

# Navigating Unprecedented Economic Data: The Latest Investment Insights For Credit Unions

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Trust for Credit Unions*

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FOR CREDIT UNIONS BY CREDIT UNIONS

  
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Knowledge. Insight. Strategy.

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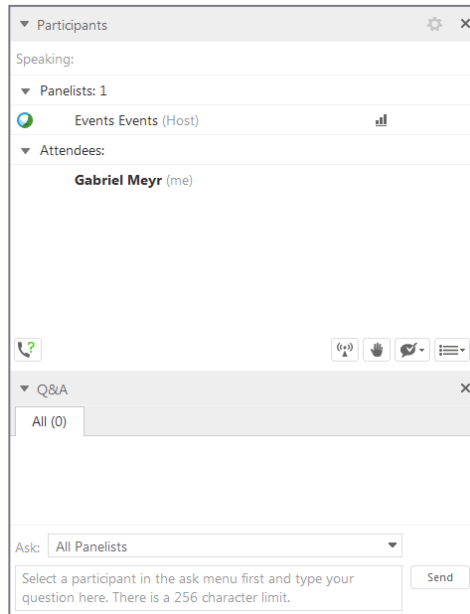
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# Agenda

- 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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- **Market conditions have improved significantly due to the Fed's extraordinary policy measures**
  - Interest-rate volatility has subsided to pre-virus levels, and fixed income spreads have tightened significantly across most sectors
- **May Jobs report surprised to the upside**
  - Non-farm payrolls increased by 2.5 million compared to a forecasted decline of 7.5mm
  - Unemployment rate fell to 13.3% from 14.7%
    - Would have been 3 percentage points higher if data was reported correctly
  - 21 million Americans remain unemployed
- **Yesterday's FOMC decision showed no signs of altering current policies for the foreseeable future**
  - QE purchases are floored at current levels (\$80bn/month UST, \$40bn/month MBS)
  - Updated SEP shows fed funds rate unchanged through 2022

# The Fed Effect

Spreads on selected sectors compared to recent wides and 2019 average levels, and percent retracement, in bp

	04-Jun-20	1yr Trailing Wide	2019 Average	Retracement
Agency CMBS	52	110	59	114%
AAA Cards	25	200	30	103%
FNMA 3.5 OAS	39	156	40	101%
AAA Autos	35	200	35	100%
AAA CMBS	130	350	88	84%
AAA CLO	170	400	126	84%
CRT	309	700	79	63%
Jumbo	204	324	78	49%

Source: J.P. Morgan

# Credit Union Investment Trends

**Sam Taft**

AVP, Business Development  
Trust for Credit Unions

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# 1Q20 Credit Union Performance Recap

#1

- Record first quarter loan originations are driven by growth in mortgage refinancings



