
CITY COUNCIL REPORT

DATE: 6/11/15
TO: Mayor and Councilmembers
FROM: Andy Wagemaker, Revenue Director
CC: Jeff Meilbeck, Josh Copley, Jerene Watson, Leadership Team
SUBJECT: 1st QUARTER 2015 INVESTMENT REPORT

This is the 1st quarter 2015 investment report for the period ending 3/31/2015.

DISCUSSION

Every quarter, Council receives a quarterly investment report from staff. This investment report is for the 1st quarter of 2015.

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	1st Quarter 2015	Previous Quarter	Since Inception (July 2011)
Total Managed Portfolio	\$82 million	\$82 million	N/A
City Total Return	0.86%	0.42%	0.99%
Benchmark Return	0.91%	0.48%	0.96%
Return Spread (to Benchmark)	-0.05%	-0.06%	0.03%
Portfolio Duration (in Years)	2.59	2.45	N/A
Benchmark Duration (in Years)	2.58	2.61	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 1st quarter are as follows:

Item Description	Amount	Comments
Managed Portfolio	\$82 Million	PFM Managed Portfolio
City Managed	\$32 Million	CDs/Checking/LGIP Pools
Restricted Funds	\$16 Million	Landfill Closure Fund/Bond Proceeds/Other
Total:	\$124 Million	



City of Flagstaff Quarterly Investment Report Quarter Ended March 31, 2015



The PFM Group
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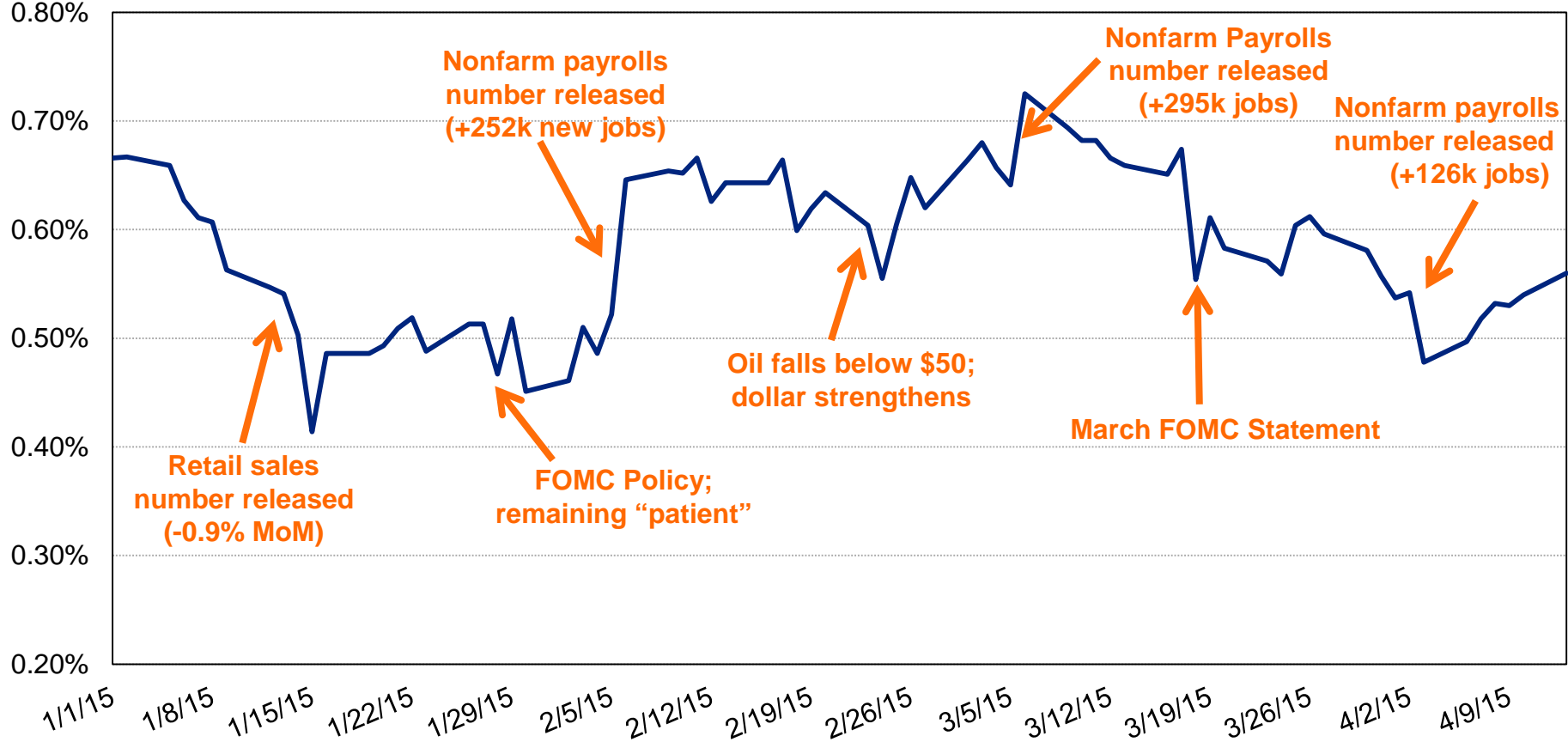
Paulina Woo, Senior Managing Consultant
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First Quarter 2015 Strategy and Recap

- Rates trended lower during the quarter because of lackluster economic data in the U.S., economic uncertainty in the European Union exacerbated by Greece's unsettled political situation, and the Federal Open Market Committee's (FOMC) indication that it is in no hurry to raise the Fed Funds rate.
- At the beginning of the quarter, PFM kept the duration of the portfolio somewhat shorter than the duration of the benchmark, seeking to mitigate the potential price depreciation of the portfolio if the Fed decides to raise rates mid-year.
- As new economic data was released, and FOMC statements suggested that the Fed would likely not raise the Fed Funds rate in June, we gradually extended the portfolio's duration to closer to the duration of the benchmark. In doing so, we paid careful attention to the selection of maturities along the yield curve, buying those securities which captured the higher yields offered by longer-term investments and maximized the benefit of "roll down."
- The difference in yields between U.S. Treasury and Federal agency securities fluctuated throughout the quarter because the yields of Federal agencies typically do not respond as quickly as Treasuries to economic data. We were able to capitalize on the changes in these yield differences by adding Federal agency notes when spreads were at attractive levels. We also found value in certain callable agencies, particularly those that have a one-time-only call feature.
- We continued to find value in the corporate sector because of higher yields, supported by strong corporate balance sheets and an earnings season that largely met investor expectations. With the robust-level of new corporate issuance during the quarter, we were able to find a number of attractively priced obligations that met PFM's credit standards.

