



Investment Review

February 3rd, 2026

City of Ocala Treasury Reserve Fund

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Bond Market Review: More Steepening, Long Bond Underperformed

Market Review: Rates steepened given the elevated policy uncertainty; leaky credit, mortgage spreads rallied

- As has been the case for the majority of the year, the debate between inflation concerns and a weakening labor market was the main driver of market movements. The Government shutdown had previously delayed economic releases, specifically those on the labor market, but the delayed announcements came out throughout the 4th quarter. An already shaky job market was not provided with any reassurances with both October (-105k) and November (+64k) job growth, coupled with an increase in the unemployment rate to 4.6%, only adding to concerns as we head into 2026.
- This unease was reflected in the reaction by the Fed, which cut rates by an additional 25bps in December. This was the third rate cut in 2025. While much of the rhetoric from Fed governors indicates that this cut may be the last for now and they would prefer to take a wait-and-see approach, the market is still pricing in two cuts for next year. This dynamic is paired with the upcoming announcement of a new Fed president early in the year. The appointment is coming from an administration that has repeatedly stated their preference for lower rates.
- In reaction to the continued rate cuts, the steepening of the Treasury curve continued with front-end rates coming down. Corporate bond spreads widened out slightly (3bps) during the quarter.
- Despite a very good year of performance, yields are still at a very attractive point and there are catalysts that remain to provide further gains. Given the weakness in the labor market and many uncertainties heading into 2026, a strong case can be made for focusing on high-quality assets and for investment grade fixed income to present a solid risk/reward return scenario.
- US TSY curve/change: 2y 3.61%/-11bp, 5y 3.74%/-6bp, 10y 4.15%/-8bp, 30y 4.73%/-4bp.
 - Credit IG spreads underperformed +3bp, Leaders – Healthcare, Utilities; Laggards – Tech, Media.
 - S&P 500 +2.65%

Short Portfolio Review: Outperformance

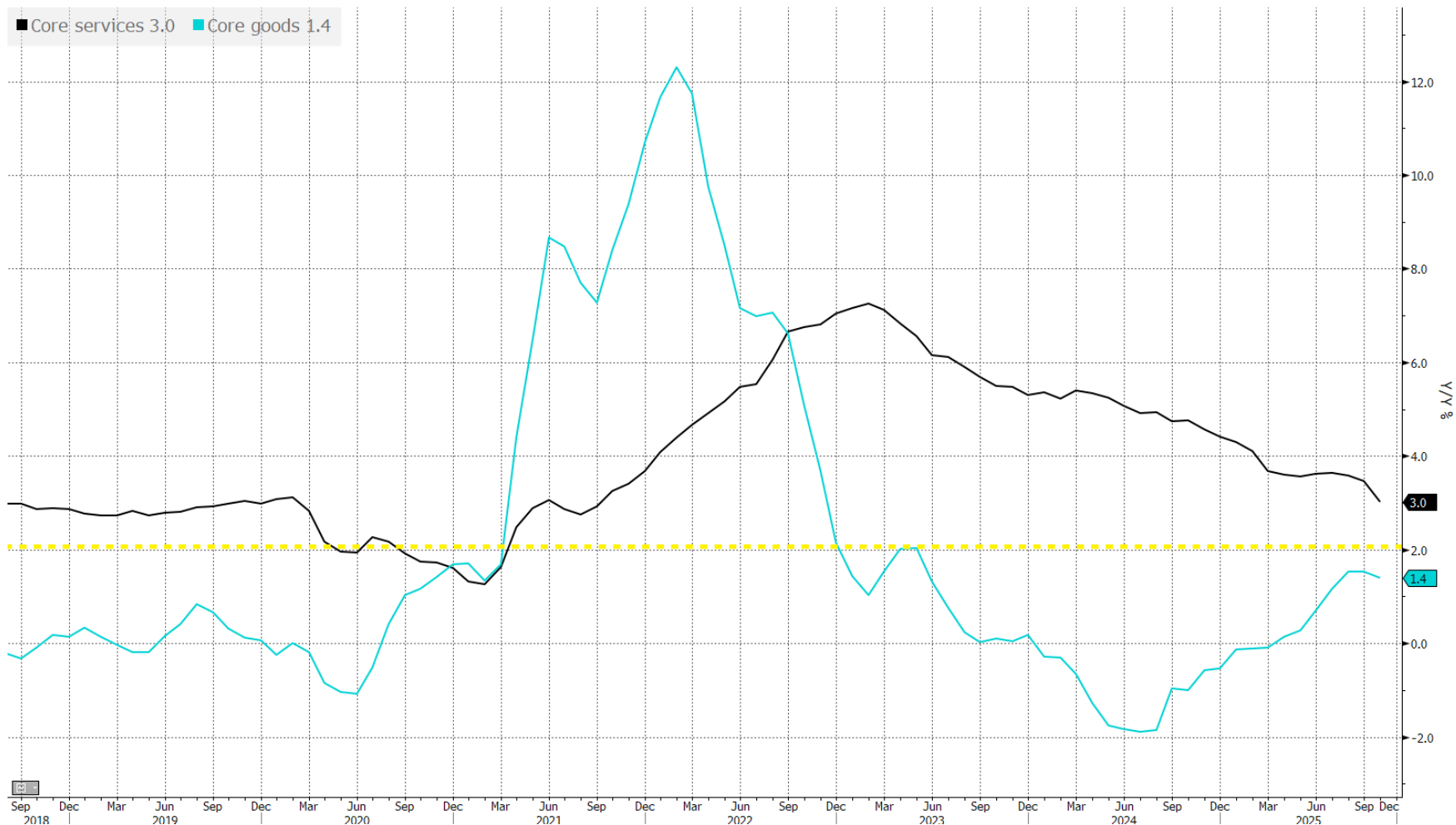
- Duration/Term Structure helped.
- Sector allocation helped: Overweight mortgage spreads, underweight credit spreads.
- Security selection hurt: Overweight high quality.

Outlook: Extreme Uncertainty

- The market pricing two Fed rate cuts for 2026. Fiscal policy is expected to be less accommodative going forward, but a lot of Treasury supply will be coming to market. We remain slight long duration.
- We turn tactically UW corporate bonds and remain overweight MBS given better relative valuations.
- Biggest risks 2026: Current administration policy uncertainty - Tariffs, Geo-political events, Deficits, Inflation stickiness, Recession.

