WEBINAR TRANSCRIPT

2026 LAIF Webinar
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Good morning and thank you for joining us today. My name is Lily Osorio, and I am the LAIF Administrator. Before we get started, I would like to go over some housekeeping details. Questions, we encourage you to submit questions using the Slido panel on the Q and A tab.

Please feel free to submit questions at any time during the presentation. We'll have a separate question and answer period at the end of all presentations. For closed captioning, you can access this with the live captioning available during the program by using the icon at the bottom left of your screen. For a webinar replay, the link will be available in approximately two weeks and will be posted to our website. If you experience any technical difficulties, please try the link for Webex's help center.

Next slide. Today's agenda, we have California State Treasurer, Fiona Ma, with our keynote speech followed by Steven Ricchiuto of Mizuho Americas discussing economic trends. At the end of his presentation, we will have time for a Q and A.

And then our Investments Division team with presentations regarding LAIF and the Pooled Money Investment Account from our LAIF Operations Manager Nicole Milliron, Executive Director Jeff Wurm, Investment Operations Manager LaVaun Gold, and Credit Manager and PMIB Administrator Tracy Payne. We will conclude our webinar with a question and answer period.

So, with that, please allow me to introduce State Treasurer Fiona Ma. Treasurer Ma is California's 34th State Treasurer. She was first elected in 2018 with a record number of votes and re-elected in 2022. Treasurer Ma is the first woman of color and the first woman CPA to hold this office. And now a message from the Treasurer.

Hello everyone and thank you for joining us. I'm California State Treasurer Fiona Ma and I appreciate you taking the time to be part of today's Local Agency Investment Fund webinar. As State Treasurer, my job is straightforward to describe, but significant in impact. We safeguard and manage public funds, strengthen California's financial position, and help ensure taxpayer dollars are working responsibly every day. That work matters because California isn't just big in geography or population. California is the 4th largest economy in the world. When, with an economy that scale comes an obligation to manage resources with discipline, transparency, and a long-term view. The Treasurer's Office plays a central role in that responsibility. We oversee the state's core investment operations, manage cash and liquidity, and help finance public infrastructure and statewide priorities through bonds and other tools. In practical terms our work touches the foundations of daily life from schools, roads, water systems, housing, and essential public services. When markets fluctuate, when revenues rise or tighten and when uncertainty shows up in the economy, prudent public finance becomes even more important.

That's why our office matters. We help protect stability. We help maintain trust, and we help local governments and public agencies do their jobs effectively because strong communities depend on strong financial stewardship. Today's focus, the Local Agency Investment Fund or LAIF is a key part of that stewardship. LAIF is designed to provide California's local agencies with a safe, convenient way to invest public funds while maintaining liquidity and preserving principle. For many agencies, LAIF plays an important role in cash management, supporting everything from payroll timing to project planning to day-to-day operations.

This webinar is important because the investment environment continues to evolve. Interest rates, market conditions and cash flow needs can change quickly and public agencies need clear, reliable information to make sound decisions. We want to ensure you understand how LAIF works, how it's managed, what the operational processes are, and how to use it effectively as part of your broader investment strategy and public finance responsibilities. Just as importantly, this webinar is an opportunity for connection. Local agencies are our partners in public service. You are on the front lines delivering services residents rely on. Our role is to support you with tools, access and guidance that help you manage public funds responsibly and confidently. So today my hope is that you leave with practical takeaways, greater clarity and confidence in how LAIF can support your agency's goals, whether you're a long time participant or new to the program. Thank you again for joining us and for your commitment to public service. We're glad you're here and we look forward to a productive session.

Thank you, Treasurer Ma. Next up is an economic outlook presented by Steven Ricchiuto, Managing Director and Chief US Economist from Mizuho Americas. Mr. Ricchiuto?

Thank you very much. Can we go to the next slide, which is the forecast slide? Hi everybody. I wanted to put this slide up to just be the, the factor in which we're gonna talk about throughout the bulk of the presentation today and I wanted to let you see the numbers that we're gonna be talking about so that would be easier for you to perhaps understand the path that we're, we believe we're going down in terms of the economy. Let me begin by a little bit of background cause some of you may may know me, some of you may not. I have been doing this for a very long period of time. I joined the business just before the October 1979 massacre by Paul Volker.

Which was a Saturday night change in monetary policy from interest rate targeting to money supply targeting. That means I have seen an interest rate cycle go all the way up to 26% Fed funds rates and the Fed funds rate go all the way back down to near zero levels. My first boss on the street actually retired on the treasury 14 in a quarter of 2014. So that shows you where interest rates were at the long end of the curve as well. That was a benchmark 30 year at the time it was released at 14.25% coupon on a benchmarked treasury. So, it's we've seen the interest rate cycles and then we're looking today at a treasury ten year note that's basically yielding the 4-10 level. So, we've seen a lot of interest rate cycles in my time and what really isn't.

It's important that I've done multiple things. I've been a fixed income economist, an equity economist, the chief economist for a global investment bank twice. I've been a bond strategist, an equity strategist, and I've been a director of fixed income research twice. And throughout all of that background and all of those specialties I've learned to appreciate one very, very basic rule about the US economy. And that is we are the largest, most leveraged nation in the world. And to the extent that we're the largest and most leveraged nation in the world, unless economists are paying very, very close attention to emerging credit market developments and credit quality developments.

They're often going to miss the carrier deck on important macroeconomic changes. They're often likely to misinterpret temporary shocks to the economy as being permanent shocks to the economy. If you think about it, in the last five to six years, economists have generally called for six recessions, and we've had NO recession whatsoever. This is turning out to be one of the longer expansions in American history. And also, one of the longer expansions in American history with a above trend economic growth. And the question is why? And the answer is very simple, because of balance sheets. Balance sheets are enormously or extraordinarily healthy in the US today.

We'll get more into that in a minute. We're also gonna talk a little bit about systemic risk in a minute. And whether or not there is systemic risk in the economy. Right now, our answer to that question is NO. The net result is we have built a traditional macroeconomic model driven by things like monetary policy, fiscal policy, and the yield curve, and we've layered on top of it credit related models. One, a balance sheet related model at the major macroeconomic sectors and sitting above that a systemic risk model. Systemic risk is when you have a shock that creates a credit crunch. When a credit crunch unfolds in the economy, liquidity dries up. When liquidity dries up, you have a massive consolidation in underlying macroeconomic activity. 1990 was the 1st credit crunch of the post war business cycle. 1990 was a commercial bank related credit crunch related to commercial real estate. 2000 was 2nd major credit cycle. 2000 was about merchant power. Merchant power and the destruction of the commercial paper industry that led to a led to a credit crunch in the economy. 2008 was the mother of all recessions. It was a credit crunch due to the sub prime, the explosion in the sub prime market, the collapse in banks that occurred as a result of this. Collapse in security firms and insurance companies that resulted as, as a result of the collapse in the sub prime market. That was the major, major credit cycle of all history, and then you could even look at 2020 as being your credit cycle because we effectively said to all corporations, your revenue stream has gone to zero, but your liabilities are still outstanding. So they all got caught in a cash flow squeeze. And what happens when companies get caught in the cash flow squeeze? Banks get very, very tepid at providing liquidity. The net result is we had another government induced credit crunch in 2020. So the last four business cycles, the business cycles that just about everybody on this call today, other than people like I remember are credit crunches. They're not inflation cycles. Inflation cycles are what you were probably taught an undergraduate or in graduate school. The economy heats up too much, the federal Reserve Tightens interest rates, the economy slows, wage pressures come off the boil, the unemployment rate starts to rise, the federal reserve eases interest rates and the economy comes roaring back. That existed in a world of excess demand for tradable goods coming out of the post war period. The 1990 period forward has been a world of excess supply of tradable goods.

