



CITY OF ENCINITAS

INVESTMENT REPORT

Nine months ended March 31, 2013

TO: City Council

VIA: Gus Vina, City Manager *W*

FROM: Tim Nash, Finance Director *TN*
Jay Lembach, Finance Manager and City Treasurer *JML*

SUBJECT: Treasurer's Report for the nine (9) months ended March 31, 2013

Under the City's adopted Investment Policy (Section XVI.) the City Treasurer shall report investment positions and results of the pooled investment fund (the "Fund") to the City Council, at least quarterly. These reports shall be presented either as an Agenda Report or as a memo to the City Council members, at the discretion of the City Manager. The Manager has directed that the quarterly reports shall be presented in memo format, and the annual report shall be presented as an Agenda item.

There are a number of reports attached, which either summarize (or detail) the City open investment positions, and report performance for the period. Those reports are listed below, and may be referenced in the attached analysis.

- (1) *Portfolio Summary report* – summarizes all investment activity for the period
- (2) *Portfolio Detail and Investments by Issuer reports* – provides detail on holdings at March 31, 2013, both by category and by individual issuer
- (3) *Interest Earnings report* – details interest earned on all investments held during the period
- (4) *Realized and Unrealized Gains and Losses* for the period

We have also attached an informational *Investment Update*, which provides general information about the municipal investment trends and financial market conditions.

The *Portfolio Summary Report* shows that the investments totaled about \$84 million (par value) at March 31st, which is typical on a seasonally-adjusted basis. About \$32 million of that amount is considered "liquid" in that it can be converted to cash within 24 hours without loss of interest. This is more than sufficient liquidity to handle all foreseeable demands.

Investments are reported at "Book Value" which is the amount of the original purchase, plus or minus any required adjustments (if the investment was not purchased at PAR, or the face value of 100.) Those adjustments show on the *Interest Earnings* report under the column

“Amortization/Accretion.” The City also reports “Market Value,” which is the (theoretical) amount that the investment could have been sold for at the report date. In practice, the City rarely sells investments before their maturity date, and the market value amount is a rough estimate of value compiled by a reporting service. That being stated, the City’s investments had a market value of roughly \$135,000 greater than their book value at March 31st which is shown in the *Portfolio Summary* and detailed in the *Unrealized Gains and Losses* report.

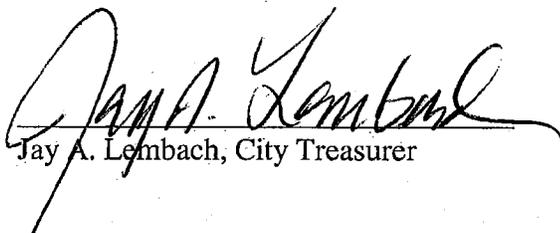
The portfolio had an effective rate of return of 0.46% for the period, resulting in earnings of \$302,504.77. The total includes both interest earnings and realized gains. The realized gains were the result of a security being called (redeemed early). This rate of return is slightly lower than the budget assumption of 0.50%, but is well above the City’s established benchmark (the one-year US Treasury bill) which averaged 0.15% for the period.

The improvement in available rates of return that many had hoped for this year has not materialized. In fact, interest rates have been on a downward trend, despite having already reached historic lows. It is extremely likely that the status quo will remain in place for an extended period of time; at least the next 12-15 months and likely longer.

Management has made the decision to keep the budget rate of return assumption at 0.50% for the next fiscal year, recognizing that this is an optimistic scenario. However, the absolute (dollar) amount of the returns coming in is extremely modest. As a result, lowering the budget assumption would not make any significant difference to the City overall, or to any particular fund or program.

The City continues to maintain a relatively low risk profile, which means: (1) concentrating on high credit quality investments, (2) maintaining a relatively short average maturity, and (3) always striving to establish and maintain proper diversification of both investment types and maturities. The City’s portfolio is extremely safe and prudently invested, with high credit quality and more than adequate liquidity.

Respectfully submitted:



Jay A. Lembach, City Treasurer



**City of Encinitas-QTRLY Report
Portfolio Management
Portfolio Summary
March 31, 2013**

CITY OF ENCINITAS
505 S. VULCAN
ENCINITAS, ENCINITAS, CA 9
(760)633-2641

Investments	Par Value	Market Value	Book Value	% of Portfolio	YTM	Term	Days to Maturity
Local Agency Investment Funds	21,869,141.63	21,869,141.63	21,869,141.63	25.75	0.270	1	1
Managed Pool Accounts	10,032,265.05	10,032,265.05	10,032,265.05	11.81	0.140	1	1
Money Market Funds	92,022.24	92,022.24	92,022.24	0.11	0.020	1	1
Certificates of Deposit - Bank	992,000.00	996,935.20	992,000.00	1.17	1.313	1,461	1,303
Federal Agency Coupon Securities	36,000,000.00	36,998,820.83	36,947,182.53	43.50	0.414	896	685
Federal Agency Callable Securities	14,000,000.00	14,070,006.67	14,005,233.00	16.49	0.870	1,408	1,049
Corporate Medium Term Notes	1,000,000.00	1,006,330.00	992,173.74	1.17	1.434	1,266	862
Investments	83,985,428.92	85,065,521.62	84,930,018.19	100.00%	0.442	654	497
Cash							
Passbook/Checking (not included in yield calculations)	1,619,420.18	1,619,420.18	1,619,420.18		0.000	1	1
Total Cash and Investments	85,604,849.10	86,684,941.80	86,549,438.37		0.442	654	497

Total Earnings	March 31 Period Ending
Current Year	302,504.77
Average Daily Balance	87,609,665.25
Effective Rate of Return	0.46%

I certify the accuracy of the attached report on the City of Encinitas' Pooled Investment Fund. All funds for which the City has oversight responsibility are reflected in this report. All investments are in compliance with the City's adopted Investment Policy, which is available through the City Clerk's office. The City's Investment Program provides sufficient liquidity to meet the next six (6) months expenditure requirements. The source of the market values of investments owned is Union Bank of California Custody Services.

