



# Quarterly Investment Report

AS OF December 31, 2024



This report presents the City's investment portfolio for the quarter ending December 31, 2024. 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.



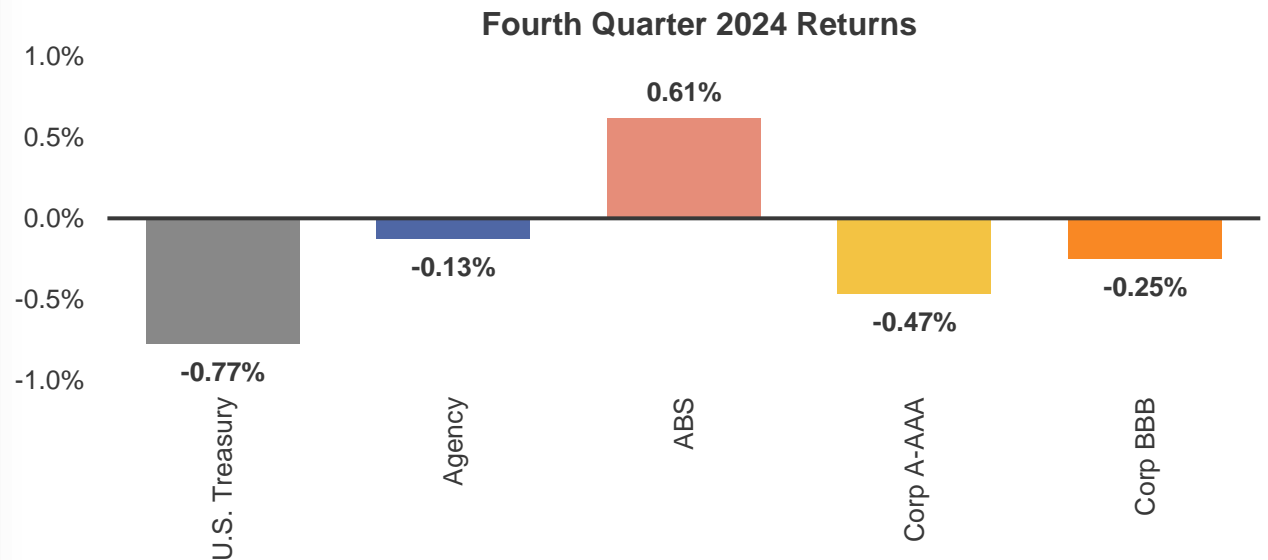
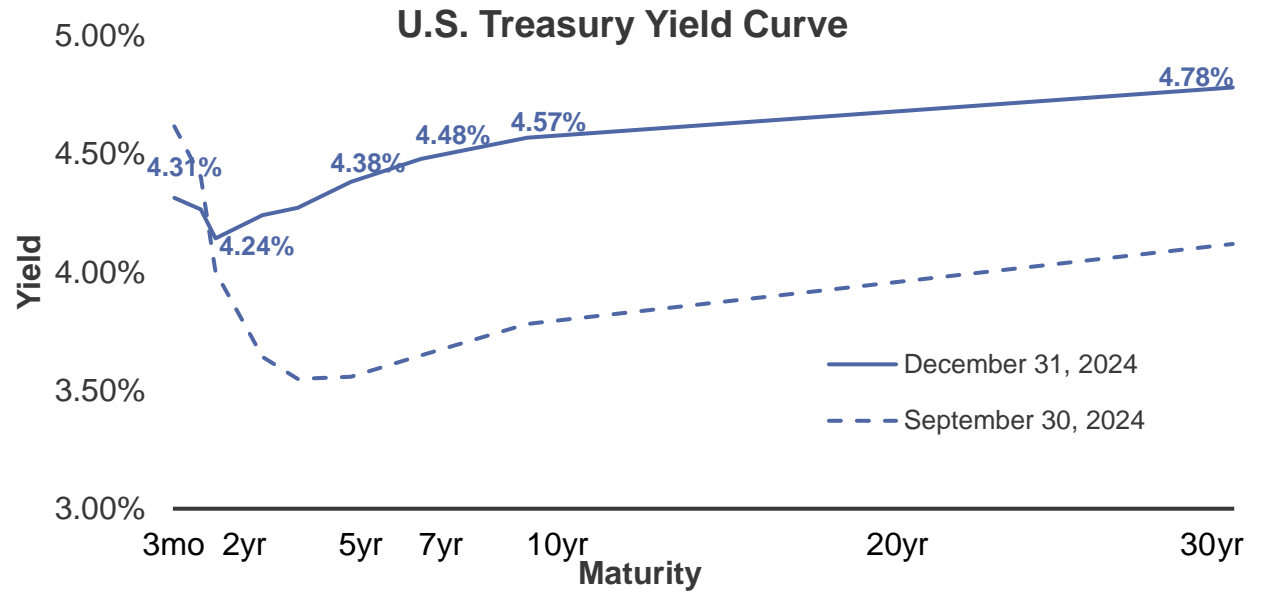
# Market Considerations

