




Investment Review

February 4th, 2025

City of Ocala Treasury Reserve

A wide-angle landscape photograph of a wetland area. The foreground shows a body of water reflecting the sky, with a dense line of dark, brownish vegetation along the shore. In the background, more water and distant landmasses are visible under a clear sky. The bottom right corner of the image shows the spiky leaves of a palm tree.

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Bond Market Review: Rates Selloff & Fed Easing

Market Review: Rates selloff on Fed rate cut; Inflation remains high but trending lower

As we headed toward the end of 2024, there was still much uncertainty about how certain outcomes would play out with a presidential election and Federal Reserve decisions queued up to play a significant role in determining the direction of markets. The movement throughout the quarter, mainly a sell-off in the Treasury market, contributed to negative returns in the bond market.

The Republican sweep in November, while causing a positive shift in sentiment for risk assets, also played a part in stoking concerns about growth, inflation and deficits. These concerns led to the sell-off in the U.S. Treasury market with yields up across the main maturity spectrums. The 2-year, 10-year and 30-year Treasuries were up 60bps, 79bps and 66bps respectively. After an inversion in 2/10s that was in place for over 2 years, signs of a sustained steepening were evident and the 2/10s curve ended up at +33bps, the highest since June 2022.

Amidst the sell-off, The Fed held meetings in November and December, cutting the Fed Funds rate by 25bps at each meeting. Despite the 50bps of total cuts, coming on the heels of an additional 50bps of cuts in September, the expectation of future rate cuts shifted dramatically. At the end of Q3, the market was pricing in almost eight rate cuts for 2025. By the end of the quarter, this was revised all the way down to only two cuts.

The projected growth was a positive within risk assets, primarily corporate bond spreads, which tightened by 10bps during the quarter. The asset class continued to outperform let by yield-based demand and receding recession risk. The investment grade index finished 2024 at a spread of only +80bps, hitting tights not seen since 1997.

Outlook: Fed Pivot

- The market repriced the Fed rate cuts for 2025 to only one cute, down from nine with terminal rate at 4%. Fiscal policy is expected to be less accommodative going forward, but a lot of Treasury supply will be coming to market. We turn long duration.
- We turn tactically underweight on corporate bonds and overweight MBS given better relative valuations.
- Biggest risks 2025: New administration policy uncertainty, geo-political events, Inflation stickiness, recession risks.

Fed Funds vs 10 Year U.S. Treasury

The first time in history when 100bps of Fed rate cuts raised UST 10Y yields by 100bps.



