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 conditions continued to weaken throughout the second quarter as broad-based inflation pressures intensified and sentiment deteriorated with the growing acceptance that aggressive Federal Reserve (Fed) tightening is likely to push the economy into a recession. U.S. Gross Domestic Product (GDP) recovered during the second quarter (Q2) following the first quarter's 1.6% contraction, but growth estimates are subdued in the 1.0% to 2.0% range. The headline Consumer Price Index (CPI) rose to 9.1% in June, with CPI ex. food and energy year-over-year (YoY) growth easing to 5.6%. The Fed's preferred inflation index – the PCE Core Deflator Index – increased 6.3% YoY for May, off the peak of 6.6% in March, but still near the highest levels since 1983. Inflation is projected to be near peak levels with commodity prices showing signs of easing. But given the persistence of supply chain issues and wage and price pressures, we expect inflation to remain elevated into 2023. U.S. consumers are feeling the effects of high inflation and tightening monetary policy with retail sales growth declining throughout the quarter and consumer confidence near its lowest levels on record. Employment conditions also remain tight. May U.S. job openings stand at 11.25 million open positions versus June's total unemployed workers in the labor force of 5.91 million. Further emphasizing strong labor demand, the U3 unemployment rate was stable in June at 3.6% and Average Hourly Earnings rose a healthy 5.1% YoY. Monthly Nonfarm Payrolls (NFP) growth averaged 375,000 during Q2, below last year's pace, but strong versus pre-pandemic levels. Despite broad-based labor market strength, historically tight conditions are constraining economic growth and pressuring prices higher.

Fiscal Policy – After two years of unprecedented fiscal stimulus to counter the negative economic impact of COVID-19, government spending will likely be a drag on U.S. GDP in 2022. For the most part, state and local governments are in excellent shape as reserves are flush following strong tax collections and federal pandemic relief funding. Despite recent efforts in the U.S. Senate to negotiate a scaled-back economic package, we believe the probability of

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further fiscal stimulus measures is low given current inflation pressures and the difficulty in passing legislation during the 2022 election cycle.

Monetary Policy – The Fed broke from its more normal 25 basis points (bps) rate hike pace with oversized rate hikes of 50 bps at the May 3 meeting and 75 bps at the June 15 meeting. At quarter-end, federal funds futures suggest another 75 bps at the July 27 meeting was likely and a year target range of 3.25% to 3.50%. Surging inflation data convinced the Fed to become more aggressive with the pace and magnitude of its rate hikes and Chairman Powell suggested policymakers will be more data dependent as opposed to following previous rate guidance going forward. The Fed kicked off its balance sheet reduction program (QT) with a $47.5 billion cap on QT in June through August and a $85 billion cap thereafter.

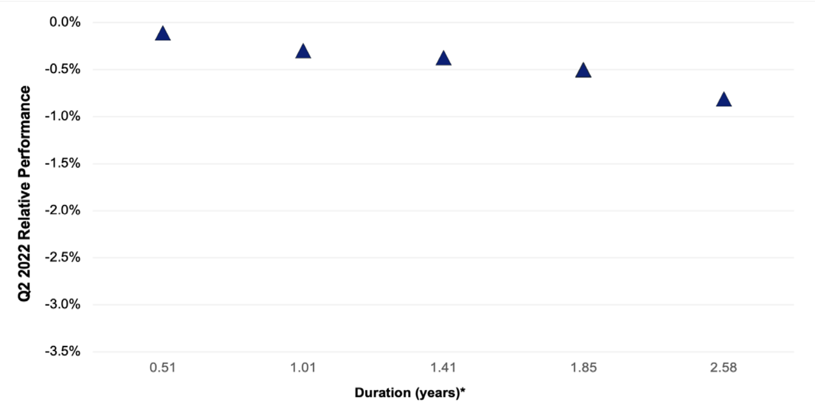
Credit Markets – Continued tightening of financial conditions has taken a toll on fixed income markets with higher yield curve levels and wider credit spreads in the quarter. A combination of tighter monetary policies, high inflation, and recession fears has increased volatility, not only in risk assets, but in U.S. Treasury yields. Secondary market liquidity is reduced versus previous periods, with wide bid-ask spreads impacting all sectors, including treasuries. As expected, the pace of new issue corporate and asset-backed opportunities has declined with higher rates and more limited investor demand. Market technicals continue to suppress very front-end T-bill yields and continue to trade well below overnight repo levels and the federal funds target rate.