#2

- First quarter share inflows concentrated in checking and savings



#3

- CUs keeping excess liquidity short; cash balances at record high

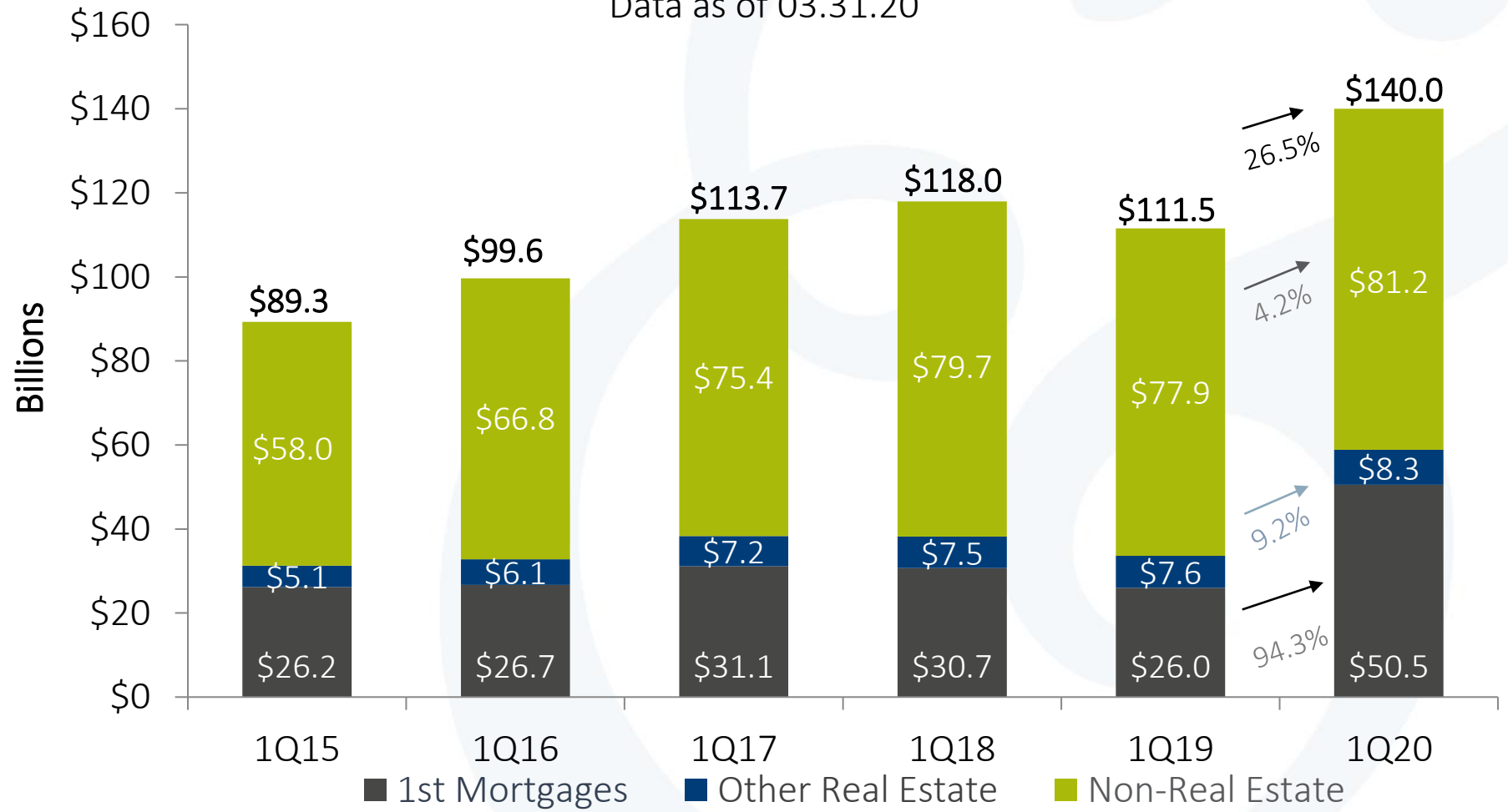


# Share, capital, and investment growth accelerates year-over-year; loan growth slows

	As of 03/31/2020	12-mo. Growth 2020	12-mo. Growth 2019
Assets	\$1,654.9B	8.6%	6.3%
Loans	\$1,127.3B	6.3%	7.9%
Shares	\$1,390.4B	7.9%	5.8%
Investments	\$446.2B	13.0%	1.4%
Capital	\$192.6B	9.9%	9.7%
Members	122.5M	3.3%	4.0%

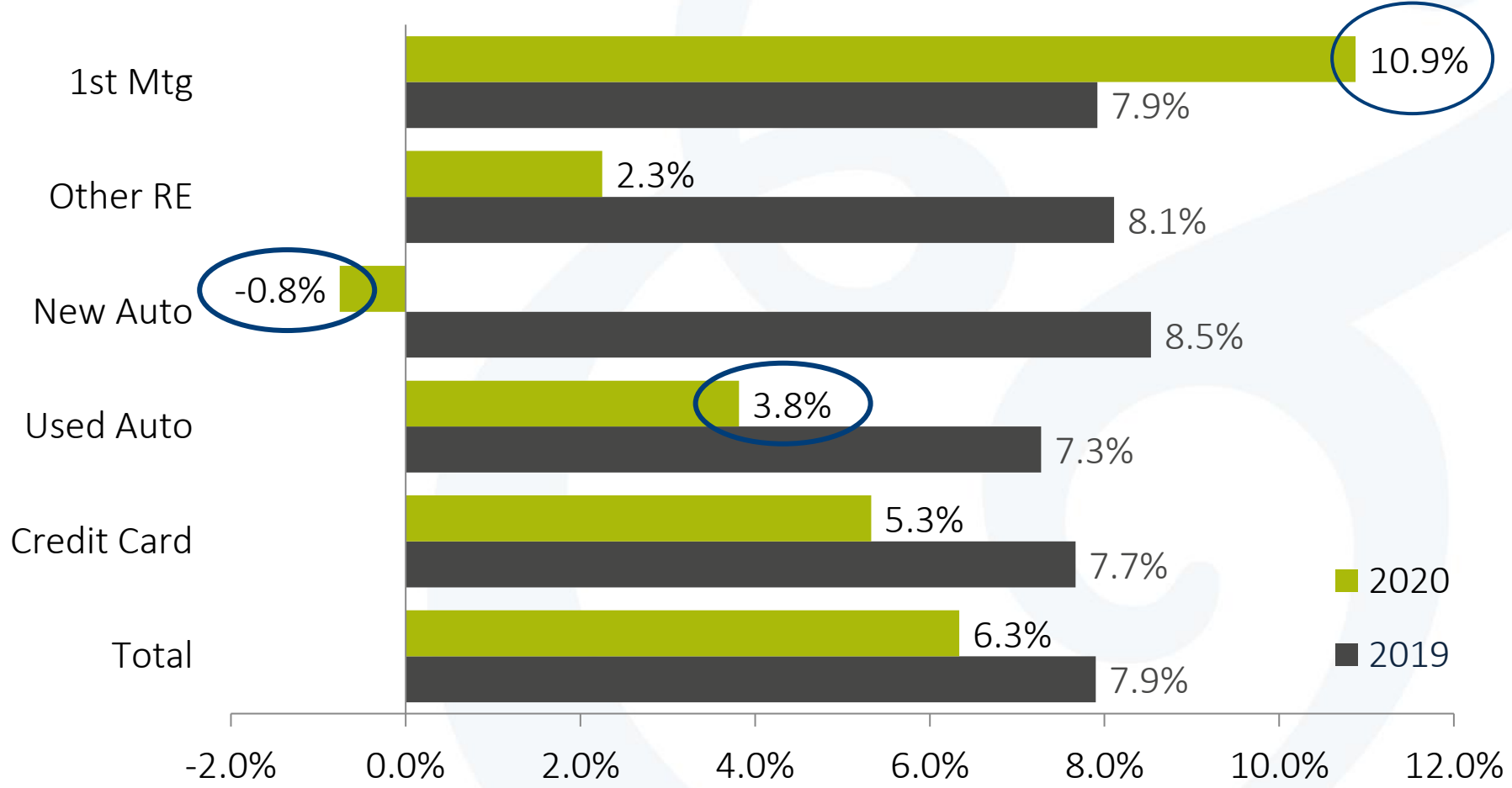
# 1st mortgages account for 36% of 1Q originations as lending increases in all categories versus 1Q 2019

