



# City of Brentwood



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**Investment Performance Review**

**Second Quarter 2013**

**PFM Asset Management LLC**

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### Summary

- After hitting 2013 lows during the quarter, interest rates skyrocketed on stronger economic prospects and the Federal Reserve's (Fed's) impending plan to reduce bond purchases.
- The U.S. housing market continued to strengthen, and the unemployment rate remained unchanged for the quarter at 7.6% as more Americans looked for employment.
- The domestic economy continues to show signs of improvement, but the potential for a cessation of the Fed's quantitative easing programs has increased volatility within the markets.

### Economic Snapshot

- U.S. job creation was healthy, with an average of 196,000 jobs added each month in the second quarter, but the federal government continued to shed jobs.
- Consumer confidence was near a six-year high (University of Michigan index at 84.1 in June), boosted by an improving jobs market and the wealth effect of rising housing prices and a strong stock market.
- U.S. gross domestic product (GDP) grew by only 1.8% for the first quarter, the third reading below 2% in the past four quarters. Despite sluggish consumer spending, the Fed upgraded its projections for growth in 2014.
- In general, economic data for major economies outside of the U.S. was disappointing. The euro-zone economy marked a seventh consecutive quarter of contraction, and the Chinese economy exhibited slower growth.

### Interest Rates

- Interest rates rose significantly during the latter half of the second quarter, as investors braced for the potential impact of reduced bond-buying by the Fed.
- The Federal Open Market Committee (FOMC) maintained its commitment to low short-term rates at its June 18-19 meeting. However, Fed Chairman Bernanke indicated the Fed would moderate the pace of bond purchases later this year if economic data is consistent with forecasted expectations.
- The spike in interest rates had elements of panic; however, in our opinion, rates needed to begin to normalize from the artificial lows of the past several years.

### Sector Performance

- Prices for fixed-income securities fell across the spectrum amid concerns about rising rates and a possible pull-back in accommodative monetary policy. Market volatility increased significantly since early May. Rising rates are a sign of the inevitable return to longer-term historical averages for interest rates.
- Treasuries looked more attractive relative to Agencies, as yield spreads on some similar-maturity Agencies were minimal. New-issue corporate bonds offered extra yield to entice investors given current spread levels. Despite stable fundamentals, yield spreads on Agencies and corporate bonds widened late in the quarter as liquidity dried up.
- Mortgage-backed securities (MBS) and longer-term municipal bonds experienced sharp sell-offs, resulting in significant negative returns for the quarter.

### Economic Snapshot

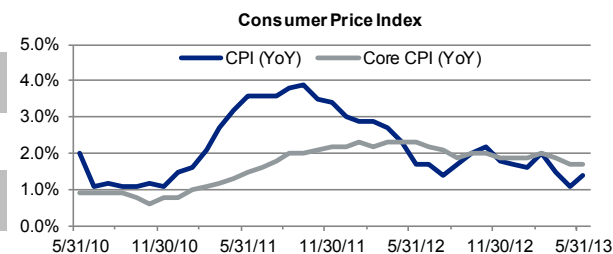
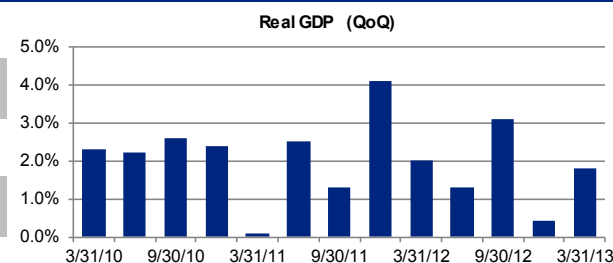
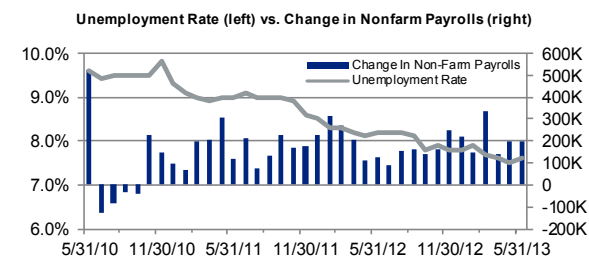
Labor Market		Latest	Mar 2013	Jun 2012
Unemployment Rate	Jun'13	7.6%	7.6%	8.2%
Change In Non-Farm Payrolls	Jun'13	195,000	142,000	87,000
Average Hourly Earnings (YoY)	Jun'13	2.2%	1.8%	2.0%
Personal Income (YoY)	May'13	3.3%	2.8%	3.1%
Initial Jobless Claims (week)	Jun 28	343,000	388,000	374,000

Growth				
Real GDP (QoQ SAAR)	2013Q1	1.8%	0.4% <sup>1</sup>	1.3% <sup>2</sup>
GDP Personal Consumption (QoQ SAAR)	2013Q1	2.6%	1.8% <sup>1</sup>	1.5% <sup>2</sup>
Retail Sales (YoY)	May'13	4.3%	3.2%	3.7%
ISM Manufacturing Survey (month)	Jun'13	50.9	51.3	50.2
Existing Home Sales (month)	May'13	5.18 mil.	4.94 mil.	4.41 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	May'13	1.0%	1.0%	1.5%
Consumer Price Index (YoY)	May'13	1.4%	1.5%	1.7%
Consumer Price Index Core (YoY)	May'13	1.7%	1.1%	0.7%
Crude Oil Futures (WTI, per barrel)	Jun 30	\$96.56	\$97.23	\$84.96
Gold Futures (oz)	Jun 30	\$1,224	\$1,595	\$1,604



