
CITY COUNCIL REPORT

DATE: 12/30/2015
TO: Mayor and Councilmembers
FROM: Sandy Corder, Interim Revenue Director
CC: Josh Copley, Jerene Watson, Barbara Goodrich, Leadership Team
SUBJECT: 3rd QUARTER 2015 INVESTMENT REPORT

This City Council Report is the 3rd quarter 2015 investment report for the period ending September 30, 2015.

DISCUSSION

Every quarter, Council receives a quarterly investment report from staff. This investment report is for the third 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 The PFM Group (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	3rd Quarter 2015	Previous Quarter	Since Inception (July 2011)
Total Managed Portfolio	\$87 million	\$82 million	N/A
City Total Return	0.63%	0.05%	1.04%
Benchmark Return	0.69%	0.03%	1.02%
Return Spread (to Benchmark)	-0.06%	0.02%	0.02%
Portfolio Duration (in Years)	2.44	2.52	N/A
Benchmark Duration (in Years)	2.59	2.59	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 quarter are as follows:

Item Description	Amount	Comments
Managed Portfolio	\$ 87 Million	PFM Managed Portfolio
City Managed	\$ 13 Million	CDs/Checking
Restricted Funds	\$ 13 Million	LGIP Landfill Closure Fund/Bond Proceeds/Other
Total:	\$113 Million	



City of Flagstaff Quarterly Investment Report Quarter Ended September 30, 2015



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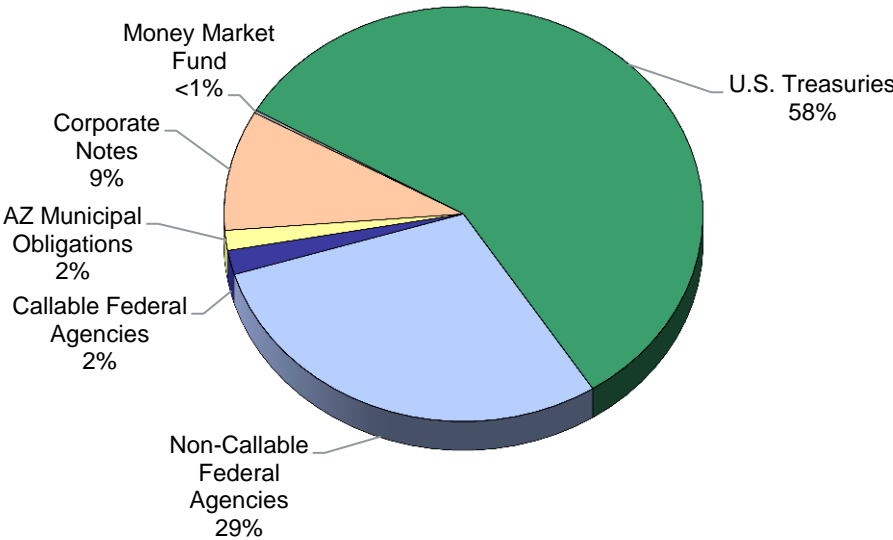
Third Quarter 2015 Strategy and Recap

- Treasury yields fluctuated in response to evolving economic conditions, tracking:
 - Strength of global economy,
 - Slowdown in China and emerging market economies,
 - Persistent low inflation environment, and
 - Expectations for a Fed rate hike.
- Low inflation and tepid economic data, both in the U.S. and abroad, pushed longer-term yields lower. Yields on securities with maturities of two years or less, the part of the curve that is most dependent on Federal Reserve policy, moved up in advance of the September FOMC meeting, but quickly reversed after the “no hike” decision.
- The end result was that the quarter ended with generally lower yields and a flatter yield curve than at the beginning of the quarter.
- During the third quarter PFMAM moved the portfolio’s duration to be modestly shorter than its benchmark in anticipation of a Fed rate hike some time before the end of this year. A shorter duration is more conservative and helps mitigate the impact that rising rates have on portfolio market values.

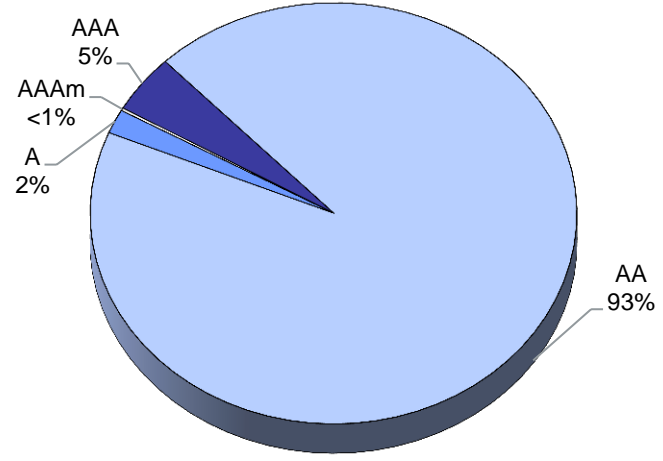
Portfolio Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>September 30, 2015</u>	<u>% of Portfolio</u>	<u>June 30, 2015</u>	<u>% of Portfolio</u>	<u>Permitted by Policy³</u>
U.S. Treasuries	\$50,377,069.60	57.6%	\$49,028,999.47	59.5%	100%
Federal Agencies²	\$27,331,178.52	31.2%	\$23,626,813.72	28.6%	100%
<i>Non-Callable Agencies</i>	\$25,676,445.77	29.3%	\$21,970,008.57	26.6%	100%
<i>Callable Agencies</i>	\$1,654,732.75	1.9%	\$1,656,805.15	2.0%	100%
AZ Municipal Obligations	\$1,368,430.50	1.6%	\$1,374,151.50	1.7%	50%
Corporate Notes	\$8,203,407.05	9.4%	\$8,191,720.69	9.9%	10%
Money Market Fund	\$188,856.45	0.2%	\$208,404.97	0.3%	25%
Totals	\$87,468,942.12	100.0%	\$82,430,090.35	100.0%	

