



DATE: May 14, 2013

AGENDA ITEM # 14

TO: City Council
FROM: Russell J. Morreale, Finance Director
SUBJECT: Investment Portfolio Report

RECOMMENDATION:

Receive the Investment Portfolio Report through December 31, 2012

SUMMARY:

Estimated Fiscal Impact:

Amount: None

Budgeted: Not applicable

Public Hearing Notice: Not applicable

Previous Council Consideration: September 11, 2012

CEQA Status: Not applicable

Attachments:

1. City-wide Holdings and Investment Ladder
2. Portfolio Mix Charts
3. Investment Policy Compliance Chart
4. Investment Performance Review Fourth Quarter 2012

BACKGROUND

This report presents the status of the City's investment portfolio through December 31, 2012. The reporting model has been developed in coordination with PFM Asset Management LLC (PFM) and provides reporting for the past two quarters through the mid-year point of 2012/13 on a pre-audit basis.

DISCUSSION

Current Portfolio Profile

The summary provided below, along with the investment ladder in Attachment 1, presents the sum total of all City cash holdings. The City's portfolio book value, excluding operating cash and bond holdings, as of December 31, 2012 was \$42,116,830. Including the Local Agency Investment Fund (LAIF), the portfolio carries investments in 2013 (75%), 2014 (10%) and 2015 (15%). Since the very first investment purchase in 2010, the City continues to proceed slowly and cautiously in this historic low-yield environment. The City realized several scheduled maturities in this term redeeming them at full par value and has since made purchases in 2016 beyond this reporting term. Investment durations remain short and consequently, the portfolio has performed on an inception-to-date basis slightly under the City's yield benchmark. The portfolio has experienced no principal losses and the market value of investments exceeds the par values of its holdings.

The City's portfolio is placed 19% in Federal Agency Securities (Fannie Mae, Federal Home Loan Bank, Federal Home Loan Mortgage and Federal Farm Credit), 17% in U.S. Treasuries, 5% in medium-term Corporate Notes, and 59% in liquid funds. Fifty-seven (57%) is placed in the State Local Agency Investment Fund (LAIF) as opposed to 66% in the prior period of reporting. This portfolio mix is illustrated as part of Attachment 2.

Full compliance with the City's Investment Policy is monitored closely and on a per-trade basis as illustrated in Attachment 3.

As part of these quarterly updates, a status report is prepared by PFM that is included as Attachment 4 – Investment Performance Review Fourth Quarter 2012. It is appropriate that, although LAIF holdings are included in the sum total, the PFM report highlights the performance of City investments that fall outside its liquid holdings with the LAIF. This has been intentionally crafted to isolate the performance of the City's independently-managed investments. Investment ratings are as listed with an important note that this report reflects the U.S. Treasury downgrade as announced by Standard & Poor's earlier this year.

Subsequent Period Activity of Note

The consensus of the Financial Commission is to target holdings in LAIF at 50% or lower in a paced manner. In the time period following this report, \$2.3 million of maturing security investments were re-invested in 2015 and 2016 U.S. Treasuries and Agencies. These transactions will have the impact of extending duration, but still keep the investment duration relatively short as recommended by the Financial Commission and staff.

FISCAL IMPACT

None

PUBLIC CONTACT

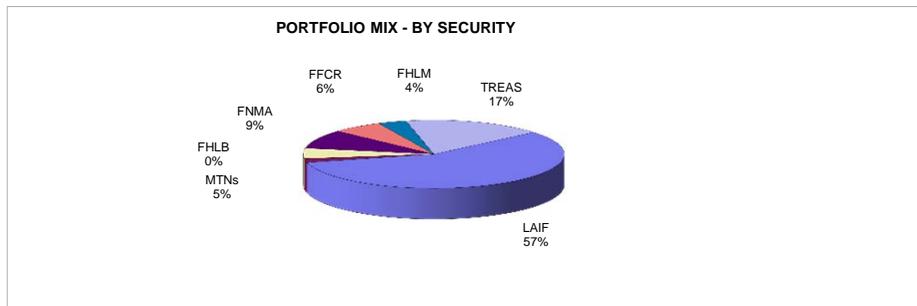
A review of the past two quarters of investment activity was presented at the January 28, 2013 Financial Commission meeting.

Posting of the meeting agenda serves as notice to the general public.

ATTACHMENT 1
Citywide Holdings and Investment Ladder
December 31, 2012

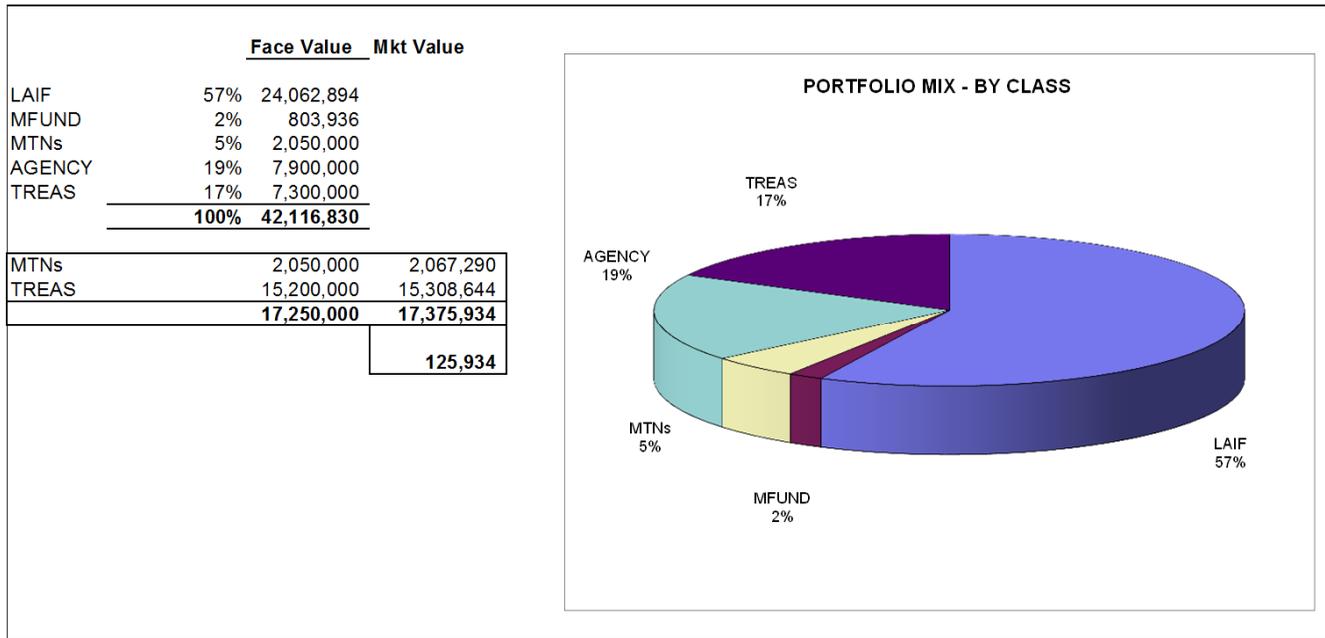
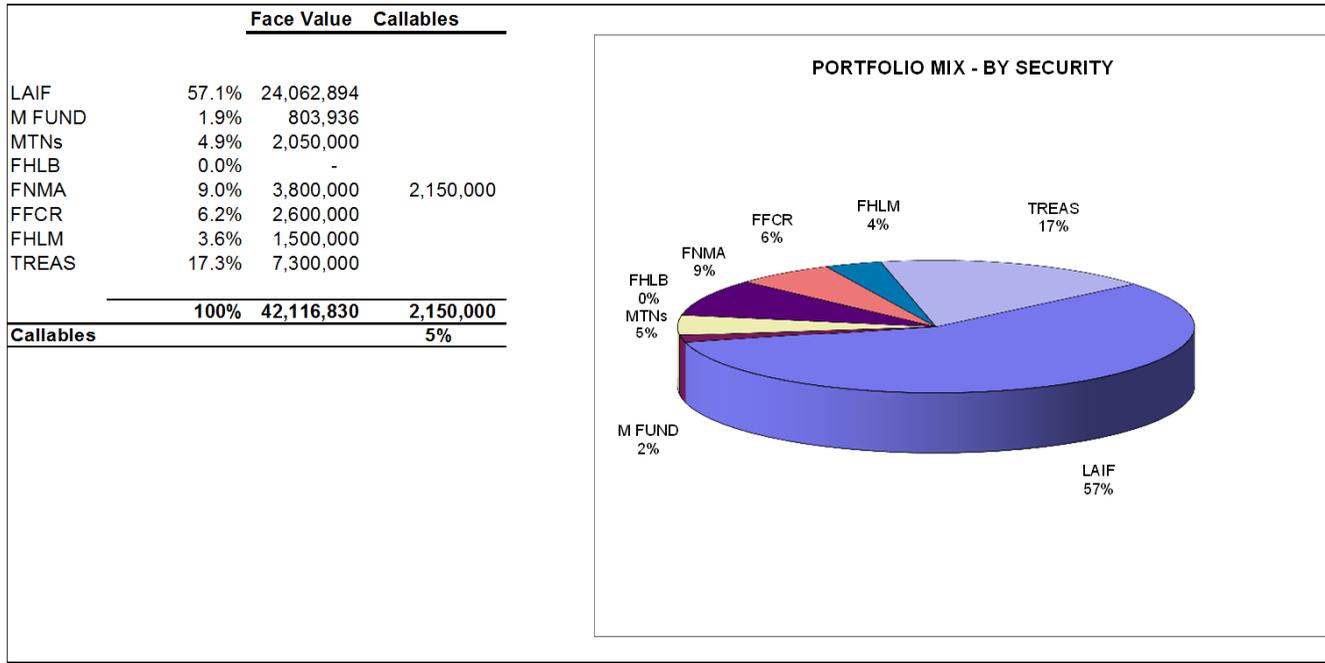
31-Dec-12

