

# THE STATE BAR OF CALIFORNIA

FINANCE

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180 HOWARD STREET, SAN FRANCISCO, CALIFORNIA 94105-1639

TEL (415) 538-2200

## MEMORANDUM

**DATE:** February 20, 2013  
**TO:** Board of Trustees  
**FROM:** Christine Wong, Finance Director  
**SUBJECT:** Annual Investment Report as of December 31, 2012

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Attached is the annual investment report for the State Bar of California as of December 31, 2012. The report is presented in a format that conforms to the investment policy adopted by the Board of Governors in May 2005. As of the end of December, the market value of the State Bar's investment portfolio totaled \$89.3 million.

The time-weighted average rate of return of the investment portfolio at the end of the year is 0.17%, compared to 0.37% for the same period in the prior year. Actual investment earnings decreased approximately 24% to \$293,972 in 2012 compared to \$385,982 for the same period in 2011. This decrease is due primarily to lower short-term interest rates and duration-shortening actions taken to protect the portfolio from interest rate risk associated with longer term investments.

If you have any questions or would like additional information, please contact Christine Wong at [www.christine.wong@calbar.ca.gov](mailto:www.christine.wong@calbar.ca.gov).

**The State Bar of California**  
**Investment Report Summary**  
**December 31, 2012**

<b><u>Asset Group</u></b>	<b><u>Original Cost</u></b>	<b><u>Market Value</u></b>	<b><u>Portfolio Percentage</u></b>	<b><u>Weighted Average Yield</u></b>
Wells Fargo Custody Account:				
- Government Bonds	46,504,715	46,526,970	52.07%	0.23%
- Common Stock-Metlife Inc.	96,712	96,712	0.11%	N.A
- Interest Receivable	-	37,788	0.04%	N.A
<b>Subtotal-Securities, Bonds and Notes</b>	<b>46,601,427</b>	<b>46,661,470</b>	<b>52.22%</b>	
Local Agency Investment Fund	42,611,781	42,688,332	47.78%	0.35%
<b>Subtotal-Other Investments</b>	<b>42,611,781</b>	<b>42,688,332</b>	<b>47.78%</b>	
<b>Grand Total</b>	<b>89,213,208</b>	<b>89,349,802</b>	<b>100%</b>	0.29%

**Unrealized Gain/(Loss)-Securities, Bonds and Notes:**

Market Value of Portfolio	46,623,682
Original Cost of Portfolio	46,601,427
Unrealized Gain/(Loss):	<u>22,255</u>

**State Bar of California**  
**Investment Report - Wells Fargo Custody Account**  
**Balance as of December 31, 2012**

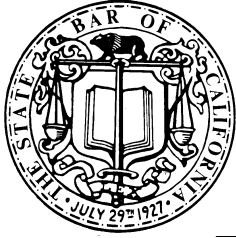
<u>Issuer</u>	<u>CUSIP #</u>	<u>S&amp;P Rating</u>	<u>Type</u>	<u>Par Value</u>	<u>Cost</u>	<u>Mkt Value</u>	<u>Interest Receivable</u>	<u>Unrealized Gain/(Loss)</u>	<u>*Yield</u>	<u>Trade/ Purchase Date</u>	<u>Maturity Date</u>
FED HOME LN BK	313378AQ4	AA+	Government Agency	3,000,000	2,999,280	3,000,030	1,427	750	0.15%	03/08/12	02/04/13
FED FARM CREDIT BK	3133EABU1	AA+	Government Agency	3,000,000	3,001,170	3,000,090	1,813	(1,080)	0.11%	02/03/12	02/16/13
FED HOME LN BK	313378JN2	AA+	Government Agency	3,000,000	2,999,250	3,000,030	1,208	780	0.15%	03/05/12	03/05/13
FED HOME LN BK	313376XM2	AA+	Government Agency	3,000,000	3,000,690	3,000,810	983	120	0.18%	02/28/12	05/02/13
FED HOME LN BK	313376GY5	AA+	Government Agency	2,500,000	2,503,675	2,502,250	4,125	(1,425)	0.23%	01/09/12	07/01/13
FED HOME LN BK	313380AD9	AA+	Government Agency	3,000,000	2,998,950	2,999,220	1,635	270	0.16%	07/30/12	07/24/13
FED HOME LN BK	313376VB8	AA+	Government Agency	3,000,000	3,001,320	3,001,260	3,146	(60)	0.22%	01/25/12	07/30/13
FED HOME LN BK	3133786S5	AA+	Government Agency	3,000,000	3,000,000	3,001,260	2,958	1,260	0.25%	02/21/12	08/09/13
FED HOME LN BK	3133786S5	AA+	Government Agency	3,000,000	2,997,900	3,001,260	2,958	3,360	0.30%	03/14/12	08/09/13
FED HOME LN BK	313376XY6	AA+	Government Agency	3,000,000	3,000,330	3,000,570	2,293	240	0.20%	07/11/12	08/20/13
FED FARM CREDIT BK	31331K7J3	AA+	Government Agency	3,000,000	3,003,570	3,005,100	4,608	1,530	0.29%	01/17/12	01/23/14
FED HOME LN BK	313376ZM0	AA+	Government Agency	3,000,000	3,000,000	3,001,830	3,021	1,830	0.25%	02/07/12	02/06/14
FED FARM CREDIT BK	3133EADX3	AA+	Government Agency	3,000,000	2,998,290	3,003,420	3,250	5,130	0.33%	03/27/12	02/21/14
FED HOME LN MTG CORP	3134G3SB7	AA+	Government Agency	2,000,000	1,999,780	2,003,960	1,313	4,180	0.38%	03/28/12	04/28/14
FED HOME LN BK	3133797H6	AA+	Government Agency	3,000,000	2,999,970	3,002,940	1,525	2,970	0.30%	05/29/12	04/30/14
FED HOME LN BK	3133797H6	AA+	Government Agency	3,000,000	3,000,540	3,002,940	1,525	2,400	0.29%	06/19/12	04/30/14