U.S. economic conditions were characterized by:

- Inflation and labor markets in line with Fed expectations despite slower recent progress
- Strong economic growth prospects remaining intact, aided by a resilient consumer
- Changes to fiscal policy potentially impacting growth and inflation trajectory

The Fed cut the federal funds target rate by an additional 50 basis points (bps) during the fourth quarter to 4.25% - 4.50%.

The yield curve disinversion continued and was flatter at the front end and positively sloped beyond 1-year. Yield spreads remained near historically tight levels across most sectors aided by robust demand and strength in the economy



Source: Bloomberg Financial L.P. and ICE BofA Indices. ABS indices are 0-5 year, based on weighted average life. As of December 31, 2024.



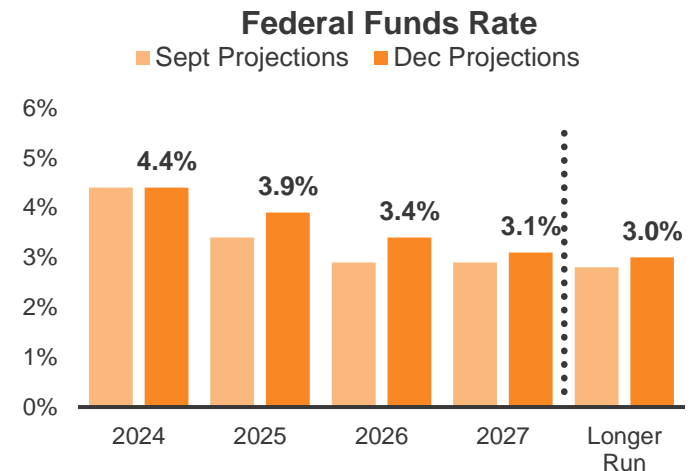
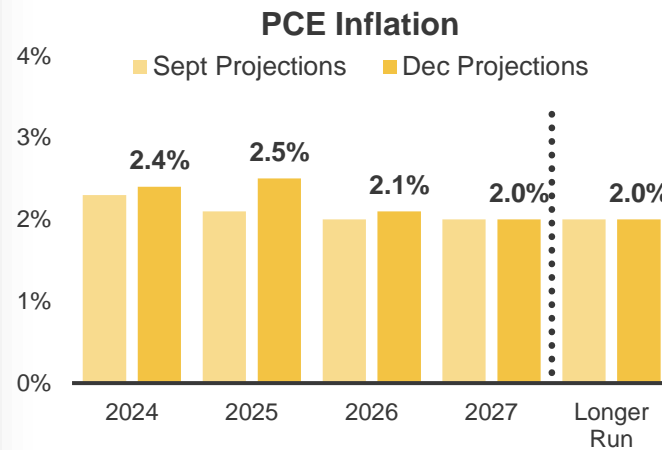
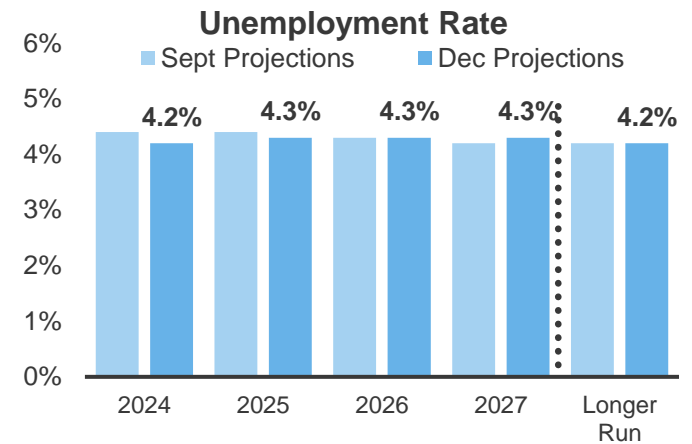
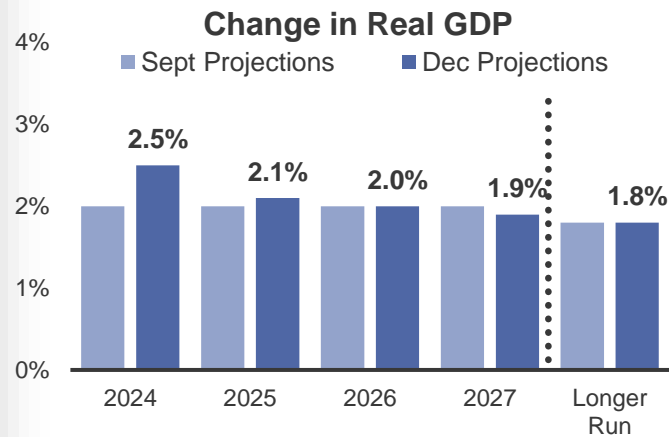
# What we are watching...

