Quarterly NEWSLETTER

SPRING 2020

Commonwealth Bank & Trust Company

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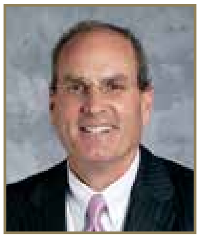

Hard Stop Corona Recession

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The U.S. entered March finishing the 11th year of its longest bull market and economic expansion in its history. Unemployment was at a 50-year low of 3.5%. The S&P 500 reached an all-time high of 3,394 just 10 days earlier and the Dow Jones Industrial Average nearly hit 30,000. New York City had its first Covid-19 case on March 1, just one day after the U.S. recorded its first death in Washington State. Before the end of the month, the Dow would lose over 11,000 points at its low point, on March 23 (1,200 points for the S&P 500) – the fastest market decline in history. By the end of March, an estimated 10 million Americans lost their jobs and New York City had 40,000 confirmed Covid-19 cases (rising to over 20 million and 100,000, respectively, in April). After falling 34% at its low point on March 23, the S&P 500 finished the quarter down 20% and 24% from its peak on February 19 – losing $3 trillion in value in March alone.

Actions taken to mitigate the spread of the virus mark the first time the U.S. government has forced its economy into a recession. While no one can easily predict the impact, analysts and economists estimate that GDP will contract and unemployment will rise to levels worse than those of the Great Depression. The Fed sprang into action almost immediately, deploying unprecedented monetary solutions with speed and scale exceeding measures taken during the financial crisis. On March 3, the Fed cut rates by 0.5%, then cut rates to zero on March 15. By the end of March, the Fed initiated nine special programs involving markets ranging from overnight financing to money markets to mortgage securities and others to provide enough liquidity to ensure they continue to function normally and keeping them from "freezing up" as they did during the financial crisis. The vast majority of CB&T's client portfolios outperformed in the downturn. When the market was down over 30% on March 23, the typical CB&T 60/40 portfolio (60% stocks and 40% bonds) was down less than half the market decline (between 13% and 15%), while the average 75/25 portfolio captured less than three-quarters (between 21% and 22%) of the market decline. CB&T's investment style focuses on buying Quality Growth (companies) at a Reasonable Price or allocating to managers that invest in these companies. CB&T investment managers took advantage of the downturn to capture additional returns by rebalancing accounts. **Introduction continued on the next page.**

Q1 2020
S&P 500 Sector Performance

	Q1	1 Year
Healthcare	-12.67%	-1.01%
Consumer Discretionary	-19.29%	-10.75%
Consumer Staples	-12.74%	-0.59%
Financials	-31.95%	-17.16%
Telecommunication	-16.95%	-3.31%
Information Technology	-11.93%	10.40%
Materials	-26.13%	-16.53%
Energy	-50.45%	-52.32%
Industrials	-27.05%	-19.45%
Utilities	-13.50%	-1.40%
Real Estate	-19.21%	-11.30%

Proprietary Performance Results

Equities	1st Qtr	YTD	1 year	3 year	5 year	10 year
Focused Equity Fund[1]	-14.16%	-14.16%	-0.86%	7.65%	7.71%	10.76%
Science/Technology Fund[3]	-9.99%	-9.99%	4.72%	15.64%	12.30%	13.28%
Aggressive Growth Fund[2]	-22.85%	-22.85%	-12.86%	10.04%	9.05%	12.10%[1]
S&P 500	-19.60%	-19.60%	-6.98%	5.09%	6.71%	10.52%
Balanced	**1st Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Strategic Income Builder Fund[4]	-17.01%	-17.01%	-6.82%	1.93%	3.00%	6.37%
60% Russell 3000 Value, 40% Barclays Aggregate Index	-15.87%	-15.87%	-7.37%	0.68%	2.63%	6.33%
Alternatives	**1st Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Liquid Alpha Fund	0.17%	0.17%	2.74%	1.69%	n/a	n/a
Structured Alpha LP	-3.93%	-3.93%	-3.14%	n/a	n/a	n/a
SG CTA Index	-0.54%	-0.54%	3.69%	0.64%	n/a	n/a
Tax-Free	**1st Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Muni Funds Blend	0.80%	0.80%	4.82%	4.25%	3.37%	3.66%
Barclays 1-12 yr. Muni Index	-0.56%	-0.56%	2.77%	2.85%	2.32%	3.00%
Aquila Churchill Tax-Free Fund of KY	0.30%	0.30%	3.75%	3.37%	2.42%	3.31%
Dupree KY Tax-Free Income	0.27%	0.27%	4.30%	3.57%	2.74%	3.68%

