

# Marion County Board of County Commissioners

**Investment Performance Review**

**Fiscal Year Ended September 30, 2023**

January 2024

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**pfmam.com**

*PFM Asset Management LLC*

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# Agenda

- ▶ **Market Update**
- ▶ **Annual Investment Report Summary**
- ▶ **Asset Allocation**
- ▶ **PFMAM-Managed Pooled Operating Fund**
- ▶ **Important Disclosures**

# 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



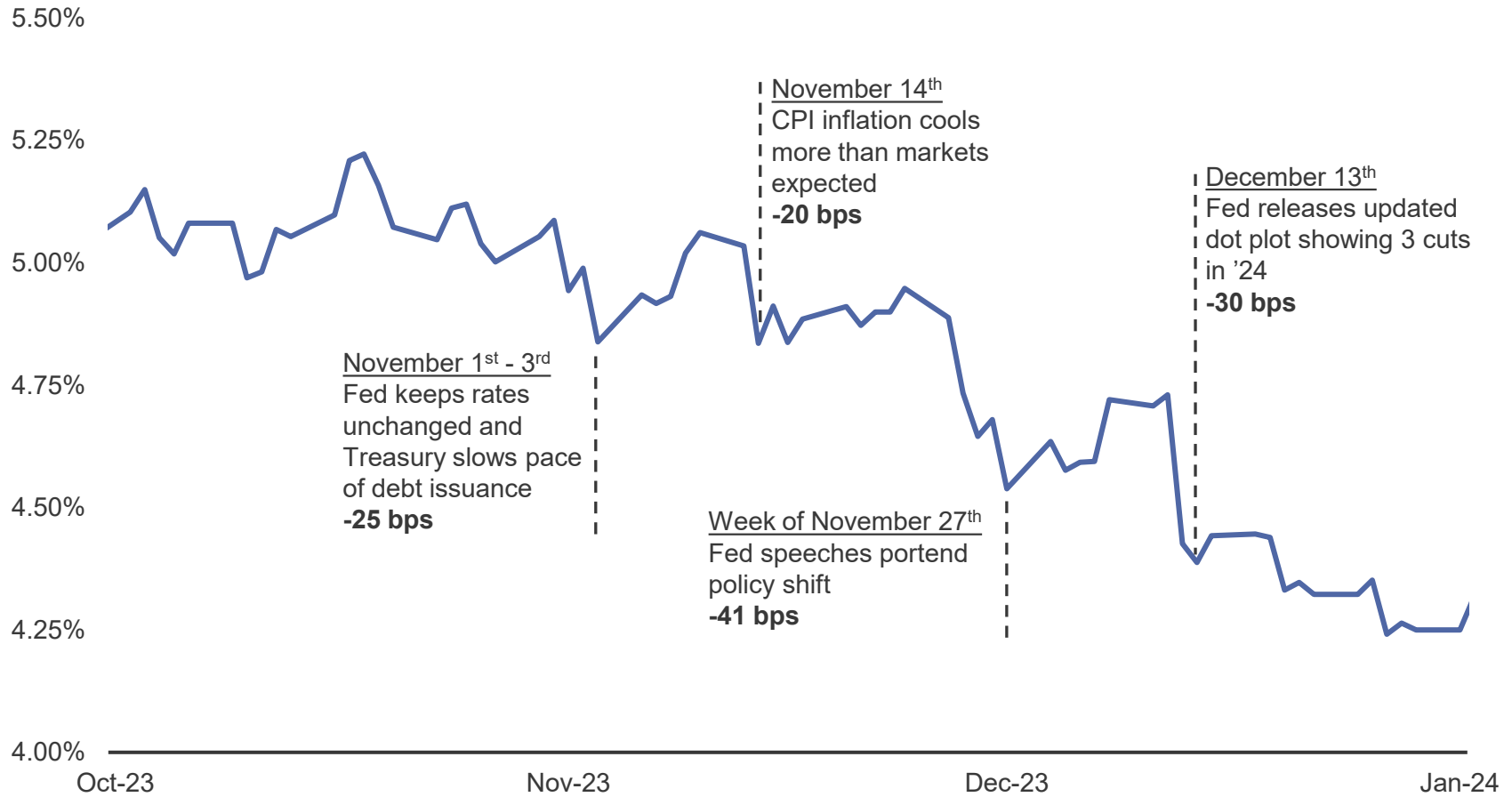
- ▶ Federal Reserve signals end to rate hiking cycle
  - ▶ Fed projected to cut the short-term Fed funds rate by 75 basis points by December 2024, with the overnight rate falling to 4.50% to 4.75%
  - ▶ Markets are pricing a more aggressive 6 rate cuts by year end
  - ▶ Fed officials reaffirm that restoring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

# Rates Fall on Softer Inflation and Fed Pivot

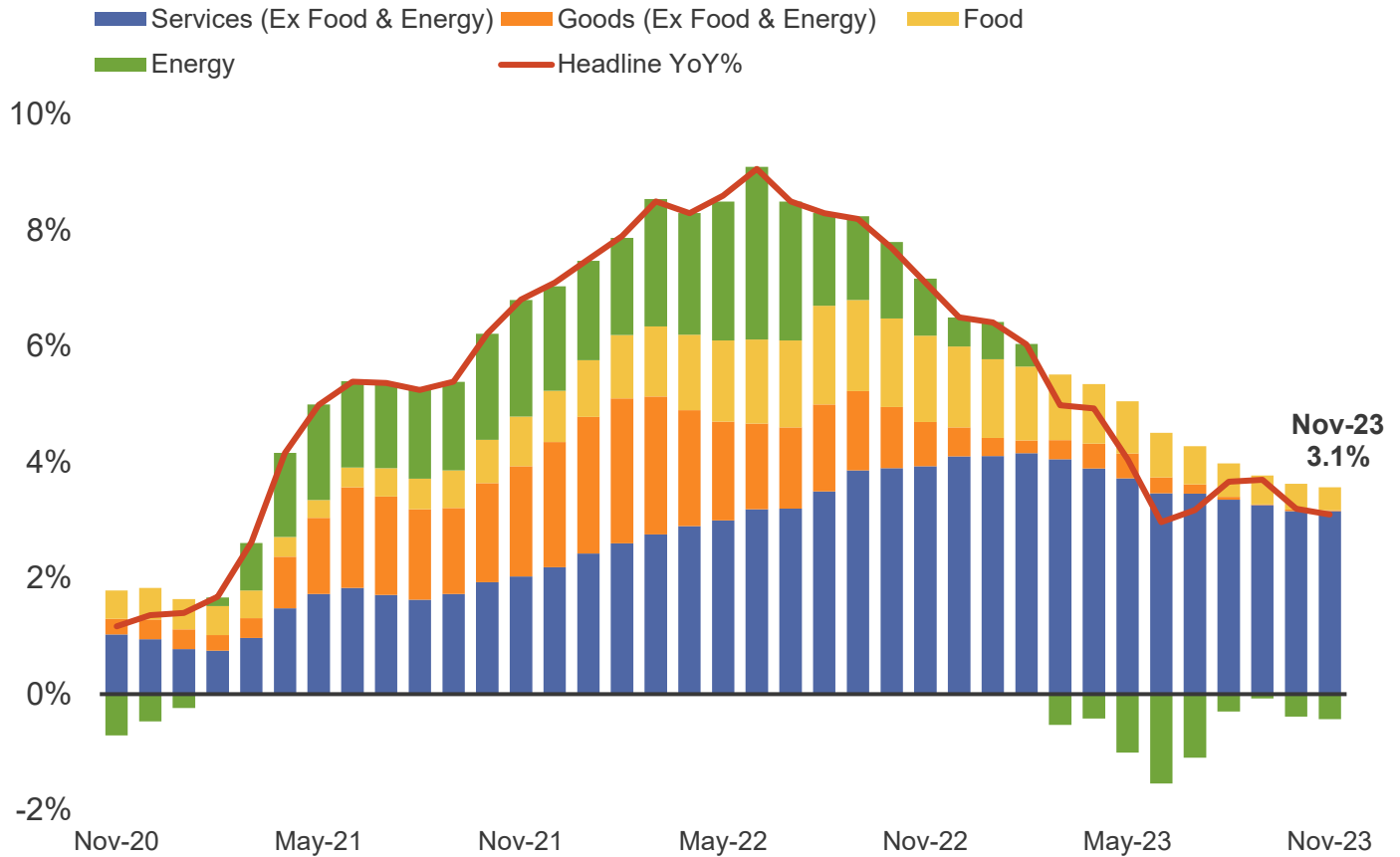
## 2-Year US Treasury Yield



Source: Bloomberg; as of 12/31/2023.