1. Data as of Fourth Quarter 2012

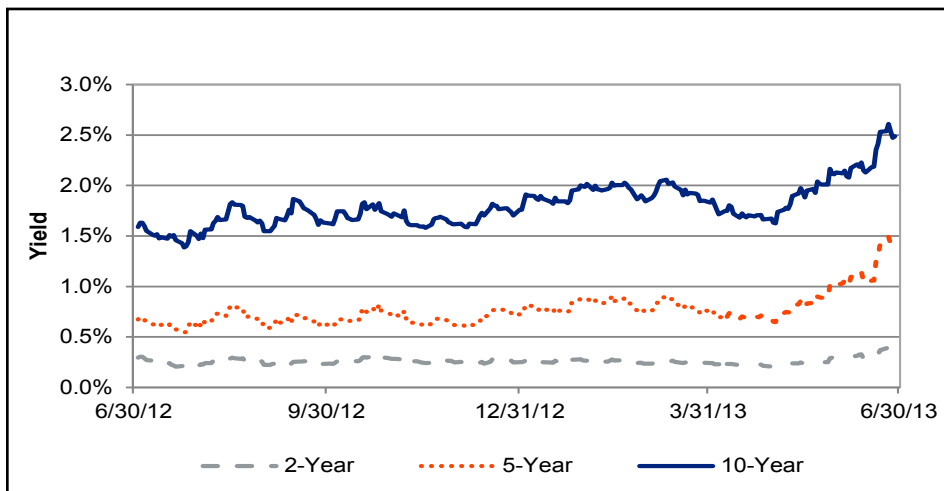
2. Data as of Second Quarter 2012

Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

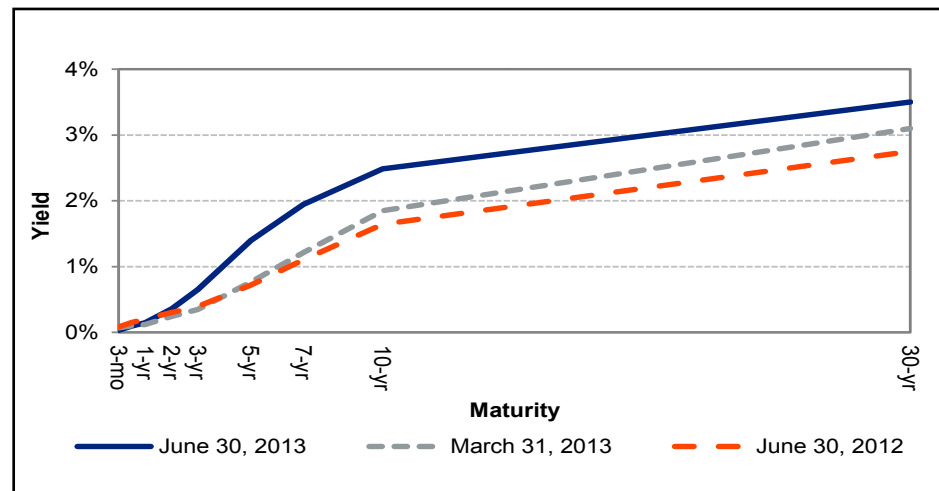
Source: Bloomberg

### Interest Rate Overview

#### U.S. Treasury Note Yields



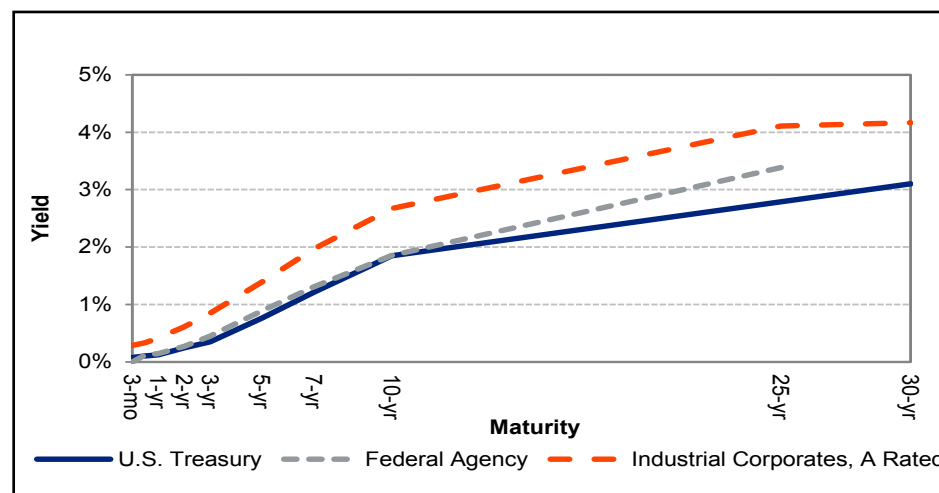
#### U.S. Treasury Yield Curve



#### U.S. Treasury Yields

Maturity	6/30/13	3/31/13	Change over Quarter	6/30/12	Change over Year
3-month	0.07%	0.07%	0.00%	0.11%	(0.04%)
1-year	0.17%	0.13%	0.04%	0.26%	(0.09%)
2-year	0.37%	0.28%	0.09%	0.32%	0.05%
5-year	1.40%	0.79%	0.61%	0.75%	0.65%
10-year	2.52%	1.93%	0.59%	1.73%	0.79%
30-year	3.48%	3.10%	0.38%	2.78%	0.70%

#### Yield Curves as of 6/30/13



Source: Bloomberg

### BofA Merrill Lynch Index Returns

	As of 6/30/2013	Returns for Periods ended 6/30/2013			
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.89	0.37%	(0.10%)	0.33%	0.82%
Federal Agency	1.80	0.48%	(0.13%)	0.34%	0.97%
U.S. Corporates, A-AAA rated	1.99	1.20%	(0.22%)	2.16%	2.63%
Agency MBS (0 to 3 years)	1.69	1.67%	(1.00%)	(0.40%)	1.75%
Municipals	1.77	0.70%	(0.16%)	0.62%	1.27%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.72	0.66%	(0.67%)	(0.03%)	1.44%
Federal Agency	2.61	0.81%	(0.74%)	0.01%	1.28%
U.S. Corporates, A-AAA rated	2.91	1.70%	(1.09%)	2.19%	3.40%
Agency MBS (0 to 5 years)	3.06	2.66%	(1.37%)	(0.60%)	2.46%
Municipals	2.51	1.04%	(0.61%)	0.53%	1.86%
<b>Master Indices (Maturities 1 Year or Greater)</b>					
U.S. Treasury	5.78	1.40%	(2.21%)	(2.00%)	3.03%
Federal Agency	4.01	1.34%	(1.97%)	(0.90%)	2.12%
U.S. Corporates, A-AAA rated	6.57	2.96%	(3.12%)	0.89%	5.08%
Agency MBS	4.61	2.96%	(1.92%)	(1.15%)	2.52%
Municipals	7.81	3.21%	(3.33%)	0.10%	4.66%

Returns for periods greater than one year are annualized

Source: Bloomberg

# PFM<sup>®</sup> Quarterly Commentary

Fixed Income  
Management

## Disclosures

*The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC (PFMAM) at the time of distribution and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFMAM cannot guarantee its accuracy, completeness, or suitability. This material is for general information purposes only and is not intended to provide specific advice or recommendation. The information contained in this report is not an offer to purchase or sell any securities.*