Jay A. Lembach
Jay A. Lembach, Investment Officer 5/13/2013

Reporting period 07/01/2012-03/31/2013
Data Updated: SET_QTR: 05/13/2013 09:14
Run Date: 05/13/2013 - 09:14

No fiscal year history available

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City of Encinitas-QTRLY Report
Portfolio Management
Portfolio Details - Investments
March 31, 2013

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM	S&P Moody's	Maturity Date
Local Agency Investment Funds											
SYS1012	1012	CA Local Agency Invstment Fund			21,869,141.63	21,869,141.63	21,869,141.63	0.270	0.270		
Subtotal and Average			19,096,984.70		21,869,141.63	21,869,141.63	21,869,141.63		0.270		
Managed Pool Accounts											
SYS1003	1003	CA Asset Management Program			10,032,265.05	10,032,265.05	10,032,265.05	0.140	0.140	AAA	
Subtotal and Average			10,025,985.99		10,032,265.05	10,032,265.05	10,032,265.05		0.140		
Money Market Funds											
SYS1004	1004	Union Bank Custody Acct.			92,022.24	92,022.24	92,022.24	0.020	0.020		
Subtotal and Average			7,194,788.84		92,022.24	92,022.24	92,022.24		0.020		
Certificates of Deposit - Bank											
38143AP25	1435	Goldman Sachs Bank, USA		10/24/2012	248,000.00	248,213.28	248,000.00	1.050	1.050		10/26/2015
795450PZ2	1437	Sallie Mae Bank/Murray		10/24/2012	248,000.00	249,550.00	248,000.00	1.350	1.350		10/24/2016
36160XY43	1439	GE Capital Bank		10/26/2012	248,000.00	249,153.20	248,000.00	1.350	1.350		10/26/2016
02587DLV8	1438	American Express Centurion		10/25/2012	248,000.00	250,018.72	248,000.00	1.500	1.500		10/25/2017
Subtotal and Average			572,934.31		992,000.00	996,935.20	992,000.00		1.313		
Federal Agency Coupon Securities											
3134G3BF6	1422	Federal Home Loan Mortgage		03/30/2012	5,000,000.00	5,015,550.00	5,009,964.83	0.625	0.350	AA+	Aaa 12/23/2013
3133XWE70	1428	Federal Home Loan Bank		06/27/2012	2,000,000.00	2,054,880.00	2,050,885.44	2.500	0.370	AA+	Aaa 06/13/2014
3133XUPG2	1445	Federal Home Loan Bank		12/27/2012	2,000,000.00	2,074,560.00	2,073,155.85	2.875	0.255	AA+	Aaa 08/25/2014
31398A3G5	1426	Federal Nat'l Mortgage Assoc.		03/30/2012	5,000,000.00	5,078,800.00	5,072,721.53	1.500	0.480	AA+	Aaa 09/08/2014
3135G0DW0	1441	Federal Nat'l Mortgage Assoc.		12/27/2012	2,000,000.00	2,013,179.17	2,013,153.20	0.625	0.270	AA+	Aaa 10/30/2014
3133X9DC1	1423	Federal Home Loan Bank		03/30/2012	2,000,000.00	2,137,460.00	2,126,837.08	4.500	0.550	AA+	Aaa 11/14/2014
31331SPQ0	1430	Federal Farm Credit		06/27/2012	2,000,000.00	2,152,740.00	2,146,357.56	4.375	0.450	AA+	Aaa 02/17/2015
3133XWX95	1427	Federal Home Loan Bank		06/27/2012	2,000,000.00	2,094,500.00	2,087,836.31	2.750	0.480	AA+	Aaa 03/13/2015
3135G0LN1	1444	Federal Nat'l Mortgage Assoc.		12/27/2012	2,000,000.00	2,006,200.00	2,005,824.86	0.500	0.370	AA+	Aaa 07/02/2015
3134G3ZA1	1448	Federal Home Loan Mortgage		03/28/2013	2,000,000.00	2,006,193.33	2,007,968.64	0.500	0.351	AA+	Aaa 08/28/2015
313370JB5	1442	Federal Home Loan Bank		12/27/2012	2,000,000.00	2,066,060.00	2,064,816.43	1.750	0.415	AA+	Aaa 09/11/2015
313371NW2	1429	Federal Home Loan Bank		06/27/2012	2,000,000.00	2,053,060.00	2,041,283.99	1.375	0.600	AA+	Aaa 12/11/2015
3134A4ZT4	1440	Federal Home Loan Mortgage		12/27/2012	2,000,000.00	2,242,760.00	2,240,670.52	4.750	0.420	AA+	Aaa 01/19/2016
3133ECGT5	1447	Federal Farm Credit		03/28/2013	2,000,000.00	2,000,295.00	2,000,256.03	0.410	0.416	AA+	Aaa 03/01/2016
3137EADQ9	1446	Federal Home Loan Mortgage		03/28/2013	2,000,000.00	2,002,583.33	2,005,470.26	0.500	0.421	AA+	Aaa 05/13/2016
Subtotal and Average			24,381,271.75		36,000,000.00	36,998,820.83	36,947,182.53		0.414		

