



Clark County Finance Committee

First Quarter 2011

CLARK COUNTY TREASURER'S OFFICE

2011

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CLARK COUNTY FINANCE COMMITTEE

FIRST QUARTER 2011

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SECTION I – EXECUTIVE SUMMARY

This report provides a review of the activities occurring during the first quarter, 2011, in accordance with Clark County Investment Policy adopted January 2011.

As of March 31, 2011, the average maturity of the total investment portfolio decreased to 7.4 months from December’s 8.3 months. The asset sector distribution for the total investment portfolio in the first quarter was as follows:

| | Mar 31, 2011 | Dec 31, 2010 | Percent Change |
|------------------------|---------------------|---------------------|-----------------------|
| WA State LGIP | 52.8% | 55.4% | -2.6% |
| Federal Agencies | 30.5% | 35.9% | -5.4% |
| US Treasuries | 8.7% | 3.0% | +5.7% |
| Certificate of Deposit | 3.3% | 4.0% | -0.7% |
| Money Market | 4.1% | 1.7% | +2.4% |
| State & Local Govt | 0.6% | 0.0% | +0.6% |

Residual average monthly balances year to date averaged \$57.8 million per month which was \$10.1 million more than the same period in 2010. Interest earnings distributed to the County’s General Fund year to date are \$32.5 thousand compared to \$46.7 thousand through this time in 2010. The decrease is a result of low levels continuing in interest rates. The most recent investment earnings estimates (calculated on June 14, 2010) approximates earnings of \$531.3 thousand in the 2011-2012 biennial budget. Actual residual earnings from January 2011 through March 2011 are \$32,572, or 6.1% of the biennial budget. The Treasurer’s office will be submitting a revised estimate for investment earnings for 2011-2012 to the Budget office to reflect the low interest rate environment.

The average interest rate of the Clark County Investment Pool for the first quarter of 2011 was 0.66% compared to 1.2% for the same period in 2010. Of the quarterly interest earnings of \$771.2 thousand, County Funds received a total of \$257.2 thousand. The Investment Pool participation and summary is as follows:

| | Mar 31, 2011 | Mar 31, 2010 | Percent Change |
|-----------------------------|---------------------|---------------------|-----------------------|
| Clark County | 35.2% | 33.8% | +1.4% |
| Evergreen School District | 12.3% | 9.4% | +2.9% |
| Camas School District | 9.5% | 9.3% | +0.2% |
| City of Vancouver | 9.5% | 8.8% | +0.7% |
| Vancouver School District | 8.1% | 8.1% | 0.0% |
| All other | 25.4% | 30.6% | -5.2% |
| Average Quarterly Balance | \$460.5 million | \$435.1 million | +5.8% |
| Quarterly Interest Earnings | \$771.2 thousand | \$1.3 million | -39.6% |

The annualized total return for the County Pool was 0.26% for March 2011 compared to the custom treasury Benchmark total return index of 0.26%. On a book value return basis, County Pool yielded 0.59%, compared to the Standard and Poor's LGIP Index's book value return of 0.27%. The net asset value of the County Pool at the end of the quarter was \$1.000107 with an unrealized fair market value loss of (\$438,122.51) on March 31, 2011.

The investment strategy for the quarter was to decrease the balance in the state pool by adding callable and treasury securities to capture yield higher than the state pool, maintain average maturity between 6 to 9 months, and maintain high credit quality in portfolio. In the upcoming quarter, we will concentrate on adding more bullet securities and treasuries to our portfolio to reduce call risk from callable securities.

SECTION II – 2010 YEAR-TO-DATE

Through the first quarter 2011, the monthly County residual principal balances averaged \$3.4 million more than the same period in 2010.

| Date | 2010 Residual Balance | 2011 Residual Balance |
|------------------------|-----------------------|-----------------------|
| January | \$18,302,013 | \$22,338,448 |
| February | 14,028,283 | 17,078,236 |
| March | 15,314,231 | 18,372,235 |
| April | 26,429,245 | |
| May | 50,912,445 | |
| June | 30,024,305 | |
| July | 23,899,372 | |
| August | 25,034,102 | |
| September | 15,635,938 | |
| October | 27,071,889 | |
| November | 48,375,638 | |
| December | 33,265,169 | |
| Monthly Average | \$27,357,719 | \$19,262,973 |

Actual residual interest earnings totaled \$32,572 for the first quarter down from \$46,668 in the first quarter 2010. As shown below, interest earnings were \$33,845 less than they were projected to be for the first quarter of 2011.

| Date | 2010 Residual Interest Earnings | 2011 Residual Interest Earnings | 2011 Budgeted Interest Earnings ¹ |
|--------------|---------------------------------|---------------------------------|--|
| January | \$18,124 | \$15,122 | 22,139 |
| February | 14,541 | 8,383 | 22,139 |
| March | 14,003 | 9,067 | 22,139 |
| April | 23,456 | | 22,140 |
| May | 36,466 | | 22,139 |
| June | 21,668 | | 22,139 |
| July | 19,593 | | 22,139 |
| August | 15,428 | | 22,140 |
| September | 9,538 | | 22,139 |
| October | 14,423 | | 22,139 |
| November | 23,418 | | 22,139 |
| December | 18,614 | | 22,140 |
| Total | \$229,271 | \$32,572 | \$265,671 |

¹ As of 06/14/2010 the 2011-2012 Biennium Interest Rate Projections totaled \$531,342 \$265,671 are the earnings estimated for 2011.

