

CITY COUNCIL REPORT

DATE: 3/9/15

TO: Mayor and Councilmembers

FROM: Andy Wagemaker, Revenue Director

CC: Jeff Meilbeck, Josh Copley, Jerene Watson, Leadership Team

SUBJECT: 4th QUARTER 2014 INVESTMENT REPORT

This is the 4th quarter 2014 investment report for the period ending 9/30/2014.

DISCUSSION

Every quarter, Council receives a quarterly investment report from staff. This investment report is for the 4th quarter of 2014.

The next page of the report contains highlights of the portfolio. The highlights include internally generated information and information pulled directly from the "Investment Performance Review" provided by PFM. The Investment Performance Review provided by PFM begins on page 3.

RECOMMENDATION / CONCLUSION

This report is for information only.

**INVESTMENT HIGHLIGHTS (Managed Portfolio)**  
(Approximate Numbers Used)

Item Description	4th Quarter 2014	Previous Quarter	Since Inception (July 2011)
Total Managed Portfolio	\$82 million	\$73 million	N/A
City Total Return	0.42%	0.00%	0.80%
Benchmark Return	0.48%	-0.05%	0.76%
Return Spread (to Benchmark)	-0.06%	0.05%	0.04%
Portfolio Duration (in Years)	2.45	2.40	N/A
Benchmark Duration (in Years)	2.61	2.62	N/A

**DEFINITIONS**

**Benchmark Return:** A comparative basis for measuring the performance of the portfolio. The City uses the ML 1-5 Year Government Index. The index consists primarily of debt issued by the United States Government.

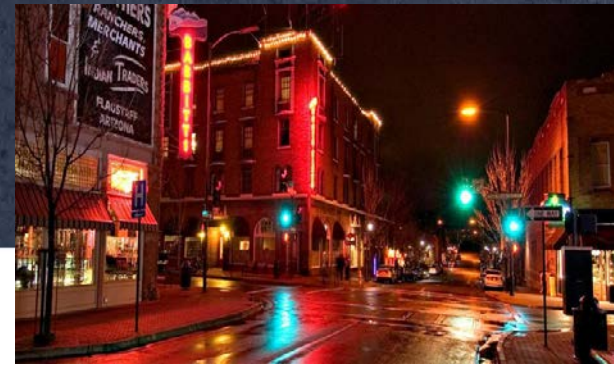
**Return Spread:** The difference between the City Total Return and the Benchmark Return. (City Total Return minus Benchmark Return)

**Portfolio and Benchmark Duration:** The average length of time until all securities in the portfolio mature.

**COMMENTS**

- All investments comply with Arizona Revised Statutes and Flagstaff's Investment Policy.
- The total City resources on hand at the end of the 4th quarter are as follows:

Item Description	Amount	Comments
Managed Portfolio	\$82 Million	PFM Managed Portfolio
City Managed	\$26 Million	CDs/Checking/LGIP Pools
Restricted Funds	\$16 Million	Landfill Closure Fund/Bond Proceeds/Other
<b>Total:</b>	<b>\$124 Million</b>	



# City of Flagstaff Quarterly Investment Report Quarter Ended December 31, 2014



**The PFM Group**  
Financial & Investment Advisors

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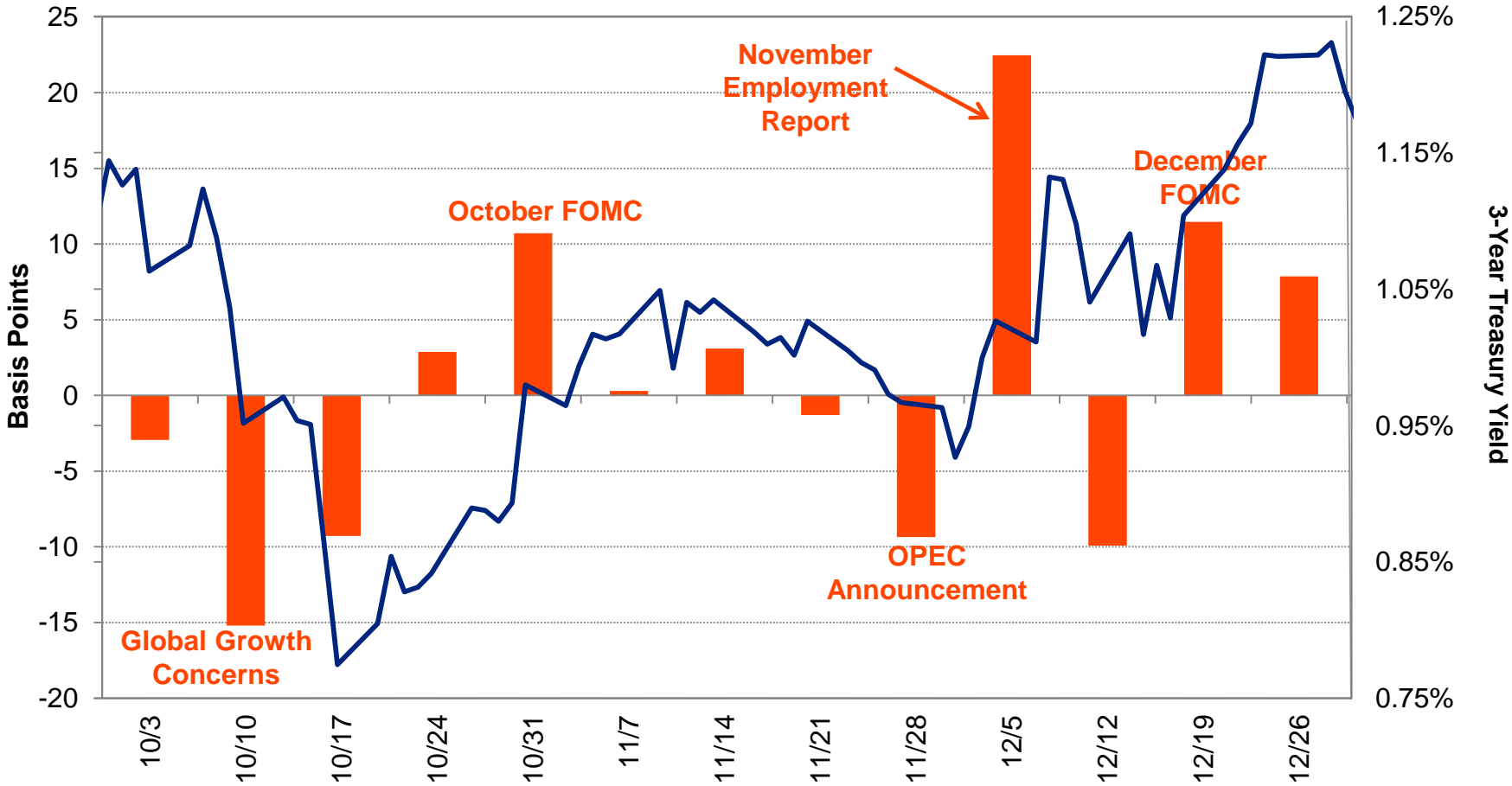
Paulina Woo, Senior Managing Consultant  
woop@pfm.com

# Fourth Quarter 2014 Strategy and Recap

- Interest rates were volatile in the fourth quarter as market participants continued to weigh an improving domestic economy against declining growth prospects abroad, global deflationary pressures, and diverging policies from central banks around the world.
- Yields under five years continued their trend higher, while longer-term rates trended lower. This resulted in an overall flattening of the yield curve.
- We maintained a modestly defensive duration strategy—keeping the average portfolio maturity shorter than the benchmark—throughout the quarter in an effort to mitigate the impact that rising rates would have on the portfolio’s performance.
- This strategy was consistent with our view that steadily improving economic fundamentals in the U.S., combined with the Federal Reserve’s stated plans to normalize monetary policy by concluding asset purchases and increasing short-term rates, would push the yield on short- and intermediate-duration securities higher.
- Yield spreads on Federal Agency securities generally narrowed relative to Treasuries during the quarter and so we favored Treasuries over Agencies for most new purchases. However, in certain maturities, Agencies continued to offer added value and we purchased select agencies during the quarter.
- We took advantage of specific high-quality corporate issuances that offered significant relative value compared to Treasuries and Agencies.

