



Finance Office

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January 10, 2022

Board of County Commissioners
Cass County Government
211 9th Street South
Fargo ND 58103

Re: Bell Bank Investment Portfolio Presentation

Dear Commissioners:

On June 7, 2021, Cass County Commissioners, upon the recommendation of the Finance Committee, moved to authorize the Finance Office to invest up to \$25 million of County General Funds with Bell Bank.

As a result of disciplined financial management, Cass County had developed a strong position and, at any given time, had a significant amount of cash sitting in bank accounts earning little to no interest. Even with funds being placed into sweep accounts where they had the potential to earn more interest, the downturn of interest rates resulted in lackluster earnings equivalent to 0.01%. With a goal of maximizing interest earnings while minimizing risk, several investment institutions were consulted, and it was determined that Bell Bank's investment proposal provided investment options that would yield the best returns with minimal risk.

The Finance Office determined that the County has the capacity to invest up to \$25 million with the goal of semi-liquid investments, higher than money market savings account returns, and low risk. The proposal from Bell Bank is a multi-step process to move increments of \$5 million into various short-term bonds and other safe, low risk investments that will return approximately 1.5% APR over a two-year period. At the time, Cass County's money market account was earning 0.7%.

As of December 31, 2021, Cass County has deposited \$12.5 million into the investment account. Fixed income investments include municipal bonds and mortgage-backed securities with annual coupon rates varying from 0.6% to 4%, with a portfolio book yield of 1.09% at year end. Interest income and accrued income less realized losses to date total \$67 thousand. Management fees incurred for investment services total \$5.8 thousand. The market valuation of the county's current investment portfolio has declined since initially being purchased resulting in an unrealized loss of \$80 thousand. Market value

fluctuations result from changes in the level of market interest rates; however, the County's portfolio is being managed on a hold-to-maturity basis.

Zac Wanzek of Bell Bank has prepared a presentation to provide an economic update and review of Cass County's investment portfolio's performance over the past 6 months.

This will be an informational presentation only; no action is requested.

Sincerely,

A handwritten signature in black ink that reads "B Madrigga". The signature is written in a cursive style with a large, stylized initial "B".

Brandy Madrigga
Cass County Finance Director

SUGGESTED MOTION:

No requested actions

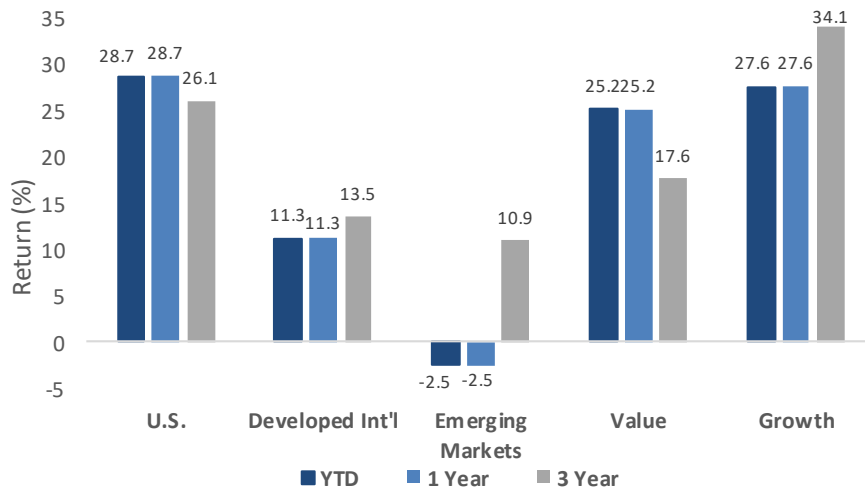


Portfolio Analysis

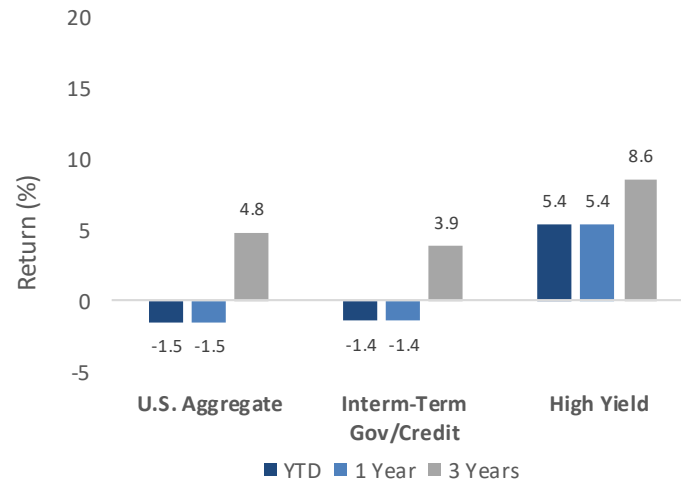


CASS COUNTY GOV IMA

Equity Returns

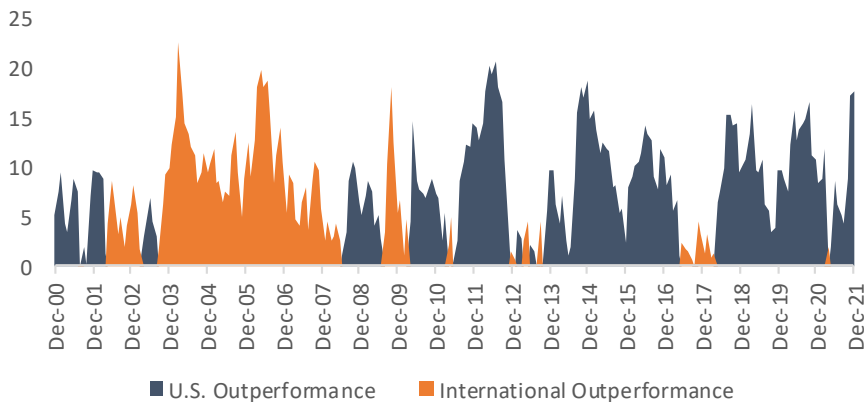


Fixed Income Returns

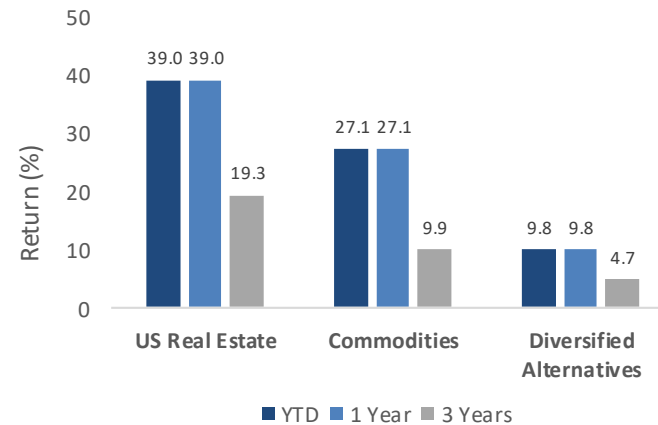


U.S. vs International Equities

Trailing 1-year returns



Alternatives Returns



A little late, but worth the wait, year-over-year inflation numbers for November were released on December 10 showing an inflation rate of 6.8%. The last time we saw inflation this high was in 1982. This means less than half of the people living in the U.S. today have ever seen inflation like this. Here are some key components of the inflation figures for the last 12 months:

- Food up 6.1%
- Gasoline up 58%
- Fuel oil up 59%
- Utility natural gas up 25%
- Used cars up 31%
- New cars up 11%

If you like beef, that price is up 20%. If you are substituting chicken as your go-to protein, it's up 9%.

A long time ago, in a galaxy far, far away (when I was in grade school), one of the math teaching tools was called "Fun with Numbers." Calculating inflation can take some odd twists and turns – and a full explanation is beyond the scope of a summary like this – but my own version of "Fun with Inflation Numbers" over the last 12 months looks like this:

- Shelter prices up 3.8%
- Transportation up 3.9%
- Medical care services up 2.1%

Let's just say some of the calculations could use some updating.

Market reaction to the last few inflation announcements has been more muted than we expected. Perhaps this means that the market is still clinging to the idea that inflation is transitory. We get the sense that it is something more persistent, which would likely mean some uncomfortable downward periods in market movement, for both bonds and stocks, in the coming 12 months.

This is not a call to alter your investment objectives, unless your own long-term investment profile has changed. Instead, we want to give you some advance notice, so you are not caught off guard if this happens. Yes, we would love to move our clients out of the market just before a selloff occurs – and back in when investments hit the bottom – but the odds of doing that are worse than winning the lottery. Instead, we focus on long-term goals and choose the path with the highest probability of getting there.

Thank you very much for your business, and Merry Christmas!



Greg Sweeney, CFA
SVP/Chief Investment Officer

Top Themes to Watch

Inflation

- Inflation remains one of investors' top concerns and prices continue to increase at a pace well in excess of the Fed's 2% long-term target
- Headline CPI increased 6.9% YoY in November vs the 40 year average of 3.9%
- Core CPI (excludes food and energy) increased 5.0% YoY, which is an increase from 4.0% in October
- The large difference between Headline and Core CPI is energy, which showed a YoY increase of 33.5% in November
- Current estimates call for YOY Headline CPI growth to decline to 4.0% by year-end 2022 and 2.2% by year-end 2023

Washington

- The Build Back Better (social spending) bill has stalled due to lack of support from moderate Democrats in a 50-50 Senate
- While a corporate tax hike is expected, it is assumed that the resulting rate will be lower than 28%

Monetary Policy

- Tapering was announced at the November FOMC meeting and has since been doubled to a pace of \$30B per month
- The accelerated taper gives the Fed room to start hiking rates in March in an effort to combat persistent high inflation
- The December FOMC minutes show some participants stating it could be appropriate to start balance sheet runoff "relatively soon after beginning to raise the Fed Funds Rate"

