Quarterly portfolio manager commentary

First American Money Market Funds

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

Economic Activity – U.S. economic activity continues to defy expectations for a sharp slowdown as it displays surprising resiliency in the face of aggressive Federal Reserve (Fed) monetary policy tightening. U.S. Gross Domestic Product (GDP) growth is projected near 3.0% for Q3, led by strong consumer spending and business fixed investment comparable to the second quarter's 2.1% pace. Personal consumption accelerated in Q3 as U.S. households continue to benefit from moderating price pressures and solid job and income gains, supporting resilience to tighter financial conditions and lending standards. Recent employment trends have shown gradual moderation, but conditions remain quite firm with August U.S. job openings standing at 9.6 million open positions versus total unemployed workers in the labor force of 6.4 million. Monthly Non-farm Payrolls (NFP) growth continues to be strong, averaging 266,000 during Q3, and the U3 Unemployment Rate was 3.8% in September. Growth in Average Hourly Earnings is off its highs but still elevated at 4.2% year-over-year (YoY), further emphasizing strong labor demand. Headline inflation readings increased throughout the quarter, reflecting rising energy prices with the Consumer Price Index (CPI) at 3.7% in August (3.0% in June). Core inflation, however, continued its gradual downward trend with CPI ex. food and energy rising 4.3% YoY for August compared to 4.8% YoY in June. The Fed's preferred inflation index – the PCE Core Deflator Index – increased 3.9% YoY for August. While the continual decline in core inflation is encouraging, the economy remains a long way from the Fed's target of sustained 2% inflation.

Monetary Policy – The Fed further tightened monetary policy during the quarter, raising the federal funds rate by 25 basis points (bps) at the July 26 meeting to a target range of 5.25% to 5.50%. The Fed elected to keep rates unchanged at its September 20 meeting as they continue to monitor incoming economic data and access lagged impacts of prior rate increases. The September rate pause was viewed as hawkish, with the Fed emphasizing stronger growth could prompt further rate hikes. Additionally, the Fed continued to implement its balance sheet reduction program (quantitative tightening), with a monthly cap of $60 billion in Treasury securities and $35 billion of agency mortgage-backed securities.

Have an investment goal?
Let's talk.

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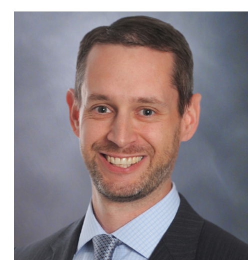

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September 30, 2023

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Following the September meeting, the Federal Open Market Committee (FOMC) released its updated Summary of Economic Projections. The median projection for the federal funds rate at the end of 2023 was unchanged, but the projection for year-end 2024 was revised to a range of 5.0% to 5.25% compared to 4.5% to 4.75% following the June FOMC meeting, signaling the Fed's desire to retain higher-for-longer policy rates. The updated economic projections suggest a growing consensus among the FOMC for an economic soft-landing as annual GDP growth forecasts were revised higher, projections for unemployment lowered and core PCE inflation was left largely unchanged. The revised projections appear to reflect a best-case scenario, suggesting inflation can decline toward the Fed's 2% target without a meaningful slowdown in growth or deterioration in unemployment.

Fiscal Policy – Government spending is projected to add to U.S. GDP in 2023 as the current fiscal-year spending bill includes increases in domestic initiatives and defense programs. Recent legislative actions suggest government spending will have a modest dampening effect on economic growth starting in 2024. The debt ceiling agreement in June keeps non-defense discretionary spending flat in 2024 while capping growth at 1% in 2025. With defense spending set to increase about 3% in 2024, these levels imply a reduction in real spending over the next two years. Further, Congress narrowly averted a government shutdown at the end of September by passing a 45-day continuing resolution. The resolution maintains current spending levels as Congress negotiates a new annual budget, but Congressional Republicans have voiced demands for spending cuts next year to avoid a government shutdown. Looking beyond the immediate concerns, the Infrastructure and Jobs Act (2021) and Inflation Reduction Act (2022) will boost government spending over the long-term, but near-term impacts are likely to be minor. State and local government finances are starting to diverge, with municipal entities more dependent on sales and property taxes faring better than those relying on income taxes, but strong reserves have left the overall sector in a solid position should economic conditions weaken further.

