

INVESTMENT BOARD OF DIRECTORS' MEETING  
MOULTON NIGUEL WATER DISTRICT  
27500 La Paz Road, Laguna Niguel  
July 13, 2011  
9:00 a.m.  
**Approximate Meeting Time: 1-2 Hours**

1. Call Meeting to Order
2. Approve Minutes of April 13, 2011
3. Public Comments  
*Persons wishing to address the Board of Directors on matters not listed on the Agenda may do so at this time. "Request To Be Heard" forms are available at the entrance to the Board Room. Comments are limited to five minutes unless further time is granted by the Presiding Officer. Submit form to the Recording Secretary prior to the beginning of the meeting.*  
  
*Those wishing to address the Board of Directors on any item listed on the Agenda should submit a "Request To Be Heard" form to the Recording Secretary before the Presiding Officer announces that agenda item. Your name will be called to speak at that time.*
4. Review and Discussion of District Investment Report for Quarter Ended June 30, 2011 by Chandler Asset Management
5. Presentation by Mr. John Borne of Nationwide on Investment Option to replace MNWD Deferred Compensation Option
6. Next Quarterly Investment Subcommittee Meeting  
Wednesday, October 12, 2011 @ 9:00 a.m.
7. Late Items (Appropriate Findings to be Made)
  - a. Need to take immediate action; and
  - b. Need for action came to District's attention after Agenda Posting
8. Adjournment

The Board of Directors' Meeting Room is wheelchair accessible. If you require any special disability related accommodations (i.e., access to an amplified sound system, etc.), please contact the Moulton Niguel Water District Secretary's office at (949) 643-2006 at least seventy-two (72) hours prior to the scheduled meeting. This agenda can be obtained in alternate format upon written request to the Moulton Niguel Water District Secretary at least seventy-two (72) hours prior to the scheduled meeting.

Agenda exhibits and other writings that are disclosable public records distributed to all, or a majority of, the members of the Moulton Niguel Water District Board of Directors in connection with a matter subject to discussion or consideration at an open meeting of the Board of Directors are available for public inspection at the District Office, 27500 La Paz Road, Laguna Niguel, CA ("District Office"). If such writings are distributed to members of the Board less than 72 hours prior to the meeting, they will be available in the reception area of the District Office at the same time as they are distributed, except that, if such writings are distributed immediately prior to, or during, the meeting, they will be available in the Board meeting room.

**MINUTES OF THE  
MOULTON NIGUEL WATER DISTRICT  
JOINT INVESTMENT/SPECIAL PERSONNEL & SALARY  
BOARD OF DIRECTORS MEETINGS**

**APRIL 13, 2011**

A Special Meeting of the Personnel & Salary Board was held jointly with the Quarterly Meeting of the Investment Board of Directors of the Moulton Niguel Water District at the District's office, 27500 La Paz Road, Laguna Niguel, California, at 9:00 a.m. on Monday, April 13, 2011. There were present and participating:

**DIRECTORS**

|                  |                |
|------------------|----------------|
| LARRY R. LIZOTTE | Chairman       |
| SCOTT COLTON     | Director       |
| RICHARD S. FIORE | Director       |
| DON FROELICH     | Vice President |
| GARY R. KURTZ    | Director       |
| LARRY MCKENNEY   | President      |
| BRIAN PROBOLSKY  | Vice President |

Also present and participating were:

**STAFF MEMBERS**

|                    |                                      |
|--------------------|--------------------------------------|
| ROBERT C. GUMERMAN | General Manager                      |
| DAVID D. CAIN      | Director of Finance/Treasurer        |
| MATT COLLINGS      | Director of Engineering & Operations |
| CHARLES J. ROY     | Director of Customer Service         |
| LESLIE GRAY        | Board Secretary                      |
| NANCY DESAI        | MNWD                                 |
| KARREN MADDOX      | MNWD                                 |
| KELLY WINSOR       | MNWD                                 |
| AMBER CUTLER       | MNWD                                 |
| FRANI BAILEY       | Recording Secretary                  |

**DISTRICT CONSULTANTS**

|                |                           |
|----------------|---------------------------|
| TED PIROKOWSKI | Chandler Asset Management |
|----------------|---------------------------|

Absent were:

There were no absences.

## INVESTMENT MATTERS

Chairman Larry Lizotte presided at the meeting and Frani Bailey recorded the minutes thereof.

## ACTION ITEMS

### Review and Discussion of District Investment Report for Quarter Ended March 31, 2011 by Chandler Asset Management

- **Chairman Lizotte directed Dr. Gumerman to provide to the Board at the Finance & IT Board meeting next week a sample calculation of how the rate for deferred compensation is calculated and the date on which the Board made its decision on how it would be calculated.**

### Approval of Minutes of Investment Board of Directors Meeting of January 17, 2011

Chairman Lizotte reported that he would entertain a motion to approve the minutes of the Investment Board of Directors meeting of January 17, 2011.

THEREAFTER, UPON A MOTION DULY MADE BY DIRECTOR KURTZ AND SECONDED BY DIRECTOR FROELICH, THE BOARD OF DIRECTORS OF MOULTON NIGUEL WATER DISTRICT APPROVED THE MINUTES OF THE JANUARY 17, 2011 INVESTMENT BOARD MEETING AS PRESENTED BY THE FOLLOWING VOTE: AYES: DIRECTORS KURTZ, FROELICH, LIZOTTE, COLTON, FIORE; NOES: NONE; ABSTAIN: DIRECTORS MCKENNEY AND PROBOLSKY.

## Public Comments

Chairman Lizotte inquired if there were any public comments to come before the Committee meeting. Hearing none, he closed the public comments portion of the meeting.

## Discussion of Proposed Water Budget Based Rate Structure (WBBRS)

Dr. Gumerman commented that staff does not have a presentation on the WBBRS, and it is on the agenda because the Board requested that it be put on the agendas for all of the meetings this month leading up to the April 21, 2011 Board meeting when the Board would consider adopting the WBBRS, in case any members of the public wished to comment on it.

Director Fiore asked Mr. Charles Roy what type of communications he has received since the WBBRS was last discussed. Mr. Roy reported that Director Colton arranged for a small group of customers to come to the District to see a presentation on the WBBRS. He reported that those invited were provided with information prior to the meeting, and only one customer attended the presentation. He reported that the customer discovered that his bill would be decreasing and was very happy with the staff's explanation. Mr. Roy reported that the Customer Service staff has received a minimum number of phone calls and has received positive feedback. Director Fiore asked if staff has any data on the use of the revised rate calculator on the website and Mr. Roy reported that the hits to the website have increased, which would indicate that customers are using the web calculator.

Dr. Gumerman asked Director Colton if he received any comments from the customers he invited who did not attend the meeting. Director Colton reported that he indicated to the customers that they could contact him or Mr. Roy but none of them did. He commented that the information Mr. Roy sent them was very educational and apparently answered their questions.

Review and Discussion of District Investment Report for Quarter Ended March 31, 2011 by Chandler Asset Management Inc.

Mr. Cain reported that Mr. Ted Pirokowski of Chandler Asset Management would review the investment report for the quarter ended March 31, 2011.

Investment Objectives

Mr. Pirokowski briefly reviewed the District's investment objectives and reported that the investment goals of the Liquid Fund are to provide liquidity for operating expenses and current capital requirements, to preserve principal, and to earn a total rate of return commensurate with the first two goals.

Mr. Pirokowski reported the investment goals of the Operating Reserve Fund are to preserve real capital and provide growth over the long term by earning the rate of return available from longer-term investments permitted under the California Government Code.

Mr. Pirokowski reported the performance objective for the Liquid Fund is to earn a return in excess of the return on 90-day Treasury bills. He reported the investment performance objectives of the Operating Reserve Fund are (1) to earn a total rate of return over a market cycle which exceeds the return on a market index of government securities with maturities of one to ten years (the Bank of America-Merrill-Lynch 1-10 Year Government Index); and (2) to avoid a negative total rate of return over any one-year period in an environment where there is up to a 200 basis point parallel shift in the yield curve. He reported that he would be discussing the negative total rate of return clause in the Investment Policy when the Investment Policy is reviewed later in the meeting.

Mr. Pirokowski reported in order to meet the performance objective the Liquid Fund is invested in short-term securities and LAIF. The average maturity of the Liquid Fund may not exceed 90 days, and the maximum maturity of individual securities in the fund shall be one year.

Mr. Pirokowski reported that in order to meet the performance objectives of the Operating Reserve Fund, it is invested in a diversified portfolio of high quality, fixed income securities with a maximum maturity of ten years. No more than 40% of the fund may be invested in securities with maturities in excess of five years.

#### Compliance with Investment Policy

Mr. Pirokowski indicated that the District's portfolio complies fully with state law and the District's Investment Policy.

Director Probolsky arrived at 9:10 a.m.

#### Portfolio Characteristics

Mr. Pirokowski reviewed the portfolio characteristics and transactions for the quarter for the Liquid Fund and the Operating Reserve Fund.

### Liquid Fund

|   | <b>Benchmark<br/>3/31/11</b> | <b>Portfolio<br/>3/31/11</b> | <b>Portfolio<br/>12/31/10</b> |
|---|------------------------------|------------------------------|-------------------------------|
| Portfolio Book Value                      | --                           | \$5,225,167                  | \$11,821,516                  |
| Market Value                              | --                           | \$5,235,452                  | \$11,825,207                  |
| Average Book Yield                        | --                           | 0.44%                        | 0.55%                         |
| Average Maturity (yrs)                    | 0.15                         | 0.00                         | 0.00                          |
| Modified Duration                         | 0.15                         | 0.00                         | 0.00                          |
| \$ Change in value for 1% change in rates | --                           | \$0                          | \$0                           |
| % Maturing within 1 year                  | 100%                         | 100%                         | 100%                          |
| Average Credit Quality                    | AAA                          | Not Rated                    | Not Rated                     |

Mr. Pirokowski reported the total market value of the Liquid Fund decreased to \$5.2million. In addition, because this fund has instant liquidity, there will be no change in the market value as interest rates fluctuate, and the entire fund matures within one year. He reported LAIF is a very attractive vehicle for this type of money, because the liquidity is there and the yield is higher than other comparable money market alternatives.

Mr. Pirokowski commented that although the yield in LAIF is high, it is a short-term fund. He commented the money in LAIF is not available for investment in the long-term program, which has a higher return in the long run.

Mr. Pirokowski reviewed the Operating Reserve Fund, as follows:

### Operating Reserve Fund

|   | <b>Benchmark<br/>3/31/11</b> | <b>Portfolio<br/>3/31/11</b> | <b>Portfolio<br/>12/31/10</b> |
|---|------------------------------|------------------------------|-------------------------------|
| Portfolio Book Value                      | --                           | \$107,060,814                | \$102,009,812                 |
| Market Value                              |                              | \$111,394,736                | \$107,023,124                 |
| Average Book Yield                        | --                           | 2.88%                        | 3.11%                         |
| Average Maturity (yrs)                    | 3.99                         | 3.68                         | 3.86                          |
| Modified Duration                         | 3.60                         | 3.30                         | 3.43                          |
| \$ Change in value for 1% change in rates | --                           | \$3,676,028                  | \$3,670,893                   |
| % Maturing within 2 Years                 | 26.5%                        | 20.3%                        | 25.2%                         |
| Average Credit Quality                    | AAA                          | AAA                          | AAA                           |

Mr. Pirokowski reported the total market value of the Operating Reserve Fund increased from \$107 million to \$111 million, which is in response to interest rates rising significantly during the quarter. He reported the Average Book Yield of the fund is

2.88%. Mr. Pirokowski reported the yield to maturity is essentially what the District will get on the fund over time if securities are not sold.

Mr. Pirokowski reported the average maturity of the portfolio is 3.68 years, slightly lower than the benchmark. He reported the modified duration of the fund is 3.30, slightly lower than the benchmark.

Mr. Pirokowski reviewed the portfolio activity during the quarter. He reported that during the quarter portfolio activity included a series of rebalancing transactions in order to maintain the portfolio's structure and duration target. In addition, the portfolio received an additional \$4 million on March 30, 2011. Newly purchased securities included Treasury, Agency, and Corporates with maturities ranging from October 2012 through December 2017. He reported that Chandler continues to invest in Corporate and Agency holdings to take advantage of favorable relative valuations in these sectors.

Mr. Pirokowski reported that the transactions made in January adjusted the portfolio duration to shorter than the benchmark index duration. Chandler shortened the portfolio duration with Agency security transactions. For the month, the cumulative sale transactions realized gains of \$97,340.

Mr. Pirokowski reported that February's transactions adjusted the portfolio duration to slightly shorter than the benchmark index duration. Chandler again increased the Corporate and Agency sector exposures, and the sale transactions primarily included FDIC Insured Corporates. For the month, the cumulative sale transactions realized gains of \$178,947.

Mr. Pirokowski reported that March's transactions maintained the portfolio duration at slightly shorter than the benchmark index duration. Chandler also added John Deere Capital to the Corporate sector in March. The sale transactions again focused on FDIC Insured Corporates, and for the month the cumulative sale transactions realized gains of \$198,821.

Mr. Pirokowski reviewed two graphs comparing the allocation of the District's Operating Reserve in different areas of the market on March 31, 2011 and on December 31, 2010. He reported that the portfolio sector allocation changed modestly as Chandler increased the portfolio's holdings in Agencies and the Money fund by 3.6% and April 13, 2011

3.0% respectively. Chandler also decreased the holdings in FDIC Insured Corporates by 7.3%.

Mr. Pirokowski reviewed the graph of the portfolio duration compared to the duration of the benchmark index and reported the duration of the District's portfolio closely matches the 1-10 year Government Index benchmark. He reported that the portfolio duration has been slightly shorter than the benchmark index and has started to re-approach the Index. He reported that the current portfolio positioning is approximately 94% of the benchmark.

Mr. Pirokowski reviewed the maturity distribution of the portfolio on March 31, 2011 vs. December 31, 2010. He reported that given the risk-reward profile of the fixed income markets, Chandler expects to position the portfolio duration to be slightly shorter than that of the District's 1-10 Year Government benchmark.

#### Investment Performance

Mr. Pirokowski reviewed the investment performance of the portfolio from its inception to the period ending March 31, 2011. He reported the total rate of return for the latest three months is 0.35%, compared to the benchmark of 0.03%. He commented the rate of return is not comparable to the yield, but is an absolute change in value for the three-month period. Mr. Pirokowski reported the return reflects the shorter duration positioning and the contribution of the Corporates. He commented that the economy continues to move along in a positive manner and moderate growth is the theme.

Mr. Pirokowski reported the total rate of return of 4.57% for the latest 12 months is significantly higher than the benchmark of 3.83%. He reported that since inception, the total return on the portfolio on a before-fees basis is 5.85%, as compared to the return of 5.48% on the 1-10 Year Government Index benchmark.

#### Operating Reserve Fund Growth of \$1 Million

Mr. Pirokowski reviewed a graph depicting the historical return of the portfolio on \$1 million invested in September 1995, as follows:

### Historical Return on \$1 Million Invested in September 1995

| <u>Fund</u>                   | <u>3/31/2011</u>   | <u>Return</u> |
|-------------------------------|--------------------|---------------|
| <b>Operating Reserve Fund</b> | <b>\$2,414,140</b> | <b>5.85%</b>  |
| 1-10 Government Index         | \$2,287,179        | 5.48%         |
| LAIF                          | \$1,773,720        | 3.77%         |

#### Portfolio Holdings

Mr. Pirokowski reviewed the District's portfolio holdings as of March 31, 2011 and the summary of the issuers, the type of investment, and the percentage of each investment in the portfolio, sorted by the percent in the portfolio and answered the Board's questions. He reported that in February the Treasury and Administration reported definitively that the U.S. Government will continue to provide the backstop to the housing agencies until long term resolution.

#### Economic Update

Mr. Pirokowski reported that the economic update is contained in Section 3 of the investment report.

President McKenney asked if the District's policy is to invest in only U.S. Corporates and Mr. Pirokowski reported that State Code and the District's policy both mandate that the District invest only in U.S. Corporates.

Director Probolsky asked if the rate of return for 3 months on Page 12 is cumulative and Mr. Pirokowski reported that it is. Director Probolsky commented that this would average out to about 1.5% for the year and asked why the rate for the deferred compensation program for the same quarter is more than double this return. Mr. Pirokowski explained that the rate on Page 12 is the total rate of return, which includes the income component and the price movement. He explained that if prices remained the same, the portfolio would realize a 2.28% return over the year, and a quarter of this would be 70 basis points without price movement.