# Inflation Continues to Trend Lower

## Consumer Prices (CPI) Year-over-Year Change in Top-Line Contributions

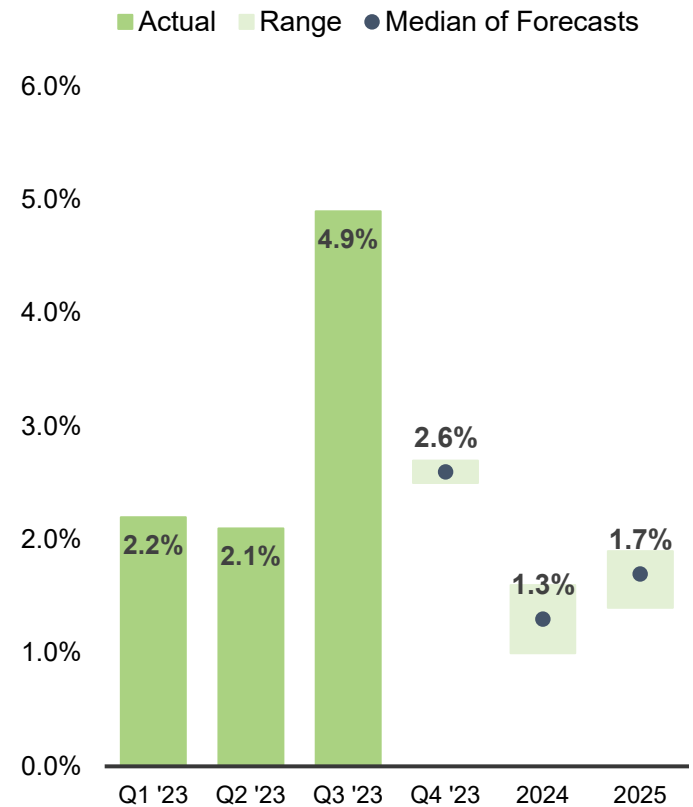


Lower energy and goods prices help to offset increases in wage-driven services costs

# Balanced Risks Support Soft Landing

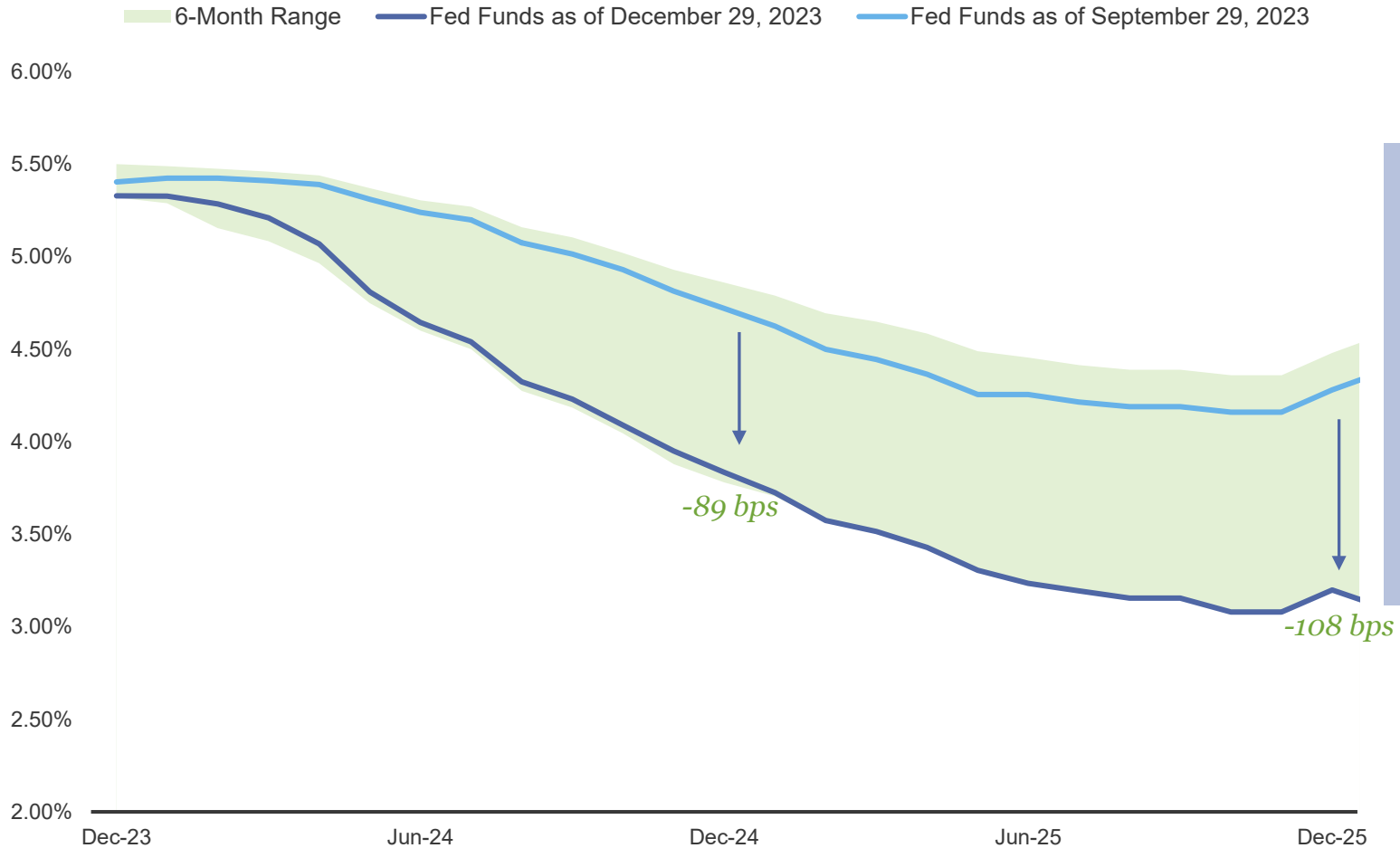
<i>Consumer</i>	○	●	○
<i>Wages</i>	○	○	●
<i>Credit spreads</i>	○	○	●
<i>Employment</i>	○	○	●
<i>Inflation</i>	○	●	○
<i>Housing</i>	●	○	○
<i>Manufacturing</i>	●	○	○
<i>Inverted yield curve</i>	○	●	○
<i>Rate hike cycle</i>	○	●	○

## U.S. GDP Forecasts Annualized Rate



# Market Expects Lower Rates

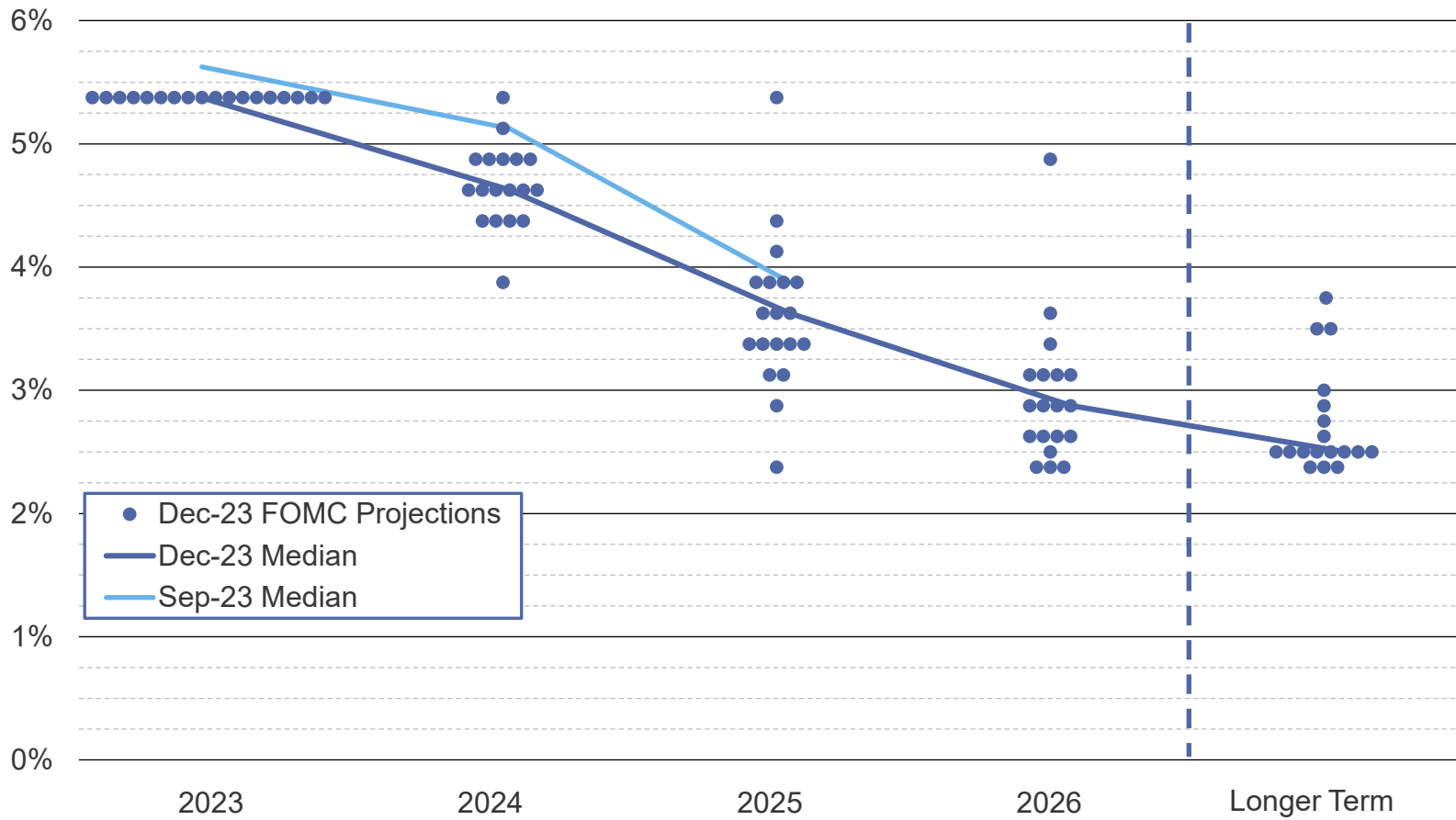
## Implied Fed Funds Rate



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

# Fed's Updated "Dot Plot" Also Shows Lower Rate Trajectory

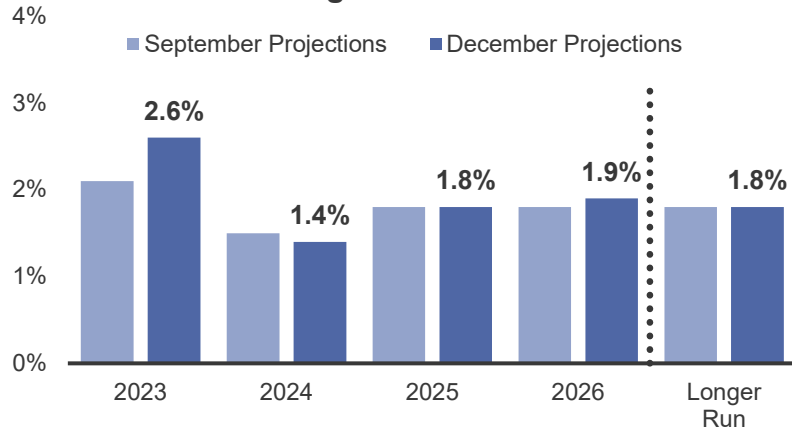
## Fed Participants' Assessments of 'Appropriate' Monetary Policy



