



VIP Portfolios are Complementary:
Utilizing Both VIP Funds in Today's Environment



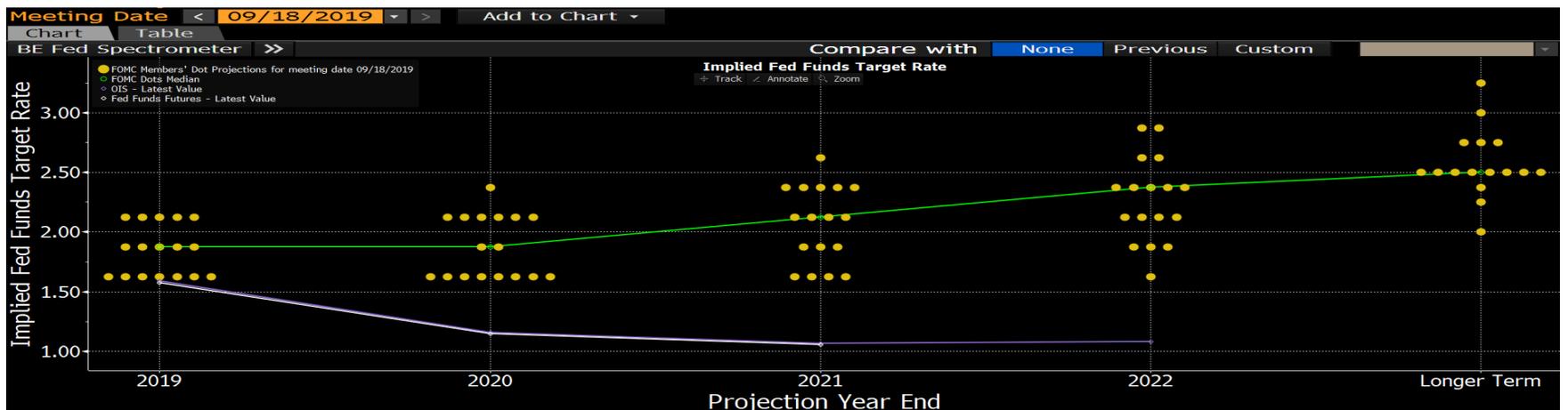
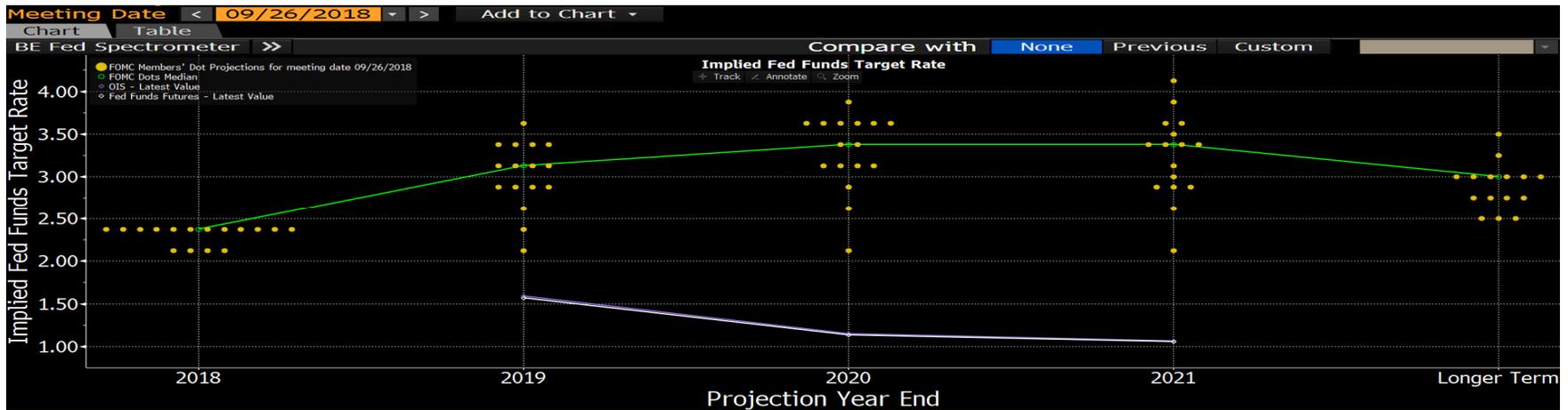
Market Update

