CRAWFORD
INVESTMENT COUNSEL
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NATIONAL MUNICIPAL BOND UPDATE

Market Commentary

The 2nd quarter of 2018 began with an optimistic tone following the passage of the Tax Act and prospects of faster economic growth going forward. However, continued trade war rhetoric has dampened future growth prospects. Interest rates have moved higher over the quarter but only slightly. The benchmark 10 year U.S. Treasury note finished the quarter with a yield of 2.86%, up modestly from last quarter at 2.76%. Second quarter economic growth looks like it will approach close to 4.00% which is significantly higher. Employment growth has also pushed higher and all in all the economy seems to be in good shape. If we see evidence of higher wage growth and inflation we should see interest rates move higher.

The municipal market continues to try and find an equilibrium point in regards to tax reform. On the one hand the tax law has lowered overall supply in the market by the elimination of advanced refunding bond issues. On the other hand we are seeing a decline in the appetite for municipal debt by insurance companies and bank portfolios who have been sellers this year. Individuals have continued to buy as tax rates were only tweaked slightly for this sector. Overall, the lower new issue volume has overshadowed the bank and insurance company selling and thus the market has richened over the course of the year, meaning municipals have become more expensive relative to U.S. Treasuries. Municipals as a percentage of treasuries is a common ratio to measure the relative value at any given timeframe and we are rich by historical measures. This has been exasperated by the summer months which typically offer lower issuance and higher inflows of cash from maturing securities. We have pointed out many times in the past the seasonal nature of the municipal market where more bonds mature and pay coupons in the months of January and July than any other months. This creates a supply demand imbalance that typically contributes to a richening of the market. With the lower supply metrics in place from the tax act it is even more prevalent this year. In order to help mitigate the effect on our portfolios we have managed our cash positions to very low levels as we entered the months of June and July. The portfolios have been fully invested and this helps us avoid having to employ large amounts of cash in this environment. We expect to see a modest rise in our cash positions heading in to the 3rd quarter when seasonal factors tend to dissipate and valuations return to more reasonable levels.

We continue to see value in the Alternative Minimum Tax or AMT subject municipal bond sector. We encourage you to check with your accountant about your future AMT status and report your findings back to us. The new tax law limits the State and Local Tax deduction on your Federal Income tax return which is having the effect of reducing the overall number of taxpayers that are subject to the AMT tax. This past quarter we were able to purchase close to $10,000,000 in this sector with a yield gain of 73 basis points versus generic high quality non AMT bonds. We are happy to exploit the yield gains that this sector can contribute to a portfolio.

As we head in to the 3rd quarter we expect to see municipal bond supply rise but not to the levels of past years. This increase will help ease the rich conditions that exist today. We also expect to see the Federal Reserve raise interest rates two more times for the year pushing short term interest rates higher. Longer term rates are influenced more by inflation and global factors but we also expect to see these rates increase as well. GDP and the economy have been strong of late and we expect that to continue to produce employment gains and eventually wage pressures. This should translate to higher inflation and put pressure on longer term interest rates to increase. The European Union is expected to taper their bond buying program or QE this fall and this should help move global interest rates higher as well. Our Federal Reserve is well in to its taper of QE, resulting in more Treasury bond supply domestically which will further pressure rates. However, we feel the increase in longer term interest rates will be modest as we head in to the 2nd half of the year.

Quarterly Performance

During the 2nd quarter of 2018, the Crawford National Intermediate Municipal Bond Composite returned 0.60% gross of fees (0.52% net of fees). During the same time period, the Barclays 3-Year Municipal Index returned 0.65%. The average effective maturity of the Crawford National Composite at the end of the quarter was 2.47 years and the average final stated maturity of the portfolio composite was 4.19 years. Our performance over the quarter benefited from the spread tightening that occurred in bonds with more complicated structures.

Evaluating Our Performance

The Crawford National Municipal Bond strategy is a high quality, income driven investment program. Our investment process is national in scope and focuses on tax-backed and essential service municipal issuers. In our experience, traditional attribution metrics (e.g., duration, quality, sectors, etc.) do not provide adequate explanation for evaluating municipal performance. We believe yield is the best measure of a portfolio's ability to generate income.

From a performance standpoint, we believe our strategy is distinguished by our ability to identify and capture inefficiencies in the municipal bond market. Given the issuer and investor dynamics of the municipal market, structural characteristics provide professional investors an opportunity to obtain relative value (higher yield for a given level of quality). These structural characteristics include call options, put options, and mandatory sinking fund schedules.

Yield and yield spreads are the best representation of the amount of relative value added by our team's ability to exploit inefficiencies. As illustrated in the tables below, we have been successful in extracting relative value for our investors relative to the Municipal Market Data AAA scale or the Barclays 3-Yr. Municipal Bond Index.

