



Children & Families  
Commission of Orange County

**Agenda Item No. 5**  
**September 5, 2007 Meeting**

**DATE:** August 28, 2007  
**TO:** Children and Families Commission of Orange County  
**FROM:** Michael M. Ruane, Executive Director *Michael M. Ruane*  
**SUBJECT:** Review of Commission Investment Program

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**SUMMARY:**

This report was originally planned for the September agenda as an update on the work of the Commission Oversight Committee, but in light of recent developments has been revised to include a recap of prior actions, a review of the commission investment program and related items.

Enclosed are:

1. An outline of the staff presentation
2. A progress report on the work to date of the Commission Investment Oversight Committee
3. An expanded quarterly investment report as recommended by our outside Financial Advisor

**RECOMMENDED ACTION:**

1. Receive Report
2. Review potential options for the investment program and provide policy direction to staff
3. Direct staff to return to the October 4, 2007 meeting with implementing actions

**Attachments:**

1. Outline of Commission Investment Program Presentation
2. Commission Oversight Committee Report
3. Quarterly Investment Report

Contact: Steve Kozak



The following is an outline of the Commission Investment Program Staff Report which will be presented at the September 5, 2007 meeting:

1. Review of work to date
2. Current Balance as of September 5, 2007
3. Oversight Committee Suggested Revisions
4. Current Status
5. Potential Developments
6. Key Issues
7. Next Steps



## **Progress Report – Review by Commission Investment Oversight Committee**

Beginning in May, 2007, a series of annual financial reviews and actions have been presented to the Commission, consistent with prior practice. For example, the Commission approved the FY 2007-08 Operating Budget in May, along with the Commission's Ten-Year Financial Plan – May 2007 Updated Plan. In October, the Commission will consider the FY 2006-07 Annual Financial Audit, and in December, the FY 2007-08 Mid Year Budget Review will come before the Commission.

Since April of this year, the Commission's Investment Oversight Committee has been conducting a review of the Commission's Investment Policy and Program. This item presents an update on the activities of the Committee.

### **INVESTMENT OVERSIGHT COMMITTEE:**

On April 4, 2007, the Commission appointed members to the Investment Oversight Committee. Established to ensure oversight and public transparency regarding the investment structure and activities related to the investment of available Commission funds, the five-member Committee reviewed the Commission's Investment Policy Statement and provided input when the Commission considered the Investment Policy Statement in May.

At their April 17, 2007 meeting, the Investment Oversight Committee reviewed the Investment Policy Statement and recommended that the Commission approve the Statement without substantial changes, or to the Commission's current investment structure pending further review. Additionally, it was the consensus of the Committee that they take a longer term approach to review the Commission's investment program needs within the context of any strategic policy and program decisions resulting from the Commission's June 6 strategic planning retreat, and after completing a thorough evaluation of additional financial information requested by the Committee from staff, the Orange County Treasurer, and Sperry Capital, the Commission's financial advisor.

When the Committee met on June 20, 2007, members approved Committee By-Laws, and received a presentation by the Orange County Treasurer-Tax Collector's office about their Investment Management Programs which emphasize safety, compliance and oversight of authorized investments. Results of the Commission's June 6 Strategic Planning Retreat were reviewed, and a work plan to develop appropriate long-term investment policies to meet Commission priorities was discussed.

At the June 27, 2007 Commission meeting, Jim Martling of Sperry Capital, presented an overview of investment management considerations, including benchmarks and reporting, goals, and strategies that are being considered during the review of the Commission's Investment Policy and existing investment structure by the Investment Oversight Committee. The Commission requested that they receive a Quarterly Investment Report covering the period April 1 through June 30, 2007. This topic is covered in the next section of this report.

The Investment Oversight Committee met on Monday, July 16 to continue their review of the Commission's Investment Program. The Commission's Financial Advisor reported on the results of his analysis of historical performance of U.S. Treasuries, government agency securities, and corporate notes; investment management styles; benchmarks; and a survey of other county commission investment policies and programs.

