# WEBINAR TRANSCRIPT

2025 LAIF Webinar

February 13, 2025 | 10:30 AM – 12:30 PM

The Local Agency Investment Fund (LAIF) Webinar is designed to provide local public officials, responsible for the investment of public funds, with the opportunity to learn more about the LAIF program. Webinar attendees will learn how LAIF funds combine with the State's money in the Pooled Money Investment Account (PMIA), the PMIA goals and objectives, and LAIF operations.

This year's program features a keynote speech presented by Treasurer Ma; an economic outlook presented by Lindsey M. Piegza, Managing Director and Chief Economist at Stifel Financial; and a performance review of the Pooled Money Investment Account and LAIF presented by members of the Investment Division management team.

*Editor's Note: This transcript has been prepared by the Local Agency Investment Fund (LAIF) and it believes it to be a fair and accurate reproduction of the comments of the speakers. Any errors are those of LAIF and not the speakers.*

**SLIDE 1- LOCAL AGENCY INVESTMENT FUND 2025 WEBINAR** **00:06**

**LILY:** Good morning. Thank you for joining us today for the Local Agency Investment Fund 2025 webinar. My name is Lily Osorio and I am the LAIF administrator. Before we get started, I would like to go over some housekeeping details. Next slide.

**SLIDE 2- HOUSEKEEPING** **00:23**

**LILY:** Questions; we encourage you to submit questions using the question mark button on the right control of your panel. Please feel free to submit any questions at any time during the presentation. We'll have a separate question and answer period at the end of all the presentations, and we'll respond to any questions received at that time. Captioning; access to live captioning is available during the program, and there is an address in the chat and on the screen, you can access it via the link as well. Webinar replay; a replay link and transcript will be approximately available in two weeks and posted to our website. Technical difficulties; if you experience any technical issues, please try the toll-free number on the screen or the link to go to webinar support. Next slide.

**SLIDE 3- AGENDA** **01:23**

**LILY:** Today's agenda, we have California State Treasurer, Fiona Ma with our keynote speech, followed by Lindsey Piegza of Stifel Financial, discussing economic trends. At the end of her presentation, we will have time for a Q&A and then our investment division team with presentations regarding LAIF and the pooled money investment account from our executive director, Jeff Wurm, Credit Manager, and PMIB administrator, Tracey Paine and myself. Also joining us is our LAIF Operations Manager, Nicole Milliron, moderating questions. We will conclude our webinar with a question and answer period. So, with that, let's go ahead and get started. Next slide. First up is the Treasurer. Treasurer Ma is California's 34th state treasurer. She was elected on November 6th, 2018, with more votes than any other candidate for treasurer in the state's history. In addition to being the first female AAPI Treasurer. Thank you for joining us Treasurer, Ma.

**SLIDE 4 - TREASURER FIONA MA, CPA 02:32**

**FIONA:** Hi, my name is Fiona Ma, your California State Treasurer. Thank you for participating in our LAIF conference this year. As you know, your money is safe with LAIF and we are very appreciative of your business and your partnership in making sure that our state remains the golden state. We are the fifth largest economy, teetering on the fourth largest economy, and that's because of our entrepreneurs and everybody working together to ensure that our cities and our counties and our special districts are able to generate the revenues that they can in the most innovative ways, some of them with some of our programs that we offer here or through the IBank or perhaps CalPERS and CalSTRS investments. And so, we are trying to make sure that we keep as many jobs and businesses here in California. One of the important programs that we would love for you to help us get the word out is our eight modules intended for elected officials, but anybody in the finance area that wants to learn and understand a little bit about finances and how government works. So, if you could please share that, please review them at your convenience. They're very short, about 20 to 35 minutes each. You can pace it whenever you want. They're very, let's see, fun. They're definitely not boring and they're really intended to capture the audience and easily explain some of these very difficult concepts. Especially during the wildfires right now, I think our budgets are gonna be a little bit upside down, especially in the LA area, and we are gonna do what we can to make sure that we help rebuild and those that lost their homes can recover and rebuild successfully. And we're all working together very hard. In my office, we have a wildfire resource recovery guide, specifically tailored for the Palisades Fire as well as the Eaton Fires. Those can be found on our website, www.treasure.ca.gov and that first red box is our wild fire recovery guide. And then if you go under the other resources, there are resources for small businesses, solar, electric vehicles, manufacturing and others. So, I hope that you will access our resource guides and pass it on to anyone who needs it. And if you have any questions or if we could be of service, please email me at askfiona@treasurer.ca.gov. Again, that's askfiona@treasurer.ca.gov. And Kathryn Asprey is our amazing constituent services rep, and that is her main priority is to answer constituent questions, emails, texts, phone calls, and connect them hopefully with the services directly, or we will refer them to where they can get their answers. So, again, thank you for all you're doing, please stay safe, please help each other, support each other, we will get through this. So, thank you all for participating, and I hope you have a very productive LAIF conference.

**LILY:** Thank you, treasurer Ma for your time. Next up is an economic outlook: A Resilient Economy, Sticky inflation, and Aggressive Fiscal Policy Agenda Limit Downside Potential for a Fed Rate Relief. Presented by Lindsey Piegza, Ph.D., Managing director and Chief Economist from Stifel Financial. Ms. Piegza.

**SLIDE 5- ECONOMIC OUTLOOK** **06:42**

**PIEGZA:** Well, thank you. Good afternoon and welcome. Let me start by thanking everyone for joining today and giving me this opportunity to present on the state of the U.S. economy. As mentioned, the title of Resilient Economy Stubbornly Sticky Inflation, and now we have this new fiscal policy agenda that coming together all of these factors could limit the downside potential for further rate relief from the Federal Reserve.

**SLIDE 6- THE DRIVERS OF THE 2025 OUTLOOK** **07:11**

**PIEGZA:** Now turning to the first slide. As we look out to the new year, I think it's very clear that there are three main factors that are going to continue to drive what we can expect and what we experience in the markets and the economy; the consumer inflation, and the tough and new policy decisions and initiatives that are implemented by both our fiscal and monetary policy leaders. Now, up until this point, the consumer here in the U.S. has proven surprisingly resilient, resilient despite the burden of higher costs, higher prices, higher borrowing costs, and and even now with a reduction in the use of credit cards. But challenges still remain. And as the backbone of the U.S. economy, any decline in consumer resilience could translate quite quickly into a meaningful decline in top line growth. Now, on the inflation side, inflation had been showing signs of improvement, material signs of improvement. But as of last year, that downward trend has been replaced by sideways movement, and even in some cases, indications of acceleration as we saw this week in both the CPI and the PPI. And while monetary policy leaders certainly continue to struggle to tame price pressures with this desperation, if you will, to reinstate price stability, a seemingly aggressive agenda by the incoming administration could further complicate the Fed's pathway to achieving price stability. But turning to the next slide, let's begin with the consumer.

**SLIDE 7- THE CONSUMER** **09:06**

**PIEGZA:** As I mentioned, a significant source of strength for the economy and this strength and good part reflecting ongoing solid conditions in the labor market with hiring still remaining, not necessarily robust, but certainly positive in nature. Now again, the annual pace of job creation momentum has slowed somewhat as you can see here with those red lines over the past couple of years. But even at the current average pace of 166,000 since the start of last year, this still remains well above the expansionary level of the prior three cycles with the most recent acceleration of the three months average up to 237,000. So, when we look at the labor market, we're

still talking about putting hundreds of thousands of Americans back into a position of gainful employment on a month-to-month basis. And turning to the next slide, we continue to see this type of strength.

**SLIDE 8- U.S. UNEMPLOYMENT RATE, BELOW FULL-EMPLOYMENT RATE 10:14**

**PIEGZA:** Looking here at the low level of jobless claims, really bouncing around a very tight range over the past couple of years, and we continue to see these indications of strength in the labor market looking at the relatively low level on the unemployment rate falling most recently in the latest report back to an impressive four percent pace. Now, not only is this impressive on a nominal level, four percent is extremely low, but look at where we are in terms of those dotted yellow lines, where we are relative to what the Fed designates as the full employment range. This is what the Fed tells us, is the desirable level of unemployment or the sustainable level of unemployment, let me say it that way. We're not just at the lower bound of that range, we're well below that lower bound suggesting that the U.S Central Bank still has a good amount of room and flexibility to remain in firm territory before pushing the unemployment rate higher into that desirable or sustainable range. It also indicates that we continue to see, again, these tight-ish labor market conditions with clearly labor demand outpacing labor supply. And it's because of this lingering disconnect between labor demand and labor supply that we're still seeing pressure, upward pressure on wages. Turning to the next slide.

**SLIDE 9- AVERAGE HOURLY EARNINGS 11: 47**

**PIEGZA:** You can see wages have been averaging at about four percent since the start of last year. Now, like payrolls, we have lost some momentum. We have come down from an earlier peak nearer six percent back in the aftermath of COVID. But even with that second derivative decline, wages are still about 80 basis points above the pre-pandemic average, suggesting at least some ongoing and further support for the consumers and at least some consumers then feeling more financially viable. Of course, turning to the next slide.

