

REPORT TO CITY COUNCIL

DATE: APRIL 13, 2011

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: GREG RAMIREZ, CITY MANAGER

BY: CHRISTY PINUELAS, DIRECTOR OF FINANCE

SUBJECT: AGREEMENT FOR CONSULTANT SERVICES WITH CHANDLER ASSET MANAGEMENT, TO PROVIDE INVESTMENT PORTFOLIO MANAGEMENT SERVICES FOR THE CITY OF AGOURA HILLS, CALIFORNIA

The Finance Committee met to consider placing the City of Agoura Hills (City's) investments with a professional investment management company. The Committee interviewed Chandler Asset Management and recommends awarding a one-year agreement with one two-year option for renewal.

The investment of City funds has traditionally been handled by the City Treasurer. The City has had the same Treasurer since its inception in 1982. With her retirement, the City needs to address current needs. While a City Treasurer will be appointed to handle banking, check signing, and bank reviews, it would benefit the City to utilize a professional investment management company to manage our funds. During these hard times, it is important that the City optimize the investment returns while still making certain that safety and liquidity are maintained.

Many public agencies, especially those with limited staffing, rely on investment managers to advise and/or invest funds on behalf of the public agency. The advantages of choosing such an option include:

1. A depth of investment management experience and knowledge, that it is unlikely with existing city staff.
2. A disciplined investment process allowing the interpretation of macro-economic data to incorporate into model portfolios on a timely basis.
3. A systematic process to achieve consistent results in all market environments.
4. A process that allows an agency to maximize yield, while reducing risk and maintaining adequate liquidity.
5. Low cost with high returns. Cost usually runs about 8 to 12 basis points (100 basis points is equal to 1% in earnings).
6. Availability of additional services, such as cash flow analysis, preparation of investment reports and Investment Policy review, without additional cost.
7. Public agencies benefit from the economies of scale when securities and other investments are purchased in bulk.

The City did not have much notice of the City Treasurer's retirement. Therefore, in the interest of time, we chose to piggyback on the City of Fillmore's recent quotes. Within the municipal finance environment in California, three firms are prevalent in providing investment services to public agencies. Each of these three firms has an excellent reputation in serving public agencies in California. In alphabetical order, they are:

1. Chandler Asset Management, San Diego
2. Cutwater Asset Management, Denver
3. PFM Asset Management, San Francisco

There are three main considerations, beyond selecting a firm with integrity and an excellent reputation, which should be explored in selecting a firm for this type of service. It is often difficult to compare the firms because their portfolios do not always contain the same set of investments and because the statistics they keep may be unique to them. For instance, one portfolio may contain corporate bonds where there may be a greater or lesser yield, but a greater risk. One firm may keep statistics on a 1 to 3 year basis, while another may keep their's on a 1 to 5 year basis. Therefore, while you may not have an apples-to-apples comparison, it is prudent to look at statistics for each of the firms.

The first consideration is fit. The second consideration is performance. The final consideration is fees. The following fee structure was quoted to the City of Fillmore for a portfolio of \$20 million. One basis point is equal to 1/100th of one percent.

12 Basis points	-	Chandler Asset Management (no minimum)
8 Basis points	-	Cutwater Asset Management (\$1,000/mo minimum)
11.75 Basis points	-	PFM Asset Management (no minimum) (15M @ 12 and 5M @ 11)

For additional amounts under management, Chandler is at 9 basis points for the next \$40 million and PFM is at 11 basis points. The quoted lower fee from Cutwater may be because of the name change from MBIA and a desire by this new name to have a larger presence in the California public agency market. Please note that Cutwater has a \$1,000 per month minimum. Because the City holds several long term investments, it will take several years to transfer the \$20 million portfolio to the selected firm. So the fee would be higher than 8 Basis points on the funds invested with Cutwater.

While Cutwater is quoted with the lowest of fees, they have a \$1,000 monthly minimum and only hold 3% of their portfolio in California public agencies and non profits. Furthermore, they tend to have the most aggressive investment strategy, investing a higher percentage of the portfolio in Corporate Bonds and mortgage backed securities. PFM has 25% of their portfolio in California public agencies and charges 11.75% basis points on the first \$20 million. Their investment strategy tends to be similar to Chandler. However Chandler has 73% of their portfolio in California public agencies and non profits.

Please note that for any of the options, the securities are not held by the company retained, but rather by a third party custodian. The City already has relationships with a Bank of New York/Mellon for bond reserve purposes. If the Council moves in this direction, a bank will be

asked to provide a quote for the additional service. The service usually runs around \$3,600 a year.

Both the City and the Agoura Hills Redevelopment Agency will be investing funds through the investment manager. To provide the City Council with an idea of the annual cost that would be associated with such a service, the following table is provided.

<u>Funds under management</u>	<u>8 basis points</u>	<u>11.75 basis points</u>	<u>12 basis points</u>
\$20 million	\$16,000	\$23,500	\$24,000

There would be no need to amend the budget since the cost of managing the portfolio is netted against interest income.

To also provide the Council with an idea of the economic advantages of pursuing this type of arrangement, a projected hypothetical yield is compared to the earnings at LAIF and the City's current investment strategy:

<u>INVESTMENT OPTION</u>	<u>LAIF</u>	<u>CURRENT</u>	<u>MANAGED</u>
<u>ANNUAL YIELD</u>	.46%	.91%	2.5%
<u>Funds invested</u>			
\$20 million	\$ 92,000	\$ 182,000	\$ 500,000

It becomes very clear, when comparing what we are currently doing to what we could be earning with this new approach, that the City may be missing out on an opportunity to improve performance. The hypothetical interest shown in the final column above, represents less than one-half of what the annualized yield is of the composite portfolios for these service providers over the past few years. Regardless, it should be noted that historical earnings are not an indication of future earnings.

The proposed agreement has been reviewed and approved as to form by the City Attorney's Office.

RECOMMENDATION:

It is recommended the Council award a one-year contract, with one two-year renewal option to Chandler Asset Management to assist the City in investing its funds based on the information provided.

Attachments: Agreement for Consultant Services
 City of Agoura Hills Investment Policy
 Company Information and Proposal from: Chandler Asset Management

AGREEMENT FOR CONSULTANT SERVICES
WITH THE CITY OF AGOURA HILLS

NAME OF CONSULTANT: Chandler Asset Management

RESPONSIBLE PRINCIPAL OF CONSULTANT: Attn: Kay Chandler

CONSULTANT'S ADDRESS: 6225 Lusk Boulevard
San Diego, CA 92121

CITY'S ADDRESS: City of Agoura Hills
30001 Ladyface Court
Agoura Hills, CA 91301
Attn: City Manager

PREPARED BY: Christy Pinuelas

COMMENCEMENT DATE: April 14, 2011

TERMINATION DATE: April 13, 2012

CONSIDERATION: Contract Price
Not to Exceed: \$15,000 /yr

ADDITIONAL SERVICES <i>(Describe Services, Amount, and Approval):</i> _____ _____ _____ _____
--

Date: _____ Amount: \$15,000 _____ Authorized By: _____
(Not to Exceed 10% of Contract Price) City Manager

**AGREEMENT FOR CONSULTANT SERVICES BETWEEN
THE CITY OF AGOURA HILLS AND CHANDLER ASSET
MANAGEMENT, INC.**

THIS AGREEMENT is made and effective as of April 14, 2011, between the City of Agoura Hills, a municipal corporation ("City") and Chandler Asset Management, Inc. ("Consultant"). In consideration of the mutual covenants and conditions set forth herein, the parties agree as follows:

1. TERM. This Agreement shall commence on April 14, 2011, and shall remain and continue in effect until April 13, 2012, unless extended pursuant to this Section 1 or sooner terminated pursuant to the provisions of this Agreement.

The City may, at its option, extend this Agreement for one additional term of two years upon providing written notice of its intent to so-extend this Agreement to the Contractor not less than thirty (30) days prior to the expiration of the initial Term. Such extension shall be at the same price and conditions as set forth herein.

2. SERVICES. Consultant shall perform the services and tasks described and set forth in Exhibit A, attached hereto and incorporated herein as though set forth in full. Consultant shall complete the tasks according to the schedule of performance which is also set forth in Exhibit A.

3. PERFORMANCE. Consultant shall at all times faithfully, competently and to the best of his or her ability, experience, and talent, perform all tasks described herein. Consultant shall employ, at a minimum, generally accepted standards and practices utilized by persons engaged in providing similar services as are required of Consultant hereunder in meeting its obligations under this Agreement.

4. PAYMENT.

A. The City agrees to pay Consultant monthly, in accordance with the payment rates and terms and the schedule of payment as set forth in Exhibit B, Payment Rates and Schedule, attached hereto and incorporated herein by this reference as though set forth in full, based upon actual time spent on the above tasks. Any terms in Exhibit B other than the payment rates and schedule of payment are null and void. This amount shall not exceed \$15,000 ("Contract Price") for the initial Term of the Agreement unless additional payment is approved as provided in this Agreement.

The City Manager may approve additional work up to ten percent (10%) of the amount of the Contract Price. Any additional work in excess of this amount shall be approved by the City Council.

B. Consultant shall not be compensated for any services rendered in connection with its performance of this Agreement which are in addition to those set forth herein, unless such additional services are authorized in advance and in writing by the City Manager. Consultant shall be compensated for any additional services in the amounts and in the

manner as agreed to by the City Council and Consultant at the time City's written authorization is given to Consultant for the performance of said services.

C. Consultant will submit invoices monthly in arrears for actual services performed. Invoices shall be submitted between the first and fifteenth business day of each month, for services provided in the previous month. Payment shall be made within thirty (30) days of receipt of each invoice as to all non-disputed fees. If the City disputes any of consultant's fees it shall give written notice to Consultant within thirty (30) days of receipt of an invoice of any disputed fees set forth on the invoice.

5. SUSPENSION OR TERMINATION OF AGREEMENT WITHOUT CAUSE

A. The City may at any time, for any reason, with or without cause, suspend or terminate this Agreement, or any portion hereof by serving upon the consultant at least ten (10) days prior written notice. Upon receipt of said notice, the Consultant shall immediately cease all work under this Agreement, unless the notice provides otherwise. If the City suspends or terminates a portion of this Agreement such suspension or termination shall not make void or invalidate the remainder of this Agreement.

