



Children and  
Families  
Commission of  
Orange County

**Commission Investment  
Program Update**

*Presentation*

*January 7, 2009*

# Today's Topics

- ❑ Overview of Financial Markets
- ❑ Treasury Yield Curve
- ❑ Orange County Investment Pool
- ❑ Status of Commission Investments
- ❑ County Investment Policy Update
- ❑ On-Going Monitoring & Reporting

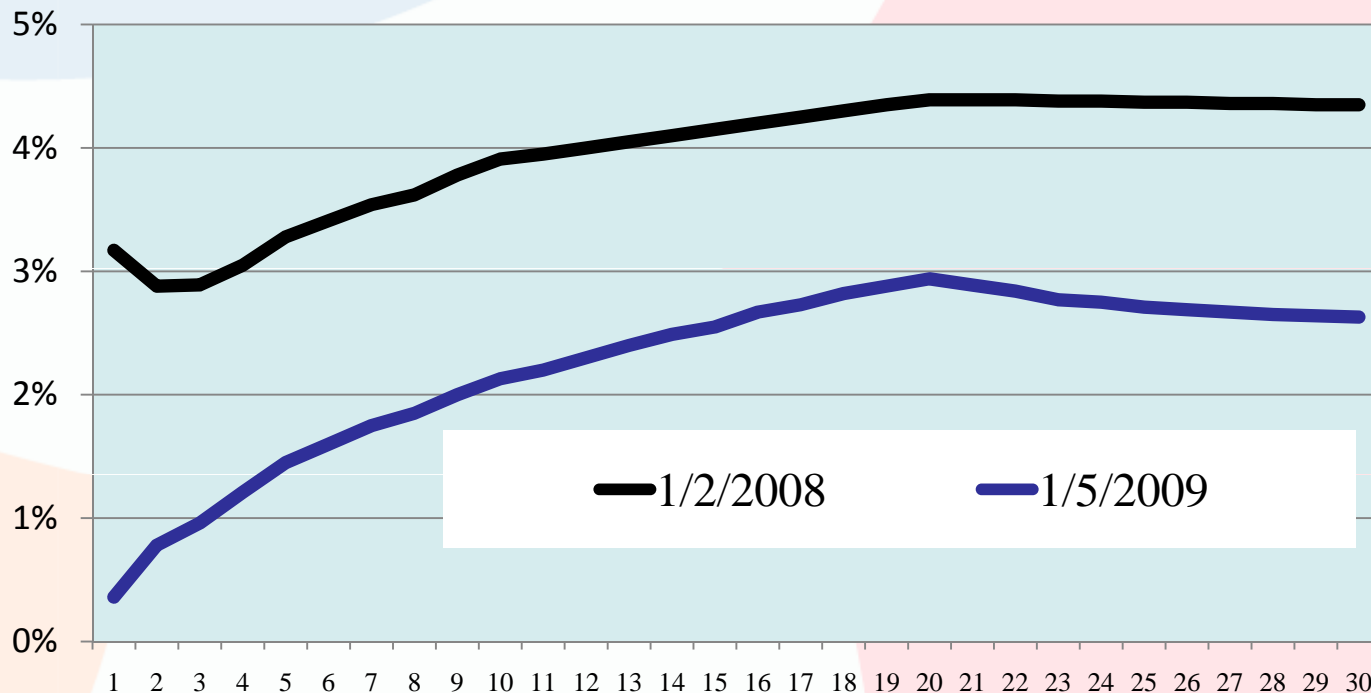


# Overview of Financial Markets

- ❑ Investor concern has caused unprecedented “flight to quality”
  - ❑ Subprime mortgage defaults started credit crisis
  - ❑ Resulting credit crisis has frozen new loans for business and consumers
  - ❑ 90 day Treasury Bills have had negative yield several times recently
- ❑ US Treasuries and Government Agencies
  - ❑ Treasuries are at lowest yields in decades
    - ❑ 4 basis points for 30 day maturity to 2.64% for 30 year maturity
  - ❑ Federal Reserve took over operation of Fannie Mae and Freddie Mae in Sept. 2008
- ❑ Fixed Income
  - ❑ Almost all securities issued by financial firms under severe pressure
- ❑ Key Issues
  - ❑ Is Federal bailout of financial industry starting to work?
  - ❑ When will falling housing prices stabilize?
  - ❑ Unemployment rate in November was 8.3% in California
  - ❑ Unemployment rate in November was 6.1% in Orange County

