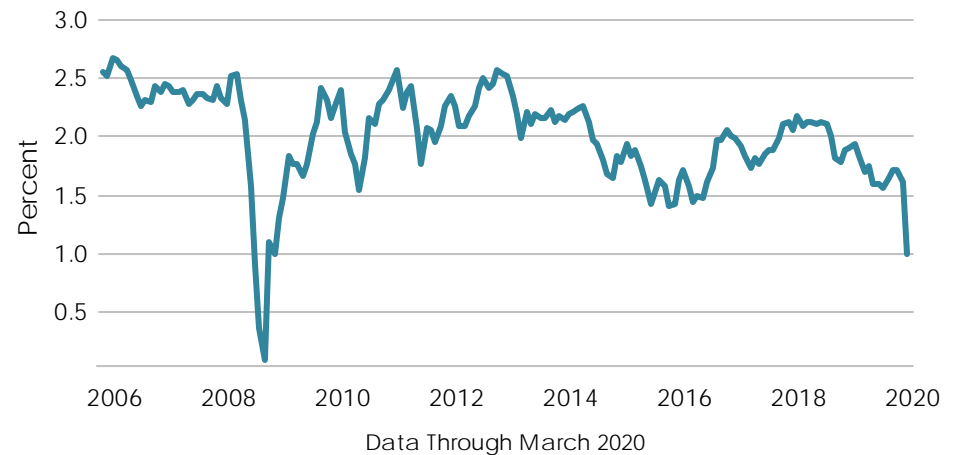
Source: Federal Reserve Bank of St. Louis