- ❏ As expected the FOMC cut the overnight rate by 0.25% to 1.75% - 2.00% during their September meeting.
- ❏ Housing price growth has slowed although it has maintained the same upward trend as experienced since the beginning of the current expansion. As of June, the U.S. median home price of \$286k was 85% higher than the low in January 2012.
- ❏ Unemployment remains at historically low levels, currently 3.7%, and wage growth in 2019 has been the highest in a decade. 130k jobs were created in August.
- ❏ Interest rates continued the downward trend that began in late fall of 2018. Yields for maturities between two and five years have dropped more than 100 basis points (1.0%) since the peak in early November.
- ❏ Inflation remains in check, slightly lower than the FOMC's 2.0% target.
- ❏ Generally, the U.S. economy appears to be on solid ground based on current indicators.

Why Diversification is More Appropriate than Market Timing for Public Fund Investors

FOMC Rate Projections – September 2018 versus September 2019

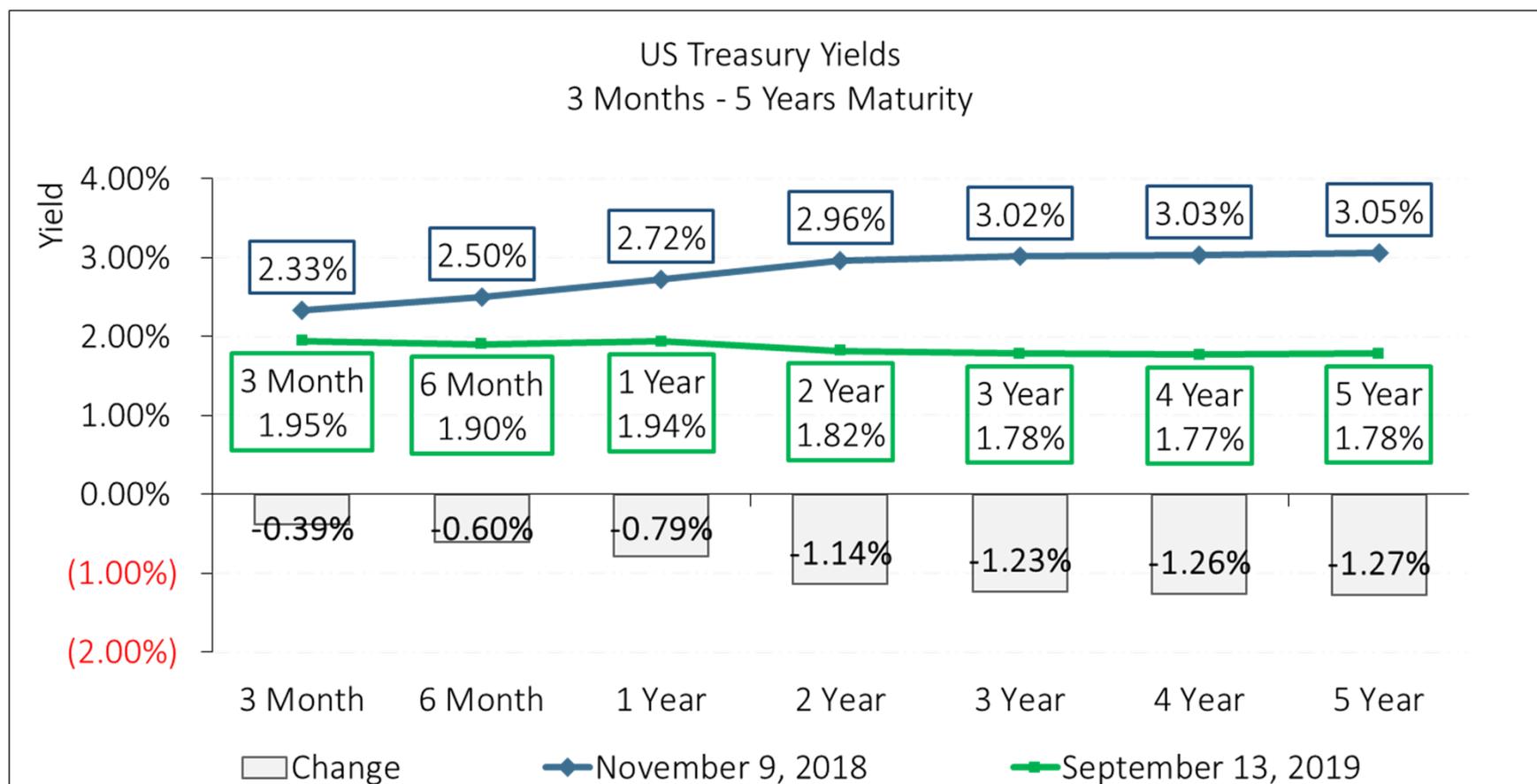
- In last year's FOMC Dot Plot, projections were completely different. In addition, current market expectations are significantly different than the FOMC projections as they were in 2018.



