



VIP Webinar:
Shifting Rate Environment – Implications for Fixed Income Investors

Moderator: George Moore, Investment Operations Analyst

Speaker: Kevin Stoudt, CFA, Director of Investments

January 18, 2024

Agenda

- Economic and Market Update
- Current Fixed Income Environment
- VIP Investment Funds Review and Strategy
- Considerations for Investors
- Summary & Questions

This presentation is not meant to be investment advice. We are presenting current and historical information. For investment advice specific to your situation, please consult Public Trust Advisors, VIP's registered investment advisor.

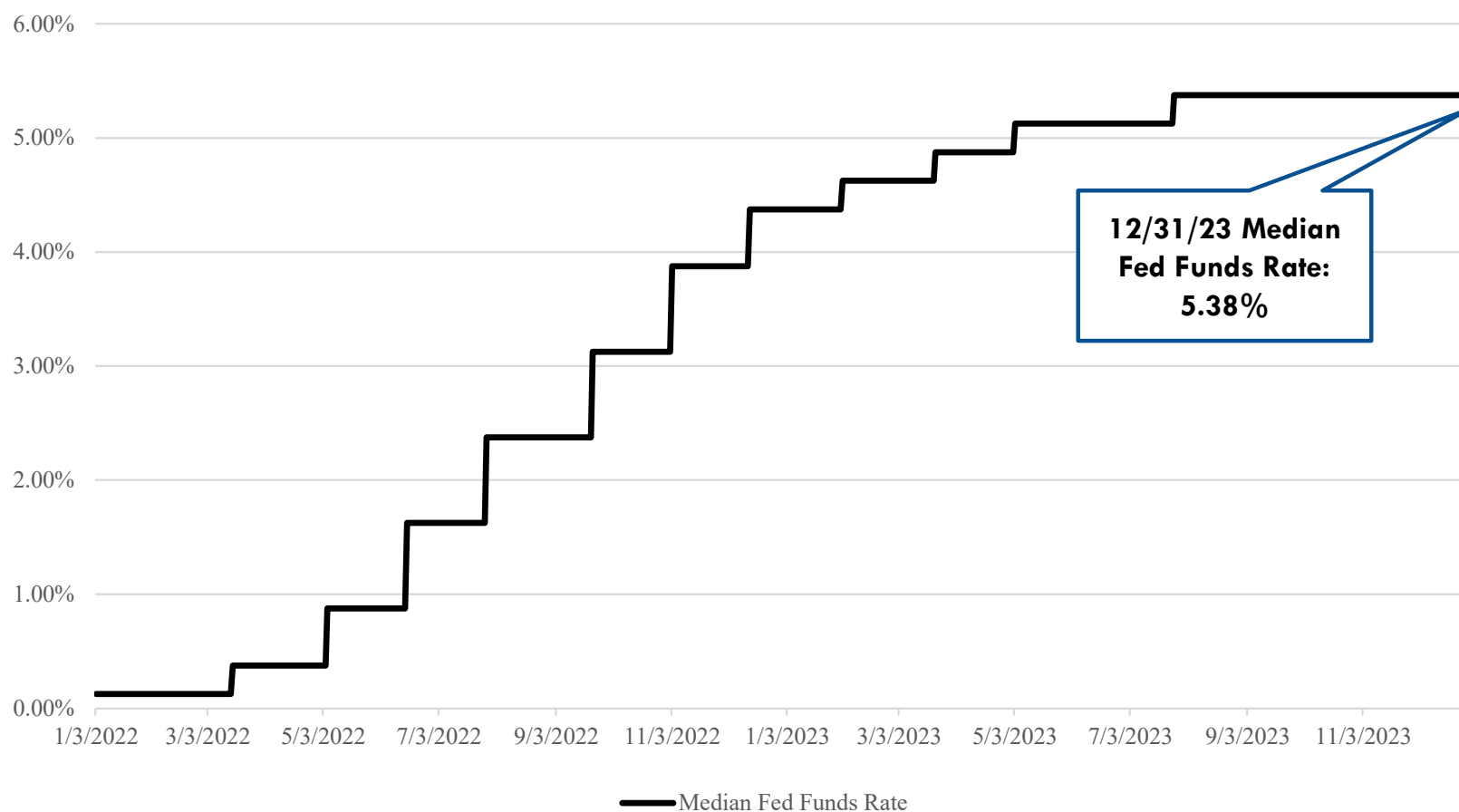
Economic and Market Update

Economic/Market Summary

- Federal Reserve paused rate increases – current Fed Funds rate is 5.25% - 5.50%
- Higher yields allow fixed income investors to earn additional income
- Inflation has come down, though still above Fed target of 2%
- Positive GDP and low unemployment = soft landing?
- Yield curve remains inverted... but beginning to normalize

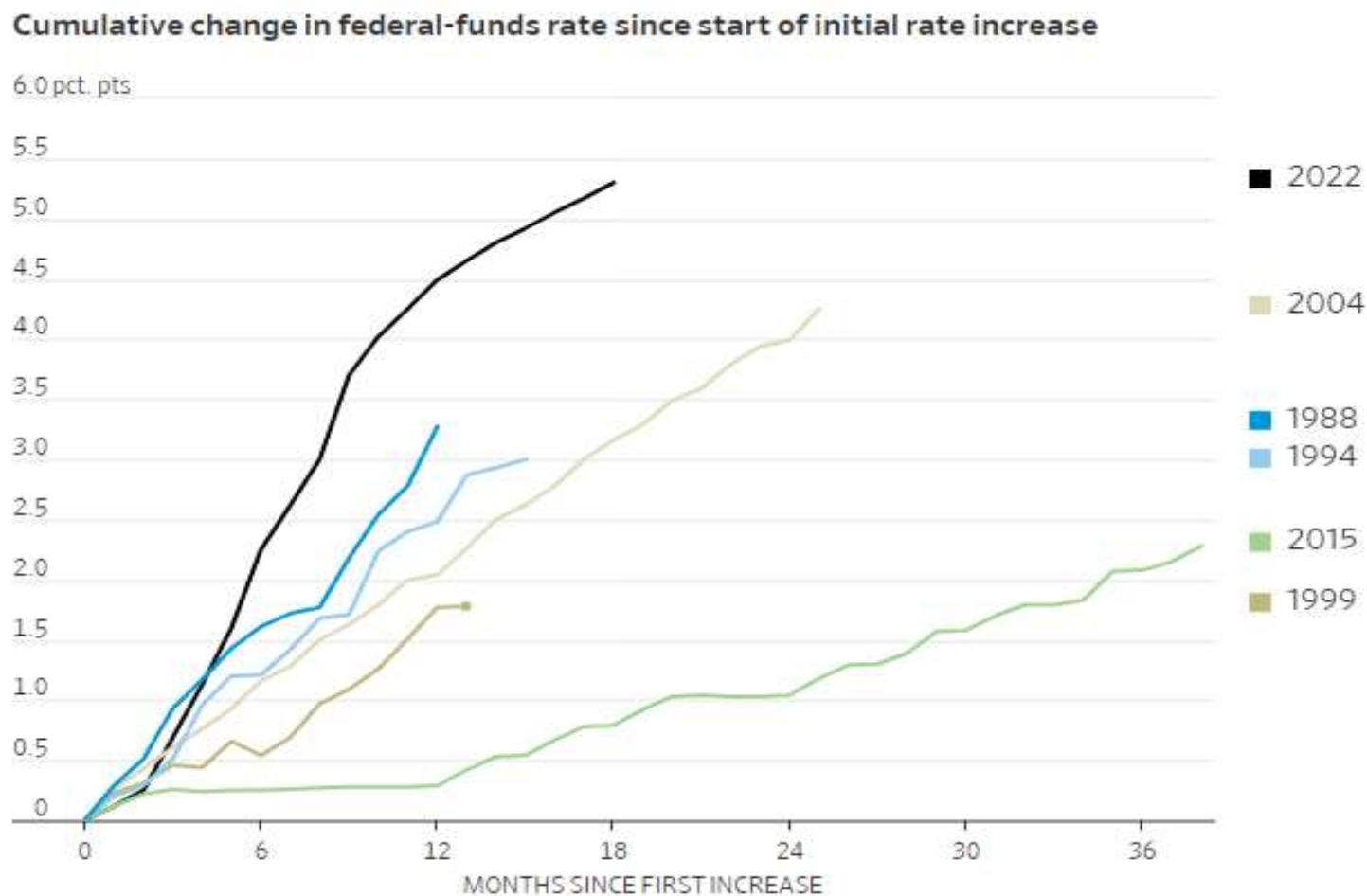
Economic/Market Summary

- Following aggressive tightening, the Fed has kept rates steady since July.



