



**Agenda Item No. 1
September 4, 2013 Meeting**

DATE: August 27, 2013
TO: Children and Families Commission of Orange County
FROM: Christina Altmayer, Executive Director *Christina Altmayer*
SUBJECT: Quarterly Investment Report

SUMMARY:

As required by California Government Code Section 53646, and the Commission's Investment Policy Statement dated May 1, 2013, the Commission Treasurer submits the Quarterly Investment Report (Attachment 1) to the Commission. The Report summarizes Commission investments in the Orange County Investment Pool (OCIP) Money Market Fund for the period April 1, 2013 through June 30, 2013. The Report also contains information on market conditions during the reporting period.

STRATEGIC PLAN & FISCAL SUMMARY:

The agenda item does not include a funding request.

PRIOR COMMISSION ACTIONS:

- May 2013 – Receive Orange County Treasurer Investment Policy Statement for 2013 and delegate investment authority to the Orange County Treasurer
- May 2012 – Receive Orange County Treasurer Investment Policy Statement for 2012 and delegate investment authority to the Orange County Treasurer

RECOMMENDED ACTION:

Receive Quarterly Investment Report

ATTACHMENT:

Quarterly Investment Report

Contact: Michael Garcell

Commissioners

Michael L. Riley, Ph.D., Chair
Kimberly Chavalas Cripe, Vice Chair
Katherine Ahn, D.D.S.

Sandra Barry
Hugh Hewitt
Maria E. Minon, M.D.

Janet Nguyen
Sandra Pierce
Mark Refowitz

Executive Director

Christina Altmayer

Children and Families Commission of Orange County
Quarterly/Year-End Investment Report
April 1, 2013 through June 30, 2013

OVERVIEW

Pursuant to the Commission's Investment Policy Statement dated May 1, 2013, the Treasurer submits this Quarterly Investment Report to the Commission. This Investment Report summarizes investment activities for the Commission for the three-month period from April 1 through June 30, 2013 and also provides a year-end summary as of June 30, 2013 of the Commission's funds. Details required to be reported by Government Code can be found in the County's Monthly Treasurer's Investment Report at ocgov.com/ocinvestments.

The Commission has invested 100% of its fund in the Orange County Investment Pool (OCIP). All funds are managed by the Office of the Orange County Treasurer.

Orange County Investment Pool

The primary goal of the OCIP is to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to Pool Participants and lastly to achieve a market rate of return. The Commission's investment in the OCIP as of June 30, 2013 totaled \$69,449,271.03.

PORTFOLIO PERFORMANCE SUMMARY – QUARTERLY

The following table presents an overview of the OCIP for the months of April, May and June 2013.

| Month Ended | OCIP Market Value | OCIP Monthly Gross Yield | OCIP Average Days to Maturity | Commission's Month End Balance |
|-------------|-------------------|--------------------------|-------------------------------|--------------------------------|
| April | \$3,675,178,716 | 0.28% | 295 days | \$73,246,589 |
| May | \$3,425,969,815 | 0.30% | 331 days | \$70,981,649 |
| June | \$3,096,729,292 | 0.34% | 380 days | \$69,449,271 |

PORTFOLIO PERFORMANCE SUMMARY – YEAR-END

A Summary of the Commission's funds based on the public fund objectives of Safety, Liquidity, and Yield are as follows:

Safety: The Commission's funds are invested primarily in U.S. Government Agencies and U.S Treasuries (87%) and are diversified into six different investment types. Charts showing the investment balances by type, fund balances trends and investment ratings are attached.

Liquidity: The OCIP Funds are 15% liquid in 30 days and 28% liquid in 90 days, but the Commission funds have daily liquidity. A maturity schedule chart for OCIP is attached.

Yield: With the Fed Funds rate dropping from 5% to less than .25% in the last five years, yields on Commission funds have dropped accordingly. A chart showing investment yields trends is attached. A decrease in the administrative charge from 10 Basis Points (BP) in prior years to the current estimate of 8.2 BP has been able to slightly offset the lower yields. A survey of County Treasurers, attached, shows the administrative charge for many California Counties and also a chart with a comparison of the charge for several Southern California Counties along with pooled fund balances is attached.

ECONOMIC UPDATE

From April through June, U.S. economic data showed continued modest economic growth. The job market added 149,000 new jobs in April, 195,000 in May and 195,000 in June. The unemployment rate started the quarter at 7.5% in April, went up to 7.6% in May, and at the end of the quarter remained unchanged at 7.6% as new jobseekers began looking for work, exceeding the job gains in May and June. According to S&P/CaseShiller, home prices increased 12.05% in April from a year ago, making it the biggest year-to-year gain since March 2006. The University of Michigan's consumer confidence index rose to the highest level in almost six years in May as the U.S. consumers'

outlook of the economy improved. In addition, June manufacturing data indicated an increase in economic activity as both the Empire State Manufacturing Index and the Philadelphia Fed Index rose to 7.8 and 12.5, respectively. The Federal Reserve Bank uses these indexes as regional economic gauges, and a reading above zero signals economic expansion.

The Federal Reserve met twice during the quarter and voted to continue its support for stronger economic growth by purchasing \$40 billion per month in agency mortgage-backed securities and \$45 billion per month in longer-term Treasury securities. Federal Reserve Chairman, Ben Bernanke, at his appearance before the Joint Economic Committee on May 22, 2013, stated that demand from U.S. Households and businesses is supporting economic growth,

Rates on treasuries, ranging from 2-year to 30-year maturities, increased in May and June as investors assumed that better than expected economic data may cause the Federal Reserve to reduce bond purchases sooner than previously anticipated. The 10-year Treasury ended the quarter at 2.49% up from 1.85% at the end of the previous quarter.

