Quarterly portfolio manager commentary

First American Money Market Funds

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

The second quarter was highlighted by strong U.S. Gross Domestic Product (GDP) growth, higher than expected inflation data and continued monetary accommodation from the Federal Reserve (Fed). Inflation data and concerns the Fed is behind on the policy curve have been key drivers of market and yield curve gyrations.

Economic Activity – Second quarter (Q2) GDP is expected to reflect a robust 9% to 10% growth rate as the economic reopening expanded and healthy consumers increased their spending. Current forecasts are for Q3 and Q4 growth to remain at a healthy 7% and 5% clip. Non-farm Payrolls added 1.702 million jobs in Q2, but still lag February 2020 total payrolls by 6.764 million jobs. The 5.9% U3 Unemployment rate seems to be understating labor market tightness, illustrated by the historically low U.S. Job Openings by Industry total of 9.209 million positions vs. Total Unemployed Workers in the Labor Force of 9.484 million. Anecdotal evidence suggests labor participation has been hindered by enhanced unemployment benefits scheduled to expire in September. June's ISM Manufacturing and ISM Services readings of 60.6 and 60.1, respectively, are off recent highs but still indicate strong growth. For context, any reading over 50 indicates sector expansion. The expected rise in the Consumer Price Index (CPI) has exceeded expectations with year-over-year prices jumping 5.4% and CPI ex food and energy rising 4.5%. The Fed's preferred inflation index – the PCE Core Deflator Index – grew a more modest, but still elevated, 3.4% year-over-year through May. Inflation expectations measured by the five-year TIPs vs. Treasuries ended the month at 2.5%, noticeably above the Fed's 2% average inflation target.

Monetary Policy – Despite rising consumer prices and growing concerns the Fed is behind the inflation curve, the Fed remained steadfast in its views inflationary pressures are transitory and related to supply dislocations created by COVID. As expected, the Fed maintained its 0.00% to 0.25% federal funds target range, but the June 16th Dot Plot did indicate the majority of Fed officials believe the first rate hike will be in 2023 rather than 2024, as signaled in the March 17th report. The Fed has clearly begun "thinking about

Have an investment goal? Let's talk.

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thinking about" tapering its $120 billion monthly asset purchases with actual reductions expected by year-end. In June, the Fed lifted the administrative rates for the Fed NY Reverse Repo Program (RRP) and Interest on Excess Reserves (IOER) by five basis points (bps) to 0.05% and 0.15%, respectively. The rate increase has helped keep short market rates from going negative and allowed the money market fund (MMF) industry to absorb excess liquidity in the system through the massive increase in RRP usage by MMFs.

Fiscal Policy – After passing a $1.9 trillion COVID relief package in March, the Biden Administration and Democratic-controlled Congress are pushing for a multi-trillion dollar plan to address the country's infrastructure as well as funding many traditional Democrat priorities. President Biden is proposing to pay for his plan with tax increases, including an increase in the corporate tax rate from 21% to 28%. Republicans have countered with more modest proposals in the $600 - $800 billion range focusing specifically on traditional infrastructure such as roads and bridges. Markets are debating the value of further stimulus into a rapidly expanding economy and its potential impact on inflation. The suspension of the U.S. debt ceiling is set to expire in July, and to date, there has been little progress addressing the issue in Washington or in the press. While the possibility of a technical default of U.S. Treasury debt is extremely low, the debt ceiling does have implications for Treasury debt issuance and continued drawdown of the Treasury's General Account (TGA).

Credit Markets – Credit markets continued the trends of the last several quarters: strong primary and secondary market liquidity, high investor demand for yield, tight credit spreads and low front-end yields. Corporate credit conditions and company fundamentals continue to improve, partially justifying overall low yields and spreads in investment-grade debt. Front-end U.S. Treasury yields remain under pressure from cash entering the system through the Fed's asset purchases and the drawdown of the TGA. The Fed's five bps increase of RRP and IOER rates has kept short-term rates from turning negative and allowed the MMF industry to absorb excess deposits in the system. Five-year and longer U.S. Treasury yields were lower in Q2, reversing course from Q1, as strong demand and growing concerns over COVID variants outweighed higher inflation numbers.

Yield Curve Shift

U.S. Treasury Curve	Yield Curve 03/31/2021	Yield Curve 06/30/2021	Change (bps)*
3 Month	0.015%	0.041%	2.5
1 Year	0.056%	0.066%	1.0
2 Year	0.160%	0.249%	8.8
3 Year	0.346%	0.460%	11.5
5 Year	0.939%	0.889%	-5.0
10 Year	1.740%	1.468%	-27.2

The three-month to ten-year portion of the yield curve flattened 29.7 bps to 142.7 bps, due almost entirely to the 27.2 bps decline in ten-year yields. Three-month yields are expected to remain near the RRP rate of 0.05%, while ten-year yields influenced market confidence on the reflation trade, inflation expectations and guidance on future Fed asset purchase policies.

