Optimizing Portfolios

NCLGIA Winter 2024

Panel:

Dick Long – Valley View Consulting

Brian Sanker – PFM Asset Management

Dan Klus – Public Trust Advisors

Valley View Consulting, L.L.C.

Presentation Objectives

- From the Ground Up
- Interpreting Market Conditions
- Building Portfolio Strategy

Please Share Questions & Comments

Valley View Consulting, L.L.C.

Banking Creates the Foundation!

- Basic Jeep

- Comfortable Jeep

- Do-It-All Jeep

Key Banking Features

- Efficiency Enhancements
- Fraud Protection
- Hybrid Accounts – Earnings Credit Rate & Hard Interest
- Auto/Manual Sweep (MMA/NOW/MMF)
- Security Safekeeping

Valley View Consulting, L.L.C.

Current Versus New – Fees (including waivers)

	Current Depository – Proposed	New Depository	Savings
Two Years	(238,549)	(52,975)	185,574
Five Years	(477,098)	(264,876)	212,222

Valley View Consulting, L.L.C.

Current Versus New – Interest Rates

	Current Depository - Proposed	New Depository	
Earnings Credit	3.80%	4.02%	
Hard Interest	3.80%	3.92%	
Combined Fees and Earnings			**Net Added Value**
Two Years	1,281,451	1,516,343	234,891
Five Years	2,562,902	2,877,713	314,810

$20 million Projected Balance

Valley View Consulting, L.L.C.

Other Cash Equivalent Options

	December Yield	Annual Interest per $1 Million
New Depository	3.92%	39,200
NCCMT	5.26%	52,600
NCIP	5.50%	55,000
NC CLASS	5.52%	55,174

LGIP Yields impacted by Risk/Return criteria (no longer 2a7-like).

Valley View Consulting, L.L.C.

Next Step – Cash Flows

- SLY
  - Safety – Return of Principal and Earned Interest
  - Liquidity – Cash in Hand to Pay Bills
  - Yield – Risk Appropriate

Easy Cash Flow Estimates

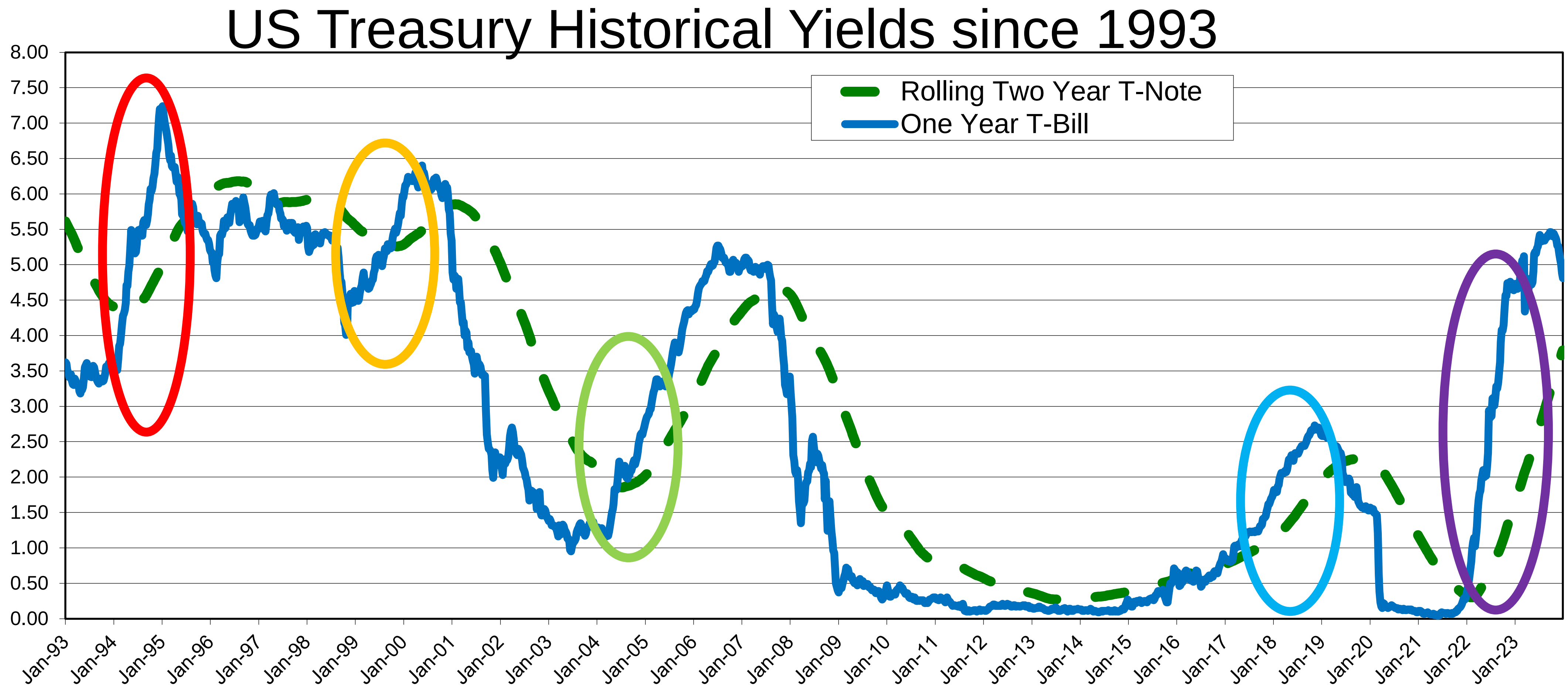
- Payroll
- Debt Service
- Other "Regular" Expenses

Valley View Consulting, L.L.C.

CIP/Bond Proceeds

- Draw Schedule
  - Amount per Project
  - Start Date
  - End Date
  - Arbitrage/Yield Restriction

Known Truths?



Average yields: One Year T-Bill = 2.64%; Rolling Two Year T-Note = 2.90%

Valley View Consulting, L.L.C.

Ground Up Conclusions

- Review/Compare Banking Status
  - Services – Types & Volumes
  - Interest Rates – ECR and Hard
  - Adjust Bank Balances
- Build from Cash Flow Projections
  - Basic Requirements
  - Longer-range Expenses
- Understand Risk/Return

Valley View Consulting, L.L.C.

- Dick Long
  - rglong@valleyviewconsultingllc.com
- Brian Sanker
  - sankerb@pfmam.com
- Dan Klus
  - daniel.klus@publictrustadvisors.com