Unemployment

- The December unemployment dropped to 3.9%, which is a large improvement from 14.8% in April
- The participation rate is at 61.9%, which remains well below the 50 year average of 64.6%
- Unemployment benefits ended in September, which has been a large catalyst for the declining unemployment rate
- Job openings are at all time highs and the ratio of unemployed workers to job openings is 0.7 to 1
- This is likely to result in continued wage strong growth and higher inflationary pressures

COVID

- Confirmed COVID cases are at an all-time high however, hospitalizations have not followed the spike in cases
- It is likely that we will continue to see new variants over time

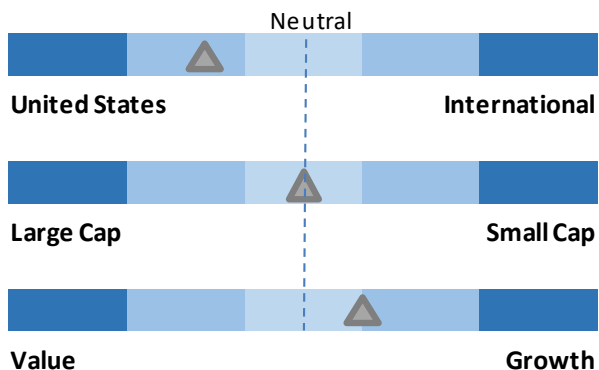
Supply Chain Disruptions

- On-going supply chain disruptions continue to result in logistical headaches and high demand for truckers

Portfolio Positioning

Commentary

Equity

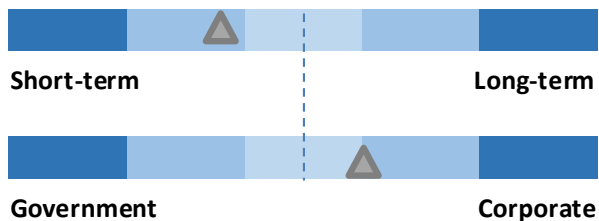


Geographical: US stocks are preferred to developed international and emerging economies. While international stocks appear attractively valued, the US should continue to be the driver of global growth.

Size: We remain neutral regarding market cap size. Large cap stocks were preferred during 2020 and small cap stocks during the first half of 2021. As the market continues to normalize, a neutral weighting is now maintained.

Style: Growth is preferred and is poised to continue its performance dominance as markets continue to normalize.

Fixed Income



Duration: Remaining short and flexible is preferred with the steepening shape of the yield curve and liquidity stress.

Sector: Credit spreads are at or near 15 year lows spanning the rating spectrum due to continued policy support. With over 50% of the US investment grade corporate bond market rated BBB (lowest level of investment grade), higher credit quality is preferred.

10-Yr Breakeven Rate and 10-Yr Treasury Yield

% Yield



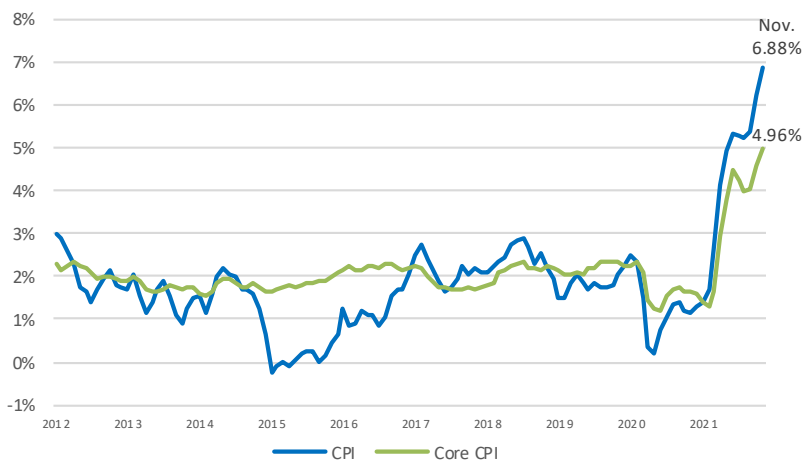
Total Employees and Job Openings Non Farm

