# OFFICE OF THE TREASURER-TAX COLLECTOR



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August 15, 2008

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TO: Board of Supervisors

Thomas G. Mauk, County Executive Officer

Treasury Oversight Committee Treasurer's Advisory Committee

**Participants** 

FROM: Chriss W. Street

Treasurer-Tax Collector

SUBJECT: Treasurer's Management Report for July 31, 2008

Attached please find the Treasurer's Management Report for the County of Orange for the month ended July 31, 2008. The information provided herein, including all charts, tables, graphs and numerical representations, is provided to readers solely as a general overview of the economic and market conditions which the Treasurer utilizes in making investment decisions. In addition, a complete version of this report is also available for download at our website www.ttc.ocgov.com.

# TREASURER'S REPORT

In order to assist you in reading this report, please note that the current balances reflect the investments recorded in the portfolios for each particular fund for the period ending May 31st. Each money market fund has an average maturity of less than ninety days, with a net asset value (NAV) falling within the range of \$0.9950 and \$1.0050. The extended fund will have an average maturity of up to 549 days and a fluctuating NAV. All investments are marked to the market at the end of the reporting period due to the narrow valuation range prescribed by the Pools' Investment Policy Statement.

The reports reflect the par value (face value), the cost and market value (the price of each security at the close of the market on the last trading day of the month). Market values are derived from the Bloomberg Professional Service, a premier provider of instant access to real-time and historical financial data. The difference between the market value and book value is the unrealized gain or (loss). The Detail Transaction Report Section is provided in compliance with California Government Code Section 53607, which requires that the Treasurer file such a report with the Board of Supervisors, from whom his investment authority has been delegated.

# STAFFING CHANGES

An established practice of the Treasurer-Tax Collector's office has been to include a summary of significant staffing changes in this transmittal letter. We include below a summary of recent changes.

In the second quarter, John Byerly, then Financial Analyst, left the department. The position has been left open as we asses the future direction of the investment process.

We are pleased to announce four positions have been filled: Jennifer Burkhart, Assistant Treasurer-Tax Collector; Leslie Morales, Junior Financial Analyst; Roseanne DeVera, Assistant Cash Manager; and Yvette Clark, Executive Secretary. We are delighted to add these accomplished and experienced professionals to our team. We have included their short bios below.

#### Jennifer Burkhart

#### **Assistant Treasurer-Tax Collector**

Jennifer Burkhart joined the Treasurer-Tax Collector's office in 2007 as Assistant Treasurer-Tax Collector. Her responsibilities include management of the business systems group, as well as leading the agency in business innovations, performance management and strategic initiatives.

Ms. Burkhart has over 20 years of securities and investment industry experience. She has held executive positions at PIMCO and Pacific Life Insurance. She received her M.B.A. from the University of Southern California and her undergraduate degree in Business Economics from U.C. Santa Barbara. Ms. Burkhart is a Chartered Financial Analyst (CFA) and has held several Securities Industry Licenses and other professional designations.

#### Leslie Morales

# **Junior Financial Analyst**

Ms. Morales has been a member of the Treasurer's Office since 1994. After the Bankruptcy a new position was created for Investment Compliance, which Ms. Morales was assigned to. She worked closely with the Investment Division for 8 years until being promoted to the Assistant Cash Manager position. In this position she was responsible for analyzing cash forecasts utilized strictly for the purpose of keeping sufficient liquidity within the County and Department of Education Investment Pools. Recently, she joined the Investment Division as a Jr. Financial Analyst to assist the team in managing the County's \$6 billion portfolio.

#### Roseanne DeVera

#### **Assistant Cash Manager**

Rosanne De Vera joined the Treasurer-Tax Collector in March of 2008. Prior to joining the County, she served 9 years with Wells Fargo Bank specializing in customer service

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and operations. She joined the bank's Treasury Management Client Services department in 2004 as a research officer and in 2005 was promoted to Assistant Vice President/Client Service Consultant dedicated to assisting the Government and Educational banking division. It was during this time that she was introduced to the County of Orange. In 2006 she was promoted as Team Lead for US Corporate banking. Rosanne's responsibilities at the County include the administration of day-to-day cash management operations; managing the County's banking relationships; preparing cash flow forecasts and executing movement of funds. She also manages the Treasurer-Tax Collector cashiering staff.

#### **Yvette Clark**

### **Executive Secretary**

Yvette Clark was hired in February 2008 as the Executive Secretary of the Treasurer's Office. Prior to being hired by the County, she worked as an Account Executive for a large wholesale mortgage lender. Yvette was also an employee of the City of Santa Ana Police Department, in which she was named Non-Sworn Employee of the Year in 2002 for her outstanding efforts to the department, including the creation & implementation of a new false alarm ordinance for the city, desktop publishing of the Annual Report and the design of the department's intranet & internet sites.

# APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

We have prepared a forecast for the timing of the County Investment Pool's June 2008 and July 2008 interest apportionments. We anticipate posting the June 2008 and July 2008 interest apportionments to participants' cash accounts in the County general ledger by approximately August 27 and September 29, 2008 respectively.

