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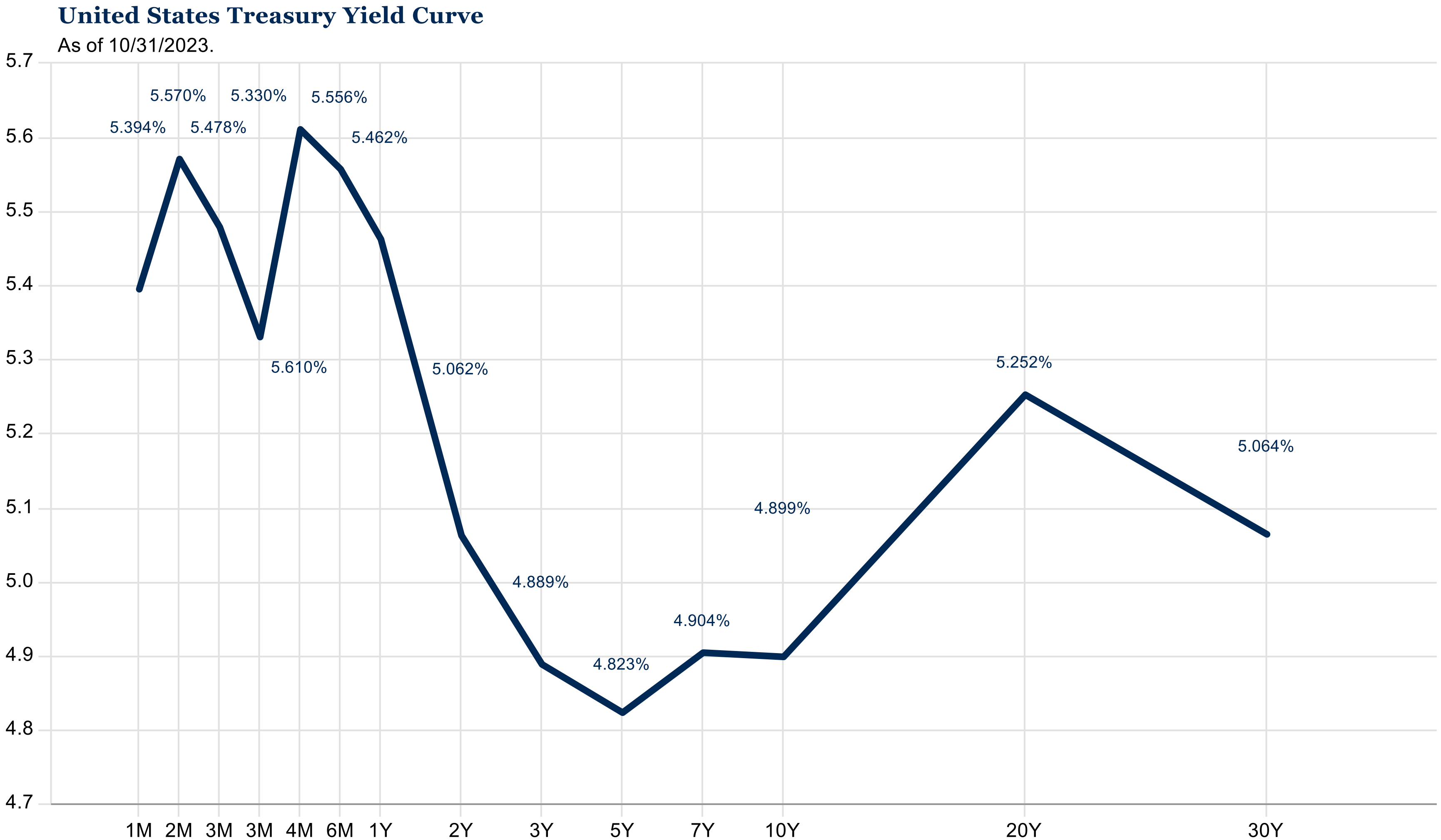
Cash/Reserve Portfolio Considerations

October 2023

Market Environment

Current Interest Rate Environment



Source: FactSet. As of 10/31/2023.

Select Yield Profiles

Short Term Yields	Yield*
Checking/Sweep	0.00%
3M US Treasury Bill	5.5%
6M US Treasury Bill	5.6%
6M CD	2.2%
Morningstar Taxable MM Median	5.1%
Sample Ultra Short Bond Manager Avg	6.2%

Sources: FactSet, Bankrate, Morningstar Direct, Baird, Payden & Rygel. As of October 31, 2023. *Yield for Money Market is 7-day yield.

- Government money market strategies yield over 5% in the current environment as the U.S. yield curve remains inverted.

- Ultra-short bond strategies provide an attractive yield premium over cash and Treasuries if a higher total return profile is warranted.

Short-Term Portfolio Considerations

Implementation Preferences

- Government money market funds should be the primary strategy for liquid cash needs
    - Provides an attractive yield and liquidity profile compared to CDs and individual Treasuries
- Use of CDs and laddered bond portfolios typically not a preferred approach
- Combine government money market strategies with ultra-short bond strategies if a total return oriented solution is needed, being cognizant of time horizon and liquidity needs
- Customized approaches to match cash flows can be a potential solution depending on the size of the portfolio and unique needs and objectives of clients