Source: Bloomberg. See additional footnotes at the end of the presentation.

Yield Curve November 2018 vs. September 2019

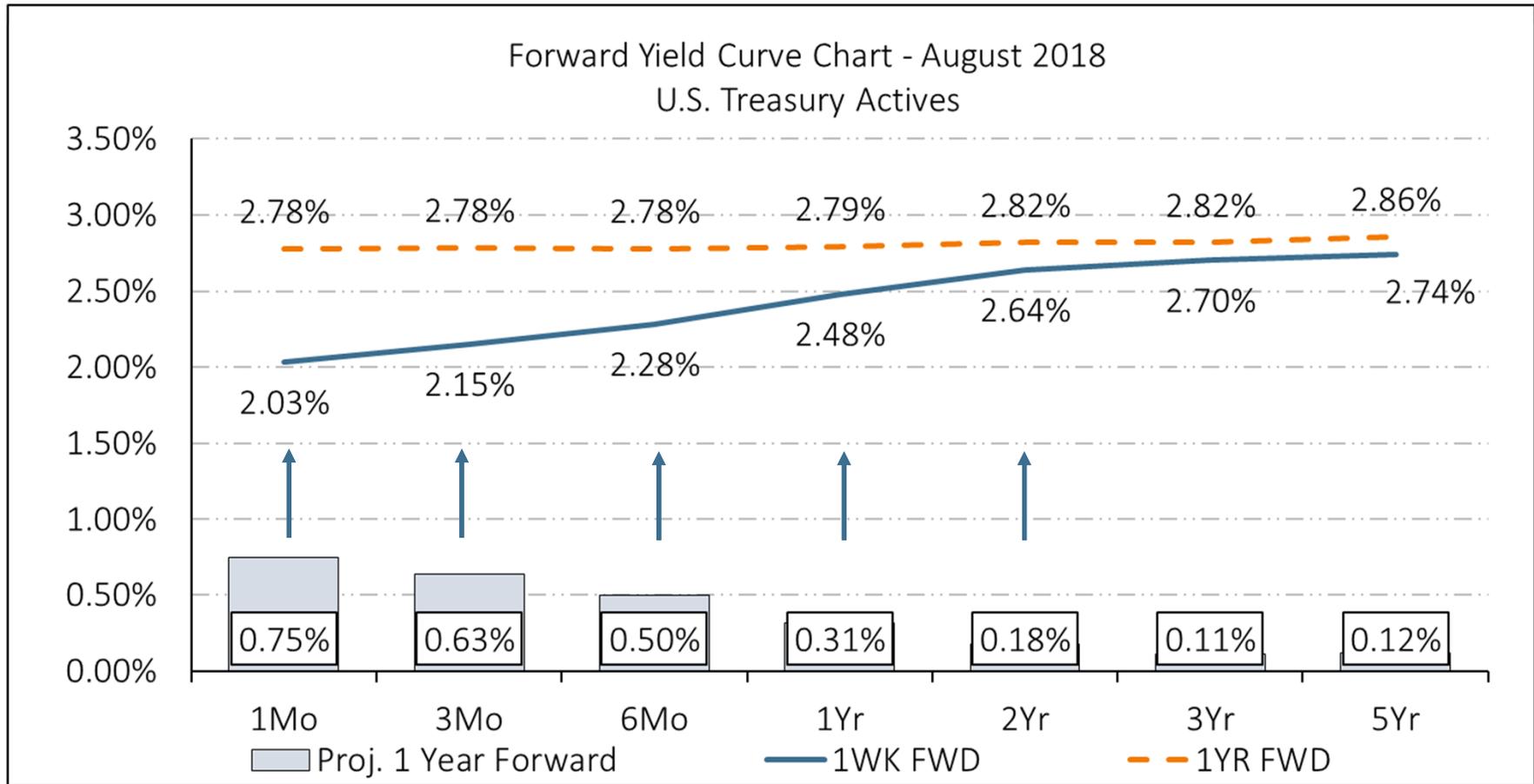
- Interest rates continued to decline into the third quarter of 2019, although higher than the year to date lows reached in August, with rates falling more than a full percentage point since November 2018 for maturities greater than two years.



