Speaker slips will be available. Please fill out a slip and give it to the Chair prior to the meeting if you wish to speak to an item on the agenda. The Board may take action on any item listed on the Consent or Action agenda.

Introductions and Announcements.

Approval of the Minutes of April 20, 2007

Executive Directors Report

Public Comment

This portion of the agenda provides an opportunity for members of the public to address the Board on items of interest within the jurisdiction of the Board and not appearing on today's agenda. Comments relating to items on today's agenda are to be taken at the time the item is heard. Pursuant to the Brown Act, no action shall be taken by the Board on public comment items.

ACTION

1. Resolution Honoring Former Board Member Jerry Finnell

2. San Dieguito River Park Endowment Fund Investments

INFORMATION

3. Status Reports (Oral)

   a. River Park Projects:

      i. Lake Hodges Bicycle/Pedestrian Bridge

      ii. Sikes Adobe Historic Farmstead
iii. Del Dios Gorge Trail

iv. Wetland Restoration Project/Coastal Trail
   
b. Via de la Valle/El Camino Real Road Task Force

c. Rancho Santa Fe Polo Club

4. Jurisdictional Status Reports

An opportunity for the Board members to report on actions taken within their jurisdictions to further the park planning process, or on problems which have arisen.

5. Communications

6. CLOSED SESSION: The Board will meet in closed session pursuant to Government Code Section 54957, for the purpose of conducting the annual performance and salary review of Executive Director Dick Bobertz


If you have any questions, please call Dick Bobertz at (858) 674-2270.

****Due to the high cost of printing and mailing the JPA and CAC agendas, the JPA has converted to an email distribution of both agendas. Please advise the office at 858 674-2270 if you do not have an e-mail address and want other arrangements will be made. Full packets will continue to be mailed free of charge to JPA and CAC members upon request. For others, the cost of the full agenda, with backup material, is $45 per year, and the cost of the agenda without backup material is $10 per year. The agenda and minutes are available at no cost on the San Dieguito River Park web site at www.sdrp.org
RESOLUTION NO. ______

RESOLUTION OF THE SAN DIEGUITO RIVER PARK JOINT POWERS
AUTHORITY BOARD OF DIRECTORS
HONORING FORMER BOARD MEMBER JERRY FINNELL

WHEREAS, Jerry Finnell is leaving office after serving as Council member of the City of Del Mar and as a Board member of the San Dieguito River Park Joint Powers Authority since 2003 and as JPA board Chairman in 2006;

WHEREAS, Jerry’s interest in the River Park reflects his commitment to help preserve and enhance natural assets of the community for the benefit of current citizens and future generations;

WHEREAS, Jerry has also devoted his years of public service on many boards and Committees to working toward making government more efficient and responsive to citizens;

WHEREAS, Jerry has dependably provided the board and staff members with thoughtful advice and analysis regarding complex issues and set an example for calm deliberation of often controversial issues;

NOW, THEREFORE BE IT RESOLVED, by the San Dieguito River Park Joint Powers Authority Board of Directors that they take great pride in commending Jerry Finnell for his service to the River Park, wish him well as he moves into new endeavors, and invites him to continue working as a citizen volunteer to help make our common dream a reality.

THE FOREGOING RESOLUTION, NUMBER ______, PASSED AND ADOPTED THIS ___________ DAY OF ____________, 2007, BY THE FOLLOWING VOTE:

AYES: __________
NOES: ________
ABSENT: ________
ABSTAIN: ________

__________________________________
Dianne Jacob, Chair

ATTEST:

_______________________________
Dick Bobertz, Executive Director
Agenda Item 2
May 18, 2007

TO: JPA Board
FROM: Staff
SUBJECT: Endowment Investments

RECOMMENDATION:

Review and provide staff direction.

SITUATION:

A. Summary

The River Park has established endowment funds with three local foundations: the San Diego Foundation, the Rancho Santa Fe Foundation, and the Del Mar Foundation. Available funds were spread among those three foundations in order to maximize River Park exposure to potential contributors. In combination with funds invested by the San Dieguito River Valley Conservancy, each of the foundations now has in excess of $500,000 invested for the benefit of the River Park.

The San Diego Foundation and the Del Mar Foundation make investments based on a long term strategy because disbursements are not intended to be made for at least ten years in the case of the San Diego Foundation and up to forty years in the case of the Del Mar Foundation. The endowments established with the Rancho Santa Fe foundation, however, were established to produce revenue to support current maintenance for parcels on Bernardo Mountain and disbursements for that purpose are made each year from the fund.

Christina Wilson, Executive Director of the Rancho Santa Fe Foundation will be available at today’s meeting to discuss the investment strategy and performance of her fund and provided the information included in Attachment 1. Representatives of the other two foundations will do the same in following meetings.

