



INVESTMENT MANAGEMENT GROUP
BUILT ON TRUST

August 17, 2023

Vicki Schroeder
City Treasurer
1100 Delta Avenue
Gladstone, MI 49837

Dear Vicki,

Enclosed is the reporting for the City's August 28th annual investment review. Since my last meeting with the City Council in July of 2022, interest rates have continued their upward trajectory, with short rates having doubled over the last year. As we have discussed in the past, bond values always decline in a rising rate environment, which results in temporary paper losses for investors. Market interest rates are always moving in one direction or another and those paper gains and losses are always present with bond investing. However, with a properly structured portfolio, you should not have to realize any of those losses. Thus, the focus should remain on the opportunities resulting from the new, higher, yields available in today's market.

Gladstone's portfolio is laddered in way which places the greatest emphasis on the short end of the yield curve. Consequently, you have approximately \$2 million maturing over the next 16 months, and those funds will most likely be rolled over at significantly higher yields. Your portfolio currently generates \$172,000 in annual income, and this amount will climb to approximately \$220,000 one year from now if there is no decline in rates.

Inflation is far from contained, and the Fed has much work to do to bring CPI down to its target level of 2%. Accordingly, we see continued upward pressure on rates as the most likely case going forward. In particular, we think the intermediate and long segments of the curve are likely to steepen more than the short end. Our strategy for your portfolio in this environment will remain much the same; we will keep your assets laddered, and will remain focused on the short end of the yield curve.

It has been more than a dozen years since bond investors have been able to generate meaningful returns, and we are grateful for the opportunity to help our clients navigate this new, more favorable rate environment.

Thank you for selecting First Bank as your investment advisor.

Warm regards,

A handwritten signature in blue ink, appearing to read 'Robert Valentine'.

Robert Valentine
Vice President
Institutional Investment Services

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