TREASURER-TAX COLLECTOR
VENTURA COUNTY

STEVEN HINTZ
TREASURER
TAX COLLECTOR

Sue Horgan
Assistant Treasurer-Tax Collector

September 15, 2020

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, 2020; and Summary Report of Investment Results for Fiscal Year 2019-2020.**

RECOMMENDATION: Receive and File

FISCAL/MANDATES IMPACT: None

DISCUSSION:

This report covers the one-month period ending June 30, 2020 in Section 1, and summarizes the twelve-month results for FY2019-2020 in Section 2.

Section 1: Report of investments for the month ending June 30, 2020

The **average daily portfolio balance** for June was $2.978 Billion, a small decrease that continues to be the highest June balance ever reported. I expect the average daily balance to shrink to $2.6 Billion by the end of July, and to shrink to $2.4 Billion by the end of September, as tax revenue dries up and pool participants withdraw to meet cash flow needs.

The **annualized percentage yield** for June was 1.451%, another decrease from May. There were no additional rate cuts by the Federal Open Market Committee, and most of the volatility has gone out of the interest rate market.

In June, the portfolio's **net percentage yield continued to exceed all three benchmarks**, shown at the far right of Exhibit 5. Another noteworthy data point is that over the last several months, all three of our benchmarks have shown a clearly sharper rate of decline than has our

pool. The line graph added to Exhibit 5 makes it easier to see the separation and the trend. The separation between the yields of similar pools is "alpha", which is the measure of gain produced by the efforts of management. As I look at Exhibit 5, I would say that the percentage yield of the Wells Fargo Heritage Fund has probably already bottomed out at close to 0.50%, while the others, including ours, will continue to drop so long as interest rates do not rise significantly.

Going forward, if the current portfolio investments were all held to maturity, the portfolio's **approximate yield to maturity** is 1.38%, a significant decline from May of 14 basis points. Since only two of the many June investments shown on Exhibit 2 produce a yield that high, the portfolio's percentage yield will continue to decline. If the interest rate market truly stabilizes at its current levels, our portfolio's approximate yield to maturity and annualized percentage yield may be as low as 1.30% in the report for July, which will be delivered in late September, and 1.20% in the report for August, which will be delivered in October.

The **total net earnings** for June were $3.552 Million, a decrease from May that reflects the declining percentage yield and the declining pool size. Exhibit 7 shows the repetitive seasonal pattern that has existed for several years.

The **weighted average days to maturity** rose slightly to 249 days. The interest-rate sensitivity measure of **effective duration** rose slightly to 0.486. Both numbers reflect the purchase of some longer-term instruments to mitigate the investment risk inherent in very short-term pools.

The **three largest sectors**, by percentage, were: Commercial Paper (24.90%); Yankee Certificates of Deposit (23.69%); and Medium-Term Notes (15.99%). The **three largest issuers** by percentage, were: Toyota Motor Credit (9.20%); Federal Farm Credit Bureau (8.23%); and Korea Development Bank (7.87%). The **three highest-yielding sectors**, by annualized percentage yield, were: Municipal Bonds (1.640%); Supranationals (1.500%); and Government Agencies (1.450%).

The Investment Work Group has again upgraded its professional qualifications. In June 2020, Sue Horgan and I passed examinations for, and were awarded, the Advanced Certified Public Funds Investment Manager by the Association of Public Treasurers of the United States and Canada. I have been remiss in not previously noting that in December 2019 Jennifer Vlahakis completed the arduous Fixed Income Academy Bond School.

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, and re-affirmed in December 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, and either have no S&P rating like LAIF or a lower S&P rating like CalTrust.

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. We are maintaining a larger cash balance as a liquidity hedge against possible withdrawals by pool participants if State payments are delayed.

Section 2: Summary Report of Investment Results for Fiscal Year 2019-2020

FY 2019-2020 was another challenging year. The Federal Open Market Committee reduced interest rates to the lowest level in several years, and unequivocally expressed its intent to keep them there for several years. The advent of the COVID-19 virus situation in February 2020 depressed the economy and drove the interest rate market down even further, I think, than the Fed had intended. The U.S. government entered the corporate medium term note market and even indicated an intent to enter the municipal bond market as a means (officials said with a straight face) of maintaining liquidity in those markets. The actual effect was to drive bond prices up and yields down. Finally, the National Ratings Service Organizations (e.g., Standard and Poor's, Moody's, and Fitch) issued a significant number of ratings reductions and warnings, which narrowed the pool of available investment instruments for pools like ours.

Our response has been to build an admittedly lop-sided maturity barbell, weighted heavily to less-than-one-year maturities, with a much lighter weight for two-to-three year maturities. We believe this is the best structure to meet the three standard goals of safety, liquidity, and yield while also protecting the Standard and Poor's rating. We could enhance yield by purchasing more of the longer maturities and/or more of the lower quality instruments. Either approach would not only enhance risk, but would also have a significantly negative effect on Standard and Poor's perception of the quality of the pool's portfolio.

Yields have changed dramatically in this fiscal year. In June 2019 we were routinely offered yields of 2.50% for both 1-year and 3-year maturities. Now we are routinely offered yields of 0.40% for either maturity, the only exceptions being the occasional municipal bond. The effect has been to drive the annualized percentage yield down from 2.707% in June 2019 to 1.451% in June 2020, nearly a 50% decline in one year. The yield will continue to drop at a rate of 15 or 20 basis points each month throughout FY 2020-2021, as higher-yield investments mature

to be replaced with significantly lower-yield investments. The eventual bottom line for yield could be as low as 0.50% after eight months. Such is the life of a short-term fixed-income investment pool. Our goal has been to shop carefully for quality investment instruments to mitigate the downward yield trend. We have succeeded in increasing the spread between our pool's results and the results of our benchmarks. The comparatively positive results provide at least some psychological offset to the falling yield results. In other words, I would rather be us than them.

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 6/30/2020
Exhibit 2 – Monthly Transactions Report – June 2020
Exhibit 3 – Portfolio Average Monthly Balance Graph – June 2018-2020
Exhibit 4 – Average Maturity Graph – June 2018-2020
Exhibit 5 – Yield Comparison Graph – June 2019-2020
Exhibit 6 – Rolling 2-Year % Yield Graph – June 2018-2020 (Ventura)
Exhibit 7 – Rolling 2-Year $ Yield Graph – June 2018-2020
Exhibit 8 – Portfolio Holdings by Class Graph – June 2020