# Strategic Opportunities in the Bond Portfolio

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# Session Overview

- **Knowns & Unknowns: Navigating the Difficult Terrain Ahead**
- **Balance Sheet Trends NY/NJ Banks**
- **The Bond Portfolio in the Current Environment**
- **Key Investment Sectors: Risks, Rewards, and Relative Value**

# Knowns & Unknowns: Navigating the Difficult Terrain Ahead

## Economist Jokes

Ronald Reagan used to say that if trivial pursuit were designed by economists, it would have 100 questions and 3,000 answers.

Why was astrology invented?  So economics would seem like an accurate science.

Economic forecasters assume everything, except responsibility.

## Section Overview

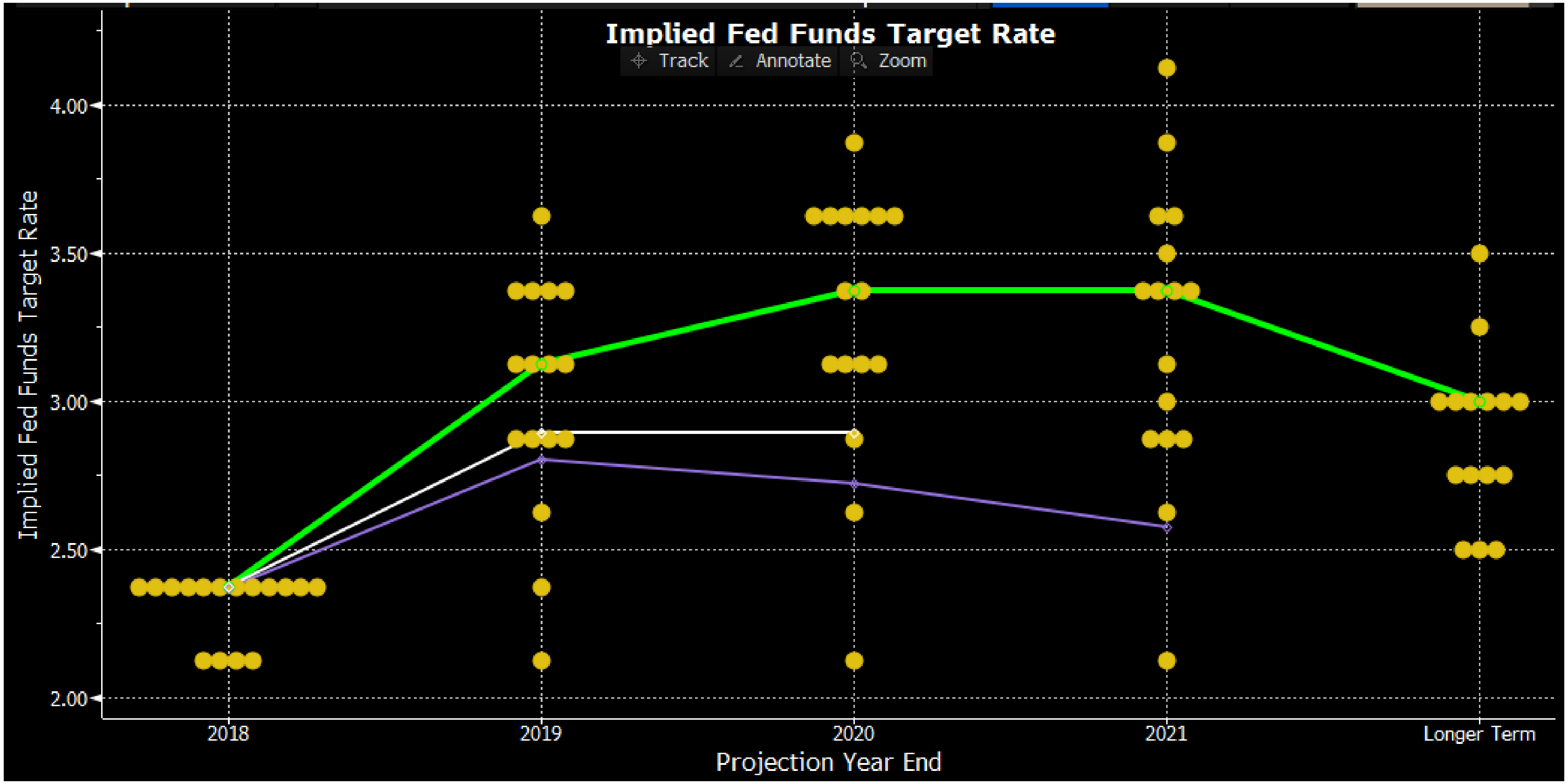
- The Federal Reserve - Monetary Policy
- The Yield Curve – Potential Inversion
- The Market – Observations from the Past

"There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know."

- Donald Rumsfeld, Former Secretary of State

## What We Know:

- Fed has increased the target rate eight times to its current range of 2.00-2.25%
    - Target range was 0-0.25% from December 2008 to December 2015
- Fed remains hawkish, projecting one more hike in 2018 and three hikes in 2019
    - The last hike is like the last kiss in a relationship; you rarely think it's the last one while it's happening




Source: Bloomberg

## Difference of Opinion:

- Market considerably more dovish than the Fed
  - Current implied probabilities shows 80% probability for a December hike and two hikes next year

Current Implied Probabilities 3) Add/Remove Rates

Dates Meeting Calculation Calculated 10/22/2018

| Meeting | Hike Prob | Cut Prob | 2-2.25 | 2.25-2.5 | 2.5-2.75 | 2.75-3 | 3-3.25 |
|---|---|---|---|---|---|---|---|
| 11/08/2018 | 6.1% | 0.0% | 93.9% | 6.1% | 0.0% | 0.0% | 0.0% |
| 12/19/2018 | 79.6% | 0.0% | 20.4% | 74.8% | 4.8% | 0.0% | 0.0% |
| 01/30/2019 | 80.9% | 0.0% | 19.1% | 71.5% | 9.0% | 0.3% | 0.0% |
| 03/20/2019 | 93.8% | 0.0% | 6.2% | 36.0% | 51.4% | 6.2% | 0.2% |
| 05/01/2019 | 94.4% | 0.0% | 5.6% | 33.5% | 50.1% | 10.0% | 0.7% |
| 06/19/2019 | 97.3% | 0.0% | 2.7% | 18.8% | 41.4% | 31.2% | 5.6% |
| 07/31/2019 | 97.5% | 0.0% | 2.5% | 17.7% | 39.8% | 31.9% | 7.4% |
| 09/18/2019 | 98.3% | 0.0% | 1.7% | 12.7% | 32.6% | 34.5% | 15.4% |
| 10/30/2019 | 98.4% | 0.0% | 1.6% | 12.1% | 31.5% | 34.4% | 16.4% |

*Source: Bloomberg*



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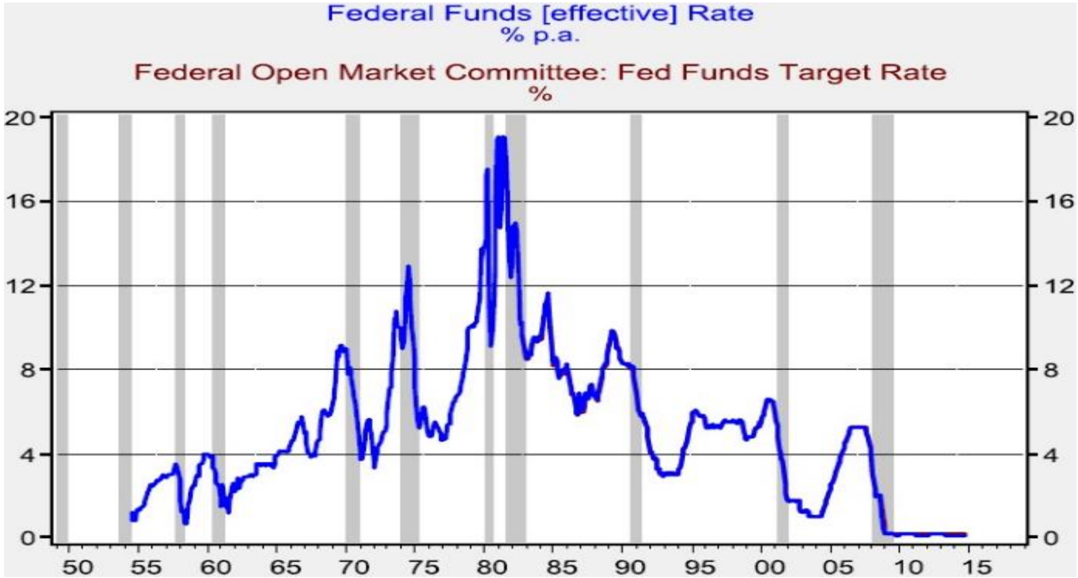
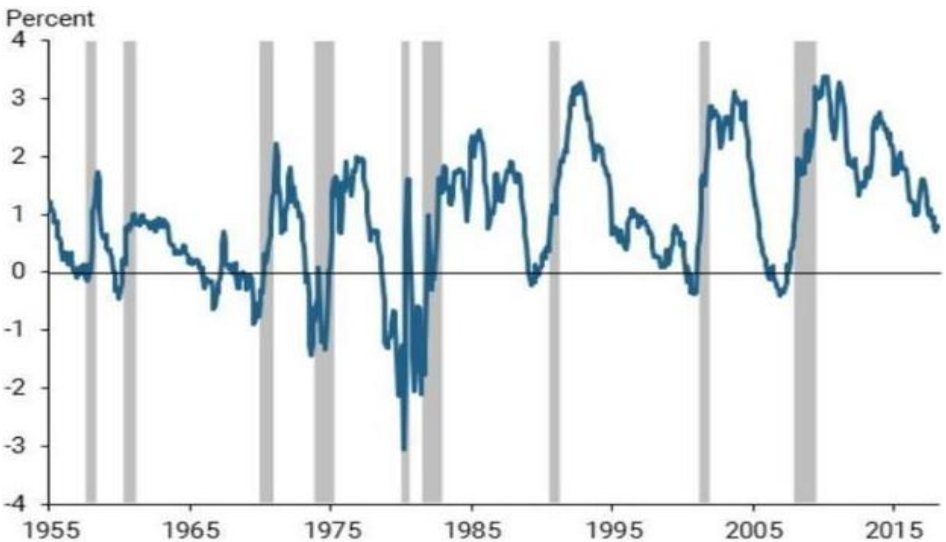
# The Fed and Curve Inversion




