CITY OF YORBA LINDA

Investment Performance Review

For the Quarter Ended June 30, 2021

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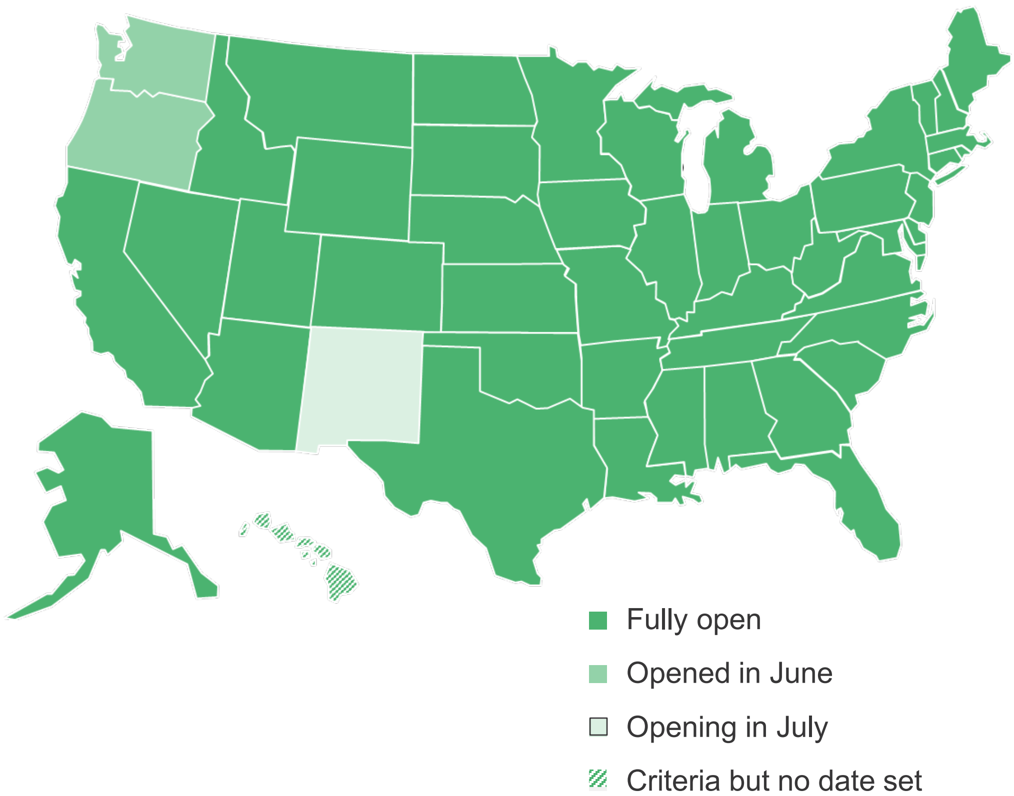
Market Update