Inflation: Core Goods Moving Higher

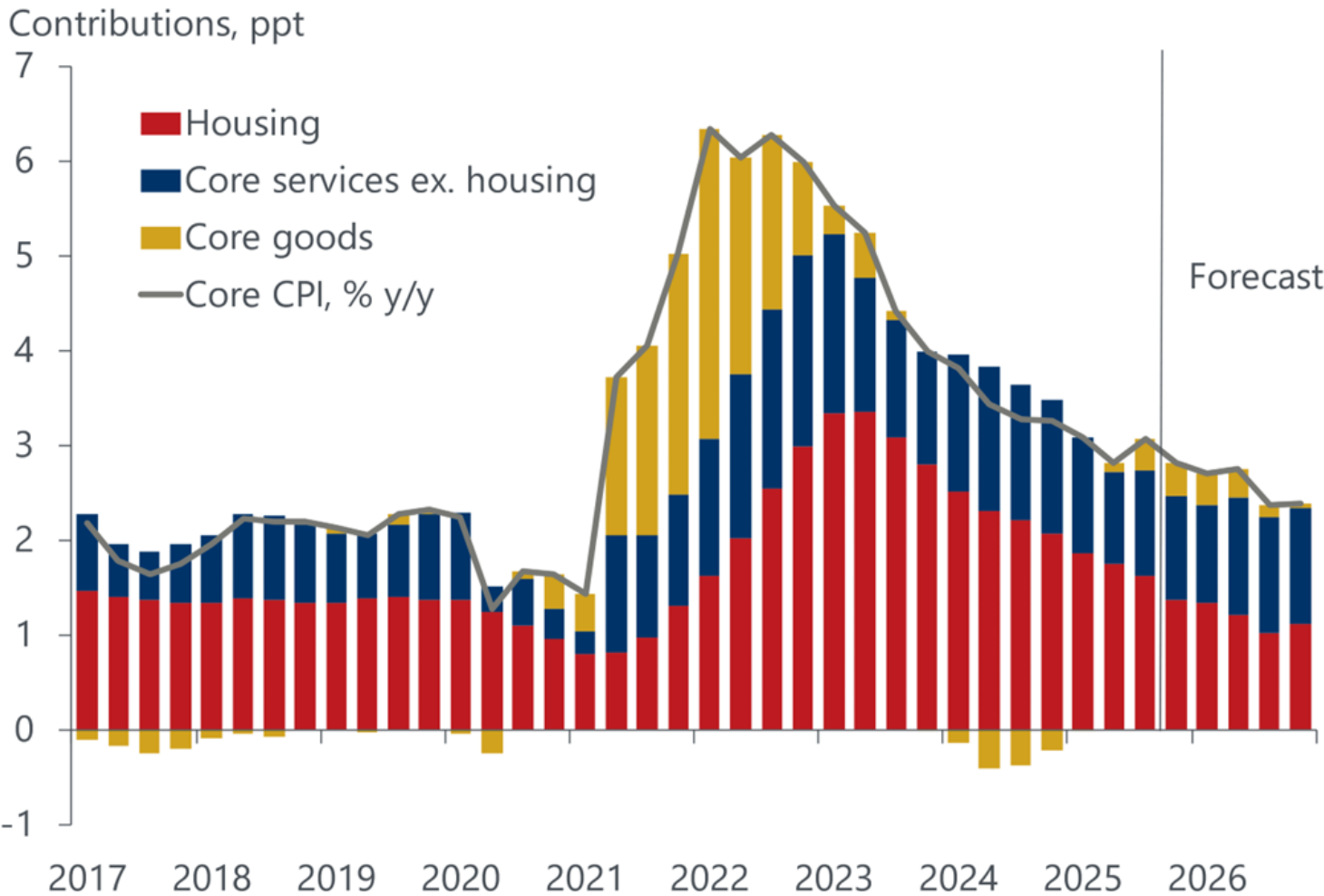
As of 12/31/2025



Source: Bloomberg

Inflation: Core CPI

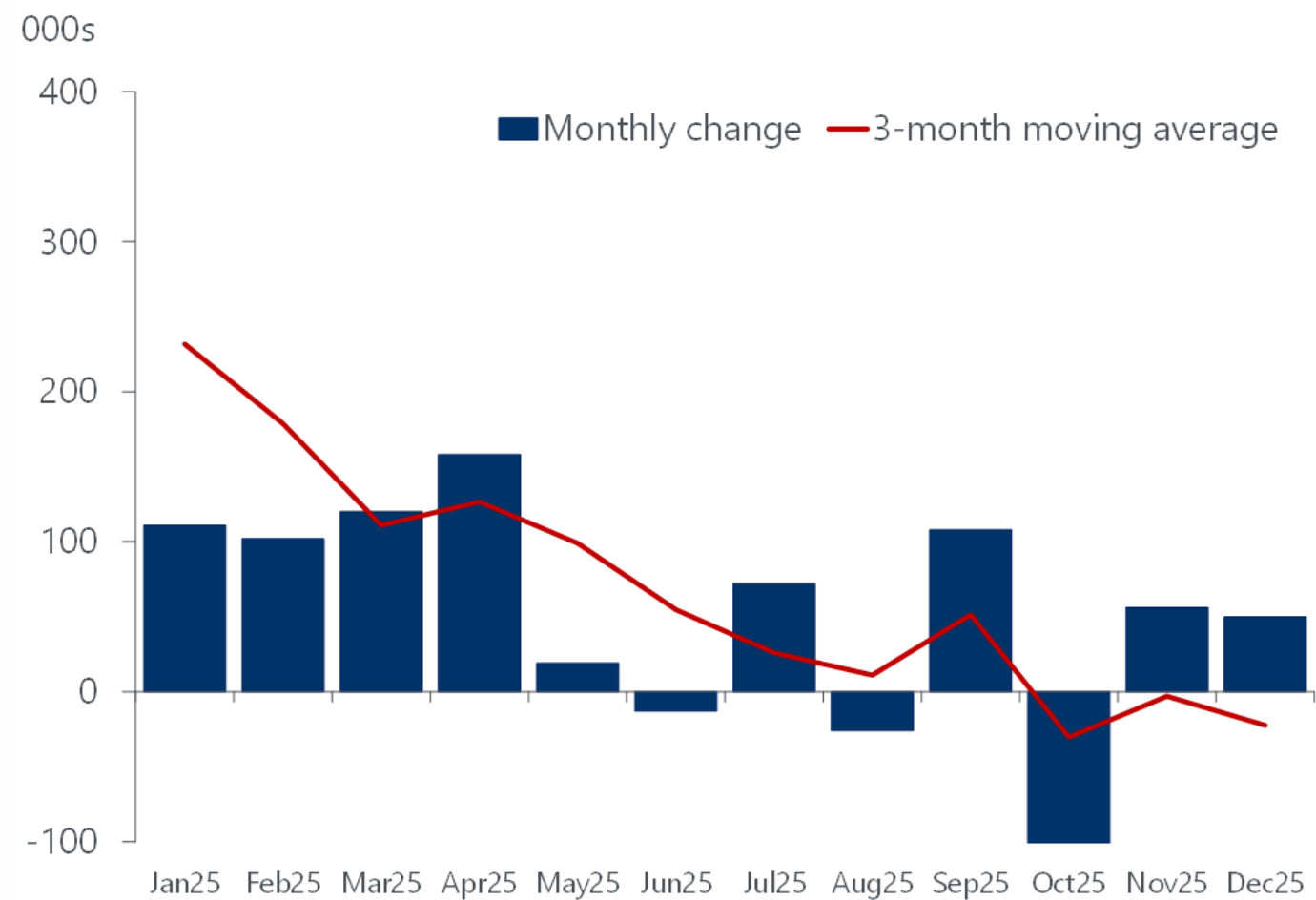
As of 12/31/2025



Source: Oxford Economics

US Nonfarm Payroll Employment

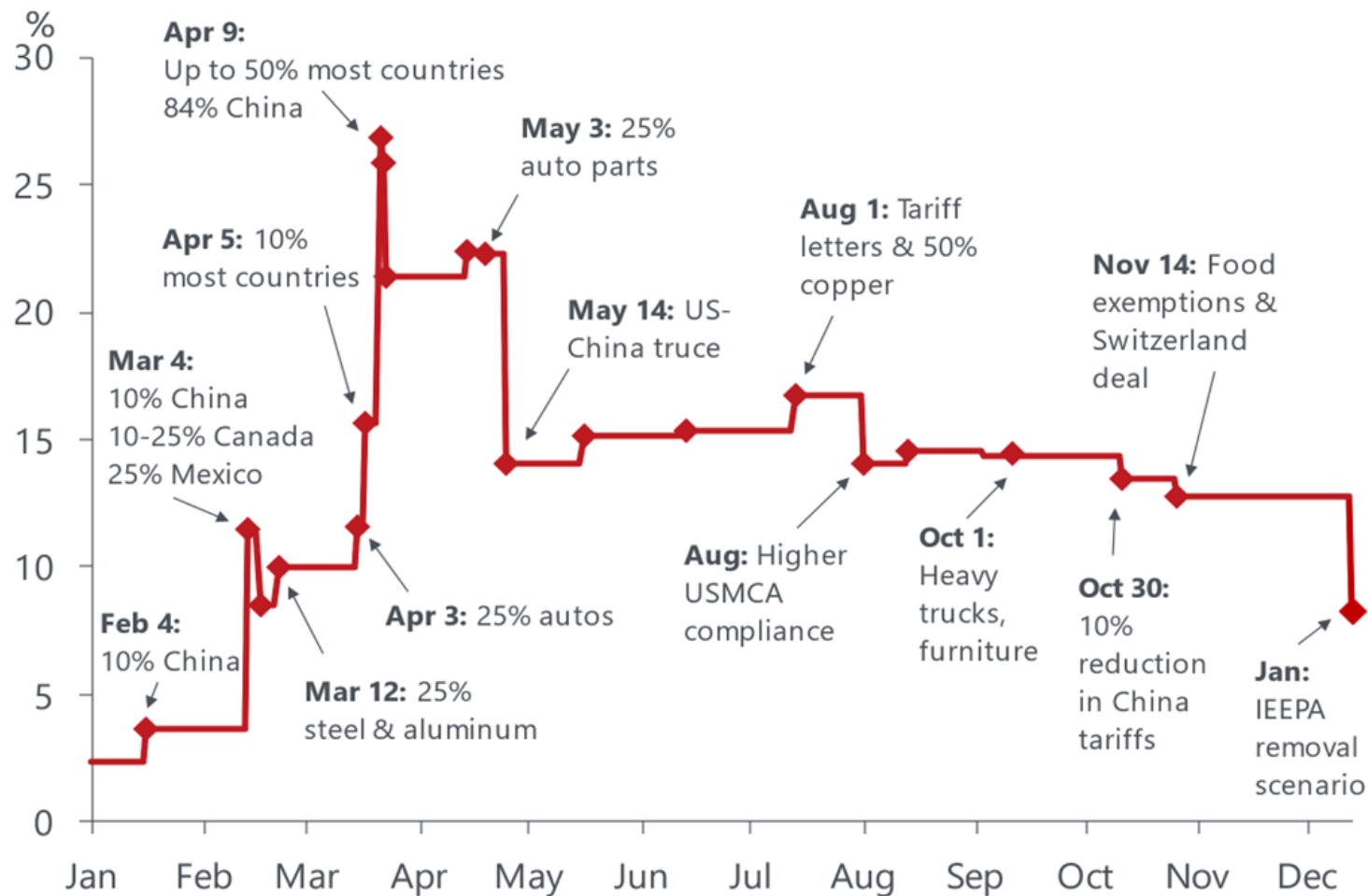
As of 12/31/2025



Source: Oxford Economics

US Effective Tariff Rate Timeline

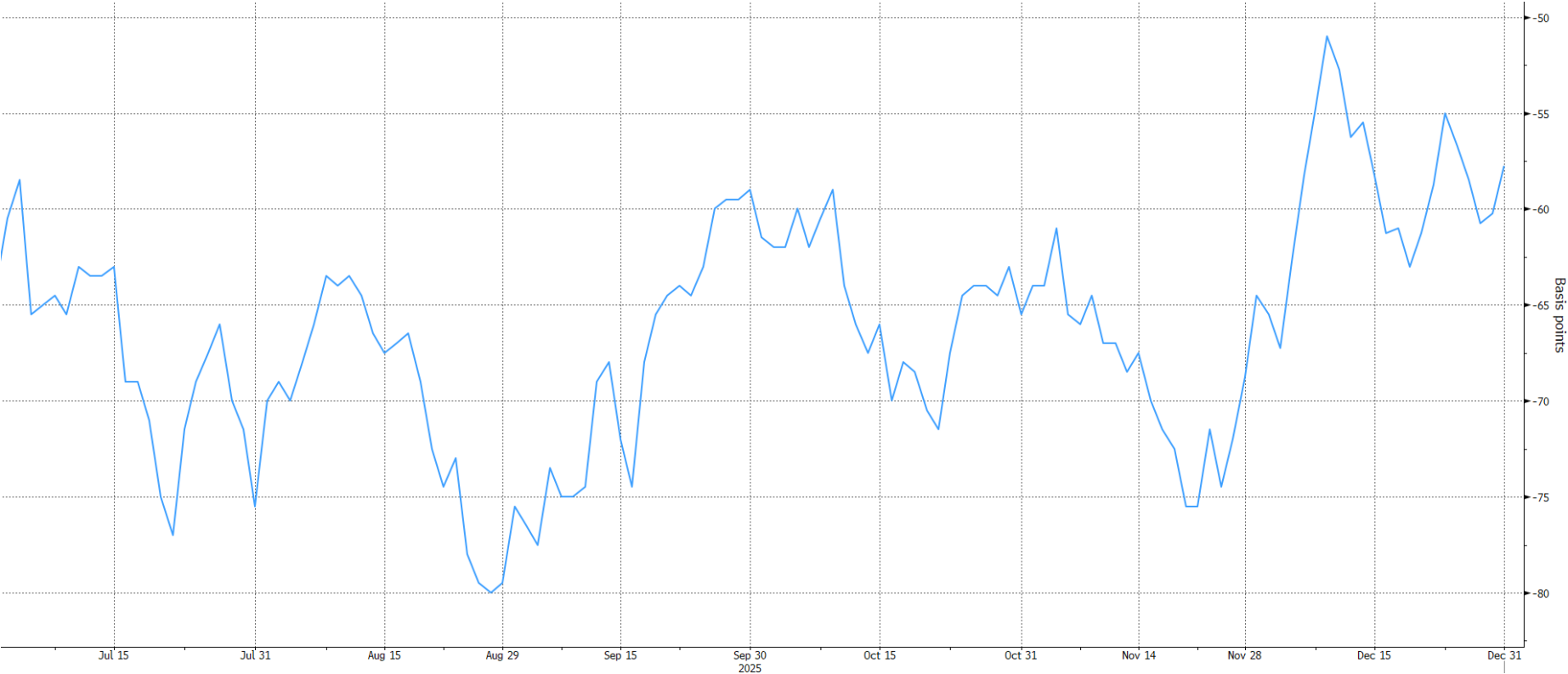
As of 12/31/2025



