



County of Riverside

December 2013

Treasurer's Pooled Investment Fund

"Yellen From the Mountain Top"

It was a busy year economically speaking with some of the issues we covered being carried over into 2014, namely the federal budget and debt ceiling debate. The biggest news, at least for us involved in the financial markets, is the changing of the guard at the FED, with Bernanke's term set to expire at the end of January. Dr. Janet Yellen was confirmed by the U.S. Senate and will take over for Bernanke as the first woman in history to hold this most prestigious post. Yellen has served as Vice Chairman and Member of the FOMC, President of the Federal Reserve Bank of San Francisco, Chairman of President Clinton's Council of Economic Advisers as well as professor at UC Berkley.

A primary concern among investors and politicians alike is whether the Yellen FED will be able to successfully withdraw from current quantitative easing (QE) policies without disrupting their two primary goals of keeping prices stable and unemployment low, or, incurring other collateral damage unwinding over \$4 trillion (yes trillion) currently on the FED's balance sheet. Current QE purchases amount to roughly \$85 billion in treasuries and mortgage backed securities per month. While the FED's stimulative policies have added liquidity to the markets and double-digit returns with the DJIA closing above 16,500 for the year, employment has lagged somewhat behind other economic indicators. Additionally, market watchers are concerned we are in another asset bubble; somehow argue the stock market while others say real estate.

To the surprise of many, the FED did announce at its December 18th meeting that they will begin the taper of its open market bond purchases, which ironically, sparked a 293 point rally in the DJIA. The FED stated, "The Committee decided to modestly reduce the pace of its asset purchases. Beginning in January, the

Committee will add to its holdings of agency mortgage-backed securities at a pace of \$35 billion per month rather than \$40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of \$40 billion per month rather than \$45 billion per month". They also stated, "The Committee will likely reduce the pace of asset purchases in further measured steps at future meetings."

This is huge news in the bond market as just a hint of the taper last year sent rates on an upward trajectory, causing losses in U.S Treasuries; the 10-year hit a low yield of 1.60% in May only to finish out the year at almost 3.00%. As a reminder, as bond yields (interest rates) increase, the value (or price) decreases accordingly; this is the inverse relationship that exists when investing in bonds and as rates creep up, so too will the *unrealized* loss figure at the bottom of this report. This is completely natural and is to be expected when managing the nature and size of a fund such as the TPIF. As we wrote about in our June report, the Fund has ample liquidity to meet our depositor's needs due to our historical 12-month forward cash flow model. It has served us well, and I am proud to say that for the nearly 17 years I have been with this office, we've never lost a penny (even deep in the financial crisis) because we never *have* to sell a security to generate cash; we are largely a buy and hold portfolio.

The best case scenario for investors in 2014 and beyond is that there is a soft landing for Treasury yields as the FED embarks on the taper; equity investors will want to see the same. Stay tuned for an interesting ride in the coming year with the debt ceiling debate due to come back like a bad movie sequel. We will continue to invest accordingly.

Don Kent
Treasurer-Tax Collector

Capital Markets Team

Don Kent

Treasurer-Tax Collector

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Asst. Treasurer-Tax Collector

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Investment Objectives

*The primary objective of the treasurer shall be to **safeguard the principal** of the funds under the treasurer's control, meet the **liquidity needs** of the depositor, and achieve a **return on the funds** under his or her control.*

RIVERSIDE COUNTY TREASURER'S POOLED INVESTMENT FUND IS CURRENTLY RATED:

Aaa-bf BY MOODY'S INVESTOR'S SERVICE AND AAA/V1 BY FITCH RATINGS

	Month End Market Value (\$)*	Month End Book Value (\$)	Paper Gain or Loss (\$)	Paper Gain or Loss (%)	Book Yield (%)	Yrs to Maturity	Modified Duration
December	5,992,725,493.93	6,004,394,253.64	(11,668,759.71)	(0.19)	0.33	1.14	1.11
November	5,032,655,881.68	5,035,567,606.25	(2,911,724.57)	(0.06)	0.38	1.34	1.32
October	4,703,816,806.01	4,708,007,227.09	(4,190,421.08)	(0.09)	0.39	1.39	1.37
September	4,667,700,837.97	4,676,504,716.51	(8,803,878.54)	(0.19)	0.38	1.37	1.34
August	5,126,815,145.73	5,143,739,370.71	(16,924,224.98)	(0.33)	0.38	1.31	1.28
July	5,056,902,977.23	5,068,151,243.56	(11,248,266.33)	(0.22)	0.37	1.32	1.30

The Treasurer's Pooled Investment Fund is comprised of the County, Schools, Special Districts, and other Discretionary Depositors.