Economic/Market Summary

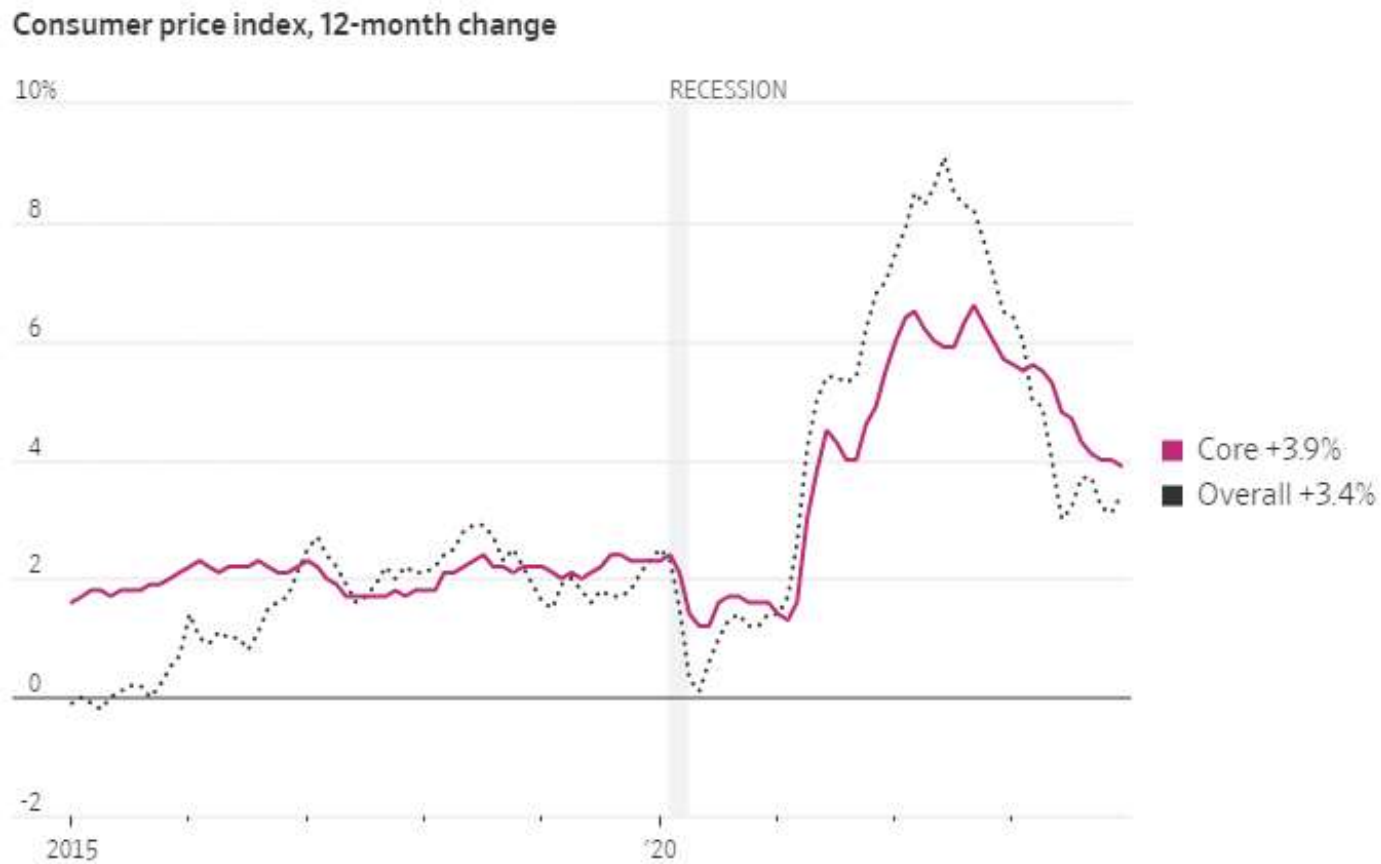
- The Fed has raised rates faster and more aggressively vs. prior increases...



Source: Federal Reserve

Economic/Market Summary

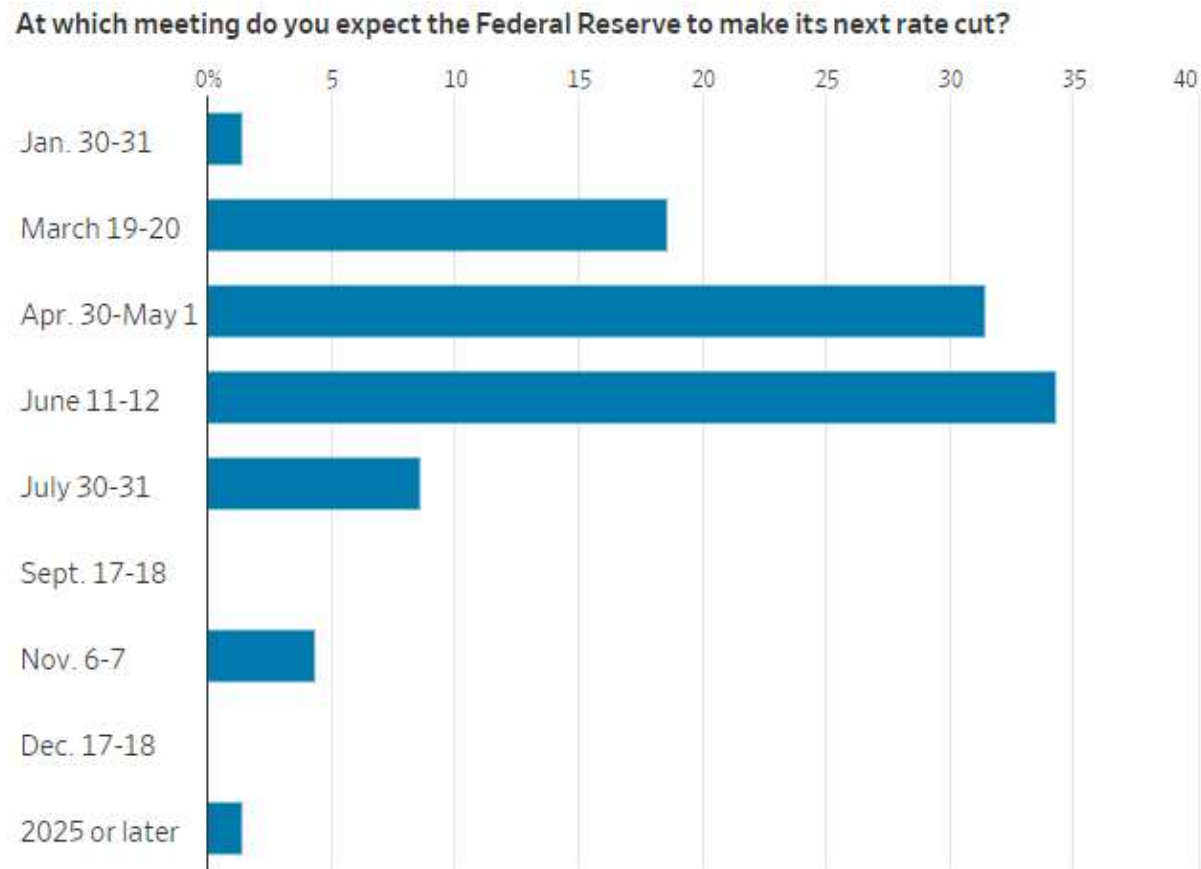
- ...Leading to more moderate inflation rates



Note: Core excludes food and energy prices.
Source: Labor Department

Economic/Market Summary

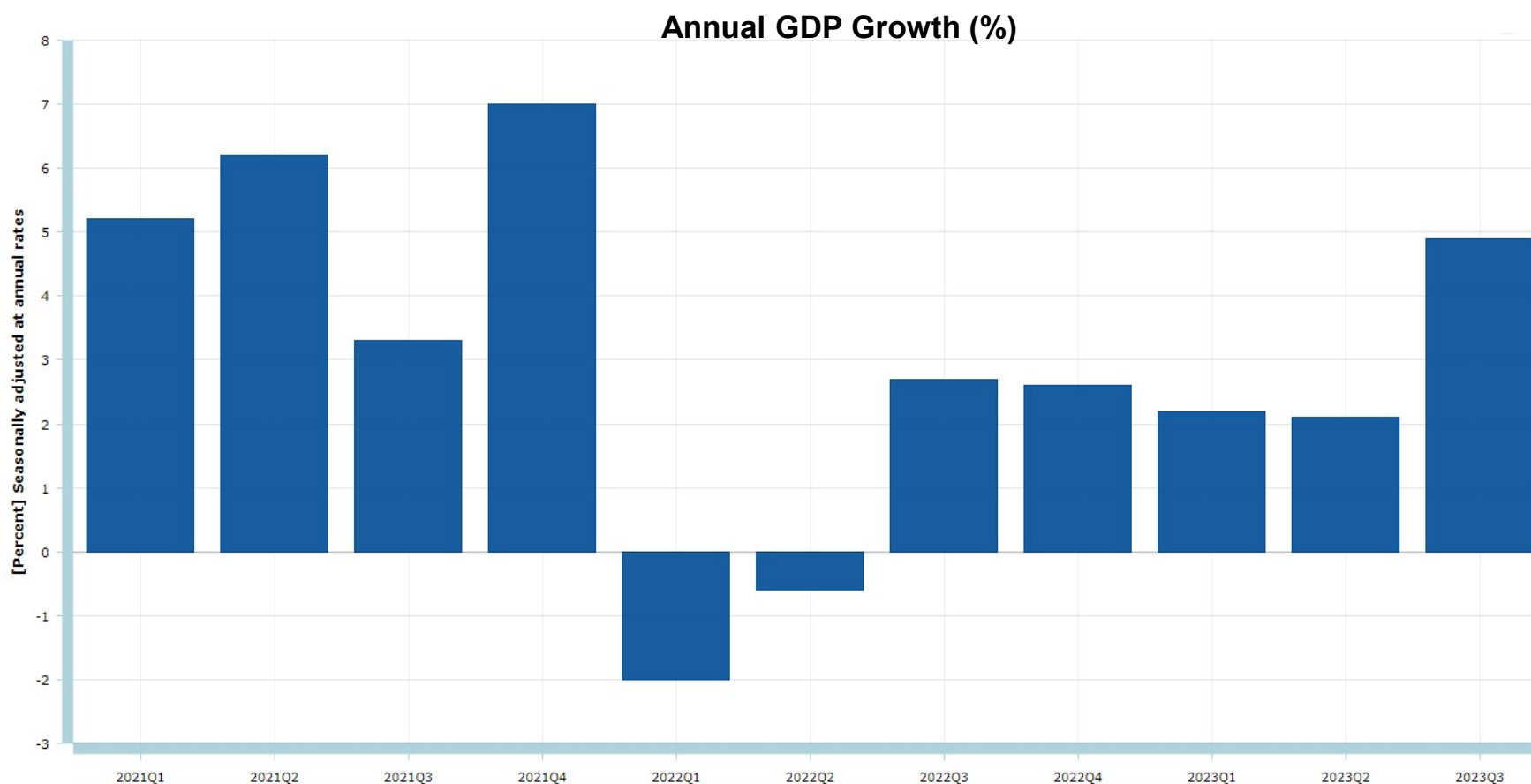
- ...so do economists



Note: Share of economists choosing each meeting.
Source: Wall Street Journal Economic Forecasting Survey, Jan. 5-9

