

TO: Board of Supervisors
FROM: Robert L. Citron, Treasurer-Tax Collector
SUBJECT: Statement of Investment Policy

Government Code Section 53646 requires that the Treasurer render to the Board of Supervisors an annual statement of investment policy. Following is such statement for fiscal year 1988-89.

The Orange County Treasurer provides investment services for over 170 separate local governmental agencies. The cash requirements of these agencies necessitates that funds be available on demand, thus necessitating that our portfolio consist mainly of short term investments. Our investment policy is structured in such a manner that safety of investment principal may be maintained while providing a satisfactory yield.

SAFETY

Preservation of capital remains our foremost concern. The investments we choose and the persons with whom we entrust funds reflects this concern. Our primary investment instrument shall be Government Securities, including but not limited to United States Treasury Notes, Treasury Bills, Treasury Bonds, and obligations of United States Government Agencies. Our investment portfolio may also include banker's acceptances, negotiable certificates of deposit of national or state chartered banks and state or federal thrifts, commercial paper, repurchase agreements, reverse repurchase agreements, medium term corporate notes, and collateralized time deposits. We will not invest in financial futures contracts, financial options contracts, nor mutual funds.

Our investments are placed only with large well known securities brokers, dealers and banks. We require these institutions to provide us with annual financial statements, and we subscribe to services that monitor for us the financial stability of those institutions with whom we invest. Funds are invested with several institutions, providing protection and liquidity in the event of any one institution's financial failure. For additional protection, we utilize a master repurchase agreement for all our repurchase transactions.

LIQUIDITY

Next in importance to the preservation of capital is the ability to easily trade or sell securities in the portfolio, otherwise known as liquidity. Our investment portfolio shall always maintain a high level of liquidity. This level is maintained by holding securities such as Treasury Notes, Treasury Bills, and Agency obligations that are actively traded on securities markets. Investments such as non-negotiable certificates of deposit which are not liquid shall be avoided.

Closely related to liquidity is cash flow forecasting, the coordination of investment income and maturities to match expected cash requirements. We shall structure our investment maturities in

such a manner that cash requirements may always be met without the necessity of selling securities prior to their maturity. To assist us in this endeavor, we utilize the MONEYMAX cash flow software package which projects cash receipts and expected disbursements. Additionally, in order to provide instant access to funds, we shall invest a portion of the portfolio in overnight repurchase agreements.

YIELD

Although investment yield is the most visible result of any investment program, it must not be considered more important than the safety and liquidity of the portfolio. While maintaining proper levels of safety and liquidity we shall endeavor to obtain the highest possible yield. In order to realize an improved investment yield, our policy is to purchase Government securities and hold them until their ultimate maturity. During this period, we intend to increase interest earnings by leveraging the securities through 90 day matched reverse repurchase agreements. By matching the maturities on the reinvestment of the reverse repurchase proceeds to the maturities on the reverse repurchase agreements, safety and liquidity are maintained while interest earnings are increased.

In some instances, market fluctuations may give rise to the opportunity to increase earnings through the sale of one security and the reinvestment of funds in other securities. When it is our opinion that these occurrences will benefit our portfolio's yield, we may sell securities prior to maturity. However, we will not sell securities solely for the purpose of interest rate speculation.

LOCAL INVESTMENTS

As a large scale investor, we recognize the need to assist in the continuing growth of our local economy. Therefore, we will continue to maintain collateralized time deposits with entities located in Southern California, which in turn, allows those entities to increase their local loan activity.