Yields Have Fallen Modestly Since Start of Year

2-Year Treasury Yield
January 1, 2015 – April 13, 2015

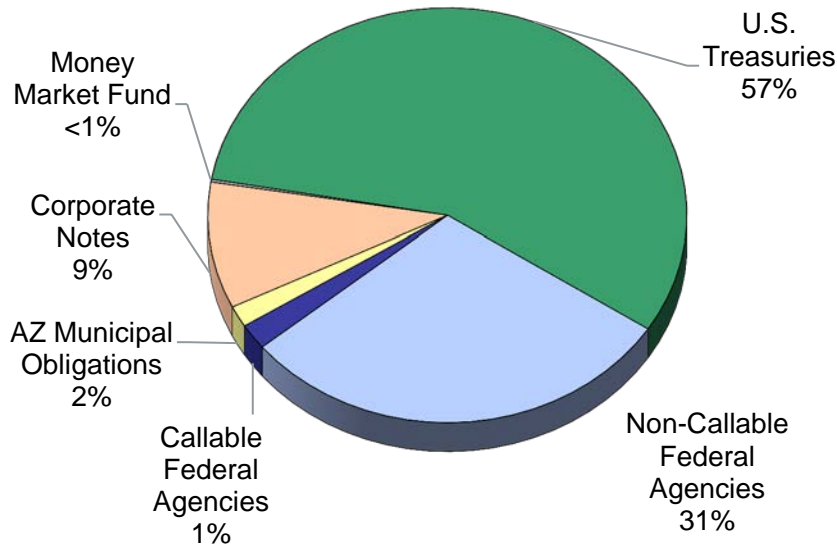


Source: Bloomberg.

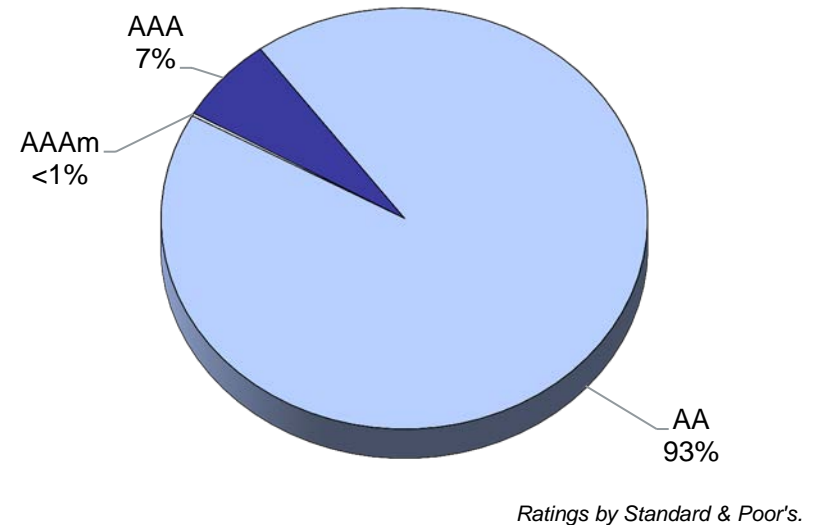
Portfolio Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>March 31, 2015</u>	<u>% of Portfolio</u>	<u>December 31, 2014</u>	<u>% of Portfolio</u>	<u>Permitted by Policy³</u>
U.S. Treasuries	\$46,493,958.78	56.9%	\$46,491,736.33	58.5%	100%
Federal Agencies²	\$26,249,210.22	32.2%	\$26,354,663.50	32.4%	100%
<i>Non-Callable Agencies</i>	\$24,595,990.52	30.7%	\$25,090,429.14	30.7%	100%
<i>Callable Agencies</i>	\$1,653,219.70	1.5%	\$1,264,234.36	1.7%	100%
AZ Municipal Obligations	\$1,371,214.50	1.7%	\$1,376,475.00	1.9%	50%
Corporate Notes	\$8,097,884.93	9.0%	\$7,328,849.23	6.8%	10%
Money Market Fund	\$180,142.97	0.2%	\$137,248.85	0.3%	25%
Totals	\$82,392,411.40	100.0%	\$81,688,972.91	100.0%	

Operating Portfolio Composition



Operating Portfolio Credit Quality Distribution



1. End of quarter trade-date market values of portfolio holdings, including accrued interest and Cash/Money Market Fund.

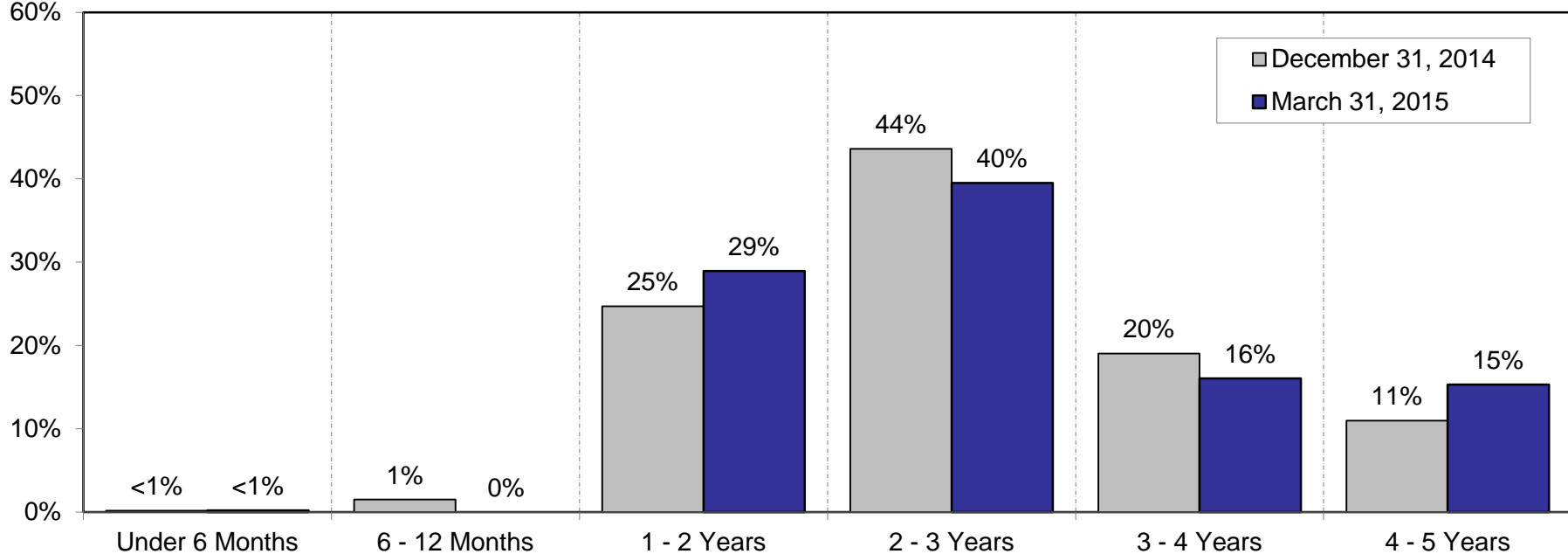
2. Federal agencies including, but not limited to Fannie Mae, Freddie Mac, Federal Home Loan Bank system and Federal Farm Credit Banks.

