

# Economic & Investment Insights that Could Impact Your Cooperative in 2020

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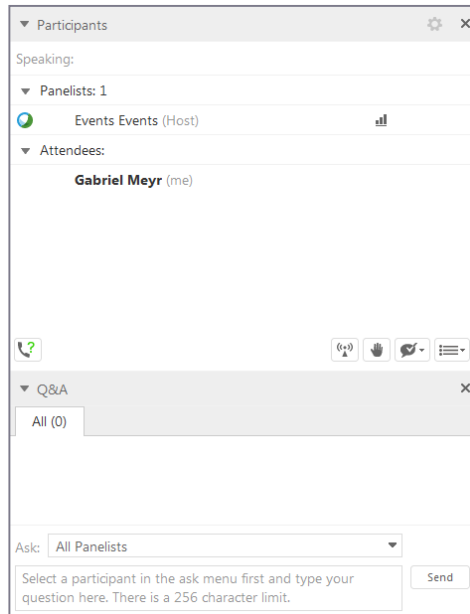
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# Agenda

- TCU Background
- ALM First Market Update
- Credit Union Investment Trends
- TCU Portfolios Progress Report

# About Trust for Credit Unions

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- Institutional investment options, **created specifically for credit unions**
- **ALM First** serves as *investment advisor*
- **Callahan Financial Services** serves as *distributor*
- Hundreds of credit union investors in our **30+ year history**

## **TRUST FOR CREDIT UNIONS**

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It's our mission to support credit union investment strategies through a professionally managed family of mutual funds that respond to the needs of the credit union industry.

Our mutual fund options keep credit unions always invested, are professionally managed, and are delivered with great client service and the cooperative values of credit unions always in mind.

Since 1987, TCU has helped credit unions invest excess member deposits, focusing on adding maximum value through collaboration.

We value what you value. Our core values, which have been derived from long-standing client relationships, say it all:

- Partnership and Collaboration
- Knowledge and Resource Management
- Access to Information
- Loyal Partners
- Strategic Resource



# ALM First Market Update

**Jason Haley**  
*Chief Investment Officer*  
*ALM First*

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# Agenda

- Economic update & current market themes
- TCU portfolios performance update



# Economic Update

- Financial markets remain narrowly focused on US/China trade negotiations
  - Risk tone was improved in November on anticipation of a phase-one agreement
  - Confidence dissipated last week when President Trump suggested he is willing to wait until after the 2020 elections
  - Bloomberg reported the next day that both sides were closer than many thought to inking a deal
- The Fed effectively put interest rate policy on hold at the 10/30 meeting
  - Powell said monetary policy is “in a good place” and is “likely to remain appropriate”
  - A change in policy would require a “material reassessment of our outlook”

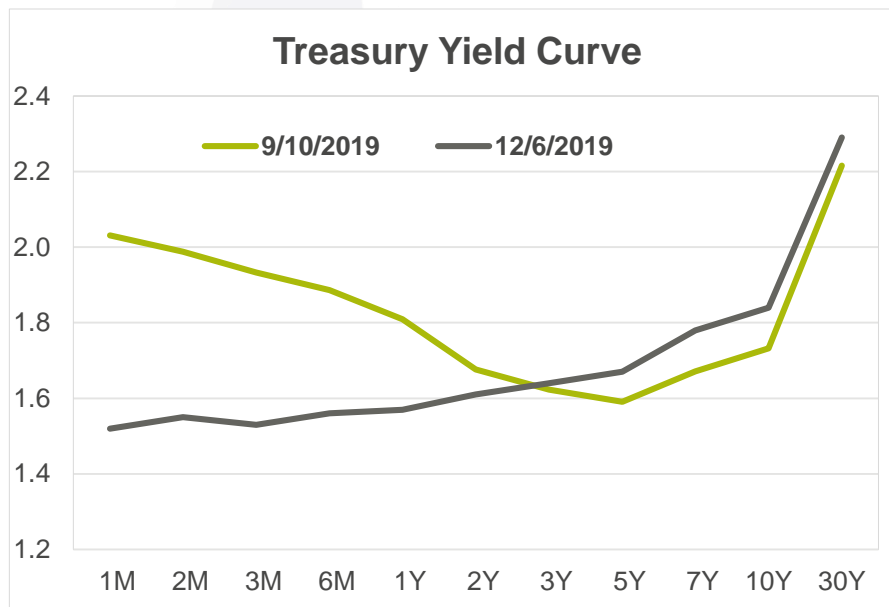
## Economic Update (cont...)

- Domestic data trend has been surprisingly resilient
- Nov. & Oct. jobs reports better than expected
  - Nov. payrolls added 266,000 jobs (180,000 expected)
  - Prior two months revised higher by 41,000 jobs
- Q3 GDP growth better than expected at 2.1%
  - Strong personal consumption despite heightened trade uncertainty & financial market volatility
  - Consumption did not come at the expense of savings or from increased leverage
- Fed unlikely to feel any urgency to hike funds rate until there's evidence that strong labor market is fueling price growth

# Current Market Themes

- The yield curve steepened over the last three months with the Fed expected to be on hold for the near future
  - Implied rate volatility has rose to 3.5yr highs in Aug. but is now back to July levels
- Fixed income spread sectors performed well in Nov. on reduced rate volatility and improved risk sentiment
  - MBS spreads 5-10 bps tighter on the month

