



Investment Review

August 5th, 2025

City of Ocala Treasury Reserve Fund

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Bond Market Review: Rates Steepened, Risk On

Market Review: Rates steepened given the elevated policy uncertainty; Inflation remains high but trending lower

- As The 2nd quarter was an eventful one in terms of events that were able to move the bond market in all directions. The drafting of a new tax bill, Moody's downgrading U.S. debt, tariff volatility, and the Israel/Iran conflict were just some of those events that had an impact. In the end, concerns about extreme policy uncertainty, inflation and long-term debt sustainability were paramount and the U.S. Treasury curve steepened with front-end rates rallying and long-end rates underperforming during the quarter. This back-and-forth in the market materialized in the performance. Despite intra-quarter volatility, the Bloomberg Aggregate was up moderately with a return of +1.21%.
- Since the Treasury curve began to normalize in Q4 2024, there has been a steady trend of curve steepening as the longer part of the curve sold off more than the front-end as the interest rate term premium increased further due to policy uncertainty. With a spiraling deficit, further exacerbated potentially with the tax bill proposal, the demand for long Treasuries was put into question. The long bond sell-off led to higher yield 30-year by 20bp. Front-end rates rallied with the 5-year ending lower by 15bp as the market increased the implied number of Fed rate cuts due to the softening of economic growth indicators.
- A solid labor market and persistent inflation also played a role in keeping the long end yields elevated. In the face of pressure from the President and members of his cabinet, Fed Chairman Powell has remained resolute that cuts to the Fed Funds rate will not occur until there are signs of economic weakness and/or ebbing inflation. The number of expected cuts in 2025 did move throughout the quarter but the most recent expectation is for 2 cuts before the end of the year.
 - US TSY curve/change: 2y 3.72%/-16bp, 5y 3.80%/-15bp, 10y 4.23%/+2bp, 30y 4.77%/+20bp.
 - Credit IG spreads outperformed -11bp, Leaders – Media, Capital Goods; Lag – Insurance, Retail.
 - S&P +10.94%, Risk On.

Short Fixed Portfolio Review: Neutral

- Term Structure slight hurt.
- Sector allocation helped: Overweight spreads.
- Security selection hurt: Overweight high quality.

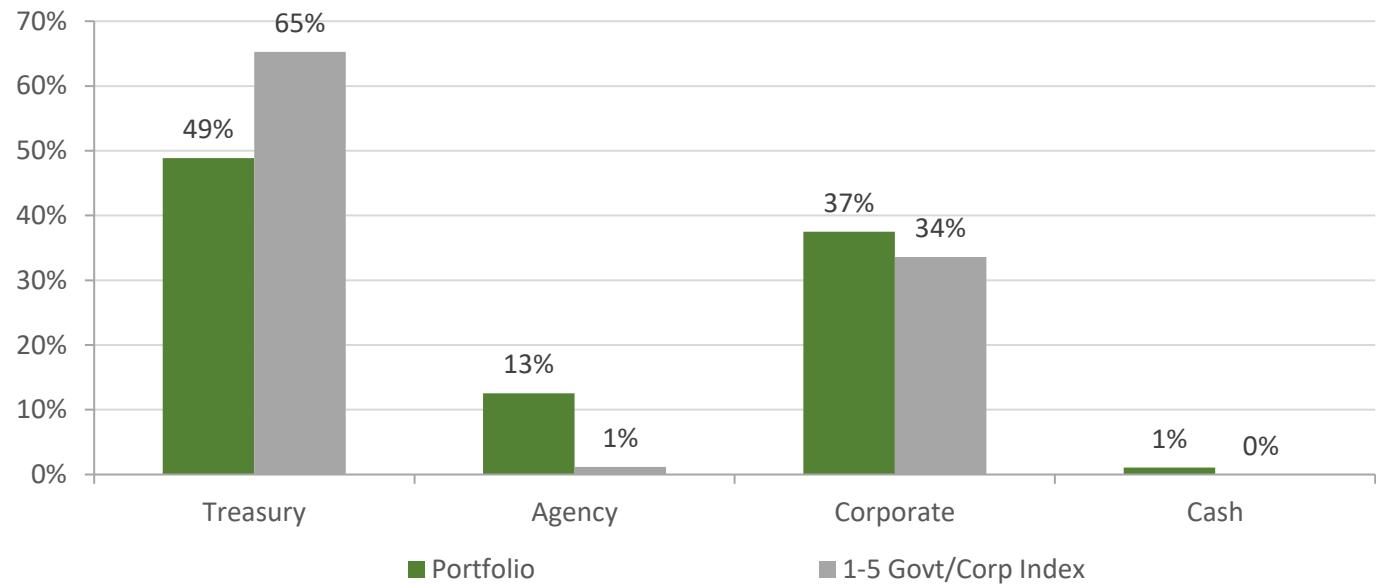
Outlook: Extreme Uncertainty

- The market pricing two Fed rate cuts before the end of the year. Fiscal policy is expected to be less accommodative going forward, but a lot of Treasury supply will be coming to market. We remain short duration.
- We remain tactically underweight corporate bonds with focus on quality and relative value opportunities.
- Biggest risks 2025: New administration policy uncertainty - Tariffs, geo-political events, Inflation stickiness, recession risks.

Current Attributes and Sectors

City of Ocala Treasury Reserve Fund
Attributes as of 06/30/25

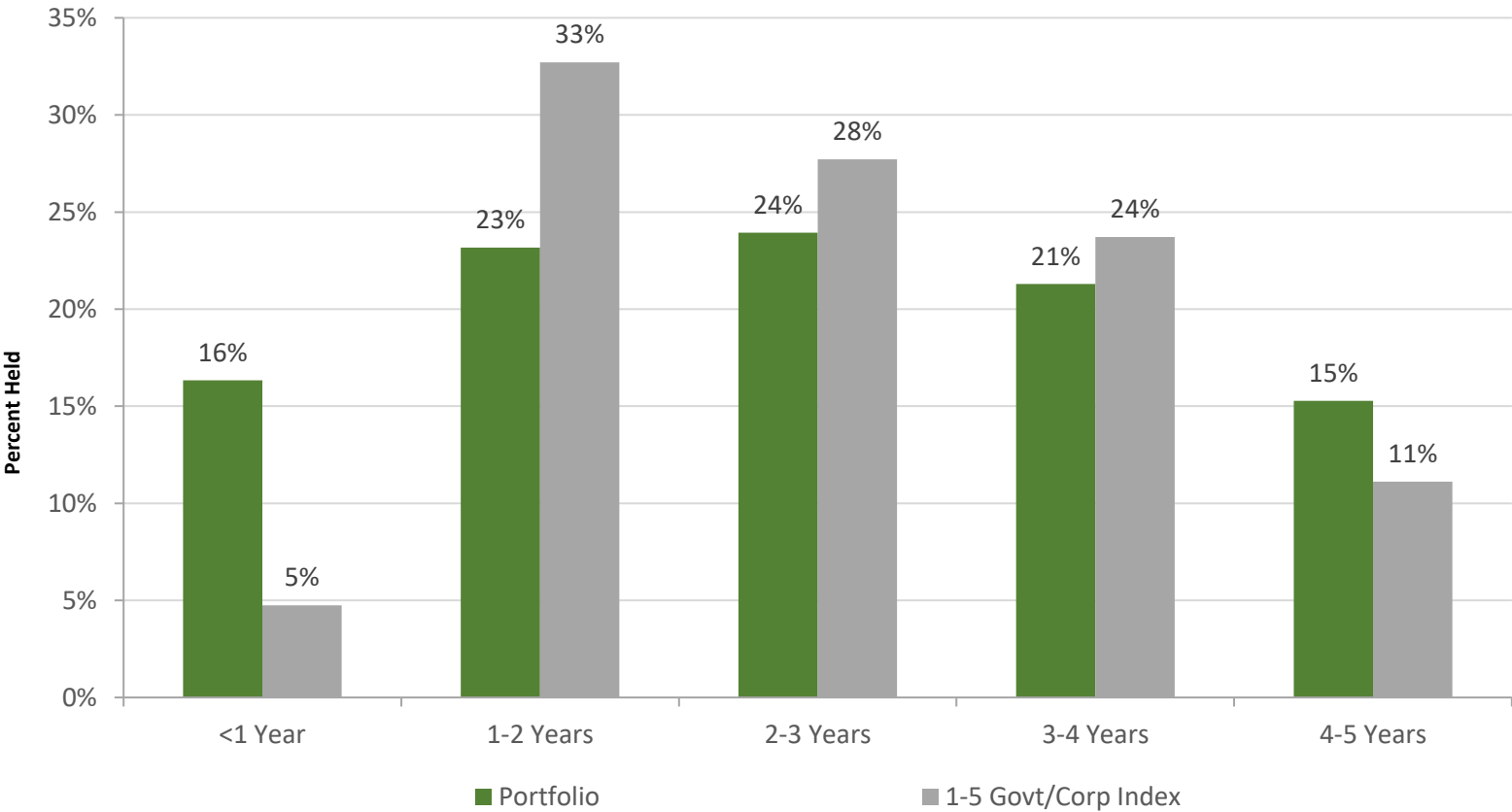
	<u>Portfolio</u>	<u>1-5 Govt/Corp</u> <u>Index</u>
Yield to Maturity (%)	3.96	4.00
Effective Duration (Yrs)	2.45	2.52
Effective Maturity (Yrs)	2.65	2.74
Quality Rating	Aa2	Aa2
Coupon Rate	2.32	3.34
Convexity	0.02	0.04



