City of San Diego

Pooled Investment Fund Quarterly Review

Quarter ended

12/31/14

Publication Date: 1/30/15

Office of the City Treasurer—Investments Division

Economic Commentary

The U.S. economy showed continued strength over the past quarter. Third-quarter GDP was revised higher to 5%, the highest reading since 2003. The large increase was attributed to an upward revision in personal consumption, specifically in healthcare spending. While this is considered more of a one-time effect, the expectation of most economists is that the U.S. economy will remain strong and grow anywhere from 2.5% to 3% in 2015.

The unemployment rate dropped to 5.6% in December, the lowest since June 2008. 252,000 non-farm jobs were added in December, bringing the total number of jobs created during 2014 to over 2.95 million. However, some concerns remain about the low level of labor force participation and the relatively low growth in wages.

Other economic gauges were mixed. For instance, retail sales and ISM Manufacturing and Non-Manufacturing surveys showed strength, while some other manufacturing data and housing activity were weaker than expected.

However, the real story during the quarter was the massive drop in the price of crude oil. The WTI Crude Future price fell by 41.56% during the quarter to reach levels last seen during the Great Recession (Chart 1).

This is great news for the U.S. consumer, as the concomitant drop in gasoline prices has essentially resulted in a tax cut for anyone who drives a car. In theory, this should lead to increased spending in other areas. However, the large and sudden drop in oil is not good for everyone. It has the potential to cripple the economies of large oil-producing countries, and also will hurt the burgeoning shale-oil industry in the U.S.

While the U.S. economy has gathered steam, much of the rest of the world remains mired in an economic funk. The Euro area is currently beset with deflationary concerns and slow growth. Japan is officially in recession and is attempting a massive stimulus program to spur growth. Even emerging market economies such as China, which have shown the most growth over the past decade, are slowing down and are in particular jeopardy should the drop in oil and other commodity prices continue.

At the FOMC meeting in December, the Committee finally dropped the "considerable time" language referring to the length of time before it will begin normalizing rates. It is expected by many economists and strategists that the FOMC will begin raising interest rates as early as June, though much debate remains about the pace of subsequent rate hikes. While the FOMC considers the below-target inflation figures transitory due to the drop in energy prices, it will be concerned if inflation expectations drop as a result, thus potentially pushing back the first rate increase.

Quarterly Economic Highlights

- The U.S. Unemployment Rate dropped to 5.6%, a new low for the current economic cycle
- The U.S. stock market, as measured by the S&P 500 index, rose 4.39% for the quarter
- The U.S. Dollar index rose by 5.04% versus a basket of trade-weighted currencies
- Crude Oil futures plummeted 41.56% during the quarter to end at $53.26/barrel

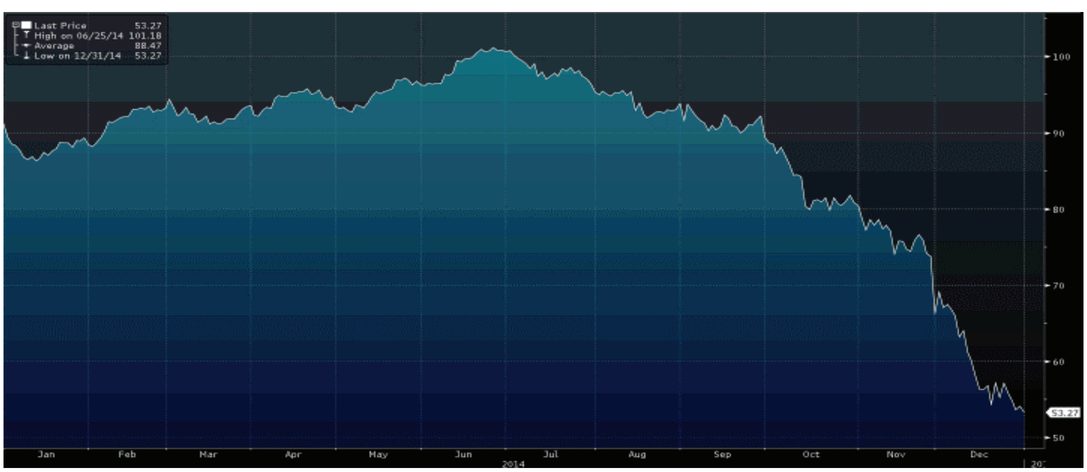

Chart 1: WTI Crude Oil Futures Price (Dec 2013— Dec 2014) (Source: Bloomberg)

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Hot Topic Corner— Lower Oil Prices are Fracking Good

The price of oil has been on a tear, straight down, losing almost 55% since its peak in late June. However, most Americans ignore this metric and instead, look to their local gas station for oil's relative value. Is this rapid decline in oil a good thing that U.S. consumers should be celebrating? Can we have our free lunch filling up and not have it spill over with significant consequences elsewhere in our economy and around the globe?

To answer this question we first must understand why oil is falling, so let's talk teeter totters. Economic nirvana is when both sides of our teeter totter are equal. Demand equals supply so we are chugging along the highway of economic bliss at 55 mph in our electric car. The problem today is our teeter totter is out of balance. There is an overabundance of supply so we have the supply side stuck on the ground, weighted down. We need either demand to "beef up" or lighten up on supply so the teeter totter, oil prices, can move back to a state of equilibrium.

