California Water Insurance Fund (CWIF) Investment Portfolio Update

Market and Investment Program Update

December 2, 2024

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pfmam.com

PFM Asset Management, a division of U.S. Bancorp Asset Management, Inc.

Major Equity and Fixed Income Market Indices

Market Indices as of 09/30/2024						
Domestic Equity	**1 Month**	**QTD**	**YTD**	**1 Year**	**3 Years**	**5 years**
S&P 500	2.14%	5.89%	22.08%	36.33%	11.88%	15.94%
Russell 3000	2.07%	6.23%	20.63%	35.18%	10.26%	15.23%
Russell 2000	0.70%	9.27%	11.16%	26.74%	1.81%	9.34%
Russell 1000	2.14%	6.08%	21.18%	35.66%	10.80%	15.61%
International Equity	**1 Month**	**QTD**	**YTD**	**1 Year**	**3 Years**	**5 years**
MSCI ACWI ex US (net)	2.69%	8.06%	14.21%	25.35%	4.13%	7.58%
MSCI EAFE (net)	0.92%	7.26%	12.99%	24.77%	5.48%	8.19%
MSCI Emerging Markets (net)	6.68%	8.72%	16.86%	26.05%	0.40%	5.74%
Fixed Income	**1 Month**	**QTD**	**YTD**	**1 Year**	**3 Years**	**5 years**
Bloomberg Aggregate	1.34%	5.20%	4.45%	11.57%	-1.39%	0.33%
Bloomberg Global Agg	1.70%	6.98%	3.60%	11.99%	-3.05%	-0.83%
High Yield Fixed Income	**1 Month**	**QTD**	**YTD**	**1 Year**	**3 Years**	**5 years**
ICE BoFA HY Index	1.63%	5.28%	8.03%	15.66%	3.08%	4.54%
Alternatives	**1 Month**	**QTD**	**YTD**	**1 Year**	**3 Years**	**5 years**
MSCI US REIT Index	2.66%	16.12%	15.84%	34.38%	4.98%	5.48%
MSCI World Core Infrastructure	2.66%	14.19%	12.84%	28.08%	5.58%	5.40%
Bloomberg Commodity Index Total Return	4.86%	0.68%	5.86%	0.96%	3.66%	7.78%

Source: Bloomberg Finance L.P, as of September 30, 2024

Net total return is calculated by MSCI using the companies' country of incorporation and maximum withholding tax rate applicable to institutional investors to determine the relevant dividend withholding. Net return comprises of price returns and net dividends, which incorporate impact of taxes on dividends.

Portfolio Update as of September 30, 2024

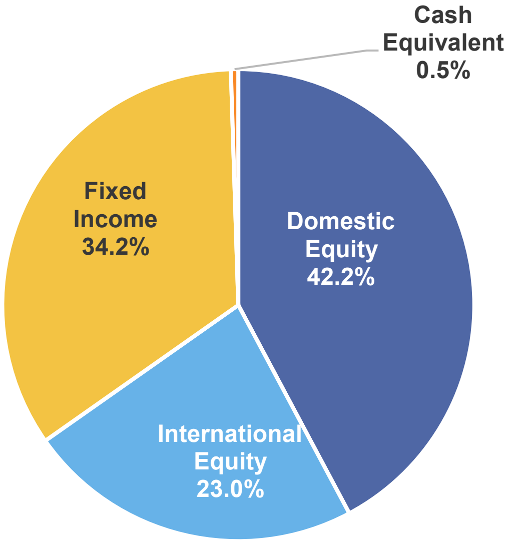
	Last 3 Months	1 Year	3 Years	Since Inception[1]
CWIF Performance	**5.94%**	**24.50%**	**4.43%**	**7.34%**
Benchmark Performance[2]	*6.29%*	*24.36%*	*4.90%*	*7.71%*

	9/30/2024
CWIF Market Value	**$197,147,282**

Asset Class	Range	Target	9/30/24 Allocation
Growth Assets			
Domestic Equity	22-62%	42%	**42%**
International Equity	3-43%	23%	**23%**
Other Growth	0-10%	0%	**0%**
Income Assets			
Fixed Income	15-70%	35%	**34%**
Other Income	0-10%	0%	**0%**
Real Return Assets	0-10%	0%	**0%**
Cash Equivalents	0-20%	0%	**1%**

CWIF Portfolio Asset Allocation

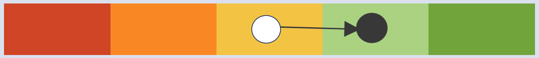
As of 9/30/2024



1. *Since Inception, February 1, 2020*
2. *Customized benchmark makeup: 42% Russell 3000 Index, 23% MSCI AC World ex USA (Net), 35% Bloomberg Aggregate Index.*

Factors to Consider for 6-12 Months

Monetary Policy (Global):



- The Fed has begun its easing cycle with a 50 basis point (bp) cut with expectation of an additional 50 bps in rate cuts by year end.
- The global easing cycle is underway with nearly all major central banks (excluding BoJ) completing multiple rate cuts.

