



# San Geronio Pass Water Agency

## Investment Performance Review For the Quarter Ended December 31, 2022

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# Market Update

## Current Market Themes



- ▶ The U.S. economy is characterized by:
  - ▶ High inflation that shows signs of slowing
  - ▶ Continued strong labor market
  - ▶ Potentially declining health of U.S. household finances
  - ▶ Expectations for a modest yet broad economic downturn

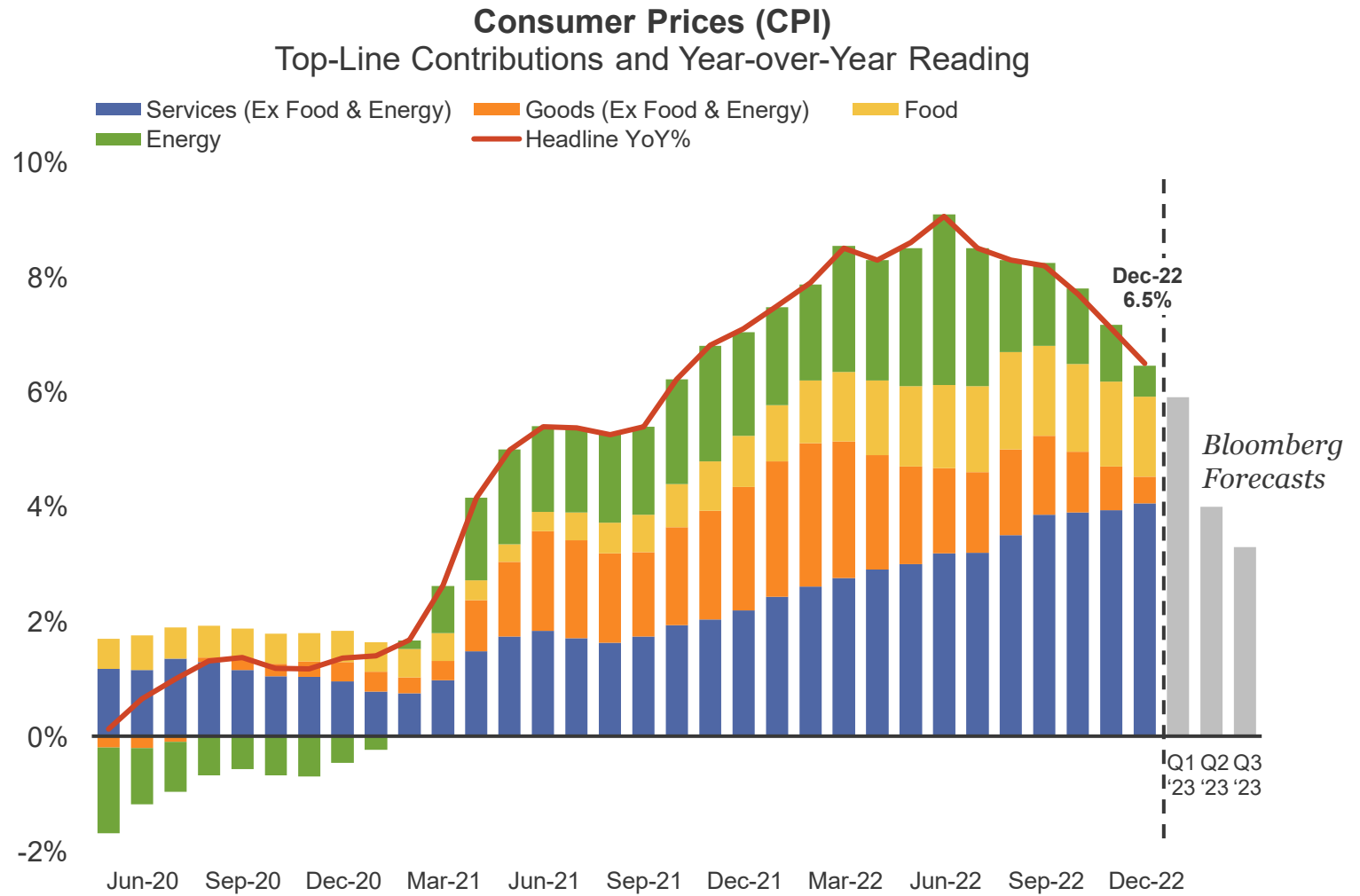


- ▶ The Federal Reserve is expected to wrap up their normalization process
  - ▶ Slowing pace of rate hikes
  - ▶ Fed projecting short-term fed funds rate to reach 5.00% to 5.25% by year-end, with markets expecting rate cuts in the second half of 2023
  - ▶ Fed officials reaffirm that restoring price stability is the utmost priority, despite risks of overtightening



- ▶ Volatile markets potentially calming
  - ▶ Treasury yields in the belly of the curve (3-7 years) ended the quarter slightly lower, while shorter and longer maturities ended higher
  - ▶ Yield curve inversion has deepened further since last quarter
  - ▶ While still elevated, volatility and liquidity challenges have begun subsiding

### Inflation Now Trending Lower

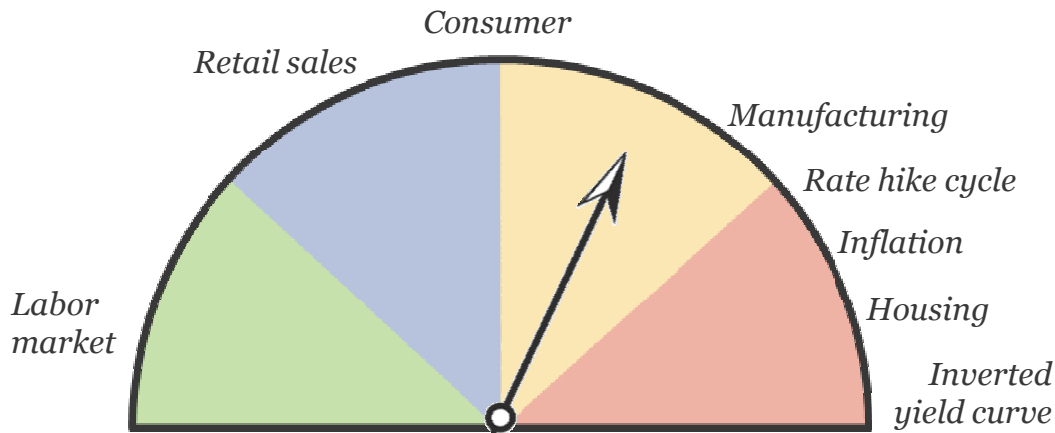


Lower energy and goods prices help to offset increases in wage-driven services costs

