# City of San Diego

## Pooled Investment Fund Quarterly Review

Quarter ended

6/30/2011

Publication Date: 7/29/2011

## Office of the City Treasurer—Investments Division

### Economic Commentary

The second quarter of 2011 was eerily reminiscent of the second quarter of 2010, as European sovereign debt concerns took center stage yet again. Greek credit default swaps, which represent the cost to insure against a default, skyrocketed to all-time highs (Chart 1) as market participants assigned a high likelihood of at least a partial default of Greek debt. Indeed, both S&P and Moody's downgraded the ratings of Greek sovereign debt to near-default status. Meanwhile, Greek parliament passed austerity measures that would ensure at least another round of EU and IMF bailout funding despite rioting in the streets of Athens. Most experts feel that this is simply kicking the can down the road, and that holders of Greek debt will ultimately need to take a haircut, or a return of principal less than par, on their holdings. Additionally, credit spreads on other peripheral European countries (Portugal, Spain, Ireland) widened on contagion fears plus concerns about their own shaky finances.

A bigger concern, however, is the exposure that European banks, particularly those in France and Germany, have exposure to the debt of these troubled economies. This has led to large withdrawals from prime money market funds, which invest heavily in the commercial paper and CDs of these large European banks.

Back at home, the effects of the devastating Japanese earthquake and tsunami that hit in March have been felt in the U.S. economy. For instance, the ISM manufacturing index posted levels of 53.5 and 55.3 in May and June. While these are still considered expansionary, they are off the levels of the first four months of the year, which were all in the sixties.

Additionally, job growth has seemingly ground to a halt. The June non-farm payrolls report posted a gain of 18,000 jobs, well below expectations and far short of the levels seen earlier in the year. The unemployment rate rose to 9.2% in June after having dropped to 8.8% in March.

Some of the weakness in the jobs market is being attributed to the bickering that is going on in Congress over raising the U.S. debt ceiling as well as reducing the U.S. budget deficit. The Treasury has intimated that if the debt ceiling is not raised by August 2, it may not be able to pay its obligations, including coupon payments on U.S. Treasury debt. The ratings agencies have taken note, with S&P placing the AAA rating of the U.S. on negative watch.

In the case of a technical default, where the U.S. temporarily misses a coupon payment due to the debt ceiling debate, at least one of the three large credit ratings agencies have stated they would immediately drop the rating of the United States from AAA to D (default status). It is unknown how the financial markets might react to such an event, but reducing the perceived safety of the world's reserve currency would potentially be very calamitous to world financial markets and could result in a new recession.


Chart 1: Greece 5 yr Credit Default Swap levels 6/30/10—6/30/11 (Source: Bloomberg)

### *Quarterly Economic Highlights*

- After the April 27 FOMC meeting concluded, Fed Chairman Ben Bernanke held the Fed's first-ever post-meeting press conference
- The U.S. stock market, as measured by the S&P 500 index, declined 0.39% on a price basis during the quarter
- After climbing to as high as $113.52/barrel, crude oil prices dropped to $95.42/barrel by quarter end
- Standard & Poor's lowered the outlook on U.S. debt from stable to negative on April 18

**Contents:**

## Hot Topic Corner— The Great Employment Debate

Which came first - the chicken or the egg?

The outlook for the US economy is a similar brain teaser. Which will come first - consumer spending or more jobs? Will companies create new jobs in anticipation of an increase in consumer demand, or will consumers wait on spending until they see the economy strengthen with a wave of hiring by corporate America?

On the corporate side, you have two very different operating environments unfolding. Large corporations are seeing strong growth in earnings, mainly from broad cost-cutting initiatives and a rebound in sales, especially overseas in emerging markets. Small businesses, on the other hand, which are the life-blood of the U.S. economy, have been struggling on several fronts: inflationary costs, an uncertain economic outlook, and difficulty accessing credit. For the last three months, all of the significant economic indicators published by the National Federation of Independent Business have been trending downward. Any sustainable recovery requires a healthy small business sector. The average duration of unemployment is currently at 39.9 weeks, which is nearly double the previous historical high.

The consumer side doesn't look any more promising. In fact, many economists believe we have become a society of "zombie consumers." This term simply means that the debt burdens associated with the typical consumer today are so high that the consumer just doesn't have the spending capacity or zeal to vigorously push the economy forward. The consumer has multiple drags on his/her spending capacity: a heavy household debt load, stagnant wages, and a declining housing market, none of which are forecasted to dissipate soon.

The ultimate solution to this employment quandary is simply time. Unlike other recessions, which were primarily inventory driven, this was a debt-driven recession. The U.S. consumer had a pool-sized credit punch bowl and there were no lifeguards. Credit recessions last much longer than more traditional recessions since consumer debt just can't evaporate overnight. Those cash-out refinance mortgages, credit card balances, and auto loans take time to unwind. American consumers have begun deleveraging their household balance sheets, reducing liabilities by nearly $600 billion since 2008. Unfortunately, much of this deleveraging is being done via defaults, which only makes our banks that much more under-capitalized and less willing to lend to small businesses and consumers.

