Market Update and Portfolio Review

Dakota County

August 2025

pfmam.com

Agenda

- Market Update
- Portfolio Review

Market Update

Current Market Themes

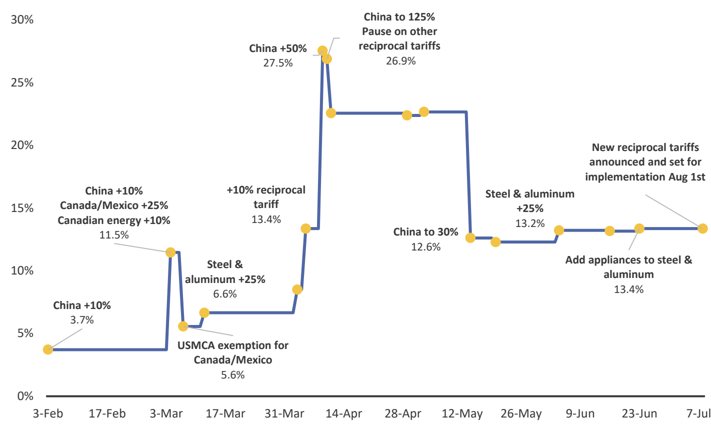
- U.S. economy is resilient but showing signs of cooling
  - Headline employment data belies underlying weakening
  - Inflation remained rangebound but does not yet reflect the full impact of tariffs
  - Fiscal policy uncertainty and volatile tariff rollouts weigh on consumer sentiment
- Fed remains on hold but may cut rates later this year
  - The Fed's June "dot plot" implies 50 basis points of cuts in the back half of 2025 but members are split between 0 and 2 cuts this year
  - Fed Chair Powell stated the effect, size, and duration of tariffs are all highly uncertain making staying on hold the appropriate thing to do as they wait to learn more
- Treasury yields whipsawed by tariff announcements in the quarter
  - Concerns over the budget bill, debt ceiling, and monetary policy added to volatility
  - The yield curve continued to steepen between 2 years and 10 years
  - Credit spreads widened sharply following tariff fears but tightened to levels near historic tights by quarter end

Source: Details on market themes and economic indicators provided throughout the body of the presentation. Bloomberg Finance L.P., as of June 30, 2025.

Uncertainty Remains Exceptionally High

Effective Tariff Rate

Select Activity from February 3, 2025 to July 8, 2025



Fiscal Policy Adds to Uncertainty

- Budget/Spending
- Tax Reform
- Funding Freezes
- Debt Ceiling

Source: Bloomberg Finance L.P. as of July 8, 2025. Yellow dots represent activity impacting effective tariff rate.

Impacts of Reconciliation Bill

Congressional Budget Office (CBO)

Select Sectors FY 2025 – FY 2034

TCJA & Tax Cuts
Increase deficit by $4.6 trillion

Armed Services
Increase deficit by $149 billion

Homeland Security
Increase deficit by $129 billion

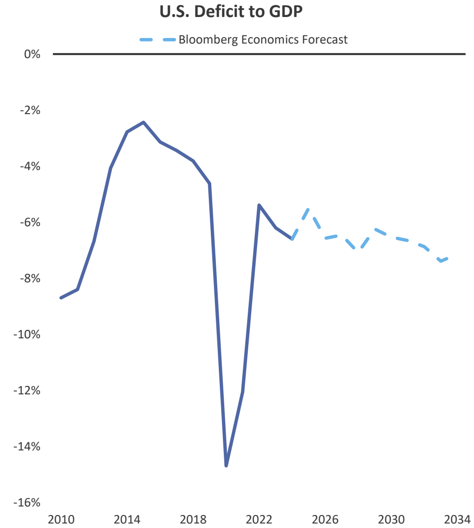
Medicare & Medicaid
Decrease deficit by $1.1 trillion

Agriculture, Nutrition, and Forestry
Decrease deficit by $120 billion

Other Spending Cuts
Decrease deficit by $371 billion

Total Deficit Impact: $3.3 Trillion Increase

U.S. Deficit to GDP



Source: CBO: Estimated Budgetary Effects of an Amendment in the Nature of a Substitute to H.R. 1, the One Big Beautiful Bill Act, Relative to CBO's January 2025 Baseline | Congressional Budget Office. and Bloomberg Finance L.P., as of July 1, 2025.

