

Optimizing Your Portfolio for Higher Rates

Presented By PFM Asset Management LLC

April 21, 2022

pfmam.com

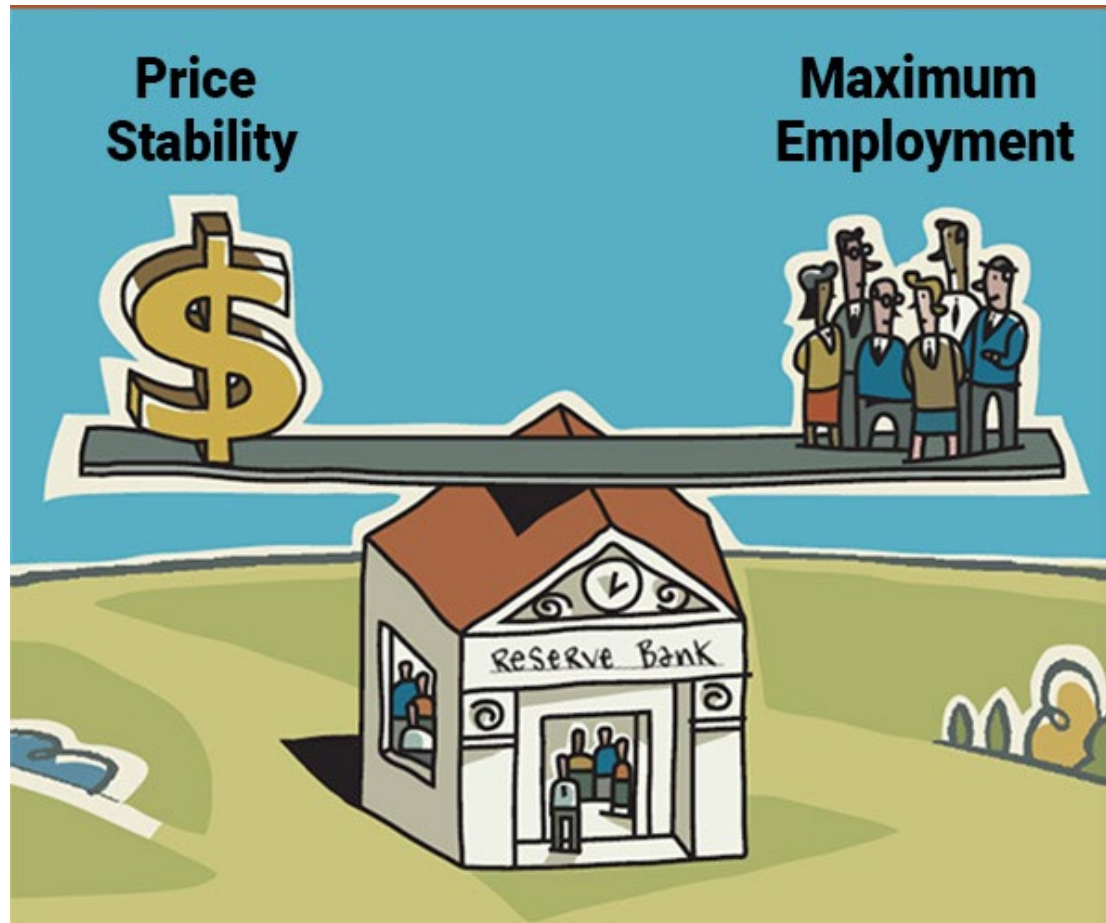
PFM Asset Management LLC

NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE

209 S LaSalle Street
