

# **Investment Management Report**

## **PFM Asset Management, LLC.**



# ORANGE COUNTY TRANSPORTATION AUTHORITY

## **Investment Performance Review For the Quarter Ended December 31, 2020**

Client Management Team

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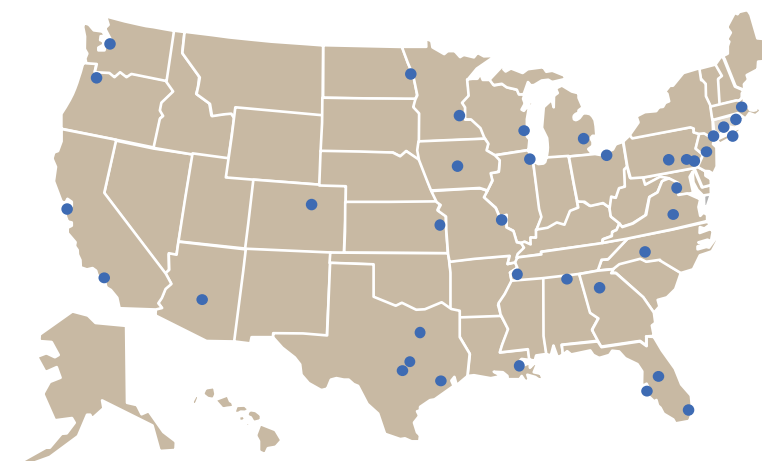
PFM Asset Management LLC

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Harrisburg, PA 17101-2141  
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## PFM Asset Management LLC

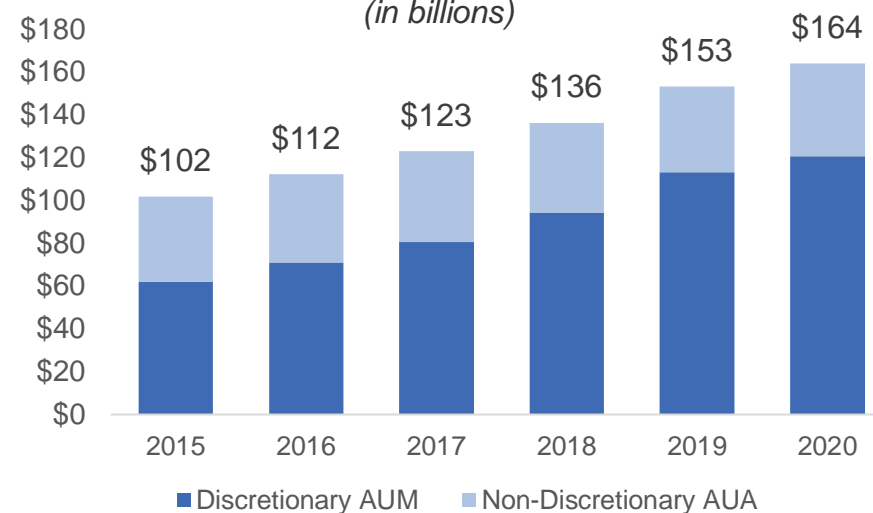
- ◆ **40 years experience** managing public funds portfolios
- ◆ **\$164 billion in total assets**
  - \$121 billion in discretionary assets under management
  - \$43 billion in assets under advisement<sup>1</sup>
- ◆ **\$54 billion** managed and advised in California
- ◆ Specialists in high-quality, short-and intermediate-duration **fixed income portfolios**
  - Relative value investment manager with a focus on downside protection
  - Strong emphasis on safety and liquidity
  - Successfully navigated the global financial crisis of 2007-2008 and the pandemic of 2020-2021
  - Consistent record of performance in excess of benchmarks

### PFM's 35 Offices Nationwide



### Total Assets

*Under Management and Advisement  
(in billions)*



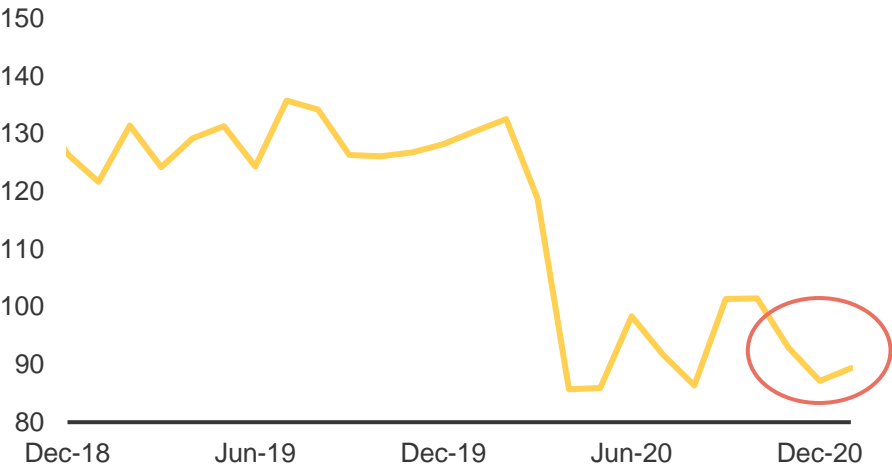
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## Market Update

