

# Fixed-Income Investment Strategy

**Michael C. Brilley**

President and Senior Fixed Income Officer  
Sit Fixed Income

Presentation For

**Sit Mutual Fund Shareholder Luncheon**

Edina Country Club  
Edina, Minnesota

October 23, 2017

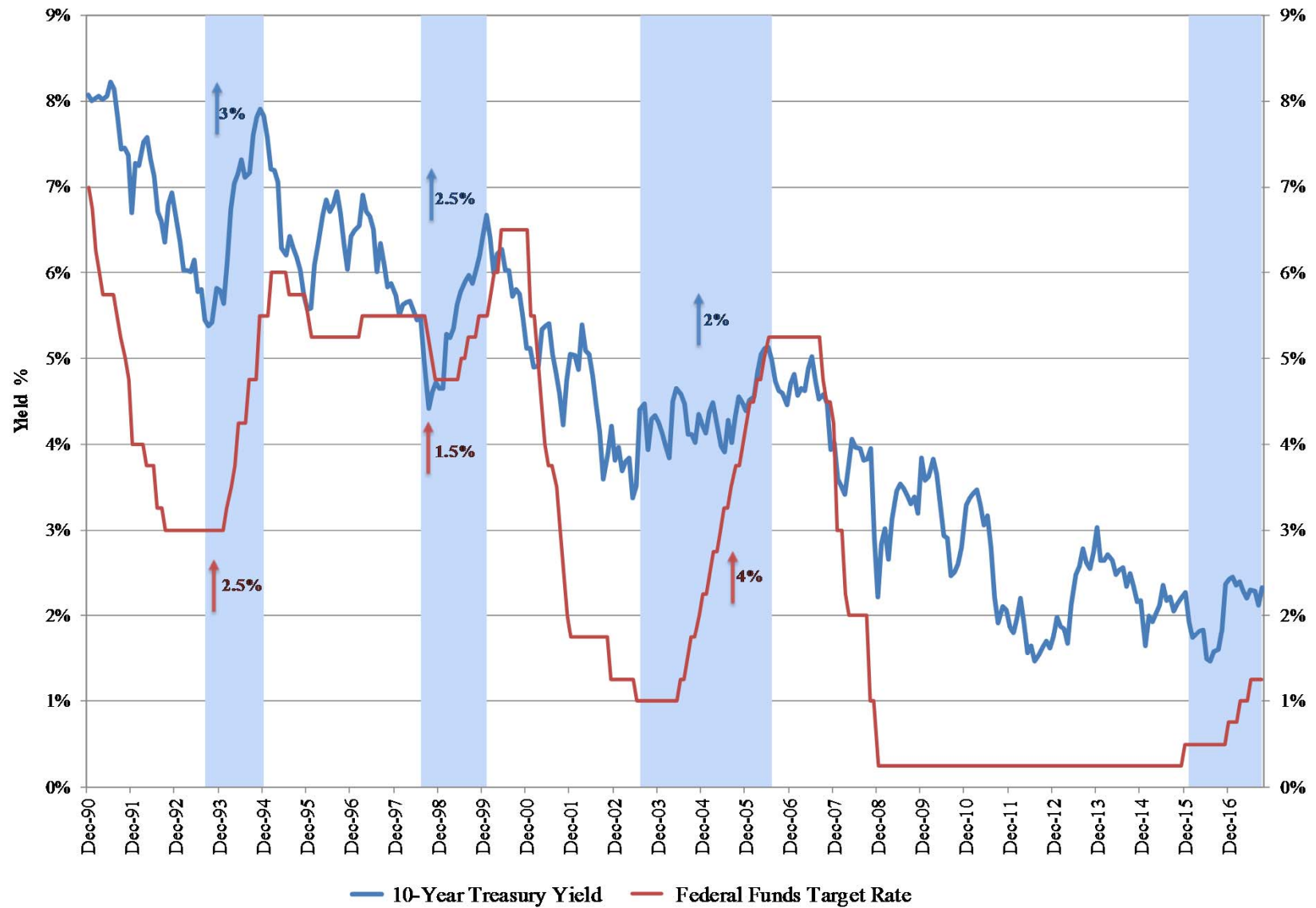


This presentation is intended for use at Sit Mutual Fund shareholder meetings. It must be preceded or accompanied by a prospectus. Carefully consider a Fund's investment objectives, risks, changes, and expenses before investing. The prospectus contains this and other important Fund information and may be obtained by calling 1-800-332-5580 or at [www.sitfunds.com](http://www.sitfunds.com).

---

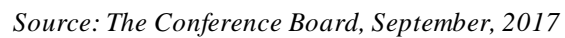
[This page intentionally left blank.]

## 10-YEAR U.S. TREASURY RATES VS. FED FUNDS RATE



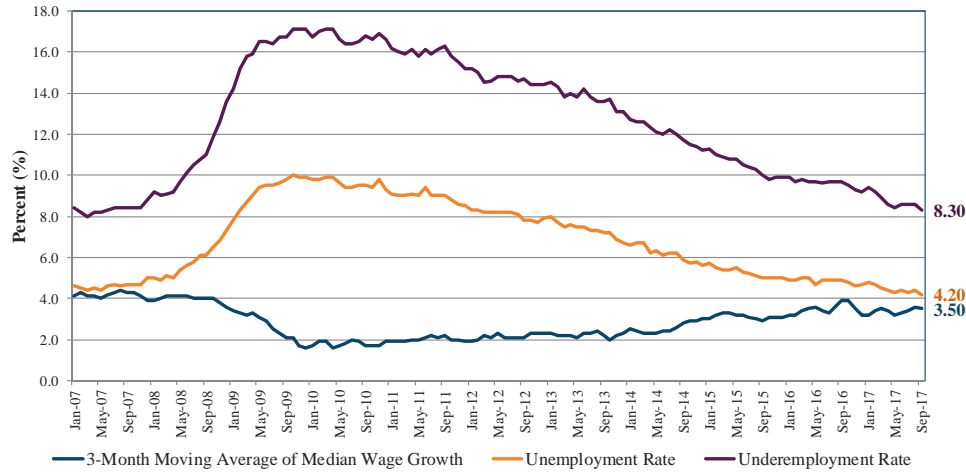
Source: Bloomberg Barclays, September, 2017