Following discussion, the Committee formulated a set of preliminary recommendations for enhancing the ability of the Commission's investment program to maintain liquidity, and to provide enhanced supplemental funding for the long-term sustainability of Commission programs. A summary of the Committee's recommendations follows:

- Funds required for the Commission's three-year funding cycle shall be invested in the Orange County Investment Pool (OCIP) for liquidity. All funds in excess of the Commission's three-year funding cycle requirements shall be invested in the Specific Long-Term Investment Program (SIP).
- Select the Merrill Lynch 1-3 Government Index as the benchmark to measure performance of the Commission's SIP.
- Authorized investments for the SIP may include a mix of U.S. Treasuries, U.S. Agencies, and Corporate Notes. Corporate securities shall have a maximum maturity of three years, and shall be rated in the High Quality category, or better. (i.e. "AA," or better, by Standard & Poors Corporation; "Aa," or better by Moody's Investors Service).
- Quarterly Investment Management Reports shall report both Total Return and Book Value for the Commission's investment portfolio(s).

The foregoing recommendations would require further refinement by the Committee, and revisions the Commission's Investment Policy Statement would also be required. Further, because the Commission's investment funds are managed by the Orange County Treasurer, the County's Investment Policy would need to be updated to include the necessary language to allow the implementation of a revised Commission Investment Policy Statement as described above.

#### QUARTERLY INVESTMENT REPORT:

As required by California Government Code Section 53646, and the Commission's Investment Policy Statement adopted on May 2, 2007, the Treasurer submits the Quarterly Investment Report to the Commission (Attached). The Investment Report summarizes Commission investments in both the OCIP and the SIP, for the period April 1 through June 30, 2007. The Report also contains information on market conditions during the report period.



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**Quarterly Investment Report  
For the Period Ended June 30, 2007**

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**OVERVIEW**

Pursuant to California Government Code Section 53646, and the Commission's Investment Policy Statement adopted on May 2, 2007, the Treasurer submits the Quarterly Investment Report to the Commission. The Investment Report summarizes investment activities for the Commission, for the period April 1 through June 30, 2007.

Currently the Commission invests solely in the 1) Orange County Investment Pool's County Pool Money Market Fund ("Money Market Fund") and 2) in a Specific Long-Term Investment Program ("SIP"). All funds are managed by the Orange County Treasurer's Office.

The funds invested in the Money Market Fund are invested for liquidity. Funds in the SIP are invested in specific U.S. Treasury Notes, with maturities not to exceed three (3) years. The U.S. Treasury Notes are invested in a "laddered" maturity approach. The SIP is intended to build reserve funds for long-term program sustainability.

The ongoing monitoring of the Commission's investment program by staff and Sperry Capital Inc., the Commission's independent investment advisor, indicates that the investments are in compliance with the Commission's adopted Investment Policy as well as with the California Government Code. The overall performance of the Orange County Investment Pool's County Pool Money Market Fund has tracked with money market benchmark indices. In addition, the Commission has sufficient liquidity together with anticipated revenues to meet the Commissions' budgeted expenditures over the next six months.

## **MONEY MARKET FUND**

The Commission's ending fund balance in the Money Market Fund on June 30, 2007 totaled \$114,225,398. The Money Market Fund average yield for June was 5.38% and the weighted average maturity was 54 days.

## **SPECIFIC LONG-TERM INVESTMENT PROGRAM**

The market value (i.e. the price of each security at the close of the market on the last trading day of the month) of the U.S. Treasury Notes in the SIP was \$49,284,380 on June 30, 2007, with an average yield of 4.9%. As the individual U.S. Treasury Notes mature, the proceeds are reinvested by the Orange County Treasurer.

## **MARKET CONDITIONS**

**U.S Treasury Yields:** The second quarter saw a marked rise in volatility. The yield on the 10-year Treasury began the quarter at 4.65 % and closed at 5.03 %, as bond prices declined on inflationary fears. During the quarter, bond yields hit an intraday high of 5.32 %, exceeding the highs during the summer of 2006.

The rise in interest rates also pushed mortgage rates higher, hampering the already muted housing markets. There is concern that higher rates and tighter lending standards will add to mortgage foreclosures and exacerbate housing woes.

**Markets & Rates:** At their June 27 and 28 meeting, the Federal Open Market Committee (FOMC) left the overnight borrowing rate unchanged at 5.25%, where it has been since the summer of 2006. However, FOMC policymakers said during their commentary that inflation continues to be a worry.

