



Quarterly Investment Report

AS OF DECEMBER 31, 2022



This report presents the City's investment portfolio for the quarter ending December 31, 2022. 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.



Market Considerations

U.S. economic conditions were characterized by:

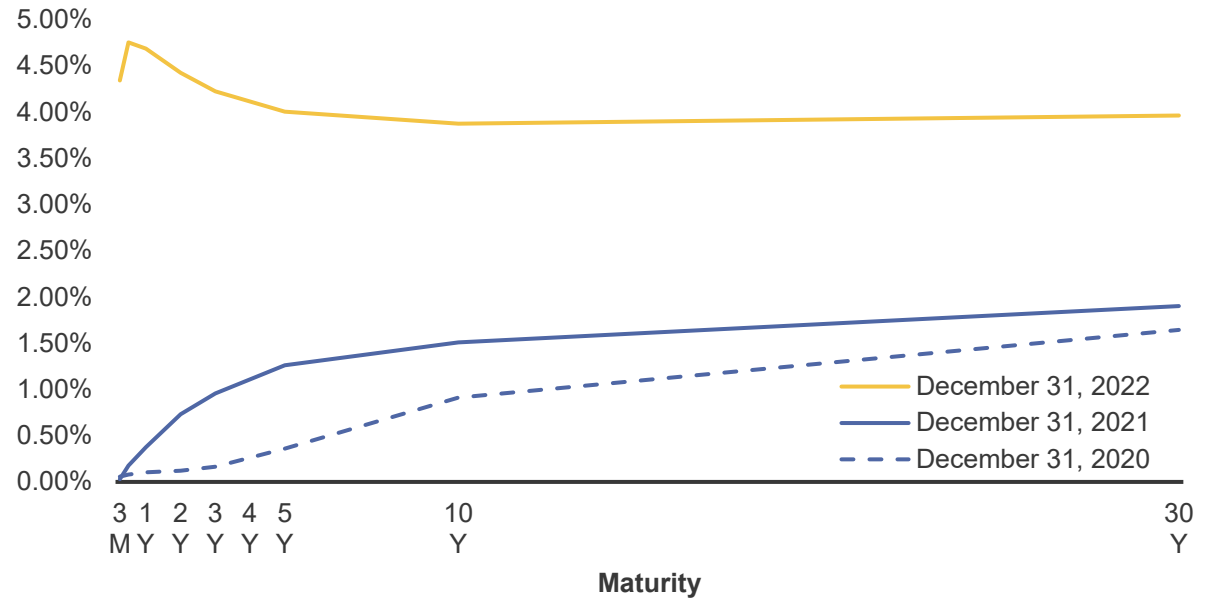
- High inflation that shows signs of slowing
- Continued strong labor market
- Potentially declining health of U.S. household finances
- Expectations for a modest yet broad economic downturn

The Federal Reserve is expected to wrap up their normalization process

- Slowing pace of rate hikes
- Short-term fed funds rate projected to reach 5.00% to 5.25% by year end 2023

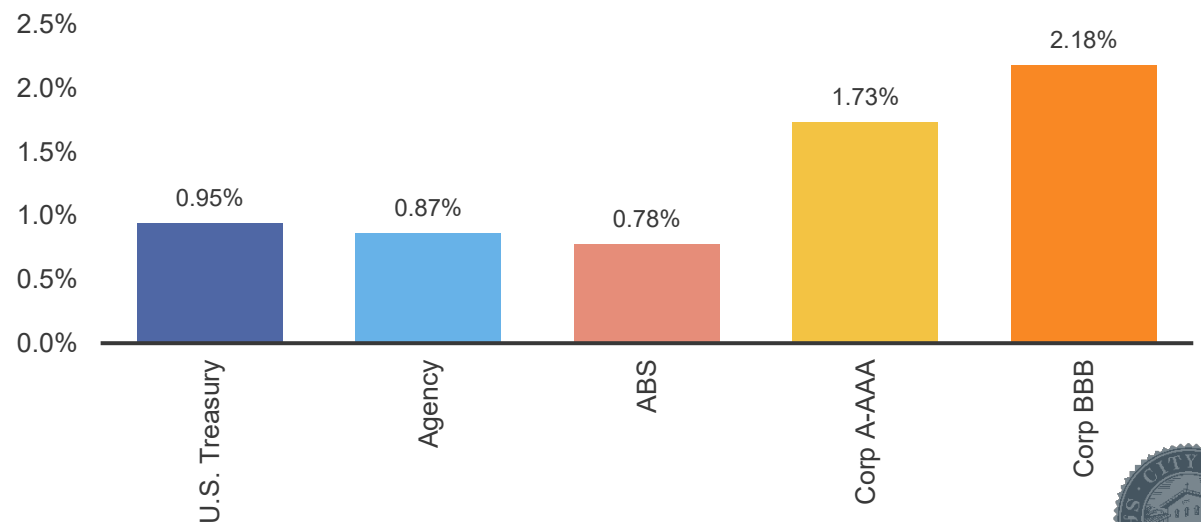
While still elevated, volatility and liquidity challenges have begun subsiding.

