



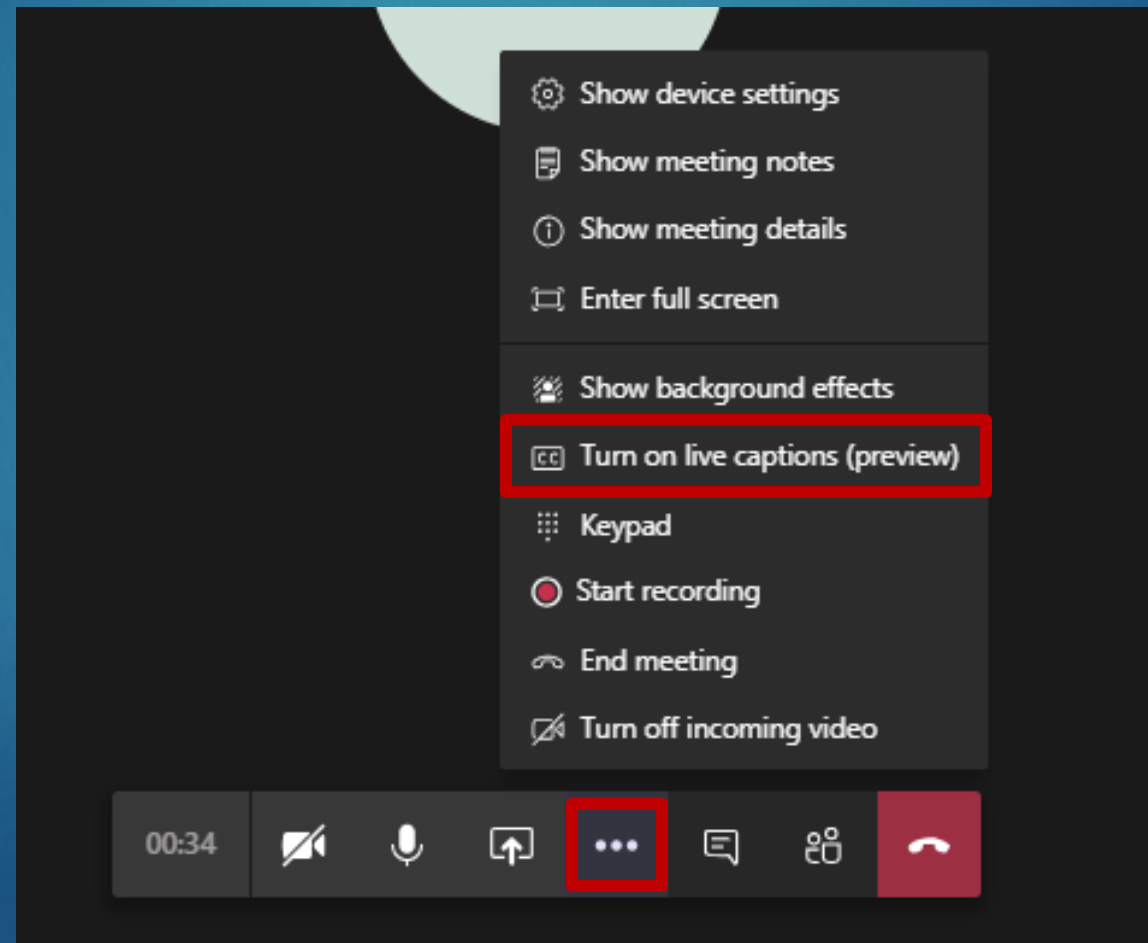
Silicon Valley Clean Water Commission Meeting

