THE CITY OF

BRENTWOOD

HERITAGE ▪ VISION ▪ OPPORTUNITY

# Investment Performance Review
# Fourth Quarter 2009


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Total returns for actively managed, fixed-income portfolios outpaced benchmarks in the fourth quarter, adding to exceptional outperformance for the year. Active management strategies added to outperformance in a period of near-record low interest rates, when every extra dollar of earnings means more to investors facing extraordinary economic pressures.

Careful duration management, strategic placement of investments along the yield curve, and active sector management all contributed to returns both in the quarter and in the year. For both the quarter and the year, PFM generally managed durations defensively to minimize the risk of market value loss if/when rates rise, and to under-weight investments that have significant credit or liquidity risk.

## INTEREST RATES AND RETURNS

Interest rates rose for all but the shortest maturities in the fourth quarter. Longer-term rates rose more than short- and intermediate-term rates, causing the yield curve to reach record steep levels for the second time in 2009. A steep yield curve is typical at this point in the business cycle, when a recovery has just begun, but has not yet gained a firm foothold. One measure of the yield curve's steepness is the spread (or difference in yield) between 2-year and 10-year Treasury yields. This spread hit a historically wide level in May, which was eclipsed at the end of December when the spread hit a record 2.85% as shown in the following chart.

**Spread Between 2-Year and 10-Year U.S. Treasury Note Yields**
December 1, 2008 – December 31, 2009


*Source: Bloomberg*

The steepening of the yield curve was further augmented by the continued downward pressures on short-term rates and the growing upward pressure on long-term rates. Interest rates for maturities under a year were little changed during the quarter, anchored by the FOMC's commitment to its target rate of zero to 0.25%. Intermediate-term rates are caught in a tug of war between the Fed Funds target rate and the upward pressure exerted by positive economic releases and investors' growing reluctance to buy newly issued Treasury debt. These forces pushed the 10-year Treasury yield to a 4-month high of 3.84% in late December, a 53 basis point increase since September 30. 2-year Treasury yields rose only 19 basis points, held in check by the Fed's accommodative policy.

The high levels of new and outstanding U.S. Treasury debt and the market's ability to absorb it present a continuing weight on the market.

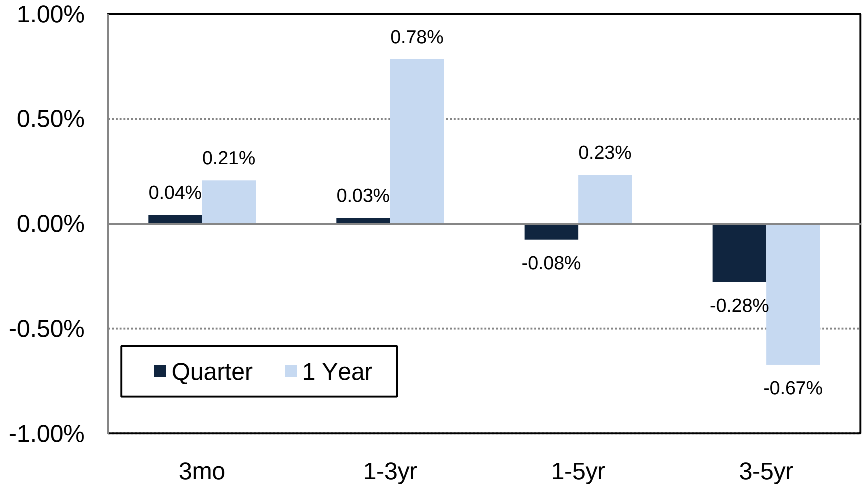
The table below displays the change in yields over the past quarter.

| Maturity | 3m | 6m | 1 yr | 2 yr | 3 yr | 5 yr | 10 yr | 30 yr |
|---|---|---|---|---|---|---|---|---|
| September 30, 2009 | 0.11% | 0.17% | 0.39% | 0.95% | 1.42% | 2.31% | 3.29% | 4.03% |
| December 31, 2009 | 0.05% | 0.19% | 0.44% | 1.14% | 1.68% | 2.67% | 3.83% | 4.62% |
| Change over Quarter | -0.06% | 0.02% | 0.05% | 0.19% | 0.25% | 0.36% | 0.53% | 0.58% |

### *Duration*

With more visible evidence that the economy was in a recovery phase, PFM's duration management strategy has taken on a shorter bias over the past several quarters in anticipation of rising interest rates. Shortening duration will mitigate the negative impact on market values if/when rates resume their climb back to historical averages. This strategy proved itself during the quarter as benchmark portfolios with shorter durations outperformed those that are longer. For example, as the chart on the following page shows, the 1-3 year Treasury benchmark outperformed the longer-duration 3-5 year benchmark by 11 basis points in the fourth quarter. Benchmark returns defied the usual rule that "longer is better" for the year as well.

**Merrill Lynch U.S. Treasury Indices**
Prior Quarter and 12-Month Average Returns as of December 31, 2009




*Source: Merrill Lynch*

## *Sector Allocation*

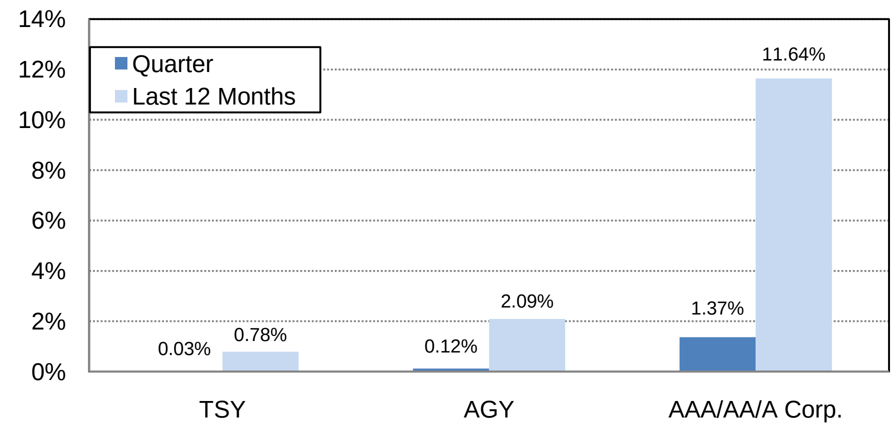
Appropriate sector allocation also contributed to portfolio returns. The dramatic narrowing of spreads between Treasuries and Agencies in the first three quarters of the year meant that there was little additional value to be gained in the fourth quarter from investing heavily in Federal Agency securities. For example, on a duration-adjusted basis, 1-3 year Agency benchmarks returned 1.62% (annualized) more than Treasuries in the first nine months of the year, but only 37 basis points more in the fourth quarter.