Ms. Karren Maddox reported that in calculating the deferred compensation rate the realized gains are added to the actual return and Dr. Gumerman reported that the Board devised the method it wanted staff to use to calculate the deferred compensation

April 13, 2011

rate. Further discussion ensued and Director Froelich suggested that staff provide the Board with a sample calculation. Chairman Lizotte concurred and directed Dr. Gumerman to provide to the Board at the Finance & IT Board meeting next week a sample calculation of how the rate for deferred compensation is calculated and the date on which the Board made its decision on how it would be calculated. Mr. David Cain reported that Nationwide, one of the deferred compensation providers, has indicated that it is no longer interested in handling the District's deferred compensation program. Further discussion ensued regarding the deferred compensation providers.

#### Discussion of Date for ERP/IT Workshop

Dr. Gumerman reported that he and President McKenney have discussed the possibility of the Board having a special workshop to address the progress of the ERP project and the IT component. He reported that he would like to set a date for sometime in May for the workshop, and suggested the week after Board week. The Board discussed various dates for the workshop and agreed to have it at 9:00 a.m. on Wednesday, May 4, 2011.

#### Next Quarterly Investment Subcommittee Meeting

Chairman Lizotte reported that the next Investment Subcommittee meeting is Monday, July 13, 2011 at 9:00 a.m., at which time the investments for the quarter ending June 30, 2011 would be reviewed.

Chairman Lizotte asked if there were any late items. Hearing none, he turned the meeting over to President McKenney for the Personnel & Salary Board matters.

#### PERSONNEL & SALARY MATTERS

##### Public Comments

President McKenney asked if there were any public comments and invited Director Lizotte to make his comments. Director Lizotte reported that he would defer his comments until after the discussion on the Side Letter Agreement. Hearing no comments, President McKenney closed the Public Comments portion of the meeting.

Side Letter Agreement #1 to Memorandum of Understanding Between MNWD & MNWDEA Regarding Salary Survey Implementation

President McKenney directed the Board's attention to the Side Letter Agreement #1 (Agreement) the Board members received in their Agenda packets. He reported that on March 11, 2011 the labor negotiating team met with the MNWDEA and provided them with a Side Letter Agreement to the MOU regarding the salary survey reopener. The Agreement outlines the implementation of the salary survey, increases the top of the salary ranges as indicated by the survey results, and increases all employees in their designated classification salaries by the same percentage. He explained that the Agreement also addresses an across-the-board salary increase of 0.66% to all bargaining unit employees. The changes would be effective on July 1, 2011.

President McKenney reported that the MNWDEA voted to approve the Agreement and signed it, and the action today is for the Board to ratify it. He commented that if the Board wants to discuss the matter Mr. Brad Neufeld is available by phone; however, he would expect that this is relatively noncontroversial.

President McKenney reported that since the Agreement was distributed, staff realized that there was a minor arithmetic mistake in one of the calculations. He explained that some of the classification titles on the Agreement the Board received is black and some are blue. The black names are the classifications that were actually surveyed and the blue names are the ones that were benchmarked by calculation. He reported that an arithmetic error was made in the Increase to Top of Range for the Senior Accountant position, and the correct percentage is 4.7%.

President McKenney reported that the across-the-board percentage increase in salary referenced in paragraph 3 should be 0.69% and the amount of the remaining funds from the 3.5% pool following the adjustments should be approximately \$33,000. He reported that the MNWDEA is aware of this adjustment and recommended that the Board approve the Agreement in substance and direct the General Manager to execute the corrected Agreement.

Director Lizotte asked if the Agreement was only for the non-exempt employees and President McKenney reported that it is. Director Lizotte asked what happens to the  
April 13, 2011

exempt employees and President McKenney reported that the Board previously gave the General Manager direction about how to address using the pool for the exempt employees. Director Lizotte commented that he has a problem with any wage increases during a time when the District is raising water rates and that there might be other ways to recognize the economic times. He encouraged the Board to think out of the box to help the people who need help.

Director Fiore commented that the Board would probably agree with Director Lizotte in concept; however, the Agreement is consistent with what the Board agreed to do in the MOU and the Board should honor its agreement.

THEREAFTER, UPON A MOTION DULY MADE BY DIRECTOR FROELICH AND SECONDED BY DIRECTOR KURTZ, THE BOARD OF DIRECTORS OF MOULTON NIGUEL WATER DISTRICT APPROVED THE SIDE LETTER AGREEMENT #1 TO MEMORANDUM OF UNDERSTANDING BETWEEN MNWD & MNWDEA REGARDING SALARY SURVEY IMPLEMENTATION AND DIRECTED THE GENERAL MANAGER TO EXECUTE THE CORRECTED SIDE LETTER AGREEMENT BY THE FOLLOWING VOTE: AYES: DIRECTORS KURTZ, FROELICH, MCKENNEY, COLTON, FIORE, AND PROBOLSKY; NOES: DIRECTOR LIZOTTE; ABSTAIN: NONE.

#### Public Comments

Director Lizotte commented that there is an issue regarding an employee that involves the District's Grievance Procedure. He asked that a special meeting be agendized to allow the employee to address the Board. President McKenney reported that he is aware of the issue Director Lizotte is raising and would work on agendizing the matter.

#### Adjournment

There was no further business to come before the Investment Board and the meeting was adjourned at 9:55 a.m.

Respectfully submitted,



Frani Bailey  
Recording Secretary

# Moulton Niguel Water District



## MEMORANDUM

**TO:** Investment Board **MEETING DATE:** July 13, 2011

**FROM:** David D. Cain, Director of Finance/Treasurer

**SUBJECT:** Moulton Niguel Water District Investment Portfolio Activity for the Period Ending June 30, 2011

### SUMMARY

**Issue:** Presentation by Chandler Asset Management on the Investment Portfolio activity for the period ending June 30, 2011

**Recommendation:** Receive and File

**Fiscal Impact:** None

**Previously Related Action:** None

### DISCUSSION:

During the quarter, portfolio activity included a series of rebalancing transactions in order to maintain the portfolio's structure and duration target. Newly purchased securities included Treasury, Agency and Corporates with maturities ranging from May 2014 through February 2021. Given the risk/reward profile of the fixed income markets, Chandler continued to position the portfolio duration to be slightly shorter than that of the benchmark index.

While most market participants expect a continued moderate economic recovery, recent data has been poor. The unemployment rate rose to 9.1% in May and non-farm payrolls increased only 54,000. Housing remains very weak, with prices in many cities resuming their decline. Many market participants believe that the recent soft patch in the economy is due to temporary factors, including the spike in oil prices and the Japanese earthquake/tsunami. With oil prices moderating and the impact of the Japanese disaster diminishing, market participants will be watching closely for signs of a rebound in economic activity in the very near future. Treasury yields were lower in the second quarter due to weak economic data in the US and sovereign credit turmoil in Europe. The District's portfolio underperformed on a total return basis relative to its benchmark index for the quarter. Nevertheless, the portfolio had a positive total return of 2.04%, which was slightly less than the benchmark index return of 2.14%.

**Exhibit:** Chandler Asset Management Quarterly Investment Report

# Moulton Niguel Water District

Period Ending  
June 30, 2011



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## SECTION 1

# ACCOUNT PROFILE

## **Investment Objectives**

In order to provide for current expenses and long term growth, the District has divided its portfolio into two categories, the Liquid Fund and the Operating Reserve Fund. The investment goals of the Liquid Fund are: to provide liquidity for operating expenses and current capital requirements, to preserve principal, and to earn a total rate of return commensurate with the first two goals.

The investment goals of the Operating Reserve Fund are to preserve real capital and provide growth over the long term by earning the rate of return which is available from longer term investments permitted under the California Government Code.

## **Chandler Asset Management Performance Objectives**

The performance objective for the Liquid Fund is to earn a return in excess of the return on 90-day Treasury bills.

The investment performance objectives of the Operating Reserve Fund are (1) to earn a total rate of return over a market cycle which exceeds the return on a market index of government securities with maturities of one to ten years (the Bank of America Merrill Lynch 1-10 Year Government Index).

## **Strategy**

In order to meet its goals, the Liquid Fund is invested in short term securities and LAIF. The average maturity of the Liquid Fund may not exceed 90 days, and the maximum maturity of individual securities in the fund shall be one year. In order to meet its goals, the Operating Reserve Fund is invested in a diversified portfolio of high quality fixed income securities with a maximum maturity of ten years. No more than 40% of the fund may be invested in securities with maturities in excess of five years.


**Moulton Niguel Water District Operating Reserve**

June 30, 2011

**COMPLIANCE WITH INVESTMENT POLICY**

Assets managed by Chandler Asset Management are in full compliance with State law and with the District's investment policy.

| Category                                    | Standard  | Comment             |
|---|---|---------------------|
| Treasury/Agency issues                      | No Limit  | Complies            |
| Banker's Acceptances                        | A1/P1; ≤40%; 180 days   | Complies - 0.0%     |
| Commercial Paper                            | A1/P1   | Complies - 0.0%     |
| Max. maturity < 270 days                    | 25% maximum   | Complies            |
| Repurchase Agreements                       | ≤10%; ≤ one year  | Complies - 0.0%     |
| Rev. Repo Agreements                        | ≤90 days; ≤10%  | Complies - 0.0%     |
| Time CDs                                    | 110% collateral over \$100,000                                    | Complies - 0.0%     |
| Negotiable CDs                              | 30%; A1/P1; ≤2 yrs  | Complies - 0.0%     |
| Medium Term Notes                           | 30% max; A-rated  | Complies - 26.8%    |
| Mutual Funds                                | ≤20%  | Complies - 0.6%     |
| LAIF  | Not used by outside adviser; \$50 million maximum imposed by LAIF | Complies - \$12.9MM |
| Mortgage Pass Thrus, including CMOs and ABS | 20% Maximum   | Complies - 0.0%     |
| Inverse floaters, range notes               | Prohibited  | Complies            |
| Interest only strips                        | Prohibited  | Complies            |
| Zero interest accruals                      | Prohibited  | Complies            |
| Per issuer max                              | 5% (except gov'ts)  | Complies            |
| Modified duration                           | +/- 20% of 1-10 Year benchmark duration                           | Complies - 3.54     |
| % invested less than 2 years                | ≥10%  | Complies - 14.8%    |
| % invested beyond 5 years                   | ≤40%  | Complies - 32.2%    |
| Maximum maturity                            | 10 years  | Complies            |
| Maximum maturity of corp.                   | 5 years   | Complies            |

## PORTFOLIO CHARACTERISTICS

### Liquid Fund

|   | 3-month T-Bills<br>Benchmark* G001<br>6/30/2011 | Liquid Fund<br>6/30/2011 | 3/31/2011   |
|---|---|--------------------------|-------------|
| Portfolio book value                      | —   | \$12,936,791             | \$5,225,167 |
| Market value                              | —   | \$12,946,334             | \$5,235,452 |
| Average book yield                        | —   | 0.39%                    | 0.44%       |
| Average maturity (yrs)                    | 0.15  | 0.00                     | 0.00        |
| Modified duration                         | 0.15  | 0.00                     | 0.00        |
| \$ change in value for 1% change in rates | —   | \$0                      | \$0         |
| % maturing within one year                | 100%  | 100%                     | 100%        |
| Average credit quality                    | AAA   | Not Rated                | Not Rated   |

### Operating Reserve Fund

|   | 1-10 year Govt.<br>Benchmark* G5A0<br>6/30/2011 | Operating Reserve Fund<br>6/30/2011 | 3/31/2011     |
|---|---|-------------------------------------|---------------|
| Portfolio book value                      | —   | \$108,124,716                       | \$107,060,814 |
| Market value                              | —   | \$113,668,512                       | \$111,394,786 |
| Average book yield                        | —   | 3.00%                               | 2.88%         |
| Average maturity (yrs)                    | 4.05  | 4.05                                | 3.68          |
| Modified duration                         | 3.66  | 3.54                                | 3.30          |
| \$ change in value for 1% change in rates | —   | \$4,023,865                         | \$3,676,028   |
| % maturing within two years               | 25.0%   | 14.7%                               | 20.3%         |
| Average credit quality                    | AAA   | AAA                                 | AAA           |

During the quarter, portfolio activity included a series of rebalancing transactions in order to maintain the portfolio's structure and duration target. Newly purchased securities included Treasury, Agency and Corporates with maturities ranging from May 2014 through February 2021. We have continued to invest in Corporate and Agency holdings to take advantage of favorable relative valuations in these sectors.

### 40- Trading Activity -3/31/2011 -4/30/2011

| Settle Date     | Description                | MIG          | Mat Date   | Amount                | Book Value            | Market Value          | Gain/Loss            | Duration | Yield |
|-----------------|----------------------------|--------------|------------|-----------------------|-----------------------|-----------------------|----------------------|----------|-------|
| <b>Purchase</b> |                            |              |            |                       |                       |                       |                      |          |       |
| 04/26/2011      | FHLMC                      | Agency       | 01/26/2015 | \$1,310,000.00        | \$1,310,131.00        | \$1,310,131.00        | \$0.00               | 0.740    | 2.089 |
| 04/14/2011      | Wells Fargo Bank           | US Corporate | 02/09/2015 | \$250,000.00          | \$265,130.00          | \$265,130.00          | \$0.00               | 3.467    | 3.058 |
| 04/14/2011      | Wal-Mart Stores            | US Corporate | 05/15/2014 | \$225,000.00          | \$235,851.75          | \$235,851.75          | \$0.00               | 2.907    | 1.592 |
| 04/14/2011      | IBM Corp                   | US Corporate | 01/05/2016 | \$300,000.00          | \$291,477.00          | \$291,477.00          | \$0.00               | 4.439    | 2.643 |
| 04/12/2011      | US Treasury                | US Treasury  | 08/15/2016 | \$1,000,000.00        | \$1,123,519.63        | \$1,123,519.63        | \$0.00               | 4.720    | 2.398 |
| 04/12/2011      | FHLMC                      | Agency       | 03/27/2019 | \$1,000,000.00        | \$1,025,886.00        | \$1,025,886.00        | \$0.00               | 6.843    | 3.376 |
| 04/07/2011      | Tennessee Valley Authority | Agency       | 02/15/2021 | \$2,120,000.00        | \$2,121,611.20        | \$2,121,611.20        | \$0.00               | 8.079    | 3.865 |
|                 |                            |              |            | <b>\$6,205,000.00</b> | <b>\$6,373,606.58</b> | <b>\$6,373,606.58</b> | <b>\$0.00</b>        |          |       |
| <b>Sale</b>     |                            |              |            |                       |                       |                       |                      |          |       |
| 04/07/2011      | FFCB                       | Agency       | 04/17/2014 | \$2,040,000.00        | \$2,137,426.16        | \$2,108,605.20        | (\$28,820.96)        | 2.876    | 1.485 |
|                 |                            |              |            | <b>\$2,040,000.00</b> | <b>\$2,137,426.16</b> | <b>\$2,108,605.20</b> | <b>(\$28,820.96)</b> |          |       |

April's transactions invested both the \$4 million contribution received at the end of March, and the proceeds of one security sale. We extended the portfolio duration with Agency and Corporate security transactions. We positioned the portfolio duration to be slightly shorter than that of the benchmark index. For the month, our sale transaction realized a loss of \$28,821.

### 40- Trading Activity -4/30/2011 -5/31/2011

| Settle Date     | Description | MIG    | Mat Date   | Amount                | Book Value            | Market Value          | Gain/Loss          | Duration | Yield |
|-----------------|-------------|--------|------------|-----------------------|-----------------------|-----------------------|--------------------|----------|-------|
| <b>Purchase</b> |             |        |            |                       |                       |                       |                    |          |       |
| 05/02/2011      | FHLMC       | Agency | 06/13/2018 | \$750,000.00          | \$844,345.50          | \$844,345.50          | \$0.00             | 5.979    | 2.904 |
| 05/02/2011      | FHLMC       | Agency | 03/27/2019 | \$650,000.00          | \$679,096.60          | \$679,096.60          | \$0.00             | 6.809    | 3.107 |
|                 |             |        |            | <b>\$1,400,000.00</b> | <b>\$1,523,442.10</b> | <b>\$1,523,442.10</b> | <b>\$0.00</b>      |          |       |
| <b>Sale</b>     |             |        |            |                       |                       |                       |                    |          |       |
| 05/02/2011      | FHLB        | Agency | 08/19/2011 | \$1,730,000.00        | \$1,732,186.27        | \$1,757,046.82        | \$24,860.55        | 0.297    | 0.112 |
|                 |             |        |            | <b>\$1,730,000.00</b> | <b>\$1,732,186.27</b> | <b>\$1,757,046.82</b> | <b>\$24,860.55</b> |          |       |

May's transactions adjusted the portfolio duration to maintain our slightly shorter than the benchmark index duration. We invested our sale proceeds in two existing Agency security positions. Our sale transaction realized a gain of \$24,861.