U.S. Treasury Yield Curve: Treasury yields increased except for the 3-month maturity.

| | Quarter Ended June 30, 2013 | Quarter Ended March 31, 2013 |
|---------|--------------------------------|---------------------------------|
| 3-Month | 0.03% | 0.07% |
| 2-Year | 0.36% | 0.24% |
| 5-Year | 1.39% | 0.77% |
| 10-Year | 2.49% | 1.85% |
| 30-Year | 3.50% | 3.10% |

Source: Bloomberg World Markets

COMPLIANCE MONITORING

The investment portfolios had no compliance exceptions for the three months ending June 2013. Five reports were issued during the quarter with three being Follow-Up Audits and two being new reports. Of the new reports issued, there was one control deficiency found. In April, the Auditor-Controller Internal Audit issued the Second Follow-Up Audit of Treasury Cost Allocations to Pool Participants as of March 20, 2013, and stated that the Treasurer-Tax Collector is in the process of implementing three of the original 10 recommendations. The other six recommendations were fully implemented and one was closed in the First Follow-Up Audit of Treasury Cost Allocations to Pool Participants dated August 28, 2012. In May, the Auditor-Controller Internal Audit issued the Final Close-Out Audit of Treasurer's Investment Compliance for the year ended December 31, 2009, and stated that the Treasurer has fully implemented twelve of the fourteen original recommendations, and two recommendations were closed because they were no longer applicable. The Auditor-Controller Internal Audit also issued the Final Close-Out Audit of Treasurer's Investment Compliance for the year ended December 31, 2010, and found that the Treasurer has fully implemented the four recommendations from the original audit report dated May 7, 2012. In addition, the Auditor-Controller Internal Audit Unit issued their Management Letter on Audit of the Statement of Assets Held by the County Treasury as of September 30, 2012. The management letter contains one control deficiency related to the improper recording of a failed investment sale. The County Treasurer is in the process of updating the Treasury policies to ensure that all failed investment sales are recorded. In June, the Auditor-Controller Report on Compliance Monitoring for the Quarter of January through March 2013 identified no compliance deficiencies. For the fiscal year ended June 30, 2013, the investment portfolios were free from compliance incidents.

GRAND JURY REPORT

On June 24, 2013, the Orange County Grand Jury released their report entitled "An Investment and Compliance Review of the Orange County Treasurer." The report provides an overview of the County Treasurer's mission, key staff experience and education, a brief overview of treasury systems, issuer credit quality and concentration, cash management, Investment Policy Statement provisions, and descriptions of authorized investments. The findings related to considering the benefits and issues of having a member of the investment team licensed to sell securities, and addressing the expense, time restraints, and expectations of improving older legacy information systems used to

bill and collect property taxes. The County Treasurer agrees with the Grand Jury's three findings and recommendations and will include the response in a future Treasurer's Monthly Investment Report.

SUMMARY STATEMENTS

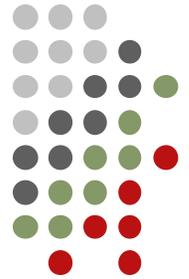
Attached for further information and reference is the OCIP Statement of Activity for the months of April, May and June 2013.

- A. Statement of Activity: This Statement reports the beginning and ending balances of the Commission's funds invested in the OCIP. All deposits, withdrawals, investment earnings, and administrative fees for the reporting period are also posted. The Commission's month end balances for April, May and June were \$73,246,589.25, \$70,981,649.00, and \$69,449,271.03 respectively. The estimated treasury administrative fee is 8.2 basis points, and the year to date net yield as of June 30, 2013 is 0.32%.

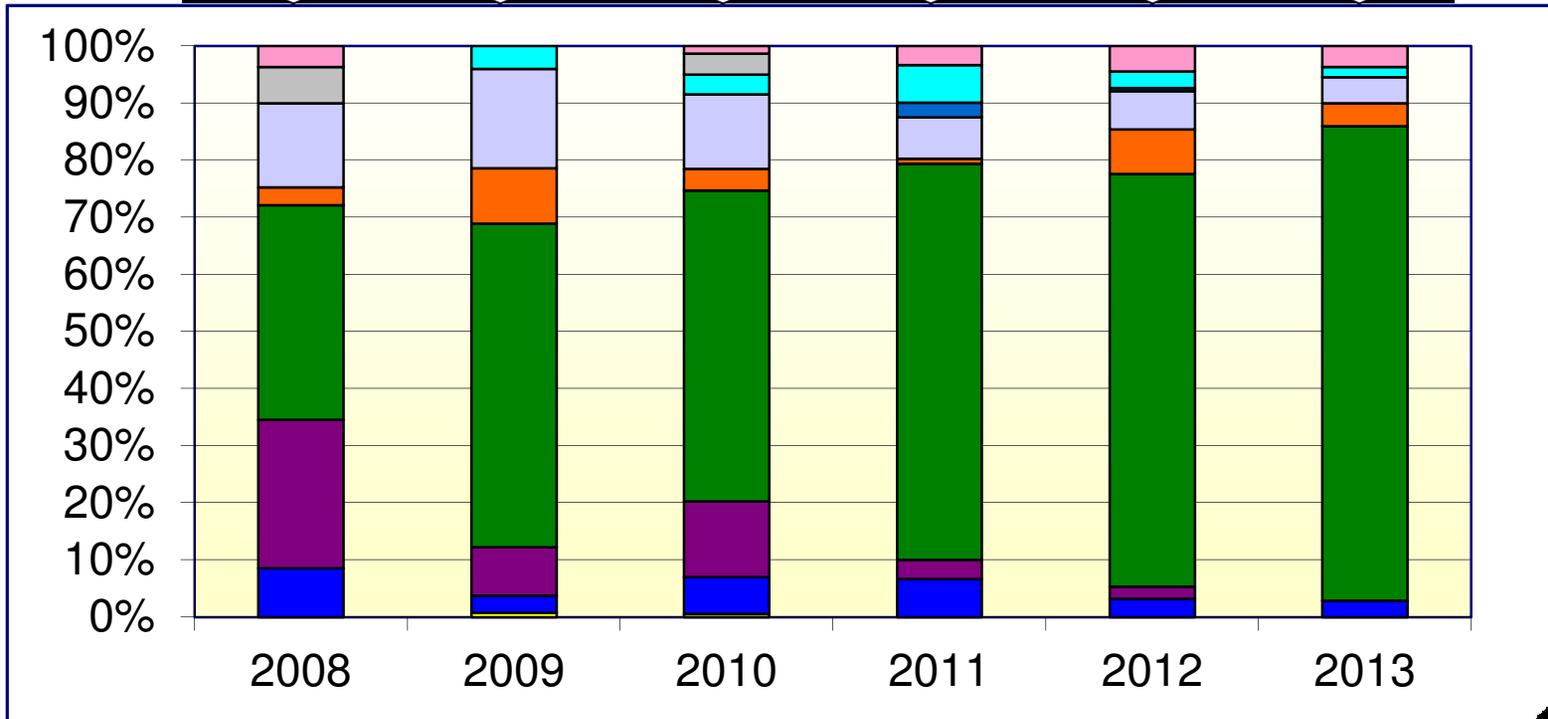
Attachments:

- A. CFCOC Investment Balances by Type
- B. CFCOC Fund Balance Trends
- C. CFCOC Investment Ratings
- D. OCIP Maturity Schedule
- E. CFCOC Investment Yields Trends
- F. Survey of CA Counties – Basis Point (BP) Charge
- G. Southern California Counties – Pool Balance / BP Charge
- H. Orange County Investment Pool Summary
- I. Statement of Activity for the months of April, May and June 2013

Children and Families Commission of OC Investment Balances by Type As of June 30

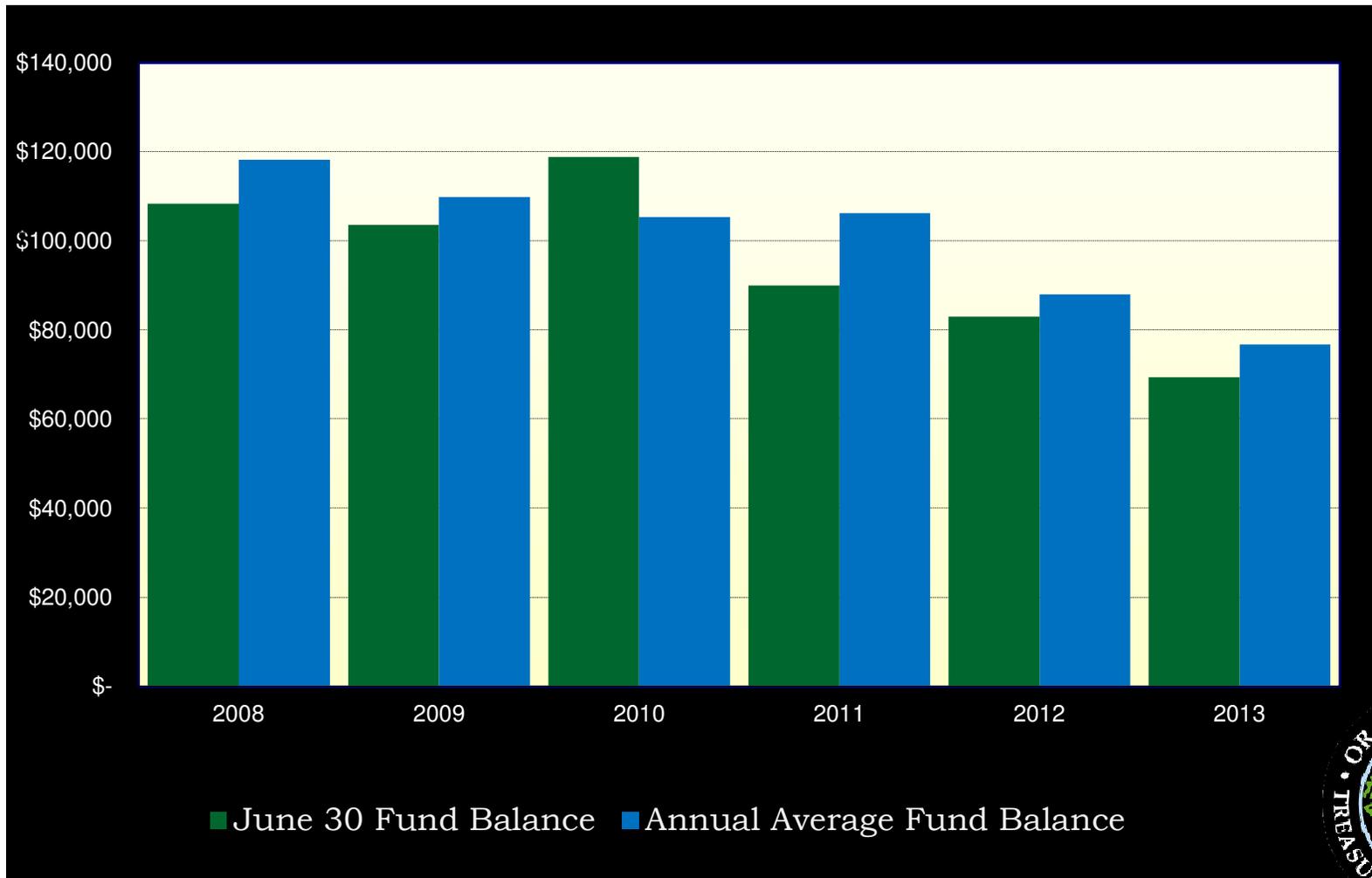
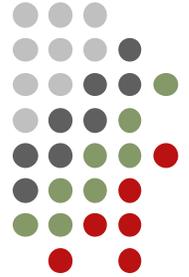


