

INVESTMENT BOARD OF DIRECTORS' MEETING
MOULTON NIGUEL WATER DISTRICT
27500 La Paz Road, Laguna Niguel
October 12, 2011
9:00 a.m.

Approximate Meeting Time: 1-2 Hours

1. Call Meeting to Order
2. Approve Minutes of July 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 September 30, 2011 by Chandler Asset Management
5. Next Quarterly Investment Board Meeting
Wednesday, January 11, 2012 @ 9:00 a.m.
6. 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
7. 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
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
July 13, 2011

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

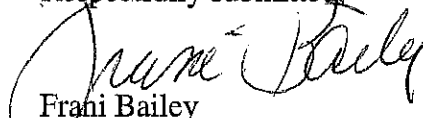
Chairman Lizotte reported that the next Investment Subcommittee meeting is Wednesday, October 12, 2011 at 9:00 a.m., at which time the investments for the quarter ending September 30, 2011 would be reviewed.

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

Moulton Niguel Water District



MEMORANDUM

TO: Investment Board **MEETING DATE:** October 12, 2011

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

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

SUMMARY

Issue: Presentation by Chandler Asset Management on the Investment Portfolio activity for the period ending September 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 strategy; we also provided for a \$6 million redemption related to the liquidity needs of the District. Chandler had been positioning the portfolio to be slightly shorter than the benchmark duration. However, given the market's re-alignment after the Federal Reserve's recent comments, we expect to position the portfolio duration to be equal to or slightly longer than that of the District's 1-10 Year Government benchmark. The District's portfolio underperformed on a total return basis relative to its benchmark index for the quarter, in part due to the "flight to quality" and relative underperformance in the Corporate sector. Nevertheless, the portfolio had a positive total return of 2.75%, which was less than the benchmark index return of 3.35%.

Recent economic data has generally been softer than expected, and market participants have begun to debate the possibility of the economy slipping back into recession. Political turmoil related to sovereign debt in Europe has led to increased uncertainty about the future course of the global economy. The global financial markets have also experienced significant volatility which has resulted in high demand, or a "flight to quality", for US Treasury securities.

The Fed also announced that it will engage in a form of "Operation Twist" by extending the average maturity of its securities holdings. This program is intended to put downward pressure on longer-term interest rates in an effort to stimulate the economy. The Fed kept its target rate unchanged at 0%-0.25%, and affirmed that it expects to keep the federal funds rate exceptionally low through mid-2013. Treasury yields were significantly lower in the third quarter due to continued global economic uncertainty, despite the ratings downgrade of US Treasury and US Agency securities to AA+ by Standard and Poor's rating service.

Exhibit: Chandler Asset Management Quarterly Investment Report



CHANDLER ASSET MANAGEMENT

Investment Report

Moulton Niguel Water District

Period Ending
September 30, 2011



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SECTION 1

ACCOUNT PROFILE



OBJECTIVES

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.



COMPLIANCE



Moulton Niguel Water District Operating Reserve

September 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 - 27.3%
Mutual Funds	≤20%	Complies - 1.6%
LAIF	Not used by outside adviser; \$50 million maximum imposed by LAIF	Complies - \$8.0MM
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 - 3.85
% invested less than 2 years	≥10%	Complies - 13.2%
% invested beyond 5 years	≤40%	Complies - 35.9%
Maximum maturity	10 years	Complies
Maximum maturity of corp.	5 years	Complies



ACCOUNT PROFILE

PORTFOLIO CHARACTERISTICS

Liquid Fund

	3-month T-Bills Benchmark* G001	Liquid Fund	
	9/30/2011	9/30/2011	6/30/2011
Portfolio book value	--	\$7,948,063	\$12,936,791
Market value	--	\$7,955,918	\$12,946,334
Average book yield	--	0.37%	0.39%
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. Benchmark* G5A0	Operating Reserve Fund	
	9/30/2011	9/30/2011	6/30/2011
Portfolio book value	--	\$103,741,143	\$108,124,716
Market value	--	\$110,789,742	\$113,668,512
Average book yield	--	2.89%	3.00%
Average maturity (yrs)	4.13	4.36	4.05
Modified duration	3.76	3.85	3.54
\$ change in value for 1% change in rates	--	\$4,265,405	\$4,023,865
% maturing within two years	23.9%	13.1%	14.7%
Average credit quality	AAA	AA	AAA

During the quarter, portfolio activity included a series of rebalancing transactions in order to maintain the portfolio's strategy; we also provided for a \$6 million redemption related to the liquidity needs of the District. Newly purchased securities included a diversified mix of Agencies with maturities ranging from October 2014 through July 2021. We have continued to invest in Agency holdings to take advantage of favorable relative valuations in this sector.



TRANSACTIONS

40 - Trading Activity - 6/30/2011 - 7/31/2011

Settle Date	Description	MIG	Mat Date	Amount	Book Value	Market Value	Gain/Loss	Duration	Yield
Purchase									
07/08/2011	FHLB	Agency	12/11/2020	\$2,600,000.00	\$2,953,808.00	\$2,953,808.00	\$0.00	7.530	3.539
				\$2,600,000.00	\$2,953,808.00	\$2,953,808.00	\$0.00		
Sale									
07/08/2011	FHLMC	Agency	07/18/2016	\$2,350,000.00	\$2,436,066.78	\$2,744,073.85	\$308,007.07	4.369	1.979
				\$2,350,000.00	\$2,436,066.78	\$2,744,073.85	\$308,007.07		

July's transactions adjusted the portfolio duration to maintain our slightly-shorter-than-the-benchmark index duration. We invested our sale proceeds in one Agency security maturing in December 2020. Our sale transaction realized a gain of \$308,007.



TRANSACTIONS (CONT)

40 - Trading Activity - 7/31/2011 - 8/31/2011

Settle Date	Description	MIG	Mat Date	Amount	Book Value	Market Value	Gain/Loss	Duration	Yield
Purchase									
08/04/2011	FHLB	Agency	07/29/2021	\$3,300,000.00	\$3,388,209.00	\$3,388,209.00	\$0.00	8.399	3.185
08/31/2011	FFCB	Agency	08/25/2016	\$1,950,000.00	\$2,324,887.50	\$2,324,887.50	\$0.00	4.485	1.145
08/31/2011	FHLB	Agency	03/11/2016	\$1,500,000.00	\$1,634,145.00	\$1,634,145.00	\$0.00	4.191	1.095
				\$6,750,000.00	\$7,347,241.50	\$7,347,241.50	\$0.00		

Sale									
08/04/2011	Tennessee Valley Authority	Agency	12/15/2017	\$1,200,000.00	\$1,280,860.80	\$1,489,764.00	\$208,903.20	5.375	2.167
08/04/2011	US Treasury	US Treasury	08/15/2016	\$1,000,000.00	\$1,116,305.88	\$1,178,629.46	\$62,323.58	4.456	1.205
08/31/2011	FHLB	Agency	06/14/2013	\$1,800,000.00	\$1,760,189.53	\$1,913,385.60	\$153,196.07	1.729	0.335
08/31/2011	Goldman Sachs	FDIC Insured US Corporate	06/15/2012	\$2,460,000.00	\$2,486,386.79	\$2,518,646.40	\$32,259.61	0.780	0.223
08/31/2011	JP Morgan Chase	FDIC Insured US Corporate	12/26/2012	\$1,105,000.00	\$1,108,015.60	\$1,131,420.55	\$23,404.95	1.302	0.308
08/31/2011	Wells Fargo & Company	FDIC Insured US Corporate	06/15/2012	\$1,705,000.00	\$1,709,719.08	\$1,730,455.65	\$20,736.57	0.783	0.229
				\$9,270,000.00	\$9,461,477.68	\$9,962,301.66	\$500,823.98		

August's transactions extended the portfolio duration to be about equal to that of the benchmark index duration target, in addition to raising some of the cash needed for the September redemption. We purchased longer Agency securities this month. Our sale transactions included Treasury, Agency, and FDIC Insured Corporate securities. The cumulative sale transactions realized gains of \$500,823.



