Quarterly portfolio manager commentary

First American Money Market Funds

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

U.S. Gross Domestic Product (GDP) clearly lost momentum in the third quarter (Q3). Supply shortages and transportation bottlenecks inhibited the production and distribution of goods, while at the same time driving labor, energy and input prices higher. Inflation data and the timing of Federal Reserve (Fed) rate hikes being pulled forward were the key factors of market and yield curve gyrations.

Economic Activity – U.S. GDP decelerated in Q3, with growth expectations of 3.9% after a solid 6.7% second quarter (Q2) print, although growth should remain above trend with demand outpacing supply. September's 4.8% U3 Unemployment rate probably understates labor market tightness, as people's willingness to return to work is increasingly uncertain. Illustrating the point, U.S. Job Openings stand at 10.439 million open positions vs. Total Unemployed Workers in the Labor Force of 7.674 million. Non-farm Payrolls (NFP) added 1.651 million jobs in the quarter, but only a disappointing 194,000 in September. NFP are down 4.97 million jobs since February 2020, despite a full recovery of GDP to pre-COVID levels. September's ISM Manufacturing and ISM Services readings of 61.1 and 61.9 indicate significant sector expansion, but the additional output is not enough to keep pace with demand which in turn is driving inflation measures higher. The headline Consumer Price Index (CPI) hit 5.4% year-over-year (YoY) in September with CPI ex. food and energy rising 4.0% YoY. The Fed's preferred inflation index – the PCE Core Deflator Index – grew a more modest, but still elevated, 3.6% YoY in August. Labor and supply chain issues pushing prices higher appear to be more structural in nature, challenging the Fed's transitory thesis.

Monetary Policy – The Fed maintained its 0.00% to 0.25% federal funds target range and continued to make $120 billion in monthly asset purchases, but Fed officials are clearly considering tapering asset purchases as inflation pressures become more acute. At the September meeting, policymakers agreed liftoff for tapering in November or December at a $15 billion monthly pace was appropriate, implying an end to quantitative easing by mid-2022.

Have an investment goal?
Let's talk.

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For the most part, participants in the September Fed Dot Plot pulled forward the timing of future Fed rate hikes, with half the participants expecting liftoff in 2022. Federal funds futures suggest the initial rate hike will occur at either the September 21st or November 2nd meeting next year. Usage of the Federal Reserve New York's Reverse Repo Program reached $1.604 trillion at quarter-end, a sign there is ample liquidity in the financial system with much of the Fed's asset purchases recycling back onto the Fed's balance sheet.

Fiscal Policy – Contentious fiscal policy debates over the size and timing of President Biden's Build Back America plan and the stalled infrastructure bill complicated Congress's ability to extend the federal debt ceiling. After the federal debt ceiling suspension expired in July, investors grew concerned maturing October Treasuries could face a technical default once extraordinary budget measures were exhausted. Responding to Democrat complaints there was not enough time in the legislative calendar to increase the debt ceiling through the reconciliation process, Minority Leader McConnell offered to lift the debt limit by $480 billion, providing enough room to fund the government into early December. While markets applauded the brief reprieve from debt limit concerns, December T-bill yields have already been pressured higher.

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 remain solid, 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 Treasury General Account. October T-bill yields were pressured five to 10 basis points (bps) higher due to uncertainty over the resolution of the U.S. federal debt ceiling and the potential for a technical default on maturing Treasury debt.

Yield Curve Shift

U.S. Treasury Curve	Yield Curve 06/30/2021	Yield Curve 09/30/2021	Change (bps)*
3 Month	0.041%	0.033%	-0.8
1 Year	0.066%	0.068%	0.2
2 Year	0.249%	0.276%	2.7
3 Year	0.460%	0.508%	4.8
5 Year	0.889%	0.965%	7.6
10 Year	1.468%	1.487%	1.9

Measured from the end of Q2 to the end of Q3, there was relatively little movement in the treasury yield curve for securities maturing inside of three years, resulting in performance differentiated on the margin by incremental coupon income for longer benchmarks. Inside the quarter, however, there were significant shifts in yield curve levels, illustrated by the generic three-year treasury which varied between a low of 0.318% on August 3rd and a high of 0.555%

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on September 27th. Given the curve's gyrations, longer benchmarks strongly outperformed in July, before underperforming in August and September.

The three-month to ten-year portion of the yield curve steepened a mere 2.7 bps to 145.4 bps. Three-month yields should remain near the RRP rate of 0.05%, while ten-year yields will be influenced more by inflation expectations, tapering of Fed asset purchases and progress toward solving production and transportation bottlenecks.