Thousands



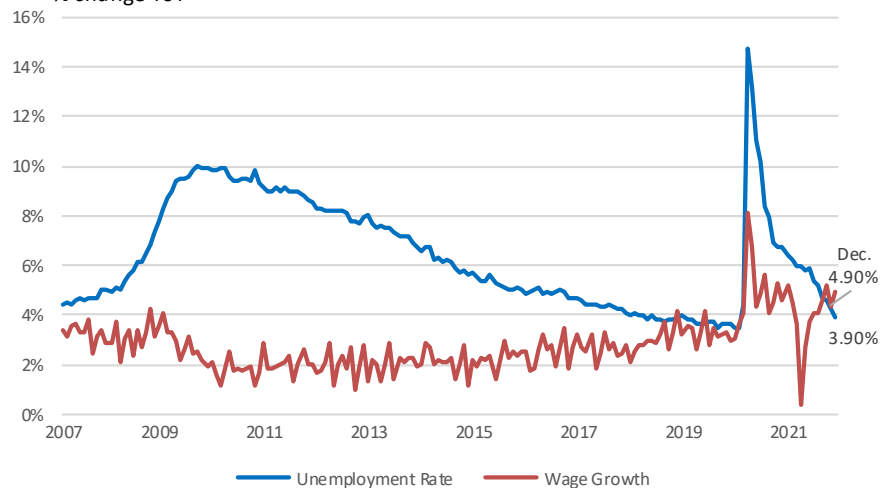
Consumer Price Index

% change YoY



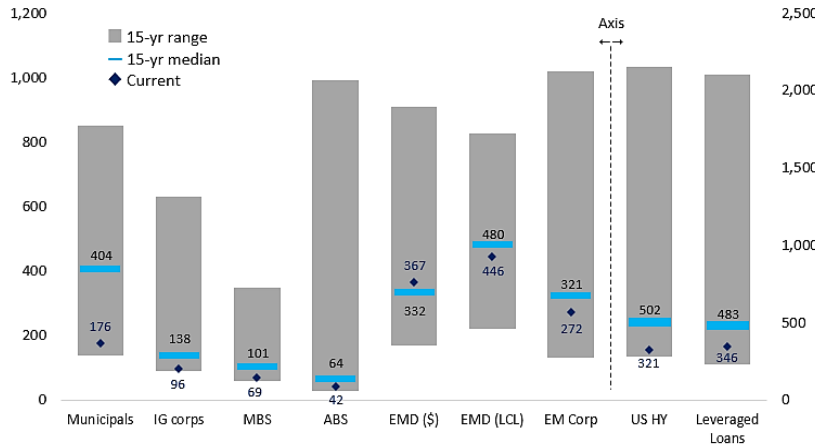
Unemployment Rate and Wage Growth

% change YoY



Spread-to-worst across fixed income sectors

Basiss points, past 15 years



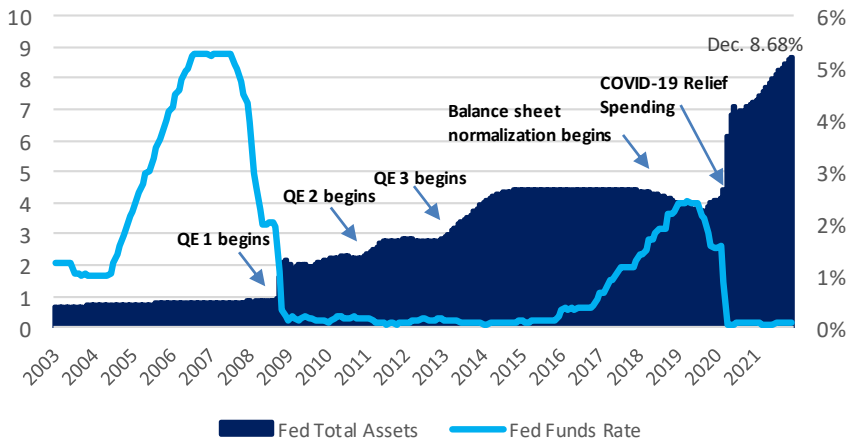
Baa corporate debt*

Percentage of Baa-rated investment-grade corporate debt outstanding



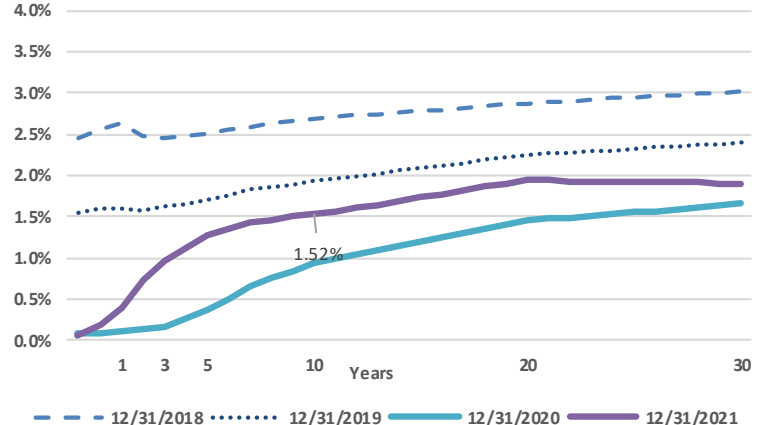
Federal Reserve balance sheet and Fed Funds Rate