OCTOBER 10, 2022



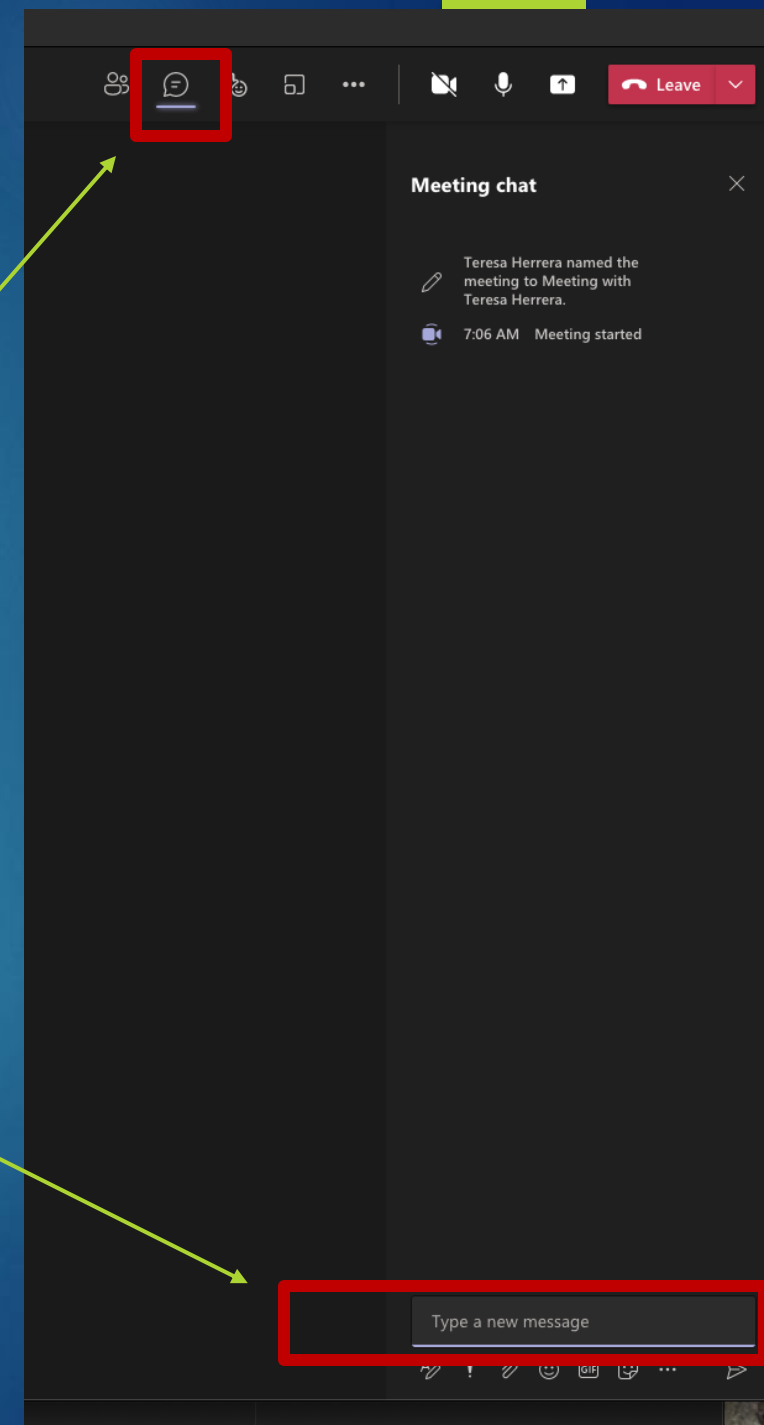
Turn on Live Captions

- ▶ To turn on live captions, go to your meeting controls and select **More actions ...** > **Turn on live captions (preview)**.



Provide Public Comment

- ▶ To provide public comment during the meeting:
 - ▶ Click on the meeting chat bubble
- ▶ Type your message into the box at the bottom of the Meeting Chat
- ▶ Note that all meeting attendees will be able to view your comment







Agenda Item 5

Annual Investment Update

Silicon Valley Clean Water

Annual Investment Update

October 10, 2022

415-393-7270

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PFMAAsset Management LLC

PFMAAsset Management LLC

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Market Update

Current Market Themes



- ▶ The U.S. economy is characterized by:
 - ▶ High inflation
 - ▶ A strong labor market
 - ▶ Depressed consumer confidence
 - ▶ Growing potential for economic recession

