City of San Diego

Pooled Investment Fund Quarterly Review

Quarter ended

9/30/13

Publication Date: 10/30/2013

Office of the City Treasurer—Investments Division

Economic Commentary

For most of the past quarter, the Fed was front and center in the psyche of the financial markets. Since announcing in June that they may begin curtailing the monthly purchases under its Large Scale Asset Purchase program later in the year, it was widely assumed that the September FOMC meeting would be the meeting at which this would begin.

It therefore came as a great surprise to the markets when Fed Chairman Bernanke not only announced that there would be no reduction in asset purchases at the September 18 meeting, but also took a quite dovish tone during the press conference that followed the announcement. After the announcement, interest rates declined sharply and equities rose.

Among the reasons cited by Bernanke for delaying the reduction in asset purchases was the uncertain fiscal situation caused by a potential government shutdown and debt ceiling debate.

This turned out to be quite prescient as Democrats and Republicans were unable to come to an agreement on a continuing resolution to fund government by September 30, resulting in the first U.S. government shutdown in 17 years beginning on October 1.

While a government shutdown and furlough of all non-essential Federal employees does create a minor economic drag and inconvenience to the public, it would pale in comparison to the potential calamity wrought by a default on U.S. government debt if an agreement to increase the debt ceiling cannot be agreed upon (see Hot Topic—page 2).

This latest bout of political tomfoolery comes at quite an inopportune time. This is due to the continued improvement in not only the U.S. economy but also large economies around the world. A default on U.S. debt could cause another financial meltdown which would plunge world economies back into recession.

To be sure, the U.S. economy does continue to improve. The weekly jobless claims figures have reached their lowest levels since 2007 (Chart 1), and the latest reported unemployment rate came in 7.3%, another low for the recovery. Manufacturing in the U.S. is also experiencing a bit of a renaissance, and the latest ISM Manufacturing figure confirms this with a reading of 56.2, which is well into expansionary territory.

Of course, this can all be undone quite quickly if Congress does not resolve the debt ceiling issue as well as the broader fiscal issues the country faces.

Quarterly Economic Highlights

- The City of Detroit filed for the largest municipal bankruptcy in U.S. history
- The U.S. stock market, as measured by the S&P 500 index, increased 4.68% during the quarter
- Moody's raised the outlook on U.S. debt from Negative to Stable and affirmed its Aaa rating
- Larry Summers, who was considered the favorite for the Fed Chairman position, withdrew his name from consideration, citing a difficult confirmation process

Contents:

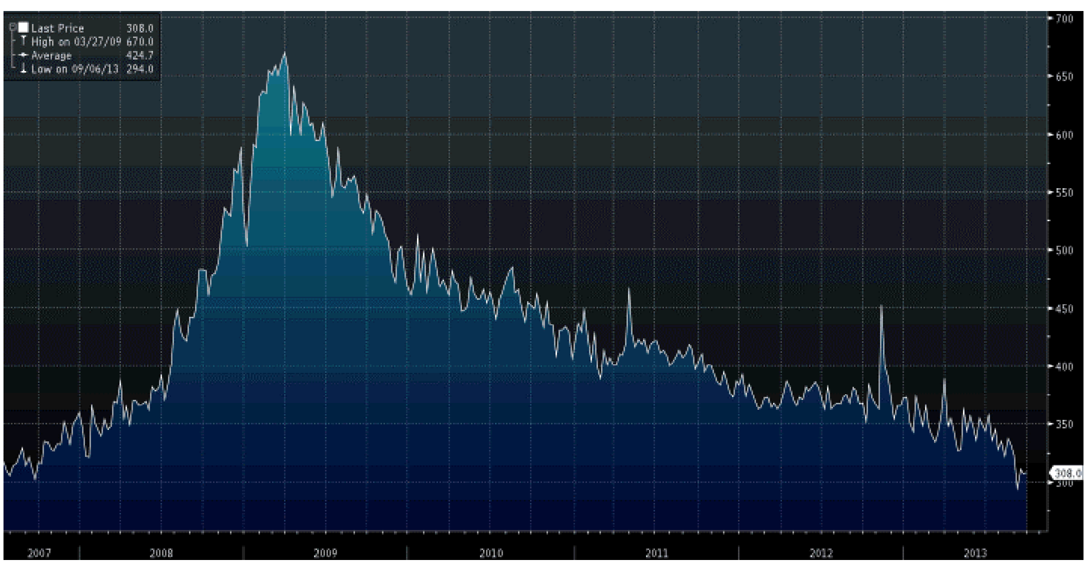


Chart 1: U.S. Weekly Jobless Claims (July 2007—Sept 2013) (Source: Bloomberg)

Hot Topic Corner— Debt Ceiling Debate Redux

(*Note: The following article was written prior to the agreement reached on October 16 to reopen the government through January 15, 2014 and suspend the debt ceiling until February 7, 2014. Due to the short-term nature of the agreement, however, we are likely to see these issues re-emerge during the first quarter of 2014.)*

On September 25, Treasury Secretary Jacob Lew notified Congress that the U.S. Treasury would run out of borrowing authority under the debt ceiling on October 17, and would run out of cash entirely shortly thereafter. Without Congressional approval to raise the debt ceiling, the United States could potentially default on its debt for the first time since 1979 (this was an inadvertent default and was quickly corrected).

A default this time around could be devastating to the U.S. and world economies and financial markets. Before we go into the potential ramifications of a debt default, we'll first give a brief history of the debt ceiling.