Perhaps the biggest area for concern for the capital markets is the worsening situation in the subprime mortgage market. The quarter began with problems at many mortgage companies exposed to the subprime segment of the mortgage market. But their troubles had little impact on financial markets, given that subprime seemingly constitutes such a small segment of the overall U.S. debt market.

One of the key themes of the credit markets, particularly related to subprime loans, is that liquidity is evaporating. This is extremely significant for a couple of reasons. First, it may mean that some of the aforementioned problems may leak into other tightly priced markets—such as high-yield and bank loans—that have seen ever-loosening lending standards. Second, the Fed may want to step in and provide liquidity. In plain terms, it may prompt the Fed to begin easing interest rates in the near future.

## SUMMARY STATEMENTS

Attached for further information and reference are three statements from the June 30, 2007 Orange County Treasurer's Investment Management Report.

- A. **Investment Balances Statement:** The balances for all funds managed by the Treasurer are reported on this Statement. The June 30, 2007 balance of the Commission's SIP (\$49,004,883), expressed as book value (i.e. cost of the investment), can be found under "Non Pooled Investment" on page two of the Statement.
- B. **Statement of Activity:** This Statement reports the beginning and ending balances of the Commission's funds in the Money Market Fund. All deposits, withdrawals, investment earnings, and administrative fees for the reporting period are also posted. The Commission's June 30, 2007 ending balance was \$114,225,398.
- C. **Investment Portfolio Report:** This Report presents detailed information for each of the U.S. Treasury Securities that comprise the Commission's SIP. The June 30, 2007 book value was \$49,004,883, and the market value was \$49,284,380.

The Orange County Treasurer apportions interest earnings in the commingled pools to all investors each month. According to the Treasurer's forecast, apportionment of the Commission's interest earnings for the period ended June 30, 2007 will be posted to the Commission's cash account in the County general ledger by August 30, 2007.

**ORANGE COUNTY TREASURER-TAX COLLECTOR**  
**INVESTMENT BALANCES**  
 FOR THE MONTH, QUARTER AND FISCAL YEAR ENDED: JUNE 30, 2007

INVESTMENT POOL STATISTICS*							
DESCRIPTION	CURRENT BALANCES	Average Days to Maturity	Current Yield	MONTH Average Yield	QUARTER Average Yield	ANNUAL Average Yield	Current NAV
<b>O.C. Investment Pool</b>							
<i>Money Market Fund</i>							
	MARKET Value \$ 1,877,130,515	54	5.31%				\$1.000
	BOOK Value (Capital) \$ 1,875,026,458						
	MONTHLY AVG Balance \$ 1,829,706,272			5.40%			
	QUARTERLY AVG Balance \$ 2,136,767,524				5.38%		
	ANNUAL AVG Balance \$ 1,879,035,637					5.38%	
	NET BOOK Value \$ 1,877,424,373						
<b>O.C. Educational Investment Pool</b>							
<i>Money Market Fund</i>							
	MARKET Value \$ 1,796,807,395	58	5.29%				\$1.000
	BOOK Value (Capital) \$ 1,794,384,113						
	MONTHLY AVG Balance \$ 2,083,045,003			5.37%			
	QUARTERLY AVG Balance \$ 2,298,124,571				5.36%		
	ANNUAL AVG Balance \$ 2,110,264,994					5.35%	
	NET BOOK Value \$ 1,797,146,637						
<b>Extended Fund</b>							
	MARKET Value \$ 2,360,816,509	496	5.26%				\$0.999
	BOOK Value (Capital) \$ 2,362,014,990						
	MONTHLY AVG Balance \$ 2,425,980,272			5.29%			
	QUARTERLY AVG Balance \$ 2,213,566,482				5.22%		
	ANNUAL AVG Balance \$ 2,076,260,561					4.96%	
	NET BOOK Value \$ 2,363,822,739						
<b>Allocation of Extended Fund</b>							
<i>County's Share of X Fund</i>							
	MARKET Value \$ 1,311,349,277	496	5.26%				\$0.999
	BOOK Value (Capital) \$ 1,312,014,990						
	MONTHLY AVG Balance \$ 1,375,980,272			5.29%			
	QUARTERLY AVG Balance \$ 1,290,448,203				5.22%		
	ANNUAL AVG Balance \$ 1,328,142,281					4.96%	
	NET BOOK Value \$ 1,313,019,130						
<i>Schools' Share of X Fund</i>							
	MARKET Value \$ 1,049,467,233	496	5.26%				\$0.999
	BOOK Value (Capital) \$ 1,050,000,000						
	MONTHLY AVG Balance \$ 1,050,000,000			5.29%			
	QUARTERLY AVG Balance \$ 923,118,280				5.21%		
	ANNUAL AVG Balance \$ 748,118,280					4.96%	
	NET BOOK Value \$ 1,050,803,609						
<b>COMBINED INVESTMENT POOL BALANCES</b>							
<i>County Investment Pool</i>							
	MARKET Value \$ 3,188,479,791	236	5.29%				\$0.999
	BOOK Value (Capital) \$ 3,187,041,448						
	MONTHLY AVG Balance \$ 3,205,686,544			5.35%			
	QUARTERLY AVG Balance \$ 3,427,215,726				5.32%		
	ANNUAL AVG Balance \$ 3,207,177,918					5.20%	
	NET BOOK Value \$ 3,190,443,503						
<i>Educational Investment Pool</i>							
	MARKET Value \$ 2,846,274,628	220	5.28%				\$0.999
	BOOK Value (Capital) \$ 2,844,384,113						
	MONTHLY AVG Balance \$ 3,133,045,003			5.35%			
	QUARTERLY AVG Balance \$ 3,221,242,851				5.32%		
	ANNUAL AVG Balance \$ 2,858,383,274					5.25%	
	NET BOOK Value \$ 2,847,950,246						

