

# OFFICE OF THE TREASURER-TAX COLLECTOR SHARI L. FREIDENRICH, C.P.A.

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# INTERDEPARTMENTAL COMMUNICATION

TO:SUPERVISOR BILL CAMPBELL, CHAIR<br/>SUPERVISOR JOHN MOORLACH, VICE-CHAIR<br/>SUPERVISOR PATRICIA BATES<br/>SUPERVISOR SHAWN NELSON<br/>SUPERVISOR JANET NGUYENFROM:SHARI L. FREIDENRICH, CPA, CCMT, CPFA, CPFIM<br/>TREASURERCC:DISTRIBUTION LISTDATE:MARCH 15, 2011SUBJECT:TREASURER'S INVESTMENT REPORT FOR THE MONTH ENDED FEBRUARY 28, 2011

Attached, please find the Treasurer's Investment Report for the County of Orange for the month ended February 28, 2011. This report is provided in compliance with California Government Code Sections 53607, 53646, and 27134 and the County's Investment Policy Statement (IPS). We have included some charts and other data for your information. This report is also publicly available on our website at <u>http://egov.ocgov.com/ocgov/Treas/investmentreports</u>.

## **INVESTMENT POOL COMPOSITION**

The investments contained within this report are as of February 28, 2011. The Investment Pool Statistics summary shows the total investments responsibility of the Treasurer as delegated by the Board of Supervisors: the Orange County Investment Pool which includes the Voluntary participants' funds, the Orange County Educational Investment Pool, the John Wayne Airport Investment Pool and various other small non-Pooled investments funds.

The Investment Policy requires investment of public funds in a manner which will, in order of priority, maintain safety of principal while meeting fund participants' daily cash flow needs, achieve a market rate yield, and attempt to stabilize the Net Asset Value at \$1.00, for the Money Market Funds, while conforming to all applicable State statutes and Board actions regarding public funds investment. The County Treasurer established two Money Market Funds, the County Money Market Fund and the Educational Money Market Fund, which are invested in cash-equivalent securities and provide liquidity for immediate cash needs. The County Treasurer also established the Extended Fund which is for cash requirements beyond one year. The Orange County Investment Pool is comprised of the Educational Money Market Fund and portions of the Extended Fund. The Educational Investment Pool is comprised of the Educational Money Market Fund and portions of the Extended Fund. Standard & Poors, in January 2011, reaffirmed their highest rating of AAAm on the County's two Money Market Funds.

The maximum maturity of investments under the Money Market Funds is 13 months, with a maximum weighted average maturity of 60 days. The maximum maturity of the Extended Fund is 5 years, with duration not to exceed a leading 1-3 Year index +25%. The investments in the Pools are

marked to market daily to determine the value of the Pools. To further maintain safety, adherence to an investment strategy of only purchasing top-rated securities and diversification of instrument types and maturities is required. Any investment type not specifically authorized under the Investment Policy, but allowed by State Law, must be approved by the Treasury Oversight Committee and the Board of Supervisors prior to purchase of the security.

#### ECONOMIC UPDATE

The manufacturing sector continued to drive economic growth during the month of February. However, the big story affecting interest rates has been the continued social tensions in North Africa and the Middle East. As tensions have escalated the cost of a barrel of oil has skyrocketed. West Texas Intermediate oil was quoted at a low of \$84.19 on February 15<sup>th</sup>, finished the month at \$96.97 and currently stands just over \$101.00.

As one would anticipate, this has caused a corresponding decline in U.S. Treasury yields with the two year treasury dropping from a high of 0.85% to a current yield near 0.63%. Based on current Fed Funds futures market levels, investors are anticipating the Federal Reserve will wait until May of 2012 before they begin raising rates.

### **INVESTMENT INTEREST YIELD FORECAST**

For the remainder of the fiscal year 2010-2011, we are estimating an average interest yield of 0.60% which will provide us with an estimated yield for 2010/2011 of 0.60%, lower than our budget estimate of 1.20%.

For the fiscal year 2011-2012, we are estimating an average interest yield of 0.75%.

#### APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

Each month, the County Treasurer apportions the accrued interest earnings to each pool participant. As of the first business day of the following month accrued but unpaid interest earnings are added to pool participants' average balances in determining a participant's relative share of the pool's monthly earnings. The actual cash distribution will generally be paid in the months following. The February 2011 interest apportionment is expected to be paid by the end of March, 2011.

#### **INVESTMENT COMPLIANCE**

The November and December Reports on Compliance Monitoring stated that the portfolios were in compliance with the IPS and all portfolio non-compliance issues, if any, were properly disclosed in the appropriate Treasurer's monthly report. The Final Close-Out Audit of Management Letter on Audit of the Statement of Assets Held by the County Treasury at December 31, 2009 stated that satisfactory corrective actions have been taken.

I certify that this report includes all pool and non-pooled investments as of February 28, 2011 and is in conformity with all State laws and the IPS approved by the Board of Supervisors on December 7, 2010 except as noted in the Non-Compliance Report. The investments herein shown provide adequate liquidity to meet the next six months of projected cash flow requirements. I am available if you have any questions on this Investment Report at (714) 834-7625.

Enclosure