TRANSACTIONS (CONT)

40 - Trading Activity - 8/31/2011 - 9/30/2011

Settle Date	Description	MIG	Mat Date	Amount	Book Value	Market Value	Gain/Loss	Duration	Yield
Purchase									
09/30/2011	FNMA	Agency	10/30/2014	\$2,225,000.00	\$2,221,747.05	\$2,221,747.05	\$0.00	3.048	0.673
				\$2,225,000.00	\$2,221,747.05	\$2,221,747.05	\$0.00		
Sale									
09/13/2011	Tennessee Valley Authority	Agency	05/23/2012	\$865,000.00	\$946,811.70	\$904,271.00	(\$42,540.70)	0.678	0.242
09/13/2011	US Treasury	US Treasury	02/15/2015	\$1,500,000.00	\$1,607,299.11	\$1,683,217.63	\$75,918.53	3.229	0.402
				\$2,365,000.00	\$2,554,110.81	\$2,587,488.63	\$33,377.83		

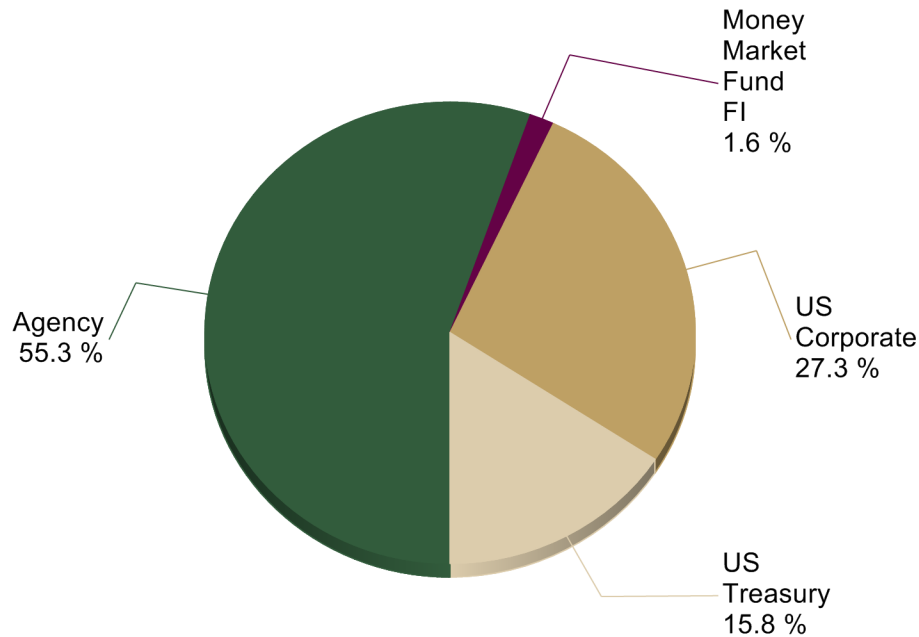
September's transactions raised funds and adjusted the portfolio duration for the \$6 million redemption. We positioned the portfolio duration to be slightly longer than that of the benchmark index. For the month, our sale transactions realized a net gain of \$33,377.



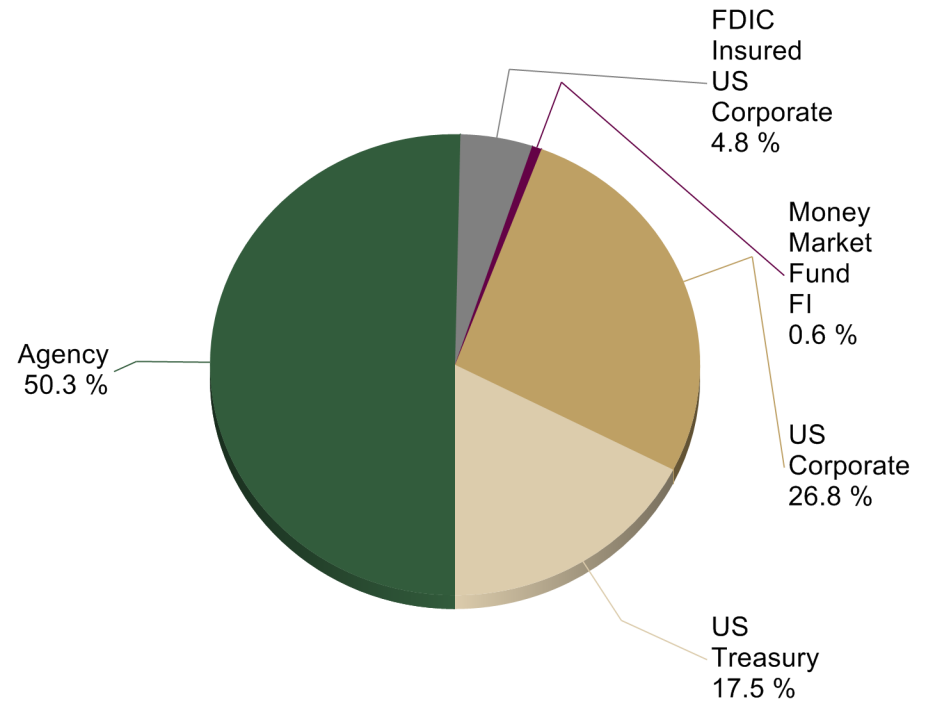
SECTOR DISTRIBUTION

Moulton Niguel Water District Operating Reserve

September 30, 2011



June 30, 2011

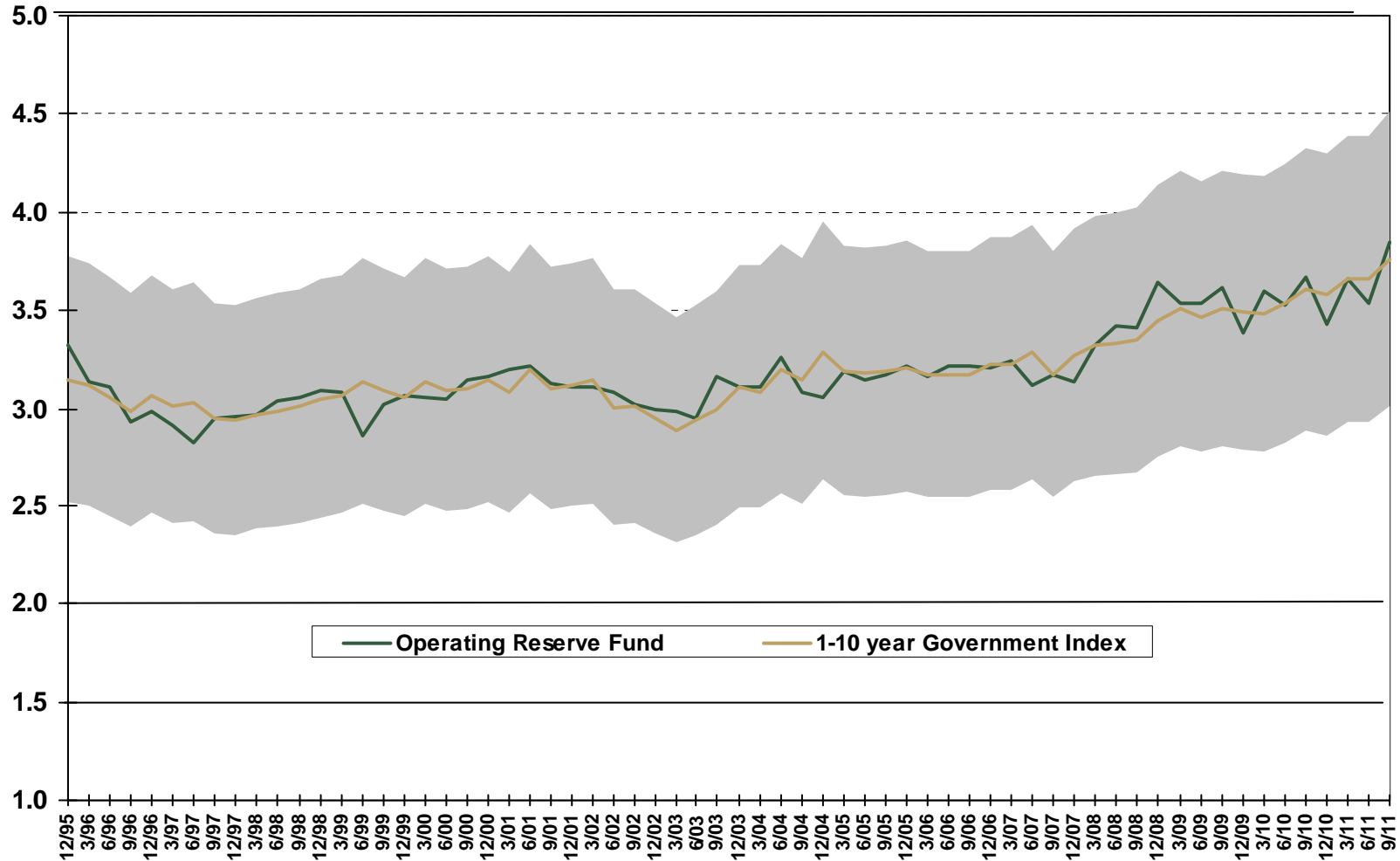


The portfolio sector allocation has changed modestly as we increased our holdings in Agencies by 5.0% while we decreased the holdings in the FDIC Insured Corporates by 4.8%.