Fiscal policies discussed on the campaign trail are expected to boost growth, however actual policy implementation and timing are uncertain and subject to change.

Layoffs remain near historically low levels; however, the pace of hiring has slowed considerably. The Fed has acknowledged labor market conditions have loosened, and a further cooling of labor conditions is not necessary to achieve its dual mandate of maximum employment and stable prices.

The Fed has acknowledged higher inflation expectations going into 2025. Further rate cuts will depend on inflation moving closer to its 2% target. Proposed fiscal policies may put pressure on wages and goods costs.

The Fed continued its easing cycle with a total of 100 basis points (bps) of rate cuts in 2024. The FOMC's December median "dot plot" projection suggests another 50 bps in cuts by the end of 2025, which is significantly less than previously implied, in large part due to uncertainty surrounding implications of potential fiscal policy changes.



Source: Federal Reserve, latest economic projections as of December 2024.



# 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, 2024, compared to the prior quarter.

Investment Entity	December 31, 2024	Percent of Total**	September 30, 2024
City Held Cash & Investments	\$38,572,051.90	15.8%	\$12,096,882.69
JPMorgan Money Market Account	\$50,000,000.00	20.4%	\$50,000,000.00
LAIF Held Investments	\$48,080,610.62	19.7%	\$47,517,108.13
PFMAM Managed Investments*	\$107,859,211.60	44.1%	\$108,130,204.16
<b>TOTAL**</b>	<b>\$244,511,874.12</b>	<b>100%</b>	<b>\$217,744,194.98</b>

\*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. 9/30/24</u>	<u>Permitted by Policy</u>
U.S. Treasury	67,095,406	61.9%	0.4%	100%
Federal Agency	11,524,263	10.6%	-8.1%	100%
Municipal Obligations	450,008	0.4%	0.7%	30%
Negotiable CDs	1,019,420	0.9%	-0.7%	30%
Corporate Notes	19,058,854	17.6%	-1.2%	30%
Asset-Backed Securities	8,371,346	7.7%	10.2%	15%
<b>Securities Sub-Total</b>	<b>107,519,298</b>		<b>-0.2%</b>	
Money Market Fund	339,914	0.3%	-16.3%	20%
Accrued Interest	540,008	0.5%		
<b>Securities Total</b>	<b>108,399,220</b>	<b>100.0%</b>	<b>0.2%</b>	



# 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	12/31/2024	9/30/2024
Average Maturity (Years)	2.44	2.48
Effective Duration <sup>1</sup>	2.04	2.10
Average Market Yield	4.45%	3.91%

<sup>1</sup>Effective 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	-0.25%	4.09%	1.64%	1.68%
0-5 Treasury Index	-0.37%	3.82%	1.39%	1.47%
<b>Variance</b>	<b>+0.12%</b>	<b>+0.26%</b>	<b>+0.25%</b>	<b>+0.21%</b>





