



Ventura Regional Sanitation District

Investment Performance Review For the Quarter Ended September 30, 2024

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Item#5

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Market Update

Current Market Themes

- ▶ The U.S. economy is characterized by:
 - ▶ A labor market that reached better balance and supports consumer activity
 - ▶ Inflation that has made meaningful progress towards the Federal Reserve's (Fed) 2% target, although shelter costs remain a headwind
 - ▶ Resilient economic growth and consumer spending that support the 'soft landing' scenario

- ▶ Fed begins the easing cycle
 - ▶ The Fed cut the federal funds target rate by 50 basis points (bps) to 4.75% - 5.00% at its September FOMC meeting
 - ▶ Fed officials note they have gained greater confidence the risks to their dual mandate are "roughly" in balance
 - ▶ The Fed's September "dot plot" implies 50 bps of additional cuts in 2024 and 100 bps through 2025

- ▶ Treasury yields continued their descent
 - ▶ Yields on maturities between 3 months and 10 years fell 62-112 bps during the 3rd quarter
 - ▶ The yield curve began to disinvert in the 3rd quarter as the spread between the 2-year and 10-year Treasury reached positive territory for the first time in over 2 years
 - ▶ Despite intra-quarter spread widening, yield spreads across most credit sectors were range bound at tight levels, reflecting the strength of the economy

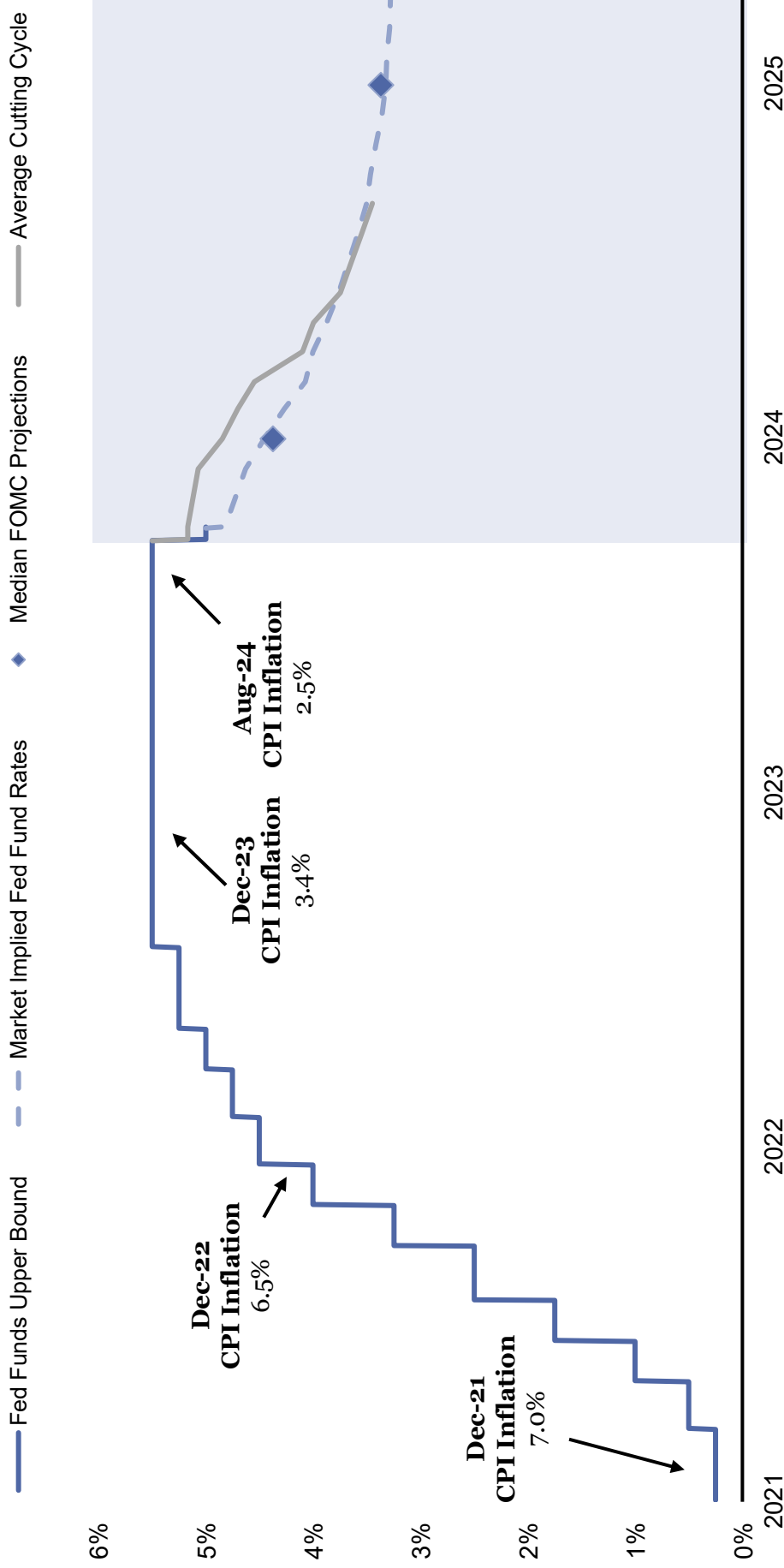


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The Fed Begins the Cutting Cycle With 50bps

Fed Chair Powell: “[I]f we’d have gotten the July [Jobs] report before the [July FOMC] meeting would we have cut, well we might have.”