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**PFM Asset Management LLC**

## Portfolio Summary

<u>Total Portfolio Value</u>	<u>June 30, 2013</u>	<u>March 31, 2013</u>
Market Value	<b>\$170,411,566.38</b>	\$162,614,198.50
Amortized Cost	<b>\$170,624,860.28</b>	\$162,254,993.67

## PORTFOLIO RECAP

- The portfolio complies with the California Government Code and the City's investment policy. The portfolio is diversified among U.S. Treasuries, Federal Agencies, certificates of deposit, high-quality corporate notes, municipal obligations, and LAIF.
- The second quarter started with interest rates well entrenched within long-standing ranges, U.S. economic conditions improving at a modest pace, and the Federal Reserve (Fed) purchasing \$85 billion of long-term Treasuries and agency mortgage-backed securities (MBS) per month. As conditions appeared relatively stable, the strategy at the beginning of the quarter was to remain slightly short of duration targets relative to benchmarks and to emphasize "spread product," including agencies, corporates, and in some cases, municipals and bank certificates of deposit.
- During the early part of the second quarter, rates fell to 2013 lows and yield spreads continued their narrowing trend, with both enhancing return.
- Conditions began to reverse in May, in part due to what seemed like a rather innocuous comment by Fed Chairman Bernanke about possible tapering of Fed bond purchases in the Q&A portion of his testimony to the Joint Economic Committee of Congress. Rates moved higher, but in a normal and orderly fashion within the existing trading ranges. At that point, the impact on Treasuries was negative, but contained, and spread movements on agency and corporate debt were minimal. 2-year, 5-year and 10-year Treasuries had risen by 6, 25 and 28 basis points (0.06%, 0.25%, 0.28%), respectively, from March 31 to May 31. As rates approached the upper end of their recent ranges, we modestly extended maturities to capture higher yields and to position portfolios closer to benchmark durations.
- Conditions deteriorated quickly in June, after Bernanke laid out a more definitive plan to curtail bond purchases later this year. By quarter end, longer-term yields had surged further (and market values had fallen substantially), with the 5-year Treasury reaching 1.40% and the 10-year reaching 2.49%—the highest levels since August 2011. The scale and pace of the rate spike in late June had elements of panic and surprised most investors. Massive selling and deleveraging in certain market sectors caused liquidity to dry up, which further affected market prices.
- Yields on maturities two years and shorter moved only modestly, as they remain anchored to the Fed's near-zero short-term rate policy, which is not expected to change for another year or two. A 1-year Treasury changed by only a few basis points, while the 2-year Treasury ended the quarter at 0.36%, up just 12 basis points (0.12%) for the quarter.
- Contrary to historical correlations, as rates rose, yield spreads also widened across all sectors, including agencies, corporates, and municipals. Asset classes with optionality, like callable agencies, also suffered duration extension, an undesirable consequence of rising rates. The higher yields and diversification benefits of investing in a broad range of asset classes were temporarily overwhelmed by spread widening, which caused most sectors to underperform Treasuries for the quarter. As a result, well diversified portfolios performed worse than portfolios comprising only U.S. Treasury obligations.

## Portfolio Summary - continued

**PORTFOLIO STRATEGY**

- After the second quarter's quantum leap in yields, and the associated widening in yield spreads, there is reason to believe that the adjustment process has run its course for now. After one more surge following the July 5 release of June's strong payroll gains, Treasury yields seem to have found a base at current levels. Yield spreads have also begun to retrace some of their second quarter widening.
- The second quarter adjustment process has presented investors with a much steeper yield curve, which offers the ability to enhance return through "roll-down"—the natural tendency of bonds to appreciate as time passes and their maturity shortens. Although longer maturities have greater market risk, they also offer higher yields and greater roll-down potential.
- With bond yields probably in a new, higher trading range, there may be value in longer-term purchases at current levels. However, the large negative returns in the second quarter, and the heightened level of volatility, gives us pause. We prefer to be cautious until the market settles down and shows clearer signs of stabilization. Our duration strategy beginning in the third quarter will be modestly defensive.
- With generally improving economic fundamentals, we continue to favor the corporate and municipal sectors, and will look to add both new and secondary issues that have value. We believe corporate debt issued by strong banks and finance companies still offer one of the best ways to generate excess return. We also find value in longer agencies, when compared to Treasuries, as yield spreads are wider than levels seen earlier this year.
- In money market securities, including negotiable CD's, high quality commercial paper, and floating-rate notes, PFM will continue to draw on its expertise accumulated over decades of managing cash portfolios. Purchases made in shorter-duration credit instruments will enable portfolios to take maximum advantage of "barbelling" into longer maturities where yields are higher and roll-down is greater.
- Risk management will remain a key aspect of our overall approach under volatile market conditions. In particular, ensuring adequate liquidity will be an important element of the strategy, so as not to have to sell into adverse market conditions. Furthermore, given wider differences between bid prices and offering prices in most sectors (the "bid/ask spread"), we will likely carry more Treasuries than usual to provide additional flexibility to adjust portfolio composition or duration as opportunities arise.
- As always, we will seek to maximize value through careful and prudent active management. Our strategy will remain flexible and may change in response to changes in interest rates, economic data, or our market outlook.



