



Quarterly Investment Report

AS OF December 31, 2023



This report presents the City's investment portfolio for the quarter ending December 31, 2023. 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

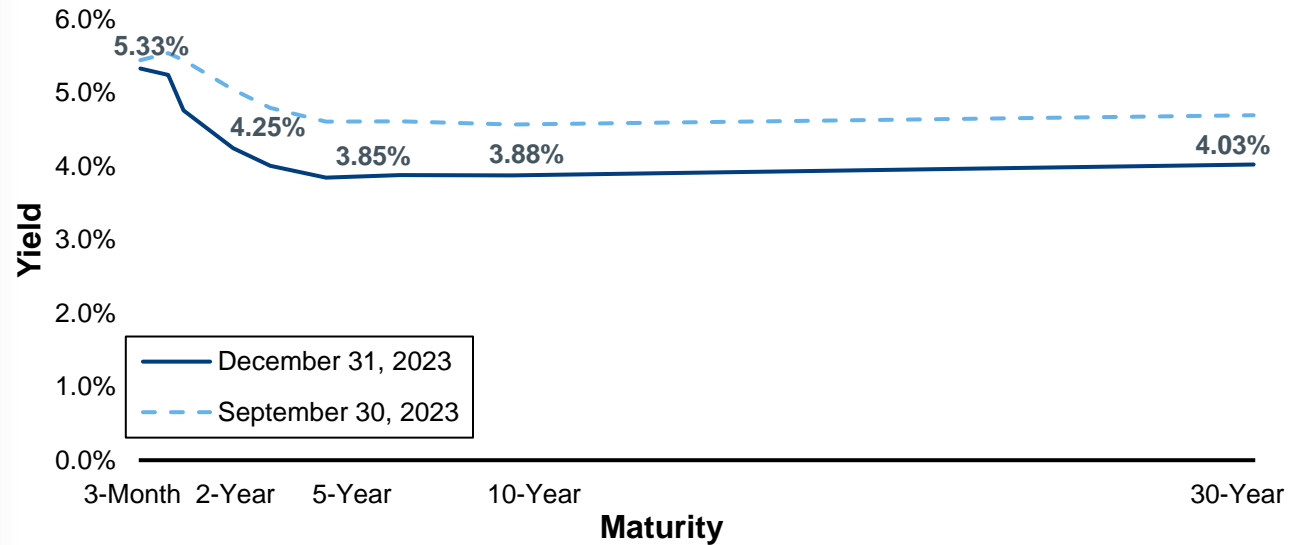
U.S. economic conditions were characterized by:

- 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

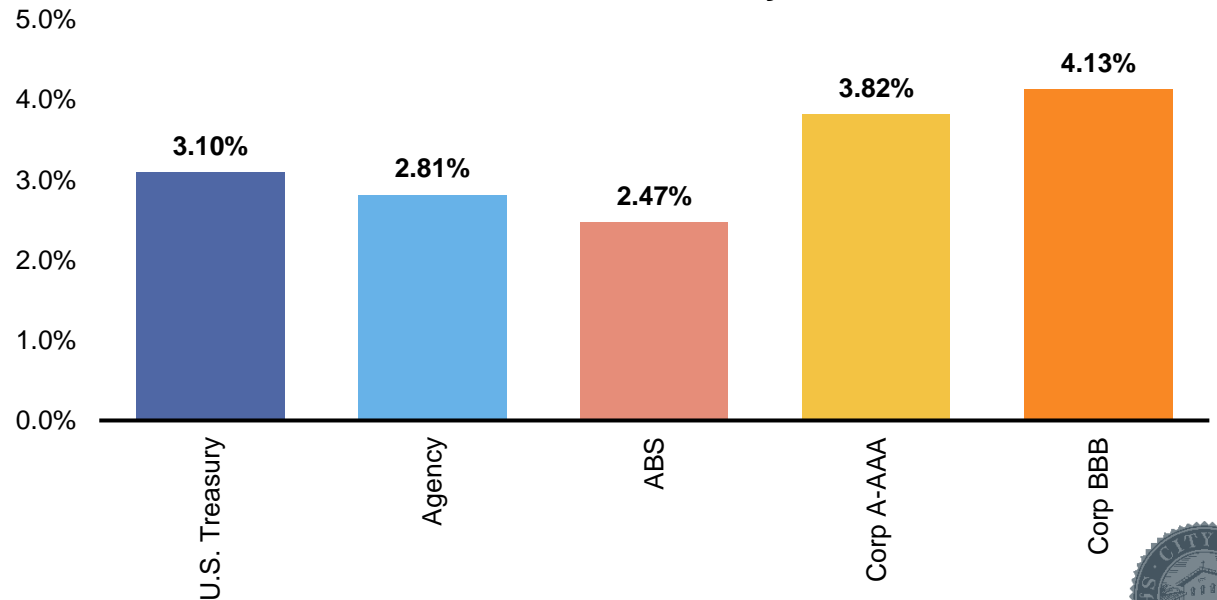
The Fed held rates steady at the December FOMC meeting as expected. The Fed's most recent "dot plot" indicated 3 rate cuts in 2024, while markets are pricing a more aggressive 6 rate cuts by year end.

