Quarterly Portfolio Manager Commentary

October 2015

First American Money Market Funds

What market conditions had a direct impact on the bond market this quarter?

The financial markets backtracked in the quarter, with investor sentiment being burdened by concerns including slowing China growth, low inflation in the United States and a surprisingly dovish turn by the Federal Reserve (Fed). These issues overlaid on a market environment with more limited liquidity tended to intensify market reaction to events.

Economic Activity – After U.S. Gross Domestic Product (GDP) rebounded smartly in the second quarter to a healthy 3.9% annualized clip, third quarter growth will likely recede to a more normalized 2.0% to 2.5% annualized rate. Recent data suggest strength in the consumer sector, particularly in auto sales and housing. While the U.S. economy added 501,000 jobs to Non-farm Payrolls in the quarter, the pace of growth was the slowest since the second quarter of 2012. The U3 Unemployment Rate fell from 5.3% to 5.1% while the broader measure of labor force slack, the U6 Underemployment Rate (which includes the total unemployed, plus all persons marginally attached to the labor force, plus total employed part-time for economic reasons), fell nicely from 10.5% to 10.0% over the same period. A portion of the improvement in Unemployment Rates is due to a decline of 322,000 workers in the labor force. There is speculation recent sluggishness in employment numbers is partially due to demographics and slower growth in the working-age population. However, Average Hourly Earnings – a signal of tightness in the labor market – was up a mere 2.2% year-over-year in the quarter. As has been the case for several quarters, inflation measures remained well-contained, if not too low for policymakers. August's Consumer Price Index rose only 0.2% year-over-year and August's Personal Consumption Expenditure Core Price Index rose 1.306%, both well below the Fed's 2% target.

Credit Markets – The tone for risk assets was negatively biased with multiple factors, including policymaking errors from China, uncertainty over potential Fed rate hikes and rather confusing guidance from the Fed's September 17th meeting. Late in the quarter, Volkswagen's emission control controversy further diminished already shaky market confidence. Credit markets continue to be negatively impacted by the more liquidity-challenged environment for fixed-income assets in all sectors, which can exacerbate the impact of even minor negative events. However, higher quality corporate debt spreads remained relatively stable and actually outperformed similar duration Treasuries, due mainly to the benefit from higher coupon income. For the quarter as a whole, the BofA Merrill Lynch 1-3 Year U.S. Treasury Index underperformed the comparable corporate credit index by 5.4 basis points (bps).

BofA Merrill Lynch Index	Q3 2015 Relative Perfomance*
1-3 Year AAA-A U.S. Corporates and All Yankees	0.366%
1-3 Year U.S. Treasury	0.312%

*Corporate index outperformed the Treasury index by 5.4 bps in the quarter

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First American Funds

Short-term interest rates fell and the yield curve flattened during the quarter, with longer term yields falling after the Fed decided not to raise the federal funds rate in September. Two-year U.S. Treasury yields fell just 1.4 bps while three- and five-year yields fell 10.3 and 29.1 bps, respectively. These shifts in the yield curve benefited longer-duration barbell strategies.

BofA Merrill Lynch Index	Duration	Q3 2015 Relative Performance*
1-3 Year U.S. Treasury	~1.87 years	0.312%
1-5 Year U.S. Treasury	~2.71 years	0.703%

*Long index outperformed the short index by 39.1 bps in the quarter

In general, credit quality remains relatively solid in the investment-grade corporate sector, but continues to erode around the edges with headline risk from merger and acquisition (M&A) activity as well as balance sheet leveraging done for the benefit of shareholders.