The final solution will be living with our sins from the past, which means a weak consumer, a strained real estate market, risk-averse banks, and sub-potential (3%) GDP growth for the next couple of years.

— Kent Morris, CIO

## Key Economic Indicators

| *Indicator* | *Period* | *Report Current* | *As Reported Last Quarter* | *Difference* |
|---|---|---|---|---|
| Federal Funds Rate | 6/22/2011 | 0-0.25% | 0-0.25% | 0% |
| Consumer Price Index (MoM) | JUN | (0.2%) | 0.5% | (0.7%) |
| Consumer Price Index (YoY) | JUN | 3.6% | 2.7% | 0.9% |
| Producer Price Index (MoM) | JUN | (0.4%) | 0.7% | (1.1%) |
| Producer Price Index (YoY) | JUN | 7.0% | 5.8% | 1.2% |
| Durable Goods Orders | JUN | (2.1%) | 2.5% | (4.6%) |
| Gross Domestic Product (Annualized) | Q2A | 1.3% | 1.8% | (0.5%) |
| ISM (Manufacturing) | JUN | 55.3 | 61.2 | (5.9) |
| ISM (Non-manufacturing) | JUN | 53.3 | 57.3 | (4.0) |
| Retail Sales | JUN | 0.1% | 0.4% | (0.3%) |
| Unemployment Rate | JUN | 9.2% | 8.8% | 0.4% |
| Change in Non-farm Payrolls | JUN | 18,000 | 216,000 | (198,000) |
| Consumer Confidence (Univ. of Michigan) | JUN (Final) | 71.5 | 67.5 | 4.0 |
| Existing Home Sales | JUN | 4.77(mil) | 5.10(mil) | (0.33)(mil) |
| New Home Sales | JUN | 0.312(mil) | 0.300(mil) | 0.012(mil) |
| Housing Starts | JUN | 0.629(mil) | 0.549(mil) | 0.080(mil) |
| Median Home Price (existing) [EHSLMP] | JUN | $184,600 | $160,500 | $24,100 |
| NYMEX WTI CRUDE OIL (barrel) | 6/30/11 | $95.42 | $106.72 | ($11.30) |
| S&P 500 Stock Index | 6/30/11 | 1,320.64 | 1,325.83 | (5.19) |

# Portfolio Performance

The Core Portfolio outperformed its benchmark, the Merrill Lynch 1-3 year Treasury Index, by 5 basis points over the past quarter, returning 0.887% versus 0.835% for the index.

Chart 2 shows a bull flattening curve, with longer end rates decreasing more than shorter rates, particularly in the "belly" of the curve (3–10 year maturities). In a repeat of last year's second quarter, there was a flight to quality event during the past quarter, as investors became increasingly concerned about the safety of European sovereign and bank debt.

Additionally, an economic slowdown caused partly by Japanese supply chain disruptions and a still morose housing market led many economists and investors to push back the anticipated beginning of FOMC rate hikes.

As has been the case for several quarters, "income effect" was the major detractor from performance, contributing –13 basis points of excess return. Since the portfolio is more heavily invested in on-the-run, lower coupon securities than the index, the portfolio doesn't earn as much in coupon yield.

"Amortization and Roll effect" continued to offset the income effect as the portfolio contains lower-priced securities than the index, resulting in less negative price movement. It also captured the effect of portfolio securities rolling down a steeper yield curve faster than index securities. This effect added 12 basis points of outperformance versus the index.

"Selection effect" added almost 7 basis points of performance versus the index due to outsize positions in several on-the-run Treasuries that outperformed the rest of the Treasury curve during the quarter.

For the entire fiscal year, the Core Portfolio outperformed the benchmark by 24 basis points, with "parallel duration effect," "sector effect," and "selection effect" providing the bulk of the outperformance.