YTD Loan Originations  
Data as of 03.31.20



# 1st mortgage growth accelerates over the past year as other categories slow

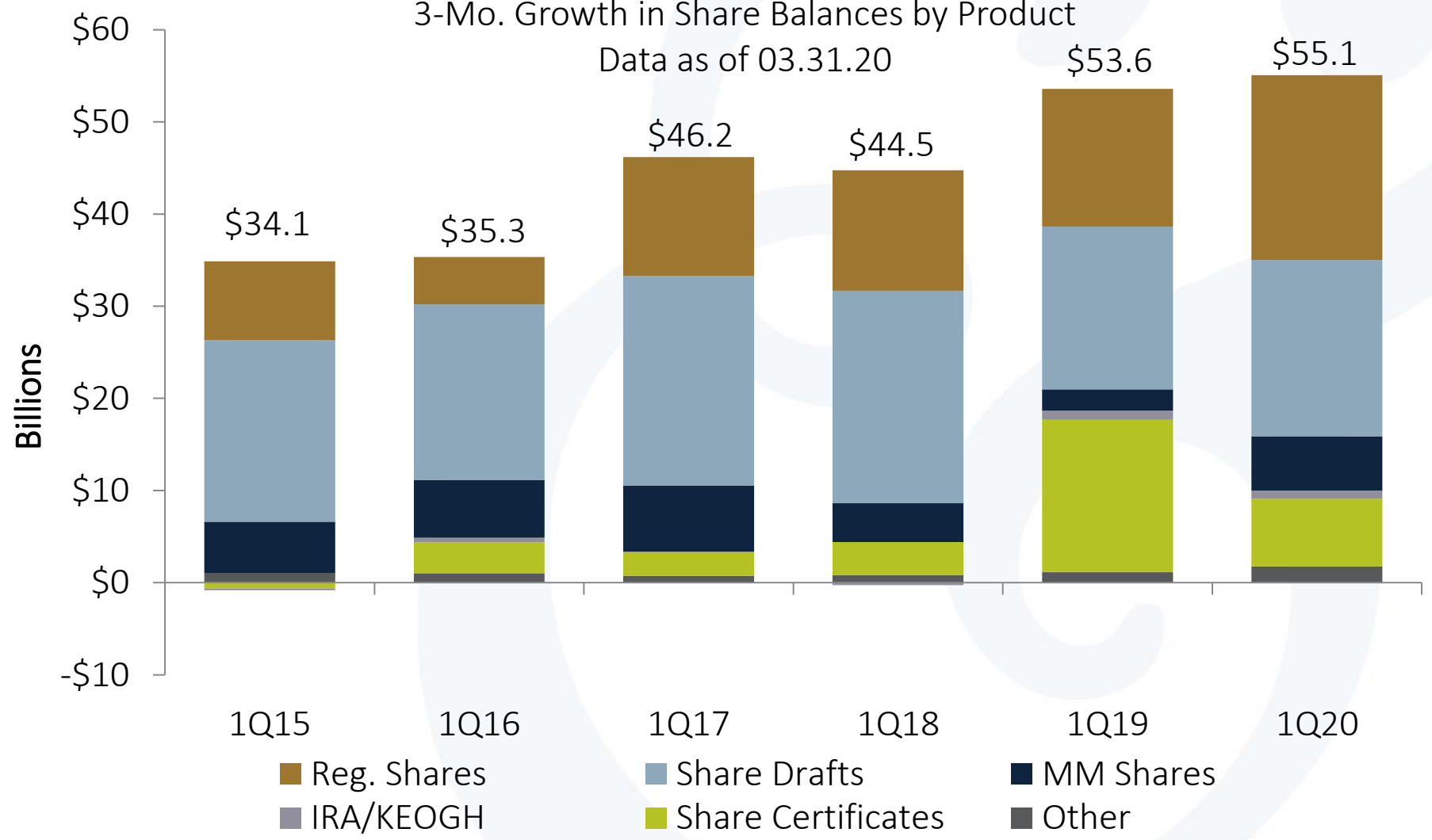
Annual Growth in Loans Outstanding  
Data as of 03.31.20



