Exhibit A

Investment Portfolio Review
Quarter Ending September 30, 2013

<u>OVERVIEW</u> – July 1 – September 30, 2013

During the July to September quarter, Treasury yields continued to rise steadily until the Federal Reserve announcement in mid-September. The announcement contradicted the bond market's expectation that the Federal Reserve would slow the rate of Treasury and Agency mortgage-backed securities purchases commonly known as "QE3". The QE3 program had been in place for the past year to put downward pressure on rates and support economic growth. In its statement explaining the decision, the Federal Reserve cited rising mortgage rates, persistently high unemployment, low inflation and fiscal policies that continue to restrain economic activity as factors in their decision to continue the program unabated. Investors reacted to the announcement by reversing their prior sell off so quickly that interest rates on the 10-Year Treasury note fell 15 basis points in yield within minutes of the announcement. By month end, yields on Treasuries in the 3 month-3 Year range had fallen below their previous levels at the end of June.

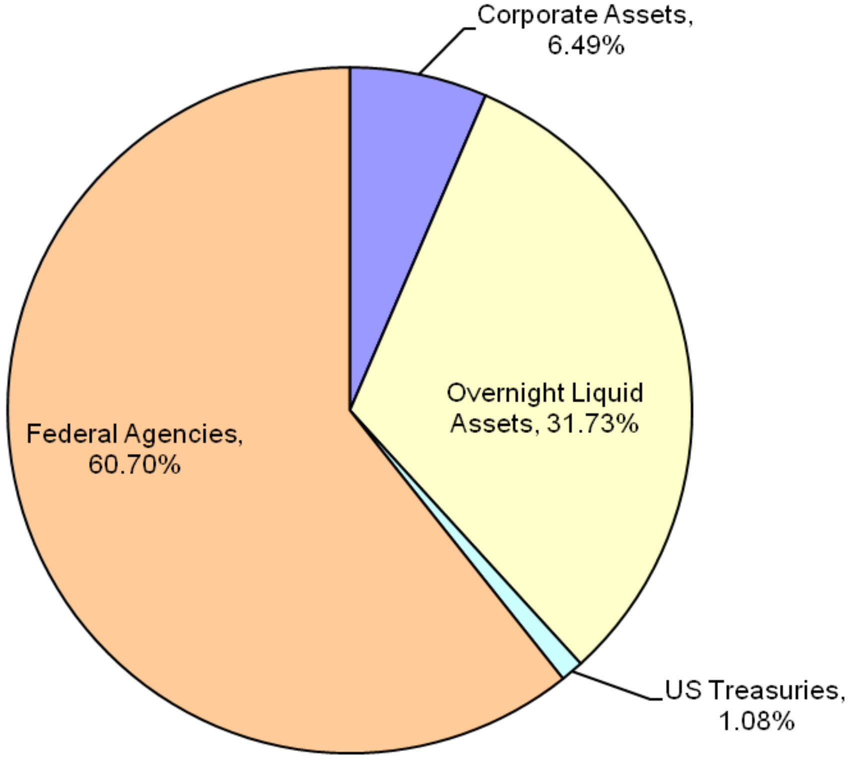
The County Treasury continued to outperform all of the portfolio benchmarks due to a consistent investment strategy that ladders short term debt to provide liquidity and takes advantage of available higher rates by buying small amounts of longer term corporate and agency bullets, while maintaining positions in currently held callable debt structures. The following indicators reflect key aspects of the County's investment portfolio in light of the above noted conditions:

1. <u>Market Access</u> – The U.S. Treasury continues 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 and Agency debt 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. <u>Diversification</u> - 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. Credit Risk – Approximately 93.5% 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 (6.49%) is rated in the higher levels of investment grade. All federal agency securities have AA ratings, or are guaranteed by the U.S. Treasury.

4. Liquidity Risk – 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 603 days, and large percentages (31.73%) of assets are held in immediately available funds.

PORTFOLIO CHARACTERISTICS

	June 30, 2013	September 30, 2013
Total Assets	$1,003,269,808	$925,323,720
Market Value	$997,966,147	$922,151,473
Days to Maturity	555	603
Yield	0.49%	0.49%
Estimated Earnings	$1,239,564	$1,202,998

FUTURE STRATEGY

The U.S. Treasury has continued a policy of heavy borrowing for stimulus programs, military funding and other additional needs. Despite a downgrade of U.S. debt by Standard and Poor's in 2011, the continued improvement in our economy ensures that investors will continue to prefer the safety of U.S. debt to other investment options.

At the end of the quarter, the members of Congress continued to show their unwillingness to work together to provide a solution to the country's inability to produce a balanced budget by shutting down all non-essential Federal government services. While the shutdown makes future predictions of market behavior more difficult, the Treasurer believes that the current conservative investment strategy strikes the correct balance between capturing yield and market value through roll-down at current levels, while maintaining the flexibility to remain actively invested in the current market. Despite the recent decline in the 3 month – 3 year range of Treasury securities to levels lower than they were at the beginning of the quarter, the trend in rates in the last six months continues to be positive in all 2+ year areas. The current environment of rising rates is hoped to be a return to more historically normal levels and a predictor of higher rates in the future, but they continue have the unfortunate effect of lowering the market value of current portfolio holdings in the short run. If the rate environment continues its trend, the portfolio is adequately positioned to take advantage of the changing market conditions.

In the near term the Treasurer continues to believe that short term yields will remain at their historical lows 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.