Moody's Downgrades United States to Aa1

- **Rationale for downgrade**
  - Large fiscal deficits which have led to increases in government debt and interest payment ratios to levels significantly above those of Aaa-rated peers
  - High deficit-to-GDP and debt-to-GDP ratios that are expected to rise further due to increased interest payments on debt, rising entitlement spending, and relatively low new revenue generation
- **Rationale for stable outlook**
  - Exceptional credit strengths such as the size, resilience and dynamism of its economy and the role of the U.S. dollar as the global reserve currency
- **The downgrade is generally expected to have a minimal impact on markets**
  - S&P and Fitch previously downgraded the United States in 2011 and 2023, respectively
  - United States has been on credit watch negative by Moody's since November of 2023
  - The dollar remains the world's reserve currency and Treasuries remain highly liquid
  - Moody's also downgraded the U.S. government sponsored enterprises, and several banks and insurance companies whose rating was tied to the U.S. government

United States

Aaa → Aa1

Economic Momentum Slows Amid Uncertainty

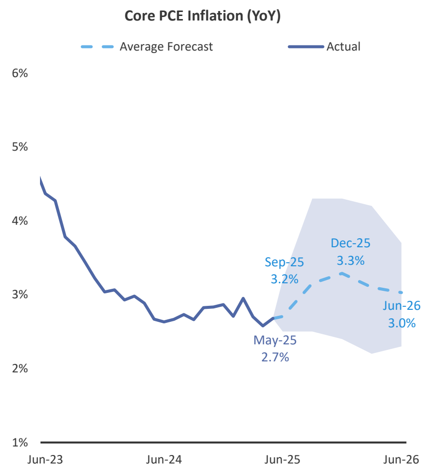
Fed Chair Powell : "Despite elevated uncertainty, the economy is in a solid position. The unemployment rate remains low, and the labor market is at or near maximum employment. Inflation has come down a great deal but has been running somewhat above our 2.0% longer-run objective."

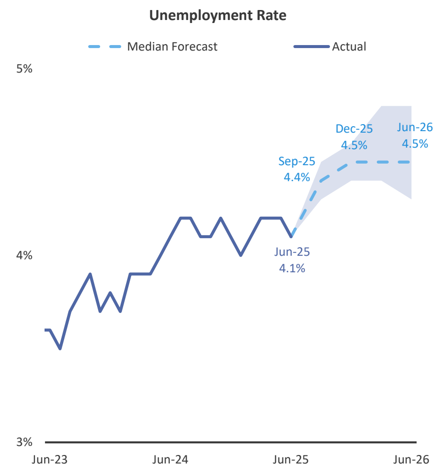
	2023												2024												2025				
CPI YoY	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.2	3.1	3.4	3.1	3.2	3.5	3.4	3.3	3.0	2.9	2.5	2.4	2.6	2.7	2.9	3.0	2.8	2.4	2.3	2.4
Unemployment Rate	3.5	3.6	3.5	3.4	3.6	3.6	3.5	3.7	3.8	3.9	3.7	3.8	3.7	3.9	3.9	3.9	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2	4.2	4.2
U.S. Real GDP QoQ	2.8			2.4			4.4			3.2			1.6			3.0			3.1			2.4			-0.5			*2.1% Est.**	
Consumption QoQ	4.9			1.0			2.5			3.5			1.9			2.8			3.7			4.0			0.5			*1.9% Est.**	

Worse	Neutral	Better

The Fed's Dual Mandate Gets More Complicated

Fed Chair Powell : "We may find ourselves in the challenging scenario in which our dual mandate goals are in tension. If that were to occur, we would consider how far the economy is from each goal and the potentially different time horizons over which those respective gaps would be anticipated to close."