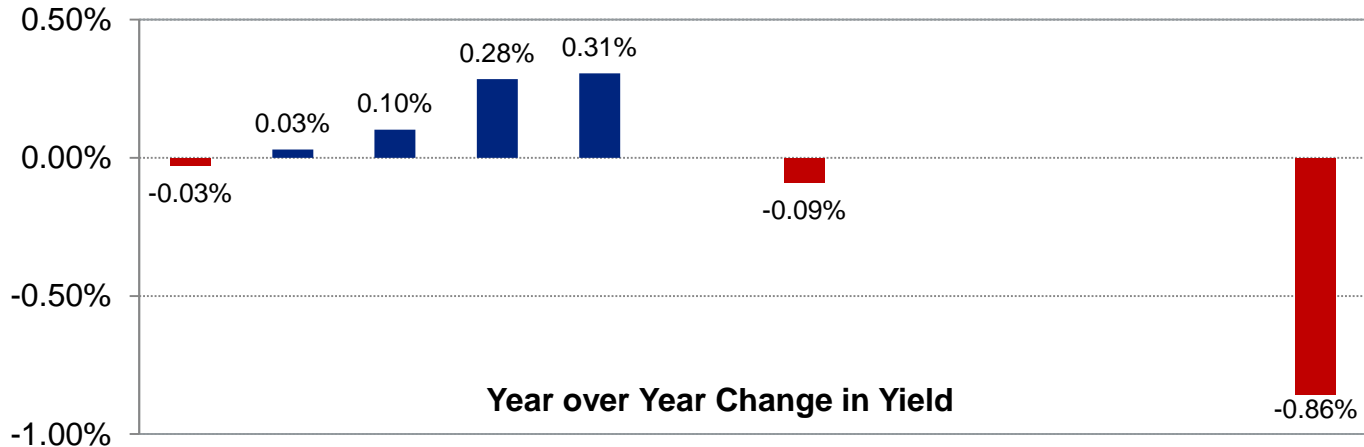
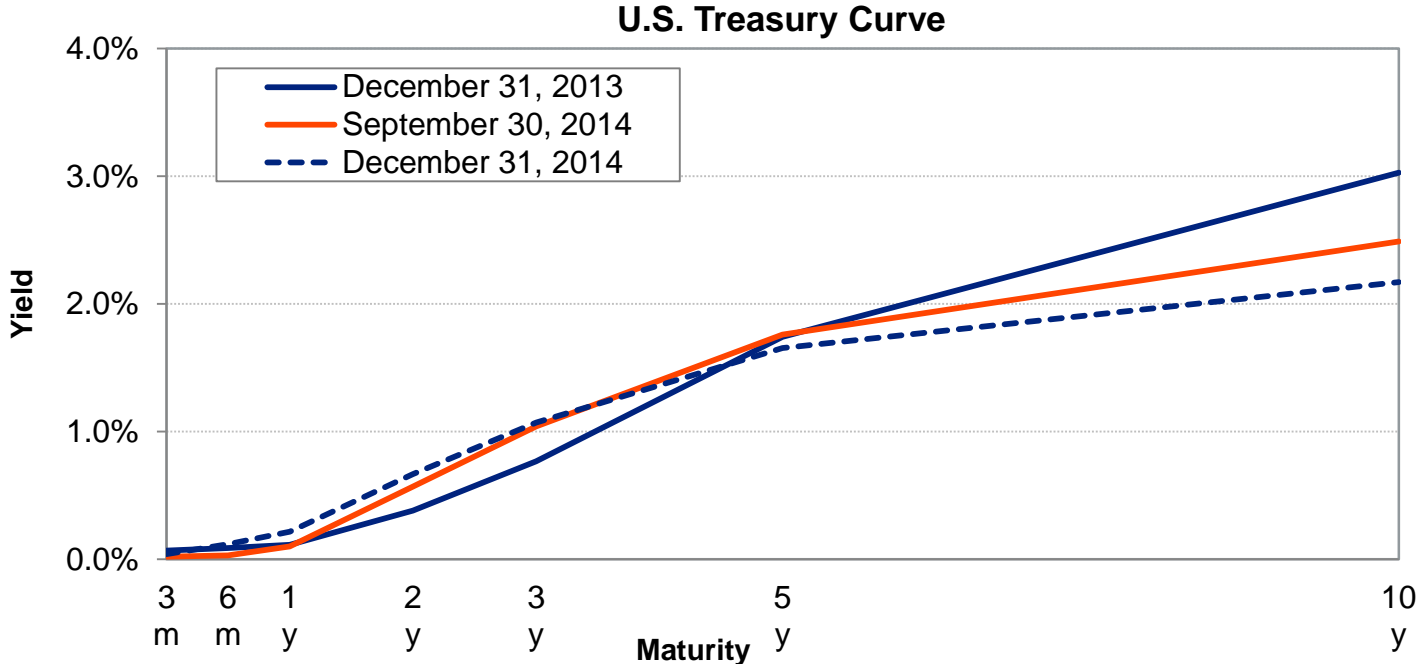
# Treasury Yields Volatile in 4<sup>th</sup> Quarter

3-Year U.S. Treasury Yield and Week over Week Change in Basis Points



Source: Bloomberg.

# Intermediate-Term Yields Rose; Longer Fell

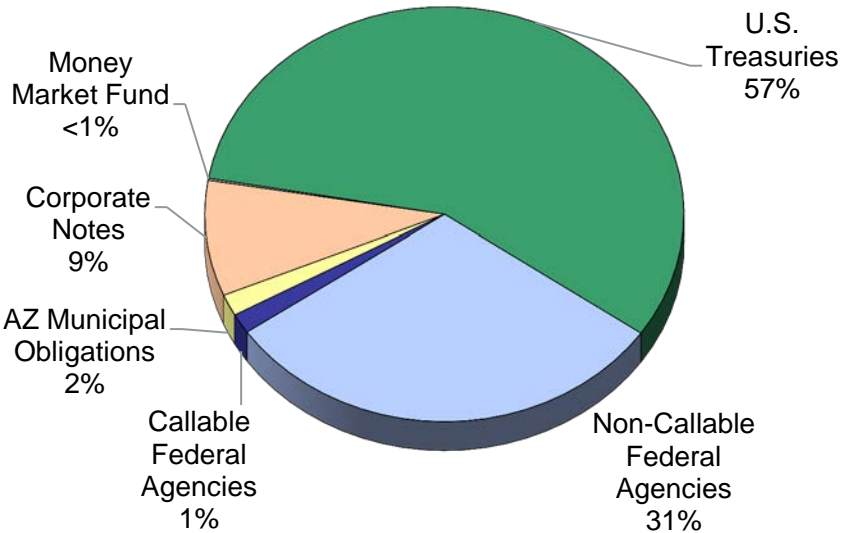


Source: Bloomberg.

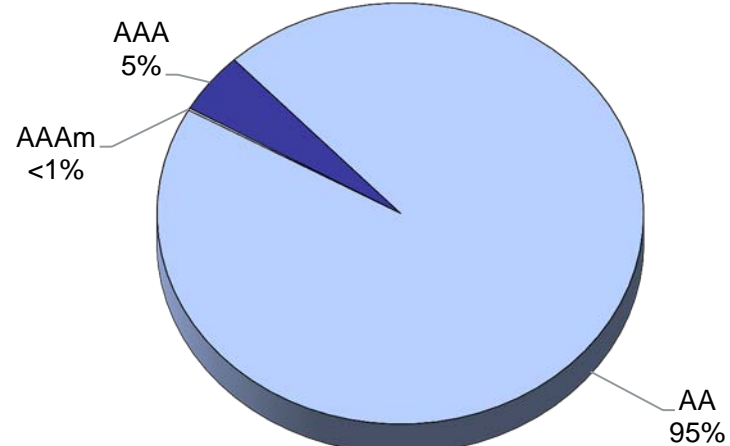
# Portfolio Composition and Credit Quality Characteristics

<u>Security Type<sup>1</sup></u>	<u>December 31, 2014</u>	<u>% of Portfolio</u>	<u>September 30, 2014</u>	<u>% of Portfolio</u>	<u>Permitted by Policy<sup>3</sup></u>
<b>U.S. Treasuries</b>	<b>\$46,491,736.33</b>	<b>56.9%</b>	\$42,938,789.33	58.5%	<b>100%</b>
<b>Federal Agencies<sup>2</sup></b>	<b>\$26,354,663.50</b>	<b>32.2%</b>	\$23,784,543.19	32.4%	<b>100%</b>
<i>Non-Callable Agencies</i>	\$25,090,429.14	30.7%	\$22,520,949.50	30.7%	100%
<i>Callable Agencies</i>	\$1,264,234.36	1.5%	\$1,263,593.69	1.7%	100%
<b>AZ Municipal Obligations</b>	<b>\$1,376,475.00</b>	<b>1.7%</b>	\$1,376,746.50	1.9%	<b>50%</b>
<b>Corporate Notes</b>	<b>\$7,328,849.23</b>	<b>9.0%</b>	\$5,022,388.22	6.8%	<b>10%</b>
<b>Money Market Fund</b>	<b>\$137,248.85</b>	<b>0.2%</b>	\$255,455.30	0.3%	<b>25%</b>
<b>Totals</b>	<b>\$81,688,972.91</b>	<b>100.0%</b>	\$73,377,922.54	100.0%	

