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 continues to perform well this year, exceeding expectations and defying traditional signals of recession. Following above-trend growth of 3.0% in the second quarter, U.S. Gross Domestic Product (GDP) is projected to grow near 2.0% for the third quarter (Q3) amid still-firm domestic demand and business investment. Personal consumption was steady throughout Q3 as income growth helped offset persistent headwinds from elevated prices and high interest rates. Labor market conditions cooled early in the quarter but rebounded in September, ending Q3 largely where it began, with August U.S. job openings stable at 8.0 million open positions while total unemployed workers in the labor force as of September were unchanged at 6.8 million. Monthly Non-farm Payrolls growth accelerated, averaging 186,000 during Q3 and the U3 Unemployment Rate was 4.1% in September, matching the level from June. Average Hourly Earnings growth is off its highs but remains elevated at 4.0% year-over-year (YoY), emphasizing still-solid labor demand. The Consumer Price Index (CPI) declined to 2.5% in August versus 3.0% in June as energy prices fell throughout the quarter. Core inflation continued its gradual downward trend with CPI ex. food and energy rising 3.2% YoY for August compared to 3.3% YoY in June. The Federal Reserve's (Fed) preferred inflation index – the PCE Core Deflator Index – increased 2.7% YoY for August. While recent data has been encouraging, the inflation fight is not over as progress remains mixed, driven by core goods deflation. Further disinflation in core services and housing will be necessary to ultimately achieve the Fed's 2% target and desired soft landing.

Monetary Policy – The Fed cut its federal funds target range by 50 basis points (bps) to 4.75% to 5.0% at the September 18 meeting. While a rate cut in September was fully expected by the market, expectations were split between 25 and 50 bps. The Fed's post-meeting statement was updated to say the Committee has "gained greater confidence" inflation is moving toward its 2% target and risks to inflation and employment are judged as "roughly in balance." The Fed continues to implement its balance sheet reduction program (quantitative tightening), with a monthly cap of $25 billion in Treasury securities and $35 billion of agency mortgage-backed securities.

Have an investment goal?
Let's talk.

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During the press conference Chair Powell stated at this point they are not thinking about stopping quantitative tightening as they cut rates, noting the two can happen in tandem and are both forms of normalization.

The Federal Open Market Committee (FOMC) released its updated Summary of Economic Projections at the September meeting, indicating additional rate cuts are coming. The median projection for the federal funds rate at the end of 2024 was revised to a range of 4.25% to 4.50%, signaling 50 bps of rate cuts for the remainder of this year. The median dots also show rate cuts of 100 bps in 2025 and 50 bps in 2026, leading to a terminal neutral rate of 2.875%. The FOMC's economic projections were revised to show forecasts for a higher unemployment rate at the end of the year compared to the prior release (4.4% vs. 4.0%) and slightly lower core inflation and GDP growth. The unemployment rate forecast was also increased by 0.2% compared to the prior release for both 2025 and 2026 while revisions to inflation and GDP were minimal. While the median funds rate projections are helpful to understand Fed officials' current expectations, the near-term pace of easing will ultimately be dictated by the labor market given the Fed's desire to limit further weakening.

Fiscal Policy – The federal government once again narrowly avoided a shutdown at the end of September with Congress passing a continuing resolution to fund government operations at existing spending levels through December 20. Fiscal policy action will be muted over the near-term as Washington D.C.'s focus fully shifts to the upcoming elections, but should pick up later this year as Congress will need to come to an agreement on a funding bill for the full fiscal year and the U.S. government debt ceiling will be reinstated January 1, 2025.

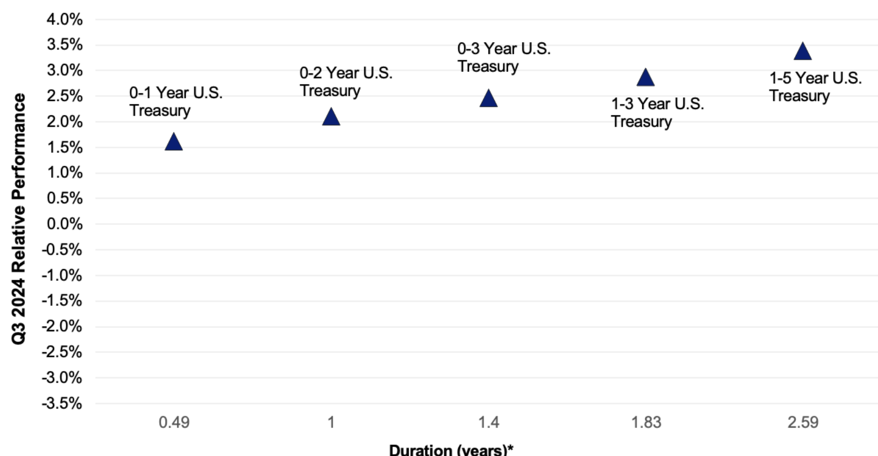
Looking further out, government spending is anticipated to increase, with both political parties campaigning on increased fiscal policy initiatives and tax incentives. Recently passed bills for the Infrastructure and Jobs Act (2021) and Inflation Reduction Act (2022) will also boost government spending over the long-term. On the municipal side, state and local governments that are more heavily reliant on sales and property taxes are faring better than municipalities dependent on income taxes, but strong reserves have left the overall sector in a solid position should economic conditions weaken further.