- Fed tightening has an extremely high correlation to subsequent recessions
- Since 1950, Fed has embarked on thirteen hiking cycles
  - Ten of those cycles resulted in recessions

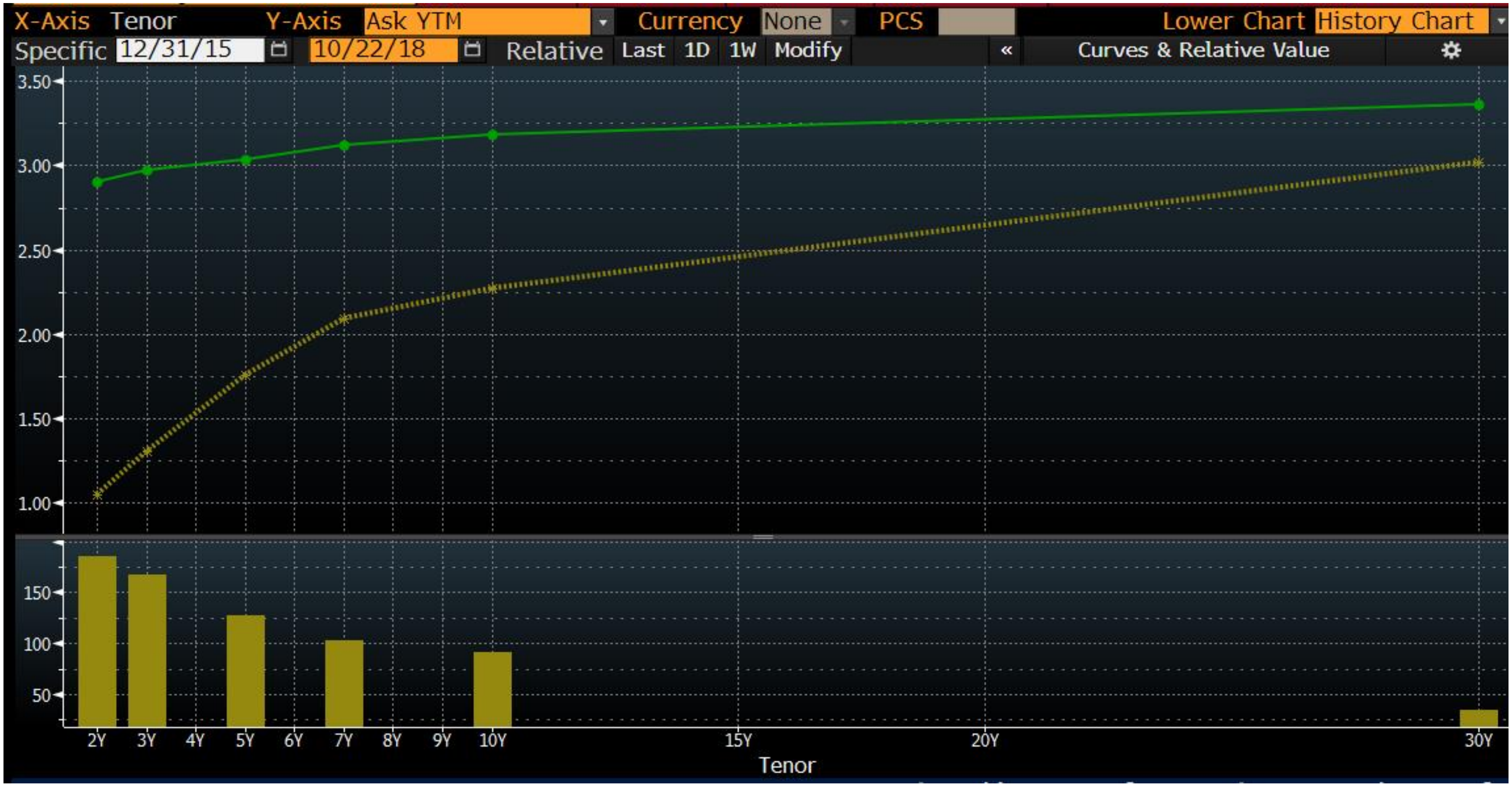
- Curve inversion widely considered a harbinger of recession, for good reason
  - Predicted all nine US recessions since 1955 – who wants bet against that track record?




*Source: Bloomberg, Federal Reserve Bank of Atlanta; Business Insider*

## What We Know:

- Since first hike this cycle in December 2015:
  - 2-year higher by 185 bps, 5-year higher by 128 bps, 10-year higher by 91 bps, 30-year higher by 35 bps




Source: Bloomberg



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## The Yield Curve

### Flat to Inverted?:

- The yield curve is flat, very flat, but it is not yet inverted
  - Current spread between 2-year and 10-year yield just 28 basis points


*Source: Bloomberg*



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## Wiggle Room?:

- According to Larry Kudlow, Director of US National Economic Council, we're looking at the wrong curve
  - Should focus on the difference between the 3-month bill and the 10-year note


*Source: Bloomberg*



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## Observations from the Past:

Lag between inversion and recession:

| 2-10 Year Yield Curve Inverts | Recession Starts | Months from Inversion to Recession |
|---|---|---|
| August 1978 | January 1980 | 17 |
| September 1980 | July 1981 | 10 |
| December 1988 | July 1990 | 19 |
| February 2000 | March 2001 | 13 |
| December 2005 | December 2007 | 24 |
| | **Average** | **17** |

Averages from last three curve inversion periods:

- With 2s/10s spread at just 23bps, we are historically less than six months from inversion
- Yields rose in the months leading up to inversion and fell immediately once the curve inverted

| Tenor | From 6 Months Prior to Inversion |
|---|---|
| 2-year | +82 basis points |
| 3-year | +73 basis points |
| 5-year | +62 basis points |
| 10-year | +44 basis points |
| 30-year | +24 basis points |

| Tenor | 12 Months After Inversion |
|---|---|
| 2-year | -132 basis points |
| 3-year | -127 basis points |
| 5-year | -120 basis points |
| 10-year | -98 basis points |
| 30-year | -12 basis points |

*Source: Bloomberg, Federal Reserve*

## Different this Time?

The four most dangerous words in investing are “This time it’s different.” – Sir John Templeton

## Some big unknowns to consider:

- Trump – nature, attack of Fed, etc.
- Trade/Tariffs- specifically with China
- Mid-term elections – possible that this will all be obsolete in a few weeks
- Geopolitical/Economic Struggles Across Globe



