

City of Hayward

Annual Investment Update Fiscal Year 2021-2022

November 16, 2022

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Market Update

Current Market Themes



- ▶ The U.S. economy is characterized by:
 - ▶ High inflation
 - ▶ Deteriorating housing market
 - ▶ Depressed consumer confidence
 - ▶ Worsening economic outlook that is propped up by a strong labor market



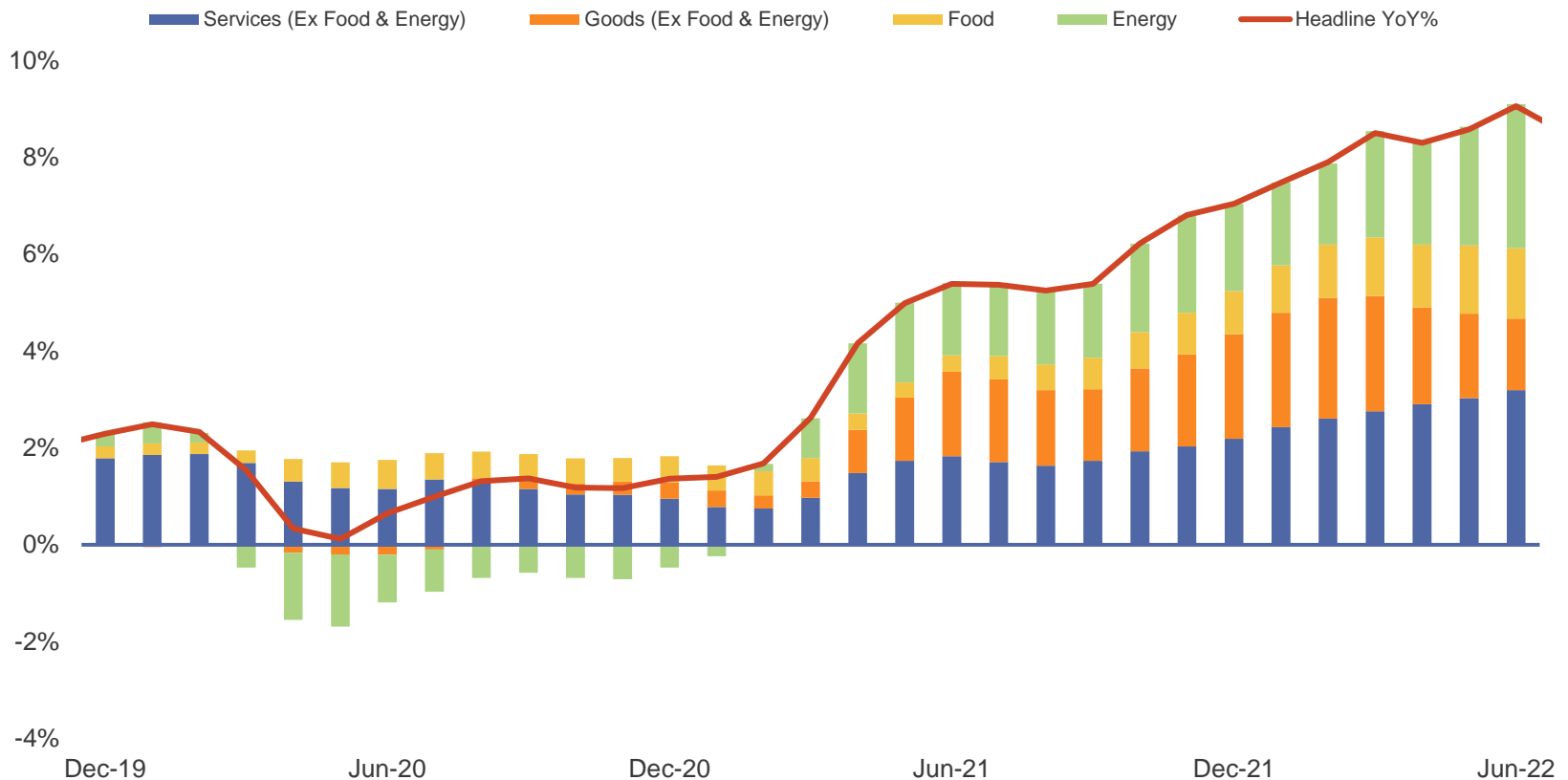
- ▶ The Federal Reserve has committed to a heavy-handed policy
 - ▶ More aggressive rate hikes to battle persistent inflation
 - ▶ Short-term fed funds rate projected to reach near 4.50% by year-end
 - ▶ Increased pace of quantitative tightening