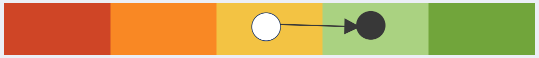
Economic Growth (Global):

- U.S. economic growth remains strong reflecting a consumer who continues to spend at elevated levels.
- Economic growth outside the U.S. remains mixed. China recent stimulus measures are aimed to boost growth, which is conducive to global growth.

Inflation (U.S.):

- Inflation continues its trend lower but has been buoyed by stubborn housing costs. We expect this inflation to further trend lower.
- The broad-based inflation cooling helped fuel the Fed's decision to cut by 50 bps but policy makers note they are not declaring victory on price stability.

Financial Conditions (U.S.):



- The continuation of stable market measures, such as narrow corporate yield spreads, record equity index levels and low volatility, reflect economic confidence.
- We remain focused on the cooling labor market and effects this might have on the consumer as potential catalysts for a broader slow down.

Consumer Spending (U.S.):

- The consumer continues to spend and support economic strength. Upward revisions to the personal savings rate paint the consumer in better light.
- Moderation in the pace of overall spending is expected given slowing wage growth and labor market conditions.

Labor Markets:

- The labor market continues to moderate from extremely strong levels seen in prior quarters. The recent downward revisions to nonfarm payrolls further emphasized the cooling.
- Other labor metrics remain well positioned such as the layoffs and discharge rate pointing towards moderation rather than deterioration.

Corporate Fundamentals:

- Fed rate cuts are a positive for economic growth and corporate earnings, but any tax/tariff changes need to be closely monitored for any impact on profit margins.
- Higher cash levels especially across S&P 500 companies along with broad based earnings growth are positive.

Valuations:

- U.S. equity and credit markets have experienced a run up in valuations. Any negative shock relating to economic growth could lead to sell-off.
- International equities look attractive, but continued economic and geopolitical uncertainty is leading to increased volatility.

Political Risks:

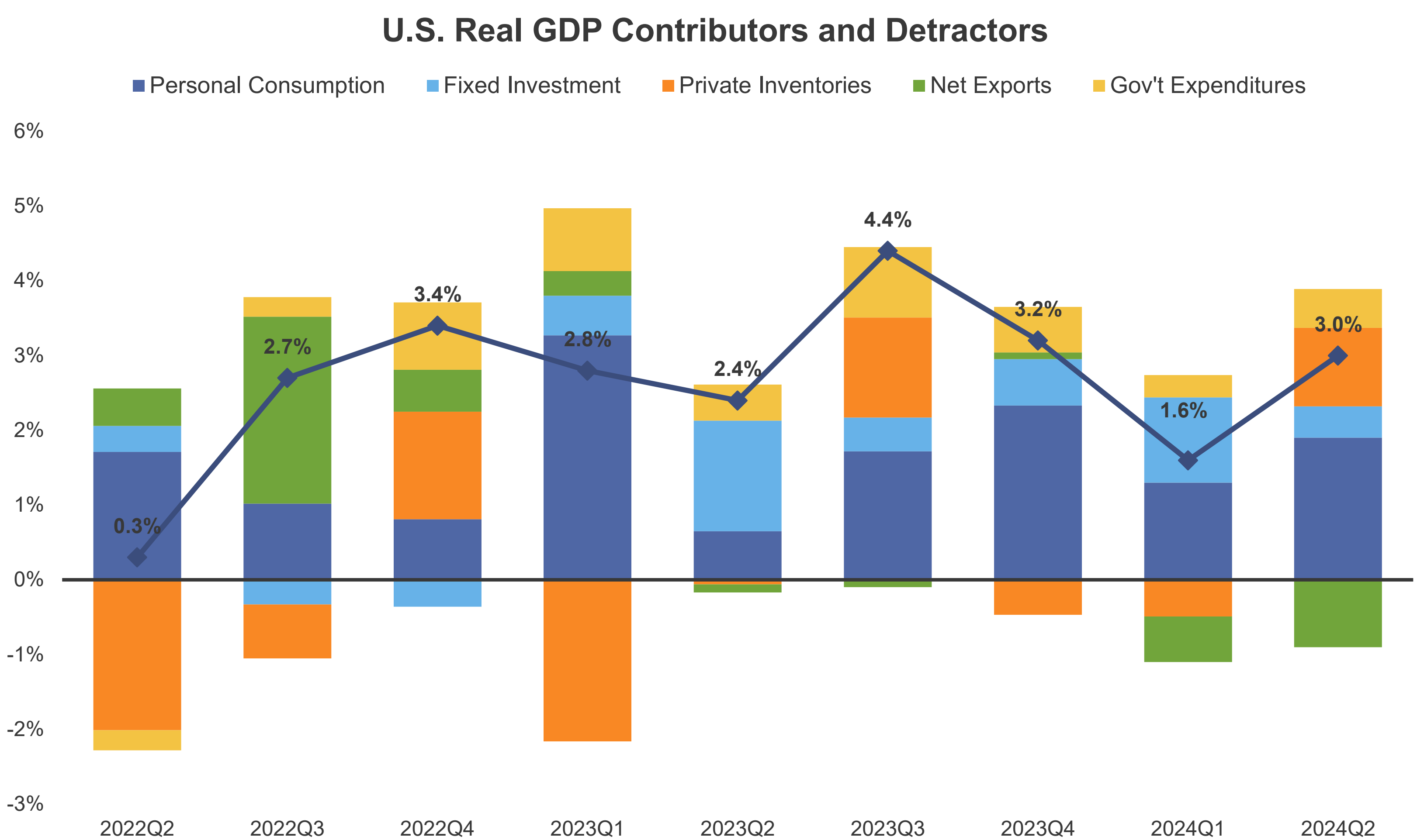
- Geopolitical risks continue to remain elevated. Broadening of middle east conflict, U.S. and China trade and tariff tensions, China's moves in South China Sea and Taiwan Strait further add to risks.
- Policy uncertainty related to US elections outcome is also expected to increase short term volatility.