CHANGE IN UNIT LABOR COST



Source: Federal Reserve Bank of St. Louis

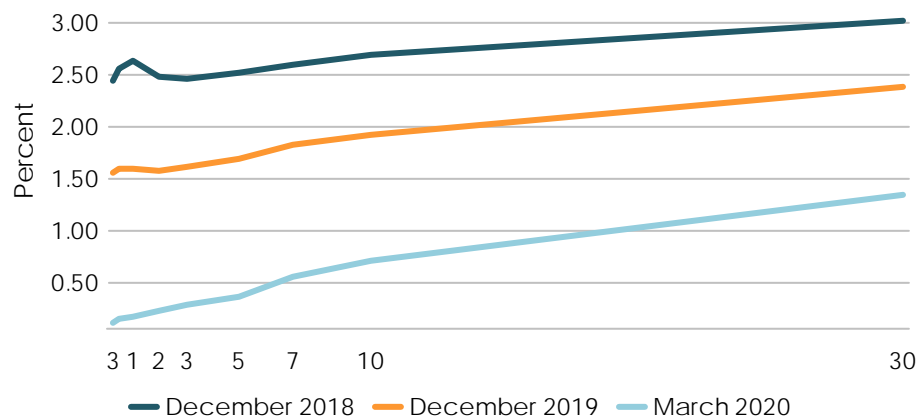
US 10-YEAR TIPS BREAKEVEN RATE



Source: Federal Reserve Bank of St. Louis

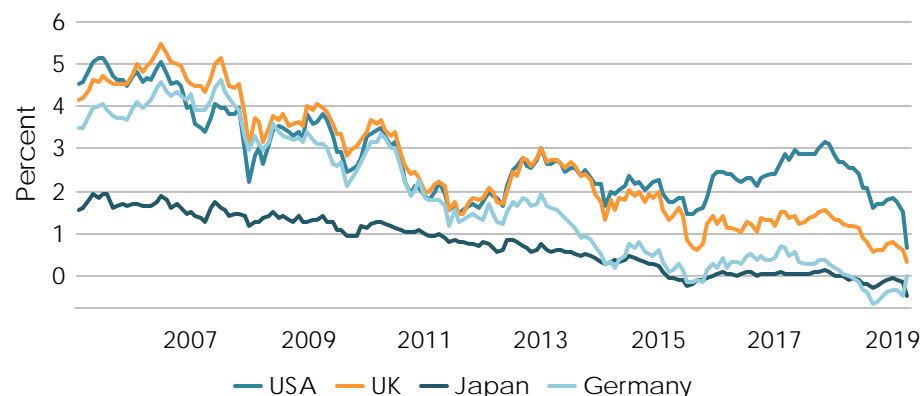
Interest Rates

US TREASURY YIELD CURVES



Source: Federal Reserve Bank of St. Louis

GLOBAL INTEREST RATES 10-YEAR



Source: Federal Reserve Bank of St. Louis

- Global interest rates declined in the first quarter as recession fears rose and central banks tried to combat the economic impact from COVID-19.
- The German 10-Year Bund yield remained negative, declining to a low of -0.86% in early March before rebounding and ending the quarter at -0.47%. The yield was -0.19% heading into 2020.
- We expect central banks to keep short-term interest rates low for an extended period of time in an effort to facilitate a return to sustainable economic growth later this year.
- We expect U.S. interest rates to be range bound around their current historical low levels, given the balance between the Fed's QE program and the coming increase in issuance from the Treasury.

Our Economic Outlook

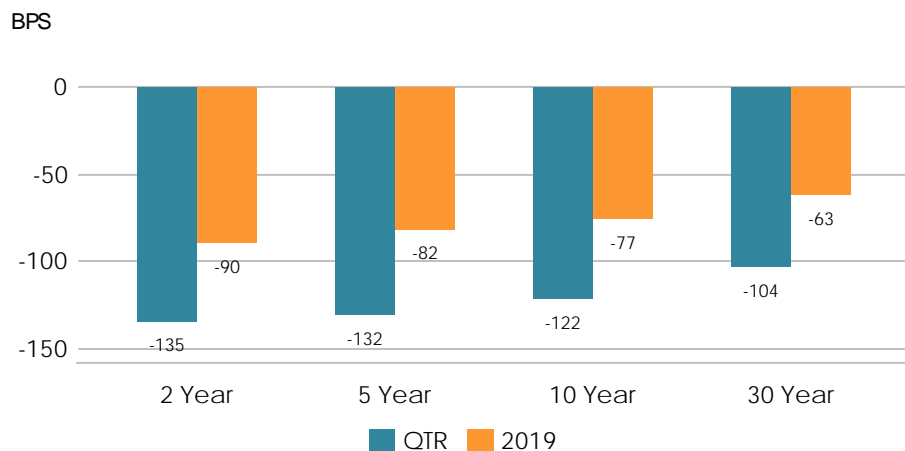
- A recession now appears unavoidable as a result of the spread of COVID-19 and the devastating impact it is having on the economy.
- GDP growth will likely be negative for the first two quarters of this year. We anticipate growth to reaccelerate in the second half, but the pace will largely depend on the success of containment efforts of the virus and the success of monetary and fiscal policy to absorb the near-term economic shocks.
- Forthcoming economic data will likely be some of the worst seen in years (or history) as unemployment metrics surge, consumer confidence deteriorates, and manufacturing and services output slows.
- While the Fed has cut short-term rates back to the zero bound (0.00% - 0.25%), we believe they will continue to fully utilize the unlimited scope of their balance sheet to support liquidity and facilitate the flow of credit as conditions warrant.
- Depending on the duration of this health crisis, additional fiscal stimulus/relief may be needed to support businesses and consumers. Unfortunately, this will further inflate the deficit and result in significantly higher amounts of Treasury issuance.

Fixed Income

- Generally, we believe interest rates will be relatively range bound around their current historically low levels, given the balance between the Fed's QE program and the coming increase in issuance from the Treasury.
- Liquidity has improved, yet our expectation for elevated volatility over the near-term leaves us cautious on believing we are completely through the worst of the crisis.
- We are anticipating a likely increase in credit rating downgrades and defaults resulting from the severe economic stress with low BBB-rated and high yield issuers impacted the most.
- While valuations in many non-government sectors look more attractive today given the repricing in the market, we are favoring high-quality issuers in more defensive industries given the uncertainty ahead.
- Some securitized sectors are direct targets of the Fed's policy programs, which we believe will improve liquidity and performance in these consumer-focused areas of that market over the coming months.
- Bottom line, don't fight the Fed, invest behind them. Sectors the Fed has programs in place to support will likely recover more rapidly, whereas those that do not, will be much slower.

