City of San Diego

Pooled Investment Fund Quarterly Review

Quarter ended

3/31/2012

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Office of the City Treasurer—Investments Division

Economic Commentary

Risk assets surged last quarter on strong economic news and positive developments in the European debt crisis. Equity markets throughout the world increased, with the S&P 500 index registering its largest quarterly increase since 1998 (Chart 1).

The U.S. labor market showed continued improvement during the quarter. Initial jobless claims decreased from 390,000 per week at the beginning of the quarter to 357,000 by quarter end, monthly non-farm payrolls increased by an average of 212,000 during the quarter, and the unemployment rate fell to 8.2% in March.

In Europe, near-term risks faded substantially as a €130 billion Greek bailout was agreed to, leading to an orderly default of Greek debt. Additionally, the European Central Bank provided €530 billion of term financing to European banks, greatly improving the funding situation of those banks.

U.S. banks generally passed the latest Fed stress test with flying colors, with most large banks being deemed as adequately capitalized. Most banks were even allowed to increase dividends to shareholders and conduct buybacks of their outstanding stock.

Despite these positive developments in the banking sector, Moody's announced that it was placing the ratings of many large global financial institutions on watch for downgrade. Any rating actions should be completed by the end of the second quarter.

In its January meeting, the Federal Open Market Committee announced that it would likely keep rates exceptionally low through the end of 2014, an increase of duration from the mid-2013 timeline it announced just this past summer.

However, interest rates increased during the second half of the quarter on the reversal of the flight-to-safety trade, strong economic numbers and reduced expectation of any more quantitative easing after June.

The last quarter looked remarkably like the first quarter of 2011, with increased economic activity, higher prices of risky assets, and higher interest rates. It remains to be seen whether this current quarter will play out like the second quarter of 2011 (slowing economy, Euro debt crisis flare-up, lower yields) or if the global economy will continue on its upward trajectory.

Quarterly Economic Highlights

- The U.S. stock market, as measured by the S&P 500 index, returned 12.59% for the quarter
- The FOMC indicated that it would keep rates exceptionally low through the end of 2014
- The U.S. unemployment rate fell to 8.2% in March
- Oil prices surged during the quarter on geopolitical concerns, trading as high as $109/barrel before settling under $103/barrel at quarter end

Contents:

Key Economic Indicators	2
Portfolio Performance	3
Portfolio Profile	4
Portfolio Strategy	5
Projected Cash Flows	5
Portfolio Compliance	6
Portfolio Holdings	7-9

Chart 1: S&P 500 Index Levels April 2011—March 2012 (Source: Bloomberg)

Hot Topic Corner— The Fed's Mandate: One Scoop or Two

The Federal Reserve's statutory objectives for monetary policy are a dual mandate of maximum employment and stable prices. This dual mandate has recently come under fire and some critics advocate that the Federal Reserve should have only one mandate, price stability, like most central banks across the globe. Critics contend that the maximum employment portion of the mandate encourages the Fed towards short term employment gains at the detriment of long term price stability. The more interesting question is whether its dual mandate distracts the Fed from executing effective monetary policy which exacerbates the volatility of economic cycles?

Regardless of the Fed's objectives, the U.S. economy will continue to go through economic cycles of booms and busts, but the frequency and depths of these economic fluctuations are influenced by the Fed's monetary policy decisions. For example, the Great Depression was exacerbated by the Fed's decision to tighten the money supply too early in 1936 and 1937 which sent the U.S. economy back into recession.

The true mission of the Federal Reserve is to prevent the U.S. economy from completely melting down. As economic theory has evolved, the accepted practice for money policy is to make small changes to the money supply, right or wrong, to avoid dramatic corrections to the economy (i.e. Greenspan Put). I like to think of the Federal Reserve as the cruise control on my car. Regardless of the peaks and valleys I drive over, the cruise control tries to accelerate/ slowdown the engine to maintain my targeted speed.

The Federal Reserve can accelerate/slow the growth of the economy by increasing/ decreasing the U.S. money supply by buying/selling U.S. debt. If the Fed believes unemployment is too high and/or inflation is too low then the Federal Reserve can buy U.S. Treasury debt which will lower U.S. Treasury interest rates, increase the money supply, and spur economic growth. If however inflation accelerates or the labor market overheats then the Fed can sell its U.S. Treasury debt which will increase U.S. Treasury interest rates, lower the money supply, and slow economic growth.