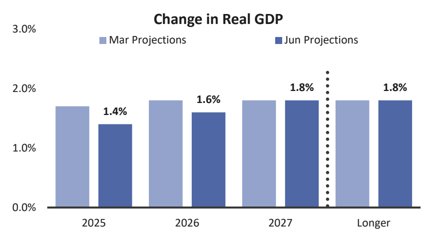


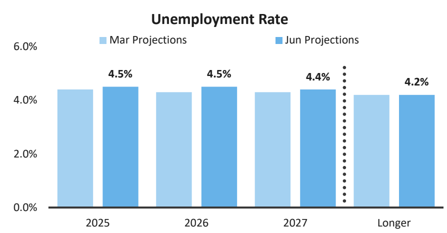


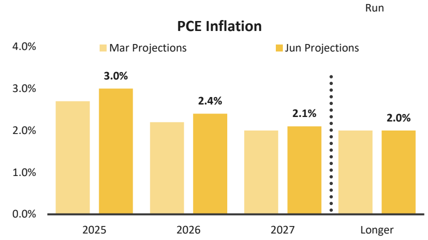
Source: FOMC Chair Jerome Powell Press Conference, June 18, 2025. Bureau of Economic Analysis, and Bloomberg Finance L.P., as of May 2025 (left). Bureau of Labor Statistics, and Bloomberg Finance L.P., as of June 2025 (right). Data is seasonally adjusted. Survey responses after June 27, 2025, included in median and forecast range. Forecast range shown is the 75th and 25th percentile of responses.

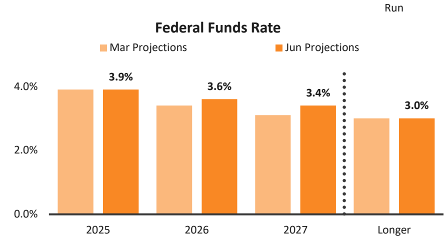
Fed's Updated Summary of Economic Projections

Fed Chair Powell : "Think of it as the least unlikely path in a situation like this where uncertainty is very high."





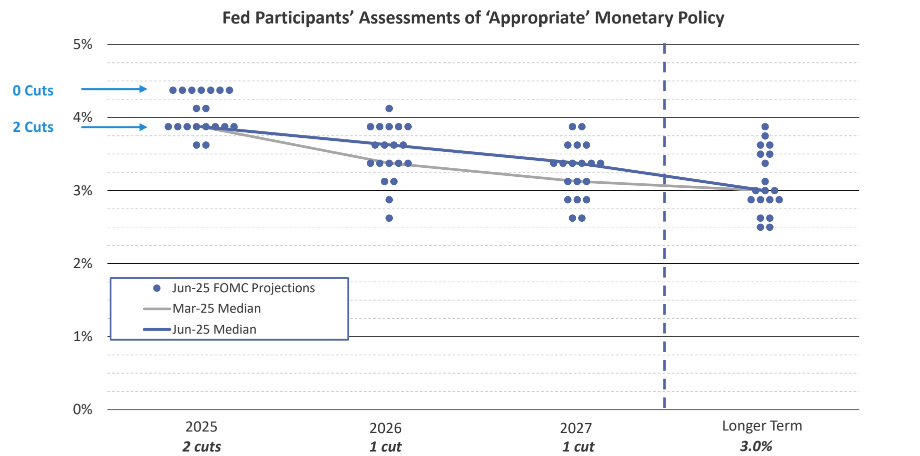




Source: Federal Reserve, latest median economic projections as of June 2025.

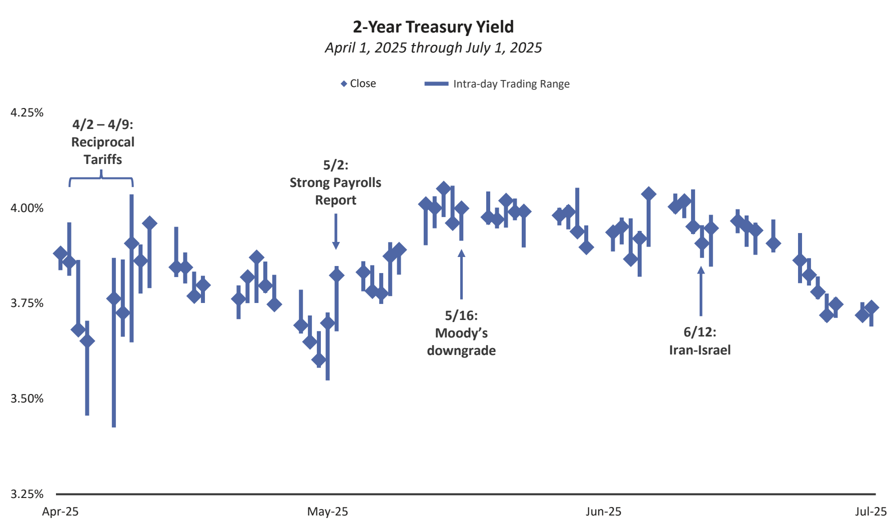
Fed's Latest "Dot Plot" Shows Divergent Views

