



# San Geronio Pass Water Agency

## Investment Performance Review For the Quarter Ended December 31, 2023

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# Market Update

## Current Market Themes



- ▶ The U.S. economy is characterized by:
  - ▶ Economic resilience but expectations for a slowdown
  - ▶ Cooling inflation that still remains above the Federal Reserve's ("Fed") target
  - ▶ The labor market coming into better balance
  - ▶ Consumers that continue to support growth through spending



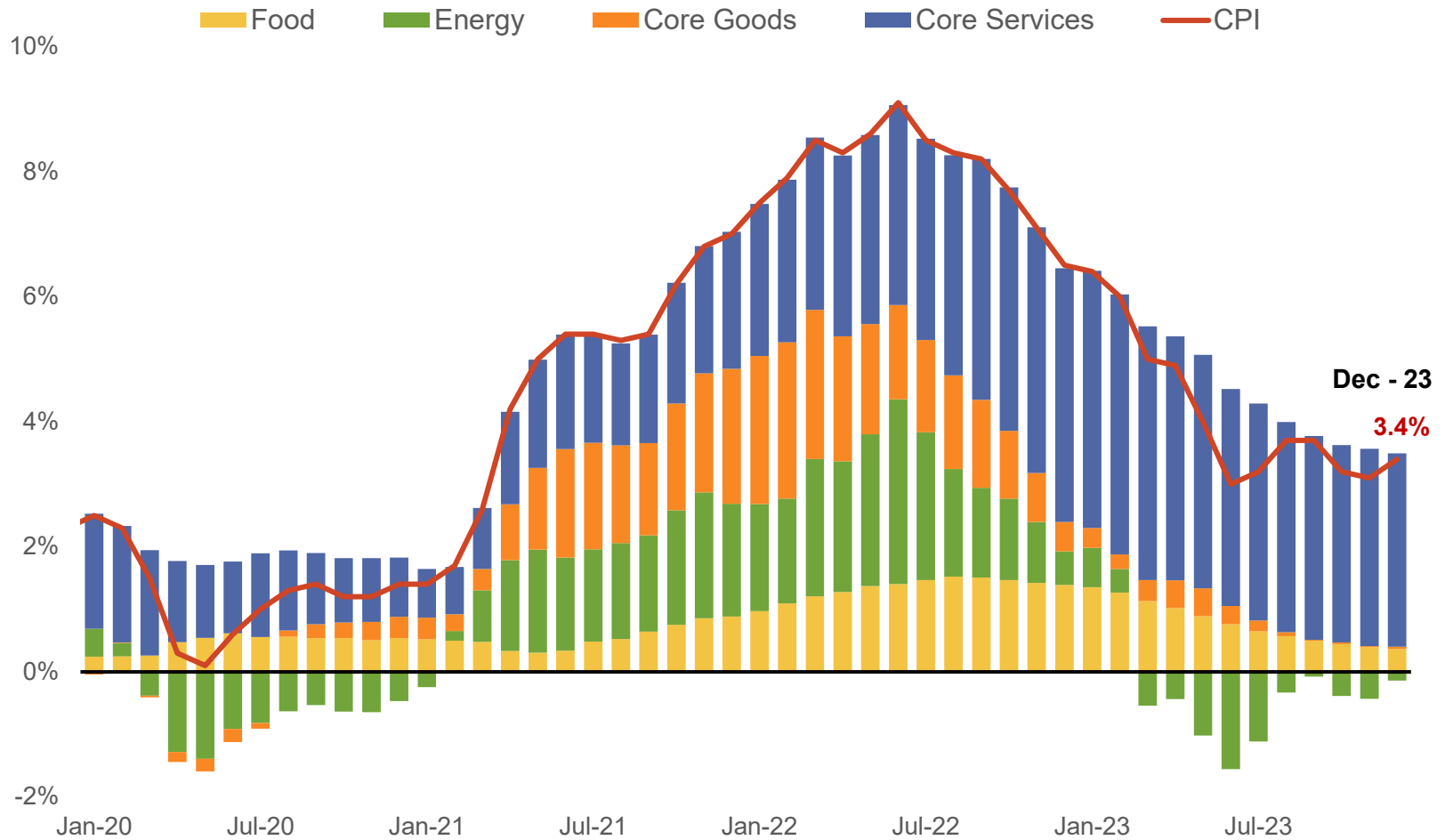
- ▶ Federal Reserve signals end to rate hiking cycle
  - ▶ Fed projected to cut the short-term Fed funds rate by 75 basis points by December 2024, with the overnight rate falling to 4.50% to 4.75%
  - ▶ Markets are pricing a more aggressive 6 rate cuts by year end
  - ▶ Fed officials reaffirm that restoring price stability is the priority



- ▶ Treasury yields ended the quarter materially lower
  - ▶ After peaking in October, yields reversed course on dovish Fed pivot
  - ▶ Yield curve inversion persisted throughout the rally
  - ▶ Credit spreads narrowed sharply on increased expectations for a soft landing

