



Investment Trends & Insights For Credit Unions



Jason Haley, Chief Investment Officer, ALM First Financial Advisors

Sam Taft, AVP Business Development, Trust for Credit Unions



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

Current Economic Themes

- **Economic jitters emerge heading into Q4**

- Softening global demand worries related to delta variant and China's crackdown on private sector, as well as multi-decade highs in inflation
- Consumer confidence back to Spring 2020 levels
 - University of Michigan survey index plunged in July and August on COVID and inflation worries
- Economic data trend worsening relative to expectations
 - August jobs and CPI reports both miss to the downside
- General perception that economy is losing momentum as fiscal/monetary stimulus fades

- **Fed set to taper asset purchases in 2021; liftoff remains a 2023 expectation**

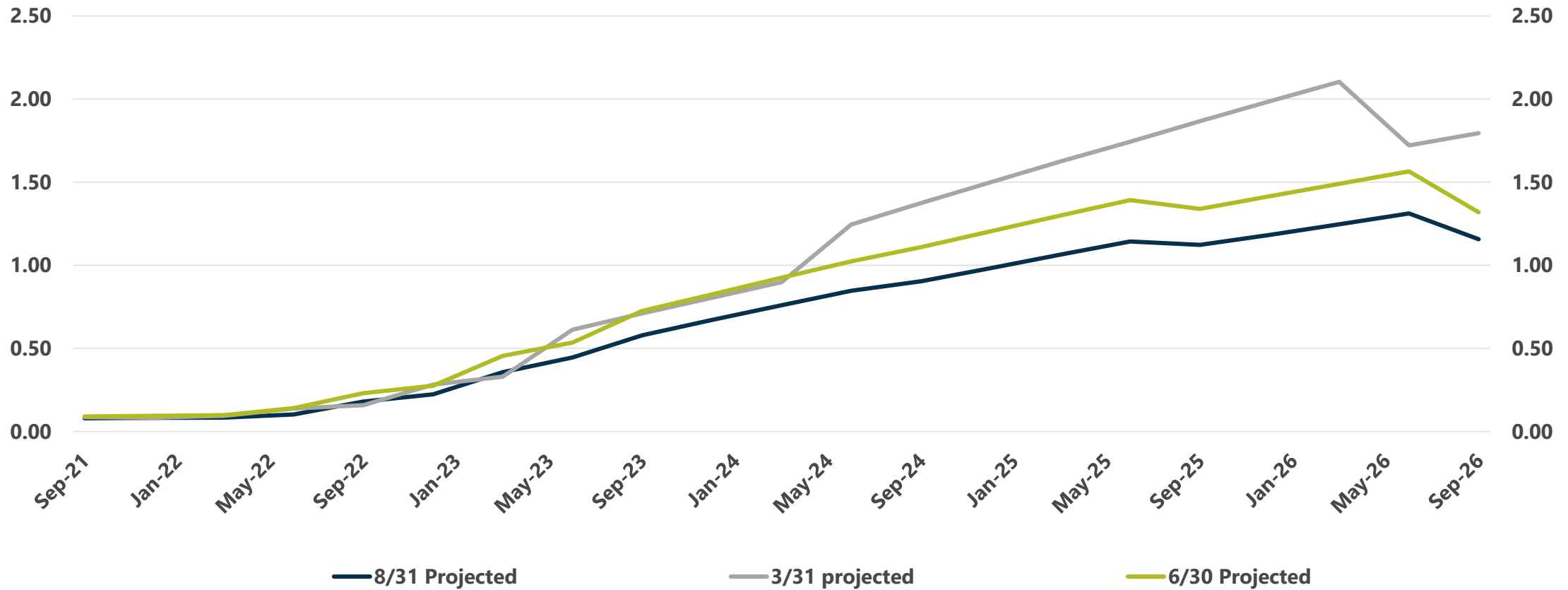
- Fed balance sheet has more than doubled to more than \$8 trillion since pre-COVID, so markets have keenly focused on potential changes to asset purchases and interest rate policy

- **Congress debating infrastructure bill and larger \$3.5 trillion spending plan**

- Senate has already passed \$500+ billion of new infrastructure spending, but legislation is bogged down in House as progress and moderate Democrats debate size and timing
- Senators Manchin (D-WV) & Sinema (D-AZ) remain key figure in negotiations and is in favor of much smaller spending plan (passage in Senate would require every Democrat vote assuming no Republican support)
- Treasury department expected to run out of cash in mid/late October, so debt ceiling renewal likely to become part of budget negotiations as well

Market Pricing For Fed Liftoff

1-Month Overnight Index Swap (OIS) Implied Forward Curve (%)