EXPOSURE TO MARKET RISK

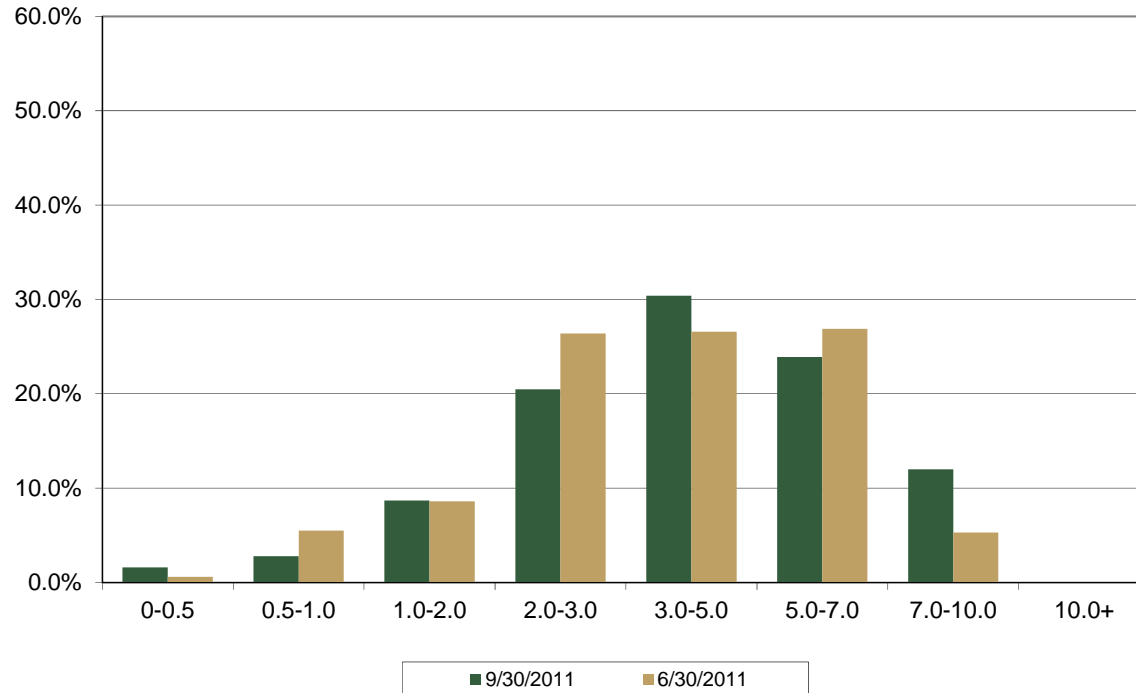
Operating Reserve Fund Duration Compared to 1 - 10 Year Government Index Duration





MATURITY DISTRIBUTION

Operating Reserve Fund September 30, 2011 vs. June 30, 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+
9/30/2011	1.6%	2.8%	8.7%	20.5%	30.4%	23.9%	12.0%	0.0%
6/30/2011	0.6%	5.5%	8.6%	26.4%	26.6%	26.9%	5.3%	0.0%

Chandler had been positioning the portfolio to be slightly shorter than the benchmark duration. Given the market's realignment after the Fed's recent comments, we expect to position the portfolio duration to be equal to, or slightly longer than, that of the District's 1-10 Year Government benchmark. Performance for the recent period was positive, although somewhat less than the benchmark's index returns due to this conservative portfolio strategy.



INVESTMENT PERFORMANCE

Moulton Niguel Water District Operating Reserve

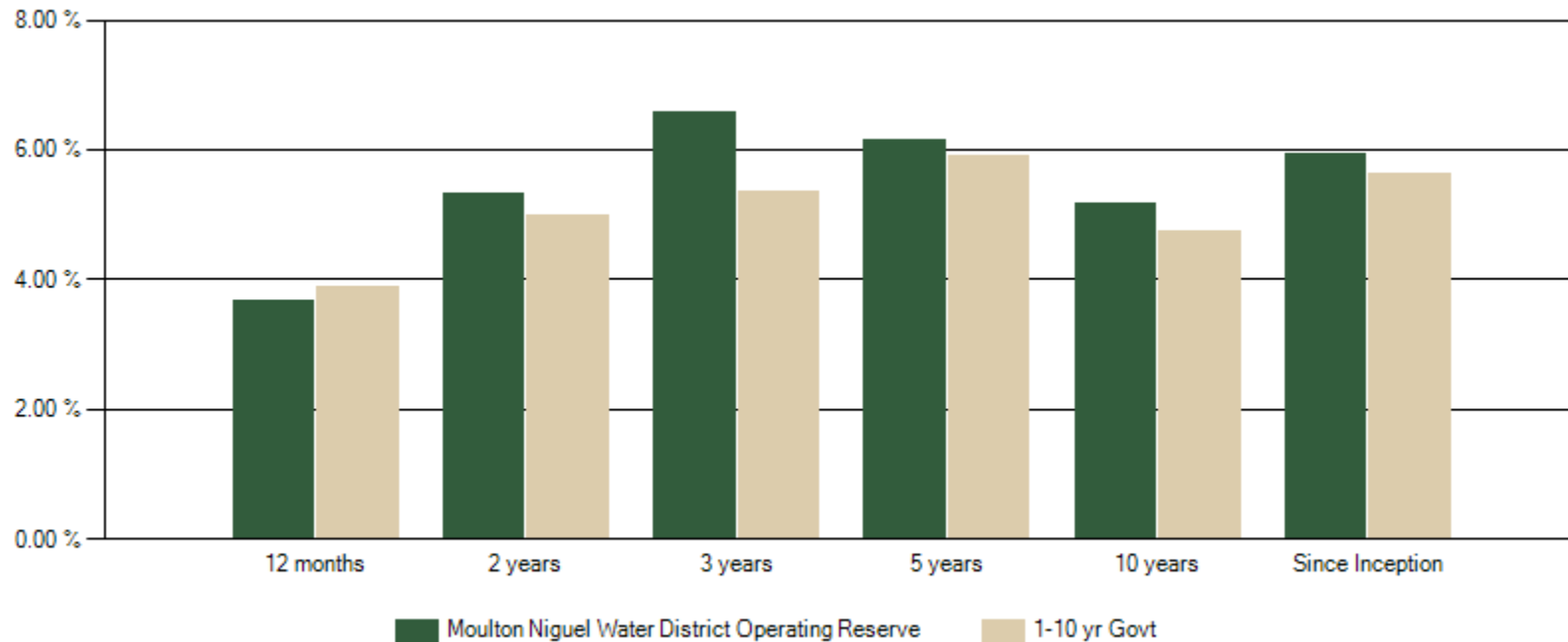
Period Ending

September 30, 2011

Total Rate of Return

Annualized Since Inception

September 30, 1995



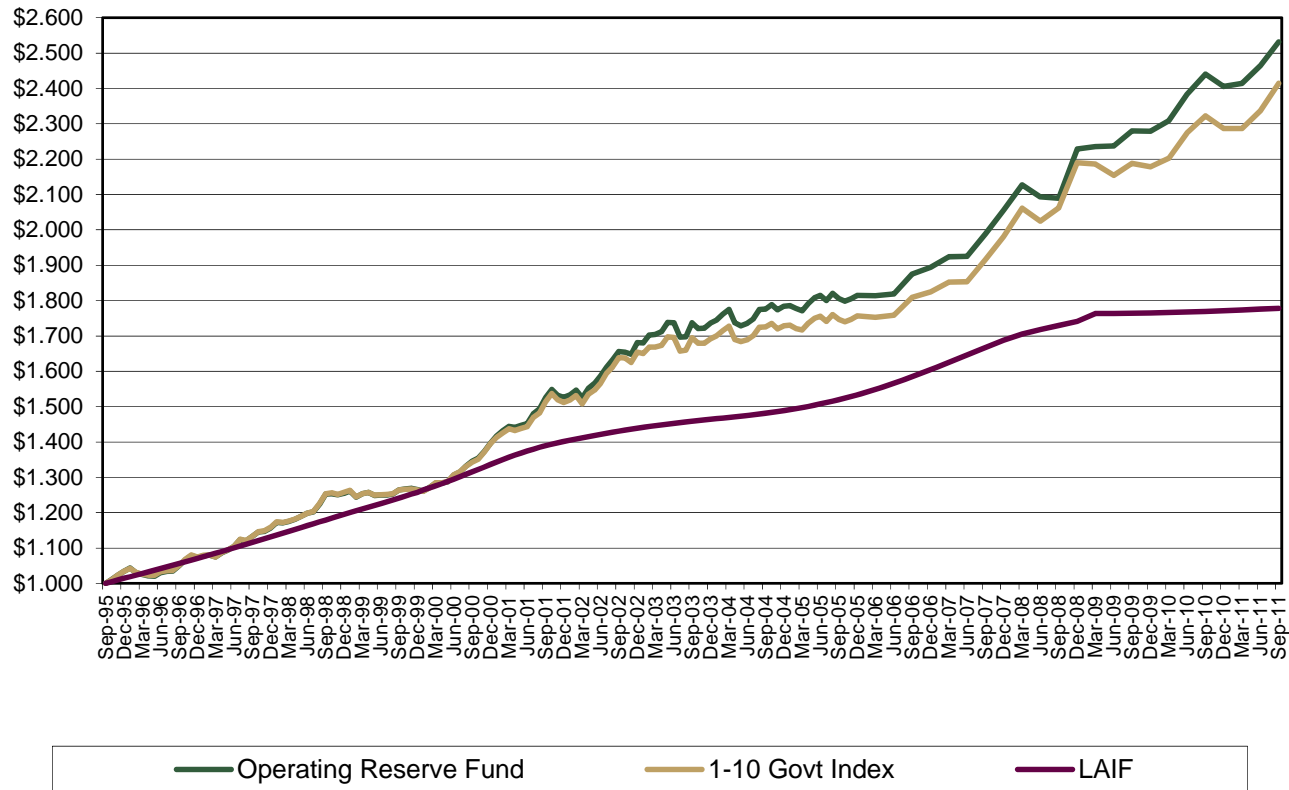
	3 months	12 months	Annualized				Since Inception
			2 years	3 years	5 years	10 years	
Moulton Niguel Water District Operating Reserve	2.75 %	3.72 %	5.37 %	6.60 %	6.19 %	5.20 %	5.98 %
1-10 yr Govt	3.35 %	3.94 %	5.04 %	5.40 %	5.95 %	4.78 %	5.66 %

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.