Operating Portfolio Composition



Operating Portfolio Credit Quality Distribution

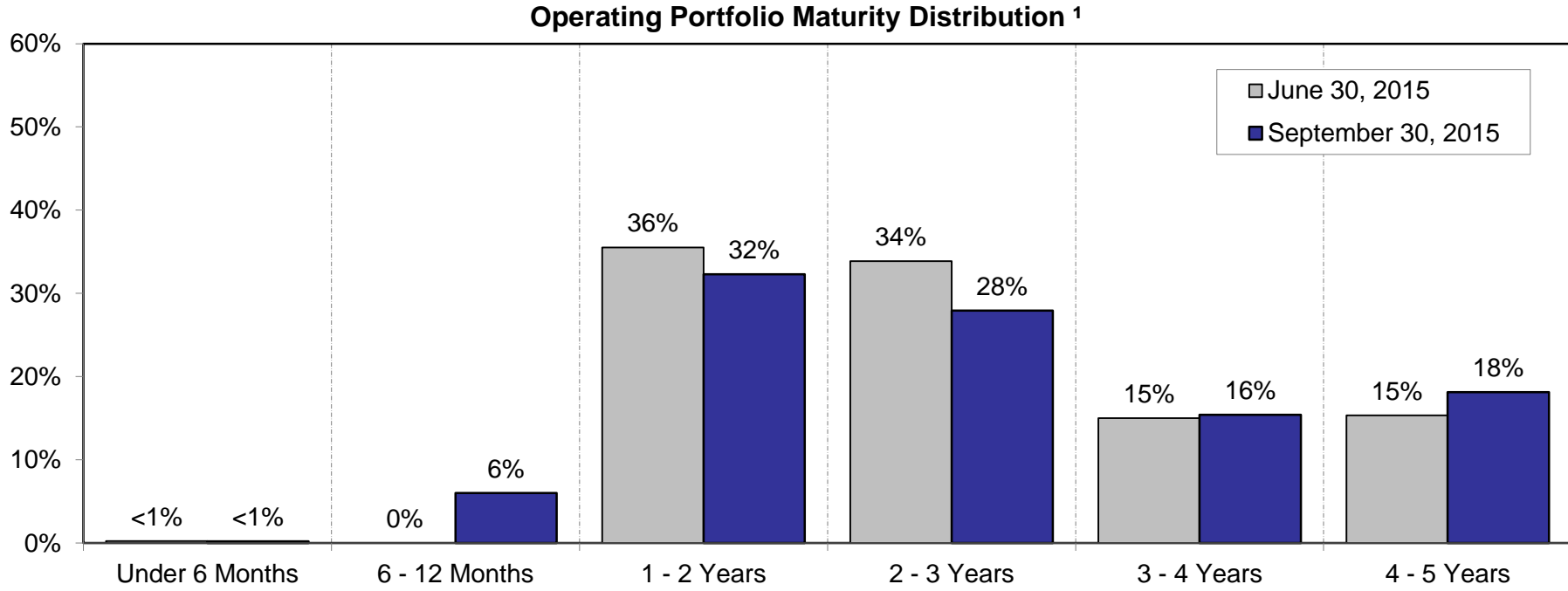


Ratings by Standard & Poor's.

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>September 30, 2015</u>	<u>June 30, 2015</u>
Under 6 Months	\$188,856.45	\$208,404.97
6 - 12 Months	\$5,256,089.71	\$0.00
1 - 2 Years	\$28,257,841.15	\$29,282,205.83
2 - 3 Years	\$24,437,486.45	\$27,912,909.63
3 - 4 Years	\$13,481,311.21	\$12,380,196.19
4 - 5 Years	\$15,847,357.15	\$12,646,373.73
Totals	\$87,468,942.12	\$82,430,090.35



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.

Duration Extension Trades

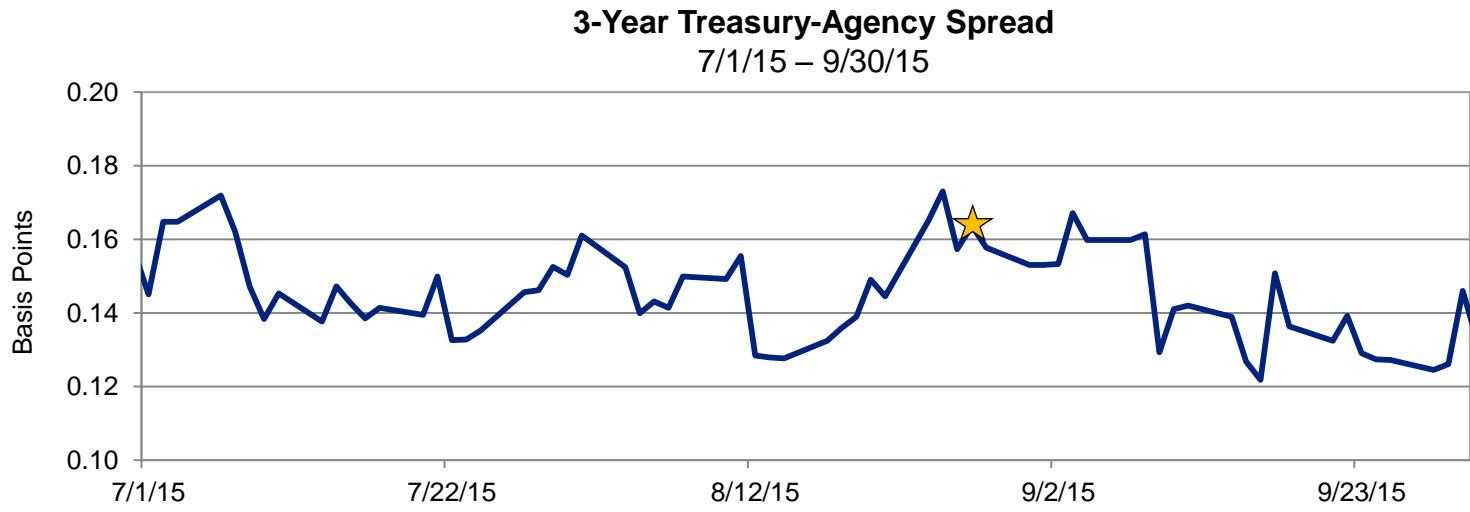
- We prefer to invest in U.S. Treasury securities when spreads narrow as the City would not be compensated for the risk of investing in any non-Treasury security.
- The following transactions extended duration by 2.52 years.

Trade Date	Transaction	Issuer	Maturity	Par Value	Yield
8/3/15	Buy	U.S. Treasury Notes	7/31/18	\$275,000	0.99%
8/14/15	Buy	U.S. Treasury Notes	8/31/18	\$4,400,000	1.10%
9/2/15	Buy	U.S. Treasury Notes	2/29/20	\$3,100,000	1.47%
9/2/15	Sell	FHLMC Notes	8/25/16	\$450,000	0.49%
9/2/15	Sell	U.S. Treasury Notes	6/30/16	\$1,300,000	0.35%
9/2/15	Sell	U.S. Treasury Notes	8/31/16	\$1,250,000	0.42%

Capitalized on Agency Sector

- When spreads widen, we prefer to invest in Federal Agency notes to capture extra yield for the Portfolio.
- The transaction below will generate approximately over \$14,000 in earnings over coming months.