Treasury yields ended the quarter materially lower. After peaking in October, yields reversed course on dovish Fed pivot. Credit spreads narrowed sharply on increased expectations for a soft landing.

U.S. Treasury Yield Curve



1-5 Year Indices Quarterly Returns



Source: Bloomberg as of December 31, 2023.



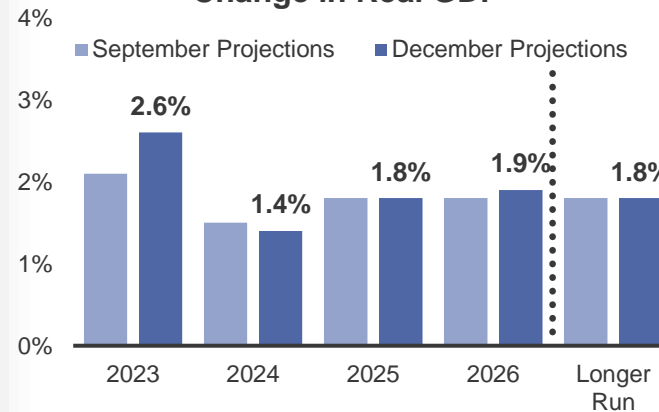
What we are watching...

Real GDP expanded at an annualized pace of 4.9% in Q3 2023, after a 2.1% increase in Q2. The increase in Q3 reflected upticks in most segments, underscoring the resiliency of the U.S. economy. Estimates for 2024 indicate quarterly expectations on average of less than 1%, although positive, a confirmation of a slower pace of growth for the foreseeable future.

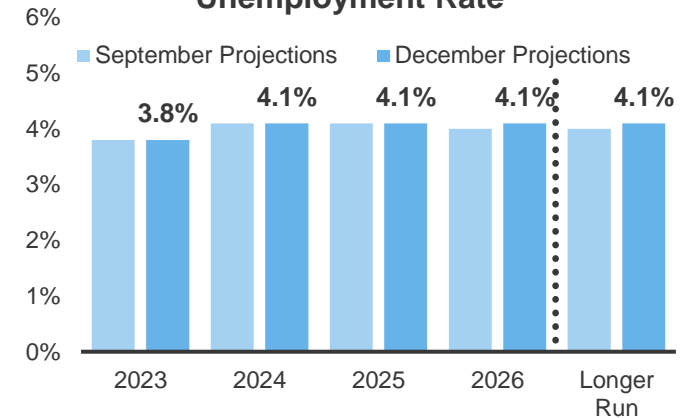
The U.S. labor market remained strong, providing a continuing tailwind for the economy, although that strength has begun to moderate. Labor force participation dipped at year end, while the unemployment rate of 3.7% was a few tenths of a percent off the generational low reached early in 2023.

Although slightly, U.S. inflation (as measured by CPI) continued to trend lower in Q4 as both headline and core inflation continued to decline from their peaks in mid-2022. Shelter costs—the average household’s biggest expense—accounted for nearly 70% of the total increase in core CPI over the past year as home prices remain elevated.

