Investment Trends & Insights
For A Changing Economic Landscape

Jason Haley, Chief Investment Officer, ALM First Financial Advisors

Sam Taft, AVP Business Development, Trust for Credit Unions

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Today's Agenda

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

About Trust for Credit Unions

- 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

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

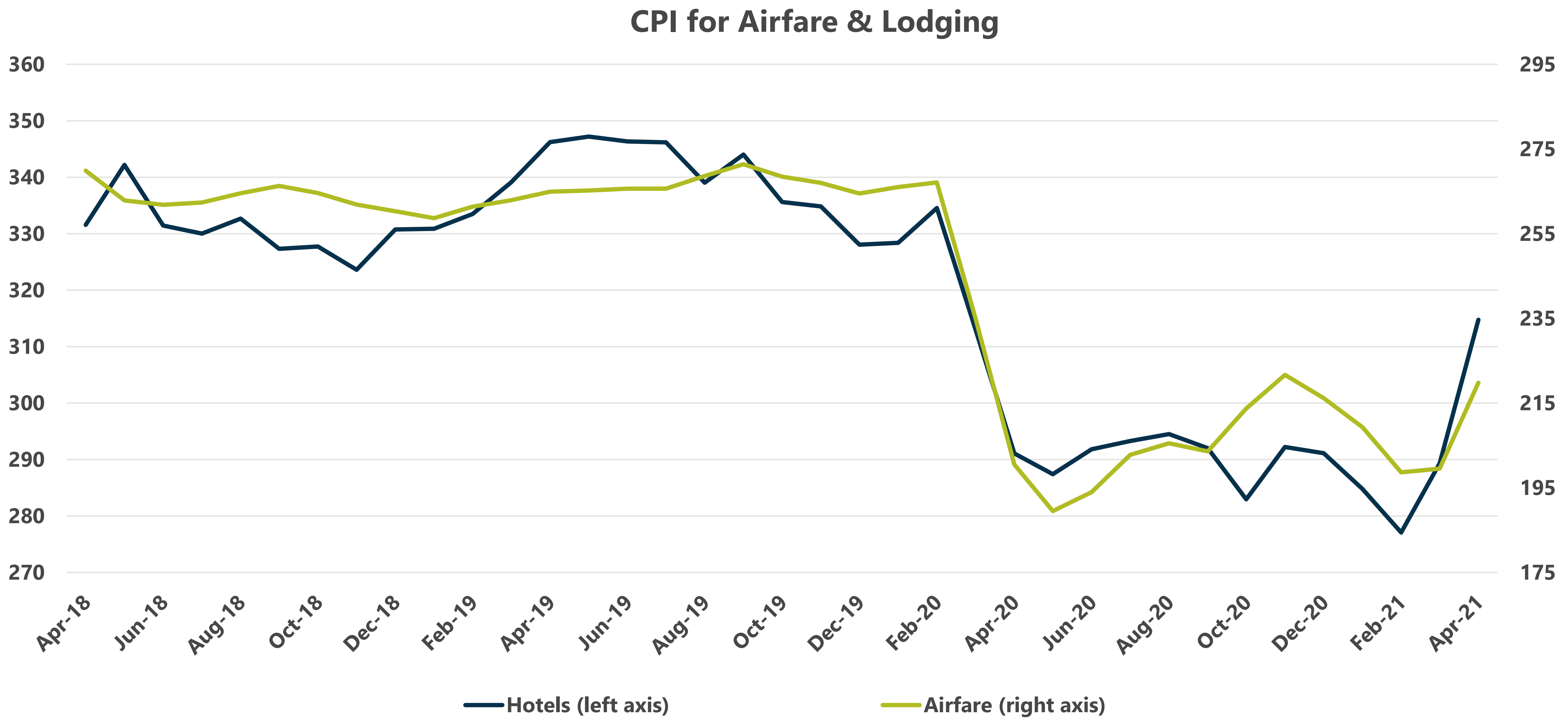
Jason Haley
Chief Investment Officer
ALM First Financial Advisors

Economic Themes

- **Inflation speculation/debate remains at the forefront**
  - Core inflation growth over the last two months has reached levels not seen in decades
    - April core CPI +0.9% m/m (highest since 1981); May core CPI +3.8% y/y
  - Monthly gains had nothing to do with “base effects,” but supply chain bottlenecks and reopening of the services sector were the biggest drivers
    - Approximately half of the core price gains came from used vehicles, airfares, and lodging
  - Consumer inflation expectations and wage growth are worth watching for signs of non-transitory inflation pressures

- **FOMC more hawkish?**
  - Last week’s FOMC meeting was perceived to be the beginning of a more hawkish inflation/policy shift
  - Median participant projection shows two rate hikes in 2023 versus none at March meeting
    - 7 participants now showing 2022 rate hike(s), up from 4 at March meeting
    - Powell attempted to pour cold water on the shift during his press conference, noting that the dots simply represent individual projections, not a committee forecast
  - As telegraphed by key Fed leaders prior to the meeting, tapering the pace of asset purchases was discussed
  - IOER and reverse repo rates were adjusted 5 bps higher to alleviate pressure in money markets

Transitory signs



Source: BLS, Bloomberg

Wage Inflation Emerging?

