



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

JOHN M. W. MOORLACH, C.P.A., CFP®
TREASURER-TAX COLLECTOR
(714) 834-7625

GARY J. COWAN
ASSISTANT TAX COLLECTOR
(714) 834-3545

BRETT R. BARBRE
PUBLIC INFORMATION OFFICER
(714) 834-6143

FAX (714) 834-2912

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TO: Board of Supervisors
James D. Ruth, County Executive Officer
Treasury Oversight Committee
Treasurer's Advisory Committee
Participants

FROM: John M. W. Moorlach, C.P.A., CFP®
Treasurer-Tax Collector

SUBJECT: Treasurer's Management Report for January 31, 2004

Attached please find the Treasurer's Management Report for the County of Orange for the month and quarter ended January 31, 2004. 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 <http://www.oc.ca.gov/treas/>.

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 January 31. 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 book value (cost to the County of the investment) and market value (the price of each security at the close of the market on the last trading day of the month). 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 Pool's January 2004 interest apportionment. We anticipate posting the January interest apportionment to participants' cash accounts in the County general ledger by approximately February 19, 2004.

CREDIT WATCH NEGATIVE AND APPROVED ELIGIBILITY LIST

In an effort to provide more information on the impacts of position changes by the three major credit rating agencies, we have added new sections to our monthly report. We now provide our list of approved issuers (see Approved Eligibility List - **Section X**) and any that have been removed or added back to the list due to credit rating changes (see Credit Watch Negative – **Section XI**). We hope that this information has been beneficial to those interested in looking a little deeper into our investment management activities.

In this same vein, this month we are adding another section showing the average weighted credit rating of our holdings (see Month-End Weighted-Average Credit Ratings – **Section XII**). This is a management tool that we have been using for several years. It tells us where our average credit risk is and then we determine if we are being adequately compensated for taking this risk.

Here are a few tips on how to read this chart. We score our holdings based on their ratings, with the best rating garnering a 1 (AAA) and the worst garnering a 43 (D). The orange line (13 or an A- rating) designates the lowest credit rating that we are allowed to acquire. The solid red line (19 or a BBB-rating) is the boundary between investment grade and non-investment grade (junk bond) ratings.

As you can see, we can only acquire investments in the top one-third of rated issuers. And we usually swim in the top 7 to 18 percent, on average. This means we have issuers above and below this range, but all of them are first-tier issuers. The overall weighted average credit rating will also reflect the Treasurer's Investment Committee's concerns about the marketplace as a whole. Currently, our portfolios are very conservative as yield spreads are very narrow. That is, we are not being heavily penalized for acquiring the highest rated issuers (the higher the rating, the lower the offered yield).

In the month of January, there was one change to the Treasurer's approved eligibility list: Motiva LLC was placed on Credit Watch Negative and subsequently removed from our eligibility list.

ECONOMIC OBSERVATIONS

The Federal Open Market Committee's (FOMC) most recent meeting was held on January 28. The meeting's outcome reiterated that an improving economic landscape could denote the days of record low interest rates may be numbered.

Just a few of the outstanding economic releases from January include:

- Gross domestic product (GDP) during the fourth quarter of 2003 was reported at a solid 4.0 percent, the ninth consecutive quarter of positive growth.
- The purchasing managers' index reached a 20-year record.
- Consumer confidence is improving substantially.
- Mortgage applications and housing starts hit another record high.
- Vigorous momentum continues in the regional manufacturing sectors.

However, January's tepid employment report disappointed both economists and the financial markets. Uninspiring numbers for two months have left economists "scratching their heads" to explain the lack of jobs as compared to the robust growth apparent in other sectors. Accordingly, the majority of the Treasurer's Investment Committee is expecting interest rates to remain unchanged for a significant period of time.

INTEREST RATE FORECAST

The estimated interest rate for fiscal year 2003-2004 remains at 1.0 percent.

Please call with any questions.