The tricky aspect of the dual mandate happens when a divergence occurs in the normally negatively-correlated relationship between inflation and the unemployment rate. Typically, the unemployment rate and inflation move in opposite directions, so as inflation slows the unemployment rate rises. However, if a divergence happens and inflation accelerates and the unemployment rate also rises, i.e. stagflation, then which tail does the Fed chase since each situation calls for an opposing monetary policy decision. Historically, the Federal Reserve has placed a greater emphasis on controlling inflation versus employment because of the deteriorating and long lasting

(Continued on Page 9)

Key Economic Indicators

Indicator	***Period***	***Report Current***	***As Reported Last Quarter***	***Difference***
Federal Funds Rate	3/13/2012	0-0.25%	0-0.25%	0%
Consumer Price Index (MoM)	MAR	0.3%	0.3%	0.0%
Consumer Price Index (YoY)	MAR	2.7%	3.0%	(0.3%)
Producer Price Index (MoM)	MAR	0.0%	(0.1%)	0.1%
Producer Price Index (YoY)	MAR	2.8%	4.8%	(2.0%)
Durable Goods Orders	MAR	(4.2%)	3.0%	(7.2%)
Gross Domestic Product (Annualized)	Q1A	2.2%	2.8%	(0.6%)
ISM (Manufacturing)	MAR	53.4	53.9	(0.5)
ISM (Non-manufacturing)	MAR	56.0	52.6	3.4
Retail Sales	MAR	0.8%	0.1%	0.7%
Unemployment Rate	MAR	8.2%	8.5%	(0.3%)
Change in Non-farm Payrolls	MAR	120,000	200,000	(80,000)
Consumer Confidence (Univ. of Michigan)	APR (Final)	76.4	75.0	1.4
Existing Home Sales	MAR	4.48(mil)	4.61(mil)	(0.13)(mil)
New Home Sales	MAR	0.328(mil)	0.307(mil)	0.021(mil)
Housing Starts	MAR	0.654(mil)	0.657(mil)	(0.003)(mil)
Median Home Price (existing) [EHSLMP]	MAR	$163,600	$165,100	($1,400)
NYMEX WTI CRUDE OIL (barrel)	3/30/11	$103.02	$98.83	$4.19
S&P 500 Stock Index	3/30/11	1408.47	1,257.60	150.87

Portfolio Performance

The Core Portfolio outperformed its benchmark, the Bank of America Merrill Lynch 1-3 year Treasury Index, by 11 basis points this past quarter returning .03% versus −0.08% for the index.

Chart 2 shows a bear steepening curve, with longer end rates increasing more than shorter rates. Rates across the curve increased from the middle to end of the quarter. Several factors contributed to this move, including improvements in the European funding markets, strong labor and other economic data in the U.S., and a rally in risky assets.

The "risk on" trade helped with portfolio performance as our agency and corporate bonds outperformed index securities. Indeed, "sector/quality effect" contributed 10 of the 11 basis points of outperformance versus the index for the quarter.

"Income effect" was the largest detractor of relative performance this past quarter, subtracting 20 basis points of performance versus the index due to the index containing more high coupon securities than the portfolio. This effect should intensify over the next several quarters as a few very high coupon securities enter the index. These old 30-year bonds were issued in the 1980's, a period of very high interest rates.

"Amortization and roll effect" offset the income effect again this quarter, adding 20 basis of performance versus the index. As the lower coupon securities are priced lower than higher coupon securities, they have less negative price movement as they near maturity. This effect will also intensify with the inclusion of the high coupon securities in the index.

"Duration effect" contributed approximately 2 basis points of outperformance, as the portfolio was generally short duration versus the index for the quarter.

However, the portfolio was more exposed to the 3 year part of the yield curve than the index, resulting in 2 basis points of negative "non-parallel duration effect" due to underperformance of this part of the curve.

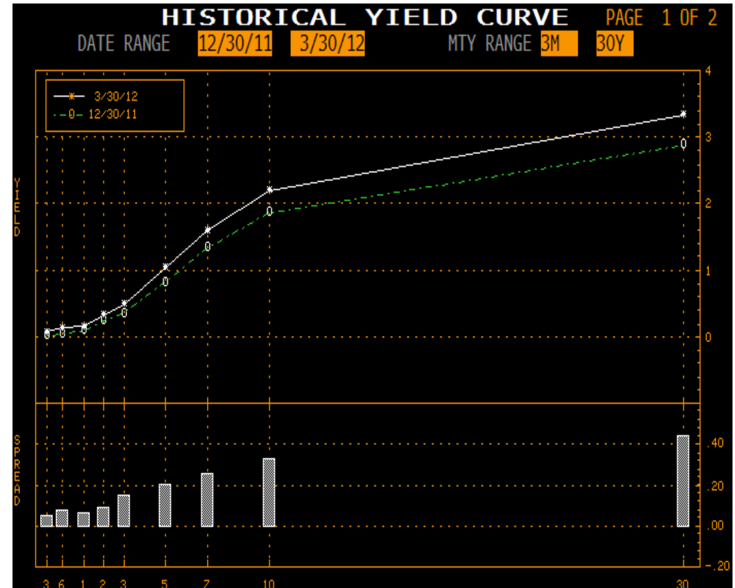


Chart 2: U.S. Treasury Yield Curve 12/30/11—3/30/12 (Source: Bloomberg)

Returns

The City's Total Pooled Investment Fund is split into two portfolios. A Liquidity portfolio, which is short-term in nature and managed on an Earned Income Yield basis, and a Core portfolio, which is longer in maturity (0-5 years) and managed on a total-return basis versus an index (Bank of America Merrill Lynch (BAML) 1-3 Year Treasury Index).