U.S. Treasury Yield Curve



1-5 Year Indices

1-5 Year Indices Quarterly Returns



Source: Bloomberg as of December 31, 2022.



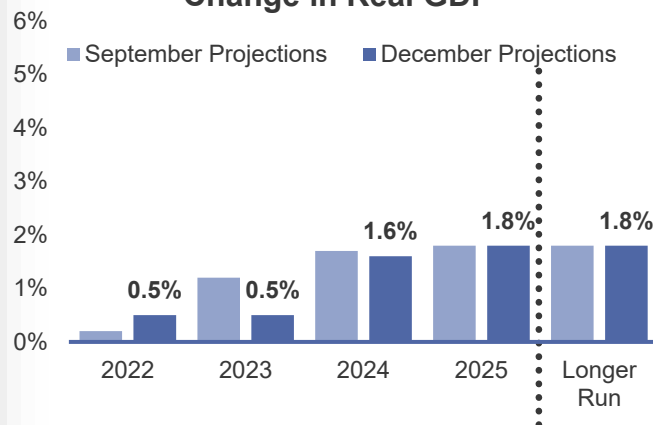
What we are watching...

At present, market expectations are for a modest economic slowdown rather than a deep recession.

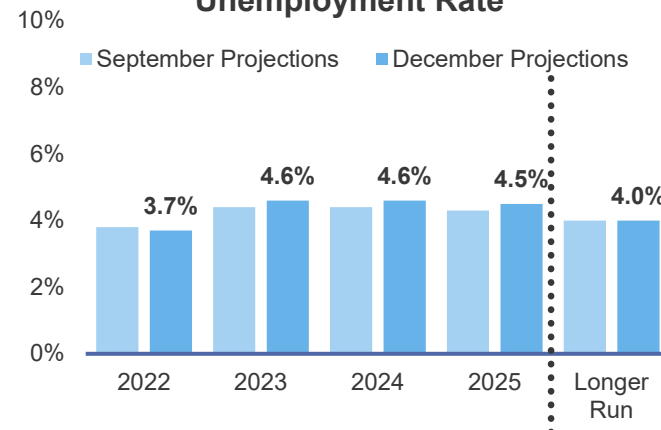
Despite this, the economic picture remains cloudy: Employment is strong and wage growth is elevated, but consumer savings has declined, and credit has increased. Household debt service levels are low, but household wealth has fallen from stock market declines and now falling home prices. Inflation appears to have peaked and price increases are slowing, but businesses are pulling back on capital investment.

We plan to maintain a modestly defensive duration posture into the new year but will remain nimble in evaluating our stance as the Fed approaches the end of their rate-hiking campaign.

