

Santa Cruz County Treasurer's

Quarterly Investment Report (Summary Report)

**For the Quarter Ended
December 31, 2011**



Fred Keeley
Treasurer – Tax Collector

TREASURY OVERSIGHT COMMISSION

Chairperson: Bob Shepherd
Public Member
Alternate: Ron Sekkel

Current Members: Neal Coonerty
Member, Board of Supervisors
County of Santa Cruz
Alternate: John Leopold

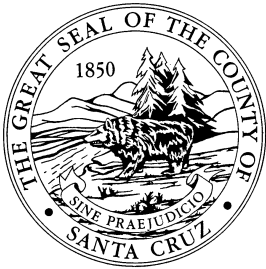
Michael Watkins
Superintendent
Santa Cruz County Office of Education
Alternate: Mary Hart – Vice Chairperson

Eric Hammer
Director
Boulder Creek Recreation and Parks District
Alternate: Angela Aitken

Liann Reyes
Chief Business Officer
San Lorenzo Valley School District
Alternate: Alvaro Meza

AUDIT PROCESS

The Santa Cruz County Treasurer's Office is audited on an annual basis by an outside auditor selected by the Santa Cruz County's Audit Committee. Additionally, all investments are audited on a regular basis by the County Auditor as well as on a daily basis by an in-house audit process.



Fred Keeley
Treasurer-Tax Collector

County of Santa Cruz

TREASURER-TAX COLLECTOR

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Santa Cruz, California 95061
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January 11, 2012

Board of Supervisors
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

Subject: **CERTIFICATION OF LIQUIDITY**

Dear Members of the Board:

This report shows the investment activity for the quarter ending December 31, 2011 of pooled funds on deposit with the Treasurer and that it is in compliance with California Government Code Sections 27000 et seq., 53600 et seq., and the County's Investment Policy of 2011.

Attached are summaries of the Portfolio Structure, Investment Details, Securities Activity by Brokers, and other information to give a better understanding of the investment activity that has occurred through December 31, 2011.

Pursuant to Government Code § 53646(b)(3), I certify that because of the liquidity of the pool and the county's issuance of Teeter Notes and TRAns, the county has the ability to meet the pool's expenditure requirements for the next six months.

