



TREASURER-TAX COLLECTOR VENTURA COUNTY

SUE HORGAN
TREASURER-
TAX COLLECTOR

Marilou Tan
Assistant Treasurer-Tax Collector

February 6, 2024

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 December 31, 2023; and Summary Report of Investments for Calendar Year 2023.

RECOMMENDATION: Receive and File

FISCAL/MANDATES IMPACT: None

STRATEGIC PLAN PRIORITY: The item presented in this Board letter supports making responsible and efficient use of public funds and promotes economic stability and growth during a changing economy.

DISCUSSION:

Part I: This part of the report covers the one-month period ending December 31, 2023.

The **average daily portfolio balance** for December was \$4.461 billion, a \$423 million or 10.48% increase from November. Exhibit 3 shows the cyclical pattern of the portfolio balance. The balance peaked at \$4.791 billion on December 14th and is reflective of the heavy property tax collection cycle that began in October.

The **Effective Rate of Return**, net of administrative fees, for December was 4.26% compared to the 4.02% earned in November. Indications are that the Federal Open Market Committee will hold rates steady through the first few months of 2024.

If the current portfolio investments are all held to maturity, the portfolio's gross **approximate yield to maturity** would be 4.27%.

The **net earnings** for December were \$16,311,608, an increase of \$2,788,837 or 20.62% from November. The increase in earnings reflects the higher effective rate of return and the higher portfolio balance in December.

The **weighted average days to maturity** increased to 297 days, reflecting our strategy to invest in longer-duration securities while rates are seemingly at their peak. The interest-rate sensitivity measure of **effective duration** increased to 0.676. Both numbers are comfortably within expectations for LGIP programs like ours.

Our team made new investments near year-end in commercial paper issued by MUFG Bank in order to increase issuer diversification while capturing competitive yields. The new investments have fulfilled the intent of the purchase by introducing a high credit quality issuer in the portfolio whose securities are liquid and widely-held.

California Government Code (Code) requires that commercial paper be of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by at least one nationally recognized statistical rating organization (NRSRO). Moreover, the Code requires that the issuer's debt other than commercial paper be rated in a rating category of "A" or its equivalent or better by at least one NRSRO. MUFG commercial paper the team purchased exceeds both of these Code requirements. We have noted, however, that the County's investment policy currently relies on outdated language that omits the use of "rating categories" (where a rating category such as "A" shall include ratings of "A-," "A," or "A+" or their equivalent) that were allowed under Senate Bill 974 in 2016. As a result, it may be inferred that the outdated language places a minimum rating requirement of "A" from all three major NRSROs (Standard & Poor's, Moody's, and Fitch) and technically does not allow "A-" ratings from the same NRSROs. MUFG's long-term debt is currently rated "A-." The discovery of this discrepancy in the investment policy has been noted by the team and will be updated when the investment policy undergoes its annual review.

We continue focusing on risk management, high credit quality, and diversification. Exhibit 8 is a valuable pie chart graphically illustrating the portfolio holdings by S&P ratings. Over 46% of the portfolio is in the highest short-term and long-term rating categories (A-1+ and AAA). In addition, U.S. Treasury securities represent just under 20% of the portfolio balance. U.S. Treasury securities are rated AA+ by S&P and Fitch, so they are not included in the 46% mentioned above but are still considered the safest investments.

The **three largest sectors**, by percentage, were: U.S. Treasuries/Government Agencies (46.11%), Supranationals (14.89%), and Commercial Paper (13.55%). The **three largest issuers**, by percentage, were: U.S. Treasuries (19.96%), Federal Home Loan Bank (12.11%), and Federal Farm Credit Bank (8.05%). The **three highest-yielding sectors**, by annualized percentage yield, were: Commercial Paper (5.600%), Yankee CD's (5.524%), and U.S. Treasuries (4.706%).