**ORANGE COUNTY TREASURER-TAX COLLECTOR**  
**INVESTMENT BALANCES**  
**FOR THE MONTH, QUARTER AND FISCAL YEAR ENDED: JUNE 30, 2007**

<b>NON POOLED INVESTMENTS **</b>		
DESCRIPTION	CURRENT BALANCE	BOOK BALANCE BY INVESTMENT TYPE
Specific Investment Funds: 100, 112, 161, 225, 283, 480, 482 483, 494, 497, 505, 510, 514, 532 546	MARKET Value \$ 144,576,343 BOOK Value (Capital) \$ 144,035,327 MONTHLY AVG Balance \$ 140,035,327 QUARTERLY AVG Balance \$ 140,182,277 ANNUAL AVG Balance \$ 135,004,845	Interest Bearing Accounts \$ 31,996 Money Market Funds 39,060,151 Repurchase Agreements 1,081,500 John Wayne Airport Investment Pool 54,856,798 Children & Families Commission Investment Pool 49,004,883 \$ 144,035,327

<b>FISCAL YEAR END TOTALS</b>		
INVESTMENTS & CASH		FUND ACCOUNTING & SPECIFIC INVESTMENTS
County Money Market Fund	\$ 1,875,026,458	
County Cash	25,759,028	
School Money Market Fund	1,794,384,113	County Funds \$ 3,178,512,641
Extended Fund	2,362,014,990	School Funds 2,864,065,885
School Cash	8,742,962	Specific Investments 144,035,327
Accounts Receivable (OCEIP) - Pending Trade	10,938,809	
Less: Due to Custody Bank (OCIP) - Excess Settlement Funds	(34,287,834)	
Non Pooled Investments @ Cost	144,035,327	
	<b>\$ 6,186,613,853</b>	<b>\$ 6,186,613,853</b>

\* Net Book Value is computed as Book Value reduced by amortization of premium and increased by the accretion of discount of the Investment Portfolio. Net Asset Value (NAV) is equal to Market Value divided by Net Book Value.

\*\* Specific non pooled investments are reported in compliance with Government Code Section 53646 (b)(1). Detailed descriptions are included in the Inventory listing in Section VII.