● Current outlook **○ Outlook one quarter ago**

Stance Unfavorable to Risk Assets | Negative | Slightly Negative | Neutral | Slightly Positive | Positive | **Stance Favorable to Risk Assets**

Statements and opinions expressed about the next 6-12 months were developed based on our independent research with information obtained from Bloomberg and FactSet. The views expressed within this material constitute the perspective and judgment of PFM Asset Management at the time of distribution (9/30/2024) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management cannot guarantee its accuracy, completeness, or suitability.

U.S. Real GDP Contributors and Detractors

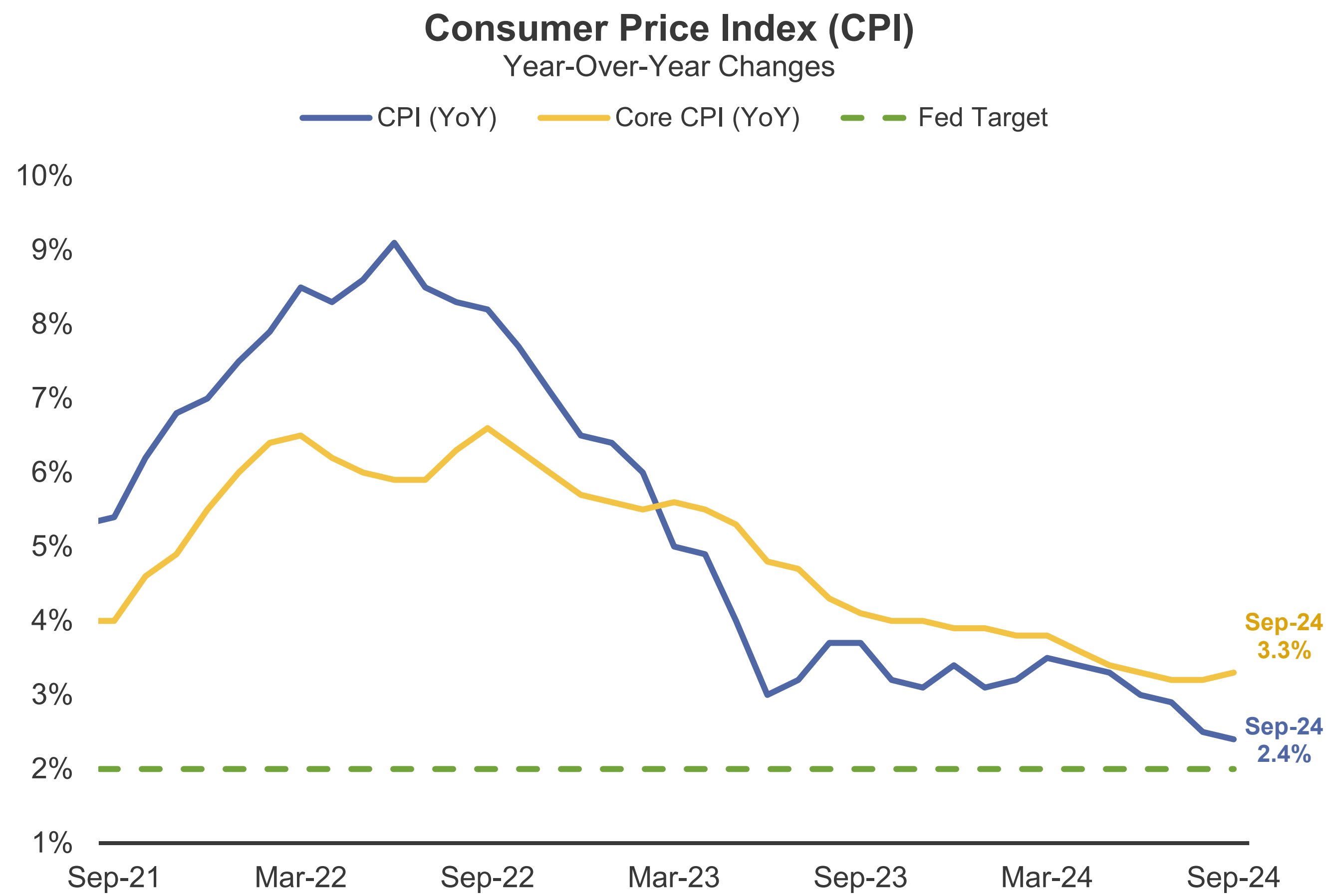


Source: Bloomberg Finance L.P., Bureau of Economic Analysis, as of September 2024.

