Treasury Management and the Current Construction Industry Considerations

Presented by:

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Sr. Vice President, Investment Manager

Brian Waldner, Citizens Private Wealth Management
Sr. Vice President, Investment Manager

Special thank you to our chapter sponsors:
## 2018 IN REVIEW

### Asset Class Returns

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>EM Equity</strong></td>
<td>78.5%</td>
<td>18.9%</td>
<td>7.8%</td>
<td>18.2%</td>
<td>32.8%</td>
<td>13.1%</td>
<td>2.4%</td>
<td>17.1%</td>
<td>37.3%</td>
<td>1.8%</td>
<td>1.6%</td>
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<tr>
<td><strong>US High Yield</strong></td>
<td>58.2%</td>
<td><strong>US Equity</strong></td>
<td>16.4%</td>
<td><strong>US Municipal</strong></td>
<td>6.9%</td>
<td><strong>Int. Equity</strong></td>
<td>17.3%</td>
<td><strong>Int. Equity</strong></td>
<td>22.8%</td>
<td><strong>Citizens Moderate</strong></td>
<td>8.2%</td>
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<tr>
<td><strong>Int. Equity</strong></td>
<td>31.8%</td>
<td><strong>US High Yield</strong></td>
<td>15.1%</td>
<td><strong>US High Yield</strong></td>
<td>5%</td>
<td><strong>US Equity</strong></td>
<td>16.2%</td>
<td><strong>Citizens Moderate</strong></td>
<td>13.5%</td>
<td><strong>US Bonds</strong></td>
<td>6%</td>
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<tr>
<td><strong>US Equity</strong></td>
<td>27.2%</td>
<td><strong>Citizens Moderate</strong></td>
<td>10.4%</td>
<td><strong>Citizens Moderate</strong></td>
<td>5.4%</td>
<td><strong>US High Yield</strong></td>
<td>15.8%</td>
<td><strong>US High Yield</strong></td>
<td>7.4%</td>
<td><strong>US Bonds</strong></td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>Citizens Moderate</strong></td>
<td>11%</td>
<td><strong>Int. Equity</strong></td>
<td>7.8%</td>
<td><strong>US Equity</strong></td>
<td>1.8%</td>
<td><strong>Citizens Moderate</strong></td>
<td>10.4%</td>
<td><strong>Alternatives</strong></td>
<td>4.1%</td>
<td><strong>Cash</strong></td>
<td>0%</td>
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<tr>
<td><strong>Alternatives</strong></td>
<td>16.3%</td>
<td><strong>US Bonds</strong></td>
<td>6.5%</td>
<td><strong>Cash</strong></td>
<td>0.1%</td>
<td><strong>Alternatives</strong></td>
<td>5%</td>
<td><strong>Alternatives</strong></td>
<td>5%</td>
<td><strong>US Bonds</strong></td>
<td>2.6%</td>
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<tr>
<td><strong>US Municipal</strong></td>
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<td><strong>Alternatives</strong></td>
<td>3.5%</td>
<td><strong>Alternatives</strong></td>
<td>-0.5%</td>
<td><strong>US Bonds</strong></td>
<td>4.2%</td>
<td><strong>Cash</strong></td>
<td>0%</td>
<td><strong>Alternatives</strong></td>
<td>1.3%</td>
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<td><strong>US Bonds</strong></td>
<td>5.9%</td>
<td><strong>US Municipal</strong></td>
<td>-12.1%</td>
<td><strong>US Municipal</strong></td>
<td>3%</td>
<td><strong>US Bonds</strong></td>
<td>-2%</td>
<td><strong>EM Equity</strong></td>
<td>-2.2%</td>
<td><strong>US High Yield</strong></td>
<td>-4.5%</td>
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<tr>
<td><strong>Cash</strong></td>
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<td><strong>EM Equity</strong></td>
<td>-16.4%</td>
<td><strong>Cash</strong></td>
<td>0.1%</td>
<td><strong>EM Equity</strong></td>
<td>-2.6%</td>
<td><strong>Int. Equity</strong></td>
<td>-4.9%</td>
<td><strong>EM Equity</strong></td>
<td>-14.9%</td>
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<tr>
<td><strong>EM Equity</strong></td>
<td>-0.4%</td>
<td><strong>US Municipal</strong></td>
<td>0.8%</td>
<td><strong>US Municipal</strong></td>
<td>3.1%</td>
<td><strong>Int. Equity</strong></td>
<td>-13.8%</td>
<td><strong>Int. Equity</strong></td>
<td>-12.5%</td>
<td><strong>US Equity</strong></td>
<td>-14%</td>
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</table>
JAN-SEPT 2018:
RECORD HIGHS...FOR US STOCKS AT LEAST
“IT’S THE EARNINGS, STUPID”