\$108,315,041 \$103,608,806 \$118,825,239 \$90,058,071 \$82,996,211 \$69,449,271



Children & Families Commission of OC Fund Balance As of June 30

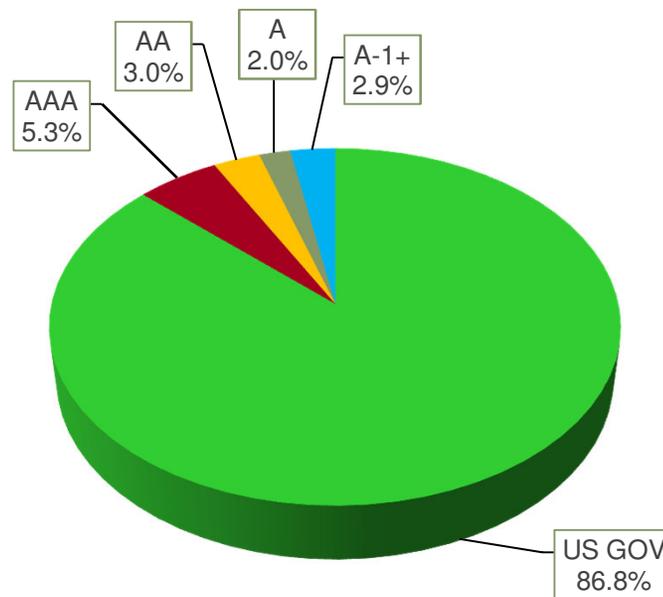
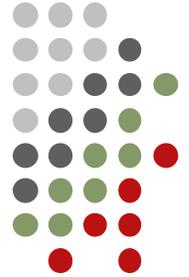
(In Thousands)



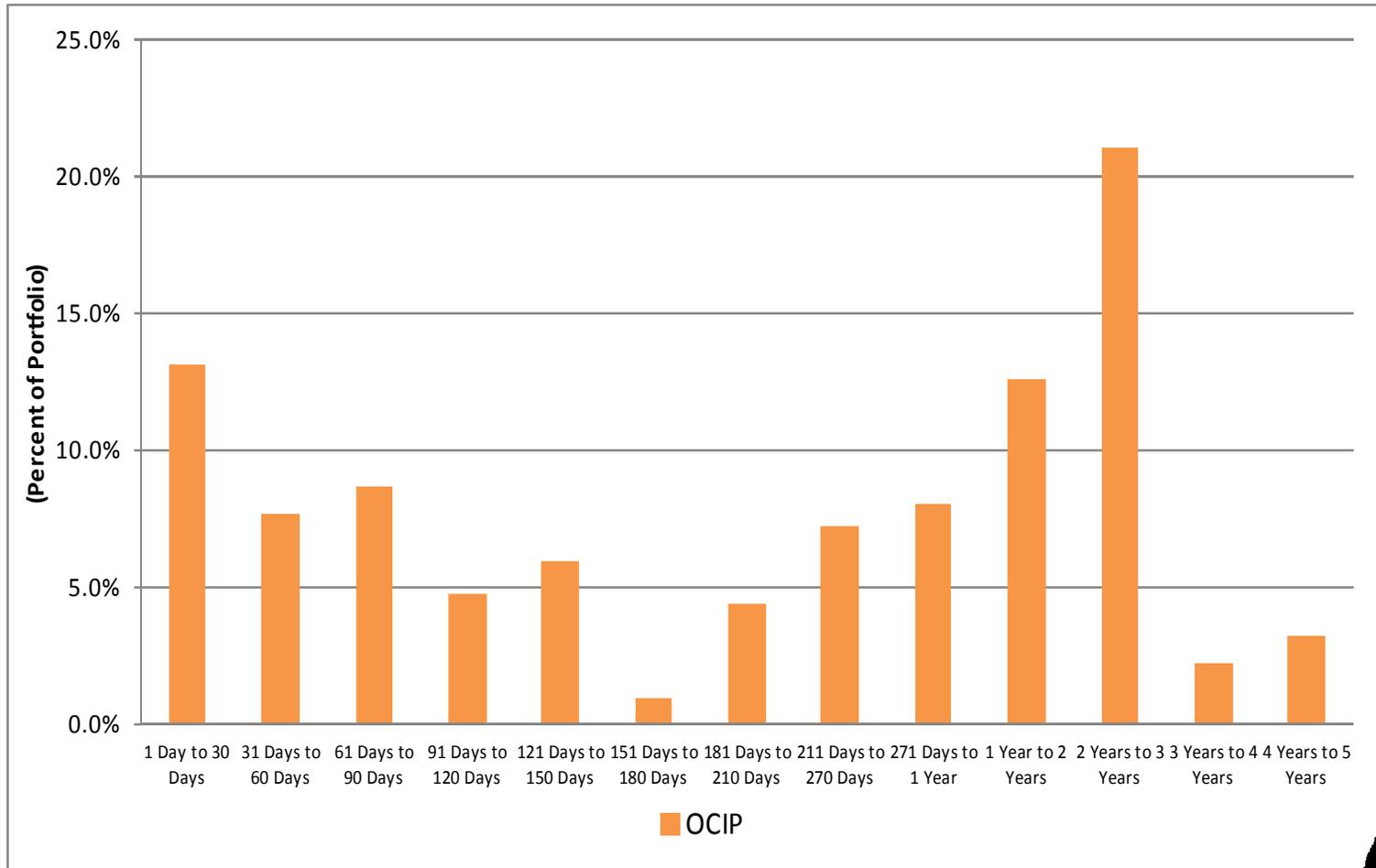
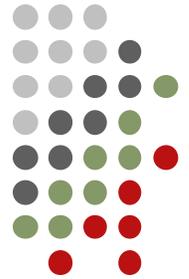
■ June 30 Fund Balance ■ Annual Average Fund Balance



