

Quarterly Investment Report

AS OF MARCH 31, 2021



This report presents the City's investment portfolio for the quarter ending March 31, 2021. It has been prepared to comply with regulations contained in California Government Code Section 53646. The report includes all investments managed by the City on its own behalf as well as for other third-party agencies on a fiduciary basis such as the Whale Rock Commission. It also includes all City-related investments held by trustees for bond debt service obligations. As required, the report provides information on the investment type, issuer, maturity date, cost, and current market value for each security.

May 13, 2021



Market Themes

The Fight Against the COVID-19 Pandemic Continues

- ◆ COVID-19 cases fell by 66% in the U.S. during the first quarter.
- ◆ Approximately 95 million Americans received at least one vaccination by quarter-end.

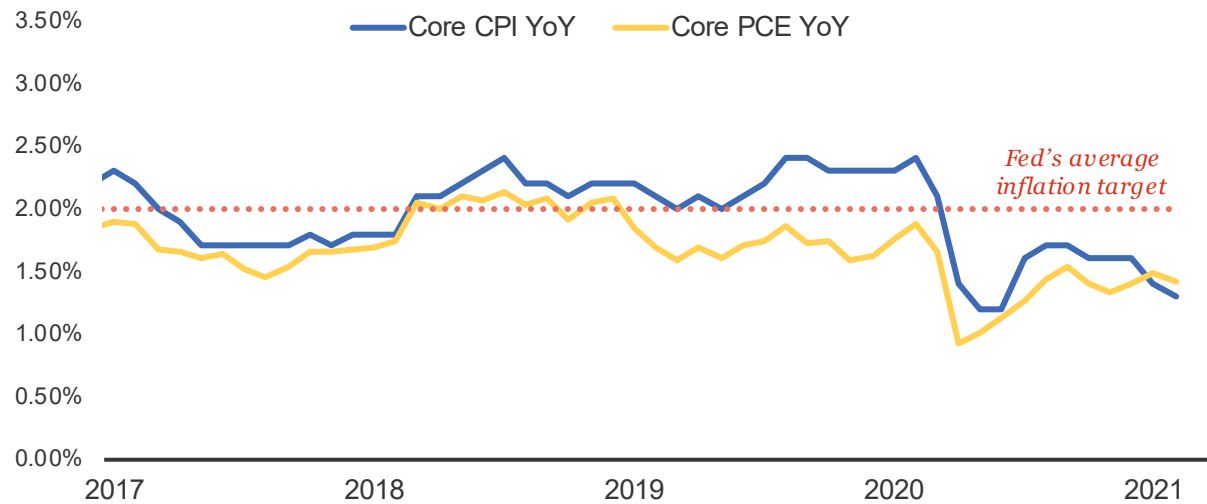
Enactment Date	Congressional Actions
March 6, 2020	\$7.8 billion Coronavirus Preparedness and Response Supplemental Appropriations Act
March 18	\$15.4 billion Families First Coronavirus Response Act (FFCRA)
March 27	\$2.1 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act
April 24	\$483 billion Paycheck Protection Program and Health Care Enhancement Act
Dec 27	\$900 billion Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act
March 11, 2021	\$1.9 trillion American Rescue Plan (ARP) Act of 2021
?	\$2 trillion proposed "American Jobs Plan"



Market Considerations

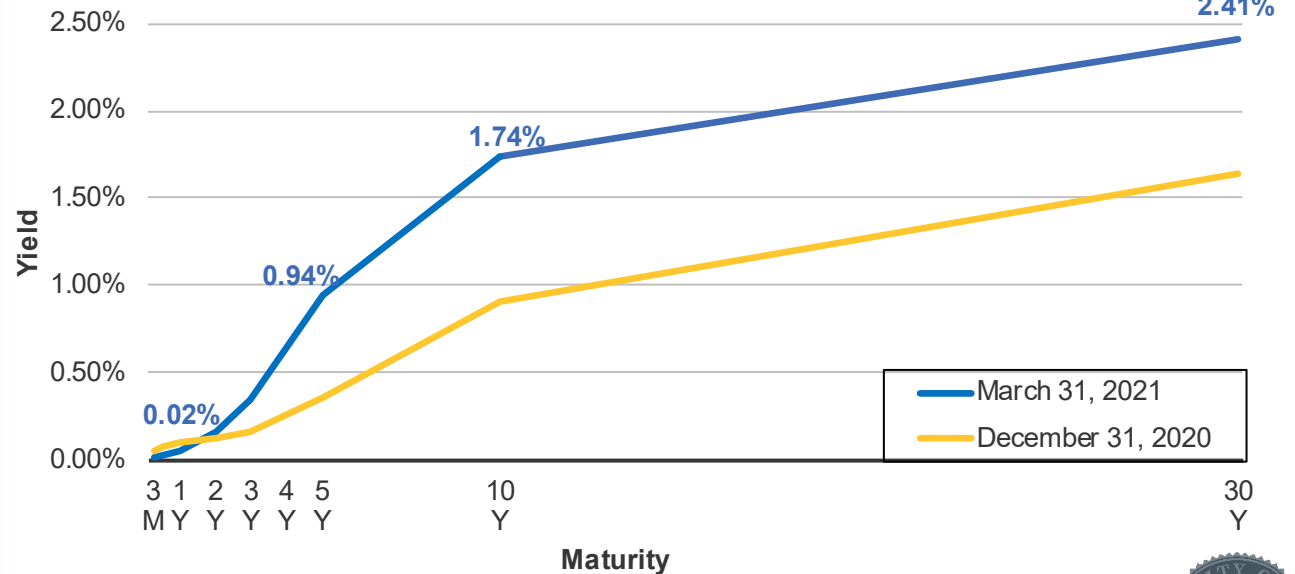
- The Fed reaffirmed its commitment to keep short-term rates near zero and continued their asset purchase program. Increasing inflation expectations were fueled by a combination of stronger recovery and additional stimulus.
- The U.S. Treasury yield curve steepened dramatically during the quarter. Yields on very short-term maturities under a year remained anchored to the Fed's near-zero rate policy. Yields on 2- to 3-year maturities hovered near record lows, while yields on maturities five years and longer increased by 50 to 90 basis points (0.50% to 0.90%).

Inflation Indicators



Source: Bloomberg as of April 5, 2021.

U.S. Treasury Yield Curve



Source: Bloomberg as of March 31, 2021.

