OFFICE OF THE TREASURER-TAX COLLECTOR



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September 15, 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 August 31, 2008

Attached please find the Treasurer's Management Report for the County of Orange for the month ended August 31, 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 August 31st. 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 cost 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 July 2008 interest apportionment. We anticipate posting the July 2008 interest apportionment to participants' cash accounts in the County general ledger by approximately September 19, 2008.

CREDIT OBSERVATIONS

SIV Update

The Structured Investment Vehicles that remain in the County's Extended Fund continue to reduce leverage and shrink their portfolios through principal maturities and asset sales. The high quality underlying assets in these SIVs continue to be high performing.

Sigma Finance Corporation

Through the month of August, Sigma continued to obtain funding through the repurchase market. On September 12, 2008, \$75 million, with a maturity date of October 30, 2008, was sold.

Whistlejacket Capital LLC

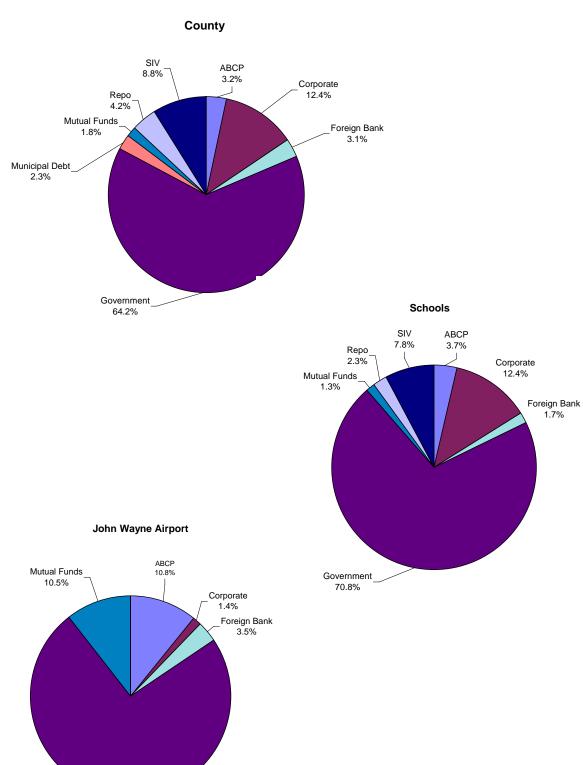
Deloitte is continuing to pursue a restructuring effort and has stated that they intend to distribute a portion of the cash build-up as a dividend distribution to note-holders within the next few weeks.

Pool participants hold \$50 million scheduled to mature on January 25th, 2009 and \$30 million scheduled to mature on January 26th, 2009.

PORTFOLIO COMPOSITION

The following graphs represent the County, School and John Wayne Airport investment pools' composition by issuer type. The County and School pools include their portion of the Extended Fund (Exhibit 1).

Exhibit 1:



MARKET OBSERVATIONS

Government

Fannie Mae and Freddie Mac, two of the three government sponsored enterprises (GSE) that guarantee 70% of all US mortgages, are being converted into nationalized entities by the US Treasury. What does this mean for the debt held by the Orange County investment pools?

The Federal Housing Finance Agency (FHFA), successor to the Office of Federal Housing Enterprise Oversight (OFHEO), and the US Treasury are implementing a number of specific steps to shore up the agencies. By placing them into conservatorship, the equity holders have no decision making authority. Although, common and preferred equity still remain outstanding, dividend payments have been suspended. FHFA forced the resignation of the CEOs and have installed management from large, successful (read conservative) institutions.

On the Treasury side there are two main initiatives. First, the Treasury will infuse preferred stock into Fannie and Freddie as needed to ensure the companies always have positive net worth. This provision eliminates the FHFA's option of putting either GSE into receivership. This new class of stock stands ahead of outstanding preferred shares and amounts to an ownership stake of nearly 80%. Second, Treasury extended a credit line to Fannie, Freddie and FHLBs. The loans will be for a term of 1 week to 1 month and can be rolled over. This appears to be a backstop in the event the GSEs can not raise money in the private market.

These steps have been taken in order to reassure global financial markets that the US government stands ready to make good on the GSEs' outstanding debt. As the markets become accustomed to using GSE debt as a higher yielding substitute for Treasury debt spreads will continue to contract. Over the last year, the Treasurer's office has greatly increased pool holdings of GSE debt. During the month of August, the Treasurer's office opportunistically added around \$400 million of additional exposure to the GSEs. In recent days, the amount it costs Fannie and Freddie to borrow in excess of the yield on Treasuries has plunged and our portfolios have risen in value.