Year-To-Date Cash-Basis Earnings Analysis (Monthly)<sup>1,2,3,4</sup>

	Fiscal Year 2011/12	Fiscal Year 2012/2013	Fiscal Year 2012/2013	Fiscal Year 2012/2013	Fiscal Year 2012/2013	Current Forecast	Fiscal Year 2011/2012	Fiscal Year 2012/2013
Month	Actual	Budget	Year-To-Date Actual	Current Forecast	Actual/Forecast vs. Budget	FY 2011/12 vs. FY 2012/13	Par Value of Portfolio	
July	\$81,922	163,200	168,755	168,755	5,555	86,833	180,335,000	164,384,000
August	\$316,655	326,500	326,564	326,564	64	9,909	168,150,000	155,424,000
September	\$475,981	127,300	127,385	127,385	85	(348,596)	163,300,000	148,854,000
October	\$384,046	42,400	31,289	31,289	(11,111)	(352,756)	163,355,000	148,754,000
November	\$709,246	477,200	526,209	526,209	49,009	(183,037)	159,025,000	148,804,000
December	\$175,209	146,600	(2,106)	(2,106)	(148,706)	(177,314)	158,960,000	158,574,000
January	\$451,704	411,500	328,033	328,033	(83,467)	(123,670)	163,915,000	158,204,000
February	\$157,922	317,200	40,003	40,003	(277,197)	(117,919)	163,985,000	149,405,000
March	(\$116,225)	41,300	278,037	278,037	236,737	394,262	163,660,000	149,040,000
April	\$366,731	42,400	163,729	163,729	121,329	(203,002)	163,170,000	157,440,000
May	\$234,312	472,100	519,009	519,009	46,909	284,697	164,164,000	155,790,000
June	(\$37,401)	111,500	230,490	230,490	118,990	267,890	164,229,000	155,790,000
<b>Total</b>	<b>3,200,103</b>	<b>2,679,200</b>	<b>2,737,399</b>	<b>2,737,399</b>	<b>58,199</b>	<b>(462,703)</b>	<b>164,687,333</b>	<b>154,205,250</b>
Cash Return	1.94%	1.74%	1.78%	1.78%				

Notes:

1. Earnings based on the City's cash receipt based (non GAAP) accounting methodology.
2. Monthly volatility reflects actual and expected timing of receipt of coupon payments and other cash-based earnings.
3. Cash return is total cash earnings divided by average portfolio balance.
4. Earnings do not include LAIF.

Year-To-Date Cash-Basis Earnings Analysis (Cumulative)<sup>1,2,3,4</sup>

Month	Fiscal Year 2011/12	Fiscal Year 2012/2013	Fiscal Year 2012/2013	Fiscal Year 2012/2013	Fiscal Year 2012/2013	Current Forecast	Fiscal Year 2011/2012	Fiscal Year 2012/2013
	Actual	Budget	Year-To-Date Actual	Current Forecast	Actual/Forecast vs. Budget	FY 2011/12 vs. FY 2010/11	Par Value of Portfolio	
July	81,922	163,200	168,755	168,755	5,555	86,833	180,335,000	164,384,000
August	398,577	489,700	495,319	495,319	5,619	96,742	168,150,000	155,424,000
September	874,559	617,000	622,705	622,705	5,705	(251,854)	163,300,000	148,854,000
October	1,258,604	659,400	653,994	653,994	(5,406)	(604,610)	163,355,000	148,754,000
November	1,967,850	1,136,600	1,180,203	1,180,203	43,603	(787,647)	159,025,000	148,804,000
December	2,143,059	1,283,200	1,178,098	1,178,098	(105,102)	(964,961)	158,960,000	158,574,000
January	2,594,762	1,694,700	1,506,131	1,506,131	(188,569)	(1,088,631)	163,915,000	158,204,000
February	2,752,684	2,011,900	1,546,134	1,546,134	(465,766)	(1,206,550)	163,985,000	149,405,000
March	2,636,460	2,053,200	1,824,172	1,824,172	(229,028)	(812,288)	163,660,000	149,040,000
April	3,003,191	2,095,600	1,987,901	1,987,901	(107,699)	(1,015,290)	163,170,000	157,440,000
May	3,237,504	2,567,700	2,506,910	2,506,910	(60,790)	(730,594)	164,164,000	155,790,000
June	3,200,103	2,679,200	2,737,399	2,737,399	58,199	(462,703)	164,229,000	155,790,000
<b>Total</b>	<b>3,200,103</b>	<b>2,679,200</b>	<b>2,737,399</b>	<b>2,737,399</b>	<b>58,199</b>	<b>(462,703)</b>	<b>164,687,333</b>	<b>154,205,250</b>
Cash Return	1.94%	1.74%	1.78%	1.78%				

Notes:

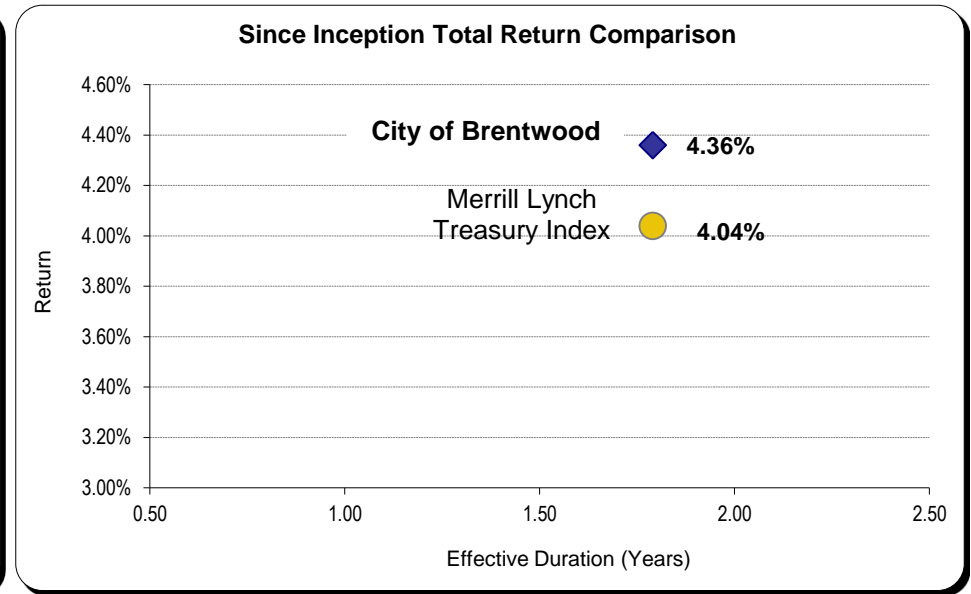
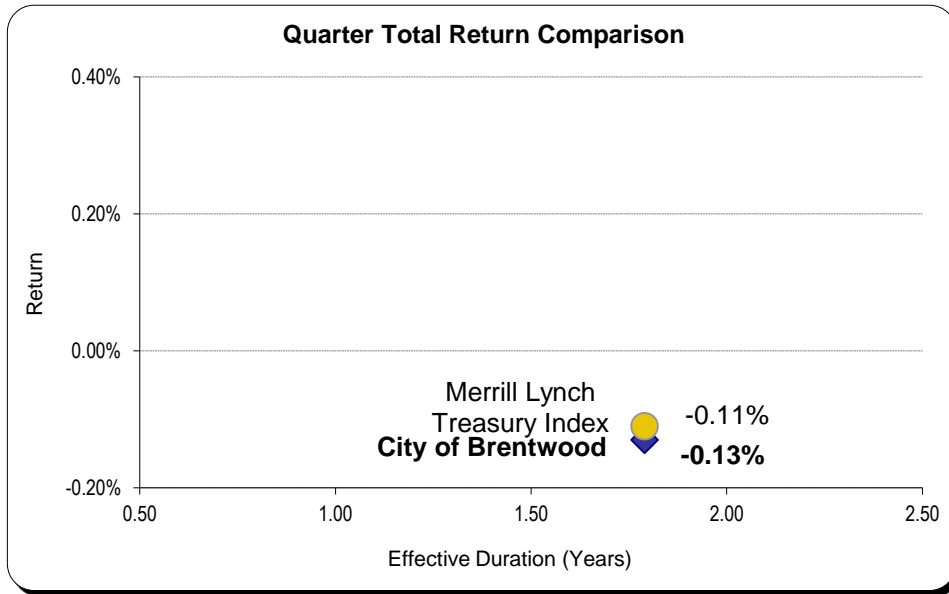
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4. Earnings do not include LAIF.