Source: BondEdge

Current Duration Distribution

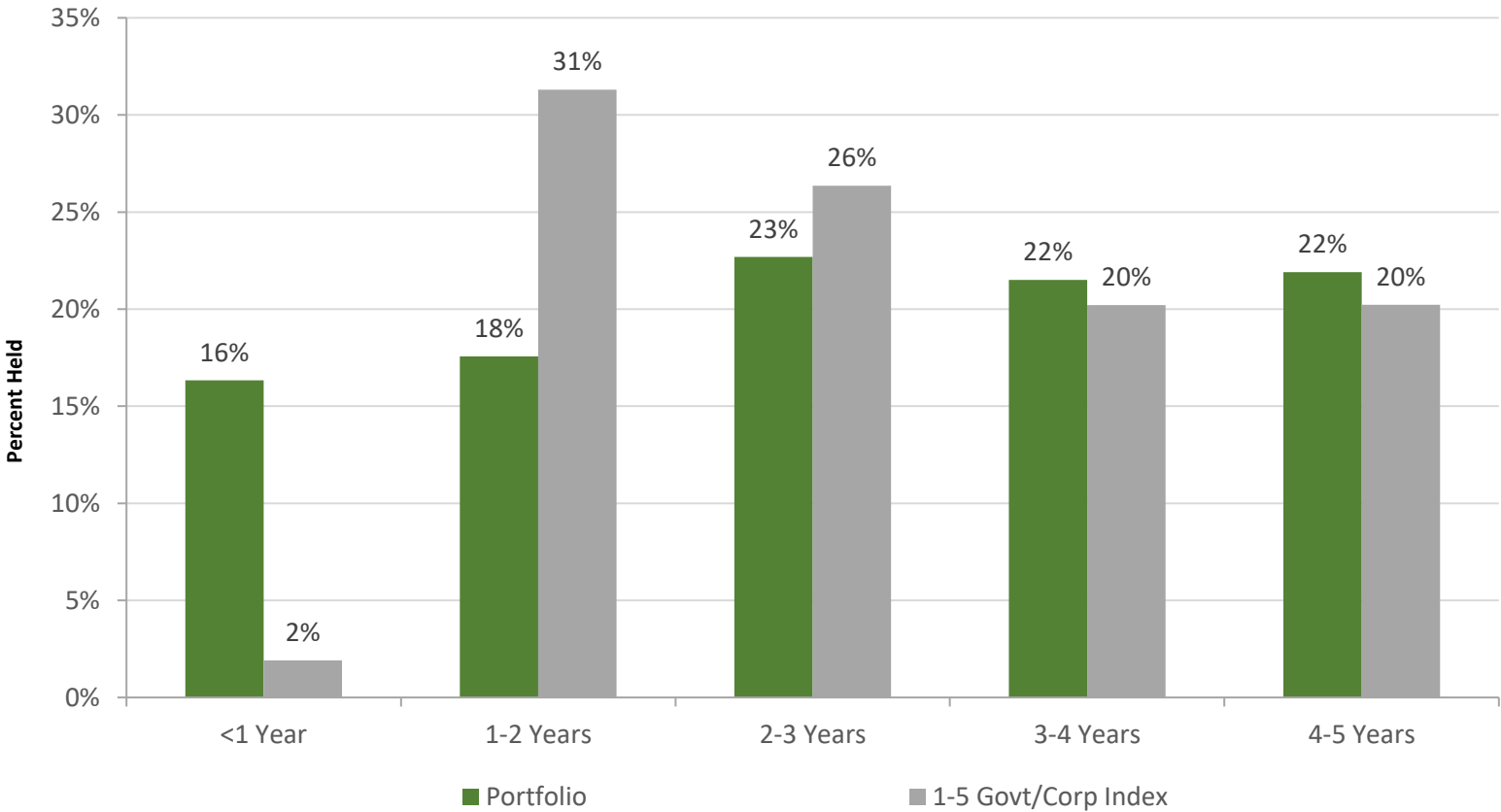
City of Ocala Treasury Reserve Fund
Attributes as of 06/30/25