3. Percentage limitations apply to aggregate investments.

Operating Portfolio Maturity Distribution

<u>Maturity Distribution</u>	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Under 6 Months	\$180,142.97	\$137,248.85
6 - 12 Months	\$0.00	\$1,225,281.04
1 - 2 Years	\$23,833,191.10	\$20,174,617.91
2 - 3 Years	\$32,554,138.67	\$35,625,385.49
3 - 4 Years	\$13,210,633.15	\$15,543,876.04
4 - 5 Years	\$12,614,305.51	\$8,982,563.58
Totals	\$82,392,411.40	\$81,688,972.91

Operating Portfolio Maturity Distribution ¹



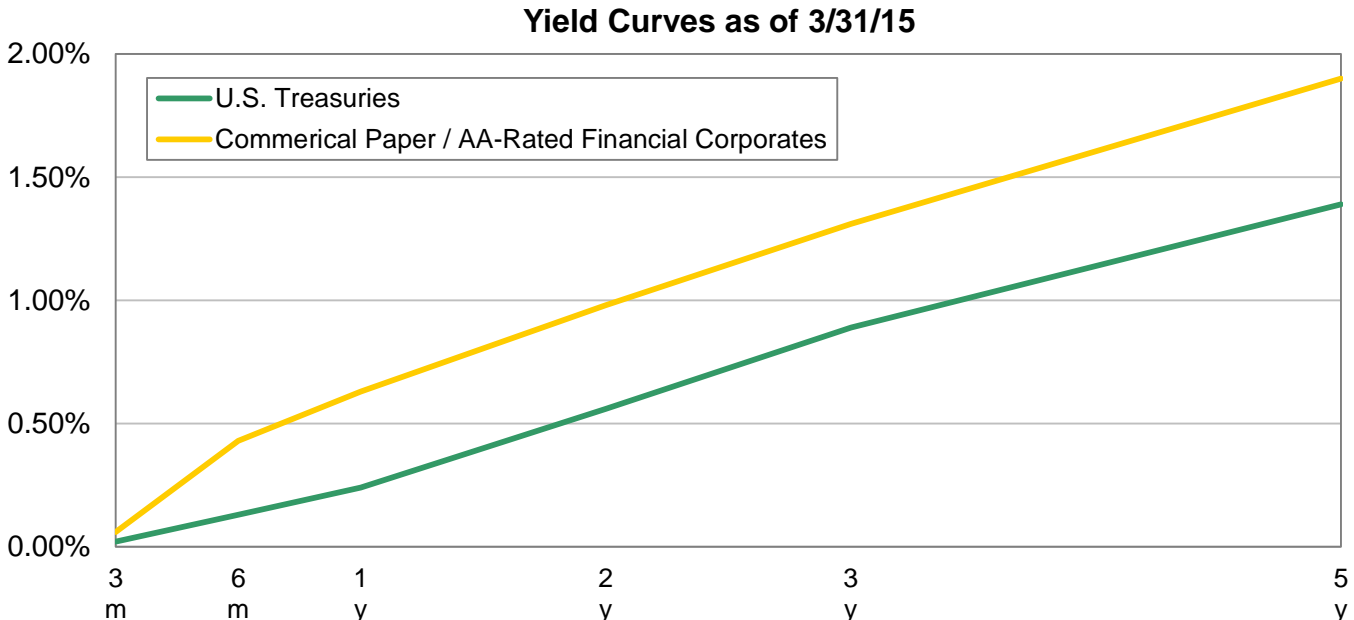
¹ Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

Corporate Sector Offers Value

- We purchased several high-quality corporate securities in both the new issue and secondary markets.

Trade Date	Security	Maturity	Par Value	Yield	Spread to Treasury ¹
2/3/15	U.S. Bank Corp Note (Callable)	1/30/17	\$825,000	0.85%	+0.34
2/12/15	Microsoft Corp Note	2/12/20	\$1,650,000	1.81%	+0.32
3/4/15	Exxon Mobil Corp Notes	3/6/18	\$1,650,000	1.31%	+0.26

new issue



Source: Bloomberg.

¹Yield spread is over the comparable-maturity U.S. Treasury of the same trade date.

Treasury Purchases Add Yield and Duration

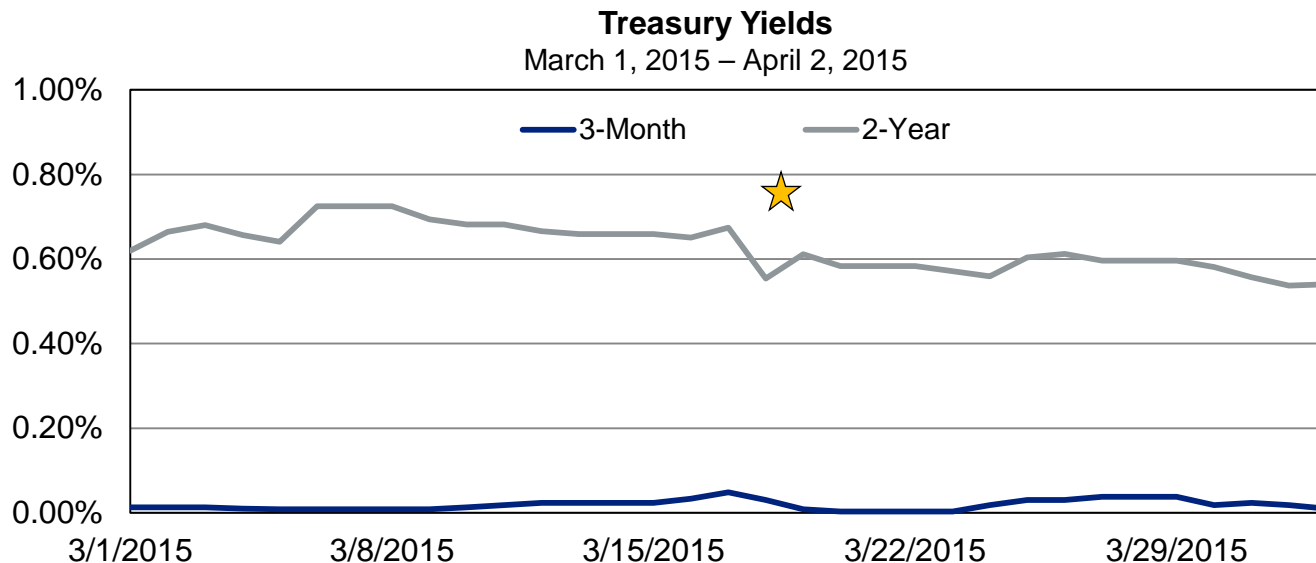
- Following FOMC statements which implied the further delay of interest rate hikes, we extended the portfolio duration out to align with the benchmark duration.
- We sold shorter-maturity securities to purchase longer-maturity Treasuries for their higher yields and longer duration.
- The following purchases picked up an average of +0.93% over those sold with a duration extension of 3.09 years.

Trade Date	Trade Type	Security	Maturity	Par Value	Yield	G/L on Sale
2/2/15	Buy	U.S. Treasury Notes	7/31/18	\$2,500,000	0.92%	-
2/2/15	Sell	FHLB Notes	12/30/15	\$1,225,000	0.24%	\$1,698
2/2/15	Sell	U.S. Treasury Notes	1/31/16	\$1,200,000	0.19%	\$1,476
2/6/15	Buy	U.S. Treasury Notes	7/31/17	\$775,000	0.84%	-
2/6/15	Sell	FHLMC Notes	7/28/17	\$775,000	0.84%	\$2,429
2/26/15	Buy	U.S. Treasury Notes	9/30/19	\$2,600,000	1.42%	-
2/26/15	Sell	U.S. Treasury Notes	2/29/16	\$2,500,000	0.26%	\$2,228
3/26/15	Buy	U.S. Treasury Notes	9/30/19	\$3,400,000	1.39%	-
3/27/15	Maturity	FHLB Notes	3/27/15	\$1,255,000	-	-
3/26/15	Sell	FHLB Notes	3/11/16	\$1,150,000	0.40%	\$8,763
3/26/15	Sell	U.S. Treasury Notes	6/30/16	\$1,000,000	0.42%	\$1,170

Value in Callable Agency

- We capitalized on favorable spread relationships by adding exposure to the Agency sector when spreads were at attractive levels.
- We found value in a new-issue callable Agency with limited optionality (one-time calls) and where the yield to call and maturity are comparable.

