

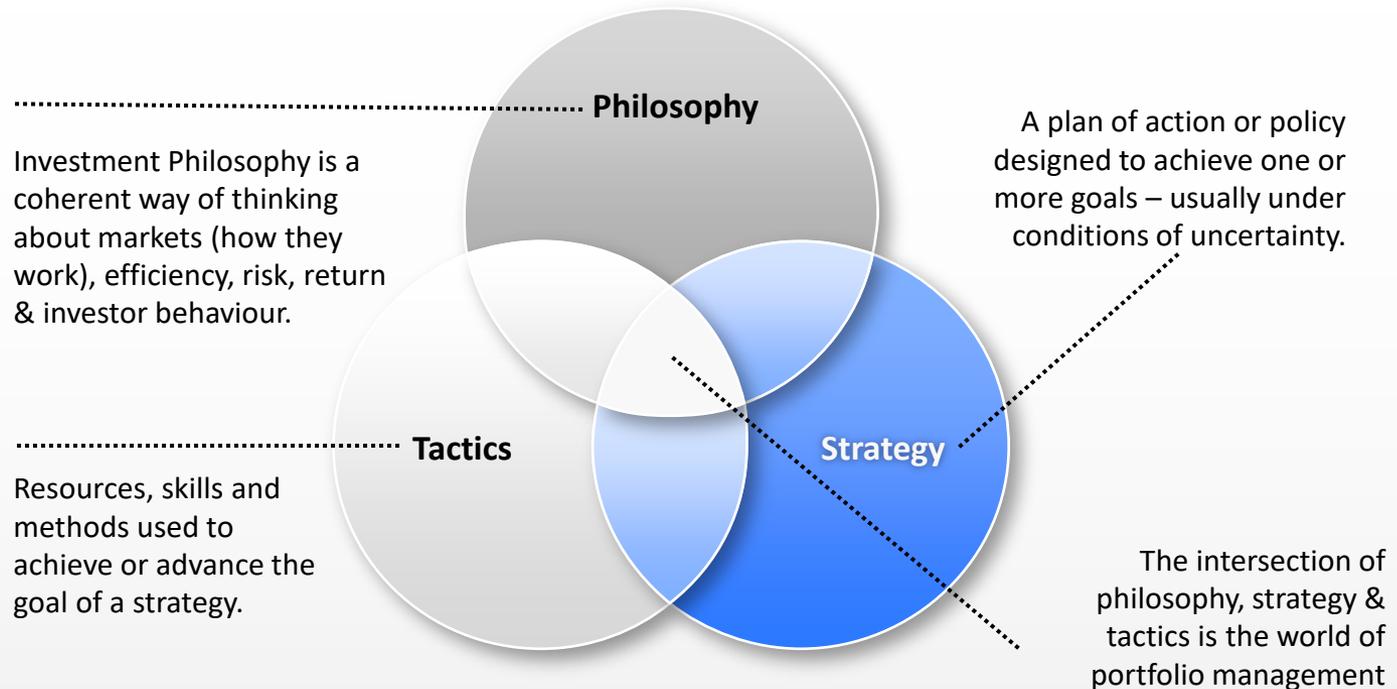


# Developing a Benchmark Concepts

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RW Baird

# Philosophy, Strategy & Tactics

Where Does this Fit?



The difference between strategy and tactics: Strategy is done above the shoulders, Tactics are done below the shoulders.

# Understanding Benchmarks - Concepts

## Agenda

1

Assumptions/Definitions

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2

Benchmark/Index Examples

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3

What Should I Benchmark?

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4

How Should I Benchmark?

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**WARNING**

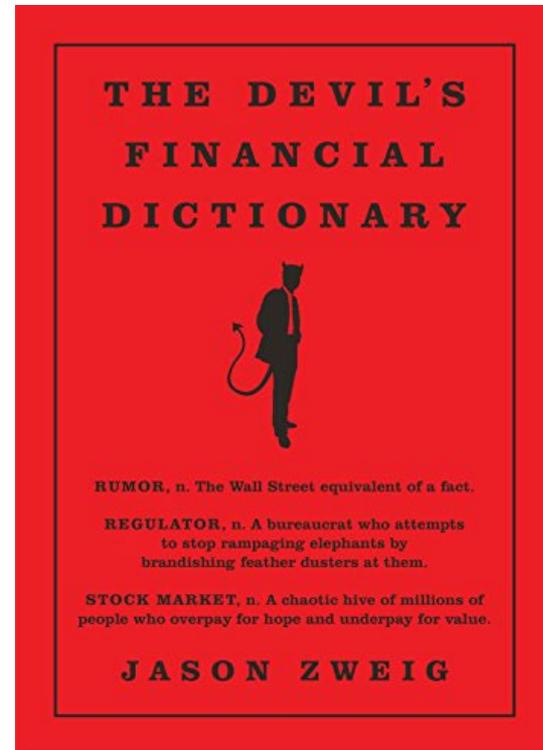
**ASSUMPTIONS  
AHEAD**

# Risk Defined

More things can happen than will happen.

“ ... It has been philosophically defined by finance professor Elroy Dimson of London Business School this way: ***“Risk means more things can happen than will happen.”*** In the end, risk is the gap between what investors think they know and what they end up learning—about their investments, about the financial markets, and about themselves.”

”

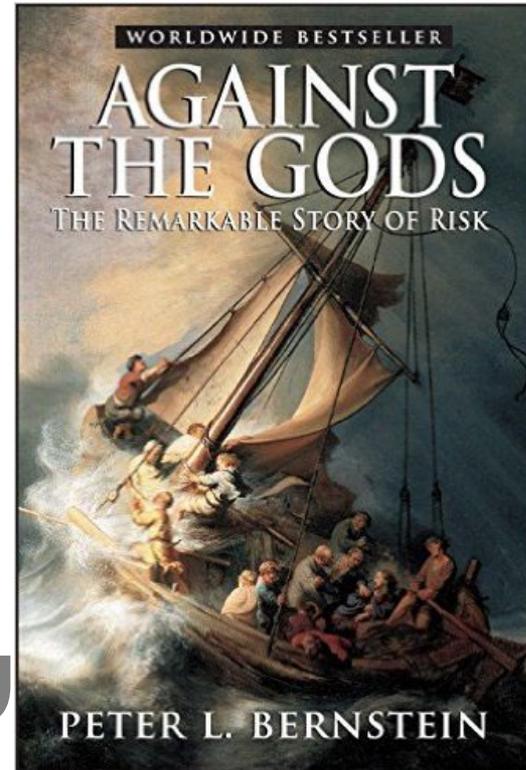


Zweig, Jason. The Devil's Financial Dictionary (p. 182). PublicAffairs. Kindle Edition. Emphasis added.

# Risk & Return are Related

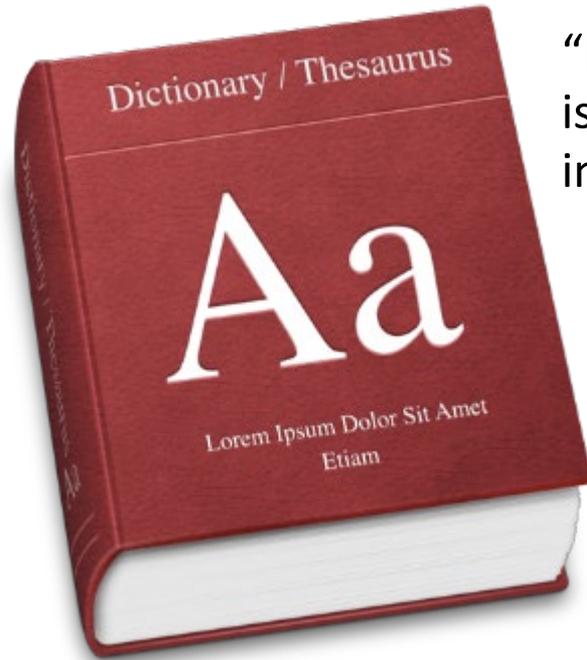
Finding the right trade-off is the key

“\*The scientist who developed the Saturn 5 rocket that launched the first Apollo mission to the moon put it this way: ***"You want a valve that doesn't leak and you try everything possible to develop one. But the real world provides you with a leaky valve. You have to determine how much leaking you can tolerate."*** (Obituary of Arthur Rudolph, in The New York Times, January 3, 1996.)”



Peter L. Bernstein. *Against the Gods: The Remarkable Story of Risk* (Kindle Locations 69-71). Kindle Edition. Emphasis added.

# Definitions



“Knowledge is knowing a tomato is a fruit; Wisdom is not putting it in a fruit salad.”



Brandreth, Gyles. Oxford Dictionary of Humorous Quotations (Kindle Location 4265). OUP Oxford. Kindle Edition.

See this useful Microsoft Help page for Microsoft Word on the definition/history of “Lorem Ipsum Dolor Sit Amet Etiam”: <https://support.microsoft.com/en-us/kb/114222>

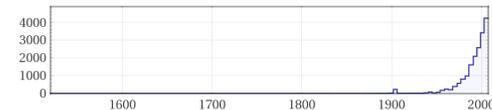
# Benchmark

Definitions :

- 1 noun a standard by which something can be measured or judged
- 2 noun a surveyor's mark on a permanent object of predetermined position and elevation used as a reference point

benchmark | Computed by Wolfram|Alpha

Word frequency history :



(from 1539 to 2007) (in occurrences per billion words per year)

benchmark | Computed by Wolfram|Alpha

Google Books Ngram Viewer

Graph these comma-separated phrases: index,benchmark - case-insensitive  
between 1800 and 2008 from the corpus English with smoothing of 7 Search lots of books



WolframAlpha,

<http://www.wolframalpha.com/input/?i=benchmark&rawformassumption=%7B%22C%22,+%22benchmark%22%7D+-%3E+%7B%22Word%22%7D&rawformassumption=%7B%22DPClash%22,+%22FinancialE%22,+%22benchmark%22%7D+-%3E+%7B%22NYSE:BHE%22%7D> (December 30, 2016).

# Benchmarks ~ Expectations



# Index

Definitions :

- 1    noun    a numerical scale used to compare variables with one another or with some reference number

---

- 2    noun    a number or ratio (a value on a scale of measurement) derived from a series of observed facts; can reveal relative changes as a function of time

---

- 3    noun    a mathematical notation indicating the number of times a quantity is multiplied by itself

---

- 4    noun    an alphabetical listing of names and topics along with page numbers where they are discussed

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- 5    noun    the finger next to the thumb

---

- 6    verb    list in an index

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- 7    verb    provide with an index

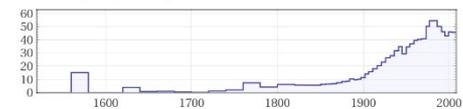
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- 8    verb    adjust through indexation

(8 meanings)

index | Computed by Wolfram|Alpha

Word frequency history :



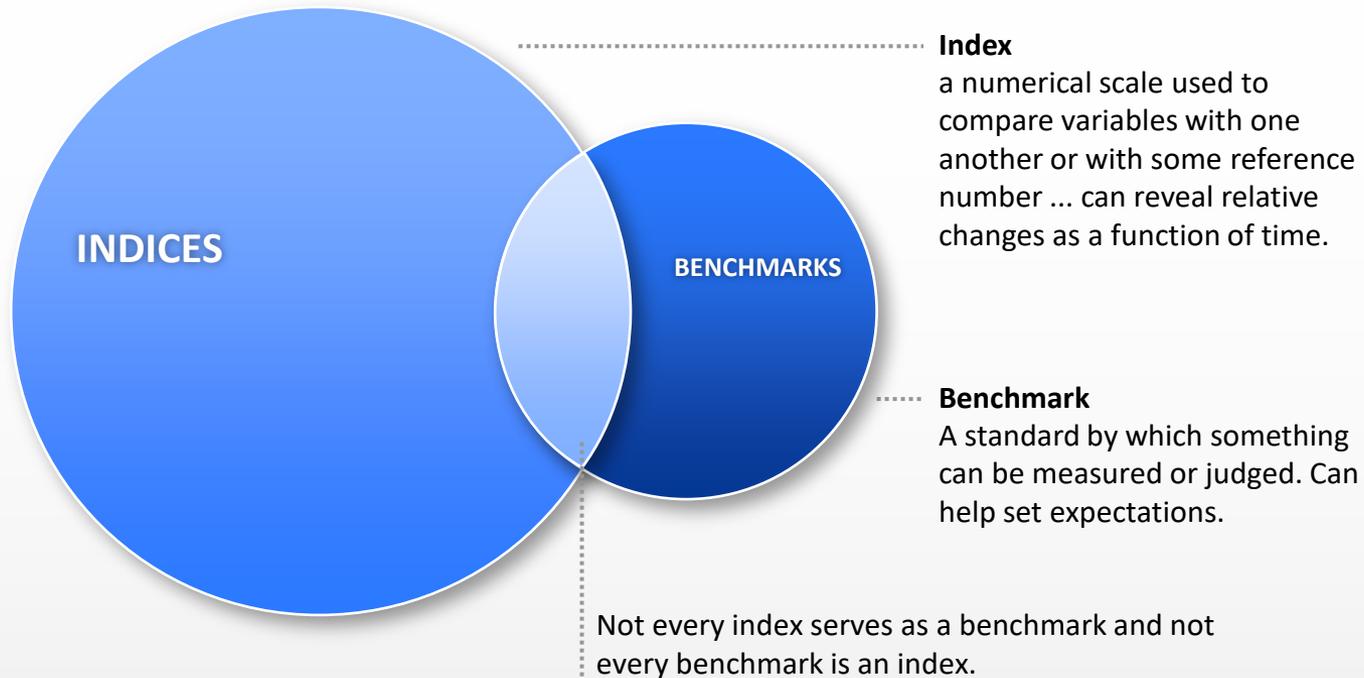
(from 1539 to 2007) (in occurrences per million words per year)

Index | Computed by Wolfram|Alpha

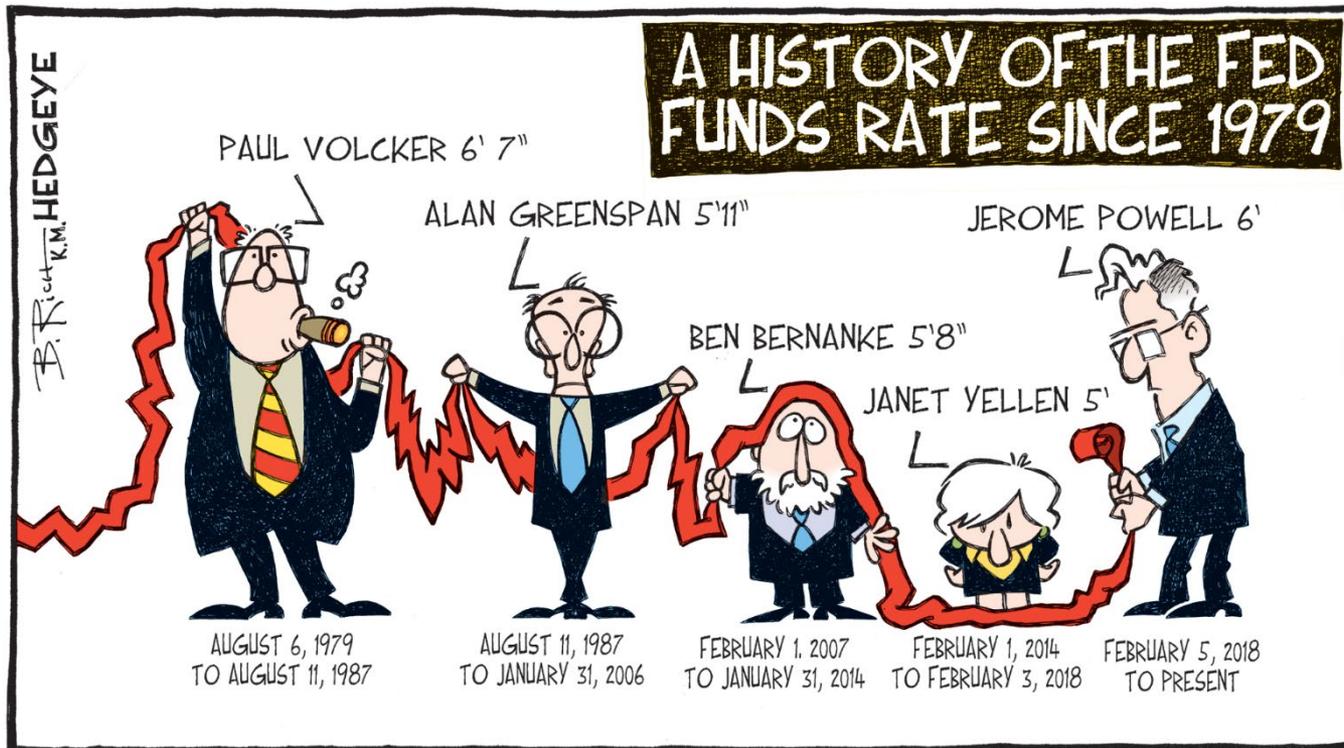
WolframAlpha, <http://www.wolframalpha.com/input/?i=index> (December 30, 2016).