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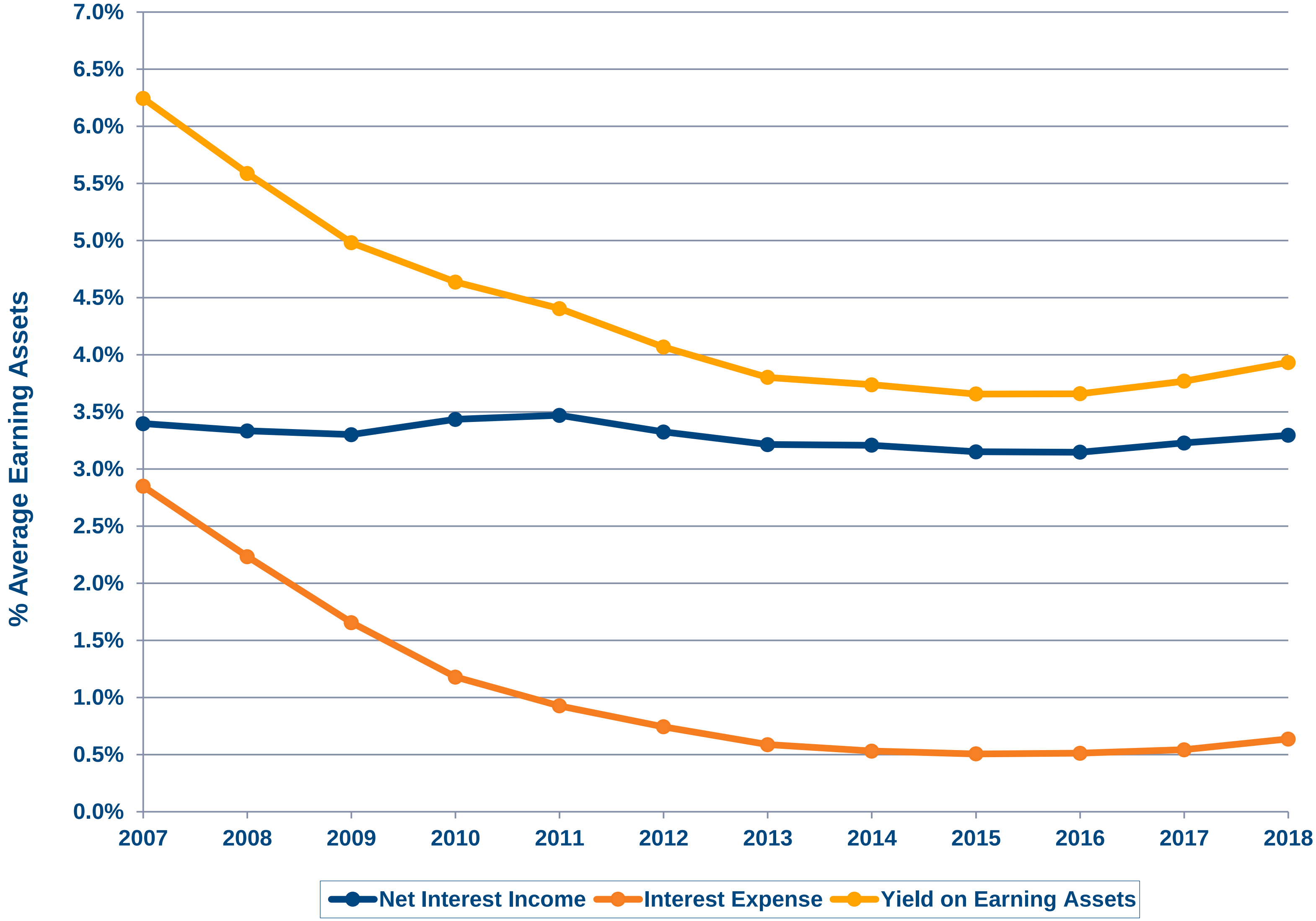
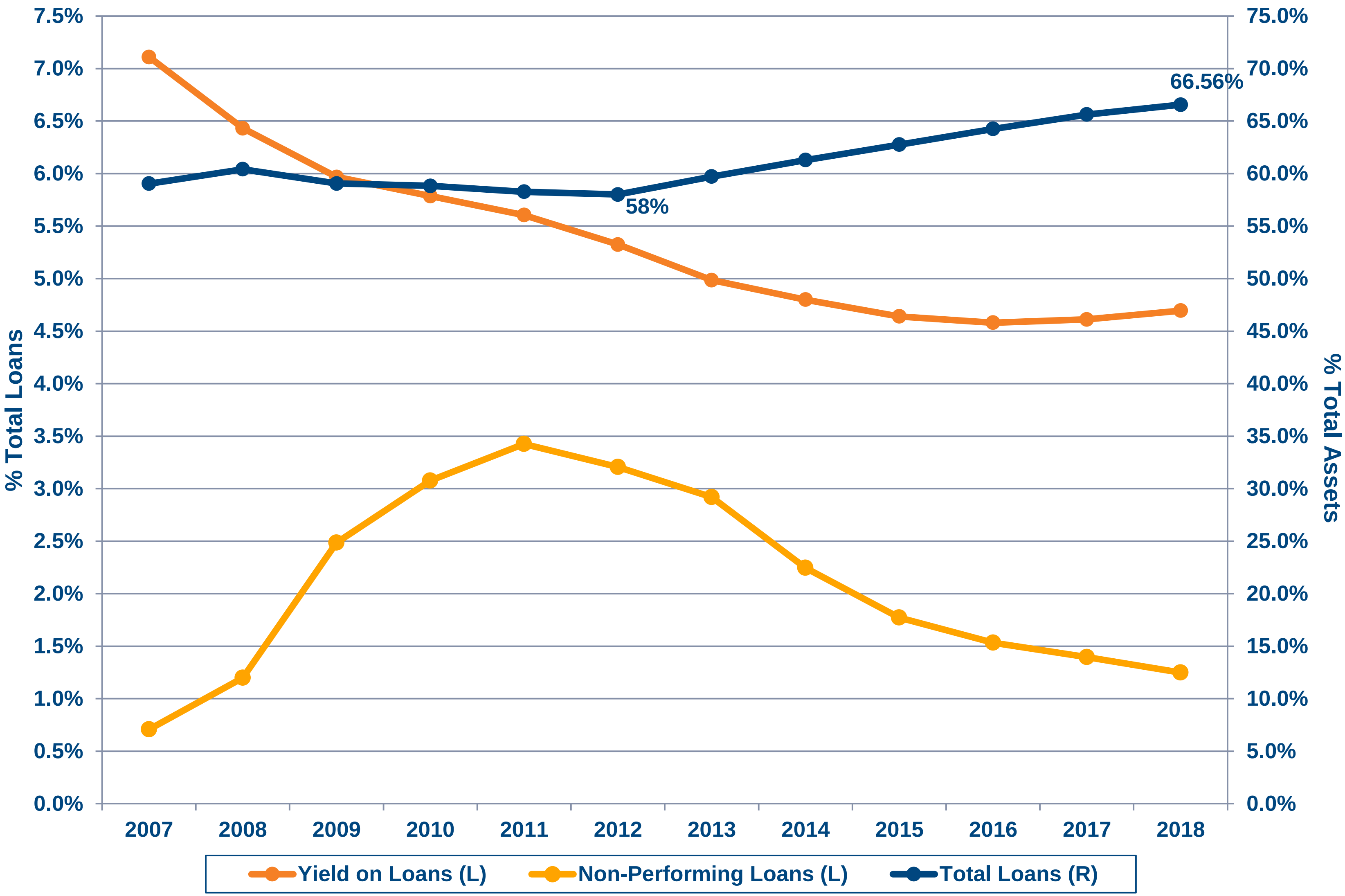
# Balance Sheet Trends: NY/NJ Banks

# NY/NJ Bank Profitability Trends




*Source: SNL*

# NY/NJ Bank Loan Trends




Source: SNL



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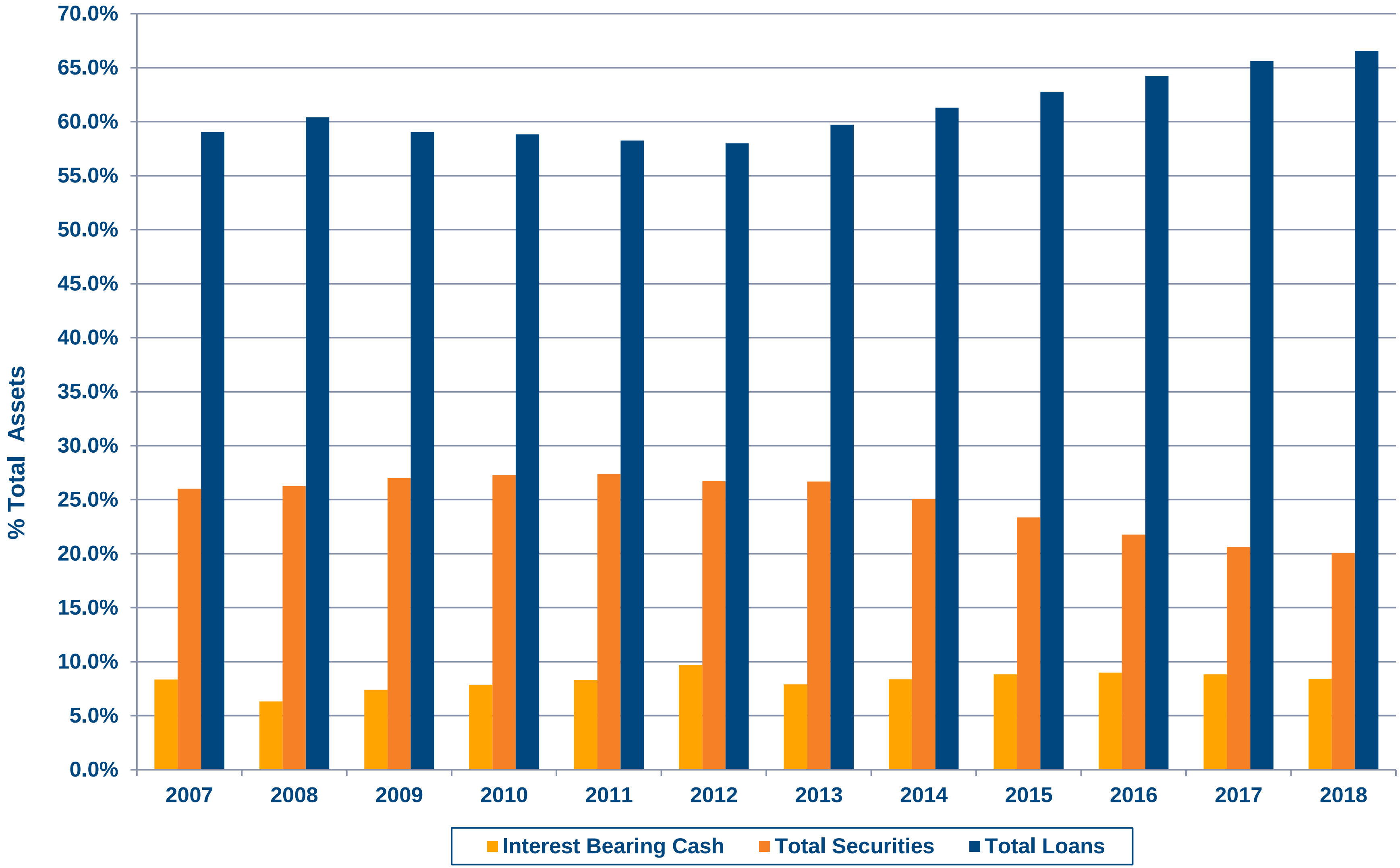
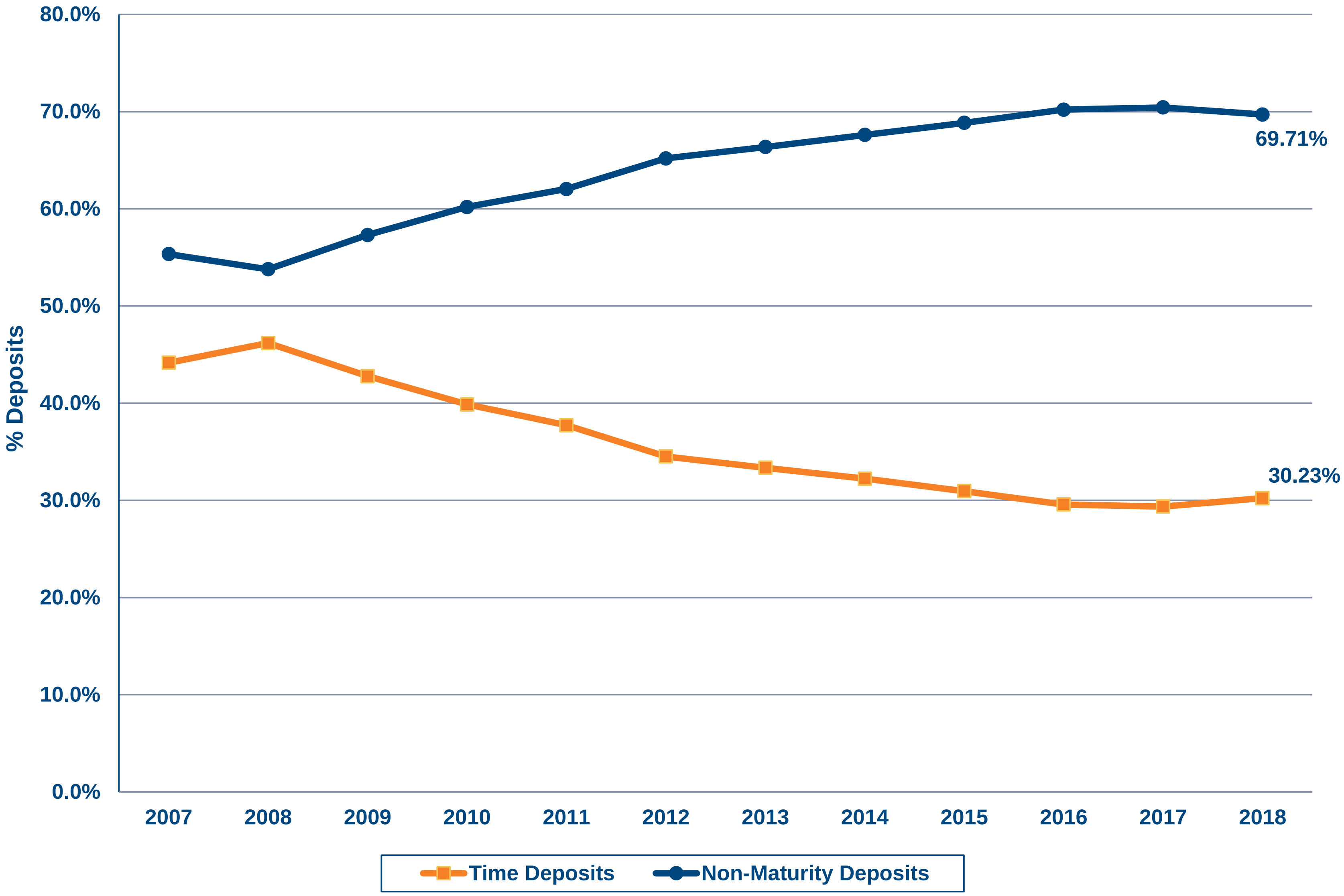
# NY/NJ Bank Earning Asset Composition