**SLIDE 10- DEBT AS A PERCENT OF INCOME 12:42**

**PIEGZA:** Not all of the support for consumers as of late have been organic in nature. Consumers absolutely are benefiting from this improvement in wages, as we just saw a solid four percent pace. Consumers are also benefiting from lingering savings, pandemic savings that we've drawn down a good amount, but there still are some savings out there helping to support consumers. And while elevated interest rates certainly punish borrowers, they also benefit savers. And we've seen consumers benefit from this increase in interest earnings, but that's more on the organic side. Support for consumers has also been less organic in nature, in some cases as consumers are increasingly reliant specifically on buy now pay later options turning to 401ks with hardship

withdrawals of double digits since the start of the year, drawing down those savings and of course turning to credit cards without standing balances rising over 1.2 trillion as of late. Now, there are some concerns about these rising debt burdens. Delinquencies in some cases have already pushed above average, especially for those with lower credit scores and those among the youngest borrowing cohorts, and they could continue to push higher. But broadly speaking, looking here, when we talk about the vulnerabilities of the household balance sheet, looking at the light blue line, you can see that the ratio of household debt payments to disposable income, which is simply a proxy for the health of the household balance sheet, this still remains at a near multi-decade low. So, I'm certainly not advocating for consumers to take on new amounts of credit card debt, but what this tells us is that there's still a good amount of spending power, borrowing power on part of the average American that will continue to provide support for this theme of resilience in terms of consumer spending. Of course, turning to the next slide.

**SLIDE 11: RETAIL SALES VOLATILE WITH BROADER MOMENTUM 15:06**

**PIEGZA:** That's not to say that consumers aren't feeling the pinch from higher prices, higher borrowing costs, the resumption of student debt payments, they absolutely are. And as a result, consumers are slowing the pace of expenditures. Consumers are still out there in the marketplace spending on goods and services, but they are doing so at a noticeably reduced pace. Again, that second derivative decline, a slower pace of still positive expenditures. But that being said, even looking at this decline from double digit growth to eight percent down to six percent, we're now at low single digits, even at an average pace of three percent since the start of 2023, that's still very indicative of providing solid support for an economy and resulting in top line GDP well above two and half percent. Now, in fact, even at a lower two-ish percent pace in terms of consumer spending, that would still be enough to provide enough support for top line growth around two, two and half percent, Ceteris paribus, assuming everything else is constant. And that's even before a number of potential fiscal initiatives offer further cushion or adjustment to the household balance sheet. Now, when we talk about the consumer feeling the burden of higher prices. Let's turn to the next slide.

**SLIDE 12: RISE IN HOUSEHOLD NET WORTH 16:42**

**PIEGZA:** I think it's important to recognize that not all consumers are feeling the pain equally. For some households, net worth has increased substantially over the past two years to the tune of $25 trillion. And that's thanks to a massive runup in asset valuations via the housing market, via the equity market. But we know that these increases have largely been segmented to those at the upper end of the income spectrum because just statistically speaking, we know that those in the middle or at the lower end of the income spectrum are less likely to have a stake in the equity market. They're less likely to own property and thus have largely been precluded from enjoying this massive runup in household network, again, via that rise in asset valuations. And this has really perpetuated the divide not between rich and poor, but between asset holders and non-asset holders. So, when we talk about the resilience of the consumer, as I did at the start of the presentation, we do have to be somewhat careful about painting with a broad brush because it is clear that there's two very different storylines underneath

the surface when we talk about the health of the U.S. consumer. Now, let's turn to the next slide and take a look more on the corporate side of things.

**SLIDE 13: WANING BUSINESS INVESTMENT 18:13**

**PIEGZA:** Just as they've weighed on consumers and households, higher costs, higher prices of parts, materials, higher rental costs, and of course, higher labor costs have also been weighing on businesses resulting in a significant slowdown in the pace of investment. Now, again, it was that second derivative decline, that slower pace of positive momentum that we saw in payrolls, that we saw in consumption. But it's been a noticeable slowdown over the past two years with business investment, as you can see, declining outright more recently for the first time since the third quarter of 2021. So, you can see that turn into negative territory at the end of last year. Again, the first dip below zero since the end of 2021. And I would expect this relatively reduced pace of investment to continue, at least in the near term as we continue to see uncertainty and volatility around consumer behavior translating into reduced profits or at least reduced profit expectations, which could lead to at least some credit quality issues on the margin resulting in closures or location reductions, layoffs, et cetera. Now, turning to the next slide.

**SLIDE 14: IMPACT OF ARTIFICIAL INTELLIGENCE (AI) ON LABOUR MARKET 19:47**

**PIEGZA:** For some companies desperately trying to tread water in this difficult environment, for some businesses, for some companies, they've already resorted to those suggestions. As I mentioned, location reductions, hiring freezes, outright staff layoffs. But the most common pathway that we've seen over the past couple of years in this elevated rate, relatively elevated rate environment, has been a turn to technology and adoption of AI to help offset those rising costs, particularly those rising labor costs, wherever humanly possible. In fact, when we look at the survey data, 50 percent of businesses in the U.S. say they've already adjusted their staff, their existing employee base based on the adoption of AI over the past year. And north of 80 percent of American businesses report plans to reduce their existing labor force as a result of adopting technology or AI over the coming 12 to 18 months. So, for many businesses, AI has been a cost savings lifeline, but at the same time, it could also result in a significant disruption in the labor market, potentially displacing as many as 12 million jobs this year alone and potentially automating north of 30 percent of current tasks in the labor market by the year 2030.

**SLIDE 15: HOUSEHOLD AFFORDABILITY NEAR RECORD LOW AS MORTGAGE RATES REMAIN ELEVATED 21:25**

**PIEGZA:** Now, turning to the housing market on the next slide. Higher prices and borrowing costs again, have wreaked havoc on individuals and businesses, but they've also wreaked havoc on the functionality of the housing market, creating a sizable lockout effect by eroding affordability to near record low levels, essentially making it simply too expensive for potential home buyers to move into the marketplace. But with this rapid runup in rates, this precipitous ascension in borrowing costs, it also created a sizable lock in effect, largely precluding current homeowners from offloading their existing property for fear of resetting at a significantly higher rate. So, maybe you have a big house on the east coast and you're ready to relocate to a smaller unit on the west coast, or vice versa, even if you're buying a lower cost nominal asset, if you're resetting from three percent or below to maybe seven percent or higher, that's going to result in a significantly larger monthly payment, which most Americans simply cannot afford at this point. So, this adjustment in the marketplace, again, that rapid rise in rates, as well as that nominal increase in rates created not only a lock in, but a lockout effect as well.

**SLIDE 16: TRILLIONS IN COMMERCIAL LOANS SET TO RESET AT HIGHER LTVs 23:01**

**PIEGZA:** Still, turning to the next slide, the biggest risk to the outlook and certainly the broader economy doesn't stem from the residential market, but the commercial market as elevated costs undermine not only affordability for buyers, but valuations for investors. Now, this is something that we've warned about in the past, and it failed to materialize in 2024, but I would argue it still remains a risk now as we look further out into the new year. Remember in the U.S. We have trillions in commercial loans coming due in the next one to three years, and these loans are gonna be resetting at significantly higher rates. So, that means driving LTVs or Loan To Value ratios from 30 or 40 percent up to 80, maybe 90 percent, maybe higher. This is going to require a significant amount of additional capital to right size these loans. Now, that's not to say that this can't happen, but turning to the next slide.

**SLIDE 17: RETURN TO OFFICE RATES COMPLICATE COMMERCIAL REAL ESTATE MARKET OUTLOOK 24:11**

**PIEGZA:** As you can see here in some of the largest key cities of the U.S. with a return to office ratio really 50 percent on the top end in many cases, there may not be the population support to justify a further infusion in capital. And of course, keep in mind that the contagion effect extends beyond the primary office space and extends to all the secondary and tertiary businesses built up around that primary office space. Remember, if we're not physically going into the office, then we don't necessarily need anywhere to park our car or drop off our dry cleaning or get a sandwich during our lunch break. So, again, the contagion is not just the primary commercial space, but it extends out to all those businesses reliant on the occupants of that commercial space. And of course, the contagion effect then continues out to our financial institutions as well as the vast majority of this paper is being held by the mid-size and smaller financial institutions with less than $280 billion in assets on their books. So, turning to the next slide.

**SLIDE 18: HIGHER RATES LIKELY TO WEIGH ON NOMINAL GROWTH (WHILE AVOIDING RECESSION) 25:30**

**PIEGZA:** What does this mean for GDP? Because we just talked about the health of the consumer and the commercial markets, the housing markets, the health of businesses. What does this mean for GDP? Well, taking a broader based view, we do expect the U.S. economy to continue to grow at a positive pace, at a relatively solid pace around two and a half percent. Consumers are still spending, businesses are still investing, but as we talked about, they're doing so at a reduced level, still positive, but that loss of momentum, that second derivative decline. Now, the risk of recession. Turning to the next slide.

