First Quarter 2014
Investment Review

THE METROPOLITAN WATER DISTRICT
of SOUTHERN CALIFORNIA

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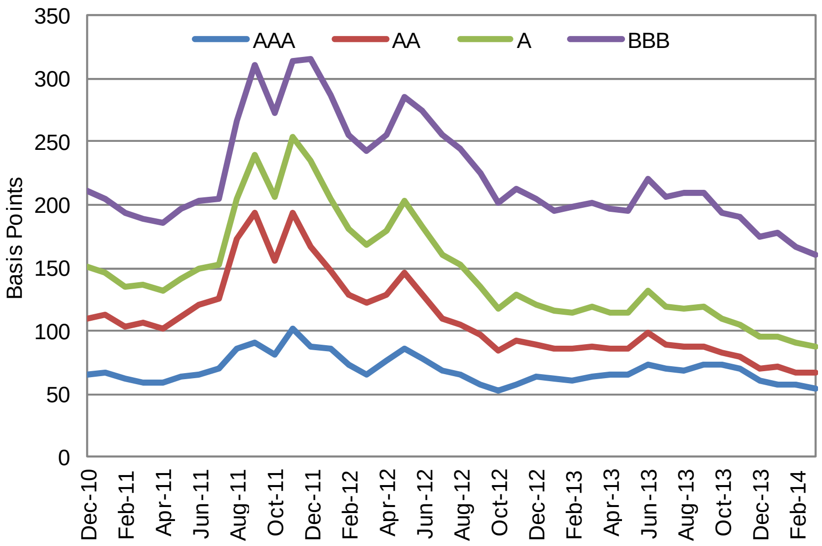
MARKET SNAPSHOT
MARCH 31, 2014

Index	Qtr	One Year	Three Year	Five Year
S&P 500	1.8%	21.9%	14.7%	21.2%
Dow Jones Industrial	-0.2%	15.7%	13.0%	19.9%
Wilshire 5000	1.9%	22.8%	14.6%	22.0%
MSCI EAFE Index	0.7%	17.6%	7.2%	16.0%
Barclays Aggregate	1.8%	-0.1%	3.7%	4.8%
ML G/C 1-5 Yr A+	**0.4%**	**0.2%**	**1.7%**	**2.5%**
ML 3 Month T-Bill	**0.0%**	**0.1%**	**0.1%**	**0.1%**

A Surprising Rally in the Bond Market
(Spreads over treasury)



Source: Merrill Lynch

- The domestic bond market had a surprising strong first quarter, as interest rates declined and the rally in corporate bonds continued; high yield was a particular stand out. The Barclays Aggregate Bond Index was up +1.8%, nearly offsetting the -2% loss in 2013.
- The surprising strength in the bond mark carried over to Europe as yields fell for even troubled Greek debt. The JPM Global Bond index out-performed the US by 150 bps.
- US equity markets ended the first quarter with modest gains that disguised significant volatility. The performance of the DJIA was impacted by declines in Goldman Sachs and Visa.
- After a strong year for growth stocks in 2013, a sharp rotation out of high momentum stocks began in the first quarter, and value outperformed growth across market caps. Big tech stocks showed significant weakness, and utilities led the defensive sectors with a gain of +10.1%.
- International equities lagged again as the European recovery remains several steps behind the US. Although the MSCI EAFE gained +0.7%, the return was fell by -0.3% in local currencies.
- Emerging markets equities rallied back in Feb and Mar after suffering a steep selloff in Jan prompted by concerns over Fed policy and growth in China. Despite the volatility, EM equities still have the best 10-year return among the major asset classes.
- Real estate posted another strong quarter and commodity prices posted the largest quarterly gain since 2012; driven by drought and other supply problems that impacted gains, livestock, and soft commodities.