We have seen the length of the business cycle expand because inflation's not driving the business cycle, what drives the business cycle is credit. As I indicated before, 1990 was a commercial bank related credit crunch. 2000 had to do with merchant power, corporate malfeasants, and a collapse in the commercial paper market. 2008 was the destruction of the sub prime industry and it was the collapse of banks and it was the collapse of insurance companies, a massive credit crunch. And then 2020 was again a government induced credit crunch.

Where are we today? Well, 1st of all, are there any systemic risks in the economy? Systemic risk occurs when the economy is exposed to a lot of short term debt. They're borrowing a lot, they're borrowing short term, and they've inflated an asset price bubble.

IE you have an asset liability mismatch and you have an asset price bubble. When we look at the US economy today, we do not see any asset price bubbles. The equity market clearly is showing resistance at the 700 level, the 7000 level on the S&P 500. Clearly we're not in the bubble. We stress test the equity market repeatedly over the last few years. We know it's not a bubble. We can question whether it's fair value, but it's not a bubble. And I actually believe the equity market right now is in the beginning of a long sideways correction that will dominate a good portion of the year. But by the end of the year, we'll be looking at an equity market that probably rises 12 to 14 % because that's what we think operating earnings will do given the macroeconomic scenario laid out in the table below me. In addition to that, when we look at the systemic risk not being evident, we look at the balance sheets of the four major sectors of the US economy. We look at the household balance sheet, we look at the non financial corporate balance sheet. Those two balance sheets are managed or assessed identically. We then look at banks and we look at shadow ban.

And those two balance sheets are assessed identically. The non financial corporate sector and the household sector. We measure leverage ratios, duration structures, and debt burdens. Why if you're borrowing a lot of money and you're borrowing it short in a rising interest rate environment, your debt service burden is rising, your rollover risk is increasing, and eventually somebody opts not to lend to you, and everybody then opts not to lend to you and you go broke.

When we look at the household space today, we've been de leveraging since the financial crisis. Despite all the conversation these days about consumer debt going up, mortgage debt continues to go down and the net result is consumers are less exposed to credit today than they have ever been exposed to credit.

Of their leverage is also very long because the bulk of it is mortgage related debt. And even though we've seen a rise in consumer related debt and significant growth rate off post COVID lows, we're just now getting back to pre COVID levels of consumer related debt outstanding. And more importantly, when you look at the household space, the non financial.

Not many. When you look at the non financial corporate sector, they've been de leveraging for 14 of the last 16 years. The duration structure has shortened a little bit, but it's still out over the average length of a business cycle, so there's NO rollover risk. And more importantly.

How many people out there? Not Many.

I count myself as probably the only one. That's the important driver here. Balance sheets are healthy in the household sector and the non financial corporate sector. Because balance sheets are healthy in the household sector and the non financial corporate sector, guess what? That implies balance sheets are healthy in the financial.

Whether it's banks or NO shadow banks. We assess both banks and shadow banks and we do it by looking at their non performing loan balances, and we look at their reserves against non performing loans. And what we see is banks and shadow banks have very low levels of non performing loans, even though there's a lot of fear about private credit out there, private.

Credits not that big of the equation yet. It is not gonna be a big equation, big, big, big piece of the equation in 26 or probably not even 27, which is out beyond the horizon of most of us on this call. The net result is we have a house banking industry and a shadow banking industry which are very, very healthy, which is why the economy has been so resilient. When SVB exploded, everyone said a recession, it didn't happen. Then everyone became an expert on commercial real estate, that was supposed to cause a recession. It didn't happen.

It's not. What we see is that non transfer, non social distribution, income in the United States remains on the same growth trajectory it has been on for years. There is NO real deviation in growth and income.

In addition to that low. Kevin Wash.

Chairman Powell is a dove. Kevin Wash is a newborn dove. History shows he's a hawk, but the reality is to pass the litmus test to get nominated to the position by Donald Trump, you had to prove Donald Trump you were passionate about being dovish. Jerome Powell has proven he's passionate to be about being dovish and he's proven that.

But he's bold. The response mechanism that Chairman Powell implemented during the COVID recession was a bold, bold policy move. He was bold and dovish. Kevin Wash is probably gonna be bold and that the committee is dovish. The committee tells you they want to cut interest rates. The question is whether or not they'll be able to cut interest rates. And in 2nd half of my conversation today, what I'm gonna talk about primarily is.

Why we don't think and that's because we live in a world of excess supply of tradable goods. We live in a world of an aging population. We live in a world where there's still excess liquidity in the system. We live in a world where balance sheets are strong, which is why credit spreads are very.

Very, very strong and why financial markets are very, very accommodative. Corporate issuers come to market, they come to market multiple oversubscribed, they have very, very little concession to the market and the market tightens after the deal's clear to trade. These are very accommodated financial markets. And if they occur while balance sheets are healthy, I've got a federal reserve that wants to cut interest rates and I've got a fiscal policy which is stimulative because we are going to get a very significant increase in refund checks.

Coming in the next few weeks ahead primarily because economists are bad at forecasting. The type of tax cut we have, they're underestimating the degree of stimulus that is going to come through. Most tax cuts during the post war period have lowered the marginal rate or they've raised the zero bracket amount. This is the 1st time in history we're reducing the taxes on tips. We're reducing the taxes on over.

Time. We're reducing the taxes on social security. No one but the IRS has the ability to forecast the potential impact of that. And let's be honest, the IRS is probably still one running on Windows four and I don't believe the IRS is doing a good job of this as well.

The net result is, if you consider the fact that a lot of people NO longer pay in cash, you pay with your credit card or you pay with your debit card. And every time you tap that card, what happens? A tip screen comes up. And a lot of people put tips down. So tips are being more accurately recorded now than ever before.

And therefore, if we're NO longer gonna tax those tips, that's gonna provide an increased level of reduction increased level in refund checks to individuals. I have a 16 year old nephew. He works at Papa Johns.

Given all his social security and everything else, he should not be getting a refund. However, this year he's getting a tidy refund. Why? Because of a lot of the tip money is being taxed free. And the overtime hours he works are tax free, and therefore he's getting a healthy tax refund.

This is important. This goes directly to lower income households. These are the people who are gonna spend that money. They're gonna drive the economy forward in the 1st half of this year to an above the trained growth rate. If you look at our forecast, we have 2026 growth starting the year at 3.4 %. And we have growth above two point.

.5 % in almost every quarter other than the Q3 where we come in at just 2.4 % growth. Notice our unemployment rate forecast. We believe if we have this growth forecast. If we're looking at 2.7 % Q4 over Q4 growth this year, we're looking at what? We're looking at an economy where the unemployment rate is more likely to be closer to.

4.1 %, then 4.4 % or 4.3 % where it came out just the other day. An unemployment rate of 4.1 % is basically an unemployment rate that is four tenths below the frictional rate of unemployment. And that's the reason why we can't see inflation going below 3 % on a sustained basis. We think inflation is gonna creep back above 3 % as this year progresses. And if.

