



December 4, 2024

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Environmental Mitigation Program Endowment Fund Investment Report for September 30, 2024

Overview

The Orange County Transportation Authority has developed a Natural Community Conservation Plan/Habitat Conservation Plan, acquired conservation properties, and funded habitat restoration projects to mitigate the impacts of Measure M2 freeway programs. The California Community Foundation manages the non-wasting endowment required to fund the long-term management of the conservation properties. Each quarter, the California Community Foundation publishes a comprehensive report detailing the composition of the pool and its performance.

Recommendation

Receive and file as an information item.

Background

On September 26, 2016, the Board of Directors approved the selection of the California Community Foundation (CCF) as an endowment fund manager for the Measure M2 Freeway Environmental Mitigation Program. Annually, approximately \$2.9 million will be deposited in the endowment. These annual deposits are expected over a ten-to-twelve-year period, or until the fund totals approximately \$46.2 million. As of September 30, 2024, the Orange County Transportation Authority (OCTA) has made nine deposits to the CCF Endowment Pool (Pool), each in the amount of \$2,877,000.

Discussion

As of September 30, 2024, total assets in the Pool were \$1.2 billion (Attachment A). Total foundation assets were \$2.43 billion. Pool performance lagged behind the Blended Benchmark (Benchmark) in both the short- and mid-term horizons of up to ten years. However, over the 20-year time frame, the Pool closely aligned with the Benchmark's performance.

The balance as of September 30, 2024, was \$32,759,657 (Attachment B), which is slightly above the target of \$31,393,728 for the first quarter of fiscal year (FY) 2024-25. Based on the CCF's performance to date, OCTA remains on track to meet the endowment target of \$46.2 million in FY 2027-28 (Attachment C). The total endowment portfolio was up 4.7 percent for the quarter and 15.2 percent for the trailing one year.

With inflation back within target range and increased caution toward the labor market, the Federal Reserve System cut rates for the first time in four years, leading to a quarter of strong performance across asset classes. The equity markets' strong performance, predominantly driven by United States mega-cap technology companies (market value over \$200 billion) for most of the year, broadened significantly across various sectors this quarter. Meanwhile, elevated treasury yields have caused the fixed-income market to underperform due to volatile expectations regarding the future path of interest rates. Consequently, the overall portfolio performance has lagged behind the Benchmark, primarily due to the market's concentration in mega-cap stocks, contributing to the diversified portfolio's relative underperformance. Diversification, strategic asset allocation, and appropriate sizing of investments within the endowment portfolio remain the primary strategies to protect the portfolio from outsized volatility.

Summary

The Orange County Transportation Authority is submitting a copy of the California Community Foundation Investment Report as of September 30, 2024.

Attachments

- A. California Community Foundation Endowment Pool Investments – September 30, 2024
- B. California Community Foundation Fund Statement – 7/1/2024 – 9/30/2024
- C. EMP Portfolio Performance – Actual/Projection vs. Target

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