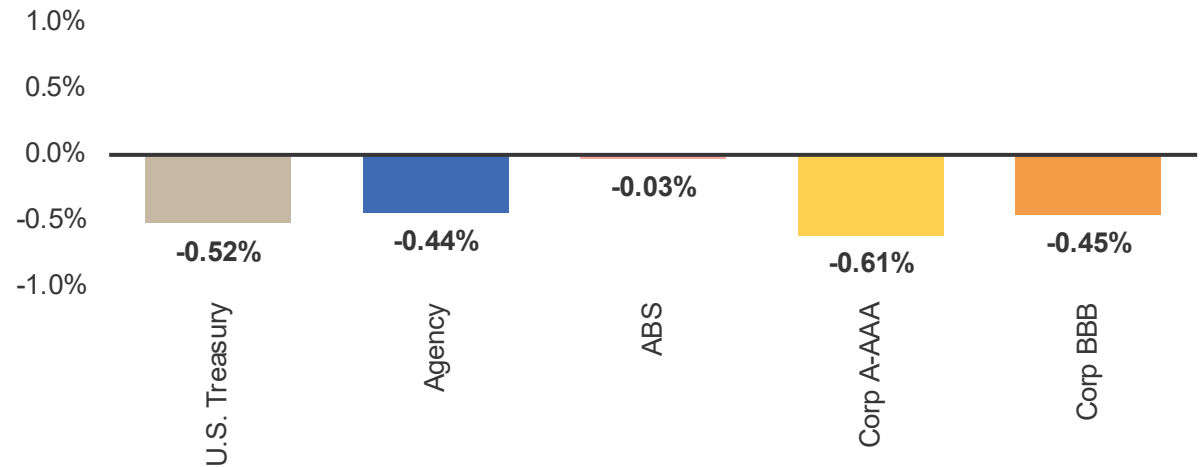


Market Considerations

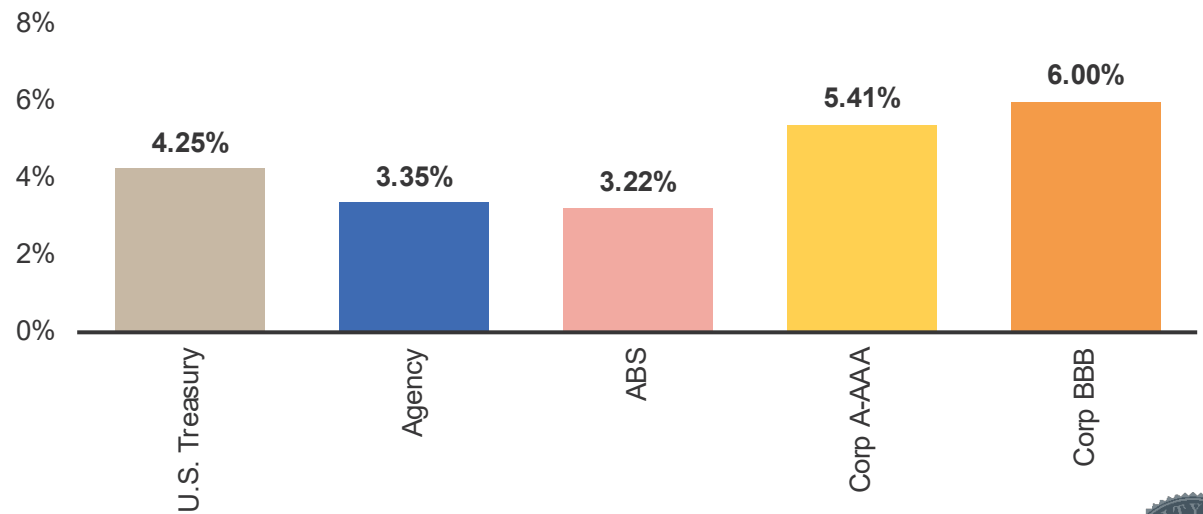
- The federal agency sector offered record low yield spreads and posted modest positive excess returns for the quarter. On balance, diversification remained a net positive to performance relative to Treasuries, but by a much smaller amount than in recent periods.
- Investment grade corporates eked out muted excess returns as higher income offset modestly wider yield spreads. Supply was strong and rising rates put natural upward pressure on yields spreads.

1-5 Year Indices

First Quarter 2021



Full Year 2020



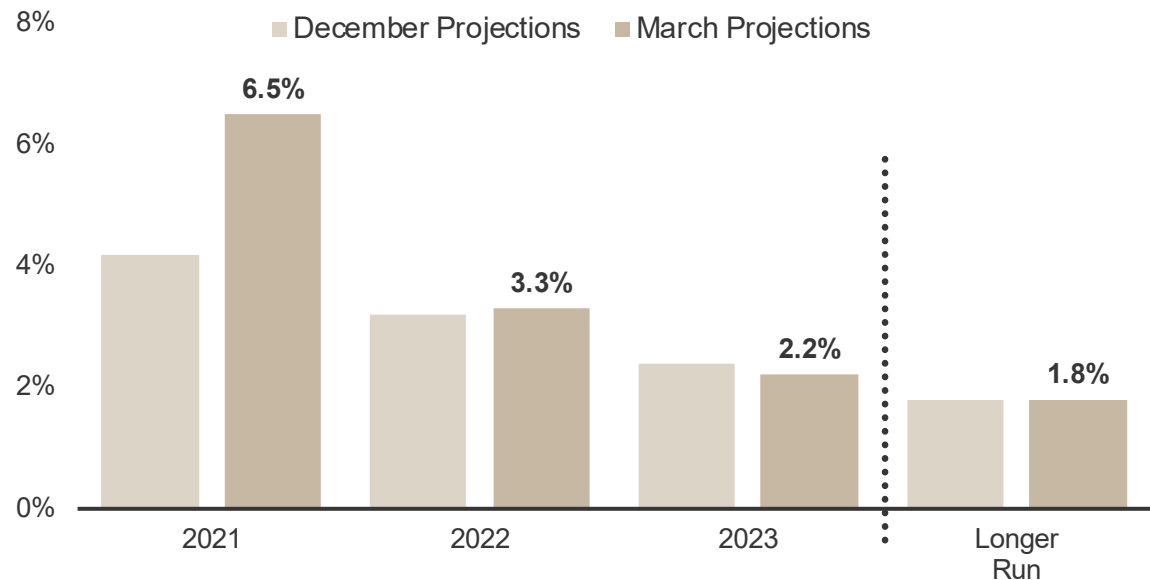
Source: Bloomberg as of March 31, 2021.