I have 2.7 % growth and 3 % inflation growth. Then I'm looking at 5.7 to 6 % nominal GDP growth. Where should the tenure note be with that level of GDP growth? Certainly not 04:10. Certainly a lot closer to the four 60 we've laid out in this forecast table. If we have inflation stuck at 3 %, we have growth above trend, we have an unemployment rate moving lower when the Fed is focused on unemployment.

Employment more than inflation. Does the fed, does the Fed have an argument to cut interest rates? The answer is NO. So where the street has two rate cuts priced in for the balance of this year, we on the other hand, we believe that the federal Reserve is going to execute NO rate cuts this year. Now keep in mind, in 2024, we started the year with the same forecast. By July, we.

In 2025, by August change in the data we changed our forecast. This year we do not believe we will get a second. Why?

Because monetary policy has been cut. Monetary policy went down a hundred basis points in the end of 2024, and it went down an additional 75 basis points in the end of 2025, bringing monetary policy from the Fed's perceived view of restrictive to the view of being neutral.

That reduction in interest rates, given the short, given the healthy balance sheets means there's a very short lag between monetary policy and if you noticed last year on this GDP table, we're looking at growth in the Q2 3.8 % growth in the Q3 4.4 % in growth in.

In the Q4 2.5 maybe as high as three. Why? Because the government cut taxes on corporations and you had a hundred basis points worth of rate cuts. This year we're expecting a consumer tax cut, and we're, we've already know we have a hundred, we have 75 basis points of additional rate cuts. The.

Only tail risk to my GDB forecast there, which is for 2.7 % Q4 over Q4 in 2027 is a right tail risk. If I'm right that it's a right tail risk, my unemployment rate has a left tail risk. If my unemployment rate has a left tail risk implying lower than what we've been projecting, then our inflation.

Target has to have a right tail risk as well, a higher perspective possibility of inflation going forward. In that environment of a left tail wet risk on the unemployment rate, a right tail risk on the inflation rate, they're telling you the risks to both sides of the Fed's dual mandate go against rate cuts.

Which is why we have NO rate cuts forecasted in 2026 at this junction. And we believe the combination of a large fiscal stimulus, much larger than the street is expecting. And the combination of rate cuts and accommodate of financial markets, assure that.

We're more likely to have growth surprise to the upsides to the downside and inflation to the upside as we go forward. Justifying the argument should not cut rates. Should the curve steepen? The answer is probably yes. But given the fact that we still have 02:25 basis point rate cuts priced into the forward structure of rates, I anticipate more a lateral upward shift in the. As we go toward.

Towards 2.6 % tenure notes. We believe the two year note will probably creep up by anywhere from 25 to 40 basis points. Which means as the curve moves up with the tenure note from 04:10 to four 60, you wind up seeing the two year note go up by 40 plus basis points, so maybe the curve can steepen out by ten basis points. That's the.

This is really how the analysis is pulled together. How do we feel, why do we feel so comfortable in the validating or in taking the fiscal stimulus to heart? And the answer is because the tariffs never showed through an inflation.

And that was accelerated depreciation. So corporations were able to reduce their tax liabilities dramatically, which meant their cash flows didn't suffer.

The rise in customs duties is almost completely offset as a revenue increaser from the lost revenue in corporate tax liabilities. And that's why the budget deficit is not really improving. That's why we're looking at a structural.

Nine to $2.3 trillion. Because the budget deficit is not prov not really improving. If you look at the budget deficit on a twelve year a twelve month moving average basis, where we are as of January this year versus over the past twelve months versus January of last year and every month in between, we're still running in the 1.7 to $1.9 trillion level on the budget deficit. Why? Because the tax cuts are powerful and they completely offset the bulk of the tower.

That came about. That's important. And the uncertainty premium that existed in 2025 is disappearing. We're starting to get to the point where the Republicans are chafing over the tariffs. We saw the Republican led house bet so basically chastise Trump yesterday or not back away from his tariffs on Canada. Doesn't, doesn't really affect them because the Senate's not gonna go along, but it's sending the administration a message. You've reached your peak tariff point. You're now at the point where anything you do will damage you further because you will lose the support in the house. And the next result, the network net result of that.

That is the uncertainty over tariffs wanes. As the uncertainty over tariffs wanes while fiscal stimulus is kicking in, eventually monetary policy is kicking in in a period of very, very accommodated financial markets. You're in an environment in which basically this economy is gonna surprise to the upside.

And that's really, really the net result, and that surprise to the upside goes directly to the feds dual mandate. The unemployment rate is more likely to go lower than go higher, and the inflation rates are more likely to go higher than go lower. No matter what Steve thinks about the future pro.

Productivity. Setting monetary policy based on a forecast of productivity that may or may not come is a question. The other reason why we think the economy will do well in 2026 is because we do believe that in 2026a lot of the AI spending that we've heard so much about will start.

If you look at non financial corporates in the United States and you scale it by GDP.

And we continue to hear about all this AI investment this year. We're not seeing it represented yet. Why? Because these investments take times. Yes, there were some data large data centers that were already started, but starting new data centers takes time. Acquiring the land, getting the permits, getting the water supplies in.

All the prep work takes a year or two before you actually even begin constructing a new data center.

So you're probably just gonna begin seeing a lot of the real net growth in data center investment spending starting to show through in 2026. And if that's the case, you're gonna see more and more borrowing for that because now they have to start spending the money that they promised.

And that could lead to a little bit of a conflict between non financial corporate American borrowing and government borrowing. To date, the government budget deficit growing as it has GDP has confounded people as to why interest rates haven't gone up. The answer is total leverage in the city.

Has actually been declining. Household leverage has been declining. As we go forward shifting from being a net.

De-leverager to being a net creditor or I should say a net debtor, then we could be in an environment in which the government investment expenditure, the government spending begins to run in conflict with the corporate spending and that as well will lead to higher long term interest rates. And as.

Of the curve. That again will lead to the Fed looking at inflation expectations and getting concerned about rising inflation expectations, further putting the Fed on hold. So the real key scenario we have for you today is that this economy is fundamentally well supported, from balance sheets, from stimulus both fiscal and monitor.

Policy from the advent of non financial corporate investment expenditures for the AI build out.

To healthy consumer spending, to an environment in which the Federal Reserve wants to cut interest rates to an environment in which financial markets have been accommodated and spreads are exceptionally tight. All these factors argue for above trend growth in 2026. All those factors argue primarily.

For a right tail risk on growth from our 2.7 % growth number, which is one of the highest numbers on the street, by the way. Most people think growth next year will be 2 % at best. We're telling you it's 2.7 and maybe stronger. Most people will think continue to think as the Fed, the inflation's gonna get back to 2 %. We're telling you it's three and it may get higher. And we're telling you the unemployment rate with the Fed think stays around 4.2.

4.4 .34 .4 %. We think goes down to 4.1 and may go even lower. That's how we stack up against the street, that's how we stack up against the Fed. That's how we lay up the argument. Balance sheets are healthy, there is NO systemic risk. Balance sheets are healthy. It provides accommodated financial markets. Accommodated financial markets with fiscal policy stimulus, monetary policy stimulus.

All leads you to the potential for growth above trend. Throw on top of it the AI situation, throw on top of it the potential AI borrowing. We're looking at a curve that should either laterally shift up by at least 40 to 50 basis points or potentially steepen.

In that upward shift environment by a couple of tenths as well. That's it for me. I've talked for 30 min. I realize we have about an hour, but I can come back and talk about more, but I wanted to see if there's any questions out there for people to provide to me at this juncture. Any questions out there?