Earned Income Yield*

	Q1 2012	Q4 2011	Q3 2011	FYTD 2012	1 Year	3 Year
Total Pooled Investment Fund	0.84%	0.95%	1.41%	1.06%	1.10%	1.49%
Core Portfolio	1.01%	1.25%	1.98%	1.41%	1.47%	2.03%
Liquidity Portfolio	0.54%	0.45%	0.36%	0.45%	0.44%	0.52%

Total Return—Core Portfolio

	Q1 2012	Q4 2011	Q3 2011	FYTD 2012	1 Year	3 Year*
Core Portfolio	0.03%	0.19%	0.42%	0.63%	1.53%	1.77%
BAML 1 - 3 Year Treasury Index	(0.08%)	0.19%	0.49%	0.59%	1.43%	1.50%
Difference	0.11%	0.00%	(0.07%)	0.04%	0.10%	0.27%

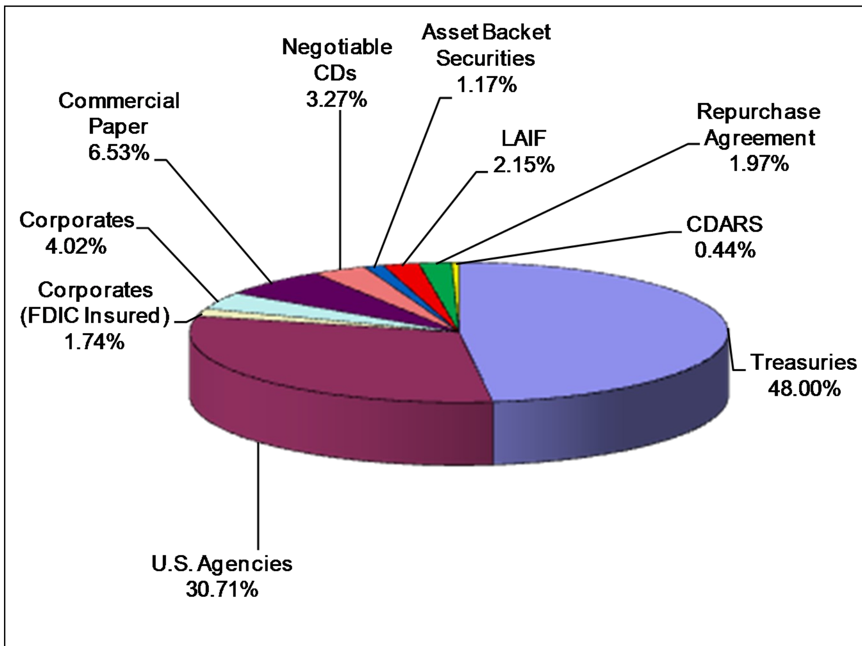
***Annualized Returns**

Portfolio Profile as of March 31, 2012

	Liquidity	*Core*
Portfolio Size*	$825,776,938	$1,468,209,160
% of total pool	36.00%	64.00%
Portfolio Duration**	0.357	1.771
Index Duration**	0.382	1.900
% of index	93.46%	93.21%
Weighted Average Days to Maturity	141	717

* Book Value ** Macaulay's Duration for the Liquidity Portfolio and Effective Duration for the Core Portfolio
Note: Portfolio durations do not include the effect of trades settling over month end.

Asset Allocation



Top Issuer Exposures

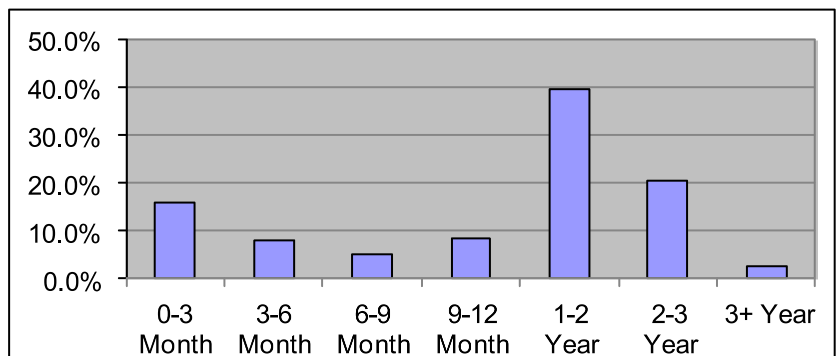
Issuer	% of Portfolio
U.S. Treasury	48.00%
Federal Home Loan Bank	9.15%
Freddie Mac	8.22%
Fannie Mae	8.00%
Federal Farm Credit Bank	4.02%
General Electric	1.53%
JP Morgan Chase	1.09%
Rabobank USA	1.09%
Svenska Handelsbanken NY	1.09%
Royal Bank of Canada NY	1.09%
Nestle Capital Corp	1.09%
Chase Issuance Trust	1.09%
Societe Generale N.A.	1.09%
BNP Paribas Finance Inc.	1.09%
Bank of Nova Scotia NY	1.09%
Toyota Motor Credit Corp.	1.09%

Credit Ratings

Ratings Buckets	% of Portfolio
U.S. Treasury (AAA)	48.00%
U.S. Agencies (AAA)	30.71%
AAA/A1	11.98%
AA	2.90%
A	0.69%
Below A	0.00%

- All Commercial Paper is rated A1 or A1+ and is included in the AAA/A1 bucket
- Repurchase agreement is not included, though it is collateralized at 102% by AAA-rated collateral with an A-rated counterparty
- CDARS is not included as it is comprised of FDIC-insured CDs
- LAIF and money market funds are not included

Pool Maturity Distribution



Portfolio Strategy

Interest rates increased to their highest levels since early August on improved economic numbers and better funding conditions in Europe.