	12/6/2019	9/10/2019	Change
Tenor	(%)	(%)	(bps)
1-Month	1.52	2.03	-0.51
3-Month	1.53	1.93	-0.40
6-Month	1.56	1.89	-0.33
1-Year	1.57	1.81	-0.24
2-Year	1.61	1.68	-0.07
5-Year	1.67	1.59	0.08
10-Year	1.84	1.73	0.11
30-Year	2.29	2.22	0.07
<b>Curves</b>			
3mo-10yr	0.31	-0.20	0.51
2yr-5yr	0.06	-0.09	0.15
2yr-10yr	0.23	0.06	0.17
2yr-30yr	0.68	0.54	0.14
5yr-10yr	0.17	0.14	0.03



# Credit Union Investment Trends

**Sam Taft**

AVP, Analytics & Business Development  
Trust for Credit Unions

# 3Q19 Credit Union Performance Recap

- Third quarter mortgage originations fuel lending activity despite auto slowing
- Certificates drive positive share growth
- Margins increase in lockstep
- Strong ROA and Net Worth allow for future growth and investment

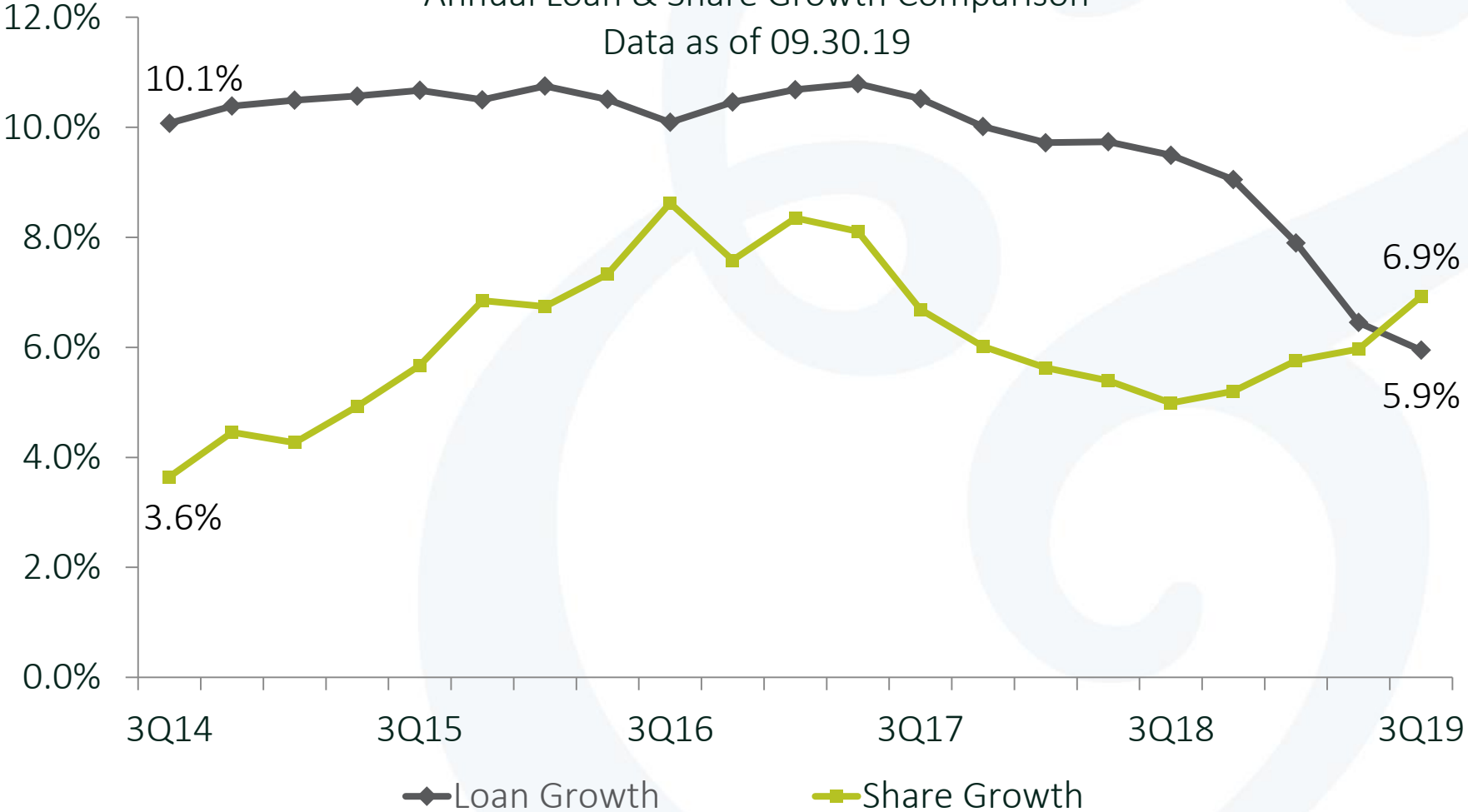
# Strong trends in an uncertain environment

	As of 09/30/2019	12-mo. Growth 3Q19	12-mo. Growth 3Q18
Assets	\$1,556.5B	6.8%	5.6%
Loans	\$1,099.1B	5.9%	9.5%
Shares	\$1,307.7B	6.9%	5.0%
Investments	\$381.5B	8.2%	-5.4%
Capital	\$185.4B	11.5%	6.4%
Members	120.9M	3.6%	4.4%