- ▶ Asset prices have fallen sharply in 2022 as a result of:
 - ▶ The impact of higher rates on bond prices and equity valuations
 - ▶ Wider credit spreads
 - ▶ High levels of volatility and uncertainty

Inflation Was a Primary Driver of Fed Activity

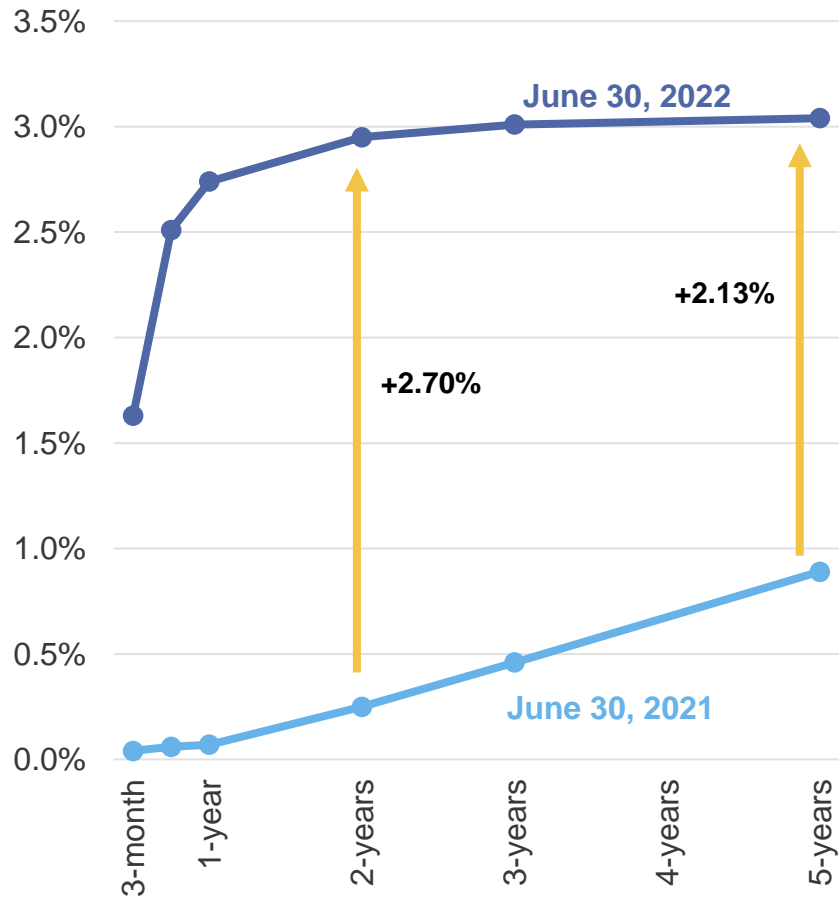
Factors Contributing to the Consumer Price Index (CPI YoY)