Weather to Blame for First Quarter Slowdown

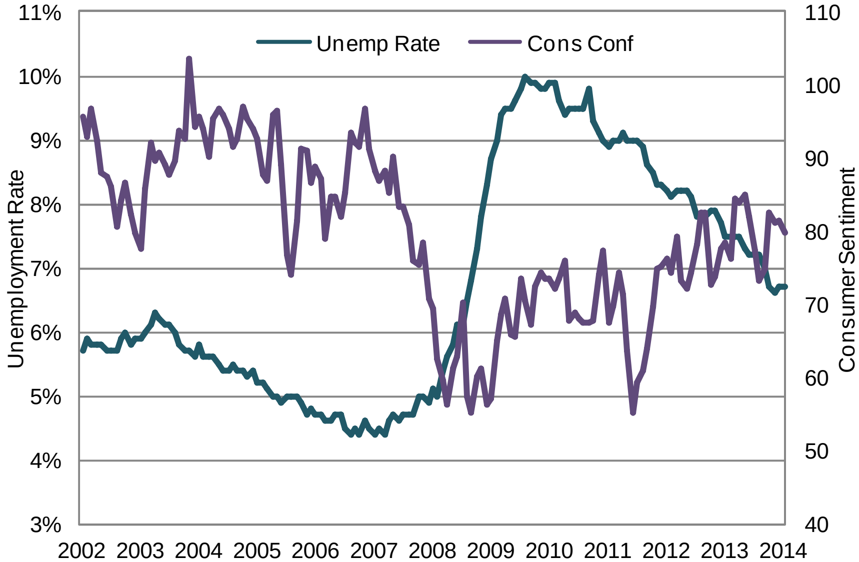
- US GDP is expected to fall below 1.5% in 1Q, as prolonged sub-zero temperatures impacted retail sales, construction, and hiring. The growth rate fell to 2.6% in 4Q13, but the debate is whether it was due to the cold or a more troubling overall decline in growth.

- Housing starts stabilized in February after declining -16% in January. The harsh winter weather was certainly an obstacle for builders, but permits rebounded by +7.7% in February.

- The unemployment rate held steady at 6.7%, a good sign given the weakness in other economic factors. The Fed has softened its target 6.5% unemployment rate in favor of a more expansive list of labor and economic factors; so even if employment improves, it may not change the Fed's willingness to maintain low interest rates.

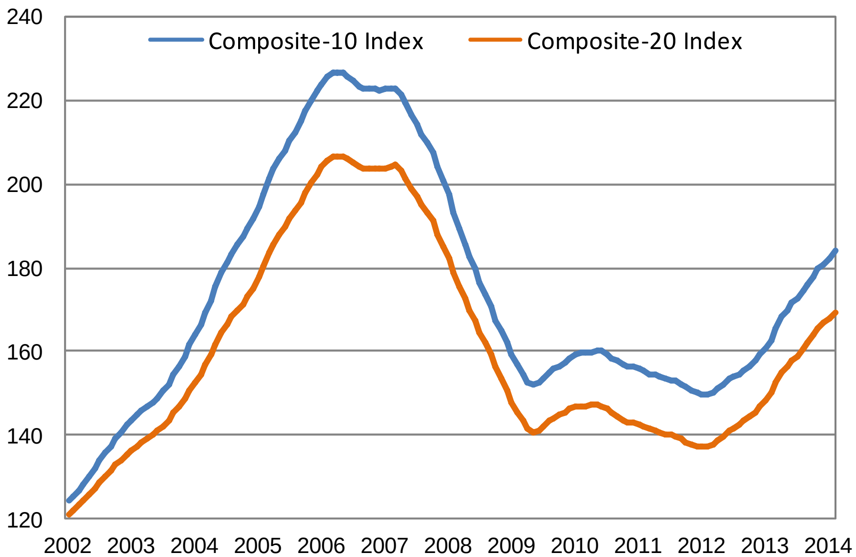
- Fed's new chairwomen had an impactful first press conference as Yellen hinted that the end of QE and higher interest rates may come sooner than expected. Investors were later relieved when the FOMC minutes made no mention of the accelerated timetable.

Job Creation Remains Slow



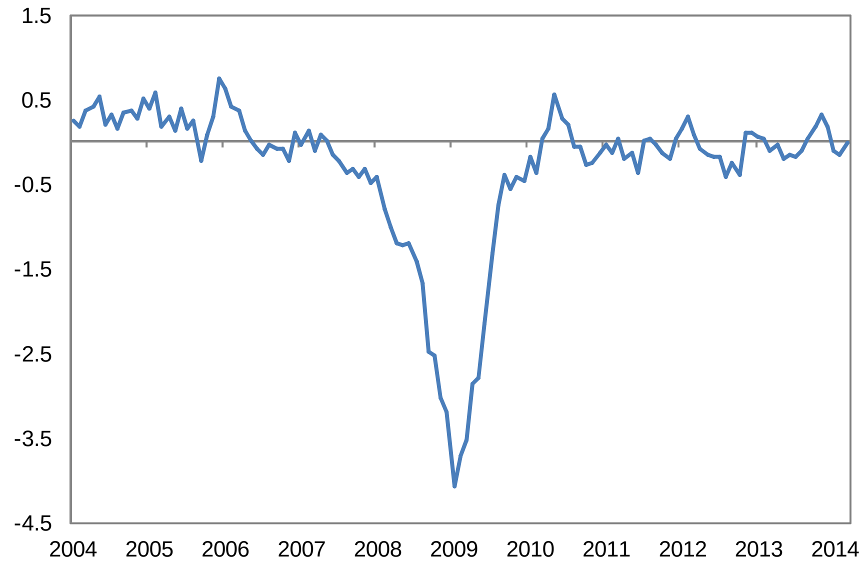
Source: Bureau of Labor Statistics, U of Michigan