## September 2017:128.6



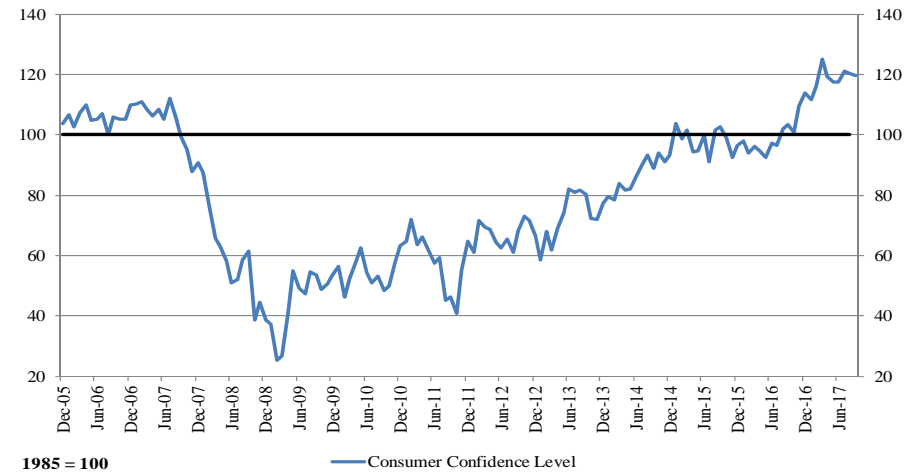
## STATE OF THE CONSUMER

### U.S. Unemployment Rate



Source: frbatlanta.org, U.S. Bureau of Labor Statistics, September 2017

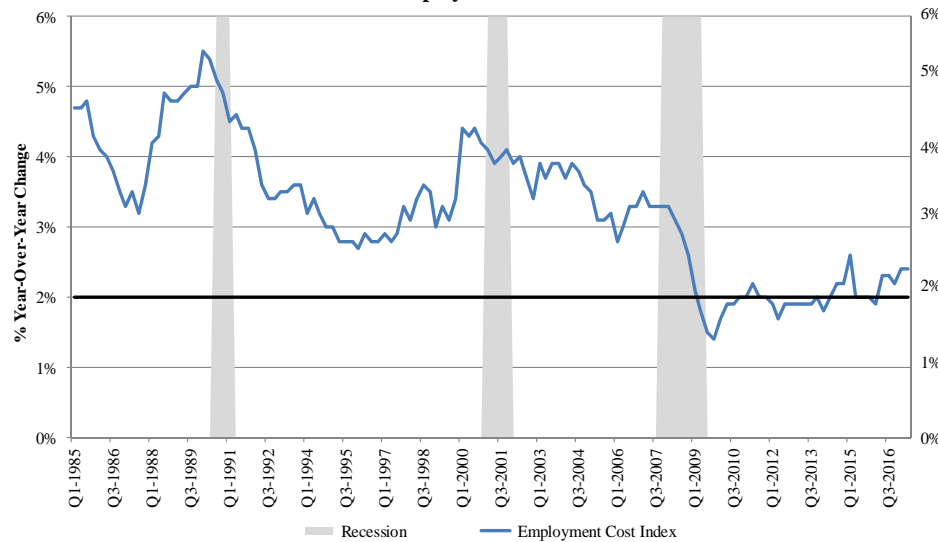
### Consumer Confidence



1985 = 100

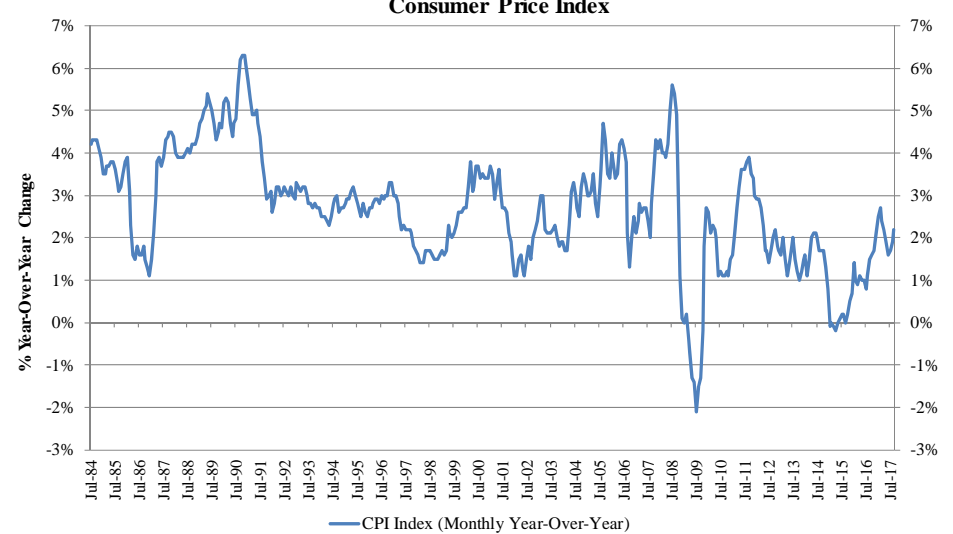
Source: Bloomberg Barclays, September, 2017