Operating Portfolio Composition



Operating Portfolio Credit Quality Distribution

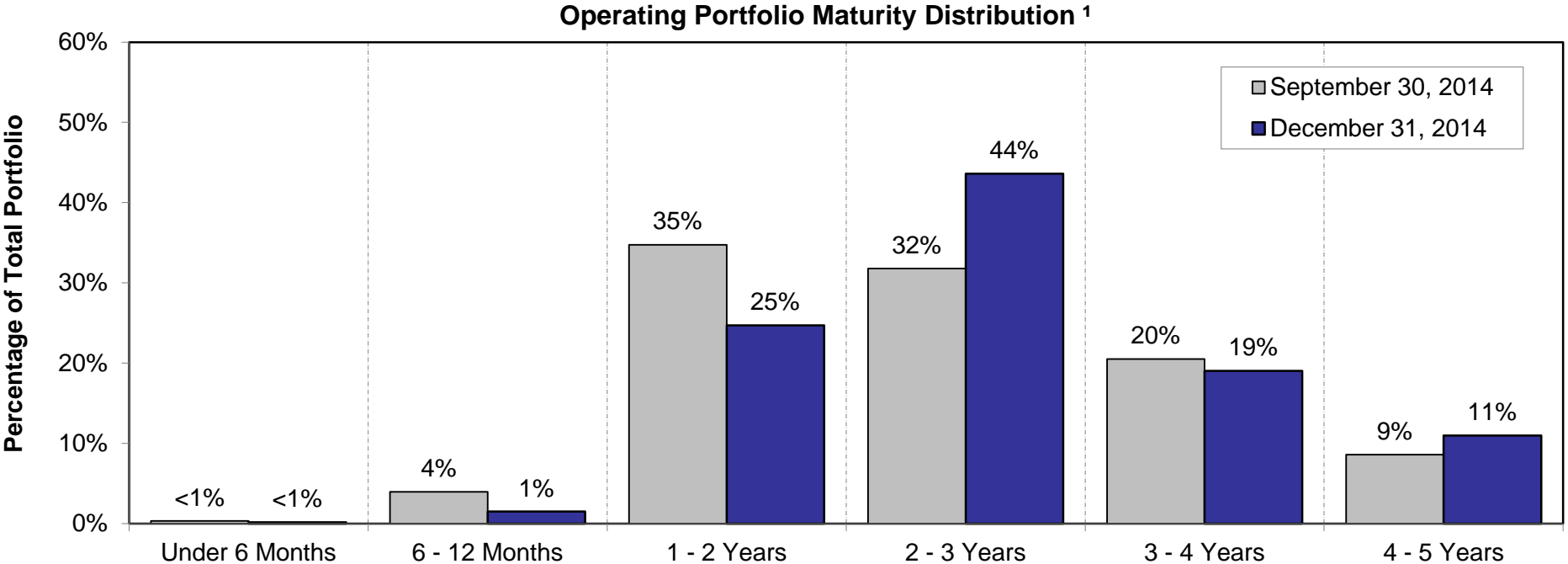


Ratings by Standard & Poor's.

1. End of quarter trade-date market values of portfolio holdings, including accrued interest and Cash/Money Market Fund.  
 2. Federal agencies including, but not limited to Fannie Mae, Freddie Mac, Federal Home Loan Bank system and Federal Farm Credit Banks.  
 3. Percentage limitations apply to aggregate investments.

# Operating Portfolio Maturity Distribution

<u>Maturity Distribution</u>	<u>December 31, 2014</u>	<u>September 30, 2014</u>
Under 6 Months	\$137,248.85	\$255,455.30
6 - 12 Months	\$1,225,281.04	\$2,911,647.04
1 - 2 Years	\$20,174,617.91	\$25,504,231.10
2 - 3 Years	\$35,625,385.49	\$23,332,217.65
3 - 4 Years	\$15,543,876.04	\$15,061,626.49
4 - 5 Years	\$8,982,563.58	\$6,312,744.96
<b>Totals</b>	<b>\$81,688,972.91</b>	<b>\$73,377,922.54</b>



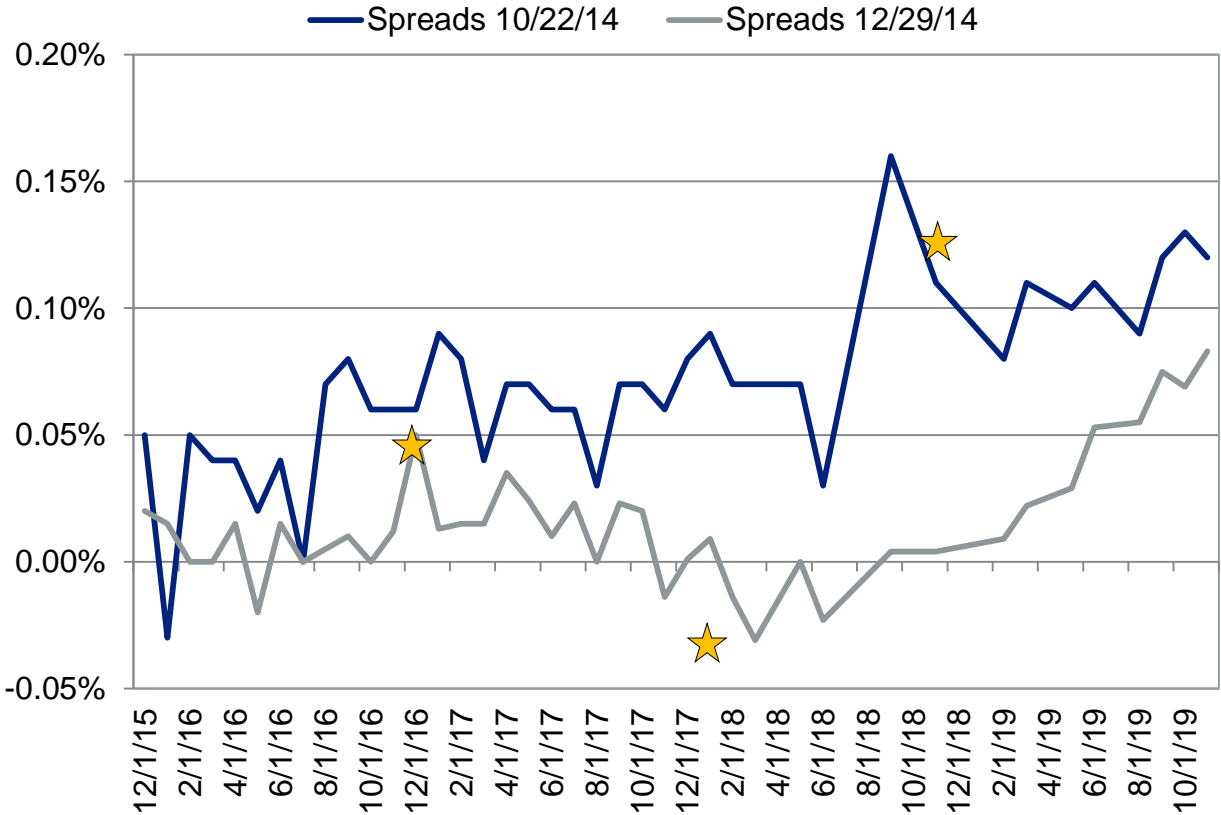
1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.



# Relative Value Analysis: Treasuries vs. Agencies

- Although, generally speaking, yield spreads between Treasuries and Agencies favored Treasuries over the past quarter, the relationship fluctuated and depended on the security maturity.

