1Q 2019

CRAWFORD
INVESTMENT COUNSEL
Est. 1980

NATIONAL MUNICIPAL BOND UPDATE

Market Commentary

Over the quarter we saw the fixed income markets move lower in yield across the board as the Federal Reserve indicated a "patient" approach to any future rate hikes. Monetary policy will be data-dependent, but slower growth in the U.S. and abroad indicates there will not be any future hikes in interest rates for the remainder of 2019. Futures markets have actually signaled that a decrease in rates within the next year is more likely than an increase in rates. The U.S. economy may be growing at a slower rate; however, we do not see indications of significant weakness. We believe there is an excellent chance the economy will continue to prosper at or around a GDP growth rate of 2.00%, and a recession is not likely for some time. The bell weather 10-year U.S. Treasury note finished the quarter at a yield of 2.40%, down 28 basis points for the quarter. Remember just last fall the rate was 3.25%. While the U.S. economy has not significantly slowed as yet, global growth has stalled of late, and the total amount of sovereign debt that has retreated into negative yield territory has grown to over 10 trillion dollars. This has the impact of keeping a "tether" on U.S. interest rates in general as demand for our debt increases.

Municipals outperformed treasuries for the quarter by a wide margin. While the move in the 10-year Treasury note was a drop in yield of 28 basis points, the drop in yield for a 10-year municipal was 46 basis points. Municipals outperformed across the yield curve and valuations have richened. Municipals are now quite rich as compared to taxable investments from a historical perspective. Supply was on par from years past in the quarter, but we have seen near record demand for municipals as close to 25 billion dollars has flowed into the municipal bond mutual fund space over the quarter. This demand is somewhat attributable to the new tax law that went in to effect in 2018 which reduced the SALT (State and Local Taxes) deduction to a maximum of $10,000. This has enticed more investors to seek out the tax free income that municipals provide, especially in high tax states such as New York and California. In fact, these two states are trading very expensively from a historical perspective. This will be tested in the next several weeks as the tax filing deadline of April 15 arrives. Typically, bond funds have seen outflows in the form of redemptions as taxpayers pay Uncle Sam. We also would usually see municipal bond valuations cheapen during this period, but as of yet that has not been the case.

As we mentioned above, municipal valuations were expensive over the quarter making value difficult to find. However, our cash position was extremely low heading in to 2019 due to aggressive buying in the 4th quarter of 2018. This allowed us to enjoy the outperformance over the quarter in our existing holdings and be very selective with our new purchases. We will be patient heading into the tax filing date and hope to find more compelling value as investors liquidate holdings to pay their tax bills. The average maturity of our National Municipal Strategy is slightly under 3 years. We began to extend maturities as interest rates peaked in the 4th quarter and we added bonds in the 5 to 7 year effective maturity range as opportunities presented themselves. It is our intention to continue this extension program as we replace maturing bonds in 2019 as long as the market cooperates. Although we do not see a recession on the horizon, it is getting close to 10 years for this economic expansion.

Looking forward, we anticipate interest rates to drift within a narrow band as we wait for further direction from the economy and the Federal Reserve. The recent move down could have been overdone, and a retracement of 10-year yields back to over 2.50% seems likely. However, the global glut of negative yielding debt will make it difficult for domestic yields to increase significantly. The only caveat to this prediction is if we see GDP growth pick up unexpectedly or if we see an increase in inflation over the near term. However, we do not think this is a scenario that is likely.

Quarterly Performance

During the first quarter of 2019, the Crawford National Intermediate Municipal Bond Composite returned 1.28% gross of fees (1.19% net of fees). During the same time period, the Barclays 3-Year Municipal Index returned 1.33%. The average effective maturity of the Crawford National Composite at the end of the quarter was 2.3 years, and the average final stated maturity of the portfolio composite was 4.7 years. Our relative performance over the quarter was slightly less than the benchmark due to the short-term nature of our maturity positioning.

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.