So, why do we have a global oversupply of oil? The oversupply is largely due to the technological revolution that is happening in the oil extraction sector. Essentially, more oil supplies have become accessible using these innovations, like fracking. Last year, the U.S. produced more oil than it had in 25 years, even producing more oil than Saudi Arabia who is the world's largest producer. This cheap oil should encourage oil importers to increase their use, increase their industrial capacity, which should increase their output and increase their incomes to their workers. Sounds good, huh?

One consequence of the current global oversupply of oil is its downward pressure on inflation. Normally, central banks will loosen monetary policy to curb off deflation, the reduction of general prices in an economy, but typically a quick drop in commodity prices are generally viewed as "temporary" so central bank action is generally muted in hopes that normal market forces will revert the market inefficiency back to its "normal" price. Additionally, the FOMC is less likely to take economic action since the decline in inflation is not associated with a global decline in oil demand. If true, it would have resulted in our unemployment rate increasing or additional industrial capacity dropping. At the FOMC's press conference on December 17, Federal Reserve Chairman Yellen was asked whether the drop in oil will give the Fed more time to leave rates low:

"*…And typically the committee looked through these impacts on inflation with the view that they would be transitory, and I think experience bears out that they were transitory. And I think that's the committee's expectation here.*" -Janet Yellen

Translation: We think the price drop is only temporary.

Another consequence of oil's rapid decline is its effect on world currencies. Since oil is denominated in U.S. dollars, a drop will generally strengthen the dollar and weaken the currency of oil exporting countries. Russia's currency, the ruble, has dropped almost 52% since November 1. *(continued on page 10)*

Key Economic Indicators

Indicator	*Period*	*Report Current*	*As Reported Last Quarter*	*Difference*
Federal Funds Rate	12/17/2014	0-0.25%	0-0.25%	0%
Consumer Price Index (MoM)	DEC	(0.4%)	0.1%	(0.5%)
Consumer Price Index (YoY)	DEC	0.8%	1.7%	(0.9%)
Producer Price Index (MoM)	DEC	(0.3%)	(0.1%)	(0.2%)
Producer Price Index (YoY)	DEC	1.1%	1.6%	(0.5%)
Durable Goods Orders	DEC	(3.4%)	(1.3%)	(2.1%)
ISM (Manufacturing)	DEC	55.5	56.6	(1.1)
ISM (Non-manufacturing)	DEC	56.2	58.6	(2.4)
Retail Sales	DEC	(0.9%)	(0.3%)	(0.6%)
Unemployment Rate	DEC	5.6%	5.9%	(0.3%)
Change in Non-farm Payrolls	DEC	252,000	248,000	4,000
Consumer Confidence (Univ. of Michigan)	JAN (P)	98.2	86.4	11.8
Existing Home Sales	DEC	5.04(mil)	5.17(mil)	(0.13)(mil)
New Home Sales	DEC	0.481(mil)	0.467(mil)	0.014(mil)
Housing Starts	DEC	1.089(mil)	1.017(mil)	0.072(mil)
Median Home Price (existing) [EHSLMP]	DEC	$210,200	$210,300	($100)
NYMEX WTI CRUDE OIL (barrel)	12/31/14	$53.27	$91.16	($37.89)
S&P 500 Stock Index	12/31/14	2,058.90	1,972.29	86.61

Portfolio Performance

The Core Portfolio slightly outperformed its benchmark, the Bank of America Merrill Lynch 1-3 year Treasury Index, returning 0.183% versus index performance of 0.179%.

Chart 2 shows a yield curve that flattened over the past quarter, as yields in the 3-month through 3--year parts of the curve increased, while maturities further out decreased in yield.

The yield curve was affected by two disparate forces during the quarter. The front end rose in anticipation of interest rate normalization in the U.S. The FOMC indicated in its most recent meeting that it may begin raising rates in the middle of 2015. The longer end yields dropped in reaction to lower yields around the world, caused by slowing global economies and quantitative easing programs in Europe and Japan.

Though interest rates in the front of the curve were up during the quarter, "Effective Duration Effect" actually subtracted 4.9 basis points of performance. This is explained by nuances within the portfolio analytics software we use, which emphasizes the 10-year part of the yield curve. The 10-year yield decreased during the quarter, negating the duration effect of being short other parts of the curve.

However, "Non-parallel Duration Effect" added 9.6 basis points of positive performance versus the index. Since we were short the 2–year and 3-year portions of the curve versus our index, and those maturity points increased in yield, we captured positive relative performance.

"Sector/Quality Effect" and "Selection Effect" combined to subtract about 2.6 basis points from performance as corporate securities underperformed Treasuries.

"Roll Effect" subtracted 2.2 basis points of performance versus the index. This is due to our being short the 2-year and 3-year parts of the curve, which are some of the steepest parts of the yield curve. As such, our securities did not roll down the yield curve as effectively as securities in the index.