GROWTH OVER TIME

Operating Reserve Fund Growth of \$1 Million



Historical return on \$1 million invested in September 1995

	9/30/2011	Return
Operating Reserve Fund	\$2,531,220	5.98%
1-10 Govt Index	\$2,414,460	5.66%
LAIF	\$1,777,535	3.66%



SECTION 2

PORTFOLIO HOLDINGS



ISSUERS



Moulton Niguel Water District Operating Reserve
Account #40

Issuer Report

As of 9/30/2011

Issue Name	Investment Type	% Portfolio
Federal Home Loan Bank	Agency	17.15 %
Government of United States	US Treasury	15.75 %
Federal National Mortgage Association	Agency	10.88 %
Tennessee Valley Authority	Agency	9.49 %
Federal Home Loan Mortgage Corp	Agency	9.17 %
Federal Farm Credit Bank	Agency	8.63 %
General Electric Co	US Corporate	1.90 %
IBM Corp	US Corporate	1.79 %
JP Morgan Chase & Co	US Corporate	1.77 %
Wells Fargo Corp	US Corporate	1.73 %
Wal-Mart Stores	US Corporate	1.67 %
Wells Fargo Adv Govt Money Market Fund	Money Market Fund FI	1.61 %
Berkshire Hathaway	US Corporate	1.59 %
ChevronTexaco Corp	US Corporate	1.51 %
Pepsico Inc	US Corporate	1.49 %
US Bancorp	US Corporate	1.49 %
Ebay	US Corporate	1.48 %
Bank of New York	US Corporate	1.40 %
Morgan Stanley	US Corporate	1.36 %
Northern Trust Corp	US Corporate	1.13 %
Deere & Company	US Corporate	1.09 %
BlackRock Inc/New York	US Corporate	1.06 %
Hewlett-Packard Corp	US Corporate	1.03 %
Walt Disney Company	US Corporate	1.03 %
Praxair	US Corporate	1.02 %
United Technology Corp	US Corporate	0.95 %
Pfizer Inc.	US Corporate	0.83 %
Total		100.00 %



Holdings Report

As of 9/30/11

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody S&P	Term (yrs) Duration
AGENCY									
3133XML66	FHLB Note 4.625% Due 10/10/2012	2,000,000.00	01/06/2011 0.73 %	2,135,770.00 2,079,304.91	104.47 0.27 %	2,089,366.00 43,937.50	1.93 % 10,061.09	Aaa AA+	1.03 0.99
3133X1BV8	FHLB Note 4.5% Due 9/16/2013	2,000,000.00	06/13/2007 5.56 %	1,889,560.00 1,965,393.86	107.92 0.44 %	2,158,328.00 3,750.00	1.95 % 192,934.14	Aaa AA+	1.96 1.89
31331KET3	FFCB Note 0.98% Due 9/23/2013	1,190,000.00	03/28/2011 1.10 %	1,186,513.30 1,187,223.70	101.06 0.44 %	1,202,629.47 259.16	1.09 % 15,405.77	Aaa AA+	1.98 1.96
3137EACL1	FHLMC Note 0.875% Due 10/28/2013	2,075,000.00	01/06/2011 1.22 %	2,055,474.25 2,060,560.47	100.88 0.45 %	2,093,197.75 7,716.41	1.90 % 32,637.28	Aaa AA+	2.08 2.05
31398A5W8	FNMA Note 0.75% Due 12/18/2013	1,325,000.00	01/06/2011 1.28 %	1,304,841.45 1,309,843.62	100.44 0.55 %	1,330,868.42 2,843.23	1.20 % 21,024.80	Aaa AA+	2.22 2.19
3134A4UM4	FHLMC Note 4.5% Due 1/15/2014	1,200,000.00	05/03/2004 5.03 %	1,151,736.00 1,188,594.87	109.09 0.50 %	1,309,102.80 11,400.00	1.19 % 120,507.93	Aaa AA+	2.30 2.18
3133X7FK5	FHLB Note 5.25% Due 6/18/2014	1,925,000.00	12/02/2004 4.72 %	2,002,030.80 1,946,929.77	112.57 0.58 %	2,166,899.35 28,915.10	1.98 % 219,969.58	Aaa AA+	2.72 2.54
3135G0DW0	FNMA Note 0.625% Due 10/30/2014	2,225,000.00	09/29/2011 0.67 %	2,221,747.05 2,221,749.94	99.74 0.71 %	2,219,154.93 154.51	2.00 % (2,595.01)	Aaa AA+	3.08 3.05
3133XVNU1	FHLB Note 2.75% Due 12/12/2014	350,000.00	02/04/2010 2.62 %	352,075.50 351,368.82	106.25 0.77 %	371,871.50 2,914.24	0.34 % 20,502.68	Aaa AA+	3.20 3.05
3134G2EF5	FHLMC Callable Note 1X 1/26/12 2.1% Due 1/26/2015	1,310,000.00	04/04/2011 2.09 %	1,310,131.00 1,310,055.73	100.49 0.58 %	1,316,386.25 4,967.08	1.19 % 6,330.52	Aaa AA+	0.32 0.32
880591DY5	Tennessee Valley Authority Note 4.375% Due 6/15/2015	1,040,000.00	12/03/2009 2.74 %	1,126,819.20 1,098,180.47	112.41 0.96 %	1,169,080.64 13,397.22	1.07 % 70,900.17	Aaa AA+	3.71 3.43
31331VGU4	FFCB Note 4.875% Due 12/16/2015	3,425,000.00	Various 4.26 %	3,561,575.25 3,500,015.93	115.95 1.00 %	3,971,280.65 48,699.22	3.63 % 471,264.72	Aaa AA+	4.21 3.82
31331J6C2	FFCB Note 2.35% Due 12/22/2015	1,200,000.00	03/28/2011 2.27 %	1,204,344.00 1,203,876.69	105.02 1.13 %	1,260,264.00 7,755.00	1.14 % 56,387.31	Aaa AA+	4.23 4.01
3133XXP43	FHLB Note 3.125% Due 3/11/2016	1,500,000.00	08/30/2011 1.10 %	1,634,145.00 1,631,630.80	108.54 1.15 %	1,628,095.50 2,604.17	1.47 % (3,535.30)	Aaa AA+	4.45 4.17
3135G0BA0	FNMA Note 2.375% Due 4/11/2016	2,695,000.00	Various 2.47 %	2,683,284.45 2,684,585.73	105.40 1.15 %	2,840,645.89 30,225.17	2.59 % 156,060.16	Aaa AA+	4.53 4.26
31331V2U9	FFCB Note 5.125% Due 8/25/2016	1,950,000.00	08/30/2011 1.14 %	2,324,887.50 2,318,505.56	117.98 1.32 %	2,300,678.25 9,993.75	2.09 % (17,827.31)	Aaa AA+	4.91 4.40
31359M4D2	FNMA Note 5% Due 2/13/2017	1,200,000.00	02/03/2011 2.93 %	1,336,435.20 1,321,620.11	118.45 1.42 %	1,421,425.20 8,000.00	1.29 % 99,805.09	Aaa AA+	5.38 4.77
31359M7X5	FNMA Note 5% Due 5/11/2017	2,250,000.00	12/31/2009 3.68 %	2,439,447.75 2,394,626.84	119.09 1.45 %	2,679,421.50 43,750.00	2.46 % 284,794.66	Aaa AA+	5.62 4.91
31398ADM1	FNMA Note 5.375% Due 6/12/2017	1,200,000.00	Various 3.58 %	1,341,020.65 1,307,027.05	121.27 1.47 %	1,455,295.20 19,529.17	1.33 % 148,268.15	Aaa AA+	5.70 4.96
880591EA6	Tennessee Valley Authority Note 5.5% Due 7/18/2017	2,460,000.00	Various 4.32 %	2,660,209.76 2,599,511.30	120.87 1.71 %	2,973,293.76 27,435.84	2.71 % 373,782.46	Aaa AA+	5.80 5.04



CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody S&P	Term (yrs) Duration
AGENCY									
3137EABA6	FHLMC Note 5.125% Due 11/17/2017	2,500,000.00	02/03/2011 3.13 %	2,802,150.00 2,773,008.01	120.33 1.63 %	3,008,292.50 47,690.97	2.76 % 235,284.49	Aaa AA+	6.14 5.30
313372C36	FHLB Note 3.125% Due 12/8/2017	1,150,000.00	03/18/2011 2.87 %	1,167,848.00 1,166,437.03	109.36 1.53 %	1,257,630.80 11,280.38	1.15 % 91,193.77	Aaa AA+	6.19 5.61
880591CU4	Tennessee Valley Authority Note 6.25% Due 12/15/2017	1,890,000.00	Various 4.27 %	2,157,081.80 2,082,205.31	126.05 1.80 %	2,382,358.23 34,781.24	2.18 % 300,152.92	Aaa AA+	6.21 5.24
880591EC2	Tennessee Valley Authority Note 4.5% Due 4/1/2018	1,285,000.00	Various 3.89 %	1,342,746.36 1,327,613.14	116.01 1.87 %	1,490,777.33 28,912.50	1.37 % 163,164.19	Aaa AA+	6.51 5.62
31331YF21	FFCB Note 4.25% Due 4/16/2018	650,000.00	07/15/2010 2.98 %	706,634.50 697,792.24	114.89 1.83 %	746,773.95 12,661.46	0.69 % 48,981.71	Aaa AA+	6.55 5.69
3137EABP3	FHLMC Note 4.875% Due 6/13/2018	1,950,000.00	Various 2.67 %	2,224,649.10 2,210,702.71	119.59 1.76 %	2,332,047.90 28,518.75	2.13 % 121,345.19	Aaa AA+	6.71 5.77
3133X8AS1	FHLB Note 5.125% Due 8/15/2019	2,000,000.00	06/07/2011 3.02 %	2,303,860.00 2,292,173.08	121.46 2.15 %	2,429,286.00 13,097.22	2.20 % 137,112.92	Aaa AA+	7.88 6.61
3133XDVS7	FHLB Note 5.25% Due 12/11/2020	2,600,000.00	07/07/2011 3.54 %	2,953,808.00 2,945,075.80	121.70 2.58 %	3,164,140.20 41,708.33	2.89 % 219,064.40	Aaa AA+	9.21 7.41
880591EL2	Tennessee Valley Authority Note 3.875% Due 2/15/2021	2,120,000.00	04/06/2011 3.87 %	2,121,611.20 2,121,532.03	112.58 2.37 %	2,386,787.16 10,496.94	2.16 % 265,255.13	Aaa AA+	9.39 7.92
3133752P1	FHLB Note 3.5% Due 7/29/2021	3,300,000.00	08/03/2011 3.19 %	3,388,209.00 3,386,806.17	108.20 2.55 %	3,570,441.60 19,891.67	3.24 % 183,635.43	Aaa AA+	9.84 8.32
Total Agency		53,965,000.00	2.98 %	57,090,646.07 56,683,951.69	1.38 %	60,725,820.73 567,286.23	55.32 % 4,041,869.04	Aaa AA+	5.21 4.57
MONEY MARKET FUND FI									
94975J466	Wells Fargo Advantage Government MMF	1,779,665.46	Various 0.01 %	1,779,665.46 1,779,665.46	1.00 0.01 %	1,779,665.46 0.00	1.61 % 0.00	NR NR	0.00 0.00
Total Money Market Fund FI		1,779,665.46	0.01 %	1,779,665.46 1,779,665.46	0.01 %	1,779,665.46 0.00	1.61 % 0.00	NR NR	0.00 0.00
US CORPORATE									
913017BF5	United Tech Corp Note 6.1% Due 5/15/2012	1,000,000.00	08/14/2008 4.35 %	1,059,810.00 1,009,946.42	103.21 0.94 %	1,032,083.00 23,044.44	0.95 % 22,136.58	A2 A	0.62 0.61
91159HGY0	US Bancorp Callable Note Cont 8/13/13 1.375% Due 9/13/2013	1,635,000.00	Various 1.32 %	1,637,475.35 1,636,606.89	100.61 1.04 %	1,645,043.81 1,124.07	1.49 % 8,436.92	Aa3 A+	1.87 1.84
254687AW6	Walt Disney Corp Note 4.5% Due 12/15/2013	1,040,000.00	Various 1.23 %	1,133,072.20 1,113,486.61	108.02 0.83 %	1,123,434.01 13,780.00	1.03 % 9,947.40	A2 A	2.21 2.10
717081AR4	Pfizer Inc. Note 4.5% Due 2/15/2014	840,000.00	Various 3.36 %	881,653.50 860,782.97	108.68 0.80 %	912,897.73 4,830.00	0.83 % 52,114.76	A1 AA	2.38 2.26
166751AH0	ChevronTexaco Corp Note 3.95% Due 3/3/2014	1,550,000.00	Various 2.53 %	1,634,065.25 1,600,381.44	107.71 0.74 %	1,669,526.70 4,761.94	1.51 % 69,145.26	Aa1 AA	2.42 2.33



CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody S&P	Term (yrs) Duration
US CORPORATE									
24422ERA9	John Deere Capital Corp Note 1.6% Due 3/3/2014	1,190,000.00	Various 1.68 %	1,187,240.15 1,187,764.76	101.05 1.16 %	1,202,466.44 1,480.89	1.09 % 14,701.68	A2 A	2.42 2.37
665859AK0	Northern Trust Company Note 4.625% Due 5/1/2014	1,140,000.00	Various 2.47 %	1,235,765.65 1,199,993.20	107.81 1.53 %	1,229,008.92 21,968.75	1.13 % 29,015.72	A1 AA-	2.59 2.41
36962G4C5	General Electric Capital Corp Note 5.9% Due 5/13/2014	1,885,000.00	Various 3.63 %	2,045,003.00 1,987,580.56	109.32 2.22 %	2,060,727.24 42,632.42	1.90 % 73,146.68	Aa2 AA+	2.62 2.40
61747YCF0	Morgan Stanley Note 6% Due 5/13/2014	1,455,000.00	Various 4.05 %	1,553,098.45 1,523,061.69	101.27 5.47 %	1,473,463.95 33,465.00	1.36 % (49,597.74)	A2 A	2.62 2.35
931142CQ4	Wal-Mart Stores Note 3.2% Due 5/15/2014	1,725,000.00	Various 1.60 %	1,823,201.61 1,794,735.35	106.27 0.78 %	1,833,235.13 20,853.33	1.67 % 38,499.78	Aa2 AA	2.62 2.50
428236AV5	Hewlett Packard Company Note 4.75% Due 6/2/2014	1,050,000.00	Various 2.66 %	1,136,909.90 1,105,141.42	107.44 1.88 %	1,128,099.00 16,486.46	1.03 % 22,957.58	A2 A	2.67 2.49
74005PAQ7	Praxair Note 5.25% Due 11/15/2014	515,000.00	09/24/2010 1.60 %	589,808.90 571,602.76	112.33 1.22 %	578,473.75 10,214.17	0.53 % 6,870.99	A2 A	3.13 2.87
09247XAD3	Blackrock Inc Note 3.5% Due 12/10/2014	1,090,000.00	Various 2.84 %	1,120,065.90 1,111,337.39	106.26 1.49 %	1,158,214.38 11,762.92	1.06 % 46,876.99	A1 A+	3.20 3.00
713448BM9	Pepsico Inc. Note 3.1% Due 1/15/2015	1,550,000.00	Various 2.10 %	1,614,584.35 1,598,257.55	105.90 1.27 %	1,641,380.26 10,143.88	1.49 % 43,122.71	Aa3 A-	3.30 3.12
46625HHP8	JP Morgan Chase Note 3.7% Due 1/20/2015	1,900,000.00	Various 3.16 %	1,939,327.10 1,931,516.28	102.47 2.91 %	1,946,850.20 13,864.72	1.77 % 15,333.92	Aa3 A+	3.31 3.08
94980VAA6	Wells Fargo Bank Note 4.75% Due 2/9/2015	1,825,000.00	Various 3.52 %	1,914,016.00 1,894,022.27	104.20 3.41 %	1,901,721.18 12,521.53	1.73 % 7,698.91	A1 AA-	3.36 3.08
084670AV0	Berkshire Hathaway Note 3.2% Due 2/11/2015	1,665,000.00	Various 3.12 %	1,670,612.45 1,669,106.21	105.14 1.62 %	1,750,532.72 7,400.00	1.59 % 81,426.51	Aa2 AA+	3.37 3.18
06406JHB4	Bank of New York Mellon Note 4.95% Due 3/15/2015	1,445,000.00	Various 2.11 %	1,620,058.00 1,579,309.07	107.36 2.71 %	1,551,330.33 3,179.00	1.40 % (27,978.74)	Aa3 A+	3.46 3.18
74005PAR5	Praxair Note 4.625% Due 3/30/2015	490,000.00	Various 2.58 %	534,803.30 522,743.15	110.35 1.57 %	540,698.34 62.95	0.49 % 17,955.19	A2 A	3.50 3.26
278642AB9	Ebay Inc Note 1.625% Due 10/15/2015	1,625,000.00	10/22/2010 1.66 %	1,622,156.25 1,622,686.41	100.30 1.55 %	1,629,865.25 12,176.22	1.48 % 7,178.84	A2 A	4.04 3.87
459200GU9	IBM Corp Note 2% Due 1/5/2016	1,950,000.00	Various 2.77 %	1,882,374.00 1,890,704.44	101.44 1.65 %	1,978,042.95 9,316.66	1.79 % 87,338.51	Aa3 A+	4.27 4.06
Total US Corporate		28,565,000.00	2.62 %	29,835,101.31 29,410,766.84	1.85 %	29,987,095.29 275,069.35	27.31 % 576,328.45	A1 A+	2.92 2.74
US TREASURY									
912828GW4	US Treasury Note 4.875% Due 6/30/2012	2,000,000.00	Various 4.09 %	2,033,361.05 2,011,458.11	103.49 0.22 %	2,069,766.00 24,639.95	1.89 % 58,307.89	Aaa AA+	0.75 0.74
912828HQ6	US Treasury Note 2.875% Due 1/31/2013	2,425,000.00	04/08/2008 2.69 %	2,445,271.50 2,430,627.13	103.49 0.25 %	2,509,685.85 11,746.09	2.28 % 79,058.72	Aaa AA+	1.34 1.31