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 2023 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 cash equivalent Sweep Account, as well as 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, of course, it is our practice not to sell. It should be noted however, that on December 13th, we sold our \$25 million position in the CalTrust Short Term Fund. This sale was made because the CalTrust Short Term Fund has a floating net asset value (NAV), which had been at less than par for quite some time. A floating NAV is not ideal since we maintain that investment for backup liquidity. When the NAV turned positive in December, we sold it, turning a profit. On December 21st, we purchased \$25 million of the CalTrust Liquidity Fund, which has a stable NAV and is more appropriate for backup liquidity. **Earning a competitive rate of return** is reflected in our performance against our benchmark, LAIF, even though LAIF has a less restrictive investment policy than ours and has no S&P rating.

Part II: Summary Report of Investments for Calendar Year 2023

January 2, 2023 marked my transition to Treasurer-Tax Collector and to the de-facto Chief Investment Officer for this portfolio. In all respects, 2023 was a highly successful year in the management of the County's investment pool.

During 2023, the portfolio was managed with a focus on the challenges of investing in a rising interest rate market without approaching the boundaries imposed by our Investment Policy and by the Standard & Poor's rating team. We navigated successfully through significant volatility in the financial markets, which included a banking crisis and a debt ceiling crisis. We were, and continue to be, ever vigilant and watchful of the stress in the financial markets. We will continue to keep our focus on risk management and on safety and liquidity.

Below are highlights from 2023:

- All issuer concentrations were reduced to less than 5%, except for Government Agencies, U.S. Treasuries and Supranationals.
- U.S. Treasury securities were added to the portfolio, when previously, there had been none. U.S. Treasury investments now represent nearly 20% of the portfolio.
- The average daily portfolio balance at December 31, 2023 was \$4.461 billion, a \$520 million increase, or 13%, over December, 2022. The portfolio balance hit a high mark of \$4.791 billion on December 14, 2023.
- The net earnings for 2023 were \$150,735,512 compared to \$45,505,717 in 2022, or an increase of \$105,229,795, or 231%.
- A cash equivalent Sweep Account was opened in late December 2022 to invest, on an overnight basis, any idle funds. The Sweep Account earned \$3,707,424 in 2023.
- The portfolio's Net Effective Rate of Return at December 31, 2023 was 4.26%, as compared to 2.74% at December 31, 2022.
- The portfolio consistently earned a competitive rate of return during 2023 and is reflected in our performance against our benchmark, LAIF, even though LAIF has a less restrictive investment policy than ours and has no Standard & Poor's rating.
- After a thorough audit and review of the Investment Pool, Standard & Poor's highest rating of AAAs/S1+ was reaffirmed in November, 2023.

- The Investment Work Group, consisting of Marilou Tan, Brenda Sanchez, Jennifer Vlahakis and John Powers, work closely with me to monitor and manage the County's investment portfolio. They are a very capable and stable team and the pool's results are reflective of that.

Looking ahead to 2024, we anticipate that the Federal Open Market Committee will stabilize rates in the near term but will likely begin to decrease rates in the latter half of the year. The County's portfolio will be managed in 2024 as it was in 2023, with a continued focus on risk management and on safety and liquidity.

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,



Sue Horgan
Treasurer-Tax Collector

Exhibit 1 – Principal Custody Solutions Market Cost Value Comparison Report –
December 2023

Exhibit 2 – Monthly Transactions Report – December 2023

Exhibit 3 – Portfolio Average Monthly Balance Graph – December 2021 – December 2023

Exhibit 4 – Average Maturity Graph – December 2021 – December 2023

Exhibit 5 – Rolling 2-Year % Yield Graph – December 2021 – December 2023

Exhibit 6 – Rolling 2-Year \$ Yield Graph – December 2021 – December 2023

Exhibit 7 – Portfolio Holdings by Class Graph – December 2023

Exhibit 8 – Portfolio Holdings by S&P Credit Ratings Graph – December 2023