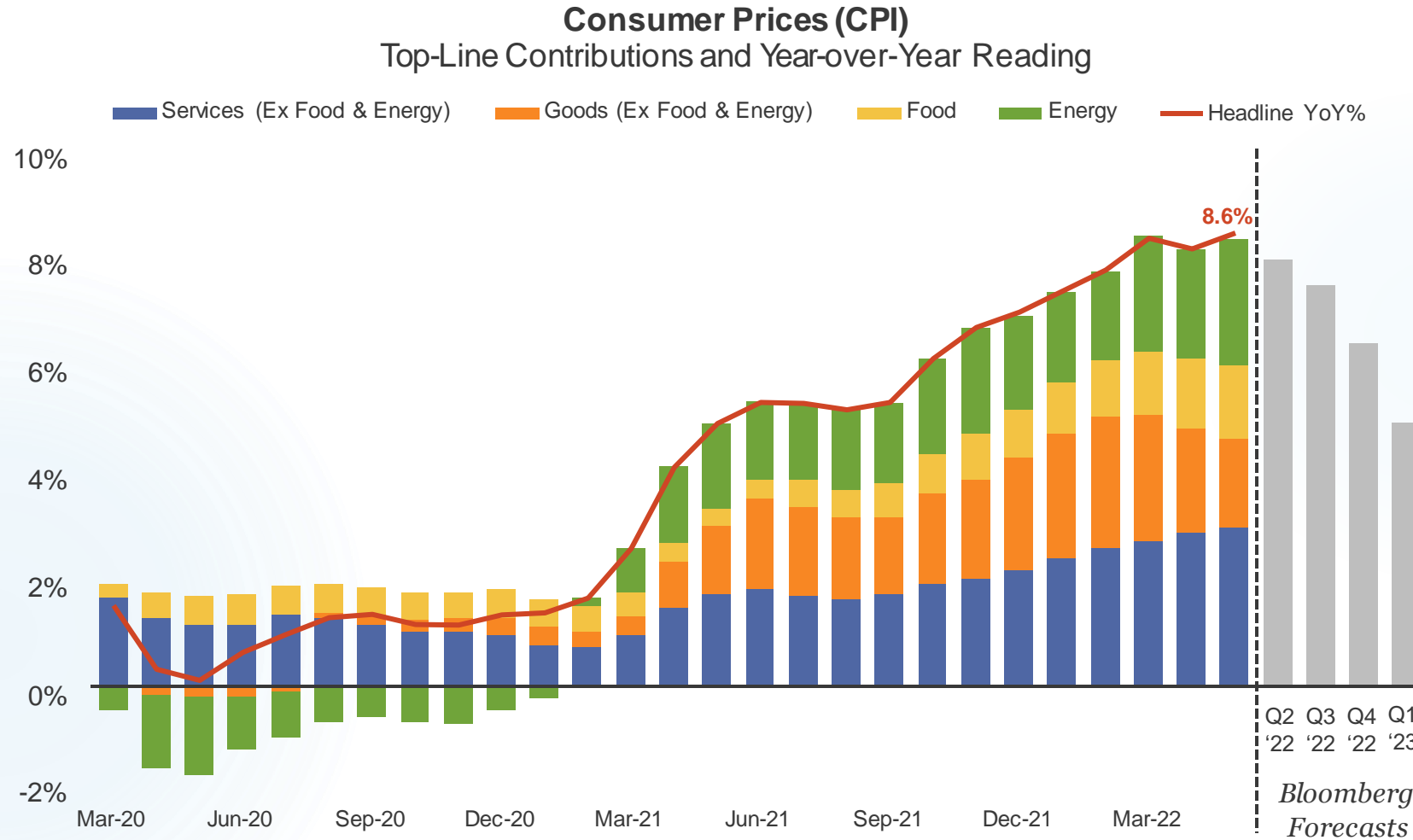


- ▶ The Federal Reserve is tightening monetary policy
 - ▶ More aggressive rate hikes to battle persistent inflation
 - ▶ Short-term fed funds rate projected to reach 3.25% to 3.75% by year-end
 - ▶ Start of balance sheet reduction; pace to double beginning in September



- ▶ Asset prices have fallen sharply in 2022 as a result of:
 - ▶ The impact of higher rates on bond prices and equity valuations
 - ▶ Wider credit spreads
 - ▶ High commodity prices, rising labor costs, and the continuing conflict in Ukraine
 - ▶ High levels of volatility and uncertainty
-