There is no assurance that any of these investment strategies will meet its investment objective. Performance results for each strategy are computed on the strategy's overall returns. Each strategy and index includes the reinvestment of dividends. Past performance does not guarantee future results. Current performance may be lower or higher than the performance results quoted. [1] Net of management fees; Inception date 7/1/1989; performance results of SMC Capital and/or its principals as advisor from inception to 2/28/06 and as sub-advisors to CBandT since 3/1/06. [2] Inception date 3/31/2006. [3] Inception date 12/31/2008. [4] Inception date 12/31/2008.

Fixed Income

In January, the Federal Reserve kept the Fed Funds rate unchanged at 1.5-1.75%, citing strong labor markets. Before its next meeting, the Fed announced two emergency rate cuts to fight the tremendous economic impact of the coronavirus pandemic. They initially cut rates 0.5% on March 3rd and cut a full 1.0% in mid-march just days before its scheduled meeting. Not surprisingly, we are now at the zero-bound range associated with the many years that followed the financial crisis.

The Fed is wading into the corporate and municipal bond markets, which is a first. This includes the establishment of two facilities to support credit to large employers, both primary and secondary markets, to provide liquidity to the corporate market. They will facilitate the flow of credit to municipalities by expanding the Money Market Mutual Fund Liquidity Facility (MMLF) to include a wider range of securities and the flow of credit to municipalities by expanding the Commercial Paper Funding Facility (CPFF) to include high-quality, tax-exempt commercial paper as eligible securities.

The economic impact of COVID-19 is quickly becoming evident. Weekly initial jobless claims were recently 3.3 million, followed by another 6.6 million filers announced April 2nd. This nearly 10 million job loss equates to roughly a 10% unemployment rate, compared to 3.5% in February. This economic fallout pushed Treasury rates down to record lows. The 10-year Treasury fell 1.25% to finish the quarter at 0.67%. Daily price moves in the 30-year Treasury were amazing to watch during March, sometimes with double-digit moves. In all, the 30-year Treasury fell 1.07% to 1.32%. Its closing low was 1.0% on March 6th, with a trading low of 0.7% on March 9th. This created a mortgage refinance opportunity for many, although that market was overwhelmed for a period of time and rates backed up.

Credit spreads widened in this environment, as one would expect. In late January, investment-grade spreads went sub-1% of additional yield to Treasuries. These spreads approached 4% on March 23rd and ended the quarter at 3%, according to the ICE BofA Corp Index. On the same day, high-yield or non-investment grade spreads hit 11% and ended the quarter at 9%, according to Bloomberg Barclays. We decided to significantly overweight high yield once we saw some stabilization.

For the quarter, the Bloomberg Barclays Aggregate index returned +3.15%, surpassing the very strong quarterly returns seen in the first half of 2019. In contrast, investment-grade corporate bonds returned -3.6% with "high-yield" bonds declining -12.7%. International bonds could not match the returns here in the U.S during the quarter. The "hedged" Global Aggregate ex-US returned +0.51% vs. -2.68% unhedged.

Tax-exempt municipal bonds returned -0.63% for the quarter, despite a very wild ride in March. At its low point, municipal bonds were off over 10%, its worst rout in history, due to a wave of selling by mutual funds and exchange-traded funds. Given the support from the Fed, referenced above, as well as perception that the Federal Coronavirus Relief Bill, the CARES Act, would be beneficial to state and local governments, municipals recovered substantially. For March, tax-exempts returned -3.63%. This was the worst monthly return since November 2016, where municipals sold off on tax cut concerns after the Trump election. We took advantage of the dislocations in municipals within many client accounts.

