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Quarterly Portfolio Manager Commentary July 2015

First American Money Market Funds

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

The second quarter saw volatility in both yield curve movements and credit spreads. Market concerns over China, Greece, Puerto Rico and potentially higher U.S. interest rate policies weighed on risk assets. These issues overlaid on a market environment with more limited liquidity tended to intensify market reaction to events.

Economic Activity – U.S. Gross Domestic Product (GDP) likely rebounded from the first quarter's -0.2% growth rate, with expectations for second quarter GDP to be in the 2% to 3% range. Second quarter Non-farm payroll gains were respectable with the U.S. adding 664,000 jobs in the quarter. The U3 Unemployment Rate fell from 5.5% to 5.3% 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 to10.5% from 10.9% over the same period. The declines in U3 and U6 were partially driven by a June labor force participation reduction of 432,000 workers, bringing into question the quality of labor market improvement. Average Hourly Earnings, widely viewed as a harbinger for future inflation, advanced a modest 0.4% in the second quarter and 2.0% year-over-year. Inflation measures remained quite well-contained with May's Consumer Price Index flat year-over-year, a result of the lingering impact of lower oil prices. May's Personal Consumption Expenditure Core Price Index rose 1.236%, the slowest level in 15 months.

Credit Markets – In the quarter, the tone of the credit markets took a decidedly negative turn. Concerns over a potential Greek default and exit from the European Union (EU) coupled with a dramatic fall in Chinese equity markets conspired with a limited liquidity environment to send credit spreads wider. For the quarter as a whole, the BofA Merrill Lynch 1-3 Year U.S. Treasury Index outperformed the comparable corporate credit index by 4.5 basis points (bps). All of the outperformance came in June when Treasuries outperformed by 11.9 bps.

BofA Merrill Lynch Index	Q2 2015 Relative Perfomance*
1-3 Year AAA-A U.S. Corporates and All Yankees	0.100%
1-3 Year U.S. Treasury	0.145%

*Treasury index outperformed the corporate index by 4.5 bps in the quarter

Short-term interest rates rose and the yield curve steepened during the quarter, as the calendar moved closer to potential Federal Reserve (Fed) rate hike dates. One-year U.S. Treasury yields rose just 3.6 bps while three- and five-year yields rose a healthy 12.5 and 27.8 bps, respectively. Much of the run-up in longer rates was due to better labor numbers after March's weak data, which bolstered the case for a 2015 rate hike. But the choppiness of U.S. economic data blurred the path to policy normalization and pushed rate volatility higher in the quarter – illustrated by an intra-quarter two-year U.S. Treasury yield swing from a low of 0.486% to a high of 0.728%. These shifts in the yield curve benefited short-duration strategies.

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BofA Merrill Lynch Index	Duration	Q2 2015 Relative Performance*
1-3 Year U.S. Treasury	~1.87 years	0.145%
1-5 Year U.S. Treasury	~2.70 years	0.022%

*Short index outperformed the long index by 12.3 bps in the quarter

In general, credit quality remains solid for investment-grade corporate issuers, but continues to erode around the edges with headline risk from mergers and acquisitions. The risk of negative public rating actions in the financial sector has declined, as the rating agencies have completed a large portion of their updated methodology reviews. In many cases the reviews resulted in the affirmation of current ratings and some issuers even enjoyed upgrades. The credit markets and credit spreads 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.

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 June 17th meeting, the FOMC guided toward a 2015 rate hike with 15 of 17 FOMC participants forecasting at least one rate hike and a median fed funds target of 0.625% by year-end. As measured by fed funds futures, investors are expecting meaningfully less policy tightening than the FOMC itself, with the December contract pricing in an average fed funds rate of only 0.295%. There is a general market consensus the first rate hike will occur at an FOMC meeting with a scheduled press conference, a sub-set limited to the September and December meetings. Continued improvement in labor market conditions with an Unemployment Rate close to 5% and inflation measures trending toward the Fed's 2% target appear to be clear hurdles before the FOMC considers rate lift-off. International events such as a market-roiling Greek EU exit or a strengthening dollar could influence the timing of future rate hikes, but primarily through the prism of how those situations affect U.S. economic data or tighten overall credit conditions.

