

# Merrill Lynch

June 16, 1993

Mr. Robert L. Citron  
Treasurer  
Orange County Treasurer  
630 N. Broadway, Room 209  
Santa Ana, CA 92702

Dear Bob:

Thank you for your prompt response to my memo dated March 31, 1993. We understand that you do not wish to sell your derivative securities at this time and consider the investment a long-term investment. However, we would like to comment on Merrill's ability to "maintain a secondary market in all securities that we have purchased from them." While we certainly endeavor to maintain secondary markets in securities we sell, we are not allowed to guarantee the existence of any secondary market and would not want any investor to be under the impression that we would. We have always taken pride in the liquidity provided by our trading desks, but could not legally and do not represent that such a market would be in effect at any point in the future or what prices might be applicable. I belabor this point to emphasize that our March 31 bid letter was a specific offer to repurchase derivative securities Merrill had sold to you in the past.

In addition, I appreciate that you are aware of the risks involved in purchasing derivative securities and your expectation of low or lower interest rates in the future. I am also aware of our discussions with economists and market strategists at Merrill Lynch, but would not and could not represent that Orange County should base its portfolio strategy exclusively on Merrill interest rate projections. The reason for our March bid letter was to allow Orange County the opportunity to lower its risk profile in derivative securities at a profit. While no one knows for certain the direction of interest rates, we thought it appropriate to advise Orange County of the profitable market opportunity at this time. While the decision is yours to make, it was our hope to assist you in bringing the O.C. portfolio in line with a risk profile that is less leveraged and better positioned to perform in the event of unanticipated movements in interest rates.

The success of Orange County's investment portfolio, under your management, has been outstanding. We wish you continued success and offer any resources at Merrill that might help you in the future. Please feel free to call me at any point to discuss any of these issues and opportunities in the future.

With regards,

Mike Stamenson

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