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INTERDEPARTMENTAL COMMUNICATION

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FROM: SHARI L. FREIDENRICH, CPA, CCMT, CPFA, CPFIM 
TREASURER

CC: DISTRIBUTION LIST

DATE: FEBRUARY 16, 2011

SUBJECT: TREASURER'S INVESTMENT REPORT FOR THE MONTH ENDED JANUARY 31, 2011

Attached, please find the Treasurer's Investment Report for the County of Orange for the month ended January 31, 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 <http://egov.ocgov.com/ocgov/Treas/investmentreports>.

INVESTMENT POOL COMPOSITION

The investments contained within this report are as of January 31, 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 County 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 purchase, 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 economy continued to build upon the momentum started in December. This has caused interest rates to rise with the two year U.S. Treasury now yielding 0.80%, up from 0.60% in December. We continue to expect upward pressure on rates to remain for most of the year. On top of general growth to the underlying economy, we would like to highlight two additional factors that may contribute to a faster pace of GDP growth.

First is the one year holiday on the employee contribution portion of the social security tax of 2.0%. This should increase net paychecks every month and is expected to increase consumer spending. We expect this extra disposable income to make its way into the economy and continue through the end of the year. Secondly is the 100% first year depreciation for capital expenditures tax code change made in 2011. While this will not have a material effect on total business spending plans, it may pull some spending planned for the first part of 2012 into 2011. This possible increase in spending in 2011 could provide an additional boost to GDP growth.

Based on the above observations, our office will continue to track the movement of interest rates to adjust our duration, and continue investing in top rated securities that will protect us from higher short-term interest rates.

INVESTMENT INTEREST YIELD FORECAST

For the remainder of the fiscal year 2010-2011, we are estimating an average interest yield of 0.60% for the County and Educational Investment Pools which will provide us with an estimated year to date 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 for the County and Educational Investment Pools 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 the 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 November 2010, December 2010 and January 2011 interest apportionments are expected to be paid by February 28, 2011.

INVESTMENT COMPLIANCE

I certify that this report includes all pool and non-pooled investments as of January 31, 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