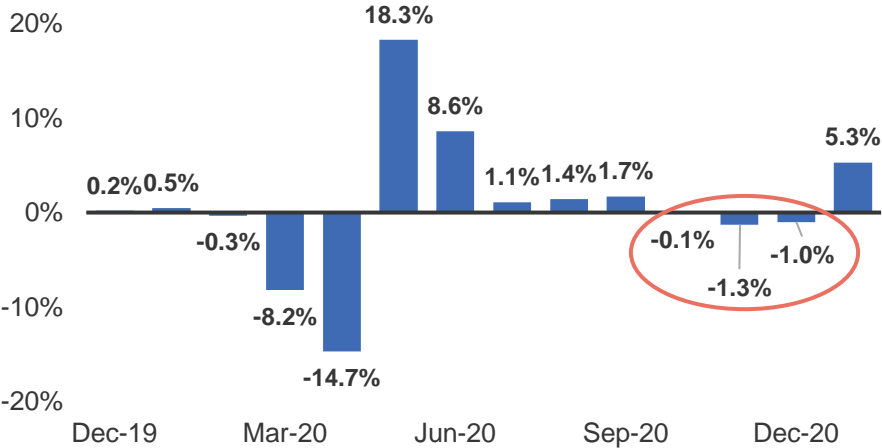
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U.S. Economic Momentum Slows in Q4