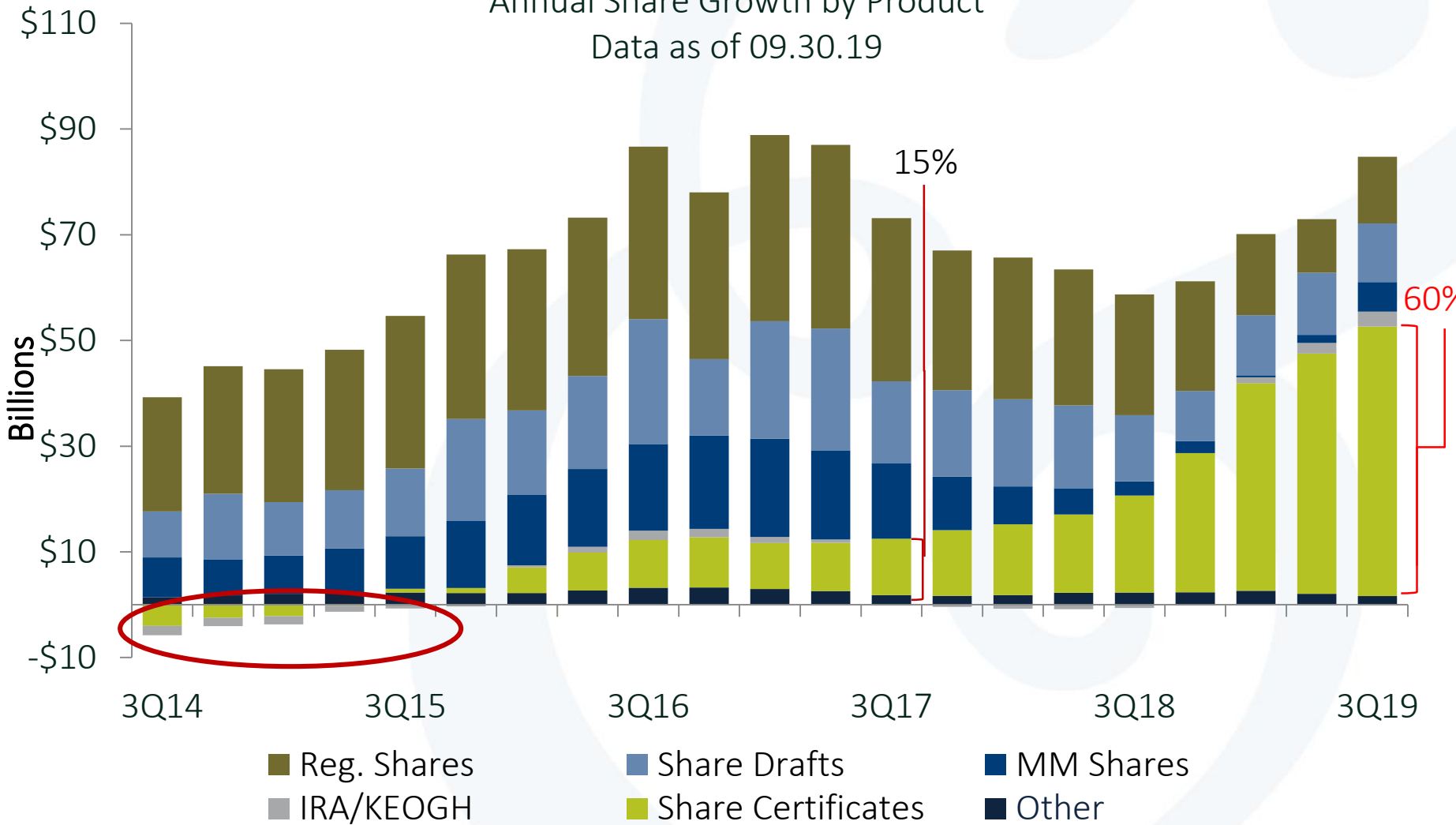
# Industry loan growth has been slowing since 2Q17