Monetary Policy – The current conduct of policy was not altered in the quarter, as the Federal Open Market Committee (FOMC) maintained its 0.0% to 0.25% fed funds target and the current size of the Fed's balance sheet through the re-investment of principal payments. At the September 17th meeting, the FOMC reduced its forecast 2015 year-end median federal funds target rate to 0.375% from June's 0.625%. The number of FOMC participants expecting a 2015 rate hike fell to 13 from 15. Additionally, the FOMC lowered its longer-run U.S. GDP forecast to 1.8% to 2.2% from 2.0% to 2.3% and lowered the longer run Unemployment Rate expectations to 4.9% from 5.0%. The September 17th statement importantly added new language implying the FOMC was paying closer attention to "recent global economic and financial developments" and "developments abroad," implying recent disruptions in China and the U.S. equity and credit markets played an important role in its decision. During her September 17th press conference, Chair Yellen suggested the FOMC was impressed with the strength of the U.S. economy and job growth, expected inflation to remain quite low in coming months and had seen tightening of financial conditions since June. She also reiterated every meeting was a live meeting for a rate hike, including October. In general, financial markets reacted negatively to the FOMC's actions. Investors seemed more taken off guard by the surprisingly dovish tone of the statement and Yellen's press conference than the lack of a rate hike. The dovish tone seemed to leave investors feeling more uncertain about the U.S. recovery, as well as clouding the FOMC's decision function for future rate hikes – essentially moving away from strict economic data dependency to more market dependency.

Fiscal Policy – Congress averted an October 1st government shutdown and passed a stopgap measure to keep the federal government open until December 11th. Presidential election politics have elevated the risk of confrontation between Democrats and Republicans on this key issue, increasing the odds of a politically induced market disruption during the holiday season. In addition, recent controversies regarding Planned Parenthood and its government funding have created a wedge issue in Congress which could further de-rail the budget resolution process. House Speaker Boehner's surprise resignation added an additional dimension of uncertainty to the process. Analysts are split as to whether Boehner will utilize his newfound freedom to push a compromise brokered with Democrats past the hard-line members of the Republican caucus in the last month of his term. Compounding the fiscal situation is the looming federal debt ceiling. Treasury Secretary Lew sent a letter to Congressional leaders notifying them that extraordinary budget measures preserving the U.S.'s borrowing capacity will be exhausted around November 5th. At that point, the Treasury is forecast to have only $30 billion in available cash to fund federal expenditures. As it has been in the past, the issue is expected to be resolved before the credit worthiness of the U.S. is challenged, but the probability is high for market-disruption during what is almost certain to be a contentious debate.

What were the major factors influencing money market funds this quarter?

For the first part of the third quarter, U.S. short-term markets continued to speculate on the timing of the first Fed rate hike since 2006. Financial markets were left disappointed after the FOMC announced at the September 17th meeting that it would be keeping the fed funds target range of 0.0% to 0.25%. Though a 2015 rate hike is still on the table, this scenario seems unlikely based on the dovish language coming out of the meeting.

The Fed continued to provide support to money market funds this quarter through the Reverse Repo Program (RRP). In addition to the overnight facility, the RRP provided an additional $250 billion worth of collateral to the markets through the term facility over quarter end. Though no official announcement has been made, we anticipate the RRP will be available to the markets for the foreseeable future as fund managers face constrained supply and negative yields in the Treasury market.

Throughout the quarter, the industry continued to move toward implementation of the Securities and Exchange Commission's money market fund reforms. Several fund companies announced planned changes to product offerings, ranging from fund consolidations and closings to strategy changes. Due to reforms largely targeting institutional prime funds, the most significant impacts and changes will likely occur in these funds.

First American Prime Obligations Fund
During the first part of the quarter, most funds in the prime space started to shorten Weighted Average Life and Weighted Average Maturity in anticipation of a September Fed rate hike and a heightened sensitivity to pricing fluctuations. While investing for the First American Prime Obligations Fund, we utilized breakeven analysis that priced in two rate hikes before the end of the year and were able to capitalize on some yield-enhancing trades. Toward the end of the quarter, front-end yields on credit investments were still relatively attractive despite the lack of a Fed rate hike. While it remained a challenge to add value through liquidity investments (those maturing in one to seven days), investments maturing in April 2016 and before offered attractive opportunities and provided protection against multiple Fed rate increases. With the credit environment stable, investment opportunities arose out of a combination of money market reform, the bank regulatory environment and prospects of a Fed rate hike. We capitalized on these opportunities while keeping investments short of the six- to eight-month range in preparation for potential investor reaction to reform.