Our Portfolio Review

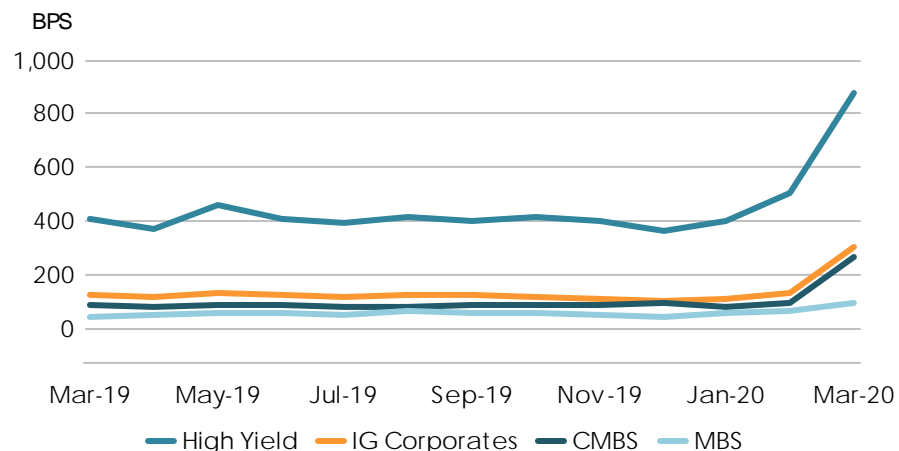
US TREASURY YIELD CHANGE



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

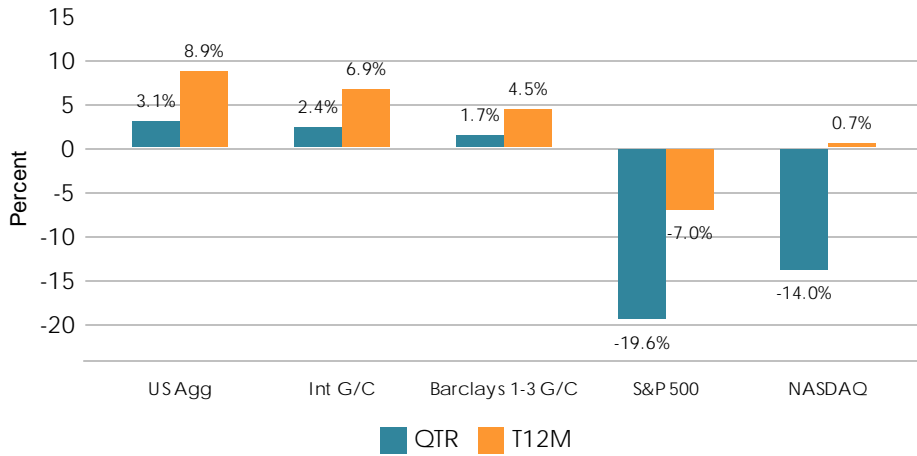


Source: Bloomberg, BofA Merrill Lynch Indices

- Investment grade and high yield sectors underperformed U.S. Treasuries in 1Q20.
- Longer maturity corporate securities underperformed short and intermediate securities on an excess return basis.
- A flight to safety in the markets resulted in higher quality outperforming lower quality by a wide margin.
- MBS, ABS, and CMBS generated negative excess returns for the quarter.