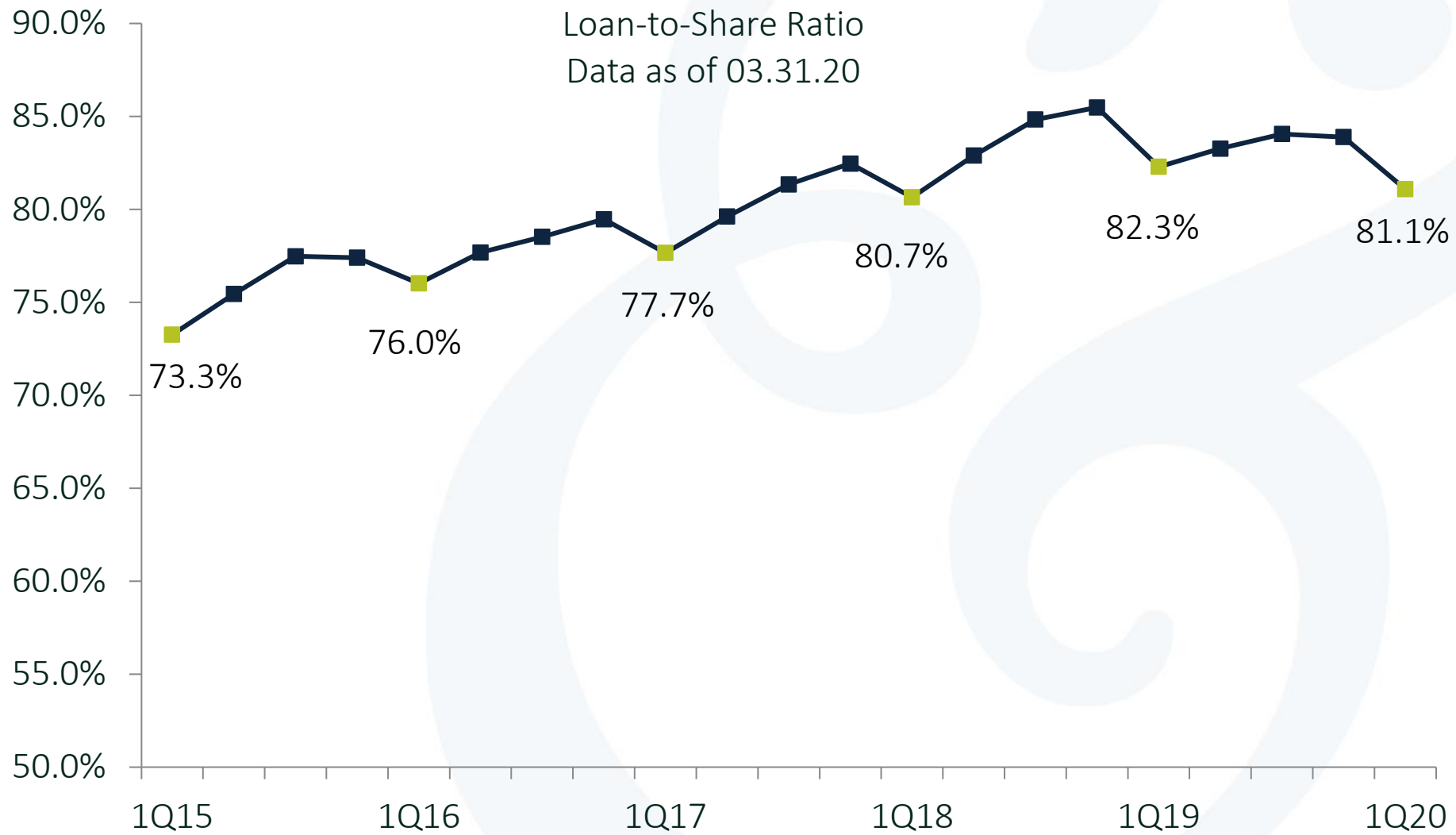


# Regular shares and share drafts account for 71% of share balance growth in the first 3 months of 2020

3-Mo. Growth in Share Balances by Product  
Data as of 03.31.20

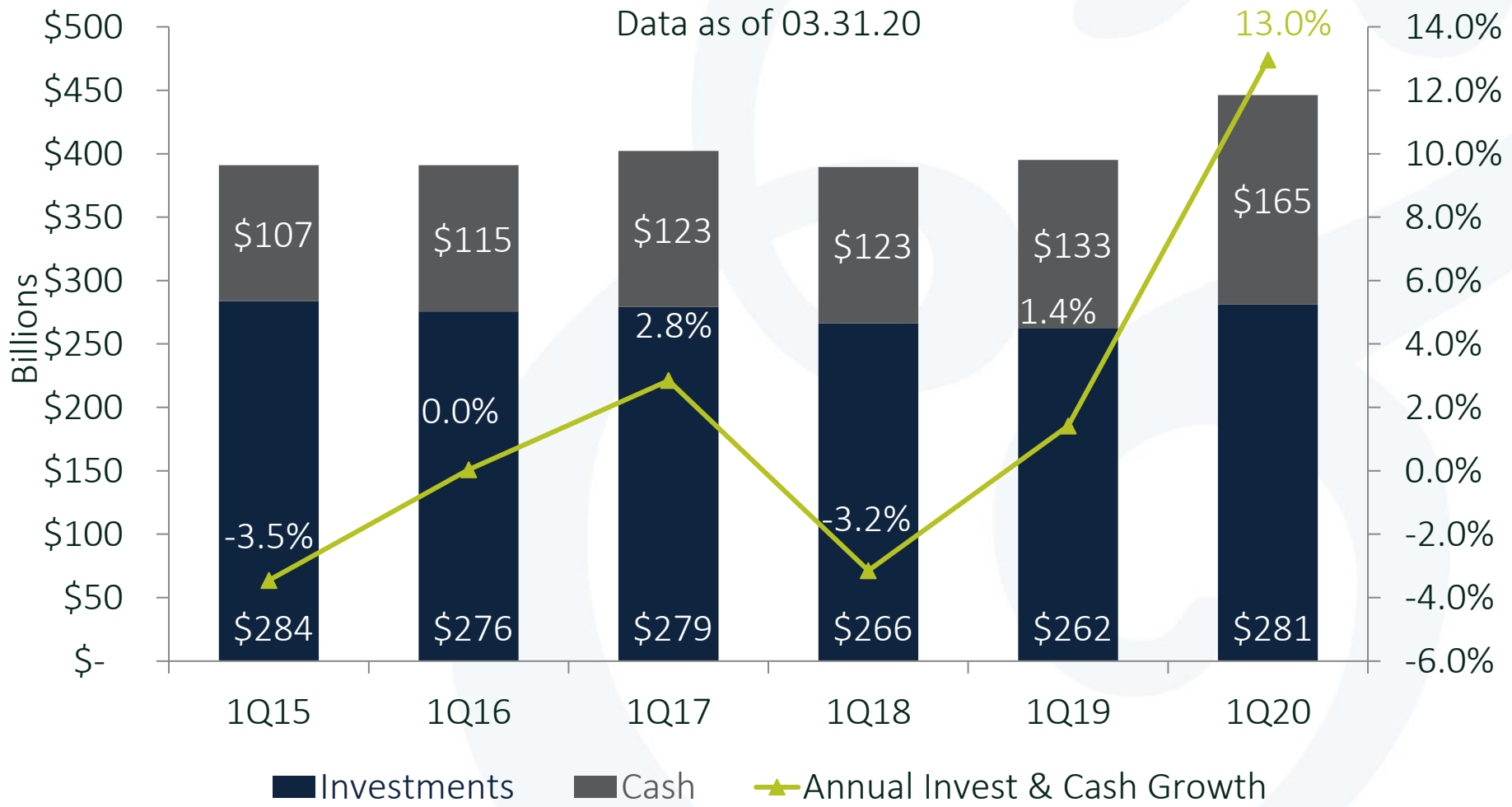


# After steadily increasing for the past six years, loan-to-share ratio falls versus 1Q 2019



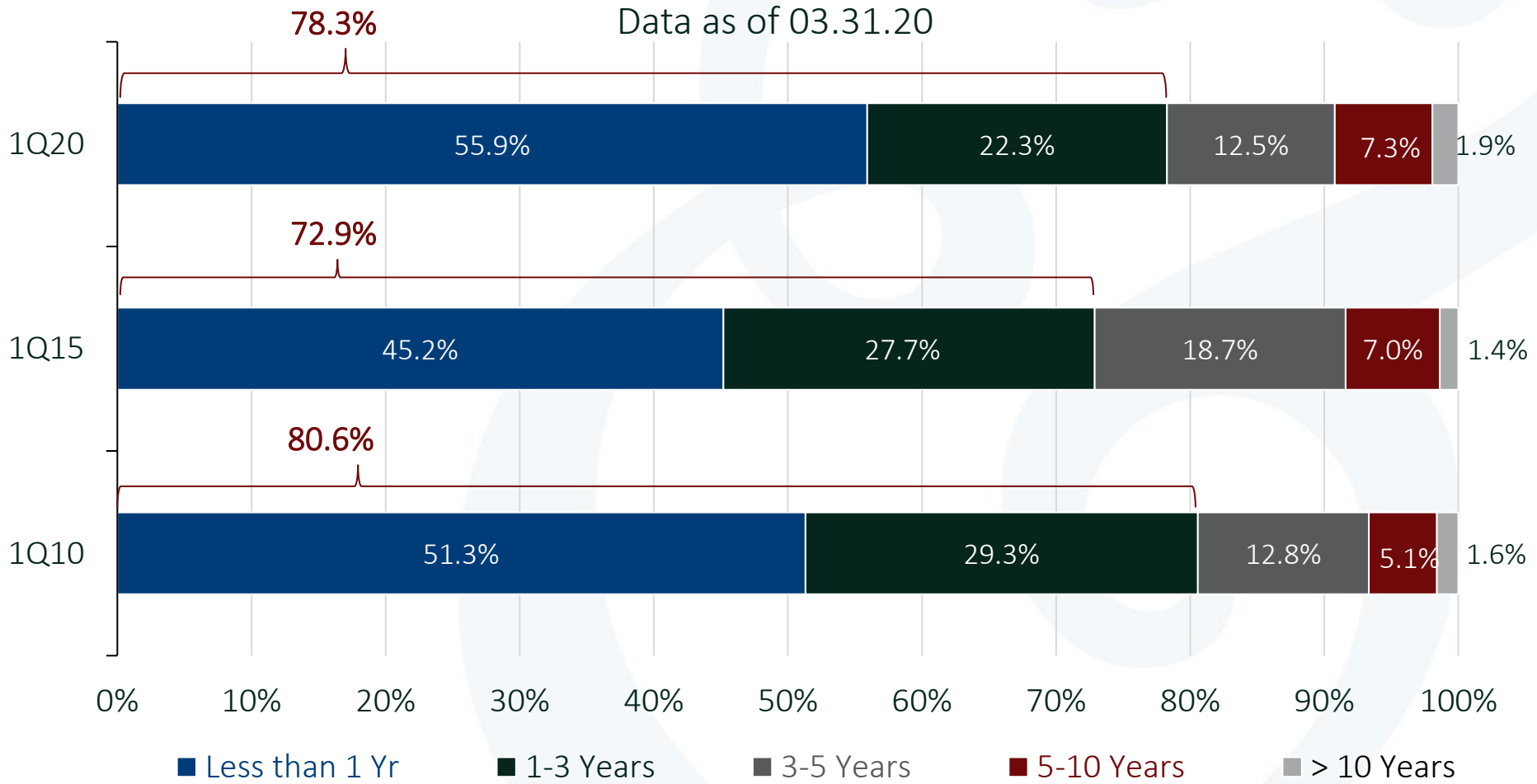
