

Presented to

Metropolitan Water District of Southern California

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Presented by:

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Reams Overview

A trusted investment management partner since 1981

An exclusive focus on U.S. fixed income portfolios for institutional clients and individual investors through separate account and fund vehicles

The investment team includes 13 investment professionals with an average of 23 years industry experience

Reams Asset Management is a division of Scout Investments, an affiliate of Carillon Tower Advisers (a wholly-owned subsidiary of Raymond James Financial, Inc.)

Total Firm AUM: \$19.2 billion

Fixed Income Products:

Core Plus

Core

Intermediate

Long Duration

Low Duration

Ultra Low Duration

Unconstrained



The Pillars

- **Volatility:** Volatility is a key driver of performance in the fixed income market. It is usually higher than commonly perceived and often mispriced in the marketplace. This core belief leads us to react opportunistically to valuation discrepancies and volatility in the bond market.
- **Downside Risk:** The risk profile of bonds tends to be asymmetrical. We strive to use a solvency-based research focus in our analysis of corporate and securitized debt in an effort to avoid permanent impairment.

The Process

Step 1
Duration, Yield Curve, Currency Decision



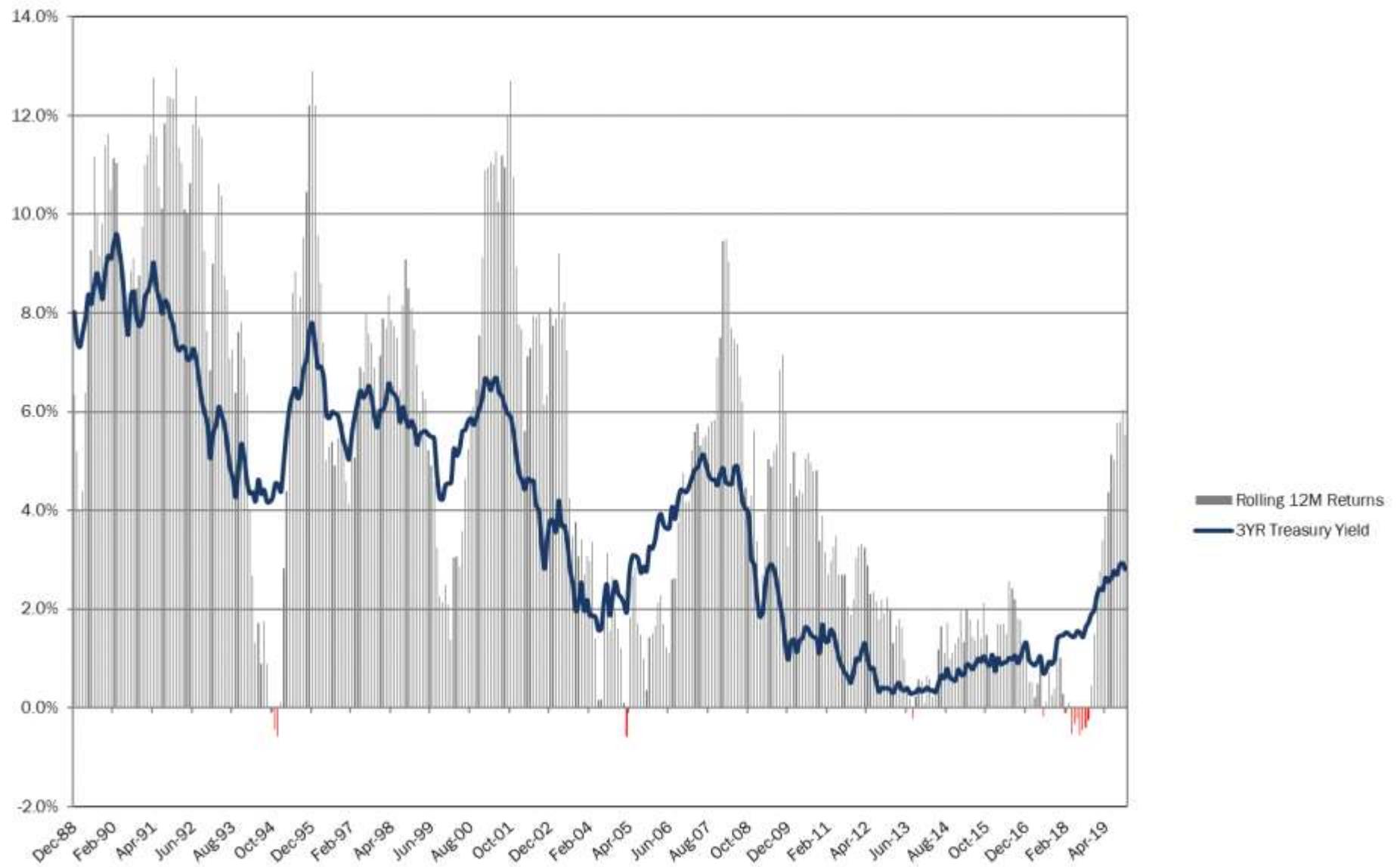
Step 2
Sector and Security Decisions



Step 3
Risk Analysis and Control



Benchmark Index Rolling Returns



Performance and Relationship Summary

Relationship Inception

May 1, 2002

Financial Data as of December 31, 2019:

Initial Investment	\$183.4 million
Contributions	\$0.0 million
(Withdrawals)	(\$86.2 million)
Portfolio Gains	\$91.7 million
Portfolio Value	\$188.9 million

	Percent Gain or Loss				
	Year To Date	Two Years (annualized)	Three Years (annualized)	Five Years (annualized)	Since Inception* (annualized)
Metropolitan Water District of Southern California (a)	4.86	3.15	2.57	2.03	3.48
Metropolitan Water District of Southern California (b)	4.71	2.99	2.41	1.88	3.32
ICE BAML Gov't/Corp, 1-5 Yrs, A Rated and Above Index	4.61	3.04	2.36	1.89	2.97

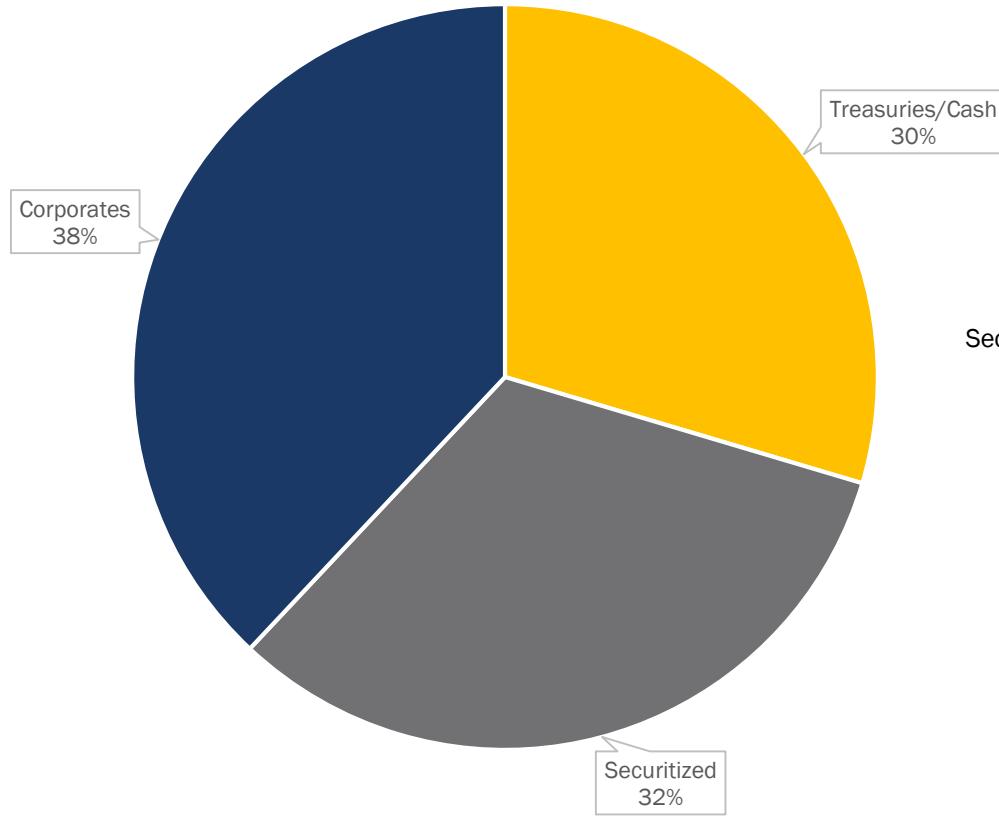
* Inception Date: 5/1/2002

(a) Gross of Investment Management Fees

(b) Net of Investment Management Fees (recorded on cash basis)



Portfolio Sector Allocation



Sector Allocation:

- Corporates: target 30-50%
- Securitized: target 20-40%
- Treasuries: target 20-30%



