Local Agency Investment Fund
Webinar Transcript

2020 Local Agency Investment Fund Webinar

October 14, 2020

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Title Slide – Local Agency Investment Fund 2020 Webinar – California State Treasurer's Office

CHRISTINA SARRON: Good morning, everyone before we get started I would like to go over the admin details:

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So with that let's go ahead and go through, thank you all for taking time to come to our webinar.

First up is the Treasurer, Fiona Ma is the California's the 34 State Treasurer. She was elected on November 6, 2018 with more votes than any other candidate for treasurer in the State's history. She is the first woman of color and the first woman Certified Public Accountant (CPA) elected to the position. The State Treasurer's Office was created in the California Constitution in 1849. It provides financing for schools, roads, housing, recycling and waste management, hospitals, public facilities, and other crucial infrastructure projects that better the lives of residents. California is the world's fifth-largest economy and Treasurer Ma is the state's primary banker. Her office, well our office, processes more than $2 trillion in payments within a typical year. She provides transparency and oversight for the government's investment portfolio and accounts, as well as for the state's surplus funds. Treasurer Ma oversees an investment portfolio of more than $102 billion, approximately $20 billion of which are local government funds. She serves as agent for sale for all State bonds, and is trustee on over $100 billion of outstanding debt.

So if you could please start the recording, thank you.

Slide: Picture of California State Treasurer, Fiona Ma, CPA 1:58:42

FIONA MA: Thank you, Christina for the introduction. I'd like to offer a warm and personal welcome to the more than 200 registrants who have signed up for this webinar. I had the opportunity to meet many of you last year at the LAIF conference that my office held in Sacramento, and while we could not hold the conference in person this year as we had hoped, I am happy to have this chance to speak with you this morning.

As your State Treasurer, my duties include the management and oversight of the state's Pooled Money Investment Account (the PMIA). The PMIA is a cash pooling and liquidity management account in which all major state funds are physically concentrated into a single cash position for investment purposes. It is a commonly used approach in large treasury operations in both government and corporations. A principal component of the PMIA is the Local Agency Investment Fund.

I recognize that LAIF is simply an alternative vehicle for your agency's funds. That has always been the purpose of LAIF, to augment your own agency's investment strategies for larger jurisdictions and be a reasonable and representative approach for smaller agencies where LAIF represents a greater share of your investable funds. As a result, LAIF exhibits some unique characteristics.

The PMIA is unlike the resources of CalPERS, for example. The latter assets are what is sometimes called "patient" capital, that is, a portion of the assets will be deliberately invested in higher risk assets with a degree of patience that will allow for the passage of time required to attain the higher returns accompanied by exposure to greater risk undertaken to achieve greater returns.

By contrast, the PMIA is not a long-term investor. The PMIA's bedrock objectives (which are also LAIF's) are to preserve capital, remain liquid, and to stay always prepared to make the cash being held available on very short notice, often as little as 24 hours.

Presently, the state maintains only the minimum required balances in its banks to compensate those banks for the services provided to the state as a whole.
The remaining funds become part of the PMIA, and are designated as "investible funds" by the Pooled Money Investment Board, which I chair, and which includes the State Controller and the Governor's Director of Finance.

There are a number of considerations my professional staff uses to make prudent investment decisions about these investable funds, including these five considerations:

1. the investment of surplus cash that recognizes that the future need for such cash may range from a few days to several months, but which is predominantly expected to occur within one year;
2. the investment of idle cash, in which the date for disbursement is more predictable or controllable and where the disbursement is dependent on external events, such as receipt of federal or local matching funds, scheduled programmatic disbursements and completion of engineering studies or environmental clearances, etc.;
3. the investment of earmarked cash set aside for a particular purpose (e.g. to fund debt service reserves); and,
4. the investment of temporary cash received from a recent development of a program, such as the enactment of recent wildfire fund program; this type of cash is typically irregular and the disbursement date is often predictable; and, of key importance to you,
5. the investment of cash beneficially owned by others while in the custody of the state treasurer, such as the LAIF. LAIF is a proven investment alternative that provides representative investment returns, liquidity, which is virtually immediate, and the safety of principal that is guided by state law and a rigorous investment policy that is managed by my office and which is reviewed by the PMIB at least annually.

I also note that the costs of LAIF are dramatically lower than any commercially offered mutual fund in the United States. These efficiencies benefit all Californians because of the broad participation in LAIF by agencies like yours.

Some changes to LAIF that I authorized over past year include increasing the amount per account that you can keep on deposit and the addition of emergency accounts.

Beginning in January of this year, we raised the per account deposit ceiling from $65 million to $75 million. In addition, with the welcome relief of the CARES act funds in May, I approved a revision to our normal practices that would enable your agency to invest these funds in LAIF in a discrete emergency sub-account. I am hopeful that this assisted you in a meaningful way for your COVID-related costs.

While LAIF is an investment challenge, it is far from the ONLY investment challenge that we collectively face as treasurers. As part of my duties, I sit on numerous boards, commissions and authorities, including the state's two major retirement systems.

Earlier this year, CalPERS investment managers proposed a strategy aimed at improving the probabilities that PERS would achieve investment results consistent with an assumed 7% rate of return on its invested funds. In simple terms, the idea is to follow a strategy of what PERS calls "better assets" and "more assets."

The former element encourages the PERS investment staff to safely diversify risk by including earlier equity investments in smaller, more dynamic companies that are most likely to produce superior growth based on where those companies are in their own development. The second element permits selective use of leverage within the invested funds to compound results in those cases where leverage will enhance results.

It is important to remember when you examine the results of PERS investments that comparisons can be dangerous. For example, recent changes in rating agency methodology require reporting of the market value of assets, rather than the more meaningful actuarial value of assets. The latter value should be considered equally, even though it embeds assumptions, because invested funds will never be liquidated at a single point in time to meet cash flow demands of any retirement system designed to pay benefits over an extended period of time. So, the headlines about the health of PERS need to be understood in that context.

Nevertheless, I know that many of you remain anxious about what the future holds for your agency's contributions to PERS to support your retirees. I can assure you that the dual responsibilities of protecting the income of our retirees and easing the negative impacts on your budgets and financial resources are always on my mind.

Another area I'd like to highlight is my office's work continuing the ideal set by prior treasurers' "greening" the state's economy. When the World Bank debuted green bonds in 2008, then-Treasurer Lockyer took notice. He valued the idea of green bonds issued by others, especially triple-A rated issuers such as the World Bank, so he arranged a significant purchase of that offering. Presently, the PMIA portfolio that I manage holds $3.9 billion in debt securities issued by supranationals, including the World Bank, many of which are specifically designated as "green."

My most recent predecessor, John Chiang, continued Treasurer Lockyer's work in green finance going even further. After several years of dialog with the international investment community, he recommended that California consider establishment of a "green bond market development committee." I am pleased to say that I have implemented that recommendation and now serve as the committee's chair. The committee is domiciled at the Goldman School of Public Policy at the University of California Berkeley.

It consists of about two dozen finance experts, environmentalists, experienced lawyers, and government officials who share a common belief that the pivot to green finance is crucial to both renew our public infrastructure but also to satisfy the needs of the rapidly growing number of institutional investors who are demanding greater transparency on the investment of bond proceeds from offerings they buy.

The committee is presently deeply involved in outlining a "responsible issuer program" that would describe the key elements required by green investors to satisfy ESG requirements. The committee is doing critically important work in socializing the concept that much of our borrowing is already green, but needs to be presented as such to the investment community. Just as LAIF should be understood to be a collective and collaborative effort among us as treasurers, responding to the clear references of major investors for better identification of green financial investments needs to stay on our radar for the immediate future.

Finally, I also remain active in urging our federal legislators to consider and adopt policies that would aid your agencies. A partial list includes:

- New funding for the State Small Business Credit Initiative, that would spur economic recovery of California's smaller businesses that been hit especially hard by the pandemic.
- A Congressional reauthorization of rules to permit advance refunding of your outstanding debt.
- Continual advocacy for the preservation of the income tax exemption on interest you pay on your bonds.
- Consideration of a reauthorization of the Build America Bond program, but this time with specific protections against subsidy reductions because of parliamentary moves such as "sequestration."

I know that as long as we work together and encourage and challenge one another to better financial management, all of our constituents' well-being will be enhanced. Thanks for attending today. I hope you have a great "virtual" conference and hope to see you back here next year, in person. Thank you.

Economy Cover Slide: US Rates Strategy – US Rates Outlook: Redefining the Trading Range **1:47:09**

CHRISTINA SARRON: Thank you Treasurer Ma, next up is Ian Lyngen. Ian is presenting an economic portion and Ian is managing director and head of US rates strategy in BMO Capital Markets Fixed Income Strategy team. Ian.

IAN LYNGEN: Great, thank you and thanks for allowing me to present some of my ideas about how I see things playing out in the us rates market over the course of the next several quarters and even as far as the next few years.

So if we can switch to the first page of the presentation.

Economy-Slide 1 – Our Call: Structurally Lower for Longer 1:46:29

What we've done here is I've broken down the outlook for interest rates by the key benchmarks in the nominal markets over the course of the next four quarters. There are a few things that I would like to highlight early. The first is that the two-year sector inconsistent or is consistent with what the Fed has already told us is in a very tight range and its a range that we expect to see retained for the foreseeable future. So in practical terms that means that through 2021 and 2022 we would anticipate that the range for two-year yields is going to be somewhere between 5 and 20 basis points. There has been a reasonable amount of chatter that the Fed could roll out some new initiatives including an extension of WAM, or the Weighted Average Maturity, of the QE purchases that are currently in place. The Fed could also do something akin to what the Bank of Japan did which was implement yield curve caps or for example say that the 2-year sector yield can never reach more than 25 basis points, 20 basis points, etc.

In that event, in such an event, we would put a lower bias for rates over the – forecast rates over the course of the next few years. But we're still a way aways from that. And the fact of the matter is the Fed has made it very clear that they're willing to step up and do what is needed when it comes to monetary policy. However, at this moment the emphasis has been on fiscal policy and getting more delivered from Washington in terms of a 2nd bailout, a fiscal 2.0 let's call it.