# Benchmark/Index Examples

Benchmark does not necessarily mean an Index

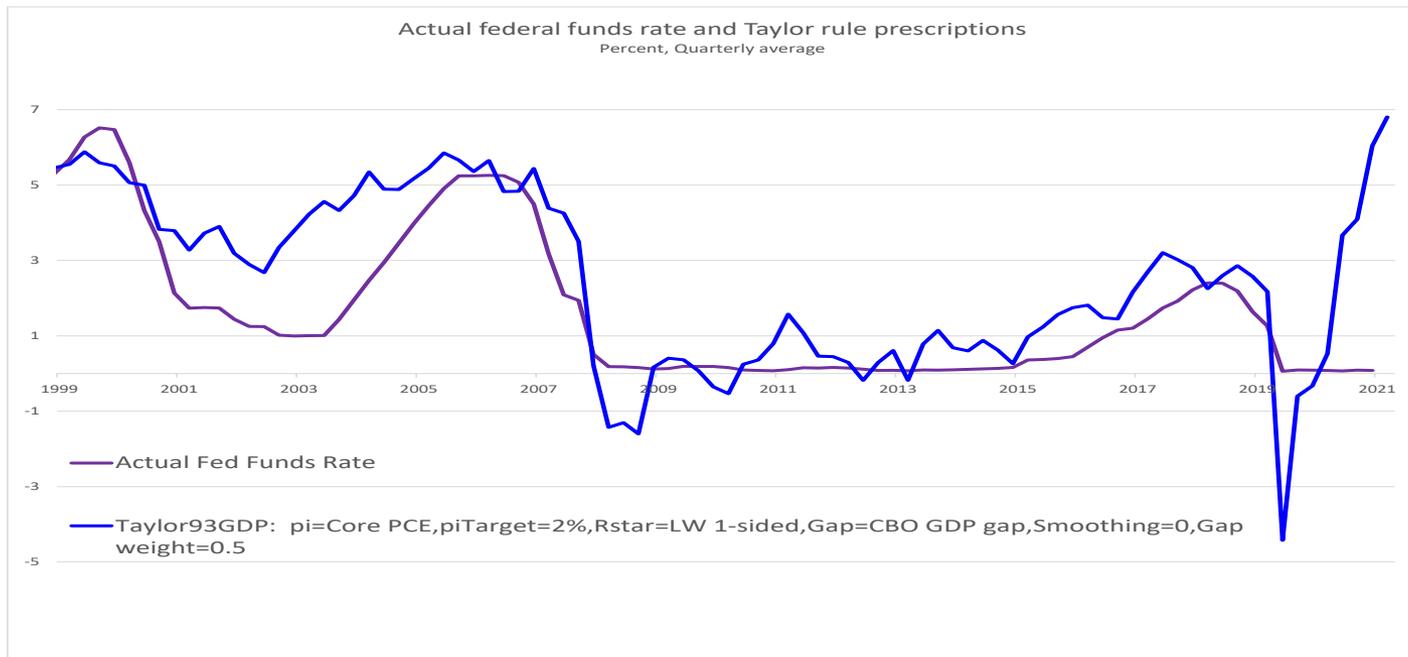


# Benchmarking Fed Funds?



# Pure Benchmark Example – The Taylor Rule

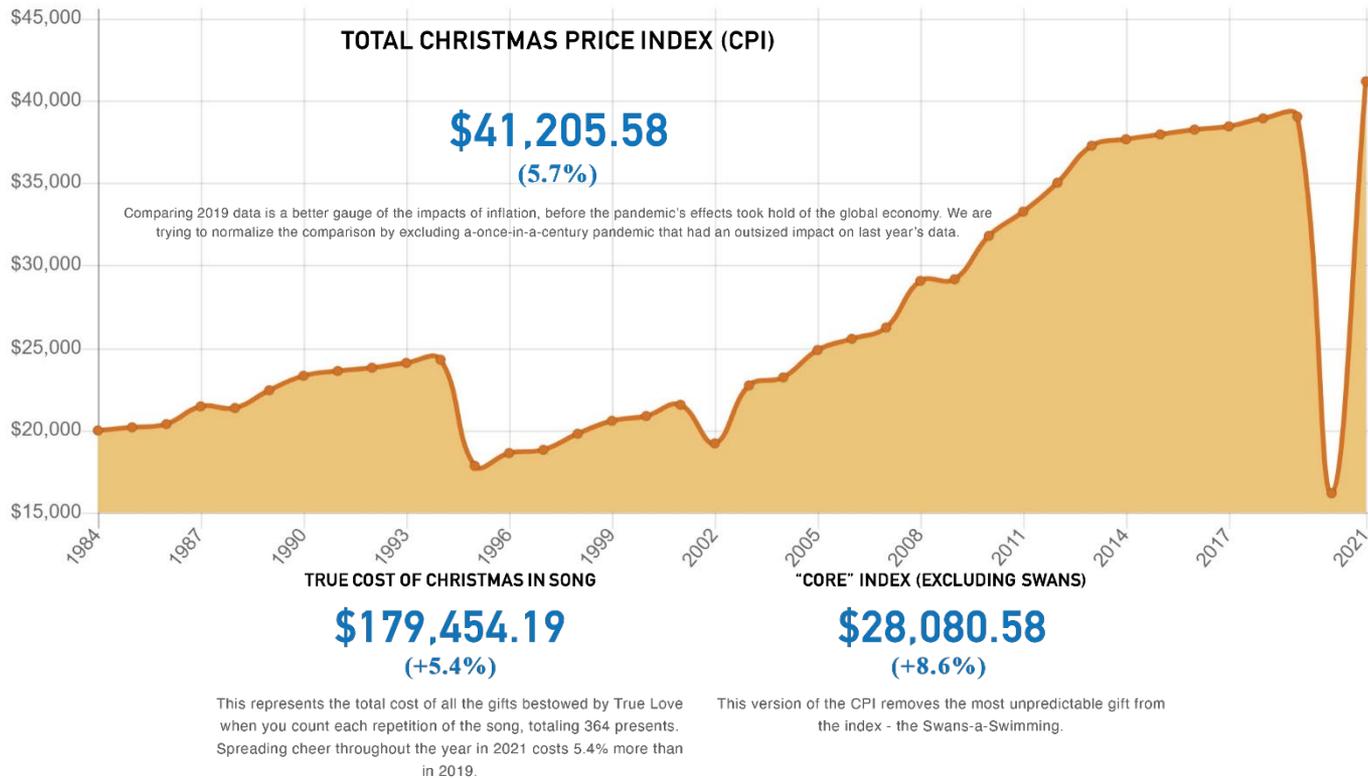
“The Taylor rule is an equation John Taylor introduced in a [1993 paper](#) that prescribes a value for the federal funds rate—the short-term interest rate targeted by the Federal Open Market Committee (FOMC)—based on the values of inflation and economic slack such as the output gap or unemployment gap.”



Center for Quantitative Economic Research, Federal Reserve Bank of Atlanta, <https://www.frbatlanta.org/cqer/research/taylor-rule.aspx> (Feb 1, 2022). \*See <http://www.investopedia.com/video/play/taylor-rule-calculating-monetary-policy/> for a short video explaining The Taylor Rule and further details on the equation.

# Pure Index Example – Christmas Price Index

The PNC Christmas Price Index® shows the current cost for one set of each of the gifts given in the song "The Twelve Days of Christmas."

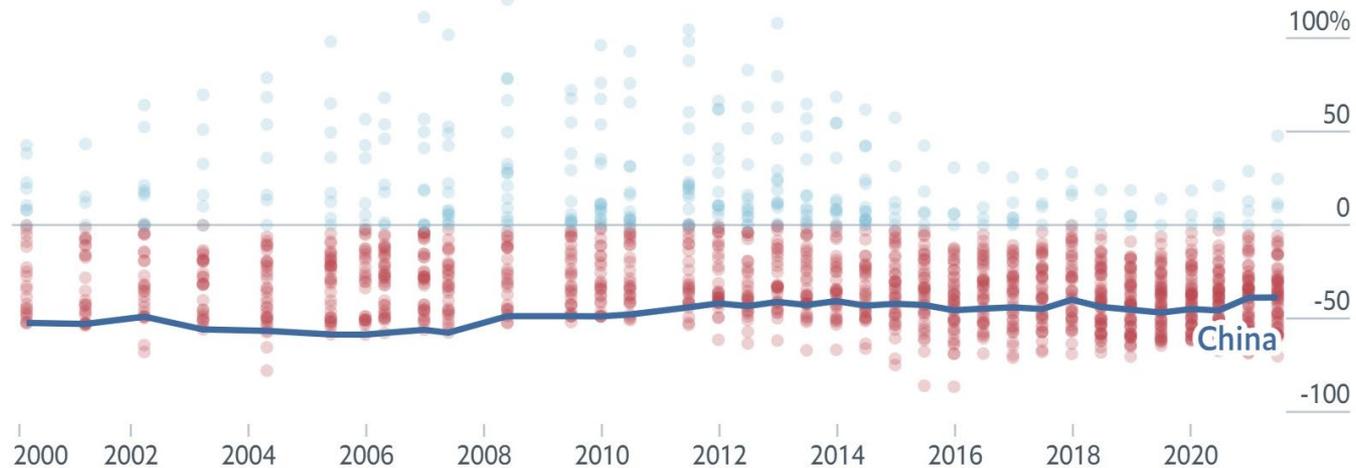


The PNC Christmas Price index, <https://www.pnc.com/en/about-pnc/topics/pnc-christmas-price-index.html> (Dec 31, 2021).

# Index as Benchmark Example – Big Mac Index

THE Big Mac index was invented by The Economist in 1986 as a lighthearted guide to whether currencies are at their “correct” level. It is based on the theory of purchasing-power parity (PPP) ... For example, a Big Mac costs 22.40 yuan in China and US\$5.65 in the United States. The implied exchange rate is 3.96. The difference between this and the actual exchange rate, 6.48, suggests the Chinese yuan is 38.8% undervalued

2000-2021



Interactive currency-comparison tool: The Big Mac index, The Economist, <http://www.economist.com/content/big-mac-index> (December 2021).

# What Should I Benchmark?

## Prudence Person Standard

*“Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, **not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.**”*

### General Objectives

“The primary objectives of investment activities shall be...

#### 1. Safety

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

***The objective will be to mitigate credit risk and interest rate risk. ...***

#### 2. Liquidity

The investment portfolio shall ***remain sufficiently liquid*** to meet all operating requirements that may be reasonably anticipated.

#### 3. Return

The investment portfolio shall be designed with the objective of attaining a ***market rate of return throughout budgetary and economic cycles...***

*GFOA Sample Investment Policy, accessed 12/31/16, page 2.  
Emphasis added.*

The primary objectives, in priority order, of the entity’s) investment activities shall be:

**4.1 Safety:** Safety of principal is the foremost objective of the investment program. Investments of the (entity) shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. ***To attain this objective, the (entity) will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.***

**4.2 Liquidity:** The (entity’s) investment portfolio will ***remain sufficiently liquid*** to enable the (entity) to meet all operating requirements which might be reasonably anticipated.

**4.3 Return on Investments:** The (entity’s) investment portfolio shall be designed with the ***objective of attaining a benchmark rate of return throughout budgetary and economic cycles***, commensurate with the (entity’s) investment risk constraints and the cash flow characteristics of the portfolio.

*GFOA Sample Investment Policy, accessed 02/01/2022, page 6.  
Emphasis added.*

# What Measures to Benchmark?

## The 5 Points of Suitability

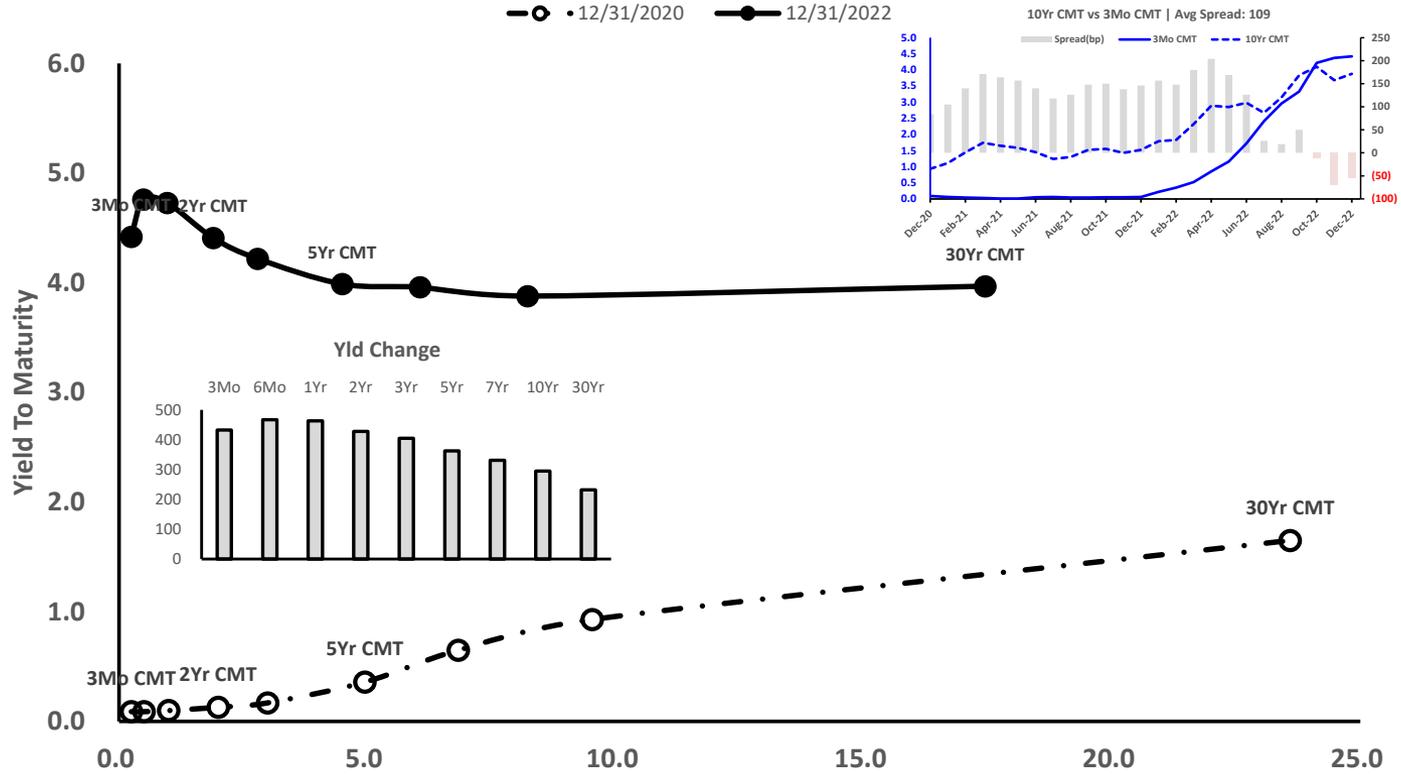


# Interest Rate Risk

## The 5 Points of Suitability

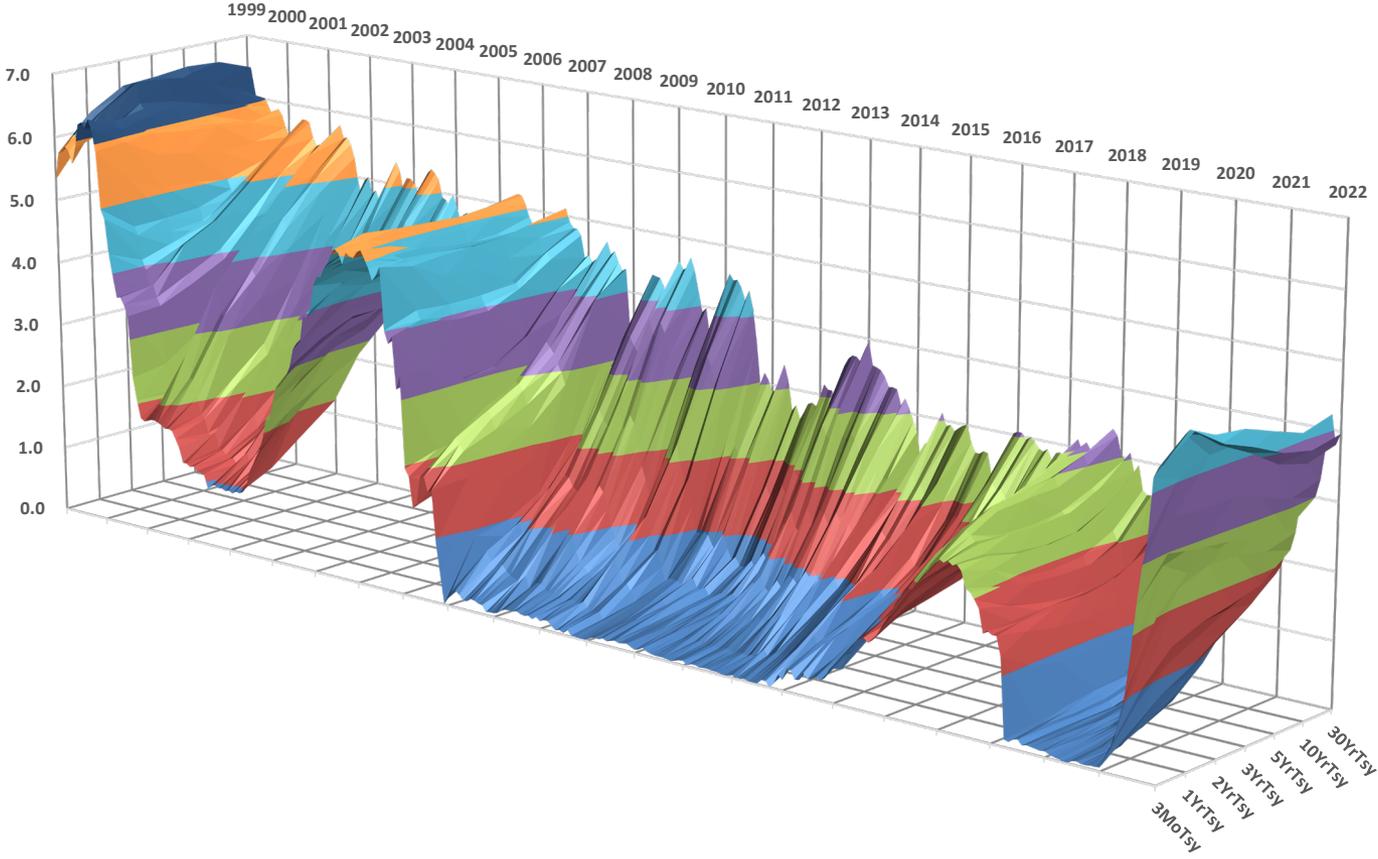


# Yield Curve(s): 12/31/20 vs 12/31/22



# Strategy Webb Yield Curve Perspective

Strategy Webb Yield Curve Perspective: Dec-99 to Dec-2022



■ 0.0 -1.0 ■ 1.0 -2.0 ■ 2.0 -3.0 ■ 3.0 -4.0 ■ 4.0 -5.0 ■ 5.0 -6.0 ■ 6.0 -7.0

Designed & created by Kevin Webb, CFA. Data from FRED, Wilshire, Bloomberg, Federal Reserve & US Treasury. Calculations are my own.

