



County of Orange
California

Robert J. Franz
Chief Financial Officer

November 15, 2010

TO: Board of Supervisors
Thomas G. Mauk, County Executive Officer
Treasury Oversight Committee
Treasurer's Advisory Committee
Participants

FROM: Robert Franz 
Chief Financial Officer

SUBJECT: Treasurer's Management Report for Month ended October 31, 2010

Attached please find the Treasurer's Management Report for the County of Orange for the month ended October 31, 2010. 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.

CHIEF FINANCIAL OFFICER'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 October 31, 2010. Each money market fund has an average maturity of less than sixty days, with a net asset value (NAV) falling within the range of \$0.9950 and \$1.0050. The Extended Fund shall have a duration not to exceed a leading 1-3 Year index +25%. 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.

ORANGE COUNTY AND EDUCATIONAL INVESTMENT POOLS SALE OF SERPENTINE FUNDING AND IMPACT ON OCTOBER 2010 POOL YIELDS

In October, the County and Educational Investment Pools received payment for the sale of all holdings of Serpentine Funding Limited recovering more than 90% of an investment that went into receivership. Please see page 4 (Exhibit A) of this report for an explanation of the Serpentine sale and the impact on October investment pool yields and pool participant cash accounts.

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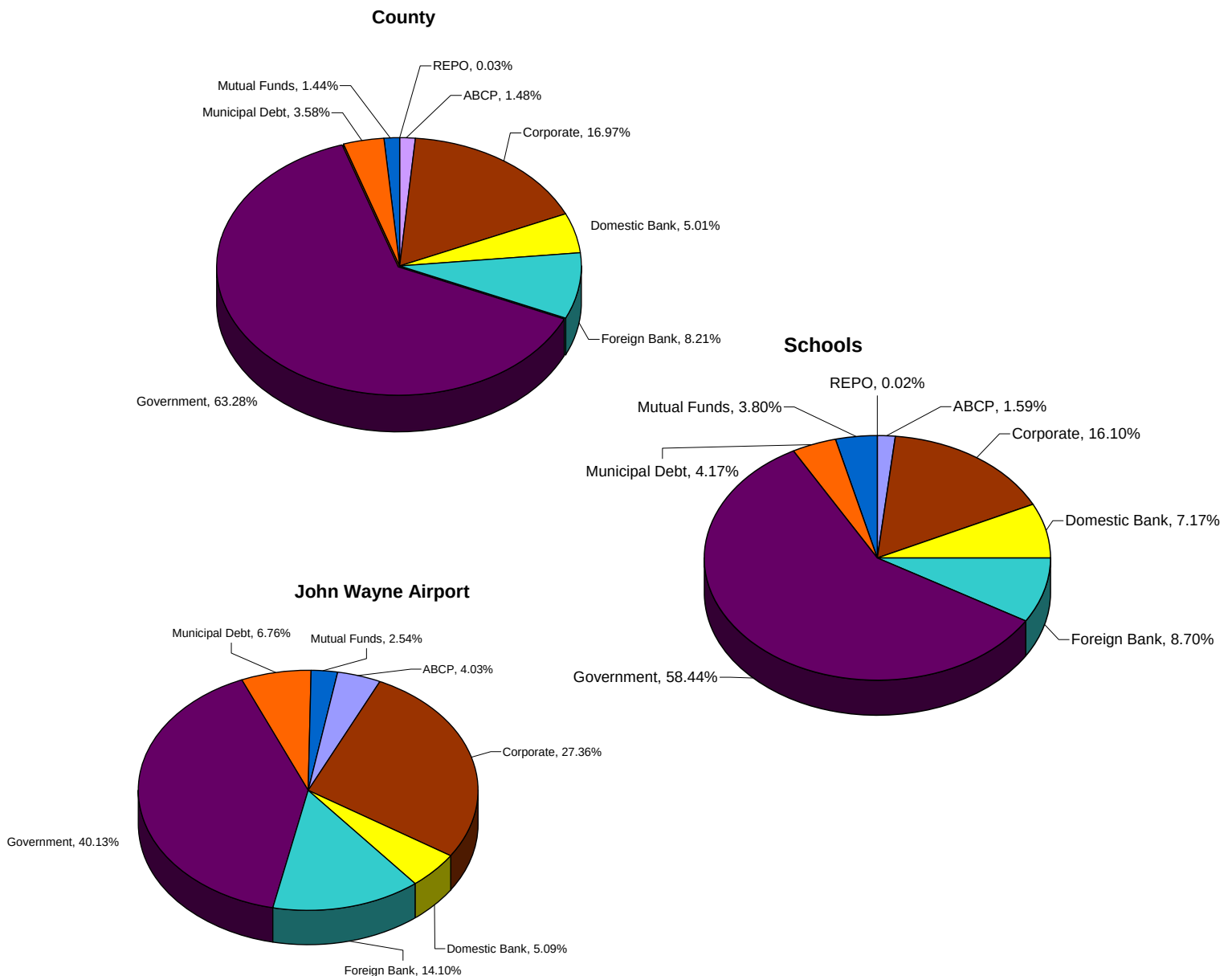
APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

We have prepared a forecast for the timing of the County Investment Pool's July 2010, August 2010 and September 2010 interest apportionments. We anticipate posting the July 2010, August 2010 and September 2010 interest apportionments to participants' cash accounts in the County general ledger by approximately November 22, December 2 and December 16, 2010 respectively.

