

# City of Hayward

## Investment Program Update

415-265-3760

**pfmam.com**

Monique Spyke, Managing Director

*PFM Asset Management LLC*

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# Market Themes



- ▶ U.S. economy has been characterized by:
  - ▶ High inflation. Peaked at 9.1% in June 2022 and, while now at 3.7%, is still above the Fed's 2% target.
  - ▶ Stronger than expected GDP. A recession in 2023 appeared likely at the start of the calendar year, but growth for the first three quarters has been relatively strong.
  - ▶ Resilient labor market. Unemployment rate below 4% since February 2022.
  - ▶ Headwinds exist. Higher energy prices, elevated geopolitical risks, high inflation, and reduced consumer savings, could lead to a recession in the next year.

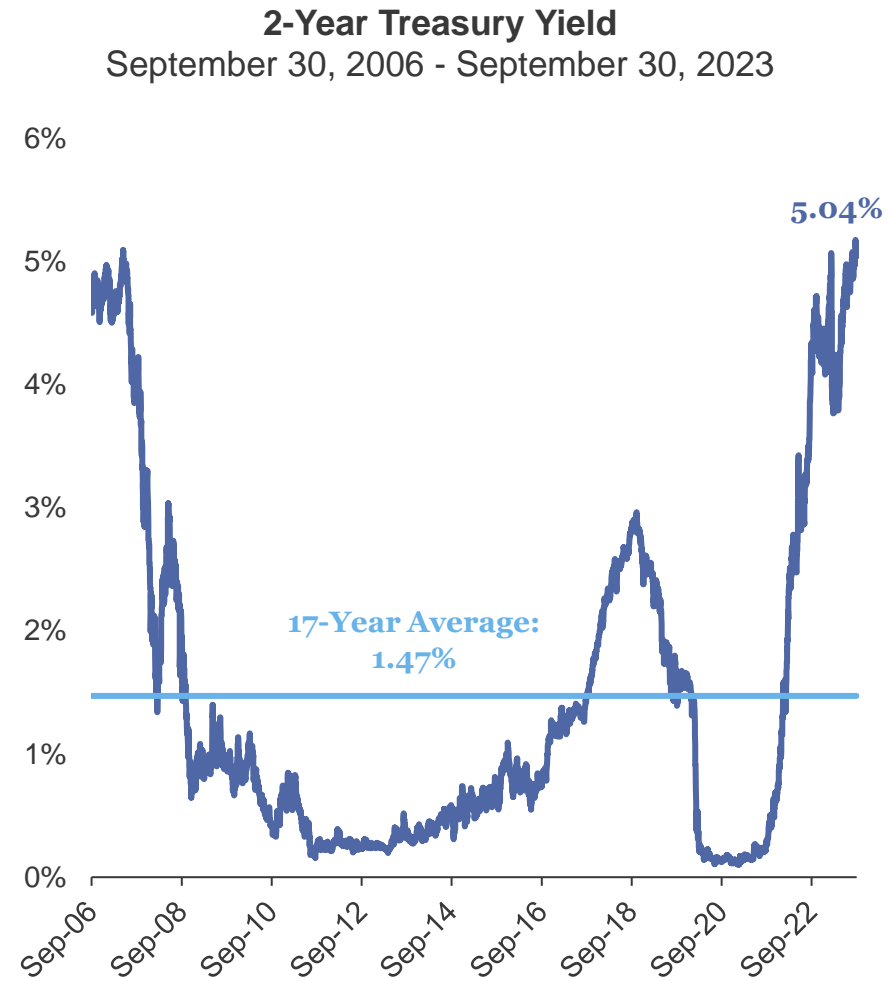
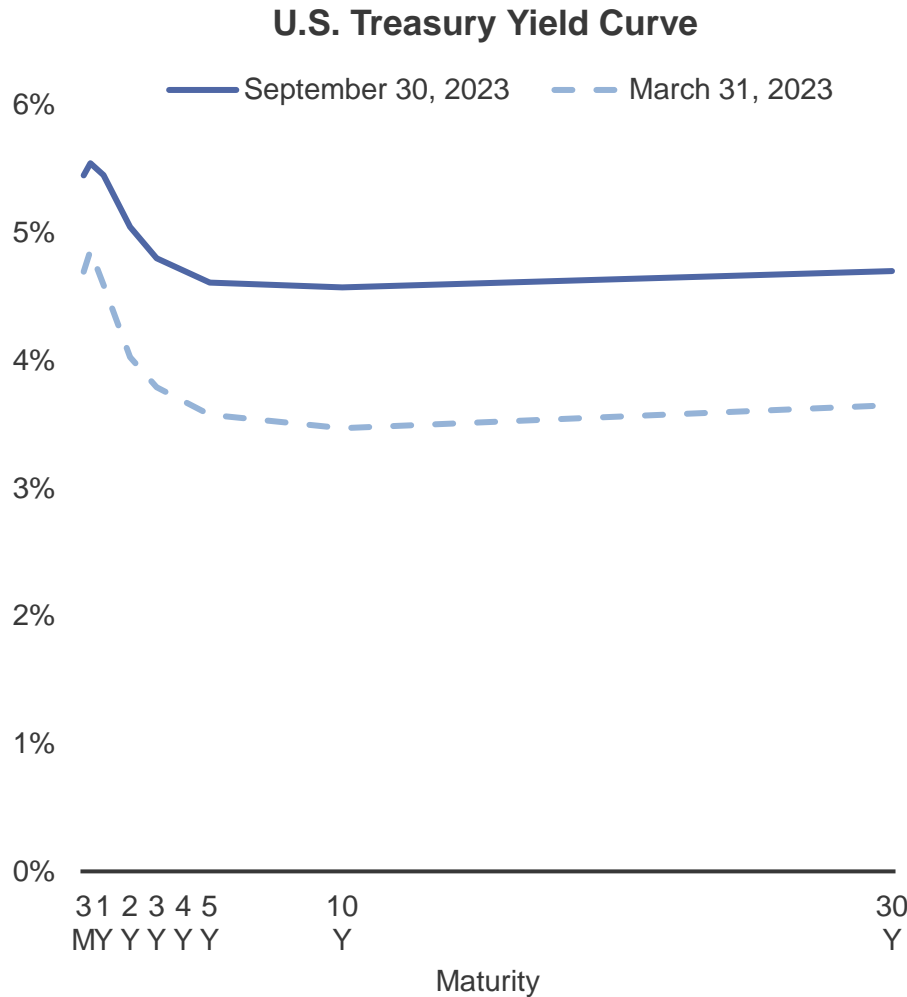