The debt limit was initially established by Congress in 1917 as part of the Second Liberty Bond Act, which helped finance the U.S. entry into World War I. It statutorily limits the amount of money the U.S. Treasury can borrow from the public or from other intra-governmental sources such as the Social Security Trust Fund.

The U.S. is actually one of the only major developed economies to have a debt limit, and it is argued that it provides Congress the ability to control spending and impose fiscal accountability. It is important to note, however, that there is no mention of a debt ceiling in the U.S. Constitution, and in fact the 14th Amendment to the Constitution specifies that "The validity of the public debt of the United States, authorized by law, shall not be questioned."

Historically, raising the debt ceiling has typically been a fairly routine issue, and has been done so over 100 times. However, as the total national debt has skyrocketed over the past decade and particularly under the current administration, it has become very contentious, especially amongst House Republicans, who have begun using debt ceiling increases as a bargaining chip for negotiating other legislative items.

The last debt ceiling raise was at the end of 2012, and became binding on May 19 at a level of $16.699 trillion. Since then, the Treasury has taken extraordinary measures to stay under the debt ceiling such as suspending the issuance of Treasury SLGS securities and not reinvesting Treasury security maturities in various Federal trust funds, but as mentioned earlier, the Treasury states that it will exhaust these measures on October 17.

Absent a raise in the debt ceiling prior to running out of cash, Treasury may still be able to avert default on its debt through other means. These include prioritization of debt payments (continued on page 10)

Key Economic Indicators

Indicator	*Period*	*Report Current*	*As Reported Last Quarter*	*Difference*
Federal Funds Rate	9/18/2013	0-0.25%	0-0.25%	0%
Consumer Price Index (MoM)	SEP	0.2%	0.5%	(0.3%)
Consumer Price Index (YoY)	SEP	1.2%	1.8%	(0.6%)
Producer Price Index (MoM)	SEP	(0.1%)	0.8%	(0.9%)
Producer Price Index (YoY)	SEP	0.3%	2.5%	(2.2%)
Durable Goods Orders	SEP	3.7%	4.2%	(0.5%)
ISM (Manufacturing)	SEP	56.2	50.9	5.3
ISM (Non-manufacturing)	SEP	54.4	52.2	2.2
Retail Sales	SEP	(0.1%)	0.4%	(0.5%)
Unemployment Rate	SEP	7.2%	7.6%	(0.4%)
Change in Non-farm Payrolls	SEP	148,000	195,000	(47,000)
Consumer Confidence (Univ. of Michigan)	OCT (Final)	73.2	85.1	(11.9)
Existing Home Sales	SEP	5.29(mil)	5.08(mil)	0.21(mil)
New Home Sales	AUG	0.421(mil)	0.497(mil)	(0.076)(mil)
Housing Starts	AUG	0.891(mil)	0.836(mil)	0.055(mil)
Median Home Price (existing) [EHSLMP]	SEP	$199,300	$214,700	($15,400)
NYMEX WTI CRUDE OIL (barrel)	9/30/13	$102.33	$96.56	$5.77
S&P 500 Stock Index	9/30/13	1,681.55	1,606.28	75.27

Portfolio Performance

The Core Portfolio slightly underperformed its benchmark, the Bank of America Merrill Lynch 1-3 year Treasury Index, over the past quarter, returning 0.293% versus index performance of 0.299%.

Chart 2 shows a yield curve that steepened over the past quarter, with rates five years and in decreasing while longer term rates increased. This steepening occurred as a result of the September FOMC meeting, where the Fed surprised most market participants by not lowering the amount of its monthly security purchases and by taking a seemingly more dovish stance on monetary policy. This caused a re-pricing of the front end of the Treasury curve as the expected date of the first Fed Funds rate hike was pushed out.

“Effective Duration effect” subtracted 4 basis points of performance versus the index as the portfolio was short duration as interest rates in the front end declined.

“Non-Parallel Duration Effect” added almost 11 basis points in relative performance as even though the portfolio was overall short duration, exposure in the 5-year part of the curve helped performance.

“Convexity Effect” also detracted from performance during the quarter, contributing –1 basis point of relative performance. This was because the callable securities held in the portfolio didn’t appreciate in price by as much as the non-callable securities held in the index.

“Roll Effect” subtracted roughly 7 basis points of performance during the quarter as the securities held in the portfolio didn’t roll down the yield curve as effectively as those held in the index.

“Residual Effect” subtracted 1 basis point of performance versus the index during the quarter. This effect serves as a catch-all category and captures any outperformance or underperformance not captured by any of the other effects. Typically, this effect does not play a significant role in determining relative performance versus the index.

