OFFICE OF THE TREASURER-TAX COLLECTOR

HALL OF FINANCE & RECORDS
12 CIVIC CENTER PLAZA, SUITE G76
POST OFFICE BOX 4515
SANTA ANA, CA 92701
www.ttc.ocgov.com

April 14, 2008

CHRISS W. STREET
TREASURER-TAX COLLECTOR

PAUL C. GORMAN, C.P.A., CTP
CHIEF ASSISTANT TREASURER-TAX COLLECTOR

JENNIFER BURKHART
ASSISTANT TREASURER-TAX COLLECTOR
INFORMATION TECHNOLOGY

WALTER DANIELS
ASSISTANT TREASURER-TAX COLLECTOR
TAX COLLECTION

ROBIN RUSSELL
ASSISTANT TREASURER-TAX COLLECTOR
ADMINISTRATION

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 March 31, 2008

Attached please find the Treasurer's Management Report for the County of Orange for the month ended March 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 March 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 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). 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 February 2008 interest apportionment. We anticipate posting the February 2008 interest apportionment to participants' cash accounts in the County general ledger by approximately April 16, 2008.

CHANGES IN ELIGIBILE CREDITS

In the month of March, there were six changes to the Treasurer's approved eligibility list of issuers.

The following were removed from the eligibility lists:

1) Merrill Lynch
2) Morgan Stanley
3) Goldman Sachs
4) Lehman Brothers
5) CIT Group
6) Standard Chartered Bank

For more detail regarding credit changes, please see the Changes in Eligible Credits section of this report.

CREDIT OBSERVATIONS

SIV UPDATE:

K2 Corporation:
In another positive development for K2, their triple-A ratings were affirmed and removed from credit watch negative on March 19 by Standard &Poor's and on March 28 by Moody's. This action was in response to Dresdner Bank's commitment to support K2's liquidity through new mezzanine and backstop facilities as of March 18. The backstop facility is itself sufficient to cover all of K2's secured liabilities. This is excellent news for Orange County and other investors.

K2's liquidity currently benefits from:

- $1 billion in breakable deposits
- $500 million of bank committed liquidity lines
- $1.5 billion undrawn mezzanine credit facility
- Dresdner's backstop facility

The extended fund currently has $25 million scheduled to mature on 1/23/2009 and $75 million on 6/9/2009.

Sigma Finance Corporation:

On April 7, 2008, Standard and Poor's affirmed Sigma's short term rating of 'A-1+'. The 'A-1+' rating reflects the new repurchase agreement funding facilities (putting up collateral for bank loans that it agreed to buy back at a later date) available to provide significant additional funding if necessary.

Standard & Poor's also lowered Sigma's long-term debt ratings from AAA to AA-. Moody's had taken similar action lowering its long-term rating to A2. These long-term ratings reflect the risk associated with (1) long term funding challenges, and (2) challenges in the overall markets which may decrease their financial flexibility. Sigma has been able to secure between $1 and $2 billion of funding a week. Their ability to secure liquidity through deep banking relationships has been a hallmark of Sigma. However, the ratings will remain on credit watch to reflect further uncertainty.

The extended fund currently has $50 million scheduled to mature on 5/14/2008 and $75 million on 10/30/2008.

Tango Finance Corporation:

On March 18, Moody's confirmed Tango's Aaa and P-1 ratings following the sale of all assets in the SIV to Rabobank. Tango now holds sufficient funds to repay all senior debt as it matures. This rating action is excellent news and has been anticipated by our office. Standard and Poor's has maintained their AAA and A-1+ ratings of Tango since it first rated the company in 2002.

The extended fund currently has $50 million scheduled to mature on November 11, 2008, $50 million on June 10, 2009, $25 million on September 25, 2009, and $40 million on July 30, 2009.

Whistlejacket Capital LLC:

On Monday April 7, 2008 the Treasurer's office participated in the second senior investor call with Deloitte and Touche, the receivers of Whistlejacket. Refinancing proposals are still being pursued and Deloitte and Touche expect some legal decisions to be rendered in the next 30 to 60 days over the method of future payments.

Until further notice, the Treasurer's Office will be conservatively pricing Whistlejacket at 86.3968. This new market price contemplates the recently disseminated SEC opinion letter regarding the Fair Market Valuation of distressed assets and reflects the uncertainty of Whistlejacket's timely repayment.

The extended fund currently has $50 million scheduled to mature on January 25, 2009 and $30 million on January 26, 2009.

Freddie Mac and Fannie Mae:

Chartered by Congress, but funded with private capital, the mission of Freddie Mac (Freddie) and Fannie Mae (Fannie) is to provide liquidity, stability and affordability to the U.S. housing market. As the largest purchasers of mortgage loans in the U.S., these government sponsored enterprises (GSEs) provide lenders with a steady flow of low-cost mortgage funding. Freddie and Fannie accomplish this through guaranteeing, purchasing, securitizing and investing in residential mortgage loans.

