Exhibit A

Investment Portfolio Review
Quarter Ending September 30, 2012

OVERVIEW – July 1 – September 30, 2012

During the July to September quarter the Treasury bond curve continued to flatten in the 0 – 5 year term. Yields in maturities of a year or less were up slightly, while longer maturities were lower. The Federal Reserve announced the third version of their Quantitative Easing program, pledging to purchase $85 billion a month in agency-backed mortgage-backed securities and long term Treasuries. For the first time the Federal Reserve did not indicate a maximum size or duration of the program, instead choosing to tie the program to improvement in the labor market. In mid September, the German Constitutional Court allowed the country to ratify the new bailout fund for the Euro zone, establishing the European Stability Mechanism which will lend money to European Union members in an effort to combat rising borrowing costs for its participants. All of these factors have helped contribute to continued investments in fixed income securities. The Fed has continued their assurances that they will keep the Fed Funds Rate at or below 0.25 percent.

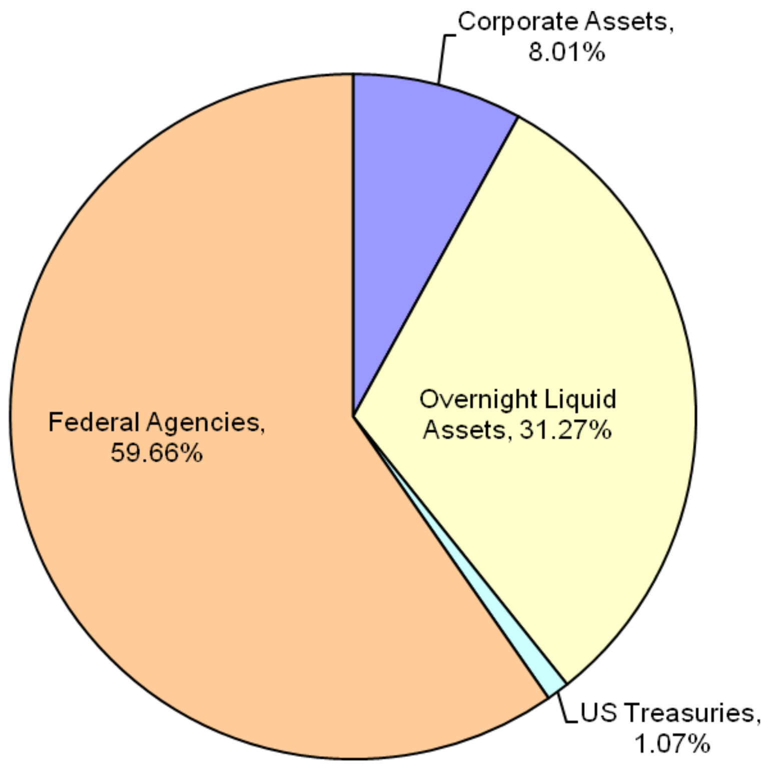
The County Treasury was able to outperform all of the portfolio benchmarks due to a consistent investment strategy that ladders short term debt to provide liquidity, while also taking advantage of higher rates by buying small amounts of longer term corporate and callable debt structures. The following indicators reflect key aspects of the County's investment portfolio in light of the above noted conditions:

1. Market Access – The U.S. Treasury continued to issue substantial amounts of debt instruments. The continued large issuance is due to their efforts to stimulate the economy by providing funding for financial institutions, social programs, and ongoing military funding requirements. Access to U.S. Treasuries has been plentiful, but yields have continued to remain low as investors seek safe havens from an uncertain world market. These issues have continued to keep yields low on Treasury bonds from July through September.

   During the quarter, the majority of County investment purchases continue to be in U.S. Treasury and Agency markets with a continued small position in shorter term, highly rated (AA or better) Corporate bonds, Certificates of Deposits and highly rated (A1, P1), short term Commercial Paper. In addition, the Treasurer continues to keep a high level of overnight liquid assets, reflecting the need to maintain increased levels of available cash to ensure our ability to meet any cash flow needs.

2. Diversification - The Monterey County Treasurer's portfolio consists of fixed income investments, all of which are authorized by the State of California Government Code 53601.

The portfolio asset spread is detailed in the pie chart below:



- Difference in percent of overnight liquid assets to overnight investments from Exhibit D are due to rounding.

3. <u>Credit Risk</u> – Approximately 92% of the investment portfolio is comprised of U.S. Treasuries, Federal Agency securities and other liquid funds. All assets have an investment grade rating. U.S. Treasuries are not specifically rated, but are considered the safest of all investments. The corporate debt (8.01%) is rated in the higher levels of investment grade. All federal agency securities have AA ratings, or they are guaranteed by the U.S. Treasury.

4. <u>Liquidity Risk</u> – Liquidity risk, as measured by the ability of the county's Treasury to meet withdrawal demands on invested assets, was adequately managed during the July to September quarter. The portfolio's average weighted maturity was 449 days, and a large percentage (31.27%) of assets was held in immediately available funds.

PORTFOLIO CHARACTERISTICS

	June 30, 2012	September 30, 2012
Total Assets	$951,140,770	$939,341,502
Market Value	$951,960,820	$940,943,563
Days to Maturity	387	449
Yield	0.49%	0.49%
Estimated Earnings	$1,302,555	$1,159,315

FUTURE STRATEGY

The U.S. Treasury has continued a policy of heavy borrowing for stimulus programs, military funding and other additional needs. Despite the downgrade of U.S. debt by Standard and Poor's last year and the continued uncertainty in global markets; investors continue to prefer the safety of U.S. debt to other investment options.

Continued uncertainty about Congress' unwillingness to deal with the looming fiscal cliff, Europe's unsolved sovereign debt crisis and slowing global growth have continued to further reinforce the cautious, risk averse attitude of investors. The increasing regulations on financial institutions, overall uncertainty of the ability of the U.S. government work together and an overall slowdown of the global economy continue to drag on any meaningful recovery. This is clearly reflected in the Federal Reserve's new mandate for monetary easing without a clear end. The current stability of the U.S. economy ensures that our debt products will remain a safe haven for investors for the foreseeable future, which is good for our overall economic outlook, but ensures continued low rates until underlying conditions change.

In the near term the Treasurer believes short term yields will remain extremely low and will not begin to rise until there is a longer history of consistent improvement in the unemployment rate, or the Federal Reserve starts to see significant inflation in the core Consumer Price Index. The Treasurer's rolling investment ladder will access the short term Treasury and Agency market with expected yields over the next 90 days of less than one-quarter percent. In our efforts to continue to provide the safest vehicles for Treasury investments, the Treasurer will maintain a portfolio weighted with U.S. Treasuries, Federal Agency securities, and other highly liquid assets.