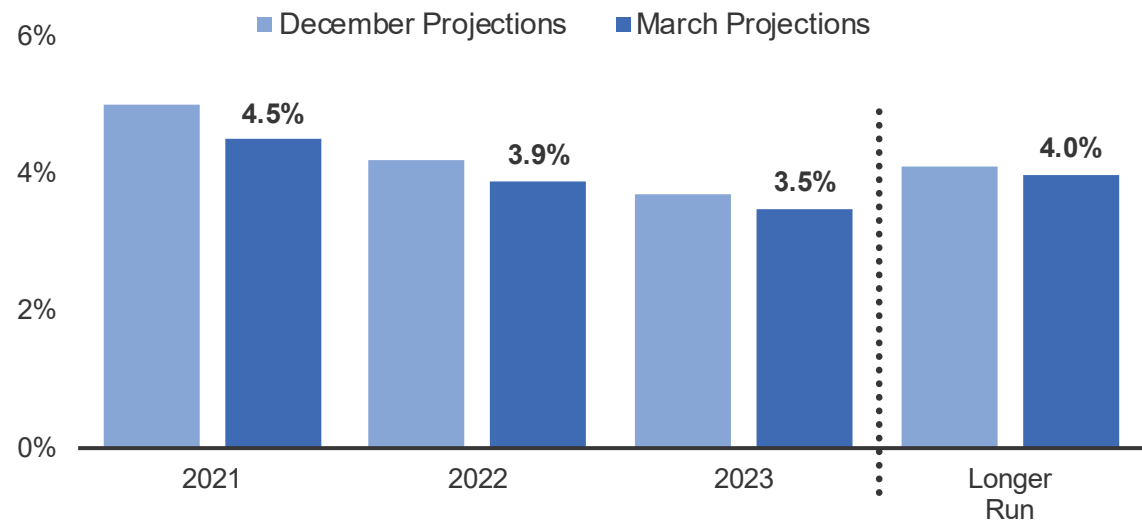
What we are watching...

- The vaccine rollout, accommodative monetary policy, and the new \$1.9 trillion of fiscal stimulus all point to continued improvement in U.S. economic fundamentals.
- GDP projections for 2021 have been revised up several times, with current forecasts pointing to growth of 6% or more this year. That optimism, however, has also translated into increased inflation expectations, which is likely to continue to put upward pressure on longer-term rates.

U.S. Real GDP



Unemployment Rate



Source: Federal Reserve, economic projections as of December 2020 and March 2021.



Current Cash & Investment Summary

The following is a summary of the City's cash and investments based on market value, as of March 31, 2021, compared to the prior quarter.

Investment Entity	March 31, 2021	December 31, 2020	Percent of Total**
City Held Cash & Investments	\$34,415,093	\$23,330,369	21%
LAIF Held Investments	\$23,950,630	\$23,912,821	15%
PFM Managed Investments*	\$103,382,052	\$103,665,721	64%
Trustee Held Investments	\$72,644	\$72,529	<1%
TOTAL	\$161,820,420	\$150,981,441	100%

*Figures shown exclude accrued interest. **Details may not add up to total due to rounding.



Current Cash & Investment Summary

There are several factors which result in changes in cash and investment balances from month-to-month and quarter-to-quarter, dependent on the receipt of revenues or a large disbursement.

Factors

- Some major City revenues are received on a periodic rather than a monthly basis. Property Tax is received in December, January, April, and May of each year. Transient Occupancy Tax is received monthly but varies considerably due to seasonality.
- Payments for bonded indebtedness or large capital projects can reduce the portfolio substantially in the quarter in which they occur.
- The City pays its CalPERS obligation in a lump sum at the beginning of the fiscal year to achieve interest savings.



Securities

Securities in the City's portfolio are priced by Refinitiv, an independent pricing service at the end of every month. In some cases, the City may have investments with a current market value that is greater or less than the recorded value. These changes in market value are due to fluctuations in the marketplace having no effect on yield, as the City does not intend to sell securities prior to maturity. Nevertheless, these market changes can impact the total value of the portfolio.

<u>Security Type</u>	<u>Market Value</u>	<u>% of Portfolio</u>	<u>% Change vs. 12/31/20</u>	<u>Permitted by Policy</u>	<u>In Compliance</u>
U.S. Treasury	\$46,689,762	45.2%	+18.9%	100%	✓
Federal Agency	\$31,204,065	30.2%	-0.1%	100%	✓
Municipal Obligations	\$2,212,480	2.1%	+0.2%	30%	✓
Negotiable CDs	\$6,016,673	5.8%	+0.9%	30%	✓
Corporate Notes	\$12,665,891	12.3%	-0.8%	30%	✓
Asset-Backed Securities	\$4,279,524	4.1%	-	15%	✓
Securities Sub-Total	\$103,068,395				
Money Market Fund	\$313,657	0.3%	-19.1%	20%	✓
Accrued Interest	\$311,042				
Securities Total	\$103,693,095				



Total Return

Total return is calculated based on interest and both realized and unrealized changes in market value; this is expressed as a rate of return over a specified period of time based on cost and is backward-looking.

- Focused on long-term performance and growth
- Affected by both yield and market value fluctuations
- Reflects “true value” of the portfolio
- Recommended approach by the Government Finance Officers Association

PFM Managed	03/31/2021	12/31/2020
Average Maturity (Years)	2.38	2.38
Effective Duration ¹	2.16	2.11
Average Market Yield	0.43%	0.34%

¹Effective duration is the approximate percentage change in price for each 1% change in interest rates.

Total Rate of Return	3 Months	1 Year	3 Years	Since Inception
City of SLO	-0.32%	1.26%	3.23%	1.98%
0-5 Treasury Index	-0.39%	-0.04%	2.95%	1.77%
Variance	+0.07%	+1.30%	+0.28%	+0.21%



As of March 31, 2021, the investment portfolio was in compliance with all State laws, the City's Statement of Investment Policy, and the City's Investment Management Plan.

Summary of Activity for the Quarter & Future Liquidity

Cash receipts and disbursements are consistent with past trends for the quarter. The cash management program contains enough liquidity to meet at least the next three months of expected expenditures by the City as well as by related parties.



If you have any questions concerning this report, or require additional information, contact Brigitte Elke, Finance Director at **(805) 781-7510**.





Investment Portfolio Benefits All Funds

The City's cash and investment portfolio represents money from all City funds, including the General Fund, enterprise funds (Water, Sewer, Parking, Transit), special revenue funds (Tourism, Downtown Assessments), capital projects funds, and other funds which are restricted to specific purposes.

In general, monies held by the City are either allocated by the City Council for spending or are purposefully retained in reserve. For example, the money in the Capital Outlay Fund has been identified to provide particular capital projects for the community, and there is a plan for spending down the cash balance as the projects progress. Balances held in reserve per the City's financial policies equate to 20% of the operating budget. For the fiscal year 2020-21, they are listed in the chart to the left.