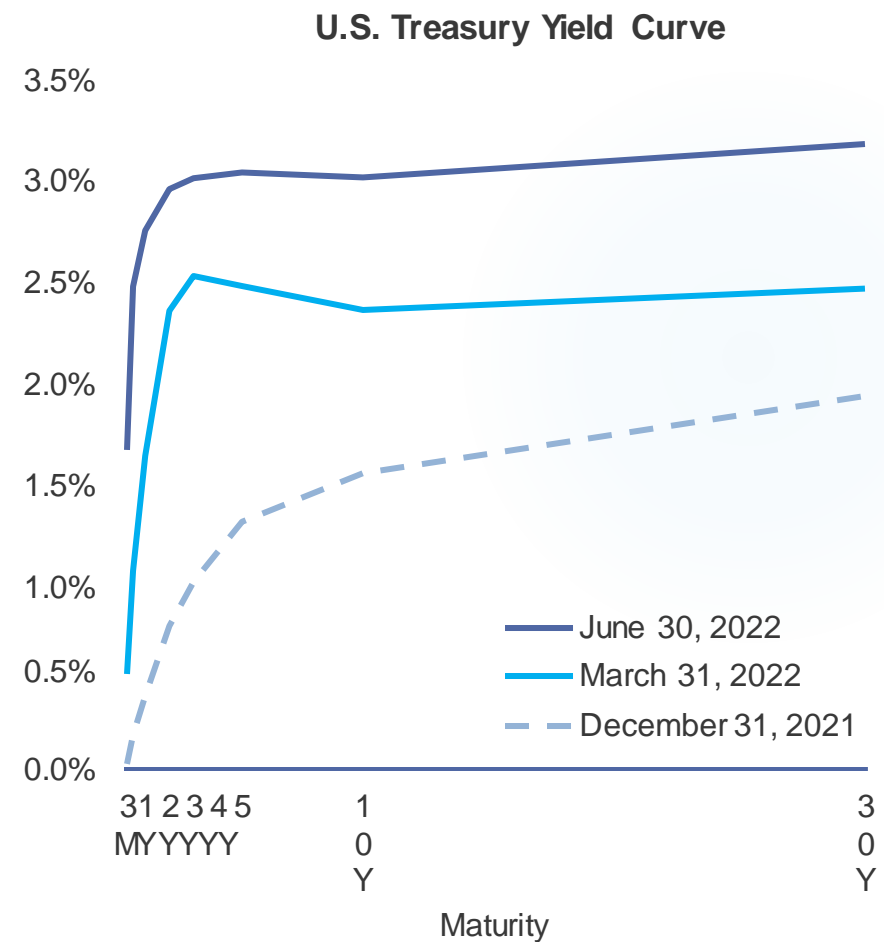
U.S. Inflation Hit a New Four-Decade High in May



Source: Bloomberg, as of May 2022.