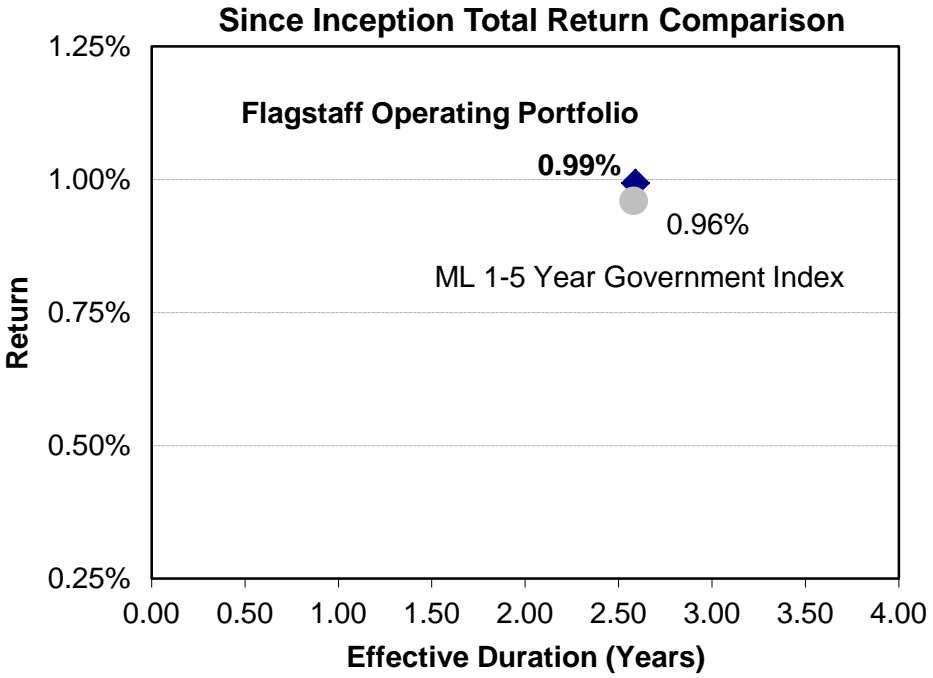
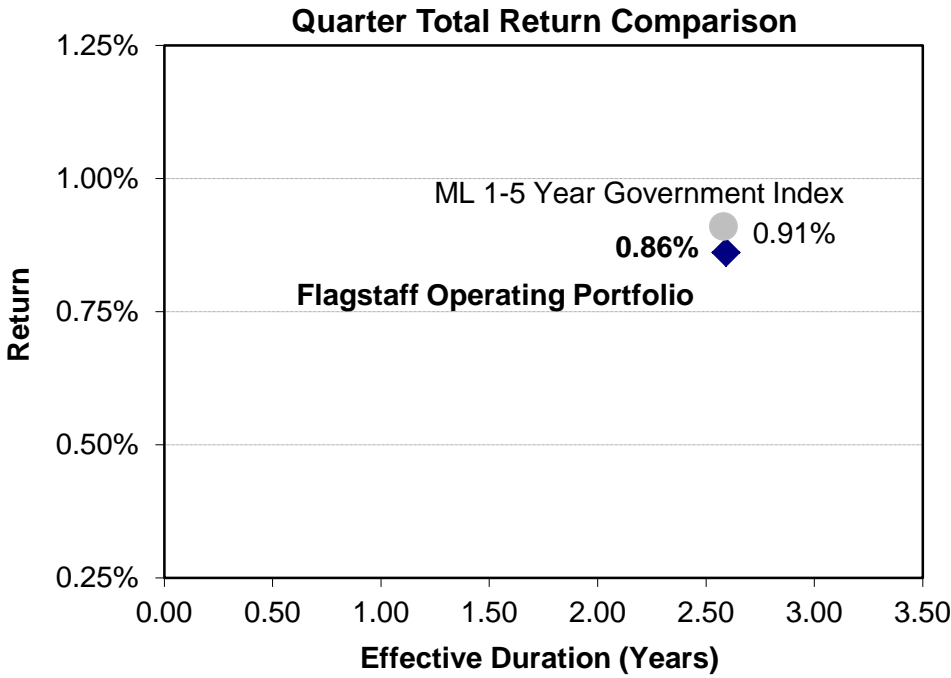
Trade Date	Yield to Maturity	Yield to Call	Maturity Date	First Call Date	Call Frequency
3/17/15	0.84%	0.84%	3/24/17	3/24/16	One-time



Source: Bloomberg

Portfolio Performance

Total Return ^{1,2,3,4}	Quarter Ended March 31, 2015	Past Year	Past 2 Years	Past 3 Years	Since Inception
Flagstaff Operating Portfolio	0.86%	1.79%	0.89%	0.99%	0.99%
ML 1-5 Year Government Index	0.91%	1.90%	0.92%	1.03%	0.96%
Effective Duration	March 31, 2015	December 31, 2014	Yields	March 31, 2015	December 31, 2014
Flagstaff Operating Portfolio	2.59	2.45	Yield at Market	0.84%	0.97%
ML 1-5 Year Government Index	2.58	2.61	Yield on Cost	1.03%	0.95%



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.

Second Quarter 2015 Outlook and Strategy

- We expect U.S. economic conditions to gradually advance in the second quarter, including improvements in GDP, employment, retail sales, and consumer sentiment.
- The FOMC changed the language in their March statement, replacing the notion that they “can be patient” in their plans to raise rates with a statement that they need to be “reasonably confident that inflation will move back to its two percent objective” before taking any action on rates.
- This stronger emphasis on inflation, combined with the FOMC’s more conservative projections for the future trajectory of the federal funds rate, informs our market view that rates will remain within their current range in the coming months. With this expectation, we will likely invest in securities further out the yield curve because we want to take advantage of the additional investment income on securities with longer maturities.
- Because FOMC policy continues to evolve, we expect volatility to continue throughout the quarter. In a potentially turbulent market environment, we will carefully manage the durations of portfolios to keep them within narrow target ranges.
- Additionally, we will focus on asset allocation, finding value in the non-governmental sectors, individual security selection, and yield curve placement, as we believe these factors will be the primary drivers of good performance.
- We anticipate that high-quality corporate securities will continue to be a key component of our strategy as the sector remains supported by strong economic and credit market fundamentals. We believe that the yields on corporate obligations offer more value than comparable maturity government securities. In an environment where rates are generally expected to remain stable, or trend higher only gradually, the corporate sector remains the preferred choice to capture incremental income.