Yield Curve Shift

U.S. Treasury Curve	Yield Curve 3/31/2022	Yield Curve 6/30/2022	Change (bps)
3 Month	0.482%	1.626%	114.4
1 Year	1.595%	2.742%	114.7
2 Year	2.335%	2.953%	61.8
3 Year	2.512%	3.008%	49.6
5 Year	2.460%	3.038%	57.8
10 Year	2.338%	3.013%	67.5

Treasury yield curve levels continued to surge in the quarter, propelled by 125 bps of Fed tightening and elevated inflation data. The three-month to 10-year portion flattened 46.9 bps to 138.7 bps. At the same time, the two-year to 10-year portion of the yield curve flattened 5.7 bps, creating an essentially flat to sometimes inverted yield curve.

Duration Relative Performance



**Duration estimate is as of 6/30/2022*

Q2 2022 U.S. Treasury performance played out as expected, with longer duration strategies underperforming their shorter-duration counterparts.

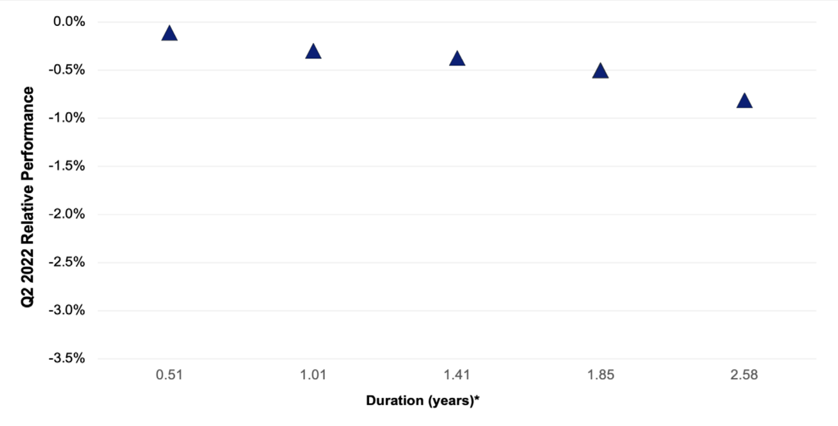
Credit Spread Changes

ICE BofA Index	OAS* (bps) 3/31/2021	OAS* (bps) 6/30/2022	Change (bps)
1-3 Year U.S. Agency Index	2	5	3
1-3 Year AAA U.S. Corporate and Yankees	12	10	-2
1-3 Year AA U.S. Corporate and Yankees	28	40	12
1-3 Year A U.S. Corporate and Yankees	56	82	26
1-3 Year BBB U.S. Corporate and Yankees	93	138	45
0-3 Year AAA U.S. Fixed-Rate ABS	71	94	23

Outside of the AAA category, corporate credit spreads widened in the quarter as recession fears and lower corporate profitability weighed on the sector.

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.

Credit Sector Relative Performance of ICE BofA Indexes



**AAA-A Corporate index underperformed the Treasury index by 29.8 bps in the quarter.*

AAA-A Corporate index outperformed the BBB Corporate index by 36.0 bps in the quarter.

U.S. Financials underperformed U.S. Non-Financials by 21.2 bps in the quarter.

Higher yields and wider credit spreads pushed all fixed income sectors into negative returns for the second quarter. While still negative, performance was noticeably better than in Q1, as the rise in yields beyond one-year were more muted and index coupon levels were higher than at the start of the year. Down in credit continues to underperform versus higher rated counterparts, given their greater vulnerability to recession fears and diminished market liquidity.