Holdings Report

As of 9/30/11

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody S&P	Term (yrs) Duration
US TREASURY									
912828CA6	US Treasury Note 4% Due 2/15/2014	1,900,000.00	05/07/2008 3.28 %	1,971,621.09 1,929,477.05	108.58 0.37 %	2,062,983.90 9,706.52	1.87 % 133,506.85	Aaa AA+	2.38 2.28
912828CJ7	US Treasury Note 4.75% Due 5/15/2014	800,000.00	03/23/2011 1.08 %	890,596.43 875,523.33	111.34 0.40 %	890,750.40 14,353.26	0.82 % 15,227.07	Aaa AA+	2.62 2.46
912828EW6	US Treasury Note 4.5% Due 2/15/2016	1,500,000.00	10/04/2007 4.45 %	1,504,980.47 1,502,605.17	115.88 0.80 %	1,738,242.00 8,620.92	1.58 % 235,636.83	Aaa AA+	4.38 4.02
912828FY1	US Treasury Note 4.625% Due 11/15/2016	2,750,000.00	Various 3.02 %	2,997,790.21 2,952,603.63	118.11 0.99 %	3,248,008.50 48,040.93	2.98 % 295,404.87	Aaa AA+	5.13 4.58
912828GH7	US Treasury Note 4.625% Due 2/15/2017	800,000.00	07/12/2007 5.14 %	769,187.50 782,734.45	118.65 1.05 %	949,187.20 4,725.54	0.86 % 166,452.75	Aaa AA+	5.38 4.83
912828HH6	US Treasury Note 4.25% Due 11/15/2017	1,850,000.00	12/05/2007 3.94 %	1,896,755.86 1,878,797.59	117.94 1.20 %	2,181,843.75 29,698.03	2.00 % 303,046.16	Aaa AA+	6.13 5.41
912828PX2	US Treasury Note 3.625% Due 2/15/2021	1,425,000.00	06/02/2011 2.95 %	1,505,662.92 1,502,932.44	115.52 1.82 %	1,646,208.45 6,597.40	1.49 % 143,276.01	Aaa AA+	9.39 8.04
Total US Treasury		15,450,000.00	3.37 %	16,015,227.03 15,866,758.90	0.78 %	17,296,676.05 158,128.64	15.75 % 1,429,917.15	Aaa AA+	4.07 3.65
TOTAL PORTFOLIO		99,759,665.46	2.89 %	104,720,639.87 103,741,142.89	1.39 %	109,789,257.53 1,000,484.22	100.00 % 6,048,114.64	Aa1 AA	4.32 3.85
TOTAL MARKET VALUE PLUS ACCRUED						110,789,741.75			



Holdings Report

As of 9/30/11

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody S&P	Term (yrs) Duration
LAIF									
90LAIF\$00	Local Agency Investment Fund State Pool	7,948,062.78	Various 0.37 %	7,948,062.78 7,948,062.78	1.00 0.37 %	7,948,062.78 7,855.10	100.00 % 0.00	NR NR	0.00 0.00
Total LAIF		7,948,062.78	0.37 %	7,948,062.78 7,948,062.78	0.37 %	7,948,062.78 7,855.10	100.00 % 0.00	NR NR	0.00 0.00
TOTAL PORTFOLIO		7,948,062.78	0.37 %	7,948,062.78 7,948,062.78	0.37 %	7,948,062.78 7,855.10	100.00 % 0.00	NR NR	0.00 0.00
TOTAL MARKET VALUE PLUS ACCRUED						7,955,917.88			

SECTION 3



ECONOMIC UPDATE

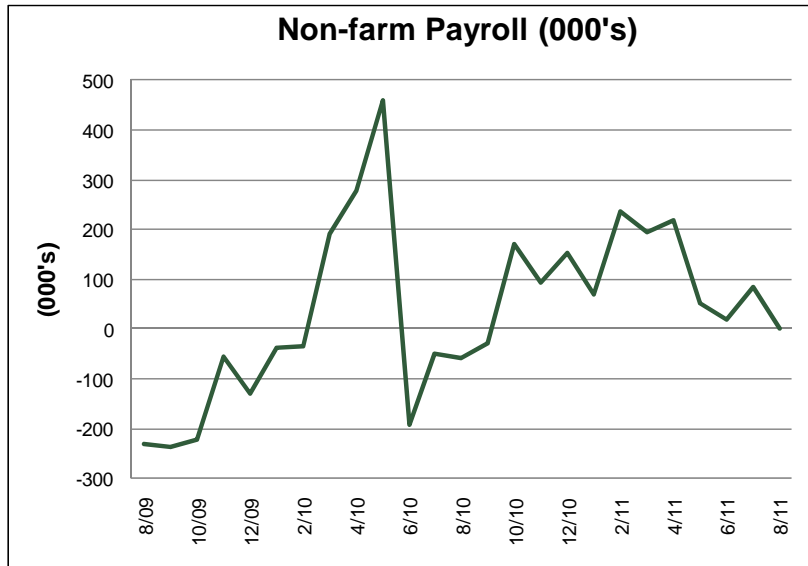


ECONOMIC UPDATE

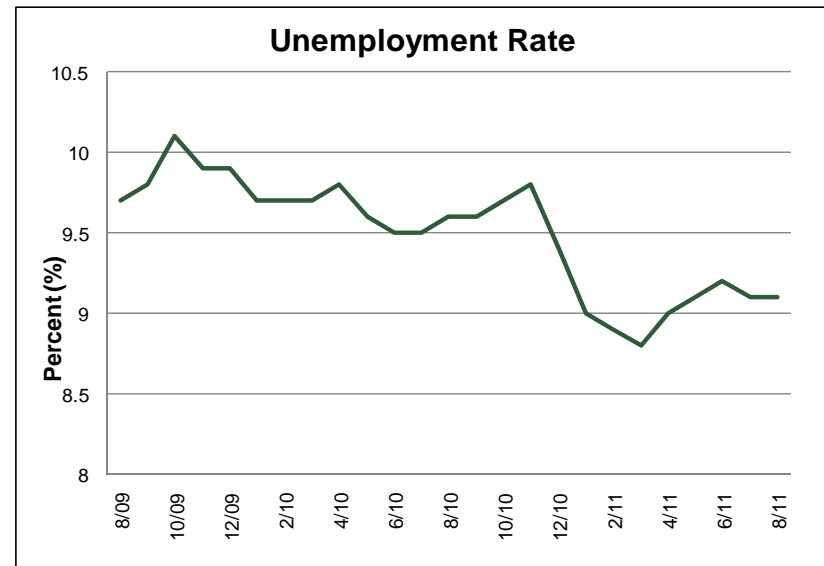
- Recent economic data has generally been softer than expected, and market participants have begun to debate the possibility of the economy slipping back into recession. Political turmoil related to sovereign debt in Europe has led to increased uncertainty about the future course of the global economy. Market participants will be watching closely for a resolution to the European debt crisis and to see whether the recent slowdown in economic growth becomes more pronounced, or whether growth reaccelerates later in the year.
- As many expected, the Fed announced that it will engage in a form of "Operation Twist" by extending the average maturity of its securities purchases. The FOMC intends to purchase, by the end of June 2012, \$400 billion of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less. This program is intended to put downward pressure on longer-term interest rates in an effort to stimulate the economy. The Fed kept its target rate unchanged at 0%-0.25%, and affirmed that it expects to keep the fed funds rate exceptionally low through mid-2013. The Fed's message on the economy was more downbeat than the prior FOMC statement, as they noted that "there are significant downside risks" to the current economic environment.
- The yield curve has flattened recently as longer-term rates have declined by more than shorter-term rates.



EMPLOYMENT



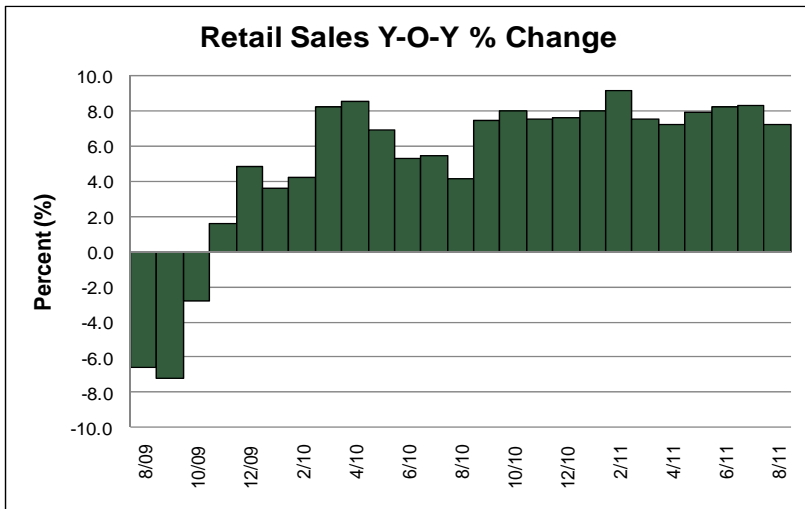
Source: U.S. Department of Labor



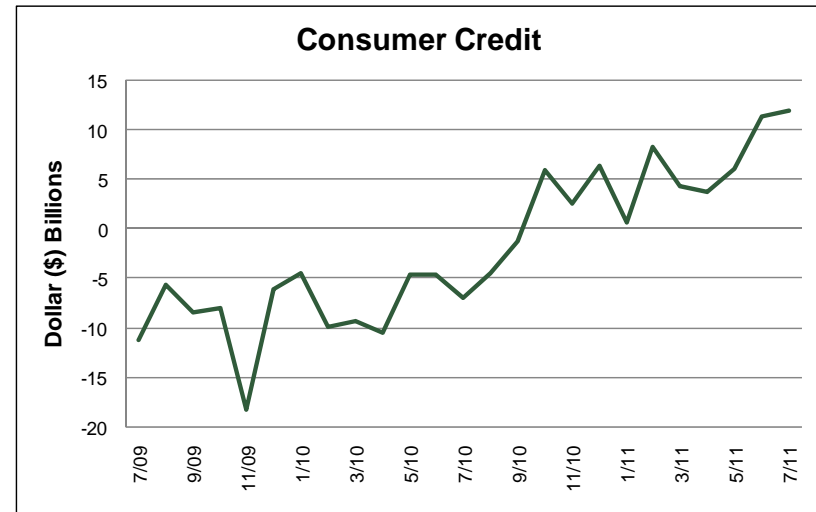
The August employment report showed that the economy added zero jobs and the previous month's total was revised lower. The unemployment rate remained at 9.1%. This report was disappointing and confirmed that the employment situation in the country remains poor. Even though the economic recovery is two years old, the pace of recovery in the labor market is extremely weak by historical standards, and is one of the primary reasons why the recovery has been tepid.