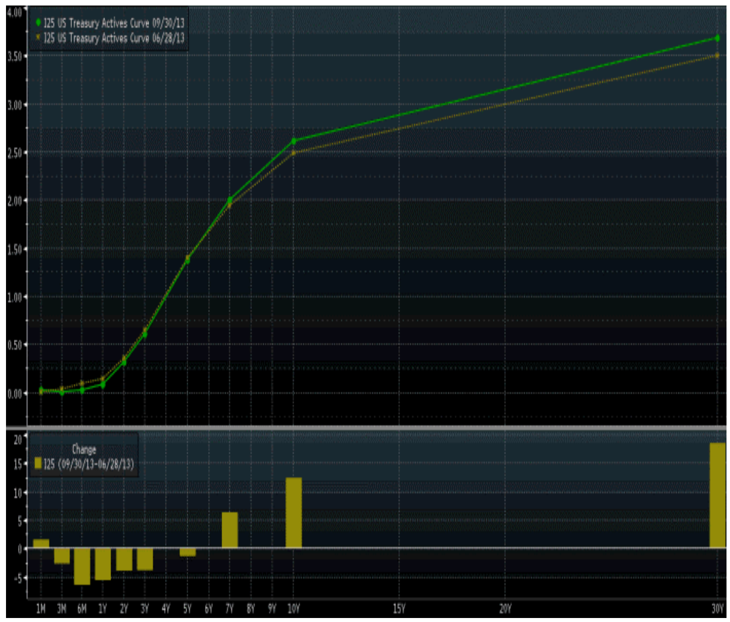


Chart 2: U.S. Treasury Yield Curve 6/30/13—9/30/13 (Source: Bloomberg)

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*

	Q3 2013	Q2 2013	Q1 2013	FYTD 2014	1 Year	3 Year
Total Pooled Investment Fund	0.39%	0.43%	0.56%	0.39%	0.49%	0.81%
Core Portfolio	0.44%	0.50%	0.63%	0.44%	0.56%	1.02%
Liquidity Portfolio	0.29%	0.31%	0.42%	0.29%	0.37%	0.43%

Total Return—Core Portfolio

	Q3 2013	Q2 2013	Q1 2013	FYTD 2014	1 Year	3 Year*
Core Portfolio	0.29%	(0.20%)	0.11%	0.29%	0.30%	0.76%
BAML 1 - 3 Year Treasury Index	0.30%	(0.11%)	0.11%	0.30%	0.36%	0.63%
Difference	(0.01%)	(0.09%)	0.00%	(0.01%)	(0.06%)	0.13%

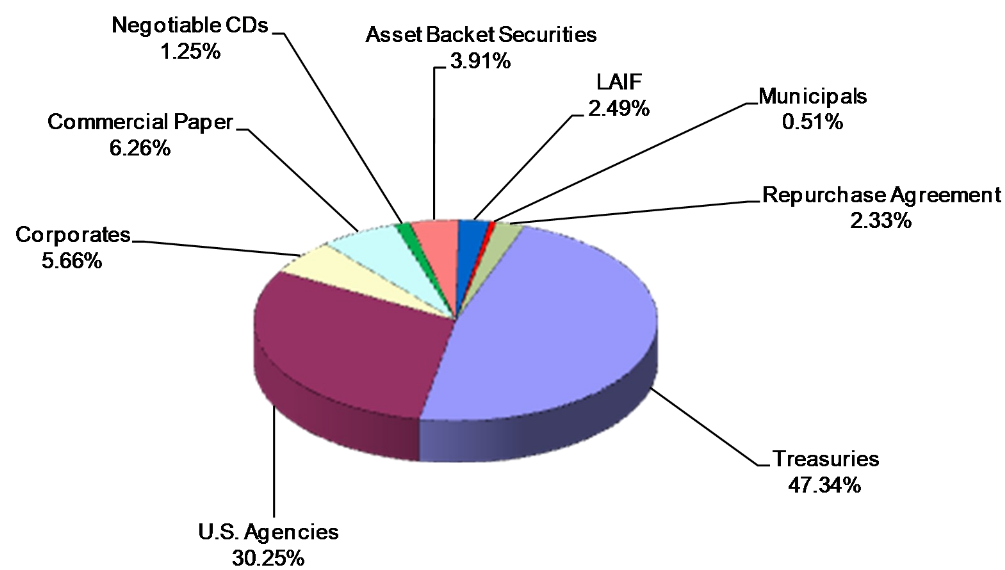
***Annualized Returns**

Portfolio Profile as of September 30, 2013

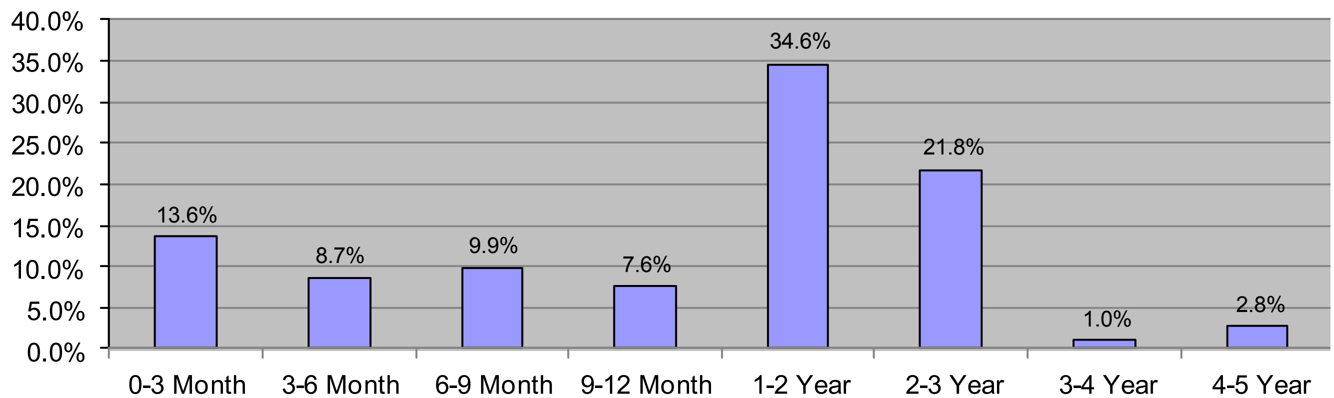
	Liquidity	*Core*
Portfolio Size*	$678,758,586	$1,315,589,521
% of total pool	34.03%	65.97%
Portfolio Duration**	0.362	1.648
Index Duration**	0.370	1.897
% of index	97.84%	86.87%
Weighted Average Days to Maturity	132.82	691.89

