



Investment Performance Review  
Fourth Quarter 2010

**PFM Asset Management LLC**

50 California Street, Suite 2300  
San Francisco, CA 94111  
(415)982-5544  
fax (415)982-4513  
spykem@pfm.com

A sharp mid-quarter interest rate reversal drove intermediate- and long-term interest rates higher, ending a seven-month trend of lower rates. As a result, longer-duration fixed income portfolios posted negative returns for the fourth quarter, but over the full year they out-performed cash investments by significant margins. In the quarter, corporate and Federal Agency securities outperformed comparable U.S. Treasuries and had a positive effect on accounts that held these investments.

The market reversal followed the early November announcement by the Federal Reserve of a plan to purchase up to \$600 billion of U.S. Treasury securities through June 2011 via a second round of Quantitative Easing (QE2). Quantitative easing is a form of monetary policy in which a central bank attempts to keep yields low by creating money to purchase fixed income securities, thereby decreasing the supply of such securities.

In the weeks leading up to the Federal Reserve’s decision to implement QE2, investors began aggressively purchasing U.S. Treasuries in an attempt to front-run the announcement, causing U.S. Treasury prices to increase sharply. Following the Fed’s official announcement of QE2, yields across all sectors (corporate, municipal, U.S. Treasury, and Federal Agency) actually **increased** due to a combination of positive economic data and increased expectations for growth and future inflation.

U.S. interest rate movements were paralleled in Europe where the European Central Bank (ECB) acted to alleviate sovereign debt concerns by purchasing Greek, Irish, and Portuguese bonds in addition to other euro-region government and corporate bonds. Since the program’s inception in May 2010, the ECB purchased over €72.5 billion (\$95.5 billion) of European sovereign debt. Quarter-over-quarter, the yield on 10-year German Bunds increased by over 65 basis points while yields on 10-year bonds issued by the French government increased by 64 basis points. Concerns over possible default by Ireland from earlier in the quarter dissipated after Ireland accepted an €85 billion (\$112 billion) bailout package from the European Union and International Monetary Fund. Such actions combined to boost global investor optimism and push interest rates higher.

**Interest Rates and Returns**

Intra-quarter volatility was high as 2-year U.S. Treasuries hit a record low of 0.33% on November 12 before peaking to 0.73% on December 29 and

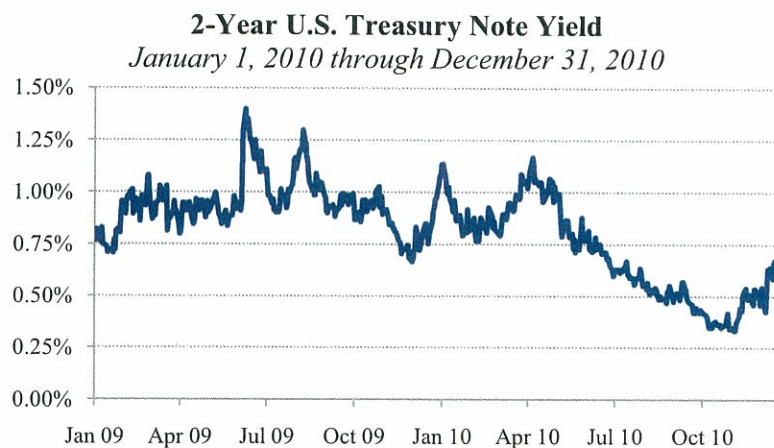
ending the quarter at 0.59%. The 17 basis point increase is the greatest quarter-over-quarter change in a year. As illustrated in the following table, yields on intermediate- and long-term U.S. Treasuries also increased. Short-term rates remained anchored to the Federal Funds target range of 0.00% to 0.25%.

**Summary of U.S. Treasury Security Yields**

| Date                | 3M     | 6M     | 1Y     | 2Y     | 3Y     | 5Y     | 10Y    |
|---------------------|--------|--------|--------|--------|--------|--------|--------|
| December 31, 2010   | 0.12%  | 0.18%  | 0.26%  | 0.59%  | 0.99%  | 2.01%  | 3.29%  |
| September 30, 2010  | 0.15%  | 0.19%  | 0.25%  | 0.42%  | 0.63%  | 1.26%  | 2.51%  |
| Change over Quarter | -0.03% | -0.01% | 0.01%  | 0.17%  | 0.36%  | 0.75%  | 0.78%  |
| December 31, 2009   | 0.05%  | 0.19%  | 0.44%  | 1.14%  | 1.68%  | 2.68%  | 3.84%  |
| Change over Year    | 0.07%  | -0.01% | -0.18% | -0.55% | -0.69% | -0.67% | -0.55% |

Source data: Bloomberg

As illustrated in the following chart, even with the back-up, 2-year U.S. Treasury yields remain below year-to-date highs set last January and April but have increased significantly since hitting record lows in November of 2010.



Source data: Bloomberg

The yield on 2-year U.S. Treasury notes, which is influenced by overnight rates, increased less than 10-year U.S. Treasury notes, which is more



affected by inflation and growth expectations. As illustrated in the chart below, the steepness of the U.S. Treasury yield curve, measured as the spread between 2- and 10-year U.S. Treasuries, reached record highs in December 2010. As of December 31, the spread was 270 basis points. A steeper yield curve generally signals that the pace of economic growth and/or future inflation will increase.

**U.S. Treasury Yields and Yield Curve Steepness**  
December 2000 to December 2010



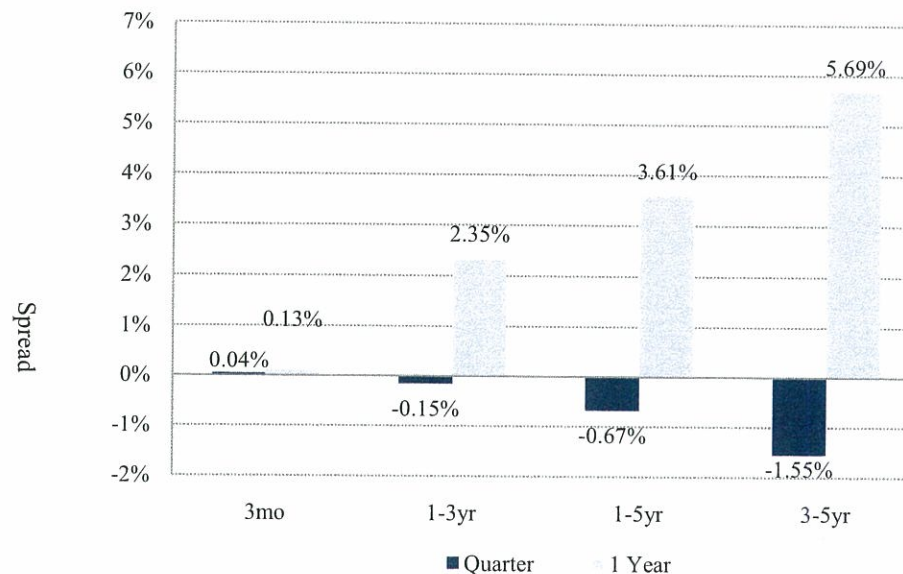
Source data: Bloomberg

In 2010, portfolios with longer durations outperformed shorter portfolios as a result of declining interest rates. Even with negative returns for the fourth quarter, 1- to 3-year U.S. Treasuries returned 2.35% for the year, which is significantly above bank deposits and money market funds with yields near zero.