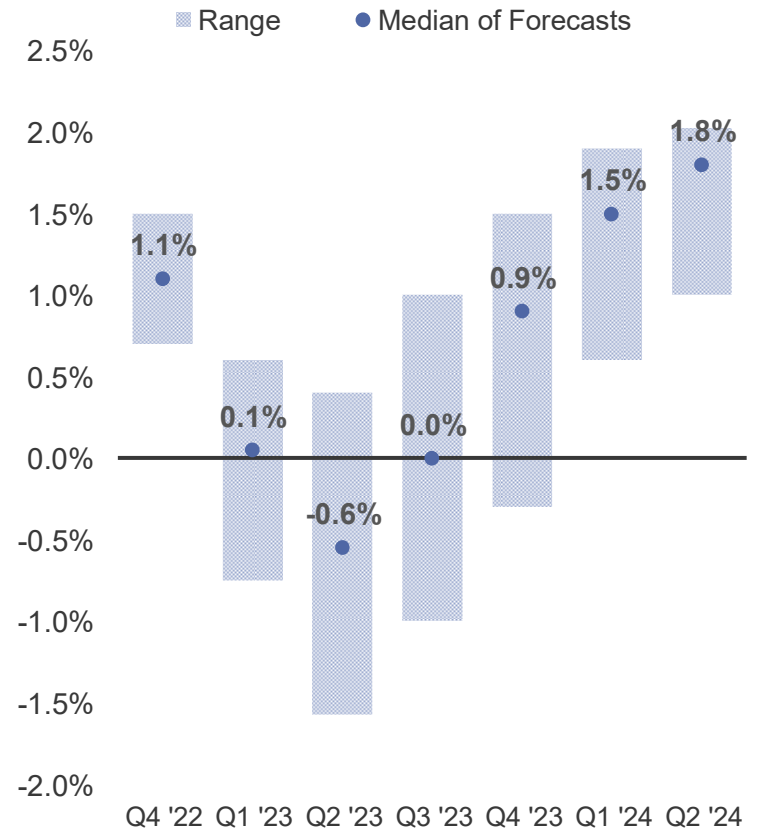
Source: Bloomberg, as of December 2022.

## Recession Gauge Flashing Yellow, But GDP Expected to Grow by End of Year

### Recession Risk

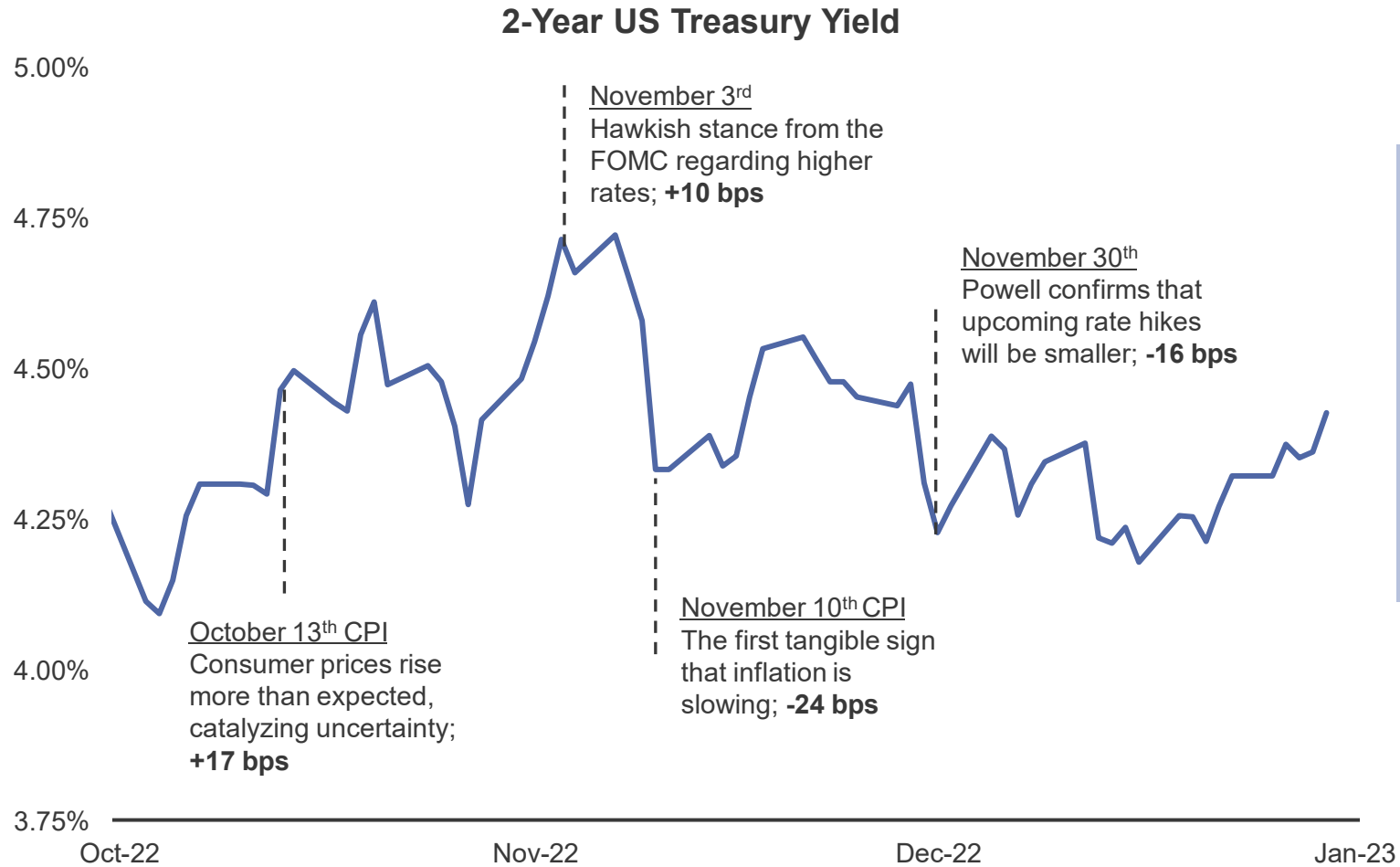


### U.S. GDP Forecasts Annualized Rate



Source: Bloomberg, Economist Forecasts. Recession risk based on most recent economic data as of 1/9/2023.