2024 NCLGIA Winter Conference: Market Update

February 2024

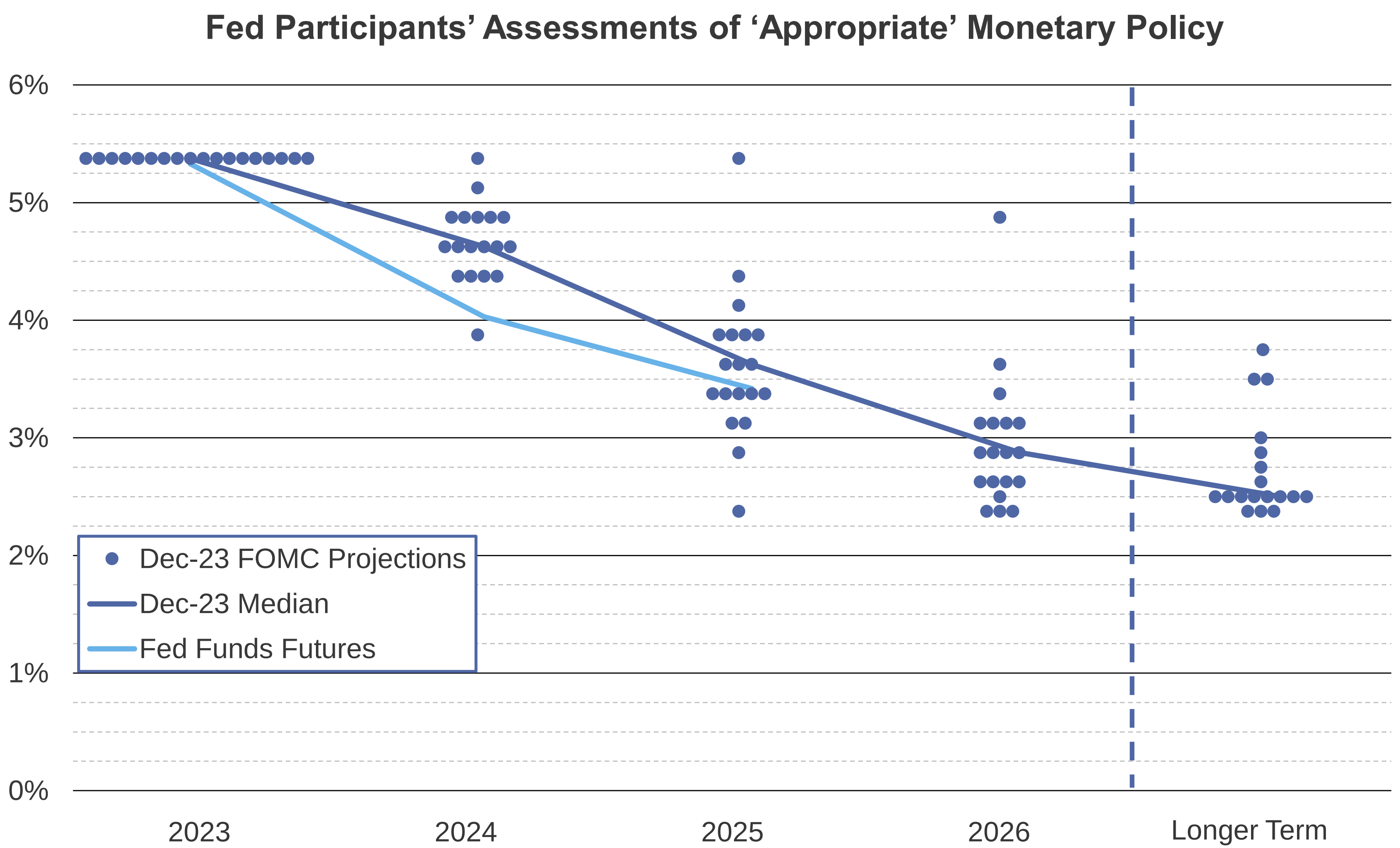
sankerb@pfmam.com | pfmam.com

PFM Asset Management LLC

Current Market Themes

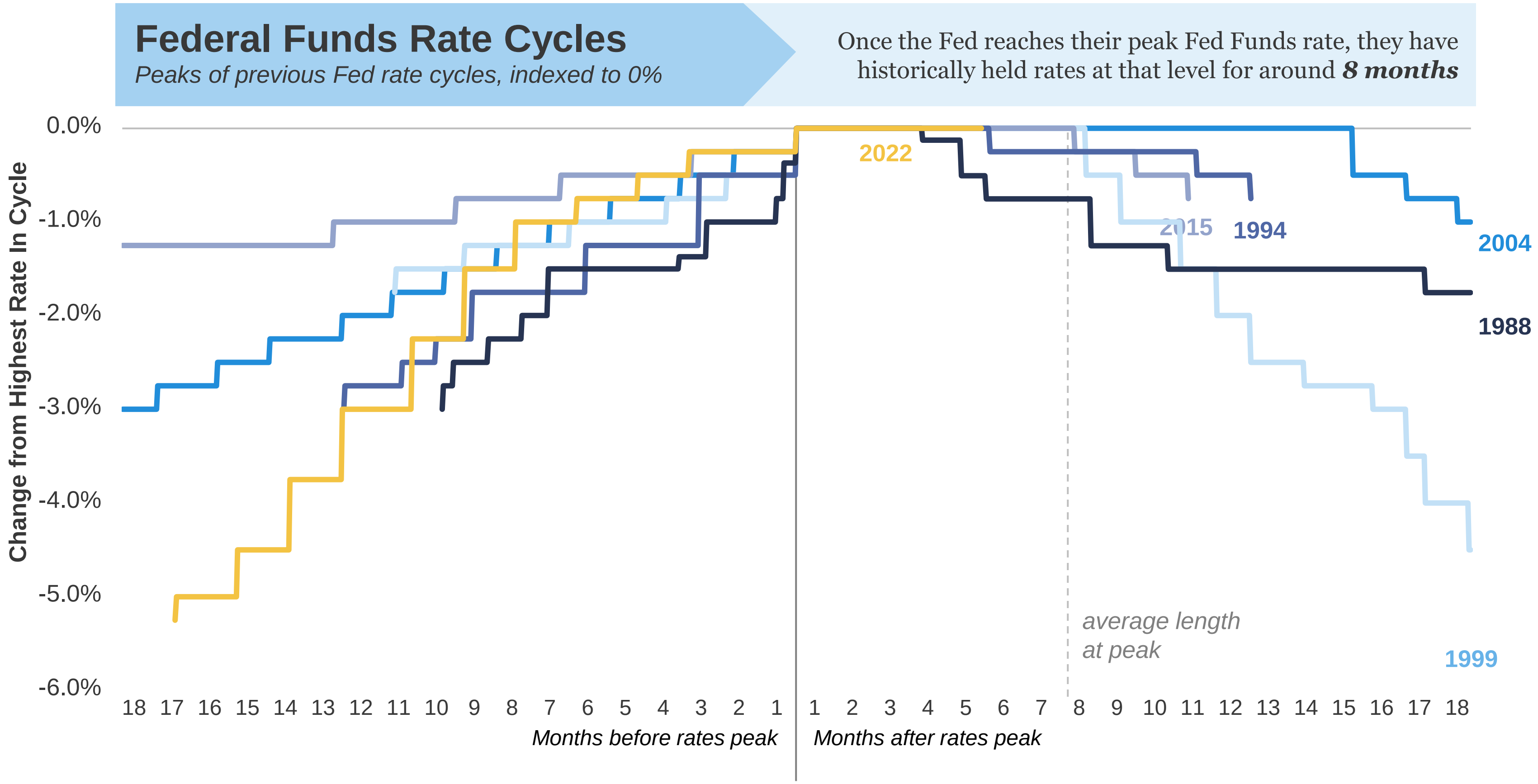
- Federal Reserve signals end to rate hiking cycle
  - Fed projected to cut the short-term Fed funds rate by 75 basis points by December 2024, with the overnight rate falling to 4.50% to 4.75%
  - Markets are pricing a more aggressive 6 rate cuts by year end
  - Fed officials reaffirm that restoring price stability is the priority
- Treasury yields ended the quarter materially lower
  - After peaking in October, yields reversed course on dovish Fed pivot
  - Money market yield curve inverts
  - Credit spreads narrowed sharply on increased expectations for a soft landing
- The U.S. economy is characterized by:
  - Economic resilience but expectations for a slowdown
  - Cooling inflation that still remains above the Federal Reserve’s (“Fed”) target
  - The labor market coming into better balance
  - Consumers that continue to support growth through spending