Fiscal Policy – Other than the impacts evolving regulatory policies have on the economy and financial markets – which are quite large – the executive and legislative branches of government are providing little in the way of new initiatives to drive markets, ceding most U.S. economic influence to the Fed and its monetary policies. With the 2016 Presidential election cycle moving into full swing, investors will likely focus much of their attention on handicapping the next Chief Executive and, to a much lesser degree, the Federal government debt ceiling which is scheduled to be reached in the fourth quarter of 2015.

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

During the second quarter, the U.S. short-term markets continued to speculate on the timing of the first Fed rate hike since 2006. Investors were generally in agreement with regard to the pace of any target range increases, with the expectation the Fed will opt for a modest and gradual approach. As the Fed contemplated taking a step toward higher rates, foreign central banks remained committed to monetary easing to fight deflation and contagion threats. The objectives of the First American money market funds in this environment were to maintain strong credit quality and incorporate future Fed rate expectations into portfolio investment selections to take advantage of a steepening yield curve.

The Fed's Reverse Repo Program (RRP) continued to be a market stabilizing force by setting a floor on overnight inter-dealer repo rates in the five- to eight-bps range. Market consensus is the Fed's repo facility going forward will be instrumental in executing monetary policy, controlling short-term interest rates and providing access to quarter-end liquidity. While the final disposition of the RRP is still to be determined, we anticipate the Fed will continue to test various scenarios regarding the rate, size, auction timing and structure of the program. Ultimately we believe the Fed will expand the program enough to absorb investor demand for short-term instruments.

On July 23rd, 2014, the SEC introduced its latest revision to Rule 2a-7 which will bring forth significant changes to some money market funds, particularly institutional classes of prime and tax-free funds. As of October 2016, these funds will transact at a floating net asset value and be subject to liquidity fees and gates. The government and Treasury portfolios will see fewer changes and continue to transact at $1.00. As the First American Prime and Tax-Free Obligations Funds prepare for reform implementation, they will be structured to implement strategies that coincide with the timing and expected market impact of reform.

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First American Prime Obligations Fund

Though front-end yields for prime fund investors remained historically low this quarter, the yield curve began to steepen on expectations of a Fed rate hike, regulatory pressures for issuers to write longer tenured debt and intentions of fund managers to increase liquidity ahead of money fund reform. These elements fueled market volatility and introduced yield-enhancing investment opportunities for prime funds. Fund managers took advantage of these opportunities by becoming more active in securities maturing in the six- to eight-month area as a hedge against potential early movement of prime assets due to money fund reform. Also in the quarter, the public credit ratings of several U.S. regional and large global banks were either affirmed or upgraded after rating agencies completed reviews which incorporated new rating methodologies and a reduction in the implied sovereign support of their domestic banking systems. The outlook for bank credit quality remained solid given the continual regulatory pressure banks face to increase their already historically high capital and liquidity levels. This further contributed to solid opportunities in the credit markets.

First American Government Obligations Fund

Yields on underlying assets in government funds were modestly higher on expectations of a Fed rate hike. However, these gains were muted by large demand for product in the front-end government space. Fund managers were less duration-sensitive due to expectations government funds will experience inflows in response to money fund reform. We capitalized on extension opportunities in three-month to one-year Government Sponsored Enterprise (GSE) bullet and callable securities which made economic sense when incorporating our expectations of Fed rate hikes and future repo rates. A large percentage of government funds is invested in overnight government repo yielding in the five- to eight-bps range. Consequently, portfolio gross yields reacted more slowly to increases than was the case for prime funds which typically have lower exposures to government repo.

First American Treasury Obligations and U.S. Treasury Funds

Treasury funds continued to experience front-end constraints around lack of supply and persistently low yields on the front end of the yield curve. Uncertainty in the global markets contributed to continued high global demand for U.S. Treasury securities, further suppressing yield on the front end of the yield curve. Spreads were also compressed in the Treasury floating-rate space due to strong investor demand. Opportunities arose in the six- to 12-month area as investors stayed short in anticipation of a Fed rate hike. Finding value-added supply in Treasury assets remained a challenge, as U.S. Treasuries continued to experience elevated demand as a safe haven for cash investment.