Given that we are already in a deep recession, interest rates will probably be range bound for some time. "Lower for longer" is back with a vengeance, to say the least. That said, we do note that the steepness of the yield curve is probably a reflection of the significant borrowing that will be associated with the Federal stimulus response to the virus.

We remain confident in our 1-3% total return forecast for investment grade bonds over the next 3 to 5 years. Overall, yield is a strong predictor of future returns and the Bloomberg Barclays Aggregate index is currently yielding around 1.6%, although this is down from the 2.3% yield at the start of the year, so expected returns for bonds have declined.

Introduction Continued

We rebalance in stages, which enables us to dollar-cost-average into the market at lower prices. This active process produces incremental gains and income for client portfolios.

Just as the rapid speed and synchronization of declines from the covid-19 crisis looked different than past crises, the eventual recovery is likely to look unique as well. One of the most debated questions is whether this will be a "V", "U" or "L"-shaped recovery. The "sudden stop" coronavirus bear market and recession is likely to recover in stages with the market recovering earlier, and the economy recovering later over a longer period of time. In our view, there remain only a few coronavirus news items that could create a downside surprise now that cases are plateauing and the Fed and Congress have initiated massive stimulus. While unlikely, we think the biggest threat to markets and the economy would be a severe secondary wave of Corona cases, thus requiring further shutdowns. While a retest of market lows now seems less likely, markets remain fragile and developments in May will test their resilience.

The government will do everything it can to promote a robust reopening and recovery. Until there is a treatment, broad rapid testing, and a vaccine available, the opening will take place in stages. Full recovery will likely be contingent upon the development and distribution of a vaccine. Assuming that a vaccine is distributed in the first half of 2021, we believe 2021 earnings can recover to the levels we saw in 2019.

For more details on CBandT's investment outlook, please visit our Investment Commentary page at: https://cbandt.com/wealth-trust/resources/

Focused Equity

For the first quarter and the twelve months ending March 31, the strategy returned -14.16% and -0.86%, respectively, versus a -19.60% and -6.98% decline for the S&P 500 Equity Index. Since inception, the strategy has outperformed the S&P 500's annual return of 12.12% by 0.39% with an annualized gain of 12.51%. The fund has achieved these results taking on meaningfully less risk than the S&P 500 with a beta of 0.88 and capturing only 90% of the index's annualized standard deviation, thus producing annualized alpha (the amount of risk-adjusted performance greater than the benchmark) of 1.62 since inception (12/31/2008).

Leaders: Quality-growth and size remained dominant factors across U.S. equities through Q1 and traditional "risk-off" sectors (Consumer Staples, Utilities and Real Estate) produced the largest total returns within Focused Equity. Many new factors emerged alongside COVID-19 in the quarter, benefiting companies involved in the work-from-home migration, cybersecurity, cloud storage, and internet retail. Amazon (AMZN, +5.51%) and Microsoft (MSFT, +0.42%) posted the largest contribution to returns in the strategy over the first quarter. Over the last twelve months, size and quality growth continued to lead across all sectors with risk-off sectors closely following behind, as Apple (AAPL, +35.90%), Microsoft (MSFT, +35.63%), Nextera Energy (NEE, +27.48%) and Visa (V, +3.86%) were the best performing stocks for the last year.

Laggards: As COVID-19 elevated fears of a shock to global growth and demand, value stocks, high-dividend stocks, and cyclical sectors fell out of favor, including energy, industrials and financials. Slowing economic activity coupled with Russia and Saudi Arabia flooding the world with excess oil supply via a "production war", oil plummeted in the quarter (-78.1%). Energy stocks held in the strategy [Diamondback Energy (FANG, -71.37%), Chevron (CVX, -38.96%) and Enbridge (ENB, -26.43%)] fell in unison. Boeing (BA) was a large laggard during the quarter (-54.2%) and was the leading detractor for total return in the strategy over the last twelve months (-60.9%). As airlines suffered dramatic cuts to passenger volumes surrounding the global health pandemic, Boeing experienced cancellations for its products during the quarter. For a decade Boeing had been one of the highest returning industrial stocks. Two fatal crashes involving its 737-MAX series prompted regulatory authorities to ground the plane across the globe in 2019. Additional issues with the series discovered in late 2019 further delayed the 737-MAX return to service.

