Florida LGIP Strategy Update

Q1 2024

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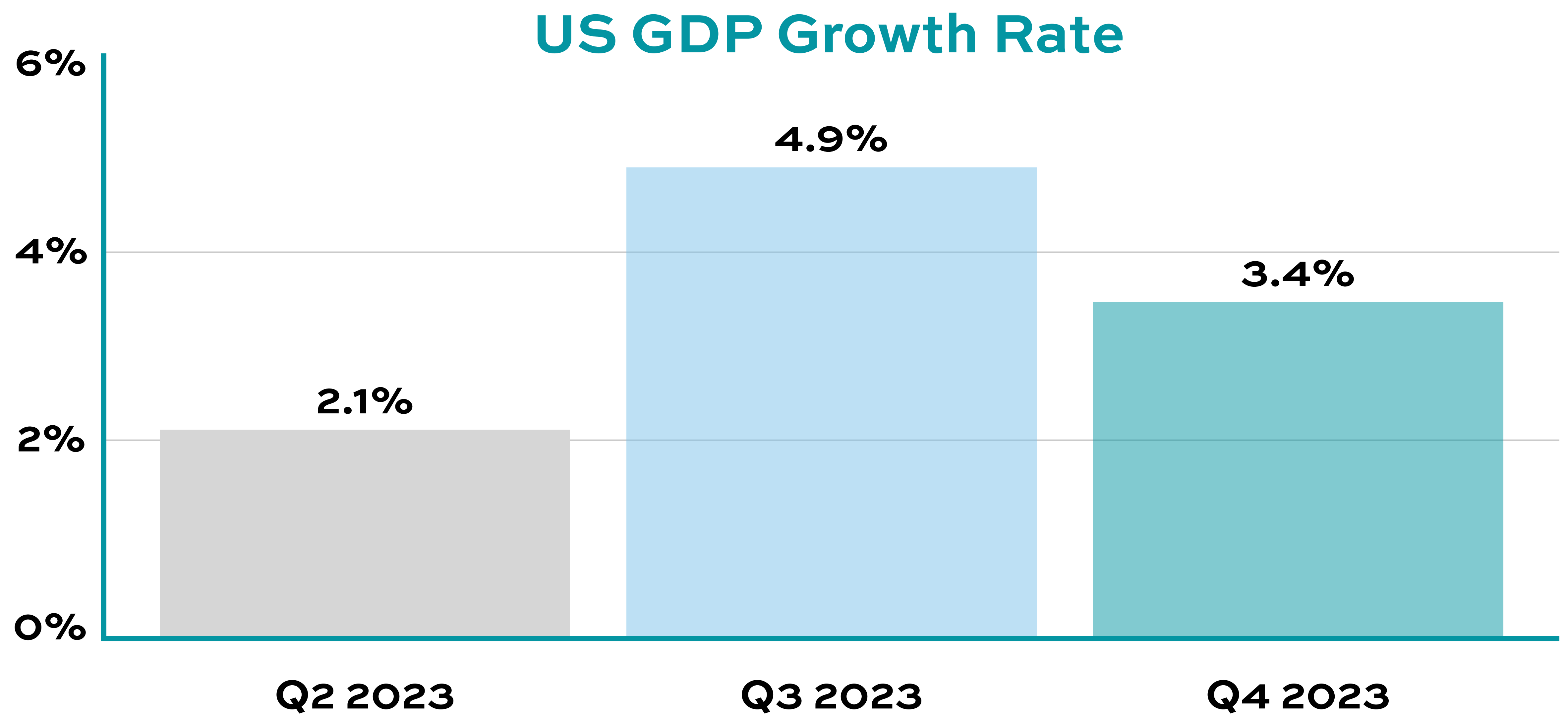
Economic Update

Q4 Real US Gross Domestic Product (GDP), continues to surprise to the upside with a final revision print of 3.4% for 4Q 2023, surpassing expectations of 3.2%. Consumer consumption, comprising ~70% of US GDP, is forecasted to moderate in 2024 while remaining strong overall. Fitch Ratings revised its real consumer spending forecast from 0.6% to 1.3% in February 2024 as consumers continue to show signs of strength despite lingering inflationary pressures.