Housing Prices Remain Strong



Source: S&P / Case-Shiller Home Price Indices

Weather Affected 1Q Economic Activity

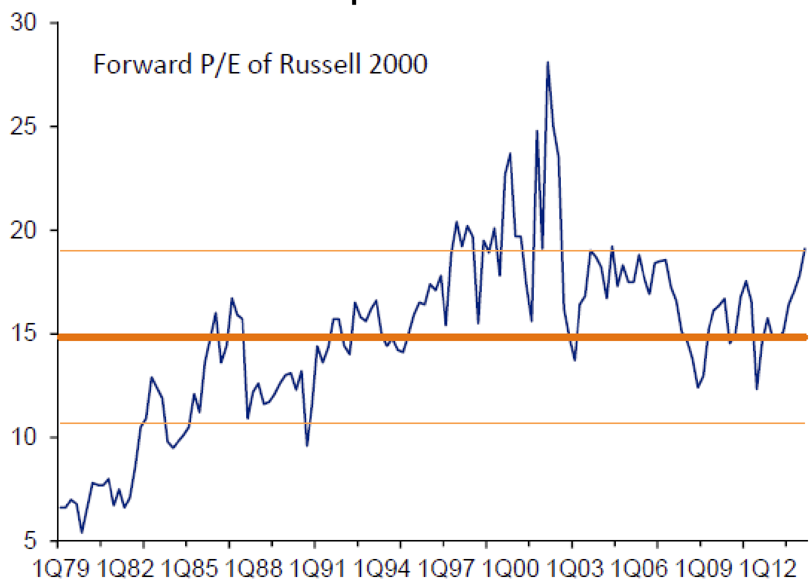


Source: Federal Reserve Bank of Chicago

Volatility Returns to the Equity Markets

- The S&P 500 ended the first quarter with a gain of +1.8%, but it was a turbulent ride as the index declined -3.5% in January and then surged +4.6% in February. Weak December job creation, EM volatility, and cautious earnings guidance contributed to the decline in January.
- The cold winter contributed to dispersion among sector performance. Strong demand for utilities contributed to a +10.1% gain in that sector, while the consumer discretionary stocks declined -2.8%, as many shoppers chose to stay indoors.
- The biotechnology sector was on fire early in the first quarter, with surging stock prices sparking discussions of a dot com-like bubble. The NASDAQ Biotechnology Index increased by more than +20% through February, but ended the quarter with a gain of only +4.1%, as the buying quickly reversed.
- Small cap stock valuations finally began to fall from their own weight; the Russell 2000 underperformed in the first quarter, and the selling picked-up in late March.