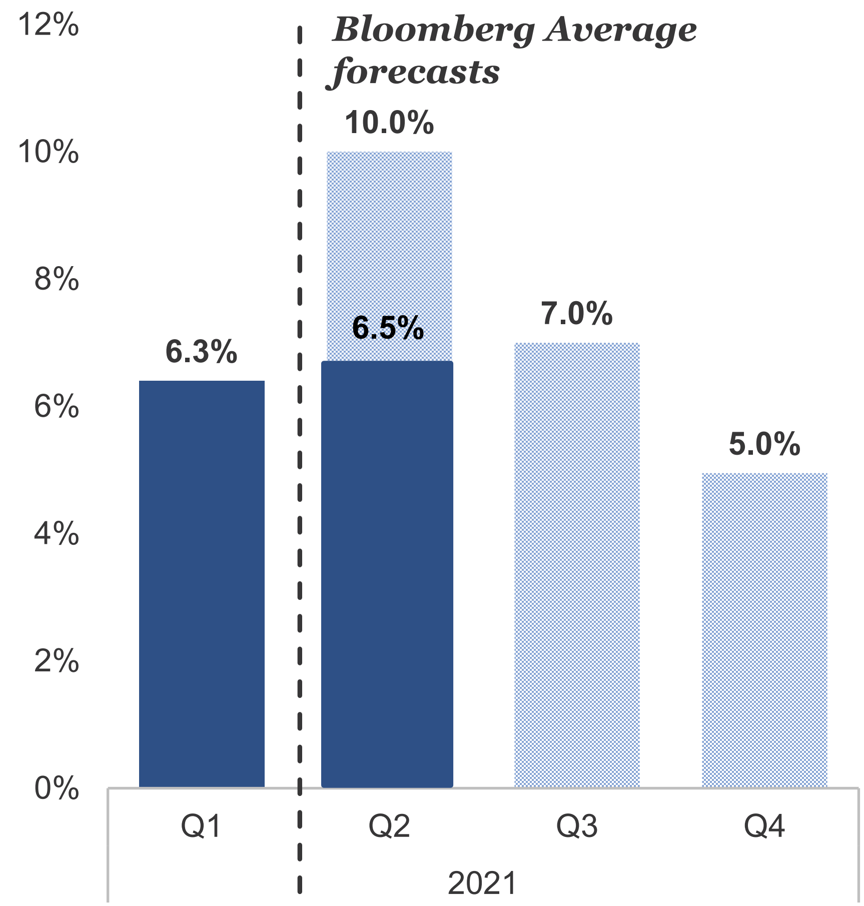
Reopening Economy Drives GDP Growth

Reopening Status of U.S. States



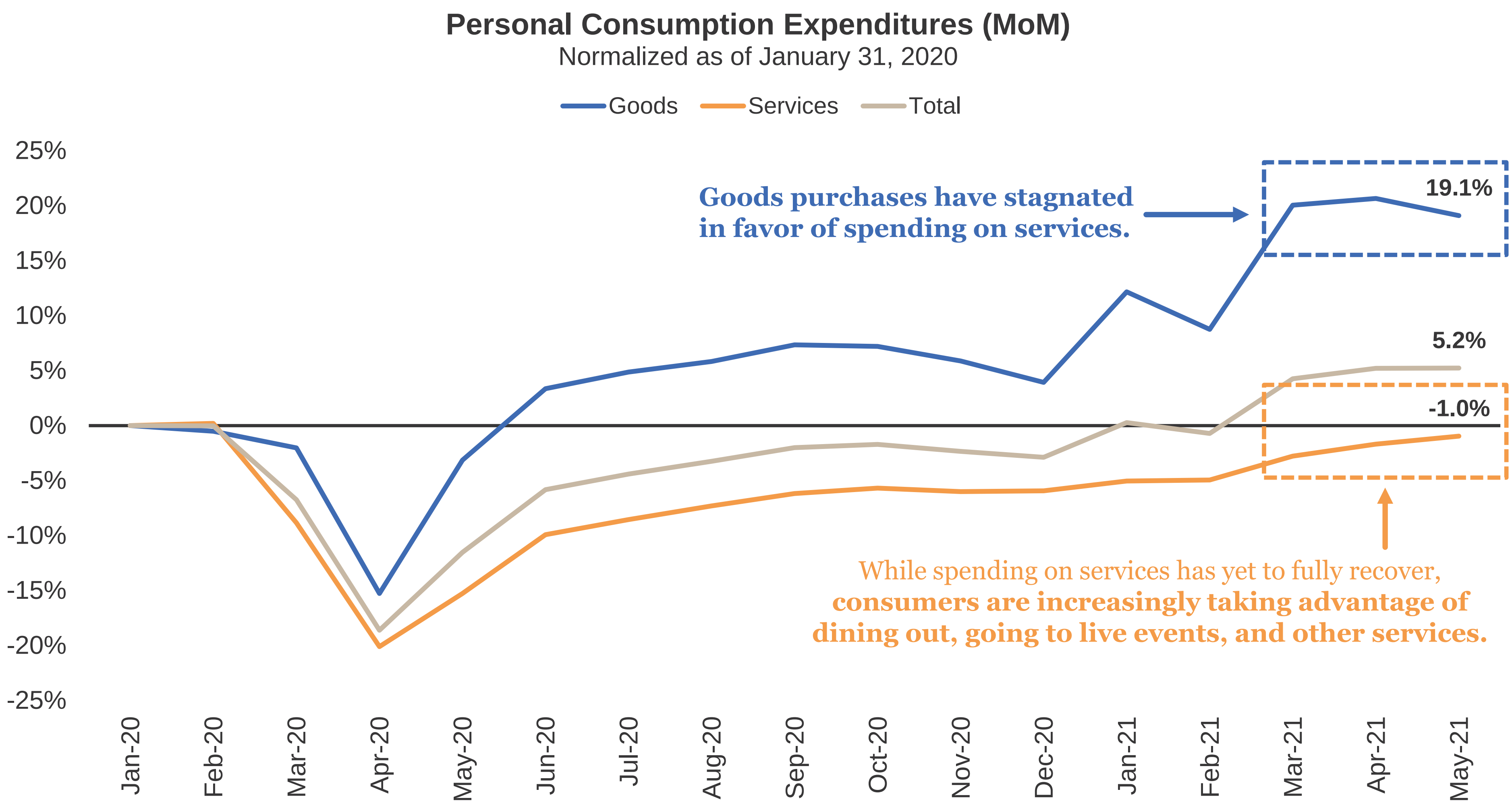
U.S. GDP Forecasts

Annualized Rate



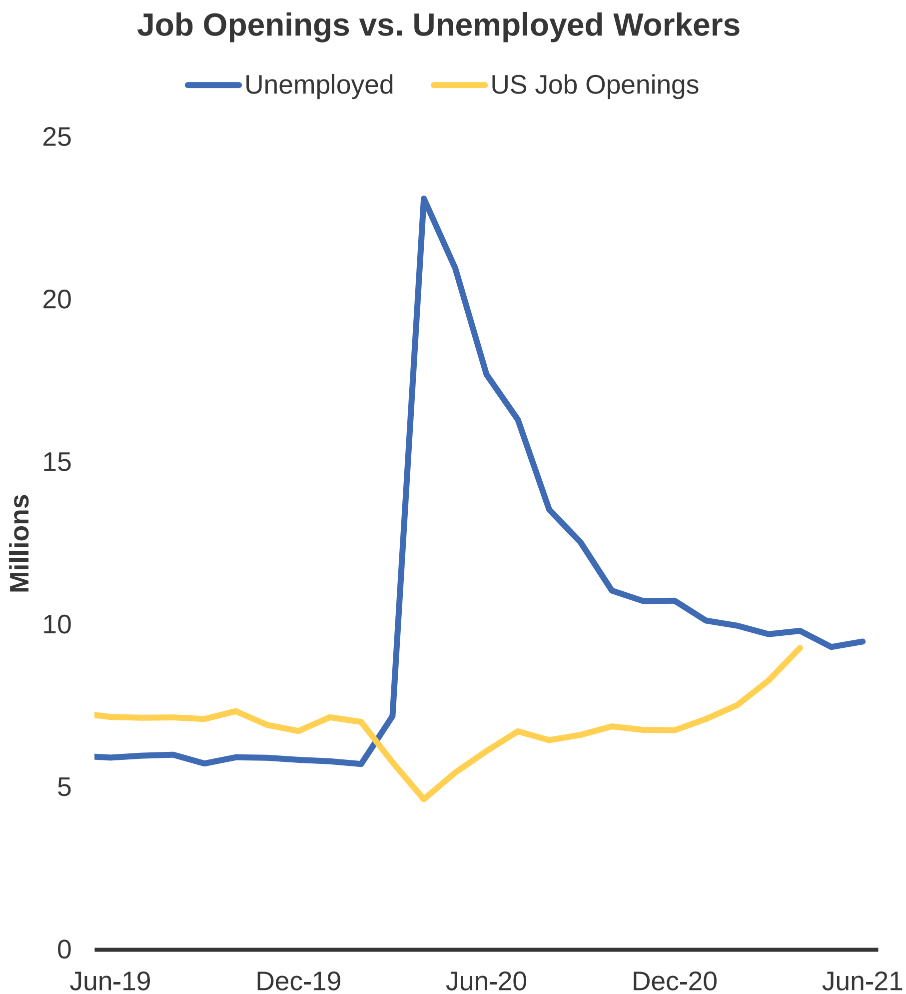
Sources: New York Times (left) and Bloomberg (right), Bureau of Economic Analysis, as of June 30, 2021.

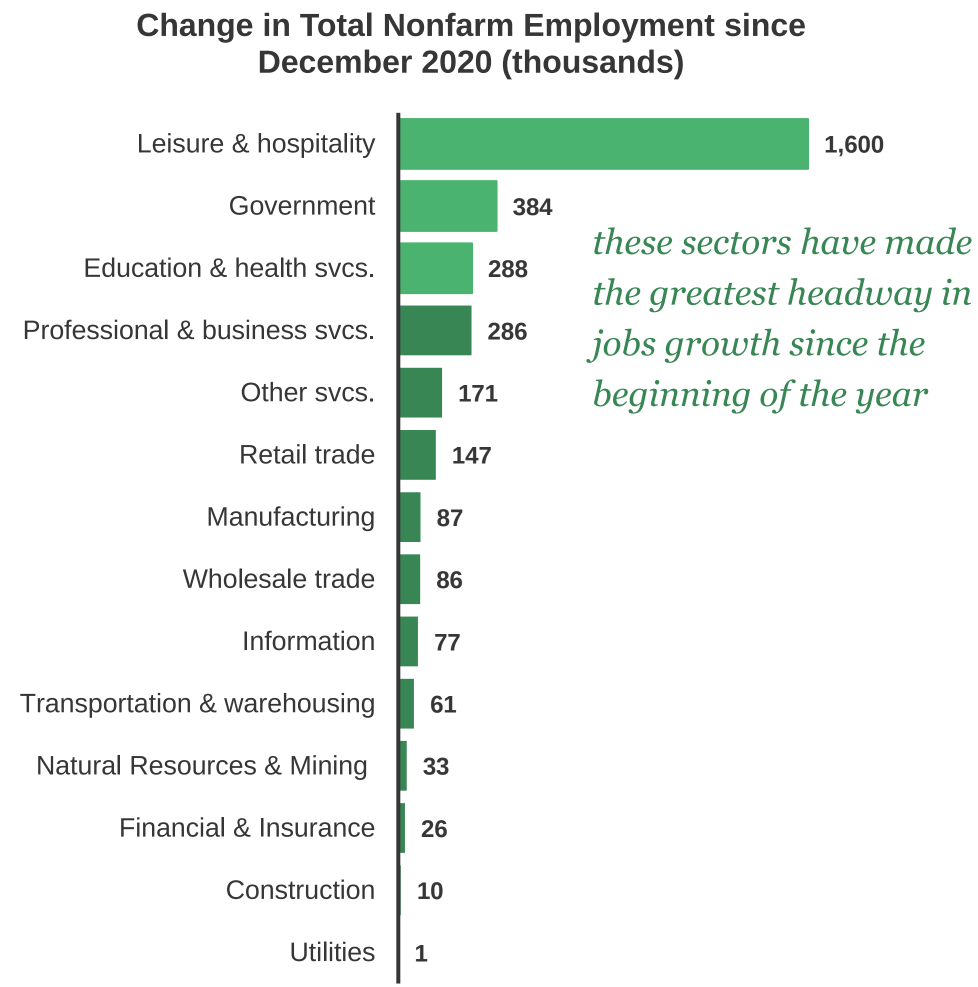
Consumer Spending Experiencing a Shift to Services



Source: Bloomberg, Bureau of Economic Analysis, as of June 30, 2021.