# Strategy Webb Constant Maturity Yield, Duration & Convexity Calculations

Strategy Webb Constant Maturity Treasury Yield, Duration & Convexity Calculations						
Par Amount:	\$1,000,000.00	Treasury Yield Curve on 12/31/22				
Treasury Maturity (Yrs):	5.00	Maturity	Duration	Yield	Slope(bp)	Slope(bp) to 3Mo
Treasury Settlement Date:	12/31/22	0.00	0.00	4.33%		
Treasury Maturity Date:	12/31/27	0.25	0.24	4.42%		
Coupon Rate:	3.99%	0.50	0.49	4.76%	34.00	34.00
Yield:	3.99%	1.00	0.97	4.73%	(3.00)	31.00
Price:	100.000	2.00	1.89	4.41%	(32.00)	(1.00)
Coupon Frequency:	2.000	3.00	2.79	4.22%	(19.00)	(20.00)
Price (Excel):	100.000	5.00	4.49	3.99%	(23.00)	(43.00)
Yield (Excel):	3.99%	10.00	8.22	3.88%	(11.00)	(54.00)
Modified Duration (Excel):	4.492	30.00	17.44	3.97%	9.00	(45.00)
Table Calc Price:	100.000			99.899		
Table Calc Yield (IRR):	3.990%			4.012%		
Table Calc Duration:	4.492			4.494		
Table Calc Convexity:	0.2351			0.2352		

Semi-Annual Periods	Cash Flow	Present Value @ 3.99% Yield	Maturity Matched Discount Rates	Present Value @ Maturity Matched Rates	Weighted Time To Receipt @ 3.99% Yield	Weighted Time To Receipt @ Matched Rates
0	(1,000,000.00)	(1,000,000.00)	4.33%	(1,000,000.00)	0.0000	0.0000
1	19,950.00	19,559.78	4.76%	19,486.23	0.0196	0.0195
2	19,950.00	19,177.20	4.73%	19,038.82	0.0192	0.0191
3	19,950.00	18,802.10	4.57%	18,642.62	0.0188	0.0187
4	19,950.00	18,434.33	4.41%	18,283.29	0.0184	0.0183
5	19,950.00	18,073.76	4.32%	17,930.47	0.0181	0.0179
6	19,950.00	17,720.24	4.22%	17,600.83	0.0177	0.0176
7	19,950.00	17,373.64	4.16%	17,271.14	0.0174	0.0173
8	19,950.00	17,033.81	4.11%	16,957.18	0.0170	0.0170
9	19,950.00	16,700.63	4.05%	16,658.33	0.0167	0.0167
10	1,019,950.00	837,124.51	3.99%	837,124.51	0.8371	0.8380
Total	1,199,500.00	1,000,000.00		998,993.42		

## Strategy Webb Toolkit Sector Overview

Analysis Begin Date: 12/31/2000      Analysis End Date: 12/31/2022

Fixed Income Sector	Average Edur	Average Ytw	Main Street Ratio	Annualized Total Return StdDev	Annualized Total Return	Sharpe Ratio (Total Return)
3-mo US Treasury Bill	0.236	1.340	0.000	0.484	1.436	0.000
<b>US Treasury Current 2 Yr</b>	<b>1.923</b>	<b>1.786</b>	<b>0.232</b>	<b>1.620</b>	<b>2.167</b>	<b>0.452</b>
USTreasury Current 3 Yr	2.820	2.000	0.234	2.490	2.649	0.487
<b>US Treasury Current 5 Yr</b>	<b>4.647</b>	<b>2.418</b>	<b>0.232</b>	<b>4.281</b>	<b>3.192</b>	<b>0.410</b>
US Treasury Current 10 Yr	8.607	3.054	0.199	7.434	3.416	0.266
<b>US Treasury Current 30 Yr</b>	<b>18.279</b>	<b>3.702</b>	<b>0.129</b>	<b>14.384</b>	<b>4.184</b>	<b>0.191</b>

### Graph Item Definitions

#### Average Edur (Left Axis)

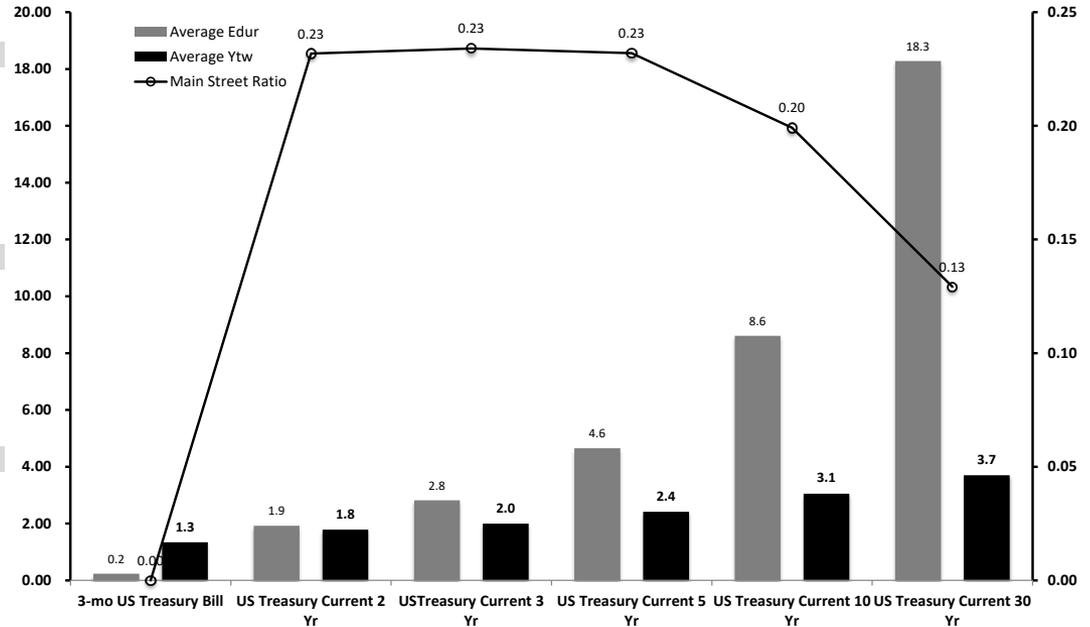
This is the average of the monthly effective durations over the period. Effective Duration is the by-product of an option model that takes into consideration any possible early redemption features and is read as a percent which gives the inverse percent change in market value for a given percent change in interest rates.

#### Average Ytw (Left Axis)

This is the Average Yield To Worst and represents the average over the period of all the yield to worsts. Yield to Worst is the lowest potential yield that can be received without a default. Yield To Worst over a given period can act as a proxy for what the expected book income might have been. A higher number, all things equal, is better.

#### Main Street Ratio (Right Axis)

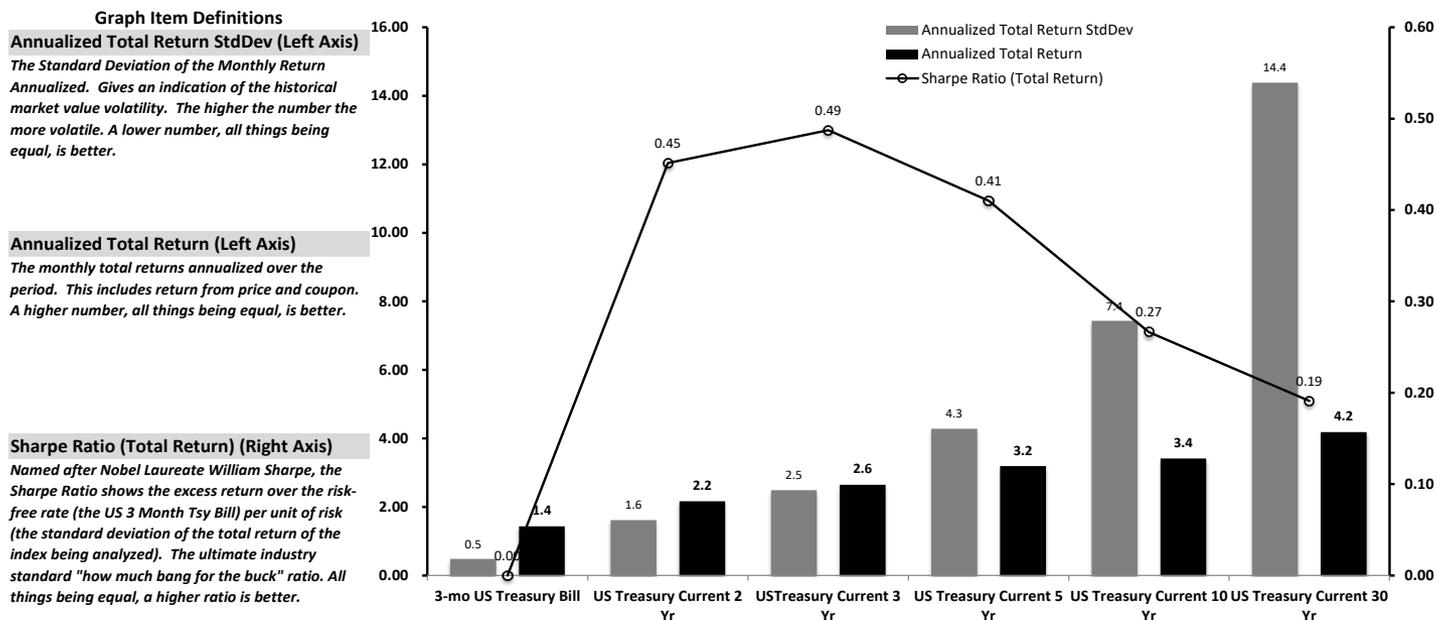
The Main Street Ratio measures the average excess Yield To Worst that could have been earned over the risk-free rate (US 3 Month Tsy Bill) per unit of average interest rate risk (Average Effective Duration) over the period. It is  $(\text{Avg YTW} - 3\text{MoTBillYTW}) / \text{Avg Edur}$ . All things being equal, a higher ratio is better.



## Strategy Webb Toolkit Sector Overview

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# Strategy Web Portfolio Enhancement table

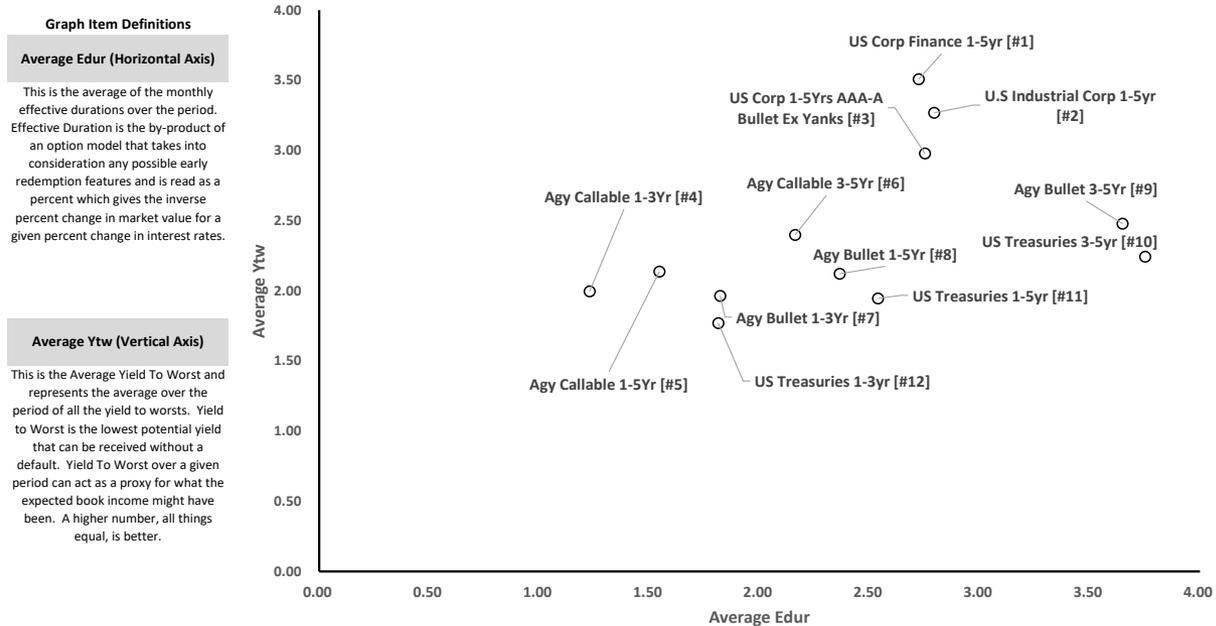
Strategy Webb Portfolio Enhancement Table			
	Scenario #1	Scenario #2	Scenario #3
Current Portfolio Par:	\$100,000,000	\$100,000,000	\$100,000,000
Current Purchase Yield:	2.46%	2.46%	2.46%
Proposed Yield Pickup(bp):	19	42	63
Proposed New Purchase Yield:	2.650%	2.88%	3.09%
Additional Income Produced:	\$190,000	\$420,000	\$630,000
Portfolio Additional \$ Needed to Produce Proposed Income:	\$7,723,577	\$17,073,171	\$25,609,756
Treasury 1 (Shorter Maturity):	3Mo CMT	3Mo CMT	3Mo CMT
Treasury 2 (Longer Maturity):	1Yr CMT	2Yr CMT	3Yr CMT
Begin Date:	12/31/2002	12/31/2002	12/31/2002
End Date:	12/31/2022	12/31/2022	12/31/2022
	Median Spread	Median Spread	Median Spread
Basis Point Pickup	19	42	63
Addition Income from Pickup	\$190,000	\$420,000	\$630,000
Portfolio Purchase Yield	\$ Needed @ Current Purchase Yield to get new income		
1.230%	15,447,154	34,146,341	51,219,512
1.476%	12,872,629	28,455,285	42,682,927
1.722%	11,033,682	24,390,244	36,585,366
1.968%	9,654,472	21,341,463	32,012,195
2.214%	8,581,752	18,970,190	28,455,285
<b>2.460%</b>	<b>7,723,577</b>	<b>17,073,171</b>	<b>25,609,756</b>
2.706%	7,021,434	15,521,064	23,281,596
2.952%	6,436,314	14,227,642	21,341,463
3.198%	5,941,213	13,133,208	19,699,812
3.444%	5,516,841	12,195,122	18,292,683
3.690%	5,149,051	11,382,114	17,073,171

Strategy Webb Portfolio Enhancement Table			
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Treasury 2 (Longer Maturity):	1Yr CMT	2Yr CMT	3Yr CMT
Begin Date:	12/31/2002	12/31/2002	12/31/2002
End Date:	12/31/2022	12/31/2022	12/31/2022
	Median Spread	Median Spread	Median Spread
Basis Point Pickup	19	42	63
Addition Income from Pickup	\$190,000	\$420,000	\$630,000

<b>Scenario #2 Explanation:</b>	<p>The current portfolio purchase yield of 2.46% provides an income of \$2,460M per year from a par value of \$100,000M.</p> <p>Making a strategic move to increase the portfolio's average maturity from 3Mo CMT to 2Yr CMT would add 42bp to the overall portfolio purchase yield (moving it to a 2.88%).</p> <p>The increase of 42bp on a portfolio of \$100,000M provides an additional \$420,000 in income per year.</p> <p>A total of \$17,073M would have to be raised to add to the current portfolio par value to get the same income if the 2.46% purchase yield remained in place.</p>
<b>Scenario #3 Explanation:</b>	<p>The current portfolio purchase yield of 2.46% provides an income of \$2,460M per year from a par value of \$100,000M.</p> <p>Making a strategic move to increase the portfolio's average maturity from 3Mo CMT to 3Yr CMT would add 63bp to the overall portfolio purchase yield (moving it to a 3.09%).</p> <p>The increase of 63bp on a portfolio of \$100,000M provides an additional \$630,000 in income per year.</p> <p>A total of \$25,610M would have to be raised to add to the current portfolio par value to get the same income if the 2.46% purchase yield remained in place.</p>

## Strategy Webb Indices Comparison: 12/31/00 to 12/31/22

Fixed Income Sector	Average Edur	Average Ytw	Main Street Ratio	Annualized Total Return StdDev	Annualized Total Return	WEBB Ratio
US Treasuries 1-3Yr	1.813	1.769	0.237	1.464	2.162	0.293
Agy Bullet 1-3Yr	1.821	1.964	0.342	1.553	2.496	0.402
Agy Callable 1-3Yr	1.228	1.996	0.534	1.039	1.779	0.632
US Treasuries 3-5Yr	3.751	2.243	0.241	3.408	3.158	0.265
Agy Bullet 3-5Yr	3.648	2.479	0.312	3.264	3.636	0.349
Agy Callable 3-5Yr	2.161	2.399	0.490	2.016	2.150	0.525
US Treasuries 1-5Yr	2.588	1.946	0.239	2.127	2.527	0.285
Agy Bullet 1-5Yr	2.364	2.122	0.331	2.026	2.831	0.386
Agy Callable 1-5Yr	1.545	2.138	0.516	1.391	1.874	0.574
1-5Yrs AAA-A Bullet Ex Yanks	2.751	2.979	0.596	3.109	3.509	0.527
US Corp Finance 1-5Yr	2.722	3.509	0.797	4.538	3.668	0.478
U.S Industrial Corp 1-5Yr	2.793	3.268	0.690	3.080	3.842	0.626



Designed & created by Kevin Webb, CFA. Data from FRED, Wilshire, Bloomberg, Federal Reserve & US Treasury. Calculations are my own.

# Credit Risk

## The 5 Points of Suitability



## Strategy Webb Toolkit Sector Overview

Analysis Begin Date: 12/31/2000      Analysis End Date: 12/31/2022

Fixed Income Sector	Average Edur	Average Ytw	Main Street Ratio	Annualized Total Return StdDev	Annualized Total Return	Sharpe Ratio (Total Return)
US Corp AAA	7.661	3.538	0.287	6.077	3.884	0.403
US Corp AA	6.181	3.575	0.362	5.154	3.920	0.482
US Corp A	6.553	4.003	0.406	5.999	4.355	0.487
US Corp BBB	6.711	4.799	0.515	6.659	5.197	0.565
US Financial Corp 1-5yr	2.738	3.458	0.774	3.851	3.766	0.605
U.S Industrial Corp 1-5yr	2.793	3.268	0.690	3.080	3.842	0.781

### Graph Item Definitions

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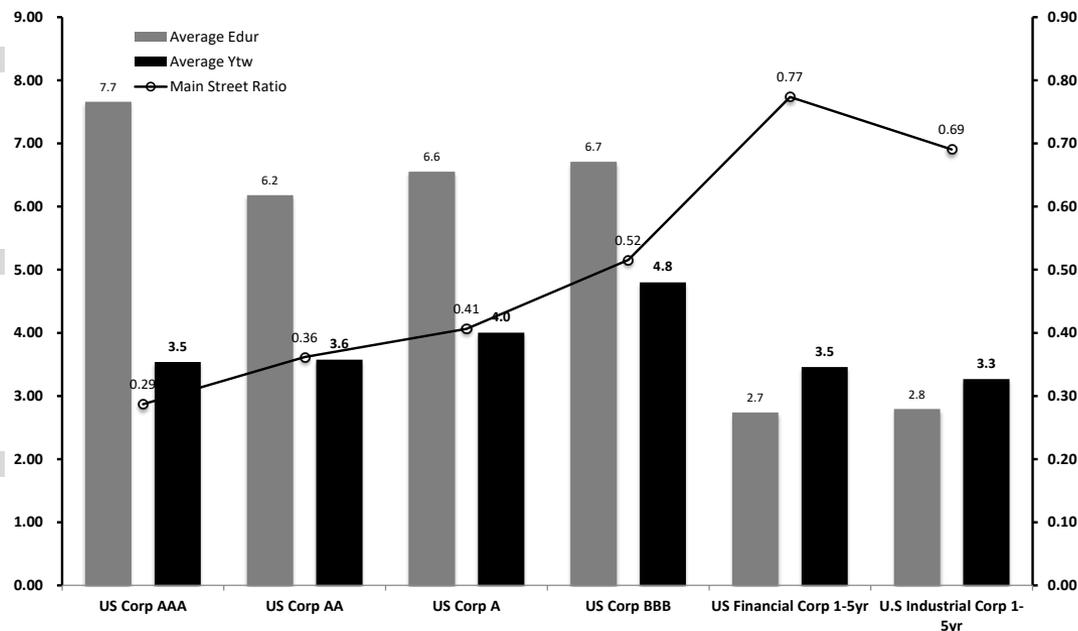
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The Main Street Ratio measures the average excess Yield To Worst that could have been earned over the risk-free rate (US 3 Month Tsy Bill) per unit of average interest rate risk (Average Effective Duration) over the period. It is  $(\text{Avg YTW} - 3\text{MoTBill}) / \text{Avg Edur}$ . All things being equal, a higher ratio is better.