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2015**

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
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 06/30/2011 1.500% 06/30/2016	912828QR4	3,000,000.00	AA+	Aaa	07/21/14	07/22/14	3,057,187.50	0.51	11,312.15	3,036,864.99	3,041,718.00
US TREASURY NOTES DTD 08/31/2011 1.000% 08/31/2016	912828RF9	100,000.00	AA+	Aaa	09/16/13	09/18/13	100,664.06	0.77	86.96	100,319.95	100,828.10
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	3,195.65	3,699,324.09	3,705,432.68
US TREASURY NOTES DTD 01/03/2012 0.875% 12/31/2016	912828RX0	3,250,000.00	AA+	Aaa	12/22/14	12/23/14	3,260,156.25	0.72	7,148.65	3,258,792.62	3,272,090.25
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	1,377.76	951,122.28	956,233.90
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	2,900.55	1,999,853.50	2,013,124.00
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	17.08	628,309.74	630,224.38
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	54.64	2,003,056.06	2,016,718.00
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	95.63	3,515,014.48	3,529,256.50
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	11,940.61	1,966,787.60	1,978,523.20
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	4,032.45	1,897,169.68	1,916,878.43
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	1,885.36	996,309.49	998,125.00
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	2,073.90	1,097,084.89	1,097,937.50
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	5,873.62	4,016,032.69	4,053,478.95



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2015**

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
U.S. Treasury Bond / Note											
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	2,493.09	944,589.47	941,391.10
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	1,728.25	499,483.34	506,172.00
US TREASURY NOTES DTD 07/31/2013 1.375% 07/31/2018	912828VQ0	2,500,000.00	AA+	Aaa	02/02/15	02/04/15	2,538,867.19	0.92	5,697.51	2,537,167.78	2,529,102.50
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	754.12	178,422.29	180,857.88
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	3,351.65	795,410.44	803,812.80
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	6,215.47	2,490,046.98	2,532,422.50
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	57.72	1,301,253.54	1,321,937.50
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	79.92	1,802,518.69	1,830,375.00
US TREASURY NOTES DTD 05/15/2009 3.125% 05/15/2019	912828KQ2	400,000.00	AA+	Aaa	10/30/14	11/03/14	428,343.75	1.50	4,730.66	425,851.00	430,312.40
US TREASURY NOTES DTD 10/01/2012 1.000% 09/30/2019	912828TR1	2,600,000.00	AA+	Aaa	02/26/15	02/27/15	2,551,554.69	1.42	71.04	2,552,488.33	2,564,858.40
US TREASURY NOTES DTD 09/30/2014 1.750% 09/30/2019	912828F39	3,400,000.00	AA+	Aaa	03/26/15	03/27/15	3,452,726.56	1.39	162.57	3,452,573.28	3,464,810.80
Security Type Sub-Total		46,005,000.00					46,188,257.24	1.03	77,337.01	46,145,847.20	46,416,621.77
Municipal Bond / Note											
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	3,750.00	759,288.05	765,247.50
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	1,677.00	600,000.00	600,540.00



Managed Account Detail of Securities Held

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Municipal Bond / Note											
Security Type Sub-Total		1,350,000.00					1,381,065.00	1.05	5,427.00	1,359,288.05	1,365,787.50
Federal Agency Bond / Note											
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	3,719.44	2,574,411.12	2,575,033.48
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	900.00	454,509.67	459,578.70
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	81.25	1,946,937.10	1,950,072.15
FREDDIE MAC GLOBAL NOTES DTD 01/30/2012 1.000% 03/08/2017	3137EADC0	1,735,000.00	AA+	Aaa	01/26/15	01/29/15	1,746,711.25	0.68	1,108.47	1,745,762.60	1,747,309.83
FHLB GLOBAL NOTES (CALLABLE) DTD 03/24/2015 0.840% 03/24/2017	3130A4QV7	1,650,000.00	AA+	Aaa	03/17/15	03/24/15	1,650,000.00	0.84	269.50	1,650,000.00	1,652,950.20
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	10,980.03	2,290,543.60	2,302,136.20
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	664.44	260,194.47	261,447.16
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	2,542.78	995,912.29	1,000,538.17
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	775,000.00	AA+	Aaa	03/19/15	03/20/15	777,635.00	0.85	1,356.25	777,601.23	780,779.95
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	830,000.00	AA+	Aaa	07/30/12	07/31/12	835,552.70	0.86	1,452.50	832,615.81	836,190.14
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	1,356.25	1,802,191.84	1,802,248.20
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	72.22	1,307,045.94	1,304,033.90



Managed Account Detail of Securities Held

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Federal Agency Bond / Note											
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	5,651.04	1,492,383.12	1,501,857.00
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	2,700.35	1,099,878.69	1,100,068.20
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	816.67	1,397,787.83	1,397,750.20
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	3,159.72	990,333.66	997,624.00
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	5,134.55	1,616,282.83	1,621,139.00
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	1,264.97	227,842.41	229,589.11
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	7,444.31	1,341,318.57	1,351,121.73
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	3,823.26	656,861.19	659,726.60
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	3,949.65	653,926.99	659,568.65

Security Type Sub-Total		26,076,000.00					26,142,913.49	0.90	58,447.65	26,114,340.96	26,190,762.57
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Corporate Note											
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	25,877.40	1,696,248.68	1,703,293.01
EXXON MOBIL CORP NOTES DTD 03/06/2015 1.305% 03/06/2018	30231GAL6	1,650,000.00	AAA	Aaa	03/04/15	03/06/15	1,650,000.00	1.31	1,495.31	1,650,000.00	1,659,499.05
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	14,133.89	1,448,859.74	1,466,023.00
MICROSOFT CORP NOTE DTD 02/12/2015 1.850% 02/12/2020	594918AY0	1,650,000.00	AAA	Aaa	02/12/15	02/18/15	1,653,168.00	1.81	4,154.79	1,653,095.60	1,665,686.55



