



November 16, 2010

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City of Surprise
Investment Guidelines and Objectives
Month Ended October 31, 2010

Investment Objectives: In accordance with the City's Investment Policy, the City's primary objectives in order of priority are:

- A. Safety** – Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to prudently mitigate credit risk and interest rate risk. It is understood by the City that no investment is completely free of risk.
- B. Liquidity** – The investment portfolio shall remain sufficiently liquid to meet anticipated cash flow requirements. This is to be accomplished by structuring the portfolio so that securities mature concurrent with anticipated cash flow needs (static liquidity). Furthermore, because all possible cash demands cannot be anticipated, the portfolio should consist of securities for which there are active secondary markets (dynamic liquidity).
- C. Optimal Yield** – Return on investment is of lesser importance compared to the safety and liquidity objectives described above. The investment portfolio shall be designed to optimize the yield the City obtains from the portfolio taking into account the criteria of the investment policy, the dynamic liquidity needs of the City, and the current interest rate outlook/economic condition.

Investment Guidelines: In relation to the investment portfolio, the City's investment strategy focuses on the following:

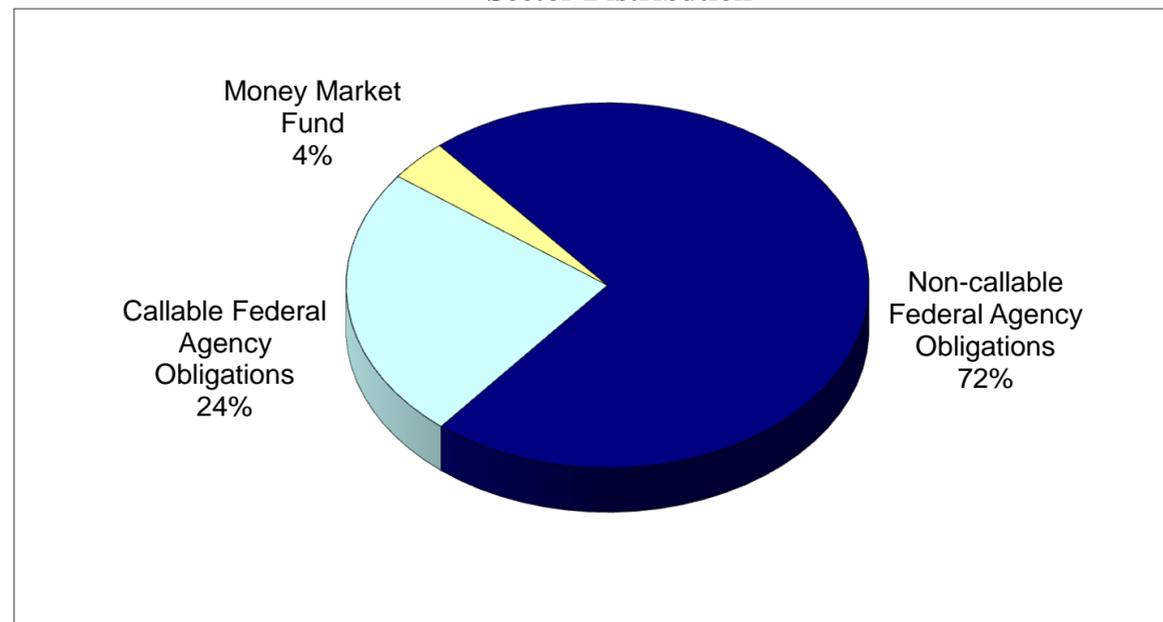
- **Permitted Investments.** The City will invest in permitted securities consistent with A.R.S.§35-323. Additionally, the City may desire to be more conservative in its investment portfolio and restrict or prohibit certain of the investments outlined in the Investment Policy.
- **Transactions prior to maturity** – Securities shall generally be held to maturity with the following exceptions:
 - A security with a declining credit may be sold early to minimize loss of principal.
 - Liquidity needs of the portfolio require that the security be sold.
 - Securities may be sold to better position the portfolio in accordance with better market opportunities. The City will approve all of these transactions but only after PFM Asset Management LLC, the City's investment advisor, provides detailed information about the transaction, including the qualitative and quantitative impacts on the portfolio, and will be cognizant of trades that will result in large material realized losses.

City of Surprise Portfolio Summary and Characteristics

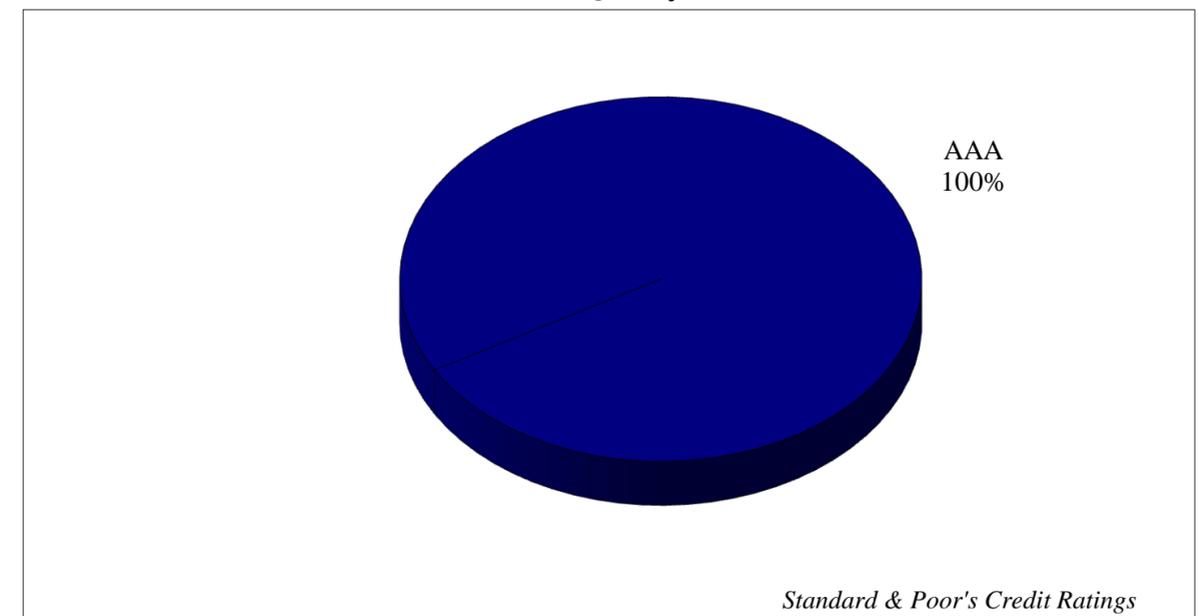
Month Ended October 31, 2010

<u>Security Type</u>	<u>Current Holdings*</u>	<u>Current Month % of Portfolio</u>	<u>Previous Month % of Portfolio</u>
U.S. Treasury	\$0.00	0%	0%
Federal Agency	\$32,894,024.63	96%	100%
Discount Federal Agency	\$0.00	0%	0%
Callable Federal Agency	\$8,271,508.75	24%	35%
Non-callable Federal Agency	\$24,622,515.88	72%	65%
FDIC Guaranteed Corporate	\$0.00	0%	0%
Wells Fargo MMF	\$1,265,404.45	4%	<1%
Total Market Value	\$34,159,429.08	100%	100%

Sector Distribution



Credit Quality Distribution



The City's portfolio continues to comply with the investment policy and the Arizona Revised Statutes.

