

***CITY OF LAGUNA NIGUEL  
ANNUAL INVESTMENT REPORT***



***Fiscal Year Ended  
June 30, 2024***

***Prepared by:***

***Trevor Agrelius  
Finance Director/City Treasurer***



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## **Annual Investment Report**

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**PORTFOLIO PERFORMANCE AND  
COMPARISON TO BENCHMARKS**

The City's average weighted yield on its portfolio during FY 2023-24 (calculated by summing the total investment earnings divided by the total portfolio at cost, excluding cash in bank, for each period and dividing by 12) was 3.09%, an increase from the prior fiscal year's yield of 1.68%. This increase is mainly attributable to higher rates available in the market due to the Federal Reserve's decision to raise the Fed Funds rates to combat inflationary pressures, and due to a concerted effort by City staff to invest in higher yielding investments.

The average weighted yield on the City's portfolio at June 30, 2024, was 3.20%, on a cash and investment balance of \$68,906,110. The portfolio had an average days-to-maturity (the sum of days left until maturity of each investment multiplied by the cost of each investment divided by the total portfolio at cost) of 664 days. The fiscal year average weighted days to maturity of the portfolio increased from 513 days in FY 2022-23 to 664 days in FY 2023-24, reflecting a focus on longer-term securities to take advantage of the higher yields available.

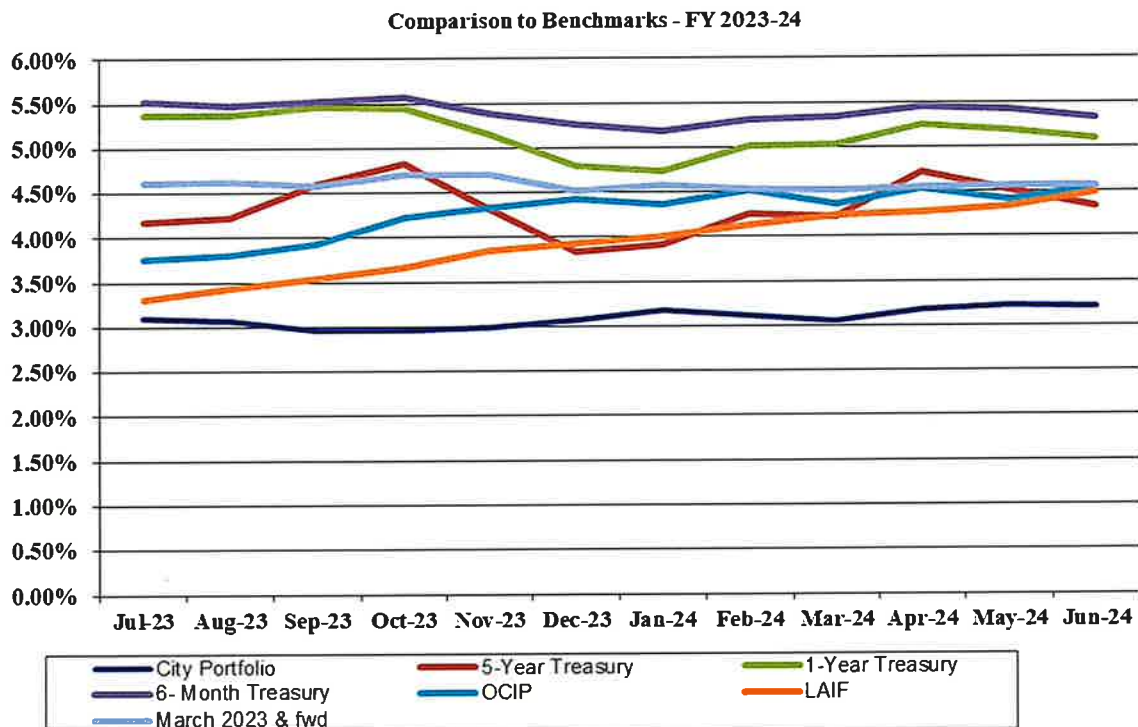
<i>City of Laguna Niguel's Portfolio</i>				<i>Benchmark Comparisons</i>				
		<i>Average Weighted Days to Maturity</i>	<i>Average Weighted Yield</i>	<i>5-Year Treasury</i>	<i>1-Year Treasury</i>	<i>6- Month Treasury</i>	<i>OCIP</i>	<i>LAIF</i>
<b>Jul-23</b>	\$ 64,817,162	529	3.10%	4.18%	5.37%	5.53%	3.76%	3.31%
<b>Aug-23</b>	\$ 62,693,731	520	3.06%	4.23%	5.37%	5.48%	3.80%	3.43%
<b>Sep-23</b>	\$ 59,646,771	520	2.96%	4.60%	5.46%	5.53%	3.92%	3.53%
<b>Oct-23</b>	\$ 57,729,800	528	2.96%	4.82%	5.44%	5.57%	4.22%	3.67%
<b>Nov-23</b>	\$ 58,503,599	567	2.98%	4.31%	5.16%	5.38%	4.33%	3.84%
<b>Dec-23</b>	\$ 63,439,817	732	3.06%	3.84%	4.79%	5.26%	4.43%	3.93%
<b>Jan-24</b>	\$ 66,880,342	744	3.17%	3.91%	4.73%	5.18%	4.37%	4.01%
<b>Feb-24</b>	\$ 64,888,241	801	3.11%	4.26%	5.01%	5.30%	4.52%	4.12%
<b>Mar-24</b>	\$ 62,782,111	801	3.05%	4.23%	5.03%	5.34%	4.37%	4.23%
<b>Apr-24</b>	\$ 68,096,911	772	3.18%	4.72%	5.25%	5.44%	4.53%	4.27%
<b>May-24</b>	\$ 69,513,433	730	3.22%	4.52%	5.18%	5.42%	4.42%	4.33%
<b>Jun-24</b>	\$ 68,906,110	718	3.20%	4.33%	5.09%	5.33%	4.54%	4.48%
<b>FY Average</b>	<b>\$ 63,991,502</b>	<b>664</b>	<b>3.09%</b>	<b>4.33%</b>	<b>5.16%</b>	<b>5.40%</b>	<b>4.27%</b>	<b>3.93%</b>