Amazon.com, Inc. (AMZN)

1/1/2020 – 3/31/2020

While the impact from the 737-MAX grounding and COVID-19 on airlines represent a significant setback for Boeing, we believe the company will recover from the setbacks and can outperform the S&P 500 over time.

Strategy Update: Focused Equity Fund invests in quality growth companies and select external managers. Our stock selection process and that of the managers we have selected is dedicated to identifying world-class companies that are positioned for sustainable growth and possess the characteristics needed to generate superior long-term performance. The portfolio is concentrated, usually owning approximately 30 to 50 high-quality companies that have a history of outstanding business results, are well managed and trade at values well below their long-term intrinsic value. Our approach is focused on companies that have sustainable advantages over their competitors, allowing them to consistently grow and generate value for shareholders.

Strategic Income Builder

It was a very difficult quarter for income investors. For example, the Russell 3000 Value lagged its Growth counterpart by 12.5%, or -27.3% vs. -14.9%. U.S. investment-grade corporate bonds lost -4.1% as Treasuries returned +8.8%, or 12.9% differential according to ICE Bond indices. High yield bonds fared even worse, losing -13.1% or a 21.9% deficit to Treasuries. For the quarter, the strategy (SIB) returned -17.01% vs. -15.87% (60% Russell 3000 Value & 40% Barclay's US Aggregate). Over 12 months, SIB remained ahead of its benchmark, returning -6.82% vs. -7.37%.

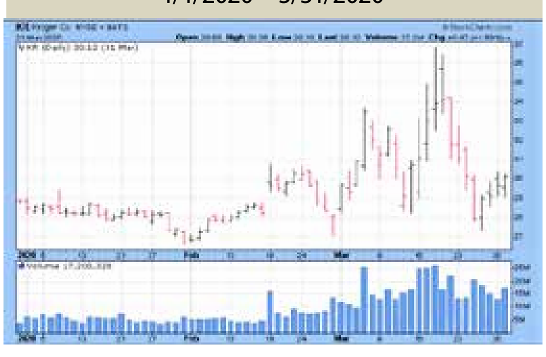
Since inception (1/1/09), the SIB strategy has returned an annualized +7.62%, mostly ahead of the benchmark return of +7.38%. The yield generated from the strategy has consistently exceeded that of its benchmark. On a risk-adjusted basis, the strategy has generated a positive alpha of 0.61% annualized with a beta of 0.94. The success of the portfolio is the result of an attractive mix of income producing securities, asset class and sector allocations, and tactical positions in global markets.

For the quarter, our equities returned -24.44% compared to the Russell 3000 Value return of -27.32%. Twelve-month equity returns were -12.14% and -18.02%, respectively. The portfolio has benefited from an overweighting in stocks in recent years. For the quarter, this was obviously not the case, but we did work to reduce our equity weighting. We entered the year at 67.3% equities within the portfolio, or 7% over benchmark. Entering March we stood at 63.4%, before closing out the quarter at 61.5% in stocks. Dividend yield ended the quarter at 4.2%, or roughly 0.7% higher than the Russell 3000 Value and 1.9% more than the S&P 500.

Information Technology (-9.9% portfolio returns) is by far the largest sector overweighting and contributed most of the equity outperformance. Financials (-39.0%) offset roughly half of the tech sector's contribution, as stock selection impacted the portfolio. Microsoft (MSFT +0.3%) was the best performing stock within Information Technology. Microsoft's vast infrastructure and productivity applications leave it better equipped to navigate weak economic conditions. Supply-chain disruptions from the COVID-19 pandemic will weigh on hardware sales, but given the current shutdown, more companies and enterprises are embracing work from home. Thus, Microsoft's chat-collaboration product called Teams will likely see rapid growth, driving greater sales of the Office 365 productivity suite. New features announced recently that target a consumer version of Office further expand its end-market.