2nd Floor
Chicago, IL 60604

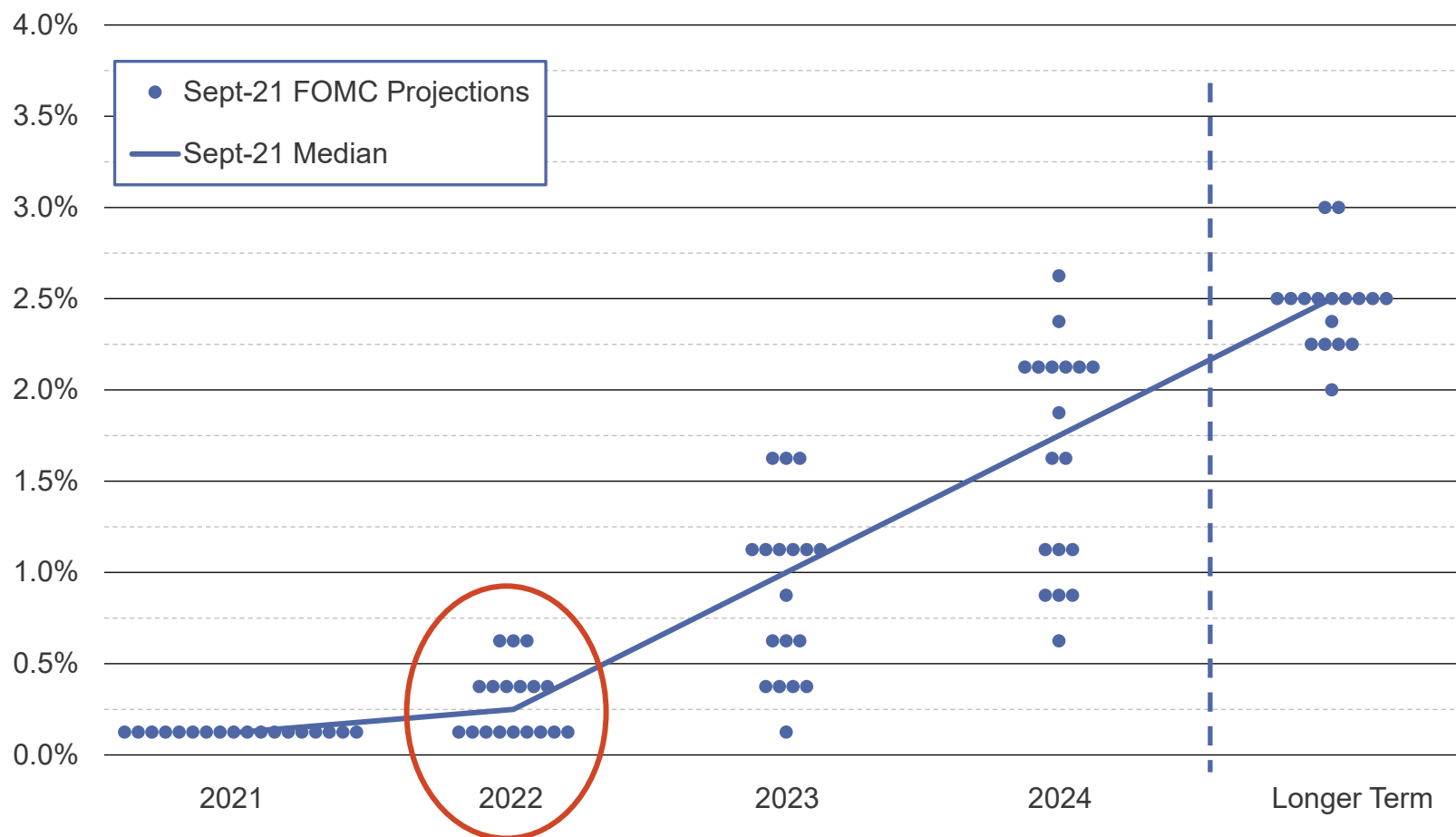
Market Update

The Fed's Dual Mandate



Memory Lane: Fed's Dot Plot in September 2021

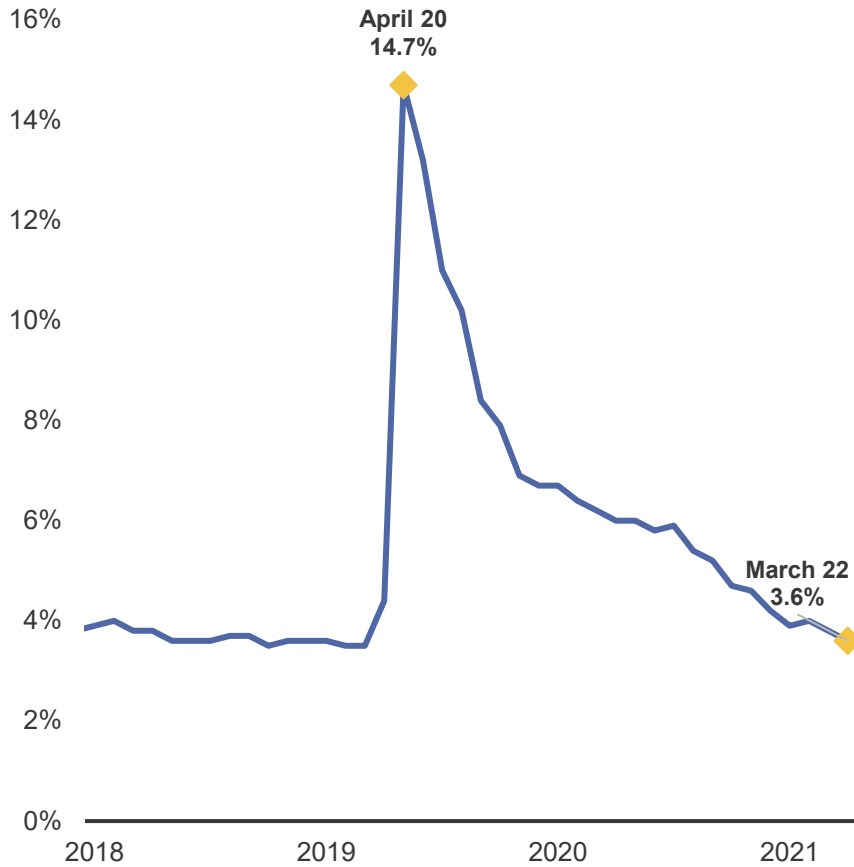
Fed Participants' Assessments of 'Appropriate' Monetary Policy