Economic/Market Summary

- GDP growth has remained positive since 2nd half of 2022
- Today's higher rate environment could lead to slower growth



Source: U.S. Bureau of Economic Analysis

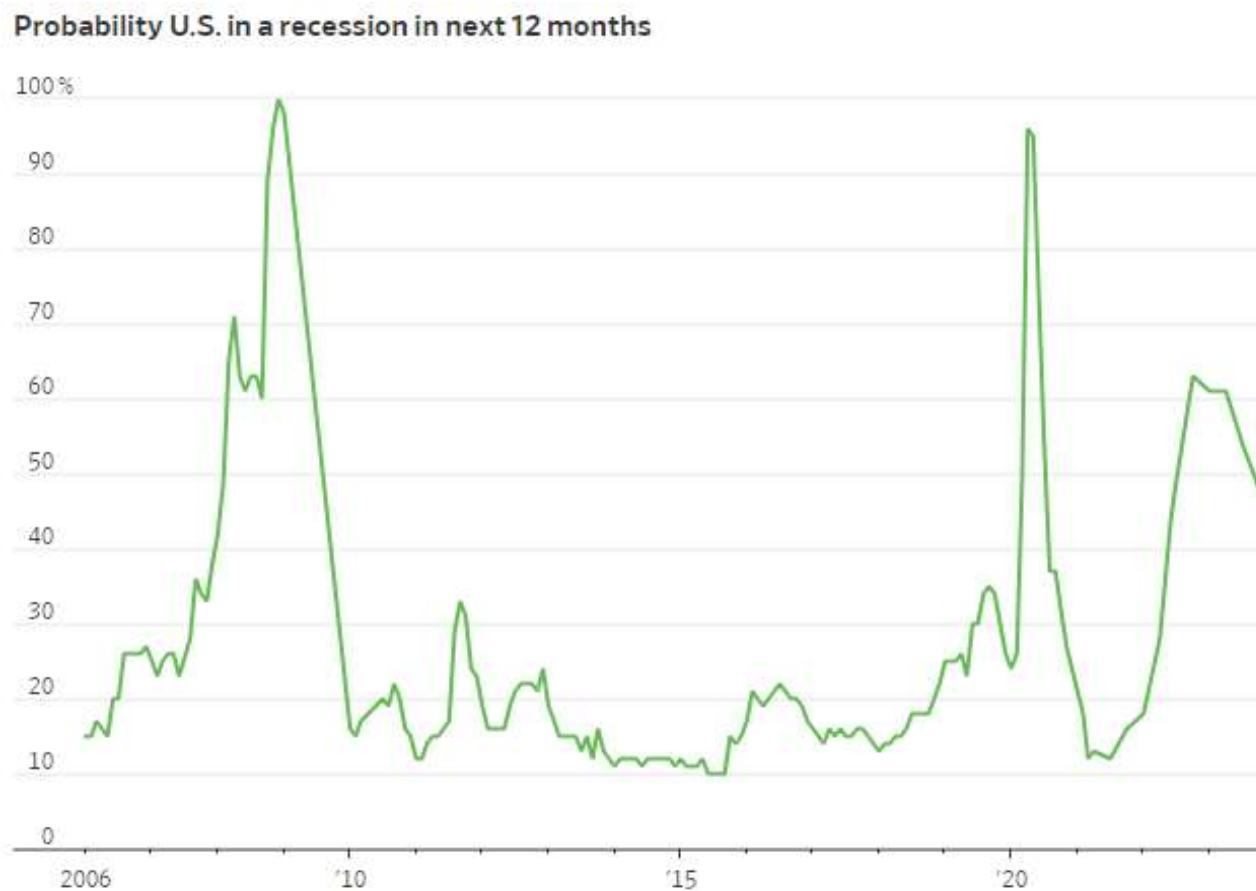
Economic/Market Summary

- The unemployment rate has remained low following the COVID-driven spike



Economic/Market Summary

- The combination of continued growth and low unemployment have lowered recession expectations



Source: Wall Street Journal surveys of economists

Current Fixed Income Environment

Inverse relationship between Bond Prices & Interest Rates

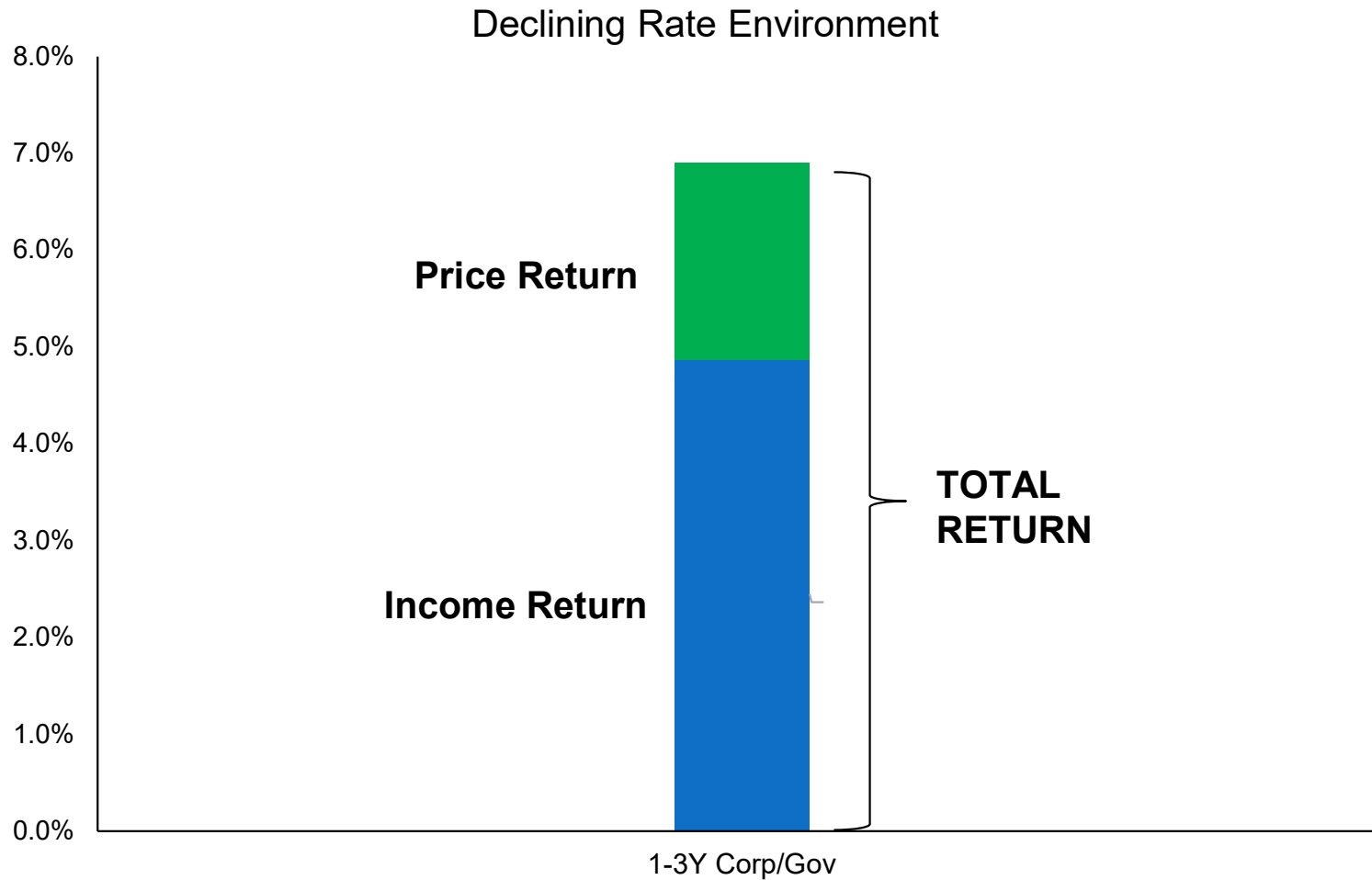
When interest rates FALL...

Market Value of securities *increases*

Interest income *declines*



Falling Interest Rates



Past performance is not necessarily indicative of future returns.