**SLIDE 19: RECESSION RISK REMAINS REAL BUT FED REMAINS FOCUSED ON SOFT-LANDING 26:20**

**PIEGZA:** Still, it remains very real, you can see the risk here. It remains real, but muted. Our model puts it at about 15 percent on the top end as we look out over the remaining months of '25. So, it's certainly not zero by any means, but it's certainly not our base case scenario either, as the Fed remains focused on achieving or in some opinions maintaining a soft landing. But turning to the next slide.

**SLIDE 20: SOFT LANDING ONLY ACHIEVED BY THE FED ONCE IN LAST 60 YEARS 26:50**

**PIEGZA:** It's important to keep in mind that the U.S. does not have a great track record for achieving that utopic balance of a soft landing, having achieved it as you can see here, only once in the past 60 years, and I'm being somewhat generous, I'm going over a 60 year period, 11 business cycles, and the Fed has only achieved that once back in the early 1990s under then Federal Reserve chairman, Alan Greenspan, the maestro. So, really when I look at this chart, the bigger risk that I see is not a recession, as we just talked about or an outright downturn in growth, but the risk of stagflation, as this Fed, this Powell Fed remains so fearful of inciting a recession or causing negative growth, that it may be willing to allow inflation to remain persistently above the target level for some time, which will eventually choke off upside potential and result in a non-accelerated rate of GDP or non-accelerated rate of growth. So, sluggish growth, elevated inflation, the very definition of stagflation. And turning to the next slide.

**SLIDE 21: COUNTERPARTS ABROAD FACING CONUNDRUM OF SLOWER GROWTH AND HIGH INFLATION 28:13**

**PIEGZA:** As you can see here, this is a scenario that many of our developed and developing counterparts to be fair, are already facing, this conundrum of sluggish growth and still lingering high price pressures, rendering in many cases traditional monetary policy metrics then less than useful in combating these conditions. And this is

a risk that becomes increasingly probable for the U.S. given the current fiscal conditions in this country. Turning to the next slide, let's take a look at the Federal Reserve, or excuse me, the Federal government's balance sheet.

**SLIDE 22: U.S. DEBT CONTINUES TO INCREASE, RISKING PRESSURE ON INFLATION, LONGER-TERM RATES 28:50**

**PIEGZA:** You can see here $34 trillion in debt, a deficit to GDP ratio at near seven percent. That's double the historic average. So, the question I'm always asked is, do deficits matter? Does debt matter? And the answer is unequivocally yes. And this massive expansion of the government's balance sheet will continue to reset not only market expectations for higher, longer term rates, which in part is why we've seen yields climb despite the Fed's recent three consecutive rate reductions. But it's also going to further complicate the Fed's pathway to achieving that second half of their dual mandate, which is price stability. Now, of course, this is nothing new. Turning to the next slide.

**SLIDE 23: GLOBAL COVID-19 SPENDING 29:42**

**PIEGZA:** In many ways, the U.S. is still reeling from earlier fiscal policy developments. Remember, this massive expansion of government spending did not occur overnight and did not occur under one administration. It's been a cumulative effect over decades. But if you think back to the great financial crisis, the American public, the market, investors seemed to balk at 787 billion. That was the price tag. But this time around we spent nearly six trillion dollars. And regardless of how we feel about these policies, regardless of how we even feel about the administrations that put these policies into place, we do have to have the uncomfortable conversation regarding the consequences of these policies. Now, to be fair, much of the developed world, as you can see here, followed suit in terms of massive outlays of government support during this unprecedented period of the pandemic. But turning to the next slide, let's see what happened in the U.S.

**SLIDE 24: UNPRECEDENTED INFLATION AMID MASSIVE GOVERNMENT SPENDING 31:00**

**PIEGZA:** As the U.S. spent more than double the next highest spender, we also created the highest levels of inflation here in the U.S. than most anywhere else in the developed world. Now, that's the bad news. The good news is that's no longer the case. Inflation has improved markedly from earlier peak levels, and we have continued to see at least a stabilization away from those earlier peak levels. But there still is quite a bit of ground to cover before we can talk about the Fed dropping that mission accomplished banner of achieving two percent, their two percent target. Now moving to the next slide.

**SLIDE 25: TRUMP POLICY PROPOSALS** **31:50**

**PIEGZA:** I think it's also important to recognize that the risks to inflation remain at this point on the upside, particularly amid a new regime entering into Washington with a potentially very aggressive agenda. Now, according to the Trump team, the administration is focused on a number of key initiatives, increasing international tariffs, international barriers to goods coming into the domestic market, potentially lowering taxes, keeping in place the 2017 landmark tax reductions and potentially reducing the corporate rate as well, putting in place more stringent immigration laws, increasing a more positive focus on domestic energy production, keeping pressure on monetary policy to provide less firm initiatives and potentially reducing the government's role in terms of this country's healthcare industry. But the question remains, how will these agenda items impact the economy? Turning to the next slide.

**SLIDE 26: TRADE AND TARIFFS: THE IMPACT ON THE ECONOMY WILL DEPEND** **32:56**

**PIEGZA:** Let's start with tariffs, because again, as we try to decipher the impact, I think first and foremost the answer is it will depend. Well, certainly painful for consumers already reeling from years of price increases. You can see the massive increase in costs since 2020 for very key categories, groceries up near 30 percent, housing 26 percent, transportation over 25. So, consumers are already under pressure from years of price increases, but tariffs in and of themselves aren't necessarily inflationary as a one-time price increase does lack the perpetual upward momentum in costs that triggers inflation. That being said, this retaliatory tit for tat dispute or back and forth reaction in the international market could absolutely result in inflationary pressures. And in fact, in the most extreme cases, I think could result in several tenths added to annual GD or annual inflation metrics. Turning to the next slide.

**SLIDE 27: LOSS OF GOVERNMENT REVENUE FROM TAX CUTS COULD BE OFFSET BY POTENTIAL CUTS** **34:29**

**PIEGZA:** In terms of tax cuts, a sizable reduction in tax burden absolutely could fuel a spending binge on the individual or household side or an investment binge if we saw a significant reduction on the corporate side. However, at the same time, the Trump administration has vowed to weed out waste and inefficiencies and reduce the overall size of government. So, if we could find enough line items, enough areas to reduce expenditures, to offset the potential loss of revenues elsewhere, in case of reduced tax initiatives, we could actually offset that potential, additional burden on inflation and that potential loss of government revenue and could potentially add to top line GDP. In fact, I would argue a more fiscally responsible balance sheet could add several tenths of a percentage point to GDP this year alone or more as we look out over the longer run of the economy. And one more topic to touch on the fiscal side. Turning to the next slide.

**SLIDE 28: IMMIGRATION REFORM** **35:52**

**PIEGZA:** While additional immigration restrictions absolutely could exacerbate the already existing labor supply shortage that we face here in the U.S. with still more than eight million job vacancies and by extension then result in higher production costs, higher wage pressures. And the flip side, looking at this from both sides of the coin, more stringent integration laws and requirements could help to reduce the reported drains on Federal, state, local, social programs in particular areas and potentially return security and order to our Southern U.S. border. So, again it's very much going to depend on the exact implementation and scope of policy, but I would add it that either way I suspect a review and potential redesign of U.S. immigration policies will help to bridge the gap between the need for very positive immigration flows into this country to support the U.S. labor force, but also the desire to entice the most contributory individuals into the U.S. labor market with the skills needed to fill those millions of job vacancies out in the marketplace. So, for the Fed, what does this mean for the Fed? Turning to the next slide. Well, bloated and growing government balance sheets, rising equity market valuations, a more spendy consumer, ongoing resilience on part of the consumer. Then you add in international and geopolitical risks, as well as this potentially aggressive fiscal policy agenda that we just went through. And these were far from the ideal conditions that the Fed anticipated to be experiencing, still struggling to reinstate price stability. So, it all comes down to inflation. Let's take a look at the next slide.

**SLIDE 29: INFLATION TO REMAIN UNEVEN, UNCERTAIN, ELEVATED...BUT IMPROVING?** **38:02**

**PIEGZA:** It all comes down to this chart here. Now again, there has been progress, ample progress from earlier peak levels, but that downward momentum of 2022, 2023 that arrested last year with many iterations of prices now moving sideways or even accelerating away from the Fed's, two percent target. Take a look at the super core CPI, for example, or housing costs still more than double the Fed's target at 4.2 or five percent respectively. And with the headline CPI and headline PPI actually accelerating, meaning gaining momentum in the past four months, both the PCE and the core PCE, which excludes food and energy. These are the Fed's preferred measures of inflation. These are anticipated to range north of two and half percent over the next 12 months. Again, implying this lack of downside potential for further Fed relief as well as additional or at least ongoing pressure on consumers. Let's turn to the next slide.

