

INFORMATIONAL BOARD LETTER

Ann M. Santilli
Ann M. Santilli (Dec 4, 2024 14:30 PST)
ANN M. SANTILLI
Chief Financial Officer

J. Quiñones
JANISSE QUIÑONES
Chief Executive Officer and Chief Engineer

DATE: December 4, 2024

SUBJECT: Investment Report for the Quarter Ending September 30, 2024

Attached is the quarterly investment report for the special trust funds (Trust Funds) that are held by U.S. Bank Trust Company, National Association (Trustee) and are managed internally by LADWP. LADWP's Trust Fund Investment Policy (Investment Policy) requires the Financial Services Organization to submit a quarterly investment report to the Board of Water and Power Commissioners.

The Trust Funds are managed in accordance with both the Investment Policy and the California Government Code (Code). All transactions were executed in compliance with the limits established in the Investment Policy and the Code. As of September 30, 2024, three funds exceeded their benchmarks as portfolios' respective durations were extended and three other funds trailed their benchmarks as market interest rates declined in the three-month to 30-year part of the U.S. Treasury yield curve.

Investment Results for the Quarter Ending September 30, 2024

The table below summarizes the characteristics of the Trust Funds under management, as of September 30, 2024, corresponding to the Investment Policy's objectives of safety, liquidity, and yield:

Trust Fund	Market Value ¹	INVESTMENT OBJECTIVES						
		SAFETY OF PRINCIPAL			LIQUIDITY		YIELD	
		% of Fund in AAA ²	Fund Duration ³	Benchmark Duration ⁵	Weighted Avg. Life (in days)	Cash Flow Needs	Fund ⁴	Benchmarks ⁵
Decommissioning	\$162.6	76%	2.96	6.11	1,233	Year 2044	2.962%	3.760%
Bond Reduction Escrow	526.9	82%	2.78	3.00	1,145	Semi-Annual	4.656%	3.887%
Water Expense Stabilization	58.1	83%	2.85	3.00	1,177	Semi-Annual	4.990%	3.887%
Treatment Storage & Disposal	2.6	77%	3.03	3.00	1,255	Annual	5.216%	3.887%
CAISO Markets	10.5	100%	0.00	0.08	0	Monthly	5.010%	5.206%
Natural Gas	16.8	100%	0.00	0.08	0	Monthly	5.010%	5.206%
Totals	\$777.5							

¹ In millions.

² Credit rating is a measure of safety. All Trust Fund investments have a minimum credit rating of "A" when purchased.

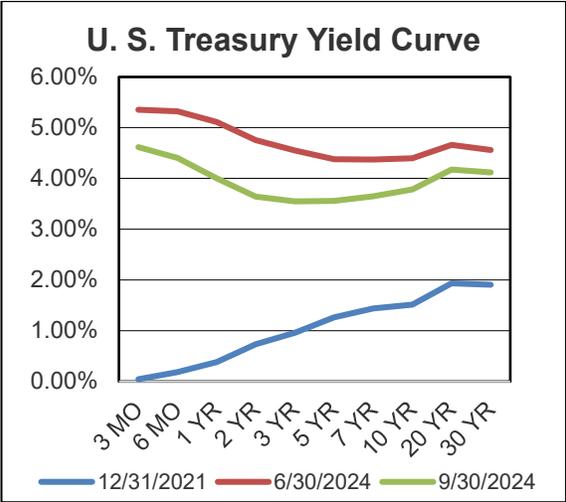
³ Modified duration is a measure of risk, specifically, the price sensitivity of a security to a change in interest rates. Lower duration indicates less price sensitivity.

⁴ The yield on the fund is a snapshot of how much investments would yield assuming that when interest is received, it is immediately reinvested.

⁵ The computation does not include capital gains or losses.

⁵ The benchmark yield and duration on (1) the two-year U.S. Generic Government average for the Bond Reduction Escrow, the Treatment Storage and Disposal, and the Water Expense Stabilization Trust Funds; (2) the Bloomberg U.S. Treasury Total Return Unhedged USD Index (formerly the Barclays U.S. Treasury Index) for the Decommissioning Trust Fund; (3) the one-month U.S. Generic Government average for the Natural Gas and CAISO Markets Trust Funds.

