

Exhibit A

Investment Portfolio Review

Quarter Ending December 31, 2023

OVERVIEW

October 1, 2023 – December 31, 2023

Inflation continued to move lower throughout the quarter as the November Consumer Price Index (CPI) reading fell to 3.1% year-over-year. Lower energy and goods prices helped offset increases in wage-driven services costs. The labor market also continued to come into better balance. The unemployment rate ended 2023 at 3.7% and 494,000 jobs were added during the quarter. Gross Domestic Product (GDP) for the quarter ended September 30, 2023, the latest available data, showed the U.S. economy grew 4.9%, on an annualized basis, which was the strongest reading over the past seven quarters.

The Federal Reserve updated the Summary of Economic Projections (SEP) released following its December meeting, which showed a peak overnight rate of 5.25% to 5.50% and implied an end to the current interest rate increase cycle. The SEP also showed 75 basis points of decreases by December of 2024. Market expectations for the overnight rate have reached their lowest levels in six months in response to falling inflation, the Federal Reserve pivot from interest rate increases to decreases, and the moderating labor market.

U.S. TREASURY YIELD CURVE

- U.S. Treasury yields lowered materially across the curve.

	12/31/23	9/30/23	Change
3-month	5.33%	5.45%	-0.12%
1-year	4.76%	5.45%	-0.69%
2-year	4.25%	5.04%	-0.79%
3-year	4.01%	4.80%	-0.79%
5-year	3.85%	4.61%	-0.76%
10-year	3.88%	4.57%	-0.69%
30-year	4.03%	4.70%	-0.67%



- 2-Year Treasury yields fell after the Federal Reserve forecasted three rate cuts in 2024.



PORTFOLIO STRATEGY

The County of Monterey Treasury maintains a well-diversified portfolio across sectors and issuers while maintaining a high credit quality of the portfolio and closely monitoring corporate holdings. Four indicators reflect the key aspects of the investment portfolio:

1. Market Access – During the quarter, investment purchases for the portfolio included Corporate Notes, U.S. Treasury Notes, Commercial Paper, and Federal Agencies. The Treasurer continues to maintain an adequate level of liquid assets to ensure the ability to meet all cash flow needs.
2. Diversification – The County of Monterey Treasurer’s portfolio consists of 323 separate fixed income investments, all of which are authorized by the State of California Government Code 53601 and the Investment Policy.

The portfolio assets are allocated between overnight vehicles and the long-term portfolio as detailed in the table below:

Portfolio Asset Composition								
Corporate Notes	Negotiable CDs	Overnight Liquid Assets	U.S. Treasuries	Federal Agencies	Commercial Paper	Supra-nationals	Municipal Bonds	Asset Backed Securities
21%	2.3%	19.6%	35.9%	12.6%	8.1%	0.5%	<0.1%	<0.1%

• Total may not equal 100% due to rounding

3. Credit Risk – Approximately 78.5% of the investment portfolio is comprised of U.S. Treasuries, Federal Agencies, Negotiable CDs, and other liquid funds. All assets have a better than investment grade rating. U.S. Treasuries are considered the safest of all investments. Most corporate debt (21%) is rated in the higher levels of investment grade and all Federal Agency and Municipal holdings are rated AA- or higher. The Supranationals (0.5%) are rated AAA. The credit quality of the Treasurer’s portfolio continues to be high.

The portfolio credit composition is detailed in the table below:

Portfolio Credit Composition								
AAA	AAAm	AA	A	A-1 (Short Term)	Aaf/S1+ (CalTRUST)	BBB+ (split rated)	LAIF (not rated)	Not Rated by S&P
<1%	10%	55%	14%	11%	10%	<1%	<1%	<1%

• Total may not equal 100% due to rounding

4. Liquidity Risk – Liquidity risk, as measured by the ability of the County Treasury to meet withdrawal demands on invested assets, was actively managed during the October - December quarter. The portfolio’s weighted average maturity was 398 days, and the Treasurer maintained \$632 million (19%) invested in overnight investments and \$1.2 billion (38%) in securities with maturities of one day to one year to provide immediate liquidity to be able to react quickly to unanticipated needs or opportunities in the current market environment.

PORTFOLIO CHARACTERISTICS

	September 30, 2023	December 31, 2023
Total Assets	\$2,961,795,633	\$3,275,888,842
Market Value	\$2,870,992,187	\$3,210,378,916
Days to Maturity	362	398
Yield	3.10%	3.54%
Estimated Earnings	\$22,568,162	\$26,882,589

The Treasury continues to strategically invest matured assets while accounting for potential liquidity needs. Opportunities are actively evaluated to safely add value to the County’s portfolio while maintaining a strong sense of safety and risk management.