Source: BondEdge

Current Maturity Distribution

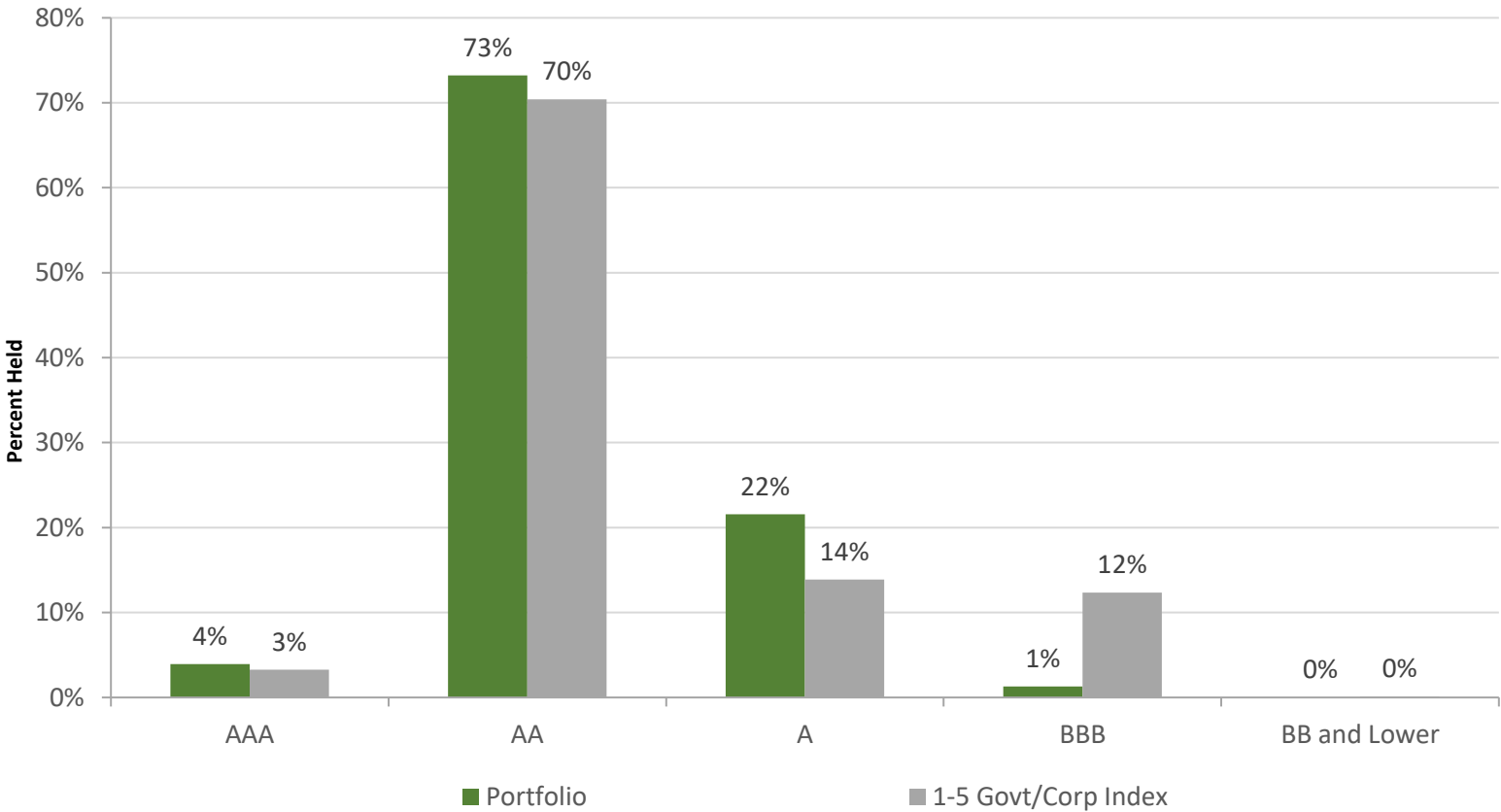
City of Ocala Treasury Reserve Fund
Attributes as of 06/30/25



Source: BondEdge

Current Quality Distribution

City of Ocala Treasury Reserve Fund
Attributes as of 06/30/25



Source: BondEdge

Portfolio Market Values

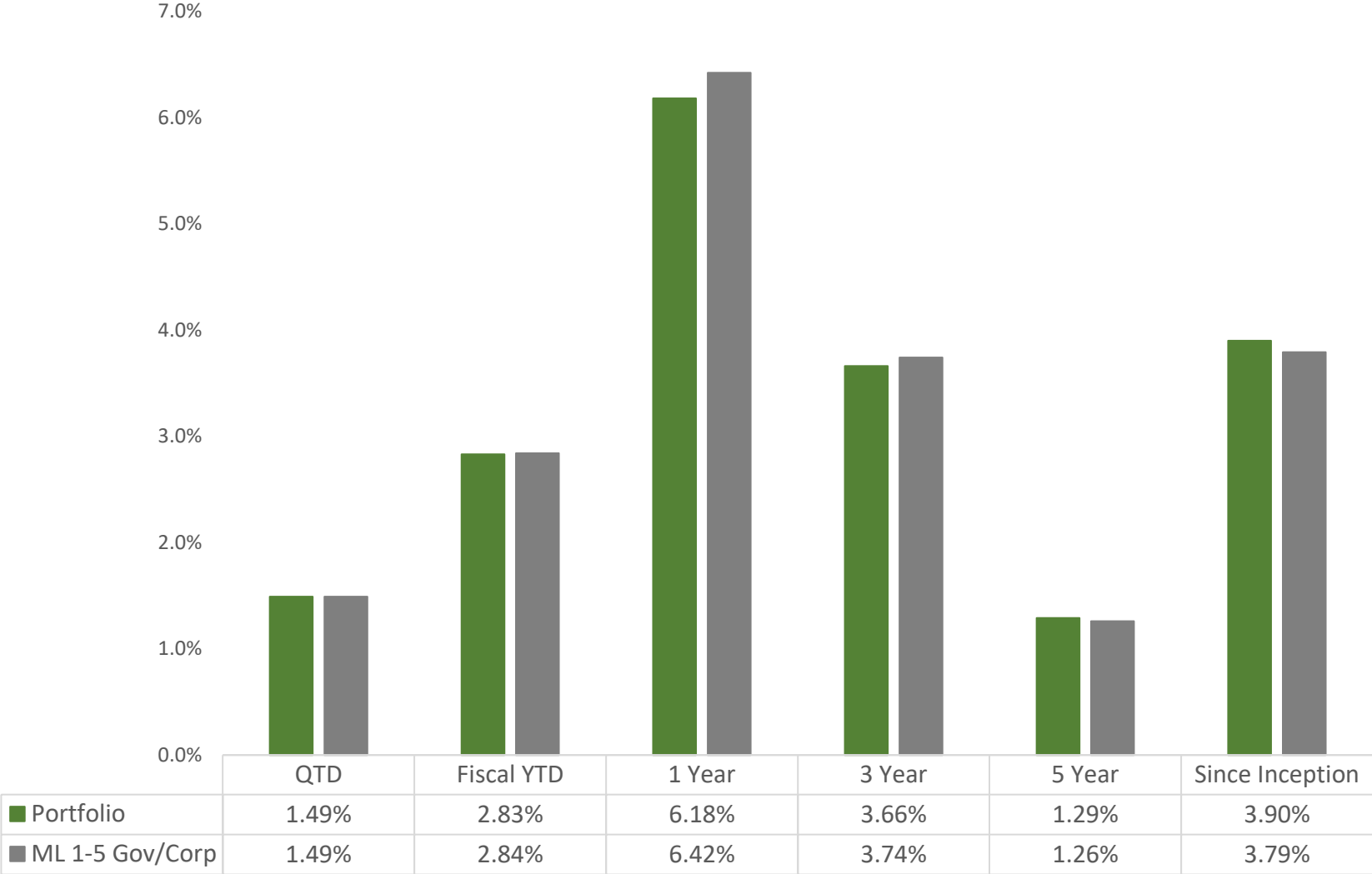
QTD

Beginning Market Value on 03/31/2025	\$72,225,083
Net Cash Flows	\$0
Investment Gain/Loss	\$1,077,068
Ending Market Value on 6/30/2025	\$73,302,151

1 Year

Beginning Market Value on 6/30/2024	\$69,035,704
Net Cash Flows	\$0
Investment Gain/Loss	\$4,266,447
Ending Market Value on 6/30/2025	\$73,302,151