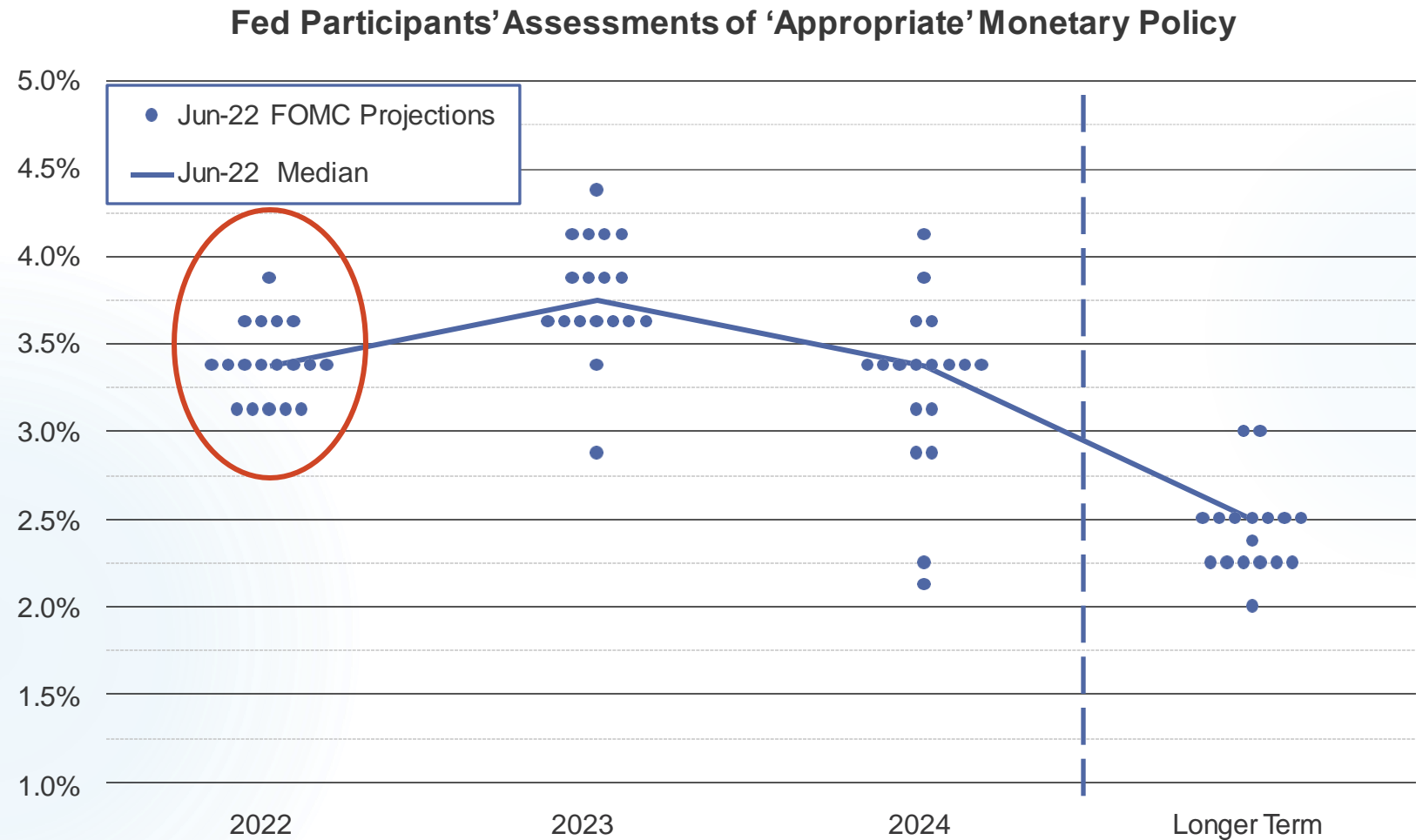
Treasury Yields Move Higher Across the Curve; Curve Remains Flat Beyond Two Years