So looking further out at the shape of the curve, the 2-year sector and increasingly the 5-year sector have been anchored very well to monetary policy. And when we think about 2021, that range, call it, in the more immediate term, call it kin to 20 basis points will be extending further out the curve all the way to the 5-year sector. I suggest that this is very consistent with the Fed transition to a new framework, which really was another way of the FOMC communicating that they have very little intention of normalizing monetary policy for a very long time.

So what that implies is that the most interesting the most exciting price action in the treasury market will occur further out the curve. Now we were talking about the 10 and 30 year sector, but in the context of the financial markets in the middle of the pandemic we are really seeing an increase in the correlation between price action in equities and the feedback loop into the treasury markets so the shape of the yield curve has become largely a directional trade and optimism being priced into equities has leaked through in a tight range to 10 and 30 year yields. So I have penciled in for the end of this year 10 year yields drifting as high as 1 percent or 100 basis points. But that will represent a meaningful buying opportunity. And I would characterize the next couple of years of trading in the treasury markets as being defined by the range and the most exciting moments being when we reestablish the caps and reestablish the lows as the process goes through.

Lets move onto the next slide.

Economy-Slide 2 – Fed's Dimming Economic Outlook 1:42:16

What's presented here are the Feds outlook and the Feds forecast for the next 3 years. This is published alongside the FOMC decision and the reason that I have included this is because I think it offers important context on a number of different levels. The first aspect that I would highlight is that the GDP estimate for 2020 in the early parts of the pandemic, which was the June estimates, show the net contraction of real GDP in 2020 was estimated to be 6.5 percent. That is now as of September been improved to -3.7 percent. Now that's a very meaningful contraction but nonetheless less dramatic then was expected when we started the, when we were in the midst of the pandemic.

The other aspect of this table that I think is relevant is this transition that the Fed has made to an average year of year inflation target has been accompanied by a soft unemployment target. Now we don't exactly what number the Fed is ideally targeting for some version of full employment or NAIRU (Non-Accelerating Inflation Rate of Unemployment) but what their projections give us a glimpse at is their willingness to let inflation to run hot and the unemployment rate run much lower than it has in prior cycles.

So I would like to draw your attention to the column for 2023. In 2023 the Fed is, if all goes according to their plan, projecting that inflation will be at 2 percent, the unemployment rate will be at 4 percent, and they will still have rates at effectively zero.

That's a pretty significant message and it's a message that has many in the market, myself included, concerned that once we get through the transition back into the some version of a new normal post pandemic we will have a lot of stimulus in the system and that stimulus is going to risk a meaningful increase in inflation.

Let's move on to the next chart.

Economy-Slide 3 – Trading the 10-year Yield Range in 2021 1:39:41

So I've made the argument that we are going to be trading a range for the next couple of years in the nominal Treasury market, 10s and 30s in particular. What I have outlined in this chart is the history of 10 year rates and how they have tended to trade and trend. and the upper part of this chart the blue line is simply 10 year rates, the red line above that is a 52-week look back for the high and the dark blue line below that is a lookback for the low, and the green line and grey bars represent the size of the range. So what we can see from this unless the market is experiencing a massive repricing, for example what we saw at the beginning of this year, historically the 10 year yield has trended in a range of 75 and a 100 basis points.

So as I contemplate what the next year or two will look like I'm operating under the assumption that the center of that range is going to be in the 65 to 75 basis points zone, which is what we've seen for the last several months. And in such an environment a backup in rates based upon economic optimism, based on the passing of event risk, etc. does leave the possibility of a 1 percent of higher 10-year yield on the table. However, one of my primary concerns in such an eventuality would be that equity markets and risk assets do not respond well. Because if we think of the period between 2018 and 2019 whenever we had a significant backup in treasury yields we'd start to see a corresponding wobble in the equity market.

And if we jump to the next slide.

Economy-Slide 4 – Rolling Fed Expectations Confirm Lower for Longer 1:37:24

The reason that I'm concerned about the equity market and the feedback loop to treasuries is that just looking at fed fund futures, which is what this chart represents. The market has priced in zero or below zero monetary policy rates for the foreseeable future after this big run-up and then quick reversal that we saw in the period of 2016 to 2020. And on the next slide, if we can jump to that one.

Economy-Slide 5 – Financial Conditions Much Easier 1:36:48

The Fed during this period has shifted their emphasis away from the traditional measures of economic performance in guiding monetary policy to a framework in which they're really focused on financial conditions. This is important because prior to the last financial crisis if we were talking about how the Fed might change its monetary policy we would be focused on the outlook for inflation, real GDP, as well as the performance of the labor market. Fast forward to today the bulk of the conversation that the Fed is having both internally as well as with the market is centered around financial conditions, and financial conditions are comprised of several things, but the biggest mover has been equity market volatility.

And so if we move to the next slide.

Economy-Slide 6 – Volatility Drives Financial Conditions 1:35:50

The biggest driver of financial conditions is equity volatility. On this slide were just looking at the VIX which is just equity volatility vs. FCI, which is financial conditions. And equity volatility only spikes when we see the stock market sell off. And you can see the correlation here is pretty straight forward a spike in equity VOL it translates to a spike in or a tightening in financial conditions. So this is the way in which the Fed has effectively institutionalized the Powel Put. So if we know that the Fed isn't going to allow the equity markets to sell off significantly without some additional amount of monetary policy stimulus, then the extent to which 10 and 30 year yields will be allowed to increase will be limited. And what I suspect will be very telling is that over the course of the next 2 to 3 months once we get past the presidential election and once we find ourselves with a market looking forward to 2021 and beyond that we will have upward pressure in the longer end of the curve and this will be a litmus test for the equity markets willingness to absorb it and the Feds willingness to respond if we do see that backup.

My baseline assumption is that the Fed would be content to see 1 percent 10 year yields all else being equal but would jump in and do an extension of their weighted average of maturity of purchases once we get to call it 125 to 150 because that would correspond with underperformance of risk. The caveat that I would add and I think this is a meaningful one is that because the most direct way that the Fed, monetary policy moves and lowering of interest rates translates through to the consumer is via mortgage borrowing. What has occurred over the course of 2020 is that the mortgage basis has increased and while we have seen treasury rates ratchet decidedly lower mortgage rates have fallen but they haven't fallen to the same extent that one would have traditionally expected. So if we find the compression, which has already begun, we find the compression of the mortgage basis corresponds with higher rates i.e. mortgage rates don't actually change even if 10-year yields drift back up. That would be an environment in which the Fed would take more of a hands off approach and say, "ok we're happy with rates here, no reason to change the bond buying program." Again, that implies a great deal of positive developments over the course of the next few months, but I think it's a very real risk to have on the table.

Let's move on to the next chart.

Economy-Slide 7 – Election Event Risk **1:32:32**

So the election and the election outcome is going to be, certainly when we started 2020 it was the risk of the year. Obviously, the global pandemic has sidelined the relevance of the election for much of the trading year, but we're in the last 20-21 days before the election and so once again it has become a major focus.

What I have on this page is I have just taken a look at the relationship between a sitting president, an incumbent, being reelected and the unemployment rate. The punchline of this chart is it will be very difficult using this matrix alone to assume that Trump gets reelected given the amount of unemployment that there currently is in the system.

If we move onto the next page.

Economy-Slide 8 – Biden's Election Odds Improving **1:31:30**

Taking a look, these are not polls, these are predictives that the betting websites have about the potential election outcome. So using this as a somewhat better guide than the polls themselves, what we see at this moment not only does Biden have a very significant lead over Trump but the Senate seems much more than likely to go to the democrats and the house clearly, the expectation is for the house to remain in the hands of the democrats.

We all remember 2016 and the surprise and the lesson, the big takeaway, from the markets perspective, was not to put a great deal of faith in the polls and the pundits. And so as we look to November I think that the market is expecting a period of volatility and I think that the market is not as willing to put on significant positions based on the actual perceived outcome.

Now there are plenty of people who are hedging and positioning, positioning in such a way as to mitigate risk but much left of a tradable event itself and the perception as we look at the data that's our takeaway is that people are sidelined once the results are known they'll start to layer into the trades that make sense given the amount of fiscal stimulus that's in the system and the global headwinds facing an economic recovery.

The other nuance that I would highlight is that we recently did a client survey and we asked the question, very specifically, "How long do you think it will take before we see the results of the election?"

So the average was about 7 days, but the results were very "bar-belled" we had a subset of investors who strongly believed it will be a traditional 24-48 hours before we know and the market will move on. We also had on the other end, a variety of clients who expected the process to take several weeks before there is any clear resolution.

And so as we consider the election it's less about who actually ends up in the White House next year and more about how quickly the market gets clarity. And I think that will be an important distinction to make as we go forward.

So let's move onto the next chart.

Economy-Slide 9 – New Growth Normal? 1:28:38

Just talking a bit about the new normal for economic growth, what we have seen is this just the GD quarterly GDP over the course of the last 10 years, the second quarter of the big red bar, represents the decline in services in personal spending as well as the decline in goods, which is the blue bar below that. And I include this chart simply to highlight that so much of the dramatic drop in real GDP was a function of the service sector. Now if we deconstruct the hit that the employment market took we can also see it corresponds very well with the frontline service sector jobs were the first ones that were lost and those are also the jobs that are slowest to come back in whatever version of the new normal is that we'll be seeing.

One of the biggest surprises, for me, was not so much how quickly people begin to retrench their spending, but how comfortable to a large extent a lot of major employers were willing to transition to a work from home model.

And I've been, again, surprised how well and quickly it has occurred and the success has implication for the eagerness with which employers and employees are returning to big urban centers.