Actual Vs. Expected Data Trend

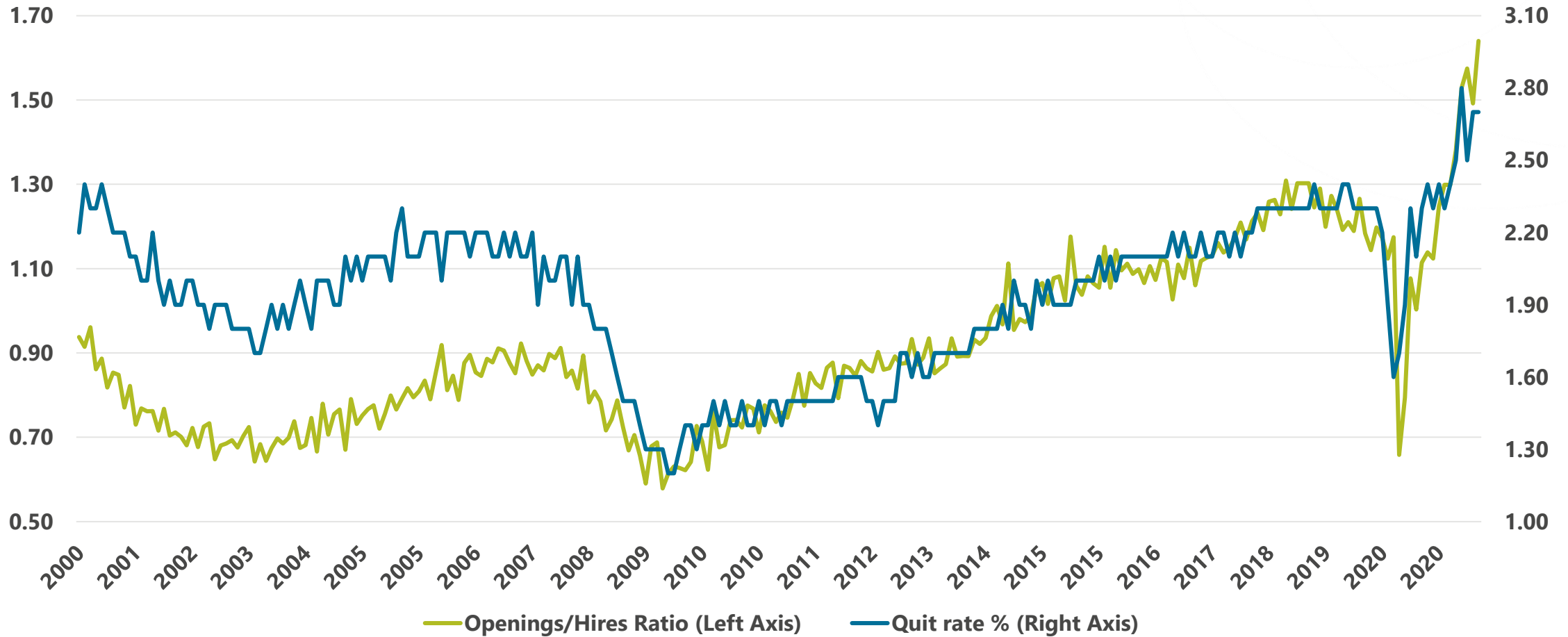
Citigroup Economic Surprise Index



Source: Citigroup Global Markets; Bloomberg

Labor Market Still Tightening

JOLTS Data



Source: BLS; Bloomberg

Market Themes

- **Treasury curve is flatter in Q3**

- Long-end yields continue to trade at levels below what economic growth expectations would imply
 - Still strong demand from foreign buyers
- Still heavy demand for short-term securities and floaters
 - Fed overnight repo facility still experiencing record demand amid net decline in Treasury bill issuance (debt ceiling related)

- **Tapering Doesn't Imply Tantrum**

- Some have expressed concern that Fed asset purchase tapering will spark 2013-like market response
- Fed communication (and market experience) is much different this cycle
- Fixed income spreads could remain relatively tight even as Fed begins reducing the pace of new purchases

- **2021 still a tough year for fixed income performance**

- Bloomberg Barclays Aggregate Index has negative gross and net (excess) total returns through August
- Spreads have held steady for several months, with modest widening in some sectors, including MBS and ACMBS

Treasury Curve			
Tenor	9/14/2021 (%)	6/30/2021 (%)	Change (bps)
1-Month	0.04	0.04	0.00
3-Month	0.03	0.04	-0.01
6-Month	0.05	0.05	0.00
1-Year	0.07	0.07	0.00
2-Year	0.21	0.25	-0.04
5-Year	0.79	0.89	-0.10
10-Year	1.28	1.47	-0.18
20-Year	1.79	2.02	-0.23
30-Year	1.86	2.09	-0.23
Curves			
3mo-10yr	1.25	1.43	-0.17
2yr-5yr	0.58	0.64	-0.06
2yr-10yr	1.08	1.22	-0.14
2yr-30yr	1.65	1.84	-0.19
5yr-10yr	0.50	0.58	-0.08

Source: Bloomberg



Credit Union Investment Trends

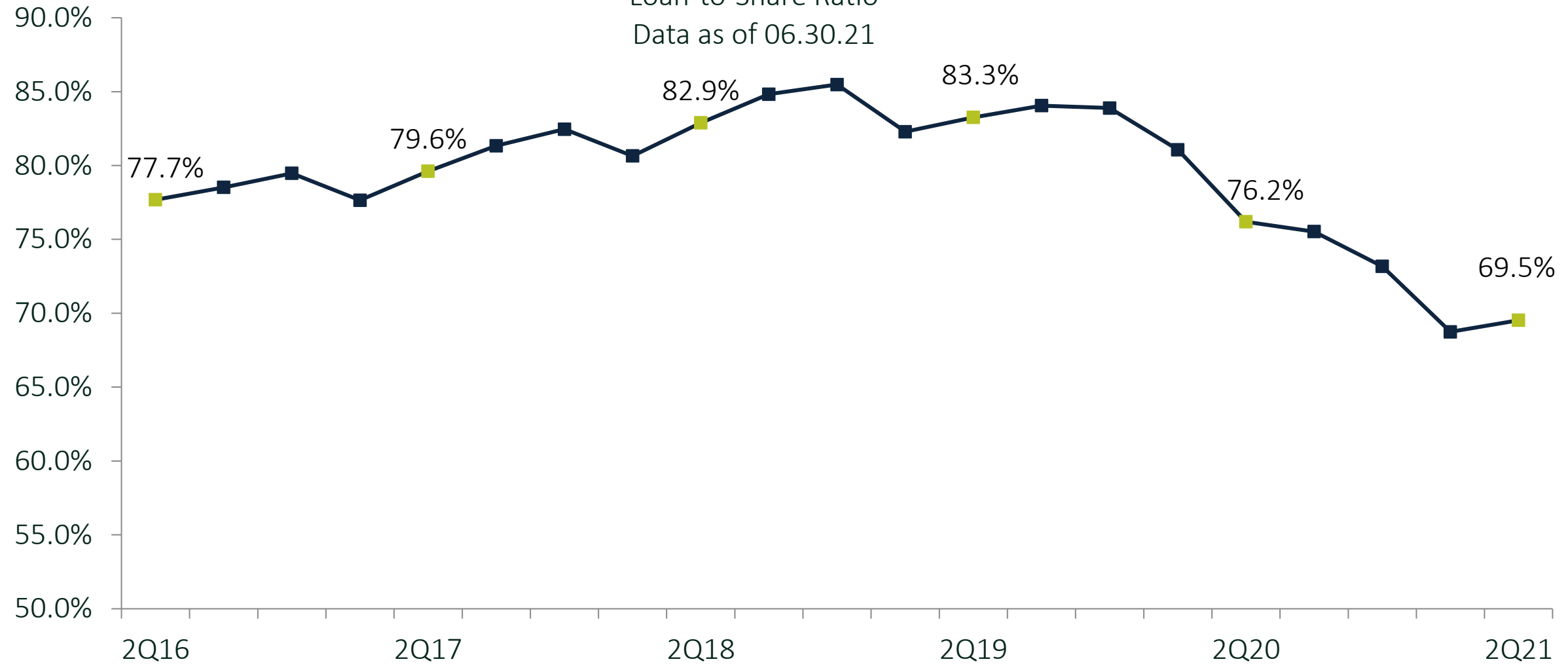
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Headline Numbers at 2Q21