Annual Loan & Share Growth Comparison  
Data as of 09.30.19



# Certificate inflows account for 60% of total share growth

Annual Share Growth by Product  
Data as of 09.30.19



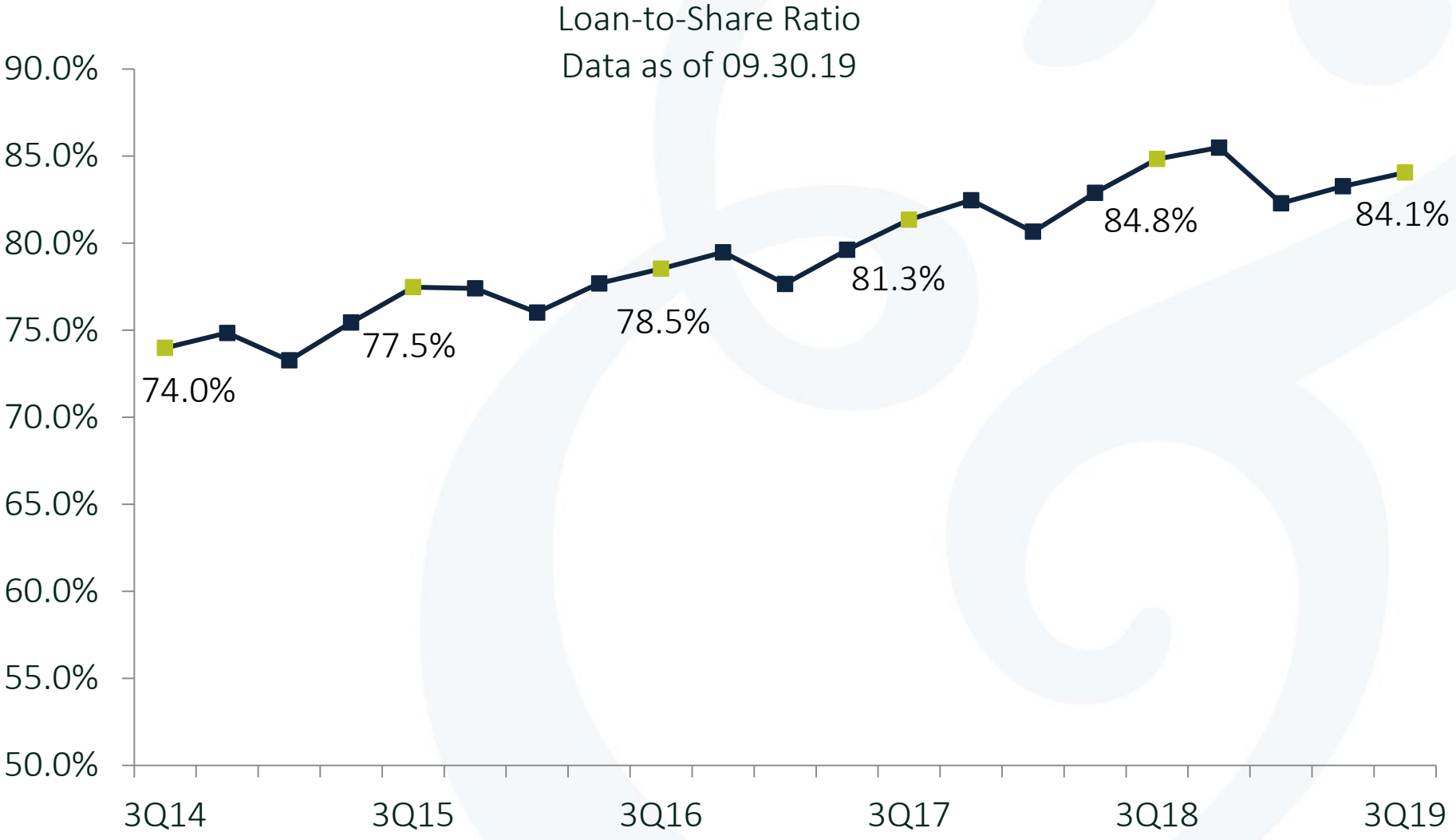
# Drives YTD net liquidity position positive for first time since 1Q17