Source: Oxford Economics

Fed Cut Pricing - 2026

As of 12/31/2025

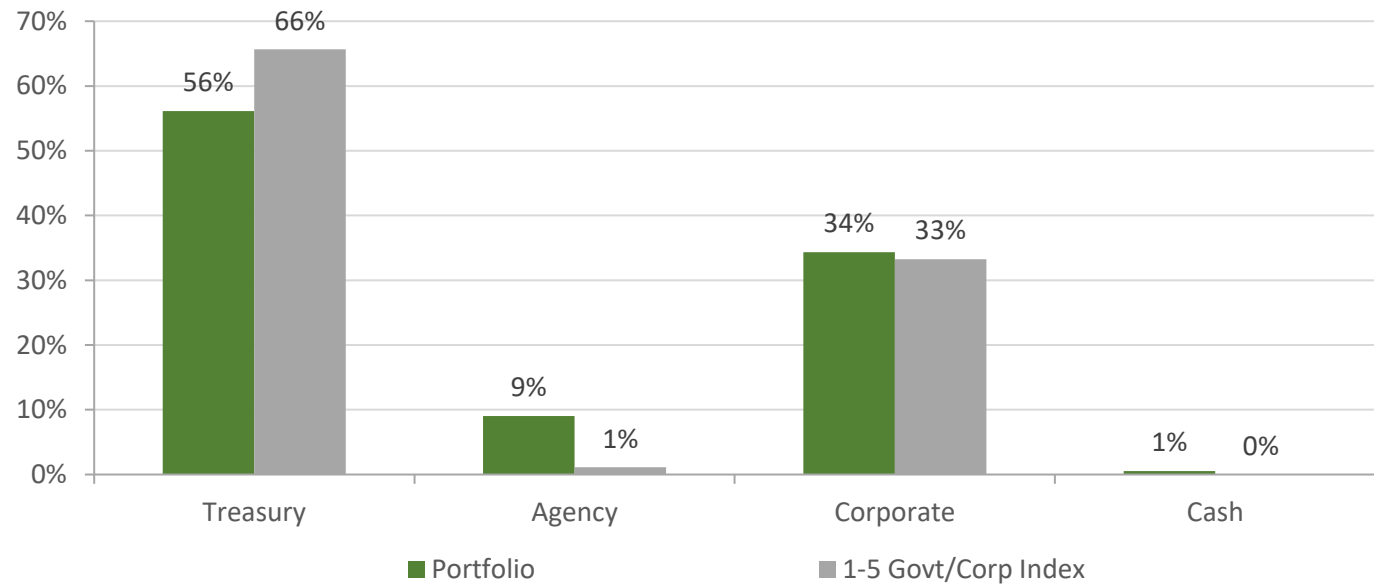


Source: Bloomberg

Current Attributes and Sectors

City of Ocala Treasury Reserve Fund
Attributes as of 12/31/25

	<u>Portfolio</u>	<u>1-5 Govt/Corp</u> <u>Index</u>
Yield to Maturity (%)	3.70	3.76
Effective Duration (Yrs)	2.38	2.57
Effective Maturity (Yrs)	2.52	2.78
Quality Rating	Aa2	Aa2
Coupon Rate	2.55	3.43
Convexity	0.02	0.04