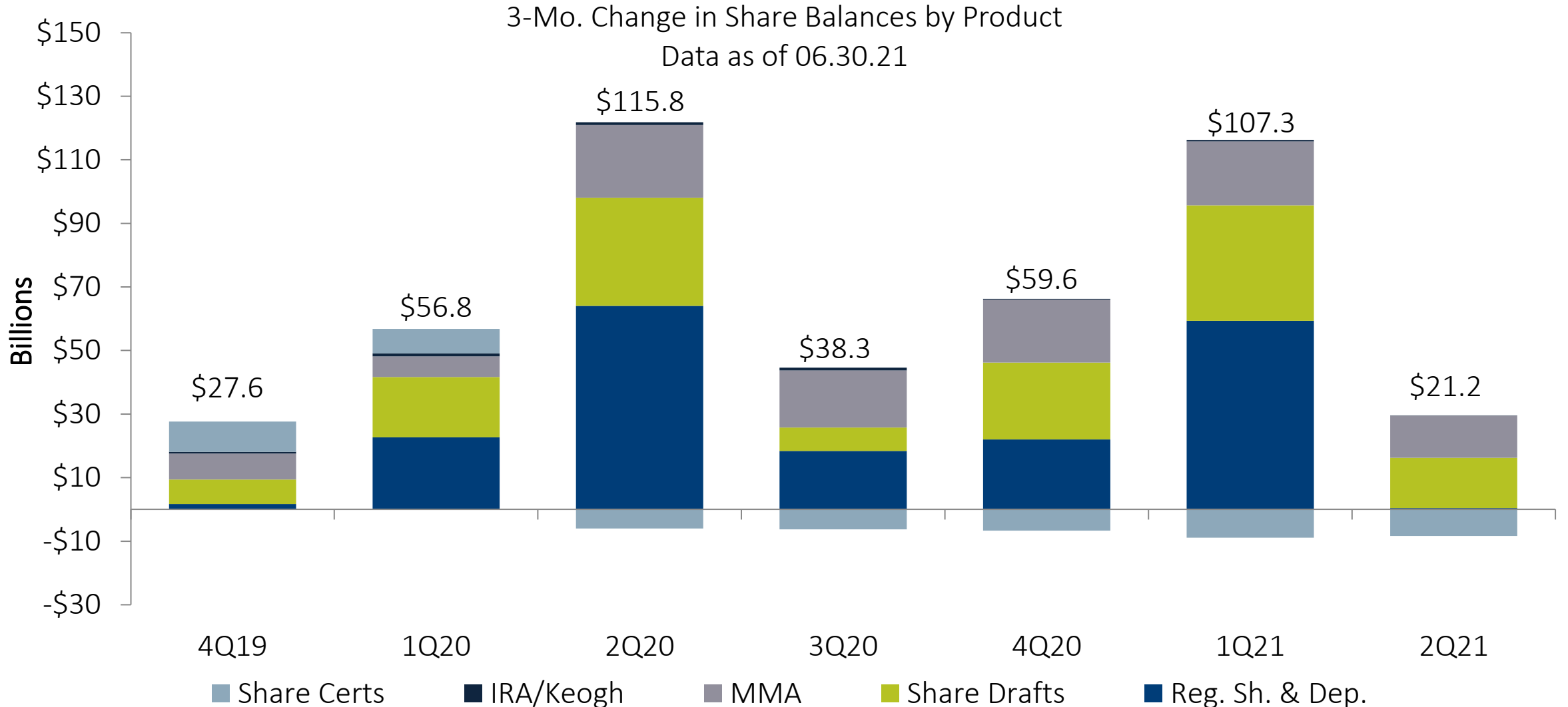
	6/30/2021	12-Mo. Growth	6/30/2020	12-Mo. Growth
Assets	\$1,999.4B	13.0%	\$1,769.1B	15.0%
Loans	\$1,205.8B	5.0%	\$1,148.9B	6.5%
Shares	\$1,734.5B	15.0%	\$1,508.0B	16.4%
Investments	\$701.0B	31.3%	\$533.8B	38.2%
Capital	\$213.4B	7.7%	\$198.1B	9.5%
Members	128.6M	4.0%	123.7M	3.4%

The loan-to-share ratio increased quarter-over-quarter for the first time since 3Q19