Federal Funds Rate



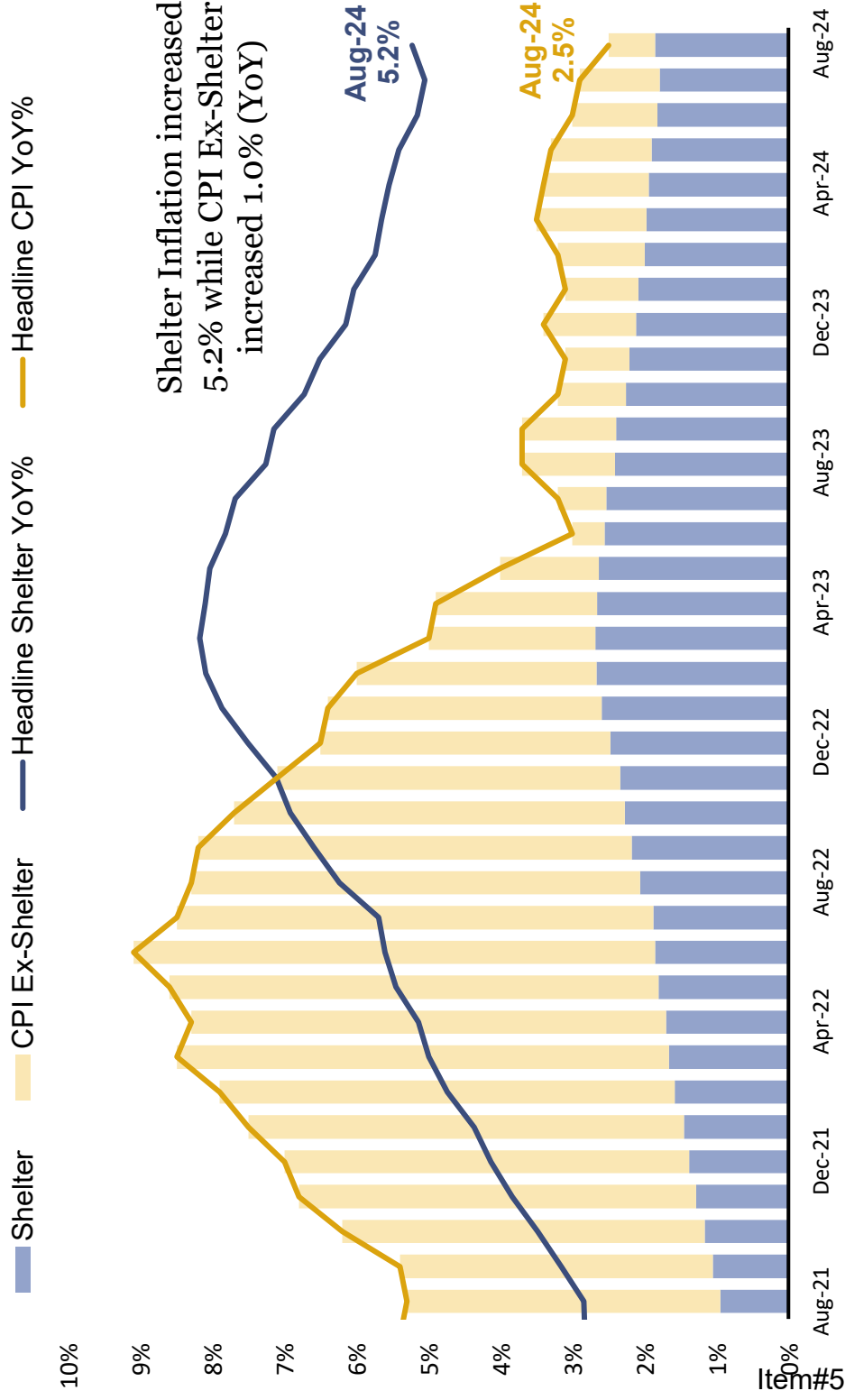
Source: Federal Reserve Chair Jerome Powell Press Conference as of September 18, 2024; Average Cutting Cycle represents the average change in the Fed Funds Rate for the first 10 months of a cutting cycle back to 1988. Market Implied Fed Funds as of September 30, 2024. Bloomberg Finance L.P. CPI inflation and Nonfarm payrolls from Bureau of Labor Statistics and Bloomberg Finance L.P.

Inflation Trends Lower

Fed Chair Powell: “[H]ousing inflation is the ... one piece that is kind of dragging a bit ... it’s been slower than we expected”

Consumer Price Index (CPI)

Top-Line Contributions, Year-over-Year Changes



The shelter component of CPI continues to remain outsized accounting for 74% of the increase in the headline figure

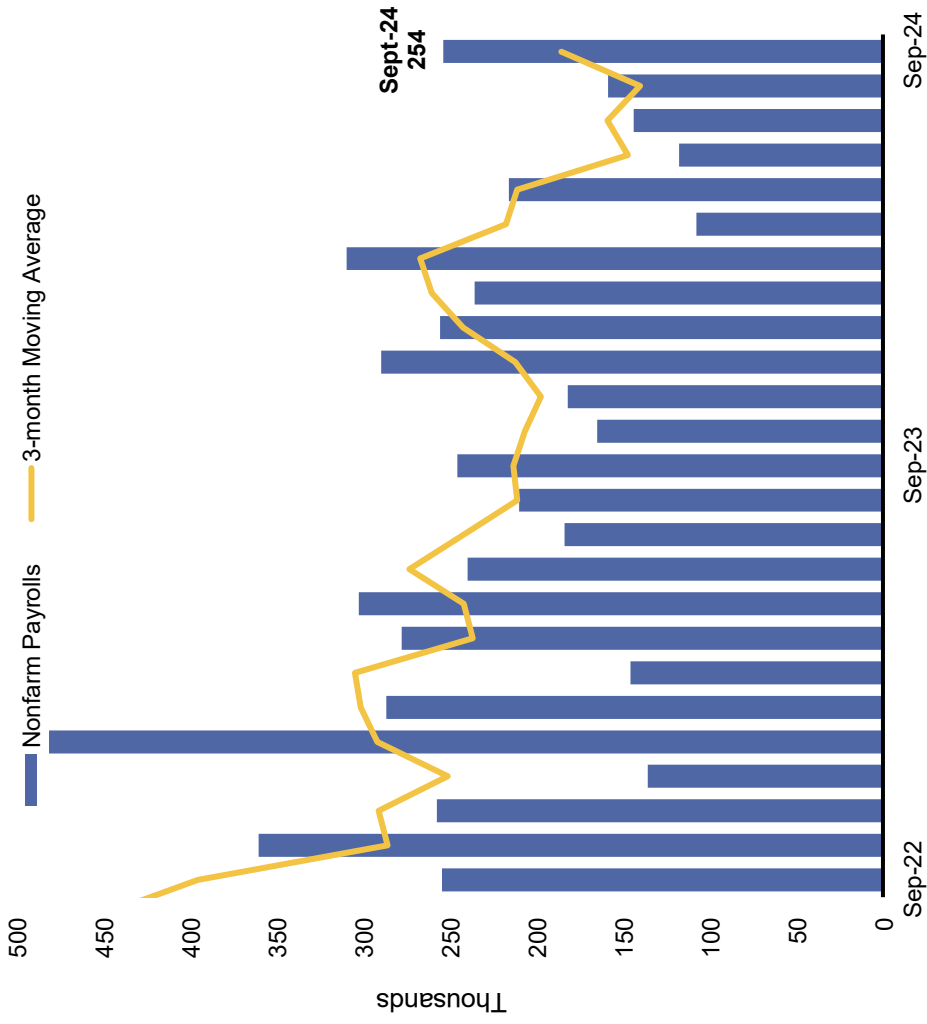
Source: Federal Reserve Chair Jerome Powell Press Conference as of September 18, 2024; Bureau of Labor Statistics and Bloomberg Finance L.P., as of August 2024.