Inflation Maintains Trend to Fed's 2% Target

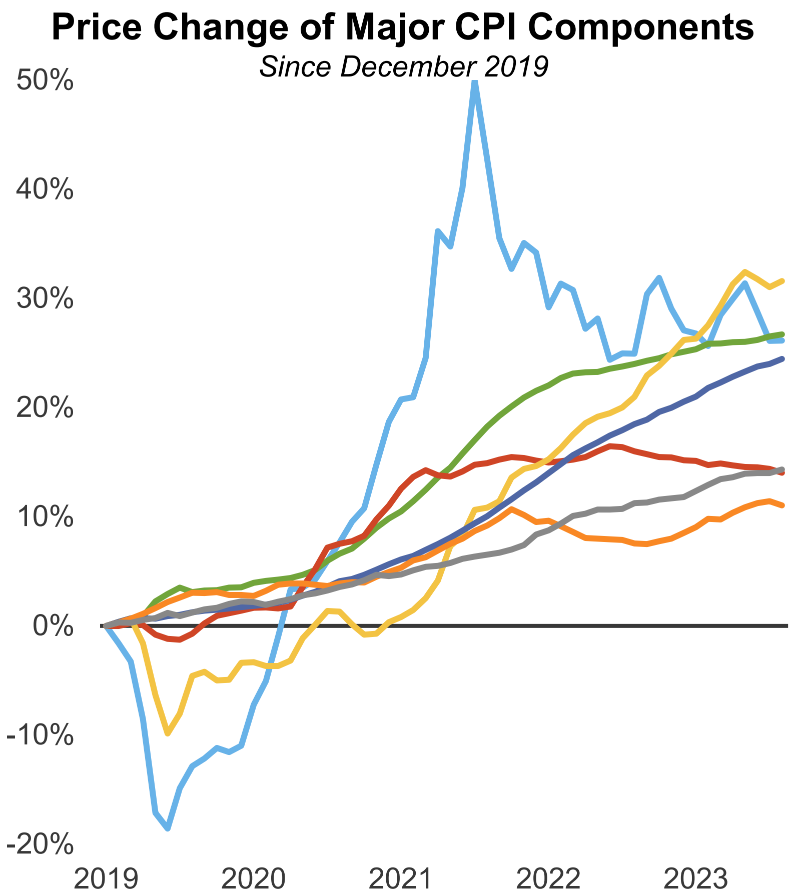
The Consumer Price Index ("CPI"), commonly referred to as the "headline inflation number", measures the change in the cost of a representative basket of goods paid by consumers.

Core CPI strips out volatile food and energy components.



Source: Bureau of Labor Statistics, Federal Reserve, and Bloomberg Finance L.P., as of September 2024.