Current Market Data

Economic Indicators

Release Date	Indicator	Consensus	Actual
12/6/2013	Non-Farm Payrolls M/M change: Counts the number of paid employees working part-time or full-time in the nation's business and government establishments.	180,000	203,000
12/6/2013	Employment Situation: Measures the number of unemployed as a percentage of the labor force.	7.2%	7.0%
12/24/2013	Durable Goods Orders - M/M change: Reflects the new orders placed with domestic manufacturers for immediate and future delivery of factory hard goods.	1.5%	3.5%
12/20/2013	Real Gross Domestic Product - Q/Q change: The broadest measure of aggregate economic activity and encompasses every sector of the economy. GDP is the country's most comprehensive economic scorecard.	3.6%	4.1%
12/31/2013	Consumer Confidence: Measures consumer attitudes on present economic conditions and expectations of future conditions.	76.8	78.1%
12/5/2013	Factory Orders M/M change: Represents the dollar level of new orders for both durable and nondurable goods.	-1.2%	-0.9
12/17/2013	Consumer Price Index - M/M change: The Consumer Price Index is a measure of the average price level of a fixed basket of goods and services purchased by consumers.	0.0%	0.0%

Stock Indices

	Value	Change
Dow Jones (DJIA)	16,576.66	490.25
S&P 500 Index	1,805.81	1,848.36
NASDAQ (NDX)	4,176.59	116.70

Commodities

Nymex Crude	\$	98.42	\$	5.70
Gold (USD/OZ)	\$	1,205.65	\$	(47.84)

