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 moderated during the second quarter (Q2), but the economy continues to show surprising strength and resiliency in the face of aggressive Federal Reserve (Fed) monetary policy tightening. U.S. Gross Domestic Product (GDP) growth is projected near 1.8% for Q2, led by robust employment gains and solid consumer spending and comparable to the first quarter's 2.0% tempo. Consumption grew at a modest pace in Q2 as U.S. consumers continue to benefit from a tight labor market and solid balance sheets, supporting resilience to persistent inflation and tightening financial conditions. Despite signs of gradual easing, employment conditions remain quite firm with May U.S. job openings standing at 9.8 million open positions versus total unemployed workers in the labor force of 5.9 million. Monthly Non-farm Payrolls (NFP) growth has cooled but remains strong, averaging 244,000 during Q2, and the U3 Unemployment Rate was 3.6% in June. Growth in Average Hourly Earnings remains elevated at 4.4% year-over-year (YoY), further emphasizing strong labor demand. Inflation pressures eased throughout the quarter with the headline Consumer Price Index (CPI) declining meaningfully to 3.0% in June (5.0% in March) and CPI ex. food and energy rising 4.8% YoY for June compared to 5.6% YoY in March. The Fed's preferred inflation index – the PCE Core Deflator Index – increased 4.6% YoY for May. Falling energy prices have driven the sharp decline in headline inflation during the first half of 2023 but core inflation has proven stickier than expected due to persistent core services price pressures. While the recent decline in core inflation is encouraging, it remains too high and economic activity hasn't slowed enough to give the Fed confidence inflation is on a sustained downward trend.

Monetary Policy – The Fed further tightened monetary policy during the quarter, raising the federal funds rate by 25 basis points (bps) at the May 3 meeting to a target range of 5.0% to 5.25%. The Fed elected to keep rates unchanged at its June 14 meeting, however, as they continue to moderate the pace of tightening and access lagged impacts of prior rate increases. Additionally, the Fed continued to implement its balance sheet reduction program (quantitative

Have an investment goal?
Let's talk.

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tightening), with a monthly cap of $60 billion in Treasury securities and $35 billion of agency mortgage-backed securities.

Following the June meeting, the Federal Open Market Committee (FOMC) released its updated Summary of Economic Projections which suggest the Fed is retaining a tightening bias despite the June pause. The median projection for the federal funds rate at the end of 2023 was increased to a range of 5.5% to 5.75%, signaling expectations for two additional rate hikes this year. Revisions to economic projections also reflect stronger-than-expected growth this year as the FOMC lowered its year-end 2023 median forecast for unemployment to 4.1% from 4.5% and upgraded its forecast for annual GDP growth to 1.0% from 0.4%. In a sign that tighter monetary policy is having a limited impact on demand thus far, the Fed also boosted its year-end median forecast for core PCE inflation to 3.9% from 3.6%. The Fed continues to anticipate maintaining restrictive rate policies into 2024 to ease labor market conditions and bring inflation down toward its 2% target.

Fiscal Policy – Government spending was a drag on U.S. GDP in 2022, but this is set to change in 2023 following the late December passage of a $1.7 trillion spending bill for fiscal year 2023. The bill includes a 6% increase in spending for domestic initiatives and a 10% increase in defense programs. A split government and the near-term need to extend the debt ceiling and pass a federal budget makes the likelihood of another significant fiscal package unlikely over the next two years. On the municipal side, state and local governments have seen early signs of tax collections starting to slow, but strong reserves have left them in a solid position if economic conditions weaken further.

Credit Markets – Credit markets improved in the quarter, with corporate and ABS spreads tightening on stronger investor demand for risk and yield following the financial market stress sparked by bank failures in March. Yield curve levels rose as the potential for additional Fed rate hikes became more widely accepted in the market. The corporate and ABS new issue markets were reasonably active in the quarter and continue to offer concessions to secondary market opportunities. Secondary market liquidity was solid in the quarter.

Yield Curve Shift

U.S. Treasury Curve	Yield Curve 3/31/2023	Yield Curve 6/30/2023	Change (bps)
3 Month	4.693%	5.284%	59.1
1 Year	4.591%	5.392%	80.1
2 Year	4.025%	4.895%	87.0
3 Year	3.788%	4.527%	73.9
5 Year	3.573%	4.156%	58.3
10 Year	3.468%	3.837%	36.9

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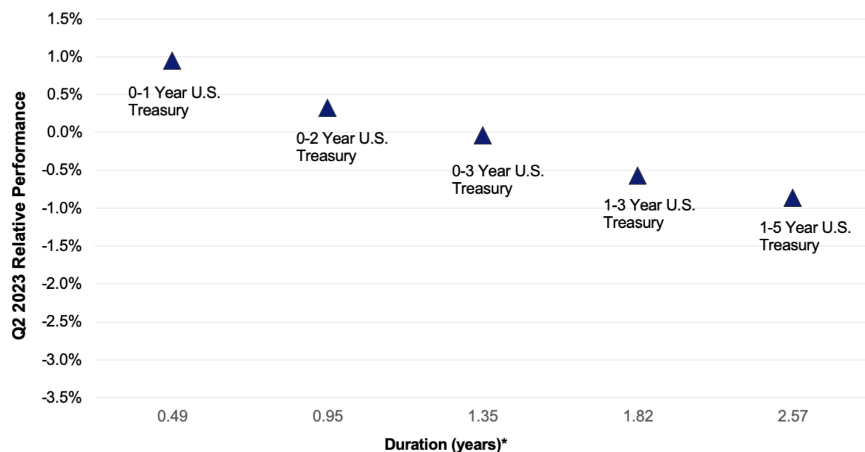
Duration Relative Performance



Duration estimate is as of 6/30/2023

The jump in yield curve levels pushed absolute returns for longer-duration treasury indexes into negative territory. The three-month to five-year portion remained inverted by approximately 112 bps, highlighting the positive carry of investing in short-term treasuries versus locking in current levels out the yield curve.

