

Recent Market Volatility and MSDLAF+s Commitment to Safety of Public Fund Investments

March 16, 2020

The equity and bond markets have made headlines recently with extraordinary volatility. Most impactful for public fund investors is the emergency announcement Sunday, March 15th by the Federal Reserve that it was reducing the target overnight rate by 1.00% to a range of 0.00% to 0.25%. This followed an earlier rate reduction of 0.50% on March 3. Yields for Treasury bonds and similar securities have fallen dramatically, and those lower yields will ripple through bank offerings and investment portfolios like MSDLAF+.

PFM, as investment advisor and administrator to MSDLAF+, is actively working to ensure that MSDLAF+'s investments continue to be aligned with the Fund's goals of safety of principal, liquidity to invest and redeem shares, and a market rate of return. We have process and systems focused on trading, review, and compliance for safeguarding public assets and will continue to rely on them during this time. These include:

1. Frequently reviewing MSDLAF+'s investments valuation to ensure market changes do not adversely affect current investments. MSDLAF+'s goal for its portfolio is to maintain a stable net asset value of one dollar in securities (by market value) for every dollar of investment. The Fund's permitted investments are limited to only high quality, short maturity investments, which alleviates much of the risks involved when interest rates move quickly. With the heightened market volatility PFM has added more frequent pricing checks to ensure the stable net asset value is maintained.
2. Updating model scenarios to stress test the portfolios. We routinely look at "what if" scenarios for the MSDLAF+ portfolio seeking to anticipate impacts to quick changes in liquidity or interest rates. Our natural bias toward safety and liquidity has benefited MSDLAF+'s portfolio thus far and our stress testing has not shown reason for concern.
3. Managing the portfolio to ensure adequate liquidity. Pursuant to board policy and consistent with the S&P AAAM rating criteria, a substantial portion of the MSDLAF+ portfolio is included in cash, daily and weekly liquidity buckets calculated pursuant to Securities and Exchange Commission criteria also utilized for registered money market mutual funds. The diversity of our investor community is one of our strengths and we are confident in the balance of invested funds for liquidity needs.

We anticipate no interruption in working with MSDLAF+ investors. During this time we have asked our employees to limit their travel and conference participation, and where possible, hold client meetings virtually or by phone. PFM has a liberal leave policy for all employees and we encourage its use, especially for those who do not feel well or

have increased family responsibilities on account of the coronavirus. Many of our employees have been working from home in recent weeks. We have confirmed our capabilities to support remote workers through our systems as one area of our robust business continuity plan and expect to implement a Work from Home plan for most employees shortly.

We appreciate the continued trust you have in investing with MSDLAF+. Please contact your MSDLAF+ marketing representative or Client Services at 888-4-MSDLAF if we can help answer any questions about your investments.

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