County Pool principal balances shown below averaged \$25.3 million more in the first quarter 2011 compared to first quarter 2010.

| Date | 2010 Pool Average Balance | 2011 Pool Average Balance |
|------------------------|----------------------------------|----------------------------------|
| January | \$446,666,758 | \$476,346,918 |
| February | 433,695,710 | 458,822,333 |
| March | 425,057,199 | 446,283,085 |
| April | 445,980,917 | |
| May | 563,046,982 | |
| June | 509,196,924 | |
| July | 483,574,046 | |
| August | 477,372,041 | |
| September | 469,947,482 | |
| October | 494,458,066 | |
| November | 601,202,198 | |
| December | 495,031,565 | |
| Monthly Average | \$487,102,491 | \$460,484,112 |

The table below reflects County Pool earnings of \$771.2 thousand for first quarter 2011, compared to \$1.3 million for the same period in 2010, resulting in decreased earnings of 39.6%.

| Date | 2010 Pool Interest Earnings | 2011 Pool Interest Earnings |
|---------------------|------------------------------------|------------------------------------|
| January | \$456,804 | \$333,159 |
| February | 419,524 | 210,286 |
| March | 401,490 | 227,731 |
| April | 395,635 | |
| May | 415,416 | |
| June | 367,462 | |
| July | 409,433 | |
| August | 304,098 | |
| September | 286,984 | |
| October | 272,984 | |
| November | 289,828 | |
| December | 286,295 | |
| Year-to-Date | \$4,305,433 | \$771,176 |

SECTION III – QUARTERLY ACTIVITY

Figure One shows the major participants in the Clark County Investment Pool.

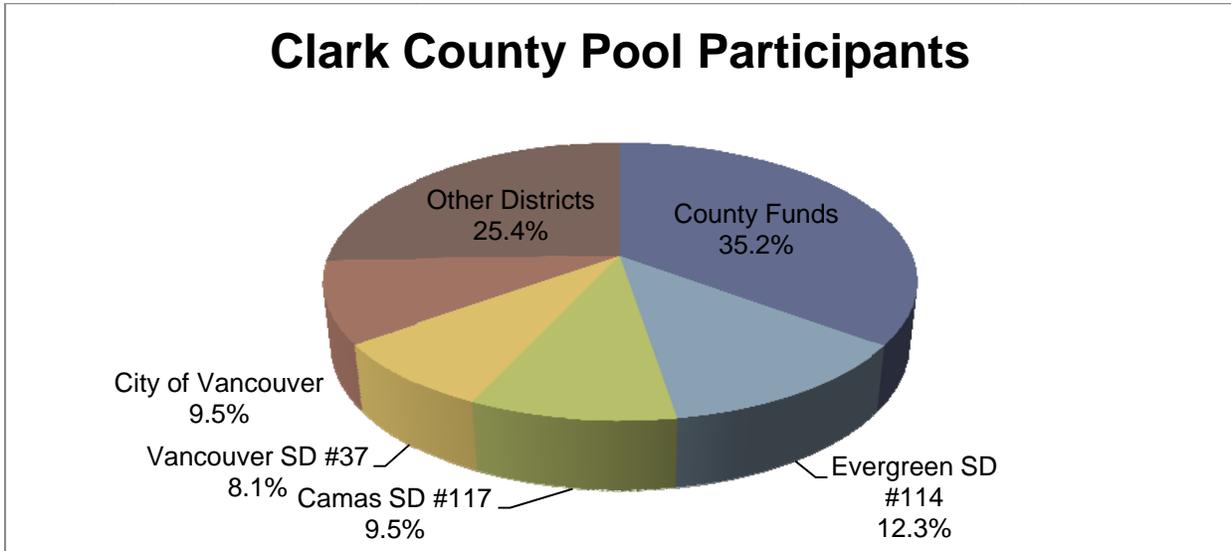


FIGURE ONE

Figure Two illustrates month end General Fund cash balances beginning with January 2009 through March 2011. For March 2011, the cash balances in the General Fund were \$6.3 million higher than March of 2010 and \$6.7 million higher than March of 2009.

