

Marion County Board of County Commissioners

Investment Performance Review

Fiscal Year Ended September 30, 2022

January 2023

407.723.5900

pfmam.com

Richard Pengelly, CFA, CIMA, CTP, Managing Director

Scott Sweeten, BCM, CFS, Senior Managing Consultant

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:
 - ▶ 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



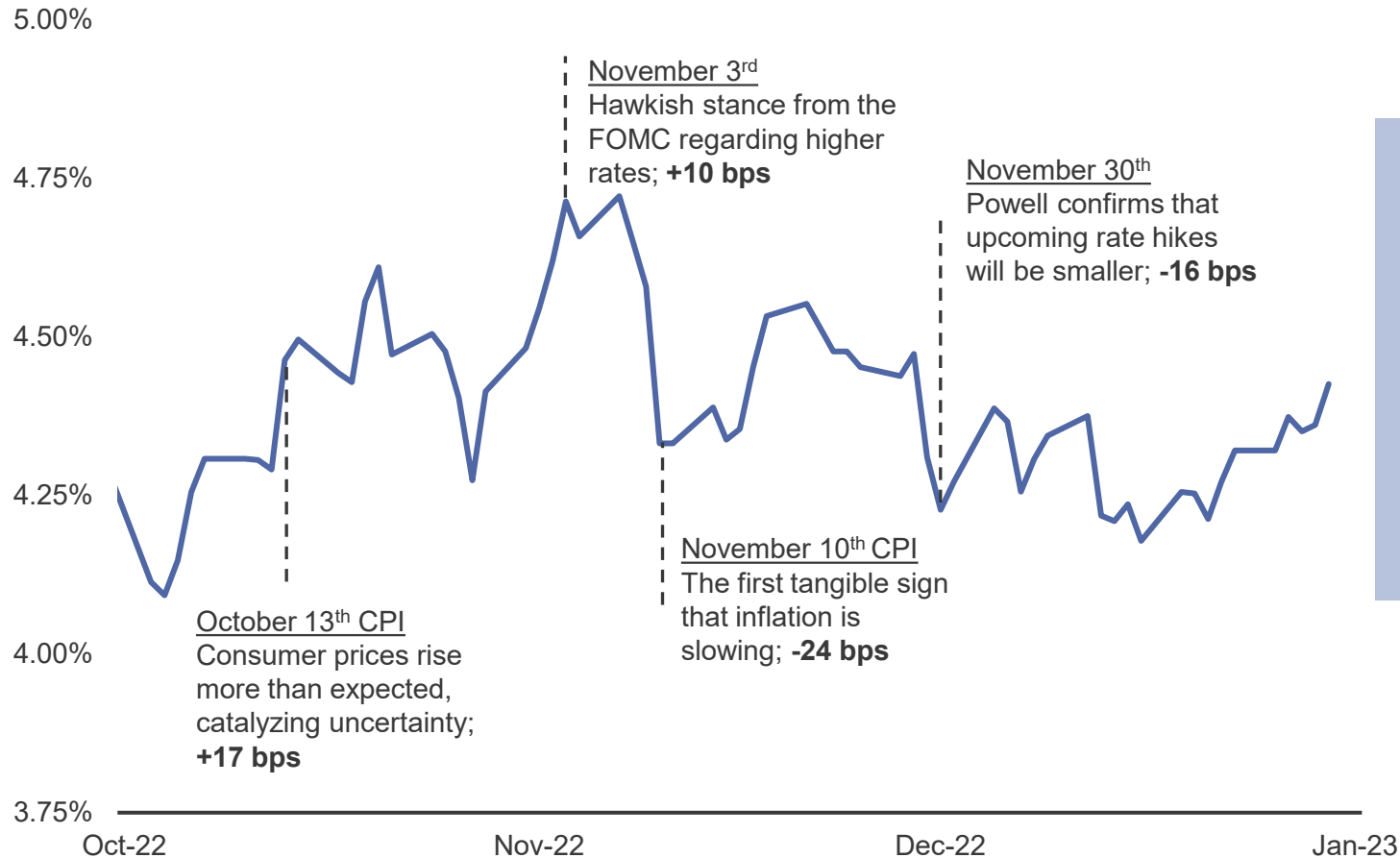
- ▶ The Federal Reserve is expected to wrap up their normalization process
 - ▶ Slowing pace of rate hikes
 - ▶ Fed projecting short-term fed funds rate to reach 5.00% to 5.25% by year-end, with markets expecting rate cuts in the second half of 2023
 - ▶ Fed officials reaffirm that restoring price stability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