All right, Steve, I do have a question for you. It is given the recent jobs report with significant downward revisions to jobs created in 2025, but a strong January figure, what is your view of future Fed rate cuts?

Yeah, if you take a look at the payroll employments going lower. But not that much higher. Oh, we had a very, very big downward adjustment last year, and the economy proved to be exceptionally resiliently strong. The labor marketing environment strong. We believe with that uncertainty premium dissipating with the tighter labor market environment rate that.

We think employment growth will pick up in 2026. And if employment growth picks up in 2026 when a declining unemployment rate and a rising inflation rate, we basically believe that the Federal Reserve is on hold all of next year. Or I should tell you all of this year.

Okay, thank you. I have another question. What is the worst case scenario for treasuries in your view of a decline in support from other countries and their banks per the recent directive by China to its banks?

Yeah, I mean if you were to get into that kind of scenario, if you take a look at where nominal GDP is today, the nominal GDP forecast we have for this year, as I said before, is 5.7 to 6 %. It's a 2.7 % growth rate with the right tail risk. It's a 3 % inflation rate with a right tail risk.

The net result is we could have either 5.7 or 6 %, nominal GDP. Where should the ten year be on a long term historical average? Right around nominal GDP. So that kind of gives you the absolute upside. Our own forecast is for 4.6 % because we don't believe there's gonna be a reduction in the demand for treasury securities. We look at.

What's happening in the currency. If you were seeing it, you'd be seeing it in a collapse in the currency. You're not seeing a collapse in the currency. And if all they're doing is getting out of treasuries but buying something else, that just forces other people that are looking for spread to go back and buy treasuries. So the net result is, if the money stays in the US it's not gonna have an impact. And when the currency is telling us the money's not leaving the economy, and we don't think it will either. Where are you gonna go? You're gonna go to China? You're gonna go to Europe? You're gonna go to Latin America? I'm sorry, I just don't buy the argument. There's so much liquidity out there. It needs to be invested in the biggest, most leveraged economy in the world.

Okay, and I have another question that just came in. You have said the commercial real estate market debt is not a problem. Seems ok for large banks, but what about regional banks where larger portions of the balance sheets have commercial loans?

Yeah, you're asking a good question, but if you think about it, we started worrying about commercial real estate in 2024. If regional banks haven't addressed their commercial real estate issue from a capital standpoint by now, they deserve to go out of business. And I think you will wind up seeing merger more than you would see anything else. But we're not expecting that to happen. We think most banks have behaved prudently, and most banks have put themselves in much better position from a reserve in a capital standpoint, and this is one of the reasons why if you were to scratch us and ask about what are, what are our overweight’s in the corporate bonds. As well as some of the capital goods related providers. We're under.

Weight things like utilities were underweight energy, were underweight chemicals, you know, were underweight health care. So really we think the financial adjustment that you're worried about has already taken place and will not be a drag on the economy in 2026.

Okay, the next question is, what are your thoughts on private credit and whether that somewhat opaque industry could trigger any type of economic shock or crisis?

Yeah, look, private credit is a problem. Primarily Because we know there are some problems in it.

Like everybody else that gets too much liquidity too quickly and tries to expand their balance sheet too quickly, you make mistakes. The good thing is that the point in time that private credit is likely to be pulling back, the banking industry is likely to be there to replace it.

As long as the banking industry stays healthy. Now, the one linkage that you have between private credit and the banking industry is through the short term revolving debt that funds the private credit industry on the temper on the short term basis. So basically they go out and make loans and then they package those loans.

Doesn't securitize them and in the environment in which they're going out and making those loans, they're borrowing the money to do that. So that is the window of opportunity. However, the large money very good at managing those revolvers and keeping them very short term in duration. And given the fact that the size of private credit from what we can tell today, isn't that big, we do not believe it's systemic. A couple of years from now, we made have a different.

Good story, but for right now we don't think it's big enough to be a systemic issue, but it is a very good question and it does keep me up at night.

Steve, I think that's all the questions we got from the audience, but I got one for you before we let you go. Do you think or can you explain to me so I understand better? And if a new Fed chair is appointed, are they gonna change the weight that the voting members have or are they still gonna do the whole.

Whole kind of joint decision on where rates go or will one person get to have more say like the new or new fetch.

That's an interesting question. The committee would have to agree to it. And I don't think the committee is going to agree to that. That's number one. Number two, people often confuse the fact that just because your chairman doesn't mean your chairman of the FLMC.

There's a separate vote that takes place. So could there be a desire, well, let's say e.g. Steve Miran disappears and Kevin Wash replaces him.

Because Jerome Powell opts to say I'm gonna lose my.

Which again is a little bit more prerequisite for that, but not much. So Jerome Powell could sit there. Kevin Wash could be put confirmed as Chairman of the Federal Reserve and the board could still based on a majority, keep the chairman of the federal Reserve FOMC being Jerome Powell. These are, these are unusual times and unusual things could happen, but things.

Like changing the structure of the board, changing the way in which provide regional bank presidents are, are validated by the board or I should say confirmed by the board. These are all things that require the board and the committee to agree to. And I think a lot of people on the board and on the committee will be resistant to these types of changes. Especially Lisa Cook.

Alright, so that was our last question and I'd like to thank you Mr. Ricchiuto for participating in our life webinar.

My pleasure have a great day cheers.

Alright, next up is our LAIF and PMIA update presented by the investment division team. And with that, I will now hand it over to Nicole.

Hi, my name is Nicole Milliron and I am the LAIF Operations Manager. Slide. As you may know, LAIF is a small part of a much larger portfolio standing at around a hundred and 60 billion.

This graph shows the source of funds which tells us where the money comes from for the Pooled Money Investment Account. As of 31 December 2025, you can see LAIF funds make up approximately 14 % of the overall PMIA and the other two main source of funds are the general fund, and SMIF or the Surplus Money Investment Fund.

Slide. So this week actually the LAIF fund balance hit the 27 billion mark, but as of 31 December 2025, the LAIF fund balance was approximately 24 billion with 2332 participants, which include.

1641 special districts, 475 cities, 54 counties, 38 bonds, and a hundred and 24 trustee accounts. Slide. So we have 93 % of the counties and 98 % of the cities. And this concentration map is just kind of a fun way to represent the accounts that we have in LAIF, and to show the overall presence that we have in California.

Slide. I'd like to introduce you to our Local Investment Advisory Board or LIAB. In addition to being chaired by the Treasurer, two of our board members Amy Lee and Yvonne Yiu, are qualified by their training and experience in the field of investment or finance.

Our other two board members Phonxay Keokham and Rafi Manoukian, are qualified in the category of treasurers, finance or physical officers or business managers employed by any county, city, local district or municipal corporation of California. The LIAB meets at least once a year and provides oversight to life in addition to approving any.

Usai governmental agency account requests. Slide. Safety and security is our number one priority when it comes to managing your life accounts and what you can do to help is to keep your account as updated as possible. On our website leaf.treasure.ca.gov, you'll find a section with all of our forms listed.

A few of our most used forms are the address change form. If you move or need to update your contact information, the authorization change form, if you have a new board, staffing changes, classification changes, anything along those lines, but our most important form that we have online is our bank account change form.

Please fill this out if you've opened or closed a bank account recently, if your bank has merged or changed names, which we're saying quite a bit of these days or if your ABA number has changed. Keeping your account up to date will ensure that NO delays in processing your transactions. A new helpful feature that we have added to all of our update forms is an instruction page, so as you can see here, on the left, this is our authorization change form, and that 1st page is what you need to fill out, and then 2nd page includes step by step.