As a result, we have started the latest quarter closer to neutral versus index duration than we have been over the past several quarters. This is because though some of the interest rate increase may be justified, particularly in the longer part of the yield curve, the FOMC has indicated that it will likely keep rates exceptionally low through the end of 2014. As such, we feel that 2 and 3 year interest rates will not go much higher and will possibly retrace some of the increase.

Though we are currently tactically closer to neutral, we will maintain a longer-term bearish view on rates and will generally remain short duration versus the index, mitigating portfolio losses as rates do rise in the future.

During the past quarter, corporate and especially agency spreads tightened significantly to Treasuries. Short-term agency bullet securities are trading with yields just slightly above Treasuries, at or near historically low levels. We see very little room for these securities to tighten further and have decreased our exposure to them.

We do maintain a sizeable allocation to agency callable securities, however. As these securities come with a higher coupon than bullet agency securities, we are able to earn incremental income without any additional credit risk than the agency bullets. With front end rates expected to stay fairly stable over the next several years, we feel buying these callable securities will enhance overall portfolio performance.

We have also increased exposure to large European banks due to the funding the banks have available through the European Central Bank. Even so, we have invested in commercial paper and certificates of deposit with fairly short maturities so that we can assess creditworthiness and decide if we want to reinvest on a more frequent basis. As with all of our corporate names, we assess their situations on at least a weekly basis.

We are looking into adding several asset-backed commercial paper (ABCP) programs as potential investments. We will look primarily at ABCP shelves that invest in trade receivables and other consumer receivables and that are sponsored by large, high-rated commercial banks. We feel that the commercial paper investments of select issuers will be a good way of earning incremental yield without sacrificing portfolio safety. This is because while regular bank or other commercial paper is an unsecured claim on the issuing company, ABCP investors have recourse on the assets financed through the program and other credit enhancement.

Projected Portfolio Cash Flows*

The Investment staff have reviewed and the City Treasurer has affirmed that the Pooled Investment Fund has sufficient maturities and liquidity to meet the City's expenditure requirements for the next six months per California Government Code §53646.

MONTH	CASH INFLOWS	CASH OUTFLOWS	NET MONTHLY CASH-FLOWS	CUMULATIVE NET CASHFLOWS
April	372	217	155	155
May	437	363	74	229
June	204	194	10	239
July	375	450	(75)	164
August	259	228	31	195
September	163	179	(16)	179

(All dollar amounts in millions)

Legend:

Cash Inflows- All revenues, reimbursements, interest receipts and investment maturities.

Cash Outflows- All disbursements to include payroll, pension payroll, accounts payable and wire transfer payments (e.g. water payments, IRS taxes and bond payments).

Cumulative Net Cashflow- All future cumulative net flows available for reinvestment. Since the target duration of the Liquidity Portfolio is approximately .33 years, it will not be unusual for the cumulative net Cashflow figure to equal or closely approximate the size of the Liquidity Portfolio.

* Cashflows based on Actual Cashflows where applicable, otherwise, based on quarterly updated projection Cashflows.

Portfolio Compliance with Investment Policy

The City of San Diego Pooled Investment Fund is in full compliance with the City Treasurer's Investment Policy, which is more restrictive than the current California Government Code. The Investment Policy is reviewed annually by the City's Investment Advisory Committee and accepted by the City Council.

Category	Standard	Comment
Duration (Core) Duration (Liquidity)	ML 1-3 Year +/-20% US T-bill 3-6 months +/-40%	Complies – 93.21% Complies - 93.46%
Maximum Maturity	5 years	Complies
U.S. Agency Securities	100% maximum	Complies – 30.71%
FNMA	33.3% maximum	Complies– 8.00%
FHLMC	33.3% maximum	Complies – 8.22%
FHLB	33.3% maximum	Complies – 9.15%
FFCB	33.3% maximum	Complies – 4.02%
Callable Securities	30% maximum	Complies – 12.64%
MBS/CMO's	5 yr maximum- 20% max.	Complies – None in Portfolio
Asset-backed	5 yr maximum- 20% max.	Complies – 1.17%
Commercial Paper	A1/P1- 5% per issuer	Complies
	25% maximum	Complies – 6.53%
Banker's Acceptances	A1/P1- 5% per issuer	Complies – None in Portfolio
	40% maximum	Complies – None in Portfolio
Medium Term Notes (includes Bank Notes)	'A' Rating' by at least two agencies	Complies
	3 year maximum	Complies
	30% maximum	Complies – 5.77%
Mutual Funds	20% maximum; 5% maximum per fund	Complies – None in Portfolio
FDIC-insured Certificates of Deposit	2% maximum	Complies – 0.44%
Certificate and Public Deposits	30% maximum	Complies – 3.27%
Reverse Repos	20% maximum	Complies – None in Portfolio
Futures and Options	Prohibited	Complies – None in Portfolio
Custody	Bank trust dept.	Complies – Bank of NY Mellon
Exposure per issuer (corporate)	5% of total portfolio	Complies
Structured Notes	8% maximum/no multiple index structures.	Complies - None in Portfolio
Municipal Securities	'A' Issuer Rating by an NRSRO	Complies – None in Portfolio
	20% maximum	Complies – None in Portfolio
	5% of total portfolio exposure per Issuer or Insurer, excluding California General Obligations	Complies – None in Portfolio