Net Liquidity Change  
Data as of 09.30.19

\* Net liquidity from shares  
= \$ share growth - \$ loan growth

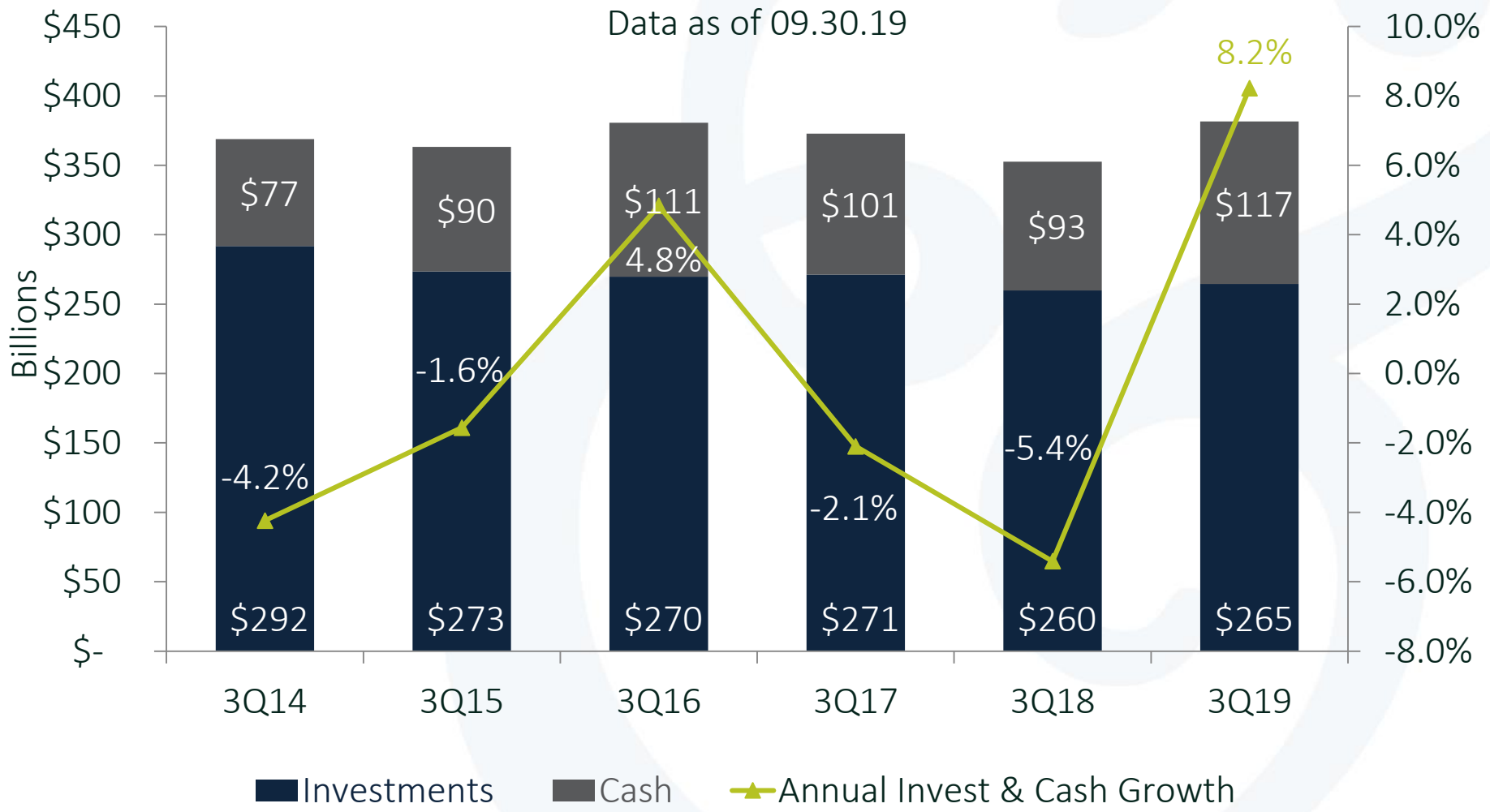


# Loan-to-share ratio eases year-over-year

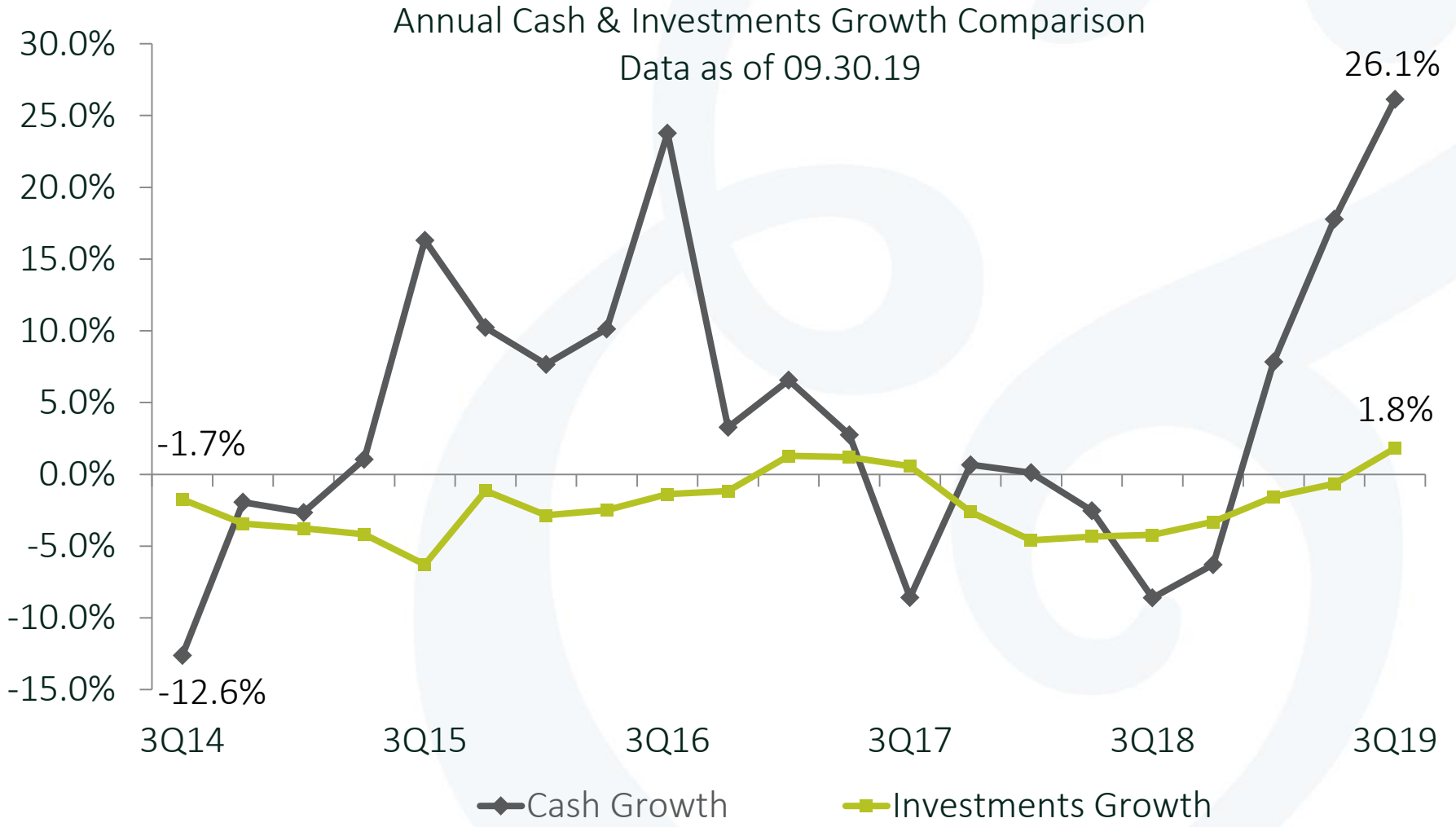


# Shift to cash pushes portfolios up 8.2% year-over-year