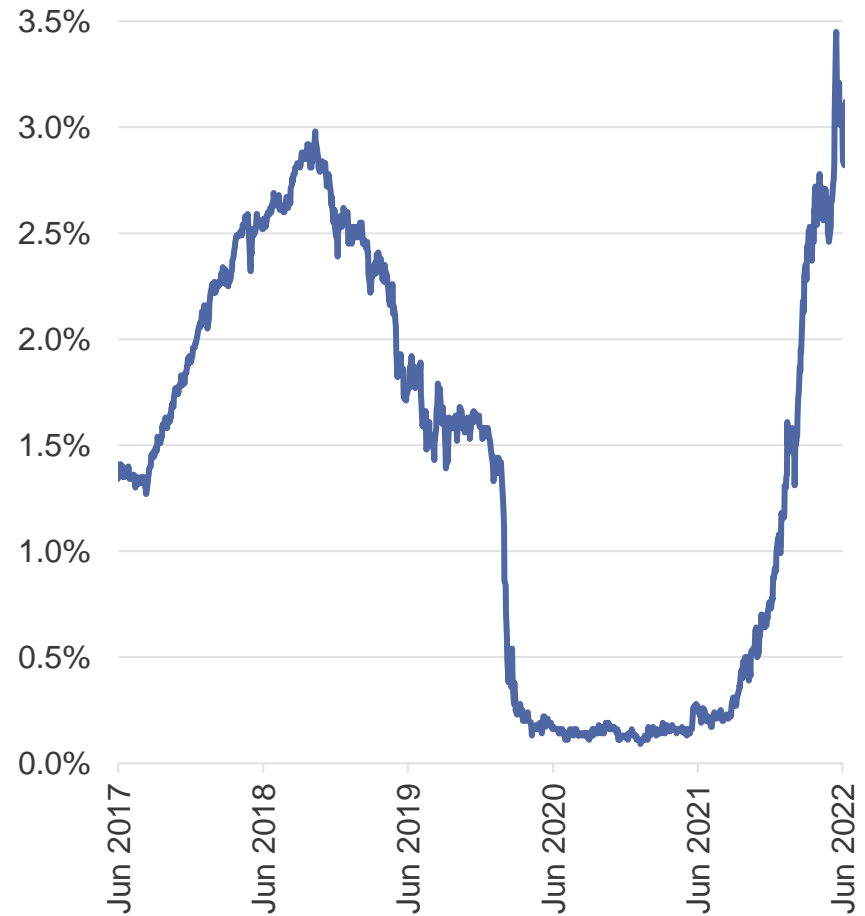
Source: Bloomberg, as of August 2022.

Yields Have Moved Sharply Higher

U.S. Treasury Yield Curves



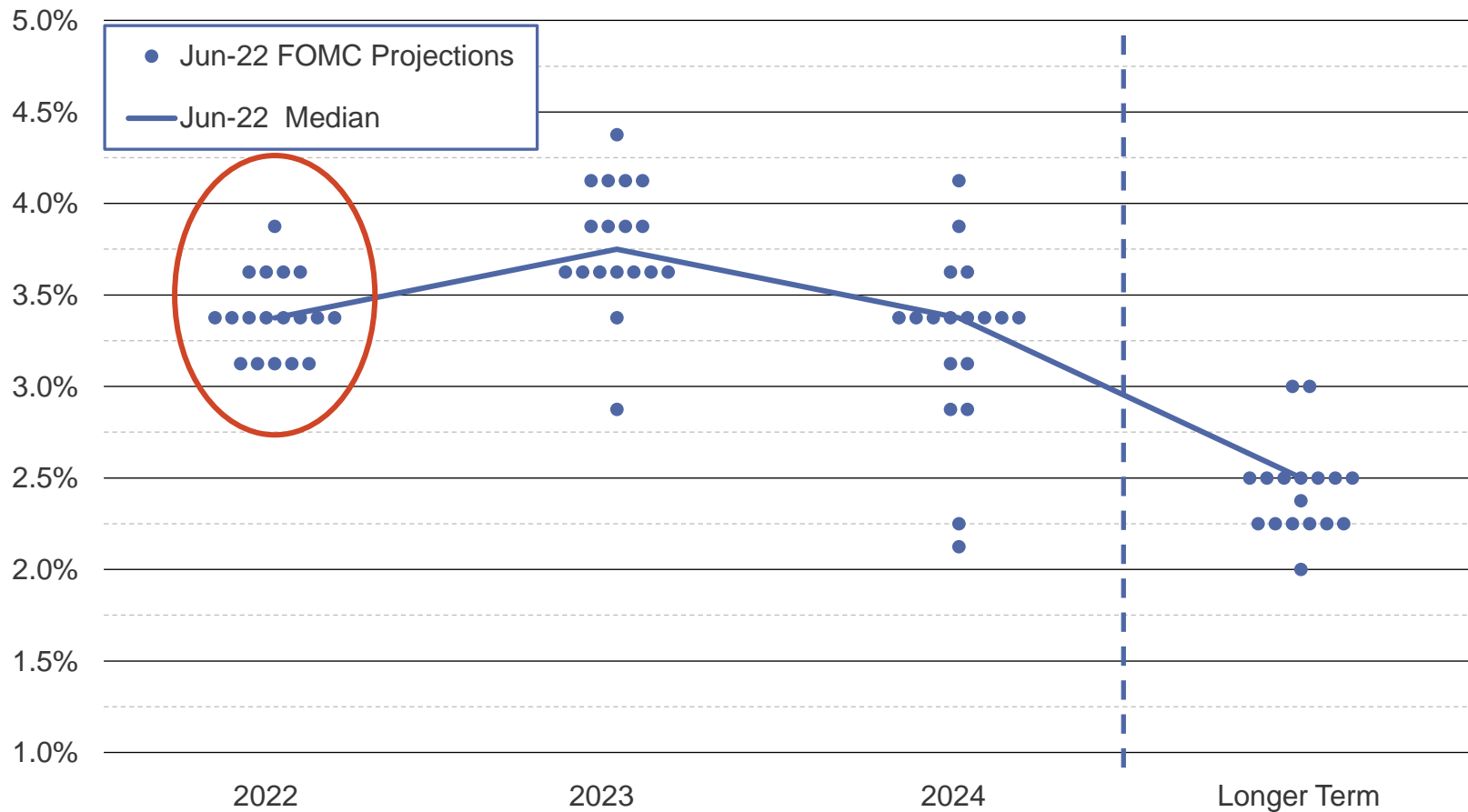
2-Year Treasury Yield June 30, 2017 – June 30, 2022



