

Municipal Regulatory Reform: Will it Help or Hinder Local Government Investment Strategies

Total Return

Our approach

Yield vs Total Return

Yield

$$\frac{\text{Interest earned}}{\text{Portfolio value}}$$

Total Return

$$\frac{\text{Interest earned} \pm \text{change in market value}}{\text{Portfolio Value}}$$

Why total return

- Reflects true economic impact
- Gives us a return target to shoot at

Monthly returns for our index

GRAB		Index TBI9									
Index: G102 U.S. Treasuries, 1-3 Yrs											
Curr: LOC %Hedged: 0 RtnType: I Through: 2011 As of: 2/28/11											
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	
Jan	-0.167	0.758	-0.342	1.736	0.215	0.166	-0.035	0.204	-0.013	0.203	
Feb	-0.087	0.191	-0.095	1.000	0.797	0.081	-0.227	0.478	0.417	0.483	
Mar		0.245	0.526	0.221	0.384	0.137	0.006	0.313	0.182	-0.675	
Apr		0.269	-0.127	-0.779	0.356	0.313	0.560	-0.964	0.187	1.117	
May		0.456	0.170	-0.364	-0.074	0.152	0.377	-0.093	0.375	0.402	
Jun		0.431	-0.151	0.288	0.419	0.183	0.195	-0.008	0.153	0.839	
Jul		0.260	0.131	0.402	0.911	0.733	-0.282	0.362	-0.544	1.222	
Aug		0.192	0.402	0.484	1.028	0.701	0.621	0.692	0.067	0.343	
Sep		0.165	0.243	0.791	0.708	0.521	-0.248	-0.088	0.908	0.826	
Oct		0.219	0.213	0.920	0.370	0.383	-0.009	0.305	-0.371	0.227	
Nov		-0.181	0.610	1.170	1.718	0.508	0.318	-0.495	-0.053	-0.300	
Dec		-0.187	-0.790	0.573	0.262	0.019	0.384	0.209	0.580	0.940	
Q1		0.704	0.087	2.981	1.402	0.385	-0.257	0.998	0.587	0.007	
Q2		1.160	-0.108	-0.856	0.702	0.649	1.137	-1.064	0.717	2.376	
Q3		0.618	0.778	1.685	2.670	1.967	0.088	0.967	0.426	2.407	
Q4		-0.149	0.028	2.686	2.361	0.911	0.695	0.017	0.153	0.867	
Year	0.080	2.348	0.785	6.609	7.317	3.963	1.668	0.907	1.896	5.757	

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Why total return

- Imposes a discipline
- Makes us manage price risk

Our Index – Merrill 1-3 year Treasury

GRAB		Index TBI9				
Index Characteristics <Page> for more						
Index:	G102	U.S. Treasuries, 1-3 Yrs				
Date:	3/21/2011	Inception:	12/31/1975	Daily Availability: 10/31/1986		
		Mar Market Change			2/28 Rebalancing	
		MarIndex	MarIndex	MTD Chg	FebIndex	ME Chg
		03/21/11	02/28/11	03/21/11	02/28/11	02/28/11
Valuations: USD terms (MYN)						
# of Issues		68	68	0	68	0
Par Amount		2063997	2063997	0	2054300	9697
Market Val		2107489	2107236	252	2096858	10378
Accr Int		8998	7749	1249	7797	-48
Cash		903	0	903	4772	-4772
Full Value		2117391	2114985	2405	2109428	5557
% Val in GOQQ		34.590	34.738	-0.148	34.773	-0.035
Risk Measures: Basis of calculation Effective Semi-annual Model: Current						
Maturity-wkout		1.847	1.906	-0.059	1.798	0.108
Yield		0.607	0.643	-0.036	0.598	0.044
Modified Dur		1.812	1.869	-0.057	1.765	0.105
Convexity		0.045	0.048	-0.002	0.043	0.004
Spread Model: Current						
Opt Adj Spread		-2	-4	2	-3	-1
Asset Swap		-17	-20	3	-19	-1
<small> Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P. SN 844697 6723-1132-0 22-Mar-11 12:38:23 </small>						