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## PORTFOLIO PERFORMANCE AND COMPARISON TO BENCHMARKS

The following chart compares the City’s portfolio performance with monthly benchmarks including 5-year, 1-year, and 6-month treasuries, and Local Agency Investment Fund (LAIF) and Orange County Investment Pool (OCIP). The average weighted yield of the City’s portfolio increased at a modest level through the fiscal year but was affected by the \$22.3 million portion of the City’s portfolio purchased prior to March 2022, when the Feds Funds rate began increasing. That portion is earning an average of 0.68%, while the \$42.8 million portion purchased since March 2023 earned an average of 4.58% for the year, outpaced both OCIP and LAIF throughout the year, and is higher than the 5-year Treasury rate at June 30, 2024. Those facts demonstrate the City’s strategy to lock in the higher rates at longer durations has been extremely effective.



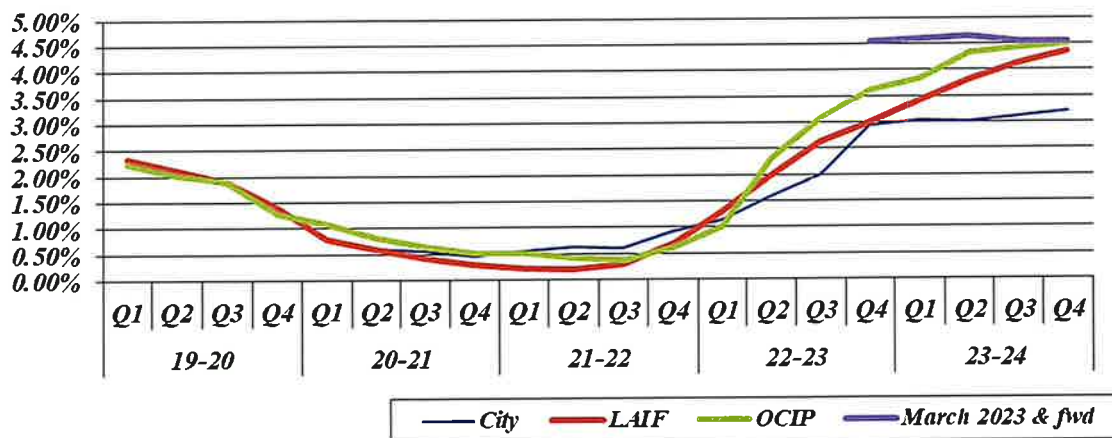


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**PORTFOLIO PERFORMANCE AND  
COMPARISON TO BENCHMARKS**

The following chart provides a 5-year history of the City's average weighted yield on its portfolio from fiscal year 2019-2020 through fiscal year 2023-24 compared to a 5-year history of OCIP's and LAIF's yields. The City's average weighted yield on its portfolio consistently performed on par with OCIP and LAIF during the periods when interest rates were declining. However, the City's portfolio fell behind the OCIP and LAIF yields in Q2 of FY 22-23, when interest rates began to rise. Since approximately 1/3 of the City's portfolio was purchased prior to that time, the overall portfolio has continued to fall behind the OCIP and LAIF yields. However, as can also be seen below, the portion of the City's portfolio purchased since March 2023 has consistently outperformed both OCIP and LAIF.