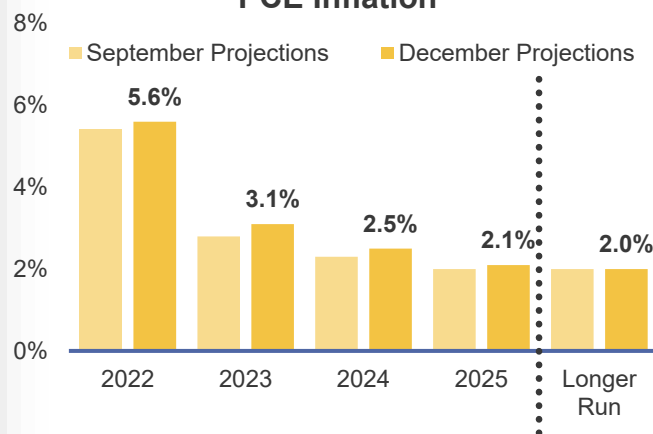
Change in Real GDP



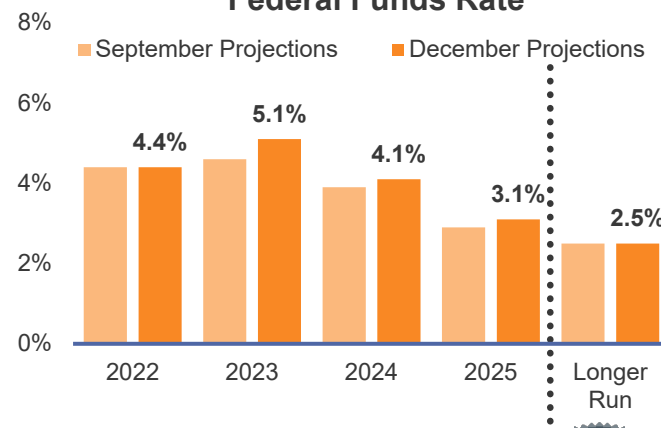
Unemployment Rate



PCE Inflation



Federal Funds Rate



Source: Federal Reserve, latest economic projections as of December 2022.



Current Cash and Investment Summary

The following is a summary of the City's cash and investments based on market value, as of December 31, 2022, compared to the prior quarter.

Investment Entity	December 31, 2022	Percent of Total**	September 30, 2022
City Held Cash & Investments	\$32,908,912.55	16.3%	\$45,840,882.40
LAIF Held Investments	\$69,371,549.98	34.4%	\$69,136,285.63
PFMAM Managed Investments*	\$99,118,718.92	49.2%	\$98,233,427.05
TOTAL	\$201,399,181.45	100%	\$213,424,862.84

*Figures shown exclude accrued interest. **Details may not add up to total due to rounding. ***Differs from last quarters report due to removal of Trustee Account.



Current Cash and 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. 9/30/22</u>	<u>Permitted by Policy</u>
U.S. Treasury	54,912,537	55.2%	-2.9%	100%
Federal Agency	23,499,872	23.6%	-0.2%	100%
Municipal Obligations	2,057,690	2.1%	0.0%	30%
Negotiable CDs	2,001,270	2.0%	1.0%	30%
Corporate Notes	13,752,080	13.8%	0.1%	30%
Asset-Backed Securities	914,137	0.9%	-0.3%	15%
Securities Sub-Total	97,137,587			
Money Market Fund	1,981,132	2.0%	1.9%	20%
Accrued Interest	301,896			
Securities Total	99,420,615	100.0%	0.9%	



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

PFMAM Managed	12/31/2022	9/30/2022
Average Maturity (Years)	2.07	2.17
Effective Duration ¹	1.89	1.97
Average Market Yield	4.45%	4.16%

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	0.91%	-3.69%	-0.24%	1.01%
0–5 Treasury Index	0.93%	-3.93%	-0.45%	0.81%
Variance	-0.02%	+0.24%	+0.21%	0.20%



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.