* 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



Pool Maturity Distribution



Credit Profile as of September 30, 2013

Credit Ratings

Ratings Buckets	% of Portfolio
U.S. Treasury (AAA)	47.34%
U.S. Agencies (AAA)	30.25%
AAA/A1	11.92%
AA	2.81%
A	2.35%
Below A	0.00%

- All Commercial Paper is rated A1 or A1+ and is included in the AAA/A1 bucket
- All Negotiable Certificates of Deposit are rated A1 or A1+ and are 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

Top Issuer Exposures

Issuer	% of Portfolio
U.S. Treasury	47.34%
Federal Home Loan Bank	9.77%
Federal Farm Credit Bank	7.45%
Fannie Mae	5.76%
Freddie Mac	5.26%
Chase Issuance Trust	2.26%
Int'l Bank for Recon & Development	2.01%
General Electric	1.75%
Wells Fargo Corp.	1.75%
JP Morgan Chase.	1.50%
Rabobank NA	1.25%
Toyota Motor Credit Corp.	1.25%
Bank of Nova Scotia NY	1.25%
Honda Auto Receivables Owners Trust	0.94%
Volkswagen Auto Loan Enhanced Trust	0.65%
Wal-Mart Stores Inc.	0.65%

Pooled Fund Corporate Issuers

Issuer	Moody's	S&P	Egan-Jones	5yr CDS level	Q/Q % change	Equity Price	Q/Q % change	Longest maturity
Bank of Nova Scotia/Houston	Aa2	A+	A1	N/A	N/A	$57.31	7.02%	249 days
Colgate-Palmolive Co.	Aa3	AA-	AA-	26.16	-31.16%	$59.30	3.51%	213 days
Deere & Co.	A2	A	AA-	35.67	-11.09%	$81.39	0.17%	844 days
General Electric Co.	Aa3	AA+	AA+	91.11	-26.91%	$23.89	3.02%	206 days
Google Inc.	Aa2	AA	AA+	27.66	-4.46%	$875.91	-0.51%	231 days
Illinois Tool Works Inc.	A2	A+	AA-	44.00	-8.33%	$76.27	10.26%	183 days
IBM Corp.	Aa3	AA-	AA+	44.10	6.68%	$185.18	-3.10%	1,592 days
JP Morgan Chase	A2 (-)	A (-)	A	93.38	-6.89%	$51.69	-2.08%	879 days
Johnson & Johnson	Aaa	AAA	AA+	22.50	-11.76%	$86.69	9.67%	227days
Merck & Co. Inc.	A2	AA	A+	15.84	-18.77%	$47.61	2.50%	1,691 days
Rabobank NA	Aa2 (-)	AA-	A1	97.83	-4.09%	N/A	N/A	11 days
PepsiCo Inc.	A1	A	A+	48.63	6.48%	$79.50	-2.80%	668 daus
The Procter & Gamble Co.	Aa3	AA-	AA-	34.17	-17.02%	$75.59	-1.82%	319 days
Texas Instruments Inc.	A1	A+	A+	42.71	0.49%	$40.29	15.61%	1,674 days
Toyota Motor Credit Corp.	Aa3	AA-	A1+	78.21	-5.49%	$128.03	6.11%	221 days
Wells Fargo & Co.	A2 (-)	A+ (-)	A	63.43	-16.91%	$41.32	0.12%	658 days
Wal-Mart Stores Inc.	Aa2	AA	AA-	28.50	-9.52%	$73.96	-0.71%	197 days
S&P 500 Index						**1681.55**	**4.69%**	
CDX IG21 Index				**82.21**	**-6.00%**			

CDS level: the 5-year Credit Default Swap of the underlying parent company as of quarter end.
Equity Price: stock price of the underlying parent company (if applicable) as of quarter end.
(+) or (-) after rating indicates a credit rating that is under review for upgrade or downgrade

Portfolio Strategy

At the September FOMC meeting, Chairman Ben Bernanke and the rest of the Fed threw financial markets a curve by not curtailing the amount of monthly security purchases under its Large Scale Asset Purchase plan as well as by taking a notably dovish tone during the post-meeting press conference.

As a result, interest rates decreased as expectations of forward rates fell, particularly in the front end of the yield curve where we invest.

Even though the FOMC chose not to begin reducing purchases at the September meeting, there is still a very strong chance they will do so at a meeting in the next few months, provided that the current government shutdown and debt ceiling debate does not slow the economy by too much.

After seeing the market reaction to the potential for a reduction in asset purchases this past summer, it is clear that rates will resume heading higher once a reduction is announced.

As such, we will continue to manage the Core portfolio with a short duration bias versus the index, and will actually reduce the duration of the portfolio even further over the next year. This will be done to mitigate any portfolio losses that may occur as interest rates rise and bond prices fall.

Additionally, we will look to add more security structures that will benefit in a rising rate environment. These include floating rate securities, whose coupons are tied to an index such as LIBOR or Treasury Bills and reset periodically. Also, we will look to potentially add attractive Agency step-up structures. These securities have scheduled dates where the coupon increases or the security is called. Both of these structures will help mitigate portfolio losses and will also be purchased with safety of principal and liquidity in mind.