Kroger (KR +4.5%) was our second best performer and obviously benefits from restaurant and other closures. Kroger should see growth through at least the first half, as consumers stock up on pantry and household essentials, followed by possibly a prolonged period of more food consumption at home. Digital initiatives, strategic partnerships and asset-light, high margin alternative profit streams could prove to be earnings catalysts. Cincinnati-based Kroger reached out to partner with neighboring Kentucky on coronavirus testing locations, donating medical staff and equipment as well the use of its sign-up portal.

Kroger Co. (KR)
1/1/2020 – 3/31/2020



Quarterly fixed income performance was impacted by the credit selloff with returns of -2.32% vs. +3.15% for the Bloomberg Barclays Aggregate Bond Index. This underperformance is also visible in our 12 month results, or +3.02 vs. +8.93%. As discussed above, our tactical position within high yield was costly during the quarter, although our selection outperformed by over 2%. The fixed income allocation finished the quarter at over 30.9%, up from 25.3% to start the year. Projected yield on this portfolio is currently 3.6% which compares to 1.4% for this Aggregate Index in mid-April.

Our risk-reducing alternatives limited volatility somewhat during the quarter, returning +0.62%. In general, we believe we can reduce portfolio volatility and enhance returns over time utilizing alternatives. While income generation is possible, it is difficult to predict within the strategies utilized. Our allocation to alternatives ended the quarter above 5% of the portfolio.

Science & Technology Strategy

The Science & Technology growth strategy (SciTech) returned -9.99% for the first quarter, outperforming the Lipper Science & Tech Fund Index (-14.97%) by nearly five percentage points. The relative performance over the last 12 months is similar. SciTech is up +4.72% and its benchmark index is down -1.20%. For further comparison, the S&P 500 index returned -19.60% and -6.98% in 1Q20 and over the trailing twelve months, respectively.

Although equities markets were broadly lower in Q1 and the news flow seemed universally negative, there were certainly underlying trends that separated winners from losers. Lower growth companies with heavy debt loads were severely punished, while secular growth prospects fared much better. The SciTech strategy owns growth stocks across 5 (of 11) market sectors that lead via technological innovation. With the exception of Healthcare, holdings for each sector outperformed their sector benchmark in aggregate to begin the year.

Since inception of the fund (3/31/2006), the strategy has returned an annualized 9.96% versus 9.70% for the Lipper Science & Tech Index and just 7.28% for the S&P 500. More importantly, SciTech is beating the Lipper Science & Tech index on a risk-adjusted basis, with a Sharpe Ratio of 0.86 (vs 0.71) and annualized standard deviation of 14.66% (vs 15.80%).

Leaders: Netflix (NFLX) gained 15.8% during the first quarter and was the largest single driver behind SciTech's resilient performance. The streaming content leader was embraced by investors as shelter-in-place orders and social distancing measures drove demand. NFLX grew subscribers by 16MM in Q1 (nearly double the consensus Wall Street estimate), and its Tiger King documentary may be the social phenomenon of the COVID Clampdown. For almost a decade SciTech has been investing in companies that provide the infrastructure necessary to host and deliver content to homes and these companies will be the backbone to deliver 5G and cloud services to handsets, homes and businesses. Altogether, this basket of specialized real estate including American Tower (AMT -5.3%), Crown Castle (CCI +1.6%), Equinix (EQIX +7.0%) and SBA Communications (SBAC+12.0%) generated a collective +2.7% return for SciTech in the first quarter versus a 19.2% decline for the S&P Real Estate Index. While many retail stocks experienced sharp losses in the quarter Amazon (AMZN) rallied 5.5%. Only Netflix contributed more gains to SciTech to start the year.

Laggards: As would be expected given difficult market conditions, many of SciTech's weaker holdings in Q1 were high beta names that lost investor sponsorship during the extreme volatility. Names here include Muscular Dystrophy biopharma Sarepta Therapeutics (SRPT, -24.3%) and the cyclical chipmaker Micron Technology (MU, -21.9%). An interesting trend resulting from specific mandates taken during the lockdown: appointments for routine dental procedures have been prohibited and elective surgeries have been delayed to free up resources to combat COVID-19. Orthodontic firm Align Technologies (ALGN, -37.7%), and Stryker Corp (SYK, -20.4%), a premier provider of medical devices for joint replacements and trauma reconstructive surgeries, plummeted as procedures were postponed. We expect both of these firms to rebound sharply as elective procedures are permitted again.