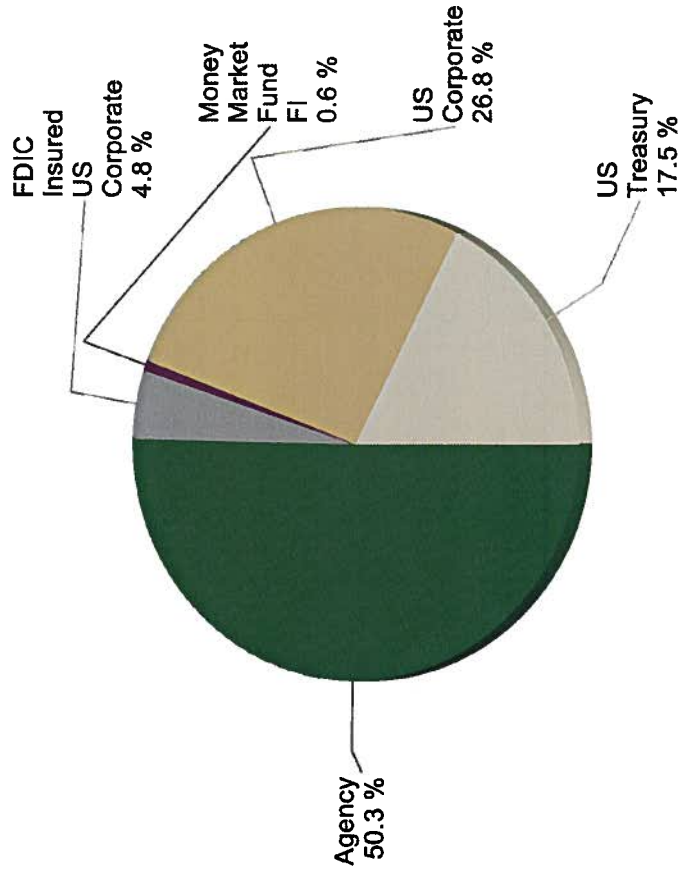
### 40- Trading Activity -5/31/2011 -6/30/2011

| Settle Date     | Description      | MHG                       | Mat Date   | Amount                | Book Value            | Market Value          | Gain/Loss           | Duration | Yield |
|-----------------|------------------|---------------------------|------------|-----------------------|-----------------------|-----------------------|---------------------|----------|-------|
| <b>Purchase</b> |                  |                           |            |                       |                       |                       |                     |          |       |
| 06/03/2011      | FHLMC            | Agency                    | 06/13/2018 | \$1,200,000.00        | \$1,380,303.60        | \$1,380,303.60        | \$0.00              | 5.920    | 2.528 |
| 06/03/2011      | US Treasury      | US Treasury               | 02/15/2021 | \$1,425,000.00        | \$1,505,662.92        | \$1,505,662.92        | \$0.00              | 8.109    | 2.949 |
| 06/08/2011      | FHLB             | Agency                    | 08/15/2019 | \$2,000,000.00        | \$2,303,860.00        | \$2,303,860.00        | \$0.00              | 6.706    | 3.016 |
|                 |                  |                           |            | <b>\$4,625,000.00</b> | <b>\$5,189,826.52</b> | <b>\$5,189,826.52</b> | <b>\$0.00</b>       |          |       |
| <b>Sale</b>     |                  |                           |            |                       |                       |                       |                     |          |       |
| 06/08/2011      | FHLMC            | Agency                    | 03/27/2019 | \$2,150,000.00        | \$2,195,353.51        | \$2,299,059.50        | \$103,705.99        | 6.736    | 2.756 |
| 06/03/2011      | PNC Funding Corp | FDIC Insured US Corporate | 06/22/2012 | \$2,145,000.00        | \$2,160,161.87        | \$2,190,791.46        | \$30,629.59         | 1.035    | 0.268 |
|                 |                  |                           |            | <b>\$4,295,000.00</b> | <b>\$4,355,515.38</b> | <b>\$4,489,850.96</b> | <b>\$134,335.58</b> |          |       |

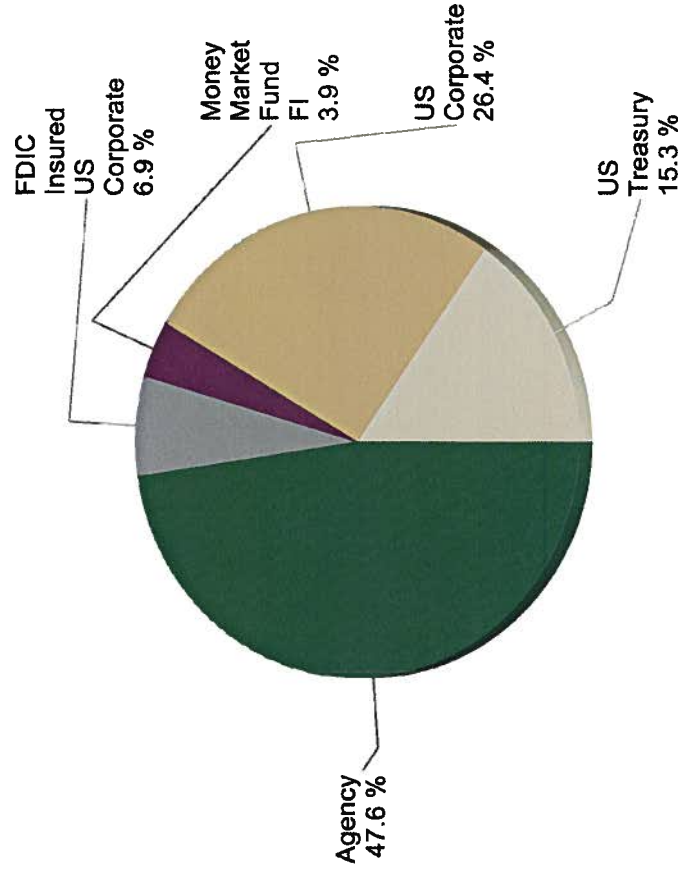
June's transactions maintained the portfolio duration at slightly shorter than the benchmark index duration target. We purchased Treasury and Agency securities this month. Our sale transactions included a FDIC Insured Corporate and an Agency security. The cumulative sale transactions realized gains of \$134,336.

**Moulton Niguel Water District Operating Reserve**

**June 30, 2011**



**March 31, 2011**

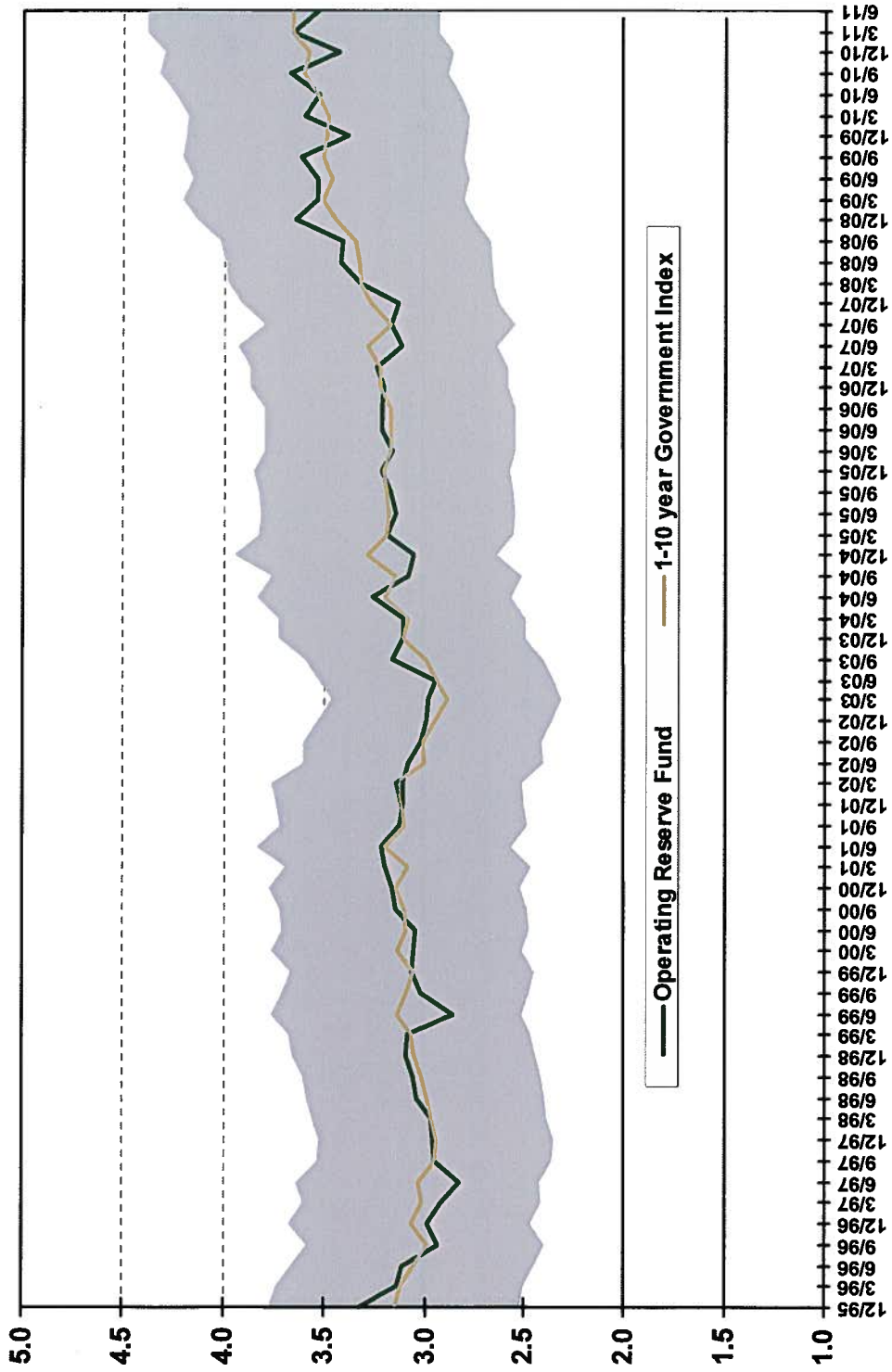


The portfolio sector allocation has changed modestly as we increased our holdings in Agencies and Treasuries by 2.7% and 2.2%, respectively. We also decreased our holdings in the Money Fund and FDIC Insured Corporates by 3.3% and 2.1%.



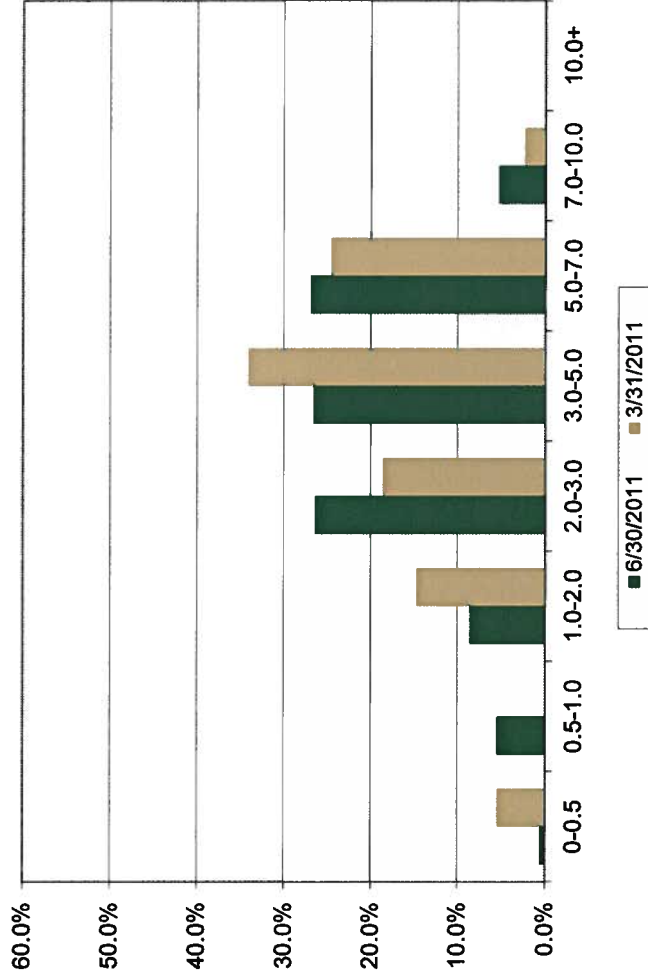
# EXPOSURE TO MARKET RISK

## Operating Reserve Fund Duration Compared to 1 - 10 Year Government Index Duration



# GA | MATURITY DISTRIBUTION

Operating Reserve Fund  
June 30, 2011 vs. March 31, 2011



|           | 0-0.5 | 0.5-1.0 | 1.0-2.0 | 2.0-3.0 | 3.0-5.0 | 5.0-7.0 | 7.0-10.0 | 10.0+ |
|-----------|-------|---------|---------|---------|---------|---------|----------|-------|
| 6/30/2011 | 0.6%  | 5.5%    | 8.6%    | 26.4%   | 26.6%   | 26.9%   | 5.3%     | 0.0%  |
| 3/31/2011 | 5.5%  | 0.0%    | 14.8%   | 18.6%   | 34.2%   | 24.6%   | 2.4%     | 0.0%  |

Given the risk/reward profile of the fixed income markets, Chandler continues to position the portfolio duration to be slightly shorter than that of the District's 1-10 Year Government benchmark.