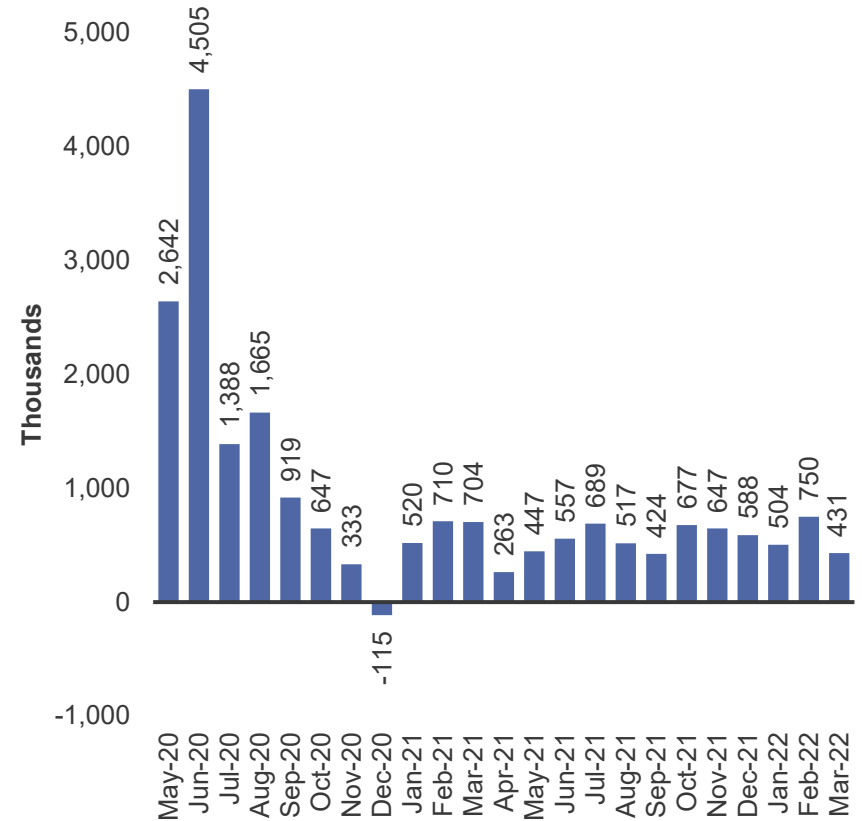
Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the Federal Funds rate at each year-end.