#### **CREDIT OBSERVATIONS**

# **SIV** Update

The Structured Investment Vehicles that remain in the County's Extended Fund continue to reduce leverage and shrink their portfolios through principal maturities and asset sales. The high quality underlying assets in these SIVs continue to be high performing.

# Sigma Finance Corporation

Sigma continues to obtain funding through the repurchase market. Pool participants hold \$75 million, due to mature on October 30<sup>th</sup>, 2008.

#### **Whistlejacket Capital LLC**

Deloitte is continuing to pursue a restructuring effort and has stated that they intend to distribute a portion of the cash build-up as a dividend distribution to note-holders within the next few weeks.

Pool participants hold \$50 million scheduled to mature on January 25<sup>th</sup>, 2009 and \$30 million scheduled to mature on January 26<sup>th</sup>, 2009.

# **New Opportunities**

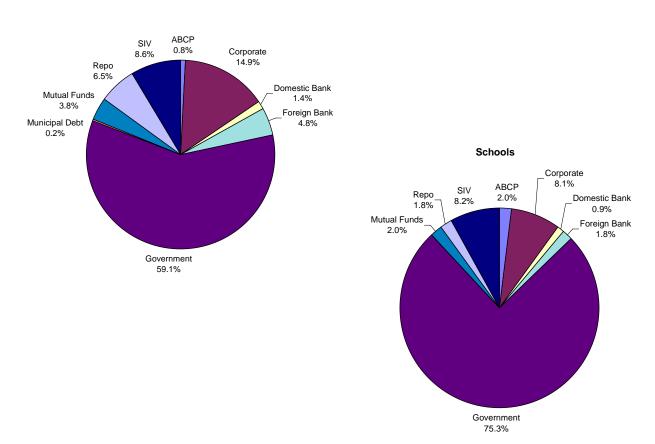
One market that has become of interest is the municipal bond market. Current market dislocation caused by the credit crunch has presented our funds with the opportunity to invest in high quality local issuers that are paying very favorable rates for our portfolios.

Orange County municipal debt tends to support water, sewer, toll roads and property tax collections. Under normal circumstances, most municipal debt would be paying between 2.5% and 3.5% in today's interest rate climate. Given the current situation, rates have been ranging anywhere from 4% to 8%. The Treasurer's office may seek opportunities to add value to our portfolios by expanding into municipal investments that earn attractive rates.

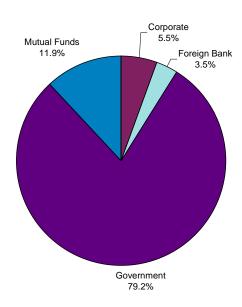
# PORTFOLIO COMPOSITION

The following graphs represent the County, School and John Wayne Airport investment pools' composition by issuer type. The County and School pools include their portion of the Extended Fund (Exhibit 1).





#### John Wayne Airport



#### MARKET OBSERVATIONS

The Credit Crunch...One Year Later

Over the past year, the Federal Reserve has rebuffed any notion that central bankers are boring. The Fed repeatedly slashed interest rates; spent \$29 billion subsidizing the fire sale of Bear Stearns to JP Morgan; bailed out Fannie Mae and Freddie Mac; and lobbied Congress for fiscal stimulus. While the Fed's actions may not prevent a recession, they have definitely softened the impact of falling housing prices and rising default rates, and have limited the pain of the credit squeeze on American households.

History suggests that inaction by the Fed may be very destructive to the US economy if they fail to respond appropriately in times of economic turmoil. The Fed's most innovative response to the credit crisis that began a year ago has been its ability to use its balance-sheet to restore liquidity to the credit markets. Twelve months ago, 91% of the Fed's assets were invested in government bonds. Today, 48% of its portfolio is loans to commercial and investment banks.

While the Fed's actions may have moved from the mundane to the manic, the Orange County Treasurer's office has done the opposite. We appropriately shifted our money market funds' investment strategy away from the finance and banking sector and into US Treasury and Government Agency-backed securities. Additionally, we reallocated a sizeable portion of our holdings away from asset-backed commercial paper (ABCP) into Government Agency debt. In July 2007, the Money Market Funds held under 6% in

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Government Agencies compared to over 63% today. Financial debt and ABCP was reduced from over 80% of the funds' composition last year to less than 13% today.

The Orange County Treasurer's office intends to continue to take advantage of market events to enhance the total return on the portfolios we manage. Although we expect a slowing US economy with no dramatic changes in interest rates for the rest of this year, we remain vigilant for any surprises that can affect our returns.

The Treasurer's Office appreciates your continued confidence as well as the opportunity to provide you exemplary portfolio and cash management services in the future.

Please call Orange County Treasurer, Chriss W. Street, at 714-834-7625 with any questions.