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**City of Encinitas-QTRLY Report
Portfolio Management
Portfolio Details - Investments
March 31, 2013**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM	S&P Moody's	Maturity Date
Federal Agency Callable Securities											
3133EAQL5	1431	Federal Farm Credit		06/27/2012	2,000,000.00	2,000,080.00	2,000,000.00	0.540	0.540	AA+	Aaa 05/15/2015
3134G3EN6	1418	Federal Home Loan Mortgage		12/30/2011	5,000,000.00	5,026,050.00	5,000,000.00	1.000	1.000	AA+	Aaa 06/30/2015
3135G0RS4	1443	Federal Nat'l Mortgage Assoc.		12/27/2012	2,000,000.00	2,002,676.67	2,005,233.00	0.500	0.426	AA+	Aaa 11/06/2015
3136FTQ36	1419	Federal Nat'l Mortgage Assoc.		02/28/2012	5,000,000.00	5,041,200.00	5,000,000.00	1.050	1.050	AA+	Aaa 02/28/2017
Subtotal and Average			19,846,926.70		14,000,000.00	14,070,006.67	14,005,233.00		0.870		
Variable Rate Agency Cpn Securities											
Subtotal and Average			1,898,044.02								
Corporate Medium Term Notes											
36962G4N1	1421	General Electric Capital Corp		02/22/2012	1,000,000.00	1,006,330.00	992,173.74	1.060	1.434	AA+	Aaa 08/11/2015
Subtotal and Average			990,930.34		1,000,000.00	1,006,330.00	992,173.74		1.434		
Total and Average			87,609,665.26		83,985,428.92	85,065,521.62	84,930,018.19		0.442		



**City of Encinitas-QTRLY Report
Investments by Issuer
Active Investments
Sorted by Fund
March 31, 2013**

CITY OF ENCINITAS
505 S. VULCAN
ENCINITAS, ENCINITAS, CA 9
(760)633-2641

CUSIP	Investment #	Security Type	Investment Class	Book Value	Current Rate	Market Value	Market Date	YTM 365	Redemption Date	Days To Maturity	Call Date	Collateral
American Express Centurion												
02587DLV8	1438	Certificates of Deposit - Bank	Fair	248,000.00	1.500	250,018.72	03/31/2013	1.500	10/25/2017	1,668		
Subtotal and Average				248,000.00		250,018.72		1.500		1,668		
CA Asset Management Program												
SYS1003	1003	Managed Pool Accounts	Amort	10,032,265.05	0.140	10,032,265.05	03/31/2013	0.140		1		
Subtotal and Average				10,032,265.05		10,032,265.05		0.140		1		
Federal Farm Credit												
31331SPQ0	1430	Federal Agency Coupon Securities	Fair	2,146,357.56	4.375	2,152,740.00	03/31/2013	0.450	02/17/2015	687		
3133ECGT5	1447	Federal Agency Coupon Securities	Fair	2,000,256.03	0.410	2,000,295.00	03/31/2013	0.416	03/01/2016	1,065		
3133EAQL5	1431	Federal Agency Callable Securities	Fair	2,000,000.00	0.540	2,000,080.00	03/31/2013	0.540	05/15/2015	774		
Subtotal and Average				6,146,613.59		6,153,115.00		0.468		838		
Federal Home Loan Bank												
3133X9DC1	1423	Federal Agency Coupon Securities	Fair	2,126,837.08	4.500	2,137,460.00	03/31/2013	0.550	11/14/2014	592		
3133XWX95	1427	Federal Agency Coupon Securities	Fair	2,087,836.31	2.750	2,094,500.00	03/31/2013	0.480	03/13/2015	711		
3133XWE70	1428	Federal Agency Coupon Securities	Fair	2,050,885.44	2.500	2,054,880.00	03/31/2013	0.370	06/13/2014	438		
313371NW2	1429	Federal Agency Coupon Securities	Fair	2,041,263.99	1.375	2,053,060.00	03/31/2013	0.600	12/11/2015	984		
313370JB5	1442	Federal Agency Coupon Securities	Fair	2,064,816.43	1.750	2,066,060.00	03/31/2013	0.415	09/11/2015	893		
3133XUPG2	1445	Federal Agency Coupon Securities	Fair	2,073,155.85	2.875	2,074,560.00	03/31/2013	0.255	08/25/2014	511		
Subtotal and Average				12,444,795.10		12,480,520.00		0.445		687		
Federal Home Loan Mortgage												
3134G3BF6	1422	Federal Agency Coupon Securities	Fair	5,009,964.83	0.625	5,015,550.00	03/31/2013	0.350	12/23/2013	266		
3134A4ZT4	1440	Federal Agency Coupon Securities	Fair	2,240,670.52	4.750	2,242,760.00	03/31/2013	0.420	01/19/2016	1,023		
3137EADQ9	1446	Federal Agency Coupon Securities	Fair	2,005,470.26	0.500	2,002,583.33	03/31/2013	0.421	05/13/2016	1,138		
3134G3ZA1	1448	Federal Agency Coupon Securities	Fair	2,007,968.64	0.500	2,006,193.33	03/31/2013	0.351	08/28/2015	879		
3134G3EN6	1418	Federal Agency Callable Securities	Fair	5,000,000.00	1.000	5,026,050.00	03/31/2013	1.000	06/30/2015	820	12/30/2013	
Subtotal and Average				16,264,074.25		16,293,136.66		0.568		723		