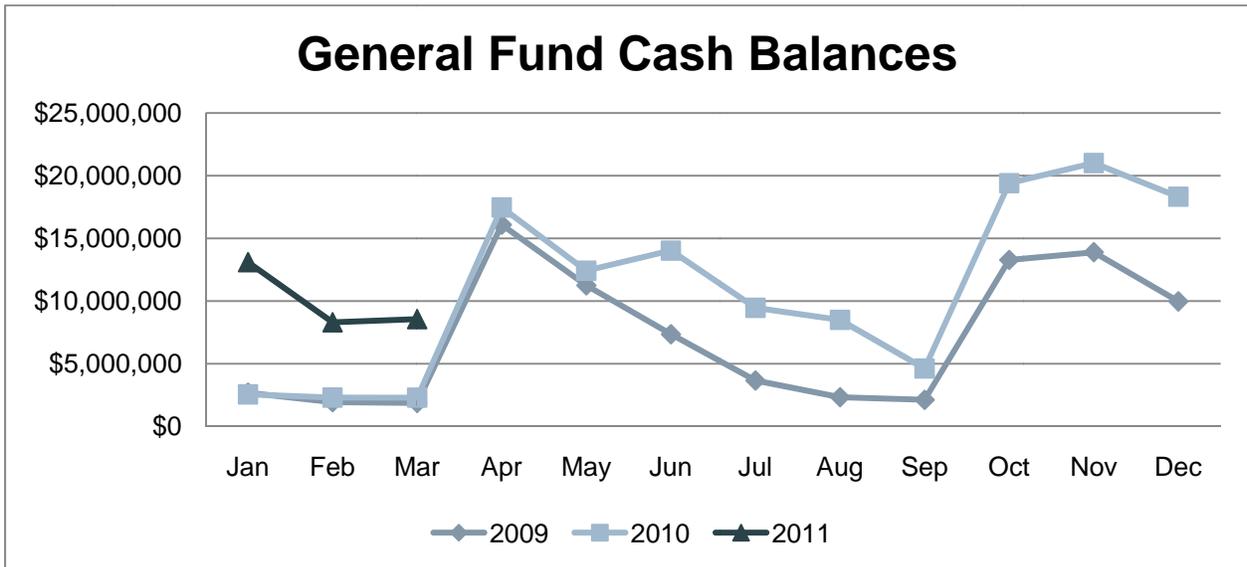


FIGURE TWO

Figure Three reflects the average principal balances being maintained within the Pool in 2011 compared to the two prior years. For March of 2011, the average monthly



principal balance was \$21.2 million higher than the same month in 2010 and \$35.1 million higher than the same month in 2009.

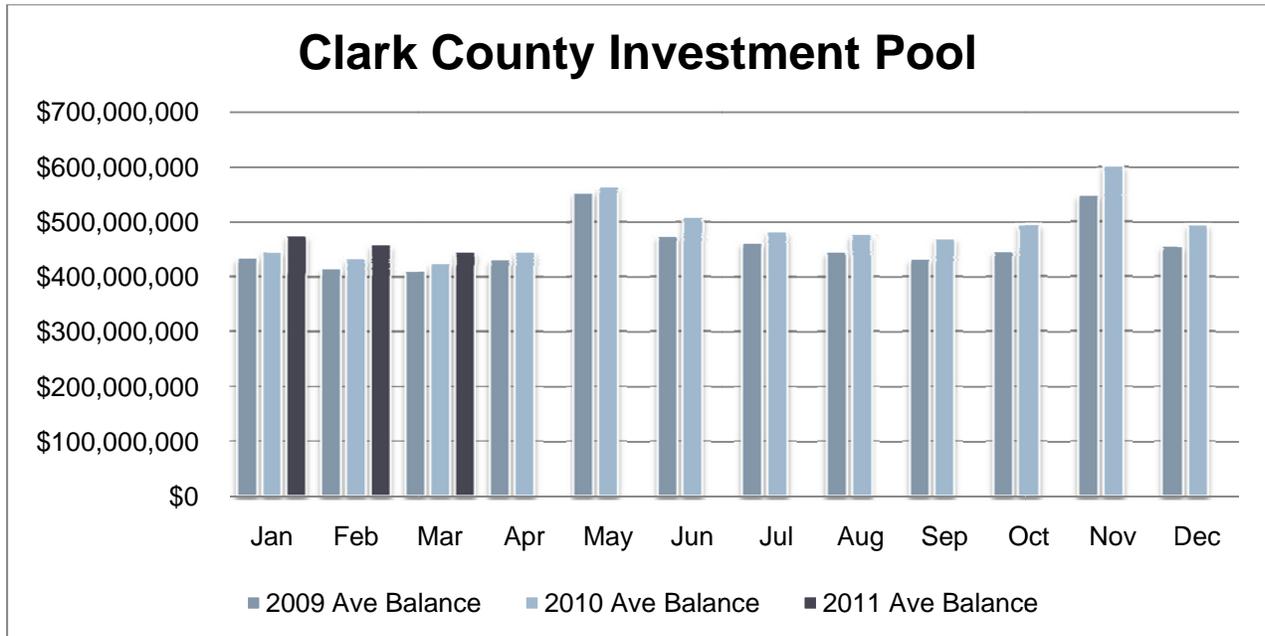


FIGURE THREE

As of March 31, 2011, 52.8% of the portfolio was invested in the Washington State LGIP. **Figure Four** shows the WA State LGIP's credit quality by issuer; whereas **Figure Five** shows the maturity structure of the WA State LGIP.

| Investment Type | Credit Quality | Ave Balance Mar-11 | | Ave Balance CY 2011 | |
|--------------------------------|----------------|------------------------|-------------|------------------------|-------------|
| Agency Callables | AAA | \$50,000,000 | 0.61% | \$17,222,222 | 0.20% |
| Repurchase Agreements | AAA | \$1,523,000,419 | 18.49% | \$1,729,525,678 | 20.51% |
| Reverse Repo Agreements | | (\$32,241,935) | -0.39% | (\$11,105,555) | -0.13% |
| Treasury Securities | AAA | \$1,429,031,347 | 17.35% | \$1,118,116,827 | 13.26% |
| Agency Coupons | AAA | \$12,903,276 | 0.16% | \$113,533,786 | 1.35% |
| IB Bank Deposit | PDPC | \$828,719,131 | 10.06% | \$789,665,596 | 9.36% |
| NOW Account | PDPC/FDIC | \$115,315,470 | 1.40% | \$96,571,765 | 1.15% |
| Agency Floating Rate Notes | AAA | \$1,259,198,583 | 15.29% | \$1,287,887,068 | 15.27% |
| Agency Variable Rate Notes | AAA | \$596,430,944 | 7.24% | \$575,819,468 | 6.83% |
| Discounts Notes | AAA | \$2,339,221,720 | 28.41% | \$2,602,184,872 | 30.86% |
| Certificates of Deposit | PDPC | \$113,365,000 | 1.38% | \$112,893,333 | 1.34% |
| Commercial Paper | | \$0 | 0% | \$0 | 0% |
| Total Avg Daily Balance | | \$8,234,943,955 | 100% | \$8,432,315,060 | 100% |
| Avg Days to Maturity | | 50 days | | | |

