



October 28, 2019

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

Overview

The California Government Code authorizes the Orange County Transportation Authority Treasurer to submit a quarterly investment report detailing the investment activity for the period. This investment report covers the third quarter of 2019, July through September, and includes a discussion of the Orange County Transportation Authority's debt portfolio. During the month of August, one investment manager purchased a security that was not in compliance with the Investment Policy. As a result of the compliance violation, the investment manager was put on probation for one year per the requirements of the Investment Policy.

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 September 30, 2019. The portfolio is divided into three managed portfolios: the liquid portfolio for immediate cash needs, the short-term portfolio for future budgeted expenditures, and bond proceeds portfolio to meet Measure M2 (M2) transportation program needs. In addition to these portfolios, OCTA has a reserve funds portfolio for the 91 Express Lanes.

Economic Summary: The Federal Reserve (Fed) cut the Fed Funds rate twice during the quarter to a range of 1.75 to 2 percent. The Fed is expected to cut rates again before year end.

Economic growth remains positive but cautious at the end of the third quarter. Rate cuts by the Fed has led to uncertainty and volatility within the market. Furthermore, the trade war between the United States (U.S.) and China heated up further during the quarter as both countries imposed additional tariffs on the other, leading to negative effects for both countries in the short run. The U.S. unemployment rate fell to 3.5 percent in September, while the economy added 135,000 jobs at quarter end.

Debt Portfolio Activity: As of September 30, 2019, the M2 Program has \$635.2 million in outstanding debt, and the 91 Express Lanes has an outstanding balance of \$91.7 million. The Transportation Infrastructure Finance and Innovation Act loan balance as of the end of September was \$287 million. The outstanding balances for each of OCTA's debt securities are presented in Attachment A.

Investment Portfolio Compliance: On Wednesday, August 14, 2019, one of OCTA's investment managers, MetLife Investment Management, purchased commercial paper issued by the Arizona Public Service Company. OCTA's Investment Policy requires commercial paper securities to be rated A-1 equivalent or higher by two Nationally Recognized Statistical Rating Organizations (NRSROs). At the time of purchase, the security was rated by three NRSROs, but only one of those ratings was equivalent to A-1. The Treasurer was informed of this violation and, per OCTA's investment guidelines, MetLife Investment Management was put on a one-year probation effective August 14, 2019. The security matured on August 15, 2019, earning positive investment earnings for OCTA's portfolio.

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 September 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 investment managers invests in a combination of securities that all conform to OCTA's 2019 Investment Policy. For the quarter ending September 30, 2019, the weighted average total return for OCTA's short-term portfolio was 0.69 percent, surpassing the Treasury benchmark return by 11 basis points and surpassing the Corporate/Government benchmark by four basis points. For the 12-month period ending September 30, 2019, the portfolio's return totaled 4.31 percent, falling behind the Treasury benchmark by five basis points, and falling below the Corporate/Government benchmark by 21 basis points for the same period.

Investment Portfolios: A summary of key financial metrics for each investment manager's portfolio, investment diversification, performance, and maturity schedules, are 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 July 2019 through September 2019.

Attachments

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

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