

SHORT TERM FIXED INCOME

September 2022

Holding-Based Statistics

	Short Term Fixed Income	Bloomberg Barclays 1-3yr Gov/Credit
Yield to Maturity	4.88%	4.52%
Effective Duration	1.84 years	1.82 years
Average Credit Quality	A-	AA

Strategy Statistics

Trailing 12 Month Turnover	28%
Firm Assets	276.35
Product Assets	53.15

Investment Philosophy

The Short Term Fixed Income strategy is managed to provide a high degree of current income with limited interest rate risk by investing in high quality investment grade corporate bonds and U.S. Government securities. The separate account strategy is actively managed with regards to security selection and yield curve exposure with an objective to generate a total return in excess of the index over a full market cycle.

Portfolio Management Team

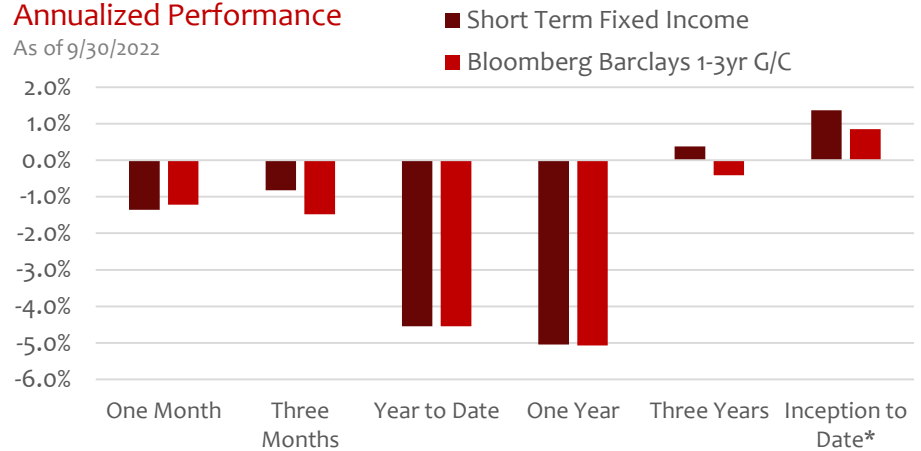
David M. Killian
Joseph D. Shacklock

Inception Date

1/31/2018

Annualized Performance

As of 9/30/2022

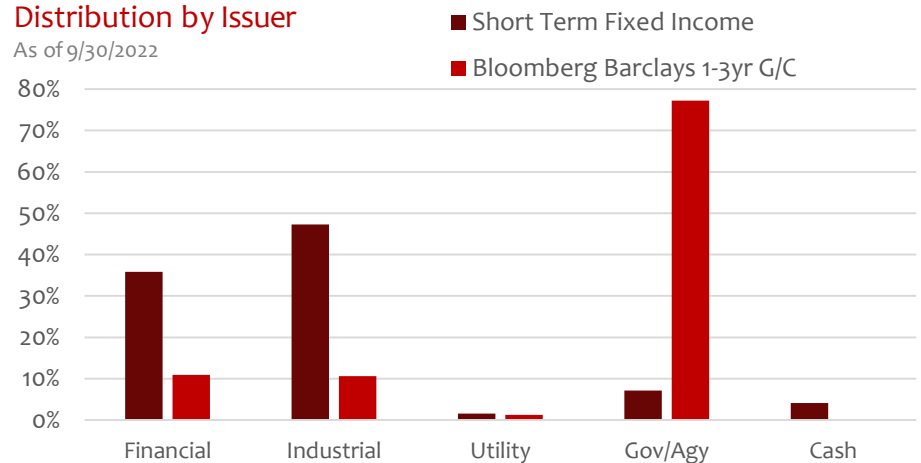


	One Month	Three Months	Year to Date	One Year	Three Years	Inception to Date*
Short Term Fixed Income	-1.36%	-0.82%	-4.54%	-5.04%	0.38%	1.37%
Bloomberg Barclays 1-3yr Gov/Credit	-1.22%	-1.48%	-4.54%	-5.07%	-0.41%	0.85%