*Security market values excluding accrued interest as of settlement date. Note that PFM monthly statements reflect holdings as of trade date.

City of Surprise Maturity Summary and Key Portfolio Statistics
Month Ended October 31, 2010

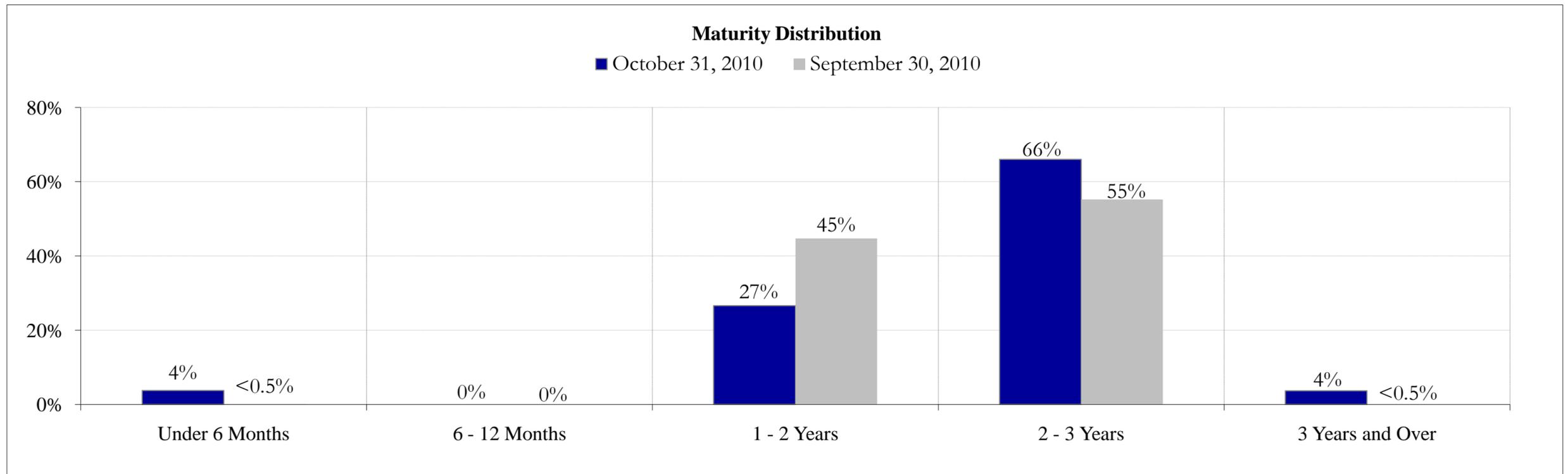
Maturity Distribution Summary		
<u>Maturity Class</u>	<u>Fair Value*</u>	<u>% of Portfolio</u>
Under 6 Months	\$1,265,404.45	3.7%
6 - 12 Months	\$0.00	0.0%
1 - 2 Years	\$9,083,463.00	26.6%
2 - 3 Years	\$22,559,462.88	66.0%
3 Years and Over	\$1,251,098.75	3.7%
Total Market Value	\$34,159,429.08	100%

*Security market values excluding accrued interest as of settlement date. Note that PFM monthly statements reflect holdings as of trade date.

Key Portfolio Statistics	
Duration	1.72 years
Benchmark Duration	1.79 years
Yield at Cost	0.88%

Please note that the percentages on this page are rounded and may not add up to 100% due to the rounding.

The City's benchmark is the Merrill Lynch 1-3 year U.S. Treasury Index.

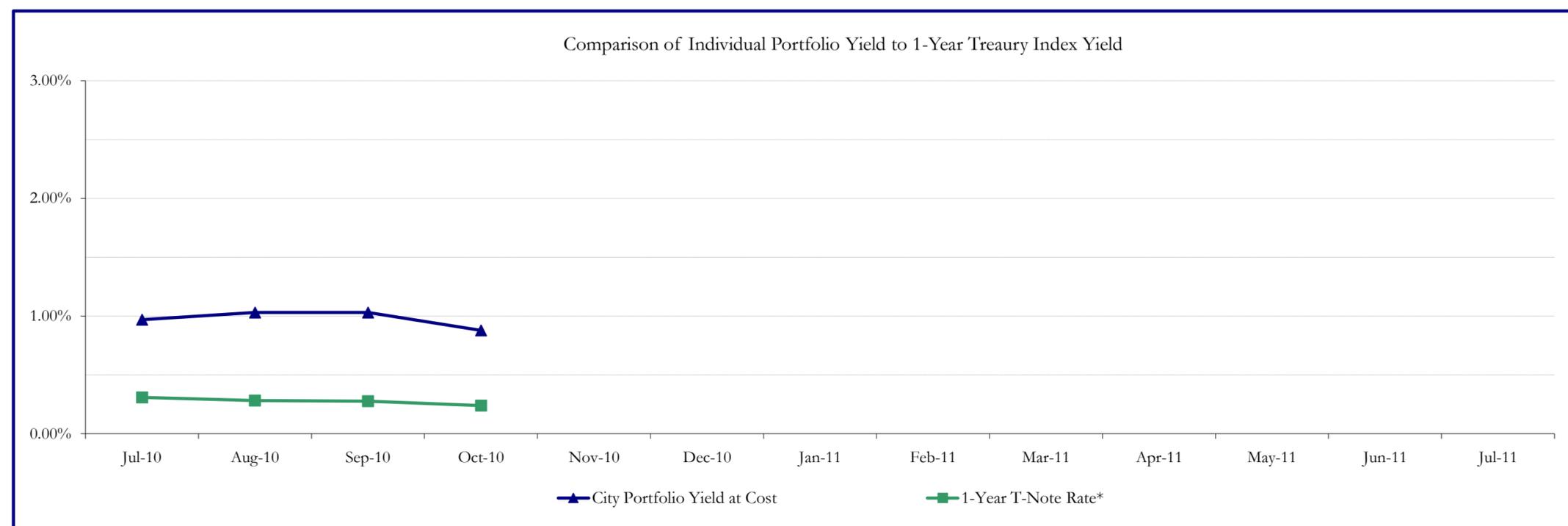


City of Surprise Individual Portfolio Yield Summary Fiscal Year 2010-2011

Date	Month-End Market Value ¹	Duration	Portfolio YTM at Cost	1-Year T-Note Index Rate ²
Jul-10	\$15,279,792	1.75	0.97%	0.31%
Aug-10	\$20,296,127	1.37	1.03%	0.28%
Sep-10	\$20,306,987	1.29	1.03%	0.28%
Oct-10	\$34,159,429	1.72	0.88%	0.24%

¹ Excludes accrued interest and includes balance in the custody account MMF.