U.S. Economy Added 431,000 Jobs in March; Unemployment Rate Falls to 3.6%

Unemployment Rate



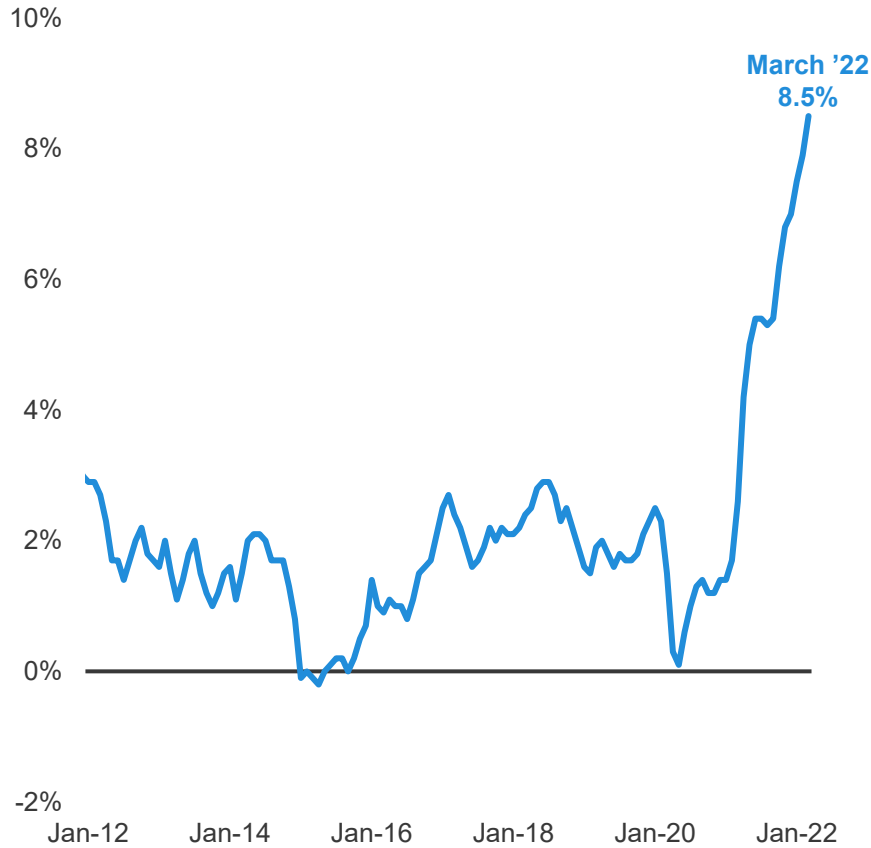
Monthly Change In Nonfarm Payrolls



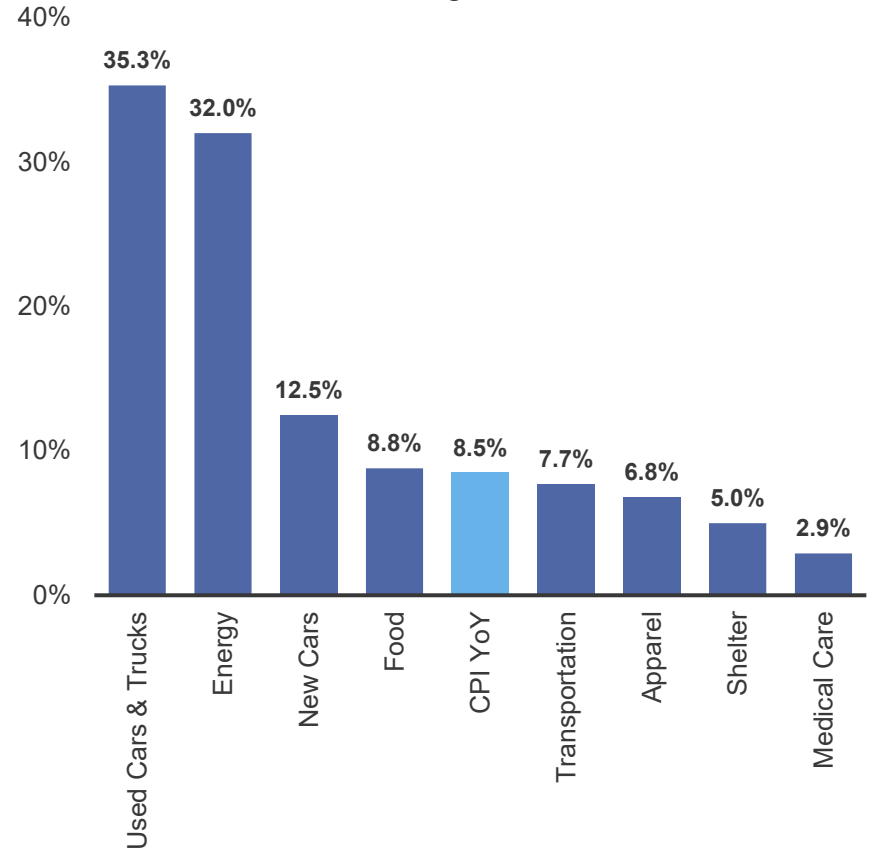
Source: Bloomberg, as of March 2022. Data is seasonally adjusted.

Consumer Inflation Skyrocketed to 8.5%

Consumer Price Index % Change YoY



Key Consumer Price Index Components % Change YoY



Source: Bloomberg, as of March 2022.

10-Year Rises as 2-Year Remains Rangebound

2-Year Treasury Yield



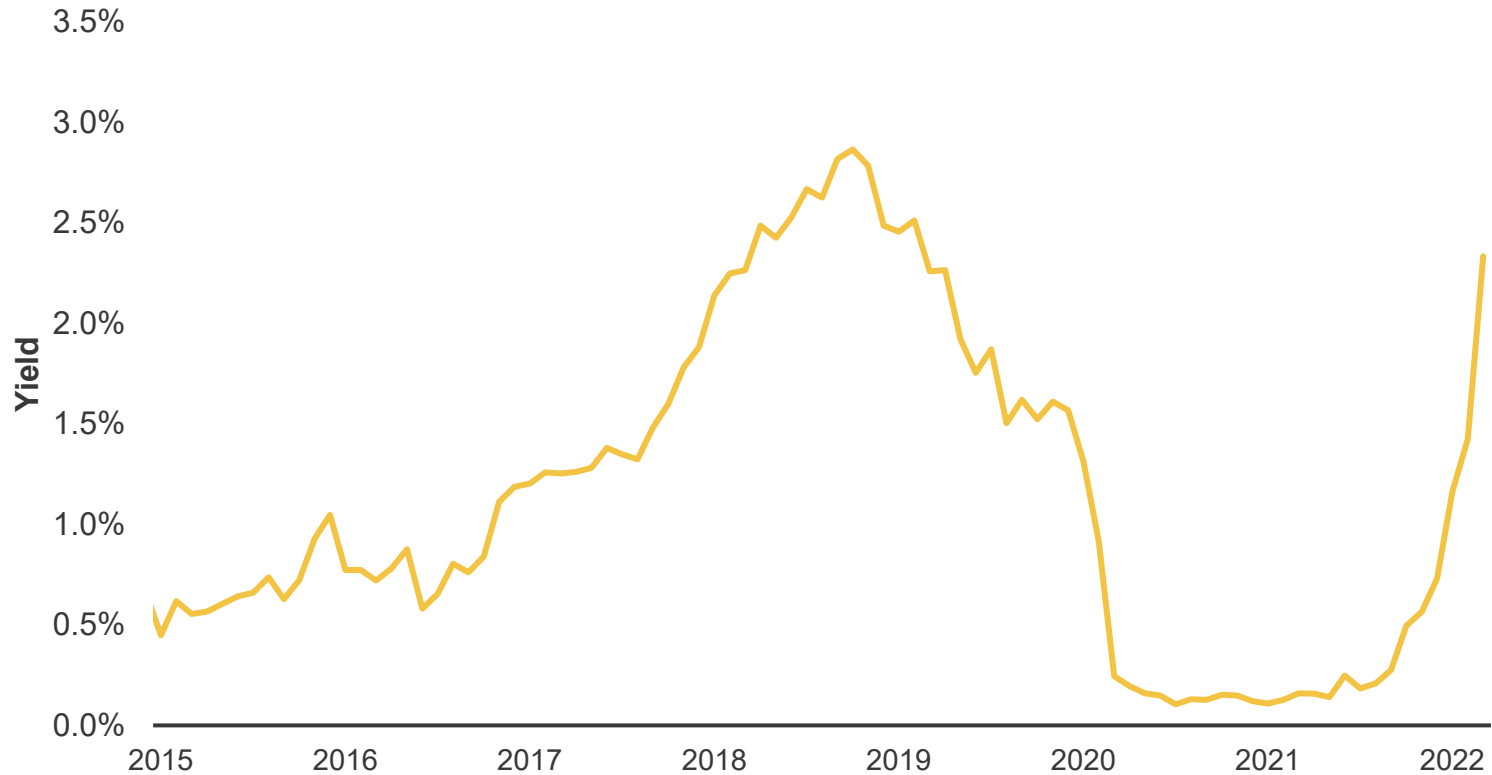
10-Year Treasury Yield



Source: Bloomberg, as of 4/18/2022.