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2015**

CITY OF FLAGSTAFF OPERATING FUNDS

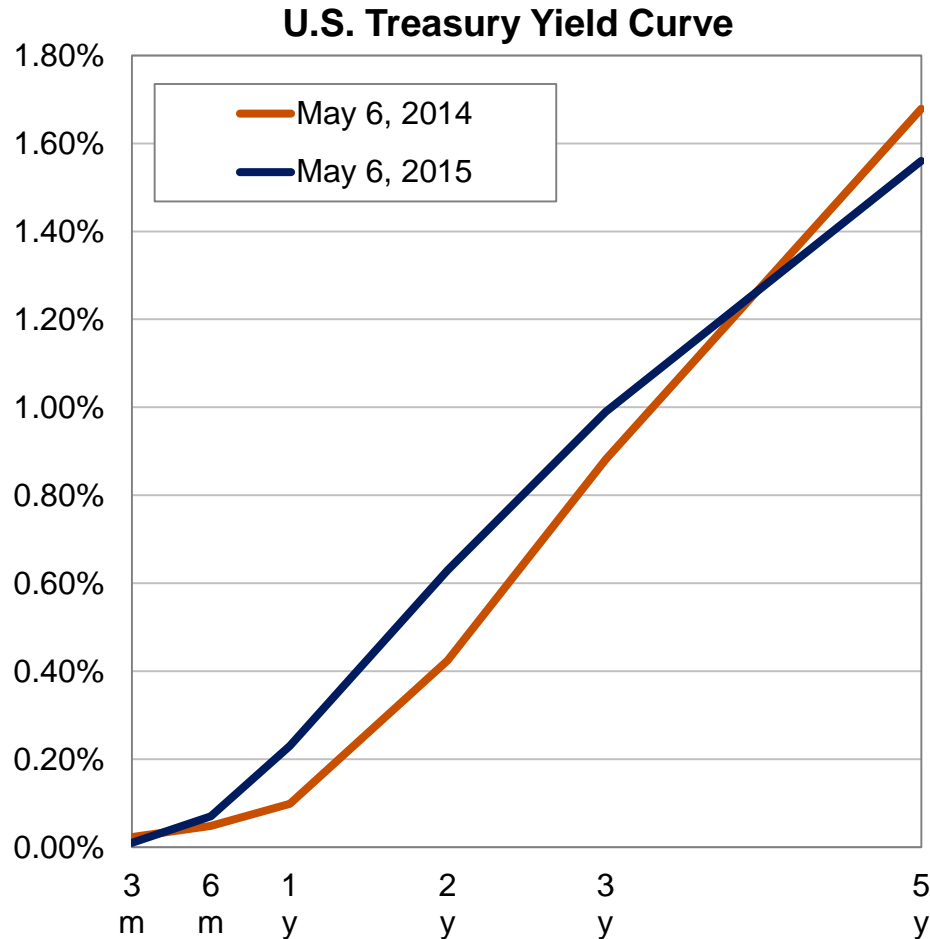
Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Corporate Note											
Security Type Sub-Total		6,143,000.00					6,492,493.75	1.53	45,661.39	6,448,204.02	6,494,501.61
Bank Note											
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	1,351.32	726,163.70	727,260.55
US BANK CORP NOTE (CALLABLE) DTD 01/30/2014 1.100% 01/30/2017	90331HMC4	825,000.00	AA-	Aa3	02/03/15	02/06/15	829,001.25	0.85	1,537.71	828,681.60	827,572.35
Security Type Sub-Total		1,550,000.00					1,555,400.50	0.93	2,889.03	1,554,845.30	1,554,832.90
Managed Account Sub-Total		81,124,000.00					81,760,129.98	1.03	189,762.08	81,622,525.53	82,022,506.35
Securities Sub-Total		\$81,124,000.00					\$81,760,129.98	1.03%	\$189,762.08	\$81,622,525.53	\$82,022,506.35
Accrued Interest											\$189,762.08
Total Investments											\$82,212,268.43



Economic Update

Yield Curve Update

- The yield curve remains steep as intermediate-term rates have witnessed some upward pressure in recent months.



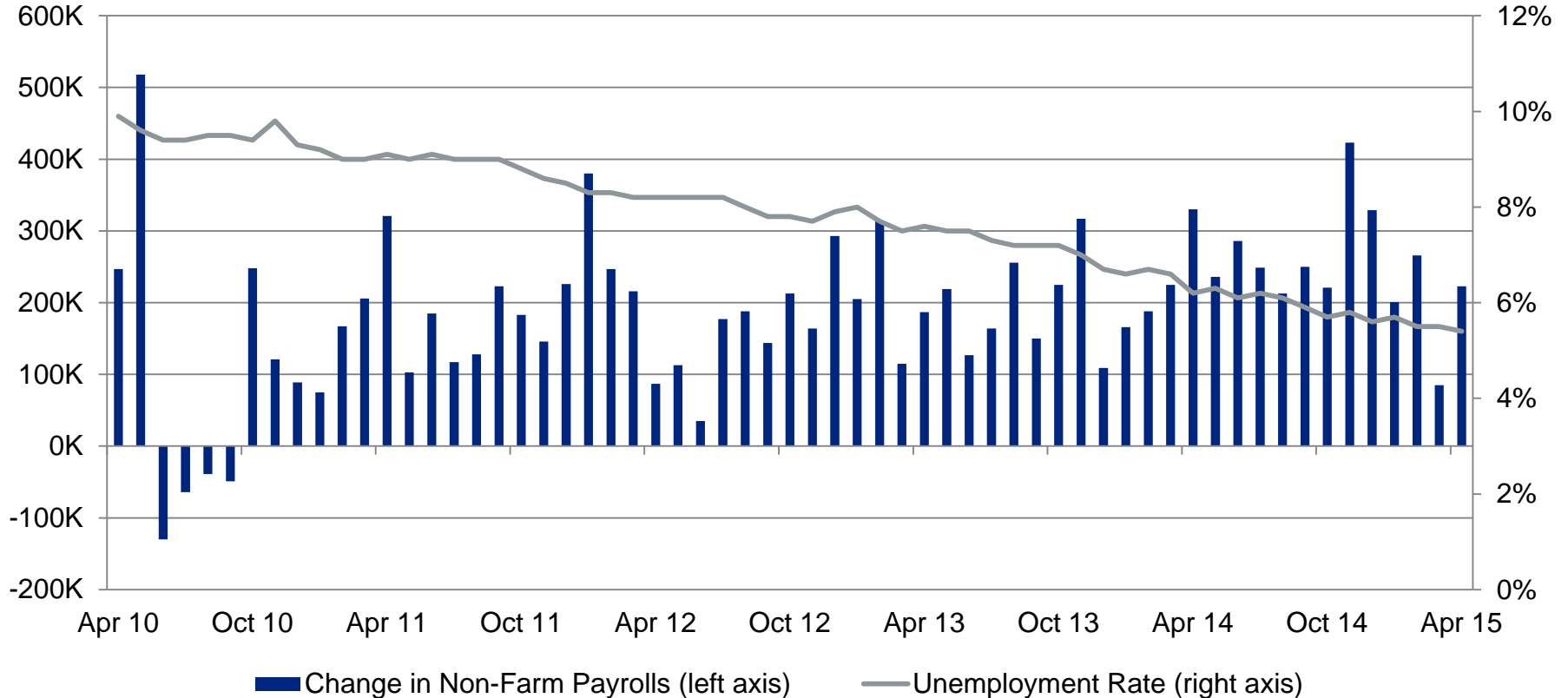
	5/6/14	5/6/15
3 month	0.02%	0.01%
6 month	0.05%	0.07%
1 year	0.10%	0.23%
2 year	0.42%	0.63%
3 year	0.88%	0.99%
5 year	1.68%	1.56%
10 year	2.59%	2.21%
30 year	3.38%	2.94%

Source: Bloomberg.

Sharp Rebound in Nonfarm Payrolls

- The economy added 223,000 workers in April with the construction and health care industries leading the way.
- Unfortunately, March's reported gain of 126,000 jobs was revised down to 85,000—the smallest increase since June 2012.