Credit Markets – With markets converging toward the Fed's higher-for-longer guidance, yield curve levels rose meaningfully, particularly on the longer-end of the yield curve. Despite the jump in rates and elevated market volatility, credit spreads ended the quarter relatively in line with the close of Q2. As a result, credit outperformed Treasuries on incremental coupon income. Higher market yields drove absolute portfolio returns and provided a cushion against negative price action from higher rates. Corporate and ABS new issue markets were reasonably active in the quarter and continue to offer concessions to secondary market opportunities. Secondary market liquidity remained solid in the quarter.

Yield Curve Shift

U.S. Treasury Curve	Yield Curve 6/30/2023	Yield Curve 9/30/2023	Change (bps)
3 Month	5.284%	5.446%	16.2
1 Year	5.392%	5.448%	5.6
2 Year	4.895%	5.044%	14.9
3 Year	4.527%	4.799%	27.2
5 Year	4.156%	4.609%	45.3
10 Year	3.837%	4.571%	73.4

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Duration Relative Performance

**Duration estimate is as of 9/30/2023*

Despite the jump in yield curve levels, absolute returns for short and longer-duration Treasury indexes were positive. The three-month to five-year portion steepened by 29.2 bps as longer-end yields rose more than short-term yields. As expected, shorter duration Treasury strategies outperformed longer strategies.

Credit Spread Changes

ICE BofA Index	OAS* (bps) 6/30/2023	OAS* (bps) 9/30/2023	Change (bps)
1-3 Year U.S. Agency Index	18	21	3
1-3 Year AAA U.S. Corporate and Yankees	12	16	4
1-3 Year AA U.S. Corporate and Yankees	35	40	5
1-3 Year A U.S. Corporate and Yankees	74	80	6
1-3 Year BBB U.S. Corporate and Yankees	105	109	4
0-3 Year AAA U.S. Fixed-Rate ABS	74	70	-4

Despite meaningfully higher yield curve levels and overall market volatility, overall credit spreads ended the quarter in a tight band of 4-6 bps to end of Q2 levels. As a result, coupon income was the key driver of performance differentials among asset classes. AAA-rated ABS also performed well in the quarter and continue to offer yields in line with single-A corporate debt.

Option-Adjusted Spread (OAS) measures the spread of a fixed-income instrument against the risk-free rate of return. U.S. Treasury securities generally represent the risk-free rate.

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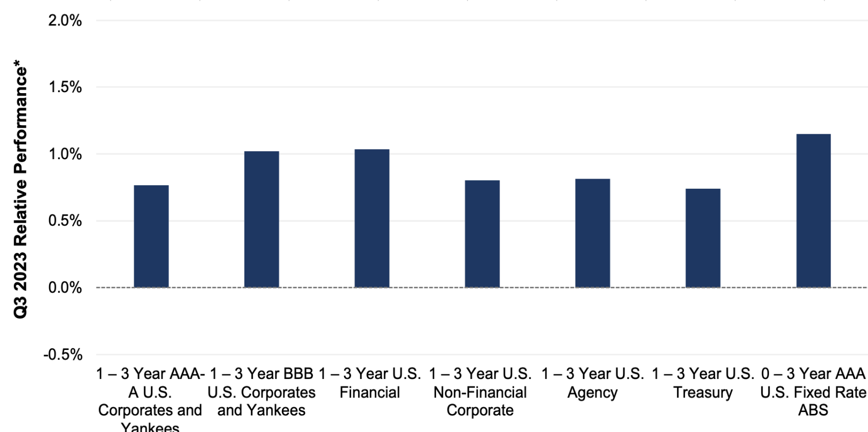
Credit Sector Relative Performance of ICE BofA Indexes



Credit, agencies and ABS outperformed comparable duration Treasuries in the quarter, primarily on incremental coupon income as overall spreads remained reasonably stable. U.S. financials meaningfully outperformed non-financial corporate debt as concerns over bank funding continue to ebb since March.