Short-End Yields Rise at Fastest Pace in Recent Memory

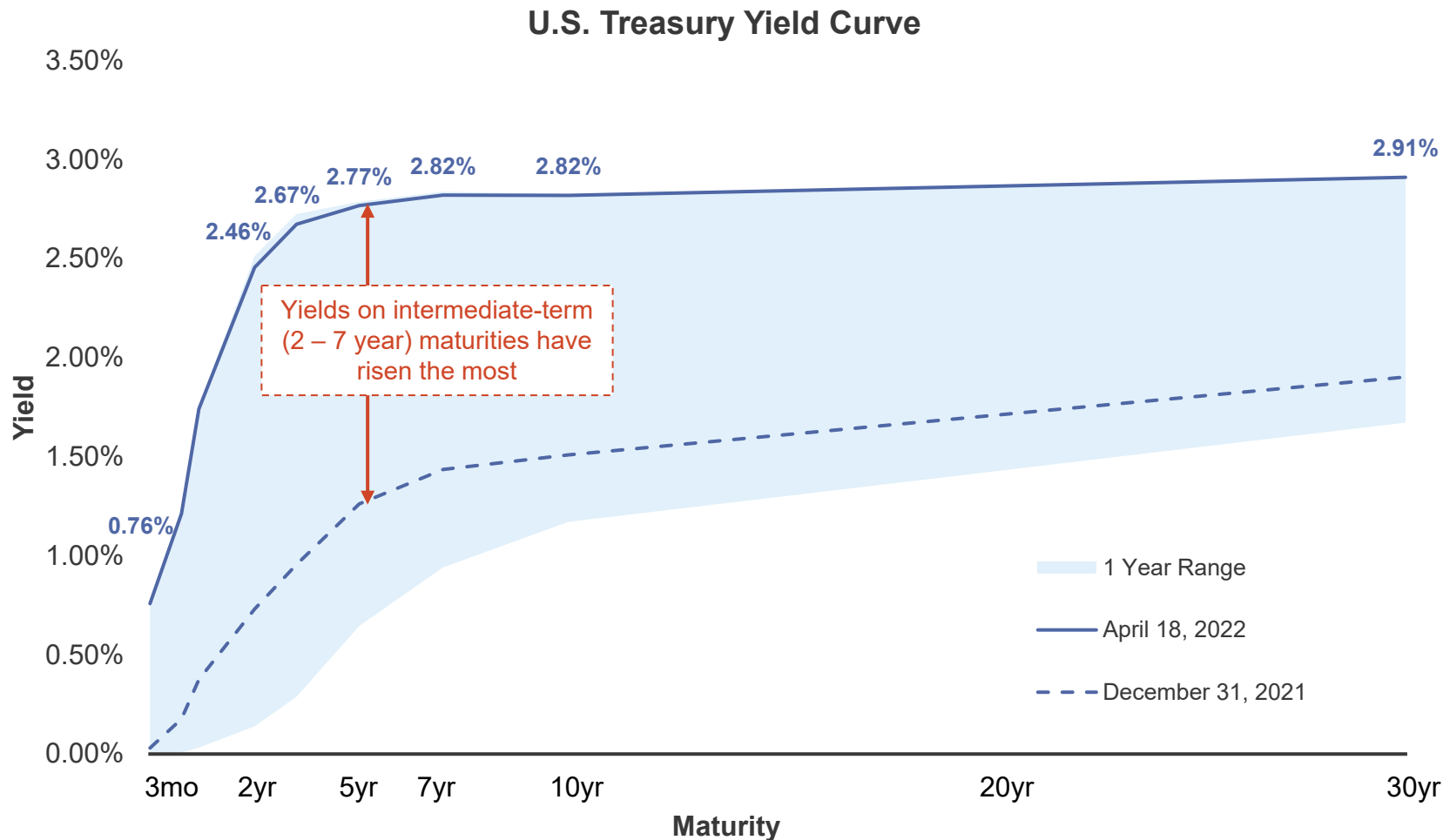
2-Year U.S. Treasury Yield
January 2015 – April 2022



Source: ICE BofAML Indices as provided by Bloomberg.