FIGURE FOUR

| Days To Maturity | \$ Maturing (Par Value) | % Maturing | Cumulative % Maturing |
|------------------|-------------------------|------------|-----------------------|
|------------------|-------------------------|------------|-----------------------|



| | (in millions) | | |
|----------------------------|----------------------|------|-------|
| 1 | 1,270.94 | 14.9 | 14.9 |
| 2-30 | 1,802.00 | 20.9 | 35.8 |
| 31-60 | 100.00 | 1.2 | 36.9 |
| 61-90 | 1,531.00 | 17.8 | 54.7 |
| 91-120 | 930.37 | 10.8 | 65.5 |
| 121-180 | 950.00 | 11.0 | 76.5 |
| 181-270 | 200.00 | 2.3 | 78.9 |
| 271-397 | 50.00 | 0.6 | 79.4 |
| Floating Rate Notes | 1,140.00 | 13.2 | 92.7 |
| Variable Rate Notes | <u>640.00</u> | 7.4 | 100.0 |
| PORTFOLIO TOTAL | 8,614.31 | | |

FIGURE FIVE

Figure Six reflects the actual average monthly residual principal balances managed by the County for 2010 and 2011. For the first quarter 2011, residual balances averaged \$3.4 million per month more than the same period 2010.

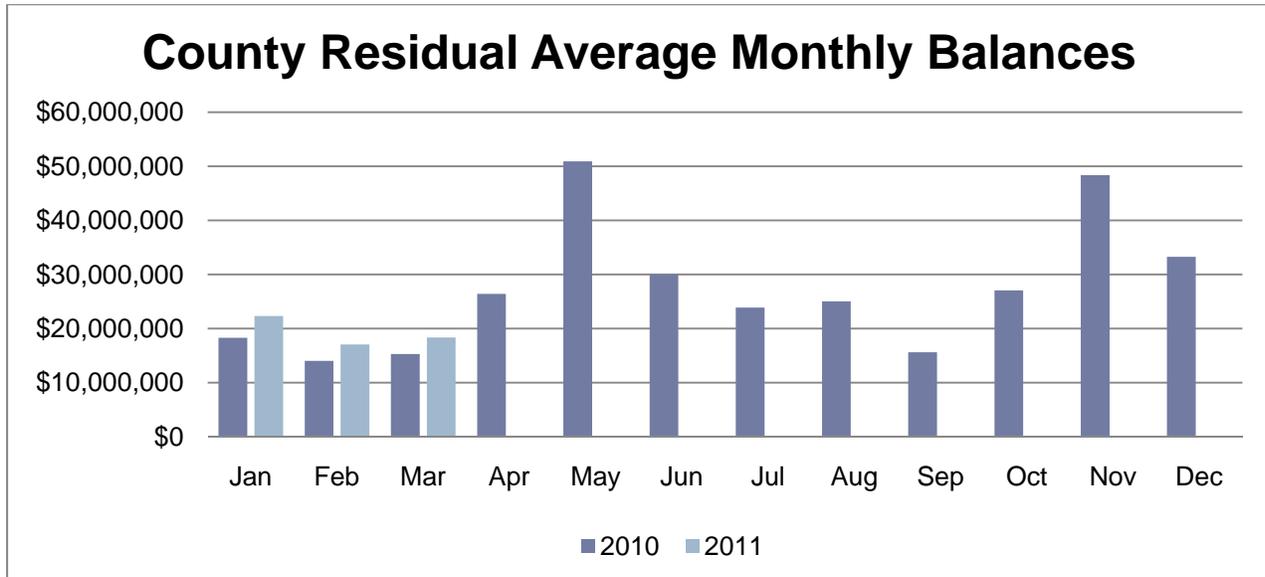


FIGURE SIX

Figure Seven shows interest earnings distributed each month to the County’s General Fund from 2010 through 2011. During the first quarter of 2011, interest earnings totaled \$14.1 thousand less than during the first quarter in 2010. This is due to a decrease in interest rates. On an average monthly basis, \$10.9 thousand was distributed to the General Fund per month during the quarter.



FIGURE SEVEN

Figure Eight depicts the County Pool's interest rates for 2009 through the first quarter of 2011. The County Pool's gross interest rate, based on the book value of the portfolio, for March 2011 was 0.59% compared to 1.10% for March 2010 and 1.85% for March 2009.