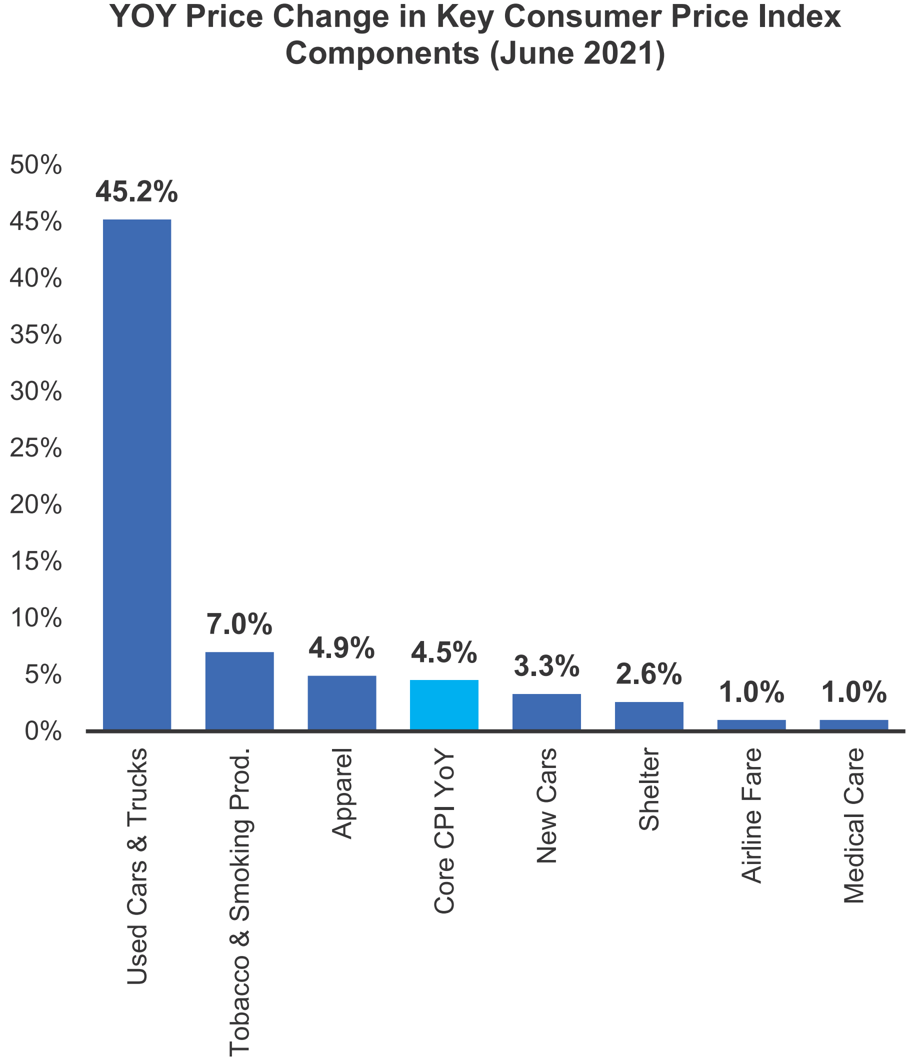
Job Openings Hit Record High; Service Sector Leads Jobs Recovery

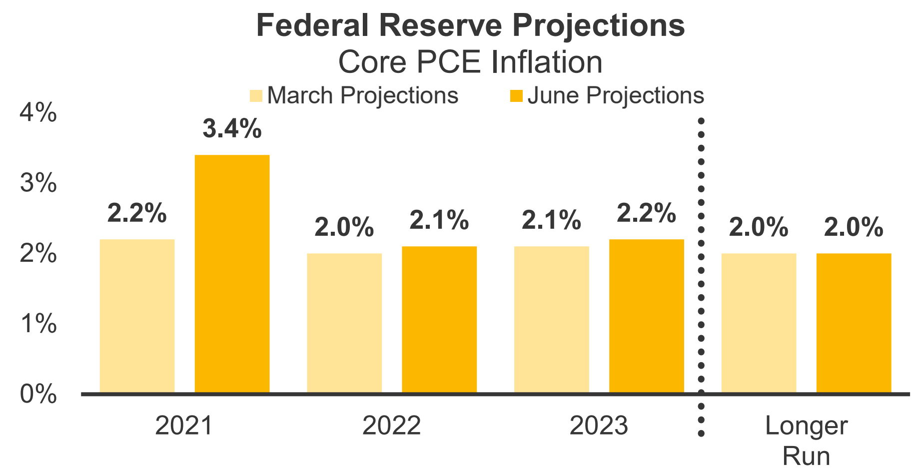


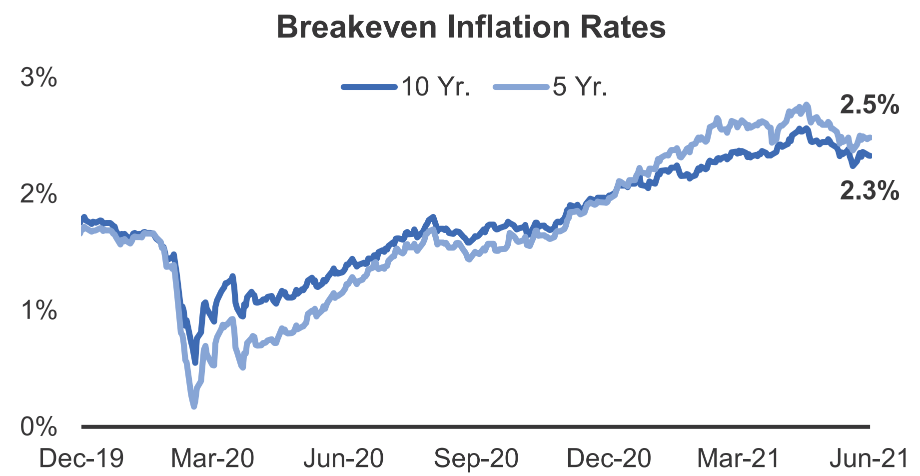


Source: Bloomberg, Bureau of Labor Statistics, as of June 30, 2021.