## Strategy Webb Toolkit Sector Overview

Analysis Begin Date: 12/31/2000      Analysis End Date: 12/31/2022

Fixed Income Sector	Average Edur	Average Ytw	Main Street Ratio	Annualized Total Return StdDev	Annualized Total Return	Sharpe Ratio (Total Return)
US Corp AAA	7.661	3.538	0.287	6.077	3.884	0.403
<b>US Corp AA</b>	<b>6.181</b>	<b>3.575</b>	<b>0.362</b>	<b>5.154</b>	<b>3.920</b>	<b>0.482</b>
US Corp A	6.553	4.003	0.406	5.999	4.355	0.487
<b>US Corp BBB</b>	<b>6.711</b>	<b>4.799</b>	<b>0.515</b>	<b>6.659</b>	<b>5.197</b>	<b>0.565</b>
US Financial Corp 1-5yr	2.738	3.458	0.774	3.851	3.766	0.605
<b>U.S Industrial Corp 1-5yr</b>	<b>2.793</b>	<b>3.268</b>	<b>0.690</b>	<b>3.080</b>	<b>3.842</b>	<b>0.781</b>

### Graph Item Definitions

#### Annualized Total Return StdDev (Left Axis)

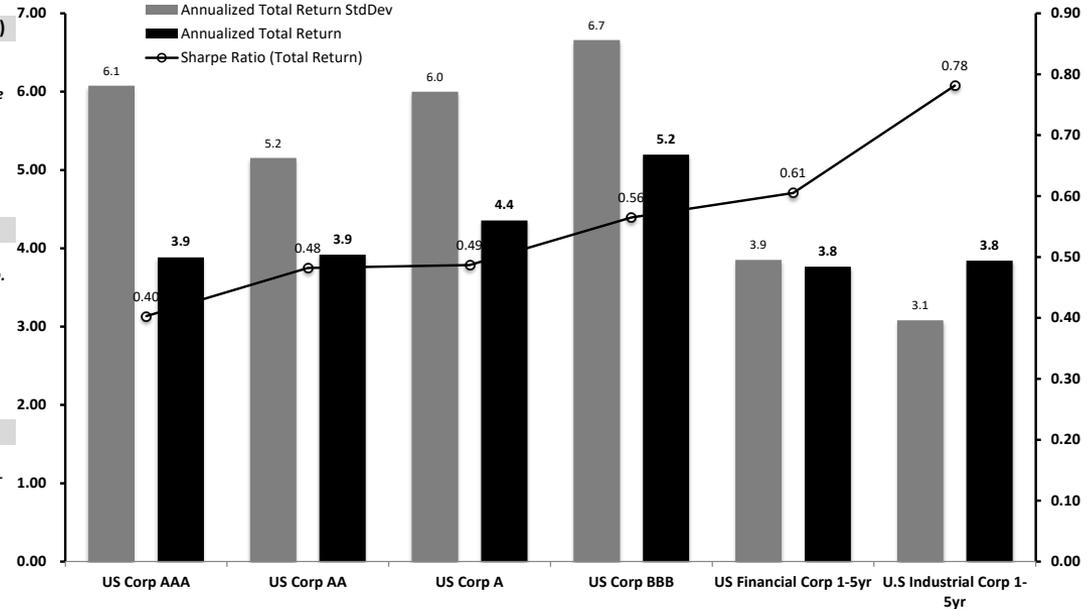
The Standard Deviation of the Monthly Return Annualized. Gives an indication of the historical market value volatility. The higher the number the more volatile. A lower number, all things being equal, is better.

#### Annualized Total Return (Left Axis)

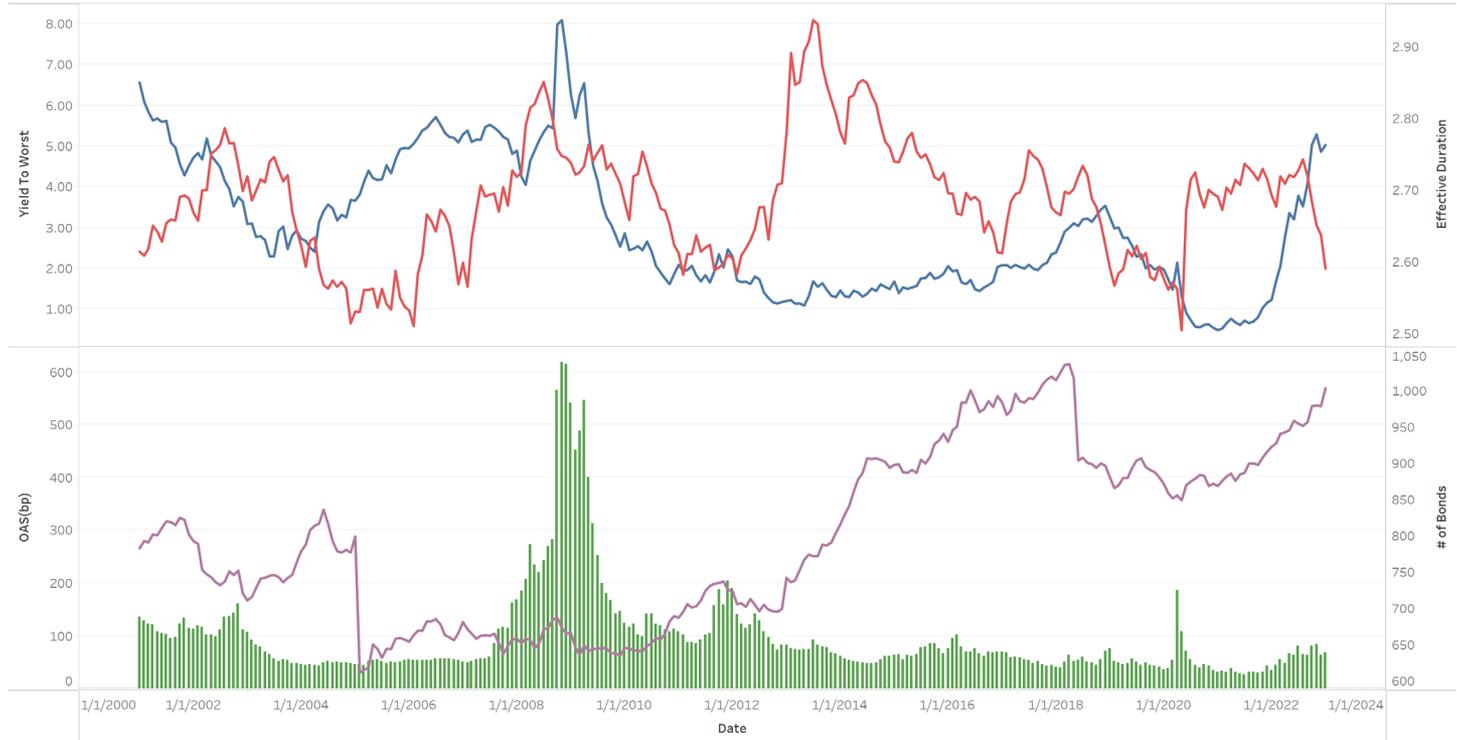
The monthly total returns annualized over the period. This includes return from price and coupon. A higher number, all things being equal, is better.

#### Sharpe Ratio (Total Return) (Right Axis)

Named after Nobel Laureate William Sharpe, the Sharpe Ratio shows the excess return over the risk-free rate (the US 3 Month Tsy Bill) per unit of risk (the standard deviation of the total return of the index being analyzed). The ultimate industry standard "how much bang for the buck" ratio. All things being equal, a higher ratio is better.

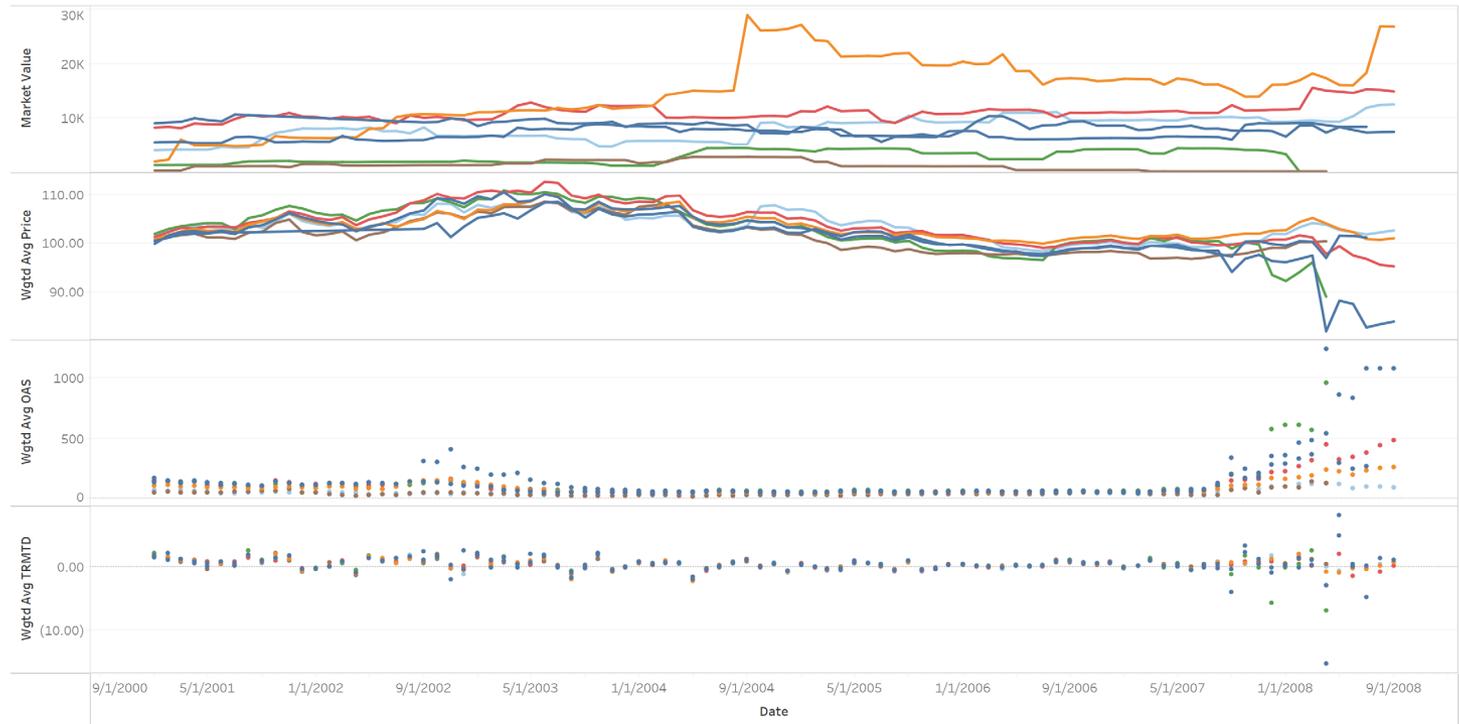


1-5yr A-AAA US\$/USD Corporates: 12/31/2000 to 12/31/2022  
Analysis uses 1-5Yr Maturity Bonds for Issuers with Outstanding Amount >=250MM  
Designed & Created by Kevin Webb, CFA

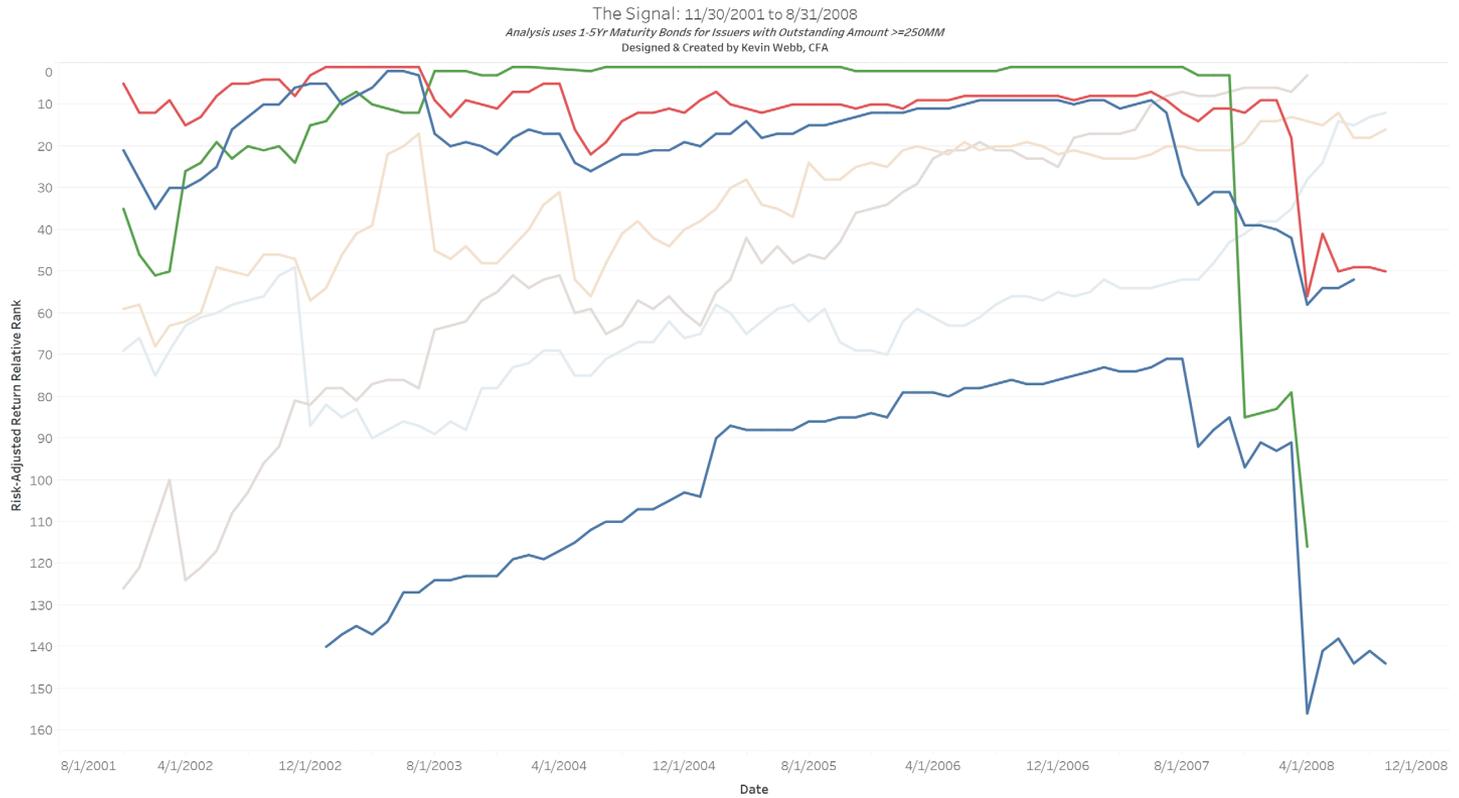


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The Noise: 12/31/2000 to 8/31/2008  
BSC, CIT, JPM and 4 more  
Analysis uses 1-5Yr Maturity Bonds for Issuers with Outstanding Amount >=250MM  
Designed & Created by Kevin Webb, CFA



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Issuer Focus List for 1-5Yr US Corp A-AAA by Risk-Adjusted Return as of 12/31/22