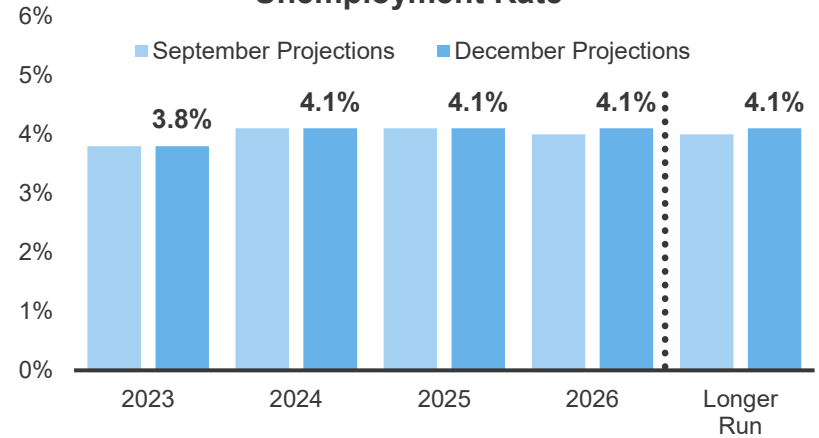
Source: Federal Reserve. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.

# Federal Reserve Projects a Soft Landing

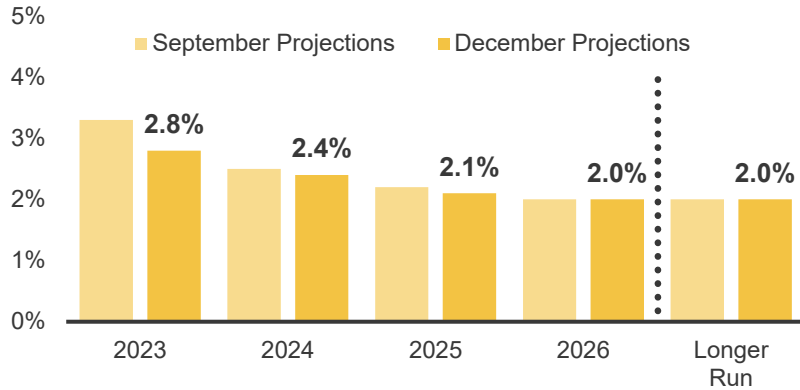
## Change in Real GDP



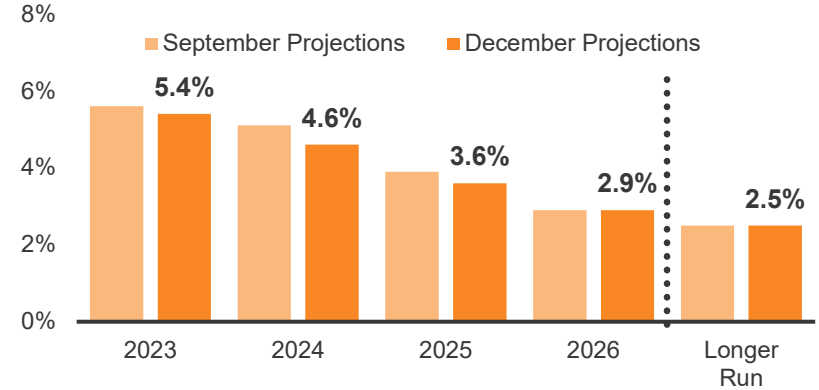
## Unemployment Rate



## PCE Inflation



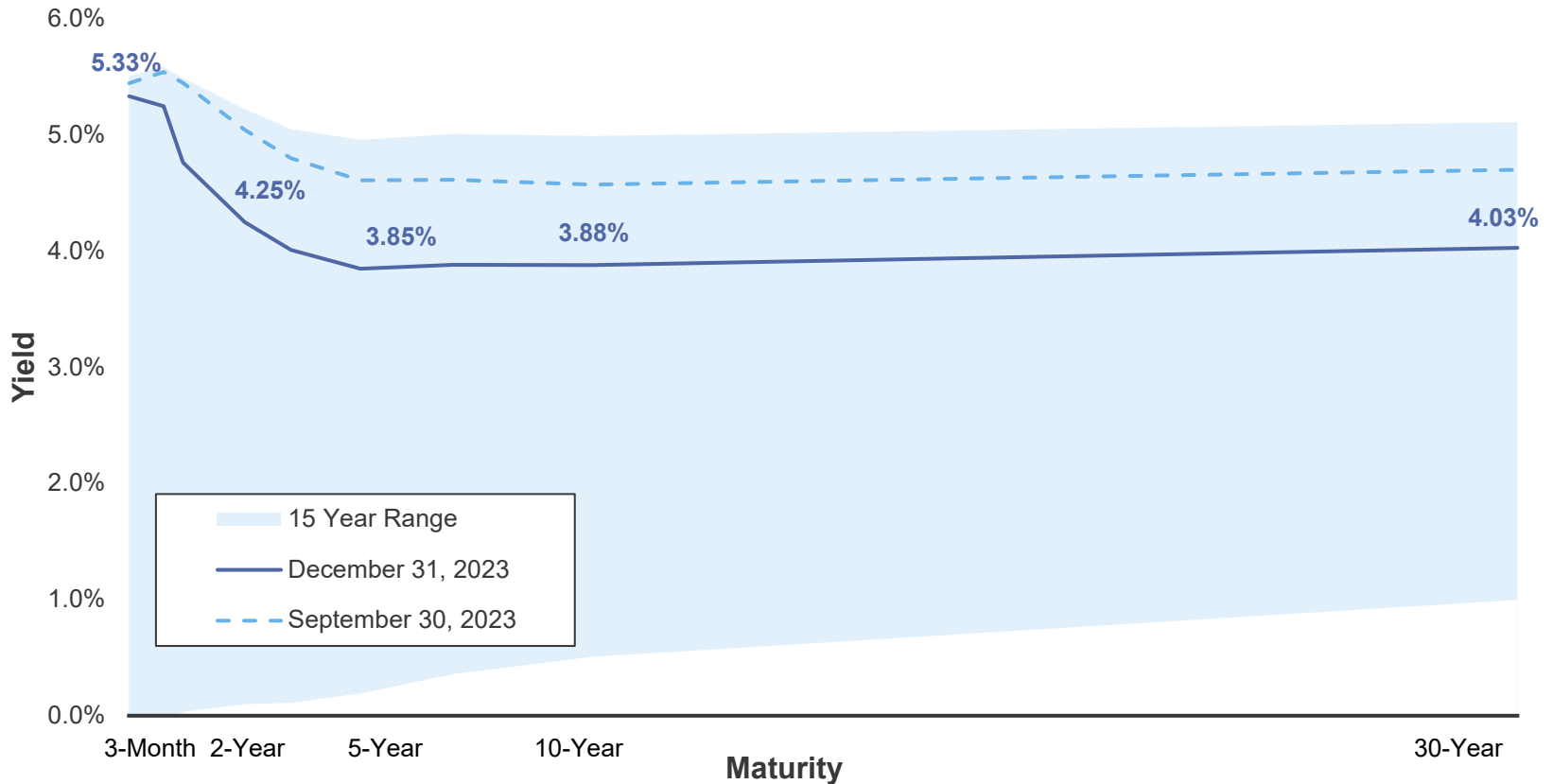
## Federal Funds Rate



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

# Interest Rates Moderate But Remain High

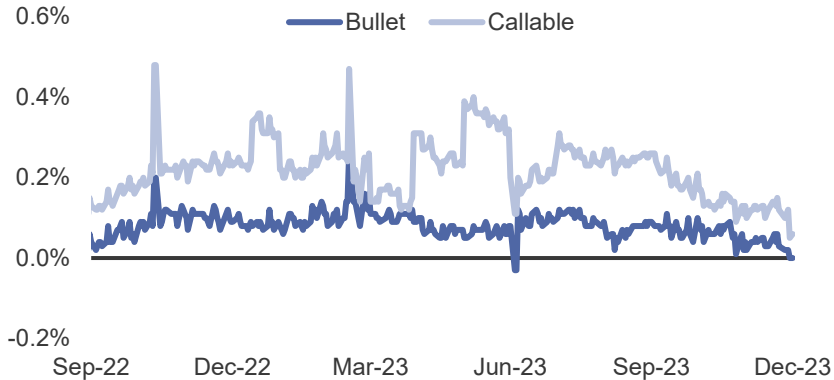
## U.S. Treasury Yield Curve



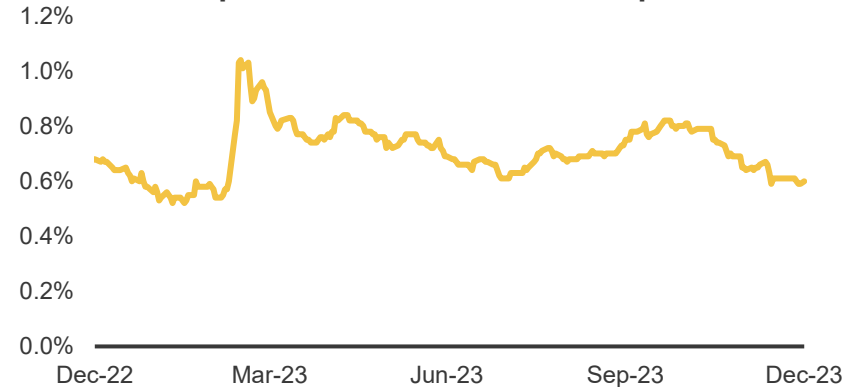
Source: Bloomberg, as of December 31, 2023.