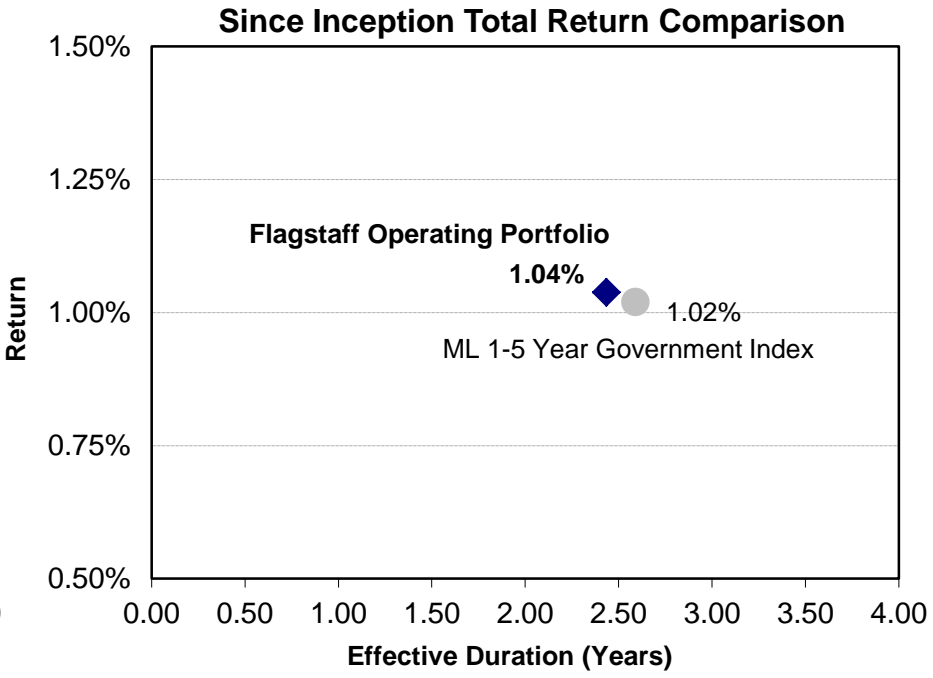
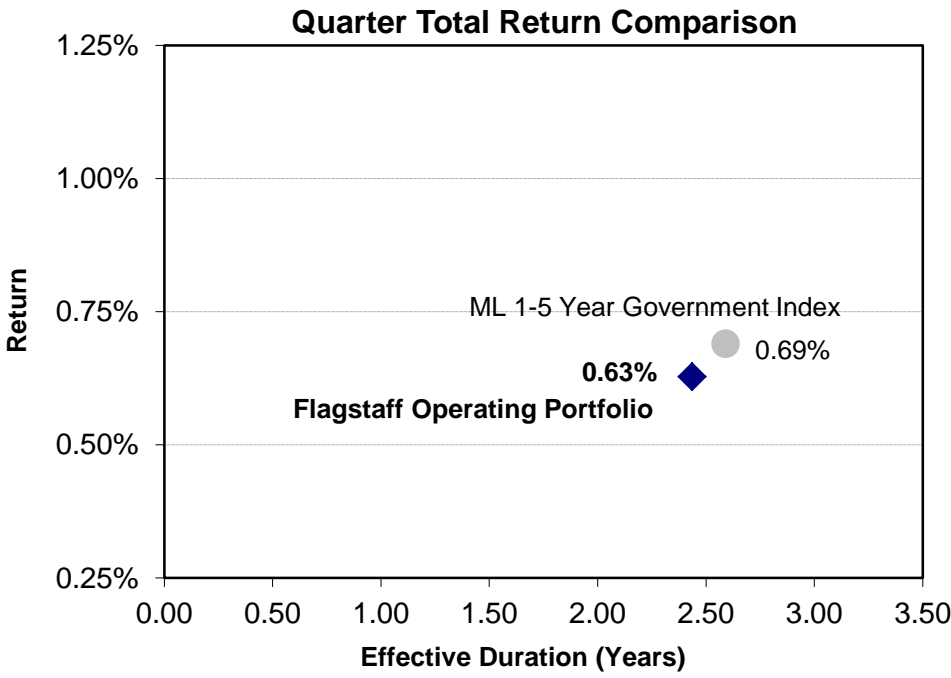
Trade Date	Transaction	Issuer	Maturity	Par Value	Yield
8/27/15	Buy	FNMA Notes	10/19/18	\$4,075,000	1.18%
8/26/15	Sell	U.S. Treasury Notes	8/31/18	\$3,975,000	1.06%



Source: Bloomberg

Portfolio Performance

Total Return ^{1,2,3,4}	Quarter Ended September 30, 2015	Past 12 Months	Past 2 Years	Past 3 Years	Since Inception
Flagstaff Operating Portfolio	0.63%	1.96%	1.38%	0.91%	1.04%
ML 1-5 Year Government Index	0.69%	2.13%	1.40%	0.92%	1.02%
Effective Duration	September 30, 2015	June 30, 2015	Yields	September 30, 2015	June 30, 2015
Flagstaff Operating Portfolio	2.44	2.52	Yield at Market	0.87%	0.95%
ML 1-5 Year Government Index	2.59	2.59	Yield on Cost	1.11%	1.08%



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.

Rising Rates Are a Double-Edged Sword

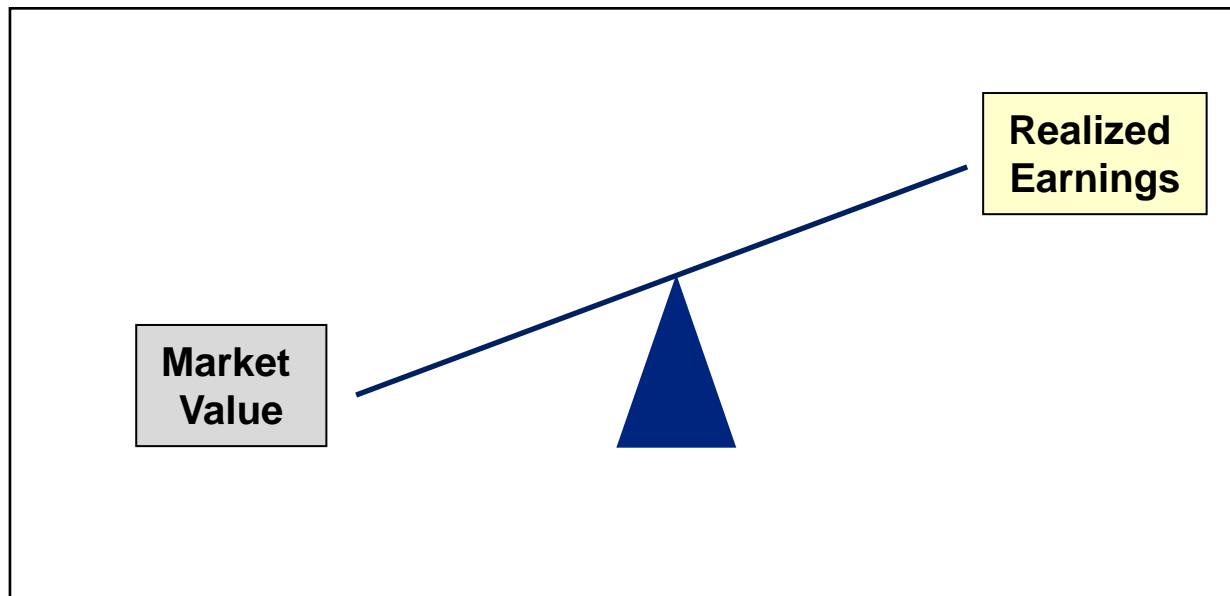
For fixed-income holdings, when interest rates rise. . .