Portfolio Performance

Total Return <sup>1,2,3,4,5</sup>	Quarter Ended June 30, 2013	Past Year	Past 3 Years	Past 5 Years	Since Inception
<b>City of Brentwood</b>	<b>-0.13%</b>	<b>0.62%</b>	<b>1.20%</b>	<b>2.47%</b>	<b>4.36%</b>
Merrill Lynch Treasury Index	-0.11%	0.33%	0.82%	1.90%	4.04%

Effective Duration <sup>4,5,6</sup>	June 30, 2013	March 31, 2013	Yields	June 30, 2013	March 31, 2013
<b>City of Brentwood</b>	<b>1.79</b>	<b>1.78</b>	Yield at Market	<b>0.51%</b>	0.36%
Merrill Lynch Treasury Index	1.81	1.79	Yield on Cost	<b>0.48%</b>	0.53%

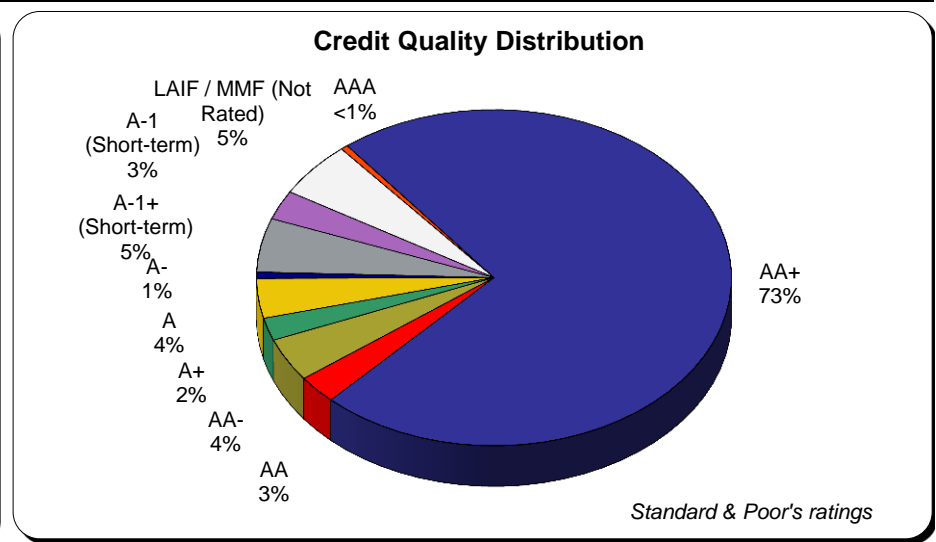
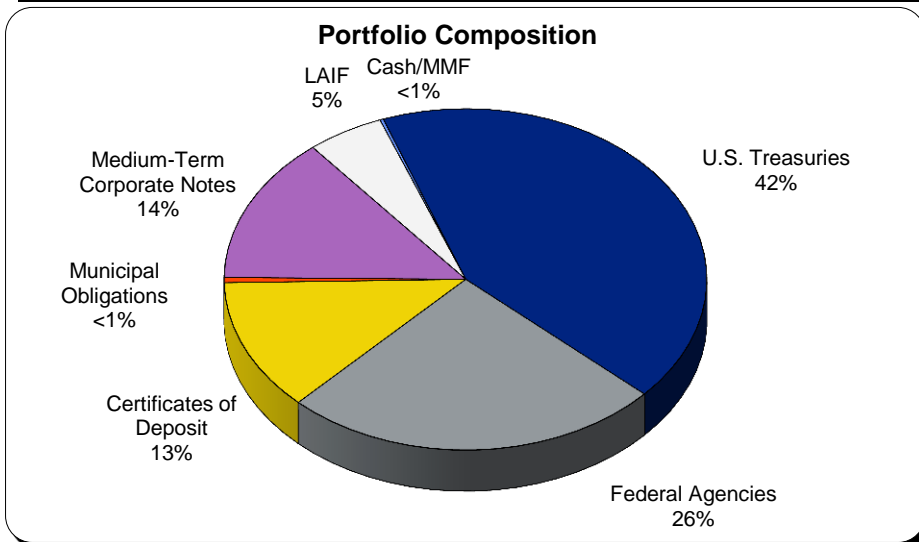


Notes:

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than one year are presented on an annualized basis.
3. Merrill Lynch Indices provided by Bloomberg Financial Markets.
4. Includes money market fund/cash in performance and duration computations and excludes LAIF from performance, yield and duration computations.
5. Short-term funds are not included in performance and duration calculations.
6. Merrill Lynch 9-12 Month U.S. Treasury Bill Index for quarters through March 31, 2001, Merrill Lynch 9-12 Month U.S. Treasury Note Index ending June 30, 2002 and Merrill Lynch 1-3 Year U.S. Treasury Note Index beginning July 1, 2002.
7. Inception date is 12/31/92.