Source: Bloomberg

Number of Expected 2025 Rate Cuts

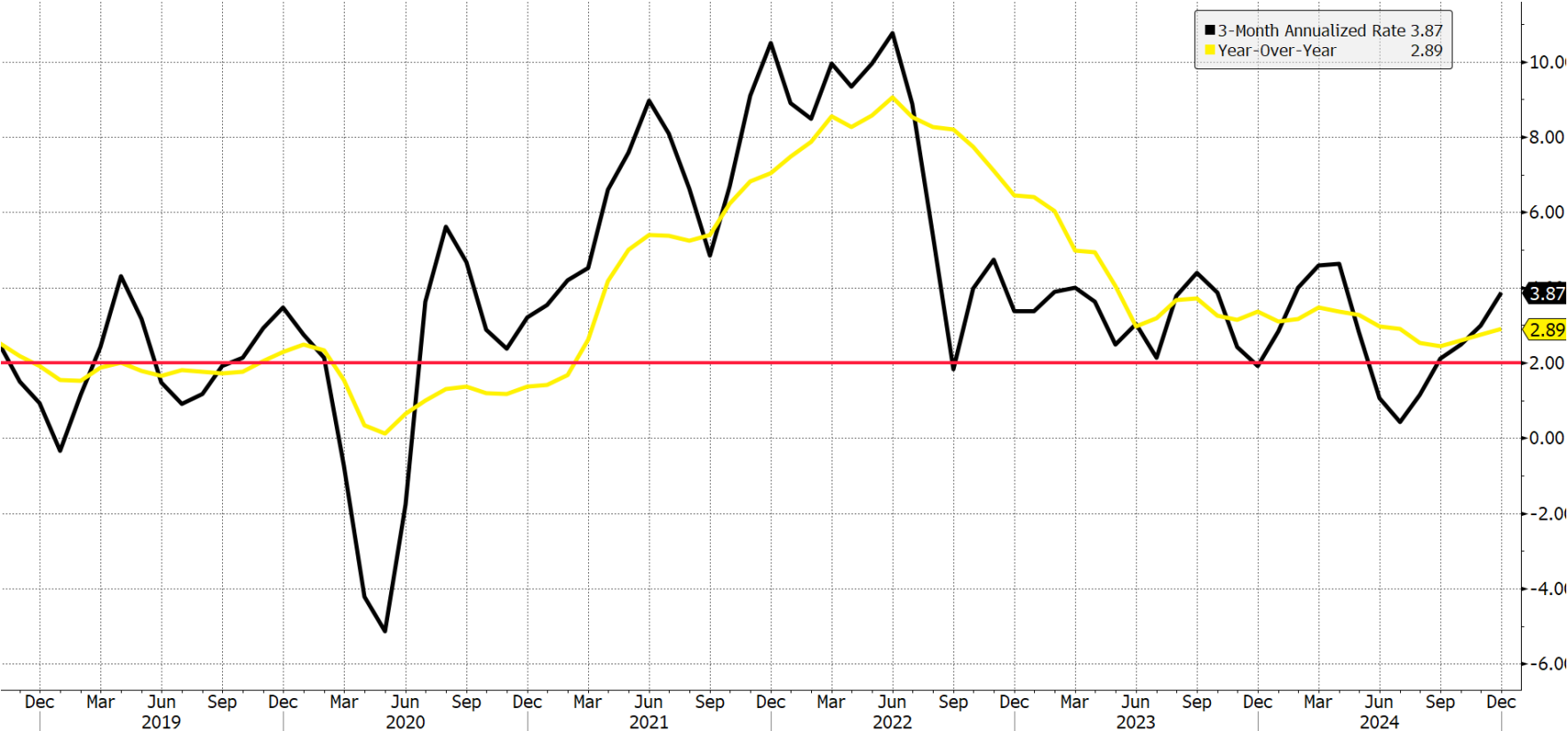
As of 12/31/2024



Source: Bloomberg

CPI Moderating But Still Above Fed Target

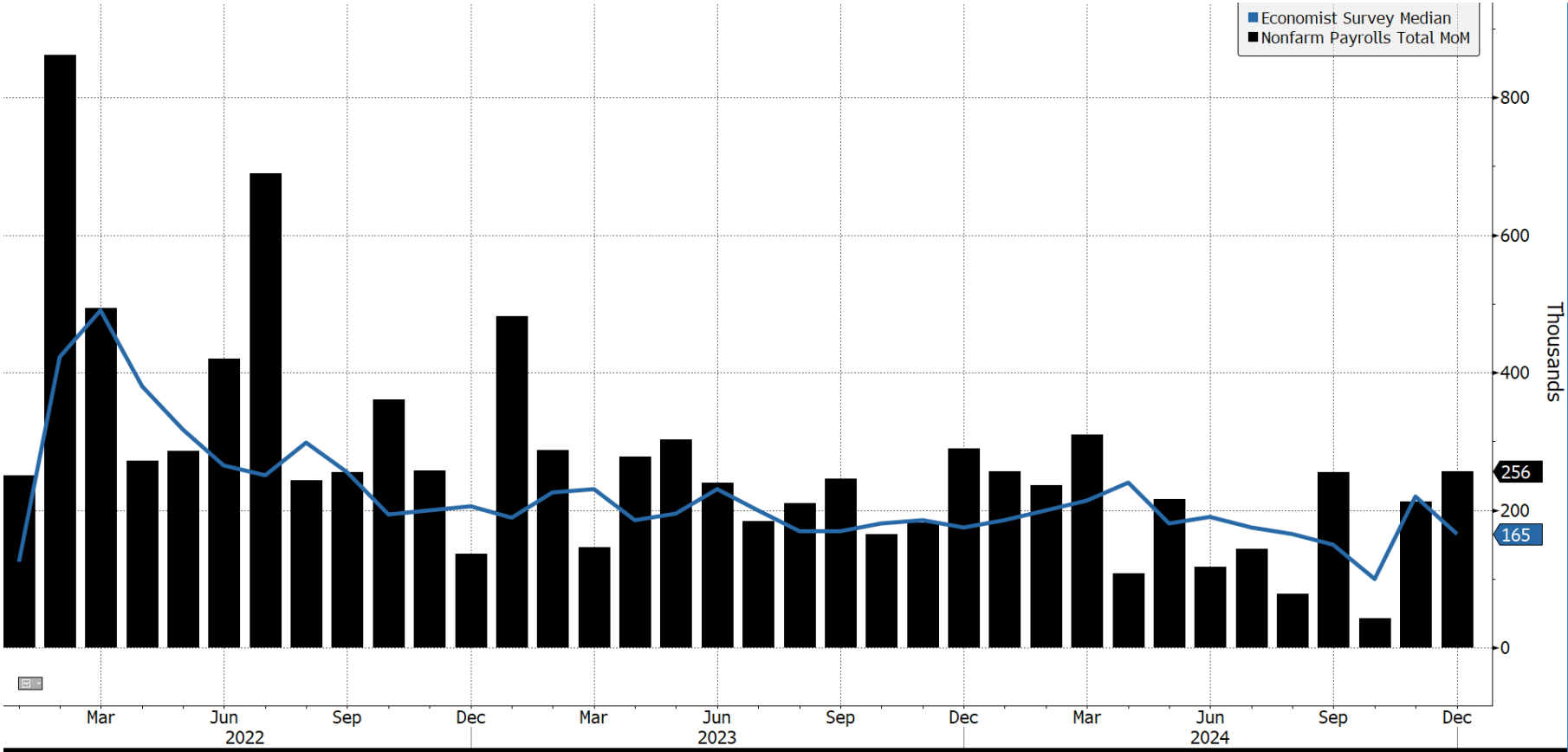
As of 12/31/2024



Source: Bloomberg

Job Growth Remains Robust

As of 12/31/2024



Source: Bloomberg

Treasury Curve Continues to Normalize

As of 12/31/2024



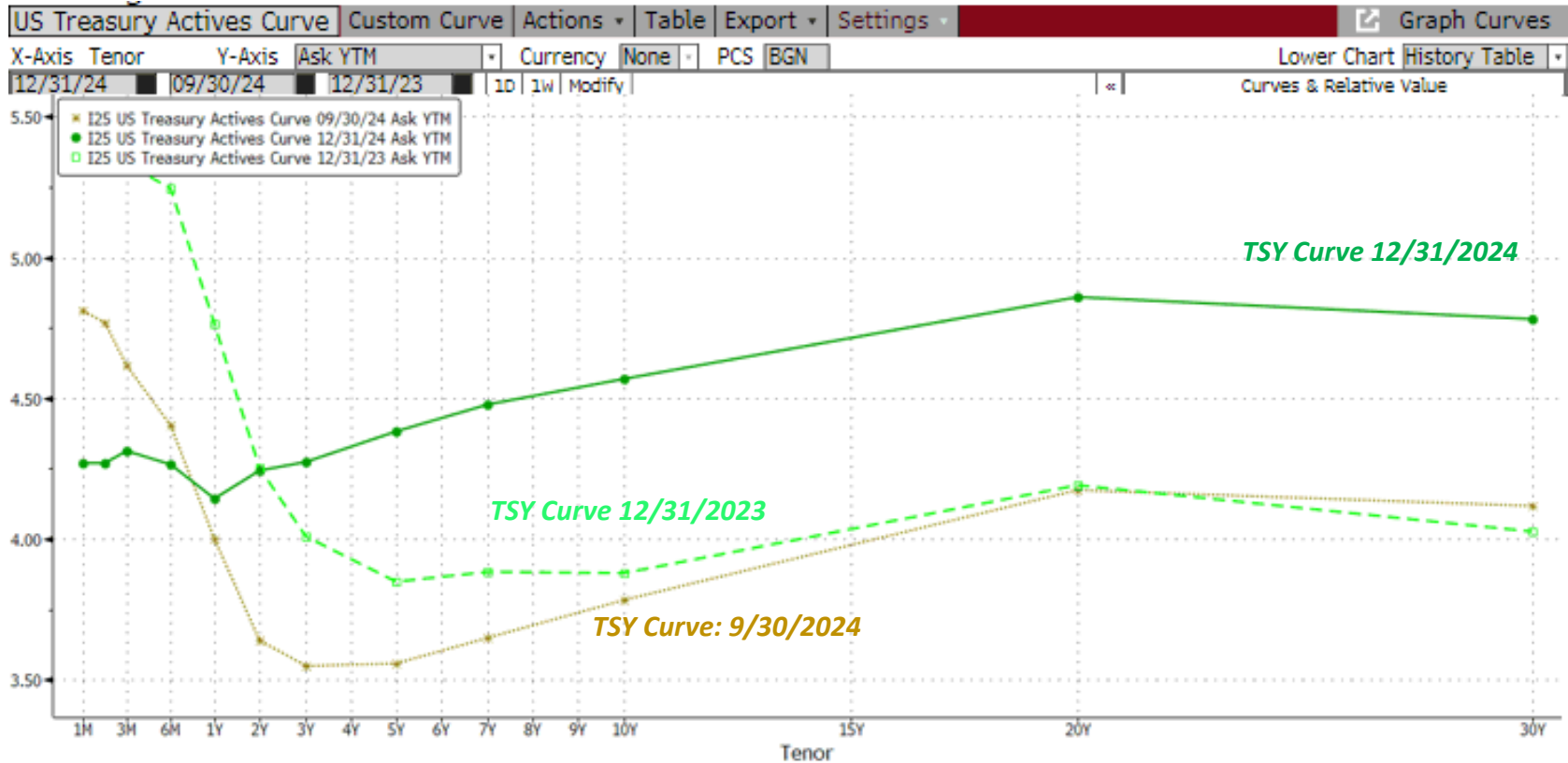
Source: Bloomberg

Treasury Curve Change: Q4 Treasury Rates Higher

Interest Rate

Sector Allocation

Security Selection



Curve Id	1M	3M	2Y	5Y	10Y	20Y	30Y
11 I25 12/31/24	4.271	4.314	4.242	4.382	4.569	4.858	4.781
12 I25 09/30/24	4.813	4.617	3.641	3.558	3.781	4.175	4.119
13 I25 12/31/23	5.398	5.332	4.250	3.847	3.879	4.191	4.028