Ticker	Rank Last Month	Rank 6 Months Ago	Rank 1 Year Ago	Rank 3 Years Ago	Rank 5 Years Ago	Rolling 12 Month Rank	Description	Composite Rating Month End	Composite Rating 6 Months Ago	Industry	Num Issues	Market Value (\$MM)	Index Weight	Wgt'd Years To Maturity	Wgt'd Avg Price	Wgt'd Avg Yield	Risk Adjusted Return
1	BK	1	3	8	8	10	The Bank of New York Mellon Corporation	A1	A1	Financial Services	1	957.60	0.10	1.82	95.37	4.79	1.4465
2	WMT	2	1	2	6	5	Walmart Inc.	AA2	AA2	Retail	9	8,979.58	0.94	2.76	97.00	4.53	1.4233
3	JPM	3	5	2	3	2	JPMorgan Chase & Co.	A1 / A3	A2 / A3	Banking	38	66,761.42	7.02	2.84	94.27	5.42	1.4136
4	UNH	5	4	4	5	4	UnitedHealth Group Inc.	A2	A2	Healthcare	14	13,090.04	1.17	2.90	95.83	4.70	1.4045
5	PEP	6	2	1	1	1	Pfizer Inc. / Wyeth	A1	A2	Healthcare	6	5,819.72	0.61	2.62	95.36	4.64	1.4044
6	WEC	4	6	6	2	3	Wisconsin Electric Power Company / Wisconsin E	A2	A2	Utility	3	832.84	0.09	2.42	97.35	4.95	1.3969
7	CAT	7	7	10	10	14	Caterpillar Financial Services Corporation / Caterp	A2	A2	Capital Goods	20	14,290.07	1.51	2.32	94.71	4.71	1.3771
8	WFC	8	9	7	7	8	Wells Fargo & Company	A2	A2	Banking	16	42,732.01	4.50	2.88	94.55	5.31	1.3182
9	SO	9	14	18	15	19	Alabama Power Company	A2	A2	Utility	3	1,073.55	0.11	3.09	96.64	4.84	1.3126
10	IBM	10	10	11	14	18	International Business Machines Corporation	A3	A3	Technology & Electronics	11	14,179.65	1.50	2.78	96.59	4.89	1.3065
11	EMR	11	8	5	4	6	Emerson Electric Co.	A2	A2	Capital Goods	3	1,574.36	0.17	3.65	89.91	4.74	1.2852
12	DE	12	15	14	18	24	Deere & Company / John Deere Capital Corporat	A2	A2	Capital Goods	27	15,563.26	1.64	2.55	94.87	4.67	1.2783
13	DTE	13	17	23	17	21	DTE Electric Company	A1	A1	Utility	2	741.13	0.08	1.65	97.72	4.98	1.2633
14	EXC	14	16	15	19	23	Baltimore Gas & Electric Company / Potomac Ele	A1 / A2	A1 / A2	Utility	6	2,106.26	0.22	2.95	94.80	4.81	1.2604
15	HON	15	13	12	11	13	Honeywell International Inc.	A2	A2	Capital Goods	6	4,850.79	0.51	2.88	93.02	4.69	1.2456
16	PEP	16	18	22	25	31	PepsiCo Inc.	A1	A1	Consumer Goods	8	7,885.59	0.83	2.95	95.39	4.55	1.2260
17	KO	17	11	13	13	15	The Coca-Cola Company	A1	A2	Consumer Goods	4	3,729.17	0.39	3.67	92.92	4.45	1.2100
18	TGT	19	21	16	16	17	Target Corporation	A2	A2	Retail	4	4,288.49	0.45	2.70	94.50	4.64	1.2012
19	ALL	20	19	17	12	20	The Allstate Corporation	A3	A3	Insurance	2	1,067.01	0.11	3.46	91.84	4.79	1.1990
20	PG	18	12	9	9	11	The Procter & Gamble Company	AA3	AA3	Consumer Goods	7	5,288.71	0.56	3.68	91.85	4.43	1.1978
21	LLY	21	20	20	22	27	Eli Lilly & Co.	A2	A2	Healthcare	3	1,301.23	0.14	3.52	97.63	4.60	1.1825
22	CB	22	24	25	27	33	Chubb INA Holdings Inc	A2	A2	Insurance	3	2,913.29	0.31	2.57	96.50	4.80	1.1570
23	USB	23	26	26	26	12	65 U.S. Bancorp. / U.S. Bank National Association	A1 / AA3	AA3	Banking	2	2,501.86	0.26	2.52	99.17	4.90	1.1523
24	NRUC	24	27	30	30	36	145 National Rural Utilities Cooperative Finance Corp.	A2	A2	Financial Services	10	4,394.14	0.46	2.37	94.88	5.02	1.1476
25	MET	25	29	31	32	41	124 Met Tower Global Funding / Metropolitan Life Ins	A2 / AA3	A2 / AA3	Insurance	18	10,796.54	1.14	2.59	94.75	5.08	1.1369
26	PEG	26	28	33	34	42	58 Public Service Electric and Gas Company	A2	A2	Utility	7	2,263.79	0.24	2.84	93.88	4.86	1.1254
27	NTRS	28	25	21	23	28	158 Northern Trust Corporation	A2	A2	Financial Services	2	1,060.01	0.11	3.29	95.86	5.03	1.1192
28	COST	27	23	28	33	40	6 Costco Wholesale Corporation	A1	A1	Consumer Goods	3	3,028.65	0.32	3.44	92.87	4.53	1.1105
29	CL	29	31	38	40	45	9 Calgiate-Palmolive Company	AA3	AA3	Consumer Goods	3	1,467.54	0.15	2.80	96.72	4.45	1.1056
30	BRK	30	22	19	24	32	14 Berkshire Hathaway Finance Corporation / Berks	AA3	AA3	Financial Services	2	3,119.48	0.33	3.43	95.14	4.45	1.0873
31	MMM	31	30	27	35	43	20 3M Company	A1	A1	Capital Goods	6	3,923.04	0.41	2.79	94.90	4.69	1.0871
32	ABT	32	32	29	29	105	Abbott Laboratories	A1	A1	Healthcare	4	4,166.33	0.44	2.63	97.71	4.54	1.0811
33	SRE	34	34	32	36	39	43 San Diego Gas & Electric Company / Southern Ca	A2 / AA3	A2 / AA3	Utility	6	2,684.90	0.28	3.20	95.13	4.83	1.0771
34	HSY	33	35	35	31	38	133 Hershey Co (The)	A2	A2	Consumer Goods	4	1,317.42	0.14	2.78	93.52	4.73	1.0730
35	DUK	35	36	36	42	48	7 Duke Energy Carolinas LLC / Duke Energy Progr	A1 / A2	A1 / A2	Utility	3	1,681.12	0.18	3.59	95.09	4.63	1.0646
36	DIS	36	33	34	28	37	87 Walt Disney Company	A3	A3	Media	11	10,137.93	1.07	2.88	94.73	4.77	1.0621
37	GS	37	38	39	45	46	18 Goldman Sachs Group Inc.	A3	A3	Financial Services	21	48,876.80	5.15	2.86	93.84	5.36	1.0555
38	MRK	38	37	37	39	44	67 Merck & Co. Inc	A1	A1	Healthcare	4	5,400.51	0.57	2.74	93.20	4.71	1.0288
39	BAC	39	40	43	49	54	57 Bank of America Corporation	A2 / A3	A2 / A3	Banking	35	77,987.63	8.22	2.80	94.75	5.41	1.0201
40	MFCN	41	43	49	56	50	50 John Hancock Life Insurance Company Inc.	A2	A2	Insurance	1	471.21	0.05	1.13	101.93	5.57	1.0065
41	C	40	41	42	48	55	71 Citibank N.A. / Citigroup Inc.	A1 / A3	A1 / A3	Banking	21	43,037.81	4.54	2.89	94.06	5.48	1.0047
42	AXP	42	45	56	58	63	15 American Express Company	A3	A3	Financial Services	1	1,970.94	0.21	1.34	98.00	4.93	0.9933
43	ED	44	42	47	47	16	166 Consolidated Edison Company of New York Inc.	A3	A3	Utility	3	792.60	0.08	3.70	92.97	5.29	0.9676
44	CSCO	43	39	34	41	53	109 Cisco Systems Inc.	A1	A1	Technology & Electronics	4	3,624.04	0.38	2.74	95.65	4.67	0.9587
45	BHI	45	47	50	26	30	126 Baker Hughes Holdings LLC / Baker Hughes Co-C	A3	A3	Energy	2	1,177.38	0.12	2.35	93.42	4.94	0.9576
46	CMA	46	52	53	62	52	164 Comerica Bank	A3	A3	Banking	1	485.48	0.05	1.56	96.00	5.20	0.9566
47	PPL	47	46	45	46	51	170 Kentucky Utilities Company / Louisville Gas and E	A2	A2	Utility	2	529.68	0.06	2.75	95.48	5.08	0.9419
48	XEL	49	53	57	63	69	8 Public Service Company of Colorado / Southwest	A1 / A3	A1 / A3	Utility	2	587.76	0.06	1.83	96.78	4.94	0.9364
49	CVX	48	44	41	50	58	28 Chevron Corporation / Chevron USA Inc	AA3	AA3	Energy	8	9,042.99	0.95	2.86	93.69	4.63	0.9359
50	PGF	52	55	51	37	47	157 Principal Financial Group / Principal Life Global F	A1 / A3	A1 / A3	Insurance	12	5,491.82	0.58	2.61	91.99	5.18	0.9350
51	TXN	50	48	40	52	60	134 Texas Instruments Incorporated	A1	A1	Technology & Electronics	5	2,211.54	0.23	2.91	93.83	4.55	0.9041
52	ITW	53	51	46	51	62	123 Illinois Tool Works Inc.	A2	A2	Capital Goods	2	1,630.78	0.17	2.72	95.34	4.74	0.8977
53	MASSMU	51	54	48	43	56	156 Massmutual Global Funding II	AA2	AA2	Insurance	8	4,108.09	0.43	2.53	94.61	5.03	0.8995
54	HD	54	49	44	47	57	38 Home Depot Inc.	A2	A2	Retail	9	7,821.90	0.83	3.19	95.20	4.59	0.8811
55	KMB	55	56	54	55	65	107 Kimberly-Clark Corporation	A2	A2	Consumer Goods	4	1,428.87	0.15	3.43	91.70	4.65	0.8779
56	BMY	56	57	55	60	66	113 Bristol-Myers Squibb Company	A2	A2	Healthcare	8	7,418.27	0.78	3.01	94.74	4.65	0.8745
57	CARGIL	57	58	61	68	76	62 Cargill Inc.	A2	A2	Consumer Goods	4	2,158.29	0.23	2.81	95.48	4.92	0.8353
58	D	58	59	60	62	70	56 The East Ohio Gas Company / Virginia Electric an	A3	A3	Utility	7	3,536.26	0.37	3.26	94.74	4.97	0.8309
59	KEY	59	62	66	76	80	10 KeyBank National Association	A3	A3	Banking	3	3,002.43	0.32	3.35	99.15	5.09	0.8193
60	APD	60	61	63	66	74	63 Air Products & Chemicals Inc.	A2	A2	Basic Industry	3	1,484.12	0.16	3.09	92.35	4.69	0.8090
61	GD	61	60	59	61	67	64 General Dynamics Corporation	A3	A3	Capital Goods	7	4,036.06	0.43	3.17	94.51	4.69	0.7984

Analysis designed & created by Kevin Webb, CFA. Data from FRED, ICE, Wilshire & Bloomberg. All calculations are my own.

Issuer Focus List for 1-5Yr US Corp A-AAA by Risk-Adjusted Return as of 12/31/22

Ticker	Rank Last Month	Rank 6 Months Ago	Rank 1 Year Ago	Rank 3 Years Ago	Rank 5 Years Ago	Rolling 12 Month Rank	Description	Composite Rating Month End	Composite Rating 6 Months Ago	Industry	Num Issues	Market Value (\$MM)	Index Weight	Wght Avg Years To Maturity	Wght Avg Price	Wght Avg Yield	Risk Adjusted Return	
42	PNC	62	63	64	70	71	122	PNC Financial Services Group Inc	A3	A3	Banking	1	937.93	0.10	3.56	92.65	4.87	0.7847
43	COP	63	66	67	64	68	188	ConocoPhillips Co.	A2	A3	Energy	1	416.01	0.04	1.88	97.31	4.87	0.7606
44	AEE	64	65	71	38	49	5	Ameren Illinois Company / Union Electric Compar	A2	A2	Utility	3	1,018.81	0.11	2.72	95.90	4.83	0.7493
45	HSBC	66	70	77	81	82	49	HSBC USA Inc.	A2	A2	Banking	2	1,730.16	0.18	1.43	97.86	5.21	0.7355
46	PPG	67	67	69	77	84	131	PPG Industries Inc.	A3	A3	Basic Industry	2	913.49	0.10	2.71	90.95	5.09	0.7304
47	JNJ	65	64	62	71	81	69	Johnson & Johnson	AAA	AAA	Healthcare	6	6,594.44	0.69	3.14	92.92	4.46	0.7284
48	AFL	68	72	72	57	72	85	Aflac Incorporated	A3	A3	Insurance	2	637.64	0.07	3.47	90.70	4.92	0.7116
49	PCAR	69	69	70	65	79	138	Paccar Financial Corp	A1	A1	Automotive	11	3,932.12	0.41	2.20	95.20	4.79	0.7116
50	FTB	71	68		69	75		Fifth Third Bank of Cincinnati	A3	A3	Banking	1	547.42	0.06	4.09	90.30	4.90	0.6923
51	ROK	70	73	76		86	94	Rockwell Automation Inc.	A2	A2	Capital Goods	1	290.91	0.03	2.17	96.01	4.83	0.6859
52	PGR	72	71		73	78		The Progressive Corporation	A2	A2	Insurance	2	926.90	0.10	4.12	91.76	4.70	0.6727
53	HBAN	73	76	78		101	1	Huntington National Bank Maryland	A3	A3	Banking	2	1,887.39	0.20	2.91	98.74	5.50	0.6453
54	DHR	74			75	83		DH Europe Finance II SARL / Danaher Corporatio	A3	A3	Healthcare	2	1,155.08	0.12	2.23	95.69	4.86	0.6324
55	TOYOTA	75	75	74	80	89	93	Toyota Motor Credit Corp.	A1	A1	Automotive	25	21,011.14	2.21	2.63	95.08	4.83	0.6273
56	BLK	76	74	68	79	90	31	BlackRock Inc.	AA3	AA3	Financial Services	2	1,663.13	0.18	2.42	96.89	4.77	0.6046
57	AMP	77	82	81	90	104	132	Ameriprise Financial Inc.	A3	A3	Financial Services	3	1,492.97	0.16	2.55	95.57	5.03	0.6021
58	SLB	78	83	85	88	98	54	Schlumberger Finance Canada Ltd / Schlumberger	A2 / A3	A2 / A3	Energy	4	3,613.57	0.38	1.76	97.34	5.02	0.5948
59	HNDA	79	81	79	87	100	120	American Honda Finance Corporation	A3	A3	Automotive	12	8,180.16	0.86	2.17	93.43	4.92	0.5937
60	SCHW	80	80	75	83	92	73	The Charles Schwab Corporation	A2	A2	Financial Services	13	9,445.99	1.00	2.81	94.06	4.82	0.5630
61	ETR	82	84	82	78	91	22	Entergy Arkansas LLC / Entergy Louisiana LLC	A2	A2	Utility	7	2,699.64	0.28	2.89	96.47	4.99	0.5619
62	LNT	81			128	142		Wisconsin Power and Light Company	A3	A3	Utility	1	279.11	0.03	4.79	92.39	4.85	0.5588
63	MMC	85	87	88	95	109	68	Marsh & McLennan Companies Inc.	A3	A3	Insurance	4	2,677.38	0.28	1.88	97.85	4.96	0.5506
64	MSFT	83	79	73	84	96	112	Microsoft Corporation	AAA	AAA	Technology & Electronics	6	16,531.43	1.74	2.81	96.19	4.47	0.5494
65	PL	86	86	90	100	106	130	Protective Life Global Funding	AA3	AA3	Insurance	9	3,890.56	0.36	2.38	93.01	5.37	0.5466
66	UPS	84	85	83	98	107	100	United Parcel Service Inc.	A2	A2	Transportation	5	3,274.90	0.35	3.12	95.79	4.59	0.5448
67	ADM	87	77	65	67	77	119	Archer-Daniels-Midland Company	A2	A2	Consumer Goods	1	938.08	0.10	3.61	92.84	4.68	0.5359
68	KPERM	88	78		99	111		Kaiser Foundation Hospitals/Health Plan Inc.	AA3	AA3	Healthcare	1	541.93	0.06	4.34	93.72	4.77	0.5186
69	BEN	89	90	89	85	97	185	Franklin Resources	A2	A2	Financial Services	1	384.18	0.04	2.25	95.32	5.08	0.5164
70	SPG	90	92	98	107	108	59	Simon Property Group L.P.	A3	A3	Real Estate	8	6,179.16	0.65	2.74	94.84	5.10	0.5039
71	CTAS	91	88		110			Cintas Corporation No. 2	A3	A3	Services	2	1,364.20	0.14	3.70	96.62	4.69	0.4811
72	CMS	93	97	101	97	125	21	Consumers Energy Company	A1	A1	Utility	1	244.00	0.03	1.67	96.55	5.33	0.4800
73	SWK	92	93	96	105	112	96	Stanley Black & Decker Inc.	A3	A3	Capital Goods	2	960.43	0.10	2.66	95.07	4.95	0.4778
74	EL	94	95	93	111	114	102	The Estee Lauder Companies Inc.	A1	A1	Consumer Goods	2	953.12	0.10	3.07	94.76	4.69	0.4742
75	KOM	95	89	80	92	113	30	Exxon Mobil Corporation	AA3	AA3	Energy	7	10,638.59	1.12	2.59	95.83	4.66	0.4684
76	LMT	96	96	92	103	88	88	Lockheed Martin Corporation	A3	A3	Capital Goods	3	2,271.95	0.24	3.61	99.77	4.56	0.4614
77	PRU	98	98	105	118	116	161	Pricos Global Funding I / The Prudential Insurance	A2 / AA3	A2 / AA3	Insurance	7	3,109.16	0.33	2.67	93.61	5.13	0.4575
78	NKE	97	91	84	91	55	55	Nike Inc.	A1	A1	Retail	3	2,832.08	0.30	3.43	93.84	5.50	0.4556
79	PM	99	94	87	86	103	40	Philip Morris International Inc.	A2	A2	Consumer Goods	9	7,282.79	0.77	3.16	96.63	4.95	0.4549
80	CME	100	99	102	117	123	84	CME Group Inc.	AA3	AA3	Financial Services	1	731.80	0.08	2.21	96.69	4.59	0.4442
81	EOG	101	101	108	101	19	19	EOG Resources Inc.	A3	A3	Energy	2	1,237.34	0.13	2.73	97.53	4.79	0.4338
82	HRL	102	100	106	113	119	180	Hormel Foods Corp	A2	A2	Consumer Goods	1	898.52	0.09	1.43	94.21	4.92	0.4336
83	STT	103	103	109	124	126	86	State Street Corporation	A1	A1	Financial Services	3	2,983.90	0.31	2.59	96.64	4.61	0.4281
84	MTB	104			127	127		M&T Bank Corporation / Manufacturers & Trader	A3	A3	Banking	3	1,464.25	0.15	4.03	95.67	5.30	0.4197
85	TTXCO	106	106	110	120	139	186	TTX Co.	A2	A2	Transportation	2	750.70	0.08	1.71	97.04	5.62	0.4025
86	AMAT	105	102	100	109	115	33	Applied Materials Inc.	A2	A2	Technology & Electronics	2	1,840.33	0.19	3.69	96.00	4.68	0.3904
87	TIAGL	108	109	118	94	94	162	TIAA Asset Management Finance Company LLC /	A2 / AA3	A2 / AA3	Insurance	2	1,320.16	0.14	1.81	96.95	6.02	0.3878
88	BX	107			122	136	155	Blackstone Holdings Finance Co. LLC.	A1	A1	Financial Services	2	882.44	0.09	4.82	97.40	5.48	0.3861
89	STNFRD	109				102		Stanford University	AAA	AAA	Services	1	261.17	0.03	4.42	86.95	4.59	0.3709
90	EQR	114	104	91	96	117	23	ERP Operating Limited Partnership	A3	A3	Real Estate	3	1,272.65	0.13	3.58	93.63	5.10	0.3449
91	MS	113	115	125	142	132	42	E Trade Financial LLC / Morgan Stanley	A2	A2	Financial Services	26	56,115.78	5.92	2.83	94.48	5.35	0.3448
92	L	112	111	116	126	52		Loews Corporation	A2	A2	Insurance	1	487.87	0.05	3.25	96.64	4.88	0.3432
93	HCSERV	115	114	112		159		Health Care Service Corp.	A2	A2	Healthcare	1	460.29	0.05	2.42	91.93	5.09	0.3404
94	TJX	111	105	95	108	122	25	The TJX Companies Inc.	A2	A2	Retail	1	922.44	0.10	3.71	91.58	4.75	0.3328

