Third Quarter 2015
Investment Review

THE METROPOLITAN WATER DISTRICT *of* SOUTHERN CALIFORNIA

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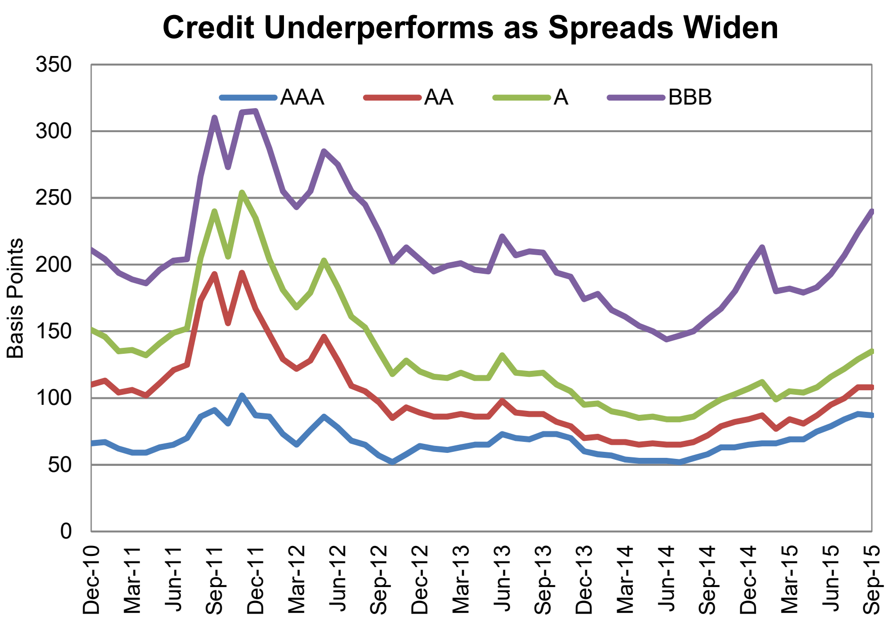
MARKET SNAPSHOT
SEPTEMBER 30, 2015

Index	Qtr	One Year	Three Year	Five Year
S&P 500	-6.4%	-0.6%	12.4%	13.3%
Dow Jones Industrial	-7.0%	-2.1%	9.3%	11.4%
Wilshire 5000	-7.4%	-1.2%	12.4%	13.0%
MSCI EAFE Index	-10.2%	-8.7%	5.6%	4.0%
Barclays Aggregate	1.2%	2.9%	1.7%	3.1%
BofA ML G/C 1-5 Yr A+	**0.7%**	**2.1%**	**1.1%**	**1.9%**
BofA ML 3 Month T-Bill	**0.0%**	**0.0%**	**0.1%**	**0.1%**



Source: Barclays Capital

- Nearly every asset class declined in 3Q as uncertainty over growth in China (and the US) reverberated across risk assets. The Fed was blamed for some of this volatility, but it was more likely the realization that low global growth could not support continued gains in the equity markets.
- Energy and materials took the wind out of the market with declines of -17%; only the utility sector posted a positive return in 3Q. Small cap stocks were particularly vulnerable to the sell-off due to higher valuations and financial risk.
- The developed international markets (EAFE Index) held up fairly well compared to the emerging markets, which declined by nearly -18%; the decline in EM currencies accounted for 6% of this loss.
- Commercial real estate prices continue to be immune to the growth concerns affecting the capital markets. But commodity prices were in full retreat from the oversupply of oil and the low growth in China.
- Hedge funds continue to struggle with narrow and volatile markets. Long/short equity performed reasonably well and managed futures provided downside protection in September.
- US treasuries led the bond market with a +1.8% return as the flight to safety pushed the yield on the 10-year treasuries back to the March low of 1.9%. The pain was felt primarily in the high yield market, which often declines along with equities.
- The performance of international sovereign debt (JPM GBI) was better than expected given the broad decline in foreign currencies; yields fell in Europe and Asia pushing bond prices higher.

Fed Pauses Due to Slow Growth

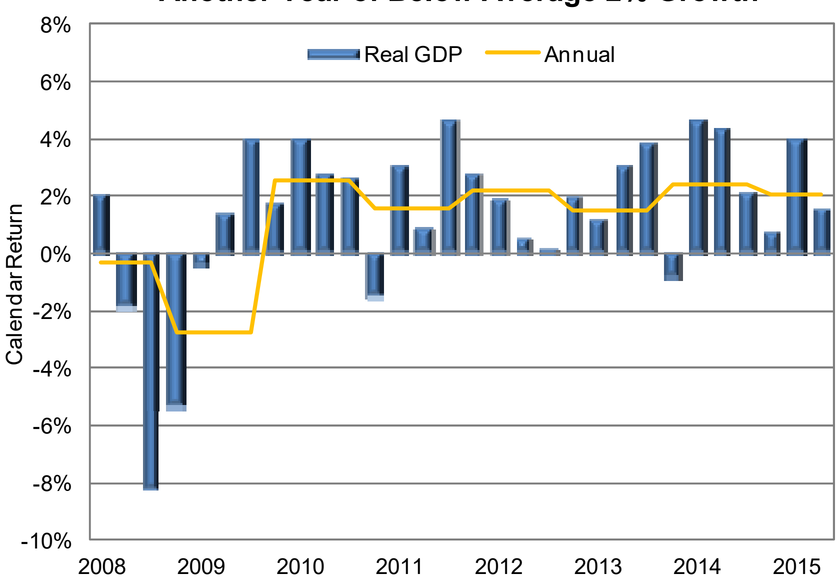
- The Fed decided at its September meeting to hold off on the increase in short term interest rates due to growing concerns about the impact on global markets and the negative impact of a stronger US dollar.