Small Cap Valuations are Stretched

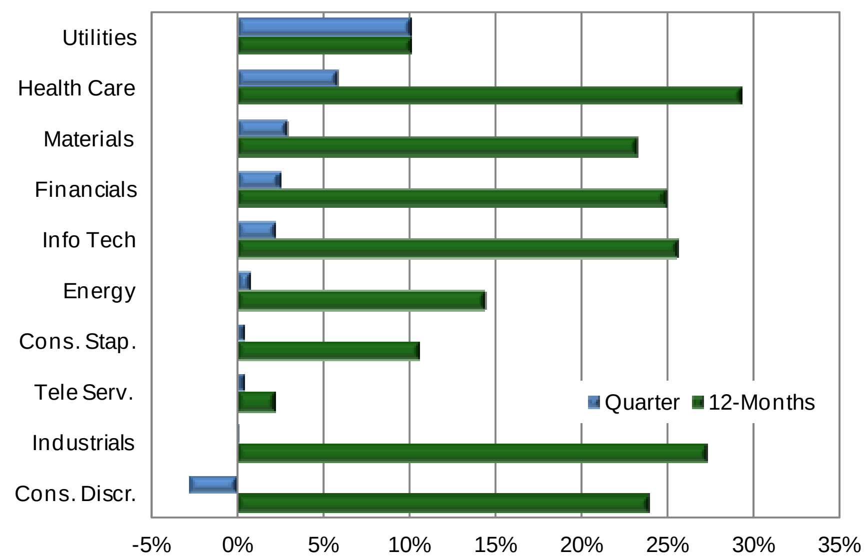


Source: BofA Merrill Lynch, Russell

S&P 500 Margins Remain High

Source: Compustat, First Call, IBES, Goldman Sachs

Defensive Sectors Rebound

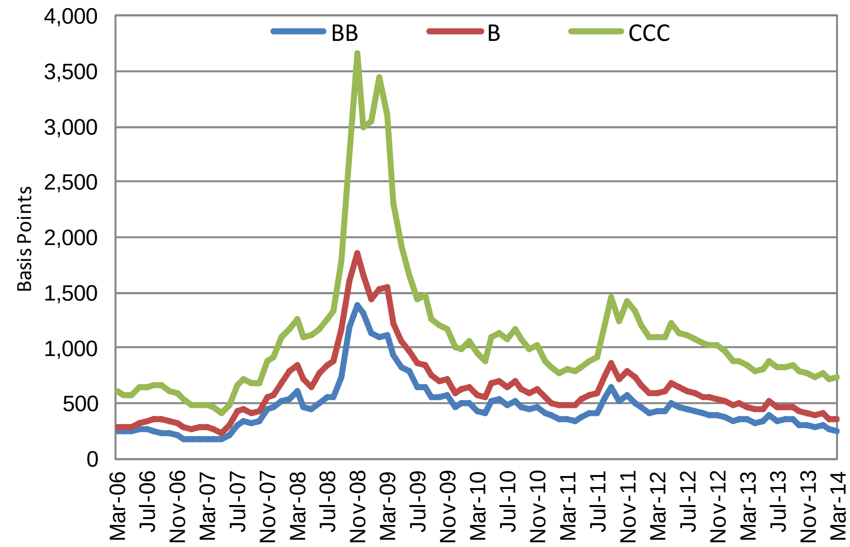


Source: Standard & Poor's

Bonds Perform Well Despite Fed Tapering

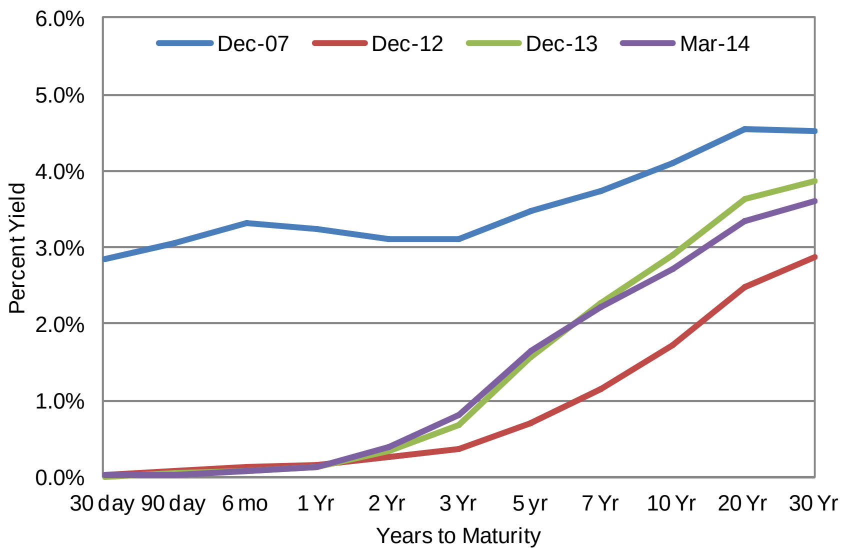
- The US fixed income market began the year with a surprising decline in treasury bond rates, which helped drive the Barclays Aggregate Index to a +1.8% return. Short rates moved up slightly, while 10-year and 30-year bond yields fell by 20 bps and 30 bps, respectively.
- But the big story was the continuing rally in corporate bonds; credit spreads fell to the lowest levels since 2007. High yield bonds can hardly be called high yield anymore, since the yields have fallen to just 5%.
- As a sign of strength in Europe, Greece issued €3 billion in 5-year debt at a yield of only 4.95%. Demand was strong, which shows the confidence that investors are placing in the support of the ECB.
- Municipal bonds had a strong quarter, outpacing credit with the Barclays Taxable Municipal Bond Index returning +6% for the quarter. Strong performance was driven by renewed investor confidence from improving tax revenues.

