

Investment Management Presentation

PFM Asset Management



Orange County Transportation Authority Portfolio Review

Presented By:

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PFM Asset Management LLC

◆ 38 years of institutional investment experience

- Managing assets in California since 1989
- Fixed-income specialists
- Specialists in California Government Code sectors

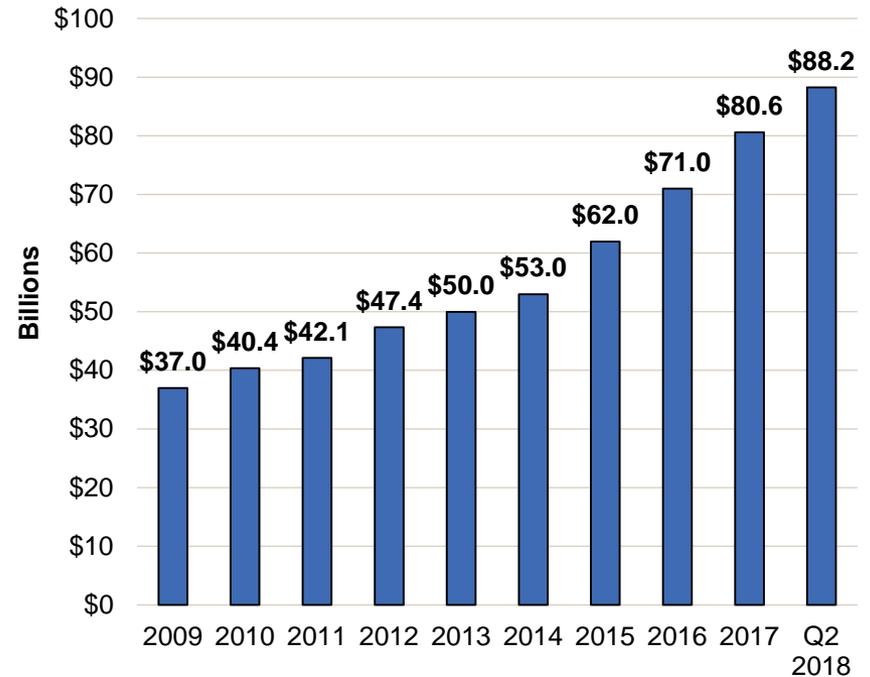
◆ \$88.2 billion in discretionary assets

- \$18.5 billion in California
- \$4.7 billion for transportation agencies

◆ Significant resources

- 213 investment professionals
- Independent credit analysis
- Senior leadership team averages 20+ years of experience
- 18 Chartered Financial Analysts (CFAs)

Discretionary Assets under Management



Assets for 2013-2017 are as of December 31.

All data as of June 30, 2018, unless otherwise noted.



Representative Transportation Clients

CALIFORNIA

- Golden Gate Bridge, Highway & Trans. District
- San Diego County Regional Trans. Commission
- San Joaquin County Transportation Authority
- San Bernardino County Transportation Authority
- San Francisco Airport
- San Mateo County Transportation Authority
- San Mateo County Transit District
- Sacramento Transportation Authority

NATIONAL

- Chesapeake Bay Bridge & Tunnel District (VA)
- Capital Metro Transportation Authority (TX)
- Jacksonville Aviation Authority (FL)
- Greater Orlando Aviation Authority (FL)
- Central Florida Expressway Authority (FL)
- Kenton County Airport Board (KY)
- North Carolina Turnpike Authority (NC)
- Jacksonville Transportation Authority (FL)
- Kansas Turnpike Authority (KS)

All data as of June 30, 2018. Representative clients based on client type and other non-performance based criteria to show a broad range of transportation clients or clients with a transportation-related scope and portfolio size of \$100 million or more in fixed income assets. This list does not represent an endorsement of PFM or its services. A full client list is available upon request.