USD trillions



Yield curve

U.S. Treasury yield curve



10-Year Annualized Returns

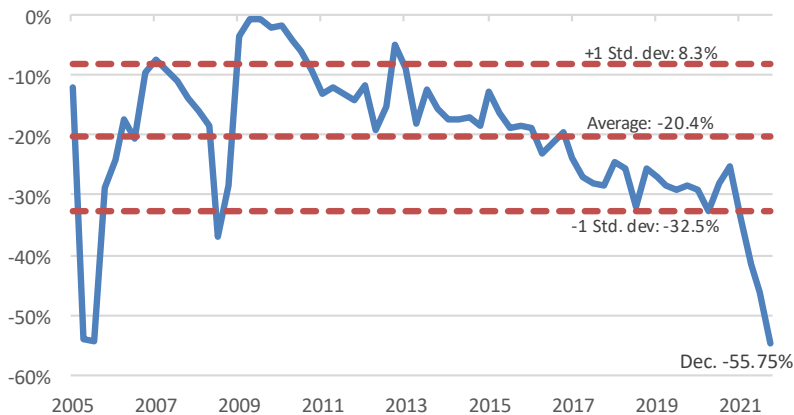
	Value	Blend	Growth
Large	13.0%	16.6%	19.8%
Mid	13.4%	14.9%	16.6%
Small	12.0%	13.2%	14.1%

2021

	Value	Blend	Growth
Large	25.2%	28.7%	27.6%
Mid	28.3%	22.6%	12.7%
Small	28.3%	14.8%	2.8%

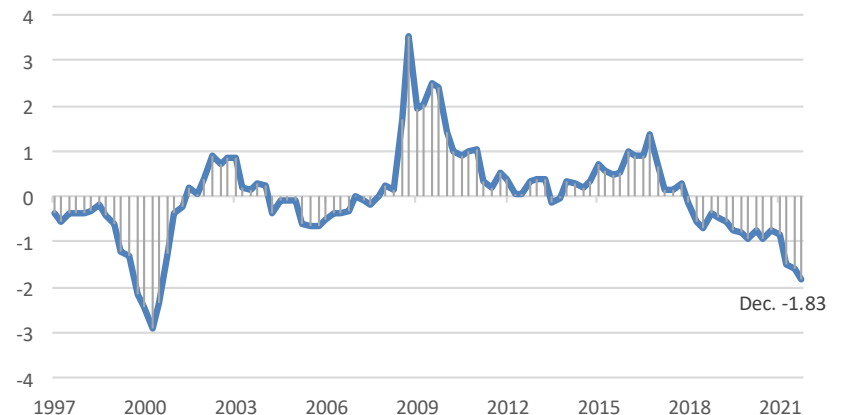
MSCI ACWI v. S&P 500 P/E Ratio Discounts

(2005-2021)