Source: BLS, Bloomberg

Market Themes

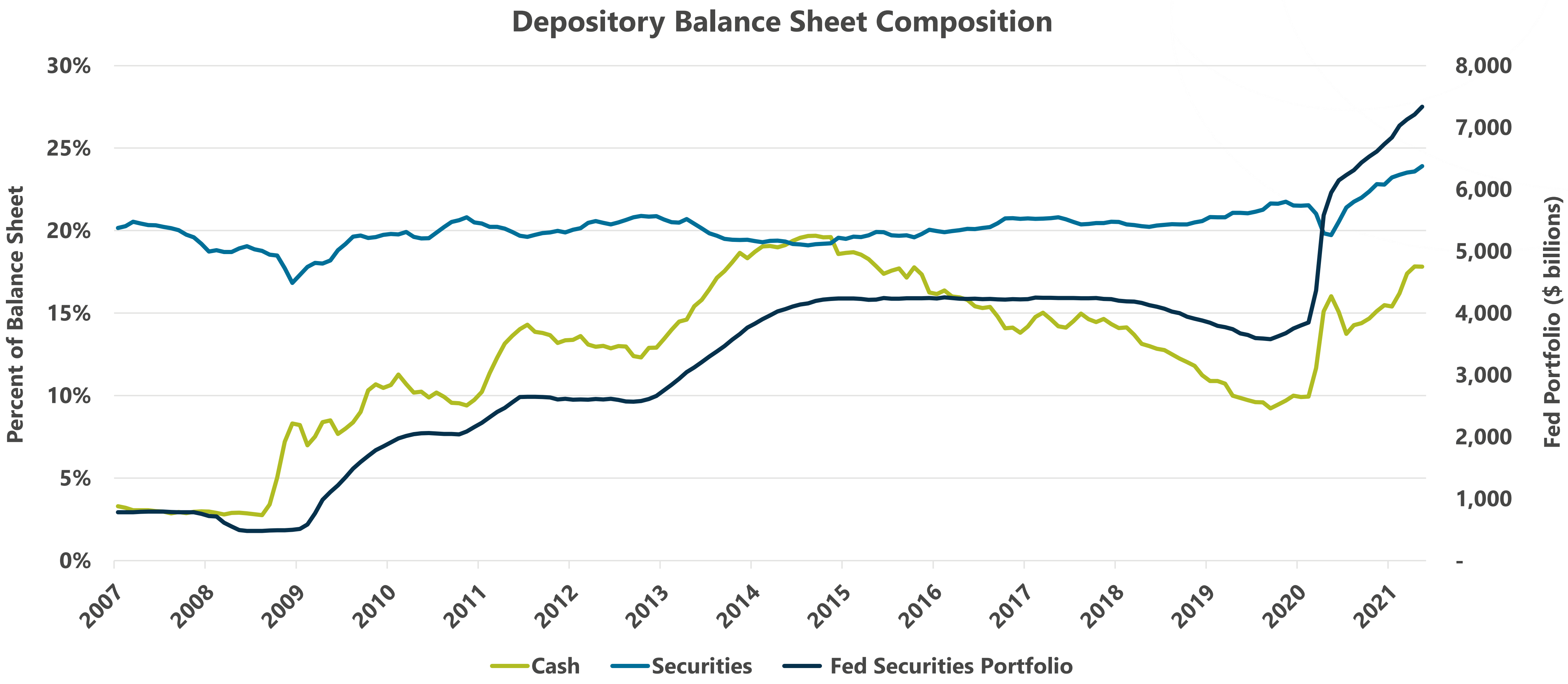
- **Treasury curve is flatter in Q2**
  - Strong demand for duration amid flood of central bank liquidity
    - Much of Q2 flattening occurred after the release of the April CPI report
    - Still +44 bps YTD for 2yr/10yr spread
  - SOFR (+4 bps to 0.05%) and other money market rates shifted higher following adjustment to Fed's administered rates
    - Fed repo facility still experiencing record demand in the immediate wake of last week's move

- **Fixed income performance has been mixed in 2021**
  - Total returns are negative for virtually all fixed income except high yield credit and fixed rate ABS
  - Excess returns are generally positive YTD relative to duration-matched Treasuries, except for current-production coupon MBS
  - MBS spreads have been widening in anticipation of Fed tapering as well as heavy supply from a hot housing market
  - Will spread widening begin with tapering or Fed balance sheet normalization/reduction?
    - In previous QE episodes, more notable spread widening occurred during balance sheet normalization (4yrs after tapering began)
    - For MBS, net supply is currently much greater than prior QE environment

Treasury Curve			
Tenor	6/18/2021 (%)	3/31/2021 (%)	Change (bps)
1-Month	0.03	0.00	0.03
3-Month	0.03	0.02	0.01
6-Month	0.05	0.03	0.02
1-Year	0.08	0.06	0.02
2-Year	0.25	0.16	0.09
5-Year	0.88	0.94	-0.06
10-Year	1.44	1.74	-0.30
20-Year	1.96	2.31	-0.35
30-Year	2.01	2.41	-0.40
Curves			
3mo-10yr	1.41	1.73	-0.32
2yr-5yr	0.62	0.78	-0.16
2yr-10yr	1.18	1.58	-0.40
2yr-30yr	1.76	2.25	-0.49
5yr-10yr	0.56	0.80	-0.24

Source: Bloomberg

Hesitancy to Invest Long Term…



Source: Federal Reserve

Deposits Could Be Stickier Than Expected

- **Aggregate deposits tracking Fed QE**
  - Using prior QE cycles, aggregate deposits tracked Fed's SOMA holdings
  - Phases of QE:

Full asset purchases cycle

- Deposits rise in parallel with Fed purchases

QE tapering period

- QE3 tapering period lasted approximately 10 months

Fed observation period

- More difficult to project, this is the time period where the Fed observed growth and inflation response to prior accommodation before reducing balance sheet (normalization)
- In last cycle, tapering ended October 2014 and normalization didn't begin until October 2017

Balance sheet normalization

- Fed gradually slowed cashflow reinvestment and allows balance sheet to shrink
- Multi-year process, and aggregate deposits would theoretically fall in parallel over that timeframe