Other alternatives for investment of River Park funds were researched by staff at the suggestion of Jerry Finnell last year. The potential for use of Exchange Traded Funds (ETF’s) was identified as one potential investment vehicle which is now widely used by institutions and universities. The reason that institutions and universities favor this type of investing is that long-term returns from such investments generally have exceeded active management returns due primarily to the lower fees (i.e., compared to organizations such as Endowment Foundations). However, it would require more active involvement by the SDRP Finance Committee to review
the investment results and make minor adjustments to the asset allocations annually. The Finance Committee would be able to compare the returns between the actively managed endowment funds and the passively managed fund.

Bill Carter (husband to Susan Carter, River Park Deputy Director) is a financial professional who put together the information explaining advantages of ETF’s provided as Attachment 2. He is willing to volunteer his services to work with the Finance Committee to provide more information about investing with ETFs, and if the Finance Committee chooses to go forward with this approach with next year’s Endowment Contribution he would volunteer as well to help the Committee write the investment objectives, get the accounts set up and establish periodic review procedures.
### Vanguard Investment Pool

(Average Stock/Bond Allocation = 60% / 40%)

#### Average Annual Return - %

**As of End of Year**

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* Returns Estimated

### Comparative Benchmarks

#### S&P 500 Index

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#### Lehman Aggregate Bond Index

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#### Combined 60% / 40% Portfolio

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<td>7.74</td>
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<tr>
<td>Fund Name</td>
<td>Beginning Value</td>
<td>December or inception Disbursements</td>
<td>December or inception Return</td>
<td>Actual Value</td>
<td>Standard Return</td>
<td>YTD</td>
<td>Targeted YTD</td>
<td>BSIN Return</td>
<td>Benchmark Performance</td>
<td>Benchmark Allocation</td>
<td>2005 RSFF Benchmark Performance</td>
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<tr>
<td>---------------------------------</td>
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<tr>
<td>Admiral Treasury MM</td>
<td>4,214,754.92</td>
<td>161,880.78</td>
<td>155,586.67</td>
<td>4,532,222.37</td>
<td>20.5%</td>
<td>4.7%</td>
<td>4.0%</td>
<td>20%</td>
<td>2.9%</td>
<td>iMoneyNet 2.2%</td>
<td>0.6%</td>
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<tr>
<td>Inflation Protected</td>
<td>2,016,680.71</td>
<td>(2,022,334.24)</td>
<td>(0.00)</td>
<td>5,653.53</td>
<td>2.8%</td>
<td>0.0%</td>
<td>0.4%</td>
<td>0%</td>
<td>2.7%</td>
<td>Lehman Treasury Inflation Notes 2.6%</td>
<td>7.2%</td>
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<td>Short-term Bond Index Fund</td>
<td>3,008,087.41</td>
<td>1,270,000.00</td>
<td>133,946.94</td>
<td>4,412,034.35</td>
<td>19.9%</td>
<td>4.3%</td>
<td>4.2%</td>
<td>20%</td>
<td>1.4%</td>
<td>Lehman 1-5 year Gov't/Credit 1.4%</td>
<td>1.4%</td>
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<td>Vanguard 500 Index Fund</td>
<td>2,357,115.81</td>
<td>520,000.00</td>
<td>488,273.83</td>
<td>3,965,388.64</td>
<td>17.9%</td>
<td>15.5%</td>
<td>15.8%</td>
<td>18%</td>
<td>5.4%</td>
<td>S&amp;P 500 4.9%</td>
<td>10.9%</td>
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<td>Extended Market Index Fund</td>
<td>2,861,502.83</td>
<td>(1,330,000.00)</td>
<td>335,128.27</td>
<td>1,986,631.10</td>
<td>9.0%</td>
<td>14.5%</td>
<td>14.3%</td>
<td>9%</td>
<td>11.1%</td>
<td>Wilshire 4500 10.4%</td>
<td>18.6%</td>
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<td>International Index Fund</td>
<td>3,021,334.61</td>
<td>(85,000.00)</td>
<td>794,318.69</td>
<td>3,730,653.30</td>
<td>16.9%</td>
<td>26.0%</td>
<td>26.3%</td>
<td>17%</td>
<td>16.9%</td>
<td>MSCI EAFE 13.5%</td>
<td>20.3%</td>
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<td>Value Index Fund</td>
<td>1,981,891.48</td>
<td>865,000.00</td>
<td>642,397.49</td>
<td>3,489,288.97</td>
<td>15.8%</td>
<td>22.3%</td>
<td>22.4%</td>
<td>16%</td>
<td>7.1%</td>
<td>MSCI US Prime Market Value 7.3%</td>
<td>15.4%</td>
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<tr>
<td>Equity Funds Performance</td>
<td>10,941,844.73</td>
<td>(30,000.00)</td>
<td>2,280,118.28</td>
<td>13,171,963.01</td>
<td>59.6%</td>
<td>20.5%</td>
<td>20.3%</td>
<td>60%</td>
<td>9.5%</td>
<td>S&amp;P 500 Equity Index 9.2%</td>
<td>16.2%</td>
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<td>Bond &amp; MMA Funds Performance</td>
<td>9,239,523.04</td>
<td>(590,453.46)</td>
<td>295,187.14</td>
<td>8,944,256.72</td>
<td>40.4%</td>
<td>3.6%</td>
<td>4.1%</td>
<td>45%</td>
<td>2.3%</td>
<td>Wilshire 4500 11.1%</td>
<td>20.7%</td>
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<tr>
<td>Total Pool Performance</td>
<td>20,181,367.77</td>
<td>(420,453.46)</td>
<td>2,555,305.42</td>
<td>22,116,219.73</td>
<td>100%</td>
<td>13.1%</td>
<td>13.8%</td>
<td>100%</td>
<td>6.1%</td>
<td>Total Pool Performance 6.0%</td>
<td>9.9%</td>
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Previous Total Pool Performance

