



# CITY OF STOCKTON

## Investment Performance Review For the Quarter Ended December 31, 2021

### Client Management Team

Monique Spyke, Managing Director  
Allison Kaune, Senior Analyst  
Joseph Creason, Portfolio Manager

### PFM Asset Management LLC

1 California Street 10th Floor  
San Francisco, CA 94111  
415-393-7270

213 Market Street  
Harrisburg, PA 17101-2141  
717-232-2723

---

## Market Update

## Current Market Themes



- Rapidly increasing inflation
- Improved labor market conditions
- Depressed consumer confidence

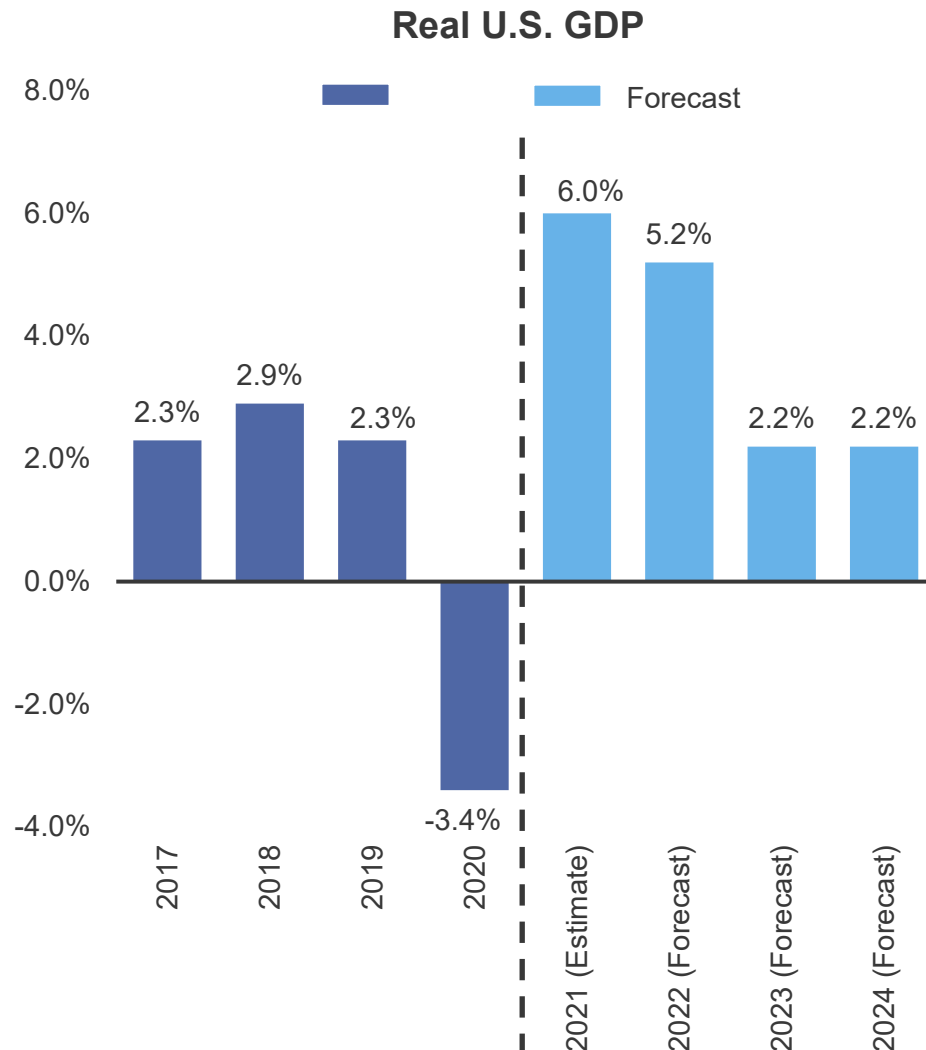


- Accelerated pace of asset purchase tapering
- Fed expects three rate hikes in 2022
- Changing composition of FOMC leadership



- Short-term yields shift higher amid rate hike expectations
- Longer-term yields adjust to evolving inflation and economic growth uncertainties

## U.S. GDP Rebounds from Pandemic



### Factors Driving Growth...

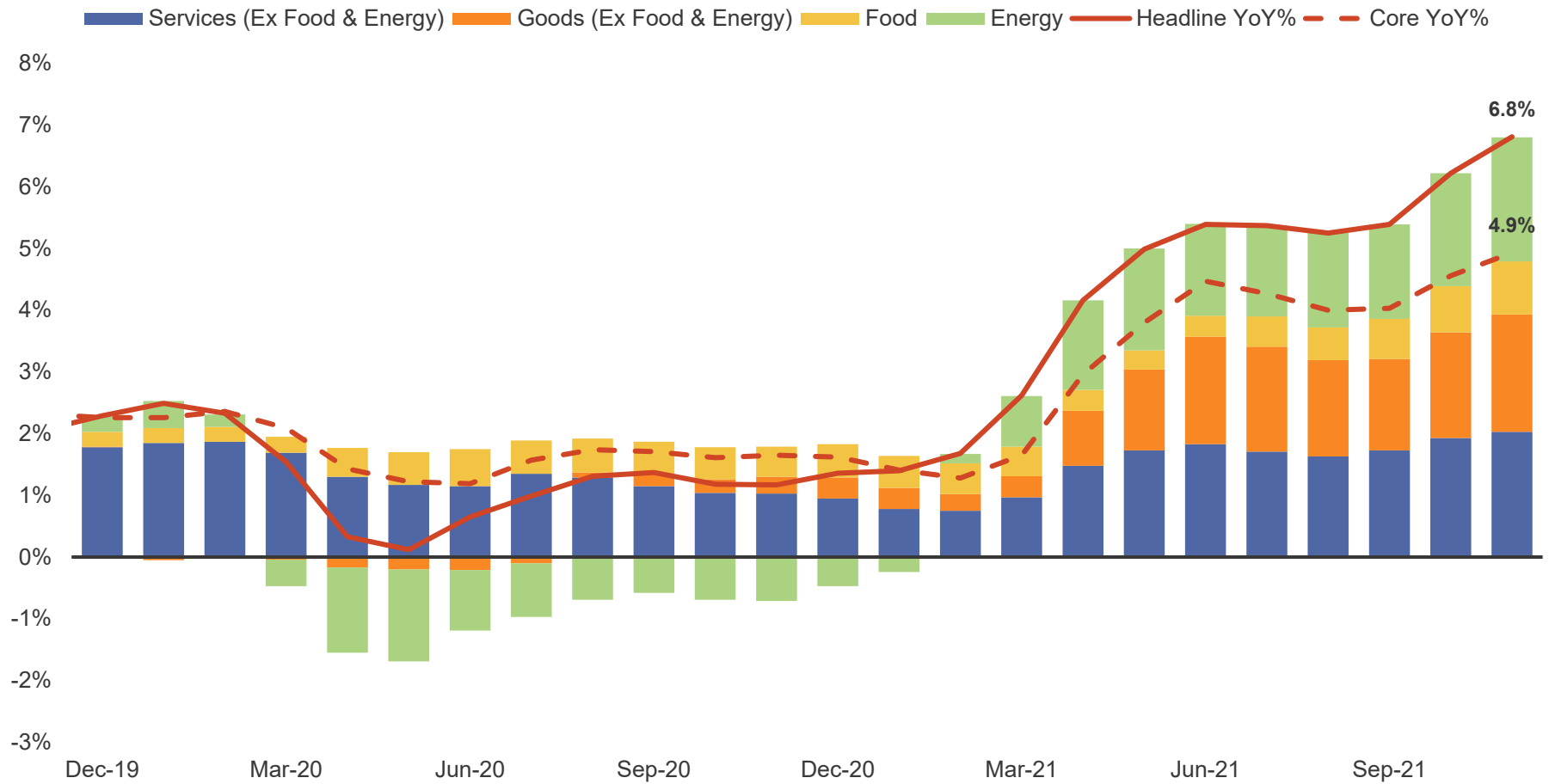
- ▶ Better-than-expected corporate profit margins fueling equity markets
- ▶ Unprecedented accommodative monetary policy and fiscal stimulus
- ▶ Access to COVID-19 vaccines and reduction of pandemic-era lockdowns
- ▶ Continued adaptation of all sectors of the economy to the challenging health situation