**SLIDE 30: HOLD IN JANUARY COUPLED WITH HAWKISH STATEMENT AND REDUCED OUTLOOK FOR RATE CUTS IN 2025** **39:18**

**PIEGZA:** Now, despite that lack of improvement in inflation since September, the Fed did opt for a third round cut at the end of last year, with relief now totaling 100 basis points, a full one percent over a four-month period. But the motivation was largely based on concerns over labor market weakness, which failed to materialize

as well as the need to push through as much relief as possible ahead of the uncertainty of a new Trump agenda. But even with another 25-basis point cut in December, at the same time, the committee was very hawkish, very positive in their assessment of the economy with Fed officials acknowledging both the upside risk to inflation and the realization that after just three rounds of easing, policy was already nearing neutral. The Fed also, as you can see here, materially revised down their outlook for additional rate cuts in the coming years, reducing the amount and the pace of expected reductions. Previously, the Fed had been anticipating four 25 basis point cuts that was reduced to half, just two cuts this year, two cuts next year, taking us to eventually a longer-term rate of three percent beyond 2027. So, policymakers very clearly adopting a more cautious tone, opening the door for a near term policy pause as we saw materialize in January. And let's take a look at the next slide.

**SLIDE 31: JANUARY 29 FOMC STATEMENT** **41:04**

**PIEGZA:** As I mentioned, the Fed opting to hold rates steady in a range of four and quarter to four and a half percent at the start of the year. And at the same time, the Fed also maintained that very positive language, reiterating a solid economy, noting that the low level of unemployment has seemingly stabilized, suggesting the committee has adjusted its assessment of labor market conditions. Moving from earlier concerns of emerging weakness, policymakers now appear to be conceding to ongoing solid conditions in the labor market and more broadly across the domestic economy. You can also see here the wording on the inflation front. The committee continues to acknowledge the sticky nature of inflation and while not necessarily accelerating, policymakers noted the still elevated level of costs removing that recent wording of further progress towards the committee's goal. Now turning to the next slide.

**SLIDE 32: POWELL NOTES FED IS NOT IN "HURRY" TO CUT RATES FURTHER** **42:09**

**PIEGZA:** The January move was certainly a policy pivot, policy pivot away from that earlier pathway of easing, as I mentioned, that began in September, but the decision to hold rates steady at the start of the year, at least for the market, was somewhat of a non-event given that the move was widely anticipated and had been fully priced into the market for some time. But that being said, with the upwards assessment of the labor market and downwards assessment of inflation improvement, as we saw in the statement, this suggests the Fed is increasingly willing to take a prolonged position on the sideline as the committee continues to assess the evolution of conditions, the evolution of the data, and of course the impact of fiscal policy initiatives. As we heard from Chair Powell testify this week, there's a lot of uncertainty facing the economy, and as such, the Fed is in no hurry to adjust policy, nor is policy on a preset course. So, the committee is going to be very thoughtful, very patient in terms of any further initiatives going forward. And turning to the final slide.

**SLIDE 33: FED LIKELY TO MOVE AT A CONTROLLED, TEMPERED PACE; ADDITIONAL RATE CUTS DELAYED TO 2H? 43:34**

**PIEGZA:** Now, in terms of expectations for additional policy adjustments, I think it is important to recognize that changing conditions, some ongoing improvement in inflation, some ongoing cooling in terms of job creation, as we saw that slight slowdown in momentum, these do warrant somewhat of a further policy response and thus could warrant additional rate cuts this year. But any further adjustment that we see from the Fed will come at a more tempered controlled pace as the Fed moves policy towards neutral. This is not a Fed in any way rushing to provide relief to an ailing economy, but again, simply the Fed adjusting firm policy back towards neutral as the data and the economy normalize. But as we've seen, the Fed has very much laid the groundwork for this minimalist approach to any further adjustments likely translating into the Fed holding policy steady well beyond that January pause, that widely anticipated pause, meaning very few if any additional 25 basis points this cuts this year. But even if we saw additional policy likely pushed out to the second half of the year, regardless of whether it's one, two or none, the resulting change for the market seems to be threefold. A structurally elevated level of longer-term rates, so higher rates on the longer end of the curve, a welcomed more normal upward shaping yield curve and potentially a structurally higher R star or neutral level near three and three quarters or substantially, at least substantially above earlier central bank predictions. But with that, I'd like to leave a couple of minutes for questions, comments, or general disagreements if there are any from the audience.

**LILY:** Nicole, do we have any questions for Ms. Piegza at this time?

**NICOLE:** Yes, we do have a couple of questions. The first question I have is, are there any concerns about government debt to annual gross domestic product?

**PIEGZA:** Absolutely. As I mentioned, $34 trillion in debt and that deficit to debt, GDP rate or deficit to GDP ratio pushing towards seven percent, this is going to very much limit growth and exacerbate inflationary pressures, which is going to complicate the Fed's ability to provide relief that relief that they so desperately want to provide to the economy to continue to accelerate growth. So, yes, it's going to create a natural barrier to any further adjustment on the monetary policy side and also should act as a structural limitation to any further expansion on the fiscal side. But unfortunately, we haven't seen fiscal responsibility in Washington on either side Democrats or Republicans for quite some time.

**NICOLE:** Okay, great. And our next question is what is your projection of rates for 2025 and how many rate cuts do you anticipate, if any?

**PIEGZA:** Well, I think at this point, it's going to be very difficult for the Fed to justify any further rate relief without two factors coming into play, or at least one of the two factors coming into play. A material arrest of this upward ascension that we've seen in inflation over the past four months or a significant cooling in the labor market. But barring one or both of those scenarios, it's going to be very difficult for the Fed to justify any further policy relief. Now that being said, with the Fed comfortable on the sidelines, that does not immediately imply an increased willingness to reverse course and hike rates. I think the bar for additional rate hikes has been set significantly higher than for rate of reductions. We would have to see ongoing inflationary pressures, and when I say ongoing, probably six months or more before we could talk about the Fed really getting on board with

potentially reversing what they started in September. So, I think right now the upside risk for additional rate cuts maxes out at two this year. That would be the most that we could possibly expect from the Fed with the downside being no additional policy action unless we see a significant increase in inflation, which could spark one or two rate hikes. So, there's a bandwidth of potential policy action that we could see this year, again, depending on how the economy evolves and more importantly, how fiscal initiatives impact the economy over the next six to eight months.

**LILY:** All right. So, I believe that was our last question on behalf of myself, the investment division and LAIF. We'd like to thank you Ms. Piegza for joining us today in our LAIF webinar.

**PIEGZA:** Thank you very much for having me. Thank you everyone for attending.

**LILY:** All right. Next slide.

**SLIDE 34: PMIA AND LAIF UPDATE** **49:11**

**LILY:** Next up is our LAIF and PMIA update managing a large portfolio of state and local money presented by the investment division team and myself. Hello again for anyone who might have missed it, I am Lily Osorio and I am the LAIF administrator. Next slide.

**SLIDE 35: LAIF OPERATIONS** **49:34**

**LILY:** I'll begin my part of the presentation with introducing you to our amazing team and give a face to the voices you hear when you call in. Next slide.

**SLIDE 36: TEAM** **49:49**

**LILY:** On the top right next to me is Nicole, our operations manager. Bottom far left is Janice, our lead analyst. She handles new accounts. Chai, she handles transactions and account updates. Christina, she handles transactions and bond accounts. Precilla, she handles transactions and LAIF online user IDs and Sarah, she handles transactions and help plan this web conference. Next slide please.

**SLIDE 37: PMIA SOURCE OF FUNDS** **50:26**

**LILY:** Source of funds. I'd like to start by showing you how LAIF fits into the pooled money investment account. As you can see, LAIF is only a portion of the PMIA, about 13 percent of the 151-ish billion dollars portfolio as of December 31st, 2024, which is mostly compromised of surplus money investment fund, also known as SMIF and General Fund dollars. Being a part of the PMIA is how LAIF is able to offer local agencies the opportunity to participate in a major portfolio which invests hundreds of millions of dollars using the investment expertise of the state treasurer's office investment staff. Next slide please.

**SLIDE 38: LAIF PARTICIPATION 51:17**

**LILY:** Here is a look at our participation pie. I like to show this chart because as you will see, the majority, about 70 percent of our accounts are from special districts. This image really highlights one of the main reasons LAIF was created to be an investment alternative for California's local agencies. You will also notice that most of the counties and cities hold LAIF accounts as well. Next slide.

**SLIDE 39: POLICY REMINDERS 51:50**

**LILY:** Now we'll move on to how LAIF operates, and I'll start with some policy reminders. Our office hours are from 7: 30 a.m. to 4: 00 p.m., with staff available during that time to take your calls, whether you want to schedule a transaction, open a new LAIF account, or for any other general questions you may have. Our LAIF online hours vary a little since you're able to schedule a transaction anytime from 7: 00 a.m. to 7: 00 p.m. If you would like more information about our online account management service portal, LAIF online, please feel free to give us a call or visit our website. We also ask that you please provide us with at least a 24-hour notice with a call or email for any transaction of $10 million or more, withdrawal or deposit. This not only allows us to make the most effective investment decisions, but helps our cash management division who we work closely with. Same day transactions must be scheduled via phone or online before 10: 00 a.m. preferably not at 9: 58 a.m. Deposit transfers from your bank should be received on the effective date of the transaction. Our regular accounts have a $75 million cap, no limit on bond accounts. You are also allowed 15 transactions per month with a minimum transaction of $5,000 in increments of $1,000. Next slide please.