*City & LAIF Portfolio Yields - 5 Year History*





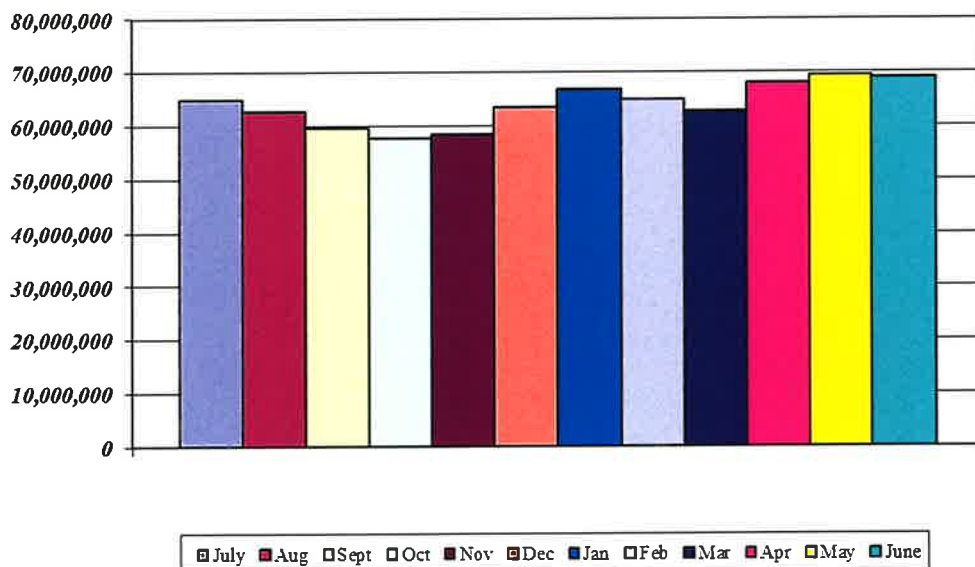


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**REVIEW OF TRENDS REGARDING THE SIZE OF  
THE PORTFOLIO**

The size of the City’s portfolio fluctuates over the course of the fiscal year due to timing differences between cash receipts and disbursements. The City’s portfolio balance typically decreases until November/December when the City receives the majority of its property tax allocations. Consequently, the City’s portfolio spikes in December/January and April/May because of significant property tax allocations. The portfolio balance at June 30, 2024, was \$68.9 million, which is \$3.0 million, or approximately 5% higher than at June 30, 2023.