### Growth is Expected to Moderate...

- ▶ Persistent damage to supply chains continues to disrupt the production and distribution network
- ▶ Age-related impacts to labor force growth predating the pandemic
- ▶ Return to more normal household income and saving trends
- ▶ Normalizing fiscal and monetary policies

Source: International Monetary Fund, October 2021 World Economic Outlook

## Top-Line Contributions and Consumer Price Index (year over year)

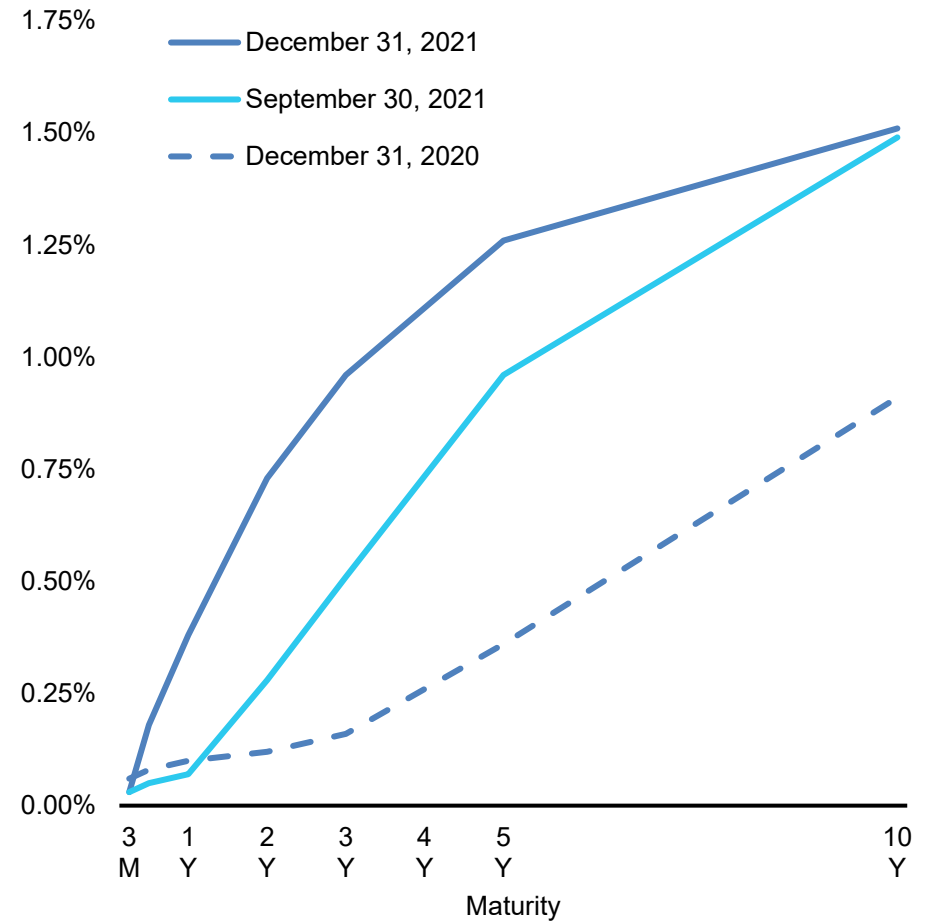


Source: Bloomberg, as of November 2021.

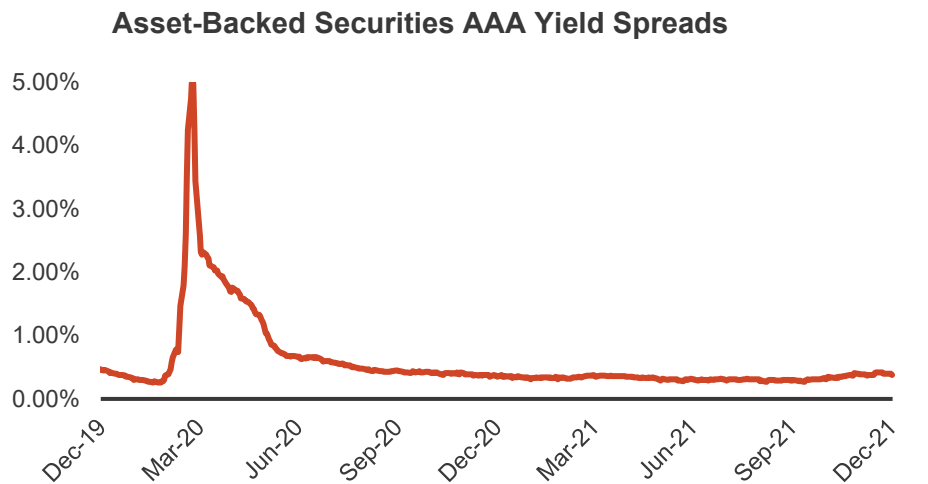
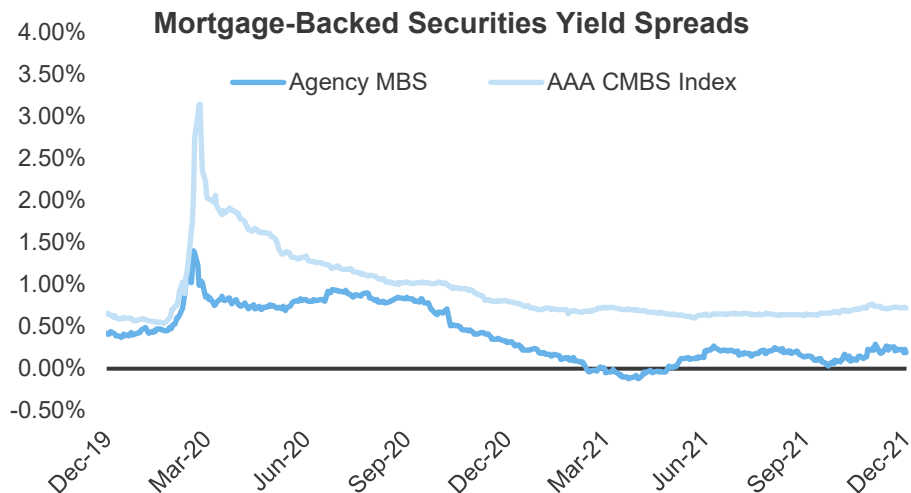
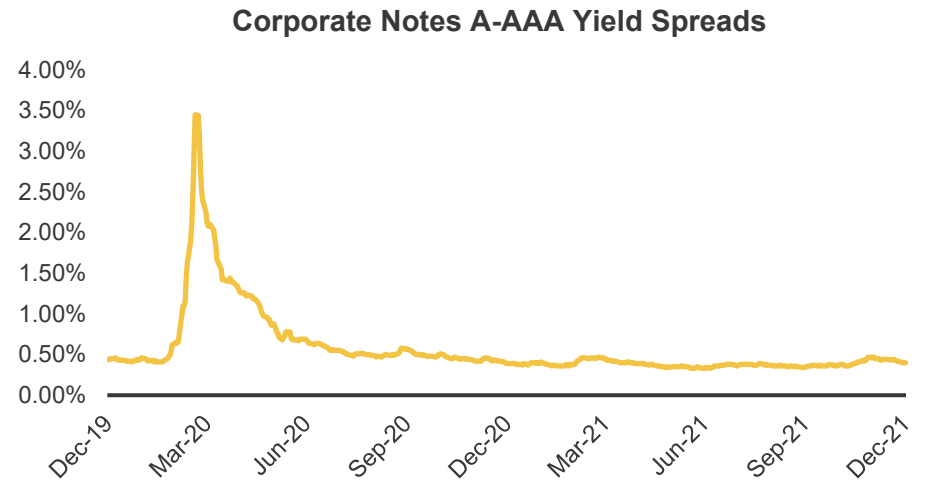
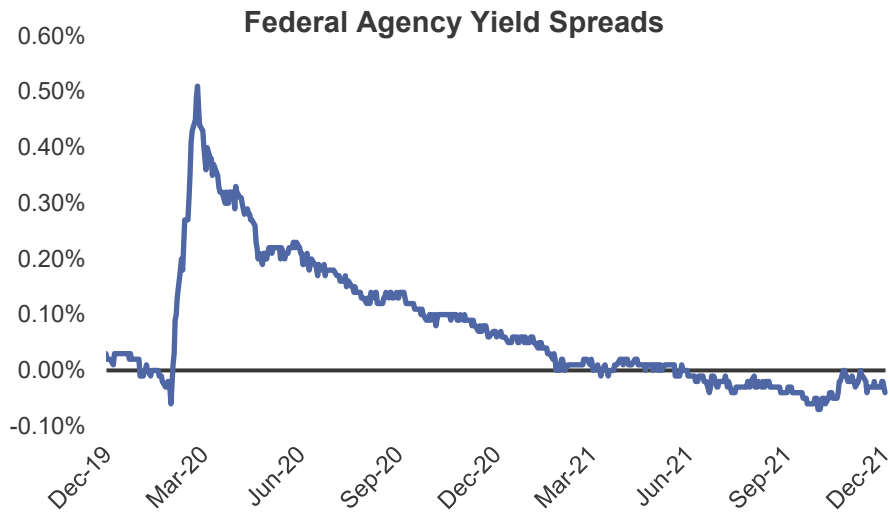
**2-Year Treasury Yield**  
**December 31, 2019 – December 31, 2021**