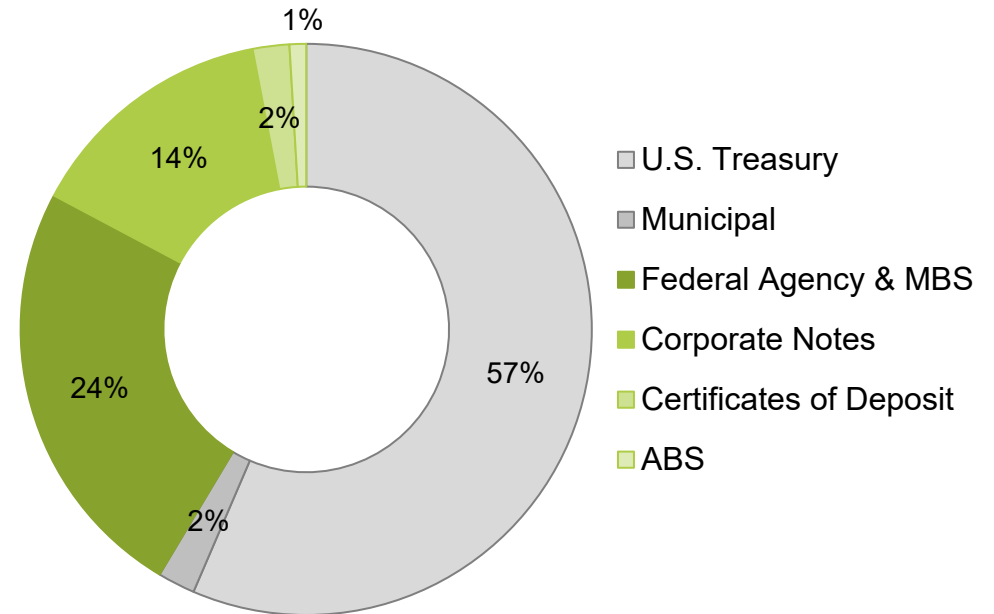
ESG Performance Summary Q4 2022

ESG Rated Portfolio

23/30 issuers with a MV of \$97.4 million¹

\$40,356,864 (41%)