| Month | 2013 | | | | 2014 | | | | 2015 | | | | 2016 | | | | |
|-------------------------|------------|-------|-----------|---------------------|------------|-------|-----------|----------------------|------------|-------|-----------|----------------------|-----------|-------|-----------|--------|---------------------------|
| | YTM | Sec | Call Date | Amount | YTM | Sec | Call Date | Amount | YTM | Sec | Call Date | Amount | YTM | Sec | Call Date | Amount | |
| LAIF | 0.32% | | | 24,062,894 | | | | | | | | | | | | | |
| MMKT | 0.01% | | | 803,936 | | | | | | | | | | | | | |
| Jan | 1/9/2013 | 0.65% | FHLMC | 1,500,000 | | | | | | | | | | | | | |
| Feb | | | | | | | | | | | | | | | | | |
| Mar | 3/31/2013 | 0.81% | UT | 500,000 | | | | | 7/2/2015 | 0.61% | FNMA | 900,000 | | | | | Cash Surplus |
| Apr | 4/1/2013 | 1.13% | CP BNY | 650,000 | | | | | | | | | | | | | |
| | 4/15/2013 | 0.91% | CP WMRT | 750,000 | | | | | | | | | | | | | |
| May | | | | | | | | | | | | | | | | | |
| Jun | 6/26/2013 | 0.78% | FNMA | 750,000 | | | | | | | | | | | | | |
| | 6/15/2013 | 0.94% | UT | 500,000 | | | | | | | | | | | | | |
| Jul | | | | | | | | | 7/15/2015 | 0.40% | UT | 1,000,000 | | | | | Period of Cash Deficiency |
| Aug | | | | | | | | | 8/7/2015 | 0.51% | FNMA | 08/07/13 | 1,150,000 | | | | |
| | | | | | | | | | 8/27/2015 | 0.53% | FNMA | 08/27/13 | 1,000,000 | | | | |
| Sep | 9/15/2013 | 1.06% | UT | 500,000 | | | | | | | | | | | | | |
| Oct | 10/15/2013 | 1.10% | UT | 750,000 | 10/15/2014 | 0.49% | UT | 1,700,000 | 10/9/2015 | 0.78% | CP GE | 650,000 | | | | | |
| Nov | | | | | 11/10/2014 | 0.67% | FFCB | 1,000,000 | 11/16/2015 | 0.45% | FFCB | 1,600,000 | | | | | |
| Dec | 12/15/2013 | 1.19% | UT | 750,000 | 12/31/2014 | 0.53% | UT | 1,600,000 | | | | | | | | | Cash Surplus |
| Total | | | | \$6,650,000 | | | | \$4,300,000 | | | | \$6,300,000 | | | | | \$0 |
| Count/Percent | 9 | | 0 | 38.55% | 3 | | 0 | 24.93% | 6 | | 2 | 36.52% | 0 | | 0 | 0.00% | |
| Avg YTM/Days | | 0.95% | | 170 | | 0.56% | | 687 | | 0.55% | | 970 | | 0.00% | | | |
| Total Face Value | | | | \$ 6,650,000 | | | | \$ 10,950,000 | | | | \$ 17,250,000 | | | | | \$ 17,250,000 |



| | No of Inv | Ladder Yield | Spread Over LAIF | % | Avg Mat | # of Callables | Face Value |
|--------------|-----------|--------------|------------------|-------------|------------|----------------|---------------------|
| LAIF | 1 | 0.320% | 0.000% | 57% | 0 | | 24,062,894 |
| \$ Mkt Fund | 0 | 0.010% | -0.310% | 2% | 0 | | 803,936 |
| 2010 | 0 | 0.000% | | 0% | 0 | 0 | 0 |
| 2013 | 9 | 0.952% | 0.632% | 16% | 27 | 0 | 6,650,000 |
| 2014 | 3 | 0.563% | 0.243% | 10% | 70 | 0 | 4,300,000 |
| 2015 | 6 | 0.548% | 0.228% | 15% | 145 | 2 | 6,300,000 |
| 2016 | 0 | 0.000% | -0.320% | 0% | 0 | 0 | 0 |
| Total | 19 | 0.47% | 0.20% | 100% | 242 | 2 | \$42,116,830 |
| | | | | | | 7% | |