Monthly US jobs reports continue to beat expectations: Total nonfarm payrolls increased by 303k in March, exceeding expectations of 202k. The unemployment rate fell from 3.9% to 3.8%, and average hourly earnings increased by 0.3% month-over-month, in line with expectations. JOLTS data (US job openings) indicates ~1.162 million more job openings than pre-Covid peak levels, signaling ongoing tightness in the labor market.

> **The Federal Reserve** policymakers agreed in March that it would be appropriate to maintain a restrictive stance "for some time," acknowledging that decisions around rate cuts would be made "meeting by meeting".



KEY TAKEAWAY

Consumer consumption, comprising ~70% of US GDP, is forecasted to moderate in 2024 while remaining strong despite lingering inflationary pressures.

***Bureau of Economic Analysis** | https://www.bea.gov/data/gdp/gross-domestic-product

Economic Update (cont.)

Inflationary pressures have moderated from their recent 40-year highs but are anticipated to remain above the Fed's target of 2% for some time. The March CPI data came in hotter than expected (3.2% YoY vs 3.1% estimate) with Fed chair Powell describing the disinflation road ahead as a "bumpy path". Unemployment remains near the lowest levels since the 1950s, providing ongoing opportunity for the Fed to pursue tighter monetary policy.

Markets are now pricing in fewer than 3 quarter point rate cuts in 2024, a shift down from recent expectations of five to six quarter point cuts, while the Fed's median projection for 2024 stands at three quarter point cuts (-75 basis points, or 0.75% in total).

Volatility is expected to persist as investors balance the expectations for rate cuts with generally positive economic data.

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US Treasury Yields

Date & Yield

Tenor	3/31/23	1/31/24	2/28/24	3/28/24
1M	4.74	5.53	5.50	5.49
3M	4.85	5.42	5.45	5.46
6M	4.94	5.18	5.31	5.38
1Y	4.64	4.73	5.00	5.03
2Y	4.06	4.27	4.64	4.59
3Y	3.81	4.05	4.44	4.40
5Y	3.60	3.91	4.26	4.21

US Department of the Treasury
https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_%20value=2024

LGIP Investment Strategy

We believe the Fed will do everything in its power to fulfill its mandate of "stable prices" by holding short-term rates at or near current levels until CPI gets convincingly closer to their 2.00% goal.

Emphasis on quality: We continue to see value in high-quality municipal bonds and tier-one (highest rated) commercial paper (where appropriate). Yield spreads are near their lowest levels in years. Domestic banks, especially short-term corporate bonds, are an excellent alternative to traditional money market instruments and provide considerable yield pickup to commercial paper.

At this juncture, we are **focused on relative value between fixed and floating-rate instruments**. Since early December, fixed-rate bonds appear very expensive, while floating rates appear unexpectedly cheap. A delay in rate cuts has made floating-rate securities more attractive.

Compression in yield spreads (extra yield above a comparable treasury) in commercial paper has made treasuries and municipal bonds look more appealing on a relative basis. With spreads near historic lows, there is potential for spreads to widen on news events, especially regarding inflation, global growth, or geopolitical events. We seek to identify fairly valued securities and avoid instruments where yield spreads have moved too low.

KEY TAKEAWAY

We continue to see value in high-quality municipal bonds and tier-one commercial paper. Domestic banks, especially short-term corporate bonds, are an excellent alternative to traditional money market instruments and provide considerable yield pickup to commercial paper.

STRATEGY

Unemployment remains near the lowest levels since the 1950s, providing ongoing opportunity for the Fed to pursue tighter monetary policy.