Junk Bond Yields Hit New Lows



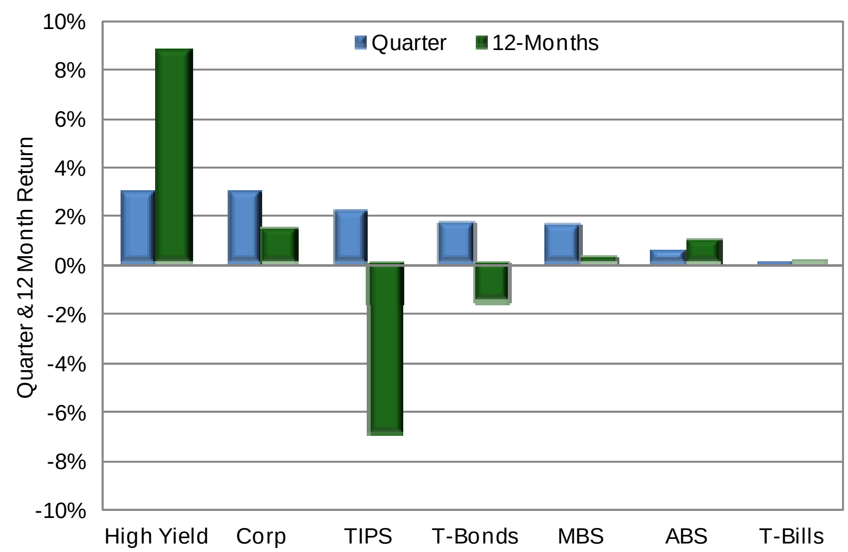
Source: Merrill Lynch

Yield Curve Flattens



Source: Federal Reserve

Corporate Bonds Outperform



Source: Merrill Lynch

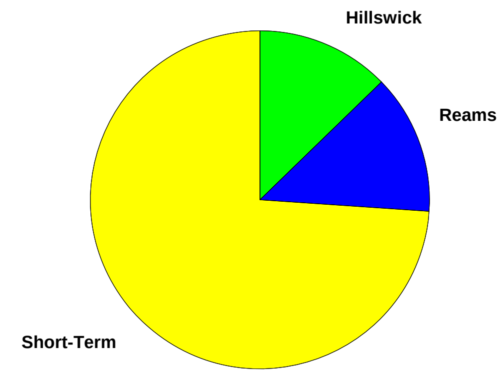
PORTFOLIO SUMMARY
MARCH 31, 2014

	Assets	Weight
Managed Accounts		
Hillswick Asset Mgmt	$160,833,100	13%
Reams Asset Mgmt	$169,136,100	13%
Total External Managed	$329,969,200	26%
Short-Term Account	$934,619,400	74%
Grand Total	**$1,264,588,600**	100%

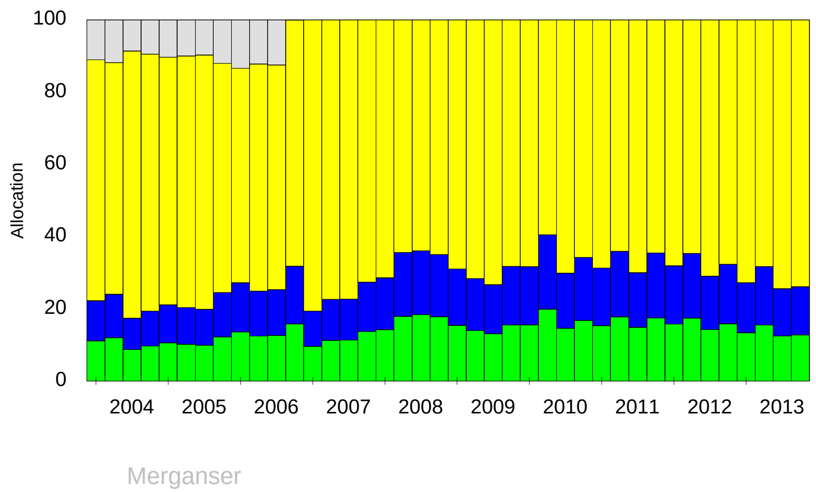
- The value of the Total Fund decreased by $17.0 million in the first quarter, due to net cash outflow of $24.6 million against gains of $7.6 million.
- Net investment gain/loss for the quarter were:

Hillswick	$1.2 million
Reams	$0.8 million
Short-Term	$5.6 million
Total	$7.6 million

CURRENT ALLOCATION



HISTORICAL ALLOCATION



PERFORMANCE SUMMARY - TOTAL RETURN

MARCH 31, 2014

Manager	QTR	Fiscal YTD	1 Year	3 Yrs	5 Yrs
Total Fund	0.6%	0.9%	0.1%	1.2%	1.7%
Benchmark[1]	0.1%	0.3%	0.1%	0.6%	0.9%
Hillswick Asset Mgmt	0.7%	0.5%	-0.5%	2.1%	2.4%
ML G/C 1-5 yr. A & above	0.4%	1.0%	0.2%	1.7%	2.5%
Reams Asset Mgmt	0.5%	1.5%	0.9%	2.4%	4.2%
ML G/C 1-5 yr. A & above	0.4%	1.0%	0.2%	1.7%	2.5%
Total External Managers	0.6%	1.0%	0.2%	2.3%	3.3%
ML G/C 1-5 yr. A & above	0.4%	1.0%	0.2%	1.7%	2.5%
Short-Term Account	0.6%	0.8%	0.0%	0.6%	0.8%
ML 90-day T-Bill	0.0%	0.0%	0.1%	0.1%	0.1%