B. In the event this Agreement is terminated pursuant to this Section, the City shall pay to Consultant the actual value of the work performed up to the time of termination, provided that the work performed is of value to the City. Upon termination of the Agreement pursuant to this Section, the Consultant will submit an invoice to the City pursuant to Section 4.

6. DEFAULT OF CONSULTANT

A. The Consultant's failure to comply with the provisions of this Agreement shall constitute a default. In the event that Consultant is in default for cause under the terms of this Agreement, City shall have no obligation or duty to continue compensating Consultant for any work performed after the date of default and can terminate this Agreement immediately by written notice to the Consultant. If such failure by the Consultant to make progress in the performance of work hereunder arises out of causes beyond the Consultant's control, and without fault or negligence of the Consultant, it shall not be considered a default.

B. If the City Manager or his or her delegate determines that the Consultant is in default in the performance of any of the terms or conditions of this Agreement, it shall serve the Consultant with written notice of the default. The Consultant shall have (10) days after service upon it of said notice in which to cure the default by rendering a satisfactory performance. In the event that the Consultant fails to cure its default within such period of time, the City shall have the right, notwithstanding any other provision of this Agreement, to terminate this Agreement without further notice and without prejudice to any other remedy to which it may be entitled at law, in equity or under this Agreement.

7. OWNERSHIP OF DOCUMENTS

A. Consultant shall maintain complete and accurate records with respect to sales, costs, expenses, receipts and other such information required by City that relate to the

performance of services under this Agreement. Consultant shall maintain adequate records of services provided in sufficient detail to permit an evaluation of services. All such records shall be maintained in accordance with generally accepted accounting principles and shall be clearly identified and readily accessible. Consultant shall provide free access to the representatives of City or its designees at reasonable times to such books and records, shall give City the right to examine and audit said books and records, shall permit City to make transcripts there from as necessary, and shall allow inspection of all work, data, documents, proceedings and activities related to this Agreement. Such records, together with supporting documents, shall be maintained for a period of three (3) years after receipt of final payment.

B. Upon completion of, or in the event of termination or suspension of this Agreement, all original documents, designs, drawings, maps, models, computer files containing data generated for the work, surveys, notes, and other documents prepared in the course of providing the services to be performed pursuant to this Agreement shall become the sole property of the City and may be used, reused or otherwise disposed of by the City without the permission of the Consultant. With respect to computer files containing data generated for the work, Consultant shall make available to the City, upon reasonable written request by the City, the necessary computer software and hardware for purposes of accessing, compiling, transferring and printing computer files.

8. INDEMNIFICATION. The Consultant agrees to defend, indemnify, protect and hold harmless the City, its officers, officials, employees and volunteers from and against any and all claims, demands, losses, defense costs or expenses, including attorney fees and expert witness fees, or liability of any kind or nature which the City, its officers, agents and employees may sustain or incur or which may be imposed upon them for injury to or death of persons, or damage to property arising out of Consultant's negligent or wrongful acts or omissions arising out of or in any way related to the performance or non-performance of this Agreement, excepting only liability arising out of the negligence of the City.

9. INSURANCE REQUIREMENTS. Consultant shall procure and maintain for the duration of the contract insurance against claims for injuries to persons or damages to property, which may arise from or in connection with the performance of the work hereunder by the Consultant, its agents, representatives, or employees.

A. Minimum Scope of Insurance. Coverage shall be at least as broad as:

1) Insurance Services Office Commercial General Liability form No. CG 00 01 11 85 or 88.

2) Insurance Services Office Business Auto Coverage form CA 00 01 06 92 covering Automobile Liability, code 1 (any auto). If the Consultant owns no automobiles, a non-owned auto endorsement to the General Liability policy described above is acceptable.

3) Worker's Compensation insurance as required by the State of California and Employer's Liability Insurance. If the Consultant has no employees while performing under this Agreement, worker's compensation insurance is not required, but Consultant shall execute a declaration that it has no employees.

4) Professional Liability Insurance shall be written on a policy form providing professional liability for the Consultant's profession.

B. Minimum Limits of Insurance. Consultant shall maintain limits no less than:

1) General Liability: \$2,000,000 per occurrence for bodily injury, personal injury and property damage. If Commercial General Liability Insurance or other form with a general aggregate limit is used, either the general aggregate limit shall apply separately to this project/location or the general aggregate limit shall be twice the required occurrence limit.

2) Automobile Liability: \$2,000,000 per accident for bodily injury and property damage.

3) Worker's Compensation as required by the State of California; Employer's Liability: One million dollars (\$1,000,000) per accident for bodily injury or disease.

4) Professional Liability coverage: Two million (\$2,000,000) per claim and in aggregate.

C. Deductibles and Self-Insured Retentions. Any deductibles or self-insured retentions must be declared to and approved by the City Manager. At the option of the City Manager, either the insurer shall reduce or eliminate such deductibles or self-insured retentions as respects the City, its officers, officials, employees and volunteers; or the Consultant shall procure a bond guaranteeing payment of losses and related investigations, claim administration and defense expenses.

D. Other Insurance Provisions. The general liability and automobile liability policies are to contain, or be endorsed to contain, the following provisions:

1) The City, its officers, officials, employees and volunteers are to be covered as additional insureds in respect to: liability arising out of activities performed by or on behalf of the Consultant; products and completed operations of the Consultant; premises owned, occupied or used by the Consultant; or automobiles owned, leased, hired or borrowed by the Consultant. The coverage shall contain no special limitations on the scope of protection afforded to the City, its officers, officials, employees or volunteers.

2) For any claims related to this project, the Consultant's insurance coverage shall be primary insurance as respects the City, its officers, officials, employees and volunteers. Any insurance or self-insured maintained by the City, its officers, officials, employees or volunteers shall be excess of the Consultant's insurance and shall not contribute with it.

3) Any failure to comply with reporting or other provisions of the policies including breaches of warranties shall not affect coverage provided to the City, its officers, officials, employees or volunteers.

4) The Consultant's insurance shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability.

5) Each insurance policy required by this clause shall be endorsed to state that coverage shall not be suspended, voided, canceled by either party, reduced in coverage or in limits except after thirty (30) days' prior written notice by certified mail, return receipt requested, has been given to the City.

E. Acceptability of Insurers. Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A:VII, unless otherwise acceptable to the City. Self insurance shall not be considered to comply with these insurance requirements.

F. Verification of Coverage. Consultant shall furnish the City with original endorsements effecting coverage required by this clause. The endorsements are to be signed by a person authorized by that insurer to bind coverage on its behalf. The endorsements are to be on forms provided by the City. All endorsements are to be received and approved by the City before work commences. As an alternative to the City's forms, the Consultant's insurer may provide complete, certified copies of all required insurance policies, including endorsements effecting the coverage required by these specifications.

10. INDEPENDENT CONTRACTOR

A. Consultant is and shall at all times remain as to the City a wholly independent contractor. The personnel performing the services under this Agreement on behalf of Consultant shall at all times be under Consultant's exclusive direction and control. Neither City nor any of its officers, employees, agents, or volunteers shall have control over the conduct of Consultant or any of Consultant's officers, employees, or agents except as set forth in this Agreement. Consultant shall not at any time or in any manner represent that it or any of its officers, employees or agents are in any manner officers, employees or agents of the City. Consultant shall not incur or have the power to incur any debt, obligation or liability whatever against City, or bind City in any manner.

B. No employee benefits shall be available to Consultant in connection with the performance of this Agreement. Except for the fees paid to Consultant as provided in the Agreement, City shall not pay salaries, wages, or other compensation to Consultant for performing services hereunder for City. City shall not be liable for compensation or indemnification to Consultant for injury or sickness arising out of performing services hereunder.

11. LEGAL RESPONSIBILITIES. The Consultant shall keep itself informed of all local, State and Federal ordinances, laws and regulations which in any manner affect those employed by it or in any way affect the performance of its service pursuant to this Agreement. The Consultant shall at all times observe and comply with all such ordinances, laws and regulations. The City, and its officers and employees, shall not be liable at law or in equity occasioned by failure of the Consultant to comply with this section.

12. RELEASE OF INFORMATION

A. All information gained by Consultant in performance of this Agreement shall be considered confidential and shall not be released by Consultant without City's prior written authorization. Consultant, its officers, employees, agents or subcontractors, shall not without written authorization from the City Manager or unless requested by the City Attorney, voluntarily provide declarations, letters of support, testimony at depositions, response to interrogatories or other information concerning the work performed under this Agreement or relating to any project or property located within the City. Response to a subpoena or court order shall not be considered "voluntary" provided Consultant gives City notice of such court order or subpoena.

B. Consultant shall promptly notify City should Consultant, its officers, employees, agents or subcontractors be served with any summons, complaint, subpoena, notice of deposition, request for documents, interrogatories, request for admissions or other discovery request, court order or subpoena from any party regarding this Agreement and the work performed there under or with respect to any project or property located within the City. City retains the right, but has no obligation, to represent Consultant and/or be present at any deposition, hearing or similar proceeding. Consultant agrees to cooperate fully with City and to provide City with the opportunity to review any response to discovery requests provided by Consultant. However, City's right to review any such response does not imply or mean the right by City to control, direct, or rewrite said response.

13. NOTICES. Any notices which either party may desire to give to the other party under this Agreement must be in writing and may be given either by (i) personal service, (ii) delivery by a reputable document delivery service, such as but not limited to, Federal Express, that provides a receipt showing date and time of delivery, or (iii) mailing in the United States Mail, certified mail, postage prepaid, return receipt requested, addressed to the address of the party as set forth below or at any other address as that party may later designate by Notice. Notice shall be effective upon delivery to the addresses specified below or on the third business day following deposit with the document delivery service or United States Mail as provided above.

To City: City of Agoura Hills
30001 Ladyface Court
Agoura Hills, California 91301
Attention: City Manager

To Consultant: Chandler Asset Management
Attn: Operations Department
6225 Lusk Boulevard
San Diego, CA 92121

14. ASSIGNMENT; AMENDMENT. Neither the City nor the Consultant shall assign the performance of this Agreement, or any part thereof, or any monies due hereunder,

without prior written consent of the other party, which consent shall not be unreasonably withheld or delayed. This Agreement may be amended at any time by mutual agreement in writing. Upon termination of this Agreement, Consultant's sole compensation shall be payment for actual services performed up to, and including, the date of termination or as may be otherwise agreed to in writing between the City Council and the Consultant.