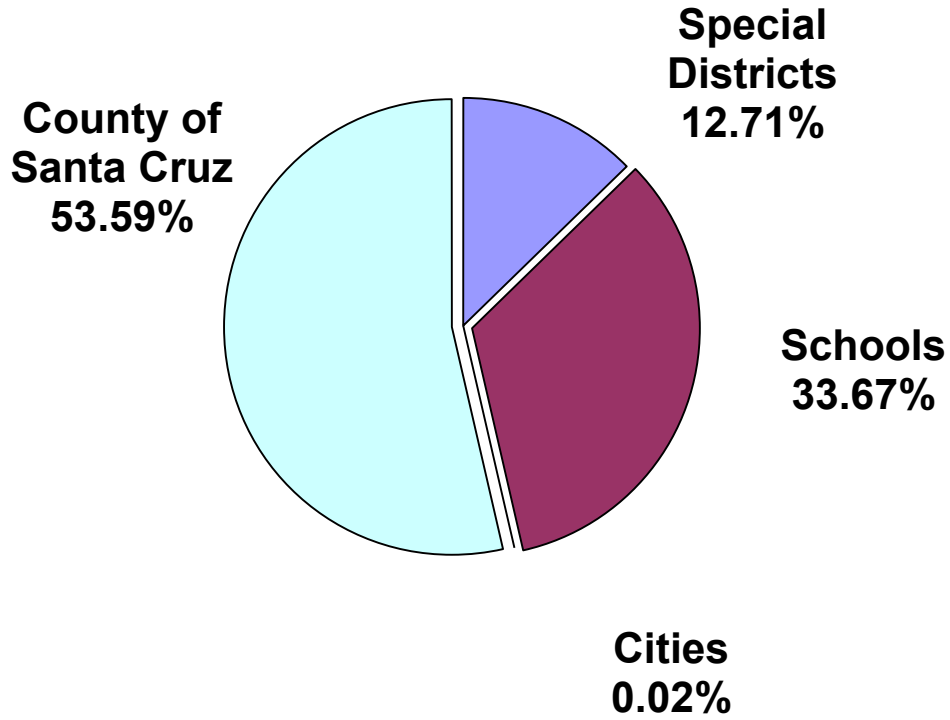
Respectfully submitted,

FRED KEELEY
Treasurer

SUMMARY REPORTS

1. County of Santa Cruz Investment Pool Source of Funds
2. County of Santa Cruz Portfolio Summary including:
 - a) Issuer
 - b) Type of Asset
 - c) Current Value
 - d) Par Value
 - e) Market Value
 - f) Rate of Return
 - g) Purchase Date
 - h) Maturity Date
 - i) Credit Rating
 - j) Source of valuation
3. Portfolio Size and Composition Report
 - a) Portfolio Balance Trend
 - b) Portfolio Composition by Type
4. Portfolio Yield
 - a) Net Yield History / Comparison to LAIF
 - b) Net Yield Trend / Comparison to LAIF
5. County of Santa Cruz Investment Pool Maturity Distribution
6. County of Santa Cruz Investment Pool Credit Quality Distribution

County of Santa Cruz Investment Pool
Source of Funds
 As of December 31, 2011



	12/31/2011	9/30/2011	12/31/2010
County	53.59%	52.72%	55.53%
Special Districts	12.71%	13.12%	13.40%
Schools	33.67%	33.95%	30.71%
Cities	0.02%	0.21%	0.35%
Total	100%	100%	100%