Index

Merrill 1 – 3 year Treasury Index

Modified duration – 1.812

Measure of price sensitivity

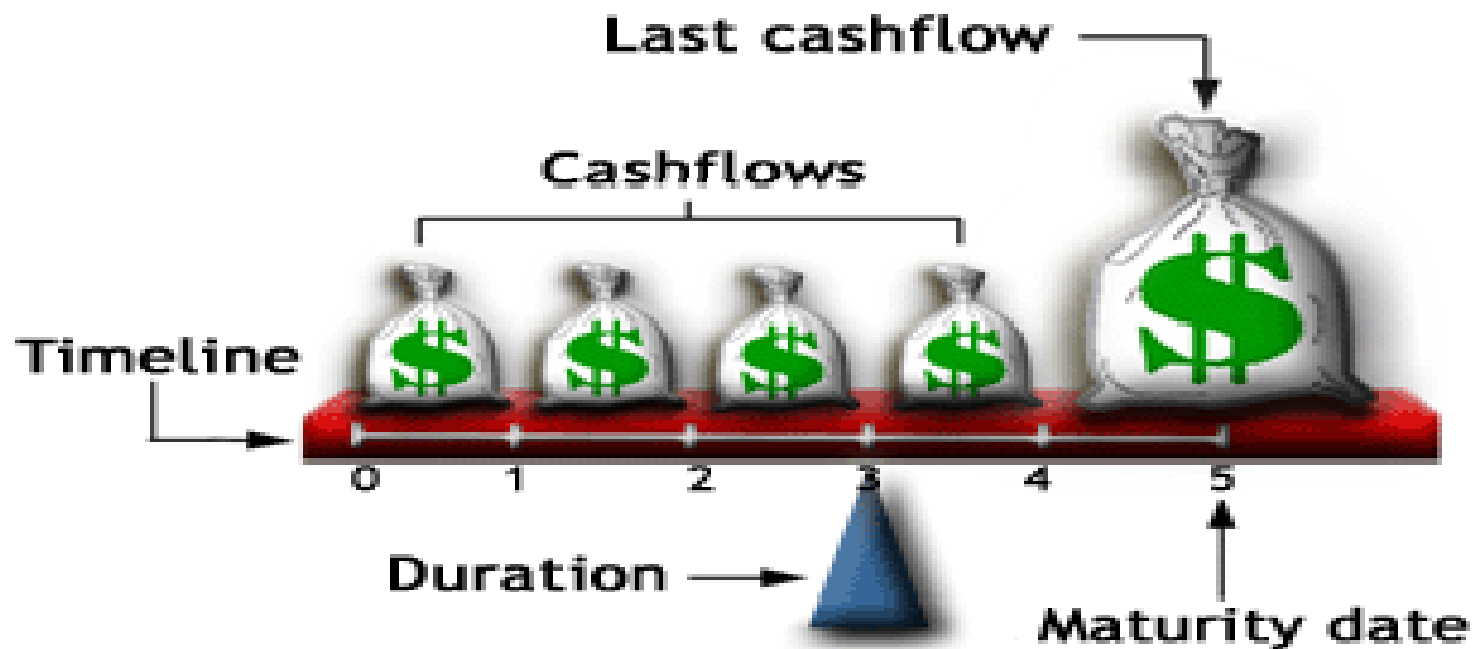
Instantaneous 100 bp change in interest rates means the portfolio will change approx. 1.8% in market value

My portfolio duration

GRAB		Index RPT							
CUMULATIVE PORTFOLIO SUMMARY PAGE 2/ 5									
Holder Name		CITY OF ONTARIO				Port U30071-1			
Port Name:		6				Portfolio Currency: US			
AS OF 3/23/2011									
Market Num	Total	Pct Of		Yield	Avg Mty-Bnd		Mod		
Sector Hld	Mkt Val	Mkt Val			Cpn	WAL-Mtge	Rtng	Dur	BPV
Cash	35374606	7.71		0.55					
Debt 38	423274293	92.29		0.70	1.82	2.10	AA+	1.96	82263
Subtotal	458648899			0.69				1.81	82263
Total	38	458648899.							