ATTACHMENT 2
Portfolio Mix Charts - December 31, 2012



ATTACHMENT 3
Investment Policy Compliance Chart - December 31, 2012

| City Investment | % Mix | Par Value | Latest Term | City Policy \$ Limitation | City Policy % Limitation | CAPACITY | \$ Compliance Yes/No | % Compliance Yes/No | Term Compliance Yes/No |
|---------------------|-------|-------------------|-------------|---------------------------|--------------------------|------------|----------------------|---------------------|------------------------|
| LAIF | 57% | 24,062,894 | 04/29/10 | 50,000,000 | 100% | 25,937,106 | Yes | Yes | Yes |
| M FUND | 2% | 803,936 | 08/03/12 | | | | | | |
| MTNs | 5% | 2,050,000 | 01/00/00 | | 15% | 4,267,524 | Yes | Yes | Yes |
| FHLB | 0% | - | 10/29/12 | | 20% | 8,423,366 | Yes | Yes | Yes |
| FNMA | 9% | 3,800,000 | 04/05/12 | | 20% | 4,623,366 | Yes | Yes | Yes |
| FFCB | 6% | 2,600,000 | 01/00/00 | | 20% | 5,823,366 | Yes | Yes | Yes |
| FHLM | 4% | 1,500,000 | 12/05/11 | | 20% | 6,923,366 | Yes | Yes | Yes |
| All Agencies | 19% | | | | 100% | | Yes | Yes | |
| TREAS | 17% | 7,300,000 | 08/05/12 | | 100% | 34,816,830 | Yes | Yes | Yes |
| | 100% | 42,116,830 | | | | | | | |
| All Agencies | | 19% 7,900,000 | | | 100% | 34,216,830 | | Yes | |
| Callables | | 7% 2,900,000 | | | 35% | 11,840,890 | | Yes | |



City of Los Altos

Investment Performance Review Fourth Quarter 2012

Carlos Oblites, Senior Managing Consultant
PFM Asset Management LLC
50 California Street, Suite 2300
San Francisco, CA 94111





Summary

- In the fourth quarter, the markets were impacted by U.S. politics and policies—particularly the presidential election, the Federal Reserve's (Fed's) new round of quantitative easing (QE), and "fiscal cliff" negotiations.
- The U.S. housing market continued to show signs of improvement, and the unemployment rate was unchanged for the quarter at 7.8%.
- The domestic economy has seen modest growth over the past year, and while the resolution of the "fiscal cliff" talks has relieved investors, the federal debt ceiling must now be addressed.

Economic Snapshot

- New-home sales in the U.S. rose to their highest level in two-and-a-half years in November, jumping 15.3% higher from where they were a year ago.
- The Consumer Price Index rose 1.8% year over year in November before seasonal adjustment. Wage increases have been subdued as evidenced by the change in hourly earnings, which has averaged less than 2% in recent months.
- Fourth-quarter U.S. gross domestic product (GDP) growth is expected to be in a range of 1% to 2%, which is slower than GDP growth experienced in the third quarter.
- Hurricane Sandy, which blew through the East Coast in October, caused large amounts of damage, closed the markets for two days and depressed economic activity in about a third of the nation.
- European stock markets took an upward turn for the quarter, as the MSCI Europe Index rose 7.02% for the quarter in U.S. dollar terms.

Interest Rates

- Interest rates rose slightly for the quarter across most maturities, while yield spreads on Agencies, corporates, and mortgage-backed securities (MBS) remained narrow.
- Treasury yields fell in the first half of November, but then rose as investors turned away from fixed income to the rallying stock market.
- The Fed announced that it will keep short-term rates at extremely low levels until the unemployment rate falls below 6.5%, and the prospect remains for long-run inflation to stay below 2.5%. The Fed also initiated further QE with an open-ended program to buy \$45 billion in Treasuries each month in addition to its monthly purchases of \$40 billion in Agency mortgage-backed securities.

Sector Performance

- Returns of high-quality corporate bonds (especially Financials) performed well for the quarter, as these issuers continued to be bolstered by global central bank support for financial markets. Security selection has been especially important when purchasing corporates.
- The Fed's QE3 purchase program initially caused Agency MBS to appreciate sharply on value, but that quickly reversed and Agency MBS underperformed other fixed-income sectors for the quarter.
- Municipal bonds struggled in the fourth quarter, as investors were uncertain whether their tax-exempt status would be changed as part of a "fiscal cliff" deal.
- Supply reductions kept Agency spreads at historically tight levels, and Agencies became relatively less attractive over the quarter.

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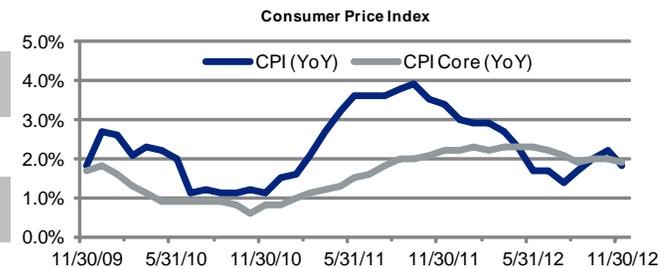
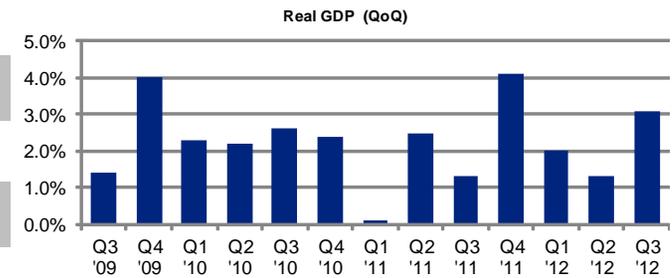
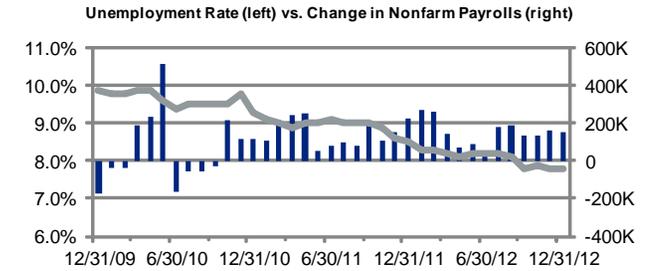


Economic Snapshot

| Labor Market | | Latest | Sep 2012 | Dec 2011 |
|-------------------------------|--------|---------|----------|----------|
| Unemployment Rate | Dec | 7.8% | 7.8% | 8.5% |
| Change In Non-Farm Payrolls | Dec | 155,000 | 132,000 | 223,000 |
| Average Hourly Earnings (YoY) | Dec | 2.1% | 1.9% | 2.1% |
| Personal Income (YoY) | Nov | 4.1% | 3.5% | 3.6% |
| Initial Jobless Claims | Dec 28 | 372,000 | 369,000 | 383,000 |

| Growth | | Latest | Sep 2012 | Dec 2011 |
|-------------------------------------|-----|--------|-------------------|-------------------|
| Real GDP (QoQ SAAR) | Q3 | 3.1% | 1.3% ¹ | 4.1% ² |
| GDP Personal Consumption (QoQ SAAR) | Q3 | 1.6% | 1.5% ¹ | 2.0% ² |
| Retail Sales (YoY) | Nov | 3.7% | 5.4% | 6.8% |
| ISM Manufacturing Survey | Dec | 50.7 | 51.5 | 53.1 |
| Existing Home Sales (millions) | Nov | 5.04 | 4.69 | 4.38 |

| Inflation / Prices | | Latest | Sep 2012 | Dec 2011 |
|---|--------|---------|----------|----------|
| Personal Consumption Expenditures (YoY) | Nov | 1.4% | 1.6% | 2.4% |
| Consumer Price Index (YoY) | Nov | 1.8% | 2.0% | 3.0% |
| Consumer Price Index Core (YoY) | Nov | 1.5% | 2.1% | 4.7% |
| Crude Oil Futures (WTI, per barrel) | Dec 31 | \$91.82 | \$92.19 | \$98.83 |
| Gold Futures (oz) | Dec 31 | \$1,676 | \$1,771 | \$1,567 |