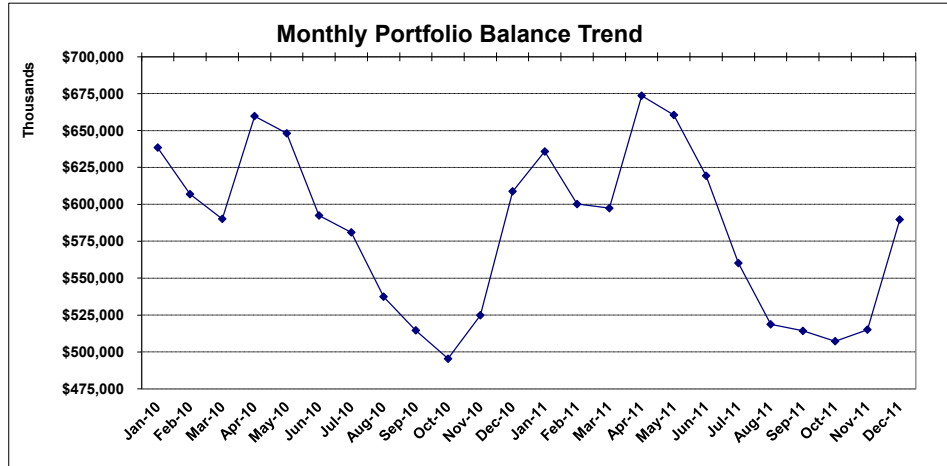
County of Santa Cruz Investment Pool

Portfolio Size and Composition

As of December 31, 2011

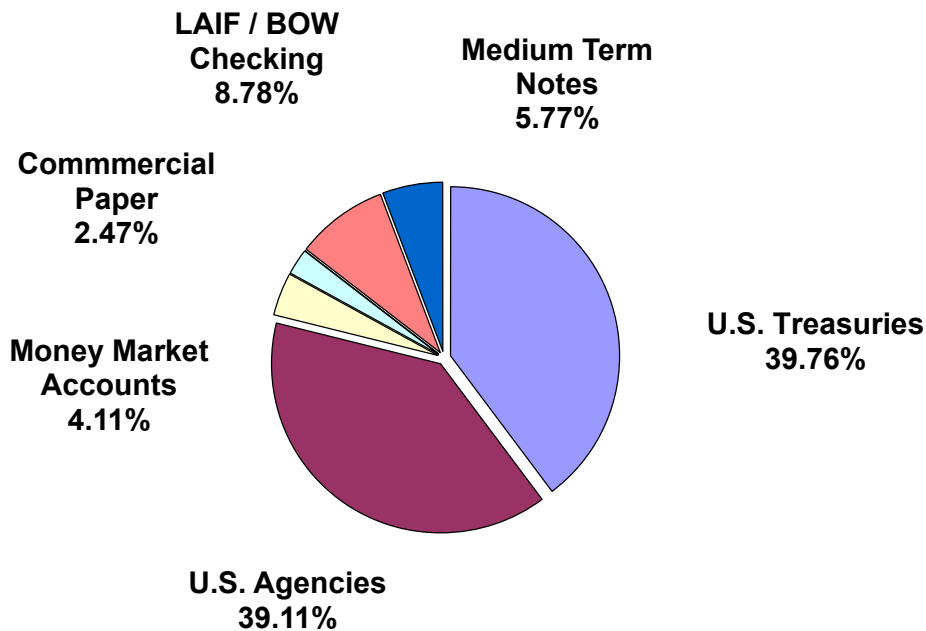
Monthly Balance History

Jan-10	\$ 638,468,761.69
Feb-10	\$ 606,889,709.48
Mar-10	\$ 590,164,656.75
Apr-10	\$ 659,781,483.60
May-10	\$ 648,112,231.99
Jun-10	\$ 592,455,920.08
Jul-10	\$ 581,027,248.08
Aug-10	\$ 537,464,536.02
Sep-10	\$ 514,658,533.10
Oct-10	\$ 495,416,555.20
Nov-10	\$ 524,873,775.20
Dec-10	\$ 608,817,498.95
Jan-11	\$ 635,812,450.76
Feb-11	\$ 600,162,194.79
Mar-11	\$ 597,414,592.62
Apr-11	\$ 673,618,009.03
May-11	\$ 660,535,796.64
Jun-11	\$ 619,381,157.83
Jul-11	\$ 560,212,933.04
Aug-11	\$ 518,725,450.74
Sep-11	\$ 514,282,794.32
Oct-11	\$ 507,304,732.54
Nov-11	\$ 515,142,061.88
Dec-11	\$ 589,719,799.57



	<u>12/31/2011</u>	<u>9/30/2011</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
U.S. Treasuries	39.76%	42.21%	39.30%	32.87%
U.S. Agencies	39.11%	36.66%	39.13%	35.92%
Money Market Fund	4.11%	6.68%	7.74%	11.13%
Commercial Paper	2.47%	0.00%	0.00%	0.00%
Negotiable CD	0.00%	0.00%	0.00%	0.00%
LAIF / BOW / Other	8.78%	9.50%	8.85%	7.53%
Medium Term Note	5.77%	4.94%	4.97%	12.55%
	100%	100%	100%	100%