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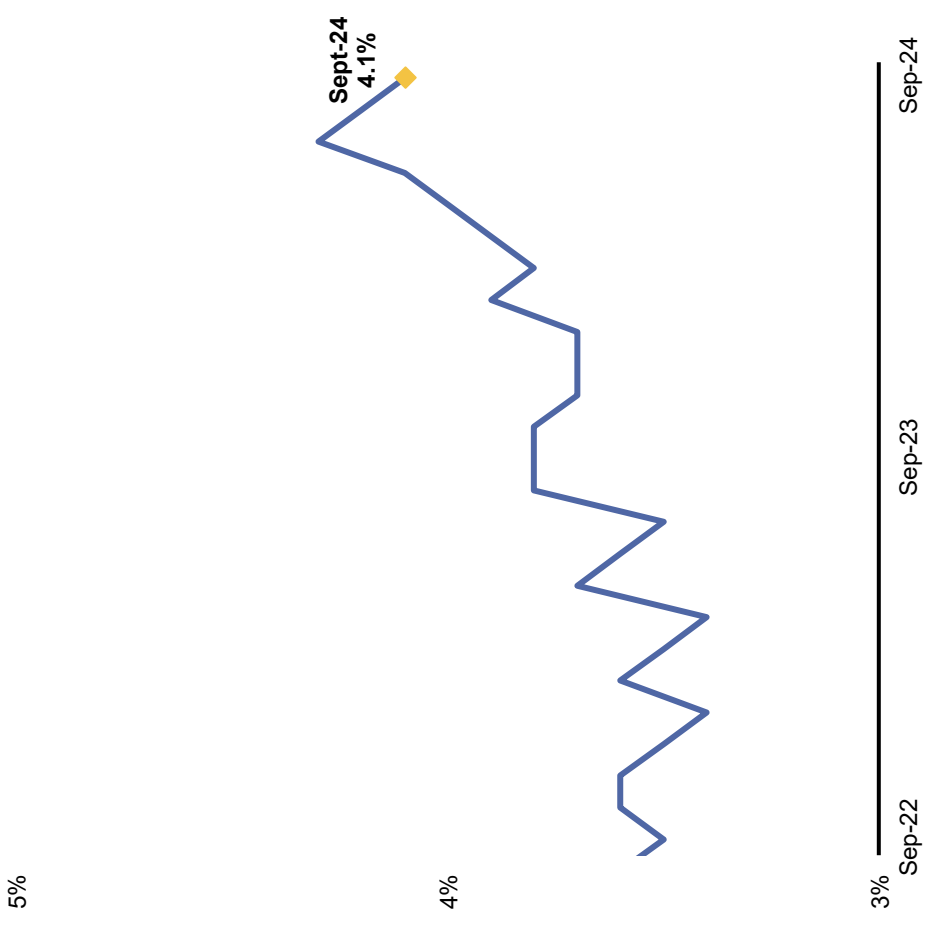
Labor Market Moves Into Better Balance

Fed Chair Powell: "...labor market conditions have cooled off by any measure ... [but] the level of those conditions is actually pretty close to what I would call maximum employment"

Monthly Change In Nonfarm Payrolls



Unemployment Rate



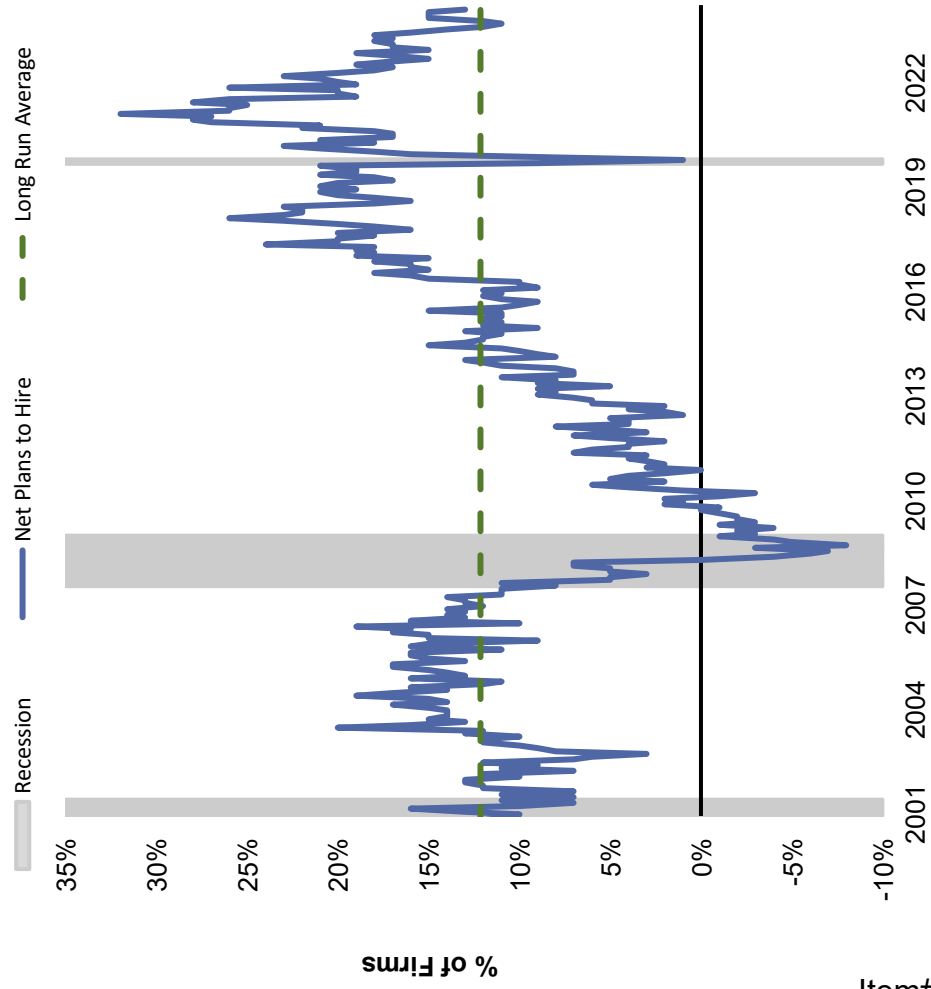
Source: Federal Reserve Chair Jerome Powell Press Conference as of September 18, 2024; Bureau of Labor Statistics and Bloomberg Finance L.P., as of September 2024. Data is seasonally adjusted.