Sector Allocation



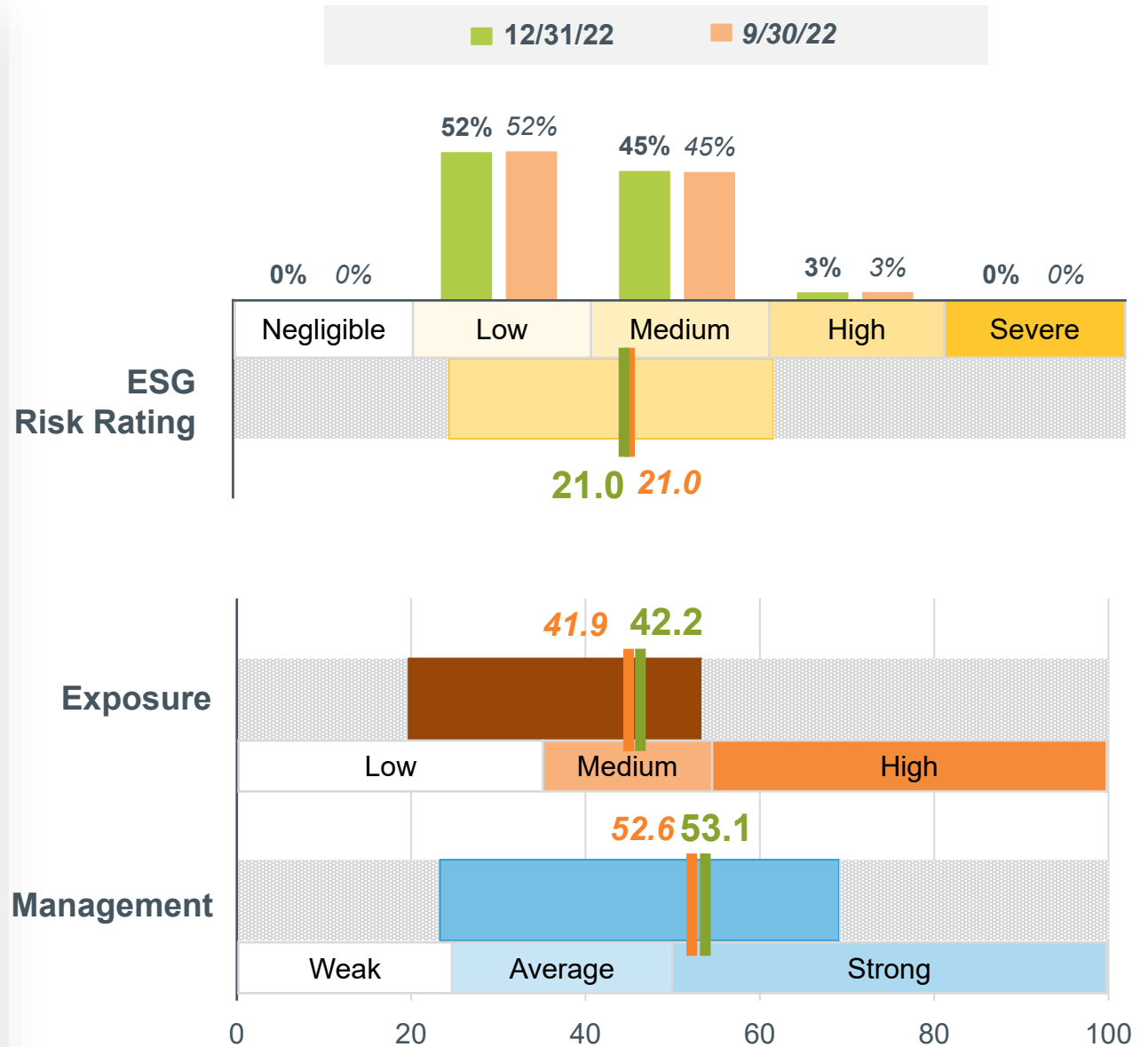
Green shades are ESG-rated sectors

¹ Market Value includes accrued interest as of December 31, 2022.
Source: Sustainalytics. Please see important disclosures at the end of this presentation.

