



Butte County

LAND OF NATURAL WEALTH AND BEAUTY

C. LINDA BARNES

TREASURER - TAX COLLECTOR

COUNTY ADMINISTRATIVE BUILDING

25 COUNTY CENTER DRIVE, SUITE 125

OROVILLE, CALIFORNIA 95965-3384

TELEPHONE: (530) 538-7701

FAX: (530) 538-7648

Treasurer's Investment Report - Introduction

The Butte County Treasurer's office manages investments on behalf of the County, various Trust and Agency Funds, School Districts and Special Districts within the County. "Pooling" deposits from local agencies and other participants is in the public interest because banking and investment activities are consolidated, thereby reducing duplication, achieving economies of scale and carrying out coherent investment strategies. Butte County's portfolio management is an active management strategy in that a broad range of market analysis techniques, investment options, and cash management tools are employed in making investment decisions. The medium term, laddered maturity portfolio allows participants to benefit from higher earnings than might otherwise be possible. The objective of this strategy is to obtain the highest return feasible, consistent with a high degree of safety of principal and the level of liquidity necessary to meet the needs of the County and agencies participating in the Treasury. Earnings on the pooled investments are paid quarterly on a pro-rata basis to pool participants.

The Treasurer's Investment Report is designed to provide specific and general investment information to pool participants and to interested members of the public. The cover letter indicates our compliance with the Butte County Treasurer's Statement of Investment Policy, identifies U.S. Bank as the source of the market value of investments held in the investment pool, and states our ability to meet estimated liquidity needs for the next six months.

The cover letter also compares the portfolio yield and that of the State Treasurer on a five-year rolling average basis, which serves to effectively demonstrate the bottom line in terms of enhanced earnings to pool participants. The Butte County Pooled Treasury Portfolio's medium term, laddered investment strategy outperformed the State of California's Local Agency Investment Fund (LAIF) in Fiscal Year (FY 10/11 by a margin of 1.795% and by 1.340% in FY 11/12.* Market conditions (lowering interest rates) allowed the portfolio to significantly outperform LAIF in four of the past five years. In a rising market, the portfolio's yield will more closely approximate that of LAIF and may drop below LAIF's yield, from time to time. A look at the 5 year moving average for the Butte County Treasury yields vs. LAIF yields demonstrates that, over time, a medium term, laddered portfolio will generally outperform a shorter term investment strategy, which LAIF usually mirrors. The 5 year moving average for Butte County's FY 10/11 and FY 11/12 performance compared to LAIF shows margins of .917% and 1.340%, respectively.* Looking at a ten year average, the portfolio exceeded LAIF's yields by a healthy 1.260%.

Page 1 of the Investment Report shows the portfolio balance (separately identifying the actively managed portfolio), the average number of days to maturity and the yield to maturity for the investments held by the pool. The balances invested are shown in three different ways: Par Value (the value at maturity of the instrument), Fair Value (the value if sold on the date of the report) and Cost Carried (the amount paid for the investment, amortized to reach Par Value by maturity). The difference between the fair value of the investments and the cost carried is considered to be “unrealized” gain or loss. A gain or loss is only realized if a security is sold prior to maturity (T-Bills, Agency Notes and Commercial Paper are redeemed at a pre-established Par Value at maturity). It is important to note that the Butte County Pooled Treasury typically uses a “buy and hold” investment strategy. Cash flow and liquidity needs are carefully analyzed prior to making investments to ensure liquidity needs are met. The bottom portion of page 1 indicates the ability of the pool to meet projected cash flow requirements for the next six months. Please note, however, that the projected and actual results will vary, sometimes materially, because events and circumstances do not always occur as predicted.

School Bond Proceeds and, if appropriate, Tax and Revenue Anticipation Notes (TRAN) proceeds are separately accounted for in the report, and are invested in the State Treasurer’s Local Agency Investment Fund (LAIF) or other securities as deemed appropriate. Note that the annual portfolio yields quoted (the yield method used is “weighted yield to maturity”) exclude separately invested Bond and TRAN proceeds, as well as investments managed by Trustees, as they are not part of the actively managed portfolio. Investments of School Bond Proceeds are detailed on page 2 of the report, and investments managed by outside Trustees as part of financing agreements are detailed on page 3.

Page 4 of the Report contains chart information that is very helpful in providing a quick overview of the diversification of the portfolio by type of instrument and maturity ranges. Included is a chart showing the Treasury Portfolio balance fluctuations from 2003 through the current month (Investments Managed by Trustees, TRAN and Bond proceeds are not included in the charted information). An analysis of this chart clearly demonstrates that the Treasury maintains a stable average balance of approximately \$275,000,000, which supports the philosophy of medium term investment of funds not anticipated to be drawn upon to meet ongoing liquidity needs. Page 5 provides a listing of specific investment instruments (listed in order of maturity date), credit ratings, purchase and maturity dates, balances invested and yields obtained.

The Treasury Oversight Committee and the Board of Supervisors receive the Treasurer’s Investment Report on a quarterly basis. The Treasury Oversight Committee was established in April of 2000 in accordance with California Government Codes 27131 through 27137 and serves to ensure that representatives of pool participants are involved in the oversight of the Butte County Treasury pooled investment portfolio.

Questions regarding the Investment Report may be directed to Peggy Moak, Assistant Treasurer-Tax Collector (Treasury), at 530-538-7443, or pmoak@buttecounty.net.

* The margins quoted represent the difference between the annual yields of the Butte County Pooled Treasury Investment Portfolio and the Local Agency Investment Fund.