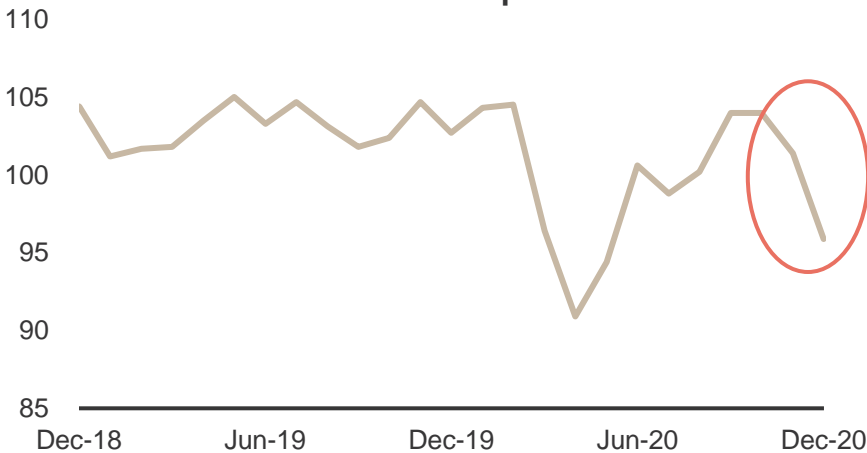
Conference Board Consumer Confidence



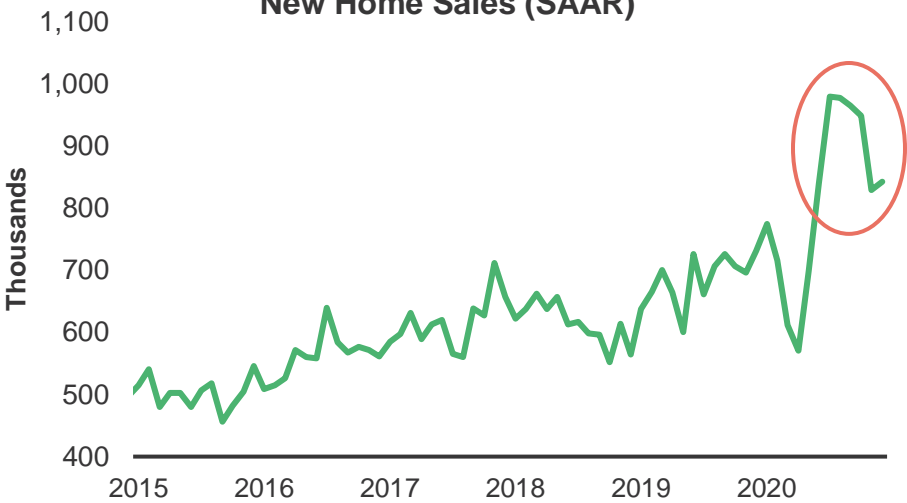
Retail Sales



NFIB Small Business Optimism Index

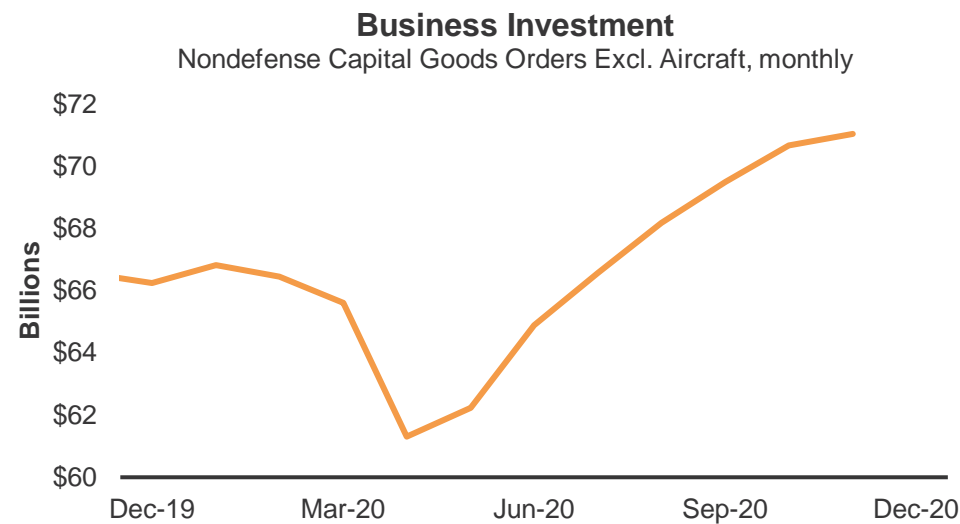
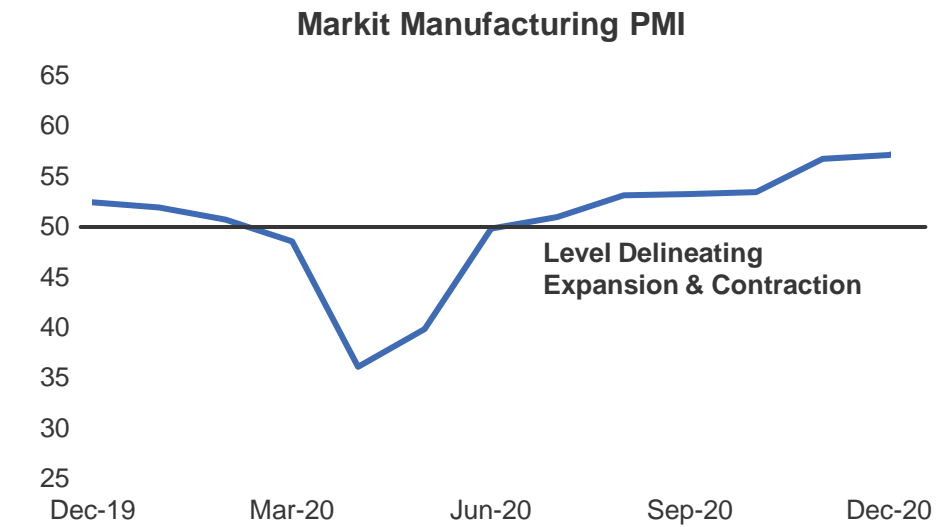
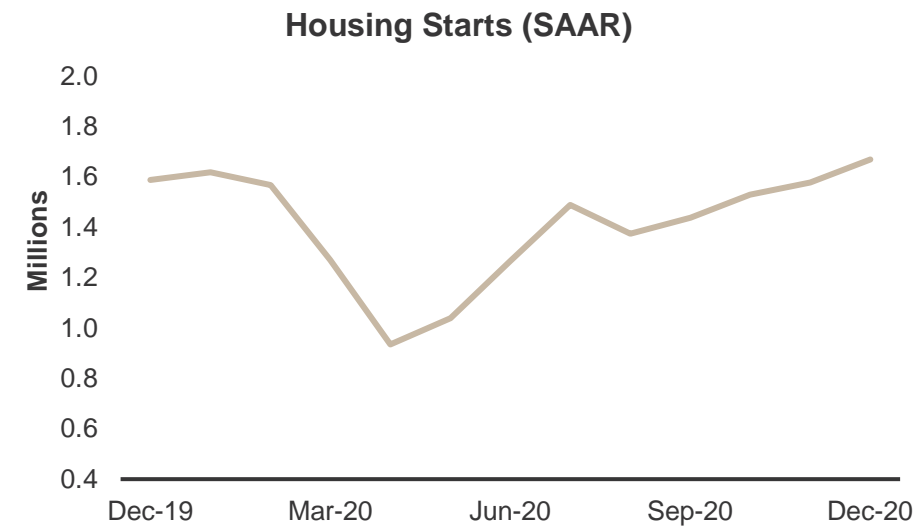


New Home Sales (SAAR)