CONSUMER



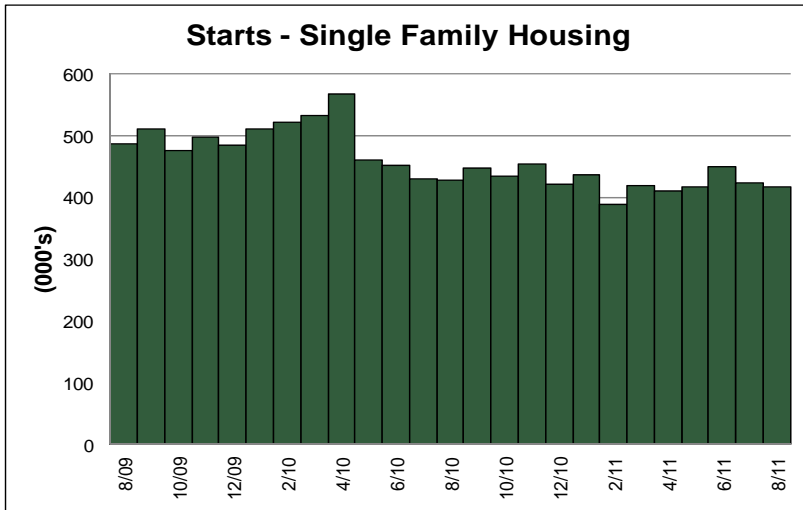
Source: U.S. Department of Commerce



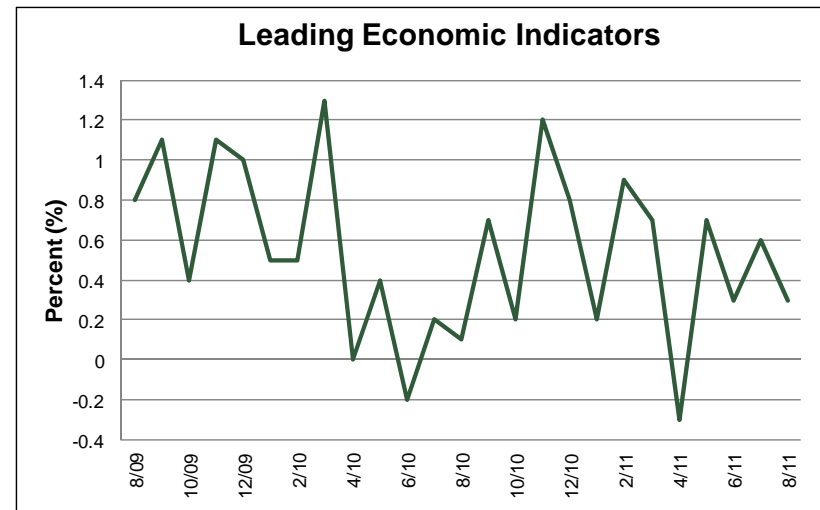
In August, Retail Sales rose 7.2% on a year-over-year basis. Consumer spending has rebounded from the depths of the recession and recent activity has been moderate; however, activity is still far short of the heights of the previous economic expansion as a weak job market and high energy prices restrain consumer spending. Consumer credit increased by \$12.0 billion in July, and has now increased for 10 consecutive months demonstrating a favorable upward trend. The report suggests that banks are continuing to make more credit available to consumers.



BROAD MEASURES



Source: US Department of Commerce

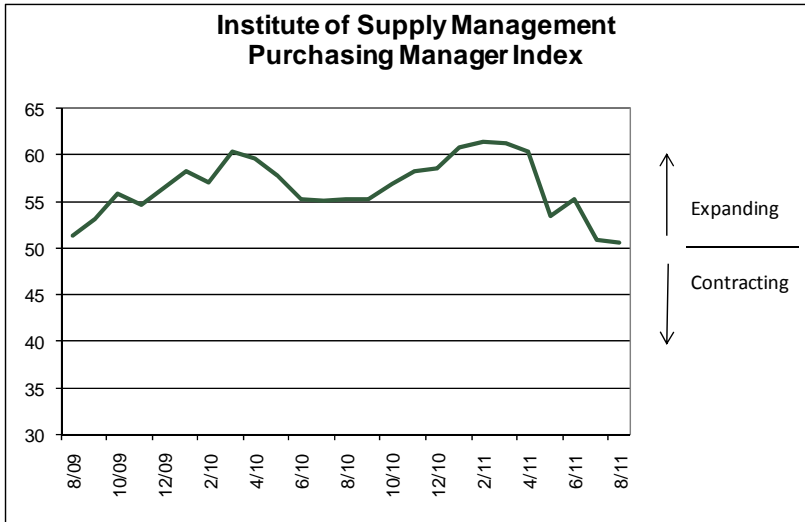


Source: The Conference Board

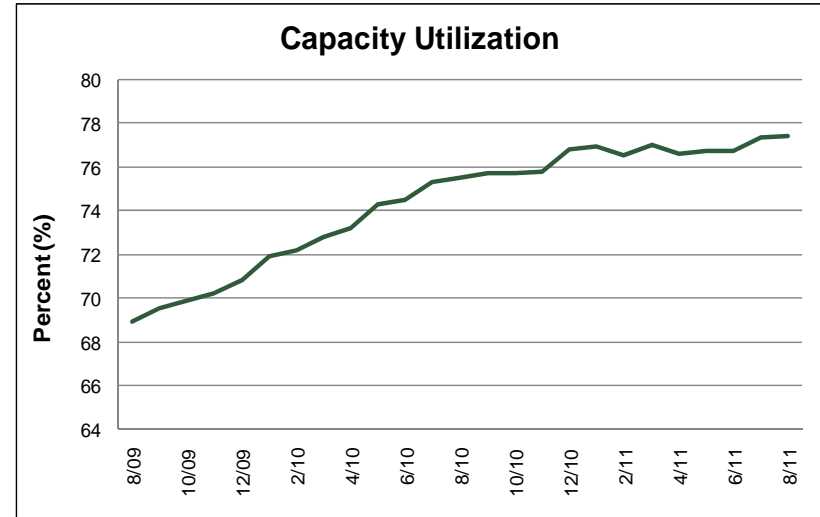
Single-family housing starts declined 1.4% in August to 417,000, compared to 423,000 in July. The housing market remains weak but seems to have stabilized following several years of sharp declines. The LEI rose 0.3% in August, the fourth consecutive moderate increase. The recent positive trend in LEI indicates that the economy may be able to avoid recession; however, growth is unlikely to pick up substantially in the near term.