Credit Markets – U.S. Treasury yield curve levels plunged as markets digested the Fed's 50 bps rate cut. The yield curve steepened in the quarter, with the two- to 10-year portion of the yield curve disinverting for the first time since July 2022. Credit spreads were modestly tighter in the quarter as investor demand for yield and spread product kept pace with heavy new issue corporate supply. As a result, third quarter fixed income total returns were strong across all sectors and duration bands.

Yield Curve Shift

U.S. Treasury Curve	Yield Curve 6/30/2024	Yield Curve 9/30/2024	Change (bps)
3 Month	5.355%	4.617%	-73.8
1 Year	5.110%	4.002%	-110.8
2 Year	4.753%	3.641%	-111.2
3 Year	4.550%	3.549%	-100.1
5 Year	4.377%	3.558%	-81.8
10 Year	4.396%	3.781%	-61.5

Duration Relative Performance



Duration estimate is as of 9/30/2024

With the path for Fed rate cuts uncertain, yield curve volatility was, and is. expected to remain elevated, placing a premium on identifying tactical extension opportunities. The decline in rates benefitted longer duration strategies over shorter portfolios.

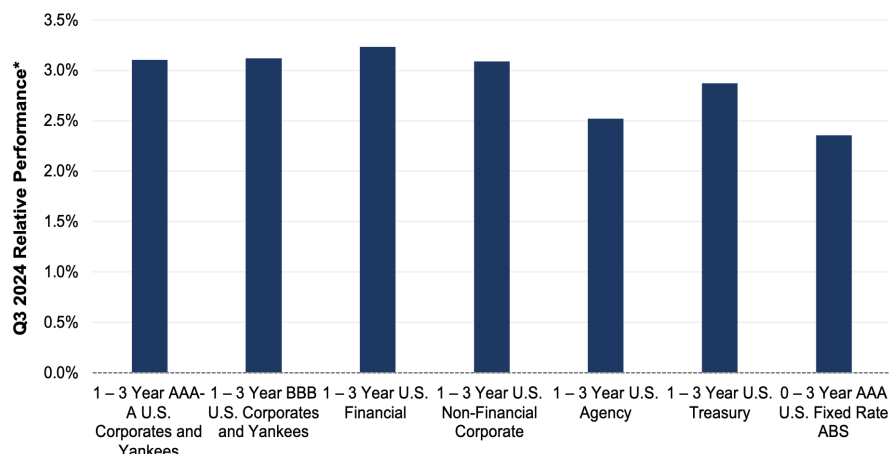
Credit Spread Changes

ICE BofA Index	OAS* (bps) 6/30/2023	OAS* (bps) 9/30/2024	Change (bps)
1-3 Year U.S. Agency Index	5	3	-2
1-3 Year AAA U.S. Corporate and Yankees	10	7	-3
1-3 Year AA U.S. Corporate and Yankees	31	26	-5
1-3 Year A U.S. Corporate and Yankees	56	50	-6
1-3 Year BBB U.S. Corporate and Yankees	82	80	-2
0-3 Year AAA U.S. Fixed-Rate ABS	55	58	3

Corporate credit spreads entered the quarter relatively tight from an historical basis, but still managed to further tighten on the margin. Accordingly, corporates debt outperformed comparable duration treasuries. Bucking the trend, triple-A asset-backed securities (ABS) spreads widened in the quarter, leading to underperformance in the quarter versus corporate debt. With valuations slightly more attractive than investment-grade credit, the ABS sector will be a focus for increased allocations coming into the fourth 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 outperformed the Treasury index by 23.1 bps.

AAA-A Corporate index underperformed the BBB Corporate index by 1.5 bps

U.S. Financials outperformed U.S. Non-Financials by 14.4 bps

U.S. financials outperformed non-financial corporate debt due to a higher coupon advantage and greater spread tightening for financials versus industrials. BBB credit performance was essentially in line with AAA-A, suggesting better spread compression for higher-quality debt in the quarter.

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

The third quarter of 2024 brought on new challenges for money market fund managers as the FOMC prepared the market for the beginning of the easing cycle. With the labor market softening and the Fed comfortable with the downward path of inflation, the Fed started the easing cycle with a bang, lowering rates 50 bps to 4.75% to 5.00 % at the September 18 meeting. The markets and "Fed speak" are now indicating two additional 25 bps cuts by year-end. There are still varying opinions on the timing, depth, and pace of future rate activity, and the Fed will base its decisions on the data. The challenge for managers going forward will be determining how the economy, inflation, and employment will influence FOMC action.

Money market fund assets continued to increase during the quarter as elevated money market yields attracted investors. Even with the Fed in the early stages of an easing cycle, money market funds remain a viable option relative to other short-term cash equivalent options.