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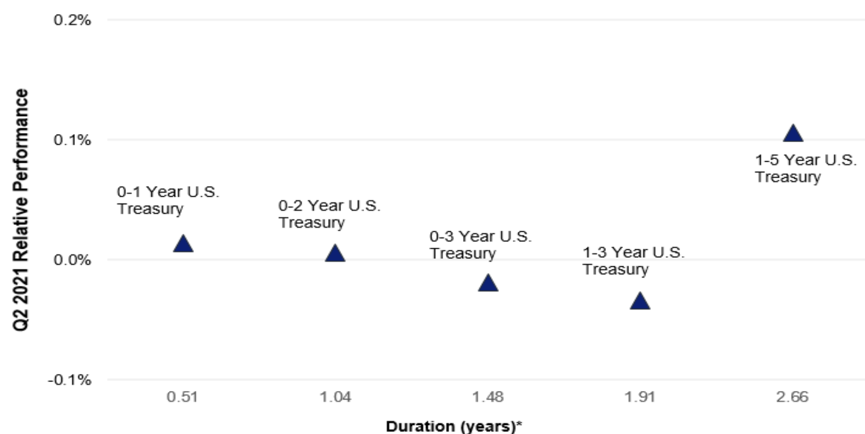
Duration Relative Performance



**Duration estimate is as of 06/30/2021*

Benchmarks with exposure to maturities two years and less had little performance impact from yield curve moves. Benchmarks with exposure to securities maturing in the five-year and longer benefitted from declining yields.

Credit Spread Changes

ICE BofA Index	OAS* (bps) 03/31/2021	OAS* (bps) 06/30/2021	Change (bps)
1-3 Year U.S. Agency Index	2	1	-1
1-3 Year AAA U.S. Corporate and Yankees	11	7	-4
1-3 Year AA U.S. Corporate and Yankees	22	16	-6
1-3 Year A U.S. Corporate and Yankees	40	29	-11
1-3 Year BBB U.S. Corporate and Yankees	71	54	-17
0-3 Year AAA U.S. Fixed-Rate ABS	35	29	-6

*OAS = Option-Adjusted Spread

Corporate credit spreads declined across the board, with lower-rated corporate credit outperforming their higher-rated peers. Credit in general benefitted from an improving economic outlook and, by extension, improved credit conditions and strong technical factors.

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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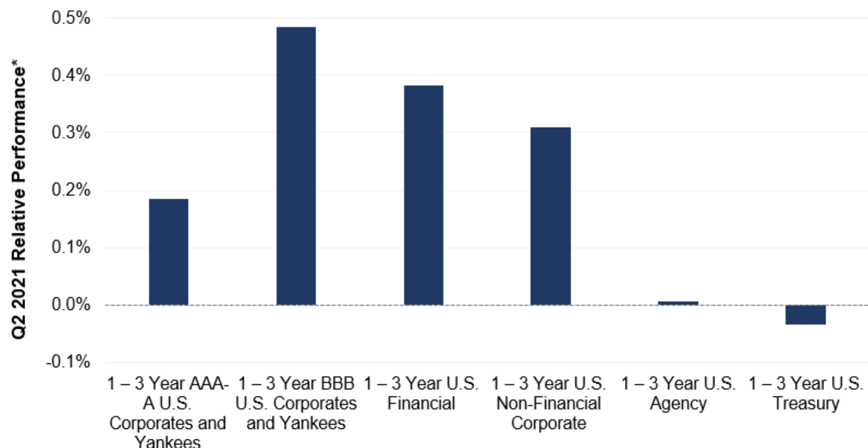
Credit Sector Relative Performance of ICE BofA Indexes



**AAA-A Corporate index outperformed the Treasury index by 21.8 bps in the quarter.*

AAA-A Corporate index underperformed the BBB Corporate index by 30.0 bps in the quarter.

U.S. Financials outperformed U.S. Non-Financials by 7.4 bps in the quarter.

With credit spreads already at or near historic lows, credit's strong Q2 performance was impressive and mildly unexpected. Financial credit outperformed their industrial counterparts.

