OFFICE OF THE TREASURER-TAX COLLECTOR



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March 14, 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 February 29, 2008

Attached please find the Treasurer's Management Report for the County of Orange for the month ended February 29, 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 February 29. 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 book value (cost to the County of the investment) 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.

APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

We have prepared a forecast for the timing of the County Investment Pool's January 2008 and February 2008 interest apportionments. We anticipate posting the January 2008 and February 2008 interest apportionments to participants' cash accounts in the County general ledger by approximately March 25 and April 23, 2008 respectively.

CHANGES IN ELIGIBLE CREDITS

In the month of February, there were no changes to the Treasurer's approved eligibility list of issuers.

CREDIT OBSERVATIONS

Events in the Structured Investment Vehicle (SIV) sector continued to evolve in February. While Whistlejacket explores their legal options, our office is seeing positive progress in several other SIV names. All of the current holdings are in the Extended Fund.

Whistlejacket (D/B2, D/NP, \$80 million)

As discussed in last month's Treasurer's Management report, Whistlejacket entered enforcement in response to market pricing pressures where a Receiver (Deloitte) was called upon to take over management of the portfolio to protect the interests of debt holders. With Whistlejacket in receivership, payments to all debtholders were stopped while the Receiver confirms its legal options and responsibilities. Because they lost management authority of Whistlejacket, Standard Chartered Bank's efforts to provide liquidity through a new structure broke down, and their proposals were subsequently withdrawn. This event, coupled with having defaulted on interest and principal payments, prompted rating downgrades while all involved parties wait for further developments.

The Treasurer's office is working closely with County Counsel and the CEO regarding this issue.

CC USA and Five Finance (AAA/Aaa, A-1+/P-1, CC-\$100 million Five-\$115 million) On February 12, Citigroup finalized the manner in which it will support its SIV vehicles. The SIVs' consolidation is reflected on Citigroup's Balance Sheet as of December 31, 2007.

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K2 (**USA**) (AAA*-/Aaa*-, A-1+*-/P-1*-, \$100 million)

On February 21, Dresdner announced their intent to provide support for their SIV, K2. In response, S&P placed K2's ratings on credit watch negative citing the fact that the new liquidity agreements have not yet been signed. S&P noted, however, that the vehicle's Net Asset Value remains high relative to the remaining SIVs. On March 12, Moody's also placed the ratings on review, but confirmed a portfolio value of 96.1% as of March 6, 2008 indicating significant capital cushion remains. The Capital Value is 68%. K2 repaid principal of \$102 million plus accrued interest on March 10 which represents full payment of all SIV holdings in the County, Schools, and John Wayne Airport money market funds. The remaining holdings are in the Extended Fund.

Sigma Finance (AAA/Aaa *-, A-1+/P-1 *- , \$125 million)

On February 27, Moody's placed the ratings of Sigma Finance on credit watch negative. The action reflects overall market price deterioration, Sigma's inability to issue new senior debt, and their reliance on repo financing, all of which increases the company's risk profile. Moody's suggests if there is a rating change, a 'Aa' long-term rating, reflecting the high credit quality of underlying assets, and a P-2 short-term rating reflecting the current liquidity challenges facing the company may be appropriate. Moody's reported the average asset price for Sigma's portfolio as 96.99% (as of February 15) evidencing a very high quality portfolio. Moody's and Standard and Poor's are now referring to Sigma as a "limited purpose finance company" distinguishing its structure from other SIVs.

Sigma repaid principal of \$50 million plus accrued interest on February 21. These holdings were in the Schools' money market fund.

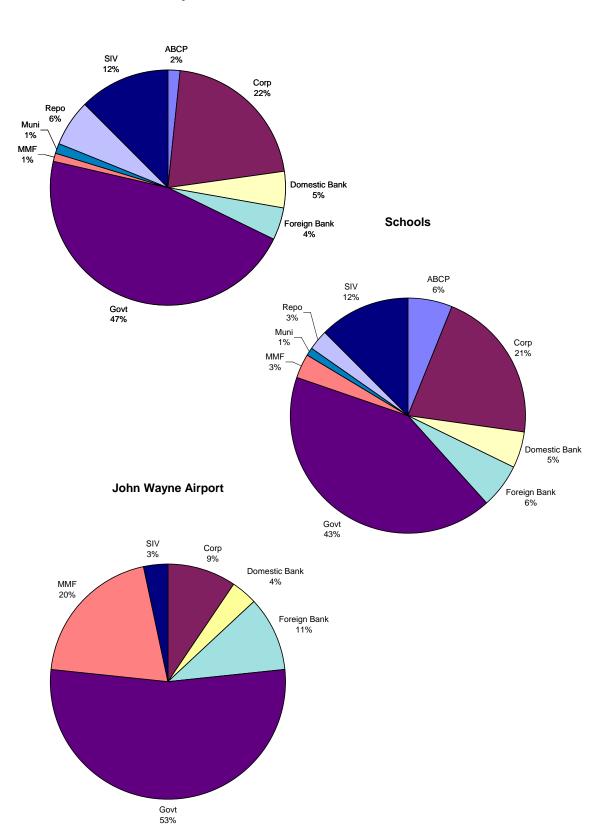
Tango (AAA/Aaa *-, A-1+/P-1 *-, \$165 million)

On March 5, Rabobank announced that the remaining assets of its SIV, Tango, will be recognized on Rabobank's January 2008 balance sheet. As of February 1, 2008, Tango's investment portfolio shrunk to \$1.2 billion from around \$15 billion in July 2007.