First American Government Obligations Fund
As government funds expect potential inflows due to money market reform, we had less reservation about buying investment options across the curve. We capitalized on opportunities to purchase floating-rate securities maturing beyond the October 2016 reform implementation deadline to avoid reinvestment risk in a potentially supply-constrained environment. We also took advantage of fixed-rate investment options when economically advantageous.

First American Treasury Obligations and U.S. Treasury Money Market Fund
Treasury funds observed a similar investment environment as government funds, though floating-rate note options were not as attractive due to tighter spreads. We anticipate the Treasury floating-rate notes will likely be more appealing after the industry has additional clarity around the timing of a Fed rate hike. Because these portfolios are the most dependent on rate increases, anticipated Fed movement continues to have the largest impact on fund management decisions. We provided economic value by purchasing securities with yields reflective of our interest rate forecast.

First American Tax Free Obligations Fund
After trading higher during the second quarter due to seasonal factors, tax-exempt variable-rate demand notes returned to historical lows of just two bps. On average, the SIFMA Municipal Swap Index reset approximately five bps lower quarter-over-quarter. Our approach in this low yield environment involved evaluating the yield pick-up offered by fixed-rate alternatives, while also considering our expectations for Fed policy. Because our baseline view early in the quarter was for a September rate hike, we took a cautious approach to extension trades as market levels were not consistent with our breakeven analysis. However, market volatility and global events in mid to late August appeared to diminish the odds for an imminent interest rate increase, making extension trades more compelling. The majority of our purchases were in the five- to nine-month maturity area with yields ranging from 14 to 35 bps. These investments offered significant value vs. variable-rate alternatives. As we speculated last quarter, tax-exempt note issuance has indeed declined as larger note issuers did not need to access the market this year due to improved fiscal conditions. We continue to believe any increases to the federal funds rate will have less of an impact on municipal note yields due to the limited supply of investments.

What near-term considerations will affect fund management?

In the coming quarters, we anticipate seeing yields trend higher in the prime space leading up to money fund reform and a potential Fed rate hike. Further, we foresee yields in the government and Treasury space compressing in response to money fund reform. With our view the Fed will keep the current target range of 0.0% to 0.25% until first quarter of 2016, we will continue to seek opportunities that arise from market volatility based on economic data, Fed expectations and a shifting short-term market landscape as a result of encroaching money fund reform deadlines.

For more information about the portfolio holdings, please visit http://www.institutionalinvestors.firstamericanfunds.com/home/portfolio-holdings.aspx.

Sources:

Bloomberg

Bureau of Economic Analysis, "National Income and Product Accounts, Gross Domestic Product: Second Quarter 2015 (Third Estimate), Corporate Profits: Second Quarter 2015 (Revised Estimate)", September 25, 2015

Federal Open Markets Committee Statement, September 17, 2015

Municipal Market Monitor

U.S. Department of the Treasury, "Treasury Sends Debt Limit Letter to Congress", Dan Watson, October 1, 2015