Current Market Themes

- ◆ U.S. economic conditions characterized by:
 - Improving growth
 - Strong labor market
 - Consumer and business optimism
 - Inflation finally reaching the Fed's target

- ◆ Rising yields with flatter yield curve

- ◆ Fed on track for several additional rate hikes

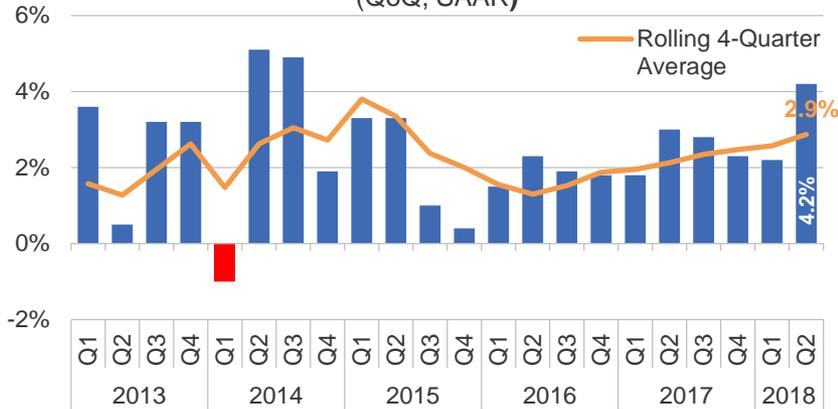
- ◆ Stock market reflects record corporate profits amid looming trade wars

- ◆ High degree of geopolitical risk

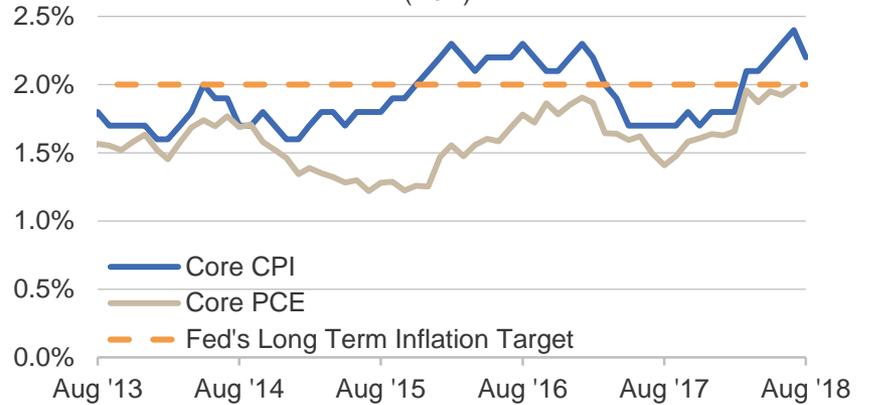


Current Economic Conditions

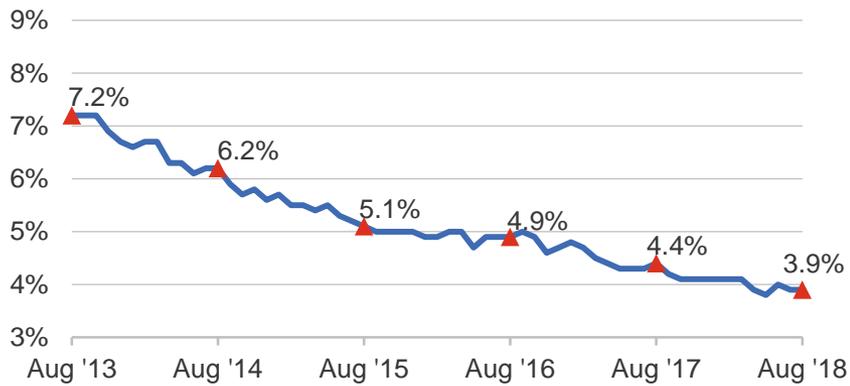
U.S. Real GDP (QoQ, SAAR)



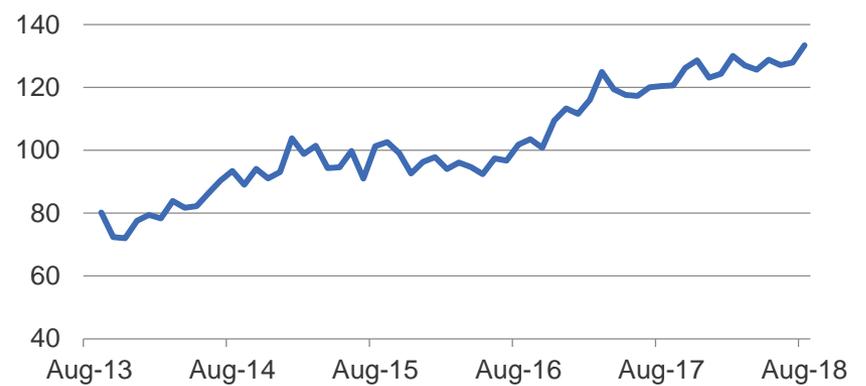
Inflation Measures (YoY)



