



December 21, 2010

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City of Surprise
Investment Guidelines and Objectives
Month Ended November 30, 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:

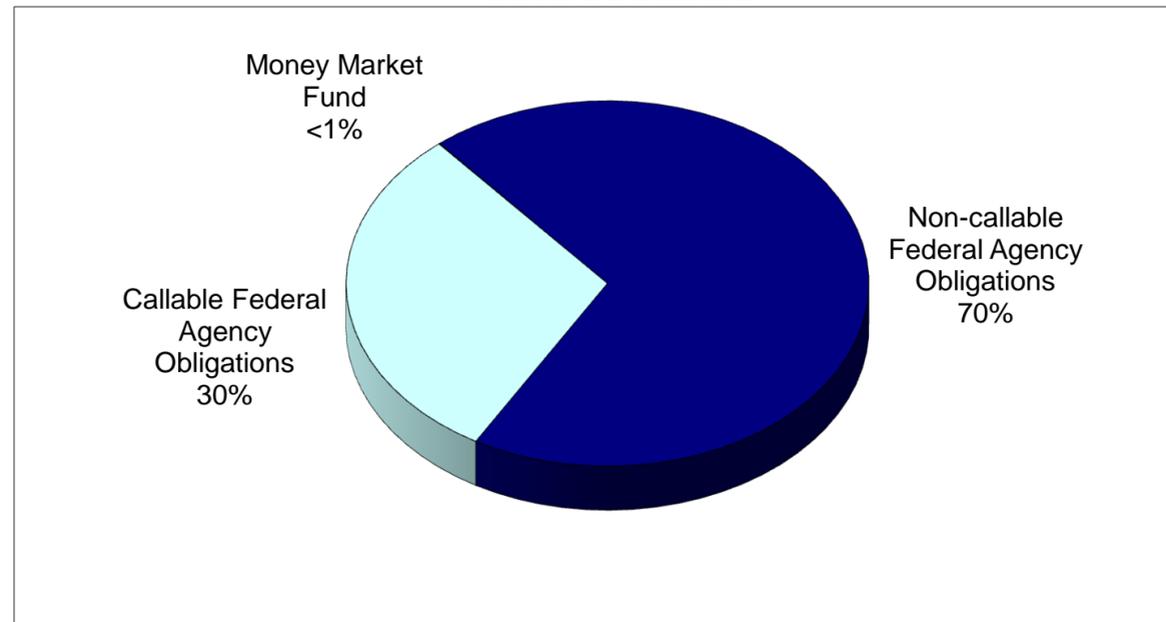
- **Permitted Investments.** The City will invest in permitted securities consistent with A.R.S.§35-323. Additionally, the City may desire to be more conservative in its investment portfolio and restrict or prohibit certain of the investments outlined in the Investment Policy.
- **Transactions prior 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