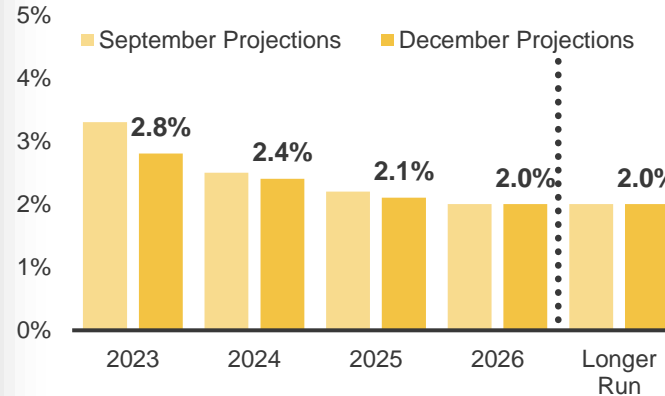
Change in Real GDP



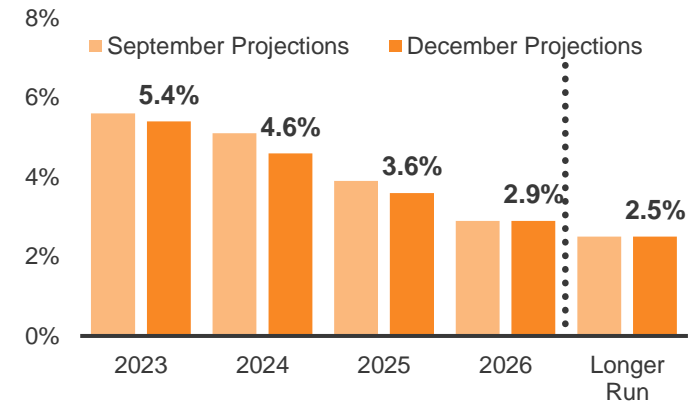
Unemployment Rate



PCE Inflation



Federal Funds Rate



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



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, 2023, compared to the prior quarter.

Investment Entity	December 31, 2023	Percent of Total	September 30, 2023
City Held Cash & Investments	\$34,429,115.80	5.8%	\$12,096,882.69
JPMorgan Money Market Account	\$50,000,000.00	24.0%	\$50,000,000.00
LAIF Held Investments	\$46,027,816.72	21.9%	\$45,616,465.55
PFMAM Managed Investments*	\$103,666,105.35	48.4%	\$100,906,981.38
TOTAL**	\$234,123,037.87	100%	\$208,620,329.62

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



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. 6/30/23</u>	<u>Permitted by Policy</u>
U.S. Treasury	61,892,645	59.4%	10.3%	100%
Federal Agency	14,521,106	13.9%	-17.5%	100%
Municipal Obligations	933,763	0.9%	-45.3%	30%
Negotiable CDs	1,962,100	1.9%	0.2%	30%
Corporate Notes	18,079,111	17.4%	5.4%	30%
Asset-Backed Securities	6,008,161	5.8%	45.0%	15%
Securities Sub-Total	103,396,886		4.8%	
Money Market Fund	269,220	0.3%	-87.9%	20%
Accrued Interest	480,970	0.5%		
Securities Total	104,147,076	100.0%	3.2%	



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	12/31/2023	9/30/2023
Average Maturity (Years)	2.35	2.37
Effective Duration ¹	2.04	2.07
Average Market Yield	4.36%	5.13%

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	2.79%	4.75%	0.04%	1.42%
0-5 Treasury Index	2.72%	4.49%	-0.15%	1.22%
Variance	+0.07%	+0.26%	+0.19%	+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 Risk Composition Overview

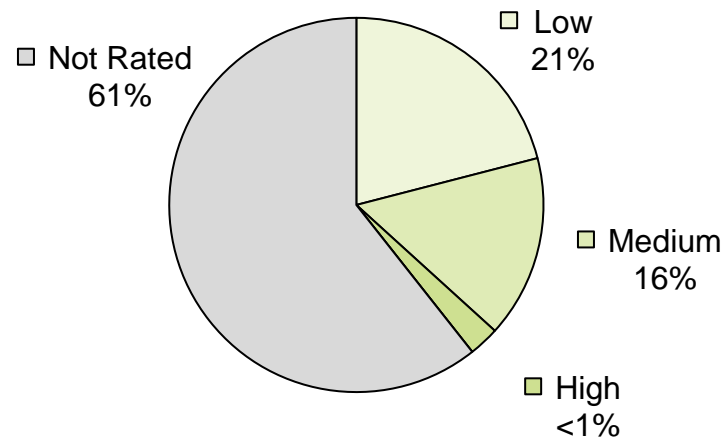
The **ESG Risk Rating** measures **economic value at risk based on ESG factors**.