Credit Spread Changes

ICE BofA Index	OAS* (bps) 3/31/2023	OAS* (bps) 6/30/2023	Change (bps)
1-3 Year U.S. Agency Index	12	18	6
1-3 Year AAA U.S. Corporate and Yankees	9	12	3
1-3 Year AA U.S. Corporate and Yankees	40	35	-5
1-3 Year A U.S. Corporate and Yankees	91	74	-17
1-3 Year BBB U.S. Corporate and Yankees	135	105	-20
0-3 Year AAA U.S. Fixed-Rate ABS	92	74	-18

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.

A-rated and BBB-rated corporate credit spreads tightened in the quarter, leading to general outperformance versus higher-quality counterparts. AAA-rated ABS also performed well in the quarter and continue to offer yields in line with single-A corporate debt.

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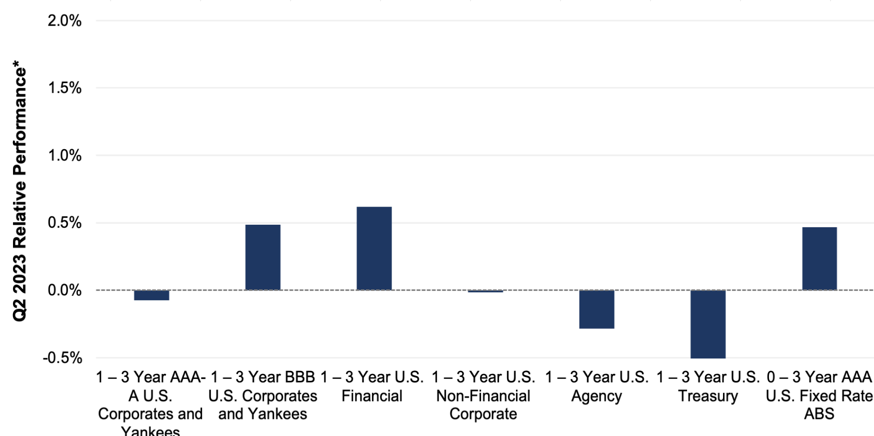
Credit Sector Relative Performance of ICE BofA Indexes



**AAA-A Corporate index outperformed the Treasury index by 49.7 bps.*

AAA-A Corporate index underperformed the BBB Corporate index by 56.0 bps

U.S. Financials outperformed U.S. Non-Financials by 63.5 bps

Credit outperformed comparable duration treasuries in the quarter on incremental coupon income and tighter credit spreads. BBB-rated credit outperformed higher quality debt, reflecting the increased risk appetite of investors as markets recovered from March's financial system stress. Not surprisingly, U.S. financials meaningfully outperformed non-financial corporate debt.

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

The second quarter of 2023 ended with a sense of calm as regional U.S. bank failures were in the rearview mirror, the U.S. debt ceiling had been raised, and the FOMC appeared to be entering the final leg of its inflation-fighting campaign. The Fed paused at the June 14 meeting, leaving rates at 5.00% to 5.25%. However, while the Fed left rates unchanged, their statements prepared the market for some additional rate hikes later this year and set the table for a higher for longer yield environment.

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 spreads in the money market space have tightened modestly as market confidence recovered following the regional bank crisis. 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 (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 second 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 and supply began to loosen as the U.S. Treasury replenished the Treasury General Account, post debt ceiling, and the Fed continued quantitative tightening. The tapered 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 duration(s). When presented with appropriate value, we 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 determine the Fed's comfort level with its inflation fight and ultimately the terminal federal funds rate.

First American Retail Tax Free Obligations Fund

We wrote extensively about the sharp weekly adjustments to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index (a measure of 7-day, tax-exempt variable rate demand notes) in last quarter's commentary, and this volatility persisted in Q2. Broker/dealers navigated tax season, another Fed rate hike, heavy reinvestment from municipal bond maturities and coupon payments received in June, and the typical pressures to reduce inventories ahead of quarter-end, in search of the right clearing level. Although overall municipal bond new issuance has been on the lighter side relative to 2022, at times clusters of these fixed-rate settlement dates also seem to have influenced variable rate demand notes (VRDN) inventories to some extent. The Fund continues to have a 15% to 20% allocation to tax-exempt commercial paper. We believe these fixed-rate investments are useful in lessening the impact of the VRDN fluctuations on the overall Fund yield.

What near-term considerations will affect fund management?

In the coming quarter, we anticipate money market fund yields to rise in step with Fed rate increases as they taper the rate hiking phase of their inflation-fighting campaign. We also anticipate adjusting yields on non-government securities in step with forecasted and realized Fed funds rate increases. Industry-wide, prime fund yields should increase as managers roll maturities into higher-yielding securities and floaters reset in step with remaining rate increases. 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 the non-government debt, in the coming quarter, government yields will increase with Fed rate increases. We do anticipate some yield dislocations in Treasury and GSE issues as the influx of bill supply (a hangover from the debt ceiling) and continued quantitative tightening increase yields as bonds look for a home away from dealer balance sheets. Any large supply changes in Treasury issuance may create yield volatility on the front end as the forces of supply and demand seek optimization. We will continue to 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

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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 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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