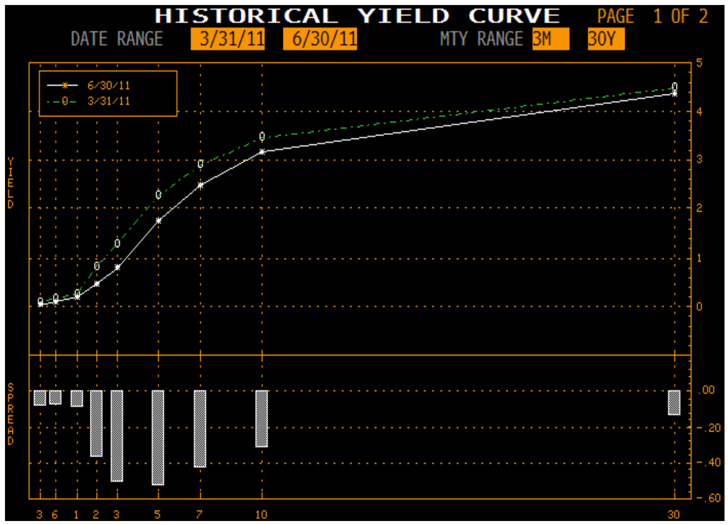



Chart 2: Treasury Yield Curve 3/31/11—6/30/11

# 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***

| | Q2 2011 | Q1 2011 | Q4 2010 | FYTD 2011 | 1 Year | 3 Year |
|---|---|---|---|---|---|---|
| **Total Pooled Investment Fund** | 1.21% | 0.92% | 1.15% | 1.19% | 1.19% | 2.23% |
| **Core Portfolio** | 1.66% | 1.17% | 1.52% | 1.60% | 1.60% | 2.93% |
| **Liquidity Portfolio** | 0.38% | 0.46% | 0.49% | 0.44% | 0.44% | 0.95% |

**Total Return—Core Portfolio**

| | Q2 2011 | Q1 2011 | Q4 2010 | FYTD 2011 | 1 Year | 3 Year* |
|---|---|---|---|---|---|---|
| **Core Portfolio** | 0.89% | 0.11% | (0.13%) | 1.59% | 1.59% | 3.15% |
| **BAML 1 - 3 Year Treasury Index** | 0.83% | 0.03% | (0.15%) | 1.35% | 1.35% | 2.80% |
| **Difference** | 0.05% | 0.08% | 0.02% | 0.24% | 0.24% | 0.35% |

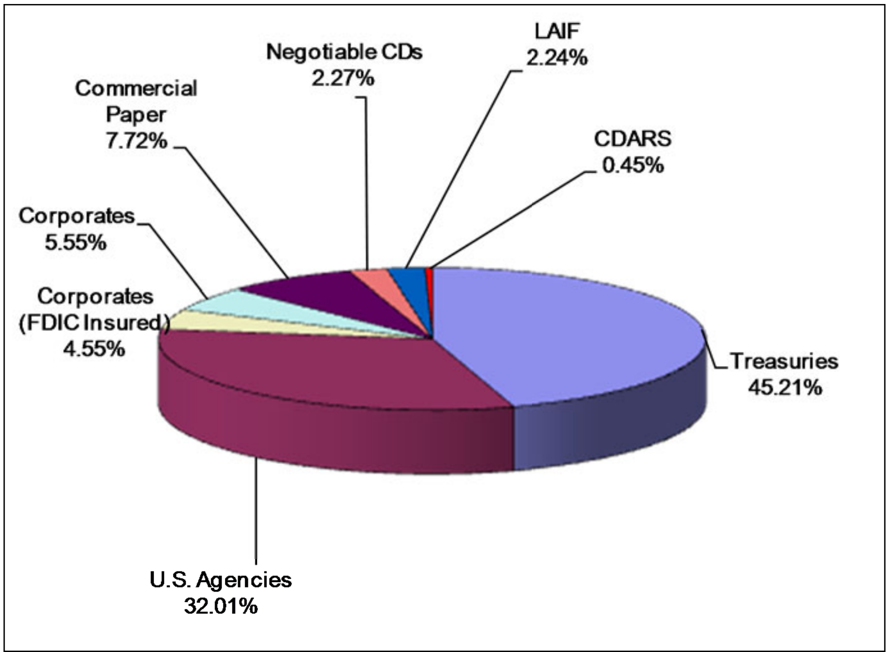
***Annualized Returns**

## Portfolio Profile as of June 30, 2011

| | *Liquidity* | *Core* |
|---|---|---|
| Portfolio Size* | $751,541,582 | $1,449,599,585 |
| % of total pool | 34.14% | 65.86% |
| Portfolio Duration** | 0.357 | 1.648 |
| Index Duration** | 0.375 | 1.874 |
| % of index | 95.20% | 87.94% |
| Weighted Average Days to Maturity | 159 | 635 |