Chart 2: U.S. Treasury Yield Curve 9/30/14—12/31/14 (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*

	Q4 2014	Q3 2014	Q2 2014	FYTD 2015	1 Year	3 Year
Total Pooled Investment Fund	0.60%	0.52%	0.41%	0.56%	0.50%	0.56%
Core Portfolio	0.80%	0.66%	0.55%	0.73%	0.64%	0.67%
Liquidity Portfolio	0.21%	0.24%	0.19%	0.22%	0.24%	0.36%

Total Return—Core Portfolio

	Q4 2014	Q3 2014	Q2 2014	FYTD 2015	1 Year	3 Year*
Core Portfolio	0.18%	0.04%	0.27%	0.22%	0.67%	0.51%
BAML 1 - 3 Year Treasury Index	0.18%	0.03%	0.27%	0.21%	0.62%	0.47%
Difference	0.00%	0.01%	0.00%	0.01%	0.05%	0.04%

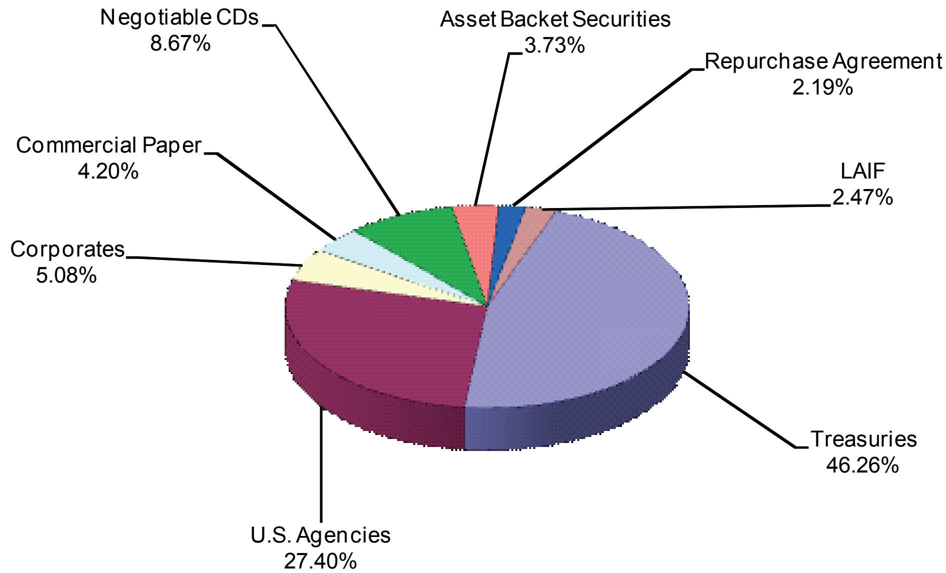
***Annualized Returns**

Portfolio Profile as of December 31, 2014

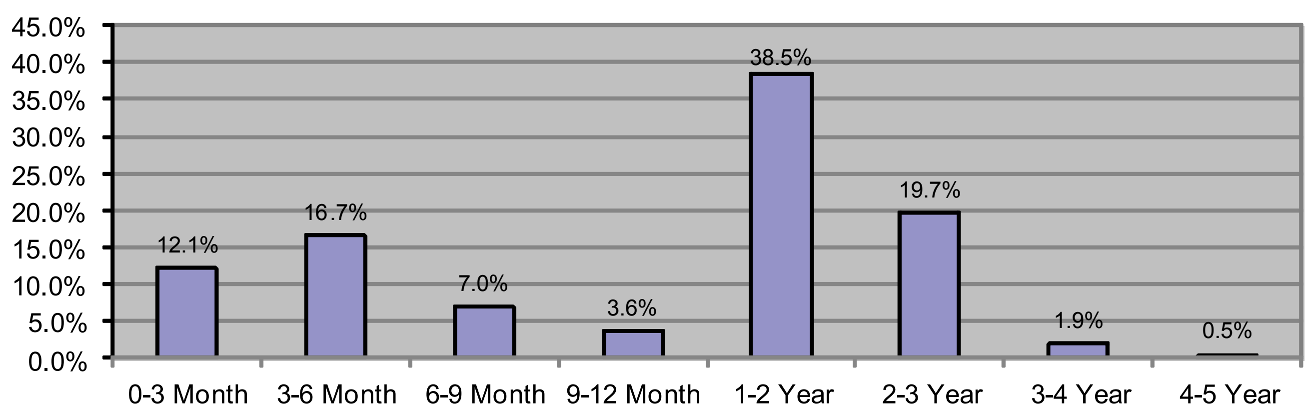
	Liquidity	Core
Portfolio Size*	$752,409,370	$1,267,075,180
% of total pool	37.26%	62.74%
Portfolio Duration**	0.369	1.645
Index Duration**	0.36	1.886
% of index	102.77%	87.22%
Weighted Average Days to Maturity	135.13	683.68

* 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 December 31, 2014

Credit Ratings

Ratings Buckets	% of Portfolio
U.S. Treasury (AAA)	46.26%
Agencies (AAA)	27.40%
AAA/A1	17.10%
AA	2.47%
A	2.12%
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
- LAIF and money market funds are not included
- Municipal security not included in above chart as it is rated on a municipal rating scale