## Rates Remain Sensitive to Fed and Inflation

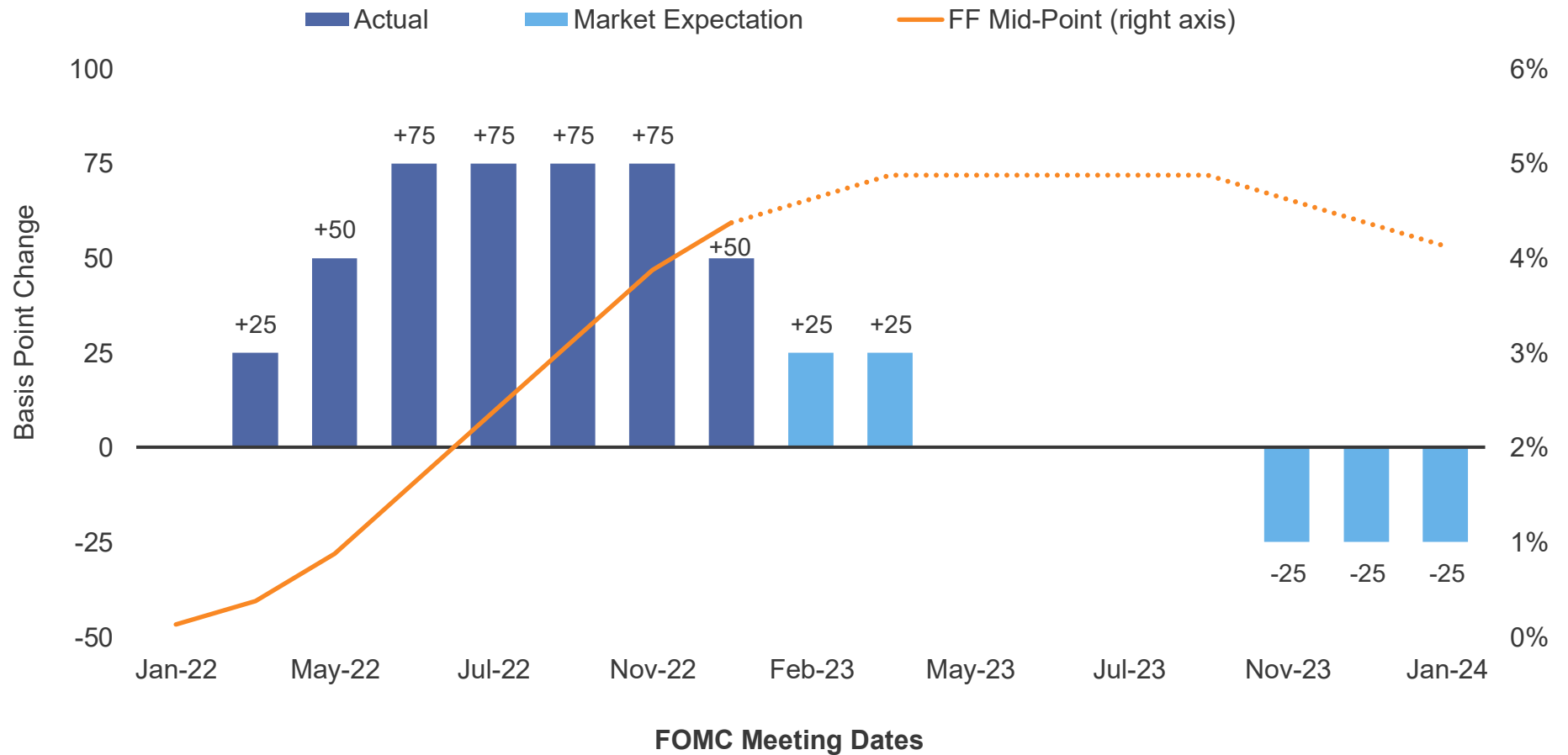


The 2-year Treasury is commonly used to gauge market reactions and near-term policy expectations

Source: Bloomberg, as of 12/31/2022.