Market Expects a More Dovish Fed



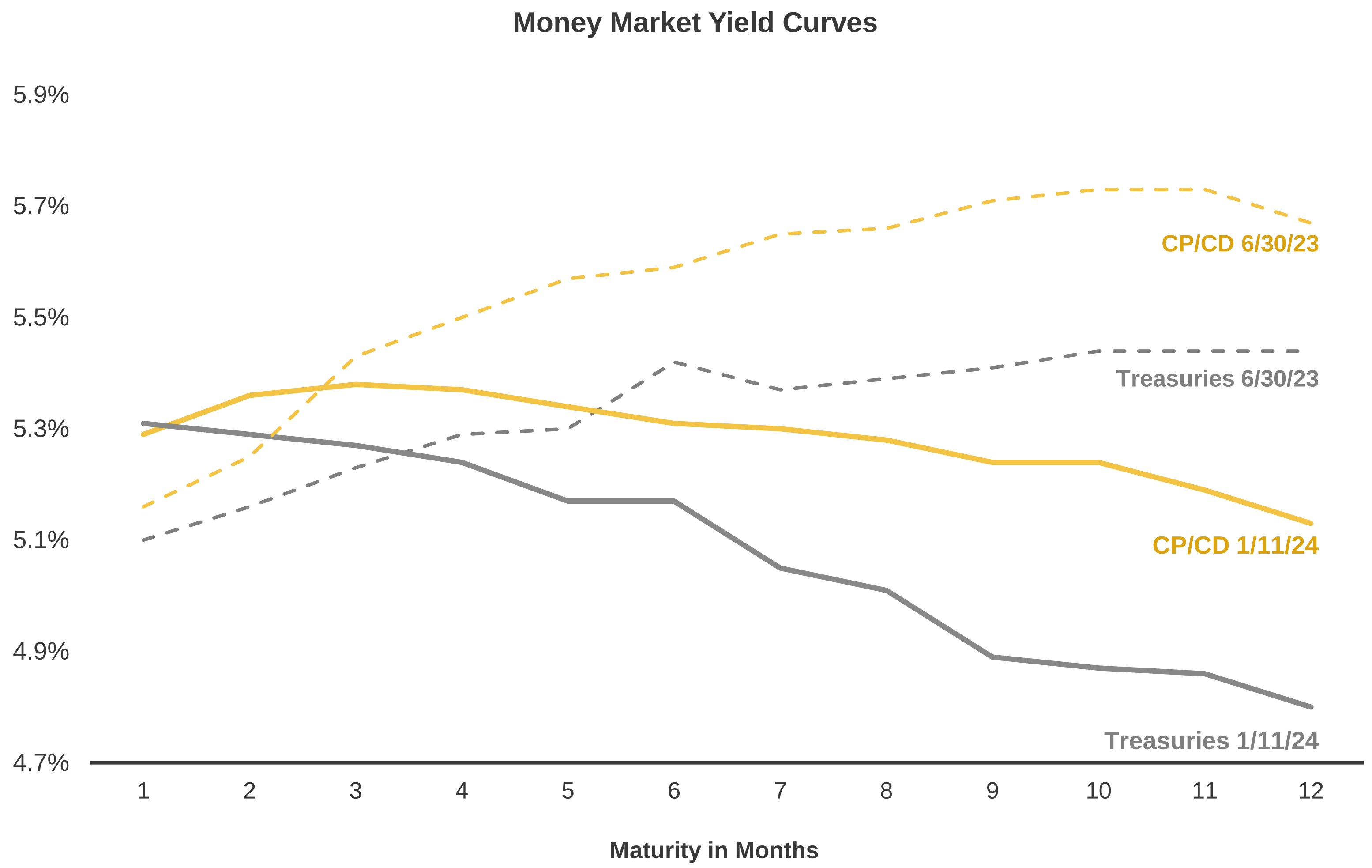
Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed Funds Futures as of 12/29/23.

How Long Will Rates Stay at the Peak?



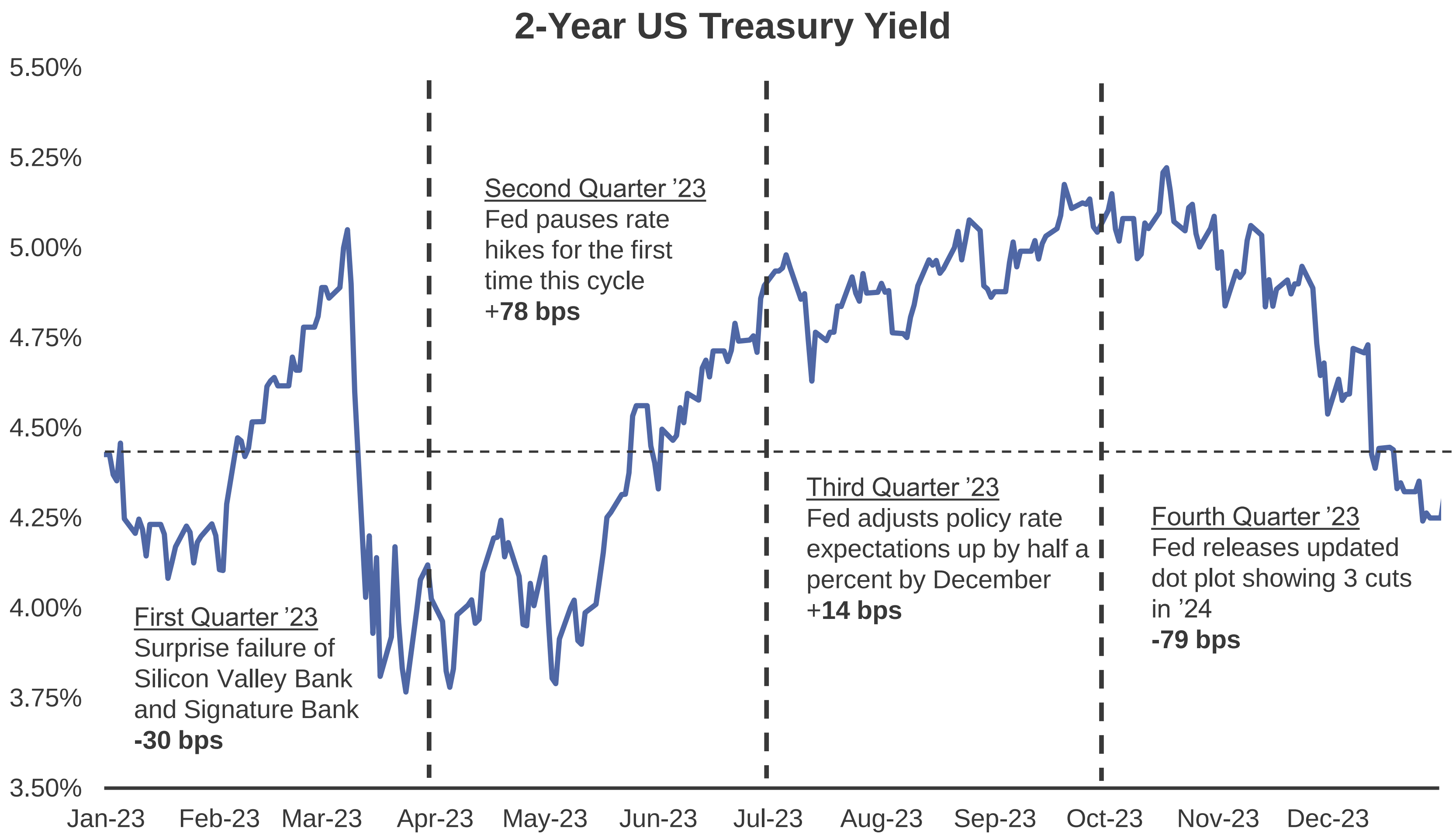
Source: Federal Reserve, Bloomberg.

Money Market Yield Curve Inverts on Expectations for Fed Pivot



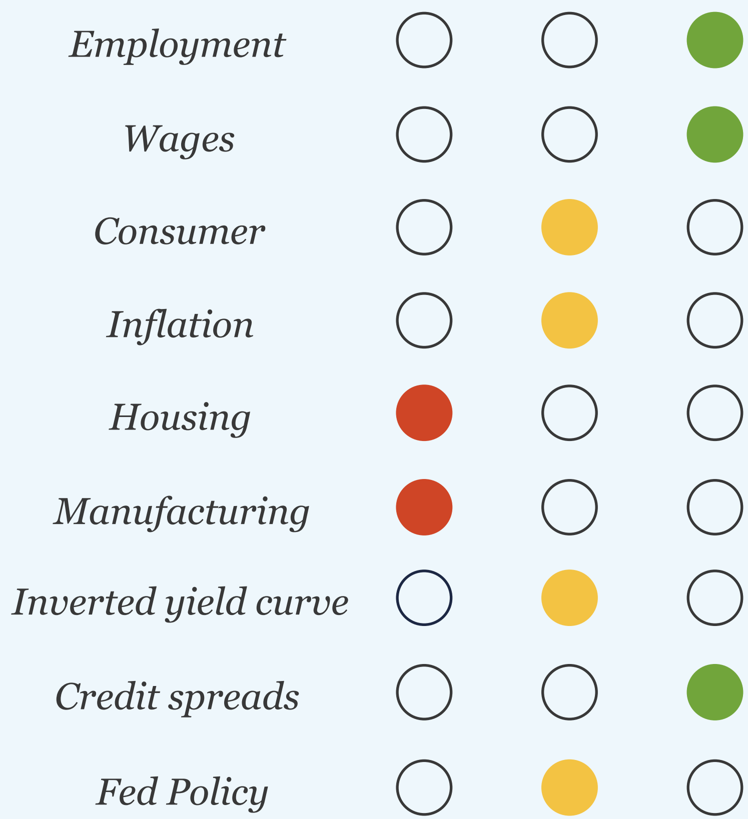
Source: PFMAM Trading Desk, as of 1/11/2024, from multiple sources. Yields are for indicative purposes only; actual yields may vary by issue.