Portfolio Composition

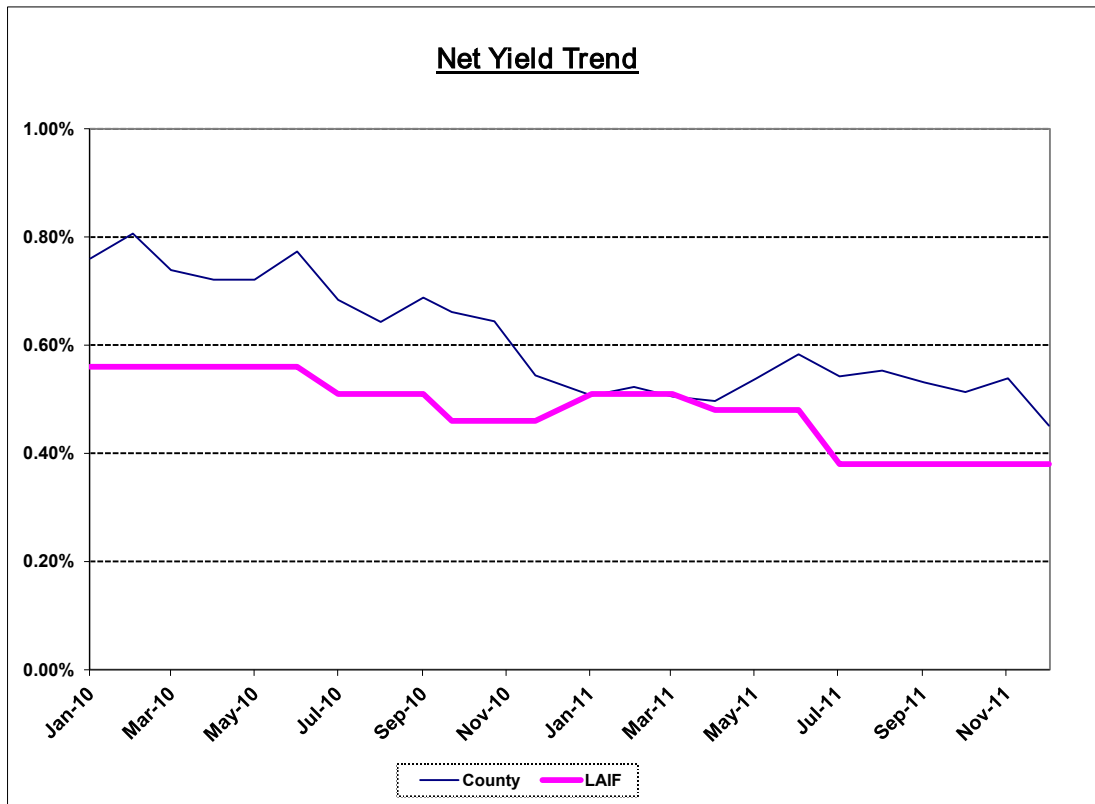


County of Santa Cruz Investment Pool

Portfolio Net Yield

As of December 31, 2011

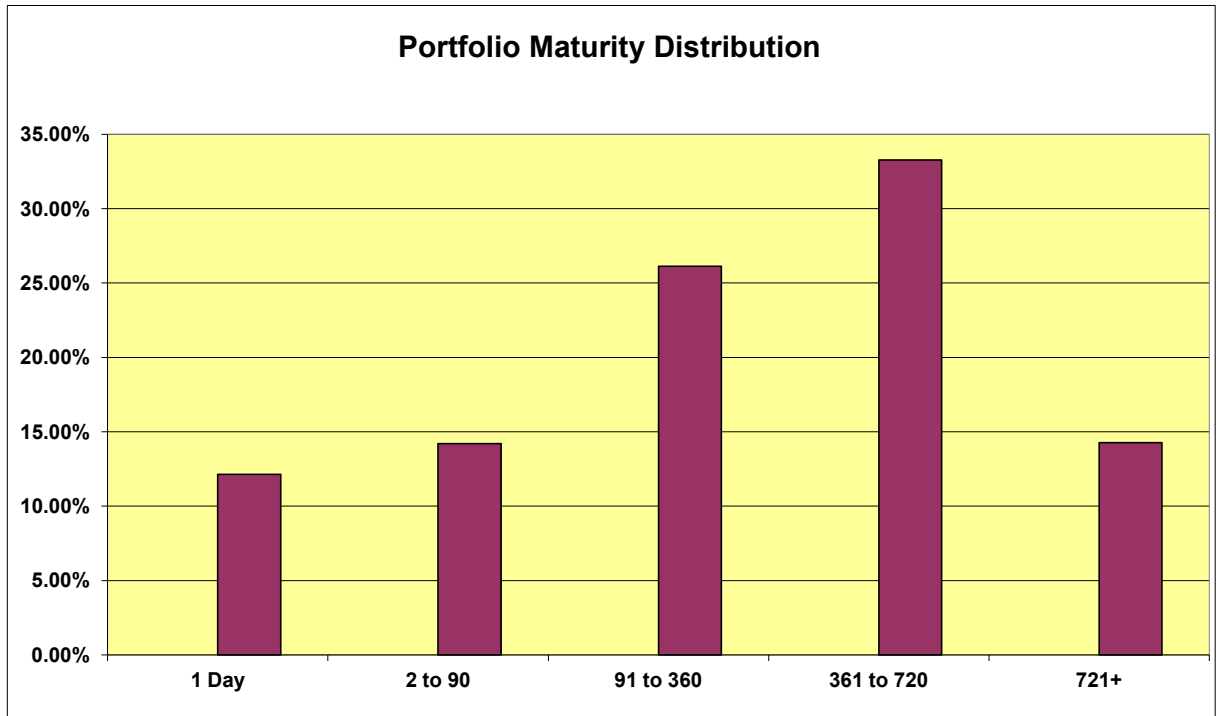
Apportionment Rate			
Month	County	LAIF	Difference
Jan-10	0.760%	0.560%	0.20%
Feb-10	0.806%	0.560%	0.25%
Mar-10	0.739%	0.560%	0.18%
Apr-10	0.721%	0.560%	0.16%
May-10	0.721%	0.560%	0.16%
Jun-10	0.773%	0.560%	0.21%
Jul-10	0.684%	0.510%	0.17%
Aug-10	0.643%	0.510%	0.13%
Sep-10	0.688%	0.510%	0.18%
Oct-10	0.661%	0.460%	0.20%
Nov-10	0.644%	0.460%	0.18%
Dec-10	0.544%	0.460%	0.08%
Jan-11	0.507%	0.510%	0.00%
Feb-11	0.523%	0.510%	0.01%
Mar-11	0.505%	0.510%	-0.01%
Apr-11	0.497%	0.480%	0.02%
May-11	0.538%	0.480%	0.06%
Jun-11	0.583%	0.480%	0.10%
Jul-11	0.542%	0.380%	0.16%
Aug-11	0.553%	0.380%	0.17%
Sep-11	0.531%	0.380%	0.15%
Oct-11	0.513%	0.380%	0.13%
Nov-11	0.539%	0.380%	0.16%
Dec-11	0.451%	0.380%	0.07%