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

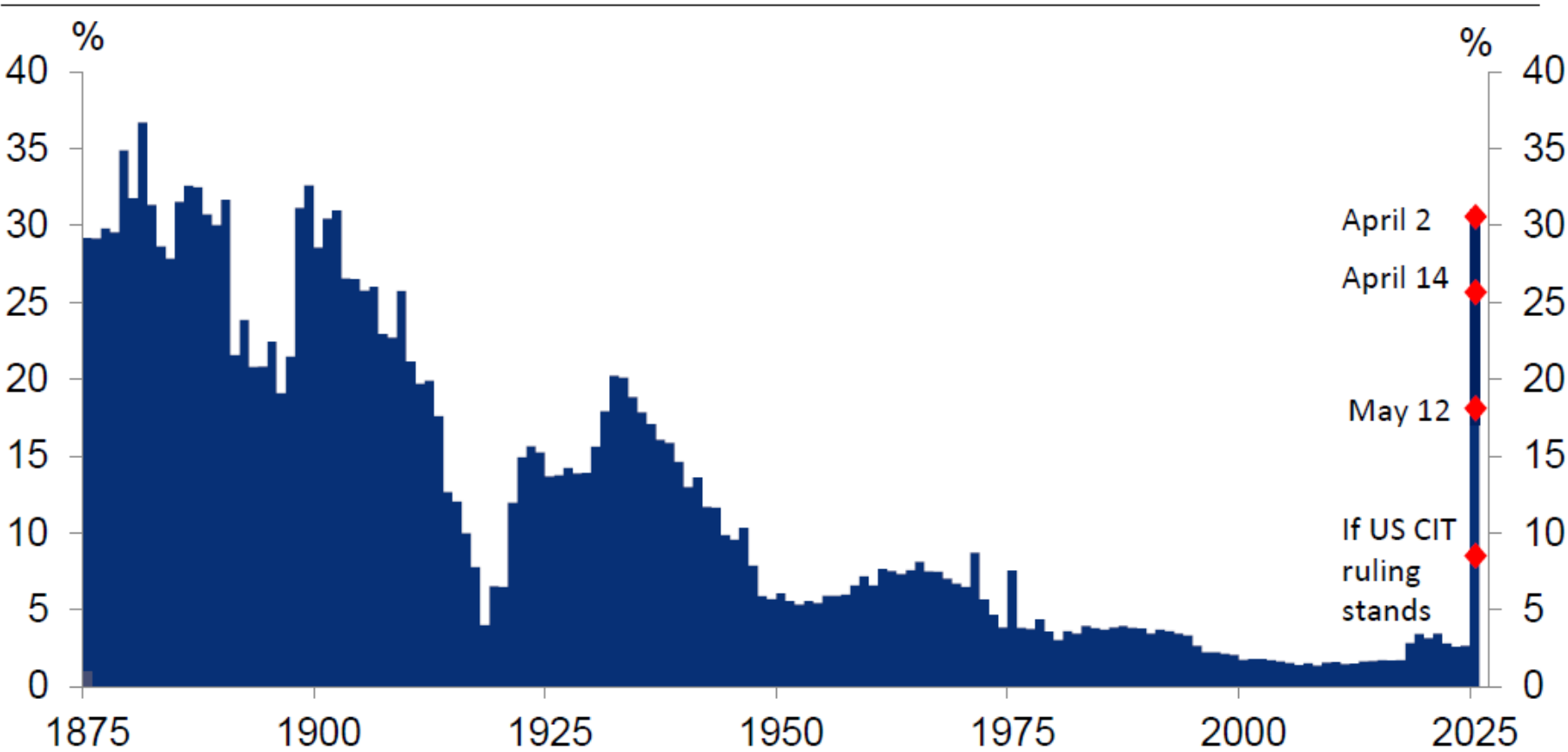


Returns for periods of one year or longer are annualized

*Since Inception 04/30/98

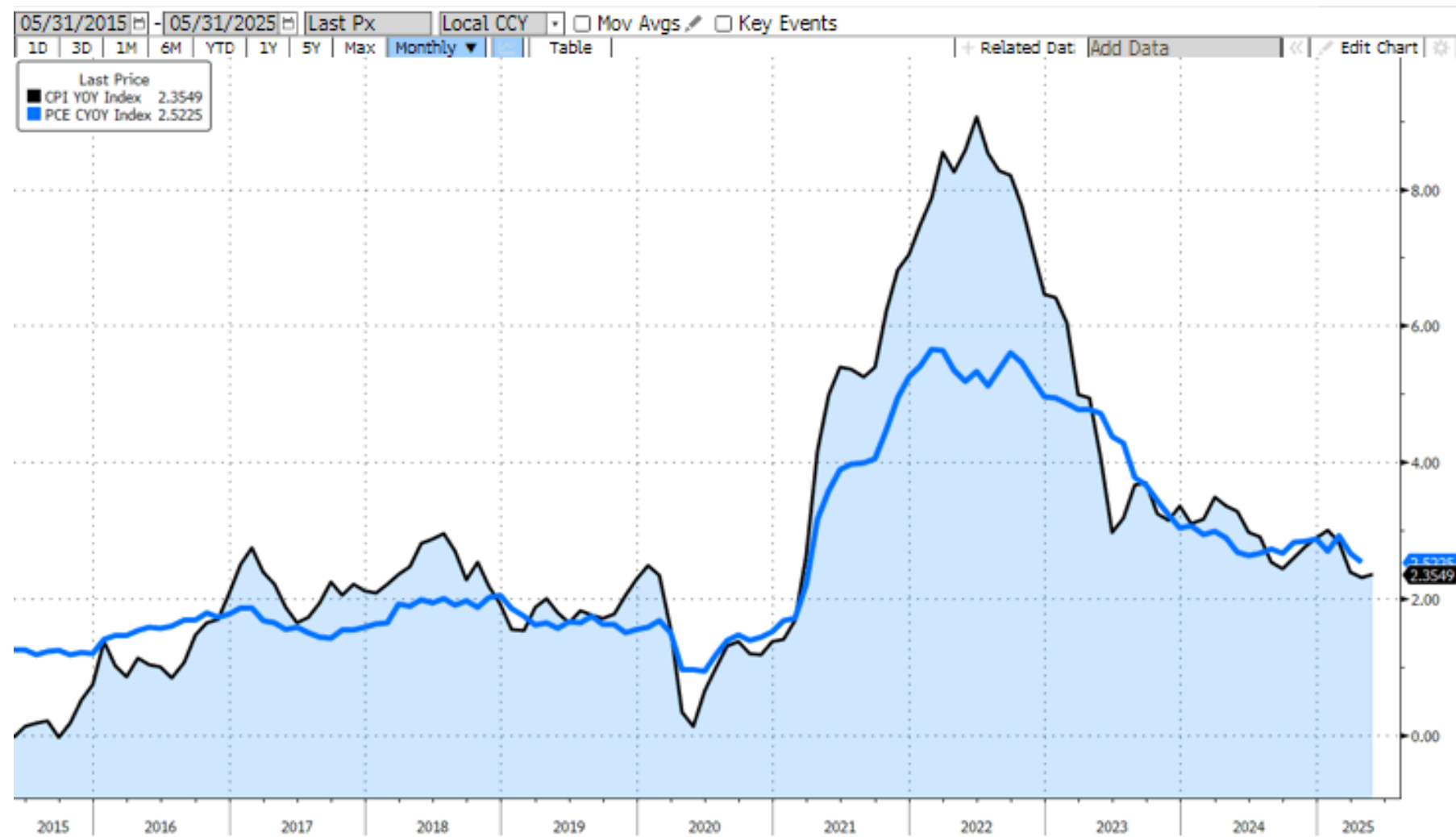
Effective Tariff Rate Near Highest in a Century