## While Up in December, Inflation Trended Lower During The Quarter

### Factors Contributing to the Consumer Price Index (CPI YoY)



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

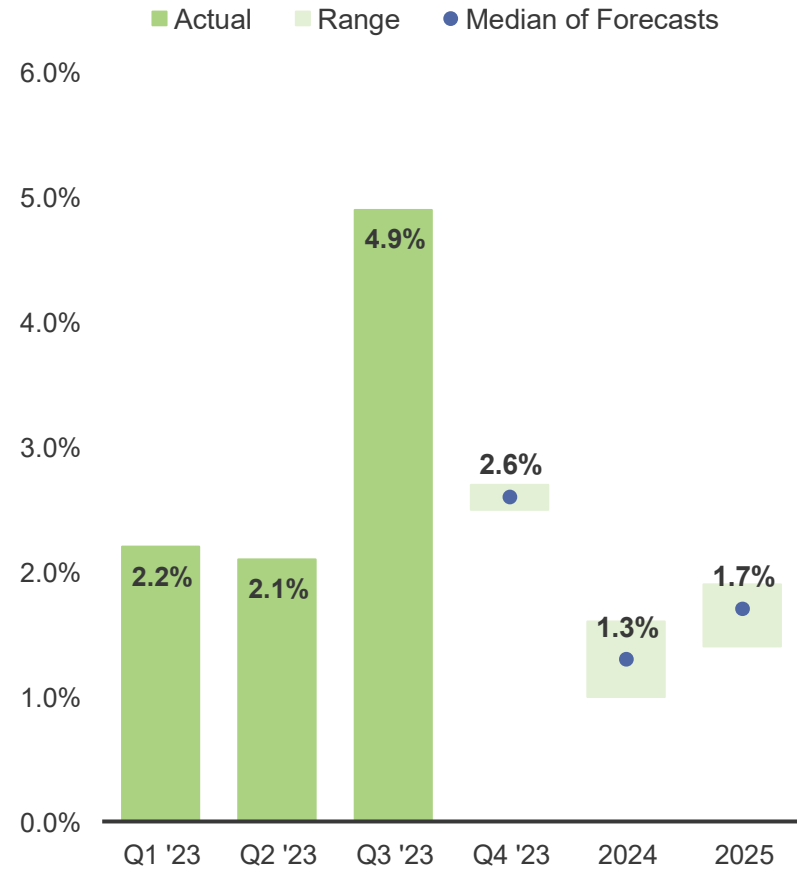
Source: Bloomberg, as of December 2023.

### Balanced Risks Support Soft Landing

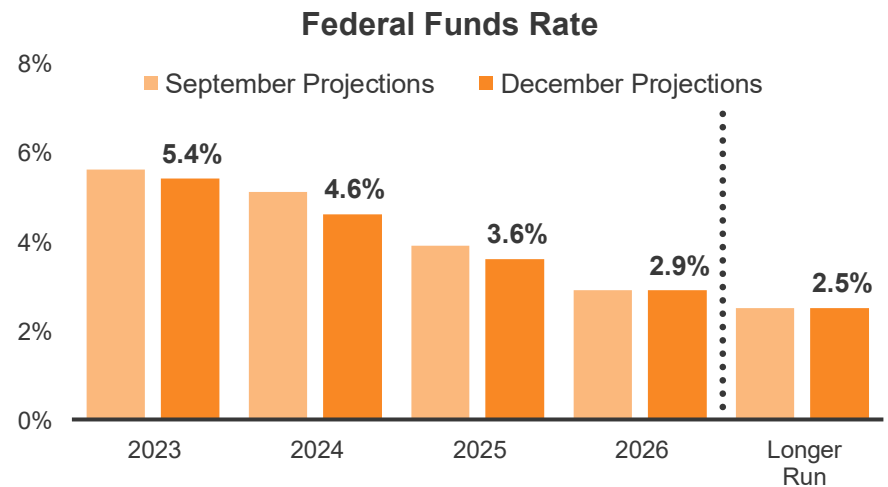
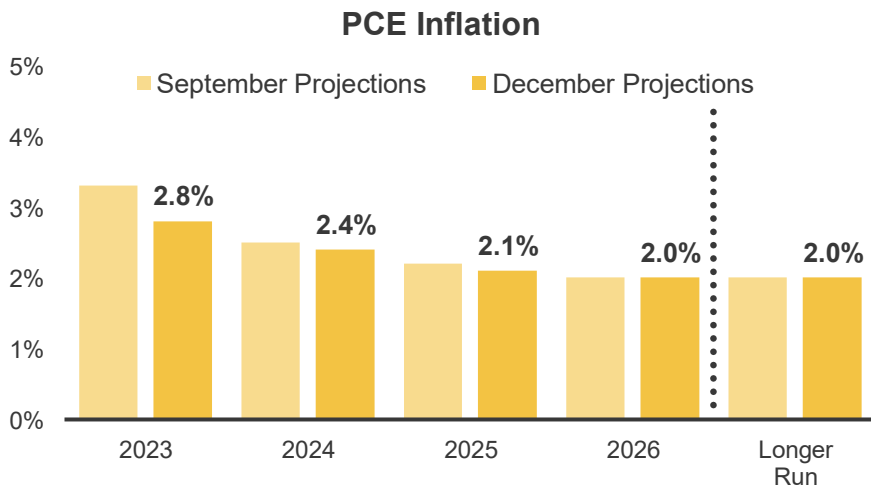
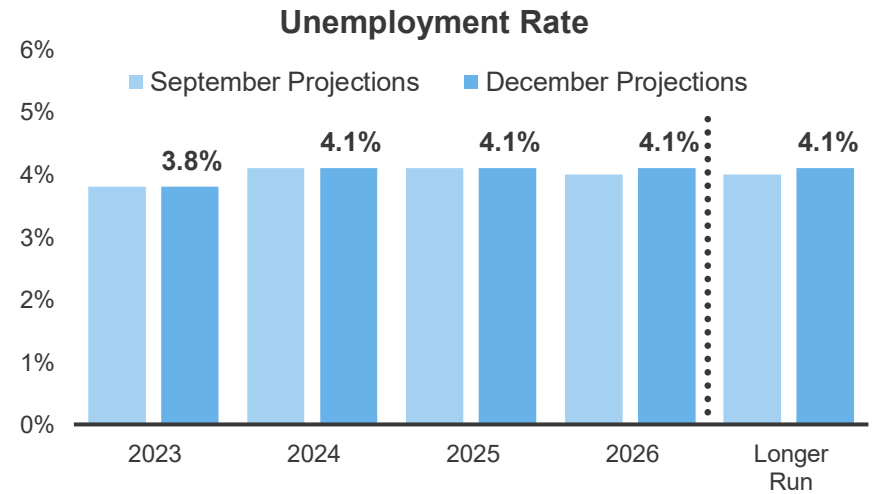
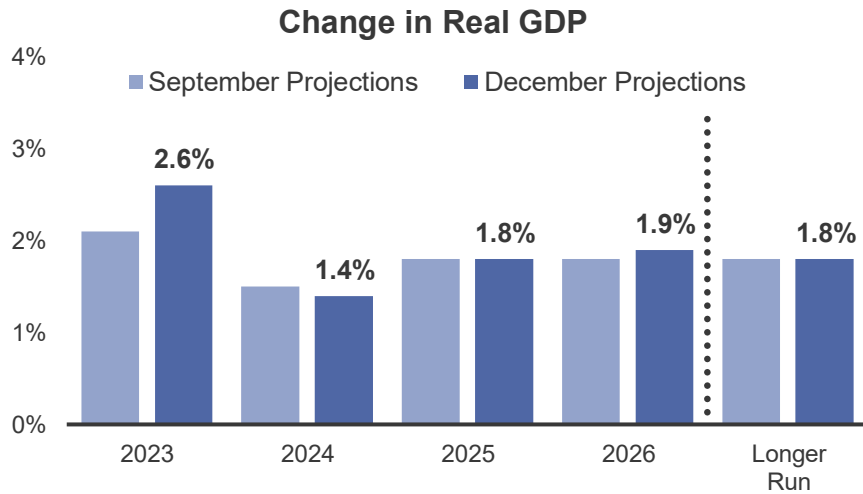
<i>Employment</i>	○	○	●
<i>Wages</i>	○	○	●
<i>Consumer</i>	○	●	○
<i>Inflation</i>	○	●	○
<i>Housing</i>	●	○	○
<i>Manufacturing</i>	●	○	○
<i>Inverted yield curve</i>	○	●	○
<i>Credit spreads</i>	○	○	●
<i>Fed Policy</i>	○	●	○