Unemployment Rate



Consumer Confidence

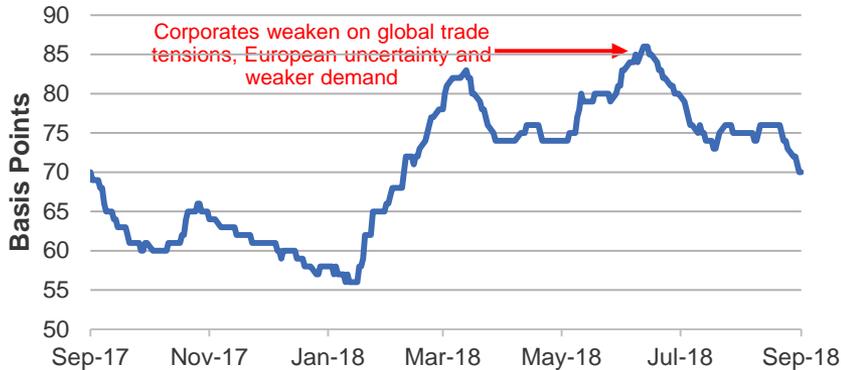


Source: Bloomberg, latest data available as of 8/31/18. SAAR is seasonally adjusted annualized rate.

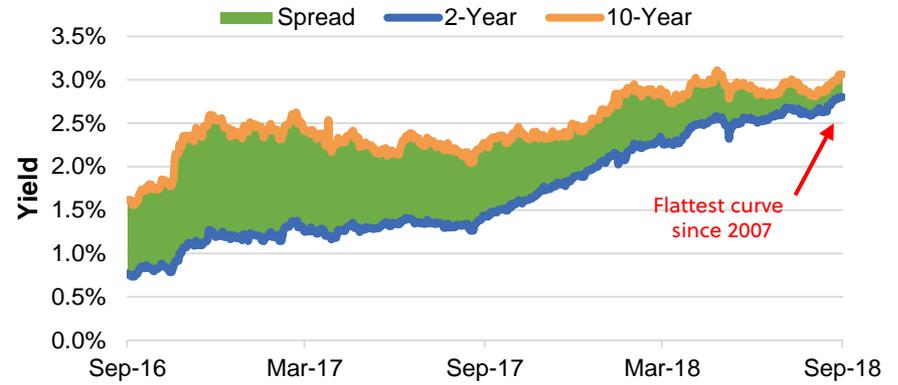


What We're Watching...

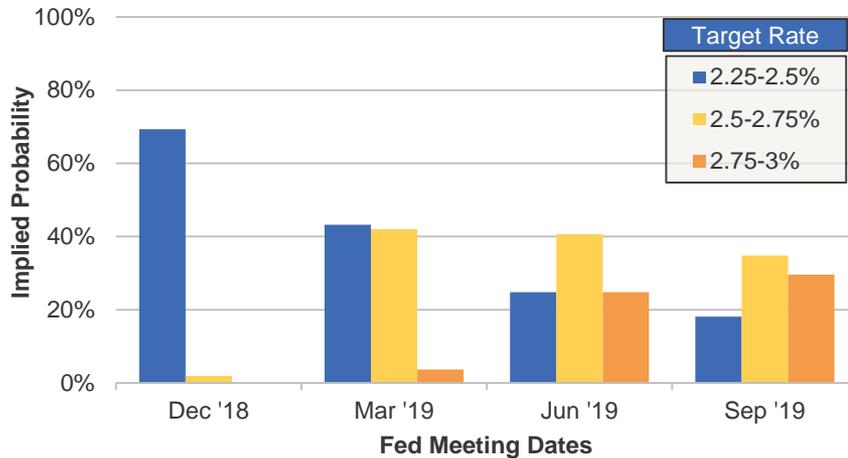
1-5 Year Corporate Spreads



Flattening Yield Curve (10-Yr vs. 2-Yr)