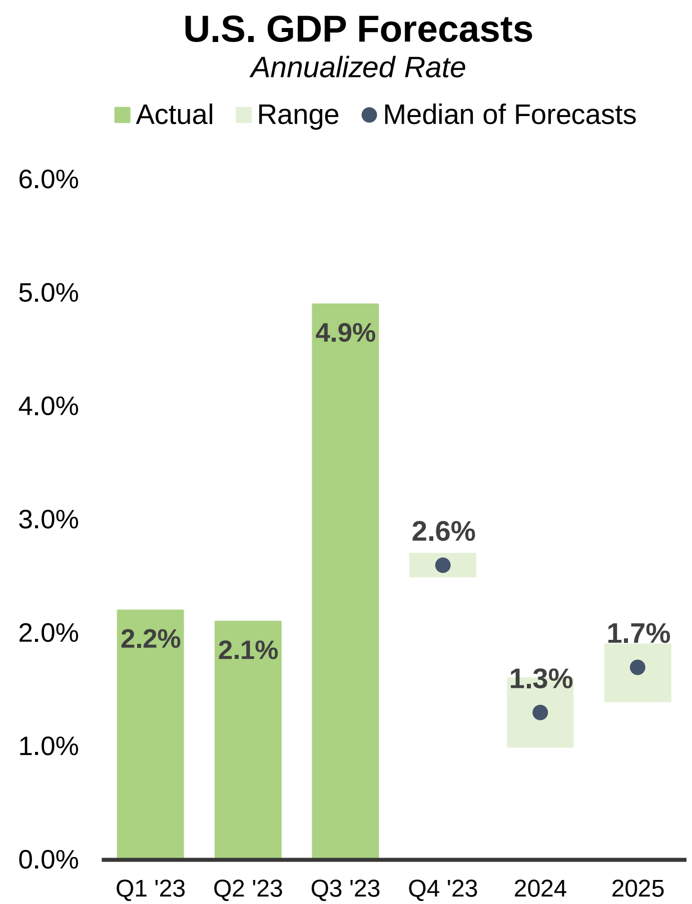
Despite 100 Bps of Rate Hikes, 2-Year Finishes Year 17 Bps Lower



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

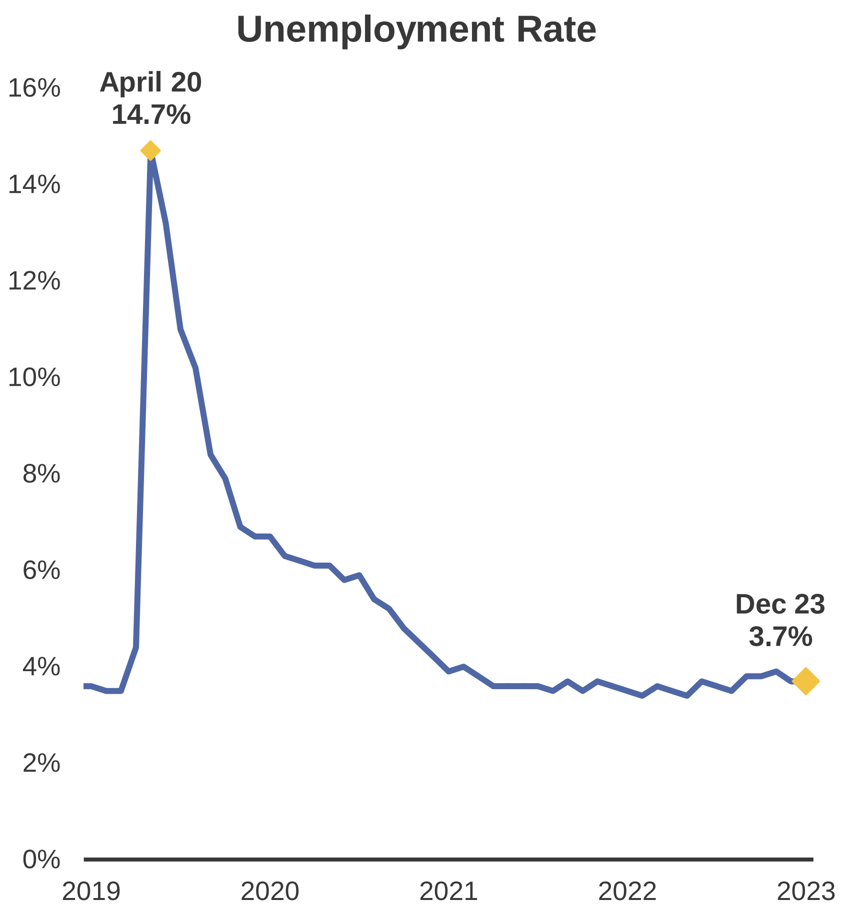
Balanced Risks Support Soft Landing

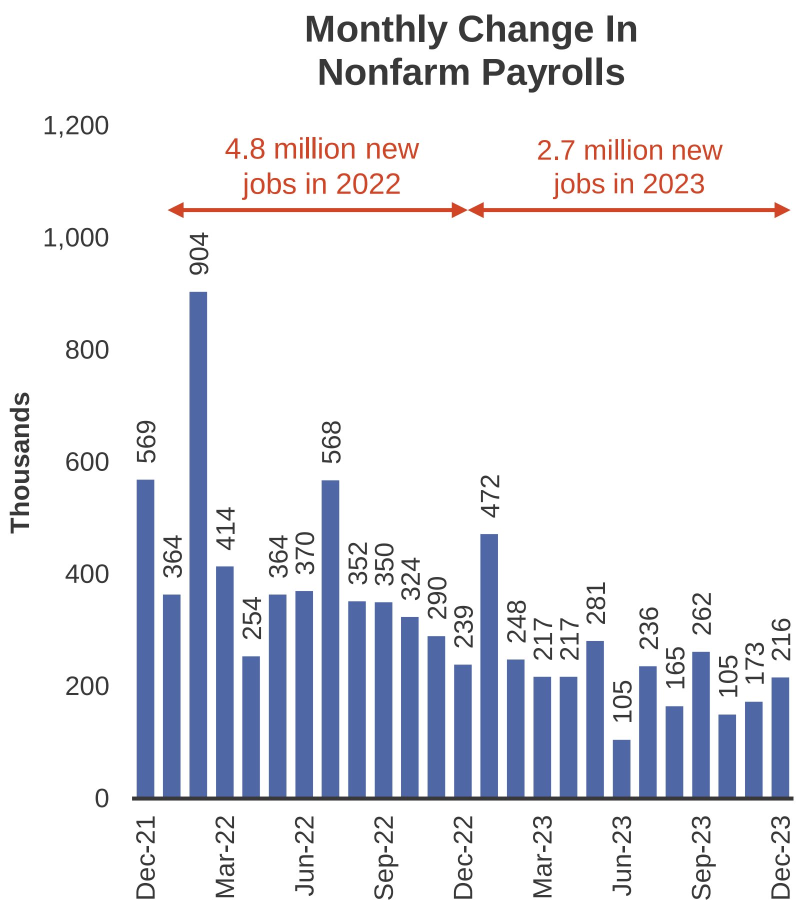




Source: Bloomberg, Economist Forecasts.