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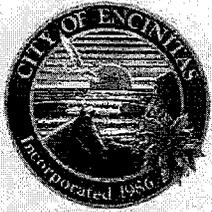
Portfolio ENCI
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DI (PRF_DI) 7.1.1
Report Ver. 7.3.3b

City of Encinitas-QTRLY Report
Investments by Issuer
Sorted by Fund

CUSIP	Investment #	Security Type	Investment Class	Book Value	Current Rate	Market Value	Market Date	YTM 365	Redemption Date	Days To Maturity	Call Date	Collateral
Federal Nat'l Mortgage Assoc.												
31398A3G5	1426	Federal Agency Coupon Securities	Fair	5,072,721.53	1.500	5,078,800.00	03/31/2013	0.480	09/08/2014	525		
3135G0DW0	1441	Federal Agency Coupon Securities	Fair	2,013,153.20	0.625	2,013,179.17	03/31/2013	0.270	10/30/2014	577		
3135G0LN1	1444	Federal Agency Coupon Securities	Fair	2,005,824.86	0.500	2,006,200.00	03/31/2013	0.370	07/02/2015	822		
3136FTQ36	1419	Federal Agency Callable Securities	Fair	5,000,000.00	1.050	5,041,200.00	03/31/2013	1.050	02/28/2017	1,429	02/28/2014	
3135G0RS4	1443	Federal Agency Callable Securities	Fair	2,005,233.00	0.500	2,002,676.67	03/31/2013	0.426	11/06/2015	949	11/06/2014	
Subtotal and Average				16,096,932.59		16,142,055.84		0.610		902		
GE Capital Bank												
36160XY43	1439	Certificates of Deposit - Bank	Fair	248,000.00	1.350	249,153.20	03/31/2013	1.350	10/26/2016	1,304		
Subtotal and Average				248,000.00		249,153.20		1.350		1,304		
General Electric Capital Corp												
36962G4N1	1421	Corporate Medium Term Notes	Fair	992,173.74	1.060	1,006,330.00	03/31/2013	1.434	08/11/2015	862		
Subtotal and Average				992,173.74		1,006,330.00		1.434		862		
Goldman Sachs Bank, USA												
38143AP25	1435	Certificates of Deposit - Bank	Fair	248,000.00	1.050	248,213.28	03/31/2013	1.050	10/26/2015	938		
Subtotal and Average				248,000.00		248,213.28		1.050		938		
CA Local Agency Investment Fund												
SYS1012	1012	Local Agency Investment Funds	Amort	21,869,141.63	0.270	21,869,141.63	03/31/2013	0.270		1		
Subtotal and Average				21,869,141.63		21,869,141.63		0.270		1		
Scripps Bank/US Bank												
SYS1011	1011	Passbook/Checking Accounts	Amort	0.00		0.00	03/31/2013			1		
Subtotal and Average				0.00		0.00				1		
Sallie Mae Bank/Murray												
795450PZ2	1437	Certificates of Deposit - Bank	Fair	248,000.00	1.350	249,550.00	03/31/2013	1.350	10/24/2016	1,302		
Subtotal and Average				248,000.00		249,550.00		1.350		1,302		
Union Bank Checking Acct.												
SYS1010	1010	Passbook/Checking Accounts	Amort	1,619,420.18		1,619,420.18	03/31/2013			1		
Subtotal and Average				1,619,420.18		1,619,420.18				1		

City of Encinitas-QTRLY Report
Investments by Issuer
Sorted by Fund

CUSIP	Investment #	Security Type	Investment Class	Book Value	Current Rate	Market Value	Market Date	YTM 365	Redemption Date	Days To Maturity	Call Date	Collateral
Union Bank Custody Acct.												
SYS1004	1004	Money Market Funds	Amort	92,022.24	0.020	92,022.24	03/31/2013	0.020		1		
Subtotal and Average				92,022.24		92,022.24		0.020		1		
Total and Average				86,549,438.37		86,684,941.80		0.434		487		



City of Encinitas-QTRLY Report
Interest Earnings
Sorted by Security Type - Maturity Date
July 1, 2012 - March 31, 2013
Yield on Beginning Book Value

CITY OF ENCINITAS
 505 S. VULCAN
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 (760)633-2641