[1] The benchmark for the Total Fund is based on the average asset allocation between the Externally Managed and Short-term Accounts, incorporating the Merrill Lynch Government/Corporate 1-5 yr A+ and the Merrill Lynch 3 Month T-Bill.

- The Total Fund returned to strong relative performance in the first quarter, as interest rates fell and credit spreads improved. The decline in yields, which continued into April, baffled many investors since the Fed continued to taper their bond purchases.
- The low return in the last 12 months was due to a combination of low yields on intermediate and short-term securities and price declines in 2013.
- Hillswick had a strong first quarter, driven by a rebound in government bonds, but underperformed in the last 12 months due to their conservative security selection and extended duration. They ended the quarter with a duration of 3.2 years, which is 20% longer than the benchmark duration of 2.6 years.
- Hilswick was one of the few fixed income managers expecting a decline in yields. They continue to believe that the economic recovery cannot be sustained, so they hold primarily government bonds.
- The Reams account also performed above the benchmark due to a significant allocation to corporate bonds and solid performance in their multifamily mortgage securities. Reams does not share Hillswick's negative views on the economy and remains defensive against rising rates.
- The staff-managed Short-Term Account rebounded in performance to produce $4.1 million of capital gains, along with a consistent income of $1.5 million. The rebound in prices more than offset the agency price declines during the second half of 2013.
- The peer group performance comparisons on page 8 indicate good long-term performance in both externally and internally managed portfolios.