**AAA-A Corporate index outperformed the Treasury index by 2.6 bps.*

AAA-A Corporate index underperformed the BBB Corporate index by 25.5 bps

U.S. Financials outperformed U.S. Non-Financials by 23.3 bps

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

The third quarter of 2023 ended with the FOMC on hold and entering the final leg of its inflation-fighting campaign. The Fed raised rates 25 bps to a range of 5.25% to 5.50% at the July 14 meeting and paused again in September. The committee remained hawkish in its commentary while futures are pricing in close to a 40% probably of one more 25 bps move this cycle. The challenge for managers going forward is determining how the economy and inflation will warrant the elevated rates.

Money market fund assets continued to increase during the quarter as elevated money market yields attracted investors. With the Fed fully focused on price stability for the foreseeable future, money market funds remain an attractive investment option for fixed income investors.

First American Prime Obligations Funds

Credit conditions and trading ranges appear stable given the current rate and geopolitical environment. Considering the yield curve and a conservative cash flow approach, the First American Funds were positioned with strong portfolio liquidity metrics influenced by Fund shareholder makeup. We continued to employ a heightened credit outlook, maintaining positions presenting minimal credit risk to the Fund's investors. During the third quarter, our main investment objective was to maintain liquidity while opportunistically enhancing portfolio yield based on our economic, credit and interest rate outlook, along with considerations of investor cash flows. We believe the credit environment and higher relative fund yields make the sector an appropriate short-term option for investors.

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First American Government and Treasury Funds

Treasury bill/note supply continued to expand as the U.S. Treasury replenished the Treasury General Account, post-debt ceiling, and the Fed continued quantitative tightening. The tapering pace of rate increases coupled with additional bill supply presented some beneficial investment opportunities for Fund shareholders, which was reflected in a modest extension of portfolio durations. When presented with appropriate value, we also purchased floating-rate investments designed to benefit shareholders over the securities holding period. Our investment strategy will be fluid in the coming quarters as markets make determinations on the Fed's comfort level with its inflation fight, and ultimately the terminal Fed funds rate.

First American Retail Tax Free Obligations Fund

A slowdown in the pace of interest rate increases from the Federal Reserve has done little to reduce the volatility in the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index. The resets for these seven-day, tax-exempt variable rate demand notes in Q3 ranged from a low of 2.20% to a high of almost 4.50%. Heavy reinvestment from municipal bond maturities and coupon payments pushed SIFMA lower during July and August. However, the downturn in rates was short-lived as tax-free money fund redemptions followed. Broker-dealers continue to struggle with setting an equilibrium rate that keeps these securities outstanding and off their own books. The higher rate environment and gap between taxable and tax-exempt rate, has made this task more difficult, as it requires larger adjustments when inventories rise. We continue to hold 15% to 20% allocations to fixed-rate commercial paper and notes to reduce the impacts of these swings on the Fund's overall income.

What near-term considerations will affect fund management?

Industry-wide, we believe prime fund yields are likely to increase as managers roll maturities into higher yielding securities, and in the event the Fed increases rates, floaters reset in step with any remaining rate increases. Front-end yields in credit securities may benefit from the overall supply increase in Treasuries, as there will be competition among issuers for the marginal dollar. Based on our market outlook and breakeven analysis, we will seek to capitalize on investment opportunities that make economic sense. The Institutional and Retail Prime Obligations Funds should remain reasonable short-term investment options for investors seeking higher yields on cash positions while assuming minimal credit risk.