## What Could the Fed's Pivot Look Like?

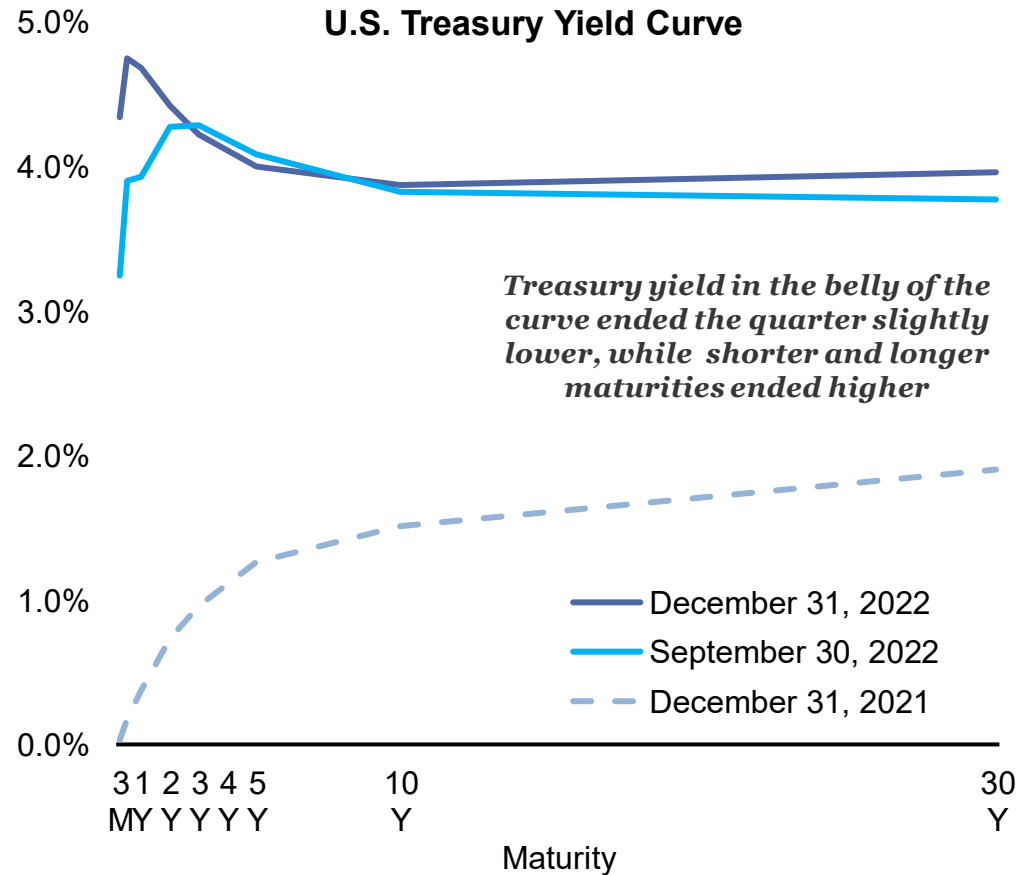
### Changes to the Target Fed Funds Rate



Source: Bloomberg WIRP Interest Rate Probability as of 1/9/2023.

### Yield Curve Inversion Deepens

|         | 4Q2022<br>12/31/22 | 3Q2022<br>09/30/22 | QoQ<br>Change |
|---------|--------------------|--------------------|---------------|
| 3-month | 4.34%              | 3.25%              | +1.10%        |
| 1-year  | 4.69%              | 3.93%              | +0.75%        |
| 2-year  | 4.43%              | 4.28%              | +0.15%        |
| 3-year  | 4.22%              | 4.29%              | -0.06%        |
| 5-year  | 4.00%              | 4.09%              | -0.09%        |
| 10-year | 3.87%              | 3.83%              | +0.05%        |
| 30-year | 3.96%              | 3.78%              | +0.19%        |

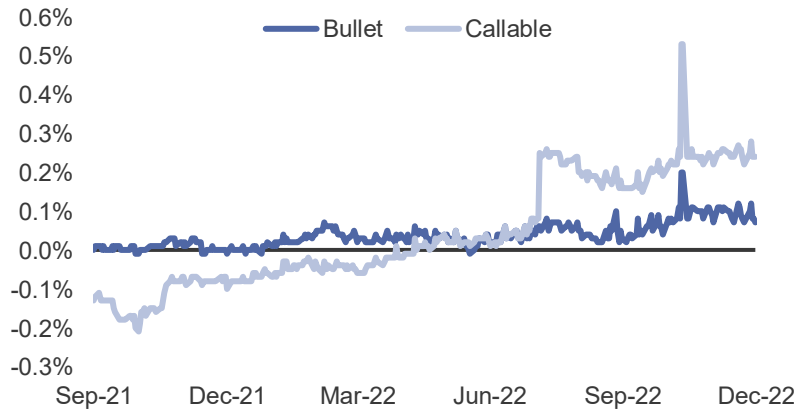


Source: Bloomberg, as of December 2022.