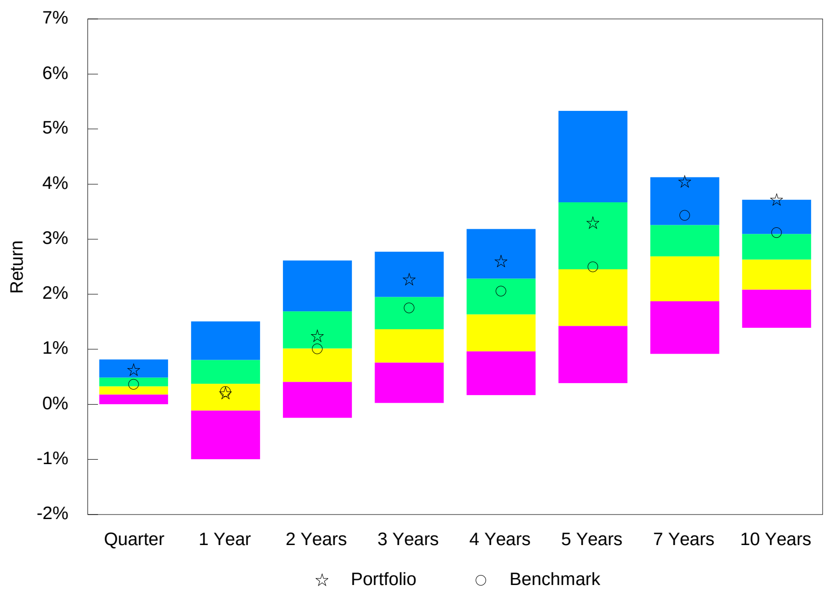
CONSOLIDATED BALANCE SHEET and CASH FLOW SUMMARY FOR THE FISCAL YEAR

JULY 1, 2013 TO MARCH 31, 2014

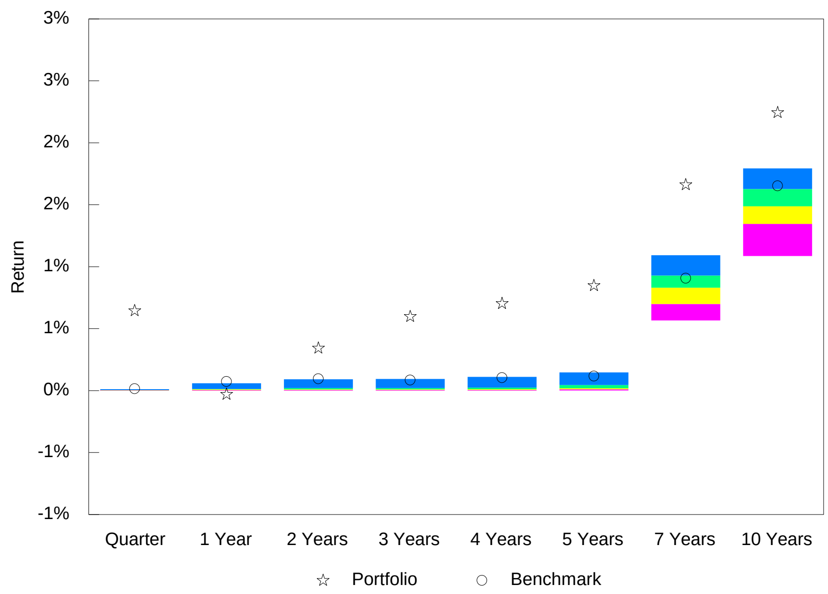
Manager	Beginning Balance	Net Cash Flows	Income	Gain/(Loss)	Ending Balance
Total Fund	**$1,199,968,800**	**$55,424,000**	**$8,311,100**	**$884,700**	**$1,264,588,600**
Externally Managed					
Hillswick Asset Mgmt	$160,019,000	$0	$1,820,500	($1,006,400)	$160,833,100
Reams Asset Mgmt	$166,561,000	$0	$1,774,800	$800,300	$169,136,100
Total Externally Managed	$326,580,000	$0	$3,595,300	($206,100)	$329,969,200
Short-Term Account	$873,388,800	$55,424,000	$4,715,900	$1,090,700	$934,619,400

Note: The totals may differ slightly from the actual sums due to rounding.