Top Issuer Exposures

Issuer	% of Portfolio
U.S. Treasury	46.26%
Federal Home Loan Bank	11.21%
Freddie Mac	5.69%
Federal Farm Credit Bank	5.44%
Fannie Mae	4.07%
Wells Fargo Bank NA	2.23%
The Coca-Cola Co.	1.73%
General Electric Capital Corp.	1.48%
Swedbank NY	1.24%
Svenska Handelsbanken NY	1.24%
Rabobank NA	1.24%
SEB NY	1.24%
Toronto-Dominion Bank NY	1.24%
Royal Bank of Canada NY	1.24%
Chase Issuance Trust	1.24%
Toyota Motor Credit Corp.	1.24%

Pooled Fund Corporate Issuers

Issuer	Moody's	S&P	Egan-Jones	5yr CDS level	Q/Q % change	Equity Price	Q/Q % change	Longest maturity
Apple Inc.	Aa1	AA+	AA	23.28	-6.92%	$110.38	9.56%	1,219 days
Cisco Systems Inc.	A1	AA-	AA	29.50	-30.59%	$27.82	10.51%	1,521 days
The Coca-Cola Co.	P-1	A-1+	A1+	25.01	4.21%	$42.22	-1.03%	180 days
Deere & Co.	A2	A	A+	41.00	4.91%	$88.47	7.90%	387 days
General Electric Co.	Aa3	AA+	AA+	63.66	2.97%	$25.27	-1.37%	379 days
IBM Corp.	Aa3	AA-	AA	42.50	-2.30%	$160.44	-15.48%	1,135 days
JP Morgan Chase	A3	A (-)	A	62.66	-4.36%	$62.58	3.88%	422 days
Johnson & Johnson	Aaa	AAA	AA+	13.00	-19.75%	$104.57	-1.90%	1,056 days
Merck & Co. Inc.	A2	AA	A+	15.01	0.00%	$56.79	-4.20%	1,234 days
Oracle Corp.	A-1	A+	AA	35.01	-10.25%	$44.97	17.48%	1,019 days
PepsiCo Inc.	A1	A	A	40.50	-4.23%	$94.56	1.58%	211 days
Rabobank NA	P-1	A-1	A1	47.50	-1.06%	N/A	N/A	16 days
Royal Bank of Canada NY	P-1	A-1+	A1+	N/A	N/A	$69.07	-3.33%	182 days
SEB NY	P-1	A-1	N/A	50.49	2.46%	$12.85	-3.79%	30 days
Swedbank NY	P-1	A-1	N/A	55.70	-1.77%	$25.24	0.24%	44 days
Svenska Handelsbanken NY	P-1	A-1+	N/A	42.52	-2.61%	$47.33	0.62%	85 days
Texas Instruments Inc.	A1	A+	AA-	39.20	-7.58%	$53.47	12.11%	1,217 days
Toronto-Dominion Bank NY	P-1	A-1+	A1+	N/A	N/A	$47.78	-3.26%	58 days
Toyota Motor Credit Corp.	P-1	A-1+	A1+	62.35	15.07%	$125.48	6.76%	114 days
US Bancorp	A1	A+	A+	58.55	-10.36%	$44.95	7.46%	761 days
Wells Fargo & Co.	A2	A+ (-)	A	47.97	-7.44%	$54.82	5.69%	519 days
S&P 500 Index						**2,058.90**	**4.39%**	
CDX IG22 Index				**58.48**	**-9.30%**			

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

In anticipation of rate hikes that are widely expected to begin in June 2015, Treasury securities in the front of the yield curve rose in yield over the past quarter. 1-year rates rose 12 basis points, 2-year rates rose 10 basis points and 3-year rates rose 3 basis points.

At the December FOMC meeting, the Committee dropped "considerable time" from the language referring to length of time before rate normalization will begin, instead saying that they "can be patient in beginning to normalize the stance of monetary policy." During the post-meeting press conference, Fed Chair Yellen indicated that it would be at least a couple of meetings before rate hikes begin.

Due to the continued improvement of the labor markets, and the view of most on the FOMC that the current low inflation environment is transitory in nature, we believe that the FOMC will begin raising interest rates as early as June.

As such, we will continue to maintain a short duration position versus the index in anticipation of the interest rate increases. We are currently positioned at about 87% of index duration, and will decrease that to 80% over the next few quarters in an effort to not only outperform the index, but more importantly to mitigate portfolio losses as rates rise.

Additionally, depending upon how the steepness of the yield curve evolves, we may look for opportunities to structure the portfolio in more of a barbell fashion, favoring short fixed and floating rate securities in the front end as well as 4-5 year securities in the long end. This will allow the portfolio to capture the rise in rates quickly while maintaining a fair amount of yield.

Due to the extremely low rates available for overnight investments, we will minimize overnight cash invested by managing liquidity through portfolio sales where possible and by investing out to future known cash outflows such as payroll and debt service payment dates. Any un-invested frictional cash stays at the depository bank and earns an Earnings Credit Rate currently much higher than rates available on overnight repurchase agreements or commercial paper.

