Quarterly portfolio manager commentary

First American Money Market Funds

What market conditions had a direct impact on the bond market this quarter?

Economic Activity – The U.S. economy started the year stronger than expected, reflecting robust employment gains and resilient consumer spending. However, growth slowed into the end of the first quarter (Q1) as increased Federal Reserve (Fed) policy tightening and financial market disruption from the failure of Silicon Valley Bank (SVB) and Signature Bank weighed on economic activity and increased fears for a pending recession. Following solid 2.6% growth in the fourth quarter, U.S. Gross Domestic Product (GDP) growth is projected to have slowed to near 1.0% to 1.5% during Q1. Consumer spending grew at a moderate pace in Q1 as U.S. consumers continue to benefit from a tight labor market and solid balance sheets, supporting resilience to persistent inflation and tightening financial conditions. Labor market conditions strengthened further in the first part of Q1 but began to ease in March as Fed policy tightening slowly gains traction. Despite early signs of easing, employment conditions remain quite firm with February U.S. job openings standing at 9.9 million open positions versus total unemployed workers in the labor force of 5.8 million. Monthly Non-farm Payrolls (NFP) growth remains elevated, averaging 345,000 during Q1, and the U3 Unemployment Rate was 3.5% in March. Growth in Average Hourly Earnings trended lower throughout the quarter but continues to be elevated at 4.2% year-over-year (YoY), further emphasizing strong labor demand. Inflation pressures were mixed during the quarter with the headline Consumer Price Index (CPI) declining meaningfully to 5.0% in March (6.5% in December) while CPI ex. food and energy stayed stable throughout the quarter, rising 5.6% YoY in March. The Fed's preferred inflation index – the PCE Core Deflator Index – increased 4.6% YoY for February. While energy prices have declined from last year's highs and demand for goods has subsided, core services prices are proving stickier than expected and are likely to keep inflation elevated throughout 2023 as the Fed attempts to further slow demand through restrictive monetary policy.

Monetary Policy – The Fed continued to tighten monetary policy throughout the quarter but at a less aggressive pace as they approach their estimated terminal rate. The Fed raised the federal funds rate by 25 basis points (bps) at the February 1 and March 22 meetings leading

Have an investment goal?
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to a target range of 4.75% to 5.0% at quarter-end. The Fed also continued to implement its balance sheet reduction program (quantitative tightening (QT)), with a monthly cap of $60 billion in Treasury securities and $35 billion of agency mortgage-backed securities. Following the March meeting, the Federal Open Market Committee (FOMC) released its updated Summary of Economic Projections which indicated expectations for lower real GDP growth in 2023 and 2024 compared to projections from December, as well as modestly higher near-term inflation. Language surrounding further rate hikes was softened as the FOMC now anticipates "some additional policy firming may be appropriate" and the median projection for the federal funds rate at the end of 2023 was maintained at a range of 5.00% to 5.25%. The Fed continues to anticipate maintaining restrictive rate policies through 2023 to ease labor market conditions and bring inflation down toward its 2% target.

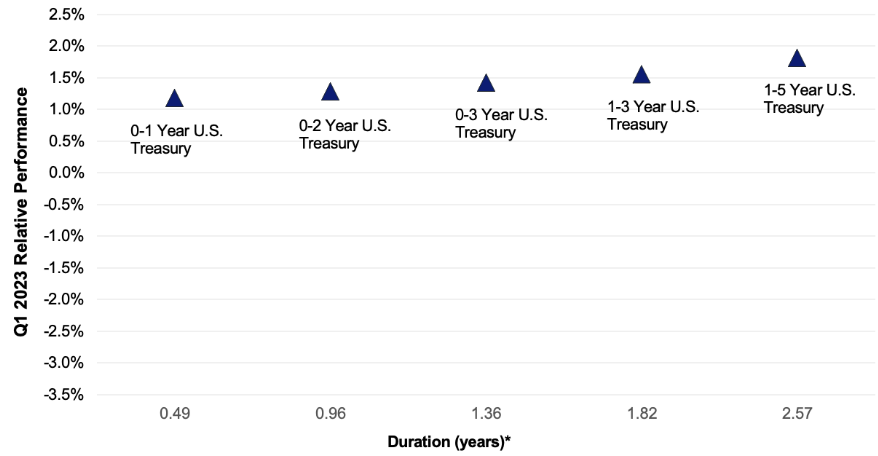
Fiscal Policy – Government spending was a drag on U.S. GDP in 2022, but this is set to change in 2023 following the late December passage of a $1.7 trillion spending bill for fiscal year 2023. The bill includes a 6% increase in spending for domestic initiatives and a 10% increase in defense programs. Split government, along with the near-term need to extend the debt ceiling and pass a federal budget, makes the likelihood of another significant fiscal package unlikely over the next two years. On the municipal side, state and local governments have seen early signs of tax collections starting to slow, but strong reserves have left them in a solid position if economic conditions weaken further.