Earnings Per Share Growth %

- 2012: 6.4%
- 2013: 4.8%
- 2014: 6.6%
- 2015: -0.6%
- 2016: 1.2%
- 2017: 11.5%
- 2018: 21.8%
- 2019: 6.7%
- 2020: 11.1%
FOURTH QUARTER: A DIFFERENT STORY

-19% from peak
BEST ASSET CLASS OF 2018?

- Foreign Emerging Stocks: -16%
- Foreign Developed Stocks: -14%
- US Stocks: -12%
- US Bonds: -10%
- Cash: -8%
CAUSES OF CONCERN:
DECELERATING ECONOMIC GROWTH

Source: IMF World Economic Outlook
©FactSet Research Systems
CAUSE FOR CONCERN: PMI HEADING LOWER

Source: Markit Economics

©FactSet Research Systems
CAUSE FOR CONCERN: HIGH VALUATIONS.
FORWARD 12-MONTH P/E RATIO
CAUSE FOR CONCERN: YIELD CURVE
THE BIG ONE?
CAUSE FOR CONCERN: YIELD CURVE
THE BIG ONE?
GEOPOLITICAL OVERHANG

“One picture is worth a thousand words”
REASONS FOR OPTIMISM

Fed is on Pause

Markets Stabilizing

Jobs Up, Inflation Low
“October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February.”
LIMITED TERM CASH MANAGEMENT
THE CURRENT YIELD CURVE ENVIRONMENT

Brian H. Waldner, CFA, CFP®
Sr. Vice President | Investment Manager
Citizens Private Wealth Management
THE INVESTMENT POLICY STATEMENT

Goals

RISK TOLERANCE
RETURN OBJECTIVES

ASSET ALLOCATION

CASH
FIXED INCOME

INVESTMENTS

CREDIT QUALITY
DURATION

MONITOR

BENCHMARK

INVESTMENT POLICY STATEMENT (IPS)
DYNAMIC YIELD CURVE
DYNAMIC YIELD CURVE
CREDIT SPREAD BEHAVIOR (2004-2009)
CREDIT SPREAD BEHAVIOR (2016-2019)
LIQUIDITY PRODUCTS AND SERVICES

Traditional depository solutions to meet business needs

**Transactional Accounts**
- Checking Accounts for maximum flexibility, convenience and facilitation of cash management solutions
- Zero Balance Accounts to better coordinate multiple accounts
- Earnings Credit Rate for balances kept in DDA to offset service fees

**Sweep Accounts**
- Sweep to Investment invests available balances nightly to maximize earnings
- Sweep to Line helps manage line and interest expenses
- Sweep to Line to Investment offers the best of both

**Savings Accounts**
- Money Market Deposit Accounts when earnings matter more
- Certificate of Deposits for certainty of earnings
- Time Deposits for a balance between returns and liquidity
# CREDIT ALTERNATIVES TO MANAGING SHORT TERM CASH

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<thead>
<tr>
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<td>1M</td>
<td>2.38</td>
<td>2.36</td>
<td></td>
<td></td>
<td>2.46</td>
<td>2.38</td>
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<td>2M</td>
<td>2.38</td>
<td>2.38</td>
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<td>3M</td>
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<td>5M</td>
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<td>6M</td>
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<td>2.41</td>
<td>2.52</td>
<td>2.70</td>
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<td>2.70</td>
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<td>7M</td>
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<td>2.41</td>
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<td>2.67</td>
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<td>2.41</td>
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<td>2.67</td>
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<td>1Y</td>
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<td>2.58</td>
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<td>2.75</td>
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GOVERNMENT AND AGENCY SECURITIES APPROACH