Source: Bloomberg, Economist Forecasts.

### U.S. GDP Forecasts Annualized Rate



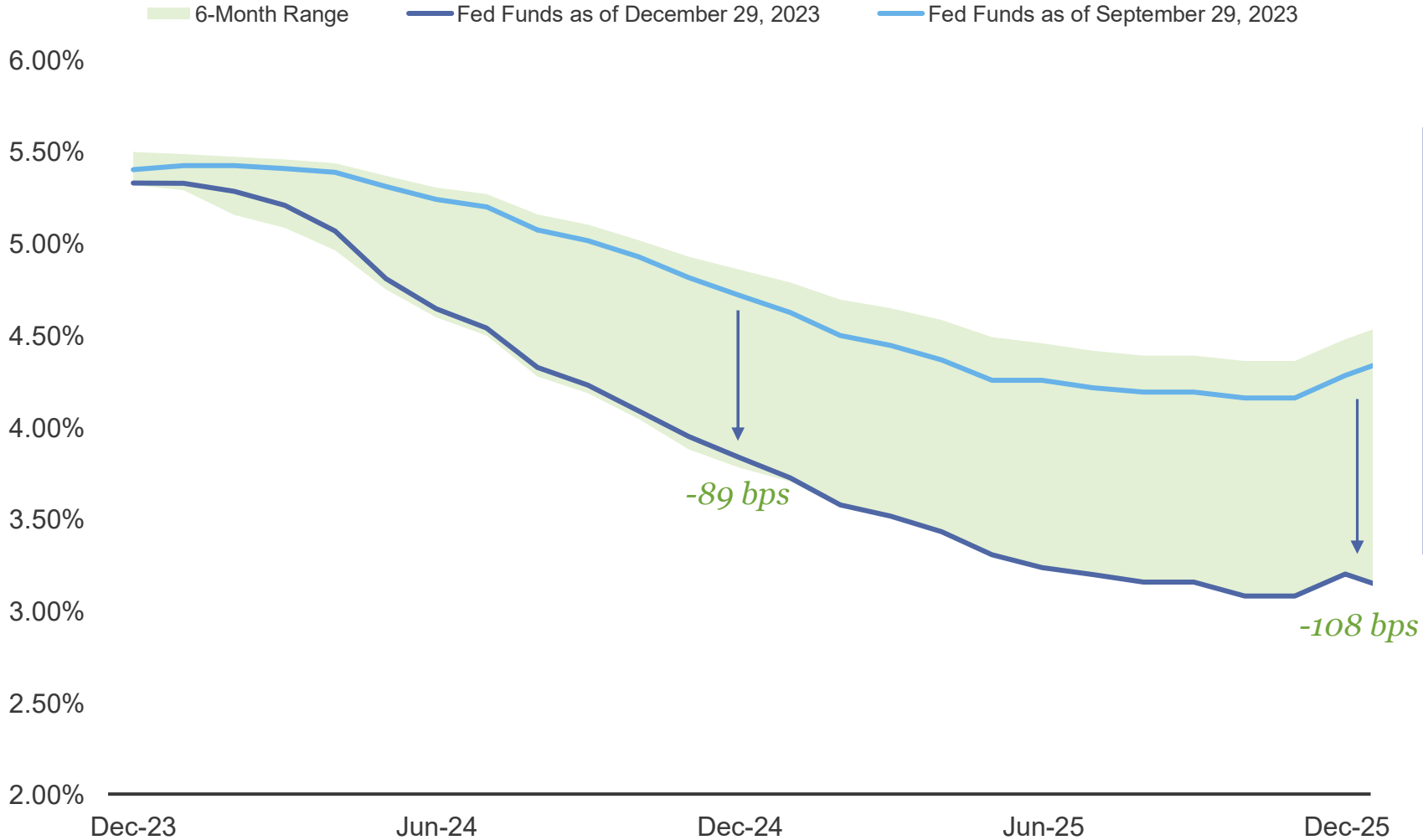
## Federal Reserve Projects a Soft Landing



Source: Federal Reserve, latest economic projections as of December 2023.