Despite their already narrow level, in December the spread between Agencies and Treasuries fell further after the U.S. Treasury announced amendments to its program intended to boost the housing market. Changes included removing the cap on the Treasury's funding of Freddie Mac and Fannie Mae and lengthening the timeline for these Agencies to reduce their mortgage portfolios. Although most of the outperformance in the Agency sector was wrung out when spreads hit their prior low levels in September 2009, this announcement sent spreads even lower. The spread between 2-year Treasuries and 2-year Agencies fell to 7 basis points (0.07%) by the end of the year. At this very low level, Agency spreads could widen in coming quarters, negatively impacting the sector's performance. To protect portfolios from this possibility, PFM maintained higher than normal allocations to Treasuries, using careful security selection and active management.

When we did purchase Agencies, we generally increased purchases of callable Agencies due to their potential to earn greater income as longer-term rates remain in a narrow trading range. PFM's strategic purchases of Treasuries, along with our allocation to callable Federal Agencies, produced returns in excess of benchmarks.

Investment-grade corporate notes continued their fourth quarter of outperformance as spreads contracted further. The prolonged contraction of corporate spreads signals a further reversal of the flight-to-quality the market saw last December. The following chart shows that corporates rated AAA to A have outperformed Treasuries and Agencies in the past quarter and the past 12 months as corporate spreads compressed with investors increased appetite for credit risk. The spread of 2-year AA Corporate notes to Treasuries contracted 31 basis points (0.31%) during the quarter.

**Duration-Adjusted Returns* of Merrill Lynch 1-3 Year Indices**
Quarterly & Last 12 Months Returns as of December 31, 2009




*Source: Merrill Lynch*

** Duration-adjusted return incorporates an adjustment to the market value return (but not the income return) of each benchmark to account for their varied durations, making it easier for investors to assess the relative risk and return of benchmarks of different length.*

Although corporate notes had higher returns over the past quarter and year, PFM has been hesitant to add investments in this sector because these returns were produced in a still risky economic environment.

**THE ECONOMY**

The economy displayed tentative signs of expansion during the quarter, though growth was at best modest and occurred following more than a year of sustained contraction. Data released in December showed that GDP expanded 2.2% in the third quarter of 2009. However, recent growth has depended to a large extent on government stimulus, as well as an increase in exports fueled by a weaker dollar. According to Christina Romer, chair of the President's Council of Economic Advisers, without programs such as "Cash for Clunkers" and a tax credit extended to first-time homebuyers, "GDP would have risen little, if at all." Most economists estimate that fourth quarter GDP will show growth near 4%, with continued reliance on government stimulus. Such a result would mark a tepid recovery when compared with the pace of growth in the early stage of other recent recoveries.

The unemployment situation also appeared to improve, modestly, in the fourth quarter. In November, the economy actually added jobs for the first time since December 2007. However, in December, 85,000 jobs were cut, illustrating that the labor market has not yet healed. Jobless claims continued their downward trend throughout the quarter, with initial claims at their lowest since July 2008, and continuing claims at their lowest since February 2009. However, the reduction in jobless claims does not capture the large number of workers who are receiving extended jobless benefits or have exhausted all assistance. Furthermore, at year-end the unemployment rate still stood at 10% and those unemployed or working part-time for economic reasons comprised an astonishing 17% of the labor force. Most sectors continued to lose jobs, with notable exceptions in government and healthcare. Going forward, labor market improvement will depend increasingly on the pace of job creation in the private sector. The expansion of activity in both the manufacturing and service sectors during the fourth quarter was an encouraging sign, but has yet to translate into job creation, as most improvement appears to have been the result of increased worker productivity. Consumer spending and business investment remained historically weak, despite improving confidence levels, and corporations and small businesses remained reluctant to hire additional workers. Continued mortgage and consumer debt losses by financial firms, along with unprecedented borrowing by the federal government, mean credit available to businesses and consumers will continue to be constrained in the near term. This will likely hinder the pace of economic growth and private sector hiring.

On the housing front, sales of new and existing homes increased dramatically in the fourth quarter, boosted by a federal tax credit for first-time homebuyers and mortgage rates held low by Federal Reserve purchases of Federal Agency debt. It remains to be seen if housing market activity will continue to accelerate following the expiration of this federal support. As demand for housing picked up in the fourth quarter, the deterioration of housing prices slowed. This news has been interpreted by many as a sign that the housing market is stabilizing, though some analysts remain concerned that the necessary correction in home values has not been allowed to occur fully.

The Federal Open Market Committee (FOMC) met twice during the quarter, leaving the Federal Funds target rate unchanged. The Committee remained focused on strengthening economic growth and fostering a return to higher levels of resource utilization. Inflation continued to be a remote concern during the quarter, as recent readings have been low and significant resource slack remains.

The FOMC's post-meeting statements affirmed that the target rate would be kept at 0% – 0.25% for "an extended period," citing low rates of resource utilization, subdued inflation trends, stable inflation expectations, and elevated unemployment. Resource utilization has been steadily increasing at factories, but is still far below historical averages for an expanding economy. The contraction of credit has slowed, but lending remains constrained, hindering the pace of recovery. Although banks hold $1 trillion in excess reserves, they are not lending.

Over the next several quarters the Fed is likely to take action to shrink its balance sheet and remove some of its emergency liquidity and market stabilization programs. A major challenge for the Fed will be the timing and speed at which these programs are unwound. If the Fed unwinds these programs and begins raising interest rates too quickly, it could impair the recovery and hamper growth; on the other hand, inflation hawks fear that by waiting too long to act, the Fed could stoke inflation.

## OUTLOOK

The interest rate outlook is quite murky because there is great uncertainty on the strength of the current economic recovery. In past recoveries, a very steep yield curve has preceded several quarters of rapid growth, followed by a leveling-off of economic activity, sharp rises in short-term rates and modest increases in those intermediate- and long-term rates. Investors face two competing forces: (1) the steep yield curve that provides incentive to invest out longer, and (2) the risk that interest rates will rise, hurting returns and values on longer-duration investments.

However, the weakness of the current recovery may prolong the low interest rate environment, especially in light of the Fed's strongly stated intention to remain on hold "for an extended period."

If the low interest rate environment persists, portfolio yields will continue to deteriorate as securities with high yields, purchased in past years and in better markets, mature. Investors looking for ways to improve income should temper expectations for above-market total returns and investment income in the near future. Not only will investment income be hampered by the low level of interest rates, but the inevitable rise in interest rates will erode portfolio market values.