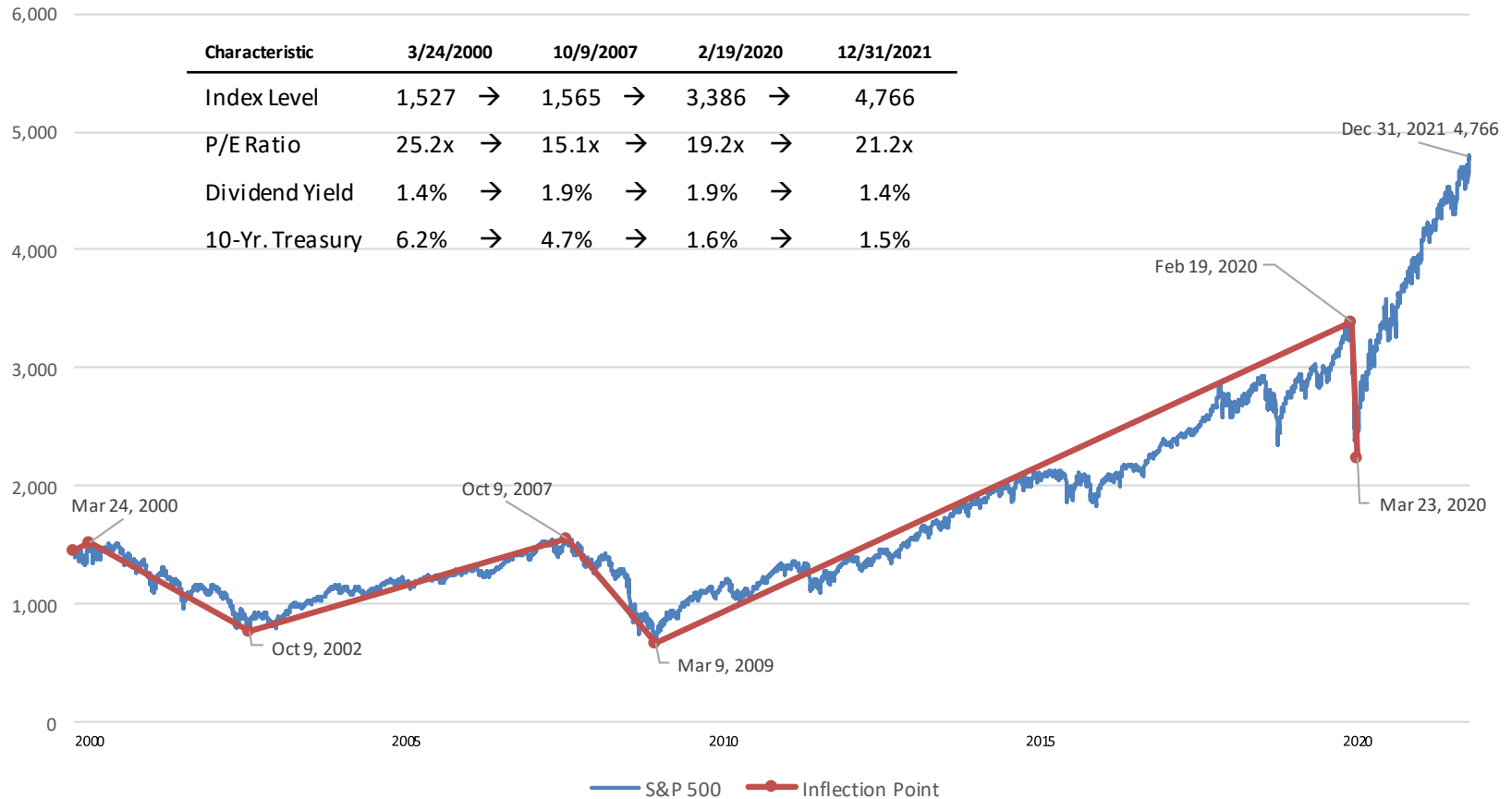


Value vs. Growth Relative Valuations

Relative Forward P/E Ratio of Value vs. Growth, Z Score (1997-2021)



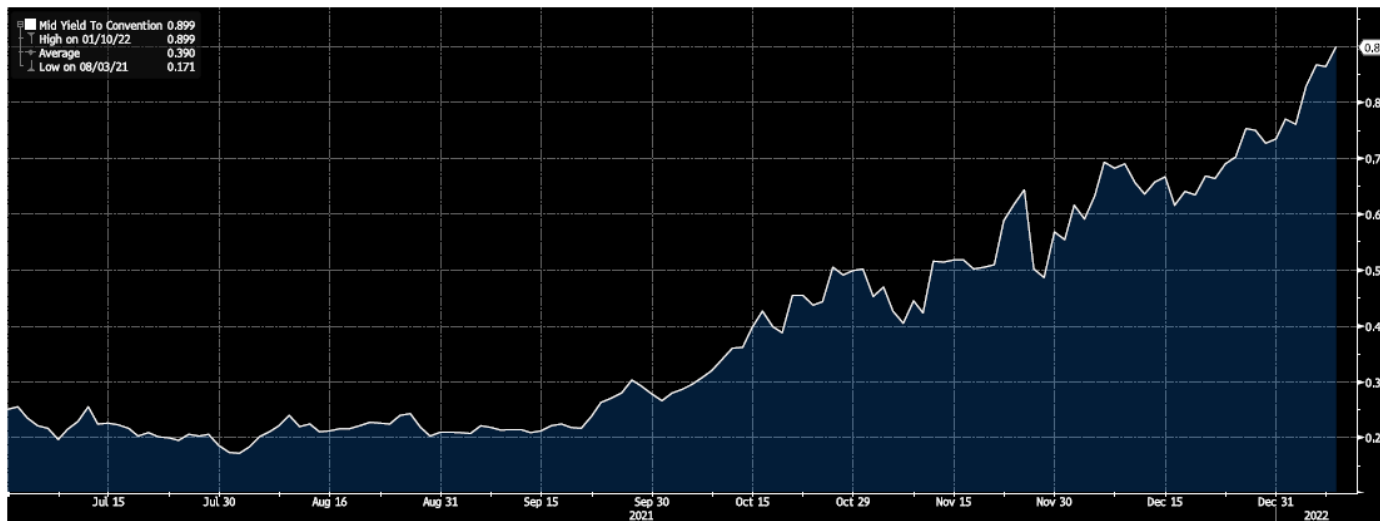
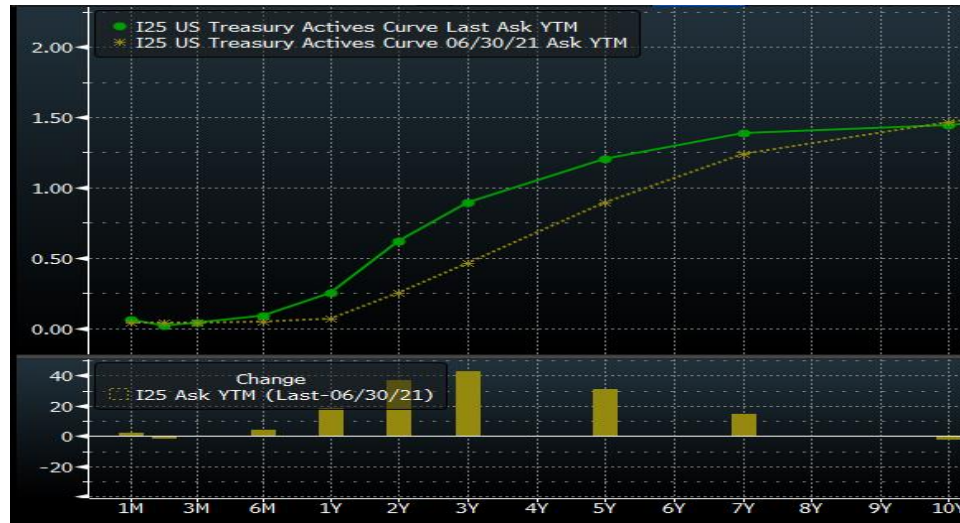
S&P 500 Index at Inflection Points (2000-2021)