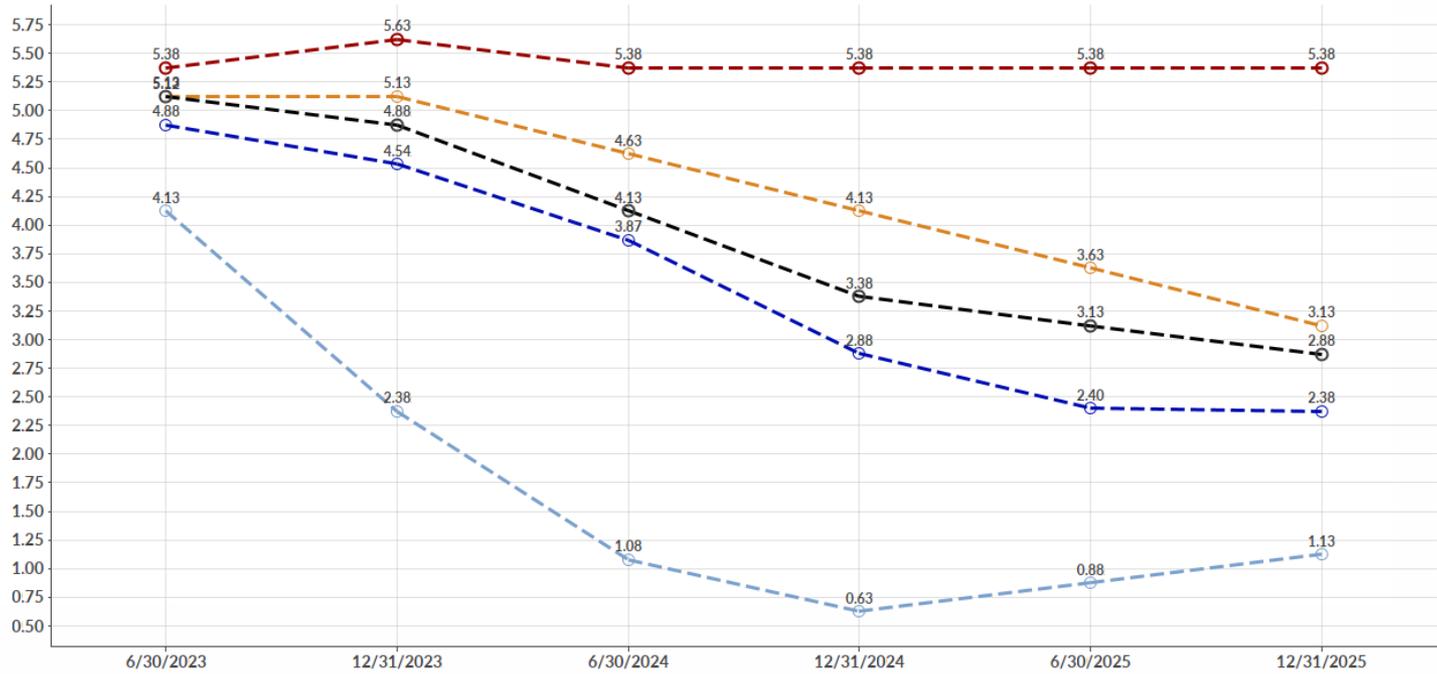
Analysis designed & created by Kevin Webb, CFA. Data from FRED, ICE, Wilshire & Bloomberg. All calculations are my own.

# Market Rate of Return

## The 5 Points of Suitability



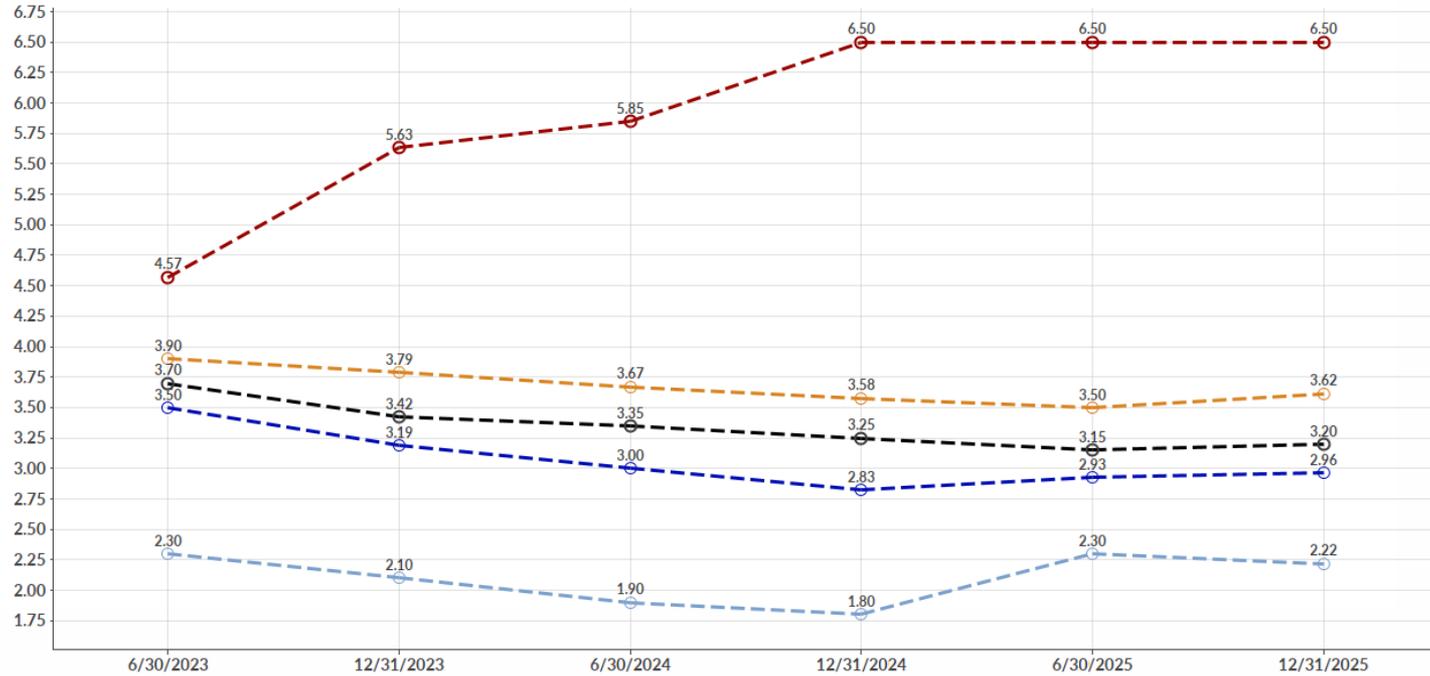
Fed Funds Forecasts as of Jan-2023



Max 75th Percentile Median 25th Percentile Min

Designed & Created by Kevin Webb, CFA

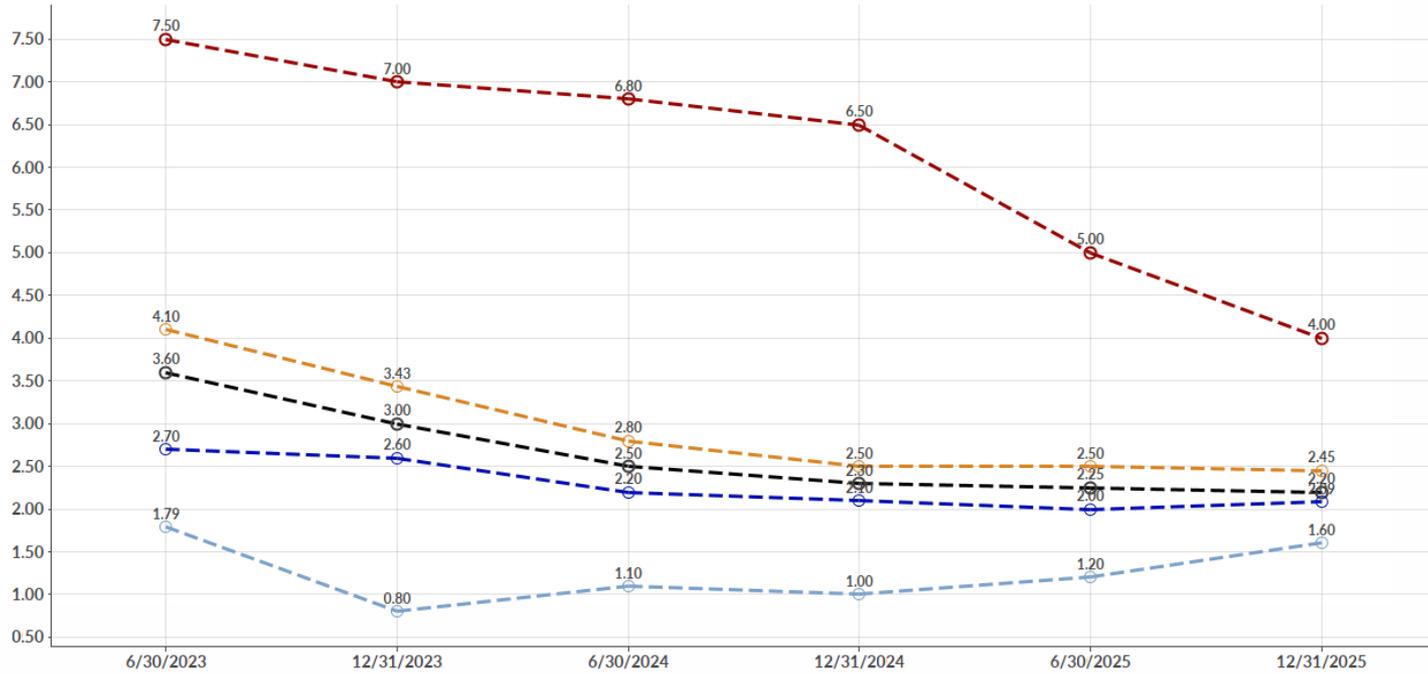
Tsy10YrYld Forecasts as of Jan-2023



Max 75th Percentile Median 25th Percentile Min

Designed & Created by Kevin Webb, CFA

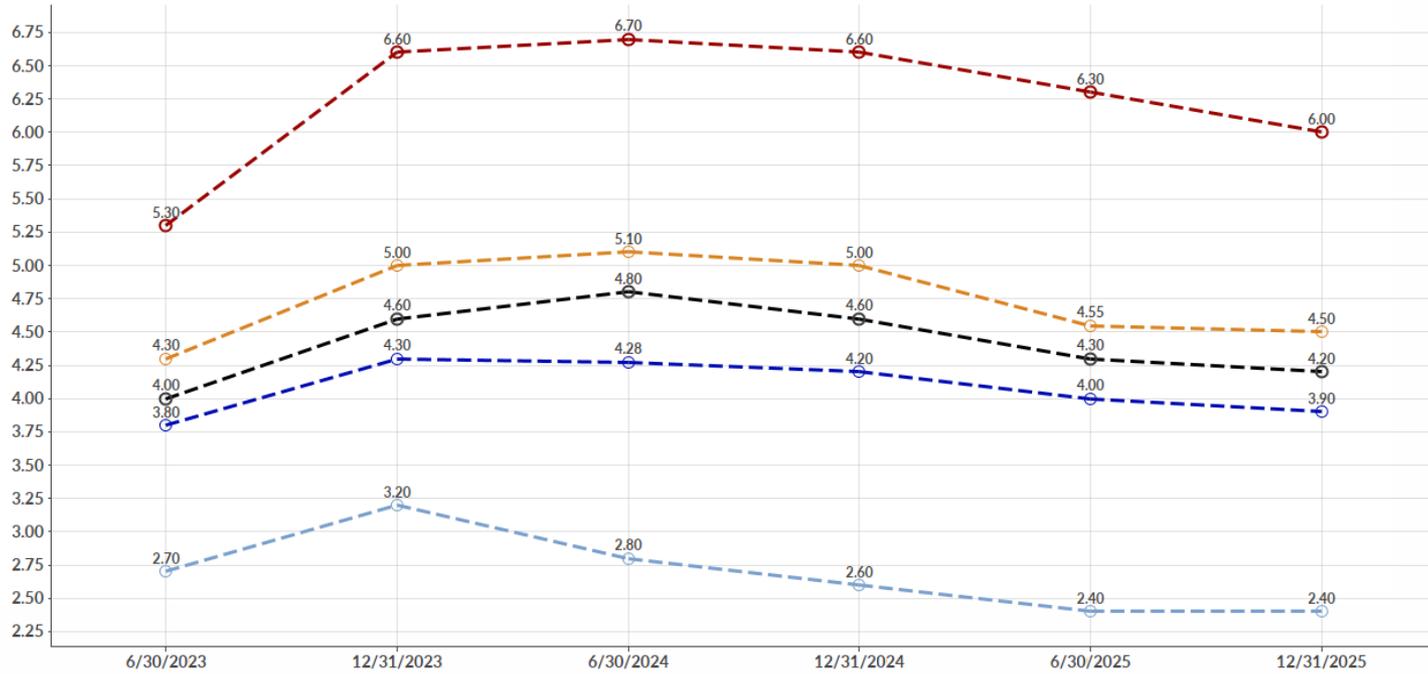
CPI Rate Forecasts as of Jan-2023



Max 75th Percentile Median 25th Percentile Min

Designed & Created by Kevin Webb, CFA

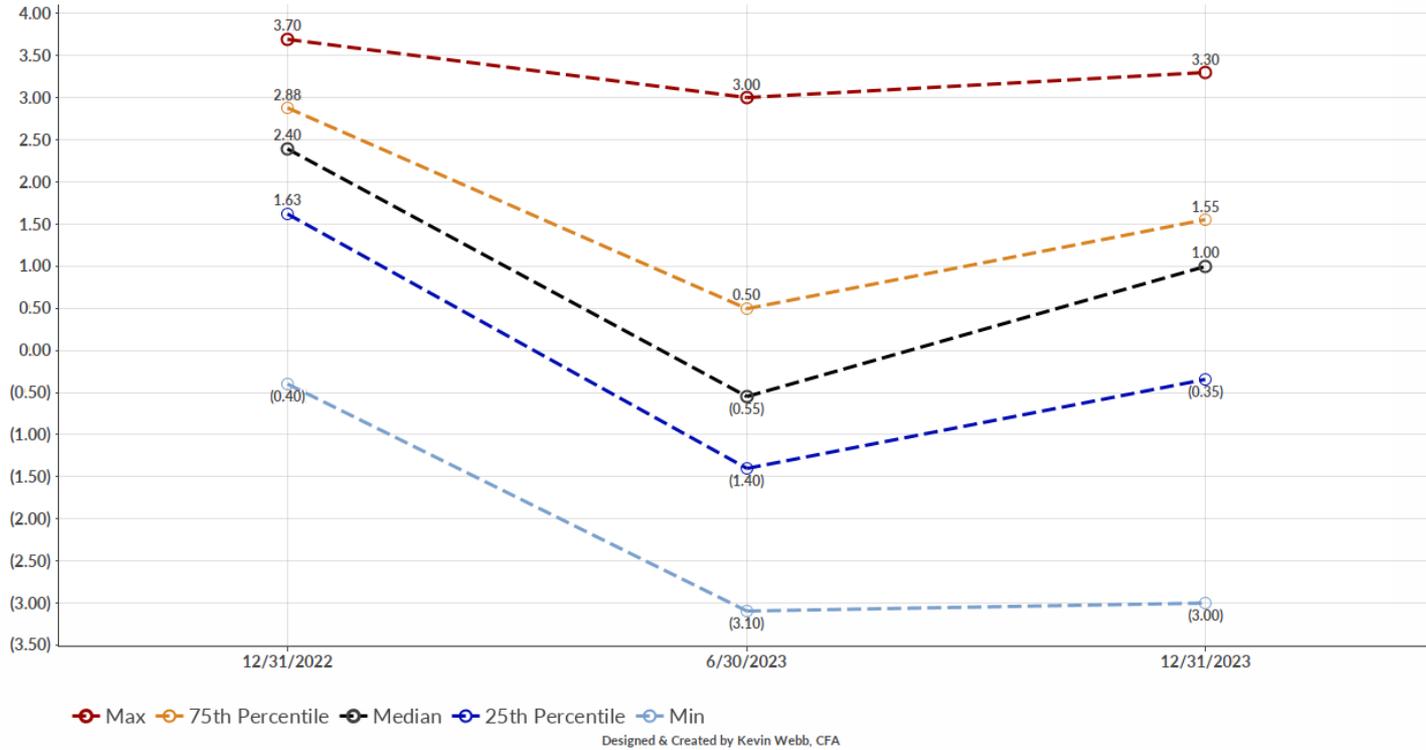
Unemployment Rate Forecasts as of Jan-2023



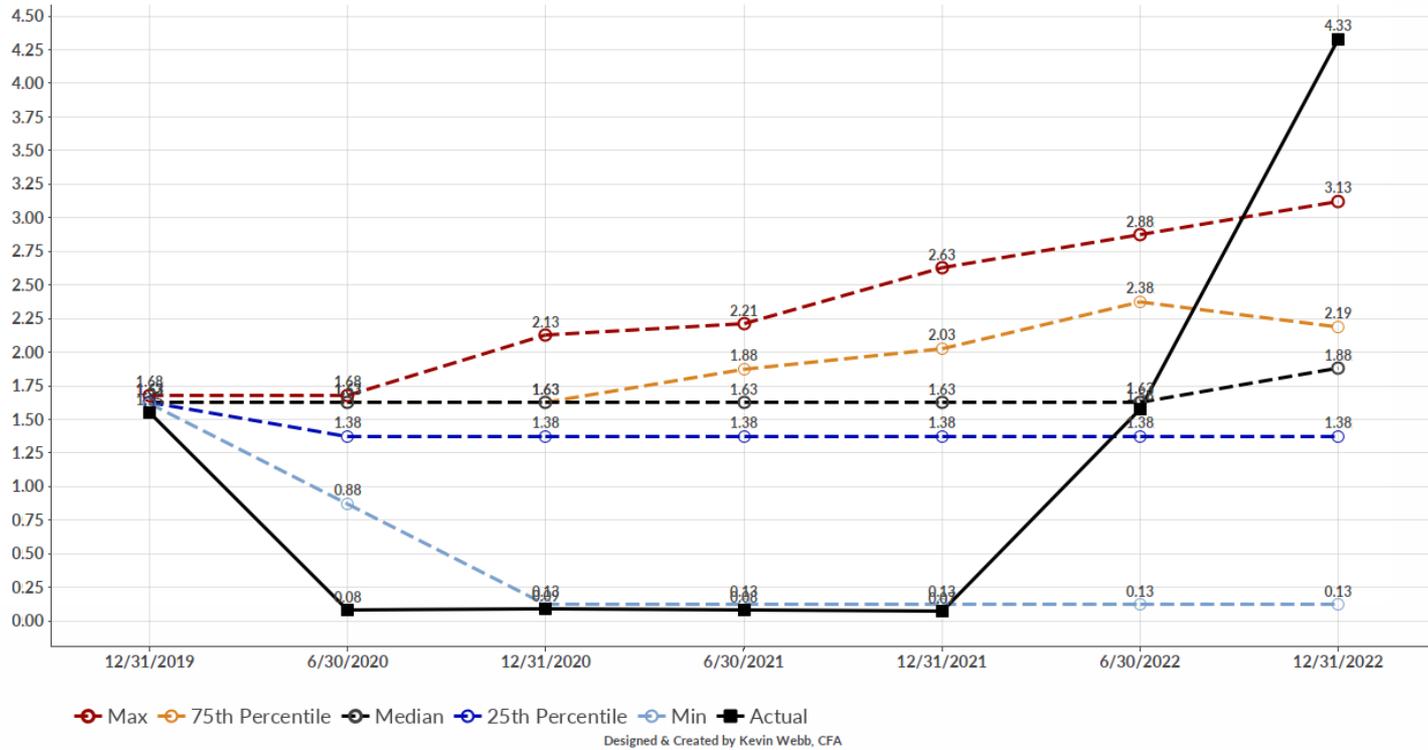
Max 75th Percentile Median 25th Percentile Min