Historically Low Unemployment and Strong Job Growth Lead Economic Resiliency

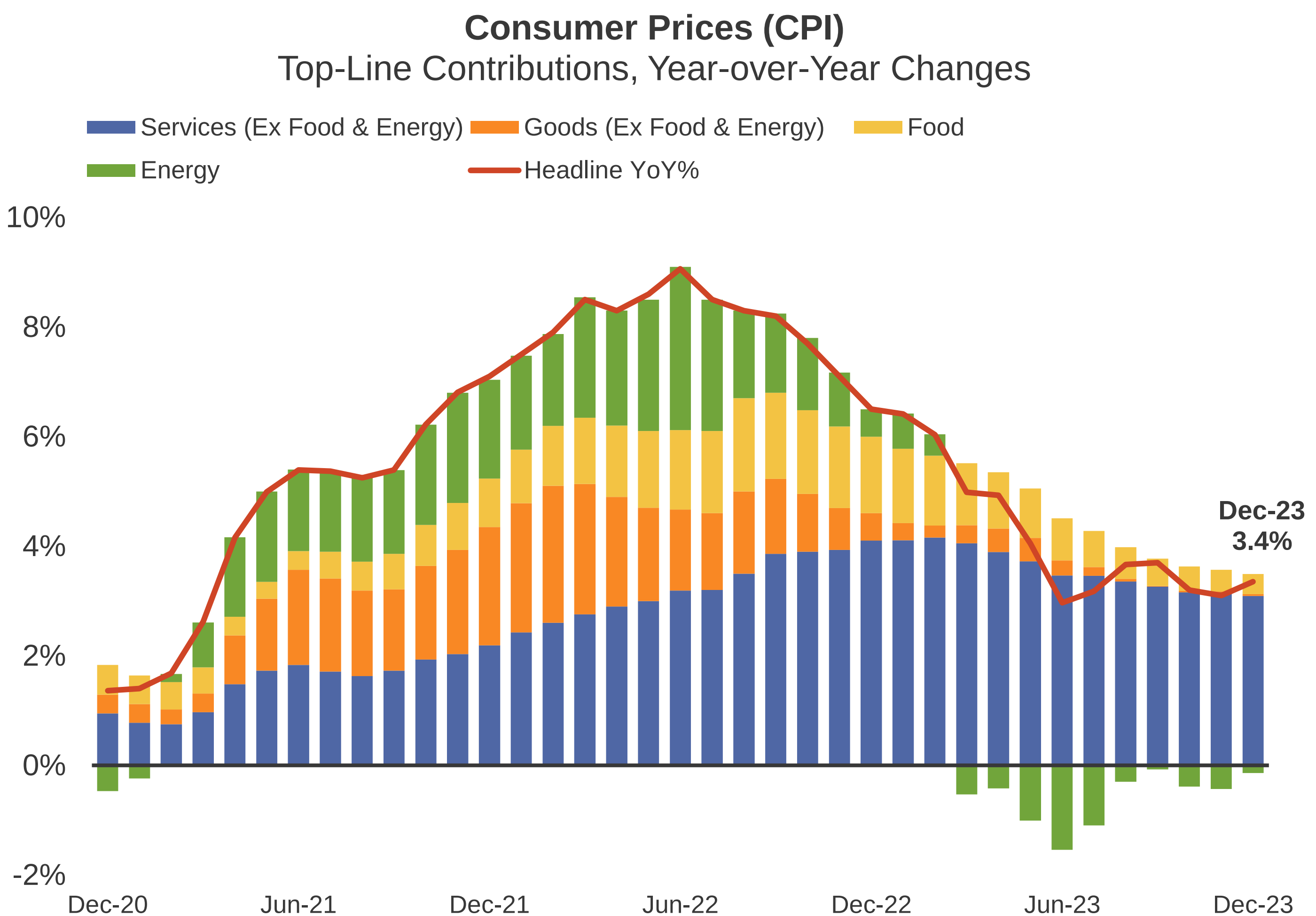




Source: Bloomberg, as of December 2023. Data is seasonally adjusted.

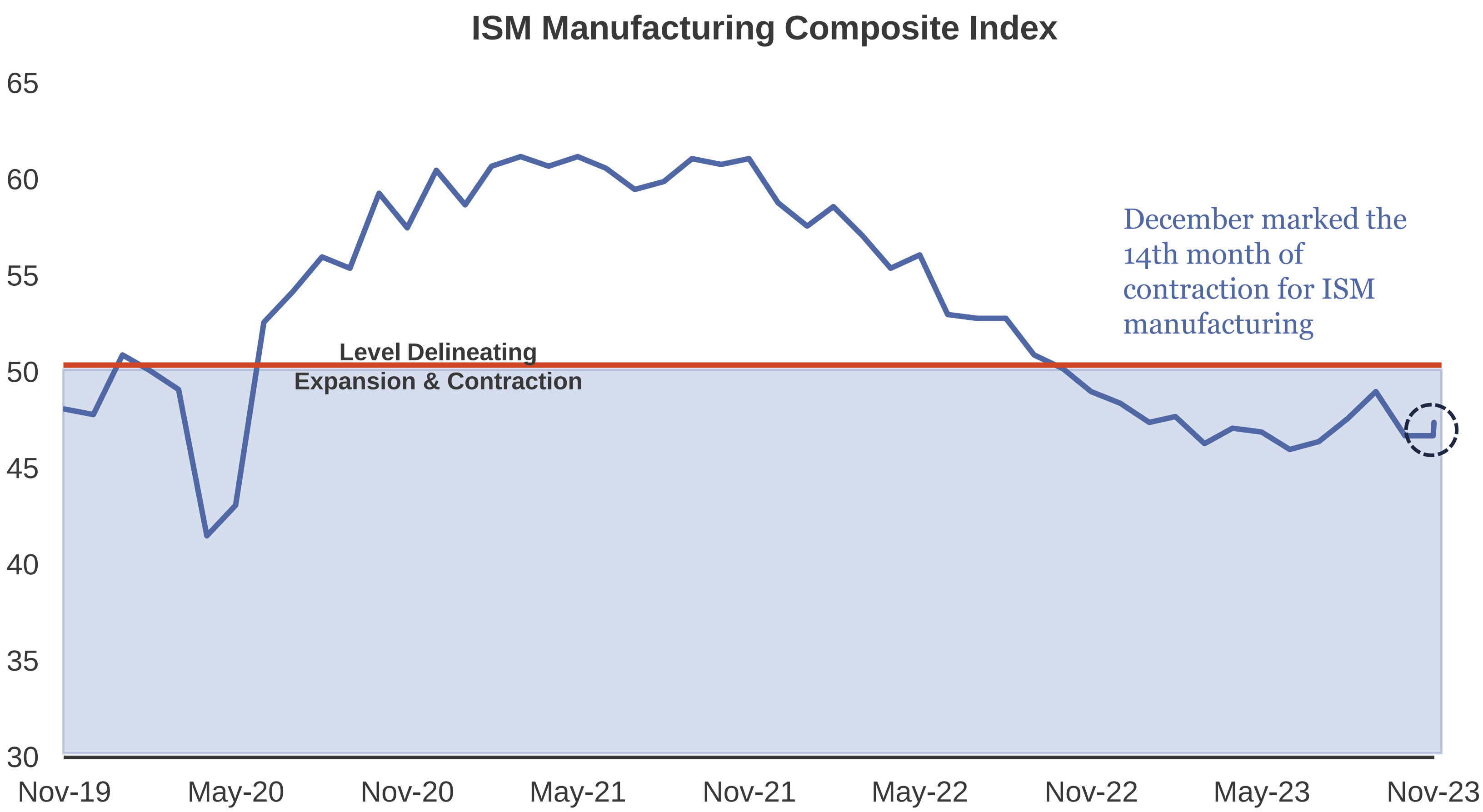
Inflation Continues to Trend Lower

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



Source: Bloomberg; as of December 2023.

Manufacturing Performance Declines at Sharper Pace as Demand Conditions Weaken



Source: Institute for Supply Management; as of December 2023.

Disclaimer

Investment advisory services are provided by PFM Asset Management LLC ("PFMAM"), an investment adviser registered with the U.S. Securities and Exchange Commission and a subsidiary of U.S. Bancorp Asset Management, Inc. ("USBAM"). USBAM is a subsidiary of U.S. Bank National Association ("U.S. Bank"). U.S. Bank is a separate entity and subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, services or performance of PFMAM. The information contained is not an offer to purchase or sell any securities. Additional applicable regulatory information is available upon request.

For more information regarding PFMAM's services please visit www.pfmam.com.