Source: SNL

# NY/NJ Bank Funding Composition




*Source: SNL*



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# Loan Betas Lagging Deposit Betas

- Deposit costs at community banks rose at a quicker pace than loan yields in Q2
- According to recent SNL article, community banks have seen their deposits reprice more quickly than loans – many have also reported higher concentrations of CDs in their funding bases
- Fed rate hikes have increased loan yields, but increases haven’t kept up with deposit costs. Trend will likely hold as the marketplace for quality loans is extremely competitive
- Combined with a flatter yield curve, this trend does not have good implications for bank margins in 2019

*Source: SNL; https://www.snl.com/web/client?auth=inherit#news/article?id=46969532&KeyProductLinkType=4*

## Key Takeaways

- NIM improvement has been largely attributable to earning asset composition change
- NIM expansion in rising rates dependent on controlling cost of funds
  - Beta assumptions critical to projected performance

- Monitor Liquidity
  - Tight liquidity could lead to utilization of higher cost funding sources

- Use wholesale balance sheet to minimize IRR exposure and manage liquidity AND improve margins

# The Bond Portfolio in the Current Environment

## Section Overview

- Bond portfolio as a balance sheet lever
- Practical tips for navigating the current market environment
- Key takeaways

## Remember the portfolio is used for more than just earnings - also for liquidity, interest rate risk, and capital management

- It is easy to get wrapped up in the portfolio as solely an earnings driver
- Bond portfolio is the asset side wholesale balance sheet – it is the key lever in repositioning

## Your portfolio mix should complement and balance the rest of the balance sheet

## What determines short and long term investment mix?

- **Composition of loan portfolio**
- **Loan pipeline/liquidity needs**
- **Ability to take on duration**
- **Overall risk profile and balance sheet position**

# Bond portfolio as a balance sheet lever

**Example 1:**

**Loan portfolio: relatively short, strong pipeline, large % of total assets**

**Margin is strong**

↓

**Bond portfolio should serve as a defensive hedge with an emphasis on liquidity**

**Avoid bonds with significant extension or contraction risk**

↓

**Reinvest focus: seasoned, well-structured mortgages**

# Bond portfolio as a balance sheet lever

## Example 2:

**Loan portfolio: weak demand; low % total assets**

**Bond portfolio is KEY driver of earnings/ margin performance**

↓

**Bond portfolio should aim to take advantage of both rising short term rates and lock in higher long rates**

↓

**Reinvest focus: blended exposure – short MBS that can be reinvested at higher rates or floating rate bonds combined with relatively longer yield anchor (think DUS, munis, etc.)**

## Example 3:

**Funding base: Higher cost/ more volatile**

**Loan portfolio: fixed rate (at least over near term)**

↓

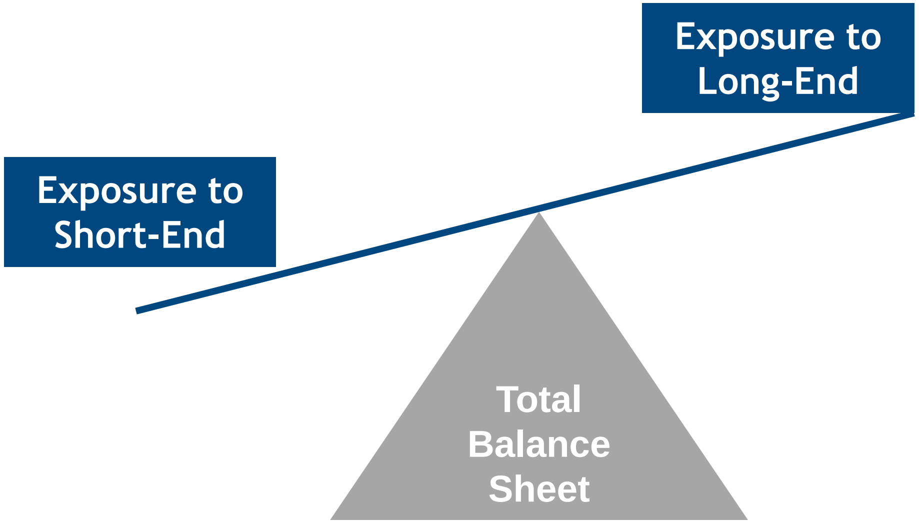
**Need earning assets in the bond portfolio to offset the floating rate exposure of cost funds – especially as the curve inverts**

↓

**Reinvest focus: floating rate and short cash flowing securities**

## Why we like the idea of the barbell:

- With curve inversion likely – don't see value in the belly
- Barbell doesn't have to mean long municipals and floaters – it is a balancing act between short duration cash flow that can take advantage of front-end rates and long-term rates to lock in "high" yields
- More so than just adding duration – add positive convexity – or less negative convexity




**The goal is to use the portfolio to adjust the exposures of the total balance sheet to your optimal position**

# Practical tips for navigating the current market environment

## Avoid market timing:

- Follow what we know we know – reinvest using market knowledge combined with institutional needs/objectives
- This is not the time to take on a trader mentality

## Take a long term perspective – position your portfolio to perform well in all rate environments

- Aim for the portfolio to always meet key objectives regardless of rate environment…because we don't have a crystal ball
- Goal is for strategic balance sheet immunization
- Neutral doesn't mean passive – strategically positioned



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## Seek out call protection and positive convexity where you can find it - especially if it is cheap

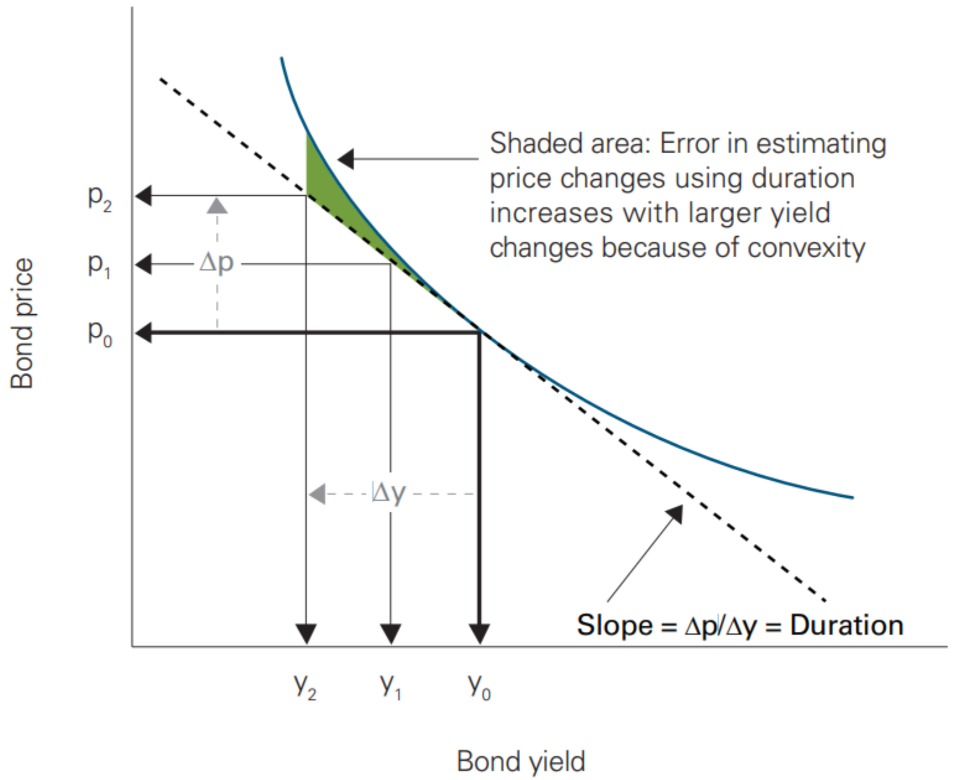
- If you wait to position for inversion/falling rates until after it occurs – it will cost more
- When preparing for falling rates doesn't seem 100% necessary – probably the right time to be doing