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<th>Value</th>
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<td>2004</td>
<td>9.4%</td>
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<tr>
<td>2003</td>
<td>19.8%</td>
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<tr>
<td>2002</td>
<td>-7.9%</td>
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<tr>
<td>2001</td>
<td>-3.4%</td>
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<tr>
<td>2000</td>
<td>1.0%</td>
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<tr>
<td>1999</td>
<td>12.8%</td>
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<tr>
<td>1998</td>
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## Historical Fund Activity

**SDRVC - JPA**

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<tr>
<th>Fund ID</th>
<th>Fund Name</th>
<th>Established</th>
<th>Beg. Balance</th>
<th>Grants Out</th>
<th>Balance a/o 04/07</th>
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<td>95</td>
<td>River Park Trail Fund</td>
<td>2003</td>
<td>$30,000</td>
<td>0</td>
<td>$42,400</td>
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<tr>
<td>98</td>
<td>Bernardo Mountain</td>
<td>2003</td>
<td>$300,000</td>
<td>($35,000)</td>
<td>$371,284</td>
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<tr>
<td>116</td>
<td>Bernardo Mountain - 2</td>
<td>2004</td>
<td>$176,920</td>
<td>($8,500)</td>
<td>$224,722</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>$506,920</strong></td>
<td><strong>($43,500)</strong></td>
<td><strong>$638,406</strong></td>
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Mr. Dick Bobertz, Executive Director  
San Dieguito River Park  
18372 Sycamore Creek Road  
Escondido, Ca 92025

Dear Dick:

I have enclosed information about two ways you could invest SDRP’s funds using Exchange Traded Funds (ETF’s). One of these portfolios was designed for accumulating long-term gains and therefore uses primarily equity indexes (the Long-Term Gain Portfolio) and the other portfolio was designed to provide annual income (approximately 5-6% of the invested capital annually) and long-term growth (the Income and Growth Portfolio).

Both portfolios were designed to be diversified enough so as to be “passively managed”. The portfolios are initially invested into a diversified group of asset-class indexes based on the overall investment objective for the portfolio and the risk profile of the investor. The objective for the Long-Term Gain Portfolio was to equal or exceed the annual returns of a broad equity index with significantly lower risk (annual deviations from the long-term return). The investment objective for the Income and Growth Portfolio was to provide an annual income of 5-6% of the invested principal (withdrawn annually to fund specific programs) and to provide some additional long-term growth so that the annual withdrawals could be slowly increased over time. The two portfolios are listed on page 7 of their respective Investment Plans enclosed with this letter. Many pension-funds, endowments and foundations have adopted “passive management” as opposed to “active management” for their investments based on thirty years of academic research that shows that the majority of equity or fixed income investment managers fail to outperform their benchmarks over long investment horizons (longer than five years).

There are two important advantages to the passive management approach to investing for the long-term. The first is that a passive approach (typically using an index fund for each asset class) incurs very low annual management fees and commissions as compared to the typical actively managed portfolio. The two portfolios developed for the SDRP as described here have weighted annual management fees of .23% - .24% for the Long-Term Portfolio and .25% - .26% for the Income and Growth Portfolio. These management fees compare to average weighted expense ratios of 1.40% for the Long-Term Portfolio and 1.25% for the Income and Growth Portfolio if individual managers or mutual funds were used for each asset class in these portfolios. In addition, the “manager of managers” (who provides overall portfolio performance reporting and allocates the funds among the asset managers) typically charges an additional annual fee of .50% – 1.00%. The second advantage of the passive approach I am recommending is that relatively small investment portfolios (i.e., portfolios under $250,000) can be easily
diversified using ETF’s (since they are listed and continuously trade on the major exchanges). Most active money managers will not accept accounts under $100,000.

The annualized return and risk (standard deviation) characteristics for each of the portfolios is listed on page 4 of their respective Asset Class Illustrator reports. Each portfolio’s results were computed for the period January 31, 1996 to January 31, 2006. I believe this ten-year period is a very good forecast to use for the SDRP’s investment horizon. If I had included data from the 1980’s and the mid-1990’s the annualized returns for most of the asset classes would have been significantly higher as interest rates on 10-year US Treasury bonds declined from 14.5% in 1982 to 5.65% in January 1996 -- an economic background not likely to be repeated in the near future.