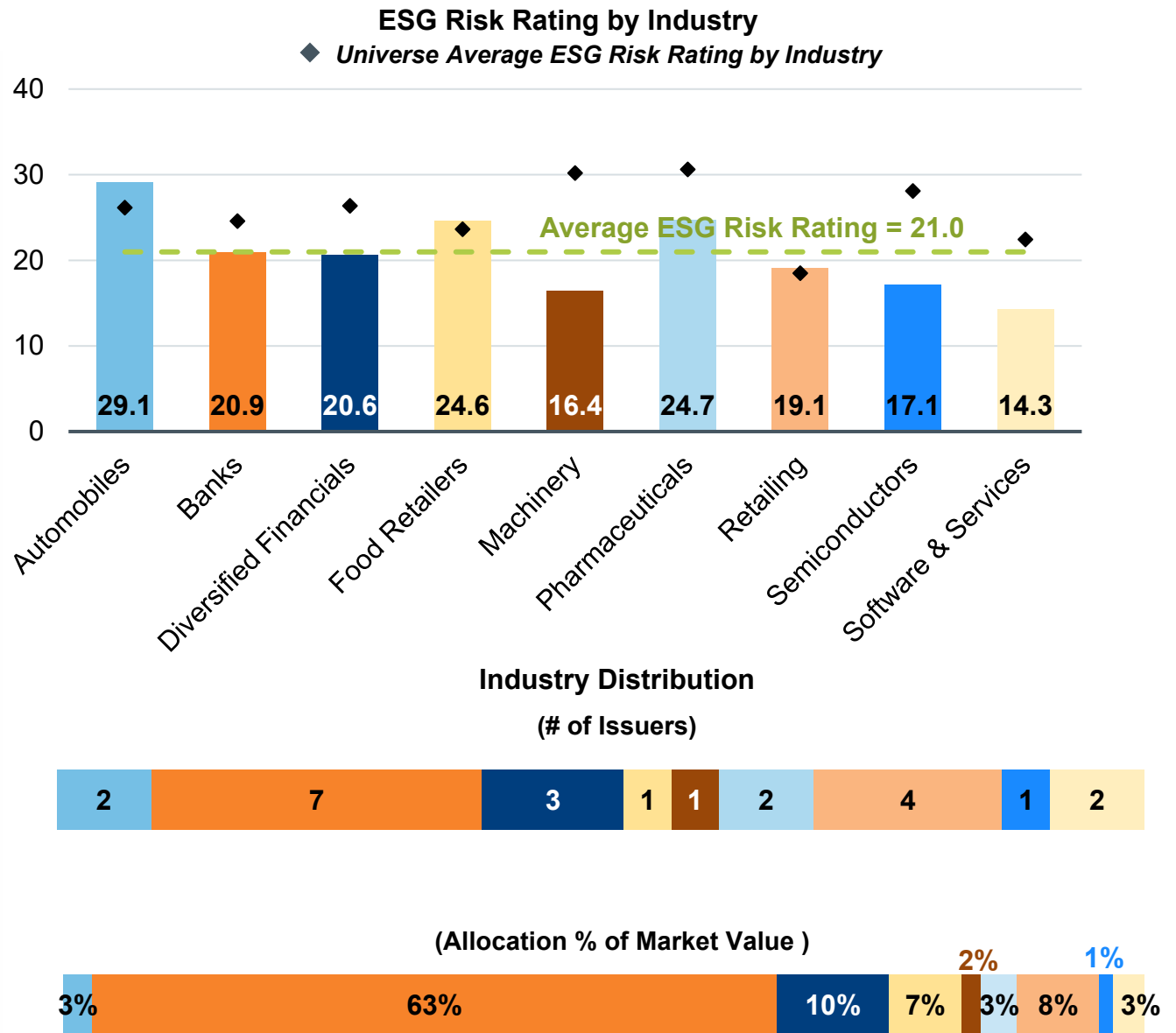


ESG Quarter-Over-Quarter Summary Comparison

- On average, the portfolio **maintained medium** ESG risk as of December 31, 2022
- The portfolio's ESG **risk exposure** score remained within the **medium range**. A lower ESG exposure score generally reduces ESG risk
- The portfolio's ESG **management rating** improved during the quarter, once again moving further into the strong range. Higher management scores generally reduce ESG risk



Industry Diversification



Portfolio holdings and Sustainalytics data as of December 31, 2022. "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.



Top Changes in ESG Risk Ratings in Q4

Largest Decreases in ESG Risk Rating

15.6

↓ 1.4

Mastercard Incorporated



Exposure 0.0

Management ↑ 4.1

23.8

↓ 0.5

Barclays PLC



Exposure 0.0

Management ↑ 1.1

16.4

↓ 0.3

Deere and Co.



JOHN DEERE

Exposure 0.0

Management ↑ 0.8

Largest Increases in ESG Risk Rating

29.2

↑ 0.4

Toyota Motor Corp

TOYOTA

Exposure 0.0

Management ↓ 0.8

29.3

↑ 0.3

JP Morgan Chase & Co.

JPMORGAN
CHASE & CO.

Exposure 0.0

Management ↓ 0.5

12.9

↑ 0.3

Adobe Systems Inc



Exposure ↑ 0.2

Management ↓ 0.8

Source: Sustainalytics and the Investment Policy Statement as of December 31, 2022. Changes in approved list shown reflect issuers eligible for purchase in the portfolio based on ESG criteria and IPS limitations but may not be held by the client.



Holdings as of December 31, 2022 – Sorted By ESG Risk Rating

Issuer	% Weight	Subindustry	Subindustry Percentile	ESG Risk Rating 12/31/22	QoQ Change in ESG Rating	Contributions		
						E	S	G
CarMax Inc.	0.5%	Automotive Retail	15	12.1	+0.1	-	66%	34%
The Home Depot Inc	0.8%	Home Improvement Retail	15	12.5	-	29%	41%	30%
Adobe Systems Inc	0.6%	Enterprise and Infrastructure Software	3	12.9	+0.3	17%	43%	40%
Target Corp	0.7%	Department Stores	7	14.5	-	16%	50%	34%
Mastercard Incorporated	0.6%	Data Processing	12	15.6	(1.4)	5%	40%	55%
Deere & Co	0.8%	Agricultural Machinery	7	16.4	(0.3)	19%	42%	39%
Intel Corp	0.6%	Semiconductor Design and Manufacturing	5	17.1	(0.2)	28%	32%	40%
Federal National Mortgage Association	13.4%	Thriffs and Mortgages	14	18.2	(0.1)	-	59%	41%
Federal Home Loan Bank System	2.6%	Consumer Finance	12	18.8	-	-	53%	47%
The Toronto-Dominion Bank	1.0%	Diversified Banks	16	19.9	-	5%	42%	52%
Bank of New York Mellon Corp	1.0%	Asset Management and Custody Services	12	21.1	+0.1	6%	42%	52%
The PNC Financial Services Group, Inc.	0.8%	Regional Banks	15	22.5	+0.1	6%	46%	48%
Bristol-Myers Squibb Company	0.3%	Biotechnology	7	22.7	-	-	68%	32%
Federal Home Loan Mortgage Corp	7.4%	Thriffs and Mortgages	25	22.9	(0.3)	-	58%	42%

Source: Sustainalytics. Holdings as of December 31, 2022. 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, 2022 to September 30, 2022. Issuers with “-” under ESG contributions means data not available.