# 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

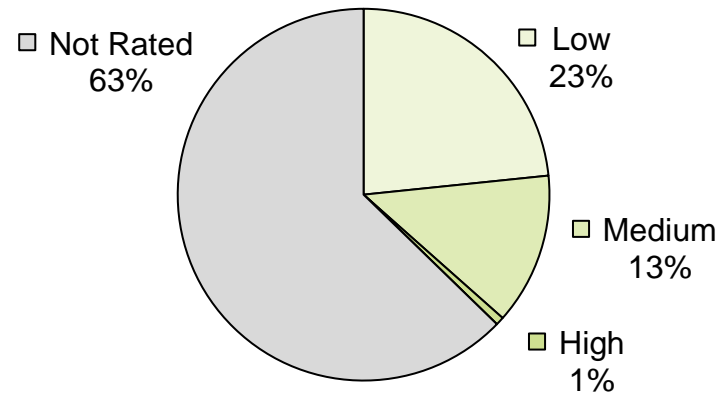
The **ESG Risk Rating** measures **economic value at risk based on ESG factors**.

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.

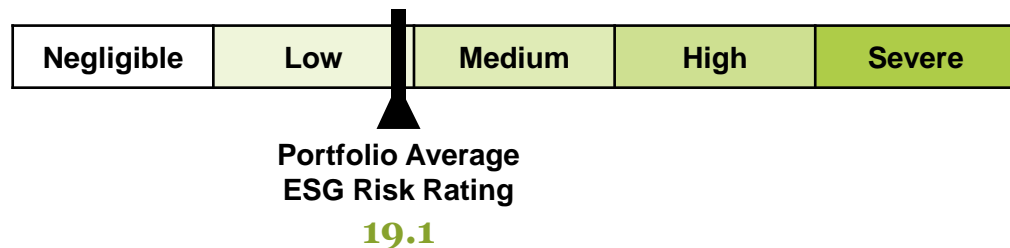
**Lower scores represent less unmanaged risk.** Ratings are scored on a scale of 1-100 and are assigned to one of the following ESG risk categories:

- 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



**31**/34 of portfolio issuers are rated with a total rated market value of \$40.3 million (37%)



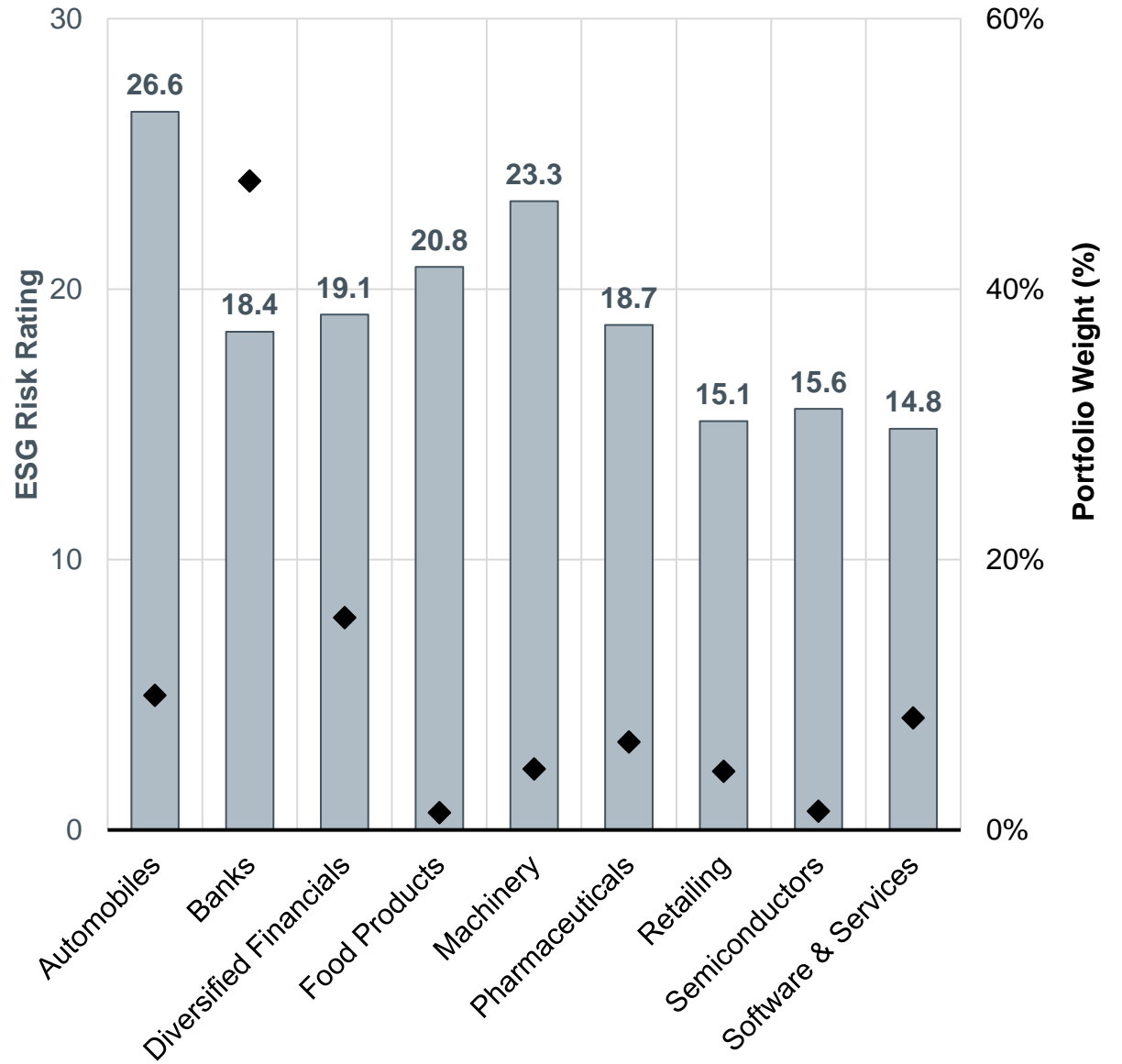
*Market Value includes accrued interest as of December 31, 2024. Average ESG Risk Rating is weighted by market value. Please see important disclosures at the end of this presentation.*