Portfolios with longer durations have more price sensitivity to changes in interest rates than do shorter-duration portfolios; thus, the 3- to 5-year U.S. Treasury benchmark returned -1.55% in the quarter (-6.01% annualized) and 5.69% for the year. The duration of the 3- to 5-year U.S. Treasury

benchmark was 3.80 years, more than twice that of the 1- to 3-year U.S. Treasury benchmark with a duration of 1.85 years.

**Total Returns of Merrill Lynch U.S. Treasury Indices**  
Quarterly and 12-Month Total Return as of December 31, 2010



Source data: Bank of America Merrill Lynch; Bloomberg

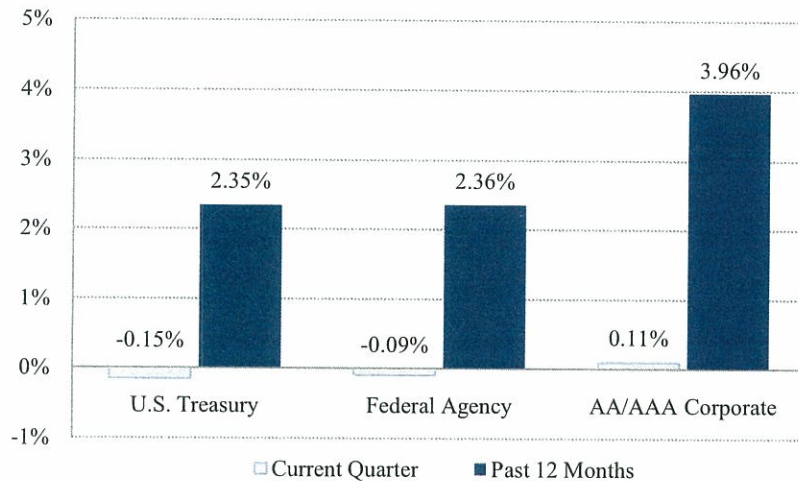
Federal Agency and corporate securities outperformed comparable Treasuries. Spreads between U.S. Treasuries and Federal Agencies generally widened for longer maturities, but remained narrow by historical standards. The 10-year average spread between 2-year U.S. Treasuries and Federal Agencies has been 0.35%, while they are currently at 0.15%. Spreads on 10-year obligations have historically traded at 0.50% and are currently at 0.30%.

Spreads between U.S. Treasuries and corporate securities remained generally unchanged on the short end of the curve and slightly tightened on the long end of the curve. As shown in the chart on the next page, on a duration-adjusted basis, corporate benchmarks outperformed both Federal



Agency and U.S. Treasury benchmarks as a result of the higher income generated by corporate securities.

**Duration Adjusted Returns of Merrill Lynch 1-3 Year Indices**  
*Quarterly and 12-Month Total Return as of December 31, 2010*



Source data: Bank of America Merrill Lynch; Bloomberg  
 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 lengths.

Improving credit and stable spreads led us generally to increase corporate holdings to take advantage of the incremental yield offered on highly-rated issuers. We will remain cautious with regard to issuer concentration due to continued expectations of high volatility and uncertainty surrounding the pace of economic recovery, which may impact credit spreads.

**Economic Outlook**

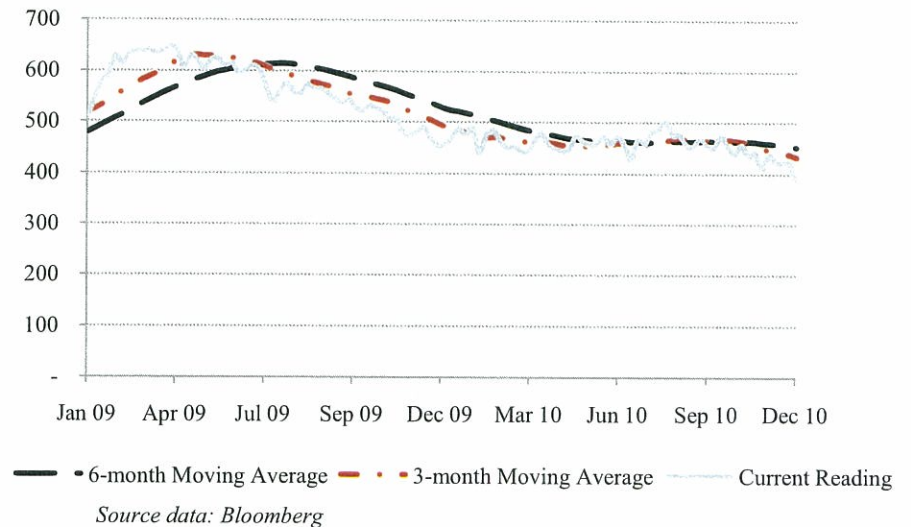
Economic data indicated some signs of improvement in the fourth quarter. GDP appeared to accelerate towards the end of the year.

The housing sector remained weak and continues to be a drag on the economy. Housing starts remained at depressed levels throughout the quarter and new home sales remain well below 15-year historical

averages. The Case-Shiller Home-Price Index continued to show falling home prices, and building permits remained disappointing throughout the quarter.

While the unemployment rate remains elevated, there have been some positive developments in the labor market. December’s initial jobless claims number of 388,000 was the lowest level since July 2008, while both the 3- and 6-month moving averages for initial jobless claims appear to show a downward trend from mid-2010 plateaus as illustrated in the accompanying chart. Continuing jobless claims also demonstrate a similar downward trend.

**Initial Jobless Claims, Thousands**  
*Current vs. 3-Month Moving Average vs. 6-Month Moving Average*  
*January 1, 2009 to December 31, 2010*



However, the consumer remains strained as personal income and personal spending showed only marginal improvements in the fourth quarter. For the year, over 1.5 million Americans filed for personal bankruptcy, which represents a 9% increase from 2009.

Economists generally expect that the passing of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

in December will give the economy a boost over the next year. Included in the legislation was an extension of the Bush-era tax cuts and reduction of the FICA payroll tax, both of which are designed to spur growth via additional consumer spending. The bill also included an extension of federal unemployment benefits. The fiscal impact is about equal to that of the American Recovery and Reinvestment Act, though the emphasis is on boosting consumer spending, whereas the first stimulus program contained large federal construction and state and local government aid programs.