15. LICENSES. At all times during the term of this Agreement, Consultant shall have in full force and effect, all licenses required of it by law for the performance of the services described in this Agreement.

16. GOVERNING LAW. The City and Consultant understand and agree that the laws of the State of California shall govern the rights, obligations, duties and liabilities of the parties to this Agreement and also govern the interpretation of this Agreement.

17. ARBITRATION. The City and Consultant agree that any controversy between Consultant and the City arising out of Consultant's services hereunder or this Agreement, shall be submitted to binding arbitration conducted under the provisions of the commercial arbitration rules of the American Arbitration Association. Arbitration must be commenced by service upon the other party of a written demand for arbitration or a written notice of intention to arbitrate. In the event the parties are unable to agree upon an arbitrator, an arbitrator shall be selected through the American Arbitration Association.

18. PROHIBITED INTEREST. No officer, or employee of the City of Agoura Hills shall have any financial interest, direct or indirect, in this Agreement, the proceeds thereof, the Consultant, or Consultant's sub-contractors for this project, during his/her tenure or for one year thereafter. The Consultant hereby warrants and represents to the City that no officer or employee of the City of Agoura Hills has any interest, whether contractual, non-contractual, financial or otherwise, in this transaction, or in the business of the Consultant or Consultant's sub-contractors on this project. Consultant further agrees to notify the City in the event any such interest is discovered whether or not such interest is prohibited by law or this Agreement.

19. SEVERABILITY. Any provision of this Agreement which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.

20. ENTIRE AGREEMENT. This Agreement contains the entire understanding between the parties relating to the obligations of the parties described in this Agreement. All prior or contemporaneous agreements, understandings, representations and statements, oral or written, are merged into this Agreement and shall be of no further force or effect. Each party is entering into this Agreement based solely upon the representations set forth herein and upon each party's own independent investigation of any and all facts such party deems material.

21. AUTHORITY TO EXECUTE THIS AGREEMENT. The person or persons executing this Agreement on behalf of Consultant warrants and represents that he or she has the authority to execute this Agreement on behalf of the Consultant and has the authority to bind Consultant to the performance of its obligations hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the day and year first above written.

CITY OF AGOURA HILLS

Harry Shwarz
Mayor

ATTEST:

Kimberly M. Rodrigues, MMC
City Clerk

APPROVED AS TO FORM:

Craig A. Steele,
City Attorney

CONSULTANT

Chandler Asset Management
Attn: Operations Dept.
625 Lusk Boulevard
San Diego, CA
(800)317-4747
(858)546-3741 fax

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[Signatures of Two Corporate Officers Required]

EXHIBIT A

TASKS TO BE PERFORMED

The specific elements (scope of work) of this service include:

- A. **Scope of Services -- General.** Consultant shall provide fixed-income investment management services for City's portfolio to invest and reinvest City's assets as directed by City in accordance with this Agreement and in accordance with City's investment policy. A copy of the City's current investment policy is attached hereto as Exhibit C. If City amends its investment policy, City shall provide to Consultant a copy of such amended investment policy promptly after the City Council's approval of such amended investment policy.
- **Portfolio Management** – Consultant shall direct management of City's portfolios employing a highly disciplined approach to managing portfolios. Consultant's team members shall use its best efforts to structure portfolios that achieve City's objectives. Consultant's disciplined investment approach shall:
 - o Effectively manage portfolio risk;
 - o Rebalance the portfolio as needed to maintain the appropriate risk profile;
 - o Employ a proprietary, quantitatively based credit analysis process;
 - o Use Consultant's proprietary, quantitative Horizon Analysis Model (the Model) to determine the optimal portfolio structure for the current interest rate and yield curve environment.
 - **Investment Policy Review** – Consultant shall begin its services under this Agreement with a thorough review of investment policy and existing practices. Thereafter, Consultant shall review the investment policy at least annually and recommend revisions when necessary, subject to City's approval of any such recommended revisions and applicable California law governing investments of municipalities such as City.
 - **Competitive Transaction Executions, Settlement, and Documentation.** Consultant shall execute all investments on a competitive basis, and document the quotes received. Consultant shall settle all trades at City's custodian bank using "delivery-vs.-payment" procedures.
 - **Portfolio Accounting and Reporting.** Consultant shall provide to City a monthly report that includes a management summary of portfolio characteristics, policy compliance and performance, as well as full accounting detail. All such reports shall be available no later than the third business day following month-end.
 - **Online Access.** Consultant shall provide and make available to City timely online access to portfolio transactions and holdings.
 - **Compliance Reporting.** Consultant shall include in the monthly report a detailed report of compliance with City's then applicable investment policy.

- **Client Education.** Consultant shall provide to City, at no additional charge and upon City's request made reasonably in advance of any such requested presentation, a reasonable number of educational presentations for staff, management and elected officials.
- **Communication.** Consultant shall keep City fully informed of investment strategies, market conditions and developments that are relevant to City's investment program(s). Consultant shall meet with City on a quarterly basis, and Consultant's investment professionals shall be available by phone during Consultant's customary extended business hours.

B. Client Representative. In its capacity as investment manager, Consultant shall receive all instructions, directions and other communications on City's behalf respecting City's account from Greg Ramirez, City Manager ("Representative"). Consultant is hereby authorized to rely and act upon all such instructions, directions and communications from such Representative or any agent of such Representative who has been duly authorized by Representative in writing to provide instructions, directions and communications to Consultant.

C. Authority of Chandler. City hereby grants to Consultant full discretion to invest and reinvest all assets under Consultant's management in any type of security Consultant deems appropriate, subject to the instructions given or guidelines set by Representative on behalf of City and the terms and conditions of this Agreement.

D. Electronic Delivery. From time to time, Consultant may be required to deliver certain documents to City such as account information, notices and required disclosures. City hereby consents to Consultant's use of electronic means, such as email, to make such delivery. This delivery may include notification of the availability of such document(s) on a website, and City agrees that such notification will constitute "delivery". City further agrees to provide Consultant with City's email address(s) and to keep this information current at all times by promptly notifying Consultant of any change in email address(s).

City email address: cpinuelas@ci.agoura-hills.ca.us

E. Proxy Voting. Consultant will vote proxies on behalf of City unless otherwise instructed. Consultant has adopted and implemented written policies and procedures and will provide City with a description of the proxy voting procedures upon request. Consultant will provide information regarding how City's proxies were voted upon request. To request proxy policies or other information, City shall contact Consultant by mail at the address provided under Section 13 of this Agreement, by calling 800-317-4747 or by emailing City's request to info@chandlerasset.com.

F. Custody of Securities and Funds. Consultant shall not have custody or possession of the funds or securities that City has placed under its management. City shall appoint a custodian to take and have possession of its assets. City recognizes the importance of comparing statements received from the appointed custodian to statements received from Consultant. City recognizes that the fees expressed in Exhibit B of this Agreement do not include fees City will incur for custodial services.

- G. Valuation.** Consultant shall value securities held in portfolios managed by Consultant no less than monthly. Securities or investments in the portfolio shall be valued in a manner determined in good faith by Consultant to reflect fair market value.
- H. Investment Advice.** City recognizes that the opinions, recommendations and actions of Consultant will be based on information deemed by it to be reliable, but not guaranteed to or by it. Provided that Consultant acts in good faith, City agrees that Consultant will not in any way be liable for any error in judgment or for any act or omission, except as may otherwise be provided for under the federal securities laws or other applicable laws.
- I. Payment of Commissions.** Consultant may place buy and sell orders with or through such brokers or dealers as it may select. It is the policy and practice of Consultant to strive for the best price and execution and for commission and discounts which are competitive in relation to the value of the transaction and which comply with Section 28(e) of the Securities Exchange Act of 1934. Nevertheless, it is understood that Consultant may pay a commission on transactions in excess of the amount another broker or dealer may charge, and that Consultant makes no warranty or representation regarding commissions paid on transactions subject to this Agreement.
- J. Other Clients.** It is further understood that Consultant may be acting in a similar capacity for other institutional and individual clients, and that investments and reinvestments for City's portfolio may differ from those made or recommended with respect to other accounts and clients even though the investment objectives may be the same or similar. Accordingly, it is agreed that Consultant will have no obligation to purchase or sell for City's account any securities which it may purchase or sell for other clients.
- K. Confidential Relationship.** To the extent permitted under applicable law, Consultant and City agree that the terms and conditions of this Agreement, and all information and advice furnished by either party to the other shall be treated as confidential and shall not be disclosed to third parties except (i) as required by law, rule, or regulation, (ii) as requested by a regulatory authority, (iii) for disclosures by either party of information that has become public by means other than wrongful conduct by such party or its officers, employees, or other personnel, (iv) for disclosures by either party to its legal counsel, accountants, or other professional advisers, (v) as necessary for Consultant to carry out its responsibilities hereunder, or (vi) as otherwise expressly agreed by the parties. Consultant acknowledges that City is a municipal corporation subject to the Ralph M. Brown Act (California Government Code Section 54950 et seq.), the California Public Records Act (California Government Code Section 6250 et seq.), and other laws and regulations that require public access and transparency and limit confidential treatment of City's records, including but not limited to this Agreement.
- L. Receipt of Brochure and Privacy Policy.** City acknowledges it has received the disclosure statement or "brochure" required to be delivered pursuant to Rule 204-3 promulgated by the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. City acknowledges it has received a copy of Consultant's Privacy Policy.

EXHIBIT B

PAYMENT RATES AND SCHEDULE

City shall compensate Consultant monthly an amount calculated on the average market value of City's portfolio, including accrued interest and determined pursuant to this Exhibit B as described further below, in accordance with the following schedule:

Assets Under Management	Annual Investment Management Fee
First \$20 million	0.12 of 1% (12 basis points)
Next \$40 million	0.09 of 1% (9 basis points)
Assets in excess of \$60 million	0.06 of 1% (6 basis points)

For the purposes of determining the applicable percentage fee under the tiered fee structure set forth above with respect to the fee calculation for any monthly period, Consultant agrees that the average market value of City's portfolio will be aggregated with the average market value of the Agoura Hills Redevelopment Agency's portfolio for which Consultant provides investment management services during the applicable monthly period, so that both the City and the Agoura Hills Redevelopment Agency receive the benefit of lower fees in accordance with the tiered fee structure, due to higher combined assets under management. City and Consultant agree that City shall be responsible to pay only fees attributable to its own portfolio, and not any fees attributable to the portfolio of the Agoura Hills Redevelopment Agency.