² Rate represents the Merrill Lynch 1-Year U.S. Treasury Note Index month-end yield (GC03). Source Bloomberg

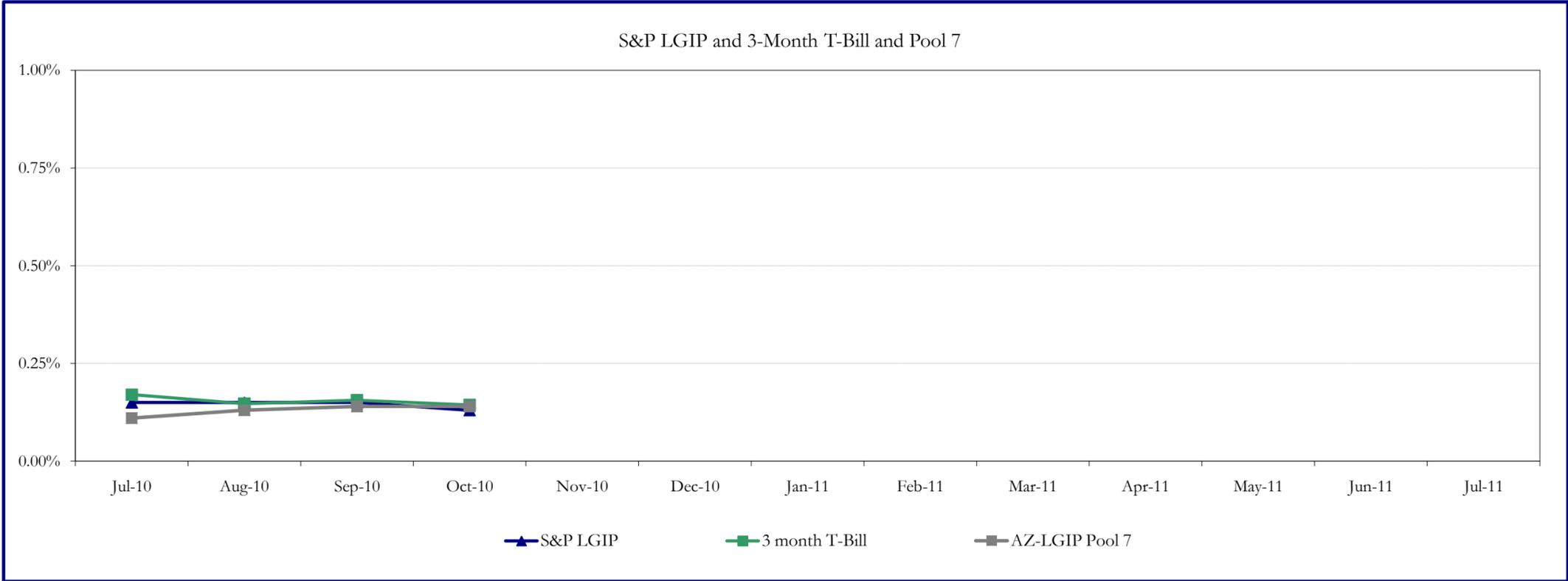


**City of Surprise Short-Term Benchmark Comparisons
Fiscal Year 2010-2011**

Date	S&P LGIP	AZ-LGIP Pool 7 ¹	3 month Treasury Bill ²
Jul-10	0.15%	0.11%	0.17%
Aug-10	0.15%	0.13%	0.15%
Sep-10	0.15%	0.14%	0.16%
Oct-10	0.13%	0.14%	0.14%

¹ Monthly Apportionment Yields. Source: Office of the Arizona State Treasurer

² Rate represents the Merrill Lynch 3-Month U.S. Treasury Bill Index month-end yield (G0O1). Source: Bloomberg



City of Surprise Holdings
Month Ended October 31, 2010

Operating Funds Investment Inventory by Maturity Date

Issuer	Maturity	Years to Maturity	Fair Value	Yield to Maturity	Next Call Date	Frequency
Wells Fargo MMF	10/31/2010	0.00	\$1,265,404	0.03%		
FHLB	12/28/2011	1.16	\$3,023,925	0.62%		
FHLB	1/9/2012	1.19	\$3,011,076	0.65%		
FHLB	6/8/2012	1.61	\$3,048,462	0.97%		
FHLMC	12/21/2012	2.14	\$2,154,572	1.09%		
FHLMC	4/15/2013	2.46	\$1,247,115	0.56%		
FNMA	6/26/2013	2.66	\$2,048,976	1.41%		
FNMA	7/19/2013	2.72	\$2,010,520	1.39%	7/19/11	One-time
FNMA	8/16/2013	2.79	\$5,009,890	1.23%	2/16/11	One-time
FFCB	9/16/2013	2.88	\$5,035,760	0.43%		
FNMA	9/23/2013	2.90	\$5,052,630	0.73%		
FHLMC	11/15/2013	3.04	\$1,251,099	1.01%	2/15/11	Quarterly
Total Market Value			\$ 34,159,429			



