



# Preliminary Report on Risk Analysis of the Treasurer's Investment Pools

Orange County Board of Supervisors  
January 8, 2008



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# Project Timeline



- **January 8, 2008**
  - Presentation to Board of Supervisors
- **January 24, 2008**
  - Deliver final analysis
  - Available for briefing of Executive Staff of the Board of Supervisors
- **January 28, 2008**
  - Available for briefing of Members of the Board of Supervisors
- **January 29, 2008**
  - Present findings and recommendations to Board of Supervisors

# Policies and Procedures Review



Work Element	Detail
<b>Investment policy</b>	Compare County's investment policy to: <ul style="list-style-type: none"><li>• California Government Code</li><li>• GFOA and Association of Public Treasurers of the U.S. &amp; Canada model investment policies</li></ul>
<b>Organization (TOC and TAC)</b>	Review: <ul style="list-style-type: none"><li>• Responsibilities of each Committee</li><li>• Composition of Committees</li><li>• Qualifications for appointment to Committees</li></ul>
<b>Investment processes</b>	Review processes to determine how the County: <ul style="list-style-type: none"><li>• Ensures compliance with investment policy and the Government Code</li><li>• Determines appropriateness of investments</li><li>• Adds or removes credits from approved list</li></ul>
<b>Staffing requirements</b>	<ul style="list-style-type: none"><li>• Determine appropriate job qualifications</li><li>• Evaluate formal job descriptions</li><li>• Recommend changes, if any, to staffing plan</li></ul>
<b>Oversight and reporting</b>	<ul style="list-style-type: none"><li>• Evaluate usefulness of information provided to Board and Committees as a management and an oversight tool</li></ul>

# Investment Program and Portfolio Review

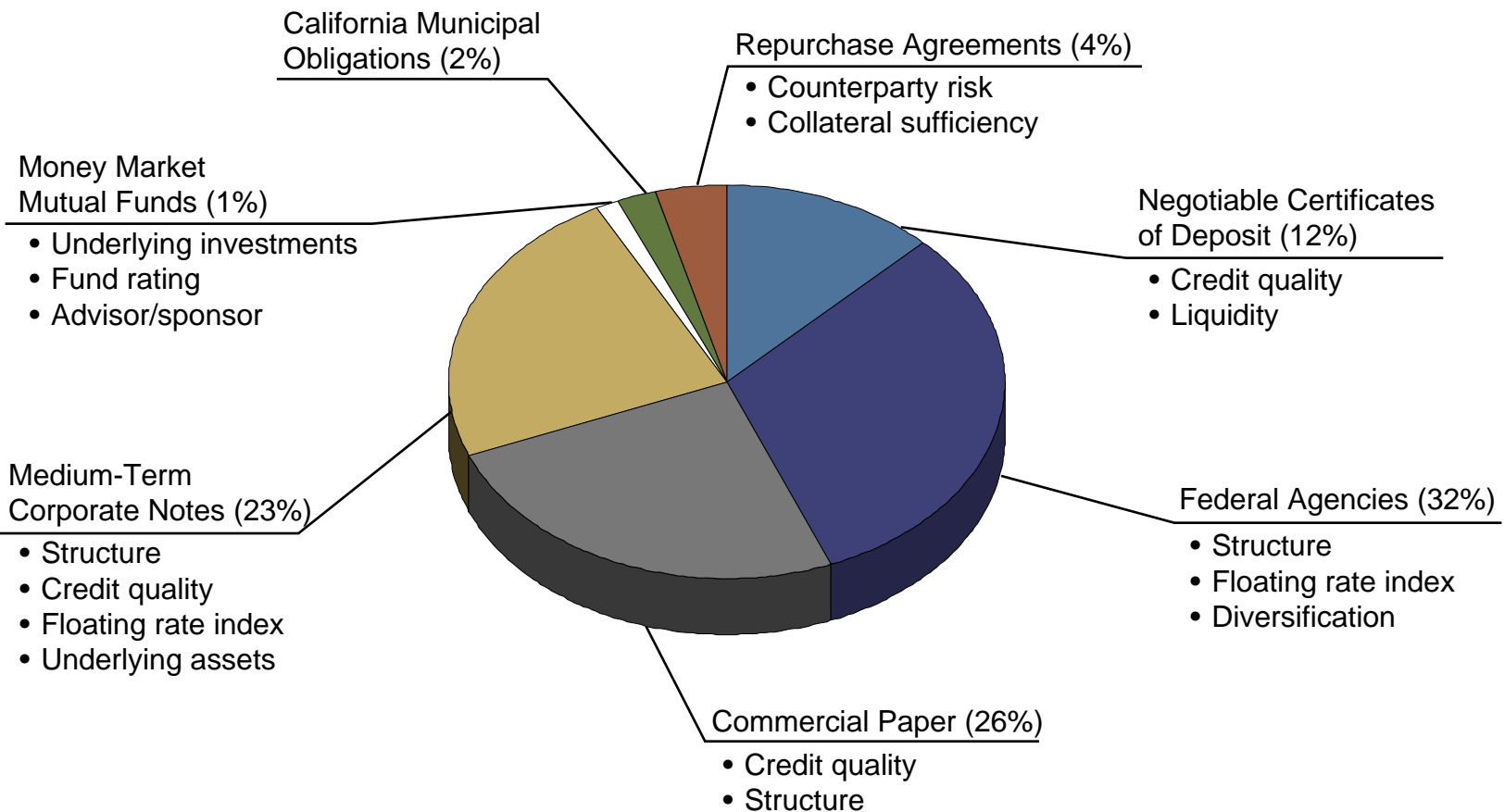


Work Element	Detail
<b>Risk factors</b>	<ul style="list-style-type: none"><li>• Research and evaluate specific investment risk factors</li></ul>
<b>Credit quality</b>	<ul style="list-style-type: none"><li>• Review current holdings and approved issuer list</li></ul>
<b>Identify and assess any stressed securities</b>	<ul style="list-style-type: none"><li>• Assign each stressed investment a risk level</li><li>• Make sell or hold recommendations</li></ul>
<b>Historic sector allocation</b>	<ul style="list-style-type: none"><li>• Review current and historic sector diversification</li><li>• Determine if sector allocation is market driven</li></ul>
<b>Liquidity analysis</b>	<ul style="list-style-type: none"><li>• Perform historical cash flow analysis</li><li>• Stress test pool share price (net asset value)</li><li>• Develop assumptions for raising cash for withdrawals under different market conditions</li></ul>
<b>Investment policy compliance</b>	<ul style="list-style-type: none"><li>• Compare current investment holdings to investment policy</li></ul>
<b>Performance benchmarking</b>	<ul style="list-style-type: none"><li>• Contrast historical returns to appropriate performance benchmarks</li><li>• Recommend changes in benchmarks, if appropriate</li></ul>

# Evaluation Plan for Current Holdings



## Sector Diversification\* as of November 30, 2007



\*Chart includes the County's investment pool, the educational pool and the extended fund.

# In-Depth Analysis of Asset-Backed Securities



- Once the asset-backed securities held in the County's investment pools have been identified, the following characteristics will be examined to determine the risk level of each investment.
  - Structure
  - Underlying assets
  - Administrator
  - Liquidity provider
  - Credit enhancement
  - Monitoring and reporting discipline

# Content of Final Report



- Strengths and weaknesses of current investment program
  - Organization and management
  - Oversight
  - Processes
  - Investment policy
  - Reporting
- Portfolio evaluation
  - Risk assessment
  - List of actions regarding any stressed securities
  - Portfolio strategy
  - Performance