Fund	FY 2020-21
General	\$ 10,251,000
Water	\$ 4,377,000
Sewer	\$ 2,311,000
Parking	\$ 548,000
Transit	\$ 734,000
Tourism	\$ 100,000





Investment Objectives

The investment objectives of the City of San Luis Obispo are first, to provide safety of principal to ensure the preservation of capital in the overall portfolio; second, to provide sufficient liquidity to meet all operating requirements; and third, to earn a commensurate rate of return consistent with the constraints imposed by the safety and liquidity objectives. The City follows the practice of pooling cash and investments for all funds under its direct control. Funds held by outside fiscal agents under provisions of bond indentures are maintained separately. Interest earned on pooled cash and investments is allocated quarterly to the various Quarterly Investment Report funds based on the respective fund's average quarterly cash balance. Interest earned from cash and investments with fiscal agents is credited directly to the related accounts.

It is common for governments to pool the cash and investments of various funds to improve investment performance. By pooling funds, the City can benefit from economies of scale, diversification, liquidity, and ease of administration. The City uses the services of an investment advisor, PFM Asset Management, to manage a portion of the City's portfolio. The City's strategy is to retain approximately 25% of the portfolio to manage its day-to-day cash flow needs, while PFM's focus is on longer-term investment management. In addition, the City has retained direct control of several investments that had been acquired before the City began to use investment advisors. All investments are held by the City in a safekeeping account with Bank of New York Mellon, except for investments held by trustees related to bond financings, which are held by either US Bank or Bank of New York Mellon.





Environmental, Social, and Governance (ESG) Investment Objectives

ESG investing is the process of incorporating the analysis of non-financial environmental, social, and governance factors into investment decisions alongside traditional financial criteria. As set forth in the City's Investment Management Plan dated August 18, 2020, it is City's objective to integrate environmental, social, and governance ("ESG") factors into investment decisions for its investment portfolio to the extent practical and possible.

In order to achieve this objective, the City will apply the ESG Investment Criteria to the following Investments: *Asset-Backed Securities, Bankers' Acceptances, Commercial Paper, Corporate, Medium-Term & Bank Notes, and Negotiable Bank Deposit Obligations.*

The ESG investment criteria is based on ESG Risk Ratings, industry and subindustry definitions, and subindustry rankings as provided by Sustainalytics.



ESG Performance Summary Q1 2021

ESG Rated Portfolio

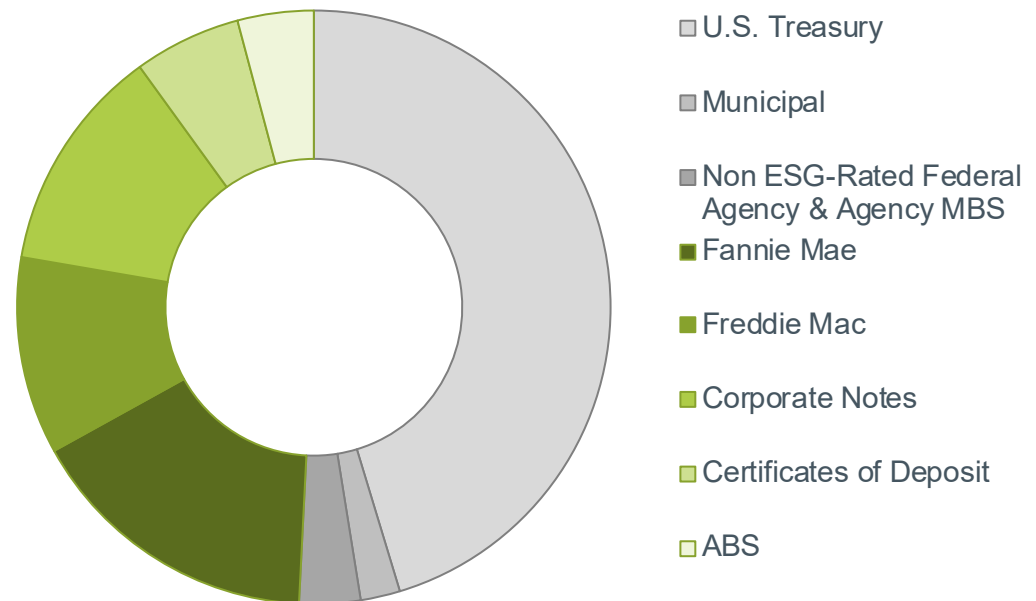
30/40 issuers with a MV of \$103.4 million¹



Non-ESG Rated Issuers:

U.S. Treasuries, Municipal Bonds, Federal Home Loan Banks, and Federal Farm Credit Banks