As property tax revenues are received during the next few months, we will continue to invest out where possible to pre-fund the large pension ARC payment due on July 1, 2015.

Also, we will begin to invest out to dates coinciding with FOMC meetings in the second half of 2015 in order to capture higher yields as they normalize interest rates.

Corporate spreads versus treasuries have increased over the past quarter in a flight to quality. While it is understandable that spreads would increase for energy-related companies, spreads of all corporates have increased, even for those consumer-facing companies that benefit from lower oil prices. Since our percentage of corporate bonds has dropped over the past few quarters, we will use this spread-widening as an opportunity to look for potentially attractive corporate bonds in the new issue and secondary markets.

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
January	350	269	81	81
February	210	248	(38)	43
March	218	212	6	49
April	294	205	89	138
May	351	264	87	225
June	404	217	187	412

(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)	BAML 1-3 Year +/-20% BAML US T-bill 3-6 months +/-40%	Complies – 87.22% Complies - 102.77%
Maximum Maturity	5 years	Complies
U.S. Agency Securities	100% maximum	Complies – 27.40%
FNMA	33.3% maximum	Complies– 4.07%
FHLMC	33.3% maximum	Complies – 5.69%
FHLB	33.3% maximum	Complies – 11.21%
FFCB	33.3% maximum	Complies – 5.44%
Callable Securities	30% maximum	Complies – 3.96%
MBS/CMO's	5 yr maximum- 20% max.	Complies – None in Portfolio
Asset-backed	5 yr maximum- 20% max.	Complies – 3.73%
Commercial Paper	A1/P1- 5% per issuer	Complies
	25% maximum	Complies – 4.20%
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 – 5.08%
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 – 8.67%
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 – 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 December 31, 2014