### Employment Cost Index



Source: Bloomberg Barclays, June, 2017

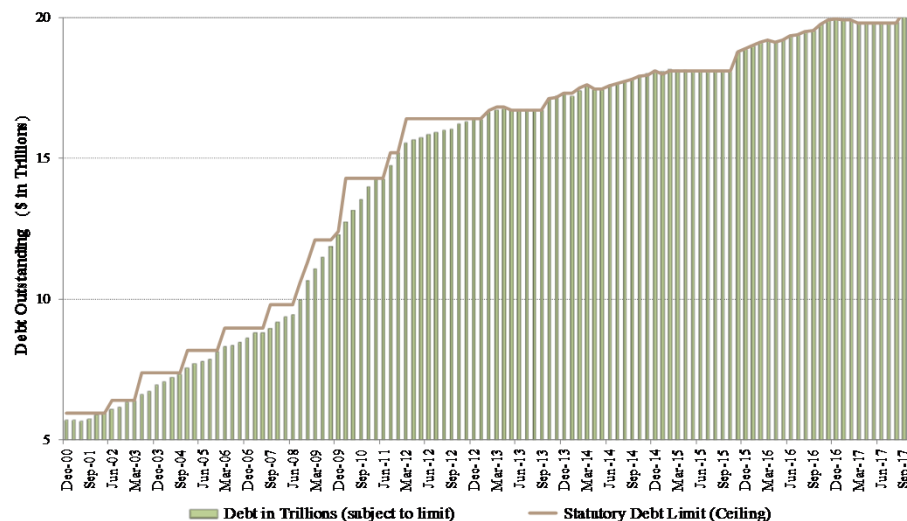
### Consumer Price Index



Source: Bloomberg Barclays, September, 2017

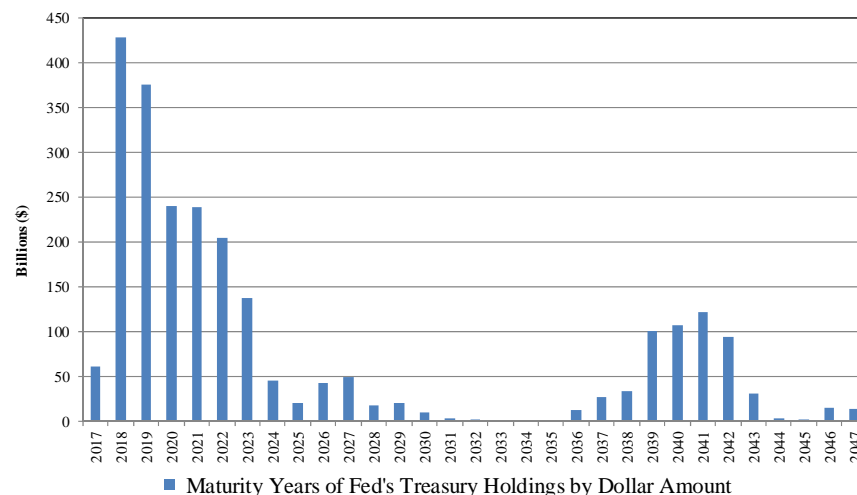
## Federal Debt Outstanding

As of September 30, 2017

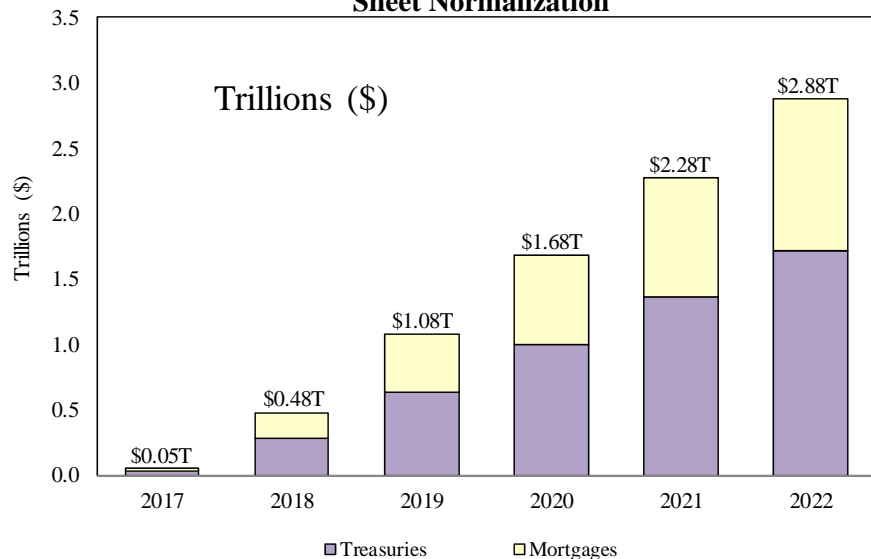


Source: U.S. Department of the Treasury Bureau of the Public Debt

## Fed Treasury Maturity Schedule



## Cumulative Additional Bond Supply from Fed Balance Sheet Normalization

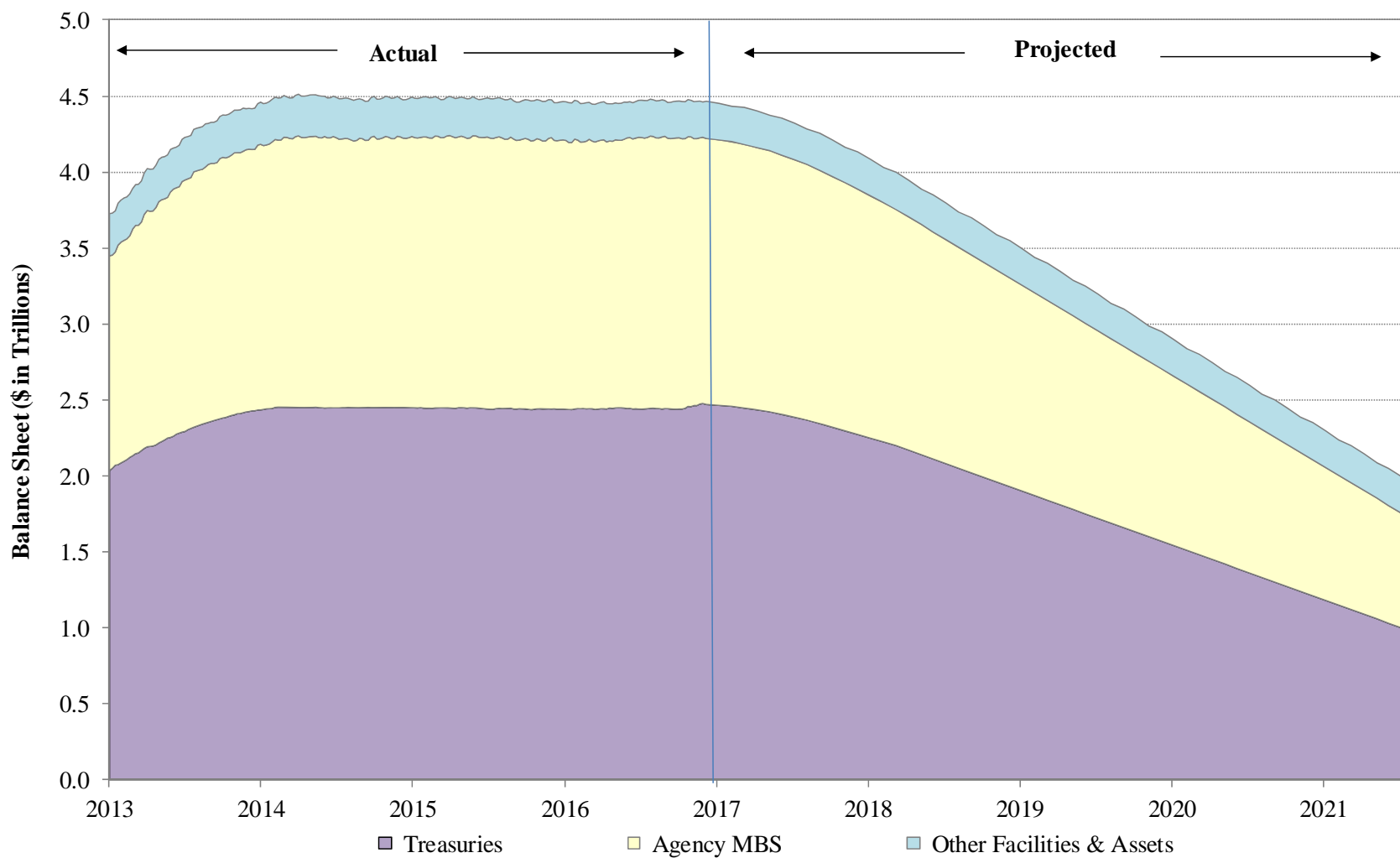


## Treasury Purchases Over the Past Six Months

Treasuries	Total (\$Billions)	% Total	92% of all Treasuries purchased are 2-10 Year Bonds
2-Year	23	22%	
3-Year	12	12%	
5-Year	24	23%	
7-Year	20	19%	
10-Year	15	15%	
30-Year	9	8%	
	103	100%	

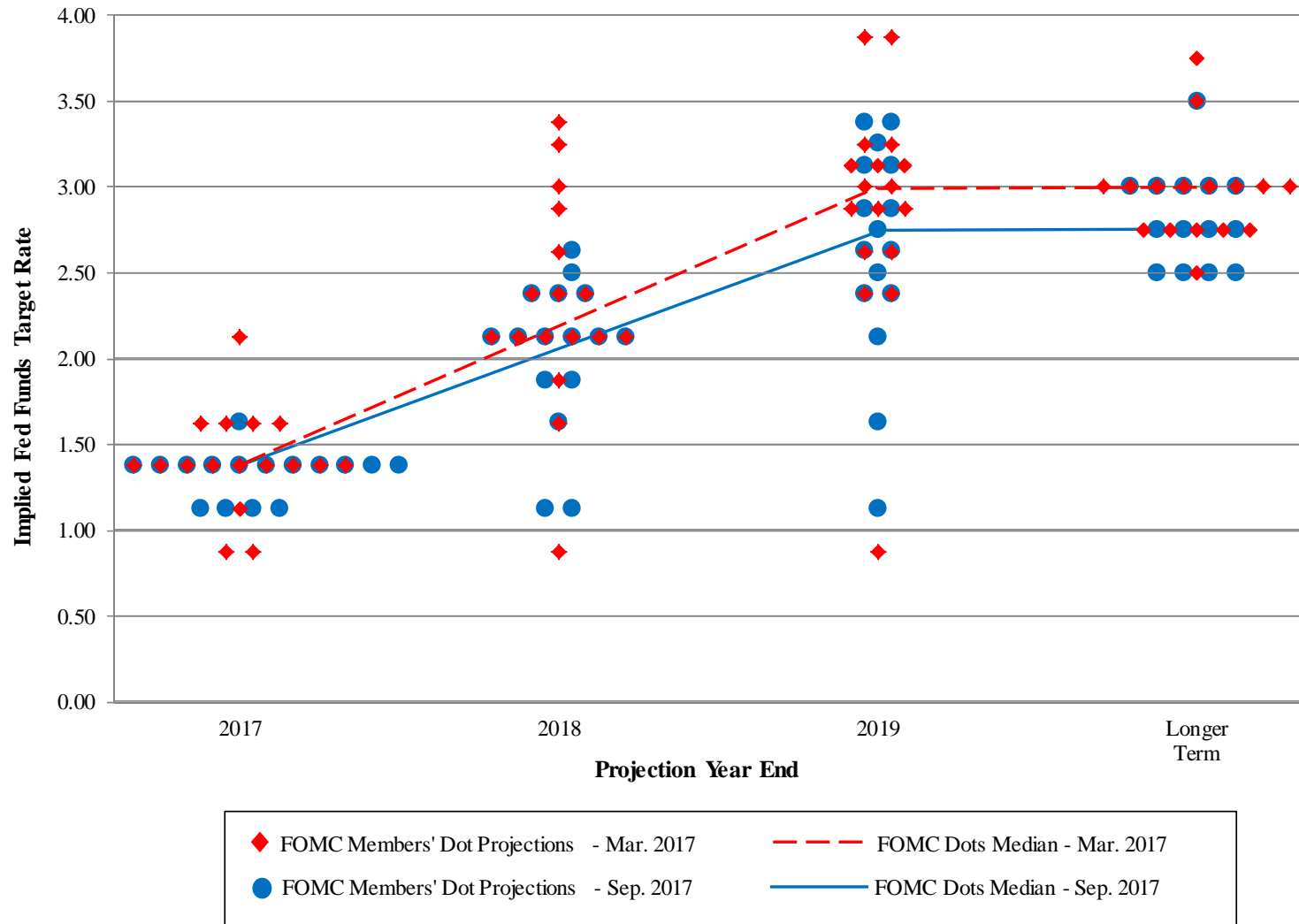
## FEDERAL RESERVE BALANCE SHEET

As of August 23, 2017



Source: Actual - Congressional Budget Office; Projected - Sit Investment Associates based on CBO guidance from long-term budget projections.