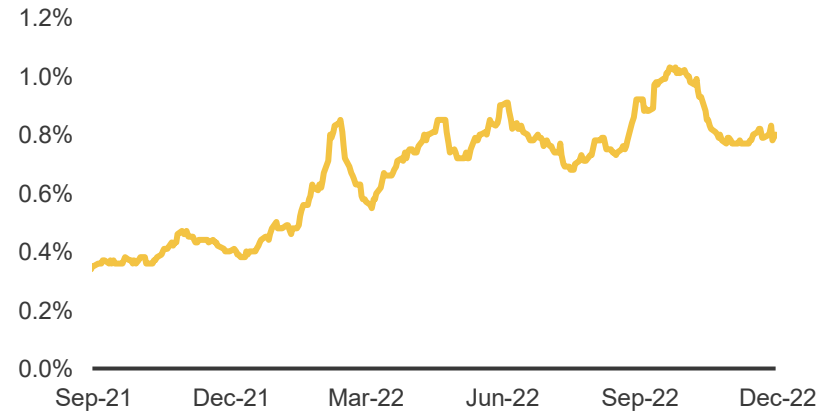


## Sector Yield Spreads

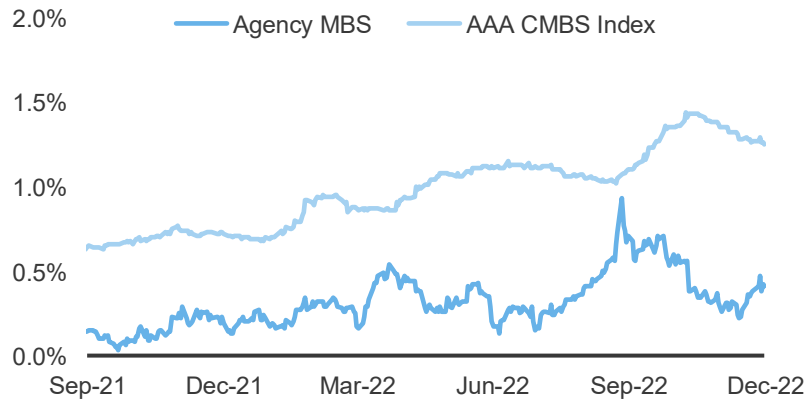
### Federal Agency Yield Spreads



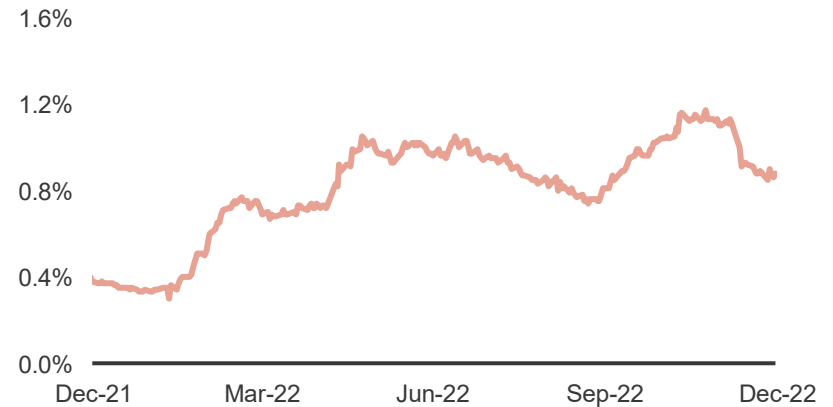
### Corporate Notes A-AAA Yield Spreads



### Mortgage-Backed Securities Yield Spreads



### Asset-Backed Securities AAA Yield Spreads



Source: ICE BofAML 1-5 year Indices via Bloomberg, MarketAxess and PFMAM as of 12/31/2022. Spreads on ABS and MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities.

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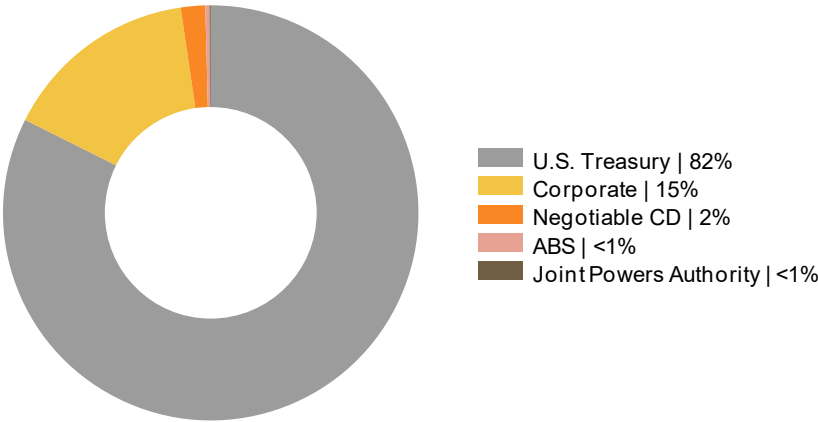
# Portfolio Review

### Portfolio Snapshot<sup>1</sup>

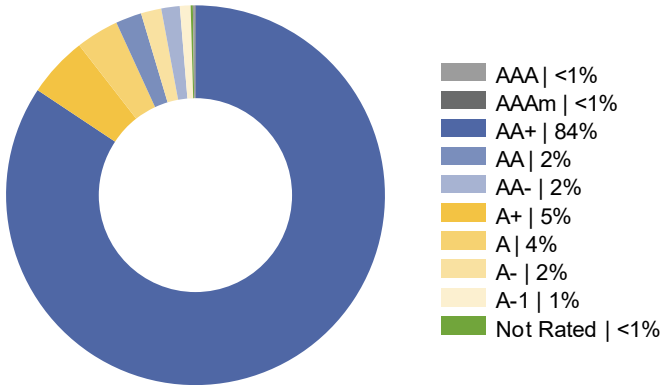
#### Portfolio Statistics

|                                     |                 |
|-------------------------------------|-----------------|
| <b>Total Market Value</b>           | \$59,219,401.45 |
| Managed Account Sub-Total           | \$59,024,816.77 |
| Accrued Interest                    | \$159,956.17    |
| Pool                                | \$34,628.51     |
| <b>Portfolio Effective Duration</b> | 2.32 years      |
| <b>Benchmark Effective Duration</b> | 2.48 years      |
| <b>Yield At Cost</b>                | 1.47%           |
| <b>Yield At Market</b>              | 4.44%           |
| <b>Portfolio Credit Quality</b>     | AA              |