Small Cap Composite

The Small Cap Value Composite returned -32.25% for Q1 versus -35.66% for the Russell 2000 Value index.

One of the top contributing holdings in the Portfolio during Q1 was BJ's Wholesale Club Holdings Inc. (BJ, +12%), a warehouse club retailer with 217 stores primarily located in the eastern United States. BJ reported better-than-feared Q4 2019 results with same-store sales up +0.5% and membership fee income up +6.2%. Despite top-line growth, EBITDA declined -9% due to increased investment in strategic growth initiatives. New CEO Lee Delaney made a positive first impression on investors and introduced FY 2020 guidance in line with expectations. Lastly, BJ is ideally positioned to meet surging demand for groceries and consumer products during the COVID-19 pandemic. We increased the position early in the year prior to these developments. Another top contributor during the quarter was Core-Mark Holding Co. Inc. (CORE, +6%), the second-largest wholesale distributor to convenience stores in North America. CORE rallied after the company released Q4 2019 results and issued a strong 2020 outlook showing continued growth and margin expansion. CORE also dispelled fears that increased e-cigarette regulation would lead to material business declines. Revenue increased +1.6% in the quarter (driven by +5.4% growth in non-cigarette sales from market share gains) and adjusted EBITDA increased +24%. Guidance for 2020 included slightly higher revenue and EBITDA growth over 2019, which now looks conservative given the recent trend of frenzied in-store activity of convenience stores from the impact of the COVID-19 pandemic. We maintained the position. Another positive contributor was HollyFrontier Corp. (HFC, -1%), a mid-continent refiner that produces gasoline, diesel fuel, jet fuel, specialty lubricants, and modified asphalt. HFC was initiated during the quarter after falling more than -50% in the year-to-date period. Gasoline experienced swift demand destruction due to the travel and self-quarantine restrictions from COVID-19 which led to a dramatic selloff of refiners. Refiners have rationally responded by reducing facility utilization. HFC has the highest complexity among its peers and is located near cost-advantaged feedstock, which allows HFC to benefit from the spreads between WTI and Brent-based crude over the long term. HFC's strong balance sheet (0.4x leverage at year end) and liquidity (over $2.5 B) position the company to survive temporary weakness. We initiated a position with shares trading near what we believe are the most attractive levels in the last 15 years based on enterprise value to capacity.

One of the largest negative contributing holdings in Q1 was Viad Corp. (VVI, -68%), a small conglomerate with an exhibition/conference services segment (GES) and a travel/hotel/attractions segment (Pursuit). Both of Viad's business segments are directly impacted by COVID-19. GES is experiencing conference and event cancellations and deferrals while Pursuit is expecting cancellations and lower volumes for its hotels and attractions as we move into the important summer season. We estimate Viad has the liquidity required to withstand net losses and potentially no free cash flow in 2020. Furthermore, while recognizing it could take longer for the GES segment to fully rebound, we believe Pursuit's collection of valuable assets in and around North American National Parks are well positioned for a strong rebound during the 2021 high season, especially if consumers favor road travel over air travel. We took no action on the position during the quarter. Another poor performer was Liberty Latin America Ltd. (Cl C) (LILAK, -47%), a provider of broadband, TV, fixed voice, and mobile services in Chile, Puerto Rico, Costa Rica, and the Caribbean. Shares surged when the company announced earnings in mid-February as EBITDA exceeded consensus expectations. However, the stock underperformed during the broad market selloff, perhaps because the company carries leverage of 4.3x (pro-forma for a pending acquisition). The company's broadband, video, and mobile products are essential for entertainment and work as people quarantine at home, which should provide stable cash flows. Additionally, the company does not have a meaningful maturity until 2023 and has $2.3 B in liquidity. The CEO and a director bought shares worth $100,000 and $150,000, respectively, in March. We maintained the position. Another bottom contributor during the quarter was NCR Corp. (NCR, -50%), a provider of software, services, and hardware largely to banks, retail, restaurants, and the hospitality industry. Shares fell sharply during the COVID-19-induced market decline on concerns some of the company's end markets such as restaurants, retail, and hotels would shut down or experience substantial traffic declines. NCR has $1.5 B of liquidity and EBITDA would have to decline -36% from 2019 levels to reach the upper limits of its debt covenants. Six different insiders purchased shares in mid-March.