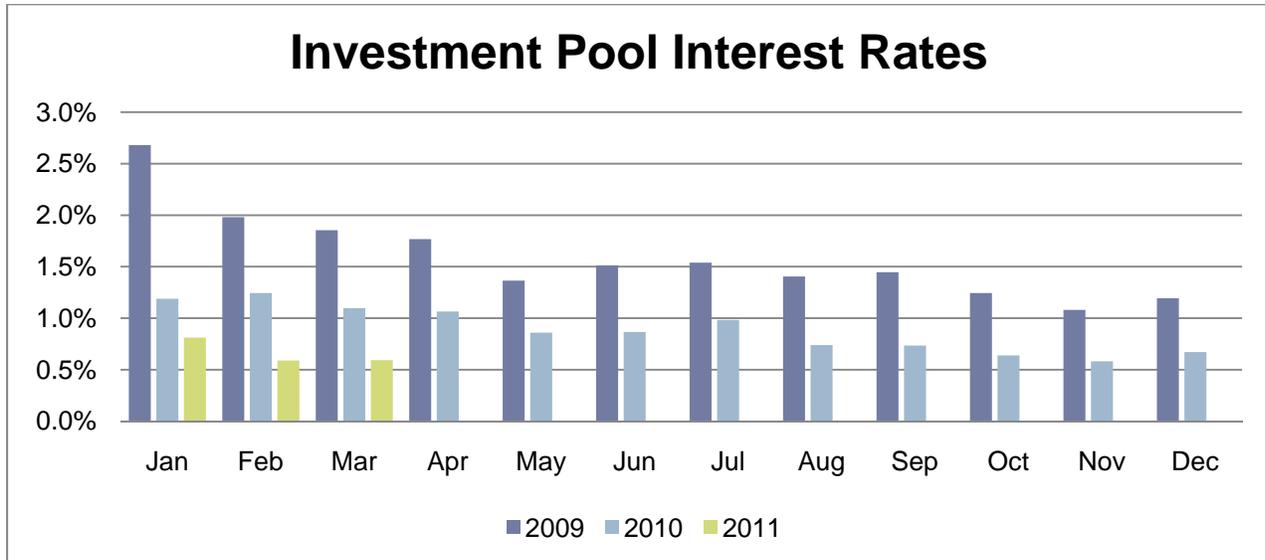


FIGURE EIGHT

Figure Nine compares performance on a book value return basis. The County Pool's interest rate is expressed as the net interest rate (the gross rate less the investment fee.) The book value return of a portfolio measures the return on a portfolio compared to the book value at the time of the original security purchases. The performance benchmarks consist of the Washington State Local Government Investment Pool (LGIP) with an average maturity of approximately 50 days for March, Standard and Poor's LGIP Index with an average maturity of less than 30 days, and the Clark County Investment Pool with an average maturity of 222 days. The Standard and Poor's LGIP Index and the Washington State LGIP closely track current interest rates. At the end of the first quarter 2011, the County Pool's rate on a book value basis was 0.59%, the S&P LGIP Gross Index was 0.27%, and the Washington State LGIP's gross rate was 0.27%.

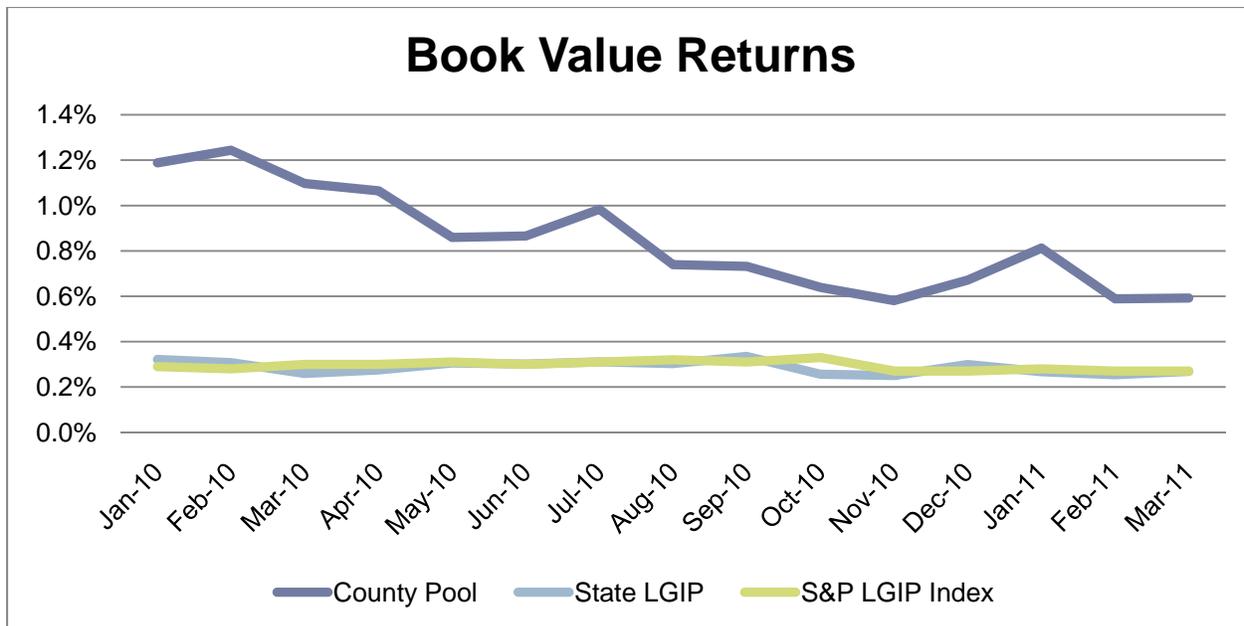


FIGURE NINE

Figure Ten compares performance on a total return basis. Total return measures the market value increase or decrease in the value of the portfolio plus interest earnings on securities, over a given period of time. The customized total return index consists of 75% Merrill Lynch 0-1 Year U.S. Treasury Index and 25% 1-3 Year Merrill Lynch U.S. Agencies Index with a modified duration of 0.763 years as of March 31, 2011. The annualized total return for March of 2011 for the County Pool was 0.26% and the Custom Benchmark Index was 0.26%. The Benchmark held a longer duration and is often able to obtain higher yields than the County Pool.