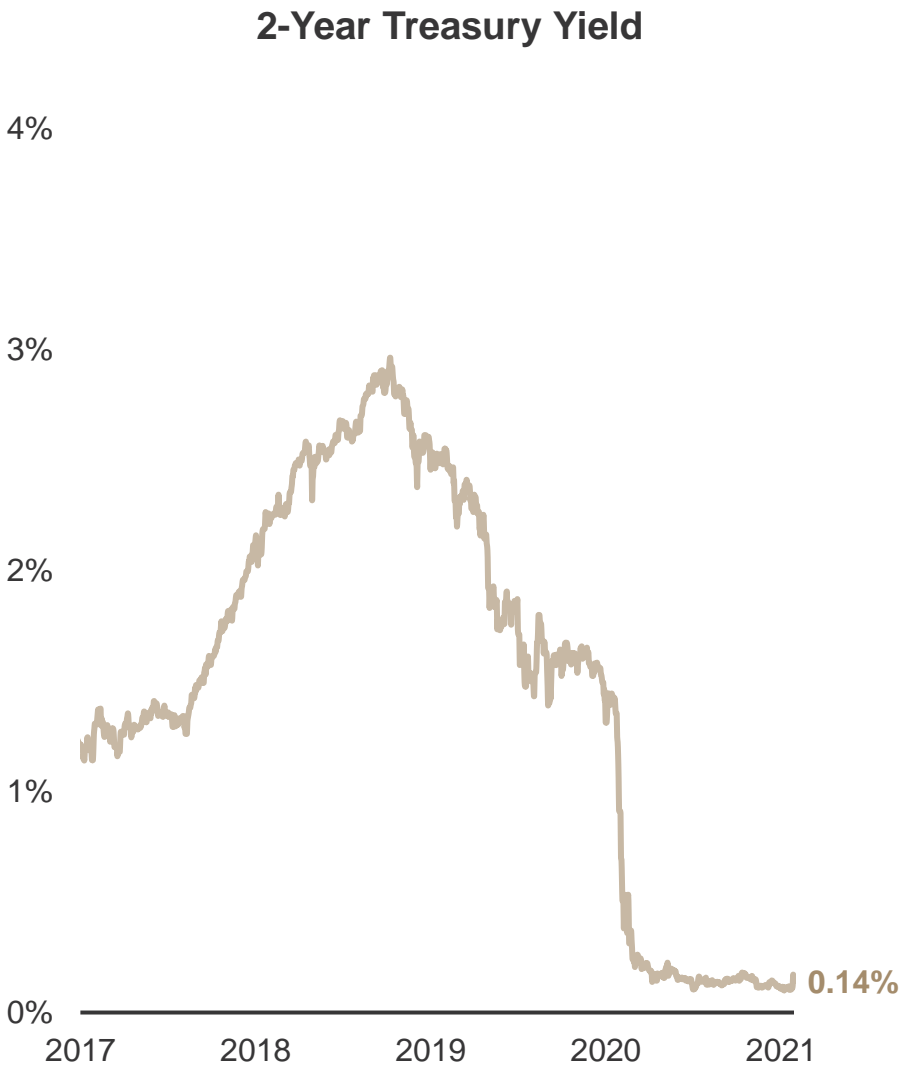
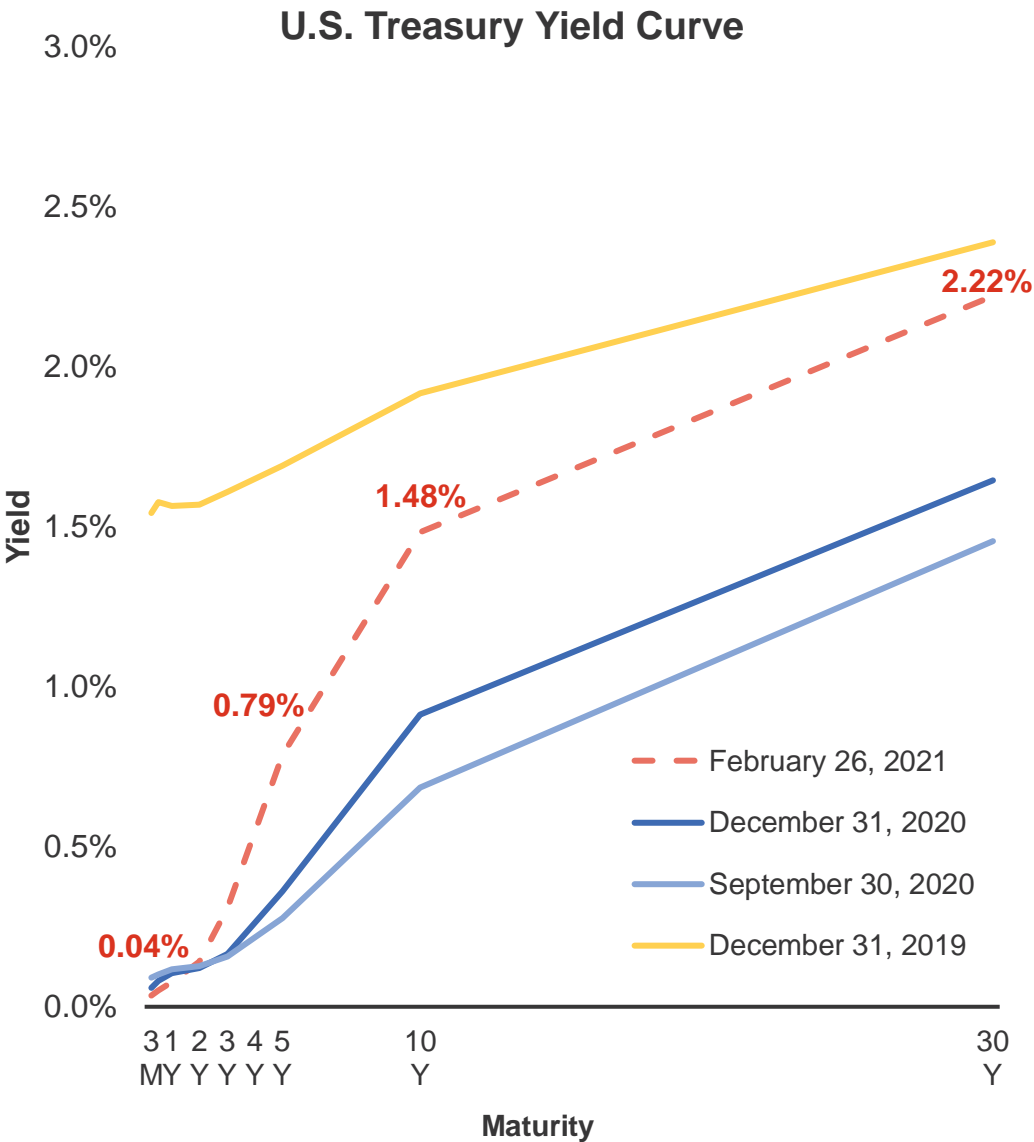
Source: Bloomberg, as of February 2021. SAAR is seasonally-adjusted annual rate.