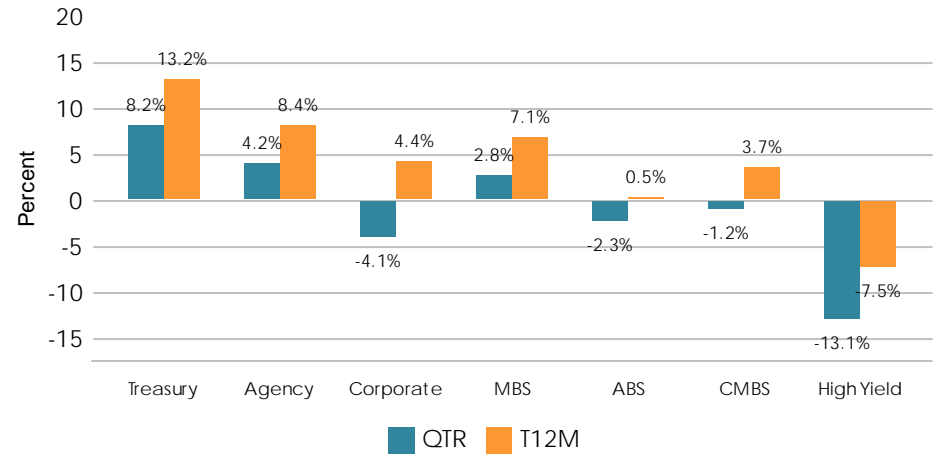
Total Returns

INDEX RETURNS



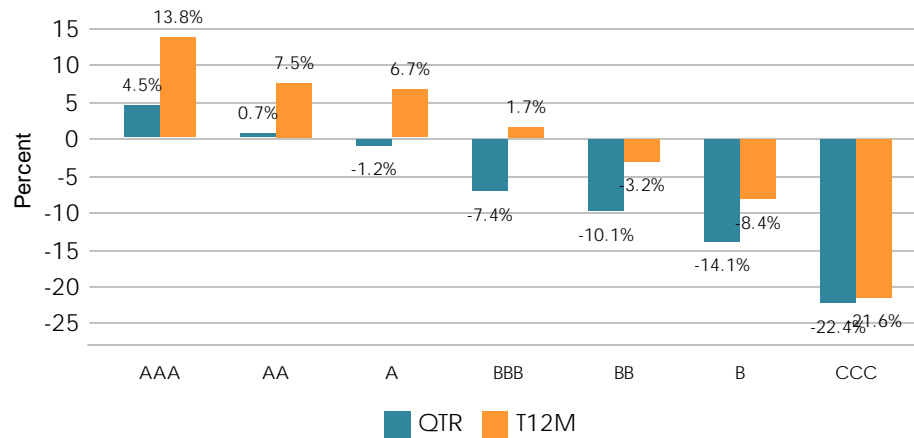
Source: Interactive Data Corporation

SECTOR RETURNS



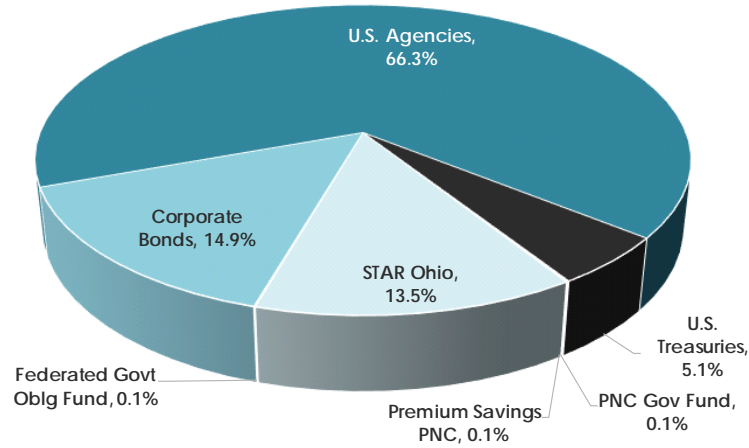
Source: Interactive Data Corporation

RETURNS BY QUALITY



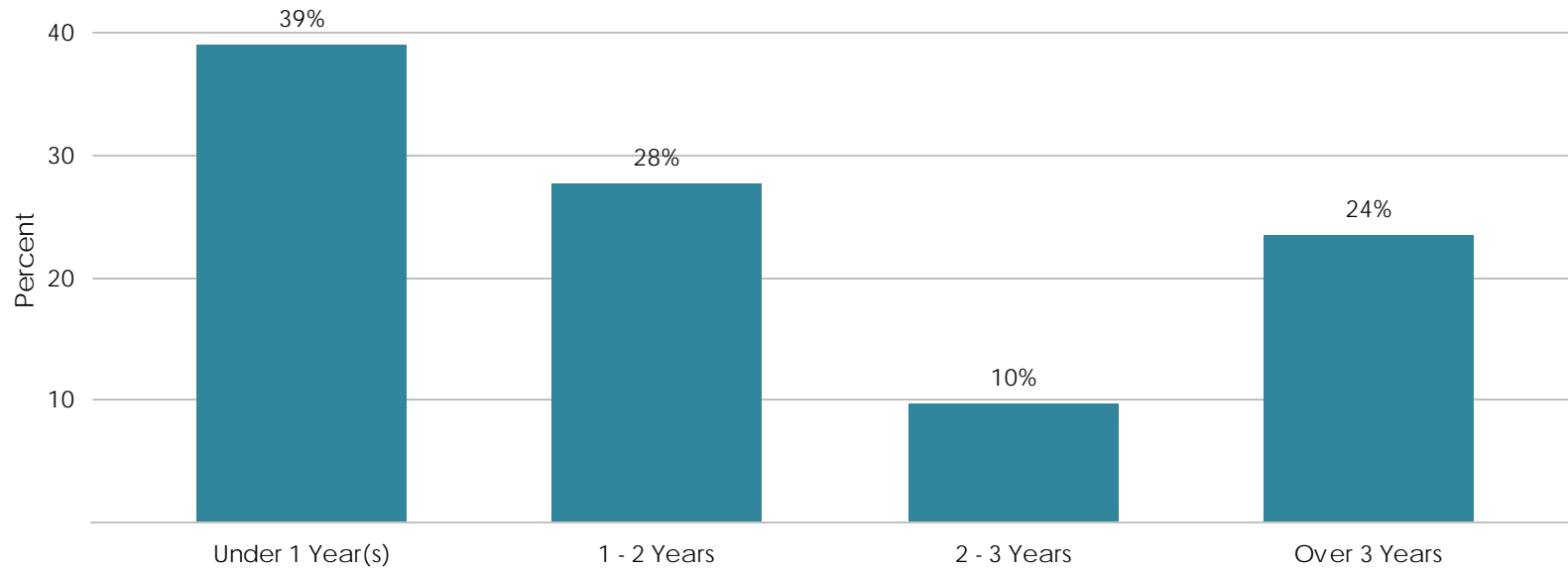
Source: Interactive Data Corporation

SECTOR ANALYSIS



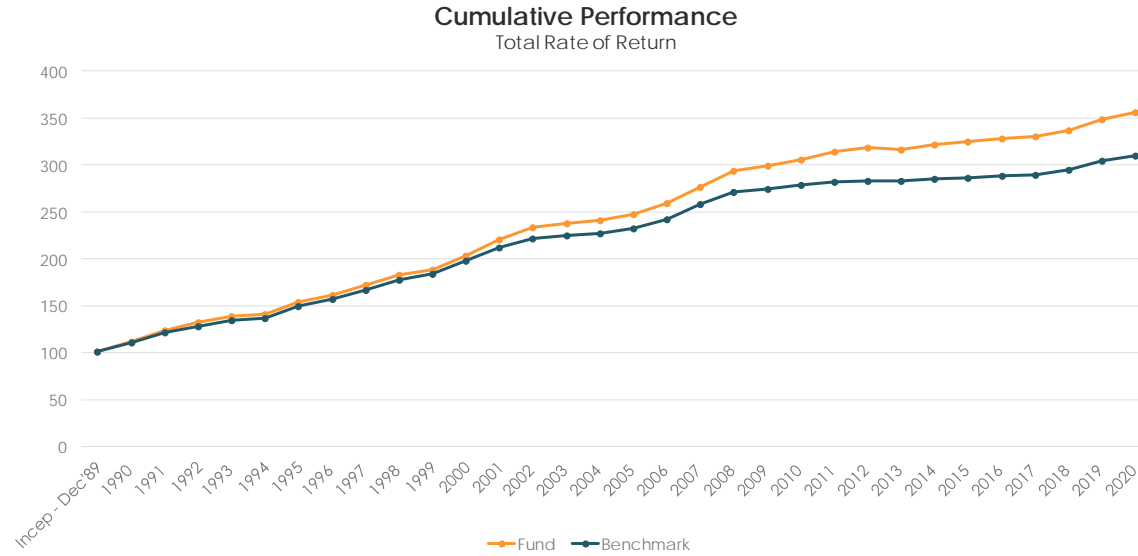
Sectors	Par Value	Percent of Portfolio
U.S. Agencies	386,470,000	66.3%
U.S. Treasuries	30,000,000	5.1%
PNC Gov Fund	370,019	0.1%
Premium Savings PNC	296,354	0.1%
STAR Ohio	78,472,014	13.5%
Federated Govt Oblg Fund	310,287	0.1%
Municipal Investment Account		0.0%
Corporate Bonds	87,000,000	14.9%
TOTAL	582,918,673	100%
Agency Issuers:		
FFCB	218,000,000	56.4%
FHLMC	24,000,000	6.21%
FHLB	30,000,000	7.8%
FNMA	114,470,000	29.6%
TOTAL	386,470,000	100%