County of Santa Cruz Investment Pool Maturity Distribution

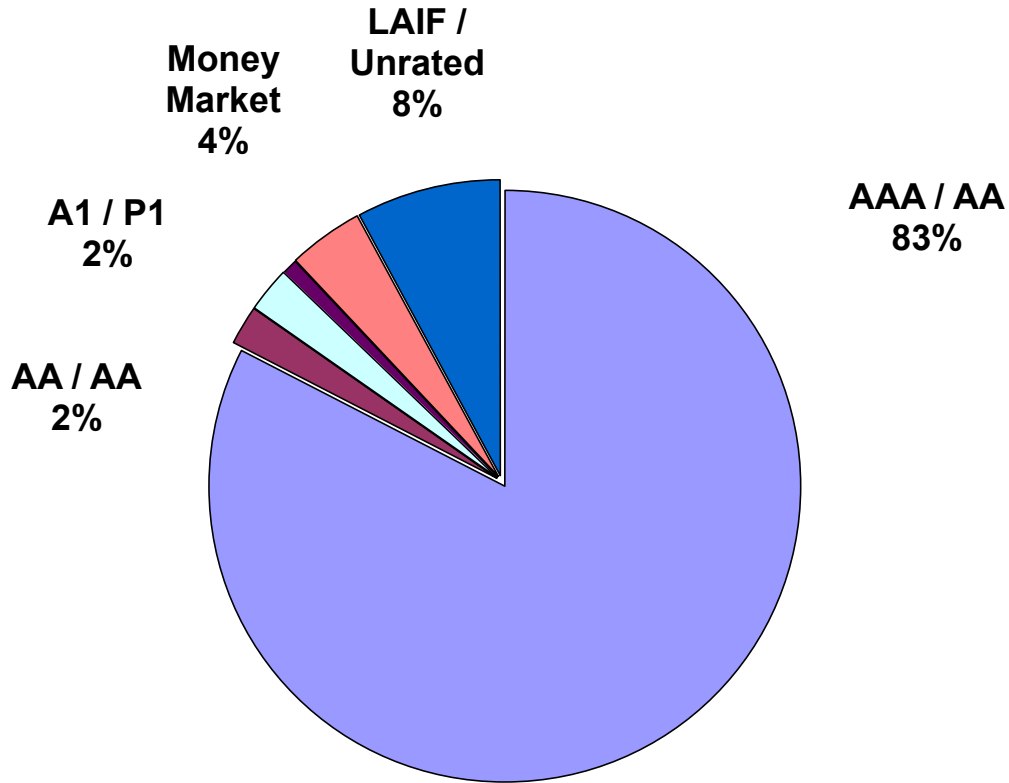
As of December 31, 2011

Maturing In:	12/31/2011	9/30/2011	12/31/2010	12/31/2009
1 Day	12.13%	17.91%	15.64%	14.45%
2 to 90	14.20%	9.44%	16.02%	15.25%
91 to 360	26.12%	31.30%	39.05%	46.71%
361 to 720	33.27%	30.58%	20.70%	19.75%
721+	14.28%	10.78%	8.59%	3.85%
Total	100%	100%	100%	100%
WAM (days)	370	335	289	242
Duration	1.02	0.92	0.80	0.64



**County of Santa Cruz Investment Pool
Credit Quality Distribution**

December 31, 2011



Rating	Market Value				
	(\$ ml)	12/31/2011	9/30/2011	12/31/2010	12/31/2009
AAA / AA *	\$ 502	83%	81%	82%	77%
AA	\$ 13	2%	2%	1%	2%
A	\$ -	0%	0%	0%	3%
A1 / P1	\$ 15	2%	0%	0%	0%
BOW	\$ 5	1%	1%	1%	1%
Money Market	\$ 25	4%	7%	8%	11%
LAIF / Unrated	\$ 48	8%	9%	8%	6%
Total Portfolio Value	\$ 608	100%	100%	100%	100%

* Prior to 9/30/11 the AAA / AA rating category was AAA / AAA by Moody's and Standard and Poor's.

DESCRIPTION OF INVESTMENT INSTRUMENTS

The investment activities of County Treasurers are restricted by state law to a select group of government securities and prime money market instruments. To reduce the risk inherent in any one instrument, state law further limits the percentage of the county's portfolio that can be invested in any one type of security.

The types of securities available to the County Treasurer can be divided into three main categories: 1) U.S. Treasury bills, notes and bonds. They are guaranteed by the U.S. Government and are considered to have no credit risk. They also typically have the lowest yield of the securities available for investing. 2) Securities issued by U.S. Government Agencies and Instrumentalities. These securities consist mostly of notes and debentures of agencies and government sponsored corporations. They are not guaranteed by the U.S. government and therefore have some credit risk. Their yield is typically higher than U.S. Treasury securities. 3) Prime money market securities. These consist of securities such as bankers' acceptances, certificates of deposit, commercial paper and municipal bonds. The yield is typically higher than the other types of securities in which the county invests but the risk is also higher. Through diversification and purchasing only highly rated paper, the credit risk is kept to an acceptable minimum. Each of the securities in these three categories is subject to market risk if sold prior to maturity.

What follows is a brief description of the different securities used by the County Treasurer:

U.S. Treasury Notes and Bonds are long term obligations of the U.S. government, which bear coupons. Interest is payable every six months at a rate of one-half the annual coupon. Treasury bonds and notes trading is conducted by the same securities dealers who trade T bills. In the secondary market, prices are quoted in thirty-seconds of 1 percent. Except for their maturities, notes and bonds are identical regardless of their label. Notes are issued for original maturities of one to 10 years. Bonds are issued with original maturities of more than 10 years.

U.S. Treasury Bills are unusual instruments because they bear no specific interest rate. Rather, they are issued originally at a discount from its ultimate maturity (par) value. Because T Bills are issued and traded at a discount, investors receive their returns at maturity or on subsequent resale, which ordinarily will be at prices higher than the original discount.

Federal Farm Credit Bank (FFCB) Discount Notes. FFCB is an instrumentality of the U.S. Government. The notes are the consolidated obligations of the 37 Farm Credit Banks issued on a discount basis with maturities of one year or less. Although not as risk free as Treasury notes, most experts believe the U.S. government has a moral commitment to the farm credit system.

Federal Farm Credit Bank (FFCB) debentures are consolidated obligations of the 37 Farm Credit Banks issued with a fixed coupon rate with maturities ranging from 6 months to 20 years. A debenture is a bond secured only by the general credit of the issuer.