Fed Chair Powell : "With uncertainty as elevated as it is, no one holds these rate paths with a lot of conviction."



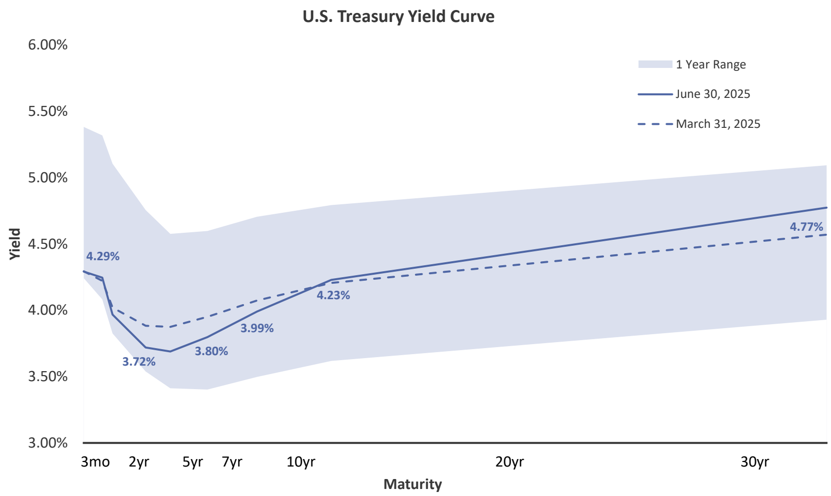
Source: Federal Reserve; Bloomberg Finance L.P. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the Federal Funds rate at each year-end. As of June 2025.

Treasury Volatility Wanes



Source: Bloomberg Finance L.P., as of July 1, 2025.

U.S. Treasury Yield Curve Steepens

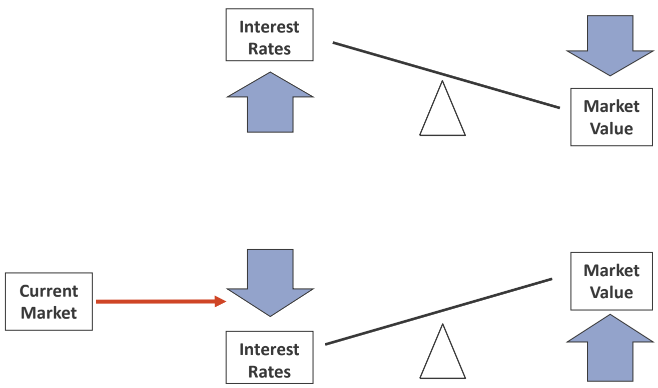


Source: Bloomberg Finance L.P., as of June 30, 2025.

Portfolio Review

Interest Rate Risk

- Market values and interest rate movements are inversely related
- As interest rates rise or fall market values fluctuate; longer maturity = greater price volatility
- Market value fluctuations will impact total return, which includes unrealized price depreciation



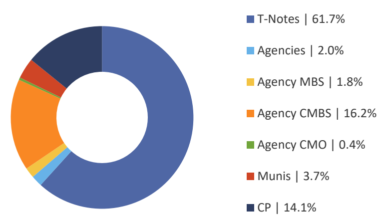
Dakota County Portfolio Characteristics

June 30, 2025

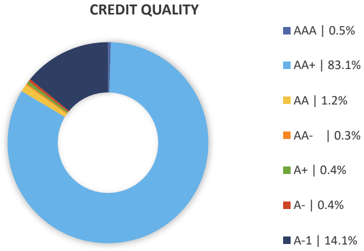
PORTFOLIO STATISTICS

Market Value	$58,617,765
Duration	1.45 Years
Yield at Cost	4.25%
Yield at Market	4.02%