Holdings as of December 31, 2022 – Sorted By ESG Risk Rating

Issuer	% Weight	Subindustry	Subindustry Percentile	ESG Risk Rating 12/31/22	QoQ Change in ESG Rating	Contributions		
						E	S	G
Barclays PLC	1.1%	Diversified Banks	31	23.8	(0.5)	6%	33%	61%
Walmart Inc.	2.8%	Food Retail	40	24.6	-	17%	56%	27%
Pfizer Inc	1.1%	Pharmaceuticals	7	25.2	-	11%	53%	35%
Federal Farm Credit Banks Consolidated Systemwide Bonds	0.8%	Consumer Finance	48	25.7	-	-	-	-
Bank of America Corporation	1.5%	Diversified Banks	41	26.8	-	5%	42%	53%
Honda Motor Co Ltd	0.3%	Automobiles	61	28.7	(0.3)	28%	43%	29%
Toyota Motor Corp	0.8%	Automobiles	68	29.2	+0.4	25%	38%	37%
JPMorgan Chase & Co.	1.1%	Diversified Banks	52	29.3	+0.3	4%	44%	52%
Amazon.com Inc	1.1%	Online and Direct Marketing Retail	94	30.3	-	23%	43%	33%

Source: Sustainalytics. Holdings as of December 31, 2022. 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, 2022 to September 30, 2022. Issuers with “-” under ESG contributions means data not available.



Socially Responsible Investment Policy

In addition to the ESG criteria, the City's Socially Responsible Investment (SRI) Policy restricts 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 tables to the right show the Bloomberg Industry Classifications ("BICS") for all the portfolio's holdings.

Issuer	Sector (BICS)
Adobe Inc	Software & Services
Amazon.com Inc	Retail - Consumer Discretionary
Bank of America Co	Diversified Banks
Barclays PLC	Banks
The Bank of New York Mellon Corporation	Financial Services
Bristol-Myers Squibb Co	Pharmaceuticals
Carmax Auto Owner Trust	Automobiles Manufacturing
State of California	General Government
California Earthquake Authority	Financing & Development
Deere & Company	Machinery Manufacturing
FFCB	Government Agencies
FHLB	Government Agencies
FHLMC	Government Agencies
FNMA	Government Agencies
Honda Auto Receivables	Automobiles Manufacturing
Home Depot Inc	Retail - Consumer Discretionary

Issuer	Sector (BICS)
Intel Corporation	Semiconductors
JP Morgan Chase & Co	Diversified Banks
Los Angeles Community College District	Education
Mastercard Inc	Consumer Finance
State of Maryland	General Government
New Jersey Turnpike Authority	Transportation
Pfizer Inc	Pharmaceuticals
PNC Financial Services Group	Banks
San Diego Community College District	Education
U.S. Treasury	Sovereigns
Toyota Motor Corp	Automobiles Manufacturing
Toronto-Dominion Bank	Banks
Target Corp	Mass Merchants
University of California	Education
Wal-Mart Stores Inc	Mass Merchants

Source: Bloomberg. BICs is an industry classification system developed and utilized by Bloomberg that classifies securities based on business, economic function, and other characteristics.