COUNTY OF ORANGE  
**OFFICE OF THE TREASURER-TAX COLLECTOR**  
 HALL OF FINANCE & RECORDS  
 12 CIVIC CENTER PLAZA, ROOM G76  
 P. O. BOX 4515  
 SANTA ANA, CA 92701

August 14, 2007

STATEMENT OF ACTIVITY  
For the Month Ended June 30, 2007

Orange County Children and Families Commission  
 c/o Michael Ruane, Executive Director  
 17320 Redhill Ave #200  
 Irvine, CA 92614

Cash in Treasury - Fund 225

<u>Date / Description</u>	<u>Beginning Balance</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Investment Income</u>	<u>Treasury Admin Fee</u>	<u>Ending Balance</u>
6/01/07, May Admin Fee	\$114,002,418.41	\$5,513,554.75	(\$6,306,937.34)	508,785.90	(\$10,033.22)	
6/07/07, March Interest				517,609.99		
6/26/07, April Interest	\$114,002,418.41	\$5,513,554.75	(\$6,306,937.34)	\$1,026,395.89	(\$10,033.22)	\$114,225,398.49

Accrued Investment Income - Fund 225

<u>Date / Description</u>	<u>Beginning Balance</u>	<u>Accrual</u>	<u>Payment</u>	<u>Ending Balance</u>	<u>Apportionment Annualized Yield (Gross)</u>
6/07/07, March Interest	\$1,551,420.44		(\$508,785.90)		
6/26/07, April Interest			(\$517,609.99)		
7/02/07, June Interest	\$1,551,420.44	\$514,913.94	(\$1,026,395.89)	\$1,039,938.49	5.307%, June

**Children and Families Commission of Orange County**  
**Investment Portfolio Report**  
**As of 06/30/07**

Issuer	Purchase Date	Maturity Date	Days to Maturity	Yield (%)	CUSIP	Cost	Market Value	Unrealized Gain (Loss)	Accrued Earnings	
									For Month	To Date
<b>Treasury Bond (semi-annual coupons)</b>										
U.S. Treasury Security	7/27/2006	7/31/2007	369	5.2322	912828EB2	\$ 4,933,984.40	\$ 4,996,875.00	\$ 2,242.12	\$ 21,423.75	\$ 141,466.85
U.S. Treasury Security	7/27/2006	10/31/2007	461	5.1906	912828EK2	4,942,968.75	4,989,845.00	4,937.87	21,034.73	77,740.01
U.S. Treasury Security	8/17/2006	1/31/2008	532	4.9822	912828EU0	4,957,812.50	4,982,810.00	(219.84)	20,507.45	116,463.89
U.S. Treasury Security	8/25/2006	4/30/2008	614	4.9197	912828FC9	4,996,093.75	4,992,970.00	(5,095.96)	20,170.36	42,593.55
U.S. Treasury Security	9/6/2006	4/30/2008	602	4.8511	912828FC9	5,001,562.50	4,992,970.00	(7,819.04)	19,901.64	39,847.88
U.S. Treasury Security	9/15/2006	10/15/2008	761	4.7986	912828BM1	4,835,937.50	4,885,940.00	(12,302.44)	19,275.02	95,177.21
U.S. Treasury Security	9/26/2006	1/15/2009	842	4.5856	912828BV1	4,855,468.75	4,877,345.00	(25,843.09)	18,616.42	122,684.81
U.S. Treasury Security	10/2/2006	4/15/2009	926	4.6332	912828CE8	4,821,484.40	4,850,000.00	(23,920.95)	18,590.83	85,308.82
U.S. Treasury Security	10/11/2006	7/15/2009	1008	4.7447	912828CN8	4,856,445.30	4,878,125.00	(15,775.54)	19,293.18	121,070.57
U.S. Treasury Security	10/16/2006	10/15/2009	1095	4.8011	912828CX6	4,803,125.00	4,837,500.00	(12,011.99)	19,225.81	81,889.04
<b>Subtotal for: Treasury Bond</b>						<b>49,004,882.85</b>	<b>49,284,380.00</b>	<b>(95,808.86)</b>	<b>198,039.19</b>	<b>924,242.63</b>
<b>Grand Total</b>						<b>\$ 49,004,882.85</b>	<b>\$ 49,284,380.00</b>	<b>\$ (95,808.86)</b>	<b>\$ 198,039.19</b>	<b>\$ 924,242.63</b>

All of the above investments and any investment decisions made for the month June 30, 2007 were in full compliance with the Commission's investment policy as adopted on May 2, 2007.

The Commission has adequate cash flows for six months of operations.