Instructions on how to fill out the form. We also have an incredible team available to assist you and answer any questions you may have, so please don't hesitate to give us a call or send us an email. Slide. Finally I'm gonna go over just a few reminders. Our office hours are from 07:30 A.M. to 04:00 P.M. with staff available to take transactions and answer questions. We have extended hours for LAIF online from 7aM. To 07:00 p.m.. If you aren't already.

Be signed up for leaf online, please send us an email and we can walk you through the registration process. For cash flow purposes, we ask that you provide LAIF one day prior notice for all deposits and withdrawals that are over 10 million. Same day transactions must be completed by 10:00 A.M., any transactions after that time will be scheduled for the next business day. And this is a hard deadline for us, so we recommend that you call us earlier rather than later.

As a reminder, you have up to 15 transactions per month. And finally, for any deposits into LAIF, please schedule the deposit online or over the phone with one of our staff 1st before initiating the transfer with your bank. This ensures that the funds are received on the correct effective date and limits the number of adjustments to your account.

And with that, I will go ahead and hand things over to Jeff.

Good morning, everybody, and thank you for joining us. I'm honored to have you here so we can present directly to you. We'll need to switch to the slide here, please, and get to moving on. We'll go one more slide. And I will basically start my part of the presentation to remind everybody where what we were a year ago, the last time we got an opportunity to present to you at our webinar last year. These are slides that you can find on our website. We're gonna go over that in a little bit, but on the left side here, it's that's a page from recorder.

Report, what I like to point out, kind of highlight things and we're gonna kinda, you'll see a theme here, we're gonna keep reminding everybody as we talk about what we do here, it's our policies mandate is investing before safety liquidity, and yield, and so here I'm gonna point out the 1st time today you're gonna hear us talk about safety on the top part of that left chart, it's top.

Talking about US government securities, which are our treasuries, and the total investment amount of the calendar year in last year was 55, almost 56 % in US treasuries. And the next section down is the remainder of the portfolio.

The 1st item is federal agency debentures and like the 5th or six item down is federal agency discount notes. Those two combined are another 25 %. So roughly 80% of our investments at calendar year and last year were in treasuries and agencies. The right side.

As our monthly report will post this one every month and if you look, it shows you what our average daily balance is for the month, so that number is not gonna match the number on the left column because that's actually a hard dollar amount for calendar year and not for the entire quarter or the month. And then just the average life at that time was 252 days.

We'll go to the next slide, please. And last year, the last Fed meeting, here's what the Fed voting members were looking for, for interest rates or where they thought rates would be going. Good if you can click my animation formula I'll point out the fact that three members were guest right for one year and figured that rates were gonna be.

Get where they are today, the other 16 members were a little off, but it tells you that I like to remind people and they asked me where I think rates are gonna go. These guys aren't the most accurate either, so please don't ask me because I don't really know. But I follow what they're doing, I listen to what they say. They're more educated than I am and I kind of baseline their green line there is the median on where they're voting and.

It shows you how hard it is to figure out what's happening next. Next slide, please. This was the yield curve on the calendar year and last year and I used the term curve very, very lightly. This makes it look like there's this big massive curve of rates, but if you look, my red line points out that from the lowest point at one year, rates were right around about 04:15, and all the way out 20 years.

And it's a whopping. What do I have that at? 4805. So 70 basis points of reward for taking on an extra 19 years of investment. It's not this biggest yield curve that we've seen. You know, at that time when we were investing at the end of the year last year with where rates had been shortly before that because rates came down a little bit more during 24 than they did.

In 25, looking at where, you know, we're investing on the short term doing our day to day cash flow maintenance investment yields, we're right around 42627, you know, on average, three months, you got a little bit of a pickup. But if you got to the one year it dropped down below 04:20, that's not exactly the most appealing thing to think, well, why would I do that? And later when I come back and finish my pre.

Presentation you'll see why this is important, but just showing you the I'm sure you guys saw the same thing a lot of you do the day to day investing that we do, same kind of visit, you know, things that you're seeing, and it was a little odd to be investing in this environment where if you took went out one year or two year and even three years, you're gonna get less than what you get if you invested.

One week, one month, two months, and even three months. So it was an odd time last year at this time to be investing. Next slide please. And this will be my last slide before I turn it off to one of my teammates. This is another very interesting slide that we post every single quarter. It shows you our average.

Balances or the maturity during the each quarter. Like to start by pointing out we already have the animation, but I'm going to point out like if you look at the far right column it tells you what the weighted percentages of each line type of security. Again, those top two lines are gonna remind you the treasury and agencies are around 80 % of the portfolio.

And then I'd like to look at the bottom line. This is just from my perspective, I like at the cumulative percentage number as things mature, and I'll start by showing you that more than 50 % of the portfolio in 2025 matured in the 1st four months of the calendar year. 80 % of the portfolio at that time was a hundred and almost 160.

Billion matured in the 1st nine months or for I'm sorry, within the 1st year of 2025 the entire year. So, a large portion of our investments are kept very, very short, one year and in. These are things that you can continue to watch and check on us and you'll, you're gonna see later that not much changed in the year, but I'm gonna go ahead and pass it off to one of my teammates and I will, when they bring it back to me, I'll tell you how 2025 changed.

Okay.

Good morning, everyone, and welcome. My name is LaVaun Gold and I'm the Operations Manager for the PMIA. I'm delighted to be here with you today. It's always a pleasure to connect with our local agencies and share updates on our portfolio's performance.

Over the next several minutes, I'll briefly review the PMIA section of this California State Treasurer's website and highlight a few of our reporting documents available online. I'll also discuss the portfolio structure and composition with a particular focus on US treasuries.

So if you've ever had the opportunity to peruse our website, you'd see the Investment Division makes every effort to be as transparent as possible. With that being said, there is a wealth of information available on our website, so I'd like to quickly show you where to find details about the pooled money investment account. To access the PMIA section, visit the State Treasurer's website at www.treasurer.ca.gov. From the home page, you're gonna select program from the top menu. This will give you an extensive list of the various programs here at the treasurer's office. Down towards the bottom, you're gonna see Pooled Money Investment Account. This will direct you to the PMIA homepage.

Next slide, please. Alright, now that we've got to the PMIA homepage, you can find everything you want to know about the program in one convenient place. So on this page, the boxes give you quick easy access to key information. You can learn more about the program, review.

The investment policy read the PMIA statutes or take a peek at the Pooled Money Investment Board members. You'll also see a box dedicated to reporting documents. You can either click directly on that box or simply scroll down the page to view the full list of reporting documents.

Next page, please. On this page, the links on the left take you to the per performance reports and the historical data while the links on the right take you to the various reporting documents. I'm not gonna walk through each one today, but I do want to highlight the market valuation report, which is updated.

Monthly. We often get questions about this, so I want to emphasize that LAIF is a dollar in, dollar out program, not a net asset, not a net asset value or NAV fund. The market valuation does not change the amount you have available in your account, and you have access to your full deposit at any time.

However, as Nicole mentioned, we do request you give us 24-hour notice for withdrawals of $10 million or more. The monthly and quarterly reports posted here are required by law. Each month you can review month-to-month comparisons of our investment data and analysis of the portfolio composition.

And all investment transactions for that month. Each quarter you'll find a summary of resources along with the market valuation report. Next slide, please. Okay, this slide is the selected investment data report. It provides a snapshot of the PMIA portfolio composition as of 31 December 2024.