MATURITY DISTRIBUTION



Maturity	Market Value	Percent
Under 1 Year(s)	\$ 232,045,557	39.1%
1 - 2 Years	164,299,800	27.7
2 - 3 Years	57,470,337	9.7
Over 3 Years	139,719,083	23.5
Total	\$ 593,534,777	100.0%
Effective Average Maturity of Portfolio:		1.71 yrs

Performance



Investment Performance
Through March 31, 2020

	Nov. '89-1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	1Q20	Since Inception
Total Return																							
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%	2.18%	256.2%
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	1.76	209.7
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	2.03	1.92	---
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	1.01	---
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	0.58	133.0
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	2.81	236.0
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	1.95	248.3

* 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

NEEDS UPDATED

Transaction Summary

Investment Portfolio Review
Period From January 1, 2019 To March 31, 2020

Security	Trade Date	Settle Date	Quantity	Purchases	Price	Cost
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
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
KeyBank NA 1.25% 03/10/23	3/5/20	3/10/20	4,000,000	\$3,998,120.00	99.95	\$3,998,120.00
Total Purchases				\$201,808,646.94		\$201,555,390.00

Appraisal Summary

Investment Portfolio Review
Period Ending March 31, 2020

	<u>Market Value</u>	<u>Percent</u>	<u>Income</u>
Liquid Reserves	79,448,673	13.3	31,779
Liquid	79,448,673	13.3	31,779
U.S. Treasuries	30,713,422	5.2	600,000
U.S. Government Agencies	398,082,869	66.8	7,288,425
Corporate Bonds	87,675,107	14.7	2,084,600
Fixed	516,471,397	86.7	9,973,025
Total Market Value	595,920,071	100.0%	10,004,804

Portfolio Appraisal

Investment Portfolio Review
Period Ending March 31, 2020

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
310,287	Federated Govt Oblg Fund	0.040		310,287	100.000	310,287
370,019	Money Market	0.040		370,019	100.000	370,019
296,354	PNC Bank Mny Mkt Sav	0.040		296,354	100.000	296,354
78,472,014	STAR Ohio	0.040		78,472,014	100.000	78,472,014
79,448,673	Liquid Reserves			79,448,673		79,448,673
79,448,673	Liquid			79,448,673		79,448,673
15,000,000	U S Treasury Notes	2.000	2/28/2021	14,984,180	101.758	15,263,670
15,000,000	U S Treasury Notes	2.000	5/31/2021	14,970,117	102.152	15,322,845
30,000,000	U.S. Bonds/Notes			29,954,297		30,586,515
30,000,000	U.S. Treasuries			29,954,297		30,586,515
10,000,000	Fannie Mae	1.500	6/22/2020	9,989,400	100.281	10,028,070
8,470,000	Fannie Mae	1.750	9/11/2020	8,468,560	100.642	8,524,411
6,000,000	Fannie Mae	2.875	10/30/2020	5,995,800	101.509	6,090,534
20,000,000	Fannie Mae	1.500	11/30/2020	19,952,700	100.674	20,134,760
10,000,000	Fannie Mae	1.250	8/17/2021	9,995,300	101.147	10,114,700
10,000,000	Fannie Mae	1.375	10/07/2021	9,966,350	101.455	10,145,460
20,000,000	Fannie Mae	2.000	1/05/2022	19,967,000	102.865	20,573,060
10,000,000	Fannie Mae	2.500	2/05/2024	9,999,900	107.567	10,756,710
10,000,000	Fannie Mae	1.750	7/02/2024	9,914,000	104.594	10,459,410
10,000,000	Fannie Mae	1.625	10/15/2024	9,981,000	104.684	10,468,410
10,000,000	Federal Farm Credit Bank	2.550	5/15/2020	9,978,880	100.236	10,023,570
20,000,000	Federal Farm Credit Bank	2.690	9/04/2020	19,986,000	100.945	20,189,040
5,000,000	Federal Farm Credit Bank	2.700	12/21/2020	4,995,650	101.619	5,080,950
8,000,000	Federal Farm Credit Bank	2.700	4/09/2021	7,993,120	102.352	8,188,176
15,000,000	Federal Farm Credit Bank	2.700	7/02/2021	14,993,100	102.936	15,440,340
16,000,000	Federal Farm Credit Bank	1.720	7/26/2021	15,996,160	101.783	16,285,328
15,000,000	Federal Farm Credit Bank	1.950	11/02/2021	15,000,000	102.409	15,361,425
10,000,000	Federal Farm Credit Bank	1.760	11/29/2021	9,952,900	102.414	10,241,360
10,000,000	Federal Farm Credit Bank	2.010	12/08/2021	10,000,000	102.684	10,268,410
10,000,000	Federal Farm Credit Bank	1.500	9/06/2022	9,998,800	102.165	10,216,510