And so, just thinking about some of the big metropolitan areas, it follows intuitively that we would see a transition away from urban centers into the first and second ring suburbs. Now that has occurred at a very swift pace, but the underlying support services for those employees, I think that BLS has told us that roughly 24-25 percent of the labor force is now working from home, and the support services, whether it's the local lunch place, or dry cleaning, that was a classic example, or entertainment, restaurants, etc. they haven't followed that transition out to the suburbs. And those jobs and the capital associated with making that transition is a bit stickier.

So if we find ourselves in a situation where we are working from home in a comparable capacity with what we had seen in the third quarter of 2020, in the beginning of 2022 or even late 2021 I think that would convince some of those frontline service sector firms to really start to transition further out.

Right now, a lot of those institutions seem to be in something of a holding pattern as everyone awaits the emergence on the other side in some version of a new normal.

If we could go on to the next slide.

Economy-Slide 10 – Trade Remains a Wildcard due to Trade War 1:25:09

There's been the trade war between the Administration and some of the US's biggest trading partners has taken a back-seat because of the pandemic, that follows intuitively. However, we are starting to see some of the trade issues come up once again and after the election regardless of the outcome I would anticipate a refocus on this issue. The two candidates certainly have a, are assumed to have different approaches to international relations and international trade. However, as a takeaway, generally speaking, investors in the market are taking a wait and see stance. Rather than assuming, it is going to go decidedly in one direction or the other.

We can move forward to the next slide.

Economy-Slide 11 – Inventory Drag – Big Bet on Consumption? 1:24:08

Similarly, given the exhaustion of the enhanced unemployment benefits provided by the federal government, the slow progress toward a fiscal bailout 2.0, and the initial spending spree that resulted once everyone, 25 percent of the labor market, had to work from home. It is very telling to see what the next 2 or 3 months bring in terms of personal consumption.

This Friday we do have the retail sales report and the retail sales report will give us a reasonable glimpse at goods consumption during September. But again the service aspect of it was the key on the way down and the service aspect of it will be the key on the way back up.

This chart and the reason that I include it, shows the extent of the draw down of inventories during this period. Not only were people unwilling to stock up on goods to be sold through whether traditional or online retailers, but there was also simply a difficulty in producing a great deal of that.

Now this speaks to the potential for a bounce back in inventory and consumption that is consistent with a strong 3rd quarter GDP performance. So this will be very defining as to whether or not we have a version or a lighter version of a V shaped recovery which I think most people are not expecting to occur in its truest form. But rather a rocky W bounce period of stabilization on another dip seems to be the consensus and even within that context the notion of a K shaped recovery does seem to resonate as well. We have seen because that frontline service sector was the first hit they also are, as I pointed out earlier, hardest to be reintegrating into the market. They're also associated with the lower wage earners within the broader economy. And as that aspect struggles, the translation of that into other sectors further up the corporate structure, has occurred, but it hasn't occurred in such a way that has the broader data reflecting a particularly dire outlook, at least not yet.

If we move to the next slide.

Economy-Slide 12 – Surprise Indices for US and World Economies 1:21:19

I made the observation a bit earlier that at the beginning of the pandemic expectations were for an even worse economic outcome and this has also been reflected not only in the US but also globally.

And this chart, what I've done is compared the surprise indices of just economic data forecasts vs what's realized across a variety of major economies, the US we can see in blue, very sharp increase. Emerging markets and China didn't do as well, but still outperformed, and then we saw the Eurozone as well coming in better than expect.

That said, that has started to moderate somewhat and as it continues to moderate I think that we will see this broader range for rates being retained, again front end very unlikely to change and even the longer end in a clear and definable range. So a lot of the optimism is now being priced back out vs. the economic data as greater clarity becomes available as to what has actually been done in terms of damage to the real economy.

So can we move on to the next slide?

Economy-Slide 13 – Real Wage Gains Misleading 1:19:56

As I pointed out just a couple of moments ago the composition of who was taken out of the labor market at the beginning has led to some misleading economic data and this is one that I like to highlight and that's the real wages. Where we saw at the beginning of the pandemic was an increase in the real average hourly earnings and an increase in the real weekly earnings. That's not because during the pandemic everyone got a raise, but because the lower wage earners were taken out of this data series. And so we would expect that as those lower wage earners get reintroduced into the labor market we will see continued normalization of this back below that 2 to 3 percent range.

Once we get into the first half of 2020 we would expect a lot of that noise to be priced out of this data series. And we'll get a better sense of how the labor market is actually performing.

If we could move to the next slide.

Economy-Slide 14 – Year-over-Year Core Peaked in 2018 1:18:43

This brings us to one of the final pockets that I would really like to focus on, and that is what has been occurring on the inflation front. At the beginning of the pandemic there was a very clear concern that prices would enter a deflationary period and that deflationary period would build on itself. What the data has proven is that didn't occur. While we had a couple of months where there was sharp downward pressure on inflation, that has reversed and we're back to some version of normal levels on a year over year basis.

We move onto the next slide.

Economy-Slide 15 – Shelter a Key Positive Contributor to Inflation 1:17:56

When we break down what has really been driving inflation, what we saw was the decline in inflation had to do with airfares and apparel in the very beginning. Those haven't rebounded, but they have stabilized. Where the real rebound has occurred is it has occurred in shelter costs, which includes owners equivalent rent and the yellow bar on this chart is auto prices.

And if we move to the next slide.

Economy-Slide 16 – Autos: Driving CPI Volatility 1:17:19

The auto prices that matter for core CPI, that had be moving core CPI are used auto prices. Why is this relevant, because I will characterize this as a residual of the pandemic rather than the true demand side inflation that the fed wants to see.

What we saw were individuals coming to grips with the work from home reality able to transition from urban centers to suburban centers and in that process they realized that , "oh I probably need a car or a new car." In addition, we have seen a dramatic decrease in people's willingness to take public transportation. So a favoring of private over public conveyance so should intuitively bid up the price in the used auto sector and that's exactly what we have seen.

Once we lose that and lose some of the price discovery of people relocating out of urban centers into the suburbs I think that that's where we really will start to look at some of the other demand driven aspects of inflation to see if we have ultimately made it past without any deflationary, or any permanent deflationary pressures or if that's going to be a lingering issues.

And if we just move, I think the last chart or the next one will be last one.

Economy-Slide 17 – Apparel: Transitory or Just Volatile? 1:15:44

That's the apparel prices are going to a similar bucket, only functioning in an opposite way. Big drag at the beginning a small bounce after the pandemic. Now let's see over the course of the next several months whether or not that upward pressure on apparel prices that emerged is able to make it through the holiday shopping season and what that ultimately does imply for the overall direction of inflation and then that subsequently circles back to the beginning of the presentation where I made the point that while the front end of the market is going to be in a very tight range, the most interesting or the most exciting action will be out in the 10s and 30s and be largely a function of the inflation landscape, and whether or not some of these early signs in the inflation complex have room to run.

Economy-Slide 18 – Japanese Investors Mixed in Treasuries 1:14:21

And just the other slides, this chart, and the next one I believe there is one more in there.

Economy-Slide 19 – China Continues Selling Treasuries 1:14:15

Show the fact that while historically there has been a great deal of foreign sponsorship for US Treasuries that has waned in recent years. For example, China hasn't been in that buyer of treasuries for a long time and Japan has stepped up their interest in Treasuries. But that has only been in the last few months and I wouldn't actually expect that to be something that one characterizes as durable. What I have found to be fascinating is that the subset of the market that has really replaced that demand has been a) the Feds via SQE that much is evident, but we've also seen domestic banks and domestic investment funds become far larger players in the treasury markets then they were before the pandemic and that does bode well for the treasury departments need to underwrite an ever increasing deficit as it were.

And that really does cover all of the comments that I wanted to make about the state of the economy our projections going forward.

I will transition this back.

CHRISTINA SARRON: Thank you Ian. Just so you know Ian will be available later for the question and answer period. So if you have questions for him, please put them into your question box.

LAIF-Title Slide – Local Agency Investment Fund 2020 Webinar 1:12:38

Next up is my presentation. So if we could move to the next one.

LAIF-Slide 1 – What's New in LAIF? 1:12:27

So what's new in LAIF, we've had a bunch of changes, aside for the very last one on the very end of this slide. We raised our LAIF cap that happened on January 1, to $75 million. I'm sure a lot of you want to go higher than that and of course you can always send me an email and I will let the Treasurer know.

The other thing is we offer Emergency Accounts that's for those with a PG&E wildfire settlement payment and I'll show you later on where that is on our website. We also offer Emergency Accounts for the CARES Act funds that your agency may have received. That one is especially helpful because I know that the federal government has been requiring that you keep that money separate and any interest you earn has to be used for that also. So we offer a separate account where that information can be provided to you completely separate from your normal LAIF account.

The other thing is of course the big one, when uncle Covid came to town we all decided to work from home.

If you can move to the next frame.

LAIF-Slide 2 – How to Reach LAIF During WFH 1:11:13

That's been interesting that kind of leads us to where we are now and how to reach LAIF during working from home orders. We've got all of our numbers here and of course they're available on the website. But this one has who has what number, so you know who you're going call. Please be patient with us we originally had these really old flip phones, but they were only meant for emergencies, so not a big deal, but who knew that this emergency would last, what 8 months now. Please be patient with our staff they are working with what they have. Here are all of the phone numbers, but the other option is to please sign up for online. I'll show you where that is also. We've definitely go that. And you can always send us an email. You can always send me an email too, that's not a problem.

If you can go to the next.

LAIF-Slide 3 – What We Do With LAIF Money 1:10:16

What are we doing with LAIF money? I don't know if all of you know, because I know that other pooled money investment accounts available to agencies in other states they do it with just the money from the agencies. Ours is different in that we add your money to the State's other money. The State's General Fund and something we call SMIF, which is Surplus Money Investment Fund. And that's kind of funny, because it's not really surplus money, it's idle money from departments. So that takes up about 50%, and then there's LAIF at 31 percent, and the general fund at 18. And then that little sliver of other which is 0.28 percent and that's a special funds and that sort of thing. But we take all of that and invest it for you every day and Tracy is going to talk later. She's in the room with me, so I keep looking over there.