## IMPLIED FED FUNDS TARGET RATE MARCH 2017 VS. SEPTEMBER 2017 FOMC MEETINGS

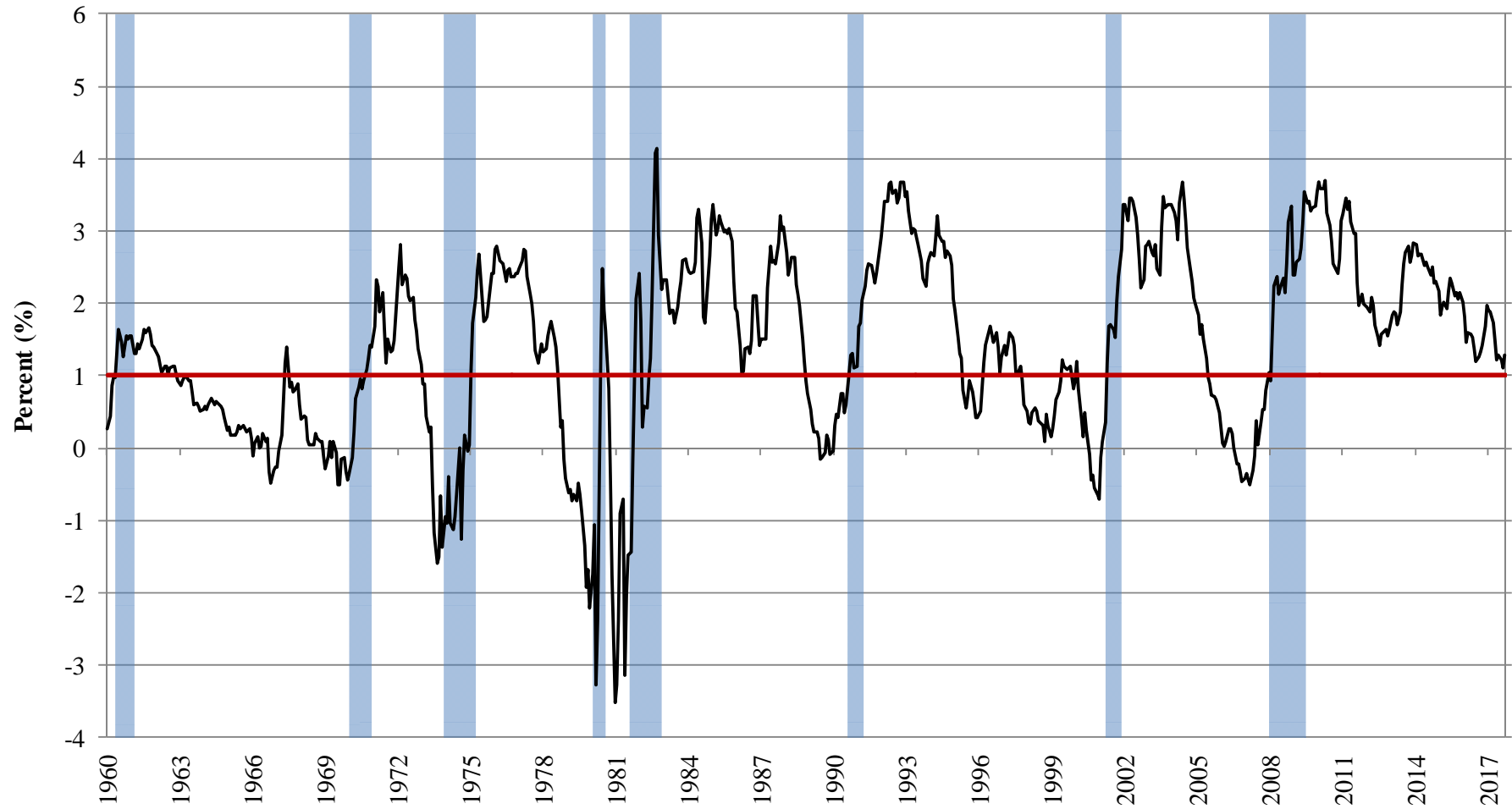


Source: Bloomberg & Federal Reserve September 2017



---

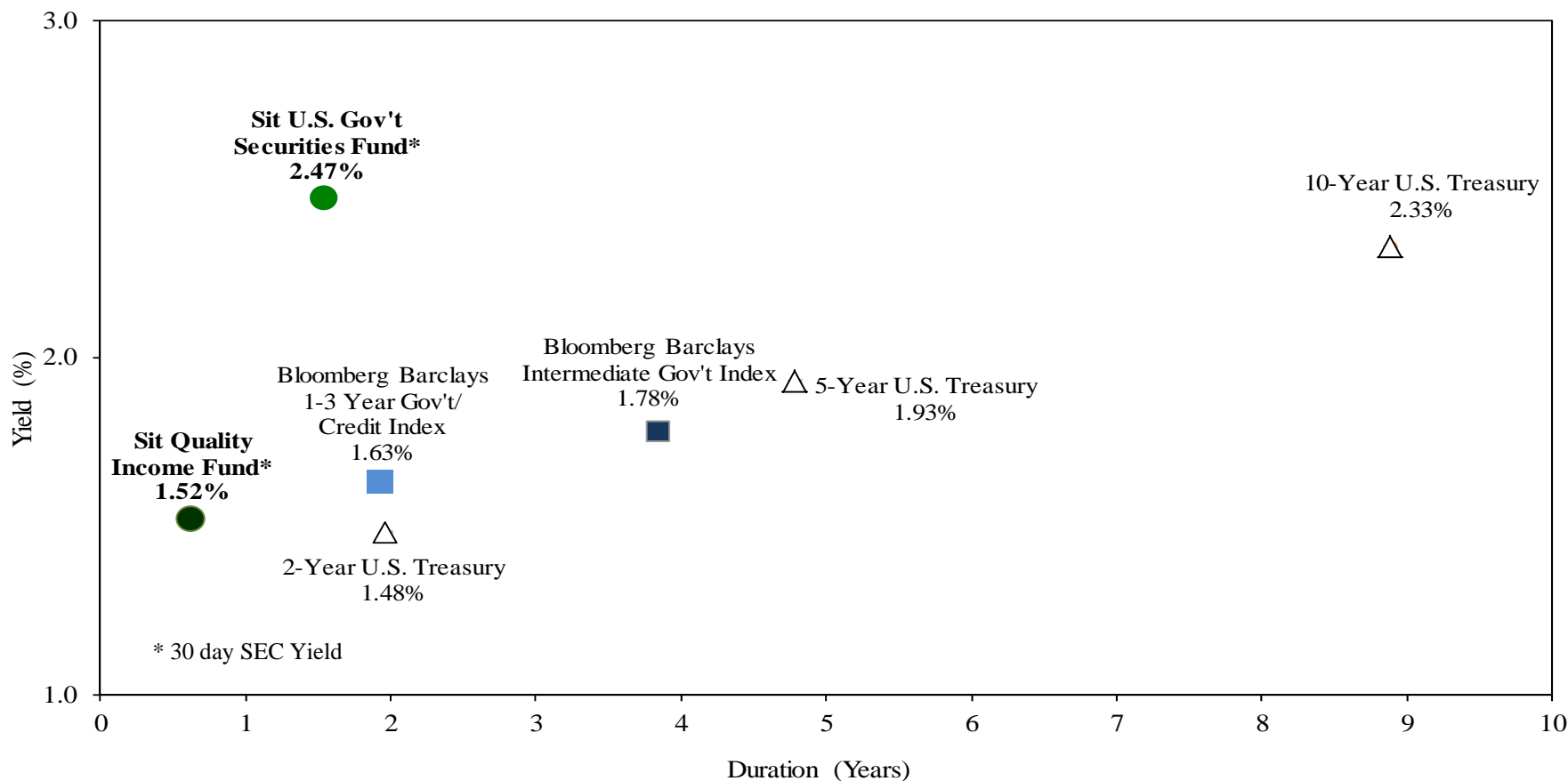
**TREASURY SPREAD: 10-YEAR BOND RATE – 3-MONTH BILL RATE**  
**MONTHLY AVERAGE (PERCENT)**



Source: [newyorkfed.org](http://newyorkfed.org)

## TAXABLE BOND AND MUTUAL FUND YIELDS AND DURATIONS

As of September 30, 2017

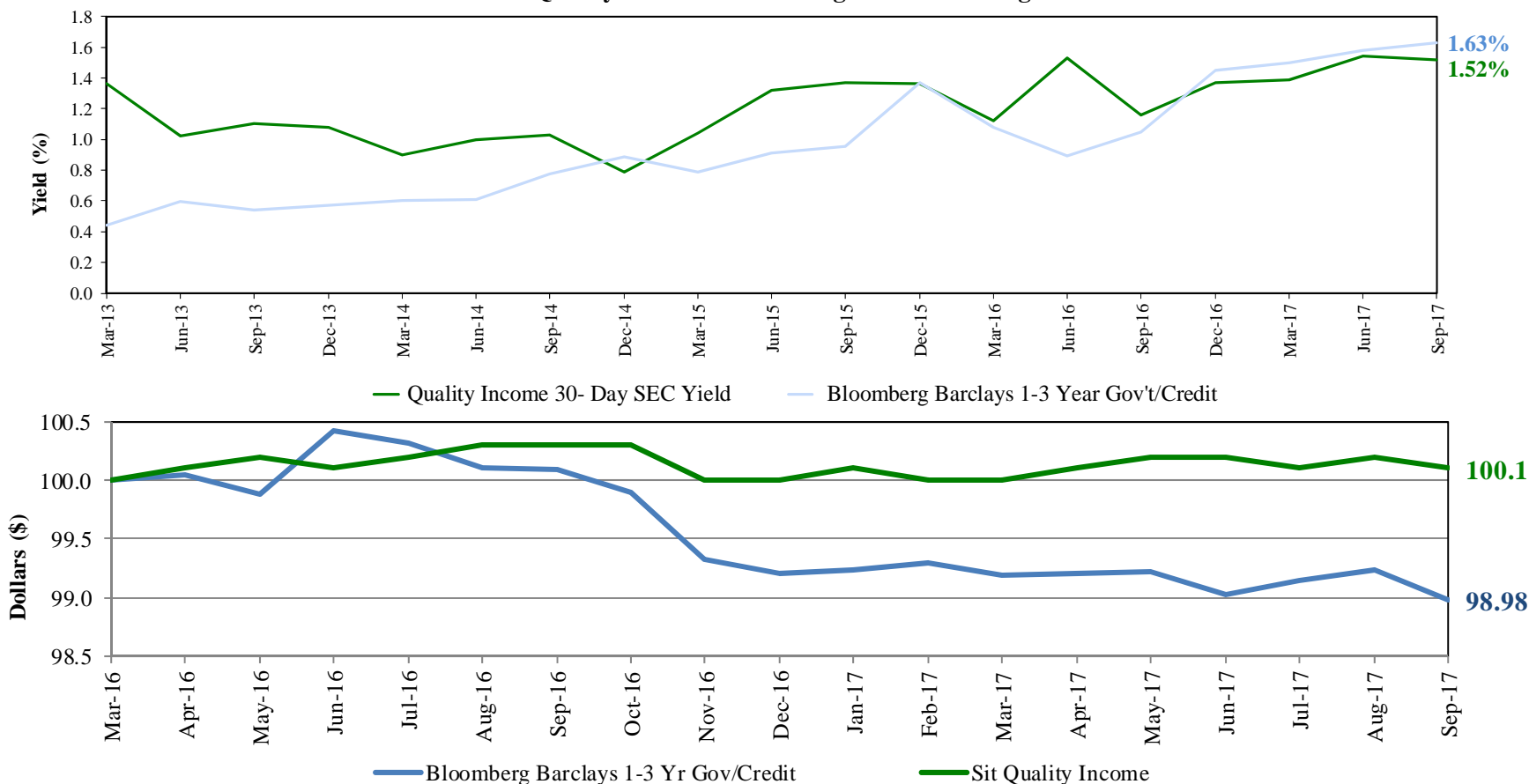


	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Since Inception</u>
Sit Quality Income Fund (SQIFX)	0.8	0.5	n/a	n/a	0.6
Sit U.S. Government Securities Fund (SNGVX)	-0.2	1.2	0.6	2.9	5.3

Performance figures are historical and do not guarantee future results. Investment returns and principal value will vary, and you may have a gain or loss when you sell shares. Current performance may be lower or higher than the performance data quoted. Contact the Fund for performance data current to the most recent month-end. Returns include changes in share prices as well as reinvestment of all dividends and capital gains. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Management fees and administrative expenses are included in the Fund's performance. Returns for periods greater than one year are compounded average annual rates of return. Please refer to the disclosure section for important information regarding risk and expenses on page 17.

