



TREASURER-TAX COLLECTOR VENTURA COUNTY

SUE HORGAN
TREASURER-
TAX COLLECTOR

Marilou Tan
Assistant Treasurer-Tax Collector

September 26, 2023

Ventura County Board of Supervisors
800 South Victoria Avenue
Ventura, CA 93009

SUBJECT: Receive and File Report of Investments, Including Market Values for Investments for the Month Ending June 30, 2023; and 2023 Fiscal Year Summary and Review of the Investment program.

RECOMMENDATION: Receive and File

FISCAL/MANDATES IMPACT: None

DISCUSSION:

Part I: This part of the report covers the one-month period ending June 30, 2023.

The **average daily portfolio balance** for June was \$4.455 billion, a \$162 million or 3.5% decrease from May. Exhibit 3 shows the cyclical pattern of the portfolio balance. The balance will show a decline for the next several months until the next heavy property tax collection cycle begins in October.

The **Effective Rate of Return**, net of administrative fees, for June was 3.57% compared to the 3.49% earned in May. We expect yields to continue to rise slightly during the next few months since, at the time of this writing, the Federal Open Market Committee increased the federal funds rate by 25 basis points. It is unclear whether the Fed will increase the federal funds rate another 25 basis points before the end of the year.

Going forward, if the current portfolio investments were all held to maturity, the portfolio's **gross approximate yield to maturity** would be 3.524%.

The **net earnings** for June were \$13,222,999, a decrease of \$674,704 or 4.85% from May. That decrease in earnings is reflective of the portfolio's decreased size.

The **weighted average days to maturity** decreased to 247 days. The interest-rate sensitivity measure of **effective duration** decreased slightly to 0.463. Both numbers are comfortably within expectations for LGIP programs like ours.

With the recent challenges in the financial markets, we have stepped up our risk management approach and continue to focus on high credit quality and diversification. Exhibit 9 is a valuable pie chart that graphically illustrates the portfolio holdings by S&P ratings. Nearly 47% of the portfolio is in the highest short-term and long-term rating categories (A-1+ and AAA). We have added U.S. Treasury securities to the portfolio, representing 9.76% of the portfolio balance. U.S. Treasury securities are not included in the 47% mentioned above as they are rated AA+ by S&P, and most recently by Fitch to AA+, but they are still considered the safest investments.

The **three largest sectors**, by percentage, were: U.S. Treasuries/Government Agencies (41.71%), Commercial Paper (14.94%), and Supranationals (13.77%). The continuing decrease in Yankee Certificates of Deposit results from our decision not to invest in banks since the recent “banking crisis.” The **three largest issuers**, by percentage, were: Federal Home Loan Bank (17.39%), United States Treasury securities (9.76%), and Federal Farm Credit Bank (7.70%). As a risk management measure, we have focused on lowering the issuer concentrations, except in the Government and Supranational sectors. The **three highest-yielding sectors**, by annualized percentage yield, were: Commercial Paper (5.156%), Yankee Certificates of Deposit (5.120%), and U.S. Treasuries (4.478%).

The portfolio has been managed with the stated objectives of safety, liquidity, and earning a competitive return, as outlined in the Statement of Investment Policy. In striving to maintain **the primary objective, safety of principal**, the County of Ventura has continuously maintained a rating of AAaf/S1+ by Standard & Poor’s, the highest rating given by that agency. The rating was reaffirmed in November 2022 and reflects the results of the very thorough audit and review conducted by Standard & Poor’s. The rating reflects S&P’s opinion that the portfolio is well-managed, credit-worthy, well-diversified, and has a low sensitivity to interest rate variations. Regarding **the secondary objective of maintaining sufficient liquidity** to meet cash flow needs, the portfolio maintains significant cash reserves in the County’s bank and significant holdings in LAIF and CalTrust. The portfolio has the ability to meet its participants’ expenditure requirements for the next six months, pursuant to a daily study of projected cash flows. All of the portfolio’s assets have a well-developed resale market, although our policy is not to sell. **Earning a competitive rate of return** is reflected by our performance against our benchmarks, even though they each have less restrictive investment policies than ours. They either have no S&P rating, such as LAIF, or a lower S&P rating, such as CalTrust. Our Investment Work Group continues to evaluate the efficacy of the portfolio’s selected performance-measuring benchmarks in order to provide the best risk and return comparison. We have been comparing the investment results to LAIF and CalTrust for some time because of these pools’ similarities to our portfolio. While both have provided meaningful comparisons, we have observed that LAIF consistently best resembles our portfolio in duration and asset types. As a result, we will be phasing out the CalTrust comparison effective at the beginning of the fiscal year, July 1, 2023.