Inflation Strengthens but Driven by a Few Key Sectors

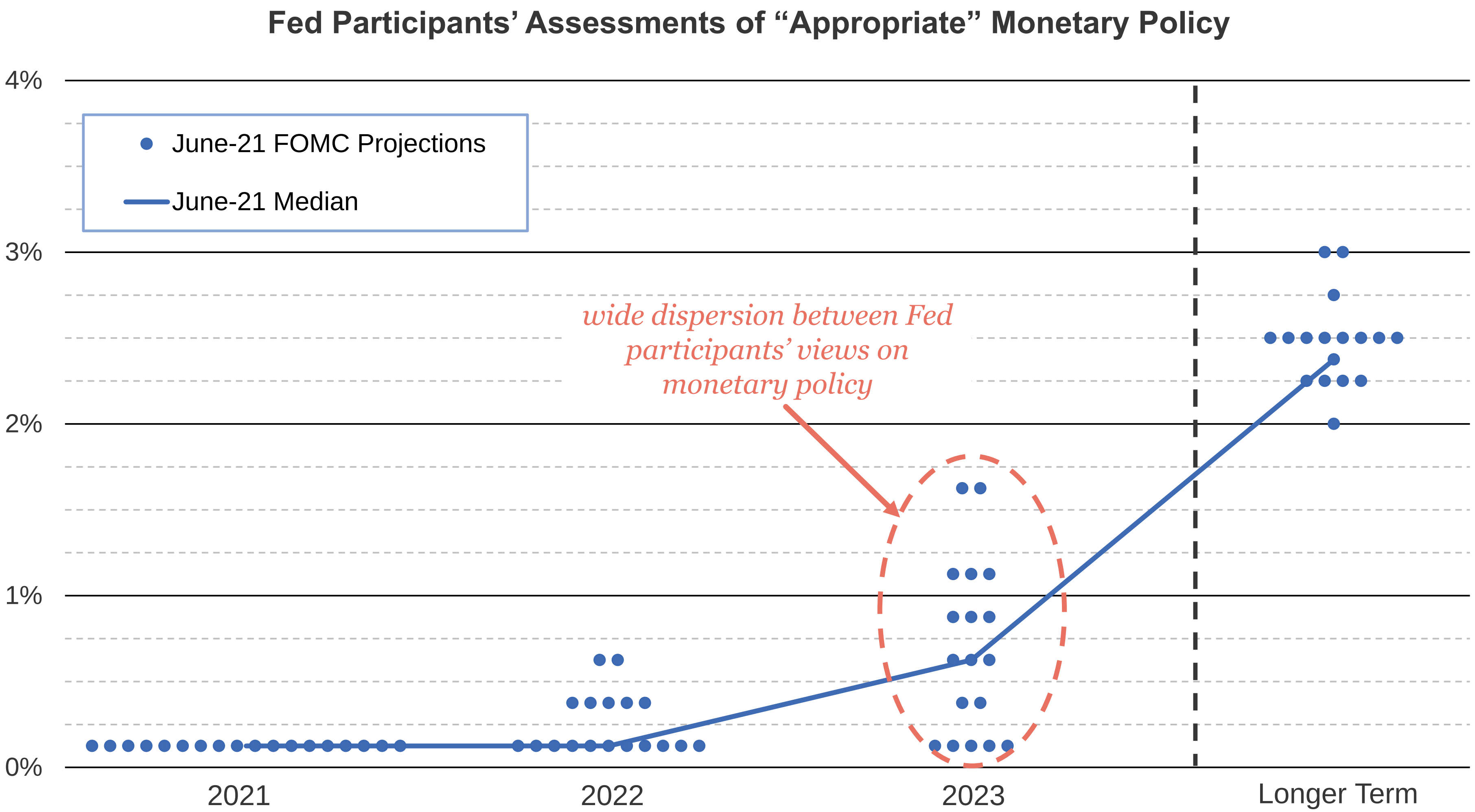






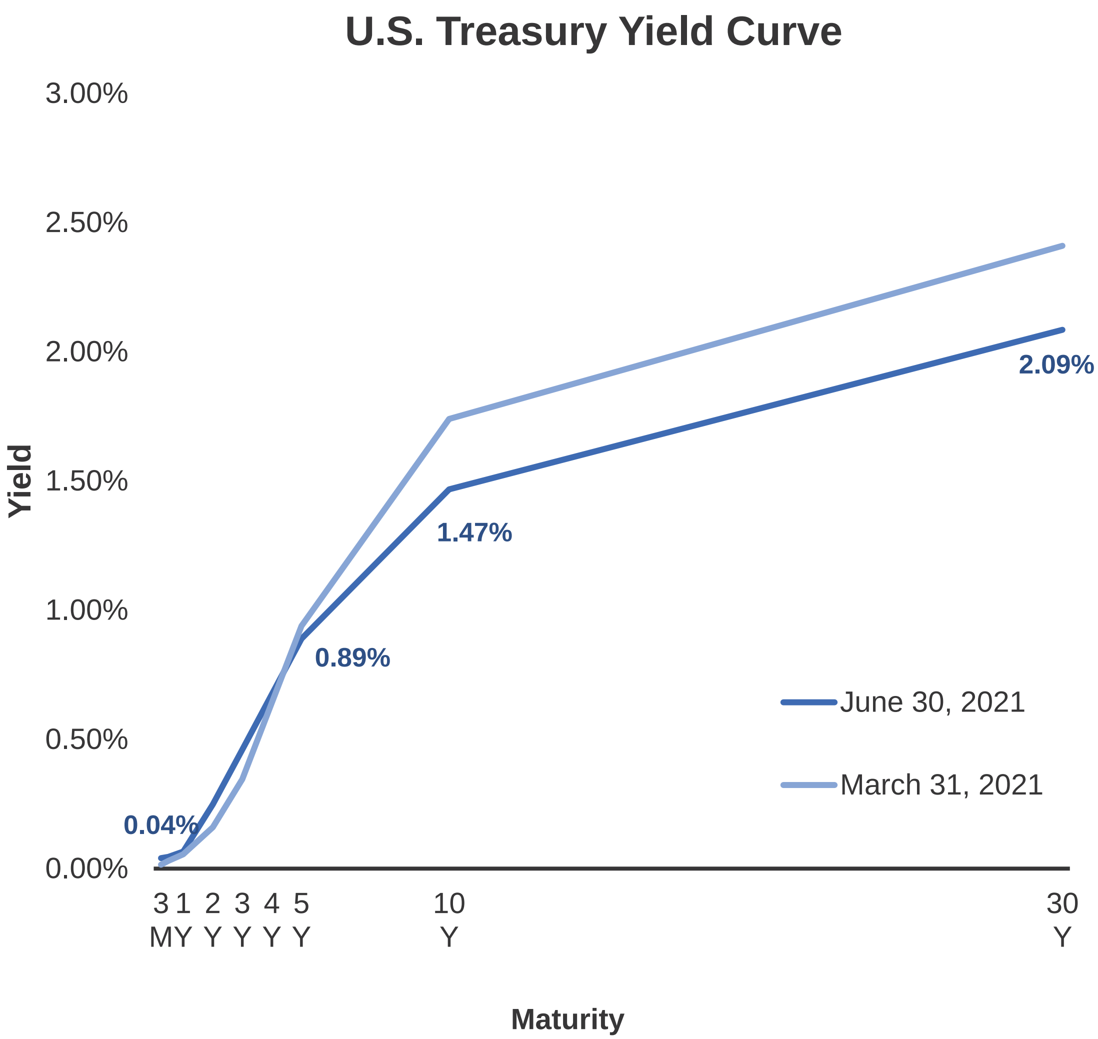
Source: Bloomberg, as of June 30, 2021.

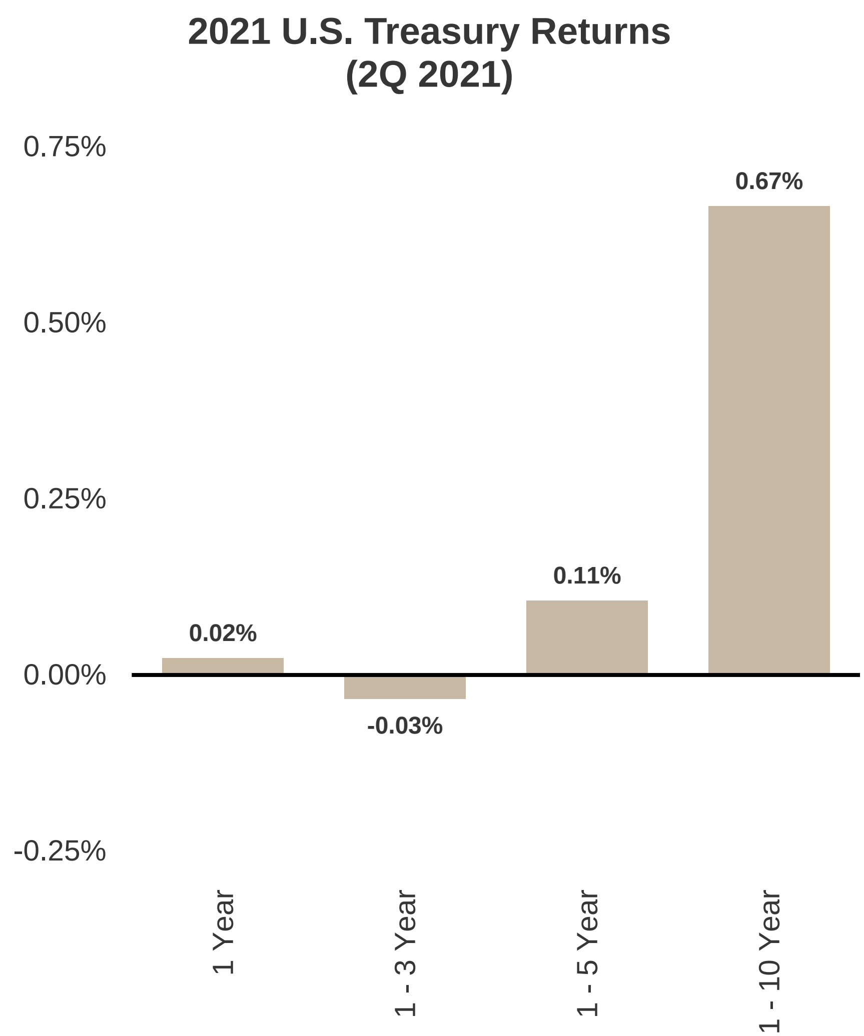
Fed's "Dot Plot" Reflects Evolving Monetary Policy Views