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

The second quarter of 2022 maintained a similar trend as the first quarter, as domestic and global inflation remained elevated, geopolitical events contributed further to volatility and China's zero covid policy, while improving, continued to strain supply chains. With GDP slowing and the odds of a recession increasing, the Fed is feeling less pressure to control the inflation narrative. However, the Fed raised the fed funds rate a surprising 75 bps at the June meeting, and additional 75 bps and 50 bps hikes are expected at the July and September meetings, respectively. Market pricing insinuates the Fed will be more data-dependent as we enter the fourth quarter. Balance sheet reduction began in June and should continue as scheduled in the coming months. The money market industry is still flush with cash and the short end of the yield curve is pricing in expected rate hikes. We expect continued upward pressure on rates for the remainder of the year as the Fed turns its focus to price stability.

First American Prime Obligations Funds

Credit spreads in the money market have widened, reflecting the volatility around Fed expectations and exhibiting the trading ranges and yields expected in the current rate and geopolitical environment. Considering the steepening front end yield curve and a conservative cash flow approach, the 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. Under the current market conditions, the main investment objective was to maintain liquidity while judiciously and opportunistically enhancing portfolio yield based on our economic, investor cash flow, credit and interest rate outlook. We believe the credit environment and higher relative fund yields make the sector an appropriate short-term option for investors.

First American Government and Treasury Funds

Treasury bill/note and Government-Sponsored Enterprise (GSE) supply remained tight as the Fed's balance sheet is still bloated, limiting supply in all government-related products. Even with the Fed in a tightening cycle and the short-end curve significantly steeper, historical quantitative easing has suppressed yields and extension opportunities, often pushing market yields below breakeven or economic equilibrium. However, we executed term purchases when market volatility presented opportunities that made economic sense vs. our interest rate outlook. When presented with appropriate value, we purchased floating-rate investments that would benefit shareholders over the securities holding period. We anticipate that investment strategy will be more fluid in the coming quarters as markets determine the Fed's pace and course of tightening.

First American Retail Tax Free Obligations Fund

Industry tax-exempt money fund assets are up close to $16 billion in 2022. These inflows can be attributed to net yields rising well above the zero bound, but also to general market interest rate volatility and investors' desire for stability in principal. In contrast, long term municipal bond funds have seen outflows of approximately $75 billion year-to-date. The bond fund redemptions have pressured SIFMA higher at times this year, however Variable Rate Demand Notes (VRDN's) are becoming increasingly less reliant on these funds for support. Recent money fund inflows have pushed industry assets under management above the level of VRDN's outstanding for the first time since the fall of 2020. Many municipalities continue to have high cash reserve levels and as a result, note issuance has remained quite low. Money fund managers have exhibited a strong preference for variable rate and liquid investments as the Fed's interest path continues to have a high degree of uncertainty. Together, each of these conditions have led to a somewhat muted response to the Fed tightening during the second quarter – with SIFMA increasing 40 bps versus a 125 bps rise in the federal funds rate.

What near-term considerations will affect fund management?

In the coming quarters, we anticipate yields will rise significantly as the Fed continues its inflation-fighting campaign. We anticipate yields on non-government securities rising in step with forecasted and realized fed funds rate increases. Industry wide, prime fund yields should increase steadily as managers roll maturities into higher yielding maturities and floaters reset in step with fed funds rate increase. We will capitalize on investment opportunities that make economic sense based on our market outlook and breakeven analysis. The institutional and retail prime obligations funds will remain reasonable short-term investment options for investors seeking higher yields on cash positions with minimal credit risk.

Yields in the GSE and Treasury space will remain influenced by Fed policy and Treasury bill / note supply. With the Fed now hawkish, we expect the investment environment for government money market funds to remain attractive to investors. As with the non-government debt, in the coming quarters, government yields should increase steadily as the Fed raises rates and continues the planned pace of quantitative tightening. Any large supply changes in Treasury issuance may create some yield volatility on the front end as the forces of supply and demand seek optimization. We will capitalize on investment opportunities that make economic sense based on our market outlook and breakeven analysis. We will seek value in all asset classes and indexes, incorporating all domestic and global economic market data.

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

Sources

Bloomberg C1A0, CY11, CY21, CY31, G1P0, ICE Bond, JOLTTOTL, NFP TCH, PCE CYOY, US0003M, USUETOT and USURTOT Indices

Bloomberg, U.S. Economic Forecast

Bloomberg, U.S. Treasury Actives Curve

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.
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.