Source: Bloomberg.

Federal Reserve Officials Project 1.75% More in Rate Hikes in 2022

Fed Participants' Assessments of 'Appropriate' Monetary Policy

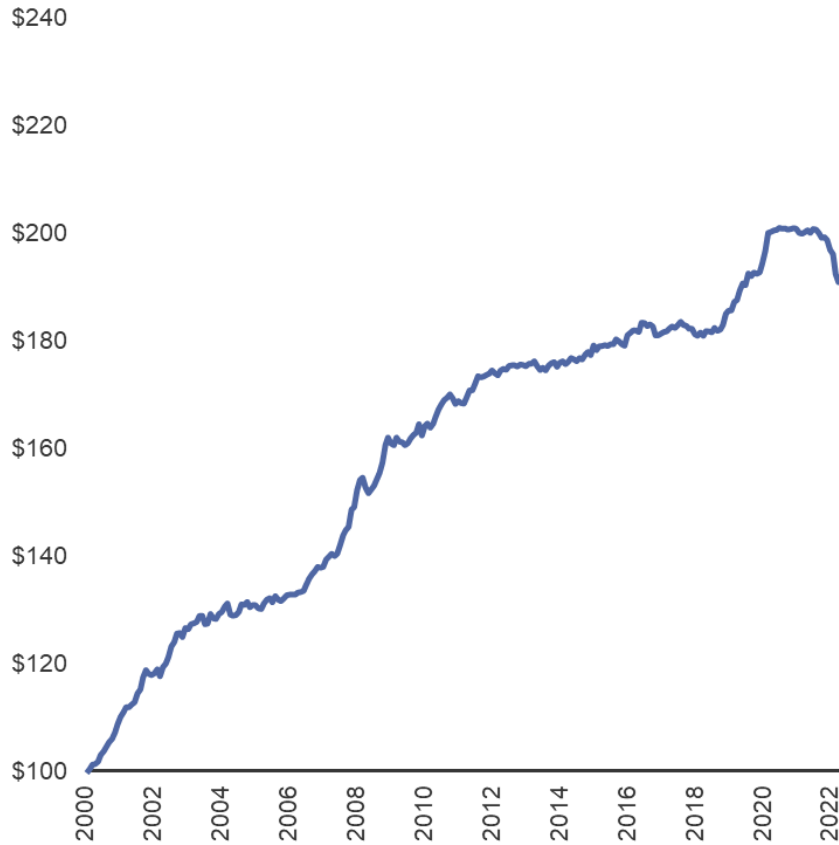


Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.