- Market values of existing holdings decline, resulting in *unrealized* market value losses;

HOWEVER

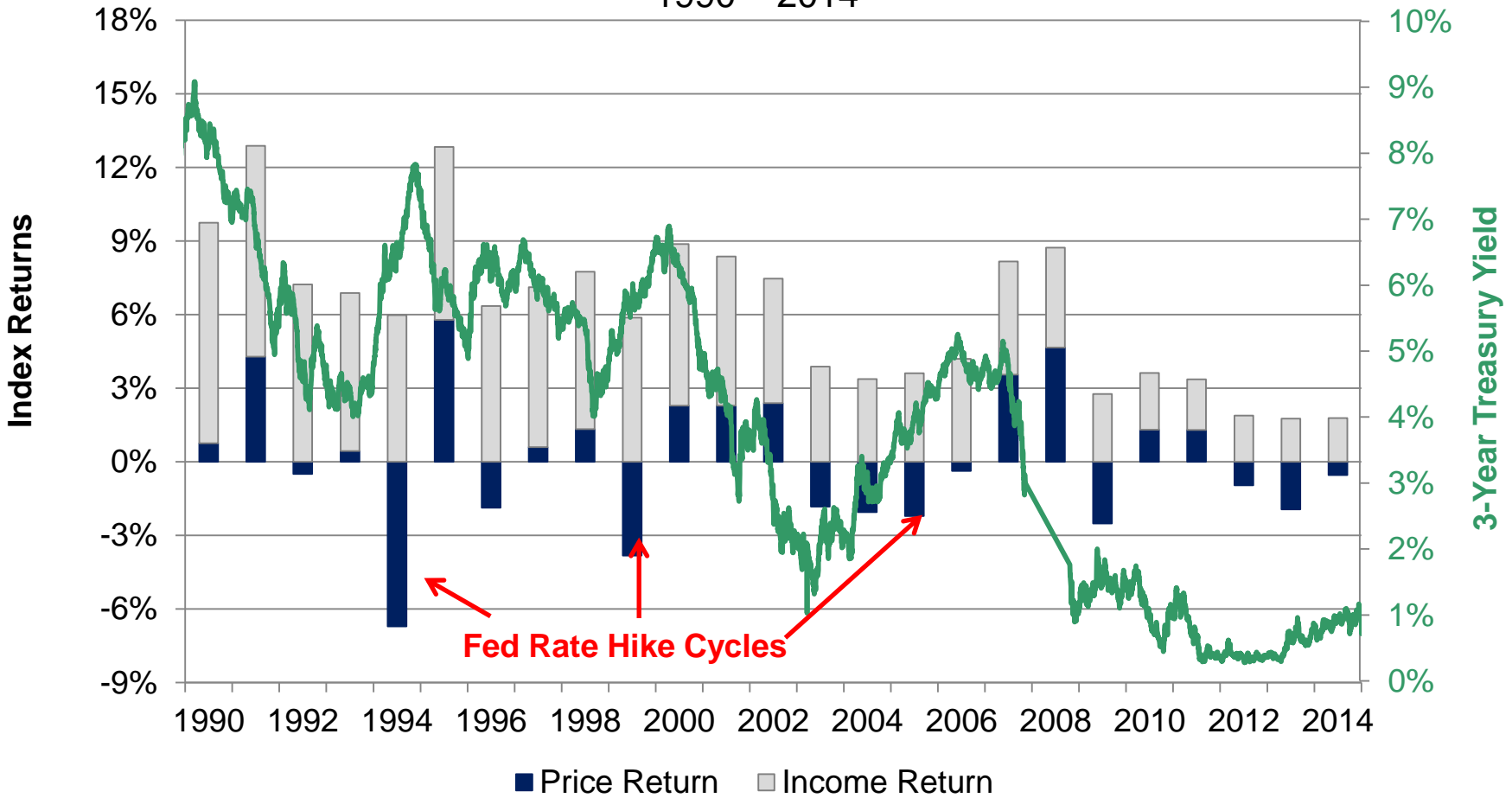
- Realized earnings will increase over time as new securities are added at higher interest rates.

As Interest Rates Increase . . .



Impact on Total Return

Total Return of BAML 1-5 Year U.S. Treasury Index 1990 – 2014



Source: Bank of America Merrill Lynch 1-5 Year U.S. Treasury Index; Bloomberg.

Fourth Quarter 2015 Outlook and Strategy

- We expect the U.S. economy to continue to expand but at a slightly slower pace.
- The FOMC continues to monitor economic progress towards its dual objectives of full employment and price stability. It recently added an acknowledgement that global economic instability has the potential to affect Fed policy.
- We started the quarter with the portfolio's duration generally shorter and more conservative than the benchmark's as the potential for a Fed rate hike over the next few months remains strong.
- We will continue to monitor the spread relationship between Treasuries and comparable-maturity Federal Agencies, adding to the Agency sector when attractive issues are identified and reducing exposure when the benefit diminishes.
- We will continue to examine the impact that economic growth concerns have on the corporate sector as a whole and on specific issuers. We believe the corporate sector has good value because of recent spread widening, and we plan to continue to utilize the sector to benefit and diversify the portfolio.



Managed Account Detail of Securities Held

For the Month Ending **September 30, 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 08/31/2011 1.000% 08/31/2016	912828RF9	2,525,000.00	AA+	Aaa	03/06/14	03/06/14	2,554,293.94	0.53	2,150.41	2,535,833.87	2,539,104.65
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	7,186.65	3,256,282.67	3,266,292.25
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	1,400.48	950,816.31	954,922.90
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	2,948.37	1,999,893.42	2,010,364.00
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	627,485.70	629,557.50
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	2,002,296.26	2,014,584.00
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	3,511,277.67	3,525,522.00
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	12,004.08	1,952,013.98	1,963,011.60
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	4,043.29	1,902,335.24	1,921,490.73
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	1,895.38	996,976.02	1,000,417.00
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	2,084.92	1,097,611.60	1,100,458.70
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	5,970.45	4,021,976.35	4,060,756.80
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	2,484.71	945,456.19	945,126.50
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	1,737.43	499,561.55	506,745.00



Managed Account Detail of Securities Held

For the Month Ending **September 30, 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 07/31/2013 1.375% 07/31/2018	912828VQ0	275,000.00	AA+	Aaa	08/03/15	08/03/15	278,147.46	0.99	637.06	277,980.88	278,684.45
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	5,791.44	2,531,636.25	2,533,495.00
US TREASURY NOTES DTD 08/31/2011 1.500% 08/31/2018	912828RE2	425,000.00	AA+	Aaa	08/14/15	08/14/15	430,096.68	1.10	542.93	429,880.77	432,205.03
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	756.15	178,632.90	181,443.78
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	3,360.66	796,023.93	806,416.80
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	6,317.93	2,491,317.60	2,537,565.00
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	1,301,101.07	1,323,832.90
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	79.92	1,802,212.27	1,832,999.40
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	4,721.47	422,803.46	428,396.00
US TREASURY NOTES DTD 10/01/2012 1.000% 09/30/2019	912828TR1	1,600,000.00	AA+	Aaa	04/28/15	04/30/15	1,579,187.50	1.30	43.72	1,581,121.84	1,587,208.00
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	2,557,622.37	2,579,213.00
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	3,446,889.20	3,472,073.20
US TREASURY NOTES DTD 11/30/2012 1.000% 11/30/2019	912828UB4	2,800,000.00	AA+	Aaa	05/28/15	05/29/15	2,745,968.75	1.44	9,409.84	2,749,948.40	2,772,072.80
US TREASURY NOTES DTD 02/28/2013 1.250% 02/29/2020	912828UQ1	3,100,000.00	AA+	Aaa	09/02/15	09/03/15	3,070,816.41	1.47	3,300.14	3,071,301.87	3,093,784.50