- ▶ Fed has hiked rates over 500 basis points (5.00%) since March 2022.
  - ▶ For 10 consecutive meetings the Fed raised the target rate, bringing it from 0.00% to 0.25% to its current range of 5.25% to 5.50%.
  - ▶ Potential for one additional rate hike in 2023.
  - ▶ Market currently has a “higher-for-longer” mindset.



- ▶ Interest rates are at their highest levels since 2006-07.
  - ▶ Yield curve is inverted.
  - ▶ Higher yields present great opportunities for City's future earnings.
  - ▶ Increase in rates has negatively impacted market values.

# Treasury Yields Higher; Curve Inverted



Source: Bloomberg as of September 30, 2023.

# City of Hayward's Investment Objectives

## Safety

- High quality investments
- Diversification by sector, issuer, and maturity
- Management of credit and market risk

## Liquidity

- Cash flow coordination with the City
- Allocation to overnight funds

## Yield/Return on Investment

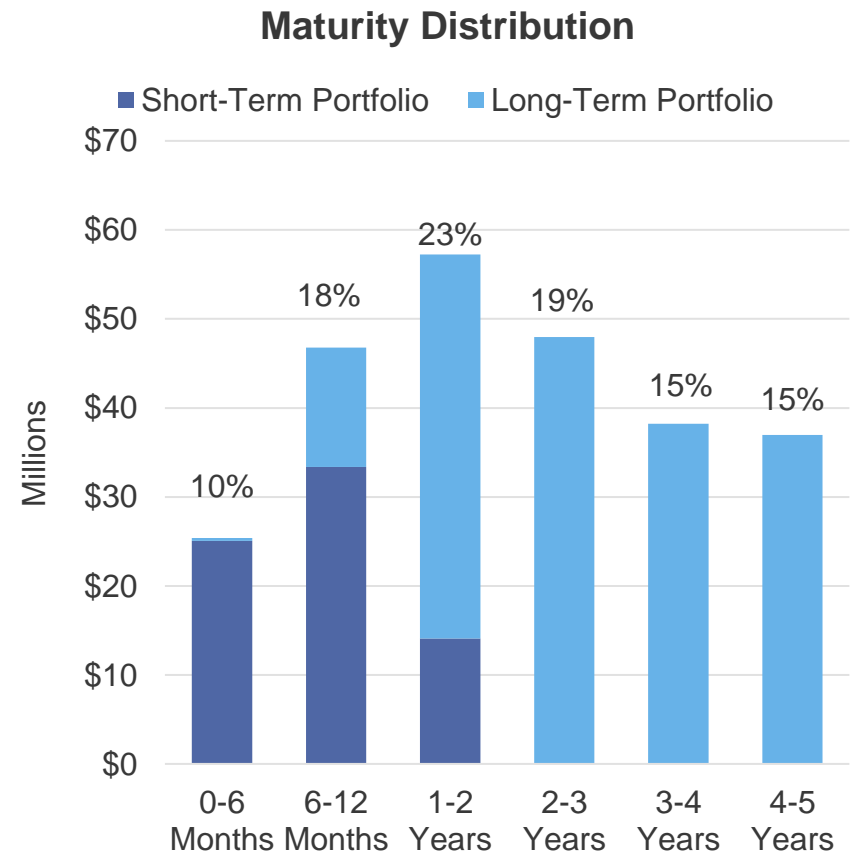
- Duration management
- Active trading and continual evaluation of relative value among allowable sectors



# City of Hayward Portfolio Characteristics

- Portfolio segmentation allows for optimal investment.

	Market Value <sup>1</sup>	Yield	Average Maturity
<b>Total Portfolio</b>	<b>\$253,948,429</b>	<b>3.09%</b>	<b>2.11 years</b>
Long-Term Portfolio	\$180,917,974	2.44%	2.69 years
Short-Term Portfolio	\$73,030,455	4.69%	0.66 years

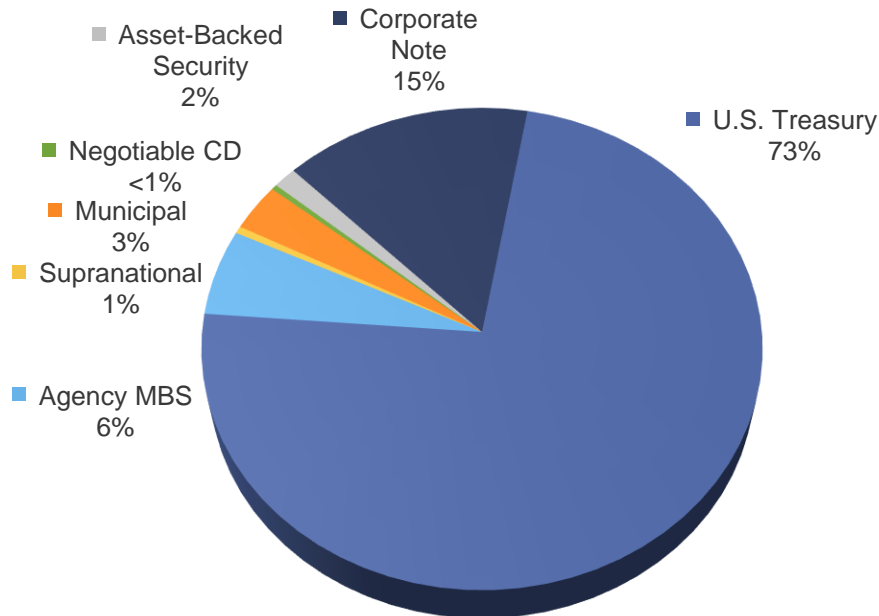


As of September 30, 2023. Market values include accrued interest and exclude cash in the money market fund. Excludes overnight funds.