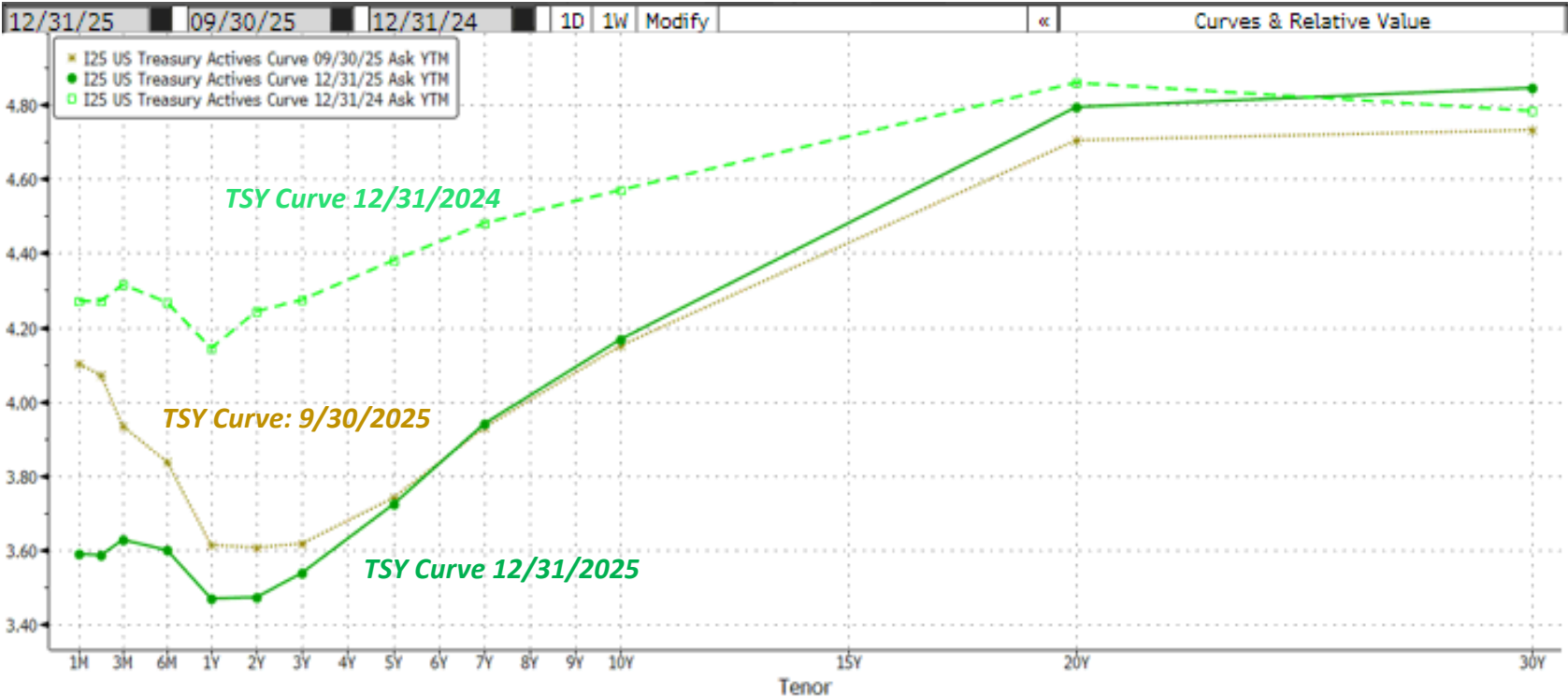
Source: BondEdge

Treasury Curve Change: Q4 Treasury Curve Steepened

Interest Rate

Sector Allocation

Security Selection



		Curves & Relative Value						
		1M	3M	2Y	5Y	10Y	20Y	30Y
11	I25 12/31/25	3.590	3.626	3.473	3.725	4.167	4.793	4.844
12	I25 09/30/25	4.101	3.932	3.608	3.741	4.150	4.703	4.731
13	I25 12/31/24	4.271	4.314	4.242	4.382	4.569	4.858	4.781
14	I25 (12/31/25-09/30/...	-51.1	-30.6	-13.5	-1.6	1.7	9.0	11.3
15	I25 (12/31/25-12/31/...	-68.1	-68.8	-76.9	-65.7	-40.2	-6.5	6.2

Source: Bloomberg

Interest Rate Risk Exposure: Slight Short Duration

Interest Rate

Sector Allocation

Security Selection

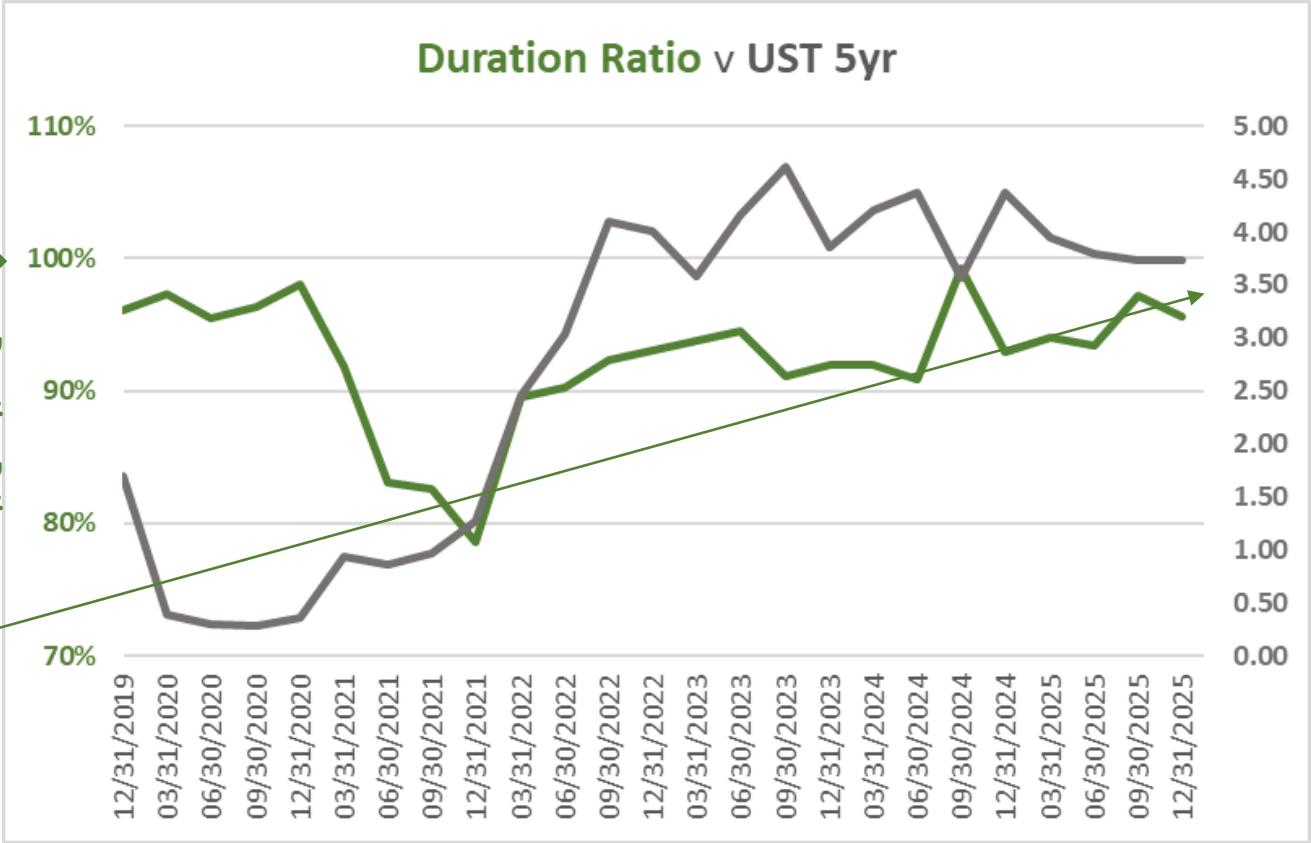


Long >100%

Neutral interest rate risk

Short <100%

We remain neutral duration given inflation trend is moderating.

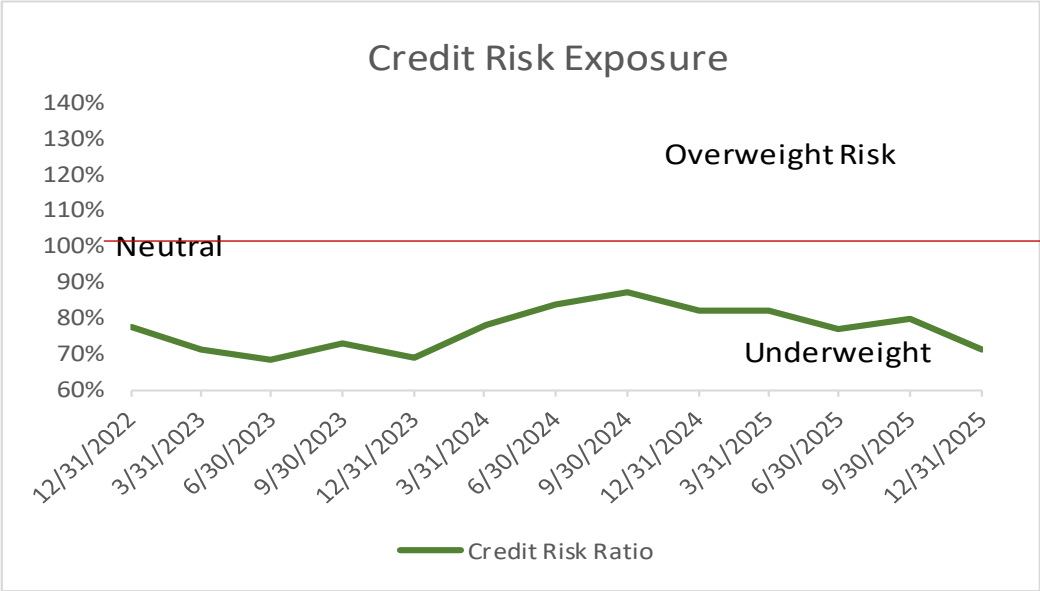


Duration Ratio

UST 5 Year

Source: BondEdge, Bloomberg

Credit Risk Exposure - Actively Managing



• We turn tactically underweight Investment Grade (IG) given very rich valuations. We focus on high quality issuers with attractive relative value.