Credit Markets – Despite the financial market stress in March, first quarter 2023 fixed income returns were positive for government and investment-grade debt. Spread widening in the quarter was primarily in the financial sector, with industrial debt strongly outperforming banks and insurance companies. The deterioration in financial conditions sparked by the failures of SVB and Signature Bank eased toward the end of March, as the sale of Credit Suisse to UBS and targeted liquidity programs from the Fed helped stabilize markets and bolster investor confidence.

Yield Curve Shift

U.S. Treasury Curve	Yield Curve 12/310/2022	Yield Curve 3/31/2023	Change (bps)
3 Month	4.343%	4.693%	35.0
1 Year	4.687%	4.591%	-9.6
2 Year	4.426%	4.025%	-40.1
3 Year	4.224%	3.788%	-43.6
5 Year	4.004%	3.573%	-43.1
10 Year	3.875%	3.468%	-40.7

Duration Relative Performance



**Duration estimate is as of 3/31/2023*

With all but the very shortest U.S. Treasury yields moving lower in the quarter, fixed income U.S. Treasury returns were positive across the board. The three-month to five-year portion of the yield curve inverted a further 78.1 bps in the quarter. The strong performance of two-year and longer UST debt and higher front-end yield benefitted portfolios with a barbell structure or overweight to longer portions of the yield curve.

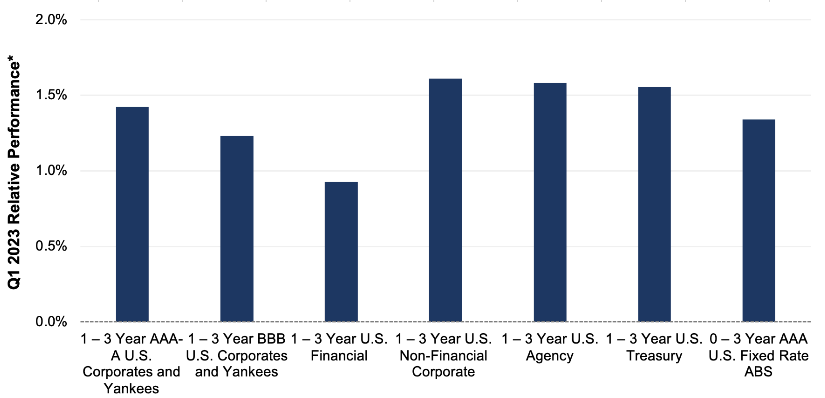
Credit Spread Changes

ICE BofA Index	OAS* (bps) 12/31/2022	OAS* (bps) 3/31/2023	Change (bps)
1-3 Year U.S. Agency Index	15	12	-3
1-3 Year AAA U.S. Corporate and Yankees	15	9	-6
1-3 Year AA U.S. Corporate and Yankees	39	28	-11
1-3 Year A U.S. Corporate and Yankees	72	91	19
1-3 Year BBB U.S. Corporate and Yankees	112	141	29
0-3 Year AAA U.S. Fixed-Rate ABS	80	92	12

A-rated and BBB-rated corporate credit spreads widened as the flight-to-quality mentality negatively impacted lower-rated credit while benefitting AA and better corporates. Despite their AAA ratings, asset-backed securities spreads were caught in the negative sentiment toward financials and widened in the quarter.

Option-Adjusted Spread (OAS) measures the spread of a fixed-income instrument against the risk-free rate of return. U.S. Treasury securities generally represent the risk-free rate.