	2Q2022 06/30/22	1Q2022 03/31/22	QoQ Change
3-month	1.63%	0.48%	+1.15%
1-year	2.74%	1.60%	+1.14%
2-year	2.95%	2.33%	+0.62%
3-year	3.01%	2.51%	+0.50%
5-year	3.04%	2.46%	+0.58%
10-year	3.01%	2.34%	+0.67%
30-year	3.18%	2.45%	+0.73%



Source: Bloomberg, as of 6/30/2022.

Federal Reserve Officials Project 1.75% More in Rate Hikes in 2022



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.

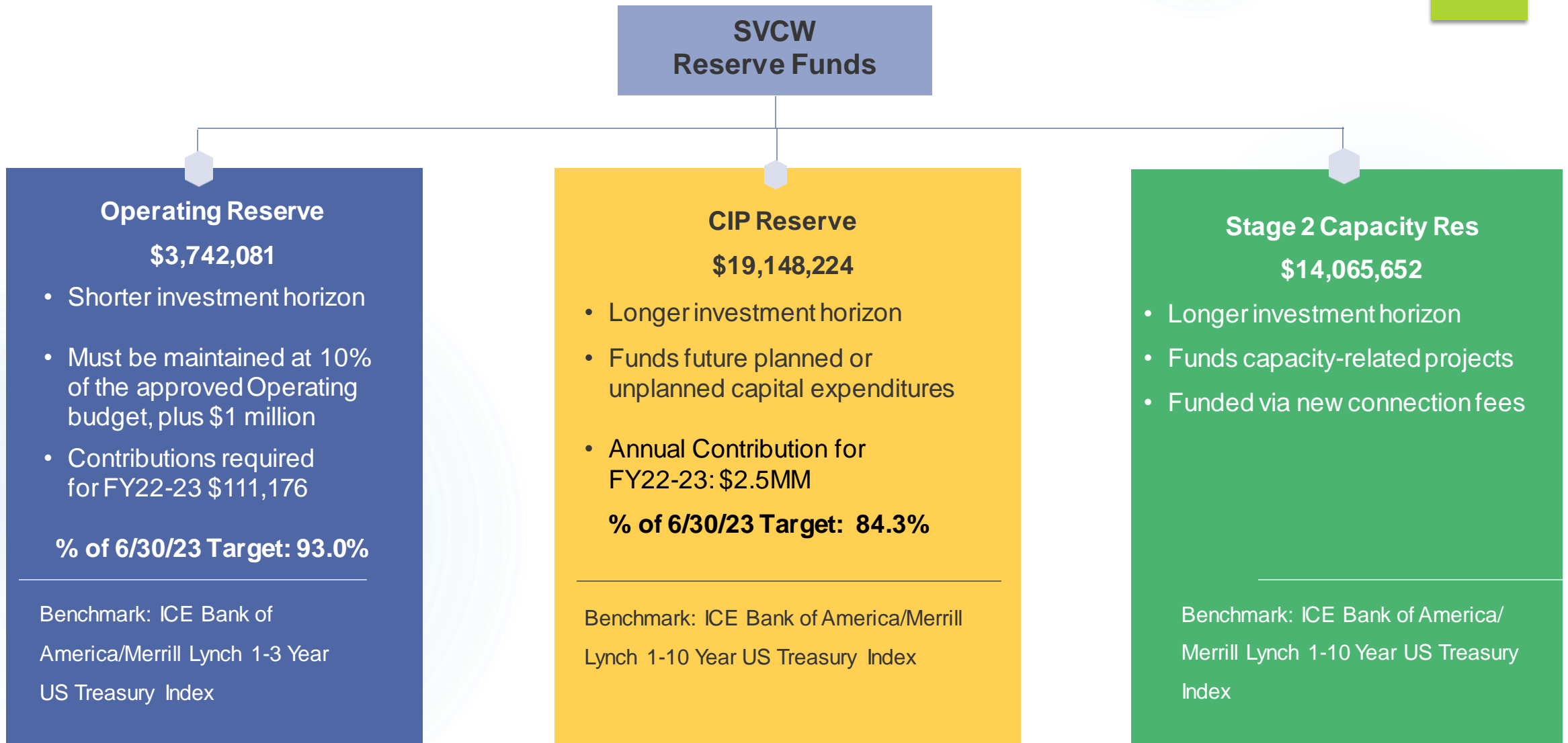
Investment Program Highlights

Achieving SVCW's Investment Objectives

Objective	Achieved Through...
Safety <i>Safety of the principal</i> shall be the top priority in the consideration of any investment undertaken by the CFO	<ul style="list-style-type: none">• <u>High-quality</u> investments• <u>Diversification</u> by sector, issuer, and maturity• Continual <u>monitoring</u> of the creditworthiness of all investment securities
Liquidity The CFO shall keep the portfolio <u>sufficiently liquid</u> to meet the operating and capital needs of the authority which can be reasonably anticipated from his/her experience of the Authority's operations and adopted budget	<ul style="list-style-type: none">• <u>Cash flow</u> coordination with SVCW• Appropriate <u>allocation</u> among short-term liquidity vehicles and the longer-term managed portfolios• Investment in <u>highly liquid</u> securities which could readily be sold in the open market
Return on Investment Within the safety and liquidity constraints imposed by law and the Authority's own safety objective and cash flow requirements, the investment portfolio shall be designed to <u>attain the market rate of return</u>	<ul style="list-style-type: none">• <u>Duration</u> management• <u>Active trading</u> and continual evaluation of relative value among allowable sectors



