

INFORMATIONAL BOARD LETTER

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DATE: August 30, 2024

SUBJECT: Investment Report for the Quarter Ending June 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 June 30, 2024, two funds exceeded their benchmarks and four funds trailed their benchmarks as market interest rates rose slightly in the six-month to 30-year part of the U.S. Treasury yield curve.

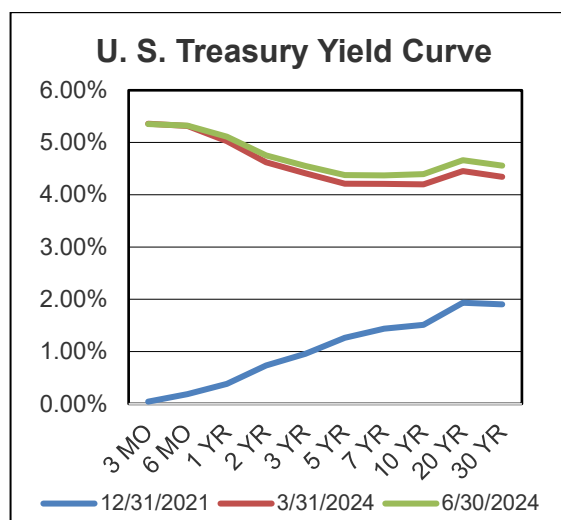
Investment Results for the Quarter Ending June 30, 2024

The table below summarizes the characteristics of the Trust Funds under management, as of June 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	\$156.2	70%	2.59	5.93	1,056	Year 2044	2.721%	4.570%
Bond Reduction Escrow	\$15.7	73%	2.22	3.00	914	Semi-Annual	4.569%	4.636%
Water Expense Stabilization	\$6.8	71%	2.28	3.00	941	Semi-Annual	5.131%	4.636%
Treatment Storage & Disposal	\$2.5	56%	1.94	3.00	803	Annual	5.398%	4.636%
CAISO Markets	\$10.5	100%	0.00	0.08	0	Monthly	5.180%	5.354%
Natural Gas	\$12.8	100%	0.00	0.08	0	Monthly	5.180%	5.354%
Totals	\$754.5							

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.
⁶ 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 June 30, 2024, the Decommissioning Trust Fund trailed its benchmark, while the Bond Reduction Escrow Fund, the Natural Gas and California Independent System Operator (CAISO) Markets Trust Funds' yields ticked up, but still slightly trailed their respective benchmarks. As the U.S. Treasury interest rates rose slightly throughout a still inverted yield curve, the Water Expense Stabilization Fund and the Treatment Storage and Disposal Trust Fund exceeded benchmarks as maturities were reinvested at higher yields.



Trust Fund Activities

During the quarter ending June 30, 2024, payments made to counterparties totaled \$8.5 million, and \$6.5 million was transferred from the Power Revenue Fund to the Natural Gas Trust Fund.

The CAISO Markets Trust Fund paid out \$2.7 million. The Decommissioning Trust Funds received deposits of \$3 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 \$108.8 million for the quarter.

Economic and Market Events

U.S. economic growth accelerated by more than forecast in the second quarter, illustrating demand is holding up under the weight of higher borrowing costs. Gross domestic product increased at a 2.8 percent annualized rate, as personal spending advanced 2.3 percent, also more than projected. While the pace of growth picked up from the first quarter, the figures still represent a moderation from last year.

Forecasters expect the economy to decelerate in the second half of the year as the labor market loses steam, slowing income growth and consumer spending.

In the household survey, nonfarm payrolls rose by 206,000 with government and healthcare dominating the hiring. The unemployment rate rose marginally to 4.1 percent, reflecting more people looking for work but also taking longer to find a job.

In June, the inflation rate was three percent year-over-year, down from 3.3 percent in May, marking a significant decline from the pandemic-era peak of 9.1 percent in 2022. The decrease was largely driven by lower gasoline prices and easing price pressures on household necessities.

Yield Expectations

Continuing their campaign to achieve maximum employment and inflation at the rate of two percent, the Federal Open Market Committee (FOMC) continued to hold the federal funds rate between 5.25 and 5.50 percent for the seventh consecutive time. Comments from the most recent meeting echo the sentiment that it is going to take longer to become confident that inflation is moving sustainably down.

The FOMC will continue to monitor the implications of incoming information for the economic outlook. The June FOMC meeting signaled only one rate cut before the end of the year and the new Summary of Economic Projections showed the median federal funds rate coming up from 4.6 percent in March to 5.1 percent in June.

Strategy

With the recent movements in market interest rates, certain portfolios have trailed their benchmarks, consistent with the portfolios' respective durations. 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