Managed Account Detail of Securities Held

For the Month Ending **September 30, 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
Security Type Sub-Total		49,955,000.00					49,971,280.68	1.13	79,326.11	49,938,289.64	50,297,743.49
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	755,585.80	759,517.50
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	603,486.00
Security Type Sub-Total		1,350,000.00					1,381,065.00	1.05	5,427.00	1,355,585.80	1,363,003.50
Federal Agency Bond / Note											
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	1,947,960.69	1,951,485.90
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	1,742,996.51	1,746,025.93
FHLB GLOBAL NOTES (CALLABLE) DTD 03/24/2015 0.840% 03/24/2017	3130A4OV7	1,650,000.00	AA+	Aaa	03/17/15	03/24/15	1,650,000.00	0.84	269.50	1,650,000.00	1,654,463.25
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	2,286,893.97	2,299,258.33
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	260,151.50	261,773.72
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	995,710.72	1,001,787.89
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	777,047.15	780,242.10
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	832,057.63	835,614.12
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	1,443.75	1,801,737.05	1,802,494.80
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	1,305,644.55	1,307,867.60



Managed Account Detail of Securities Held

For the Month Ending **September 30, 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
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	1,493,849.01	1,504,498.50
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	1,099,900.78	1,102,786.30
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	1,398,160.68	1,401,187.20
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	991,849.58	999,399.00
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	1,617,652.42	1,624,023.38
FNMA BENCHMARK NOTE DTD 09/01/2015 1.125% 10/19/2018	3135G0E58	4,075,000.00	AA+	Aaa	08/27/15	09/01/15	4,068,398.50	1.18	3,820.31	4,068,563.13	4,091,984.60
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	227,595.87	230,040.88
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	1,339,803.79	1,353,780.40
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	656,059.50	663,204.75
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	653,519.13	661,523.85
Security Type Sub-Total		27,126,000.00					27,172,045.49	0.98	57,736.02	27,147,153.66	27,273,442.50
Corporate Note											
GENERAL ELECTRIC CO NOTES DTD 12/06/2007 5.250% 12/06/2017	369604BC6	1,543,000.00	AA+	A1	10/29/14	11/03/14	1,719,233.75	1.46	25,877.40	1,668,109.82	1,671,713.97
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	1,653,894.00
BANK OF NEW YORK MELLON CORP DTD 05/29/2015 1.600% 05/22/2018	06406HDB2	1,625,000.00	A+	A1	05/22/15	05/29/15	1,624,853.75	1.60	8,811.11	1,624,868.91	1,621,771.13



Managed Account Detail of Securities Held

For the Month Ending **September 30, 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											
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	1,652,791.19	1,660,390.05
Security Type Sub-Total		6,468,000.00					6,647,255.50	1.54	40,338.61	6,595,769.92	6,607,769.15
Bank Note											
US BANK CORP NOTE (CALLABLE) DTD 01/30/2014 1.100% 01/30/2017	90331HMC4	725,000.00	AA-	A1	11/18/14	11/21/14	726,399.25	1.01	1,351.32	725,833.11	726,127.38
US BANK CORP NOTE (CALLABLE) DTD 01/30/2014 1.100% 01/30/2017	90331HMC4	825,000.00	AA-	A1	02/03/15	02/06/15	829,001.25	0.85	1,537.71	827,633.91	826,282.88
Security Type Sub-Total		1,550,000.00					1,555,400.50	0.93	2,889.03	1,553,467.02	1,552,410.26
Managed Account Sub-Total		86,449,000.00					86,727,047.17	1.11	185,716.77	86,590,266.04	87,094,368.90
Securities Sub-Total		\$86,449,000.00					\$86,727,047.17	1.11%	\$185,716.77	\$86,590,266.04	\$87,094,368.90
Accrued Interest											\$185,716.77
Total Investments											\$87,280,085.67

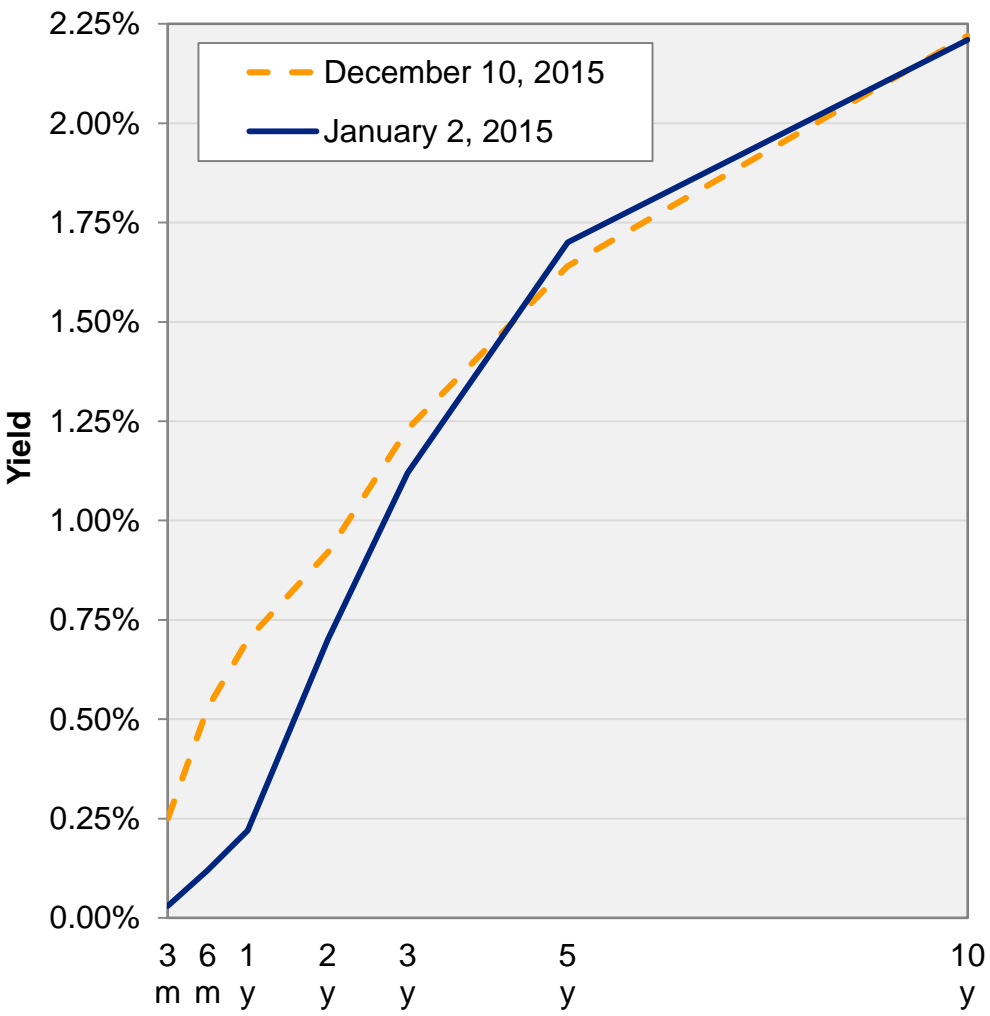


"How will the current economic situation affect the quality and quantity of my presents?"