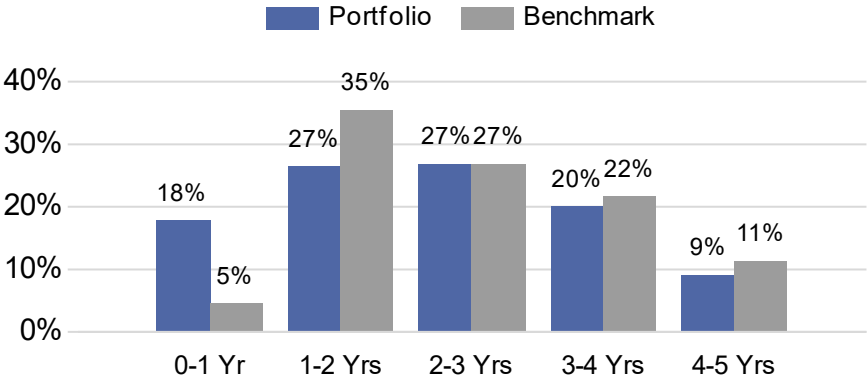
#### Sector Allocation



#### Credit Quality - S&P

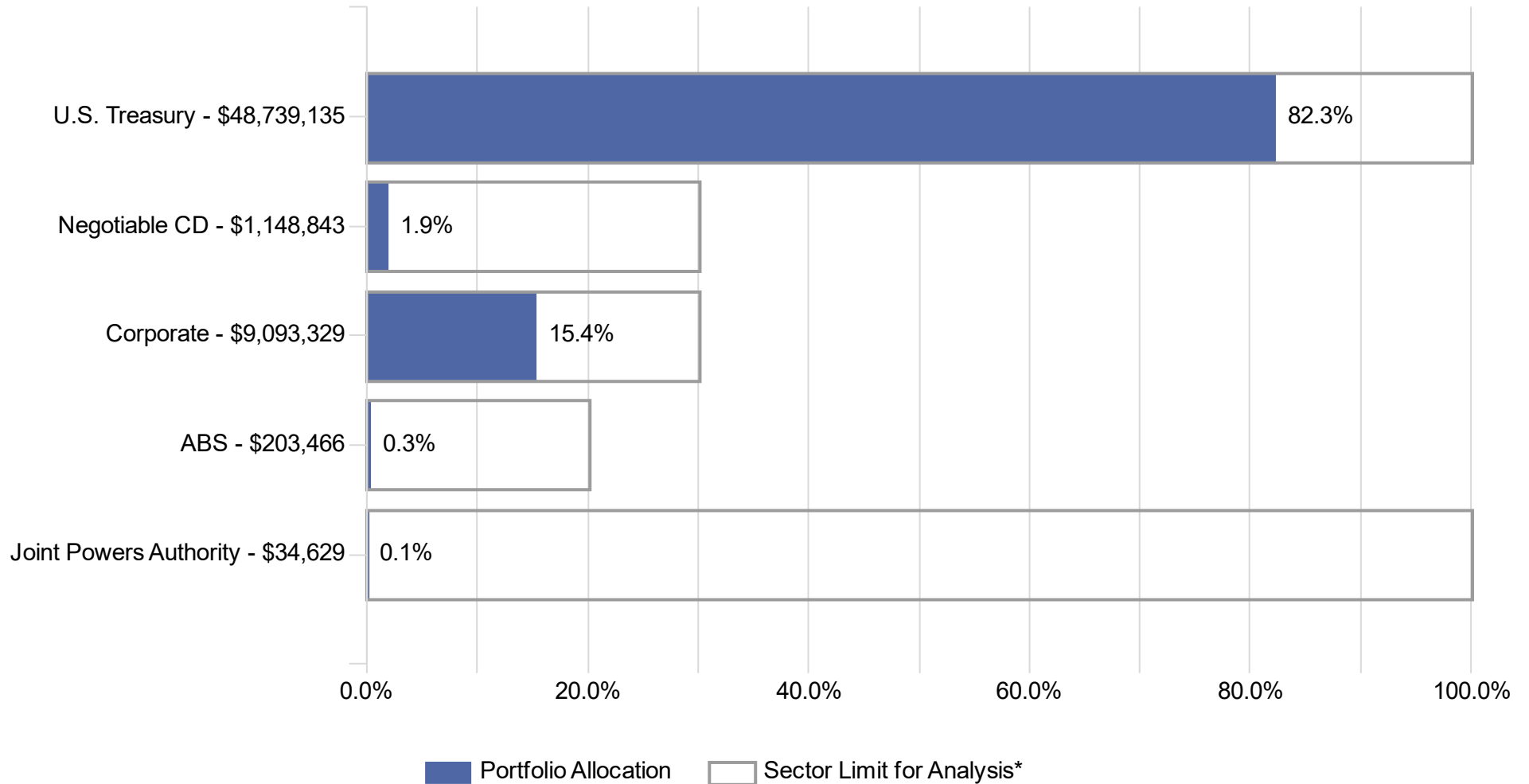


#### Duration Distribution



1. Total market value includes accrued interest and balances invested in CAMP, as of December 31, 2022. Yield and duration calculations exclude balances invested in CAMP. The portfolio's benchmark is the ICE BofAML 1-5 Year U.S. Treasury Index. Source: Bloomberg. An average of each security's credit rating was assigned a numeric value and adjusted for its relative weighting in the portfolio.

### Sector Allocation Analytics



*For informational/analytical purposes only and is not provided for compliance assurance. Includes accrued interest.*

*\*Sector Limit for Analysis is as derived from our interpretation of your most recent Investment Policy as provided.*

## Certificate of Compliance

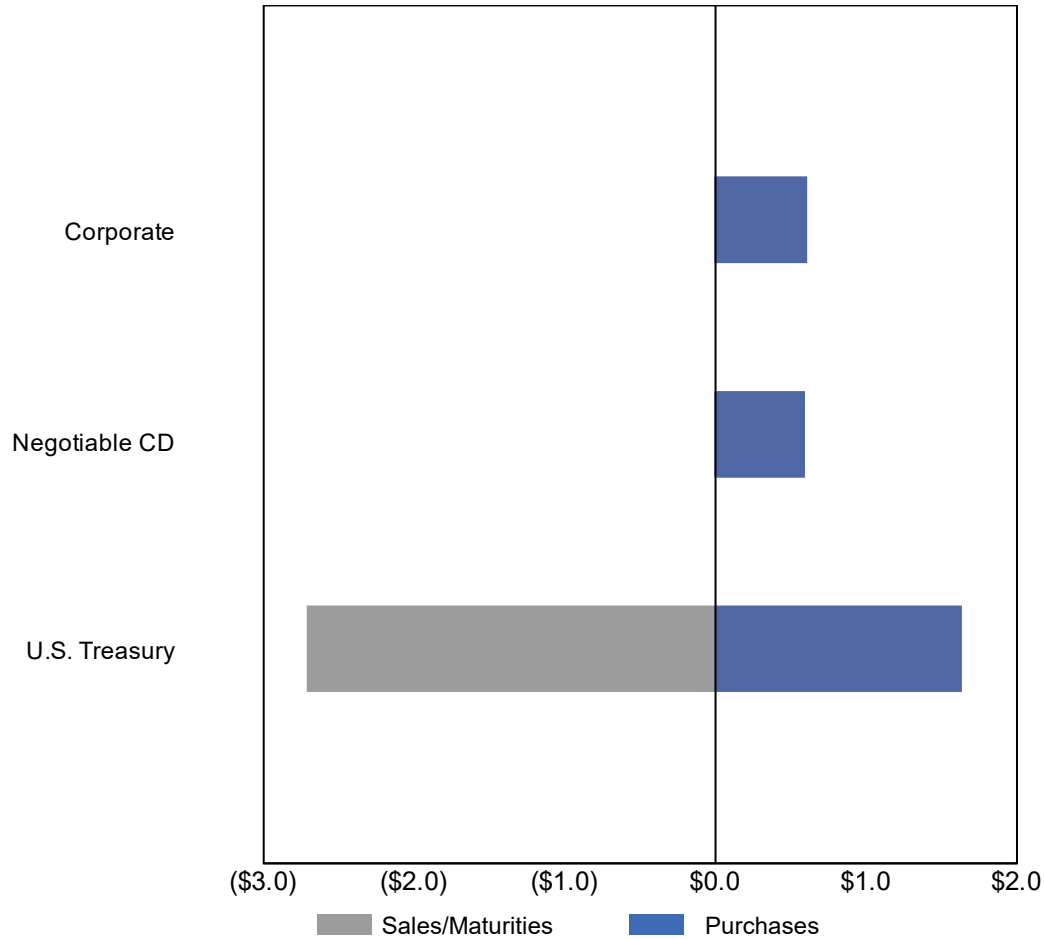
During the reporting period for the quarter ended December 31, 2022, the account(s) managed by PFM Asset Management ("PFMAM") were in compliance with the applicable investment policy and guidelines as furnished to PFMAM.