Loan-to-Share Ratio
Data as of 06.30.21

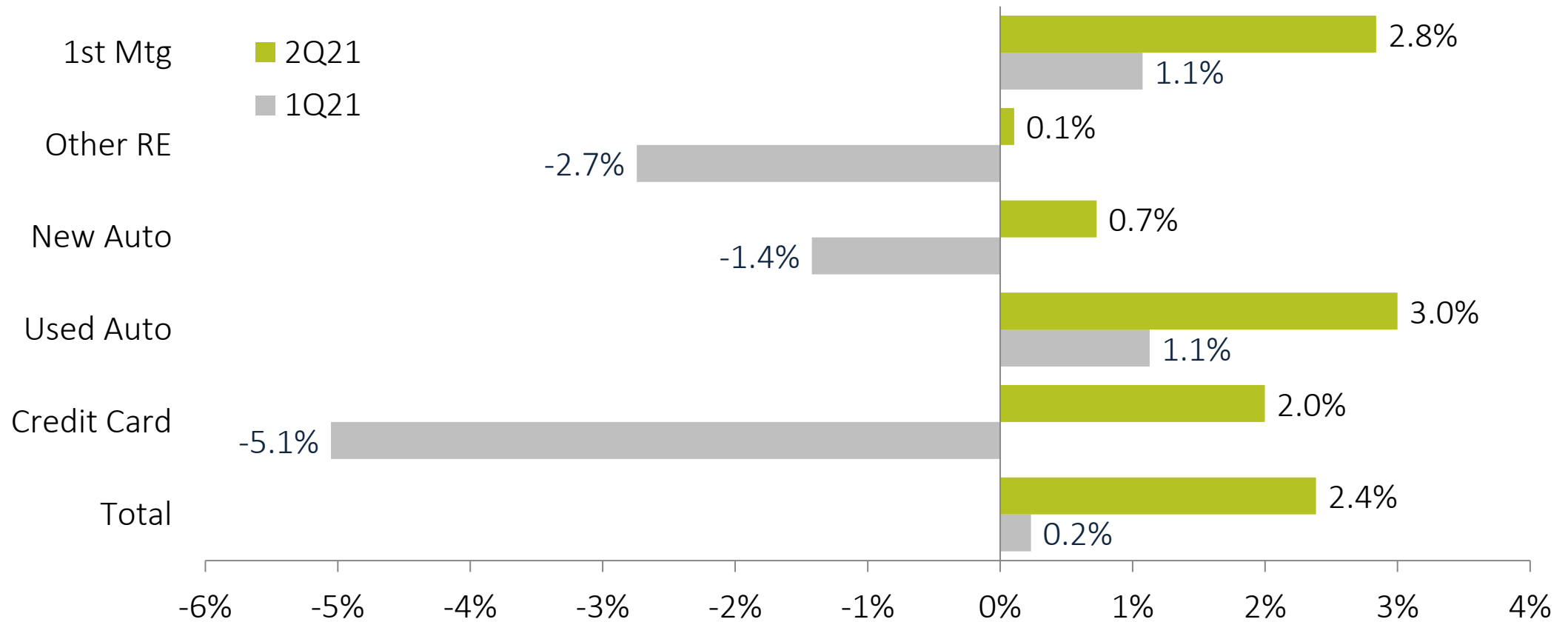


Second quarter share growth is the slowest since 3Q19



Balances rise in every loan product in the second quarter as dynamics change from first quarter

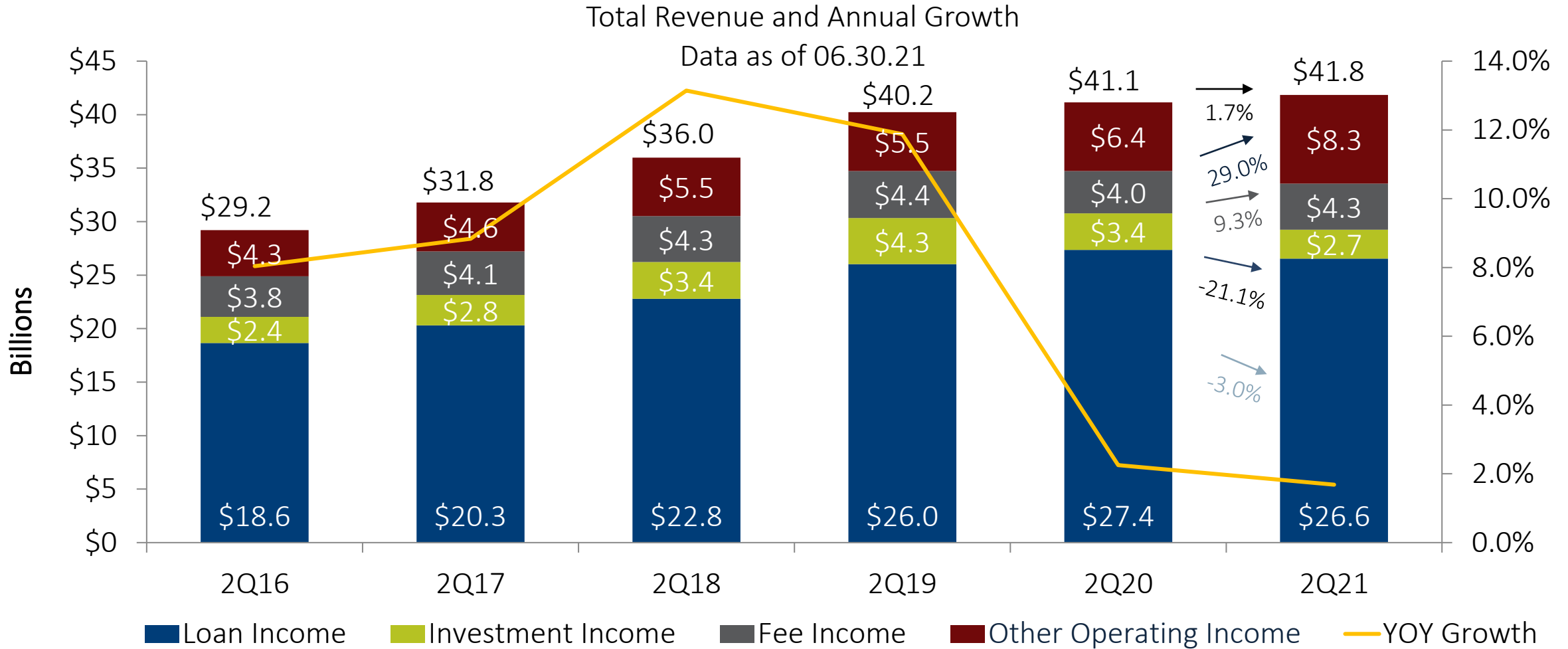
Quarterly Growth in Loans Outstanding
Data as of 6.30.21



For the first time on record, credit unions recorded a negative quarterly provision expense



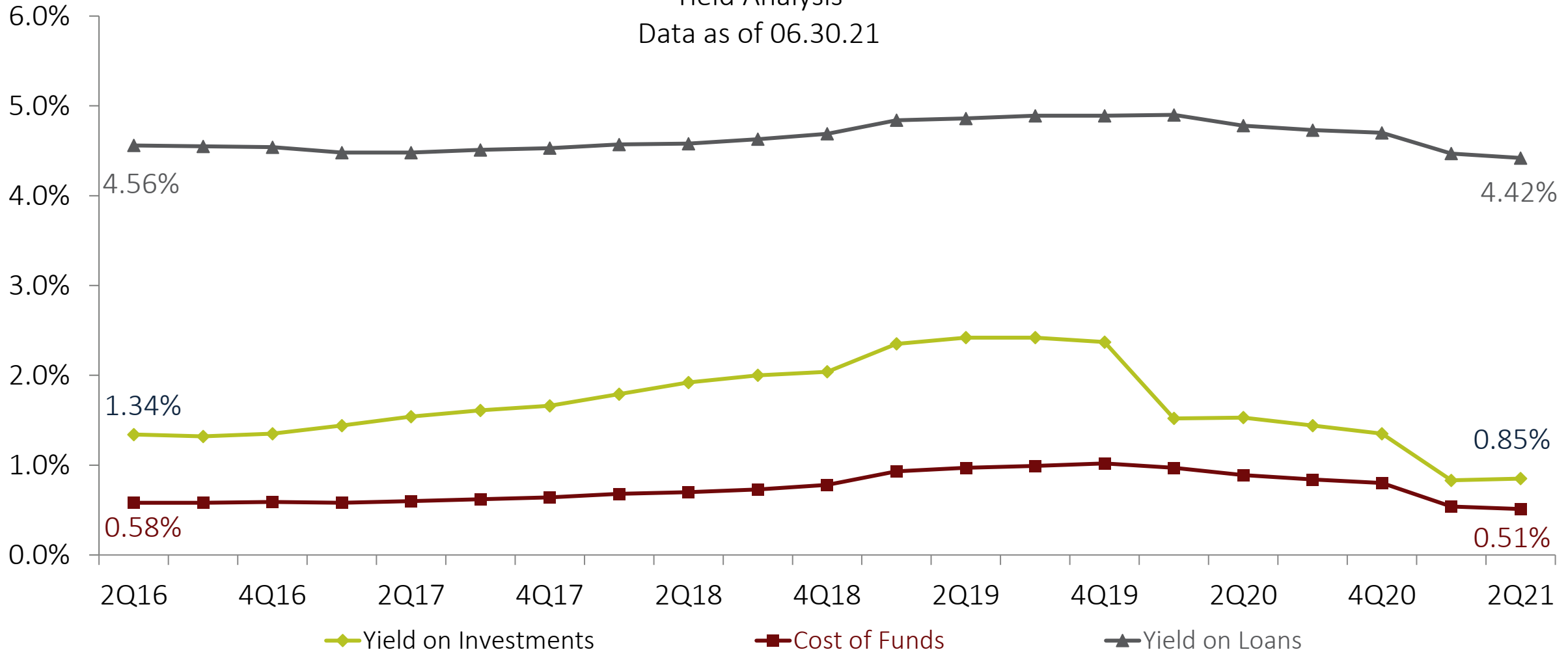
Revenue rises 1.7% despite a continued slowdown in interest income streams