*Size of Portfolio - Monthly Trend*



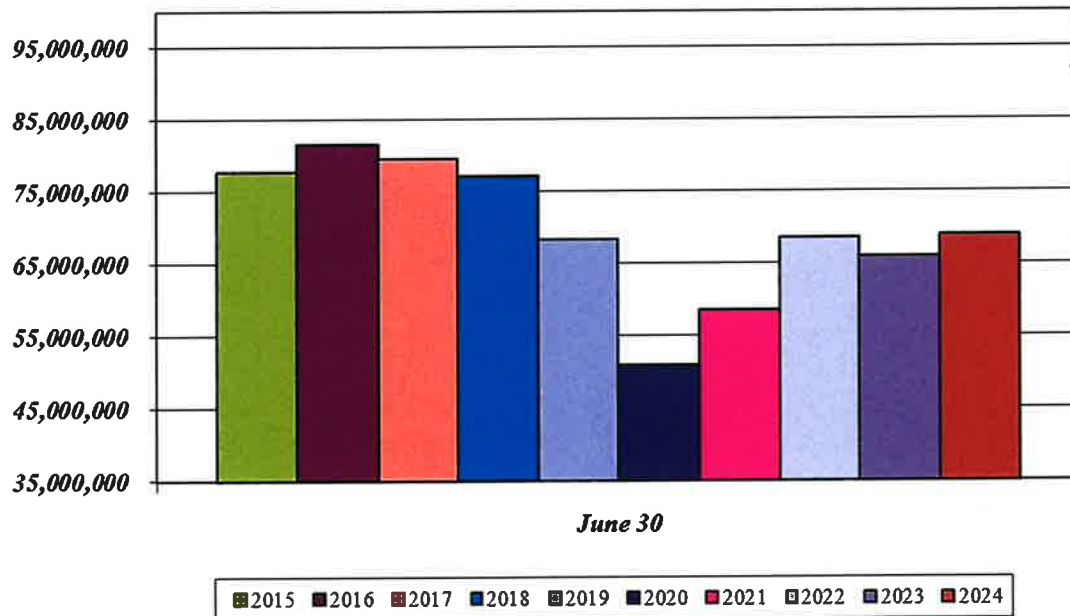


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**REVIEW OF TRENDS REGARDING THE SIZE OF  
THE PORTFOLIO**

The City ended the fiscal year with a higher cash and investment balance compared to the previous fiscal year. Fiscal Year 2023-2024 ended the year with the highest balance since June 30, 2018, when the City was still completing the Crown Valley Park Community Center. As can be seen in the chart, the decrease from 2016 through 2020 was mainly due to the construction of the Crown Valley Park Community Center. The City's portfolio has increased by \$18.0 million, or 35% since June 30, 2020. This is due to the City's strategic implementation of \$8.8 million of American Rescue Plan Act funds, along with conservative fiscal practices.

***Size of Portfolio - 10 Year Historical Trend***





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## **INVESTMENT RISK IN THE PORTFOLIO**

*Although all investments contain an element of risk, the City's Investment Policy, procedures, and investment strategies are designed to limit exposure to risk. The different types of risk are discussed below, as they pertain to the portfolio.*

### **Credit Risk**

Credit risk is defined as the risk to an investor that an issuer will default in the payment of interest and/or principal on a security. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the policy of the City of Laguna Niguel to invest public funds in a manner which will provide the maximum security of principal consistent with a market rate of return while meeting the cash flow needs of the City and conforming to all applicable State and City statutes governing the investment of public funds. The City's Investment Policy limits credit risk by:

- Limiting investments to the safest types of securities and highest quality issuers.
- Specifically excluding investments in equities, corporate bonds, derivatives, reverse repurchase agreements and financial futures or options.
- Pre-qualifying financial institutions and broker/dealers for competitive bidding of investments.
- Diversifying investments so that potential losses on individual securities can be minimized.
- Monitoring the pooled investments of the Local Agency Investment Fund and Orange County Investment Pool each month.
- Safekeeping investments by separate agreement with US Bank's Trust Department.





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**INVESTMENT RISK IN THE PORTFOLIO**

**Market Risk**

Market risk is defined as the risk that the value of a security may fall as a result of changes in the financial markets, such as increases in interest rates. In periods of rapidly rising interest rates, the market value of a security can fall below the amount of principal invested. If an investor sells the security before maturity, part of the principal may be lost. The City reduces market risk by matching investments and maturities with cash flow needs so that investments will not need to be sold prematurely.

*The City had no occurrences during FY 2023-24 where investments needed to be sold prior to maturity in order to meet cash flow needs.*

**Interest Rate Risk**

Interest rate risk is defined as the risk that an investor will under-perform the market, as a result of holding investments with lower yields than the current market rate. Generally, the longer the maturity of an investment, the greater is its sensitivity to changes in interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City employs a disciplined investment strategy with the goal of holding all securities until maturity.

*The City's portfolio reflected an average weighted maturity of 664 days during the fiscal year, representing a significant increase from 513 days in Fiscal Year 2022-23. This increase in weighted average is the result of focusing on longer-term investments given the 22 year highs in the Fed Funds rate seen this past year, while also maintaining balances in the high-yield money market mutual funds. In general, as interest rates decline, the City's portfolio is exposed to minimal interest rate risk. When interest rates are rising, the City's exposure increases as can be seen on pages 2 and 3 of this report.*



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**INVESTMENT RISK IN THE PORTFOLIO**

**Liquidity Risk**

Liquidity risk involves the ability to sell an investment before maturity. Some short-term investments are fairly illiquid. For example, a non-negotiable certificate of deposit is an illiquid asset that carries an interest penalty for early redemption. The City minimizes liquidity risk by maintaining a significant portion of its portfolio in very liquid instruments, such as money market mutual funds, LAIF, and OCIP, where funds are immediately available.



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## COMPOSITION OF THE PORTFOLIO

### Authorized Investments

The City's Investment Policy lists the types of securities allowable for investment. Subject to stipulated restrictions, these include United States Treasury Bills, Notes, and Bonds; Federal Agency Securities; collateralized or insured money market accounts and demand deposits with City's primary banks; insured certificates of deposit; money market mutual funds; OCIP; and LAIF.