City of San Diego Pooled Investment Fund Holdings as of March 31, 2012

Security Type	Issuer	Coupon	Maturity	Par	Book	Market Value
US Treasury Note	US Treasury	0.75	5/31/2012	$30,000,000.00	$30,167,578.13	$30,030,000.00
US Treasury Note	US Treasury	0.625	1/31/2013	$25,000,000.00	$24,990,689.41	$25,087,500.00
US Treasury Note	US Treasury	1.375	2/15/2013	$25,000,000.00	$25,019,531.25	$25,250,000.00
US Treasury Note	US Treasury	0.625	2/28/2013	$25,000,000.00	$24,964,964.78	$25,092,500.00
US Treasury Note	US Treasury	1.375	3/15/2013	$25,000,000.00	$24,946,483.65	$25,270,000.00
US Treasury Note	US Treasury	1.375	5/15/2013	$15,000,000.00	$15,077,343.75	$15,187,500.00
US Treasury Note	US Treasury	0.5	5/31/2013	$40,000,000.00	$40,015,625.00	$40,116,000.00
US Treasury Note	US Treasury	1.125	6/15/2013	$25,000,000.00	$24,948,581.00	$25,260,000.00
US Treasury Note	US Treasury	1.125	6/15/2013	$20,000,000.00	$19,957,812.50	$20,208,000.00
US Treasury Note	US Treasury	0.375	6/30/2013	$15,000,000.00	$14,968,359.38	$15,019,500.00
US Treasury Note	US Treasury	0.375	6/30/2013	$10,000,000.00	$9,978,125.00	$10,013,000.00
US Treasury Note	US Treasury	1	7/15/2013	$40,000,000.00	$39,959,339.20	$40,372,000.00
US Treasury Note	US Treasury	0.375	7/31/2013	$40,000,000.00	$40,006,250.00	$40,052,000.00
US Treasury Note	US Treasury	0.75	8/15/2013	$10,000,000.00	$9,984,154.20	$10,064,000.00
US Treasury Note	US Treasury	0.75	8/15/2013	$20,000,000.00	$19,937,500.00	$20,128,000.00
US Treasury Note	US Treasury	0.125	8/31/2013	$25,000,000.00	$24,960,937.50	$24,942,500.00
US Treasury Note	US Treasury	0.125	9/30/2013	$25,000,000.00	$24,931,640.62	$24,937,500.00
US Treasury Note	US Treasury	0.25	10/31/2013	$25,000,000.00	$24,967,773.44	$24,977,500.00
US Treasury Note	US Treasury	0.5	11/15/2013	$25,000,000.00	$25,122,789.33	$25,075,000.00
US Treasury Note	US Treasury	2	11/30/2013	$25,000,000.00	$25,882,812.50	$25,695,000.00
US Treasury Note	US Treasury	2	11/30/2013	$25,000,000.00	$25,860,741.12	$25,695,000.00
US Treasury Note	US Treasury	0.25	11/30/2013	$25,000,000.00	$25,000,170.76	$24,972,500.00
US Treasury Note	US Treasury	0.75	12/15/2013	$25,000,000.00	$25,243,164.06	$25,182,500.00
US Treasury Note	US Treasury	0.125	12/31/2013	$25,000,000.00	$24,935,804.42	$24,915,000.00
US Treasury Note	US Treasury	0.25	1/31/2014	$25,000,000.00	$24,982,293.10	$24,965,000.00
US Treasury Note	US Treasury	1.25	2/15/2014	$25,000,000.00	$25,049,804.69	$25,422,500.00
US Treasury Note	US Treasury	0.25	2/28/2014	$100,000,000.00	$99,903,023.10	$99,850,000.00
US Treasury Note	US Treasury	0.25	2/28/2014	$25,000,000.00	$24,972,741.17	$24,962,500.00
US Treasury Note	US Treasury	0.25	2/28/2014	$40,000,000.00	$39,913,451.09	$39,940,000.00
US Treasury Note	US Treasury	1.25	3/15/2014	$20,000,000.00	$19,996,093.75	$20,350,000.00
US Treasury Note	US Treasury	1.25	4/15/2014	$25,000,000.00	$24,956,013.75	$25,447,250.00
US Treasury Note	US Treasury	0.625	7/15/2014	$25,000,000.00	$24,986,328.13	$25,120,000.00
US Treasury Note	US Treasury	0.5	8/15/2014	$25,000,000.00	$25,127,929.68	$25,045,000.00
US Treasury Note	US Treasury	0.25	9/15/2014	$25,000,000.00	$24,944,335.94	$24,882,500.00
US Treasury Note	US Treasury	0.5	10/15/2014	$25,000,000.00	$24,967,311.06	$25,025,000.00
US Treasury Note	US Treasury	0.375	11/15/2014	$25,000,000.00	$24,993,164.06	$24,937,500.00
US Treasury Note	US Treasury	0.25	12/15/2014	$25,000,000.00	$24,909,788.04	$24,850,000.00
US Treasury Note	US Treasury	0.25	1/15/2015	$25,000,000.00	$24,968,739.26	$24,835,000.00
US Treasury Note	US Treasury	0.25	2/15/2015	$75,000,000.00	$74,626,867.28	$74,460,000.00
Treasury Total			***48.00%***	***$1,100,000,000.00***	***$1,101,126,055.10***	***$1,103,634,750.00***
Agency Note	Federal Farm Credit Bank	0.2	4/4/2012	$12,500,000.00	$12,476,666.67	$12,500,000.00
Agency Note	Federal Home Loan Bank	2.25	4/13/2012	$20,000,000.00	$19,996,775.33	$20,012,500.00
Agency Note	Fannie Mae	1.875	4/20/2012	$15,000,000.00	$14,996,892.45	$15,014,062.50
Agency Note	Federal Farm Credit Bank	2.25	4/24/2012	$10,000,000.00	$9,999,968.31	$10,012,500.00
Agency Note	Freddie Mac	1.125	4/25/2012	$23,550,000.00	$23,749,704.00	$23,564,718.75
Agency Note	Fannie Mae	0.19	5/11/2012	$25,000,000.00	$24,962,923.61	$25,000,000.00
Agency Note	Fannie Mae	0.18	5/25/2012	$18,600,000.00	$18,569,310.00	$18,600,000.00
Agency Note	Freddie Mac	0.15	7/20/2012	$25,000,000.00	$24,965,625.00	$25,000,000.00
Agency Note	Federal Home Loan Bank	0.35	7/25/2012	$20,000,000.00	$20,000,000.00	$20,000,000.00
Agency Note	Federal Home Loan Bank	0.23	10/24/2012	$25,000,000.00	$24,991,477.25	$25,007,812.50
Agency Note	Federal Home Loan Bank	0.2	11/7/2012	$25,000,000.00	$25,000,000.00	$25,000,000.00
Agency Note	Federal Home Loan Bank	0.18	11/23/2012	$25,000,000.00	$24,994,250.00	$25,000,000.00
Agency Note	Federal Home Loan Bank	0.25	1/8/2013	$25,000,000.00	$25,000,000.00	$25,007,812.50