The fees expressed above do not include any custody fees that may be charged by City's bank or other third party custodian.

Fees shall be prorated to the effective date of termination on the basis of actual days elapsed, and any unearned portion of prepaid fees shall be refunded. City is not required to pay any start-up or closing fees; there are no penalty fees.

EXHIBIT C
CURRENT CITY INVESTMENT POLICY

[SEE ATTACHED]

CITY OF AGOURA HILLS STATEMENT OF INVESTMENT POLICY

I. INVESTMENT OBJECTIVES:

The purpose of this statement is to provide guidelines for the investment of the City's funds and is based upon State law and prudent money management. This policy is designed according to the specific needs of the City of Agoura Hills. The ultimate goal is to enhance the economic status of the City while ensuring the safety of funds. The authority governing investment of public funds is set forth in the Government Code, Sections 53601 et seq.

The City holds to the "prudent investor standard" in that all investments placed shall be made with a degree of judgment and care, not for speculation, but considering the safety of the monies and acting as a fiduciary of the public trust. The prudent investor standard as set forth in Section 53600.3 of the Government Code is as follows. "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency." Related activities which comprise good cash management include cash projections, the expeditious collection of revenue, disbursement control and a cost effective banking relationship.

The City shall be guided by the following criteria when placing investments:

1. Safety: Safety is the primary duty and responsibility in order to protect, preserve and maintain the principal of the City's public funds, which are for the benefit of citizens of the community.
2. Liquidity: An adequate percentage of the portfolio should be maintained in short term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in securities with active secondary or resale markets are placed. These securities should have a low sensitivity to market risk (price changes).
3. Yield: Yield becomes a consideration only after the basic requirements of safety and liquidity have been met.

It is intended that the scope of this policy cover the investment of surplus (i.e., monies not required for the immediate needs of the City) of all monies held under the direct authority of the City. The General Fund, Special Revenue Funds, Capital Projects Fund and Trust and Agency Fund are pooled in the Banking and Investment Fund.

**City of Agoura Hills
Statement of Investment Policy**

II. GUIDELINES:

These guidelines are established to direct and control the investment process to meet established goals and objectives.

1. Investment Transaction: Pursuant to Government Code Section 53607, the City Council of the City of Agoura Hills delegates the authority to invest or reinvest funds of the City, or to sell or exchange securities so purchased, to the City Treasurer. Internal controls state that every transaction must be reviewed, authorized and documented. Transaction documentation will be maintained for audit purposes. The investments placed shall conform to the City's "Statement of Investment Policy," meet the funds available and anticipated interest rate trends test.
2. Pooled Cash: The City's cash is consolidated into one bank account, and the surplus monies for all funds are invested on a pooled concept basis. Interest earnings shall be allocated according to fund cash balances on a quarterly and/or annual basis.
3. Cash Forecast: The cash flow for the City shall be analyzed daily so that adequate cash will be available to develop an investment strategy and to meet disbursement requirements.
4. Investments: The following is a list of the investments authorized by the City of Agoura Hills and shall be maintained within the statutory limits imposed by the Government Code.

A detailed description of the criteria for these investments is listed in Appendix A.

<u>Authorized Investments/Deposits</u>	<u>Portfolio Percentages</u>	<u>Maximum Maturity</u>
Local Agency Investment Fund	\$40 million **	N/A
U. S. Treasury Issues	Unlimited	5 Years
Federal Agency Sec. (FFCB and FHLB only)	30%	5 Years
Commercial Paper	25%	270 Days
Negotiable Certificates of Deposit (CD)	30%	5 Years
Medium Term Corporate Notes	30%	5 Years

** Limit set by LAIF Governing Board not State Government Code.

5. Wire Transfer: Any transfers to/from LAIF representing deposits or withdrawals effectuating an investment decision by the City Treasurer shall be completed by Finance Department staff and authorized by the City Manager. All other transfers shall be made by the City Treasurer or, provided that such transfer effectuates an investment decision made by the City Treasurer. The City's bank verifies each transaction with the Finance Department.
6. GASB 3: The Governmental Accounting Standard Board (GASB) issued GASB 3 requiring disclosure by investment classification in the footnotes of the City's

City of Agoura Hills
Statement of Investment Policy

Comprehensive Annual Financial Report (CAFR). The intent of the rating categories is to quantify risk associated with the City's ownership of various types of investments. The carrying amount (cost) and market value of all types of the City's investments shall be disclosed in total and for each type of investment. The disclosure shall be classified by these three categories of risk:

1. Insured or collateralized with securities held by the City or by its agent in the City's name;
 2. Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; and
 3. Uncollateralized. All classifiable investments not belonging in category 1 or 2.
7. The City Treasurer shall prepare a monthly Treasurer's Report meeting the requirements of Government Code Section 53646.
 8. All U.S. Treasury Issues, Federal Agency Securities, Commercial Paper, and Medium Term Corporate Notes purchased shall be delivered to our safekeeping account at the Bank of America, Security Services Division, an independent third party custodian. Purchase is made on a delivery versus payment basis. Book entry is considered delivery. The City shall retain physical custody of all CD's. There is no safekeeping document for LAIF investments as it is not evidenced by physical or book entry securities.

III. LEGAL AND POLICY CONSTRAINTS

1. The City does not purchase or sell securities on margin.
2. The City does not use Reverse Repurchase Agreements for the investment of funds.
3. The City does not use third party broker-dealer accounts for the custody of funds or securities. However, pursuant to Government Code Section 53601.5, the City shall purchase each authorized investment either (a) directly from the issuer or (b) from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code), or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.
4. The City will only place that amount which is covered by FDIC Insurance or fully collateralized in a Negotiable Certificate of Deposit.
5. The City does not place investments with a maturity in excess of five years in accordance with Government Code, Section 53601.

City of Agoura Hills
Statement of Investment Policy Appendix

APPENDIX A

INVESTMENT SECURITIES

U.S. TREASURY ISSUES are direct obligations of the United States Treasury and backed by the full faith and credit of the United States. Authorized maturities are three months, six months, and 52 weeks for treasury bills and 2 years, 3 years, and 5 years for notes.

FEDERAL AGENCY SECURITIES:

FEDERAL FARM CREDIT BANKS (FFCB) The Farm Credit System is a nationwide system of lending institutions and affiliated service entities which provides credit-related services to farmers, ranchers, farm-related businesses, cooperatives and rural utilities. System institutions are federally chartered under the Farm Credit Act and are subjected to federal regulations.

FEDERAL HOME LOAN BANK SYSTEM (FHLB) The Federal Home Bank System was created in 1932 to serve as a credit reserve for the savings and loan industry. It is organized into twelve regional banks that operate independently, but under a common board of directors in Washington. Each regional bank provides liquidity and home mortgage credit to thrifts, commercial banks and mortgage lending institutions in its region.

NEGOTIABLE CERTIFICATES OF DEPOSIT are investments for inactive funds issued by banks. The City will only place that amount which is covered by Federal Deposit Insurance Corporation (FDIC), or fully collateralized, in a Certificate of Deposit. Certificates of Deposit can be issued from 30 days to several years in maturity allowing the City investment of funds to be matched to cash flow needs; the City may invest in Certificates of Deposit up to a maximum maturity of 5 years. The Government Code limits the City's purchases of negotiable certificates of deposit to a maximum of thirty percent (30%) of the City's surplus money.

The Government Code prohibits a local agency from investing its funds in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decision-making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

COMMERCIAL PAPER is a short term unsecured promissory note issued by a corporation to raise working capital. These negotiable instruments may be purchased at a discount to par value or interest bearing. Commercial paper is issued by corporations, and the issuer of any commercial paper purchased by the City shall meet all of the following conditions in either paragraph (1) or paragraph (2) below:

- (1) The issuer meets the following criteria:
 - (A) Is organized and operating in the United States as a general corporation.
 - (B) Has total assets in excess of five hundred million dollars (\$500,000,000).

City of Agoura Hills
Statement of Investment Policy Appendix

- (C) Has debt other than commercial paper, if any, that is rated “A” or higher by a nationally recognized statistical-rating organization (NRSRO).
- (2) The issuer meets the following criteria:
 - (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
 - (B) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
 - (C) Has commercial paper that is rated “A-1” or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Local agencies are permitted by state law to invest in commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by a nationally recognized statistical-rating organization (NRSRO) such as Moody's Investor's Service, Inc. or Standard and Poor's Corporation. Eligible commercial paper shall have a maximum maturity of 270 days or less. The City may invest no more than 25% of its monies in eligible commercial paper and may purchase no more than 10% of the outstanding commercial paper of any single issuer.

LOCAL AGENCY INVESTMENT FUND (L.A.I.F.) is a special fund in the State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$40 million for any agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via a check or warrant or automatic deposit.

The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one percent of the earnings.

MEDIUM TERM CORPORATE NOTES are unsecured promissory notes issued by a corporation organized and operating in the United States or by depository institutions licensed by the United States or any state and operating within the United States. These are negotiable instruments and are traded in the secondary market. Medium Term Corporate Notes (MTN) are financing instruments similar to commercial paper (which by definition have maximum 270 days maturity), but MTNs have maturities of 270 days to a maximum remaining maturity of 5 years or less. Corporations use these MTN's to raise capital. An example of a MTN issuer is General Electric.

The Government Code restricts eligible MTNs to MTNs rated “A” or better by a nationally recognized rating service. However the City of Agoura Hills will limit their investments to those of the highest quality (AAA). Further restrictions are a maximum remaining term of five years

City of Agoura Hills
Statement of Investment Policy Appendix

to maturity, and total investments in Medium Term Corporate Notes may not exceed thirty percent (30%) of the City's surplus money.

Chandler Asset Management

Professional Investment Management for Public Funds

Prepared for

The City of Agoura Hills



January 2011

Chandler Asset Management

Chandler Asset Management is an employee-owned fixed income investment adviser registered with the Securities and Exchange Commission. Chandler has provided investment management services for over 20 years. We are headquartered in San Diego, with offices in San Diego and Pleasanton, California, Denver, Colorado and Chicago, Illinois.