Change in Nonfarm Payrolls and Unemployment Rate

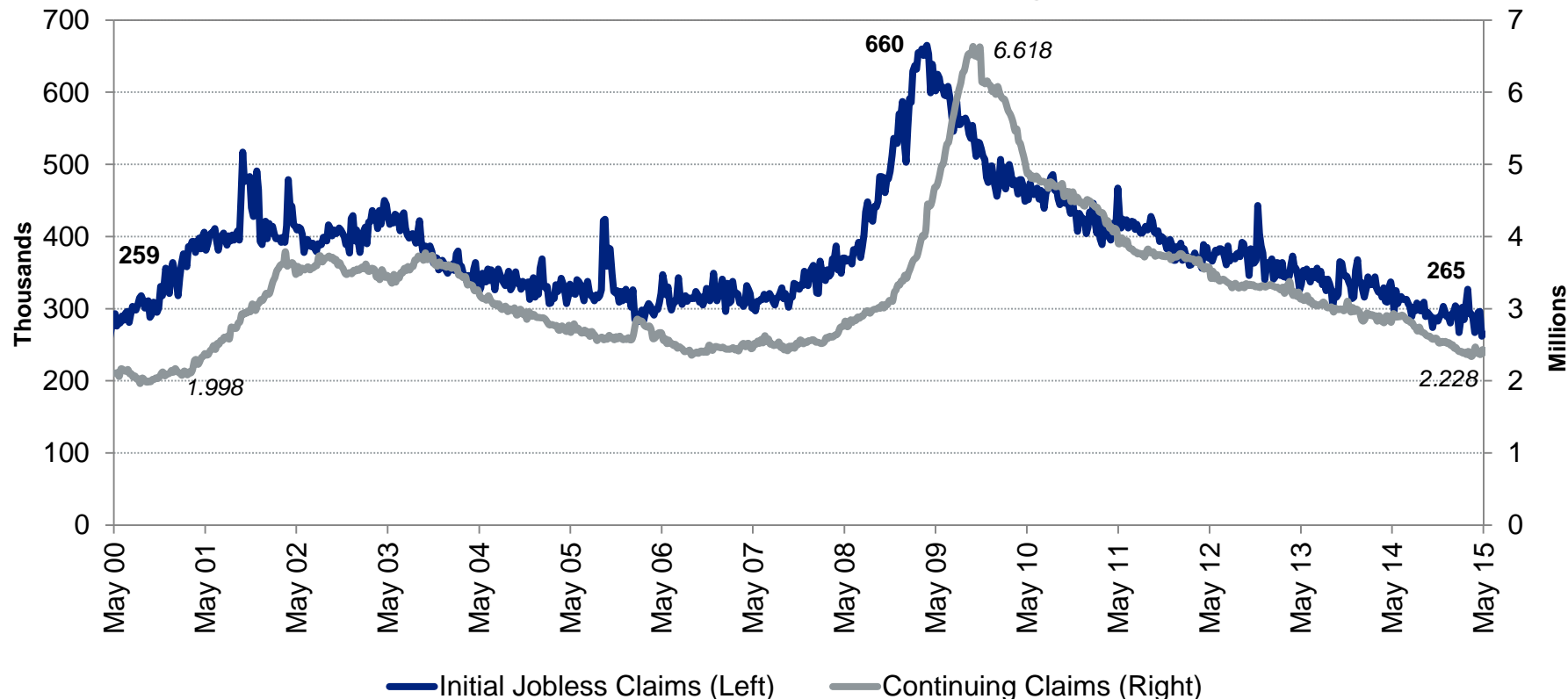


Source: Bureau of Labor Statistics.

Labor Market Statistics

- The unemployment rate fell to 5.4% in April, the lowest since May 2008, and the labor force participation rate ticked higher to 62.8%.
- U.S. initial jobless claims fell to 265,000 in May, bringing the 4-week average to its lowest point since May 2000. Continuing claims fell to 2.228 million the week ending April 25, the lowest level since November 2000.

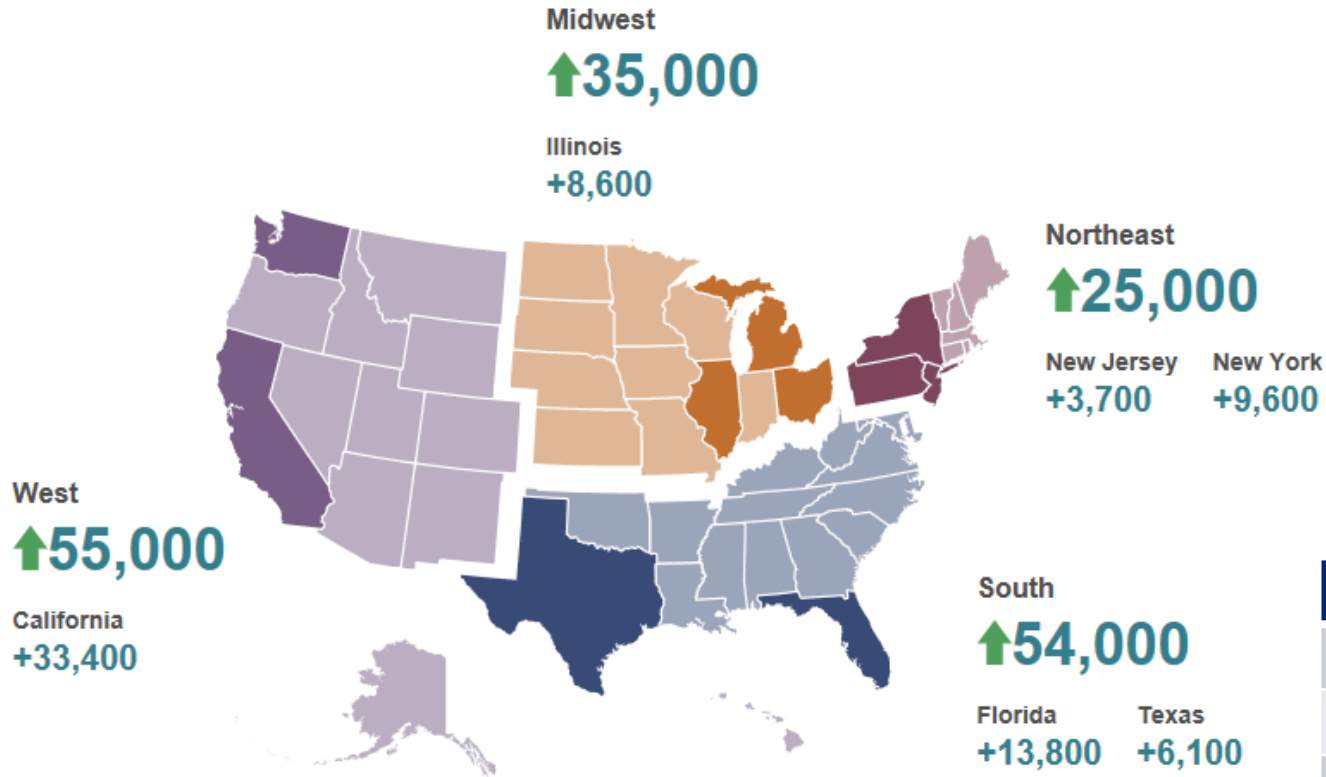
Initial Jobless Claims and Continuing Claims



Source: Bureau of Labor Statistics.

West Region of U.S. Leads in Job Growth Numbers

- Regional employment growth shifted as lower energy prices impacted the economy in the South.
- In April, Arizona added 3,200 nonfarm private sector jobs, which is a 0.15% increase over the previous month.