14 I25 (12/31/24-09/30/24)	-54.2	-30.3	60.1	82.4	78.8	68.3	66.2
15 I25 (12/31/24-12/31/23)	-112.7	-101.8	-0.8	53.5	69.0	66.7	75.3

Source: Bloomberg

Portfolio Market Values

QTD

Beginning Market Value on 9/30/2024	\$71,284,785
Net Cash Flows	\$0
Investment Gain/Loss	(\$427,894)
Ending Market Value on 12/31/2024	\$70,856,891

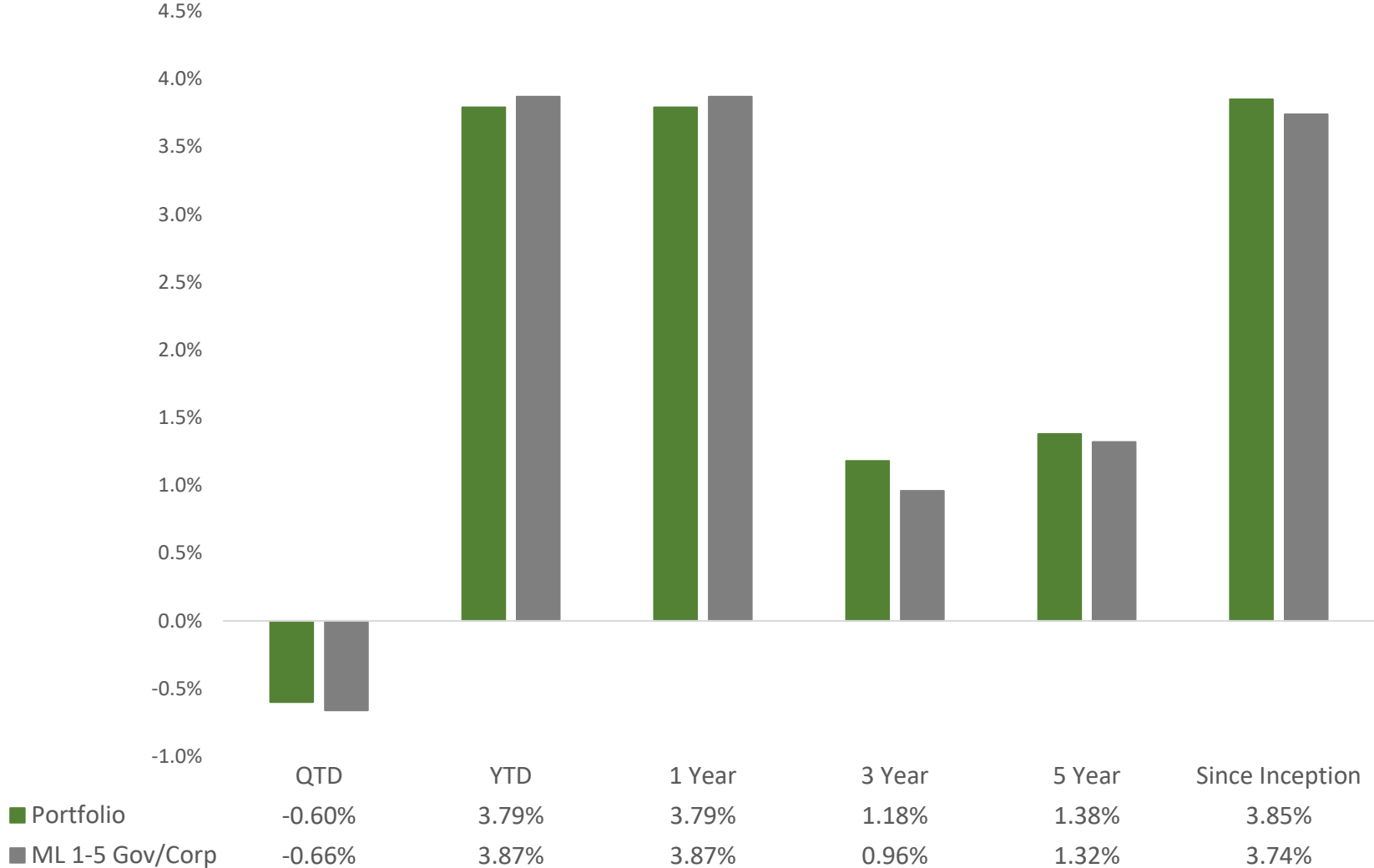
1 Year

Beginning Market Value on 12/31/2023	\$68,268,953
Net Cash Flows	\$0
Investment Gain/Loss	\$2,587,938
Ending Market Value on 6/30/2024	\$70,856,891

Portfolio Performance

Returns as of 12/31/2024

TOTAL RETURNS GROSS FOR SELECT PERIODS
City of Ocala Treasury Reserve Fund



Returns for periods of one year or longer are annualized

*Since Inception 04/30/98

Interest Rate Risk Exposure:

Interest Rate

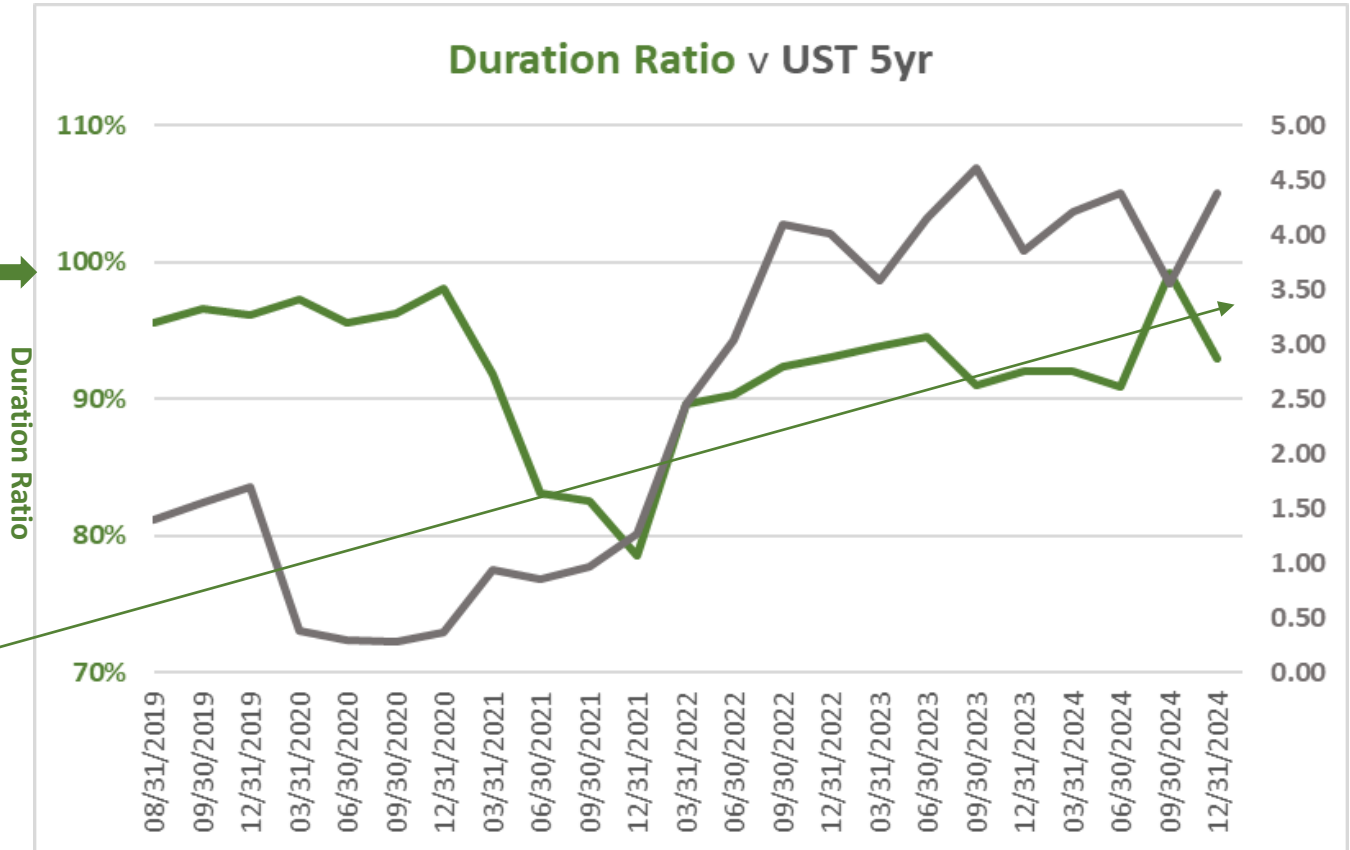
Sector Allocation

Security Selection



Duration Ratio v UST 5yr

Long >100%
Neutral interest rate risk
Short <100%



Actively managing duration given the recent rate sell off and inflation moderating.

Duration Ratio

UST 5 Year

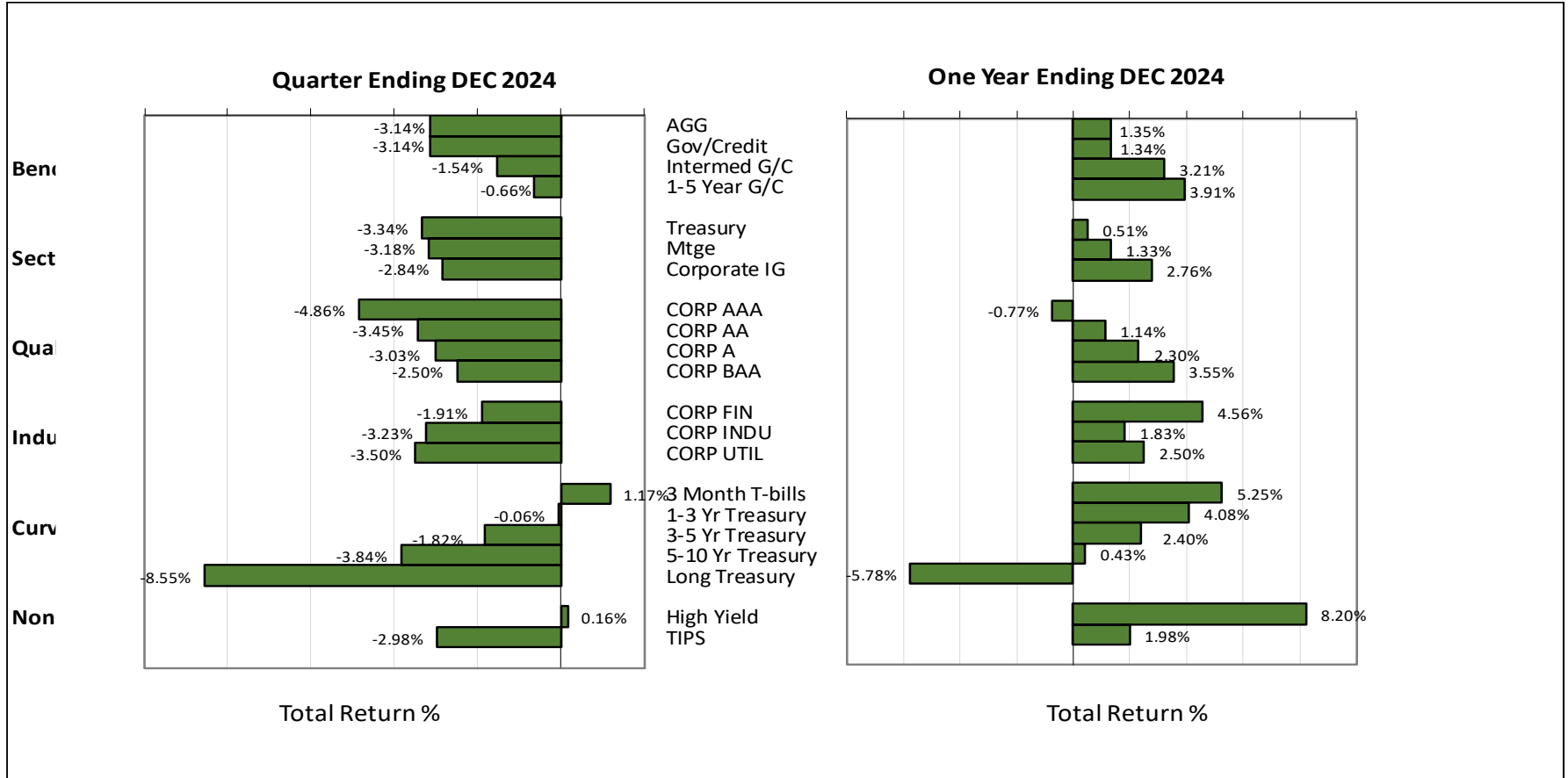
Source: BondEdge, Bloomberg

Sector Performance:

Interest Rate

Sector Allocation

Security Selection



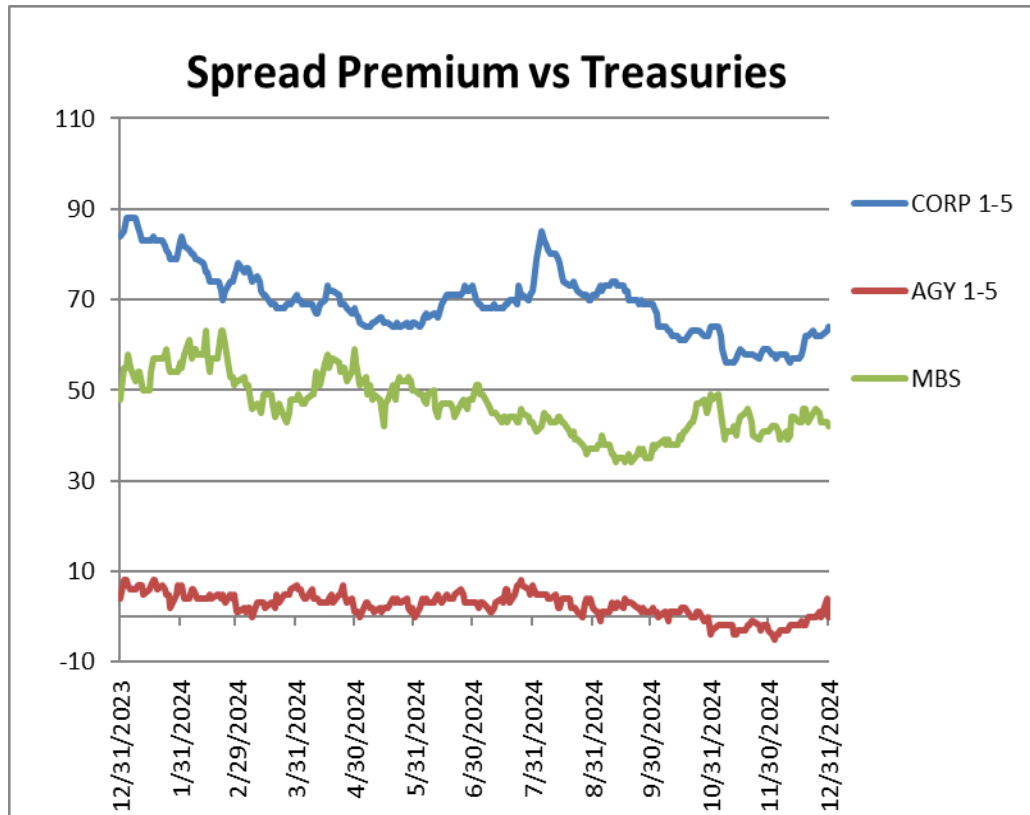
Source: BAML GIS

Sector Performance: Credit Spreads Outperformed

Interest Rate

Sector Allocation

Security Selection

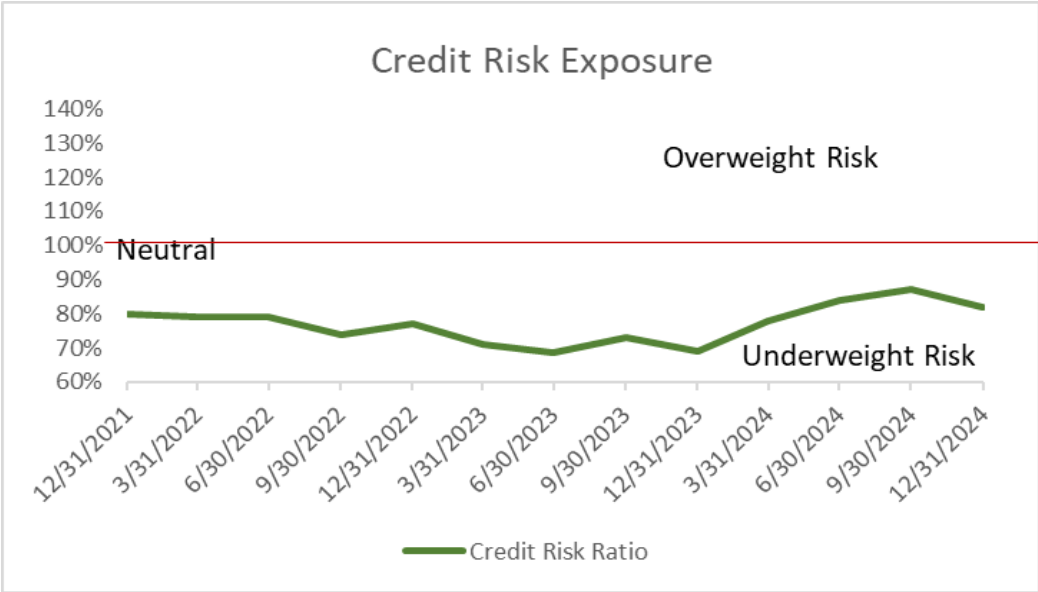


Spread Performance (OAS in bp)					
	12/31/2024	9/30/2024	QoQ chg	12/31/2023	YoY Chg
CORP 1-5	64	69	-5	84	-20
AGY 1-5	0	1	-1	4	-4
MBS	42	35	7	48	-6

	QoQ chg	YoY chg
Banks	-7	-32
Insur	-10	-26
Basic	-7	-23
CapGood	-14	-10
Energy	-13	-19
Media	-16	-15
Tech	-8	-9
Util	-11	-26
Retail	-11	-13
Healthcare	-3	-6
Staple	-7	-15

Source: Bloomberg

Credit Risk Exposure - Actively Managing



- Actively managing Investment Grade (IG) given very tight spreads. We focus on high quality issuers with attractive relative value.