**U.S. Treasury Yield Curve**



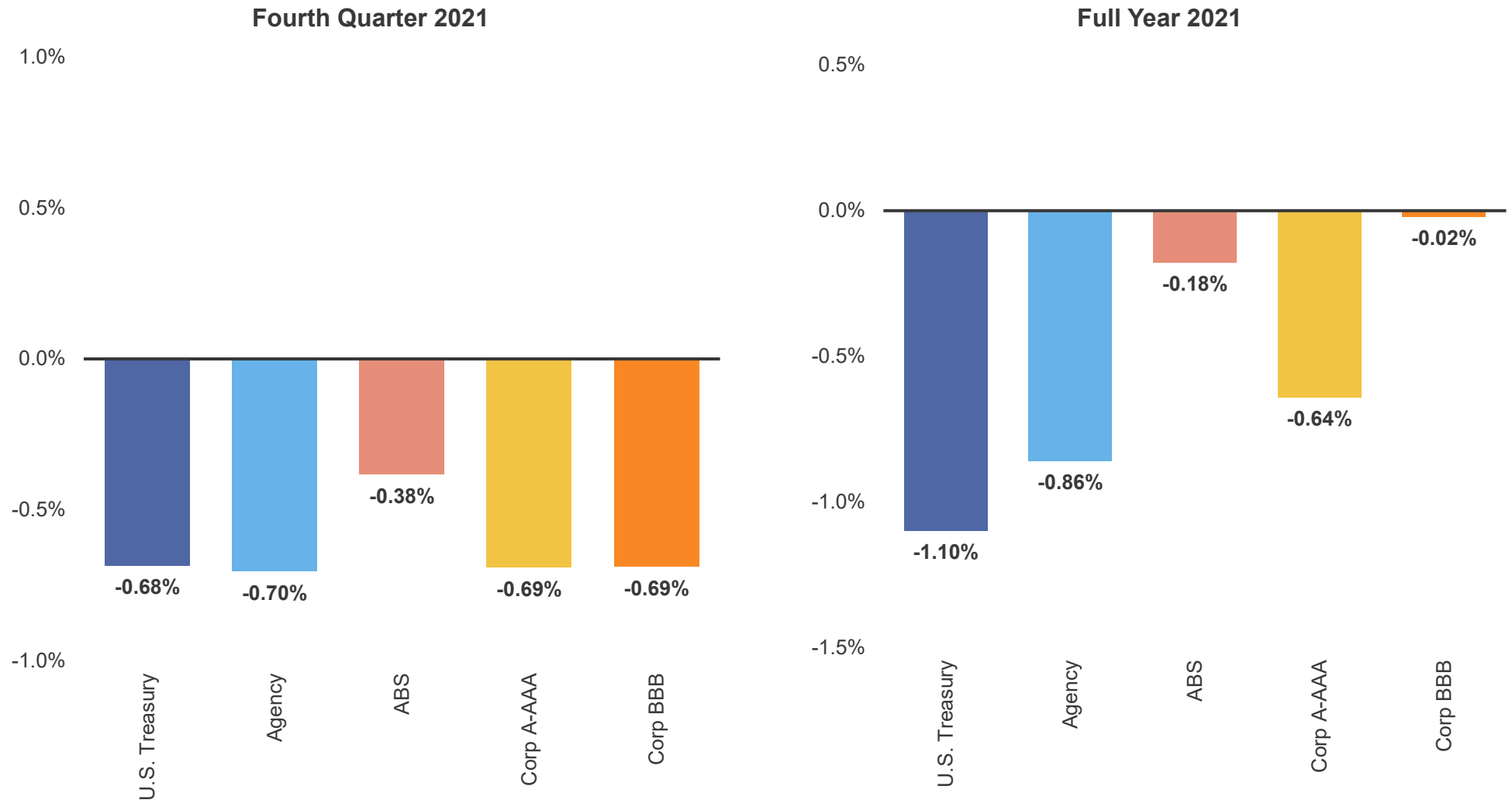
Source: Bloomberg, as of 12/10/2021.



Source: ICE BofAML 1-5 year Indices via Bloomberg, MarketAxess and PFM as of 12/31/2021. Spreads on ABS and MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities.