## Stability and predictability of cash flows is KEY.

**CASH FLOW =** 

## Importance of Convexity:

- Duration assumes a linear relationship between price and yield changes in bonds
- However, for larger interest rate moves, the relationship between the change in rates and the change in bond prices is asymmetric




*Source: Vanguard*



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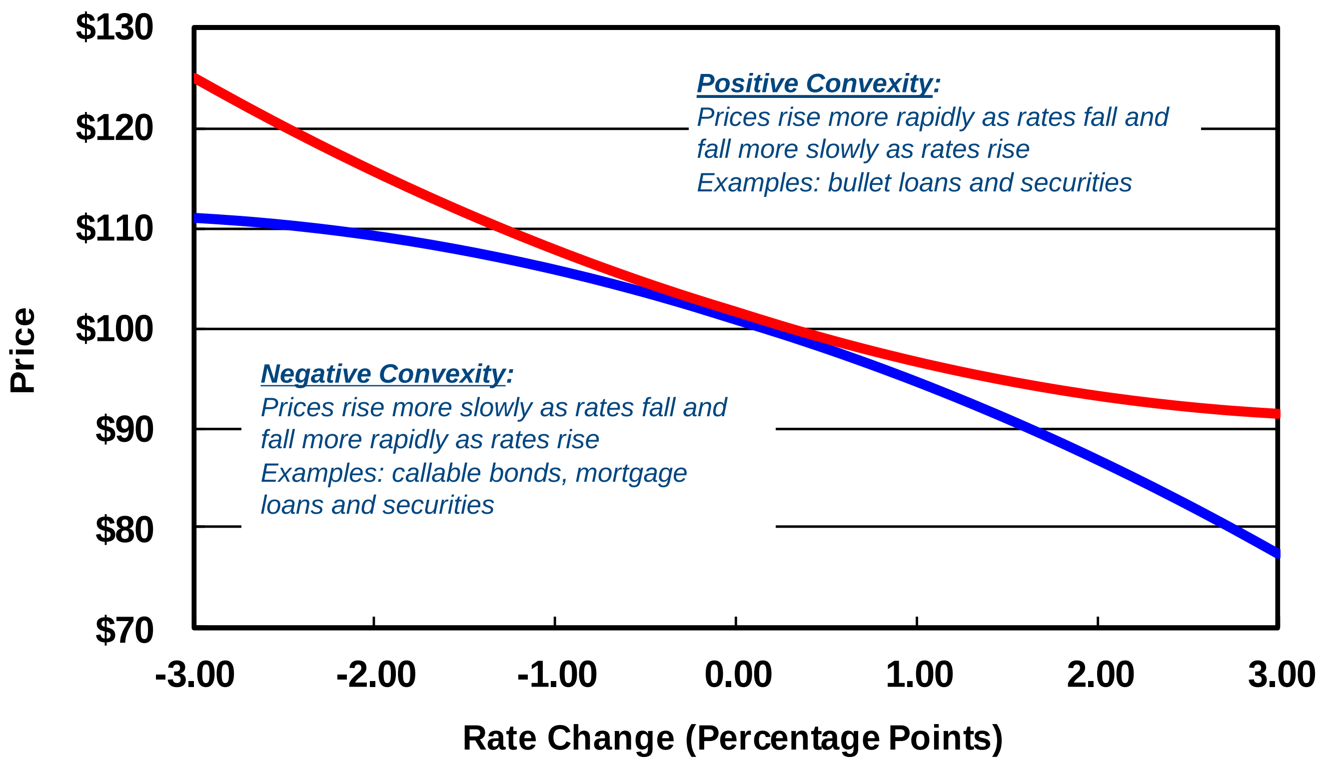
# Practical tips for navigating the current market environment




## Why do we care?

- Lots of depositories have margin/value exposure to falling rates
- When rates fall embedded options on negatively convex loans and bonds shorten their life and diminish value



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## Need positive convexity and don’t want a portfolio that is 100% bullet agencies?

Consider the following options that have less negative convexity/provide more call protection and structure:

- **Agency CMBS** – yield maintenance and other forms of call protection can result in positive convexity
- **Deeply Discounted Callable Agencies** – far out of the money coupons can result in positive convexity
- **Call-Protected Collateral** – loan balance, geography, LTV and third-party origination can result in better convexity
- **Super-Seasoned Collateral** – burnout can result in better convexity
- **VADMs and PACs** – solid structure can result in better convexity
- **Callable Munis** – longer lockouts can result in better convexity

# Key Investment Sectors: Risks, Rewards, and Relative Value

# Key Investment Sectors: SBA Floaters

## SBA Floaters:

**Risks:**
- Existing portfolios generally exposed to faster prepayment speeds and a slower Fed
- Falling rates

**Rewards:**
- A faster than expected Fed generally good for current and new holders
- Faster prepayment speeds returns cash flow when other sectors are extending
- 0% risk weighted/100% government guaranteed
- Uncapped

**Relative Value:**
- Largely focus on new issue discounted pools
- Mix in alpha pools when available
- This sector offers the best relative value on the short-end

# Key Investment Sectors: SBA Floaters

## Strategy SBA Floaters

- Focus on new issue, discounted pools
- Add alpha pools when available

| Description | CUSIP | Orig. Face | Par Value | Coupon | Maturity | BkYld TEY (%) | Book Price | Book Value | WAL | Mod Dur | Settle Date | Mtg Speed | Bps per Point |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SBA510238 | 83164MLT4 | 1,000,000 | 995,069 | 2.700 | 5/25/2043 | 2.790 | 99.250 | 987,606 | 5.29 | 0.27 | 10/25/2018 | 14 CPR | |
| SBA521845 | 83165AHW7 | 2,200,000 | 488,093 | 5.539 | 1/25/2024 | 3.307 | 103.500 | 505,176 | 2.02 | 0.33 | 10/25/2018 | 20 CPR | 15 |
| SBA522136 | 83165ASZ8 | 250,000 | 125,449 | 5.988 | 5/25/2027 | 3.457 | 105.625 | 132,505 | 2.75 | 0.35 | 10/25/2018 | 20 CPR | 12 |
| SBA509490 | 83164LRK9 | 1,057,058 | 278,787 | 6.075 | 12/25/2021 | 3.215 | 103.000 | 287,151 | 1.40 | 0.32 | 10/25/2018 | 20 CPR | 14 |
| SBA522173 | 83165AT61 | 1,000,000 | 390,420 | 6.509 | 10/25/2023 | 3.533 | 104.625 | 408,477 | 1.96 | 0.33 | 10/25/2018 | 20 CPR | 16 |
| **Total Purchases** | | **5,507,058** | **2,277,817** | **4.555** | **5/24/2032** | **3.124** | **101.892** | **2,320,915** | **3.36** | **0.30** | | | |

Current 3yr Fixed Offering Yields:

- Treasury: 2.97%
- Agency: 2.97%
- 10yr MBS: 3.17%
- 3yr CMO: 3.48%

Source: STRH Strategies



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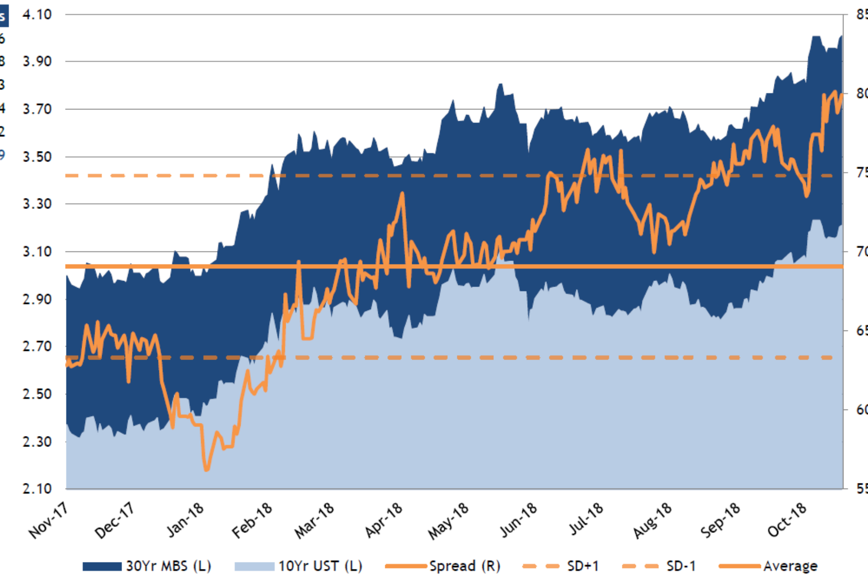
# Key Investment Sector: Mortgages

## Spreads

30-year spreads are at their twelve month wides due to the end of quantitative easing and extension in the mortgage space.  Spreads aren't as wide in shorter-term mortgages given the preference for short duration.