The Long-Term Gain portfolio had an annualized return of 9.83% (versus the S&P 500 index at 8.99%) and an annualized standard deviation nearly 22.5% less than the S&P 500 index. The Income and Growth Portfolio had an annualized return of 9.23% (versus 6.10% for a bond index consisting of corporate and government bonds and notes) and the annualized standard deviation for both portfolios was very low (well below their annual returns).

I recommend that the SDRP open a separate account at Fidelity Investments for each investment fund that has a different investment objective. Fidelity Investments is one of the nation’s leading brokerage firms and offers a full range of investment products and account support services. Fidelity Investment will provide monthly activity reports and trade confirmations directly to the SDRP. ETF’s are purchased like stocks – there is a commission to purchase and sell them, but Fidelity charges only $10.95 per trade for accounts with balances above $50,000. The initial commissions to open each account may be less than $200 and the annual commissions (for rebalancing) will be negligible. Both of the portfolios require that the asset allocations be “rebalanced” each year. Annual rebalancing prevents a portfolio from becoming significantly “over-weighted” in one or a few asset classes by buying or selling a small amount of each asset class sufficient to restore the year-end allocations to their initial percentages (when the portfolio was established).

I imagine you will have some questions concerning this method of investing SDRP’s funds. I have included some background material from Barclays Global Investors concerning Exchange Traded Funds, indexes and fees. Barclays provides all this on their web site at www.ishares.com. Of course, you may call or e-mail me with any questions you have. I am also available to review and help explain this alternative method of investing to your Finance Committee if you think that would be helpful.

Sincerely,

Bill Carter
The QInsight Group
www.qinsight.com
An introduction to
EXCHANGE TRADED FUNDS
by Mark Chamberlain and Jay Jordan, Strategists, BARCLAYS GLOBAL INVESTORS SERVICES

Exchange Traded Funds (ETFs) are rapidly becoming a staple investment tool for a wide spectrum of investors, both individual and institutional. They are utilized to execute traditional strategies—from completing asset allocation policies to cash equitization—and also “nontraditional” strategies such as long—short arbitrage.

ETFs lend themselves to more uses than can be covered in a short synopsis. In this paper we intend to accomplish the following:

- Review the basics of ETFs
- Understand how investors view ETFs
- Discuss investment consulting applications for ETFs
- Identify additional uses for ETFs

Most ETFs combine characteristics of an open-end mutual fund and a stock. Like index mutual funds, ETFs represent a fractional ownership in an underlying portfolio of securities that track a specific market index. However, unlike mutual funds, individual investors do not purchase or redeem shares from the fund. Instead, individuals buy and sell shares of ETFs like stocks, on an exchange, including the American Stock Exchange, the New York Stock Exchange and the Chicago Board Options Exchange. The trading dynamic is also a mixture of the two. That is, prices of ETF's fluctuate according to changes in their underlying portfolios, and also according to changes in market supply and demand for ETF shares themselves. ETFs offer investors the cost-effective opportunity to buy or sell an interest in a portfolio of bonds or stocks in a single transaction.

While some may classify closed-end funds and grantor trusts (HOLDRS) as ETFs, in this discussion we will focus only on unit investment trust (UIT) and open-end ETFs. Unlike closed-end funds, UIT and open-end ETFs have the capability to continuously offer shares through a unique creation and redemption process, which means that the number of outstanding shares may be increased or decreased on a daily basis as necessary to reflect demand. Thus UIT and open-end ETFs have the capability to avoid trading at large premiums and discounts to their Net Asset Values (NAVs). Closed-end funds, on the other hand, offer a fixed supply of shares; as demand changes, they frequently trade at appreciable discounts from—and sometimes premiums to—their NAVs. HOLDRS can increase and decrease in terms of shares outstanding, but the underlying portfolios themselves are static. This means that HOLDRS are unmanaged baskets of securities, whereas UIT ETFs (such as SPDRs) and open-end ETFs (such as iShares) are managed daily to closely track benchmark indexes.

ETF creations and redemptions occur at prices based on the next calculation of NAV after the order is placed. This enables market makers to arbitrage—taking advantage of even slight premiums and discounts to the NAV by either creating or redeeming ETF units. Arbitraging the trading price of the ETF against the NAV should limit the persistence of any premiums or discounts since it has the effect of matching the outstanding supply of shares with investor demand. Of course, there can be no guarantee that market makers will take advantage of a difference between the NAV and the trading price. Historically, however, they have done so.