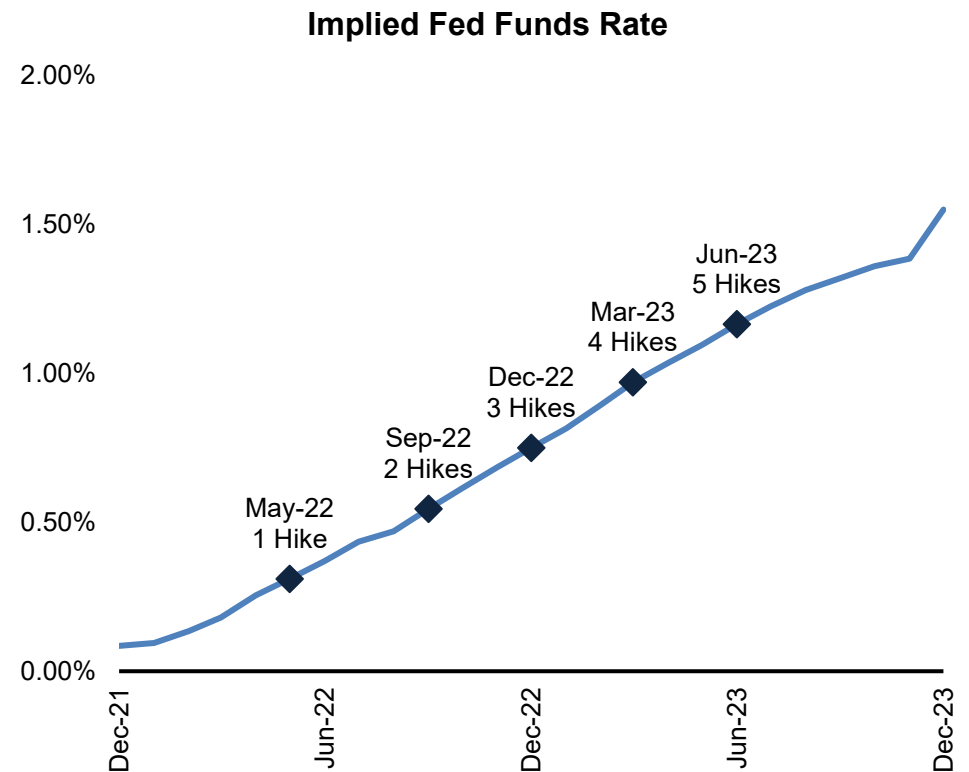
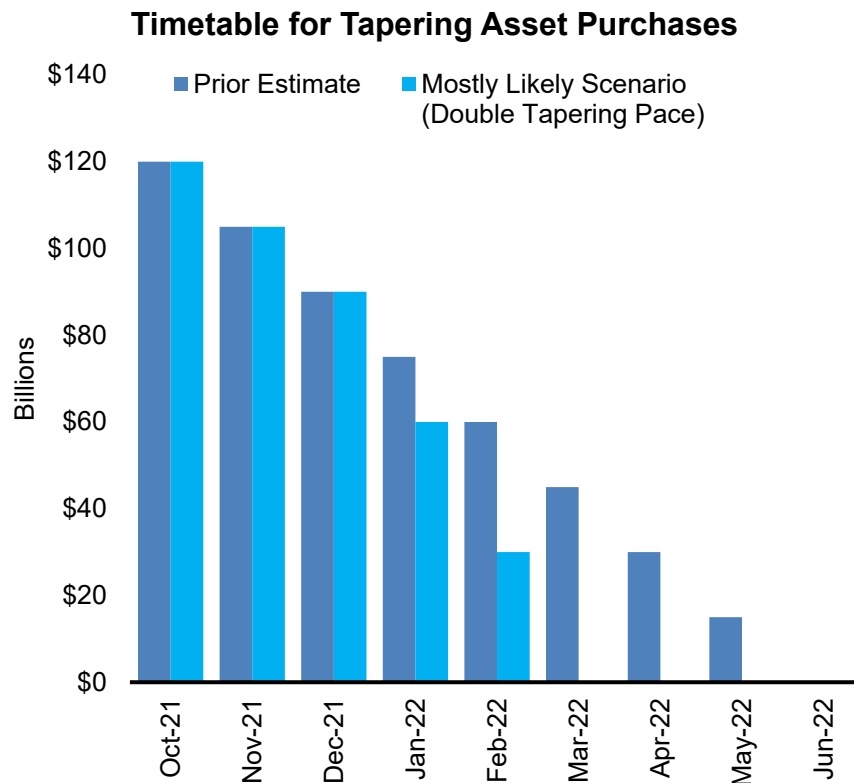
## Rising Rates and Wider Spreads Hampered Fixed-Income Returns in Q4

### 1-5 Year Indices





- ▶ In testimony before the Senate Banking Committee, Fed Chair Powell indicated that “it is appropriate” to discuss accelerating the tapering of asset purchases to end “a few months sooner.”
- ▶ Fed fund futures are pricing in two to three rate hikes in 2022. The market is expecting the first interest rate hike by the Federal Reserve in May or June 2022.



Source: Bloomberg, Federal Reserve Open Market Committee as of 12/10/2021.

---

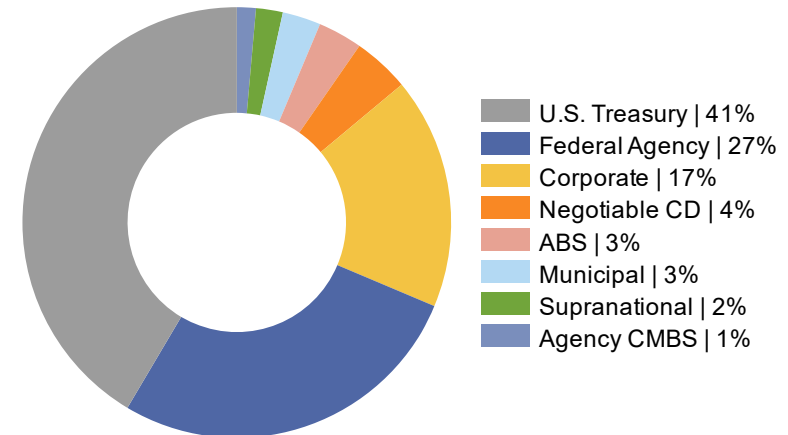
Portfolio Review:  
CITY OF STOCKTON RESERVE PORTFOLIO

## Consolidated Summary

Account Summary<sup>1</sup>

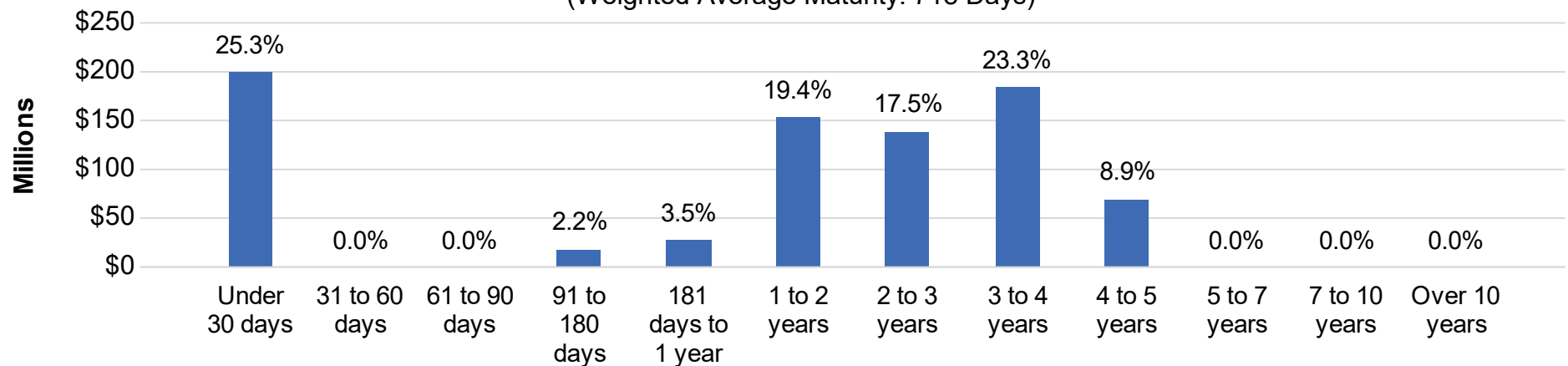
<b>PFM Managed Account</b>	\$589,319,244
<b>Accrued Interest</b>	\$1,769,099
<b>BoW Main Account</b>	\$120,981,502
<b>CAMP Pool</b>	\$81,858
<b>Idle Funds in Reserve</b>	\$2,881,630
<b>Local Agency Investment</b>	\$75,000,000
<b>Total Program</b>	<b>\$790,033,332</b>

## Sector Allocation



## Maturity Distribution

(Weighted Average Maturity: 718 Days)



1. Market values, as of December 31, 2021.

## Account Summary

CITY OF STOCKTON RESERVE PORTFOLIO			
Portfolio Values	December 31, 2021	Analytics <sup>1</sup>	December 31, 2021
PFM Managed Account	\$589,319,244	Yield at Market	0.95%
Amortized Cost	\$590,388,489	Yield on Cost	1.12%
Market Value	\$589,319,244	Portfolio Duration	2.48
Accrued Interest	\$1,769,099		

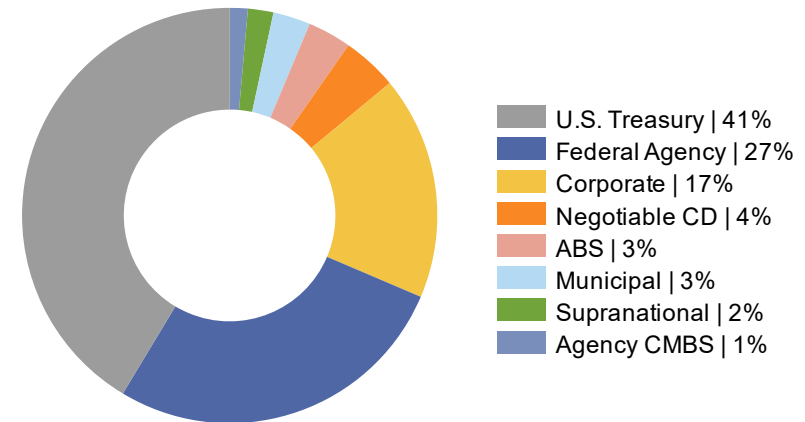
1. Yield at market, yield on cost, and portfolio duration only include investments held within the separately managed account(s).