Source: BondEdge

Sector Performance: Credit Spreads Underperformed

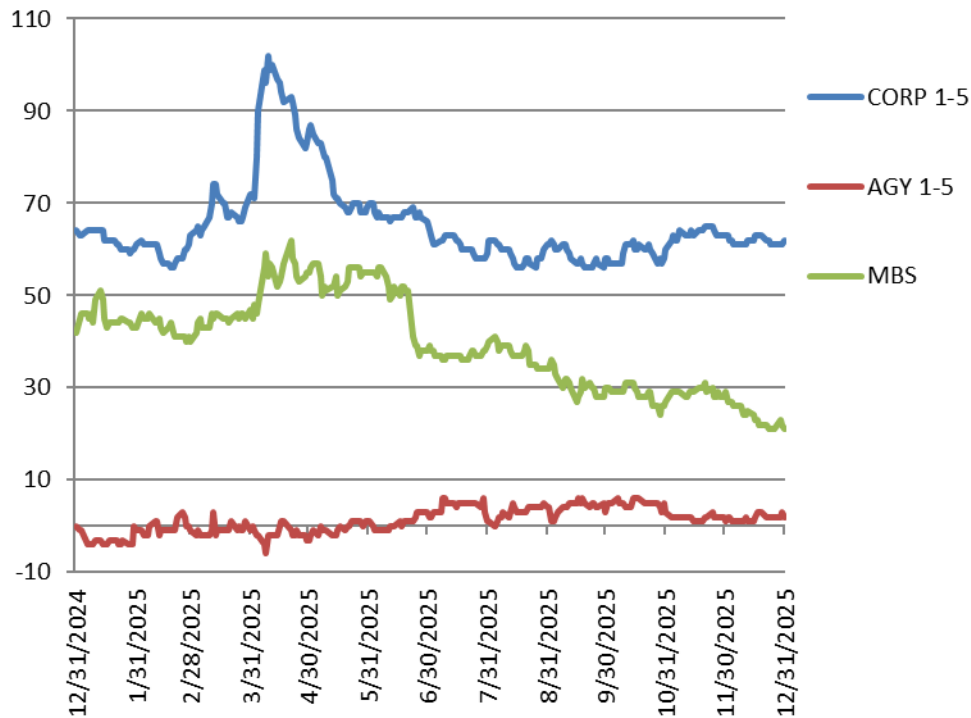
Interest Rate

Sector Allocation

Security Selection



Spread Premium vs Treasuries



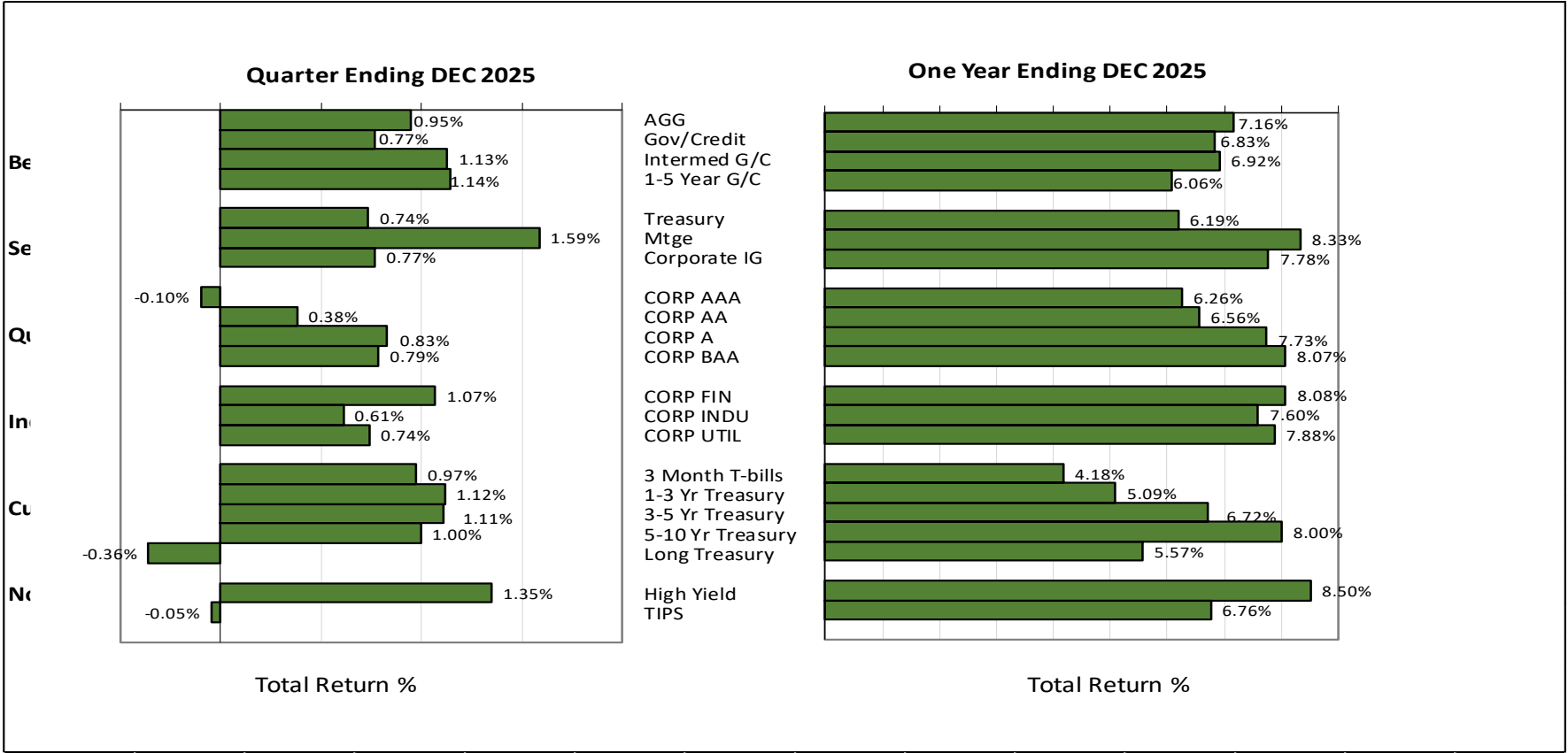
Spread Performance (OAS in bp)

	12/31/2025	9/30/2025	QoQ chg	12/31/2024	YoY Chg
CORP 1-5	62	58	4	64	-2
AGY 1-5	2	3	-1	0	2
MBS	21	30	-9	42	-21

	QoQ chg	YoY chg
Banks	2	-8
Insur	3	1
Basic	4	-5
CapGood	1	-7
Energy	3	-3
Media	12	-8
Tech	16	13
Util	1	-2
Retail	2	-1
Healthcare	-1	-8
Staple	3	-13