Distribution List

City Council

Erica A. Stewart
Mayor

Jan Marx
Vice mayor

Emily Francis
Council Member

Andy Pease
Council Member

Michelle Shoresman
Council Member

Investment Oversight Committee

Erica A. Stewart
Mayor

Anni Wang
Public Member

Derek Johnson
City Manager

Emily Jackson
Director of Finance

Debbie Malicoat
Accounting Manager/Controller

Natalie Harnett
Principal Financial Analyst—Budget

Independent Auditor

Badawi & Associates

PFM Asset Management LLC

Monique Spyke
Managing Director

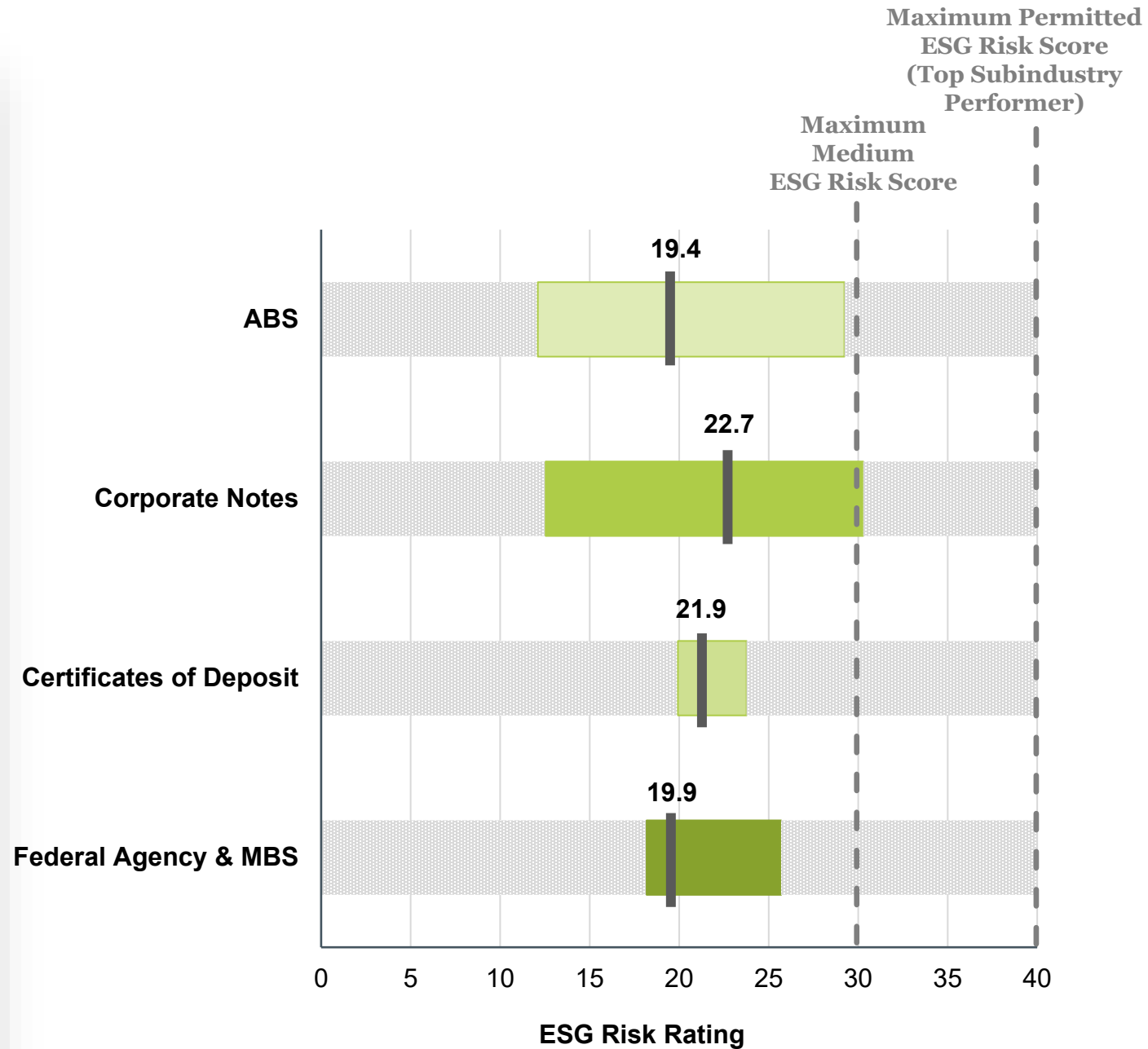


Appendix

- **Additional ESG Information**
- **ESG Themes Information**



ESG Risk Rating by Sector



Source: Sustainalytics. Data as of December 31, 2022. 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.



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
<p style="text-align: center; font-weight: bold; color: white;">Social</p>	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 Impact (Social)	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



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



Disclosures

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Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

There is no guarantee the investment objectives will be achieved as the investment portfolio will only include holdings consistent with the applicable Environmental, Social, and Governance (ESG) guidelines. As a result, the universe of investments available will be more limited. ESG criteria risk is the risk that because the investment portfolio ESG criteria excludes securities of certain issuers for nonfinancial reasons, the investment portfolio may forgo some market opportunities that would be available to investment portfolios that do not apply ESG criteria.

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