Portfolio Composition and Credit Quality Characteristics

<u>Security Type</u> <sup>1</sup>	<u>June 30, 2013</u>	<u>% of Portfolio</u>	<u>March 31, 2013</u>	<u>% of Portfolio</u>	<u>Permitted by Policy</u>
U.S. Treasuries	\$72,058,459	42%	\$68,520,289	42%	100%
Federal Agencies	\$43,367,302	26%	\$47,426,768	29%	100%
Commercial Paper	\$0	0%	\$0	0%	25%
Certificates of Deposit	\$21,304,965	13%	\$13,639,203	8%	30%
California Municipal Obligations	\$840,455	<1%	\$843,811	1%	100%
Medium-Term Corporate Notes	\$23,689,849	14%	\$24,088,880	15%	30%
Money Market Fund/Cash	\$387,322	<1%	\$4,336,473	3%	15%
LAIF	\$8,763,215	5%	\$3,758,775	2%	\$50 Million
<b>Totals</b>	<b>\$170,411,566</b>	<b>100%</b>	<b>\$162,614,199</b>	<b>100%</b>	

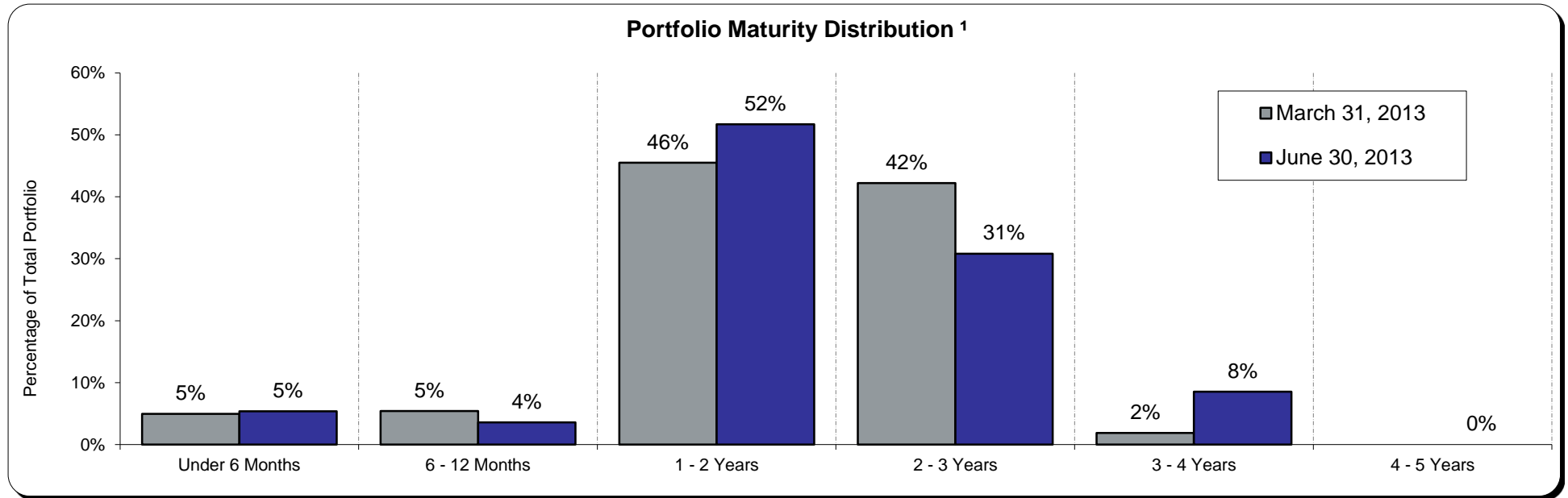


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.

Portfolio Maturity Distribution

<u>Maturity Distribution</u> <sup>1</sup>	<u>June 30, 2013</u>	<u>March 31, 2013</u>
Under 6 Months	\$9,150,536	\$8,095,248
6 - 12 Months	\$6,117,930	\$8,838,253
1 - 2 Years	\$88,120,837	\$73,979,908
2 - 3 Years	\$52,505,646	\$68,633,023
3-4 Years	\$14,516,617	\$3,067,767
4 - 5 Years	\$0	\$0
5 Years and Over	\$0	\$0
<b>Totals</b>	<b>\$170,411,566</b>	<b>\$162,614,199</b>



Notes:  
 1. Callable securities in portfolio, if any, are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.



**Managed Account Detail of Securities Held**

For the Month Ending **June 30, 2013**

**CITY OF BRENTWOOD - 09900003**

<b>Security Type/Description</b>	<b>Dated Date/Coupon/Maturity</b>	<b>CUSIP</b>	<b>Par</b>	<b>S&amp;P Rating</b>	<b>Moody's Rating</b>	<b>Trade Date</b>	<b>Settle Date</b>	<b>Original Cost</b>	<b>YTM at Cost</b>	<b>Accrued Interest</b>	<b>Amortized Cost</b>	<b>Market Value</b>
<b>U.S. Treasury Bond / Note</b>												
US TREASURY NOTES DTD 11/02/2009 2.375% 10/31/2014		912828LS7	1,825,000.00	AA+	Aaa	02/22/12	02/23/12	1,920,170.90	0.42	7,302.48	1,872,344.88	1,877,041.70
US TREASURY NOTES DTD 11/15/2004 4.250% 11/15/2014		912828DC1	5,000,000.00	AA+	Aaa	04/23/12	04/24/12	5,496,093.75	0.35	27,139.95	5,266,710.40	5,275,000.00
US TREASURY NOTES DTD 11/15/2004 4.250% 11/15/2014		912828DC1	7,305,000.00	AA+	Aaa	05/21/12	05/22/12	8,002,684.57	0.38	39,651.46	7,691,691.12	7,706,775.00
US TREASURY NOTES DTD 02/01/2010 2.250% 01/31/2015		912828MH0	3,830,000.00	AA+	Aaa	06/28/12	06/29/12	4,014,468.36	0.38	35,945.93	3,943,041.38	3,949,239.39
US TREASURY NOTES DTD 02/01/2010 2.250% 01/31/2015		912828MH0	7,030,000.00	AA+	Aaa	01/23/12	01/26/12	7,419,121.48	0.40	65,979.07	7,234,961.13	7,248,864.99
US TREASURY NOTES DTD 02/15/2005 4.000% 02/15/2015		912828DM9	3,000,000.00	AA+	Aaa	04/25/13	04/29/13	3,202,968.75	0.23	45,082.87	3,183,364.14	3,179,765.63
US TREASURY NOTES DTD 03/01/2010 2.375% 02/28/2015		912828MR8	3,030,000.00	AA+	Aaa	03/13/12	03/14/12	3,195,703.13	0.51	24,052.68	3,123,491.77	3,134,747.10
US TREASURY NOTES DTD 04/30/2010 2.500% 04/30/2015		912828MZ0	1,935,000.00	AA+	Aaa	10/04/12	10/09/12	2,043,768.17	0.29	8,150.14	2,012,904.61	2,011,266.09
US TREASURY NOTES DTD 05/16/2005 4.125% 05/15/2015		912828DV9	3,000,000.00	AA+	Aaa	07/30/12	07/31/12	3,316,171.88	0.33	15,805.03	3,212,433.90	3,211,640.63
US TREASURY NOTES DTD 05/16/2005 4.125% 05/15/2015		912828DV9	4,550,000.00	AA+	Aaa	09/06/12	09/10/12	5,011,042.97	0.32	23,970.96	4,872,588.04	4,870,988.28
US TREASURY NOTES DTD 06/01/2010 2.125% 05/31/2015		912828NF3	2,700,000.00	AA+	Aaa	11/01/12	11/06/12	2,822,554.69	0.35	4,859.63	2,791,593.91	2,791,546.20
US TREASURY NOTES DTD 08/02/2010 1.750% 07/31/2015		912828NP1	1,480,000.00	AA+	Aaa	09/06/12	09/10/12	1,540,414.06	0.33	10,803.59	1,523,620.54	1,521,855.88
US TREASURY NOTES DTD 11/15/2005 4.500% 11/15/2015		912828EN6	7,070,000.00	AA+	Aaa	11/29/12	11/30/12	7,933,037.11	0.35	40,633.29	7,762,705.17	7,739,995.62
US TREASURY NOTES DTD 05/02/2011 2.000% 04/30/2016		912828OF0	860,000.00	AA+	Aaa	04/05/13	04/11/13	903,268.75	0.34	2,897.83	900,151.01	893,056.68