Credit Union Investment Trends

Sam Taft
AVP, Business Development
Trust for Credit Unions

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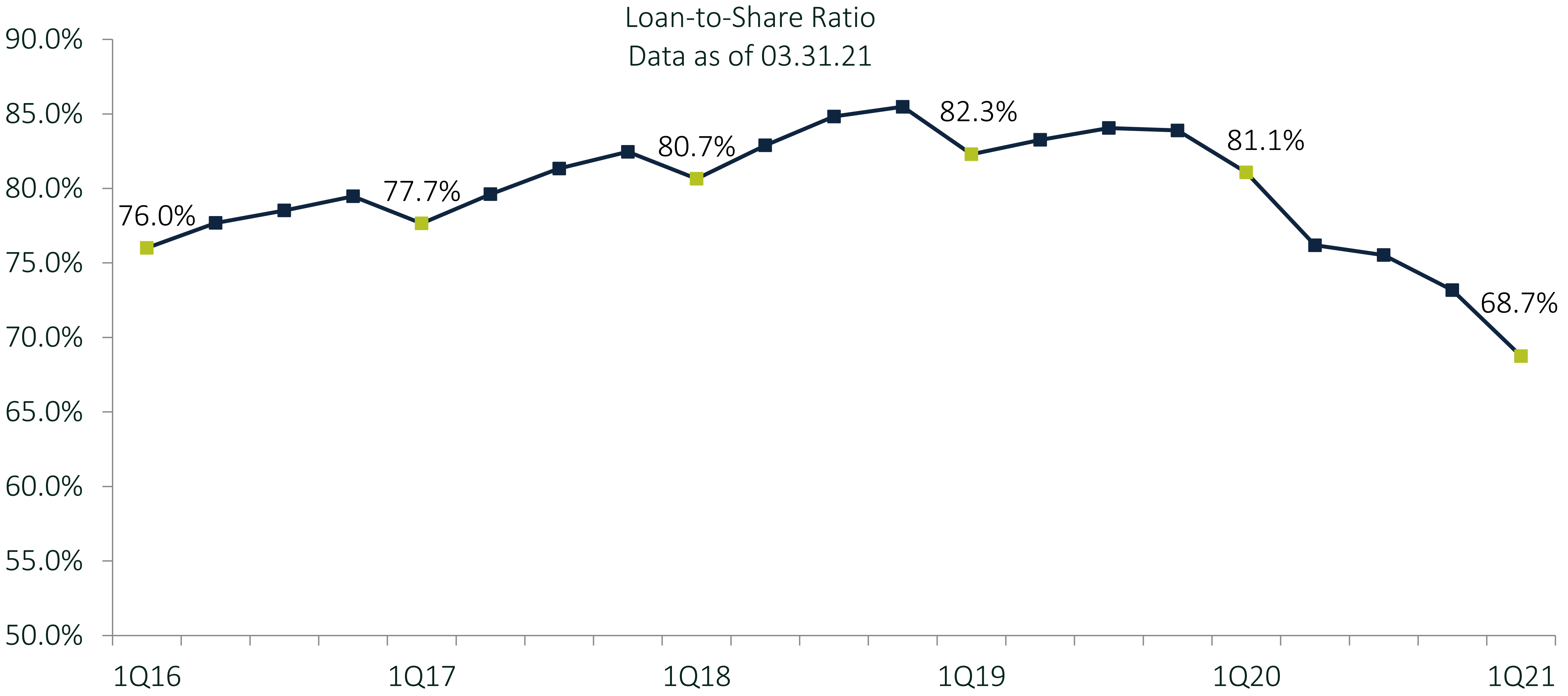
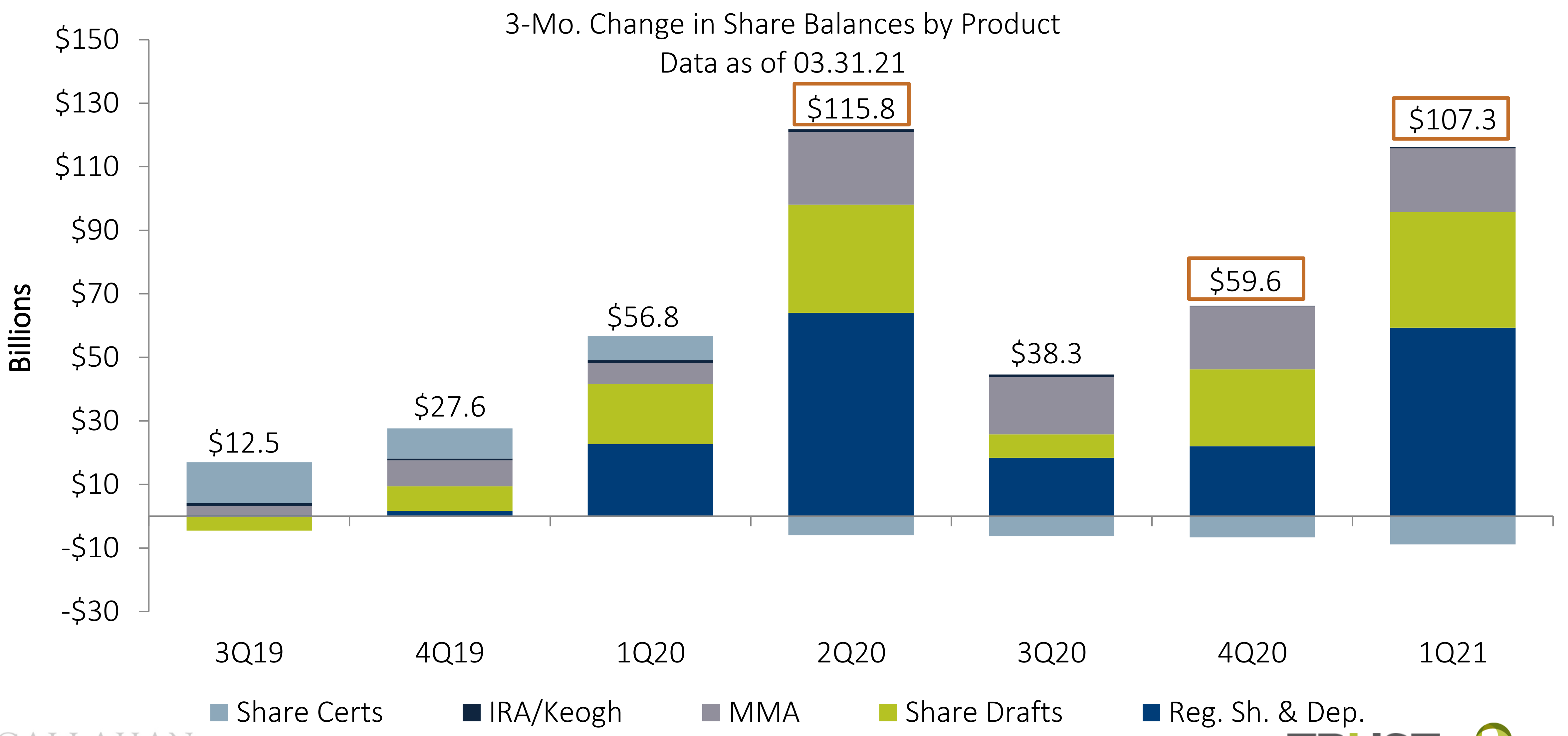
Headline Numbers at 1Q21

	03/31/2021	12-mo. Growth 1Q21	12-mo. Growth 1Q20
Assets	$1,971.5B	19.0%	8.7%
Loans	$1,177.7B	4.3%	6.5%
Shares	$1,713.2B	23.1%	8.1%
Investments	$702.9B	57.3%	13.1%
Capital	$207.3B	7.4%	10.1%
Members	127.1M	3.6%	3.5%

Increased deposit inflows and slowing loan growth results in the lowest loan-to-share ratio since 2013