Qualifications of Chandler Asset Management

Our team of highly qualified investment professionals has extensive experience designing and implementing investment programs that meet the investment objectives of our public agency clients. The principals, Kay Chandler, President and Martin Cassell, CEO and Chief Investment Officer, set the standard. Both began their careers as investment officers for large public agencies in California. Ms. Chandler served as investment officer for San Diego County, and later for the City of San Diego for a total of over ten years. Mr. Cassell also served as an investment officer for the City of San Diego following Ms. Chandler's tenure there, prior to joining our firm. Ms. Chandler has managed public sector portfolios for over 30 years, while Mr. Cassell's experience with public portfolios spans over 21 years.

The experience the firm's principals gained as investment officers within large public agencies contributes significantly to their unique qualifications and perspectives in leading a firm that manages public funds. Ms. Chandler and Mr. Cassell have carefully assembled a team of professionals with the specialized expertise and diverse skills necessary to implement highly effective investment management programs for local agencies. Each senior member of our portfolio management team has earned the designation of Chartered Financial Analyst, a rigorous certification program that is a globally recognized standard for measuring the competence and integrity of investment professionals. Please see detailed resumes of the Chandler Team in **Appendix A**.

Scope of Services

- **Portfolio Management** – Chandler provides its services in the context of direct management of client portfolios. Our team employs a highly disciplined approach to managing portfolios. Team members use their years of investment experience to structure portfolios that achieve our clients' objectives. Our investment discipline generates competitive results by:
 - Effectively managing portfolio risk;
 - Rebalancing the portfolio as needed to maintain the appropriate risk profile;
 - Employing a proprietary, quantitatively based credit analysis process;
 - Using our proprietary, quantitative Horizon Analysis Model (the Model) to determine the optimal portfolio structure for the current interest rate and yield curve environment.

- **Investment Policy Review** – Our partnership with each of our clients begins with a thorough review of investment policy and existing practices. We then review the policy at least annually and recommend revisions when necessary.
- **Competitive Transaction Executions, Settlement, and Documentation.** We execute all investments on a competitive basis, and document the quotes received. All trades are settled at the client’s custodian bank using “delivery-vs.-payment” procedures.
- **Portfolio Accounting and Reporting.** Our operations department specializes in portfolio accounting. Chandler clients receive a monthly report that includes a management summary of portfolio characteristics, policy compliance and performance, as well as full accounting detail. All reports are available no later than the third business day following month-end.
- **Online Access.** Clients have timely online access to portfolio transactions and holdings.
- **Compliance Reporting.** Included in the monthly report is a detailed report of compliance with policy.
- **Client Education.** Team members serve as faculty members for national and regional associations. Our educational presentations are appropriate for staff, management and elected officials.
- **Communication.** We keep our clients fully informed of investment strategies, market conditions and developments that are relevant to their investment programs. We meet with clients on a quarterly basis, and our investment professionals are available by phone during our extended business hours.

Portfolio Management Methodology

Chandler’s Investment Philosophy

We believe that effective risk management enhances the potential for higher total returns. Our goal is to meet your investment objectives for safety and liquidity while generating additional return through consistent, incremental outperformance of your benchmark.

At the beginning of our relationship, we will assist you in selecting a benchmark with a risk profile (modified duration and credit exposure) appropriate for you. Once you have chosen the benchmark, our team will structure your portfolio with a risk profile similar to that of your benchmark and will maintain the proper risk profile over time through periodic rebalancing.

Chandler’s Investment Process

The Chandler portfolio management methodology consists of three main components: portfolio construction, security selection, and portfolio rebalancing.

Portfolio Construction

Team members, including Chandler’s CIO, President, two portfolio managers, one portfolio manager/investment strategist and one credit analyst, meet offsite on a quarterly basis in order to develop investment strategy for the ensuing quarter. At the meeting, individual team members focus on presenting analysis to the team on their assigned specialties, including economic and market conditions, interest rate trends, and credit spreads. The team as a whole reaches consensus on strategy for the upcoming quarter.

A proprietary Horizon Analysis Model provides the quantitative foundation for portfolio construction. The first input to the model is the set of interest rate scenarios for the ensuing six-month horizon period, which the team developed at its quarterly meeting. The process requires that scenarios include rising, falling, and twisting rate changes. The next input is extant Treasury, agency and corporate yield curves. The final input is a set of constraints that can include both client-imposed and firm- imposed constraints.

An example of a firm-imposed constraint would be minimum/maximum portfolio duration, measured as a percent of benchmark duration.

From these inputs, the Model uses an iterative process to generate the “Optimal Portfolio,” which the firm defines as the portfolio that will achieve the greatest incremental return over the performance benchmark in each of the proposed scenarios. That is, the portfolio will achieve an expected return greater than the benchmark over a wide range of possible interest rate changes. Model output includes recommended (1) portfolio duration; (2) term structure; and (3) sector allocation. Portfolio managers provide qualitative review of the Model recommendations, and implement the portfolio structure after making any modifications they deem necessary.

The team re-runs the Horizon Analysis Model monthly. Rebalancing to target duration occurs monthly in response to (1) changes in the duration of the performance benchmark, and (2) changes to duration, term structure and sector allocation recommended by the Model, and approved by the portfolio managers.

Security Selection

A proprietary credit ranking system drives the security selection process. Our process uses both internally and externally generated credit research to formulate an ordinal ranking of securities in the investment grade universe. Our research incorporates analysis conducted by Egan, Jones, a nationally recognized statistical rating organization, with our own team’s independent analysis. The firm has developed a proprietary ordinal ranking of issuers in the universe, ranked from those most likely to improve or retain their current credit quality to those least likely to do so. The top approximately 50% of ranked issuers in the universe become the investable set, subject to further qualitative review by the investment team.

Qualitative screening of securities focuses on relative value, as determined by a number of factors, including historical spreads, current market conditions, market sentiment as measured by credit default swaps and other metrics, and portfolio team judgment. The result is an approved issuer list, with specific security selection from that list based on the greatest relative value.

The second step in the Chandler portfolio management program is the selection of individual securities. After the portfolio structure has been defined using the *Model* process, the team selects securities that meet the requirements of the *Model* by means of a thorough evaluation and search process. Team members analyze market conditions and review dealer inventories in order to find securities that are best suited to meet the *Model’s* recommended portfolio structure. They then analyze securities they are considering for selection using proprietary processes that incorporate our rigorous credit review process and quantitative valuation techniques. We analyze potential holdings not only on an individual basis, but also on their contribution to the overall structure and performance of the portfolio.

All trades are executed on a competitive basis with broker/dealers on our approved list and are settled on a delivery vs. payment basis into the client’s custody account.

Portfolio Rebalancing

Our philosophy is to manage a client’s portfolio to risk profile targets; therefore, our ongoing portfolio management process includes periodic portfolio rebalancing in order to maintain the proper risk profile. We typically re-run the Horizon Analysis Model for each portfolio at least once a month, to determine if changes in market conditions warrant portfolio rebalancing. We may rebalance on an intra-month basis if the market presents opportunities to do so.

Value Added

Chandler develops and implements portfolio strategies that are tailored to meet the exact needs of each client. Portfolios with similar characteristics are grouped into composites for the purpose of computing and reporting GIPS® -compliant performance results. The GIPS® standards define an industry wide standard for performance calculation and reporting which facilitates comparison among investment firms.

In the table below, we provide performance for the three investment styles most often selected by our public agency clients, measured over a ten-year period, and compared to benchmarks, as required by GIPS®.

The Chandler Ultra Short Bond style targets a duration of approximately 1.0 years, and is benchmarked to the Merrill Lynch 0-3 Year Treasury Index.

The Chandler Limited Maturity style targets a duration of slightly less than 2.0 years, and is benchmarked to the Merrill Lynch 1-3 Year Treasury Index.

The Chandler Short Term Bond style targets a duration of about 2.5 years, and is benchmarked to the Merrill Lynch 1-5 Year Government Index.

All of these styles have outperformed their benchmark over the period, both gross and net of fees. Although past performance is no guarantee of future results, we believe the professional services we offer and the performance we achieve will provide value to our clients well in excess of the fees we charge.

Chandler Asset Management Composite Performance December 31, 2010

Investment Style	Portfolio Duration	Annualized Total Return 10 Years Ending 12/31/10 (Gross of fees)	Benchmark Return 10 Years Ending 12/31/10
Chandler Ultra Short Bond ML 0-3 Treasury	1.01	5.31%	4.78%
Chandler Limited Maturity ML 1-3 Treasury	1.77	5.91%	5.60%
Chandler Short Term Bond ML 1-5 Year Government	2.26	5.46%	5.15%

Whenever we present portfolio performance in a letter such as this, we are required to provide a fully compliant GIPS® presentation. Please see **Appendix B** for that presentation

The chart below demonstrates value added compared to LAIF for the same period, net of investment management fees. For example, if the City had invested \$10 million dollars in the Chandler Short Term Bond strategy in March of 2000, the market value would have grown to \$16 million dollars as of December 2010, an additional \$2.7 million dollars net of fees over LAIF.

**Chandler Investment Styles
Value Added Net-of-Fees
December 2000-December 2010**

Investment Style	Portfolio Duration	Annualized Total Return 10 Years Ending 12/31/10 Net of Fees (0.12 of 1%)	10-Year Growth of \$10 Million Net of Fees	Chandler Added Value Net of Fee Over LAIF
LAIF	0.5 - 0.8	2.86%	\$13.3 million	N/A
Chandler Ultra Short Bond	1.01	3.44%	\$14 million	\$0.7 million
Chandler Limited Maturity	1.77	4.25%	\$15.2 million	\$1.9 million
Chandler Short Term Bond	2.26	4.83%	\$16 million	\$2.7 million

Fee information

Chandler Asset Management is pleased to offer our services in accordance with the following fee schedule:

**Chandler Asset Management
Fee Schedule**

Assets Under Management	Annual Asset Management Fee
First \$20 million	0.12 of 1% (12 basis points)
Next \$40 million	0.09 of 1% (9 basis points)
Assets in excess of \$60 million	0.06 of 1% (6 basis points)

For a portfolio of \$10 million, the fee would be \$12,000 or 0.012 of 1% (0.012 basis points). Fees are billed monthly in arrears based on the average balance of assets under management. Chandler Asset Management does not assume custody of client assets. The third party bank custodian of the assets will also charge fees, which we estimate at an amount not to exceed 1 or 2 additional basis points.