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 Funds (Exhibit 1)

EXHIBIT 1: Investment Pool Composition



MARKET OBSERVATIONS

Sometimes it's good to heed old saws. This past month's would have been, "be careful what you wish for." Bond market participants were holding their breath in anticipation, eagerly awaiting mid-term elections and the Fed's quantitative easing part two (QE2) along with the subsequent rally that was sure to materialize in bonds. "Of course it's going to rally", went the reasoning. "We've got a new buyer in the market with an unlimited checkbook!"

Now that the mid-term elections are behind us and the Fed announced a middle of the road QE2 agenda rates in the five year Treasury have backed up nearly 50 basis points. Not the resounding rally the market was expecting. Maybe the Fed is getting exactly what they want, a bit of inflation so they won't have to worry about deflation. Or, are investors merely locking in profits for the year and thus guaranteeing themselves a hefty bonus this year? Time will tell, but higher rates should be welcome news to investors looking to add yield to their portfolios.

Our forecast for the remainder of 2010 has not changed... Continued sluggish growth in the economy. Unemployment will remain elevated at current levels and diminishing government intervention in the economy should keep a lid on inflation. Although our opinion is short term rates will remain low, we believe there will continue to be upward pressure on rates and are leery of locking in longer maturities.

Based on the above observations, our office will continue to take advantage of moves in the marketplace to selectively extend our duration, while investing in securities that will protect us from higher short-term interest rates.

Interest Rate Forecast

For the fiscal year 2010-2011, we are estimating an average interest yield of 1.20%.

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.

Orange County and Educational Investment Pools
Sale of Serpentine Funding and Impact on October 2010 Pool Yields

In October the County and Educational Investment Pools received payment for the sale of all holdings of Serpentine Funding Limited recovering more than 90% of an investment that went into receivership.

The original investment of \$80 million in a Structured Investment Vehicle known as Whistlejacket was made in 2007. The troubled Whistlejacket investment went into receivership in February 2008 and was restructured under the name of Serpentine Funding Limited (Serpentine). County investment managers have been carefully monitoring the investment since March 2010 with a goal of recovering 90% of the original investment. In August 2010, County investment managers accepted a bid to sell Serpentine and the sale closed in October 2010.

A combination of distributions from the Whistlejacket Receiver and Serpentine along with the sale of Serpentine has allowed the County to recover 90.5% of the original investment as summarized below. The \$7.6 million loss on the sale of Serpentine will be allocated to pool participants who had deposits in the County and Educational Investment Pools (Pools) on February 15, 2008.

The County's decision to hold Serpentine until now resulted in an increased recovery of 90.5% as compared to a recovery of 84.3% by cashing out in the April 2009 auction. The incremental benefit amounts to approximately \$5 million.

The Serpentine loss is reflected in the October, 2010 "Month Average Yield" column as shown on the *Investment Pool Statistics* For the Month Ended October 31, 2010, in the accompanying Treasury Management Report. When the loss is added to the Pools' current month's earnings, there is a net loss and negative yields for the Extended Fund and the County and Educational Investment Pools based on each pool's ownership in the Extended Fund.

The loss will be posted independent of October earnings and is expected to be posted to pool participant cash accounts in the County general ledger in November 2010.

For reference purposes, the Pools earned approximately \$267.5 million for the year ended June 30, 2008.

Summary of \$80 million Investment in Whistlejacket/Serpentine

<u>Original Investment in Whistlejacket Medium Term Notes</u>	<u>\$ 80,000,000</u>
<u>Recovery Proceeds</u>	
Collections from Receiver and Serpentine	37,118,465
Serpentine Sales Proceeds	<u>35,258,820</u>
Total Recovery Proceeds	<u>72,377,285</u>
<u>Realized Loss</u>	<u>\$ (7,622,715)</u>

Allocation of Realized Loss to County and Educational Pools

<u>County Investment Pool (including voluntary participants)</u>	<u>\$ (4,140,533)</u>
<u>Educational Investment Pool</u>	<u>\$ (3,482,182)</u>