Loan yield and cost of funds are trending down at a similar pace

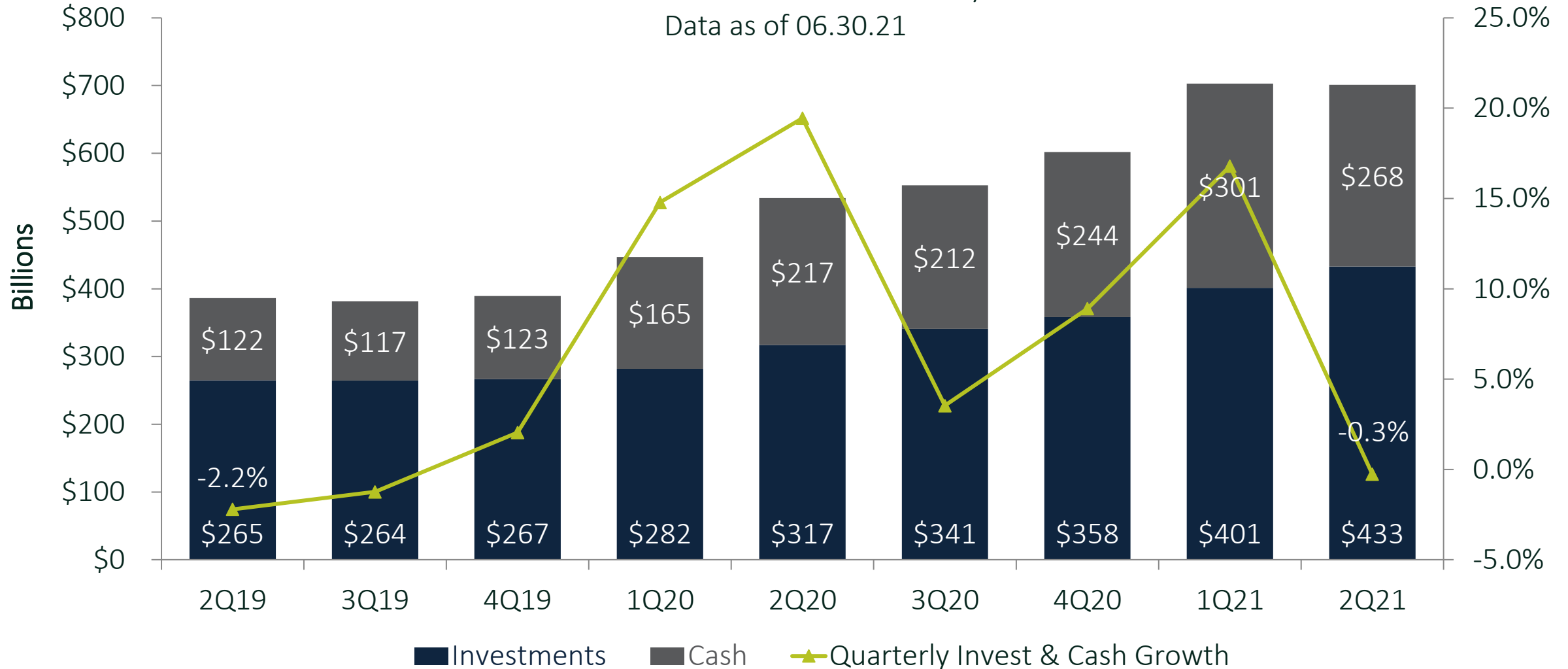
Investment yields rise slightly

Yield Analysis
Data as of 06.30.21

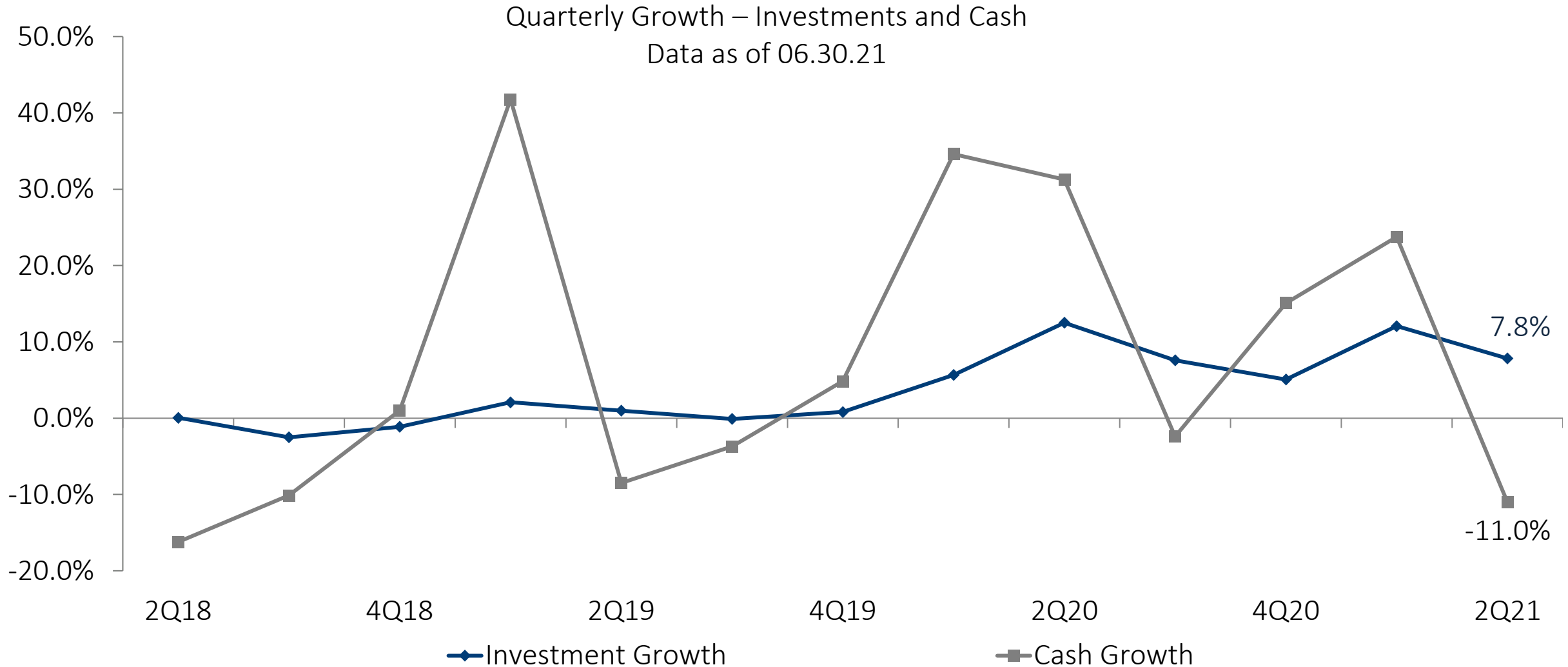


Cash declines 11.0% in 2Q; investments up 7.8% quarterly

Total Investments & Cash and Quarterly Growth
Data as of 06.30.21

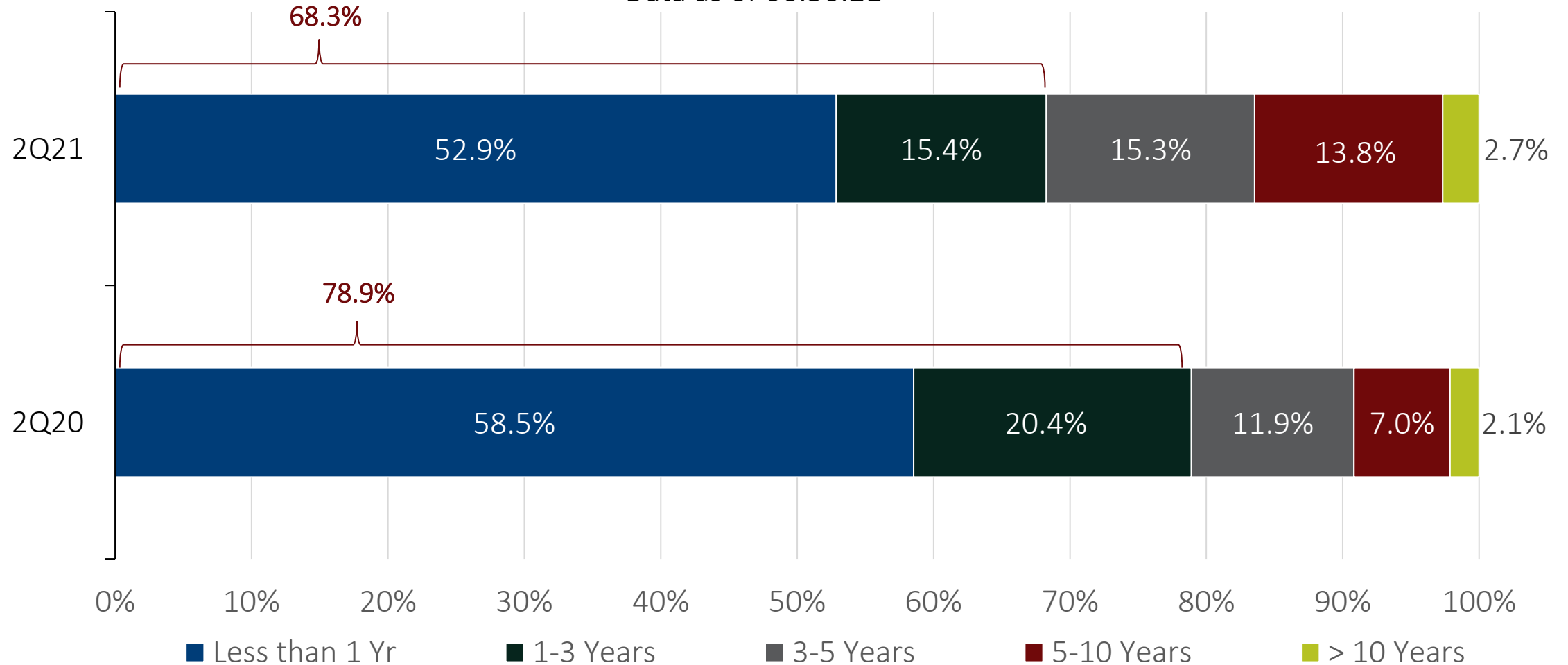


