Florida LGIP Strategy Update

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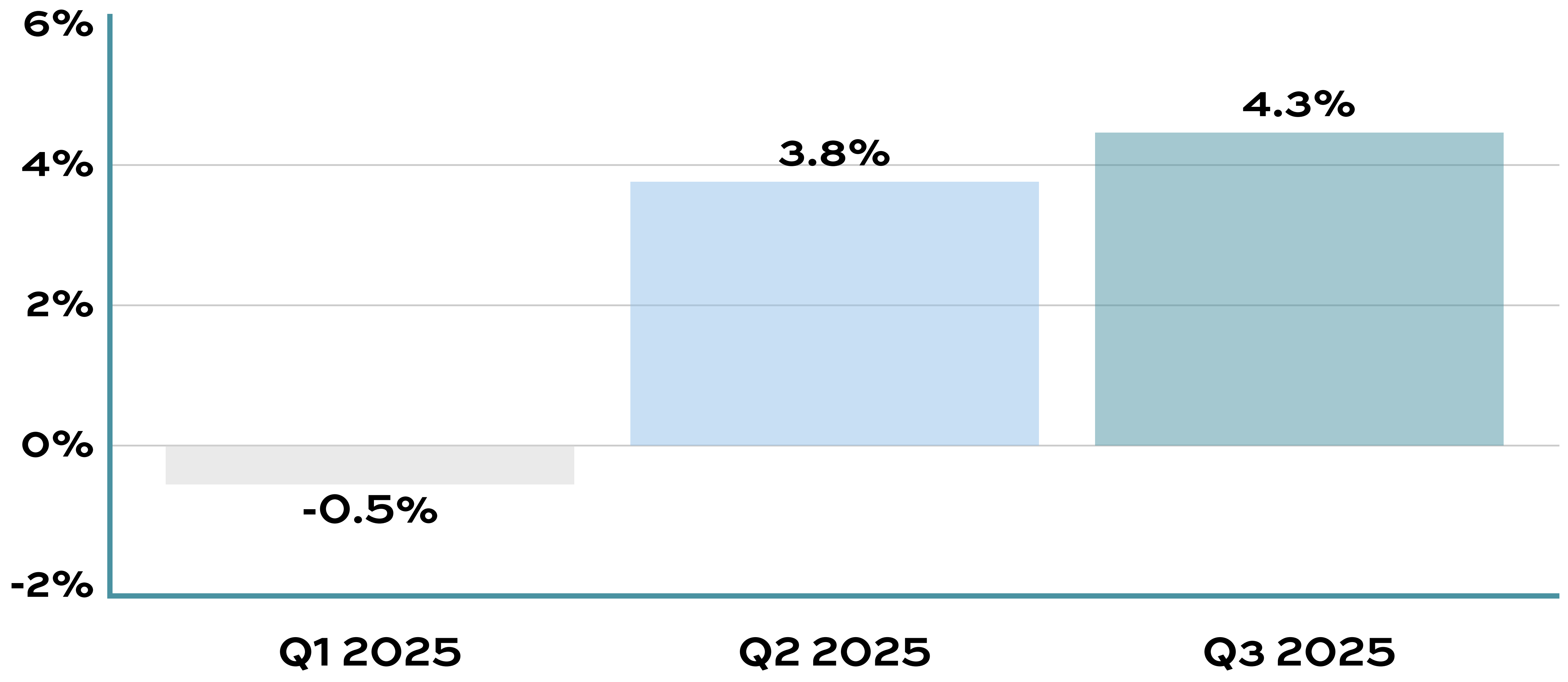
Economic Update

The economy surged in the third quarter, driven by much stronger consumer spending and an upturn in exports. Real GDP grew 4.3%, according to the initial estimate, up from 3.8% in 2Q and above expectations of 3.3%. Consumer spending exceeded expectations, rising 3.5% in 3Q versus 2.5% previously. The strength in demand reflected the economy's "K-shaped" dynamic, with widening divergence between higher- and lower-income households.

November Nonfarm Payrolls rose +64,000, rebounding from October's revised -105,000 drop (largely government shutdown related), with the three-month average improving to +22,000. The unemployment rate ticked up to 4.6% (the highest since September 2021), averaging a monthly increase of around 5 basis points since January – signaling gradual softening without widespread deterioration.

US GDP Growth Rate



The unemployment rate ticked up to 4.6% (the highest since September 2021), averaging a monthly increase of around 5 basis points since January – signaling gradual softening without widespread deterioration.

KEY TAKEAWAY

Consumer spending exceeded expectations, rising 3.5% in 3Q versus 2.5% previously.

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

Economic Update (cont.)

Decembers FOMC meeting on December 9th – 10th delivered the expected 25 basis point rate cut, lowering the federal funds target range to 3.50% - 3.75% — marking the third consecutive reduction since September – but the committee made it clear that the phase of "precautionary" easing is essentially over. Fed Chair Powell stressed that any additional cuts would depend on more pronounced labor market weakness. The Summary of Economic Projections was provided – largely unchanged from September's. The median participant still projects one cut in 2026 and one in 2027 before pausing slightly above a 3.0% neutral rate.