Stimulus payments are evident in quarterly share growth dynamics



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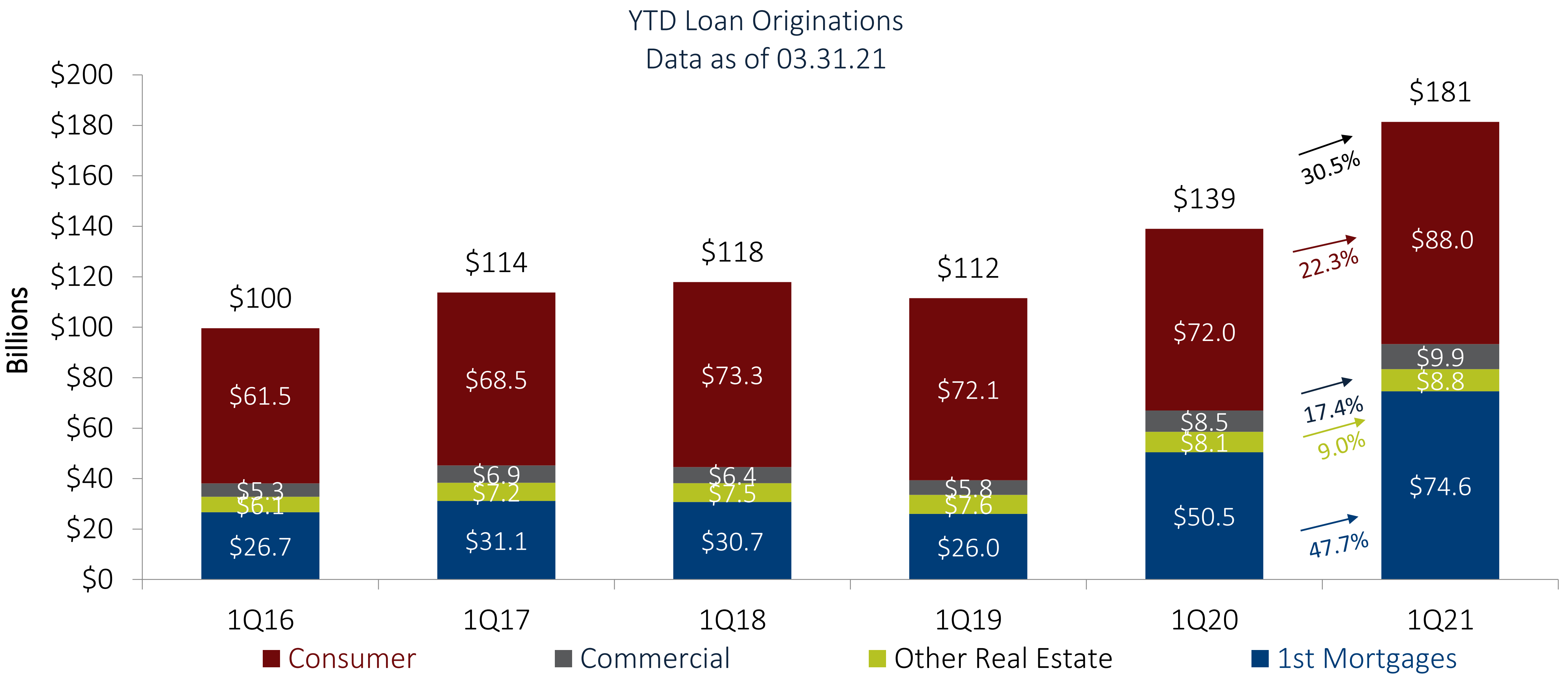
Consumer loan originations are up substantially for the first time since the onset of the pandemic



Over the last three quarters, credit unions have increased loan purchases in response to high liquidity and low interest rates

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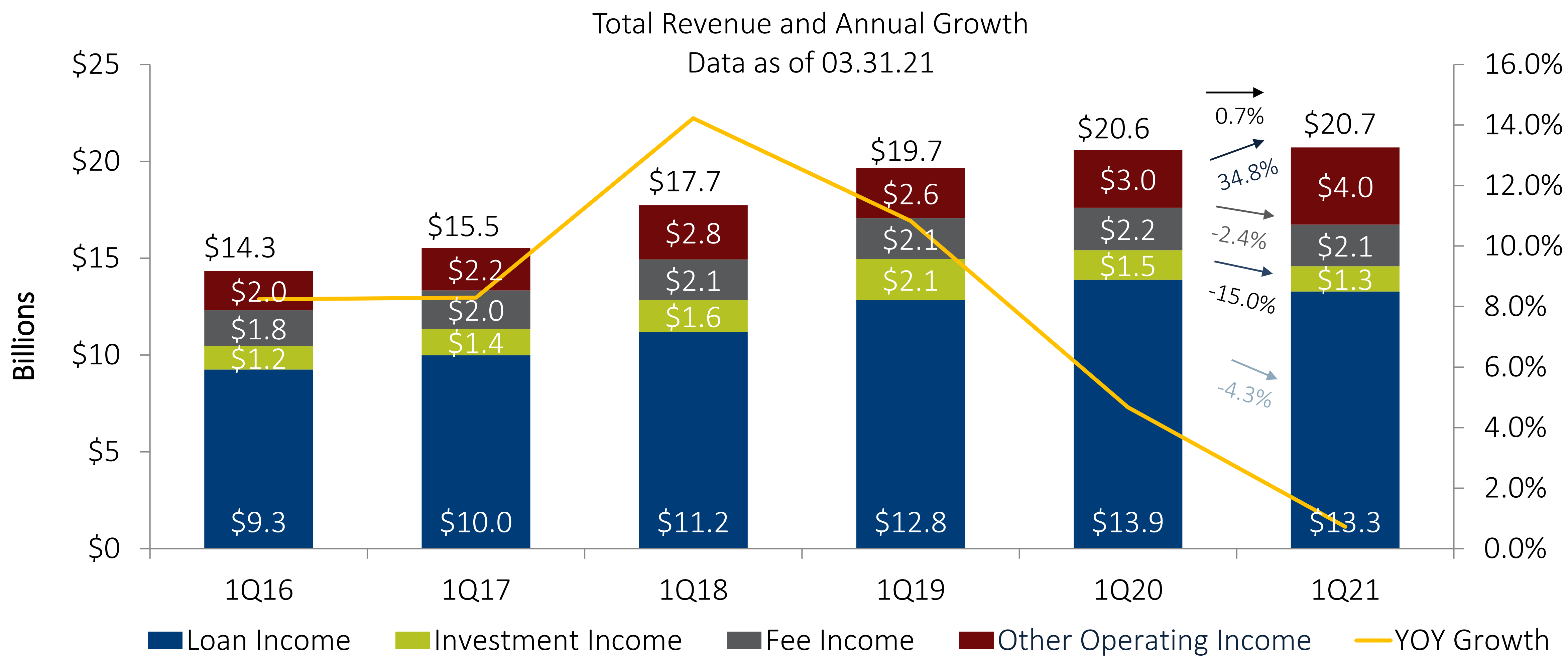
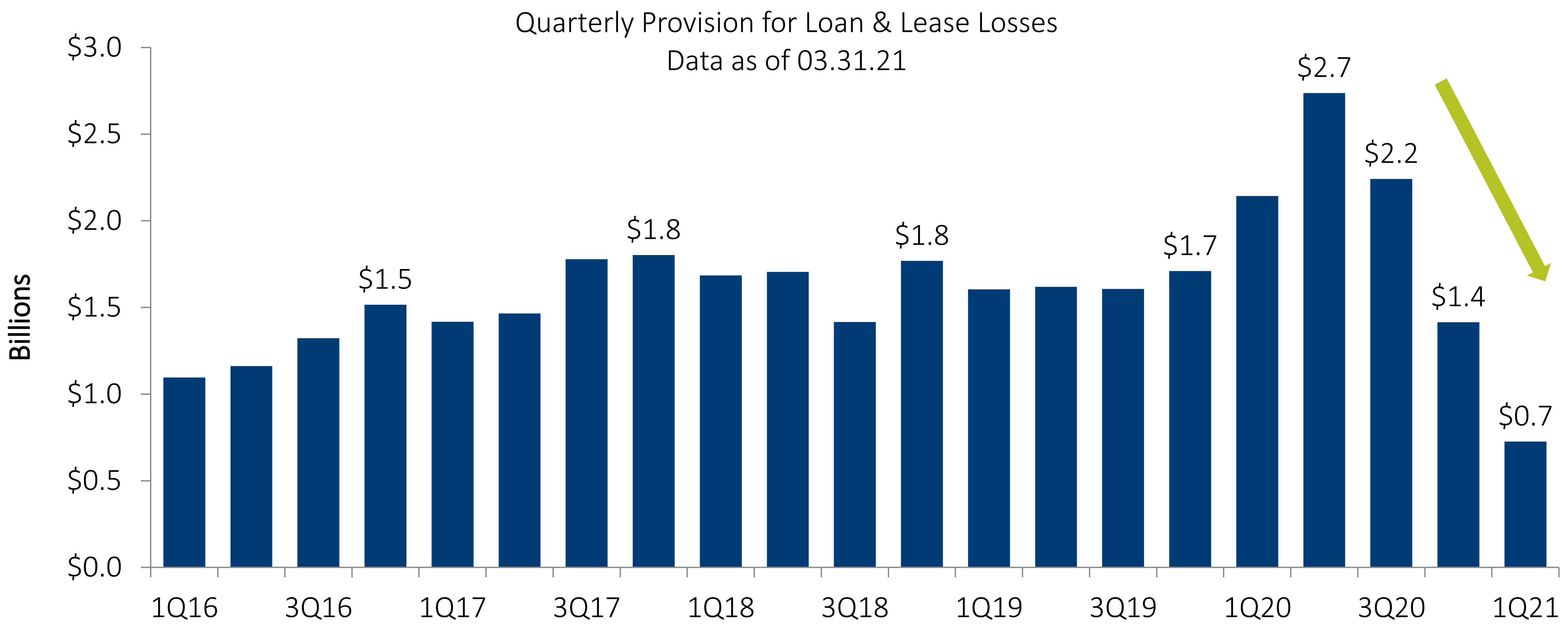
Revenue flat due to low interest rates