The recent debt ceiling showdown has caused some dislocation in the very front end of the Treasury curve, with Treasury bills on or near the October 17 "drop dead" date spiking. This is due to holders of this debt selling in fear that the U.S. will not redeem these on time if the debt ceiling is not raised.

We have used the move as an opportunity to buy these securities at what we feel are very attractive rates. While the risk does exist that these bills do not mature on time, we feel strongly that the U.S. would not default on its debt due to the potentially catastrophic consequences and reputational risk. Even if the worst were to occur and these Treasury bills were not paid on time, we have sufficient liquidity to cover all expenses for the next several months, and we feel that any technical default would be rectified very quickly and that we would be made whole in short order.

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
October	265	217	48	48
November	228	195	33	81
December	270	261	9	90
January	292	314	-22	68
February	205	201	4	72
March	206	186	20	92

(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.

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)	BAML 1-3 Year +/-20% BAML US T-bill 3-6 months +/-40%	Complies – 86.87% Complies - 97.84%
Maximum Maturity	5 years	Complies
U.S. Agency Securities	100% maximum	Complies – 30.25%
FNMA	33.3% maximum	Complies– 5.76%
FHLMC	33.3% maximum	Complies – 5.26%
FHLB	33.3% maximum	Complies – 9.77%
FFCB	33.3% maximum	Complies – 7.45%
Callable Securities	30% maximum	Complies – 10.03%
MBS/CMO's	5 yr maximum- 20% max.	Complies – None in Portfolio
Asset-backed	5 yr maximum- 20% max.	Complies – 3.91%
Commercial Paper	A1/P1- 5% per issuer	Complies
	25% maximum	Complies – 6.26%
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
	5 year maximum	Complies
	30% maximum	Complies – 5.66%
Mutual Funds	20% maximum; 5% maximum per fund	Complies – None in Portfolio
FDIC-insured Certificates of Deposit	2% maximum	Complies – None in Portfolio
Certificate and Public Deposits	30% maximum	Complies – 1.25%
Reverse Repos	20% maximum	Complies – None in Portfolio
Futures and Options	Prohibited	Complies – None in Portfolio
Custody	Bank trust dept.	Complies – Citigroup
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
	20% maximum	Complies – 0.51%
	5% of total portfolio exposure per Issuer or Insurer, excluding California General Obligations	Complies – 0.51%