Managed Account Detail of Securities Held

For the Month Ending **October 31, 2010**

CITY OF SURPRISE OPERATING FUND

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											
FHLB GLOBAL BONDS DTD 11/16/2009 1.000% 12/28/2011	3133XVRS2	3,000,000.00	AAA	Aaa	06/23/10	06/24/10	3,016,950.00	0.62	10,250.00	3,013,005.69	3,023,925.00
FHLB NOTES DTD 07/09/2010 0.625% 01/09/2012	3133703Y2	3,000,000.00	AAA	Aaa	07/13/10	07/14/10	2,998,740.00	0.65	5,833.33	2,998,991.34	3,011,076.00
FHLB TAP BONDS DTD 01/07/2010 1.375% 06/08/2012	3133XWKU2	3,000,000.00	AAA	Aaa	06/16/10	06/17/10	3,024,000.00	0.97	16,385.42	3,019,510.80	3,048,462.00
FHLMC GLOBAL REFERENCE NOTES DTD 12/17/2007 4.125% 12/21/2012	3137EABE8	2,000,000.00	AAA	Aaa	06/23/10	06/24/10	2,148,600.00	1.09	29,791.67	2,127,790.74	2,154,572.00
FHLMC GLOBAL NOTES DTD 03/04/2010 1.625% 04/15/2013	3137EACJ6	1,215,000.00	AAA	Aaa	10/28/10	11/01/10	1,246,602.15	0.56	877.50	1,246,602.15	1,247,114.88
FNMA GLOBAL NOTES DTD 05/21/2010 1.500% 06/26/2013	31398AT44	2,000,000.00	AAA	Aaa	06/16/10	06/17/10	2,005,560.00	1.41	10,416.67	2,004,886.30	2,048,976.00
FANNIE MAE (CALLABLE) GLOBAL NOTES DTD 07/19/2010 1.375% 07/19/2013	31398AW32	2,000,000.00	AAA	Aaa	07/13/10	07/19/10	1,999,280.00	1.39	7,791.67	1,999,346.84	2,010,520.00
FNMA NOTES (CALLABLE) DTD 08/16/2010 1.250% 08/16/2013	31398A2L5	5,000,000.00	AAA	Aaa	08/05/10	08/16/10	5,003,000.00	1.23	13,020.83	5,001,750.00	5,009,890.00
FFCB (FLOATING) NOTE DTD 09/16/2010 0.440% 09/16/2013	31331JG64	5,000,000.00	AAA	Aaa	10/12/10	10/13/10	5,000,000.00	0.43	2,750.00	5,000,000.00	5,035,760.00
FANNIE MAE GLOBAL NOTES DTD 08/06/2010 1.000% 09/23/2013	31398A2S0	5,000,000.00	AAA	Aaa	10/12/10	10/13/10	5,038,650.00	0.73	5,277.78	5,038,000.10	5,052,630.00
FREDDIE MAC GLOBAL NOTES (CALLABLE) DTD 11/15/2010 1.000% 11/15/2013	3134G1XN9	1,250,000.00	AAA	Aaa	10/28/10	11/15/10	1,249,625.00	1.01	0.00	1,249,625.00	1,251,098.75
Security Type Sub-Total		32,465,000.00					32,731,007.15	0.88	102,394.87	32,699,508.96	32,894,024.63
Managed Account Sub-Total		32,465,000.00					32,731,007.15	0.88	102,394.87	32,699,508.96	32,894,024.63



Managed Account Detail of Securities Held

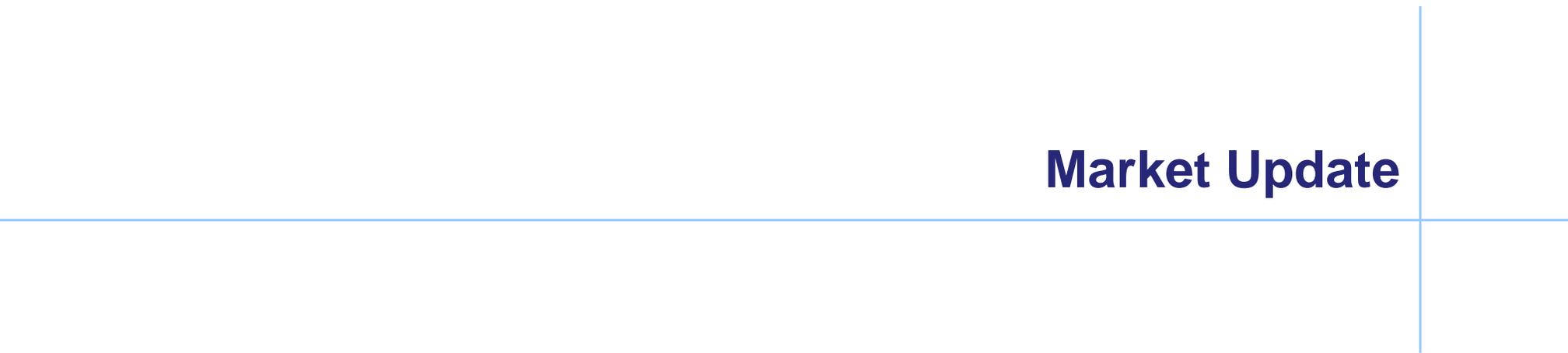
For the Month Ending **October 31, 2010**

CITY OF SURPRISE OPERATING FUND

Securities Sub-Total	\$32,465,000.00	\$32,731,007.15	0.88%	\$102,394.87	\$32,699,508.96	\$32,894,024.63
Accrued Interest						\$102,394.87
Total Investments						\$32,996,419.50

Bolded items are forward settling trades.

Market Update



Mid-term Elections Offer Little Surprise

Expected delays to ‘anti-business’ legislation—healthcare, the environment, taxes, and financial reform

- Republicans take control of the House, make gains in the Senate
- Slower, more moderate legislative changes and regulation expected
- May lift uncertainty that is hurting investment and hiring

Affiliation	Senate
Republican	46 (+6)
Democrat	53 (-6)
Independent	-
<i>Undecided Races</i>	1

Affiliation	House
Republican	239 (+60)
Democrat	189 (-60)
Independent	-
<i>Undecided Races</i>	7

Affiliation	Governor
Republican	29 (+8)
Democrat	18 (-8)
Independent	1
<i>Undecided Races</i>	2