## SIT QUALITY INCOME FUND VS. BENCHMARK YIELD AND PRICE COMPARISON

Sit Quality Income Fund Average Yield Advantage 0.25%



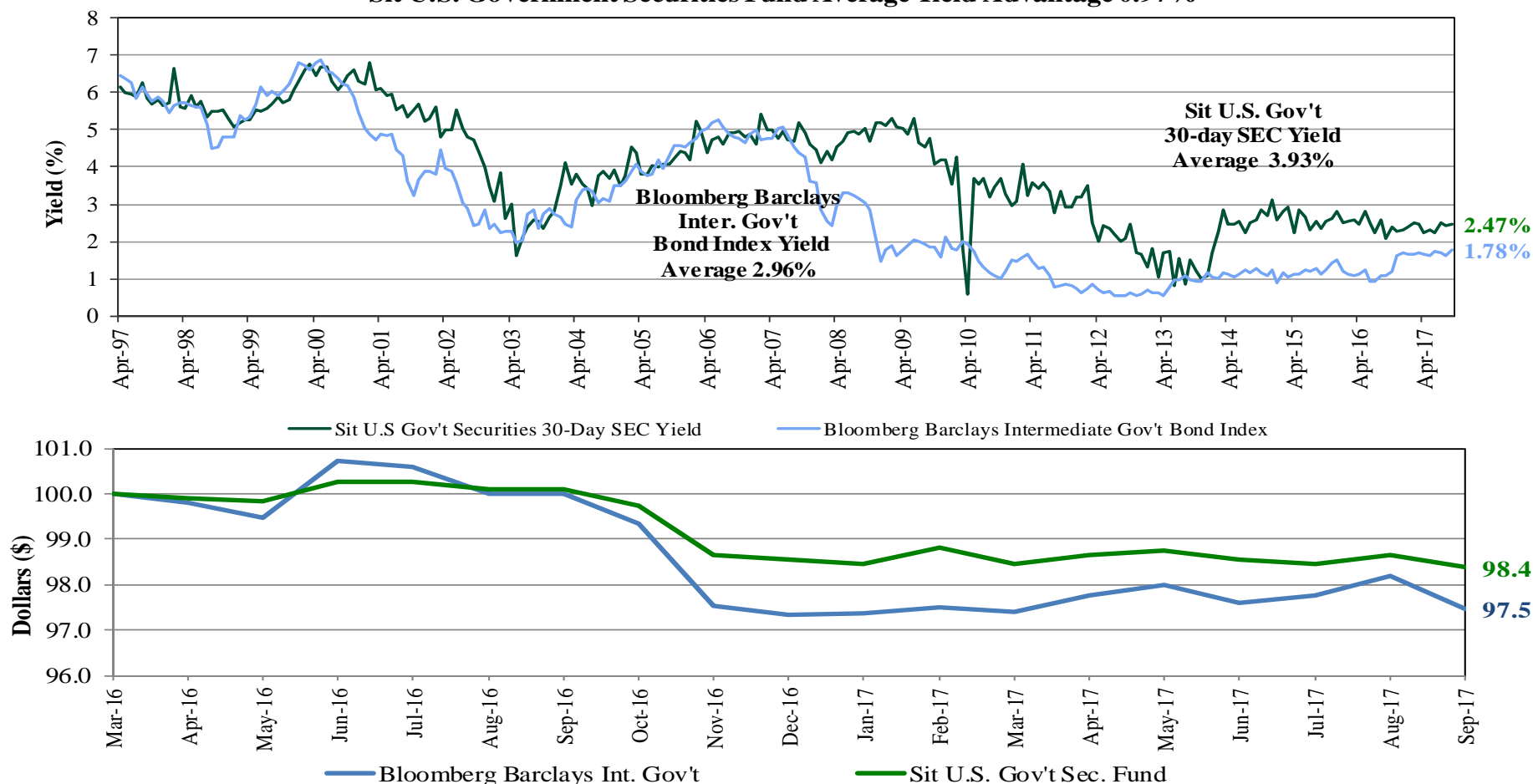
Average Annual Total Returns (%) as of September 30, 2017

	1 Year	3 Year	5 Year	Since Incept. (12/31/12)
Sit Quality Income Fund (SQIFX)	0.8	0.5	N/A	0.6
Bloomberg Barclays 1-3 Yr Gov't/Credit Index	0.7	1.1	N/A	0.9

Performance figures are historical and do not guarantee future results. Investment returns and principal value will vary, and you may have a gain or loss when you sell shares. Current performance may be lower or higher than the performance data quoted. Contact the Fund for performance data current to the most recent month-end. Returns include changes in share prices as well as reinvestment of all dividends and capital gains. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Management fees and administrative expenses are included in the Fund's performance. Returns for periods greater than one year are compounded average annual rates of return. Please refer to the disclosure section for important information regarding risk and expenses on page 17.

## SIT U.S. GOVERNMENT SECURITIES FUND VS. BENCHMARK YIELD AND PRICE COMPARISON

Sit U.S. Government Securities Fund Average Yield Advantage 0.97%



### Average Annual Total Returns (%) as of September 30, 2017

Sit U.S. Government Securities Fund (SNGVX)

1 Year

3 Year

5 Year

10 Year

Since Inception

-0.2

1.2

0.6

2.9

5.3

Bloomberg Barclays Intermediate Government Bond Index

-0.7

1.6

1.0

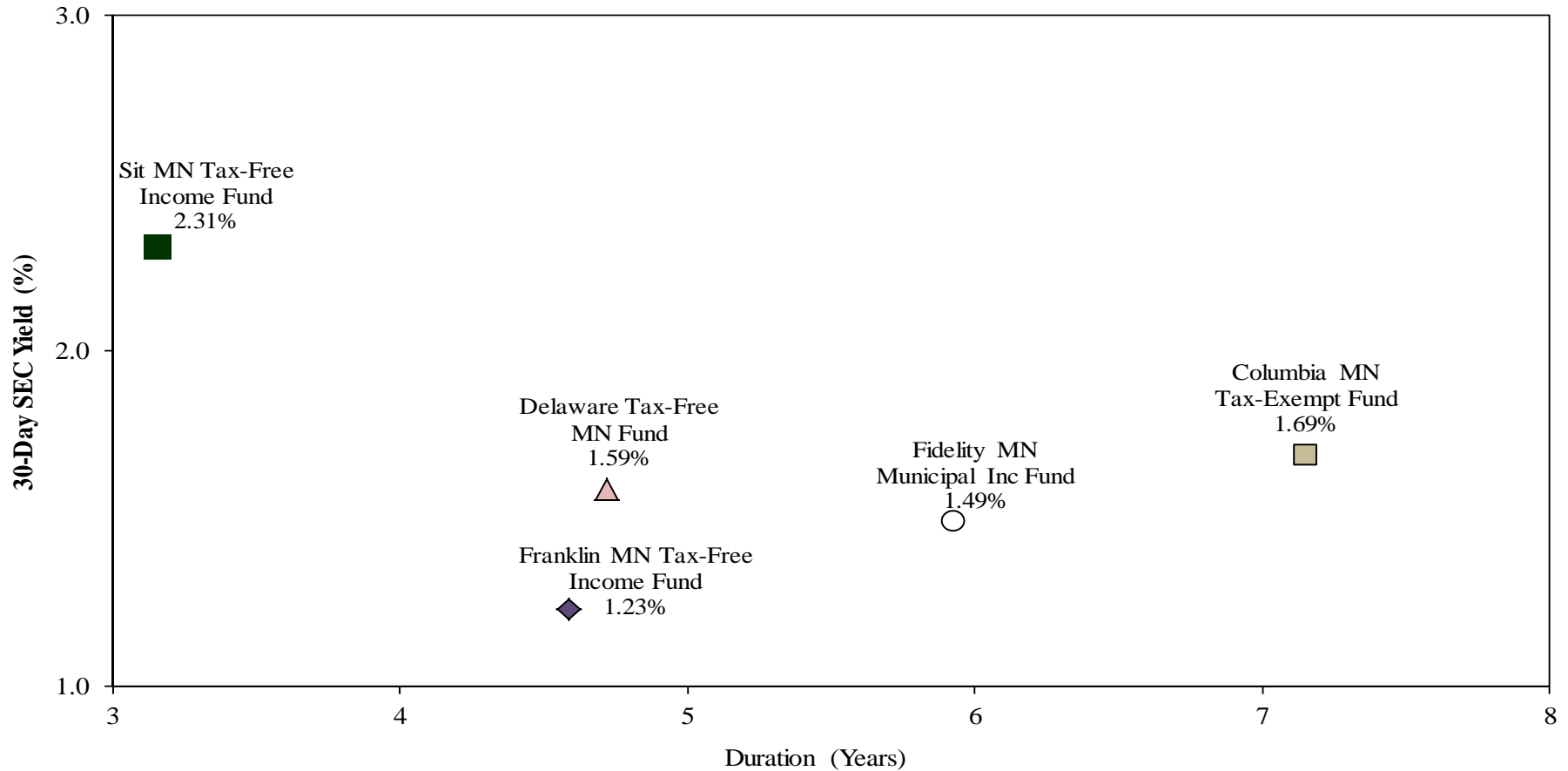
3.1

5.5

Performance figures are historical and do not guarantee future results. Investment returns and principal value will vary, and you may have a gain or loss when you sell shares. Current performance may be lower or higher than the performance data quoted. Contact the Fund for performance data current to the most recent month-end. Returns include changes in share prices as well as reinvestment of all dividends and capital gains. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Management fees and administrative expenses are included in the Fund's performance. Returns for periods greater than one year are compounded average annual rates of return. Please refer to the disclosure section for important information regarding risk and expenses on page 17.