Partly as a result of their efficient pricing, ETFs have become a popular and fast-growing fund category. The size, the growth and the current liquidity of ETFs all reflect investors' tremendous interest in this innovative product (Chart A, page 2). It's worth noting that this growth was achieved in spite of the fact that up until May 2000, the ETF industry offered relatively few options for building a diversified portfolio. The change in breadth and scope of the product set has been dramatic, growing from one fund in 1993 to more than 200 at the end of 2005, with most growth coming in the last five years. ETFs represent a new way to gain precise strategic and tactical market exposure through a myriad of low-cost, tax-efficient index funds.
Introduction to Exchange Traded Funds

**CHART A**
The growth in popularity of ETFs: Total U.S. ETF assets (in U.S.$ billions) as of 12/31/05

Some of the most popular ETFs in terms of both asset size and trading volume include the Nasdaq-100 (symbol QQQQ), iShares MSCI EAFE (EFA), iShares MSCI Japan (EWJ), iShares Russell 2000 (IWM), and two S&P 500 index funds; iShares S&P 500 (IVV) and SPDR (SPY).

As noted at the outset, both retail and institutional investors use ETFs for a variety of purposes—short-term trading, intermediate-term sector rotation, tactical asset allocation, and long-term buy-and-hold strategies.

Investors typically find the following characteristics of ETFs most interesting:

- Continuous pricing
- Access to sectors and indexes
- Ability to track an entire market segment
- Diverse array of investments
- Lower expense ratios
- Tax efficiency

As a framework for analyzing the potential reasons behind investor interest in ETFs, let’s look at these traits one at a time.

**CONTINUOUS PRICING**
The continuous pricing feature of ETFs is significant in that—unlike traditional open-end mutual funds—ETFs offer the same intraday liquidity as other securities that trade on major exchanges. The estimated NAV for an ETF’s underlying portfolio (also called the “Indicative Optimized Portfolio Value,” or IOPV) becomes a basket of stocks that is repriced for the market makers and specialists on the exchange every 15 seconds (and sometimes even more frequently). This is what enables premiums and discounts to NAV to correct very quickly through arbitrage, where the supply of outstanding shares is increased or decreased based on changes in demand. The benefit to investors is efficient pricing on an intraday basis. Implementing asset allocation strategies with open-end funds is no longer limited to end-of-day execution.

Although we’ve noted that ETFs trade like stocks, there is an important qualification regarding liquidity. When estimating what type of execution they will receive on their ETF trade, investors often look to its volume to gauge its liquidity. However, due to an ETF’s creation and redemption capability, volume does not equal liquidity. Since the supply of outstanding shares may be continuously increased or decreased, liquidity in an ETF is actually influenced more by the liquidity of the stocks in the underlying index. For example, the ability to trade a technology sector ETF is illiquid would be to say that the stocks within the index are illiquid. An ETF that is based on a liquid index can facilitate good executions even if the ETF itself trades infrequently.

It is also important to note that—just like stocks—specialists on the exchanges are responsible for facilitating orderly markets by providing liquidity for ETFs. Specialists “make” quoted markets for all ETFs while the markets are open.

Lastly, liquidity comes from ETFs being created and redeemed as needed to match investor demand. This enables both large and small orders to be “filled” intraday at prices that represent close tracking to the intraday underlying value of the ETF’s basket of securities.
ACCESS TO SECTORS AND INDEXES
ETFs provide access to a wide variety of sectors and indexes. Currently available ETFs fall into multiple benchmark categories, including:

- Small-, mid-, large- and broad-capitalization
- Growth, value and core
- Global and international (sector and single country)
- U.S. sectors
- Fixed income

In many cases there are even multiple benchmark providers options available for the same style or sector (such as the Russell 1000 Value Index vs. S&P 500/Citigroup Value Index). ETFs are currently based on—but not sponsored or endorsed by—institutional indexes from Dow Jones & Company, Inc., Frank Russell Company, FTSE/Nihon Index Limited, Goldman, Sachs & Co., KLD Research & Analytics, Inc., Lehman Brothers, Morgan Stanley Capital International (MSCI), The New York Stock Exchange, Inc., Standard & Poor's, Cotson & Steers Capital Management, Inc., the NASDAQ Stock Market, Inc., and the Bank of New York. We should note that while these companies support the growth of the ETF industry, they do not make any representation to individual investors regarding the advisability of investing in ETFs.

ABILITY TO TRACK AN ENTIRE MARKET SEGMENT
ETFs are designed to closely follow the index or sector they track. ETF fund managers may replicate the index in its entirety by owning every security in the index according to its set weighting; or in some cases they may “optimize” (constructing a portfolio that will track the index as closely as possible without having to own each security) for some indexes, a fund manager may be required to optimize due to the diversification rules in the Securities and Exchange Commission Investment Company Act of 1940. For example, this can happen in sector and/or country-based ETFs where one company represents more than 25% of the index. If an ETF experiences tracking error, often it is due to the efforts of the fund manager to meet the 1940 Act diversification requirements. Broad market-based indexes (such as the S&P 500, 400 and 600) do not contain single positions greater than 25% of the entire portfolio, and so the ETFs that represent them tend to be fully replicated.