# Treasury Yield Curve Lowest in Decades

Today's lower Treasury yields will have a significant impact on the returns of OCIP's Money Market Fund (MMF) and Commission's Sustainability Fund in 2009



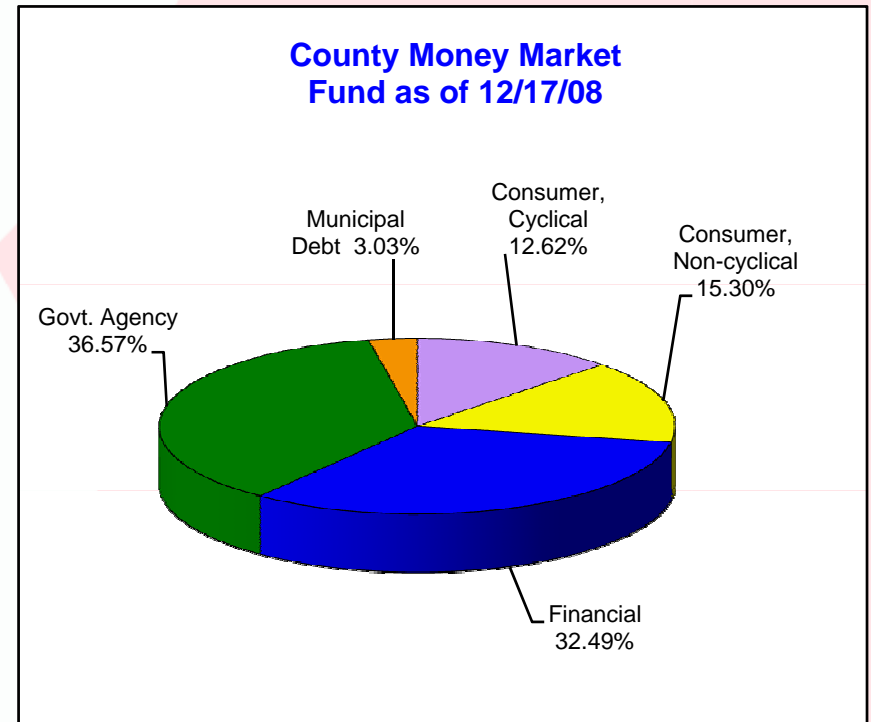
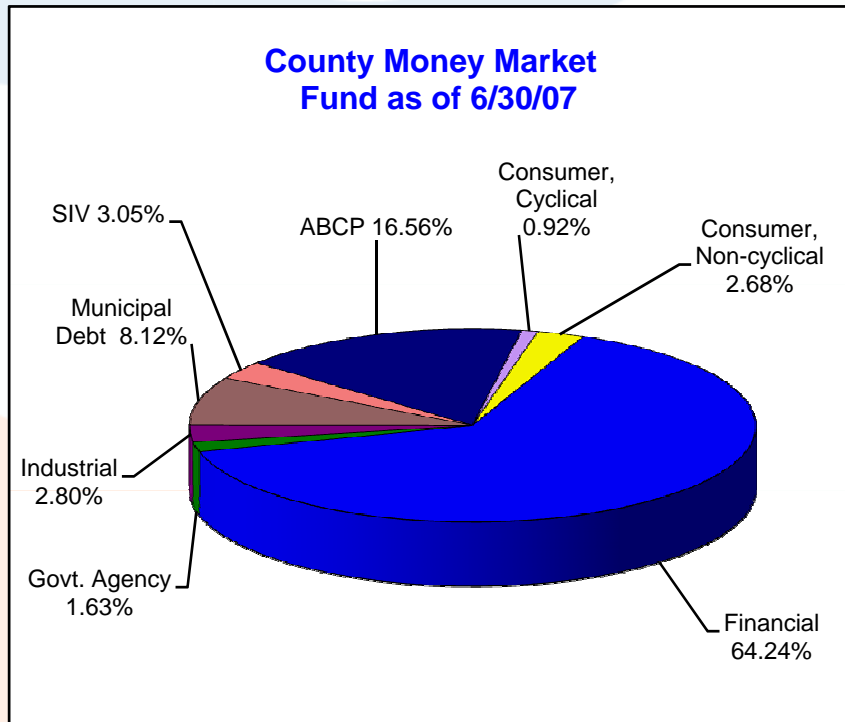
# Orange County Investment Pool (OCIP)