# Strong liquidity inflows push portfolios up 13.0% year-over-year; cash's share of portfolio at record high 37.0%

Total Investments & Cash and Annual Growth  
Data as of 03.31.20



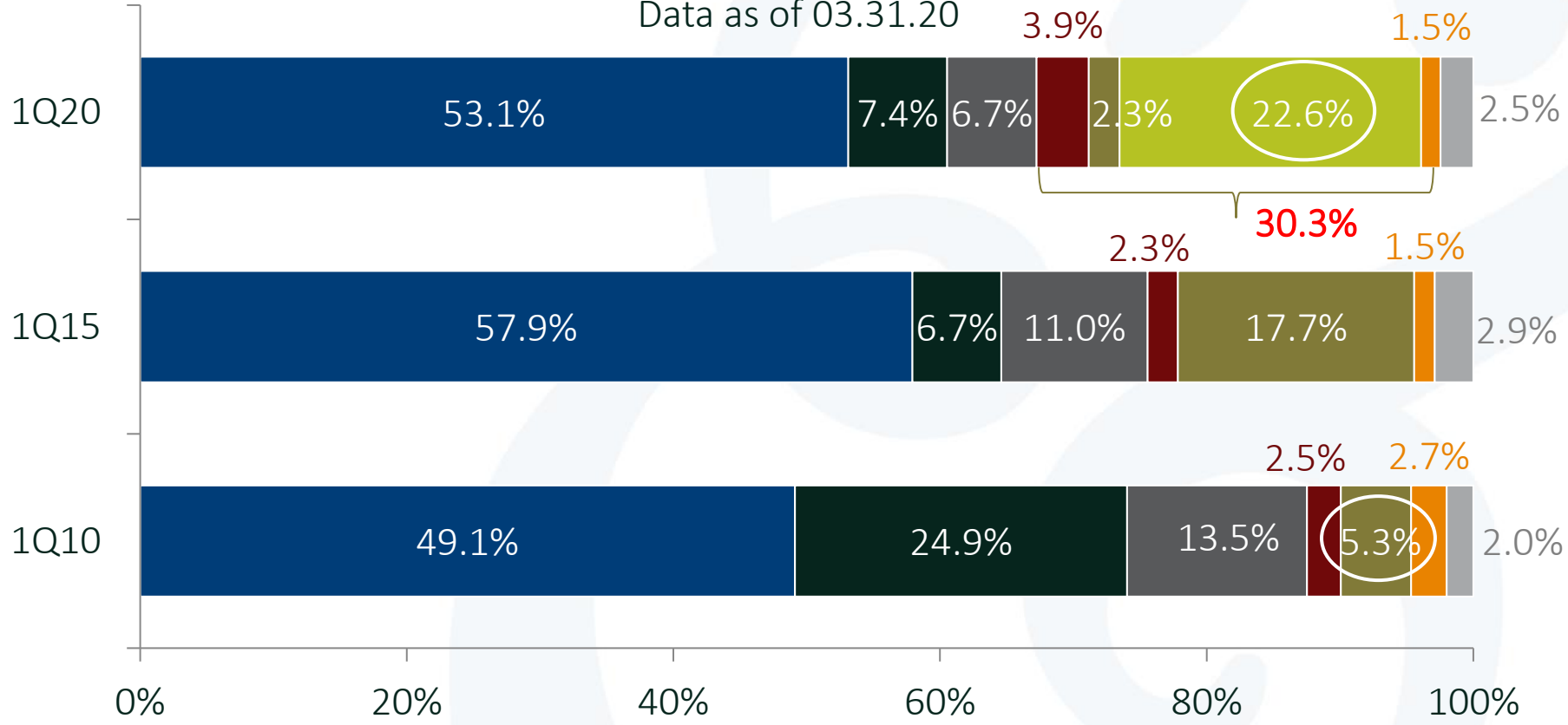
# Investments increasingly allocated to shorter maturity products; weighted average life falls to 1.78 years

