

Hillswick Asset Management, LLC

Macro Driven Performance

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Presenting for
The Metropolitan Water District of Southern California
Monday, September 9th, 2013

Presenters:

Anders Ekernas, Chairman and CIO
Mark McDonnell, Sr. Portfolio Manager

Hillswick Asset Management, LLC

Macro Driven Performance



Performance as of 08/31/2013

The Metropolitan Water District of Southern California Snapshot

Hillswick Asset Management, LLC

Benchmark: Merrill Lynch CG1T5

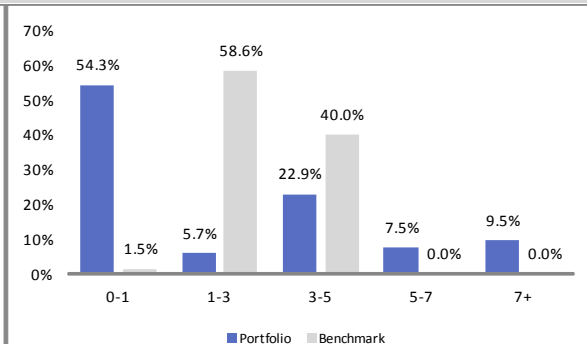
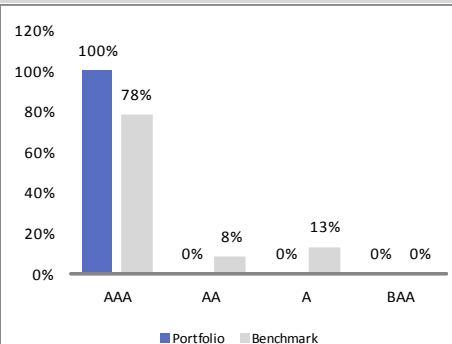
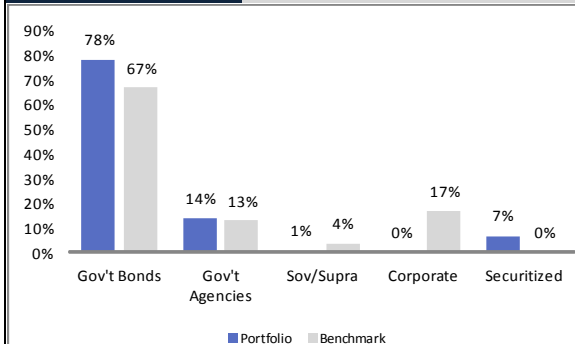
8/31/2013

Composition

Sector Allocation

Quality Distribution

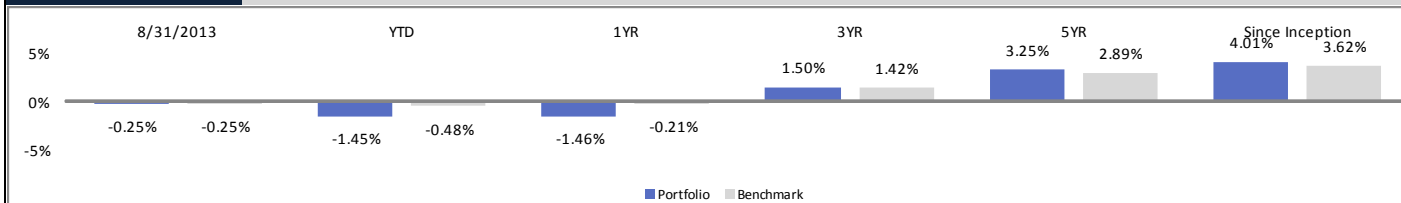
Duration Weighting



Historical Performance

Performance Start Date 4/30/2002

MV By Sector (,000)



Gov't Bonds	\$124.358
Gov't Agency	\$22.412
Sov/Supra	\$1.535
Securitized	\$11.081
Total	\$159.386

