### **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 CHRISS W. STREET TREASURER-TAX COLLECTOR

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**ROBIN RUSSELL** Assistant Treasurer-Tax Collector *Administration* 

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# **CHANGES IN ELIGIBILE CREDITS**

In the month of November, there were no changes to the Treasurer's approved eligibility list of issuers.

On November 30, however, Moody's placed Beta, CC (USA), Dorada, Five, Tango and Whistlejacket on review for possible downgrade. This announcement including the pressures that mounted in November prompted the December 5<sup>th</sup> removal of all Structured Investment Vehicle issuers. Please see the attached report.

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To:

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

**Treasury Investment Committee** From: John Byerly, Senior Financial Analyst Date: December 5, 2007

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**ROBIN RUSSELL** ASSISTANT TREASURER-TAX COLLECTOR ADMINISTRATION

CLARISSA ADRIANO-CERES ASSISTANT TREASURER-TAX COLLECTOR INFORMATION TECHNOLOGY

Subject: **Structured Investment Vehicle Holdings Ratings:** AAA/Aaa \*-/AAA A-1+/P-1 \*-/F1+ (not all rated by Fitch) Recommendation: Remove from the CP/MTN Eligibility List

#### **Summary:**

On November 30, 2007, Moody's placed the ratings of Beta, Dorada, CC (USA), Five Finance, Tango Finance and Whistlejacket Capital on credit watch negative. Ongoing conservative management has helped our vehicles withstand Moody's new methodology which implements more severe stress testing as of September 5, 2007.

Late October through early November, though, saw wider spreads in securities impacting even double-A rated bank debt which in turn negatively impacted capital net asset value (NAV) levels. As these investment vehicles de-lever, declines in capital NAV are somewhat offset. But with 50% of assets in Financial Company debt on average, a 1.6% average price decline there along with smaller price declines in other sectors pushed capital NAV figures to levels between 60 and 70%. This, compounded by Moody's new methodology, led to Friday's action.

Please note that capital NAV should not be confused with portfolio NAV. News reports on NAV have been very misleading. Capital note holders are subordinate to the AAA-rated senior notes that we own. They provide a cushion for senior note holders in the event asset values deteriorate. If the capital notes represent 1/15<sup>th</sup> of all debt, for example, but face all of the "first loss", their NAV will drop roughly 15 times as fast as the portfolio NAV. It's important to remember a portion of this cushion remains and is in addition to other structural protections such as bank committed liquidity and breakable deposits.

Our Structured Investment Vehicles are distinctly different from those that have been in the news. A more conservative investment approach was apparent from the beginning and has helped them navigate through these turbulent markets.

For example, vehicles in the headlines held around 80% ABS with around a third of total assets in US residential mortgages. Some was subprime. In contrast, our approved names were balanced between ABS and Financial Company debt - principally highly-rated, extremely strong commercial banks. Other exposure includes student loans, credit cards, and non-ABS CDOs. Residential mortgage exposure exists, but is generally from the UK, Australia, and Dutch markets and is virtually all prime.

Even so, with such volatility in the current markets, asset pricing of many sectors continues to be a challenge. Therefore, I recommend removing all of the Structured Investment Vehicle issuers from our approved list until we can evaluate their new structures when formalized. It is anticipated that some new structures will be announced in early 2008.

The issuers to be removed are: Beta, CC (USA), Dorada, Five, K2, Sigma, Tango, and Whistlejacket.

### **Exposure:**

# County of Orange Structured Investment Vehicle Holdings November 30, 2007

|                         | Issuer               | Maturity<br>Date | Market Value   | % of Fund |
|-------------------------|----------------------|------------------|----------------|-----------|
| <u>Money Market Fun</u> | <u>d</u>             |                  |                |           |
| AAA/Aaa                 | K2 (USA)LLC          | 3/10/2008        | \$ 49,250,000  | 2.48%     |
|                         | Sub Total:           |                  | 49,250,000     | 2.48%     |
| Extended Fund           |                      |                  |                |           |
| AAA/Aaa *-              | CC(USA) INC.         | 2/9/2009         | 48,500,000     | 2.08%     |
| AAA/Aaa *-              | CC(USA) INC.         | 1/23/2009        | 48,500,000     | 2.08%     |
| AAA/Aaa *-/AAA          | FIVE FINANCE, INC    | 6/6/2008         | 48,500,000     | 2.08%     |
| AAA/Aaa *-/AAA          | FIVE FINANCE, INC    | 11/25/2008       | 63,050,000     | 2.70%     |
| AAA/Aaa                 | K2 (USA)LLC          | 2/23/2009        | 24,625,000     | 1.06%     |
| AAA/Aaa                 | K2 (USA)LLC          | 6/9/2009         | 73,875,000     | 3.17%     |
| AAA/Aaa                 | SIGMA FIN INC        | 5/14/2008        | 49,250,000     | 2.11%     |
| AAA/Aaa                 | SIGMA FIN INC        | 10/30/2008       | 73,875,000     | 3.17%     |
| AAA/Aaa *-              | TANGO FIN CORP       | 6/10/2009        | 48,500,000     | 2.08%     |
| AAA/Aaa *-              | TANGO FIN CORP       | 7/30/2009        | 38,800,000     | 1.66%     |
| AAA/Aaa *-              | TANGO FIN CORP       | 9/25/2009        | 24,250,000     | 1.04%     |
| AAA/Aaa *-              | TANGO FIN CORP       | 11/12/2008       | 48,500,000     | 2.08%     |
| AAA/Aaa *-              | WHISTLEJACKET CAPITA | 1/26/2009        | 29,100,000     | 1.25%     |
| AAA/Aaa *-              | WHISTLEJACKET CAPITA | 1/25/2009        | 48,500,000     | 2.08%     |
|                         | Sub Total:           | _                | 667,825,000    | 28.64%    |
| Schools Money Mai       | rket Fund            | _                |                |           |
| AAA/Aaa                 | K2 (USA)LLC          | 3/10/2008        | 49,250,000     | 3.06%     |
| AAA/Aaa                 | SIGMA FIN INC        | 2/21/2008        | 49,250,000     | 3.06%     |
|                         | Sub Total:           | _                | 98,500,000     | 6.12%     |
| John Wayne Airpor       | <u>rt</u>            | _                |                |           |
| AAA/Aaa                 | K2 (USA)LLC          | 3/10/2008        | 1,970,000      | 3.50%     |
|                         | Sub Total:           | _                | 1,970,000      | 3.50%     |
|                         | GRAND TOTAL          | -                | \$ 817,545,000 | 13.67%    |

Securities in **bold** are on credit watch negative. K2 and Sigma have NOT been placed on credit watch.