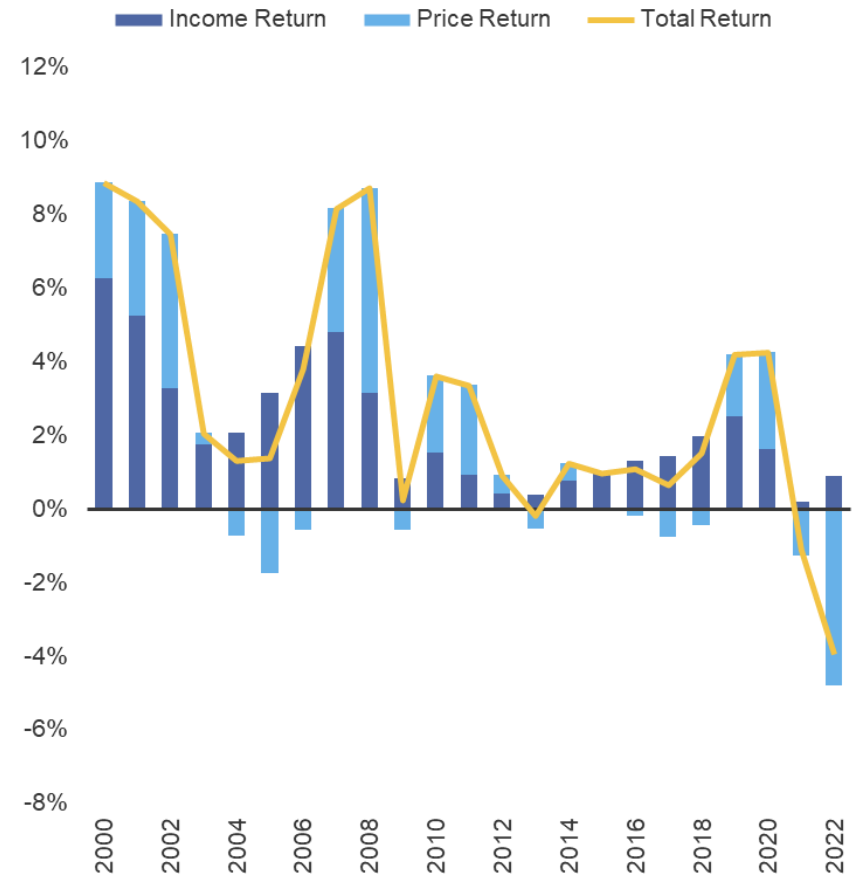
Surging Yields Gave Back Pandemic Gains

ICE BofA 1-5 Year
Treasury Index

Growth of \$100
(1/1/2000 - 6/30/2022)



Annual Price & Income Returns



Source: ICE BofAML Indices via Bloomberg, as of 6/30/2022; PFAM calculations. 2022 Price, income, and total return is YTD as of 6/30/2022.

FY21-22 In Review

KEY TAKEAWAYS

- Overall economic activity was robust in 2021, supported by massive levels of monetary support by the Federal Reserve (Fed) and numerous rounds of fiscal support from Congress to combat the effects of the pandemic.
- Rising inflation became a major issue for the economy.
- Interest rates climbed at the fastest pace seen in recent history. The yield on two-year Treasury notes rose from 0.28% last September, to 0.73% by year end, and reached 2.96% at the end of June 2022.



