



***January 27, 2020***

**To:** Members of the Board of Directors

**From:** Darrell E. Johnson, Chief Executive Officer

**Subject:** Fourth 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 fourth quarter of 2019, October through December, and includes a discussion of 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 December 31, 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.

**Debt Portfolio Activity:** As of December 31, 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 December was \$287 million. The outstanding balances for each of OCTA's debt securities are presented in Attachment A.

**Investment Portfolio Compliance:** During the month of December, Moody's and S&P downgraded the senior unsecured debt rating of Boeing, to A3 from A2,

and to A- from A, respectively. The downgrades resulted from the extension of the grounding of the 737 MAX into 2020 and the announced plans to shut down the program for an unspecified timeframe. OCTA holds a medium-term note security position in Boeing for \$975,000. The maturity date of the security is August 1, 2021. OCTA's current investment policy requires the issuer of medium-term notes to have a minimum rating in the "A" rating category by one of the nationally recognized statistical rating organizations. As of December 31, 2019, the security still meets the minimum ratings requirement and continues to be held in OCTA's portfolio.

Subsequent to the end of this reporting period on January 13, 2020, Moody's announced the placement of Boeing's A3 senior unsecured rating on review for possible downgrade, and on January 17, 2020, Fitch downgraded Boeing to A- from A. These rating actions will be reported in the January 2020 Debt and Investment Report. Staff continues to closely monitor the credit quality of this security.

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 December 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 and the ICE/BAML 1-3-year AAA-A United States Corporate and 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.

**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 October 2019 through December 2019.

***Attachments***

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

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