*\* 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, 2024. Average ESG Risk Rating represents the market value-weighted average ESG risk rating for each industry.

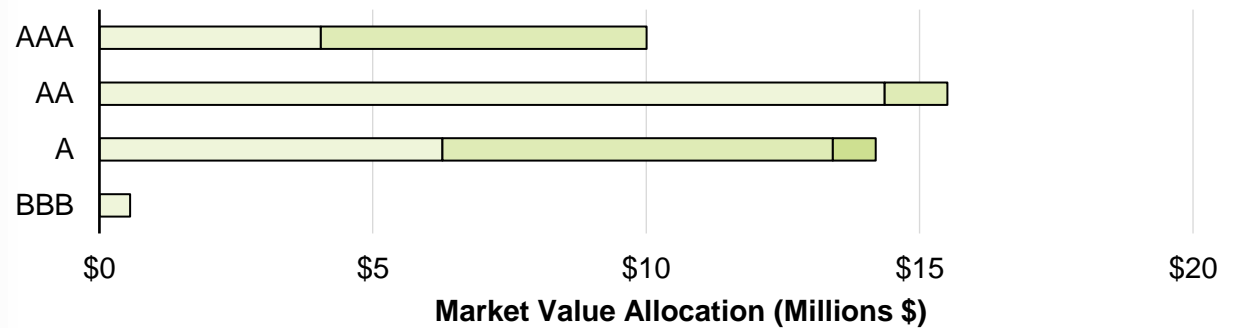


# S&P Credit Rating Distribution

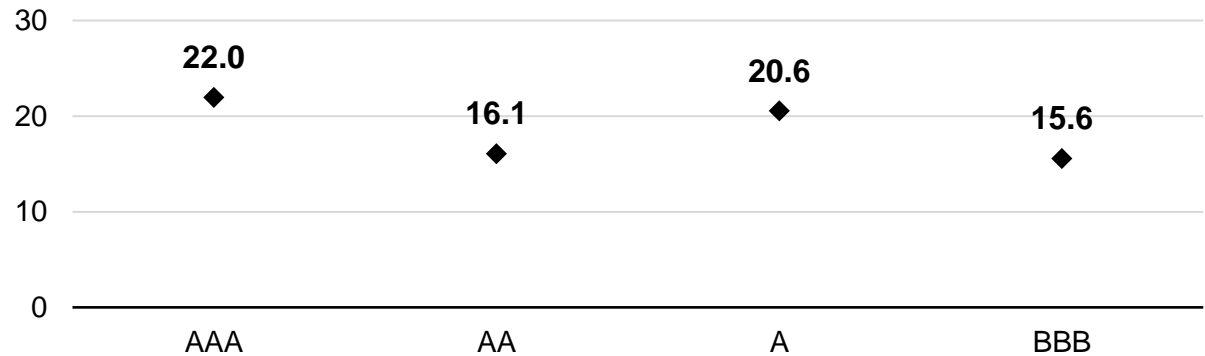
## ESG Risk Rating Key

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, 2024. 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, 2024