Definitions

Barbell Strategy is used as a way to earn more interest without taking more risk when investing in bonds. In a barbell strategy, a portfolio invests in both shorter-term bonds and longer-term bonds. When shorter-term bonds come due, the investor replaces them with other short-term bonds, thus keeping a balance between shorter and longer term bonds.
Basis Point (bps) is one one-hundredths of a percentage point. This term is often used in describing changes in interest rates. For example, if a bond yield increases from 7.50% to 7.88%, it has moved up 38 basis points.
BofA Merrill Lynch 1-3 Year AAA-A U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch US Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated AAA through A3, inclusive.
BofA Merrill Lynch 1-3 Year U.S. Treasury Index is a subset of the BofA Merrill Lynch U.S. Treasury Index including all securities with a remaining term to final maturity less than three years.
BofA Merrill Lynch 1-5 Year U.S. Treasury Index is a subset of the BofA Merrill Lynch U.S. Treasury Index including all securities with a remaining term to final maturity less than five years.
Consumer Price Index (CPI) is an inflationary indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation. The CPI is published monthly.
Credit Quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default.
Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.
Federal Funds Rate (fed funds rate) is the interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.
Federal Open Markets Committee (FOMC) is a 12-member committee which sets credit and interest rate policies for the Federal Reserve System.
Federal Reserve (Fed) is the United States central banking system. It is comprised of 12 regional central banks, known as the Federal Reserve Banks, which are owned by private banks. The Fed is governed by a 7-member Board of Governors, who regulates interest rates, availability of bank credit and sets other monetary policies such as legal reserve requirements for banks.
Fed Reverse Repo Facility is a repo program in which the Fed sells Treasury or agency securities to approved counterparties with an agreement to repurchase them back from the same counterparties at a specified price and date in the future.
A Fixed-Rate Security has a fixed interest (also known as coupon) rate. Due to its fixed nature, the fixed rate note is not susceptible to interest rate fluctuations, and is viewed as a security with low interest rate risk. However, fixed rate securities are highly susceptible to loss in value due to inflation.
A Floating-Rate Security has a variable interest rate. The adjustments to the interest rate are usually made every six months and are tied to a certain money market index. Also referred to as a floater.
Gross Domestic Product (GDP) is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase. As inflation rises, every dollar you own buys a smaller percentage of a good or service.
Liquidity is a characteristic of a security or commodity with enough units outstanding to allow large transactions without a substantial drop in price.
Maturity is the date on which the principal amount of a note, draft, acceptance, bond, or other debt instrument becomes due and payable. Also, termination or due date on which an installment loan must be paid in full.
Monetary Policy is the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.
Personal Consumption Expenditures Index is a measure of price changes in consumer goods and services. It is essentially a measure of goods and services targeted toward individuals and consumed by individuals.
Repurchase agreement (repo) is an agreement between two parties whereby one party sells the other a security at a specified price with a commitment to buy the security back at a later date for another specified price. Most repos are overnight transactions.
SIFMA (Securities Industry and Financial Markets Association) Municipal Swap Index, produced by Municipal Market Data (MMD), is a weekly high-grade market index comprised of 7-day tax exempt variable rate demand notes from MMD's extensive database, which is intended to accurately reflect activity in the municipal VRDN market.
Securities and Exchange Commission (SEC) is the federal agency that regulates the registration and distribution of mutual funds.
Treasury is negotiable debt obligation of the U.S. government, secured by its Full Faith and Credit and issued at various schedules and maturities. The income from Treasury securities is exempt from state and local, but not federal, taxes.
U.S. Treasury Note is a marketable U.S. government debt security with a fixed interest rate and a maturity between one and 10 years. Treasury notes can be bought either directly from the U.S. government or through a bank.
Weighted Average Life, also known as Weighted Average Final Maturity, (WAL) is the average time to maturity of all the securities held in the portfolio, weighted by each security's percentage of total investments. Unlike WAM, the WAL calculation takes into account the final maturity date for each security held in the portfolio. WAL measures a fund's sensitivity to potential credit spread changes.
Weighted Average Maturity (WAM) is the average time to maturity of all the securities held in the portfolio, weighted by each security's percentage of total investments. This calculation takes into account the final maturity date for a fixed income security and the interest rate reset date for a floating rate security, which is allowed by Rule 2a-7 provisions. WAM measures a fund's sensitivity to interest rate changes.
Yield Curve is a line tracing relative yields on a type of bond over a spectrum of maturities ranging from three months to 30 years.

[See next page for important disclosure information.]

The information and views expressed are provided by the funds' portfolio manager(s) and are current only through the date on this report. They are not intended to provide specific advice or to be construed as an offering of securities or a recommendation to invest. One cannot invest directly in an index. This information is subject to change at any time based on upon market or other conditions and may not be relied on as a forecast of future events or a guarantee of future results. Fund holdings, sector and portfolio allocations are subject to change at any time and are not recommendations to buy or sell any security.

Past performance does not guarantee future results.

Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. The prospectus contains this and other information; call 800.677.3863 or visit FirstAmericanFunds.com for a copy. Please read it carefully before investing.

An investment in money market funds is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency. Although these funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in these funds.

Income from tax-exempt funds may be subject to state and local taxes and a portion of income may be subject to the federal and/or state alternative minimum tax for certain investors. Federal and/or state income tax rules will apply to any capital gains distribution.

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