A company's ESG Risk Rating is comprised of a quantitative score and a risk category. The score indicates unmanaged ESG risk. **Risk categories are absolute** and comparable across industries.

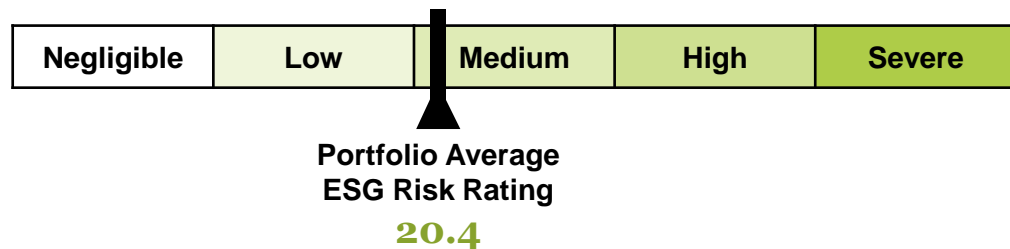
Lower scores represent less unmanaged risk. Ratings are scored on a scale of 1-100 and are assigned to one of the following ESG risk categories:

- Negligible Risk (overall score of 0-9.99 points)
- Low Risk (10-19.99 points)
- Medium Risk (20-29.99 points)
- High Risk (30-39.99 points)
- Severe Risk (40 and higher points)

Allocation by ESG Risk Rating



30/35 of portfolio issuers are rated with a total rated market value of \$40.9 million (39%)



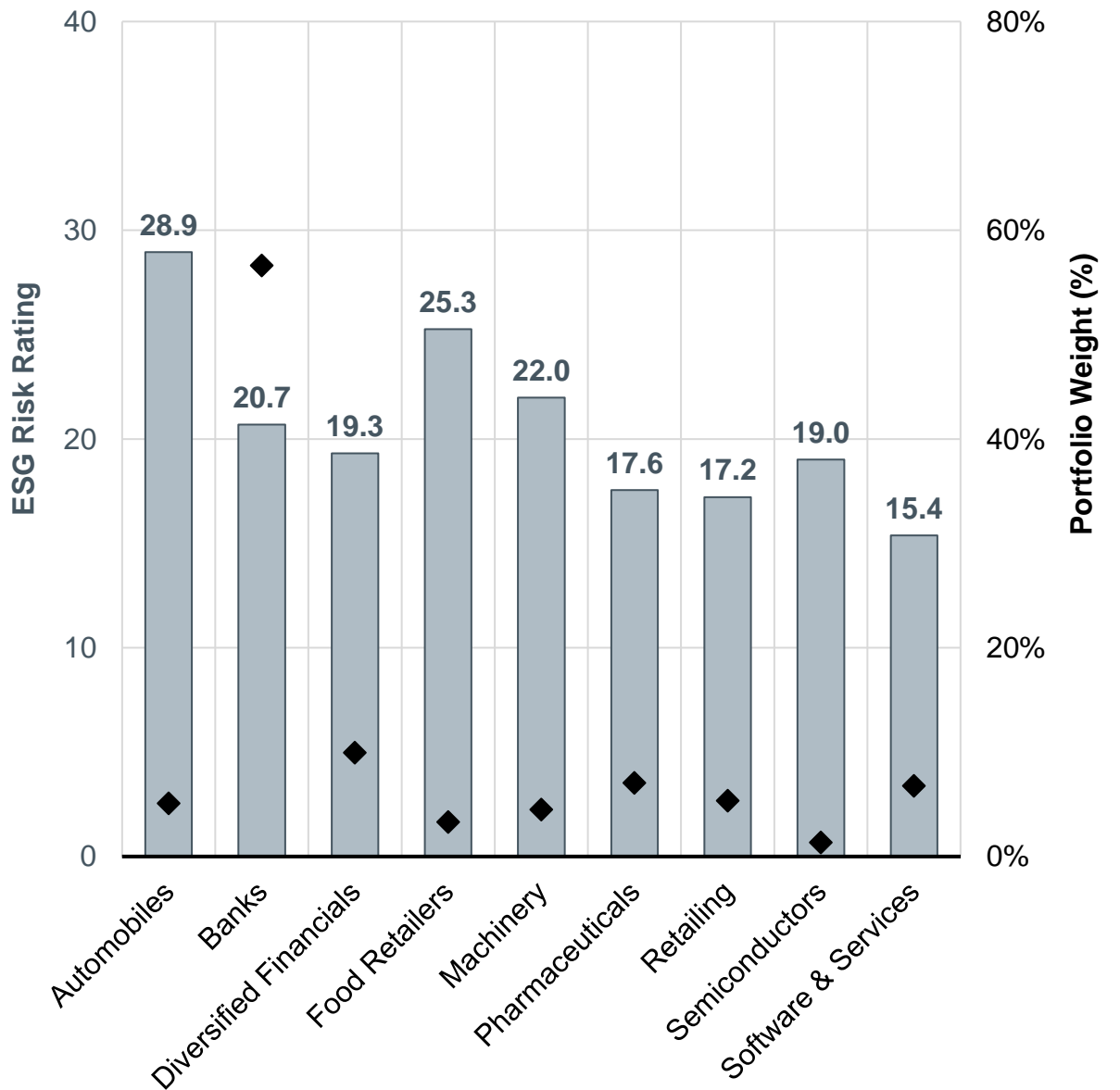
Market Value includes accrued interest as of December 31, 2023. Average ESG Risk Rating is weighted by market value. Please see important disclosures at the end of this presentation.