Average US tariff rate



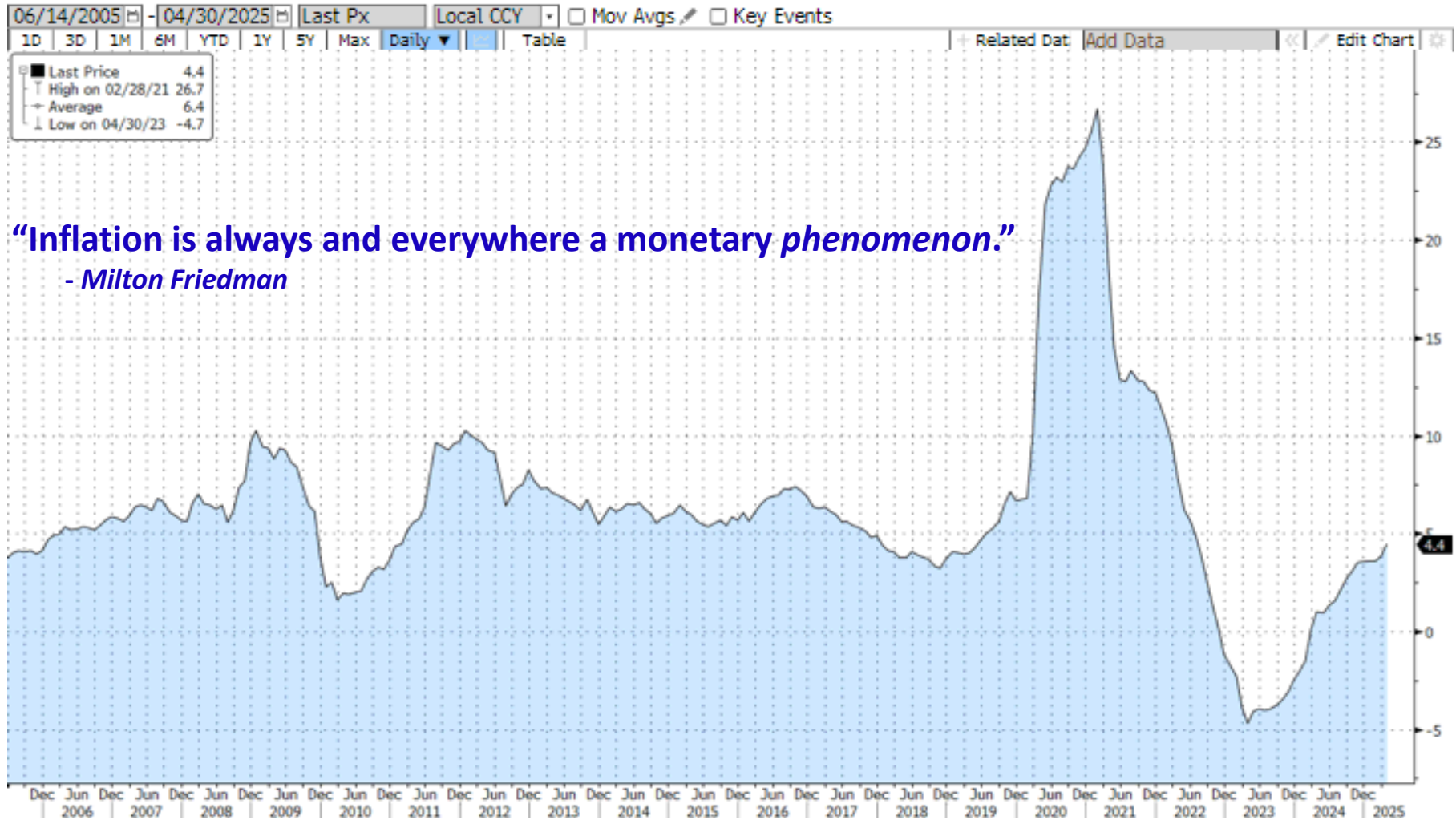
Source: St Louis Fed, USTIC, Macrobond, Deutsche Bank

Inflation Trending Lower: CPI 2.4%, PCE 2.5%



Source: Bloomberg, 6/15/2025

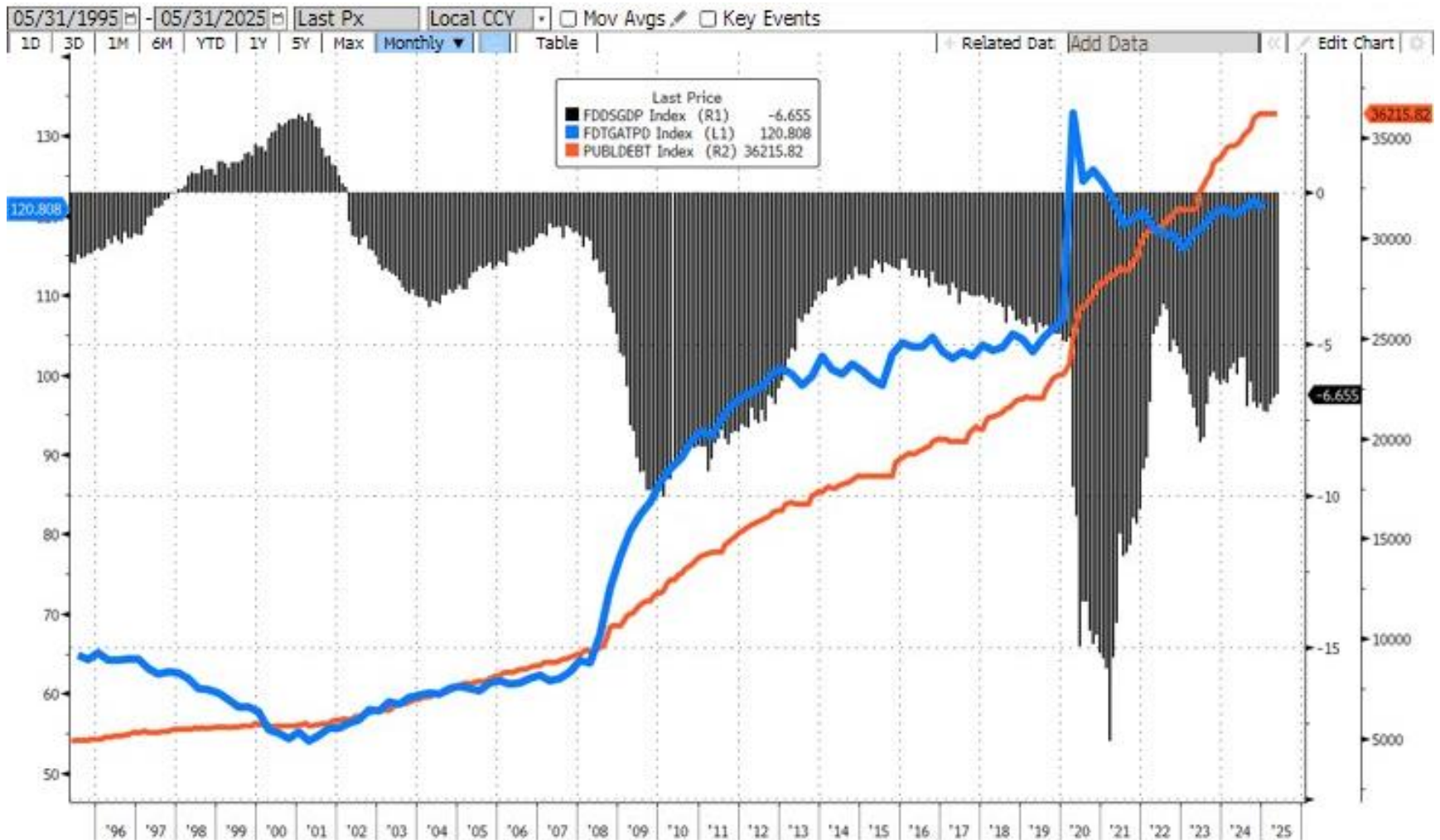
Money Supply Growth – Leading Indicator of Inflation Trend