First American Tax Free Obligations Fund

Seasonal factors surrounding income tax payments due in April resulted in higher tax-exempt variable-rate levels, with the SIFMA Municipal Swap Index – which is a gauge of seven-day, tax-exempt variable-rate demand notes – resetting as high as 11 bps during the quarter. Some of the portfolio's individual holdings reset at significantly higher levels than these averages and security selection continued to be an important tool. Fixed-rated municipal note levels also increased during the quarter, as investors built in expectations for Fed rate hikes. There are multiple considerations to our duration strategy and certainly Fed policy is at the forefront. However, we also are considering recent developments with regard to municipal note issuance for 2015. California and Texas, two of the largest note issuers during 2014, may not plan to access the market this year as their fiscal situations have improved significantly. This would dramatically decrease the level of potential supply in the short-term tax-exempt market. As a result, our expectation would be for a more limited, softer impact on municipal rates from any fed funds movement.

What near-term considerations will affect fund management?

In the coming quarters, we anticipate the overall investment environment will be more volatile as the market interprets economic data and speculates on the timing of a Fed rate hike. We expect to see yields trend higher leading up to money fund reform and a Fed rate hike. As global demand for low-risk assets is expected to remain strong, we foresee any upward movement in yields impacting prime funds more significantly than government and Treasury funds. With our view the Fed will keep the current target range of 0.00 to 0.25% until at least September, we will continue seeking to capitalize and extend where opportunities arise from market volatility based on Fed expectations and impacts of money market fund reform.

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

Sources:

Bloomberg

Federal Open Markets Committee Statement, April 29, 2015

Federal Open Markets Committee Statement, June 17, 2015

Financial Times, “Fed’s Dot Plot: How it Changed From March to June”, June 2015

Municipal Market Monitor

Definitions

Agency/GSE bonds (debt) are bonds issued by either agencies of the U.S. government or government sponsored enterprises (GSEs), which are federally chartered corporations that are publicly owned by stockholders. Agencies and GSEs issue bonds to support their mandates, which typically involve ensuring certain segments of the populations – like farmers, students and homeowners—are able to borrow at affordable rates.
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.
Bullet security is a bond that is not able to be redeemed prior to maturity. A bullet bond is usually more expensive than a callable bond since the investor is protected against the possibility of the security being called when market interest rates fall.
Callable Security is a security with an embedded call provision that allows the issuer to repurchase or redeem the security by a specified date. Since the holder of a callable security is exposed to the risk of the security being repurchased, the callable security is generally less expensive than comparable securities that do not have a call provision.
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.
Deflation is a sustained drop in the prices of goods and services.
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.

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Government Sponsored Enterprise (GSE). See Agency/GSE above.
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.
Net Asset Value (NAV) is a mutual fund's price per share, calculated by dividing the total market value of all the securities in its portfolio, less any liabilities, by the number of fund shares outstanding.
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.
Rule 2a-7 is part of the Investment Company Act of 1940 and seeks to limit the risk associated with money market funds. The rule limits the percentage a portfolio manager can invest in any one security as well as the average maturity date of a fund's portfolio.
Russell 3000 Index measures the performance of 3,000 publicly held U.S. companies.
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.
Treasury Bill (T-bill) is a short-term debt obligation backed by the U.S. government with a maturity of less than one year and commonly have maturities of one month, three months, or six months.
Treasury Floating Rate Note (FRN) is a note issued by the Treasury for a term of two years, FRNs pay varying amounts of interest quarterly until maturity. Interest payments rise and fall based on discount rates in auctions of 13-week Treasury bills.
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.
Variable Rate Demand Note (VRDN) is a debt instrument that represents borrowed funds that are payable on demand and accrue interest based on a prevailing money market rate, such as the prime rates. The interest rate applicable to the borrowed funds is specified from the outset of the debt and is typically equal to the specified money market rate plus an extra margin. Also referred to as a variable rate demand obligation (VRDO).
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.]

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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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