Implementation Strategies – Pros & Cons

Approaches	Observations	Pros	Cons
Government Money Market	Preferred implementation strategy for cash needs Money market fund consisting of Treasuries and other government related securities	• Attractive current yields • Daily liquid • Stable NAV • Not subject to bank risk • U.S. Government backed securities minimize credit risk • Not subject to potential liquidity fees like Prime funds	• Purchased funds need to be traded • Slight lag in transferring assets outside of custodial account • May have yields slightly lower than other non-gov't money market products
Individual Treasuries	Individual U.S. Treasury securities with varying maturities across the yield curve	• Attractive current yields • Limits interest rate risk if held to maturity • Minimal credit risk, backed by the U.S. government	• Limits return potential should the market environment shift • Unforeseen liquidity needs may result sales at a loss • Operational considerations having to reinvest at maturity
CDs	Bank certificate of deposits that have varying maturities, typically 1-18 months.	• Known yield for duration of contract • Not subject to interest rate risk	• Not liquid • Introduce credit risk above FDIC insurance limits ($250K) • Operational considerations of having to roll CDs • May be subject to penalties and fees if withdrawn early • Given illiquidity, may miss on greater return opportunities depending on the market environment

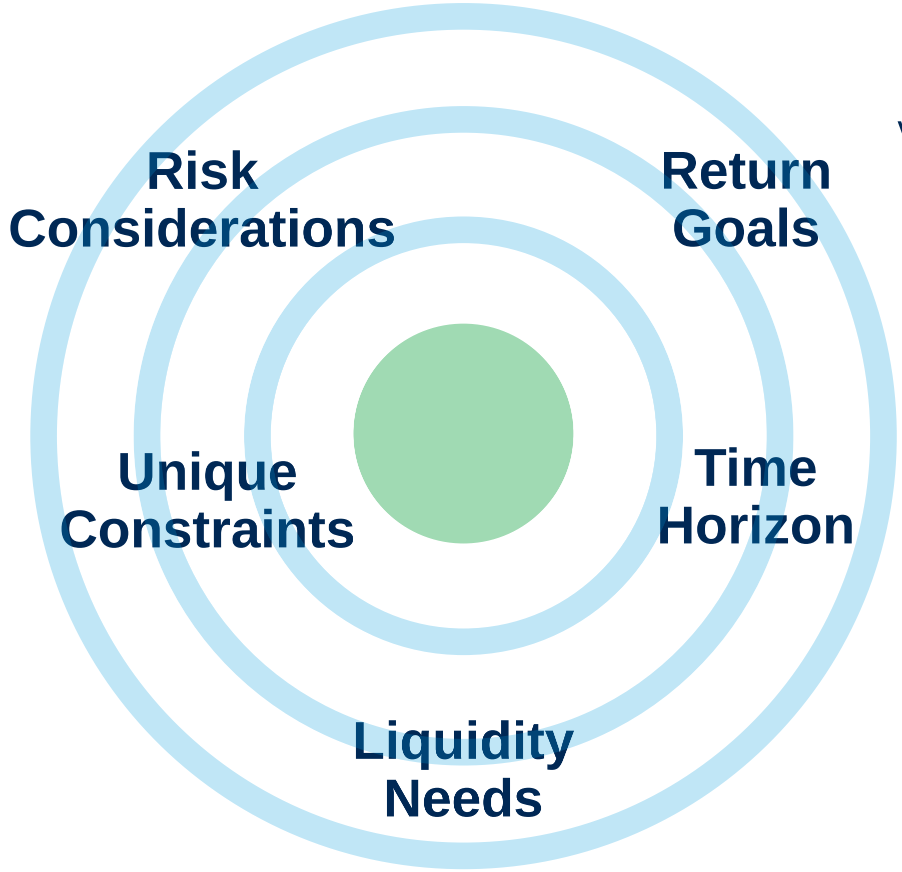
Implementation Strategies – Pros & Cons

Approaches	Observations	Pros	Cons
Ultra-Short Fixed Income Strategies	Preferred implementation method of a total return strategy Typically, strategies have ½ - 1 year of duration, consist of government, corporate and securitized securities	• Higher total return potential • Separate accounts or pooled vehicles depending on size • Pooled vehicles offer attractive liquidity • Lower interest rate risk due to low duration profile	• Subject to mark to market volatility and potential for losses • Longer time horizon
Custom Cash Flow Matching	A potential solution depending on the size of the portfolio and unique objectives	• Can meet specific cash flows needs in the future if known • Helps minimize interest rate risk	• Limits overall return potential in changing market conditions • Could be more costly to implement
Laddered Bond Portfolios	Traditional laddered bond portfolio at specified maturities	• Known cash flow timing • More insulated in rising rate environments	• Greater operational burden • Less diversified and potentially subject to more credit risk • Reinvestment risk if rates move lower • Unforeseen cash flow needs may result in losses

Investment Factors to Consider

Can the portfolio experience market to market volatility?

Stability of portfolio value vs. maximizing yield/return



Size of portfolio, investment restrictions, debt covenants, etc.

When will the portfolio need to be drawn upon?

Are cash flows and amounts known?

A Spectrum of Portfolio Solutions

Used as source of funds

Most Conservative Cash Needs

- Short time horizon and heavy reliance on pool for operating needs.
- Largest allocation to money market strategies to maintain liquidity and protect portfolio value
- Minimal if any other investment strategies

Focus on Liquidity but Consider Total Return Options

- Portion in money market to meet known or unknown liquidity needs
- Invest portion not expected to be used in 12 months in ultra-short duration, total return-oriented, fixed income strategies
- If large enough and there is a known cash flow schedule, a custom approach to matching cash flows may be an option

Shorter Time Horizon ← → *Longer Time Horizon*

Maintain a Preference for Liquidity

- Majority of assets in money market strategies given the short-time horizon
- Ability to add ultra-short duration, total return-oriented, fixed income strategies depending on the risk tolerance of the organization

Total Return Focused Approach

- Larger allocations to ultra-short duration, total return-oriented, fixed income strategies
- Modest allocations to government money market strategies for unforeseen cash needs
- Ability to add small allocation to intermediate duration or dynamic bond strategies depending on risk tolerance, and other unique objectives

Not expected to draw assets

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