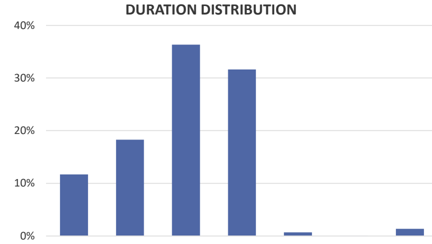
SECTOR ALLOCATION



CREDIT QUALITY



DURATION DISTRIBUTION



Information as of June 30, 2025. Sector allocation excludes cash balances of $415,515.65. Credit quality uses S&P rating, or Moody's equivalent if not rated by S&P. Please see important disclosures.

Issuer Diversification

June 30, 2025

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
U.S. Treasury	**64.1%**	
United States Treasury	64.1%	AA / Aaa / AA
Federal Agency	**3.9%**	
Federal Home Loan Banks	2.0%	AA / Aaa / NR
Federal Home Loan Mortgage Corp	0.9%	AA / Aaa / AA
Federal National Mortgage Association	1.0%	AA / Aaa / AA
Agency CMBS	**16.2%**	
Federal Home Loan Mortgage Corp	14.5%	AA / Aaa / AA
Federal National Mortgage Association	1.7%	AA / Aaa / AA
Agency CMO	**0.6%**	
Federal Home Loan Mortgage Corp	0.3%	AA / Aaa / AA
Federal National Mortgage Association	0.3%	AA / Aaa / AA
Agency MBS Pass Through	**2.2%**	
Federal Home Loan Mortgage Corp	0.7%	AA / Aaa / AA
Federal National Mortgage Association	1.5%	AA / Aaa / AA
Municipal	**3.1%**	
New York State Dormitory Authority	0.3%	AA / NR / AA
San Diego Community College District	0.5%	AAA / Aa / NR
State Board of Administration Finance C	1.2%	AA / Aa / AA
State of Connecticut	0.3%	AA / Aa / AA
State of Washington	0.9%	AA / Aaa / AA
Commercial Paper	**10.0%**	
Bank of America Corp	2.0%	A / NR / AA
Barclays PLC	2.0%	A / NR / A
Chevron Corp	2.0%	AA / Aa / NR
Citigroup Inc	2.0%	A / Aa / A

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Commercial Paper	**10.0%**	
Groupe BPCE	2.0%	A / Aa / A
Total	**100.0%**	

Ratings shown are calculated by assigning a numeral value to each security rating, then calculating a weighted average rating for each security type / issuer category using all available security ratings, excluding Not-Rated (NR) ratings. For security type / issuer categories where a rating from the applicable NRSRO is not available, a rating of NR is assigned. Includes accrued interest and excludes balances invested in overnight funds.

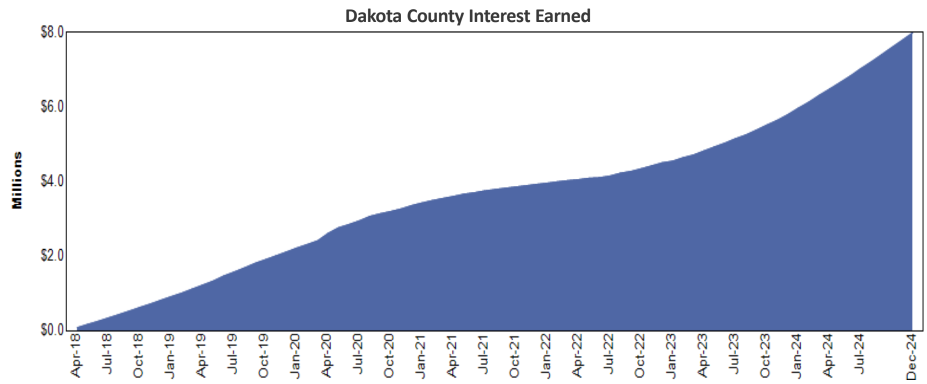
Dakota County Portfolio Performance

- The portfolio returned 0.34% for the quarter, which was exceeded the total return of the benchmark index
- Portfolio performance has so far exceeded the return of the benchmark for the past year, past three years, past five years, and since its inception

