

D.B. FITZPATRICK & Co., INC. - MBS PORTFOLIO
DOMESTIC FIXED: BARCLAYS CAPITAL MORTGAGE BENCHMARK

FOR THE MONTH OF: **SEPTEMBER** **2016**

MANAGER PERFORMANCE CALCULATIONS

	<i>* Annualized returns</i>				
	Last <u>Month</u>	Last <u>3 Months</u>	Last <u>1 Year</u>	Last <u>3 Years*</u>	Last <u>5 Years*</u>
DBF MBS	0.32%	0.53%	3.36%	3.47%	2.55%
BC Mortgage	0.28%	0.60%	3.61%	3.61%	2.65%

PORTFOLIO ATTRIBUTES

<u>Characteristics</u>	<u>DBF</u>	<u>BC Mtg</u>
Market Value (\$ m)	\$72.31	N/A
Weighted Average <i>Effective</i> Duration (in years)	2.9	2.5
Weighted Average Yield (in %)	2.0%	2.1%
Weighted Average Coupon (in %)	3.6%	3.6%

PERFORMANCE ATTRIBUTION & STRATEGY COMMENTS

The U.S. Treasury yield curve steepened during September as short term rates fell while long term rates inched higher. The Barclays U.S. Aggregate Index returned -0.06% for the month, led by the U.S. MBS Index (+0.28%), while the U.S. Treasury and U.S. Investment Grade Corporate Bond Indices returned -0.13% and -0.25%, respectively.

Corporate spreads widened slightly in September but are significantly tighter from the start of the year, as falling safe-haven government yields have prompted investors to add exposure to more risky areas of the bond market. Investment grade corporate bond issuance by U.S. companies was \$1.07 trillion year-to-date through September, up 9.7% from the same period in 2015, as corporations take advantage of the hospitable environment in the credit markets. Agency MBS performed well in September, with investors calculating that slightly higher yields for long-term Treasuries will result in lower MBS supply and slower prepayment speeds in the months ahead. With the hawkish camp at the Fed ascendant and a rate hike this year still on the table, the sector remains attractive.

The portfolio outperformed the benchmark by 0.04% in September, while trailing by 25 basis points during the last year. This underperformance was driven by a significant cash drag as MBS were sold to fund commercial mortgages. The portfolio's prepayment rate (1-month CPR) decreased from 19.7% in August to 18.7% in September. We expect prepayments to slow further in the coming months due to seasonal factors.

MANAGER STYLE SUMMARY

DBF's MBS (Mortgage Backed Security) portfolio is a "core" holding which attempts to generally track the returns of the Barclays Capital Mortgage Index. Excess returns are added through security selection and interest rate bets, although such bets are expected to be limited and relatively low-risk. DBF also manages the Idaho Mortgage Program in conjunction with this portfolio -- the MBS portfolio serves as a "cash reserve" of sorts, to fund mortgages managed through the Idaho Mortgage Program. Consequently, we expect this portfolio to hold traditional MBS instruments and to maintain a reasonably healthy status, with no significant bets which could go significantly awry.

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PORTFOLIO GUIDELINE COMPLIANCE

SEPTEMBER 2016

Portfolio Guideline:	DBF	Min	Max	Compliance	
B2. Minimum portfolio size	\$72	\$50		ok	
B2a. Security Type:					
MORTGAGE RELATED	96%	80%	100%	ok	
Generic MBSs	96%	75%	100%	ok	
GNMAs	18.7%				
FNMA's	49.0%				
FHLMCs	28.7%				
CMOs	0.0%	0%	25%	ok	
NON-MORTGAGE RELATED	0.0%	0%	20%	ok	
Treasuries	0.0%	0%	20%	ok	
Agencies	0.0%	0%	20%	ok	
Cash	3.6%	0%	10%	ok	
Attributes:	▼ Leh Mtge				
Duration	2.5	2.9	0.5	4.5	ok
Coupon	3.6%	3.6%	2.6%	4.6%	ok
Quality	AAA	AAA	AAA		ok
B3. Individual Securities excluding Treasuries as a % of portfolio		0%	5%	ok	
B4. Number of securities	34	25	50	ok	
E2. Annual Turnover	7%	0%	25%	ok	
The portfolio is in compliance with all other aspects of the Portfolio Guidelines			<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	

MANAGER EXPLANATIONS FOR DEVIATIONS FROM PORTFOLIO GUIDELINES

ORGANIZATIONAL/PERSONNEL CHANGES

There were no organizational or personnel changes in September.

ACCOUNT TURNOVER

Gained:	Number of Accounts:	0	Total Market Value (\$m):	\$	-
Lost:	Number of Accounts:	0	Total Market Value (\$m):	\$	-
	Reason(s):				