Yields in the government-sponsored enterprise (GSE) and Treasury space will remain influenced by Fed policy and Treasury bill/note supply. With front-end yields elevated and the Fed still wary of inflation, we expect the investment environment for government money market funds to remain attractive. As with non-government debt, in the coming quarter, government yields should increase in step with any Fed rate increases. We anticipate some yield dislocations in Treasury and GSE issues as the influx of bill supply and continued quantitative tightening increase returns as bonds look for a home away from dealer balance sheets. Any large supply changes in Treasury issuance may create yield volatility/opportunity on the front end as the forces of supply and demand seek optimization. Investors may also decide to opportunistically invest in term securities as markets attempt to solve the "terminal rate" and "higher-for-longer" equation. We will continue to seek value in all asset classes and exploit market conditions that support domestic and global economic outlooks.

For more information about the portfolio holdings, please visit
https://www.firstamericanfunds.com/index/FundPerformance/PortfolioHoldings.html

Sources

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Bloomberg, U.S. Economic Forecast

Bloomberg, U.S. Treasury Actives Curve

Federal Reserve Press Release, September 20, 2023

Federal Reserve, Summary of Economic Projections, September 20, 2023

Wall Street Journal, "What's in the Debt-Ceiling Deal", David Harrison and Kristina Peterson, May 31, 2023

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Definitions

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.
Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.
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 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 seven-member Board of Governors, who regulates interest rates, availability of bank credit and sets other monetary policies such as legal reserve requirements for banks.
Government-Sponsored Enterprise (GSE) is a quasi-governmental entity established to enhance the flow of credit to specific sectors of the American economy. Created by acts of Congress, these agencies, through privately held, provide public financial services. GSEs help to facilitate borrowing for all sorts of individuals, from students to farmers to homeowners.
Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.
ICE BofA 0-1 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with maturities less than one year.
ICE BofA 0-2 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with maturities less than two years.
ICE BofA 0-3 Year AAA U.S. Fixed Rate Asset Backed Securities Index is a subset of ICE BofAML U.S. Fixed Rate Asset Backed Securities Index including all securities with a remaining term to final maturity less than three years and rated AAA.
ICE BofA 0-3 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with maturities less than three years.
ICE BofA 1-3 Year AAA-A U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch U.S. Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated AAA through A3, inclusive.
ICE BofA 1-3 Year AA U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch U.S. Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated AA1 through AA3, inclusive.
ICE BofA 1-3 Year BBB 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 BBB1 through BBB3, inclusive.
ICE BofA 1-3 Year Single-A U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch U.S. Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated A1 through A3, inclusive.
ICE BofA 1-3 Year U.S. Agency Index is a subset of ICE BofAML U.S. Agency Index including all securities with a remaining term to final maturity less than three years.
ICE BofA 1-3 Year U.S. Financial Index is a subset of ICE BofAML U.S. Corporate Index including all securities of Financial issuers with a remaining term to financial maturity less than three years.
ICE BofA 1-3 Year U.S. Non-Financial Corporate Index is a subset of ICE BofAML U.S. Non-Financial Index including all securities with a remaining term to final maturity less than three years.
ICE BofA 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.
ICE BofA 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.
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.
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.
Non-farm payrolls (NFP) is the measure of the number of workers in the U.S. excluding farm workers and workers in a handful of other job classifications.

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PCE Core Deflator Index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.
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.
U3 Unemployment Rate is the commonly-referred to unemployment rate. It includes people out of work who have been actively seeking employment over the last four weeks.
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.

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.**

Mutual Fund Investing Involves Risk. ***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 www.FirstAmericanFunds.com for a copy. Please read it carefully before investing.***

For U.S. Treasury, Treasury Obligations and Government Obligations – You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the fund is not a deposit of U.S. Bank National Association and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.

For Retail Prime Obligations and Retail Tax-Free Obligations – You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The fund may impose a fee upon sale of your shares. An investment in the fund is not a deposit of U.S. Bank National Association and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.

For Institutional Prime Obligations – You could lose money by investing in the fund. Because the share price of the fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The fund may impose a fee upon sale of your shares. An investment in the fund is not a deposit of U.S. Bank National Association and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.

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 income tax rules will apply to any capital gains distribution.

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