Florida LGIP Strategy Update

Q3 2024

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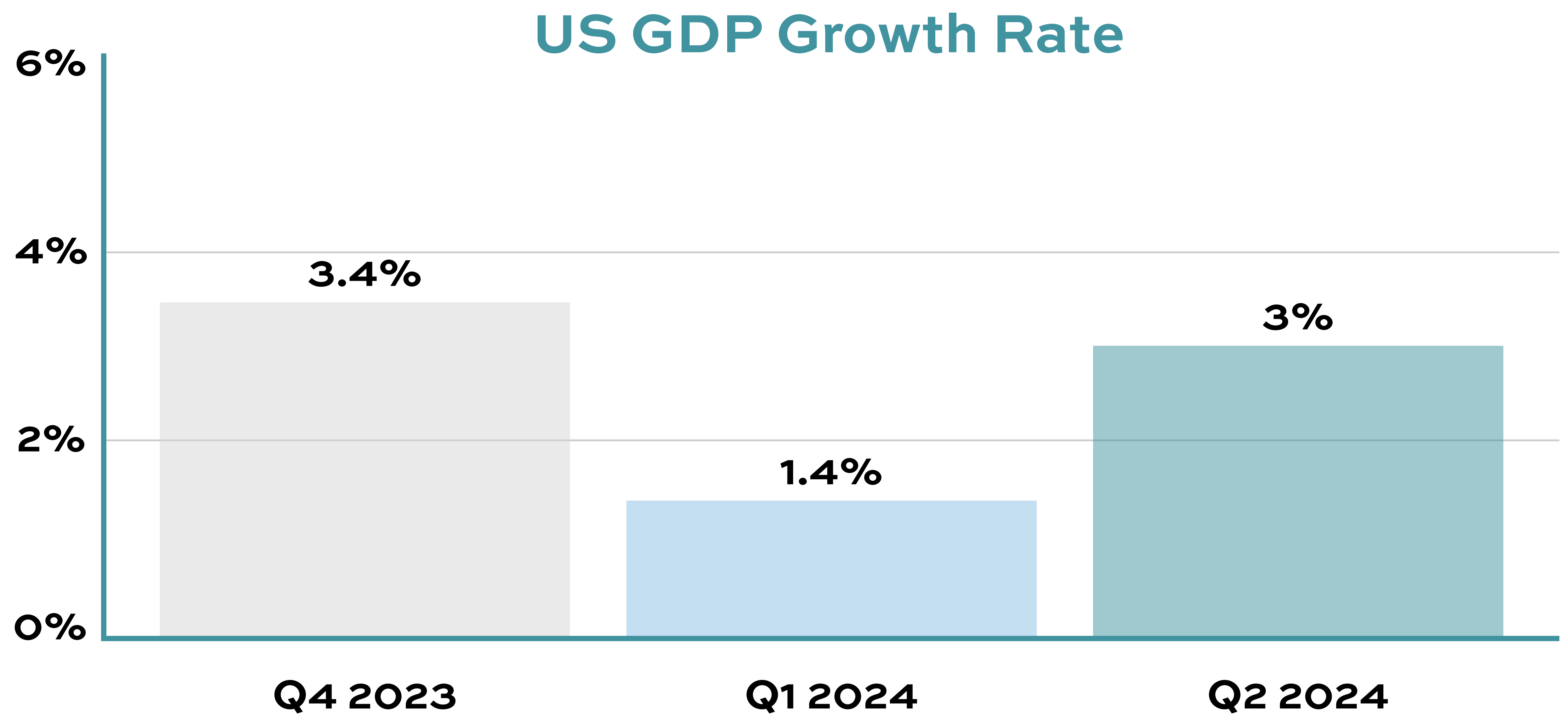
Economic Update

Q2 2024 Real US Gross Domestic Product (GDP), which subtracts out the effects of inflation, registered at 3% for its final revision, slightly above expectations of 2.9%, and up from 2.1% in the second quarter of 2023. Consumer consumption, comprising ~ 70% of US GDP, is forecasted to match 2023's growth. Fitch Ratings has now revised its real consumer spending forecast from 1.9% in May up to 2.2% as of September 2024 as consumers continue to show signs of strength despite lingering inflationary pressures.

Monthly US jobs reports continue to remain strong: Total nonfarm payrolls increased by 254k in September, easily exceeding expectations of 150k. The unemployment rate decreased slightly from 4.2% to 4.1%, and average hourly earnings increased by 0.4% month-over-month in September, exceeding expectations of 0.3%. JOLTS data (US job openings) remains above pre-Covid levels at 8,040k, but the gap continues to shrink.

> **On September 18th, Federal Reserve policymakers** agreed to cut rates by 50 basis points, the first time they have cut rates since 2020.