Hiring Plans Return to Long Run Averages While Layoffs Remain Near Historic Lows

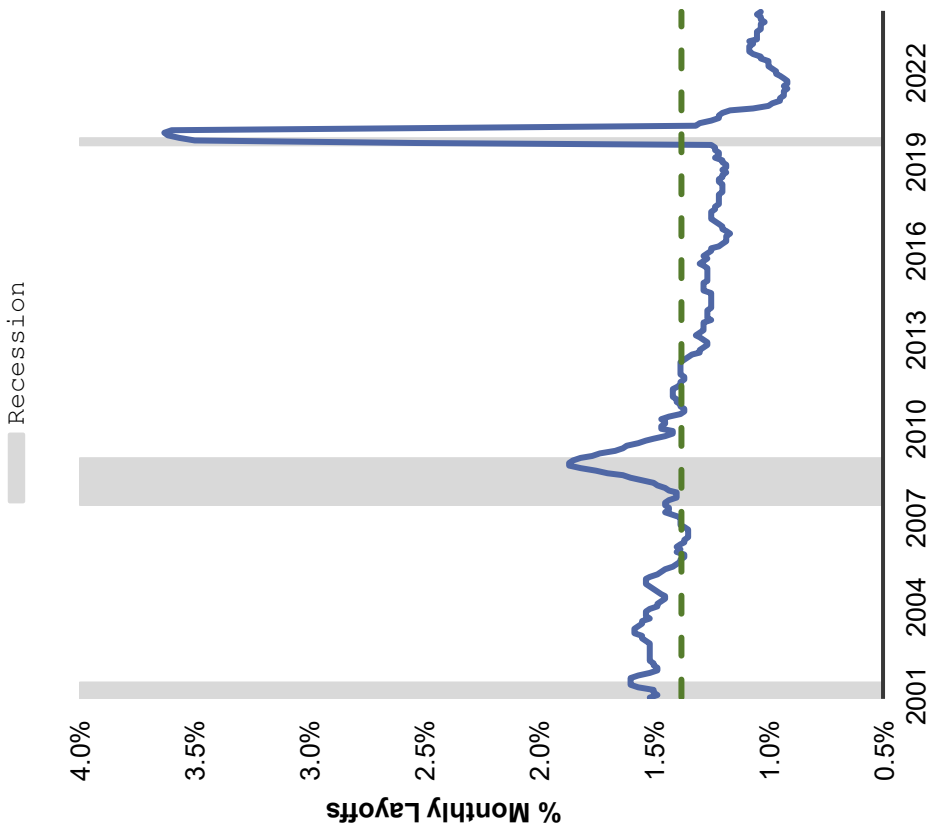
Fed Chair Powell: "...we're not seeing rising claims. We're not seeing rising layoffs ... there is thinking that the time to support the labor market is when it's strong and not when you begin to see the layoffs"

Survey of Business's Plans to Hire

Net Percent ("Increase" minus "Decrease")



Layoffs – 6-Month Moving Average



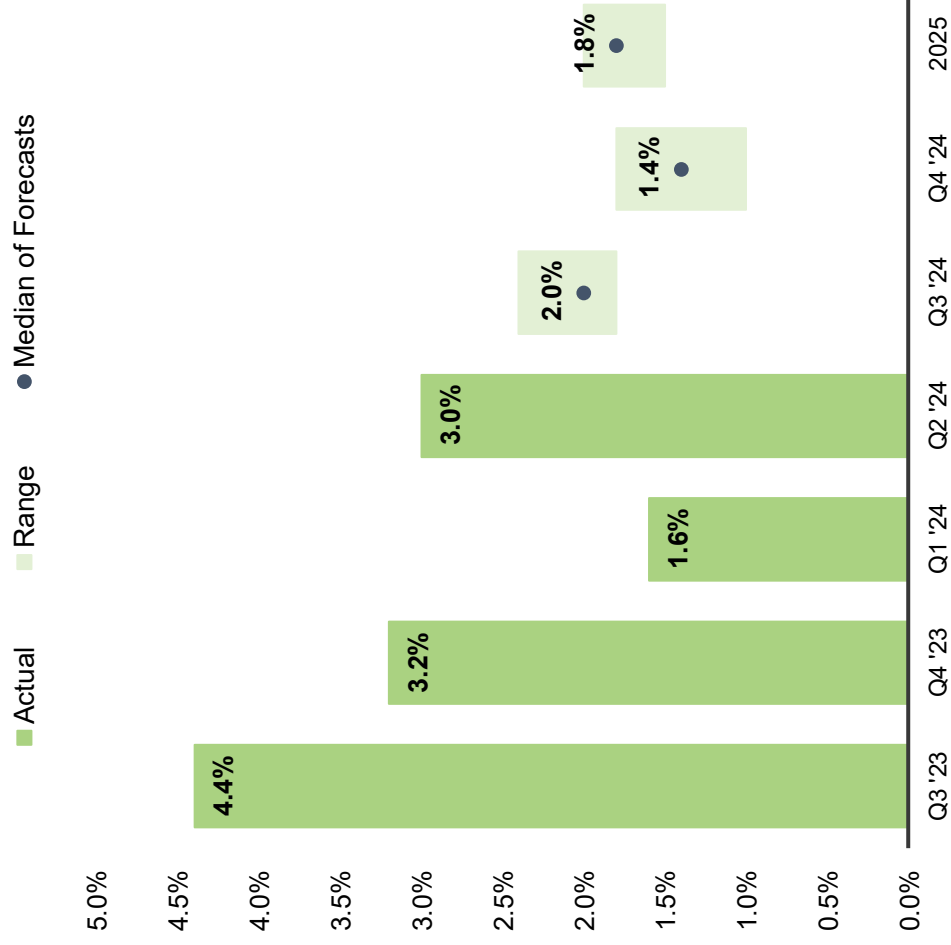
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Consumer Activity Remains Solid

Fed Chair Powell: "...if you look at the growth in economic activity data—the [September] retail sales data [and] second quarter GDP—all of this indicates an economy that is still growing at a solid pace."

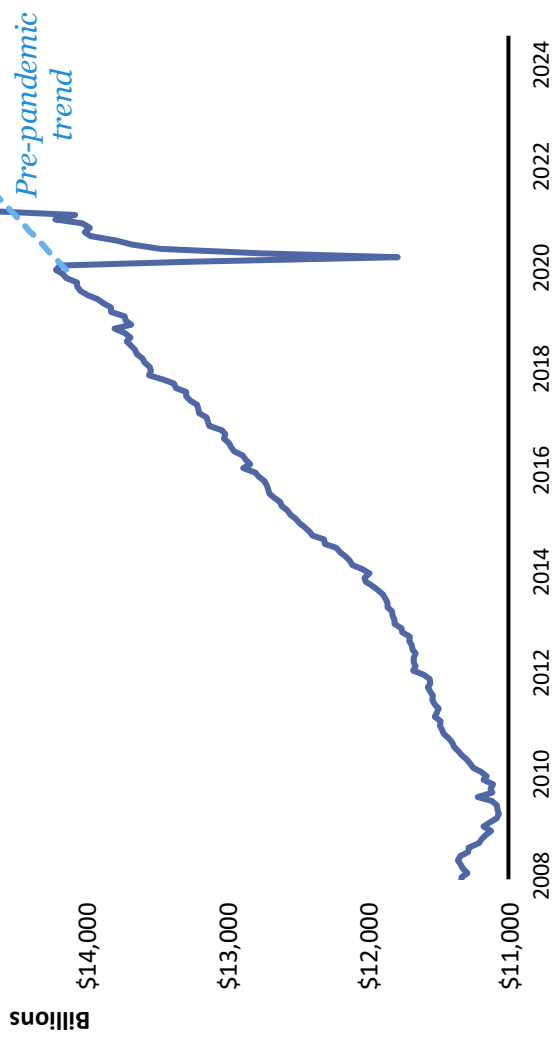
U.S. GDP Forecasts

Annualized Rate



U.S. Real Personal Consumption Expenditure

Personal Consumption is the main driver of GDP and accounts for 69% of overall GDP