And she's, she's going to talk later about what we're, how we decide what to invest in.

If we can move to the next slide.

LAIF-Slide 4 – And What Do We Invest In? 1:09:05

So, what we are investing in. Currently, as of August 31st, we had a $113.8 billion dollar portfolio, but we've got commercial paper, Time deposit, certificates, CDs, excuse me, bank notes and agencies and agencies are your Federal Home Loan bank, that sort of thing, and then treasuries and loans.

And Tracy and Jeff are probably going to get into more detail about what it is that we're investing in, and why we invest in those. This is, this information is all available on our website, and I'll show you where that is later.

If you could move to the next slide.

LAIF-Slide 5 – LAIF Quarterly Performance 1:08:23

This is the LAIF quarterly permanent forming and as part of PMI. The apportionment rate is 1.47 and it's for the quarter ended June 30, 2020. The PMIA, a quarter to date is 1.41 percent, the average life is 191 days.

And the LAIF fair value factor is 1.01.

And if we could go to the next slide?

LAIF-Slide 6 – Housekeeping 1:07:54

So, here are some other housekeeping stuff. Because we are working from home, run into several things that have kind of tripped us up.

And, you know, slowed down from being able to help you. The biggest thing is deposits when making a deposit, know your wire limit, please, please know your wire limit. It's kind of caused some of our staff to have to backtrack and void transactions. If your bank can't do the transactions amount that you're requesting. We have to back the transaction out voiding, restart over. That kind of just slows everything down.

So, know, your wire limit, your pin number, agency name, hopefully, you know, the effective date of your wire, your deposit amount, and your bank name.

And the big one that's not listed on here is making sure that you don't send your wire until you've actually started a transaction with us. Once the transaction has been started with us, you'll know the effective date of that transaction, and then you can go back to your bank and wire the money to us, and make sure that your wire is for the same effective date.

We can't, I'm sure our cash management team will be happy to hear this, because we can't receive money too early, and we can't receive money late. So, it needs to be the same effective date and same information for withdrawals.

And then the other big thing that we've run across is updated information. People have been wanting to deposit money and everybody that we have listed for them, no longer works there. So please take the time and update your contact information if you had any turnover at all. All of the forms for that are available on our website and we can't, for cybersecurity reasons, we can't relax our requirements. We need wet signatures to make those changes. And it’s best that you do it as soon as you realize you have some turnover.

Miscellaneous information, If you want to make your transaction for the same day, it has to be completed by 10:00 AM California time.

And you can always schedule a transaction up to 10 days in advance.

And like I said earlier, please initiate your wire after you've completed your transaction LAIF

Other things that I've already said.

And you also something that our cash management team would like to hear is if you have a transaction for more than $10 million, let us know beforehand.

Then transactions must be a minimum of $5000, and in increments of $1,000 after that.

If you can go to the next slide.

LAIF-Slide 7 – Where to Find it on the LAIF Website 1:04:54

So, the next slide is, is me taking you out to the Internet.

So, here's my screen. And this is our website, So this is the LAIF website, I don't know how many of you have had an opportunity to look that over. We have, of course, all of the emergency phone lines available on here that you can call, and you can our e-mail addresses. If you look on the left, there is the link to LAIF Online that takes you here, and we have instructions on how to, to sign up if you aren't already.

We have our Meetings and Agendas schedule for the board. Our webinar, of course, our LAIF website. And then all of our contact information. Other things, are participants who's participating LAIF, balances for each of those just a little information for analysis.

But by far the biggest thing is information that you might need as Forms. We've got this here, so if you want to make an address change, authorization change all of those forms are here.

If you, we find this helpful, this is a transaction checklist. And it helps people, you know, if, you know, before you call, or before you start a transaction online, you know, complete and make sure you have all of this information. It's there for you.

Um, the other thing is, is Procedures for LAIF transaction. Also, has all of that information available for you.

LAIF Statutes, I don't know if you know this, but if you go down to the right, down to the very bottom, but the State of California cannot touch your money, they can look at it. They can't touch it, and it's in law.

So, those are our laws.

We have our Board Members. Here's the Treasurer. Hello, to these people are probably listening, I hope.

And other performance information. So, some of this information was in my presentation, This is all here for you. To see. Online statements are here. Interest statements that takes you to a link to the Controller's Office.

We have our calendar. Monday was a Bank holiday. That information is on here. And then also policy reminders, things I've just gone over.

Information on how to calculate your quarterly interest earnings, that sort of thing. And then the other thing is that, you know, like I said earlier, LAIF is a part of the PMIA, information regarding the entire portfolio is available under the PMIA, and you go here and there's reporting documents. Our investment policy, the authorized securities, and information regarding those. Our website has a wealth of information, and it is. It's interesting, I didn't realize it until I started preparing for. Well, we have so much here. We have the market valuation monthly report going back for years. This kind of information kind of gives you an idea what investment data, you know, that we have what we've been doing with your money, where it goes. So, please take the time to go out to our website.

It has a ton of information, if we could switch back to the presentation.
Hi. So, if we can go to the next slide.

LAIF-Slide 8 – Contact Information **1:00:19**

So here's our emergency numbers again. And my e-mail address, if you have questions for me, that's totally great. I answer my e-mails, like within 20 minutes top. I'm really good about that. So if you have questions for me, by all means, e-mail me. And then, the link to our website, right there. So, if you have questions, like I said, please put those into the question box. Lily is here, and she's across from me that's why I'm looking over here. And she's going to be reading them out later on during the question and answer period.

So next up is my very new director, Kristin and she just was appointed in January by Treasurer Ma, Hi Kristin, and she's going to be handling the next part of this presentation.

KRISTIN SZAKALY-MOORE: Thank you, Christina. Yes, this part of the presentation is going to talk a lot about how your money is being invested and the investment management process. Next slide, please.

PMIA-Slide 1 – What A Difference A Year Makes (Again) 0:59:21

It is going to be a joint presentation by myself and our assistant director Jeff Wurm, and our credit manager Tracey Paine.

Next slide.

PMIA-Slide 2 – High Level View 0:59:12

So my part of the presentation is to give you a high level overview of how we invest your money. Part this presentation will include what overall investment plan is, what factors and other types of information drive this investment plan, how the investment landscape has changed dramatically over the past year. For those that attended our LAIF conference last year, you may have noticed the title of this presentation is exactly the same. Well I didn't have to work hard to change it because what a difference a year makes.

So I'll provide you some statistics that just show you how things have changed over the past year. And then, finally, regardless of all of these changes and the uncertainly in our world today, why you should be very assured that your money is being very prudently managed.

Next slide.

PMIA-Slide 2 – How Your Money is Invested (PMIA/LAIF) 0:59:12

So I'm going to start today just talking a little a bit about at a high level overview of how your money is being invested. As Christina indicated and gave you charts, LAIF monies are part of a much larger government account that we use to invest your funds. It is comingled with the General Fund and SMIF, the surplus money investment fund that state agencies put into these accounts to be invested because they are not used for immediate use. The purpose of the PMIA, when it was originally created, was to be a very liquid and just a very safe liquid cash management account.

So we manage these monies, your monies as well as the rest of the PMIA, as a short term investment pool which means that we keep the average life of this pool fairly short, less than a year, and we invest in the types of investments that give us a great deal of liquidity.

Among these investments, what our primary go-to and what you would say is the gold standard for safety and liquidity, are government securities, mainly treasury bills and treasury notes. In addition to this, as Christina also indicated, we rely quite heavily on agencies, government sponsored agencies as well as supranationals such as Fannie Mae, Freddie Mac, Home Loan Bank, and World Bank.

These offer us highly rated good quality investments but they also provide us with a great deal of flexibility because of the fact that we have to meet certain cash management needs and the treasuries, the bills and notes, only mature on Tuesday and Thursdays. So the agencies give us that flexibility to invest and get maturities (investments) on other days.

In addition to the government securities and the agencies, we also invest in highly rated capital market instruments, and Tracey will be talking in a few minutes about how we go about doing that credit analysis. But these investments which includes certificates of deposits and commercial paper, they fall into the top 3 credit rating agency categories by at least 2 rating agencies.

In addition to this, working with these investments, our strategy also includes to work very closely with our Cash Management Division [Centralized Treasury and Securities Management Division (CTSMD)]. We talk to them at least twice a day sometimes multiple times a day depending on where the cash flow is going. We do this particularly because we want to make sure that we invest in the types of investments that provide competitive returns but that also, first and foremost, are safe and liquid because we want to insure that when the time comes for you to withdraw your money, the money is there for you as well as the other agencies.

Next slide.

PMIA-Slide 3 – Time Deposit Program 0:55:35

In addition to the government securities as well as the non-government capital securities, the STO also runs a time deposit program as part of the PMIA which provides investments in local communities. The State operates this program as a voluntary program for which banks, credit unions as well as savings and loans that are headquartered in California can participate. What happens is we take money from the PMIA and we deposit into those financial institutions.

In order to participate in the program the bank, credit union, or savings and loan have to contact us. Then our Time Deposit Team does a very extensive credit analysis of the bank to ensure the safety of your money. And then, based upon that credit analysis, we establish a rate and a term structure for the investment of those funds and when they are returned to us.

Right now we have $5 billion invested in local community institutions and across the State 69 community intuitions in banks, credit unions, and savings and loans.

Next slide.

PMIA-Slide 4 – 2 Year CMT vs 10 Year CMT 0:54:22

So now I'm going to turn to do a little bit to talking about some of the factors that influence our investment decisions.

We don't have any in house economist doing forecasting for us but what we do have is quite a number of the banks that we work very closely with providing us daily with economic forecast, and we also rely on information from Bloomberg and Thompson Reuters to guide our investment decisions.

Particularly we follow the yield curve as one of the main things we look at and the chart in front of you is one of the bell weathers that economists use for predicting recessions. The vertical shaded areas reflect over the last 4 years when there has been a recession. What this chart shows you is the spread between the 2 year constant maturity treasury and the 10 year constant maturity treasury. And you'll see there is a fairly accurate predicting ability of this measure because every time that spread drops below zero, which means that curve is actually inverted and the 2 year rate is higher than the 10 year, within 6 to 12 months there has been a recession.