In all events, interest rate movements will likely be modest until the recovery gains traction and the Fed begins to unwind its emergency support programs. During this period, short- and intermediate-term interest rates are likely to be range-bound; however, when the Fed begins to reverse course, rates could move quickly upward, causing intermediate- and longer-term portfolio returns to be low, and perhaps negative, because the low level of rates provides little to no cushion against the market value erosion that results from rising rates. The steep yield curve does provide some protection for returns and portfolio values against rates rising. Longer-term investments provide a greater income cushion (resulting from higher rates) and they may gain in value as they roll down the yield curve, but strong increases could more than offset this benefit.

With credit spreads at low levels, we will rely more strongly on active duration management and yield curve placement in coming quarters to implement our portfolio strategies.

**Portfolio Summary**

| **Total Portfolio Value** | **December 31, 2009** | September 30, 2009 |
|---|---|---|
| Market Value | **$183,736,886.82** | $177,012,209.54 |
| Amortized Cost | **$182,743,162.61** | $175,451,225.12 |

## PORTFOLIO RECAP

- The portfolio complies with the City's investment policy and the California Government Code. The portfolio is well diversified among U.S. Treasury, Federal Agency, and high quality corporate securities.
- The fourth quarter was the end of a very challenging investment year with interest rates near historical lows for most of the year. The 2-year U.S. Treasury, which traded in a range of 0.67% to 1.42% during 2009, ended the year at 1.14%.
- In an environment where low interest rates limited the portfolio's interest earnings, we continued to utilize active management strategies to safely enhance the portfolio's total return. Throughout this period, our management of the portfolio provided the City with excellent performance without exposing the portfolio to unnecessary risks. For 2009, the portfolio had a total return of 2.46% which exceeded the return of the benchmark by 1.68%.
- While generally positioning the portfolio's duration short of the benchmark's duration to mitigate the portfolio's exposure to market risk, we actively managed the portfolio's duration in response to interest rate changes to add value. We shortened the portfolio's duration when rates were at the low end of the trading range and extended the portfolio's duration when interest rates were near their highs of the trading range.
- As part of our active management of the portfolio, we targeted investments to those sectors and maturities that offered the best relative value and opportunity to increase portfolio returns over time. The allocation to Treasuries remained higher than is typical because there was little yield advantage in alternative sectors, especially in securities with maturities under two years. When we purchased alternative sectors, such as Federal Agencies, we purchased securities generally in the 2- to 3-year maturity range as spreads to Treasuries were wider in this maturity range. This approach successfully increased portfolio return during the quarter while still limiting the amount of funds invested in longer securities in order to guard against a drop in market value should interest rates begin to rise.
- We also purchased newly-issued callable Federal Agency securities because in recent months, they offered a higher yield than issues available in the secondary market issues. The unusual circumstance was the result of reduced supply of callable debt combined with a decreased willingness from primary dealers to hold large callable positions in their inventory. As we always canvas both the secondary and new issue markets, we identified this anomaly and exploited it to benefit the portfolio.
- We maintained the portfolio's current allocation to corporate securities. Although corporate notes outperformed the government sector during the fourth quarter, the economy and market environment remained highly uncertain, so, to be cautious, we did not add corporates to the portfolio. The portfolio's existing corporate securities performed well, and are closely monitored by PFM's Credit Committee and continue to be appropriate for the City to hold in its portfolio.

**Portfolio Summary - continued**

## PORTFOLIO STRATEGY

- We will maintain the disciplined long-term focus to managing the portfolio, which has safely provided the City with excellent long-term performance relative to the performance benchmark.
- The economic outlook remains highly uncertain. Although economic data appears to suggest that a global recovery may be filtering through the markets, economists differ on their interpretation of the data, and their expectations for the strength and sustainability of the improvement. Among the indicators are the high unemployment rate, credit card delinquency rate, weak real estate markets, and uncertainty over the financial sector as the government begins winding down credit facility programs for financial institutions. We will closely monitor the economy and the markets for any changes that may impact the interest rate environment.
- Given current market conditions, we will continue to utilize the general investment strategies we have employed successfully over the past year. However, our investment strategies will remain flexible to adapt to changes in interest rates or outlook.
- Although yield levels are near historic lows, the farther we move into the economic recovery the more likely we are to see interest rates rise. As a result, we will maintain a defensive posture and position the portfolio's duration short of the benchmark's duration to mitigate the erosion of market value when interest rates rise.
- While the portfolio's average duration will remain short of the benchmark's duration, we will take advantage of the steep yield curve and make selective longer-term investments on backups in interest rates. We likely will capitalize on the roll down effect and sell securities that are close to maturity and reinvest those funds in securities that offer higher yield because they are farther out the yield curve.
- We will maintain a well-diversified portfolio and evaluate all investment options available to the City to look for opportunities to add value to the portfolio. We anticipate that we will maintain a relatively high allocation to U.S. Treasury securities as long as yield spreads continue to remain narrow. We will also evaluate callable Federal Agency securities, which at times have offered substantially higher yields than non-callable securities.
- We continue to evaluate developments in the credit markets. As conditions improve, we may modestly increase the portfolio's corporate exposure if we find securities that meet our stringent credit criteria and offer good value.

## Year-To-Date Cash-Basis Earnings Analysis (Monthly)[1,2,3,4]

| | Fiscal Year 2008/09 | Fiscal Year 2009/10 | Fiscal Year 2009/10 | Fiscal Year 2009/10 | Fiscal Year 2009/10 | Current Forecast | Fiscal Year 2008/09 | Fiscal Year 2009/10 |
|---|---|---|---|---|---|---|---|---|
| Month | Actual | Budget | Year-To-Date Actual | Current Forecast | Actual/Forecast vs. Budget | FY 2009/10 vs. FY 2008/09 | Par Value of Portfolio | |
| July | 864,915 | 922,400 | 951,025 | 951,025 | 28,625 | 86,110 | 156,280,000 | 168,215,000 |
| August | 1,073,240 | 565,300 | 582,832 | 582,832 | 17,532 | (490,409) | 157,890,000 | 169,440,000 |
| September | 455,891 | 530,800 | 547,331 | 547,331 | 16,531 | 91,440 | 157,583,000 | 163,095,000 |
| October | 173,715 | 116,100 | 198,982 | 198,982 | 82,882 | 25,267 | 157,680,000 | 159,395,000 |
| November | 355,981 | 155,900 | 231,158 | 231,158 | 75,258 | (124,824) | 158,125,000 | 159,335,000 |
| December | 1,953,746 | 259,100 | 270,406 | 270,406 | 11,306 | (1,683,341) | 163,265,000 | 159,165,000 |
| January | 1,189,246 | 361,700 | | 361,700 | - | (827,546) | 162,570,000 | |
| February | 1,150,355 | 375,800 | | 375,800 | - | (774,555) | 163,700,000 | |
| March | 475,981 | 291,700 | | 291,700 | - | (184,281) | 164,390,000 | |
| April | 313,086 | 116,200 | | 116,200 | - | (196,886) | 165,185,000 | |
| May | 1,012,903 | 199,500 | | 199,500 | - | (813,403) | 166,460,000 | |
| June | 567,393 | 257,300 | | 257,300 | - | (310,093) | 167,720,000 | |
| Total | 9,586,452 | 4,151,800 | 2,781,733 | 4,383,933 | 232,133 | (5,202,519) | 161,737,333 | 163,107,500 |
| Cash Return | 5.93% | 2.55% | | 2.69% | | | | |

