

# Memorandum

**To:** ISO Board of Governors

**From:** Ryan Seghesio, Vice President, Chief Financial Officer & Treasurer

**Date:** March 13, 2024

**Re:** 2023 Annual Investment Performance Report

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*This memorandum does not require ISO Board of Governors action.*

## EXECUTIVE SUMMARY

The investment policy of the California Independent System Operator Corporation requires the Chief Financial Officer to submit an annual investment report to the ISO Board of Governors (Board). This report provides the Board with unaudited information about the 2023 investment performance of the various unrestricted and restricted fund balances held by the ISO.

- During 2023, the ISO's unrestricted portfolio achieved a total return of 6.2%. The positive investment performance was primarily the result of a recovery in the bond market from the difficult year it experienced in 2022. While volatile during the year, bond yields stabilized as the Federal Open Market Committee began to slow down their attempt to curb inflation. The return exceeded the return of several bond related benchmarks. Total return information on other portfolios will be described in the report.
- Interest rates began to decline in the shorter part of the yield curve (less than 10 years) in 2023, while the long end of the curve remained stable (see table below).

U.S. Treasury Bond	Yield as of 12/31/22	Yield as of 12/31/23
2-year	4.41%	<b>4.23%</b>
3-year	4.22%	<b>4.01%</b>
5-year	3.99%	<b>3.84%</b>
10-year	3.88%	<b>3.88%</b>

- As of December 31, 2023, all portfolios were in compliance with ISO investment policies.

## DISCUSSION AND ANALYSIS

### *Unrestricted portfolio*

The market value of the ISO's unrestricted portfolio as of December 31, 2023, was \$262.5 million. This portfolio contains the funds received by the ISO for grid management charges and other revenue collections. These funds are used for the general corporate purposes of the ISO including: operations and maintenance expenses, debt service, capital expenditures and various reserves. The portfolio's total return for 2023 was 6.2%. A small portion of the portfolio, totaling \$3.3 million at the end of the year, has been earmarked as assets related to the ISO Retiree Medical Plan and are invested under a separate investment policy.

Excluding the effects of those assets, the remaining \$259.2 million portfolio returned 6.1% during 2023. The unrestricted assets continue to be invested in the fixed income mutual fund strategy that was implemented in 2018. That strategy segments the cash into three categories (operating, reserve, and strategic) and utilizes fixed income mutual funds for the investment management. Balances and returns by segment as of December 31, 2023:

<b>Unrestricted Portfolio</b> (excluding Retiree Medical assets)	<b>Market Value</b> <i>(in \$ millions)</i>	<b>2023</b> <b>Total Return</b>
<b>Operating Cash:</b>		
Cash & Money Market Funds	<b>23.6</b>	<b>4.0%</b>
<b>Reserve Cash:</b>		
Ultra-short Funds (< 1 year duration)	<b>0.0</b>	<b>4.6%</b>
<b>Strategic Cash</b>		
1-3 Year Duration	<b>85.8</b>	<b>7.7%</b>
1-5 Year Duration	<b>77.6</b>	<b>6.4%</b>
5-7 Year Duration	<b>72.1</b>	<b>4.9%</b>
<b>Total Portfolio:</b>	<b>259.2</b>	<b>6.1%</b>
<i>BofA 1-5 year AAA-A Corp &amp; Govt Index</i>		<i>4.6%</i>
<i>BofA 1-5 year US Broad Market Index</i>		<i>4.9%</i>

### ***Retirees Medical Plan funds***

The ISO sponsors the California ISO Retirees Medical Plan, a defined benefit plan, to provide post-employment health care benefits to eligible employees who retire from the ISO. Assets associated with the plan are invested under a separate investment policy approved by the Board which aligns the investment strategy of the assets with the long-term nature of the liabilities. The designated assets are held in two accounts: 1) a trust account which was established to hold the assets associated with the liabilities of current retirees and fully eligible employees; and 2) a custody account which holds designated assets from the ISOs unrestricted funds relating to the balance of the liabilities.

As of December 31, 2023, the market value of the trust was \$20.3 million and the custody account was \$3.3 million. The combined portfolios increased 14.3% for the year as the equity and fixed income markets recovered from the previous year's decline. The target asset allocation of the portfolio is tied to the "Moderate Portfolio" strategy in the ISO's 401(k) plan, which is 55% growth, 35% stability, and 10% real return.

In 2022, the Board approved a temporary waiver of the portfolio sizing requirements of the custody account due to the small size of the portfolio and the potential negative impacts of short-term trading of these long-term assets. It is anticipated that the waiver will continue in 2024 given the continued relatively small size of the custody account. Any change in that strategy after receipt of the annual actuary report will be communicated to the Board.

### ***Generation interconnection project related funds***

The ISO maintains a pool of funds related to generation interconnection project deposits. As of December 31, 2023, the market value of these funds was \$389.9 million. These funds are invested in government money market funds and FDIC-insured instruments. The total return on these funds was 4.8%.

### ***Market funds***

The ISO manages restricted funds for market participants consisting of amounts which are to be remitted back to market participants or others on their behalf. The majority of these funds are the required collateral deposits that the ISO collects as part of its credit policy to reduce the impact of defaults. As of December 31, 2023, the market value of these funds was \$625.4 million. Due to their liquid nature, these funds are invested in government money market funds which returned 4.7% for the year.

As required by the investment policy, a detailed list of all investments across the portfolios described above can be found in Attachment 1.