Rates Remain Sensitive to Fed and Inflation

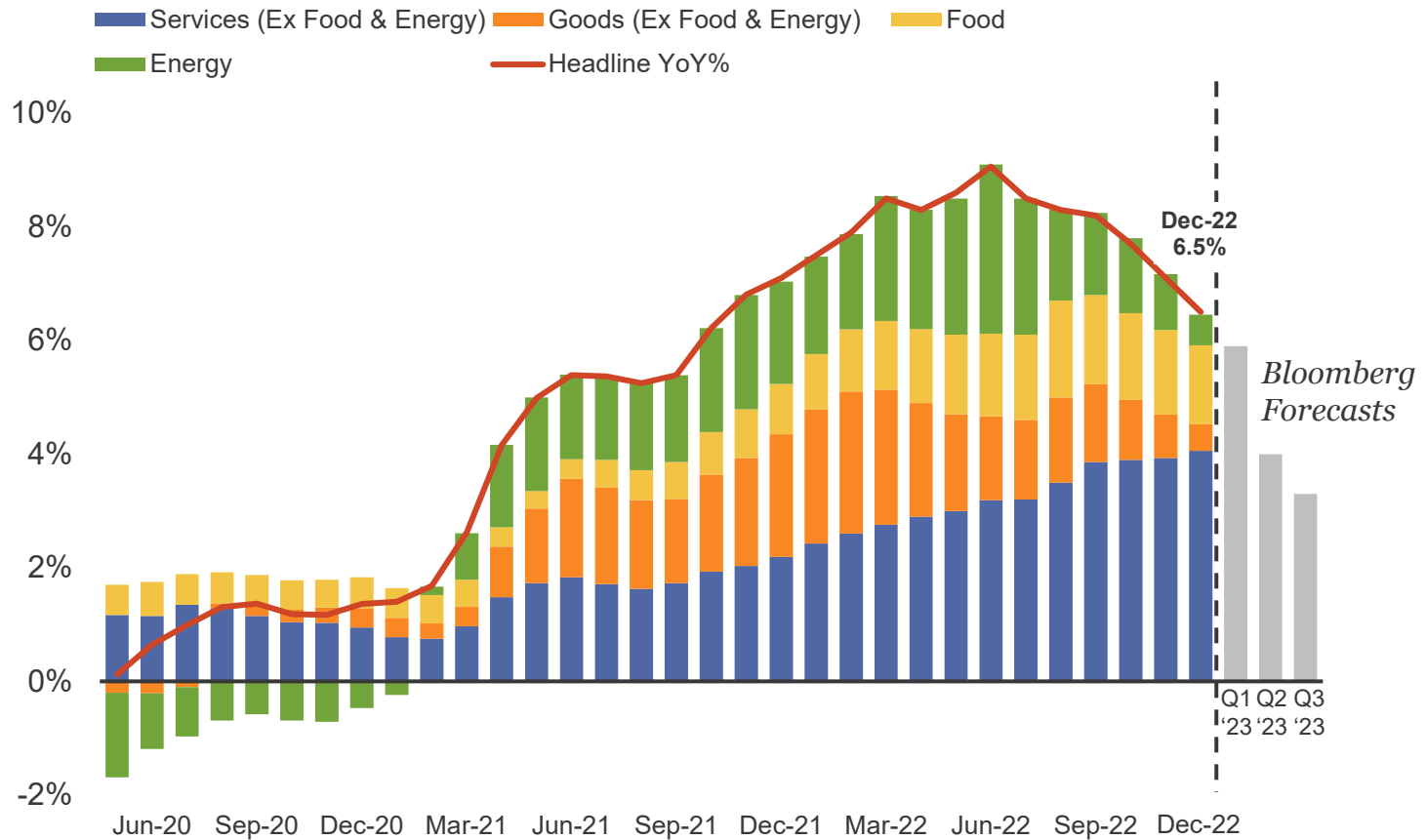
2-Year US Treasury Yield



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

Inflation Now Trending Lower

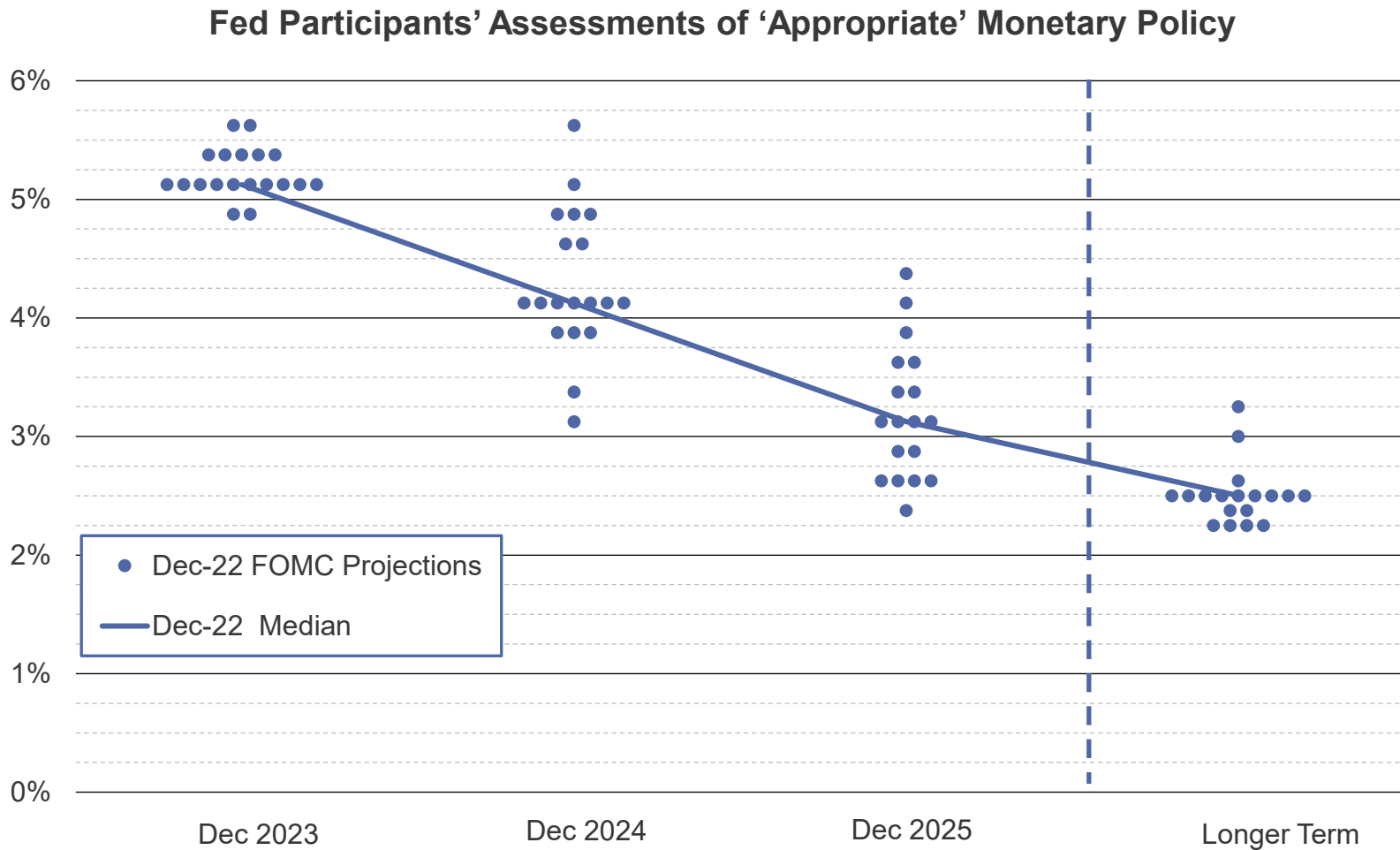
Consumer Prices (CPI)
Top-Line Contributions and Year-over-Year Reading



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

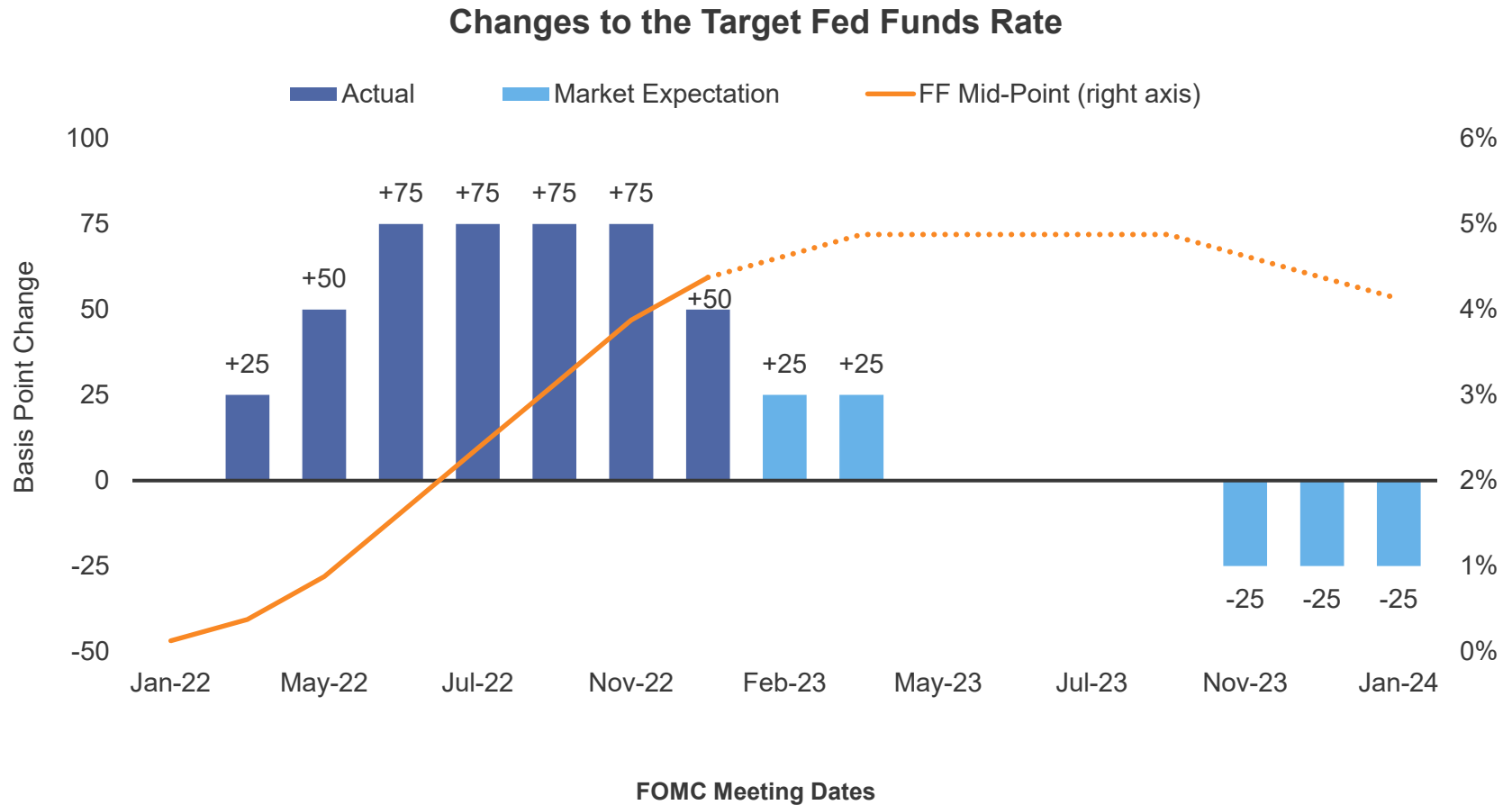
Source: Bloomberg; as of December 2022.

Fed's "Dot Plot" Suggests Expectations for a Drawn Out Normalization of 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.

What Could the Fed's Pivot Look Like?



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

The Year in Review

Beginning in March, the Fed hiked rates by 425 basis points in 2022

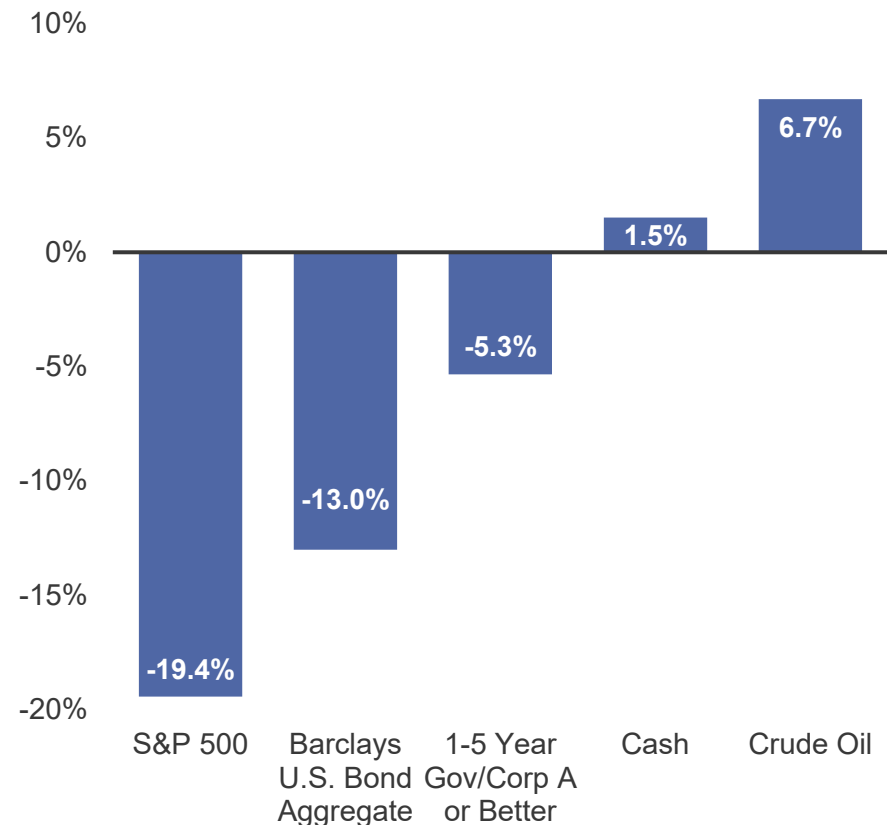
- The 2-year treasury yield rose just 370 bps through 2022

2022 saw an uncommon phenomenon of both stocks and bonds posting negative returns

Consumer spending remained resilient despite price pressures and extended credit levels

Energy prices surged due to uncertainty, geopolitical conflict (war in Ukraine), and storage challenges