Security Type	Issuer	Coupon	Maturity	Par	Book	Market Value
US Treasury Note	US Treasury	0.125	4/30/2015	$25,000,000.00	$24,968,697.44	$25,005,750.00
US Treasury Note	US Treasury	0.375	6/30/2015	$25,000,000.00	$25,003,422.66	$25,033,250.00
US Treasury Note	US Treasury	0.25	7/31/2015	$10,000,000.00	$9,981,250.00	$10,007,000.00
US Treasury Note	US Treasury	0.25	12/15/2015	$25,000,000.00	$24,975,839.83	$25,002,000.00
US Treasury Note	US Treasury	0.375	1/15/2016	$5,000,000.00	$5,000,585.94	$5,003,150.00
US Treasury Note	US Treasury	0.375	1/15/2016	$20,000,000.00	$19,989,062.50	$20,012,600.00
US Treasury Note	US Treasury	0.375	1/31/2016	$25,000,000.00	$25,006,835.94	$25,011,750.00
US Treasury Note	US Treasury	0.375	2/15/2016	$25,000,000.00	$25,019,531.25	$25,009,750.00
US Treasury Note	US Treasury	0.25	2/29/2016	$25,000,000.00	$24,964,843.75	$24,968,750.00
US Treasury Note	US Treasury	0.375	3/15/2016	$25,000,000.00	$24,968,750.00	$25,002,000.00
US Treasury Note	US Treasury	0.375	3/31/2016	$25,000,000.00	$24,960,937.50	$24,996,000.00
US Treasury Note	US Treasury	0.25	4/15/2016	$25,000,000.00	$24,937,500.00	$24,961,000.00
US Treasury Note	US Treasury	0.375	4/30/2016	$25,000,000.00	$24,968,750.00	$24,996,000.00
US Treasury Note	US Treasury	0.25	5/15/2016	$25,000,000.00	$24,814,453.13	$24,947,250.00
US Treasury Note	US Treasury	0.375	5/31/2016	$25,000,000.00	$25,000,000.00	$24,984,500.00
US Treasury Note	US Treasury	0.5	6/15/2016	$25,000,000.00	$24,880,859.38	$25,019,500.00
US Treasury Note	US Treasury	0.5	6/30/2016	$25,000,000.00	$25,023,437.50	$25,007,750.00
US Treasury Note	US Treasury	0.625	7/15/2016	$25,000,000.00	$24,995,117.19	$25,048,750.00
US Treasury Note	US Treasury	0.5	7/31/2016	$25,000,000.00	$24,971,042.80	$25,011,750.00
US Treasury Note	US Treasury	0.625	8/15/2016	$25,000,000.00	$24,893,554.69	$25,041,000.00
US Treasury Note	US Treasury	0.5	8/31/2016	$25,000,000.00	$25,002,643.74	$24,990,250.00
US Treasury Note	US Treasury	0.875	9/15/2016	$25,000,000.00	$25,178,710.94	$25,130,750.00
US Treasury Note	US Treasury	0.5	9/30/2016	$25,000,000.00	$24,955,078.13	$24,970,750.00
US Treasury Note	US Treasury	0.625	10/15/2016	$25,000,000.00	$25,034,179.69	$25,007,750.00
US Treasury Note	US Treasury	0.375	10/31/2016	$25,000,000.00	$24,936,523.44	$24,896,500.00
US Treasury Note	US Treasury	0.625	11/15/2016	$25,000,000.00	$25,056,640.63	$25,002,000.00
US Treasury Note	US Treasury	0.5	11/30/2016	$25,000,000.00	$24,998,390.29	$24,937,500.00
US Treasury Note	US Treasury	0.625	12/31/2016	$25,000,000.00	$24,971,679.69	$24,966,750.00
US Treasury Note	US Treasury	0.75	1/15/2017	$25,000,000.00	$25,024,414.06	$25,017,500.00
US Treasury Note	US Treasury	0.625	2/15/2017	$25,000,000.00	$24,968,750.00	$24,937,500.00
US Treasury Note	US Treasury	0.75	3/15/2017	$25,000,000.00	$24,898,437.50	$24,990,250.00
US Treasury Note	US Treasury	0.875	4/15/2017	$25,000,000.00	$24,970,703.13	$25,033,250.00
US Treasury Note	US Treasury	0.875	5/15/2017	$25,000,000.00	$25,072,265.63	$25,013,750.00
US Treasury Note	US Treasury	0.875	6/15/2017	$25,000,000.00	$24,981,445.31	$24,986,250.00
US Treasury Note	US Treasury	0.875	7/15/2017	$25,000,000.00	$24,902,683.43	$24,970,750.00
US Treasury Note	US Treasury	1	9/15/2017	$25,000,000.00	$24,966,413.81	$25,013,750.00
US Treasury Note	US Treasury	0.875	10/15/2017	$25,000,000.00	$24,974,459.13	$24,904,250.00
US Treasury Note	US Treasury	0.875	11/15/2017	$25,000,000.00	$24,994,043.51	$24,880,750.00
US Treasury Note	US Treasury	1	12/15/2017	$25,000,000.00	$24,902,665.70	$24,941,500.00
US Treasury Total			***46.26%***	***$935,000,000.00***	***$934,114,599.26***	***$934,661,250.00***
Agency Note	Federal Home Loan Bank	0.15	3/12/2015	$25,000,000.00	$24,997,000.00	$24,999,000.00
Agency Discount Note	Federal Home Loan Bank	0.115	5/7/2015	$26,500,000.00	$26,470,879.15	$26,491,520.00
Agency Note	Federal Home Loan Bank	0.125	5/21/2015	$25,000,000.00	$24,998,750.00	$24,995,000.00
Agency Note	Federal Home Loan Bank	0.125	6/5/2015	$25,000,000.00	$24,997,000.00	$24,989,500.00
Agency Discount Note	Federal Farm Credit Bank	0.11	6/18/2015	$25,000,000.00	$24,983,881.94	$24,988,500.00
Agency Note	Federal Farm Credit Bank	0.5	6/23/2015	$15,000,000.00	$14,985,023.98	$15,019,350.00
Agency Discount Note	Freddie Mac	0.08	6/30/2015	$25,000,000.00	$24,985,722.22	$24,987,500.00
Agency Discount Note	Federal Farm Credit Bank	0.13	6/30/2015	$50,000,000.00	$49,963,527.78	$49,975,000.00
Agency Discount Note	Freddie Mac	0.09	7/1/2015	$30,000,000.00	$29,984,175.00	$29,982,600.00
Agency Discount Note	Fannie Mae	0.145	7/1/2015	$2,200,000.00	$2,198,130.31	$2,198,724.00
Agency Discount Note	Fannie Mae	0.13	7/3/2015	$25,000,000.00	$24,981,493.06	$24,985,500.00

City of San Diego Pooled Investment Fund Holdings as of December 31, 2014 (continued)