The key role played by these entities lies in their ability to access wholesale funding markets. While the U.S. Government is not obligated to fund the activities of the GSEs, investors view government support as highly likely. Buoyed by implicit government support, while managing its way through a financial restatement process and associated governance and control problems, the GSEs have maintained excellent market access.

The GSEs face a challenging environment as mortgage and credit market conditions have deteriorated rapidly. The following factors will have a negative impact on the mortgage and credit markets:

- significant volatility
- lower levels of liquidity
- wider credit spreads
- rating agency downgrades of mortgage-related securities or counterparties
- declines in home prices nationally
- higher incidence of institutional insolvencies
- higher levels of foreclosures and delinquencies, particularly with respect to non-traditional and sub-prime mortgage loans.

Regardless of earnings deterioration, market access has continued to be strong. Additionally, their long track records managing interest rate risk, capital, and liquidity and their low credit risk profile have supported their credit strength.

On March 19, 2008, OFHEO announced its initiative to increase mortgage market liquidity by providing up to $200 billion to the mortgage-backed securities market. The 30% surplus capital over minimum statutory capital requirements will be reduced to 20%. We do not view this action as improving Freddie or Fannie fundamentals; however, the remaining 20% capital surplus requirement will continue to bolster minimum statutory capital.

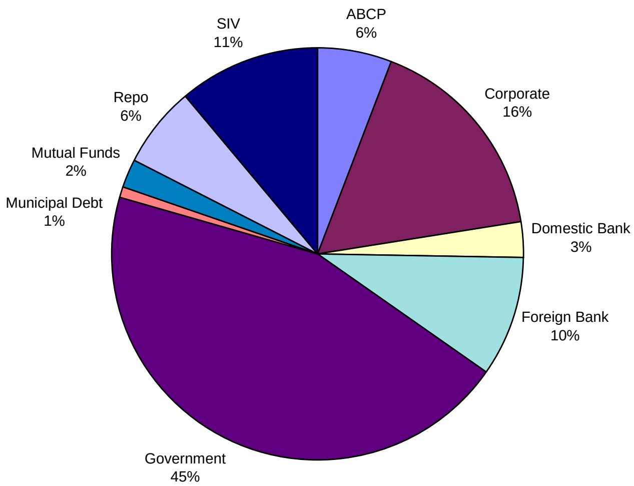
Freddie and Fannie's liquidity is strengthened by their respective contingency plans providing for at least three month's liquidity without access to the capital markets. Freddie's $710 billion and Fannie's $724 billion portfolios include a substantial amount of highly liquid securities.

As we progress through 2008 and into 2009, Freddie and Fannie should continue to benefit from their GSE status. We also expect Freddie and Fannie to benefit from their demonstrated ability to manage interest rate and credit risk as well as capital and liquidity levels.

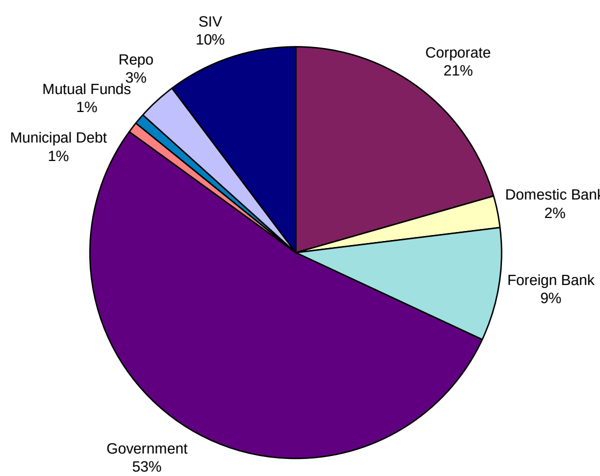
The following graphs represent the County, School and John Wayne Airport investment pools’ composition by issuer type. The County and School pools include their portion of the Extended Fund (Exhibit 1).