Market Implied Fed Rate Hike Probability



Economic Indicators Are Strong

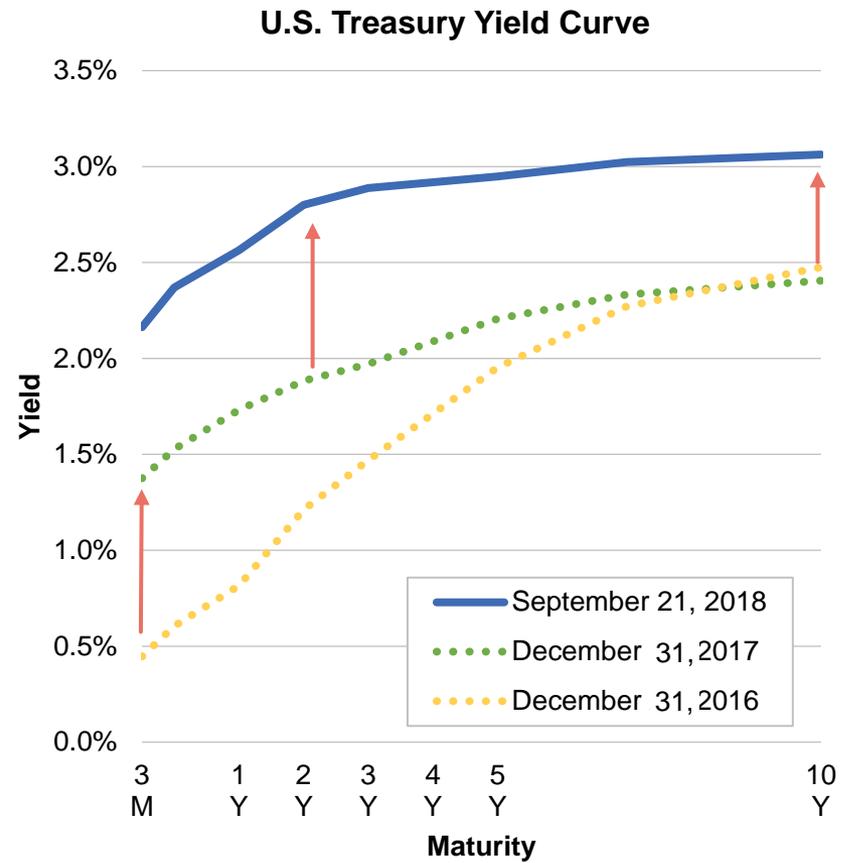
Metrics at or near Multi-Year Bests	
U.S. GDP	Unemployment Rate
Global Growth	Job Openings
Consumer Confidence	Corporate Profits
Home Prices	Inflation

Source: Bloomberg, ICE BofAML Indices, as of 9/21/18. Market Implied Fed Rate Hike Probability, as of 9/27/18.



U.S. Treasury Yield Curve Continues to Flatten as Rates Rise

	Current 9/21/18	Year-End 12/31/17	Year-End 12/31/16
3-month	2.16%	1.38%	0.50%
6-month	2.37%	1.53%	0.61%
1-year	2.56%	1.73%	0.81%
2-year	2.80%	1.88%	1.19%
3-year	2.89%	1.97%	1.45%
5-year	2.95%	2.21%	1.93%
10-year	3.06%	2.41%	2.44%



Source: Bloomberg



Yield Environment Favors Shorter-Term Credit

Yields as of September 21, 2018

Maturity	Treasury	Federal Agency	AA Corporate	A Corporate
3-Month	2.16%	2.18%	2.44%	2.56%
6-Month	2.37%	2.30%	2.52%	2.65%
1-Year	2.56%	2.51%	2.68%	2.84%
2-Year	2.80%	2.81%	3.00%	3.17%
3-Year	2.89%	2.93%	3.15%	3.35%
5-Year	3.06%	3.03%	3.37%	3.56%

Source: Bloomberg BVAL yield curves for Treasury and Corporate. TradeWeb for Federal Agency yields. 3 and 6 month corporate yields from commercial paper: A-1+ for AA and A-1 for A. Yields are for indicative purposes only; actual yields may vary by issue.