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.

Yield Curve Moves Have Differing Impacts on Performance

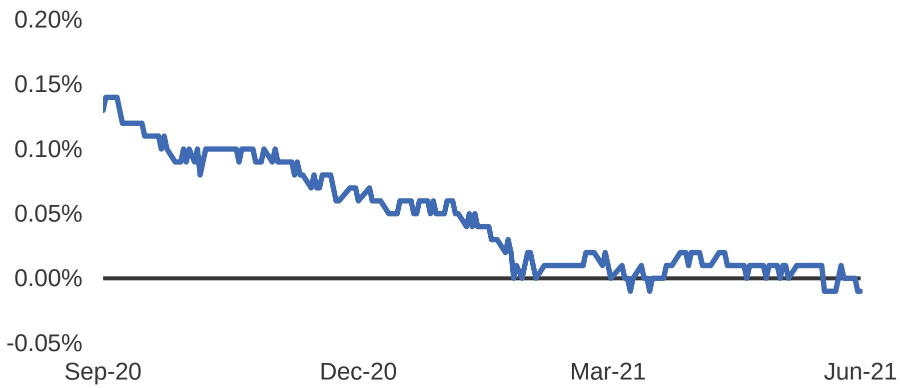




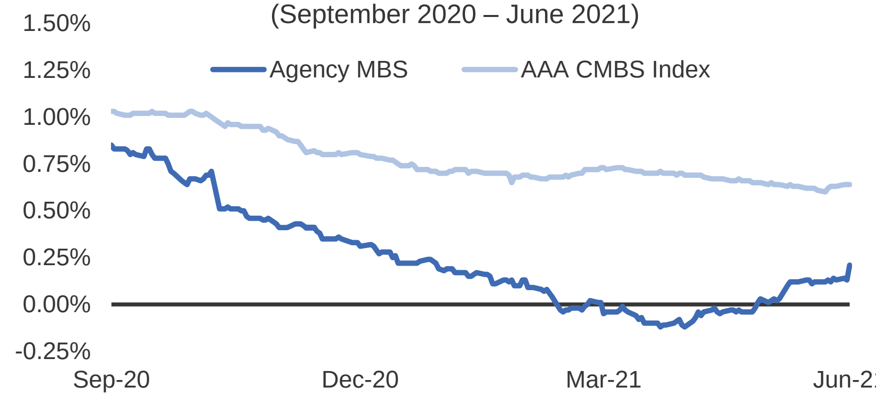
Source: Bloomberg, as of June 30, 2021.

Spread Sectors Remain near Record Tight Levels (1-5 Year)

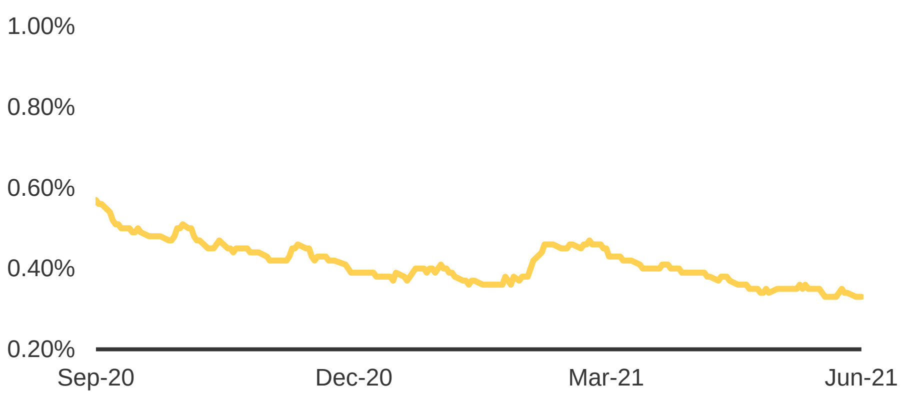
Federal Agency Yield Spreads
(September 2020 – June 2021)



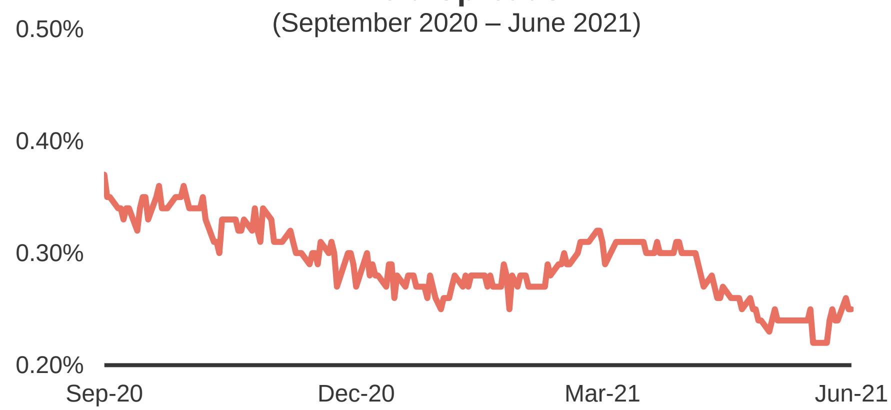
Mortgage-Backed Securities (MBS) Yield Spreads
(September 2020 – June 2021)



Corporate Notes A-AAA Yield Spreads
(September 2020 – June 2021)



Asset-Backed Securities (ABS) Yield Spreads
(September 2020 – June 2021)



Source: ICE BofAML 1-5 year Indices via Bloomberg, MarketAxess, and PFM as of June 30, 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.