## FIVE LARGEST MINNESOTA MUTUAL FUNDS' YIELDS AND DURATION

As of September 30, 2017



### Average Annual Total Returns (%) as of September 30, 2017

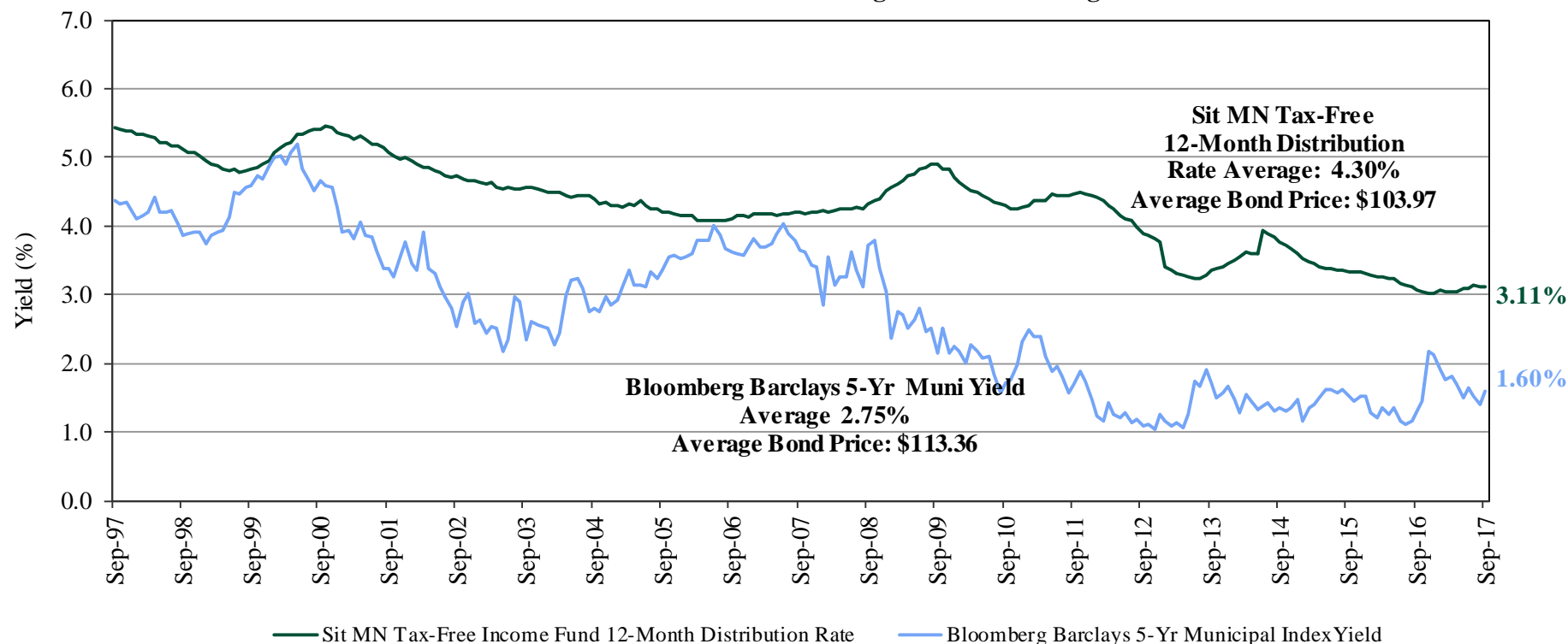
	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Since Inception</u>
Sit MN Tax-Free Income Fund (SMTFX)	0.4	3.1	3.0	4.4	4.7
Bloomberg Barclays 5-Year Municipal Bond Index	1.1	2.0	1.9	3.8	4.4

Performance figures are historical and do not guarantee future results. Investment returns and principal value will vary, and you may have a gain or loss when you sell shares. Current performance may be lower or higher than the performance data quoted. Contact the Fund for performance data current to the most recent month-end. Returns include changes in share prices as well as reinvestment of all dividends and capital gains. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Management fees and administrative expenses are included in the Fund's performance. Returns for periods greater than one year are compounded average annual rates of return. Please refer to the disclosure section for important information regarding risk and expenses on page 17.

## SIT MN TAX-FREE INCOME FUND VS. BLOOMBERG BARCLAYS 5-YR MUNICIPAL INDEX

September 30, 1997 – September 30, 2017

Sit MN Tax-Free Income Fund Average Income Advantage 1.55%



Average Annual Total Returns (%) as of September 30, 2017	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Since Inception</u>
Sit MN Tax-Free Income Fund (SMTFX)	0.4	3.1	3.0	4.4	4.7
Bloomberg Barclays 5-Year Municipal Bond Index	1.1	2.0	1.9	3.8	4.4

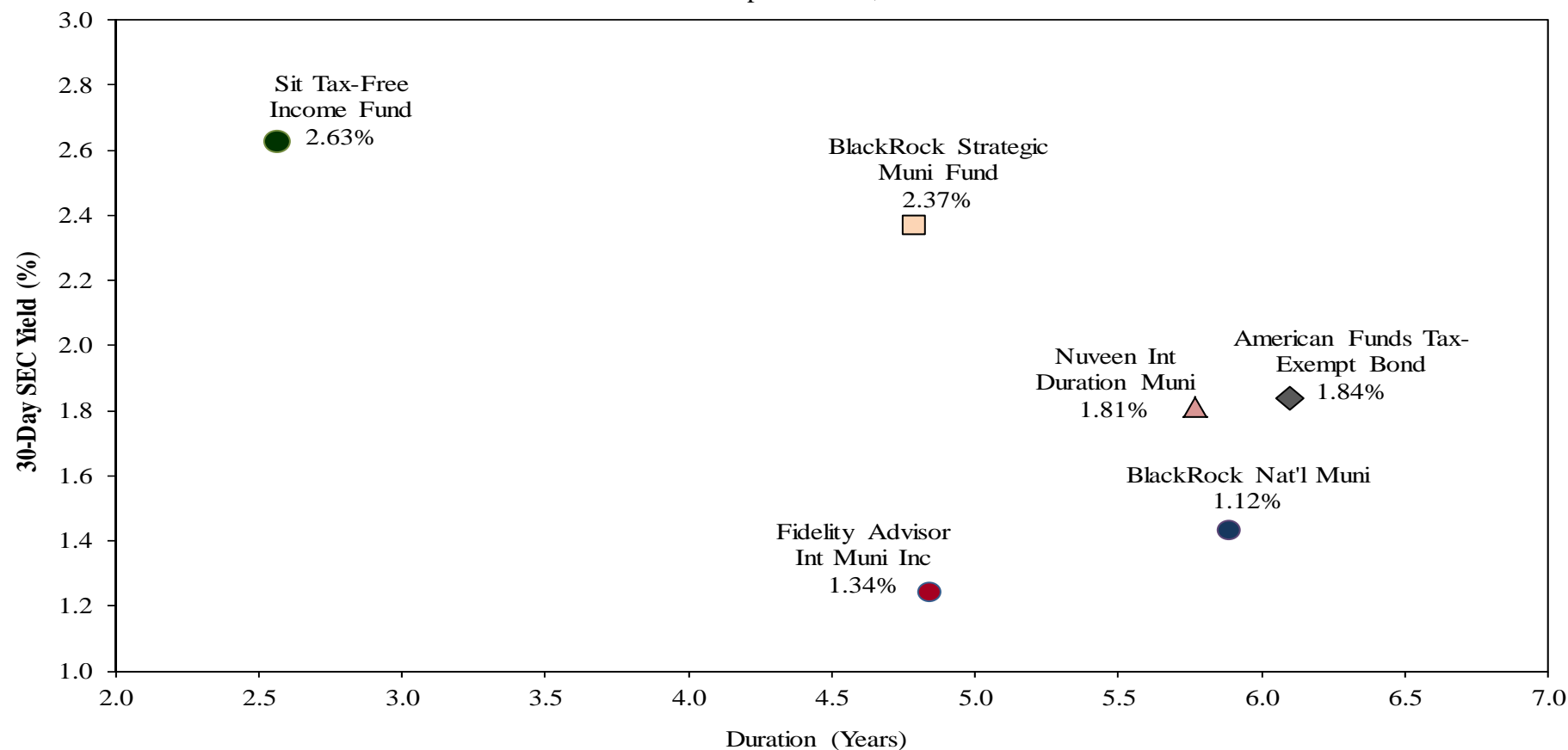
Performance figures are historical and do not guarantee future results. Investment returns and principal value will vary, and you may have a gain or loss when you sell shares. Current performance may be lower or higher than the performance data quoted. Contact the Fund for performance data current to the most recent month-end. Returns include changes in share prices as well as reinvestment of all dividends and capital gains. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Management fees and administrative expenses are included in the Fund's performance. Returns for periods greater than one year are compounded average annual rates of return. Please refer to the disclosure section for important information regarding risk and expenses on page 17.