## Market Expects Lower Rates

### Implied Fed Funds Rate



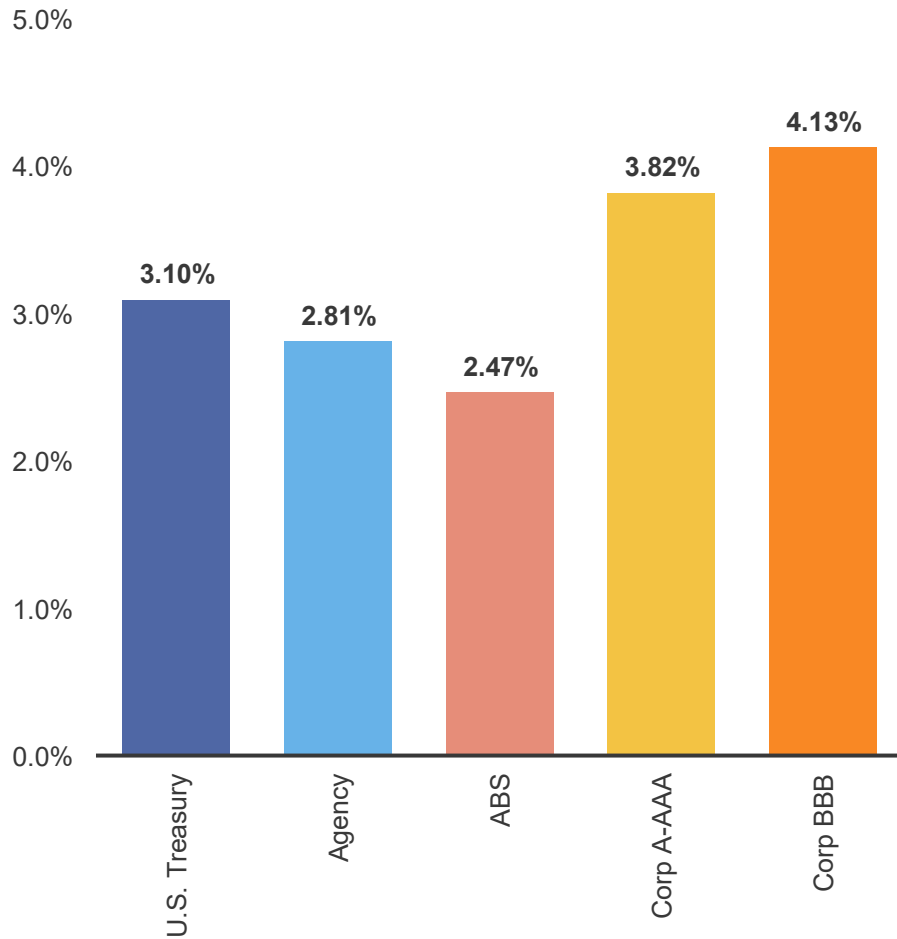
Expectations for Fed Funds have reached their most dovish levels in 6 months in response to falling inflation, Fed pivot and moderating labor market

Source: Bloomberg, as of December 2023.

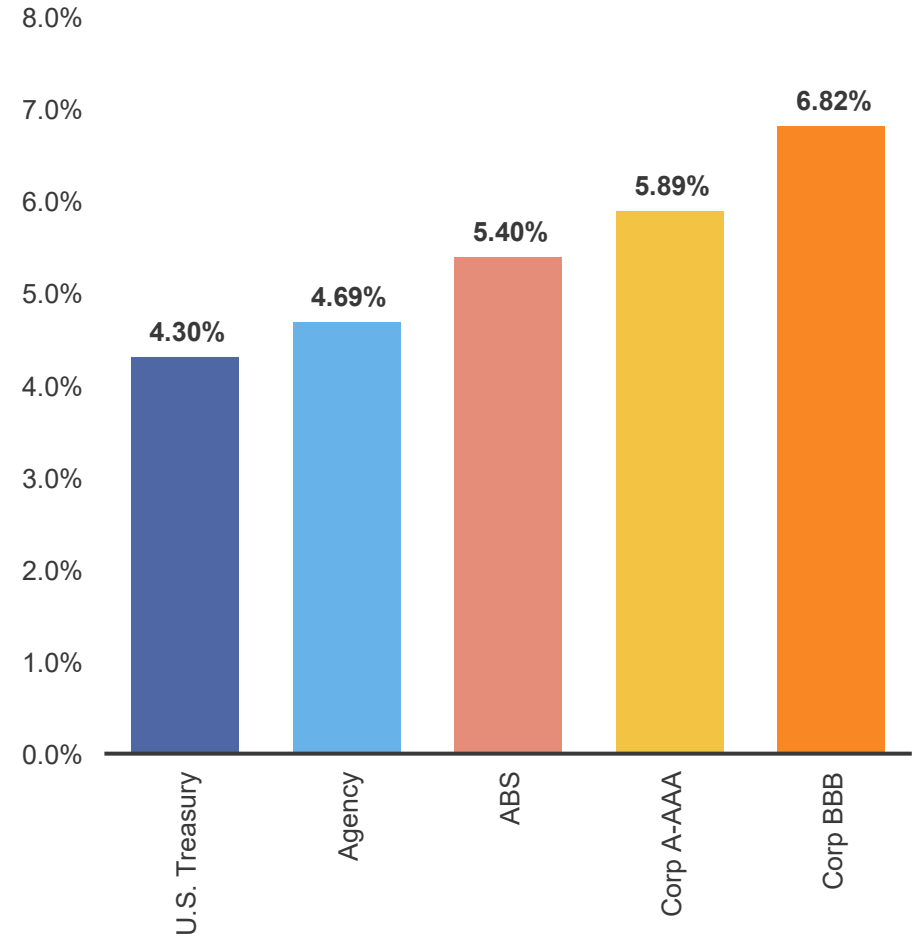
## Fixed-Income Markets in 4Q 2023

### 1-5 Year Indices

1-5 Year Indices Quarterly Returns



1-Year Return



Source: ICE BofA Indices. ABS indices are 0-5 year, based on weighted average life. As of December 31, 2023.