Federal Home Loan Bank (FHLB) Discount notes are consolidated obligations of 12 District banks issued with a fixed coupon rate with maturities ranging from one to ten years. Although the FHLB operates under federal charter with government supervision, the securities are not guaranteed by the U.S. government. However, the banks are required to maintain a considerable reserve pledged against the outstanding debt. They are therefore considered relatively risk free.

Federal National Mortgage Association (Fannie Mae) Discount notes are consolidations of government chartered private corporations issued on a discount basis with maturities under one year. They are guaranteed by the corporations, but not by the U.S. government. Many investors consider the securities a moral obligation of the U.S. government and believe Congress would intervene before allowing default.

Federal National Mortgage Association (Fannie Mae) debentures are obligations issued by the Association with a fixed coupon rate and various maturities. A debenture is a bond secured only by the general credit of the issuer.

Local Agency Investment Fund (LAIF) is the state sponsored investment fund. LAIF is an excellent cash management tool to help meet most of the unexpected cash demands. Currently the state limits the county's investment in this pool to \$50,000,000.

Federal Home Loan Mortgage Corporation (Freddie Mac) Participation Notes are issues of the Federal Home Loan Mortgage Corporation representing undivided interests in conventional mortgages underwritten and previously purchased by it. The corporation guarantees the timely payment of interest at the certificate rate and full return of principal. Participation Certificates have original final payment dates of 30 years.

Government National Mortgage Association (Ginnie Mae) Pass Through are issues of the wholly owned government corporation within the Department of Housing and Urban Development. Principal and interest payment collected on mortgages in specified pools are passed through to holders of GNMA Guaranteed certificates after deduction of servicing and guaranty fees. GNMA's have original stated maturities of 12 to 40 years. For Santa Cruz County, these are used only as collateral for overnight repurchase agreements.

Municipal Securities (Notes and Bonds) Debt securities issued by state and local governments and their agencies are referred to as municipal securities. Such securities can be divided into two broad categories: bonds issued to finance capital projects and short term notes sold in anticipation of the receipt of other funds, such as taxes or proceeds from a bond issue.

Banker's Acceptances. Briefly stated, the function of the bankers' acceptance is as follows: A borrower may, under certain circumstances, obtain short-term credit by arranging for his bank to accept a time draft upon it. The bank stamps its official accepted across the face of the draft and converts it into a bankers' acceptance. The instrument, now being a bank obligation, may be sold to an acceptance dealer who, in turn, may sell it to an investor. Most BAs arise out of transactions involving the trade of manufactured goods or commodities. Maturities range from one to 180 days.

Commercial Paper is a short-term promissory note issued by a company to finance current transactions. All commercial paper is negotiable, but most commercial paper sold to investors is held to maturity. Commercial paper is issued not only by industrial and manufacturing firms but also by finance companies. Notes are sold on a discount or interest-bearing basis with maturities not exceeding 270 days.

Medium Term Notes are obligations that have maturities of less than 5 years and are issued by corporations or depositories organized and operating in the U.S.

Negotiable Certificate of Deposit (NCD). It is a receipt for deposit of a stated sum in the bank on a given date, together with a promise to redeem this sum plus interest at the indicated rate on a designated date. The instrument is negotiable because it is payable either to bearer or to the order of the depositor.

Repurchase Agreements (RP or Repos). A holder of securities sells securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. Repurchase agreements are usually for short periods of time (one to five days), when large sums are received that will be needed in the next day or two. As a result, they are often called overnight repos. From the point of view of investors, overnight repos offer several attractive features. First, by rolling overnight repos, investors can keep surplus funds invested without losing liquidity or incurring a price risk. Second, because repo transactions are secured by top quality paper, investors expose themselves to little or no risk.

Guaranteed Investment Contract (GIC). This is a fixed income agreement offered by insurance companies. GICs offer to pay a specific interest rate over a period of time. Some GICs are eligible for early redemption, with or without penalty, which eliminates market risk if interest rates rise. In Santa Cruz County it is only used for the investment of secured indebtedness and only if the note documentation permits such an investment.

Money Market (Mutual) Fund. A money market mutual fund is a pooled fund that invests in a number of money market vehicles (CD's, CP, T-Bills, etc.). These funds are designed to pay the investor interest, as well as provide full liquidity. Maturities of the underlying investments are 13 months or less.