The Orange County Treasurer's office intends to continue to take advantage of market events to enhance the total return on the portfolios we manage. Although we expect a slowing US economy with no dramatic changes in interest rates for the rest of this year, we remain vigilant for any surprises that can affect our returns.

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

September 1, 2007 - August 31, 2008

					AVERAGE	
PERIOD ENDING - MONTH / YEAR	MONTH END		EARNINGS FOR		YIELD FOR	MONTH END
		ARKET VALUE		MONTH	MONTH	WAM
Current Month - August 2008						
County Pool - Money Market Fund	\$	1,735,397,363	\$	3,733,249	2.51%	47
Educational Pool - Money Market Fund	\$	1,839,799,053	\$	3,658,783	2.42%	45
Extended Fund	\$	2,182,413,404	\$	6,883,249	3.74%	477
OC Extended Fund B	\$	69,117,440	\$	-	N/A	147
July 2008	Ť	55,111,111	Ť		,	
County Pool - Money Market Fund	\$	1,787,284,123	\$	3,899,411	2.41%	50
Educational Pool - Money Market Fund	\$	1,797,691,062	\$	3,698,983	2.38%	50
Extended Fund	\$	2,104,561,539	\$	7,010,329	3.73%	481
OC Extended Fund B	\$	69,117,440	\$	7,010,020	N/A	178
June 2008	Ψ	03,117,440	Ψ		14// (170
County Pool - Money Market Fund	\$	1,922,691,656	\$	4,090,847	2.44%	33
	\$	1,707,534,727	\$	4,119,816	2.46%	33
Educational Pool - Money Market Fund						
Extended Fund	\$	2,194,238,720	\$	7,014,532	3.92%	503
OC Extended Fund B	\$	69,117,440	\$	-	N/A	209
May 2008	_	0.050.055.004	Φ	4 000 400	0.4004	65
County Pool - Money Market Fund	\$	2,052,055,391	\$	4,328,189	2.42%	29
Educational Pool - Money Market Fund	\$	2,208,622,434	\$	4,646,915	2.45%	35
Extended Fund	\$	2,188,235,769	\$	7,248,040	3.81%	456
April 2008						
County Pool - Money Market Fund	\$	2,313,762,854	\$	5,648,143	2.66%	33
Educational Pool - Money Market Fund	\$	2,328,134,710	\$	4,593,731	2.62%	42
Extended Fund	\$	2,281,021,020	\$	7,592,402	4.15%	466
March 2008						
County Pool - Money Market Fund	\$	2,015,431,220	\$	3,791,696	2.34%	23
Educational Pool - Money Market Fund	\$	1,952,925,095	\$	5,148,299	3.03%	42
Extended Fund	\$	2,298,149,876	\$	11,180,561	5.77%	465
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		2,110,101,101	Ψ	0,000,020	0.1070	100
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	Ψ	2,203,142,414	Ψ	10,000,009	3.2170	+37
	æ	1 000 054 010	ф	7 700 001	E 0E0/	22
County Pool - Money Market Fund	\$	1,982,354,313	\$	7,788,881	5.05% 5.00%	33
Educational Pool - Money Market Fund Extended Fund	\$	1,609,274,201 2,331,861,281	\$ \$	6,711,960 10,381,129	5.00% 5.35%	37 477
October 2007	Ф	2,001,001,201	Ψ	10,301,129	0.30%	411
County Pool - Money Market Fund	\$	1,782,577,124	\$	6,883,821	5.35%	38
Educational Pool - Money Market Fund	\$	1,694,769,373	\$	7,831,908	5.22%	43
Extended Fund	\$	2,402,836,096	\$	11,058,084	5.28%	484
September 2007			_			
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 September 1, 2007 - August 31, 2008	\$	2,540,343,321	\$	10,875,629	5.24%	468
County Pool - Money Market Fund	\$	1,941,721,987	\$	5,946,441	3.65%	35
Educational Pool - Money Market Fund	\$	1,954,214,224	\$	5,859,190	3.68%	39
Extended Fund	\$	2,269,365,142	\$	8,945,817	4.72%	470