# INVESTMENT PERFORMANCE

## Moulton Niguel Water District Operating Reserve

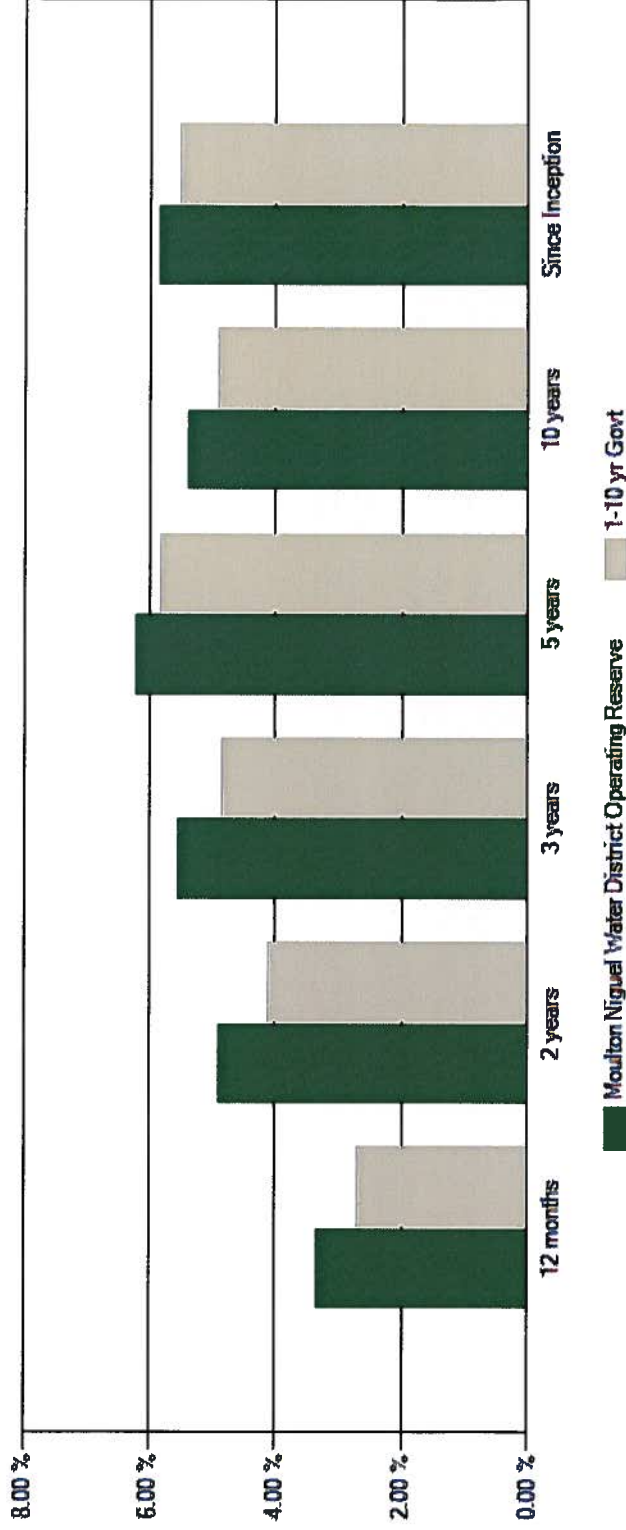
Period Ending

June 30, 2011

Total Rate of Return

Annualized Since Inception

September 30, 1995

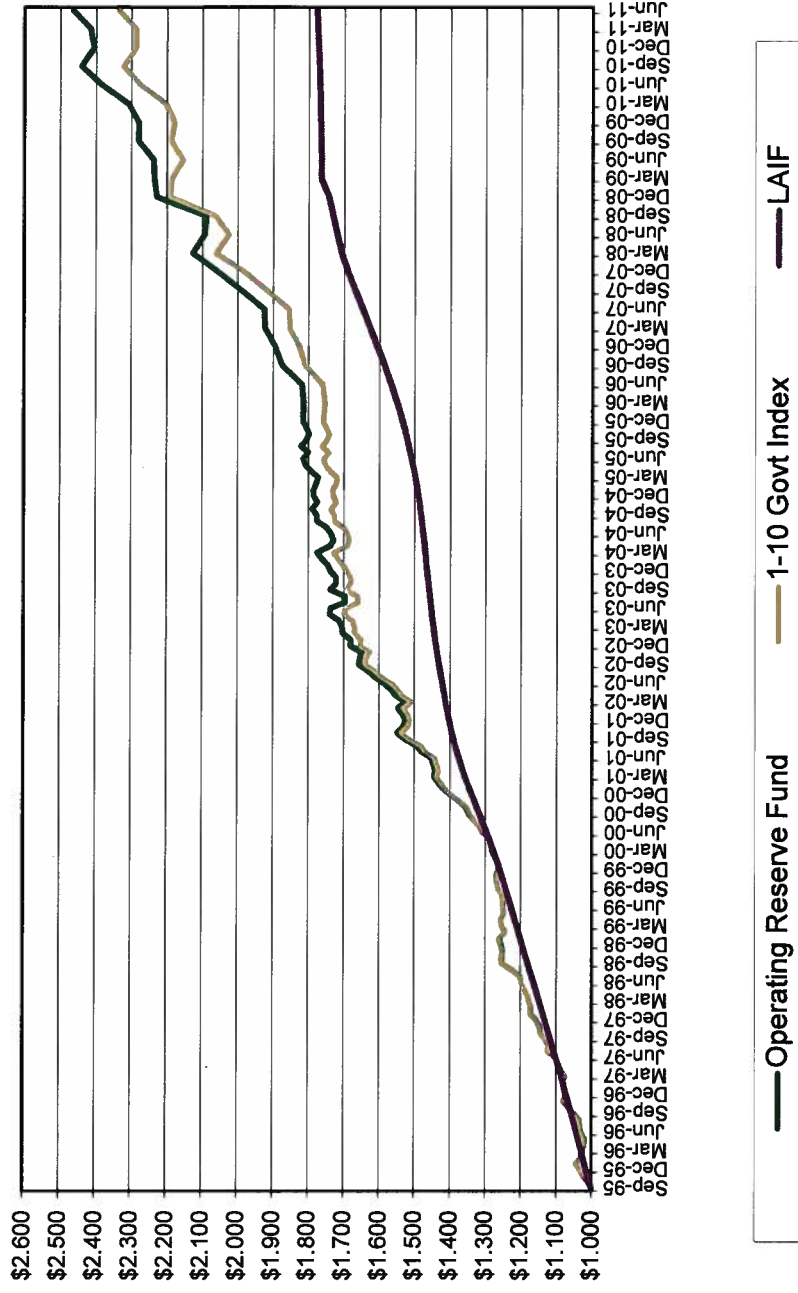


|   | Annualized |           |         |         |         |          |                 |
|---|------------|-----------|---------|---------|---------|----------|-----------------|
|   | 3 months   | 12 months | 2 years | 3 years | 5 years | 10 years | Since Inception |
| Moulton Niguel Water District Operating Reserve | 2.04 %     | 3.36 %    | 4.93 %  | 5.58 %  | 6.25 %  | 5.43 %   | 5.89 %          |
| 1-10 yr Govt                                    | 2.14 %     | 2.72 %    | 4.14 %  | 4.89 %  | 5.85 %  | 4.93 %   | 5.54 %          |

Total rate of return: A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains and losses in the portfolio.

# CAI | GROWTH OVER TIME

Operating Reserve Fund  
Growth of \$1 million



## Historical return on \$1 million invested in September 1995

| 6/30/2011   | Return |
|-------------|--------|
| \$2,463,430 | 5.89%  |
| \$2,336,236 | 5.54%  |
| \$1,775,737 | 3.71%  |

Operating Reserve Fund  
1-10 Govt Index  
LAIF



## SECTION 2

# PORTFOLIO HOLDINGS



**Moulton Niguel Water District Operating Reserve**  
**Account #40**

**Issuer Report**  
 As of 6/30/2011

| Issue Name                             | Investment Type           | % Portfolio     |
|--|---------------------------|-----------------|
| Government of United States            | US Treasury               | 17.48 %         |
| Federal National Mortgage Association  | Agency                    | 11.32 %         |
| Federal Home Loan Mortgage Corp        | Agency                    | 11.13 %         |
| Tennessee Valley Authority             | Agency                    | 10.91 %         |
| Federal Home Loan Bank                 | Agency                    | 10.80 %         |
| Federal Farm Credit Bank               | Agency                    | 6.19 %          |
| Goldman Sachs FDIC Insured             | FDIC Insured US Corporate | 2.23 %          |
| General Electric Co                    | US Corporate              | 1.86 %          |
| JP Morgan Chase & Co                   | US Corporate              | 1.77 %          |
| Wells Fargo Corp                       | US Corporate              | 1.75 %          |
| IBM Corp                               | US Corporate              | 1.72 %          |
| Wal-Mart Stores                        | US Corporate              | 1.61 %          |
| Berkshire Hathaway                     | US Corporate              | 1.54 %          |
| Wells Fargo Corp FDIC Insured          | FDIC Insured US Corporate | 1.53 %          |
| Chevron Texaco Corp                    | US Corporate              | 1.49 %          |
| Pepsico Inc                            | US Corporate              | 1.45 %          |
| US Bancorp                             | US Corporate              | 1.45 %          |
| Bank of New York                       | US Corporate              | 1.41 %          |
| Morgan Stanley                         | US Corporate              | 1.40 %          |
| Ebay                                   | US Corporate              | 1.40 %          |
| Northern Trust Corp                    | US Corporate              | 1.10 %          |
| Deere & Company                        | US Corporate              | 1.06 %          |
| BlackRock Inc/New York                 | US Corporate              | 1.01 %          |
| Hewlett-Packard Corp                   | US Corporate              | 1.01 %          |
| JP Morgan FDIC Insured                 | FDIC Insured US Corporate | 1.00 %          |
| Walt Disney Company                    | US Corporate              | 0.99 %          |
| Praxair                                | US Corporate              | 0.99 %          |
| United Technology Corp                 | US Corporate              | 0.93 %          |
| Pfizer Inc.                            | US Corporate              | 0.82 %          |
| Wells Fargo Adv Govt Money Market Fund | Money Market Fund FI      | 0.64 %          |
| <b>Total</b>                           |                           | <b>100.00 %</b> |



**Moulton Niguel Water District Operating Reserve  
Account #40**

**Holdings Report**

As of 6/30/11

| CUSIP      | Security Description                                    | Par Value/Units | Purchase Date<br>Book Yield | Cost Value<br>Book Value     | Mkt Price<br>Mkt YTM | Market Value<br>Accrued Int. | % of Port.<br>Gain/Loss | Moody<br>S&P | Term (yrs)<br>Duration |
|------------|---|-----------------|-----------------------------|------------------------------|----------------------|------------------------------|-------------------------|--------------|------------------------|
| 880591DT6  | Tennessee Valley Authority Note<br>6.79% Due 5/23/2012  | 865,000.00      | 06/18/2008<br>4.15 %        | 946,811.70<br>883,655.81     | 105.74<br>0.37 %     | 914,684.74<br>6,199.65       | 0.81 %<br>31,028.93     | Aaa<br>AAA   | 0.90<br>0.88           |
| 3133XML66  | FHLB Note<br>4.625% Due 10/10/2012                      | 2,000,000.00    | 01/06/2011<br>0.73 %        | 2,135,770.00<br>2,098,761.04 | 105.48<br>0.32 %     | 2,109,590.00<br>20,812.50    | 1.87 %<br>10,828.96     | Aaa<br>AAA   | 1.28<br>1.24           |
| 31339X2M5  | FHLB Note<br>3.875% Due 6/14/2013                       | 1,800,000.00    | 06/14/2006<br>5.38 %        | 1,644,172.20<br>1,756,470.64 | 106.53<br>0.52 %     | 1,917,516.60<br>3,293.75     | 1.69 %<br>161,045.96    | Aaa<br>AAA   | 1.96<br>1.90           |
| 313331BV8  | FHLB Note<br>4.5% Due 9/16/2013                         | 2,000,000.00    | 06/13/2007<br>5.56 %        | 1,889,560.00<br>1,960,947.26 | 108.52<br>0.61 %     | 2,170,370.00<br>26,250.00    | 1.93 %<br>209,422.74    | Aaa<br>AAA   | 2.22<br>2.10           |
| 31331KET3  | FFCB Note<br>0.98% Due 9/23/2013                        | 1,190,000.00    | 03/28/2011<br>1.10 %        | 1,186,513.30<br>1,186,870.42 | 100.78<br>0.63 %     | 1,199,241.54<br>3,174.66     | 1.06 %<br>12,371.12     | Aaa<br>AAA   | 2.24<br>2.20           |
| 31398AA47  | FNMA Callable Note 1X 9/27/11<br>1.2% Due 9/27/2013     | 2,150,000.00    | 09/10/2010<br>1.20 %        | 2,150,000.00<br>2,150,000.00 | 100.21<br>0.35 %     | 2,154,409.65<br>6,736.67     | 1.90 %<br>4,409.65      | Aaa<br>AAA   | 0.24<br>0.24           |
| 3137EACL1  | FHLMC Note<br>0.875% Due 10/28/2013                     | 2,075,000.00    | 01/06/2011<br>1.22 %        | 2,055,474.25<br>2,058,807.91 | 100.46<br>0.68 %     | 2,084,555.38<br>3,177.34     | 1.84 %<br>25,747.47     | Aaa<br>AAA   | 2.33<br>2.30           |
| 31398A5W8  | FNMA Note<br>0.75% Due 12/18/2013                       | 1,325,000.00    | 01/06/2011<br>1.28 %        | 1,304,841.45<br>1,308,120.02 | 99.99<br>0.76 %      | 1,324,806.55<br>358.85       | 1.17 %<br>16,686.53     | Aaa<br>AAA   | 2.47<br>2.44           |
| 3134A4UM4  | FHLMC Note<br>4.5% Due 1/15/2014                        | 1,200,000.00    | 05/03/2004<br>5.03 %        | 1,151,736.00<br>1,187,341.26 | 109.35<br>0.78 %     | 1,312,161.60<br>24,900.00    | 1.18 %<br>124,820.34    | Aaa<br>AAA   | 2.55<br>2.38           |
| 313337FK5  | FHLB Note<br>5.25% Due 6/18/2014                        | 1,925,000.00    | 12/02/2004<br>4.72 %        | 2,002,030.80<br>1,948,965.63 | 112.71<br>0.90 %     | 2,169,609.75<br>3,649.48     | 1.91 %<br>220,644.12    | Aaa<br>AAA   | 2.97<br>2.78           |
| 31333XVNU1 | FHLB Note<br>2.75% Due 12/12/2014                       | 350,000.00      | 02/04/2010<br>2.62 %        | 352,075.50<br>351,476.64     | 105.21<br>1.20 %     | 368,223.80<br>507.99         | 0.32 %<br>16,747.16     | Aaa<br>AAA   | 3.45<br>3.30           |
| 3134G2EF5  | FHLMC Callable Note 1X 1/26/12<br>2.1% Due 1/26/2015    | 1,310,000.00    | 04/04/2011<br>2.10 %        | 1,310,131.00<br>1,310,124.69 | 100.88<br>0.56 %     | 1,321,526.69<br>4,967.08     | 1.17 %<br>11,402.00     | Aaa<br>AAA   | 0.58<br>1.03           |
| 880591DY5  | Tennessee Valley Authority Note<br>4.375% Due 6/15/2015 | 1,040,000.00    | 12/03/2009<br>2.74 %        | 1,126,819.20<br>1,102,136.57 | 110.45<br>1.64 %     | 1,148,676.88<br>2,022.22     | 1.01 %<br>46,540.31     | Aaa<br>AAA   | 3.96<br>3.66           |
| 3136FPEG6  | FNMA Callable Note 1X 9/9/11<br>1.85% Due 9/9/2015      | 1,230,000.00    | 09/16/2010<br>1.89 %        | 1,227,847.50<br>1,228,187.31 | 99.57<br>1.96 %      | 1,224,709.77<br>7,079.33     | 1.08 %<br>(3,477.54)    | Aaa<br>AAA   | 4.20<br>2.00           |
| 31331VGU4  | FFCB Note<br>4.875% Due 12/16/2015                      | 3,425,000.00    | Various<br>4.26 %           | 3,561,575.25<br>3,504,506.15 | 113.56<br>1.71 %     | 3,889,406.03<br>6,957.03     | 3.43 %<br>384,899.88    | Aaa<br>AAA   | 4.47<br>4.05           |
| 31331J6C2  | FFCB Note<br>2.35% Due 12/22/2015                       | 1,200,000.00    | 03/28/2011<br>2.27 %        | 1,204,344.00<br>1,204,107.83 | 102.18<br>1.84 %     | 1,226,128.80<br>705.00       | 1.08 %<br>22,020.97     | Aaa<br>AAA   | 4.48<br>4.24           |
| 3135G0BA0  | FNMA Note<br>2.375% Due 4/11/2016                       | 2,695,000.00    | Various<br>2.47 %           | 2,683,284.45<br>2,684,006.46 | 102.08<br>1.92 %     | 2,751,096.43<br>14,223.61    | 2.43 %<br>67,089.97     | Aaa<br>AAA   | 4.79<br>4.48           |
| 3137EAAG4  | FHLMC Note<br>5.5% Due 7/18/2016                        | 2,350,000.00    | 12/12/2007<br>4.61 %        | 2,497,114.70<br>2,436,394.75 | 116.26<br>2.09 %     | 2,731,999.55<br>58,521.53    | 2.45 %<br>295,604.80    | Aaa<br>AAA   | 5.05<br>4.39           |
| 31359M4D2  | FNMA Note<br>5% Due 2/13/2017                           | 1,200,000.00    | 02/03/2011<br>2.93 %        | 1,336,435.20<br>1,327,322.99 | 114.18<br>2.30 %     | 1,370,162.40<br>23,000.00    | 1.23 %<br>42,839.41     | Aaa<br>AAA   | 5.63<br>4.88           |
| 31359M7X5  | FNMA Note<br>5% Due 5/1/2017                            | 2,250,000.00    | 12/31/2009<br>3.68 %        | 2,439,447.75<br>2,401,120.58 | 114.39<br>2.36 %     | 2,573,680.50<br>15,625.00    | 2.28 %<br>172,559.92    | Aaa<br>AAA   | 5.87<br>5.12           |