City of San Diego Pooled Investment Fund Holdings as of March 31, 2012 (continued)

Security Type	Issuer	Coupon	Maturity	Par	Book	Market Value
Agency Note	Federal Farm Credit Bank	1.75	2/21/2013	$20,000,000.00	$19,947,400.00	$20,250,000.00
Agency Note	Federal Home Loan Bank	0.25	2/28/2013	$20,000,000.00	$20,000,000.00	$20,006,250.00
Agency Note	Federal Home Loan Bank	0.3	4/15/2013	$20,000,000.00	$20,000,000.00	$20,000,000.00
Agency Note	NCUA Guaranteed	0.262	6/12/2013	$20,000,000.00	$20,000,000.00	$20,000,000.00
Agency Note	Federal Farm Credit Bank	1.375	6/25/2013	$25,000,000.00	$24,922,000.00	$25,343,750.00
Agency Note	Fannie Mae	0.55	8/23/2013	$10,000,000.00	$10,005,000.00	$10,006,250.00
Agency Note	Freddie Mac	0.5	10/15/2013	$15,000,000.00	$14,996,700.00	$15,000,000.00
Agency Note	Fannie Mae	0.625	10/25/2013	$10,000,000.00	$10,000,000.00	$10,003,125.00
Agency Note	Fannie Mae	0.65	11/29/2013	$10,000,000.00	$10,000,000.00	$10,009,375.00
Agency Note	Fannie Mae	0.75	12/6/2013	$10,000,000.00	$10,000,416.67	$10,003,125.00
Agency Note	Freddie Mac	0.45	2/21/2014	$20,000,000.00	$20,000,000.00	$20,018,750.00
Agency Note	Federal Farm Credit Bank	1.125	2/27/2014	$25,000,000.00	$24,950,750.00	$25,265,625.00
Agency Note	International Finance Corp.	0.45	2/28/2014	$10,000,000.00	$9,997,000.00	$9,997,000.00
Agency Note	Federal Home Loan Bank	0.5	3/27/2014	$20,000,000.00	$20,000,000.00	$20,006,250.00
Agency Note	Freddie Mac	1	8/27/2014	$25,000,000.00	$24,967,000.00	$25,320,312.50
Agency Note	Fannie Mae	0.85	10/24/2014	$20,000,000.00	$20,074,816.67	$20,037,500.00
Agency Note	Freddie Mac	1	11/3/2014	$10,000,000.00	$9,997,500.00	$10,006,250.00
Agency Note	Freddie Mac	0.95	11/10/2014	$15,000,000.00	$15,005,937.50	$15,009,375.00
Agency Note	Fannie Mae	0.9	12/29/2014	$10,000,000.00	$10,000,000.00	$9,996,875.00
Agency Note	Freddie Mac	0.55	2/13/2015	$20,000,000.00	$20,000,000.00	$19,950,000.00
Agency Note	Fannie Mae	0.55	2/27/2015	$20,000,000.00	$19,975,000.00	$19,950,000.00
Agency Note	Fannie Mae	0.7	3/13/2015	$10,000,000.00	$10,000,000.00	$10,009,375.00
Agency Note	Fannie Mae	0.375	3/16/2015	$25,000,000.00	$24,936,000.00	$24,812,500.00
Agency Note	Federal Home Loan Bank	0.75	3/26/2015	$10,000,000.00	$10,000,000.00	$10,003,125.00
Agency Note	Freddie Mac	0.5	4/17/2015	$35,000,000.00	$34,904,800.00	$34,857,812.50
Agency Total			***30.71%***	***$704,650,000.00***	***$704,383,913.46***	***$705,582,031.25***
LAIF	California State Pool	0.38	4/1/2012	$49,428,878.47	$49,428,878.47	$49,428,878.47