* Inception 1/31/2018

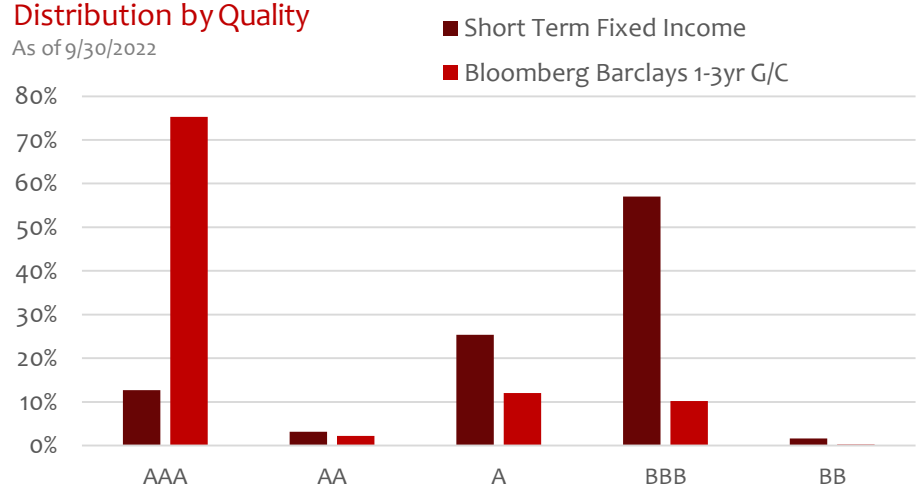
Distribution by Issuer

As of 9/30/2022



Distribution by Quality

As of 9/30/2022



Top 10 Holdings

As of 9/30/2022

Ebay Inc 3.45% - 8/1/24	2.01%
Aetna Inc 3.50% - 11/15/24	1.85%
JPMorgan Chase & Co 3.875% - 9/10/24	1.84%
Capital One Corp 4.20% - 10/29/25	1.82%
Citigroup Inc 4.00% - 8/5/24	1.76%
Boeing Co 4.875% - 5/1/25	1.54%
Lloyds Banking Group 4.05% - 8/16/23	1.44%
Ally Financial Inc 5.80% - 5/1/25	1.41%
Santander SA 2.706% - 6/27/24	1.38%
Becton Dickinson & Co 3.734% - 12/15/24	1.33%

3Q 2022 Portfolio Commentary

Consistent with the first half of 2022, during the third quarter investors continued to closely monitor inflation trends, which remain persistently above the Federal Reserve's long term goal of 2%, and the likely policy response from the Federal Reserve. The Federal Reserve, despite having raised the Fed Funds Rate aggressively in 2022, is yet to see any meaningful moderation in inflationary pressures. The tight labor market has been an area of focus for the Federal Reserve, as a historically low unemployment rate continues to foster wage pressures. For the month of September, payroll additions marked a modest slowdown from August, however, the unemployment rate once again came in below expectations at 3.5% which suggests that Federal Reserve policy has yet to show any progress in bringing labor supply and demand into better balance.

Earlier in the year, market consensus was that achieving a neutral level of the Fed Funds rate would be sufficient to tame inflation and that it would soon thereafter allow for a Fed "pivot". It was believed by many market participants that evidence of peak inflation would prompt the Fed to consider slowing the pace of rate increases and perhaps as early as 2023, begin to reverse course and actually begin the process of lowering interest rates. However, troublesome economic data received late in the quarter, which included the August CPI print, increasing at an 8.3% when compared to the year earlier, quickly called this optimistic outlook into question. Messaging from the Federal Reserve reinforced the markets abrupt shift away from expecting a near term Fed pivot by emphasizing that a neutral Fed Funds rate would no longer be sufficient and that a more restrictive Fed Funds rate would be appropriate and this higher level would need to be maintained for quite some time. Expectations are now that the Fed will, at their next meeting in November, raise the Funds rate by 75 basis points, and at the last meeting in December an additional 50 basis points. If realized, this would result in a year end Federal Funds rate of 4.5%, a level that is viewed as firmly restrictive.

This abrupt shift away from a projected neutral Fed Funds policy to a more restrictive one resulted in a dramatic increase in yields during the quarter. The 2-Year U.S. Treasury yield increased 132 basis points to end the quarter at a rate of 4.28% while the 10-Year U.S. Treasury yield rose 80 basis points, ending the period at 3.82%. A troubling market indicator continues to be the changing shape of the U.S. Treasury yield curve, which during the quarter shifted to a meaningfully inverted level. The difference in yield between the 2-Year Treasury and the 10-Year Treasury is currently -46 basis points, which suggests an increasing likelihood that the Fed's aggressive policy response will push the economy into a recession in the coming year. Other market signals that confirm this view and suggest that a soft landing will be a difficult task for the Fed include a widening in corporate bond spreads and recent weakness in the stock market.

While aggressive policy adjustments enacted by the Federal Reserve to bring down inflation have weighed heavily on bond market returns year to date, we believe that further downside from this point is limited. The material repricing in the bond market during the third quarter has resulted in U.S. Treasury yields of all maturities centered around 4%, a level in our view which represents fair value and fully incorporates the current outlook for the future path of the Fed Funds rate. While safe haven U.S. Treasury securities have likely reached a level that incorporates both the future path of Fed policy and the increasingly uncertain economic outlook, risk assets, particularly corporate bonds, have not yet fully priced in the increasing risk of an economic downturn. As measured by the Bloomberg Barclay's Aggregate Bond Index, the bond market returned -4.75% for the quarter. The economically sensitive Bloomberg Barclay's U.S. Corporate Bond Index returned -5.06%, while the U.S. Treasury Index returned -4.35%.

As we have stated in prior commentary, our approach this calendar year has been a conservative one. We have positioned the portfolios defensively with respect to interest rate exposure, and have taken actions to increase the portfolios overall credit quality. Given the material increase in yields witnessed during the quarter, we have moved the portfolios interest rate exposure closer to a neutral level, however given the increasingly uncertain economic outlook, we continue to favor bonds of the highest quality. This portfolio structure and actions taken early in the third quarter to further reduce exposure to lower quality bonds benefitted relative returns for both the quarter and year to date periods.

While corporate bond valuations now better reflect the potential of a recession in the coming year, we continue to believe that a defensive posture is appropriate and we are waiting for valuations to improve further before establishing new positions in this segment of the market. As always, we will remain attentive to quickly changing market conditions and would be opportunistic in reducing safe haven U.S. Treasury exposure in favor of higher yielding corporate bonds at the appropriate time.



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