*The City's portfolio only included those investments authorized in the Investment Policy in FY 2023-24.*

### Portfolio Diversification

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific user, specific financial institution, or specific class of securities. Investment of City funds shall be governed by Government Code Sections 53600 and 53630 et. seq. The following table identifies the investment types that are authorized by the California Government Code, or the City's investment policy, where more restrictive.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investments in One Issuer
U.S. Treasury Obligations	5 Years	None	None
Federal Agency Securities or U.S. Government			
Sponsored Enterprise Securities	5 Years	60%	25%
State Local Agency Investment Fund (LAIF)	N/A	55%	\$40 million
Insured Certificates of Deposits	5 Years	30%	\$250,000
Insured Money Market Accounts	N/A	None	None
Money Market Mutual Funds	N/A	20%	10%
Orange County Investment Pool (OCIP)	N/A	55%	\$40 million
Section 115 Pension Trust	N/A	20%	None



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### COMPOSITION OF THE PORTFOLIO

#### Portfolio Diversification

This chart provides the portfolio distribution across the investments permissible under the City's Investment Policy and provides the Fiscal Year average for each security type.

	<i>FHLB Agency Securities</i>	<i>FFCB Agency Securities</i>	<i>FNMA Agency Securities</i>	<i>FHLMC Agency Securities</i>	<i>Total Agency Securities</i>	<i>U.S. Treasury Bills/Notes</i>	<i>LAIF</i>	<i>OCIP</i>	<i>Certificates of Deposit</i>	<i>Money Market</i>
<b>Maximum</b>	25%	25%	25%	25%	60%	No Limit	55%	55%	30%	20%
<b>July</b>	24%	6%	13%	8%	51%	32%	0%	0%	2%	15%
<b>August</b>	25%	6%	14%	8%	53%	29%	0%	0%	2%	16%
<b>September</b>	26%	7%	14%	9%	56%	30%	0%	0%	2%	12%
<b>October</b>	26%	9%	15%	9%	59%	22%	0%	0%	3%	16%
<b>November</b>	26%	9%	15%	9%	59%	22%	0%	0%	4%	15%
<b>December</b>	18%	11%	14%	8%	51%	33%	0%	0%	6%	10%
<b>January</b>	17%	14%	13%	8%	52%	23%	0%	0%	6%	19%
<b>February</b>	17%	17%	13%	8%	56%	23%	0%	0%	7%	15%
<b>March</b>	18%	18%	14%	8%	58%	23%	0%	0%	7%	12%
<b>April</b>	17%	16%	13%	8%	54%	26%	0%	0%	6%	14%
<b>May</b>	16%	16%	13%	7%	52%	26%	0%	0%	6%	16%
<b>June</b>	16%	16%	13%	7%	52%	26%	0%	0%	7%	15%
<b>FY Average</b>	21%	12%	14%	8%	54%	26%	0%	0%	5%	15%

*\*If the City's portfolio diversification falls out of compliance, the City has 90 days to correct it. The Ca. Government Code states that the "section [that] specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Based on this information, the FHLB Agency Securities were in compliance with the Ca. Government Code and City Investment Policy during the months of September through November 2023.*



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## INVESTMENT INCOME

Investment income in FY 2023-24 amounted to \$2,079,753 compared to \$1,043,599 in FY 2022-23, an increase of \$1,036,154, almost doubling the prior year's totals. The \$2,079,753 represents a **550% increase over the projected Fiscal Year 2023-2024 amount** prior to the change in investment strategy. This increase from FY 2022-23 to FY 2023-24 is mainly attributable to the City's focused strategy to obtain the highest yielding securities available in the current environment. The City was able to purchase approximately \$30.0 million worth of high yielding short-term Treasuries in March through May of 2023, and to move other short-term cash into high yielding money market funds. The City is currently earning approximately 4.90% on its checking account balances by utilizing the sweep function. With an average balance of approximately \$4.0 million, the City expects to receive approximately \$200,000 from that decision.

Investment income includes interest earned and realized gains and losses on all demand deposit accounts and investments. The Governmental Accounting Standards Board Statement 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"*, establishes rules for reporting investment valuation. The Statement generally requires governmental entities to report investments at fair value in the City's external financial statements and to reflect the related unrealized gains and losses as a component on investment income. Investments reported in the Annual Investment Report are reported at cost and therefore, investment income for this report does not include unrealized gains and losses; however, unrealized gains and losses are included in the City's Annual Comprehensive Financial Report (ACFR) in compliance with United States Generally Accepted Accounting Principles (GAAP).





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**INVESTMENT POLICY COMPLIANCE CERTIFICATION**

*As City Manager and Finance Director/City Treasurer of the City of Laguna Niguel, we certify that we have complied with the annual Investment Policy adopted by the City Council effective August 1, 2023.*

*Tamara S. Letourneau  
City Manager*

*Date*

*Trevor Agrelius  
Finance Director/City Treasurer*

*Date*