Security Type	Issuer	Coupon	Maturity	Par	Book	Market Value
Agency Note	Federal Farm Credit Bank	0.35	7/30/2015	$10,000,000.00	$9,994,500.00	$9,992,900.00
Agency Note	Federal Home Loan Bank	0.21	10/9/2015	$25,000,000.00	$24,993,879.25	$24,981,250.00
Agency Note	Federal Home Loan Bank	0.23	12/18/2015	$25,000,000.00	$24,996,268.92	$24,983,500.00
Agency Note	Freddie Mac	0.5	1/28/2016	$10,000,000.00	$10,000,000.00	$10,001,000.00
Agency Note	Freddie Mac	0.5	5/13/2016	$20,000,000.00	$19,998,800.00	$20,007,000.00
Agency Note	Intl Bank Recon & Develop	0.5	5/16/2016	$20,000,000.00	$19,990,200.00	$19,969,200.00
Agency Note	Federal Home Loan Bank	0.43	7/1/2016	$25,000,000.00	$24,997,900.00	$24,952,000.00
Agency Note	Fannie Mae	0.625	8/26/2016	$25,000,000.00	$24,919,750.00	$24,995,000.00
Agency Note	Federal Home Loan Bank	0.5	9/28/2016	$25,000,000.00	$24,953,250.00	$24,933,750.00
Agency Note	Freddie Mac	0.75	10/5/2016	$10,000,000.00	$10,000,000.00	$10,000,500.00
Agency Note	Federal Home Loan Bank	0.625	11/23/2016	$15,000,000.00	$14,994,000.00	$14,982,300.00
Agency Note	Freddie Mac	1.25	9/29/2017	$10,000,000.00	$10,000,000.00	$10,001,500.00
Agency Note	Fannie Mae	1	10/24/2017	$10,000,000.00	$10,000,000.00	$9,936,100.00
Agency Note	Freddie Mac	1.3	11/27/2017	$10,000,000.00	$10,000,000.00	$9,992,700.00
Agency Note	Fannie Mae	0.8	12/13/2017	$10,000,000.00	$10,000,000.00	$9,962,400.00
Agency Note	Federal Farm Credit Bank	1.125	12/18/2017	$10,000,000.00	$9,991,970.00	$9,978,700.00
Agency Note	Fannie Mae	1	12/28/2017	$10,000,000.00	$10,000,000.00	$9,918,200.00
Agency Note	Federal Home Loan Bank	1.2	5/24/2018	$10,000,000.00	$9,999,000.00	$9,901,500.00
Agency Total			***27.40%***	***$553,700,000.00***	***$553,375,101.61***	***$553,101,694.00***
LAIF	California State Pool	0.24	1/1/2015	$49,818,589.52	$49,818,589.52	$49,818,589.52
Repurchase Agreement	Repurchase Agreement	0.07	1/2/2015	$44,200,000.00	$44,200,000.00	$44,200,000.00
Negotiable CD	Rabobank NA	0.24	1/16/2015	$25,000,000.00	$25,000,000.00	$25,001,776.11
Negotiable CD	SEB NY	0.23	1/30/2015	$25,000,000.00	$25,000,000.00	$25,003,123.16
Negotiable CD	Swedbank NY	0.21	2/13/2015	$25,000,000.00	$25,001,179.44	$25,003,970.04
Negotiable CD	Toronto-Dominion Bank NY	0.22	2/27/2015	$25,000,000.00	$25,000,000.00	$25,005,632.14
Negotiable CD	Svenska Handelsbanken NY	0.22	3/26/2015	$25,000,000.00	$25,000,641.75	$25,008,259.44
Commercial Paper	General Electric Capital	0.2	4/10/2015	$25,000,000.00	$24,973,472.22	$24,985,562.50
Commercial Paper	Toyota Motor Credit Corp.	0.2	4/24/2015	$25,000,000.00	$24,973,611.11	$24,983,520.83
Commercial Paper	The Coca-Cola Co.	0.19	5/8/2015	$10,000,000.00	$9,990,288.89	$9,991,180.56
Commercial Paper	The Coca-Cola Co.	0.23	6/29/2015	$25,000,000.00	$24,967,895.83	$24,968,923.61
Negotiable CD	Royal Bank of Canada/NY	0.22	7/1/2015	$25,000,000.00	$25,000,000.00	$24,996,206.37
Negotiable CD	Wells Fargo Bank NA	0.25	7/1/2015	$25,000,000.00	$25,000,000.00	$24,999,998.47
MMKT, Repo, CP, CD			***17.53%***	***$354,018,589.52***	***$353,925,678.76***	***$353,966,742.75***
Medium Term Note	Wells Fargo Bank NA	0.75	7/20/2015	$10,000,000.00	$9,996,500.00	$10,024,100.00
Medium Term Note	PepsiCo Inc.	0.4326	7/30/2015	$5,000,000.00	$5,000,000.00	$5,001,450.00
Medium Term Note	General Electric Capital	0.46	1/14/2016	$5,000,000.00	$5,000,000.00	$5,000,000.00
Medium Term Note	John Deere Capital Corp.	0.75	1/22/2016	$3,000,000.00	$2,996,820.00	$2,999,370.00
Medium Term Note	JP Morgan Chase	1.125	2/26/2016	$5,000,000.00	$4,993,950.00	$5,013,100.00
Medium Term Note	Wells Fargo Bank NA	0.3836	6/2/2016	$10,000,000.00	$10,000,000.00	$9,986,900.00
Medium Term Note	Johnson & Johnson	0.3056	11/28/2016	$5,000,000.00	$5,000,000.00	$5,003,650.00
Medium Term Note	US Bancorp	0.4626	1/30/2017	$15,000,000.00	$15,000,000.00	$15,005,700.00
Medium Term Note	Oracle Corp.	1.2	10/15/2017	$10,000,000.00	$9,962,500.00	$9,964,400.00
Medium Term Note	Johnson & Johnson	1.125	11/21/2017	$5,000,000.00	$4,996,050.00	$4,985,100.00
Medium Term Note	IBM Corp.	1.25	2/8/2018	$5,000,000.00	$4,977,100.00	$4,958,450.00
Medium Term Note	Texas Instruments Inc.	1	5/1/2018	$5,000,000.00	$4,953,500.00	$4,912,700.00
Medium Term Note	Apple Inc.	1	5/3/2018	$10,000,000.00	$9,825,200.00	$9,851,600.00
Medium Term Note	Merck & Co. Inc.	1.3	5/18/2018	$5,000,000.00	$4,988,450.00	$4,953,400.00
Medium Term Note	Cisco Systems Inc.	0.7336	3/1/2019	$5,000,000.00	$5,000,000.00	$5,024,400.00
MTN Total			***5.08%***	***$103,000,000.00***	***$102,690,070.00***	***$102,684,320.00***

