

D.B. Fitzpatrick & Co., Inc. - MBS Portfolio

Domestic Fixed: BB Mortgage Benchmark

For the month of: **March** **2025****Manager Performance Calculations**

* Annualized returns

| | Last Month | Last 3 Months | Last 1 Year | Last 3 Years* | Last 5 Years* |
|-------------|---------------|------------------|----------------|------------------|------------------|
| DBF MBS | 0.03% | 3.10% | 5.44% | 0.49% | -0.76% |
| BB Mortgage | -0.02% | 3.06% | 5.39% | 0.55% | -0.69% |

Portfolio Attributes

| <u>Characteristics</u> | <u>DBF</u> | <u>BB Mtg</u> |
|---|------------|---------------|
| Market Value (\$ m) | \$181.50 | N/A |
| Weighted Average <i>Effective</i> Duration (in years) | 5.8 | 5.9 |
| Weighted Average Yield (in %) | 4.9% | 4.9% |
| Weighted Average Coupon (in %) | 3.6% | 3.4% |

Performance Attribution & Strategy Comments

The Treasury yield curve fell during the first quarter as investors discounted the potential impact of more restrictive trade policies in the United States. Further darkening the mood in the bond market, there have been signs that consumer spending is beginning to falter, even before the full impact of tariffs is felt. The 10-year U.S. Treasury yield fell 36 basis points during the quarter to 4.21% at the end of March, while the 2-year Treasury yield was also down 36 basis points to 3.89%.

Inflation remains a concern for the bond market, with the two-year inflation breakeven rate (roughly what investors are forecasting inflation will be in the coming two years) rising during the first quarter to 3.28%. The impact of tariffs on inflation is a worry for bond investors, eliciting talk of “stagflation” as the economy slows. U.S. Federal Reserve (Fed) policymakers may feel compelled to lower their key policy rate later this year, but given the market’s outlook for inflation will only do so if the U.S. economy weakens considerably. Even with policymakers’ obvious concern regarding inflation, at the end of March Treasury futures markets indicated that the bond market was forecasting a 75 basis point cut to the Fed’s main policy rate by year-end. Such a forecast shows pessimism in the market regarding the near-term outlook for the economy.

Corporate bond spreads vis-à-vis Treasury yields have risen in recent weeks, with lower-quality corporates seeing the worst relative performance. We believe that corporate bond underperformance is likely to continue, as corporate spreads remain below long-term averages. Given a weakening economy and complicated policy backdrop, higher quality fixed income sectors such as U.S. Treasuries and agency mortgage-backed securities offer better relative value today than corporate bonds.

PERSI’s MBS portfolio has returned 5.44% during the last year, outperforming its benchmark despite the significant impact of cash flows from the related Idaho Commercial Mortgage Portfolio. The MBS portfolio was slightly up in coupon vis-à-vis its benchmark at month-end and had a yield-to-maturity of 4.9%.

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

| Portfolio Guideline: | | DBF | Min | Max | Compliance | |
|---|---|--------|------|---|-----------------------------|----|
| B2. | Minimum portfolio size | \$182 | \$50 | | ok | |
| B2a. Security Type: | | | | | | |
| MORTGAGE RELATED | | 95% | 80% | 100% | ok | |
| Generic MBSs | | 95% | 75% | 100% | ok | |
| GNMAs | | 6.9% | | | | |
| FNMA's | | 52.1% | | | | |
| FHLMCs | | 35.8% | | | | |
| CMOs | | 0.0% | 0% | 25% | ok | |
| NON-MORTGAGE RELATED | | 4.9% | 0% | 20% | ok | |
| Treasuries | | 4.9% | 0% | 20% | ok | |
| Agencies | | 0.0% | 0% | 20% | ok | |
| Cash | | 0.3% | 0% | 10% | ok | |
| Attributes: | | BB Mtg | | | | |
| Duration | | 5.9 | 5.8 | 3.9 | 7.9 | ok |
| Coupon | | 3.4% | 3.6% | 2.4% | 4.4% | ok |
| Quality | | AAA+ | AAA+ | AAA | | ok |
| B3. | Individual security excl Treasuries as a % of portfolio | | 0% | 5% | ok | |
| B4. | Number of securities | 85 | 25 | 50 | check | |
| E2. | Annual Turnover | 8% | 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

B4. Number of Securities: Number of securities is greater than 50 due to cash flow activity from the commercial mortgage portfolio.

The portfolio is positioned as follows: 94.8% agency MBS; 4.9% Treasuries; 0.3% cash.

Total Firm Assets Under Management (\$m) as of: Qtr 1 \$ 1,385

Organizational/Personnel Changes

There were no organizational or personnel changes in March.

Account Turnover

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