PUBLIC TRUST ADVISORS®

Optimizing Portfolios

Daniel Klus, Senior Director of Investment Services
Justin Wycoff, Director of Investment Services

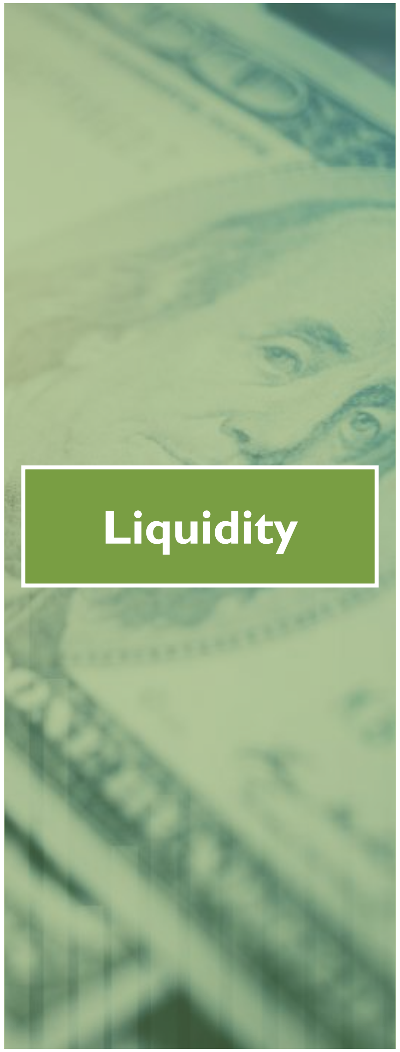
February 5, 2024

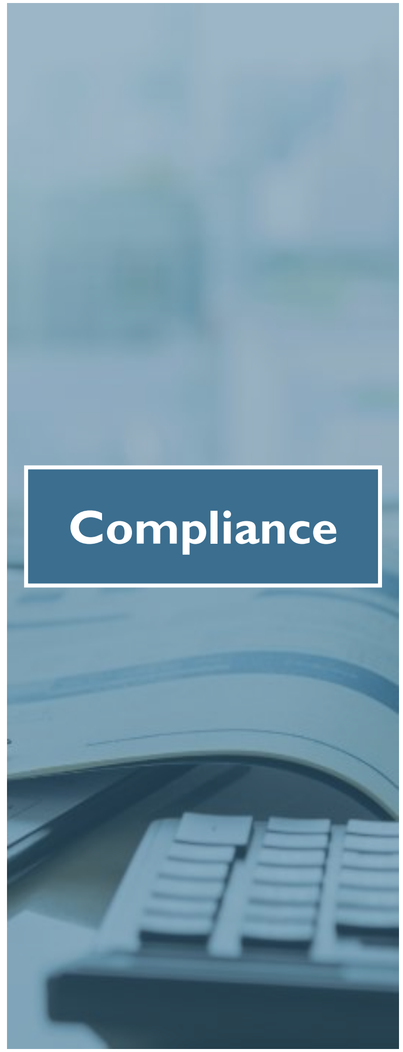
Disclosures

Data unaudited. This presentation is for informational purposes only. The information contained herein has been obtained from sources that we believe to be reliable, but its accuracy and completeness are not guaranteed. The information presented should not be used in making any investment decisions and is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration and involvement with an experienced professional engaged for the specific purpose. All comments and discussion presented are purely based on opinion and assumptions, not fact, and these assumptions may or may not be correct based on foreseen and unforeseen events.

Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk, including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. Public Trust Advisors is not a bank and your investment with Public Trust Advisors is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Past performance is not an indicator of future performance or results. Any financial and/or investment decision may incur losses.

Public Trust Advisors
717 17th Street, Suite 1850
Denver, Colorado 80202





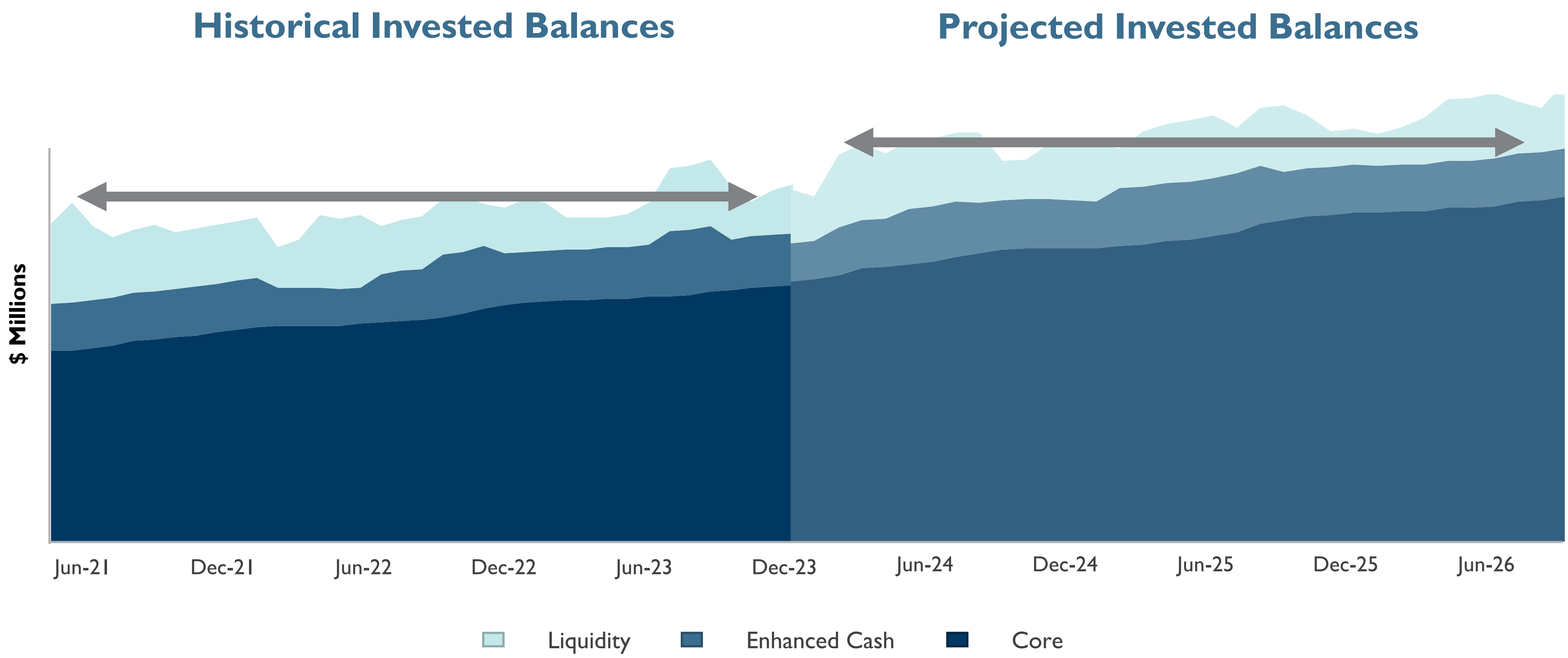
Please refer to the disclosure slide of this presentation for more information.

Assisting North Carolina Units of Local Government

- Unique Investment Solutions
- Treasury Management Advice
- Credit & Risk Management
- Portfolio Analytics & Reporting

Cash Flow Planning: Historical and Projected Invested Balances

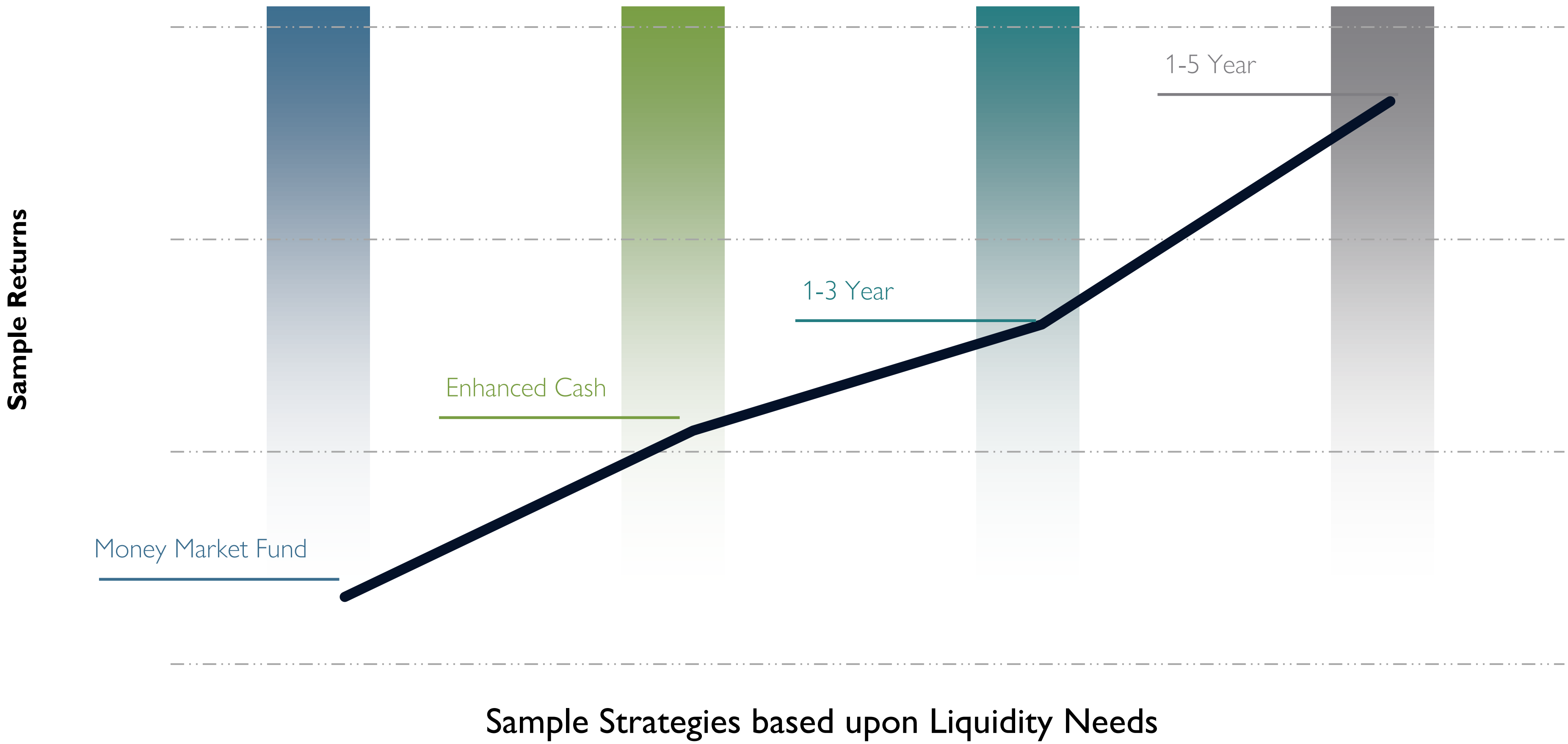
Ensuring sufficient liquidity allows the core portfolio to pursue longer maturities and greater expected returns over time.



