



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Date: July 12, 2010
To: Business and Finance Committee
From: Brian G. Thomas, Assistant General Manager/Chief Financial Officer
Subject: Treasurer's Monthly Report June 2010

This letter transmits a summary report of investments, cash balances and performance report with total return, and duration comparisons for the end of the current month. A detailed report of investments is filed each month with the Executive Secretary. These reports are required by Section 5114 of the MWD Administrative Code. All of the investments comply with Chapter 5101 of the MWD Administrative Code and the Investment Policy dated June 8, 2010 with the exception of the Lehman corporate notes previously reported to the Board at the September 23, 2008 meeting of the Executive Committee. The Board approved holding these notes, in recognition of market conditions and Lehman's bankruptcy filing, in order to sell these securities in an orderly fashion. Attachment 2a shows the market value of the Lehman corporate notes. Metropolitan has sufficient liquidity to pay for the next six months of expenditures.

As of June 30, 2010, Metropolitan posted \$12.04 million in federal agency securities as collateral with Morgan Stanley, pursuant to various swap agreements.

Brian G. Thomas

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Attachments

Attachment 1
The Metropolitan Water District of Southern California (MWD)
Portfolio Performance Report
June 30, 2010

| | | Market Value (\$ in Thousands) | Duration | | Monthly Return | | Annualized Monthly Return | | Annualized Return *Inception-to-Date | |
|------------------|-----|-----------------------------------|----------|-----------|----------------|-----------|------------------------------|-----------|---|-----------|
| | | | MWD | Benchmark | MWD | Benchmark | MWD | Benchmark | MWD | Benchmark |
| Short-Term | (1) | \$ 656,686 | 0.28 | 0.25 | 0.18% | 0.01% | 2.21% | 0.14% | 2.90% | 2.30% |
| Long-Term | (2) | 303,581 | 2.79 | 2.57 | 0.99% | 0.76% | 12.60% | 9.54% | 4.93% | 4.37% |
| Total Core Funds | | \$ 960,267 | | | | | | | | |
| Other Funds | (3) | 134,524 | 8.56 | | 0.28% | | 3.39% | | 9.57% | |
| Total | | <u>\$ 1,094,791</u> | | | | | | | | |

(1) The Short-Term Portfolio Benchmark is the Merrill Lynch, Three Month Treasury Bill Index.

(2) The Long-Term Portfolio Benchmark is the Merrill Lynch, Corporate and Government, 1 to 5 years, A Rated and Higher Index.

(3) Debt Service Reserve Funds and Lake Mathews Trust.

* Inception Date 5/01/2002

Attachment 2
Portfolio Summary Report
June 30, 2010

(\$ in Thousands)

| <u>Securities</u> | | <u>Credit Quality</u> | <u>Market Value</u> | <u>Book Value</u> | <u>Percent of Portfolio Market Value</u> | <u>Investment Policy Limits</u> |
|------------------------------------|-----|-----------------------|---------------------|---------------------|--|---------------------------------|
| United States Treasuries | (1) | "AAA" | \$ 209,007 | \$ 203,199 | 19.09% | 100% |
| Gov't National Mtge Assoc. | (1) | "AAA" | 404 | 406 | 0.04% | 100% |
| Federal Agencies | (2) | "AAA" | 251,506 | 248,512 | 22.97% | 100% |
| Repurchase Agreements | (3) | "AAA" | - | - | 0.00% | 50% |
| Bankers' Acceptances | | "F1 or higher" | 33,332 | 33,335 | 3.04% | 40% |
| Commercial Paper | | "A1/P1 or higher" | 180,986 | 180,992 | 16.53% | 25% |
| Negotiable Certificates of Deposit | | "F1 or higher" | 69,499 | 69,501 | 6.35% | 30% |
| Time Deposits | | "F1 or better" | - | - | 0.00% | N/A |
| Shares of Beneficial Interest | | "AAA" | 329 | 329 | 0.03% | 20% |
| Local Agency Investment Fund | | | 50,000 | 50,000 | 4.57% | N/A |
| Medium Term Notes | (4) | "A or higher" | 78,039 | 79,727 | 7.13% | 30% |
| Asset & Mortgage-Backed Securities | | "AAA" | 35,021 | 34,143 | 3.20% | 20% |
| Municipals | (5) | "AA or higher" | 186,668 | 189,240 | 17.05% | 30% |
| Total Portfolio | | | <u>\$ 1,094,791</u> | <u>\$ 1,089,384</u> | <u>100.0%</u> | |

(1) Securities have an explicit United States Government guarantee.

(2) As of June 30, 2010, Metropolitan posted \$12.04 million in federal agency securities as collateral with Morgan Stanley, pursuant to various swap agreements.

(3) Repurchase agreements can only be executed with primary dealers and collateral consists of Treasuries and/or Federal Agencies with maturities under 5 years.