Portfolio Appraisal

Investment Portfolio Review
Period Ending March 31, 2020

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
15,000,000	Federal Farm Credit Bank	1.850	9/20/2022	14,961,300	103.048	15,457,215
10,000,000	Federal Farm Credit Bank	1.600	8/14/2023	9,980,300	103.487	10,348,710
15,000,000	Federal Farm Credit Bank	1.700	9/25/2023	14,994,150	103.773	15,565,965
10,000,000	Federal Farm Credit Bank	1.625	10/23/2023	9,994,200	103.567	10,356,740
10,000,000	Federal Farm Credit Bank	1.600	11/01/2023	9,990,300	103.493	10,349,280
10,000,000	Federal Farm Credit Bank	1.450	9/05/2024	9,991,500	103.605	10,360,450
19,000,000	Federal Farm Credit Bank	1.600	9/17/2024	18,833,370	104.289	19,814,948
10,000,000	Federal Farm Credit Bank	1.500	10/16/2024	9,967,900	103.911	10,391,100
10,000,000	Federal Home Loan Bank	2.675	12/22/2020	9,999,280	101.731	10,173,130
20,000,000	Federal Home Loan Bank	1.500	8/15/2024	19,984,600	104.237	20,847,360
10,000,000	Freddie Mac	2.500	4/23/2020	9,985,800	100.130	10,013,030
14,000,000	Freddie Mac	1.375	5/01/2020	13,961,040	100.091	14,012,726
386,470,000	U.S. Agencies			385,768,360		396,281,288
386,470,000	U.S. Agencies & Related			385,768,360		396,281,288
8,000,000	Bank of America Corp	2.625	4/19/2021	7,962,960	100.541	8,043,296
5,000,000	Bank of New York Mellon	1.950	8/23/2022	4,998,400	100.410	5,020,495
5,000,000	Berkshire Hathaway Inc	2.900	10/15/2020	4,990,507	100.589	5,029,460
10,000,000	J P Morgan Chase MTN	2.295	8/15/2021	9,993,400	99.897	9,989,660
4,000,000	KeyBank NA	1.250	3/10/2023	3,998,120	98.060	3,922,384
8,000,000	U S Bancorp	2.625	1/24/2022	7,975,040	101.378	8,110,240
40,000,000	Financial			39,918,427		40,115,535
10,000,000	American Honda Finance	1.950	5/20/2022	9,998,640	98.552	9,855,150
8,000,000	Apple Inc	2.850	5/06/2021	7,942,840	100.984	8,078,744
8,000,000	Cisco Systems Inc	2.900	3/04/2021	7,952,890	100.548	8,043,872
5,000,000	Disney (Walt) Co	1.650	9/01/2022	4,989,150	100.526	5,026,285
5,000,000	Exxon Mobil Corp	1.902	8/16/2022	5,007,860	100.341	5,017,070
8,000,000	John Deere Capital Corp MTN	3.125	9/10/2021	7,964,960	101.580	8,126,416
3,000,000	Paccar Financial Corp	2.000	9/26/2022	3,001,800	98.508	2,955,228
47,000,000	Industrial			46,858,140		47,102,765

Portfolio Appraisal

Investment Portfolio Review
Period Ending March 31, 2020

<u>Par / Shares</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Cost</u>	<u>Price</u>	<u>Market Value</u>
87,000,000	Corporate Bonds			86,776,567		87,218,300
503,470,000	Fixed			502,499,224		514,086,103
582,918,673	Total Portfolio			581,947,898		593,534,777

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