Acknowledged : *PFM Asset Management LLC*

*Note: Pre- and post-trade compliance for the account(s) managed by PFM Asset Management is provided via Bloomberg Asset and Investment Management ("AIM").*

## Portfolio Activity

**Net Activity by Sector**  
(\$ millions)

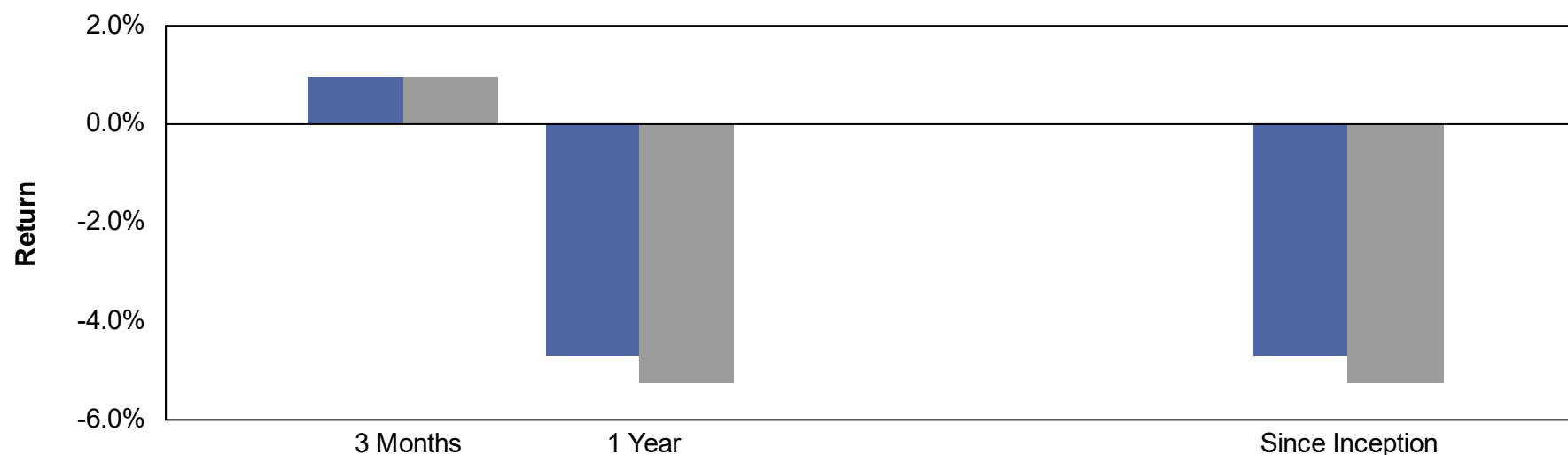


| Sector                    | Net Activity     |
|---------------------------|------------------|
| Corporate                 | \$598,143        |
| Negotiable CD             | \$585,000        |
| U.S. Treasury             | (\$1,066,275)    |
| <b>Total Net Activity</b> | <b>\$116,868</b> |

Based on total proceeds (principal and accrued interest) of buys, sells, maturities, and principal paydowns. Detail may not add to total due to rounding.

### Portfolio Performance

Portfolio Benchmark



| Market Value Basis Earnings     | 3 Months         | 1 Year               | Since Inception <sup>1</sup> |
|---------------------------------|------------------|----------------------|------------------------------|
| Interest Earned <sup>2</sup>    | \$150,266        | \$492,339            | \$492,339                    |
| Change in Market Value          | \$415,566        | (\$3,346,704)        | (\$3,346,704)                |
| <b>Total Dollar Return</b>      | <b>\$565,832</b> | <b>(\$2,854,365)</b> | <b>(\$2,854,365)</b>         |
| <b>Total Return<sup>3</sup></b> |                  |                      |                              |
| Portfolio                       | 0.96%            | -4.70%               | -4.70%                       |
| Benchmark <sup>4</sup>          | 0.95%            | -5.25%               | -5.25%                       |
| <b>Difference</b>               | <b>0.02%</b>     | <b>0.54%</b>         | <b>0.54%</b>                 |