References

Please call if you would like to speak to any of our clients about their experience with Chandler.

Contact Information

For further information, please contact Mia Corral, Vice President Client Service, at (858) 546-3737 or at mia.corral@chandlerasset.com

Investment Management Services

City of Agoura Hills



Appendices

Investment Management Services

City of Agoura Hills



Appendix A

Chandler Team Bios

Chandler Asset Management Team Biographies

Kay Chandler, CFA **President**

Kay Chandler is the president of Chandler Asset Management and founded the firm in 1988. Ms. Chandler is responsible for overseeing all aspects of the firm's investment process. She leads client service and communication and is focused on the strategic direction of the firm. Recognized for her expertise, she is frequently asked to speak on topics such as investment policy, portfolio management, and the risk characteristics of fixed income securities.

Ms. Chandler served as the Investment Officer for the County of San Diego from 1975 until 1983 and then in the same position for the City of San Diego from 1983 until 1985. As a Managing Director at Pacific Century Advisers from 1985 until 1988, she managed over \$1 billion in fixed-income assets for institutional investors. She is a co-author of *The California Public Fund Investment Primer*, commissioned by the California State Treasurer and published in 2005.

Ms. Chandler received her B.A. from Oberlin College in 1970, and attended graduate school at San Diego State University. She is a member of the CFA Society of San Diego and holds the designation of Chartered Financial Analyst (CFA).

She is a member of the Board of Governors of the San Diego Foundation, and serves as a member of the Foundation's Investment Committee.

Martin Cassell, CFA **Chief Executive and Investment Officer**

Martin Cassell is the chief executive and investment officer at Chandler Asset Management and is a principal of the firm. Mr. Cassell is responsible for defining, planning, and directing company programs. He heads implementation of the firm's investment strategies and portfolio risk management. He designed the proprietary quantitative models that drive our investment process, establishing duration, structure and asset allocation throughout client portfolios.

Mr. Cassell joined Chandler Asset Management in 1991 from the City of San Diego where he managed a \$1 billion fixed income portfolio. He began his investment career in 1987 managing portfolios at World Savings and Loan.

Mr. Cassell received his B.S. in finance from California State University, Hayward. He is a member of the CFA Society of San Diego and holds the designation of Chartered Financial Analyst. He is also a member of the California Association of Joint Powers' Authorities (CAJPA) finance committee.

Nicole Dragoo
Chief Operating and Compliance Officer

Nicole Dragoo is the chief operating and compliance officer at Chandler Asset Management. Ms. Dragoo is responsible for regulatory compliance and legal matters and implements and oversees the firm's operational and administrative functions. She also directly oversees the investment operations department, which is responsible for maintaining data integrity, trade settlement, performance calculation, client reporting and portfolio accounting.

Prior to joining Chandler in 2001, she served as a trading associate on the institutional fixed income sales desk at Merrill Lynch.

Ms. Dragoo earned a B.A. from the University of San Diego in business economics and the J.D. from the University of San Diego School of Law. She is a member of the State Bar of California, the American Bar Association, the San Diego County Bar Association, and the Southern California Compliance Group.

Ted Piorkowski, CFA
SVP, Portfolio Manager

Ted Piorkowski is a senior vice president and senior portfolio manager at Chandler Asset Management. In addition to his duties as a portfolio manager, he oversees daily trading and is responsible for implementing portfolio strategy. Mr. Piorkowski leads the Portfolio Management and Sector Committees.

Prior to joining Chandler Asset Management in 1999, Mr. Piorkowski served as a Vice President and Fund Manager for Sefton Capital Management. He was responsible for the management of over \$300 million in both mutual fund vehicles and individually managed institutional portfolios. From 1988 through 1994, Mr. Piorkowski managed money market and enhanced money market funds for San Diego Trust and Savings Bank and its successor, San Diego Financial Capital Management.

Mr. Piorkowski earned both his B.A. and M.B.A. in finance from San Diego State University. He is a member of the CFA Society of San Diego and holds the designation of Chartered Financial Analyst.

Jayson Schmitt, CFA
SVP, Portfolio Manager

Jayson Schmitt is a senior vice president and portfolio manager at Chandler Asset Management. He has been instrumental in the development and integration of quantitative analytic tools for the portfolio management process.

Prior to joining Chandler Asset Management in 1995, Mr. Schmitt was employed as a Financial Analyst with USA Federal Credit Union in San Diego, managing a \$100 million liquidity book. His responsibilities there also included asset/liability management.

Mr. Schmitt earned his B.A. in economics from San Diego State University. He is a member of the CFA Society of San Diego and holds the designation of Chartered Financial Analyst.

Brian Perry, CFA
VP, Portfolio Manager, Investment Strategist

Brian Perry joined Chandler Asset Management in 2005 and currently serves as the firm's investment strategist. In that role, Mr. Perry analyzes economic developments, conducts research on financial topics, and helps formulate investment strategy. He was also instrumental in creating a new quantitative corporate credit analysis program and in developing the firm's capital market forecasts and asset allocation models. He serves as the leader of the Interest Rate and Capital Market Expectations Committees.

In addition to his investment responsibilities, Mr. Perry is responsible for Chandler's client education activities. He edits the monthly *Chandler Bond Market Review*, has contributed numerous articles to investment industry publications, and is a frequent speaker at investment conferences and charity events. He has appeared on NBC news to discuss the financial markets and is the author of *From Piggybank to Portfolio*, an investment guidebook scheduled for publication in summer, 2010.

Prior to joining Chandler, Mr. Perry worked as a fixed income trader for an investment bank where he was responsible for trading government, corporate and emerging market securities.

Mr. Perry earned a B.S. in finance from Villanova University, an M.B.A. in international business from National University and an M.A. in international affairs from The Fletcher School at Tufts University. He is a member of the CFA Society of San Diego and holds the designation of Chartered Financial Analyst.

Shelly Henbest
Credit Analyst

Shelly Henbest joined Chandler Asset Management as a credit analyst in 2009. She is actively involved in analyzing and assessing the credit suitability of debt issuers and assisting portfolio managers in the portfolio management process. Ms. Henbest is a member of the firm's Credit Committee and is responsible for monitoring developments in the financial markets and providing fundamental economic and investment research.

Ms. Henbest brings more than eight years of experience in equity research and financial analysis. Most recently, she was an Associate Analyst at Bear, Stearns & Co. Inc., focusing on the consumer/retail sector. Prior to joining Bear Stearns, Ms. Henbest was an Equity Research Associate at C.L. King & Associates. She began her career at Ford Equity Research in San Diego as a Quantitative Equity Analyst. Ms. Henbest was a three-year member of Institutional Investor magazine's "All-America Research Team," and is a level 2 candidate in the CFA program.

Ms. Henbest earned her B.A. in business economics from the University of California, Santa Barbara.

Eric Young**Associate, Portfolio Specialist**

Eric Young joined Chandler Asset Management in 2007 and is currently a portfolio specialist assisting the portfolio management team with their daily responsibilities. He provides support in the areas of fixed income trading, economic analysis, and credit selection. He is involved with researching securities valuation and selection, and analyzing specific portfolio information.

Prior to joining Chandler Asset Management Mr. Young gained experience as an Associate in internal operations with Citigroup Asset Management.

Mr. Young earned his B.A. from the University of Connecticut in economics, with a minor in finance and business related studies.

Mia Corral**VP, Client Service**

Mia Corral is vice president of client service. Ms. Corral is an active member of CSMFO, CMTA, and GFOA. Her focus is on the development of client relationships and on client service. Ms. Corral joined Chandler Asset Management in 2004 and has more than ten years of financial industry experience.

Prior to joining Chandler, Ms. Corral was employed at Nicholas Applegate Capital Management for five years, as an institutional client service assistant, then as an assistant marketing manager for the managed accounts division of the firm where she worked on marketing initiatives developing collateral material and product communication pieces.

Ms. Corral earned her B.A. in speech communication with an emphasis in business communications from San Diego State University.

Investment Management Services

City of Agoura Hills

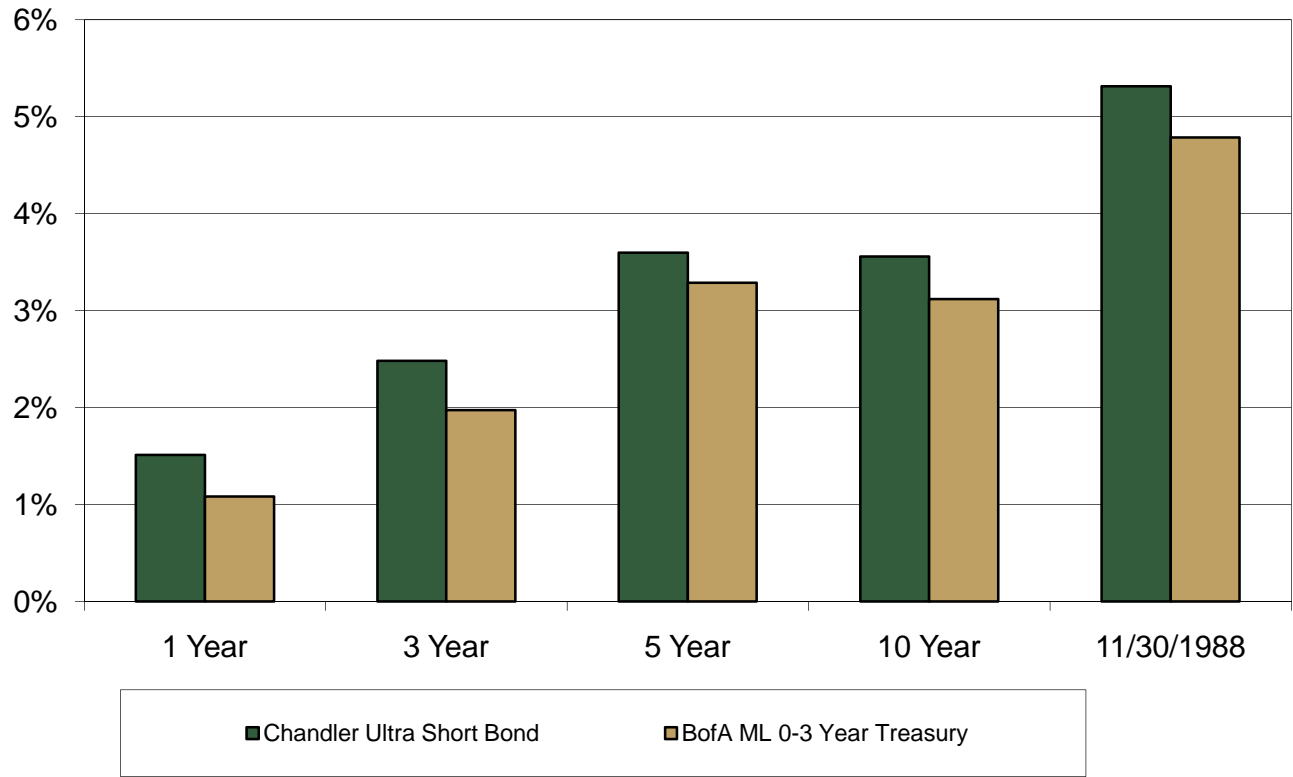


Appendix B

GIPS® Compliant Performance Returns
Ultra Short Bond Composite Performance
Limited Maturity Composite Performance
Short Term Bond Composite Performance

