



TREASURER-TAX COLLECTOR VENTURA COUNTY

STEVEN HINTZ
TREASURER
TAX COLLECTOR

Sue Horgan
Assistant Treasurer-Tax Collector

September 10, 2019

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 July 31, 2019.

RECOMMENDATION: Receive and File

FISCAL/MANDATES IMPACT: None

DISCUSSION:

This report covers the one-month period ending July 31, 2019.

The **average daily portfolio balance** for July was \$2.660 Billion. The portfolio continues to be at the highest level ever for matching months, by \$340 Million. The balance will continue to decline in August and September, based on the historical pattern shown in Exhibit 3

The **annualized percentage yield** for July was 2.639%, a slight decrease from June. The yields in our sectors of the interest rate market continue to decline, albeit at a slower rate than I thought. The most frequently expressed prediction is that there will be two more 25 basis point cuts in 2019. I am sure there will be at least one more cut this year.

In July we returned to our pattern of **exceeding all three benchmarks**, shown at the far right of Exhibit 5. We are in a challenging market. The usual method of dealing with declining interest rates is to purchase longer-term investments. However, the yield curve has inverted, which means that yields are actually lower for longer-term investments than for short-term investments, as investors predict lower rates in the future. We are mixing the purchases of three-month maturities with one-year maturities to hold off what looks like an inevitable decline in our annualized percentage yield.

Going forward, if the current portfolio investments were all held to maturity, the portfolio's **approximate yield to maturity** is 2.59%, a decline of eight basis points from June. Since no current investments (shown in Exhibit 2) reach that yield, the portfolio's yield will necessarily drop.

The **total net earnings** for July were \$5.963 Million. Although earnings will stay over \$5 Million for the next two months, they will decline as the portfolio balance declines, based on the historical pattern shown in Exhibit 7. The monthly changes in that exhibit will be more pronounced because of the decline in the interest rate market.

The **weighted average days to maturity** rose to 208 days because we purchased longer-term investments to maintain the yield. The interest-rate sensitivity measure of **effective duration** rose to 0.355, in part because of the longer-term investments but also because we bought some lower-rated investments to maintain yield. Buying those lower-rated investments caused the **points on our monthly Standard & Poor's report** to increase as well, an example of the difficult balancing act among the several forces operating on the daily choice of investments.

The **three largest sectors**, by percentage, were: Commercial Paper (26.86%); Yankee Certificates of Deposit (23.37%); and Government Agencies (21.34%). The **three largest individual issuers**, by percentage, were: Toyota Motor Credit Corporation (8.68%); Federal Home Loan Bank (8.29%); and Federal Home Loan Mortgage Corporation (7.33%).

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 portfolio has for several years received a rating of AAf/S1+ by Standard & Poor's, the highest rating given by that agency, re-affirmed on January 16, 2019. 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, 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 policy 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.

The portfolio has been managed for several months on the assumption that monthly yields will decline. The Investment Work Group has already switched its focus to the challenges of investing in a declining market without approaching the boundaries imposed by our Statement of Investment Policy and by the Standard and Poor's ratings team, which we expect will visit us in September to perform an on-site due diligence ratings review.

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 805-654-3726 if you have any questions or require further information regarding this item.

Sincerely,



STEVEN HINTZ
Treasurer-Tax Collector

- Exhibit 1 – Wells Fargo Market/Cost Value Comparison Report – Month End 07/31/2019
- Exhibit 2 – Monthly Transactions Report – July 2019
- Exhibit 3 – Portfolio Average Monthly Balance Graph – July 2017-2019
- Exhibit 4 – Average Maturity Graph – July 2017-2019
- Exhibit 5 – Yield Comparison Graph – July 2018-2019
- Exhibit 6 – Rolling 2-Year % Yield Graph – July 2017-2019 (Ventura)
- Exhibit 7 – Rolling 2-Year \$ Yield Graph – July 2017-2019
- Exhibit 8 – Portfolio Holdings by Class Graph – July 2019