ORANGE COUNTY TREASURER-TAX COLLECTOR

EXECUTIVE SUMMARY

November 1, 2009 - October 31, 2010

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET	EARNINGS FOR MONTH	AVERAGE YIELD FOR	MONTH END WAM
<i>Current Month - October 2010</i>				
County Pool - Money Market Fund	\$ 1,391,396,900	\$ 310,354	0.30%	57
Educational Pool - Money Market Fund	\$ 1,388,575,150	\$ 348,236	0.31%	54
Extended Fund	\$ 3,083,068,752	\$ 3,326,034	1.27%	736
OC Extended Fund B (Sold Serpentine)	\$ -	\$ (7,622,716)	-	-
<i>September 2010</i>				
County Pool - Money Market Fund	\$ 1,271,251,788	\$ 299,296	0.27%	57
Educational Pool - Money Market Fund	\$ 1,392,597,482	\$ 388,992	0.33%	60
Extended Fund	\$ 3,072,503,395	\$ 4,110,010	1.61%	795
OC Extended Fund B	\$ 34,698,134	\$ -	N/A	248
<i>August 2010</i>				
County Pool - Money Market Fund	\$ 1,416,333,828	\$ 505,251	0.44%	54
Educational Pool - Money Market Fund	\$ 1,432,155,046	\$ 475,517	0.41%	53
Extended Fund	\$ 3,065,956,379	\$ 3,341,027	1.27%	710
OC Extended Fund B	\$ 34,698,134	\$ -	N/A	278
<i>July 2010</i>				
County Pool - Money Market Fund	\$ 1,315,009,875	\$ 552,598	0.42%	54
Educational Pool - Money Market Fund	\$ 1,392,481,613	\$ 459,872	0.42%	52
Extended Fund	\$ 3,060,507,013	\$ 3,191,055	1.23%	511
OC Extended Fund B	\$ 33,248,593	\$ -	N/A	309
<i>June 2010</i>				
County Pool - Money Market Fund	\$ 1,706,187,007	\$ 497,327	0.34%	58
Educational Pool - Money Market Fund	\$ 1,349,698,395	\$ 450,241	0.39%	55
Extended Fund	\$ 2,799,555,894	\$ 3,590,484	1.55%	557
OC Extended Fund B	\$ 33,560,112	\$ -	N/A	340
<i>May 2010</i>				
County Pool - Money Market Fund	\$ 2,041,335,609	\$ 593,058	0.32%	55
Educational Pool - Money Market Fund	\$ 1,593,064,172	\$ 511,916	0.35%	57
Extended Fund	\$ 2,759,762,530	\$ 6,645,732	2.85%	584
OC Extended Fund B	\$ 34,559,137	\$ -	N/A	5
<i>April 2010</i>				
County Pool - Money Market Fund	\$ 2,259,602,732	\$ 592,006	0.24%	57
Educational Pool - Money Market Fund	\$ 1,835,314,711	\$ 348,913	0.31%	57
Extended Fund	\$ 2,734,552,743	\$ 4,265,867	1.88%	622
OC Extended Fund B	\$ 35,324,110	\$ -	N/A	36
<i>March 2010</i>				
County Pool - Money Market Fund	\$ 2,181,831,316	\$ 541,843	0.31%	53
Educational Pool - Money Market Fund	\$ 1,378,158,717	\$ 401,715	0.33%	58
Extended Fund	\$ 2,728,999,199	\$ 3,579,192	1.55%	631
OC Extended Fund B	\$ 36,096,323	\$ -	N/A	66
<i>February 2010</i>				
County Pool - Money Market Fund	\$ 2,091,943,820	\$ 421,985	0.26%	57
Educational Pool - Money Market Fund	\$ 1,443,531,370	\$ 365,965	0.31%	51
Extended Fund	\$ 2,618,244,956	\$ 3,680,403	1.82%	511
OC Extended Fund B	\$ 36,578,163	\$ -	N/A	97
<i>January 2010</i>				
County Pool - Money Market Fund	\$ 2,108,614,594	\$ 508,703	0.27%	55
Educational Pool - Money Market Fund	\$ 1,759,715,627	\$ 369,528	0.26%	57
Extended Fund	\$ 2,599,819,873	\$ 3,353,439	1.49%	489
OC Extended Fund B	\$ 37,098,503	\$ -	N/A	125
<i>December 2009</i>				
County Pool - Money Market Fund	\$ 2,463,159,678	\$ 615,490	0.24%	57
Educational Pool - Money Market Fund	\$ 2,071,614,454	\$ 380,114	0.37%	43
Extended Fund	\$ 2,592,000,368	\$ 3,029,087	1.35%	408
OC Extended Fund B	\$ 37,405,659	\$ -	N/A	156
<i>November 2009</i>				
County Pool - Money Market Fund	\$ 2,213,498,431	\$ 507,764	0.29%	52
Educational Pool - Money Market Fund	\$ 1,157,124,969	\$ 375,995	0.41%	60
Extended Fund	\$ 2,595,489,296	\$ 6,021,428	2.78%	340
OC Extended Fund B	\$ 37,545,360	\$ -	N/A	187
November 1, 2009 - October 31, 2010	Annual Average	Total for Year	Annual Average	Annual Average
County Pool - Money Market Fund	\$ 1,871,680,465	\$ 5,945,676	0.31%	56
Educational Pool - Money Market Fund	\$ 1,516,169,309	\$ 4,877,004	0.35%	55
Extended Fund	\$ 2,809,205,033	\$ 48,133,759	1.72%	574
OC Extended Fund B	\$ 32,567,686	\$ (7,622,716)	N/A	187