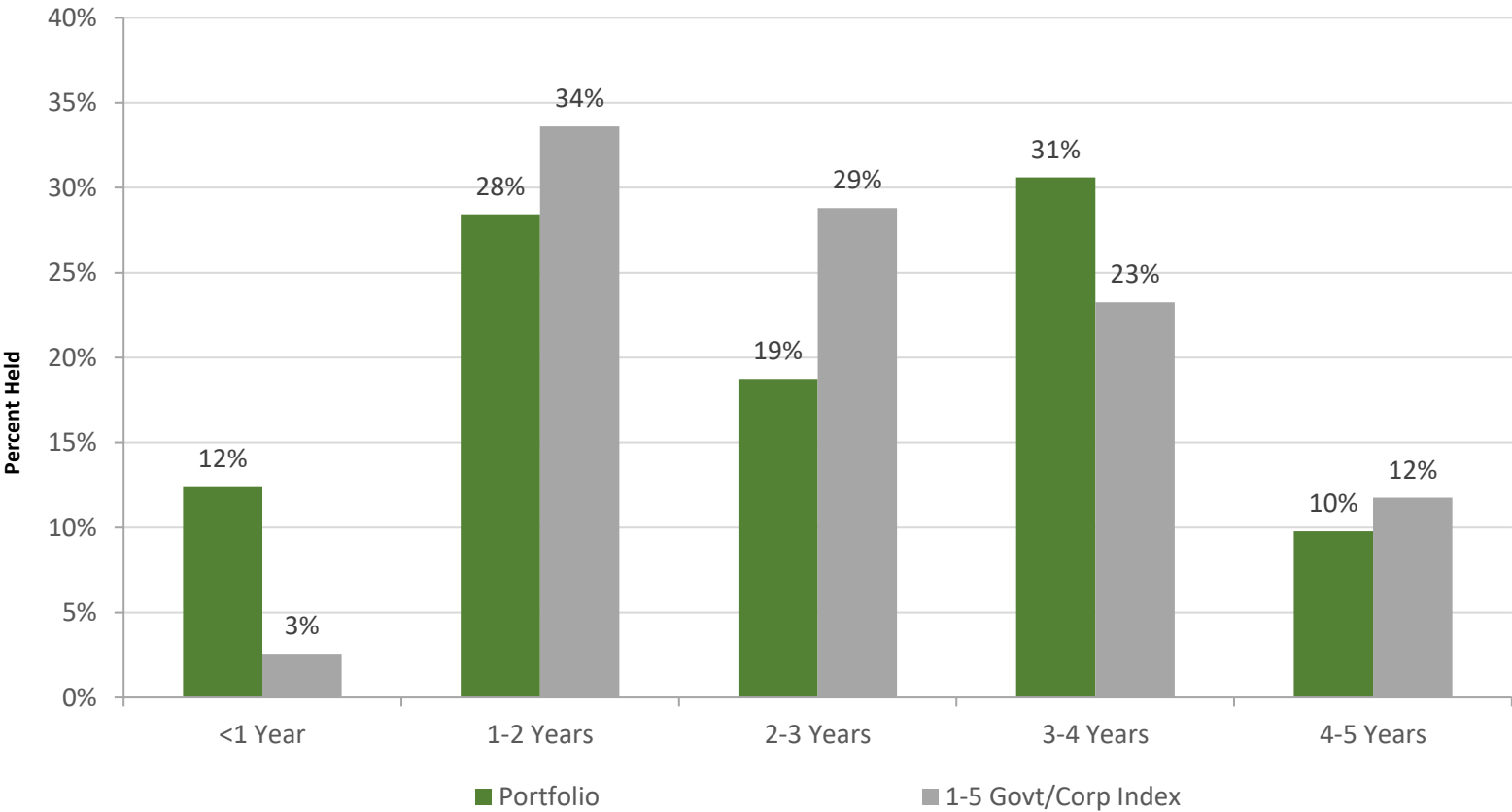
Source: Bloomberg

Sector Performance:



Current Duration Distribution

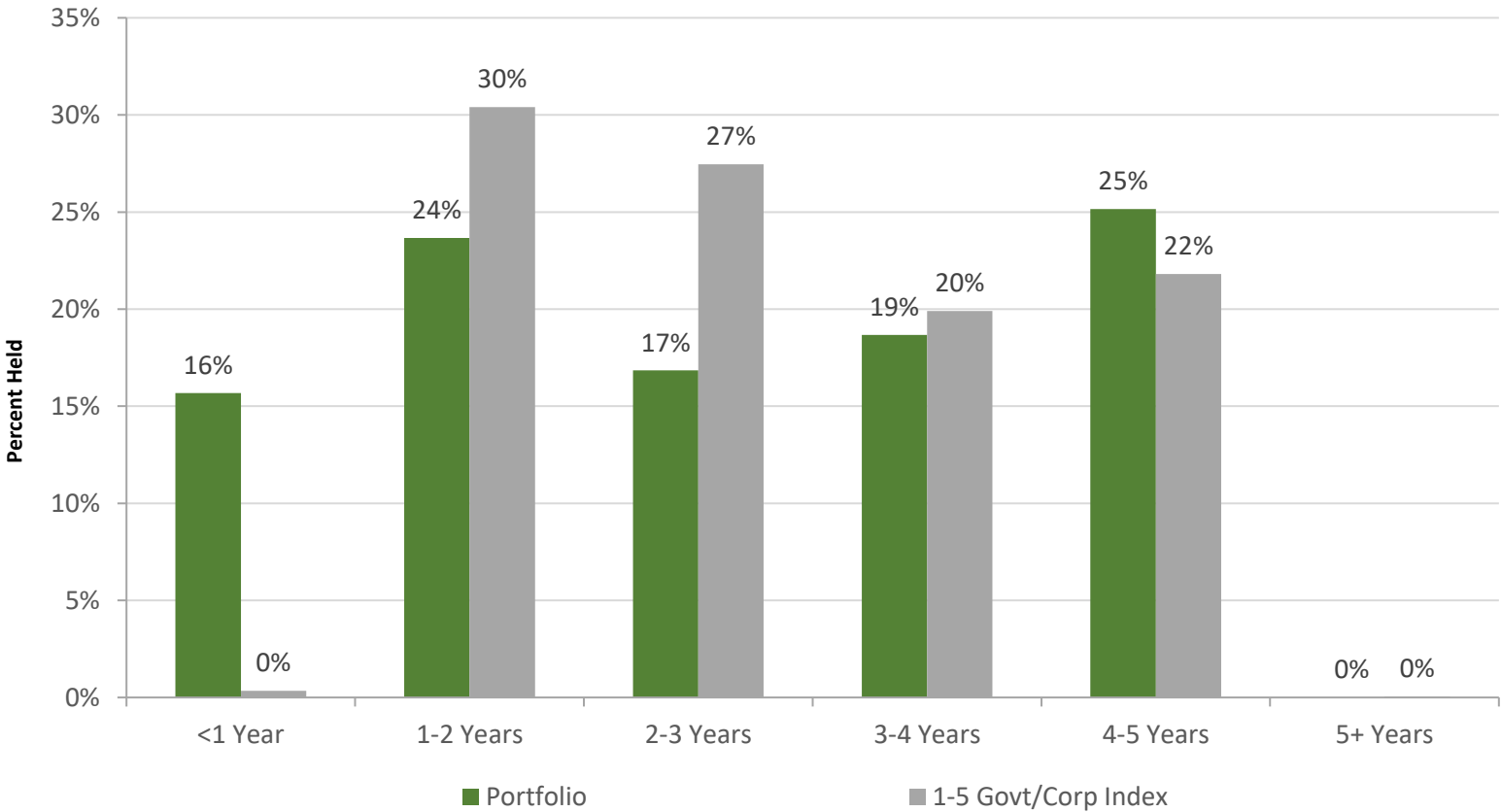
City of Ocala Treasury Reserve Fund
Attributes as of 12/31/25