- The uncertainty regarding Fed policy proved to be a negative for the stock market. But recent data on the US economy didn't help, although unemployment fell to a new low of 5.1%. Recent estimates for GDP growth in 3Q have fallen below 2%.

- Autos replaced housing as the bright spot in the US economy, with vehicle sales reaching an annual rate of 18 million; perhaps this is where low oil prices is having the biggest impact. Housing is still trending upward, but growth has slowed due to higher prices.

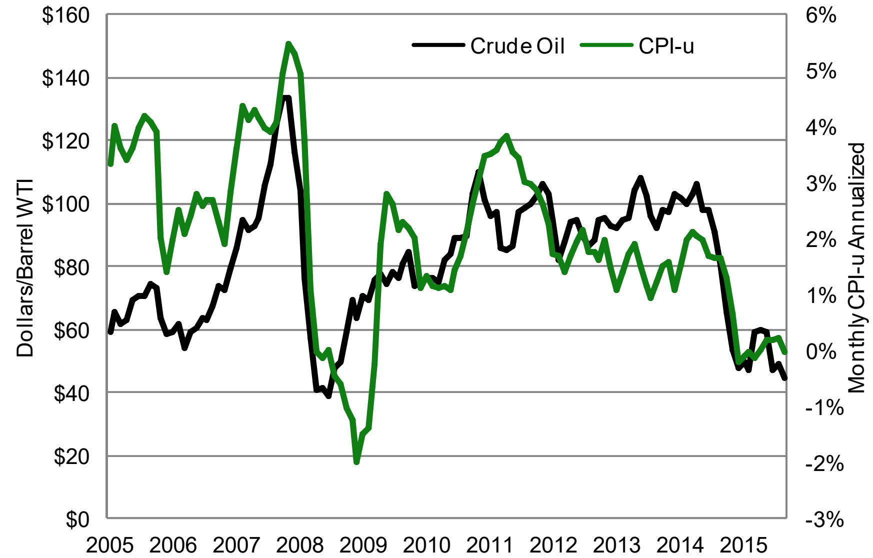
- China replaced Greece as the focal point of global economic worries, as the Shanghai stock market crashed by more than 30% in July. China was long thought to be a house of cards, and this slowdown spread worries across the global markets.