City of San Diego Pooled Investment Fund Holdings as of September 30, 2013

Security Type	Issuer	Coupon	Maturity	Par	Book	Market Value
US Treasury Note	US Treasury	0.75	12/15/2013	$25,000,000.00	$25,059,730.23	$25,036,000.00
US Treasury Note	US Treasury	0.25	1/31/2014	$25,000,000.00	$24,994,424.37	$25,017,500.00
US Treasury Note	US Treasury	0.25	5/31/2014	$25,000,000.00	$24,998,044.20	$25,027,250.00
US Treasury Note	US Treasury	0.625	7/15/2014	$20,000,000.00	$19,989,062.50	$20,082,800.00
US Treasury Note	US Treasury	0.125	7/31/2014	$25,000,000.00	$24,975,585.94	$25,005,750.00
US Treasury Note	US Treasury	0.5	8/15/2014	$25,000,000.00	$25,043,275.56	$25,084,000.00
US Treasury Note	US Treasury	0.25	8/31/2014	$25,000,000.00	$25,001,953.12	$25,030,250.00
US Treasury Note	US Treasury	0.25	9/30/2014	$25,000,000.00	$25,006,835.94	$25,033,250.00
US Treasury Note	US Treasury	0.5	10/15/2014	$25,000,000.00	$24,966,628.00	$25,095,750.00
US Treasury Note	US Treasury	0.25	10/31/2014	$25,000,000.00	$24,984,375.00	$25,029,250.00
US Treasury Note	US Treasury	0.375	11/15/2014	$25,000,000.00	$24,993,164.06	$25,063,500.00
US Treasury Note	US Treasury	0.25	11/30/2014	$25,000,000.00	$25,000,000.00	$25,028,250.00
US Treasury Note	US Treasury	0.25	12/15/2014	$25,000,000.00	$24,997,070.31	$25,027,250.00
US Treasury Note	US Treasury	0.125	12/31/2014	$25,000,000.00	$24,937,500.00	$24,987,250.00
US Treasury Note	US Treasury	0.25	1/15/2015	$25,000,000.00	$24,989,257.81	$25,023,500.00
US Treasury Note	US Treasury	0.25	1/31/2015	$25,000,000.00	$24,990,234.38	$25,023,500.00
US Treasury Note	US Treasury	0.25	2/28/2015	$25,000,000.00	$25,004,882.81	$25,016,500.00
US Treasury Note	US Treasury	0.375	3/15/2015	$25,000,000.00	$24,915,039.06	$25,059,500.00
US Treasury Note	US Treasury	0.25	3/31/2015	$25,000,000.00	$25,003,906.25	$25,011,750.00
US Treasury Note	US Treasury	0.375	4/15/2015	$25,000,000.00	$24,998,046.87	$25,053,750.00
US Treasury Note	US Treasury	0.125	4/30/2015	$25,000,000.00	$24,941,491.17	$24,954,000.00
US Treasury Note	US Treasury	0.25	5/15/2015	$25,000,000.00	$24,924,804.69	$24,998,000.00
US Treasury Note	US Treasury	0.25	5/31/2015	$25,000,000.00	$24,978,515.63	$24,995,000.00
US Treasury Note	US Treasury	0.375	6/15/2015	$25,000,000.00	$24,974,609.37	$25,044,000.00
US Treasury Note	US Treasury	0.375	6/30/2015	$25,000,000.00	$25,007,090.70	$25,042,000.00
US Treasury Note	US Treasury	0.25	7/15/2015	$25,000,000.00	$24,953,125.00	$24,981,500.00
US Treasury Note	US Treasury	0.25	7/31/2015	$25,000,000.00	$24,953,294.83	$24,981,500.00
US Treasury Note	US Treasury	0.375	8/31/2015	$25,000,000.00	$24,995,894.12	$25,029,250.00
US Treasury Note	US Treasury	0.375	11/15/2015	$25,000,000.00	$25,036,132.81	$25,002,000.00
US Treasury Note	US Treasury	0.25	12/15/2015	$25,000,000.00	$24,928,710.94	$24,927,750.00
US Treasury Note	US Treasury	0.375	1/15/2016	$5,000,000.00	$5,000,585.94	$4,996,900.00
US Treasury Note	US Treasury	0.375	1/15/2016	$20,000,000.00	$19,989,062.50	$19,987,600.00
US Treasury Note	US Treasury	0.375	2/15/2016	$25,000,000.00	$25,019,531.25	$24,974,500.00
US Treasury Note	US Treasury	0.375	3/15/2016	$25,000,000.00	$24,968,750.00	$24,953,250.00
US Treasury Note	US Treasury	0.25	4/15/2016	$25,000,000.00	$24,940,232.24	$24,857,500.00
US Treasury Note	US Treasury	0.25	5/15/2016	$25,000,000.00	$24,817,680.03	$24,836,000.00
US Treasury Note	US Treasury	0.5	6/15/2016	$25,000,000.00	$24,885,299.27	$24,976,500.00
US Treasury Note	US Treasury	0.625	7/15/2016	$25,000,000.00	$25,002,335.26	$25,033,250.00
US Treasury Note	US Treasury	0.625	8/15/2016	$25,000,000.00	$24,898,649.80	$25,015,750.00
US Treasury Total			***47.34%***	***$945,000,000.00***	***$944,064,811.96***	***$945,322,800.00***
Agency Note	Federal Home Loan Bank	0.125	10/25/2013	$15,000,000.00	$14,987,355.00	$15,000,450.00
Agency Discount Note	Federal Farm Credit Bank	0.175	11/20/2013	$25,000,000.00	$24,958,315.97	$24,999,250.00
Agency Note	Federal Home Loan Bank	0.18	1/2/2014	$25,000,000.00	$24,996,750.00	$25,006,250.00
Agency Note	Federal Farm Credit Bank	0.15	1/17/2014	$23,700,000.00	$23,695,023.00	$23,704,977.00
Agency Note	Federal Home Loan Bank	0.125	2/14/2014	$20,000,000.00	$19,988,540.00	$20,003,400.00
Agency Note	Federal Farm Credit Bank	1.125	2/27/2014	$25,000,000.00	$24,992,015.86	$25,106,000.00
Agency Note	Federal Home Loan Bank	0.17	3/14/2014	$25,000,000.00	$24,996,953.25	$25,009,750.00
Agency Note	Federal Home Loan Bank	0.125	3/27/2014	$25,000,000.00	$24,984,425.00	$25,004,500.00
Agency Note	Federal Farm Credit Bank	0.125	4/9/2014	$25,000,000.00	$24,988,423.61	$25,003,750.00
Agency Note	Federal Home Loan Bank	0.17	4/25/2014	$25,000,000.00	$25,004,405.86	$25,009,000.00
Agency Note	Intl Bank Recon & Develop	0.2	5/27/2014	$20,000,000.00	$20,000,000.00	$20,009,600.00
Agency Note	Freddie Mac	1	8/27/2014	$25,000,000.00	$24,967,000.00	$25,201,500.00
Agency Note	Intl Bank Recon & Develop	0.22	10/15/2014	$20,000,000.00	$20,000,000.00	$20,008,200.00

City of San Diego Pooled Investment Fund Holdings as of September 30, 2013 (continued)