1. Data as of Second Quarter 2012 2. Data as of Fourth Quarter 2011

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

Source: Bloomberg

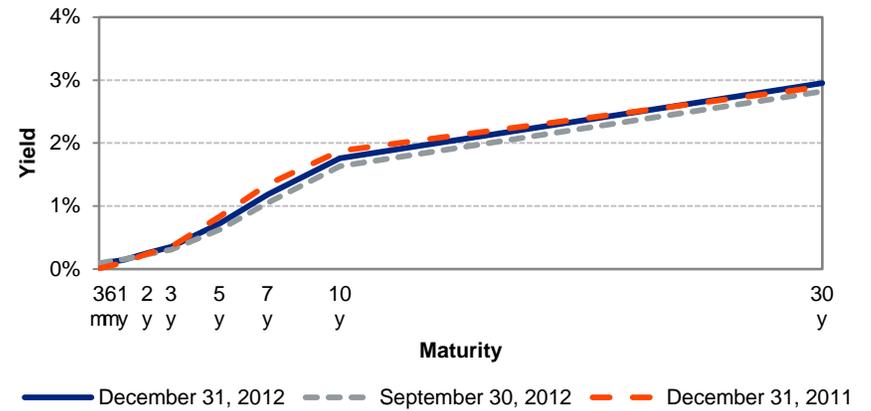


Interest Rate Overview

U.S. Treasury Note Yields

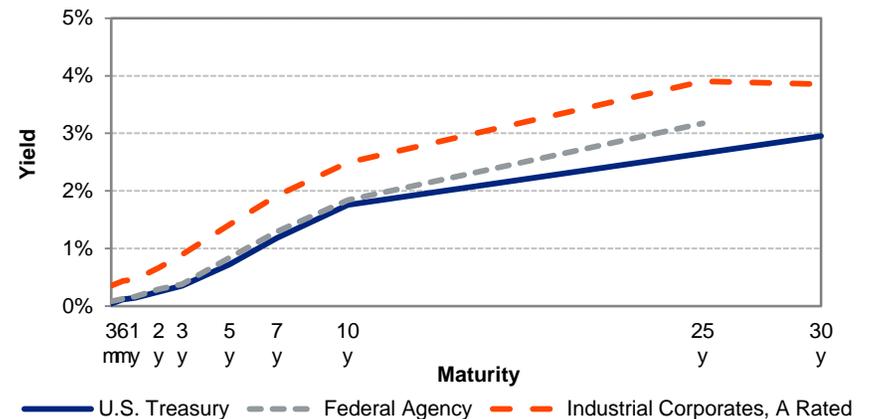


U.S. Treasury Note Yield Curve



| Maturity | 12/31/12 | 9/30/12 | Change over Quarter | 12/31/11 | Change over Year |
|----------|----------|---------|---------------------|----------|------------------|
| 3-month | 0.09% | 0.12% | (0.03%) | 0.02% | 0.07% |
| 1-year | 0.14% | 0.16% | (0.02%) | 0.13% | 0.01% |
| 2-year | 0.27% | 0.25% | 0.03% | 0.28% | (0.00%) |
| 5-year | 0.74% | 0.63% | 0.11% | 0.85% | (0.11%) |
| 10-year | 1.81% | 1.70% | 0.12% | 1.96% | (0.14%) |
| 30-year | 2.94% | 2.82% | 0.12% | 2.91% | 0.03% |

Yield Curves as of 12/31/12



Source: Bloomberg



B of A Merrill Lynch Index Returns

| | As of 12/31/2012 | | Periods Ended 12/31/2012 | | |
|------------------------------|------------------|-------|--------------------------|--------|---------|
| | Duration | Yield | 3 Month | 1 Year | 3 Years |
| 1-3 Year Indices | | | | | |
| U.S. Treasury | 1.87 | 0.26% | 0.07% | 0.43% | 1.44% |
| Federal Agency | 1.70 | 0.31% | 0.12% | 0.85% | 1.56% |
| U.S. Corporates, A-AAA Rated | 1.94 | 0.95% | 0.44% | 4.02% | 3.31% |
| Agency MBS (0 to 3 years) | 1.85 | 1.37% | (0.31%) | 1.60% | 3.42% |
| Municipals | 1.81 | 0.61% | 0.02% | 1.03% | 1.56% |
| 1-5 Year Indices | | | | | |
| U.S. Treasury | 2.72 | 0.38% | 0.04% | 0.91% | 2.62% |
| Federal Agency | 2.36 | 0.44% | 0.16% | 1.38% | 2.28% |
| U.S. Corporates, A-AAA Rated | 2.80 | 1.22% | 0.55% | 5.85% | 4.70% |
| Agency MBS (0 to 5 years) | 2.11 | 1.45% | (0.26%) | 2.50% | 4.45% |
| Municipals | 2.53 | 0.84% | (0.10%) | 1.63% | 2.37% |
| Master Indices | | | | | |
| U.S. Treasury | 5.99 | 0.96% | (0.10%) | 2.16% | 5.89% |
| Federal Agency | 3.84 | 0.85% | 0.22% | 2.44% | 4.10% |
| U.S. Corporates, A-AAA Rated | 6.80 | 2.32% | 0.79% | 9.19% | 8.32% |
| Agency MBS | 2.14 | 1.47% | (0.27%) | 2.59% | 4.78% |
| Municipals | 7.47 | 2.59% | 0.51% | 7.26% | 6.83% |

Returns for periods greater than one year are annualized

Source: Bloomberg

Portfolio Summary

| <u>Total Portfolio Value</u> | <u>December 31, 2012</u> |
|------------------------------|--------------------------|
| Market Value | \$42,281,828.53 |
| Amortized Cost | \$42,223,366.43 |

PORTFOLIO RECAP

- The portfolio complies with the California Government Code and the City's investment policy. The portfolio is well diversified among U.S. Treasury, Federal Agency, and high-quality corporate bonds.
- Bond yields remained hostage to exogenous factors. Yields were driven lower by economic disruption due to super storm Sandy, the Presidential election and the assured continuity at the accommodative Fed, an expansion of the Fed's bond purchase program, and fears the U.S. would go over the "fiscal cliff". Bond yields were pushed higher by stronger than expected job reports for September and November, a Greek debt buyback program, a global rally in stocks, and confidence that the "fiscal cliff" would be avoided.
- After all the ups and downs, Treasury yields finished the quarter modestly higher. Political turmoil may cause a transient flight-to-quality, but the more lasting effect is likely to come from the budding trend of equity fund inflows at the expense of bond fund outflows. The so-called "Great Rotation" is the reversal of fund flows from the past 4 years.
- Facing high political and policy risks, which do not lend themselves well to fundamental economic analysis, the portfolios were moved closer to benchmarks in terms of both duration and sector allocations. In particular, with Agency bonds at historically tight spreads, and consequently little remaining value, sector allocations were shifted into Treasuries, continuing the trend of the past several quarters.
- 2012 was a year of record corporate bond issuance and the new bonds offered attractive yield premiums over bonds available in the secondary market. PFM exploited this opportunity by increasing corporate allocations.
- Agency notes had a solid quarter and provided half of PFM's excess returns, as Agency spreads tightened in early October and held on for much of the remainder of Q4. Corporates generated the other half of excess returns, as yield spreads tightened on firmer fundamentals.