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**CITY OF BRENTWOOD - 09900003**

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>U.S. Treasury Bond / Note</b>											
US TREASURY NOTES DTD 05/02/2011 2.000% 04/30/2016	912828QF0	2,040,000.00	AA+	Aaa	03/27/13	03/28/13	2,141,362.50	0.38	6,873.91	2,132,893.73	2,118,413.52
US TREASURY NOTES DTD 05/31/2011 1.750% 05/31/2016	912828QP8	3,400,000.00	AA+	Aaa	05/29/13	05/31/13	3,524,179.69	0.52	5,039.62	3,520,696.50	3,506,780.40
US TREASURY NOTES DTD 06/30/2009 3.250% 06/30/2016	912828KZ2	4,600,000.00	AA+	Aaa	05/10/13	05/15/13	5,006,992.19	0.40	406.25	4,990,214.14	4,951,467.60
US TREASURY NOTES DTD 06/30/2009 3.250% 06/30/2016	912828KZ2	5,300,000.00	AA+	Aaa	05/22/13	05/28/13	5,757,332.03	0.44	468.07	5,743,546.72	5,704,951.80
<b>Security Type Sub-Total</b>		<b>67,955,000.00</b>					<b>73,251,334.98</b>	<b>0.38</b>	<b>365,062.76</b>	<b>71,778,953.09</b>	<b>71,693,396.51</b>
<b>Municipal Bond / Note</b>											
CA ST DEPT OF WATER TXBL REV BONDS DTD 09/27/2012 0.650% 12/01/2015	13066KX87	840,000.00	AAA	Aa1	09/19/12	09/27/12	840,000.00	0.65	455.00	840,000.00	840,000.00
<b>Security Type Sub-Total</b>		<b>840,000.00</b>					<b>840,000.00</b>	<b>0.65</b>	<b>455.00</b>	<b>840,000.00</b>	<b>840,000.00</b>
<b>Federal Agency Bond / Note</b>											
FREDDIE MAC GLOBAL NOTES DTD 08/05/2011 0.750% 09/22/2014	3134G2WG3	2,100,000.00	AA+	Aaa	09/28/11	09/30/11	2,104,200.00	0.68	4,331.25	2,101,738.04	2,112,259.80
FEDERAL HOME LOAN BANK GLOBAL NOTES DTD 01/25/2013 0.250% 02/20/2015	313381YP4	5,000,000.00	AA+	Aaa	04/19/13	04/22/13	4,999,550.00	0.25	4,548.61	4,999,597.55	4,992,935.00
FREDDIE MAC (CALLABLE) GLOBAL NOTES DTD 04/29/2013 0.320% 04/29/2015	3134G42V9	2,380,000.00	AA+	Aaa	04/19/13	04/29/13	2,379,762.00	0.33	1,311.64	2,379,782.44	2,375,894.50
FREDDIE MAC (CALLABLE) GLOBAL NOTES DTD 04/29/2013 0.320% 04/29/2015	3134G42V9	3,330,000.00	AA+	Aaa	04/29/13	04/30/13	3,330,000.00	0.32	1,835.20	3,330,000.00	3,324,255.75
FANNIE MAE GLOBAL NOTES DTD 04/19/2012 0.500% 05/27/2015	3135G0KM4	2,080,000.00	AA+	Aaa	04/17/12	04/19/12	2,073,988.80	0.59	982.22	2,076,297.87	2,083,392.48
FANNIE MAE GLOBAL NOTES DTD 05/21/2012 0.500% 07/02/2015	3135G0LN1	3,370,000.00	AA+	Aaa	12/18/12	12/19/12	3,376,841.10	0.42	8,378.19	3,375,408.95	3,374,468.62