Why is this useful to us? Why is it useful to follow what yield curves are doing? Well it's a useful gauge knowing where we are in the business cycle, how strong the economy is and basically it guides us as to where we want the portfolio to be as far as the types of investments that we want to purchase as well as where the average life of the portfolio should be to insure that it is meeting our expectations and the safety and liquidity needs of the pool.

Next slide.

PMIA-Slide 5 – Federal Reserve & The Fed 0:52:46

In addition to the economic indicators, we also follow the actions of the Federal Reserve and also Fedspeak, the pronouncements of its chair Jerome Powell.

And in the past 6 months the fed has been particularly active, playing a very active role in trying to curb the down turn in the economy and also to prevent it from falling into a deeper recession.

One of the particular concerns we've had as well as the Fed has had is market liquidity. Early on in crisis with the pandemic, there was a lot volatility at the short-end of the curve which is where we're investing a lot of our monies. Watching that and the actions of Fed trying to control the liquidity and trying loosen up the credit for the banks to stabilize the market, we saw the rates drop dramatically and so that has impacted our investment strategy, which Jeff will talk about a little bit more in detail. So this is a key factor we do consider when we do our investments.

Next slide.

PMIA-Slide 6 – Changing Landscape 0:51:46

Well as the title of the presentation has indicated, what a difference a year can make, I thought it would be interesting to put up a slide that just shows how dramatically the landscape has changed from August 2019 to August of 2020.

Over the course of this past year, as you can see, the PMIA grew about $20 billion in large part due to the money that we received from CARES Act from the federal government as well as the fact that the timing of our income tax revenues was delayed. So that affected the cash flow and therefore a lot of that money still resides in the treasury. And, also, LAIF has grown dramatically, about $7 billion over the course of the year. Part of that is due to the approval by Treasurer Ma of increasing the individual LAIF accounts by $10 million. But we also believe there is the factor that the PMIA tends to trail other similar types of investments when rates begin to decline and making it a better investment opportunity so we feel much of that money is in the pool because of that reason.

The monthly average yield also because of the actions of the Fed and its impact on the economy and impact on markets has dropped. As you can see from in August of 2019 at about 2.3 percent to now, in August 2020 about a little over ¾ of a percent.

And underlying that are the changes in the actual investments, and I put two indicators in there for you to look at. I'm sure you are very well aware of just the dramatic drop in the effective federal funds rate as well as the constant treasury maturity. And as Ian indicated in his analysis, it doesn't look like these short end of the curve rates are going to change anytime soon.

Next slide.

PMIA-Slide 7 – Reasons to be Assured Your Money is Safe with LAIF 0:49:53

So we've experienced quite a bit of uncertainty over the past year, particularly over the last six-months, and there still is a lot of concern and also uncertainly of where things are going with the economy. We've had to adapt our strategy as well as most of you. But, what I want you to hear from all of us, and that's why this slide is here, is that even though we've had a lot of that uncertainty, the core principals still remain of how your money is being invested. Namely, firm adherence to California Statute, the statute has not changed. It still guides the investments we invest in, the credit qualities of the investments, and the maturity length of those investments

We also, on our investment policy, which you can view on our website that Christina showed you, our investment policy is more conservative than statute. For example, California statute allows us to invest out to 30 years in treasury maturities; however, our policy restricts that to no further than 5 years.

But, even more so depending on the environment, we're going to take an even more conservative approach than what our policy allows us to do. And, in this environment we don't invest out 5 years. There is no benefit to you and to the pool for investing out to 5 years. So we're much more restrictive currently than what policy provides for.

You should also know that the staff that is managing your money has quite a bit of experience, very broad and deep experience. Our nine authorized investment traders has collectively 183 years' worth of work experience. Which averages out to about 20 years per person and most of that has been with the State Treasurer's Office. We have not only portfolio management experience, but we have staff with cash forecasting experience, securities clearance experience, bonds finance experience, as well as just financial services experience.

And this has really been invaluable during this time period, because that knowledge and experience along with our team approach has really helped us make that transition into a teleworking environment where we've had to use online platforms in order to conduct our investments.

So finally, the last point I would like to make in the end, as Christina said, your money is safe. Statute prohibits the State from taking your money, and your principle is guaranteed to go back to you. We do operate a cash management investment pool, but as a LAIF participant, your principle will be returned to you at the end of the day when you need to withdraw it.

For these reasons, we just want to make sure you can feel rest assured that your money is safely being invested and prudently being invested.

Now I'm going to, next slide, turn the presentation over to Jeff Wurm.

PMIA-Slide 8 – Selected Investment Data 0:47:02

Jeff is going to talk a little bit more in detail about how your money is being invested.

JEFF WURM: Hello everybody, thank you for joining us today. I'm honored to be able to present to you again. Little different this year we're looking forward to doing another in person conference those are a lot of fun to get to meet all of you face to face, but still getting the opportunity to talk to you is going to be fulfilling today for us.

And we hope if you have questions, please be ready to ask. We're ready to answer those questions, there's not much left of our presentation, so if you have questions, please start sending them into us and we'll be ready start passing those out to the appropriate people at the end of our presentation.

My first slide here I'd like to share, thank Christina for introducing it when she went out to the website, this is part of our monthly report. So every month you can review this. This is one of the first pages in our monthly report it kind of shows an overview of how the pool is broken down by investment securities.

Kristin mentioned our investment policy, the 3 goals in the investment policy first and foremost is safety, and secondarily would be liquidity, and lastly is yield. And if you look at this breakdown you can see that as of June 30, our fiscal year end, over 52 percent of the portfolio in treasuries and another 20 percent in agencies. So 73 percent of the investments we have in the entire pool is either going to be a U.S. treasury security or a federal agency security.

And then if you look another 5 percent in our time deposit program, pretty sure this was mentioned by Kristin, but all of those deposits are collateral so they are fully guaranteed to get our investment back. It is a great program it's an opportunity for the Treasurer to invest in local communities here in California. This is another situation where policy is little tighter than government code. Government code only requires the bank to have a branch in California, our investment policy requires these banks to be head quartered in California. We really want it to be an opportunity to really have the relationship with the these local smaller communities and smaller financial intuitions here in California.

Go to the next slide please.

PMIA-Slide 9 – Pooled Money Investment Account Historical Portfolio Structure **0:44:56**

This will show you a break down of where we were 10 years ago on June 30, and as of June 30 this year. And then I have a 10 year average column as you can see the more things change the more they stay the same. There isn't anything that really stands out that's changed a lot over the 10 years. You can see that we're a little heavily weighted in agencies this year than we have been recently. Not sure, there really isn't any reason for it other than the fact that the portfolio has grown a lot and we really do lean towards safety as it being the first part of our investment policy and we've had a lot opportunities to hit dates that we know were going to need where treasuries are not available to help us there.

The other piece I'd like to point out, if you look towards the bottom, loans have changed a lot. A lot of it is as the economy got better in California. There wasn't a lot of need for general fund loans to be handed out or to help get through times like they were 10 years ago in the middle of the financial crisis.

And as you see the 10 year average is at 3 percent. What I'd like to point out on this when it comes to the loans, there are 2 things that are not included in this because they're not tracked inside of the portfolio.

It’s the SB 84 and AB 1054. The SB 84 was the PERS and STRS kind of advance loan that is going to be paid back over time. They are making payments to us.

And the AB 1054 is the wild fire and utilities relief fund that was started. That's where you are seeing the boost in your quarterly earnings. Never before this when these loans happened outside the pool was the PMIA earnings below what you are receiving in the quarterly distributions and that’s why you’re seeing the bump. They’re not managed by us internally here, but the earnings from those loans do get swept in to the quarterly distributions. Again, I just want to make sure that you understand that it’s temporary, it could be a long temporary, if it comes to SB 84, if they have up to 13 years to pay that back.

The AB 1054 portion could be coming back a lot sooner, it was really is intended about a year we just passed. I know they are working hard to get that paid back but that little bump is going to be a little than you’re seeing but it’s still going to be there going forward for the time being

Next slide please.

PMIA-Slide 9 – Portfolio Composition 0:42:40

This slide shows you the breakdown of the portfolio over these 10 years that I just showed you the average of. Just a couple of highlights while we're here and things change and our thought process and how we invest changes as you can see over time.

If you go back to 2012 there is a couple of thing in the bar I’d like to point out. Agencies which is the first bar above the bottom bar, which is the blue treasury part. At that time it’s the smallest amount we’ve had over this 10 year run it was less than 7 percent of the portfolio. At that time they weren’t in the market and weren’t very active..

So again, a lot of these things are driven not by our choice, but by what is available to us, and the size of the portfolio also. And If you look commercial paper at that time was less than 5 percent. That was an internal choice on our part. A lot of concerns in the market and there was a credit crunch and a little bit of a credit freeze out there. So some things weren’t available and some things we were just making a conscious choice to stay away from

And if you look here towards the end on the last part here, CD's it is the smallest amount we’ve had here in quite some time a lot of that is kind of what is available in the market if you look at the fact COVID-19 had on financial institutions they don’t have a liquidity need right now, they have tons of deposits in place because there’s not a lot of activity going on and they’re not having to write a lot of loans right now.

Go to the next slide please.

PMIA-Slide 10 – Treasury Maturity Schedule 0:41:14

This is something we introduced a few conferences ago, just to give you an idea of what it looks like on the treasury maturity schedule for what we have in the portfolio. I've moved out to September 30 just to give you an idea.

What's interesting is all the green numbers are treasury bill positions and blue numbers are treasury note positions. The Fed has been introducing more and more treasury securities into the market for multiple reasons.

When they introduced the 5 month treasury bill which slid to Tuesdays, they gave us a lot more options to try and hit some down dates, that we didn't have an opportunity before whether treasuries were only treasury bills on Thursday, so you see there is quite a big in the next 5 months because we've been taking advantage of that investment opportunity out there.