# Sector Yield Spreads

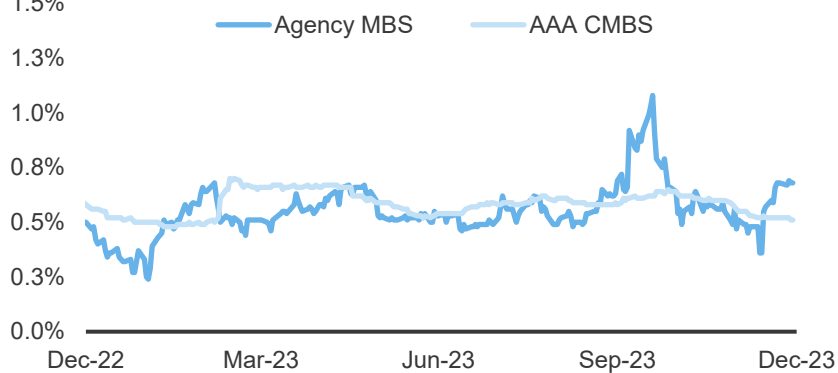
### Federal Agency Yield Spreads



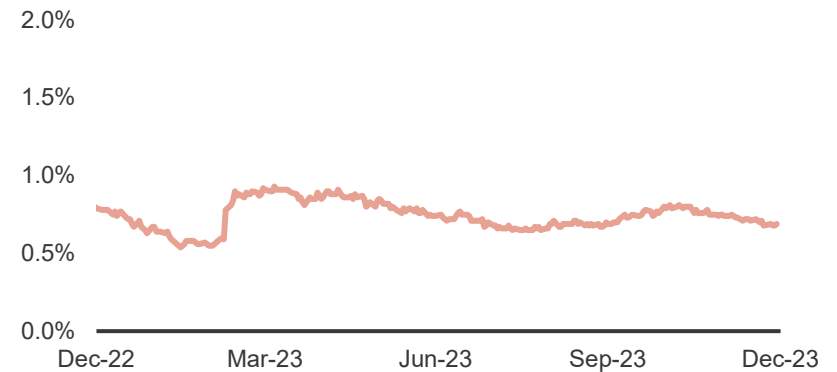
### Corporate Notes A-AAA Yield Spreads



### Mortgage-Backed Securities Yield Spreads



### Asset-Backed Securities AAA Yield Spreads

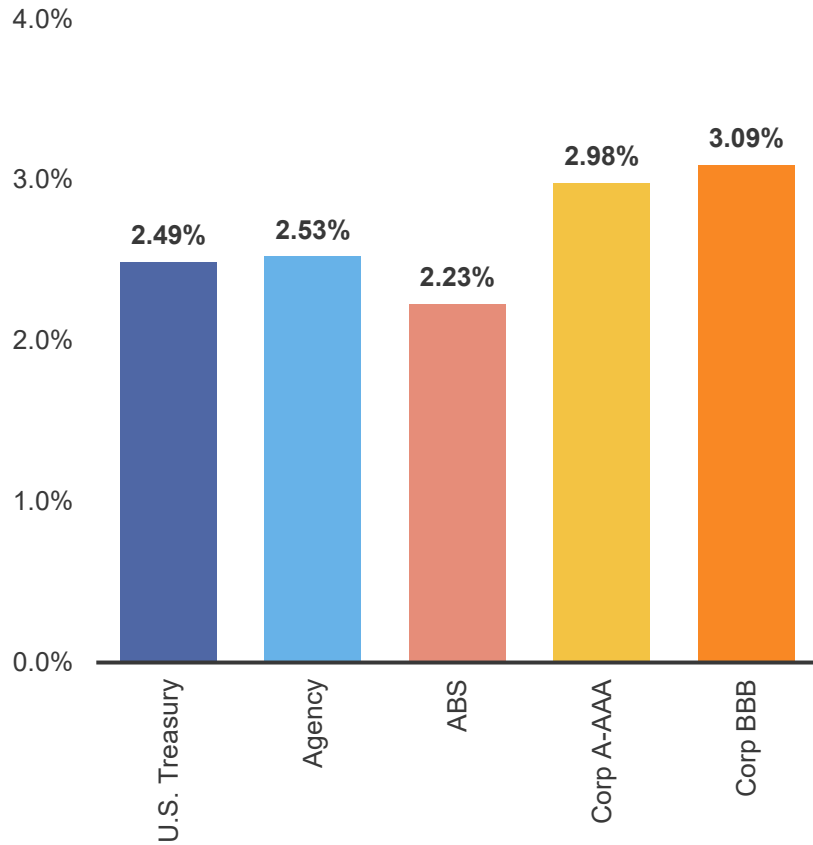


Source: ICE BofA 1-3 year Indices via Bloomberg, MarketAxess and PFMAM as of December 31, 2023. Spreads on ABS and MBS are option-adjusted spreads of 0-3 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities and represented by the ICE BofA Agency CMBS Index.

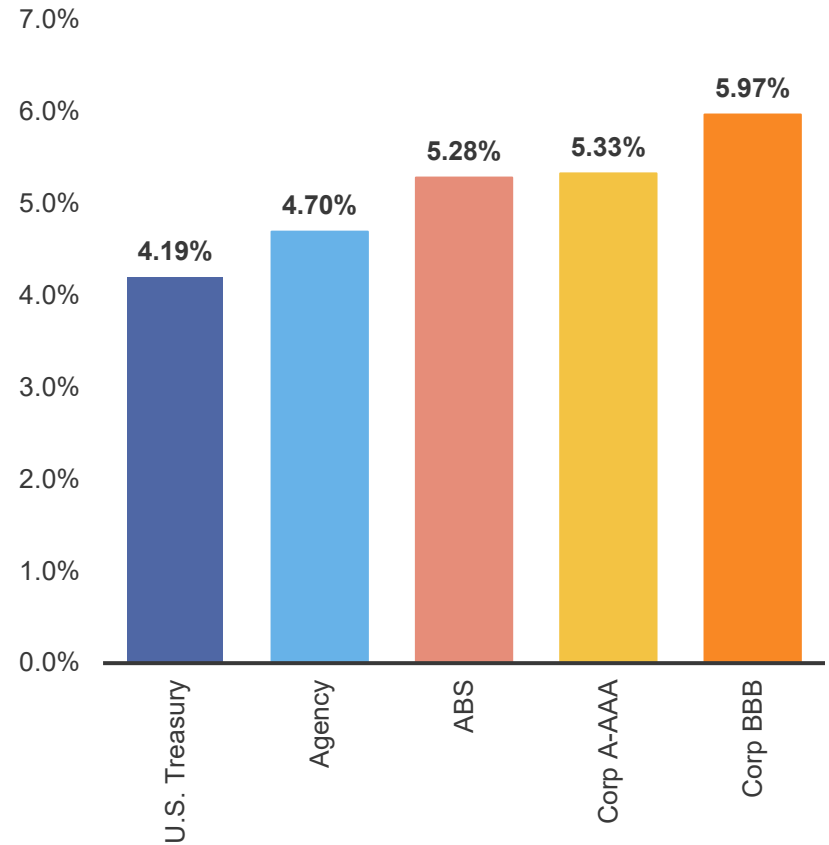
# Fixed-Income Market Returns in 4Q 2023

## 1-3 Year Indices

1-3 Year Indices Quarterly Returns



1-Year Return



Source: ICE BofA Indices. ABS indices are 0-3 year, based on weighted average life. As of December 31, 2023.

# Fixed-Income Sector Commentary – 4Q 2023

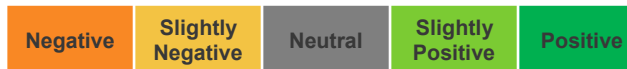
- ▶ **U.S. Treasury** yields are lower by 70-80 basis points over the quarter for maturities greater than one year as markets have now priced five to six rate cuts in 2024. While the curve remains inverted, yield levels remain above their 30-year averages.
- ▶ **Federal agency** spreads remained tight and issuance was light. As a result, value during Q4 was limited. Excess returns of callable structures outperformed bullets as spreads narrowed from historical wides.
- ▶ **Supranational** spreads, similar to agencies, remained low and range-bound on limited supply, favoring opportunities in other sectors.
- ▶ **Taxable Municipal** issuance remained heavily oversubscribed due to a lack of supply. The secondary market had limited opportunities to pick up yield versus similarly-rated corporates.
- ▶ **Investment-Grade Corporates** were one of the best performing fixed-income sectors for both Q4 and calendar year 2023. After a brief broad market de-risking in late September and most of October, the IG corporate sector did an about-face and finished the year with spreads rallying to their lowest levels in over nine months. Strong economic conditions, the increasing perception of a soft landing, and robust demand for the sector fueled the market rally, as longer duration and lower quality issuers outperformed.
- ▶ **Asset-Backed Securities** generated positive excess returns in Q4, although not to the same extent as corporates. While spreads tightened into year-end, the relatively muted rally vs. other non-government sectors possibly underscores the market expectation for modestly weaker consumer fundamentals moving forward. Incremental income from the sector remains attractive and our fundamental outlook for the economy is supportive for the sector.
- ▶ **Mortgage-Backed Securities** were one of the best performing investment grade sectors in Q4 despite a roller coaster pathway. After widening in October to their highest levels since the spring of 2020, spreads proceeded to rally into year-end, finishing near nine-month lows.
- ▶ **Short-term credit** (commercial paper and negotiable CDs) spreads tightened over the quarter and the credit curve flattened modestly. Shorter-term maturities are less attractive and we prefer issuers with maturities between 6 and 12 months.