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)[1,2,3,4]

| Month | Fiscal Year 2008/09 Actual | Fiscal Year 2009/10 Budget | Fiscal Year 2009/10 Year-To-Date Actual | Fiscal Year 2009/10 Current Forecast | Fiscal Year 2009/10 Actual/Forecast vs. Budget | Current Forecast FY 2009/10 vs. FY 2008/09 | Fiscal Year 2008/09 Par Value of Portfolio | Fiscal Year 2009/10 Par Value of Portfolio |
|---|---|---|---|---|---|---|---|---|
| July | 864,915 | 922,400 | 951,025 | 951,025 | 28,625 | 86,110 | 156,280,000 | 168,215,000 |
| August | 1,938,155 | 1,487,700 | 1,533,857 | 1,533,857 | 46,157 | (404,298) | 157,890,000 | 169,440,000 |
| September | 2,394,046 | 2,018,500 | 2,081,188 | 2,081,188 | 62,688 | (312,858) | 157,583,000 | 163,095,000 |
| October | 2,567,761 | 2,134,600 | 2,280,170 | 2,280,170 | 145,570 | (287,591) | 157,680,000 | 159,395,000 |
| November | 2,923,742 | 2,290,500 | 2,511,327 | 2,511,327 | 220,827 | (412,415) | 158,125,000 | 159,335,000 |
| December | 4,877,489 | 2,549,600 | 2,781,733 | 2,781,733 | 232,133 | (2,095,756) | 163,265,000 | 159,165,000 |
| January | 6,066,734 | 2,911,300 | | 3,143,433 | 232,133 | (2,923,302) | 162,570,000 | |
| February | 7,217,089 | 3,287,100 | | 3,519,233 | 232,133 | (3,697,857) | 163,700,000 | |
| March | 7,693,071 | 3,578,800 | | 3,810,933 | 232,133 | (3,882,138) | 164,390,000 | |
| April | 8,006,156 | 3,695,000 | | 3,927,133 | 232,133 | (4,079,024) | 165,185,000 | |
| May | 9,019,060 | 3,894,500 | | 4,126,633 | 232,133 | (4,892,427) | 166,460,000 | |
| June | 9,586,452 | 4,151,800 | | 4,383,933 | 232,133 | (5,202,519) | 167,720,000 | |
| Total | 9,586,452 | 4,151,800 | 2,781,733 | 4,383,933 | 232,133 | (5,202,519) | 161,737,333 | 163,107,500 |
| Cash Return | 5.93% | 2.55% | | 2.69% | | | | |

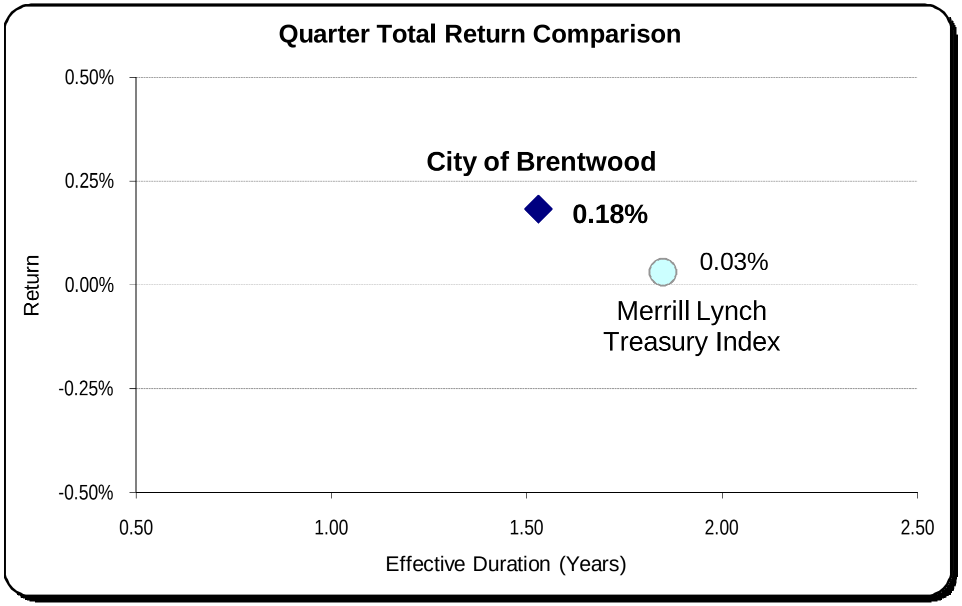
Notes:

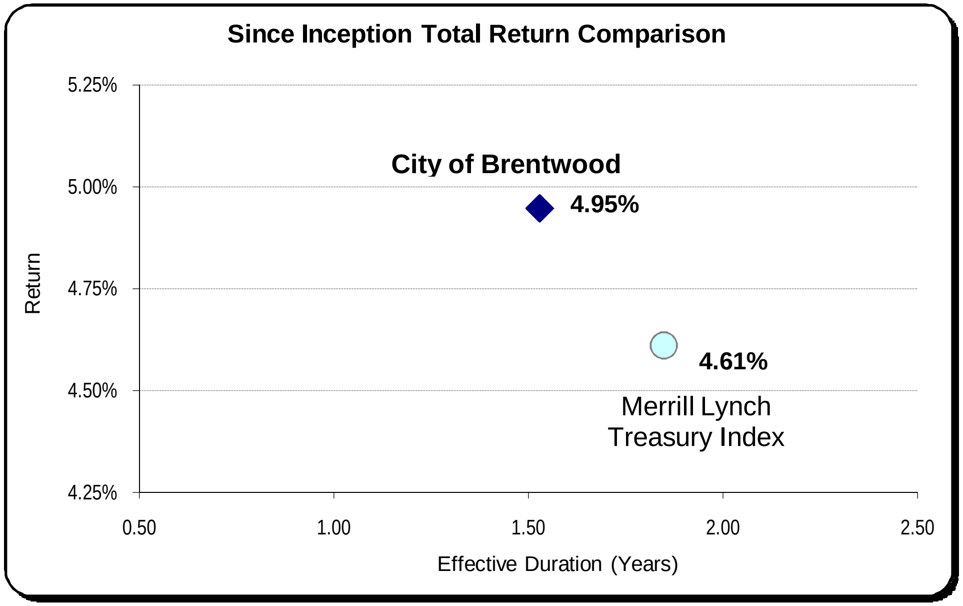
1. Earnings based on the City's cash receipt based (non GAAP) accounting methodology.
2. Monthly volatility reflects actual and expected timing of receipt of coupon payments and other cash-based earnings.
3. Cash return is total cash earnigns divided by average portfolio balance.
4. Earnings do not include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