**Agency Bullet vs. Matched Maturity Treasury Spread**

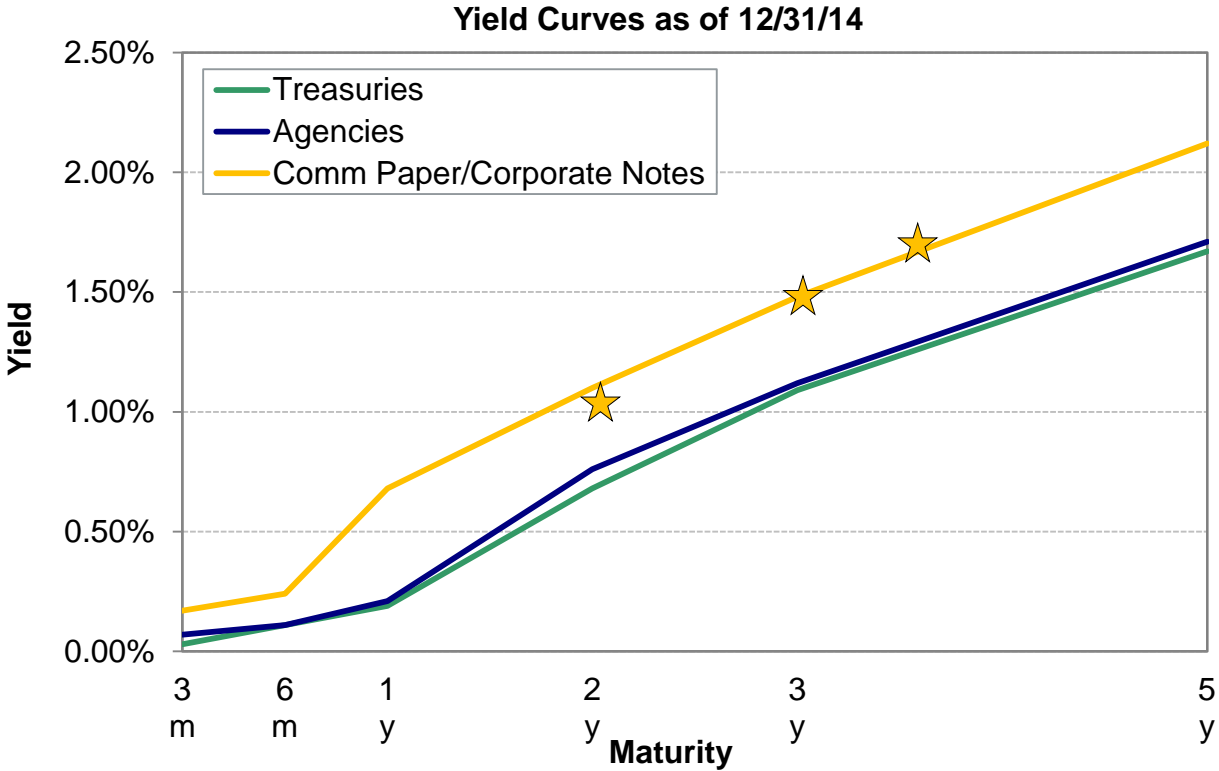


- October: Sold Treasuries to purchase agencies with a November 2018 maturity at spread of +13 basis points.
- December: With spreads at only +5 basis points, utilized new cash to purchase Treasuries with December 2016 maturity.
- December: With Treasuries yielding more than agencies at a level of -4 basis points in certain maturities, utilized new cash to purchase Treasuries with January 2018 maturity.

Source: Bloomberg.

# Relative Value Analysis: Corporate Sector vs. Government

- Yield spreads between corporate notes and government securities remain attractive.
- We purchased high-quality corporate notes for the portfolio for diversification and earnings potential.

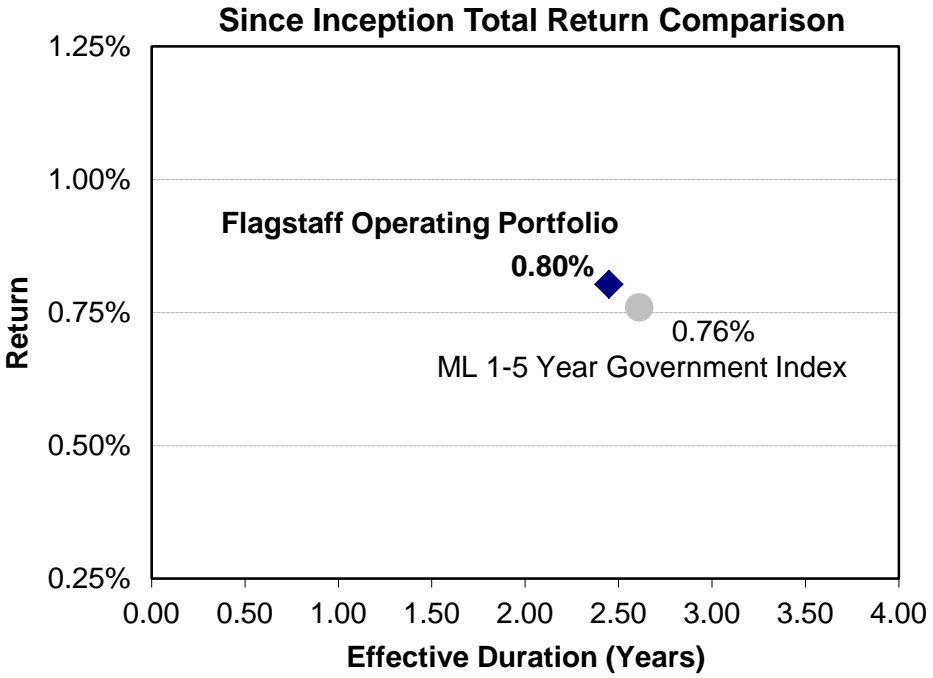
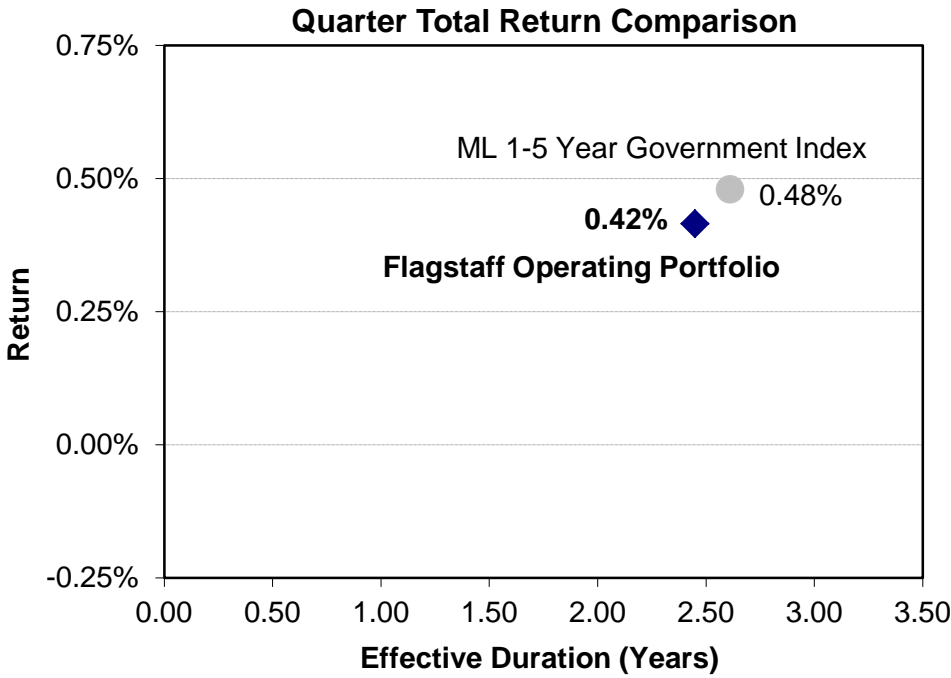


Trade Date	Security	S&P Rating	Maturity	Par Value	Yield
10/2/14	Johnson & Johnson Corp Notes	AAA	7/15/18	\$1,300,000	1.56%
10/29/14	General Electric Co Notes	AA+	12/6/17	\$1,543,000	1.46%
11/18/14	U.S. Bank Corp Note	AA-	1/30/17	\$725,000	1.01%

Source: Bloomberg.

# Portfolio Performance

Total Return <sup>1,2,3,4</sup>	Quarter Ended December 31, 2014	Past 6 Months	Past Year	Past 2 Years	Since Inception
<b>Flagstaff Operating Portfolio</b>	<b>0.42%</b>	<b>0.41%</b>	<b>1.24%</b>	<b>0.54%</b>	<b>0.80%</b>
ML 1-5 Year Government Index	0.48%	0.43%	1.24%	0.54%	0.76%
Effective Duration	December 31, 2014	September 30, 2014	Yields	December 31, 2014	September 30, 2014
<b>Flagstaff Operating Portfolio</b>	<b>2.45</b>	<b>2.40</b>	Yield at Market	0.97%	0.89%
ML 1-5 Year Government Index	2.61	2.62	Yield on Cost	0.95%	0.84%



1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).  
 2. The portfolio's inception date is September 7, 2011.  
 3. Merrill Lynch Indices provided by Bloomberg Financial Markets.  
 4. Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than one year are presented on an annualized basis.