Sector Allocation



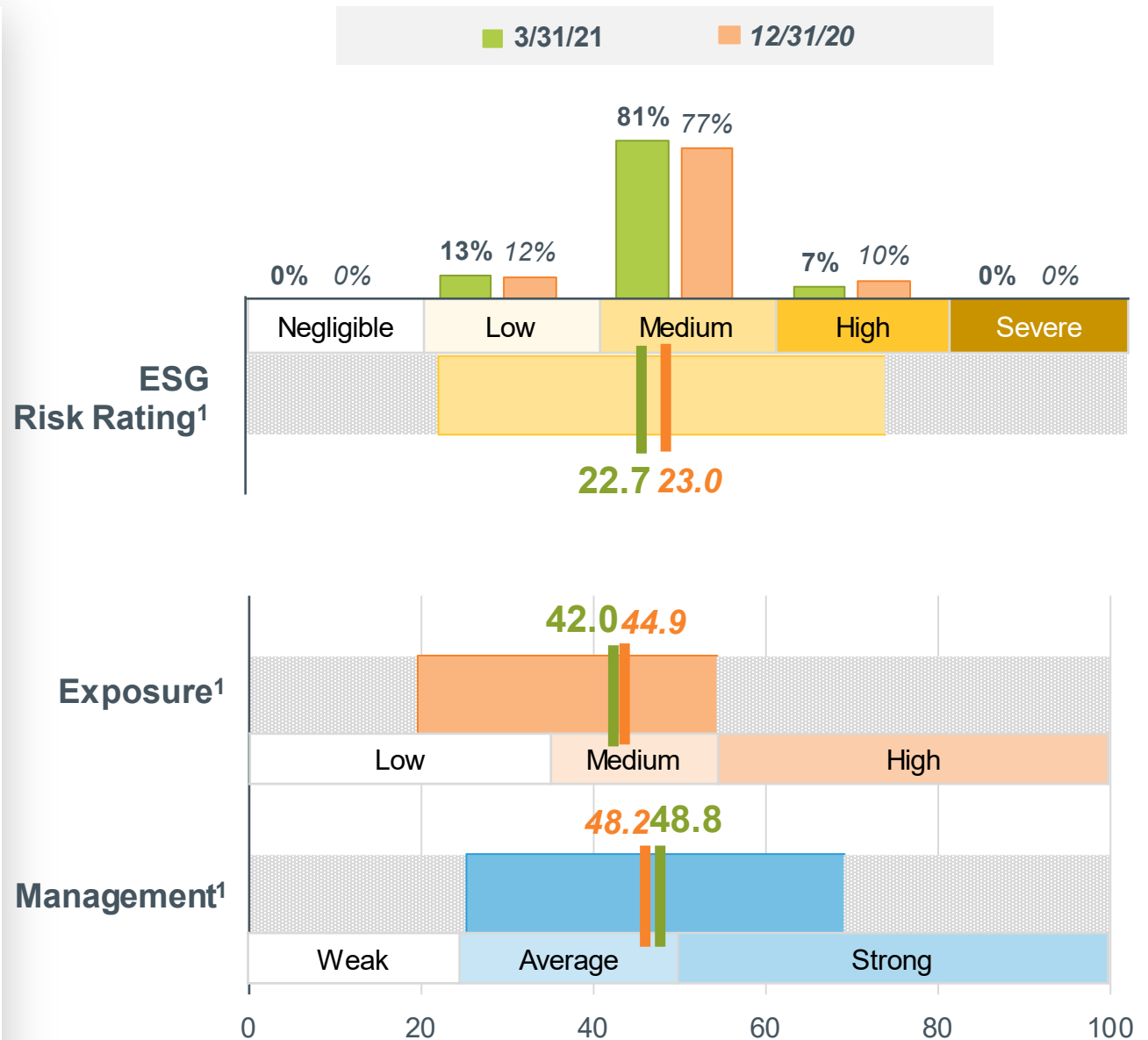
Green shades are ESG-rated sectors

¹ Market Value includes accrued interest as of March 31, 2021.
Source: Sustainalytics. Please see important disclosures at the end of this presentation.



ESG Quarter-Over-Quarter Summary Comparison

- On average, the portfolio maintained medium ESG risk as of March 31, 2021.
- The Portfolio's ESG risk exposure score remained within the medium range. A lower ESG exposure score generally decreases ESG risk.
- The Portfolio's ESG Management rating also remained within the average range quarter-over-quarter. Higher management scores generally reduce ESG risk.



¹Characterizations of ESG performance.

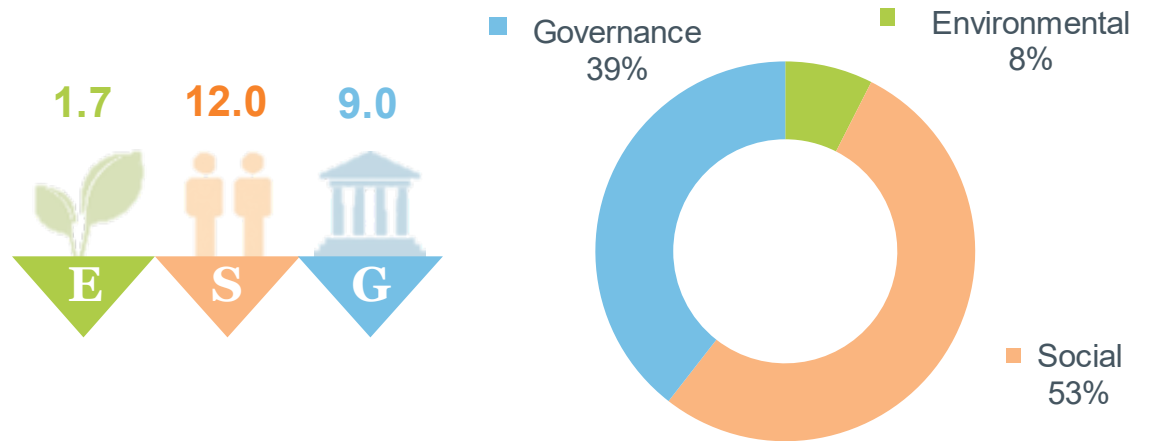
Source: Sustainalytics. Data as of March 31, 2021 and December 31, 2020, as indicated. Please see important disclosures at the end of this presentation.