Economic Update

Interest Rate Update

U.S. Treasury Yield Curves

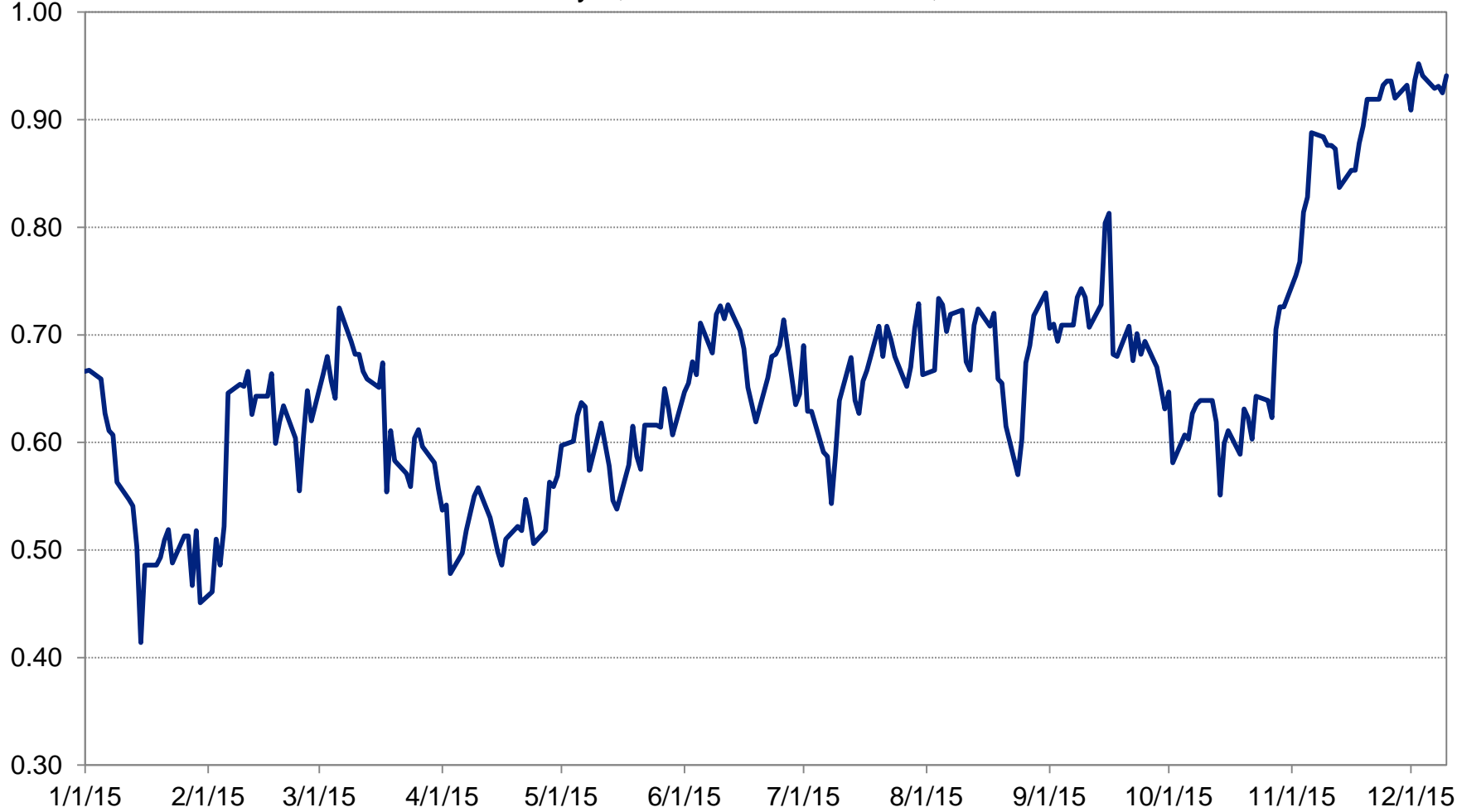


	1/2/15	12/10/15
3 month	0.03%	0.25%
6 month	0.12%	0.53%
1 year	0.22%	0.70%
2 year	0.70%	0.92%
3 year	1.12%	1.23%
5 year	1.70%	1.64%
10 year	2.21%	2.22%
30 year	2.78%	2.97%