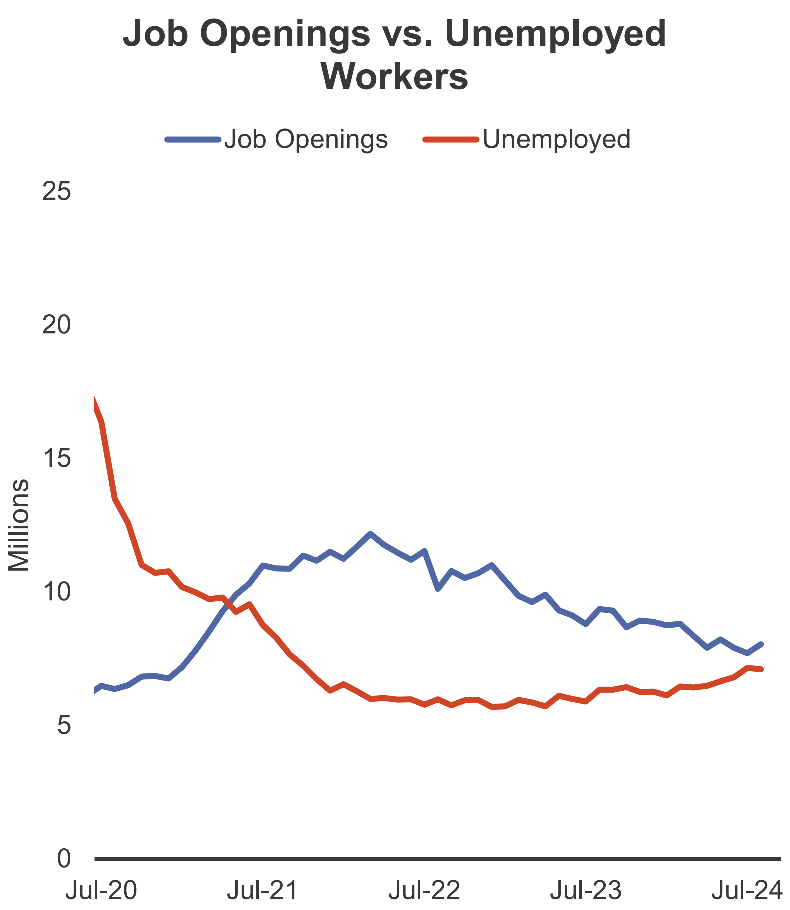
Inflation: Changes to CPI Components

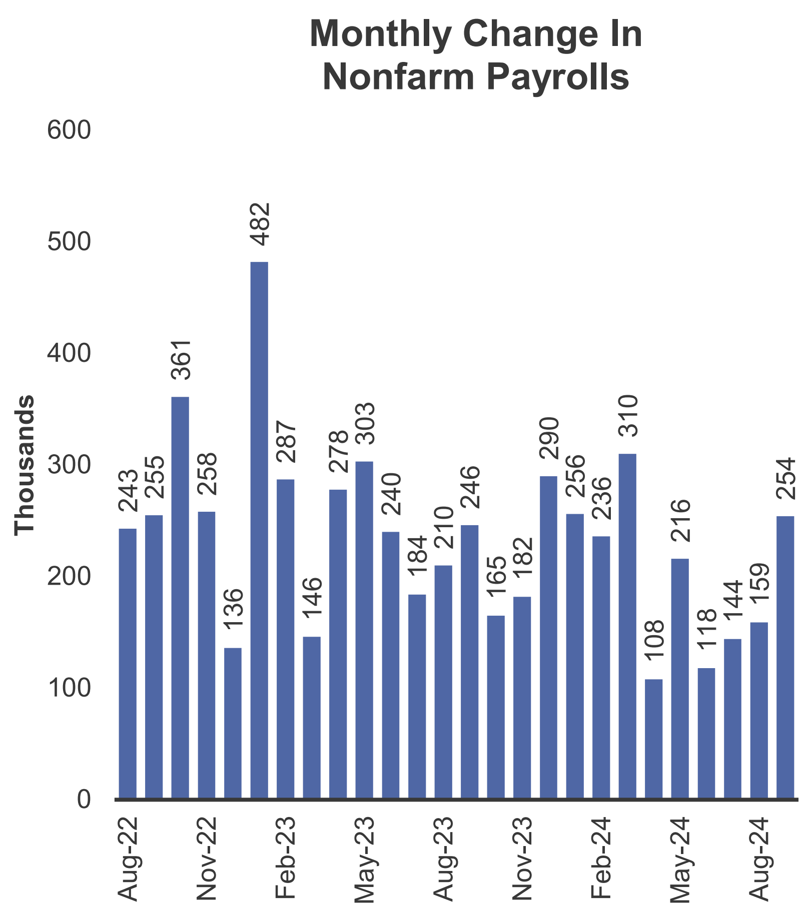


CPI Component	12-mo. Change	Weight[1]	Contribution to YoY CPI
Energy	1.0%	6.9%	0.1%
Food	2.2%	13.4%	0.3%
Transportation	8.8%	6.5%	0.6%
Shelter	5.0%	36.3%	1.8%
Goods	-1.7%	18.5%	-0.3%
Other Services[2]	2.8%	11.8%	0.3%
Medical Services	3.3%	6.5%	0.2%
Overall	**2.9%**		

Source: Bloomberg Finance L.P., Bureau of Labor Statistics as of July 2024.
[1]Index weights are as of June 2024 as they are published on a one-month lag.
[2]Other services is a weighted blend of Water/Sewer/Trash, Household Operations, Recreation, and Education and Communication services.