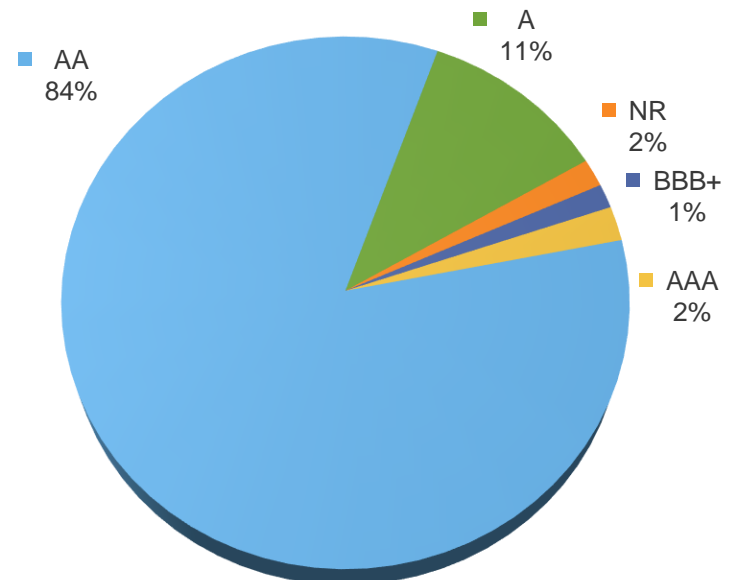
# City of Hayward Portfolio Characteristics

- ▶ Portfolio is diversified by sector and issuer and in compliance with the City's investment policy
- ▶ Portfolio is of high credit quality; average rating of AA<sup>1</sup>

**Sector Allocation**



**Credit Quality (S&P Ratings)**



*Ratings by Standard & Poor's as of September 30, 2023. Securities in the City's portfolio are in compliance with California Government Code and the City's investment policy. Portfolio information excludes overnight funds. Accrued interest is excluded. Securities not rated (NR) or rated BBB+ by S&P are rated A-, or the equivalent, or better by Moody's and/or Fitch.*

# With Rising Rates, Portfolio Earnings Increasing



As of September 30, 2023. Long-Term Portfolio interest earnings.

# Long-Term Portfolio Performance Remains Positive

- ▶ While sharply rising interest rates have had a negative impact on the portfolio's market values, the portfolio continues to perform well versus its benchmark, the 1-5 Year U.S. Treasury index.
- ▶ Portfolio outperformance can be attributed to the portfolio's diversification and duration management.

**As of September 30, 2023**

Market Value Basis Earnings	Past 1 Year	Past 5 Years	Past 10 Years
Interest Earned	\$2,842,719	\$11,261,461	\$18,006,505
Change in Market Value	\$1,706,908	(\$7,901,536)	(\$10,769,855)
<b>Total Dollar Return</b>	<b>\$4,549,627</b>	<b>\$3,359,925</b>	<b>\$7,236,650</b>
<b>Total Return</b>			
<b>City of Hayward</b>	<b>2.59%</b>	<b>0.87%</b>	<b>0.80%</b>
Benchmark	2.12%	0.61%	0.59%
<b>Difference</b>	<b>+0.47%</b>	<b>+0.26%</b>	<b>+0.21%</b>

*Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.*

*Returns are presented on an annualized basis.*

*The portfolio's benchmark is currently the ICE BofA 1-5 Year U.S. Treasury Index. Prior to 12/31/21 it was the ICE BofA 1-3 Year U.S. Treasury Index.*

*Source: Bloomberg.*



# Outlook

## ECONOMY AND INTEREST RATES

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- ▶ Strong labor market and wage growth
- ▶ Inflation stuck at 3% - 3.5% significantly over the Fed's 2% target
- ▶ U.S. consumer favors services yet spending less as we approach the holidays
- ▶ Federal Reserve continues to fight inflation, may see one more rate hike in 2023
- ▶ Increased risk of recession due to decreased consumer spending, higher energy prices, and manufacturing slump

## PORTFOLIO STRATEGY

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- ▶ Continued focus on safety and liquidity
- ▶ Maintain broad diversification by sector, industry, and issuer
- ▶ Evaluate all opportunities to safely add value to the portfolios

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