For the quarter ending September 30, 2024, the Decommissioning Trust Fund, the Natural Gas Trust Fund, and the California Independent System Operator (CAISO) Markets Trust Fund trailed their benchmarks. As the U.S. Treasury interest rates declined throughout a still inverted yield curve, the Bond Reduction Escrow Fund, the Water Expense Stabilization Fund and the Treatment Storage and Disposal Trust Fund exceeded benchmarks as funds were invested when rates were higher.



Trust Fund Activities

During the quarter ending September 30, 2024, payments made to counterparties totaled \$12.0 million, and \$15.9 million was transferred from the Power Revenue Fund to the Natural Gas Trust Fund. The CAISO Markets Trust Fund paid out \$21.7 million and received deposits of \$21.5 million from the Power Revenue Fund. The Decommissioning Trust Fund received deposits of \$2.1 million from the Power Revenue Fund. There were no other drawdowns or additions to the Trust Funds during the quarter.

Reinvestment proceeds (maturing/redeemed investments that were reinvested in other securities) for the Trust Funds totaled \$172.4 million for the quarter.

Economic and Market Events

The U.S. economy posted a solid, though less than expected, period of growth for the third quarter of 2024, supported by strong consumer spending and increased government defense spending. Gross domestic product increased at a 2.8 percent annualized rate, as personal spending advanced to 3.7 percent, the most since early 2023.

In the household survey, non-farm payrolls rose by 254,000, as jobs were added in healthcare, government, social assistance, and construction. The unemployment rate fell to 4.1 percent in September, from 4.2 percent in the prior month.

The annual inflation rate in the U.S. slowed for a sixth consecutive month to 2.2 percent in September 2024, the lowest since February 2021, marking continued progress toward the Federal Reserve’s (Fed) 2% target. While there were declines in housing and gasoline prices, elevated prices linger in household necessities and insurance costs.

Yield Expectations

Continuing their campaign to achieve maximum employment and inflation at the rate of two percent, the Federal Open Market Committee (FOMC) announced a 50 basis point reduction in the federal funds rate to a target range of 4.75 - 5.00 percent at the September meeting.

The FOMC will continue to monitor the implications of incoming information for the economic outlook. Further cuts of 25 basis points are expected at each of its two remaining meetings of the year. The new Summary of Economic Projections showed the median federal funds rate coming down from 5.1 percent in June to 4.4 percent in September.

Strategy

With the recent movements in market interest rates, certain portfolios have exceeded their benchmarks, as the portfolios' respective durations were extended. While expectations for the future path of interest rates have changed, the following investment strategies will be employed for the Trust Funds:

Duration: The strategy of emphasizing income and laddering cash flows will be employed for all portfolios, in general, while the market reacts to changes in expectations for interest rates. The investment strategy for the portfolios will incorporate current and expected changes to the slope of the yield curve and relative value in deciding whether to extend or shorten duration of the portfolios.

The Bond Reduction Escrow Fund will be invested primarily in securities maturing or callable within one year, with a significant portion of the reinvestments to be made in the one to three-month area, to meet liquidity requirements of potential debt restructuring and to partially hedge LADWP's interest rate exposure from its variable rate debt issues.

The Water Expense Stabilization Fund and the Treatment Storage and Disposal Fund will be invested primarily in securities maturing or callable within six months to meet potential disbursements of the respective funds.

The Natural Gas and CAISO Markets Trust Funds will be invested primarily in securities maturing within one month to meet the liquidity needs of the natural gas hedging program and CAISO energy markets, respectively.

For the longer-term Decommissioning Trust Fund, cash flows will be reinvested to diversify over the maturity spectrum similar to the short-term portfolios. The duration of the securities in the fund will be extended gradually as the longer-end of the yield curve rises.

Asset Sector: The credit quality of the issuer and the strength and outlook of the industry will continue to be emphasized in evaluating corporate notes for purchase. The Trust Funds will continue to hold positions in callable U.S. government agency securities for the additional yield over non-callable debt, while the allotment between callable and non-callable securities will be assessed in consideration of changes in market interest rates. The portfolios will continue to diversify among the call dates and structure. In addition, high-quality taxable municipal bonds will continue to be purchased when available at attractive yields to provide additional asset diversification.

Portfolio Compliance

Investments in corporate notes and municipal securities possess a minimum long-term credit rating of “A” at the time of purchase and investments in short-term money market instruments possess a minimum short-term credit rating of “A1/P1/F1”.

All investment transactions have been executed in accordance with the Investment Policy. The Trust Fund portfolios are in compliance with the limits established in the Investment Policy and the Code.

ATTACHMENT

- Investment Report