Economic Outlook Is Positive and Supported by Forward-Looking Data



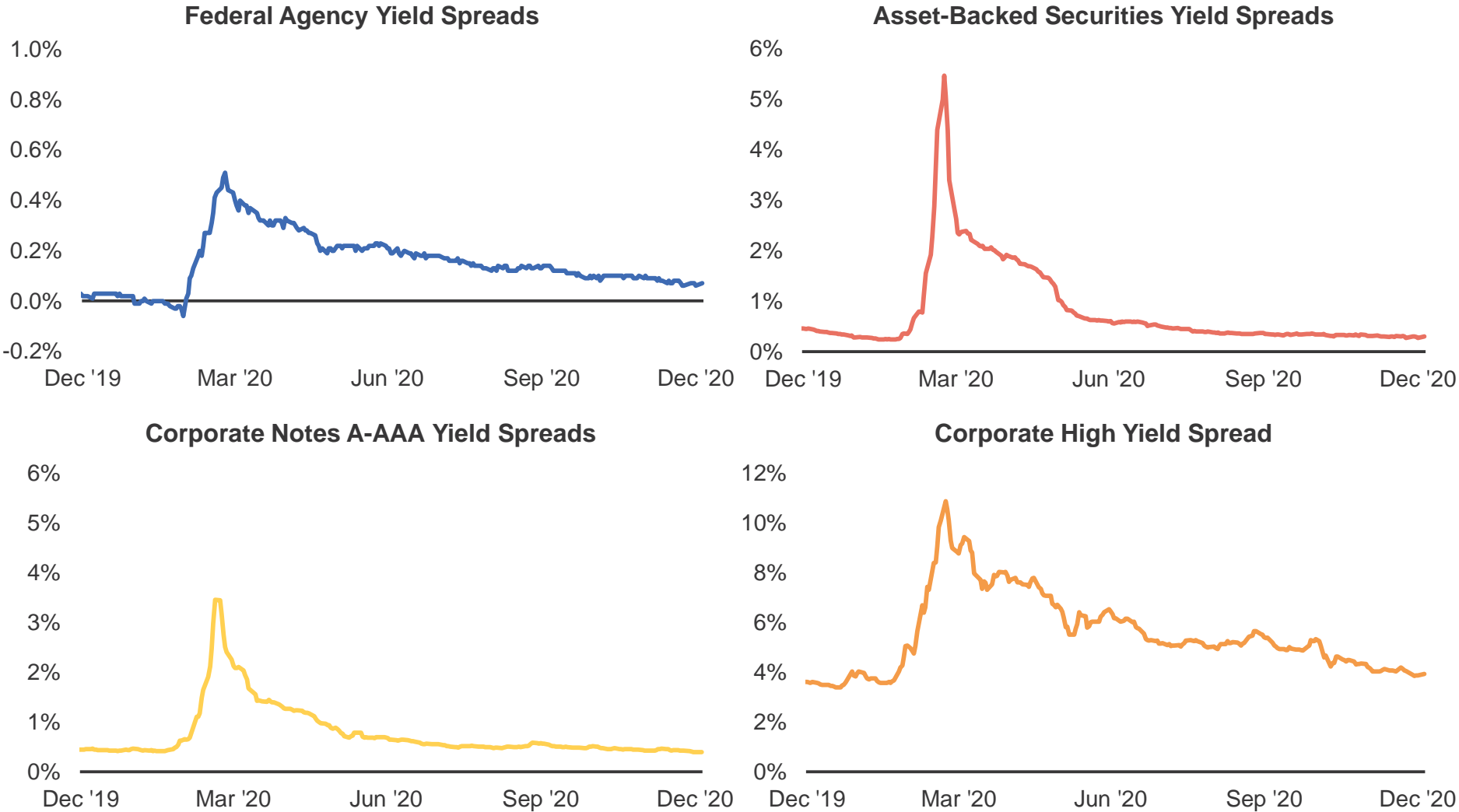
Source: Bloomberg, as of January 2021.

Short Rates Were Steady, but the Yield Curve Steepened in Fourth Quarter



Source: Bloomberg, as of 2/26/2021.

Yield Spread Narrowing Continued During Fourth Quarter



Source: ICE BofAML 1-5 year Indices via Bloomberg, MarketAxess and PFM as of 12/31/2020. Spreads on ABS and MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities.



