Florida LGIP Strategy Update

Q3 2025

PREPARED BY

Dan Marro, CFA
Portfolio Manager

Vito Resciniti
Investment Strategist

Economic Update

Q2 2025 Real Gross Domestic Product (GDP), which subtracts out the effects of inflation, registered at 3.8% for its final revision, above expectations of 3.3% and up from -0.5% in the first quarter of 2025. A big reason for the strong number - its fastest rate in nearly two years - was a 2.5% increase in personal consumption expenditures, which were up sharply from the 1.6% rate reported in the first quarter. Another contributor was a decline in the overall value of imports, because businesses had already stocked up inventory levels in the first quarter to front-run tariffs.

Nonfarm payrolls have seen significant downward revisions in the second quarter. It is unclear if hiring slowed down temporarily due to tariff uncertainty, but economists have labeled the environment as a "no fire, no hire" labor market. The most recent three-month average of payrolls registered at just 28k, well below the 141k seen in the second quarter. JOLTS Job Openings came in at 7,227k, slightly beating expectations of 7,200k. JOLTS have stabilized in recent months and are currently hovering around pre-Covid levels.

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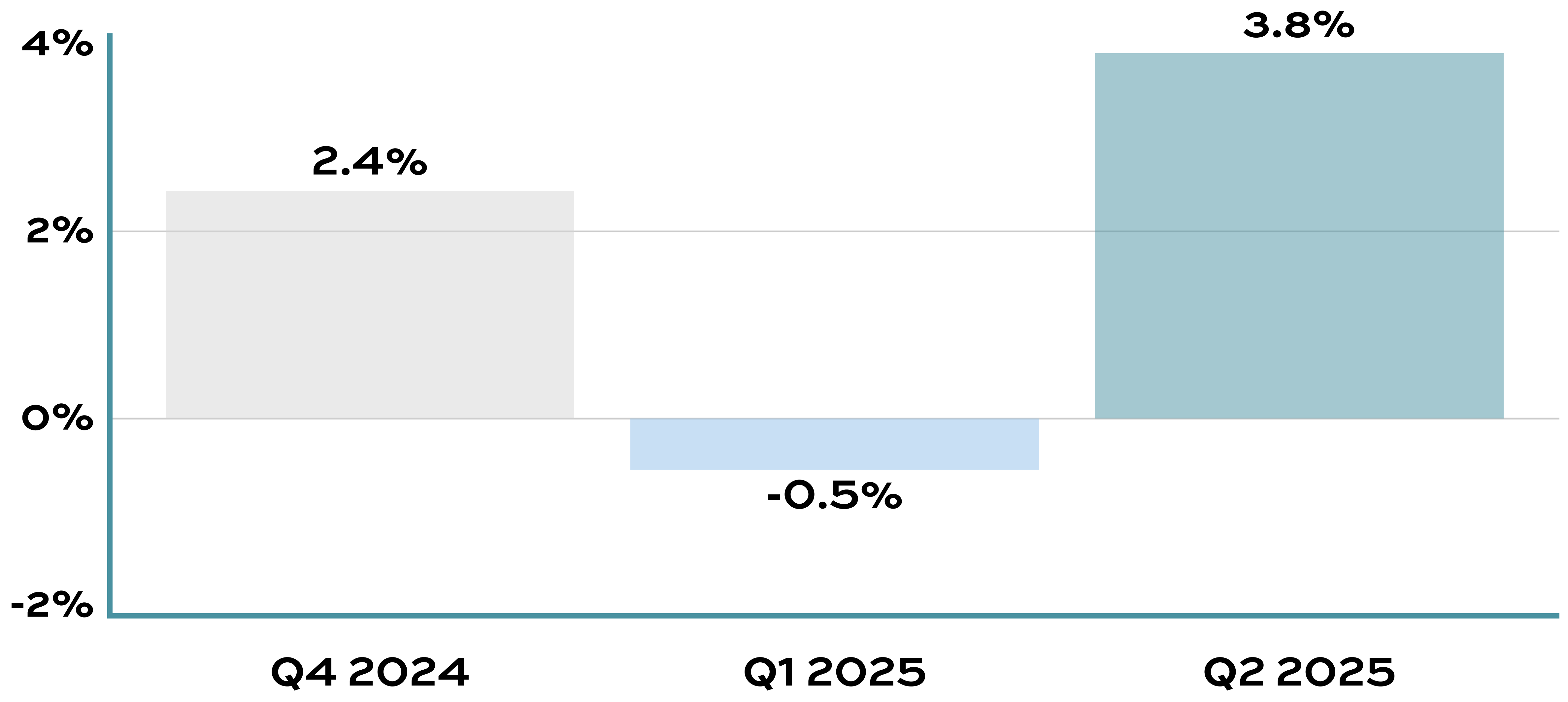
US GDP Growth Rate



KEY TAKEAWAY

A big reason for the strong number - its fastest rate in nearly two years - was a 2.5% increase in personal consumption expenditures, which were up sharply from the 1.6% rate reported in the first quarter.

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

Economic Update (cont.)

Federal Reserve Chairman Jerome Powell resumed his rate cutting cycle after a 9-month pause, lowering rates in mid-September by 25 basis points. Despite headline CPI sitting at 2.9% and the Unemployment Rate sitting at 4.3%, Jerome Powell has shifted his main priority to the softening labor market as nonfarm payroll numbers have consistently come in below 100k/month of late. It is widely expected that the Fed will cut the rate another 25 basis points again in October.