Source: Bloomberg, 6/15/2025

US Deficit: Sustaining the Unsustainable

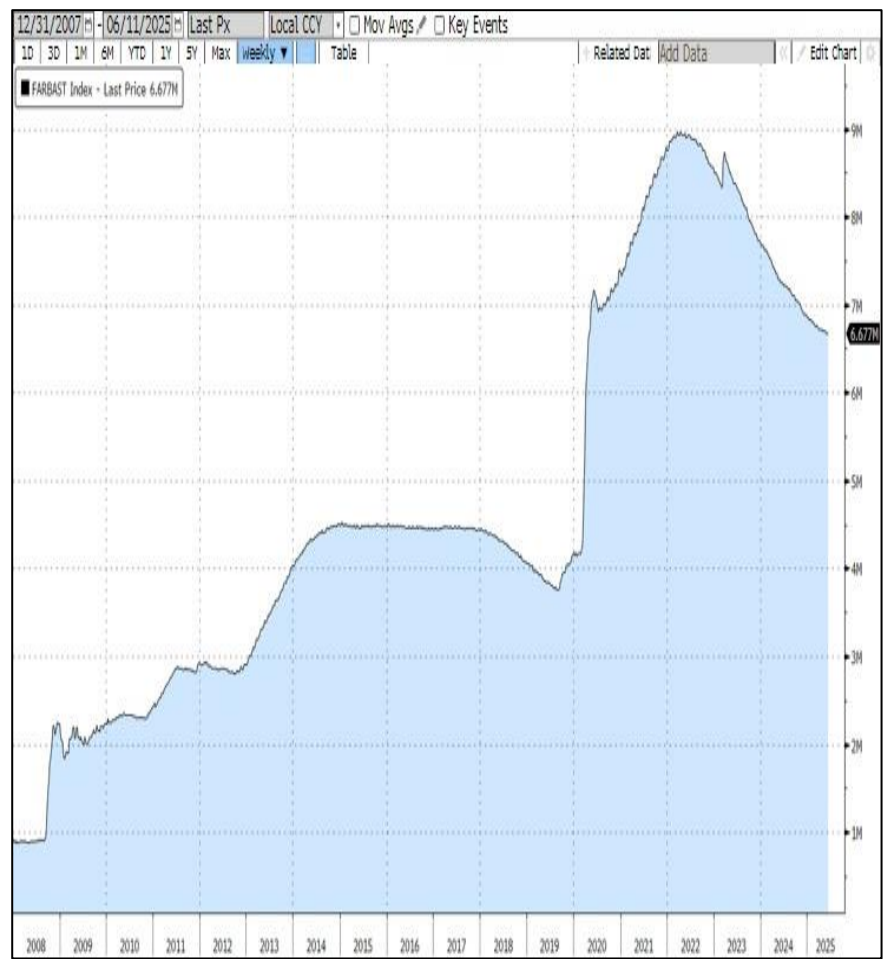
Federal Debt: \$36.2 Trillion | Federal Debt/GDP 121% | Fiscal Deficit/GDP -6.7%