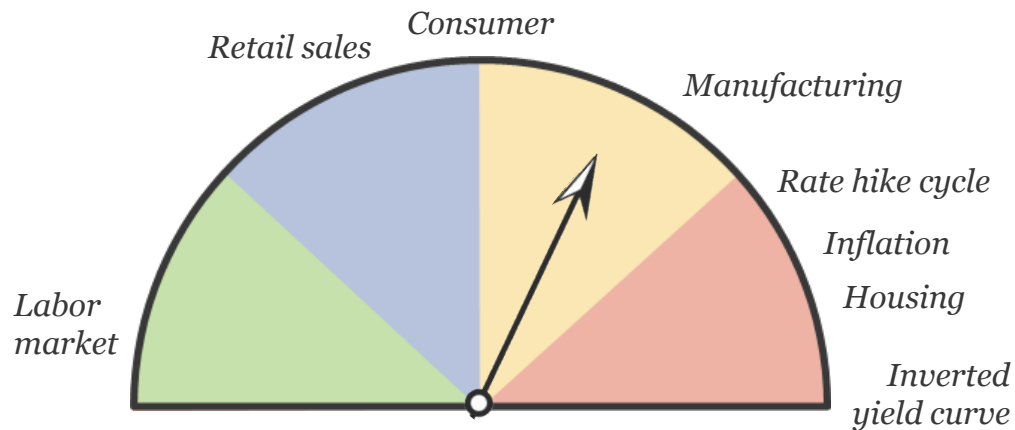
2022 Asset Class Returns



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

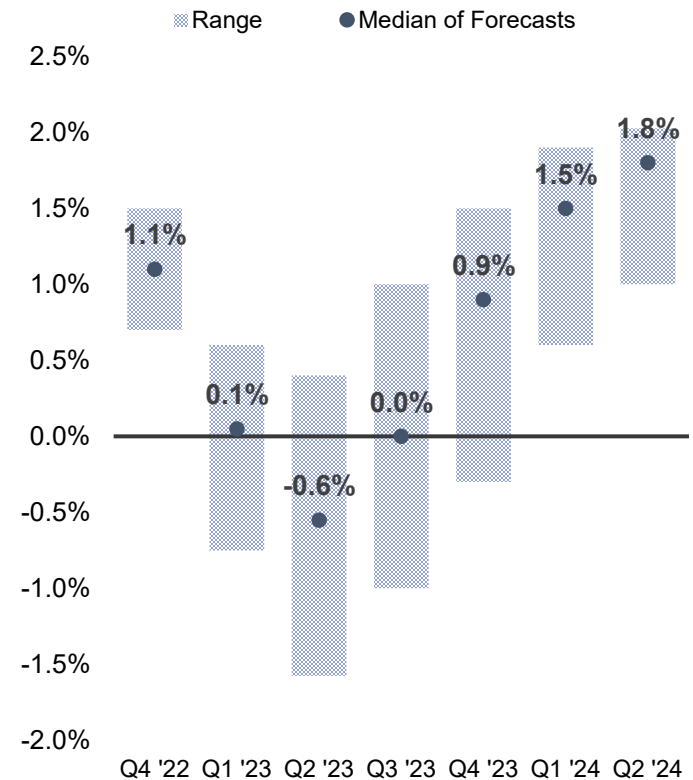
Recession Gauge Flashing Yellow, But GDP Expected to Grow by End of Year

Recession Risk



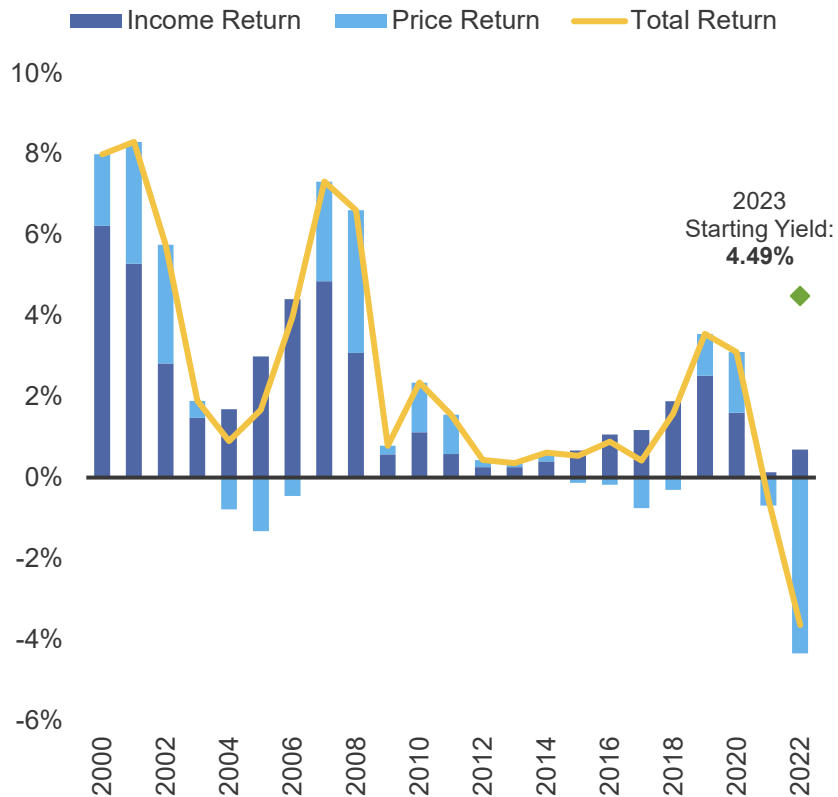
U.S. GDP Forecasts

Annualized Rate

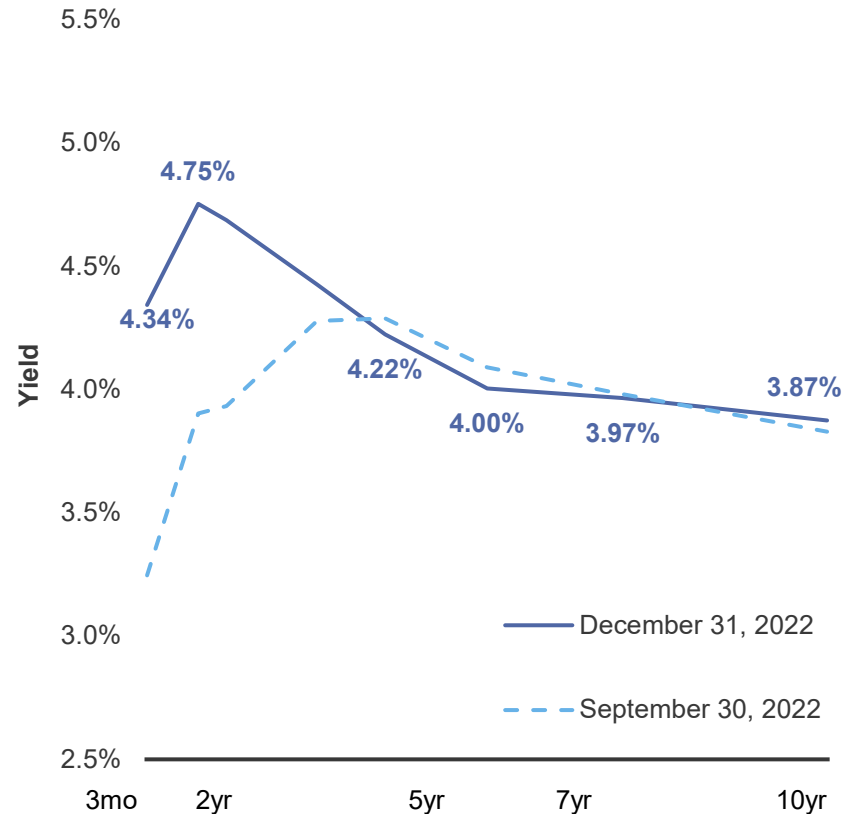


Higher Yields Can Offset Some of the Price Depreciation Woes

Annual Price & Income Returns 1-3 Year Treasury Index



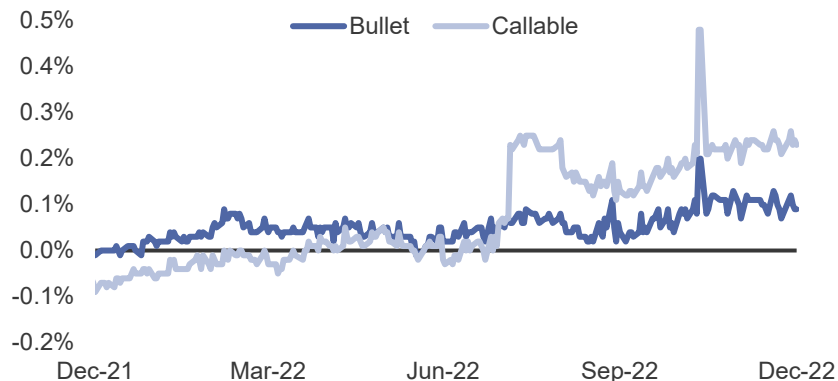
U.S. Treasury Yield Curve



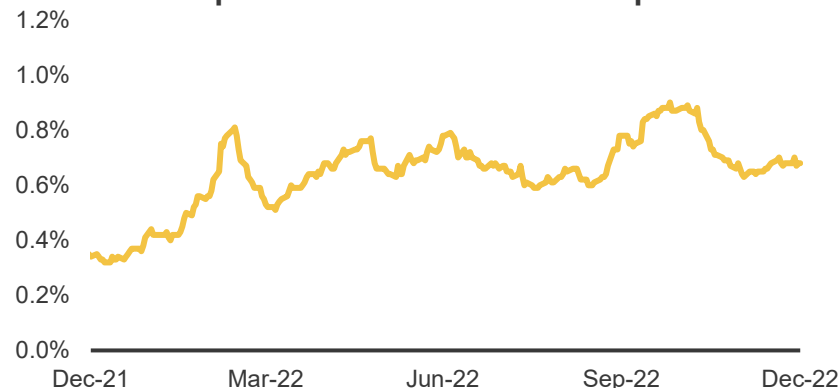
Source: ICE BofAML Indices via Bloomberg, as of 12/31/2022. PFMAM Calculations. Income return represents the yield of the benchmark index, as of the end of the prior calendar year, respective to the year of performance shown.