Credit Sector Relative Performance of ICE BofA Indexes



**AAA-A Corporate index underperformed the Treasury index by 12.9 bps.*

AAA-A Corporate index outperformed the BBB Corporate index by 19.5 bps

U.S. Financials underperformed U.S. Non-Financials by 68.3 bps

A rated and BBB rated credit underperformed higher quality debt on wider credit spreads. Not surprising given the deterioration in financial conditions, U.S. financials meaningfully underperformed non-financial corporate debt.

What were the major factors influencing money market funds this quarter?

The first quarter of 2023 ended with regional U.S. bank failures causing market reverberations across the globe. However, after the initial reaction, markets were able to calm themselves and with inflations indicators still sticky, the Fed continued with its inflation fighting campaign. The Fed maintained its conviction and raised rates another 25 bps, bringing the federal funds rate to 4.75% to 5.00% at the March 22 meeting.

Money market funds assets increased significantly during the quarter in a flight to quality reaction to bank stress and investor desires for higher yields. Even with GDP slowing and the odds of a recession increasing, policymakers are still fully committed to the inflation fight. With the Fed focused on price stability, money market funds remain an attractive investment options for fixed income investors.

First American Prime Obligations Funds

Credit spreads in the money market space have widened modestly in the aftermath of the March bank failures, reflecting market attitudes regarding current market conditions. However, trading ranges appear stable given the current rate and geopolitical environment. Considering the yield curve and a conservative cash flow approach, the Funds were positioned with strong portfolio liquidity metrics influenced by fund shareholder makeup. We continued to employ a heightened credit outlook, maintaining positions presenting minimal credit risk to the Fund's investors. Under the current market conditions, our main investment objective was to maintain liquidity while opportunistically enhancing portfolio yield based on our economic, credit and interest rate outlook, along with considerations of investor cash flow. We believe the credit environment and higher relative fund yields make the sector an appropriate short-term option for investors.

First American Government and Treasury Funds

Treasury bill/note and supply remained tight as the Fed's bloated balance sheet is limiting supply and suppressing yields in most front-end government related products. The Fed is near the end of their tightening cycle and the curve is inverted as rate cuts are starting to get priced in. The shape of the curve coupled with the lasting impacts of historical quantitative easing leaves Treasury yields and extension opportunities below breakeven or economic equilibrium, based on our near-term rate outlook. To the benefit of the Government Obligations Fund, value emerged in the Government-Sponsored Enterprise (GSE) space as issuance and market volatility increased along with limited dealer take downs, providing longer-dated yields that made economic sense versus our interest rate outlook. When presented with appropriate value, we purchased floating-rate investments that benefit shareholders over the securities holding period. We anticipate that investment strategy will be more fluid in the coming quarters as markets make determinations on the Fed's pace and course of tightening.

First American Retail Tax Free Obligations Fund

The weekly volatility in SIFMA (a measure of 7-day, tax-exempt variable rate demand notes) in the first quarter was beyond anything we have witnessed since 2008. Moves of more than 50 bps were common throughout the period, and in a couple instances, the rate changes exceeded 170 bps. We attribute the increased volatility to the higher interest rate environment, as well as broker dealer reluctance to carry inventory. During times when tax-exempt money market funds are experiencing outflows and redeeming variable rate demand notes (VRDNs), a much sharper rate adjustment is now needed to find the next level of demand from non-traditional buyers. This is the result of a wide gap between tax-exempt and taxable levels. Reinvestment of January/February municipal bond maturities and coupon payments typically fuel heavy inflows to tax exempt money market. This seasonality did come into play during the first few weeks of 2023, as industry assets under management grew by approximately $14 billion. However, these flows changed course multiple times as investors reacted to fluctuations in money fund yields. The fund is currently positioned with 15% to 20% allocations to fixed rate securities. These investments will help to provide some balance to overall income levels.

What near-term considerations will affect fund management?

In the coming quarters, we anticipate yields to rise modestly as the Fed winds down the initial phase of its inflation fighting campaign. We anticipate yields on non-government securities rising in step with forecasted and realized fed funds rate increases. Industry wide, Prime fund yields should increase as managers roll maturities into higher yielding securities and floaters reset in step with rate increase. We will capitalize on investment opportunities that make economic sense based on our market outlook and break-even analysis. The institutional and retail prime obligations funds will remain reasonable short-term investment options for investors seeking higher yields on cash positions while assuming minimal credit risk.