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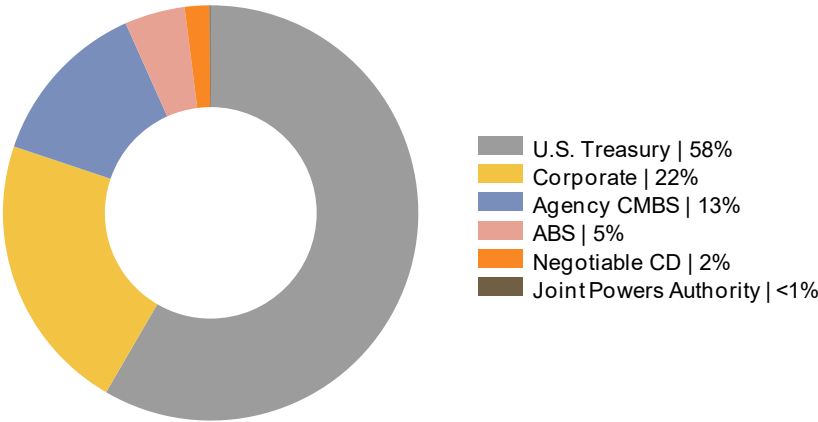
# Portfolio Review

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

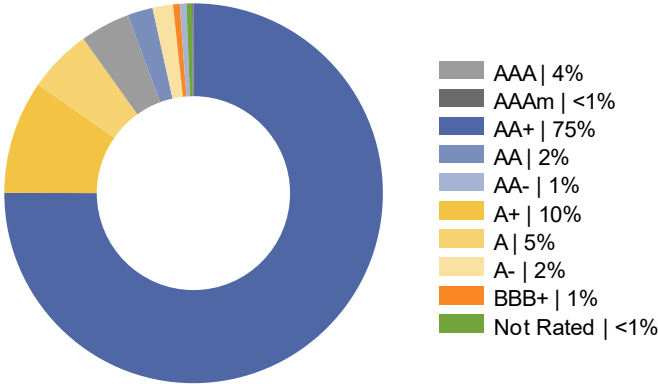
#### Portfolio Statistics

<b>Total Market Value</b>	\$61,950,230.21
Managed Account Sub-Total	\$61,576,323.70
Accrued Interest	\$294,499.22
Pool	\$79,407.29
<b>Portfolio Effective Duration</b>	2.56 years
<b>Benchmark Effective Duration</b>	2.53 years
<b>Yield At Cost</b>	2.98%
<b>Yield At Market</b>	4.35%
<b>Portfolio Credit Quality</b>	AA