Sector Yield Spreads

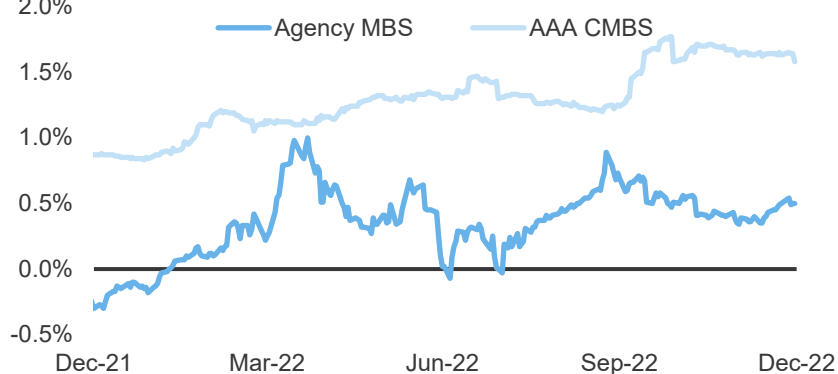
Federal Agency Yield Spreads



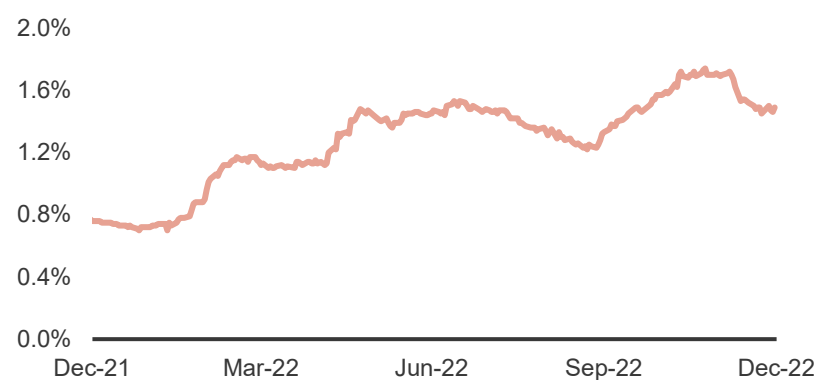
Corporate Notes A-AAA Yield Spreads



Mortgage-Backed Securities Yield Spreads



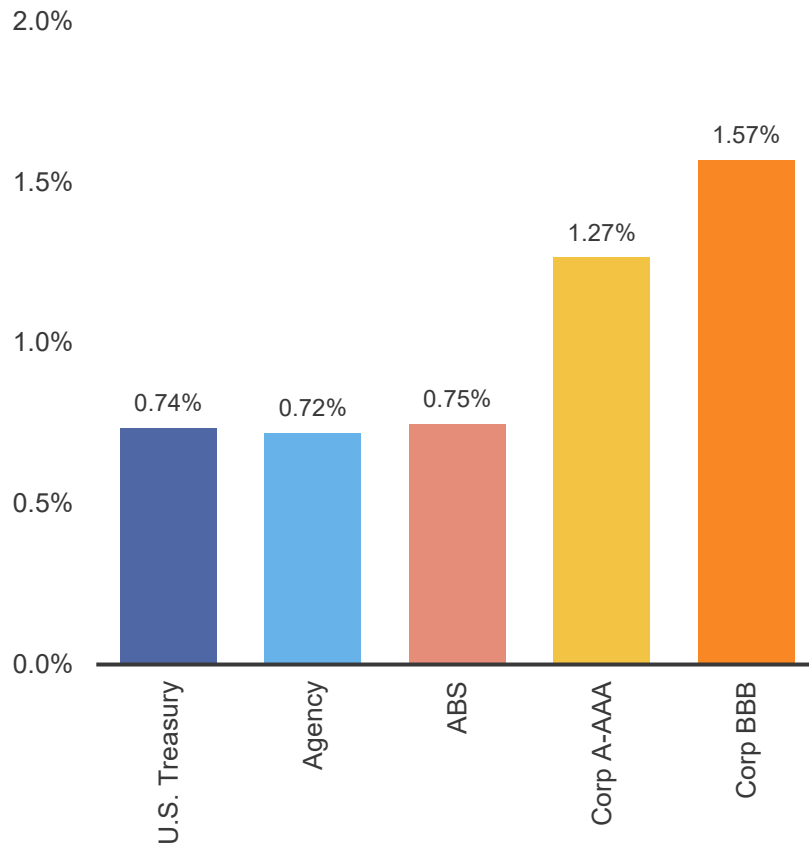
Asset-Backed Securities AAA Yield Spreads



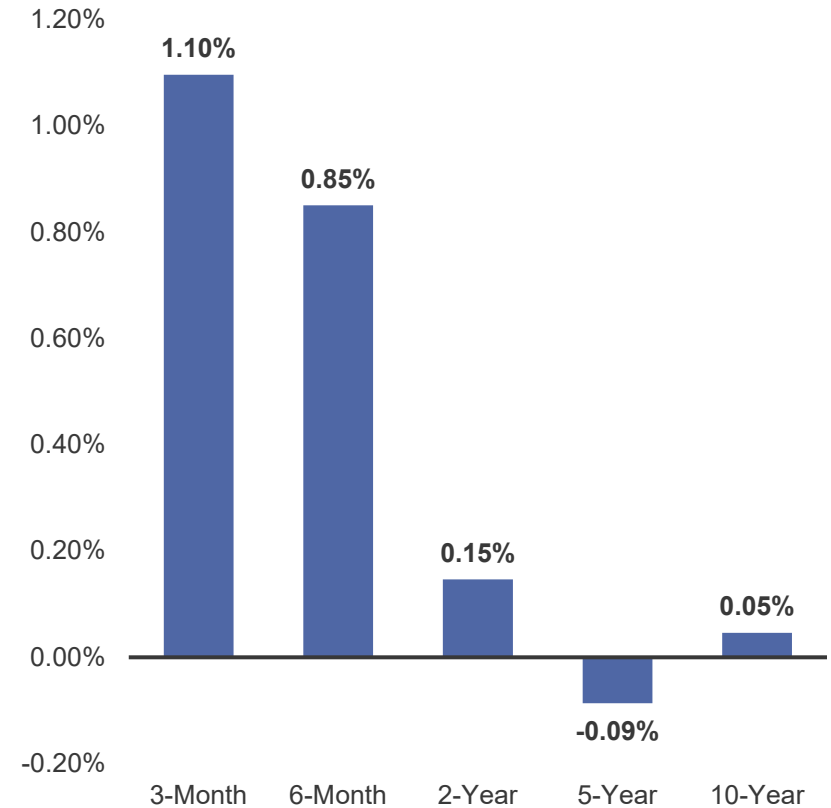
Source: ICE BofAML 1-3 year Indices via Bloomberg, MarketAxess and PFMAM as of 12/31/2022. Spreads on ABS and MBS are option-adjusted spreads of 0-3 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities.

Fixed-Income Markets in Q4 2022

1-3 Year Indices Quarterly Returns



Change in U.S. Treasury Yield September 30, 2022 – December 31, 2022



Source: ICE BofAML Indices. ABS indices are 0-3 year, based on weighted average life. As of 12/31/2022.
Right Chart: Generic US Treasury securities via Bloomberg, change in yield from 9/30/2022 to 12/31/2022.

Fixed-Income Sector Commentary – 4Q 2022

- ▶ **U.S. Treasury** yields settled into a wide range after surging for the first three quarters of the year. The result of more stable yields was generally positive returns for the quarter.
- ▶ **Federal agency** bullet spreads finally broke single digits and climbed to the widest levels in the past 12 months for certain maturities. Callable structures were attractive early in the quarter as new issues came to market at wide levels on the heels of historically high bond volatility.
- ▶ **Supranational** issuance fell notably short of expectations in Q4 limiting new investment opportunities. Liquidity was better than that of federal agencies, which provided some ability to swap into other sectors which were more attractive.
- ▶ **Investment-Grade Corporate** yield spreads fluctuated in Q4 underscoring the historic levels of volatility experienced throughout the year. After reaching post-pandemic wides in late October, credit spreads reversed, ending the quarter modestly tighter. The sector generated strong excess returns in Q4 and buoyed portfolio returns relative to benchmarks.
- ▶ **Asset-Backed** yield spreads lagged the narrowing move in the corporate sector for much of Q4 but rallied into year end, ending the quarter only modestly wider than where they began. ABS and IG corporate spreads diverged markedly in November, growing to the widest margin since 2020 and leading to a year-end rally which brought performance just shy of matched-duration U.S. Treasuries.
- ▶ **Mortgage-Backed Securities** reversed course in Q4 after the dreadful negative returns for the first three quarters of 2022. Although still negative for the year, excess returns on MBS were near top-of-class amongst investment-grade options in Q4.
- ▶ **Taxable Municipal** issuance remained underwhelming as deals were heavily oversubscribed, dragging spreads lower, while secondary inventory at attractive levels was sparse.
- ▶ The **short-term credit** (commercial paper and CDs) yield curve was notably steep throughout the quarter as the market priced the expectation for further Fed rate increases. The aggressive pace of those rate hikes created valuable opportunities in floating-rate securities.