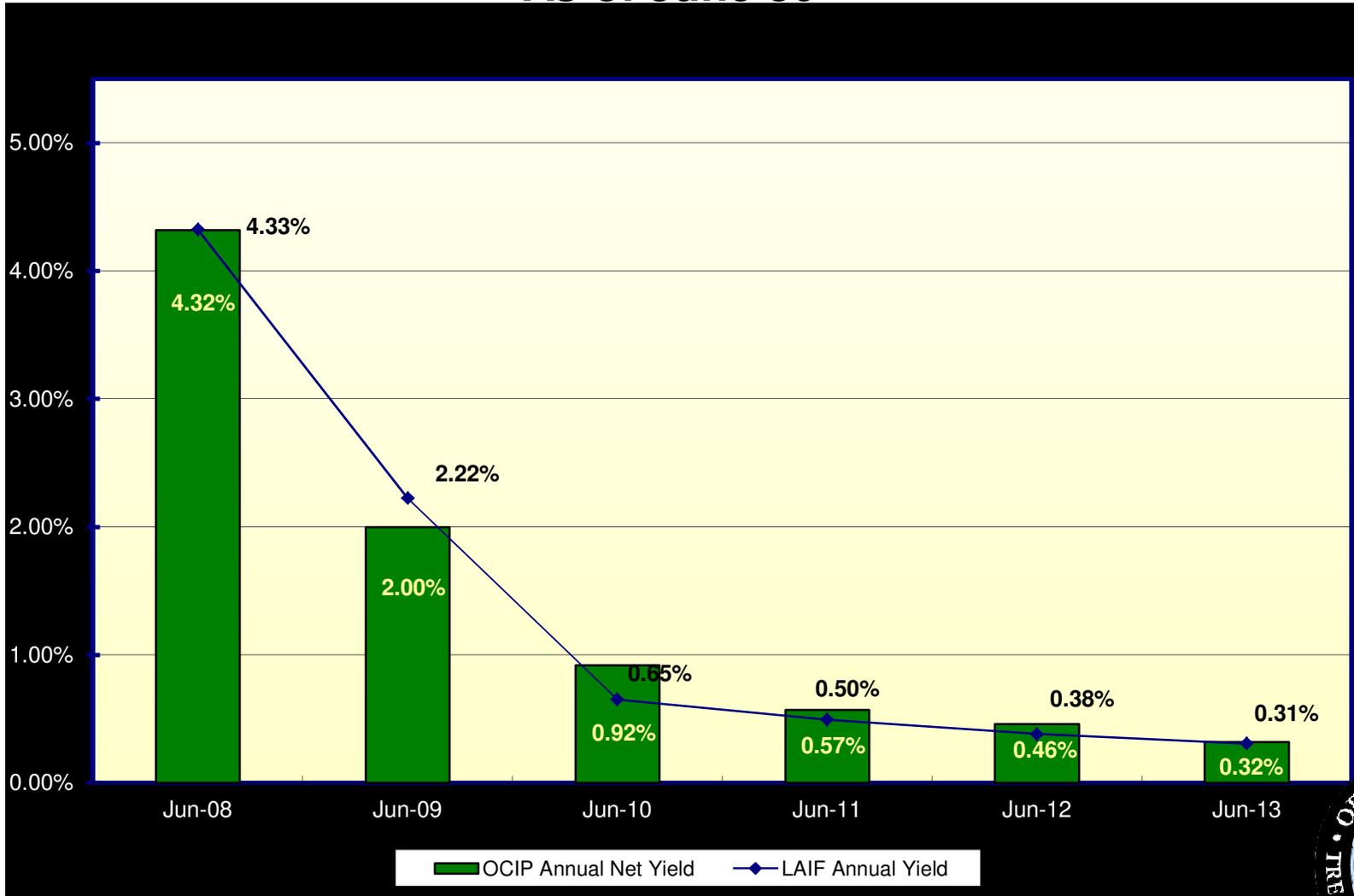
Children & Families Commission of OC Investment Ratings As of June 30, 2013



