



Memorandum

To: ISO Board of Governors

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

Date: March 19, 2025

Re: 2024 annual investment performance report

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 performance report to the ISO Board of Governors. This report provides the Board with unaudited information about the 2024 investment performance of the unrestricted and restricted fund balances held by the ISO.

- During 2024, the ISO's unrestricted portfolio achieved a total return of 3.6%. Yields remained elevated despite a change in the U.S. Federal Reserve's monetary policy. The Federal Reserve reduced overnight rates by 1.00% over three Federal Open Market Committee meetings near the end of the year; although, Treasury rates increased across most of the curve versus last year as the chances of continued Fed decreases diminished (see table below).

U.S. Treasury Bond	Yield as of 12/31/23	Yield as of 12/31/24
2-year	4.23%	4.25%
3-year	4.01%	4.27%
5-year	3.84%	4.38%
10-year	3.88%	4.58%

- As of December 31, 2024, 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, 2024, was \$242.5 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 2024 was 3.6%. A small portion of the portfolio, totaling \$3.6 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 \$238.9 million portfolio returned 3.6% during 2024. 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, 2024:

Unrestricted Portfolio (excluding Retiree Medical assets)	Market Value <i>(in \$ millions)</i>	2024 Total Return
Operating Cash:		
Cash & Money Market Funds	18.1	3.6%
Reserve Cash:		
Ultra-short Funds (< 1 year duration)	10.2	1.8%
Strategic Cash		
1-3 Year Duration Fund	69.1	6.5%
1-5 Year Duration Fund	71.1	4.0%
5-7 Year Duration Funds	70.4	-0.2%
Total Portfolio:	238.9	3.6%
<i>BofA 1-5 year AAA-A Corp & Govt Index</i>		<i>3.7%</i>
<i>BofA 1-5 year US Broad Market Index</i>		<i>4.0%</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. The plan was closed to employees hired after January 1, 2019. 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, 2024, the market value of the trust was \$21.6 million and the custody account was \$3.6 million. The combined portfolios increased 8.6% for the year. 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. The waiver will continue in 2025 as the policy's sizing requirements would require complete liquidation of the remaining assets in the custody account.

Generation interconnection project related funds

The ISO maintains a pool of restricted funds related to generation interconnection project deposits. As of December 31, 2024, the market value of these funds was \$451.8 million. These funds are invested in government money market funds and FDIC-insured instruments. The total return on these funds was 5.2%.

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, 2024, the market value of these funds was \$626.0 million. Due to their liquid nature, these funds are invested in government money market funds which returned 5.0% 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.