* 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

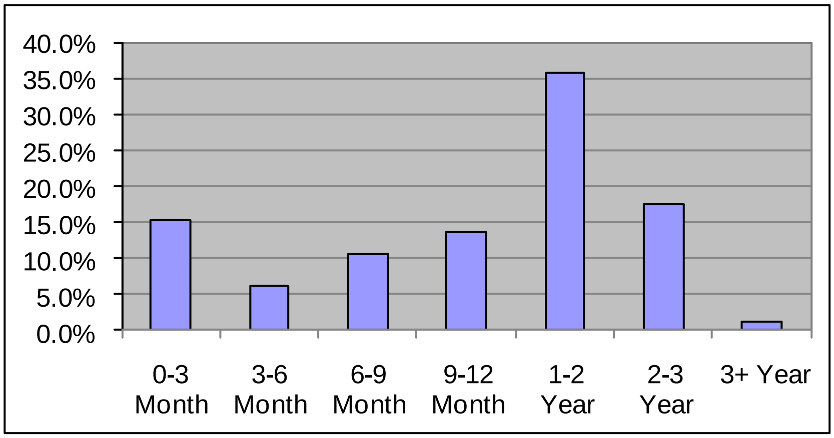
| Issuer | % of Portfolio |
|---|---|
| U.S. Treasury | 45.21% |
| Federal Home Loan Bank | 11.13% |
| Freddie Mac | 8.12% |
| Federal Farm Credit Bank | 6.47% |
| Fannie Mae | 5.39% |
| General Electric | 1.83% |
| Citigroup, Inc. | 1.59% |
| JP Morgan Chase | 1.14% |
| BNP Paribas | 1.14% |
| Rabobank USA | 1.14% |
| Royal Bank of Canada NY | 1.14% |
| Societe Generale NA | 1.14% |
| Nestle Capital Corp. | 1.13% |
| UBS Finance | 1.13% |
| Bank of Nova Scotia/NY | 0.68% |
| The Procter & Gamble Co. | 0.68% |

## Credit Ratings

| Ratings Buckets | % of Portfolio |
|---|---|
| U.S. Treasury (AAA) | 45.21% |
| Agency (AAA) | 32.01% |
| AAA/A1 | 13.85% |
| AA | 4.77% |
| A | 1.46% |
| 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

Yields on U.S. Treasuries dropped during the quarter due to another flare-up of European sovereign debt concerns and slowing economic growth in the U.S. Over the past several weeks, most economic reports have come out lower than expected, in a reversal of the very positive economic climate that had persisted for several quarters. While Fed Chairman Bernanke has attributed the slowdown to mainly "transitory" effects, it does raise the possibility that the Fed may put off raising interest rates until mid to late 2012.

This continued "low for long" interest rate environment will make investing the Pooled Investment Fund a very challenging endeavor.

There is currently almost no yield available in the very front end of the rate curve, which will most likely remain the case until Congress raises the debt ceiling, that should hopefully lead to more Treasury bill issuance and higher front end yields.

Extending portfolio investment maturities out to grab additional yield can be dangerous when rates do begin to rise. This is because the longer a fixed income investment has until it matures, the higher the price sensitivity and potential losses in a rising rate environment.

Additionally, with all of the concern surrounding European bank exposure to peripheral Euro debt, we are being very cautious with our exposure to some of these bank names, further stifling potential yield enhancement.

One way we have enhanced portfolio yield is through the purchase of high grade corporate securities both in the new issue and secondary markets. During the past quarter we added names such as Walt Disney, IBM, Colgate-Palmolive, Google and Johnson & Johnson to the portfolio. These corporations all have strong balance sheets, positive cash flow generation and strong brands, ensuring safety of principal and incremental yield over Treasury securities.

We have also continued investing in callable agency structures, which provide for additional yield over agency bullet structures while maintaining overall portfolio quality.

In anticipation of higher interest rates down the road, we began investing in floating-rate securities during the quarter, adding two such bonds. These securities come with coupons that reset periodically with the level of an index, in this case 1 month or 3 month LIBOR. Since these securities have this reset feature, downward price movement is mitigated when rates rise as the coupon paid more closely reflects the current level of interest rates.

## 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 |
|---|---|---|---|---|
| July | 488 | 444 | 44 | 44 |
| August | 278 | 201 | 77 | 121 |
| September | 202 | 194 | 8 | 129 |
| October | 161 | 176 | (15) | 114 |
| November | 229 | 180 | 49 | 163 |
| December | 341 | 155 | 185 | 348 |

(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)<br>Duration (Liquidity) | ML 1-3 Year +/-20%<br>US T-bill 3-6 months +/-40% | Complies – 87.94%<br>Complies - 95.20% |
| Maximum Maturity | 5 years | Complies |
| Agency Securities | 100% maximum | Complies – 32.01% |
| FNMA | 33.3% maximum | Complies– 5.39% |
| FHLMC | 33.3% maximum | Complies – 8.12% |
| FHLB | 33.3% maximum | Complies – 11.13% |
| FFCB | 33.3% maximum | Complies – 6.47% |
| Callable Securities | 30% maximum | Complies – 5.91% |
| MBS/CMO's | 5 yr maximum- 20% max. | Complies – None in Portfolio |
| Asset-backed | 5 yr maximum- 20% max. | Complies – None in Portfolio |
| Commercial Paper | A1/P1- 5% per issuer | Complies |
| | 25% maximum | Complies – 7.72% |
| 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 – 10.09% |
| Mutual Funds | 20% maximum; 5% maximum per fund | Complies – None in Portfolio |
| FDIC-insured Certificates of Deposit | 2% maximum | Complies – 0.45% |
| Certificate and Public Deposits | 30% maximum | Complies – 2.27% |
| 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<br>(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<br>Issuer or Insurer, excluding California General Obligations | Complies – None in Portfolio |