Source: Bloomberg. See additional footnotes at the end of the presentation.

Forward Yield Curves – August 2018

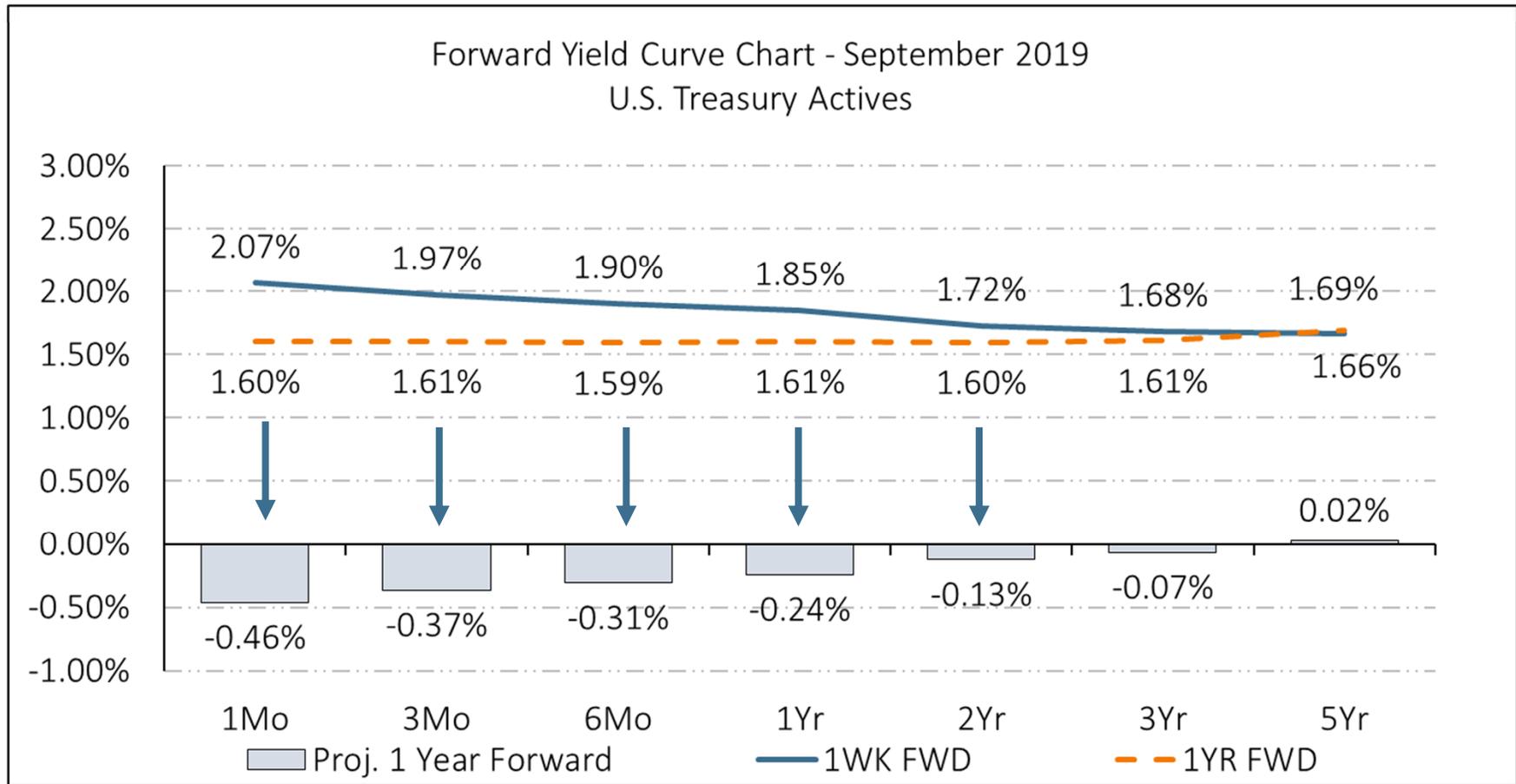
- Forward Curves were completely wrong in projecting interest rates in 2019.