INVESTMENT PERFORMANCE¹

Ultra Short Bond
December 31, 2010



Period	Chandler Ultra Short Bond	BofA ML 0-3 Year Treasury
1 Year	1.51%	1.08%
3 Year	2.48%	1.97%
5 Year	3.60%	3.29%
10 Year	3.56%	3.12%
Since Inception 11/30/1988	5.31%	4.78%

¹All performance figures presented above are annualized.

²Returns are presented gross of fees. Please see next page for additional information about the composite

Ultra Short Bond Annual Rates of Return 2001 through 2010

	Gross Composite Return	Net of Fee Composite Return	Index Return	Composite Dispersion	Number of Portfolios	Composite Assets	Pct of Firm Assets	Firm Assets
2001	7.60%	7.33%	6.20%	0.20%	6	54.21	4.6%	1,177.15
2002	4.06%	3.80%	3.49%	0.44%	5	56.24	4.3%	1,319.72
2003	2.14%	1.89%	1.49%	0.53%	6	53.06	3.1%	1,735.41
2004	1.33%	1.07%	1.13%	0.22%	4	32.98	1.7%	1,960.83
2005	2.56%	2.31%	2.52%	0.07%	7	110.80	4.4%	2,540.33
2006	4.77%	4.51%	4.48%	0.08%	7	251.98	8.7%	2,884.73
2007	5.82%	5.56%	6.11%	0.26%	6	222.18	6.8%	3,285.55
2008	4.61%	4.35%	4.32%	0.55%	7	267.48	7.5%	3,542.87
2009	1.35%	1.10%	0.55%	0.20%	6	158.28	3.6%	4,394.10
2010	1.51%	1.26%	1.08%	0.10%	8	118.59	2.3%	5,080.90

Chandler Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Chandler Asset Management has been independently verified by Beacon Verification Services for the period of June 30, 1997 through September 30, 2010. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

1. Chandler Asset Management is an independent investment adviser registered as such with the Securities and Exchange Commission under the Investment Adviser's Act of 1940. Since 1988, Chandler Asset Management has provided fixed income investment management services to the public sector, as well as to foundations, endowments, individuals and corporations. A complete list and description of all of the firm's composites and additional information regarding policies for calculating and reporting performance results is available upon request.

2. The Ultra Short Bond Composite is a composite of individually managed accounts with an average modified duration approximately equal to the modified duration of the Bank of America Merrill Lynch 0-3 year Treasury index and a maximum final stated maturity of individual securities of three years. Leverage is not used in the management of accounts in this composite. The minimum account size required to be included in this composite is \$2 million. This composite was created in November 1988. The name of this composite was changed from Principal Preservation effective June 30, 2009.

3. Valuations are computed and performance reported in U.S. Dollars.

4. Performance is calculated using a time-weighted total rate of return, which links performance monthly, and is reported gross of investment management fees and custodial fees, but after all trading expenses. Results reflect the reinvestment of income, dividends and other earnings, and include realized and unrealized gains and losses and interest accrued through the last day of each month. Results do not reflect the potential impact of taxes. Past performance is not necessarily indicative of future results. Fees charged by Chandler Asset Management will reduce performance.

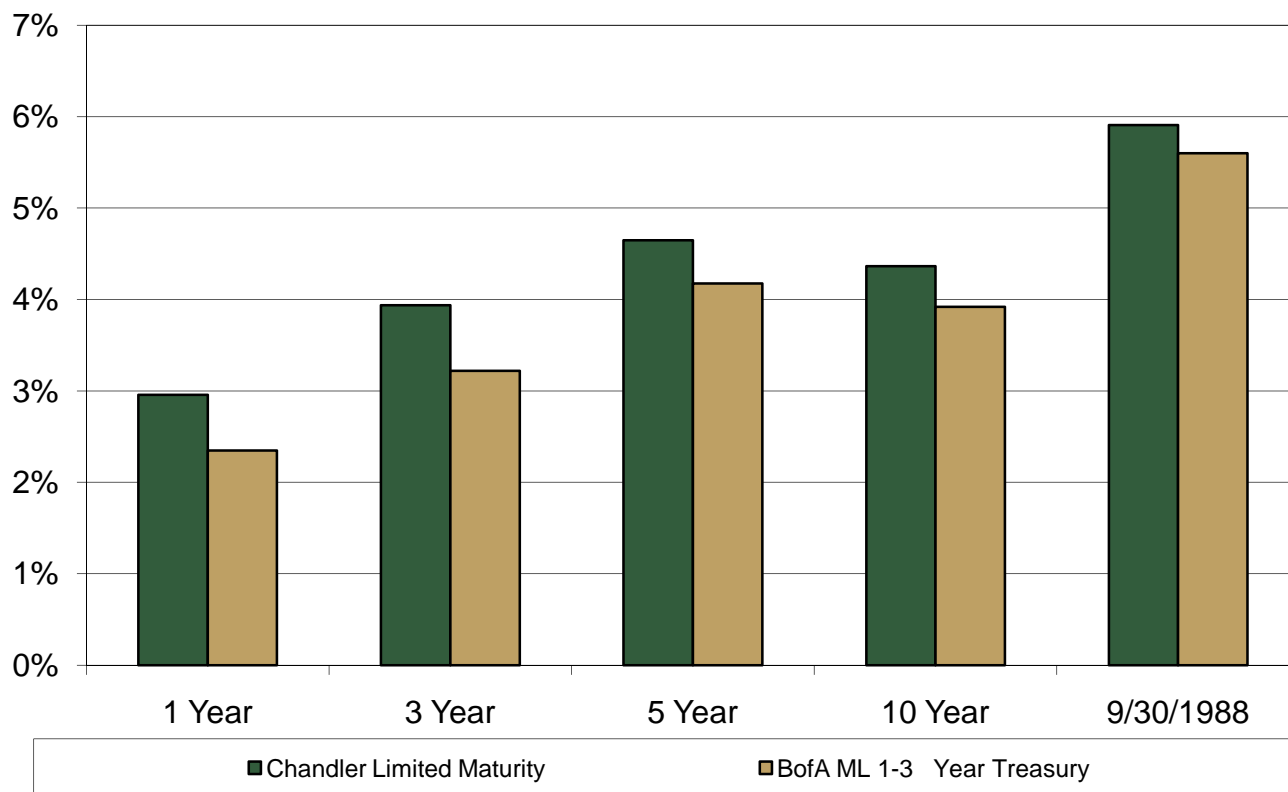
5. Net-of-fees performance returns are calculated by reducing the monthly gross performance by one-twelfth (1/12) of the maximum applicable fee of 0.25%. These monthly returns are then geometrically linked to produce annual returns. The firm's current fee schedule for short duration accounts is 0.35 of 1% and for intermediate to long duration accounts, 0.40 of 1%. Fees on larger accounts are negotiable. An account of \$10 million charged a management fee of 0.40 of 1% and with an annualized total return of 6% would have a value of \$13,488,502 and would have paid fees of \$266,218 after five years.

6. Asset weighted standard deviation of annual returns relative to the composite return is presented as a measure of composite dispersion.

7. From October 1992 until August 1993 the principals of Chandler Asset Management were associated with Acorn Asset Management. Performance during that period was achieved while they were associated with Acorn.

INVESTMENT PERFORMANCE¹

Limited Maturity
December 31, 2010



Period	Chandler Limited Maturity	BofA ML 1-3 Year Treasury
1 Year	2.96%	2.35%
3 Year	3.94%	3.22%
5 Year	4.65%	4.17%
10 Year	4.37%	3.92%
Since Inception 9/30/1988	5.91%	5.60%

¹All performance figures presented above are annualized.

²Returns are presented gross of fees. Please see next page for additional information about the composite

**Limited Maturity
 Annual Rates of Return
 2001 through 2010**

	Gross Composite Return	Net of Fee Composite Return	Index Return	Composite Dispersion	Number of Portfolios	Composite Assets	Pct of Firm Assets	Firm Assets
2001	8.51%	8.24%	8.30%	0.12%	2	85.08	7.2%	1,177.15
2002	6.25%	5.98%	5.76%	0.09%	3	107.22	8.1%	1,319.72
2003	2.32%	2.07%	1.90%	0.05%	3	131.40	7.6%	1,735.41
2004	1.50%	1.25%	0.91%	0.06%	3	126.29	6.4%	1,960.83
2005	2.03%	1.77%	1.67%	0.03%	4	129.40	5.1%	2,540.33
2006	4.57%	4.31%	3.96%	0.03%	4	44.35	1.5%	2,884.73
2007	6.87%	6.61%	7.32%	0.13%	6	90.19	2.7%	3,285.55
2008	6.82%	6.56%	6.61%	0.23%	8	202.18	5.7%	3,542.87
2009	2.10%	1.84%	0.78%	0.34%	9	223.97	5.1%	4,394.10
2010	2.96%	2.70%	2.35%	0.38%	8	201.20	4.0%	5,080.90

Chandler Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Chandler Asset Management has been independently verified by Beacon Verification Services for the period of June 30, 1997 through September 30, 2010. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

1. Chandler Asset Management is an independent investment adviser registered as such with the Securities and Exchange Commission under the Investment Adviser's Act of 1940. Since 1988, Chandler Asset Management has provided fixed income investment management services to the public sector, as well as to foundations, endowments, individuals and corporations. A complete list and description of all of the firm's composites and additional information regarding policies for calculating and reporting performance results is available upon request.