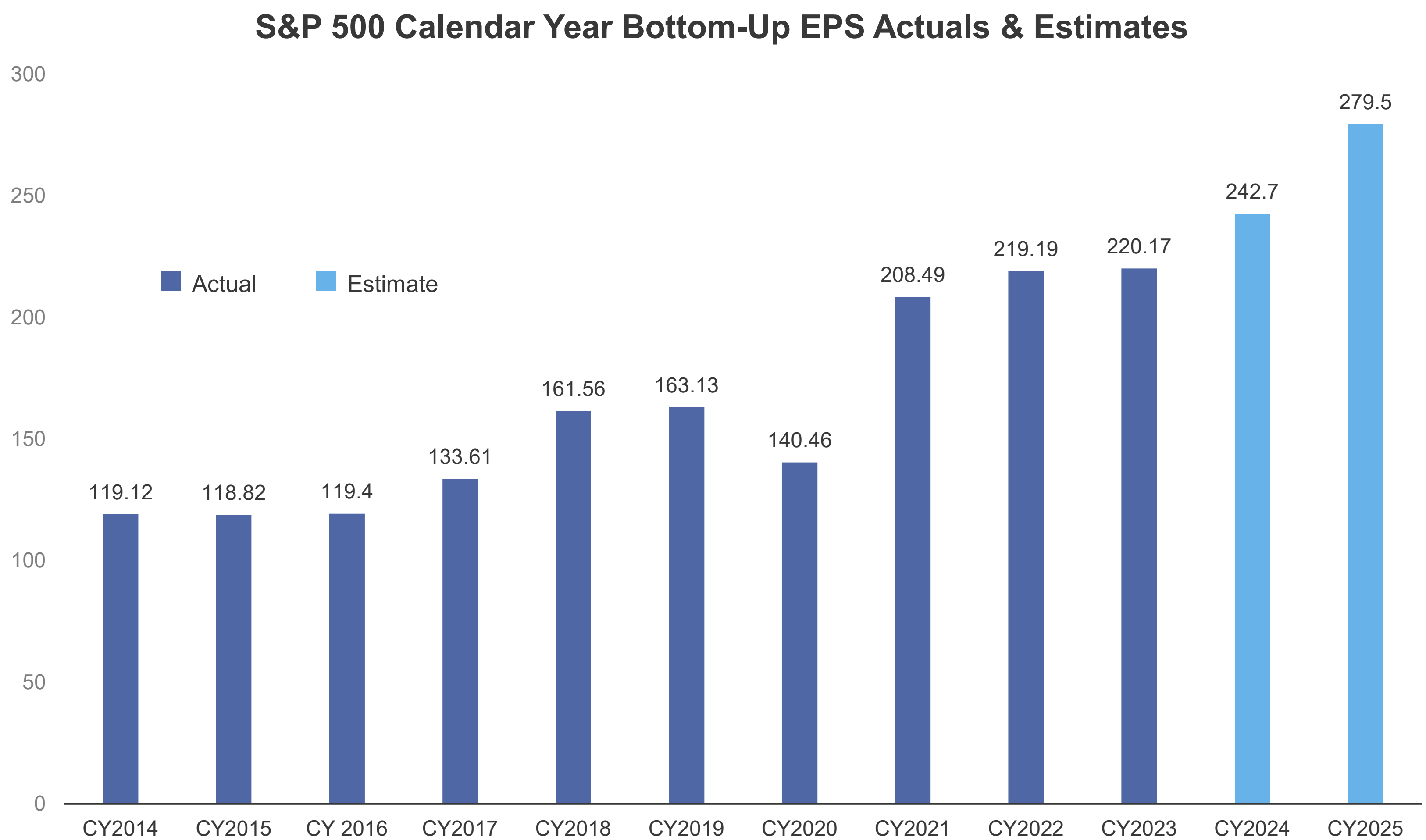
Labor Market Sends Mixed Signals





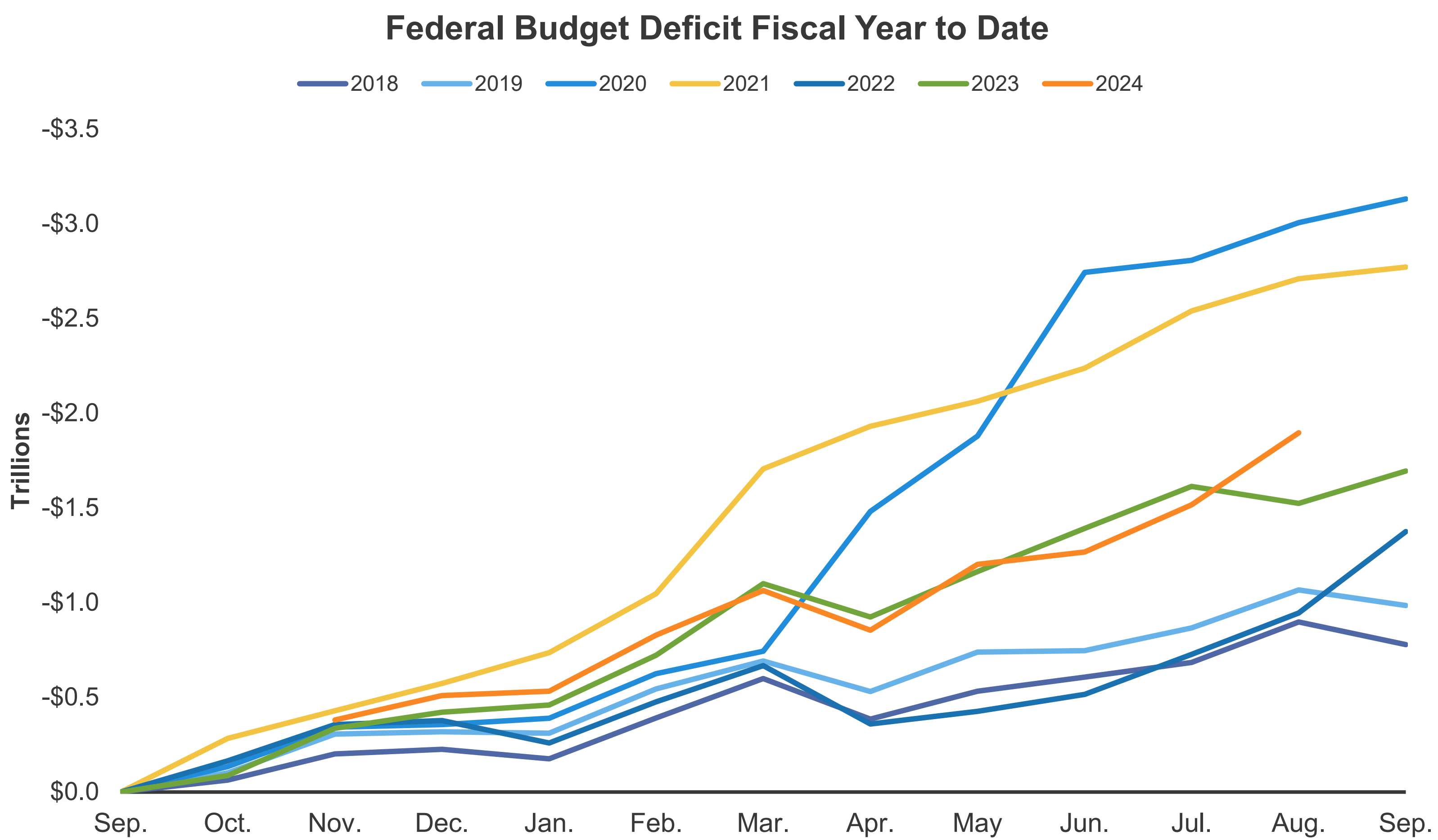
Source: Bloomberg Finance L.P. Job openings as of August 2024; Monthly change in nonfarm payrolls as of September 2024. Data is seasonally adjusted.