<b>TOTAL GOVERNMENT BONDS AND NOTES:</b>	<b>46,500,000</b>	<b>46,504,715</b>	<b>46,526,970</b>	<b>37,788</b>	<b>22,255</b>	<b>0.23%</b>
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METLIFE INC	59156R108	N/A	Common Stock	-	96,712	-	96,712			N/A
<b>TL Common Stock:</b>				<b>-</b>	<b>-</b>	<b>96,712</b>	<b>-</b>	<b>96,712</b>		

<b>TOTAL INVESTMENT HELD BY WELLS FARGO:</b>	<b>46,500,000</b>	<b>46,504,715</b>	<b>46,623,682</b>	<b>37,788</b>	<b>118,967</b>	<b>0.23%</b>
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Wells Fargo Custody Total Assets [Mkt Value (incl MetLife) + Interest Receivable]: 46,661,470



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## MEMORANDUM

**DATE:** February 20, 2013  
**TO:** Board of Trustees  
**FROM:** Christine Wong, Finance Director  
**SUBJECT:** 2012 OPEB Year End Investment Report

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Attached is the 2012 annual investment report for the State Bar's Other Postemployment Benefit ("OPEB") asset.

On December 15, 2008, the State Bar established an irrevocable trust for the OPEB Plan to set aside assets to fund the cost of retiree health care benefits to eligible executive employees. Annual required contribution is determined based on actuarial valuation. The OPEB Plan is operated and administered by the State Bar in conformity with the terms of the OPEB Plan and the State Bar's investment policy.

In July 2012, the Board adopted staff's recommendation to systematically transfer the State Bar's OPEB assets from Wells Fargo Bank to a higher-yielding investment pool managed by CalPERS and, on an ongoing basis, to make annual transfers to the pool to pay the Bar's Annual Required Contribution (ARC), as determined by the Bar's actuary. The first \$3 million OPEB asset transfer to CalPERS began in December, 2012.

In the most recent actuarial valuation report completed in December 2012, the Annual Required Contribution (ARC) for both 2011 and 2012 are \$1,328,641. The Actuarial Accrued Liability of this benefit plan as of December 31, 2011 is \$22.7 million. Current OPEB asset value is \$14.4 million, which leaves an Unfunded Actuarial Accrued Liability of \$8.3 million as of December 31, 2012.