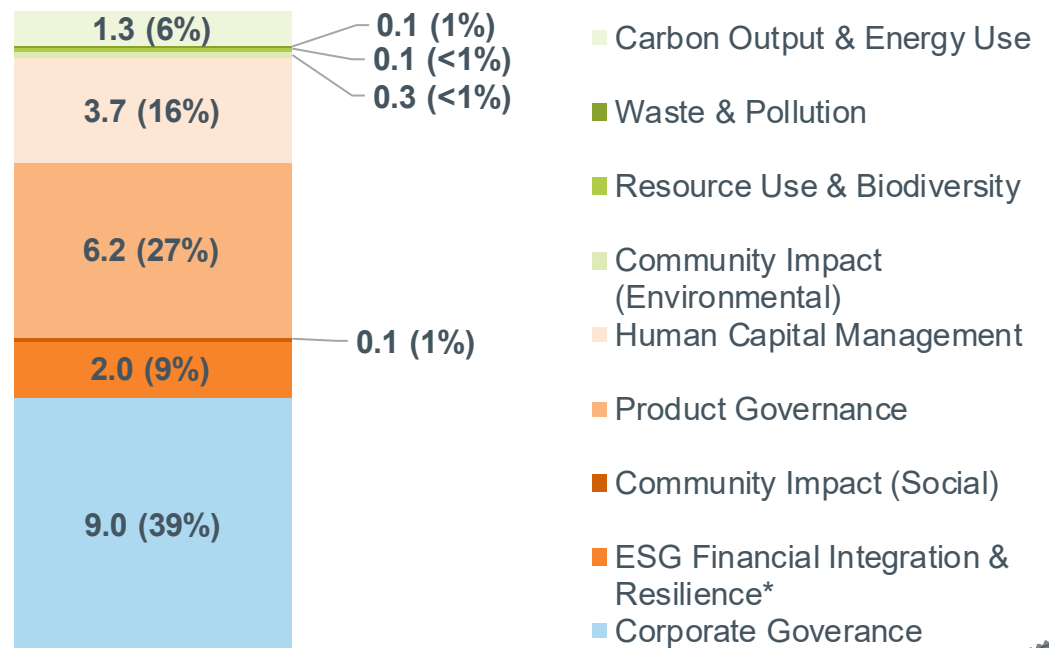
Material ESG Issues Exposure

Portfolio ESG Risk Rating: 22.7

Risk Contribution by ESG Pillar



Risk Contribution by ESG Themes



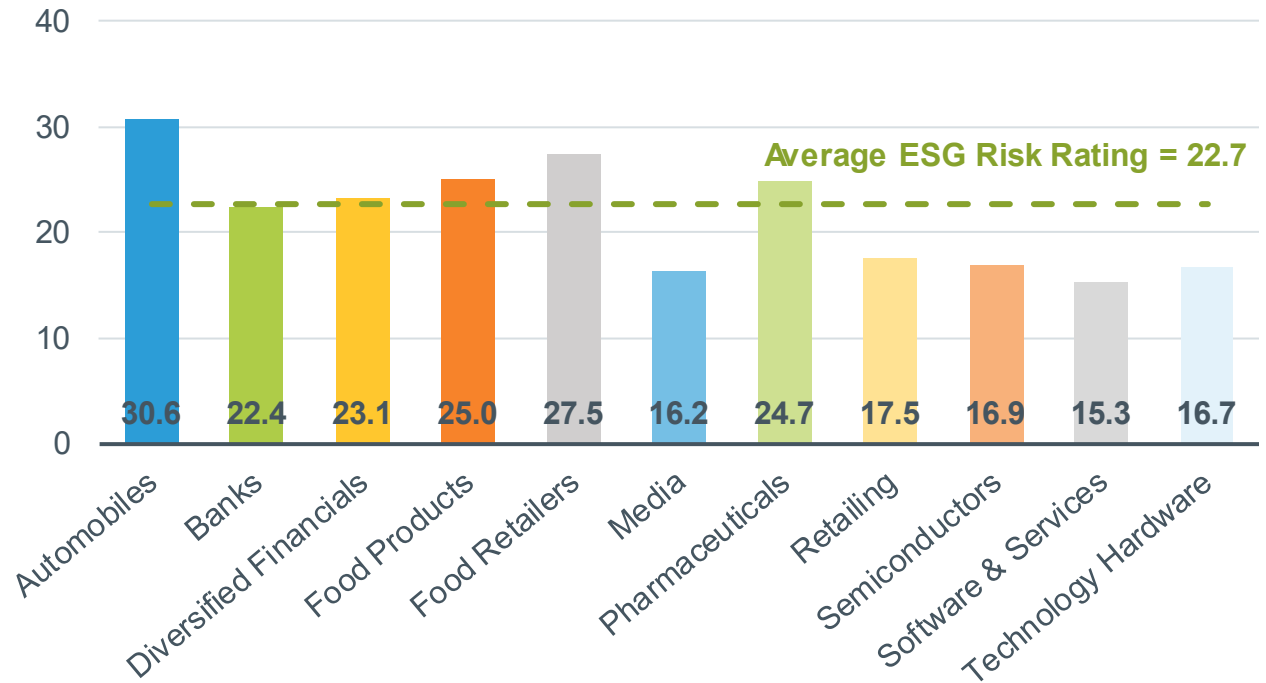
SLO as of 3/31/21

Source: Sustainalytics. ESG Themes were created by PFM based on the material ESG issues ("MEIs") and ESG indicators developed and defined by Sustainalytics. Issuers with no MEIs rating are excluded from the calculation. Please see the ESG Themes Glossary provided in the Appendix for additional information and details. *Only applies to financial service industries.



Industry Diversification

ESG Risk Rating by Industry

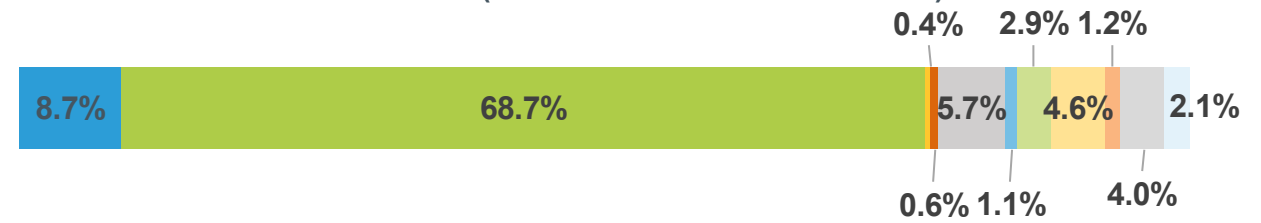


Industry Distribution

(# of Issuers)



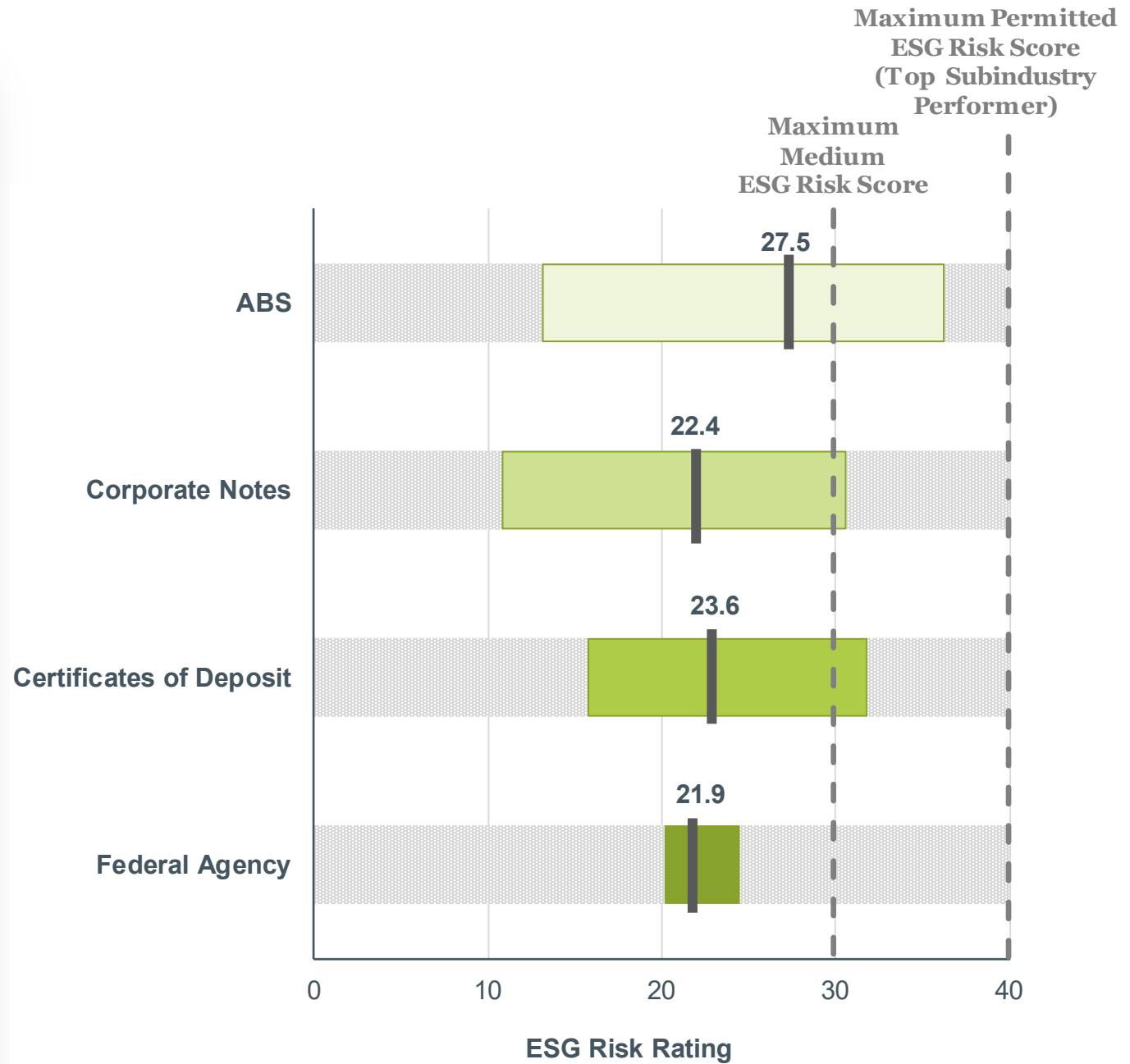
(Allocation % of Market Value)