Another Year of Below Average 2% Growth



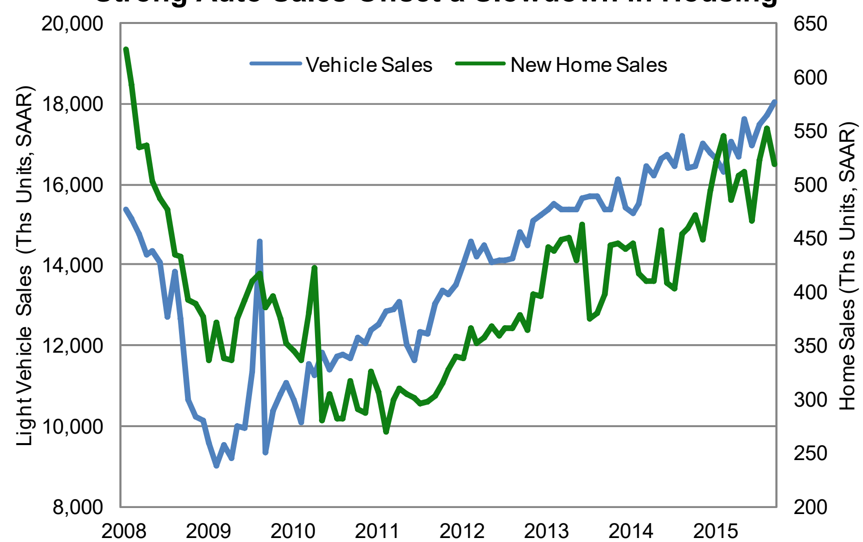
Source: Bureau of Labor Statistics

Lower Energy Has Not Helped Consumer Spending



Source: Bureau of Labor Statistics

Strong Auto Sales Offset a Slowdown in Housing



Source: US Census Bureau

Volatility Returns to the US Stock Market

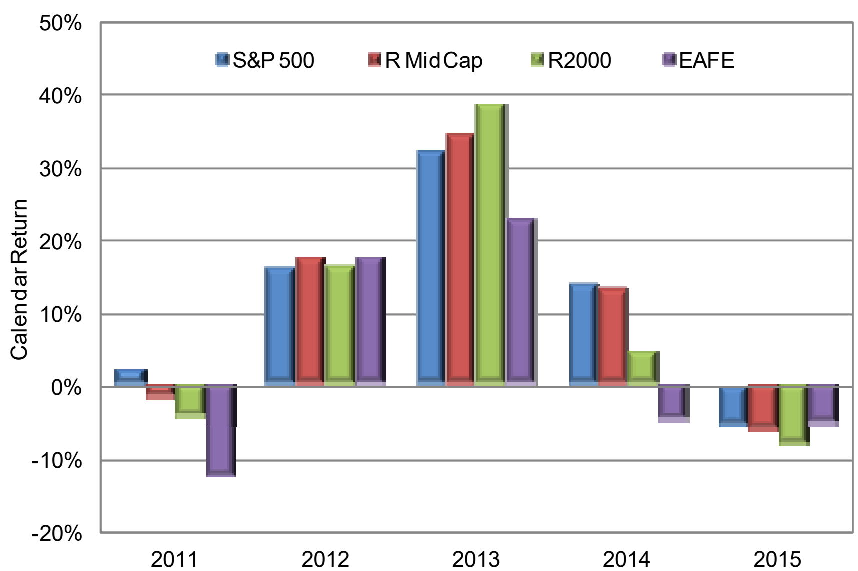
- A long period of low volatility in the US stock market gave way to wild swings and a loss of -6.4% in 3Q, the worst quarterly decline in 4 years. Even though the decline was long overdue, investors did not view it as a buying opportunity like the previous twenty 5% corrections in this bull market, and consumer confidence fell each month in the quarter.

- Small cap equities struggled more than the broader market with a decline of -11.9% due to higher valuations and a reversal in the healthcare/biotech sectors. Small growth also fell more than value, but still maintained a lead of more than 460 bps YTD.

- Active management, which tends to perform better in a declining market, improved in 3Q from the dismal performance in 2014, but many large cap managers are still struggling to beat the S&P 500.

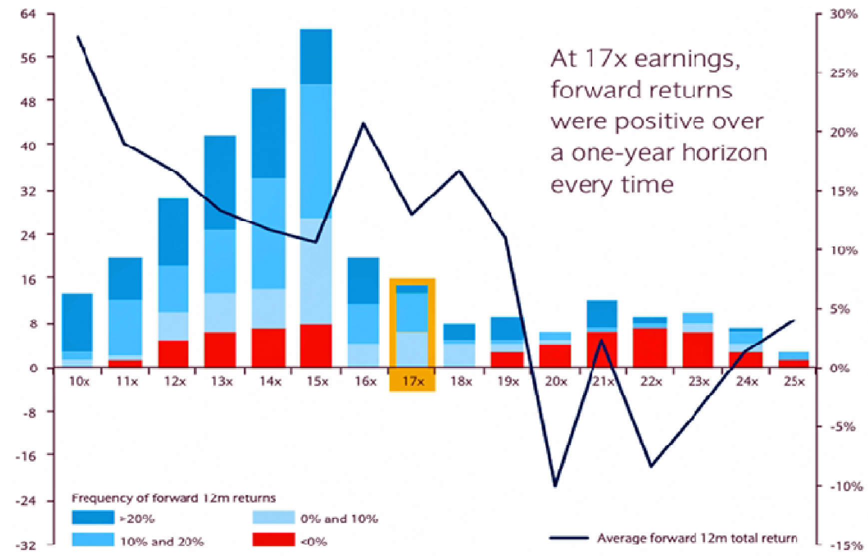
- More positives than negatives in the US economy and reasonable stock valuations will offset low earnings growth and allow the decline in the US equity market to be shallow and temporary.