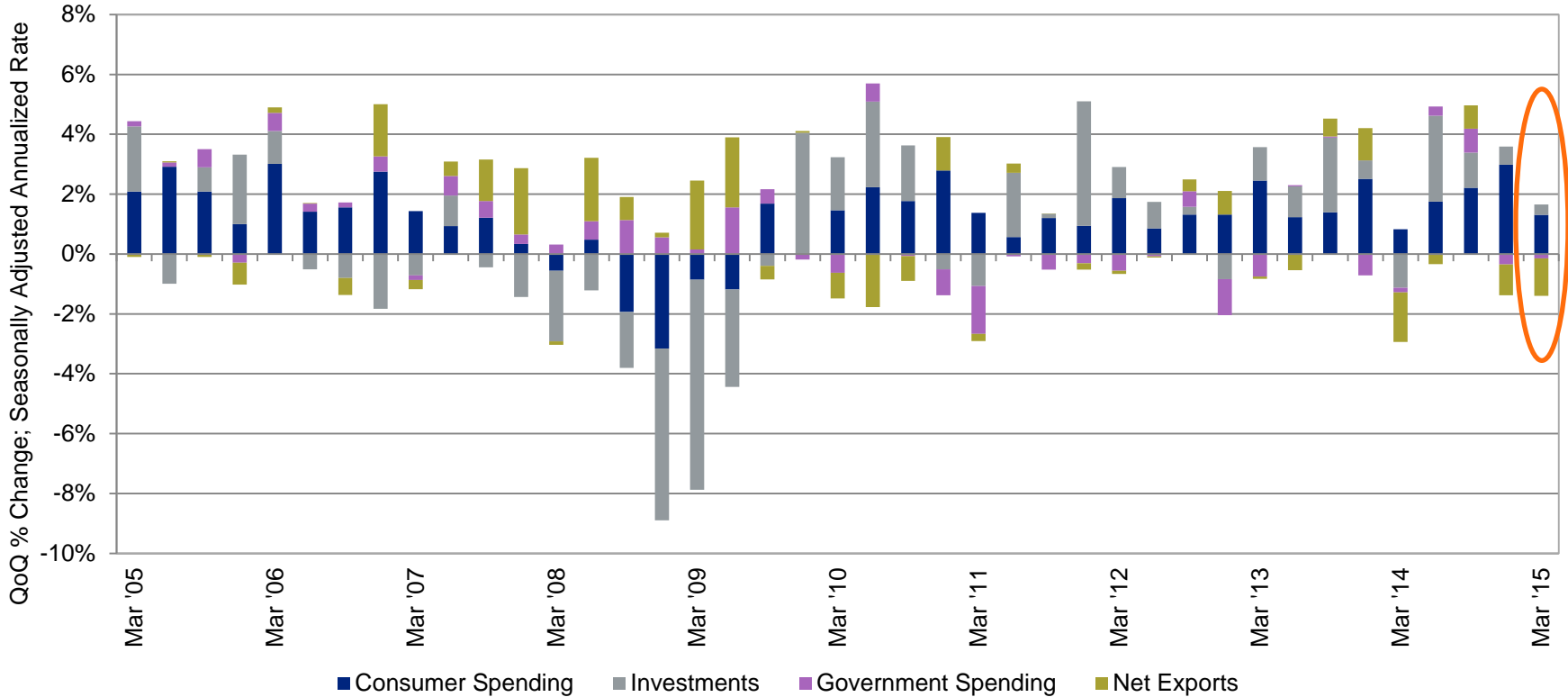
Region	% Growth
South	+0.13%
West	+0.21%
Midwest	+0.13%
Northeast	+0.11%

Source: ADP Regional Employment Report.

First Quarter GDP Stalled

- U.S. GDP expanded at only a 0.2% annualized rate in the first quarter, which was far below growth in the prior three quarters.
- Key contributors to slower growth included a sharp deceleration in consumer spending, a large drop in exports caused by the stronger U.S. dollar, and weaker business spending.

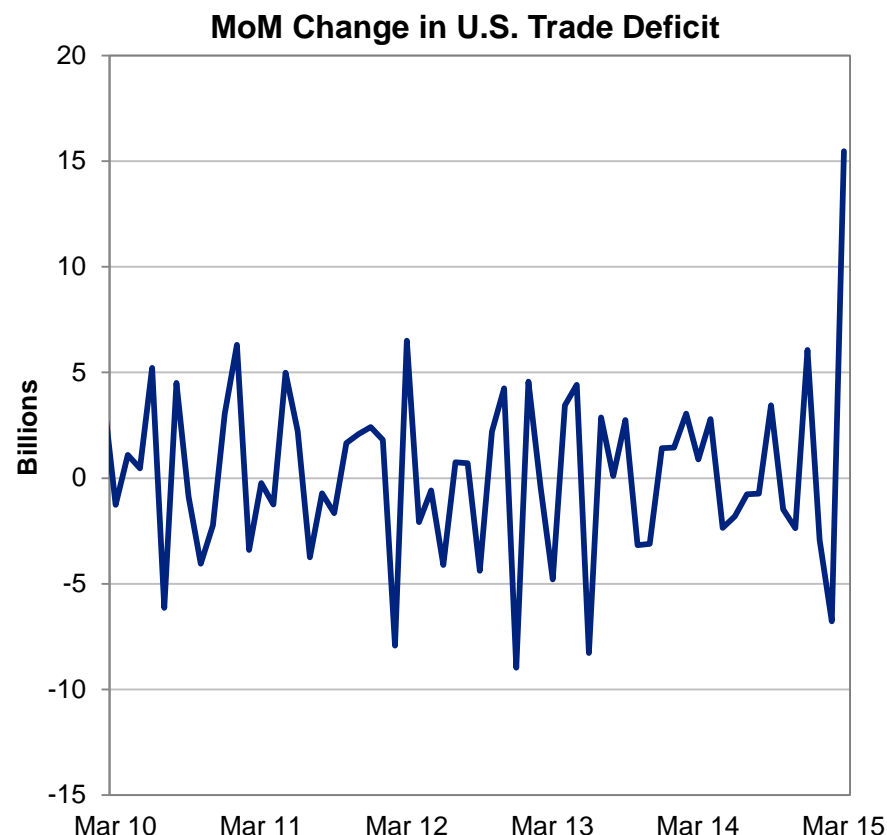
Contribution to GDP



Source: Bureau of Economic Analysis.

International Trade Deficit Widens

- The nation's trade deficit jumped by 43.1% in March to \$51.4 billion, its highest-level in more than 6 years as imports of food, capital goods and consumer products all set records.
- The increased deficit, in combination with lower than expected inventory data for March, may cause Q1's initial 0.2% GDP reading to be revised even lower, into negative territory.



Source: Bloomberg, Bureau of Economic Analysis.

FOMC Statement Highlights



- Economic growth *slowed during the winter months, in part reflecting transitory factors*. The pace of job gains moderated, and the unemployment rate remained steady...*underutilization of labor resources was little changed*.
- *Inflation continued to run below the Committee's longer-run objective*, partly reflecting earlier declines in energy prices and decreasing prices of non-energy imports...inflation is *anticipated to remain near its recent low-level in the near-term*, but the Committee expects inflation to rise gradually toward 2% over the medium-term.
- The current 0 – 0.25% target range for the federal funds rate remains appropriate ...the Committee will assess progress—*both realized and expected*—toward its objective of maximum employment at 2% inflation.
- Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvements in the labor market and is *reasonably confident that inflation will move back to its 2% objective over the medium-term*.

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