Loan demand and traditional investing activities lead to drop in cash



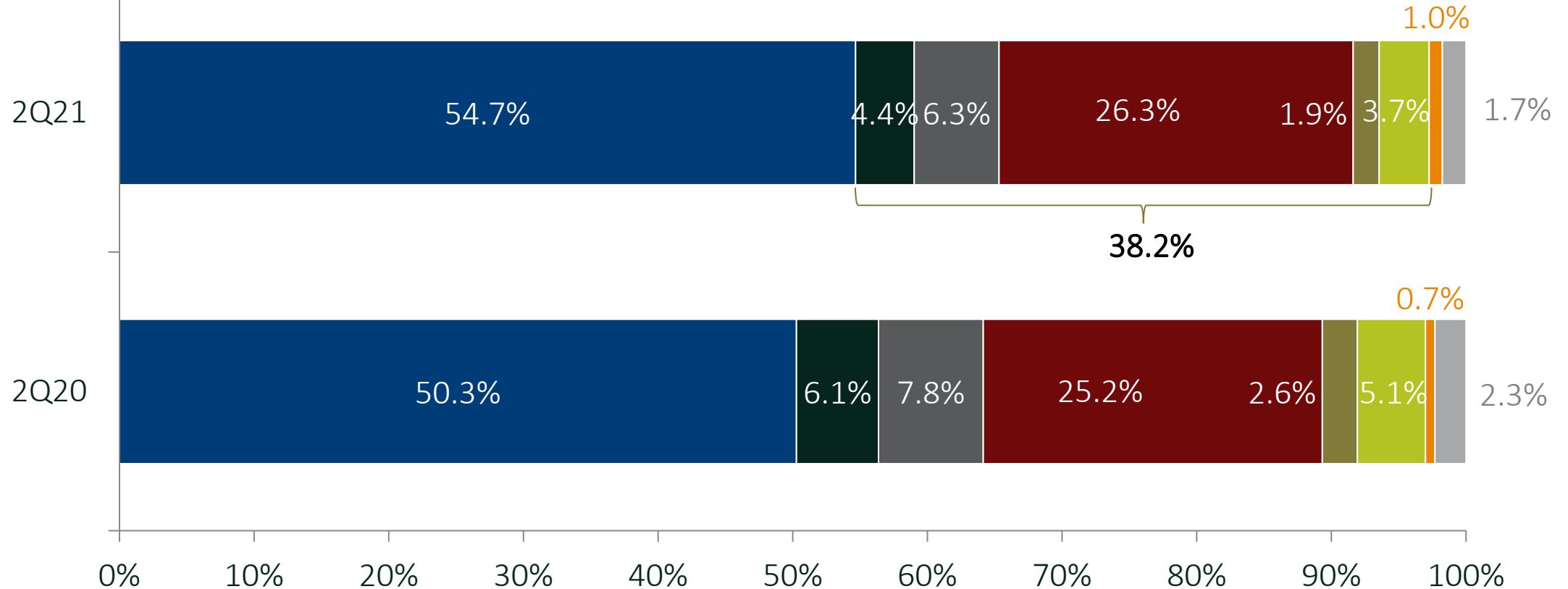
Portfolios lengthen from 1Q21 - weighted average life increases to 2.29 years

Investment Maturities Over Time
Data as of 06.30.21



Fed & Agency balances grow 43% annually

Investment Composition
Data as of 06.30.21



- US Govt., Fed. Agency, and Other Sec.
- Cash at Corporate
- Cash at FIs
- Mutual Funds
- Banks and S&Ls