No Place to Hide



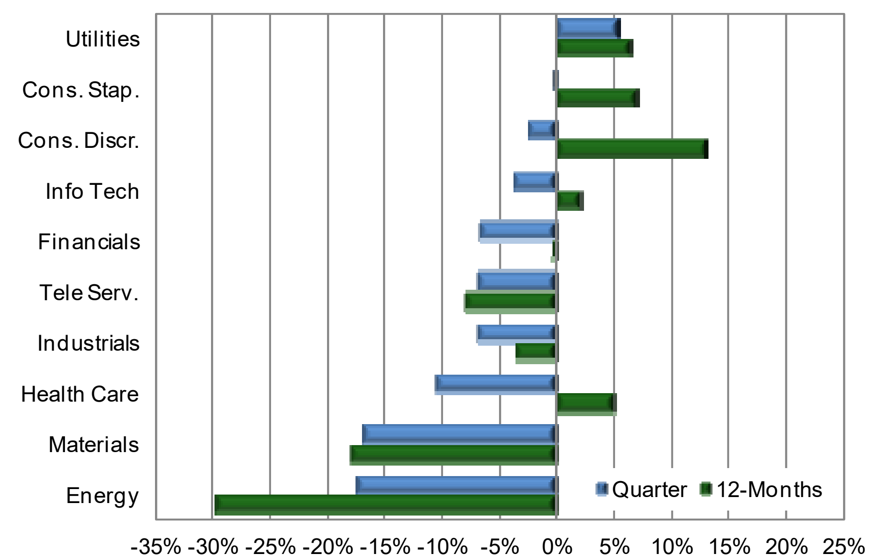
Source: Standard & Poor's, Russell, MSCI

Stock Market Valuations Predict Positive 12 mo Returns



Source: S&P Capital IQ

Only Utilities Offered Protection from the Decline



Source: Standard & Poor's

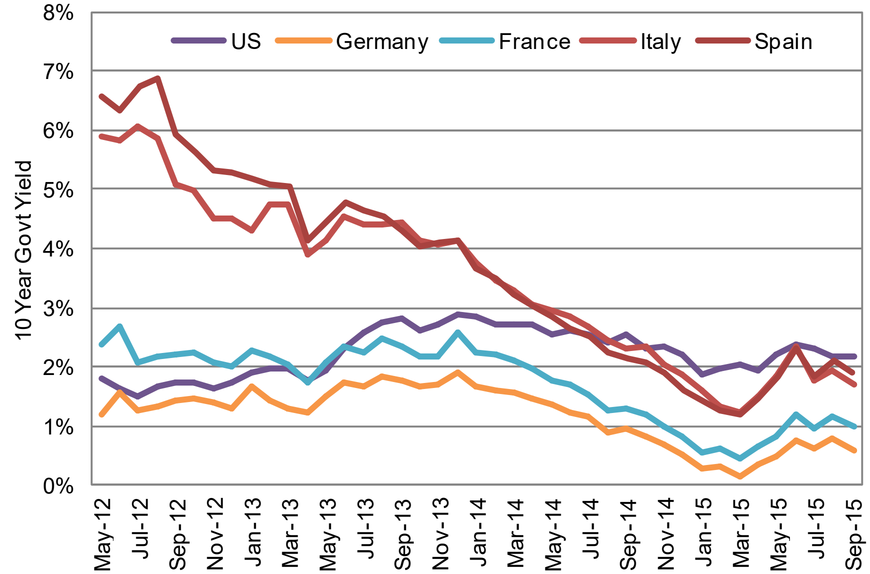
Yields Fall on Fed and Market Volatility

- The core US bond market, as measured by the Barclays Aggregate Index, gained +1.2% in the quarter, reversing the -0.1% YTD loss through June 30. The gain was driven by a +1.8% return in US treasuries, as the yield on the 10-year treasury declined from 2.4% to 2.0%; long treasuries performed even better with a +5.1% return.

- The volatility in equity markets across the globe led to bond market rallies in the US, Europe, and Asia. US 10-year treasuries briefly fell below 2% approaching the lows last seen in 1Q15.

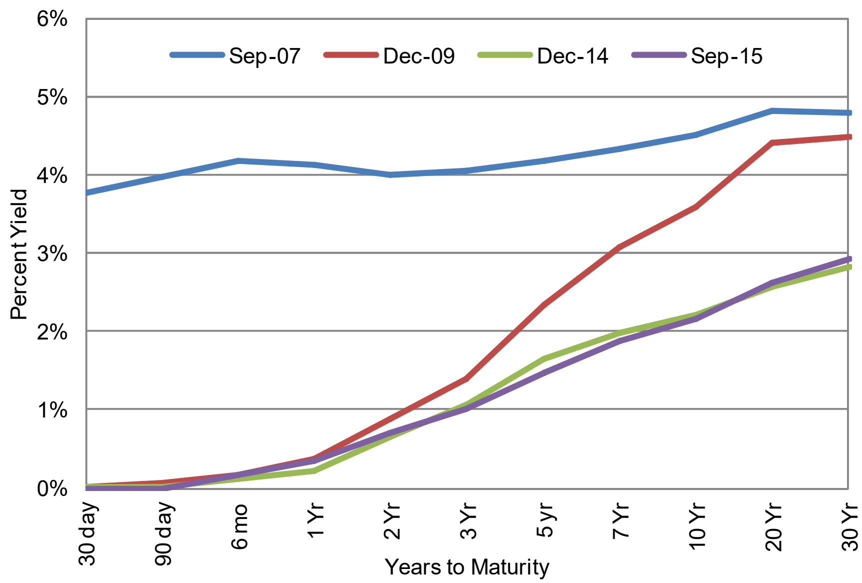
- It was a different story in the high yield corporate bond market. Earlier in the year the high yield sector was impacted by the decline in oil, but spreads widened further in September due to credit concerns and the falling stock markets.