Investment Maturities Over Time  
Data as of 03.31.20



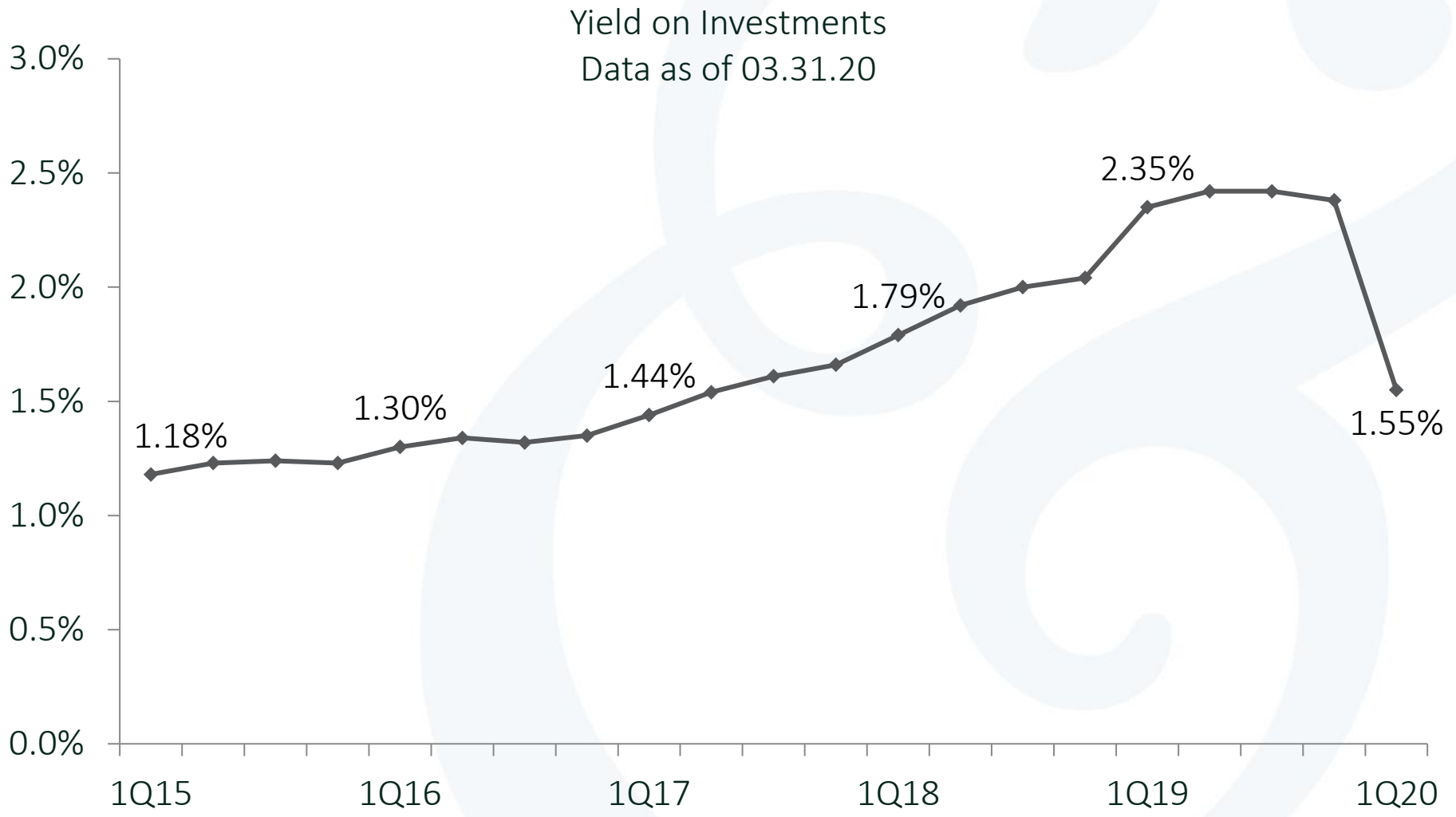
# Cash balances increase as a result of seasonal inflows, COVID, and IRS filing delays