## Portfolio Snapshot - CITY OF STOCKTON RESERVE PORTFOLIO<sup>1</sup>

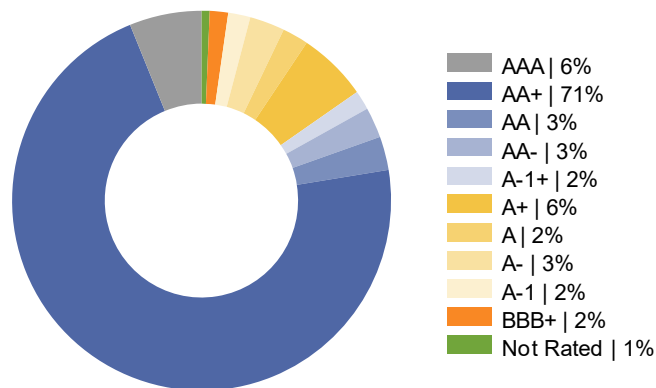
### Portfolio Statistics

Total Market Value	\$593,969,972.84
Portfolio Effective Duration	2.48 years
Benchmark Effective Duration	2.58 years
Yield At Cost	1.12%
Yield At Market	0.95%
Portfolio Credit Quality	AA

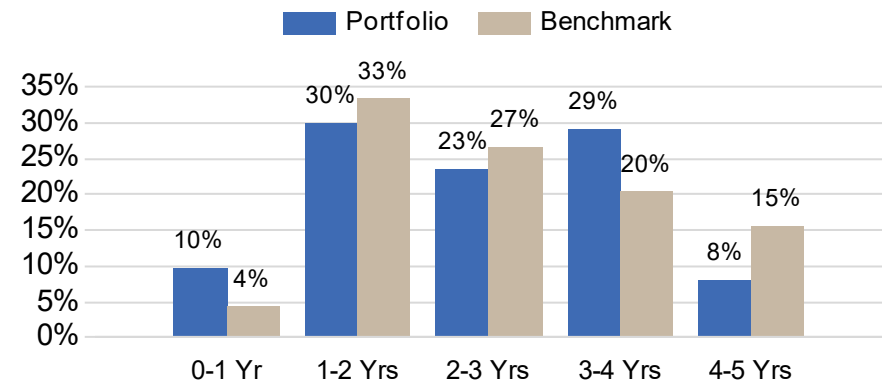
### Sector Allocation



### Credit Quality - S&P



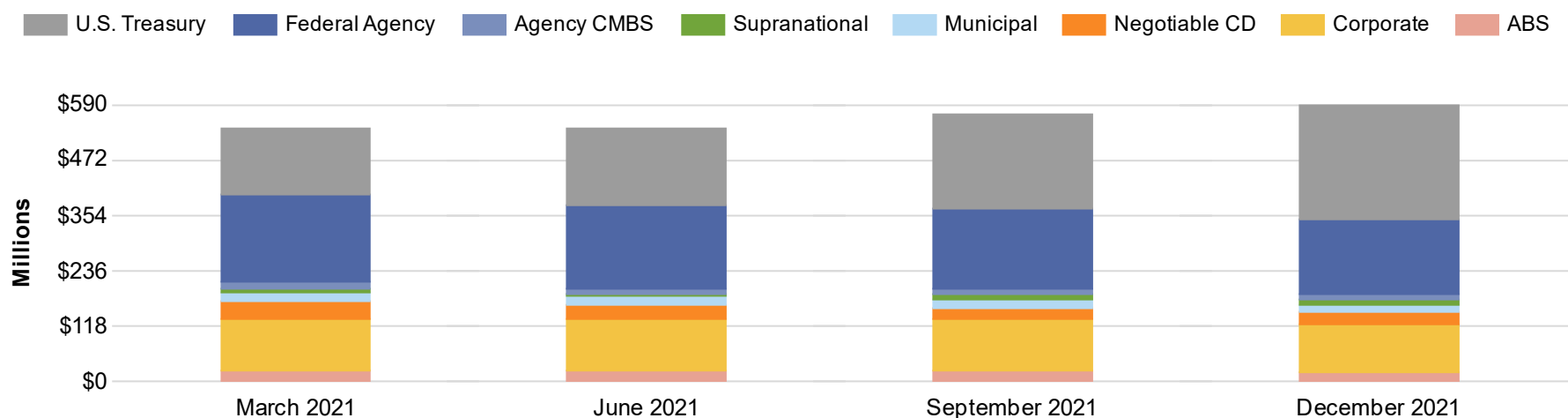
### Duration Distribution



1. The portfolio's benchmark is the ICE BofAML 1-5 Year U.S. Government/Corp A or Better, U.S. issuers only Index. Source: Bloomberg.  
An average of each security's credit rating was assigned a numeric value and adjusted for its relative weighting in the portfolio.