## SIT MINNESOTA TAX-FREE INCOME FUND PORTFOLIO CHARACTERISTICS

QUALITY	<u>12/31/06</u>	<u>12/31/07</u>	<u>12/31/08</u>	<u>12/31/09</u>	<u>12/31/10</u>	<u>12/31/11</u>	<u>12/31/12</u>	<u>12/31/13</u>	<u>12/31/14</u>	<u>12/31/15</u>	<u>12/31/16</u>	<u>9/30/17</u>
AAA	19.6%	17.0%	9.8%	8.2%	6.8%	7.7%	7.1%	5.9%	4.6%	6.5%	4.4%	4.0%
AA	10.7	8.1	16.8	18.7	19.1	22.6	19.7	22.4	22.2	24.5	30.2	28.4
A	10.9	13.5	15.8	16.9	18.8	17.3	16.3	20.8	20.7	20.4	20.0	19.0
BBB	13.4	17.4	15.5	15.8	15.6	15.8	12.0	13.0	10.2	7.9	7.8	9.7
<BBB	2.6	3.1	3.1	1.3	1.8	0.6	1.2	1.0	1.4	3.6	5.7	5.6
CASH EQUIVALENTS	5.2	3.3	1.2	5.0	3.1	3.5	10.2	2.2	9.1	7.8	2.3	6.1
<b>PERCENT RATED</b>	62.4%	62.4%	62.2%	65.9%	65.2%	67.5%	66.5%	65.3%	68.2%	70.7%	70.4%	72.8%
<b>NON-RATED (SIT INTERNAL RATINGS)</b>												
(AAA)	1.7	0.5	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(AA)	1.0	1.0	1.0	0.4	2.7	3.0	1.8	2.6	2.0	1.2	0.0	0.7
(A)	9.3	7.6	7.5	7.7	3.7	3.0	1.2	0.9	0.8	0.4	0.3	1.0
(BBB)	17.8	19.1	18.2	15.8	14.4	13.9	11.7	10.0	7.8	8.0	8.7	5.6
(BB)	7.8	9.4	11.1	10.2	13.0	12.6	18.8	21.2	21.2	19.7	20.6	19.9
<b>PERCENT NON-RATED</b>	37.6%	37.6%	37.8%	34.1%	34.8%	32.5%	33.5%	34.7%	31.8%	29.3%	29.6%	27.2%
<b>TOTAL PORTFOLIO</b>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>AVERAGE RATING</b>	A2 / A	A2 / A	A3/A-	A2 / A	A3 / A-	A2 / A	A2 / A	A3 / A-	A2 / A	A3 / A-	A3/A-	A3/A-
<b>PORTFOLIO COMPOSITION</b>												
HOUSING	27.2%	28.9%	32.1%	32.5%	34.1%	34.4%	31.0%	39.1%	36.4%	36.6%	36.7%	34.8%
SINGLE FAMILY	4.6	7.5	12.2	14.6	12.4	17.3	12.5	17.6	16.6	15.8	15.6	14.7
MULTI FAMILY	22.6	21.4	19.9	17.9	21.7	17.1	18.5	21.5	19.8	20.8	21.0	20.1
HOSPITAL	21.5	25.1	25.5	22.1	20.1	19.1	17.2	16.4	16.2	14.9	17.2	17.0
OTHER REVENUE	8.7	9.7	9.9	11.4	13.4	13.1	12.7	13.3	10.9	10.9	9.2	8.3
EDUCATION	9.2	12.4	11.0	10.5	10.5	11.5	11.1	11.6	11.0	11.7	14.3	13.9
UTILITIES	0.8	3.8	6.4	5.3	7.2	5.6	5.0	4.8	5.2	4.2	4.8	4.3
INSURED	8.7	5.2	4.9	3.7	3.6	3.0	2.8	1.1	1.7	1.3	0.5	0.5
LEASES	3.3	2.5	2.4	2.2	2.5	2.9	4.2	4.3	4.5	4.8	7.0	6.8
IDR/PCR	5.7	2.7	3.5	2.7	2.6	2.1	1.3	1.2	0.3	0.2	0.2	0.2
ESC. TO MAT/PRE REF	6.6	4.3	0.3	2.1	0.0	0.0	0.3	1.4	0.9	3.3	1.9	2.3
MUTUAL FUNDS	0.0	1.0	0.8	0.9	0.8	0.8	1.0	1.7	1.4	1.3	1.3	1.3
GENERAL OBLIGATION	2.4	0.6	1.5	0.8	0.5	2.5	2.2	2.0	1.5	2.7	4.0	4.0
INSURED - G.O.	0.2	0.1	0.0	0.4	1.0	1.0	0.7	0.7	0.6	0.1	0.1	0.1
PUBLIC FACILITIES	0.5	0.4	0.5	0.4	0.6	0.5	0.3	0.3	0.3	0.2	0.5	0.5
CASH EQUIVALENTS	5.2	3.3	1.2	5.0	3.1	3.5	10.2	2.1	9.1	7.8	2.3	6.0
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>STATED MATURITY (Yrs)</b>	14.0	15.5	14.6	14.7	15.4	16.1	14.5	16.6	15.3	15.2	16.5	15.5
<b>WEIGHTED AVG CPN</b>	5.4	5.3	5.3	5.1	5.4	5.2	4.6	5.0	4.5	4.5	4.7	4.4
<b>WEIGHTED AVG PRICE</b>	102.9	98.5	84.3	97.1	95.7	100.9	104.2	97.0	103.5	103.9	102.0	104.0
<b>DURATION TO AVERAGE LIFE (Yrs)</b>	4.2	4.9	5.1	4.9	5.5	5.4	4.2	5.4	4.7	4.8	5.8	3.2

## FIVE LARGEST NATIONAL FUNDS' YIELD AND DURATION COMPARED TO SIT TAX-FREE INCOME FUND

As of September 30, 2017



### Average Annual Total Returns (%) as of September 30, 2017

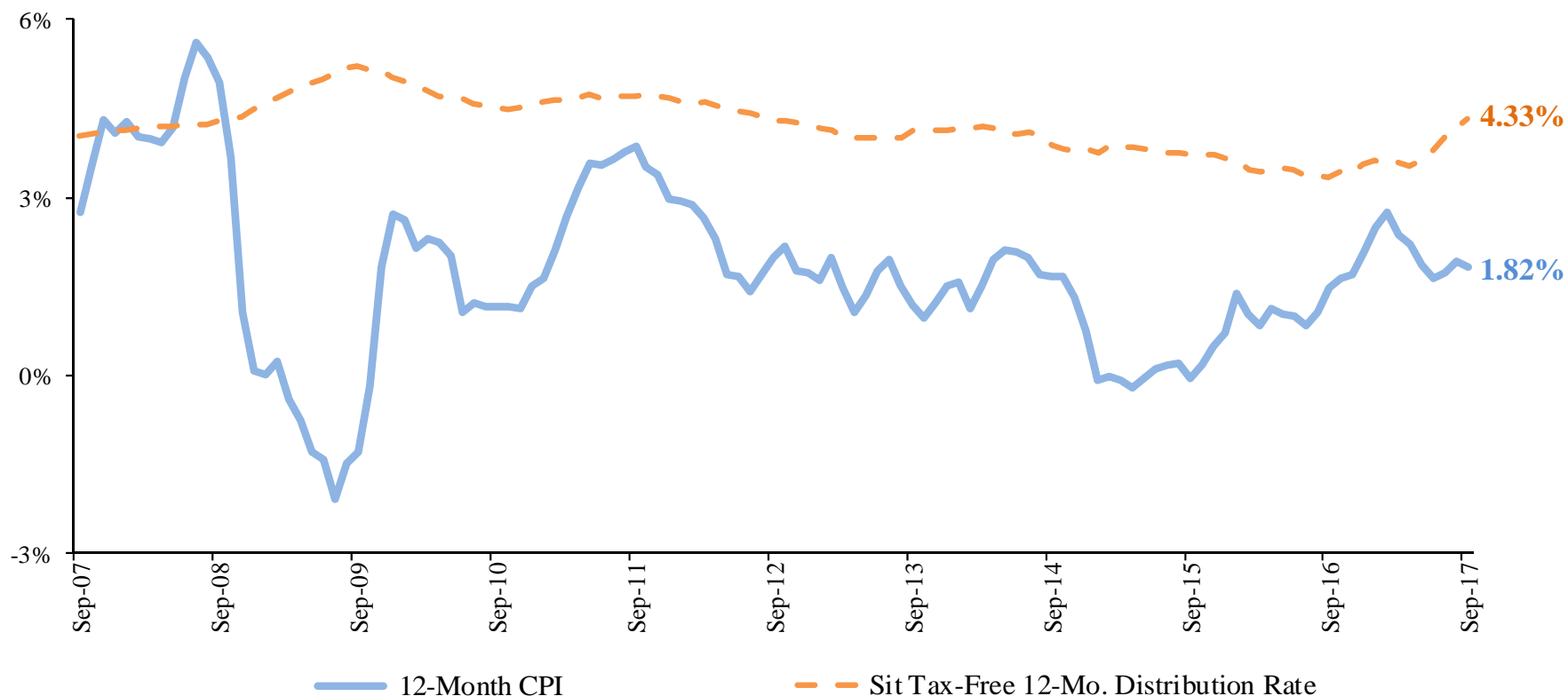
	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Since Inception</u>
Sit Tax-Free Income Fund (SNTIX)	1.2	4.2	4.0	4.4	5.3
Bloomberg Barclays 5-Year Municipal Index	1.1	2.0	1.9	3.8	4.4

Performance figures are historical and do not guarantee future results. Investment returns and principal value will vary, and you may have a gain or loss when you sell shares. Current performance may be lower or higher than the performance data quoted. Contact the Fund for performance data current to the most recent month-end. Returns include changes in share prices as well as reinvestment of all dividends and capital gains. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Management fees and administrative expenses are included in the Fund's performance. Returns for periods greater than one year are compounded average annual rates of return. Please refer to the disclosure section for important information regarding risk and expenses on page 17.