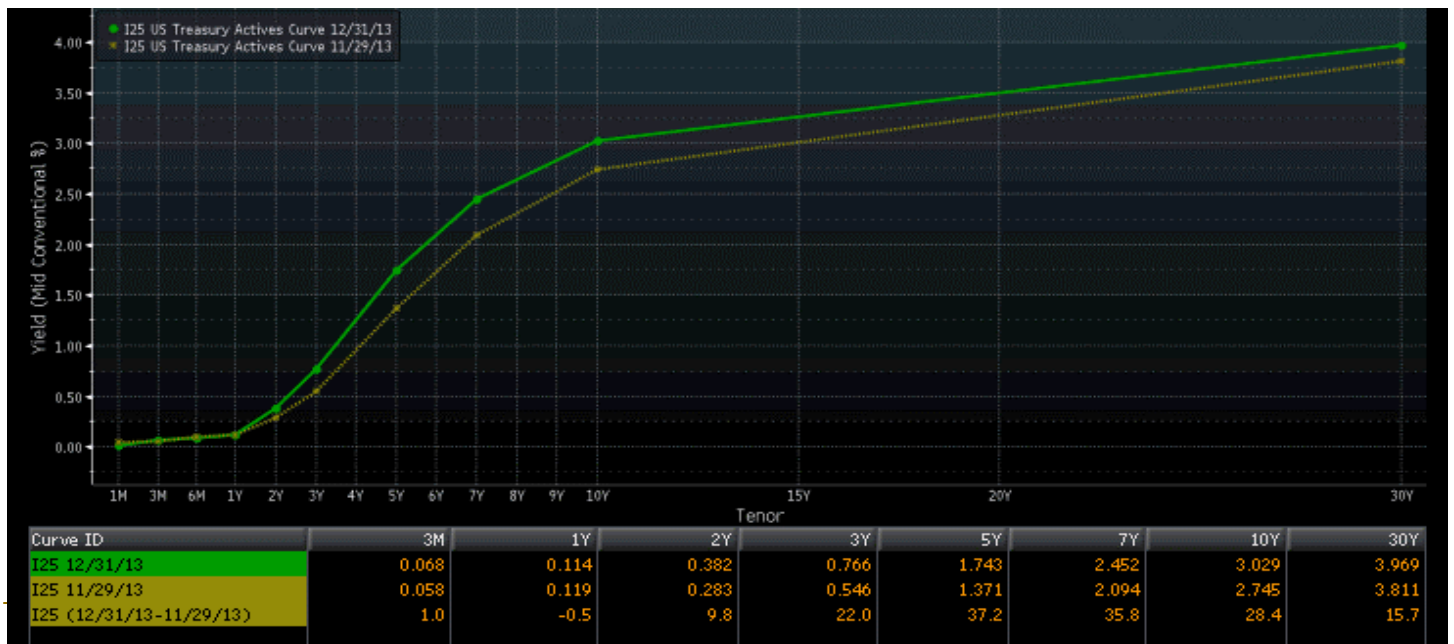
Fed Funds Target Rate

Current Fed Funds Rate: 0-0.25%		
Fed Move	Probability for FOMC Dates:	
	1/29/2014	3/19/2014
Decrease to 0.00%	64.0%	60.1%
Increase to 0.25%	36.0%	37.7%
Increase to 0.50%	0.0%	2.2%
Increase to 0.75%	0.0%	0.0%
Increase to 1%	0.0%	0.0%

FOMC Meeting Schedule

Release	%	Risk Assessment
October 30	0-.25%	Risk to Growth
December 18	0-.25%	Risk to Growth

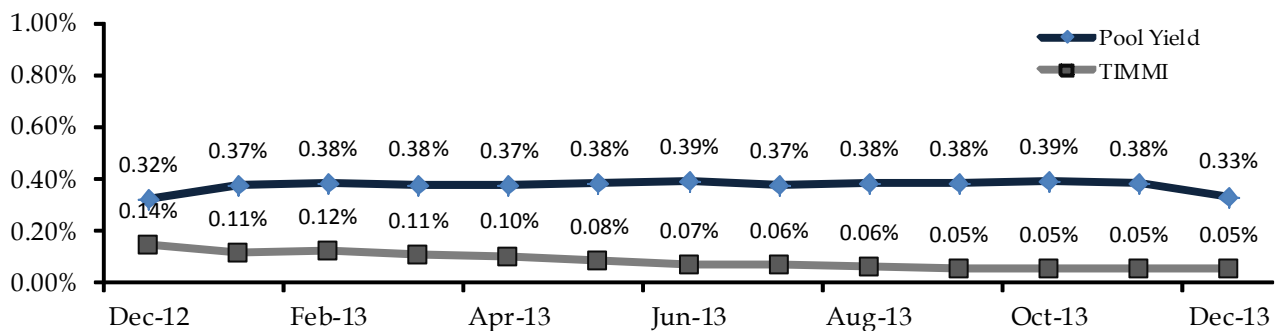
US Treasury Curve (M/M)



TIMMI

The Treasurer’s Institutional Money Market Index (TIMMI) is compiled and reported by the Riverside County Treasurer’s Capital Markets division. It is a composite index derived from four AAA rated prime institutional money market funds. Similar to the Treasurer’s Office, prime money market funds invest in a diversified portfolio of U.S. dollar denominated money market instruments including U.S. Treasuries, government agencies, commercial paper, certificates of deposits, repurchase agreements, etc. TIMMI is currently comprised of the four multi billion dollar funds listed below.