- ❑ Repositioning / Recalibration of Investments
  - ❑ Shift from large investments in Financial Institutions to Government Agencies and Consumer Companies
  - ❑ Reduced Exposure to SIVs
    - ❑ \$262 million outstanding in January 2009
    - ❑ \$200 million scheduled to mature by June 2009
- ❑ OCIP's County and Education MMFs are rated highest level at "AAAm"
  - ❑ "AAAm" Principal Stability Fund rating December 1, 2008
    - ❑ County MMF and Education MMF "AAAm" ratings are the first such ratings assigned to a California government investment pool

# Treasurer Reallocated Investments

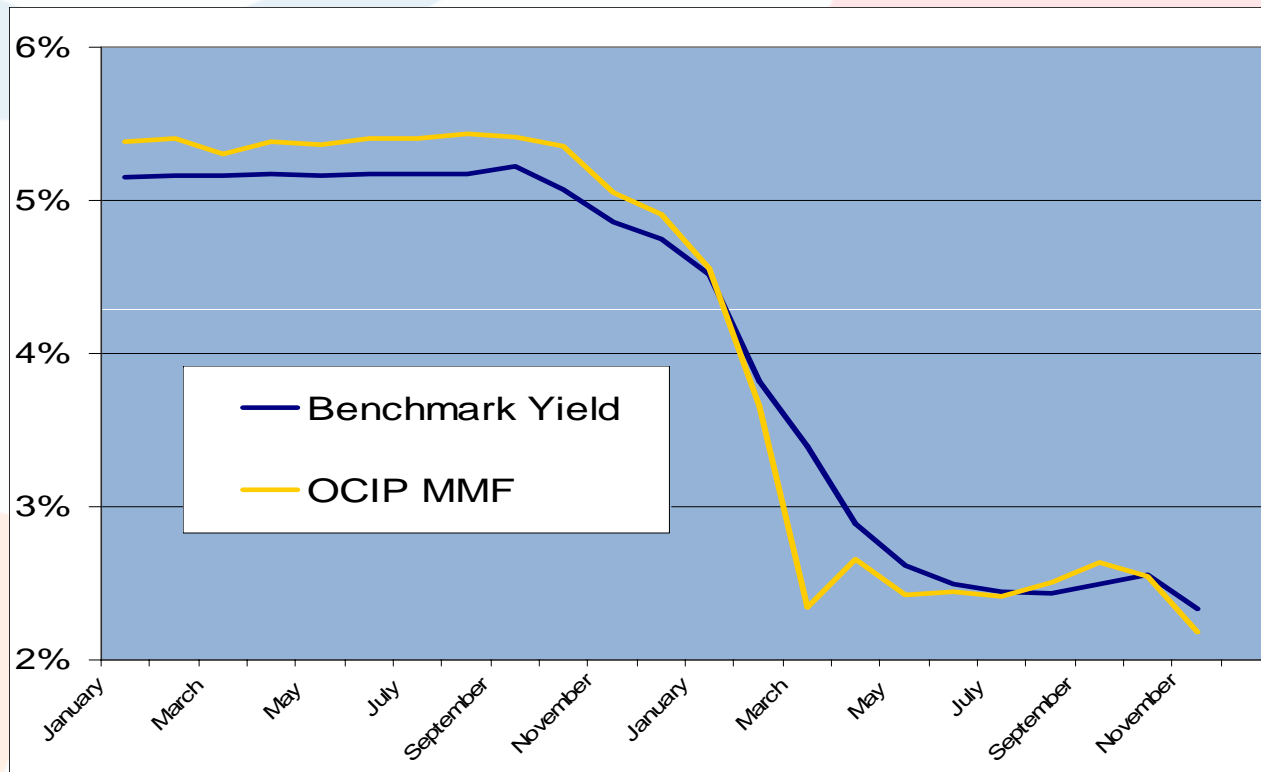
In response to the credit and liquidity crisis:

- Government Agencies allocation was increased from 1.63% to 36.57%
- Financial securities allocation was decreased from 64.24% to 32.49%.