**SLIDE 40: WHAT HAPPENS WHEN I SCHEDULE A DEPOSIT 53:23**

**LILY:** I'd like to take this time to remind you of what happens on our end when you schedule a deposit into LAIF and how time sensitive it can be. The clock begins once you schedule a deposit either online or by phone. You then need to contact your bank and initiate and approve the transfer or wire funds to LAIF. Our team begins tracking deposits around 11: 30 a.m. on the effective date, which is about the time you will start hearing from us too for any updates. It is very important that if you schedule your deposit with an effective date, we receive the deposit on the effective date. When we schedule your deposit with an effective date, we begin accounting for the receipt

of those funds on the effective date, meaning we begin paying interest. If we don't receive the money on the effective date, we have to make adjustments to your account to correct for the interest. And our cash management team has to make adjustments to the LAIF Bank deposits because the state is required to keep a certain amount of dollars in each of the LAIF's banks and must make adjustments if we don't receive the expected deposits. So, by now you're probably asking what's the bottom line? Well, if you're ever unsure or have a question about your deposit, please contact us and we will gladly assist you with the process. Next slide please.

**SLIDE 41: UPDATING YOUR LAIF ACCOUNT** **54:56**

**LILY:** Account updates. Next up, I would like to talk about LAIF account updates. We can best serve you when we are kept in loop with any type of change or update to your LAIF account information. When visiting our website, laif.treasure.ca.gov, you can easily find the update forms by clicking on the forms blue box. Today I will focus on the two update forms that are used the most. The first is the bank account authorization form and the authorization for transfer of funds form. If your agency has switched banks, close the bank account, or if your bank has merged and changed its name or updated their ABA number, we require a bank update form. To ensure there are no delays with your transactions, we ask that you update your banking information accordingly. Lastly is our authorization for transfer of funds form. If your agency has had recent staffing changes, for example, people retire, promote, or you have new hires, we will require an updated authorization change form. We will not process a transaction with someone who is not authorized on your account. We are sticklers with these update forms for your safety and ours, which is why we still require the original of these forms to be mailed and with wet signatures. If you have any questions about these forms, please remember that our team is happy to help. So, do not hesitate to reach out with any questions. Next slide please.

**SLIDE 42: LAIF'S QUARTERLY PERFORMANCE AS OF 12/31/24** **56:40**

**LILY:** Lastly, I will briefly touch on LAIF's quarterly performance as of December 31st, 2024, which leads us right into the PMIA portion of today's webinar. The apportionment rate for LAIF was 4.62 percent with the quarter to date being 4.48 percent. The average life of the entire portfolio was 252 days with a fair value factor of 0.99. I will note that with LAIF, it is dollar in dollar out, but we do post this factor as a requirement, as I'm sure your auditors may have asked you about it at one time or another. Next slide. And with that, I will now hand it over to Jeff Wurm, the executive director of the investment division, who will give an overview of the pooled money investment account along with Tracey.

**SLIDE 43: OVERVIEW OF THE POOLED MONEY INVESTMENT ACCOUNT BY JEFF WURM AND TRACEY PAINE** **57:28**

**JEFF:** Okay, next slide please. I first like to say good morning and thank everyone for registering and giving us the opportunity to speak directly with you today. It's an honor to get this opportunity to get to talk to you directly and get through some of this information. Next slide please.

**SLIDE 44: SUMMARY OF INVESTMENT DATA 58:08**

**JEFF:** What I'm gonna do here with my presentation, I'm gonna kind of draw a picture of where we were and how we got to where we are. So, there's an understanding or a better understanding of what we've been doing and how the portfolio got to where it is, this information we found on the website, and I'll show you where later in my presentation, but if you kind of start on the right side here at the very top, the green boxes tell you what date ranges we're looking at. And as you go down, you know, it will show you the average daily balance for the portfolio within that month that we're discussing. A couple other points that look at is the effective yield at that time and then the average life of a portfolio is kind of where I wanted to point out as things have changed here. The first column there on the far right is the December, 31st or December of 21. The average portfolio, average daily balance in the portfolio was over $175 billion. To give you an idea, just in one year prior that I couldn't fit on here to make it make sense. And December of 2020, the average daily balance for the PMIA was $103.5 billion. So, we had some massive changes leading right into, you know, all these rate hikes from the Fed and there's a lot of things that kind of played into how this worked out. So, if you look at it, like I said, so we had a roughly $70 billion increase in the PMIA over one calendar year from December 20 to December 21. That continued to grow into '22 As in December of '22, the average daily balance for that month was $198 billion but the average life was coming in. I mean, we, you know, made a conscious effort, but it's really hard with a very, very large portfolio to make significant changes in anything, whether it's yield, whether it's the average life and the total dollars are just kind of flow in and out. I mean, with California being the fifth largest economy, you can imagine how much money flows in and out of our system on a daily basis. So, if you continue across to December of 2023, you'll see that we've started down the downhill slide of, you know, the peak amount of money coming into the PMIA, December of '23's average was 156 billion. And then this most recent December, it was just under $150 billion in terms of average daily balance. But as you can see, the average life was going down and now it's kind of crept back out a little bit. We do have kind of thoughts that I know rates are potentially going down. There's a stronger, you know, potential for them to go down. So, we've taken a few opportunities to lock in some rates, you know, in the four, four and a half arena out a little bit longer in the two to three year arena, which has kind of pushed our average life back out because as the portfolio was shrinking, our focus really was on providing enough liquidity to the state and to our local governments, those of you who participate with us to provide liquidity and not put us in a situation where we had to sell as it was a little more difficult as rates were increasing rapidly. Next slide.

**SLIDE 45: FED DOT PLOT: 9/22/21 01:00:54**

**JEFF:** I'm gonna kind of show a little bit of history of what the Fed was considering. If we can go to the next slide, please. So, leading into like at the beginning of COVID, there were simpler times for the Fed, rates were zero. This was a normal-ish yield curve where the longer duration, the more reward in terms of earnings that you would get. Much the Fed felt in September of '21, that rates weren't gonna go up a whole lot in '22. They were split on where they were gonna end up at the end of '23, kind of settling in around one percent. And we're gonna go to the next slide and we'll see how this is going. Fast forward to same date range in September of '22. Well, rates weren't at 25 basis points, they were all the way up in the four to four and a half range. Now the Fed is having a little bit harder time to be in agreement on where things are gonna go. As you can see, the dots in the voting kind of started getting a little more chaotic because it was really hard to tell for them and that these are the professionals who work in this world every single day and spend all this time. And even they weren't totally in sync on where they thought rates were gonna go, but they were pretty sure as a group rates would be coming back down by 2024. Next slide, please.

**SLIDE 46: FED DOT PLOT: 09/21/22** **01:02:15**

**JEFF:** Fast forward one more year to the September meeting of '23. You can see that rates didn't kind of stabilize there, but they actually did get up to five and half percent, kind of a split there on where they were gonna go the next year, but they were sure in 2024 rates should be coming down, which kind of played out right about to where they were looking at here. But if you just go two years, there's very little continuity in where they think rates were gonna be this calendar year in 2025. So, you can imagine these people who spend all their time studying and reading this are a little confused and have very differing opinions on where rates are gonna be. It makes our job and your jobs, we all do the same thing, a little bit difficult to kind of predict when we should take the opportunities to invest out term, especially when we've been dealing with an inverted yield curve over the last couple of years. Next slide please.

**SLIDE 47: FED DOT PLOT: 09/20/23** **01:03:07**

**JEFF:** I'm gonna circle back here on the top left of this next slide to a slide Lily shared. Just to remind everybody, you know, LAIF is just a portion of a very large commingled pool of state and local government money. And then right below that is a chart I'd like to show how each fiscal year, what the PMIA has done. It wasn't until 2019 that the PMIA broke a hundred billion dollars for the first time. And as you can see, the steep incline to hit hit June of 2022, the June 30 number of $234.4 billion. The peak was technically June 23rd of '22. That year, the PMIA had reached $242 billion of total assets. And the average life at that time was still pushing 300 days. And it's really just having to spread this money out over the yield curve to kind of diversify and spread it out. It's really hard to invest the mass amounts of money that was coming in as the state wasn't able to spend money during COVID. We were receiving, you know, CARES money and stimulus money just like you work, because if you look at the next chart to the right, it shows LAIF deposits with us also increased as, treasure Ma was willing to take on more deposits from

you to help you park your money when you received CARES and stimulus money. We took on those larger deposits to help you through that same situation. So, I just wanted to kind of show how everything kind of grew at the same time. And then as things have changed and now the money's being spent and you know, you're kind of on a deadline and you had to spend the stimulus money and the CARES money, those monies have come down both on LAIF deposits and on the state's total PMIA assets. Just want to kind paint that picture for you. Next slide please.