Portfolio Characteristics

Metropolitan Water District of Southern California: 12/31/2019

	Portfolio	Index
Total Market Value (\$)	188,853,487	8,468 billion
Avg. Duration (Years)	2.4	2.6
Avg. Convexity	0.08	0.06
Avg. Yield to Worst (%)	1.9	1.7
Avg. Maturity (Years)	2.6	2.7
Avg. Quality	Aa2	Aa1
Avg. Coupon (%)	2.4	2.4
Number of Issues	83	2,293

Quality Structure (% of Portfolio)	Portfolio *	Index
AAA	63.0	79.4
AA	8.6	6.2
A	28.3	14.4
BBB	0.0	0.0
Other	0.0	0.0
Total	100.0	100.0

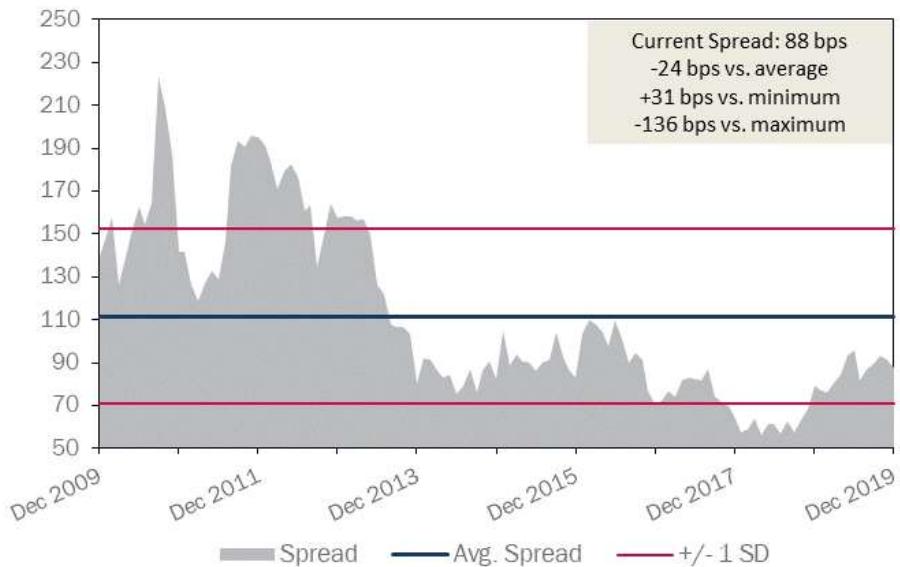
* The methodology used is consistent with client investment guidelines.

Sector Structure (% of Portfolio)	Portfolio	Index
Treasury	29.0	72.7
Govt Related	0.0	10.2
Mortgage-Backed	32.4	0.0
Asset-Backed	0.0	0.0
Corporate	38.0	17.0
Non-US Dollar	0.0	0.0
Cash and Equivalents	0.6	0.0
Total	100.0	100.0