Total Investments & Cash and Annual Growth  
Data as of 09.30.19

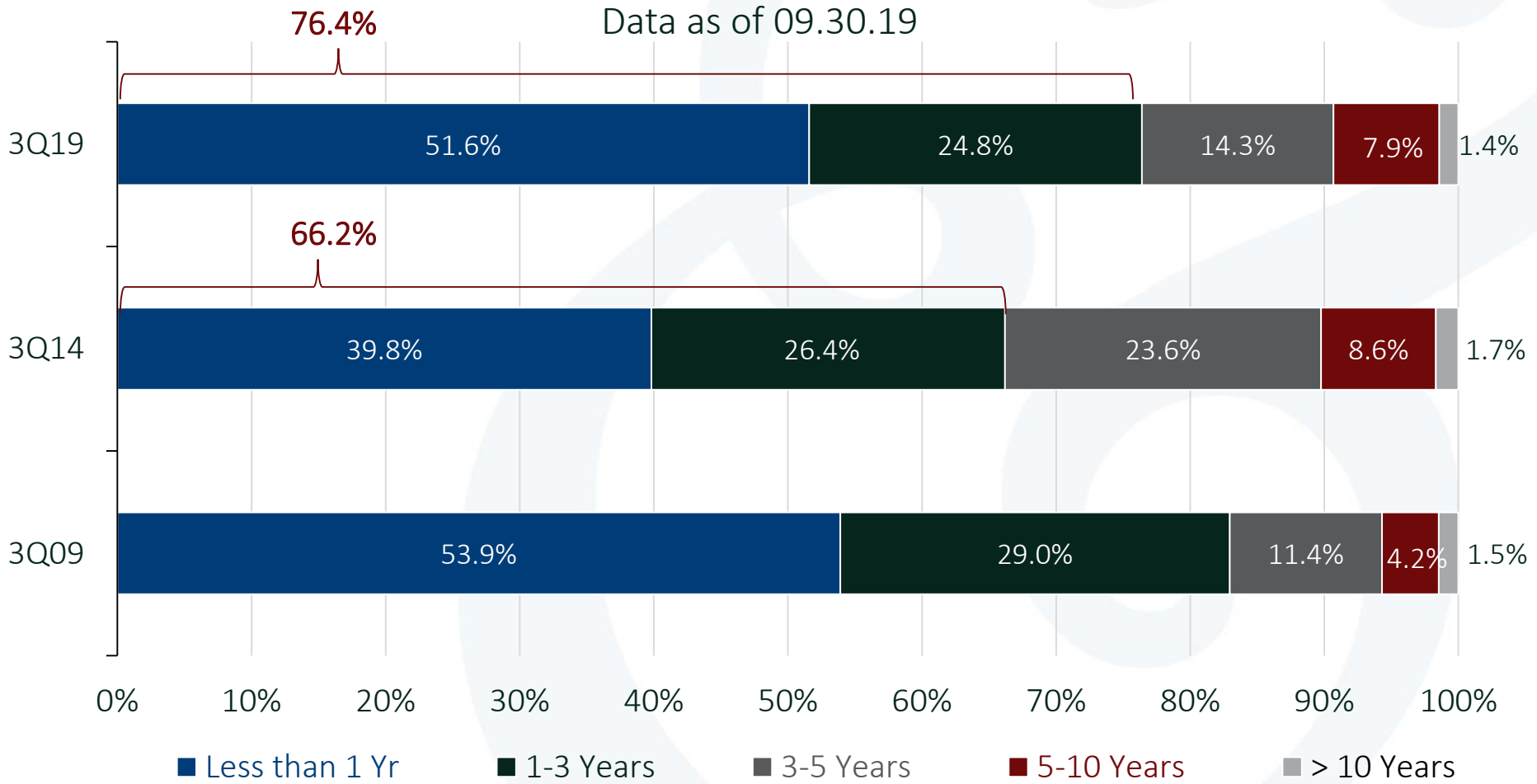


# Cash holdings rise 26.1% to hit \$117B in 3Q19, the highest 3Q balance on record



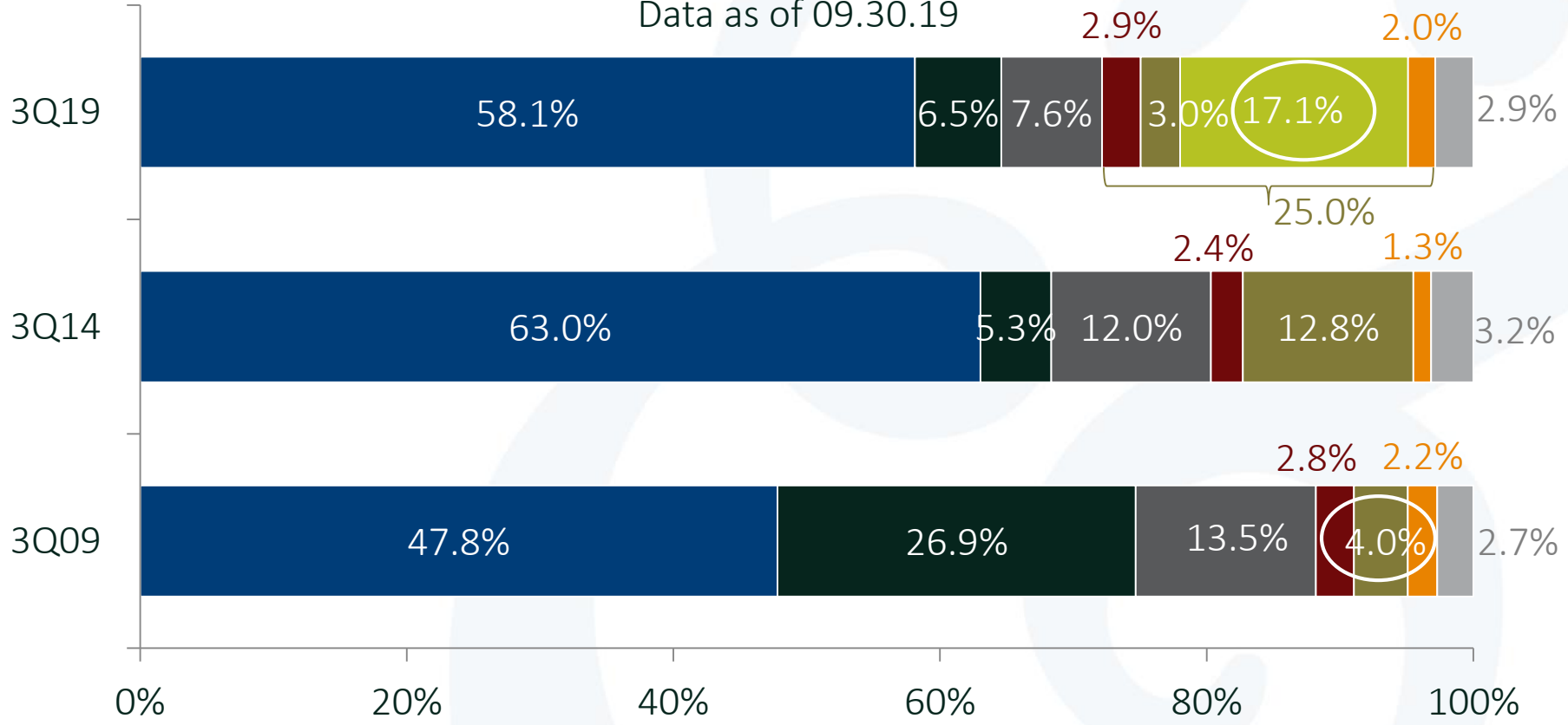
# Investments increasingly allocated to shorter