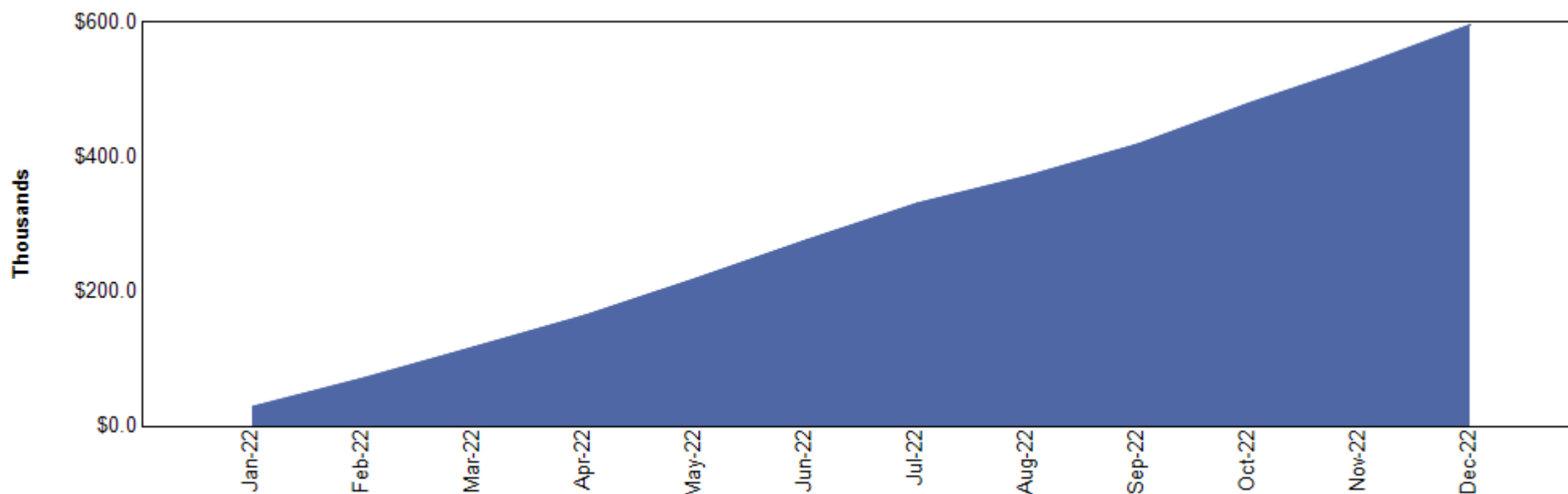
1. The lesser of 10 years or since inception is shown. Since inception returns for periods one year or less are not shown. Performance inception date is December 31, 2021.

2. Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.

3. Returns for periods one year or less are presented on a periodic basis. Returns for periods greater than one year are presented on an annualized basis.

4. The portfolio's benchmark is the ICE BofAML 1-5 Year U.S. Treasury Index. Source: Bloomberg.

### Accrual Basis Earnings



| Accrual Basis Earnings                 | 3 Months         | 1 Year           | Since Inception <sup>1</sup> |
|--|------------------|------------------|------------------------------|
| Interest Earned <sup>2</sup>           | \$150,266        | \$492,339        | \$492,339                    |
| Realized Gains / (Losses) <sup>3</sup> | (\$38,827)       | (\$91,529)       | (\$91,529)                   |
| Change in Amortized Cost               | \$65,553         | \$195,065        | \$195,065                    |
| <b>Total Earnings</b>                  | <b>\$176,992</b> | <b>\$595,875</b> | <b>\$595,875</b>             |

1. The lesser of 10 years or since inception is shown. Performance inception date is December 31, 2021.

2. Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.

3. Realized gains / (losses) are shown on an amortized cost basis.



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# Issuer Distribution

## Issuer Diversification

| Security Type / Issuer                  | Market Value (%) | S&P / Moody's / Fitch |
|---|------------------|-----------------------|
| <b>U.S. Treasury</b>                    | <b>82.4%</b>     |                       |
| UNITED STATES TREASURY                  | 82.4%            | AA / Aaa / AAA        |
| <b>Negotiable CD</b>                    | <b>1.9%</b>      |                       |
| BARCLAYS PLC                            | 0.9%             | A / Aa / A            |
| TORONTO-DOMINION BANK                   | 1.0%             | A / A / NR            |
| <b>Corporate</b>                        | <b>15.4%</b>     |                       |
| 3M COMPANY                              | 0.6%             | A / A / NR            |
| ADOBE INC                               | 0.7%             | A / A / NR            |
| AMAZON.COM INC                          | 1.2%             | AA / A / AA           |
| APPLE INC                               | 1.0%             | AA / Aaa / NR         |
| BANK OF AMERICA CO                      | 1.2%             | A / A / AA            |
| BRISTOL-MYERS SQUIBB CO                 | 0.7%             | A / A / NR            |
| BURLINGTON NORTHERN SANTA FE            | 0.6%             | AA / A / NR           |
| DEERE & COMPANY                         | 0.6%             | A / A / A             |
| GOOGLE INC                              | 1.0%             | AA / Aa / NR          |
| JP MORGAN CHASE & CO                    | 0.6%             | A / A / AA            |
| MASTERCARD INC                          | 1.6%             | A / Aa / NR           |
| NOVARTIS AG                             | 1.0%             | AA / A / AA           |
| STATE STREET CORPORATION                | 0.6%             | A / A / AA            |
| TARGET CORP                             | 0.6%             | A / A / A             |
| TEXAS INSTRUMENTS INC                   | 1.0%             | A / Aa / NR           |
| THE BANK OF NEW YORK MELLON CORPORATION | 0.9%             | A / A / AA            |
| TOYOTA MOTOR CORP                       | 0.6%             | A / A / A             |
| WAL-MART STORES INC                     | 1.0%             | AA / Aa / AA          |

| Security Type / Issuer   | Market Value (%) | S&P / Moody's / Fitch |
|--------------------------|------------------|-----------------------|
| <b>ABS</b>               | <b>0.3%</b>      |                       |
| HONDA AUTO RECEIVABLES   | 0.2%             | NR / Aaa / AAA        |
| HYUNDAI AUTO RECEIVABLES | 0.2%             | AAA / NR / AAA        |
| <b>Total</b>             | <b>100.0%</b>    |                       |

Ratings shown are calculated by assigning a numeral value to each security rating, then calculating a weighted average rating for each security type / issuer category using all available security ratings, excluding Not-Rated (NR) ratings. For security type / issuer categories where a rating from the applicable NRSRO is not available, a rating of NR is assigned. Includes accrued interest and excludes balances invested in overnight funds.

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- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Refinitiv, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.