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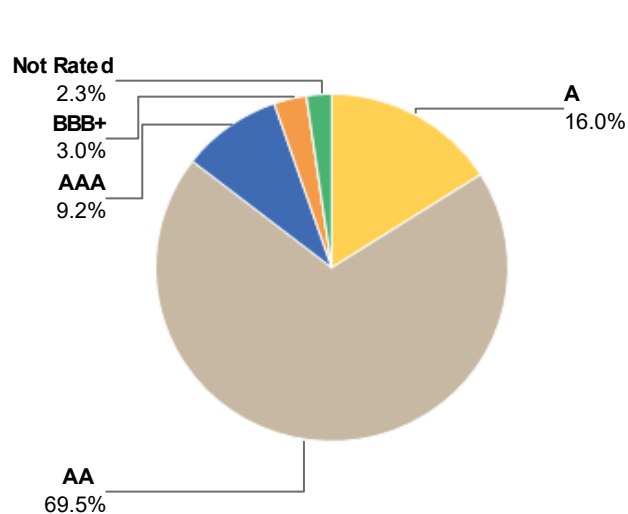
# Investment Strategy & Portfolio Review

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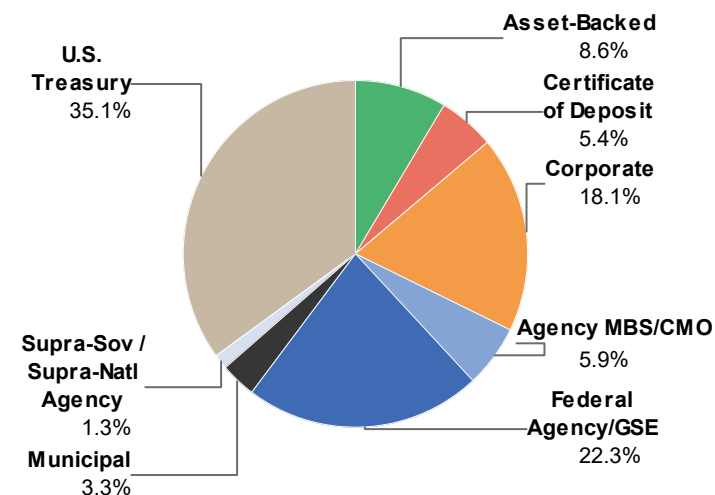
### Portfolio Statistics As of December 31, 2020

<b>Par Value:</b>	\$405,136,044
<b>Total Market Value:</b>	\$413,288,750
<b>Security Market Value:</b>	\$411,780,356
<b>Accrued Interest:</b>	\$1,280,240
<b>Cash:</b>	\$228,154
<b>Amortized Cost:</b>	\$405,453,425
<b>Yield at Market:</b>	0.43%
<b>Yield at Cost:</b>	1.42%
<b>Effective Duration:</b>	1.86 Years
<b>Average Maturity:</b>	2.06 Years
<b>Average Credit: *</b>	AA