If you look at the bottom it tells you in the next 12 months starting on September 30, $52.7 billion worth of our treasury portfolio will be maturing. But again we are continuously adding those back on so it's not like this going to change the structure of the portfolio.

One of the biggest reasons we carry so much in treasuries is, it's like carrying cash it helps our liquidity, we always know that we can go to the market, the treasury market is open every day, and if we really needed to for any reason, we could sell some of these securities back into the market. So this is just a way to carry cash and make sure that we have the flexibility to meet everyone's needs, the State's needs and our Local Agency Investment Funds partner's needs.

I'm done talking about the super safe secure part of our portfolio. I'm going to introduce you to our credit manager Tracey Paine and she gets the responsibility of the more challenging portion of our portfolio.

PMIA-Slide 11 – Credit Rating Agencies 0:39:39

TRACEY PAINE: So since our most important investment goal is safety, we monitor the credit strength of the investments on a daily basis to ensure the PMIA is protected.

The PMIA has very high quality credit standards and the securities we purchase must be of prime quality and rated by at least 2 nationally recognized rating organizations. The credit rating agency services that we subscribe to are Moody's, S&P, and Fitch. And these services enable us to monitor our approved investments very closely, because for each issuer they provide us a credit analysis, financials, performance reports, and industry outlooks.

Next slide.

PMIA-Slide 12 – PMIA Portfolio Composition 0:38:48

About 20 percent of the current portfolio are certificates of deposit and commercial paper. Certificates of Deposit can be issued by either domestic banks or foreign banks that are licensed in the United States. And commercial paper can be issued by banks, corporations, and limited liability companies.

Next slide.

PMIA-Slide 13 – Monitoring Approved Investments 0:38:23

We currently have about a hundred certificate of deposit and commercial paper issuers that are approved by the PMIA. And on a daily basis we are monitoring these approved investments very thoroughly to ensure that the PMIA is safe. We use several resources so that we can obtain as much information as possible, to ensure we know and understand the stability and the financial strength of the institutions issuing the securities as well as the economy and the banking industry as a whole.

In addition to accessing credit information from the rating agencies we also have subscriptions to Reuters and Bloomberg and other reliable news sources. And weekly I consolidate the critical information from these sources to provide credit updates for the traders in order to keep them informed of events that occurred. This could be rating changes, financial performance results, or some other event or major headline.

And all of this information, whether positive or negative, can generate a change in our investment strategy. Sometimes that strategy can be subtle such as how much we are investing or the length of time for an investment. Other times it with be can be more straight forward such as if we stop investing in them completely until the deficiency is resolved.

Obviously this year the major headlines are largely related to the impact of the pandemic on the economy. And we want to assure you that all throughout this we have continued to be cautious to ensure our investments are safe.

Next slide.

PMIA-Slide 14 – Adding New Programs 0:36:40

In order to continue to enhance the PMIA's safety, liquidity, and yield we are always looking for additional certificates of deposit and commercial paper programs to add to the list of approved investments. In looking for new programs, we first and foremost must ensure that they are in compliance with the government codes and the PMIA investment policy. Then we complete a comprehensive credit analysis, which would include evaluating their financials, and analyzing the changes over time, analyzing their ongoing performance and comparing them to their competitors, evaluating their ratings and comparing their ratings history to where they are now. And also looking for any news or current events and evaluating what impact those have.

We also look for fairly large programs. For commercial paper, our holding cannot exceed 10 percent of the programs outstanding. So, the program size has to be significant and for certificates of deposit the banks should be of pretty significant size to ensure safety. Over the last year, a few programs that we've added are UPS, Merck, Natixis, and Amazon.

Next slide.

PMIA-Slide 15 – Portfolio Diversity (World Map) 0:35:21

Adding new issuers is also important because it provides us an opportunity for additional diversity in the portfolio. And this image shows as of June 30, the diverse exposure we have geographically with certificates of deposit and commercial paper combined.

Since some of the institutions on the approved list can be headquartered in other countries, we do monitor the economy and banking industries in not only North America but also Europe, Japan, and Australia.

Next slide.

PMIA-Slide 16: Portfolio Diversity (Pie Charts) 0:34:45

As of June 30, we had commercial paper investments in 26 different programs and that is the graph on the left. Some of the larger holdings were with Toyota, Apple, JP Morgan, and MUFG. And we have certificates of deposits investments in 36 different financial institutions. And the graph on the right shows you what that diversity looks like. Our largest exposures are generally with domestic banks. So you can see by all the color variety that even though we have strict high quality credit standards we are still able to keep some diversity.

I'll turn it back over to Jeff.

JEFF WURM: Go to the next slide please.

PMIA-Slide 17: FOMC Dot Plot 6/15/2016 0:33:54

Here's where I'm going to have a little bit of fun. Let's go back to simpler time a long 4 years ago and look when the Fed met and in their meeting in June of 2016 where they felt rates would be going. I don't know how many of you have access to Bloomberg, you can look at what they call the dot plot. For me it is more fun to look back because we don't know what's going to happen going forward and it helps me kind of figure out what we can do with this information and kind of utilize it.

So at that time Bill Dowell was the director and I was working with him as the deputy director or assistant director in the division and we kinda were online with their thoughts, we thought rates were going to continue to go up. And things were looking great and I think if you look at this they thought by 2018 rates would be right around 2 .5 percent

We'll go to the next slide please.

PMIA-Slide 18: PMIA June 2018 Average Monthly Yield Comparison 0:33:01

So let's see what really happened, this is our chart that we put on our website on June of 2018. The fed funds rate was right around 1.81 percent they are pretty close, right in line with where things were going. I also like to show this slide to remind people, which has been mentioned already, due to the fact that our portfolio is larger and we have an average life that sticks around 6 months/180 days we trail the market a little bit. So when the fed fund moves we're a little bit slower to react to that, we'll post this our website regularly, you can see where things are.

The only thing we can think of to, and I hate to use the word comparison, but to add to the slide, would be the S&P GIP index they are not the really the same, their average life is really, really short compared to what we are, but they do invest in the same types of securities. So, that one's, why that's on the website.

Next slide please.

PMIA-Slide 19: FOMC Dot Plot 6/13/2018 0:32:10

So let's move forward, so now were at June 2018, the Fed meets again and they've put out their dot plots and now they're thinking that by 2020 rates are going to be around 3 percent. For those of you who joined us for our webinar/conference at that time, Bill and I we're right in agreement with them, we thought rates would continue to go up. We were kind of thinking that things were just going to get to 3 percent and not stop kind of the same thing the Fed was thinking. And we know how that turned out.

Let’s roll to the next slide please.

PMIA-Slide 20: PMIA June 2020 0:31:39

And here we are rates are not at 3 percent, the fed fund rate is down to 7 basis points. What I'm not really trying to throw stones what I want to say is, with the information that we're given at each opportune time to kind of forecast forward we don’t know what input a change has had.

And this is where I'm going to make all of you members of the fed. I’m going to introduce a polling question in a second.

PMIA-Slide 21: Polling Question 0:31:08

You’re all going to take a choice where you think rates will be in 2022. I’m giving you 4 options: currently where they are 0.0 to 25 basis points; 2.) 50 point to 1 percent; 3) would be 1 percent above; or please nobody pick negative.

Polling Slide: Where do you think interest rates will be in 2022? 0:30:53

But I put it on there in case you want to be a little bit on that side because we hear concerns about that. And believe me we're aware of it, we’re studying about it. We’re talking to people like Ian, who was with us today. What his thoughts are, does he think it can happen, how long would it happen, and what kind of impact it could have. And we’re trying to formulate plans the more that information comes out.

So I would really like it if you guys could participate in this poll, so I’d know you’re listening to us and having fun with us. This is just fun, nobody is graded on it, nobody is going to be judged for it.

And I'll tell you exactly where I think we're going to be. So there are two ways to look at it, where I hope were going to be versus where I think we’re going to be are two answers I can give. And I don’t know if I’ve dragged this out long enough to give people a chance to respond.

I know you’ve kind of been led, or what’s the term that we hear all of the time, somebody is leading their witness, when if you’ve heard, paid attention to Ian, and Kristin mentioned it, I’ve kind of mentioned it. So let’s see where we are?

Polling Slide: RESULTS – Where do you think interest rates will be in 2022? 0:29:55

So 40 percent think they are going to stay where they are now, and the Fed thinks we're going to be. And 47 percent are right where I think we're going to be. I think things are going get better in the next few years. Again based on the information we have today, I understand why the Fed's saying what they say. I think we're going to find a way to get things better, we should be, I'm hoping and I also think we're going to be in the 50 basis points to one percent range. I can always hope for above 1 percent. I think we like to invest when the rates are a little bit higher. Thank you for participating, I appreciate everybody doing that. And we'll move on to the rest of my presentation.

Next slide.

PMIA-Slide 22: FOMC Dot Plot 6/10/2020 0:29:16

And as we talk about it, the Fed just met and look they don't agree with you. There are a couple of people that think, 2 members of the Fed think rates will be above where they are in 2 years but long forecast out they are back in the 2 percent range. I just want to have a little fun with everybody and that's why I showed it.

So this next slide I'm showing you, historically this is normal for us.

I'm sorry, next slide if we can.

PMIA-Slide 23: Pooled Money Investment Account June 2010 0:28:53

We do trail, when rates were going up, this is from 2005 to 2010, when rates were going up the PMIA was lagging behind. Then rates dropped when we hit the financial crisis in 2008 and look the PMIA trailed behind it. And as I mentioned we trailed going on the way back up.

We do try to stay, I've used the term light on our feet as possible, for what is now a $110 billion portfolio, it's not so easy, but it's still a part of what we do.

Next slide please.

PMIA-Slide 24: Treasury Yield Curves 0:28:21

I have an overlay here of 3 different time frame yield curves to give you an idea of where we've been and what we're dealing with now. I'll just pick the very top one the kind of amber colored one, that was June 30 of 2018 the treasury yield curve. And at that time we took a conscious effort of what I picked out as the steepest part of the curve right before it started to flatten out. So we were buying a lot more 2 and 3 year treasuries during this investment time, because you get a lot more earnings for the time frame you are locking it up. And we were able to do that.