Provision expenses decline following surge in 2020



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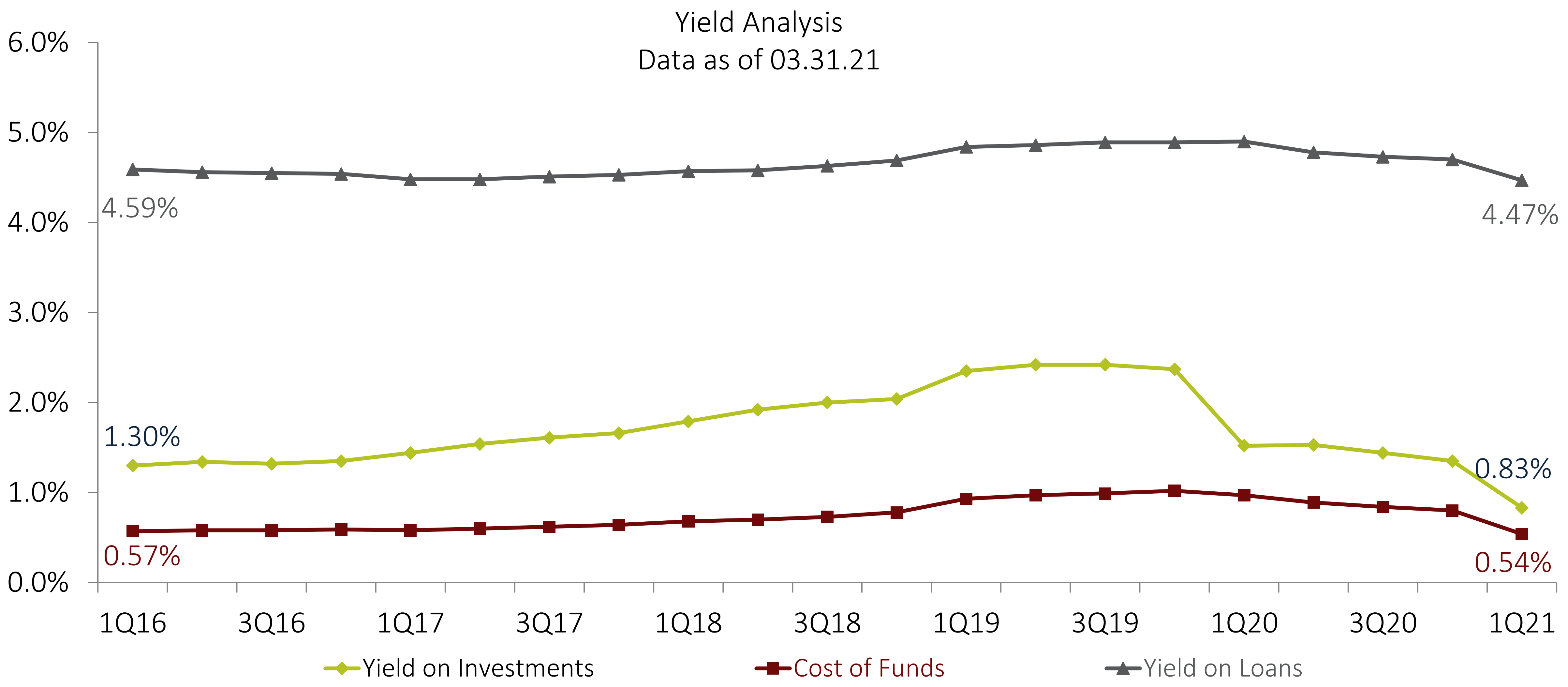
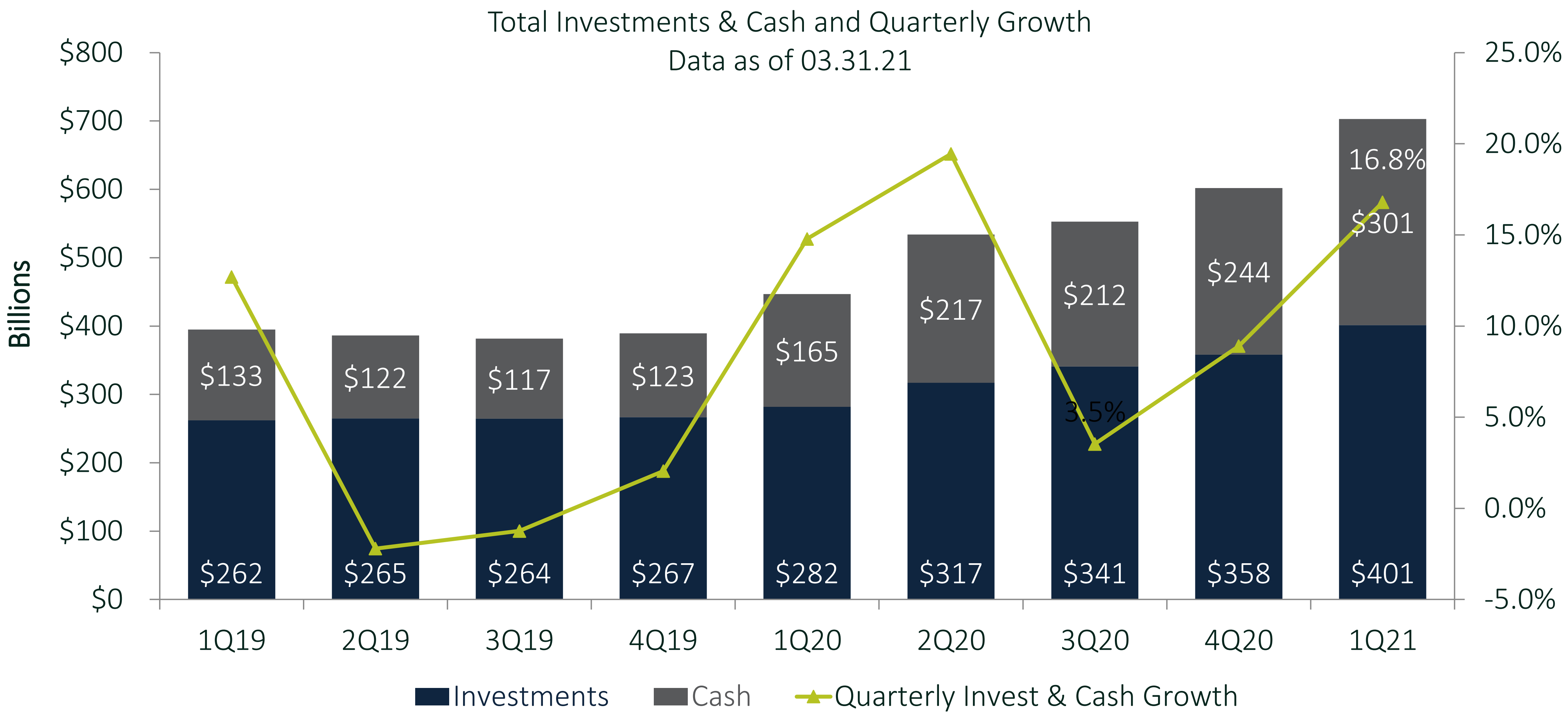