Investment Composition  
Data as of 03.31.20



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

# Fed rate cuts contribute to 82 basis point decline in investment yield



# TCU Portfolios Progress Report

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

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# TCU Portfolio Overviews

- **TCU Ultra Short Duration Portfolio**

- \$1.09 billion total assets (as of 6/10/20)
- 3mo Treasury Index benchmark
- Strategy aims to minimize interest-rate risk while maintaining a reasonable yield spread over IOER
- ***Not a money market fund (and not intended to be)***
- 30-day yield spread vs. IOER has averaged 0.50% since 1/2/19 (currently 0.81%)

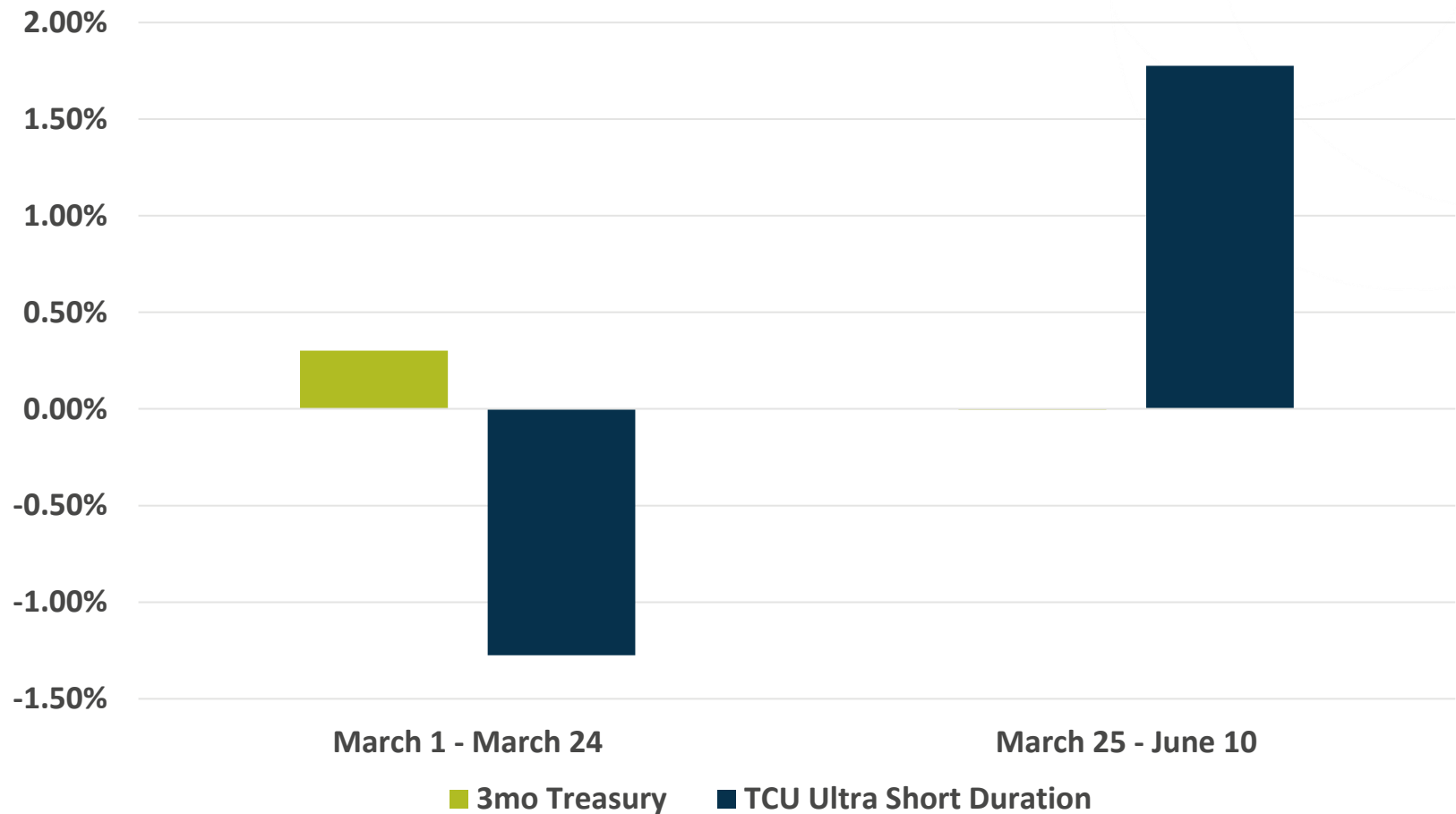
- **TCU Short Duration Portfolio**

- \$562.4mm total assets (as of 6/10/20)
- 2yr Treasury Index benchmark
- Portfolio represents ALM First's best ideas for a core bond portfolio of 703-permissible securities
- From 4/30/17 to 5/31/20, the portfolio has generated an average annual excess return of 0.40% versus its benchmark (Top 5 fund in its Morningstar category)