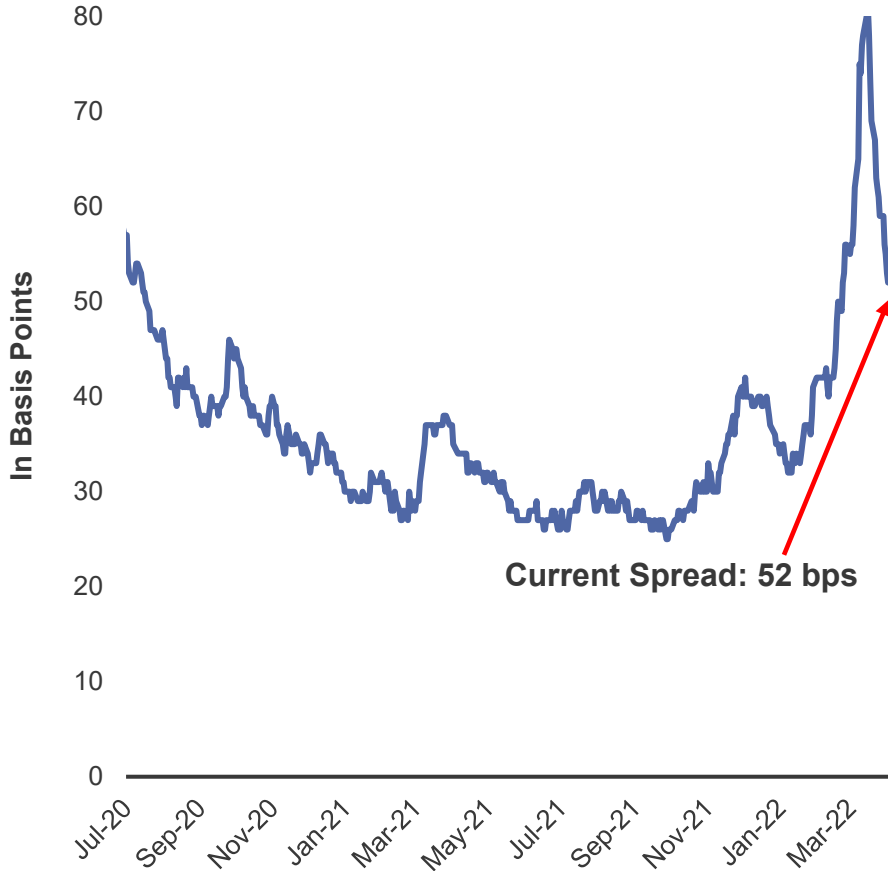
Treasury Curve Remains Steep on the Front End



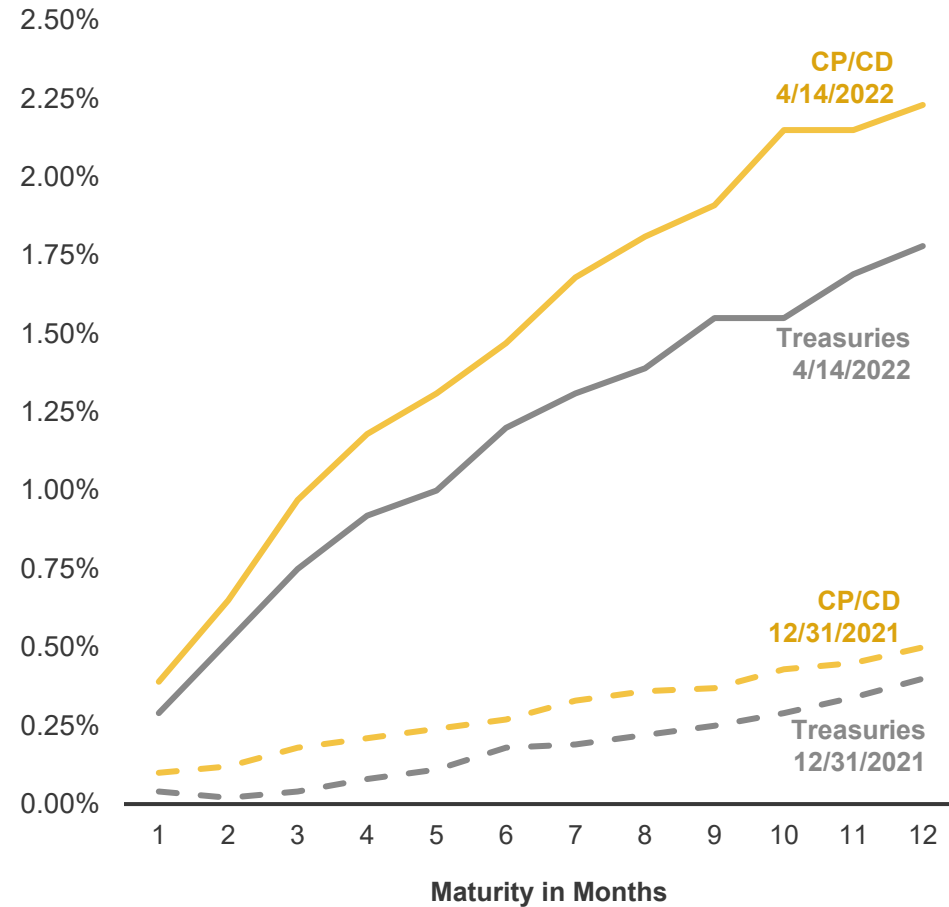
Source: Bloomberg, as of 4/18/2022.

Credit Spreads Remain at Attractive Levels

**Corporate Yield Spreads
1 – 3 Yr. AAA-A (OAS)**



Money Market Yield Curves



Source: Bloomberg, ICE BofAML 1 – 3 Year Index, as of 4/18/2022. PFMAM Trading Desk, as of 4/18/2022. Yields are for indicative purposes only; actual yields may vary by issue.