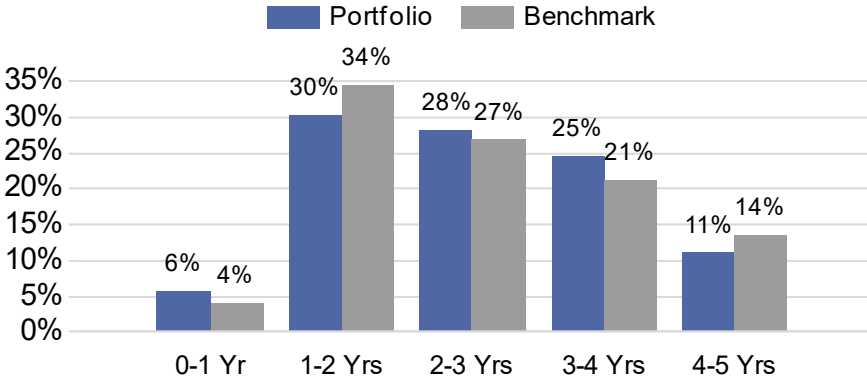
#### Sector Allocation



#### Credit Quality - S&P

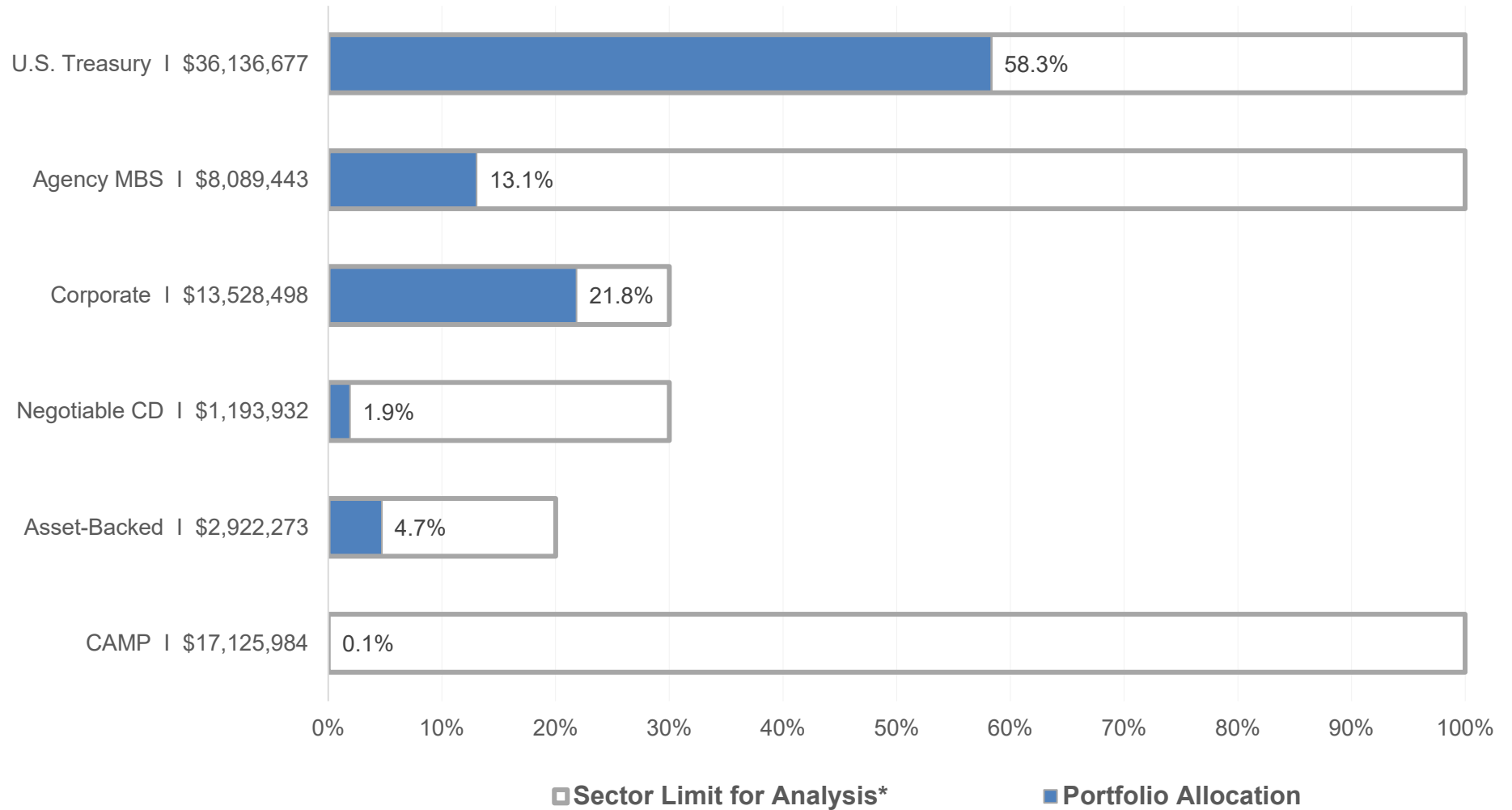


#### Duration Distribution



1. Total market value includes accrued interest and balances invested in CAMP, as of December 31, 2023. Yield and duration calculations exclude balances invested in CAMP. The portfolio's benchmark is the ICE BofA 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

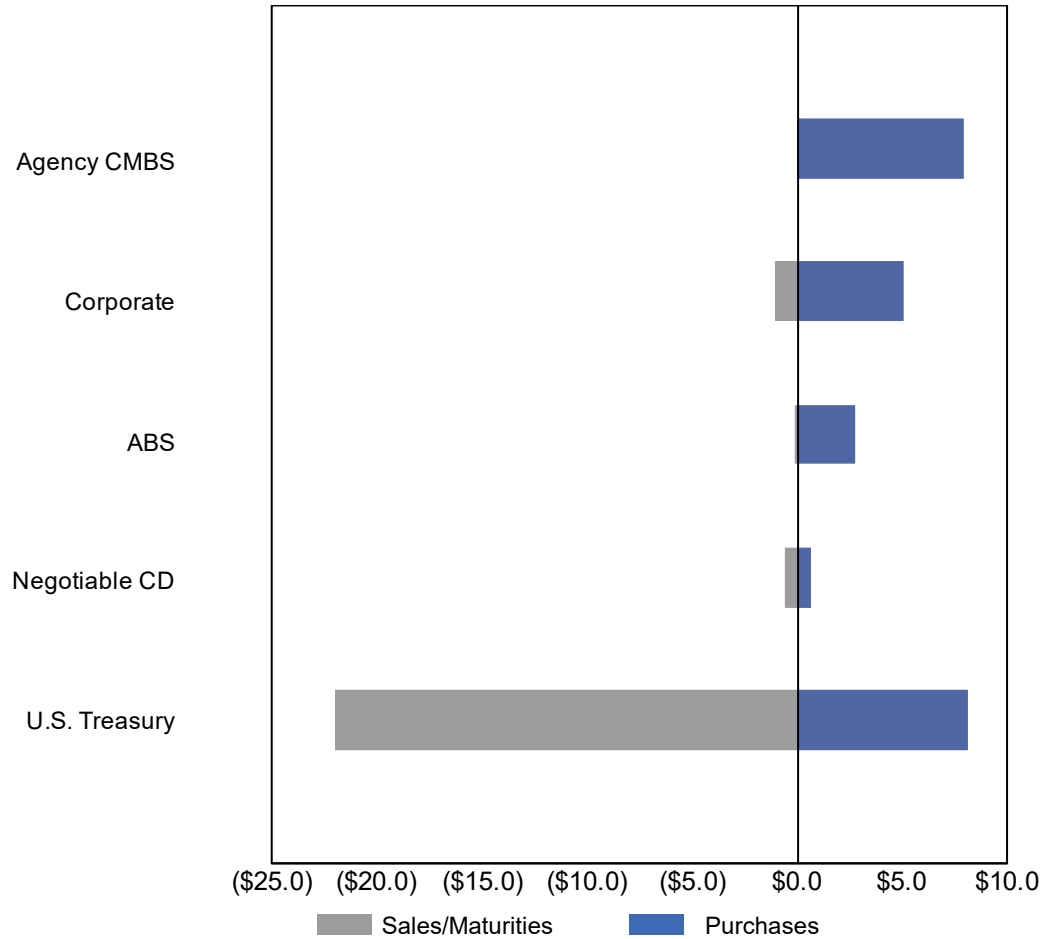
During the reporting period for the quarter ended December 31, 2023, the account(s) managed by PFM Asset Management ("PFMAM") were in compliance with the applicable investment policy and guidelines as furnished to PFMAM.

