



March 12, 2025

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Environmental Mitigation Program Endowment Fund Investment Report for December 31, 2024

Overview

The Orange County Transportation Authority has developed a Natural Community Conservation Plan/Habitat Conservation Plan, acquired conservation properties, and funded habitat restoration projects to mitigate the impacts of Measure M2 freeway programs. The California Community Foundation manages the non-wasting endowment required to fund the long-term management of the conservation properties. Each quarter, the California Community Foundation publishes a comprehensive report detailing the composition of the pool and its performance.

Recommendation

Receive and file as an information item.

Background

On September 26, 2016, the Board of Directors approved the selection of the California Community Foundation (CCF) as an endowment fund manager for the Measure M2 Freeway Environmental Mitigation Program. Annually, approximately \$2.9 million will be deposited in the endowment. These annual deposits are expected over a ten-to-twelve-year period, or until the fund totals approximately \$46.2 million. As of December 31, 2024, the Orange County Transportation Authority (OCTA) has made nine deposits to the CCF Endowment Pool (Pool), each in the amount of \$2,877,000.

Discussion

As of December 31, 2024, total assets in the Pool were \$1.16 billion (Attachment A). Total foundation assets were \$2.38 billion. Pool performance lagged behind the Blended Benchmark (Benchmark) in both the short- and mid-term horizons of up to ten years. However, over the 20-year time frame, the pool slightly exceeded the benchmark's performance.

The balance as of December 31, 2024, was \$32,674,489 (Attachment B), which is slightly above the target of \$31,759,663 for the second quarter of fiscal year (FY) 2024-25. Based on the CCF's performance to date, OCTA remains on track to meet the endowment target of \$46.2 million in FY 2027-28 (Attachment C). The total endowment portfolio was down 0.3 percent for the quarter but up 7.9 percent for the trailing one year.

At the close of calendar year 2024, the United States (U.S.) equities market recorded its strongest two-year performance since 1997. This remarkable growth was driven by robust corporate earnings, supported by the U.S. economy's soft landing, strong consumer spending, and continued advancements in artificial intelligence and related investments. Market performance in 2024 was significantly influenced by Federal Reserve Policy signals and the U.S. election. As the year concluded, investor focus shifted to the potential impacts of President Trump's stated policy agenda, including tariffs, tax cuts, and budget deficit management, particularly in relation to inflation. Uncertainty in these areas, coupled with ongoing economic strength, contributed to volatility in U.S. Treasuries, with the ten-year yield ending the year at 4.6 percent. Amid mixed performance across asset classes, the portfolio's performance for the quarter ending December 2024 aligned precisely with its benchmark (-0.8 percent). However, on an annual basis, portfolio returns trailed the blended benchmark due to the outsized influence of mega-cap technology stocks (market capitalization exceeding \$200 billion), which were a dominant force driving equity markets. This concentration resulted in relative underperformance for the portfolio. Diversification, strategic asset allocation, and appropriate sizing of investments within the endowment portfolio remain the primary strategies to protect the portfolio from outsized volatility.

Summary

The Orange County Transportation Authority is submitting a copy of the California Community Foundation Investment December 31, 2024.

Attachments

- A. California Community Foundation Endowment Pool Investments – December 31, 2024
- B. California Community Foundation Fund Statement – 10/1/2024 – 12/31/2024
- C. Environmental Mitigation Program Portfolio Performance – Actual/Projection vs. Target

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