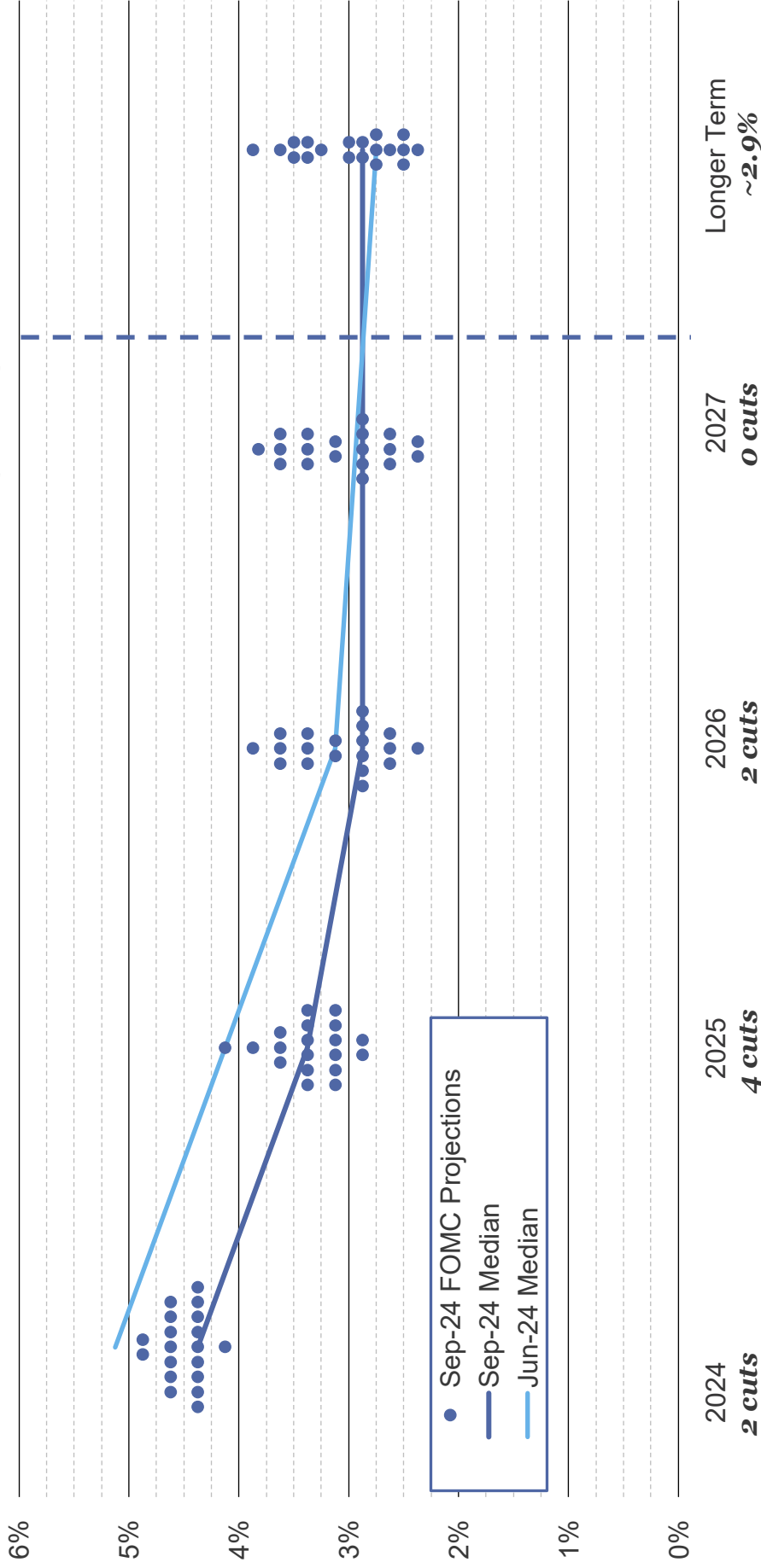


Source: Federal Reserve Chair Jerome Powell Press Conference as of September 18, 2024; (Left) Bureau of Economic Analysis and Bloomberg Finance L.P. as of September 2024. (Right) U.S. Census Bureau and Bloomberg Finance L.P., as of August 2024.

The Fed's Latest "Dot Plot

Fed Chair Powell: "There's nothing in the [dots] that suggests the committee is in a rush to get this done."