maturity products; weighted average life falls to 1.91 years

Investment Maturities Over Time  
Data as of 09.30.19



# Overnight balances increase due to tightened liquidity and loan demand uncertainty

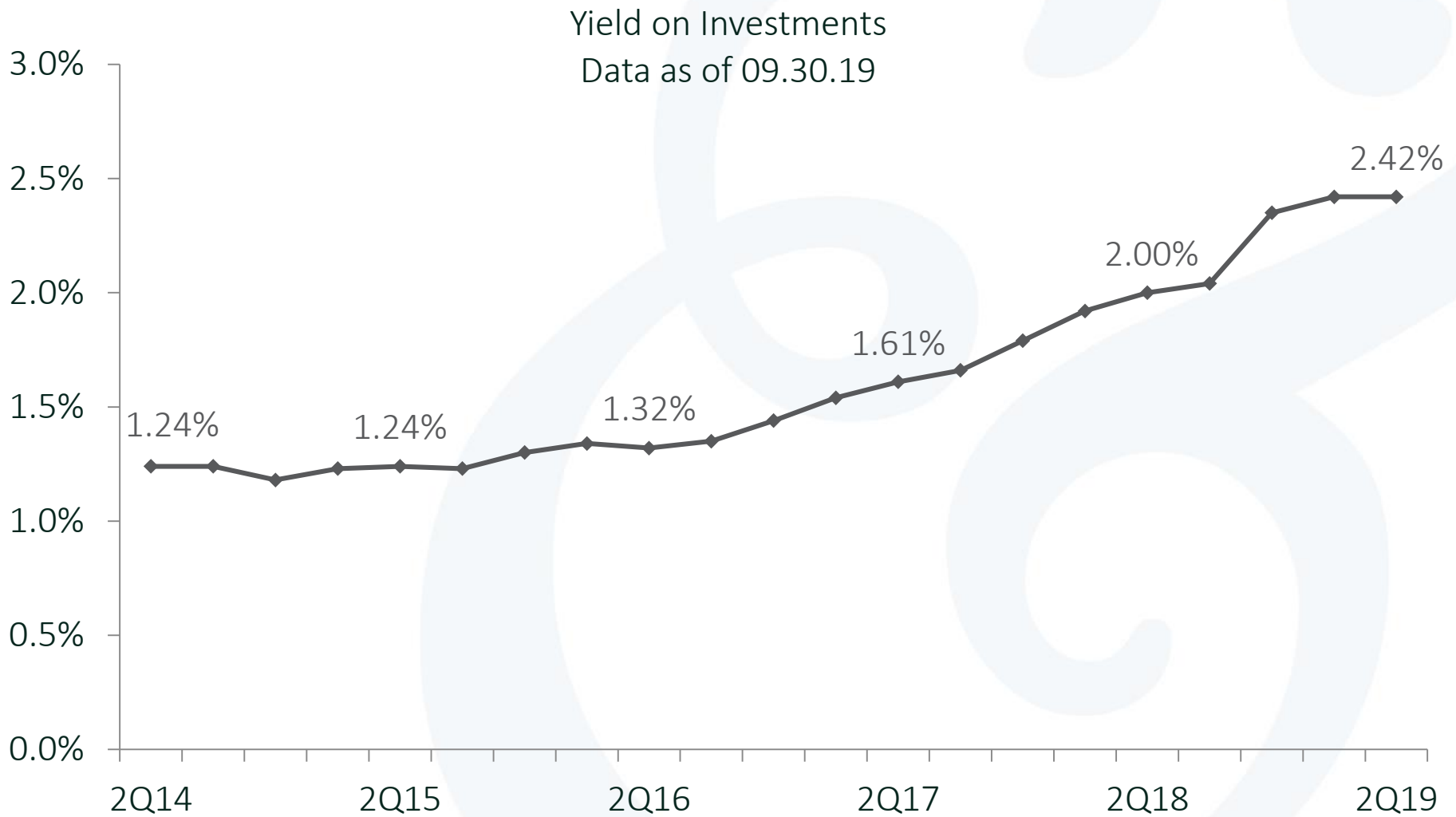
Investment Composition  
Data as of 09.30.19