Designed & Created by Kevin Webb, CFA

GDP Forecasts as of Jan-2023



Fed Funds Forecasts as of Dec-2019



## Strategy Webb Toolkit Sector Overview

Analysis Begin Date: 12/31/2000      Analysis End Date: 12/31/2022

Fixed Income Sector	Average Edur	Average Ytw	Main Street Ratio	Annualized Total Return StdDev	Annualized Total Return	Sharpe Ratio (Total Return)
3-mo US Treasury Bill	0.236	1.340	0.000	0.484	1.436	0.000
<b>US Treasury Current 2 Yr</b>	<b>1.923</b>	<b>1.786</b>	<b>0.232</b>	<b>1.620</b>	<b>2.167</b>	<b>0.452</b>
USTreasury Current 3 Yr	2.820	2.000	0.234	2.490	2.649	0.487
<b>US Treasury Current 5 Yr</b>	<b>4.647</b>	<b>2.418</b>	<b>0.232</b>	<b>4.281</b>	<b>3.192</b>	<b>0.410</b>
US Treasury Current 10 Yr	8.607	3.054	0.199	7.434	3.416	0.266
<b>US Treasury Current 30 Yr</b>	<b>18.279</b>	<b>3.702</b>	<b>0.129</b>	<b>14.384</b>	<b>4.184</b>	<b>0.191</b>

### Graph Item Definitions

#### Average Edur (Left Axis)

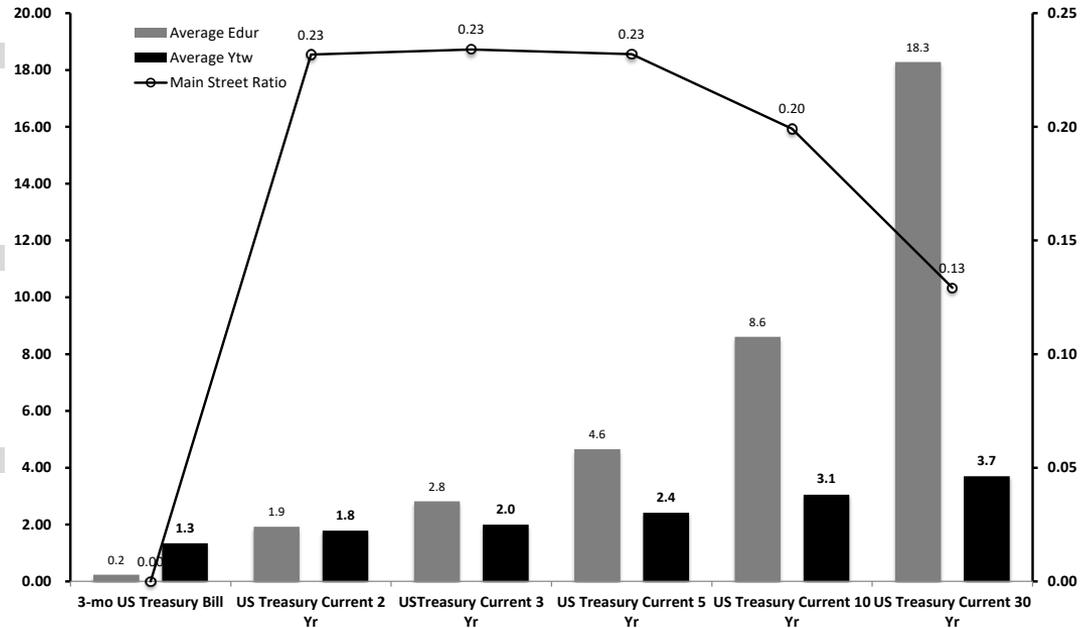
This is the average of the monthly effective durations over the period. Effective Duration is the by-product of an option model that takes into consideration any possible early redemption features and is read as a percent which gives the inverse percent change in market value for a given percent change in interest rates.

#### Average Ytw (Left Axis)

This is the Average Yield To Worst and represents the average over the period of all the yield to worsts. Yield to Worst is the lowest potential yield that can be received without a default. Yield To Worst over a given period can act as a proxy for what the expected book income might have been. A higher number, all things equal, is better.

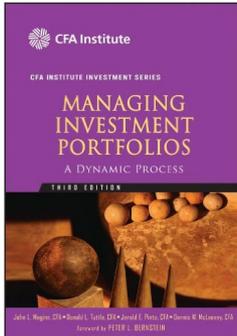
#### Main Street Ratio (Right Axis)

The Main Street Ratio measures the average excess Yield To Worst that could have been earned over the risk-free rate (US 3 Month Tsy Bill) per unit of average interest rate risk (Average Effective Duration) over the period. It is  $(\text{Avg YTW} - 3\text{MoTBillYTW}) / \text{Avg Edur}$ . All things being equal, a higher ratio is better.

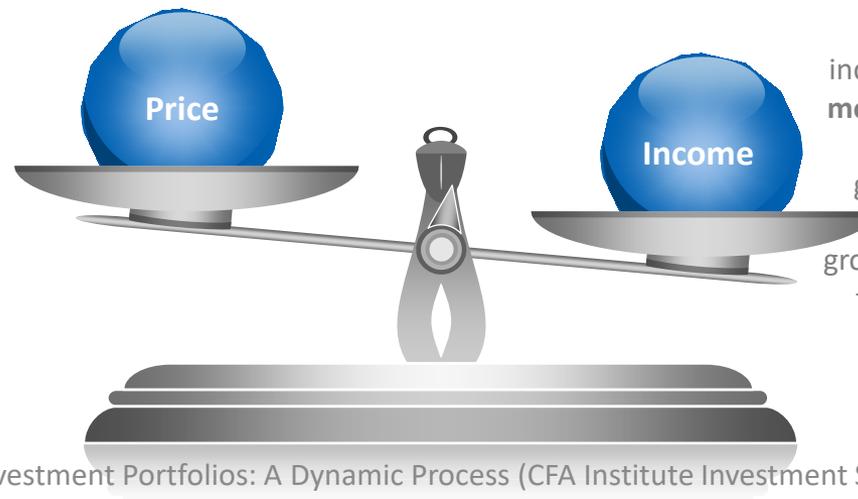


# What are your Return Preferences?

Total Return assumes indifference between Price return & Income return.



Total rate of return measures the increase in the investor's wealth due to both investment income (for example, dividends and interest) and capital gains (both realized and unrealized). ***The total rate of return implies that a dollar of wealth is equally meaningful to the investor whether that wealth is generated by the secure income from a 90-day Treasury bill or by the unrealized appreciation in the price of a share of common stock.***



## Income

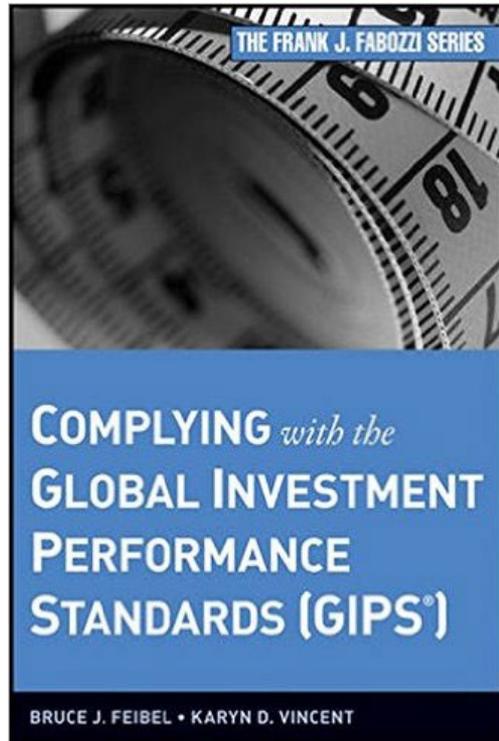
Most public funds are income oriented and **put more weight on income.**

If you don't budget gains/losses and aren't tasked with portfolio growth from investments then you likely have an income preference.

Managing Investment Portfolios: A Dynamic Process (CFA Institute Investment Series) (p. 723).  
Wiley. Kindle Edition. Emphasis added.

# What about GIPS?

The Global Investment Performance Standards



“ The GIPS standards are typically used when performance information is communicated between an investment firm and prospective institutional investors ... there is no law that an investment firm must create its marketing materials according to the GIPS standards ... ”

Feibel, Bruce J.; Vincent, Karyn D.. Complying with the Global Investment Performance Standards (GIPS) (Frank J. Fabozzi Series) (Kindle Locations 321-326). Wiley. Kindle Edition.

# The first thing I get asked about the portfolio is...

Return is last for primary objectives but usually the first question asked...

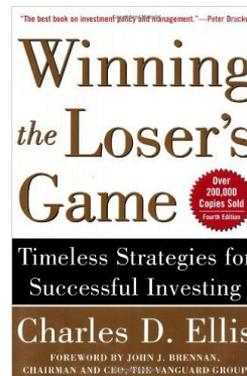
"...the basic assumption that most institutional investors can outperform the market is false. The institutions are the market. They cannot, as a group, outperform themselves. In fact, given the cost of active management—fees, commissions, and so forth—most investment managers will, over the long term, underperform the overall market. ...

For any one manager to outperform the other professionals, he must be so skillful and so quick that he can regularly catch other professionals making errors—and can systematically exploit those errors faster than other professionals can. ...

The beginning of wisdom for you is to understand that few—if any—major investment organizations will outperform the market averages over long periods of time and that it is very difficult to estimate which managers will outperform. ...

The truly important but not very difficult task to which investment managers and their clients could and should devote themselves involves four steps: (1) understanding the client's real needs, (2) defining realistic investment objectives that can meet a client's realistic needs, (3) establishing the right asset mix for each particular portfolio, and (4) developing well-reasoned, sensible investment policies designed to achieve the client's realistic and specified long-term investment objectives. In this work, success can be easily achieved."

*Ellis, Charles D.. Winning the Loser's Game: Timeless Strategies for Successful Investing (Winning the Loser's Game, 3rd ed) (Kindle Locations 243-540). McGraw-Hill Education. Kindle Edition.*



## GFOA Sample IPS

### General Objectives

"The primary objectives, in priority order...

#### 1. Safety

Safety of principal is the foremost objective... ***The goal will be to mitigate credit risk and interest rate risk.***

#### 2. Liquidity

The investment portfolio shall ***remain sufficiently liquid*** to meet all operating requirements that may be reasonably anticipated.

#### 3. Return

The investment portfolio shall be designed with the objective of attaining a ***market rate of return throughout budgetary and economic cycles***, taking into account the investment risk constraints of safety and liquidity needs."

*GFOA Sample Investment Policy, accessed 12/31/16, pages 1-2. Emphasis added.*

# Suitability Benchmark Process

You decide your benchmarks. Don't let an index decide.

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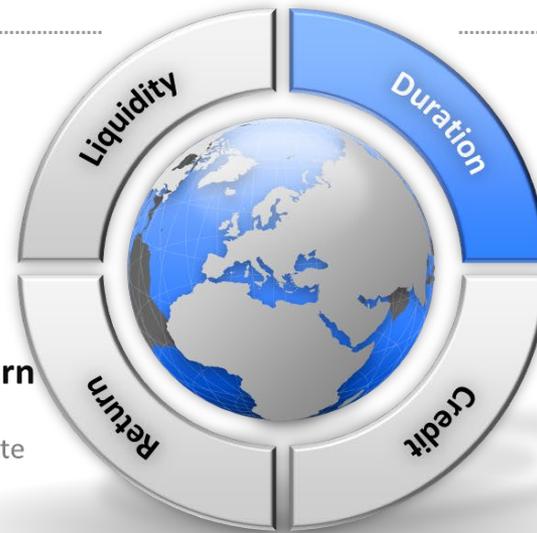
## 1. Liquidity

Examine historical cash flows to determine optimal liquidity.

---

## 4. Market Rate of Return

Use indices or liabilities to determine optimal market rate of return benchmark point/range.



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## 2. Interest Rate Risk

Use Treasury Bellwethers to get a "feel" for your interest rate risk preference.

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## 3. Credit Risk

Use credit analysis to determine preference for credit volatility.

## Strategy Webb Toolkit Sector Overview

Analysis Begin Date: 12/31/2000      Analysis End Date: 12/31/2022

Fixed Income Sector	Annualized Price Return	Annualized Coupon Return	Average Ytw	Main Street Ratio	Sharpe Ratio (Total Return)	WEBB Ratio
3-mo US Treasury Bill	1.436	0.000	1.340	0.000	0.000	0.000
US Treasuries 1-5Yr	(0.272)	2.681	1.946	0.239	0.513	0.285
Agy Bullet 1-5Yr	(0.335)	3.007	2.122	0.331	0.689	0.386
Agy Callable 1-5Yr	(0.426)	2.142	2.138	0.516	0.315	0.574
US Financial Corp 1-5Yr	(0.700)	4.057	3.458	0.774	0.605	0.550
U.S Industrial Corp 1-5Yr	(0.811)	4.169	3.268	0.690	0.781	0.626

### Graph Item Definitions

#### Annualized Price Return (Left Axis)

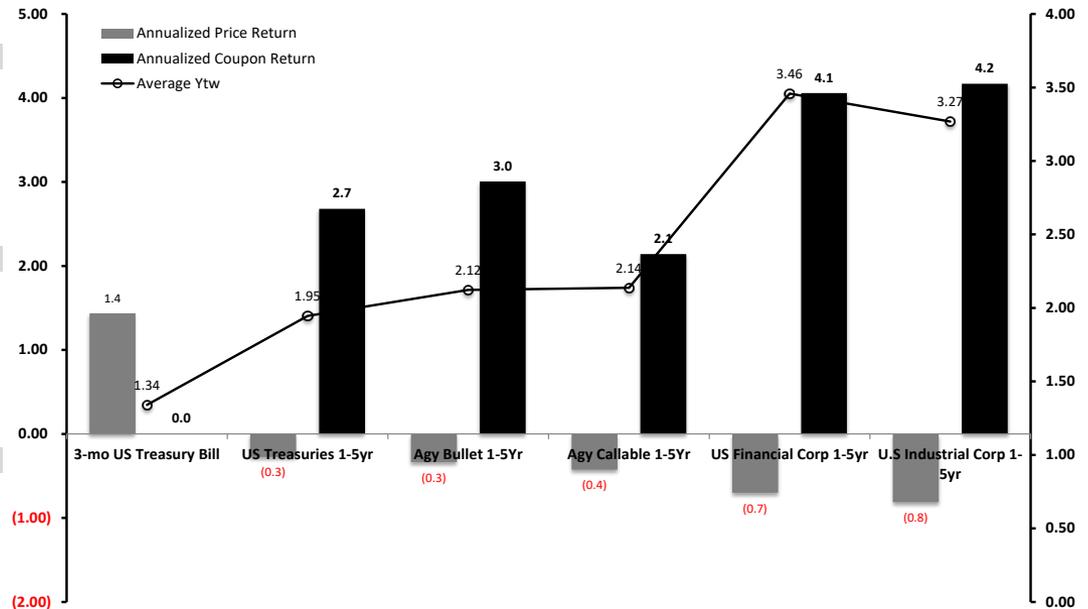
The monthly price returns annualized over the period. This includes only that portion of the return due to price fluctuations. A higher number, all things being equal, is better.

#### Annualized Coupon Return (Left Axis)

The monthly coupon returns annualized over the period. This is a derived piece of data calculated by taking the difference in the monthly total return and the monthly price return. A higher number, all things being equal, is better.

#### Average Ytw (Right Axis)

This is the Average Yield To Worst and represents the average over the period of all the yield to worsts. Yield to Worst is the lowest potential yield that can be received without a default. Yield To Worst over a given period can act as a proxy for what the expected book income might have been. A higher number, all things equal, is better.



## Strategy Webb Toolkit Sector Overview

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U.S Industrial Corp 1-5Yr	(0.811)	4.169	3.268	0.690	0.781	0.626

### Graph Item Definitions

#### Main Street Ratio (Left Axis)

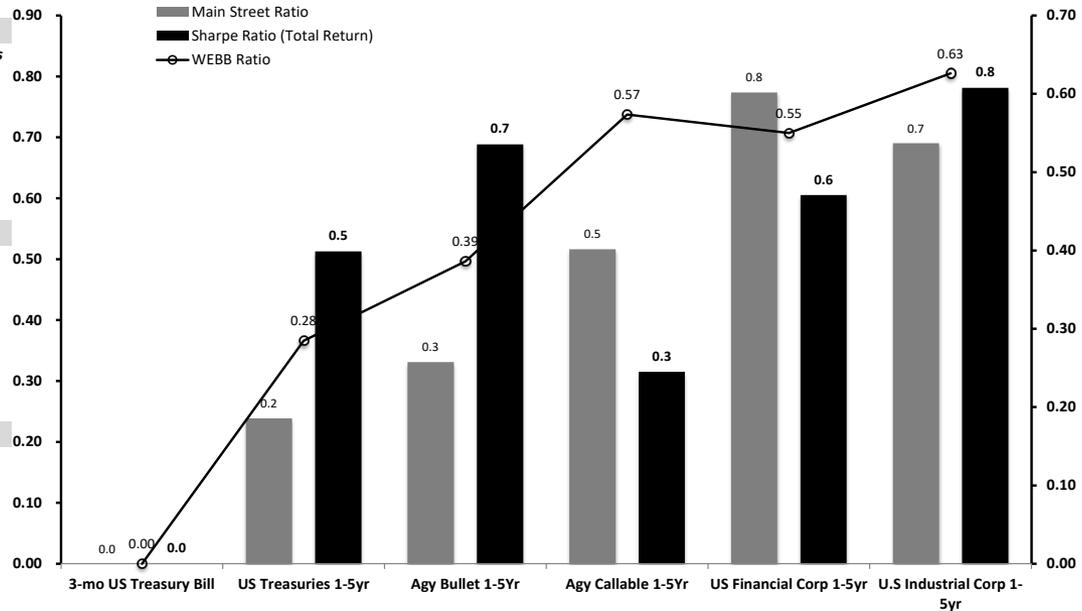
The Main Street Ratio measures the average excess Yield To Worst that could have been earned over the risk-free rate (US 3 Month Tsy Bill) per unit of average interest rate risk (Average Effective Duration) over the period. It is  $(\text{Avg YTW} - 3\text{MoTBillYTW}) / \text{Avg Dur}$ . All things being equal, a higher ratio is better.