If you look at the bottom curve on this chart, the flattest of them all, is where we are as of June 30 this year. And there's really no benefit for your dollars, the State's dollars, for us to invest in that 2 to 3 year arena.

And we've been buying much more of the treasury bills anywhere 1 year and in. And just kind of turning cash over waiting for that time frame, that I think we're going to get to I they where things will get better and we'll start seeing a yield curve again that Ian was mentioning. He was mentioning, steepening the curve a little further than we like to invest and actually a little farther than we can go to policy wise in that 10 to 30. But eventually that steeping is going to hit into 2 to 3 year range and we'll start buying those again and adding more of them to our portfolio.

Let's go to the next slide.

PMIA-Slide 25: Fed Fund Rate 0:27:04

This is just a look over the last 20 years of what the fed fund rate has done. As you can see they are quick to respond when they need to, to stimulate an economy. And then they take the slow and steady approach back up to make sure they don't over shoot it. And it's almost the same but just a little bit different, that long flat zone that I was just talking about that we're in for a long period of time. Wanted to show it to you to share.

Next slide.

PMIA-Slide 26: PMIA Portfolio Maturity Schedule 0:26:41

This next item is on our website, it's our maturity schedule. Because most of my information was from June 30, I used that one. What I'll point out, and it's something that we point out every time that we meet with you again, liquidity is incredibly important we want to meet your needs and not just your needs the state cash flow needs is changing every day. Kristin can attest to that, as she was in the Cash Management Division for a long time. There are things that hit us and also hit the local agencies the same way. Your cash flow changes and we know we need to be available to meet that.

So if you look at the bottom line there, in the next 4 months starting on July 1 over 50 percent of the portfolio will mature. So, even though the portfolio is large, and yes we do invest out the curve a little bit, a lot of it is turning over in a very short amount of time. I just want to share that.

The next slide.

PMIA-Slide 27: No Title (Photos: Covid-19/CARES Act/Wildfires/Fed 0:25:50

Things that we pay attention to and again these don't push what we do but they factor into what we think about we are investing. Nobody wants to talk about Covid, but it's on there.

Just a reminder, for those of you that have received CARES money and you don't have a place to put it you can invest with us it is a secondary account and we have the applications on our website.

The fires have impacted everyone I'm sure, and we do listen to the Fed. Bill always like to say, "you can't fight the Fed," so we don't we just listen to them very carefully

Next slide

PMIA-Slide 28: Traditional "Barbell Strategy" 0:25:18

Just shows you what a typical barbell investment strategy is where you invest a little bit short and a little bit long. In today's world we're not doing that here in the Investment Division.

Next slide.

PMIA-Slide 29: "Barbell" Strategy – Emphasizing Liquidity & Flexibility **0:25:07**

We're much more weighted on the front end of the curve, so he's super strong and it's really heavy over there. And same slide that we've shown. It hasn't changed, but if ain't broke don't fix it. And I think what we do works, we work together we adjust to what goes on in the marketplace to what fits the States needs, and what fits our local investment team needs. That's it for our presentation. I don't know if I need it pass it back if everybody would like to hop on, I don't know if we have any questions.

KRISTIN SZAKALY-MOORE: No, next slide.

JEFF WURM: Oh next slide Sorry.

KRISTIN SZAKALY-MOORE: We just have a couple parting thoughts for you.

PMIA-Slide 30: Some Parting Thoughts **0:24:37**

KRISTIN SZAKALY-MOORE: Just some fun parting thoughts for you, and just to thank you all for coming. And that this is the end of our part of the presentation, and as Jeff said we're going to take some questions and answers and we just wanted to let you know we really do value and trust your willingness to invest in us and you trust our abilities to invest and safeguard your money. And we will just keep carrying on through this time frame and take a care and steady approach to managing your money.

Next Slide.

PMIA-Slide 31: Contact Information **0:24:01**

That's our contact information in case you would like to call us and talk to us.

Next slide.

Q & A: Question #1 **0:23:54**

We're ready to take some questions and answers.

LILY OSORIO: We have a question from Tyler Cook, he says we have always given LAIF 24-hour notice on withdrawals over $10 million, but does LAIF also need 24-hour notice for deposits over $10 million?

JEFF WURM: I'll let you handle that one Kristin.

KRISTIN SZAKALY-MOORE: Actually, first let me ask everyone to come back on the screen. Ian if you would join us, and Tracey. Great, I'm sorry would you repeat the question one more time since we had this little thing here.

LILY OSORIO: Tyler Cook asks, we have always given LAIF 24-hour notice on withdrawals over $10 million but does LAIF also need 24-hour notice for deposits over $10 million?

KRISTIN SZAKALY-MOORE: From a cash management perspective, it would be helpful. Because as a team we deal with these last minute changes in cash flow, and our cash management team, which is on the 3rd floor in this building, they struggle on a day-to-day basis in managing and trying to give us the most accurate information as possible, so to the extent that you are able to give us that information on deposits we would very much appreciate it, It helps us with managing the money much more effectively. Anybody else want to pipe in.

JEFF WURM: Yes, I do, nobody is going to be punished for it, but it really is helpful to let us know that. There are times we're asked to go back in the market late in the day. I don't know how many of you have tried to do that, options are super limited and you are kind of pressed against it, and kind of at the will of what the market has left. So knowing as much as we can really helps a lot in what were doing for your money and for the State's money.

Q & A: Question #2 0:21:53

LILY OSORIO: Our next question comes from Mark Bray, he asks can you consider raising the LAIF cap to $100 million?

JEFF WURM: We knew that was coming, what we can do is we can share that with the Treasurer. That really is the Treasurer's decision. More than happy to share that information, she did ask if we thought this question is coming and I said of course it is. And we will let her know that you asked. And again we'll take a long look at that and share all the information we can with her.

CHRISTINA SARRON: And she seemed amenable the last time we met over the $75.

Q & A: Question #3 0:21:14

LILY OSORIO: And that's it, we don't have anymore questions that we received during the webinar.

JEFF WURM: Really, I mean you guys have a chance to talk to someone like Ian you can ask him anything about the market. I don't know Ian do you feel the same way that the Fed does do you honestly feel that the rates are going to stay that low for 2 straight years or do you think there is a possibility depending on the outcome of election if there is a change or if there isn't.

I know our current President loves super low interest rates. And I think he'd encourage that if it does change, I don't know if the other side feels the same, do you think that could loosen that up?

IAN LYNGEN: Actually, I think that the that the Feds stance lower for longer or almost forever is a reflection of where we are in the super cycle of deflation. And the realities of the demographics in the U.S., and the fact we have an aging population, and the fact that a lot of the service sector hit in the pandemic is not going to be reemployed in the same type of jobs. We'll have an increase in automation and a lot of that is dis-inflationary and it's going to be disruptive to the labor market.

So while we might find ourselves in a situation where the aggregate economy is grows reasonably well. Parts of the employment market come back reasonably strongly we won't necessarily have the type of inflation that gets the Fed worried. And as long as we don't have true demand side inflation, the Fed is going to let the unemployment rate dive even lower than the past. With a goal of really decreasing the unemployment rates for the sector that lagged in 2010 to 2019. Which was the lower wager. And it's when that subset started to see upward pressure on wages and downward pressure on the unemployment rate. That's when we finally got inflation back. Which is very late cycle inflation. But that's what the Fed would like to see. And while I would personally like to see a quicker transition through that process and rates end up being higher sooner rather than later, I think that the reality of the length in which the pandemic residual will extend I think will leave the Fed with a bias to be lower for longer than we have seen in the past.

Just for context the last financial crisis, the Fed didn't do anything for 5 plus years. And the argument at this point is that this one is broader and it's not just a banking sector issue. So politically, when talking about one administration versus the next, I think politically that actually bodes well for a Biden President, and anyone he might bring in, favoring a lower unemployment rate reached by lower interest rates. I think it might be a framing issue. But we'll have certainly have a little bit more clarity over the course of the next several months.

JEFF WURM: And this did give us a bit more time to get to more questions. Lily do you want to…

Q & A: Question #4 **0:17:48**

LILY OSORIO: I'll start with a question that we received upon registration. Somebody asked what our immediate plans were to mitigate the impact of COVID-19.

JEFF WURM: I don't know, the impact really from what we've seen is in the marketplace and what becomes available to us on a daily basis. It's been less of a need for financial institutions to be in the market requesting us to purchase their CDs and place deposits with them. So we're more reactionary than trying to avoid it.

We're watching credit every day, Tracey and her team is doing a great job keeping track of how the commercial paper programs that we invest in are impacted by this. We stay ahead of it and tend to get our own kind of thoughts going before the credit agencies actually make a decision to change the credit strength of an institution on the rating side. I mean you get warnings and they are on downgrade watch and they explain why. And then we actually make our decisions immediately.

It is we're paying attention to it and it does affect what we do, I don't know if I would say we have plans ahead of time, we're just reading what's happened in front of us everyday.

KRISTIN SZAKALY-MOORE: Exactly, and as I said, it's just a matter of just using the information we are given. We receive daily input from various as I said, economists, Ian we get information from on a daily basis other economists from other banks. And it's just a judgment call based on years of experience. I mean much of the staff that's in this office has been here, as I said, 20 plus years. So we have a lot of experience going through down turns and obviously this one is unique. But a lot of the markers of it aren't when you see issues of credit and liquidity becoming tight you move in that direction, that's what we've tried to do move in the direction of more safe more liquid investments.

Q & A: Question #5 **0:15:42**

LILY OSORIO: Our next questions come from Lucy Dong. As a local government can we participate in LAIF as LAIF only participant. Which means we invest all our funds to LAIF?