As of December 31, 2012, the market value of the OPEB assets totaled \$14.4 million. The average rate of return of the entire portfolio is 1.84%, compared to 0.17% in 2011, reflecting a

significant increase in the average yield after the first \$3 million OPEB asset transfer to CalPERS CERBT Investment Fund in December 2012. Year-to-date investment income is \$30,022, and unrealized loss is (\$7,800). This unrealized loss is a bond premium incurred when the bond is purchased at a price in excess of its face value. A bond is traded at a premium when it offers a coupon rate that is higher than prevailing interest rates, a reflection of declining interest rate in the existing bond market. This unrealized loss is considered to be a “paper loss” because it will be amortized over the remaining term of the bond. All the agency bonds in the OPEB Plan are held to maturity, and as a result, this unrealized loss will dwindle to zero at maturity.

If you have any questions or would like additional information, please contact Christine Wong at [www.christine.wong@calbar.ca.gov](mailto:www.christine.wong@calbar.ca.gov).

**The State Bar of California  
OPEB Investment Report Summary  
December 31, 2012**

<b><u>Asset Group</u></b>	<b><u>Original Cost</u></b>	<b><u>Market Value</u></b>	<b><u>Portfolio Percentage</u></b>	<b><u>Weighted Average Yield</u></b>
Wells Fargo Custody-PRWBP Account:				
- Government Bonds	6,011,610	6,003,810	41.69%	0.25%
- Interest Receivable	-	8,658	0.06%	N.A
<b>Subtotal-Securities, Bonds and Notes</b>	<b>6,011,610</b>	<b>6,012,468</b>	<b>41.75%</b>	
- WF Advantage Gov't MMF	5,387,019	5,387,019	37.41%	0.01%
- Interest Receivable	-	68	0.00%	
<b>Subtotal-Cash Equivalents:</b>	<b>5,387,019</b>	<b>5,387,087</b>	<b>37.41%</b>	
- CalPERS CERBT Fund Stratgy 3 Investment	3,000,000	3,002,071	20.84%	8.30%
<b>Subtotal-CalPERS CERBT Fund Investment:</b>	<b>3,000,000</b>	<b>3,002,071</b>	<b>20.84%</b>	
 <b>Grand Total</b>	 <b>14,398,629</b>	 <b>14,401,626</b>	 <b>100%</b>	 1.84%

**Unrealized Gain/(Loss)-Securities, Bonds and Notes:**

Market Value of Portfolio	14,392,900
Original Cost of Portfolio	14,398,629
Unrealized Gain/(Loss):	<u>(5,729)</u>

**State Bar of California**  
**OPEB Trust Investment Report**  
**Balance as of December 31, 2012**

<u>Issuer</u>	<u>S&amp;P Rating</u>	<u>Type</u>	<u>Par Value</u>	<u>Cost</u>	<u>Mkt Value</u>	<u>Interest Receivable</u>	<u>Unrealized Gain/(Loss)</u>	<u>*Yield</u>	<u>Purchase Date</u>	<u>Maturity Date</u>
FED FARM CREDIT BK	AA+	Government Agency	3,000,000	3,007,440	3,000,120	2,858	(7,320)	0.22%	08/17/11	01/07/13
FED FARM CREDIT BK	AA+	Government Agency	3,000,000	3,004,170	3,003,690	5,800	(480)	0.28%	09/19/11	09/23/13
<b>TOTAL GOVERNMENT BONDS HELD BY WELLS FARGO CUSTODY:</b>			<b>6,000,000</b>	<b>6,011,610</b>	<b>6,003,810</b>	<b>8,658</b>	<b>(7,800)</b>	<b>0.25%</b>		
WF ADVANTAGE GOV'T MMF	Cash Equivalents	Money Market Fund	5,387,019	5,387,019	5,387,019	68	-	0.01%	N/A	N/A
<b>TOTAL MONEY MARKET FUND HELD BY WELLS FARGO CUSTODY:</b>			<b>5,387,019</b>	<b>5,387,019</b>	<b>5,387,019</b>	<b>68</b>	<b>-</b>	<b>0.01%</b>		
CalPERS		CERBT Strategy 3	3,000,000	3,000,000	3,002,071	NA	NA	8.30%	12/28/12	NA
<b>TOTAL INVESTMENT TRANSFERRED TO CalPERS CERBT FUNDS:</b>			<b>3,000,000</b>	<b>3,000,000</b>	<b>3,002,071</b>	<b>-</b>	<b>-</b>	<b>8.30%</b>		
<b>TOTAL OPEB ASSET:</b>			<b>14,387,019</b>	<b>14,398,629</b>	<b>14,392,900</b>	<b>8,726</b>	<b>(7,800)</b>	<b>1.84%</b>		