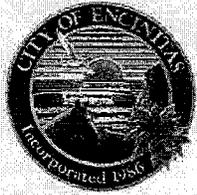
CUSIP	Investment #	Fund	Issuer	Ending Par Value	Beginning Book Value	Ending Book Value	Maturity Date	Current Annualized Rate	Annualized Yield	Adjusted Interest Earnings		
										Interest Earned	Amortization/ Accretion	Adjusted Interest Earnings
Security Type: Local Agency Investment Funds												
SYS1012	1012	001	LAIF	21,869,141.63	29,312,534.19	21,869,141.63		0.270	0.208	45,801.20	0.00	45,801.20
			Subtotal	21,869,141.63	29,312,534.19	21,869,141.63			0.208	45,801.20	0.00	45,801.20
Security Type: Managed Pool Accounts												
SYS1003	1003	001	CAMP	10,032,265.05	10,016,712.21	10,032,265.05		0.140	0.197	14,818.96	0.00	14,818.96
			Subtotal	10,032,265.05	10,016,712.21	10,032,265.05			0.197	14,818.96	0.00	14,818.96
Security Type: Money Market Funds												
SYS1004	1004	001	UBCUST	92,022.24	1,021,741.57	92,022.24		0.020	0.138	1,054.68	0.00	1,054.68
			Subtotal	92,022.24	1,021,741.57	92,022.24			0.138	1,054.68	0.00	1,054.68
Security Type: Certificates of Deposit - Bank												
38143AP25	1435	001	GLDSCH	248,000.00	0.00	248,000.00	10/26/2015	1.050	1.050	1,134.35	0.00	1,134.35
795450PZ2	1437	001	SMAEBN	248,000.00	0.00	248,000.00	10/24/2016	1.350	1.350	1,458.44	0.00	1,458.44
36160XY43	1439	001	GECBNK	248,000.00	0.00	248,000.00	10/26/2016	1.350	1.350	1,440.10	0.00	1,440.10
02587DLV8	1438	001	AMEXCN	248,000.00	0.00	248,000.00	10/25/2017	1.500	1.496	1,605.90	0.00	1,605.90
			Subtotal	992,000.00	0.00	992,000.00			1.311	5,638.79	0.00	5,638.79
Security Type: Federal Agency Coupon Securities												
3134G3BF6	1422	001	FHLMC	5,000,000.00	5,020,233.93	5,009,964.83	12/23/2013	0.625	0.349	23,437.50	-10,269.10	13,168.40
3133XWE70	1428	001	FHLB	2,000,000.00	2,084,633.28	2,050,885.44	06/13/2014	2.500	0.364	37,500.00	-31,803.40	5,696.60
3133XUPG2	1445	001	FHLB	2,000,000.00	0.00	2,073,155.85	08/25/2014	2.875	0.252	15,013.89	-13,644.15	1,369.74
31398A3G5	1426	001	FNMA	5,000,000.00	5,115,283.22	5,072,721.53	09/08/2014	1.500	0.476	56,250.00	-37,978.36	18,271.64
3135G0DW0	1441	001	FNMA	2,000,000.00	0.00	2,013,153.20	10/30/2014	0.625	0.271	3,263.89	-1,845.97	1,417.92
3133X9DC1	1423	001	FHLB	2,000,000.00	2,185,578.10	2,126,837.08	11/14/2014	4.500	0.534	67,500.00	-58,741.02	8,758.98
31331SPQ0	1430	001	FFCRED	2,000,000.00	2,236,411.20	2,146,357.56	02/17/2015	4.375	0.427	65,625.00	-58,456.42	7,168.58
3133XWX95	1427	001	FHLB	2,000,000.00	2,137,508.40	2,087,836.31	03/13/2015	2.750	0.465	41,250.00	-33,783.20	7,466.80
3135G0LN1	1444	001	FNMA	2,000,000.00	0.00	2,005,824.86	07/02/2015	0.500	0.371	2,611.11	-675.14	1,935.97
3134G3ZA1	1448	001	FHLMC	2,000,000.00	0.00	2,007,968.64	08/28/2015	0.500	0.267	83.34	-24.69	58.65

Data Updated: SET_QTR: 05/13/2013 09:14
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City of Encinitas-QTRLY Report
Interest Earnings
July 1, 2012 - March 31, 2013

CUSIP	Investment #	Fund	Issuer	Ending Par Value	Beginning Book Value	Ending Book Value	Maturity Date	Current Annualized Rate	Annualized Yield	Adjusted Interest Earnings		
										Interest Earned	Amortization/ Accretion	Adjusted Interest Earnings
Security Type: Federal Agency Coupon Securities												
313370JB5	1442	001	FHLB	2,000,000.00	0.00	2,064,816.43	09/11/2015	1.750	0.411	9,138.88	-6,923.57	2,215.31
313371NW2	1429	001	FHLB	2,000,000.00	2,053,972.06	2,041,263.99	12/11/2015	1.375	0.593	20,625.00	-11,485.85	9,139.15
3134A4ZT4	1440	001	FHLMC	2,000,000.00	0.00	2,240,670.52	01/19/2016	4.750	0.401	24,805.56	-22,443.48	2,362.08
3133ECGT5	1447	001	FFCRED	2,000,000.00	0.00	2,000,256.03	03/01/2016	0.410	0.317	68.33	1.03	69.36
3137EADQ9	1446	001	FHLMC	2,000,000.00	0.00	2,005,470.26	05/13/2016	0.500	0.320	83.34	-13.07	70.27
Subtotal				36,000,000.00	20,833,620.19	36,947,182.53			0.430	367,255.84	-288,086.39	79,169.45
Security Type: Federal Agency Callable Securities												
3133EAHM3	1425	001	FFCRED	0.00	4,996,963.94	0.00	03/14/2014	0.350	0.391	10,402.78	1,331.43	11,734.21
3133EAQL5	1431	001	FFCRED	2,000,000.00	2,001,260.00	2,000,000.00	05/15/2015	0.540	0.539	8,100.00	0.00	8,100.00
3134G3EN6	1418	001	FHLMC	5,000,000.00	5,000,000.00	5,000,000.00	06/30/2015	1.000	0.999	37,500.00	0.00	37,500.00
3135G0RS4	1443	001	FNMA	2,000,000.00	0.00	2,005,233.00	11/06/2015	0.500	0.427	2,611.11	-383.67	2,227.44
3134G3CE8	1417	001	FHLMC	0.00	5,000,000.00	0.00	12/21/2016	1.500	1.494	35,416.67	0.00	35,416.67
3136FTQ36	1419	001	FNMA	5,000,000.00	5,000,000.00	5,000,000.00	02/28/2017	1.050	1.049	39,375.00	0.00	39,375.00
Subtotal				14,000,000.00	21,998,223.94	14,005,233.00			0.902	133,405.56	947.76	134,353.32
Security Type: Variable Rate Agency Cpn Securities												
3136FT4U0	1424	001	FNMA	0.00	5,000,781.25	0.00	03/21/2016	0.625	0.618	6,944.44	0.00	6,944.44
313376YU3	1420	001	FHLB	0.00	5,000,000.00	0.00	02/22/2017	0.898	0.436	1,312.50	0.00	1,312.50
Subtotal				0.00	10,000,781.25	0.00			0.580	8,256.94	0.00	8,256.94
Security Type: Corporate Medium Term Notes												
36962G4N1	1421	001	GECC	1,000,000.00	989,687.75	992,173.74	08/11/2015	1.060	1.471	8,443.03	2,485.99	10,929.02
Subtotal				1,000,000.00	989,687.75	992,173.74			1.471	8,443.03	2,485.99	10,929.02
Total				83,985,428.92	94,173,301.10	84,930,018.19			0.453	584,675.00	-284,652.64	300,022.36