Fixed-Income Sector Outlook – 1Q 2023

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

Negative

Slightly
Negative

Neutral

Slightly
Positive

Positive

Annual Investment Report Summary



Pooled Operating Portfolio Fact Sheet

Ending Balance as of September 30, 2022		Balances	Average Duration (in Years)	Last 12 Months	March 31, 2004
Market Value		\$127,319,989	Pooled Operating Portfolio	1.76	1.68
Amortized Cost		\$133,807,434	Merrill Lynch 1-3 Year U.S. Treasury Benchmark	1.79	1.77
Total Return	Portfolio	Benchmark	Realized Gains/(Loss) on Sells	Fiscal Year 2022	Fiscal Year 2021
Quarterly Return	-1.23%	-1.56%	Pooled Operating Portfolio	\$(462,810)	\$915,312
Annual Return	-4.61%	-4.86%	Interest Earnings	Last 12 Months	Since Inception ²
Since Inception - March 31, 2004	1.99%	1.63%	Pooled Operating Portfolio	\$209,029	\$47,147,606
Return in Dollars over the Benchmark ¹	Last 12 Months	Since Inception ²	Standard & Poor's Credit Ratings	Last 12 Months	Since Inception ²
Pooled Operating Fund	\$324,137	\$8,492,851	Pooled Operating Portfolio	AA	AA+

1. Based on Market Value as of September 30, 2022.

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

Investment Balances & Interest Income as of September 30, 2022

Marion County Board of County Commissioners Summary of Investment Balances and Interest Income as of September 30, 2022								
Investments ¹	Enterprise Funds							Total
	General Fund	Special Revenue	Debt Service	Capital Project	Solid Waste	Utility	Internal Service	
Corporate Obligations	12,677,664	14,741,968	-	6,680,084	17,406,821	11,619,088	6,332,758	69,458,384
Federal National Mtg Assc.	485,308	564,331	-	255,717	666,343	444,785	242,421	2,658,905
Federal Home Loan Mtg Corp.	3,573,496	4,155,368	-	1,882,938	4,906,519	3,275,112	1,785,036	19,578,469
Unites States Treasury	6,215,621	7,227,710	-	3,275,120	8,534,238	5,696,621	3,104,833	34,054,142
Municipal Bonds	281,802	327,688	-	148,487	386,923	258,272	140,766	1,543,939
Total Securities	\$ 23,233,890	\$ 27,017,065	\$ -	\$ 12,242,346	\$ 31,900,844	\$ 21,293,878	\$ 11,605,815	\$ 127,293,838
Suntrust Money Market Fund	244,833	284,700	-	129,007	336,164	224,390	122,299	1,341,394
Florida Prime (SBA)	36,439,434	201,432,138	3,501,306	109,763,019	39,404,832	31,373,236	15,552,958	437,466,923
Florida PALM	10,000,246	15,000,370	-	-	-	-	-	25,000,616
Total Investments	69,918,404	243,734,272	3,501,306	122,134,372	71,641,840	52,891,504	27,281,073	591,102,770
Interest Income ²	(453,389)	274,752	6,581	252,786	(1,251,320)	(826,835)	(444,667)	(2,442,091)

1. Investment balances are reported on market value, not including accrued interest.

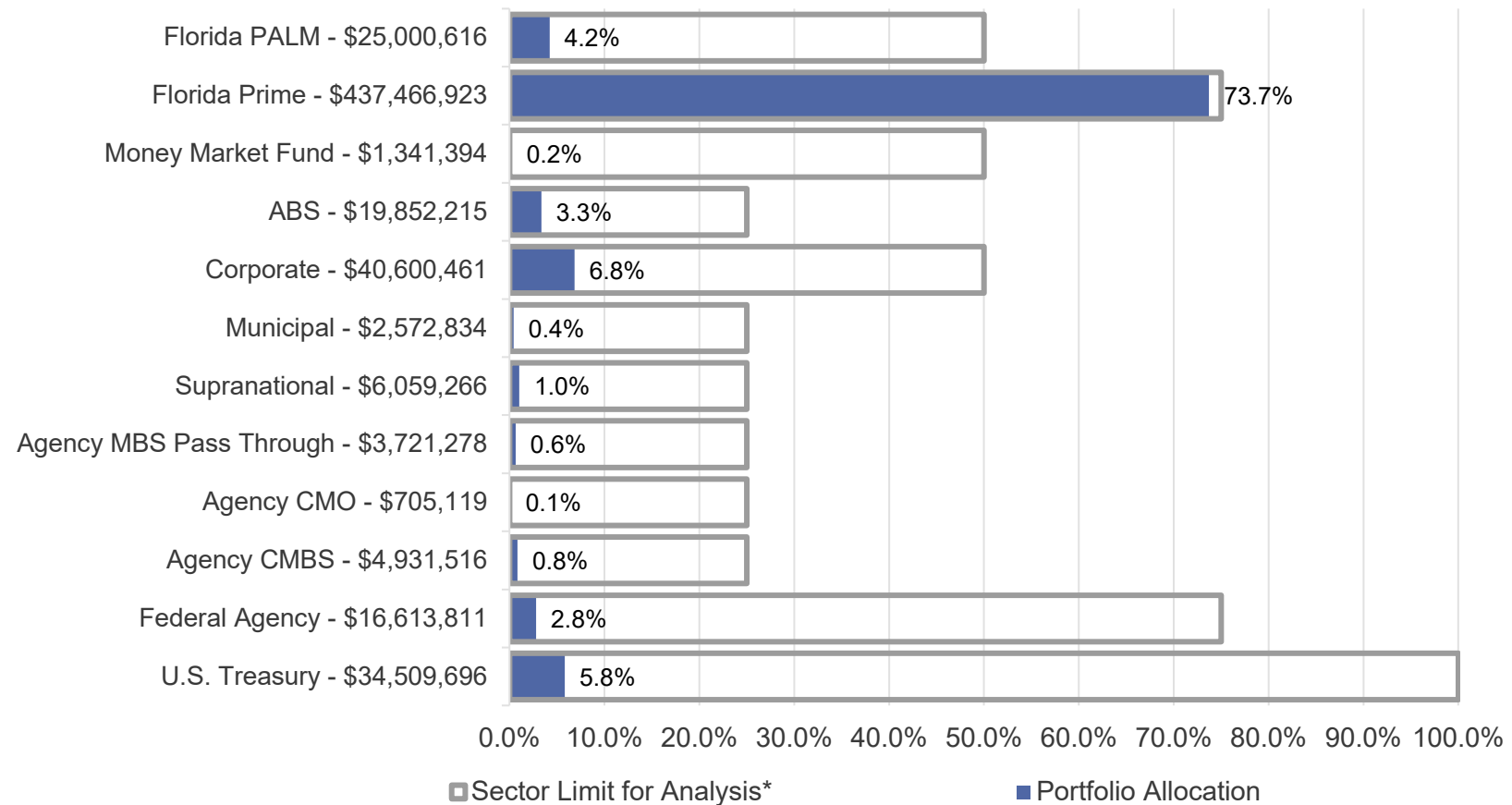
2. The balances shown on this page are based on trade settlement date. The balances shown on other pages of this report include forward settling trades (trades that have not settled as of month end but will in the following month(s)); this is to comply with GASB accrual accounting reporting requirements.