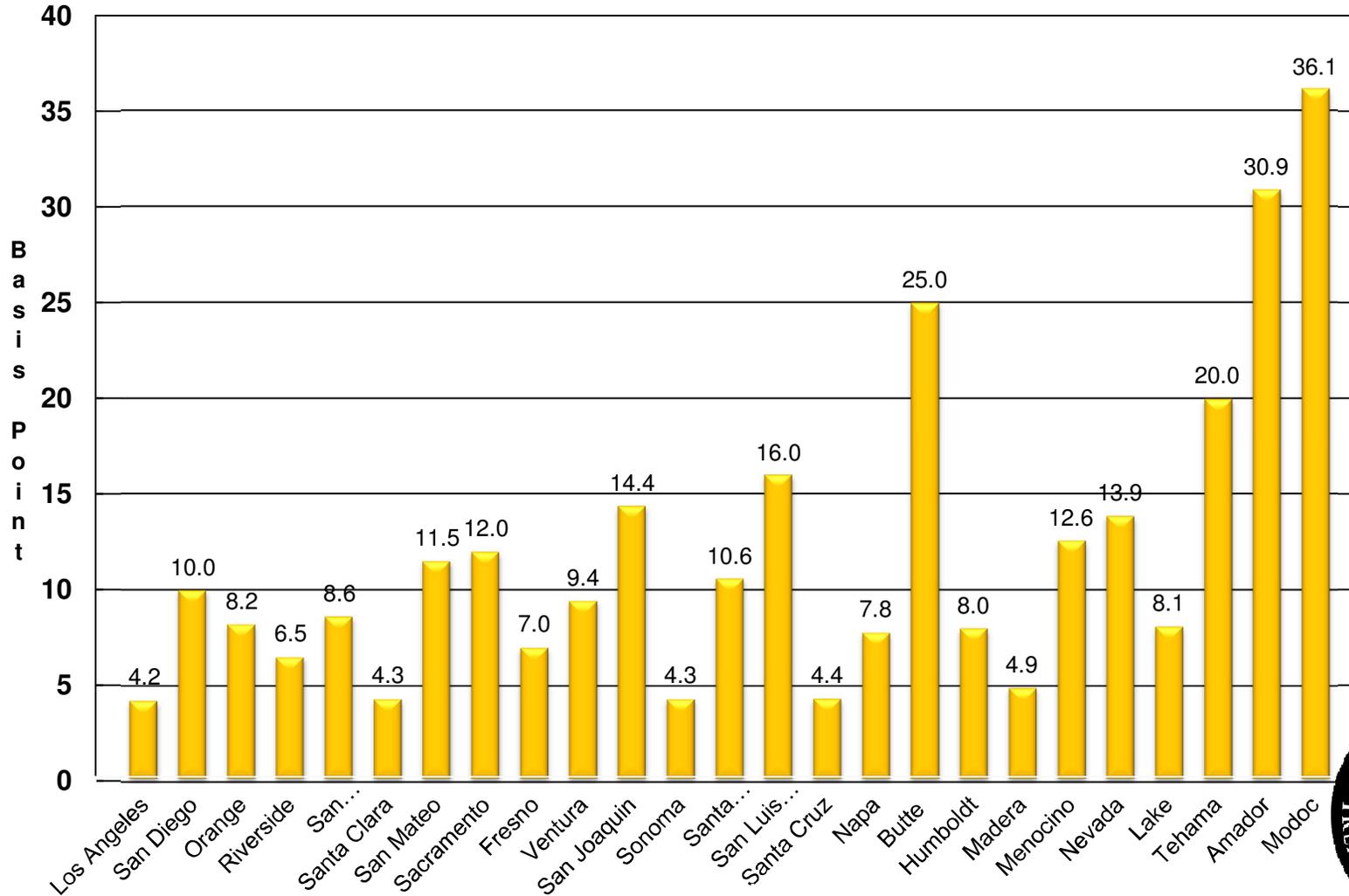
OCIP Maturity Schedule As of July 31, 2013



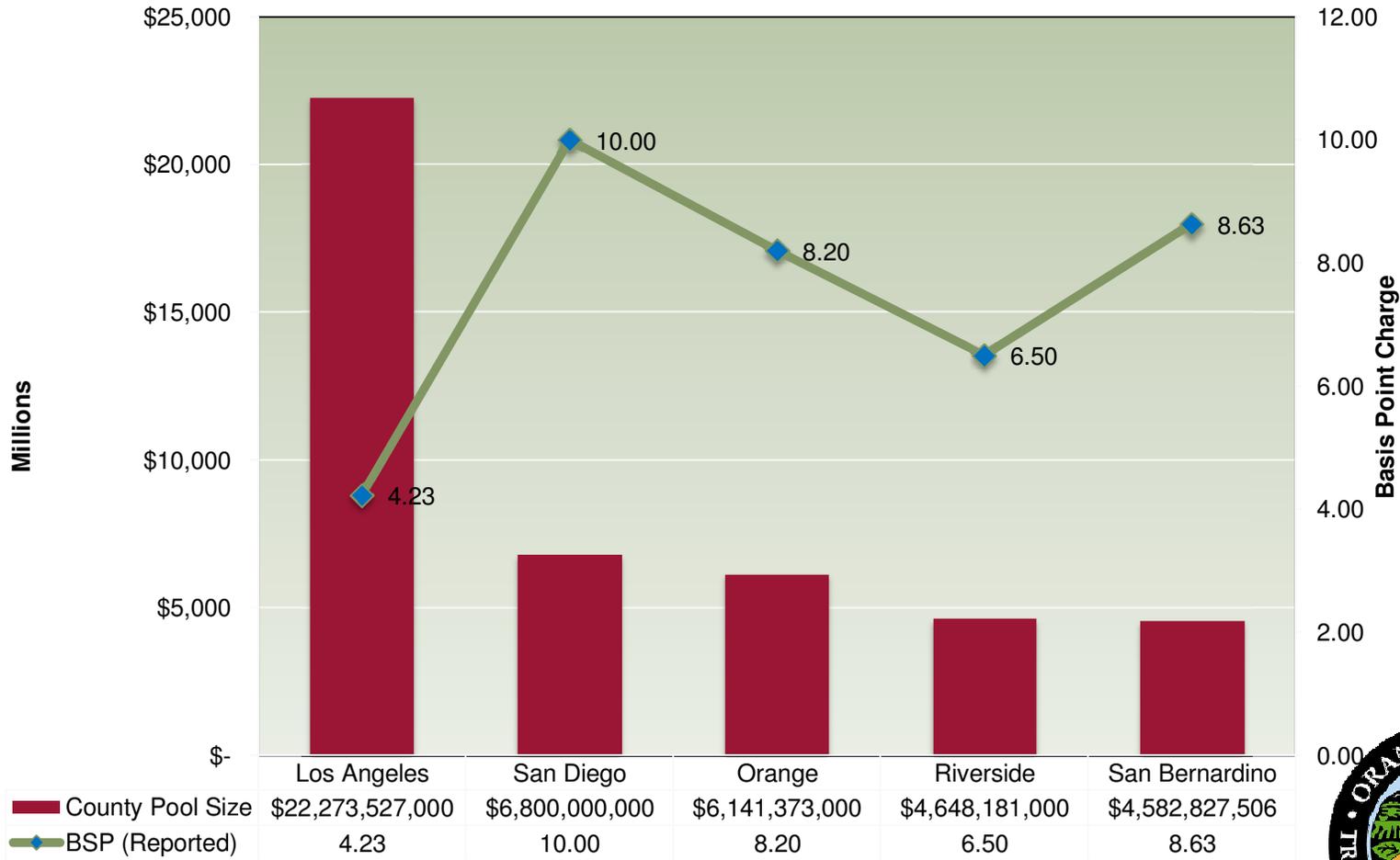
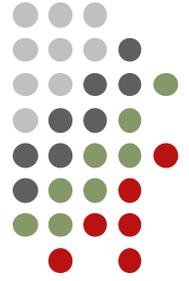
Children & Families Commission of OC Investment Yields Trends As of June 30