Source: Bloomberg ICE Index information See additional disclosures

Forward Yield Curves – September 2019

- Forward yield curves also project several Federal Funds rate cuts during the next 12 months.



Source: Bloomberg ICE Index information See additional disclosures

Risk Versus Reward and Price Versus Income Analysis

- The total return of a fixed income portfolio is comprised of two components, the price return and the income return.
- Historical analysis demonstrates that the income return contributes 97% of the total return of a fixed income portfolio over time.
- The 1-3 Year Indices capture 88% of the return of longer duration indices with less volatility and risk.
- The 1-3 Year duration profile is the most appropriate strategy for public funds with a longer term investment horizon.

Summary of Total Return Performance of Select BAML Fixed Income Indices: 20 Years Ended December 31, 2018

Bank of America Merrill Lynch Index Description	Effective Duration	Yield to Worst	Avg. Ann. Total Return (1999-2018)	Avg. Ann. Price Return (1999-2018)	Avg. Ann. Income Return (1998-2018)	# of Years w/ Negative Total Return	# of Quarters w/ Negative Total Return
ICE BofAML 3-Month Treasury Bill Index	0.22	1.91%	1.90%	1.90%	0.00%	-	-
ICE BofAML 1-3 Year Treasury/Agency Index	1.82	1.68%	2.88%	-0.33%	3.23%	-	9
ICE BofAML 1-3 Year Gov/Corp AA-AAA Index	1.82	1.71%	2.94%	-0.36%	3.32%	-	10
ICE BofAML 1-5 Year Treasury/Agency Index	2.56	1.64%	3.28%	-0.11%	3.40%	1	17
ICE BofAML 1-5 Year Gov/Corp AA-AAA Index	2.55	1.67%	3.34%	-0.14%	3.49%	1	15

Source: Bloomberg. See additional footnotes at the end of the presentation.

VIP 1-3 Fund Performance In the Last 12 months

- An investment in the VIP 1-3 Year Fund had a total return of **4.38%** in the last year.
- Portfolio income has improved despite declining interest rates in the last year.
- The VIP 1-3 Year Fund provides Virginia localities with a safe and diversified longer term investment solution to complement your liquidity strategy.

Portfolio Characteristics	August 31, 2018
Book Yield Gross	2.11%
Market Yield Gross	2.59%
Weighted Average Coupon	1.87%
Duration	1.55 Years
Weighted Effective Maturity	1.60 Years
Weighted Final Maturity	1.61 Years

Portfolio Characteristics	August 31, 2019
Book Yield Gross	2.46%
Market Yield Gross	1.62%
Weighted Average Coupon	2.26%
Duration	1.84 Years
Weighted Effective Maturity	1.90 Years
Weighted Final Maturity	1.92 Years

Total Return Performance	Trailing Year Return	Since Inception Annualized
VACo/VML 1-3 Year High Quality Bond Fund	4.38%	1.43%
ICE BofA ML 1-3 Year AAA-AA US Corporate & Government Index*	4.42%	1.32%

Source: Bloomberg. See additional footnotes at the end of the presentation.