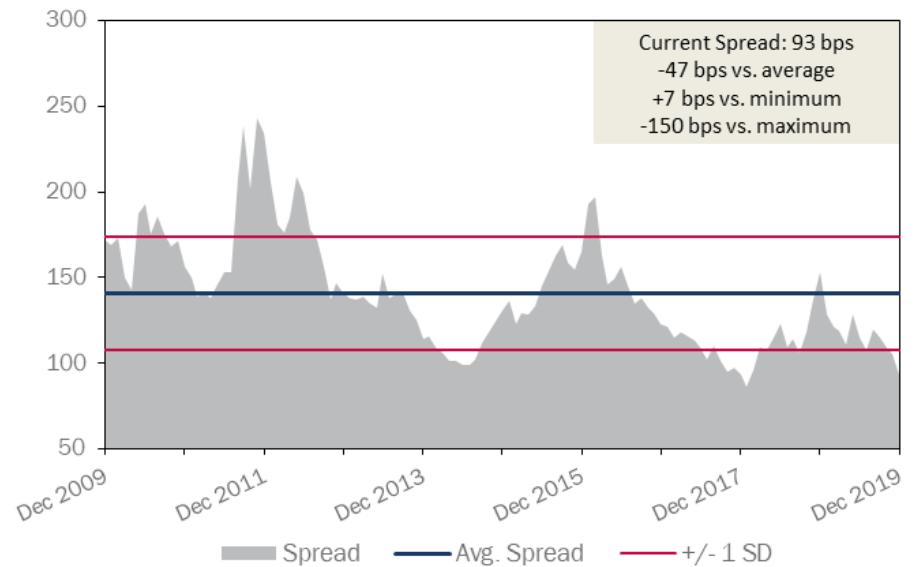


Fixed Income Market Dashboard

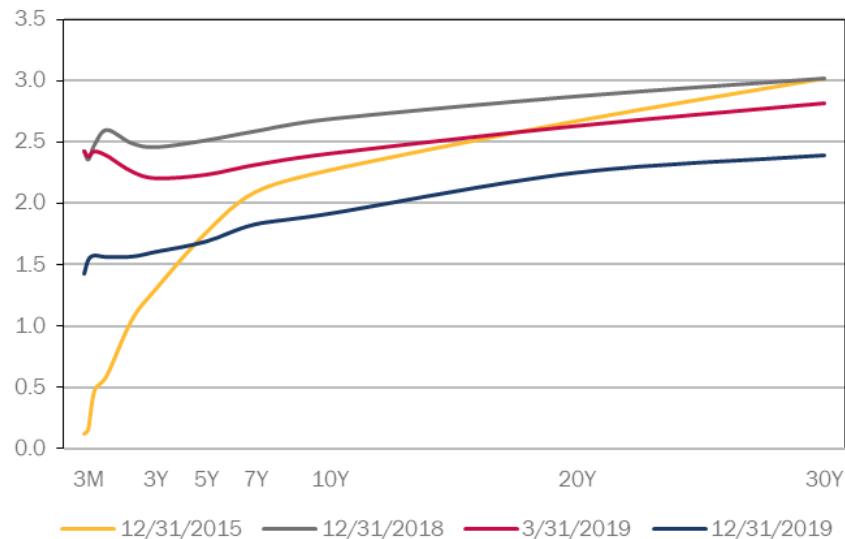
Agency MBS Zero-Volatility Spread (Basis Points)



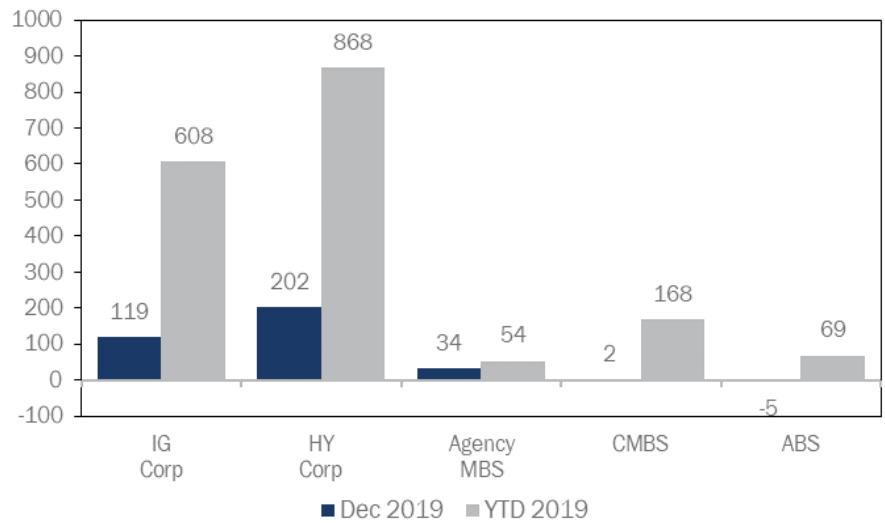
Investment Grade Corporate OAS (Basis Points)



U.S. Treasury Yield Curves (Percent)



Sector Excess Returns (Basis Points)



Investment Themes

Risk markets finished the year with a high level of optimism

- Ongoing strength in employment, coupled with the Fed signaling that the “mid-cycle adjustment” cuts were successful, alleviated concerns of a near-term recession.
- Favorable developments on both the Brexit and Chinese trade fronts gave investors the proverbial green light in regard to risk taking.
- Pressure on the repo market led the Fed to provide incremental liquidity in an effort to rectify the problem. It is still unclear if this is an indicator of more significant issues.

Markets seem to be complacent about potential outcomes, considering the number and magnitude of unresolved issues

- Markets have returned to a state of insatiable demand for yield, which has driven risk premiums down. Despite this market optimism, we see a variety of significant risk factors on the horizon that could burst this optimism bubble.
- Presidential elections typically bring uncertainty, and the 2020 election could easily bring heightened uncertainty and market volatility.
- Prevailing interest rates afford investors meager protection from potentially negative returns should rates rise sharply.
- The further markets move down the path of ignoring risks, the more the potential downside increases, as valuations have further to fall.

We moved to more defensive positioning in response to what we perceive as apathy in risk assets

- In accounts with broad discretion, we are positioned defensively with high levels of liquidity.
- MBS valuations are somewhat attractive on a relative basis, as valuations are closer to fair value versus what we view as an overvalued corporate market.
- We consider downside risk protection to be paramount.



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