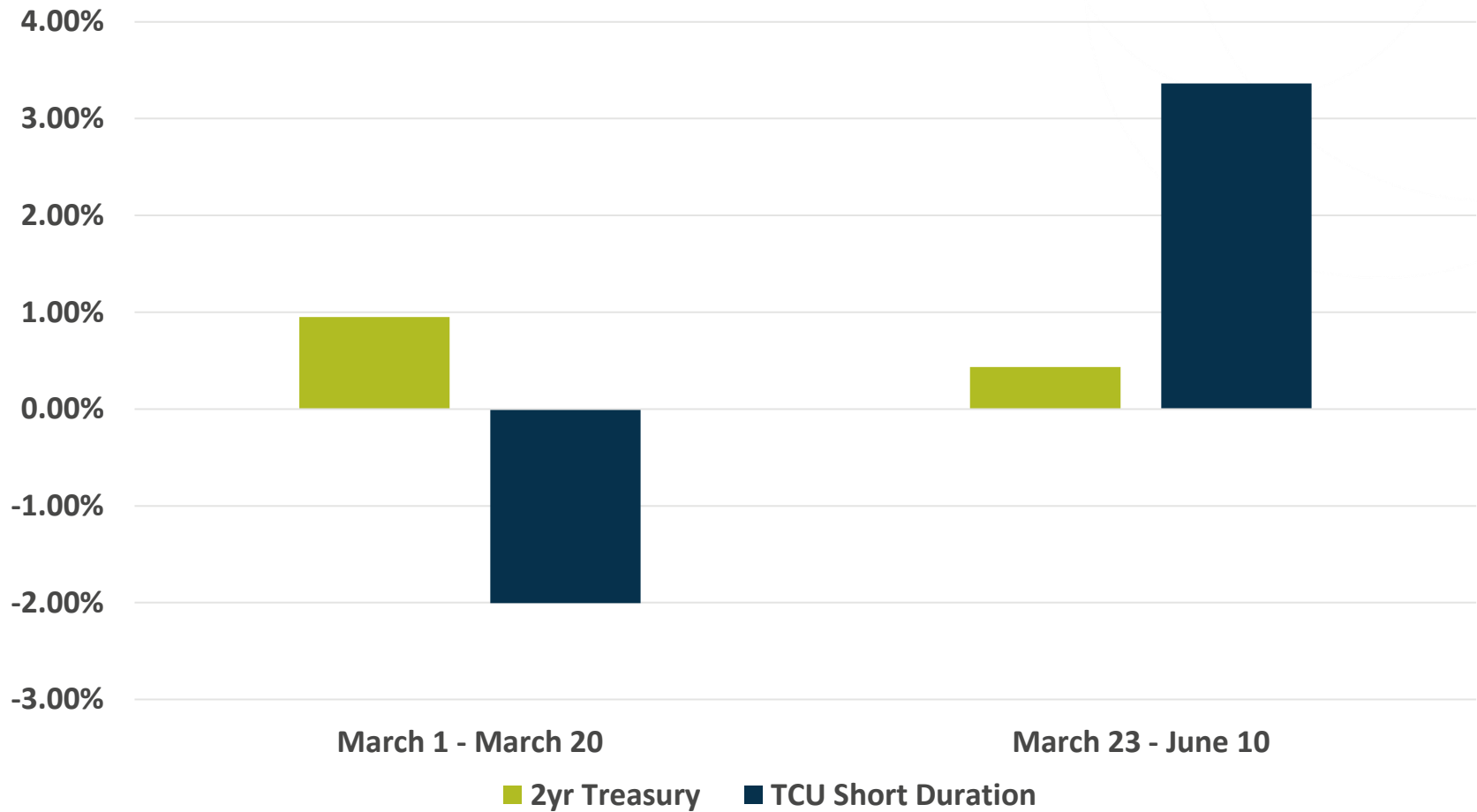
# Recent Performance: TCU Ultra Short Duration

## TCU Ultra Short Duration Total Return Vs. Benchmark



# Recent Performance: TCU Short Duration

## TCU Short Duration Total Return Vs. Benchmark



# TCU Ultra Short Duration Portfolio

## TCU Ultra Short Duration Portfolio

	Current Allocation	Ex-Ante Analytics		
		Eff. Dur	Sprd. Dur	OAS
ARM	1%	0.99%	3.70%	148
Agency Floater	0%	0.07%	2.16%	56
Bank Note Fixed & Float	9%	0.03%	1.31%	135
CMO Fixed	0%	2.03%	3.07%	19
CMO Floater	56%	0.29%	3.97%	64
MBS Fixed	0%	1.97%	2.82%	142
Repo	33%	0.05%	0.06%	77
	100%	0.21%	2.45%	76

## Yield Summary

	TCUUX <sup>2</sup>	Benchmark <sup>3</sup>	Excess
1-Day Yield	0.72%	0.15%	0.57%
30-Day Yield	1.07%	N/A	N/A

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

	TCUUX <sup>2</sup>	Benchmark <sup>3</sup>	Excess
3 month	0.35%	0.30%	0.05%
YTD	0.77%	0.58%	0.19%
12 month	2.17%	1.84%	0.33%
Avg Annual <sup>4</sup>	1.71%	1.84%	-0.13%

<sup>1</sup> As of 5/31/2020

<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)

# TCU Short Duration Portfolio

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

	Current Allocation	Ex- Ante Analytics		
		Eff. Dur	Sprd. Dur	OAS
ARM	2%	1.13%	3.48%	120
Bank Note Fixed & Float	10%	0.87%	1.75%	108
CMBS Fixed	22%	5.54%	6.29%	84
CMO Fixed	7%	-2.22%	4.43%	140
CMO Floater	21%	0.21%	4.30%	50
MBS Fixed	35%	2.03%	3.97%	104
Repo	3%	0.01%	0.02%	10
	100%	1.93%	4.22%	88

## Yield Summary

	TCUDX <sup>2</sup>	Benchmark <sup>3</sup>	Excess
1-day	1.67%	0.16%	1.51%
30-day	1.81%	N/A	N/A

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

	TCUDX <sup>2</sup>	Benchmark <sup>3</sup>	Excess
3 month	1.23%	1.42%	-0.19%
YTD	2.98%	2.91%	0.07%
12 month	4.94%	4.49%	0.45%
Avg Annual <sup>4</sup>	3.01%	2.61%	0.40%

<sup>1</sup> As of 5/31/2020

<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)

# Looking Ahead

- **High credit quality fixed income should continue to trade well amid strong monetary support for the foreseeable future**
- **Ultra Short Duration Portfolio yield has finally fallen below 1% and should settle in the 70-90 bps range in the coming weeks**
  - NAV should settle in a tighter range
  - Portfolio market value will continue to be much more sensitive to changes in fixed income spreads than changes in interest rates
- **TCU balances continue to grow as credit unions deal with increased cash balances and sluggish loan demand**

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# Questions & Discussion

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