3. Investment earnings are reported on total return basis with accrued interest.

Asset Allocation



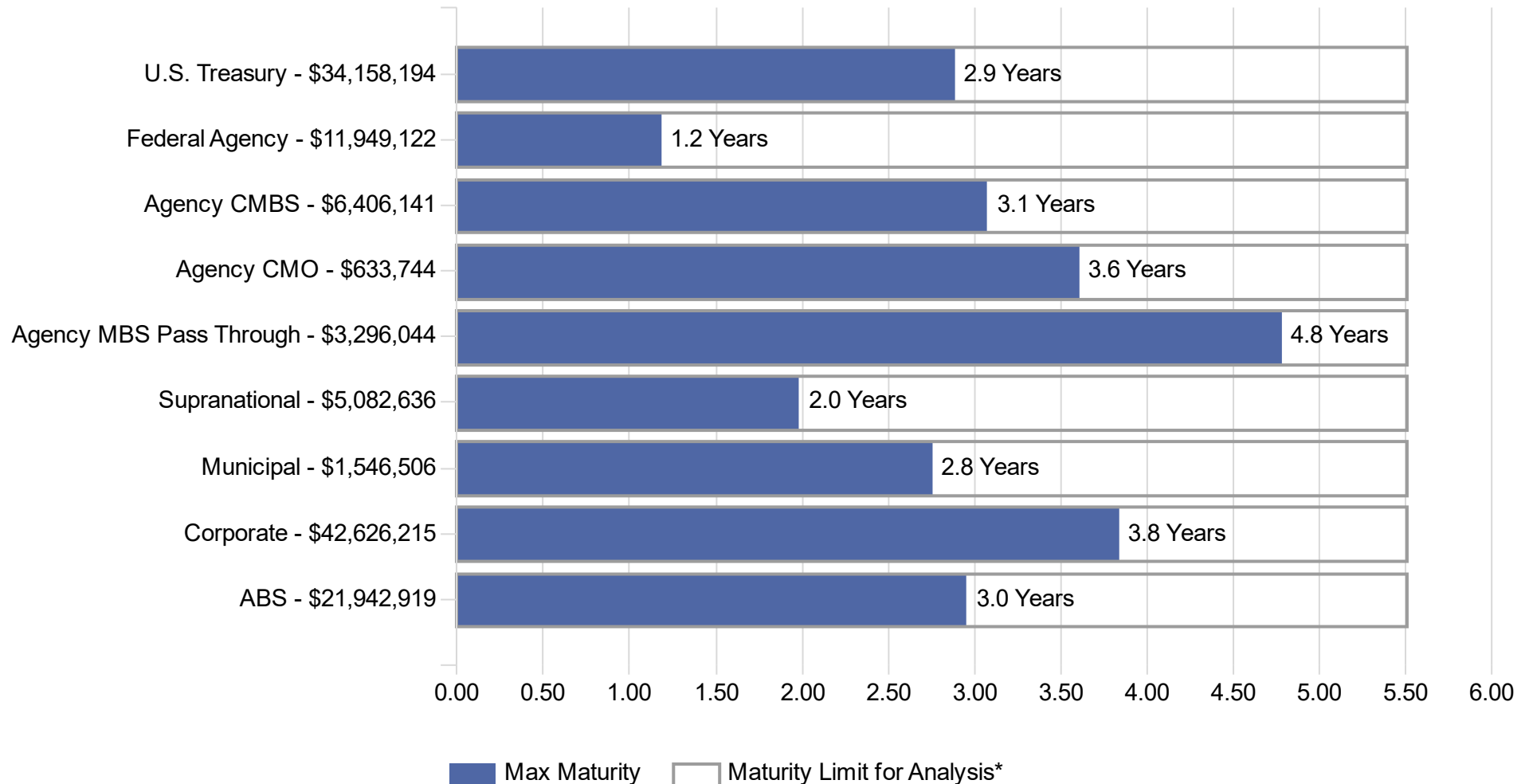
Sector Allocation Analytics



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
U.S. Treasury	26.8%	
UNITED STATES TREASURY	26.8%	AA / Aaa / AAA
Federal Agency	9.4%	
FREDDIE MAC	9.4%	AA / Aaa / AAA
Agency CMBS	5.0%	
FANNIE MAE	0.1%	AA / Aaa / AAA
FREDDIE MAC	5.0%	AA / Aaa / AAA
Agency CMO	0.5%	
FANNIE MAE	0.1%	AA / Aaa / AAA
FREDDIE MAC	0.4%	AA / Aaa / AAA
Agency MBS Pass Through	2.6%	
FANNIE MAE	1.9%	AA / Aaa / AAA
FREDDIE MAC	0.6%	AA / Aaa / AAA
Supranational	4.0%	
ASIAN DEVELOPMENT BANK	3.0%	AAA / Aaa / AAA
INTER-AMERICAN DEVELOPMENT BANK	1.0%	AAA / Aaa / AAA
Municipal	1.2%	
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
NEW YORK ST URBAN DEVELOPMENT CORP	0.7%	AA / NR / AA
Corporate	33.4%	
ADOBE INC	0.1%	A / A / NR
AMERICAN EXPRESS CO	0.3%	BBB / A / A
AMERICAN HONDA FINANCE	0.3%	A / A / A
ANZ BANKING GROUP LTD	0.3%	AA / A / A
ASTRAZENECA PLC	0.5%	A / A / NR

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Corporate	33.4%	
BANK OF AMERICA CO	1.2%	A / A / AA
BANK OF MONTREAL	1.0%	A / A / AA
BANK OF NOVA SCOTIA	0.8%	A / A / AA
BMW FINANCIAL SERVICES NA LLC	0.4%	A / A / NR
BPCE GROUP	0.2%	A / A / A
CANADIAN IMPERIAL BANK OF COMMERCE	0.8%	A / A / AA
CHARLES SCHWAB	0.3%	A / A / A
CITIGROUP INC	0.6%	BBB / A / A
COLGATE-PALMOLIVE COMPANY	0.1%	AA / Aa / NR
COMMONWEALTH BANK OF AUSTRALIA	0.8%	AA / Aa / A
CREDIT SUISSE GROUP RK	0.4%	A / A / BBB
DEERE & COMPANY	0.6%	A / A / A
DNB ASA	0.3%	AA / Aa / NR
GLAXOSMITHKLINE PLC TAL	0.3%	A / A / NR
GOLDMAN SACHS GROUP INC	0.7%	BBB / A / A
HOME DEPOT INC	0.2%	A / A / A
HSBC HOLDINGS PLC	0.6%	A / A / A
IBM CORP	0.8%	A / A / NR
JP MORGAN CHASE & CO	1.2%	A / A / AA
MACQUARIE GROUP LTD	0.5%	A / A / A
MASSMUTUAL GLOBAL FUNDING	0.2%	AA / Aa / AA
METLIFE INC	1.2%	AA / Aa / AA
MITSUBISHI UFJ FINANCIAL GROUP INC	0.8%	A / A / A
MORGAN STANLEY	0.7%	A / A / A
NATIONAL AUSTRALIA BANK LTD	0.8%	AA / Aa / NR
NATIONAL BANK OF CANADA	0.7%	BBB / 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
Corporate	33.4%	
NATIONAL RURAL UTILITIES CO FINANCE CORP	0.3%	A / A / A
NESTLE SA	0.6%	AA / Aa / A
NEW YORK LIFE INSURANCE COMPANY	1.0%	AA / Aaa / AAA
NORDEA BANK ABP	0.7%	AA / Aa / AA
PACCAR FINANCIAL CORP	0.9%	A / A / NR
PRINCIPAL FINANCIAL GROUP INC	0.5%	A / A / NR
PROTECTIVE LIFE	0.6%	AA / A / AA
PRUDENTIAL FINANCIAL INC	0.3%	AA / Aa / AA
RABOBANK NEDERLAND	0.7%	A / Aa / AA
Roche Holding AG	0.8%	AA / Aa / AA
ROYAL BANK OF CANADA	0.8%	A / A / AA
SIEMENS AG	0.3%	A / A / A
SKANDINAVISKA ENSKILDA BANKEN AB	0.4%	A / Aa / AA
STATE STREET CORPORATION	0.1%	A / A / AA
SUMITOMO MITSUI FINANCIAL GROUP INC	0.5%	A / A / NR
SUMITOMO MITSUI TRUST HOLDINGS INC	0.7%	A / A / NR
SVENSKA HANDELSBANKEN AB	0.4%	AA / Aa / AA
SWEDBANK AB	0.5%	A / Aa / AA
THE BANK OF NEW YORK MELLON CORPORATION	1.0%	A / A / AA
TORONTO-DOMINION BANK	0.8%	A / A / AA
TOYOTA MOTOR CORP	0.4%	A / A / A
TRUIST FIN CORP	0.2%	A / A / A
UBS AG	1.2%	A / Aa / AA
UNILEVER PLC	0.2%	A / A / A
UNITEDHEALTH GROUP INC	0.3%	A / A / A

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Corporate	33.4%	
WAL-MART STORES INC	0.3%	AA / Aa / AA
WELLS FARGO & COMPANY	0.7%	BBB / A / A
WESTPAC BANKING CORP	0.4%	AA / Aa / A
ABS	17.2%	
AMERICAN EXPRESS CO	0.9%	AAA / Aaa / AAA
BANK OF AMERICA CO	0.1%	AAA / NR / AAA
BMW FINANCIAL SERVICES NA LLC	0.1%	AAA / Aaa / NR
BMW VEHICLE OWNER TRUST	0.4%	AAA / Aaa / AAA
CAPITAL ONE FINANCIAL CORP	2.0%	AAA / Aaa / AAA
CARMAX AUTO OWNER TRUST	2.1%	AAA / Aaa / AAA
CHASE ISSURANCE	0.1%	AAA / NR / AAA
CNH EQUIPMENT TRUST	0.8%	AAA / Aaa / AAA
DISCOVER FINANCIAL SERVICES	0.6%	AAA / Aaa / NR
FORD CREDIT AUTO OWNER TRUST	0.2%	AAA / Aaa / NR
GM FINANCIAL CONSUMER AUTOMOBILE TRUST	1.4%	AAA / Aaa / AAA
GM FINANCIAL LEASINGTRUST	0.4%	AAA / Aaa / AAA
HARLEY-DAVIDSON MOTORCYCLE TRUST	0.8%	AAA / Aaa / NR
HONDA AUTO RECEIVABLES	0.2%	AAA / NR / AAA
HYUNDAI AUTO RECEIVABLES	1.1%	AAA / NR / AAA
JOHN DEERE OWNER TRUST	1.0%	NR / Aaa / AAA
KUBOTA CREDIT OWNER TRUST	1.7%	NR / Aaa / AAA
MERCEDES-BENZ AUTO LEASE TRUST	0.1%	AAA / NR / AAA
NISSAN AUTO LEASE TRUST	0.1%	AAA / Aaa / NR
NISSAN AUTO RECEIVABLES	0.4%	AAA / Aaa / NR
Toyota Lease Owner Trust	0.3%	AAA / Aaa / NR
TOYOTA MOTOR CORP	0.6%	AAA / Aaa / AAA

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Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
ABS	17.2%	
VERIZON MASTER TRUST	0.3%	AAA / Aaa / AAA
VERIZON OWNER TRUST	0.5%	AAA / Aaa / AAA
VOLKSWAGEN AUTO LEASE TURST	0.2%	NR / Aaa / AAA
VOLKSWAGEN OF AMERICA	0.2%	AAA / Aaa / NR
WORLD OMNI AUTO REC TRUST	0.7%	AAA / NR / AAA
Total	100.0%	