JEFF WURM: That would be, your oversight would decide that if you can or not. If it can only be a portion of your investment or if you can that's not for us to say. We have a cap and if all of your investment fits under that cap and you want to place it with us you can. You have to go to your oversight and see what your local government codes states that you can and can't do with your money and then go from there and go through your board to make that decision.

KRISTIN SZAKALY-MOORE: And just contact our LAIF staff to give you a walk through about what the various requirements are and withdrawal issues are and what not.

Q & A: Question #6 **0:14:52**

LILY OSORIO: Marisol Gomez asks, what tips of info would be great to write into investment reports we have to provide to the council on a quarterly basis?

JEFF WURM: I think every area has different challenges and different needs. If your a cash flow driven portfolio that's going to be the most important thing to watch when you need money available. From a credit perspective, I don't know, Tracey do you want to mention anything? If you don't have access to like a Moody's, Fitch, or S&P, it gets kind of tough you can find at least the ratings on Bloomberg if you have that. It's really going to be what your oversight is going to be needing. The State needs are a little different we are a lot bigger we have a lot of resources at our disposal that some of the locals may not have. I have a hard time answering that not knowing what challenges are in front of you, sorry.

Q & A: Question #7 **0:13:47**

LILY OSORIO: Our next question comes from Robert Dawes, when do you think the PMIA yield will fall below 50 basis points?

JEFF WURM: That's a really good question that I really wish I didn't have to answer. The daily yield has approached that number already to be honest with you. The LAIF participants get paid what the quarterly average is. I was pleasantly surprised at how high that number was on June 30, I thought it would be a little lower than it was.

I would say by the end of this year, I would say your December 30 apportionment rate with the little bonus money coming in from loans it should be above that but much longer than that. A lot of maturities that we bought, the last time I was talking about before we did this, was that we bought stuff over 2 percent is it's 2 years ago next month was the last time I bought 2 percent maturity.

So all these things are maturing and coming off and everything that we're buying is at the rates that you see in the market today. The yield is coming down faster, I think we can make it through physical year end with average earnings around 50 basis points. It could be less than that by December 30 though in terms of what your being distributed, but the daily earnings are already there in the portfolio

Q & A: Question #8 **0:12:23**

LILY OSORIO: Our next question is from Elizabeth Scrat. Ian mentioned an aging population. How does an aging population impact inflation and/or interest rates?

IAN LYNGEN: That's a great question. So generally speaking as one makes their way through their working life span they tend to spend more in the beginning save more as retirement comes on the horizon. So that means think about a typical life span one would purchase a home, start a family, fill the home with goods, utilize more services when they are people are raising an family, etc. etc. As that all scales down not only do we have fewer consumers in the economy but we also have fewer people contributing on the labor force side, so we have a smaller labor force. And as that relates to interest rates generally speaking particularly as I think about the next 20 years, let's call it. There will be a push that was already under way to replace a lot of jobs with automation and not- I'm not talking about conceptual robots doing daily chores but think about how quickly consumers were able to adopt the smart phone technology and things like driving cars or trucks come to mind and then robots within the productions sector that type of automation has taken on a lot more uptick than one might have expected or than we saw even a decade ago.

And for that reason that conceptually is disinflationary because it has fixed costs at the beginning but it reduces costs over time and that also reduces aggregate wages or wage pressure. So as a result we'll see less upward pressure on wages, it doesn't contribute to unemployment although it would contribute at a point when people were already taking themselves out of the labor market, just the demographics, retiring. And so I think it will serve as a more obvious replacement than it will a crowding out for workers nearing retirement. With that context what does that mean for rates? Generally speaking, when a central bank is faced with either lower than expected inflation or under-performing inflation they tend to be easier which, manifests itself in lower policy rates and/or increased quantitative easing or other measures to stimulate inflation. So overall generally not only in the U.S. but the global aging of the western population expected to continue to be a downward pressure or provide downward pressure on rates over the next couple of decades.

Q & A: Question #9 **0:08:53**

LILY OSORIO: And one more from our registration process how do you think the markets will react to a new President?

JEFF WURM: I'll defer to Ian.

KRISTIN SZAKALY-MOORE: Yes, we'll defer to Ian.

IAN LYNGEN: One of our biggest questions in 2020 was what does a GOP or a democrat President mean for the market? Because of what has occurred during the pandemic and because of all of the opportunities to engage investors response functions to the amount of stimulus for example in the system. We are now in a position where whether it is a GOP or democrat it matters less for the markets response, what matters the most at this point is how quickly we have that result. So, if we get it within the first 2 days the upside in the equity market will continue that will be net positive for interest rates. In the front end yes but more obviously further out the curve, because the moves can be bigger in this environment. If we do find ourselves in the situation where the results are contended for an extended period of time that's going to be negative for investors sentiment overall and really curtail the degree to which we would expect longer dated rates to increase. The other thing that, that could contribute to depending on how negative of an impulse it initially is would be the Feds forced back into action. All things equal the Fed would rather not do anything between now and the end of the year. But if we do see a tightening in financial conditions as a result of people selling of investors selling equity or investors selling credit instruments then that actually in of itself might be a policy prompting event from the Fed. So I think at this point we're less trading the party or the individual and now we're just trading getting past the event risk itself.

JEFF WURM: We'll take a couple more, we'll end this at 12:30. Ok, let's there is two more left right?

Q & A: Question #10 **0:06:28**

LILY OSORIO: There's 3. John Adams asked what is the background or rational behind the $75 million dollar cap? Why not unlimited?

JEFF WURM: The simplest answer is when it was created we were not created to be the only investment for somebody we wanted to be part of their investment options and help them with their investment ability in cash flow needs. With it kind of being treated like an interest bearing checking account. And that hasn't really changed in philosophy. We have grown, the State's grown, the local agencies have grown. We've made that cap a little bit bigger. Do either of you know how many people are at the cap now? Of all of the accounts, and we have thousands that we have now.

CHRISTINA SARRON: No, not off top of my head.

JEFF WURM: Yeah, but it's not more than ten is it.

CHRISTINA SARRON: No…no.

JEFF WURM: It wouldn't benefit very many people and it would put a little bit more strain on everyone's ability to manage the cash. Because the core behind LAIF is your money is available to you every single day and if you have a $100 million account and you call up at 9 in the morning, we kind of have to make it available to you and that'd be really, really, tough to put on us. Or even unlimited if you have a much larger portfolio. So 1) the biggest reasons we were not meant to be the only investment you guys have, and 2) we'd probably have to put more constraints on the transactions if that was a the case. If it were and unlimited size option we have to find more mechanisms to make sure you don't call at 9:45 and say you need a hundred million dollars by 10 o'clock.

KRISTIN SZAKALY-MOORE: Yeah I would agree with that.

JEFF WURM: I just think that's the biggest part of it.

Q & A: Question #11 0:04:41

LILY OSORIO: Our next one from Jeremiah Lim, about when do you expect LAIF apportionment rates to get down to 0.25 percent or lower?

JEFF WURM: Ok, so, what I did, because I did see that question. If you go to our website on the LAIF page there is historical rates [Note from editor: Mr. Wurm is referring to the LAIF Quarterly Apportionment Rates]. So I tried to put it in the same position now as the last time the Fed lowered the fed funds rate to where it is today. So we just were what 1.47 on June 30 for the apportionment rate? So the last time I saw that was in 2009 it was 1.51. And it took until oh we can say the first quarter of 2013 for it to be-28 basis points above the apportionment rate. This is going to be a little different. Rates are even lower now than they were then and what we're able to buy in the market and if you remember the slide that I showed with the treasury curve. I showed one that the curve was still steeping then, than it was now and we were buying things in the 2 to 3 year arena at 20 and almost 30 basis points, which we don't even see now.

I've been tracking the 3 year treasury note just to see, and it has not even gotten close, because last Friday it got close to 20 points for the first time in months, and then it's right back down to 17. So our options in terms of finding things above 25 are so few and far between that I think it's going to be a little faster than that time frame. But I can just say just look historically at how the portfolio performed. It is bigger portfolio now, which may make it drag a little bit, but it could be a little bit faster than the last time, just based on what we are replacing the maturing securities with.

Q & A: Question #12 **0:02:56**

LILY OSORIO: And our last question comes from David Weeg. Why do you not invest in corporate bonds?

JEFF WURM: It’s not that we don't want to. There are a lot of factors that's go into that decision. We have the green light to buy them, nobody has mandated we don't. The last time honestly, it’s been a long time, was the financial crisis. When that hit, a lot of our corporate bonds were in financial institutions and it was a tough queasy stomach time for us. We had almost daily meetings with the Treasurer to let them know what the market value of those securities, if we chose to sell them how much we could possibly lose on them and that kind of got us out of that market for a while.

Now that the difference being a lot of the corporate bonds we do see presented to us are much longer investments than we're really interested in. Even by our policy we couldn’t by them anyway. Most of them that we see are in the 5, 7, 10 year arena and that's longer than we're authorized to purchase with our investment policy. And a lot of them aren’t in the strongest credit names that we’re wanting to invest in. So it’s a tuff find, we’d love to buy them and add that yield to the portfolio, believe me we talk about it all the time. It would be a lot more work for our credit team. Tracey and her team, and they’re willing to take it on, and they’re looking. We're trying to add them, so don't be surprised if you see us buy something. We're looking and we want to. So, it’s not that we don't want to and it’s not that we don’t, it’s just that we haven’t found the right fit yet.

We tend to be slow to the party, I like to say. We’re never the first one at the door, banging on the door to walk through and do something. But we're going to get there, it will be a part of our portfolio again I can see that happening. A lot could be where we are with the economy today and the impact COVID-19 has had on what we have available to us. But thanks for, that was a great question, I’m glad someone asked that, thank you.

CHRISTINA SARRON: Great, well that was our last question. If we can move to the next slide. Thank you everyone for being here today and of course if you have any questions you can go to our website and email me. My email address is there, it’s super simple it’s csarron@treasurer.ca.gov. So thank you for attending our 2020 LAIF webinar good-bye everyone.

Everyone: Thank you, thanks Ian.

CHRISTINA SARRON: Oh yeah, thanks Ian.