Outlook is for Modest Growth at Lower Pace than After Recent Recessions

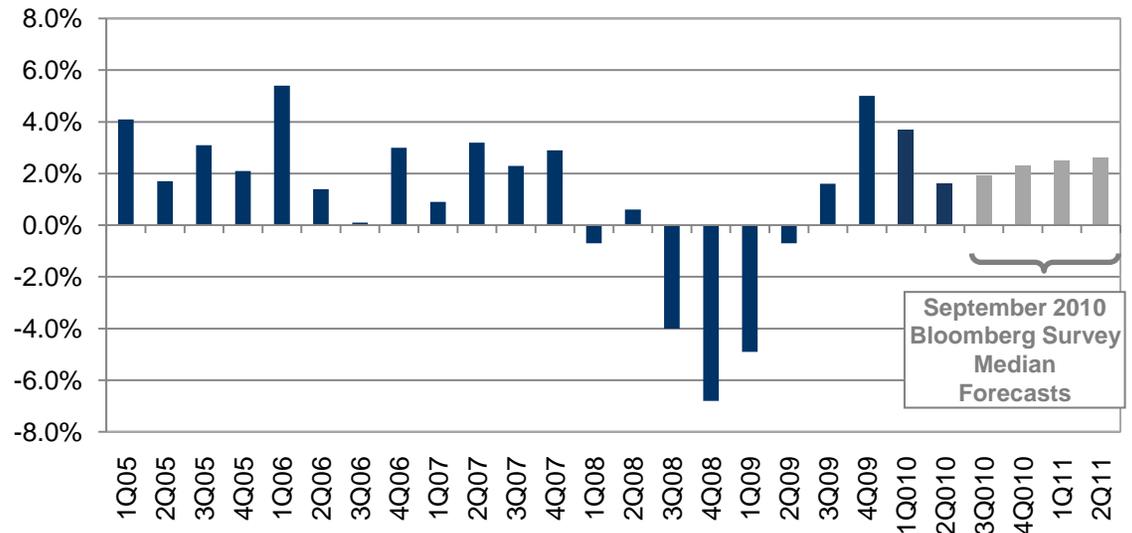
Fed and most economists have reduced their forecasts for the next year

- Second quarter GDP grew 1.7%
- Consumption has moderated
- State and local government budgets are under pressure
- Business investment remains solid
- Exports are strong

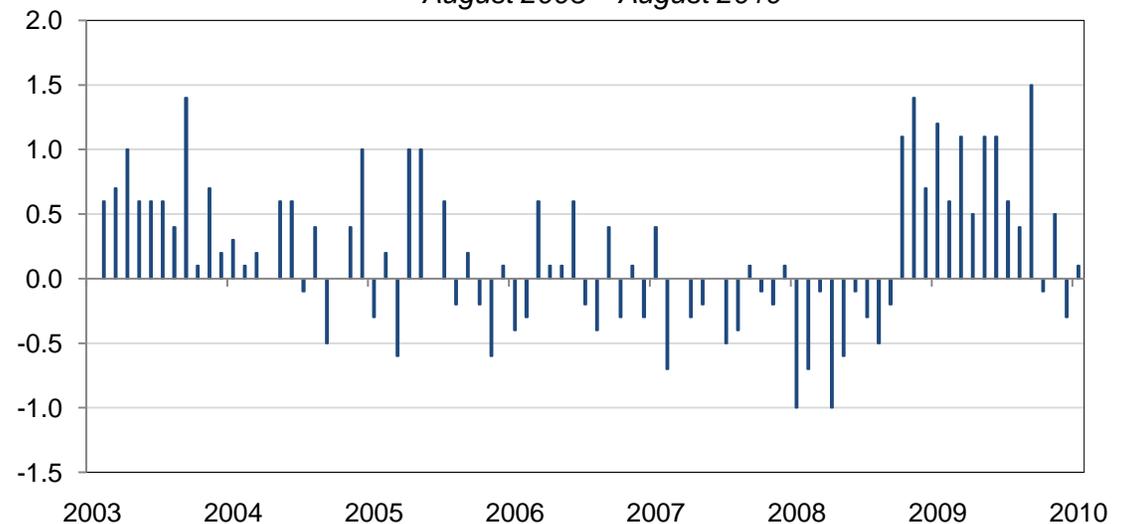
Uncertainty Is Slowing the Recovery

- Some concern remains over global debt
- Expiration of Bush tax cuts
- Uncertain political situation in US
- Consumer confidence is weak

Change in Gross Domestic Product
First Quarter 2005 – Second Quarter 2011



Leading Indicators Month Over Month
August 2003 – August 2010



Source: Bloomberg

Job Market Seems Somewhat Stronger

151,000 new jobs added in October

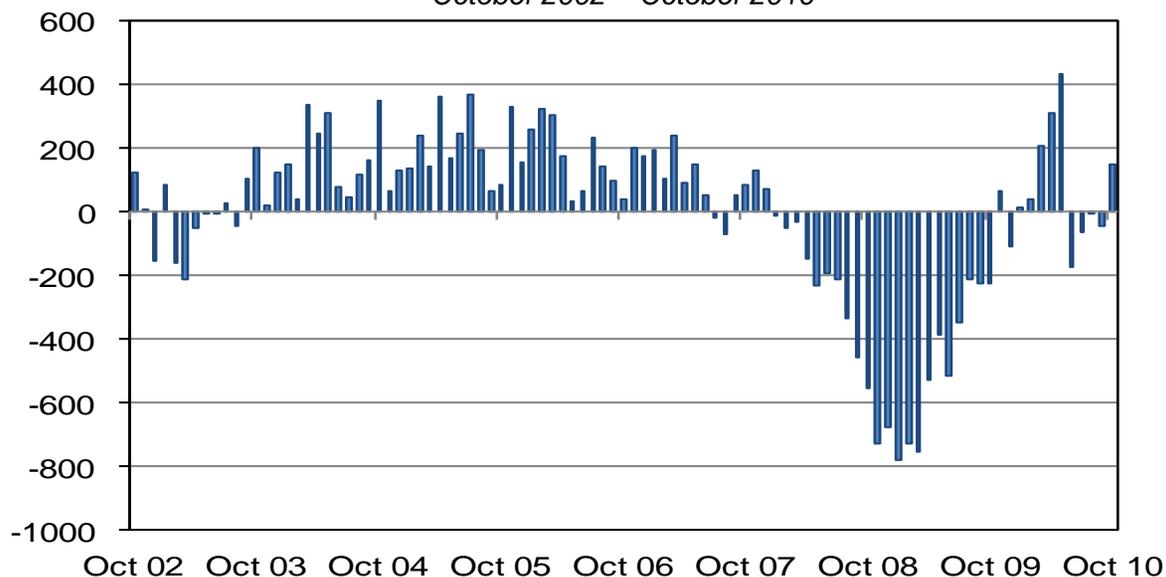
- Service jobs are growing
- Manufacturing employment is stable
- Pace of GDP growth remains insufficient to affect job market

State/local government employment continued to shrink

- Governments cut to improve financial condition
- Employment reduced by 1.3% since 2009
- 35 states reduced payrolls, 15 states increased employment