Portfolio holdings and Sustainalytics data as of March 31, 2021. "ESG Risk Rating by Industry" represents the market value-weighted average ESG risk rating for each industry, as classified by Sustainalytics. "Industry Distribution" charts show the total number of issuers per industry and the allocation as percentage of portfolio market value.



ESG Risk Rating by Sector



Source: Sustainalytics. Data as of March 31, 2021. Bars represent the range of held issuers' ESG risk rating that fall under each sector, and lines indicate the sectors market value-weighted average ESG risk rating. Please see important disclosures at the end of this presentation.



Top Changes in ESG Risk Ratings in Q1

Largest Decreases in ESG Risk Rating

25.3
↓ 4.8



Pfizer Inc

- Improvement in ESG management – increase in management score

33.1
↓ 1.0

NISSAN

Nissan Motor Co Ltd

- Improvement in ESG management – increase in management score

13.1
↓ 0.4

CARmax

CarMax Inc.

- Improvement in ESG management – increase in management score

Largest Increases in ESG Risk Rating

16.9
↑ 1.1



Intel Corp

- Decrease in ESG management score

20.9
↑ 1.1

MIZUHO

Mizuho Financial Group Inc

- Involvement in negative news headline surrounding default risks

30.6
↑ 0.3



TOYOTA

Toyota Motor Corporation

- Decrease in ESG management score



Holdings as of March 31, 2021 – Sorted By ESG Risk Rating

Issuer	% Weight	Subindustry	Subindustry Percentile	ESG Risk Rating 3/31/21	QoQ Change in ESG Rating	Contributions		
						E	S	G
Adobe Systems Inc	0.6%	Enterprise and Infrastructure Software	1	10.9	-	7%	49%	44%
The Home Depot Inc	0.8%	Home Improvement Retail	6	11.6	0.2	28%	39%	33%
CarMax Inc.	0.7%	Automotive Retail	22	13.1	-0.4	-	67%	33%
DNB ASA	0.6%	Diversified Banks	3	15.7	-	3%	47%	50%
Walt Disney Co	0.5%	Movies and Entertainment	41	16.2	-	-	48%	52%
Mastercard Incorporated	0.6%	Data Processing	16	16.3	-	-	47%	53%
Apple Inc	1.0%	Technology Hardware	12	16.7	0.2	5%	40%	55%
Intel Corp	0.6%	Semiconductor Design and Manufacturing	3	16.9	1.1	29%	30%	41%
International Business Machines Corp	0.7%	IT Consulting	15	18.0	0.1	2%	56%	42%
Federal National Mortgage Association	16.2%	Thriffs and Mortgages	7	20.2	-	-	61%	39%
Mizuho Financial Group Inc	0.9%	Diversified Banks	11	20.9	1.1	5%	46%	49%
Nordea Bank AB	1.1%	Diversified Banks	12	21.6	-0.3	2%	45%	53%
Bristol-Myers Squibb Company	0.3%	Biotechnology	3	22.6	-	-	69%	31%

Source: Sustainalytics. Holdings as of March 31, 2021. Quarter-over-quarter ("QoQ") change in ESG risk rating reflects the overall change in risk rating for each issuer, as defined by Sustainalytics, from December 31, 2020 to March 31, 2021. Under QoQ Change, reductions in green indicate rating improvements, increases in red indicate higher risk rating. "-" represents 0 or no data available.



Holdings as of March 31, 2021 – Sorted By ESG Risk Rating

Issuer	% Weight	Subindustry	Subindustry Percentile	ESG Risk Rating 3/31/21	QoQ Change in ESG Rating	Contributions		
						E	S	G
Capital One Financial Corporation	0.2%	Consumer Finance	14	23.1	-0.1	-	59%	41%
Ally Financial Inc.	0.0%	Consumer Finance	19	23.7	-0.2	-	58%	42%
Skandinaviska Enskilda Banken AB	1.2%	Diversified Banks	19	23.8	-0.1	3%	46%	51%
Federal Home Loan Mortgage Corp	10.7%	Thriffs and Mortgages	21	24.5	-0.3	7%	55%	38%
The Hershey Company	0.3%	Packaged Foods	5	25.0	-0.3	38%	40%	21%
Pfizer Inc	1.1%	Pharmaceuticals	4	25.3	-4.8	6%	55%	40%
Societe Generale SA	0.8%	Diversified Banks	26	25.9	-	5%	33%	62%
Bank of America Corporation	0.6%	Diversified Banks	28	26.4	0.1	5%	43%	51%
Sumitomo Mitsui Financial Group Inc	0.6%	Diversified Banks	29	26.9	-	7%	40%	53%
Amazon.com Inc	0.8%	Online and Direct Marketing Retail	94	27.4	-	23%	41%	36%
Walmart Inc.	2.8%	Food Retail	56	27.5	0.3	14%	61%	25%
JPMorgan Chase & Co.	0.5%	Diversified Banks	34	27.9	-	3%	48%	49%
Honda Motor Co Ltd	1.6%	Automobiles	39	28.5	-	24%	44%	32%

Source: Sustainalytics. Holdings as of March 31, 2021. Quarter-over-quarter ("QoQ") change in ESG risk rating reflects the overall change in risk rating for each issuer, as defined by Sustainalytics, from December 31, 2020 to March 31, 2021. Under QoQ Change, reductions in green indicate rating improvements, increases in red indicate higher risk rating. "-" represents 0 or no data available.