## Portfolio Performance

| Total Return[1,2,3,4,5] | Quarter Ended December 31, 2009 | Past Year | Past 3 Years | Past 5 Years | Since Inception |
|---|---|---|---|---|---|
| **City of Brentwood** | **0.18%** | **2.46%** | **5.38%** | **4.48%** | **4.95%** |
| Merrill Lynch Treasury Index | 0.03% | 0.78% | 4.86% | 4.03% | 4.61% |

| Effective Duration[4,5,6] | December 31, 2009 | September 30, 2009 | Yields | December 31, 2009 | September 30, 2009 |
|---|---|---|---|---|---|
| **City of Brentwood** | **1.53** | **1.51** | Yield at Market | **1.30%** | 1.15% |
| Merrill Lynch Treasury Index | 1.84 | 1.85 | Yield on Cost | **1.89%** | 1.83% |



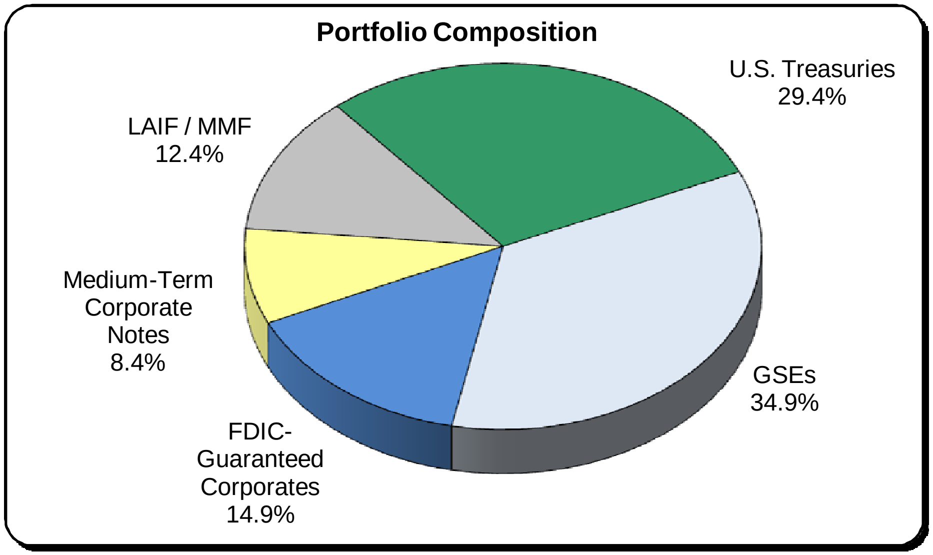



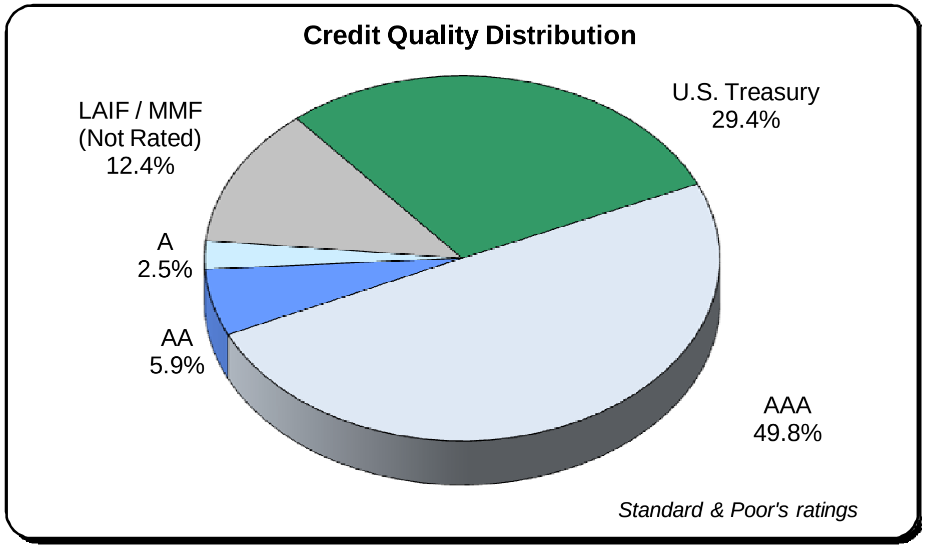

Notes:

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

| Security Type[1] | December 31, 2009 | % of Portfolio | September 30, 2009 | % of Portfolio | Permitted by Policy |
|---|---|---|---|---|---|
| **U.S. Treasuries** | **$54,070,785.51** | **29.4%** | $63,637,870.07 | 36.0% | **100%** |
| **Federal Agencies** | **$91,511,146.72** | **49.8%** | $86,315,833.03 | 48.8% | **100%** |
| *GSEs[2]* | *$64,069,412.99* | *34.9%* | *$58,825,474.87* | *33.2%* | *100%* |
| *FDIC-Guaranteed Corporates[3]* | *$27,441,733.73* | *14.9%* | *$27,490,358.16* | *15.5%* | *100%* |
| **Commercial Paper** | **$0.00** | **0.0%** | $0.00 | 0.0% | **25%** |
| **Certificates of Deposit** | **$0.00** | **0.0%** | $0.00 | 0.0% | **30%** |
| **Bankers' Acceptances** | **$0.00** | **0.0%** | $0.00 | 0.0% | **40%** |
| **Repurchase Agreements** | **$0.00** | **0.0%** | $0.00 | 0.0% | **100%** |
| **California Municipal Obligations** | **$0.00** | **0.0%** | $0.00 | 0.0% | **100%** |
| **Medium-Term Corporate Notes** | **$15,462,151.94** | **8.4%** | $15,413,315.13 | 8.7% | **30%** |
| **Money Market Fund/Cash** | **$5,889,492.79** | **3.2%** | $77,943.51 | 0.0% | **15%** |
| **LAIF** | **$16,803,309.86** | **9.1%** | $11,567,247.80 | 6.5% | **$40 Million** |
| **Totals** | **$183,736,886.82** | **100.0%** | $177,012,209.54 | 100.0% | |