Investment Strategy & Portfolio Review

Portfolio Recap

- Our strategy for second quarter was largely carried forward from the first quarter and encompassed the following:
  - We maintained core allocations in most sectors while we opportunistically trimmed allocations in certain sectors and maturities, matched the benchmark's duration, and carefully managed risk as we considered inflationary pressures and Fed policy uncertainty.
  - The federal agency sector experienced 1 to 2 basis points (0.01% to 0.02%) of spread widening, concentrated in the 4- to 5-year area of the curve. Allocations to the sector were reduced selectively, locking in strong performance from agencies previously purchased over a year ago when spreads were wider.
  - New issues in the supranational sector were sporadic, with reduced supply in May and June. Where supply was available, the new issue market was the best entry point into the sector, as valuations appeared attractive relative to federal government alternatives.
  - Investment-grade corporates were aided over the quarter by the prospect of economic recovery, helped by further fiscal stimulus and supportive monetary policy globally. Credit spreads achieved new tights versus comparable-maturity Treasuries despite an active new issue market as investors continued to reach for yield. Like the agency sector, PFM engaged in opportunistic selling, reduced corporate bond holdings that had reached very rich levels—largely those with less than two years remaining until maturity—and reinvesting in longer corporate issues, which captured value along the steeper portions of the curve.
  - Allocations to asset-backed securities (ABS) were maintained over the quarter as we capitalized on attractive new issuance in May while opportunistically selling rich holdings where appropriate. AAA Auto and Credit Card holdings outperformed Treasuries by over 15 basis points (0.15%). ABS spreads remained on the tight end of historical ranges. Similar to the corporate sector, investor appetite for new issue ABS continued to pressure spreads even lower.
  - The taxable municipal sector once again provided a boost to relative portfolio performance over the quarter as strong demand for new issues and the general market reach for yield pressured spreads tighter still. PFM generally maintained allocations to the sector and participated in new issues where offering levels were relatively attractive.

Sector Allocation & Compliance

- The portfolio is in compliance with the City's Investment Policy and the California Government Code.

Security Type	Market Value	% of Portfolio	% Change vs. 3/31/21	Permitted by Policy	In Compliance
U.S. Treasury	$20,862,430	42.7%	+1.9%	100%	✓
Federal Agency	$8,155,114	16.7%	-1.5%	100%	✓
Federal Agency CMOs	$511,606	1.0%	-0.1%	100%	✓
Municipal Obligations	$3,512,874	7.2%	-	30%	✓
Supranationals	$1,684,416	3.4%	+0.6%	30%	✓
Corporate Notes	$8,126,399	16.6%	+1.1%	30%	✓
Asset-Backed Securities	$3,824,963	7.8%	-0.7%	20%	✓
Negotiable CDs	$2,054,115	4.2%	-	30%	✓
Securities Sub-Total	**$48,731,917**	**99.7%**			
Accrued Interest	$172,803				
Securities Total	**$48,904,720**				
Money Market Fund	$156,362	0.3%	-1.3%	20%	✓
Total Investments	**$49,061,082**	**100.0%**			

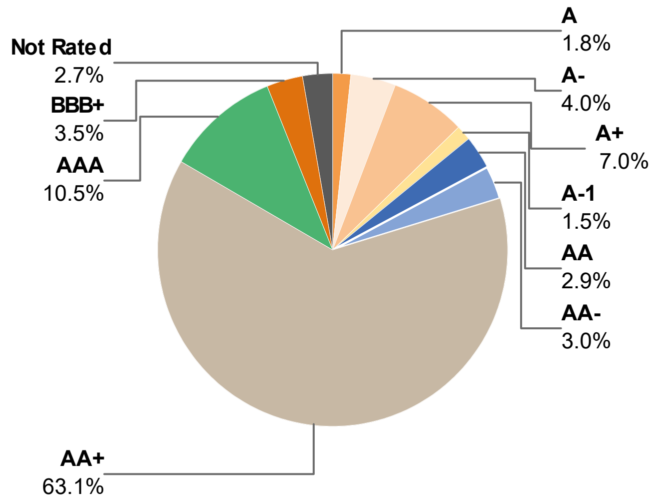
Market values, excluding accrued interest. Detail may not add to total due to rounding. Current investment policy as of June 2020.

Portfolio Statistics

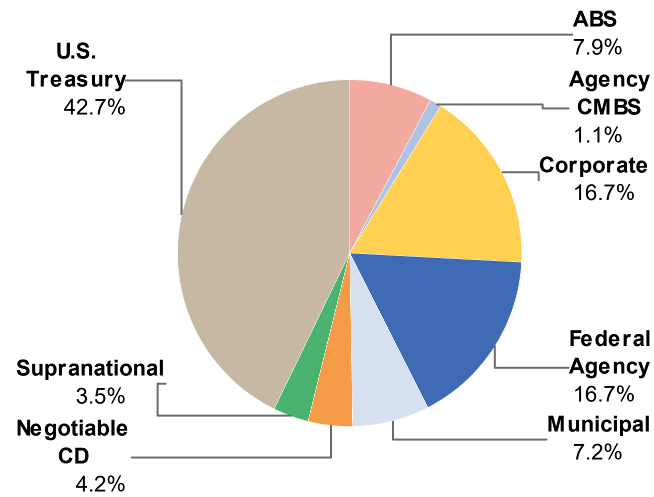
As of June 30, 2021

Par Value:	$47,828,847
Total Market Value:	$49,061,081
Security Market Value:	$48,731,917
Accrued Interest:	$172,803
Cash:	$156,362
Amortized Cost:	$48,167,166
Yield at Market:	0.53%
Yield at Cost:	1.14%
Effective Duration:	2.60 Years
Average Maturity:	2.82 Years
Average Credit: *	AA