(4) Please see attachment 2a for medium term notes that are rated less than A.

(5) \$118 million (market value) of the municipal bond portfolio was rated AAA.

Portfolio Summary Report
Attachment 2a
June 30, 2010
(\$ in Thousands)

| | Credit Ratings | | Description | Maturity Date | Market Value | Book Value |
|-----|----------------|-----|-------------------------------------|---------------|-----------------|-----------------|
| | Moody's | S&P | | | | |
| (1) | * | * | Lehman Corporate Floating Rate Note | 10/22/2008 | \$ 56 | \$ 287 |
| (1) | * | * | Lehman 3.60% | 3/13/2009 | \$ 988 | \$ 4,981 |
| | | | | | \$ 1,044 | \$ 5,268 |

* Note: Securities are in default and credit ratings are no longer provided by the various rating agencies.

(1) Medium Term Notes.

Attachment 3
Summary Report of Investment & Cash Activity
June 30, 2010

(Shown at Book Value and \$ in Thousands)

| | Beginning Balance | Purchases | Sales | Maturities | Ending Balance |
|--|------------------------------|---------------------|-------------------|--------------------|---------------------------|
| United States Treasuries | \$ 198,530 | \$ 51,496 | \$ 2,500 | \$ 44,327 | \$ 203,199 |
| Gov't National Mtge Assoc. | 431 | - | - | 25 | 406 |
| Federal Agencies | (1) 428,872 | 51,737 | 231,352 | 745 | 248,512 |
| Repurchase Agreements | - | - | - | - | - |
| Bankers' Acceptances | - | 41,199 | - | 7,864 | 33,335 |
| Commercial Paper | 53,948 | 944,108 | - | 817,064 | 180,992 |
| Negotiable Certificates of Deposit | - | 73,501 | - | 4,000 | 69,501 |
| Time Deposits | - | - | - | - | - |
| Shares of Beneficial Interest | 942 | 5,581 | 6,194 | - | 329 |
| Local Agency Investment Fund - California | 50,000 | 267 | 267 | - | 50,000 |
| Medium Term Notes | 103,669 | 9,368 | 1,043 | 32,267 | 79,727 |
| Asset & Mortgage-Backed Securities | 39,229 | 2 | 197 | 4,891 | 34,143 |
| Municipal Bonds | 195,005 | 3,528 | 9,293 | - | 189,240 |
| Subtotals | \$ 1,070,626 | \$ 1,180,787 | \$ 250,846 | \$ 911,183 | \$ 1,089,384 |
| | Ending Balance | Deposits | | Withdrawals | Ending Balance |
| Cash | | | | | |
| Demand Accounts | \$ 654 | 16 | | | \$ 670 |
| Petty Cash | 5 | | | | 5 |
| Less Overnight Investment | - | - | | | - |
| Subtotals | \$ 659 | \$ 16 | \$ - | \$ - | \$ 675 |
| Total | \$ 1,071,285 | \$ 1,180,803 | \$ 250,846 | \$ 911,183 | \$ 1,090,059 |

(1) As of June 30, 2010, Metropolitan posted \$12.04 million in federal agency securities as collateral with Morgan Stanley, pursuant to various swap agreements.

Attachment 4
Duration Report
June 30, 2010

(\$ in Thousands)

| Securities Available for Metropolitan's Self-Liquidity Program | Market Value | Duration (1) |
|---|---------------------|---------------------|
| US Treasury Bills | \$ 80,856 | 0.175 |
| US Treasury Notes | 84,638 | 2.519 |
| US Treasury Strips | 21,327 | 11.628 |
| Federal Agency Discounts | 10,300 | 4.087 |
| Federal Agency Coupons (2) | 238,407 | 1.337 |
| Money Market Fund | 329 | 0.000 |
| California Local Agency Investment Fund | 50,000 | 0.000 |
| Commercial Paper | 180,466 | 0.003 |
| Bankers' Acceptances | 33,332 | 0.052 |
| Negotiable Certificates of Deposit | 69,499 | 0.002 |
| Corporates | 74,883 | 1.988 |
| California Municipal VRDOs - 7 day put | 78,130 | 0.027 |
| GNMA | 404 | 6.007 |
| Asset Backed | 4,556 | 1.455 |
| Mortgage Backed | 30,464 | 0.917 |
| Total | \$ 957,591 | 1.075 |

- (1) Duration is a measure of the sensitivity in the price of a bond to changes in interest rates, so it is a measure of risk in a fixed income portfolio. As a rule of thumb, a fixed income portfolio with a duration of 5 (years) will decline 5% in value for every 1% upward movement in comparable interest rates.
- (2) As of June 30, 2010, Metropolitan posted \$12.04 million in federal agency securities as collateral with Morgan Stanley, pursuant to various swap agreements.