#### Sharpe Ratio (Total Return) (Left Axis)

Named after Nobel Laureate William Sharpe, the Sharpe Ratio shows the excess return over the risk-free rate (the US 3 Month Tsy Bill) per unit of risk (the standard deviation of the total return of the index being analyzed). The ultimate industry standard "how much bang for the buck" ratio. All things being equal, a higher ratio is better.

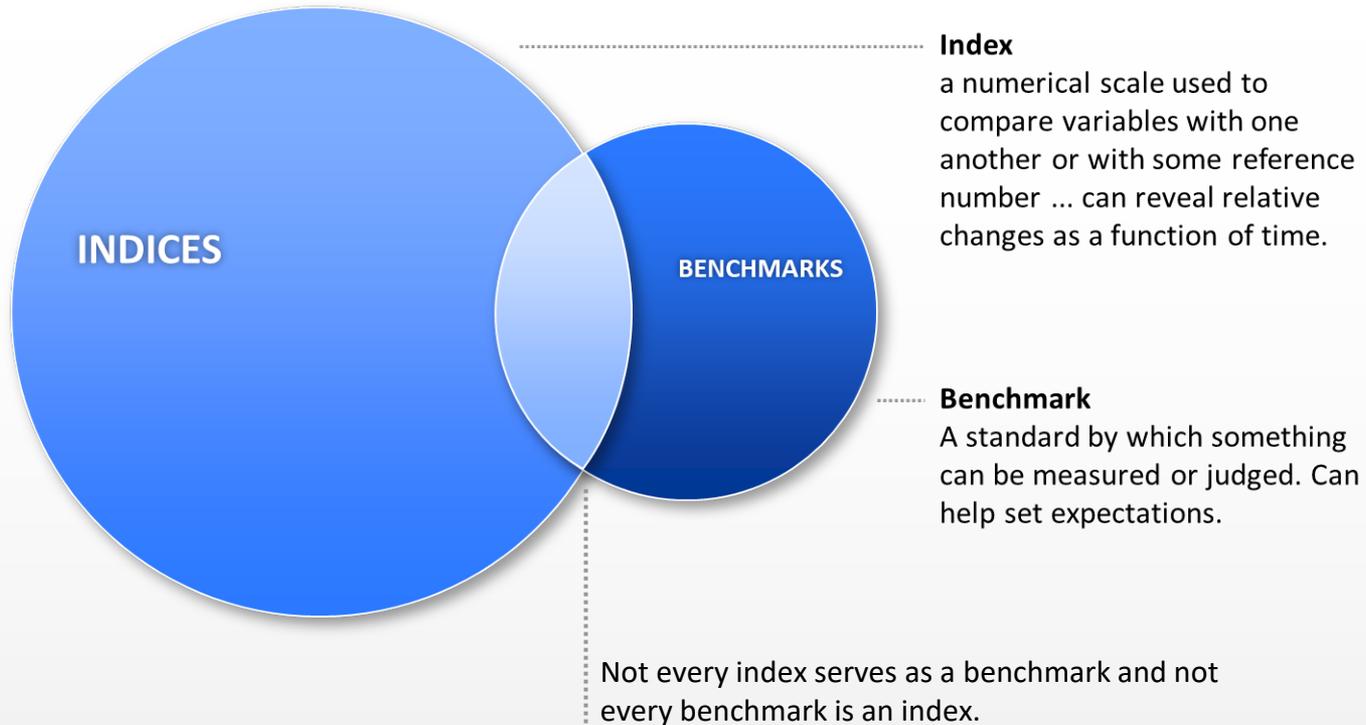
#### WEBB Ratio (Right Axis)

The WEBB Ratio is an estimate of Book Income adjusted for Total Risk. It divides the Average Yield To Worst by the Annualized Total Return Standard Deviation. Provides an estimate of how much average income per unit of risk was obtained over the historical period. A higher number, all things equal, is better.



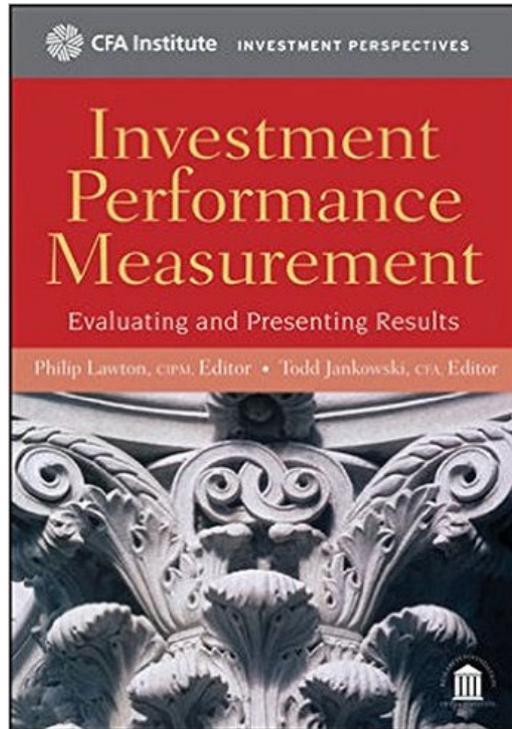
# Benchmark/Index Examples

Benchmark does not necessarily mean an Index



# Problems Using Bond Indices as Benchmarks

Bums & Duration



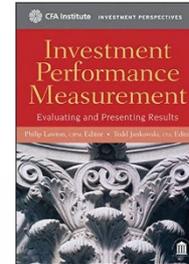
“ Fixed-income benchmarks embody a great many complex issues ... two issues: the duration problem and the “bums” problem. ...The duration problem is the fact that the duration of the benchmark comes from issuer preferences and is not necessarily the duration that a given investor should hold. The bums (or deadbeats) problem is that the biggest debtors (whether companies, countries, or other entities) have the largest weights in the benchmark. ”

Investment Performance Measurement: Evaluating and Presenting Results (CFA Institute Investment Perspectives) (Kindle Locations 4006-4012). Wiley. Kindle Edition.

# The Duration Problem

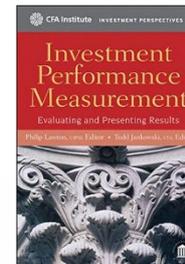
“ The duration structure of a cap-weighted bond benchmark—that is, the proportions of bonds in short-, intermediate-, and long-term categories—reflects the maturity or duration preferences of issuers, who are seeking to minimize their (apparent) cost of capital. Investors, however, are not trying to minimize their returns (which are the issuers’ costs of capital) but to maximize returns. Moreover, an investor usually has specific time-horizon preferences that make one duration more advantageous than another. These preferences do not necessarily match those of issuers in the aggregate, whose preferences are reflected in the benchmark. ... ***Because the benchmark duration is a historical accident, the optimal portfolio for an investor with no defined time horizon should be set by that investor’s risk tolerance rather than by matching the duration of the benchmark.*** ”

Investment Performance Measurement: Evaluating and Presenting Results (CFA Institute Investment Perspectives) (Kindle Locations 4067-4082). Wiley. Kindle Edition. Emphasis added.



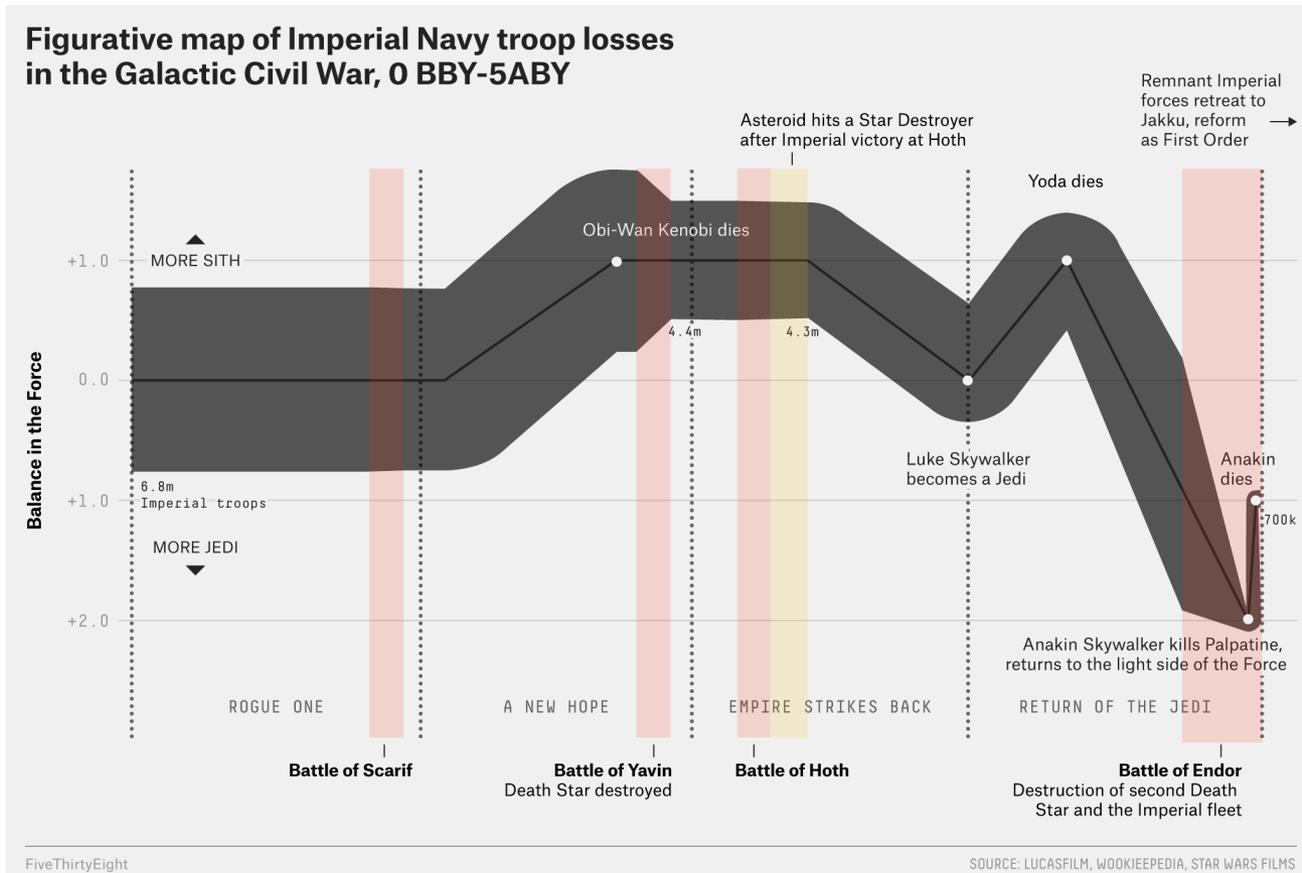
# The “bums” Problem

“*Because the issuers who manage to go deepest into debt—the biggest bums—have the largest weights in a cap-weighted benchmark, such a benchmark is not likely to be mean-variance efficient.* If you are tracking such a benchmark, when someone issues a security, you have to buy it in proportion to its capitalization weight to minimize tracking error to the benchmark, even if the security is only marginally of high enough quality to make it into the benchmark and even if the size of the issue, and hence its weight in the benchmark, is inordinately large. Such securities would seem to be the most likely to be downgraded or to default. The bums problem applies to countries in an international sovereign bond benchmark just as it does to corporations in a U.S. bond benchmark.”



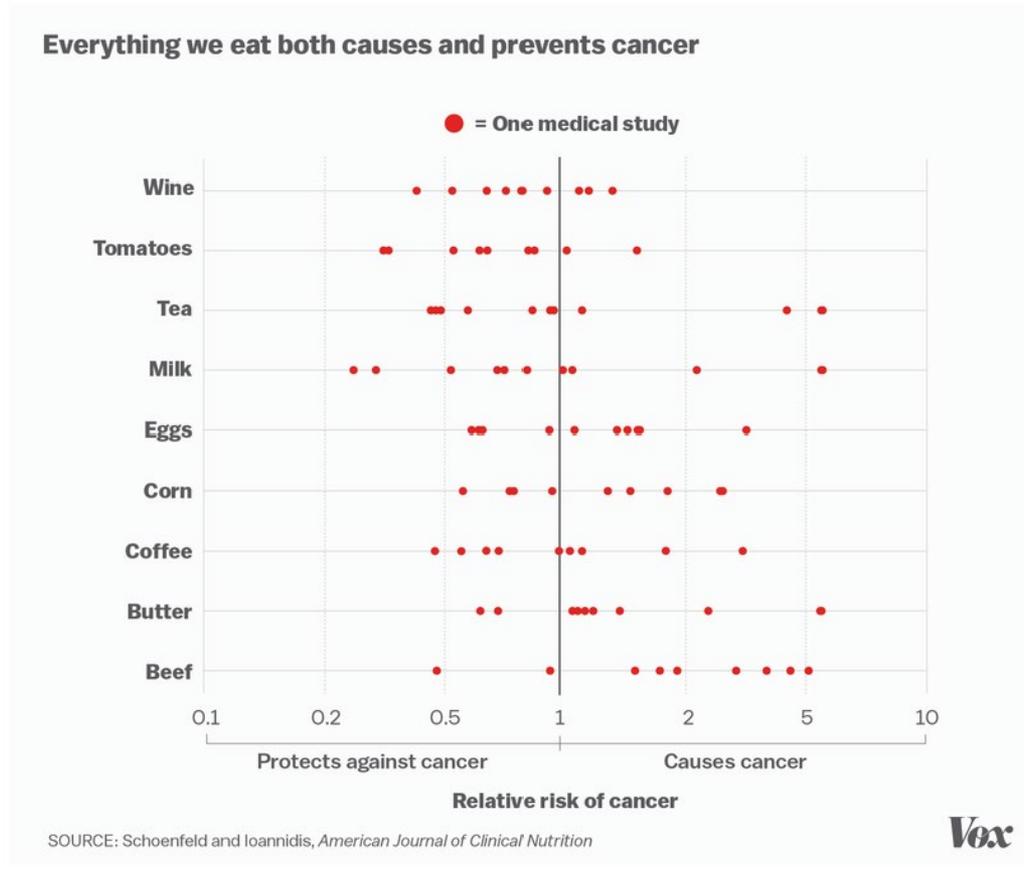
Investment Performance Measurement: Evaluating and Presenting Results (CFA Institute Investment Perspectives) (Kindle Locations 4102-4107). Wiley. Kindle Edition. Emphasis added.

# Good visualizations bring together a complex narrative... Visualizing the Portfolio versus the Benchmarks



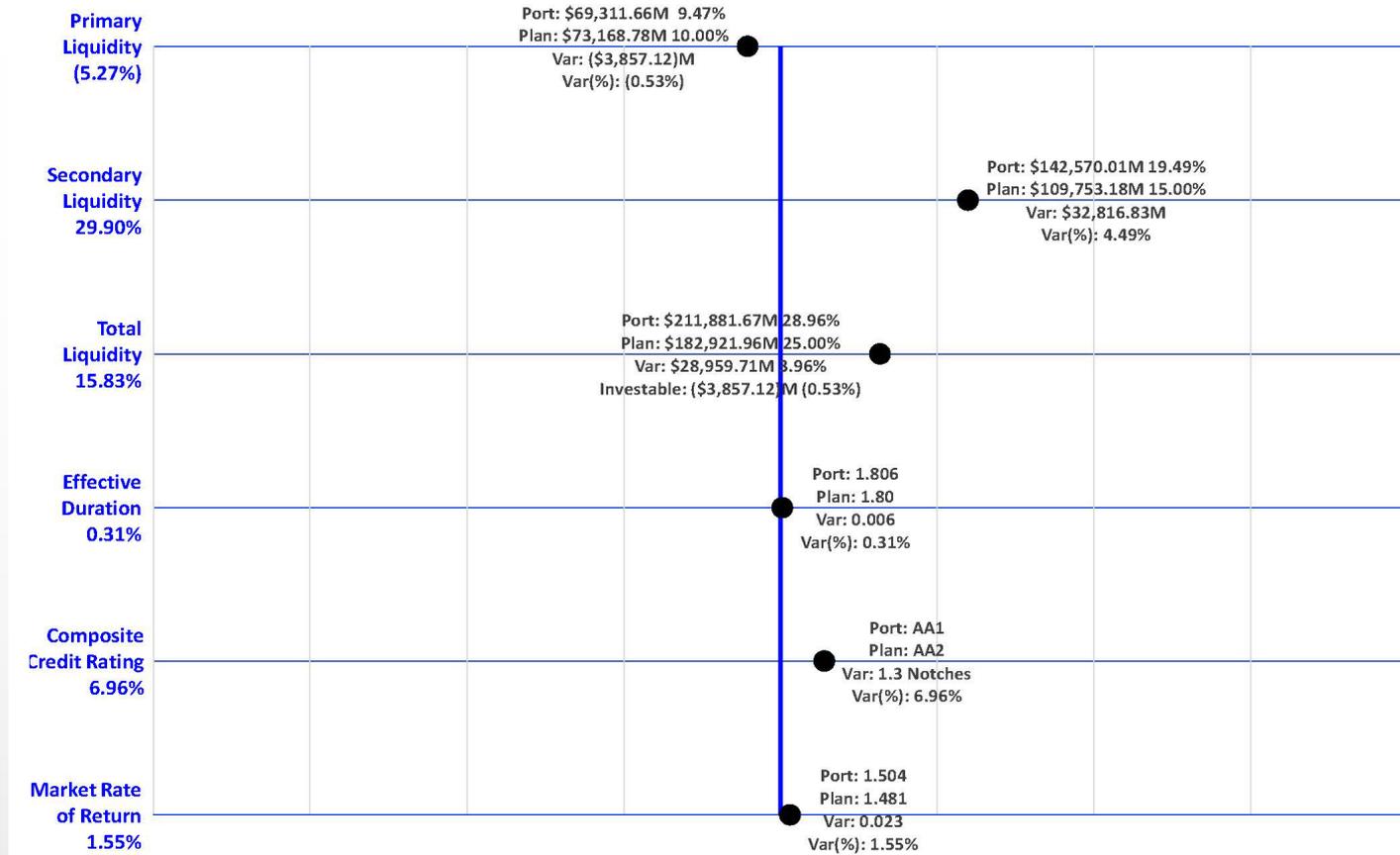
# Visualizing the Portfolio versus the Benchmarks

... and allow relative comparisons across different measures.



# Suitability Benchmark Visualization Analysis

Vertical blue line represents benchmark for each measure.



# A Note on Total Return / Market Rate of Return



It is not the return on my  
investment that I am concerned  
about; it's the return of my  
investment

— *Will Rogers* —

# Contact Information

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