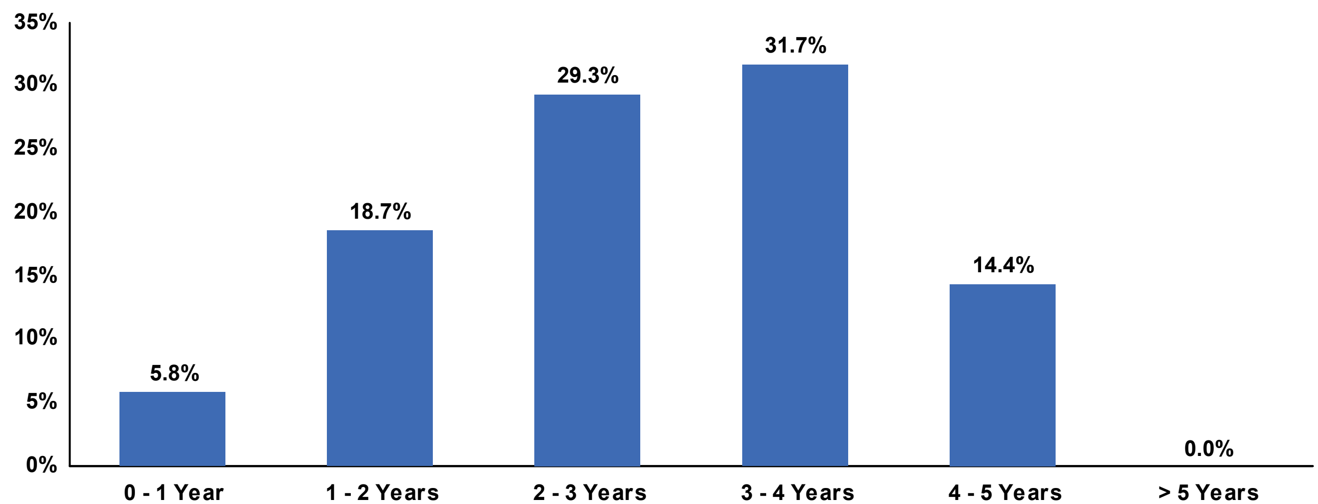
Credit Quality (S&P Ratings)**



Sector Allocation



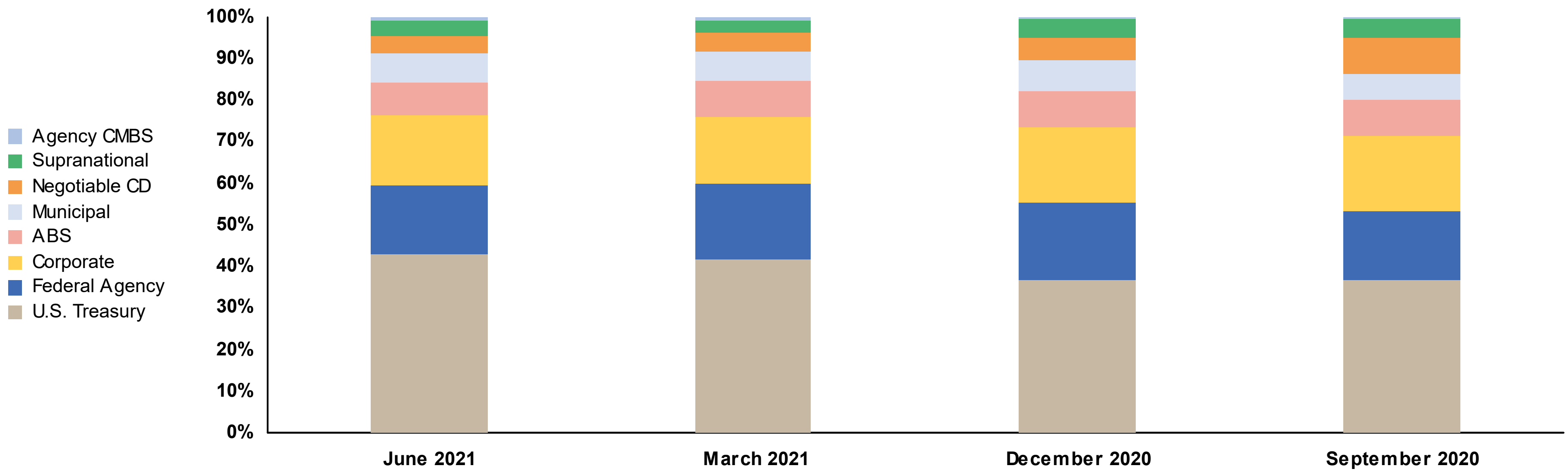
Maturity Distribution



** An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.*
*** Securities held in the CIty's portfolio are in commpliance with California Government Code and the City's Investment Policy dated June 2020.*

Sector Allocation

	June 30, 2021		March 31, 2021		December 31, 2020		September 30, 2020	
Sector	**MV ($MM)**	**% of Total**	**MV ($MM)**	**% of Total**	**MV ($MM)**	**% of Total**	**MV ($MM)**	**% of Total**
U.S. Treasury	20.9	42.7%	20.0	41.5%	17.9	36.9%	18.0	37.0%
Federal Agency	8.2	16.7%	8.9	18.5%	9.0	18.6%	8.0	16.4%
Corporate	8.1	16.7%	7.6	15.8%	8.8	18.1%	8.8	18.0%
ABS	3.8	7.9%	4.2	8.7%	4.2	8.7%	4.3	8.9%
Municipal	3.5	7.2%	3.5	7.3%	3.5	7.3%	3.0	6.2%
Negotiable CD	2.1	4.2%	2.1	4.3%	2.5	5.2%	4.2	8.6%
Supranational	1.7	3.5%	1.3	2.8%	2.2	4.6%	2.1	4.3%
Agency CMBS	0.5	1.1%	0.5	1.1%	0.3	0.6%	0.3	0.6%
Total	**$48.7**	**100.0%**	**$48.1**	**100.0%**	**$48.4**	**100.0%**	**$48.8**	**100.0%**

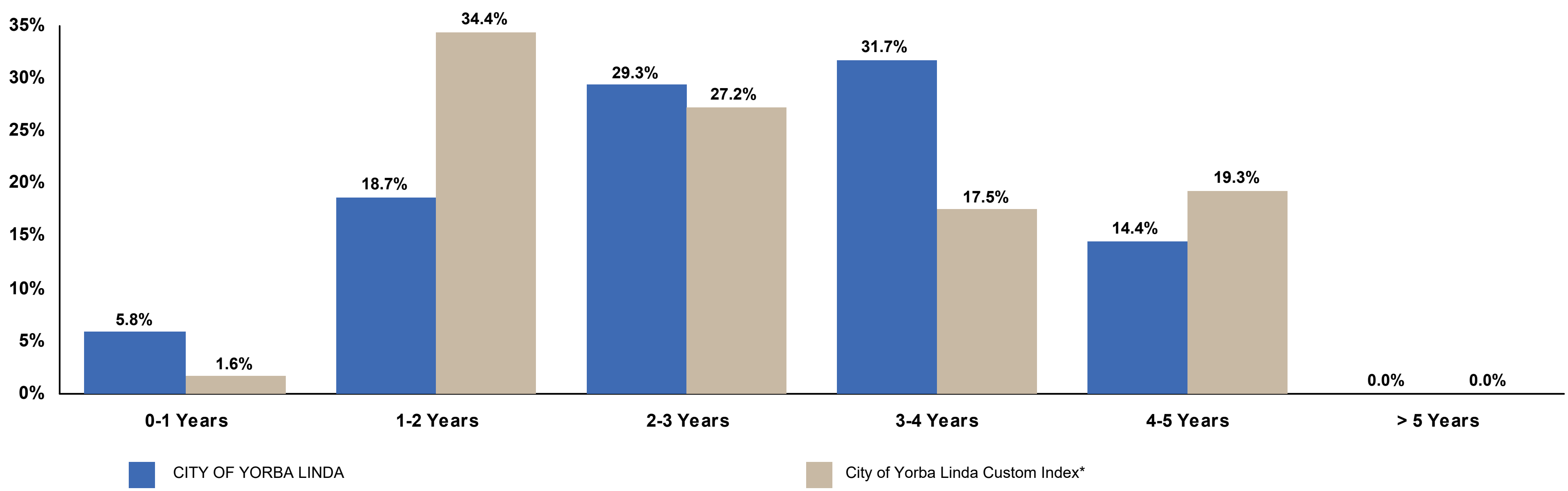


Detail may not add to total due to rounding.

Maturity Distribution

As of June 30, 2021

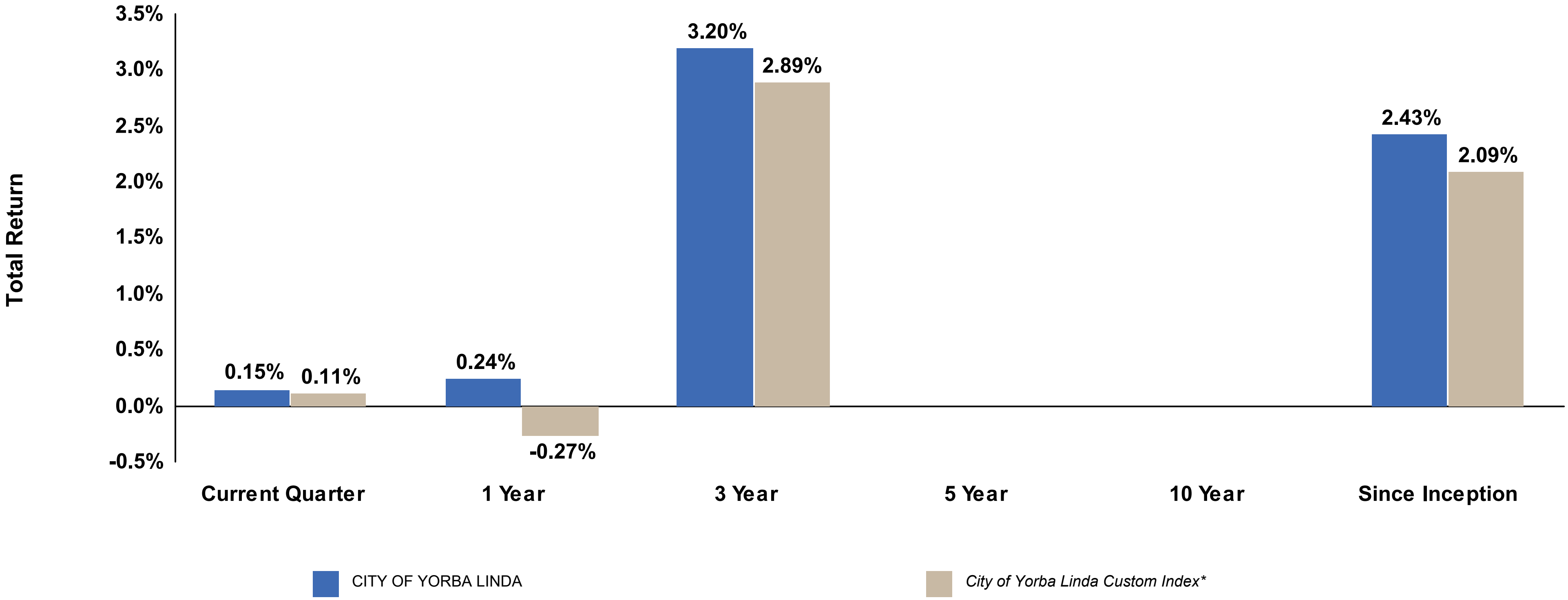
Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
CITY OF YORBA LINDA	0.53%	2.82 yrs	5.8%	18.7%	29.3%	31.7%	14.4%	0.0%
City of Yorba Linda Custom Index*	*0.41%*	*2.73 yrs*	*1.6%*	*34.4%*	*27.2%*	*17.5%*	*19.3%*	*0.0%*