# First Quarter 2015 Outlook and Strategy

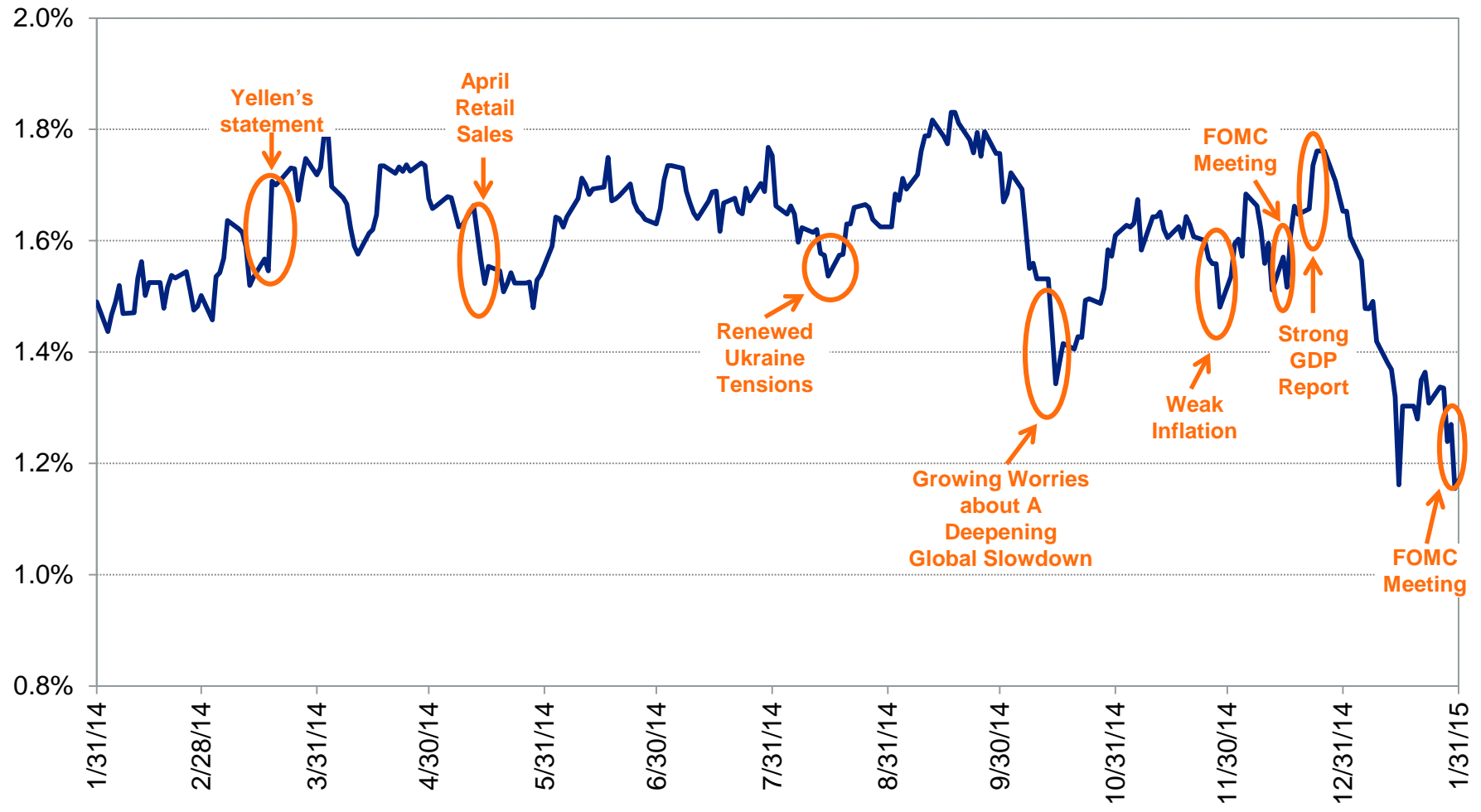
- **We expect similar market forces in 2015:**
  - Central bank action
  - Diverging global economic activity
  - Geopolitical risk
- **Closely monitor movements of the FOMC:**
  - Expect first rate hike in 2015
  - Timing uncertain—possibly late summer to early fall
  - Continue to employ conservative duration management
- **Very little yield advantage in government-related securities:**
  - Agency and municipal bond spreads are very narrow
  - Look for opportunities to diversify into credit sectors
  - Prefer Treasuries where yields are narrow



## Economic Update

# Recent Market Movers

**Yield on 5-year U.S. Treasury Note**  
January 31, 2014 – January 31, 2015

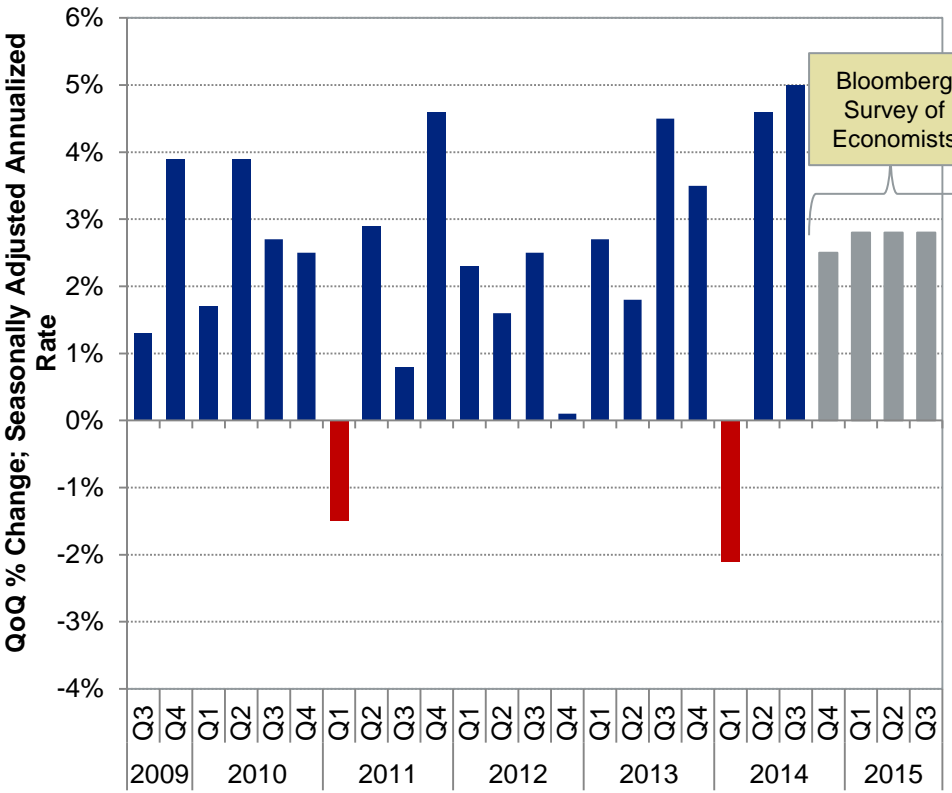


Source: Bloomberg.

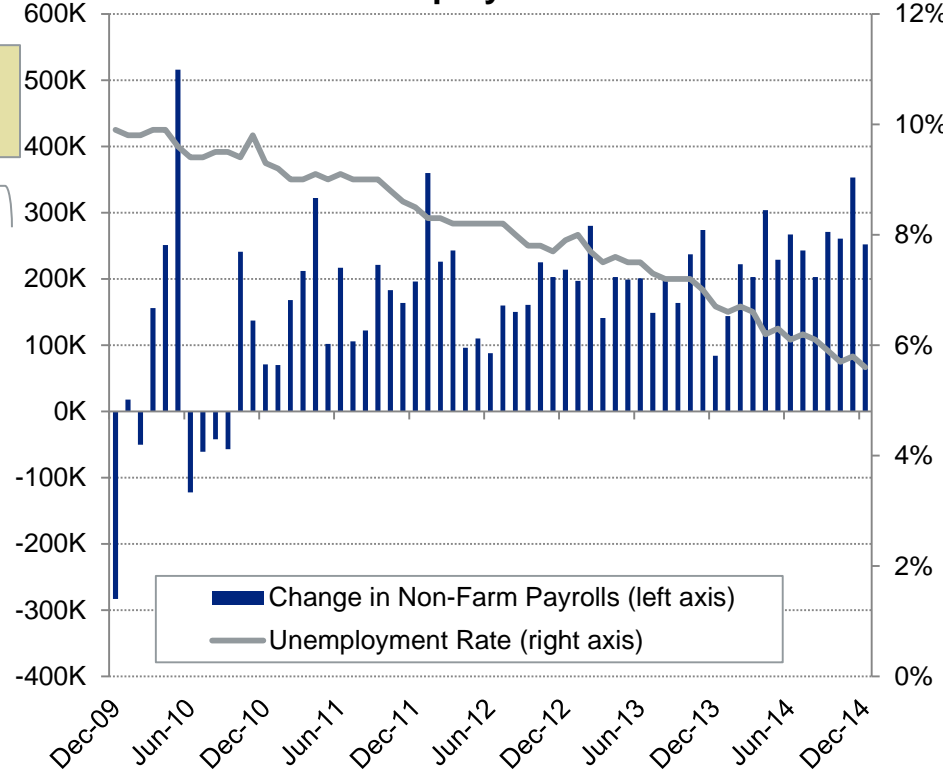
# U.S. Economy Continues To Strengthen

- U.S. grew at its fastest pace in 11 years during 3Q.
- Q3 GDP was fueled by both stronger consumer and business spending.
- U.S. unemployment rate at 5.6%, the lowest level since mid-2008.
- In 2014, the economy added an average of 246,000 jobs per month.