**Moulton Niguel Water District Operating Reserve  
Account #40**

**Holdings Report  
As of 6/30/11**

| CUSIP                                  | Security Description  | Par Value/Units      | Purchase Date<br>Book Yield | Cost Value<br>Book Value                     | Mkt Price<br>Mkt YTM | Market Value<br>Accrued Int.              | % of Port.<br>Gain/Loss               | Moody<br>S&P             | Term (yrs)<br>Duration     |
|--|---|----------------------|-----------------------------|--|----------------------|---|---------------------------------------|--------------------------|----------------------------|
| <b>AGENCY</b>                          |   |                      |                             |  |                      |   |                                       |                          |                            |
| 31398ADM1                              | FNMA Note<br>5.375% Due 6/12/2017                                     | 1,200,000.00         | Various<br>3.58 %           | 1,341,020.65<br>1,311,758.66                 | 116.39<br>2.40 %     | 1,396,650.00<br>3,404.16                  | 1.23 %<br>84,891.34                   | Aaa<br>AAA               | 5.96<br>5.16               |
| 880591EA6                              | Tennessee Valley Authority Note<br>5.5% Due 7/18/2017                 | 2,460,000.00         | Various<br>4.32 %           | 2,660,209.76<br>2,605,574.14                 | 116.82<br>2.49 %     | 2,873,680.98<br>61,260.84                 | 2.58 %<br>268,106.84                  | Aaa<br>AAA               | 6.05<br>5.13               |
| 3137EABA6                              | FHLMC Note<br>5.125% Due 1/17/2017                                    | 2,500,000.00         | 02/03/2011<br>3.13 %        | 2,802,150.00<br>2,784,225.85                 | 114.82<br>2.59 %     | 2,870,415.00<br>15,659.72                 | 2.54 %<br>86,189.15                   | Aaa<br>AAA               | 6.39<br>5.49               |
| 313372C36                              | FHLB Note<br>3.125% Due 12/8/2017                                     | 1,150,000.00         | 03/18/2011<br>2.87 %        | 1,167,848.00<br>1,167,106.15                 | 102.37<br>2.72 %     | 1,177,306.75<br>2,296.01                  | 1.04 %<br>10,200.60                   | Aaa<br>AAA               | 6.45<br>5.80               |
| 880591CU4                              | Tennessee Valley Authority Note<br>6.25% Due 12/15/2017               | 3,090,000.00         | Various<br>4.51 %           | 3,477,381.80<br>3,372,048.73                 | 120.94<br>2.69 %     | 3,737,181.96<br>8,583.33                  | 3.30 %<br>365,133.23                  | Aaa<br>AAA               | 6.47<br>5.44               |
| 880591EC2                              | Tennessee Valley Authority Note<br>4.5% Due 4/1/2018                  | 1,285,000.00         | Various<br>3.89 %           | 1,342,746.36<br>1,329,264.53                 | 110.70<br>2.75 %     | 1,422,521.99<br>14,456.25                 | 1.26 %<br>93,257.46                   | Aaa<br>AAA               | 6.76<br>5.81               |
| 31331YF21                              | FFCB Note<br>4.25% Due 4/16/2018                                      | 650,000.00           | 07/15/2010<br>2.98 %        | 706,634.50<br>699,632.71                     | 108.37<br>2.88 %     | 704,384.85<br>5,755.21                    | 0.62 %<br>4,752.14                    | Aaa<br>AAA               | 6.80<br>5.88               |
| 3137EABP3                              | FHLMC Note<br>4.875% Due 6/13/2018                                    | 1,950,000.00         | Various<br>2.67 %           | 2,224,649.10<br>2,220,504.37                 | 113.66<br>2.71 %     | 2,216,332.95<br>4,753.13                  | 1.95 %<br>(4,171.42)                  | Aaa<br>AAA               | 6.96<br>5.96               |
| 3133X8AS1                              | FHLB Note<br>5.125% Due 8/15/2019                                     | 2,000,000.00         | 06/07/2011<br>3.02 %        | 2,303,860.00<br>2,301,522.62                 | 113.55<br>3.22 %     | 2,271,014.00<br>38,722.22                 | 2.03 %<br>(30,508.62)                 | Aaa<br>AAA               | 8.13<br>6.63               |
| 880591EL2                              | Tennessee Valley Authority Note<br>3.875% Due 2/15/2021               | 2,120,000.00         | 04/06/2011<br>3.87 %        | 2,121,611.20<br>2,121,573.18                 | 102.72<br>3.54 %     | 2,177,700.04<br>32,631.81                 | 1.94 %<br>56,126.86                   | Aaa<br>AAA               | 9.64<br>7.89               |
| <b>Total Agency</b>                    |   | <b>51,985,000.00</b> | <b>3.29 %</b>               | <b>54,354,095.62</b><br><b>54,002,534.90</b> | <b>1.81 %</b>        | <b>56,809,745.18</b><br><b>419,684.37</b> | <b>50.35 %</b><br><b>2,807,210.28</b> | <b>Aaa</b><br><b>AAA</b> | <b>4.63</b><br><b>4.04</b> |
| <b>FDIC INSURED US CORPORATE</b>       |   |                      |                             |  |                      |   |                                       |                          |                            |
| 38146FAA9                              | Goldman Sachs FDIC Guaranteed Note<br>3.25% Due 6/15/2012             | 2,460,000.00         | Various<br>1.85 %           | 2,560,839.46<br>2,491,956.32                 | 102.81<br>0.31 %     | 2,529,034.98<br>3,553.34                  | 2.23 %<br>37,078.66                   | Aaa<br>AAA               | 0.96<br>0.95               |
| 949744AC0                              | Wells Fargo & Company FDIC<br>Guaranteed Note<br>2.125% Due 6/15/2012 | 1,705,000.00         | Various<br>1.77 %           | 1,721,848.95<br>1,710,715.14                 | 101.69<br>0.35 %     | 1,733,867.36<br>1,610.27                  | 1.53 %<br>23,152.22                   | Aaa<br>AAA               | 0.96<br>0.95               |
| 481247AM6                              | JP Morgan Chase FDIC Guaranteed<br>Note<br>2.125% Due 12/26/2012      | 1,105,000.00         | Various<br>1.91 %           | 1,112,111.98<br>1,108,396.45                 | 102.40<br>0.50 %     | 1,131,553.15<br>326.13                    | 1.00 %<br>23,156.70                   | Aaa<br>AAA               | 1.49<br>1.47               |
| <b>Total FDIC Insured US Corporate</b> |   | <b>5,270,000.00</b>  | <b>1.84 %</b>               | <b>5,394,800.39</b><br><b>5,311,067.91</b>   | <b>0.37 %</b>        | <b>5,394,455.49</b><br><b>5,489.74</b>    | <b>4.75 %</b><br><b>83,387.58</b>     | <b>Aaa</b><br><b>AAA</b> | <b>1.07</b><br><b>1.06</b> |
| <b>MONEY MARKET FUND FI</b>            |   |                      |                             |  |                      |   |                                       |                          |                            |
| 94975J466                              | Wells Fargo Advantage Government<br>MMF                               | 730,443.61           | Various<br>0.01 %           | 730,443.61<br>730,443.61                     | 1.00<br>0.01 %       | 730,443.61<br>0.00                        | 0.64 %<br>0.00                        | NR<br>NR                 | 0.00<br>0.00               |
| <b>Total Money Market Fund FI</b>      |   | <b>730,443.61</b>    | <b>0.01 %</b>               | <b>730,443.61</b><br><b>730,443.61</b>       | <b>0.01 %</b>        | <b>730,443.61</b><br><b>0.00</b>          | <b>0.64 %</b><br><b>0.00</b>          | <b>NR</b><br><b>NR</b>   | <b>0.00</b><br><b>0.00</b> |



**Moulton Niguel Water District Operating Reserve  
Account #40**

**Holdings Report  
As of 6/30/11**

| CUSIP               | Security Description  | Par Value/Units | Purchase Date<br>Book Yield | Cost Value<br>Book Value     | Mkt Price<br>Mkt YTM | Market Value<br>Accrued Int. | % of Port.<br>Gain/Loss | Moody<br>S&P | Term (yrs)<br>Duration |
|---------------------|---|-----------------|-----------------------------|------------------------------|----------------------|------------------------------|-------------------------|--------------|------------------------|
| <b>US CORPORATE</b> |   |                 |                             |                              |                      |                              |                         |              |                        |
| 913017BF5           | United Tech Corp Note<br>6.1% Due 5/15/2012                   | 1,000,000.00    | 08/14/2008<br>4.35 %        | 1,059,810.00<br>1,013,977.58 | 104.90<br>0.48 %     | 1,049,025.00<br>7,794.44     | 0.93 %<br>35,047.42     | A2<br>A      | 0.88<br>0.86           |
| 91159HG0            | US Bancorp Callable Note Cont 8/13/13<br>1.375% Due 9/13/2013 | 1,635,000.00    | Various<br>1.32 %           | 1,637,475.35<br>1,636,851.93 | 100.45<br>1.16 %     | 1,642,401.65<br>6,744.38     | 1.45 %<br>5,549.72      | Aa3<br>A+    | 2.18<br>2.08           |
| 254687AW6           | Walt Disney Corp Note<br>4.5% Due 12/15/2013                  | 1,040,000.00    | Various<br>1.23 %           | 1,133,072.20<br>1,121,874.66 | 108.53<br>0.98 %     | 1,128,762.96<br>2,080.00     | 0.99 %<br>6,888.30      | A2<br>A      | 2.46<br>2.34           |
| 717081AR4           | Pfizer Inc. Note<br>4.5% Due 2/15/2014                        | 840,000.00      | Various<br>3.36 %           | 881,653.50<br>862,985.77     | 108.64<br>1.15 %     | 912,544.93<br>14,280.00      | 0.82 %<br>49,559.16     | A1<br>AA     | 2.63<br>2.46           |
| 166751AH0           | ChevronTexaco Corp Note<br>3.95% Due 3/3/2014                 | 1,550,000.00    | Various<br>2.53 %           | 1,634,065.25<br>1,605,624.76 | 107.76<br>1.00 %     | 1,670,337.36<br>20,068.20    | 1.49 %<br>64,712.60     | Aa1<br>AA    | 2.68<br>2.53           |
| 24422ERA9           | John Deere Capital Corp Note<br>1.6% Due 3/3/2014             | 1,190,000.00    | Various<br>1.68 %           | 1,187,240.15<br>1,187,532.13 | 101.12<br>1.17 %     | 1,203,349.42<br>6,240.89     | 1.06 %<br>15,817.29     | A2<br>A      | 2.68<br>2.60           |
| 665859AK0           | Northern Trust Company Note<br>4.625% Due 5/1/2014            | 1,140,000.00    | Various<br>2.47 %           | 1,235,765.65<br>1,205,846.19 | 109.21<br>1.31 %     | 1,244,947.27<br>8,787.50     | 1.10 %<br>39,101.08     | A1<br>AA-    | 2.84<br>2.66           |
| 36962G4C5           | General Electric Capital Corp Note<br>5.9% Due 5/13/2014      | 1,885,000.00    | Various<br>3.63 %           | 2,045,003.00<br>1,997,462.67 | 111.09<br>1.91 %     | 2,094,063.47<br>14,828.67    | 1.86 %<br>96,600.80     | Aa2<br>AA+   | 2.87<br>2.65           |
| 61747YCF0           | Morgan Stanley Note<br>6% Due 5/13/2014                       | 1,455,000.00    | Various<br>4.05 %           | 1,553,098.45<br>1,529,618.42 | 108.91<br>2.75 %     | 1,584,669.60<br>11,640.00    | 1.40 %<br>55,051.18     | A2<br>A      | 2.87<br>2.63           |
| 931142CQ4           | Wal-Mart Stores Note<br>3.2% Due 5/15/2014                    | 1,725,000.00    | Various<br>1.60 %           | 1,823,201.61<br>1,801,439.29 | 105.67<br>1.19 %     | 1,822,855.81<br>7,053.33     | 1.61 %<br>21,416.52     | Aa2<br>AA    | 2.88<br>2.75           |
| 428236AV5           | Hewlett Packard Company Note<br>4.75% Due 6/2/2014            | 1,050,000.00    | Various<br>2.66 %           | 1,136,909.90<br>1,110,344.51 | 109.13<br>1.54 %     | 1,145,824.05<br>4,017.71     | 1.01 %<br>35,479.54     | A2<br>A      | 2.93<br>2.74           |
| 74005PAQ7           | Praxair Note<br>5.25% Due 11/15/2014                          | 515,000.00      | 09/24/2010<br>1.60 %        | 589,808.90<br>576,166.69     | 112.33<br>1.49 %     | 578,487.65<br>3,454.79       | 0.51 %<br>2,320.96      | A2<br>A      | 3.38<br>3.11           |
| 09247XAD3           | Blackrock Inc Note<br>3.5% Due 12/10/2014                     | 1,090,000.00    | Various<br>2.84 %           | 1,120,065.90<br>1,113,020.97 | 105.39<br>1.88 %     | 1,148,713.94<br>2,225.42     | 1.01 %<br>35,692.97     | A1<br>A+     | 3.45<br>3.24           |
| 713448BM9           | Pepsico Inc. Note<br>3.1% Due 1/15/2015                       | 1,550,000.00    | Various<br>2.10 %           | 1,614,584.35<br>1,601,951.15 | 104.97<br>1.65 %     | 1,627,007.10<br>22,156.38    | 1.45 %<br>25,055.95     | Aa3<br>A-    | 3.55<br>3.31           |
| 46625HHP8           | JP Morgan Chase Note<br>3.7% Due 1/20/2015                    | 1,900,000.00    | Various<br>3.16 %           | 1,939,327.10<br>1,933,918.51 | 103.98<br>2.52 %     | 1,975,633.31<br>31,439.72    | 1.77 %<br>41,714.80     | Aa3<br>A+    | 3.56<br>3.28           |
| 94980VAA6           | Wells Fargo Bank Note<br>4.75% Due 2/9/2015                   | 1,825,000.00    | Various<br>3.52 %           | 1,914,016.00<br>1,899,197.53 | 106.96<br>2.71 %     | 1,951,992.63<br>34,193.41    | 1.75 %<br>52,795.10     | Aa3<br>AA-   | 3.62<br>3.27           |
| 084670AV0           | Berkshire Hathaway Note<br>3.2% Due 2/11/2015                 | 1,665,000.00    | Various<br>3.12 %           | 1,670,612.45<br>1,669,413.59 | 104.23<br>1.98 %     | 1,735,351.25<br>20,720.00    | 1.54 %<br>65,937.66     | Aa2<br>AA+   | 3.62<br>3.37           |
| 06406JHB4           | Bank of New York Mellon Note<br>4.95% Due 3/15/2015           | 1,445,000.00    | Various<br>2.11 %           | 1,620,058.00<br>1,589,108.00 | 109.67<br>2.22 %     | 1,584,771.96<br>21,060.88    | 1.41 %<br>(4,336.04)    | Aa3<br>A+    | 3.71<br>3.37           |
| 74005PAR5           | Praxair Note<br>4.625% Due 3/30/2015                          | 490,000.00      | Various<br>2.58 %           | 534,803.30<br>525,103.94     | 110.26<br>1.78 %     | 540,263.22<br>5,728.58       | 0.48 %<br>15,159.28     | A2<br>A      | 3.75<br>3.44           |
| 278642AB9           | Ebay Inc Note<br>1.625% Due 10/15/2015                        | 1,625,000.00    | 10/22/2010<br>1.66 %        | 1,622,156.25<br>1,622,542.11 | 97.71<br>2.19 %      | 1,587,837.88<br>5,574.65     | 1.40 %<br>(34,704.23)   | A2<br>A      | 4.30<br>4.10           |