Inverse relationship between Bond Prices & Interest Rates

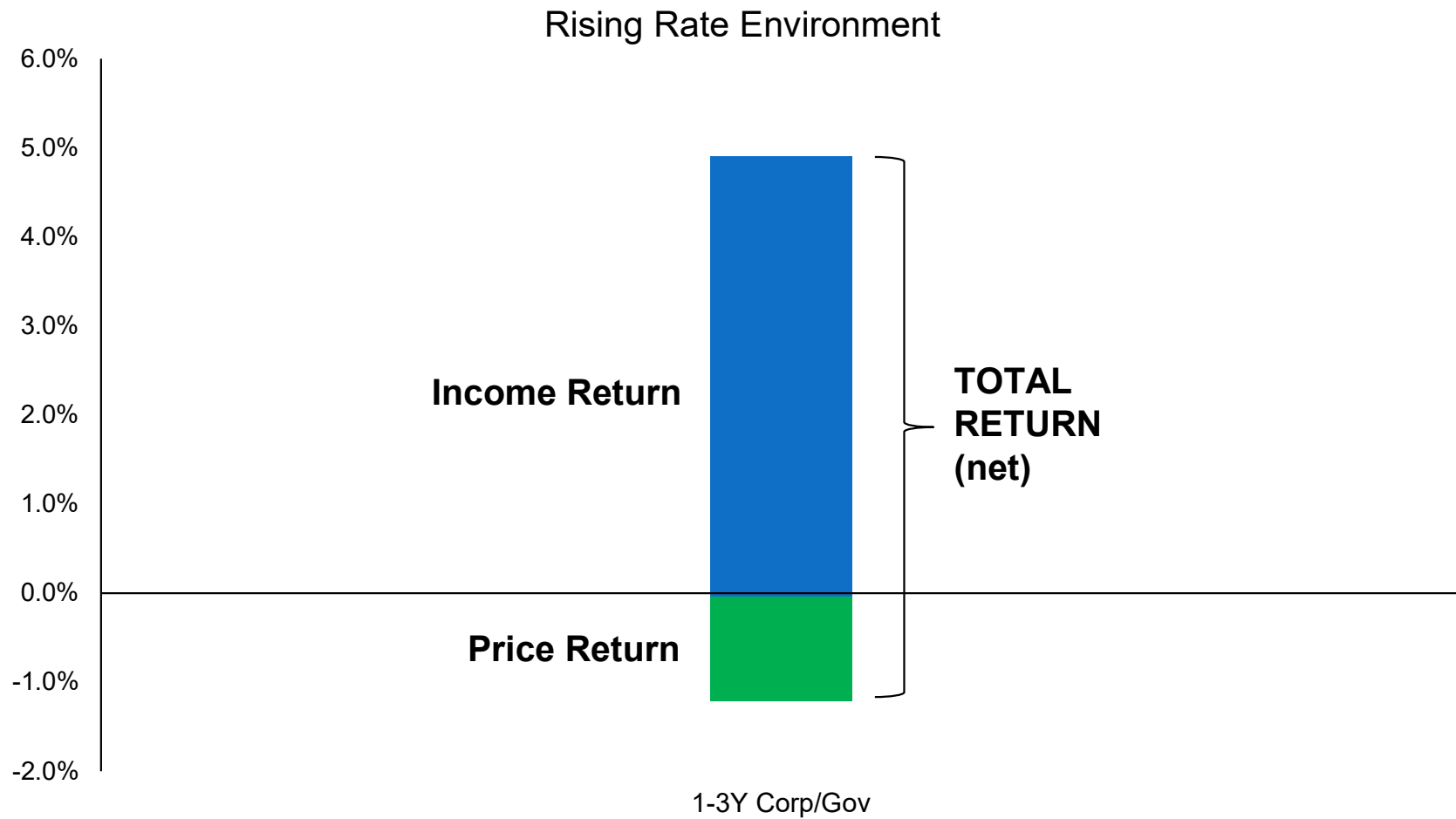
When interest rates RISE...

Market Value of securities *decreases*

Interest income *increases*

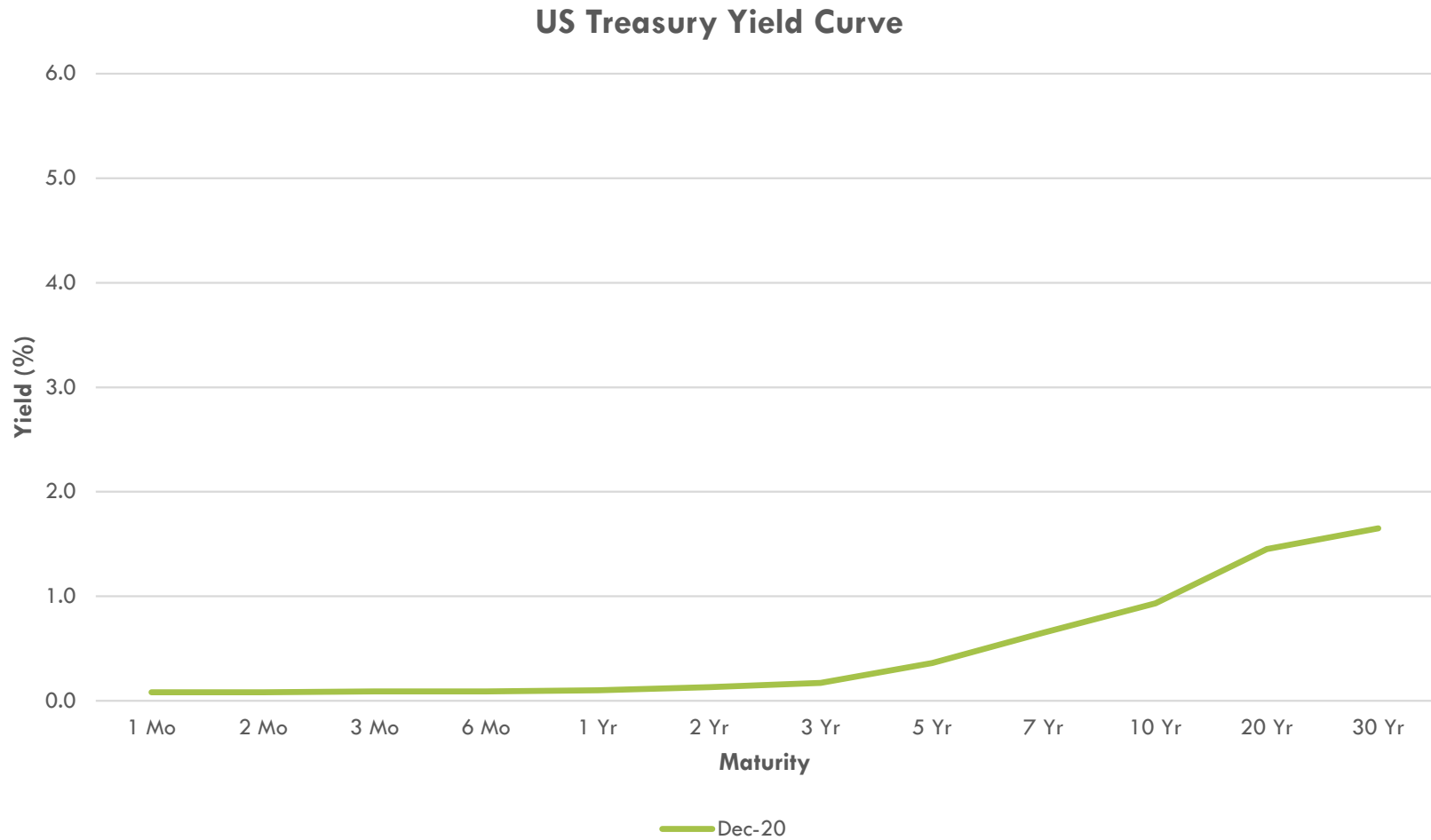


Rising Interest Rates

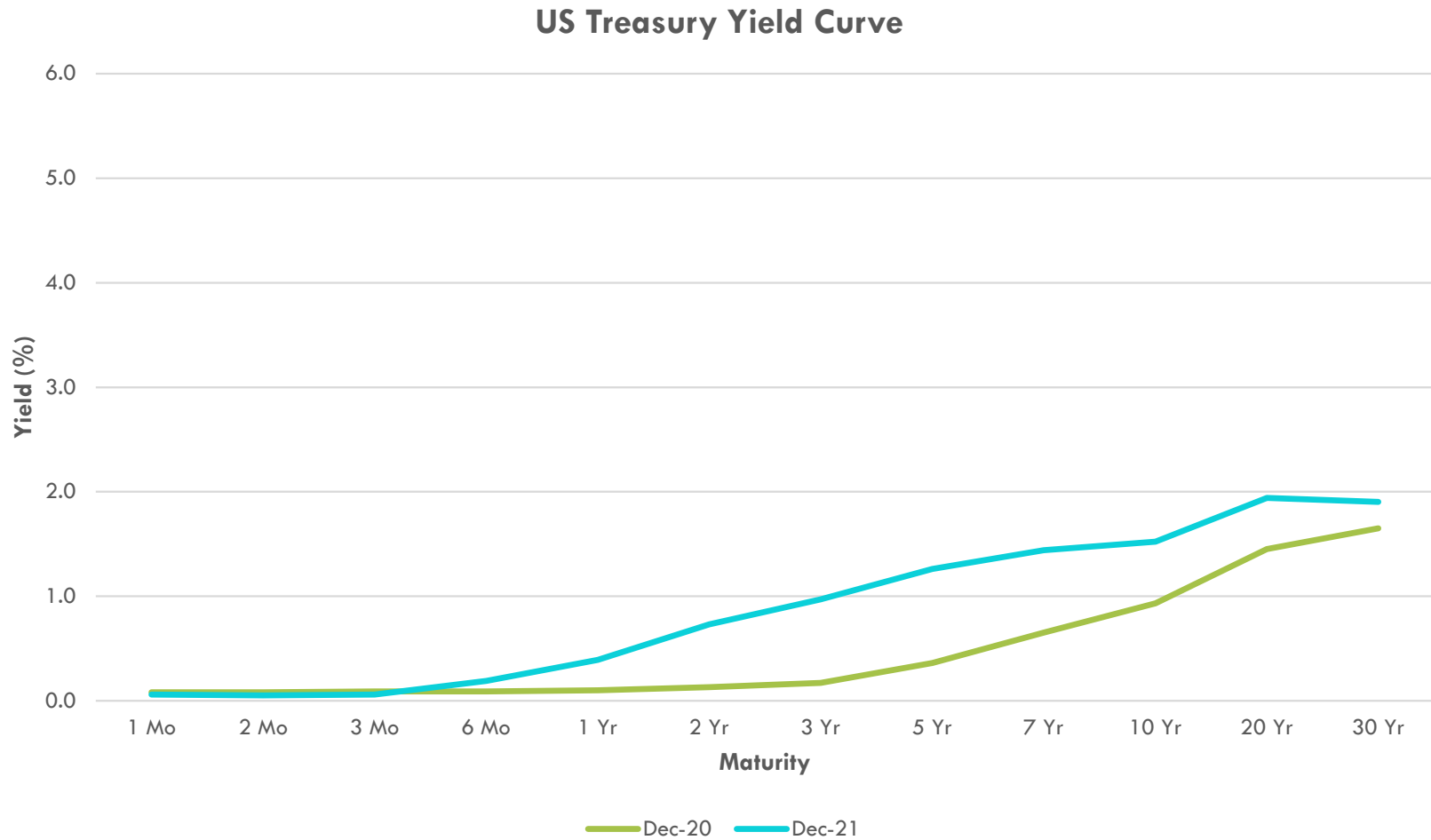


Past performance is not necessarily indicative of future returns.