Five. It shows both the breakdown of our investment types and the month-over-month investment activity. Under security types, you can see several key metrics which include the dollar amount in each security type, that security types percentage of the total portfolio and the month over month change. E.g., if you look at agency debentures, the PMIA held approximately $11.8 billion in agency.

Debentures representing seven and a quarter percent of the total portfolio, which stood at about $162.6 billion. This was down 0.39 % from the prior month. So, turning to treasuries, you can see we invest in both US treasury bills and US treasury notes. Combine these treasury holdings made up roughly 56 % of the portfolio and when you add agency debentures and agency discount notes, approximately 81 % of the portfolio was invested in treasuries and agencies. This positioning is consistent with our investment policy which prioritizes safety 1st, followed by liquidity and then yield. Now looking at the investment activity section, you'll find the total number of trades the PMIA processed during the month. As you can see December shows a noticeably high.

Their volume of activity compared with November. In December alone, we processed well over 1200 transactions. Our team works closely together to ensure that every transaction is processed efficiently and with the highest level of accuracy.

Also in this section, you will find our quarterly and year to date yields. Next slide, please. This slide gives you a snapshot of where the portfolio stood ten years ago, where it is today and the ten year average for each security.

Type. As you can see treasuries have been and continue to be a major part of the portfolio reflecting our emphasis on safety driven products. Whether the portfolio grows or strengths, we typically keep more than half of it invested in the treasury market. On 31 December 2016, the portfolio totaled approximately 73 po.

$.7 billion compared with 162.6 billion as of year end 2025. Over that ten year period agencies have averaged about 18 % of the portfolio and that share has increased over the last couple of years as more agency options have become available. This expansion and age agency offering supports greater diversification while remaining aligned with our safety 1st investment approach.

Next slide, please. This bar chart provides a visual of how the portfolio composition has evolved over the past ten years. The portfolio balance at year end appears at the top of each bar so you can see how the overall size has changed over time.

If you focus on the bottom blue and red sections of each bar, you'll see that the treasury and agency holdings have consistently represented a large share of the portfolio. Again, this reinforces the point that high quality government back securities remain at the core of our investment strategy.

Next slide, please. This chart shows our maturity schedule for 2026 with maturities laddered over the year. The green figures represent treasury bill holdings and the blue figures represent treasury notes. We invest in the four month, the.

Six month and the one year treasury bills, the two year and the three year treasury notes as well as selected five year treasury notes. In total, we have approximately $65 billion maturing over the next year with an additional 26 billion in treasuries maturing beyond that. US Treasury securities are issued by the federal government and are backed by the full faith and credit of the United States, which is why they are widely viewed as among the safest investments available.

They are also among the most liquid investments in the world, meaning they are actively traded and be can be quickly converted to cash. Treasury securities include treasury bills, which are zero coupon securities maturing in a few days up to 52 weeks. Treasury notes, which are fixed principal securities with.

Maturities of 2357, and ten years and treasury bonds, which are long term fixed principal securities with maturities of 20 and 30 years. As I mentioned earlier on 31 December, treasuries made up about 56 % of the portfolio or roughly $91 billion, and they are a key cash management tool for us. Because treasuries are continuously available in the market, are considered very safe and are highly low.

Liquid, they give us the confidence that we can manage any large cash flow swings that may occur. Okay, that concludes my portion today. Thanks everyone for your time. I'm going to turn it over to Tracy now.

Hello, next slide. My name is Tracy Payne. I am the Credit Manager responsible for monitoring the credit quality of the Pooled Money Investment Account. I'm going to discuss how we monitor the credit quality of the portfolio and then also go into a little bit more detail.

Regarding the investments in CDs, CP, corporate bonds, and agency securities. Effective credit management is crucial to safeguarding investments and maintaining overall portfolio stability. We proactively monitor the credit quality of all approved issuers by obtaining real time updates from.

Industry leading resources and research tools in order to identify and address any potential risks that can impact the credit quality of the portfolio. And then we utilize this information as needed to adjust our investment strategy to ensure we remain on.

Aligned with our core objectives of safety liquidity, and yield. Next slide. There are several complexities involved in the credit management process. We want to ensure that safety, liquidity, and yield are working together simultaneously and that the investments remain in compliance with statute and policy. So in order.

To do this, some of the main credit considerations that we take into account when making the investment decisions are to invest in only highly rated securities, to diversify by security type and by issuer, and to consider the duration of each investment. Next slide.

This illustrates a high level of the ongoing process we may use to monitor the credit quality of the approved investments. For each approved issuer, we closely monitor and evaluate several key inputs. These include the issuer's financial performance, credit ratings from the major.

Their agencies, S&P, Moody’s, and Fitch, and relevant news information from reliable media sources. Then all of this information is collected and analyzed daily. Based on that analysis, we determine whether an adjustment in the investment strategy is needed. And those strategy adjustments can take several forms such as the duration of the investment or the maximum.

Now we will invest in a particular issuer or in some cases it could be a situation where we stop investing in an issuer altogether. And these strategy changes maybe permanent or they maybe temporary until a specific deficiency is resolved at.

Which time the issuer would be reevaluated. And all of these steps are critical to managing the portfolio effectively, so this process is ongoing and continuous, and it assures that the credit quality of the portfolio is actively monitored and any risks are proactively identified, evaluated, and managed.

I also want to mention that the full list of authorized investments is on the PMIA website, but the list does not reflect the current portfolio holdings nor if it is actively being purchased. So there could be a situation where an issuer has dropped below the credit requirement.

Since it was initially added to the list of authorized investments, but we do not necessarily remove them from the website if it could be possible that they may meet requirements at some point in the future. Next slide. So now a little bit more detail on the investments in certificates of.

Deposit commercial paper, corporate bonds, and agency securities. The PMIA investment policy requires that CDs and CP have a minimum credit rating of A1P1 or F one by at least one rating organization utilized by the treasurer's office. About 24 billion of the portfolio on the.

31 December was certificates of deposit and commercial paper, and combined they represent almost 15 % of the portfolio. As I previously mentioned, we want to ensure we are diversifying by issuer and this is to ensure we minimize the risk and credit exposure to any single firm or institution. And these graphs demonstrate that each color in these pie charts represents a different.

Issuer or program invested in certificates of deposit and commercial paper. It consisted of 35 different financial institution CD programs, totaling $15B and 32 different commercial paper programs totaling $8.9 billion.

And of the 32 different commercial paper programs, approximately 44% were in financial institutions, 31% were asset backed programs, and 25% were in corporations. Next slide. For each investment, the duration, which is from the purchase date to the maturity day is determined based on various.

Factors including the forecast, the offerings that are shown for specific issuers, and the length of time we are willing to invest based on the results of our ongoing credit analysis. So this graph illustrates how the duration was diversified for both CD and cp.

Key investments that were held in the portfolio on 31 December. Next slide. Over the last five years, we have held a small amount of corporate bonds. The PMIA investment policy requires that they have a minimum credit rating category of A by at least two rating organizations utilized.

By the treasurer's office. On 31 December, there were 13 different programs totaling 950000000, which is less than 1 % of the portfolio. And one way we evaluate the corporate bond portfolio is holdings by entity, and this graph shows the percentage of holding.

For each of those 13 entities. And the next slide, on the left side, this shows that we also look at holdings by sector, 43 % of the holdings were in corporate names and the remaining 57 % were in financial institutions. And then on the right side, this shows the diversity by fi.

