Steve Keck

From: Kelly Sullivan <Kelly.Sullivan@neamgroup.com>
Sent: Wednesday, March 11, 2020 2:17 PM
To: Steve Keck
Subject: [EXTERNAL] RE: Interest Rates

Hi Steve –

With the significant rally in Treasuries, the unrealized gain position on your fixed income portfolio has increased from $7.56mm at year end 2019 to $11.06mm as of last night (+$3.5mm YTD). The challenge with harvesting these gains is that the biggest gains are in securities with the highest book yields (around 4%+) and the reinvestment yields currently available in the market are below the book yields on what we would be selling. So you would be giving up income and book yield to take the gains. While we have seen corporate spreads widen out (~+80bps since Feb 21st) to the point we think it presents an attractive buying opportunity for *new* cash to invest, the yields currently available (on 10 year maturity corporates, for example, rated A is 1.85% and rated BBB is 2.20%) do not come close to the book yields you would be selling from the portfolio.

In this environment of low yields and volatility, we think it is prudent to stick to your strategic asset allocation set out in the EBAA analysis which was developed to support your portfolio's yield and income objectives. Volatile markets like these often present investment opportunities for long-term investors like LICOA and we stand ready to take advantage. We have already made the first investment in the high dividend and international ETFs ($575k) and once the application with DDJ is complete we can proceed with the $5.75mm investment in the Opportunistic High Yield Fund to help support LICOA's book yield.

Happy to discuss further if you would like to give me a call.

Thanks.

Best,
Kelly

Kelly E. Sullivan, CFA

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From: Steve Keck <skeck@licoa.com>
Sent: Wednesday, March 11, 2020 2:43 PM
To: Kelly Sullivan <Kelly.Sullivan@neamgroup.com>
Subject: Interest Rates [External]

Kelly,

With interest rates doing what they have, and a rumored up to 100 bp cut by the Fed at the coming meeting, what is happening with our unrealized gain? Part of me wonders if we should take some of the gain so we can reinvest but the problem is at what rate are we reinvesting.   That is, financially we gain a couple million dollars but we get rid of say a 4% bond and reinvest in a 2% bond. I don't think we will have done ourselves any favors doing that.

Just thinking outloud for a moment.

Thanks.

Steve