2021 – Q3 2023 saw a Rising Interest Rate Environment...



2021 – Q3 2023 saw a Rising Interest Rate Environment...



...Negatively Impacting 1-3 Year Corp/Gov Total Returns

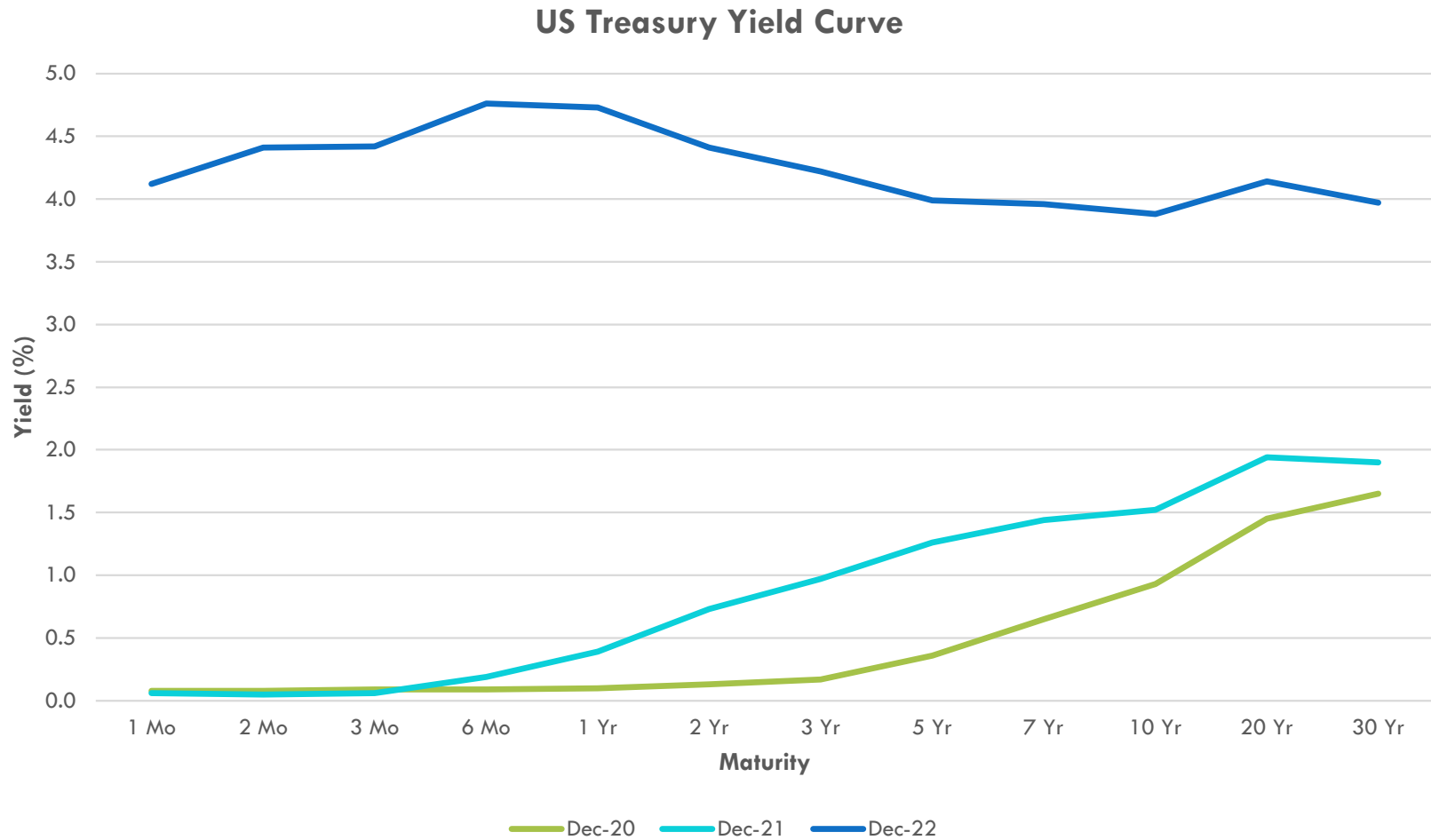
1-3 Year AAA-AA Corp/Gov Index – Total Return

	Q1	Q2	Q3	Q4	Annual
2004	1.05	-1.14	1.07	0.06	1.03
2005	-0.26	1.20	0.09	0.67	1.72
2006	0.47	0.65	2.01	0.99	4.18
2007	1.42	0.73	2.50	2.26	7.08
2008	2.85	-0.70	1.12	2.96	6.33
2009	0.20	0.46	0.96	0.15	1.77
2010	0.77	1.07	0.73	-0.12	2.47
2011	0.10	0.85	0.40	0.15	1.51
2012	0.12	0.21	0.33	0.10	0.76
2013	0.14	-0.13	0.32	0.09	0.42
2014	0.14	-0.13	0.32	0.09	0.67
2015	0.16	0.29	0.03	0.18	0.59
2016	0.53	0.14	0.33	-0.41	0.93
2017	0.91	0.54	-0.08	-0.44	0.55
2018	0.30	0.22	0.27	-0.23	1.64
2019	-0.13	0.24	0.24	1.28	3.64
2020	2.62	0.29	0.12	0.07	3.12
2021	-0.04	-0.02	0.06	-0.53	-0.53

2021
First negative year
in index's history.
(Inception: 1997)

Source: ICE BofA Indices. Past performance is not necessarily indicative of future results.

2021 – Q3 2023 saw a Rising Interest Rate Environment...



...Negatively Impacting 1-3 Year Corp/Gov Total Returns

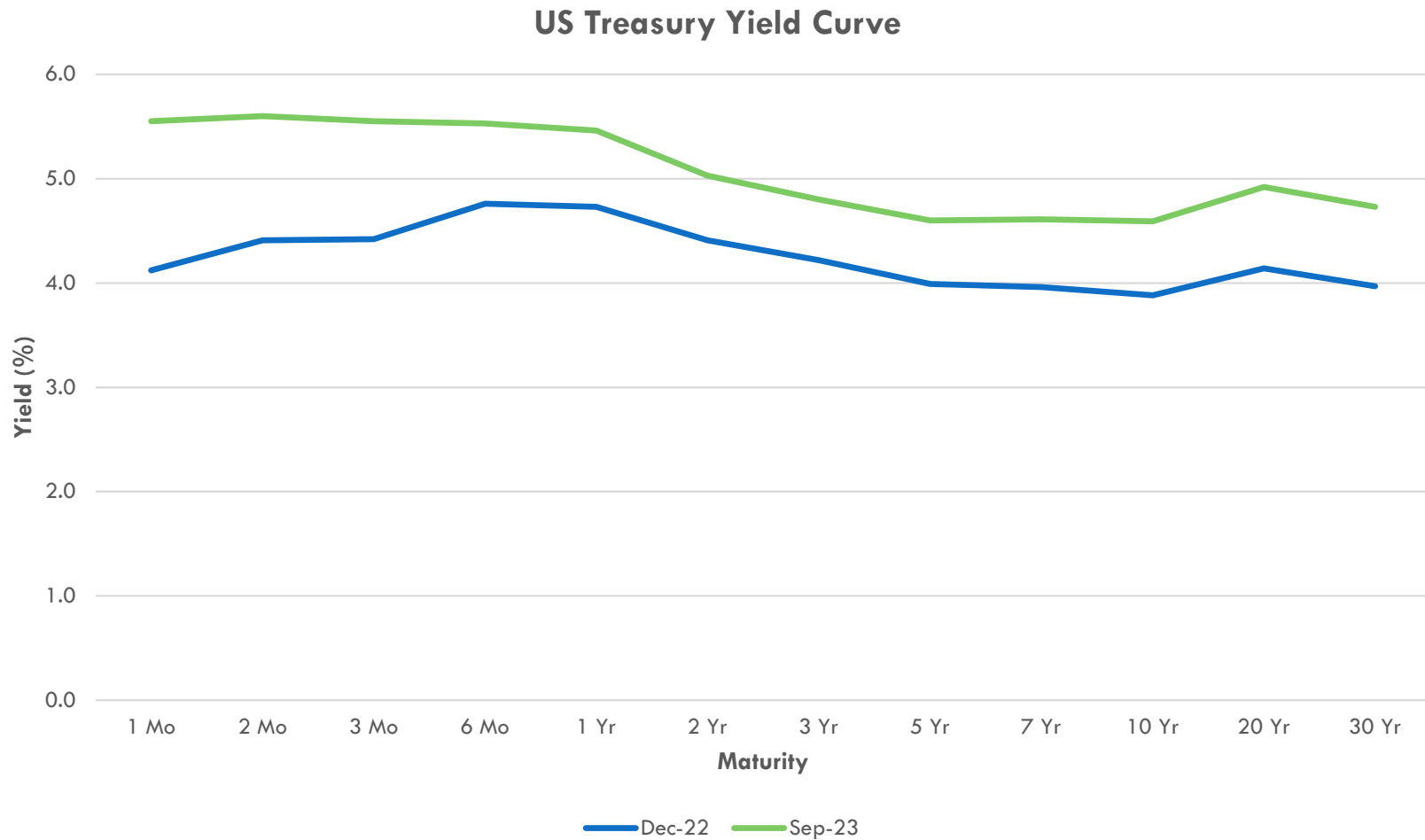
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2022	-2.34	-0.52	-1.57	0.75	-3.66