City of Encinitas-QTRLY Report
Realized Gains and Losses
 Sorted By Investment Type
 Sales/Calls/Maturities: July 1, 2012 - March 31, 2013

CITY OF ENCINITAS
 505 S. VULCAN
 ENCINITAS, ENCINITAS, CA 9
 (760)633-2641

Investment #	Inv. Type	Purchase Date	Par Value	Sale Date	Days Held							
Issuer			Current Rate	Maturity Date	Term	Book Value	Maturity/Sale Proceeds	Realized Gain/Loss	Total Earnings	Total Net Earnings	Total Yield	365
Federal Agency Callable Securities												
1417	MC2	12/21/2011	5,000,000.00	12/21/2012	366	5,000,000.00	5,000,000.00	0.00	75,000.00	75,000.00	1.496	
	Federal Home Loan Mortgage		1.500	12/21/2016	1,827							
1425	MC2	03/30/2012	5,000,000.00	02/05/2013	312	4,997,517.59	5,000,000.00	2,482.41	16,723.98	19,206.39	0.450	
	Federal Farm Credit		0.350	03/14/2014	714							
Federal Agency Callable Securities Subtotals						9,997,517.59	10,000,000.00	2,482.41	91,723.98	94,206.39	0.973	
Variable Rate Agency Cpn Securities												
1420	MC1	02/22/2012	5,000,000.00	07/23/2012	152	5,000,000.00	5,000,000.00	0.00	7,291.67	7,291.67	0.350	
	Federal Home Loan Bank		0.898	02/22/2017	1,827							
1424	MC1	03/30/2012	5,000,000.00	09/21/2012	175	5,000,781.25	5,000,781.25	0.00	14,843.75	14,843.75	0.619	
	Federal Nat'l Mortgage Assoc.		0.625	03/21/2016	1,452							
Variable Rate Agency Cpn Securities Subtotals						10,000,781.25	10,000,781.25	0.00	22,135.42	22,135.42	0.485	
Total Realized Gains/Losses						19,998,298.84	20,000,781.25	2,482.41	113,859.40	116,341.81	0.729	

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Unrealized Gains and Losses
Open Positions through March 31, 2013

