When Might a Lower Yield be a Better Choice?

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PFM Asset Management LLC
NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE
Factors Contributing to the Consumer Price Index (CPI YoY)

Source: Bloomberg, as of 2/28/23.
Price Growth Still Remains Too High for The Fed

Current U.S. Treasury Yield Curve vs. Past Yield Curves

U.S. Treasury Yield Curve

Source: Bloomberg, as of 3/31/2023.
Fed Delivers a 0.25% Hike But Hints at Uncertainty

The FOMC's post-meeting policy statement no longer mentions ‘anticipated ongoing increases’ in rates.
One More Rate Hike Ahead in May?

Implied Fed Funds Rate

Source: Bloomberg, as of 04/03/2023.
Fed’s “Dot Plot” Shows the Market is Nearing Sufficiently Restrictive Territory

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.
The Current Rate Hiking Cycle Compared to Previous Rate Hiking Cycles

Hike cycle was more prolonged in 15-18 than the rapid pace of increases we’ve seen in most recent cycle

Source: Bloomberg.
Most Recent Rate Cut Cycle Compared to Previous Rate Cutting Cycles

In 2001, the Fed Funds rate dropped from 6% to 1.75%, just in one calendar year.

Dramatic 150 basis point rate cut in March 2020.

Fed Funds rate dropped from 5.25% to 0.25% in just 18 months.

Source: Bloomberg.
2-Year Treasury Yield Over Last 15 Years

Source: Bloomberg, as of 3/31/2023.
Cash Flow Analysis Leads to Prudent Investment Decisions

**Liquidity**
- Cash and equivalents, providing immediate availability
- Manage liquidity needs

**Short-Term**
- 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- & longer-term investments

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**Sample Cash Flow Analysis**

<table>
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<tr>
<th>Millions</th>
<th>Dec-18</th>
<th>Jun-19</th>
<th>Dec-19</th>
<th>Jun-20</th>
<th>Dec-20</th>
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For illustrative purposes only.
Longer Duration Portfolios Have Historically Higher Returns

<table>
<thead>
<tr>
<th>Bank of America Merrill Lynch Treasury Index</th>
<th>Duration (years)</th>
<th>Annualized Total Return</th>
<th>Cumulative Value of $50 Million</th>
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<tbody>
<tr>
<td>3 Month Treasury</td>
<td>0.23</td>
<td>2.38%</td>
<td>$101,374,995</td>
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<td>1-3 Year Treasury</td>
<td>1.81</td>
<td>3.12%</td>
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<td>1-5 Year Treasury</td>
<td>2.55</td>
<td>3.46%</td>
<td>$138,843,596</td>
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<td>1-10 Year Treasury</td>
<td>3.71</td>
<td>3.85%</td>
<td>$155,396,795</td>
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</table>

Source: Bloomberg, ICE BofAML Indices.
Credit Spreads Have Widened Dramatically, Amid Recent Banking Sector Turmoil

Corporate Yield Spreads
1 - 3 Year A-AAA (OAS)

Source: Bloomberg, ICE BofAML Indices. OAS is option adjusted spreads. As of 3/31/2023.
Do Not Market Time

- Time is Money
  - Time in the market > Timing the market
  - Disciplined, Defined Investment Strategy should work in all rate environments
    - Rates Rise – reinvest at higher yields, beneficial for future income
    - Rates Remain Stable – extending duration = higher yields
    - Rates Fall – higher yields in longer term investments are locked in, opportunities to realize gains.

Don’t Pay For Liquidity You Don’t Need

- Optimize cash balances, excess cash leaves investment income on the table
  - Match short term investments with known cash liabilities
  - Funds not intended for spend should be invested in a longer term, reserve portfolio

Cash Flow is Key

- Identify balances available for longer term investing vs. short term funds
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