Source: BondEdge

Current Maturity Distribution

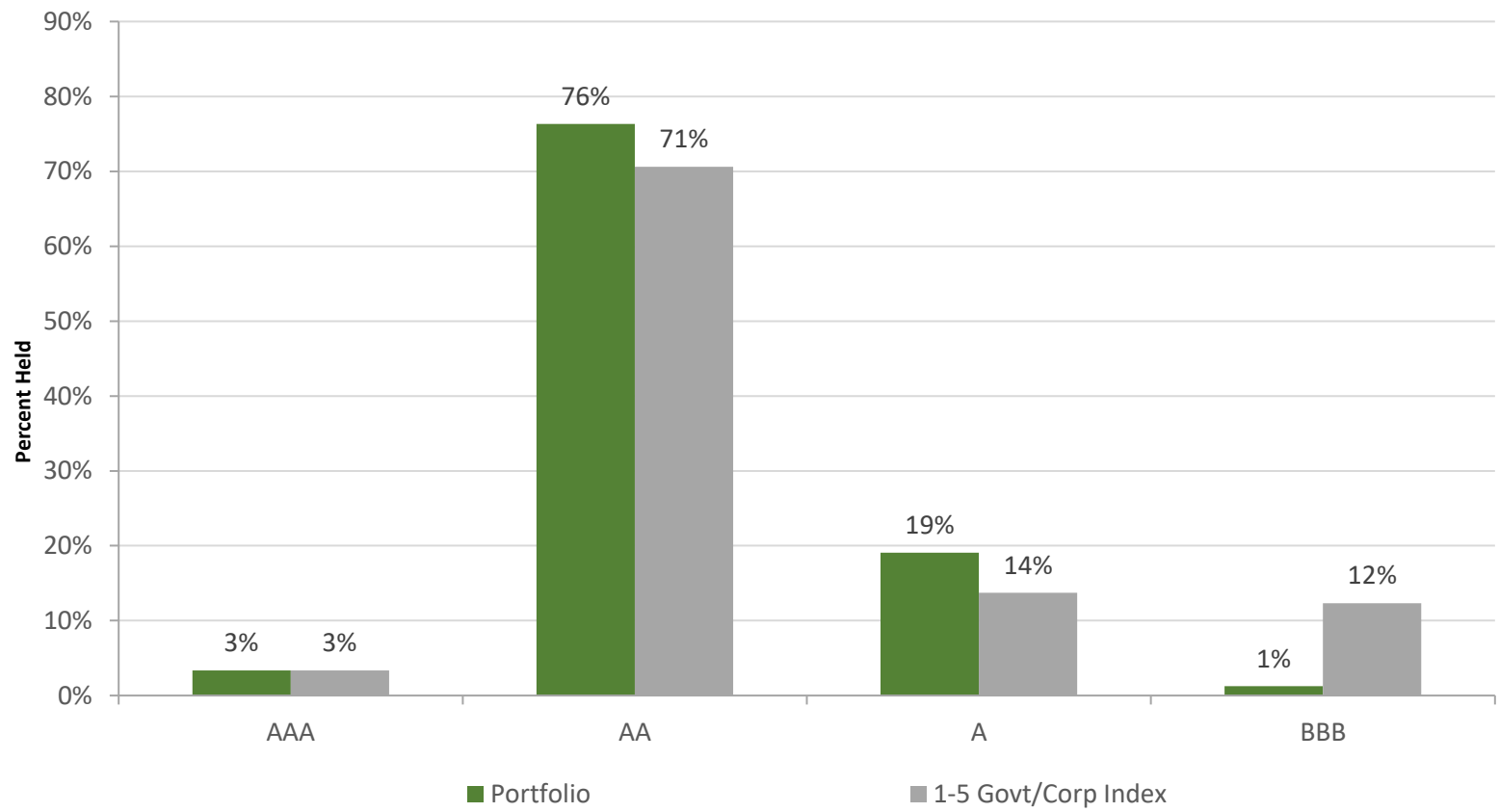
City of Ocala Treasury Reserve Fund
Attributes as of 12/31/25



Source: BondEdge

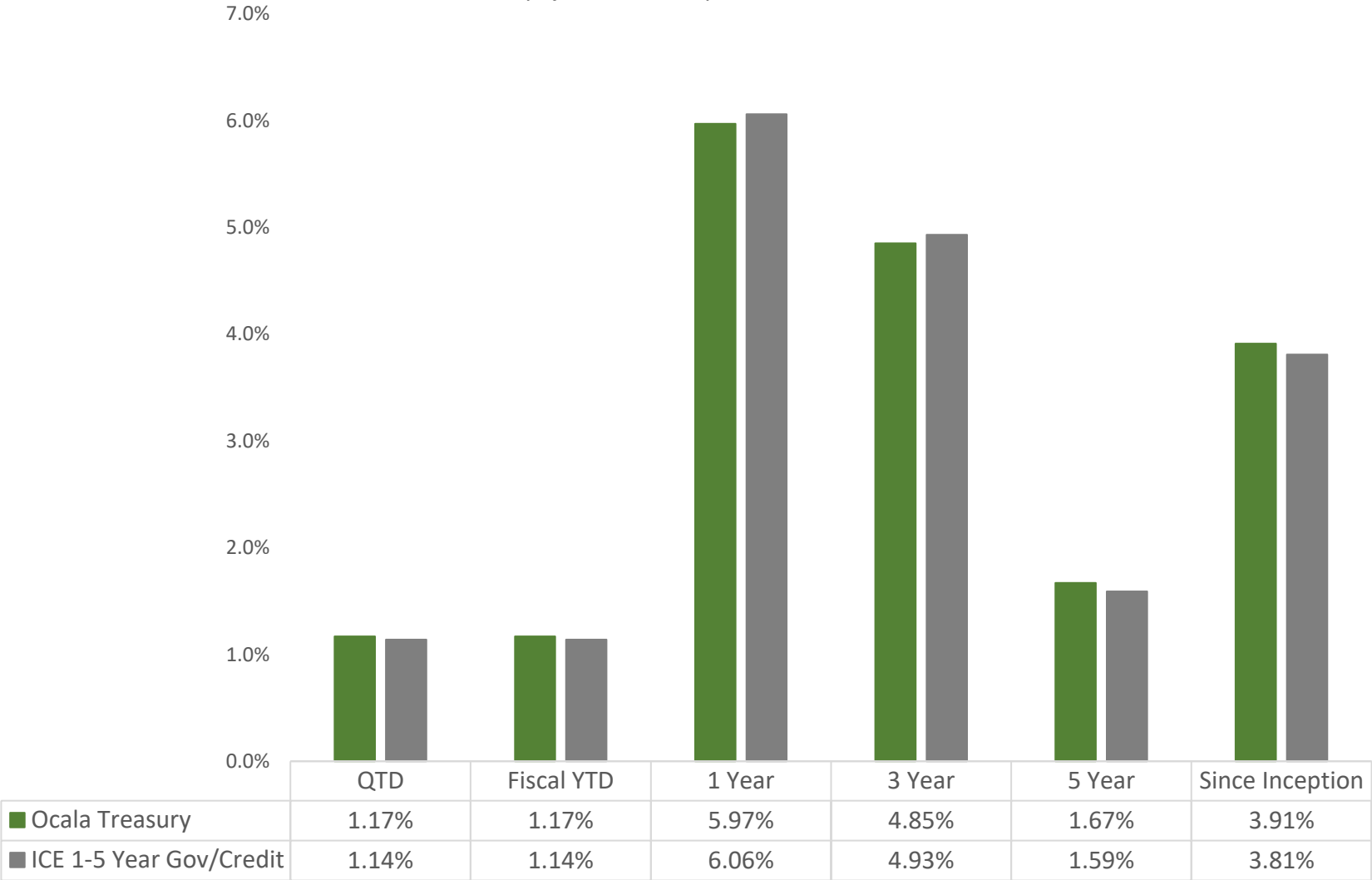
Current Quality Distribution

City of Ocala Treasury Reserve Fund
Attributes as of 12/31/25



Source: BondEdge

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

Performance Attribution

Interest Rate

Sector Allocation

Security Selection

9/30/25-12/31/25	Total Return	Income Effects			Term Structure Effects			Spread Effects		
		Income	Paydown	Amort	Roll	Para Total	Non-Para	Sector/ Quality	Selection	Residual
SHORT COMPOSITE	1.15	0.64	0.00	0.30	0.09	-0.08	0.28	-0.02	-0.06	0.00
BAML G/C 1-5	1.15	0.87	0.00	0.08	0.01	-0.09	0.30	-0.01	-0.02	0.00
Difference	0.00	-0.23	0.00	0.22	0.07	0.01	-0.02	0.00	-0.05	0.00

Portfolio Characteristics		Effective Duration Years				
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12/31/2025	YTW	Eff Dur	Non-Para Dur	Qual Sprd Dur	Mtge Sprd Dur	Conv
SHORT COMPOSITE	3.70	2.41	1.16	0.48	0.00	0.02
BAML G/C 1-5	3.76	2.57	1.25	0.68	0.00	0.04
Difference	-0.06	-0.16	-0.09	-0.20	0.00	-0.02

9/30/2025	YTW	Eff Dur	Non-Para Dur	Qual Sprd Dur	Mtge Sprd Dur	Conv
SHORT COMPOSITE	3.81	2.45	1.19	0.54	0.00	0.02
BAML G/C 1-5	3.85	2.59	1.25	0.70	0.00	0.04
Difference	-0.04	-0.14	-0.07	-0.16	0.00	-0.02

SAM Comments:

What Helped:

Term Structure
Carry

What Hurt:

Security Selection - OW High Quality

Source: BondEdge

Performance Attribution 2025

Interest Rate

Sector Allocation

Security Selection

12/31/24-12/31/25	Total Return	Income Effects			Term Structure Effects			Spread Effects		
		Income	Paydown	Amort	Roll	Para Total	Non-Para	Sector/Quality	Selection	Residual
SHORT COMPOSITE	5.95	2.46	0.00	1.65	0.35	0.95	0.80	0.12	-0.39	0.00
BAML G/C 1-5	6.06	3.49	0.00	0.63	0.02	1.02	0.84	0.07	-0.01	0.00
Difference	-0.11	-1.03	0.00	1.02	0.33	-0.08	-0.03	0.05	-0.39	0.00

Portfolio Characteristics		Effective Duration Years				
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12/31/2025	YTW	Eff Dur	Non-Para Dur	Qual Sprd Dur	Mtge Sprd Dur	Conv
SHORT COMPOSITE	3.70	2.41	1.16	0.48	0.00	0.02
BAML G/C 1-5	3.76	2.57	1.25	0.68	0.00	0.04
Difference	-0.06	-0.16	-0.09	-0.20	0.00	-0.02