For illustration only. Not intended to present an actual cash flow scenario. Information should not be used to make an investment decision. Historical information is not an indicator of future cash flows. Please refer to the disclosure slide of this presentation for more information.

Building Your Investment Strategy

Based upon your specific goals and cash needs



For illustration only. Not intended to present an actual cash flow scenario. Information should not be used to make an investment decision. Historical information is not an indicator of future cash flows. Please refer to the disclosure slide of this presentation for more information.

Shorter Duration Strategies

	Enhanced Cash	0-3 Years	1-3 Years
Target Duration	Six months to a year	Guided by a benchmark; typically 1.5 years	+/- 20% of benchmark duration; typically 1.7 to 1.9 years
Maturity Range	Zero to two years	Zero to three years	One to three years
Style	Buy-and-hold/ income focus	Buy-and-hold/ income focus	Total return/ active management
Drivers of Return	Federal Funds Target Rate Monetary policy expectations Shape of the yield curve Asset allocation Security selection	Federal Funds Target Rate Monetary policy expectations Shape of the yield curve Asset allocation Security selection	Duration management Shape of the yield curve Asset allocation Security selection

Please refer to the disclosure slide of this presentation for more information.

Longer Duration Strategies

	0-5 Years	1-5 Years
Target Duration	Guided by benchmark; typically two to three years	+/- 20% of benchmark duration; typically two to three years
Maturity Range	Zero to five years	One to five years
Style	Buy-and-hold/ income focus	Total return/ active management
Drivers of Return	Federal Funds Target Rate Monetary policy expectations Shape of the yield curve Asset allocation Security selection	Duration management Shape of the yield curve Asset allocation Security selection

Please refer to the disclosure slide of this presentation for more information.

Investment Policy Development

A well-defined investment policy is vital to governing the investment and the safekeeping of public funds and should include:

General Investment Rules	Governance	Risk Mitigation & Safekeeping	Reporting & Accountability
Investment objectives	Governing board	Diversification & maximum maturities	Benchmarks & assessment
Allowable investments	Annual policy review	Collateral requirements	Reporting requirements
Roles & responsibilities	Define investment committee	Custodial services	Required meetings
Statutory/ constitutional constraints	Adoption of policy by formal action	Selection & management of outside services	Record keeping & storage requirements

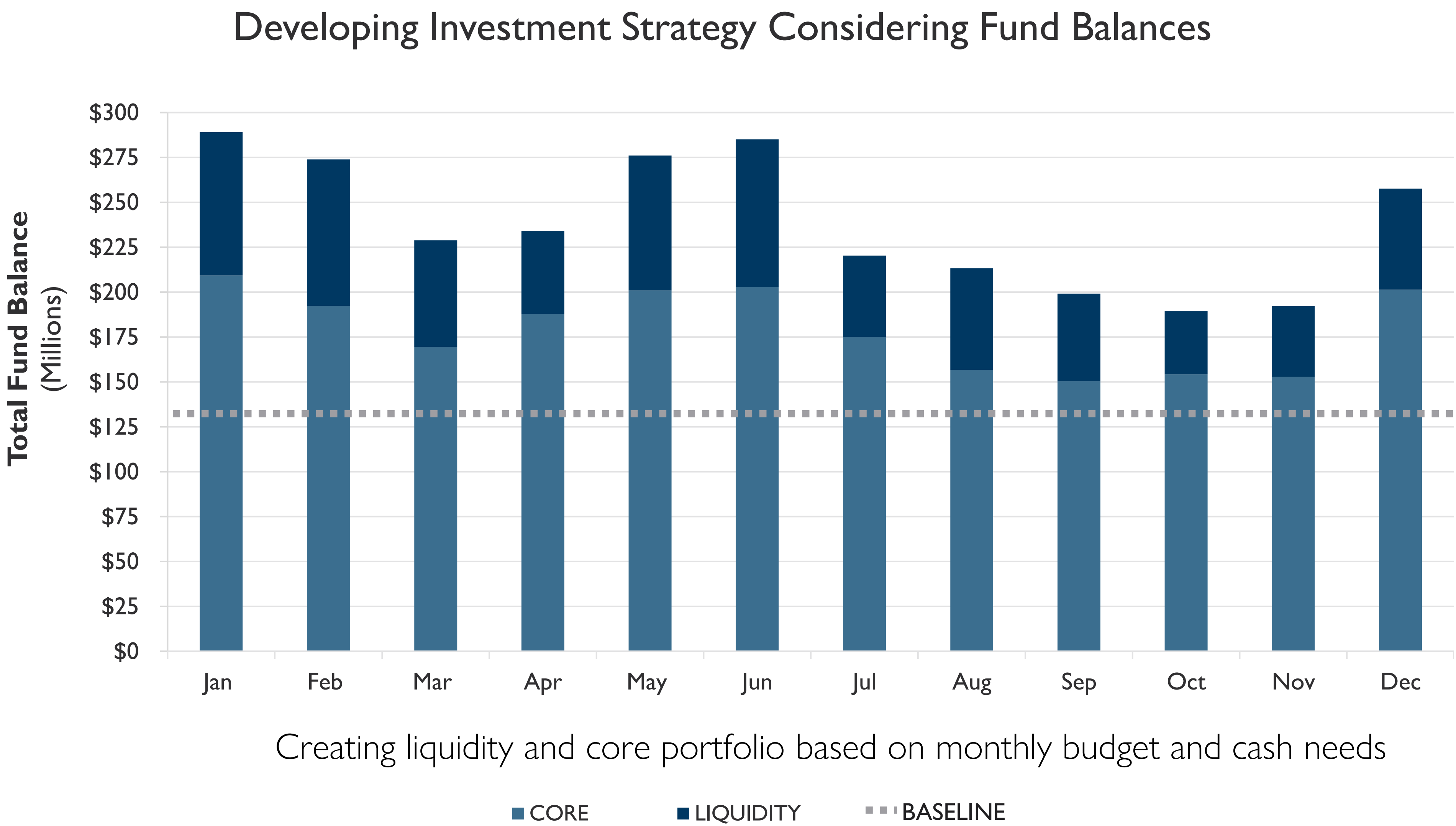
Please refer to the disclosure slide of this presentation for more information.