AAA Rated Prime Institutional Money-Market Funds		
Fund	Symbol	7 Day Yield
Fidelity Prime Institutional MMF	FIPXX	0.05%
Federated Prime Obligations Fund	POIXX	0.03%
Wells Fargo Advantage Heritage	WFJXX	0.07%
Morgan Stanley Institutional Prime Liquidity Fund	MPFXX	0.05%
JP Morgan	CJPXX	0.05%



Cash Flows

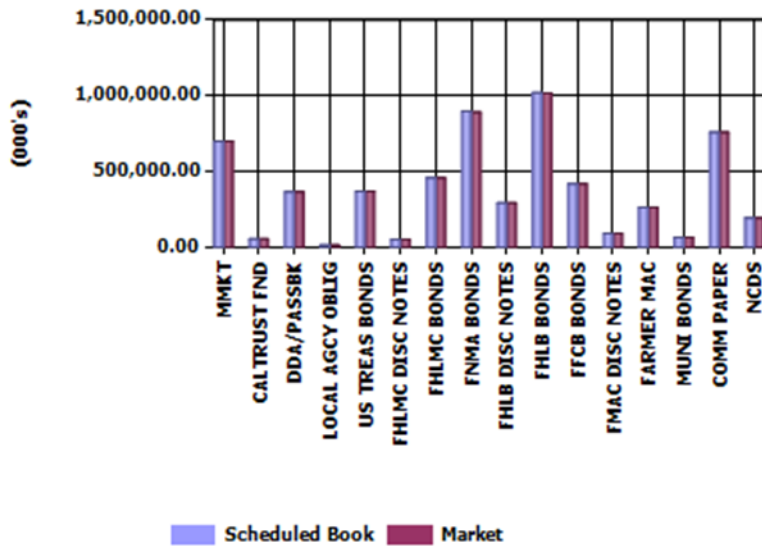
Month	Monthly Receipts	Monthly Disbursements	Difference	Required Matured Investments	Balance	Actual Investments Maturing	Available to Invest > 1 Year
01/2014					189.90		
01/2014	676.58	1,293.98	(617.40)	427.50	-	1,462.00	
02/2014	560.00	820.00	(260.00)	260.00	-	265.00	
03/2014	839.70	820.45	19.25		19.25	650.00	
04/2014	1,320.00	738.06	581.94		601.19	182.11	
05/2014	550.00	1,190.04	(640.04)	38.85	0.00	412.35	
06/2014	542.82	1,124.81	(581.99)	581.99	-	302.00	
07/2014	1,000.00	950.00	50.00		50.00	121.70	
08/2014	600.00	725.41	(125.41)	75.41	-	175.00	
09/2014	700.00	830.00	(130.00)	130.00	-	68.80	
10/2014	757.29	890.00	(132.71)	132.71	-	151.64	
11/2014	919.01	703.43	215.58		215.58	64.36	
12/2014	1,691.73	850.00	841.73		1,057.31	40.00	
TOTALS	10,157.13	10,936.18	(779.05)	1,646.46	2,133.23	3,894.96	4,357.93
				27.42%		64.87%	72.58%

* All values reported in millions (\$).

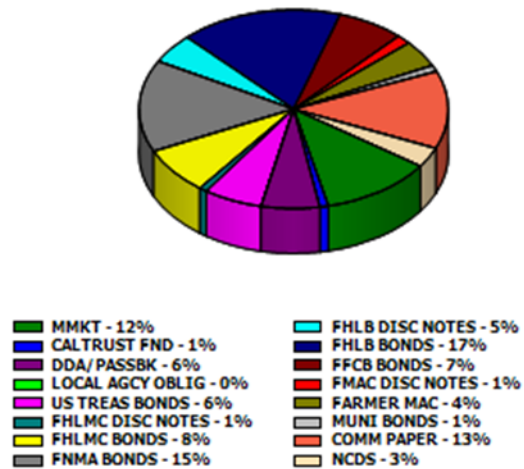
The Pooled Investment Fund cash flow requirements are based upon a 12 month historical cash flow model. Based upon projected cash receipts and maturing investments, there are sufficient funds to meet future cash flow disbursements over the next 12 months.