Investment Strategy for OCTA

- ◆ Restructure the portfolio to be consistent with OCTA's long-term investment strategy
- ◆ Execute selective trades to increase the portfolio's return potential and enhance diversification while carefully managing risk
- ◆ Maintain a modestly defensive duration posture given the likelihood of additional rate hikes
- ◆ Key elements of the strategy include:
 - Reduce the portfolio's large allocation to Treasuries
 - Increase the allocation to the corporate sector as the widest yield spreads in a year led to attractive buying opportunities
 - Capture high yields available on short-term commercial paper and negotiable certificates of deposit
 - Purchase asset-backed securities (ABS) that offer attractive spreads relative to some industrial corporate note issuers

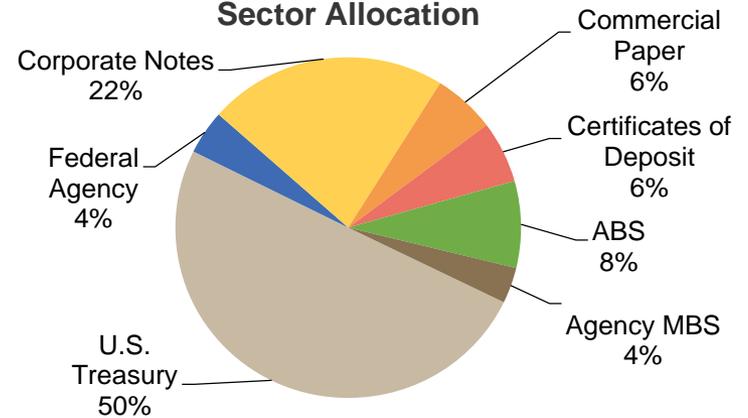


Portfolio Holdings Snapshot (as of 8/31/18)

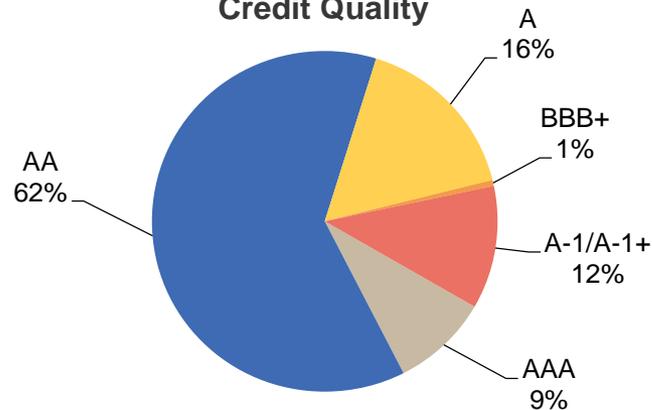
Portfolio Statistics

Market Value	\$342,516,052
Average Duration	1.63 years
Average Yield at Cost	2.00%
Average Yield at Market	2.63%