# City of San Diego Pooled Investment Fund Holdings as of June 30, 2011

| Security Type | Issuer | Coupon | Maturity | Par | Book | Market Value |
|---|---|---|---|---|---|---|
| US Treasury Note | US Treasury | 1.375 | 3/15/2012 | $30,000,000.00 | $30,178,125.00 | $30,255,000.00 |
| US Treasury Note | US Treasury | 1 | 3/31/2012 | $30,000,000.00 | $29,978,906.25 | $30,183,000.00 |
| US Treasury Note | US Treasury | 1 | 4/30/2012 | $25,000,000.00 | $25,011,718.75 | $25,165,000.00 |
| US Treasury Note | US Treasury | 0.75 | 5/31/2012 | $30,000,000.00 | $30,167,578.13 | $30,144,000.00 |
| US Treasury Note | US Treasury | 1.875 | 6/15/2012 | $20,000,000.00 | $20,154,687.50 | $20,314,000.00 |
| US Treasury Note | US Treasury | 0.625 | 6/30/2012 | $30,000,000.00 | $30,009,375.00 | $30,117,000.00 |
| US Treasury Note | US Treasury | 0.625 | 7/31/2012 | $50,000,000.00 | $49,971,080.50 | $50,205,000.00 |
| US Treasury Note | US Treasury | 1.75 | 8/15/2012 | $15,000,000.00 | $15,116,015.62 | $15,250,500.00 |
| US Treasury Note | US Treasury | 1.375 | 9/15/2012 | $25,000,000.00 | $24,945,312.50 | $25,327,500.00 |
| US Treasury Note | US Treasury | 1.375 | 9/15/2012 | $5,000,000.00 | $5,004,101.56 | $5,065,500.00 |
| US Treasury Note | US Treasury | 1.375 | 10/15/2012 | $25,000,000.00 | $24,936,523.44 | $25,345,000.00 |
| US Treasury Note | US Treasury | 0.375 | 10/31/2012 | $20,000,000.00 | $20,011,718.75 | $20,020,000.00 |
| US Treasury Note | US Treasury | 1.375 | 11/15/2012 | $25,000,000.00 | $25,193,359.37 | $25,360,000.00 |
| US Treasury Note | US Treasury | 0.5 | 11/30/2012 | $30,000,000.00 | $30,025,781.25 | $30,075,000.00 |
| US Treasury Note | US Treasury | 1.125 | 12/15/2012 | $30,000,000.00 | $29,759,765.63 | $30,339,000.00 |
| US Treasury Note | US Treasury | 0.625 | 12/31/2012 | $25,000,000.00 | $25,000,976.56 | $25,102,500.00 |
| US Treasury Note | US Treasury | 0.625 | 1/31/2013 | $25,000,000.00 | $24,981,404.25 | $25,097,500.00 |
| US Treasury Note | US Treasury | 1.375 | 2/15/2013 | $25,000,000.00 | $25,019,531.25 | $25,397,500.00 |
| US Treasury Note | US Treasury | 0.625 | 2/28/2013 | $25,000,000.00 | $24,944,930.37 | $25,097,500.00 |
| US Treasury Note | US Treasury | 1.375 | 3/15/2013 | $25,000,000.00 | $24,841,796.88 | $25,410,000.00 |
| US Treasury Note | US Treasury | 0.75 | 3/31/2013 | $25,000,000.00 | $24,962,058.15 | $25,147,500.00 |
| US Treasury Note | US Treasury | 0.625 | 4/30/2013 | $40,000,000.00 | $40,001,358.70 | $40,144,000.00 |
| US Treasury Note | US Treasury | 1.375 | 5/15/2013 | $15,000,000.00 | $15,077,343.75 | $15,261,000.00 |
| US Treasury Note | US Treasury | 0.5 | 5/31/2013 | $150,000,000.00 | $150,060,642.93 | $150,165,000.00 |
| US Treasury Note | US Treasury | 1.125 | 6/15/2013 | $25,000,000.00 | $24,948,581.00 | $25,322,500.00 |
| US Treasury Note | US Treasury | 1.125 | 6/15/2013 | $20,000,000.00 | $19,957,812.50 | $20,258,000.00 |
| US Treasury Note | US Treasury | 0.375 | 6/30/2013 | $15,000,000.00 | $14,968,359.38 | $14,976,000.00 |
| US Treasury Note | US Treasury | 1 | 7/15/2013 | $40,000,000.00 | $39,959,339.20 | $40,424,000.00 |
| US Treasury Note | US Treasury | 0.75 | 8/15/2013 | $10,000,000.00 | $9,984,154.20 | $10,053,000.00 |
| US Treasury Note | US Treasury | 0.75 | 8/15/2013 | $20,000,000.00 | $19,937,500.00 | $20,106,000.00 |
| US Treasury Note | US Treasury | 1.25 | 2/15/2014 | $25,000,000.00 | $25,061,890.33 | $25,367,500.00 |
| US Treasury Note | US Treasury | 1.25 | 3/15/2014 | $20,000,000.00 | $20,007,642.66 | $20,290,000.00 |
| US Treasury Note | US Treasury | 1.25 | 4/15/2014 | $25,000,000.00 | $24,956,013.75 | $25,351,500.00 |
| US Treasury Note | US Treasury | 1 | 5/15/2014 | $25,000,000.00 | $25,025,093.41 | $25,165,000.00 |
| US Treasury Note | US Treasury | 0.75 | 6/15/2014 | $25,000,000.00 | $25,005,859.38 | $24,970,000.00 |
| ***Treasury Total*** | | | ***45.21%*** | ***$995,000,000.00*** | ***$995,166,337.90*** | ***$1,002,271,500.00*** |
| | | | | | | |
| US Agency | Federal Home Loan Bank | 0.22 | 8/4/2011 | $25,000,000.00 | $24,992,559.25 | $25,000,000.00 |
| US Agency | Federal Home Loan Bank | 0.18 | 8/18/2011 | $25,000,000.00 | $24,998,750.00 | $25,000,000.00 |
| US Agency | Fannie Mae | 1.16 | 9/8/2011 | $25,000,000.00 | $25,196,000.00 | $25,046,875.00 |
| US Agency | Federal Home Loan Bank | 0.3 | 9/30/2011 | $25,000,000.00 | $25,007,500.00 | $25,015,625.00 |
| US Agency | Federal Home Loan Bank | 0.18 | 12/23/2011 | $25,000,000.00 | $24,994,500.00 | $25,000,000.00 |
| US Agency | Federal Farm Credit Bank | 0.3 | 2/1/2012 | $25,000,000.00 | $25,025,791.67 | $25,000,000.00 |
| US Agency | Federal Home Loan Bank | 0.15 | 2/17/2012 | $25,000,000.00 | $24,997,475.00 | $24,976,562.50 |
| US Agency | Federal Farm Credit Bank | 0.28 | 3/1/2012 | $25,000,000.00 | $24,999,458.33 | $25,000,000.00 |
| US Agency | Freddie Mac | 2.125 | 3/23/2012 | $25,000,000.00 | $25,018,200.00 | $25,328,125.00 |
| US Agency | Federal Home Loan Bank | 0.28 | 3/28/2012 | $25,000,000.00 | $24,997,500.00 | $25,000,000.00 |
| US Agency | Federal Home Loan Bank | 2.25 | 4/13/2012 | $20,000,000.00 | $19,980,000.00 | $20,306,250.00 |
| US Agency | Fannie Mae | 1.875 | 4/20/2012 | $15,000,000.00 | $14,981,100.00 | $15,187,500.00 |
| US Agency | Federal Farm Credit Bank | 2.25 | 4/24/2012 | $10,000,000.00 | $9,999,800.00 | $10,156,250.00 |
| US Agency | Freddie Mac | 1.125 | 4/25/2012 | $23,550,000.00 | $23,749,704.00 | $23,704,546.88 |
| US Agency | Federal Home Loan Bank | 0.41 | 4/27/2012 | $20,000,000.00 | $20,000,000.00 | $20,000,000.00 |
| US Agency | Federal Home Loan Bank | 0.35 | 7/17/2012 | $20,000,000.00 | $20,000,000.00 | $19,975,000.00 |
| US Agency | Freddie Mac | 0.65 | 7/27/2012 | $20,000,000.00 | $20,000,000.00 | $20,006,250.00 |