Yields Fall in Europe



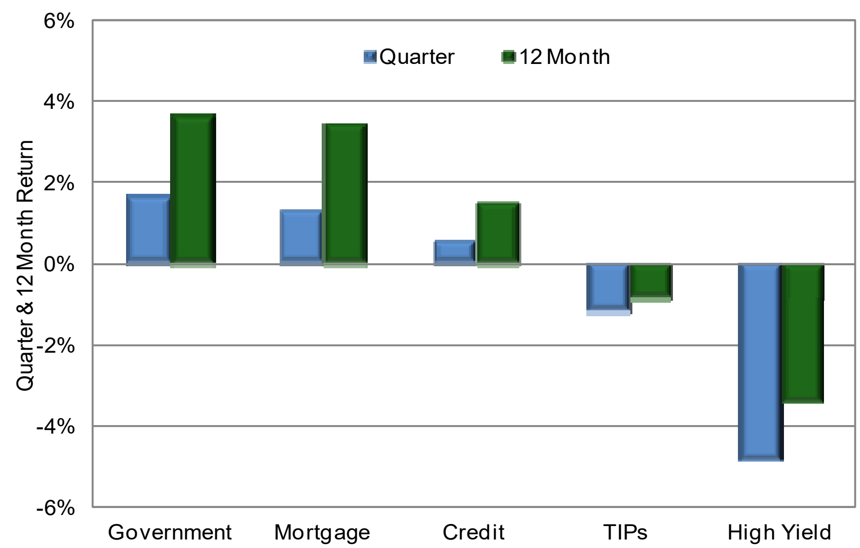
Source: Federal Reserve, Bloomberg

Yields Fall Back to 2014 Levels



Source: Federal Reserve

Corporate High Yield Suffers



Source: Barclays

PORTFOLIO SUMMARY

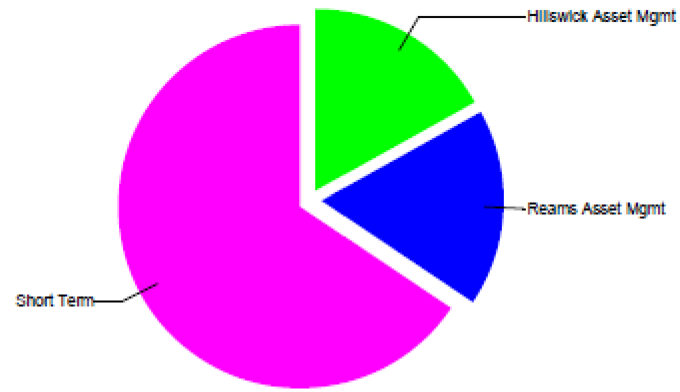
SEPTEMBER 30, 2015

	Assets	Weight
Managed Accounts		
Hillswick Asset Mgmt	$167,411,083	17%
Reams Asset Mgmt	$173,528,247	17%
Total External Managed	$340,939,330	34%
Short-Term Account	$649,298,880	66%
Grand Total	**$990,238,210**	100%

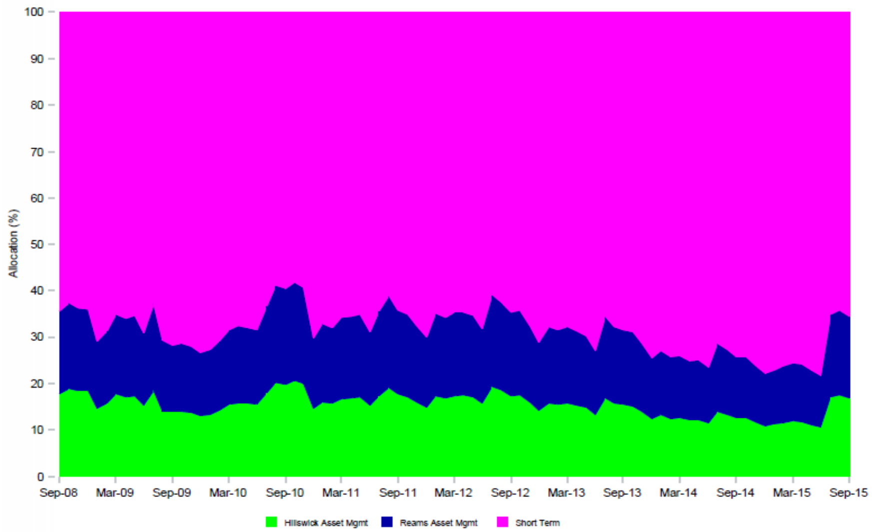
- The value of the Total Fund decreased by $554.3 million in the third quarter, due to net cash outflow of $557.6 million and investment gains of $3.4 million.
- Net investment gain/loss for the quarter were:

Hillswick	$1.4 million
Reams	$0.9 million
Short-Term	$1.0 million
Total	$3.4 million

CURRENT ALLOCATION



HISTORICAL ALLOCATION



PERFORMANCE SUMMARY - TOTAL RETURN

SEPTEMBER 30, 2015

Manager	QTR	Fiscal YTD	1 Year	3 Yrs	5 Yrs
Total Fund	0.3%	0.3%	1.0%	0.7%	1.0%
Benchmark[1]	0.2%	0.2%	0.6%	0.3%	0.4%
Hillswick Asset Mgmt	0.9%	0.9%	2.9%	1.1%	1.9%
BofA ML G/C 1-5 yr. A	0.7%	0.7%	2.1%	1.1%	1.5%
Reams Asset Mgmt	0.5%	0.5%	2.0%	1.4%	1.9%
BofA ML G/C 1-5 yr. A	0.7%	0.7%	2.1%	1.1%	1.5%
Total External Managers	0.7%	0.7%	2.5%	1.3%	1.9%
BofA ML G/C 1-5 yr. A	0.7%	0.7%	2.1%	1.1%	1.5%
Short-Term Account	0.1%	0.1%	0.5%	0.5%	0.6%
BofA ML 90-day T-Bill	0.0%	0.0%	0.0%	0.1%	0.1%

[1] The benchmark for the Total Fund is based on the average asset allocation between the Externally Managed and Short-term Accounts, incorporating the BofA Merrill Lynch Government/Corporate 1-5 yr A & above and the BofA Merrill Lynch 3 Month T-Bill.

- Concern over a slowdown in China caused the global stock and corporate bond markets to sell-off in the third quarter. Credit spreads widened, so corporate bond prices declined, especially in the high yield sector.

- The Fed's decision to hold off on raising short-term interest rates added to the uncertainty because it seemed like a signal that the economy was too weak to allow the Fed to begin withdrawing its support.

- Hillswick was right again (like few others) in the belief that treasury yields would fall back to the 1.9% last seen in March; everyone else was convinced that the Fed would raise interest rates in September. Hillswick now has a 3 year duration, 15% long the benchmark.

- Hillswick outperformed due to longer duration and credit quality above the benchmark (i.e. low corporate and mortgage bond exposure). They believe that spreads will widen further and current levels don't justify the added risk.

- Reams remains underweight government bonds, with a duration of about 2.2 years, 15% shorter than the 2.7 years of the benchmark. They expect a modest rise in interest rates and believe that real rates are unattractive in low duration bonds.

- Hillswick and Reams have produced the same 1.9% return over 5 years, but they got there using very different approaches, a sign of good diversification.

- The staff-managed Short-Term Account continues to take advantage of market opportunities in off-the-run and higher coupon cash securities. The success of this approach is shown in the peer group comparison on page 8.