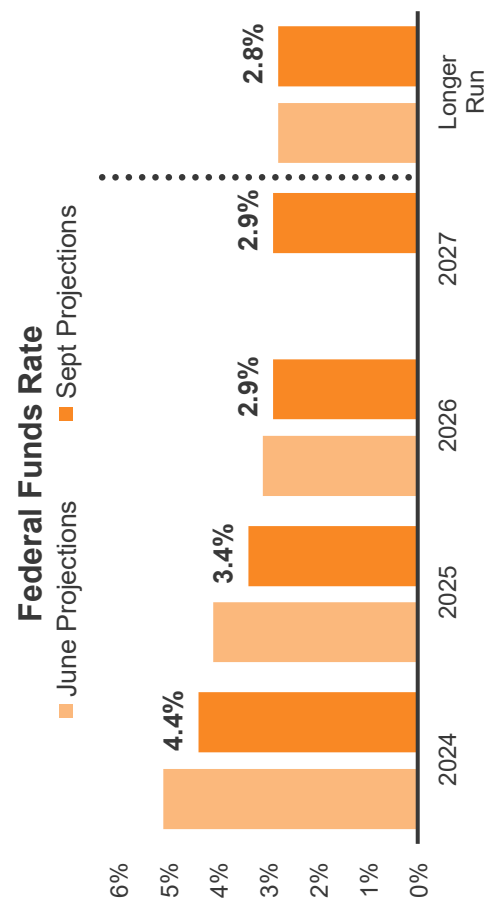
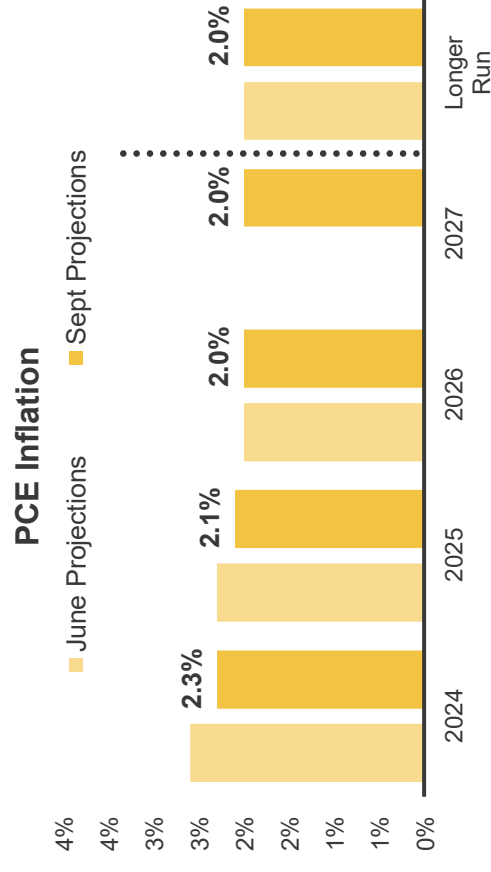
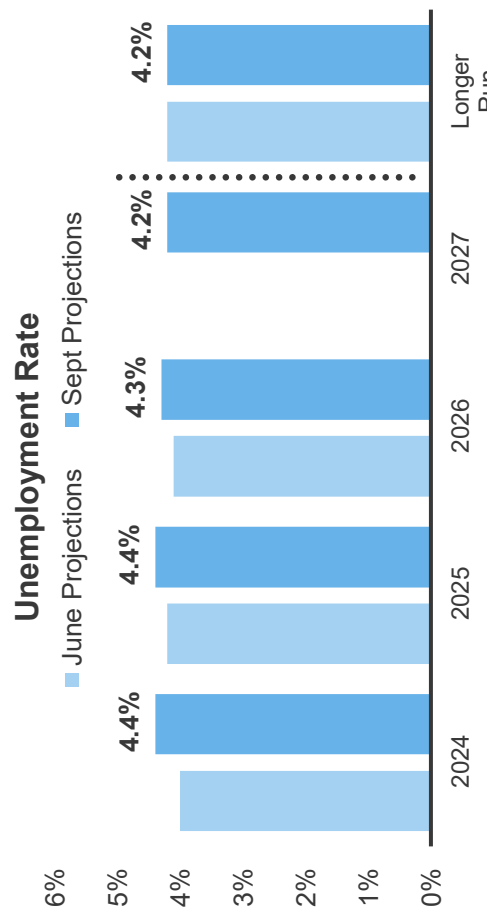
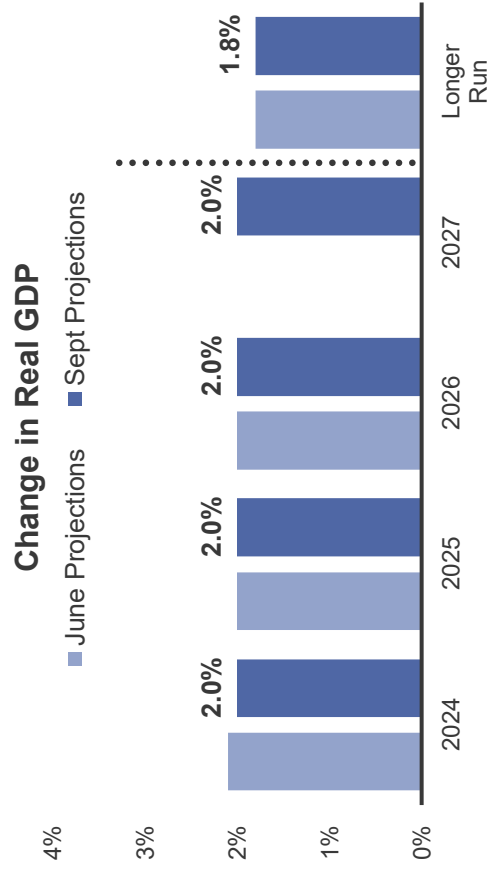
Fed Participants' Assessments of 'Appropriate' Monetary Policy



Source: Federal Reserve Chair Jerome Powell Press Conference as of September 18, 2024; 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.

Fed's Updated Summary of Economic Projections

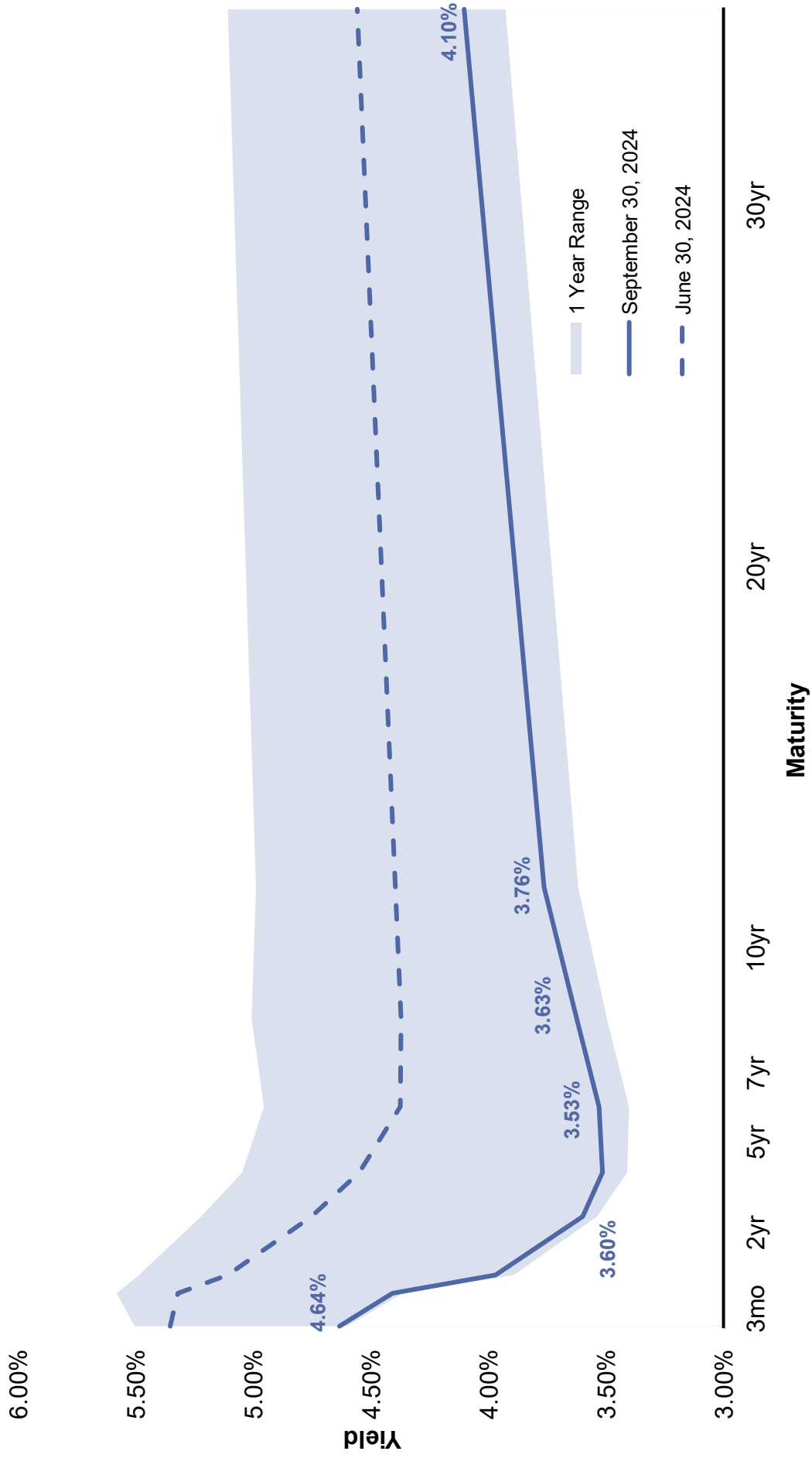
Fed Chair Powell: "These median projections are lower than in June, consistent with projections for lower inflation and higher unemployment, as well as the change to balance of risks."