# ORANGE COUNTY TREASURER-TAX COLLECTOR EXECUTIVE SUMMARY August 1, 2007 - July 31, 2008

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET VALUE		EARNINGS FOR MONTH		AVERAGE YIELD FOR MONTH	MONTH END WAM
Current Month - July 2008						
County Pool - Money Market Fund	\$	1,787,284,123	\$	3,899,411	2.41%	50
Educational Pool - Money Market Fund	\$	1,797,691,062	\$	3,698,983	2.38%	50
Extended Fund	\$	2,104,561,539	\$	7,010,329	3.73%	481
OC Extended Fund B	\$	69,117,440	\$	-	N/A	178
June 2008	<u> </u>	, , -	,		·	
County Pool - Money Market Fund	\$	1,922,691,656	\$	4,090,847	2.44%	33
Educational Pool - Money Market Fund	\$	1,707,534,727	\$	4,119,816	2.46%	33
Extended Fund	\$	2,194,238,720	\$	7,014,532	3.92%	503
OC Extended Fund B	\$	69,117,440	\$	-	N/A	209
May 2008		00,111,110	Ψ		,, .	
County Pool - Money Market Fund	\$	2,052,055,391	\$	4,328,189	2.42%	29
Educational Pool - Money Market Fund	\$	2,208,622,434	\$	4,646,915	2.45%	35
Extended Fund	\$	2,188,235,769	\$	7,248,040	3.81%	456
April 2008	Ψ	2,100,200,700	Ψ	7,240,040	3.0170	400
County Pool - Money Market Fund	\$	2,313,762,854	\$	5,648,143	2.66%	33
Educational Pool - Money Market Fund	\$	2,328,134,710	\$	4,593,731	2.62%	42
·	\$		\$			466
Extended Fund  March 2008	Ф	2,281,021,020	Φ	7,592,402	4.15%	400
	\$	2.045.424.220	\$	3,791,696	2.34%	23
County Pool - Money Market Fund		2,015,431,220				
Educational Pool - Money Market Fund	\$	1,952,925,095	\$	5,148,299	3.03%	42
Extended Fund	\$	2,298,149,876	\$	11,180,561	5.77%	465
February 2008	Φ.	0.050.005.400	Φ	5 004 004	0.000/	0.4
County Pool - Money Market Fund	\$	2,058,205,103	\$	5,924,621	3.66%	34
Educational Pool - Money Market Fund	\$	2,012,588,527	\$	5,953,697	3.74%	34
Extended Fund	\$	2,118,888,102	\$	8,620,437	5.17%	443
January 2008	0	4 077 074 700	Φ.	0.000.504	4.500/	22
County Pool - Money Market Fund	\$	1,977,674,788	\$	8,208,591	4.56%	29
Educational Pool - Money Market Fund	\$	2,132,664,074	\$	8,270,478	4.53%	33
Extended Fund	\$	2,176,737,787	\$	9,396,820	5.13%	466
December 2007			•	40.000 = 40	4.0404	
County Pool - Money Market Fund	\$	2,241,143,754	\$	10,399,742	4.91%	21
Educational Pool - Money Market Fund	\$	2,347,118,458	\$	7,819,755	4.83%	27
Extended Fund	\$	2,205,742,474	\$	10,088,589	5.21%	457
November 2007			_			
County Pool - Money Market Fund	\$	1,982,354,313	\$	7,788,881	5.05%	33
Educational Pool - Money Market Fund	\$	1,609,274,201	\$	6,711,960	5.00%	37
Extended Fund	\$	2,331,861,281	\$	10,381,129	5.35%	477
October 2007						
County Pool - Money Market Fund	\$	1,782,577,124	\$	6,883,821	5.35%	38
Educational Pool - Money Market Fund	\$	1,694,769,373	\$	7,831,908	5.22%	43
Extended Fund	\$	2,402,836,096	\$	11,058,084	5.28%	484
September 2007	Φ.	4 400 000 450	Φ	0.000.000	E 440/	45
County Pool - Money Market Fund Educational Pool - Money Market Fund	\$	1,432,086,153 1,819,448,968	\$	6,660,098 7,855,956	5.41% 5.37%	45 48
Extended Fund	\$	2,540,343,321	\$ \$	10,875,629	5.24%	468
August 2007	Ψ	2,010,010,021	Ψ	10,070,020	0.2170	100
County Pool - Money Market Fund	\$	1,504,259,141	\$	7,099,764	5.43%	52
Educational Pool - Money Market Fund	\$	1,838,089,922	\$	8,360,457	5.40%	54
Extended Fund	\$	2,562,116,542	\$	10,926,380	5.16%	462
CUMULATIVE BALANCES - 12 MONTHS		AVERAGE BALANCES		TOTAL EARNINGS	AVERAGE YIELD	AVERAGE WAM
August, 2007 - July 31, 2008						
County Pool - Money Market Fund	\$	1,922,460,468	\$	6,226,984	3.90%	35
Educational Pool - Money Market Fund	\$	1,954,071,796	\$	6,250,996	3.93%	40
Extended Fund	\$	2,283,727,711	\$	9,282,744	4.84%	469