Source: BondEdge

Performance Attribution

Interest Rate

Sector Allocation

Security Selection



9/30/24-12/31/24	Total Return	Income Effects			Term Structure Effects			Spread Effects		Residual
		Income	Paydown	Amort	Roll	Para Total	Non-Para	Sector/ Quality	Selection	
SHORT COMPOSITE	-0.59	0.55	0.00	0.50	0.11	-1.95	0.24	0.04	-0.10	0.00
BAML G/C 1-5	-0.66	0.81	0.00	0.23	-0.03	-2.04	0.30	0.06	-0.03	0.00
Difference	0.07	-0.25	0.00	0.27	0.14	0.08	-0.05	-0.02	-0.07	-0.01

Portfolio Characteristics		Effective Duration Years				
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SAM Comments:

12/31/2024	YTW	Eff Dur	Non-Para Dur	Qual Sprd Dur	Mtge Sprd Dur	Conv
SHORT COMPOSITE	4.44	2.36	1.10	0.54	0.00	0.04
BAML G/C 1-5	4.49	2.54	1.24	0.65	0.00	0.04
Difference	-0.05	-0.19	-0.15	-0.12	0.00	0.00

What Helped:

Carry
Duration

What Hurt:

Security Selection - OW High Quality
Sector Allocation - OW Spreads

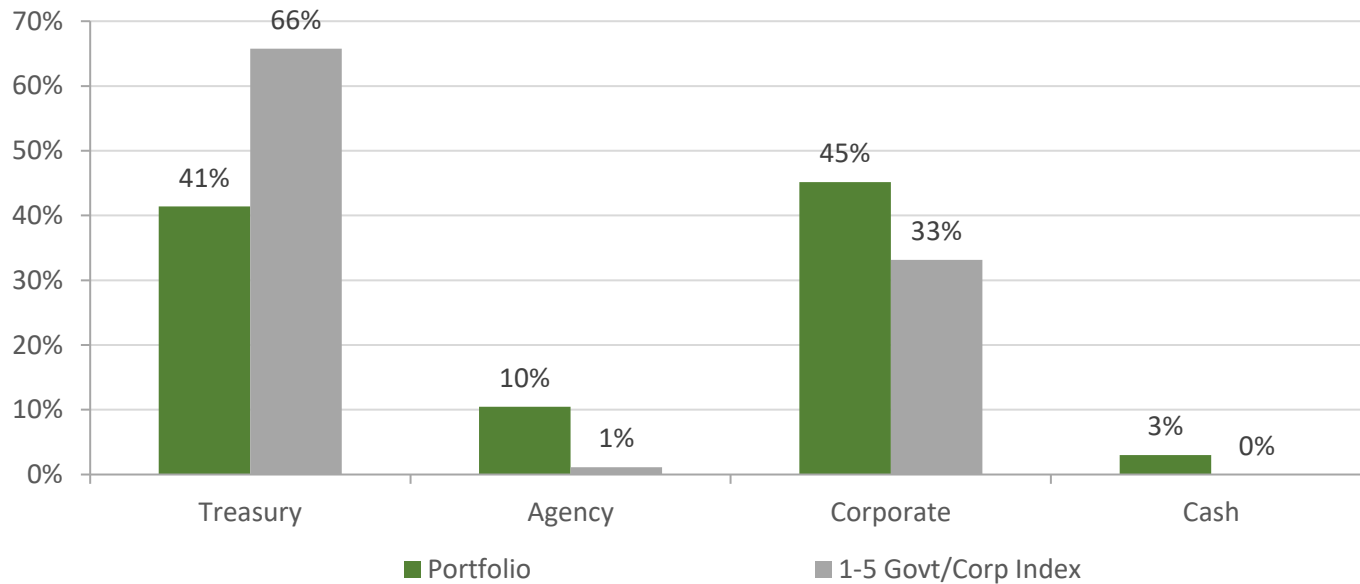
9/30/2024	YTW	Eff Dur	Non-Para Dur	Qual Sprd Dur	Mtge Sprd Dur	Conv
SHORT COMPOSITE	3.95	2.50	1.14	0.57	0.00	0.04
BAML G/C 1-5	3.87	2.59	1.27	0.67	0.00	0.04
Difference	0.08	-0.09	-0.13	-0.10	0.00	0.00

Source: BondEdge

Current Attributes and Sectors

City of Ocala Treasury Reserve Fund
Attributes as of 12/31/24

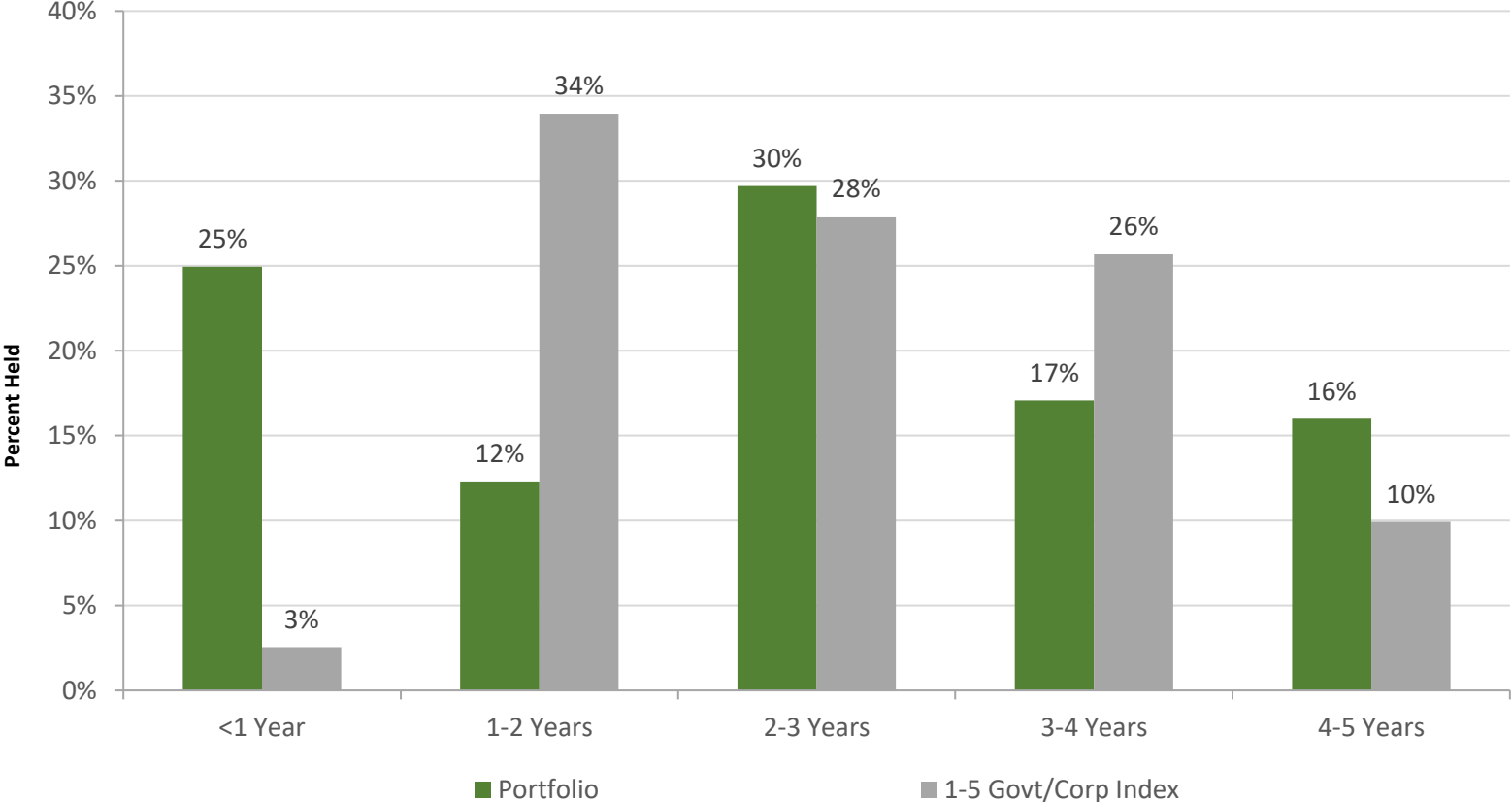
	<u>Portfolio</u>	<u>1-5 Govt/Corp Index</u>
Yield to Maturity (%)	4.48	4.49
Effective Duration (Yrs)	2.35	2.54
Effective Maturity (Yrs)	2.53	2.76
Quality Rating	Aa2	Aa2
Coupon Rate	2.35	3.17
Convexity	0.04	0.04