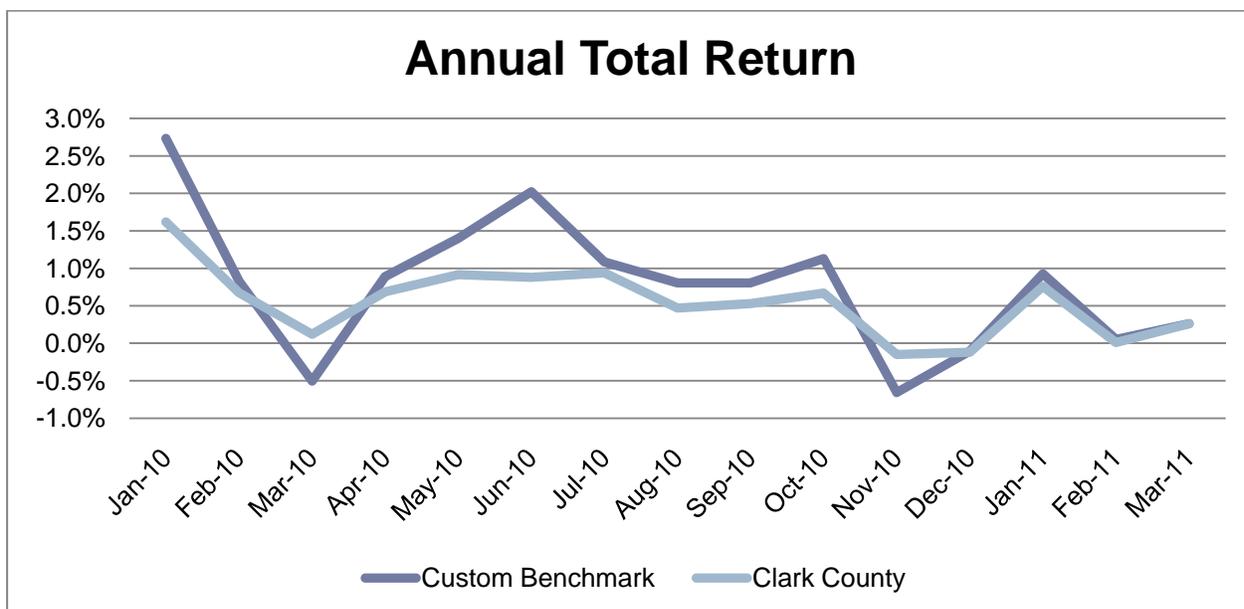


FIGURE TEN

Figure Eleven shows the market value of the Pool portfolio based on net asset value (N.A.V.) per share. N.A.V. is the market value of the portfolio's securities, less liabilities, divided by the total number of shares outstanding. As of March 2011, the N.A.V. per share was \$1.000107. GASB Statement 31 requires that External Investment Pools like the County Pool report all investments at fair market value if the average maturity of the Pool exceeds 90 days. The fair market value of the Pool was \$454,453,377.82 on March 31, 2011.

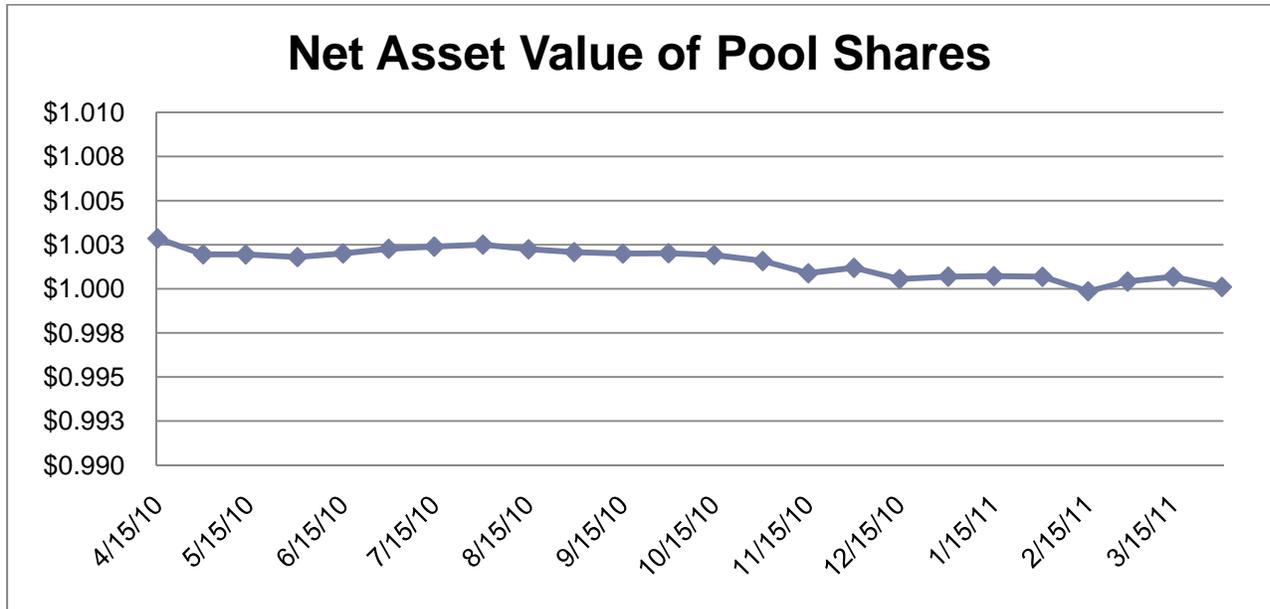


FIGURE ELEVEN

Net Asset Values:

| Date | Value | Date | Value |
|------------|------------|------------|------------|
| 04/15/2010 | \$1.002858 | 10/15/2010 | \$1.001917 |
| 04/30/2010 | \$1.001954 | 10/31/2010 | \$1.001578 |
| 05/14/2010 | \$1.001948 | 11/15/2010 | \$1.000884 |
| 05/31/2010 | \$1.001801 | 11/30/2010 | \$1.001192 |
| 06/15/2010 | \$1.002010 | 12/15/2010 | \$1.000552 |
| 06/30/2010 | \$1.002271 | 12/31/2010 | \$1.000693 |
| 07/15/2010 | \$1.002392 | 01/15/2011 | \$1.000719 |
| 07/31/2010 | \$1.002506 | 01/31/2011 | \$1.000685 |
| 08/15/2010 | \$1.002245 | 02/15/2011 | \$0.999862 |
| 08/30/2010 | \$1.002082 | 02/28/2011 | \$1.000416 |
| 09/15/2010 | \$1.001997 | 03/15/2011 | \$1.000682 |
| 09/30/2010 | \$1.002016 | 03/31/2011 | \$1.000107 |

Figure Twelve shows projected County Pool interest rates for the last year compared with actual gross interest rates.

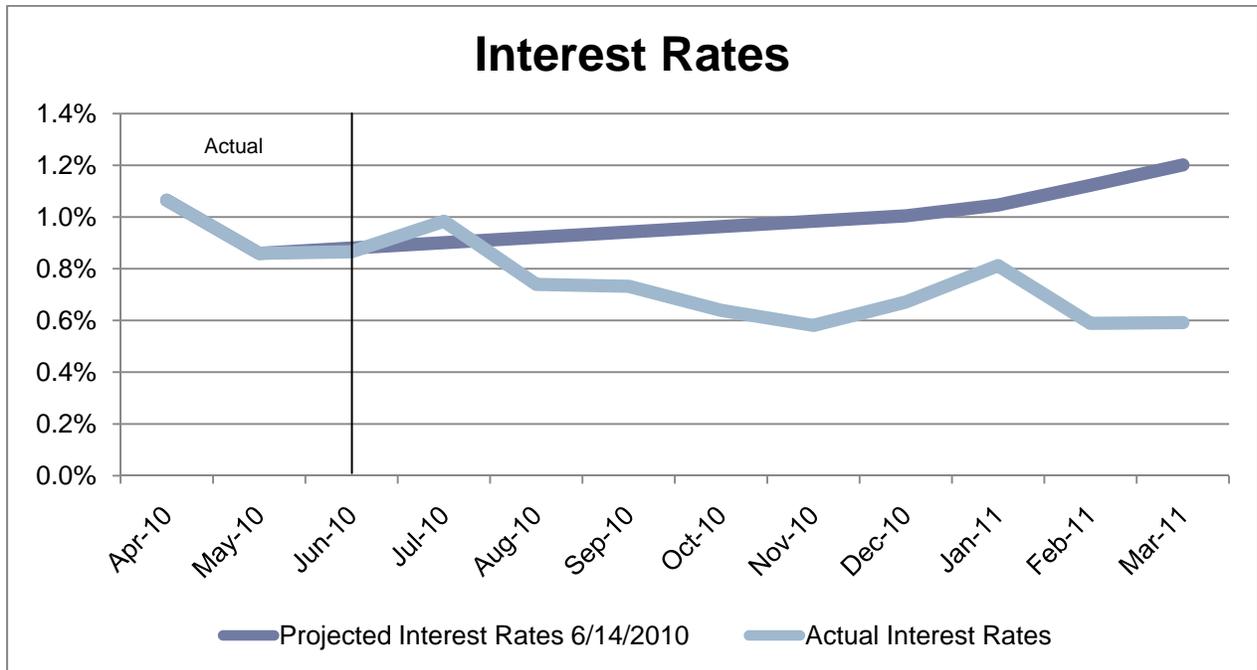


FIGURE TWELVE

SECTION IV – INVESTMENT STRATEGY

The following table shows the percentage distribution of the Clark County Pool maturity periods. In the beginning of 2008, the emphasis was to purchase securities in the 2 – 5 year sector, which are currently beginning to mature from the portfolio. As we approach the bottom of lower interest rates, we began purchasing securities in the 1 – 2 year maturity sector so we will be ready when there is a rise in interest rates. The economy is showing very sluggish signs of recovery from the recession that officially ended in 2009. We continue to purchase securities in the 2 year maturity sector to keep our average maturity around 6 to 9 months.

| Period | 0 – 1 Year | 1 – 2 Years | 2 – 5 Years |
|-------------------------------------|------------|-------------|-------------|
| 1st quarter, 2008 | 77% | 4% | 19% |
| 2nd quarter, 2008 | 68% | 15% | 17% |
| 3rd quarter, 2008 | 72% | 21% | 7% |
| 4th quarter, 2008 | 67% | 18% | 15% |
| 1st quarter, 2009 | 63% | 20% | 17% |
| 2nd quarter, 2009 | 80% | 10% | 10% |
| 3rd quarter, 2009 | 86% | 7% | 7% |
| 4th quarter, 2009 | 72% | 26% | 2% |
| 1st quarter, 2010 | 69% | 24% | 7% |
| 2nd quarter, 2010 | 76% | 16% | 8% |
| 3rd quarter, 2010 | 74% | 15% | 11% |
| 4th quarter, 2010 | 71% | 18% | 11% |
| 1st quarter, 2011 | 67% | 24% | 9% |

During the first quarter of 2011, our target range for duration was between .5 and .75 years. We continue to maintain high credit quality in portfolio while we continue to monitor our investment strategy. We remain proactive as economic conditions fluctuate.