Security Type	Issuer	Coupon	Maturity	Par	Book	Market Value
Agency Note	Federal Farm Credit Bank	0.27	11/19/2014	$25,000,000.00	$24,984,050.00	$25,019,750.00
Agency Note	Freddie Mac	0.55	2/13/2015	$20,000,000.00	$20,000,000.00	$20,033,400.00
Agency Note	Freddie Mac	0.55	2/13/2015	$10,000,000.00	$10,029,000.00	$10,016,700.00
Agency Note	Fannie Mae	0.55	2/27/2015	$20,000,000.00	$19,975,000.00	$20,036,200.00
Agency Note	Federal Farm Credit Bank	0.5	6/23/2015	$15,000,000.00	$14,953,800.00	$15,041,550.00
Agency Note	Federal Farm Credit Bank	0.35	7/30/2015	$10,000,000.00	$9,994,500.00	$9,997,200.00
Agency Note	Federal Home Loan Bank	0.375	8/28/2015	$25,000,000.00	$24,999,000.00	$24,996,500.00
Agency Note	Freddie Mac	0.5	11/27/2015	$10,000,000.00	$10,000,000.00	$9,990,700.00
Agency Note	Fannie Mae	0.5	1/15/2016	$10,000,000.00	$10,000,000.00	$9,978,700.00
Agency Note	Freddie Mac	0.5	1/28/2016	$10,000,000.00	$10,000,000.00	$9,969,700.00
Agency Note	Fannie Mae	0.52	2/22/2016	$10,000,000.00	$10,000,000.00	$9,971,000.00
Agency Note	Fannie Mae	0.65	3/28/2016	$10,000,000.00	$10,000,000.00	$9,986,200.00
Agency Note	Fannie Mae	0.5	4/29/2016	$10,000,000.00	$10,000,000.00	$9,949,600.00
Agency Note	Freddie Mac	0.5	5/13/2016	$20,000,000.00	$19,998,800.00	$19,948,200.00
Agency Note	Federal Home Loan Bank	0.375	6/24/2016	$25,000,000.00	$24,955,750.00	$24,868,250.00
Agency Note	Fannie Mae	0.625	8/26/2016	$25,000,000.00	$24,919,750.00	$24,926,500.00
Agency Note	Freddie Mac	0.75	10/5/2016	$10,000,000.00	$10,000,000.00	$9,994,900.00
Agency Note	Fannie Mae	1	10/24/2017	$10,000,000.00	$10,000,000.00	$9,840,900.00
Agency Note	Fannie Mae	0.7	12/13/2017	$10,000,000.00	$10,000,000.00	$9,896,200.00
Agency Note	Fannie Mae	1	12/28/2017	$10,000,000.00	$10,000,000.00	$9,809,000.00
Agency Note	Federal Home Loan Bank	1.2	5/24/2018	$10,000,000.00	$9,999,000.00	$9,795,500.00
Agency Total			***30.25%***	***$603,700,000.00***	***$603,367,857.55***	***$603,133,277.00***
LAIF	California State Pool	0.24	10/1/2013	$49,668,387.89	$49,668,387.89	$49,668,387.89
Repo	Repurchase Agreement	0.03	10/1/2013	$46,500,000.00	$46,500,000.00	$46,500,000.00
Commercial Paper	General Electric Capital	0.22	10/10/2013	$25,000,000.00	$24,972,041.67	$24,999,000.00
Negotiable CD	Rabobank NA	0.33	10/11/2013	$25,000,000.00	$25,000,000.00	$25,001,984.75
Commercial Paper	JP Morgan Chase	0.32	11/7/2013	$25,000,000.00	$24,945,555.56	$24,995,888.89
Commercial Paper	Wells Fargo & Co.	0.2	11/8/2013	$25,000,000.00	$24,963,889.00	$24,995,777.78
Commercial Paper	Toyota Motor Credit Corp.	0.25	5/9/2014	$25,000,000.00	$24,955,902.78	$24,946,527.78
Commercial Paper	Bank of Nova Scotia NY	0.245	6/6/2014	$25,000,000.00	$24,954,402.78	$24,919,055.56
MMKT, Repo, CP, CD			***12.33%***	***$246,168,387.89***	***$245,960,179.68***	***$246,026,622.65***
Medium Term Note	Wal-Mart Stores Inc.	0.75	10/25/2013	$10,000,000.00	$9,994,272.90	$10,002,500.00
Medium Term Note	Procter & Gamble Co.	0.1647	2/14/2014	$5,000,000.00	$5,000,000.00	$4,999,750.00
Medium Term Note	Illinois Tool Works Inc.	5.15	4/1/2014	$8,594,000.00	$8,993,265.30	$8,787,880.64
Medium Term Note	Wal-Mart Stores Inc.	1.625	4/15/2014	$3,000,000.00	$2,991,900.00	$3,023,340.00
Medium Term Note	General Electric Capital	0.9647	4/24/2014	$10,000,000.00	$10,000,000.00	$10,038,300.00
Medium Term Note	Colgate-Palmolive Co.	1.25	5/1/2014	$4,000,000.00	$3,994,160.00	$4,022,520.00
Medium Term Note	Johnson & Johnson	1.2	5/15/2014	$10,000,000.00	$9,988,300.00	$10,054,500.00
Medium Term Note	Google Inc.	1.25	5/19/2014	$7,000,000.00	$6,998,390.00	$7,040,600.00
Medium Term Note	Procter & Gamble Co.	0.7	8/15/2014	$7,000,000.00	$6,971,230.00	$7,023,380.00
Medium Term Note	John Deere Capital Corp.	0.3709	10/8/2014	$5,000,000.00	$5,000,000.00	$5,003,150.00
Medium Term Note	IBM Corp.	0.875	10/31/2014	$5,000,000.00	$5,049,000.00	$5,032,200.00
Medium Term Note	Wells Fargo Bank NA	0.75	7/20/2015	$10,000,000.00	$9,996,500.00	$10,017,000.00
Medium Term Note	PepsiCo Inc.	0.465	7/30/2015	$5,000,000.00	$5,000,000.00	$5,003,700.00
Medium Term Note	John Deere Capital Corp.	0.75	1/22/2016	$3,000,000.00	$2,996,820.00	$2,997,690.00
Medium Term Note	JP Morgan Chase	1.125	2/26/2016	$5,000,000.00	$4,993,950.00	$4,994,250.00
Medium Term Note	IBM Corp.	1.25	2/8/2018	$5,000,000.00	$4,977,100.00	$4,914,400.00
Medium Term Note	Texas Instruments Inc.	1	5/1/2018	$5,000,000.00	$4,953,500.00	$4,816,500.00
Medium Term Note	Merck & Co. Inc.	1.3	5/18/2018	$5,000,000.00	$4,988,450.00	$4,880,850.00
MTN Total			***5.66%***	***$112,594,000.00***	***$112,886,838.20***	***$112,652,510.64***
Asset Backed Security	Toyota Auto Receivables Owner Trust	0.57	10/15/2014	$1,230,584.92	$1,229,995.42	$1,229,995.42