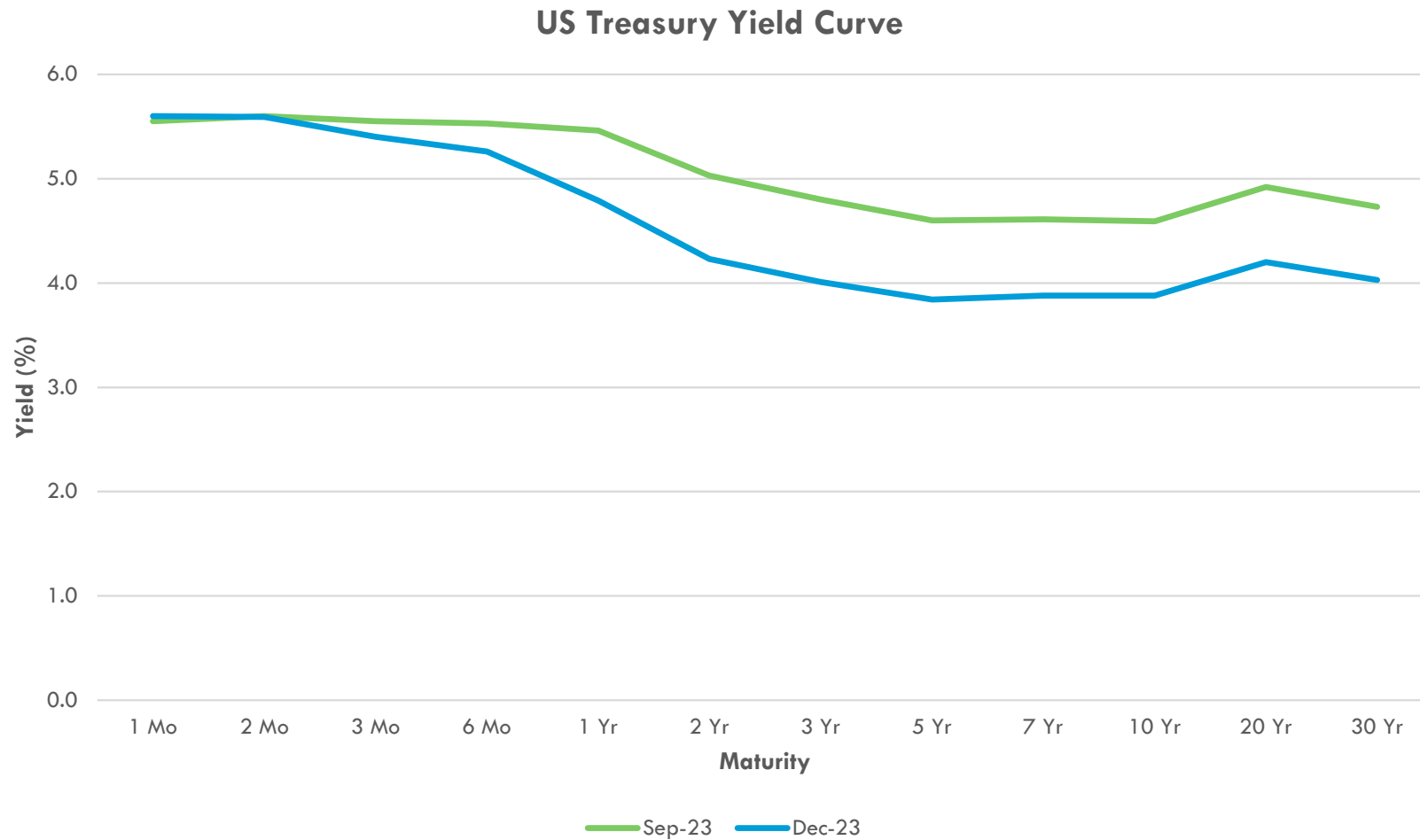
2022
Second
consecutive
negative year

Source: ICE BofA Indices. Past performance is not necessarily indicative of future results.

2021 – Q3 2023 saw a Rising Interest Rate Environment...



...Until Q4 2023 when Rates Started Declining...



...Leading to Positive 1-3 Year Corp/Gov Total Returns

1-3 Year AAA-AA Corp/Gov Index – Total Return

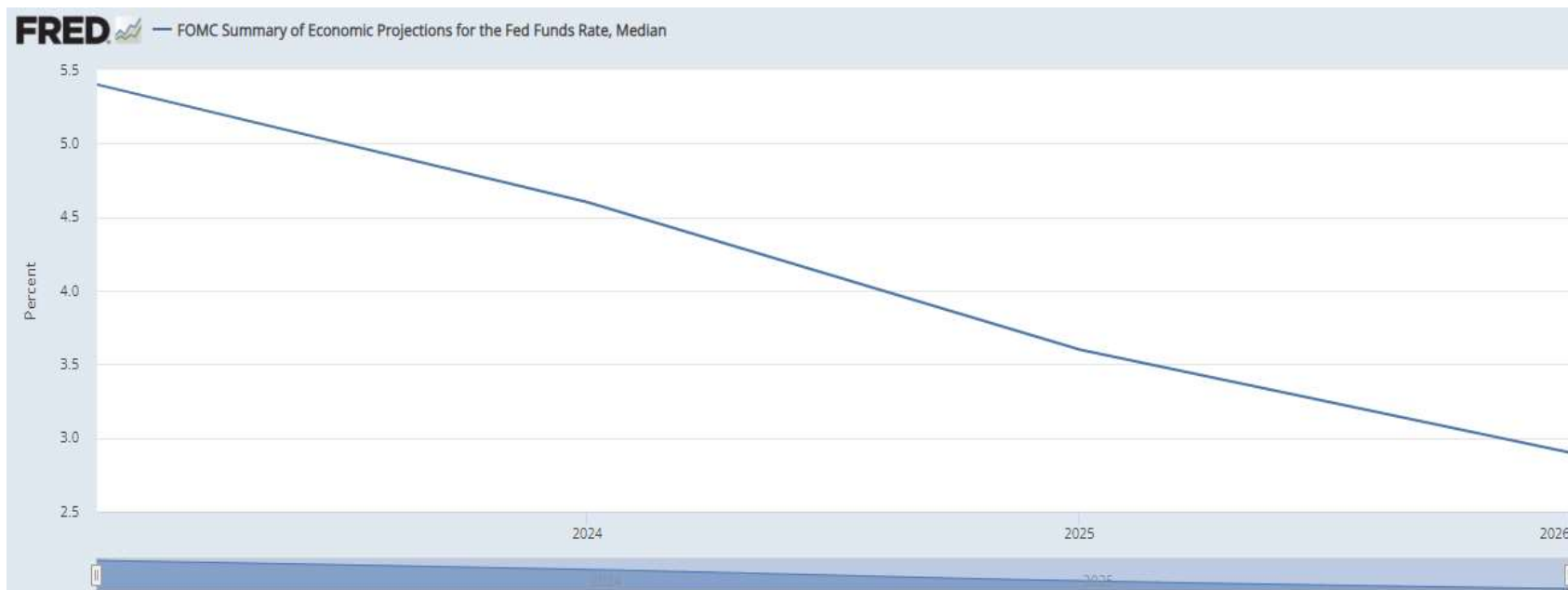
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2021	-0.04	-0.02	0.06	-0.53	-0.53
2022	-2.34	-0.52	-1.57	0.75	-3.66
2023	1.56	-0.55	0.74	2.52	4.31

2023
Best year since
2008

Source: ICE BofA Indices. Past performance is not necessarily indicative of future results.