EXHIBIT 1: Investment Pool Composition

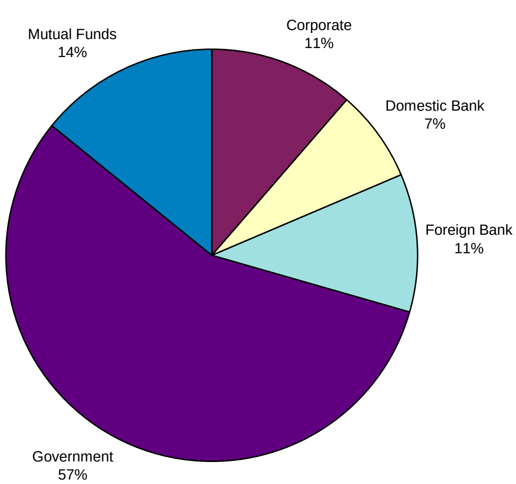
County



Schools



John Wayne Airport



MARKET OBSERVATIONS

History has taught us that there are interest rate cycles. Typically, the cycle involves a series of rate hikes followed by a series of rate cuts, interspersed with periods of steadiness. Given the decline in rates since June 2007, it appears that the Fed is using interest rates in hopes of jump starting the economy. This gives rise to the question of whether interest rates have declined as far as they will go or whether more cuts are expected. As portfolio managers, it is our responsibility to understand these cycles and make decisions that will minimize risks, manage liquidity in the portfolios and take advantage of opportunities for appropriately enhancing yields.

One reason to support the belief that rates are at or near their lows for this cycle is the 75 basis point cut in the Federal Reserve Discount Rate. The impact of this cut was evident in the two year Treasury yield as we saw it fall to a paltry 1.349% on March 17th . Another indication is the recent $245 billion of write downs and reserves taken by some of the world's largest banks in the last six months. If this is the case, then eventually the economy will respond and interest rates will once again return to some "level" until the next cycle begins.

We believe we are still facing some serious headwinds in the correction experienced by the housing market. Over the past 30 years local home prices have averaged 2.8 times the median family income. In order for this relationship to return to equilibrium, one of two things must happen. Family incomes will need to rise by 50%, or we will see home prices decline by an additional 25%. According to the Census Bureau, inflation adjusted wages have been stagnant over the last seven years. Given that fact, the most probable outcome will be a prolonged cycle of wages slowly moving up and home values continuing to fall for a period of time.

The length of time it will take the process to work itself out cannot be easily determined. However, the markets now fully understand the challenges. Market conditions such as these create both risks and opportunities. If the cycle is correctly anticipated, then taking advantage of opportunities to extend maturities will lock in higher yields before rates plummet. The risk lies in the ability to correctly time these opportunities. The Treasurer's office has been anticipating this environment and believes the county's investment pools are favorably situated. We will continue to reduce our risk profile as the market adjusts within the interest rate cycle.

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
April 1, 2007 - March 31, 2008

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET VALUE	EARNINGS FOR MONTH	AVERAGE YIELD FOR MONTH	MONTH END WAM
Current Month - 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				
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				
County Pool - Money Market Fund	$ 1,982,354,313	$ 7,788,881	5.05%	33
Educational Pool - Money Market Fund	$ 1,609,274,201	$ 6,711,960	5.00%	37
Extended Fund	$ 2,331,861,281	$ 10,381,129	5.35%	477
October 2007				
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	$ 2,540,343,321	$ 10,875,629	5.24%	468
August 2007				
County Pool - Money Market Fund	$ 1,504,259,141	$ 7,099,764	5.43%	52
Educational Pool - Money Market Fund	$ 1,838,089,922	$ 8,360,457	5.40%	54
Extended Fund	$ 2,562,116,542	$ 10,926,380	5.16%	462
July 2007				
County Pool - Money Market Fund	$ 1,591,863,228	$ 8,124,200	5.40%	51
Educational Pool - Money Market Fund	$ 1,955,074,669	$ 8,736,819	5.38%	58
Extended Fund	$ 2,498,650,022	$ 10,525,066	5.16%	479
June 2007				
County Pool - Money Market Fund	$ 1,877,130,515	$ 8,120,941	5.40%	54
Educational Pool - Money Market Fund	$ 1,796,807,395	$ 9,202,118	5.37%	58
Extended Fund	$ 2,360,816,509	$ 10,541,871	5.29%	496
May 2007				
County Pool - Money Market Fund	$ 2,038,485,187	$ 9,453,530	5.38%	56
Educational Pool - Money Market Fund	$ 2,253,481,882	$ 11,347,317	5.35%	55
Extended Fund	$ 2,269,898,637	$ 9,010,127	5.11%	422
April 2007				
County Pool - Money Market Fund	$ 2,310,098,771	$ 11,096,800	5.38%	51
Educational Pool - Money Market Fund	$ 2,584,211,525	$ 10,202,892	5.36%	53
Extended Fund	$ 2,037,558,524	$ 9,230,167	5.25%	463
CUMULATIVE BALANCES - 12 MONTHS	AVERAGE BALANCES	TOTAL EARNINGS	AVERAGE YIELD	AVERAGE WAM
April 1, 2007 - March 31, 2008				
County Pool - Money Market Fund	$ 1,900,942,441	$ 93,552,684	4.87%	41
Educational Pool - Money Market Fund	$ 1,999,704,507	$ 97,441,658	4.89%	45
Extended Fund	$ 2,316,966,598	$ 121,834,860	5.26%	465