For more detail please see the Changes in Eligible Credits section of this report. The following graphs represent the County and School and John Wayne Airport investment pools' composition by issuer type including their portion of the Extended Fund where applicable (Exhibit 1).

EXHIBIT 1: Investment Pool Composition

County



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MARKET OBSERVATIONS

Liquidity in the credit markets continued to tighten during the month of February, in spite of the Federal Reserve rate cuts of 225 basis points over the last five months. Investors continue to scale back risk taking, the exchange rate of the dollar is falling and commodity inflation is souring.

The Fed's actions normally should indicate that the economy will be entering a period of below trend growth, sub-prime mortgage problems would be contained and the economy would return to trend growth by the fourth quarter of 2008. Additionally, they felt they could tolerate a higher level of inflation during the short-term with the expectation that slower growth would cause inflation to moderate over the intermediate term.

Well, the Fed got a couple of things wrong in their approach. First, interest rate cuts are clearly not the cure for what appears to be a solvency problem more than a liquidity problem. Second, the increase in food and energy prices in response to the cascading dollar has significantly eroded consumer confidence. Finally, by using alarming cuts in interest rates to soften the blows on delinquent institutions, the Fed showed it is not on top of the issues in this crisis. The financial system is in dire need of good information and disclosure. Because the Fed's actions did not focus on this until recently, the result may be a continued downward spiral which a further reduction in interest rates cannot resolve.

Orange County Treasurer's Team has been anticipating this environment and we will continue to reduce our risk profile as we position the portfolios to take advantage of market events as they become clearer in the months ahead. The combined yield for all our portfolios during the month of February was 4.20%. We expect to continue our strategy of selectively extending the duration of individual investments as opportunities present themselves.

Interest Rate Forecast

The Treasurer's Investment Committee is reducing our estimate for this fiscal year to 3.85% for the portfolio during fiscal year 2007-2008 and 3.5% for 2008-2009. 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

March 1, 2007 - February 29, 2008

PERIOD ENDING - MONTH / YEAR		MONTH END IARKET VALUE	ΕA	ARNINGS FOR MONTH	AVERAGE YIELD FOR MONTH	MONTH END WAM
Current Month - February 2008						
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						
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						
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		_,,,	*	, ,	0,2,7,0	
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	Ψ	2,001,001,201	Ψ	10,001,120	3.5570	411
County Pool - Money Market Fund	\$	1,782,577,124	\$	6,883,821	5.35%	38
•	\$					43
Educational Pool - Money Market Fund		1,694,769,373	\$	7,831,908	5.22%	
Extended Fund	\$	2,402,836,096	\$	11,058,084	5.28%	484
September 2007	0	4 400 000 450	•	0.000.000	E 440/	
County Pool - Money Market Fund	\$	1,432,086,153	\$	6,660,098	5.41%	45
Educational Pool - Money Market Fund	\$	1,819,448,968	\$	7,855,956	5.37%	48
Extended Fund	\$	2,540,343,321	\$	10,875,629	5.24%	468
August 2007						
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
July 2007						
County Pool - Money Market Fund	\$	1,591,863,228	\$	8,124,200	5.40%	51
Educational Pool - Money Market Fund	\$	1,955,074,669	\$	8,736,819	5.38%	58
Extended Fund	\$	2,498,650,022	\$	10,525,066	5.16%	479
June 2007						
County Pool - Money Market Fund	\$	1,877,130,515	\$	8,120,941	5.40%	54
Educational Pool - Money Market Fund	\$	1,796,807,395	\$	9,202,118	5.37%	58
Extended Fund	\$	2,360,816,509	\$	10,541,871	5.29%	496
May 2007						
County Pool - Money Market Fund	\$	2,038,485,187	\$	9,453,530	5.38%	56
Educational Pool - Money Market Fund	\$	2,253,481,882	\$	11,347,317	5.35%	55
Extended Fund	\$	2,269,898,637	\$	9,010,127	5.11%	422
April 2007 County Pool - Money Market Fund	Ф	2 240 000 774	Ф	11,096,800	5.38%	51
Educational Pool - Money Market Fund	\$	2,310,098,771 2,584,211,525	\$	10,202,892	5.36%	53
Extended Fund	\$	2,037,558,524	\$	9,230,167	5.25%	463
March 2007		_,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	7	0,200,101	0,2070	,,,,
County Pool - Money Market Fund	\$	1,800,423,404	\$	7,762,592	5.30%	58
Educational Pool - Money Market Fund	\$	2,156,514,102	\$	9,805,516	5.29%	50
Extended Fund	\$	2,257,154,399	\$	9,622,420	4.99%	444
CUMULATIVE BALANCES - 12 MONTHS		AVERAGE		TOTAL	AVERAGE	AVERAGE
March 1, 2007 - February 29, 2008		BALANCES		EARNINGS	YIELD	WAM
County Pool - Money Market Fund	\$	1,883,025,123	\$	97,523,580	5.11%	43
Educational Pool - Money Market Fund	\$	2,016,670,258	\$	102,098,874	5.08%	46
Extended Fund	\$	2,313,550,308	\$	120,276,719	5.19%	463