



February 26, 2025

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Amendment to Agreements for Investment Management Services

Overview

On January 8, 2018, the Orange County Transportation Authority Board of Directors approved agreements with Chandler Asset Management, Inc., MetLife Investment Management, LLC, Payden & Rygel, and U.S. Bancorp Asset Management, Inc., formerly known as PFM Asset Management, LLC, to provide investment management services for the Orange County Transportation Authority's investment portfolio. These agreements are for a five-year initial term with two, two-year option terms. Board of Directors' approval is requested to exercise the second option term of each agreement.

Recommendations

- A. Authorize the Chief Executive Officer to negotiate and execute Amendment No. 2 to Agreement No. C-7-1813 between the Orange County Transportation Authority and Chandler Asset Management, Inc., to exercise the second option term to continue providing investment management services effective April 1, 2025 through March 31, 2027.
- B. Authorize the Chief Executive Officer to negotiate and execute Amendment No. 2 to Agreement No. C-7-2062 between the Orange County Transportation Authority and MetLife Investment Management, LLC, to exercise the second option term to continue providing investment management services effective April 1, 2025 through March 31, 2027.
- C. Authorize the Chief Executive Officer to negotiate and execute Amendment No. 3 to Agreement No. C-7-2063 between the Orange County Transportation Authority and Payden & Rygel, to exercise the second option term to continue providing investment management services effective April 1, 2025 through March 31, 2027.

- D. Authorize the Chief Executive Officer to negotiate and execute Amendment No. 3 to Agreement No. C-7-2064 between the Orange County Transportation Authority and U.S. Bancorp Asset Management, Inc., formerly known as PFM Asset Management, LLC, to exercise the second option term to continue providing investment management services effective April 1, 2025 through March 31, 2027.
- E. Approve an increase of \$3,476,000 to the aggregate amount, which will be used to cover the cost of the option term for all four investment firms for a total amount of \$15,601,608 shared among the four agreements.

Background

The Orange County Transportation Authority's (OCTA) investment portfolio totals \$2.6 billion as of November 30, 2024. The portfolio is divided into three actively managed portfolios: the Liquid Portfolio for immediate cash needs, the Managed Portfolio, approximately \$2.2 billion, for future budgeted expenditures, and the Debt Service Reserve Funds Portfolio, which supports the 91 Express Lanes Program, including reserves for bond-related obligations.

The Managed Portfolio, representing the largest portion of the investment program, is actively managed by four external investment management firms (Manager) within the parameters of the OCTA Investment Policy. Each Manager manages approximately \$545 million, which is further divided into two segments. The first segment, the 1-3 Year Portfolio, is benchmarked to the Intercontinental Exchange/Bank of America Merrill Lynch (ICE/BAML) 1-3 Year Treasury Index and the AAA-A U.S. Corporate and Government Index. The second segment, the 1-5 Year Portfolio, is benchmarked to the ICE/BAML 1-5 Year Treasury Index and the AAA-A U.S. Corporate and Government Index.

The Managers provide a broad range of services and resources beyond the daily management of OCTA funds. Each Manager is staffed with experienced professionals possessing in-depth knowledge of investment management and global economics. The Managers are expected to maintain a dedicated team and utilize compliance and trading systems capable of monitoring all OCTA trading activity to ensure adherence to the OCTA Investment Policy and California Government Code Section 53601. All securities and transactions are securely held in OCTA's custody accounts at U.S. Bank.

OCTA currently maintains four custody accounts with U.S. Bank, with each Manager settling trades through its respective account. Managers are not authorized to execute cash transactions from these accounts. In addition to each Manager monitoring its own compliance, OCTA uses a system provided by

Clearwater Analytics, Inc., to track all activities, monitor compliance, and generate detailed investment reports.

Discussion

On February 27, 2023, the Board of Directors (Board) approved exercising the first option term for these agreements, which included a \$3,130,000 increase to cover the cost of the option term. The first option term was effective from April 1, 2023, through March 31, 2025. With the agreements set to expire on March 31, 2025, staff recommends the Board approve amendments to exercise the second option term based on the Managers' performance which ensures the continuation of the investment management services. The second option term would cover the period from April 1, 2025, through March 31, 2027, and represents the final option term of the contract.

Procurement Approach

The original procurement was handled in accordance with OCTA's Board-approved procedures for professional services. On January 8, 2018, the Board approved the award of the agreements with Chandler Asset Management, Inc., MetLife Investment Management, LLC, Payden & Rygel, and U.S. Bancorp Asset Management, Inc., formerly known as PFM Asset Management, LLC, to provide investment management services in the aggregate amount of \$8,995,608. The original agreements were awarded on a competitive basis and include a five-year initial term with two, two-year option terms to provide investment management services. The first option term of the agreements expire on March 31, 2025.

The proposed amendments to exercise the second option term of the agreements with the Managers are effective April 1, 2025, through March 31, 2027. The budget for the second option term is \$3,476,000, which is based on current and anticipated investment management services, bringing the total aggregate amount to \$15,601,608 to be shared by the Managers. The annual management fees for each Manager will remain as originally negotiated for all agreements, which include no fee escalations from the first option term through the second option term. Exercising the second option term will allow the Managers to continue providing investment management services through March 31, 2027.

Fiscal Impact

Funds will be included in OCTA's Proposed Fiscal Year 2025-26 Budget, pending Board approval, Finance and Administration, Account No. 1230-A5400-7515-BB2.

Summary

Staff recommends the Board of Directors authorize the Chief Executive Officer to negotiate and execute Amendment No. 2 to Agreement No. C-7-1813 between Orange County Transportation Authority and Chandler Asset Management, Inc., Agreement No. C-7-2062 with MetLife Investment Management, LLC, Agreement No. C-7-2063 with Payden & Rygel, and Agreement No. C-7-2064 with U.S. Bancorp Asset Management, Inc., formerly known as PFM Asset Management, LLC, to exercise the second option term, in the aggregate amount of \$3,476,000, to be shared by the investment management firms for continued investment management services.

Attachments

- A. Chandler Asset Management, Inc., Agreement No. C-7-1813, Fact Sheet
- B. MetLife Investment Management, LLC, Agreement No. C-7-2062, Fact Sheet
- C. Payden & Rygel, Agreement No. C-7-2063, Fact Sheet
- D. U.S. Bancorp Asset Management, Inc., formerly known as PFM Asset Management, LLC, Agreement No. C-7-2064, Fact Sheet

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