Performance Attribution

Yield Curve Parallel Shift

Yield Curve Shape

Sector Allocation

Selection

Total

YTD 2013

(vs. Benchmark)	-0.19	-0.91	0.06	0.07	-0.97	
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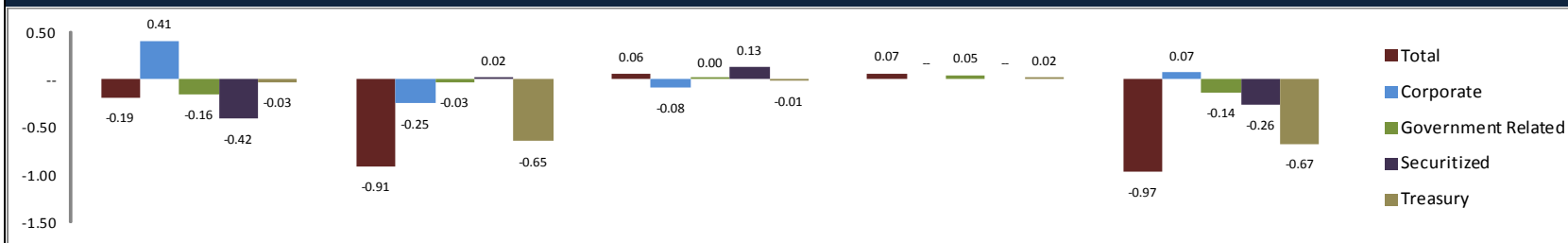
Shift

Twist

Allocation

Selection

Total Sector





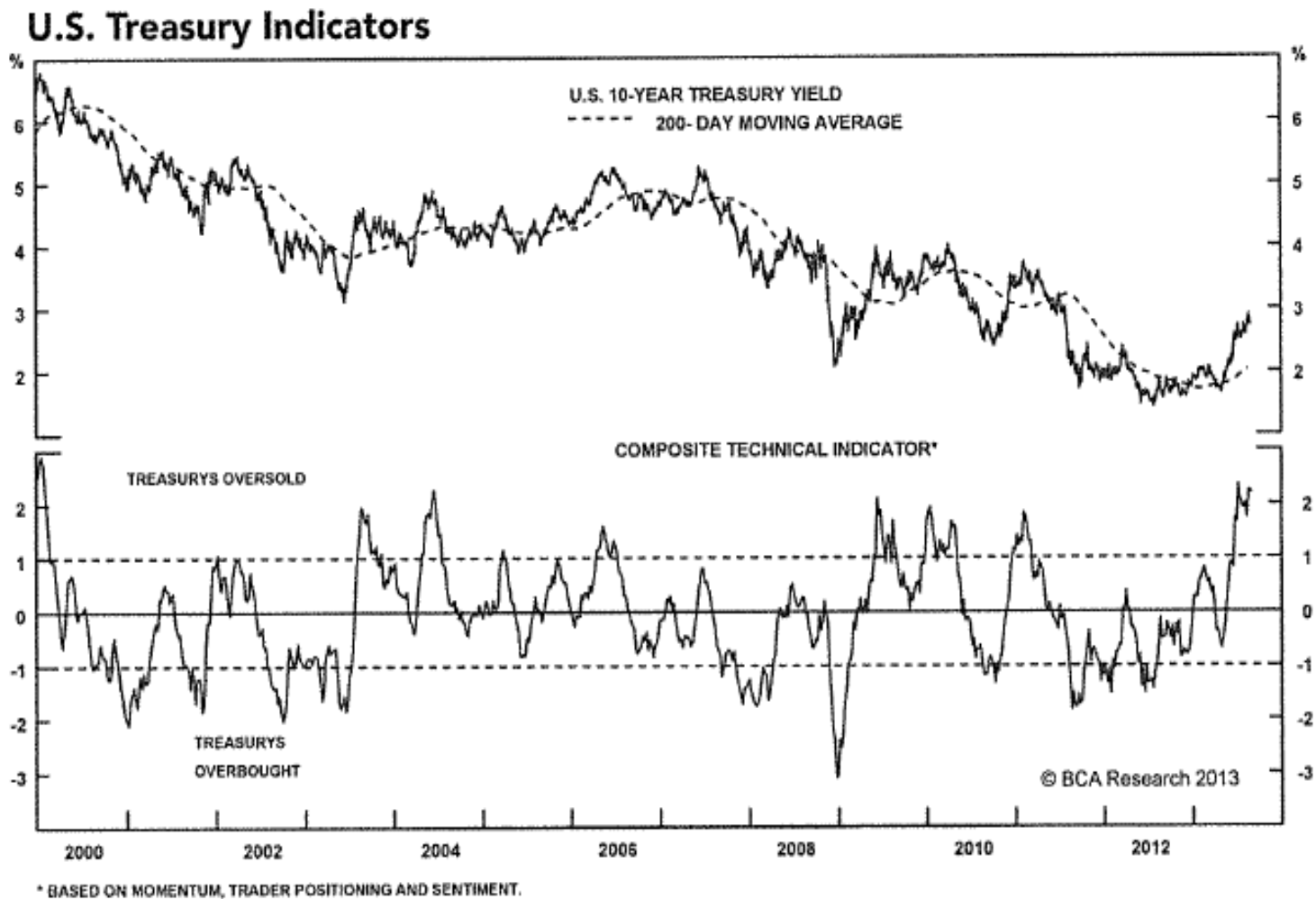
Bond yields and mortgage rates have already discounted not only tapering but a reversal of QE 2 and QE 3