Yield Curve

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2 year YTM since 6/30/2021



Portfolio Overview

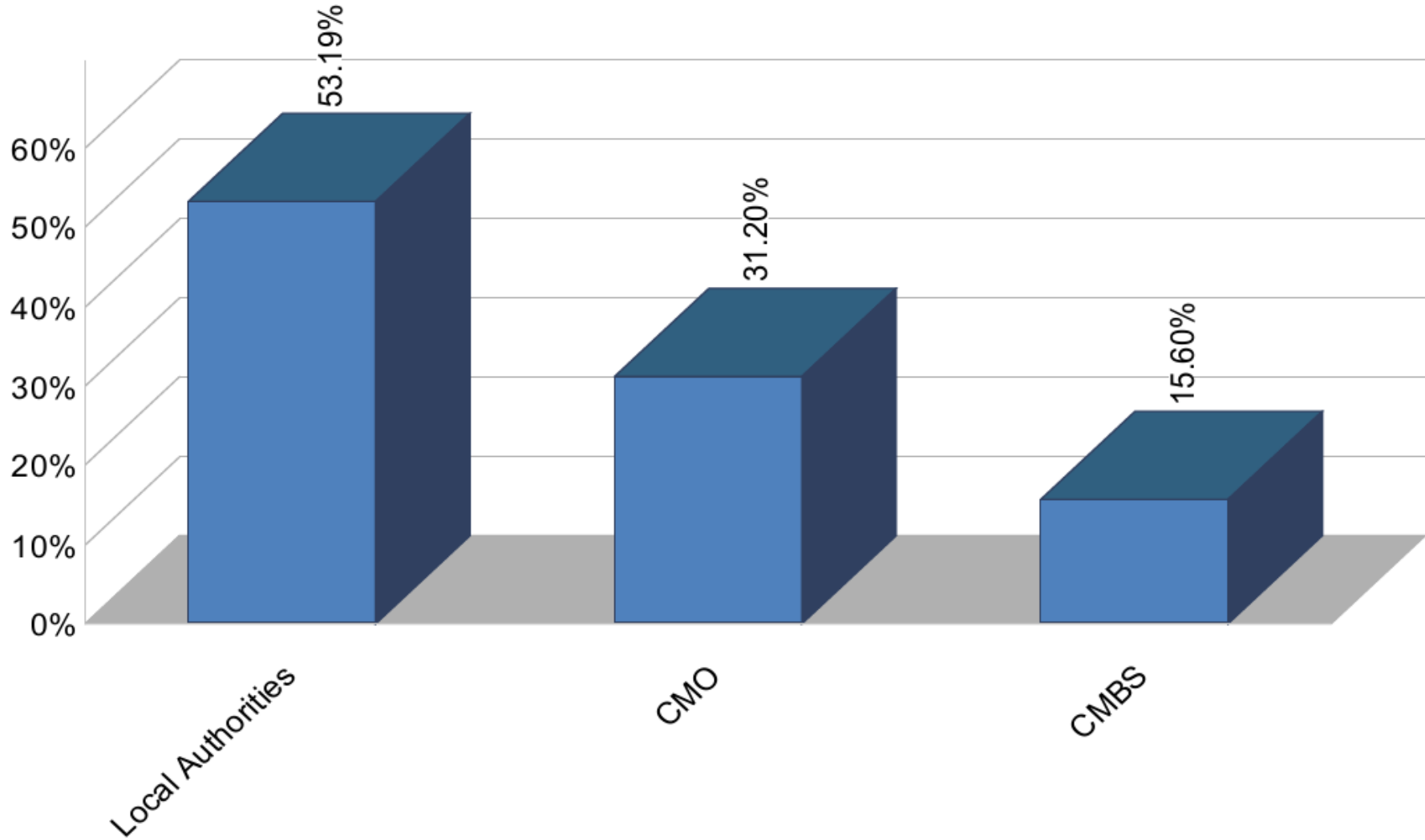
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	Municipal	Agency Mtg	Portfolio Averages
Market Value (invested)	\$6,317,676	\$5,553,286	\$11,870,962
Weight	53%	47%	
Average Rating	AA	AAA	AA+
-300 Case Duration	2.08	0.63	1.40
Base Case Duration	2.08	1.00	1.57
+300 Case Duration	2.08	1.88	1.99
-300 Case Yield	0.80%	0.55%	0.68%
Base Case Yield	0.80%	1.41%	1.09%
+300 Case Yield	0.80%	2.06%	1.39%