** The City's benchmark is the ICE Bank of America Merrill Lynch (BofAML) 1-5 Year U.S. Treasury Index, as of September 30, 2019. From March 31, 2017 to September 30, 2019 the benchmark was the ICE BofAML 1-3 Year U.S. Treasury Index.*

Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Current Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception (03/31/17)
			Annualized Return				
CITY OF YORBA LINDA	2.60	0.15%	0.24%	3.20%	-	-	2.43%
City of Yorba Linda Custom Index*	*2.60*	*0.11%*	*-0.27%*	*2.89%*	-	-	*2.09%*
Difference		0.04%	0.51%	0.31%	-	-	0.34%



Portfolio performance is gross of fees unless otherwise indicated.
** The City's benchmark is the ICE Bank of America Merrill Lynch (BofAML) 1-5 Year U.S. Treasury Index, as of September 30, 2019. From March 31, 2017 to September 30, 2019 the benchmark was the ICE BofAML 1-3 Year U.S. Treasury Index.*

Portfolio Earnings

Quarter-Ended June 30, 2021

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (03/31/2021)	$48,072,833.96	$47,366,482.68
Net Purchases/Sales	$752,893.10	$752,893.10
Change in Value	($93,810.46)	$47,790.20
Ending Value (06/30/2021)	$48,731,916.60	$48,167,165.98
Interest Earned	$165,466.43	$165,466.43
Portfolio Earnings	$71,655.97	$213,256.63

Fixed Income Sector Outlook – July 2021

Sector	Our Investment Preferences	Comments
COMMERCIAL PAPER / CD		• Commercial paper and CD rates began to rise off historical lows after the Fed increased the IOER and RRP rates. However, issuance remained light around the end of Q2. Pockets of opportunity may present themselves over the next several months.
TREASURIES		• T-Bill yields saw some upward pressure towards the end of June, as the Federal Reserve increased two key ultra short-term rates; it is expected that these levels will maintain into the third quarter. • While the Treasury yield curve continued to flatten during June—particularly between the 2-year and 10-year—it is possible the move was overdone and will at least partially unwind moving into the third quarter. The market expects both yields to rise and the yield curve to steepen throughout the rest of 2021.
T-Bill		
T-Note		
FEDERAL AGENCIES		• Agency bullet spreads tightened slightly as Treasury yields rose in the 1-5 year area of the curve in June. With agencies trading in line with, or even through, Treasury yields and supply expected to remain subdued, the sector is unlikely to provide material added value over the coming months.
Bullets		
Callables		
SUPRANATIONALS		• Supra spreads narrowed by the end of Q2. The seasonal slowdown in issuance this summer will limit opportunities in the sector over the near-term, as the new issue market has been the best entry point into the sector over the last several months. As a result, spreads will likely remain tight until issuance picks back up.
CORPORATES		• Corporate spreads remain at record tights despite a more hawkish tone from the June Fed meeting. Demand for credit is likely to remain strong, though valuations are rich. Accommodative monetary policy, along with a positive turn in rating trends, should continue to ensure favorable financing conditions. New issues are expected to provide the bulk of any opportunities, as valuations across the secondary market remain rich.
Financials		
Industrials		
SECURITIZED		• ABS spreads tightened in June, reaching record tights for both autos and credit cards issues. Issuance in June was the heaviest month so far in 2021. Delinquency rates and net losses remain below expectations. Fiscal stimulus and improving employment figures may push back any increases to later in 2021 or beyond. • MBS spreads are tight but recently found some reprieve. While prepayments are elevated, they are on a considerable slowing path, and this trend is expected to continue. Lower coupon passthroughs, most susceptible to duration extension, are likely to trail Treasuries as rates move higher. With valuations slightly more reasonable, the sector may present better opportunities than in recent quarters. • CMBS returns have held up well throughout the quarter. As spreads have tightened, the relative value proposition has waned, suggesting a gradual reduction in exposure.
Asset-Backed		
Agency Mortgage-Backed		
Agency CMBS		
MUNICIPALS		• While the pace of taxable issuances has slowed, overall supply remains robust, but valuations are expensive for both new issuances and secondary markets. Both selective additions and opportunistic selling may be warranted.

Current outlook   Outlook one month ago

Negative	Slightly Negative	Neutral	Slightly Positive	Positive

Investment Strategy Outlook

- The strong U.S. economic expansion is expected to persist, aided by a vaccine-driven reopening, pent-up consumer demand, and continued fiscal and monetary support. GDP expectations for 2021 have been revised upward, with current forecasts pointing to an annualized 6% growth this year. However, growing inflationary pressures may force the Fed's hand when considering tapering its bond purchases and, ultimately, future rate increases. Given these risks, we plan to maintain the portfolio duration in line with the benchmark as we continue to monitor the economic recovery.

- Our outlook for major investment-grade sectors includes the following:
  - **Treasuries:** Current allocations provide "dry powder" to add to other sectors should spreads become more attractive. Portfolio rebalancing and duration extension trades are focused in the steepest portions of the curve. Along with income, yield curve roll-down should serve as a significant contributor to portfolio returns as the upside for pure price appreciation is quite limited.
  - **Agencies:** There is limited room for further spread tightening from current levels as spreads are in the single-digit range across most of the curve. With spreads likely to remain near zero over the coming quarter, the sector offers very little incremental yield compared to Treasuries. We will continue to reduce allocations, realize gains where appropriate, and favor other sectors.
  - **Supranationals:** Spreads compared to similar-maturity Treasuries and agencies have value on an issue-specific basis, and the sector presents good opportunities as a government alternative. While new issue opportunities remain the best entry point, issuance is limited and is likely to dwindle through the summer.
  - **Corporates:** Continued economic recovery, supportive monetary policy, lower expected supply, and strong investor demand for high quality yield should serve as catalysts for good performance in the corporate sector. While historically tight spreads have encouraged us to position allocations defensively, the sector still represents a core allocation to portfolios.
  - **Asset-Backed Securities (ABS):** New issue activity was elevated to start 2021; however, investor appetite remains robust, and spreads have remained near their recent floor. Collateral performance in consumer sectors has been stronger than expected, and there is little expectation for any material change in the near term. With this outlook, we will look to modestly reduce holdings by attrition as holdings pay down.
  - **Taxable Municipals:** Taxable municipals have been a great alternative to corporates over the past year. While we still see opportunities in the sector, we have turned more cautious due to very tight spreads. Similar to other sectors, we may begin to opportunistically sell rich holdings while continuing to evaluate new issues that come to market.