# Fixed-Income Sector Outlook – 1Q 2024

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

● Current outlook

○ Outlook one quarter ago



# Annual Investment Report Summary



# Pooled Operating Portfolio Fact Sheet

<b>Ending Balance as of September 30, 2023</b>	<b>Balances</b>		<b>Average Duration (in Years)</b>	<b>Last 12 Months</b>	<b>March 31, 2004</b>
Market Value	\$132,315,270		Pooled Operating Portfolio	1.68	1.68
Amortized Cost	\$135,969,349		Merrill Lynch 1-3 Year U.S. Treasury Benchmark	1.68	1.77
<b>Total Return</b>	<b>Portfolio</b>	<b>Benchmark</b>	<b>Realized Gains/(Loss) on Sells</b>	<b>Fiscal Year 2023</b>	<b>Fiscal Year 2022</b>
Quarterly Return	0.90%	0.74%	Pooled Operating Portfolio	\$(1,794,187)	\$(462,810)
Annual Return	3.21%	2.47%	<b>Interest Earnings</b>	<b>Last 12 Months</b>	<b>Since Inception<sup>2</sup></b>
Since Inception - March 31, 2004	2.05%	1.67%	Pooled Operating Portfolio	\$596,585	\$47,744,190
<b>Return in Dollars over the Benchmark<sup>1</sup></b>	<b>Last 12 Months</b>	<b>Since Inception<sup>2</sup></b>	<b>Standard &amp; Poor's Credit Ratings</b>	<b>Last 12 Months</b>	<b>Since Inception<sup>2</sup></b>
Pooled Operating Fund	\$973,775	\$9,792,770	Pooled Operating Portfolio	AA	AA+

1. Based on Market Value as of September 30, 2023.

2. Pooled Operating Portfolio inception date March 31, 2004.

# Investment Balances & Interest Income as of September 30, 2023

Marion County Board of County Commissioners  
Summary of Investment Balances and Interest Income as of September 30, 2023

Investments <sup>1</sup>	Enterprise Funds							Total
	General Fund	Special Revenue	Debt Service	Capital Project	Solid Waste	Utility	Internal Service	
Corporate Obligations	13,997,014	16,200,673	-	7,341,073	19,129,210	12,768,787	6,959,380	76,396,137
Federal National Mtg Assc.	455,779	527,536	-	239,045	622,897	415,785	226,616	2,487,658
Federal Home Loan Mtg Corp.	1,680,447	1,945,013	-	881,351	2,296,606	1,532,989	835,526	9,171,932
United States Treasury	7,987,332	9,244,840	-	4,189,150	10,915,996	7,286,450	3,971,338	43,595,105
Municipal Bonds	128,324	148,528	-	67,303	175,376	117,064	63,804	700,399
<b>Total Securities</b>	<b>\$ 24,248,897</b>	<b>\$ 28,066,589</b>	<b>\$ -</b>	<b>\$ 12,717,921</b>	<b>\$ 33,140,085</b>	<b>\$ 22,121,075</b>	<b>\$ 12,056,663</b>	<b>\$ 132,351,230</b>
Truist Money Market Fund	968	1,121	-	508	1,324	883	482	5,286
Florida Prime (SBA)	61,940,527	206,921,979	3,447,240	109,089,607	38,710,153	41,533,002	17,088,308	478,730,816
Florida PALM	10,468,904	31,246,187	-	30,815,674	-	-	-	72,530,764
<b>Total Investments</b>	<b>96,659,296</b>	<b>266,235,875</b>	<b>3,447,240</b>	<b>152,623,710</b>	<b>71,851,562</b>	<b>63,654,961</b>	<b>29,145,452</b>	<b>683,618,096</b>
<b>Interest Income<sup>2</sup></b>	<b>4,136,000</b>	<b>13,121,084</b>	<b>36,160</b>	<b>6,019,470</b>	<b>2,699,057</b>	<b>2,546,955</b>	<b>1,125,455</b>	<b>29,684,182</b>

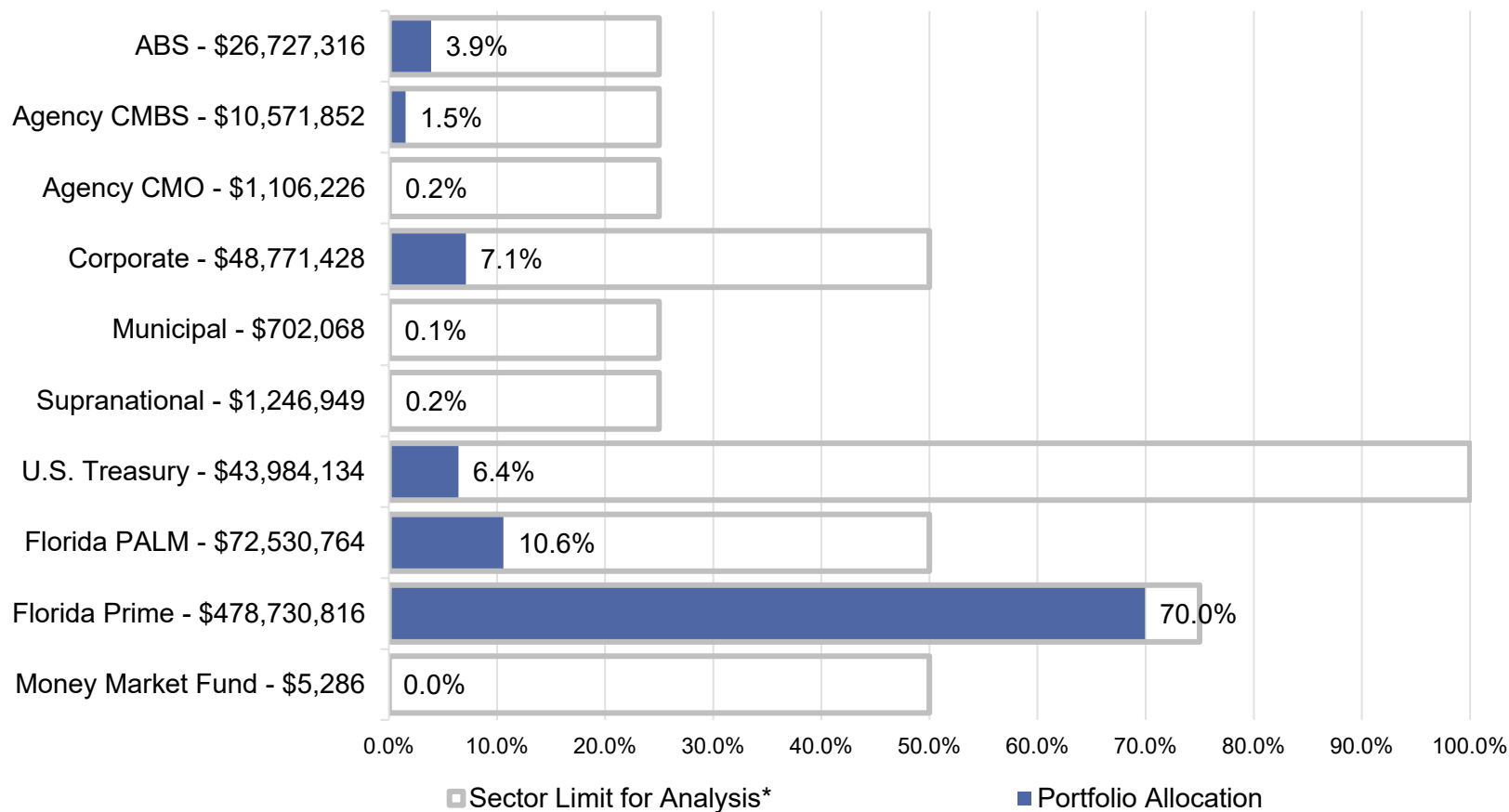
1. This page was prepared by Marion County and included in the report at the request of Marion County.
2. Investment balances are reported on market value, not including accrued interest.
3. Interest income is reported on total return basis with accrued interest.