Children & Families Commission of OC Survey of CA Counties-Basis Point Charge 2013



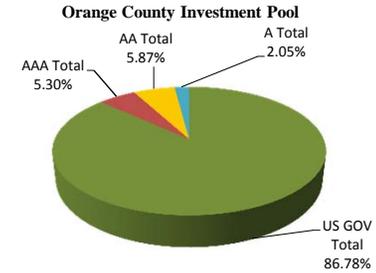
Children & Families Commission of OC Southern California Counties Pool Balance/Basis Point Charge 2013



**ORANGE COUNTY TREASURER-TAX COLLECTOR
ORANGE COUNTY INVESTMENT POOL
INVESTMENT POOL SUMMARY
AT JUNE 30, 2013**

| PORTFOLIO COMPOSITION | | | | |
|--------------------------|-------------------------|-------------------------|-----------------------|-------------------|
| Security Type | Market Value | Book Value | Unrealized Gain(Loss) | % of Market Value |
| CERTIFICATES OF DEPOSIT | \$ 88,969,518 | \$ 89,000,000 | \$ (30,482) | 2.87% |
| U.S. GOVERNMENT AGENCIES | 2,572,360,447 | 2,575,199,122 | (2,838,675) | 83.07% |
| MONEY MARKET FUNDS | 123,954,957 | 123,954,957 | - | 4.00% |
| MEDIUM - TERM NOTES | 140,966,161 | 140,979,340 | (13,178) | 4.55% |
| MUNICIPAL DEBT | 55,511,374 | 55,470,742 | 40,632 | 1.80% |
| U.S. TREASURIES | 114,966,834 | 114,908,956 | 57,878 | 3.71% |
| TOTAL | \$ 3,096,729,291 | \$ 3,099,513,116 | \$ (2,783,824) | 100.00% |

CREDIT QUALITY BY MARKET VALUE



*US GOV Includes Agency & Treasury Debt
AA Includes AA+, AA- & AA
A Includes A+, A- & A
A-1 Includes A-1+, F-1+, P-1, A-1 & F-1*

| SUMMARY OF INVESTMENT DATA | | | | | | | |
|--|------------------|------------------|---------------------|--------------|------------------|---------------------|--------------|
| INVESTMENT TRENDS | | | | | | | |
| | JUNE 2013 | MAY 2013 | INCREASE (DECREASE) | NET CHANGE % | JUNE 2012 | INCREASE (DECREASE) | NET CHANGE % |
| Orange County Investment Pool | | | | | | | |
| End Of Month Market Value ^{1,5} | \$ 3,096,729,292 | \$ 3,425,969,815 | (329,240,523) | -9.61% | \$ 3,069,130,678 | \$ 27,598,614 | 0.90% |
| End Of Month Book Value ⁵ | \$ 3,099,513,117 | \$ 3,424,675,396 | (325,162,279) | -9.49% | \$ 3,065,316,224 | \$ 34,196,893 | 1.12% |
| Monthly Average Balance ⁵ | \$ 3,244,945,688 | \$ 3,556,701,037 | (311,755,350) | -8.77% | \$ 3,172,764,827 | \$ 72,180,861 | 2.28% |
| Year-To-Date Average Balance | \$ 3,312,083,114 | \$ 3,318,186,517 | (6,103,402) | -0.18% | \$ 3,338,864,151 | \$ (26,781,037) | -0.80% |
| Monthly Accrued Earnings ² | \$ 906,597 | \$ 906,850 | (253) | -0.03% | \$ 1,621,672 | \$ (715,075) | -44.09% |
| Monthly Net Yield ² | 0.26% | 0.22% | 0.04% | 18.19% | 0.54% | -0.28% | -52.24% |
| Year-To-Date Net Yield ² | 0.32% | 0.32% | 0.00% | -0.91% | 0.46% | -0.14% | -30.43% |
| Annual Estimated Gross Yield ³ | 0.38% | 0.38% | 0.00% | 0.00% | 0.54% | -0.16% | -29.63% |
| Weighted Average Maturity (WAM) ⁴ | 380 | 331 | 49 | 14.92% | 359 | 21 | 5.96% |

¹ Market values provided by Bloomberg and Northern Trust.

² In June 2012, OCIP and OCEIP held higher yielding securities, which over time have matured and were reinvested in lower yielding securities. As a result, the overall earnings and yield have dropped since June 2012. OCIP monthly yield increased from the prior month due to decreased holdings of short term securities.

³ Annual Estimated Gross Yield for June 2012 is reported at the actual annual gross yield for FY 11/12. During FY 11/12, the OCIP and OCEIP held higher yielding securities, which over time have matured and were reinvested in lower yielding securities and FY 12/13 estimated gross yield is less than the prior year.

⁴ In June 2013, OCIP WAM was higher primarily due to investing in securities with longer maturities. In June 2013, OCEIP WAM was higher than June 2012 due to the increased balances invested in securities with shorter maturities.

⁵ In June 2013, the OCIP end of month market and book values, and monthly average balance were lower than May 2013 due to secured and unsecured tax apportionments. In June 2013, the OCEIP end of month market and book values, and monthly average balance were higher than June 2012 due to increased General Obligation (GO) bond funds on deposit, redevelopment property tax trust fund distributions, and increased State receipts due to reductions in State deferrals.