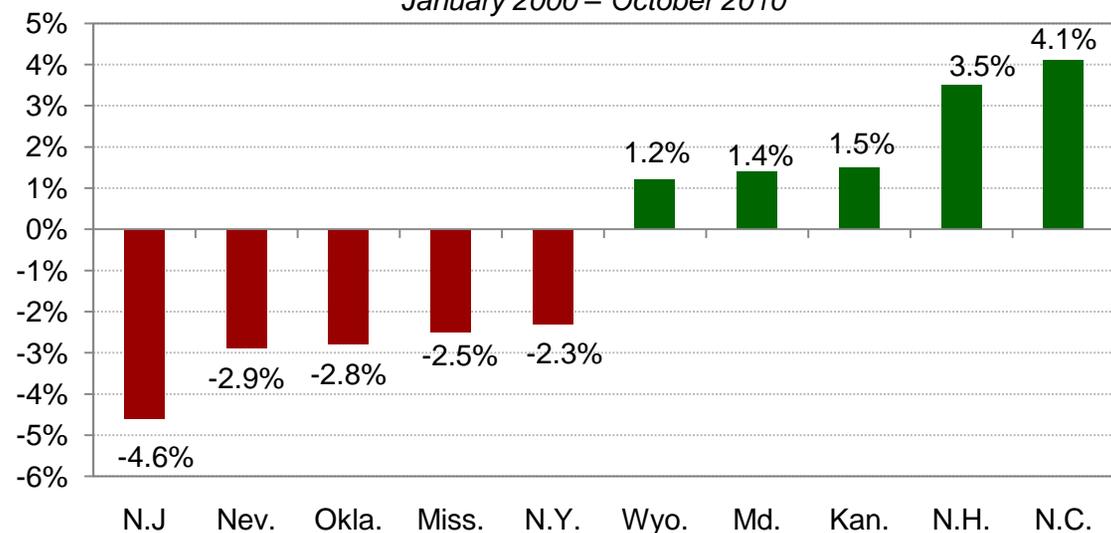
Change in Non-Farm Payrolls (in thousands)

October 2002 – October 2010



Gains and Losses in State and Local Government Payrolls

January 2000 – October 2010



Source: Bloomberg USA Today

Job Openings Remain Unfilled

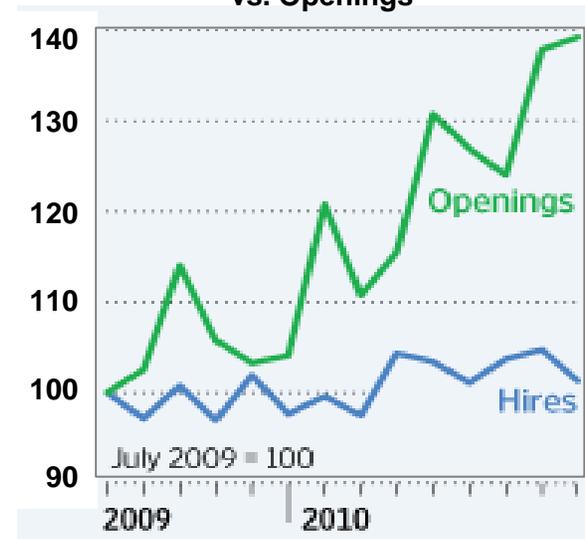
Companies' lack confidence in consumer demand

- Job openings being filled at a slower pace than in the past
- Or remain unfilled

Lack of intensity in recruiting

- Lack of intensity may account for about a quarter of the gap

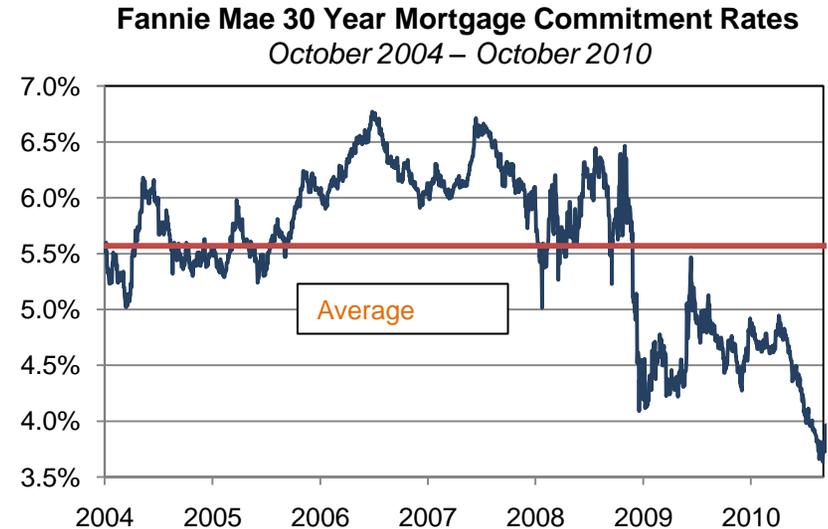
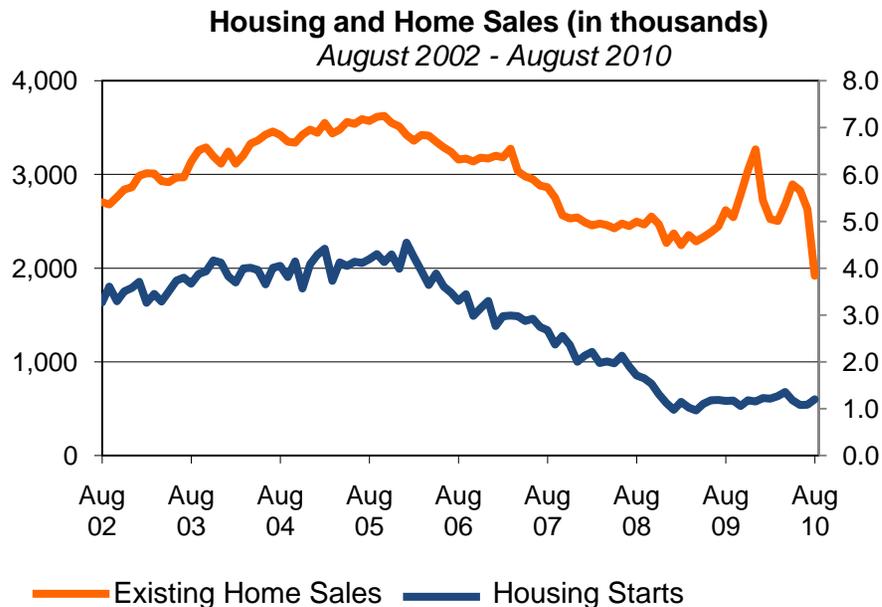
Index of Private Sector Hires vs. Openings