Final maturity date, which does not take into consideration any potential call dates. Next slide. This chart is not actual data, but it just represents how we may look at a total combined exposure by entity. For each issuer, we evaluate how much we hold in certificates of deposit and.

Commercial paper and corporate bonds and we take that into account when making additional investment decisions.

Next slide. About 25% of the portfolio consists of agency securities, both federal and supranational or multilateral development banks. These are all highly rated entities. The PMIA investment policy requires that they have a minimum credit rating category.

Of double A by at least two rating organizations utilized by the treasurer's office. This currently includes most of the GSCs home loan bank, farm credit, Freddie Mac, and Fanny May, as well as supernationals, the international Bank for reconstruction and development, the inter American Development bank, and the international Finance corporation.

We purchase discount notes which have maturity dates up to one year as well as the ventures, which in compliance with the investment policy have maturities up to five years. And as part of the credit monitoring process, we actively track updates on these agencies, whether it.

The rating changes or the discussions surrounding the conservatorship of Freddie Mac and Fennie May or any other investor or relevant information. Next slide. With such a large portfolio, it is important that we have a number of investment options. So occasionally we will add new investment options. We look for fairly large programs that are highly rated with excellent financials are free from.

Headline risk and in compliant with compliance with government code and investment policy. We are limited sometimes by statue and sometimes by policy and what we can invest in or how much or how long and we also need to monitor our exposure and credit risk. So we are always looking for new programs to add.

That as approved investments to ensure we have a sufficient amount of safe investment options. Next slide. The Pooled Money Investment Board provides oversight to the Pooled Money Investment Account. The board meets once a month and includes the State Treasurer who serves as chair as well as the controller and the director of finance. The Treasurer and.

The Controller are both elected every four years by California voters and the Director of Finance is appointed by the governor, and now I will turn it back over to Jeff.

Okay.

Thank you Tracy. Okay, next slide please. Okay, let's just take a quick brief moment to remember a few things that happened in 25. We'll not talk too much about the top slide. Somewhere from beginning of the year where the fire started, all of a sudden the fog came back and for those Central Valley peeps that are on and me being a proud president of state graduate, this used to be an annual occurrence from like October mid October to mid February and I find it funny that there were satellite images and we thought it was so crazy that we had all this fog again, but I just thought I'd share that cause that was mid December and that used to be just that.

Annual occurrence, and then somewhere in between California celebrated hundred and 75th year of statehoods, so just a few things that happened in 2025. Next slide please. And this is just my reminder to myself and all the participants here what we're doing. This is the local agency investment fund program description. This is on our website. The program was created in 1977 as an as an investment alternative for California's local governments and special districts.

It's, the program offers agencies the opportunity to participate in a larger portfolio and we're kind of doing all of that mixed together with state money and the Pooled Money Investment Account is the commingled pool itself. The biggest point of this is it's manages the state's cash flow and strengthens the financial security of the local government entities, the Pooled Money Investment.

The Policy is sets its primary investment objectives of safety liquidity and yield I know you're gonna get tired of hearing that. Sorry, next slide please. Kind of reviewing again the source of funds we've seen this a couple of times. I always like to harp on the fact that I'm not a big fan of the acronym of SMIF, the Surplus Money Investment Fund, I believe is still a misnomer. I prefer the term idle money. It's not surplus money. It is our earmarked to be spent, it's just not being spent yet, so it's parked in the pool. Earning a little bit more while it's here.

The two slides, the two pictures here on the bottom are fiscal year end numbers, so now they don't really match the other numbers we've been showing you, but it's just kind of what I've been presenting last couple of years, and you'll see the before COVID, the increase during COVID when none of us could spend money, but all the money kept coming in to kind of a normal plateau, as you can see it looks like the Pooled Money Investment Account has finally found it's footing and I feel pretty safe to say that we're kind of back to normal in terms of where we're gonna be in terms of our balances for a while until the next crazy thing happens. Next slide, please.

Alright, we're gonna go back to these slides again because I find I still think it's important to share these items with you. Again, we've talked about it very consistent with our safety portion of the investment policy by keeping right around 80 % between treasuries and agencies, and then if you again on the right side as you can tell from calendar year in 24 to calendar year and 20.

By the portfolio did increase by over $5 billion. The average life is kind of shortening up a little bit. That that's just a kind of a day to day decision on our part. We do tend to actively buy more of the four month treasury bills than we have in the past, and that's kind of bringing us back in a little bit shorter, but nothing has really changed over the year, even though there were a lot of things that happened.

2025. We everything kind of looks the same percentages and same kind of outcome that we've had going for through all of this. Next slide, please. Alright, so here's the most recent year end Fed meeting and the dots have gotten rather chaotic. You think it's confusing for us, it's clearly confusing for them. What I find interesting for their goals, if you just look at 2nd column of dots from the left side, it's what they, where they think rates will be at the end.

End of 2026 and I wrote down here seven of the voting members think rates are gonna stay the same or possibly be higher. The other twelve are pretty rates to go down. And then you have the one person down here on the bottom, you got four people who think it's gonna be below 3 % by the end of 26II kind of agree with Steve I don't see any reasons for rates to be cut this year.

But I don't know what's gonna happen tomorrow, so ask me again tomorrow my mind might change, but I do find it funny if you have one person down here I think changed the decaf that week cause they were way lower than everybody else in what they think rates are gonna be by the end of this this calendar year. And as you can see, the green line is still the median. It's just the slow decline of where the Fed, the voting members here at the Fed.

Think rates will be and it looks like 3 % is their long term target and somewhere between three and a three and a quarter percent between now and then is kind of what they think it's gonna hover around, so that's where we start looking at the Treasury curve and thinking do two year, three year, five year investments make sense if this is really what's gonna play out. Those are when we have opportunity.

Needs to invest out longer term. Next slide please. All right, so earlier I showed you the calendar year end Treasury curve, again, curve kind of, different term right now cause rates aren't really spreading out too much. If you can activate my pointer here on this slide, that's our term limit in terms of what our policy allows us to invest to. So between.

Between one month investments right around 3.6, you could get right about 3705 for five years. It just seems weird that you're looking at an environment where 15 basis points is your reward for taking on five years of risk. It's the same thing I said about the previous slide. Now let's do the next slide, please. And I'm gonna overlap the two Treasury curves and go ahead and activate my highlight here for there we go. So remember I was talking about wow, though those investments didn't look really good going one, two or three years, but a year later had I, and any of us bought a larger portion of twos and three year investments, they look super awesome now. And so day to day you don't know, that's why I like the term that's been used by others who present to you.

Guys that when do you buy these securities, when you have money and when you have time? Our day to day, we're really focused on the short term cash flow investment for the state and for our local government participants, but on larger investment time frames like in January when a lot of tax receipts come in, April and more tax receipts come in.

Large geo bond settlements for the state. We get opportunities to invest and we go ahead and park into three and five year investments when it makes sense and when it kind of fits what we need in our normal flow, we don't really seek these investments out, but when the opportunities arise, we always take them. We're not really market timers, we're definitely a buying hold portfolio.

But I just want to show you what happens, what a big difference a year can make in terms of your evaluation of what numbers look like. Next slide, please. Alright, I'm circling back to my maturity schedule again. Again, this is a year later from the one I showed you and things don't look a whole lot different. You can go ahead and activate my pointer again. But again, I start on the right side where you talk about your weight of the percentage. Again, treasuries and agencies are still 80 % of the portfolio. The cumulative number on the bottom again.