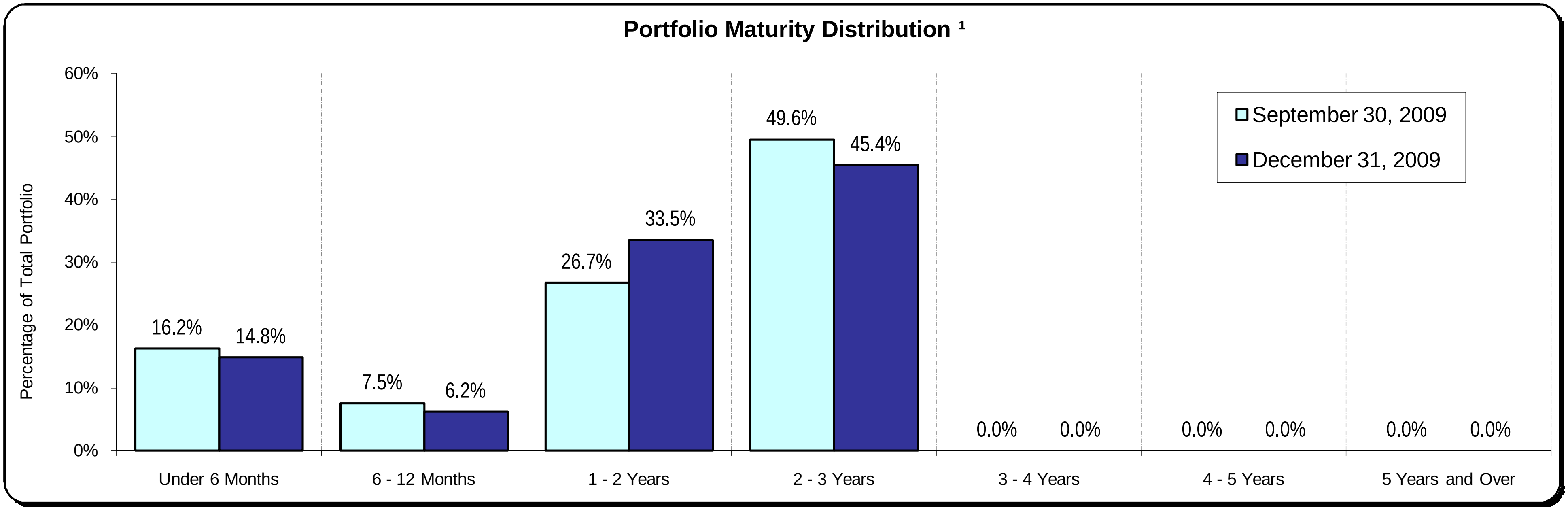




Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Government sponsored enterprises including, but not limited to Fannie Mae, Freddie Mac, Federal Home Loan Bank system and Federal Farm Credit Banks.
3. Debt guaranteed under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program and backed by the full faith and credit of the United States.

## Portfolio Maturity Distribution

| Maturity Distribution[1] | December 31, 2009 | September 30, 2009 |
|---|---|---|
| Under 6 Months | **$27,280,093.48** | $28,719,785.31 |
| 6 - 12 Months | **$11,360,295.95** | $13,278,440.41 |
| 1 - 2 Years | **$61,602,633.47** | $47,294,541.05 |
| 2 - 3 Years | **$83,493,863.92** | $87,719,442.77 |
| 3-4 Years | **$0.00** | $0.00 |
| 4 - 5 Years | **$0.00** | $0.00 |
| 5 Years and Over | **$0.00** | $0.00 |
| **Totals** | **$183,736,886.82** | $177,012,209.54 |




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

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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **U.S. Treasury Bond / Note** | | | | | | | | | | | |
| US TREASURY NOTES DTD 11/30/2008 1.250% 11/30/2010 | 912828JS0 | 1,965,000.00 | TSY | TSY | 12/19/08 | 12/22/08 | 1,984,650.00 | 0.73 | 2,159.34 | 1,974,274.88 | 1,978,815.92 |
| US TREASURY NOTES DTD 12/31/2008 0.875% 12/31/2010 | 912828JV3 | 2,265,000.00 | TSY | TSY | 11/20/09 | 11/23/09 | 2,278,006.05 | 0.35 | 54.75 | 2,276,759.63 | 2,273,317.08 |
| US TREASURY NOTES DTD 12/31/2008 0.875% 12/31/2010 | 912828JV3 | 5,000,000.00 | TSY | TSY | 04/29/09 | 04/30/09 | 5,003,710.94 | 0.83 | 120.86 | 5,002,230.20 | 5,018,360.00 |
| US TREASURY NOTES DTD 03/31/2009 0.875% 03/31/2011 | 912828KH2 | 5,000,000.00 | TSY | TSY | 04/02/09 | 04/07/09 | 4,999,414.06 | 0.88 | 11,177.88 | 4,999,631.90 | 5,009,179.69 |
| US TREASURY NOTES DTD 04/30/2009 0.875% 04/30/2011 | 912828KL3 | 3,170,000.00 | TSY | TSY | 09/29/09 | 09/30/09 | 3,177,058.20 | 0.73 | 4,750.62 | 3,175,927.42 | 3,174,209.76 |
| US TREASURY NOTES DTD 09/30/2009 1.000% 09/30/2011 | 912828LW8 | 3,000,000.00 | TSY | TSY | 10/09/09 | 10/13/09 | 3,002,343.75 | 0.96 | 7,664.84 | 3,002,084.25 | 2,999,181.00 |
| US TREASURY NOTES DTD 10/31/2006 4.625% 10/31/2011 | 912828FW5 | 1,410,000.00 | TSY | TSY | 10/14/08 | 10/17/08 | 1,510,682.81 | 2.18 | 11,168.99 | 1,471,386.47 | 1,501,485.03 |
| US TREASURY NOTES DTD 11/15/2008 1.750% 11/15/2011 | 912828JU5 | 2,120,000.00 | TSY | TSY | 11/26/08 | 12/02/08 | 2,142,110.94 | 1.39 | 4,816.85 | 2,134,108.60 | 2,146,748.04 |
| US TREASURY NOTES DTD 02/15/2009 1.375% 02/15/2012 | 912828KC3 | 7,600,000.00 | TSY | TSY | 03/02/09 | 03/03/09 | 7,626,718.75 | 1.25 | 39,471.47 | 7,619,290.78 | 7,621,971.60 |
| US TREASURY NOTES DTD 03/15/2009 1.375% 03/15/2012 | 912828KG4 | 3,440,000.00 | TSY | TSY | 04/13/09 | 04/14/09 | 3,455,990.63 | 1.21 | 14,111.60 | 3,452,120.60 | 3,447,795.04 |
| US TREASURY NOTES DTD 04/15/2009 1.375% 04/15/2012 | 912828KK5 | 2,625,000.00 | TSY | TSY | 05/04/09 | 05/07/09 | 2,624,794.92 | 1.38 | 7,734.38 | 2,624,844.99 | 2,627,462.25 |
| US TREASURY NOTES DTD 05/15/2009 1.375% 05/15/2012 | 912828KP4 | 1,500,000.00 | TSY | TSY | 06/03/09 | 06/04/09 | 1,496,308.60 | 1.46 | 2,677.83 | 1,497,020.76 | 1,500,000.00 |
| US TREASURY NOTES DTD 05/15/2009 1.375% 05/15/2012 | 912828KP4 | 4,030,000.00 | TSY | TSY | 06/05/09 | 06/09/09 | 3,988,598.05 | 1.74 | 7,194.44 | 3,996,387.83 | 4,030,000.00 |
| US TREASURY NOTES DTD 06/15/2009 1.875% 06/15/2012 | 912828KX7 | 5,640,000.00 | TSY | TSY | 06/10/09 | 06/15/09 | 5,621,273.44 | 1.99 | 4,938.87 | 5,624,605.00 | 5,701,690.32 |