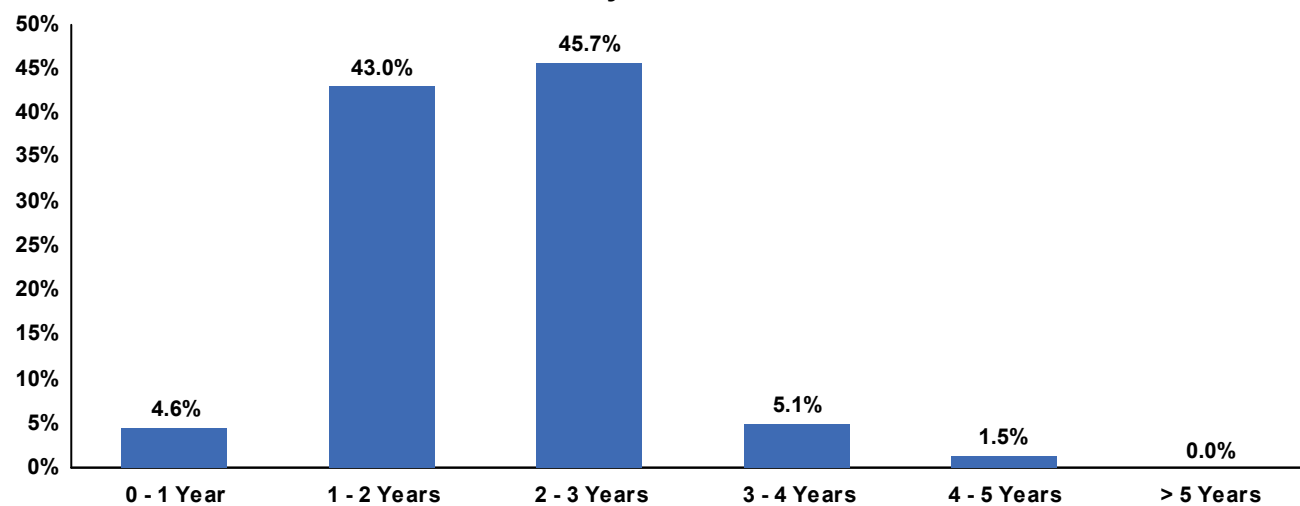
Credit Quality (S&amp;P Ratings)\*\*



Sector Allocation



Maturity Distribution

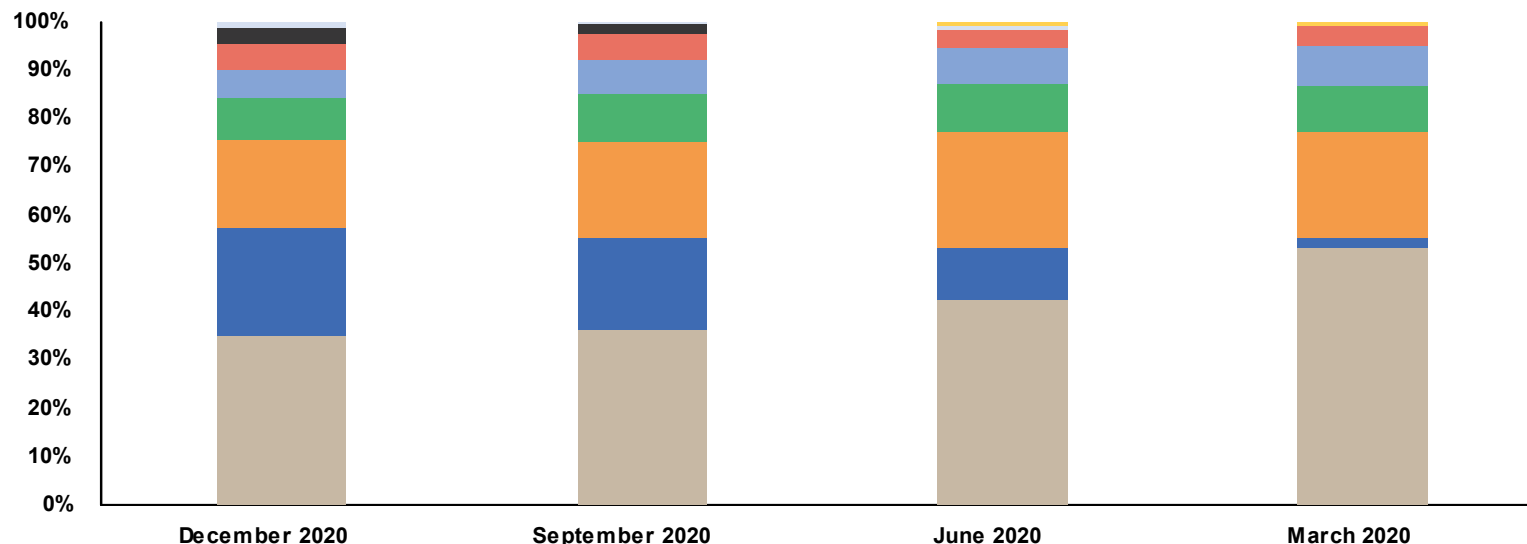
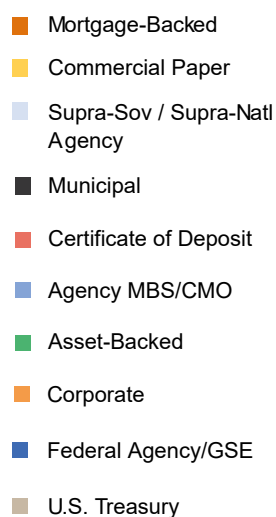


\* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

\*\* Securities held in the Authority's portfolio are in compliance with California Government Code and the Authority's investment policy as of June 2020.