# City of San Diego Pooled Investment Fund Holdings as of June 30, 2011 (continued)

| Security Type | Issuer | Coupon | Maturity | Par | Book | Market Value |
|---|---|---|---|---|---|---|
| US Agency | Freddie Mac | 0.6 | 11/2/2012 | $10,000,000.00 | $10,000,000.00 | $10,003,125.00 |
| US Agency | Freddie Mac | 0.75 | 11/23/2012 | $10,000,000.00 | $10,000,000.00 | $10,006,250.00 |
| US Agency | Federal Farm Credit Bank | 1.75 | 2/21/2013 | $20,000,000.00 | $19,947,400.00 | $20,393,750.00 |
| US Agency | Federal Farm Credit Bank | 1.375 | 6/25/2013 | $25,000,000.00 | $24,922,000.00 | $25,460,937.50 |
| US Agency | Fannie Mae | 0.5 | 8/9/2013 | $25,000,000.00 | $24,957,500.00 | $24,968,750.00 |
| US Agency | Federal Home Loan Bank | 1 | 11/18/2013 | $10,000,000.00 | $10,000,000.00 | $10,012,500.00 |
| US Agency | Freddie Mac | 1.05 | 12/9/2013 | $10,000,000.00 | $10,000,000.00 | $10,015,625.00 |
| US Agency | Freddie Mac | 1.375 | 2/3/2014 | $10,000,000.00 | $10,016,805.56 | $10,009,375.00 |
| US Agency | Federal Farm Credit Bank | 1.125 | 2/27/2014 | $25,000,000.00 | $24,950,750.00 | $25,203,125.00 |
| US Agency | Federal Home Loan Bank | 1.375 | 5/28/2014 | $25,000,000.00 | $24,966,750.00 | $25,335,937.50 |
| US Agency | Freddie Mac | 0.75 | 6/16/2014 | $20,000,000.00 | $20,000,000.00 | $19,987,500.00 |
| US Agency | Fannie Mae | 1.125 | 6/27/2014 | $35,000,000.00 | $34,951,000.00 | $35,196,875.00 |
| US Agency | Freddie Mac | 1 | 7/30/2014 | $25,000,000.00 | $24,982,000.00 | $24,968,750.00 |
| US Agency | Freddie Mac | 0.2 | 7/18/2011 | $25,000,000.00 | $24,975,000.00 | $25,000,000.00 |
| US Agency | Federal Farm Credit Bank | 0.2 | 4/4/2012 | $12,500,000.00 | $12,476,666.67 | $12,484,375.00 |
| US Agency | Fannie Mae | 0.18 | 5/25/2012 | $18,600,000.00 | $18,569,310.00 | $18,570,937.50 |
| US Agency | NCUA Guaranteed | 0.206 | 6/12/2013 | $20,000,000.00 | $20,000,000.00 | $20,000,000.00 |
| ***U.S. Agency Total*** | | | ***32.01%*** | ***$704,650,000.00*** | ***$704,653,520.48*** | ***$707,320,796.88*** |
| LAIF | California State Pool | 0.51 | 7/1/2011 | $49,275,711.55 | $49,275,711.55 | $49,275,711.55 |
| Commercial Paper | Societe Generale NA | 0.155 | 7/1/2011 | $25,000,000.00 | $24,996,770.83 | $25,000,000.00 |
| Commercial Paper | BNP Paribas Finance Inc. | 0.11 | 7/1/2011 | $25,000,000.00 | $24,999,465.28 | $25,000,000.00 |
| Commercial Paper | Bank of Nova Scotia/NY | 0.04 | 7/1/2011 | $15,000,000.00 | $14,999,966.67 | $15,000,000.00 |
| Commercial Paper | Citigroup Funding Inc. | 0.17 | 7/7/2011 | $15,000,000.00 | $14,995,466.67 | $14,999,575.00 |
| Negotiable CD | Rabobank NY | 0.38 | 7/8/2011 | $25,000,000.00 | $25,000,000.00 | $25,001,665.72 |
| Commercial Paper | Toyota Motor Credit | 0.29 | 9/2/2011 | $15,000,000.00 | $14,977,766.67 | $14,994,750.00 |
| Commercial Paper | General Electric Capital | 0.24 | 10/28/2011 | $25,000,000.00 | $24,969,166.67 | $24,980,166.67 |