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **U.S. Treasury Bond / Note** | | | | | | | | | | | |
| US TREASURY NOTES DTD 12/15/2009 1.125% 12/15/2012 | 912828MB3 | 5,000,000.00 | TSY | TSY | 12/28/09 | 12/30/09 | 4,935,546.88 | 1.57 | 2,627.06 | 4,935,664.30 | 4,919,900.00 |
| **Security Type Sub-Total** | | **53,765,000.00** | | | | | **53,847,208.02** | **1.26** | **120,669.78** | **53,786,337.61** | **53,950,115.73** |
| **U.S. Government Supported Corporate Debt** | | | | | | | | | | | |
| JPMORGAN CHASE & CO (FDIC) NOTE DTD 02/23/2009 1.650% 02/23/2011 | 481247AG9 | 4,190,000.00 | AAA | Aaa | 02/19/09 | 02/23/09 | 4,188,365.90 | 1.67 | 24,581.33 | 4,189,058.63 | 4,236,915.43 |
| CITIBANK NA (FDIC) NOTE DTD 03/30/2009 1.625% 03/30/2011 | 17314JAA1 | 2,480,000.00 | AAA | Aaa | 05/26/09 | 05/27/09 | 2,500,839.44 | 1.16 | 10,186.94 | 2,494,166.03 | 2,505,734.96 |
| SUNTRUST BANK (FDIC) GLOBAL BANK NOTE DTD 12/16/2008 3.000% 11/16/2011 | 86801BAB1 | 4,000,000.00 | AAA | Aaa | 12/09/08 | 12/16/08 | 3,987,880.00 | 3.11 | 15,000.00 | 3,992,045.36 | 4,127,384.00 |
| REGIONS BANK (FDIC) GLOBAL NOTE DTD 12/11/2008 3.250% 12/09/2011 | 7591EAAB9 | 4,000,000.00 | AAA | Aaa | 12/08/08 | 12/11/08 | 3,996,280.00 | 3.28 | 7,944.44 | 3,997,546.88 | 4,150,752.00 |
| SOVEREIGN BANK (FDIC) GLOBAL NOTE DTD 12/22/2008 2.750% 01/17/2012 | 846042AA7 | 4,410,000.00 | AAA | Aaa | 07/16/09 | 07/21/09 | 4,539,477.60 | 1.54 | 55,247.50 | 4,516,714.33 | 4,526,662.14 |
| MORGAN STANLEY (FDIC) GLOBAL NOTES DTD 03/13/2009 2.250% 03/13/2012 | 61757UAP5 | 5,130,000.00 | AAA | Aaa | 08/10/09 | 08/11/09 | 5,175,503.10 | 1.90 | 34,627.50 | 5,168,833.23 | 5,210,925.75 |
| CITIGROUP INC (FDIC) GLOBAL NOTE DTD 01/30/2009 2.125% 04/30/2012 | 17313UAE9 | 2,500,000.00 | AAA | Aaa | 01/23/09 | 01/30/09 | 2,495,150.00 | 2.19 | 9,001.74 | 2,496,462.38 | 2,526,770.00 |
| **Security Type Sub-Total** | | **26,710,000.00** | | | | | **26,883,496.04** | **2.16** | **156,589.45** | **26,854,826.84** | **27,285,144.28** |
| **Federal Agency Bond / Note** | | | | | | | | | | | |
| FNMA GLOBAL NOTES DTD 02/27/2009 1.750% 03/23/2011 | 31398AVQ2 | 3,000,000.00 | AAA | Aaa | 07/20/09 | 07/21/09 | 3,037,470.00 | 0.99 | 14,291.67 | 3,027,575.76 | 3,036,562.50 |
| FNMA GLOBAL NOTES DTD 02/27/2009 1.750% 03/23/2011 | 31398AVQ2 | 6,300,000.00 | AAA | Aaa | 12/01/09 | 12/03/09 | 6,401,808.00 | 0.51 | 30,012.50 | 6,395,761.39 | 6,376,781.25 |
| FNMA GLOBAL NOTES DTD 04/09/2009 1.375% 04/28/2011 | 31398AWQ1 | 4,160,000.00 | AAA | Aaa | 09/16/09 | 09/17/09 | 4,189,577.60 | 0.93 | 10,010.00 | 4,184,320.44 | 4,191,200.00 |

