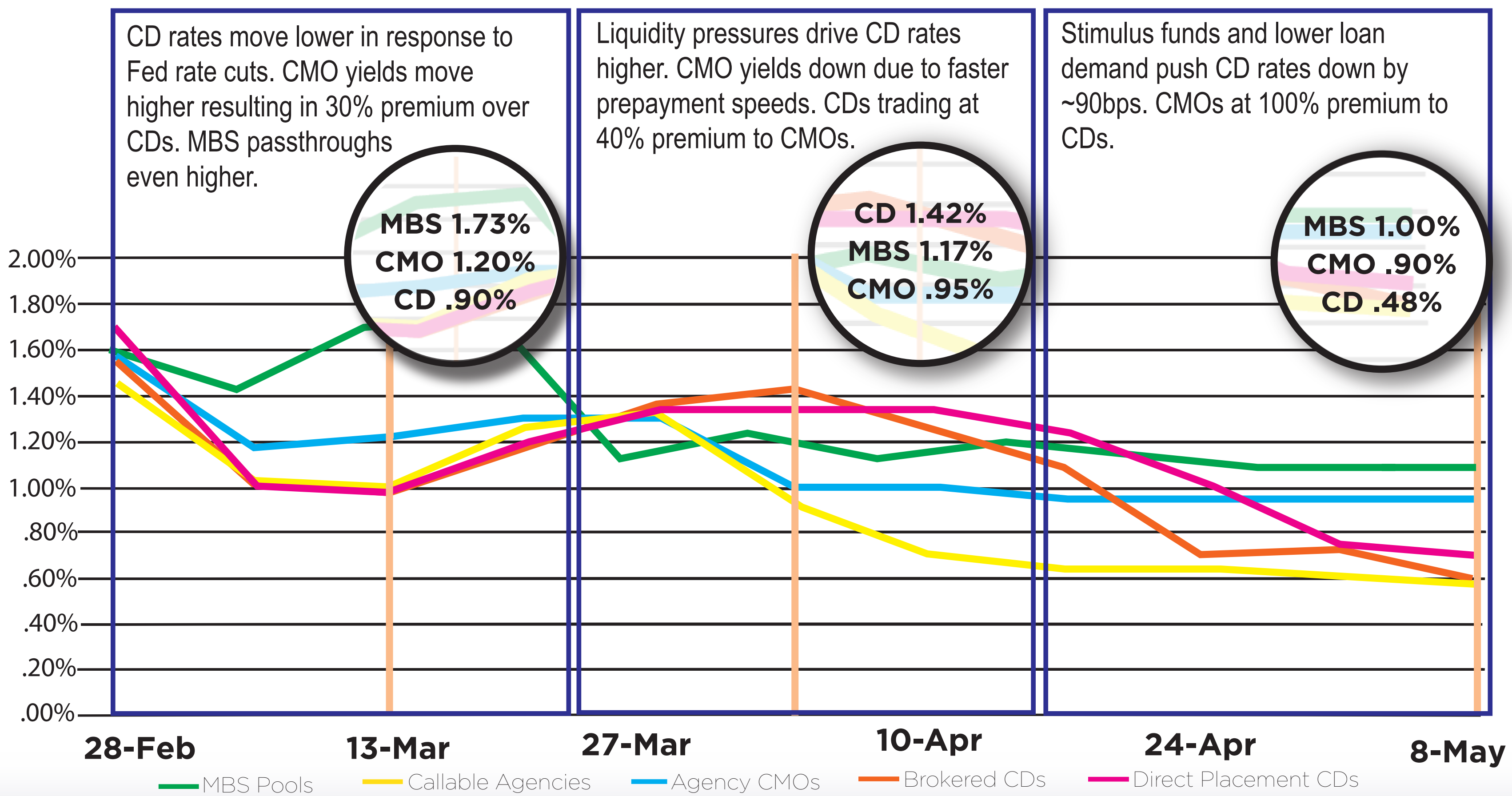
Untangle the Investment Landscape:

Why Investment Portfolio Agility Matters

By JD Pisula, VP Strategic Advisory

To capture the best relative values and insulate investment income in a zero-bound rate environment, agility across permissible asset classes is paramount. Many credit unions are focused exclusively on a CD-only strategy that is sometimes augmented with callable bonds for yield. As illustrated over the last couple months, this type of strategy has left income on the table when considering other permissible asset classes.