Source: BondEdge

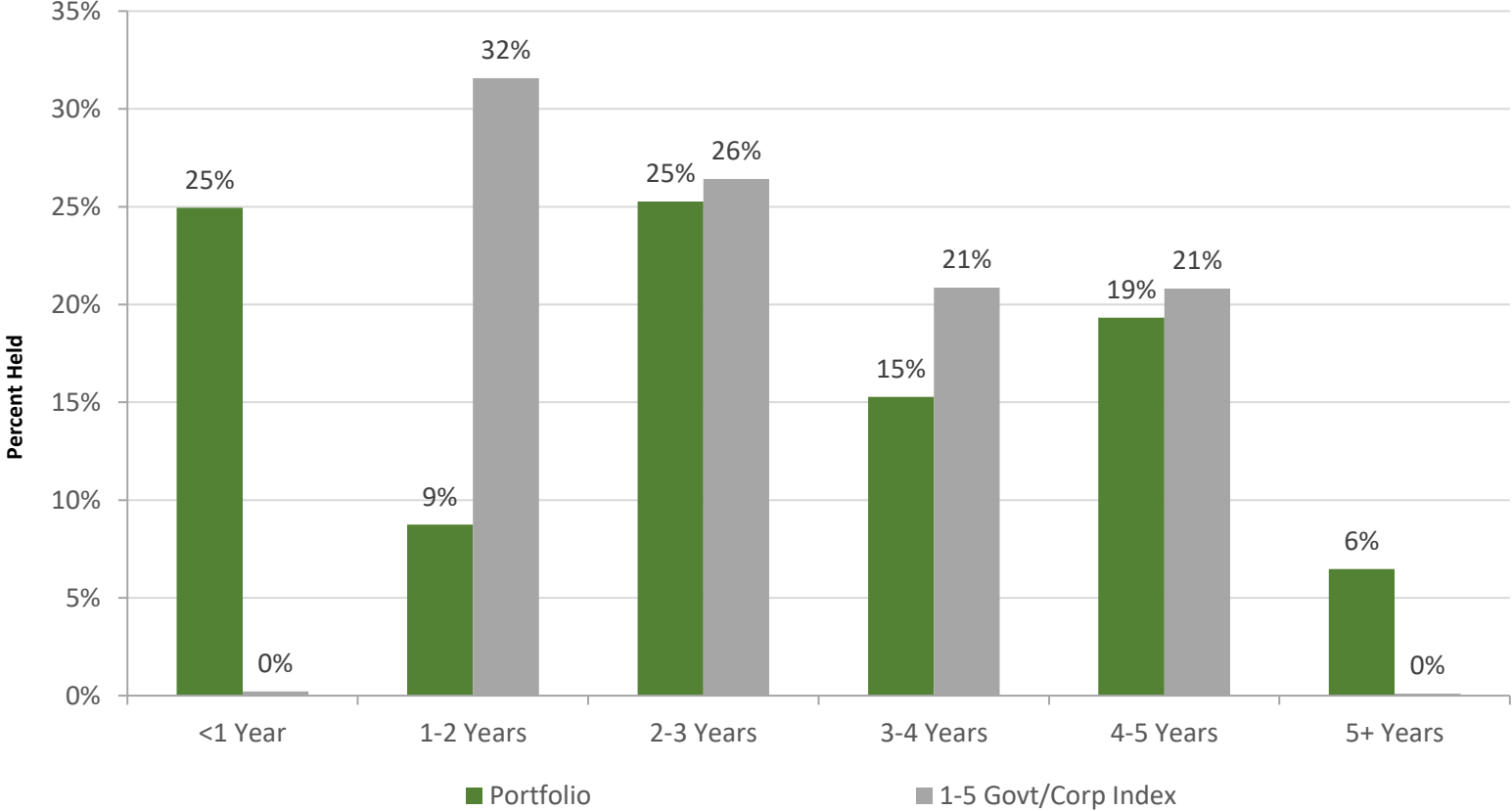
Current Duration Distribution

City of Ocala Treasury Reserve Fund
Attributes as of 12/31/24



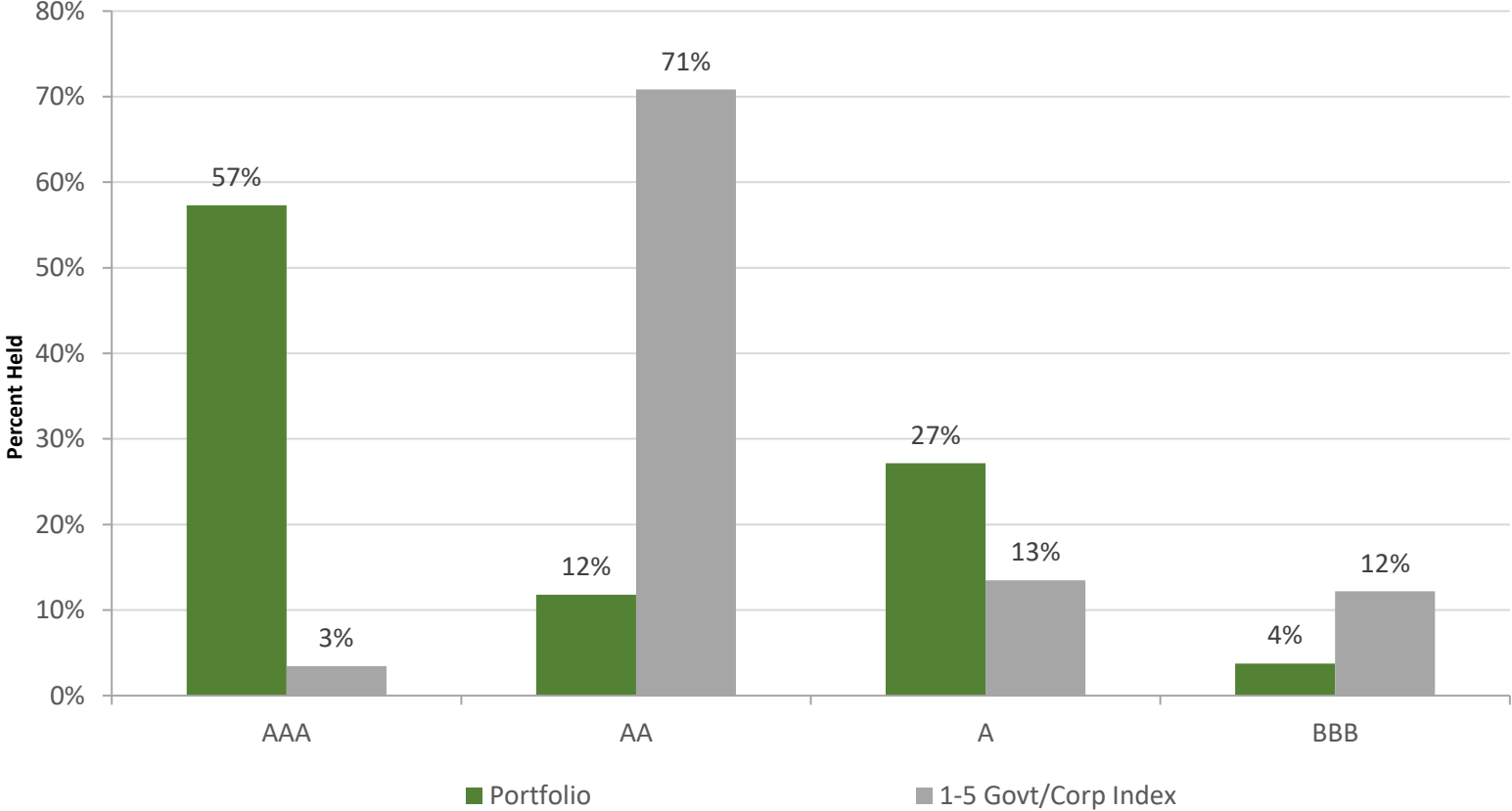
Source: BondEdge

Current Maturity Distribution



Source: BondEdge

Current Quality Distribution



Source: BondEdge

Sensitivity Analysis – 12 Months Horizon

Scenario #		1	2	3	4	5	6	7	8	9	10	11	12	13
Scenario Description		TSY -100	TSY -50	TSY No Change	TSY +50	TSY +100	TSY Forward Curve	TSY Bull Flattener	TSY Bull Steepener	TSY Bear Steepener	TSY Bear Flattener	Corp 50 Tighter Parallel	Corp 50 Wider Parallel	Consensus Forecast
Credit Chg OAS		0	0	0	0	0	0	0	0	0	0	-50	+50	0
12/31/2024	BEGIN	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)
U.S. TREASURY CURVE:														
6 Month	4.28	-100	-50	0	50	100	16	-5	-140	5	100	0	0	-67
1 Year	4.26	-100	-50	0	50	100	22	-5	-130	5	100	0	0	-68
2 Year	4.28	-100	-50	0	50	100	17	-10	-120	10	100	0	0	-51
3 Year	4.34	-100	-50	0	50	100	21	-10	-110	15	85	0	0	-45
5 Year	4.47	-100	-50	0	50	100	14	-25	-100	25	75	0	0	-47
7 Year	4.56	-100	-50	0	50	100	12	-35	-90	35	65	0	0	-49
10 Year	4.63	-100	-50	0	50	100	12	-45	-55	45	50	0	0	-40
20 Year	4.96	-100	-50	0	50	100	2	-50	-45	50	35	0	0	-52
30 Year	4.87	-100	-50	0	50	100	6	-65	-25	65	25	0	0	-44
Short		6.86	5.75	4.65	3.58	2.52	4.28	4.93	7.15	4.34	2.79	4.96	4.34	5.72
ICE ML 1-5 G/C		7.24	5.97	4.71	3.48	2.26	4.26	5.05	7.52	4.34	2.54	5.14	4.28	5.96
Difference		-0.38	-0.22	-0.06	0.10	0.26	0.01	-0.12	-0.37	0.00	0.25	-0.18	0.06	-0.24