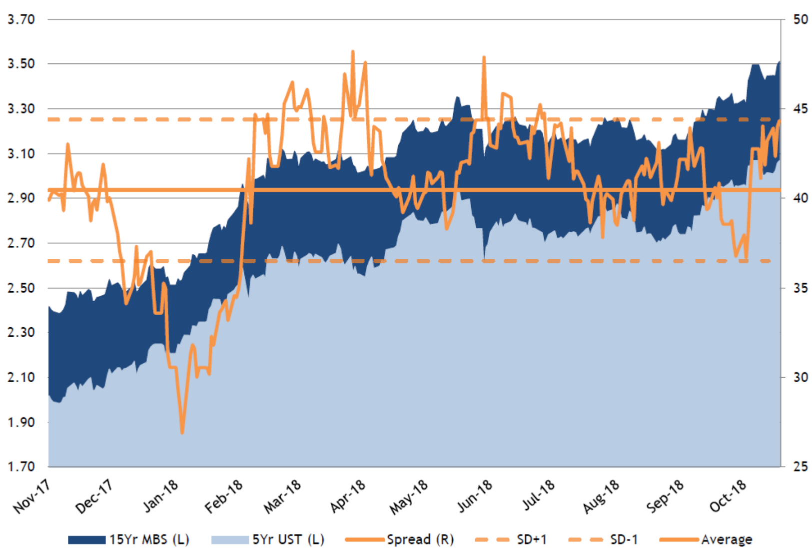
| Statistic | Bps |
|---|---|
| 12M Avg. | 69.06 |
| Min | 60.58 |
| Max | 80.13 |
| St. Dev | 5.74 |
| Recent | 79.92 |
| StDev Away | 1.89 |

### 30-Year FNMA MBS




### 15-Year FNMA MBS

| Statistic | Bps |
|---|---|
| 12M Avg. | 40.46 |
| Min | 31.79 |
| Max | 48.20 |
| St. Dev | 3.95 |
| Recent | 44.35 |
| StDev Away | 0.99 |




*Source: Bloomberg*

# Key Investment Sector: Mortgages

## Risks, Rewards, and Relative Value

**Risks:**

- Spread risk in 30yr MBS as the Fed ends mortgage buying
- Negative convexity/risk to falling rates

**Rewards:**

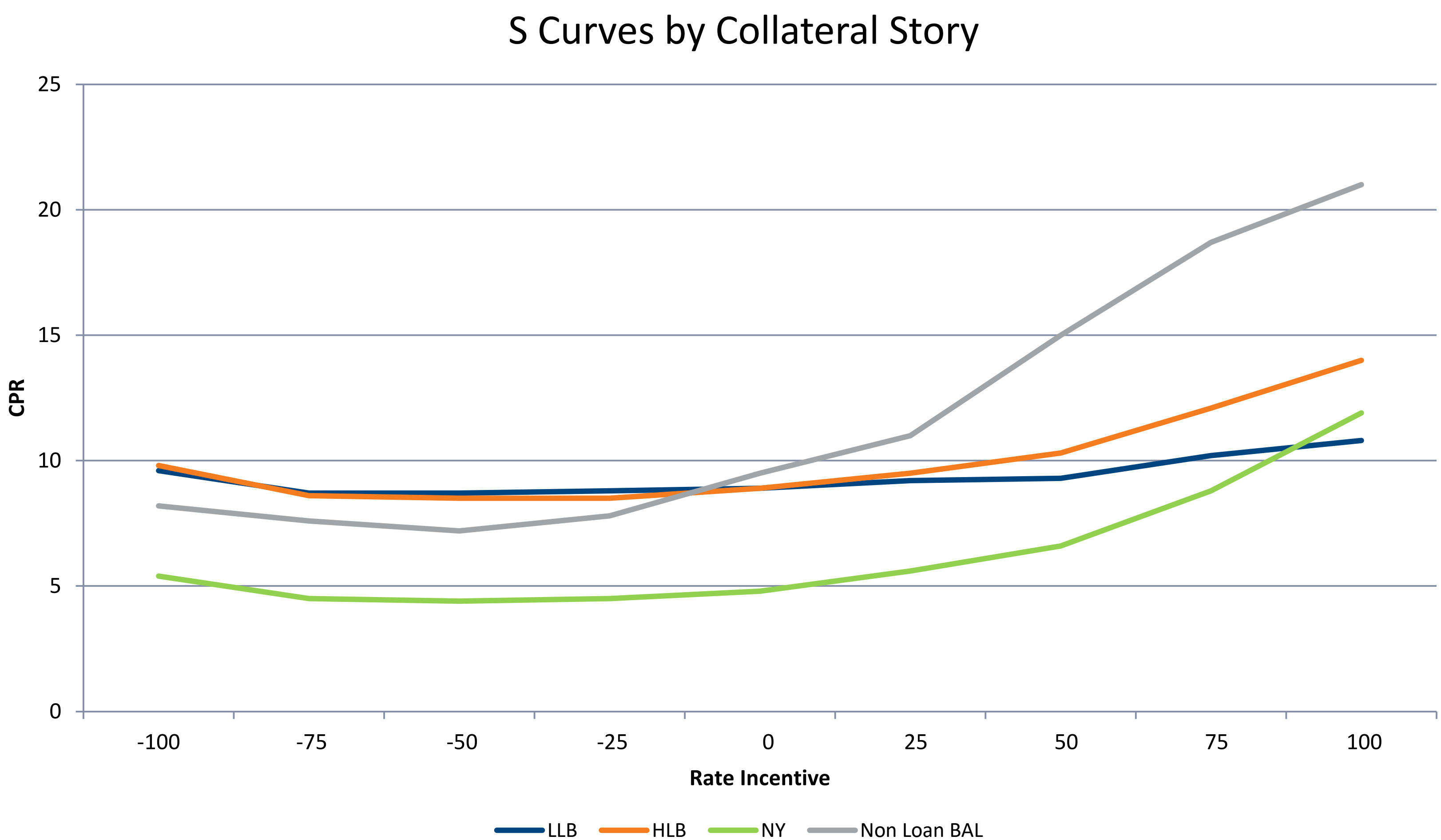
- Mortgage market remains a robust liquidity option
- Monthly cash flows provide liquidity and the ability to reinvest at higher rates
- Cheap source of call protection

**Relative Value:**

- CMOs – provide spread pick up over traditional MBS
- Specifically I like “story bonds”: loan balance, 100% NY, high LTV, etc. Provide call protection, structure, relatively less negative convexity

# Mortgages

## Call Protected Stories




*Source: CPR/CDR, 30yr FNMA Collateral*



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# Mortgages

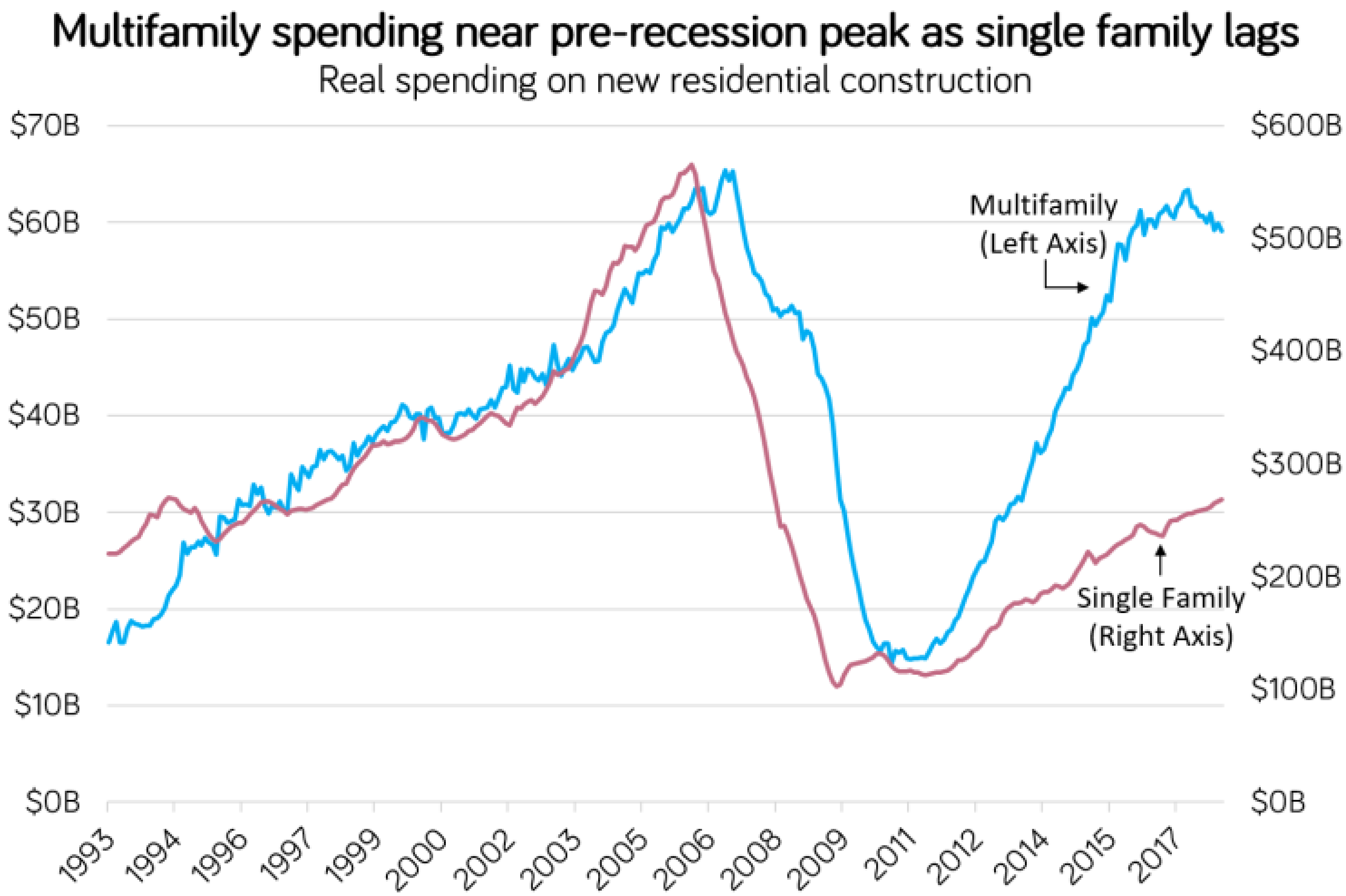
## Call Protected Stories: MPAY screen

Latest — TBA Price Source: CBBT

Historical BVAL: 10/19/2018 NY 4PM

| TBA Bid Price (CBBT) | 30Yr 3 | 30Yr 3.5 | 30Yr 4 | 30Yr 4.5 |
|---|---|---|---|---|
| FNMA TBA | 94-17 | 97-09+ | 99-30 | 102-09 |
| FGLMC TBA | 94-17 | 97-10 | 99-30+ | 102-10 |
| BVAL Non Standard Payups | | | | |
| Low Loan Balance (85K) | 0-16 | 0-18+ | 0-25+ | 1-17+ |
| Medium Loan Balance (110K) | 0-10+ | 0-14+ | 0-23 | 1-10 |
| High Loan Balance (150K) | 0-08 | 0-09+ | 0-19+ | 1-03 |
| Super High Loan Balance (175K) | 0-07 | 0-06+ | 0-14+ | 0-25+ |
| 100% New York | 0-01 | 0-01+ | 0-11+ | 1-01 |
| MHA LTV 80-90% | 0-01 | 0-00 | 0-03 | 0-03 |
| MHA LTV 90-95% | 0-00 | 0-01 | 0-02 | 0-07+ |
| MHA LTV 95-100% | 0-01 | 0-00+ | 0-05 | 0-13+ |
| MHA LTV 100-105% | 0-03+ | 0-01 | 0-13 | 0-22 |