Source: Federal Reserve Chair Jerome Powell Press Conference; Federal Reserve. As of September 2024.

U.S. Treasury Yields Fall as the Yield Curve Begins to Disinvert

U.S. Treasury Yield Curve



Source: Bloomberg Finance L.P., as of September 30, 2024

Factors to Consider for 6-12 Months

<p>Monetary Policy (Global):</p>  <ul style="list-style-type: none"> The Fed has begun its easing cycle with a 50 basis point (bp) cut. The FOMC's September median "dot plot" projection suggests an additional 50 bps in rate cuts by the end of the year "if the economy performs as expected". The projections also calls for an additional full percentage point of cuts in 2025. The global easing cycle is underway with nearly all major central banks (excluding the Bank of Japan) completing multiple rate cuts. 	<p>Economic Growth (Global):</p>  <ul style="list-style-type: none"> U.S. economic growth remains strong reflecting a consumer who continues to spend at elevated levels. Economic growth outside the U.S. remains mixed. China has moved forward with a package of stimulus measures aimed to boost growth. The country remains poised to take additional swift action should it be deemed necessary. 	<p>Inflation (U.S.):</p>  <ul style="list-style-type: none"> Inflation continues its trend lower but has been buoyed by stubborn housing costs. The broad-based inflation cooling helped fuel the Fed's decision to cut by 50 bps but policy makers note they are not declaring victory on price stability.
<p>Financial Conditions (U.S.):</p>  <ul style="list-style-type: none"> The continuation of stable market measures, such as narrow corporate yield spreads, record equity index levels and low volatility, reflect economic confidence. We remain focused on the cooling labor market and effects this might have on the consumer as potential catalysts for a broader slow down, but that is not our base case expectation. 	<p>Consumer Spending (U.S.):</p>  <ul style="list-style-type: none"> The consumer continues to spend and support economic strength. Upward revisions to the personal savings rate paint the consumer in better light than previously thought but the trend of consumers dipping into savings continues. Moderation in the pace of overall spending is expected given slowing wage growth and cooling labor market conditions. 	<p>Labor Markets:</p>  <ul style="list-style-type: none"> The labor market continues to moderate from extremely strong levels seen in prior quarters. The recent downward revisions to nonfarm payrolls through March 2024 further emphasized the cooling. Other labor metrics remain well positioned such as the layoffs and discharge rate pointing towards moderation rather than deterioration.

Current outlook
 Outlook one quarter ago



Statements and opinions expressed about the next 6-12 months were developed based on our independent research with information obtained from Bloomberg and FactSet. The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC at the time of distribution (9/30/2024) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness, or suitability.

Fixed-Income Sector Outlook – 4Q 2024

Sector	Our Investment Preferences
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	



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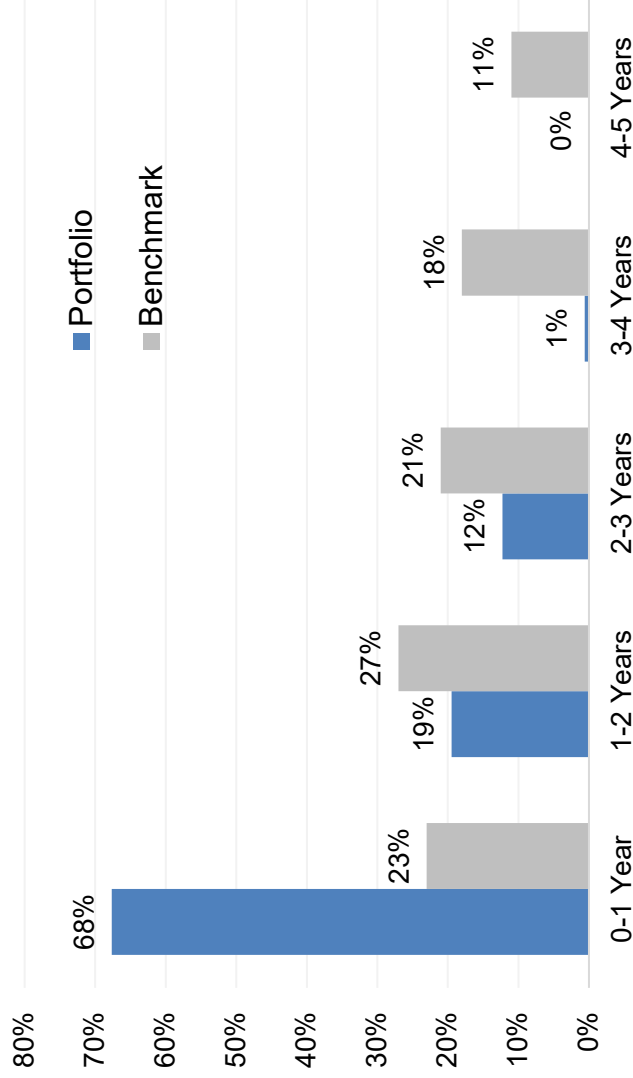
Sector Allocation

Security Type	Market Value as of September 30, 2024	% of Portfolio	% Change vs. Prior Quarter	Policy Limits
U.S. Treasury	5,844,098	31.2%	1.6%	100%
Federal Agency	2,544,309	13.6%	1.5%	100%
Municipal Obligations	67,513	0.4%	-2.8%	100%
Supranational	449,301	2.4%	-1.3%	30%
Corporate Notes	2,134,541	11.4%	-0.3%	30%
Asset-Backed	173,644	0.9%	-	20%
Security Sub-Total	\$11,213,406	59.9%		
Accrued Interest	\$38,859			
Securities Total	\$11,252,265			
CAMP Pool	7,516,797	40.1%	1.3%	100%
Total Investments	\$18,769,062	100.0%		