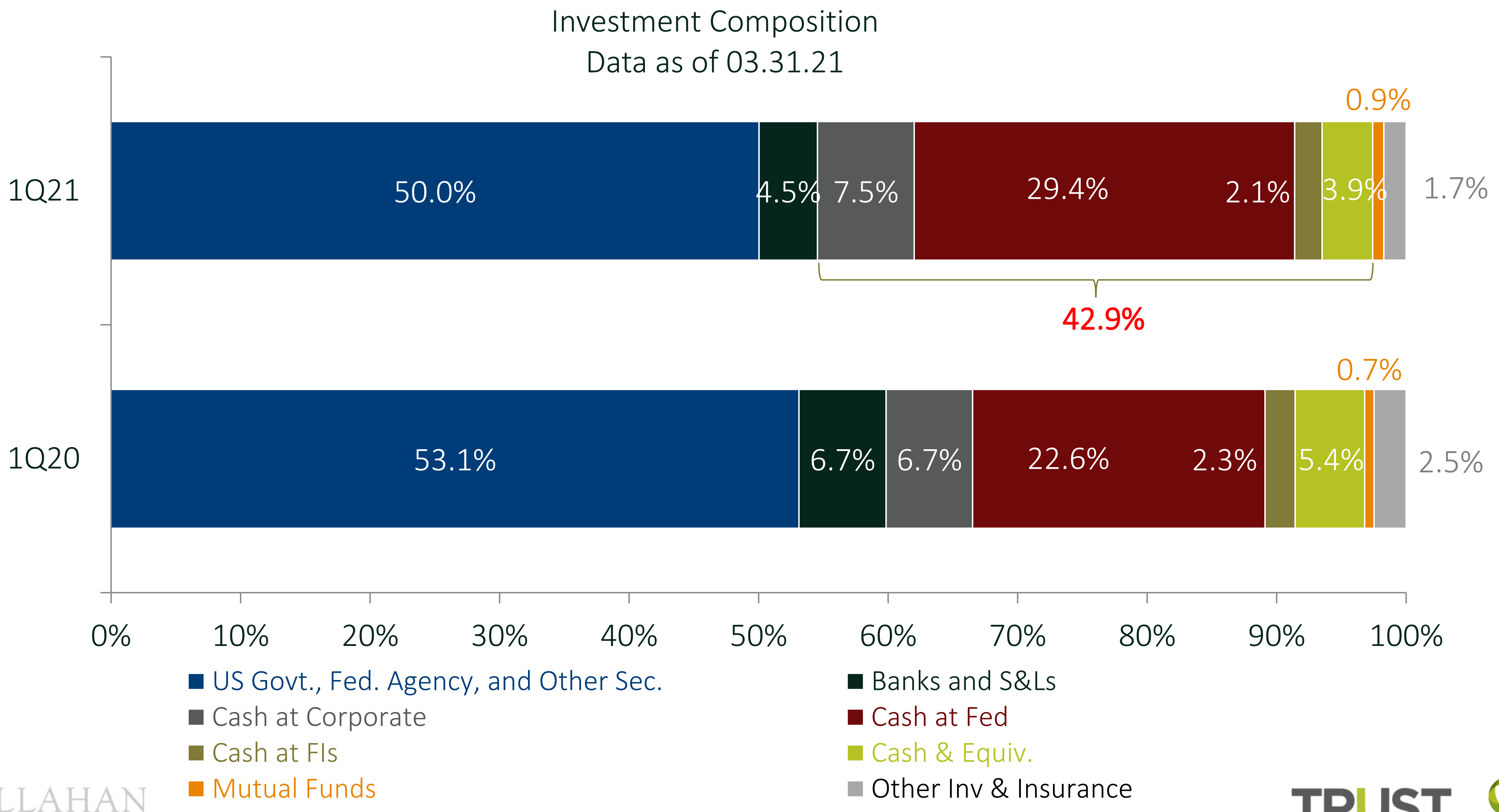
Loan yield and cost of funds are declining at a similar rate but lower investment yield amid high liquidity is impacting interest margin