**Moulton Niguel Water District Operating Reserve  
Account #40**

**Holdings Report**  
As of 6/30/11

| CUSIP                                  | Security Description                      | Par Value/Units       | Purchase Date<br>Book Yield | Cost Value<br>Book Value                       | Mkt Price<br>Mkt YTM | Market Value<br>Accrued Int.               | % of Port.<br>Gain/Loss                | Moody<br>S&P             | Term (yrs)<br>Duration     |
|--|---|-----------------------|-----------------------------|--|----------------------|--|--|--------------------------|----------------------------|
| <b>US CORPORATE</b>                    |   |                       |                             |  |                      |  |  |                          |                            |
| 459200GU9                              | IBM Corp Note<br>2% Due 1/5/2016          | 1,950,000.00          | Various<br>2.77 %           | 1,882,374.00<br>1,887,200.78                   | 99.42<br>2.14 %      | 1,938,602.25<br>21,883.34                  | 1.72 %<br>51,401.47                    | Aa3<br>A+                | 4.52<br>4.24               |
| <b>Total US Corporate</b>              |   | <b>28,565,000.00</b>  | <b>2.62 %</b>               | <b>29,835,101.31</b><br><b>29,491,181.18</b>   | <b>1.76 %</b>        | <b>30,167,442.71</b><br><b>271,972.29</b>  | <b>26.78 %</b><br><b>676,261.53</b>    | <b>A1</b><br><b>A+</b>   | <b>3.17</b><br><b>2.96</b> |
| <b>US TREASURY</b>                     |   |                       |                             |  |                      |  |  |                          |                            |
| 912828GW4                              | US Treasury Note<br>4.875% Due 6/30/2012  | 2,000,000.00          | Various<br>4.08 %           | 2,033,361.05<br>2,015,319.45                   | 104.61<br>0.25 %     | 2,092,266.00<br>264.95                     | 1.84 %<br>76,946.55                    | TSY<br>TSY               | 1.00<br>0.99               |
| 912828HQ6                              | US Treasury Note<br>2.875% Due 1/31/2013  | 2,425,000.00          | 04/08/2008<br>2.69 %        | 2,445,271.50<br>2,431,687.98                   | 103.93<br>0.38 %     | 2,520,389.80<br>29,081.58                  | 2.24 %<br>88,701.82                    | TSY<br>TSY               | 1.59<br>1.54               |
| 912828CA6                              | US Treasury Note<br>4% Due 2/15/2014      | 1,900,000.00          | 05/07/2008<br>3.28 %        | 1,971,621.09<br>1,932,601.35                   | 108.63<br>0.68 %     | 2,063,875.00<br>28,552.49                  | 1.84 %<br>131,273.65                   | TSY<br>TSY               | 2.63<br>2.48               |
| 912828CJ7                              | US Treasury Note<br>4.75% Due 5/15/2014   | 800,000.00            | 03/23/2011<br>1.08 %        | 890,596.43<br>882,783.67                       | 111.34<br>0.76 %     | 890,687.20<br>4,853.26                     | 0.79 %<br>7,903.53                     | TSY<br>TSY               | 2.88<br>2.71               |
| 912828DM9                              | US Treasury Note<br>4% Due 2/15/2015      | 1,500,000.00          | Various<br>2.49 %           | 1,607,299.11<br>1,576,389.69                   | 110.22<br>1.12 %     | 1,653,282.00<br>22,541.44                  | 1.47 %<br>76,892.31                    | TSY<br>TSY               | 3.63<br>3.36               |
| 912828EW6                              | US Treasury Note<br>4.5% Due 2/15/2016    | 1,500,000.00          | 10/04/2007<br>4.45 %        | 1,504,980.47<br>1,502,755.15                   | 113.10<br>1.55 %     | 1,696,524.00<br>25,359.12                  | 1.51 %<br>193,768.85                   | TSY<br>TSY               | 4.63<br>4.16               |
| 912828FQ8                              | US Treasury Note<br>4.875% Due 8/15/2016  | 1,000,000.00          | 04/11/2011<br>2.40 %        | 1,123,519.63<br>1,118,457.35                   | 115.28<br>1.75 %     | 1,152,812.00<br>18,314.92                  | 1.03 %<br>34,354.65                    | TSY<br>TSY               | 5.13<br>4.53               |
| 912828FY1                              | US Treasury Note<br>4.625% Due 11/15/2016 | 2,750,000.00          | Various<br>3.02 %           | 2,997,790.21<br>2,962,560.65                   | 114.13<br>1.85 %     | 3,138,437.50<br>16,244.06                  | 2.78 %<br>175,876.85                   | TSY<br>TSY               | 5.38<br>4.79               |
| 912828GH7                              | US Treasury Note<br>4.625% Due 2/15/2017  | 800,000.00            | 07/12/2007<br>5.14 %        | 769,187.50<br>781,925.68                       | 114.10<br>1.97 %     | 912,812.80<br>13,900.55                    | 0.82 %<br>130,887.12                   | TSY<br>TSY               | 5.64<br>4.94               |
| 912828HH6                              | US Treasury Note<br>4.25% Due 11/15/2017  | 1,850,000.00          | 12/05/2007<br>3.94 %        | 1,896,755.86<br>1,879,981.94                   | 112.09<br>2.21 %     | 2,073,735.30<br>10,041.78                  | 1.83 %<br>193,753.36                   | TSY<br>TSY               | 6.38<br>5.61               |
| 912828PX2                              | US Treasury Note<br>3.625% Due 2/15/2021  | 1,425,000.00          | 06/02/2011<br>2.95 %        | 1,505,662.92<br>1,505,025.81                   | 104.27<br>3.11 %     | 1,485,895.95<br>19,406.77                  | 1.32 %<br>(19,129.86)                  | TSY<br>TSY               | 9.64<br>8.02               |
| <b>Total US Treasury</b>               |   | <b>17,950,000.00</b>  | <b>3.24 %</b>               | <b>18,746,045.77</b><br><b>18,589,488.72</b>   | <b>1.37 %</b>        | <b>19,680,717.55</b><br><b>188,560.92</b>  | <b>17.48 %</b><br><b>1,091,228.83</b>  | <b>TSY</b><br><b>TSY</b> | <b>4.24</b><br><b>3.78</b> |
| <b>TOTAL PORTFOLIO</b>                 |   | <b>104,500,443.61</b> | <b>3.00 %</b>               | <b>109,060,486.70</b><br><b>108,124,716.32</b> | <b>1.64 %</b>        | <b>112,782,804.54</b><br><b>885,707.32</b> | <b>100.00 %</b><br><b>4,658,088.22</b> | <b>Aa1</b><br><b>AAA</b> | <b>3.97</b><br><b>3.54</b> |
| <b>TOTAL MARKET VALUE PLUS ACCRUED</b> |   |                       |                             | <b>113,668,511.86</b>                          |                      |  |  |                          |                            |



**Moulton Niguel Water District Liquid Fund  
Account #41**

**Holdings Report**

As of 6/30/11

| CUSIP                                  | Security Description                       | Par Value/Units      | Purchase Date<br>Book Yield | Cost Value<br>Book Value                     | Mkt Price<br>Mkt YTM | Market Value<br>Accrued Int.            | % of Port.<br>Gain/Loss        | Moody<br>S&P           | Term (yrs)<br>Duration     |
|--|--|----------------------|-----------------------------|--|----------------------|---|--------------------------------|------------------------|----------------------------|
| 90LAIF\$00                             | Local Agency Investment Fund State<br>Pool | 12,936,791.46        | Various<br>0.39 %           | 12,936,791.46<br>12,936,791.46               | 1.00<br>0.39 %       | 12,936,791.46<br>9,542.55               | 100.00 %<br>0.00               | NR<br>NR               | 0.00<br>0.00               |
| <b>Total LAIF</b>                      |  | <b>12,936,791.46</b> | <b>0.39 %</b>               | <b>12,936,791.46</b><br><b>12,936,791.46</b> | <b>0.39 %</b>        | <b>12,936,791.46</b><br><b>9,542.55</b> | <b>100.00 %</b><br><b>0.00</b> | <b>NR</b><br><b>NR</b> | <b>0.00</b><br><b>0.00</b> |
| <b>TOTAL PORTFOLIO</b>                 |  | <b>12,936,791.46</b> | <b>0.39 %</b>               | <b>12,936,791.46</b>                         | <b>0.39 %</b>        | <b>12,936,791.46</b><br><b>9,542.55</b> | <b>100.00 %</b><br><b>0.00</b> | <b>NR</b><br><b>NR</b> | <b>0.00</b><br><b>0.00</b> |
| <b>TOTAL MARKET VALUE PLUS ACCRUED</b> |  |                      |                             |  |                      | <b>12,946,334.01</b>                    |                                |                        |                            |



## **SECTION 3**

# **ECONOMIC UPDATE**

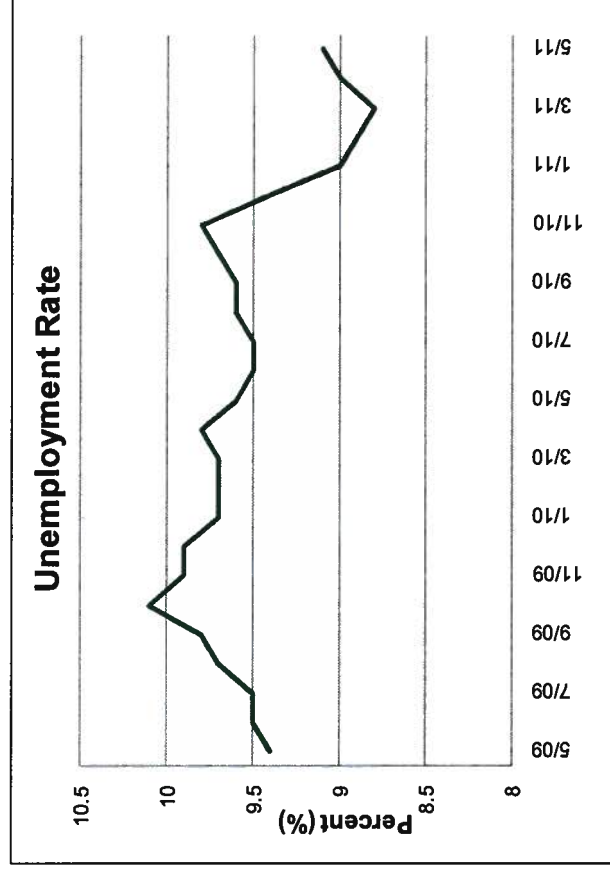
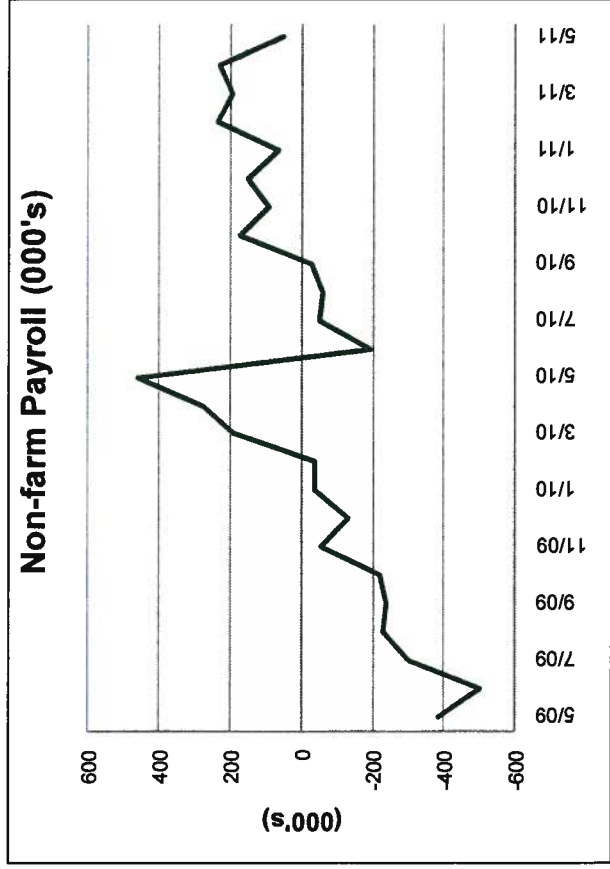


## ECONOMIC UPDATE

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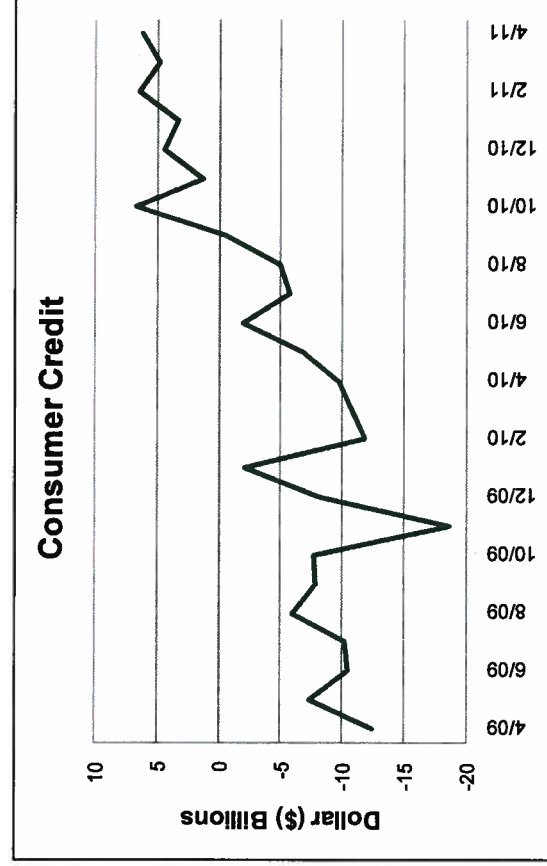
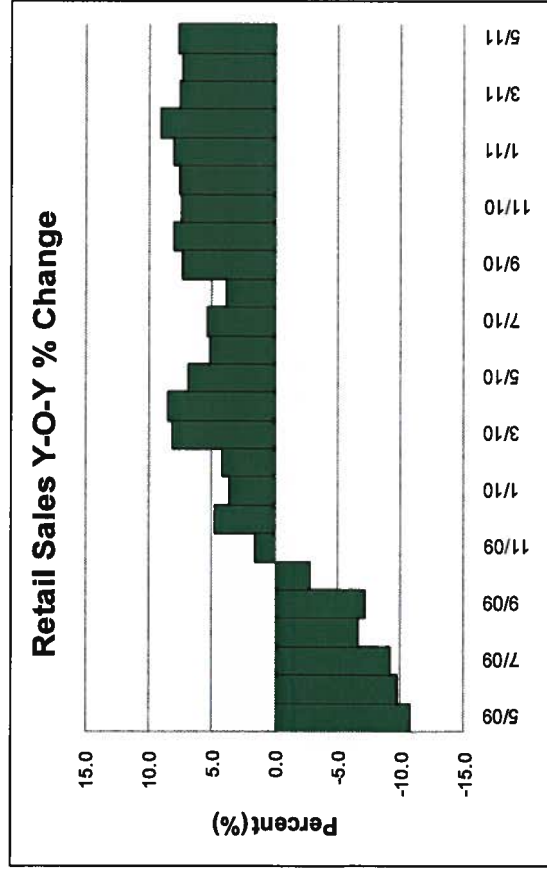
- Recent data indicates that the economy has hit another soft patch but many market participants continue to expect the economy to pick up slightly in the second half of the year. U.S. unemployment remains high and the housing market may be experiencing a double-dip. However, the combined effect of massive fiscal and monetary stimulus has helped to ease credit conditions. Market participants will be watching closely to gauge whether the recent slowdown in economic growth continues or whether growth reaccelerates later in the year.
- The Federal Reserve kept the federal funds rate at a target range of 0.00% to 0.25% at its June 22 meeting, while also announcing that they will end their second round of large scale asset purchases (QE2) as scheduled at the end of June. The Fed will maintain extraordinarily easy monetary policy though, in an effort to support economic growth. The next regularly scheduled FOMC meeting is August 9, 2011.
- The yield curve remains relatively steep as longer-term rates are higher than shorter-term rates.

# GA | EMPLOYMENT



Source: U.S. Department of Labor

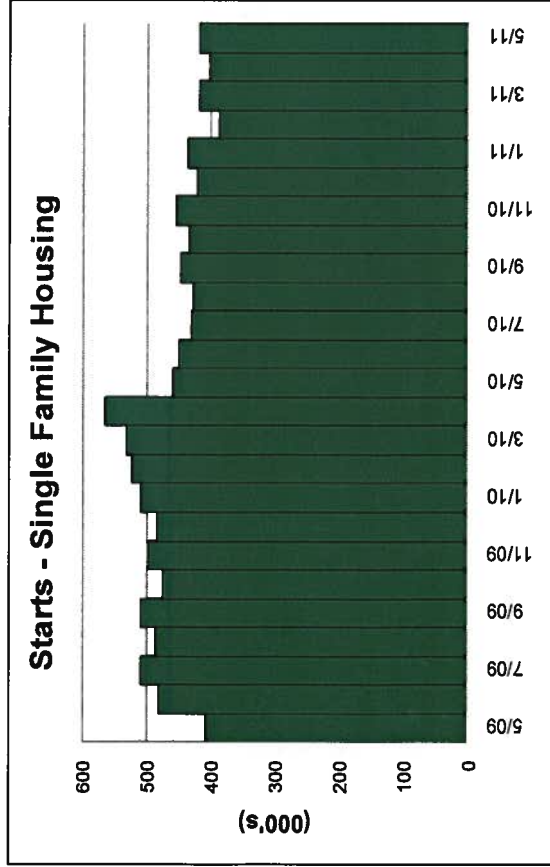
The May employment report showed that the economy added only 54,000 jobs representing a significant decline from the past several months. Meanwhile, the unemployment rate rose for the second consecutive month and now stands at 9.1%. Even though the economic recovery is two years old, the pace of recovery in the labor market is extremely weak by historical standards. Given the weakness in this report, market participants will watch next month's report carefully to see whether the employment situation is beginning to stagnate.



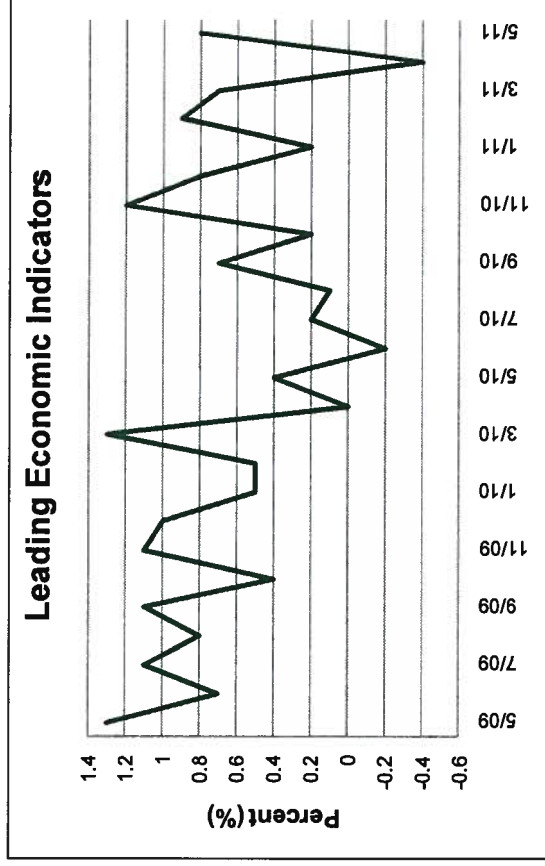
Source: U.S. Department of Commerce

In May, Retail Sales rose 7.7% on a year-over-year basis. Consumer spending has rebounded from the depths of the recession and recent activity has been moderate; however, activity is still far short of the heights of the previous economic expansion as a weak job market and high energy prices restrain consumer spending. Consumer credit increased by \$6.2 billion in April, and has now increased for seven consecutive months demonstrating a clear upward trend. The report suggests that banks are continuing to make more credit available to consumers.