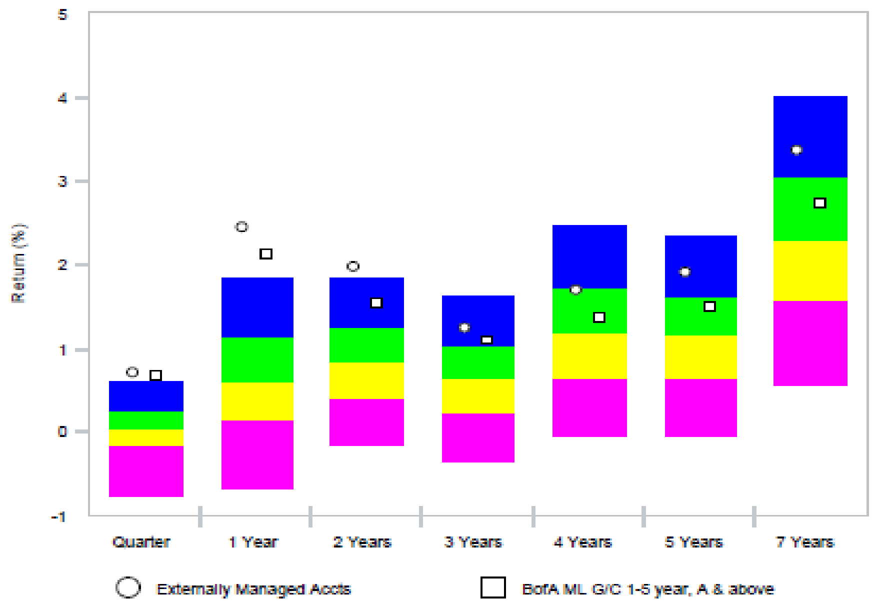
CONSOLIDATED BALANCE SHEET and CASH FLOW SUMMARY FOR THE FISCAL YEAR

JULY 1, 2015 TO SEPTEMBER 30, 2015

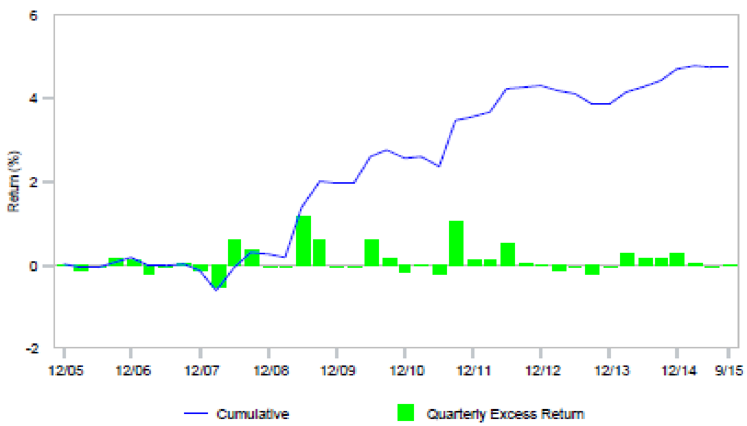
Manager	Beginning Balance	Net Cash Flows	Income	Gain/(Loss)	Ending Balance
Total Fund	$1,544,474,095	($557,611,127)	$3,149,931	$225,311	$990,238,210
Externally Managed					
Hillswick Asset Mgmt	$165,968,580		$840,001	$602,502	$167,411,083
Reams Asset Mgmt	$172,581,353		$735,538	$211,356	$173,528,247
Total Externally Managed	$338,549,932		$1,575,540	$813,859	$340,939,331
Short-Term Account	$1,205,924,163	($557,611,127)	$1,574,392	($588,548)	$649,298,880

Note: Totals may differ slightly due to rounding.