Sources: Bloomberg, Primary Financial, National CD Rateline

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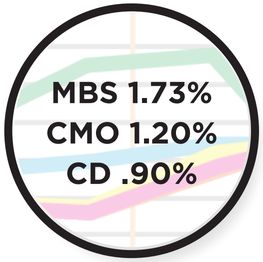
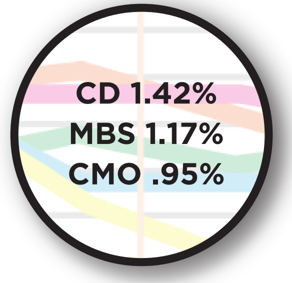
MARCH



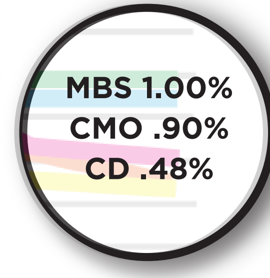
In early March we saw the Fed abruptly cut rates. Treasury and CD rates reset lower to correspond with a lower Fed Funds outlook. At the same time, a reduced demand for mortgage-backed securities drove yields higher. On March 13th the best CD rates surfaced around 0.90% while CMO rates were around 1.20% and Agency MBS passthroughs were approximately 1.70%. By shifting focus from CDs to CMOs at that point in time, the incremental annual yield pick-up would have been about 30 bps versus a CD-only strategy.

EARLY APRIL



By the beginning of April, draws to lines of credit exacerbated liquidity needs at large CD issuers and a decline in rates accelerated prepayment speeds imbedded in CMOs and MBS. Agile investors turned to brokered CDs with yields around 1.40% for three-year investments. These securities were about 10 basis points better than direct placement CD gross yields and nearly 60 basis points better than callable agency yields. As market volatility tapered off, callable agency yields drop by around 40 basis points month-over-month.

LATE APRIL-MAY



Due to slowing loan demand and an influx of stimulus funds, CD issuers dropped rates considerably and many issuers pulled out of the market entirely. Consequently, we saw brokered CD rates drop to around 0.45% and direct placement CD rates drop to 0.60% at three-year tenors. While CD purchases strategically captured yield in early April, a CD-only strategy now gives up almost 55 basis points in annualized yield when compared to Agency MBS offerings.

ACCOLADE is laser focused on capturing relative value opportunities for our investment advisory clients, and we have been agile over the last couple months when advising our credit union clients on how to spend excess liquidity.

To learn more about how Accolade can capture value for your credit union please visit *www.accoladeadvisory.com* or email *contact@accoladeadvisory.com*.

JD Pisula manages the investment advisory business at Accolade providing balance sheet strategy advice to credit unions across the country. Previously, JD was the Director of Investments at the Ohio Treasurer of State where he was responsible for the investment of almost $25 billion across multiple fixed income portfolios. Prior to arriving at the Treasurer's office, JD served in the administration of Ohio Governor John R. Kasich. Mr. Pisula graduated with a Bachelor of Arts in economics from Denison University, earned his MBA from the Fisher College of Business at The Ohio State University and is a member of the CFA Society of Columbus.

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Phil Lucas has over seven years of experience working with client relationships including fixed-income investment advisory, liquidity, policy, and ALM management. At Accolade, Phil manages client investment portfolios per the institution's parameters and balance sheet strategies as well as the review of interest rate risk reports. He serves as one of the primary consultants for all business lines with a focus on strategy, economic analysis, and risk mitigation. In his role, he serves to support the continued growth of the Accolade business. Phil has a BA from The Ohio State University and an MBA from Capital University.

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Peter Gibson is Accolade's CIO. He is responsible for the day-to-day management of the CUSO's client investment portfolios. Gibson has more than 10 years financial services experience including four years at Southeast Corporate Federal Credit Union as a Portfolio Manager. He came to Southeast Corporate from Constitution State Corporate Credit Union, where he was responsible for the management of their overnight and commercial paper portfolios. Prior to that, he worked for Aeltus Investment Management in fixed-income performance analysis. He holds a B.S. from Eastern Connecticut State University with majors in economics and business.

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