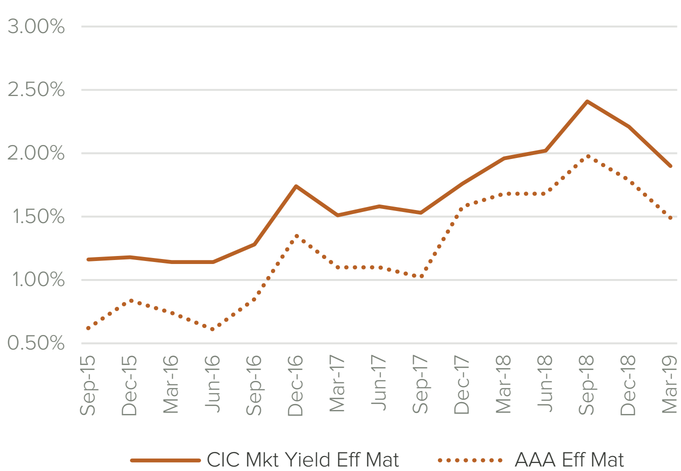
Yield and yield spreads are the best representation of the amount of relative value added by our team's ability to exploit inefficiencies. As illustrated in the tables below, we have been successful in extracting relative value for our investors relative to the Municipal Market Data AAA scale.

Crawford National Municipal Bond Strategy relative to the Municipal Market Data AAA Scale

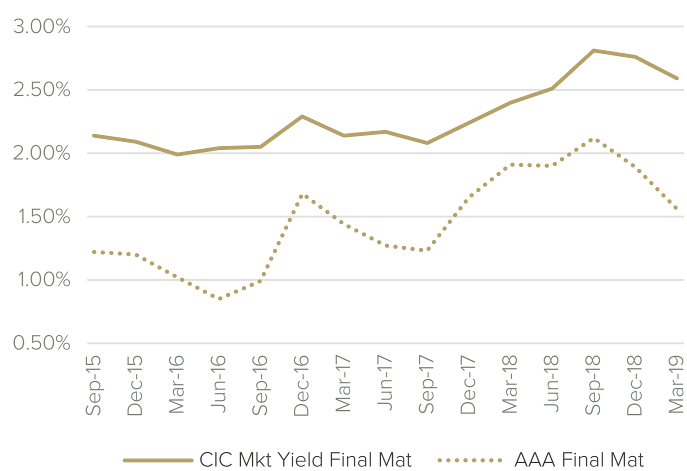
Quarter	CIC Avg. Eff. Maturity	CIC Avg. Final Maturity	CIC Yld. To Eff. Maturity	CIC Yld. To Final Maturity	AAA Scale (Eff. Mat.)	AAA Scale (Final Mat.)	CIC Spread to AAA Scale (Eff Mat.)	CIC Spread to AAA Scale (Final Mat.)
Mar 2019	2.35 Yrs	4.75 Yrs	1.90%	2.59%	1.49%	1.56%	41 bps	103 bps
Dec 2018	2.37 Yrs	4.54 Yrs	2.21%	2.76%	1.79%	1.89%	42 bps	87 bps
Sept 2018	2.32 Yrs	4.16 Yrs	2.41%	2.81%	1.98%	2.12%	43 bps	69 bps
June 2018	2.40 Yrs	4.11 Yrs	2.02%	2.51%	1.68%	1.90%	34 bps	61 bps

Source: Crawford, Bloomberg, Barclays, TM3

CIC Nat Muni Market Yield to Eff Mat vs AAA



CIC Nat Muni Market Yield to Final Mat vs AAA



Source: Crawford, Bloomberg, Barclays, TM3

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
2018	$5,655	$509	0%	2%	160	1.75%	1.42%	1.24%	0.2%	1.76%	1.54%
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	0.30%	-0.02%	1.10%	0.3%	0.08%	1.23%
2015	$4,149	$443	0%	1%	148	1.52%	1.19%	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%

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, 2016. 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.