Recruiting Intensity Index



Housing Remains Depressed, Despite Record Low Mortgage Rates



- Economic uncertainty depresses the market
- Consumers would rather pay down debt than buy real estate
- Foreclosure problems have recently roiled the mortgage markets
- Mortgage rates continue to track overall long term interest rates lower
- Record low rates do not stimulate growth

Source: Bloomberg

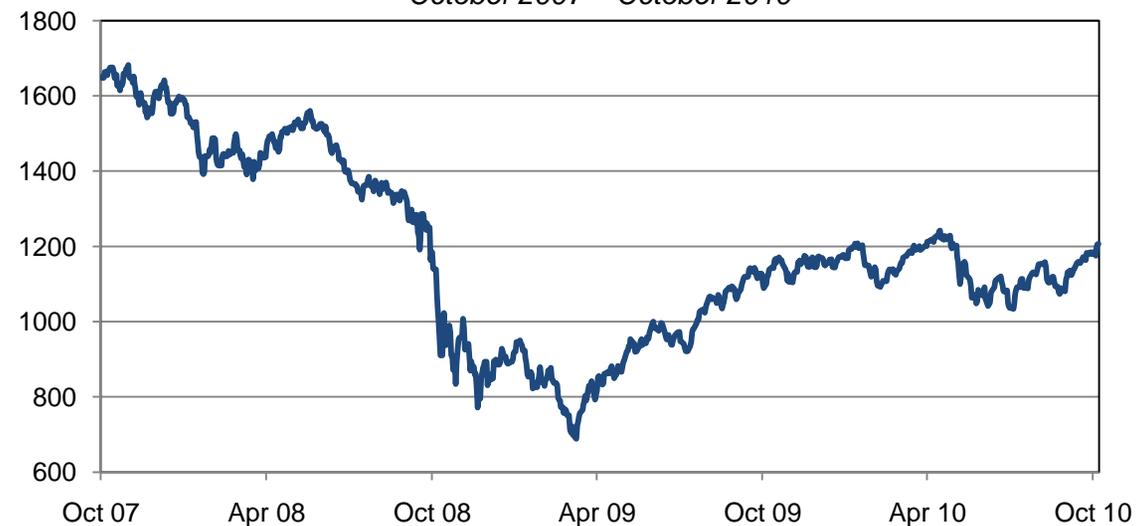
Strong Quarter for Equities Signals Renewed Confidence in Recovery

- Domestic equities rose 10-12% in quarter
- European and world stocks rose as well and because of dollar weakening they beat US stocks on a currency adjusted basis
- Global growth is main factor
- Low interest rates and robust corporate balance sheets also contribute

S&P 500 Stock Index
October 2007 – October 2010



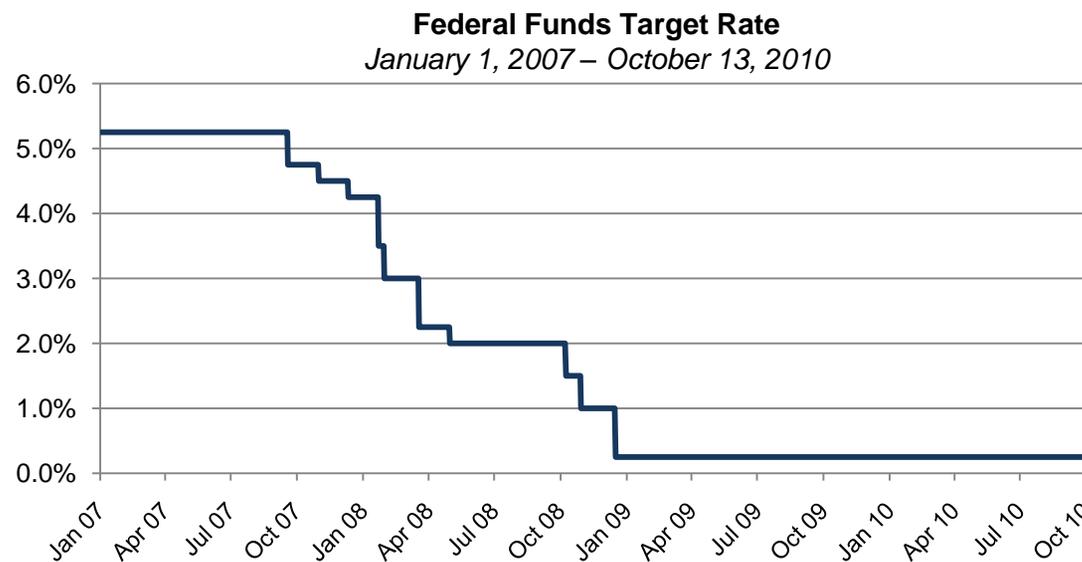
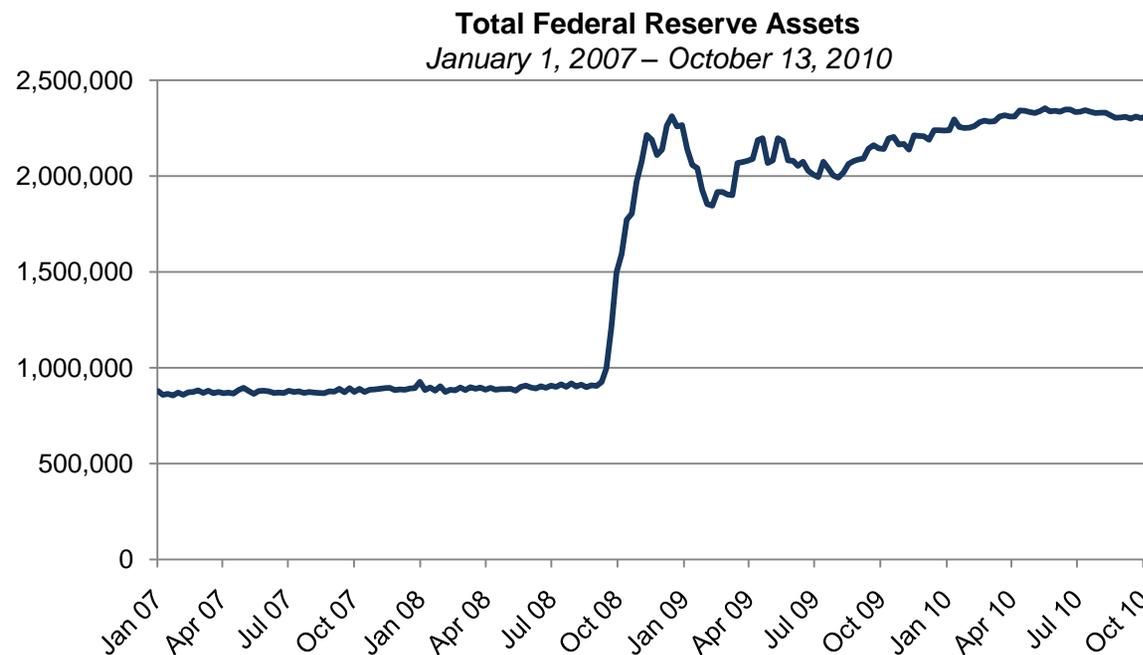
Morgan Stanley Euro Index
October 2007 – October 2010