The pace of manufacturing activity continued to accelerate as evidenced by strong Philadelphia Fed and ISM Manufacturing numbers. Capacity utilization, which measures the relationship between actual output and potential output, continued to increase but remains significantly below pre-financial crisis levels.

Gold reached record highs in December and finished up 29.67% for the year, while oil traded above \$91 per barrel for the first time since October 2008. The S&P 500 reached 2-year highs in December and ended the year up 15.06%.

### **Investment Strategy**

With the prospect for higher rates ahead, investors are faced with the choice of keeping money in cash for a future chance to invest at higher rates or investing now to take advantage of the positively sloped yield curve. Our view is that short-term rates will remain low for the foreseeable future as the Fed keeps its easy money bias in place, and that this presents an opportunity for a return that exceeds the near-zero rate on cash. The economic recovery will take some time to accelerate to the point where unemployment falls to acceptable levels and/or inflation takes hold. Meanwhile, we plan to continue to take advantage of the sharply-sloped yield curve. We also expect to continue to add corporate exposure where permitted to take advantage of incremental yield versus U.S. Treasuries. We remain cautious in executing this strategy because we recognize that with rates not far from historic lows there is more room for them to widen than narrow from here.



**Portfolio Summary**

| <u>Total Portfolio Value</u> | <u>December 31, 2010</u> | <u>September 30, 2010</u> |
|------------------------------|--------------------------|---------------------------|
| Market Value                 | \$194,378,477.31         | \$182,531,510.36          |
| Amortized Cost               | \$193,409,089.16         | \$180,396,351.17          |

**PORTFOLIO RECAP**

- The portfolio complies with California Government Code and the City's Investment Policy. The portfolio is well diversified among high-quality issuers in the U.S. Treasury, Federal Agency, and corporate sectors.
- Given continued economic uncertainty, investment conditions remained very challenging during the fourth quarter. The 2-year U.S. Treasury hit an all-time low of 0.33% on November 4th, before rebounding on generally better than expected economic news and ending the year at 0.62%.
- With longer-term interest rates rising at the end of the year, the yield curve steepened as short-term rates remained tied to the federal funds target rate, which the Federal Reserve kept at 0% to 0.25% throughout 2010.
- We maintained the portfolio's duration short of the benchmark's duration to mitigate eventual market value losses when rates rose late in the quarter.
- We maintained a well diversified portfolio across U.S. Treasury, Federal Agency, and high-quality corporate sectors. Low yields and tight spreads created a challenging investment environment. However, we were able to add value to the portfolio in a number of ways:
  - Sold securities with shorter maturities that appreciated in value and carried relatively low yields. We then invested the proceeds in the 2- to 3-year maturity range of the yield curve where it is steepest and offers the most potential for appreciation. Over the quarter, the portfolio realized approximately \$150,560 in realized gains and picked-up an average of 0.81% on these transactions.
  - Purchased a long-term floating rate CD, which added yield with limited market risk.
  - Maintained the portfolio's corporate allocation as the sector continued to improve and perform well.
- With short-term rates near 0%, our disciplined approach to the portfolio provided the City with above-market performance results without exposing the portfolio to unnecessary risks. The portfolio produced a quarterly return of -0.07%, outperforming the benchmark by 0.08%. Since inception, the portfolio has an annualized return of 4.81% exceeding the benchmark by 0.33%.

## Portfolio Summary - continued

## PORTFOLIO STRATEGY

- At the beginning of the first quarter of 2011, the market has been cautiously optimistic due to the expectation of continued modest growth and positive economic data. However, the fragile housing sector and high level of unemployment continue to be headwinds to significant economic growth and full recovery.
- Renewed consumer demand and refreshed inflationary pressures have caused longer-term interest rates to increase, which has led to continued steepening in the yield curve. For example, the yield difference between 2- and 5-year Treasuries started the quarter at 1.40%, nearing the all-time wide of 1.63%. Treasuries started the quarter at 1.40%, nearing the all-time wide of 1.63%. This market dynamic provides opportunities to increase portfolio earnings through higher yields in longer maturities.
- We will maintain the portfolio's duration and look for opportunities to modestly extend. We will continually evaluate our duration strategy as market conditions and expectations change, and make appropriate adjustments to the portfolio maturity target.
  - To aid us in effectively managing the portfolio's duration we plan to limit the portfolio's allocation to callable securities, which can push the portfolio's duration longer than desired if interest rates rise. We will also look to add defensive securities to the portfolio, such as floating rate notes, to protect it against a sudden rise in interest rates.
- We will also continue to maintain a "barbell" investment strategy, in which higher-yielding securities with short durations, such as floating rate notes and commercial paper, are used to balance the duration of longer security purchases in the 2-3 year range offering good value.
- We will maintain a well-diversified, high-quality portfolio and evaluate all sectors and maturity options available to the University to capitalize on market dislocations. Yield spreads, or differences, between Federal Agencies and U.S. Treasuries are very maturity dependent. Spreads for short-term maturities are very narrow, while spreads for longer maturities are wider the farther out the maturity. We will likely purchase Treasuries for maturities under 2 years and Federal Agencies for maturities longer than 2 years.
- Corporate securities also continue to provide a yield advantage over Agency obligations. As such, we will increase our high quality credit corporate holdings as appropriate. We will also continue to explore other sectors such as certificates of deposit and high-credit quality taxable municipal debt if the yield offerings provide value.
- As always, our strategy will remain focused on the safety of principle and the City's long-term objectives, while remaining flexible in order to respond to changes in interest rates, economic data, market outlook, and specific opportunities that arise.