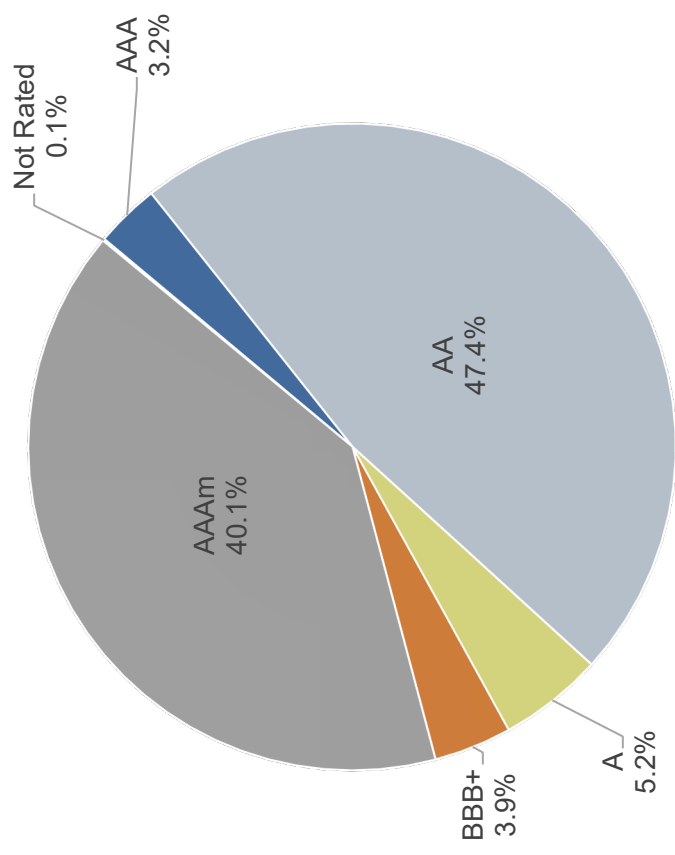
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Portfolio Characteristics

Duration Distribution



Credit Quality



- ICE BofAML 0-5 Year Index from Bloomberg.
- Detail may not total to 100% due to rounding.
- Includes CAMP pool balances as of 12/31/23.
- Callable securities in the portfolio are included in the distribution analysis to their stated maturity date, although they may be called prior to maturity.
- The portfolios are no longer managed to the 0-5 Year Benchmark, but instead they are being managed to meet to the District's cash flow requirements.
- Security ratings by Standard & Poor's.

Total Return Performance

	Duration (years)	Past Quarter	Past 12 Months	Past 3 Years	Past 5 Years	Past 10 Years	Yield to Maturity at Cost	Yield to Maturity at Market
Total Portfolio	1.06	2.08%	6.63%	1.66%	1.83%	1.79%	2.01%	4.82%
Main	0.70	1.82%	6.06%	2.45%	2.30%	1.98%	1.59%	4.85%
Toland	1.12	1.91%	6.17%	1.36%	1.64%	1.72%	1.50%	4.52%
Coastal	1.23	2.23%	6.96%	1.36%	1.66%	1.72%	2.24%	4.95%
Bailard	1.55	2.36%	7.31%	1.48%	1.72%	1.75%	2.72%	4.95%
ICE BofAML 0-5 Year U.S. Treasury Index		2.99%	7.04%	1.33%	1.52%	1.55%	-	-

- Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
- Includes CAMP pool balances in performance and duration computations.
- Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than one year are presented on an annualized basis.
- ICE BofA Indices provided by Bloomberg Finance L.P.
- Inception date for the combined portfolio is 6/30/2007 and is the case for all individual portfolios except for the Main portfolio which has an inception date of 12/31/2006.
- The Main and Toland portfolios are no longer managed to the 0-5 Year Benchmark, but instead they are being managed to meet to the District's cash flow requirements.

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Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
U.S. Treasury	52.1%	
United States Treasury	52.1%	AA / Aaa / AA
Federal Agency	22.7%	
Federal Home Loan Banks	4.5%	AA / Aaa / NR
Federal Home Loan Mortgage Corp	10.0%	AA / Aaa / AA
Federal National Mortgage Association	8.2%	AA / Aaa / AA
Supranational	4.0%	
Inter-American Development Bank	4.0%	AAA / Aaa / AAA
Municipal	0.6%	
California State University	0.6%	AA / Aa / NR
Corporate	19.1%	
American Express Co	1.2%	BBB / A / A
Apple Inc	1.5%	AA / Aaa / NR
Bank of America Corp	0.5%	A / A / AA
Bank of New York Mellon Corp	1.2%	A / Aa / AA
Citigroup Inc	1.4%	BBB / A / A
Deere & Co	0.4%	A / A / A
Goldman Sachs Group Inc	2.4%	BBB / A / A
Honda Motor Co Ltd	0.8%	A / A / A
Intel Corp	1.5%	BBB / Baa / BBB
International Business Machines Corp	1.5%	A / A / A
Lockheed Martin Corp	0.3%	A / A / A
Meta Platforms Inc	0.7%	AA / Aa / NR
Morgan Stanley	0.7%	A / A / A
National Rural Utilities Cooperative Fi	0.4%	A / A / A
Northern Trust Corp	1.1%	A / A / A
PACCAR Inc	0.7%	A / A / NR

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Corporate	19.1%	
Target Corp	0.3%	A / A / A
Toyota Motor Corp	0.9%	A / A / A
Walmart Inc	1.6%	AA / Aa / AA
ABS	1.5%	
Capital One Financial Corp	1.2%	AAA / NR / AAA
Honda Auto Receivables Owner Trust	0.2%	AAA / Aaa / AAA
World Omni Auto Trust	0.1%	AAA / NR / AAA
Total	100.0%	

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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.

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It is not possible to invest directly in an index. The index returns shown throughout this material do not represent the results of actual trading of investor assets. Third-party providers maintain the indices shown and calculate the index levels and performance shown or discussed. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.

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- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Refinitiv, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. **Past performance is not indicative of future returns.**
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

Glossary

- **Accrued Interest:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **Agencies:** Federal agency securities and/or Government-sponsored enterprises.
- **Amortized Cost:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **Asset-Backed Security:** A financial instrument collateralized by an underlying pool of assets – usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, and receivables.
- **Bankers' Acceptance:** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **Commercial Paper:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **Contribution to Total Return:** The weight of each individual security multiplied by its return, then summed for each sector to determine how much each sector added or subtracted from the overall portfolio performance.
- **Effective Duration:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **Effective Yield:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **Interest Rate:** Interest per year divided by principal amount and expressed as a percentage.
- **Market Value:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
- **Negotiable Certificates of Deposit:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **Par Value:** The nominal dollar face amount of a security.
- **Pass-through Security:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.

Glossary

- Repurchase Agreements: A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- Settle Date: The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- Supranational: A multinational union or association in which member countries cede authority and sovereignty on at least some internal matters to the group, whose decisions are binding on its members.
- Trade Date: The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- Unsettled Trade: A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- U.S. Treasury: The department of the U.S. government that issues Treasury securities.
- Yield: The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- YTM at Cost: The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- YTM at Market: The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.

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