City of San Diego Pooled Investment Fund Holdings as of December 31, 2014 (continued)

Security Type	Issuer	Coupon	Maturity	Par	Book	Market Value
Asset Backed Security	Chase Issuance Trust	0.79	6/15/2015	$10,000,000.00	$10,000,000.00	$10,013,300.00
Asset Backed Security	Honda Auto Receivables Trust	0.37	10/17/2015	$34,896.22	$34,051.22	$34,894.13
Asset Backed Security	BMW Vehicle Owner Trust	0.41	2/25/2016	$1,154,939.20	$1,154,759.70	$1,154,759.70
Asset Backed Security	Honda Auto Receivables Trust	0.45	4/18/2016	$3,259,647.99	$3,259,257.99	$3,259,257.99
Asset Backed Security	Toyota Auto Rec Owners Trust	0.41	8/15/2016	$12,490,668.14	$12,490,572.14	$12,490,572.14
Asset Backed Security	Honda Auto Receivables Trust	0.41	8/22/2016	$7,053,624.38	$7,053,019.58	$7,053,019.58
Asset Backed Security	Toyota Auto Rec Owners Trust	0.51	2/15/2017	$5,000,000.00	$4,999,694.50	$4,999,694.50
Asset Backed Security	VW Auto Loan Enhanced Trust	0.42	3/20/2017	$12,562,398.91	$12,562,167.51	$12,562,167.51
Asset Backed Security	BMW Vehicle Owner Trust	0.53	4/25/2017	$5,000,000.00	$4,999,831.00	$4,999,831.00
Asset Backed Security	Chase Issuance Trust	0.2908	8/15/2017	$10,000,000.00	$10,000,000.00	$10,000,000.00
Asset Backed Security	Harley-Davidson Motorcycle Trust	0.49	4/15/2018	$3,826,990.42	$3,826,651.92	$3,826,651.92
Asset Backed Security	Chase Issuance Trust	1.15	1/15/2019	$5,000,000.00	$4,999,095.50	$4,999,095.50
Asset Backed Total			***3.73%***	***$75,383,165.26***	***$75,379,101.06***	***$75,393,243.97***
Grand Total			***100.00%***	***$2,021,101,754.78***	***$2,019,484,550.69***	***$2,019,807,250.72***

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

Hot Topic Corner: :

(continued from page 2)

The strengthening of the dollar helps the U.S. economy since we are a net importer, so foreign products become cheaper to buy. However, for countries with depreciating currencies like Russia, a plunging currency makes it difficult to service foreign debt and the likelihood of default becomes a real possibility if the country's currency doesn't recover enough over time. Credit defaults like this can have a very disruptive effect on the global markets as we saw in 1998 & 2008. It can become a domino-like effect.

There is no question that lower gas prices are a boost to the U.S. consumer wallet, which will flow through to the U.S. economy. Economists at Deutsche Bank estimate that a single penny drop in gasoline means an extra $1 billion in consumer pockets. This beneficial effect was apparent in the last print of the University of Michigan Consumer index report which jumped to its highest level in 10 years after oil prices fell dramatically. Who doesn't feel a little richer when it costs less to fill up at the tank?

The other relevant fact around this drop in oil is its effect on the US fracking industry. The profitability of fracking relies on oil being above $65/barrel and becomes too expensive to operate if oil drops to around $55/barrel. However, oil producing countries, especially in the Middle East, can produce oil at much lower prices. For example, it is estimated that the cost for Saudi Arabia is between $7-$10/barrel. Even with the recent drop in oil, OPEC, which produces about one-third of the world's oil production, refused to cut production. This would seem to indicate that those OPEC countries are comfortable with oil dropping further since a supply cut would have signaled a sign of price support by the organization. This willingness for OPEC countries to not support the price of oil might be an effort to regain its power in the marketplace. Over the last few decades, OPEC has slowly lost its pricing influence power with the development of alternative industries in the U.S.: nuclear, coal, renewable, and now fracking.

This game of chicken will have only one result, the producer that can extract the oil the cheapest will win. Walmart can lower their prices a lot more and survive than a local retailer with the same product mix. That means oil is likely to stay low for awhile, putting pressure on the U.S. oil industry which is OPEC's message. However, Goldman Sachs has estimated that the decline in the fracking production will be offset by the boost to consumer spending in other parts of the economy.

In the end, this inevitable collision between technology and economics has reset the playing field. Gone are the days of OPEC's oil price target of $100; maybe $60 is the new normal. One lesson we have learned in the last decade is that technological breakthroughs cannot be ignored and that their efficiencies are industry game-changing events. Fracking is here to stay since producers can add or cut production quickly to ride out wild fluctuations in prices. Additionally, it is a relatively new market so production costs will be driven down as future advancements are made in the industry. The consumer can expect these lower gas prices to continue for some time and, while oil prices have plunged in the last two months, I would look for oil to set a floor soon and stabilize at levels that don't create a global crisis.

Kent J. Morris, Chief Investment Officer