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

|              | Fiscal Year<br>2009/10 | Fiscal Year<br>2010/2011 | Fiscal Year<br>2010/2011 | Fiscal Year<br>2010/2011 | Fiscal Year<br>2010/2011      | Current<br>Forecast          | Fiscal Year<br>2009/10 | Fiscal Year<br>2010/2011 |
|--------------|------------------------|--------------------------|--------------------------|--------------------------|-------------------------------|------------------------------|------------------------|--------------------------|
| Month        | Actual                 | Budget                   | Year-To-Date<br>Actual   | Current<br>Forecast      | Actual/Forecast<br>vs. Budget | FY 2010/11 vs. FY<br>2009/10 | Par Value of Portfolio |                          |
| July         | 951,025                | 78,988                   | 103,554                  | 103,554                  | 24,566                        | (847,471)                    | 168,215,000            | 169,425,000              |
| August       | 582,832                | 195,178                  | 242,191                  | 242,191                  | 47,013                        | (340,641)                    | 169,440,000            | 169,425,000              |
| September    | 547,331                | 403,469                  | 391,681                  | 391,681                  | (11,788)                      | (155,650)                    | 163,095,000            | 169,885,000              |
| October      | 198,982                | 316,709                  | 353,114                  | 353,114                  | 36,405                        | 154,133                      | 159,395,000            | 169,610,000              |
| November     | 231,158                | 147,276                  | 699,935                  | 699,935                  | 552,659                       | 468,777                      | 159,335,000            | 170,940,000              |
| December     | 270,406                | 264,494                  | 184,103                  | 184,103                  | (80,391)                      | (86,303)                     | 159,165,000            | 170,940,000              |
| January      | 457,428                | 79,047                   |                          | 79,047                   |                               | (378,381)                    | 164,605,000            |                          |
| February     | 235,144                | 209,251                  |                          | 209,251                  |                               | (25,893)                     | 167,260,000            |                          |
| March        | 286,058                | 427,066                  |                          | 427,066                  |                               | 141,008                      | 167,315,000            |                          |
| April        | 720,353                | 316,947                  |                          | 316,947                  |                               | (403,406)                    | 167,890,000            |                          |
| May          | 625,247                | 147,387                  |                          | 147,387                  |                               | (477,860)                    | 169,130,000            |                          |
| June         | 366,037                | 264,692                  |                          | 264,692                  |                               | (101,345)                    | 169,200,000            |                          |
| <b>Total</b> | <b>5,472,000</b>       | <b>2,850,504</b>         | <b>1,974,578</b>         | <b>3,418,968</b>         | <b>568,464</b>                | <b>(2,053,032)</b>           | <b>165,337,083</b>     | <b>170,037,500</b>       |
| Cash Return  | 3.31%                  | 1.68%                    | 1.16%                    | 2.01%                    |                               |                              |                        |                          |

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>

|              | Fiscal Year<br>2009/10 | Fiscal Year<br>2010/2011 | Fiscal Year<br>2010/2011 | Fiscal Year<br>2010/2011 | Fiscal Year<br>2010/2011      | Current<br>Forecast          | Fiscal Year<br>2009/10 | Fiscal Year<br>2010/2011 |
|--------------|------------------------|--------------------------|--------------------------|--------------------------|-------------------------------|------------------------------|------------------------|--------------------------|
| Month        | Actual                 | Budget                   | Year-To-Date<br>Actual   | Current<br>Forecast      | Actual/Forecast<br>vs. Budget | FY 2010/11 vs. FY<br>2009/10 | Par Value of Portfolio |                          |
| July         | 951,025                | 78,988                   | 103,554                  | 103,554                  | 24,566                        | (847,471)                    | 168,215,000            | 169,425,000              |
| August       | 1,533,857              | 274,166                  | 345,745                  | 345,745                  | 71,579                        | (1,188,112)                  | 169,440,000            | 169,425,000              |
| September    | 2,081,188              | 677,634                  | 737,426                  | 737,426                  | 59,791                        | (1,343,762)                  | 163,095,000            | 169,885,000              |
| October      | 2,280,170              | 994,344                  | 1,090,540                | 1,090,540                | 96,196                        | (1,189,630)                  | 159,395,000            | 169,610,000              |
| November     | 2,511,327              | 1,141,620                | 1,790,475                | 1,790,475                | 648,855                       | (720,852)                    | 159,335,000            | 170,940,000              |
| December     | 2,781,733              | 1,406,114                | 1,974,578                | 1,974,578                | 568,464                       | (807,155)                    | 159,165,000            | 170,940,000              |
| January      | 3,239,161              | 1,485,160                |                          | 2,053,625                |                               | (1,185,536)                  | 164,605,000            |                          |
| February     | 3,474,305              | 1,694,412                |                          | 2,262,876                |                               | (1,211,429)                  | 167,260,000            |                          |
| March        | 3,760,363              | 2,121,478                |                          | 2,689,942                |                               | (1,070,420)                  | 167,315,000            |                          |
| April        | 4,480,716              | 2,438,425                |                          | 3,006,889                |                               | (1,473,827)                  | 167,890,000            |                          |
| May          | 5,105,963              | 2,585,812                |                          | 3,154,276                |                               | (1,951,687)                  | 169,130,000            |                          |
| June         | 5,472,000              | 2,850,504                |                          | 3,418,968                |                               | (2,053,032)                  | 169,200,000            |                          |
| <b>Total</b> | <b>5,472,000</b>       | <b>2,850,504</b>         | <b>1,974,578</b>         | <b>3,418,968</b>         | <b>568,464</b>                | <b>(2,053,032)</b>           | <b>165,337,083</b>     | <b>170,037,500</b>       |
| Cash Return  | 3.31%                  | 1.68%                    | 1.16%                    | 2.01%                    |                               |                              |                        |                          |

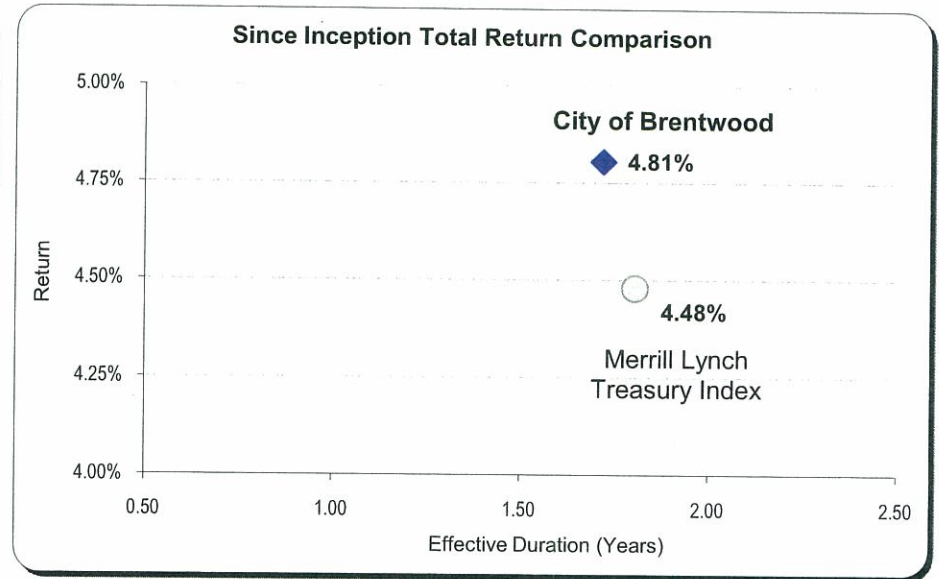
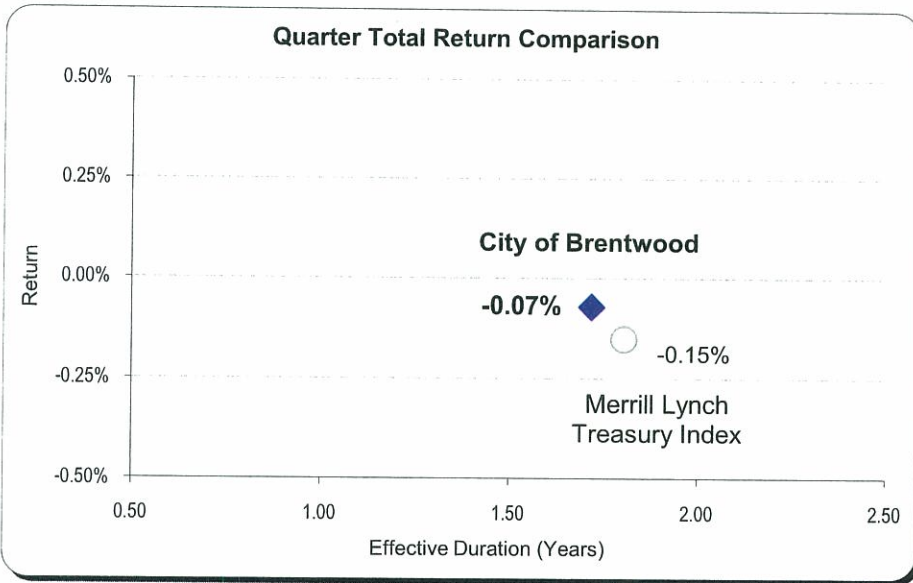
Notes:

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.

Portfolio Performance

| Total Return <sup>1,2,3,4,5</sup> | Quarter Ended<br>December 31, 2010 | Past<br>Year | Past<br>3 Years | Past<br>5 Years | Since<br>Inception |
|-----------------------------------|------------------------------------|--------------|-----------------|-----------------|--------------------|
| <b>City of Brentwood</b>          | <b>-0.07%</b>                      | <b>2.45%</b> | <b>3.94%</b>    | <b>4.58%</b>    | <b>4.81%</b>       |
| Merrill Lynch Treasury Index      | -0.15%                             | 2.35%        | 3.22%           | 4.17%           | 4.48%              |

| <b>Effective Duration</b> <sup>4,5,6</sup> | <u>December 31, 2010</u> | <u>September 30, 2010</u> | <b>Yields</b>   | <u>December 31, 2010</u> | <u>September 30, 2010</u> |
|--|--------------------------|---------------------------|-----------------|--------------------------|---------------------------|
| <b>City of Brentwood</b>                   | <b>1.72</b>              | <b>1.54</b>               | Yield at Market | <b>0.80%</b>             | 0.67%                     |
| Merrill Lynch Treasury Index               | 1.77                     | 1.81                      | Yield on Cost   | <b>1.20%</b>             | 1.45%                     |



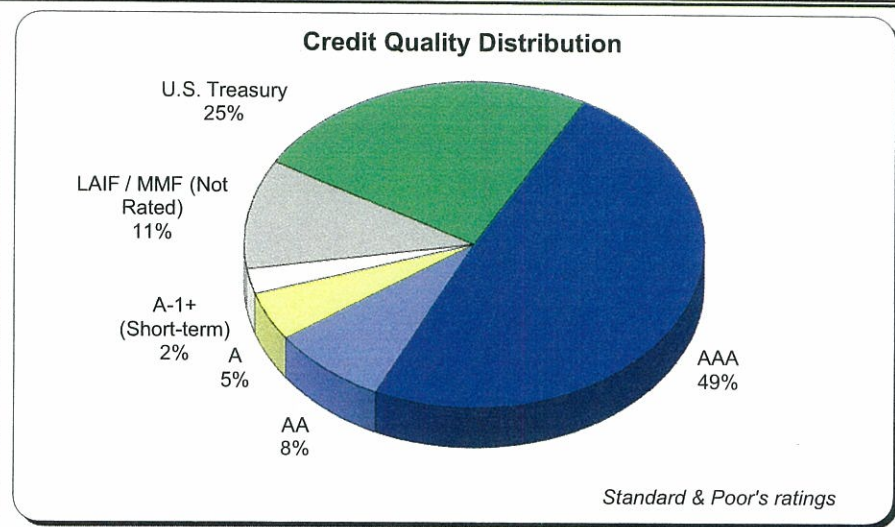
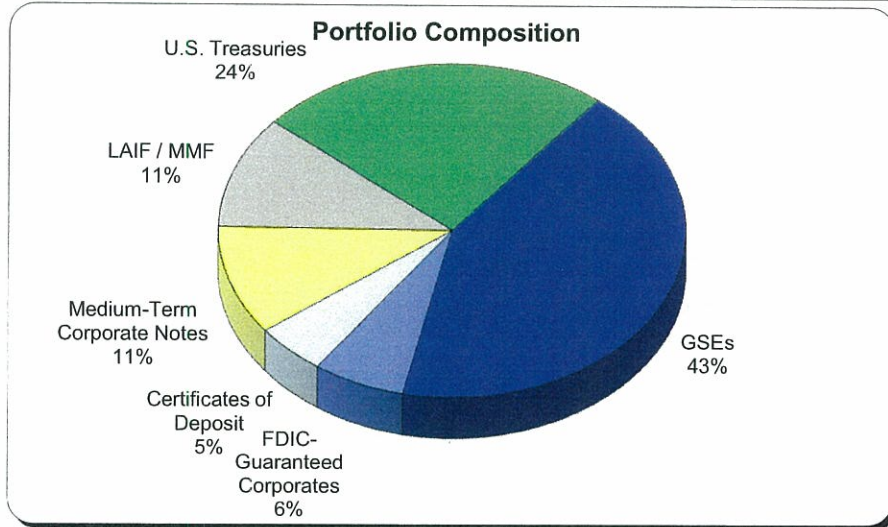
Notes:

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>December 31, 2010</u> | <u>% of Portfolio</u> | <u>September 30, 2010</u> | <u>% of Portfolio</u> | <u>Permitted by Policy</u> |
|---|--------------------------|-----------------------|---------------------------|-----------------------|----------------------------|
| U.S. Treasuries                         | \$47,696,409.30          | 24%                   | \$34,873,216.43           | 19.1%                 | 100%                       |
| Federal Agencies                        | \$95,435,326.45          | 49%                   | \$101,077,649.06          | 55.4%                 | 100%                       |
| GSEs <sup>2</sup>                       | \$83,043,957.21          | 43%                   | \$80,334,099.53           | 44.0%                 | 100%                       |
| FDIC-Guaranteed Corporates <sup>3</sup> | \$12,391,369.24          | 6%                    | \$20,743,549.53           | 11.4%                 | 100%                       |
| Commercial Paper                        | \$0.00                   | 0%                    | \$10,693,401.40           | 5.9%                  | 25%                        |
| Certificates of Deposit                 | \$9,628,350.06           | 5%                    | \$4,808,513.28            | 2.6%                  | 30%                        |
| Medium-Term Corporate Notes             | \$20,511,073.17          | 11%                   | \$21,642,953.76           | 11.9%                 | 30%                        |
| Money Market Fund/Cash                  | \$289,691.40             | 0%                    | \$585,078.03              | 0.3%                  | 15%                        |
| LAIF                                    | \$20,817,626.93          | 11%                   | \$8,850,698.40            | 4.8%                  | \$50 Million               |
| <b>Totals</b>                           | <b>\$194,378,477.31</b>  | <b>100%</b>           | <b>\$182,531,510.36</b>   | <b>100.0%</b>         |                            |

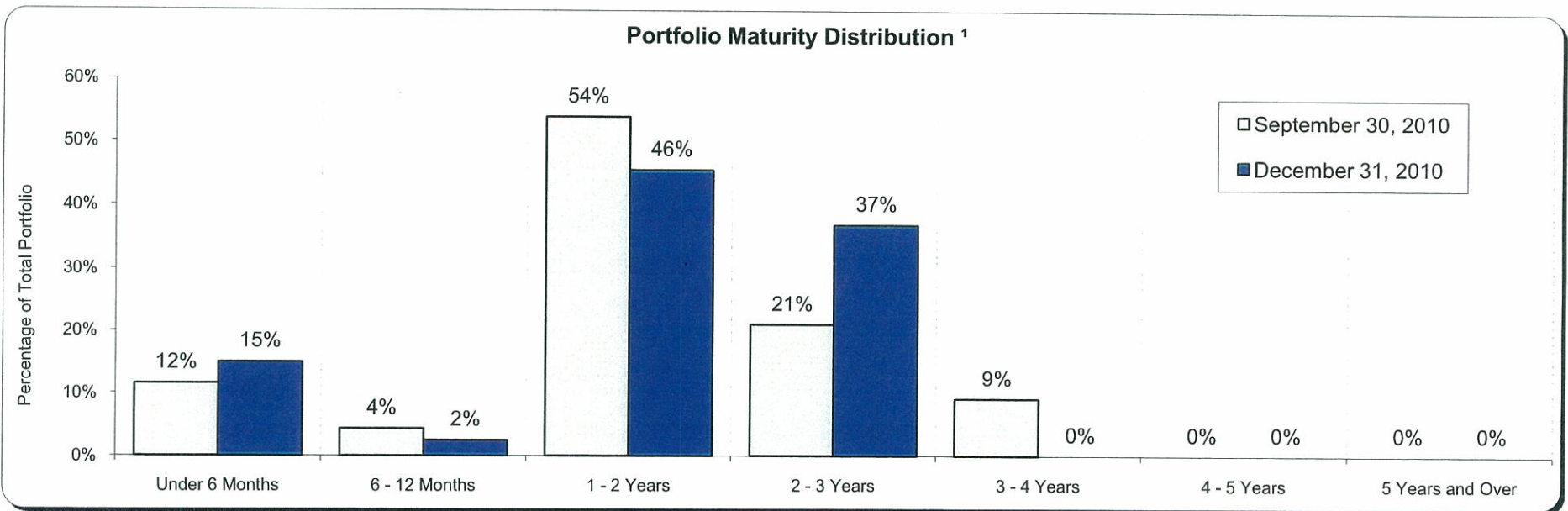


Notes:

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

| <u>Maturity Distribution<sup>1</sup></u> | <u>December 31, 2010</u> | <u>September 30, 2010</u> |
|--|--------------------------|---------------------------|
| Under 6 Months                           | \$29,163,446.33          | \$21,130,536.03           |
| 6 - 12 Months                            | \$4,824,564.94           | \$7,829,571.70            |
| 1 - 2 Years                              | \$88,560,722.26          | \$98,550,567.27           |
| 2 - 3 Years                              | \$71,829,743.78          | \$38,463,829.15           |
| 3-4 Years                                | \$0.00                   | \$16,557,006.21           |
| 4 - 5 Years                              | \$0.00                   | \$0.00                    |
| 5 Years and Over                         | \$0.00                   | \$0.00                    |
| <b>Totals</b>                            | <b>\$194,378,477.31</b>  | <b>\$182,531,510.36</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 December 31, 2010

CITY OF BRENTWOOD - 09900003

| Security Type/Description<br>Dated Date/Coupon/Maturity                | CUSIP     | Par                  | S&P<br>Rating | Moody's<br>Rating | Trade<br>Date | Settle<br>Date | Original<br>Cost     | YTM<br>at Cost | Accrued<br>Interest | Amortized<br>Cost    | Market<br>Value      |
|--|-----------|----------------------|---------------|-------------------|---------------|----------------|----------------------|----------------|---------------------|----------------------|----------------------|
| <b>U.S. Treasury Bond / Note</b>                                       |           |                      |               |                   |               |                |                      |                |                     |                      |                      |
| US TREASURY NOTES<br>DTD 02/28/2010 0.875% 02/29/2012                  | 912828M00 | 5,065,000.00         | TSY           | TSY               | 03/25/10      | 03/30/10       | 5,049,567.58         | 1.04           | 15,058.58           | 5,055,637.55         | 5,094,478.30         |
| US TREASURY NOTES<br>DTD 03/31/2010 1.000% 03/31/2012                  | 912828MU1 | 2,500,000.00         | TSY           | TSY               | 05/26/10      | 05/27/10       | 2,510,449.22         | 0.77           | 6,387.36            | 2,507,069.50         | 2,519,150.00         |
| US TREASURY NOTES<br>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            | 2,624,912.22         | 2,658,529.13         |
| US TREASURY NOTES<br>DTD 11/30/2010 0.500% 11/30/2012                  | 912828PV6 | 6,000,000.00         | TSY           | TSY               | 11/26/10      | 11/30/10       | 5,998,359.38         | 0.51           | 2,637.36            | 5,998,431.24         | 5,992,265.63         |
| US TREASURY NOTES<br>DTD 03/15/2010 1.375% 03/15/2013                  | 912828MT4 | 4,195,000.00         | TSY           | TSY               | 03/31/10      | 03/31/10       | 4,169,600.59         | 1.59           | 17,208.77           | 4,175,984.11         | 4,256,288.95         |
| US TREASURY NOTES<br>DTD 09/15/2010 0.750% 09/15/2013                  | 912828NY2 | 5,970,000.00         | TSY           | TSY               | 10/04/10      | 10/07/10       | 5,995,419.14         | 0.60           | 13,358.29           | 5,993,381.68         | 5,950,877.34         |
| US TREASURY NOTES<br>DTD 10/15/2010 0.500% 10/15/2013                  | 912828PB0 | 11,400,000.00        | TSY           | TSY               | 11/02/10      | 11/03/10       | 11,401,335.94        | 0.50           | 12,214.29           | 11,401,264.03        | 11,272,639.20        |
| US TREASURY NOTES<br>DTD 11/15/2010 0.500% 11/15/2013                  | 912828PU8 | 4,000,000.00         | TSY           | TSY               | 11/12/10      | 11/16/10       | 3,972,031.25         | 0.74           | 2,596.69            | 3,973,206.16         | 3,948,436.00         |
| US TREASURY NOTES<br>DTD 11/15/2010 0.500% 11/15/2013                  | 912828PU8 | 6,000,000.00         | TSY           | TSY               | 11/18/10      | 11/23/10       | 5,948,437.50         | 0.79           | 3,895.03            | 5,950,284.78         | 5,922,654.00         |
| <b>Security Type Sub-Total</b>   |           | <b>47,755,000.00</b> |               |                   |               |                | <b>47,669,995.52</b> | <b>0.79</b>    | <b>81,090.75</b>    | <b>47,680,171.27</b> | <b>47,615,318.55</b> |
| <b>U.S. Government Supported Corporate Debt</b>                        |           |                      |               |                   |               |                |                      |                |                     |                      |                      |
| SOVEREIGN BANK (FDIC) GLOBAL NOTE<br>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           | 4,464,932.15         | 4,510,204.02         |
| MORGAN STANLEY (FDIC) GLOBAL NOTES<br>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           | 5,151,377.02         | 5,231,553.48         |
| CITIGROUP INC (FDIC) GLOBAL NOTE<br>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            | 2,497,958.78         | 2,550,735.00         |
| <b>Security Type Sub-Total</b>   |           | <b>12,040,000.00</b> |               |                   |               |                | <b>12,210,130.70</b> | <b>1.83</b>    | <b>98,876.74</b>    | <b>12,114,267.95</b> | <b>12,292,492.50</b> |