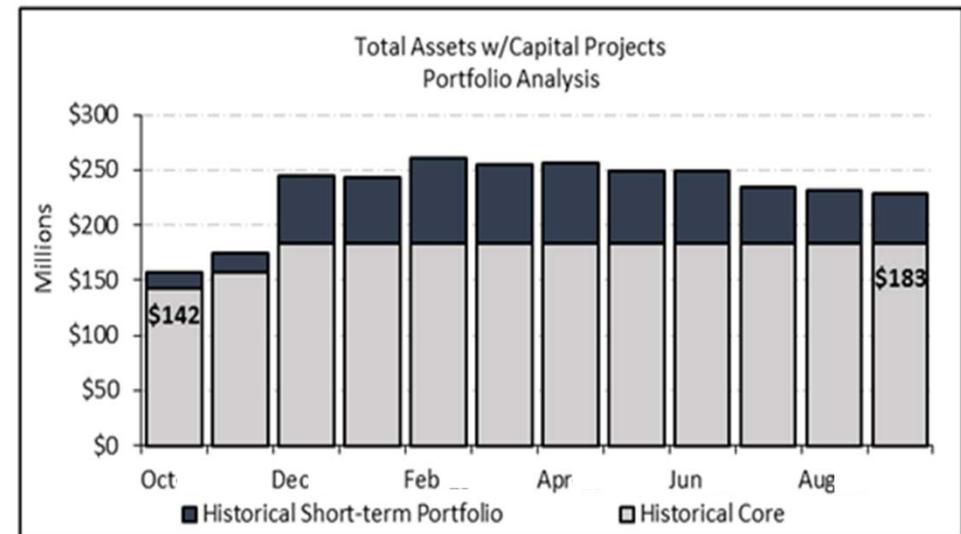
Using Both the VIP Liquidity Pool and the VIP 1-3 Year Fund
to Implement a Safe and Diversified Investment Program

Cash Flow Analysis To Determine Appropriate Investment Strategy

- We believe a cash flow analysis is an essential component of an effective treasury and investment management program.
- We propose an updated cash flow analysis at least annually and for each bond issue and capital improvement program.
- A thorough Cash Flow Analysis will allow you to determine the appropriate balance between liquidity and core strategies.
- VIP program delivers a comprehensive solution for both liquidity and core portfolios.

Cash Flow Approach and Investment Strategy Recommendations

- Analyze and discuss existing holdings
- **Develop a formal cash flow analysis**
- Separate one time revenues and expenditures from cyclical cash flows
- Use historical data for comparison to actual results for forward guidance
- Develop investment strategies based on timing and source of revenues and expenditures



Source: Public Trust. Data based on information provided by custodian.

How the VIP 1-3 Year Fund Complements the Liquidity Pool in the Current Market Environment

- A strong labor market and solid sentiment has buoyed the U.S. economy this year.
- Despite stronger U.S. economic data, the global economy remains challenged by trade tensions, aging demographics and lower productivity.
- Taken together, we believe the Federal Reserve will continue to lower its target rate to foster growth and keep the U.S. economy from tipping into a recession.
- With lower interest rates likely to persist for some time, the VIP 1-3 Year Fund's duration is 5% long of its benchmark duration of 1.80.
- Through duration management the portfolio is insulated from downside risks from economic shocks and adjustments to monetary policy.
- The VIP 1-3 Year Fund is a safe and diversified investment solution for Virginia investors with a longer term investment horizon (1 Year +) who are seeking additional investment income.
- Additionally, VIP Liquidity Pool has achieved a higher daily yield than the State LGIP **91%** of the time since inception.*

*Inception 11/1/16 through 9/16/2019. Past performance is not necessarily indicative of future results

Disclosures

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