Bloomberg



Treasuries are Oversold

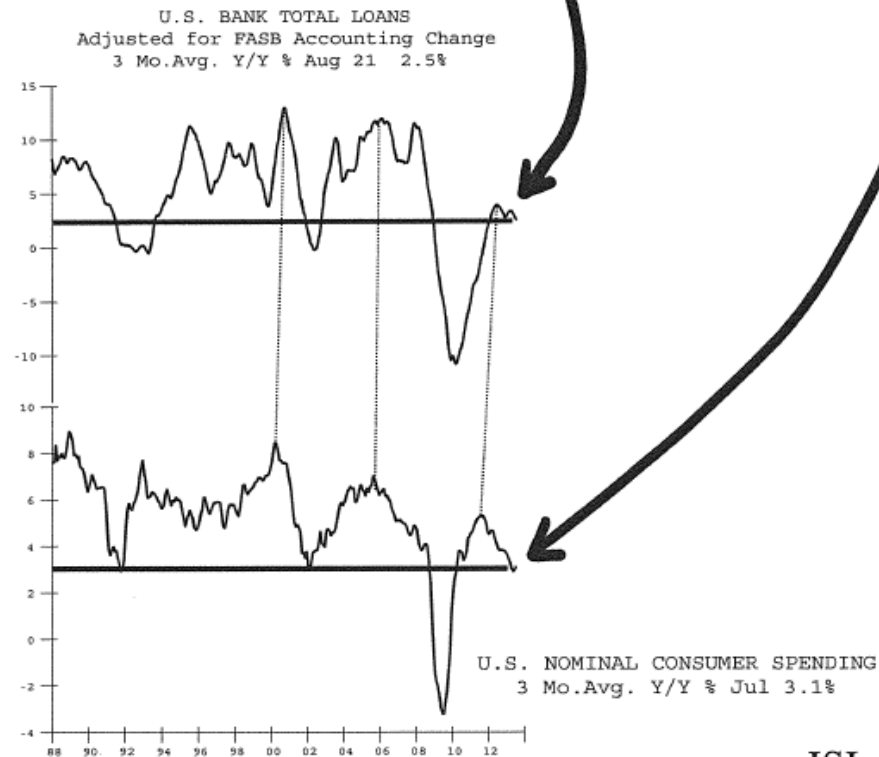


Courtesy of BCA Research



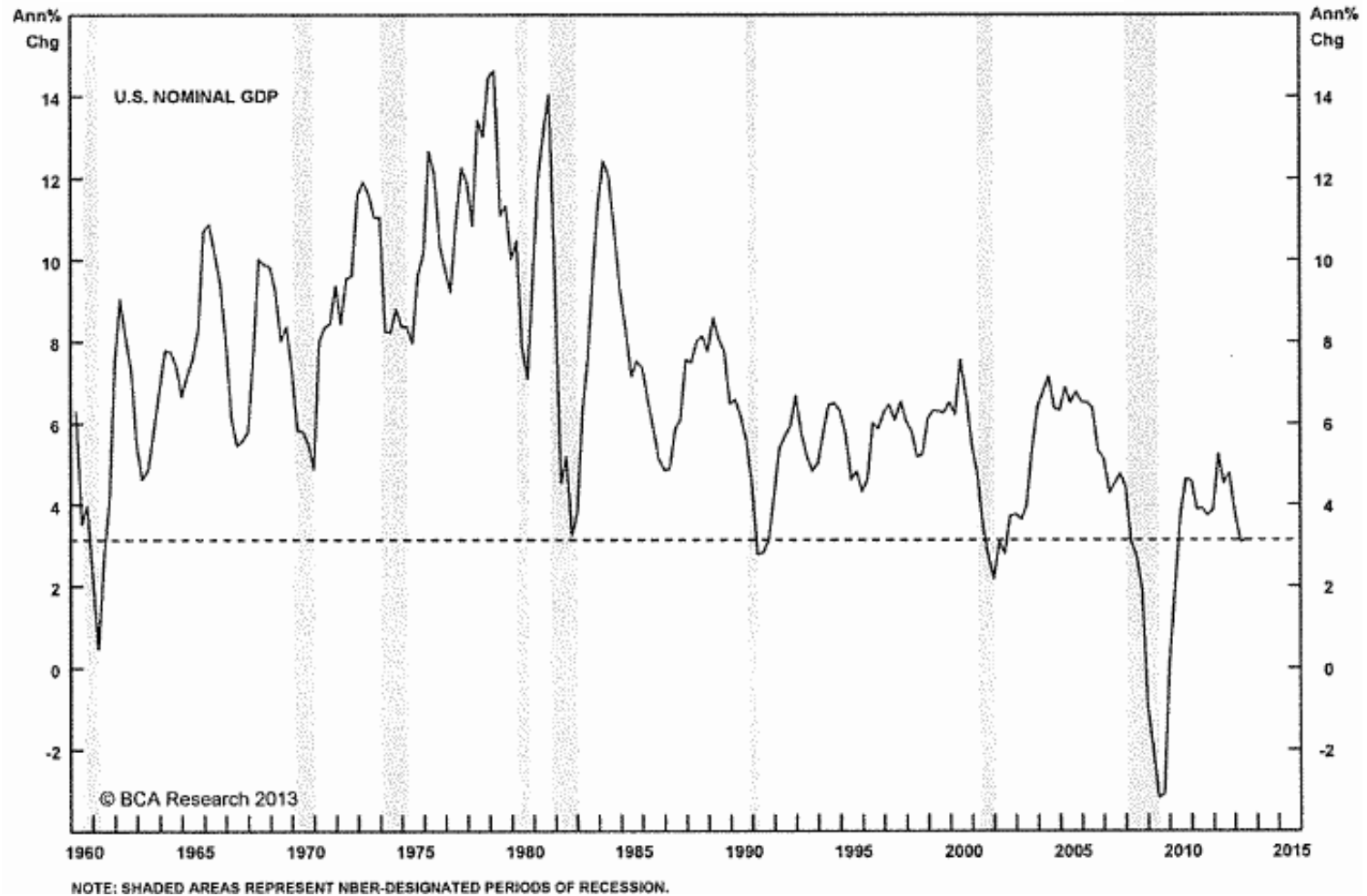
Weak Loan and Weak GDP Reinforcing One Another

Nominal GDP in 3Q will probably be up just +3.1% y/y, close to July's +3.1% increase in nominal consumer spending. Both are highly correlated with the +2.5% growth in bank loans in Aug. Weak loan growth is restraining GDP, and weak GDP is restraining loan growth.