## Sector Allocation Review - CITY OF STOCKTON RESERVE PORTFOLIO

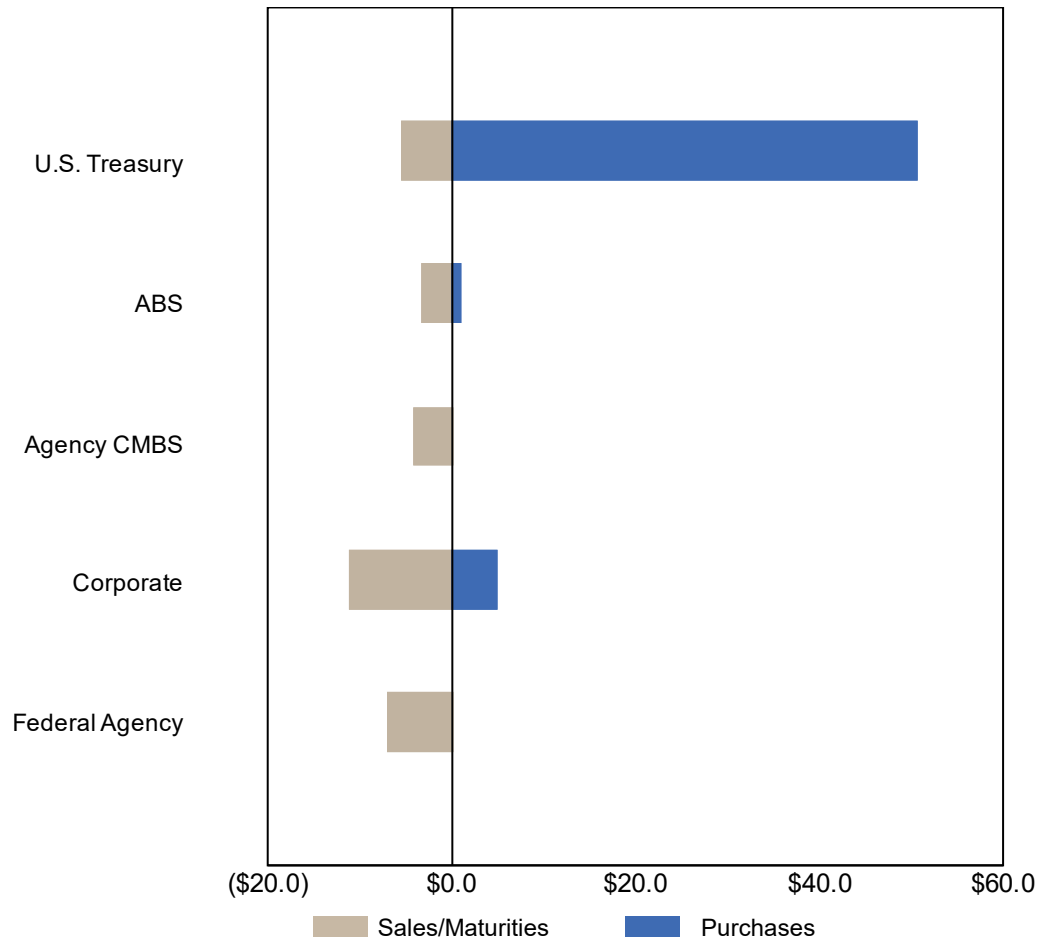
Security Type	Mar-21	% of Total	Jun-21	% of Total	Sep-21	% of Total	Dec-21	% of Total
U.S. Treasury	\$139.5	25.9%	\$164.2	30.5%	\$202.3	35.5%	\$244.5	41.4%
Federal Agency	\$185.1	34.3%	\$176.2	32.6%	\$168.5	29.6%	\$160.0	27.2%
Agency CMBS	\$15.1	2.8%	\$13.9	2.6%	\$12.6	2.2%	\$8.4	1.4%
Supranational	\$9.6	1.8%	\$3.7	0.7%	\$12.1	2.1%	\$12.0	2.0%
Municipal	\$17.1	3.2%	\$17.2	3.2%	\$17.1	3.0%	\$16.9	2.9%
Negotiable CD	\$38.4	7.1%	\$30.2	5.6%	\$25.3	4.4%	\$25.1	4.3%
Corporate	\$110.4	20.5%	\$111.8	20.7%	\$109.8	19.3%	\$102.5	17.4%
ABS	\$23.5	4.4%	\$22.0	4.1%	\$22.1	3.9%	\$19.8	3.4%
<b>Total</b>	<b>\$538.7</b>	<b>100.0%</b>	<b>\$539.2</b>	<b>100.0%</b>	<b>\$569.9</b>	<b>100.0%</b>	<b>\$589.3</b>	<b>100.0%</b>



Market values, excluding accrued interest. Only includes investments held within the separately managed account(s). Detail may not add to total due to rounding.

## Portfolio Activity - CITY OF STOCKTON RESERVE PORTFOLIO

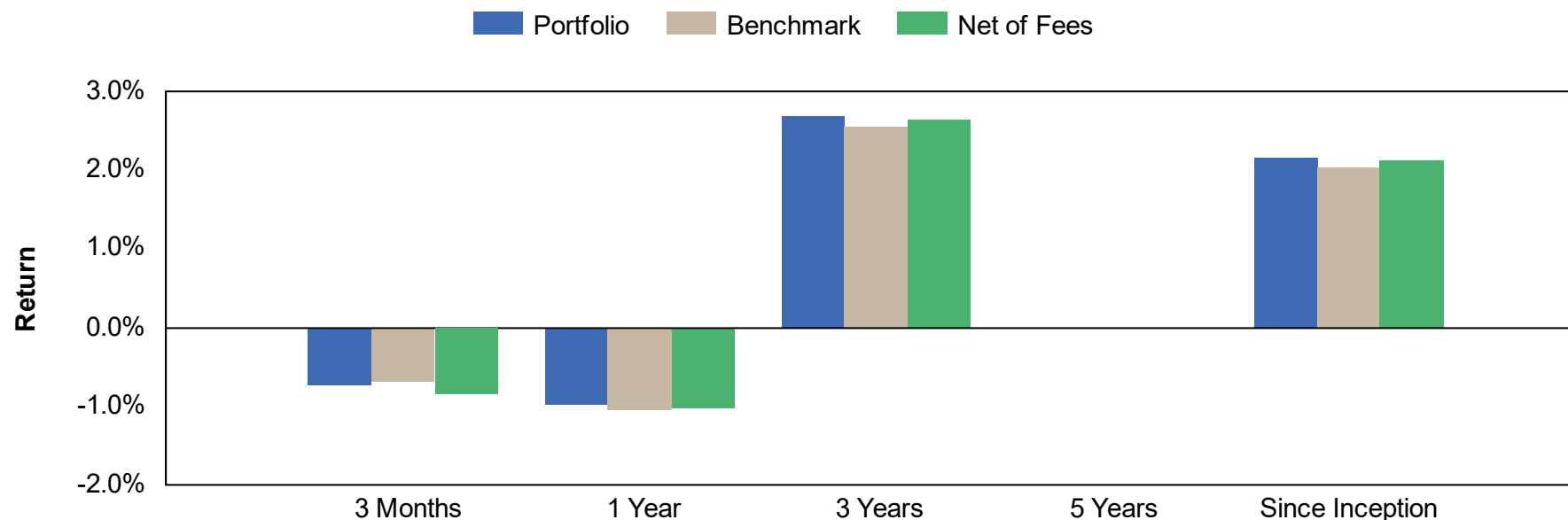
**Net Activity by Sector**  
(\$ millions)



Sector	Net Activity
U.S. Treasury	\$45,109,534
ABS	(\$2,212,938)
Agency CMBS	(\$4,110,789)
Corporate	(\$6,166,693)
Federal Agency	(\$6,844,104)

Based on total proceeds (principal and accrued interest) of buys, sells, maturities, and principal paydowns. Detail may not add to total due to rounding.

## Portfolio Performance



Market Value Basis Earnings	3 Months	1 Year	3 Years	5 Years	Since Inception <sup>1</sup>
Interest Earned <sup>2</sup>	\$1,894,117	\$8,042,703	\$28,552,643	-	\$39,059,408
Change in Market Value	(\$6,330,547)	(\$13,832,669)	\$8,621,690	-	\$5,371,281
<b>Total Dollar Return</b>	<b>(\$4,436,430)</b>	<b>(\$5,789,966)</b>	<b>\$37,174,333</b>	<b>-</b>	<b>\$44,430,689</b>
<b>Total Return<sup>3</sup></b>					
Portfolio	-0.74%	-0.98%	2.70%	-	2.17%
Benchmark <sup>4</sup>	-0.69%	-1.05%	2.55%	-	2.02%
<b>Basis Point Fee</b>	<b>0.02%</b>	<b>0.06%</b>	<b>0.05%</b>	<b>-</b>	<b>0.05%</b>
<b>Net of Fee Return</b>	<b>-0.76%</b>	<b>-1.03%</b>	<b>2.64%</b>	<b>-</b>	<b>2.12%</b>

1. The lesser of 10 years or since inception is shown. Since inception returns for periods one year or less are not shown. Performance inception date is June 30, 2017.