**SLIDE 48: AVERAGE MONTHLY YIELD COMPARISON 01:04:52**

**JEFF:** Now historically, this is kind of the way the PMIA is at. We've always, you know, been one of the largest pools. It tends to make us slow to react and I'm just showing you different points in time. Top chart is technically on our website right now. It shows you the blue line on each one of these charts is the PMIA earnings at that time. And then, the green line is gonna be the Fed funds rate. So, as you can see on the top chart there in 2019, right before the Fed had, you know, accelerated down, leading into COVID and all these problems, the PMIA trailed very slowly down to those same levels. And then as I mentioned on the previous screens, when we received a bunch of money in '21 and '22 as the PMIA more than doubled in an 18-month span and grew to 242 billion, that was exactly the same time the Fed had to start raising interest rates to help combat inflation. So, we were put in a very tough situation, an incredibly large portfolio with a longer average life, we were just gonna trail. It was just a little bit more impacted because with 75 basis point rate hikes from the Fed, instead of the typical normal 25 basis points when we can kind of stay, you know, in line with each hike, it just showed a bigger separation. It was just the perfect world of how big the portfolio got, how weighted we got in terms of average life in terms of diversifying and spreading out our investments over a longer horizon to try and tamp it down. It was really hard to, like I said, really hard to invest that large amount of money. Perfect example was in the middle of June of '22, we received $27 billion of Federal stimulus money on top of tax receipts. And we invested $42 billion over seven business days. And it just, we couldn't find enough product in the short term to invest all of that money. So, we did have to take on a little bit of term and in fact, I think our last investments from that time are maturing at the end of this month in February, 28th, the treasury note that matures on data this month will be the last of the investments that we made during that time will be coming off the books. Next slide please.

**SLIDE 49: SAFETY LIQUIDITY YIELD 01:07:00**

**JEFF:** We continue to focus on the investment policies goals of safety, liquidity and yield. This is another piece of information that you can find on our website. What I'd like to point out is if you look at the red circle in particular, it's telling you that our treasury portfolio holdings as of calendar year end are over 50 percent of the portfolio total PMIA. And then the yellow highlighted section is pointing out the agency investments that we have, which total another 25 percent of the PMIA. So, 80 percent of our investments are in treasuries and agencies right up there with our safety. Number one goal is safety in terms of our investments and the remaining part, including pretty much half of this information that I shared with you, the agency discount notes and technically treasury bills are

part of the liquidity portion that goes along with our CDs and commercial paper. So, we're hitting those goals constantly. Yield hasn't so much been a focus, the way the PMIA has worked in the past is yield was derived when we took times to invest out longer, but with an inverted yield curve and a rather rapidly shrinking PMIA, we've really just focused on safety and liquidity over the last year and a half. Next slide please.

**SLIDE 50: POOLED MONEY INVESTMENT ACCOUNT HISTORICAL PORTFORLIO STRUCTURE 01:08:16**

**JEFF:** This slide is gonna kind of show where we were 10 years ago, where we are today and a 10-year average. Just a couple things to point out. If you look, treasuries have kind of remained at 50 percent of the portfolio, 56 percent at the end of the last year, and 56 percent as a 10-year average. A lot of that is due to the fact that PMI is so large that a lot of our investments end up being in treasuries, because there is no limit to what we can do by government code in terms of treasuries. They're as safe as they can be and they're really liquid. I mean, the market is open almost every single day for treasuries. So, that's the biggest part there. If you look at agencies, they have grown from 14 percent of the pool to 25 percent over that 10-year period with an average of 18 percent. Excuse me. What I'd like to point out though is the CDs and commercial paper, which is tends to be, you know, the more yield driven portion of the portfolio while being shorter investments. You know, when the PMIA was under a hundred billion, was a combined 22 percent of the PMIA and now they're at 14 percent, but the total dollars is a very large number, which I'm gonna show you here in a second. So, we are still using those as much as we can, those of you who do this on a daily basis like we do, I'm sure you've noticed that there's a lot fewer options in CP world on a daily basis, especially on the short term in terms of rolling cash short. Next slide please.

**SLIDE 51: PORTFOLIO COMPOSITION 01:09:36**

**JEFF:** This is a portfolio composition breakdown. It's not the total assets. It hasn't stayed the same, but we put the number at the top so you can see how the portfolio has changed in terms of total assets. But what the point is, as you can see, as the numbers have grown, so has the treasury and agency holdings, it's just kind of filled that gap. There's just not, for the size of portfolio, especially when it got to 200 billion, enough CDs and CP in the market for us to kinda keep it more balanced. It's just kind of been a product of the environment that we're having to work in and that's where I'm gonna kind of move on to the next slide, please.

**SLIDE 52: TREASURY MATURITY SCHEDULE 01:10:13**

**JEFF:** As I mentioned, treasuries help us a lot with our liquidity and this is a chart that we keep internally. It's not anything we're really post on the website, but to give you an idea that treasuries are huge in terms of our liquidity part. I'll point out the facts. So, the green numbers are your treasury bills. These are issued to mature on Tuesdays

and Thursdays of every week. The Tuesdays are four-month treasury bills and the Thursdays are one-year bills, six-month, three-month additions to what was out on the market at that time. But if you take a look, and we did this for this calendar year, so if you look at this month, February 25, at the very bottom, you look at those numbers of 1.1 billion of treasury bills maturing on the 25th, 4.3 billion treasury bills maturing on the 27th and four billion treasury notes maturing on the 28th. We're not getting any of that money that back. That's actually to cover outflow for the state. Not even taking into account what could come out through LAIF, but it's really the focus on covering our state's cashflow and we know they have these massive outflows. Even in the next month, if you look at March 11 and 13, these aren't investments, but we're not gonna get any of this money back. We're actually still working to cover these days on our cashflow forecast. We know these are massive outflows and they're really helpful. I mean, it evens out the week if you can stockpile cash on a Tuesday and Thursday to kind of smooth out any massive larger outflows that you have, in terms of meeting your cashflow needs. And with that, I'm gonna go ahead and pass it over to Tracey who's gonna take over to credit and give me a little break.

**SLIDE 53: CREDIT CONSIDERATIONS 01:11:55**

**TRACEY:** Next slide. Thank you, Jeff. My name is Tracey Paine, I'm the credit manager and my responsibilities include monitoring the credit quality of the pooled money investment account. Some of the credit considerations that we take into account when making investment decisions are to invest in only highly rated securities to diversify by security type as well as by issuer and to consider the duration of each investment. There are over 100 issuers that are currently approved for investment in the pooled money investment account, and we do monitor the credit quality of all of these issuers on a daily basis. Our number one goal is to ensure that the investments are safe and that they remain in compliance with California Government Code 16430 and the PMIA investment policy. Next slide.

**SLIDE 54: MONITOR CREDIT QUALITY 01:12:55**

**TRACEY:** This diagram shows an example of the cycle of how we monitor the credit quality of the approved investments. For each of those 100 issuers, we monitor and evaluate their financials, their credit ratings from S&P, Moody's and Fitch, and we also monitor news information from reliable media sources. The information is collected and analyzed on a daily basis, and we use that to determine if an adjustment in the investment strategy is needed. Examples of changes in strategy that could be made are the duration of the investments or the maximum amount we will invest in an issuer, or it could even be a situation where we stop investing in an issuer altogether. These adjustments in strategy could end up being something that is permanent or it could just be temporary until a deficiency with the entity is resolved. And then this cycle is repeated over and over as new information is collected and evaluated. Next slide.

**SLIDE 55: CERTIFICATES OF DEPOSIT AND COMMERCIAL PAPER** **01:14:09**

**TRACEY:** About 23 billion of the portfolios on December 31st was certificates of deposit and commercial paper. Combined, they represented almost 15 percent 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 give you a great picture of that for the certificates of deposit and commercial paper. Each portion or color of the pie here represents a different issuer or program invested in certificates of deposit and commercial paper on December 31st. It consisted of 31 different financial institutions CD programs totaling 13 billion and 36 different commercial paper programs totaling 10 billion. Of the 36 different commercial paper programs, approximately 49 percent of those holdings were in financial institutions, 29 percent were in asset backed programs and 22 percent were in corporations. Next slide.

**SLIDE 56: CD AND CP DAYS TO MATURITY** **01:15:31**

**TRACEY:** Another way we diversify to minimize risk and credit exposure is by spreading out maturities. For instance, 62 percent of commercial paper was maturing within three months and 35 percent within four to six months. And certificates of deposit had 51 percent maturing within three months, and 41 percent in four to six months. And then there was a little bit for each in seven months and longer. Next slide.

**SLIDE 57: CORPORATE BONDS** **01:16:09**

**TRACEY:** Over the last few years, a small amount of corporate bonds were purchased. There were 12 to different programs, totaling 903 million, which is less than one percent of the portfolio. And one way we evaluate the corporate bond portfolio is holdings by entity. And this graph shows the percentage of holdings for each of those 12 entities. Next slide.