Value-Added Strategies for Portfolio Management

Interest Rate Forecasting	Evaluate the probable term structure of interest rates over time
Maturity Distribution	Utilize a percent of target duration strategy and make adjustments based on interest rate trends (rising vs declining)
Shape of Yield Curve	Adjust the maturity structure with this approach based on the shape of the yield curve (steep vs flat curves)
Asset Allocation	As demand for safe haven U.S. Treasuries increases and decreases, this shift in investor preference impacts yields in other investment options

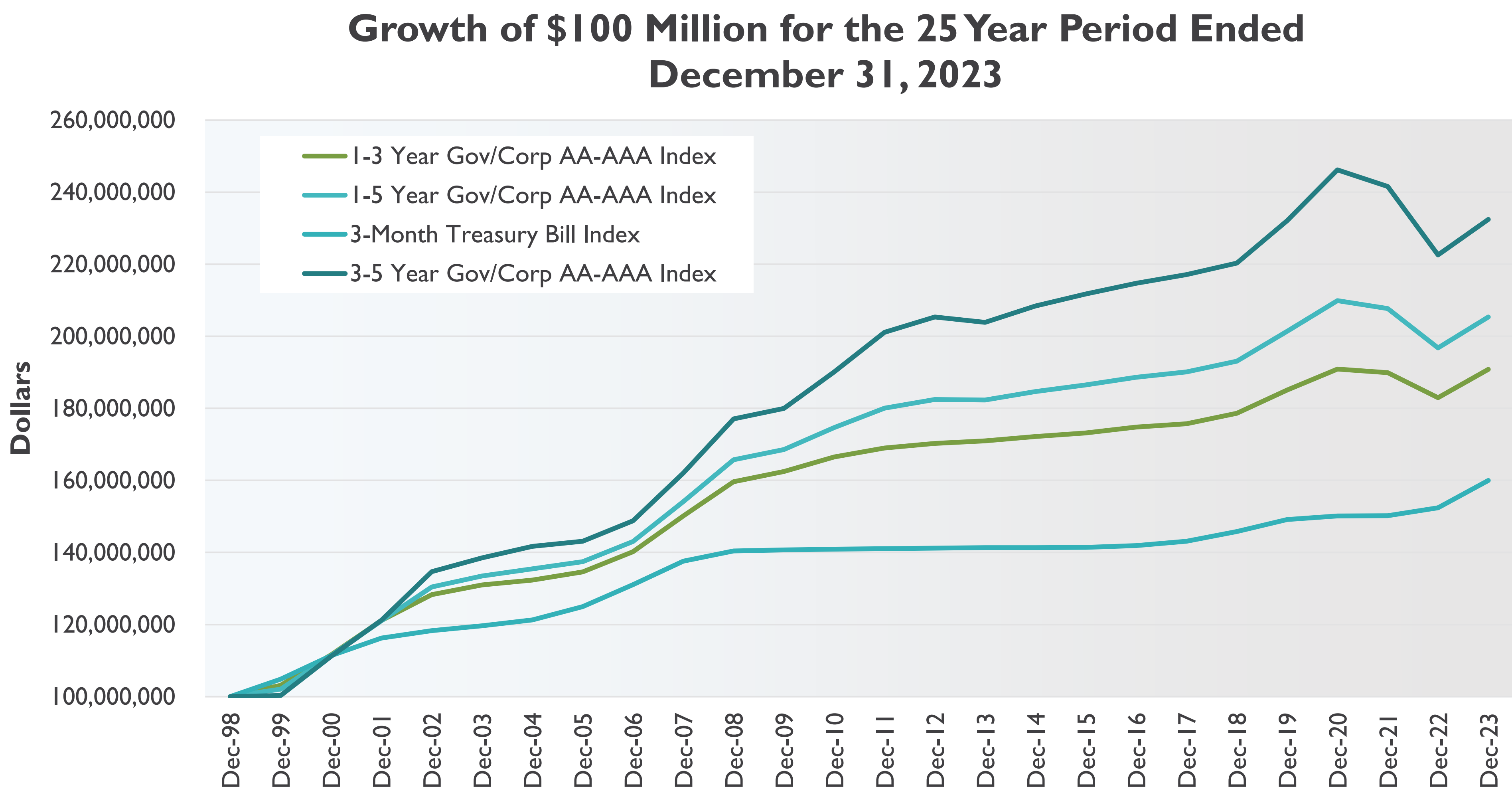
Please refer to the disclosure slide of this presentation for more information.

Sample Cash Flow Analysis



For illustration only. Not intended to present an actual cash flow scenario. Information should not be used to make an investment decision. Historical information is not an indicator of future cash flows. Please refer to the disclosure slide of this presentation for more information.

Longer-Term Investment Strategies

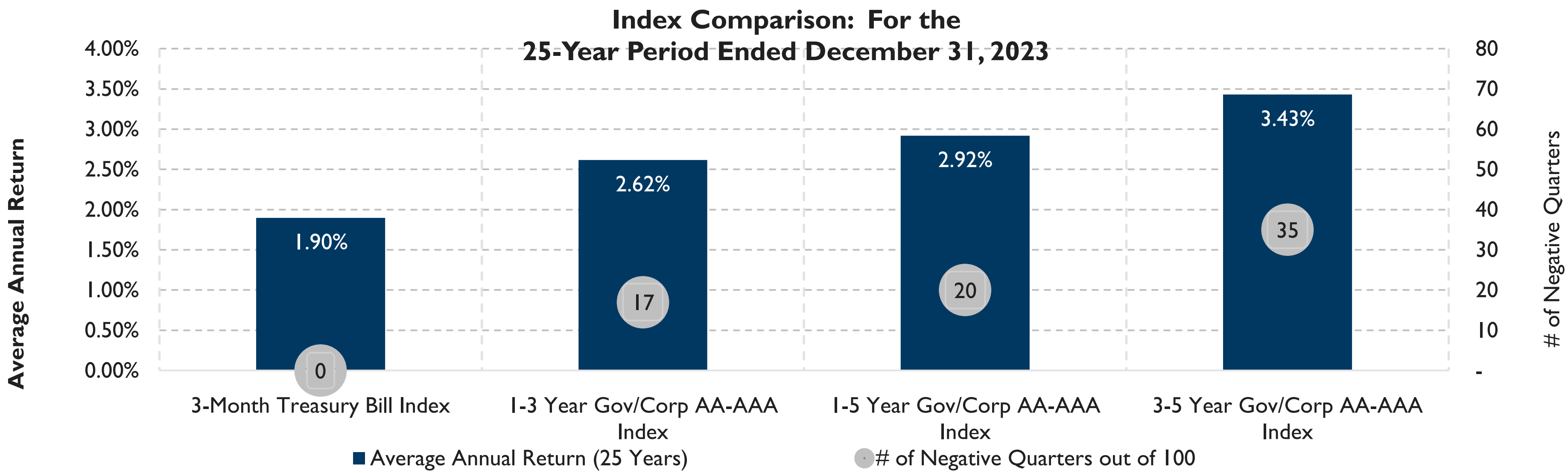


Source: ICE BofA Fixed Income Indices and Public Trust Advisors calculations. Please reference disclosure page of this presentation.

Risk and Return of Longer-Term Investment Strategies

Summary of Total Return Performance of Select BAML Fixed Income Indices: 20 Years Ended December 31, 2023

ICE Bank of America Merrill Lynch Index Description	Effective Duration	Yield to Worst	Avg. Annual Total Return (1999-2023)	Avg. Annual Price Return (1999-2023)	Avg. Ann. Income Return (1999-2023)	Standard Deviation (1999-2023)	# of Years w/ Negative Total Return	# of Quarters w/ Negative Total Return
3-Month Treasury Bill Index	0.22	5.29%	1.90%	1.90%	0.00%	0.58%	-	-
1-3 Year Gov/Corp AA-AAA Index	1.81	4.44%	2.62%	-0.40%	3.02%	1.50%	2	17
1-5 Year Gov/Corp AA-AAA Index	2.56	4.27%	2.92%	-0.24%	3.17%	2.11%	3	20
3-5 Year Gov/Corp AA-AAA Index	3.70	4.01%	3.43%	0.03%	3.42%	3.25%	3	35



Longer duration portfolios have historically generated greater income and total return over time. Longer duration portfolios are more sensitive to interest rate changes and therefore exhibit greater market price volatility for a given change in interest rates. The most appropriate duration for the is that which balances each public agencies' return objective with its tolerance for market price risk and volatility. After providing for appropriate liquidity reserves, local agencies may pursue longer duration portfolio alternatives consistent with their unique risk tolerances. Source: Bloomberg. Please see disclosures page for additional information. Index values as of January 3, 2024. Duration represents the approximate change in market value given a 1% change in interest rates.

Let's Connect

Daniel Klus

Senior Director, Investment Services

(984) 278-5006

daniel.klus@publictrustadvisors.com

Justin Wycoff

Director, Investment Services

(704) 500-0132

justin.wycoff@publictrustadvisors.com