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<th>Maturity Month</th>
<th>Yield</th>
<th>Percent of Portfolio</th>
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<tr>
<td>1 Month</td>
<td>2.4%</td>
<td>40%</td>
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<tr>
<td>2 Months</td>
<td>2.4%</td>
<td>20%</td>
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<td>6 Months</td>
<td>2.5%</td>
<td>14%</td>
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<tr>
<td>7 Months</td>
<td>2.5%</td>
<td>8%</td>
</tr>
<tr>
<td>9 Months</td>
<td>2.5%</td>
<td>4%</td>
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3 Month Weighted Average Maturity

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<th>Characteristics</th>
<th>Comments</th>
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<tr>
<td>Liquidity Features</td>
<td>40% of the total portfolio matures within the first 30 days</td>
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<tr>
<td>Credit Quality Issues</td>
<td>Aaa/AA+</td>
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<td>Investment Size Range</td>
<td>$1MM - $10MM</td>
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<tr>
<td>Maturity Range</td>
<td>0-10 Months</td>
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<td>Average Maturity</td>
<td>3 Months</td>
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<tr>
<td>Average Duration</td>
<td>0.45</td>
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<tr>
<td>Average Coupon</td>
<td>1.3%</td>
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<tr>
<td>Average Yield to Maturity</td>
<td>2.4%</td>
</tr>
<tr>
<td>Average Price</td>
<td>99.49</td>
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</table>
CONSTRUCTION INDUSTRY OVERVIEW

Les Satlow, CFA, CFP®
Sr. Vice President | Investment Manager
Citizens Private Wealth Management
CONSTRUCTION SPENDING BY CATEGORY

Nonresidential Construction Spending By Category
as of 11/30/2018

Total Nonresidential Construction Spending ($751.5 Billion, SAAR)
Numbers may not add to 100% due to rounding

- Highway & Street: 12.5%
- Power: 13.1%
- Educational: 4.5%
- Religious: 0.4%
- Conservation & Development: 1.6%
- Lodging: 3.7%
- Public Safety: 1.3%
- Water Supply: 2.9%
- Amusement & Recreation: 5.5%
- Communication: 7.1%
- Commercial: 11.6%
- Health Care: 9.9%
- Office: 3.1%
# GROWTH VS CONTRACTION

<table>
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<tr>
<th>Spending Category</th>
<th>% of Total</th>
<th>Spending Amount ($Bil)</th>
<th>Monthly % Change</th>
<th>One-Year % Change</th>
<th>Direction</th>
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<tr>
<td>Total Nonresidential</td>
<td>100.0</td>
<td>751.5</td>
<td>-1.0</td>
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<td>Growing</td>
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<tr>
<td>Educational</td>
<td>13.1</td>
<td>98.7</td>
<td>-1.9</td>
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<td>Growing</td>
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<tr>
<td>Power</td>
<td>13.1</td>
<td>98.3</td>
<td>-0.9</td>
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<td>Highway &amp; Street</td>
<td>12.5</td>
<td>93.6</td>
<td>1.7</td>
<td>5.8</td>
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<td>Commercial</td>
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<td>87.5</td>
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<td>-0.4</td>
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<td>Office</td>
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<td>Manufacturing</td>
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<td>Health Care</td>
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<td>Lodging</td>
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<td>33.5</td>
<td>1.1</td>
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<td>Amusement &amp; Recreation</td>
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<tr>
<td>Communication</td>
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<td>Sewage &amp; Waste Disposal</td>
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<td>Water Supply</td>
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<td>Conservation &amp; Development</td>
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<td>Religious</td>
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<td>3.1</td>
<td>1.8</td>
<td>-0.1</td>
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</table>
TOTAL NONRESIDENTIAL 2009-NOV. 2018

YoY Growth %

-25% -20% -15% -10% -5% 0% 5% 10% 15% 20%

2-YEAR TRENDS

Health Care YoY Growth

Dec-16 to Nov-18p
2-YEAR TRENDS

Office YoY Growth
2-YEAR TRENDS

Commercial YoY Growth

2-YEAR TRENDS

Education YoY Growth

BILLINGS BY REGION

AIA Architecture Billings Index by Region

Indexes are 3-Month Moving Averages

Northeast
Activity Increasing
12/31/2018 = 51.6

Activity Decreasing

Midwest
Activity Increasing
12/31/2018 = 56.3

Activity Decreasing

South
Activity Increasing
12/31/2018 = 49.4

Activity Decreasing

West
Activity Increasing
12/31/2018 = 49.2

Activity Decreasing

Source: The American Institute of Architects. www.aia.org

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