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Federal Agency Bond / Note** | | | | | | | | | | | |
| FHLB NOTES (CALLABLE) DTD 10/28/2009 1.500% 10/28/2011 | 3133XVAN1 | 4,900,000.00 | AAA | Aaa | 10/01/09 | 10/28/09 | 4,900,000.00 | 1.50 | 12,862.50 | 4,900,000.00 | 4,904,593.75 |
| FHLB NOTES DTD 11/16/2009 1.000% 12/28/2011 | 3133XVRS2 | 1,500,000.00 | AAA | Aaa | 11/13/09 | 11/16/09 | 1,496,505.00 | 1.11 | 125.00 | 1,496,705.67 | 1,493,906.25 |
| FHLMC NOTES (CALLABLE) DTD 12/30/2009 1.300% 12/30/2011 | 3128X9RA0 | 2,815,000.00 | AAA | Aaa | 12/21/09 | 12/30/09 | 2,814,718.50 | 1.31 | 101.65 | 2,814,718.89 | 2,795,911.49 |
| FHLB NOTES (CALLABLE) DTD 07/27/2009 1.800% 01/27/2012 | 3133XUFA6 | 2,675,000.00 | AAA | Aaa | 07/23/09 | 07/27/09 | 2,675,000.00 | 1.80 | 20,597.50 | 2,675,000.00 | 2,677,507.81 |
| FHLMC GLOBAL NOTES (CALLABLE) DTD 03/23/2009 2.500% 03/23/2012 | 3128X8SK9 | 1,500,000.00 | AAA | Aaa | 05/12/09 | 05/13/09 | 1,511,670.00 | 2.22 | 10,208.33 | 1,503,099.65 | 1,505,878.50 |
| FHLMC GLOBAL NOTES (CALLABLE) DTD 03/23/2009 2.500% 03/23/2012 | 3128X8SK9 | 5,000,000.00 | AAA | Aaa | 05/26/09 | 05/28/09 | 5,037,000.00 | 2.23 | 34,027.78 | 5,010,326.55 | 5,019,595.00 |
| FHLMC GLOBAL NOTES DTD 05/21/2009 1.750% 06/15/2012 | 3137EACC1 | 4,035,000.00 | AAA | Aaa | 09/29/09 | 09/30/09 | 4,053,157.50 | 1.58 | 3,138.33 | 4,051,538.94 | 4,052,653.13 |
| FHLMC GLOBAL NOTES DTD 05/21/2009 1.750% 06/15/2012 | 3137EACC1 | 7,650,000.00 | AAA | Aaa | 05/19/09 | 05/21/09 | 7,642,656.00 | 1.78 | 5,950.00 | 7,644,124.04 | 7,683,468.75 |
| FNMA NOTES DTD 07/10/2009 1.750% 08/10/2012 | 31398AYM8 | 3,145,000.00 | AAA | Aaa | 12/01/09 | 12/03/09 | 3,192,992.70 | 1.17 | 21,556.35 | 3,191,630.57 | 3,144,017.19 |
| FHLB NOTES DTD 07/23/2009 1.750% 08/22/2012 | 3133XUE41 | 5,340,000.00 | AAA | Aaa | 07/22/09 | 07/23/09 | 5,332,630.80 | 1.80 | 41,014.17 | 5,333,681.23 | 5,345,006.25 |
| FHLMC NOTES DTD 08/06/2009 2.125% 09/21/2012 | 3137EACE7 | 2,635,000.00 | AAA | Aaa | 10/08/09 | 10/09/09 | 2,678,477.50 | 1.55 | 22,553.04 | 2,675,209.97 | 2,662,996.88 |
| FHLB STEP-NOTES (CALLABLE) DTD 09/30/2009 1.500% 09/25/2012 | 3133XUZU0 | 5,000,000.00 | AAA | Aaa | 09/18/09 | 09/30/09 | 5,000,000.00 | 2.29 | 18,958.33 | 5,000,000.00 | 5,010,937.50 |
| FHLMC GLOBAL REFERENCE NOTES DTD 12/17/2007 4.125% 12/21/2012 | 3137EABE8 | 3,685,000.00 | AAA | Aaa | 12/04/09 | 12/07/09 | 3,960,822.25 | 1.59 | 4,222.40 | 3,954,924.70 | 3,918,767.19 |
| **Security Type Sub-Total** | | **63,340,000.00** | | | | | **63,924,485.85** | **1.53** | **249,629.55** | **63,858,617.80** | **63,819,783.44** |
| **Corporate Note** | | | | | | | | | | | |

# Managed Account Detail of Securities Held

For the Month Ending **December 31, 2009**

## 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Corporate Note** | | | | | | | | | | | |
| WELLS FARGO & COMPANY GLOBAL SR NOTES DTD 12/06/2004 4.200% 01/15/2010 | 949746JJ1 | 3,000,000.00 | AA- | A1 | 09/01/06 | 09/07/06 | 2,908,170.00 | 5.20 | 58,100.00 | 2,998,858.20 | 3,002,613.00 |
| MORGAN STANLEY GLOBAL SR NOTES DTD 05/07/2003 4.250% 05/15/2010 | 61744AAN0 | 1,500,000.00 | A | A2 | 08/23/07 | 08/28/07 | 1,455,195.00 | 5.45 | 8,145.83 | 1,493,499.03 | 1,518,432.00 |
| US BANCORP SR MTN DTD 07/29/2005 4.500% 07/29/2010 | 91159HGJ3 | 2,000,000.00 | A+ | Aa3 | 08/30/07 | 09/05/07 | 1,969,420.00 | 5.07 | 38,000.00 | 1,993,576.00 | 2,049,468.00 |
| GENERAL ELEC CAP CORP (FLOATING) NOTE DTD 01/29/2007 0.332% 01/26/2011 | 36962G2E3 | 2,200,000.00 | AA+ | Aa2 | 05/13/09 | 05/18/09 | 2,064,326.00 | 4.97 | 1,319.53 | 2,109,933.91 | 2,191,743.40 |
| CREDIT SUISSE USA INC GL FRN (LIB3+19) DTD 03/02/2006 0.447% 03/02/2011 | 225434AE9 | 1,000,000.00 | A+ | Aa1 | 04/08/08 | 04/11/08 | 976,705.00 | 4.12 | 372.13 | 980,058.13 | 999,325.00 |
| GENERAL ELECTRIC CAPITAL CORP (FLOAT) DTD 12/06/2006 0.335% 06/06/2011 | 36962GZ80 | 5,650,000.00 | AA+ | Aa2 | 05/13/09 | 05/18/09 | 5,221,210.77 | 5.28 | 1,263.00 | 5,340,563.17 | 5,593,370.05 |
| **Security Type Sub-Total** | | **15,350,000.00** | | | | | **14,595,026.77** | **5.13** | **107,200.49** | **14,916,488.44** | **15,354,951.45** |
| **Managed Account Sub-Total** | | **159,165,000.00** | | | | | **159,250,216.68** | **1.89** | **634,089.27** | **159,416,270.69** | **160,409,994.90** |
| **Securities Sub-Total** | | **$159,165,000.00** | | | | | **$159,250,216.68** | **1.89%** | **$634,089.27** | **$159,416,270.69** | **$160,409,994.90** |
| **Accrued Interest** | | | | | | | | | | | **$634,089.27** |
| **Total Investments** | | | | | | | | | | | **$161,044,084.17** |