Investment #	Inv. Type	Purchase Date	Par Value	Maturity Date	Term	Market Value						
Issuer			Current Rate		Days Held	Book Value	Market Date	Unrealized Gain/Loss	To Date Earnings	To Date Net Earnings	Actual Yield 365	
Certificates of Deposit - Bank												
1435	BCD	10/24/2012	248,000.00	10/26/2015	1,097	248,000.00	248,213.28	213.28	1,134.35	1,347.63	1.247	
Goldman Sachs Bank, USA			1.050		159		03/31/2013					
1437	BCD	10/24/2012	248,000.00	10/24/2016	1,461	248,000.00	249,550.00	1,550.00	1,458.44	3,008.44	2.785	
Sallie Mae Bank/Murray			1.350		159		03/31/2013					
1439	BCD	10/26/2012	248,000.00	10/26/2016	1,461	248,000.00	249,153.20	1,153.20	1,440.10	2,593.30	2.431	
GE Capital Bank			1.350		157		03/31/2013					
1438	BCD	10/25/2012	248,000.00	10/25/2017	1,826	248,000.00	250,018.72	2,018.72	1,605.90	3,624.62	3.376	
American Express Centurion			1.500		158		03/31/2013					
Certificates of Deposit - Bank						Subtotals	992,000.00	996,935.20	4,935.20	5,638.79	10,573.99	2.460
Federal Agency Coupon Securities												
1422	FAC	03/30/2012	5,000,000.00	12/23/2013	633	5,009,964.83	5,015,550.00	5,585.17	17,606.63	23,191.80	0.460	
Federal Home Loan Mortgage			0.625		367		03/31/2013					
1428	FAC	06/27/2012	2,000,000.00	06/13/2014	716	2,050,885.44	2,054,880.00	3,994.56	5,781.00	9,775.56	0.626	
Federal Home Loan Bank			2.500		278		03/31/2013					
1445	FAC	12/27/2012	2,000,000.00	08/25/2014	606	2,073,155.85	2,074,560.00	1,404.15	1,369.74	2,773.89	0.514	
Federal Home Loan Bank			2.875		95		03/31/2013					
1426	FAC	03/30/2012	5,000,000.00	09/08/2014	892	5,072,721.53	5,078,800.00	6,078.47	24,429.87	30,508.34	0.598	
Federal Nat'l Mortgage Assoc.			1.500		367		03/31/2013					
1441	FAC	12/27/2012	2,000,000.00	10/30/2014	672	2,013,153.20	2,013,179.17	25.97	1,417.92	-1,443.89	0.276	
Federal Nat'l Mortgage Assoc.			0.625		95		03/31/2013					
1423	FAC	03/30/2012	2,000,000.00	11/14/2014	959	2,126,837.08	2,137,460.00	10,622.92	11,711.08	22,334.00	1.044	
Federal Home Loan Bank			4.500		367		03/31/2013					
1430	FAC	06/27/2012	2,000,000.00	02/17/2015	965	2,146,357.56	2,152,740.00	6,382.44	7,274.78	13,657.22	0.835	
Federal Farm Credit			4.375		278		03/31/2013					
1427	FAC	06/27/2012	2,000,000.00	03/13/2015	989	2,087,836.31	2,094,500.00	6,663.69	7,577.42	14,241.11	0.896	
Federal Home Loan Bank			2.750		278		03/31/2013					
1444	FAC	12/27/2012	2,000,000.00	07/02/2015	917	2,005,824.86	2,006,200.00	375.14	1,935.97	2,311.11	0.443	
Federal Nat'l Mortgage Assoc.			0.500		95		03/31/2013					
1448	FAC	03/28/2013	2,000,000.00	08/28/2015	883	2,007,968.64	2,006,193.33	-1,775.31	58.65	-1,716.66	-7.801	
Federal Home Loan Mortgage			0.500		4		03/31/2013					
1442	FAC	12/27/2012	2,000,000.00	09/11/2015	988	2,064,816.43	2,066,060.00	1,243.57	2,215.31	3,458.88	0.644	
Federal Home Loan Bank			1.750		95		03/31/2013					

Unrealized Gains and Losses
Open Positions through March 31, 2013

Investment #	Inv. Type	Purchase Date	Par Value	Maturity Date	Term	Market Value	Unrealized Gain/Loss	To Date Earnings	To Date Net Earnings	Actual Yield 365	
Issuer			Current Rate		Days Held	Book Value	Market Date				
Federal Agency Coupon Securities											
1429	FAC	06/27/2012	2,000,000.00	12/11/2015	1,262	2,041,263.99	2,053,060.00	11,796.01	9,274.55	21,070.56	1.355
Federal Home Loan Bank			1.375		278		03/31/2013				
1440	FAC	12/27/2012	2,000,000.00	01/19/2016	1,118	2,240,670.52	2,242,760.00	2,089.48	2,362.08	4,451.56	0.763
Federal Home Loan Mortgage			4.750		95		03/31/2013				
1447	FAC	03/28/2013	2,000,000.00	03/01/2016	1,069	2,000,256.03	2,000,295.00	38.97	69.36	108.33	0.494
Federal Farm Credit			0.410		4		03/31/2013				
1446	FAC	03/28/2013	2,000,000.00	05/13/2016	1,142	2,005,470.26	2,002,583.33	-2,886.93	70.27	-2,816.66	-12.816
Federal Home Loan Mortgage			0.500		4		03/31/2013				
Federal Agency Coupon Securities Subtotals						36,947,182.53	36,998,820.83	51,638.30	93,154.63	144,792.93	-0.529
Federal Agency Callable Securities											
1431	MC2	06/27/2012	2,000,000.00	05/15/2015	1,052	2,000,000.00	2,000,080.00	80.00	8,220.00	8,300.00	0.545
Federal Farm Credit			0.540		278		03/31/2013				
1418	MC2	12/30/2011	5,000,000.00	06/30/2015	1,278	5,000,000.00	5,026,050.00	26,050.00	62,638.89	88,688.89	1.414
Federal Home Loan Mortgage			1.000		458		03/31/2013				
1443	MC2	12/27/2012	2,000,000.00	11/06/2015	1,044	2,005,233.00	2,002,676.67	-2,556.33	2,227.44	-328.89	-0.063
Federal Nat'l Mortgage Assoc.			0.500		95		03/31/2013				
1419	MC2	02/28/2012	5,000,000.00	02/28/2017	1,827	5,000,000.00	5,041,200.00	41,200.00	57,312.50	98,512.50	1.807
Federal Nat'l Mortgage Assoc.			1.050		398		03/31/2013				
Federal Agency Callable Securities Subtotals						14,005,233.00	14,070,006.67	64,773.67	130,398.83	195,172.50	1.219
Corporate Medium Term Notes											
1421	MTN	02/22/2012	1,000,000.00	08/11/2015	1,266	992,173.74	1,006,330.00	14,156.26	16,571.84	30,728.10	2.798
General Electric Capital Corp			1.060		404		03/31/2013				
Corporate Medium Term Notes Subtotals						992,173.74	1,006,330.00	14,156.26	16,571.84	30,728.10	2.798
Total Current Bond Positions						52,936,589.27	53,072,092.70	135,503.43	245,764.09	381,267.52	0.052
Total Realized and Unrealized Gains/Losses								137,985.84	359,623.49	497,609.33	0.237

Investment Update

March 31, 2013

INTRODUCTION

Municipal treasurers and investment managers continue to face unprecedented challenges. Available rates of return on safe and suitable investments are at or near historic lows. Risks of loss of principal have increased over the last several years. In addition, the risks of loss of market value on investments held is extremely high, since any sudden increase in market interest rates would cause the market value of directly held securities to decline. This risk of market value decline increases as the weighted-average maturity of the portfolio increases, which is referred to as "extension risk." Thus, there are a number of issues that need to be addressed and balanced as one draws up in Investment Plan. Risk cannot be completely eliminated, but it needs to be carefully managed on a continuous basis.