Asset Allocation

Assets (000's)	Scheduled Par	Scheduled Book	Scheduled Market	Mkt/ Sch Book	Yield	WAL (Yr)	Mat (Yr)
MMKT	701,000.00	701,000.00	701,000.00	100.00%	0.05%	.003	.003
CALTRUST FND	54,000.00	54,000.00	54,000.00	100.00%	0.42%	.003	.003
DDA/PASSBK	365,000.00	365,000.00	365,000.00	100.00%	0.14%	.003	.003
LOCAL AGCY OBLIG	455.00	455.00	455.00	100.00%	0.88%	6.460	6.460
US TREAS BONDS	370,000.00	370,211.33	370,272.60	100.02%	0.19%	.907	.907
FHLMC DISC NOTES	50,000.00	49,922.08	49,986.50	100.13%	0.17%	.384	.384
FHLMC BONDS	458,535.00	458,409.53	457,103.65	99.72%	0.90%	.670	2.728
FNMA BONDS	899,929.00	900,229.77	892,433.13	99.13%	0.72%	2.374	3.222
FHLB DISC NOTES	292,000.00	291,826.63	291,952.55	100.04%	0.12%	.281	.281
FHLB BONDS	1,022,635.71	1,022,654.30	1,019,535.05	99.69%	0.37%	1.147	1.383
FFCB BONDS	420,145.00	420,024.12	420,179.78	100.04%	0.24%	.802	.849
FMAC DISC NOTES	90,000.00	89,909.40	89,975.70	100.07%	0.14%	.370	.370
FARMER MAC	262,568.00	262,544.29	262,530.87	99.99%	0.26%	.850	.850
MUNIBONDS	63,430.00	63,476.43	63,476.43	100.00%	0.46%	1.182	1.182
COMM PAPER	760,000.00	759,731.38	759,824.23	100.01%	0.13%	.142	.142
NCDS	195,000.00	195,000.00	195,000.00	100.00%	0.14%	.143	.143
Totals (000's):	6,004,697.71	6,004,394.25	5,992,725.49	99.81%	0.33%	.810	1.138

