

**MINUTES OF THE
MOULTON NIGUEL WATER DISTRICT
INVESTMENT BOARD OF DIRECTORS MEETINGS**

JULY 13, 2011

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 Wednesday, July 13, 2011. There were present and participating:

DIRECTORS

LARRY R. LIZOTTE	Chairman
SCOTT COLTON	Director
RICHARD S. FIORE	Director
DON FROELICH	Vice President
BRIAN PROBOLSKY	Vice President

Also present and participating were:

STAFF MEMBERS

ROBERT C. GUMERMAN	General Manager
DAVID D. CAIN	Director of Finance/Treasurer
LESLIE GRAY	Board Secretary
NANCY DESAI	MNWD
KARREN MADDOX	MNWD
AMBER CUTLER	MNWD
FRANI BAILEY	Recording Secretary

DISTRICT CONSULTANTS

TED PIROKOWSKI	Chandler Asset Management
JOHN BORNE	Nationwide

Absent were:

GARY R. KURTZ	Director
LARRY MCKENNEY	President

INVESTMENT MATTERS

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

Approval of Minutes of Joint Investment/Special Personnel & Salary Board of Directors Meeting of April 13, 2011

Chairman Lizotte reported that he would entertain a motion to approve the minutes of the Joint Investment Board/Special Personnel & Salary Board of Directors meeting of April 13, 2011.

THEREAFTER, UPON A MOTION DULY MADE BY DIRECTOR FIORE AND SECONDED BY DIRECTOR FROELICH, THE BOARD OF DIRECTORS OF MOULTON NIGUEL WATER DISTRICT UNANIMOUSLY APPROVED THE MINUTES OF THE APRIL 13, 2011 JOINT INVESTMENT/SPECIAL PERSONNEL & SALARY BOARD OF DIRECTORS MEETING AS PRESENTED.

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.

Review and Discussion of District Investment Report for Quarter Ended June 30, 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 June 30, 2011.

Mr. Pirokowski reported that the economic cross-currents have not been just domestic, but global in nature as there has been a "slow patch" in the domestic economy along with international concerns about European debt crisis and the Lybian conflict. He commented that nevertheless, the District's portfolio has navigated the situation with stability and safety.

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 objective of the Operating Reserve Fund is 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).

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.

Portfolio Characteristics

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

Liquid Fund

	Benchmark 6/30/11	Portfolio 6/30/11	Portfolio 3/31/10
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 1 year	100%	100%	100%
Average Credit Quality	AAA	Not Rated	Not Rated

Mr. Pirokowski reported the total market value of the Liquid Fund increased to \$12.9 million. Chairman Lizotte asked why the Liquid Fund increased and Ms. Desai reported it was to pay upcoming debt service payments. Mr. Pirokowski reported that because the Liquid 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

	Benchmark 6/30/11	Portfolio 6/31/11	Portfolio 3/31/11
Portfolio Book Value	--	\$108,124,716	\$107,060,814
Market Value		\$113,668,512	\$111,394,736
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 2 Years	25.0%	14.7%	20.3%
Average Credit Quality	AAA	AAA	AAA

Mr. Pirokowski reported the total market value of the Operating Reserve Fund increased from \$111 million to \$113.6 million, which is in response to interest rates falling in many sectors of the market over the last quarter. He reported the Average Book Yield of the fund is 3.00%. 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 4.05 years, slightly lower than the benchmark. He reported the modified duration of the fund is 3.54, slightly shorter than the benchmark because Chandler still views the risks in the marketplace as being unbalanced. He commented that Chandler's economic outlook is for more of the moderate economic recovery, and Chandler feels the risks are that rates could potentially go up more than continue to fall so the portfolio has been positioned to be slightly shorter.

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. Newly purchased securities included Treasury, Agency, and Corporates with maturities ranging from May 2014 through February 2021. 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 April's transactions invested both the \$4 million contribution received at the end of March and the proceeds of one security. Chandler extended the portfolio duration with Agency and Corporate security transactions and positioned the portfolio duration to be slightly shorter than that of the benchmark index. For the month, the sales transaction realized a loss of \$28,821.

Mr. Pirokowski reported that May's transactions adjusted the portfolio duration to slightly shorter than the benchmark index duration. Chandler invested the sale proceeds in two existing Agency security positions. The sale transaction realized a gain of \$24,861.

Mr. Pirokowski reported that June's transactions maintained the portfolio duration slightly shorter than the benchmark index duration. Chandler purchased Treasury and Agency securities in June. The sale transactions included a FDIC Insured Corporate and an Agency security. The cumulative sale transactions realized gains of \$134,336.

Mr. Pirokowski reviewed two graphs comparing the allocation of the District's Operating Reserve in different areas of the market on June 30, 2011 and on March 31, 2011. He reported that the portfolio sector allocation changed modestly as Chandler increased the portfolio's holdings in Agencies and the Treasuries by 2.7% and 2.2% respectively. Chandler also decreased the holdings in Money Fund and FDIC Insured Corporates by 3.3% and 2.1% respectively.

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 95% of the benchmark.

Mr. Pirokowski reviewed the maturity distribution of the portfolio on June 30, 2011 vs. March 31, 2011. 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 June 30, 2011. He reported the total rate of return for the latest three months is 2.04%, compared to the benchmark of 2.14%. 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 reason for this is that with the concerns about the slow economy and the international geo-political issues there was a flight to quality, and the Treasuries were providing the highest rate of return during the last quarter.