Sector

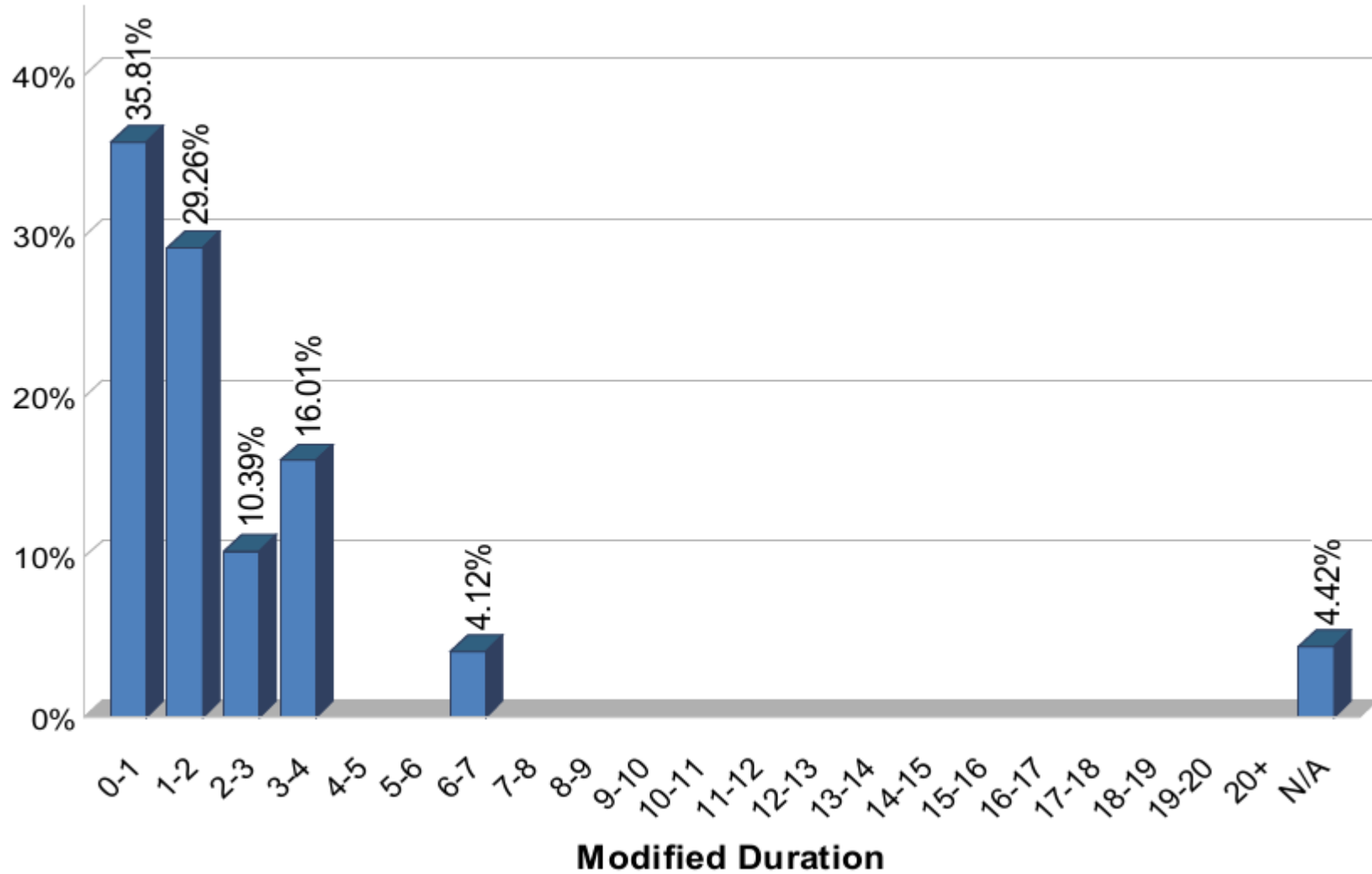
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Duration

CASS COUNTY GOV IMA





Performance

CASS COUNTY GOV IMA

		3 Month	Since Inception
	Allocation	(9/1/21)	(6/1/21)
Fixed Income	84.79%	(0.45)	(0.26)
<i>Bloomberg Barclays 1-3 Year Gov/Credit Index</i>		<i>(1.02)</i>	<i>(0.34)</i>
Money Market	15.21%	0.02	0.03
<i>90-Day US Treasury Bill</i>		<i>0.01</i>	<i>0.02</i>
Total Portfolio		(0.38)	0.04
<i>Class Blended Benchmark</i>		<i>(0.89)</i>	<i>(0.46)</i>

As of 11/30/2021