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)

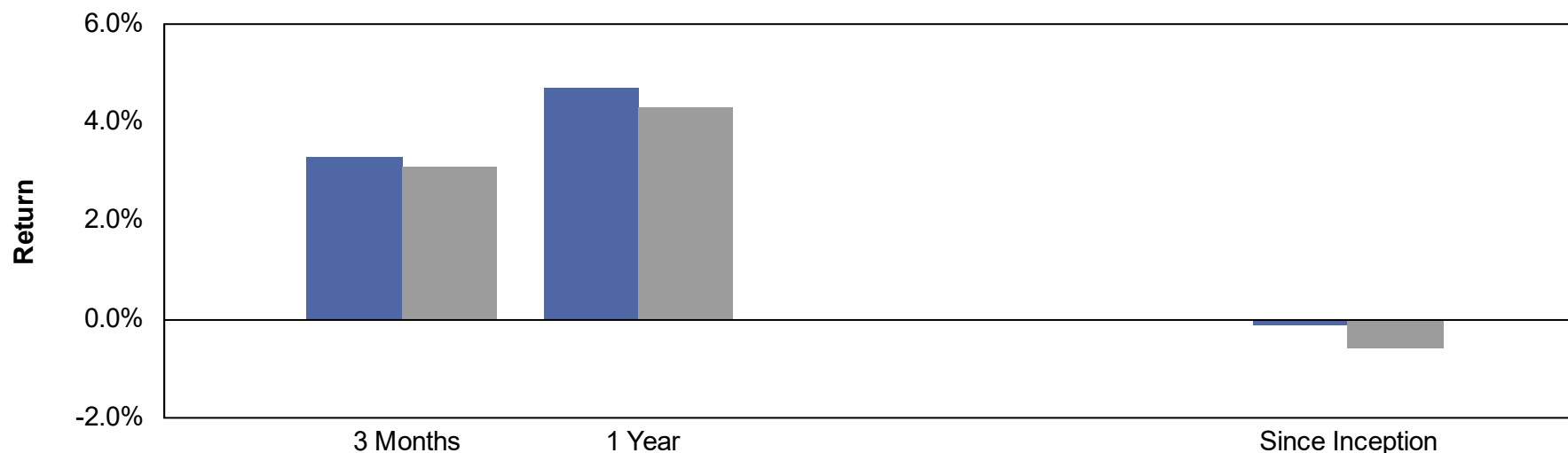


Sector	Net Activity
Agency CMBS	\$7,900,208
Corporate	\$4,076,727
ABS	\$2,668,766
Negotiable CD	\$39,124
U.S. Treasury	(\$13,909,509)
<b>Total Net Activity</b>	<b>\$775,317</b>

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>	\$357,306	\$1,002,721	\$1,495,060
Change in Market Value	\$1,615,390	\$1,777,704	(\$1,569,000)
<b>Total Dollar Return</b>	<b>\$1,972,696</b>	<b>\$2,780,425</b>	<b>(\$73,940)</b>
<b>Total Return<sup>3</sup></b>			
Portfolio	3.29%	4.70%	-0.11%
Benchmark <sup>4</sup>	3.10%	4.30%	-0.59%
<b>Difference</b>	<b>0.19%</b>	<b>0.40%</b>	<b>0.48%</b>

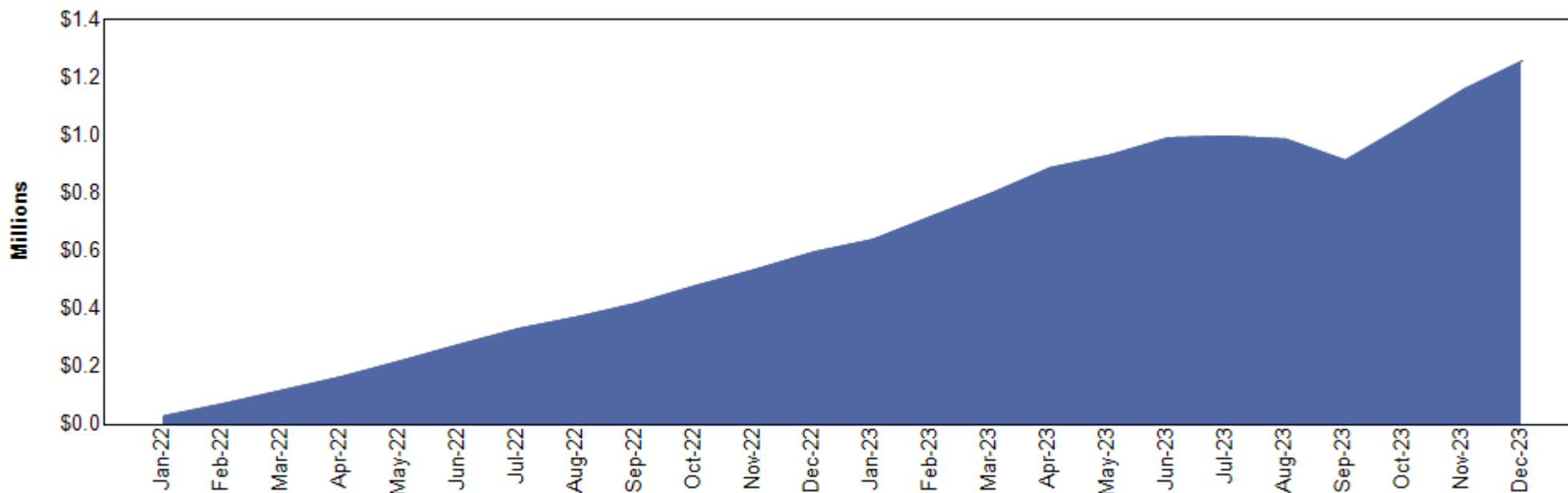
1. The lesser of 10 years or since inception is shown. Since inception returns for periods one year or less are not shown. Performance inception date is December 31, 2021.