Repo	Repurchase Agreement	0.07	4/2/2012	$45,099,108.00	$45,099,108.00	$45,099,108.00
Commercial Paper	Societe Generale NA	0.27	4/3/2012	$25,000,000.00	$24,998,687.50	$24,999,652.78
Commercial Paper	BNP Paribas Finance Inc.	0.33	4/27/2012	$25,000,000.00	$24,987,166.67	$24,995,486.11
Negotiable CD	Royal Bank of Canada NY	0.485	6/7/2012	$25,000,000.00	$25,000,000.00	$25,016,263.98
Commercial Paper	General Electric Capital	0.38	7/6/2012	$25,000,000.00	$24,945,902.78	$24,969,333.33
Commercial Paper	Nestle Capital Corp.	0.2	8/3/2012	$25,000,000.00	$24,966,666.67	$24,950,916.67
Commercial Paper	Toyota Motor Credit	0.39	8/17/2012	$25,000,000.00	$24,943,937.50	$24,945,375.00
Commercial Paper	Bank of Nova Scotia NY	0.495	8/31/2012	$25,000,000.00	$24,907,875.00	$24,907,875.00
Negotiable CD	Rabobank NY	0.58	9/14/2012	$25,000,000.00	$25,000,000.00	$25,024,282.07
Negotiable CD	Svenska Handelsbanken NY	0.55	10/12/2012	$25,000,000.00	$25,000,000.00	$24,989,171.04
Non-Negotiable CDs	BSBB CDARS	1.25	2/14/2013	$10,000,000.00	$10,000,000.00	$10,000,000.00
Repo, BA's, CD's, CP, LAIF, Funds Total			***14.35%***	***$329,527,986.47***	***$329,278,222.59***	***$329,326,342.45***
MTN (FDIC Insured)	Citibank NA	1.875	5/7/2012	$5,000,000.00	$4,997,832.94	$5,007,812.50
MTN (FDIC Insured)	Citibank NA	1.875	6/4/2012	$5,000,000.00	$4,997,487.09	$5,014,843.75
MTN (FDIC Insured)	JP Morgan Chase & Co.	2.2	6/15/2012	$5,000,000.00	$4,999,530.38	$5,020,312.50
MTN (FDIC Insured)	Wells Fargo & Company	2.125	6/15/2012	$5,000,000.00	$4,999,797.19	$5,019,531.25
MTN (FDIC Insured)	JP Morgan Chase & Co.	2.125	6/22/2012	$20,000,000.00	$20,011,302.94	$20,087,500.00
Medium Term Note	Procter & Gamble Co.	1.375	8/1/2012	$10,000,000.00	$9,998,531.93	$10,025,000.00
Medium Term Note	Berkshire Hathaway Inc.	5.125	9/15/2012	$4,500,000.00	$4,600,302.25	$4,593,515.63
Medium Term Note	3M Company	4.65	12/15/2012	$10,000,000.00	$10,715,400.00	$10,315,625.00
Medium Term Note	General Electric Capital	2.8	1/8/2013	$10,000,000.00	$10,197,520.00	$10,170,312.50
Medium Term Note	PepsiCo Inc.	4.65	2/15/2013	$5,000,000.00	$5,217,300.00	$5,182,031.25
Medium Term Note	General Dynamics Corp.	4.25	5/15/2013	$10,000,000.00	$10,649,900.00	$10,412,500.00
Medium Term Note	Wal-Mart Stores Inc.	0.75	10/25/2013	$10,000,000.00	$9,965,700.00	$10,028,125.00
Medium Term Note	Wal-Mart Stores Inc.	1.625	4/15/2014	$3,000,000.00	$2,991,900.00	$3,072,656.25

City of San Diego Pooled Investment Fund Holdings as of March 31, 2012 (continued)