Investment Program Highlights

Hayward's Investment Objectives

Safety

- High quality investments
- Management of credit and market risk

Liquidity

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

Yield

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

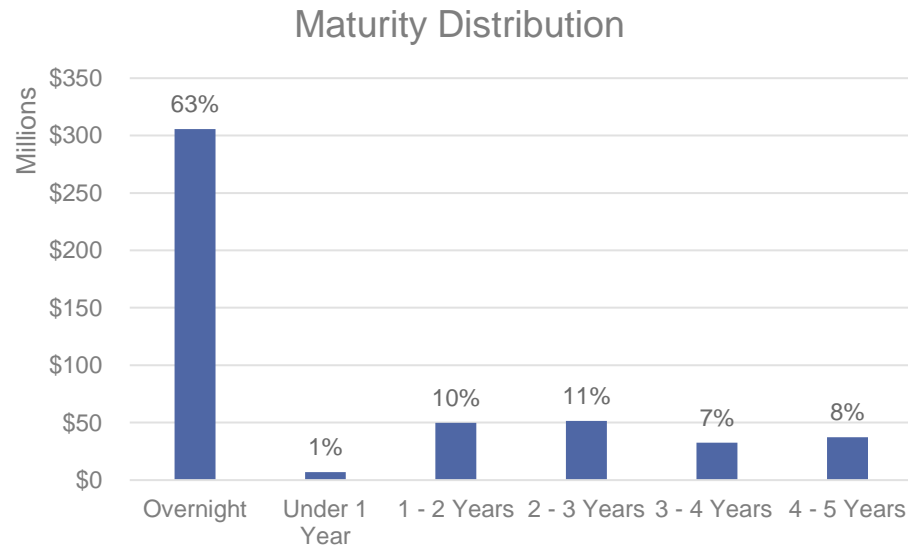
Diversification

- Diversification by sector, issuer, and maturity

The City's Strategy at a Glance

Working Well in Current Interest Rate Environment – Ready to Adapt to Changing Conditions

Aggregate Portfolio Statistics	
Total Market Value	\$177,853,953
Average Duration	2.51 years
Average Yield at Cost	1.10%
Average Yield at Market	3.14%

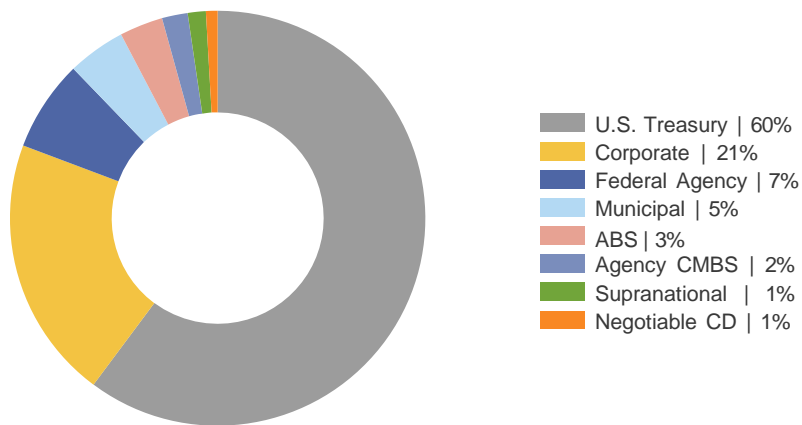


- Calculated based on market value, as of June 30, 2022.
- Percentages may not total 100% due to rounding.

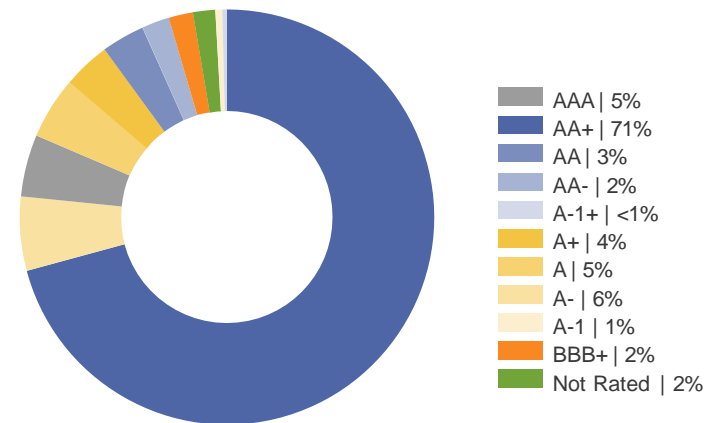
The City's Strategy at a Glance

- The portfolio is well diversified among U.S. Treasuries, Federal Agencies, Supranational Agencies, Negotiable Certificates of Deposit (CDs), Corporate Notes, Asset-Backed Securities, and Municipal Obligations.
- The portfolio comprises securities of high credit quality.