First American Prime Obligations Funds

Credit conditions and trading ranges appear stable given the current rate environment. Given the yield curve and our conservative cash flow approach, the First American 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. During the third quarter, 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 flows. 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

As the Fed entered its easing cycle, front-end Treasury bill/notes rallied, incentivizing funds to move more cash into repo as supply remained plentiful, which put marginal upward pressure on repo and secured overnight financing rate (SOFR) yields. With the Fed in easing mode and additional downward moves expected, managers extended durations, investing in longer-term securities to get ahead of a forecasted lower yield environment. Extension into lower-yielding long-term securities put marginal downward pressure on portfolio yields. In addition, the 50 bps rate cut in September was a bit of a surprise, creating what we expect is a temporary dispersion in money market funds yields as funds digest the magnitude of the cut. Strategically, when presented with appropriate value, managers purchased floating-rate investments anticipated to benefit shareholders over the securities holding period. Our investment strategy will be fluid in the coming quarters as markets determine the Fed's comfort level with inflation and, ultimately, the timing and pace of future rate moves.

First American Retail Tax Free Obligations Fund

Tax-exempt money market fund yields were impacted by conditions in the broader municipal market. Strong reinvestment demand from municipal bond maturities and coupon payments allowed broker/dealers to set variable rate demand notes (VRDN) rates lower for much of the quarter. However, there were also some temporary spikes higher in resets, in part due to the robust primary supply. Notably, when these new-issue settlement dates were more concentrated, we witnessed big differences in yield between daily and weekly VRDNs. As investors repriced their expectations in favor of more aggressive Fed easing, municipal notes with one-year maturities saw yields decline by almost 70 basis points. We focused on security selection during this time and were able to add several new note positions at attractive levels. In the coming months, key strategies will continue to center around maintaining a longer weighted average maturity versus our peers, and also holding higher allocations to fixed-rate investments relative to competitors.

What near-term considerations will affect fund management?

Industry-wide, prime fund yields will gradually decline as managers roll maturities into lower yielding securities that are pricing in future rate cuts. Compression in credit spreads will also narrow SOFR floating rate coupons, putting marginal downward pressure on portfolio yields. However, broadly speaking, front-end yields in credit securities should continue to benefit from the overall supply of Treasury securities, as well as the potential impacts from money market fund reform creating competition among credit issuers for the marginal dollar. However, we do believe that the Institutional Prime Money Market sector is small enough that the overall impact will be muted. Based on our market outlook and breakeven analysis, in the coming quarters, we will seek to capitalize on investment opportunities that make economic sense. The Institutional and Retail Prime Obligations Funds should remain reasonable short-term investment options for investors seeking higher yields on cash positions while assuming minimal credit risk.

Yields in the government-sponsored enterprise (GSE) and Treasury space will decline in concert with additional anticipated Fed rate cuts. As with non-government debt, government and Treasury fund yields will continue to gradually decline as managers roll maturities into securities with lower yields that are pricing in future rate reductions. Managers will defend against future cuts by extending to optimal spots on the curve relative to Fed rate forecasts. We anticipate some moderate yield dislocations in Treasury, GSE and repo issues as the influx of Treasury supply and continued quantitative tightening increase competition as bonds look for a home away from dealer balance sheets. Any large supply changes in Treasury issuance may create yield volatility, and ultimately, opportunities on the front-end as the forces of supply and demand seek optimization. We will continue to seek value in all asset classes and exploit market conditions that support domestic and global economic outlooks.

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

Sources

Bloomberg

https://www.federalreserve.gov/monetarypolicy/files/monetary20240731a1.pdf

https://www.federalreserve.gov/monetarypolicy/files/monetary20240918a1.pdf

https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20240918.pdf

https://www.cbsnews.com/news/house-vote-continuing-resolution-government-shutdown/

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.
SIFMA is the Securities Industry and Financial Markets Association Municipal Swap index, which is a 7-day high-grade market index comprised of tax-exempt VRDOs reset rates that are reported to the Municipal Securities Rule Making Board's (MSRB's) SHORT reporting system.
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.
Variable Rate Demand Note (VRDN) is a debt instrument that represents borrowed funds that are payable on demand and accrue interest based on a prevailing money market rate, such as the prime rates. The interest rate applicable to the borrowed funds is specified from the outset of the debt and is typically equal to the specified money market rate plus an extra margin. Also referred to as a variable rate demand obligation (VRDO).
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.

[Please see important disclosures on the following page.]

The information and views expressed are provided by the funds' portfolio manager(s) and are current only through the date on this report. They are not intended to provide specific advice or to be construed as an offering of securities or a recommendation to invest. One cannot invest directly in an index. This information is subject to change at any time based on upon market or other conditions and may not be relied on as a forecast of future events or a guarantee of future results. Fund holdings, sector and portfolio allocations are subject to change at any time and are not recommendations to buy or sell any security. **Past performance does not guarantee future results.**

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For Retail Prime Obligations and Retail Tax-Free Obligations – You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The fund may impose a fee upon sale of your shares. An investment in the fund is not a deposit of U.S. Bank National Association and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.

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