Nominal GDP Growth is the Weakest Outside of a Recession

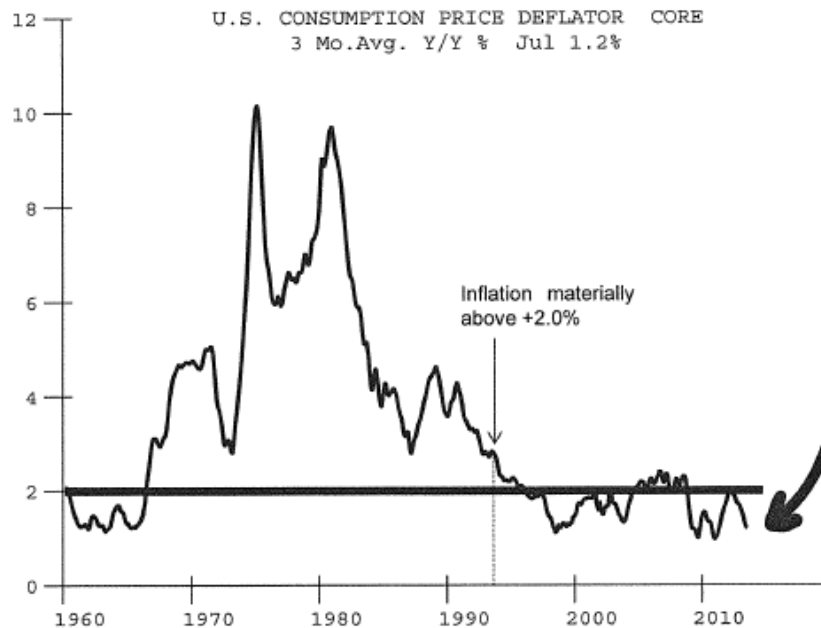


Courtesy of BCA Research



Fed's Preferred Inflation Measure Well Below Target

The core PCE deflator increased just +0.1% m/m in July and just +1.4% y/y (3 Mo.Avg. +1.2%), well below the Fed's implied target of +2.0%. Basically, core inflation hasn't been materially above +2.0% for two decades.