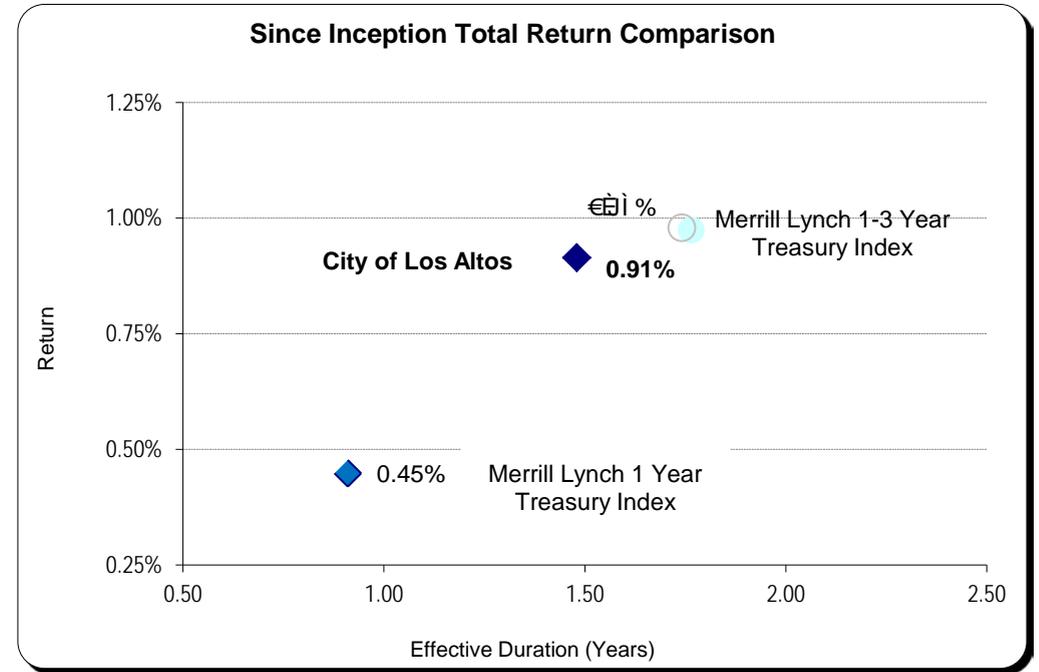
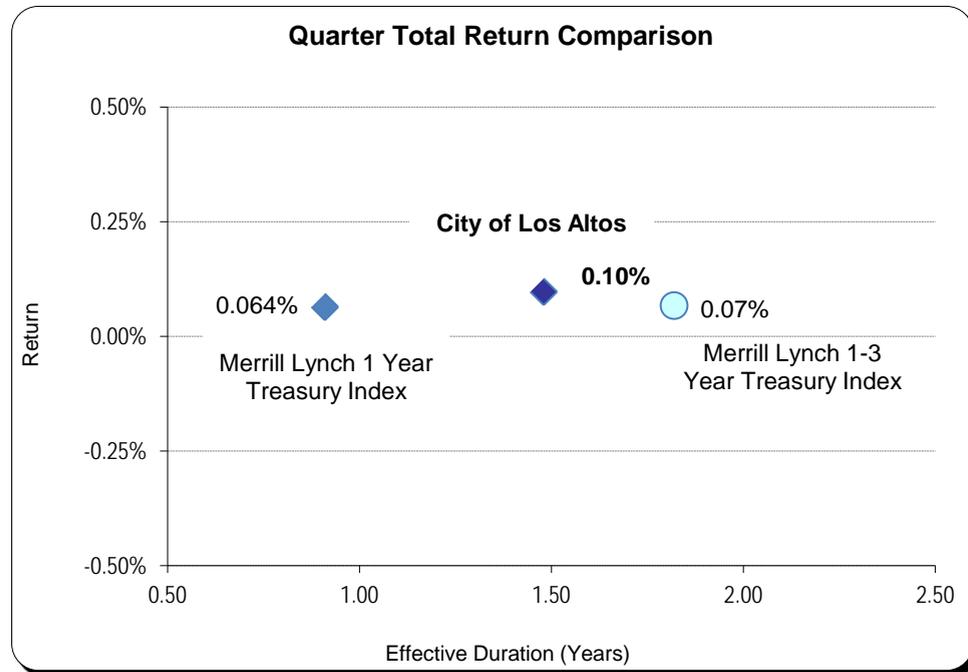
Portfolio Summary**PORTFOLIO STRATEGY**

- Nearly all the points made in last quarter's strategy still apply: difficult to predict political wranglings cloud our market view, central bank liquidity favors spread product, and idiosyncratic bottom-up analysis outshines our more usual macro-economic top-down approach. The economy continues to slowly heal from the over-leveraged trauma of the Financial Crisis of 2008. Four years later, these aftereffects are expected to persist just a little while longer.
- The threat of at least a partial government shutdown and the possible delay of tax refunds due to limits on the debt ceiling sometime around late February/early March throws a wrench into the outlook for the first quarter. Uncertainties concerning fiscal policy are likely to push positive economic developments to the background. Fiscal drag caused by tax hikes on the wealthy and resumption of full payroll taxes, and concern over a possible government shutdown may be supportive of a counter-trend rally in the bond market. While our general view is that yields will eventually drift gradually higher, we intend to keep durations close to neutral to protect clients against the regularly recurring flights into Treasuries.
- Our strategy for the upcoming quarter continues as in the prior quarter: With rates in established ranges, focus on adding incremental yield found in the corporate, municipal, and agency mortgage-backed sectors, areas where we will concentrate our investment research.
- Corporate yield spreads tightened sharply throughout 2012, but remain attractive. We believe new issues will continue to offer good value and excellent entry points for adding to allocations.
- Issuance in municipal bonds is also expected to pick up in the new year. Investors in muni's are rewarded for analyzing the credit risk of individual issuers and projects. PFMAM's careful, thorough approach to credit research of local and state authorities opens another avenue for us to add value.
- As always, we strive to maintain safety of principal and appropriate liquidity, while seeking opportunities to add value through active management. Our strategy will remain flexible and may change in response to changes in interest rates, economic data, market outlook or specific opportunities that arise.