- US Govt., Fed. Agency, and Other Sec.
- Corporate CUs (incl. Cash)
- Banks and S&Ls
- Cash on Hand
- Cash at FIs
- Cash at Fed
- Cash Equiv.
- Other Inv & Insurance



# Investment yields flat from 2Q19 following Fed rate cuts



# TCU Portfolios Progress Report

**Jason Haley**  
*Chief Investment Officer*  
*ALM First*

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# Fund Highlights

- Short Duration Portfolio:
  - From 4/30/17-11/30/19, portfolio's return is ranked 3 out of 90 funds in its Morningstar category (short government)
    - 0.51% average annual excess return vs. benchmark
    - 4.98% gross return over last 12 months (+89 bps excess return)
    - 1.07% excess return year to date
- Ultra Short Duration Portfolio:
  - Portfolio's benchmark changed from 9-month T-bill to 3-month T-bill at the end of 2018
  - General objective is to minimize NAV volatility while maintaining at least 10 bps yield spread over IOER after expenses
    - 30-day SEC yield is currently +60 bps to Fed's IOER rate
    - NAV has traded in 1 cent range since early January
  - Outperformed official benchmark by 25 bps YTD

# TCU Short Duration Portfolio

## TCU Short Duration Portfolio Summary<sup>1</sup>

	Current	Ex-Ante Analytics		
	Allocation	Eff. Dur	Sprd. Dur	OAS
ARM	5%	1.54%	3.30%	65
Bank Note Fixed & Float	13%	0.69%	1.59%	51
CMBS Fixed	25%	5.20%	5.87%	58
CMO Fixed	2%	1.28%	2.87%	9
CMO Floater	29%	0.10%	4.35%	43
MBS Fixed	24%	2.43%	3.63%	43
Repo	2%	0.09%	0.09%	24
	100%	2.11%	4.03%	48

## Yield Summary

	TCUDX <sup>2</sup>	Benchmark <sup>3</sup>	Excess
1-day	2.47%	1.61%	0.86%
30-day	2.45%	N/A	N/A

## Total Return Summary<sup>1</sup>

	TCUDX <sup>2</sup>	Benchmark <sup>3</sup>	Excess
3 month	0.10%	0.09%	0.01%
YTD	4.32%	3.25%	1.07%
12 month	4.98%	4.09%	0.89%
Avg Annual <sup>4</sup>	2.26%	1.75%	0.51%

<sup>1</sup> As of 11/30/2019

<sup>2</sup> Yields for TCUDX are after expenses (SEC yield)

<sup>3</sup> Benchmark is 2-year Treasury index

<sup>4</sup> Since 4/30/2017 (when ALM First became portfolio manager)

# TCU Ultra Short Duration Portfolio

TCU Ultra Short Duration Portfolio				
	Current Allocation	Ex-Ante Analytics		
		Eff. Dur	Sprd. Dur	OAS
ARM	3%	0.67%	3.30%	92
Agency Floater	1%	0.21%	2.29%	39
Bank Note Fixed & Float	10%	0.19%	1.08%	44
CMBS Fixed	2%	0.28%	0.28%	77
CMO Fixed	1%	2.87%	3.08%	15
CMO Floater	55%	0.12%	3.91%	59
MBS Fixed	0%	2.05%	2.65%	74
Repo	28%	0.09%	0.09%	55
	100%	0.17%	2.44%	57

Yield Summary			
	TCUUX <sup>2</sup>	Benchmark <sup>3</sup>	Excess
1-Day Yield	2.10%	1.51%	0.60%
30-Day Yield	2.15%	N/A	N/A

Total Return Summary <sup>1</sup>			
	TCUUX <sup>2</sup>	Benchmark <sup>3</sup>	Excess
3 month	0.57%	0.49%	0.08%
YTD	2.38%	2.13%	0.25%
12 month	2.47%	2.32%	0.15%
Avg Annual <sup>4</sup>	1.77%	1.74%	0.03%

<sup>1</sup> As of 11/30/2019

<sup>2</sup> Yields for TCUUX are after expenses (SEC yield)

<sup>3</sup> Prior to 1/1/2019, benchmark was effectively a 9-month Treasury bill index; current benchmark is 3-month Treasury bill index

<sup>4</sup> Since 4/30/2017 (when ALM First became portfolio manager)

# Looking Ahead

- Interest rate volatility has moderated in recent weeks
- TCU portfolios are built to achieve long-term success, and as such, portfolio duration will be properly aligned with the relevant benchmark
- Curve positioning remains critical for high performing and well diversified portfolios
- MBS spreads have firmed somewhat from the Aug. wides, but current valuations remain attractive on a relative and historic basis
- Regarding portfolio credit exposure, ALM First generally prefers residential credit over corporate credit given current fundamental and technical assessments

**Q&A**

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# Questions & Discussion