Duration Relative Performance

**Duration estimate is as of 09/30/2021*

Given only minor yield curve moves measured from the end of Q2 to the end of Q3, performance differentials were primarily influenced by modestly greater coupon income for longer duration benchmarks. Yields over three years did move higher vs. short-end yields, resulting in essentially neutral quarterly performance for the 1-5 Year U.S. Treasury benchmark.

Credit Spread Changes

ICE BofA Index	OAS* (bps) 06/30/2021	OAS* (bps) 09/30/2021	Change (bps)
1-3 Year U.S. Agency Index	1	-1	-1
1-3 Year AAA U.S. Corporate and Yankees	7	7	0
1-3 Year AA U.S. Corporate and Yankees	16	15	-1
1-3 Year A U.S. Corporate and Yankees	29	29	0
1-3 Year BBB U.S. Corporate and Yankees	54	56	2
0-3 Year AAA U.S. Fixed-Rate ABS	29	27	-2

*OAS = Option-Adjusted Spread

Corporate credit spreads were stable across the board, with only the BBB space seeing a mild two bps widening. Credit continues to benefit greatly from strong investor demand and the asset purchase programs of global central banks.

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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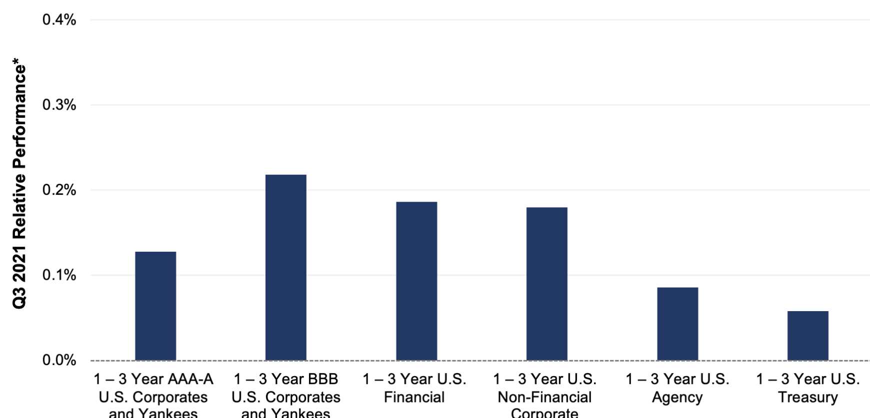
Credit Sector Relative Performance of ICE BofA Indexes



**AAA-A Corporate index outperformed the Treasury index by 7.0 bps in the quarter.*

AAA-A Corporate index underperformed the BBB Corporate index by 9.0 bps in the quarter.

U.S. Financials outperformed U.S. Non-Financials by 0.6 bps in the quarter.

With only minor changes in credit spreads in the third quarter and spreads already at or near historic lows, it is not surprising that performance differentials were fairly compressed across asset classes. BBB corporate credit was the stand-out performer as coupon income overwhelmed the slight widening of credit spreads in the quarter.

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

The third quarter economic outlook continued on a more tepid but still positive tone with decent economic data and overall market optimism continuing to take hold. 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 deposits while U.S. Treasury bill and Repo levels remained entrenched at the bottom of the FOMC's fed funds target range.

First American Prime Obligations Funds

Credit spreads remain tight, reflecting the trading ranges and yields one should expect in the current rate environment. Considering 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.

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. With the flat yield curve there

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was limited extension opportunities resulting in shorter fund metrics. We also capitalized on opportunities in floating-rate investments throughout the quarter 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

Outflows continued for tax exempt money market funds, albeit at a much slower pace than we witnessed in the first half of 2021. Overall assets declined by approximately $3 billion during the quarter. Demand for municipal bond funds has remained quite strong and continues to provide ample support for the entire yield curve – including front-end investments such as variable rate demand notes, commercial paper and notes. Yields have also been suppressed by limited new issuance of municipal notes. The direct payments made to municipalities earlier this year through the American Rescue Plan have significantly reduced many issuers' cash management financing needs. The most striking example of this was the State of Texas. In 2020, Texas tapped the market for more than $7 billion in short-term notes. This year, they were completely absent from the short-term note market. Total municipal note issuance is down more than 40% vs. the previous year-to-date. These conditions have made it challenging to maintain higher allocations to fixed-rate investments.

What near-term considerations will affect fund management?

In the coming quarters, yields will stay depressed as cash continues to saturate the front of the market. It appears the yield on non-government debt has bottomed, but supply / demand imbalances remain, keeping yields near the lower bound. We believe that prime money market fund yields are near a floor as the Fed has re-established a floor on short-term yields. In the coming quarters, prime yields should increase at the margin as supply increases and the yield curve steepens. 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, with 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. As with the non-government debt, in the coming quarters, government yields should increase at the margin as Fed commences tapering and other technical factors, such as a debt ceiling resolution, clear the market. 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. 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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