To provide a sense of the change in available rates of return over the last 6 fiscal years, the Table below shows the "benchmark" one-year Treasury bill (average annual rate) over that period:

Table 1

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
5.00%	3.08%	1.05%	0.38%	0.25%	0.10%	0.12%

FACTORS INFLUENCING THE FINANCIAL MARKETS

The principal focus of California municipal investment managers when assessing the financial markets is the level of interest rates for investments of up to five (5) years maturity (the maximum final maturity permitted under the California Gov't Code for local governments.) There are a variety of factors, including governmental policies and financial market events, which affect interest rate levels. Two of the most important factors are discussed below.

U. S. Federal Reserve Monetary Policy

The U.S Federal Reserve (the "Fed") sets monetary policy, principally by setting targets for short-term interest rates. The most commonly quoted rate is the fed funds rate, which is the rate that banks are charged or credited, based on the surplus or shortfall of their daily required reserve balances with the Fed. This rate is quoted as a range, and has been at 0.00% to 0.25% for several years. Most other interest rates up to about 5 year's maturity are "benchmarked" off of this rate. The Fed has stated publicly that they will keep short-term interest rates at current levels until the U.S. economy shows significant improvement. The Chairman has indicated that the metric he will depend on most is U.S. unemployment, with his target being a decline to at least 6.5%. Most observers believe that attaining this goal will take at least two years, if not longer.

Quantitative Easing

The Fed has implemented several additional measures to help stimulate economic activity, which have come to be known as Quantitative Easing (QE). Although the various methods utilized can be quite complex, the objective is to put more money in circulation (while simultaneously controlling inflation.) We have now had two rounds of QE, which involves the Fed buying both government bonds and mortgage-backed securities for their own account. The additional demand for government bonds has the effect of lowering longer-term interest rates, while the purchase of mortgage-backed securities puts more money into private hands. The theory is that the combination of more money in circulation and more money for commercial banks to lend will stimulate economic activity.

We do know that these actions have resulted in the lowest interest rates in decades. However, the overall program has not yet delivered the results that the Fed expected. Thus, the "jury is still out" regarding the effectiveness of the program. We do know that savers and investors have been hurt by the extremely low rates of return.

Effect of Certain New Regulations

The investing environment has also been affected by new regulations, particularly the Dodd-Frank Act which regulates a wide range of investment alternatives and transactions. One of particular interest to municipal managers is the regulation of money market funds. These are mutual funds that pool large amounts of investor capital, and invest in a variety of securities, such as U.S. Treasury bills, Federal Agency securities, and corporate commercial paper. Currently, Funds with an average life of 60 days or less are permitted to establish a stable net asset value (NAV) of \$1.00. Any changes in the underlying values of the securities held are reflected in the investor's monthly payout from the Fund. Thus, the investor may withdraw his/her principal at any time, on a dollar for dollar basis. Pending legislation stemming from the Dodd-Frank Act will require these funds to establish and maintain a floating net asset value. In other words, the investor could end up losing principal if the market value of the underlying securities were to decline. In addition, most of these funds are not currently economical to the issuer, who is unable to charge an adequate fee for managing the fund. These two factors, taken together, will pretty much eliminate this investment option for most municipalities.

Status of Federal Agency issued securities

One other important factor of note is the current status of Federal Agency securities such as Fannie Mae (FNMA) and Freddie Mac (FHLMC.) Because of the U.S. Government takeover of these agencies in 2008 and the subsequent explicit guarantee by the United States of these instruments, they no longer provide any significant yield advantage over U.S. Treasury securities. Although this has enhanced the credit quality of these securities, it has basically eliminated another safe investment alternative which used to be available to local government agencies.

The overall result has been a reduction in the number of suitable investment alternatives, and fewer opportunities to diversify. Diversification is one of the primary tools available to an investment manager to lower the overall risk profile without sacrificing any significant amount of yield.

SHORT AND LONGER-TERM OUTLOOK

The outlook for the final three months of the year is relatively straightforward and predictable. There are no current geopolitical events that are likely to impact financial markets in any significant manner. Interest rates continue to decline, despite being at or near historic lows. No significant changes in interest rates are currently anticipated. The U.S. economy is widely seen as improving, but at a very modest rate.

The outlook for the next 12-15 months is more uncertain. However, it is widely believed that the pace of economic activity is not likely to accelerate significantly during that time period. And the Fed has stated publicly that they intend to keep interest rates at or near their current levels at least through calendar year 2014, and possibly longer.

Thus, it is quite likely that short-term interest rates will remain below 1.0% for an extended period of time, and local governments need to plan their investment strategies and manage their budget expectations with that forecast in mind.