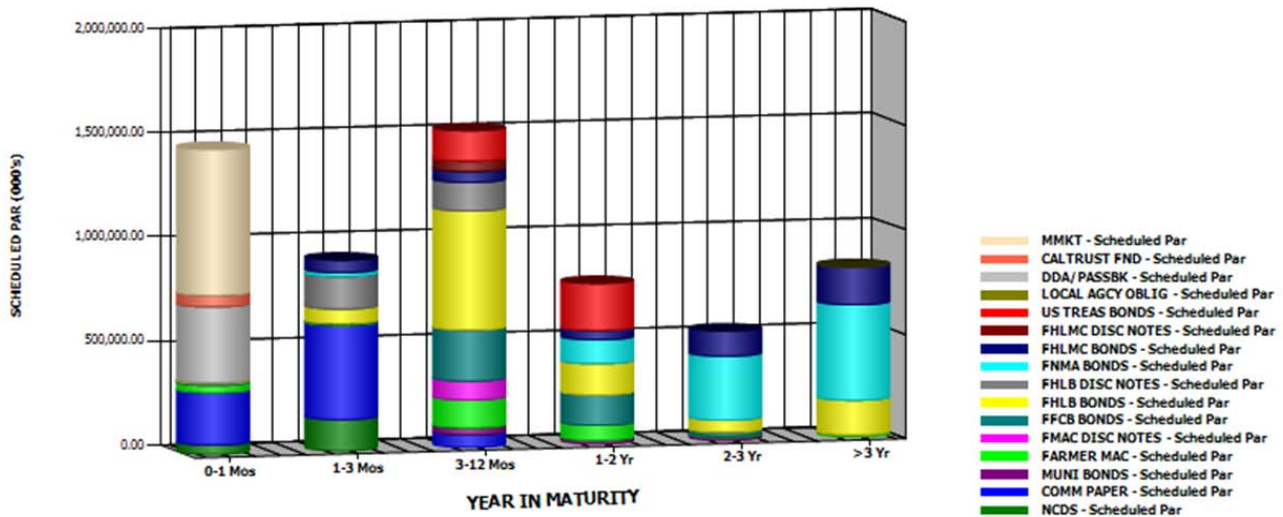


SCHEDULED PAR %



Maturity Distribution

Scheduled Par (000's)	0-1 Mos	1-3 Mos	3-12 Mos	1-2 Yr	2-3 Yr	>3 Yr	Totals (000's)
MMKT	701,000.00	-	-	-	-	-	701,000.00
CALTRUST FND	54,000.00	-	-	-	-	-	54,000.00
DDA/PASSBK	365,000.00	-	-	-	-	-	365,000.00
LOCAL AGCY OBLIG	-	-	-	-	-	455.00	455.00
US TREAS BONDS	-	-	145,000.00	225,000.00	-	-	370,000.00
FHLMC DISC NOTES	-	-	50,000.00	-	-	-	50,000.00
FHLMC BONDS	-	60,000.00	52,000.00	45,000.00	120,625.00	180,910.00	458,535.00
FNMA BONDS	-	20,000.00	-	115,000.00	306,887.00	458,042.00	899,929.00
FHLB DISC NOTES	-	155,000.00	137,000.00	-	-	-	292,000.00
FHLB BONDS	6,000.00	70,000.00	571,700.00	150,000.00	58,685.71	166,250.00	1,022,635.71
FFCB BONDS	6,000.00	4,995.00	244,150.00	145,000.00	20,000.00	-	420,145.00
FMAC DISC NOTES	-	-	90,000.00	-	-	-	90,000.00
FARMER MAC	35,000.00	5,000.00	135,000.00	72,568.00	5,000.00	10,000.00	262,568.00
MUNI BONDS	-	-	33,095.00	16,765.00	13,570.00	-	63,430.00
COMM PAPER	250,000.00	450,000.00	60,000.00	-	-	-	760,000.00
NCDS	45,000.00	150,000.00	-	-	-	-	195,000.00
Totals (000's):	1,462,000.00	914,995.00	1,517,945.00	769,333.00	524,767.71	815,657.00	6,004,697.71
%	24.35%	15.24%	25.28%	12.81%	8.74%	13.58%	
Cumulative %	24.35%	39.59%	64.86%	77.68%	86.42%	100.00%	

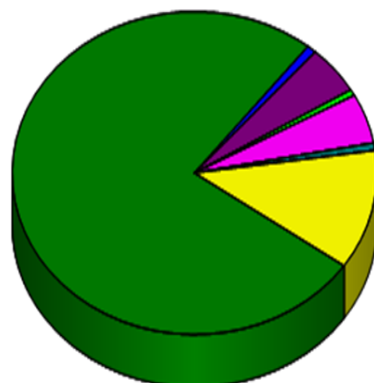


Credit Quality

Moody (000's)	Par	Book	Market	MKT/Book	Yield
Aaa	4,560,949.71	4,560,904.23	4,549,193.04	99.74%	0.38%
Aa	50,000.00	49,998.50	49,938.75	99.88%	0.22%
Aa1	293,020.00	293,013.67	293,007.21	100.00%	0.16%
Aa2	37,070.00	37,060.42	37,065.40	100.01%	0.28%
Aa3	300,635.00	300,528.08	300,579.21	100.02%	0.14%
A1	45,000.00	44,980.67	44,980.32	100.00%	0.14%
NR	718,023.00	717,908.69	717,961.67	100.01%	0.18%
Totals (000's):	6,004,697.71	6,004,394.25	5,992,725.49	99.81%	0.33%

MOODY'S

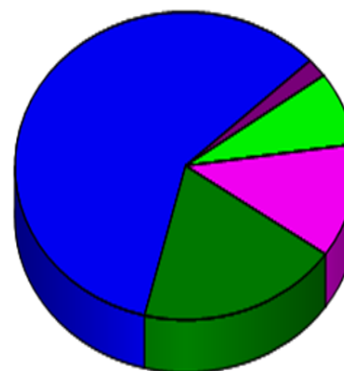
BOOK %



■ Aaa - 76%
 ■ Aa1 - 5%
 ■ Aa3 - 5%
 ■ NR - 12%
 ■ Aa - 1%
 ■ Aa2 - 1%
 ■ A1 - 1%