**SLIDE 58: CORPORATE BONDS CONTINUED** **01:16:42**

**TRACEY:** And then here you can see we also look at holdings by sector. Forty three percent of the holdings were in corporate names and the remaining 57 percent were in financial institutions. And then we also diversify by final maturity date. Each part of the circle on this slide represents the percentage of bonds that mature in each of the next five years. Next slide.

**SLIDE 59: COMBINED EXPOSURE BY ENTITY** **01:17:12**

**TRACEY:** So, still on the topic of credit considerations when making investment decisions is last but not least, is to consider the combined exposure by entity. And this pie chart is not actual data, but it just represents how we may look at exposure by entity. 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 purchases of that entity. So, to summarize the slides I've shown so far, when considering investment options and looking for diversity, we might consider the type of security such as CDs and CP, the issuer by sector such as banks or corporate and the maturity date or the duration of the investment. Next slide.

**SLIDE 60: FEDERAL AND SUPRANATIONAL AGENCIES** **01:18:09**

**TRACEY:** About 25 percent of the portfolio consists of agency securities, both Federal and super nationals or multilateral development banks. They are all highly rated entities. The portfolio had about 39 billion in both debentures and discount notes on December 31st. Twenty-six billion were in discount notes, which have maturity dates up to one year and 13 billion were in debentures and in compliance with our investment policies, those maturities can go out five years. On the next slide.

**SLIDE 61: HOLDINGS BY AGENCY** **01:18:50**

**TRACEY:** You can see the diversification of the agencies in the portfolio. They include the GSEs, Home Loan Bank, Farm Credit, FreddieMac and Fannie Mae, which collectively totaled 30 billion of the 39 billion in agency holdings. And then the Super Nationals made up the remaining nine billion. IBRD, International Bank for Reconstruction and Development and IFC International Finance Corporation and IADB, Inter-American Development Bank. As part of the credit monitoring process, we do review the information that is published on these agencies by the rating organizations as well as reliable media sources. For example, this would include staying updated on the discussions surrounding the conservatorship of FreddieMac and Fannie Mae. Next slide.

**SLIDE 62: NEW INVESTMENTS** **01:19:51**

**TRACEY:** With such a large portfolio, it is important that we have a number of investment options. We look for fairly large programs that are highly rated with excellent financials free from headline risk and in compliance with government code and investment policy. We are limited sometimes by statute and sometimes by policy in 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 as an approved investment to ensure that we have plenty of safe investment options to work with. The next slide.

**SLIDE 63: POOLED MONEY INVESTMENT BOARD** **01:20:40**

**TRACEY:** The pooled money investment board. The board includes the state treasurer, Fiona Ma, who serves as chair, the state controller, and the director of finance. The board provides oversight to the pooled money investment account, and among other things they're responsible for designating the amount of idle state funds that are available for investment and also for approving new commercial paper programs as authorized investments. And I will turn it back over to Jeff.

**SLIDE 64: LOCAL AGENCY INVESTMENT FUND** **01:21:12**

**JEFF:** Great. Next slide please. Okay, before I jump in on the second half, I wanted to point out the fact that, you know, it's an incredibly important job that Tracey and her one analyst that she has, working underneath her has for our team. We do invest on behalf of elected officials, so you can imagine there's a little more than even just the credit, you know, constraints and concerns. It's headline risk, you know, we don't want to embarrass the treasurer and we certainly don't want to embarrass any of our participants in the local agencies. So, we do have a team, we meet every morning and discuss everything that we possibly heard in the news that could impact our decisions the next morning. We have a live feed of Bloomberg TV over our investment table and we're watching it. There have been occasions where a bank's name will pop up with something that might make somebody a little uncomfortable, we leave that out of our decisions for the day. So, you know, there's a lot to what we do and it's a really great team effort and I just want to make sure everybody understands how hard this team works for you guys and I really appreciate everybody here. Just a reminder that I know this has been discussed by Lily already, but I'll remind everybody, LAIF is a voluntary program that's created by statute. It began in 1977 as an investment alternative for California's local governments and special districts and it continues today under treasurer of Fiona Ma's administration. The enabling legislation for LAIF is section 16.429.01. in the California government code, if you wanted to review it. The pooled money investment account, it's the state treasurer, invest the taxpayer's money and manages the state's cash flow to strengthen the financial security of local government entities. The PMI policy is set, its primary objective is safety, liquidity, and yield. I know we keep repeating it, but it's important for us to keep that message across. And lastly, the statutory authority that grants the California Government or grants us this possibility to do this for you is California Government Code section 16.430 and 16.480.04. Next screen please or next slide please. Give you a quick tour of a way to find some of this information on our website. Two different ways. When you get to the California State Treasurer's Office homepage at the very top, you'll see the treasurer's picture, right below that, that we've circled in red, you can click on programs or a little further down the homepage there, you have seven options here that are blue bars. We've also highlighted the community investments. If you click on either one of those, it'll take you to essentially our homepage. But basically, under the programs, when you click on that one, you get a bunch of links listed, you can get a link directly to the PMIA homepage, the local agency investment fund homepage, even time deposits, which is a really important part of what we do on the investment division and many other STO programs that you might have an interest in here at

the Treasurer's office. But right now, we're gonna focus on the link. That's the community investments link that takes you to the PMIA homepage. Next slide, please.

**SLIDE 65: PMIA HOMEPAGE 01:24:02**

**JEFF:** When you get to this next slide, you get five different options here. You can get a program description, reporting documents. Our investment policy is posted, the PMA statutes that I just mentioned and the board members that Tracey mentioned. You can get all the information that you need on those there, but we're gonna focus on reporting documents for now. So, we would click on that and go to the next page please.

**SLIDE 66: PMIA REPORTING DOCUMENTS 01:24:23**

**JEFF:** When you get to the reporting documents, there's a ton of information here, a lot of which we're kind of sharing and kind of plagiarizing from our own website to share slides with you. If you start on the left-hand side there, performance reports, the selected investment data is basically the first slide that I started with. I chose two different points in time. They're still on the website; you can find those. Historical rates, something that people tend to find interesting to see where we are and where we've been in the past. One of the items that we start here, I think one of the most interesting parts for most of the participants is our approved investments, what names we have that are authorized that we can purchase. When you click on that link, it takes you to a page that lists our commercial paper names that we can purchase, the banks that we can purchase their CD programs from, and also any corporate bonds that we can purchase. We have all the approved lists there, so if you're asking, you can find it right there. But what I'm gonna focus on right here next, on the next page is our maturity schedule. So, we can go to the next slide, please.

**SLIDE 67: MATURITY SCHEDULE 12/31/2024 01:25:20**

**JEFF:** This one's really interesting, lot of good information for people who are curious as to what we're doing, how long we've invested. The blue arrow here points at our total dollars as of the calendar year end on that last day of over $157 billion. A couple other things that I'd like to point out. This chart kind of works its way from, if you go across the top here in the gray bar, it tells you the first month, so one to 30 days. These are all the investments in the different categories. And on the bottom, it tells you total investments for the month and a percent of the portfolio as it relates to, you know, those maturities. So, going into this calendar year, if you look at it, the total maturities, the total line under 30 to 60 days, it's 25 billion just in that month. So, well over 30 billion is maturing in the first two months of this year, which is way more than the life balances. And then additionally, I'd like to point out, if you look on the bottom line, it's a cumulative percentage of maturities. Within the first 120

days of this calendar year, we'd have 51 percent of $157 billion portfolio is maturing. And that's just a massive amount of maturities to think about. That doesn't mean the portfolio is gonna shrink by that much, it just means that that's how much we're gonna have maturing. That's covering a lot of the cash flow out needs. Very few of that's gonna be money that we'll get back, but then the state still brings money in. So, the PMI should stay right around 150 billion, I'm thinking is kind of been our par number that it's kind of hovering around and we'll bump up a little bit over. It hasn't dropped below it too much yet. Seventy five percent of the portfolio matures in the first nine months of this year and what I'd like to point out, the duration, I know our average life seems like a really large number in the 250-day range, but really 10 percent of our portfolio is invested longer than two years, it's a small portion and even smaller is anything over three years is only 3.6 percent. It's a really small amount. And some of those items are callable securities that are probably gonna be called, I can't guarantee it so that's why we list it here. So, a lot of this isn't really gonna, you know, play out to what we're seeing, but I just want to share it. This is a really important item if you guys are looking to see where we're heavily weighted in terms of duration or what types of securities are maturing each month, that information is all on here. Next slide, please.