2. The Limited Maturity Composite is a composite of individually managed accounts with an average modified duration approximately equal to the modified duration of the Bank of America Merrill Lynch Index of 1-3 year Treasuries and a final stated maturity of individual securities of five years. Leverage is not used in the management of this composite. The minimum account size required to be included in this composite is \$2 million. This composite was created September 1988. The name of this composite was changed from Short-Term Fixed Income effective June 30, 2009.

3. Valuations are computed and performance reported in U.S. Dollars.

4. Performance is calculated using a time-weighted total rate of return, which links performance monthly, and is reported gross of investment management fees and custodial fees, but after all trading expenses. Results reflect the reinvestment of income, dividends and other earnings, and include realized and unrealized gains and losses and interest accrued through the last day of each month. Results do not reflect the potential impact of taxes. Past performance is not necessarily indicative of future results. Fees charged by Chandler Asset Management will reduce performance.

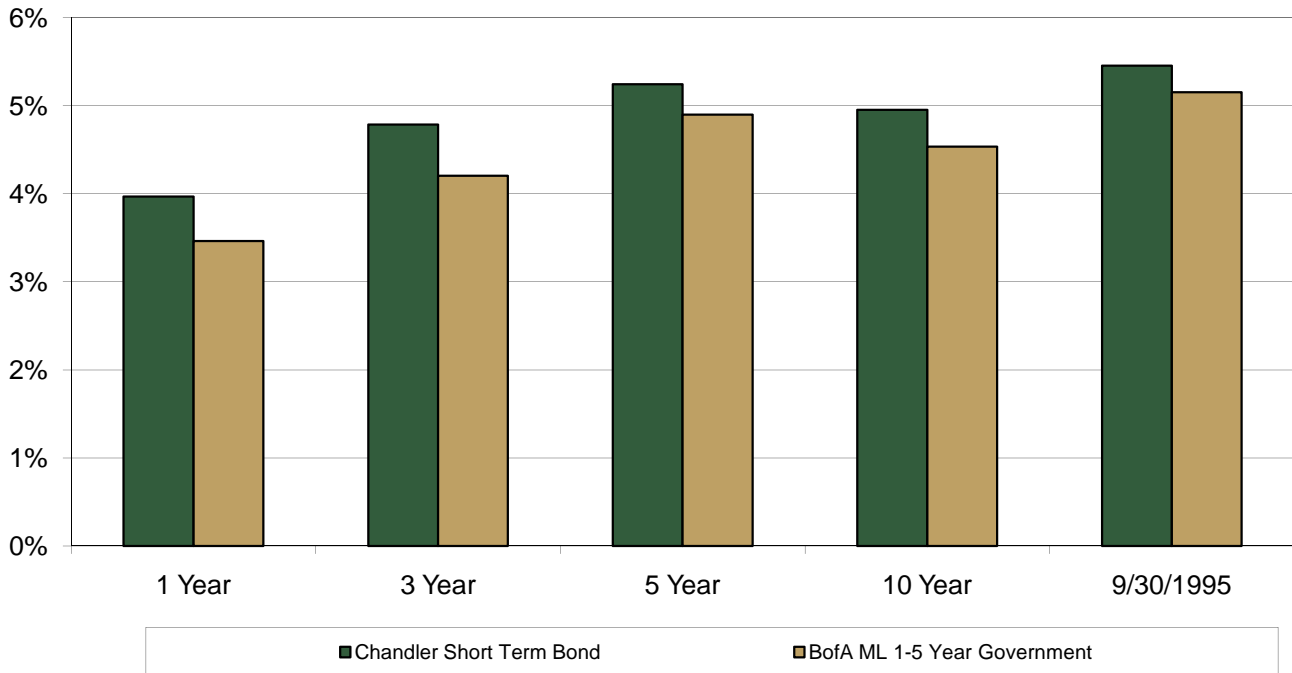
5. Net-of-fees performance returns are calculated by reducing the monthly gross performance by one-twelfth (1/12) of the maximum applicable fee of 0.25%. These monthly returns are then geometrically linked to produce annual returns. The firm's current fee schedule for short duration accounts is 0.35 of 1% and for intermediate to long duration accounts, 0.40 of 1%. Fees on larger accounts are negotiable. An account of \$10 million charged a management fee of 0.40 of 1% and with an annualized total return of 6% would have a value of \$13,488,502 and would have paid fees of \$266,218 after five years.

6. Asset weighted standard deviation of annual returns relative to the composite return is presented as a measure of composite dispersion.

7. From October 1992 until August 1993 the principals of Chandler Asset Management were associated with Acorn Asset Management. Performance during that period was achieved while they were associated with Acorn.

INVESTMENT PERFORMANCE¹

Short Term Bond
December 31, 2010



Period	Chandler Short Term Bond	BofA ML 1-5 Year Government
1 Year	3.97%	3.46%
3 Year	4.79%	4.20%
5 Year	5.24%	4.90%
10 Year	4.95%	4.54%
Since Inception 9/30/1995	5.46%	5.15%

¹All performance figures presented above are annualized.

²Returns are presented gross of fees. Please see next page for additional information about the composite

Short Term Bond Annual Rates of Return 2001 through 2010

	Gross Composite Return	Net of Fee Composite Return	Index Return	Composite Dispersion	Number of Portfolios	Composite Assets	Pct of Firm Assets	Firm Assets
2001	9.38%	9.11%	8.53%	0.15%	11	326.33	27.72%	1,177.15
2002	7.97%	7.71%	7.54%	0.22%	12	322.40	24.43%	1,319.72
2003	2.74%	2.48%	2.15%	0.12%	14	459.09	26.45%	1,735.41
2004	1.89%	1.63%	1.45%	0.08%	17	463.57	23.64%	1,960.83
2005	1.58%	1.33%	1.45%	0.06%	17	507.61	19.98%	2,540.33
2006	4.44%	4.18%	4.04%	0.06%	21	898.29	31.14%	2,884.73
2007	7.45%	7.19%	7.88%	0.17%	24	1,074.07	32.69%	3,285.55
2008	7.65%	7.38%	8.37%	0.56%	22	1,202.49	33.94%	3,542.87
2009	2.80%	2.54%	0.91%	0.35%	29	1,553.53	35.35%	4,394.10
2010	3.97%	3.71%	3.46%	0.10%	33	1,905.97	37.51%	5,080.90

Chandler Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Chandler Asset Management has been independently verified by Beacon Verification Services for the period of June 30, 1997 through September 30, 2010. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

1. Chandler Asset Management is an independent investment adviser registered as such with the Securities and Exchange Commission under the Investment Adviser's Act of 1940. Since 1988, Chandler Asset Management has provided fixed income investment management services to the public sector, as well as to foundations, endowments, individuals and corporations. A complete list and description of all of the firm's composites and additional information regarding policies for calculating and reporting performance results is available upon request.
2. The Short Term Bond Composite is a composite of individually managed accounts with an average modified duration approximately equal to the modified duration of the Bank of America Merrill Lynch 1-5 year government index and a maximum final stated maturity of individual securities of five years. Leverage is not used in management of accounts in this composite. The minimum account size required to be included in this composite is \$2 million. This composite was created in September 1995. The name of this composite was changed from 1-5 Year Government Fixed Income effective June 30, 2009.
3. Valuations are computed and performance reported in U.S. Dollars.
4. Performance is calculated using a time-weighted total rate of return, which links performance monthly, and is reported gross of investment management fees and custodial fees, but after all trading expenses. Results reflect the reinvestment of income, dividends and other earnings, and include realized and unrealized gains and losses and interest accrued through the last day of each month. Results do not reflect the potential impact of taxes. Past performance is not necessarily indicative of future results. Fees charged by Chandler Asset Management will reduce performance.
5. Net-of-fees performance returns are calculated by reducing the monthly gross performance by one-twelfth (1/12) of the maximum applicable fee of 0.25%. These monthly returns are then geometrically linked to produce annual returns. The firm's current fee schedule for short duration accounts is 0.35 of 1% and for intermediate to long duration accounts, 0.40 of 1%. Fees on larger accounts are negotiable. An account of \$10 million charged a management fee of 0.40 of 1% and with an annualized total return of 6% would have a value of \$13,488,502 and would have paid fees of \$266,218 after five years.
6. Asset weighted standard deviation of annual returns relative to the composite return is presented as a measure of composite dispersion.

DISCLOSURES

LAIF

The California State Local Agency Investment Fund (LAIF) is an investment portfolio managed by the State Treasurer. All securities are purchased under the authority of Government Code Section 16430 and 16480.4 and include securities issued by entities of the U.S. Government, including the U.S. Treasury and Agencies, Corporate debt, Certificates of Deposit, Mortgage Backed Securities and certain loans to the State and state agencies. The average maturity of the Fund will be between 120 days and 18 months.

Merrill Lynch 0-3 Treasury Index

The Merrill Lynch Treasury 0-3 Year Index is comprised of U.S. Treasury securities issued by the U.S. Government. All securities in the index must have fixed coupon rates and a maturity not greater than three years regardless of any call features.

Merrill Lynch Treasury 1-3 Year Index

The Merrill Lynch Treasury 1-3 Year Index is comprised of U.S. Treasury securities issued by the U.S. Government. All securities in the index must have fixed coupon rates and have at least one year but not greater than three years to maturity regardless of any call features.

Merrill Lynch Government 1-5 Year Index

The Merrill Lynch Government 1-5 Year Index is comprised of securities issued by entities of the U.S. Government, including the U.S. Treasury and Agencies such as Fannie Mae, Resolution Trust Funding and the Federal Home Loan Bank. Corporate or foreign debt guaranteed by the U.S. Government, such as USAID securities, may also be included in the index. All securities in the index must be investment grade, have fixed coupon rates or rates that change according to a predetermined schedule, and have at least one year but not greater than five years to maturity regardless of any call features.