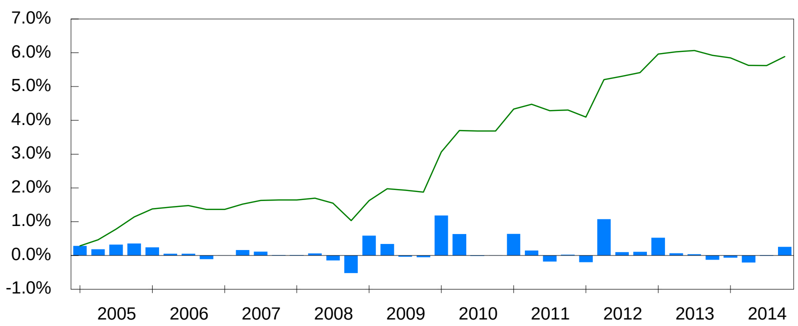
TOTAL EXTERNAL MGRS VS. PEER GROUP



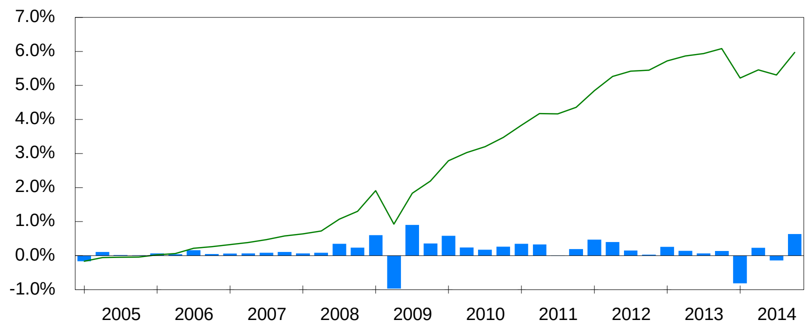
SHORT-TERM VS. PEER GROUP



TOTAL EXTERNAL MGRS VALUE ADDED



SHORT-TERM VALUE ADDED



MANAGER SCORECARD

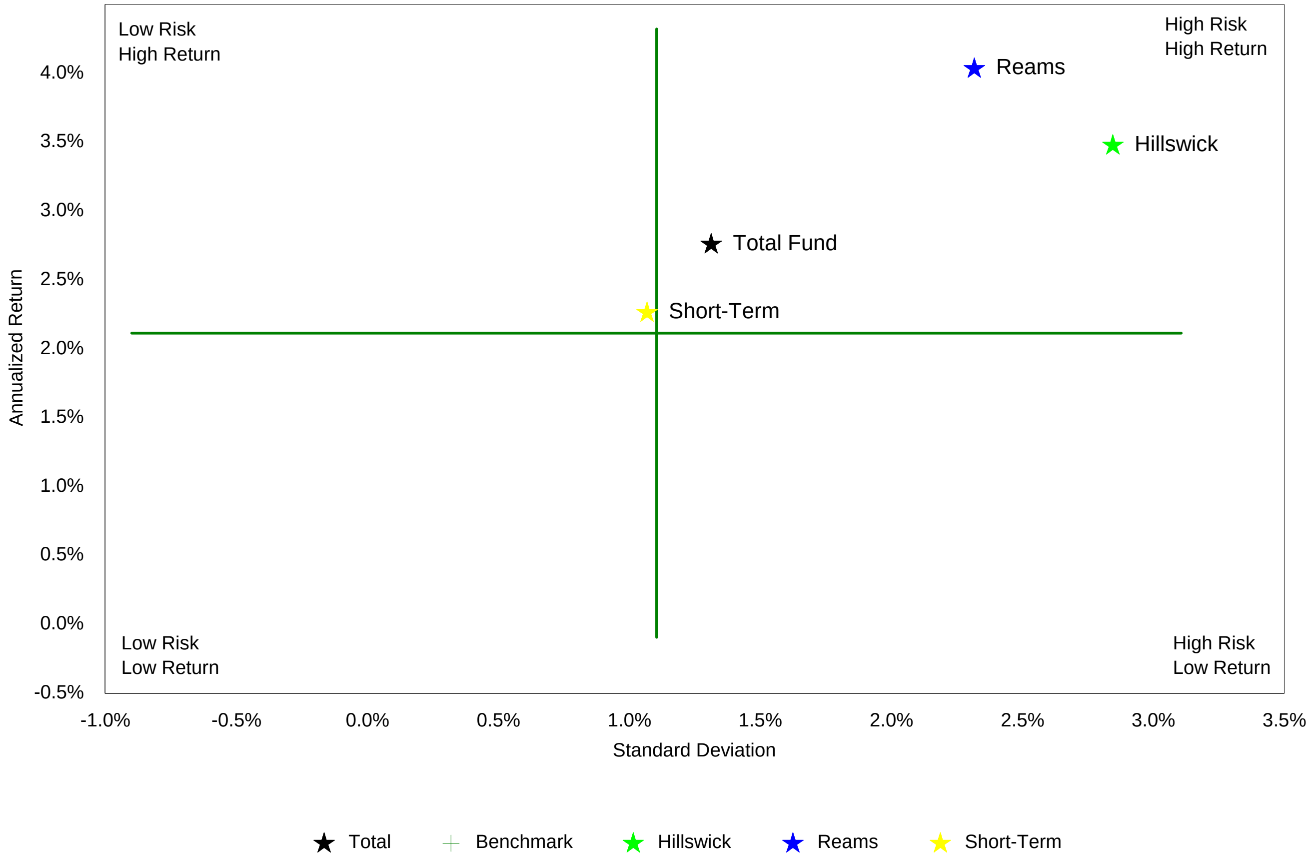
TEN-YEAR RESULTS

Manager	Return	Index Return	Std Dev	Alpha	Beta	Batting Average	Incept
Total Fund	2.76	2.11	1.31	0.42	1.35	825	2Q04
Hillswick Asset Mgmt.	3.48	3.14	2.85	0.13	1.13	425	2Q04
Reams Asset Mgmt.	4.03	3.14	2.32	1.09	0.86	775	2Q04
Short-Term Account	2.26	1.67	1.07	0.69	0.38	875	2Q04

INVESTMENTS PORTFOLIOS VS. POLICY BENCHMARKS

Manager	1 Year Benchmark	1 Year Univ Med	3 Year Benchmark	3 Year Univ Med	Alpha	Beta <1.10
Total Fund	Flat	NA	Exceed	NA	Positive	High
Hillswick Asset Mgmt	Under	Under	Exceed	Exceed	Positive	High
Reams Asset Mgmt	Exceed	Exceed	Exceed	Exceed	Positive	Low
Short-Term Account	Flat	Flat	Exceed	Exceed	Positive	Low

RISK / RETURN ANALYSIS
(FROM INCEPTION)



Alpha

Alpha is a measure of the value added (or the excess return of a portfolio versus the benchmark - adjusted for risk) for an actively managed portfolio. It is generally interpreted as a measure of a manager's skill as the result of security selection and asset allocation - the higher the number the better.

Batting Average

Batting Average is a measure of how often the manager has beaten the benchmark. A batting average of 600 indicates that the manager has beaten the portfolio benchmark (or comparable market index) six out of every ten quarters, or 60% of the time.

Beta

Beta is a measure of a manager's risk vs the benchmark. A beta of 1.0 indicates that a portfolio has roughly the same volatility as the benchmark. A beta greater than 1.0 indicates that the portfolio is more volatile or sensitive to changes in the market.

Duration

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.

Standard Deviation

Standard deviation is a measure of the dispersion of a portfolio's return around its expected return. A higher standard deviation indicates greater dispersion and, therefore, lower predictability of future returns.