November headline CPI came in much lower than expected at 2.7% YoY (vs 3.1% expected). Core CPI (excluding food and energy) came in at 2.6% YoY (vs 3.0% expected) – markets largely shrugged off the softness, attributing much of it to government shutdown disruptions and late data collection methods with many expecting a rebound in the yet to be released December numbers as normal methodology resumes.

> **The Fed cut rates by 25 bps in December to a 3.50%–3.75% target range, its third straight reduction**, but indicated the precautionary easing phase is ending and future cuts will hinge on labor market deterioration.

US Treasury Yields

Date & Yield

Tenor	12/31/25	10/31/25	11/30/25	12/31/25
1M	3.74	4.06	4.05	3.74
3M	3.67	3.89	3.88	3.67
6M	3.59	3.79	3.74	3.59
1Y	3.48	3.70	3.61	3.48
2Y	3.47	3.60	3.47	3.47
3Y	3.55	3.60	3.49	3.55
5Y	3.73	3.71	3.59	3.73

Source: Treasury.gov, DBIA

LGIP Investment Strategy

Federal Reserve activity is always heavily scrutinzed as its overnight (Fed Funds rate) aligns closely with interest rate movements in the treasury bill markets (0 – 12 month duration), of where our target duration lies in between.

We have been in a rate-cutting cycle for over a year, and the “average” Fed rate-cutting cycle lasts a little over 2 years. As the Federal Reserve cuts its overnight (Fed Funds) rate, the treasury bill yields will drop as well, usually ahead of Federal Reserve cuts themselves. In a falling rate environment, increasing duration allows the portfolio management team to lock in interest rates and slightly reduce reinvestment risk at a time when it is high.

Our portfolios will always be highly liquid, as same day/next day money market funds, along with bank deposits, anchor any given portfolio. In a falling rate environment, tactical positions in securities such as callable agencies provide opportunities to lock in rates above treasury yields to the short-term call dates. Agencies are constantly calling these securities and reissuing them as yields slide lower. Investors are paid a premium to take on the call feature.

Working off the anchors of our portfolio that provide liquidity and safety, adding tactical positions in securities such as callable agencies add relative value to the portfolios through the duration of the Federal Reserve’s rate-cutting cycle. Another attractive feature of agencies is that they carry the same ratings as US treasury securities.

KEY TAKEAWAY

In a falling rate environment, tactical positions in securities such as callable agencies provide opportunities to lock in rates above treasury yields to the short-term call dates.

STRATEGY

Federal Reserve actions are closely watched, as the Fed Funds rate strongly influences short-term Treasury yields where our target duration sits.

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 3.64%.

December 2025 YTD net return: 4.22% | End of quarter net yield: 3.61%

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 of the pool high gives us the ability to strategically add longer duration opportunities such as fix-to-float corporates, short-dated agency MBS, floating rate MBS, callable agencies, and asset-backed commercial paper, that should continue to benefit the pool in a falling rate environment. We expect the pool to track the S&P 30-day LGIP Index over time.

December 2025 YTD net return: 4.52% | End of quarter net yield: 4.06%

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

In the 4th quarter the pool continued to take advantage of locked-out rates in high quality securities such as municipal bonds and mortgage-backed securities. While corporate bond spreads are generally rich, fixed-to-float callable corporates offer enhanced compensation with sweetened floating rate coupons if not called at their respective call dates. The pool has outperformed its benchmark over the past 12 months, and we expect this strong performance to continue in the near term. Over the longer term, we anticipate its returns will converge more closely with the 0–1 year benchmark.

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. This gives the portfolio flexibility to tactically add securities that have performed well during the Fed rate-cutting cycle, such as municipal bonds, mortgage-backed securities, and fix-to-float corporates. This pool, similar to the FL-FIT Enhanced Cash Pool, has outperformed relative to its benchmark over the last 12 months, and we anticipate solid results in the near term. Over the longer horizon, we expect performance to align more closely with its 1–3 year benchmark.

Florida Floating NAV Pool Details†

(as of 12/31/2025, 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.

- December 2025 YTD return %: (5.39%).
- Benchmark return %: (4.41%).

STRATEGY

Focus on maintaining high credit quality and high liquidity while tactically adding securities that have performed well in a rate-cutting cycle such as municipal securities, mortgage-backed securities, and corporate bonds.

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

- Yield at end of the quarter: 4.38%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 0.75 to 1.25 years (currently 1.05 years).

FL Select Cash:

PERFORMANCE

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

- December 2025 YTD return %: (5.74%).
- Benchmark return %: (5.13%).

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: 4.28%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 1.00 to 2.00 years, currently (1.71 years).

Maintain a high allocation to fixed-rate securities (~67% of portfolio).

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Disclaimer

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