S&P 500 Calendar Year EPS



Source: Factset, as of September 6, 2024

U.S. Federal Budget Deficit



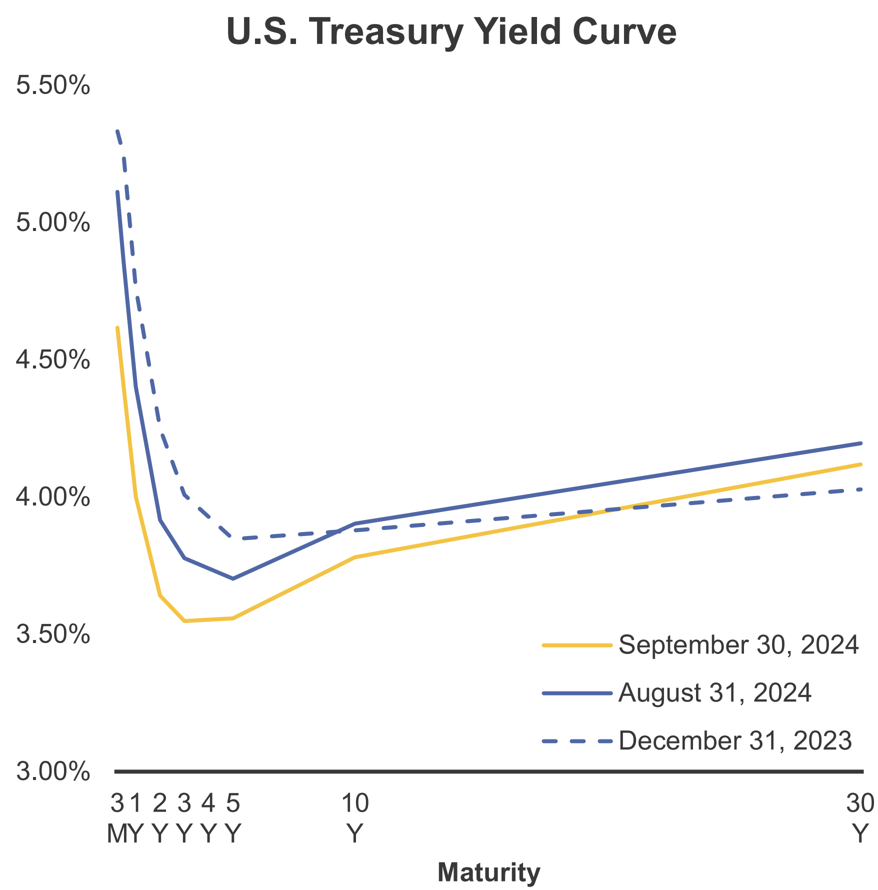
Source: Bloomberg Finance L.P., as of August 2024.

Questions?

Appendix

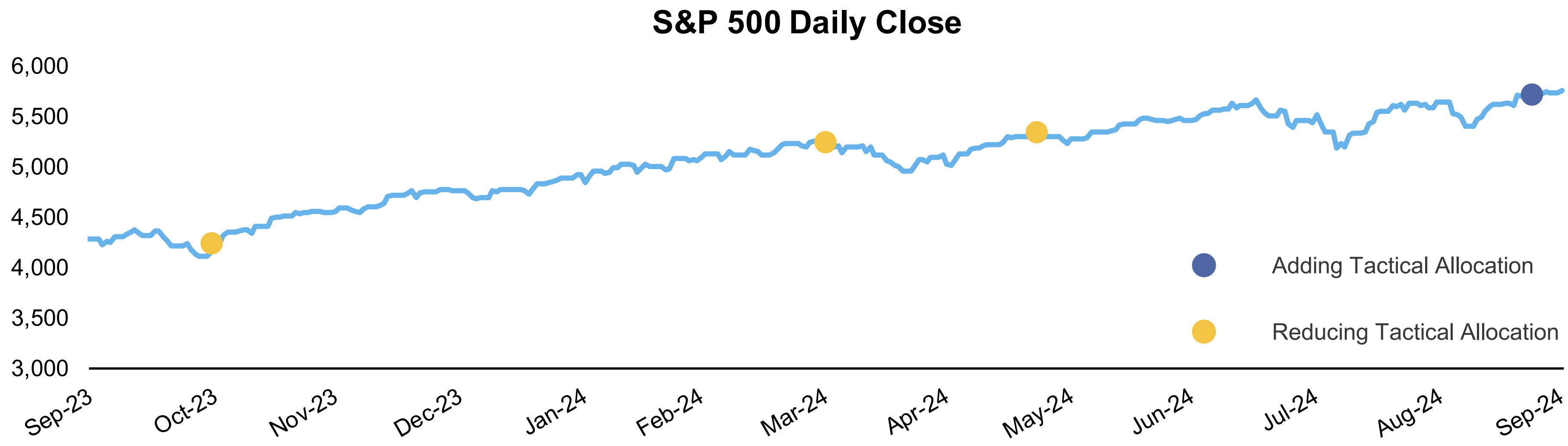
Treasury Yield Curve

Tenor	9/30/2024	8/31/2024	12/31/2023
3 month	4.62%	5.11%	5.28%
1 year	4.40%	4.40%	4.74%
2 year	3.64%	3.92%	4.26%
3 year	3.55%	3.78%	4.06%
5 year	3.56%	3.70%	3.91%
10 year	3.78%	3.90%	4.03%
30 year	4.12%	4.20%	4.30%



Source: Bloomberg Finance L.P., as of 9/30/2024.