Yields in the GSE and Treasury space will remain influenced by Fed policy and Treasury bill/note supply. With front-end yields elevated and the Fed still wary of inflation, we expect the investment environment for government money market funds to remain attractive. As with the non-government debt, in the coming quarter, government yields should only increase modestly as the Fed tapers the pace of its inflation fighting campaign. We do anticipate some yield dislocations in Treasury and GSE issues as politicians navigate the nation's debt limit. Any large supply changes in Treasury issuance may create some yield volatility on the front end as the forces of supply and demand seek optimization. We will capitalize on investment opportunities that make economic sense based on our market outlook and break-even analysis. We will seek value in all asset classes and indexes, incorporating all domestic and global economic market data.

For more information about the portfolio holdings, please visit
https://www.firstamericanfunds.com/index/FundPerformance/PortfolioHoldings.html

Sources

Bloomberg C1A0, CY11, CY21, CY31, G1P0, ICE Bond, JOLTTOTL, NFP TCH, PCE CYOY, US0003M, USUETOT and USURTOT Indices

Bloomberg, U.S. Economic Forecast

Bloomberg, U.S. Treasury Actives Curve

Definitions

Basis Point (bps) is one one-hundredths of a percentage point. This term is often used in describing changes in interest rates. For example, if a bond yield increases from 7.50% to 7.88%, it has moved up 38 basis points.
Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.
Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.
Federal Reserve (Fed) is the United States central banking system. It is comprised of 12 regional central banks, known as the Federal Reserve Banks, which are owned by private banks. The Fed is governed by a seven-member Board of Governors, who regulates interest rates, availability of bank credit and sets other monetary policies such as legal reserve requirements for banks.
Government-Sponsored Enterprise (GSE) is a quasi-governmental entity established to enhance the flow of credit to specific sectors of the American economy. Created by acts of Congress, these agencies, through privately held, provide public financial services. GSEs help to facilitate borrowing for all sorts of individuals, from students to farmers to homeowners.
Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.
ICE BofA 0-1 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with maturities less than one year.
ICE BofA 0-2 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with maturities less than two years.
ICE BofA 0-3 Year AAA U.S. Fixed Rate Asset Backed Securities Index is a subset of ICE BofAML U.S. Fixed Rate Asset Backed Securities Index including all securities with a remaining term to final maturity less than three years and rated AAA.
ICE BofA 0-3 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with maturities less than three years.
ICE BofA 1-3 Year AAA-A U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch U.S. Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated AAA through A3, inclusive.
ICE BofA 1-3 Year AA U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch U.S. Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated AA1 through AA3, inclusive.
ICE BofA 1-3 Year BBB U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch US Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated BBB1 through BBB3, inclusive.
ICE BofA 1-3 Year Single-A U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch U.S. Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated A1 through A3, inclusive.
ICE BofA 1-3 Year U.S. Agency Index is a subset of ICE BofAML U.S. Agency Index including all securities with a remaining term to final maturity less than three years.
ICE BofA 1-3 Year U.S. Financial Index is a subset of ICE BofAML U.S. Corporate Index including all securities of Financial issuers with a remaining term to financial maturity less than three years.
ICE BofA 1-3 Year U.S. Non-Financial Corporate Index is a subset of ICE BofAML U.S. Non-Financial Index including all securities with a remaining term to final maturity less than three years.
ICE BofA 1-3 Year U.S. Treasury Index is a subset of the BofA Merrill Lynch U.S. Treasury Index including all securities with a remaining term to final maturity less than three years.
ICE BofA 1-5 Year U.S. Treasury Index is a subset of the BofA Merrill Lynch U.S. Treasury Index including all securities with a remaining term to final maturity less than five years.
Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase. As inflation rises, every dollar you own buys a smaller percentage of a good or service.
Monetary Policy is the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.
Non-farm payrolls (NFP) is the measure of the number of workers in the U.S. excluding farm workers and workers in a handful of other job classifications.

PCE Core Deflator Index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.
Treasury is negotiable debt obligation of the U.S. government, secured by its Full Faith and Credit and issued at various schedules and maturities. The income from Treasury securities is exempt from state and local, but not federal, taxes.
U3 Unemployment Rate is the commonly-referred to unemployment rate. It includes people out of work who have been actively seeking employment over the last four weeks.
Yield Curve is a line tracing relative yields on a type of bond over a spectrum of maturities ranging from three months to 30 years.