Sector Allocation



Credit Quality - S&P



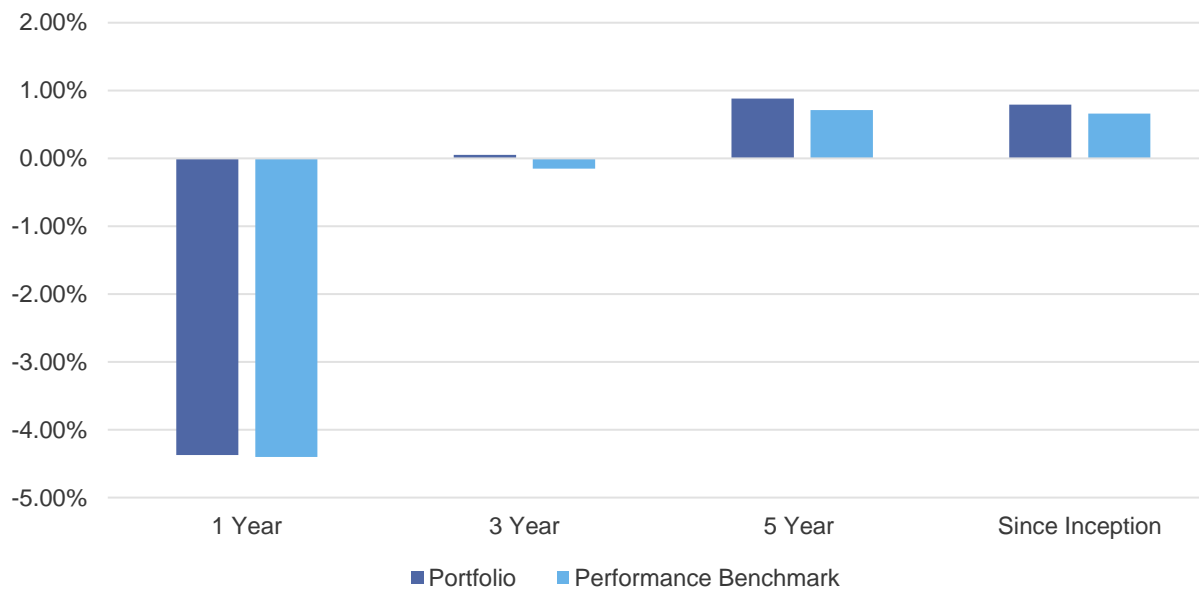
- Calculated based on market value, as of June 30, 2022.
- Percentages may not total 100% due to rounding.
- Ratings provided by Standard & Poor's.
- "Not Rated" category comprises securities that were rated in the category of "A" or better by at least one NRSRO at the time of purchase.
- Excludes the City's LGIP, cash, and money market fund balances.

Performance

As of June 30, 2022

Combined Portfolio Performance	
2Q22	-0.89%
FY 21-22	-4.37.%
Since Inception	0.79%