Portfolio Performance

| Total Return ^{1,2,3,4} | Quarter Ended 12/31/2012 | Past 12 Months | Past 2 Years | Since Inception |
|---------------------------------------|-----------------------------|-------------------|-----------------|--------------------|
| City of Los Altos | 0.10% | 0.62% | 0.95% | 0.91% |
| Merrill Lynch 1-3 Year Treasury Index | 0.07% | 0.43% | 0.99% | €Jl % |
| Merrill Lynch 1 Year Treasury Index | 0.06% | 0.24% | 0.40% | 0.45% |

| <u>Effective Duration⁴</u> | <u>December 31, 2012</u> | <u>September 30, 2012</u> | <u>Yields⁴</u> | <u>December 31, 2012</u> | <u>September 30, 2012</u> |
|---------------------------------------|--------------------------|---------------------------|---------------------------|--------------------------|---------------------------|
| City of Los Altos | 1.48 | 0.57 | Yield on Cost | 0.68% | 0.75% |
| Merrill Lynch 1-3 Year Treasury Index | 1.80 | 1.82 | ML 1-3 Year Yield on Cost | 0.25% | 0.24% |
| Merrill Lynch 1 Year Treasury Index | 0.91 | 0.91 | | | |



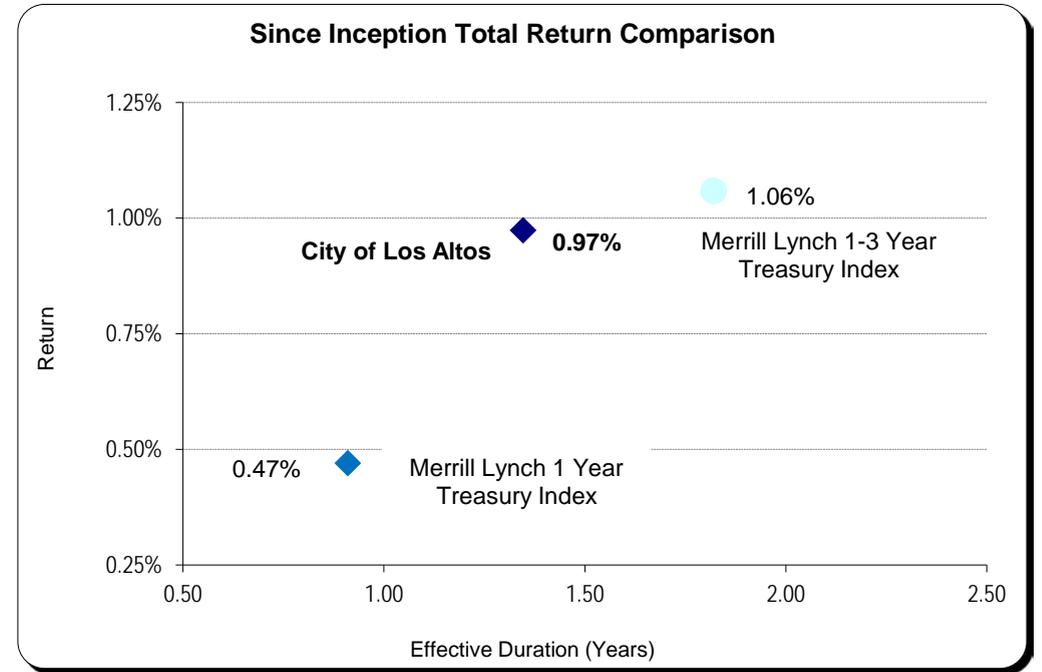
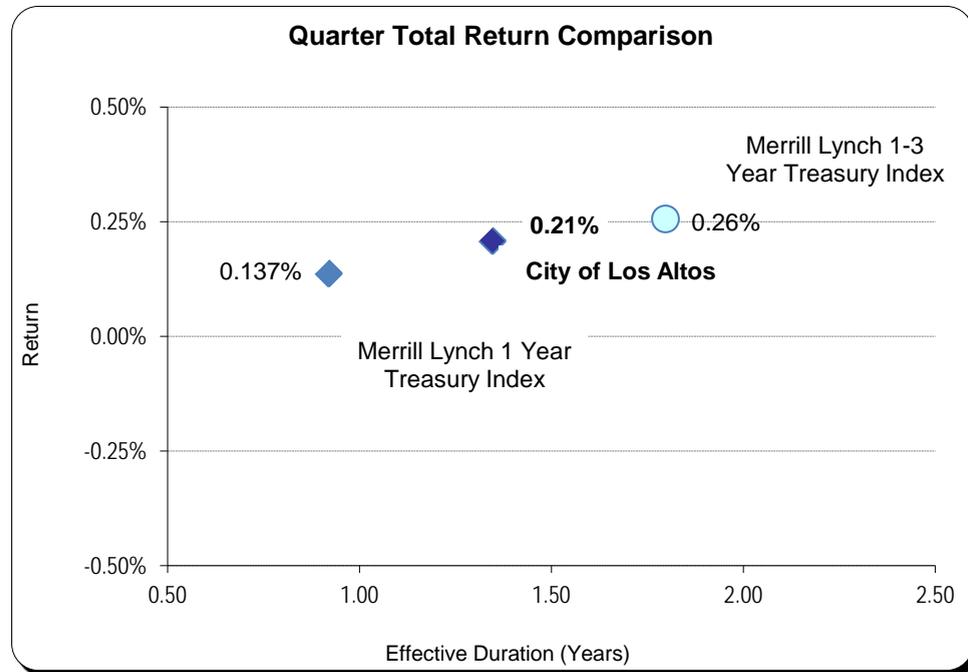
Notes:

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than 1 year are presented on an annualized basis.
4. Inception date is 6/30/2010

Portfolio Performance

| Total Return ^{1,2,3,4} | Quarter Ended September 30, 2012 | Past 12 Months | Since Inception |
|---------------------------------------|-------------------------------------|-------------------|--------------------|
| City of Los Altos | 0.21% | 0.65% | 0.97% |
| Merrill Lynch 1-3 Year Treasury Index | 0.26% | 0.56% | 1.06% |
| Merrill Lynch 1 Year Treasury Index | 0.14% | 0.26% | 0.47% |