*U.S. Treasury and municipal obligations are not included in the analysis.



Industry Diversification

Industry Exposure and Weighted Average Risk Score



Portfolio holdings and Sustainalytics data as of December 31, 2023. Average ESG Risk Rating represents the market value-weighted average ESG risk rating for each industry.

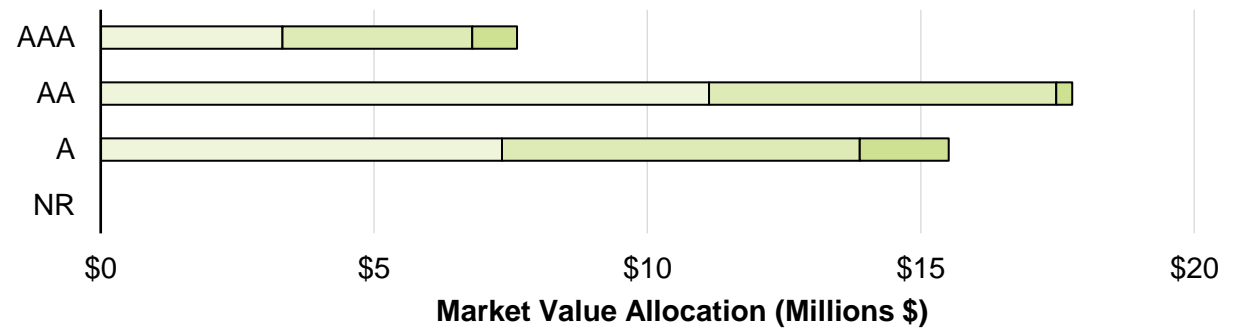


S&P Credit Rating Distribution

ESG Risk Rating Key

Negligible	Low	Medium	High	Severe
0-9.99	10-19.99	20-29.99	30-39.99	40-100

Credit Rating Grouped by ESG Risk Rating Category



Average ESG Risk Rating by S&P Credit Rating



Portfolio holdings and Sustainalytics data as of December 31, 2023. If a security is not rated by S&P, the equivalent Moody's rating is used. NR stands for 'no rating' and implies that the issuer is not rated by S&P or Moody's but is rated by Fitch.