**U.S. Real GDP**



**Change in Non-Farm Payrolls and Unemployment Rate**

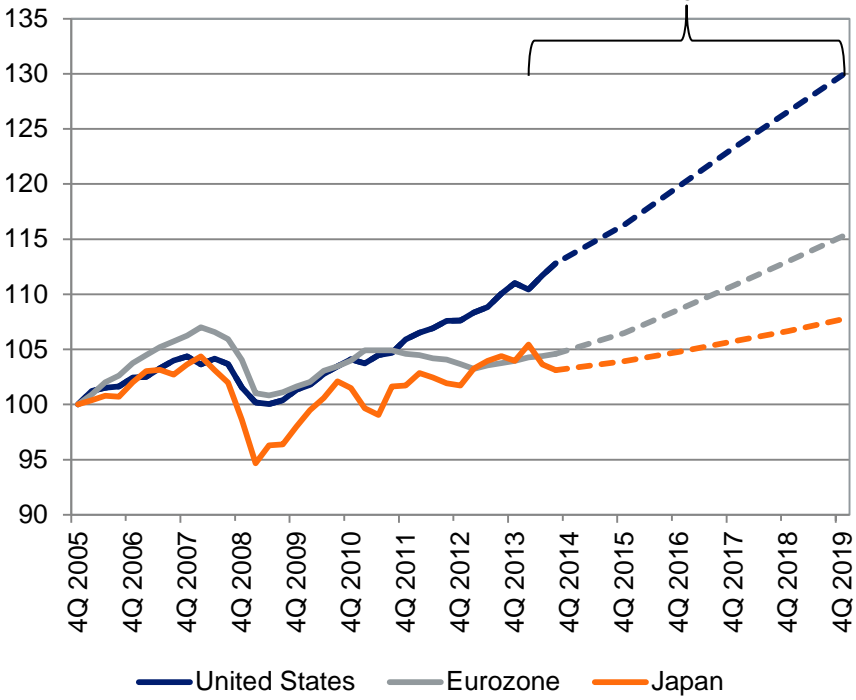


Source: Bureau Of Economic Analysis; Bureau of Labor Statistics.

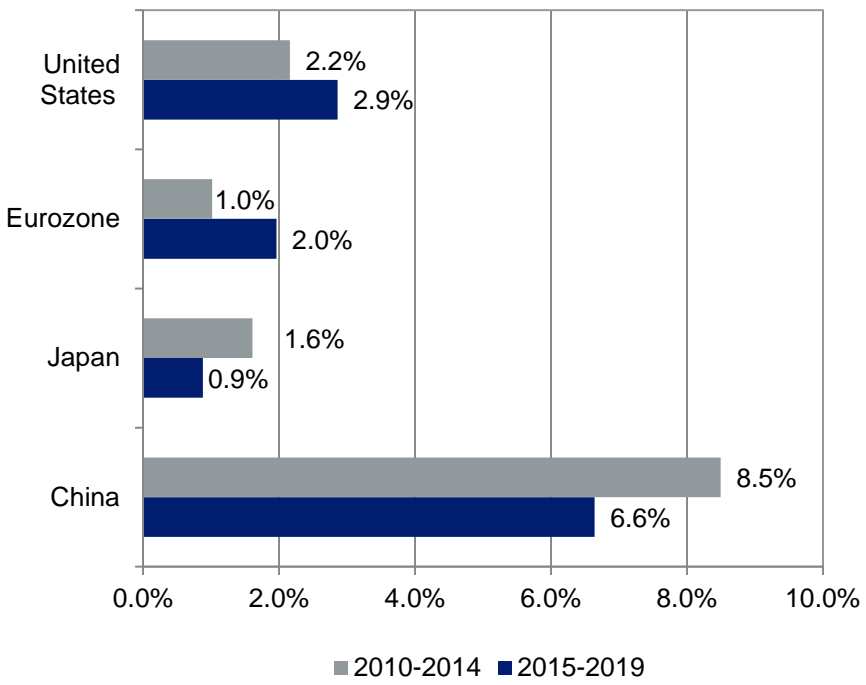
# Global Growth Rates Diverge

- U.S. GDP fully recovered from 2007-8 financial crisis; moderate growth expected
- Eurozone and Japan struggling
- Emerging markets slow from historic pace

**GDP Growth (4Q2005 = 100)**  
IMF Projections



**Historical and Expected Long-Term GDP Growth Rates**



Source: Bloomberg and International Monetary Fund (IMF) expectations. Actual data through 3Q2014.



# FOMC Statement Notes Stronger Economy

January

29

- Labor market conditions improved further, with strong job gains and a lower unemployment rate...inflation declined further below the Committee's longer-run objective, ***largely reflecting declines in energy prices.***
- The Committee ***expects inflation to rise gradually toward two percent*** over the medium term as the labor market improves further and the transitory effects of lower energy prices and other factors dissipate.
- Based on its current assessment, the Committee judges that it ***can be patient in beginning to normalize the stance of monetary policy.***
- *If incoming information indicates faster progress...then increases in the target range for the federal funds rate are likely to occur sooner...if progress proves slower than expected, then increases in the target range are likely to occur later.*
- The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer-run.

# Falling Oil Prices

- **West Texas Intermediate (WTI) Crude:**
  - 46% year-to-date decline
  - 50% decline from the 2014 peak
- **Plunge in oil prices attributed to:**
  - Oversupply
    - Increased North American production
    - OPEC maintaining output
  - Slowing global demand
    - Weaker global economy
    - Improvements in energy efficiency and use of alternative energy sources

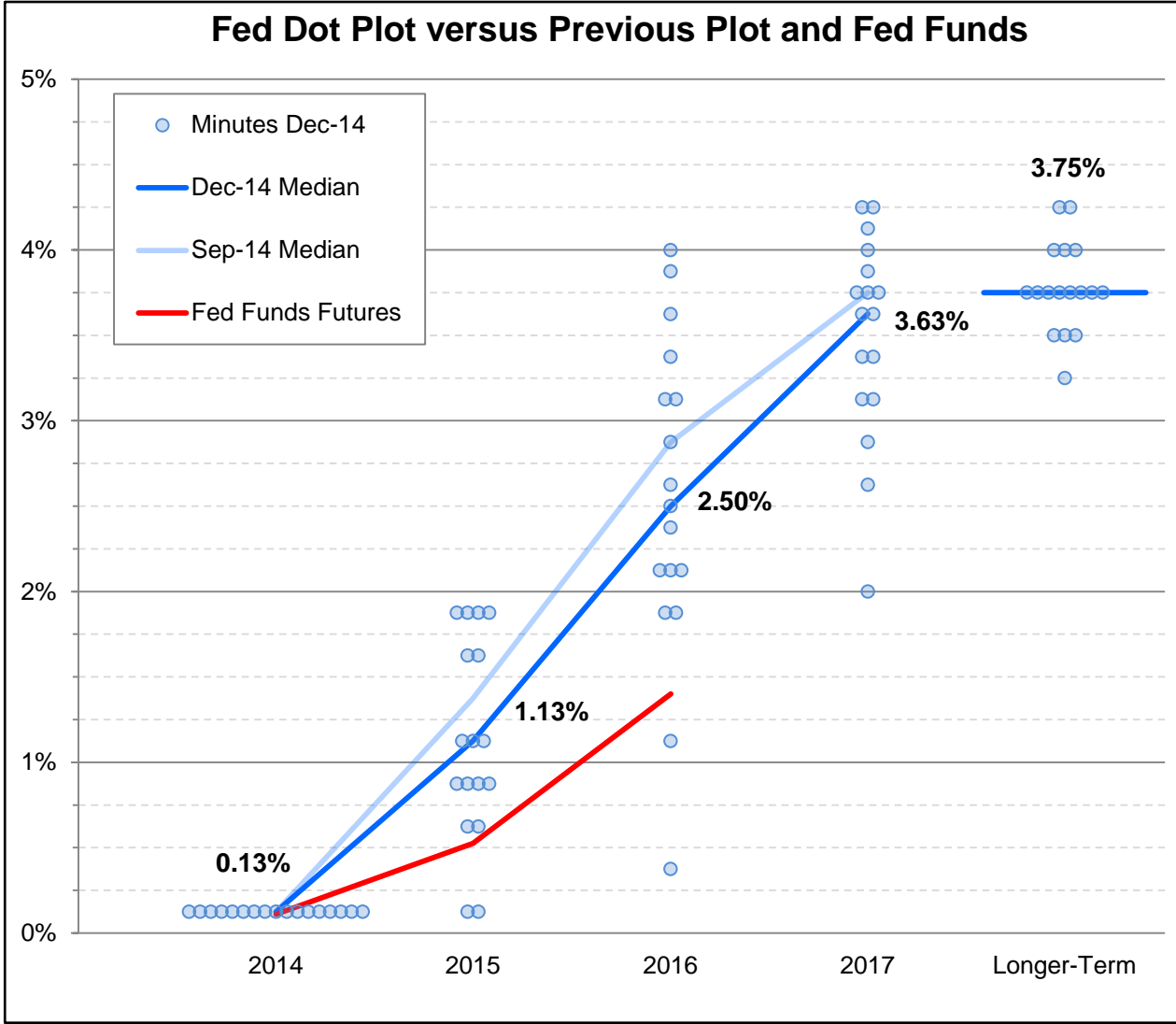
WTI Price per Barrel (10 Years)



- **Net Positive For U.S. Economy:**
  - Oil prices boost consumer discretionary income
  - Energy employment may decline, but offset by gains in other industries
  - Municipalities with fleets of vehicles should save money

Source: Bloomberg and Barclays. Data as of December 31, 2014.