The August headline CPI report came in at 2.9% year-over-year, in line with expectations. Core CPI (excluding food and energy) came in at 3.1% year-over-year, also in line with expectations. Inflation has reaccelerated in the last few months, potentially due to the Trump Administration tariff policies. The perception of the Federal Reserve may be that the reacceleration in inflation will not persist, as the institution has resumed its rate-cutting cycle.

Expect volatility from changes in interest rates to changes in market expectations for rate cuts to continue to persist.

US Treasury Yields

Date & Yield

Tenor	9/30/24	7/31/25	8/31/25	9/30/25
1M	4.93	4.49	4.41	4.20
3M	4.73	4.41	4.23	4.02
6M	4.38	4.31	4.01	3.83
1Y	3.98	4.10	3.83	3.68
2Y	3.66	3.94	3.59	3.60
3Y	3.58	3.89	3.58	3.61
5Y	3.58	3.96	3.68	3.74

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

> **Despite headline CPI sitting at 2.9% and the Unemployment Rate sitting at 4.3%,** Jerome Powell has shifted his main priority to the softening labor market as nonfarm payroll numbers have consistently come in below 100k/month of late.

LGIP Investment Strategy

The Fed has resumed its rate-cutting cycle, cutting rates by 25 basis points in September, which is in line with what they have been projecting for the last few months. The Fed is expected to continue cutting interest rates into 2026.

Bond spreads widened out in April during what market watchers called the tariff tantrum, providing a very short window of opportunity for investors to take advantage. Spreads snapped back quickly and have grinded lower since then, and they are currently near historically low levels. Investors continue to have strong demand for fixed income securities despite the Federal Reserve's cautionary stance on the labor market.

High Quality – Domestic: We continue to keep our geographic concentrations largely domestic, as the US continues to show a resilient economy on the heels of recent GDP and consumer spending data. Additionally, there is strong demand for fixed income globally, and we do not see much relative value abroad.

The market continues to be selective, and we remain focused on products such as callable agencies, asset-backed commercial paper, agency mortgage-backed securities (fixed & floating), and fix-to-float corporates.

We define opportunities as "selective" due to the general richness, or tightening, in risk spreads that has persisted for some time. We continue to exercise patience and wait for compelling opportunities in the face of a weakened labor market.

KEY TAKEAWAY

We continue to keep our geographic concentrations largely domestic, as the US continues to show a resilient economy on the heels of recent GDP and consumer spending data.

STRATEGY

The market remains selective, and we're focused on callable agencies, asset-backed CP, agency MBS (fixed & floating), and fix-to-float corporates.

Florida LGIP Comments

FL FIT Preferred Deposit Pool:

Qualified Public Deposits (QPD) and FDIC Insured deposit yields continue to track the Federal Funds rate and are expected to closely track future changes in the 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 currently sits at 4.09%.

September 2025 YTD net return: 3.23% | End of quarter net yield: 4.16%

FL FIT Cash Pool:

The FL FIT Cash Pool will continue to remain anchored by Qualified Public Deposits, prime money market funds, and ultra-short bond funds. Keeping the liquidity, or foundation of the pool, high gives us the ability to strategically add unique opportunities such as fix-to-float corporates, short-dated agency MBS, floating rate MBS, callable agencies, and asset-backed commercial paper. We anticipate the portfolio will continue to align closely with the S&P 30-day LGIP Index.

September 2025 YTD net return: 3.41% | End of quarter net yield: 4.46%

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

Consistent with our second quarter approach, given persistently tight risk spreads, we continue to view select opportunities in municipal bonds and agency mortgage-backed securities as preferable to corporate notes, as it is both up-in-quality and offers better spread compensation. The pool continues to track its benchmark, 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):

Consistent with the Enhanced Cash Pool, the Select Cash Pool maintains a strong liquidity profile, utilizing money market funds and short-term mutual funds at its core. Strategically, although risk spreads are generally near historically tight levels, we continue to find opportunities in high-quality municipal bonds and agency mortgage-backed securities for their attractive spread compensation and strong credit profiles. The pool continues to closely track its 1-3-year benchmark return. See below for additional details.

Florida Floating NAV Pool Details†

(as of 9/30/2025, 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 2025 YTD return %: (4.22%).
- Benchmark return %: (3.27%).

STRATEGY

Focus on maintaining high credit quality while reducing corporate bond exposure over time in favor of liquidity, high-quality municipal bonds and agency mortgage-backed securities.

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

- Yield at end of the quarter: 4.55%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 0.75 to 1.25 years (currently 1.07 years).

FL Select Cash:

PERFORMANCE

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

- September 2025 YTD return %: (4.54%).
- Benchmark return %: (3.91%).

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: 4.30%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 1.00 to 2.00 years, currently (1.80 years).

Maintain a high allocation to fixed-rate securities (~75% of portfolio).

Contact Us

Rene O'Day
rene.oday@deepblue-inv.com
(813) 440-5087

Ed Polansky
ed.polansky@deepblue-inv.com
(813) 992-3145

Dominick Cristofaro
dominick.cristofaro@deepblue-inv.com
(813) 556-9778

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