S & P

BOOK %



■ AAA - 19%
 ■ AA- - 8%
 ■ AA+ - 59%
 ■ NR - 12%
 ■ AA - 2%

S&P (000's)	Par	Book	Market	MKT/Book	Yield
AAA	1,149,600.00	1,150,092.64	1,149,814.13	99.98%	0.16%
AA+	3,552,094.71	3,551,508.20	3,540,017.17	99.68%	0.45%
AA	119,980.00	120,001.22	119,993.02	99.99%	0.17%
AA-	465,000.00	464,883.50	464,939.61	100.01%	0.14%
NR	718,023.00	717,908.69	717,961.57	100.01%	0.18%
Totals (000's):	6,004,697.71	6,004,394.25	5,992,725.49	99.81%	0.33%



Month End Portfolio Holdings

CUSIP	Description	Maturity Date	Coupon	Maturity To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity
			.137	.137	195,000,000.00	195,000,000.00	100.000000	195,000,000.00	0.00	.143	.143
	Total Fund		.335	.331	6,004,697,714.00	6,004,394,253.64	99.800619	5,992,725,493.93	-11,668,759.71	1.113	1.132
Grand Total			.335	.331	6,004,697,714.00	6,004,394,253.64	99.800619	5,992,725,493.93	-11,668,759.71	1.113	1.132

Full Compliance

The Treasurer’s Pooled Investment Fund was in **FULL COMPLIANCE** with the Treasurer’s Statement of Investment Policy. The County’s Investment Policy is more restrictive than the California Government Code. This policy is reviewed annually by the County’s Investment Oversight Committee and approved by the County Board of Supervisors.



Investment Category	GOVERNMENT CODE			COUNTY INVESTMENT POLICY			Actual %
	Maximum Maturity	Authorized % Limit	S&P/ Moody's	Maximum Maturity	Authorized % Limit	S&P/ Moody's	
MUNICIPAL BONDS (MUNI)	5 YEARS	NO LIMIT	NA	3 YEARS	15%	AA-/Aa3/AA-	1.05%
U.S. TREASURIES	5 YEARS	NO LIMIT	NA	5 YEARS	100%	NA	6.17%
LOCAL AGENCY OBLIGATIONS (LAO)	5 YEARS	NO LIMIT	NA	3 YEARS	2.5%	INVESTMENT GRADE	0.01%
FEDERAL AGENCIES	5 YEARS	NO LIMIT	AAA	5 YEARS	100%	NA	58.22%
COMMERCIAL PAPER (CP)	270 DAYS	40%	A1/P1	270 DAYS	40%	A1/P1/F1	12.65%
CERTIFICATE & TIME DEPOSITS (NCD & TCD)	5 YEARS	30%	NA	1 YEAR	25% Combined	A1/P1/F1	3.25%
REPURCHASE AGREEMENTS (REPO)	1 YEARS	NO LIMIT	NA	45 DAYS	40% max, 25% in term repo over 7 days	A1/P1/F1	0.00%
REVERSE REPOS	92 DAYS	20%	NA	60 DAYS	10%	NA	0.00%
MEDIUM TERM NOTES (MTNO)	5 YEARS	30%	A	3 YEARS	20%	AA/Aa2/AA	0.00%
CALTRUST SHORT TERM FUND	NA	NA	NA	DAILY LIQUIDITY	1.0%	NA	0.90%
MONEY MARKET MUTUAL FUNDS (MMF)	60 DAYS ⁽¹⁾	20%	AAA/Aaa ⁽²⁾	DAILY LIQUIDITY	20%	AAA by 2 Of 3 RATINGS AGC.	11.67%
LOCAL AGENCY INVESTMENT FUND (LAIF)	NA	NA	NA	DAILY LIQUIDITY	Max \$50 million	NA	0.00%
CASH/DEPOSIT ACCOUNT	NA	NA	NA	NA	NA	NA	6.08%

¹ Mutual Funds maturity may be interpreted as weighted average maturity not exceeding 60 days.

² Or must have an investment advisor with not less than 5 years experience and with assets under management of \$500,000,000.



THIS COMPLETES THE REPORT REQUIREMENTS OF CALIFORNIA GOVERNMENT CODE 53646



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Treasurer-Tax Collector
Capital Markets

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