	2Q 2025[4]	Past Year	Past 3 Years	Past 3 Years	Since Inception (3/31/2018)
Dakota County Portfolio	0.34%	4.61%	2.45%	1.99%	2.23%
BoA / ML 0 – 3 Year U.S. Treasury Index	0.30%	4.46%	2.19%	1.73%	2.01%

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Bank of America / Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Includes money market fund/cash balances in performance and duration calculations.
4. Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than 1 year are presented on an annualized basis. Information as of June 30, 2025.

Accrual Basis Earnings – Dakota County Portfolio



Accrual Basis Earnings – Dakota County

Accrual Basis Earnings	3 Months	1 Year	3 Years	5 Year	Since Inception[1]
Interest Earned[2]	$442,211	$1,595,327	$3,076,571	$4,445,649	$5,998,763
Realized Gains / (Losses)[3]	($1,979)	($69,745)	($366,380)	$84,807	$105,962
Change in Amortized Cost	$151,247	$677,714	$1,360,140	$1,356,595	$1,887,578
Total Earnings	**$591,479**	**$2,203,295**	**$4,070,330**	**$5,887,051**	**$7,992,303**

1. *Inception of March 31, 2018.*
2. *Interest earned calculated as the ending accrued interest beginning accrued interest, plus net interest activity.*
3. *Realized gains / (losses) are shown on an amortized cost basis.*

Fixed-Income Sector Commentary – 2Q 2025

- The **Federal Open Market Committee ("FOMC")** maintained the target range for the Federal Funds rate at 4.25 – 4.50% during both meetings in Q2, citing resilience in the labor market and marginal improvements in an otherwise sticky inflation picture.
- **U.S. Treasury** yields in the intermediate-term (2 – 7 years) moved lower over the quarter. The change in yields reflected ongoing market sensitivity to domestic policy uncertainty, with a continued focus on the potential impacts of taxes, tariffs, immigration, and deregulation. However, progress on trade negotiations and lower recession probabilities kept the declines in check. As a result of the Treasury rally, total returns were strong for the quarter.
- **Federal Agency & supranational** spreads remained low throughout Q2. Both sectors produced slightly positive excess returns for the quarter. Issuance remained light and the incremental income from the sectors is near zero.
- **Mortgage-Backed Securities** performance was strong across all structures and coupons as rate volatility moderated over the quarter. Likewise, **Agency-backed commercial MBS (CMBS)** also posted strong performance for the quarter and saw positive excess returns.
- **Short-term credit** (commercial paper and negotiable bank CDs) yields on the front end of the yield curve rose slightly in response to the approaching Treasury "X-Date" (estimated date for Treasury to exhaust funds under the debt ceiling) while yields fell modestly on the long end as demand shifted into longer-term Treasury notes. Yield spreads tightened over the quarter in response to moderated issuance and strong demand.

Fixed-Income Sector Outlook – 3Q 2025

- **U.S. Treasury** volatility is expected to continue given both fiscal and monetary policy uncertainty. The potential impact of further policy changes on economic growth, inflation, and labor markets are unknown. We expect to see an ongoing steepening of the yield curve given the expectation for future Fed rate cuts.
- **Federal Agency & supranational** spreads are likely to remain at tight levels. Government-heavy accounts may find occasional value on an issue-by-issue basis.
- **Taxable Municipals** continue to see little activity due to an ongoing lack of supply and strong demand which continues to suppress yields in both the new issue and secondary markets. We expect few opportunities in the near term.
- **Mortgage-Backed Securities** are expected to underperform over the short term, while rich current valuations will keep returns over the year positive. We may use any meaningful spread widening to add at more attractive levels.
- **Short-term credit** (commercial paper and negotiable bank CDs) spreads in Q3 will continue to be subject to ongoing debt ceiling dynamics or the Fed's decision to slow the pace of quantitative tightening. Given the positively sloped shape of the money market yield curve, we favor a mix of floating rate in the front end with fixed rate in longer maturities.