9/30/2025	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	-0.14	-0.12	0.00	0.00

SAM Comments:

What Helped:

Term Structure
Carry

What Hurt:

Security Selection - OW High Quality
Duration

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 Flatten	TSY Bull Steepener	TSY Bear Steepener	TSY Bear Flatten	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
12/31/2025	BEGIN	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)	(bp)
U.S. TREASURY CURVE:														
6 Month	3.54	-100	-50	0	50	100	-12	-5	-140	5	100	0	0	-39
1 Year	3.53	-100	-50	0	50	100	-8	-5	-130	5	100	0	0	-38
2 Year	3.49	-100	-50	0	50	100	8	-10	-120	10	100	0	0	-19
3 Year	3.55	-100	-50	0	50	100	17	-10	-110	15	85	0	0	-15
5 Year	3.75	-100	-50	0	50	100	17	-25	-100	25	75	0	0	-14
7 Year	3.94	-100	-50	0	50	100	18	-35	-90	35	65	0	0	-14
10 Year	4.16	-100	-50	0	50	100	24	-45	-55	45	50	0	0	-6
20 Year	4.81	-100	-50	0	50	100	10	-50	-45	50	35	0	0	-16
30 Year	4.84	-100	-50	0	50	100	11	-65	-25	65	25	0	0	-19
Short		6.22	5.04	3.88	2.72	1.57	3.60	4.17	6.50	3.54	1.87	4.15	3.60	4.29
ICE ML 1-5 G/C		6.52	5.22	3.94	2.67	1.43	3.64	4.29	6.81	3.55	1.72	4.41	3.47	4.40
Difference		-0.31	-0.18	-0.06	0.05	0.14	-0.04	-0.11	-0.30	-0.02	0.15	-0.25	0.14	-0.11

Source: BondEdge

Portfolio Holdings

City of Ocala Treasury Reserve Fund
Holdings As Of 12/31/2025

Security	Quantity	Unit Cost	Total Cost	Price	Market Value	Pct of Assets
Corporate Bonds						
AMAZON COM INC SR GBL NT 20260512 1.000%	320,000.00	99.57	318,617.60	99.02	316,870.40	0.4
VIRGINIA ELEC n PWR CO SR GBL -B NT 20270515 3.750%	675,000.00	99.69	672,894.00	99.81	673,690.50	0.9
INTERNATIONAL BUSINESS MACHS SR GBL NT. 20270209 2.200%	500,000.00	99.99	499,930.00	98.17	490,865.00	0.7
META PLATFORMS INC SR GBL NT. 20301115 4.200%	575,000.00	99.88	574,321.50	100.21	576,213.25	0.8
JOHNSON n JOHNSON SR GBL NT. 20300301 4.700%	420,000.00	99.80	419,155.80	103.05	432,789.00	0.6
SCHWAB CHARLES CORP SR GBL NT. 20260311 0.900%	1,500,000.00	96.68	1,450,155.00	99.43	1,491,465.00	2.0
WELLS FARGO n CO SR NT 20261023 3.000%	550,000.00	97.52	536,354.50	99.27	545,979.50	0.7
PNC BK N A PITTSBURGH PA DISC FR . 20291022 2.700%	90,000.00	92.06	82,849.50	94.43	84,985.20	0.1
CHEVRON USA INC SR GBL NT. 20301015 4.300%	780,000.00	99.85	778,806.60	100.97	787,534.80	1.1
ELI LILLY n CO GBL NT 20281015 4.000%	580,000.00	100.57	583,306.00	100.67	583,903.40	0.8
FLORIDA PWR n LT CO M GBL BD 20290615 5.150%	1,170,000.00	100.54	1,176,353.10	103.84	1,214,881.20	1.6
JOHNSON n JOHNSON SR GBL NT. 20290601 4.800%	800,000.00	99.88	799,032.00	103.23	825,840.00	1.1
PNC FINL SVCS GROUP INC SR GBL NT 20300514 5.492%	1,310,000.00	100.19	1,312,476.80	104.12	1,363,998.20	1.8
HONEYWELL INTL INC SR GBL NT. 20300201 4.700%	1,070,000.00	99.91	1,069,079.80	102.20	1,093,518.60	1.5
DISNEY WALT CO SR GBL NT 20290901 2.000%	125,000.00	90.02	112,522.50	93.50	116,875.00	0.2
STATE STR CORP SR GBL NT 20271022 4.330%	520,000.00	100.00	520,000.00	101.01	525,262.40	0.7
DUKE ENERGY CAROLINAS LLC M GBL BD 20300315 4.850%	500,000.00	99.86	499,290.00	102.95	514,765.00	0.7

Portfolio Holdings

City of Ocala Treasury Reserve Fund
Holdings As Of 12/31/2025

Security	Quantity	Unit Cost	Total Cost	Price	Market Value	Pct of Assets
HOME DEPOT INC SR GLBL NT. 20290415 4.900%	1,010,000.00	100.61	1,016,190.50	102.88	1,039,128.40	1.4
MORGAN STANLEY FR . 20270120 3.625%	1,200,000.00	96.78	1,161,390.00	99.74	1,196,880.00	1.6
TEXAS INSTRS INC SR GLBL NT. 20290208 4.600%	1,100,000.00	100.15	1,101,694.00	102.16	1,123,727.00	1.5
ABBVIE INC GLBL NT . 20270315 4.800%	1,300,000.00	99.86	1,298,167.00	101.05	1,313,611.00	1.8
CATERPILLAR FINL SVCS MTNS BE FR . 20290227 4.850%	355,000.00	101.67	360,942.70	102.75	364,766.05	0.5
JOHN DEERE CAPITAL CORPORATION FR . 20280714 4.950%	910,000.00	99.85	908,644.10	102.69	934,506.30	1.3
INTEL CORP SR GLBL NT. 20260519 2.600%	950,000.00	94.07	893,684.00	99.41	944,357.00	1.3
ELI LILLY n CO SR GLBL NT 20260227 5.000%	510,000.00	99.84	509,158.50	100.01	510,025.50	0.7
FLORIDA PWR n LT CO M GLBL BD 20280401 5.050%	470,000.00	99.87	469,389.00	102.53	481,872.20	0.6
US BANCORP FR . 20260722 2.375%	1,300,000.00	94.00	1,221,987.00	99.27	1,290,497.00	1.7
MASTERCARD INCORPORATED SR GLBL NT 20280309 4.875%	420,000.00	99.90	419,592.60	102.27	429,550.80	0.6
APPLE INC SR GLBL NT 20280510 4.000%	820,000.00	99.81	818,417.40	100.76	826,232.00	1.1
LAUDER ESTEE COS INC SR GLBL NT 20280515 4.375%	1,325,000.00	100.46	1,331,075.25	100.97	1,337,826.00	1.8
PNC FINL SVCS GROUP INC SR GLBL NT 20270126 4.758%	150,000.00	100.00	150,000.00	100.04	150,060.00	0.2
AMAZON COM INC SR GLBL NT. 20270413 3.300%	1,250,000.00	97.46	1,218,287.50	99.58	1,244,700.00	1.7
UNITEDHEALTH GROUP INC SR GLBL NT 20280215 5.250%	670,000.00	99.96	669,718.60	102.73	688,304.40	0.9
Cash Currency						
US DOLLARS	398,238.39	1.00	398,238.39	1.00	398,238.39	0.5

Compliance Monitor

City of Ocala Treasury Reserve Fund
Attributes as of 12/31/2025

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	4.8	Yes
Portfolio Duration		-50%/120%	95%	Yes
Portfolio Effective Maturity		<5 years	2.52	yes
Sector Allocations	Minimum	Maximum	Current %	Within Policy?
US Treasury and Federal Agencies	35%	None	65.1%	Yes
Corporate Debt Obligations	None	50%	34.3%	Yes
Mortgage/Asset Backed Securities	None	10%	0.0%	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%	0.5%	Yes

Going Forward

- The market is pricing two 25bp Fed rate cuts for 2026. Fiscal policy is expected to be less accommodative going forward, and the Treasury supply is expected to remain elevated for the foreseeable future. Tariffs and trade policy uncertainty has contributed to the increase of volatility in risk assets. We remain slight long duration given inflation trend is moderating.
- We turn underweight on corporate bonds with focus on high quality issuers with better relative valuations, and overweight MBS given elevated rate volatility and carry opportunity.
- Security selection will be an important driver of excess returns. We continue to favor high quality issuers with strong fundamentals and attractive relative valuations.