# Asset Allocation



# Sector Allocation Analytics

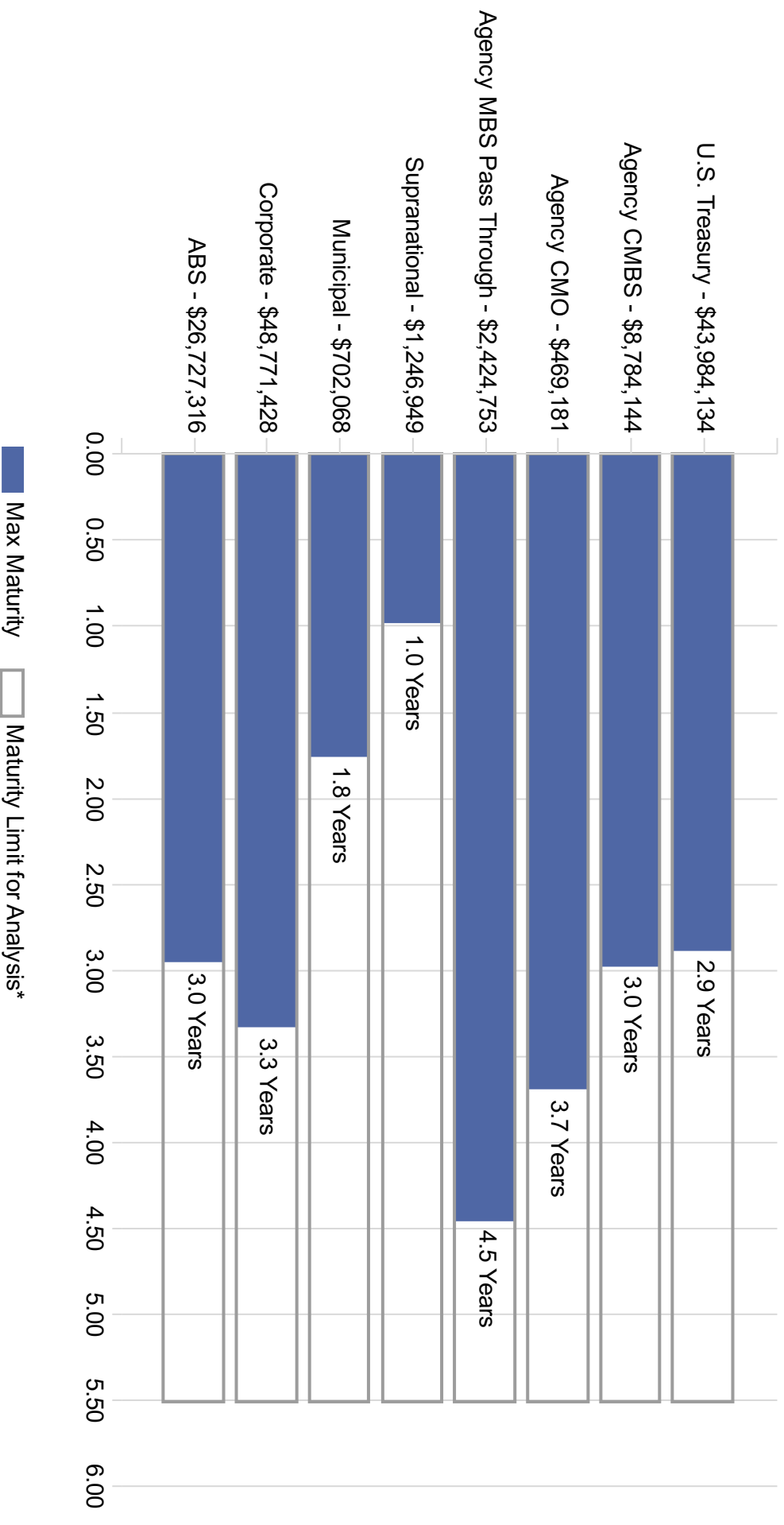
## Sector Allocation Analytics



*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.*

### Max Maturity Analytics



For informational/analytical purposes only and is not provided for compliance assurance. Includes accrued interest and excludes balances invested in overnight funds.

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

Mortgage-backed securities and asset-backed securities, if any, limit is based on weighted average life, if applicable. Callable securities, if any, limit is based on maturity date.

## Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch			
UNITED STATES TREASURY	33.0%	AA / Aaa / AA			
FANNIE MAE	0.4%	AA / Aaa / AA			
FREDDIE MAC	6.2%	AA / Aaa / AA			
FANNIE MAE	0.1%	AA / Aaa / AA			
FREDDIE MAC	0.3%	AA / Aaa / AA			
FANNIE MAE	1.4%	AA / Aaa / AA			
FREDDIE MAC	0.4%	AA / Aaa / AA			
INTER-AMERICAN DEVELOPMENT BANK	0.9%	AAA / Aaa / AAA			
DORMITORY AUTHORITY OF NEW YORK	0.1%	AA / NR / AA			
FLORIDA STATE BOARD OF ADMIN FIN CORP	0.2%	AA / Aa / AA			
NEW JERSEY TURNPIKE AUTHORITY	0.2%	AA / A / A			
AMERICAN EXPRESS CO	0.3%	BBB / A / A	CATERPILLAR INC	0.8%	A / A / A
AMERICAN HONDA FINANCE	0.4%	A / A / A	CHARLES SCHWAB	0.3%	A / A / A
ANZ BANKING GROUP LTD	0.3%	AA / A / A	CITIGROUP INC	0.8%	A / A / A
BANK OF AMERICA CO	1.3%	A / Aa / AA	COLGATE-PALMOLIVE COMPANY	0.4%	AA / Aa / NR
BANK OF MONTREAL	0.7%	A / A / AA	COMCAST CORP	0.1%	A / A / A
BANK OF NOVA SCOTIA	0.6%	A / A / AA	COMMONWEALTH BANK OF AUSTRALIA	1.2%	AA / Aa / A
BMW FINANCIAL SERVICES NA LLC	0.9%	A / A / NR	Confederation Nationale du Cre	0.4%	A / Aa / AA
BPCE GROUP	0.2%	A / A / A	CREDIT AGRICOLE SA	0.5%	A / Aa / AA
CANADIAN IMPERIAL BANK OF COMMERCE	0.8%	A / A / AA	CREDIT SUISSE GROUP RK	0.4%	A / A / A
			DEERE & COMPANY	0.6%	A / A / A
			DNB ASA	0.3%	AA / Aa / NR
			EXXON MOBIL CORP	0.7%	AA / Aa / NR
			GOLDMAN SACHS GROUP INC	0.3%	BBB / A / A
			HOME DEPOT INC	0.2%	A / A / A
			HSBC HOLDINGS PLC	0.2%	A / A / A
			IBM CORP	0.8%	A / A / NR
			JP MORGAN CHASE & CO	1.2%	A / A / AA
			LOCKHEED MARTIN CORP	0.2%	A / A / A
			MACQUARIE GROUP LTD	0.5%	A / A / A
			MASSMUTUAL GLOBAL FUNDING	1.0%	AA / Aa / AA
			METLIFE INC	1.2%	AA / Aa / AA
			MITSUBISHI UFJ FINANCIAL GROUP INC	0.8%	A / A / A
			MORGAN STANLEY	0.6%	A / A / A
			NATIONAL AUSTRALIA BANK LTD	1.1%	AA / Aa / NR
			NATIONAL BANK OF CANADA	0.7%	BBB / A / A
			NATIONAL RURAL UTILITIES CO FINANCE CORP	0.4%	A / A / A

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.

## Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch			
NESTLE SA	0.6%	AA / Aa / A	WELLS FARGO & COMPANY	0.4%	BBB / A / A
NEW YORK LIFE INSURANCE COMPANY	1.0%	AA / Aaa / AAA	WESTPAC BANKING CORP	0.4%	AA / Aa / A
NORDEA BANK ABP	0.7%	AA / Aa / AA			
PACCAR FINANCIAL CORP	0.7%	A / A / NR	ALLY AUTO RECEIVABLES TRUST	0.8%	AAA / Aaa / AAA
PACIFIC LIFE	0.1%	AA / Aa / AA	AMERICAN EXPRESS CO	0.9%	AAA / Aaa / AAA
PEPSICO INC	0.5%	A / A / NR	BANK OF AMERICA CO	0.1%	AAA / NR / AAA
PNC FINANCIAL SERVICES GROUP	0.1%	A / A / A	Bank of America Corp	0.3%	NR / Aaa / AAA
PRAXAIR INC	0.5%	A / A / NR	BMW VEHICLE OWNER TRUST	0.4%	AAA / Aaa / AAA
PRINCIPAL FINANCIAL GROUP INC	0.5%	A / A / NR	CAPITAL ONE FINANCIAL CORP	1.9%	AAA / Aaa / AAA
PROTECTIVE LIFE	1.3%	AA / A / AA	CARMAX AUTO OWNER TRUST	1.8%	AAA / Aaa / AAA
PRUDENTIAL FINANCIAL INC	0.4%	AA / Aa / AA	CHASE ISSURANCE	0.6%	AAA / NR / AAA
RABOBANK NEDERLAND	0.7%	A / Aa / AA	CNH EQUIPMENT TRUST	0.7%	AAA / Aaa / AAA
ROCHE HOLDINGS INC	0.8%	AA / Aa / AA	Daimler Trucks Retail Trust	0.4%	NR / Aaa / AAA
ROYAL BANK OF CANADA	0.7%	A / A / AA	DISCOVER FINANCIAL SERVICES	0.9%	AAA / Aaa / AAA
SKANDINAVISKA ENSKILDA BANKEN AB	0.4%	A / Aa / AA	FIFTH THIRD AUTO TRUST	0.7%	AAA / Aaa / NR
STATE STREET CORPORATION	0.6%	A / A / AA	FORD CREDIT AUTO OWNER TRUST	0.3%	AAA / Aaa / AAA
SUMITOMO MITSUI FINANCIAL GROUP INC	1.0%	A / A / NR	GM FINANCIAL CONSUMER AUTOMOBILE TRUST	1.3%	AAA / Aaa / AAA
SUMITOMO MITSUI TRUST HOLDINGS INC	0.7%	A / A / NR	HARLEY-DAVIDSON MOTORCYCLE TRUST	0.9%	AAA / Aaa / AAA
SVENSKA HANDELSBANKEN AB	0.5%	AA / Aa / AA	HONDA AUTO RECEIVABLES	0.3%	AAA / Aaa / AAA
SWEDBANK AB	1.0%	A / Aa / AA	HYUNDAI AUTO RECEIVABLES	1.1%	AAA / NR / AAA
TORONTO-DOMINION BANK	0.7%	A / A / AA	JOHN DEERE OWNER TRUST	1.1%	NR / Aaa / AAA
TRUIST FIN CORP	0.4%	A / A / A	KUBOTA CREDIT OWNER TRUST	1.7%	NR / Aaa / AAA
UBS AG	0.6%	A / Aa / A	MERCEDES-BENZ AUTO RECEIVABLES	0.5%	AAA / Aaa / AAA
UNILEVER PLC	0.2%	A / A / A	NISSAN AUTO RECEIVABLES	0.2%	AAA / Aaa / NR
UNITEDHEALTH GROUP INC	0.1%	A / A / A	PORSCHE FINANCIAL AUTO SECURIT	0.3%	AAA / Aaa / NR
WAL-MART STORES INC	0.3%	AA / Aa / AA	TOYOTA MOTOR CORP	0.7%	AAA / Aaa / AAA

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.

## Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
VERIZON MASTER TRUST	0.3%	AAA / Aaa / AAA
VERIZON OWNER TRUST	0.0%	NR / Aaa / AAA
VOLKSWAGEN AUTO LEASE TURST	0.1%	NR / Aaa / AAA
VOLKSWAGEN OF AMERICA	0.3%	AAA / Aaa / AAA
WORLD OMNI AUTO REC TRUST	1.5%	AAA / NR / AAA

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.

# **PFMAM-Managed Pooled Operating Fund**

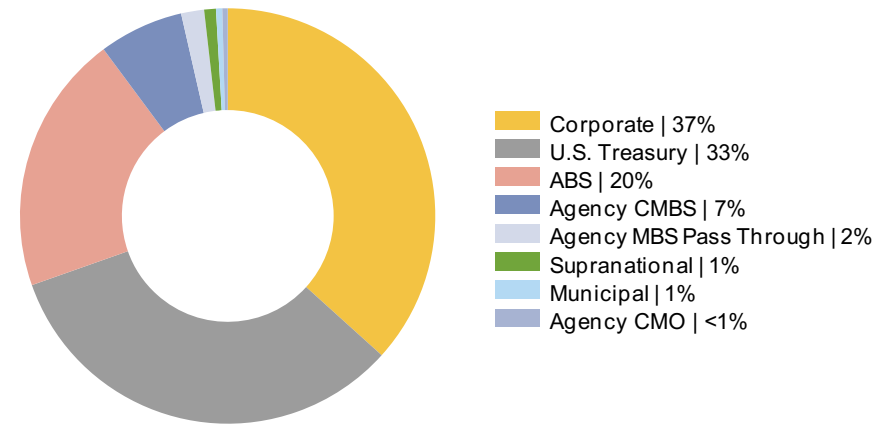


## Portfolio Snapshot - MARION COUNTY POOLED OPERATING FUND<sup>1</sup>

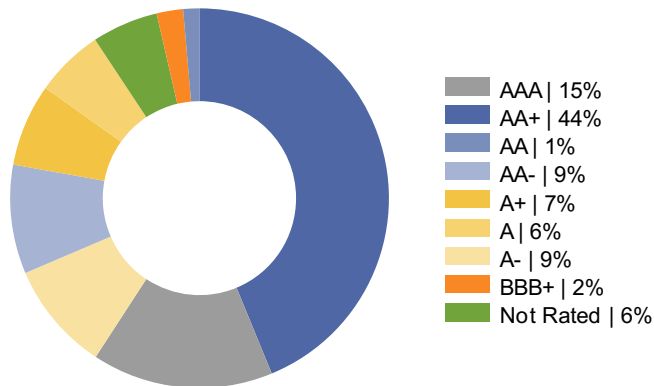
### Portfolio Statistics

<b>Total Market Value</b>	\$133,116,841.29
<i>Securities Sub-Total</i>	\$132,315,270.25
<i>Accrued Interest</i>	\$794,701.66
<i>Cash</i>	\$6,869.38
<b>Portfolio Effective Duration</b>	1.69 years
<b>Benchmark Effective Duration</b>	1.75 years
<b>Yield At Cost</b>	3.33%
<b>Yield At Market</b>	5.04%
<b>Portfolio Credit Quality</b>	AA

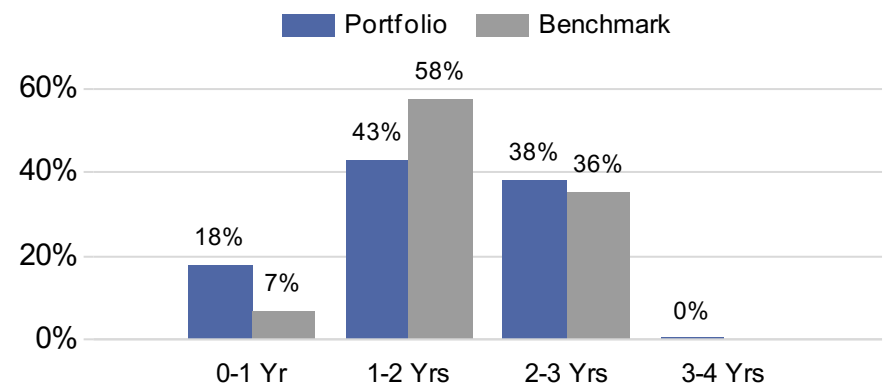
### Sector Allocation



### Credit Quality - S&P

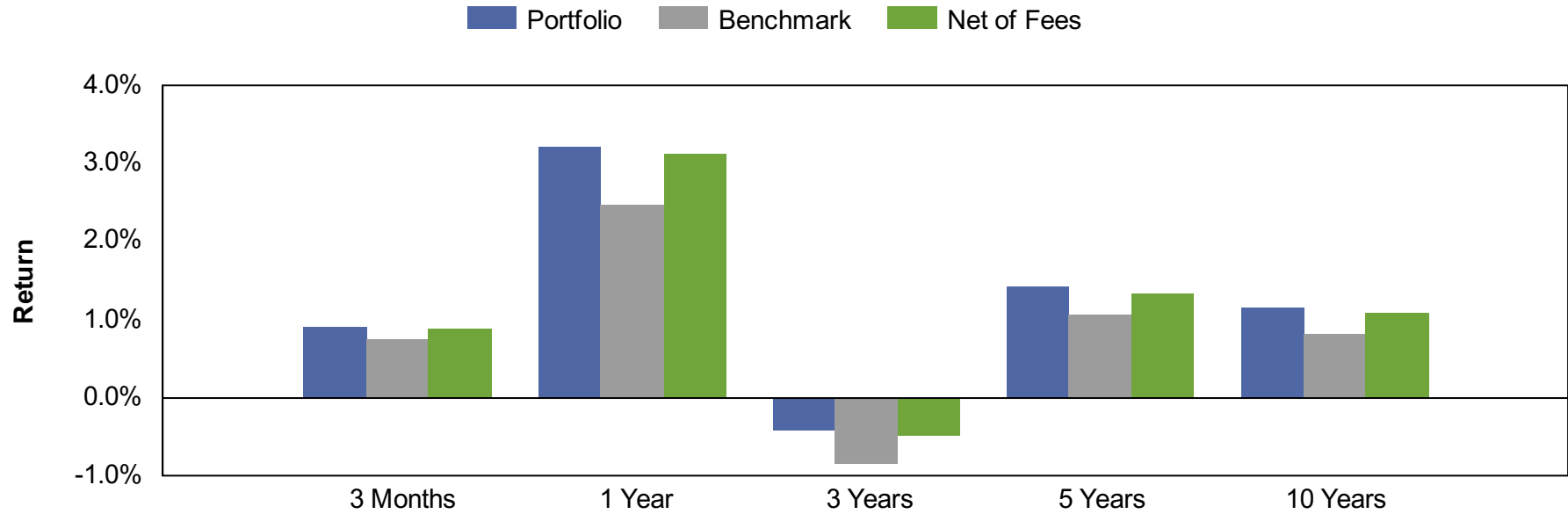


### Duration Distribution



1. Yield and duration calculations exclude cash and cash equivalents. Sector allocation includes market values and accrued interest. The portfolio's benchmark is the ICE BofA 1-3 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.