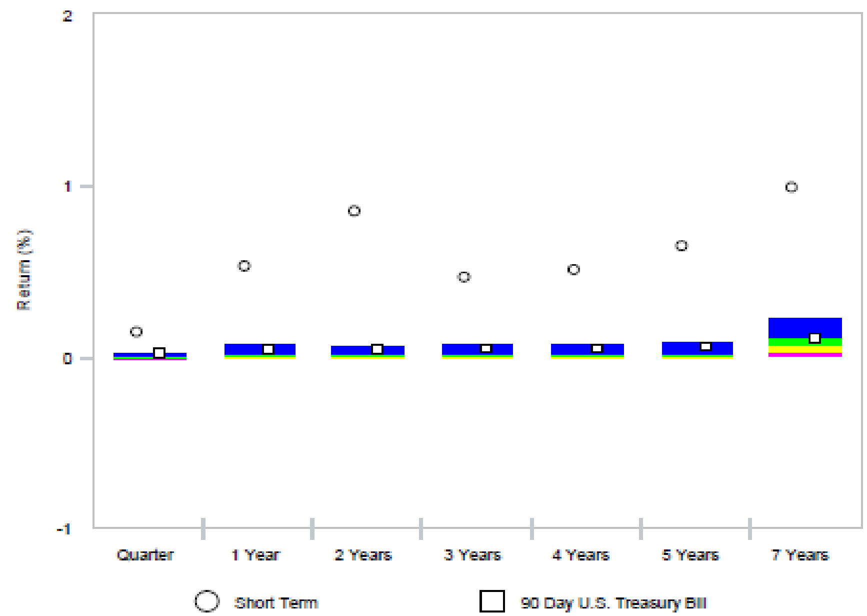
TOTAL EXTERNAL MGRS VS. PEER GROUP



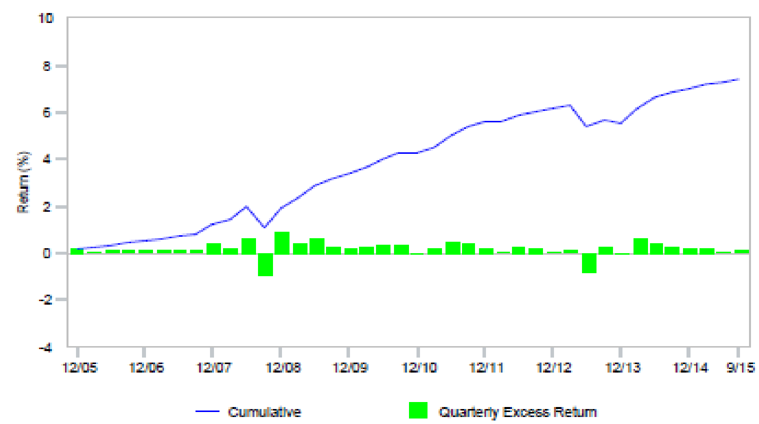
TOTAL EXTERNAL MGRS VALUE ADDED



SHORT-TERM VS. PEER GROUP



SHORT-TERM VALUE ADDED



MANAGER SCORECARD

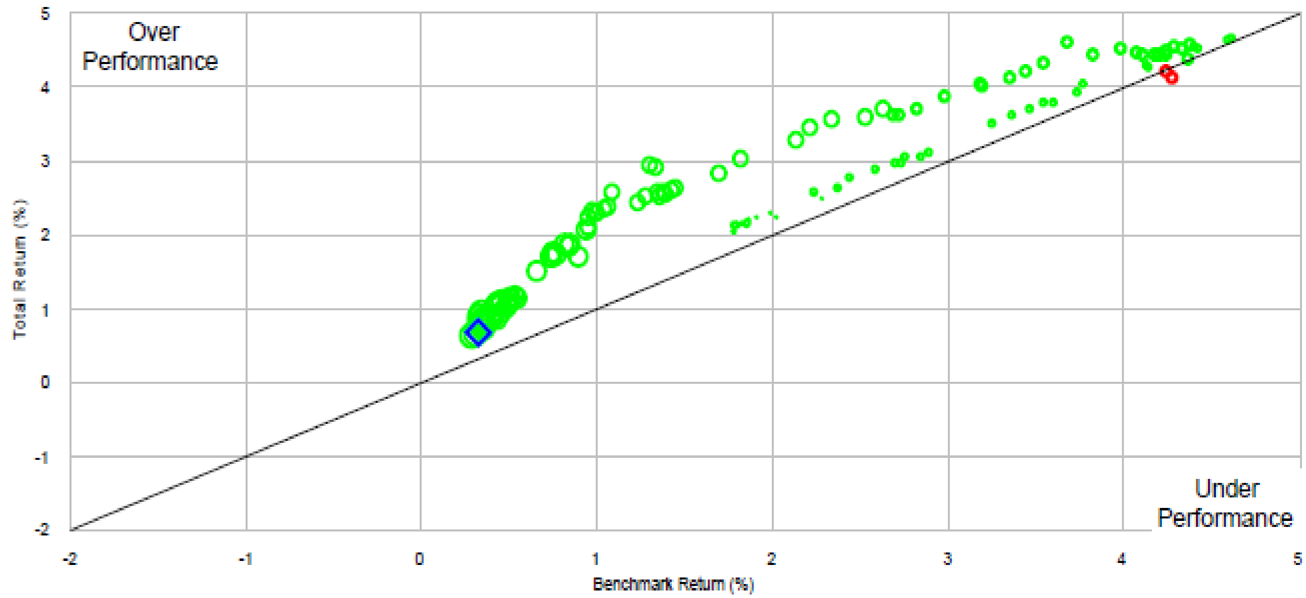
13-YEAR RESULTS

Manager	Return	Index Return	Std Dev	Alpha	Beta	Batting Average	Incept
Total Fund	2.51	1.97	1.02	0.52	1.01	708	5/02
Hillswick Asset Mgmt.	3.75	3.33	2.45	0.07	1.11	540	5/02
Reams Asset Mgmt.	3.94	3.33	2.73	1.08	0.86	565	5/02
Short-Term Account	2.02	1.39	0.69	0.85	0.85	788	5/02

INVESTMENTS PORTFOLIOS VS. POLICY BENCHMARKS

Manager	1 Year Benchmark	1 Year Univ Med	3 Year Benchmark	3 Year Univ Med	Alpha	Beta <1.10
Total Fund	Exceed	NA	Exceed	NA	Positive	OK
Hillswick Asset Mgmt	Exceed	Exceed	OK	Exceed	OK	High
Reams Asset Mgmt	OK	Exceed	Exceed	Exceed	Positive	Low
Short-Term Account	Exceed	Exceed	Exceed	Exceed	Positive	Low

3-YEAR ROLLING VALUE ADDED FOR TOTAL FUND
(FROM INCEPTION)



Each green circle above the line represents a 3-year period above the benchmark, larger circles = more recent periods

Alpha

Alpha is a measure of the value added (or the excess return of a portfolio versus the benchmark - adjusted for risk) for an actively managed portfolio. It is generally interpreted as a measure of a manager's skill as the result of security selection and asset allocation - the higher the number the better.

Batting Average

Batting Average is a measure of how often the manager has beaten the benchmark. A batting average of 600 indicates that the manager has beaten the portfolio benchmark (or comparable market index) six out of every ten quarters, or 60% of the time.

Beta

Beta is a measure of a manager's risk vs the benchmark. A beta of 1.0 indicates that a portfolio has roughly the same volatility as the benchmark. A beta greater than 1.0 indicates that the portfolio is more volatile or sensitive to changes in the market.

Duration

Duration is a measure of the sensitivity in the price of a bond to changes in interest rates, so it is a measure of risk in a fixed income portfolio. As a rule of thumb, a fixed income portfolio with a duration of 5 (years) will decline 5% in value for every 1% upward movement in comparable interest rates.

Standard Deviation

Standard deviation is a measure of the dispersion of a portfolio's return around its expected return. A higher standard deviation indicates greater dispersion and, therefore, lower predictability of future returns.