Whether fully replicated or optimized, to accomplish the objective of closely tracking an index, the fund manager must know what’s in the index. Fortunately, index providers publish changes to their benchmarks daily, enabling complete transparency.

DIVERSIFICATION
Diversification is another popular feature of ETFs. In volatile markets, investors appreciate the cushion that diversification can offer. Investors are sometimes affected by market downturns because they own only a few individual stocks. “Single stock risk” is in the news as a manageable risk that deserves investor attention. Many view ETFs as an excellent means of investing in a favorite sector while mitigating the risk of being exposed to the fortunes of a few companies.

ETFs are also viewed as precise tools that can be used to diversify an entire portfolio, particularly now that ETFs have made so many different benchmarks conveniently investable. For example, Chart B on page 4 illustrates the modular nature of the iShares domestic and international ETF family. iShares Funds can complement most any portfolio construction. They can “complete” portfolios that are missing key components, and can also serve as the core building blocks for both domestic and international asset allocations.

Barclays Global Investors has launched six iShares bond funds. They are the only fixed income ETFs within the U.S., providing investors with a cost-effective and efficient means to manage yield curve and credit exposure in the Treasury, TIPS, corporate and bond markets.

LOWER EXPENSE RATIOS
ETFs’ lower expense ratios are illustrated in Chart C on page 5.

Note the dramatic difference in expenses between actively managed funds, traditional index mutual funds and index ETFs. Cost is important because fees are deducted straight out of an investor’s return.

It should be remembered that ETF transactions will result in brokerage commissions, but the savings from lower annual fees can help offset these costs for long-term holders. Another consideration is that the cost of acquiring the underlying securities for the fund is included in the ETF’s own bid/ask spread, which benefits both short- and long-term investors.
Introduction to Exchange Traded Funds

CHART B
Sample modular view of U.S. equity, fixed income and international/global markets

**Standard & Poor's (S&P)**

- S&P 500
- S&P 500 Value
- S&P MidCap 400
- S&P MidCap 400 Value
- S&P SmallCap 600
- S&P SmallCap 600 Value
- S&P MidCap 100
- S&P MidCap 100 Growth
- S&P MidCap 100 Value
- S&P SmallCap 100
- S&P SmallCap 100 Growth
- S&P SmallCap 100 Value

**Russell**

- Russell 3000
- Russell 3000 Growth
- Russell 3000 Value
- Russell 1000
- Russell 1000 Growth
- Russell 1000 Value
- Russell Midcap
- Russell Midcap Growth
- Russell Midcap Value
- Russell 2000
- Russell 2000 Growth
- Russell 2000 Value
- Russell Microcap

**Dow Jones**

- U.S. Total Market
  - U.S. Basic Materials
  - U.S. Consumer Discretionary
  - U.S. Consumer Staples
  - U.S. Energy
  - U.S. Financial
  - U.S. Health Care
  - U.S. Industrials
  - U.S. Information Technology
  - U.S. Telecommunications
  - U.S. Utilities

**International/Global Modular View**

- MSCI Series
  - 19 developed markets
  - 95% market cap coverage
  - Australia
  - Austria
  - Belgium
  - Canada
  - France
  - Germany
  - Hong Kong
  - Italy
  - Japan
  - The Netherlands
  - Singapore
  - Spain
  - Sweden
  - Switzerland
  - United Kingdom
  - Brazil
  - Malaysia
  - Mexico
  - South Africa
  - South Korea
  - Taiwan

- FTSE/Xinhua
  - China 25

- S&P Series
  - Global 100
  - Europe 350
  - Latin America 40
  - TOPIX 150

- S&P Global Sectors
  - Global Energy
  - Global Financials
  - Global Healthcare
  - Global Technology
  - Global Telecommunications

In addition to the normal risks associated with equity investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. Securities focusing on a single country, narrowly focused investments, and investments in smaller companies typically exhibit higher volatility.

ETFs enable price specificity and hedging capabilities not available with traditional mutual funds. For example, intraday pricing enables investors to place limit orders on purchases or sales; stop orders can be entered as well. Standard margin rules apply and investors can even sell ETFs short—and do it on a downtick (unlike ordinary stocks, which are limited to uptick short sale only).

Low expense ratios and modularity make ETFs useful tools when engaging in tax management strategies, including using sector ETFs as a year-round method for harvesting losses to manage after-tax performance. Investors should consult their tax advisors for help determining when it’s appropriate to employ ETFs to equitize cash or engage in swaps while harvesting losses in other holdings.
CHART C
Lower expense ratios (%)