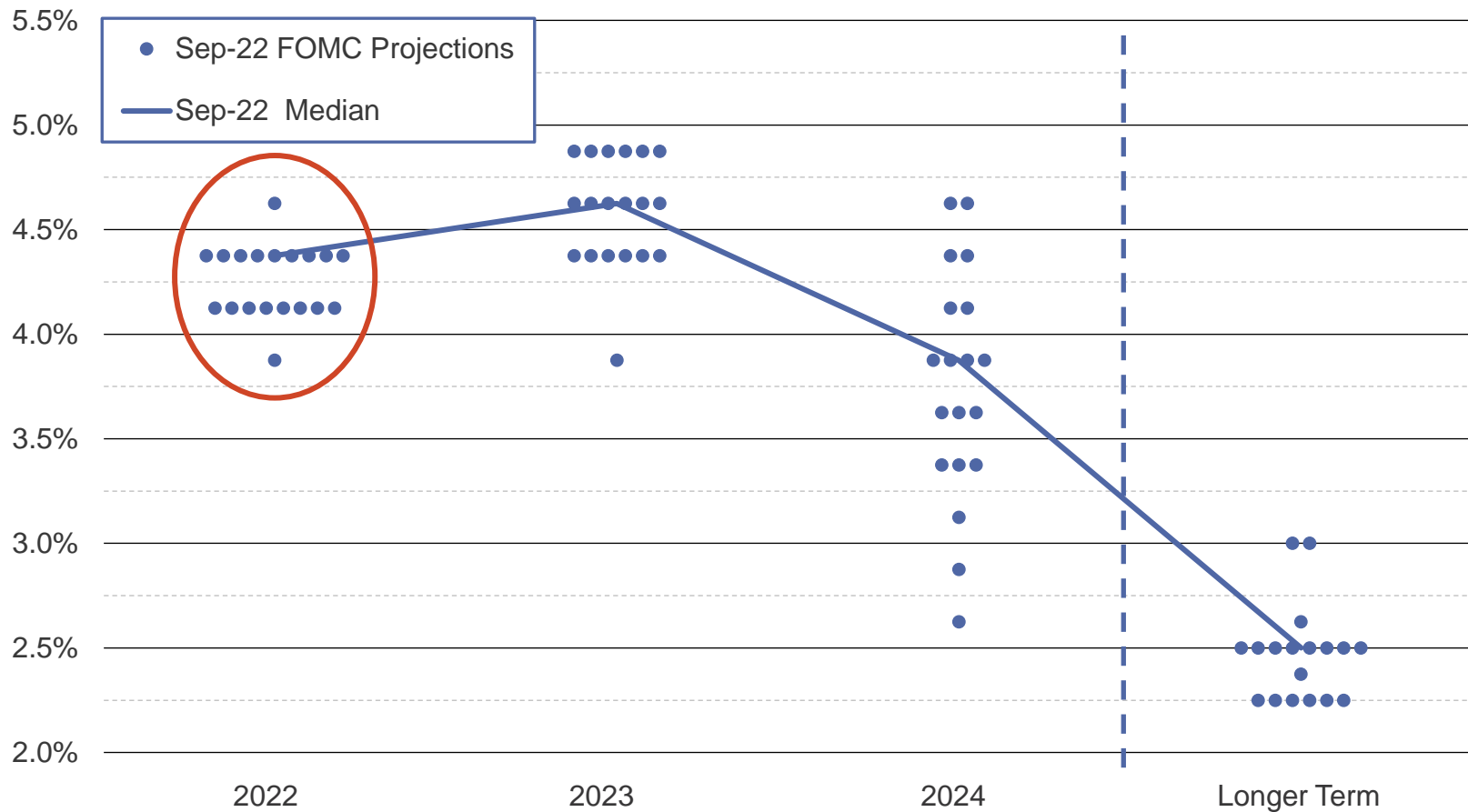
Historical Performance



- Performance on a trade-date basis, gross (i.e., before fees).
- LGIP and cash excluded from performance calculations.
- Past performance is not indicative of future returns. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis.
- Since inception date September 30, 2012. The portfolio's benchmark is currently the ICE BofAML 1-5 Year U.S. Treasury Index. Prior to 12/31/21 it was the ICE BofAML 1-3 Year U.S. Treasury Index. Source: Bloomberg.

Federal Reserve Officials Project Elevated Rates Through the End of 2023

Fed Participants' Assessments of 'Appropriate' Monetary Policy



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.

KEY TAKEAWAYS

- Fed to continue raising interest rates in 2022 to combat high inflation
- Economic growth expectations have moved lower, along with consumer sentiment
- Consumer balance sheets are healthy enough to weather the record-breaking inflation

RISKS TO OUTLOOK

- Continued aggressive monetary policy tightening
- Increased probability of recession
- Continued high inflation
- Risk of Covid resurgence

PORTFOLIO STRATEGY

- Carefully manage risk and **maintain high credit quality**
- **Reduce market value risk** by limiting allocation to 4- to 5-year maturities
- Continue to **diversify the portfolio** to safely increase earnings potential
- Explore **opportunities for liquidity**
- **Adjust strategy** as needed to address changing needs of the portfolio



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