BJ's Wholesale Club Holdings, Inc. (BJ)
1/1/2020 – 3/31/2020

As described in River Road's 'flash performance updates' published during the quarter, the Small Cap Value team implemented the following three-step plan shortly after the mass outbreak on February 24: 1) put existing cash to work in emerging investment opportunities; 2) reduce exposure to the most 'at-risk' holdings; and 3) replace mostly small, lower conviction positions with higher conviction investments. The result was a record level of activity in the Portfolio during late February and March. In total, 15 new positions were established and 12 were eliminated during the quarter, including two intra-quarter round trips (JBLU and PVAC). New positions were broadly diversified by sector and market cap, representing both higher quality/more defensive investments and a handful of what we believe are attractive 'bounce' candidates.

Kentucky Municipals

Quarterly bond issuance by Kentucky municipalities fell to over $1.3 billion from $1.7 billion in the previous quarter. Competitively awarded deals were $292 million with negotiated deals of $1.044 billion. Deal size was reasonably strong at $26.7 million with 50 new issues in total. Bank-qualified (BQ) issuance was only $80 million or roughly 6% while non-BQ issuance was the majority, coming in at $1.2 billion or 89%.The remaining $66 million (9%) was taxable municipal or AMT-subject issuance. Visible KY supply is strong with $385 million on the calendar in coming months. Issuers of note included Louisville/Jefferson County Metro Government which sold $400 million in health system bonds on behalf of Norton Healthcare Inc. The deal was rated A+ by Fitch and A by S&P. The negotiated sale was timely, pricing in late February and managed by Citigroup and JPMorgan. Proceeds will be used to fund construction, planning, renovation and expansion of hospitals related to the corporation and to purchase a pediatric medical office building in Louisville, according to prospectus.

KY bonds trailed the national market this quarter. The S&P Municipal Bond Kentucky Total Return Index returned -1.24% vs. -0.63% for the Bloomberg Barclays Municipal Index. During the rough stretch in March, these returns were -3.86% vs. -3.63%, respectively. Like the national market, this S&P KY Municipal Index declined over 10% at its trough on March 20th. As discussed in our fixed income commentary, we took advantage of the dislocations in municipals and continue to do so.

Kentucky Legislative Update

Social distancing was being observed by the General Assembly as they met Wednesday to take up the budget bills for the executive, legislative and judicial branches. Sen. Christian McDaniel, R-Taylor Mill, the chairman of the House Appropriations and Revenue Committee, presented the bill on the Senate floor, saying this is an unusual situation. He said the General Assembly has done its best, given the uncertainty of what revenues will be due to the health and economic fallout from the coronavirus pandemic. "As much as we would like to provide a two-year budget, we will not. This will be a one-year budget, which will last until June 30, 2021." The Senate passed every budget bill unanimously before sending the measures on to the Gov. Andy Beshear for his signature. The General Assembly will be in recess until April 13 for the last three days of the session.

Kentucky lawmakers passed a slimmed-down, one-year state budget Wednesday without pay raises for school teachers or increased education funding — priorities that fell victim to the dramatic economic downturn caused by the coronavirus pandemic. The new spending plan reflects state tax collections that are expected to plummet, with many businesses across the state shuttered in an effort to slow the virus's spread. Layoffs have caused filings for unemployment benefits to skyrocket. Missing from the new budget is Beshear's call for a $2,000 pay boost for teachers which was a centerpiece of his campaign when he ousted the Republican incumbent. It fully funds required contributions for public pension systems and features another one-year freeze on contribution rates for regional universities and community social services agencies that faced sharply higher pension costs. Funding is included to cushion the agencies from those higher costs. There were no revenue-generating measures, such as casino gambling or sports gaming. Several lawmakers expressed hope that an economic recovery will be underway by the 2021 session, and that they will have more revenues to spend on the state's needs.