<table>
<thead>
<tr>
<th>Morningstar category</th>
<th>Avg. active fund %</th>
<th>Avg. index fund %</th>
<th>iShares fund %</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Taxable Bond</td>
<td>1.10</td>
<td>0.39</td>
<td>0.15</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>iShares Lehman 1-3 Year Treasury</td>
</tr>
<tr>
<td>Large Blend</td>
<td>1.30</td>
<td>0.62</td>
<td>0.09</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>iShares S&amp;P 500</td>
</tr>
<tr>
<td>Large Value</td>
<td>1.40</td>
<td>0.63</td>
<td>0.20</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>iShares Russell 1000 Value</td>
</tr>
<tr>
<td>Small Blend</td>
<td>1.57</td>
<td>0.74</td>
<td>0.20</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>iShares Russell 2000</td>
</tr>
<tr>
<td>Diversified Equity</td>
<td>1.74</td>
<td>0.81</td>
<td>0.35</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>iShares MSCI EAFE</td>
</tr>
<tr>
<td>Foreign Equity</td>
<td>1.75</td>
<td>0.75</td>
<td>0.20</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>iShares S&amp;P 500 Value</td>
</tr>
<tr>
<td>Specialty Equity</td>
<td>1.73</td>
<td>0.56</td>
<td>0.48</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>iShares Dow Jones</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td>U.S. Sector Series</td>
</tr>
</tbody>
</table>

Source: FRC, 12/06. The annual management fees or iShares Funds may be substantially less than those of most mutual funds. iShares Funds transactions will result in brokerage commissions, but the savings from lower annual fees can help offset these costs.

TAX EFFICIENCY

In the world of investing, some funds are more tax efficient than others, delivering higher after-tax returns for similar amounts of risk (see Chart D). In addition to having the relatively low turnover rates associated with index funds, ETFs can be even more tax efficient than their traditional index fund brethren.

To some extent, traditional mutual fund investors are at the mercy of their fellow shareholders and their fund managers when it comes to capital gains taxes. That's because mutual fund shareholders purchase and redeem shares from the fund.

CHART D

Percent of active managers UNDERPERFORMING the Index (from 12/31/95 to 12/31/03)

<table>
<thead>
<tr>
<th>VALUE %</th>
<th>BLEND %</th>
<th>GROWTH %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before tax</td>
<td>After tax</td>
</tr>
<tr>
<td>Large-Cap</td>
<td>82</td>
<td>72</td>
</tr>
<tr>
<td>Mid-Cap</td>
<td>76</td>
<td>57</td>
</tr>
<tr>
<td>Small-Cap</td>
<td>51</td>
<td>61</td>
</tr>
</tbody>
</table>

Source: Morningstar, U.S. equity mutual funds. Russell Indexes. Past performance is no guarantee of future results. All total returns reflect 10-year annualized figures. Funds are categorized by their Morningstar objective.

If the fund managers need cash to meet investors' redemptions, they may have to liquidate holdings in the portfolio, possibly generating a capital gain. And the consequences of the shareholder redemption—capital gains—are passed along to all other shareholders. Receiving unwanted capital gains tax distributions in a year when their fund displays negative performance can be especially discouraging to investors. With ETFs, investors buy and sell from one another on an exchange—not with the fund. Thus, ETF shareholders have more control over their tax destiny because they are not impacted by fellow shareholder purchases and redemptions.

CHART E

Traditional U.S. mutual fund structure

Individual investors will likely be satisfied with a simple explanation for the reason ETFs are more tax efficient than traditional funds, such as: "ETFs are tax efficient because they trade on an exchange just like stocks." On the other hand, advisors usually want to become comfortable with the specifics of the operational differences that make the additional tax efficiency possible.

Let's begin by reviewing the structure of a traditional mutual fund. As we've indicated, an individual investor interacts with the fund when purchasing or redeeming shares. As Chart E illustrates, the investor approaches the traditional fund through an advisor, or perhaps directly through the fund's customer service area. The investor pays cash to the fund in exchange for shares of the fund. The manager, on behalf of the fund, then takes the cash to the capital markets and buys the securities appropriate to the fund's objective. When the client wants to sell, the manager may need to raise cash by selling securities back to the capital markets, especially during down markets or periods of underperformance when redemptions often run especially high.
Introduction to Exchange Traded Funds

Now let's look at the ETF structure. Note in Chart F that there's a new participant in the center of the flow chart—the "ETF market maker." 

**Chart F**
Exchange traded fund structure

To buy an ETF, the individual investor, through an advisor/brokerage account, places a buy order. But this time, it is directed to the exchange instead of the fund. After exchanging the shares of the ETF for cash with the client's broker/dealer, the market makers on the exchange in turn take the cash and, when appropriate, replenish their supply of ETFs through the creation process we outlined earlier.

To facilitate all of this, ETF advisors such as Barclays Global Fund Advisors and State Street Global Advisors are producing, on a daily basis, portfolio composition files (or PCFs) for each of their funds. These files list the exact stocks in their representative percentages. As market makers take in cash and hand out ETFs, they are aware of which stocks they must buy. To build a creation unit, market makers take cash, go to the capital markets, and buy the stocks as listed and defined in the PCF. Market makers then deliver these securities "in-kind" to the fund, which issues the appropriate ETF's creation unit. The redemption process works in the same way, but in reverse. According to current tax law, the in-kind transfer for redemptions does not create a tax burden for the remaining ETF shareholders.