Source: Bloomberg

Fed Initiates New Round of Quantitative Easing to Try to Boost Economic Growth

- Will buy \$600 billion of Treasury securities in next six months
- Could add more later on
- Fed hopes to drive long term rates down even further
- Risk that inflation could spike
- Some fear cheap money investors jumping into risky assets



Source: Bloomberg

Interest Rates Remain Relatively Unchanged

2-Year hits new record low in October

- 2-year rates fell to 0.34%
- New record low of 0.33% set in November

Expectation of low rates and sluggish growth

- Positive unemployment report, Fed's announcement of QE2, and pro-business government modestly lifted rates
- Market outlook remains cautious

2-Year U.S. Treasury Yields
January 1, 2000 – November 5, 2010



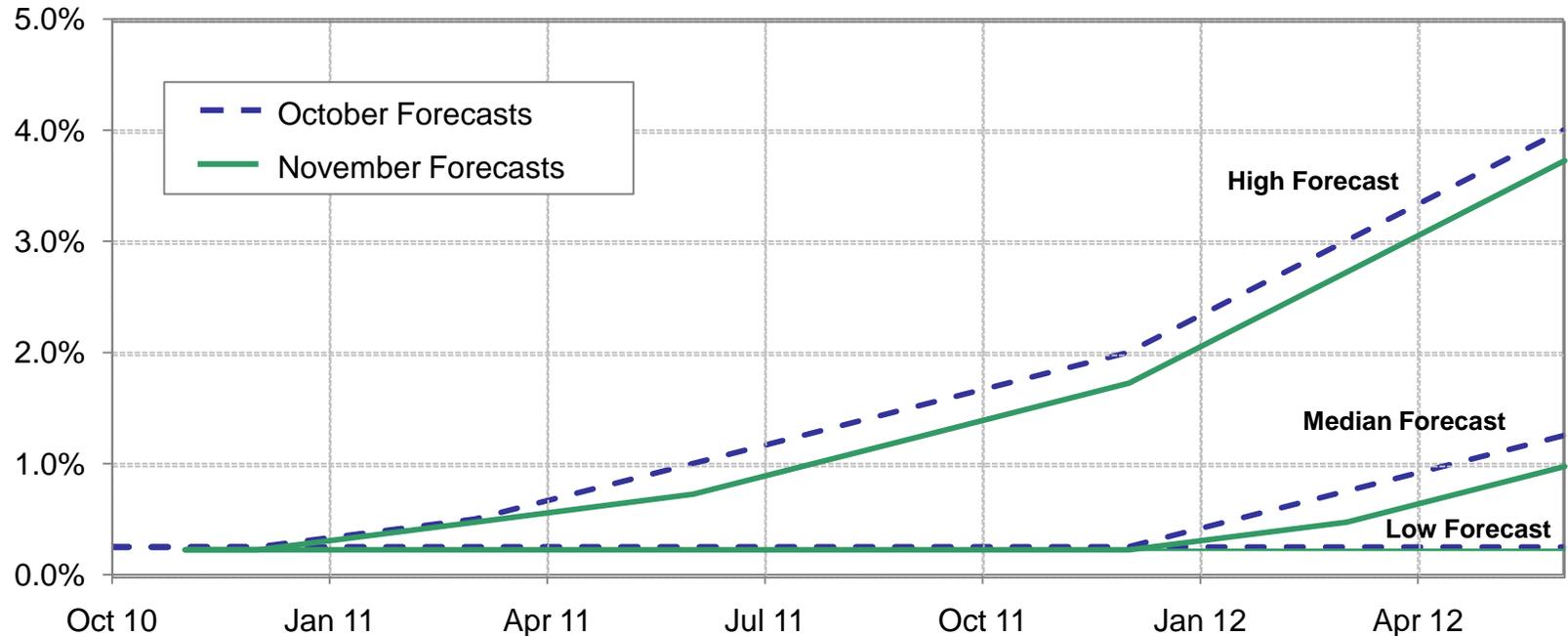
2-Year U.S. Treasury Yields
January 1, 2010 – November 5, 2010



Source: Bloomberg

Fed Funds Forecast – November 2010

Federal Funds Target Rate – October Forecast vs. November Forecast
October 2010 – June 2012



Fed Funds Target Rate: expected to remain low, longer

- Renewed expectations of slow, moderate growth
- Fed: expect “exceptionally low levels for the federal funds rate for an extended period”

Economic Calendar

 Potential market-moving economic releases

Date	Event	Survey	Actual	Prior	Revised
11/15/2010	Advance Retail Sales	0.70%		0.60%	--
11/15/2010	Retail Sales Less Autos	0.40%		0.40%	--
11/15/2010	Retail Sales Ex Auto & Gas	--		0.40%	--
11/15/2010	Business Inventories	0.60%		0.60%	--
11/16/2010	Producer Price Index (MoM)	0.80%		0.40%	--
11/16/2010	PPI Ex Food & Energy (MoM)	0.10%		0.10%	--
11/16/2010	Industrial Production	0.30%		-0.20%	--
11/16/2010	Capacity Utilization	74.90%		74.70%	--
11/16/2010	NAHB Housing Market Index	17		16	--
11/17/2010	Consumer Price Index (MoM)	0.30%		0.10%	--
11/17/2010	CPI Ex Food & Energy (MoM)	0.10%		0.00%	--
11/17/2010	Consumer Price Index NSA	--		218.439	--
11/17/2010	Housing Starts	600K		610K	--
11/17/2010	Building Permits	575K		539K	547K
11/18/2010	Initial Jobless Claims	--		--	--
11/18/2010	Continuing Claims	--		--	--
11/18/2010	Leading Indicators	0.50%		0.30%	--

Surprise Purchase Since Month End

- Positive pay-roll data released the first week of November resulted in a small increase in short-term yields and created an opportunity to make a purchase for the City's portfolio.

Date	Transaction	Par	Security	Maturity Date	Yield to Next Call	Yield to Maturity
11/05/10	Buy	\$2,500,000	FNMA Notes (Callable)	11/26/13	0.88%	0.98%

Disclaimer

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