Holdings as of December 31, 2023

***Sorted By ESG
Risk Rating***

Issuer	% Weight	Subindustry	Subindustry Percentile	ESG Risk Rating 12/31/2023
CarMax Inc.	0.2%	Automotive Retail	20	12.1
The Home Depot Inc	1.0%	Home Improvement Retail	26	13.3
Coöperatieve Rabobank U.A.	1.0%	Diversified Banks	3	13.7
Federal National Mortgage Association	7.1%	Thriffs and Mortgages	7	14.1
Adobe Systems Inc	0.6%	Enterprise and Infrastructure Software	5	14.7
Microsoft Corp	1.5%	Enterprise and Infrastructure Software	6	15.2
Novartis AG	1.5%	Pharmaceuticals	1	15.8
Mastercard Incorporated	0.6%	Data Processing	16	16.6
Fifth Third Bancorp	0.7%	Regional Banks	11	17.7
Target Corp	0.7%	Department Stores	29	18.5
Federal Home Loan Bank System	2.2%	Consumer Finance	14	18.7
Pfizer Inc	1.1%	Pharmaceuticals	3	18.7
The Toronto-Dominion Bank	1.0%	Diversified Banks	17	19.0
Intel Corp	0.5%	Semiconductor Design and Manufacturing	13	19.0
American Express Company	0.8%	Consumer Finance	18	19.3
Deere & Co	0.8%	Agricultural Machinery	30	20.0
Federal Home Loan Mortgage Corp	4.8%	Thriffs and Mortgages	21	20.2
Kubota Corp	0.3%	Agricultural Machinery	48	20.7
Bank of New York Mellon Corp	0.9%	Asset Management and Custody Services	12	20.9

Source: Sustainalytics. Holdings as of December 31, 2023.



Holdings as of December 31, 2023

Sorted By ESG Risk Rating

(continued)

Issuer	% Weight	Subindustry	Subindustry Percentile	ESG Risk Rating 12/31/2023
Bristol-Myers Squibb Company	0.3%	Biotechnology	11	22.7
PACCAR Inc	0.8%	Heavy Machinery and Trucks	26	24.4
Walmart Inc.	1.3%	Food Retail	55	25.3
The PNC Financial Services Group, Inc.	0.7%	Regional Banks	41	26.1
Citigroup, Inc.	1.7%	Diversified Banks	49	26.9
Bank of America Corporation	3.0%	Diversified Banks	59	28.3
Hyundai Motor Company	0.3%	Automobiles	69	28.3
Honda Motor Co Ltd	0.7%	Automobiles	72	28.5
Toyota Motor Corp	1.0%	Automobiles	81	29.4
JPMorgan Chase & Co.	2.4%	Diversified Banks	71	30.1
Amazon.com Inc	0.3%	Online and Direct Marketing Retail	97	30.6

Source: Sustainalytics. Holdings as of December 31, 2023.



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
American Express Credit Account	Credit Card ABS
Bank of America Auto Trust	Automobile ABS
Bank of America Co	Diversified Banks
Bristol-Myers Squibb Co	Pharmaceuticals
Carmax Auto Owner Trust	Automobile ABS
Chase Issuance Trust	Credit Card ABS
Citibank Credit Card Issuance Trust	Credit Card ABS
Citigroup Inc	Banks
Cooperatieve Rabobank U.A.	Banks
Deere & Company	Machinery Manufacturing
FHLB	Government Agencies
FHLMC	Government Agencies
Fifth Third Auto Trust	Automobile ABS
FNMA	Government Agencies
Home Depot Inc	Retail - Consumer Discretionary
Honda Auto Receivables	Automobile ABS
Hyundai Auto Receivables	Automobile ABS

Issuer	Sector (BICS)
Intel Corporation	Semiconductors
JP Morgan Chase & Co	Diversified Banks
Kubota Credit Owner Trust	Other ABS
Los Angeles Community College District	Education
Mastercard Inc	Consumer Finance
Microsoft Corp	Software & Services
New Jersey Turnpike Authority	Transportation
Novartis Capital Corp	Pharmaceuticals
Paccar Financial Corp	Transportation & Logistics
Pfizer Inc	Pharmaceuticals
PNC Financial Services Group	Banks
State of Maryland	General Government
Target Corp	Mass Merchants
The Bank of New York Mellon Corporation	Financial Services
Toronto-Dominion Bank	Banks
Toyota Motor Corp	Automobile ABS
U.S. Treasury	Sovereigns
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

