



**July 22, 2019**

**To:** Members of the Board of Directors  
**From:** Darrell E. Johnson, Chief Executive Officer  
**Subject:** Second 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 second quarter of 2019, April through June, and includes a discussion on the Orange County Transportation Authority's debt portfolio. Nissan, an issuer for asset-backed securities held by the Orange County Transportation Authority, was downgraded from A2 to A3, which is below the Orange County Transportation Authority's investment policy requirement of A2. The asset-backed securities continue to be AAA-rated with no negative price action since the Nissan downgrade, so Orange County Transportation Authority has chosen to retain the securities.

**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 June 30, 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 June at the range of 2.25 percent to 2.50 percent. At the Fed meeting, officials signaled there may be upcoming rate cuts as early as July.

Economic growth remained on a sound track for the second quarter of 2019. At the end of the second quarter, the current economic expansion became the longest expansion in American history. Trade volatility continued through the end of the second quarter as no deal has been secured between the United States (U.S.) and China. The U.S. unemployment rate rose to 3.7 percent in June, and the economy added 244,000 jobs in June.

**Debt Portfolio Activity:** As of June 30, 2019, the M2 Program has \$635.2 million in outstanding debt, and the 91 Express Lanes has an outstanding debt balance of \$97.8 million. The Transportation Infrastructure Finance and Innovation Act loan balance as of the end of June was \$287 million. The outstanding balances for each of OCTA's debt securities are presented in Attachment A.

**Investment Portfolio Compliance:** On Friday, May 24, 2019, Moody's downgraded the long-term debt rating of Nissan from A2 to A3 based on the decline in profitability of its U.S. operations due to its passenger car focus and residual issues regarding its governance challenges. OCTA holds asset-backed security positions in Nissan Auto/Lease for a total of \$9.1 million. OCTA's current investment policy requires the issuer of asset-backed securities to have long-term debt rated a minimum of A2; therefore, the downgrade has put Nissan's long-term debt rating below the requirements of the investment policy. OCTA's Investment Policy also requires asset-backed securities to be AAA-rated, and the four Nissan asset-backed securities remain AAA-rated. Since the downgrade of Nissan's long-term debt, there has been no negative price action on the AAA-rated asset-backed securities. Given the continued strong AAA-rating of the asset-backed securities and the recommendation from the investment manager holding the Nissan securities, OCTA's Treasurer has decided to retain the securities. The Treasurer presented his recommendation to the Deputy Chief Executive Officer who concurred. OCTA will continue to monitor Nissan and the ratings for both the long-term debt and asset-backed securities to ensure no further downgrades to Nissan's long-term debt rating and that the asset-backed securities retain a AAA-rating.

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 June 30, 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 June 30, 2019, the weighted average total return for OCTA's short-term portfolio was 1.35 percent, falling below the Treasury benchmark return by 9 basis points and falling below the Corporate/Government benchmark by 11 basis points. For the 12-month period ending June 30, 2019, the portfolio's return totaled four percent, exceeding the Treasury benchmark by 4 basis points, and falling below the Corporate/Government benchmark by 16 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 April 2019 through June 2019.

**Attachments**

- A. Orange County Transportation Authority Outstanding Debt June 30, 2019.
- B. Orange County Transportation Authority Investment Policy Compliance June 30, 2019.
- C. Orange County Transportation Authority Short-term Portfolio Performance Review Quarter Ending June 30, 2019.
- D. Orange County Transportation Authority Short-term Portfolio Performance June 30, 2019.
- E. Orange County Transportation Authority Comparative Yield Performance June 30, 2019.
- F. Investment Manager Diversification and Maturity Schedules June 30, 2019.
- G. Orange County Transportation Authority Portfolio Listing as of June 30, 2019.

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