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

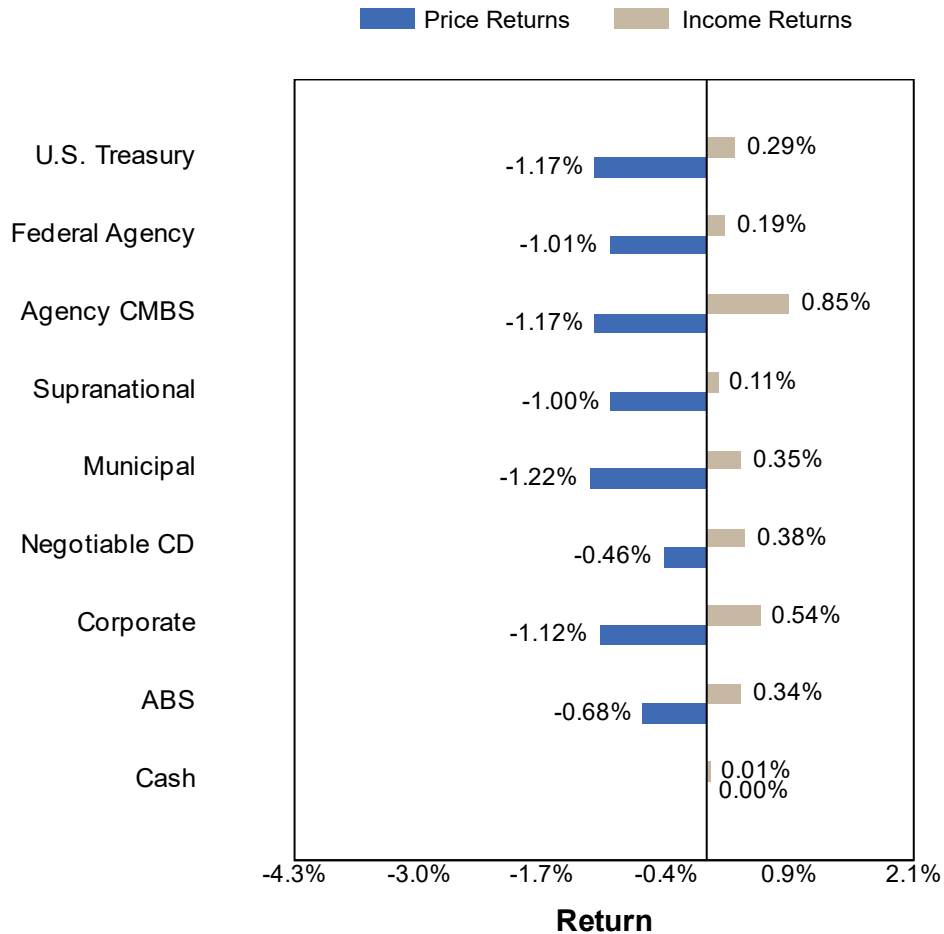
3. Returns for periods one year or less are presented on a periodic basis. Returns for periods greater than one year are presented on an annualized basis.

4. The portfolio's benchmark is the ICE BofAML 1-5 Year U.S. Government/Corp A or Better, U.S. issuers only Index. Source: Bloomberg.

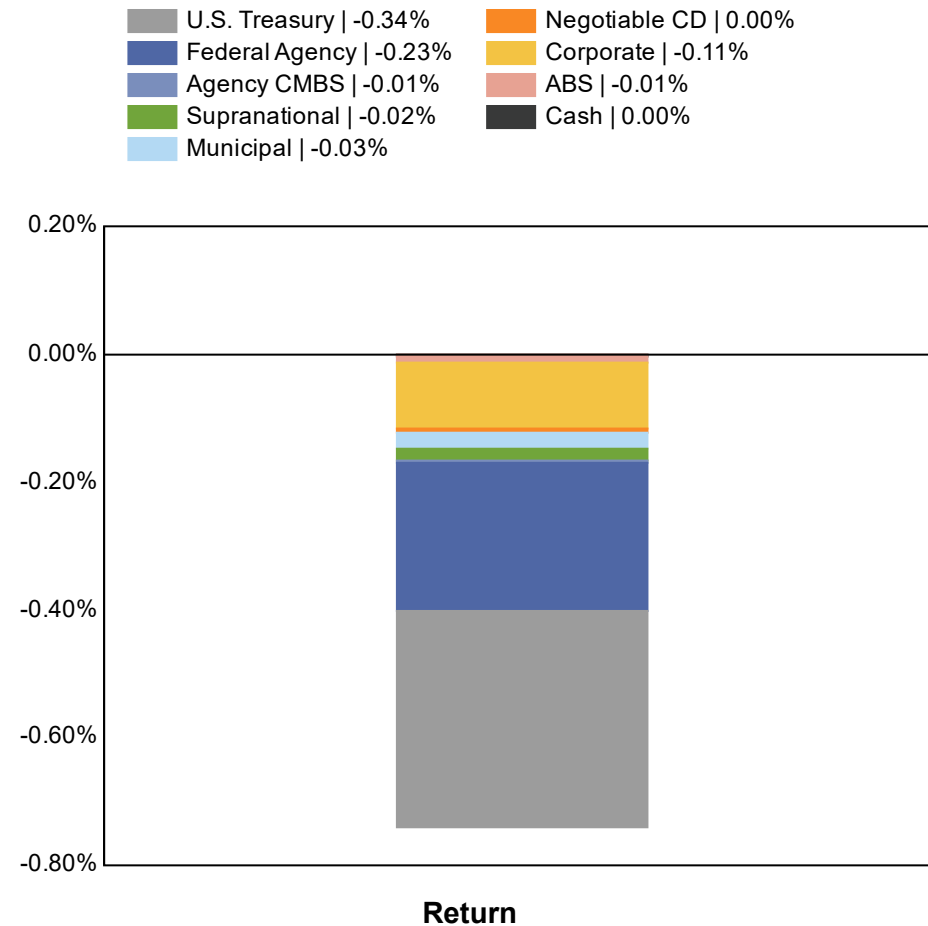


## Quarterly Sector Performance

### Total Return by Sector

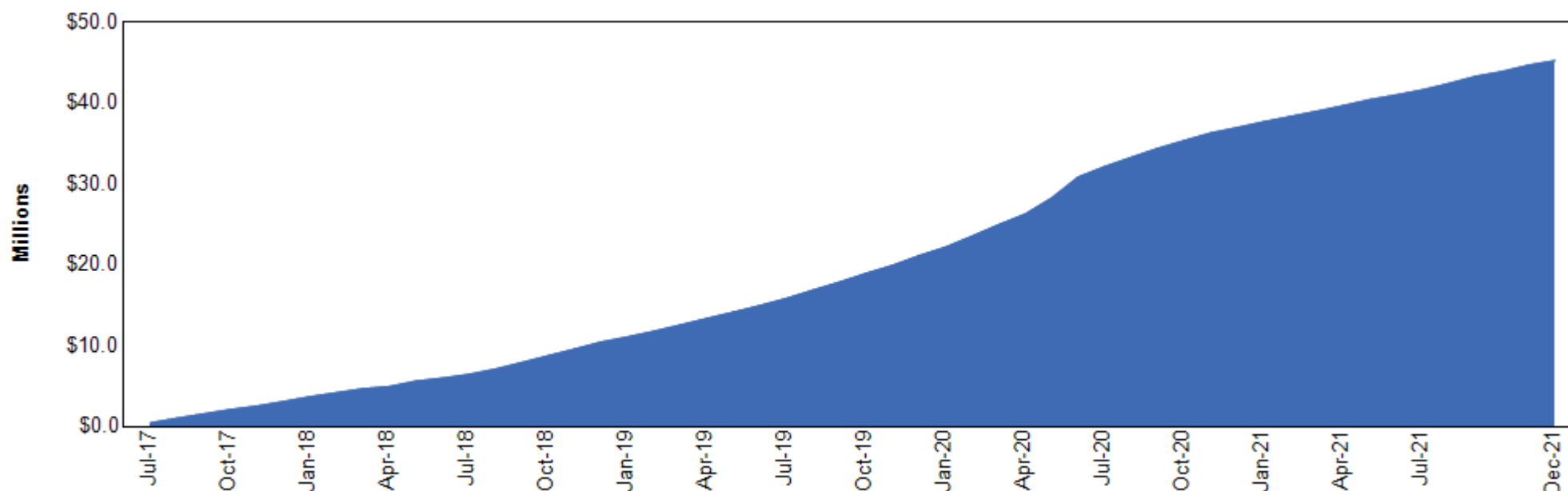


### Contribution to Total Return



1. Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Income returns calculated as interest earned on investments during the period.
3. Price returns calculated as the change in market value of each security for the period.
4. Returns are presented on a periodic basis.