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

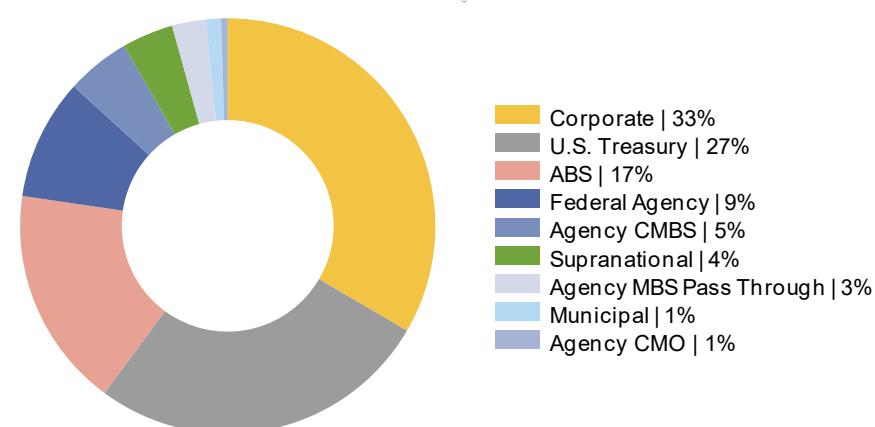


Portfolio Snapshot - MARION COUNTY POOLED OPERATING FUND¹

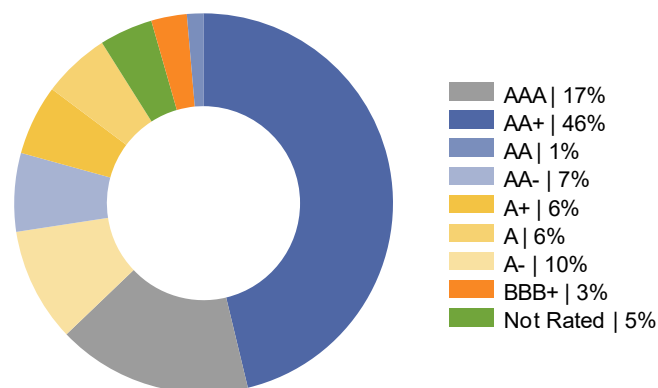
Portfolio Statistics

Total Market Value	\$128,982,914.40
Securities Sub-Total	\$127,319,988.67
Accrued Interest	\$321,532.05
Cash	\$1,341,393.68
Portfolio Effective Duration	1.72 years
Benchmark Effective Duration	1.76 years
Yield At Cost	1.48%
Yield At Market	4.18%
Portfolio Credit Quality	AA

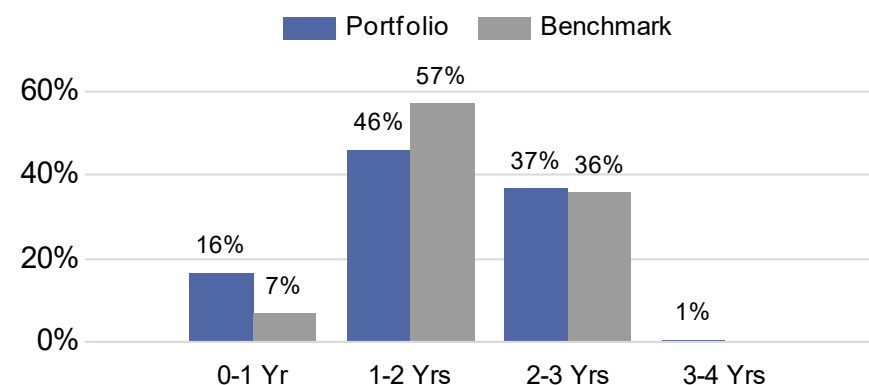
Sector Allocation



Credit Quality - S&P

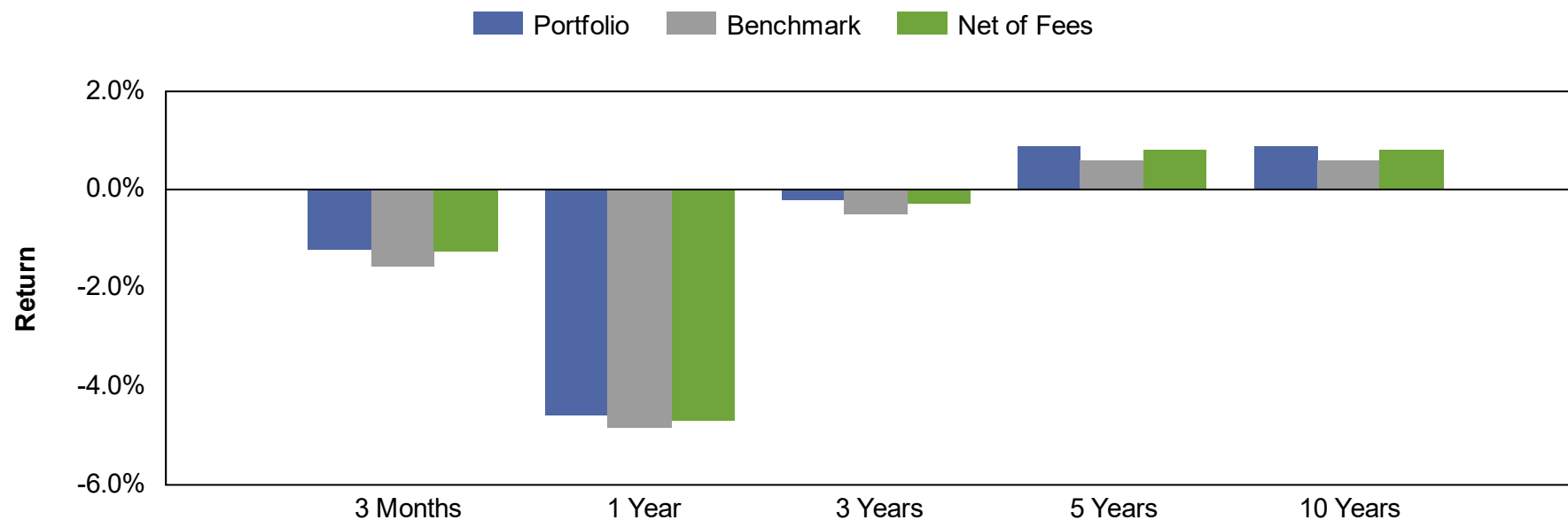


Duration Distribution



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 BofAML 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



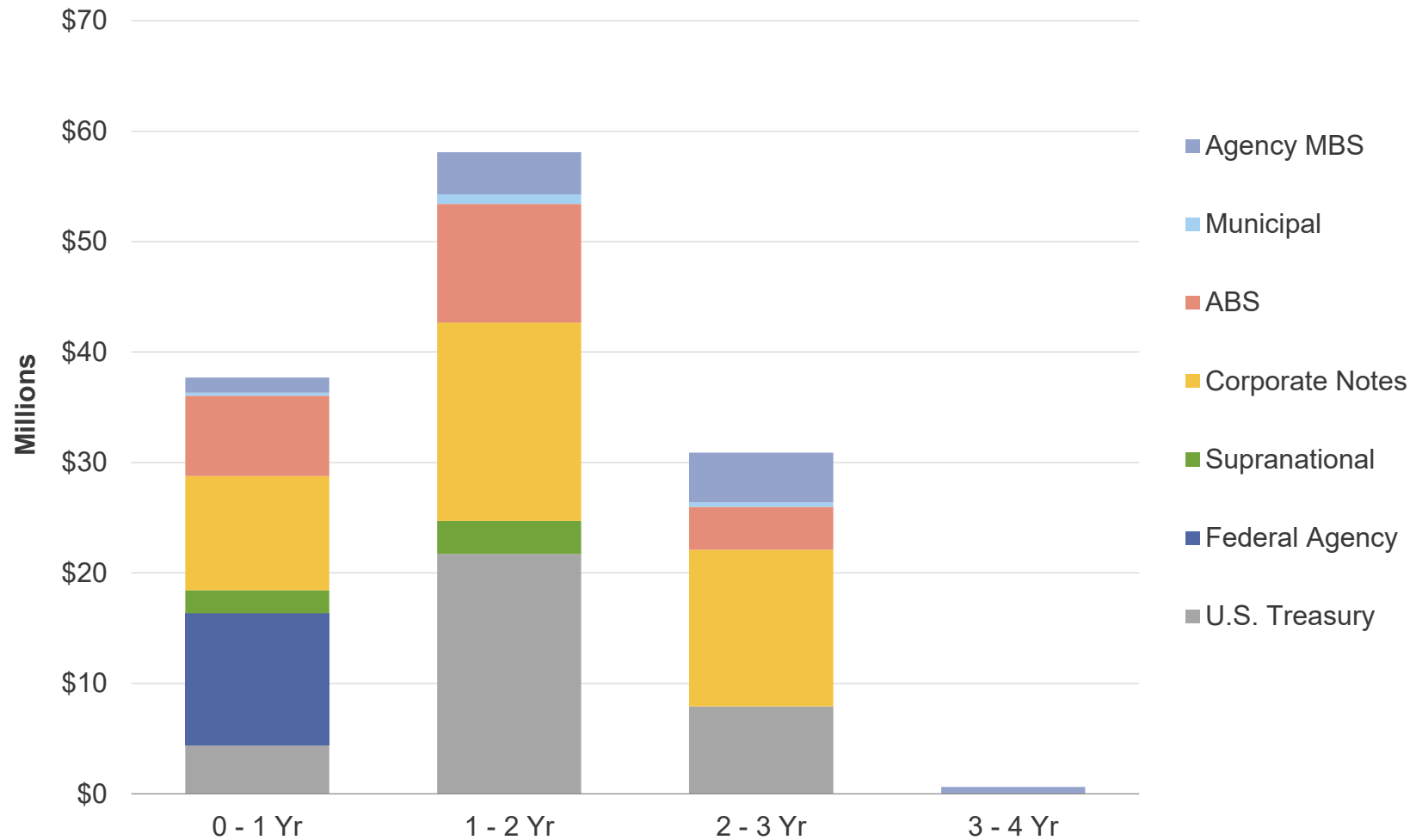
Market Value Basis Earnings	3 Months	1 Year	3 Years	5 Years	10 Years
Interest Earned ²	\$61,449	\$209,029	\$949,878	\$6,033,417	\$14,842,053
Change in Market Value	(\$2,046,196)	(\$7,574,291)	(\$6,754,580)	(\$5,556,607)	(\$8,171,896)
Total Dollar Return	(\$1,984,747)	(\$7,365,262)	(\$5,804,702)	\$476,810	\$6,670,157
Total Return³					
Portfolio	-1.23%	-4.61%	-0.20%	0.88%	0.88%
Benchmark ⁴	-1.56%	-4.86%	-0.48%	0.57%	0.60%
Basis Point Fee	0.02%	0.08%	0.08%	0.08%	0.08%
Net of Fee Return	-1.25%	-4.69%	-0.28%	0.79%	0.80%