KEY TAKEAWAY

Consumer consumption, comprising ~ 70% of US GDP, is forecasted to match 2023's growth.

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

Economic Update (cont.)

The likely combined drop in the inflation rate in conjunction with the rise in the unemployment rate in 2024 led the Federal Reserve to begin easing its policy. The Federal Reserve forecasts a year-end Fed Funds rate of 4.375%, implying 2 more rate cuts in 2024.

Inflation has continued to drop substantially since the Federal Reserve began its rate-hiking cycle in 2022. With the initial onset of rate cuts, market participants are now expecting another 1-2 rate cuts by year-end, in line with the Federal Reserve's own projections.

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

> **In September, year-over-year CPI came in at 2.4%, versus 3.7% at the same time in 2023. However, core CPI, which came in at 3.3% versus expectations of 3.2% in September, is still well above the Fed's target inflation of 2%.**

US Treasury Yields

Date & Yield

Tenor	9/30/23	7/30/24	8/30/24	9/30/24
1M	5.36	5.38	5.26	4.82
3M	5.45	5.29	5.12	4.78
6M	5.55	5.11	4.86	4.58
1Y	5.46	4.80	4.41	4.01
2Y	5.05	4.36	3.92	3.64
3Y	4.80	4.17	3.78	3.55
5Y	4.61	4.03	3.70	3.56

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_value=2024

LGIP Investment Strategy

We continue to be focused on relative value between fixed and floating-rate instruments. However, for most of 2024, spreads have remained very tight relative to their long-term ranges. Despite the initiation of the Federal Reserve's rate cutting cycle, floating rate spreads have not widened out.

However, that is broadly speaking, and we are always on the lookout for relative value opportunities in both fixed and floating-rate securities.

Emphasis on quality: Given persistently tight yield spreads in non-callable securities, we continue to see value in callable fixed-rate and callable fixed-to-float securities.

The persistent compression in yields spreads (as previously mentioned), which is extra yield investors demand above comparable treasury yields for securities such as commercial paper and corporate bonds, has made treasuries more appealing for the time being. There are always potential news catalysts that can drive markets into risk-off mode (wider credit spreads), such as the US election, geopolitical events, and unforseen economic data releases.

Given how tight spreads are, we believe that there is potential for spreads to move much higher on any adverse market-or-other related news events. Our patient investment strategy allows us to take advantage of markets when they move in our favor, and we expect spreads to widen at some point.

KEY TAKEAWAY

We continue to see value in US treasuries, callable US Agencies, and tier-one (highest rated) commercial paper (where appropriate).

STRATEGY

We believe the Fed will continue to lower interest rates, although at a gradual pace, as inflation numbers continue to head towards 2% and the labor market continues to balance out.

Florida LGIP Comments

FL FIT
FLORIDA FIXED INCOME TRUST

FL FIT Preferred Deposit Pool:

Qualified Public Deposits (QPD) and FDIC Insured deposit yields continue to track the Federal Funds rate and will closely track future changes in the rate, including the 50 basis-point rate cut just initiated by the Federal Reserve. 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 4.83%.

YTD net return: 4.01% | End of quarter net yield: 5.07%

FL FIT Cash Pool:

Strategically, we continue to seek relative value and identify securities that can help provide both 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. There are abundant opportunities is short-dated agency MBS as well as callable US Agencies. Additionally, we employ a strategic allocation to 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.

YTD net return: 4.18% | End of quarter net yield: 5.32%

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 longer-dated, fixed-rate securities but 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 over time. See below for additional details.

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

Similar to 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 extended duration above the benchmark of ~1.75 years to get ahead of the rate-cutting cycle, which has now commenced. We continue to see ample opportunities in the high-quality, taxable municipal market as it provides suitable yield spread while also increasing credit quality from more traditional corporate/credit instruments. The pool continues to outpace its 1-3 year benchmark over the longer-term and has outpaced its benchmark return. See below for further details.

Florida Floating NAV Pool Details†

(as of 09/30/2024, 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 Index.

- September 2024 YTD return %: (4.42%).
- Benchmark return %: (4.10%).

STRATEGY

Focus on maintaining high credit quality while 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 previously implemented non-callable securities with favorable/high credit spreads.

- Yield at end of the quarter: 4.91%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 0.75 to 1.25 years.

- Extend duration to target an avg duration close to 1 year (1.40 years).
- Decrease floating-rate instruments over time (currently ~44% 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.

- September 2024 YTD return %: (4.38%).
- Benchmark return %: (4.15).

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: 4.45%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 1.00 to 2.00 years, currently (2.27 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.
- Maintain a high allocation to fixed-rate securities (~72% of portfolio).

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Disclaimer

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