# Fed Likely to Begin Rate Normalization in 2015



Source: Bloomberg and Federal Reserve. Summary of economic projections from December 17, 2014.

# Disclaimer

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**Managed Account Detail of Securities Held**

For the Month Ending **December 31, 2014**

**CITY OF FLAGSTAFF OPERATING FUNDS**

<b>Security Type/Description Dated Date/Coupon/Maturity</b>	<b>CUSIP</b>	<b>Par</b>	<b>S&amp;P Rating</b>	<b>Moody's Rating</b>	<b>Trade Date</b>	<b>Settle Date</b>	<b>Original Cost</b>	<b>YTM at Cost</b>	<b>Accrued Interest</b>	<b>Amortized Cost</b>	<b>Market Value</b>
<b>U.S. Treasury Bond / Note</b>											
US TREASURY NOTES DTD 01/31/2014 0.375% 01/31/2016	912828B41	1,200,000.00	AA+	Aaa	02/04/14	02/07/14	1,201,546.88	0.31	1,883.15	1,200,845.83	1,200,562.80
US TREASURY NOTES DTD 02/28/2014 0.250% 02/29/2016	912828B82	2,500,000.00	AA+	Aaa	03/06/14	03/06/14	2,495,214.84	0.35	2,123.62	2,497,197.55	2,496,875.00
US TREASURY NOTES DTD 06/30/2011 1.500% 06/30/2016	912828QR4	4,000,000.00	AA+	Aaa	07/21/14	07/22/14	4,076,250.00	0.51	165.75	4,058,910.48	4,060,312.00
US TREASURY NOTES DTD 08/31/2011 1.000% 08/31/2016	912828RF9	350,000.00	AA+	Aaa	09/16/13	09/18/13	352,324.22	0.77	1,189.23	351,314.42	352,625.00
US TREASURY NOTES DTD 08/31/2011 1.000% 08/31/2016	912828RF9	1,375,000.00	AA+	Aaa	08/29/13	08/30/13	1,382,519.53	0.82	4,671.96	1,379,179.78	1,385,312.50
US TREASURY NOTES DTD 08/31/2011 1.000% 08/31/2016	912828RF9	3,675,000.00	AA+	Aaa	03/06/14	03/06/14	3,717,635.74	0.53	12,486.88	3,703,559.78	3,702,562.50
US TREASURY NOTES DTD 01/03/2012 0.875% 12/31/2016	912828RX0	4,050,000.00	AA+	Aaa	12/22/14	12/23/14	4,062,656.25	0.72	97.89	4,062,505.23	4,065,187.50
US TREASURY NOTES DTD 01/31/2012 0.875% 01/31/2017	912828SC5	950,000.00	AA+	Aaa	02/08/12	02/09/12	953,005.86	0.81	3,478.60	951,272.38	952,746.45
US TREASURY NOTES DTD 01/31/2012 0.875% 01/31/2017	912828SC5	2,000,000.00	AA+	Aaa	02/22/12	02/27/12	1,999,609.38	0.88	7,323.37	1,999,833.92	2,005,782.00
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	625,000.00	AA+	Aaa	02/27/14	03/03/14	630,078.12	0.73	1,596.84	628,715.73	627,636.88
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	2,000,000.00	AA+	Aaa	03/19/14	03/21/14	2,004,609.38	0.92	5,109.89	2,003,430.04	2,008,438.00
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	3,500,000.00	AA+	Aaa	03/06/14	03/06/14	3,522,968.75	0.78	8,942.31	3,516,855.06	3,514,766.50
US TREASURY NOTES DTD 06/30/2010 2.500% 06/30/2017	912828NK2	1,900,000.00	AA+	Aaa	12/05/14	12/09/14	1,975,925.78	0.92	131.22	1,974,097.13	1,974,812.50
US TREASURY NOTES DTD 11/30/2012 0.625% 11/30/2017	912828UA6	1,925,000.00	AA+	Aaa	05/06/14	05/09/14	1,888,003.91	1.18	1,057.69	1,894,629.91	1,900,336.90



## Managed Account Detail of Securities Held

For the Month Ending **December 31, 2014**

### CITY OF FLAGSTAFF OPERATING FUNDS

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>U.S. Treasury Bond / Note</b>											
US TREASURY NOTES DTD 12/31/2012 0.750% 12/31/2017	912828UE8	1,000,000.00	AA+	Aaa	01/30/13	02/04/13	993,476.56	0.89	20.72	995,979.69	989,453.00
US TREASURY NOTES DTD 12/31/2012 0.750% 12/31/2017	912828UE8	1,100,000.00	AA+	Aaa	01/04/13	01/04/13	1,094,757.81	0.85	22.79	1,096,824.25	1,088,398.30
US TREASURY NOTES DTD 01/31/2013 0.875% 01/31/2018	912828UJ7	4,050,000.00	AA+	Aaa	12/22/14	12/23/14	4,012,822.27	1.18	14,829.82	4,013,111.83	4,017,409.65
US TREASURY NOTES DTD 04/30/2013 0.625% 04/30/2018	912828UZ1	950,000.00	AA+	Aaa	05/10/13	05/15/13	941,353.52	0.81	1,016.92	944,158.74	930,703.60
US TREASURY NOTES DTD 07/01/2013 1.375% 06/30/2018	912828VK3	500,000.00	AA+	Aaa	07/21/14	07/22/14	499,375.00	1.41	18.99	499,444.69	500,976.50
US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	180,000.00	AA+	Aaa	07/01/14	07/07/14	178,115.62	1.50	197.80	178,318.85	178,734.42
US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	800,000.00	AA+	Aaa	06/02/14	06/03/14	794,406.25	1.41	879.12	795,109.04	794,375.20
US TREASURY NOTES DTD 01/31/2014 1.500% 01/31/2019	912828B33	2,500,000.00	AA+	Aaa	07/29/14	07/31/14	2,488,378.91	1.61	15,692.93	2,489,425.33	2,500,977.50
US TREASURY NOTES DTD 03/31/2014 1.625% 03/31/2019	912828C65	1,300,000.00	AA+	Aaa	09/02/14	09/04/14	1,301,421.88	1.60	5,397.32	1,301,328.34	1,305,788.90
US TREASURY NOTES DTD 03/31/2014 1.625% 03/31/2019	912828C65	1,800,000.00	AA+	Aaa	10/02/14	10/06/14	1,802,812.50	1.59	7,473.21	1,802,668.09	1,808,015.40
US TREASURY NOTES DTD 05/15/2009 3.125% 05/15/2019	912828KQ2	1,900,000.00	AA+	Aaa	10/30/14	11/03/14	2,034,632.81	1.50	7,708.91	2,029,960.02	2,025,430.40
<b>Security Type Sub-Total</b>		<b>46,130,000.00</b>					<b>46,403,901.77</b>	<b>0.92</b>	<b>103,516.93</b>	<b>46,368,676.11</b>	<b>46,388,219.40</b>
<b>Municipal Bond / Note</b>											
MESA, AZ T/E GO BONDS DTD 04/04/2012 2.000% 07/01/2016	590485WP9	750,000.00	AA-	Aa2	03/02/12	04/04/12	781,065.00	1.00	7,500.00	761,134.57	767,085.00
AZ SCH FAC BOARD TXBL REV BONDS DTD 04/11/2013 1.118% 07/01/2017	040580GB2	600,000.00	AAA	Aaa	03/20/13	04/11/13	600,000.00	1.12	3,354.00	600,000.00	598,536.00