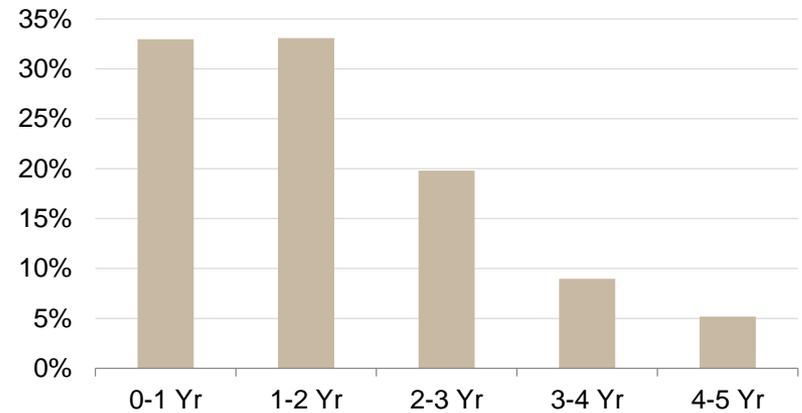
Sector Allocation



Credit Quality



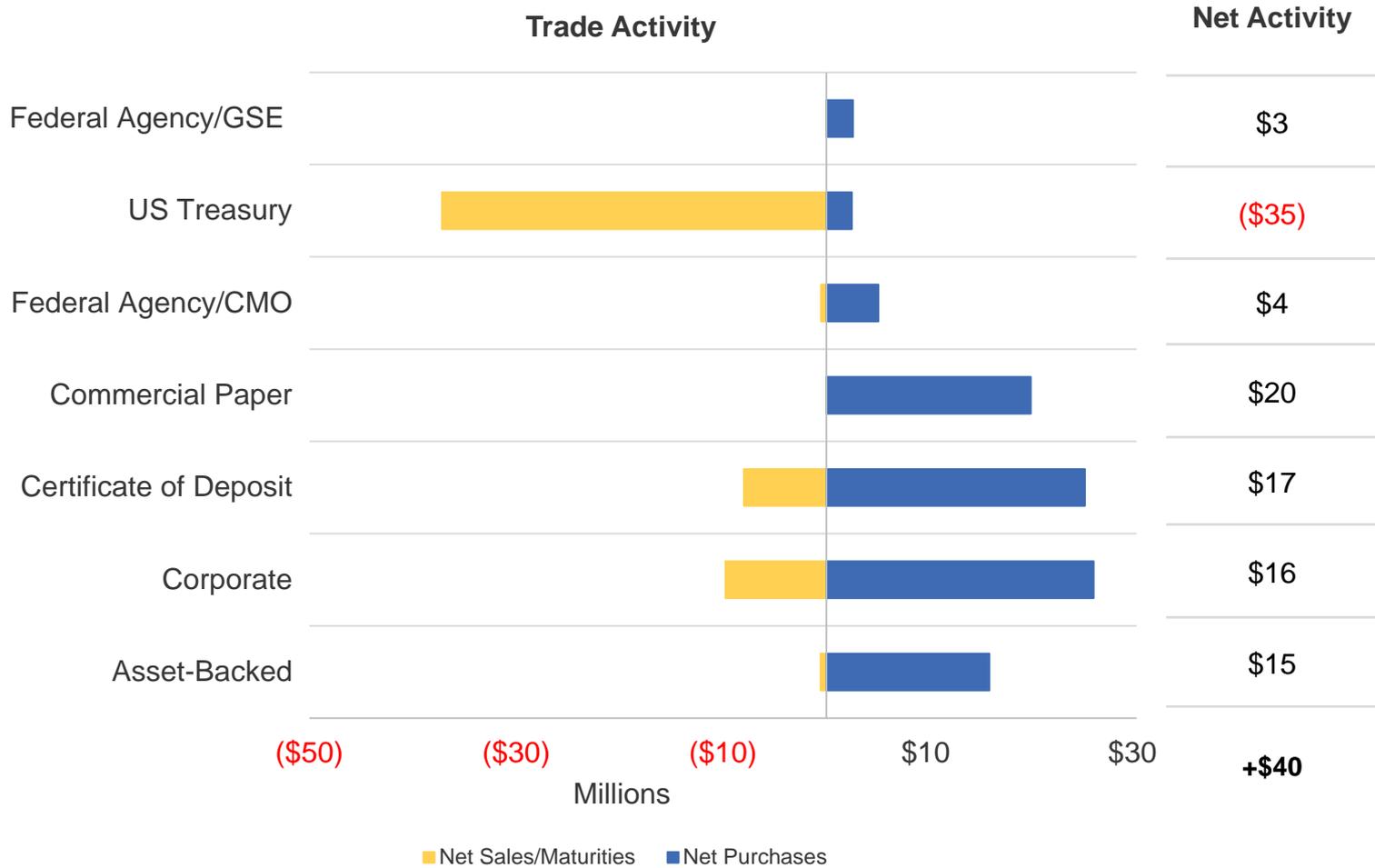
Duration Distribution



Excludes money market fund and accrued interest balances. Credit quality uses S&P rating, or Moody's equivalent if not rated by S&P. Please see important disclosures.