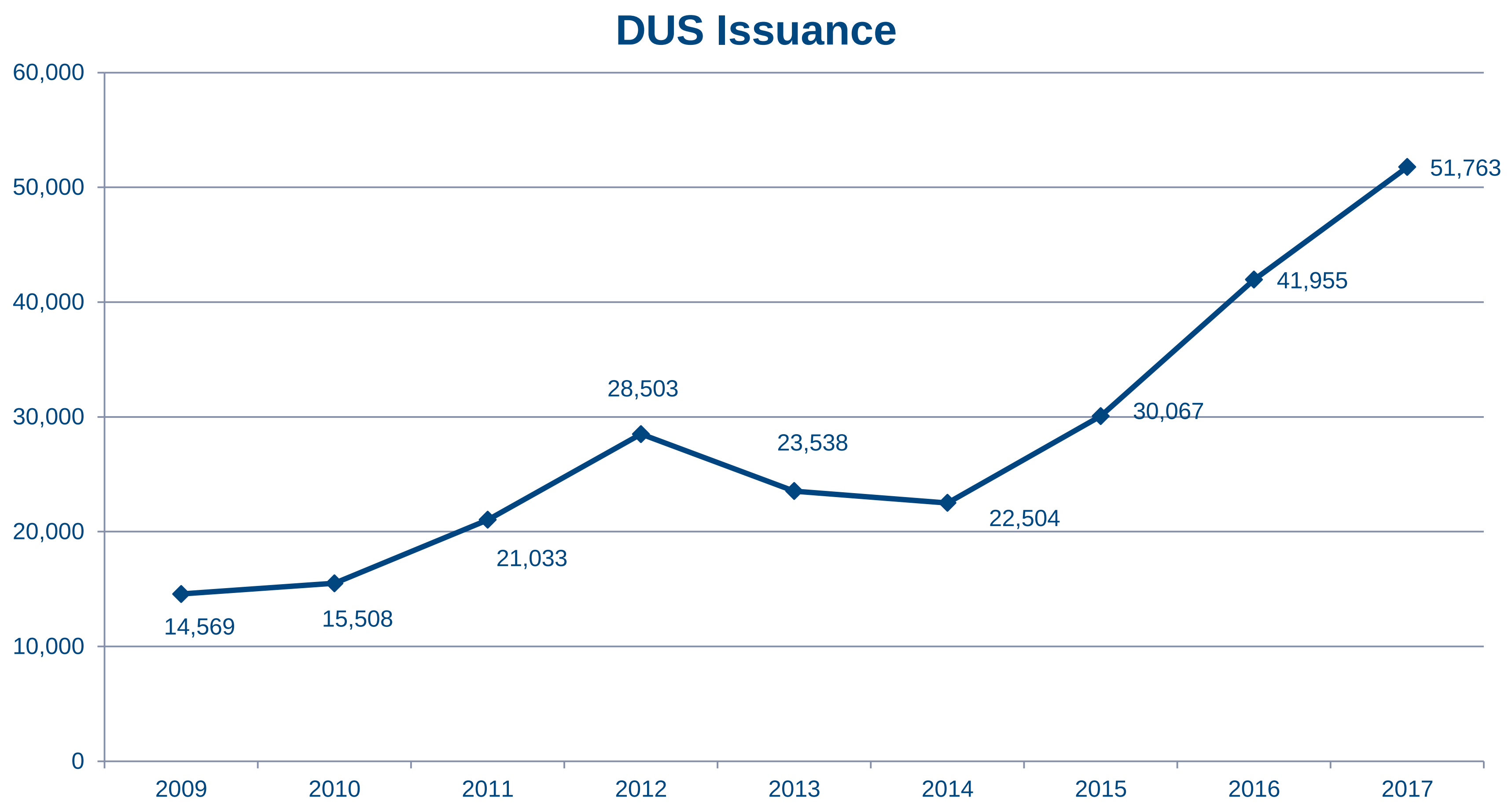
*Source: Bloomberg*




- Millennials are now the largest generation in labor force
- Millennials are more likely to rent multifamily house than older generations

*Source: U.S. Census Bureau; BLS; Pew Research Center*

## FNMA DUS Issuance




*Source: FNMA*

## Key Investment Sectors: CMBS

### Multi-Family

**Risks:**
- Potential overheating in the sector
- Delinquencies moving modestly higher

**Rewards:**
- Outstanding source of call protection and structure
- Positive convexity/potential for price appreciation to falling rates

**Relative Value:**
- General value versus bullet agencies
- Spreads tight on short-end; can find more value further out the curve
- Better spread in wider yield maintenance end dates to maturity

### DUS Strategy

| Description | CUSIP | Orig. Face | Par Value | Coupon | Maturity | BkYld TEY (%) | Book Price | Book Value | WAL | Eff Dur | Eff Conv | Price Vol +300 | Settle Date | Mtg Speed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| DUS 4.5yr/5yr | 3138L42J1 | 1,000,000 | 914,016 | 3.460 | 9/1/2023 | 3.305 | 100.751 | 920,878 | 4.65 | 4.22 | 0.215 | -11.74% | 10/25/2018 | 0 CPY |
| DUS 5yr/7yr | 31377U4M2 | 1,000,000 | 1,000,000 | 3.480 | 9/1/2025 | 3.611 | 99.452 | 994,518 | 6.79 | 5.94 | 0.411 | -16.07% | 10/25/2018 | 0 CPY |
| DUS 7yr/10yr | 31377U6R9 | 1,000,000 | 1,000,000 | 3.630 | 8/1/2028 | 3.907 | 98.212 | 982,124 | 9.64 | 7.96 | 0.750 | -20.79% | 10/25/2018 | 0 CPY |
| **Total Purchases** | | **3,000,000** | **2,914,016** | **3.525** | **1/15/2026** | **3.614** | **99.434** | **2,897,520** | **7.07** | **6.08** | **0.46** | **-16.29%** | **10/25/2018** | |



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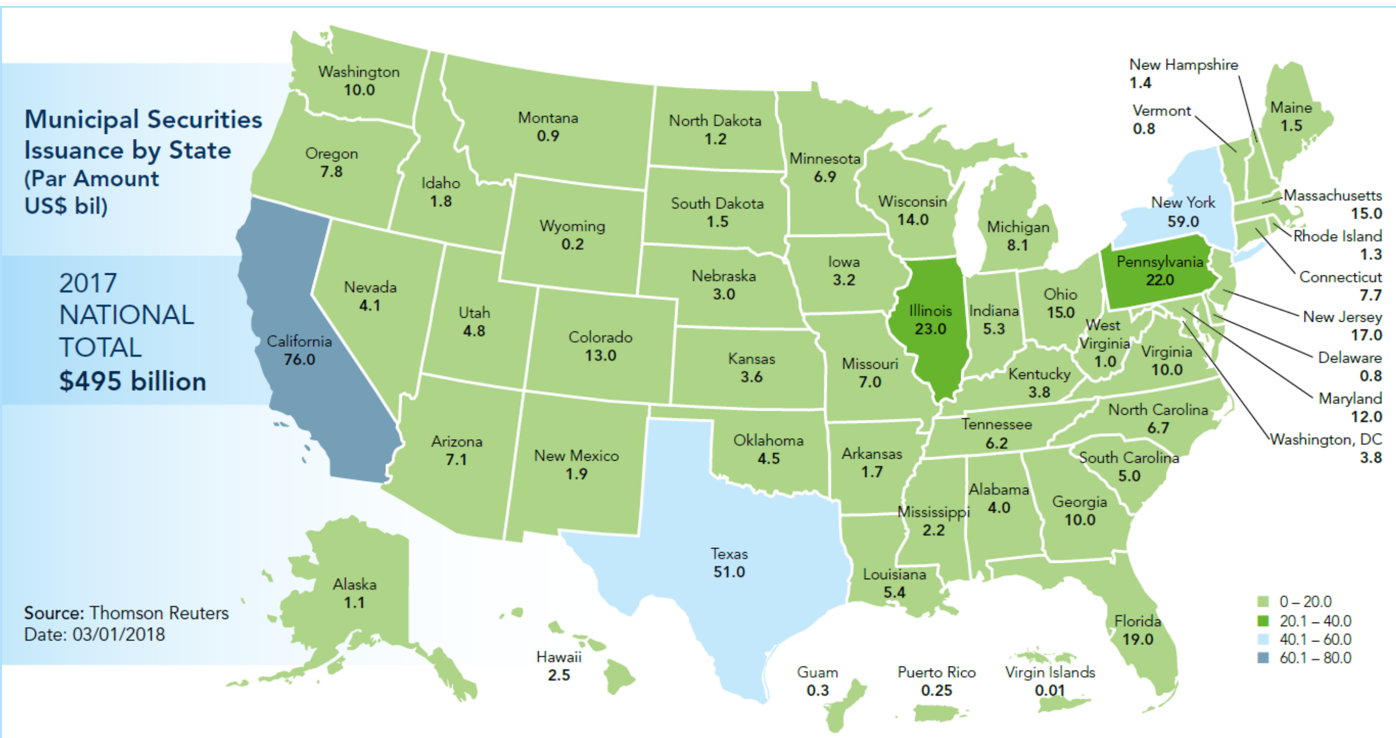
# Key Investment Sectors: Municipals

## Municipal Market

- Market Size: $3.9 trillion
- Approximately 1 million outstanding municipal securities
- $11bn average in par trade daily
- Default rate of 0.18% for IG munis vs.1.74% for corporate bonds
- Individuals make up ~42.5% of market, while banks comprise ~15.5%