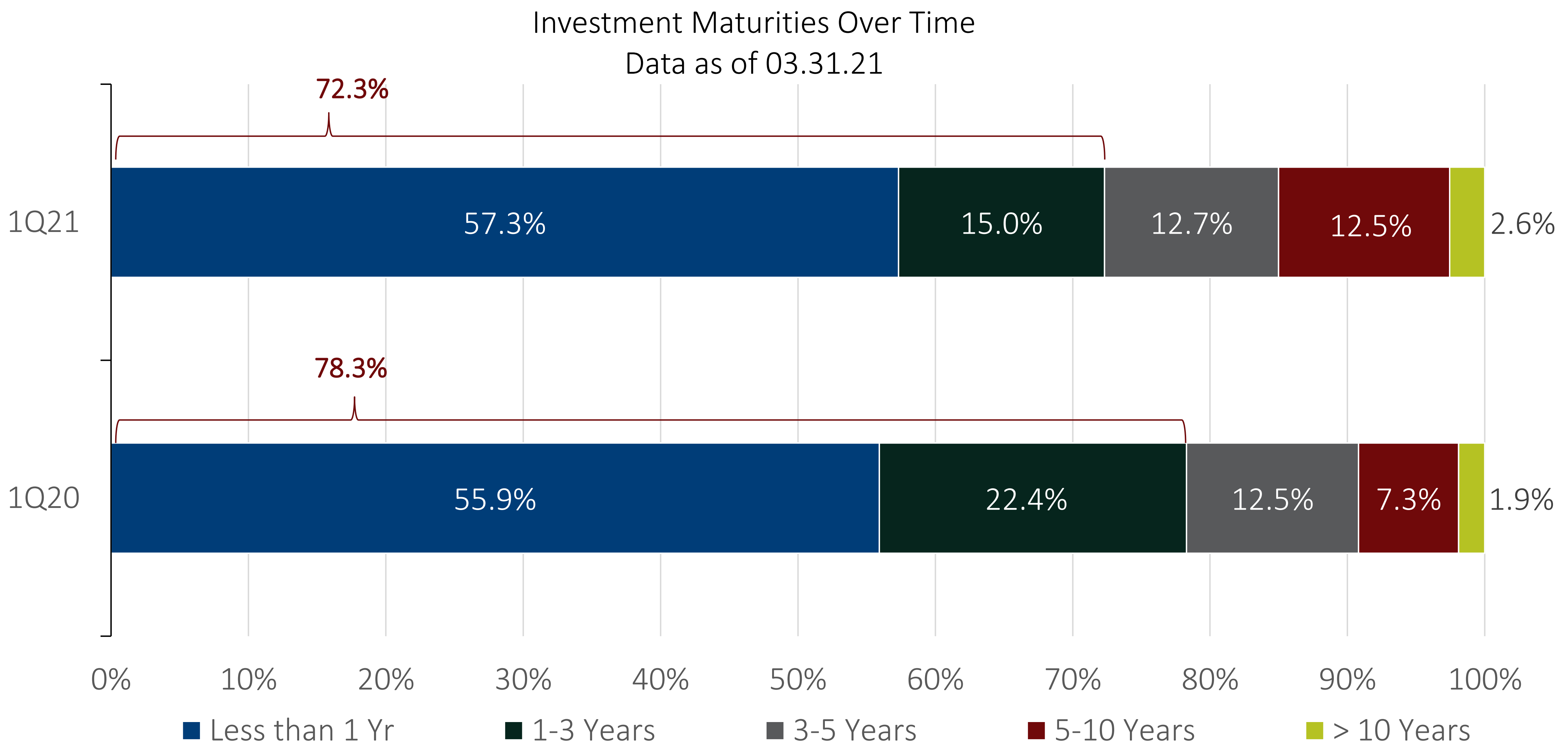
Cash rises 23.8% in first three months of 2021; up 82% annually



Overnight cash balances rise 94% annually, Agency investments up 48%



Portfolios lengthen from 4Q20 – weighted average life increases to 2.07 years



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TCU Portfolios Progress Report