SVCW's Reserve Fund Investment Program

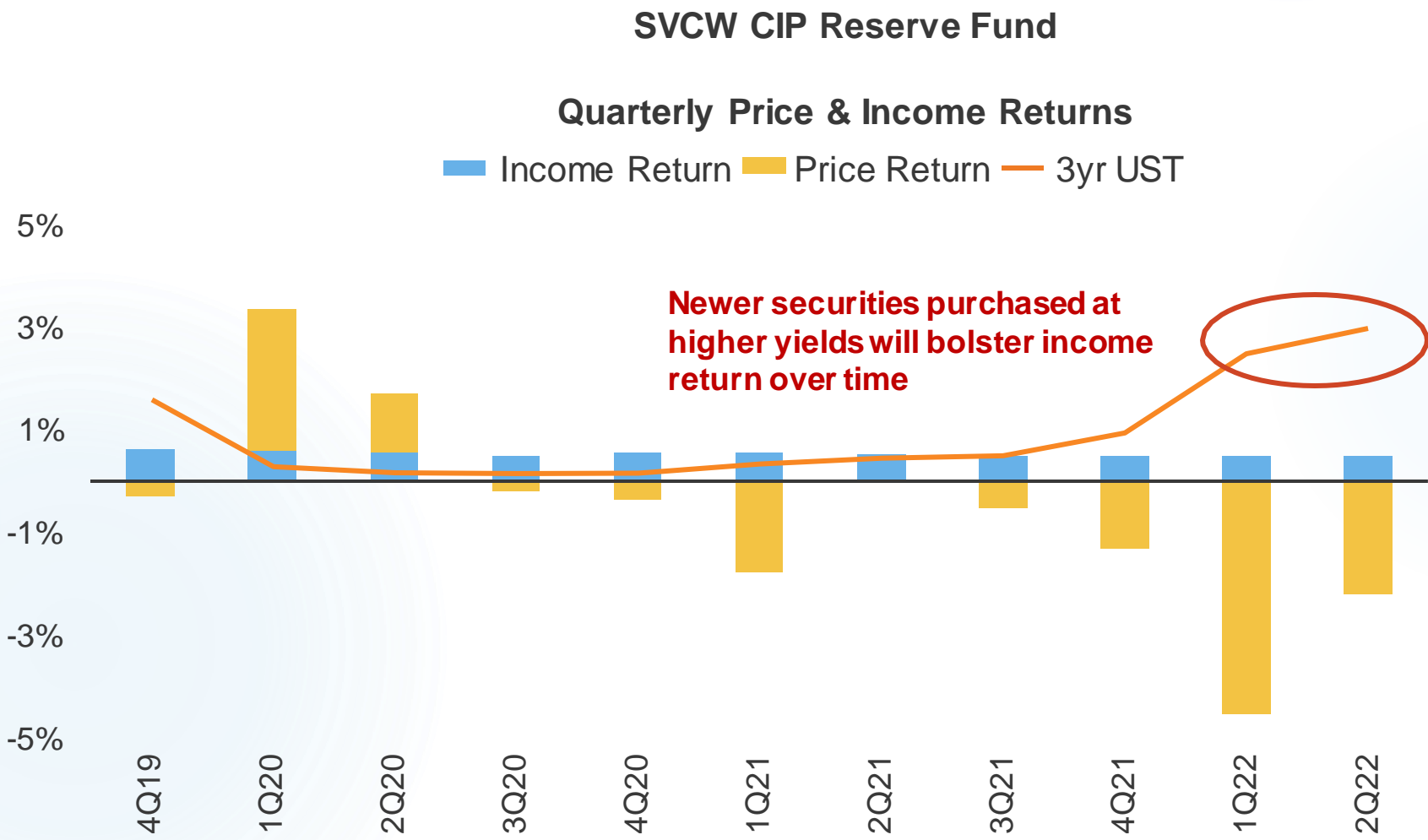


Aggregate Portfolio: June 30, 2022 Statistics

Security Type	June 30, 2022	% of Portfolio	% Change YOY	Permitted by Policy
U.S. Treasury	15,204,479	41%	+2%	100%
Supranationals	343,529	1%	-	15%
Federal Agency/GSE	3,594,074	10%	-7%	100%
Federal Agency/CMBS	1,029,718	3%	+3%	100%
Federal Agency CMO	1,389,105	4%	-6%	100%
Federal Agency MBS	3,809,394	10%	+5%	100%
Municipal	1,543,578	4%	-1%	30%
Corporate Notes	7,546,714	21%	+3%	30%
Asset-Backed Securities	1,285,825	3%	-	10%
Money Market Fund	1,062,463	3%	+1%	20%
Accrued Interest	147,078			
Total Investments	36,955,957	100%		

End of quarter trade-date market valuations. Details may not add up due to rounding. Current Investment Policy as of June 30, 2022.

The Impact of Rising Rates on Total Return



Source: PFMAM calculations. Quarterly total returns are shown on an unannualized basis. The yield on the 3yr UST is annualized.

CIP Reserve Fund – Second Quarter 2022 Purchases

Trade Date	Settle Date	Par Value	Security Description	Maturity Date	Yield at Market
4/5/2022	4/14/2022	140,000	FHMS K141 A1	5/1/2031	2.90%
4/11/2022	4/13/2022	90,000	AMAZON.COM INC CORPORATE NOTES	4/13/2025	3.06%
5/13/2022	5/17/2022	150,000	NORTHERNTRUST CORP NOTE (CALLABLE)	5/10/2027	3.73%
6/7/2022	6/8/2022	175,000	US TREASURY NOTES	12/31/2027	3.07%
6/9/2022	6/13/2022	275,000	NATIONAL AUSTRALIA BK/NY CORPORATE NOTES	6/9/2027	4.10%
6/27/2022	6/30/2022	200,000	FN FS2262	6/1/2037	3.89%
Total		1,030,000			