| Commercial Paper | UBS Finance Delaware | 0.265 | 11/10/2011 | $25,000,000.00 | $24,965,034.72 | $24,975,250.00 |
| Commercial Paper | Nestle Capital Corp. | 0.17 | 11/25/2011 | $25,000,000.00 | $24,977,333.33 | $24,972,437.50 |
| Negotiable CD | Royal Bank of Canada NY | 0.262 | 6/7/2012 | $25,000,000.00 | $25,000,000.00 | $24,955,335.88 |
| Non-Negotiable CDs | BSBB CDARS | 1.25 | 2/16/2012 | $10,000,000.00 | $10,000,000.00 | $10,000,000.00 |
| ***Repo, BA's, CD's, CP, LAIF, Funds Total*** | | | ***12.68%*** | ***$279,275,711.55*** | ***$279,156,682.39*** | ***$279,154,892.32*** |
| MTN (FDIC Insured) | Citibank NA | 1.5 | 7/12/2011 | $5,000,000.00 | $4,999,146.23 | $5,000,781.25 |
| MTN (FDIC Insured) | Goldman Sachs | 1.625 | 7/15/2011 | $10,000,000.00 | $10,011,955.73 | $10,003,125.00 |
| Medium Term Note | General Dynamics Corp. | 1.8 | 7/15/2011 | $10,000,000.00 | $10,083,100.00 | $10,004,687.50 |
| Medium Term Note | IBM Corp. | 0.853 | 7/28/2011 | $6,250,000.00 | $6,261,197.66 | $6,252,929.69 |
| Medium Term Note | Procter & Gamble Int'l Finance | 1.35 | 8/26/2011 | $5,000,000.00 | $4,999,080.08 | $5,007,031.25 |
| Medium Term Note | Northern Trust Corp. | 5.3 | 8/29/2011 | $5,000,000.00 | $5,247,800.00 | $5,035,937.50 |
| MTN (NCUA Insured) | US Central Federal Credit Union | 1.25 | 10/19/2011 | $10,000,000.00 | $9,998,721.51 | $10,032,812.50 |
| Medium Term Note | General Electric Capital Corp. | 5.5 | 11/15/2011 | $10,000,000.00 | $10,190,000.00 | $10,178,125.00 |
| MTN (FDIC Insured) | Wells Fargo & Company | 3 | 12/9/2011 | $5,000,000.00 | $4,999,021.44 | $5,062,500.00 |
| MTN (FDIC Insured) | American Express Bank FSB | 3.15 | 12/9/2011 | $5,000,000.00 | $4,999,338.66 | $5,064,062.50 |
| MTN (FDIC Insured) | General Electric Capital Corp. | 3 | 12/9/2011 | $5,000,000.00 | $5,044,930.24 | $5,060,937.50 |
| Medium Term Note | Berkshire Hathaway Inc. | 1.4 | 2/10/2012 | $10,000,000.00 | $9,993,500.00 | $10,064,062.50 |
| Medium Term Note | The Walt Disney Co. | 6.375 | 3/1/2012 | $10,000,000.00 | $10,592,815.00 | $10,393,750.00 |
| Medium Term Note | Chevron Corp. | 3.45 | 3/3/2012 | $5,000,000.00 | $5,173,100.00 | $5,104,687.50 |
| MTN (FDIC Insured) | Morgan Stanley | 2.25 | 3/13/2012 | $5,000,000.00 | $4,992,950.00 | $5,071,093.75 |
| MTN (FDIC Insured) | Citigroup Funding Inc. | 2 | 3/30/2012 | $5,000,000.00 | $4,986,550.00 | $5,070,312.50 |
| MTN (FDIC Insured) | Bank of America NA | 2.1 | 4/30/2012 | $5,000,000.00 | $4,995,450.00 | $5,078,125.00 |
| MTN (FDIC Insured) | Bank of America NA | 2.1 | 4/30/2012 | $5,000,000.00 | $5,031,500.00 | $5,078,125.00 |
| MTN (FDIC Insured) | Citibank NA | 1.875 | 5/7/2012 | $5,000,000.00 | $4,986,950.00 | $5,070,312.50 |
| MTN (FDIC Insured) | Citibank NA | 1.875 | 6/4/2012 | $5,000,000.00 | $4,984,950.00 | $5,073,437.50 |
| MTN (FDIC Insured) | JP Morgan Chase & Co. | 2.2 | 6/15/2012 | $5,000,000.00 | $4,996,900.00 | $5,091,406.25 |