## Managed Account Detail of Securities Held

For the Month Ending **December 31, 2010**

**CITY OF BRENTWOOD - 09900003**

| Security Type/Description<br>Dated Date/Coupon/Maturity          | CUSIP     | Par           | S&P<br>Rating | Moody's<br>Rating | Trade<br>Date | Settle<br>Date | Original<br>Cost | YTM<br>at Cost | Accrued<br>Interest | Amortized<br>Cost | Market<br>Value |
|--|-----------|---------------|---------------|-------------------|---------------|----------------|------------------|----------------|---------------------|-------------------|-----------------|
| <b>Federal Agency Bond / Note</b>                                |           |               |               |                   |               |                |                  |                |                     |                   |                 |
| FHLB NOTES (FLOAT)<br>DTD 09/23/2010 0.295% 03/23/2012           | 313370V88 | 5,000,000.00  | AAA           | Aaa               | 09/27/10      | 09/27/10       | 4,998,115.00     | 0.36           | 390.97              | 4,998,512.20      | 4,999,420.00    |
| FHLMC GLOBAL NOTES<br>DTD 02/19/2010 1.125% 04/25/2012           | 3128X9D80 | 9,500,000.00  | AAA           | Aaa               | 02/19/10      | 02/22/10       | 9,482,710.00     | 1.21           | 19,593.75           | 9,489,460.80      | 9,578,717.00    |
| FHLB GLOBAL BONDS<br>DTD 03/19/2010 1.125% 05/18/2012            | 3133XXPV3 | 2,590,000.00  | AAA           | Aaa               | 07/21/10      | 07/22/10       | 2,611,393.40     | 0.67           | 3,480.31            | 2,606,234.40      | 2,612,419.04    |
| FHLMC GLOBAL NOTES<br>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            | 4,044,871.83      | 4,105,999.86    |
| FHLMC GLOBAL NOTES<br>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            | 7,646,448.33      | 7,784,609.40    |
| FNMA GLOBAL NOTES<br>DTD 04/19/2010 1.250% 06/22/2012            | 31398AP71 | 5,640,000.00  | AAA           | Aaa               | 04/15/10      | 04/19/10       | 5,633,626.80     | 1.30           | 1,762.50            | 5,635,640.84      | 5,698,983.12    |
| FHLMC GLOBAL REFERENCE NOTES<br>DTD 07/16/2002 5.125% 07/15/2012 | 3134A4OD9 | 460,000.00    | AAA           | Aaa               | 09/08/10      | 09/09/10       | 497,453.20       | 0.69           | 10,870.69           | 491,190.22        | 491,782.32      |
| FNMA GLOBAL NOTES<br>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           | 3,173,923.59      | 3,203,758.04    |
| FHLB GLOBAL BONDS<br>DTD 07/23/2009 1.750% 08/22/2012            | 3133XUE41 | 700,000.00    | AAA           | Aaa               | 07/22/09      | 07/23/09       | 699,034.00       | 1.80           | 4,389.58            | 699,476.74        | 713,425.30      |
| FNMA NOTES (FLOAT)<br>DTD 09/13/2010 0.400% 09/13/2012           | 31398A3X8 | 2,500,000.00  | AAA           | Aaa               | 09/15/10      | 09/16/10       | 2,499,497.50     | 0.46           | 556.94              | 2,499,543.48      | 2,503,445.00    |
| FHLMC GLOBAL REFERENCE NOTES<br>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           | 15,553.82           | 2,660,621.42      | 2,702,450.73    |
| FNMA NOTES (FLOATING)<br>DTD 11/23/2010 0.390% 11/23/2012        | 31398A6R8 | 6,100,000.00  | AAA           | Aaa               | 11/18/10      | 11/23/10       | 6,097,502.66     | 0.43           | 2,565.39            | 6,097,502.66      | 6,105,050.80    |
| FNMA GLOBAL NOTES<br>DTD 01/15/2010 1.750% 02/22/2013            | 31398AE24 | 3,100,000.00  | AAA           | Aaa               | 01/14/10      | 01/15/10       | 3,095,536.00     | 1.80           | 19,439.58           | 3,096,879.23      | 3,165,456.50    |
| FHLMC GLOBAL NOTES<br>DTD 02/23/2010 1.720% 04/11/2013           | 3128X9D56 | 10,500,000.00 | AAA           | Aaa               | 03/01/10      | 03/02/10       | 10,528,875.00    | 1.63           | 40,133.33           | 10,521,257.04     | 10,706,692.50   |