The portfolio has been managed for much of the last year, focusing on the challenges of investing in a rising interest rate market without approaching the boundaries imposed by our Investment Policy and Standard & Poor’s rating team. We continue to be ever vigilant and watchful of the recent

volatility and financial stress in the market associated with rate increases by the Federal Reserve. We will navigate through this market volatility by maintaining our emphasis on risk management and keeping our focus on safety and liquidity.

Part II: 2023 Fiscal Year Summary and Review of the Investment Program.

During the fiscal year ending June 30, 2023, our portfolio was managed carefully and conservatively as we navigated through:

- Dramatically rising interest rates and inflation.
- A banking crisis that shook the industry and in which three regional banks failed.
- A Federal Government debt ceiling crisis.
- The Fitch downgrade of U.S. Treasury securities' rating and Government Sponsored Agencies' ratings from AAA to AA+.

Two significant statistics of note for the fiscal year are the earnings growth and the portfolio size. **The net earnings from the portfolio grew from \$15 million in fiscal year 2022 to \$107 million in fiscal year 2023, a dramatic \$92 million increase, or 613%.** The average daily portfolio balance grew 17% from \$3.8 billion in June 2022 to \$4.5 billion in June 2023. **The portfolio hit a high balance of \$4.7 billion on April 14, 2023.**

Our primary focus during the year was on reducing risk to the portfolio during the challenging financial landscape. That was accomplished by:

- Lowering issuer concentrations except in the Government and Supranational sectors. As of June 30, 2023, all issuer concentrations (except Government and Supranational sectors) have been reduced to well below 5%.
- In addition to reducing the issuer concentrations, we further strengthened and diversified the portfolio by adding U.S. Treasuries to our holdings. On June 30, 2023, the portfolio had nearly 10% invested in U.S. Treasury securities.
- We did not invest in bank securities during the last several months of the fiscal year because of the banking crisis.
- We added a sweep account to the portfolio. The sweep account automatically sweeps any uninvested bank balances into a 100% Treasury money market fund. The sweep account allows us to be more thoughtful and strategic in our investing and removes the urgency to invest daily. Since its inception in late December, the sweep account alone earned \$1.7 million on what would have otherwise been idle funds.
- We employed a highly disciplined approach to managing our cash flow, ensuring that we invested to dates where cash flow was needed.
- We hired Chandler Asset Management as our Investment Advisor. They are a highly regarded firm advising us on investment strategies, credit assessment, economic updates, and specific projects.
- We have full engagement from our Investment Work Group, and our team members continue to increase their investment knowledge and expertise. During the 2023 fiscal year, they earned several new investment certifications.

The investment pool is well-managed, it is safe, and it is solid. It is well within compliance of California Government Code and our own Investment Policy Statement. We will maintain our emphasis on risk management and continue to focus on the safety and liquidity of the portfolio.

This letter has been reviewed and approved as to form by the County Executive Office, the Auditor-Controller's Office, and County Counsel.

Please contact me at 805-654-3771 if you have any questions or require further information regarding this item.

Sincerely,

A handwritten signature in blue ink that reads "Sue Horgan". The signature is fluid and cursive, with the first name "Sue" and last name "Horgan" clearly distinguishable.

Sue Horgan
Treasurer-Tax Collector

- Exhibit 1 – Principal Custody Solutions Market Cost Value Comparison Report – June 2023
- Exhibit 2 – Monthly Transactions Report – June 2023
- Exhibit 3 – Portfolio Average Monthly Balance Graph – June 2021 – June 2023
- Exhibit 4 – Average Maturity Graph – June 2021 – June 2023
- Exhibit 5 – Yield Comparison Graph - June 2022 - 2023
- Exhibit 6 – Rolling 2-Year % Yield Graph – June 2021 – June 2023
- Exhibit 7 – Rolling 2-Year \$ Yield Graph – June 2021 – June 2023
- Exhibit 8 – Portfolio Holdings by Class Graph – June 2023
- Exhibit 9 – Portfolio Holdings by S&P Credit Ratings Graph – June 2023