Source: Bloomberg

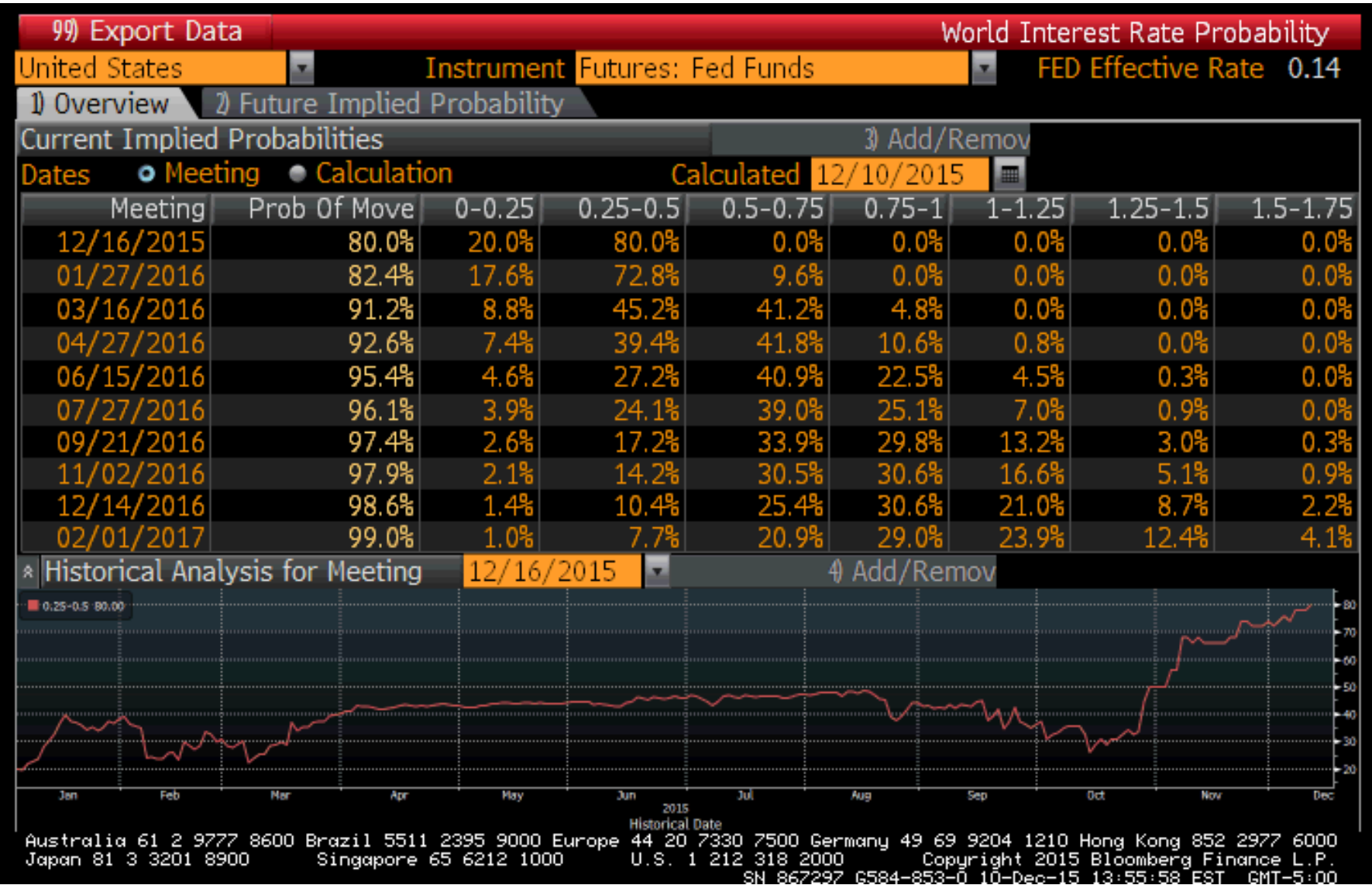
2-Year Treasury Continues Upward Trend

2-Year Treasury Yields
January 1, 2015 to December 10, 2015



Source: Bloomberg

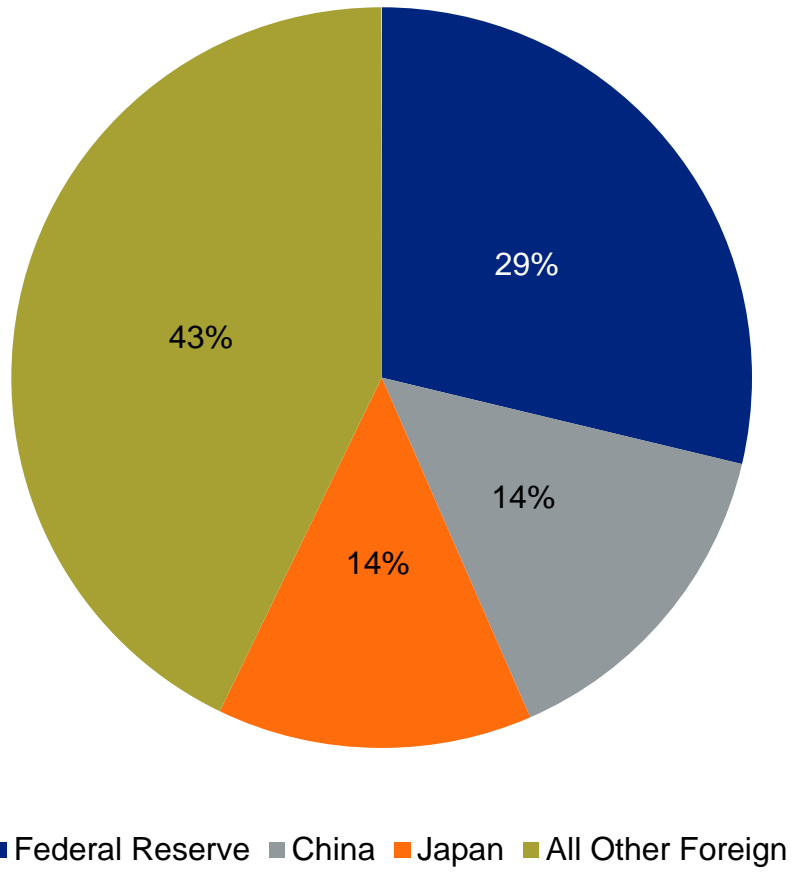
Optimism Reflected in Fed Funds Futures



Source: Bloomberg

Central Bank Holdings of U.S. Treasuries

Central Bank Treasury Holdings
\$14,353 billion



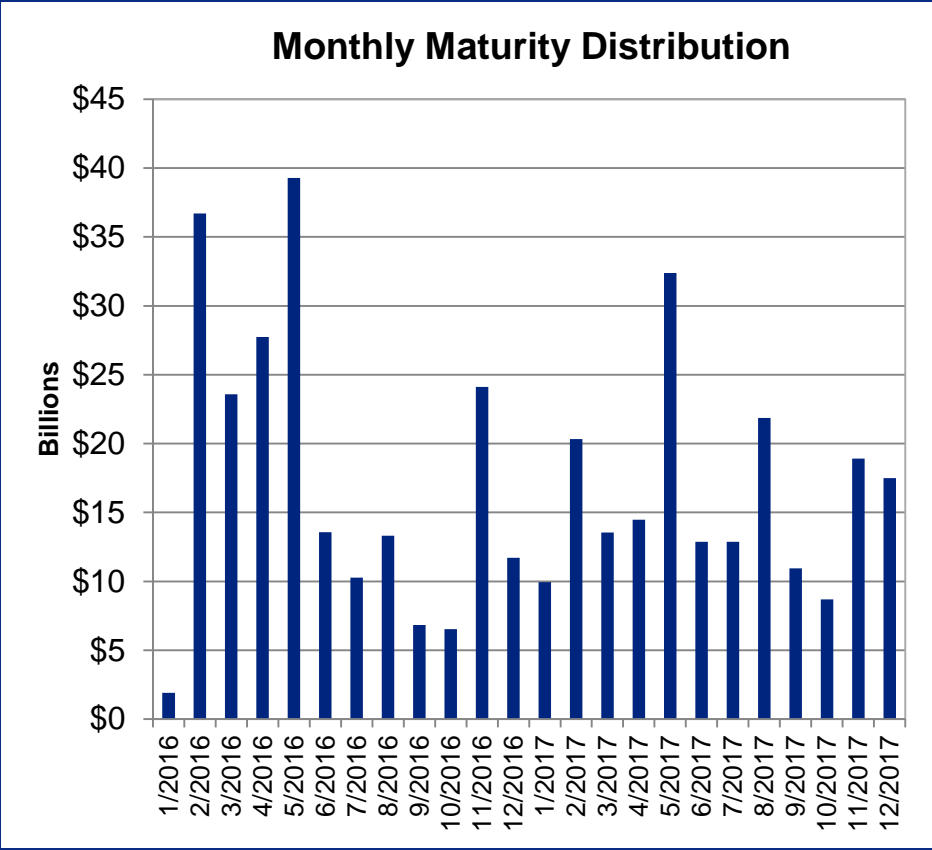
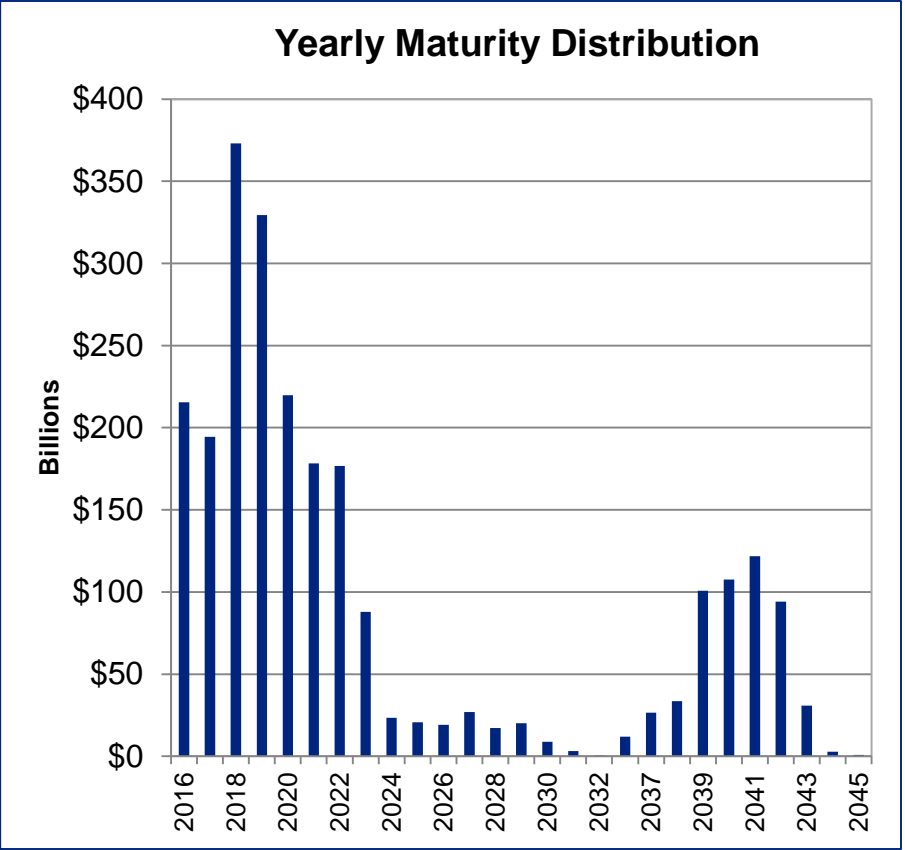
Historical
U.S. Treasury Holdings