## Managed Account Detail of Securities Held

For the Month Ending **December 31, 2014**

### CITY OF FLAGSTAFF OPERATING FUNDS

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>Municipal Bond / Note</b>											
<b>Security Type Sub-Total</b>		<b>1,350,000.00</b>					<b>1,381,065.00</b>	<b>1.05</b>	<b>10,854.00</b>	<b>1,361,134.57</b>	<b>1,365,621.00</b>
<b>Federal Agency Bond / Note</b>											
FHLB (EX-CALLABLE) GLOBAL NOTES DTD 12/30/2013 0.375% 12/30/2015	3130A0GK0	1,225,000.00	AA+	Aaa	12/12/13	12/30/13	1,224,632.50	0.39	12.76	1,224,816.40	1,225,268.28
FHLB NOTES DTD 03/16/2010 3.125% 03/11/2016	3133XXP43	1,150,000.00	AA+	Aaa	11/17/11	11/18/11	1,243,610.00	1.18	10,980.90	1,176,393.74	1,186,205.45
FHLMC REFERENCE NOTE DTD 11/21/2014 0.400% 05/27/2016	3134G5RF4	2,575,000.00	AA+	Aaa	11/19/14	11/21/14	2,574,227.50	0.42	1,144.44	2,574,284.00	2,569,687.78
FREDDIE MAC GLOBAL NOTES DTD 07/08/2011 2.000% 08/25/2016	3137EACW7	450,000.00	AA+	Aaa	11/17/11	11/18/11	465,039.00	1.28	3,150.00	455,306.45	460,744.65
FHLB NOTES DTD 08/07/2014 0.500% 09/28/2016	3130A2T97	1,950,000.00	AA+	Aaa	08/06/14	08/07/14	1,945,612.50	0.61	2,518.75	1,946,426.82	1,944,830.55
FEDERAL HOME LOAN BANKS (CALLABLE) DTD 03/27/2014 1.625% 03/27/2017	3130A1CR7	1,255,000.00	AA+	Aaa	04/02/14	04/04/14	1,268,792.45	1.25	5,325.03	1,258,364.35	1,258,909.33
FHLMC NOTES DTD 03/26/2012 1.250% 05/12/2017	3137EADF3	2,275,000.00	AA+	Aaa	06/28/12	06/29/12	2,310,353.50	0.92	3,870.66	2,292,361.94	2,291,860.03
FREDDIE MAC GLOBAL NOTES DTD 05/14/2012 1.000% 06/29/2017	3137EADH9	260,000.00	AA+	Aaa	08/11/14	08/13/14	260,248.04	0.97	14.44	260,215.90	260,511.94
FREDDIE MAC GLOBAL NOTES DTD 05/14/2012 1.000% 06/29/2017	3137EADH9	995,000.00	AA+	Aaa	08/11/14	08/13/14	996,164.15	0.96	55.28	996,012.82	996,959.16
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	210,000.00	AA+	Aaa	08/12/14	08/14/14	209,973.96	1.00	892.50	209,977.42	209,921.25
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	345,000.00	AA+	Aaa	08/12/14	08/14/14	344,976.89	1.00	1,466.25	344,980.08	344,870.63
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	1,050,000.00	AA+	Aaa	07/30/12	07/31/12	1,057,024.50	0.86	4,462.50	1,053,661.25	1,049,606.25



## Managed Account Detail of Securities Held

For the Month Ending **December 31, 2014**

### CITY OF FLAGSTAFF OPERATING FUNDS

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>Federal Agency Bond / Note</b>											
FANNIE MAE GLOBAL NOTES DTD 07/20/2012 0.875% 08/28/2017	3135G0MZ3	1,800,000.00	AA+	Aaa	09/06/12	09/10/12	1,804,464.00	0.82	5,381.25	1,802,412.29	1,793,712.60
FREDDIE MAC GLOBAL NOTES DTD 08/10/2012 1.000% 09/29/2017	3137EADL0	1,300,000.00	AA+	Aaa	10/04/12	10/09/12	1,313,910.00	0.78	3,322.22	1,307,743.93	1,297,145.20
FANNIE MAE GLOBAL NOTES DTD 09/24/2012 0.875% 10/26/2017	3135G0PQ0	1,500,000.00	AA+	Aaa	11/27/13	12/03/13	1,488,525.00	1.08	2,369.79	1,491,653.55	1,487,322.00
FANNIE MAE GLOBAL NOTES DTD 10/30/2012 0.875% 12/20/2017	3135G0RT2	1,100,000.00	AA+	Aaa	01/02/13	01/03/13	1,099,780.00	0.88	294.10	1,099,867.67	1,088,971.40
FREDDIE MAC GLOBAL NOTES DTD 01/17/2013 0.875% 03/07/2018	3137EADP1	1,400,000.00	AA+	Aaa	03/26/13	03/27/13	1,396,304.00	0.93	3,879.17	1,397,602.16	1,383,134.20
FANNIE MAE GLOBAL NOTES DTD 04/15/2013 0.875% 05/21/2018	3135G0WJ8	1,000,000.00	AA+	Aaa	05/24/13	05/31/13	984,850.00	1.19	972.22	989,578.94	983,372.00
FANNIE MAE GLOBAL NOTES DTD 04/15/2013 0.875% 05/21/2018	3135G0WJ8	1,625,000.00	AA+	Aaa	05/22/13	05/24/13	1,611,268.75	1.05	1,579.86	1,615,600.63	1,597,979.50
FANNIE MAE GLOBAL NOTES DTD 10/01/2013 1.625% 11/27/2018	3135G0YT4	226,000.00	AA+	Aaa	10/22/14	10/23/14	228,056.60	1.40	346.85	227,965.08	227,088.19
FANNIE MAE GLOBAL NOTES DTD 10/01/2013 1.625% 11/27/2018	3135G0YT4	1,330,000.00	AA+	Aaa	10/22/14	10/23/14	1,342,635.00	1.39	2,041.18	1,342,072.36	1,336,403.95
FREDDIE MAC NOTES DTD 04/16/2012 1.750% 05/30/2019	3137EADG1	650,000.00	AA+	Aaa	12/01/14	12/03/14	657,384.00	1.49	979.51	657,259.95	653,603.60
FNMA BENCHMARK NOTE DTD 11/07/2014 1.750% 11/26/2019	3135G0ZY2	650,000.00	AA+	Aaa	12/01/14	12/03/14	654,192.50	1.61	1,105.90	654,129.50	650,390.00
<b>Security Type Sub-Total</b>		<b>26,321,000.00</b>					<b>26,482,024.84</b>	<b>0.93</b>	<b>56,165.56</b>	<b>26,378,687.23</b>	<b>26,298,497.94</b>
<b>Corporate Note</b>											
US BANK CORP NOTE (CALLABLE) DTD 01/30/2014 1.100% 01/30/2017	90331HMC4	725,000.00	AA-	Aa3	11/18/14	11/21/14	726,399.25	1.01	3,345.07	726,327.54	724,395.35
EXXON MOBIL CORP NOTE DTD 03/20/2014 0.921% 03/15/2017	30231GAA0	1,735,000.00	AAA	Aaa	03/17/14	03/20/14	1,735,000.00	0.92	4,705.03	1,735,000.00	1,732,747.97





## Managed Account Detail of Securities Held

For the Month Ending **December 31, 2014**

### CITY OF FLAGSTAFF OPERATING FUNDS

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>Corporate Note</b>											
APPLE INC CORP NOTE DTD 05/06/2014 1.050% 05/05/2017	037833AM2	1,650,000.00	AA+	Aa1	04/29/14	05/06/14	1,649,125.50	1.07	2,646.88	1,649,313.70	1,653,672.90
GENERAL ELECTRIC CO NOTES DTD 12/06/2007 5.250% 12/06/2017	369604BC6	1,543,000.00	AA+	Aa3	10/29/14	11/03/14	1,719,233.75	1.46	5,625.52	1,710,252.88	1,711,668.42
JOHNSON & JOHNSON CORPORATE NOTE DTD 06/23/2008 5.150% 07/15/2018	478160AU8	1,300,000.00	AAA	Aaa	10/02/14	10/07/14	1,470,092.00	1.56	30,871.39	1,459,881.03	1,459,170.70
<b>Security Type Sub-Total</b>		<b>6,953,000.00</b>					<b>7,299,850.50</b>	<b>1.22</b>	<b>47,193.89</b>	<b>7,280,775.15</b>	<b>7,281,655.34</b>
<b>Managed Account Sub-Total</b>		<b>80,754,000.00</b>					<b>81,566,842.11</b>	<b>0.95</b>	<b>217,730.38</b>	<b>81,389,273.06</b>	<b>81,333,993.68</b>
<b>Securities Sub-Total</b>		<b>\$80,754,000.00</b>					<b>\$81,566,842.11</b>	<b>0.95%</b>	<b>\$217,730.38</b>	<b>\$81,389,273.06</b>	<b>\$81,333,993.68</b>
<b>Accrued Interest</b>											<b>\$217,730.38</b>
<b>Total Investments</b>											<b>\$81,551,724.06</b>