*Source: emma.msrb.org*

# Key Investment Sectors: Municipals

## Pension Funding Ratios

Table I: State Ranking by Pension Funding Ratio

| First Quartile | | | Second Quartile | | | Third Quartile | | | Fourth Quartile | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Rank | State | Funding Ratio | Rank | State | Funding Ratio | Rank | State | Funding Ratio | Rank | State | Funding Ratio |
| 1 | SD | 100.08 | 13 | ME | 81.93 | 26 | AL | 70.85 | 39 | NM | 62.52 |
| 2 | WI | 99.98 | 14 | WV | 79.23 | 27 | MD | 68.56 | 40 | MS | 61.08 |
| 3 | TN | 96.23 | 15 | GA | 79.23 | 28 | KS | 67.12 | 41 | MA | 59.94 |
| 4 | NY | 94.51 | 16 | FL | 79.06 | 29 | AK | 66.62 | 42 | PA | 55.32 |
| 5 | ID | 91.27 | 17 | OH | 78.47 | 30 | CA | 66.53 | 43 | HI | 54.80 |
| 6 | NC | 90.67 | 18 | OK | 77.92 | 31 | LA | 65.56 | 44 | RI | 54.59 |
| 7 | UT | 90.31 | 19 | MO | 77.86 | 32 | MI | 65.14 | 45 | SC | 54.25 |
| 8 | NE | 90.18 | 20 | VA | 77.22 | 33 | IN | 65.04 | 46 | CO | 47.13 |
| 9 | WA | 89.60 | 21 | AR | 76.29 | 34 | VT | 64.26 | 47 | CT | 43.85 |
| 10 | OR | 83.12 | 22 | TX | 76.06 | 35 | ND | 63.78 | 48 | IL | 38.42 |
| 11 | DE | 82.80 | 23 | WY | 75.91 | 36 | MN | 63.34 | 49 | NJ | 35.79 |
| 12 | IA | 82.13 | 24 | NV | 74.45 | 37 | AZ | 62.73 | 50 | KY | 33.87 |
| | | | 25 | MT | 72.86 | 38 | NH | 62.58 | | | |

*Sources: Bloomberg, CAFRs and S&P as of FY2017*

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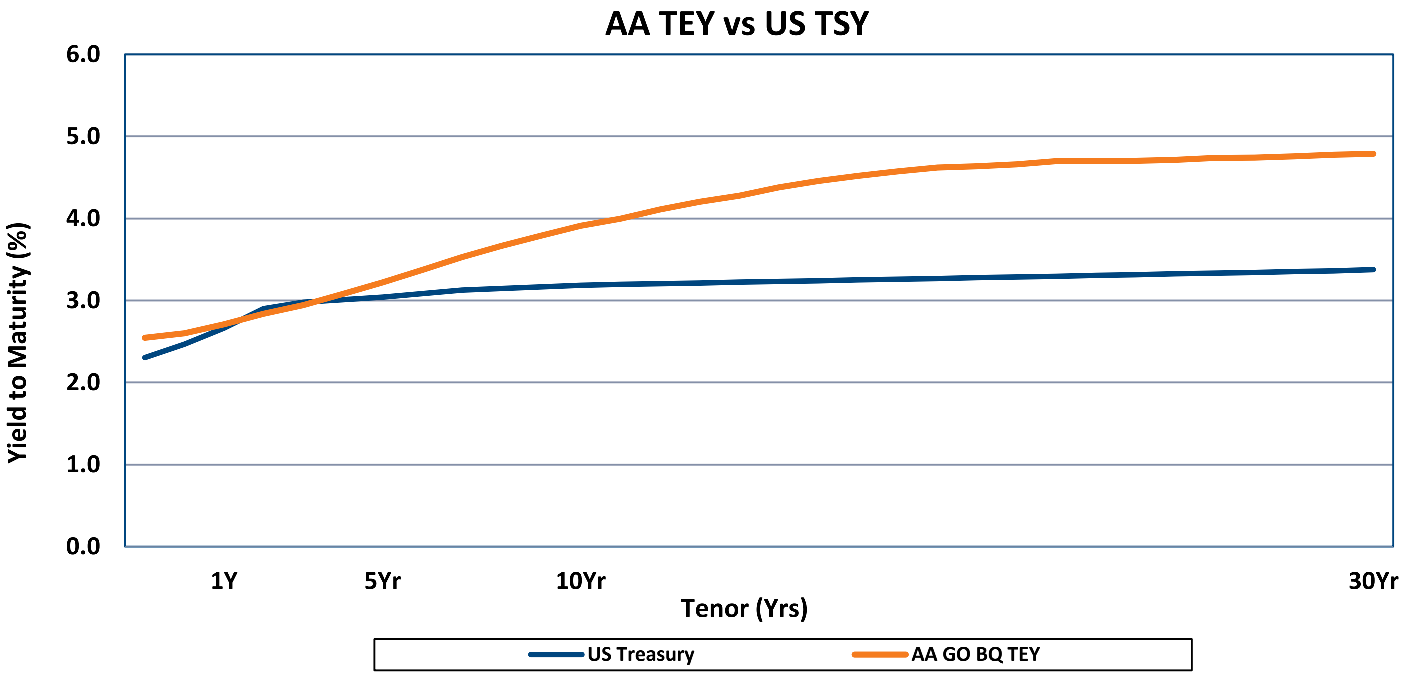
# Key Investment Sectors: Municipals




| US Treasury | | |
|---|---|---|
| US Treasury | Rate | Spread |
| 2 Year | 2.90% | |
| 10 Year | 3.19% | 0.29% |
| 30 Year | 3.38% | 0.19% |

| AA GO BQ TEY | | |
|---|---|---|
| GO AA BQ Muni | Rate | Spread |
| 2 Year | 2.84% | |
| 10 Year | 3.91% | 1.07% |
| 30 Year | 4.79% | 0.88% |

*Source: Bloomberg*

# Key Investment Sectors: Municipals

## Risks, Rewards, and Relative Value

**Risks:**
- Uptick in defaults should a recession occur
- Unintended consequences of policy

**Rewards:**
- Terrific credit performance versus corporates
- Remains a cheap source of call protection
- Muni curve is relatively steep to Treasuries

**Relative Value:**
- Need to go further out the curve to find value
- BQs outperform GM as cost of funds increases due to TEFRA disallowance



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## Focus on having a plan for redeployment of cash flow:

- What is your market outlook?
- How do you expect the balance sheet to change?
- What is a one key goal or objective for your bond portfolio?

| CURRENT PORTFOLIO | | | | | | | ROLL-OFF | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sector | Yield | Eff Dur | Eff Conv | Px Vol +300 | Value | Mix | Yield | Eff Dur | Eff Conv | Px Vol +300 | Value | Mix |
| MBS Fixed | 2.31 | 4.08 | -0.69 | -13.28% | 624,033,348 | 87.70% | 2.26 | 3.96 | -0.59 | -12.75% | 83,981,409 | 96.82% |
| Fixed CMO | 0.00 | 0.00 | 0.00 | 0.00% | 0 | 0.00% | 0.00 | 0.00 | 0.00 | 0.00% | 0 | 0.00% |
| CMBS | 0.00 | 0.00 | 0.00 | 0.00% | 0 | 0.00% | 0.00 | 0.00 | 0.00 | 0.00% | 0 | 0.00% |
| SBA Floaters | 0.00 | 0.00 | 0.00 | 0.00% | 0 | 0.00% | 0.00 | 0.00 | 0.00 | 0.00% | 0 | 0.00% |
| Taxfree Muni | 3.20 | 4.96 | -0.66 | -13.87% | 87,489,100 | 12.30% | 3.19 | 0.85 | -0.41 | -3.35% | 2,755,000 | 3.18% |
| Portfolio | 2.42 | 4.19 | -0.69 | -13.35% | 711,522,448 | 100.00% | 2.29 | 3.86 | -0.58 | -12.45% | 86,736,409 | 100.00% |

| REINVESTMENT | | | | | | | ENDING PORTFOLIO | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sector | Yield | Eff Dur | Eff Conv | Px Vol +300 | Value | Mix | Yield | Eff Dur | Eff Conv | Px Vol +300 | Value | Mix |
| MBS Fixed | 3.06 | 3.29 | 0.04 | -9.50% | 3,736,409 | 4.31% | 2.32 | 4.10 | -0.70 | -13.34% | 543,788,348 | 76.43% |
| Fixed CMO | 3.69 | 3.56 | -1.50 | -14.37% | 10,000,000 | 11.53% | 3.69 | 3.56 | -1.50 | -14.37% | 10,000,000 | 1.41% |
| CMBS | 3.61 | 6.05 | 0.46 | -16.29% | 17,666,667 | 20.37% | 3.61 | 6.05 | 0.46 | -16.29% | 17,666,667 | 2.48% |
| SBA Floaters | 3.12 | 0.30 | 0.00 | -1.00% | 27,666,667 | 31.90% | 3.12 | 0.30 | 0.00 | -1.00% | 27,666,667 | 3.89% |
| Taxfree Muni | 3.77 | 9.99 | 0.22 | -15.61% | 27,666,666 | 31.90% | 3.34 | 6.30 | -0.45 | -14.55% | 112,400,766 | 15.80% |
| Portfolio | 3.49 | 5.07 | -0.01 | -10.68% | 86,736,409 | 100.00% | 2.56 | 4.34 | -0.62 | -13.14% | 711,522,448 | 100.00% |



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## Key Takeaways

- No one knows where we are going – but based on history – curve is likely to invert and lower rates likely to follow
- Current balance sheet trends suggest potential for margin contraction as loan betas lag deposit betas
- Bond portfolio is a tool for managing parts of balance sheet out of our control
- Have a plan for strategically deploying $$ in the bond portfolio
- Avoid market timing – goal is for the portfolio to perform and meet goals regardless of rate environment
- Given uncertainty of market environment, we believe that convexity, stability, and cash flow – key to a well managed portfolio