- Cash at Fed
- Cash & Equiv.
- Other Inv & Insurance



TCU Portfolios Progress Report

Jason Haley
Chief Investment Officer
ALM First Financial Advisors



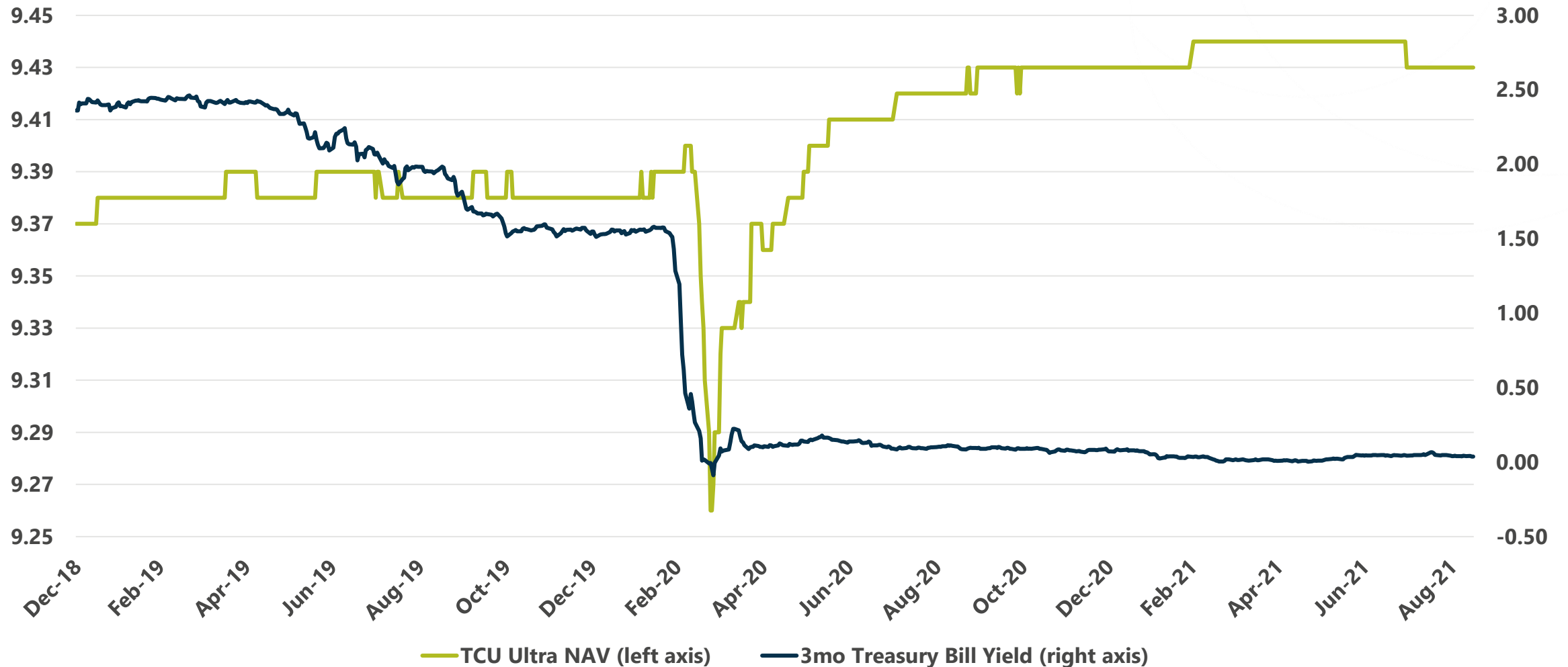
- **TCU Ultra Short Duration Portfolio**

- \$3.30 billion total assets (as of 9/13/21)
- 3mo Treasury Bill 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 9/13/21, 0.20% 30-day yield for Investor shares