# CAM | BROAD MEASURES



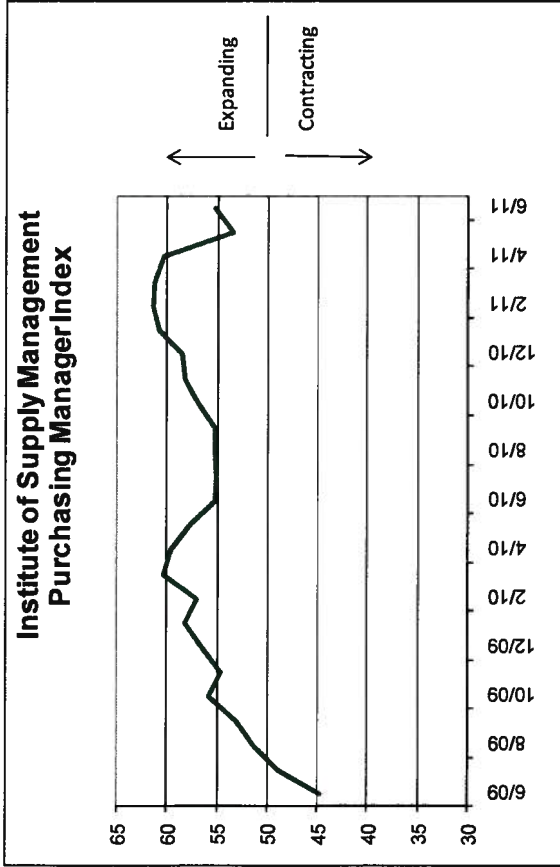
Source: US Department of Commerce



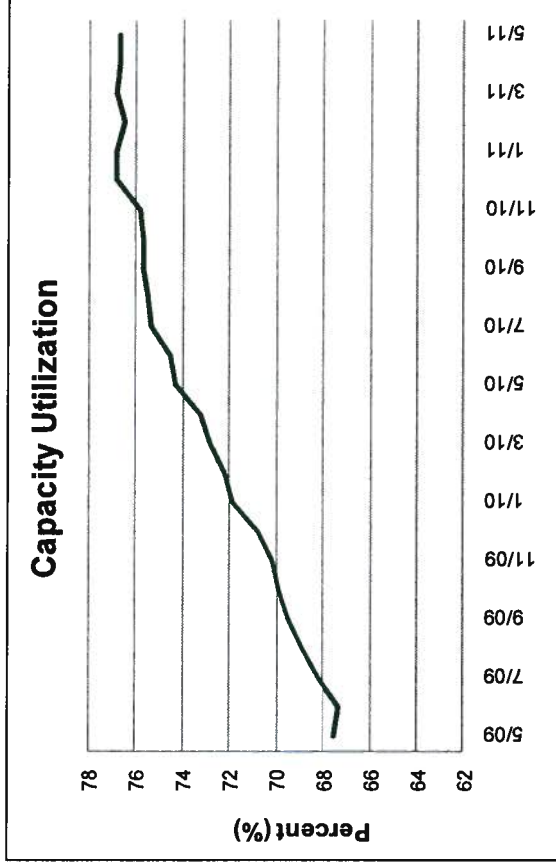
Source: The Conference Board

Single-family housing starts increased 3.7% in May to 419,000, compared to 404,000 in April. On a year-over-year basis, single-family housing starts were down 8.9% compared to May 2010. This report indicates that the housing market remains relatively weak and continues to struggle to gain momentum. The LEI rebounded to 0.8% in May from a reading of -0.4% in April. The current report continues to suggest that economic activity may be moderating due to high energy prices and a soft housing market.

# CM | MANUFACTURING



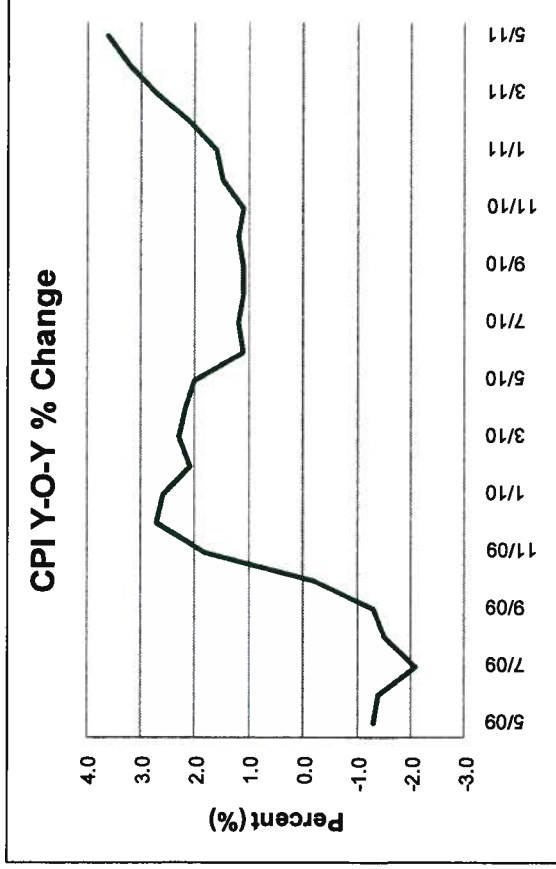
Source: Institute for Supply Management



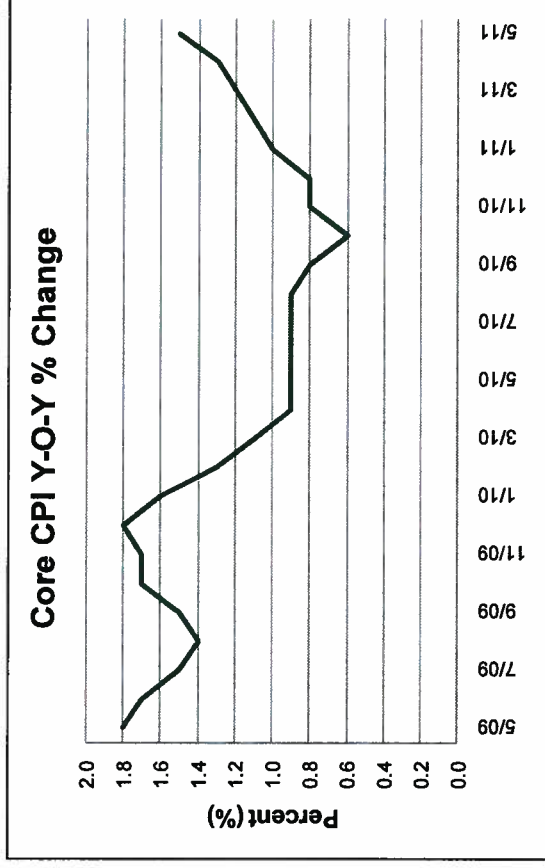
Source: Federal Reserve

During June, the ISM Manufacturing Index increased to 55.3, compared to 53.5 in May. This was a significant rebound following three months of decline, and contributed to hopes that recent weakness was due, at least in part, to supply chain disruptions related to the Japanese earthquake. ISM readings below 50 indicate that the manufacturing sector of the economy is contracting; readings above 50 indicate that the manufacturing sector is expanding. With the ISM index consistently above 50, the manufacturing sector is in an expansionary phase. Capacity Utilization, which is production divided by capacity, remained at 76.7% in May. Despite increases over the past 18 months, current capacity utilization readings are still moderate and are one factor cited by economists who believe inflation will not significantly increase in the near future.

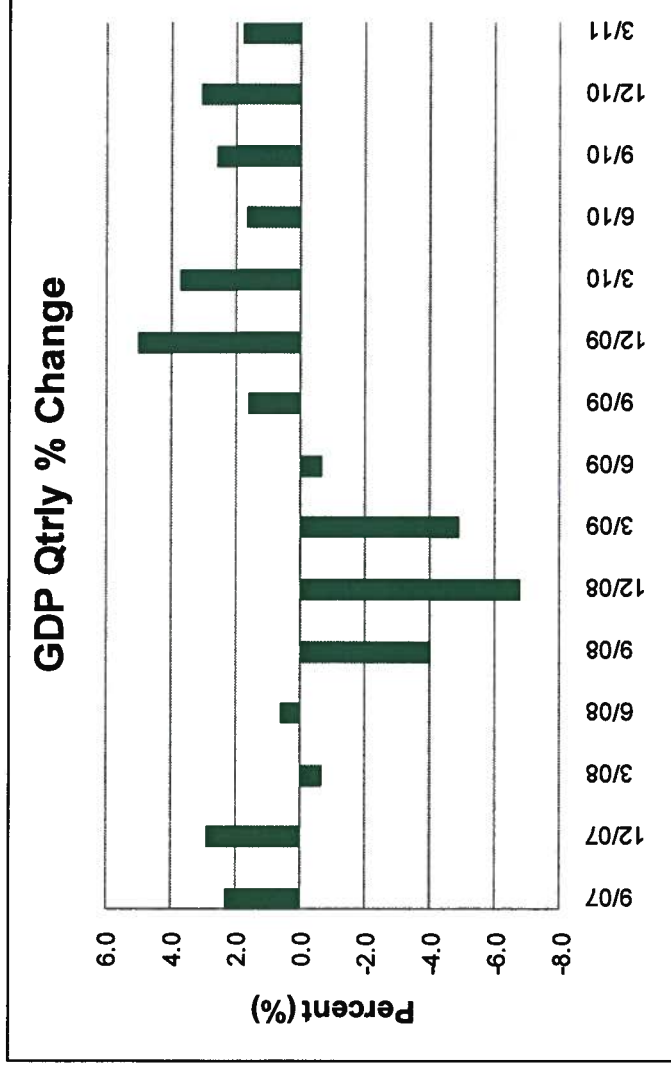
# GA | INFLATION



Source: US Department of Labor



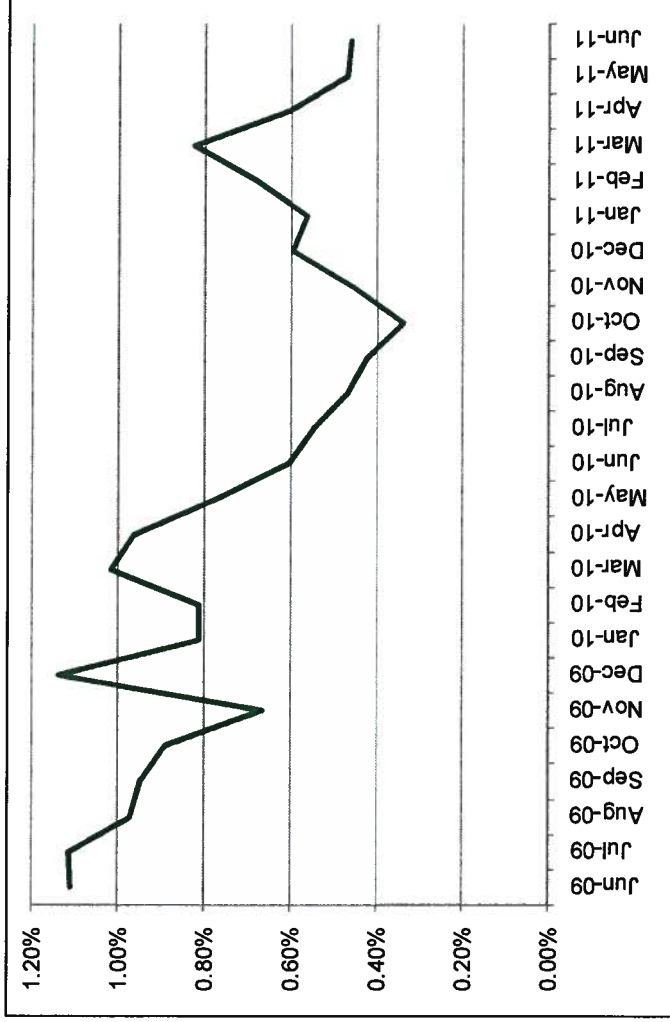
In May, the CPI showed that consumer prices increased 3.6% on a year-over-year basis. The year-over-year Core CPI (CPI less food and energy) increased at a 1.5% rate. Although some producer prices have begun to increase, prices on consumer goods are not expected to increase sharply in the months ahead. The Federal Reserve has noted that it is monitoring commodity price increases, but does not believe that they will flow through to sharply higher consumer prices.



Source: U.S. Department of Commerce

The third estimate of the Gross Domestic Product (GDP) for Q1 2011 indicated that the economy grew at an annualized rate of 1.9%. This was up 0.1% from the second estimate and still showed a significant slowdown relative to growth at the end of last year. Nevertheless, many economists believe that economic growth will accelerate again in second half of 2011.

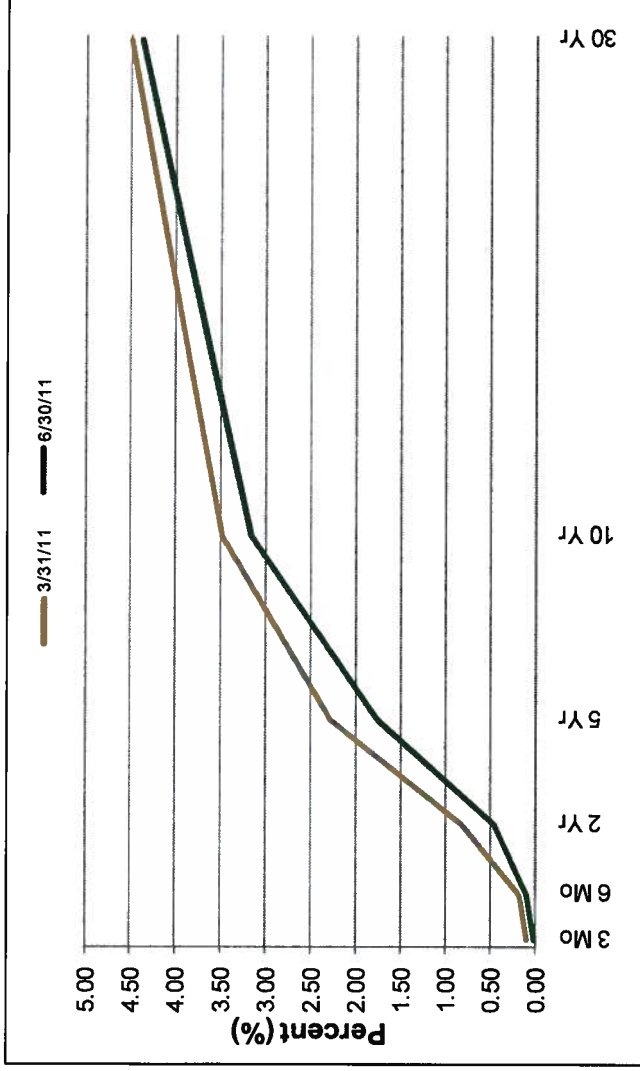
**Yield on the Two-Year Note**  
 June 2009 through June 2011



Source: Bloomberg


The yield on the two-year note was unchanged in June. Economic data was weak, and reflected a slowdown in the ongoing moderate economic expansion. Market participants are debating whether the current economic soft-patch is transitory and what the outcome of the European sovereign debt crisis will be.

## March 31, 2011 and June 30, 2011



Source: Bloomberg

The yield curve remains relatively steep as the yield on longer-term Treasuries is higher than the yield on shorter-term Treasuries. Over the last three months, yields on Treasuries have declined, with three year and five year securities showing the largest decrease.



**Moulton Niguel**  
**Alternative Investment Options**  
**July, 2011**

**Nationwide**

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*Today's Discussion*

- Overview of Nationwide
- Why Change?
- New fixed investment option – Nationwide Fixed Account



**Nationwide**

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*Overview*

**Nationwide**

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## Nationwide Strength and Stability

**Nationwide**

You Can Have Confidence in Nationwide

| Industry Analyst  | Rating       |
|-------------------|--------------|
| A.M. Best Company | A+ (2011)    |
| Fitch             | A (Dec. 10)  |
| Standard & Poor's | A+ (Jul. 10) |
| Alexis's          | A1 (Aug. 10) |

These ratings and ratings (RBC) only refer to the financial strength of Nationwide Life Insurance Company. They do not constitute a recommendation or an endorsement of any financial product, which is subject to market risk. Evaluate the risks and only invest what you can afford to lose. The above ratings may have changed.

