



April 22, 2019

To: Members of the Board of Directors
From: Darrell E. Johnson, Chief Executive Officer
Subject: First Quarter 2019 Investment and Debt Report

Overview

The California Government Code requires the Orange County Transportation Authority Treasurer to submit a quarterly investment report detailing the investment activity for the period. This investment report covers the first quarter of 2019, January through March, and includes a discussion on the Orange County Transportation Authority's debt portfolio.

Recommendation

Receive and file the Quarterly Debt and Investment Report prepared by the Treasurer as an information item.

Discussion

The Treasurer is currently managing the Orange County Transportation Authority (OCTA) investment portfolio totaling \$2.1 billion as of March 31, 2019. The portfolio is divided into three managed portfolios: the liquid portfolio for immediate cash needs, bond proceeds portfolio to meet Measure M2 (M2) transportation program needs, and the short-term portfolio for future budgeted expenditures. In addition to these portfolios, OCTA has funds invested in a debt service reserve fund for the 91 Express Lanes.

Economic Summary: The Federal Reserve (Fed) maintained the Fed Funds rate at its meeting in March at the range of 2.25 percent to 2.50 percent. At the Fed meeting, officials signaled that there may not be another rate hike for the rest of 2019. Benchmark yields moved lower in March across the curve, with the two-year Treasury yield at 2.27 percent, a decrease of 23 basis points; the five-year Treasury yield at 2.23 percent, a decrease of 26 basis points; and the ten-year Treasury yield at 2.41 percent, a decrease of 25 basis points from the prior quarter.

On the economic data front, economic growth remained on a strong track for the first quarter of 2019, with the S&P 500 registering its best quarter in ten years. Trade volatility continued through the end of the first quarter as no deal has been secured between the United States and China. The United States unemployment rate remained steady at 3.8 percent in March, maintaining the same rate as February, and the economy added 196,000 jobs in March, up significantly from just 20,000 in February. The Treasury yield curve has flattened after reports showed a positive outlook for the economy and few signs of inflation.

Debt Portfolio Activity: As of March 31, 2019, the M2 Program has \$635.2 million in outstanding debt, and the 91 Express Lanes has an outstanding balance of \$97.8 million. The Transportation Infrastructure Finance and Innovation Act loan balance as of the end of March was \$287 million. The outstanding balances for each of OCTA's debt securities are presented in Attachment A.

On February 26, 2019, OCTA closed on a \$443.5 million M2 sales tax backed bond issuance. The bond issuance included proceeds of \$400 million for the Interstate 405 (I-405) Improvement Project and \$43.5 million to refund a portion of the 2010 M2 Series A bonds. The refunding of a portion of the 2010 M2 Series A bonds resulted in a savings of \$2.6 million. On March 20, 2019, \$400 million of the proceeds, which will be used to support the I-405 Improvement Project, were invested with the Bank of Nova Scotia per the terms of a guaranteed investment contract at a rate of 3.01 percent. The funds will be drawn down over a two-year period to fund the project.

Investment Portfolio Compliance: There were no compliance violations during the quarter.

OCTA continues its policy of reviewing the contents of the investment portfolio on a weekly basis to ensure compliance for each day of the week. Attachment B provides a comparison of the portfolio holdings as of March 31, 2019, to the diversification guidelines of the policy.

Investment Portfolio Performance Versus Selected Benchmarks: OCTA uses Clearwater Analytics to calculate performance for each manager within the respective portfolios. The performance reports calculate monthly total rates of return based upon the market value of the portfolios they manage. The securities are marked-to-market daily based on pricing data provided by the custody banks.

OCTA has calculated the total returns for each of the investment managers for short-term operating monies and has compared the returns to specific

benchmarks as shown in Attachment C. Attachment D contains an annualized total return performance comparison by investment manager for the previous two years. Attachment E provides a four-year yield comparison between the short-term investment managers, Orange County Investment Pool, and Local Agency Investment Fund.

The returns for OCTA's short-term operating monies are compared to the Intercontinental Exchange (ICE)/Bank of America Merrill Lynch (BAML) 1-3-year Treasury (Treasury) and the ICE/BAML 1-3-year AAA-A U.S. Corporate and Government (Corporate/Government) benchmarks. The ICE/BAML 1-3-year indices are among the most commonly used short-term fixed-income benchmarks. Each of the four managers invests in a combination of securities that all conform to OCTA's 2019 Investment Policy. For the quarter ending March 31, 2019, the weighted average total return for OCTA's short-term portfolio was 1.15 percent, outperforming the Treasury benchmark return by 17 basis points and outperforming the Corporate/Government benchmark by 4 basis points. For the 12-month period ending March 31, 2019, the portfolio's return totaled 2.98 percent, exceeding the Treasury benchmark by 26 basis points, and outperforming the Corporate/Government benchmark by 4 basis points for the same period.

Investment Portfolios: A summary of each investment manager's investment diversification, performance, and maturity schedule is provided in Attachment F. These summaries provide a tool for analyzing the different returns for each manager.

A complete listing of all securities is provided in Attachment G. Each portfolio contains a description of the security, maturity date, book value, market value, and yield provided by Clearwater Analytics.

Cash Availability for the Next Six Months: OCTA has reviewed the cash requirements for the next six months. It has been determined that the liquid and the short-term portfolios can fund all projected expenditures during the next six months.

Summary

As required under the California Government Code, the Orange County Transportation Authority is submitting its quarterly debt and investment report to the Board of Directors. The report summarizes the Orange County Transportation Authority's debt and investment activities for the period January 2019 through March 2019.

Attachments

- A. Orange County Transportation Authority Outstanding Debt March 31, 2019.
- B. Orange County Transportation Authority Investment Policy Compliance March 31, 2019.
- C. Orange County Transportation Authority Short-term Portfolio Performance Review Quarter Ending March 31, 2019.
- D. Orange County Transportation Authority Short-term Portfolio Performance March 31, 2019.
- E. Orange County Transportation Authority Comparative Yield Performance March 31, 2019.
- F. Investment Manager Diversification and Maturity Schedules March 31, 2019.
- G. Orange County Transportation Authority Portfolio Listing as of March 31, 2019.

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