***Sorted By ESG Risk Rating***

Issuer	% Weight	Subindustry	Subindustry Percentile	ESG Risk Rating 12/31/2024
Coöperatieve Rabobank UA	1.0%	Diversified Banks	4	12.3
The Home Depot, Inc.	0.9%	Home Improvement Retail	19	12.6
Federal National Mortgage Association	6.2%	Thriffs and Mortgages	7	12.7
Adobe, Inc.	0.6%	Enterprise and Infrastructure Software	4	14.1
Microsoft Corp.	1.5%	Enterprise and Infrastructure Software	5	14.2
Intel Corp.	0.5%	Semiconductor Design and Manufacturing	6	15.6
Novartis AG	1.4%	Pharmaceuticals	2	15.6
Mastercard, Inc.	1.0%	Data Processing	17	16.1
Deere & Co.	0.7%	Agricultural Machinery	7	16.3
Federal Home Loan Mortgage Corp.	2.5%	Thriffs and Mortgages	14	16.7
Fifth Third Bancorp	0.7%	Regional Banks	11	16.9
American Express Co.	1.3%	Consumer Finance	15	18.3
BlackRock Finance, Inc.	1.2%	Asset Management and Custody Services	9	18.4
Target Corp.	0.7%	Department Stores	20	18.6
Federal Home Loan Bank System	2.0%	Consumer Finance	17	18.9
Kubota Corp.	0.2%	Agricultural Machinery	44	19.5
The Bank of New York Mellon Corp.	0.9%	Asset Management and Custody Services	12	19.9
PepsiCo, Inc.	0.5%	Packaged Foods	4	20.8
Bristol Myers Squibb Co.	0.3%	Biotechnology	7	21.2
Citigroup, Inc.	1.7%	Diversified Banks	30	21.9

Source: Sustainalytics. Holdings as of December 31, 2024.



# Holdings as of December 31, 2024

***Sorted By ESG  
Risk Rating***

*(continued)*

Issuer	% Weight	Subindustry	Subindustry Percentile	ESG Risk Rating 12/31/2024
State Street Corp.	0.5%	Asset Management and Custody Services	17	22.1
Eli Lilly & Co.	0.7%	Pharmaceuticals	11	23.6
The PNC Financial Services Group, Inc.	0.7%	Regional Banks	31	23.7
Bank of America Corp.	2.9%	Diversified Banks	38	24.4
Hyundai Motor Co., Ltd.	1.0%	Automobiles	29	24.6
Nissan Motor Co., Ltd.	0.2%	Automobiles	42	26.0
Honda Motor Co., Ltd.	1.5%	Automobiles	50	26.7
General Motors Co.	0.1%	Automobiles	55	27.0
JPMorgan Chase & Co.	2.3%	Diversified Banks	54	27.3
Toyota Motor Corp.	1.0%	Automobiles	64	28.3
PACCAR, Inc.	0.7%	Heavy Machinery and Trucks	58	31.4

Source: Sustainalytics. Holdings as of December 31, 2024.



# 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
American Express Credit Account	Credit Card ABS
Bank of America Auto Trust	Automobile ABS
Bank of America Co	Diversified Banks
BlackRock Funding Inc	Financial Services
Bristol-Myers Squibb Co	Pharmaceuticals
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
Eli Lilly & Co	Pharmaceuticals
FHLB	Government Agencies
FHLMC	Government Agencies
Fifth Third Auto Trust	Automobile ABS
FNMA	Government Agencies
GM Financial	Automobile ABS
Home Depot Inc	Retail - Consumer Discretionary
Honda Auto Receivables	Automobile ABS

Issuer	Sector (BICS)
Hyundai Auto Receivables	Automobile ABS
Intel Corporation	Semiconductors
JP Morgan Chase & Co	Diversified Banks
Kubota Credit Owner Trust	Other ABS
Mastercard Inc	Consumer Finance
Microsoft Corp	Software & Services
New Jersey Turnpike Authority	Transportation
Nissan Auto Receivables	Automobile ABS
Novartis Capital Corp	Pharmaceuticals
Paccar Financial Corp	Transportation & Logistics
Pepsico Inc	Food & Beverage
PNC Financial Services Group	Banks
State Street Corp	Financial Services
Target Corp	Mass Merchants
The Bank of New York Mellon Corporation	Financial Services
Toyota Motor Corp	Automobile ABS
U.S. Treasury	Sovereigns
University of California	Education