- ✓ Nationwide Life's Ratings Remain Strong
- ✓ Risk Management is One of Nationwide's Strengths
- ✓ Nationwide is a Mutual Company
- ✓ Nationwide has a Strong Capital Position

**Nationwide**

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## Nationwide Retirement Solutions

Extensive Experience Preparing Participants for Retirement

**Nationwide**

- ✓ Leading Provider of Defined Contribution Plans\*
- ✓ 7,800 Clients
- ✓ 1.5 Million Participants\*\*
- ✓ \$53 Billion in Record Kept Assets\*\*

\*Based on 2010 data from the Investment Company Institute (ICI) as of 12/31/10.

\*\*As of 12/31/10.

Nationwide Retirement Solutions and Nationwide Life Insurance Company collectively "Nationwide" have endorsement relationships with the National Association of Certified Financial Planners, the United States Department of Labor, and the International Association of Financial Planners. Learn more about the endorsement relationships on the Invest online at [www.nwretire.com](http://www.nwretire.com).

**Nationwide**

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Why Change?

**Nationwide**

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## Current Process

- Moulton Niguel Fixed Account is a unique product that requires unique manual procedures
- These unique attributes create challenges in the new environment that can no longer be supported



Nationwide

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## Replacement Option



Nationwide

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## Nationwide Fixed Account



- Quarterly guaranteed interest rate
- Stated minimum annual rate
- Credited daily

Nationwide

Although the Nationwide Fixed Account currently does not have any explicit asset management charges, NLIC's credit and expenses (such as plan charges and any expense credits levied to the Plan) are reflected in the crediting rate. This represents the difference between what NLIC earns on investments and what its creditor plan participants see as interest.

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## Fixed Account Choice of Exchange Provisions

- 20% of their fixed account value per participant per year
    - Exchanges and/or transfers from the Fixed Account may be made no more than twice a year.
    - If fixed account value is less than \$1,000, participants can exchange full account value.
- OR
- 12% plan aggregate of Fixed Account assets as of Dec. 31 of previous year
    - Participant exchanges and/or transfers from the Fixed Account may be made up to 100% of their account value.
    - Once aggregate limit is met, no further exchanges and/or transfers will be permitted for the remainder of the calendar year.
    - Participants may exchange/transfer up to four times from the Fixed Account.

Nationwide

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## Nationwide Fixed Account Exchange Provisions

- Regardless if the Plan selects the 20% participant or the 12% aggregate exchange provision, participants will have the ability to elect the 5-year Exchange and/or Transfer provision.
- Allows for the systematic movement of 100% of their account value out of the Nationwide Fixed Account on a monthly basis over a five-year period.



Nationwide

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## Mapping to the Replacement Option NRS Takes Care of the Work

- Participant Communication
- Seamless Transition



Nationwide

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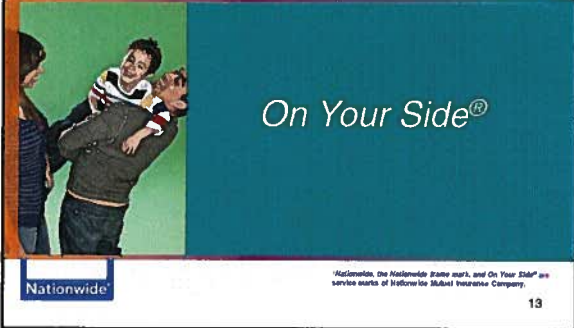
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## Questions & Answers



The advertisement features a photograph of a family—a man, a woman, and a child—embracing each other. The man is holding the child, and the woman is standing next to him. The background of the photo is a solid green color. To the right of the photo, the slogan "On Your Side" is written in a white, serif font. Below the photo, the Nationwide logo is visible, consisting of the word "Nationwide" in white text on a blue rectangular background. At the bottom right of the advertisement, there is a small line of fine print: "Nationwide, the Nationwide name mark, and On Your Side® are service marks of Nationwide Mutual Insurance Company." The number "13" is printed at the bottom center of the advertisement.

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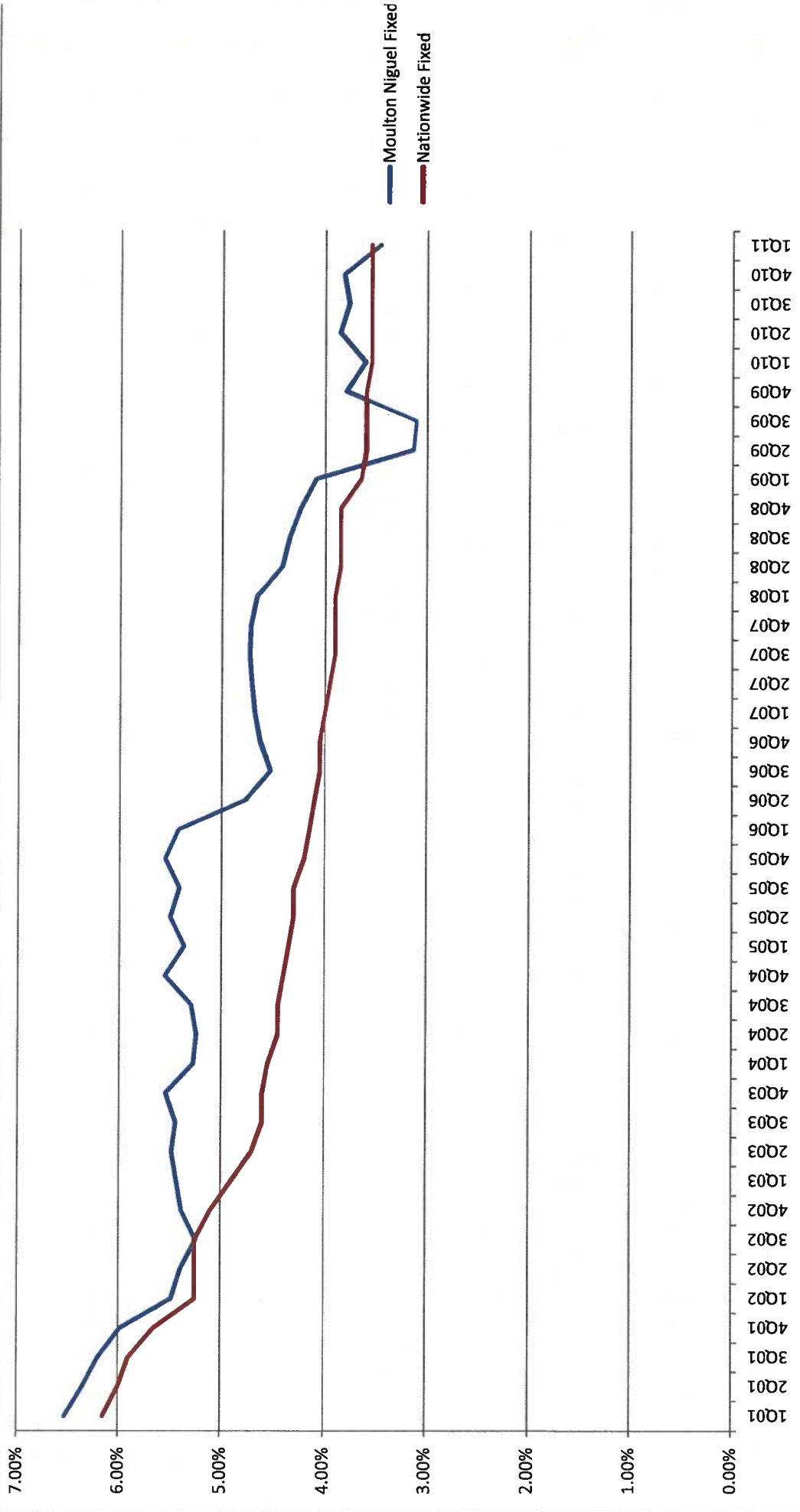
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FIXED ACCOUNT COMPARISON



Nationwide Fixed rate information provided through NRS Finance.  
Moulton Niguel rate information provided by Moulton Niguel.

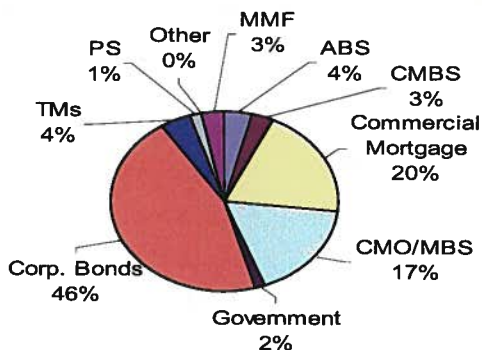
# Nationwide Fixed Account

Period Ending 12/31/2010

## Top 10 Credit Exposures\*

| Company                    | % of Assets |
|----------------------------|-------------|
| United States of America   | 1.05%       |
| OVERNIGHT REPOS            | 0.61%       |
| BHP Billiton Ltd           | 0.43%       |
| Pfizer Inc                 | 0.42%       |
| Conocophillips             | 0.39%       |
| Wells Fargo & Co           | 0.38%       |
| FNMA                       | 0.34%       |
| AT&T Inc                   | 0.34%       |
| SABMiller Plc              | 0.33%       |
| Verizon Communications Inc | 0.33%       |

\*Consolidated Corporate Bond and Preferred Stock Holdings (stated at book value)



## Asset Class

Short Term Investments

## Underlying Facts

Inception Date: January 10, 1931  
Issuer: Nationwide Life Insurance Company

## General Account Statistics

Total Net Assets: \$27.84 billion  
Total Number of Holdings: 3,797  
Average Quality<sup>1</sup>: BBB+  
Average Maturity<sup>2</sup>: 11.9  
Average Weighted Life<sup>3</sup>: 7.2

## Types of Holdings

General Account assets are generally identified as Fixed Income, Equity, and Other Investments. Other Investments are predominantly policy loans and investment income due and accrued. Listed below are the Fixed Account assets having the largest concentrations:

### Bonds

- Corporate Bonds (Corp. Bonds)
- Collateralized Mortgage Obligations (CMOs)
- Commercial Mortgage Backed Securities (CMBS)
- Asset Backed Securities (ABS)
- Preferred Stock (PS)
- Government Agency Debt (GAD)
- Government Obligations (GO)
- Private Placement Bonds
- Mortgage Backed Securities (MBS)
- Taxable Municipal (TMs)

### Commercial Mortgage Loans (CMLs)

### Money Market

- Cash
- Money Market Funds (MMF)

### Other

- Alternative Investments (AIs)
- Equities
  - Common Stock
  - Limited Partnerships
  - Other Equity

## Investment Objective

The investment objective of the Nationwide Fixed Account is to provide a low-risk, reasonably high-yield investment for participants. The Nationwide Fixed Account is managed to earn a high level of return, consistent with, and providing for, preservation of capital, high credit quality, liquidity to pay plan benefits, and reasonable tracking of interest rates. Safety, stability and consistency while providing a competitive return are key attributes.

## Maturity Distribution

| Year(s)   | Bonds** | CMLs   | Total  |
|-----------|---------|--------|--------|
| 2010      | 4.34%   |        | 3.49%  |
| 2011      | 3.50%   | 9.04%  | 4.59%  |
| 2012      | 4.34%   | 9.76%  | 5.40%  |
| 2013      | 5.88%   | 7.79%  | 6.25%  |
| 2014      | 5.35%   | 9.16%  | 6.10%  |
| 2015      | 4.37%   | 12.67% | 5.99%  |
| 2016      | 4.13%   | 13.08% | 5.88%  |
| 2017      | 3.37%   | 8.12%  | 4.30%  |
| 2018      | 6.01%   | 3.12%  | 5.45%  |
| 2019      | 9.18%   | 2.55%  | 7.88%  |
| 2020-2029 | 15.28%  | 22.23% | 16.64% |
| 2030+     | 34.24%  | 2.48%  | 28.03% |

\*\*In addition to Bonds holdings, this is all inclusive of Equities and Money Market for Maturity Distribution only.

## Investment Performance

|  |       |
|--|-------|
| Annualized 1 <sup>st</sup> Quarter 2011 Yield <sup>a</sup> | 3.55% |
| 2011 Guaranteed Yield <sup>b</sup>                         | 3.50% |

### Annualized Total Returns<sup>c</sup>

| 1 Year | 3 Years | 5 Years | 10 Years |
|--------|---------|---------|----------|
| 3.55%  | 3.67%   | 3.81%   | 4.33%    |

Performance data quoted represents past performance. Past performance is no guarantee of future results. The quarterly declared rate of return on the fixed account will fluctuate quarter to quarter. Guarantees are subject to the claims paying ability of Nationwide Life Insurance Company. The above yields and total returns are for standard NACo and USCM cases. If your plan is not a standard NACo or USCM case, the guaranteed yield may vary causing annual yields and returns to be higher or lower. Please contact the customer service center for assistance.

- (a) Nationwide will declare, prior to the beginning of each calendar quarter, the current interest yield to be credited during the calendar quarter. This yield may exceed the guaranteed minimum yield declared each year.
- (b) Nationwide will declare, prior to the beginning of each calendar year, the guaranteed minimum interest yield to be credited during that calendar year. The yield for 2011 will not be less than that set forth above.
- (c) Annualized Total Returns are for the time period indicated.

The unregistered group variable and fixed annuity is issued by Nationwide Life Insurance Company, Columbus, OH. Contract number NRC-0105AO, NRC-0105OR, NRC-0106AO, NRC-0106OR, NRZ-0102AO, NRZ-0102OR, TSP 557

In Oklahoma only: NRC-0105OK, NRC-0106OK.

Deposits into this investment option are supported by Nationwide Life Insurance Company.

<sup>1)</sup> Represents lowest of S&P, Moody's, Fitch and internal ratings (weighted by book value).

<sup>2)</sup> Based on scheduled maturities (does not reflect prepayments).

<sup>3)</sup> Reflects projected prepayments.

The Nationwide Fixed Account is currently paying 3.55% for the 1<sup>st</sup> quarter of 2011. NLIC's fixed annuity product is designed to provide a low-risk, reasonably high-yield investment for participants. Safety, stability and consistency while providing a competitive return are key attributes.

Although the Nationwide Life Fixed Account currently does not have any explicit asset management charges, Nationwide Life's costs and expenses are reflected in the crediting rate. This represents the difference between what Nationwide Life earns on investments and what it credits plan participants as interest.

**Exchanges or Transfers may be made based upon one of the following options as chosen by your employer.**

Exchanges and/or Transfers of money from the Nationwide Fixed Annuity may be made no more than twice per year and may not exceed 20% of your fixed account value. Once the 20% limit has been reached, no further Exchanges/Transfers will be permitted out of your fixed account during the remainder of the calendar year. If your fixed account value is less than or equal to \$1,000, you can Exchange/Transfer out up to your entire account value. Each Exchange/Transfer will count towards the limitation of two Exchanges/Transfers out of the fixed account per year. Additionally, a 5-year Exchange/Transfer provision allows for the systematic movement of 100% of your account value out of the fixed account on a monthly basis over a five-year period. If elected, you cannot defer, Exchange, or Transfer into your fixed account for the 5-year term without canceling the provision.

-OR-

Exchanges and /or Transfers from the Nationwide Fixed Annuity may be made up to 100% of your fixed account value. The aggregate total of all participant Exchanges and/or Transfers shall not exceed 12% of the total amount held in the Deposit Fund for the entity (employer) under the Fixed Annuity as of December 31 of the previous calendar year. Once this aggregate limit is met, no further Exchanges or Transfers will be permitted out of your fixed account for the remainder of the calendar year. You may elect up to four Exchanges/Transfers out of your fixed account within a calendar year. Additionally, a 5-year Exchange/Transfer provision allows for the systematic movement of 100% of your account value out of the fixed account on a monthly basis over a five-year period. If elected, you cannot defer, Exchange, or Transfer into your fixed account for the 5-year term without canceling the provision.

## **DEFINITIONS**

**EXCHANGE:** An exchange is the movement of money between the Nationwide Fixed Annuity and Variable Annuity options and/or between the funds in the Variable Annuity option.

**TRANSFER:** A transfer is the movement of money between product providers within the same plan.

**AVERAGE QUALITY:** Principal-weighted average of the S&P bond quality rating. (This rating is not available for mortgages and private placement bonds.)

**AVERAGE MATURITY:** The principal-weighted average length of time (in years) to the stated maturity date for fixed-income securities. Since this measure ignores the possibility of prepayment, it generally overstates the average length of time to return of principal.

**AVERAGE WEIGHTED LIFE:** The weighted-average time (in years) to the expected return of a dollar of principal. It is calculated by multiplying each portion of principal received by the time at which it is received, then summing these totals and dividing by the total amount of principal. This measure is commonly used to track the average investment life of fixed-income securities.