Jason Haley
Chief Investment Officer
ALM First Financial Advisors

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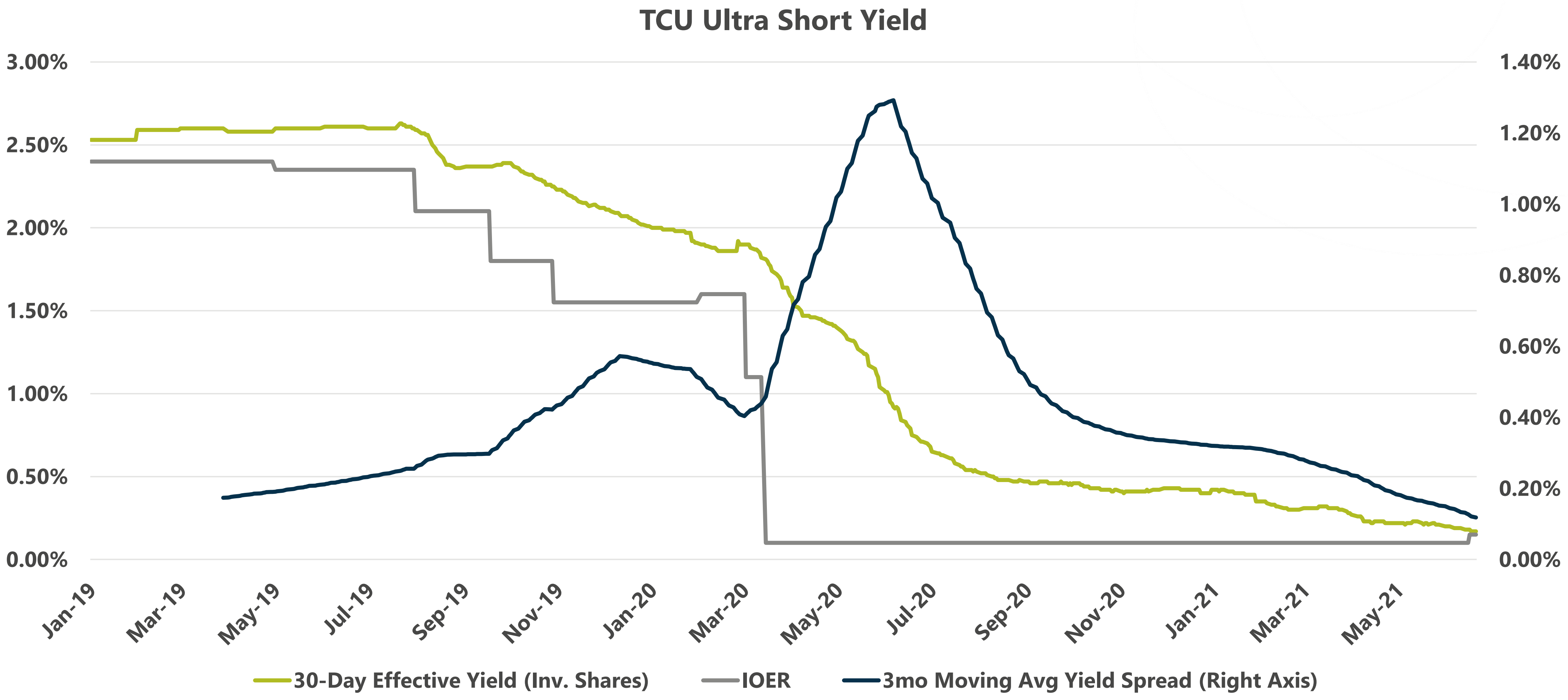
TCU Portfolio Overviews

- **TCU Ultra Short Duration Portfolio**
  - $3.58 billion total assets (as of 6/18/21)
  - 3mo Treasury Index benchmark
  - Strategy aims to minimize interest-rate risk while maintaining a yield spread over IOER
  - ***Not a money market fund (and not intended to be)***
  - As of 6/18/21, 0.17% 30-day yield for Investor shares and 0.20% for TCU shares
    - 12mo average spread versus IOER of 0.29% and 0.32% for Investor & TCU shares, respectively

- **TCU Short Duration Portfolio**
  - $1.44 billion total assets (as of 6/18/20)
  - 2yr Treasury Index benchmark
  - Portfolio generally represents ALM First's best ideas for a core bond portfolio of 703-permissible securities
  - Portfolio is in 14th percentile of all funds in its Morningstar category for a 5yr timeframe

TCU Ultra Short Yield History



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TCU Ultra Short Duration Portfolio

TCU Ultra Short Duration Portfolio				
	Current	Ex-Ante Analytics		
	Allocation	Eff. Dur	Sprd. Dur	OAS
ARM	0%	0.86%	3.69%	90
Agency Floater	0%	0.20%	1.62%	53
Bank Note Fixed	0%	0.21%	0.21%	20
Bank Note Float	2%	0.15%	0.72%	57
CMO Fixed	0%	2.72%	3.15%	22
CMO/ACMBS Floaters	63%	0.26%	3.73%	21
MBS Fixed	0%	2.55%	3.26%	11
Repo	34%	0.02%	0.02%	19
	100%	0.18%	2.39%	21

Yield Summary			
	TCUUX[2]	Benchmark[3]	Excess
1-Day Yield	0.22%	0.02%	0.20%
30-Day Yield	0.24%	N/A	N/A

Total Return Summary[1]			
	TCUUX[2]	Benchmark[3]	Excess
3 month	0.17%	0.01%	0.16%
YTD	0.23%	0.03%	0.20%
12 month	0.96%	0.11%	0.85%
Avg Annual[4]	1.49%	1.40%	0.09%

[1] *As of 5/31/2021*

[2] *Yields for TCUUX are after expenses*

[3] *Prior to 1/1/2019, benchmark was effectively a 9-month Treasury bill index; current benchmark is 3-month Treasury bill index*

[4] *Since 4/30/2017 (when ALM First became portfolio manager)*

TCU Short Duration Portfolio

TCU Short Duration Portfolio Summary[1]				
	Current	Ex-Ante Analytics		
	Allocation	Eff. Dur	Sprd. Dur	OAS
ARM	1%	0.92%	3.65%	73
Bank Note Fixed	4%	1.59%	1.68%	23
Bank Note Float	2%	0.12%	0.42%	161
CMBS Fixed	28%	4.13%	4.35%	54
CMO Fixed	2%	-0.49%	4.63%	14
CMO/ACMBS Floaters	31%	0.21%	3.48%	21
MBS Fixed	26%	3.37%	4.09%	16
Repo	6%	0.00%	0.00%	4
Muni	0%	4.58%	4.64%	40
	100%	2.16%	3.57%	31

Yield Summary			
	TCUDX[2]	Benchmark[3]	Excess
1-day	0.51%	0.14%	0.37%
30-day	0.41%	N/A	N/A

Total Return Summary[1]			
	TCUDX[2]	Benchmark[3]	Excess
3 month	0.22%	0.07%	0.15%
YTD	-0.47%	0.04%	-0.51%
12 month	0.50%	0.16%	0.34%
Avg Annual[4]	2.33%	1.93%	0.40%

[1] *As of 5/31/2021*

[2] *Yields for TCUDX are after expenses*

[3] *Benchark is 2-year Treasury index*

[4] *Since 4/30/2017 (when ALM First became portfolio manager)*

Closing Thoughts

- **The Fed is still casting a large shadow over fixed income markets**
  - Fixed income spreads are at historically tight levels across the investment grade universe, and they could remain firm for some time if previous QE history repeats
    - MBS is more of a question mark given high levels of supply via hot housing market
  - Excess liquidity in banking system could take a while to dissipate

- **Liquidity, interest rate risk, etc.**
  - Portfolios are well positioned from a liquidity management perspective to manage volatile inflows/outflows
  - TCU Ultra Short yield should rise as floaters and term repo positions reset to higher SOFR/Libor

Questions & Discussion

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