City of San Diego Pooled Investment Fund Holdings as of September 30, 2013 (continued)

Security Type	Issuer	Coupon	Maturity	Par	Book	Market Value
Asset Backed Security	Honda Auto Receivables Trust	0.56	11/17/2014	$3,783,208.29	$3,783,151.29	$3,783,151.29
Asset Backed Security	Honda Auto Receivables Trust	0.4	4/20/2015	$4,909,880.01	$4,909,367.61	$4,909,367.61
Asset Backed Security	Chase Issuance Trust	0.79	6/15/2015	$10,000,000.00	$10,000,000.00	$10,033,500.00
Asset Backed Security	Honda Auto Receivables Trust	0.37	10/17/2015	$10,000,000.00	$9,999,155.00	$9,999,155.00
Asset Backed Security	Chase Issuance Trust	0.3023	12/15/2015	$25,000,000.00	$25,000,000.00	$25,000,000.00
Asset Backed Security	Volkswagen Auto Loan Enhanced Trust	0.37	1/20/2016	$13,000,000.00	$12,999,149.80	$12,985,830.00
Asset Backed Security	Chase Issuance Trust	0.3123	8/15/2017	$10,000,000.00	$10,000,000.00	$9,986,700.00
Asset Backed Total			***3.91%***	***$77,923,673.22***	***$77,920,819.12***	***$77,927,699.32***
Municipal Security	State of California	2	6/23/2014	$10,000,000.00	$10,147,600.00	$10,132,000.00
Municipals Total			***0.51%***	***$10,000,000.00***	***$10,147,600.00***	***$10,132,000.00***
Grand Total			***100.00%***	***$1,995,386,061.11***	***$1,994,348,106.51***	***$1,995,194,909.61***

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.

(continued from page 2) over other expenditures, the sale of assets such as student loans and gold, and the President utilizing powers under the 14th Amendment to make payments on the debt even without Congressional approval. So far, these have all been dismissed by the administration. Another far-fetched idea is to have the Treasury mint a platinum coin and assign a value of $1 trillion and then deposit it into the Treasury, as is allowed under a loophole in current law. This suggestion has also been rejected (which is probably a good thing).

If no agreement is reached on the debt limit and none of the above measures are enacted, the U.S. will most likely default on its debt by the end of October. The market turmoil this will cause and resultant political blowback will ensure that any default will be very short-lived and holders of U.S. Treasury debt will certainly be made whole on their investments posthaste.

However, even in the instance of a very short-term technical default, there will be potentially severe longer-term ramifications for the United States.

First, even a default that lasts for only a day or two is likely to throw financial markets into a panic. The near-miss in August 2011 caused the U.S. stock markets to decline by nearly 20%. Oddly, demand for U.S. Treasuries surged even though it was the uncertainty about payment of Treasury debt that caused the crisis in the first place.

In the long run, overall borrowing costs for the United States will rise as its debt will certainly lose some of its "risk-free" status and risk premium is assigned. Given the size of the outstanding debt, this will add billions of dollars to the annual cost of servicing debt, even if the risk premium is as little as ten basis points.

Furthermore, in the event of default, the reserve status of the U.S. dollar will be further eroded, which could lead to decreased demand from foreign governments for U.S. debt, further increasing borrowing costs.

In the event of default, the major ratings agencies will most likely assign a temporary "selective default" rating on the United States government until payment is made on the defaulted principal and interest, at which time the ratings will most likely be restored. After the 2011 debt ceiling close call, Standard & Poor's downgraded the rating on the United States from AAA to AA+. This was met by retribution as the firm was later sued by the Justice Department for an unrelated matter. The fear of similar vengeance should prevent further downgrades from Standard & Poor's and the other rating agencies, though they cannot be ruled out.

Even if an agreement is reached to raise the debt ceiling and avert default, the bad news is that we are likely to encounter another debt ceiling fight down the road due to uncontrolled government spending and the lack of political will to reign in the budget deficit.

Leading up to the October 17 deadline, the markets are beginning to show a bit of dislocation, as the yields of Treasury bills maturing on or around that date have spiked to levels not seen since the credit crisis of 2008. Stock markets began to sell off on the uncertainty, though we are still far from the magnitude of loss reached in August 2011.

The City Treasurer's Pooled Investment Fund invests heavily in U.S. Treasury securities. Approximately 48% of the Pool was held in Treasuries as of September 30. We are watching the situation very closely, but have not decreased our Treasury holdings and have in fact tactically added some very short-term Treasury bill exposure to take advantage of market dislocations.

It is not our expectation that the U.S. will have to default on any of its debt, even for a short period. If this does occur, however, there is sufficient liquidity in the Pool to cover all known cash outflows for the next several months. As always, we manage the Pool with the primary objectives of safety of principal and liquidity in mind.

-Tom Williams, Investment Officer