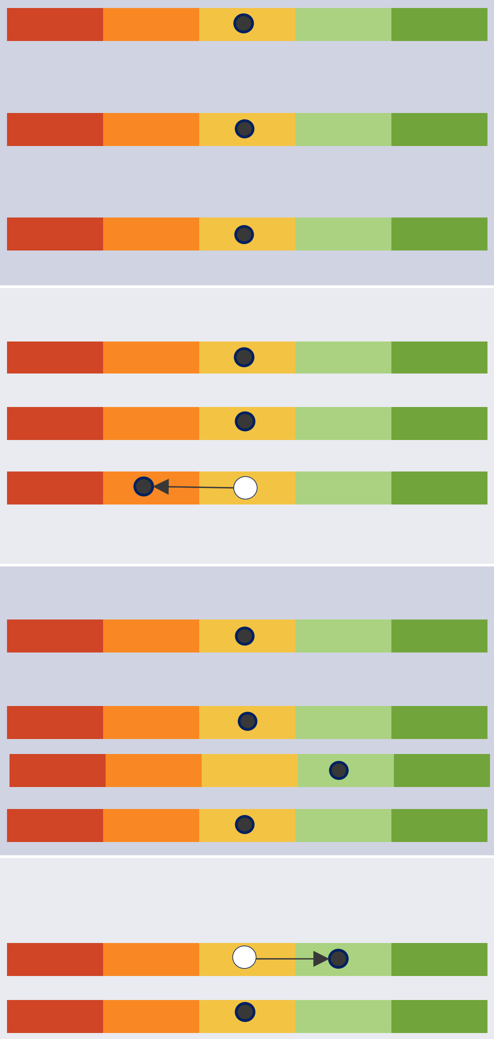
Investment Committee Tactical Decision Timeline in the Past Year



- **October:** Reduced the Domestic Equity allocation to its strategic target, allocating the assets to Fixed Income, increasing it to its strategic target
- **March:** Within International Equity removed dedicated International Small Cap
- **May:** Removed tactical allocation to EM Ex China
- **September:** Added tactical allocation to REITs sourcing from Emerging Markets

Source: Bloomberg, as of September 30, 2024

PFMAM issued Portfolio Updates and notification explaining the change to the portfolio and rationale.

Asset Class	Our Q4 2024 Investment Outlook	Comments
U.S. Equities		• Moderate economic growth coupled with Fed easing should result in continued positive performance for US equities. We are concerned about the high valuations, but believe that soft landing economic scenario and earnings growth strength will provide tailwinds. • Equity markets experienced a period of volatility during Q3 which we expect to continue amidst slowing growth, geopolitical tensions and election related uncertainty. • Small-caps have lagged large caps since the sell off in first week of August pointing to lack of fundamental support to rally in July, but we expect fundamentals to improve as rate cuts take hold. Worries from the Banking Crisis on regional banks seems to be in our rearview mirror.
Large-Caps		
Small-Caps		
Non-U.S. Equities		• International equities continue to trade at a discount to U.S. and have been recently helped by ECB rate cuts and weakening dollar. BoJ continues to tighten while other central banks are embarking on rate cuts. • EM equity performance is reliant on Indian and Chinese equities, which constitute roughly 45% of the MSCI Emerging Market Index. Indian equities are trading at expensive valuations, and we don't expect a sustained recovery in Chinese equities due to stimulus unless there are structural/geopolitical changes addressing debt overhang and geopolitical stability.
Developed Markets		
Emerging Markets		
Fixed Income		• Slowing inflation and softening labor markets led to Fed cutting by 50 bps at their September meeting. Further rate cuts are expected which is positive for fixed income investors. • About $6.3 trillion is sitting in money market funds which could flow into fixed income as the rates becomes more attractive. • Credit markets remain attractive due to strong corporate fundamentals. We remain positive on investment grade but are staying closer to targets on high yield given tighter spreads. We continue to closely watch for signs for any distress in the corporate credit space.
Core Bonds		
Investment Grade Credit		
High Yield Credit		
Diversifying Assets		• Continued economic growth, falling rates, strengthening fundamentals along with attractive valuations relative to equities are tailwinds to listed real estate performance leading us to overweight the exposure. • Transition to renewable energy and increase in AI led data center infrastructure spend are tailwinds for listed infrastructure. Utilities which make up about ~50% of the universe have been performing well recently due to lower rates.
Listed Real Estate		
Listed Global Infrastructure		

Current outlook **Outlook one quarter ago**

Negative	Slightly Negative	Neutral	Slightly Positive	Positive

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