Source: Bloomberg as of September 30, 2015

Federal Reserve Treasury Holdings

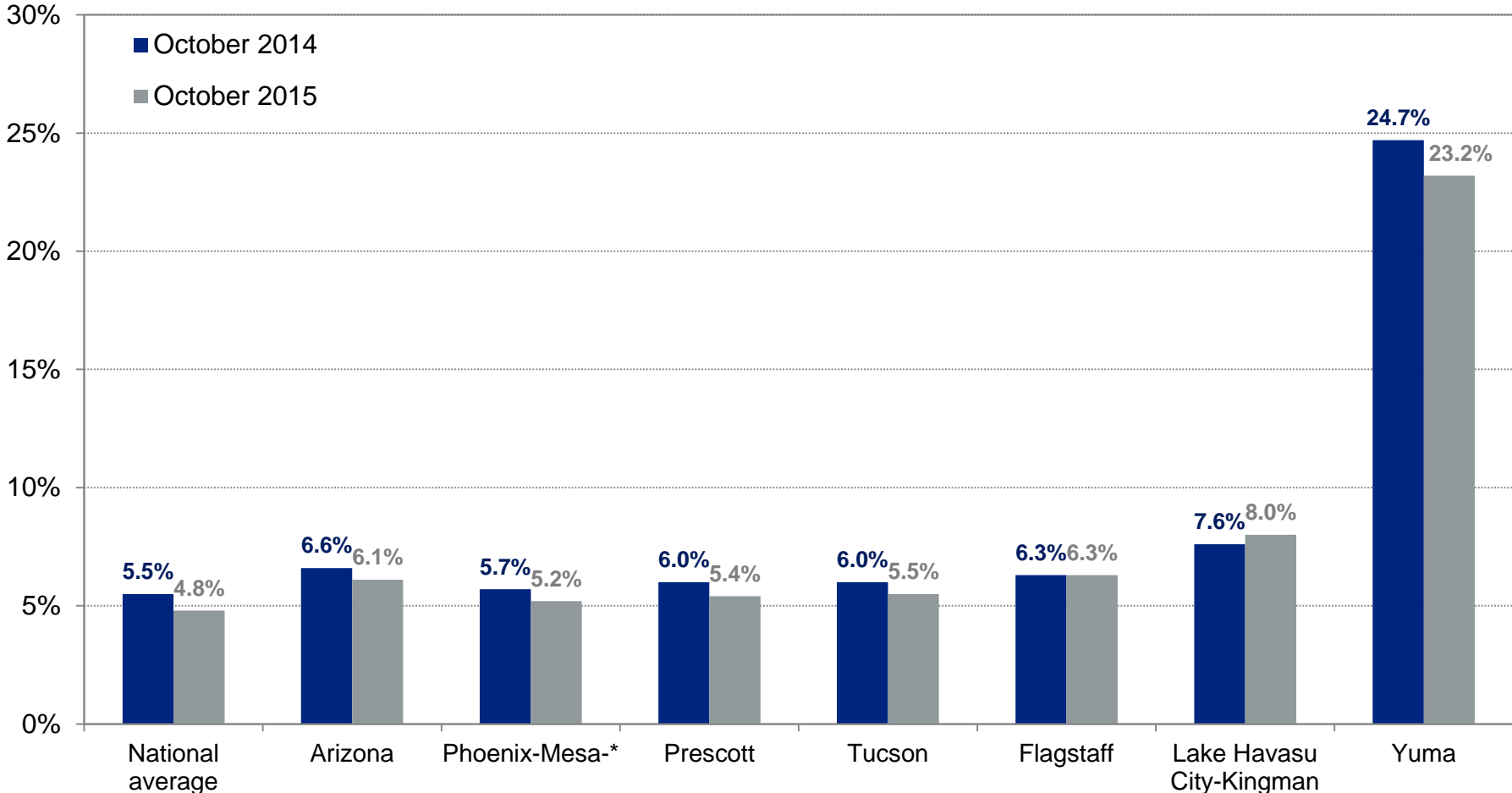
- The Fed's Treasury Holdings begin to mature in large size next February.
- The Fed will likely reinvest maturities, but the plan is somewhat uncertain.



Source: Bloomberg as of November 30, 2015

Unemployment Ticks Lower for AZ

Unemployment Rates by AZ Metropolitan Areas (Not Seasonally Adjusted)



Source: Bureau Labor of Statistics.

* In 2014, the area surveyed was Phoenix-Mesa-Glendale; however, it was repartitioned to Phoenix-Mesa-Scottsdale in 2015.

Disclaimer

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