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.

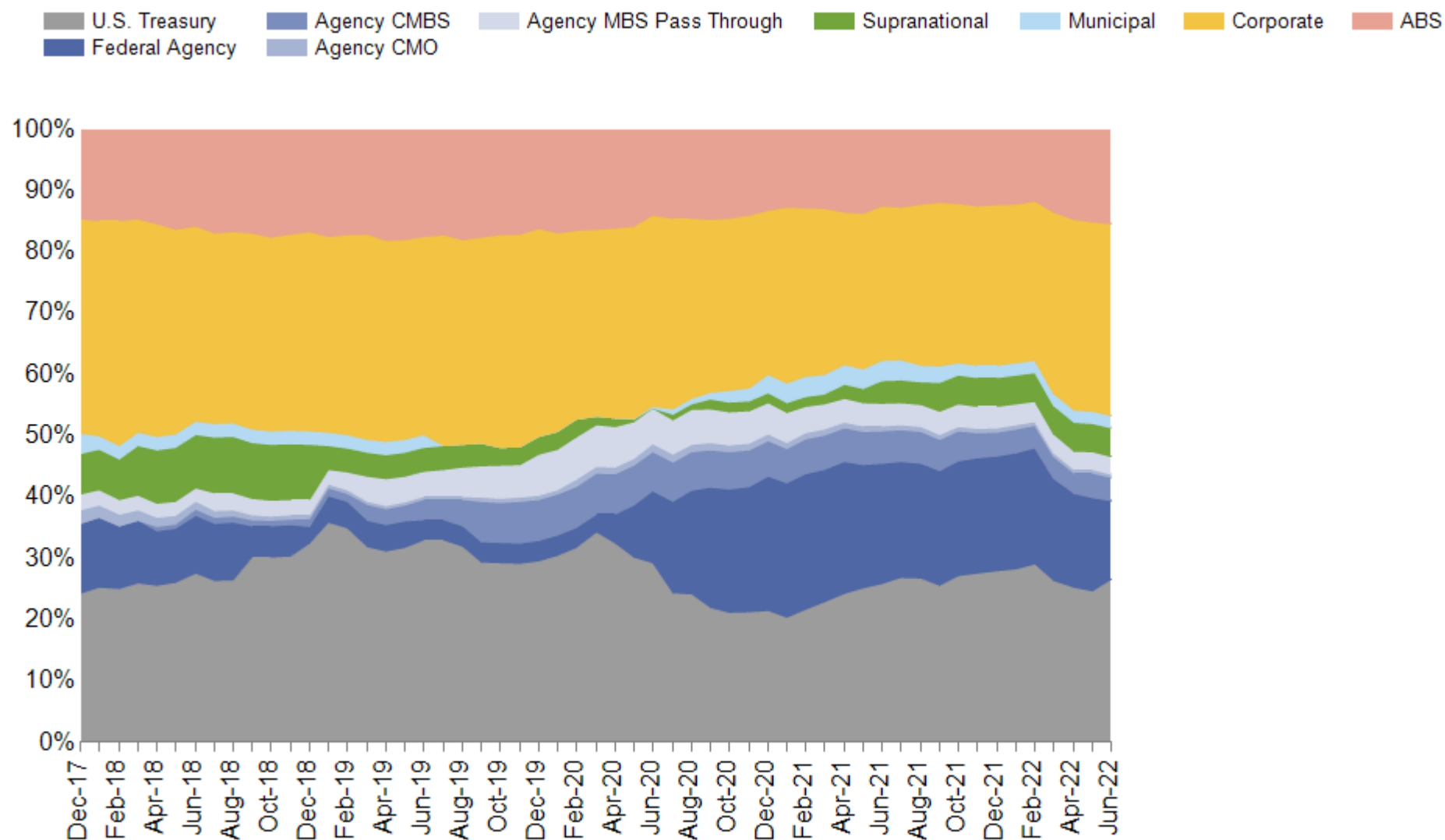
3. Returns for periods one year or less are presented on a periodic basis. Returns for periods greater than one year are presented on an annualized basis.

4. The portfolio's benchmark is the ICE BofAML 1-3 Year U.S. Treasury Index. Source: Bloomberg.

Duration by Sector - MARION COUNTY POOLED OPERATING FUND

Only includes investments held within the separately managed account(s).

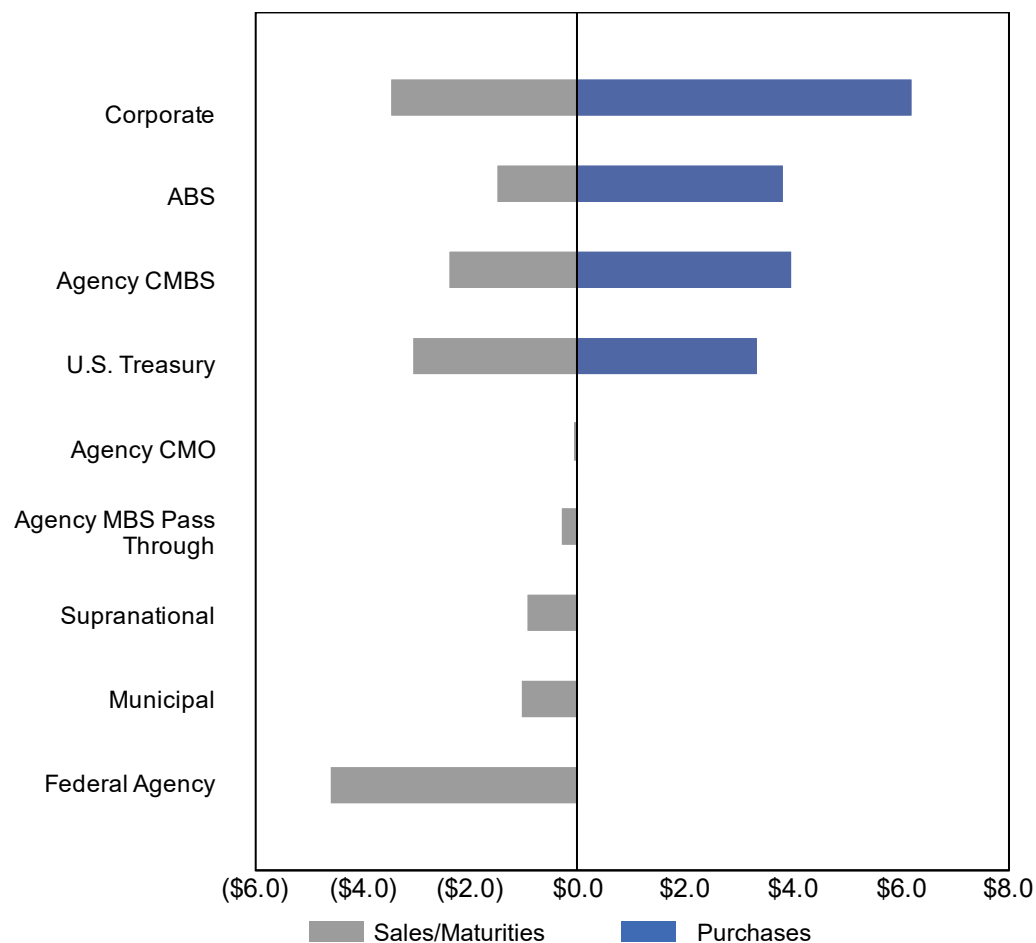
Historical Sector Allocation - MARION COUNTY POOLED OPERATING FUND



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

Portfolio Activity - MARION COUNTY POOLED OPERATING FUND

Net Activity by Sector
(\$ millions)



Sector	Net Activity
Corporate	\$2,749,196
ABS	\$2,321,842
Agency CMBS	\$1,580,133
U.S. Treasury	\$246,389
Agency CMO	(\$55,731)
Agency MBS Pass Through	(\$271,428)
Supranational	(\$916,025)
Municipal	(\$1,005,899)
Federal Agency	(\$4,588,403)
Total Net Activity	\$60,073

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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