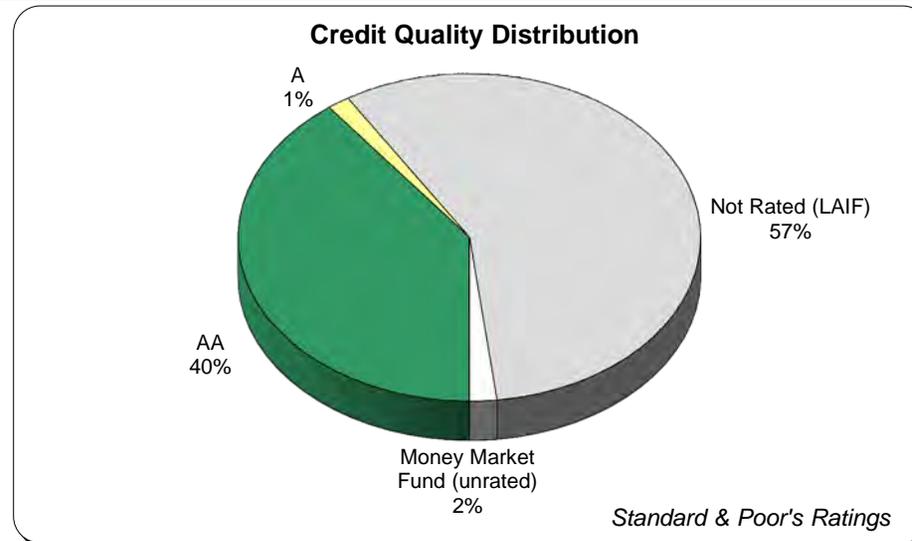
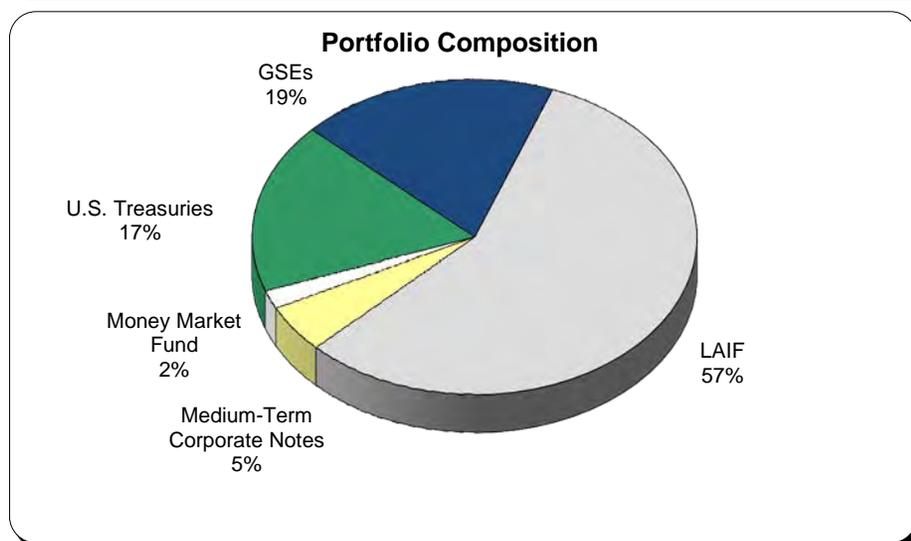
| <u>Effective Duration</u> ⁴ | <u>September 30, 2012</u> | <u>June 30, 2012</u> | <u>Yields</u> ⁴ | <u>September 30, 2012</u> | <u>June 30, 2012</u> |
|--|---------------------------|----------------------|----------------------------|---------------------------|----------------------|
| City of Los Altos | 1.35 | 1.04 | Yield on Cost | 0.89% | 0.98% |
| Merrill Lynch 1-3 Year Treasury Index | 1.82 | 1.80 | ML 1-3 Year Yield on Cost | 0.24% | 0.33% |
| Merrill Lynch 1 Year Treasury Index | 0.91 | 0.92 | | | |



- Notes:
1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
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Portfolio Composition and Credit Quality Characteristics

| <u>Security Type¹</u> | <u>December 31, 2012</u> | <u>% of Portfolio</u> | <u>September 30, 2012</u> | <u>% of Portfolio</u> | <u>Permitted by Policy</u> |
|----------------------------------|--------------------------|-----------------------|---------------------------|-----------------------|----------------------------|
| U.S. Treasuries | \$7,399,134.71 | 17% | \$7,427,103.27 | 17.8% | 100% |
| Federal Agencies | \$7,933,274.27 | 19% | \$7,891,984.81 | 20.4% | 100% |
| LAIF | \$24,062,894.01 | 57% | \$23,538,995.94 | 56.4% | 100% |
| Medium-Term Corporate Notes | \$2,082,589.89 | 5% | \$2,125,333.77 | 5.1% | 30% |
| Money Market Fund | \$803,935.65 | 2% | \$756,868.11 | 1.8% | 20% |
| Totals | \$42,281,828.53 | 100% | \$41,740,285.90 | 100.0% | |

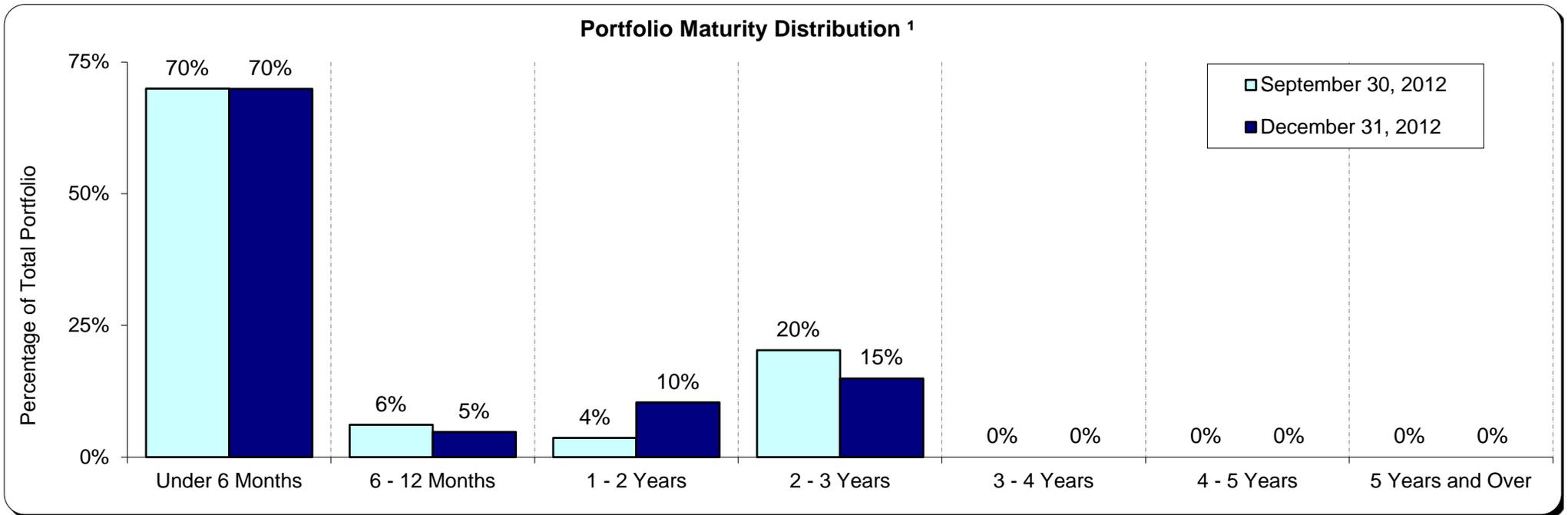


Notes:

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

| <u>Maturity Distribution¹</u> | <u>December 31, 2012</u> | <u>September 30, 2012</u> |
|--|--------------------------|---------------------------|
| Under 6 Months | \$29,565,516.56 | \$29,210,104.75 |
| 6 - 12 Months | \$2,010,192.56 | \$2,548,609.01 |
| 1 - 2 Years | \$4,391,798.95 | \$1,510,568.90 |
| 2 - 3 Years | \$6,314,320.46 | \$8,471,003.24 |
| 3 - 4 Years | \$0.00 | \$0.00 |
| 4 - 5 Years | \$0.00 | \$0.00 |
| 5 Years and Over | \$0.00 | \$0.00 |
| Totals | \$42,281,828.53 | \$41,740,285.90 |