More than half the portfolio matured it, will mature in the 1st four months of this calendar year. And again, 80 % mature this calendar year and that's just not counting what we bought since December 31 that will mature this year. I'll kind of hang out on this page for a little bit, you know, when do we buy certain types of security and why.

All the treasury bills tend to be more cash flow driven. We'd like to pick them to dates that we know are gonna be short cause we buy a lot more of the six month, three months, four month treasury bills and we pick dates that we know we're gonna need the cash to come in. You can say the same thing about the agency discount notes. Those aren't really, in terms of yield, the biggest, most.

Attractive item, but they're really, really helpful for us managing our cash flow when we have a really good accurate forecast and we know where we need money to go, we utilize their securities and work with them frequently. And anything that's in the longer term frame, like the longer bullets through the agency world at treasury notes, those are our investment opportunities. The CPs and CDs that Tracy talked about, that's really more.

Much more of our cash flow focus. Again, we're able to be very date sensitive and target dates and months and timeframes that we know the cash flow is a little bit lower and the bills tend to be higher for California than what's coming in. And that's one reason though. So next slide please.

These are little kind of descriptions, the visuals of kind of what we do, regularly, so like I mentioned, we buy the twos and threes pretty regularly each month when we have the opportunities, and as those security is mature, we just replace them with the new one and that would be the bond ladder kind of a thing, so as a two year matures, we replace that when the money comes in to buy the next two year the issue.

Is at that same time and we just keep rolling these securities over. And then on the other side, we always mention barbell strategy. I look at it as a time horizon time but setup for us, the left side that says large investment safe low risk, that would be cash flow driven investing, that's why so much of our maturities on the cash or on the maturity schedule that I showed you are on the shorter end. And then you take on, I don't like the term high risk cause that's not really the world we live in, but the security.

Is that we're buying, but term risk is the biggest risk that we deal with in terms of rates and we take those opportunities when we can and just visuals of kind of what we do on a day to day basis. Next slide please. We continue to pay attention clearly to what the Fed says, we tend to meet as a group while they're doing their question and answer period with their, you know, answering each senate, the house and the, and the Senate when they're answering the questions. I feel like that quite often where I'm scratching my head a lot right now too, I think things have gotten a little chaotic for us, but we.

We tend to stay focused and do our thing. We still listen to what GASB is doing if there's any new rules coming out. We do have access to many of the top retired generals and stuff who have great opinions on geopolitical world and really help us stay focused and maybe not hear too much of the noise, they kind of get us through the minutia and make it really, really clear to us what's going on. And then the last thing we do continue to watch any kind of oversight on the banks and worry about any regional.

The bank failures or anything that may come up again. We stay on top of all this and next slide. You guys are almost done with us. Again, just a reminder, our policy limits us to safety, liquidity and yield. We're here to keep your money safe and make it available to you on a daily basis, and I think we've done a really good job sticking through that for you, and if you.

You have any questions, you can ask now, but if you don't feel comfortable asking in the setting, we're easy to find. You can email us, if you call in and ask to talk to me, I'll even answer your questions for you directly. And I'm gonna pass it back to Lily.

Okay, thanks Jeff. So now here's our contact information and how to reach. It's if you have.

Any comments or would like any information, we will now take some time to answer questions. We'll start with those that were submitted during the registration. So our 1st one is does LAIF integrate with any ERP?

No, we, we are still kind of doing this completely in house all on our own. We've got a really strong team that I'm proud to work with every single day. We all communicate, we're all paying attention to different aspects of the world and we meet before we start investing every day, we meet later in the afternoon about things going on and yes, we do have access to many of the top economists like Mr. Ricchiuto today, but really we are sticking to old school, talking to people on the phone and making our own decisions.

Okay, kind of in line with that, does late execute trades of any and all securities in house or does it use intermediaries?

Oh, again, we were I mean, I think that to me it's a little bit confusing, I just want to make sure that so we are doing all these investments ourself. We are talking to people on the phone and executing trades one on one with people we're not doing any electronic things. We're not having anybody else placed trades for us. We're not going through investment advisors or money managers. This is all done with our team of, a total of 18-19 people here in the Investment Division.

Okay, and, somebody asked, there has been substantial leadership changes within our district and I would like to know what the process is to make those changes with life.

So that's a perfect example of our authorization change form that I had talked about. So if you go to our website laif.treasure.ca.gov, you'll see that under forms, and it's called the authorization change form. So go ahead and fill that out, email it to us for review, and then a staff will reach out and let you know when it's good to mail it in with what signatures and then we will get your account updated.

Okay, the next question is how are events and actions at the federal level shaping LAIF's investment strategies?

That's so honestly we again we like I was talking about, we do meet every single day. It's really hard to have a strategy because as the news world it gets faster and more furious. We, a lot of our best laid plans get changed and thrown away rather quickly.

We just continue to mainly focus on as much liquidity in the portfolio as we can for the participants within LAIF and the state itself and doing it as safely as possible and then when the opportunity rises, just grabbing some yield yes, we can change our minds on different sectors or different names depending on what's going on in the new cycle.

But nothing really is gonna change with how we do our business day to day. We do, we just focus on what the policy wants us to do and we invest everything as safely as possible.

Okay, next question is, will the maximum balance allowed with LAIF increase?

So that is something that we're frequently looking at, but as of right now we have no plans to raise it above the $75 million cap. But we do appreciate your interest.

Okay, and how does late maintain a stable NAV with a 241 day WAM?

Yeah, that that's a very good question and I appreciate people asking this question. So the advantage that we have is we are not a net asset value fund. We're not 2A7 or 2A7 like, so, if you look at our quarterly reports when we post them on the website, there's a factor on there, which would kind of like.

Be in that asset value number, when rates were going up really fast there a couple years ago, our factor dropped below one. So if it wasn't an AV fund, the value of your investment would have been less, but the way our portfolio and the program is set up for LAIF, your deposits or your deposits. The value doesn't change based on the securities within the pool. You will get your investment back plus whatever your average daily balance earns for a quarter. So it's a great question.

Again, the value of the securities within the pool fluctuates as rates change, but we do not have a net asset value to say try to maintain above one, but so that, yeah, it's a question that I appreciate the question, but it doesn't apply to our pool.

Okay, and I think we have time for, one more. What is your outlook on inflation, the federal funds rate and LAIF interest rate?

Oh, yeah. I'm glad I saved myself earlier saying, please don't ask me because those part of people miss them more than I do, but or as much more I miss more than they do, but it's that's a great question. I would just say if wherever you see rates moving, the Fed moving rates, we're gonna be right behind that. We're gonna trail those numbers by about eight months cause that's our average life in the portfolio. So we're gonna lag wherever rates are in the investment world of the securities that we're buying move and that's the best answer I can.

To give you I, if it plays out the way Mr. Ricchiuto is predicting saying there's NO rate cuts this year, I would say rates are probably gonna trickle down a little bit more cause again, we're already lagging the most recent rate cut, but as the year goes on, we're gonna migrate slowly towards where the fed funds rate is, if it stays stable for a while.

All right, thanks Jeff. So that was our last question for now. If you have a had a question you submitted, we will respond to you. And so the next slide on behalf of myself and all of us in the investment division, I would like to thank our keynote speaker, Treasurer Fiona Ma, and our guest speaker, Steven Ricchiuto from Mizuho Americas. Thank you all and have a good afternoon.