Davidson Fixed Income Management provides a third party review of the Treasurer's Investment Portfolio and provides investment advice.

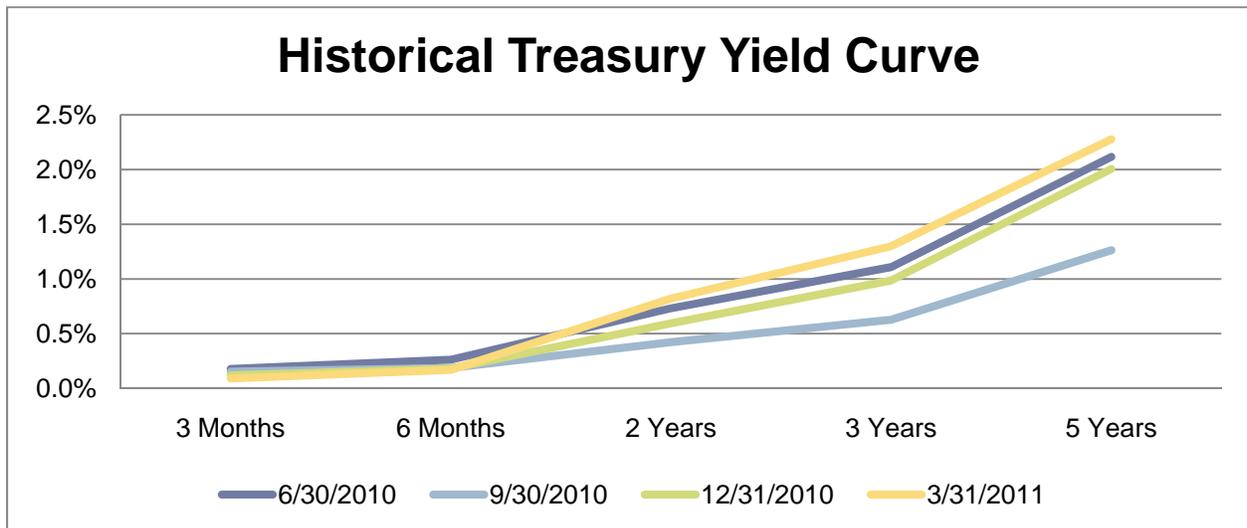
SECTION V – ECONOMIC/MARKET CONDITIONS

The national unemployment rate dropped to 8.8% for the month of March. A Job Openings and Labor Turnover report indicated the highest level of job openings of 3.09 million positions since December 2004.

Japan's earthquake and tsunami in early March and the unrest in the Middle East and Africa have caused significant pressure on the crude oil market. March ended with crude oil at \$107 per barrel, a 13.9% increase since the start of the year. Consumers feel this impact directly on their wallets, as food and fuel prices led the majority of the Consumer Price Index and the Producer Price Index gains for the month of March. The core CPI (excluding food and energy) has remained at stable levels that do not trigger inflationary concerns with the Fed.

Existing home sales fell 9.6% in the month of February as new home sales fell 16.9%. The declining demand for houses, along with the rising level of foreclosed homes, drove home prices down 5.7% in February from the year prior. The housing market continues to decline as a record number of foreclosures are expected in 2011.

Below you will find a chart of U.S. Treasury yields from 6/30/2010 to 3/31/2011. As you can see, yields on the front end of the curve (less than one year) have started to decline but yields on two years and greater have started to increase recently.



Sources: Bloomberg, FTN Financial

SECTION VI - PORTFOLIO

ENTIRE PORTFOLIO:

Exhibit One shows the makeup of the entire portfolio at the end of the quarter. This exhibit is used to monitor compliance with the Investment Policy as far as the diversification of securities held and the percentage each sector makes up of the portfolio. All percentages are consistent with the current Investment Policy.

Exhibit Two shows the entire portfolio listing as of the end of the quarter. This report shows the book value, the par value, and the market value of the portfolio.

Exhibit Three shows the liquidity of the entire portfolio. All percentages are consistent with the current Investment policy.

Exhibit Four reflects the percentage of securities purchased from each issuer relative to the entire portfolio. All the percentages are consistent with the current Investment Policy.

Exhibit Five shows all investment purchases and maturities.

INVESTMENT POOL:

Exhibit Six show the makeup of the Clark County Investment Pool at the end of the quarter. This exhibit is used to monitor compliance with the Investment Policy as far as the diversification of the securities held and related percentage of the total portfolio for each type of security. All percentages are consistent with the current Investment Policy.

Exhibit Seven shows the portfolio listings of the Clark county Investment Pool at the end of the quarter. This report contains the book value, the par value, and the market value.

Exhibit Eight shows the liquidity of the Clark County Investment Pool. All percentages are consistent with the current Investment Policy.

Exhibit Nine reflects the percentage of securities purchased from each issuer for the Clark County Investment Pool. All percentages are consistent with the current Investment Policy.

Exhibit Ten is a comparison of the Clark County Investment Pool to the Washington State LGIP.