# Lower Yields are Likely to Remain in 2009

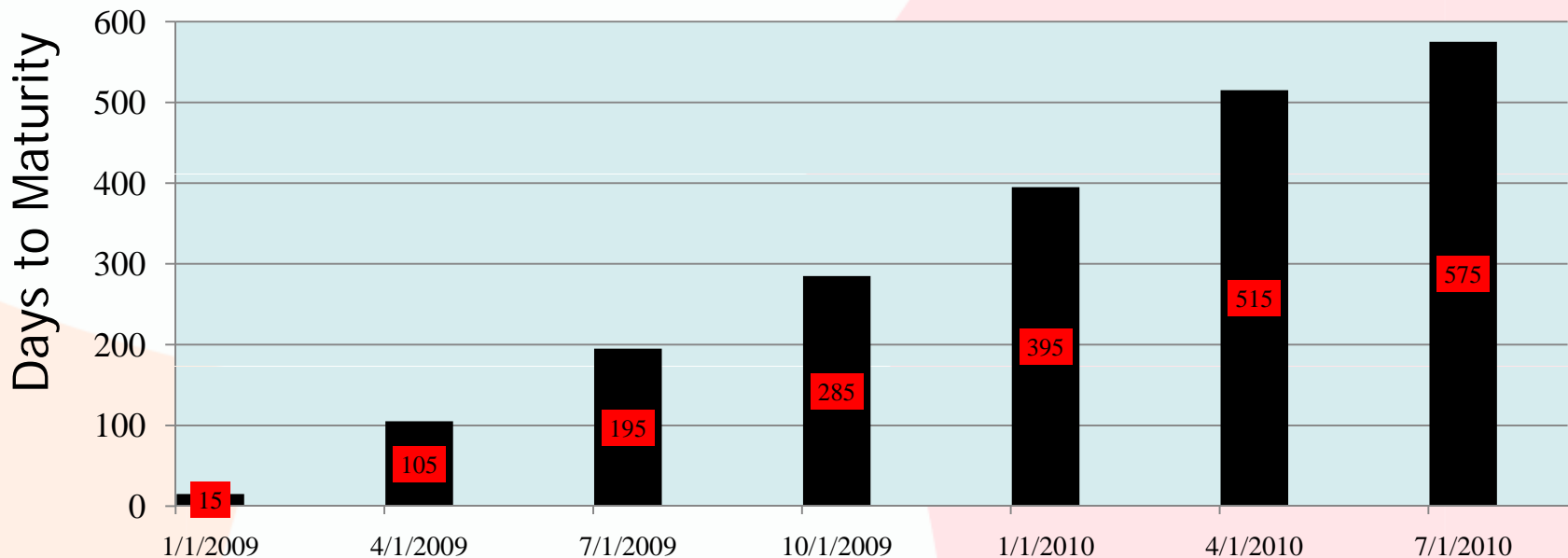
Today's lower average monthly yields in OCIP's MMF reflect the "flight to quality" in all the fixed income markets



# Status of Commission Investments

- \$115 million in OCIP MMF as of November 20, 2008
- \$35 million in Specific Long-Term Investment Fund (SLIP)

SLIP is invested in Treasury Bonds in “laddered” maturity structure. Four \$5 million investments mature and must be reinvested in 2009.



# County Investment Policy (IPS) Update

- ❑ Board adopted 2009 IPS on December 16, 2008
- ❑ Maximum allowable maturity of the Extended Fund was increased from 3 to 5 years
- ❑ Liquidity Providers for Asset-Backed Commercial Paper Notes must also be Approved Issuers
- ❑ The Weighted Average Maturity or “WAM” of OCIP’s MMF was shortened from 90 days to 60 days
- ❑ SIVs and other structured securities are prohibited

# On-Going Monitoring & Reporting

- ❑ Continue active monitoring of OCIP
- ❑ Commission's Investment Oversight Committee
  - ❑ January 20, 2009 Meeting
  - ❑ Staff and financial advisor will develop work plan for 2009
  - ❑ Staff will continue to meet with OCIP staff on routine basis
- ❑ Regular Quarterly Investment Reports to Commission
- ❑ Periodic Updates to Commission

# Questions