## Accrual Basis Earnings - CITY OF STOCKTON RESERVE PORTFOLIO



Accrual Basis Earnings	3 Months	1 Year	3 Years	5 Year	Since Inception
Interest Earned	\$1,894,117	\$8,042,703	\$28,552,643	-	\$39,059,408
Realized Gains / (Losses)	\$294,754	\$1,251,039	\$7,320,194	-	\$5,547,137
Change in Amortized Cost	(\$240,412)	(\$1,009,282)	(\$1,072,858)	-	\$615,517
<b>Total Earnings</b>	<b>\$1,948,459</b>	<b>\$8,284,460</b>	<b>\$34,799,979</b>	-	<b>\$45,222,063</b>

1. The lesser of 10 years or since inception is shown. Performance inception date is June 30, 2017.

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

3. Realized gains / (losses) are shown on an amortized cost basis.

## Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
<b>U.S. Treasury</b>	<b>41.5%</b>	
UNITED STATES TREASURY	41.5%	AA / Aaa / AAA
<b>Federal Agency</b>	<b>27.2%</b>	
FANNIE MAE	17.3%	AA / Aaa / AAA
FEDERAL FARM CREDIT BANKS	1.0%	AA / Aaa / AAA
FEDERAL HOME LOAN BANKS	1.4%	AA / Aaa / NR
FREDDIE MAC	7.4%	AA / Aaa / AAA
<b>Agency CMBS</b>	<b>1.4%</b>	
FANNIE MAE	0.4%	AA / Aaa / AAA
FREDDIE MAC	1.0%	AA / Aaa / AAA
<b>Supranational</b>	<b>2.0%</b>	
INTER-AMERICAN DEVELOPMENT BANK	1.4%	AAA / Aaa / AAA
INTL BANK OF RECONSTRUCTION AND DEV	0.6%	AAA / Aaa / AAA
<b>Municipal</b>	<b>2.9%</b>	
CALIFORNIA DEPARTMENT OF WATER RESOURCES	0.0%	AAA / Aa / NR
CALIFORNIA STATE UNIVERSITY	0.2%	AA / Aa / NR
FLORIDA STATE BOARD OF ADMIN FIN CORP	0.6%	AA / Aa / AA
LOS ANGELES COMMUNITY COLLEGE DISTRICT	0.3%	AA / Aaa / NR
NEW JERSEY TURNPIKE AUTHORITY	0.2%	A / A / A
SAN DIEGO COMMUNITY COLLEGE DISTRICT	0.3%	AAA / Aaa / NR
STATE OF CALIFORNIA	0.8%	AA / Aa / AA
STATE OF MARYLAND	0.2%	AAA / Aaa / AAA
UNIVERSITY OF CALIFORNIA	0.3%	AA / Aa / AA
<b>Negotiable CD</b>	<b>4.3%</b>	
CREDIT SUISSE GROUP RK	0.7%	A / A / A
DNB ASA	0.6%	AA / Aa / NR

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
<b>Negotiable CD</b>	<b>4.3%</b>	
NORDEA BANK ABP	1.0%	AA / Aa / AA
SKANDINAVISKA ENSKILDA BANKEN AB	1.3%	A / Aa / AA
SUMITOMO MITSUI FINANCIAL GROUP INC	0.7%	A / Aa / A
<b>Corporate</b>	<b>17.4%</b>	
AMAZON.COM INC	0.5%	AA / A / AA
AMERICAN HONDA FINANCE	0.6%	A / A / NR
APPLE INC	1.0%	AA / Aaa / NR
BANK OF AMERICA CO	0.6%	A / A / AA
CITIGROUP INC	0.5%	BBB / A / A
GOLDMAN SACHS GROUP INC	0.7%	BBB / A / A
HOME DEPOT INC	0.3%	A / A / A
HONEYWELL INTERNATIONAL	0.7%	A / A / A
INTEL CORPORATION	0.7%	A / A / A
JP MORGAN CHASE & CO	1.1%	A / A / AA
MASTERCARD INC	0.8%	A / A / NR
MERCK & CO INC	0.8%	A / A / A
MICROSOFT CORP	0.9%	AAA / Aaa / AAA
MORGAN STANLEY	0.5%	BBB / A / A
NOVARTIS AG	1.3%	AA / A / AA
PACCAR FINANCIAL CORP	0.1%	A / A / NR
PFIZER INC	1.1%	A / A / A
THE BANK OF NEW YORK MELLON CORPORATION	1.2%	A / A / AA
TOYOTA MOTOR CORP	0.7%	A / A / A
UNITED PARCEL SERVICE INC	0.7%	A / A / NR
US BANCORP	1.0%	A / A / A
VISA INC	0.3%	AA / Aa / NR

Ratings shown are calculated by assigning a numeral value to each security rating, then calculating a weighted average rating for each security type / issuer category using all available security ratings, excluding Not-Rated (NR) ratings. For security type / issuer categories where a rating from the applicable NRSRO is not available, a rating of NR is assigned. Excludes balances invested in money market funds.

## Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
<b>Corporate</b>	<b>17.4%</b>	
WAL-MART STORES INC	1.5%	AA / Aa / AA
<b>ABS</b>	<b>3.4%</b>	
CAPITAL ONE FINANCIAL CORP	0.1%	AAA / Aaa / AAA
CARMAX AUTO OWNER TRUST	0.8%	AAA / NR / AAA
DISCOVER FINANCIAL SERVICES	0.3%	AAA / Aaa / NR
HONDA AUTO RECEIVABLES	0.4%	AAA / Aaa / AAA
HYUNDAI AUTO RECEIVABLES	0.4%	AAA / NR / AAA
NISSAN AUTO RECEIVABLES	0.5%	AAA / Aaa / AAA
TOYOTA MOTOR CORP	0.9%	AAA / Aaa / NR
<b>Total</b>	<b>100.0%</b>	

Ratings shown are calculated by assigning a numeral value to each security rating, then calculating a weighted average rating for each security type / issuer category using all available security ratings, excluding Not-Rated (NR) ratings. For security type / issuer categories where a rating from the applicable NRSRO is not available, a rating of NR is assigned. Excludes balances invested in money market funds.

## Certificate of Compliance

During the reporting period for the quarter ended December 31, 2021, the account(s) managed by PFM Asset Management ("PFMAM") were in compliance with the applicable investment policy and guidelines as furnished to PFMAM.

Acknowledged : *PFM Asset Management LLC*

*Note: Pre- and post-trade compliance for the account(s) managed by PFM Asset Management is provided via Bloomberg Asset and Investment Management ("AIM").*

## Important Disclosures

This material is based on information obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee the accuracy, completeness, or suitability of information provided by third party sources. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some, but not all of which, are noted in the presentation. 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.

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Refinitiv or Bloomberg. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

## Glossary

- **Accrued Interest:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **Agencies:** Federal agency securities and/or Government-sponsored enterprises.
- **Amortized Cost:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **Asset-Backed Security:** A financial instrument collateralized by an underlying pool of assets – usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, and receivables.
- **Bankers' Acceptance:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **Commercial Paper:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **Contribution to Total Return:** The weight of each individual security multiplied by its return, then summed for each sector to determine how much each sector added or subtracted from the overall portfolio performance.
- **Effective Duration:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **Effective Yield:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **Interest Rate:** Interest per year divided by principal amount and expressed as a percentage.
- **Market Value:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
- **Negotiable Certificates of Deposit:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **Par Value:** The nominal dollar face amount of a security.
- **Pass-through Security:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.

## Glossary

- Repurchase Agreements: A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- Settle Date: The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- Supranational: A multinational union or association in which member countries cede authority and sovereignty on at least some internal matters to the group, whose decisions are binding on its members.
- Trade Date: The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- Unsettled Trade: A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- U.S. Treasury: The department of the U.S. government that issues Treasury securities.
- Yield: The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- YTM at Cost: The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- YTM at Market: The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.