ISI



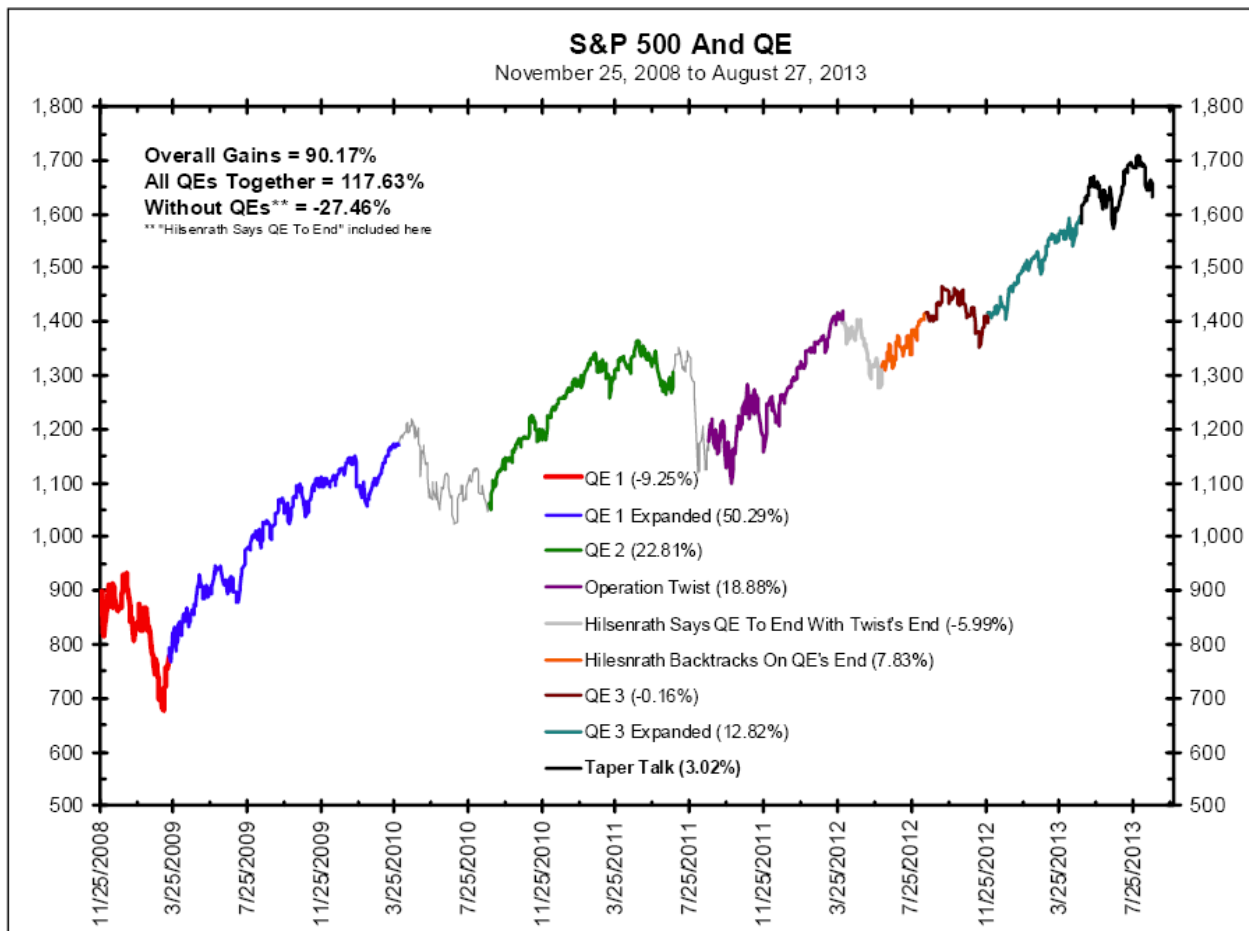
Month/Month Change in US Manufacturers' New Orders



Bloomberg



A Short History of QE and the Stock Market



Courtesy of Bianco Research, LLC