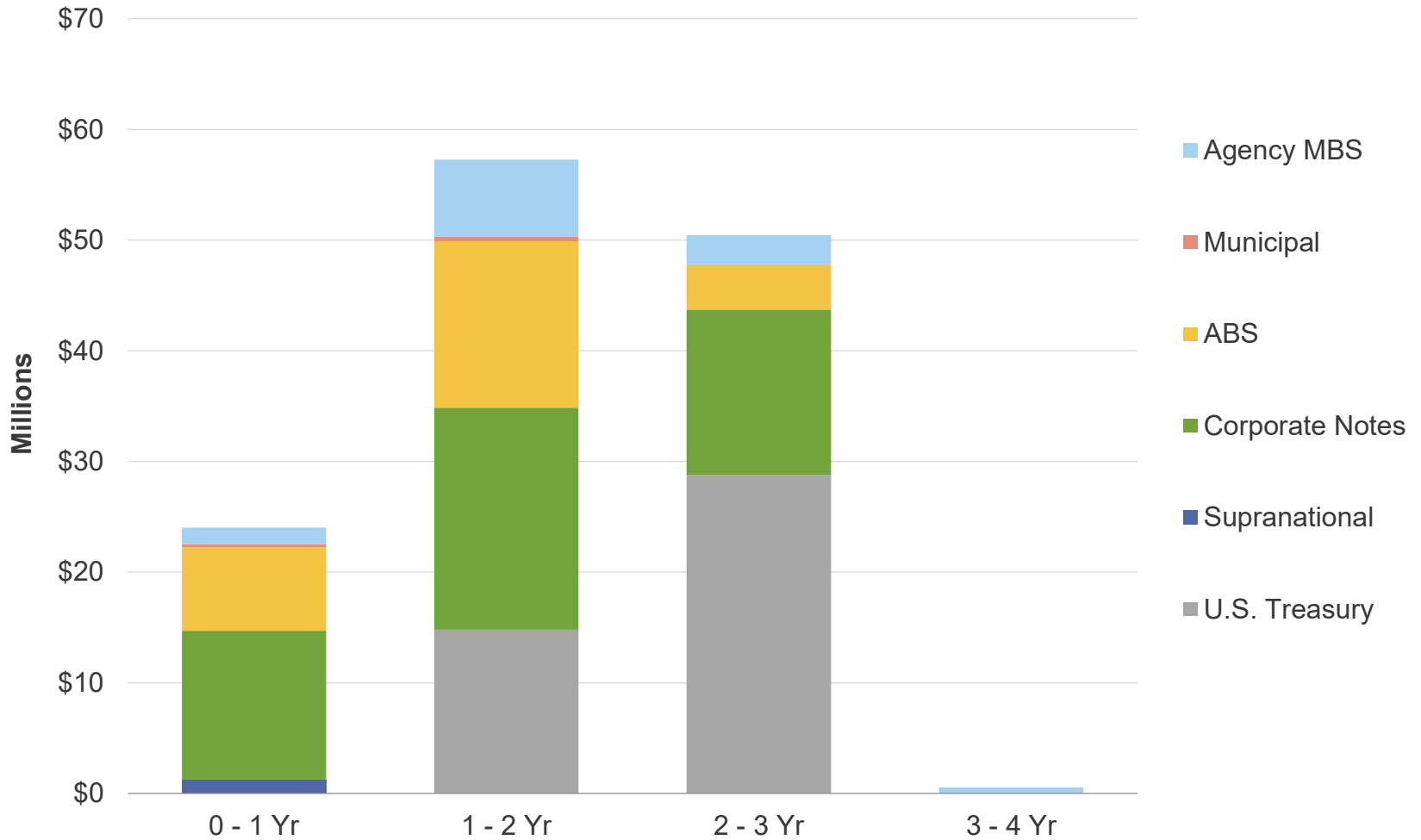
### Portfolio Performance



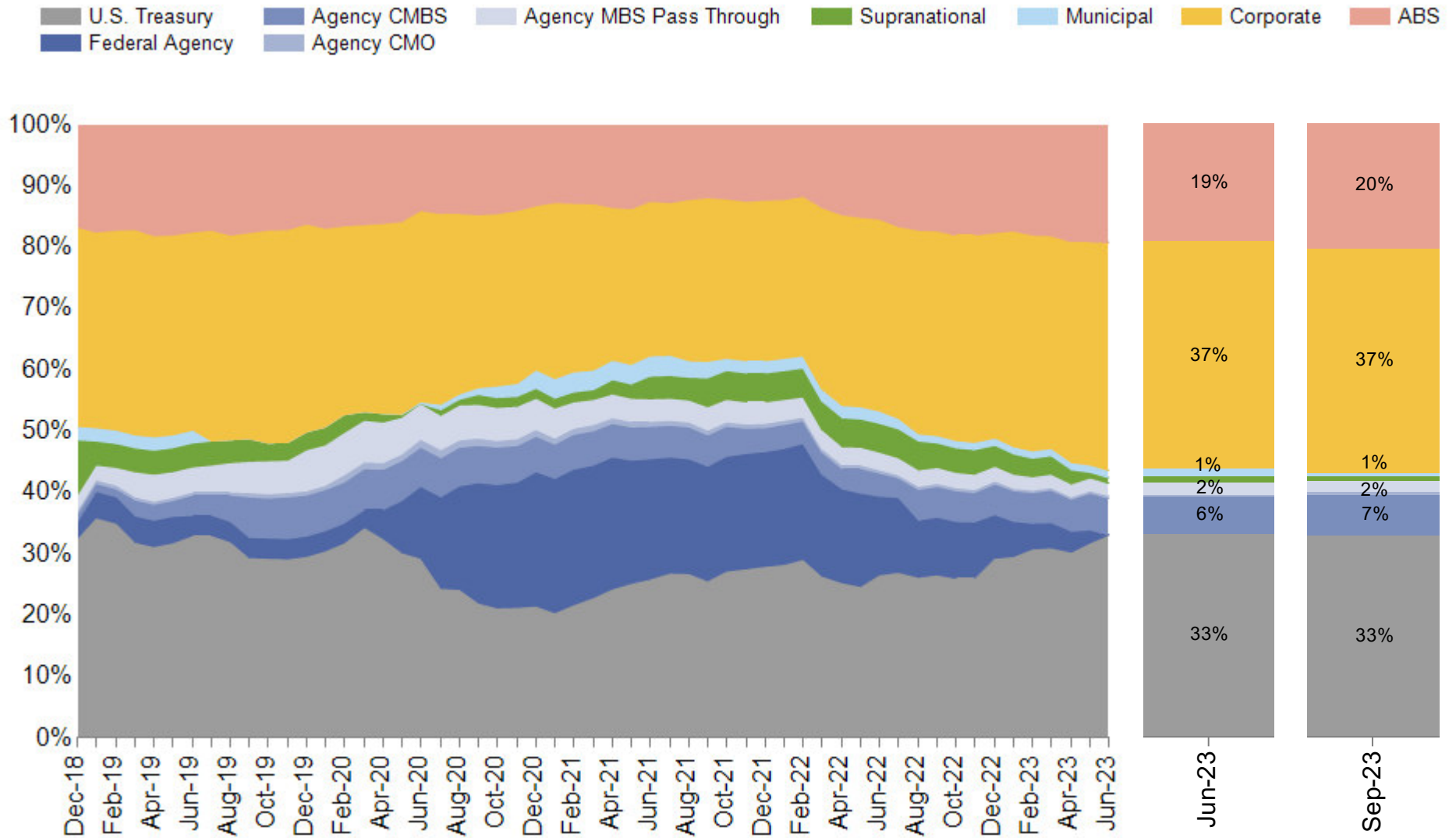
Market Value Basis Earnings	3 Months	1 Year	3 Years	5 Years	10 Years
Interest Earned <sup>2</sup>	\$1,020,268	\$3,052,458	\$6,104,667	\$11,940,877	\$21,288,179
Change in Market Value	\$167,697	\$1,081,686	(\$7,723,499)	(\$2,912,377)	(\$6,070,992)
<b>Total Return<sup>3</sup></b>					
<b>Basis Point Fee</b>	0.02%	0.08%	0.08%	0.08%	0.08%

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 March 31, 2004.  
 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 1-3 Year U.S. Treasury Index. Source: Bloomberg.

# Duration by Sector



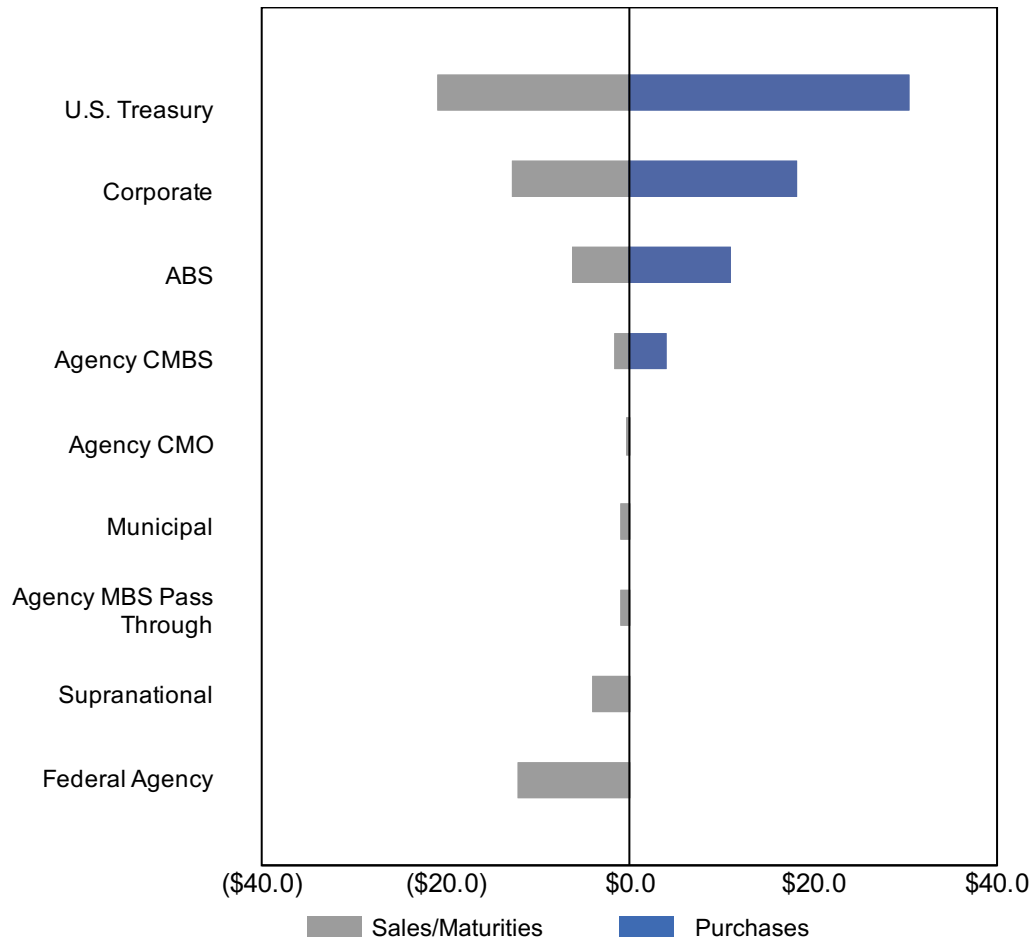
### Historical Sector Allocation - MARION COUNTY POOLED OPERATING FUND



Only includes fixed-income securities held within the separately managed account(s) and LGIPs managed by PFMAM.

## Portfolio Activity (12 Months) - MARION COUNTY POOLED OPERATING FUND

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



Sector	Net Activity
U.S. Treasury	\$9,606,209
Corporate	\$5,252,747
ABS	\$4,652,460
Agency CMBS	\$2,398,672
Agency CMO	(\$163,577)
Municipal	(\$890,081)
Agency MBS Pass Through	(\$891,924)
Supranational	(\$3,929,491)
Federal Agency	(\$12,105,092)
<b>Total Net Activity</b>	<b>\$3,929,922</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.

# Disclaimer

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