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

**Whitney McDonald**  
Interim 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

**Monique Spyke**  
Managing Director

Justin Resuello  
Institutional Sales & Relationship  
Manager



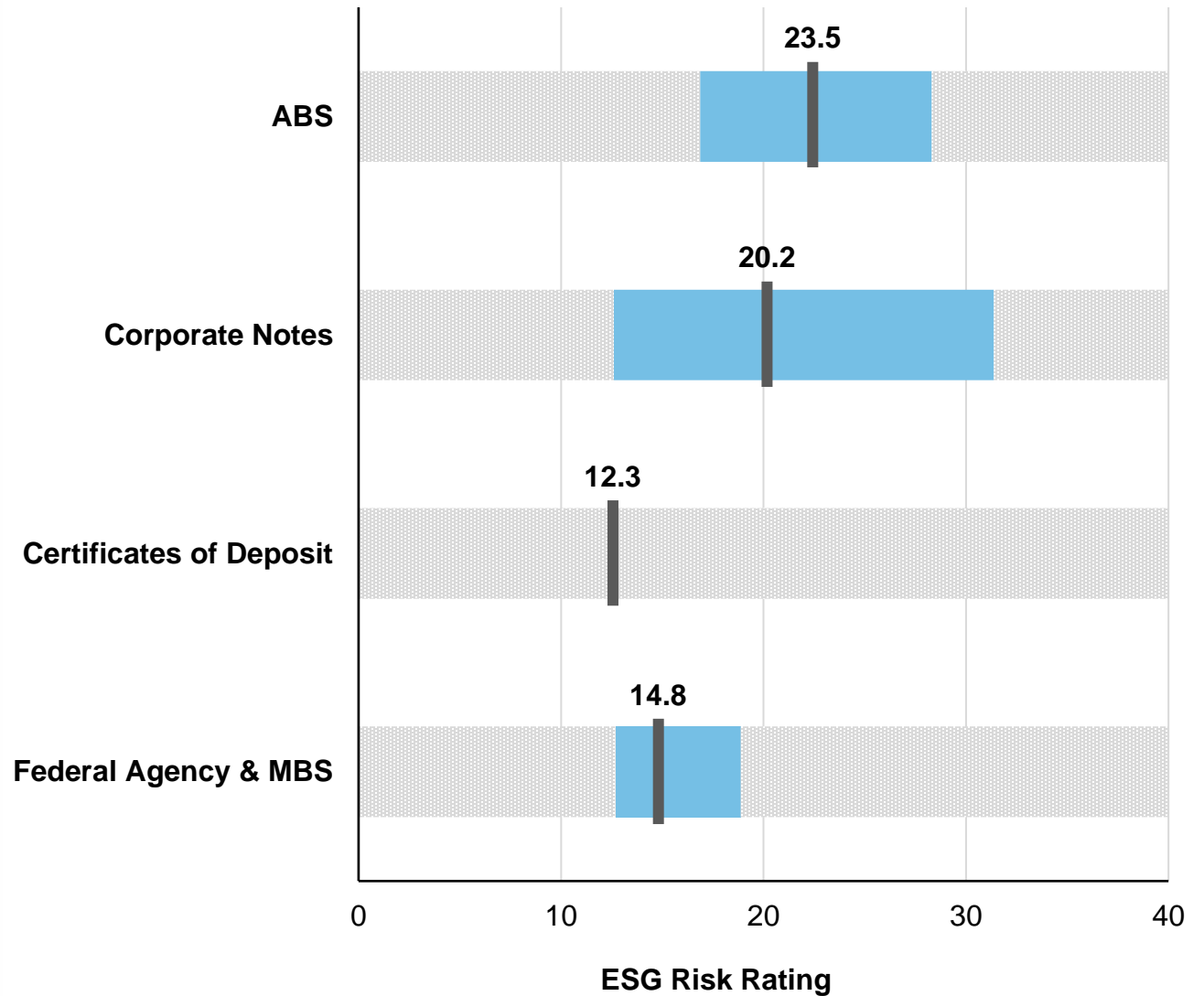
# Appendix

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



# Sector Analysis

### ESG Risk Rating Range and Average by Sector



Source: Sustainalytics. Data as of December 31, 2024. 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"> <li>• Carbon intensity</li> <li>• Renewable energy use</li> <li>• Env. Mgt. System certification</li> <li>• GHG reporting / risk management</li> <li>• Hazardous products</li> <li>• Sustainable products &amp; services</li> </ul>
	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"> <li>• Emergency response program</li> <li>• Solid waste management</li> <li>• Effluent management</li> <li>• Radioactive waste management</li> <li>• Hazardous waste management</li> <li>• Non-GHG air emissions programs</li> <li>• Oil spill disclosure &amp; performance</li> <li>• Recycled material use</li> </ul>
	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"> <li>• Biodiversity programs</li> <li>• Deforestation programs / polices</li> <li>• Site closure &amp; rehabilitation</li> <li>• Water intensity &amp; risk management</li> <li>• Forest certifications</li> <li>• Supplier environmental programs / certifications</li> <li>• Sustainable agriculture programs</li> </ul>
	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"> <li>• Env Impact – Community Relations</li> <li>• Env Impact – Products &amp; Services</li> <li>• Env Impact – Occupational Health and Safety</li> <li>• Env Impact – Product Governance</li> </ul>



# ESG Themes Glossary

	ESG Theme	Theme Description	Key Indicators
<b>Social</b>	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"> <li>• Discrimination policy</li> <li>• Diversity programs</li> <li>• Gender pay equality / disclosures</li> <li>• Employee development</li> <li>• Supply chain management / standards</li> <li>• Human rights policies &amp; programs</li> <li>• Employee health &amp; safety</li> </ul>
	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"> <li>• Product &amp; service safety programs / certifications</li> <li>• Data privacy management</li> <li>• Media &amp; advertising ethics policy</li> <li>• Organic products / GMO policy</li> <li>• Product health statement</li> </ul>
	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"> <li>• Equitable pricing and availability</li> <li>• Access to health care</li> <li>• Price transparency</li> <li>• Human rights / indigenous policy</li> <li>• Community involvement programs</li> <li>• Noise management</li> </ul>