Optimizing Your College's Portfolio



*“My short-term financial goal is to survive until Tuesday.
My long-term financial goal is to survive until Friday.”*

Cash Flow Analysis Leads to Longer Term Investing

Overnight

- ▶ Cash and equivalents, providing immediate availability
- ▶ Manage liquidity needs

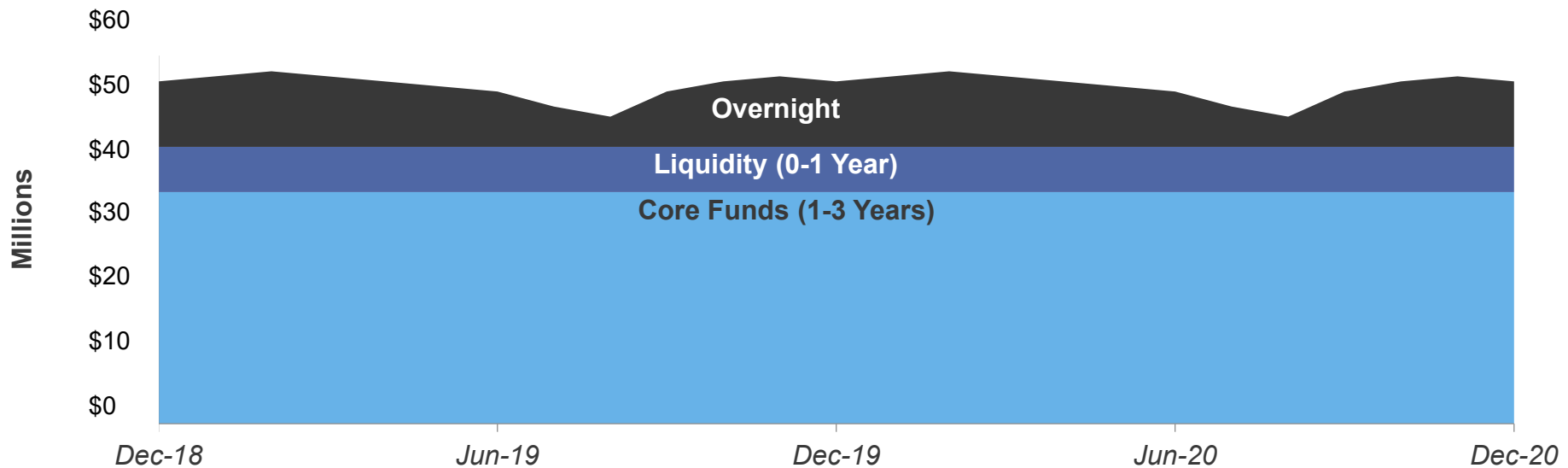
Liquidity

- ▶ Laddered investments to known and expected cash flows
- ▶ High-quality fixed income

Core

- ▶ Reserve funds not expected to be spent for the foreseeable future
- ▶ Intermediate and longer-term investments

Sample Cash Flow Analysis



For illustrative purposes only.

Investment Opportunities in Longer Maturities

- ▶ Longer strategies can increase earnings potential, however they also come with increased risk

Risk/Return of Various Investment Strategies 20 Years Ended December 31, 2021

Bank of America Merrill Lynch Treasury Index	Duration (years)	Annualized Total Return	Cumulative Value of \$40 Million	Quarters With Negative Return
3M T Bill	0.24	1.29%	\$51,677,519	1 out of 80
6M T Bill	0.49	1.54%	\$54,259,840	1 out of 80
1 Yr Treasury	1.00	1.67%	\$55,772,262	8 out of 80
1-3 Treasury	1.88	2.16%	\$61,387,613	15 out of 80
1-5 Treasury	2.64	2.65%	\$67,473,491	23 out of 80
1-10 Treasury	3.92	3.25%	\$75,796,194	26 out of 80

Optimizing Short Term Balances

Cash Management To Do

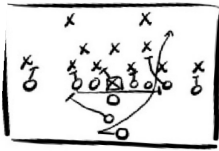
Samples

SAFETY	Understand bank financials
Deposit ASAP	Streamline collection process
Disbursement Trickle	Spread payables run (bi-monthly, etc.)
Control Costs	Regular review of analysis
Automate	Utilize bank services for efficiency
Earn ECR / Interest	Use LGIP / TERM
Relationship	Develop trust with advisor



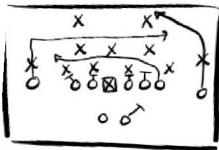
What Can You Do?

1 | *Analyze your banking relationships regularly; monthly is best*



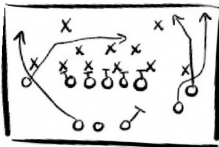
- Make sure to look at the rates offered and monthly charges
- Determine the “Net” Earnings Credit Rate your bank is paying
- Ensure that you are not earning more credits than you can use

2 | *Maintain frequent communication with your banker(s)*



- Monitor changes in rates and discuss your objectives regularly

3 | *Understand your options for short-term balances*



- Be nimble and prepared to capture increased earnings through alternative options like Money Market Funds, LGIPs, and Managed Portfolios

Eligible Investment Types

Sector	Allowed By IL Statutes
Money Market Funds / LGIP (cash)	Yes ✓
TERM (Fixed Maturity LGIP 2-12 months)	Yes ✓
Certificates of Deposit	Yes ✓
U.S. Treasuries	Yes ✓
U.S. Agencies	Yes ✓
Supranational (e.g., World Bank)	Yes ✓
Municipal Bonds (taxable)	Yes ✓
U.S. Agency Mortgage-Backed Securities	Yes ✓
Commercial Paper	Yes ✓
Corporate Notes	Yes ✓
Corporate Bond Fund	Yes ✓