Holdings as of March 31, 2021 – Sorted By ESG Risk Rating

Issuer	% Weight	Subindustry	Subindustry Percentile	ESG Risk Rating 3/31/21	QoQ Change in ESG Rating	Contributions		
						E	S	G
Toyota Motor Corporation	1.7%	Automobiles	59	30.6	0.3	22%	44%	34%
Credit Suisse Group AG	0.6%	Diversified Banks	49	31.8	-	4%	39%	57%
Nissan Motor Co Ltd	0.8%	Automobiles	74	33.1	-1.0	29%	43%	29%
Hyundai Motor Company	0.2%	Automobiles	90	36.2	-	26%	43%	31%

Source: Sustainalytics. Holdings as of March 31, 2021. Quarter-over-quarter ("QoQ") change in ESG risk rating reflects the overall change in risk rating for each issuer, as defined by Sustainalytics, from December 31, 2020 to March 31, 2021. Under QoQ Change, reductions in green indicate rating improvements, increases in red indicate higher risk rating. "-" represents 0 or no data available.



Socially Responsible Investment Policy

In addition to the ESG criteria, the City's Socially Responsible Investment (SRI) Policy restricts from the portfolio issuers who generate revenue from casinos, gambling, racetracks, brewery, wine/spirits, tobacco, electronic cigarette, or tobacco-related products, or who support the direct production or drilling of fossil fuels. The City's portfolio is in compliance with SRI restrictions. The tables to the right show the Bloomberg Industry Classifications ("BICS") for all the portfolio's holdings.

Issuer	Sector (BICS)
Ally Auto Receivables Trust	Automobiles Manufacturing
American Honda Finance	Automobiles Manufacturing
Carmax Auto Owner Trust	Automobiles Manufacturing
Copart, Inc.	Automobiles Manufacturing
Honda Auto Receivables	Automobiles Manufacturing
Hyundai Auto Receivables	Automobiles Manufacturing
Nissan Auto Receivables	Automobiles Manufacturing
Toyota Motor Credit Corp	Automobiles Manufacturing
Credit Suisse Group	Banks
Mizuho Financial Group Inc.	Banks
Nordea Bank Ab	Banks
Skandinaviska Enskilda Banken Ab	Banks
Societe Generale	Banks
Sumitomo Mitsui Financial Group Inc	Banks
Apple Inc	Communications Equipment
Mastercard Inc	Consumer Finance
Bank Of America Co	Diversified Banks
JPMorgan Chase & Co	Diversified Banks
LA Community College District	Education
San Diego Community College District	Education
University Of California	Education

Issuer	Sector (BICS)
The Walt Disney Corporation	Entertainment Content
Dnb Asa	Financial Services
California State Earthquake Authority	Financing & Development
Hershey Company	Food & Beverage
California State	General Government
Maryland State	General Government
FHLB	Government Agencies
FFCB	Government Agencies
FHLMC	Government Agencies
FNMA	Government Agencies
Wal-Mart Stores Inc	Mass Merchants
Bristol-Myers Squibb Co	Pharmaceuticals
Pfizer Inc	Pharmaceuticals
Amazon.Com Inc	Retail - Consumer Discretionary
Home Depot Inc	Retail - Consumer Discretionary
Intel Corporation	Semiconductors
Adobe Inc	Software & Services
IBM Corp	Software & Services
United States Treasury	Sovereigns
New Jersey Turnpike Authority	Transportation



ESG Themes Glossary

ESG Theme	Theme Description	Key Indicators
Environment	Carbon Output & Energy Use	<p>Refers to a company's management of risks related to its energy efficiency and greenhouse gas emissions in its operation as well as its products and services in the production phase and during the product use phase</p> <ul style="list-style-type: none"> • Carbon intensity • Renewable energy use • Env. Mgt. System certification • GHG reporting / risk management • Hazardous products • Sustainable products & services
	Waste & Pollution	<p>Evaluates the management of emissions and releases from a company's own operations to air, water, and land, excluding greenhouse gas emissions</p> <ul style="list-style-type: none"> • Emergency response program • Solid waste management • Effluent management • Radioactive waste management • Hazardous waste management • Non-GHG air emissions programs • Oil spill disclosure & performance • Recycled material use
	Resource Use & Biodiversity	<p>Analyzes how efficiently and effectively a company uses its raw material inputs and water in production. It also encompasses how a company manages the impact of its operations on land, ecosystems, and wildlife</p> <ul style="list-style-type: none"> • Biodiversity programs • Deforestation programs / polices • Site closure & rehabilitation • Water intensity & risk management • Forest certifications • Supplier environmental programs / certifications • Sustainable agriculture programs
	Community Impact (Environmental)	<p>Evaluates the community impact from an environmental risk perspective based on an assessment of Community Relations, Products & Services, Occupational Health and Safety, and Product Governance</p> <ul style="list-style-type: none"> • Env Impact – Community Relations • Env Impact – Products & Services • Env Impact – Occupational Health and Safety • Env Impact – Product Governance



ESG Themes Glossary

ESG Theme	Theme Description	Key Indicators	
Social	Human Capital Management	Evaluates the management of risks related to human rights, labor rights, equality, talent development, employee retention, and labor health and safety	<ul style="list-style-type: none"> • Discrimination policy • Diversity programs • Gender pay equality / disclosures • Employee development • Supply chain management / standards • Human rights policies & programs • Employee health & safety
	Product Governance	Focuses on the management of risks related to product quality, safety, wellness, and nutrition, as well as customer data privacy & cybersecurity	<ul style="list-style-type: none"> • Product & service safety programs / certifications • Data privacy management • Media & advertising ethics policy • Organic products / GMO policy • Product health statement
	Community Relations	Assesses how companies engage with local communities and their management of access to essential products or services to disadvantaged communities or groups	<ul style="list-style-type: none"> • Equitable pricing and availability • Access to health care • Price transparency • Human rights / indigenous policy • Community involvement programs • Noise management
	ESG Financial Integration & Resilience*	Analyzes financial stability and issues that pose systemic risks and potential external costs to society in the financial services industry. Also measures ESG activities by financial institutions	<ul style="list-style-type: none"> • Systemic risk management / reporting • Tier 1 capital • Leverage ratio • Responsible investment / asset management • Underwriting standards • Financial inclusion • Credit & loan standards • Green buildings investments

* Only applies to financial service industries

ESG Themes listed were created by PFM for educational purposes based on the material ESG issues ("MEIs") and ESG indicators developed and defined by Sustainalytics.



ESG Themes Glossary

ESG Theme	Theme Description	Key Indicators
<p>Governance</p>	<p>Corporate Governance</p> <p>Evaluates a company's rules, policies, and practices with a focus on how a company's board of directors manages and oversees the operations of a company. Also assesses the management of general professional ethics and lobbying activities</p>	<ul style="list-style-type: none"> • Board/management quality & integrity • Board structure • Ownership & shareholder rights • Remuneration • Audit & financial reporting • Stakeholder governance • Bribery & corruption policies / programs • Money laundering policy • Whistleblower programs • Business ethics programs • Political involvement policy • Lobbying and political expenses

* Only applies to financial service industries

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Disclosures

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation.

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