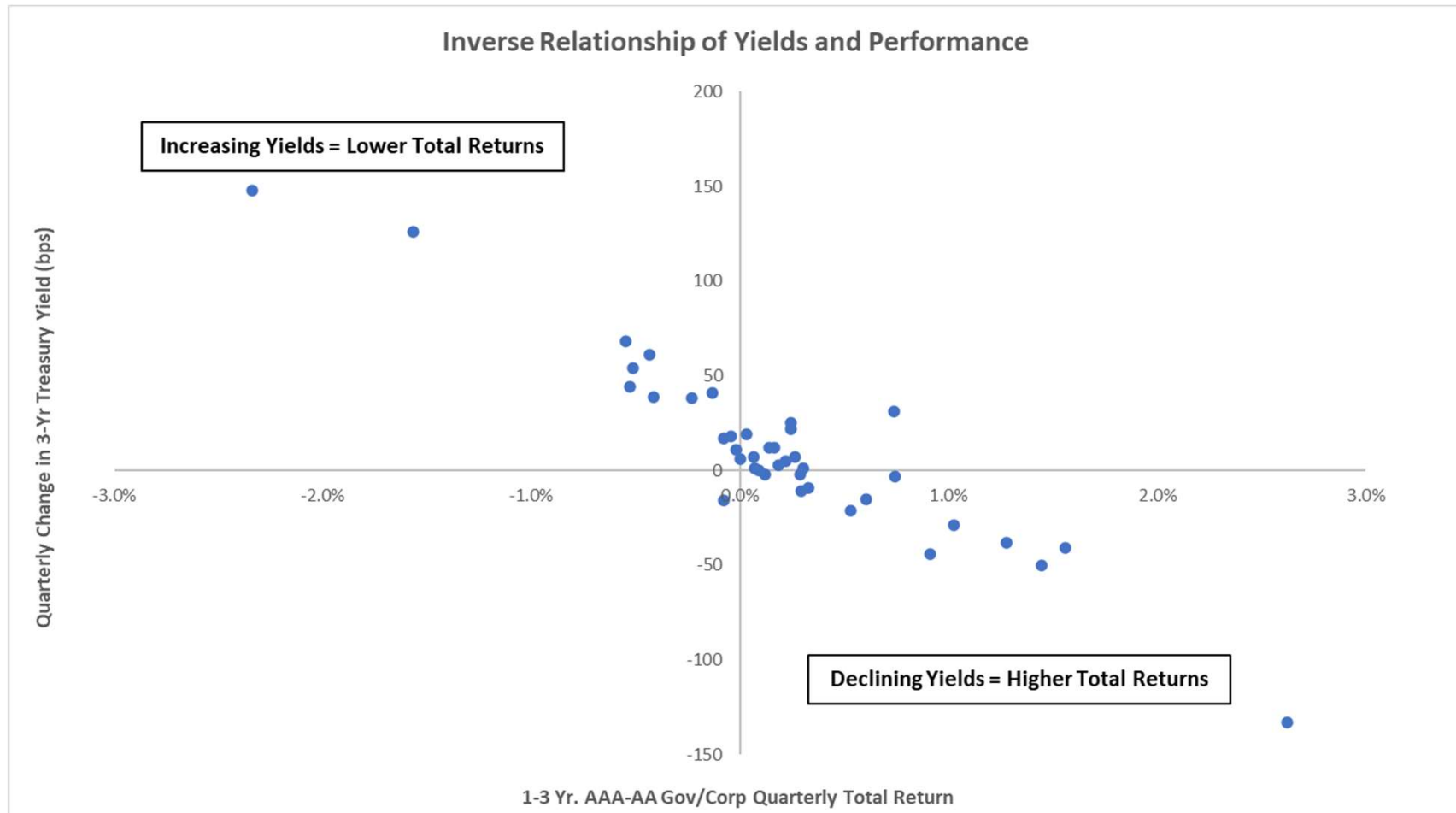
Future Rate Expectations Point Lower

- Federal Reserve's FOMC target overnight rate (Fed Funds rate)
 - Current target rate range: 5.25%-5.50%
 - FOMC Members anticipate lower rates starting in 2024:



Sources: FOMC; St. Louis Fed

Total Returns in Different Rate Environments



- There is a well-defined, inverse relationship between changes in yield and total return.

VIP Investment Funds

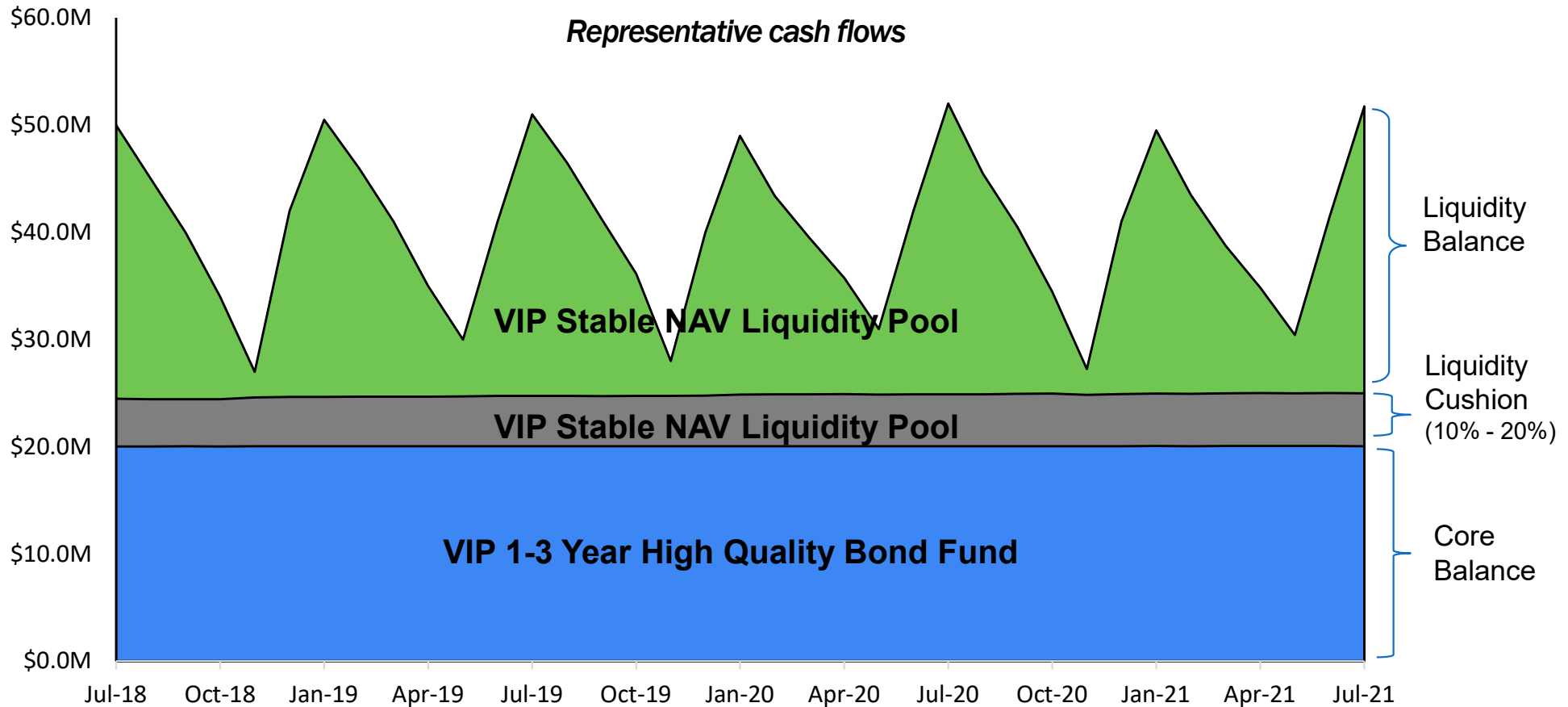
VIP Stable NAV Liquidity Fund

VIP 1-3 Year High Quality Bond Fund

VIP Offers Two Investment Portfolios

Portfolio Characteristics	Stable NAV Liquidity Pool	1-3 Year High Quality Bond Fund
S&P Rating	AAAm	AA+f/S1
Current Yield (1/15/24)	5.52%	4.25%
Mark-to-Market	Daily	Semi-Monthly
Liquidity	Daily	Semi-Monthly
Underlying Security Maturity (12/31/23)	69.66 Days	1.83 Years
Benchmark (ICE BofA Index)	3-Month Treasury Bill Index	1-3 Year AAA-AA US Corp/Gov Index

Two complementary portfolios for managing funds

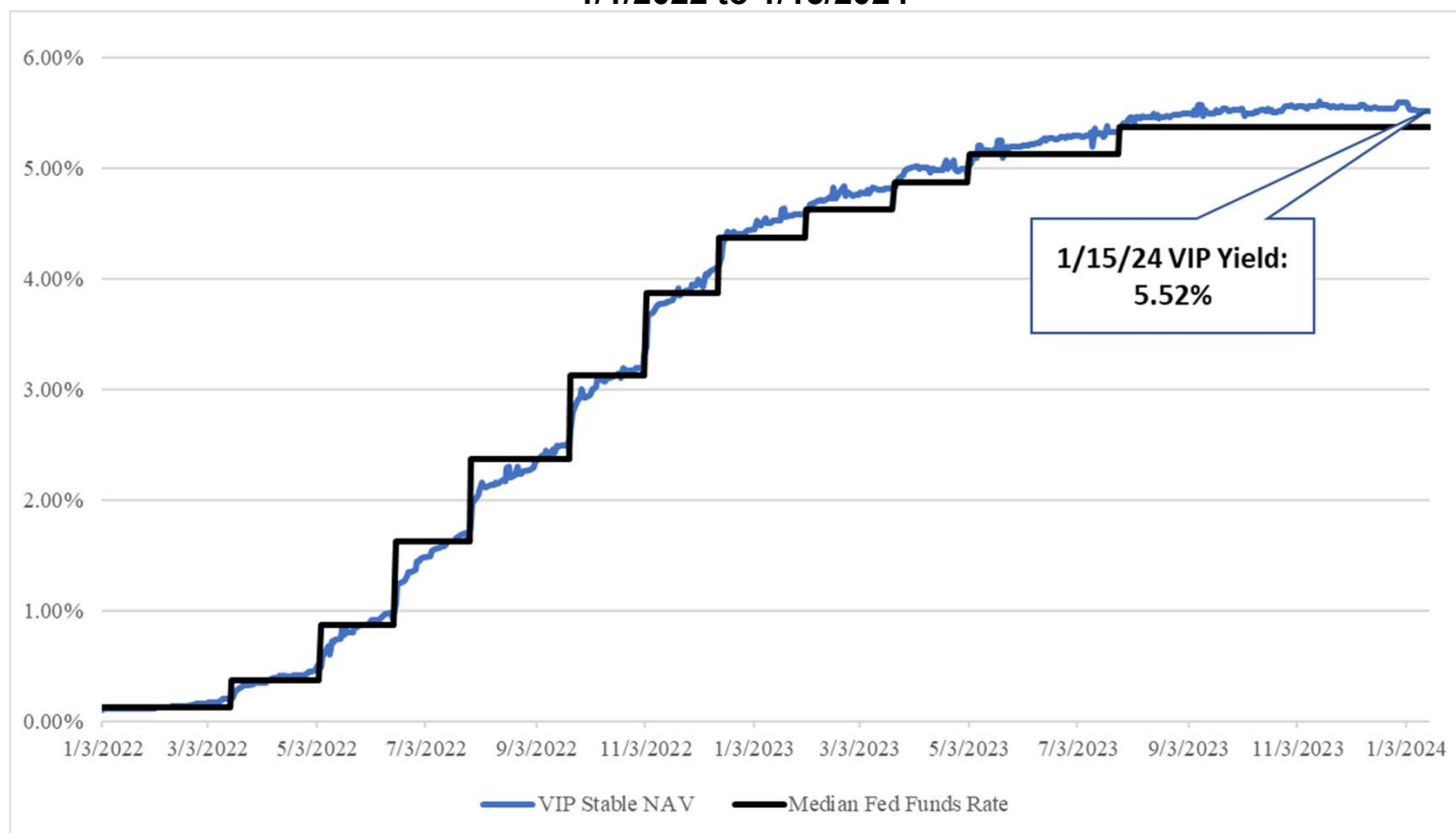


This chart is for informational purposes only. It is not meant to provide advice for your locality's particular situation. For assistance with analyzing your situation, please consult with Public Trust Advisors, VIP's registered investment manager.