Total Return Performance

As of June 30, 2022

	Yield to Maturity at Cost	Duration (years)	Total Return Quarter Ended		
			Current Quarter	1 Year	Since Inception
SVCW Operating Reserve Fund	1.18%	1.70	-0.46%	-3.02%	0.18%
<i>Benchmark: ICE BofAML 1-3 Year U.S. Treasury Index</i>	<i>N/A</i>	<i>1.78</i>	<i>-0.50%</i>	<i>-3.30%</i>	<i>0.05%</i>
Difference		-	+0.04%	+0.28%	+0.13%
SVCW CIP Reserve Fund	1.79%	3.81	-1.71%	-6.51%	-0.56%
<i>Benchmark: ICE BofAML 1-10 Year U.S. Treasury Index</i>	<i>N/A</i>	<i>3.74</i>	<i>-1.59%</i>	<i>-6.10%</i>	<i>-0.67%</i>
Difference		-	-0.12%	-0.41%	+0.11%
SVCW Stage 2 Capacity Reserve Fund	1.69%	3.70	-1.74%	-6.58%	0.56%
<i>Benchmark: ICE BofAML 1-10 Year U.S. Treasury Index</i>	<i>N/A</i>	<i>3.74</i>	<i>-1.59%</i>	<i>-6.10%</i>	<i>-0.67%</i>
Difference		-	-0.15%	-0.48%	+0.11%



- Portfolio performance is gross of fees unless otherwise indicated.
- ICE Bank of America Merrill Lynch (BofAML) Indices provided by Bloomberg Financial Markets.
- The performance inception date for each of the funds is September 30, 2019.

Current Market Outlook

KEY TAKEAWAYS

- Inflation remained elevated, reflecting higher energy prices, lingering supply chain disruptions, and strong demand.
- The Fed has redoubled efforts to tamp down inflation via aggressive rate hikes and balance sheet reduction.
- Investors have grown concerned that aggressive action by the Fed may tip the U.S. economy into a recession.

PORTFOLIO STRATEGY IMPLICATIONS

- Continued focus on safety and liquidity.
- We will maintain modestly defensive duration positioning until we are more confident rates will stabilize.
- Markets appear to have adjusted for a slowing economy; thus, we view current corporate and ABS spreads as an attractive entry point.

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Agenda Item 8A

Digester 1

Rehabilitation

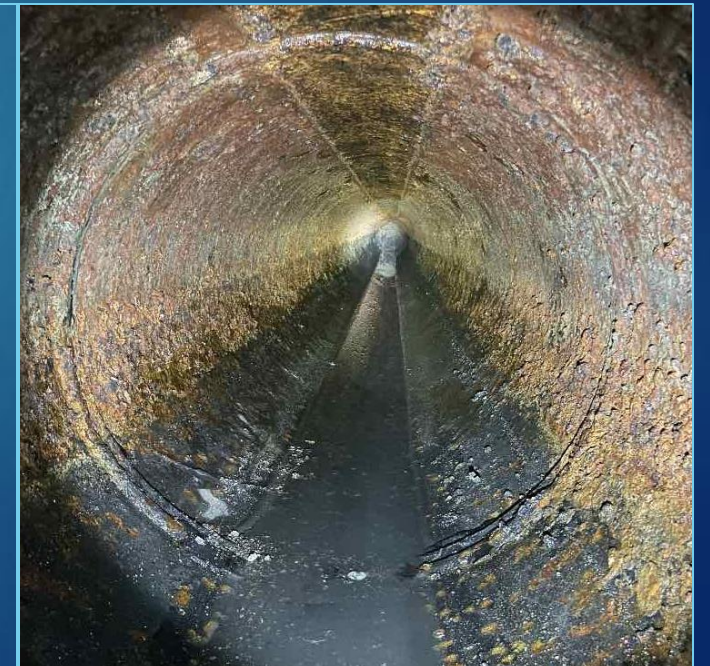
Digester 1 Rehabilitation

Loss of lining and corrosion observed in Sludge Mixing Pipes



Lining
Failure
and
Evidence
of
Corrosion

Loss of Lining
and Observed
Corrosion



Digester 1 Rehabilitation



Sandblasting reveals
crack in pipe



Negotiated Cost to
Repair: NTE \$619,000

Fund from CIP #9600
– Buried and Exposed
Process Pipe Repair

No increase to overall
CIP expenditures

Recommendation

Approve Contract Change
Order for Digester 1 Pipe
Repair



Thank You