MANUFACTURING



Source: Institute for Supply Management

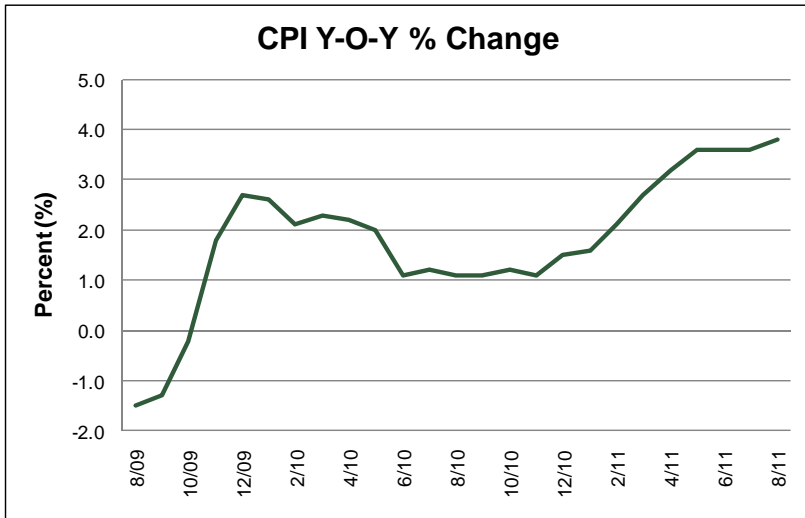


Source: Federal Reserve

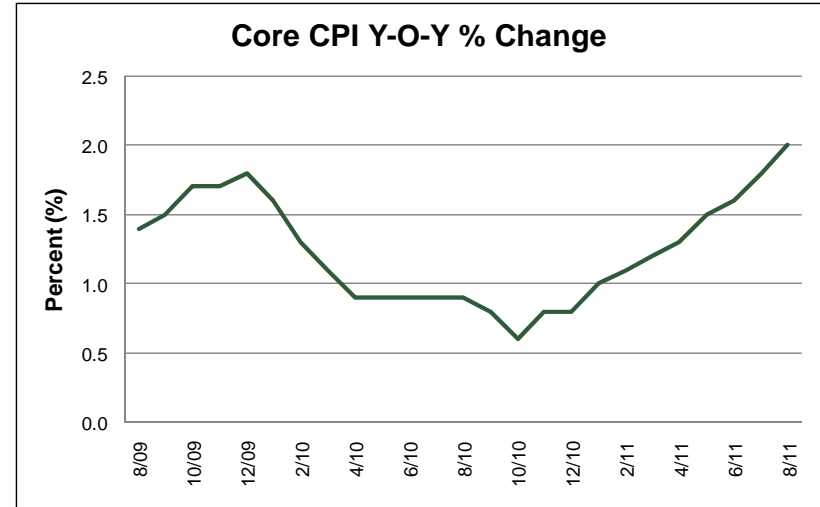
During August, the ISM Manufacturing Index declined to 50.6, compared to 50.9 in July. This is indicative of a manufacturing sector that is still expanding, but just barely. It is also troubling that the trend in this indicator has been lower over the past five months. Capacity Utilization, which is production divided by capacity, increased to 77.4% in August. Despite increasing slightly 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.



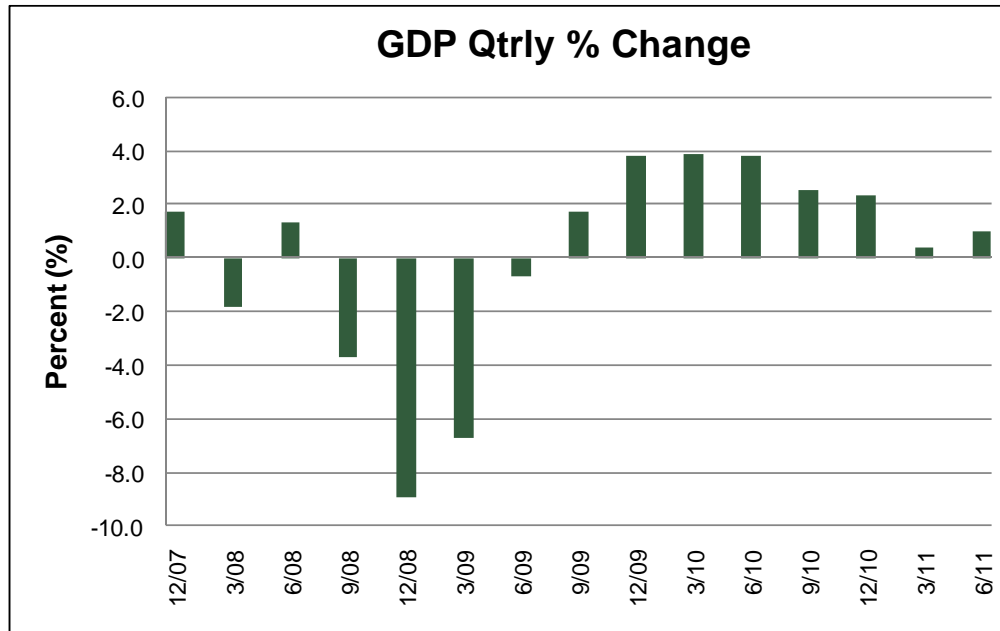
INFLATION



Source: US Department of Labor



In August, the CPI showed that consumer prices increased 3.8% on a year-over-year basis. The year-over-year Core CPI (CPI less food and energy) increased at a 2.0% rate. Although some producer prices have begun to increase, prices on consumer goods are not expected to rise 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.



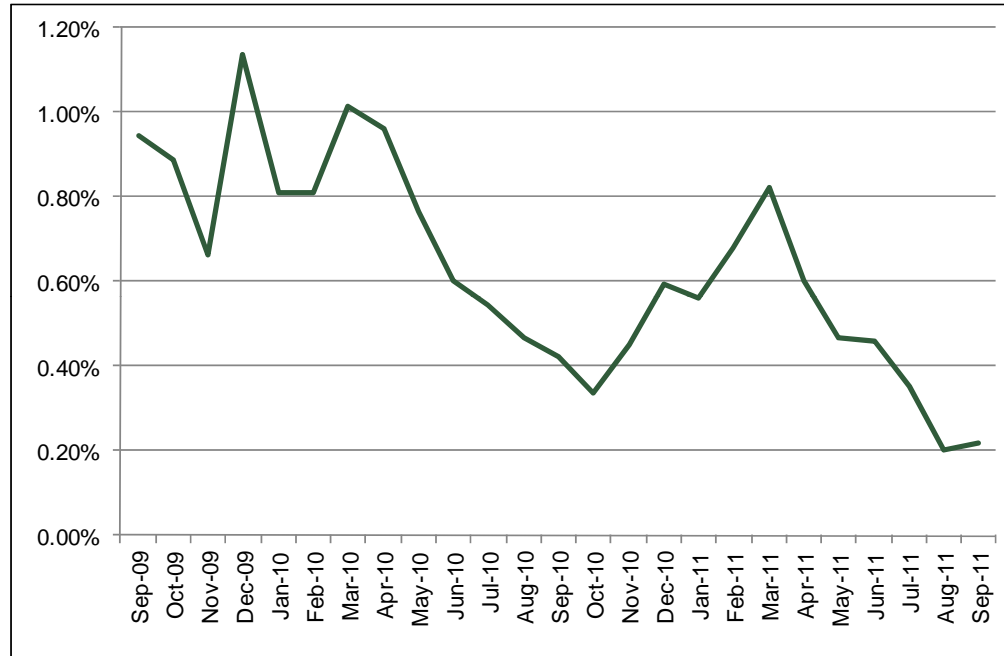
Source: U.S. Department of Commerce

The second estimate of the Gross Domestic Product (GDP) for Q2 2011 indicated that the economy grew at an annualized rate of 1.0%. This is a slight downward revision from the initial estimate of 1.3%. Recent GDP readings indicate a very weak level of economic activity. Many economists had previously been predicting that economic activity would pick up in the second half of the year, but recent weakness has led to a number of downward revisions in the forecasts for future economic growth.



INTEREST RATES

Yield on the Two-Year Note
September 2009 through September 2011



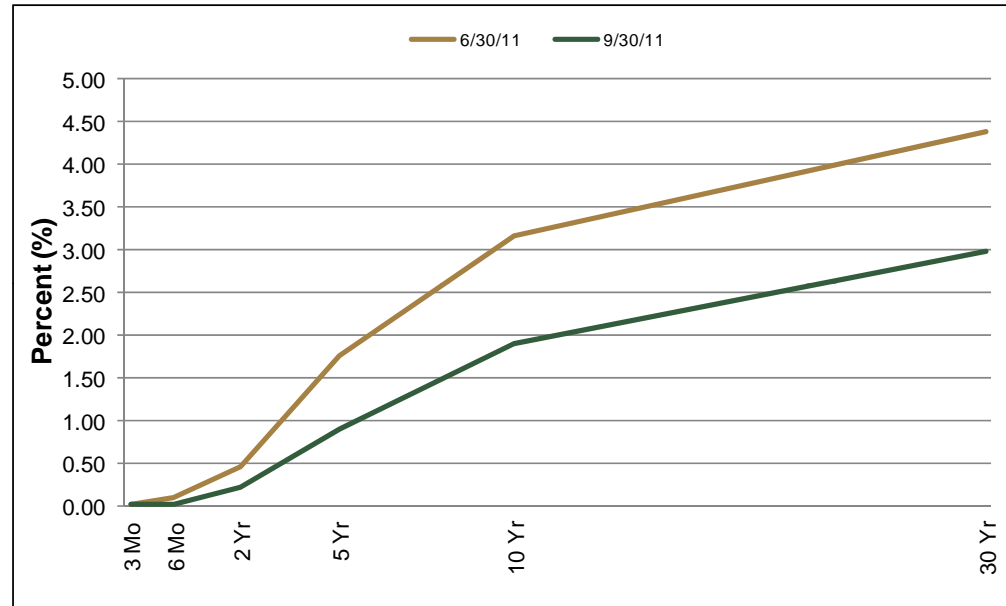
Source: Bloomberg

The yield on the two-year note was slightly higher in September. Economic data was mostly softer throughout the month and reflected a slowdown in the ongoing moderate economic expansion, as well as concerns about what the outcome of the European sovereign debt crisis will be. The market continues to adjust to the Federal Reserve's pledge to maintain exceptionally easy monetary policy through mid-2013.



YIELD CURVES

June 30, 2011 and September 30, 2011



Source: Bloomberg

The yield curve has flattened as the yields on longer-term Treasuries have significantly declined by more than the yields on shorter-term Treasuries. Over the last three months, yields on all Treasuries have declined, with ten-year and thirty-year securities showing the largest decrease.