COUNTY OF ORANGE
OFFICE OF THE TREASURER-TAX COLLECTOR

Shari L. Freidenrich, CPA, CCMT, CPFA, ACPFIM
P. O. BOX 4515
SANTA ANA, CA 92702-4515

ocgov.com/ocinvestments

April 30, 2013

ORANGE COUNTY CHILDREN AND FAMILIES COMMISSION

Attn: Christina Altmayer, Executive Director
17320 Redhill Avenue, #200
Irvine, CA 92614

Monthly Apportionment Gross Yield: 0.276%
Administration Fee: -0.082%
Monthly Apportionment Net Yield: 0.194%

Fund Number : 225

APRIL 2013 STATEMENT

CASH IN TREASURY

Transactions

| Transaction Date | Transaction Description | Tran Type | Authorized Signer | Amount |
|------------------|-------------------------|-----------|-------------------|---------------|
| 04/01/13 | March 2013 Admin Fee | AF | | \$ (5,196.55) |
| 04/10/13 | March 2013 Interest | IN | | \$ 21,375.28 |

Summary

| | | | |
|-------------------|-------------------|--------------------|------------------|
| Total Deposit: | \$ 6,631,918.56 | Beginning Balance: | \$ 73,594,755.22 |
| Total Withdrawal: | \$ (6,980,084.53) | Ending Balance: | \$ 73,246,589.25 |

ACCRUED INVESTMENT INCOME

Transactions

| Transaction Date | Transaction Description | Tran Type | Authorized Signer | Amount |
|------------------|-------------------------|-----------|-------------------|----------------|
| 04/10/13 | March 2013 Interest | IN | | \$ (21,375.28) |
| 05/01/13 | April 2013 Interest | IN | | \$ 16,955.94 |

Summary

| | | | |
|----------------|----------------|--------------------|--------------|
| Total Accrual: | \$ 16,955.94 | Beginning Balance: | \$ 21,375.28 |
| Total Payment: | \$ (21,375.28) | Ending Balance: | \$ 16,955.94 |



COUNTY OF ORANGE
OFFICE OF THE TREASURER-TAX COLLECTOR

Shari L. Freidenrich, CPA, CCMT, CPFA, ACPFIM
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ocgov.com/ocinvestments

May 31, 2013

ORANGE COUNTY CHILDREN AND FAMILIES COMMISSION

Attn: Christina Altmayer, Executive Director
17320 Redhill Avenue, #200
Irvine, CA 92614

Monthly Apportionment Gross Yield: 0.300%
Administration Fee: -0.082%
Monthly Apportionment Net Yield: 0.218%

Fund Number : 225

MAY 2013 STATEMENT

CASH IN TREASURY

Transactions

| Transaction Date | Transaction Description | Tran Type | Authorized Signer | Amount |
|------------------|-------------------------|-----------|-------------------|---------------|
| 05/01/13 | April 2013 Admin Fee | AF | | \$ (5,033.20) |
| 05/10/13 | April 2013 Interest | IN | | \$ 16,955.94 |

Summary

| | | | |
|-------------------|-------------------|--------------------|------------------|
| Total Deposit: | \$ 2,177,601.00 | Beginning Balance: | \$ 73,246,589.25 |
| Total Withdrawal: | \$ (4,442,541.25) | Ending Balance: | \$ 70,981,649.00 |

ACCRUED INVESTMENT INCOME

Transactions

| Transaction Date | Transaction Description | Tran Type | Authorized Signer | Amount |
|------------------|-------------------------|-----------|-------------------|----------------|
| 05/10/13 | April 2013 Interest | IN | | \$ (16,955.94) |
| 06/03/13 | May 2013 Interest | IN | | \$ 18,827.86 |

Summary

| | | | |
|----------------|----------------|--------------------|--------------|
| Total Accrual: | \$ 18,827.86 | Beginning Balance: | \$ 16,955.94 |
| Total Payment: | \$ (16,955.94) | Ending Balance: | \$ 18,827.86 |



COUNTY OF ORANGE
OFFICE OF THE TREASURER-TAX COLLECTOR

Shari L. Freidenrich, CPA, CCMT, CPFA, ACPFIM
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ocgov.com/ocinvestments

June 30, 2013

ORANGE COUNTY CHILDREN AND FAMILIES COMMISSION

Attn: Christina Altmayer, Executive Director
17320 Redhill Avenue, #200
Irvine, CA 92614

Monthly Apportionment Gross Yield: 0.340%
Administration Fee: -0.082%
Monthly Apportionment Net Yield: 0.258%

Fund Number : 225

JUNE 2013 STATEMENT

CASH IN TREASURY

Transactions

| Transaction Date | Transaction Description | Tran Type | Authorized Signer | Amount |
|------------------|-------------------------|-----------|-------------------|---------------|
| 06/03/13 | May 2013 Admin Fee | AF | | \$ (5,147.52) |
| 06/19/13 | May 2013 Interest | IN | | \$ 18,827.86 |

Summary

| | | | |
|-------------------|-------------------|--------------------|------------------|
| Total Deposit: | \$ 2,207,820.84 | Beginning Balance: | \$ 70,981,649.00 |
| Total Withdrawal: | \$ (3,740,198.81) | Ending Balance: | \$ 69,449,271.03 |

ACCRUED INVESTMENT INCOME

Transactions

| Transaction Date | Transaction Description | Tran Type | Authorized Signer | Amount |
|------------------|-------------------------|-----------|-------------------|----------------|
| 06/19/13 | May 2013 Interest | IN | | \$ (18,827.86) |
| 07/01/13 | June 2013 Interest | IN | | \$ 19,869.27 |

Summary

| | | | |
|----------------|----------------|--------------------|--------------|
| Total Accrual: | \$ 19,869.27 | Beginning Balance: | \$ 18,827.86 |
| Total Payment: | \$ (18,827.86) | Ending Balance: | \$ 19,869.27 |