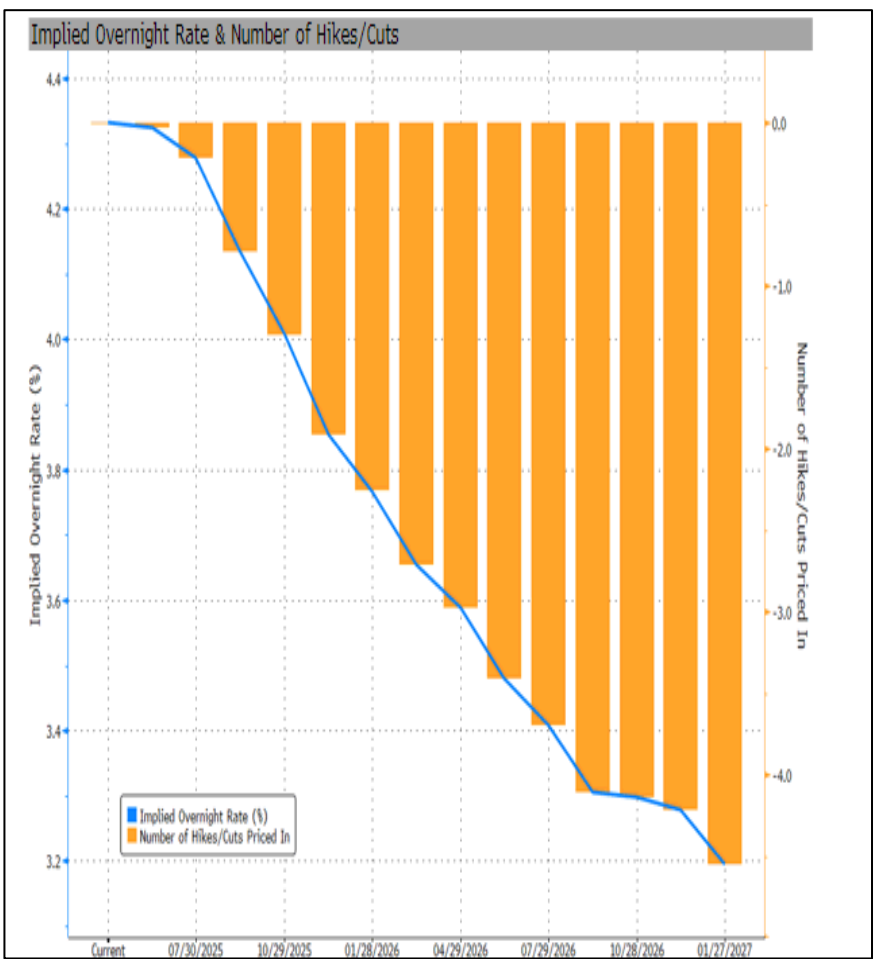
Source: Bloomberg, 6/15/2024

Monetary Policy: Quantitative Tightening & Rate Cuts

Fed Balance Sheet: \$6.67 Trillion



Market Implied Rate & Number of Cuts



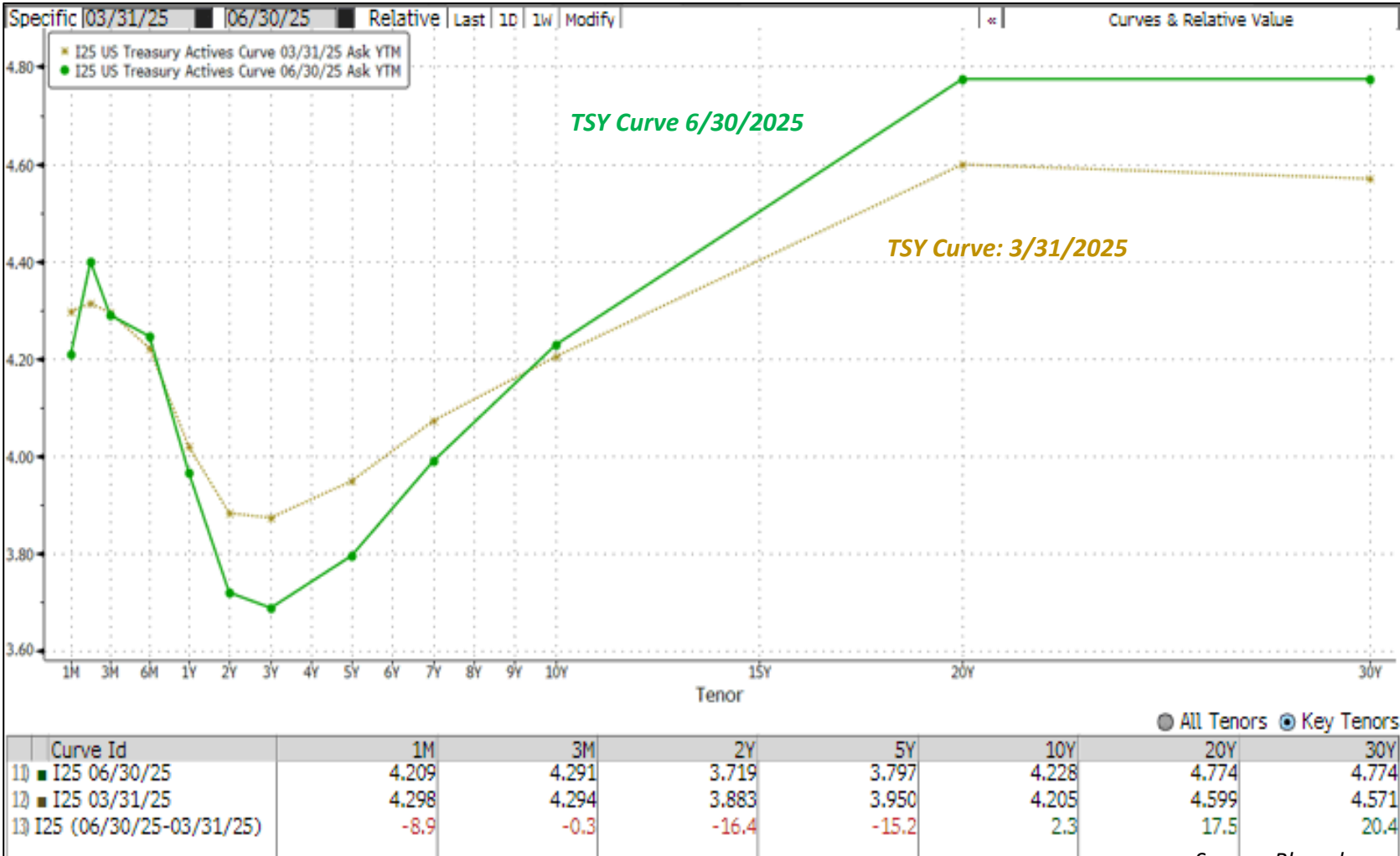
Source: Bloomberg, 6/15/2025

Treasury Curve Change: Q2 Treasury Curve Steepened

Interest Rate

Sector Allocation

Security Selection



Source: Bloomberg

Interest Rate Risk Exposure: Short Duration

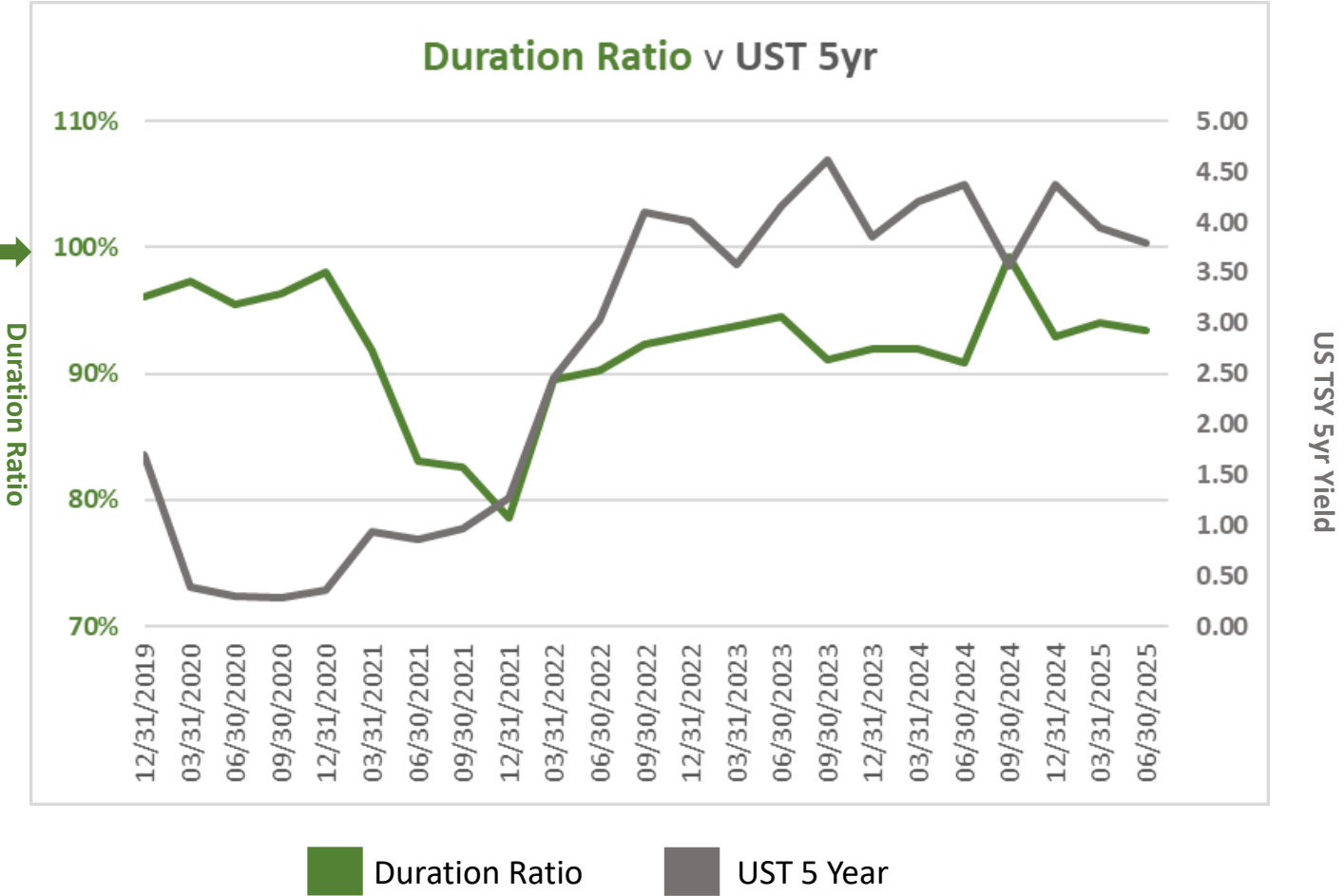
Interest Rate

Sector Allocation

Security Selection

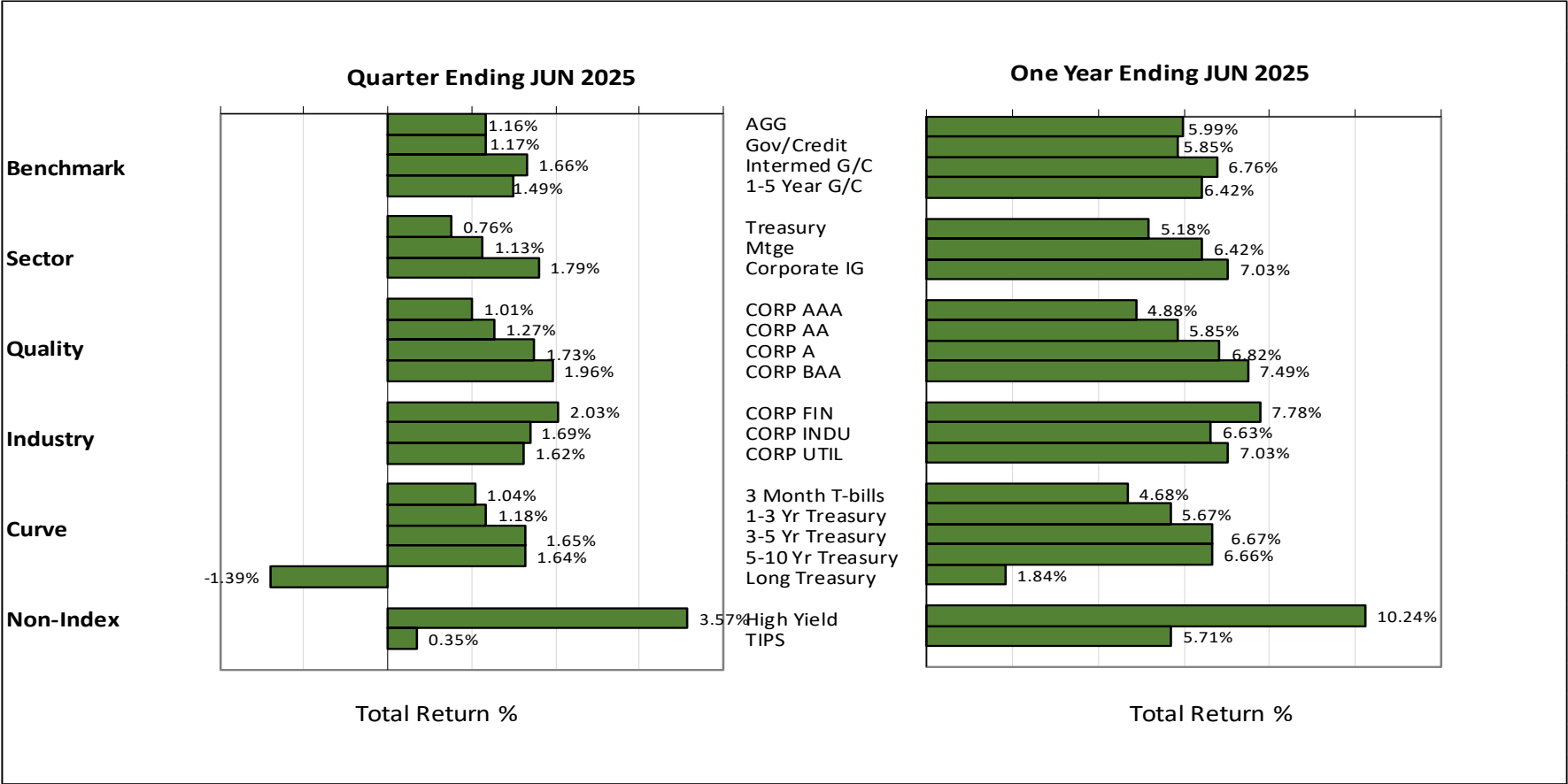


Long >100%
Neutral interest rate risk
Short <100%



Source: BondEdge, Bloomberg

Sector Performance:



Source: BAML GIS

Sector Performance: Credit Spreads Outperformed

Interest Rate

Sector Allocation

Security Selection



Spread Premium vs Treasuries



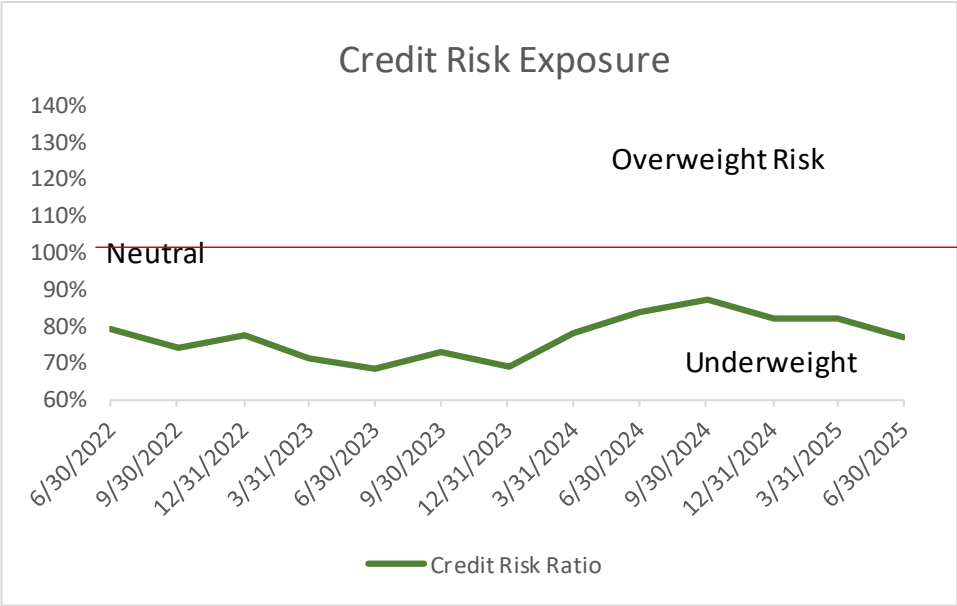
Spread Performance (OAS in bp)

	6/30/2025	3/31/2025	QoQ chg	6/30/2024	YoY Chg
CORP 1-5	66	72	-6	73	-7
AGY 1-5	3	-1	4	3	0
MBS	38	47	-9	48	-10

	QoQ chg	YoY chg
Banks	-10	-14
Insur	-7	-7
Basic	-9	-6
CapGood	-12	-17
Energy	-9	-3
Media	-29	-31
Tech	-10	-4
Util	-11	-11
Retail	-8	-9
Healthcare	-10	-7
Staple	-14	-3

Source: Bloomberg

Credit Risk Exposure - Actively Managing



- We remain tactically underweight Investment Grade (IG). We focus on high quality issuers with attractive relative value.

Source: BondEdge

Performance Attribution

Interest Rate

Sector Allocation

Security Selection

3/31/25-6/30/25	Total Return	Income Effects			Term Structure Effects			Spread Effects		
		Income	Paydown	Amort	Roll	Para Total	Non-Para	Sector/ Quality	Selection	Residual