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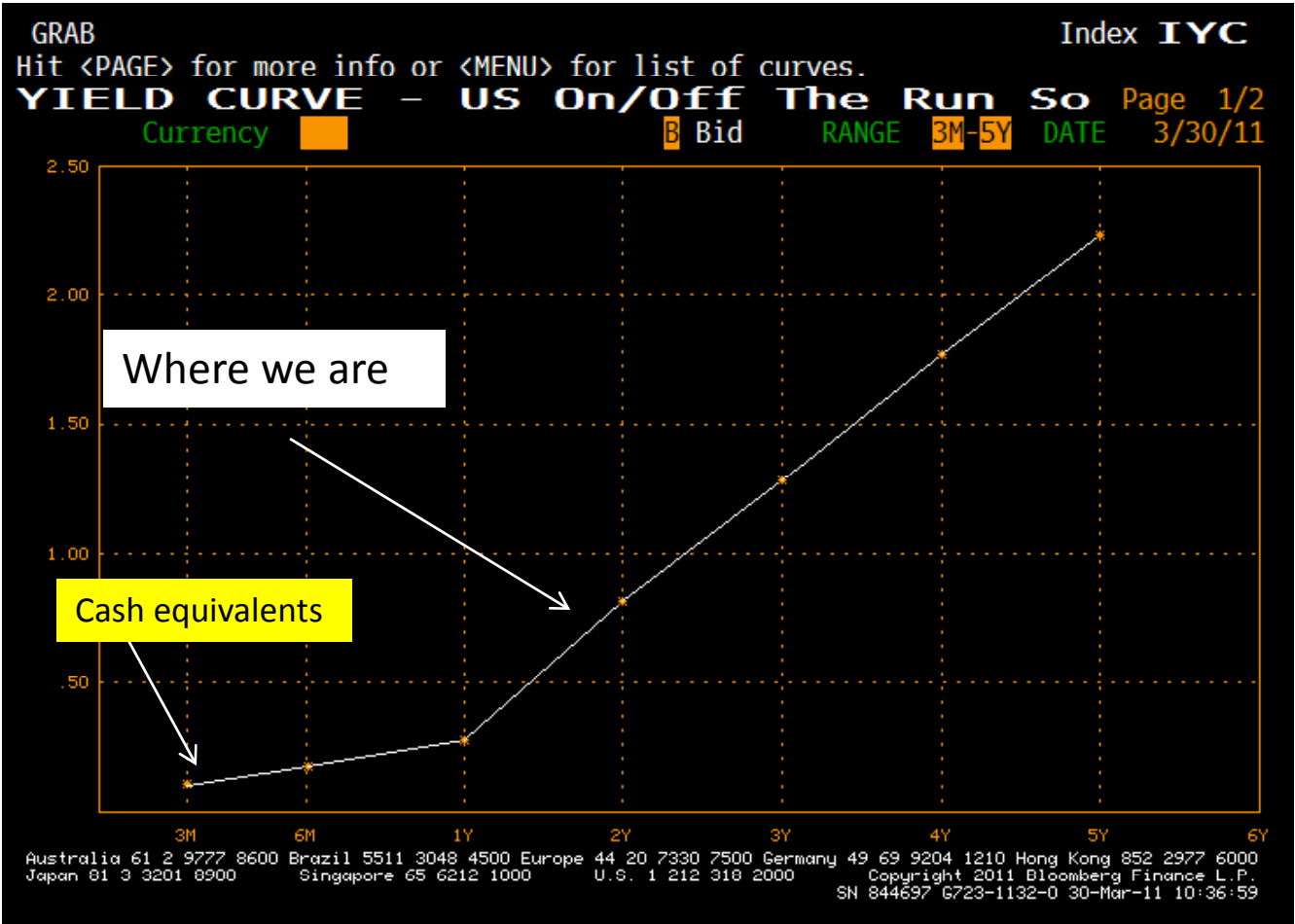
Duration - visually



Discipline

- Stay within 15% long/short index duration – duration stays between 1.5 and 2
- Comfortable with price risk associated with the duration of this particular index
- Avoids being too long or too short

Yield curve



Summary

TR makes us:

1. Cognizant of changes in market values
2. Disciplined in our approach to, and acceptance of, price risk
3. Achieve a rate of return that is higher than cash equivalents without accepting higher volatility than we're comfortable with