Mr. Pirokowski reported the total rate of return of 3.36% for the latest 12 months is significantly higher than the benchmark of 2.72%. He reported that since inception, the total return on the portfolio on a before-fees basis is 5.89%, as compared to the return of 5.54% 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>6/30/2011</u>	<u>Return</u>
Operating Reserve Fund	\$2,463,430	5.89%
1-10 Government Index	\$2,336,236	5.54%
LAIIF	\$1,775,737	3.71%

Portfolio Holdings

Mr. Pirokowski reviewed the District's portfolio holdings as of June 30, 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 commented that the country is currently being bombarded with the debt crisis/debt ceiling issues in Washington and Chandler thinks that a deal will be made. Mr. Pirokowski commented that he doesn't doubt that Congress will take this down to the wire; however, Chandler believes that the U.S. will continue to service its debt. A discussion ensued.

Mr. Pirokowski reported that he previously reported that the Federal housing agencies would be addressed this year; however, this has been put on the back burner and is being subordinated in its level of importance. He commented that there is a risk that if this does not get addressed in the next six months it will be pushed into next year and probably not be solved.

Economic Update

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

Presentation by Mr. John Borne of Nationwide on Investment Option to replace MNWD Deferred Compensation Option

Mr. David Cain reported that Mr. John Borne, the Program Director for Southern California and Nevada at Nationwide, will discuss Nationwide's alternative to the Moulton option for the Deferred Compensation Program, which is a manual option. He
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explained that Nationwide is eliminating any manual processes as it transitions to a new computer system.

Mr. Borne presented an overview of Nationwide, explained why it is making the proposed change, and discussed the solutions for alternatives Nationwide is proposing to the District. He explained that currently the District's fixed account is a unique product that requires unique manual procedures, which create challenges that Nationwide can no longer support in the new environment. Chairman Lizotte asked what the difference is between CalPERS and Nationwide and Mr. Borne explained that CalPERS runs a defined benefit program and Nationwide is a defined contribution program in which all of the contributions are monies deferred from the employees' salaries.

Mr. Borne reported that the replacement option Nationwide is suggesting is a Nationwide Fixed Account. He explained that the Fixed Account has a quarterly guaranteed interest rate and a stated minimum annual rate that is credited daily. Mr. Borne described the choice of exchange provisions for the Fixed Account and commented that the Fixed Account will provide the employees with better communication and a seamless transition. He commented that in addition to the Fixed Account that Nationwide is recommending the District move to, it also has an FDIC guaranteed liquid savings and a stable value account; however, neither one of the two pays an interest rate comparable to what the Moulton Option is paying today, which is why Nationwide is offering the Fixed Account.

Mr. Borne explained that all of the money would be self-directed and if the employees don't like the Fixed Account they are free to choose other funds inside the program, and it does not cost the employees any money to move in and out of the fund choices. A discussion ensued and Mr. Borne answered the Board members' questions.

Mr. Borne commented that Nationwide will take direction from the Board as to where it wants to map the fund and will send out communications to the participants within the timeframe the Board chooses. He reported that Nationwide will map the funds over the weekend so there will not be any adjustments in the rate and no one will be out of the market. Director Fiore asked if it would be appropriate to have an employee meeting along with the communications sent by Nationwide. Mr. Borne commented that

the Nationwide representative could hold workshops at the District prior to the mapping to answer the employees' questions and Mr. Cain commented that he would definitely recommend that the employees be given the information so they will know what the option is that is being provided for them.

Mr. Borne reiterated that Nationwide is proposing to move the District to the new recordkeeping system, which will greatly improve technology for the participants as they interface with the website. He reported that the fee Nationwide charges on the MNWD fund will go from 40 to zero, and Nationwide will communicate any transactions prior to making them and provide the employees with several different options. A discussion ensued and Mr. Borne answered the Board members' questions.

Chairman Lizotte asked Mr. Cain what direction he needs from the Board and Mr. Cain explained that if the Board is comfortable with Nationwide switching from the MNWD account to the Fixed Account that would be staff's preference. Chairman Lizotte asked if any of the Board members objected and none did. Director Probolsky asked if this would be a meet-and-confer item and commented that if it is not, it would be appropriate to at least get a courtesy approval from the MNWDEA.

Dr. Gumerman commented that he does not believe it is a meet-and-confer issue because the MNWD option is being eliminated because it will no longer be supported by Nationwide, and the participants are not mandated to go into the Fixed Account and have other options. Director Probolsky reiterated that it is important that the Board give a courtesy heads-up to the MNWDEA, and he would like to see that this is done prior to the Board meeting.

Director Fiore commented that the mapping decision would be made by the trustees of the plan, i.e., the Board, and he is surprised that the Board would not be taking any formal action. Dr. Gumerman suggested that staff could hold discussions with the employees and the MNWDEA to explain the process and bring the matter back to the Board for consideration of approval before the change is implemented. The Board concurred with Dr. Gumerman's suggestion.

Chairman Lizotte asked Mr. Cain if the ten-year cash flow report would be ready for presentation at the August Board meeting and Mr. Cain reported that it would.

Next Quarterly Investment Subcommittee Meeting

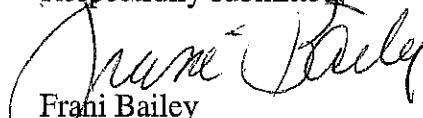
Chairman Lizotte reported that the next Investment Subcommittee meeting is Wednesday, October 12, 2011 at 9:00 a.m., at which time the investments for the quarter ending September 30, 2011 would be reviewed.

Chairman Lizotte asked if there were any late items and there were none.

Adjournment

There was no further business to come before the Investment Board and the meeting was adjourned at 10:05 a.m.

Respectfully submitted,


Frani Bailey
Recording Secretary