To summarize, ETF creation and redemption activity using the in-kind transfer does not create capital gains that are then passed on to the loyal "buy and hold" investor. However, we should clarify that this does not guarantee zero capital gains distributions. There may be events, such as an index reconstitution (where the fund may sell securities directly to the capital markets), that could generate a capital gain for the fund.

**INVESTMENT CONSULTING AND INSTITUTIONAL APPLICATIONS**

There are many investment consulting applications and institutional uses for ETFs. With over 210 benchmarks available as ETFs, consultants and portfolio managers can easily construct cost-efficient and tax-efficient portfolios that are fully diversified among capitalization, style, country, and sector categories. For years, institutions, foundations, and plan sponsors have implemented successful strategies that combine active and index investments. The evolution of the ETF marketplace has enabled individual investors the same sophisticated flexibility, combining actively managed mutual funds and separate accounts with ETFs to finely tune a portfolio's total risk. This blended strategy provides a way to implement strategic asset allocations with better benchmark tracking, while still allowing active management to add alpha. The blending of active and index investments, by asset class or within each asset class, is known as Core/Satellite investing.

As you can imagine, in addition to Core/Satellite there is an amazing variety of potential applications and strategies to implement. In fact, the total of possibilities for using ETFs employ both traditional and nontraditional investment strategies, including:

- Asset allocation tools for increasing or decreasing exposure to a specific style, sector or capitalization
- Sector rotation strategies
- Arbitrage strategies
- Hedging and defensive strategies
- Securities-lending revenue strategies (from short sellers)
- Market-neutral strategies
- Equitizing cash in areas where no listed derivative exists
- Maintaining equity exposure during a manager transition
- Hedging tools for shorting (even on a downtick)
- Brokerage window options in defined contribution plans
- Portfolio completion
- Tax-loss harvesting
- Adjusting duration/credit or sector exposure in fixed income portfolios
Carefully consider the funds' investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the funds' prospectuses, which may be obtained by calling 1-800-iShares (1-800-474-2737) or by visiting www.iShares.com. Read the prospectus carefully before investing.

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• Not FDIC Insured • No bank guarantee • May lose value

NOTES

1 Source: www.amex.com.

2 Optimized replication is investing in a representative sample of stocks in the underlying index that have an investment profile similar to the underlying index. Funds that use representative sampling generally do not hold all the stocks included in the underlying index.

3 As with mutual funds, there are risks involved with ETF investing, including possible loss of principal. In addition to the normal risks associated with equity investing, investments in smaller companies typically exhibit higher volatility, and ETFs that replicate indexes weighted in smaller capitalization shares share the same risk/return attributes of those stocks and of those indexes.

4 It is important to note that there are additional risks associated with margin investing. As with stocks, you may be called upon to deposit additional cash or securities if your account equity (including that attributable to ETFs) declines. With short sales, you risk paying more for a security than you received from its sale.

5 Mutual funds and ETFs are obliged to distribute portfolio gains to shareholders by year-end. These gains may be generated due to index rebalancing or due to diversification requirements. Your own ETF trading, too, will generate tax consequences and transaction expenses. Certain traditional mutual funds can be tax efficient as well.

6 It is important to remember that although ETFs may be bought and sold on the exchange through an brokerage account, they aren’t redeemable from the fund. Investors—authorized participants—may acquire ETFs, and tender ETFs for redemption, through the fund in creation unit aggregations only. Creation units usually represent 50,000 shares, and so are typically done by institutions. However, ETFs are used by both individual investors and institutional investors in the secondary markets on the stock exchanges.
TO: JPA Board
FROM: Executive Director
SUBJECT: One year Performance and Salary Review

RECOMMENDATION:
Provide a one year performance review and determine salary of the Executive Director in accordance with the May 1, 1998 employment agreement.

SITUATION:
The employment agreement between the Executive Director and the JPA (attached) requires an annual performance review and salary evaluation of the Executive Director taking into account:

1. Overall performance of the JPA;
2. Budget of the JPA;
3. Salary adjustments given, or to be given, to other JPA staff for the same period; and,
4. Such other factors as the JPA deems relevant.

The Board may wish to refer this item to the Budget/Administration/Policy Committee for a more formal performance review.
FINANCIAL CONSIDERATION

The Board adopted a FY 07/08 budget at the April meeting which includes sufficient funds to set the Executive Director salary at:

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>$91,312</td>
<td>$98,758</td>
</tr>
</tbody>
</table>

The proposed 2007/08 salary level is equivalent to the 3% COLA adopted for all staff and an additional 5% merit increase.

ALTERNATE ACTIONS

1. Provide a one year performance review for the Executive Director and approve an appropriate salary for the 2007-2008 fiscal year.

2. Continue this item and refer to the Budget/Administration/Policy Committee for review and recommendation.

Respectfully submitted,

Dick Bobertz
Executive Director

Attachment: Employment Agreement (Board handout)