	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"> <li>• Systemic risk management / reporting</li> <li>• Tier 1 capital</li> <li>• Leverage ratio</li> <li>• Responsible investment / asset management</li> <li>• Underwriting standards</li> <li>• Financial inclusion</li> <li>• Credit &amp; loan standards</li> <li>• Green buildings investments</li> </ul>



# ESG Themes Glossary

ESG Theme	Theme Description	Key Indicators
<p><b>Governance</b></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"> <li>• Board / management quality &amp; integrity</li> <li>• Board structure</li> <li>• Ownership &amp; shareholder rights</li> <li>• Remuneration</li> <li>• Audit &amp; financial reporting</li> <li>• Stakeholder governance</li> <li>• Bribery &amp; corruption policies / programs</li> <li>• Money laundering policy</li> <li>• Whistleblower programs</li> <li>• Business ethics programs</li> <li>• Political involvement policy</li> <li>• Lobbying and political expenses</li> </ul>



# Disclosures

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There is a risk that the issuers selected to support client sustainable objectives may not perform as expected in addressing sustainability considerations or such performance may change over time, which could cause a client account to temporarily hold securities that are not in alignment with the account's sustainable objectives. Further, there is a risk that information used to evaluate ESG criteria may not be readily available, complete or accurate, which could negatively impact an account's ability to apply its sustainable objectives. In managing client's sustainability objectives, PFM Asset Management may rely on analysis and ratings provided by third parties in determining whether an issuer meets an account's sustainability objectives. A client's perception may differ from PFM Asset Management's or a third party's on how to judge an issuer's adherence to client's guidelines.

PFM Asset Management serves clients in the public sector and is a division of U.S. Bancorp Asset Management, Inc., which is the legal entity providing investment advisory services. U.S. Bancorp Asset Management, Inc. is a registered investment adviser, a direct subsidiary of U.S. Bank N.A. and an indirect subsidiary of U.S. Bancorp. U.S. Bank N.A. is not responsible for and does not guarantee the products, services, or performance of U.S. Bancorp Asset Management, Inc.

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