Florida LGIP Comments

FL FIT Preferred Deposit Pool:

Qualified Public Deposits (QPD) and FDIC-insured deposit yields have stabilized close to the federal funds rate and will closely track any future changes in the benchmark overnight rate. The FL-FIT PDP pool remains a competitive alternative for Florida municipalities seeking yield away from any credit exposure. We expect this pool to closely track the effective federal funds rate, which finished the quarter at 5.28%.

QTD net return: 1.32%.

End of quarter net yield: 5.28%

FL FIT Cash Pool:

Strategically, we continue to seek relative value and identify securities that can help provide safety and yield regardless of the economic backdrop. Geographically, we continue to focus on adding exposure to domestic issuers and seek out short-term corporate bonds as an alternative to commercial paper. Additionally, there continues to be ample liquidity from prime money markets, ultra-short bond funds and bank deposits. We expect the pool to continue to outpace the S&P 30-day LGIP index.

QTD net return: 1.38%.

End of quarter net yield: 5.50%

FL FIT Enhanced Cash Pool (floating NAV, total return focus):

We continue to focus on balancing liquidity while opportunistically taking advantage of market opportunities to lock-in yields for the coming years. For now, we see limited opportunities in fixed-rate securities and prefer municipal credit spreads to those found in corporate bonds. The pool has closely tracked its benchmark over the last twelve months, and we expect the performance of this pool to be in-line with its 0–1-year benchmark moving forward. See below for further details.

FL FIT Select Cash Pool (floating NAV, total return focus):

Late last year, we made the decision to tactically reintroduce portfolio insurance (interest rate futures) to help insulate the portfolio from ongoing volatility. Like our Enhanced Cash pool, the strategy is to utilize both floating and fixed coupon structures with high credit quality, appropriate issuer diversification, and an eye towards liquidity. We are targeting a duration near the benchmark of ~1.75 years while also providing some flexibility should rates unexpectedly continue to move higher (floating-rate instruments). We continue to see ample opportunities in the high-quality, taxable municipal market to provide ample yield spread while also increasing credit quality from more traditional corporate or credit instruments. The pool continues to outpace its 1–3-year benchmark over the longer term and has outpaced its benchmark by ~72 basis points during Q1 2024. See below for further details.

Florida Floating NAV Pool Details†

(as of 03/28/2024, all return figures are %, net of fees)

FL Enhanced Cash:

PERFORMANCE

Benchmark: 75/25 split of ICE 0-1y US Treasury and 0-1y AAA-A Corporate.

- March 2024 QTD return %: (+1.12).
- Benchmark return %: (+1.18).

STRATEGY

Focus on increasing credit quality gradually and reducing corporate bond exposure over time in favor of high-quality municipal bonds. Extend duration, lock in yields.

Pool yield remains resilient as we've implemented mostly non-callable securities with favorable credit spreads.

- Yield at end of the quarter: 5.03%.
- Focus on total return for floating-nav pools.

Targeted duration band of 0.75 to 1.25 years.

- Extend duration to target an avg duration close to 1 year (currently ~1 year).
- Decrease floating-rate instruments over time (currently ~48% of portfolio) in favor of fixed.

FL Select Cash:

PERFORMANCE

Benchmark: 75/25 split of ICE 1-3y US Treasury and 1-3y AAA-A Corporate & Gov't Index.

- March 2024 QTD return %: (+1.00).
- Benchmark return %: (+0.32).

STRATEGY

Continue to focus on high-quality instruments with call protection to provide consistency in yield for years to come.

- Yield at end of the quarter: 4.50%.
- Focus on total return for floating-nav pools.

Targeted duration band of 1.00 to 2.00 years, currently 1.75 years.

- Increased duration as we extend maturities and lock in yield.
- Hedge the portfolio during volatile periods to provide better total returns over longer horizons.
- Continue to increase allocation to fixed-rate securities (~61% of portfolio).

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