## SIT TAX-FREE INCOME FUND 12-MONTH DISTRIBUTION RATE

September 30, 2007 – September 30, 2017



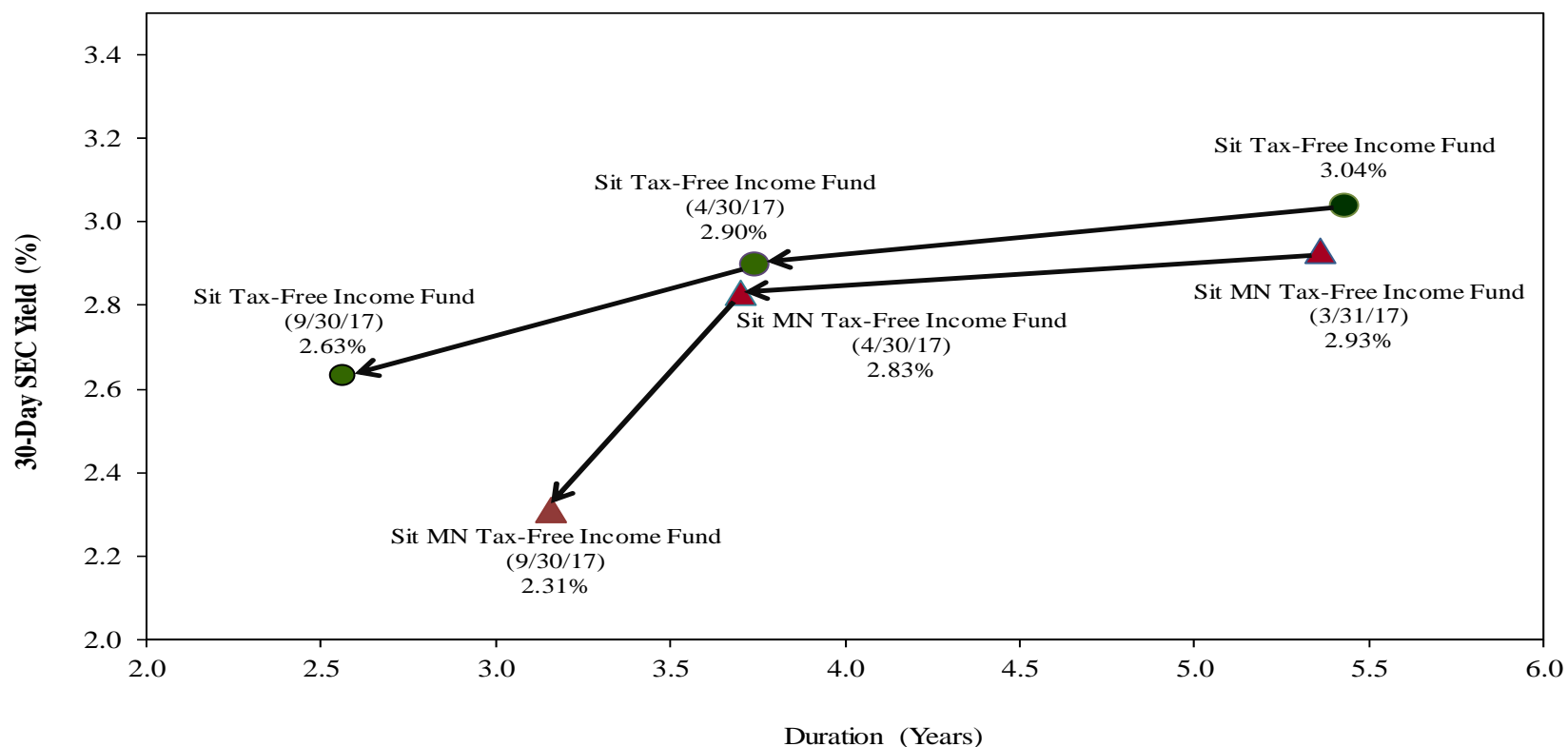
### Average Annual Total Returns (%) as of September 30, 2017

Source: U.S. Consumer Price Index Urban Consumers NSA

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Since Inception</u>
Sit Tax-Free Income Fund (SNTIX)	1.2	4.2	4.0	4.4	5.3
Bloomberg Barclays 5-Year Municipal Index	1.1	2.0	1.9	3.8	4.4

Performance figures are historical and do not guarantee future results. Investment returns and principal value will vary, and you may have a gain or loss when you sell shares. Current performance may be lower or higher than the performance data quoted. Contact the Fund for performance data current to the most recent month-end. Returns include changes in share prices as well as reinvestment of all dividends and capital gains. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Management fees and administrative expenses are included in the Fund's performance. Returns for periods greater than one year are compounded average annual rates of return. Please refer to the disclosure section for important information regarding risk and expenses on page 17. This information must be preceded or accompanied by a prospectus.

## TAX-FREE INCOME FUNDS' YIELDS AND DURATIONS MARCH VS. SEPTEMBER



### Average Annual Total Returns (%) as of September 30, 2017

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Since Inception</u>
Sit Minnesota Tax-Free Income Fund (SMTFX)	0.4	3.1	3.0	4.4	4.7
Sit Tax-Free Income Fund (SNTIX)	1.2	4.2	4.0	4.4	5.3
Bloomberg Barclays 5-Year Municipal Index	1.1	2.0	1.9	3.8	4.4

Performance figures are historical and do not guarantee future results. Investment returns and principal value will vary, and you may have a gain or loss when you sell shares. Current performance may be lower or higher than the performance data quoted. Contact the Fund for performance data current to the most recent month-end. Returns include changes in share prices as well as reinvestment of all dividends and capital gains. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Management fees and administrative expenses are included in the Fund's performance. Returns for periods greater than one year are compounded average annual rates of return. Please refer to the disclosure section for important information regarding risk and expenses on page 17.

---

## DISCLOSURES

Performance figures are historical and do not guarantee future results. Investment returns and principal value will vary, and you may have a gain or loss when you sell shares. Current performance may be lower or higher than the performance data quoted. Contact the Fund for performance data current to the most recent month-end. Returns include changes in share price as well as reinvestment of all dividends and capital gains. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Management fees and administrative expenses are included in the Fund's performance. Returns for periods greater than one year are compounded average annual rates of return.

Carefully consider the Fund's investment objectives, risks, charges and expenses before investing. The prospectus contains this and other important Fund information and may be obtained by calling Sit Mutual Funds at 1-800-332-5580 or at [www.sitfunds.com](http://www.sitfunds.com). Read the prospectus carefully before investing.

Fund holdings, sector allocations (as % of market value) and portfolio characteristics may change at any time and are not investment recommendations.

The **Bloomberg Barclays Intermediate Government Index** is a sub-index of the Barclays Government Bond Index covering issues with remaining maturities of between three and five years. **The Bloomberg Barclays Government Bond Index** is an index that measures the performance of all public U.S. government obligations with remaining maturities of one year or more. **The Bloomberg Barclays 1-3 Year U.S. Government/Credit Index** includes all medium and larger issues of U.S. government, investment-grade corporate, and investment-grade international dollar-denominated bonds that have maturities of between 1 and 3 years and are publicly issued. **The Bloomberg Barclays 5-Year Municipal Bond Index** is an unmanaged index of long-term, fixed-rate, investment-grade, tax-exempt bonds representative of the municipal bond market and is the 5-year (4-6) component of the Bloomberg Barclays Municipal Bond Index. **The Bloomberg Barclays Municipal Index** is an unmanaged index considered representative of the tax-exempt bond market. The index returns include the reinvestment of income and do not include any transaction costs, management fees or other costs. It is not possible to invest directly in an index.

---

## DISCLOSURES - CONTINUED

**Duration** is a measure of estimated price sensitivity relative to changes in interest rates. Portfolios with longer durations are typically more sensitive to changes in interest rates. For example, if interest rates rise by 1%, the market value of a security with an effective duration of 5 years would decrease by 5%, with all other factors being constant. The correlation between duration and price sensitivity is greater for securities rates investment-grade than it is for securities rated below investment-grade. Duration estimates are based on assumptions by Sit Investment and are subject to a number of limitations. **Effective duration** is calculated based on historical price changes of securities held by the Fund, and therefore is a more accurate estimate of price sensitivity provided interest rates remain within their historical range.

Investment in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Mortgage-backed securities involve risk of loss due to prepayments and defaults.

### Average Annual Total Returns (%) as of September 30, 2017

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Since Inception</u>
<b><u>Taxable</u></b>					
Sit U.S. Government Securities Fund (SNGVX)	-0.2	1.2	0.6	2.9	5.3
Bloomberg Barclays Intermediate Government Index	-0.7	1.6	1.0	3.1	5.5
Sit Quality Income Fund (SQIFX)	0.8	0.5	n/a	n/a	0.6
Bloomberg Barclays 1-3 Year Gov't/Credit Index	0.7	1.1	n/a	n/a	0.9
<b><u>Tax-Free</u></b>					
Sit Minnesota Tax-Free Income Fund (SMTFX)	0.4	3.1	3.0	4.4	4.7
Sit Tax-Free Income Fund (SNTIX)	1.2	4.2	4.0	4.4	5.3
Bloomberg Barclays 5-Year Municipal Index	1.1	2.0	1.9	3.8	4.4
Bloomberg Barclays Municipal Index	0.9	3.2	3.0	4.5	5.1

---

## DISCLOSURES - CONTINUED

This summary may contain the collective opinions of our analysts and portfolio managers, and is provided for informational purposes only. While the information is accurate at the time of writing, such information is subject to change at any time without notice. Before you invest, please read the prospectus carefully.

Investment in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Mortgage-backed securities involve risk of loss due to prepayments and defaults. Income from tax-exempt funds may be subject to state & local taxes, and a portion of income may be subject to federal income tax including the alternative minimum tax (AMT). Capital gains distributions, if any, will be subject to tax.