## Managed Account Detail of Securities Held

For the Month Ending December 31, 2010

CITY OF BRENTWOOD - 09900003

| Security Type/Description<br>Dated Date/Coupon/Maturity                      | CUSIP     | Par                  | S&P<br>Rating | Moody's<br>Rating | Trade<br>Date | Settle<br>Date | Original<br>Cost     | YTM<br>at Cost | Accrued<br>Interest | Amortized<br>Cost    | Market<br>Value      |
|--|-----------|----------------------|---------------|-------------------|---------------|----------------|----------------------|----------------|---------------------|----------------------|----------------------|
| <b>Federal Agency Bond / Note</b>  |           |                      |               |                   |               |                |                      |                |                     |                      |                      |
| FHLMC GLOBAL REFERENCE NOTES<br>DTD 08/20/2008 4.125% 09/27/2013             | 3137EABS7 | 5,460,000.00         | AAA           | Aaa               | 10/04/10      | 10/07/10       | 5,986,234.80         | 0.84           | 58,808.75           | 5,945,357.15         | 5,916,636.18         |
| FHLMC NOTES<br>DTD 08/20/2010 0.875% 10/28/2013                              | 3137EACL1 | 4,500,000.00         | AAA           | Aaa               | 09/01/10      | 09/07/10       | 4,479,840.00         | 1.02           | 14,328.13           | 4,481,858.21         | 4,476,465.00         |
| FANNIE MAE GLOBAL NOTES (CALLABLE)<br>DTD 08/04/2010 1.500% 02/04/2014       | 31398AZ88 | 8,000,000.00         | AAA           | Aaa               | 07/26/10      | 08/04/10       | 7,996,000.00         | 1.51           | 49,000.00           | 7,996,456.16         | 8,007,128.00         |
| <b>Security Type Sub-Total</b>   |           | <b>81,515,000.00</b> |               |                   |               |                | <b>82,173,102.06</b> | <b>1.22</b>    | <b>271,518.42</b>   | <b>82,085,234.30</b> | <b>82,772,438.79</b> |
| <b>Corporate Note</b>  |           |                      |               |                   |               |                |                      |                |                     |                      |                      |
| WELLS FARGO & COMPANY GLOBAL SR<br>NOTES<br>DTD 10/23/2007 5.250% 10/23/2012 | 949746NW7 | 4,140,000.00         | AA-           | A1                | 01/26/10      | 01/29/10       | 4,474,760.40         | 2.19           | 41,055.00           | 4,364,049.02         | 4,438,402.92         |
| JPMORGAN CHASE & CO GLOBAL NOTES<br>DTD 04/28/2008 4.750% 05/01/2013         | 46625HHB9 | 190,000.00           | A+            | Aa3               | 01/20/10      | 01/25/10       | 203,761.70           | 2.43           | 1,504.17            | 199,942.02           | 203,420.84           |
| US BANCORP<br>DTD 06/14/2010 2.000% 06/14/2013                               | 91159HGW4 | 4,000,000.00         | A+            | Aa3               | 06/09/10      | 06/14/10       | 3,995,000.00         | 2.04           | 3,777.78            | 3,995,889.80         | 4,059,656.00         |
| US BANCORP NOTE (CALLABLE)<br>DTD 09/13/2010 1.375% 09/13/2013               | 91159HGY0 | 1,000,000.00         | A+            | Aa3               | 09/08/10      | 09/13/10       | 998,710.00           | 1.42           | 4,125.00            | 998,836.73           | 999,515.00           |
| GENERAL ELECTRIC CAPITAL CORP NOTES<br>DTD 09/16/2010 1.875% 09/16/2013      | 36962G404 | 6,700,000.00         | AA+           | Aa2               | 09/13/10      | 09/16/10       | 6,689,883.00         | 1.93           | 36,640.63           | 6,690,843.18         | 6,703,584.50         |
| JPMORGAN CHASE & CO NOTES<br>DTD 09/30/2010 1.650% 09/30/2013                | 46623EJD2 | 4,000,000.00         | A+            | Aa3               | 09/27/10      | 09/30/10       | 3,999,520.00         | 1.65           | 16,683.33           | 3,999,559.64         | 4,002,708.00         |
| <b>Security Type Sub-Total</b>   |           | <b>20,030,000.00</b> |               |                   |               |                | <b>20,361,635.10</b> | <b>1.93</b>    | <b>103,785.91</b>   | <b>20,249,120.39</b> | <b>20,407,287.26</b> |
| <b>Certificate of Deposit</b>  |           |                      |               |                   |               |                |                      |                |                     |                      |                      |
| BARCLAYS BANK PLC NY CERT DEPOS<br>DTD 09/07/2010 0.900% 09/02/2011          | 06740MNK5 | 4,800,000.00         | A-1+          | P-1               | 09/02/10      | 09/07/10       | 4,800,000.00         | 0.90           | 13,919.98           | 4,800,000.00         | 4,810,644.96         |



**Managed Account Detail of Securities Held**

For the Month Ending **December 31, 2010**

**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>Certificate of Deposit</b>           |                                   |              |                         |                       |                       |                   |                    |                         |                    |                         |                         |                         |
| BANK OF NOVA SCOTIA HOUSTON YCD (FLOAT) |                                   | 06417DSG1    | 4,800,000.00            | AA-                   | Aa1                   | 11/04/10          | 11/09/10           | 4,800,000.00            | 0.54               | 3,785.12                | 4,800,000.00            | 4,800,000.00            |
| DTD 11/09/2010 0.536% 11/09/2012        |                                   |              |                         |                       |                       |                   |                    |                         |                    |                         |                         |                         |
| <b>Security Type Sub-Total</b>          |                                   |              | <b>9,600,000.00</b>     |                       |                       |                   |                    | <b>9,600,000.00</b>     | <b>0.72</b>        | <b>17,705.10</b>        | <b>9,600,000.00</b>     | <b>9,610,644.96</b>     |
| <b>Managed Account Sub-Total</b>        |                                   |              | <b>170,940,000.00</b>   |                       |                       |                   |                    | <b>172,014,863.38</b>   | <b>1.20</b>        | <b>572,976.92</b>       | <b>171,728,793.91</b>   | <b>172,698,182.06</b>   |
| <b>Securities Sub-Total</b>             |                                   |              | <b>\$170,940,000.00</b> |                       |                       |                   |                    | <b>\$172,014,863.38</b> | <b>1.20%</b>       | <b>\$572,976.92</b>     | <b>\$171,728,793.91</b> | <b>\$172,698,182.06</b> |
| <b>Accrued Interest</b>                 |                                   |              |                         |                       |                       |                   |                    |                         |                    |                         |                         | <b>\$572,976.92</b>     |
| <b>Total Investments</b>                |                                   |              |                         |                       |                       |                   |                    |                         |                    |                         |                         | <b>\$173,271,158.98</b> |