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<b>Federal Agency Bond / Note</b>											
FHLMC GLOBAL REFERENCE NOTES DTD 07/14/2005 4.375% 07/17/2015	3134A4VC5	3,525,000.00	AA+	Aaa	04/04/13	04/05/13	3,849,300.00	0.33	70,255.21	3,815,493.06	3,807,126.90
FHLMC GLOBAL REFERENCE NOTES DTD 07/14/2005 4.375% 07/17/2015	3134A4VC5	4,275,000.00	AA+	Aaa	04/03/13	04/04/13	4,667,573.25	0.34	85,203.13	4,626,228.74	4,617,153.90
FNMA NOTES (CALLABLE) DTD 08/07/2012 0.500% 08/07/2015	3135G0NG4	1,600,000.00	AA+	Aaa	08/02/12	08/07/12	1,599,840.00	0.50	3,200.00	1,599,887.76	1,597,224.00
FREDDIE MAC GLOBAL NOTES DTD 07/11/2012 0.500% 08/28/2015	3134G3ZA1	5,990,000.00	AA+	Aaa	07/30/12	07/31/12	5,996,948.40	0.46	10,066.53	5,994,889.94	5,993,905.48
FANNIE MAE GLOBAL NOTES DTD 11/16/2012 0.375% 12/21/2015	3135G0SB0	2,300,000.00	AA+	Aaa	11/14/12	11/16/12	2,294,641.00	0.45	239.58	2,295,715.84	2,287,152.20
FANNIE MAE GLOBAL NOTES DTD 02/15/2013 0.500% 03/30/2016	3135G0VA8	6,640,000.00	AA+	Aaa	02/14/13	02/15/13	6,632,430.40	0.54	8,392.22	6,633,335.50	6,602,789.44
<b>Security Type Sub-Total</b>		<b>42,590,000.00</b>					<b>43,305,074.95</b>	<b>0.42</b>	<b>198,743.78</b>	<b>43,228,375.69</b>	<b>43,168,558.07</b>
<b>Corporate Note</b>											
JP MORGAN CHASE & CO NOTES DTD 05/18/2009 4.650% 06/01/2014	46625HHN3	1,265,000.00	A	A2	01/04/12	01/09/12	1,336,636.95	2.21	4,901.88	1,292,869.61	1,310,400.85
PROCTER & GAMBLE CO CORP NOTES DTD 08/15/2011 0.700% 08/15/2014	742718DU0	1,500,000.00	AA-	Aa3	08/10/11	08/15/11	1,493,835.00	0.84	3,966.67	1,497,676.08	1,504,302.00
GENERAL ELECTRIC CAP CORP GLOBAL NOTES DTD 09/17/2004 4.750% 09/15/2014	36962GK86	6,550,000.00	AA+	A1	03/14/13	03/19/13	6,950,205.00	0.62	91,609.03	6,874,284.54	6,862,972.10
JPMORGAN CHASE & CO GLOBAL NOTES DTD 02/25/2005 4.750% 03/01/2015	46625HCE8	2,500,000.00	A	A2	01/18/13	01/24/13	2,691,625.00	1.05	39,583.33	2,652,223.73	2,659,505.00
JOHN DEERE CAPITAL CORP DTD 09/07/2012 0.700% 09/04/2015	24422ERV3	940,000.00	A	A2	09/04/12	09/07/12	939,360.80	0.72	2,138.50	939,533.89	938,340.90
WALT DISNEY CO GLOBAL NOTES DTD 11/30/2012 0.450% 12/01/2015	25468PCU8	620,000.00	A	A2	11/27/12	11/30/12	615,381.00	0.70	232.50	616,275.17	617,154.20





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Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>Corporate Note</b>											
BERKSHIRE HATHAWAY FIN CORP NOTE DTD 02/11/2013 0.800% 02/11/2016	084670BG2	785,000.00	AA	Aa2	01/29/13	02/11/13	784,929.35	0.80	2,442.22	784,938.42	781,286.17
CATERPILLAR FINANCIAL SE NOTES DTD 02/28/2013 0.700% 02/26/2016	14912L5N7	950,000.00	A	A2	02/25/13	02/28/13	948,822.00	0.74	2,235.14	948,953.17	941,234.35
PEPSICO INC GLOBAL NOTES DTD 02/28/2013 0.700% 02/26/2016	713448CE6	1,035,000.00	A-	A1	02/25/13	02/28/13	1,034,637.75	0.71	2,435.13	1,034,678.04	1,027,059.48
APPLE INC GLOBAL NOTES DTD 05/03/2013 0.450% 05/03/2016	037833AH3	1,440,000.00	AA+	Aa1	04/30/13	05/03/13	1,437,393.60	0.51	1,044.00	1,437,532.68	1,424,535.84
TOYOTA MOTOR CREDIT CORP DTD 05/17/2013 0.800% 05/17/2016	89236TAL9	1,620,000.00	AA-	Aa3	05/14/13	05/17/13	1,619,335.80	0.81	1,584.00	1,619,362.58	1,611,563.04
PFIZER INC GLOBAL NOTES DTD 06/03/2013 0.900% 01/15/2017	717081DD2	3,900,000.00	A-1+	P-1	05/28/13	06/03/13	3,893,760.00	0.95	2,730.00	3,893,893.54	3,856,593.00
<b>Security Type Sub-Total</b>		<b>23,105,000.00</b>					<b>23,745,922.25</b>	<b>0.85</b>	<b>154,902.40</b>	<b>23,592,221.45</b>	<b>23,534,946.93</b>
<b>Certificate of Deposit</b>											
STANDARD CHARTERED BK NY LT CD (FLOAT) DTD 03/18/2013 0.353% 03/18/2014	85325BVS0	4,800,000.00	A-1+	P-1	03/18/13	03/18/13	4,800,000.00	0.37	611.00	4,800,000.00	4,802,016.00
SVENSKA HANDELSBANKEN NY FLOATING LT CD DTD 04/05/2013 0.461% 10/06/2014	86958CVF8	4,000,000.00	A-1+	P-1	04/03/13	04/05/13	3,999,390.84	0.48	4,457.30	3,999,529.08	4,003,512.00
BANK OF NOVA SCOTIA HOUS CERT DEPOS (FLT) DTD 03/06/2013 0.520% 03/06/2015	06417FPL8	4,800,000.00	A-1	P-1	03/04/13	03/06/13	4,800,000.00	0.59	1,718.67	4,800,000.00	4,802,846.40
SKANDINAVISKA ENSKILDA NY CERT DEPOS(FLT) DTD 04/16/2013 0.652% 04/16/2015	83051HJH0	3,700,000.00	A+	A1	04/11/13	04/16/13	3,700,000.00	0.66	5,093.63	3,700,000.00	3,699,833.50
RABOBANK NEDERLAND NV NY CD DTD 04/29/2013 0.600% 04/29/2015	21684BEP5	4,000,000.00	AA-	Aa2	04/25/13	04/29/13	4,000,000.00	0.61	4,200.00	4,000,000.00	3,980,676.00



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Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Security Type Sub-Total		21,300,000.00					21,299,390.84	0.53	16,080.60	21,299,529.08	21,288,883.90
Managed Account Sub-Total		155,790,000.00					162,441,723.02	0.48	735,244.54	160,739,079.31	160,525,785.41
Securities Sub-Total		\$155,790,000.00					\$162,441,723.02	0.48%	\$735,244.54	\$160,739,079.31	\$160,525,785.41
Accrued Interest											\$735,244.54
Total Investments											\$161,261,029.95