Security Type	Issuer	Coupon	Maturity	Par	Book	Market Value
Medium Term Note	Colgate-Palmolive Co.	1.25	5/1/2014	$4,000,000.00	$3,994,160.00	$4,059,375.00
Medium Term Note	Johnson & Johnson	1.2	5/15/2014	$10,000,000.00	$9,988,300.00	$10,173,437.50
Medium Term Note	Google Inc.	1.25	5/19/2014	$7,000,000.00	$6,998,390.00	$7,115,937.50
Medium Term Note	Procter & Gamble Co.	0.7	8/15/2014	$7,000,000.00	$6,971,230.00	$7,021,875.00
Corporate MTN's and Other Notes Total			***5.77%***	***$130,500,000.00***	***$132,294,584.72***	***$132,320,390.63***
Asset Backed Security	Honda Auto Receivables Trust	0.398	10/22/2012	$1,903,322.15	$1,903,322.15	$1,903,322.15
Asset Backed Security	Chase Issuance Trust	0.362	12/15/2015	$25,000,000.00	$25,000,000.00	$25,000,000.00
Asset Backed Securities Total			***1.17%***	***$26,903,322.15***	***$26,903,322.15***	***$26,903,322.15***
Grand Total			***100.00%***	***$2,291,581,308.62***	***$2,293,986,098.02***	***$2,297,766,836.48***

Market Values are determined by using Sungard pricing as the primary source. CMS Bondedge, Bloomberg, Custody Bank (BNY Mellon) and pricing provided by broker/dealers are all used to reconcile and determine correct prices.

HOT TOPIC: One Scoop or Two

(continued from page 2)

effects it can have on society's standard of living. Former Fed Chairman Volker raised the Fed Funds rate to 14% in the early 80's to combat an inflation rate of 15% which caused the unemployment rate to rise to nearly 11%, so it is clear that controlling inflation is the Fed's number one concern.

Many critics of the dual mandate point to the housing bubble and postulate that the excessive low interest rates that former Chairman Greenspan created was a contributing factor. There is no question that is true. The low interest rates were ONE contributing factor that caused the greatest housing bubble to happen. However, why did Chairman Greenspan keep interest rates so low for such an extended period of time? One hint, it wasn't because the unemployment rate was too high, it was about 6%. The reason was Greenspan was concerned that deflation (a decrease in prices) was a risk to the U.S. economy. Since deflation is a price stability issue, the Federal Reserve would have acted the exact same way even if it had only a price stability mandate. Additionally, the Fed's recent controversial Quantitative Easing program (large asset purchases) would have also been warranted under a single mandate since Bernanke enacted the program to combat a possible risk of deflation to the economy. It is important to remember that the Fed's review of employment data is a leading indicator of future changes to inflation, so even with a single price stability mandate, the Fed will still take the same action.

More recently, the Federal Reserve has proven that it can even enact monetary policy through very nonconventional means, which has proven beneficial to the recovery. It would be difficult to argue that many of the Fed's short term nonconventional new programs, enacted during the 2008 recession, didn't shorten the recession since without these programs further monetary action would have been necessary. Many of these new programs weren't driven by its dual mandate but by the Fed's responsibility as the Lender of Last Resort. These actions highlight one major difficulty in how one evaluates the Fed's monetary policy actions, its "perceived" independence. Currently, there is no consequence to the Fed for not abiding by its dual mandate. Additionally, the Federal Reserve can cite a number of other responsibilities that might justify monetary action that is contrary to its mandate, but this is a horse of a different color.

So, why should the Federal Reserve care about actively curbing long term unemployment? A persistently high unemployment rate can lead to many unwanted consequences. Long term unemployment erodes worker skills, which leads to a reduction in the economy's productivity. Additionally, there are serious health issues, both physical and mental, to the long term unemployed and their families, not to mention the obvious financial burdens. Social unrest and political instability are other concerns that have serious consequences…just ask the protesting Spanish youth how an unemployment rate of 50% feels. I can just see Chairman Bernanke testifying to Congress and taking a victory lap because inflation is well contained but the unemployment rate is 12.8%.

As for the volatility, the U.S. economy has grown on average 2.5% for the last 25 years, while experiencing three recessions. Japan has been in a multi-decade recession for the same period and Europe has averaged only 1.8% growth while only experiencing one recession and are arguably in another one today. Both the Bank of Japan and the European Central Bank (ECB) have a single price stability mandate but that hasn't proved to be a defining difference in avoiding or shortening their recessions.

Like most crises, there is a quick reaction for blame and enactment of new regulation. When Enron and WorldCom went bankrupt we got Sarbanes-Oxley, the recent recession brought the Dodd-Frank Act, and now people want to change how the Fed operates. The Fed has been able to achieve stronger sustainable growth than most developed countries through this crisis. In fact, both ECB President Mario Draghi and Bank of England Governor King have started to duplicate Bernanke's blueprint by easing monetary policy in the face of elevated prices. Change for change's sake is just wrong and that is exactly what this feels like. Can we please let Congress get back to tackling more important issues that affect our future like the NFL Bountygate that is coming before the Judiciary Committee? Are you serious?

Kent J Morris, Chief Investment Officer