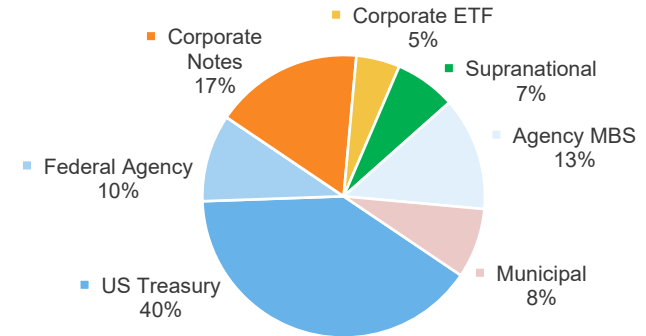


Sample Portfolio: Investment Grade 1 – 3 Year

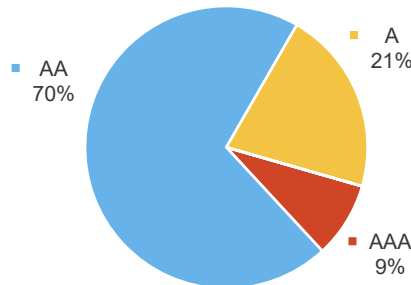
Portfolio Statistics

Duration	1.8 years
Gross Yield	2.52%

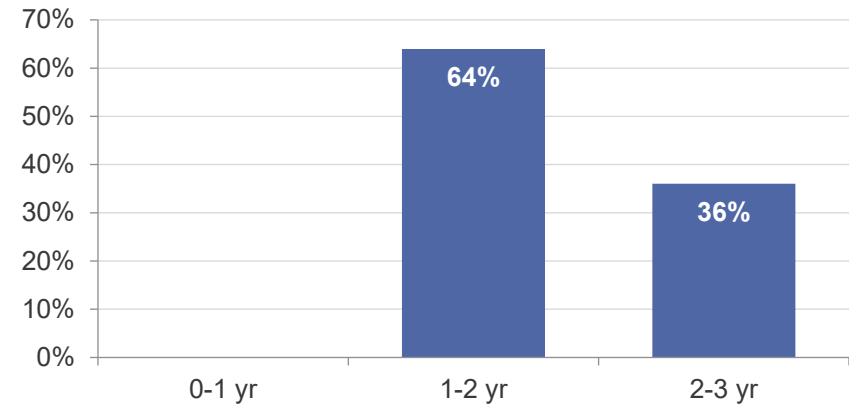
Sector Allocation



Credit Quality (S&P Ratings)



Duration Distribution



- Data Source: Bloomberg. Data as of April 14, 2022. “Corporate ETF” is representative of the SPDR Short-Term Corporate Bond ETF. As of 4/13/22 the current yield to maturity was 2.94% and the current effective duration was 1.88 years.
- Sample portfolio structured by PFMAM. Please see important disclosures at the end of this presentation.

Important Notes to Sample Portfolios

- ▶ Sample portfolios are provided for illustrative purposes only and are not a recommendation.
- ▶ Portfolios based on assumed investment noted on each respective page.
- ▶ Yield source Bloomberg as of April 14, 2022.
- ▶ Security universe sourced from Bloomberg and Market Axess and further limited to those issuers permitted by PFMAM's internal Approved Credit List.
- ▶ Actual yields and security availability may vary at time of purchase.
- ▶ As economic and market conditions may change in the future, so may PFMAM's recommendations as to the sale and purchase of securities in the portfolio.

Sample TERM Rates

<u>Maturity</u>	<u>Date</u>	<u>Net Rate</u>
60 Days	June	0.47%
90 Days	July	0.73%
120 Days	August	0.91%
150 Days	September	0.98%
180 Days	October	1.19%
210 Days	November	1.30%
240 Days	December	1.40%
270 Days	January	1.52%
300 Days	February	1.56%
330 Days	March	1.65%
365 Days	April	1.76%

Summary Takeaway

- ▶ Short-term interest rates will rise
 - ▶ How fast?
 - ▶ When will they level off?
- ▶ There are opportunities for your investment program:
 - ▶ Active maturity management
 - ▶ Diversification – evaluation of sectors
 - ▶ Portfolio segmentation – understanding opportunity costs of excess liquidity
- ▶ Cash Flow is Key
 - ▶ Balances available for longer term investing versus short term funds
- ▶ Investment Policy
 - ▶ Defines allowable investment types and any additional parameters

***“Best time to invest was yesterday.
Next best time to invest is today.
Worst time to start investing is tomorrow.”***

Disclaimer

Investment advisory services are provided by PFM Asset Management LLC (“PFMAM”), an investment adviser registered with the U.S. Securities and Exchange Commission and a subsidiary of U.S. Bancorp Asset Management, Inc. (“USBAM”). USBAM is a subsidiary of U.S. Bank National Association (“U.S. Bank”). U.S. Bank is a separate entity and subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, services or performance of PFMAM. The information contained is not an offer to purchase or sell any securities. Additional applicable regulatory information is available upon request.

For more information regarding PFMAM’s services please visit www.pfmam.com.