## City of San Diego Pooled Investment Fund Holdings as of June 30, 2011 (continued)

| Security Type | Issuer | Coupon | Maturity | Par | Book | Market Value |
|---|---|---|---|---|---|---|
| MTN (FDIC Insured) | Wells Fargo & Company | 2.125 | 6/15/2012 | $5,000,000.00 | $4,998,700.00 | $5,084,375.00 |
| MTN (FDIC Insured) | JP Morgan Chase & Co. | 2.125 | 6/22/2012 | $20,000,000.00 | $20,067,200.00 | $20,365,625.00 |
| Medium Term Note | Procter & Gamble Co. | 1.375 | 8/1/2012 | $10,000,000.00 | $9,992,700.00 | $10,076,562.50 |
| Medium Term Note | Berkshire Hathaway Inc. | 5.125 | 9/15/2012 | $4,500,000.00 | $4,883,220.00 | $4,738,359.38 |
| Medium Term Note | 3M Company | 4.65 | 12/15/2012 | $10,000,000.00 | $10,715,400.00 | $10,598,437.50 |
| Medium Term Note | Wal-Mart Stores Inc. | 0.75 | 10/25/2013 | $10,000,000.00 | $9,965,700.00 | $10,007,812.50 |
| Medium Term Note | Wal-Mart Stores Inc. | 1.625 | 4/15/2014 | $3,000,000.00 | $2,991,900.00 | $3,039,843.75 |
| Medium Term Note | Colgate-Palmolive Co. | 1.25 | 5/1/2014 | $4,000,000.00 | $3,994,160.00 | $4,025,625.00 |
| Medium Term Note | Johnson & Johnson | 1.2 | 5/15/2014 | $10,000,000.00 | $9,988,300.00 | $10,029,687.50 |
| Medium Term Note | Google Inc. | 1.25 | 5/19/2014 | $7,000,000.00 | $6,998,390.00 | $7,033,906.25 |
| ***Corporate MTN's and Other  Notes Total*** | | | ***10.09%*** | ***$219,750,000.00*** | ***$222,164,626.55*** | ***$222,798,476.57*** |
| ***Grand Total*** | | | ***100.00%*** | ***$2,198,675,711.55*** | ***$2,201,141,167.32*** | ***$2,211,545,665.77*** |

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.