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 BofA 1-5 Year U.S. Treasury Index. Source: Bloomberg.

### Accrual Basis Earnings - CA-SAN GORGONIO PASS WATER AGENCY



Accrual Basis Earnings	3 Months	1 Year	Since Inception <sup>1</sup>
Interest Earned <sup>2</sup>	\$357,306	\$1,002,721	\$1,495,060
Realized Gains / (Losses) <sup>3</sup>	(\$105,727)	(\$692,299)	(\$783,828)
Change in Amortized Cost	\$92,465	\$351,240	\$546,305
<b>Total Earnings</b>	<b>\$344,044</b>	<b>\$661,662</b>	<b>\$1,257,537</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.

### Fixed-Income Sector Outlook – 1Q 2024

Sector	Our Investment Preferences
<b>COMMERCIAL PAPER / CD</b>	
<b>TREASURIES</b>	
<b>T-Bill</b>	
<b>T-Note</b>	
<b>FEDERAL AGENCIES</b>	
<b>Bullets</b>	
<b>Callables</b>	
<b>SUPRANATIONALS</b>	
<b>CORPORATES</b>	
<b>Financials</b>	
<b>Industrials</b>	
<b>SECURITIZED</b>	
<b>Asset-Backed</b>	
<b>Agency Mortgage-Backed</b>	
<b>Agency CMBS</b>	
<b>MUNICIPALS</b>	





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# Issuer Distribution

## Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
<b>U.S. Treasury</b>	<b>58.4%</b>	
UNITED STATES TREASURY	58.4%	AA / Aaa / AA
<b>Agency CMBS</b>	<b>13.1%</b>	
FANNIE MAE	1.0%	AA / Aaa / AA
FREDDIE MAC	12.1%	AA / Aaa / AA
<b>Negotiable CD</b>	<b>1.9%</b>	
RABOBANK NEDERLAND	1.0%	A / Aa / AA
TORONTO-DOMINION BANK	1.0%	A / A / NR
<b>Corporate</b>	<b>21.9%</b>	
3M COMPANY	0.6%	BBB / A / NR
ADOBE INC	0.6%	A / A / NR
AMAZON.COM INC	1.2%	AA / A / AA
APPLE INC	2.6%	AA / Aaa / NR
BANK OF AMERICA CO	1.5%	A / Aa / AA
BRISTOL-MYERS SQUIBB CO	0.7%	A / A / NR
BURLINGTON NORTHERN SANTA FE	0.6%	AA / A / NR
CITIGROUP INC	1.5%	A / Aa / A
DEERE & COMPANY	0.8%	A / A / A
GOOGLE INC	1.0%	AA / Aa / NR
HOME DEPOT INC	1.0%	A / A / A
JP MORGAN CHASE & CO	1.5%	A / Aa / AA
MASTERCARD INC	1.6%	A / Aa / NR
PACCAR FINANCIAL CORP	0.8%	A / A / NR
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	0.8%	A / A / AA

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
<b>Corporate</b>	<b>21.9%</b>	
TOYOTA MOTOR CORP	0.6%	A / A / A
WAL-MART STORES INC	1.0%	AA / Aa / AA
WELLS FARGO & COMPANY	1.5%	A / Aa / AA
<b>ABS</b>	<b>4.7%</b>	
AMERICAN EXPRESS CO	0.8%	AAA / NR / AAA
BANK OF AMERICA CO	0.4%	NR / Aaa / AAA
CHASE ISSURANCE	0.8%	AAA / NR / AAA
CITIGROUP INC	0.2%	AAA / Aaa / AAA
FIFTH THIRD AUTO TRUST	0.7%	AAA / Aaa / NR
HONDA AUTO RECEIVABLES	0.8%	AAA / Aaa / AAA
HYUNDAI AUTO RECEIVABLES	0.1%	AAA / NR / AAA
TOYOTA MOTOR CORP	0.2%	AAA / NR / AAA
USAA AUTO OWNER TRUST	0.8%	AAA / Aaa / NR
<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.

## Glossary

- **Accrued Interest:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **Agencies:** Federal agency securities and/or Government-sponsored enterprises.
- **Amortized Cost:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **Asset-Backed Security:** A financial instrument collateralized by an underlying pool of assets – usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, and receivables.
- **Bankers' Acceptance:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **Commercial Paper:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **Contribution to Total Return:** The weight of each individual security multiplied by its return, then summed for each sector to determine how much each sector added or subtracted from the overall portfolio performance.
- **Effective Duration:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **Effective Yield:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **Interest Rate:** Interest per year divided by principal amount and expressed as a percentage.
- **Market Value:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
- **Negotiable Certificates of Deposit:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **Par Value:** The nominal dollar face amount of a security.
- **Pass-through Security:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.

## Glossary

- Repurchase Agreements: A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- Settle Date: The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- Supranational: A multinational union or association in which member countries cede authority and sovereignty on at least some internal matters to the group, whose decisions are binding on its members.
- Trade Date: The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- Unsettled Trade: A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- U.S. Treasury: The department of the U.S. government that issues Treasury securities.
- Yield: The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- YTM at Cost: The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- YTM at Market: The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.