## Sector Allocation

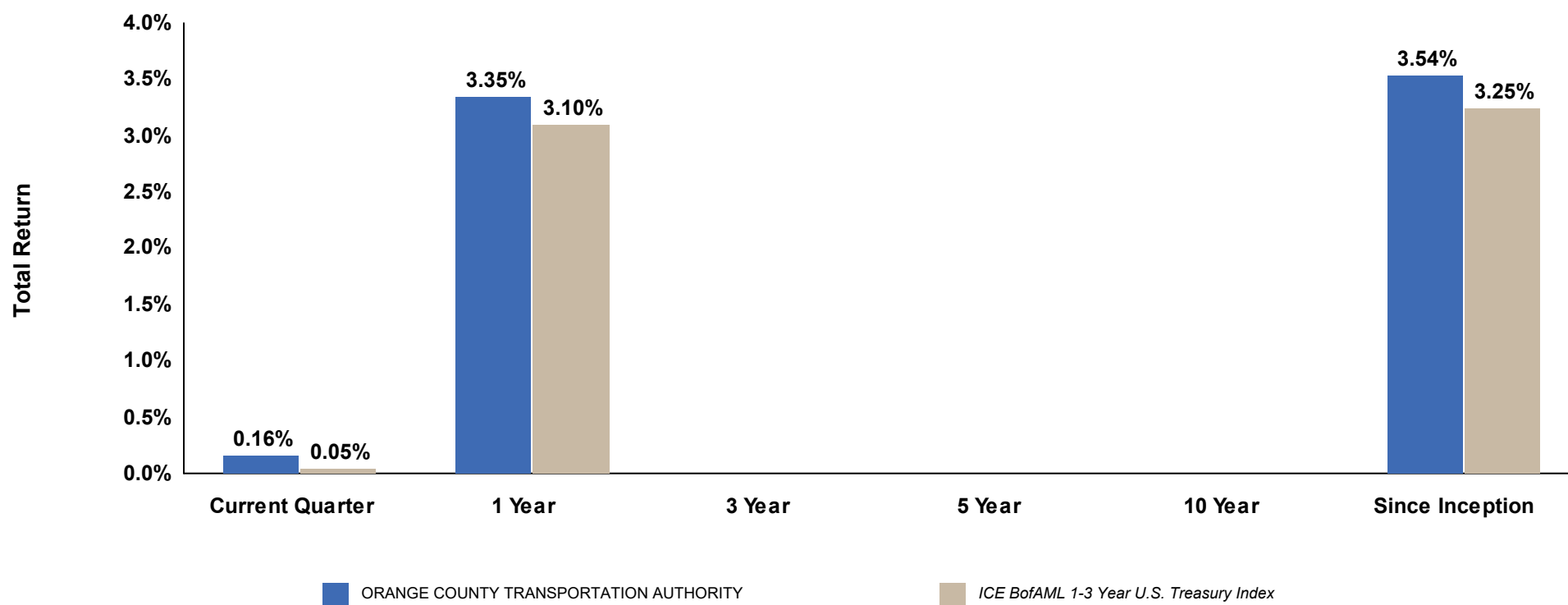
Sector	December 31, 2020		September 30, 2020		June 30, 2020		March 31, 2020	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
U.S. Treasury	144.5	35.1%	148.0	36.1%	174.7	42.7%	215.1	53.1%
Federal Agency/GSE	91.9	22.3%	78.3	19.2%	44.0	10.8%	9.3	2.3%
Corporate	74.7	18.1%	81.6	20.0%	97.1	23.7%	88.4	21.9%
Asset-Backed	35.2	8.6%	39.5	9.7%	39.9	9.7%	37.9	9.4%
Agency MBS/CMO	24.2	5.9%	28.1	6.9%	30.8	7.5%	33.5	8.3%
Certificate of Deposit	22.2	5.4%	22.2	5.4%	16.0	3.9%	15.7	3.9%
Municipal	13.7	3.3%	8.4	2.1%	0.2	0.1%	0.0	0.0%
Supra-Sov / Supra-Natl Agency	5.3	1.3%	2.6	0.6%	2.6	0.6%	0.0	0.0%
Mortgage-Backed	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.6	0.1%
Commercial Paper	0.0	0.0%	0.0	0.0%	4.0	1.0%	4.0	1.0%
<b>Total</b>	<b>\$411.8</b>	<b>100.0%</b>	<b>\$408.7</b>	<b>100.0%</b>	<b>\$409.3</b>	<b>100.0%</b>	<b>\$404.5</b>	<b>100.0%</b>



Detail may not add to total due to rounding.

## Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Current Quarter	1 Year	Annualized Return			
				3 Year	5 Year	10 Year	Since Inception (06/30/18)
ORANGE COUNTY TRANSPORTATION AUTHORITY	1.86	0.16%	3.35%	-	-	-	3.54%
ICE BofAML 1-3 Year U.S. Treasury Index	1.83	0.05%	3.10%	-	-	-	3.25%
Difference		0.11%	0.25%	-	-	-	0.29%



Portfolio performance is gross of fees unless otherwise indicated.

## Fixed Income Sector Outlook – February 2021

Sector	Our Investment Preferences
<b>COMMERCIAL PAPER / CD</b>	
<b>TREASURIES</b>	
<b>T-Bill</b>	
<b>T-Note</b>	
<b>FEDERAL AGENCIES</b>	
<b>Bullets</b>	
<b>Callables</b>	
<b>SUPRANATIONALS</b>	
<b>CORPORATES</b>	
<b>Financials</b>	
<b>Industrials</b>	
<b>SECURITIZED</b>	
<b>Asset-Backed</b>	
<b>Agency Mortgage-Backed</b>	
<b>Agency CMBS</b>	
<b>MUNICIPALS</b>	

● Current outlook ○ Prior month

Negative Slightly Negative Neutral Slightly Positive Positive

- PFM remains committed to the Authority's stated objectives of safety of principal, liquidity, total return, and diversification
- Our strategy for 2020 included maintaining diversified allocations to most permitted sectors, matching the benchmark's duration, and carefully managing risk.
  - The portfolio entered 2020 with a large allocations to Treasuries, which proved beneficial as the COVID-19 pandemic emerged.
  - As a result, we were able to reallocate funds into higher yielding agencies, corporates and asset-backed securities.
  - As spreads compressed late in the year, we opportunistically transitioned some funds into bank CDs, municipals, and supranationals.
- We expect the economic recovery to continue with growth impacted by the pace of vaccine rollout and fiscal stimulus.
  - Fed policy should remain very accommodative, with near-zero short-term rates and large asset purchases.
  - Given economic uncertainties, we plan on maintaining the portfolio's duration in line with its benchmark.
  - With yield spreads near historical tight, we plan to be more selective with regard to corporates and agencies.

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# Appendix

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**IMPORTANT DISCLOSURES**

This material is based on information obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some, but not all of which, are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Refinitiv, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.