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

The second quarter of 2021 continued on a positive tone with COVID-19 vaccinations gaining momentum, strong economic data and overall market optimism continuing to spread. However, front-end yields remained challenged as technical forces pushed additional cash into the system coupled with the FOMC's stimulative monetary policy. The money market industry remained flush with cash while U.S. Treasury bill and Repo levels remained entrenched at the bottom of the FOMC's fed funds rate target. The Fed made key technical adjustments to the IOER and RRP, providing five bps of rate relief as the RRP continued to absorb excess cash with the facility nearing $1 trillion by quarter end.

First American Prime Obligations Funds

Credit spreads remain tight, reflecting the trading ranges and yields one should expect in the current low rate environment. Considering an uncertain regulatory backdrop, a flat yield curve and a conservative approach to cash flows, the fund was positioned with strong portfolio liquidity metrics influenced by fund shareholder makeup. Management 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 and judiciously and opportunistically enhance portfolio yield based on our economic, investor cash flow, credit and interest rate outlook. We believe the credit environment and relative fund yields make the sector an appropriate short-term option for investors.

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First American Government and Treasury Funds

Treasury and government funds continued to see inflows as monetary system cash balances grew. Treasury Bill / Note supply decreases resulting from the reduction in U.S. Treasury general account pushed Government-Sponsored Enterprise (GSE) and Treasury yields to a trading range near the bottom of the FOMC's fed funds target. Management continued to focus on securing incremental long-term yield when rangebound trading opportunities arose, seeing little downside to extension, anticipating a low yield environment for the foreseeable future. Throughout the quarter, we also capitalized on opportunities in floating-rate investments that made economic sense and felt would benefit shareholders over the securities holding period. We anticipate that investment strategy will remain constant until we near the end of the Fed accommodation cycle.

First American Retail Tax Free Obligations Fund

Investor redemptions from tax-free money funds have continued at a steady pace. The near-zero rate environment and the income tax payment deadline in May combined to fuel the recent outflows. As of mid-year, overall municipal money market fund assets have declined by more than $13 billion. Flows into municipal bond funds, however, have provided an offset. Reinvestment from municipal bond maturities and coupon payments, which tend to be at the highest levels during June through August, is expected to keep demand for municipal securities strong. Supply in the front end of the curve has been slim. Municipalities received the first round of payments from the American Rescue Plan in May. This money is likely reducing short-term financing needs, and we observe that municipal note issuance is, in fact, down around 25% year-to-date vs. 2020 levels. In addition, we have witnessed several issuers choosing to pay down commercial paper maturities rather than roll this debt. As market conditions permit, the fund is still motivated to pursue strategies with a longer weighted average maturity and higher allocations to fixed-rate investments vs. its peers.

What near-term considerations will affect fund management?

In the coming quarters, yields will stay depressed as the U.S. progresses through the impacts of the COVID-19 pandemic and the FOMC's commitment to easy monetary policy. It appears the yield on non-government debt has bottomed, but supply / demand imbalances resulting from excess system liquidity could push yields marginally lower. We believe that prime money market fund yields are near a floor as pre-pandemic holdings have matured and the Fed has re-established a floor on short-term yields. The institutional and retail prime obligations funds will remain reasonable short-term investment options for investors seeking higher yields on cash positions while assuming minimal credit risk.

Yields in the GSE and Treasury space will remain influenced by Fed policy and Treasury bill / note supply. The Fed has demonstrated they will provide the tools necessary to normalize the repo market, foster market liquidity and keep front-end rates above zero. Moving forward, assuming no additional Fed policy adjustments, we anticipate T-bill / note issuance to decline, providing the sector with further challenges to invest large balances efficiently outside of the RRP. Any unexpected supply changes in Treasury issuance may create some yield volatility on the front end as the forces of supply and demand seek optimization. Management will continue to capitalize on investment opportunities, in all asset classes and indexes, based on domestic and global economic market data as well as changes to Fed rate expectations.

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

Sources

Bloomberg

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.
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.
Excess Reserves are capital reserves held by a bank or financial institution in excess of what is required by regulators, creditors or internal controls.

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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.
ISM Manufacturing is a monthly index released by the Institute of Supply Management, an industry association for supply management professionals, which tracks manufacturing activity, including employment, production, inventories, new orders and supplier deliveries. This index is a key measure of the national economy.
ISM Non-Manufacturing (or ISM Services) is a monthly index of more than 400 non-manufacturing firms' purchasing and supply executives within 60 sectors across the nation, released by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index includes seasonally adjusted figures for several of its components, unlike the ISM Manufacturing Index.
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.
Treasury Inflation-Protected Securities (TIPS) are a type of Treasury security issued by the U.S. government. TIPS are indexed to inflation in order to protect investors from a decline in the purchasing power of their money.
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 insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

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 or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

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 or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

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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