**SLIDE 68: THINGS TO PAY ATTENTION TO 01:27:26**

**JEFF:** On top of our morning meetings, what are we paying attention to on a daily basis? Well, we still listen to the Fed who, you know, Fed chair Powell was talking again this week. And what's great about, you know, not only do we get to watch and listen to him answer questions and kind of portray their message, but we have access to incredible economists in the United States like Lindsey Piegza who presented earlier. She was also on CNBC's Squawk Box this morning, so she was really busy. She took the time to meet with us after that. But we get exposure to her and many other top economists that you see on, you know, CNBC and Fox Business and all those channels. We have access to them, we get their daily, weekly writeups and their interpretation of what the Fed was kind of trying to say, even though may not have said it. Geopolitical problems in the world are a big topic clearly, and we're paying attention to what impacts those could have on us, whether its Federal money coming in or any changes in those plans. We continue to watch any oversight in terms it relates to banks as we have a lot of investments with banks. Our time deposit program, you know, works with a lot of the smaller banks here in California, so we're constantly looking at the oversight reports. We continue to work on, you know, keeping up as much as we can as GASB keeps making adjustments to what they need to cover. But we're staying on top of everything as much as we can and with the team that we have and we're doing a great job. Next slide please.

**SLIDE 69: TREASURY CURVE OF SEPTEMBER 2021/ 2022/ 2023 01:28:48**

**JEFF:** Couple more pictures I wanted to present before we're done for the day. Here's the treasury curves over the last three or the previous three September. September '21, '22, and '23. I just wanted to give you an idea of how things changed just in those three years. The bottom broken green line was September 30 of '21, you know, COVID is kind of getting activated, but rates were zero. That is a normal, what we deem historically as a normal

yield curve. The longer duration, the higher your return would be. A year later, rates are moving up, the FEDs hitting the accelerator in terms of raising rates and it's still a, well, at least from our perspective, being limited to five years investment horizon, that's a normal yield curve. A little bit of a inversion from three to five, but not enough that it would stand out. And then if you look at September of '23, it really got inverted, things started to kind of tip the other way. And we'll go next slide please.

**SLIDE 70: TREASURY CURVE OF SEPTEMBER 2024 01:29:46**

**JEFF:** We're gonna add another year later to the September of '24 yield curve on this next slide. There we go. It's the solid green line that's at the very top left. It's the second starting line. As you can see, it's totally inverted from one month to three months to, you know, the out of year, three years, there's no pickup for taking on duration. So, it's been kind of not appealing. But then you also have to factor in the fact that we know the FED's goal is kind of a neutral three percent-ish range, as Lindsey reminded us today. So, do we take out term to kind of compensate for that. So, these are things to consider when you're looking at opportunities to invest. Next slide please.

**SLIDE 71: TREASURY YIELD CURVE 12/31/ 23 AND 12/31/ 24 01:30:35**

**JEFF:** Another interesting picture I wanted to show is the last two calendar year end treasury curves. December 31 of '23 was a massive inversion yield curve. It looks crazy. And then this December 31 of '24, it's kind of normalizing, I would say, a little bit of an inversion from one month to one year. But from one year out, you get a little bit of a pickup. Next slide please.

**SLIDE 72: TREASURY YIELD CURVE 06/30/06 AND 06/30/24 01:31:02**

**JEFF:** This slide, I wanted to go back and take a look at what happened with the treasury curves. The last time rates were at five percent, so that was in 2006. I picked a few months before the FED started cutting in both situations here. And so, if you look at the gold line, that was the June 30th, 2006 treasury curve and I drew a blue arrow to show you the pickup at this time, it looks like it's three months to three years, or no, two years. I use the two years because that's tends to be the one that we invest the most in when we do our ladder investing. And then the green one for the most recent one, it's a massive downplay from what the one month to two years is. So, it's a little bit tougher to, again, like I said, invest out longer in terms of taking a look at it. I just want to show you the difference of those two timeframes. Next slide please.

**SLIDE 73: STATE OF CARLIFORNIA POOLED MONEY INVESTMENT ACCOUNT JUNE 2010 01:31:58**

**JEFF:** Okay. One of the previous directors I worked under here in the investment division always liked to use the term, driving the PMI is like driving a aircraft carrier. And as things would change, it's really hard to steer around or make sharp turns. So, that was his analogy to say that, you know, the PMIA is gonna trail anybody else that can move faster, or the FED funds who can click change their rates in one day, that's not gonna happen. So, if you look at the picture to the right, it's the same chart, but just an older version of the chart that I showed earlier. You know, so the as rates climbed to the five percent threshold, the PMIA was trailing it back then, and then as the, you know, it got caught up during the peak. And then when the FED started cutting the green line, the PMIA trailed it and trailed it rather significantly. And again, it's a larger investment portfolio and we're just slow to respond to faster movements like that. So, this is almost the exact opposite situation that we just faced as rates went up much faster. Again, this is a chaotic time to invest in the world that we invest in, so I have a couple little motivational things up there, you know, just adapt and overcome. But really, the biggest thing is to stick to your investment policy goals, for us it's still gonna continue to be safety and liquidity and we're gonna focus on those things repeatedly. It's really important, clearly to have the state of California need the cash, it needs on hand every day and also the life participants. Next slide please.

**SLIDE 74: BARBELL STRATEGY 01:33:23**

**JEFF:** Just a couple pictures to show an example of bond ladder investing. Like I was mentioning, we tend to buy a lot of the twos in three years. And when those mature, if we have proceeds come back and have extra, we will roll those proceeds, the excess over what we need that day into the new two-year or the new three-year as those things mature. So, it just kind of shows you how that plays out. Barbell strategy is another thing that we use. This is every day. Most of the focus is on the dollar sign side, which is your liquidity and providing as much liquidity for the pool itself and focusing on the cash, the immediate forecast that we have. And then usually in a normal interest rate curve, you can do out time, which is the time you take longer duration to pick up some yields. So, eventually I think we're gonna get back to those types of investment opportunities. Next slide please, which I think is gonna be my last slide.

**SLIDE 75: SAFETY LIQUIDITY YIELD 01:34:13**

**JEFF:** Again, just reminding everybody, I know you're tired of hearing it, but safety liquidity and yield is our focus and it will remain our focus. Our goal is to make sure that you continue to have access to your money and that your money continues to be safe. In LAIF, we take, you know, cybersecurity as serious as we can. We're following up, we're working with our IT constantly. They're working, reaching out to people. All of this is incredibly important and it's not forgotten and we appreciate you being participants with us. And with that, I will pass it back to Lily.

**LILY:** Thanks, Jeff. Next slide. Okay, so here you will find our division contact information. Like I've mentioned many times before, please feel free to reach out to any of us with any questions. We will now move on to our Q&A portion. Nicole, can you give us our first question?

**Q&A [NO SLIDE, WEBCAMS ONLY]**

**NICOLE:** Does GASB 31 apply to LAIF?

**JEFF:** I can take that one. Yeah, I'm pretty sure that's included in our act for every year. We always mark that we're complying by it. If you're going to let me, bring up GASB 31 real quick because I get confused as to each one. All the fund rules they have. Let's go. So, the summary of that one, much of it doesn't apply, if I remember correctly now that I'm going back to it, it's talking about external investment polls, which we are not doing, participating interest earning investment contracts, we don't have that. We don't invest in mutual funds, but we do have debt securities and we do not invest in equities or options. So, a very small portion of this applies to the PMIA, we do comply with everything that GASB relates to, so.

**NICOLE:** Okay. Our next question is, does LAIF expect for the fair value loss to reverse in the coming calendar year?

**JEFF:** Tracey is gonna let me take this one. Okay. So, historically as rates go up, that number the factor will go down below par and vice versa. So, if the FED continues to lower rates, then yes, I fully expect it to break par again, which it had before the recent uptick in rates, there was a couple months there where the factor was over par again. But then there was a pickup in rates as inflation got a little bit hot, even though the FED isn't raising rates, the market itself was pricing itself a little bit higher, which kind of affected it and it's just below par now. But yes, as the FED kind of tightens again or loosens again and kind of brings the money back and lowers rates, I think we're gonna see that number stay over and as long as rates go down and then stay flat from there, we should be good.

**NICOLE:** Okay. Our next question is, will you be changing the method in which counties will receive interest monthly versus quarterly?

**LILY:** Okay. So, I will take that question. When we pay interest is actually written in government code, so there is no intention of changing that, but please be assured that you will receive interest within the month after quarter end.

**NICOLE:** Okay. Our next question is, does the PMIA publish any information on the fund's realized gains and losses and current unrealized gains/lost position?

**JEFF:** No, that would kind of relate to the factor itself. We do amortize every quarter. So, the quarter end numbers are much more accurate than what you might see on the monthly market valuations. But the quarter end, after we've amortized the portfolio, you get a full picture of what the factor is in the value that includes all of that, the accrued earnings and you know, the street value at that time. So, that's probably the best way to answer that question, but no, we don't do that in terms of breaking it down in different categories, no.

**NICOLE:** Okay. Thank you. Those are all of the questions I have for today. If we did not get to your question, we will reach out to you individually with more information.

**LILY:** So, since that was our last question, I'd like to thank our keynote speaker treasurer, Fiona Ma and our guest speaker Lindsey Piegza from Stifel Financial and behalf of myself and the investment division and team LAIF, thank you all for joining us and participating in our 2025 LAIF webinar.