ASSET ALLOCATION OUTLOOK

LAST QUARTER			THIS QUARTER	
WE BELIEVED →	**ACTIONS TAKEN →**	**RESULTS**	**WE BELIEVE →**	**ACTIONS WE ARE TAKING**
DOMESTIC EQUITIES			**DOMESTIC EQUITIES**	
U.S. growth and earnings recovering. Likely to trim some large cap exposure at 19x forward 2020 EPS. Favor EM.	Maintained heavier allocation to large cap. Trimmed large, small and mid-cap early in the quarter and added to EM equities.	**Large Cap -19.6% in 1Q20, Small cap -30.6% and Mid cap -29.7%**	We favor large cap with stronger balance sheets over small/mid-cap until we have greater clarity on treatment, vaccine and re-opening.	Trimmed small and mid-cap weights. Used downturn opportunity to upgrade holdings that were tax constrained.
INTERNATIONAL EQUITIES			**INTERNATIONAL EQUITIES**	
EM manufacturing and economies were improving. Expected U.S. dollar to move slightly lower. Thought developed international may be bottoming.	We increased our EM allocation on further improvement in EM data and dollar weakness.	**International equities (-22.8%) underperformed U.S. large cap (-19.6%), but beat small (-30.6%) and mid-cap (-29.7%). EM (-23.6% also underperformed U.S. large cap, but outperformed U.S. small and mid-cap. CB&T's International basket and EM holding outperformed U.S. large cap (-18.9% and -17.4%, respectively).**	We favor U.S. large cap over both international and EM holdings for the near term. Nevertheless, our selections have outperformed U.S. large mid and small cap equities. Fed action is likely strong dollar near term, but lower in the long term.	We expect to maintain our EM allocation in the near term. We may trim international to add to U.S. large cap.
FIXED INCOME			**FIXED INCOME**	
We believed the Fed would pause for much of 2020, but there was a higher propensity to cut vs. raise rates.	We remained underweight bonds. The Fed cut Fed Fund rates to zero in response to the coronavirus and is actively purchasing a variety of fixed income assets including high yield.	**The BBG Aggregate returned +3.2%, while the High Yield index lost -13.1%. International bonds lost only -0.3% mostly due to the stronger dollar (+1.45% hedged).**	The Fed is deploying unprecedented monetary policy to fight the sudden stop recession. The Fed will keep rates low until the economy makes a robust recovery (24+ months). Returns likely between 1% and 2%.	We made a large overweight allocation to high yield (HY) in late March as yields spread to 10% over treasuries. HY now represents ~1/3 of fixed income exposure using core investment grade bonds as a source of funds. The allocation is already posting mid-single digit returns.
We believed munis were overvalued for most durations. Some parts of the yield curve equated to the highest prices since 1956.	We started to underweight munis.	**Munis underperformed core bonds in the quarter (-0.6% vs. +3.2%).**	Munis sold off sharply to the lowest levels in seven years in March. We think munis are oversold relative to the risks, particularly Fed action to aide states.	We made a large overweight allocation to munis in taxable accounts and taxable munis in non-taxable accounts in late March. The allocation is already posting mid-single digit returns.
ALTERNATIVE ASSETS			**ALTERNATIVE ASSETS**	
We expected a first half volatility spike as the U.S. market looked overextended, but the coronavirus pandemic crisis as a source of volatility was unexpected.	We maintained a 10% allocation to alternative strategies.	**Equity market volatility leapt to levels last seen in the financial crisis over the "sudden stop" global recession. Our alternatives baskets returned between 0.0% and 1.0% vs. -0.6% for the index.**	We believe volatility will remain elevated until a coronavirus vaccine is widely available.	We are maintaining our 10% allocation and continue to focus on strategies with no structural correlation to equities.

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