The views expressed within this material constitute the perspective and judgment of PFM Asset Management at the time of distribution (6/30/2025) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management cannot guarantee its accuracy, completeness, or suitability.

Fixed-Income Sector Outlook – 3Q 2025

Sector	Negative	Slightly Negative	Neutral	Slightly Positive	Positive
COMMERCIAL PAPER / CD				●	
TREASURIES					
T-Bill			●		
T-Note			○	●	
FEDERAL AGENCIES					
Bullets	●				
Callables			●		
SUPRANATIONALS		●			
CORPORATES					
Financials			●		
Industrials		●			
SECURITIZED					
Asset-Backed			●	○	
Agency Mortgage-Backed		○	●		
Agency CMBS			●		
MUNICIPALS	●				

● *Current outlook* ○ *Outlook one quarter ago*

Factors to Consider for 6 – 12 Months

Monetary Policy (Global):

- The Fed held rates steady in Q2 amid healthy labor markets and tariff-driven inflation concerns.
- The "dot plot" still signals 50 bps in cuts for 2025 but views have diverged as seven members are calling for no cuts in 2025.
- Other major central banks (except Japan) continued cutting rates as global inflation cools, though tariffs pose inflation risks and cloud the outlook.

Economic Growth (Global):

- U.S. growth turned negative in early 2025, driven by a historically high trade deficit and weaker consumer spending. Strong inventory build and fixed investment helped offset this weakness.
- The drag to GDP from net exports is expected to reverse, but declining consumer confidence may dampen spending and investment.
- Escalating trade and geopolitical tensions create the potential for slower global growth.

Inflation (U.S.):

- Inflation has moved closer to the Fed's 2.0% target, but tariff-driven price pressures may emerge as businesses deplete pre-tariff inventories.
- Fed Chair Powell said that he does expect tariffs to impact inflation but that the size, duration, and time of tariff effects are highly uncertain.

Financial Conditions (U.S.):

- Financial conditions swung sharply during the quarter as the tariff rollout caused equities to sell off, credit spreads to widen, and heightened Treasury volatility.
- The announcement of tariff pauses sparked a risk-on trade resulting in equities near record highs and credit spreads tightening beyond long-run averages.
- The evolving fiscal landscape and persistent uncertainty may lead to tightening financial conditions over the next 6 – 12 months.

Consumer Spending (U.S.):

- Consumer sentiment remains subdued due to expectations of higher prices, weaker labor markets, and tepid growth. Sentiment has improved slightly since April amid tariff negotiation progress but remains low.
- A sharp labor market downturn remains the biggest threat to consumer spending.
- Tariff-driven inflation increases present additional risks such as slower real wage growth and also reduced spending.

Labor Markets (U.S.):

- The labor market remains healthy, though early signs of cooling are emerging, particularly in rising jobless claims.
- Monthly job gains have slowed but still match labor force growth. Slower population growth may lower the job creation rate that is needed to maintain stable unemployment.
- With hiring and quits rates low, any acceleration in layoffs may result in job seekers remaining unemployed for longer.

● **Current outlook** ○ **Outlook one quarter ago**

Stance Unfavorable to Risk Assets | Negative | Slightly Negative | Neutral | Slightly Positive | Positive | **Stance Favorable to Risk Assets**

Statements and opinions expressed about the next 6 – 12 months were developed based on our independent research with information obtained from Bloomberg Finance L.P. and FactSet. The views expressed within this material constitute the perspective and judgment of PFM Asset Management at the time of distribution (6/30/2025) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management cannot guarantee its accuracy, completeness, or suitability.

Certificate of Compliance

During the reporting period for the period ended June 30, 2025, the account(s) managed by PFM Asset Management ("PFMAM") were in compliance with the applicable investment policy and guidelines as furnished to PFMAM.

Acknowledged : *PFM Asset Management, a division of U.S. Bancorp Asset Management, Inc.*

Note: Pre- and post-trade compliance for the account(s) managed by PFM Asset Management is provided via Bloomberg Asset and Investment Manager ("AIM").

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