- **TCU Short Duration Portfolio**

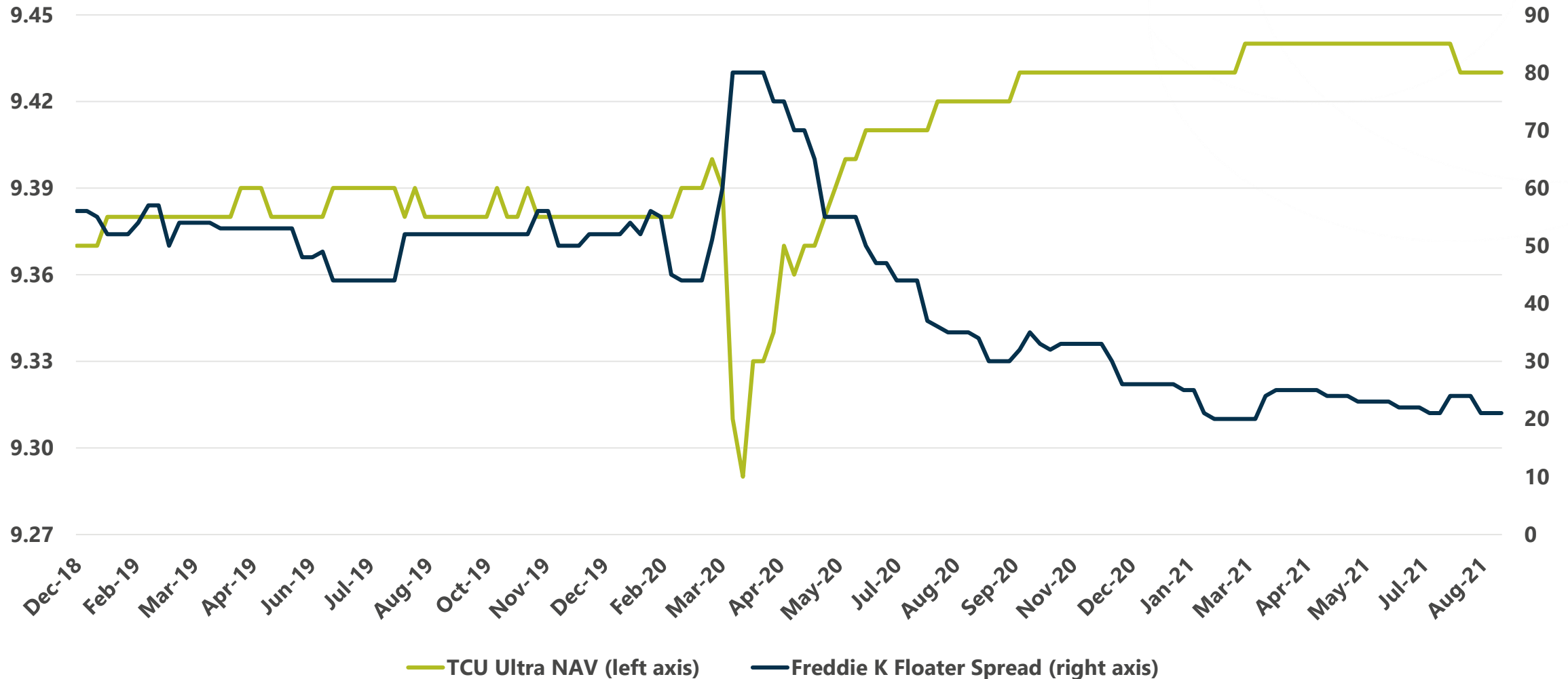
- \$1.5 billion total assets (as of 9/13/20)
- 2yr Treasury note benchmark
- Portfolio generally represents ALM First's best ideas for a core bond portfolio of 703-permissible securities
- 3yr and 5yr performance series in top quartile of Morningstar category (short government)
 - 10th percentile over 5yr timeframe (75 funds)

TCU Ultra Short NAV vs. Changes in Rates



Source: Bloomberg

TCU Ultra Short NAV Vs. Changes in Rates



Source: Bloomberg, J.P. Morgan

TCU Ultra Short Duration Portfolio

TCU Ultra Short Duration Portfolio				
	Current Allocation	Ex-Ante Analytics		
		Eff. Dur	Sprd. Dur	OAS
ARM	0%	0.79%	3.78%	74
Agency Floater	0%	0.37%	1.41%	83
Bank Note Float	2%	0.12%	0.59%	27
CMBS Fixed	0%	3.43%	3.79%	30
CMO Fixed	0%	2.62%	3.07%	36
CMO/ACMBS Floaters	69%	0.23%	3.88%	28
MBS Fixed	0%	2.24%	3.05%	-28
Repo	28%	0.03%	0.04%	31
	100%	0.18%	2.73%	29

Total Return Summary ¹			
	TCUUX ²	Benchmark ³	Excess
3 month	-0.05%	0.01%	-0.06%
YTD	0.18%	0.03%	0.15%
12 month	0.44%	0.08%	0.36%
Avg Annual ⁴	1.39%	1.27%	0.12%

Portfolio Characteristics		
	TCUUX	Benchmark
Effective Duration	0.18%	0.25%
Spread Duration	2.73%	0.25%
30 day Eff Yield ⁵	0.21%	NA
OAS	29	-7

¹ As of 8/31/2021

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)

⁵ Investor shares

TCU Short Duration Portfolio

TCU Short Duration Portfolio Summary ¹				
	Current	Ex-Ante Analytics		
	Allocation	Eff. Dur	Sprd. Dur	OAS
ARM	1%	0.94%	3.75%	73
Bank Note Fixed	5%	1.86%	1.98%	37
Bank Note Float	1%	0.12%	0.41%	152
CMBS Fixed	30%	3.78%	4.00%	55
CMO Fixed	2%	-0.56%	4.28%	54
CMO/ACMBS Floaters	30%	0.21%	3.77%	25
MBS Fixed	19%	2.95%	3.84%	14
Muni	0%	4.35%	4.41%	44
UST	7%	1.83%	1.85%	1
Repo	5%	0.00%	0.00%	7
	100%	1.99%	3.44%	32

Total Return Summary ¹			
	TCUDX ²	Benchmark ³	Excess
3 month	0.02%	0.04%	-0.02%
YTD	-0.45%	0.09%	-0.54%
12 month	-0.13%	0.17%	-0.30%
Avg Annual ⁴	2.19%	1.82%	0.37%

Portfolio Characteristics		
	TCUDX	Benchmark
Effective Duration	1.99%	1.99%
Spread Duration	3.44%	1.99%
30 day Eff Yield ⁵	0.53%	NA
OAS	32	-10

¹ As of 8/31/2021

² Yields for TCUDX are after expenses

³ Benchmark is 2-year Treasury index

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

⁵ Investor shares

Closing Thoughts

- **Fixed income markets continue to trade in a relatively tight range**
 - Still a large amount of Fed-provided liquidity chasing fewer securities, which has kept spreads relatively tight across most sectors
 - Excess liquidity in banking system could take a while to dissipate

Questions & Discussion

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