Source: BondEdge

Going Forward

- The market is pricing one 25bp Fed rate cut for 2025 with terminal rate at 4%. Fiscal policy is expected to be less accommodative going forward, but a lot of Treasury supply will be coming to market. We turn long duration given rate selloff and inflation moderating.
- We turn tactically neutral on corporate bonds with focus on high quality issuers with better relative valuations.
- Security selection will be an important driver of excess returns. We continue to favor high quality issuers with strong fundamentals and attractive relative valuations.

Compliance Monitor

City of Ocala Treasury Reserve Fund
Attributes as of 12/31/2024

Ratings Guidelines		Policy	Current	Within Policy?	
Corporate Bonds		BBB/Baa2	BBB/Baa1	Yes	
CMO, Mortgage and ABS		AAA	AAA	Yes	
Eurodollar Securities		BBB	N/A	Yes	
Yankee Securities		BBB	N/A	Yes	
Maturity Limitations		Policy	Current	Within Policy?	
Effective Maturity Per Security		<10 years	5.2	Yes	
Portfolio Duration		-50%/120%	93%	Yes	
Portfolio Effective Maturity		<5 years	2.6	yes	
Sector Allocations		Minimum	Maximum	Current %	Within Policy?
US Treasury and Federal Agencies		35%	None	51.8%	Yes
Corporate Debt Obligations		None	50%	45.2%	Yes
Mortgage/Asset Backed Securities		None	10%	0.7%	Yes
Municipal Securities		None	20%	0.0%	Yes
Certificates of Deposit		None	20%	0.0%	Yes
Repurchase Agreements		None	25%	0.0%	Yes
Local Government Surplus Funds/Trust Fund		None	25%	0.0%	Yes
Money Market/Trust		None	30%	3.0%	Yes