Notes:

1. Callable securities, if any, in portfolio 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, 2012**

CITY OF LOS ALTOS INVESTMENT PORTFOLIO

| 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 03/31/2011 0.750% 03/31/2013 | 912828QL7 | 500,000.00 | AA+ | Aaa | 04/07/11 | 04/08/11 | 499,394.53 | 0.81 | 958.10 | 499,924.74 | 500,801.00 |
| US TREASURY NOTES DTD 06/15/2010 1.125% 06/15/2013 | 912828NH9 | 500,000.00 | AA+ | Aaa | 04/07/11 | 04/08/11 | 502,031.25 | 0.94 | 262.71 | 500,424.70 | 502,265.50 |
| US TREASURY NOTES DTD 09/15/2010 0.750% 09/15/2013 | 912828NY2 | 500,000.00 | AA+ | Aaa | 04/07/11 | 04/08/11 | 496,289.06 | 1.06 | 1,118.78 | 498,921.42 | 502,090.00 |
| US TREASURY NOTES DTD 10/15/2010 0.500% 10/15/2013 | 912828PB0 | 750,000.00 | AA+ | Aaa | 04/07/11 | 04/08/11 | 738,808.59 | 1.10 | 803.57 | 746,477.80 | 751,933.50 |
| US TREASURY NOTES DTD 12/15/2010 0.750% 12/15/2013 | 912828PL8 | 750,000.00 | AA+ | Aaa | 04/07/11 | 04/08/11 | 741,328.13 | 1.19 | 262.71 | 746,892.63 | 753,984.00 |
| US TREASURY NOTES DTD 10/17/2011 0.500% 10/15/2014 | 912828RL6 | 1,700,000.00 | AA+ | Aaa | 03/23/12 | 03/26/12 | 1,700,531.25 | 0.49 | 1,821.43 | 1,700,372.37 | 1,707,702.70 |
| US TREASURY NOTES DTD 12/31/2009 2.625% 12/31/2014 | 912828ME7 | 1,600,000.00 | AA+ | Aaa | 03/23/12 | 03/26/12 | 1,691,937.50 | 0.53 | 116.02 | 1,666,578.37 | 1,675,500.80 |
| US TREASURY N/B DTD 07/16/2012 0.250% 07/15/2015 | 912828TD2 | 1,000,000.00 | AA+ | Aaa | 08/20/12 | 08/22/12 | 995,625.00 | 0.40 | 1,154.89 | 996,164.19 | 998,359.00 |
| Security Type Sub-Total | | 7,300,000.00 | | | | | 7,365,945.31 | 0.71 | 6,498.21 | 7,355,756.22 | 7,392,636.50 |
| Federal Agency Bond / Note | | | | | | | | | | | |
| FHLMC GLOBAL NOTES DTD 12/02/2009 1.375% 01/09/2013 | 3137EACG2 | 1,500,000.00 | AA+ | Aaa | 11/17/10 | 11/19/10 | 1,522,935.00 | 0.65 | 9,854.17 | 1,500,239.60 | 1,500,366.00 |
| FNMA GLOBAL NOTES DTD 05/21/2010 1.500% 06/26/2013 | 31398AT44 | 750,000.00 | AA+ | Aaa | 11/17/10 | 11/19/10 | 763,807.50 | 0.78 | 156.25 | 752,600.37 | 754,983.00 |
| FEDERAL FARM CREDIT BANK BONDS DTD 11/10/2011 0.600% 11/10/2014 | 31331K086 | 1,000,000.00 | AA+ | Aaa | 11/14/11 | 11/16/11 | 998,030.00 | 0.67 | 850.00 | 998,768.50 | 1,005,808.00 |
| FANNIE MAE GLOBAL NOTES DTD 05/21/2012 0.500% 07/02/2015 | 3135G0LN1 | 900,000.00 | AA+ | Aaa | 05/24/12 | 05/25/12 | 896,958.00 | 0.61 | 2,237.50 | 897,541.35 | 903,133.80 |
| FNMA NOTES (CALLABLE) DTD 08/07/2012 0.500% 08/07/2015 | 3135G0NG4 | 1,150,000.00 | AA+ | Aaa | 08/06/12 | 08/08/12 | 1,149,712.50 | 0.51 | 2,300.00 | 1,149,750.37 | 1,150,096.60 |



Managed Account Detail of Securities Held

For the Month Ending **December 31, 2012**

CITY OF LOS ALTOS INVESTMENT PORTFOLIO

| 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 | | | | | | | | | | | |
| FANNIE MAE (CALLABLE) NOTES DTD 08/27/2012 0.520% 08/27/2015 | 3135G0NS8 | 1,000,000.00 | AA+ | Aaa | 08/20/12 | 08/27/12 | 999,650.00 | 0.53 | 1,791.11 | 999,689.92 | 1,001,391.00 |
| FEDERAL FARM CREDIT BANK BONDS DTD 12/27/2012 0.430% 11/16/2015 | 3133ECBJ2 | 1,600,000.00 | AA+ | Aaa | 12/19/12 | 12/27/12 | 1,599,264.00 | 0.45 | 76.44 | 1,599,266.80 | 1,600,230.40 |
| Security Type Sub-Total | | 7,900,000.00 | | | | | 7,930,357.00 | 0.58 | 17,265.47 | 7,897,856.91 | 7,916,008.80 |
| Corporate Note | | | | | | | | | | | |
| BANK OF NEW YORK MELLON GLOBAL NOTES DTD 03/27/2008 4.500% 04/01/2013 | 06406HBJ7 | 650,000.00 | A+ | Aa3 | 11/17/10 | 11/19/10 | 701,018.50 | 1.13 | 7,312.50 | 655,446.92 | 656,620.25 |
| WAL MART STORES INC GLOBAL NOTES DTD 04/15/2008 4.250% 04/15/2013 | 931142CL5 | 750,000.00 | AA | Aa2 | 11/17/10 | 11/19/10 | 809,482.50 | 0.91 | 6,729.17 | 757,205.93 | 758,378.25 |
| GENERAL ELECTRIC CO NOTES DTD 10/09/2012 0.850% 10/09/2015 | 369604BE2 | 650,000.00 | AA+ | Aa3 | 10/19/12 | 10/24/12 | 651,287.00 | 0.78 | 1,258.47 | 651,206.97 | 652,291.25 |
| Security Type Sub-Total | | 2,050,000.00 | | | | | 2,161,788.00 | 0.94 | 15,300.14 | 2,063,859.82 | 2,067,289.75 |
| Managed Account Sub-Total | | 17,250,000.00 | | | | | 17,458,090.31 | 0.68 | 39,063.82 | 17,317,472.95 | 17,375,935.05 |
| Securities Sub-Total | | \$17,250,000.00 | | | | | \$17,458,090.31 | 0.68% | \$39,063.82 | \$17,317,472.95 | \$17,375,935.05 |
| Accrued Interest | | | | | | | | | | | \$39,063.82 |
| Total Investments | | | | | | | | | | | \$17,414,998.87 |