

Memorandum

To: ISO Board of Governors

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

Date: March 17, 2021

Re: 2020 Annual Investment Performance Report

This memorandum does not require Board 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 Board of Governors. This report provides the Board with unaudited information about the 2020 investment performance of the various unrestricted and restricted fund balances held by the ISO.

- As of December 31, 2020, all portfolios were in compliance with ISO investment policies.
- During 2020, the ISO achieved a total return of 5.3% on the unrestricted cash and investment balance, which was \$259.5 million at the end of the year. This compares very favorably to the custom benchmark we track performance against which returned 3.0%. Although, a portion of portfolio is invested in assets outside of the scope of the benchmark. Total return information on other portfolios will be described in the report.
- Interest rates declined across the yield curve in 2020 as the Federal Open Market Committee and investors responded to the global economic slowdown as a result of the COVID-19 pandemic (see table below). In general, this created positive returns for our fixed income mutual fund strategy.

U.S. Treasury Bond	Yield as of 12/31/19	Yield as of 12/31/20
2-year	1.58%	0.13%
3-year	1.62%	0.17%
5-year	1.69%	0.36%
10-year	1.92%	0.93%

DISCUSSION AND ANALYSIS

Unrestricted portfolio

The market value of the ISO's unrestricted portfolio as of December 31, 2020 was \$259.5 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 2020 was 5.3%. A small portion of the portfolio, totaling \$6.4 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 \$253.2 million portfolio returned 5.3% during 2020. The elevated total return performance is the result of the new investment strategy that was ~~been~~ implemented in 2018 and 2019. That strategy segments the cash into three categories (operating, reserve, and strategic) and utilizes more fixed income mutual funds for the investment management. Balances and returns by segment as of December 31, 2020:

Unrestricted Portfolio (excluding Retiree Medical assets)	Market Value <i>(in \$ millions)</i>	2020 Total Return
Operating Cash:		
Cash & Money Market Funds	23.1	0.4%
Reserve Cash:		
Ultra-short Funds (< 1 year duration)	15.3	0.9%
Strategic Cash		
1-3 Year Duration	100.4	3.6%
1-5 Year Duration	50.7	4.9%
5-7 Year Duration	63.7	10.6%
Total Portfolio:	253.2	5.3%

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, 2020, the market value of the trust was \$19.3 million and the custody account was \$6.4 million. The combined portfolios returned 14.0% for the year as both equity and fixed income markets experienced positive returns. The target asset allocation remains tied to the "Moderate Portfolio" strategy in the ISO's 401(k) plan, which is 55% growth, 35% stability, and 10% real return.

Generation interconnection project related funds

The ISO maintains a pool of funds related to generation interconnection project deposits. As of December 31, 2020, the market value of these funds was \$104.0 million. These funds are invested in government money market funds and FDIC-insured instruments. The total return on these funds was 0.9%.

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, 2020, the market value of these funds was \$388.2 million. Due to their liquid nature, these funds are invested in government money market funds and returned 0.4% 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.