Summary of Trade Activity

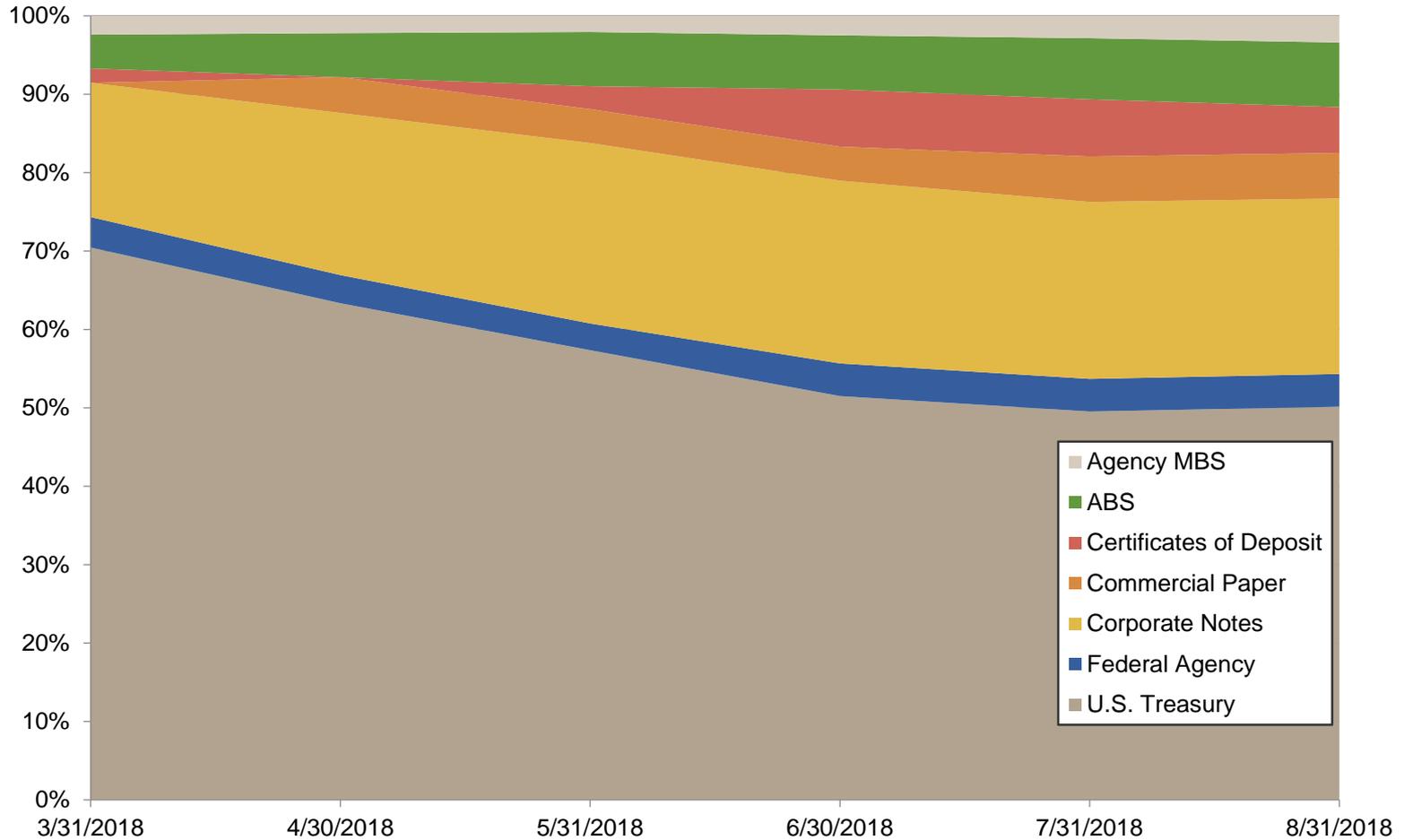


Trade activity, from inception (4/12/18) to date.



Historical Sector Allocation

March 31, 2018 - August 31, 2018





Portfolio Performance

Monthly Total Return Performance

Portfolio/Index	Duration (years)	4-Month Return	August 2018	July 2018
Orange County Transportation Authority	1.63	0.87%	0.34%	0.09%
ICE BoAML 1-3 Year U.S. Treasury	1.77	0.69%	0.32%	-0.01%
ICE BoAML 1-3 AAA-A Gov't/Corp	1.78	0.76%	0.34%	0.04%

Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). ICE BoAML Indices provided by Bloomberg Financial Markets, and ICE BoAML durations are as of 8/31/18.



Disclosures

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