Quarter	CIC Avg. Eff. Maturity	CIC Avg. Final Maturity	CIC Yld. To Eff. Maturity	CIC Yld. To Final Maturity	AAA Scale (Eff. Mat.)	AAA Scale (Final Mat.)	CIC Spread to AAA Scale (Eff Mat.)	CIC Spread to AAA Scale (Final Mat.)
June 2018	2.47 Yrs	4.19 Yrs	2.02%	2.51%	1.68%	1.90%	34 bps	61 bps
Mar 2018	2.35 Yrs	4.17 Yrs	1.96%	2.40%	1.68%	1.91%	28 bps	49 bps
Dec 2017	2.36 Yrs	4.27 Yrs	1.76%	2.24%	1.58%	1.65%	18 bps	59 bps
Sept 2017	2.40 Yrs	4.18 Yrs	1.53%	2.08%	1.02%	1.23%	51 bps	85 bps

Quarter	CIC Avg. Eff. Maturity	Bloomberg Barclays Avg. Eff. Maturity	CIC Yld. to Eff. Maturity	Bloomberg Barclays Yld. to Eff. Maturity	CIC Spread to Eff. Maturity	CIC Average Coupon	Bloomberg Barclays Average Coupon	CIC Average Mkt. Price	Bloomberg Barclays Average Mkt. Price
June 2018	2.47 Yrs	2.89 Yrs	2.02%	1.93%	9 bps	3.77%	4.82%	$104.27	$107.29
Mar 2018	2.35 Yrs	2.93 Yrs	1.96%	1.95%	1 bps	3.88%	4.79%	$103.92	$107.25
Dec 2017	2.36 Yrs	2.99 Yrs	1.76%	1.83%	-7 bps	3.72%	4.81%	$103.87	$107.91
Sept 2017	2.40 Yrs	2.96 Yrs	1.53%	1.32%	21 bps	3.71%	4.81%	$104.65	$109.14

Source: Crawford, Bloomberg, Barclays, TMC Bonds

National Intermediate Municipal Bond Composite
Annual Disclosure Presentation

						Composite				Bloomberg Barclays 3 Year Municipal Bond Index	
Year	Firm Assets ($ Millions)	Composite Assets ($ Millions)	% Of Balanced Carve-Outs	% Of Non-fee paying accounts	# Of Accounts	Gross Return	Net Return	3-Year Standard Deviation	Internal Dispersion	Return	3-Year Standard Deviation
2017	$5,901	$582	0%	1%	175	2.05%	1.74%	1.21%	0.4%	1.56%	1.48%
2016	$5,044	$501	0%	2%	169	0.37%	0.05%	1.11%	0.3%	0.08%	1.23%
2015	$4,149	$443	0%	1%	148	1.53%	1.20%	0.94%	0.3%	1.18%	0.91%
2014	$4,610	$365	0%	0%	140	2.63%	2.28%	0.92%	0.6%	1.22%	0.86%
2013	$4,388	$308	0%	0%	117	0.87%	0.54%	1.15%	0.3%	1.32%	0.97%
2012	$3,812	$264	0%	0%	95	2.52%	2.18%	1.28%	0.5%	1.86%	1.13%
2011	$3,369	$217	0%	0%	80	4.91%	4.58%	2.01%	1.1%	3.46%	1.67%
2010	$3,111	$144	0%	0%	50	3.14%	2.83%	3.18%	0.7%	1.81%	2.68%
2009	$2,592	$172	22%	0%	50	5.79%	5.45%	3.09%	0.6%	5.78%	2.55%
2008	$2,046	$131	15%	0%	25	5.58%	5.20%	2.78%	N/A	5.52%	2.33%

N/A - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Crawford Investment Counsel claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Crawford Investment Counsel has been independently verified for the period January 1, 1981 through December 31, 2014. A copy of the verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS. Verification does not ensure the accuracy of any specific composite presentation.

Crawford Investment Counsel, Inc. is an independent registered investment adviser with the Securities and Exchange Commission.

The National Intermediate Municipal Bond Composite contains all discretionary, taxable national intermediate municipal bond accounts with a minimum account size of $1 million. An account managed in the national intermediate municipal bond style focuses on investment grade municipal bond issuers of short to intermediate maturity with exposure across at least 5 states with no more than 50% in a single state.

For comparison purposes the composite is measured against the Bloomberg Barclays 3 Year Municipal Bond Index. Effective February 1, 2016, the secondary benchmark, Barclays Capital 5 Year Municipal Bond Index, was removed. The change was made as it was decided that it was not relevant to show multiple benchmarks.

Results are based on discretionary accounts under management, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance. Balanced portfolio segments are included in this composite prior to January 1, 2010 and in periods where single asset segments exist, cash has been allocated according to the average cash position those single segment accounts held. A 5% cash allocation has been consistently applied to the composite for periods where no single asset accounts are included. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance is calculated based on the actual fees experienced by the client. The 3-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The annual composite dispersion presented is an asset weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Past performance is not necessarily indicative of future results.

The investment management fee schedule for the composite is 0.40% on the first $5 million; 0.35% on the next $5 million; and 0.30% on the balance. Actual investment advisory fees incurred by clients may vary.

The National Intermediate Municipal Bond Composite was created in January of 2007. A complete list of composite descriptions is available upon request.