SHORT COMPOSITE	1.48	0.58	0.00	0.44	0.09	-0.06	0.45	0.14	-0.18	0.00
BAML G/C 1-5	1.49	0.84	0.00	0.16	0.00	-0.06	0.48	0.06	0.01	0.01
Difference	-0.01	-0.26	0.00	0.28	0.10	0.01	-0.03	0.08	-0.19	-0.01

Portfolio Characteristics		Effective Duration Years				
6/30/2025	YTW	Eff Dur	Non-Para Dur	Qual Sprd Dur	Mtge Sprd Dur	Conv
SHORT COMPOSITE	3.95	2.42	1.15	0.54	0.00	0.02
BAML G/C 1-5	3.99	2.59	1.25	0.70	0.00	0.04
Difference	-0.04	-0.17	-0.10	-0.16	0.00	-0.02

3/31/2025	YTW	Eff Dur	Non-Para Dur	Qual Sprd Dur	Mtge Sprd Dur	Conv
SHORT COMPOSITE	4.13	2.34	1.11	0.52	0.00	0.03
BAML G/C 1-5	4.16	2.57	1.25	0.67	0.00	0.04
Difference	-0.03	-0.22	-0.14	-0.15	0.00	-0.01

SAM Comments:

What Helped:

Term Structure
Sector Allocation - OW Spreads
Carry

What Hurt:

Security Selection - OW High Quality

Source: BondEdge

Compliance Monitor

City of Ocala Treasury Reserve Fund
Attributes as of 6/30/2025

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	4.83	Yes
Portfolio Duration		-50%/120%	97%	Yes
Portfolio Effective Maturity		<5 years	2.65	yes
Sector Allocations	Minimum	Maximum	Current %	Within Policy?
US Treasury and Federal Agencies	35%	None	61.4%	Yes
Corporate Debt Obligations	None	50%	37.5%	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%	1.1%	Yes

Going Forward

- The market is pricing two 25bp Fed rate cuts before the end of year. 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, and it's expected to remain a significant catalyst to the near-term trends of macro environment. We remain short duration given inflation trend is moderating.
- We remain underweight 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.