VIP Stable NAV Liquidity Fund

- The Liquidity Fund's Yield Tends to Follow the prevailing Fed Funds Rate

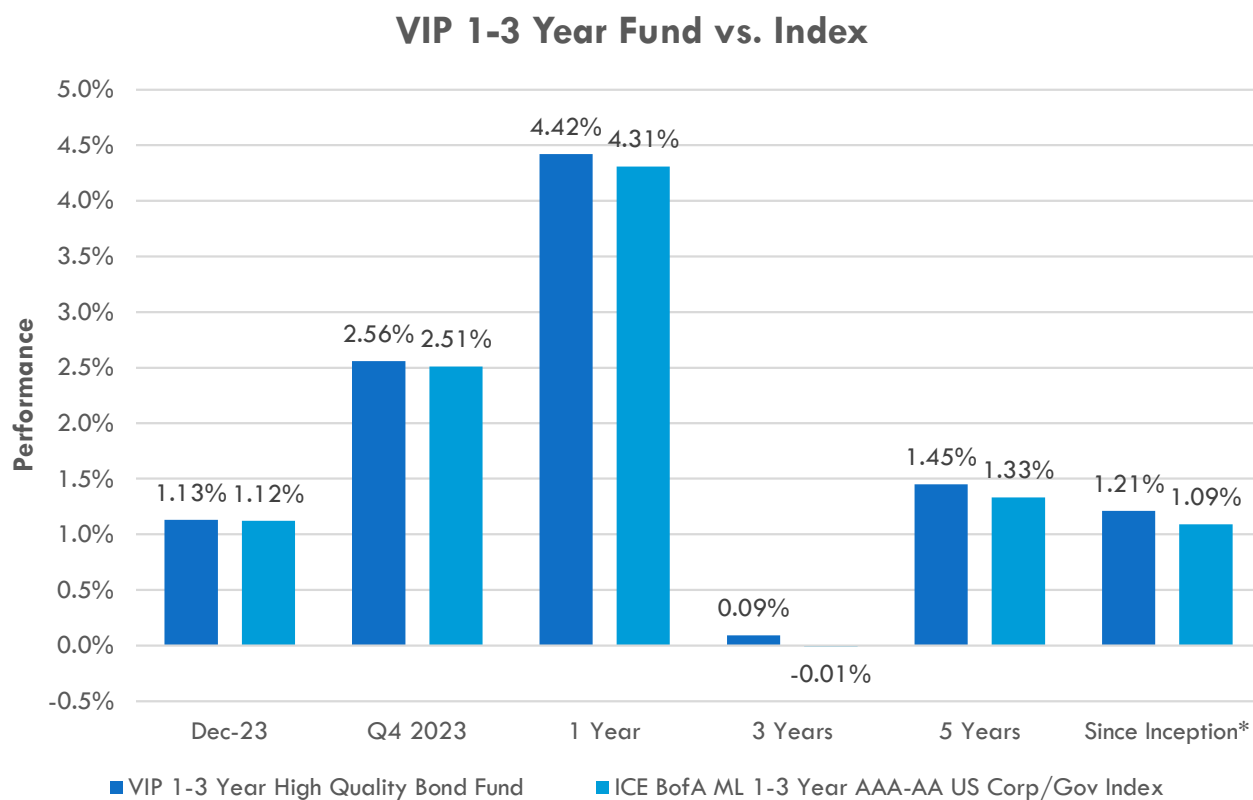
**VIP Stable NAV Liquidity Pool
Daily Net Yield vs. Fed Funds Rate
1/1/2022 to 1/15/2024**



Past performance is not necessarily indicative of future results.

VIP 1-3 Year High Quality Bond Fund

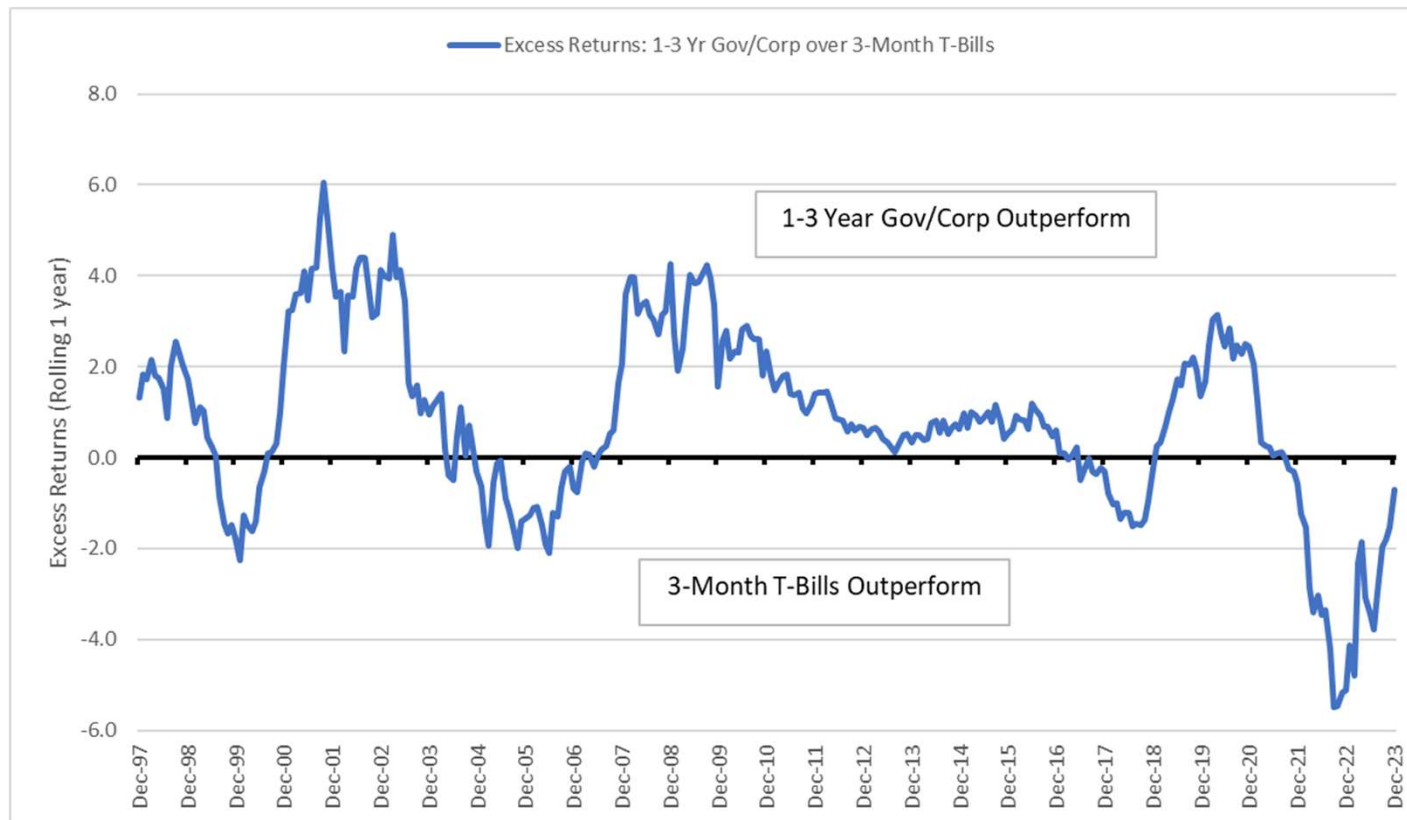
- The 1-3 Year Bond Fund has outperformed the index over each time period



* Inception: February 1, 2014.
 Periods of one-year and longer are annualized.
 Past performance is not necessarily indicative of future returns

Total Return Comparison

- 1-3 Year Bond Returns tend to outperform short-term T-Bills throughout market cycles.



Rolling 1-year Returns (Dec. 1997 - Dec. 2023)	
Periods of 1-3 Year Outperformance	71.6%

Considerations for Investors

Best practices for investing in a fixed income portfolio

1. Remember that fixed income portfolios are for longer-term investors:
 - Volatility is to be expected
 - Investors in 1-3 year securities have historically been rewarded with higher returns as compared to investors in shorter-term securities.

2. When interest rates are falling:
 - This is the optimum time to reposition your investments as needed.
 - You may even realize a gain when selling in a falling rate environment.

3. When interest rates are rising:
 - Avoid selling fixed income investments which may cause you to realize an actual loss.
 - Enjoy the increasing earnings that will be achieved as securities in the portfolio mature and are reinvested in securities with higher interest rates.

Top Five Reasons to Like Bonds Today

- 1 Inflation is coming down**
- 2 Income drives total return and income levels are attractive**
- 3 Income cushion helps minimize price volatility**
- 4 The curve inversion is “long-in-the-tooth”**
- 5 The end (of the current Fed tightening cycle) is near**

Thank you!

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