Andy Pease
Vice Mayor

Jan Marx
Council Member

Emily Francis
Council Member

Michelle Shoresman
Council Member

Investment Oversight Committee

Jan Marx
Council Liaison

Anni Wang
Public Member

Derek Johnson
City Manager

Emily Jackson
Director of Finance

Debbie Malicoat
Deputy Director of Finance/City
Controller

Riley Kuhn
Principal Financial Analyst—Budget

Independent Auditor

Badawi & Associates

PFM Asset Management LLC

Monique Spyke
Managing Director



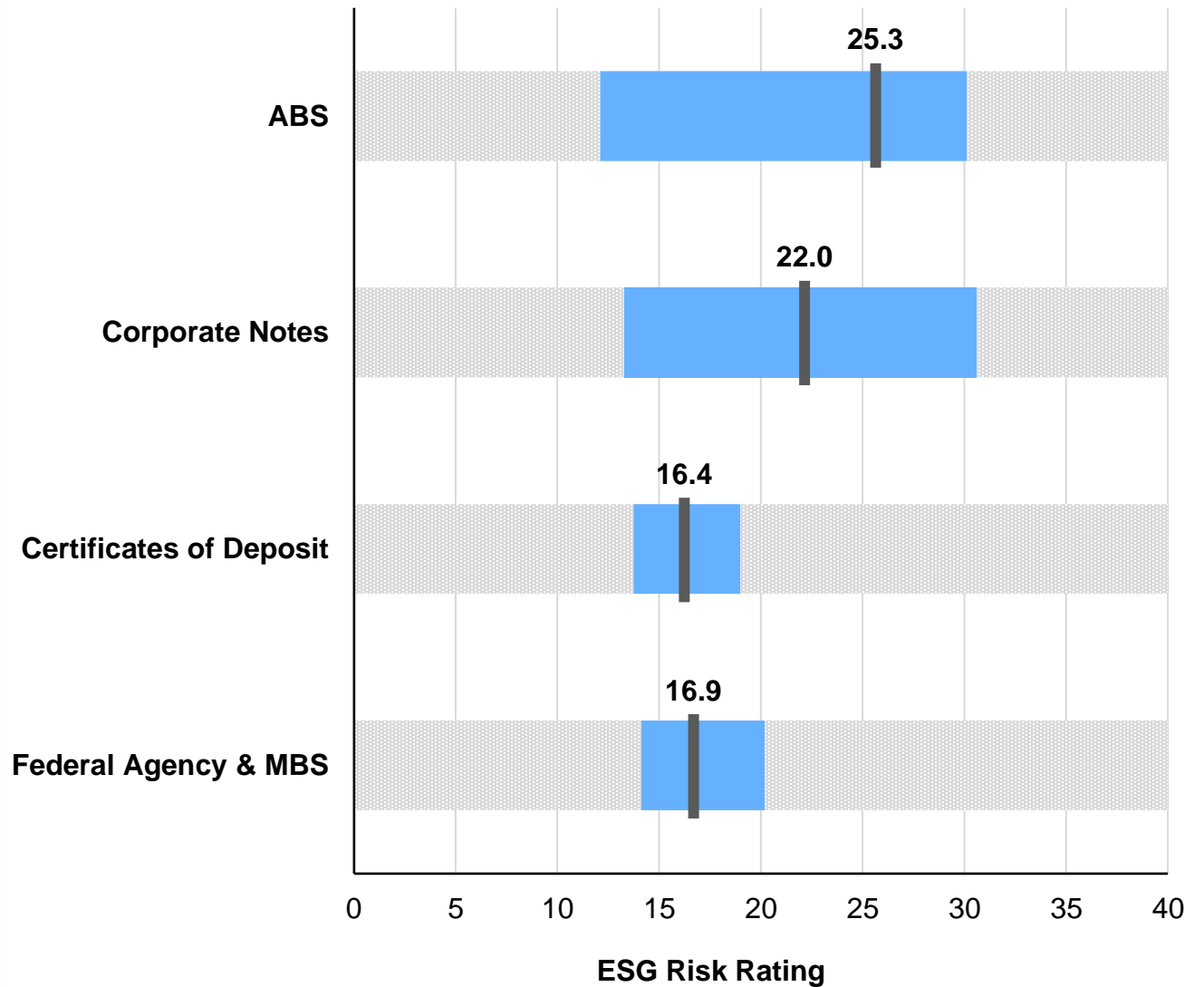
Appendix

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



Sector Analysis

ESG Risk Rating Range and Average by Sector



Source: Sustainalytics. Data as of December 31, 2023. 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	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	<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	Evaluates the management of emissions and releases from a company's own operations to air, water, and land, excluding greenhouse gas emissions	<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	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	<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)	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	<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 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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