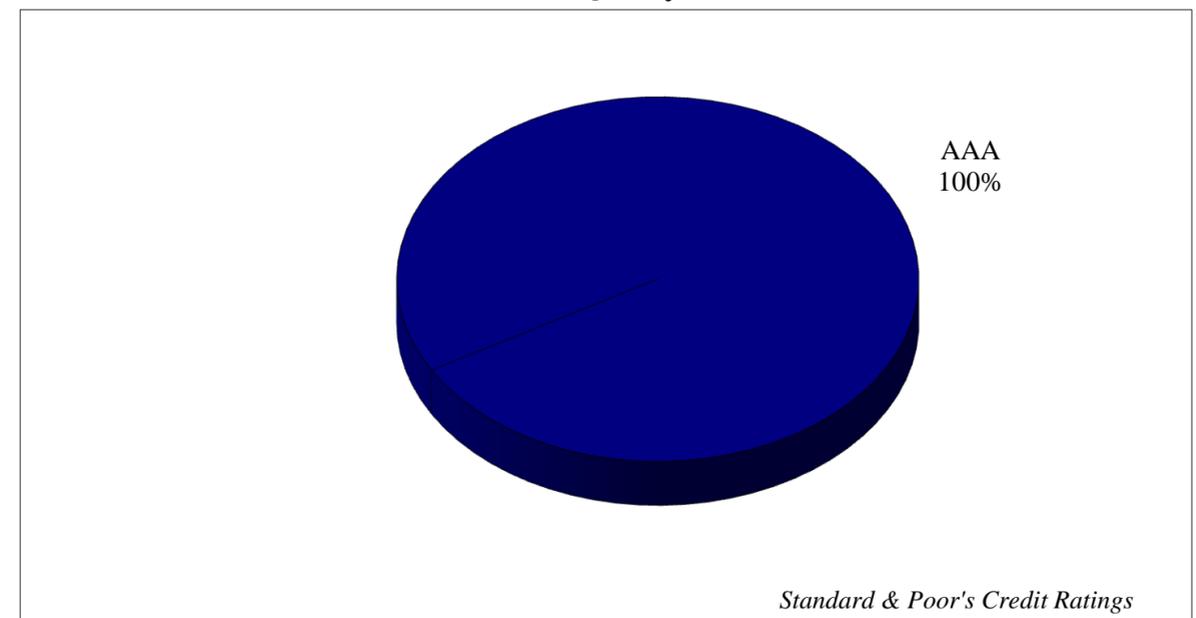
Month Ended November 30, 2010

| <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 | \$35,277,769.78 | 100% | 96% |
| Discount Federal Agency | \$0.00 | 0% | 0% |
| Callable Federal Agency | \$10,746,052.75 | 30% | 24% |
| Non-callable Federal Agency | \$24,531,717.03 | 70% | 72% |
| FDIC Guaranteed Corporate | \$0.00 | 0% | 0% |
| Wells Fargo MMF | \$17,928.72 | <1% | 4% |
| Total Market Value | \$35,295,698.50 | 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 November 30, 2010

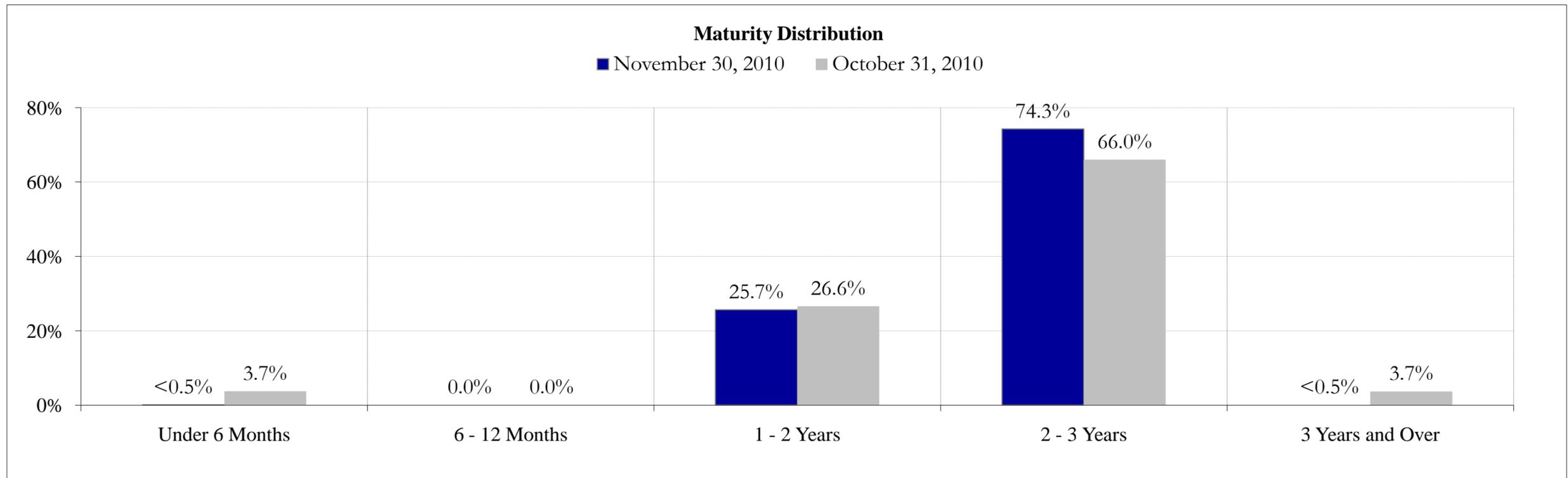
| Maturity Distribution Summary | | |
|--------------------------------------|------------------------|-----------------------|
| <u>Maturity Class</u> | <u>Fair Value*</u> | <u>% of Portfolio</u> |
| Under 6 Months | \$17,928.72 | <0.5% |
| 6 - 12 Months | \$0.00 | 0.0% |
| 1 - 2 Years | \$9,059,553.00 | 25.7% |
| 2 - 3 Years | \$26,218,216.78 | 74.3% |
| 3 Years and Over | \$0.00 | <0.5% |
| Total Market Value | \$35,295,698.50 | 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 | |
|---------------------------------------|-------------------|
| Effective Duration¹ | 1.45 years |
| Benchmark Duration | 1.76 years |
| Yield at Cost | 0.88% |

1. Duration to worst as of 11/30/2010 was 1.82
 The City's benchmark is the Merrill Lynch 1-3 year U.S. Treasury Index.

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

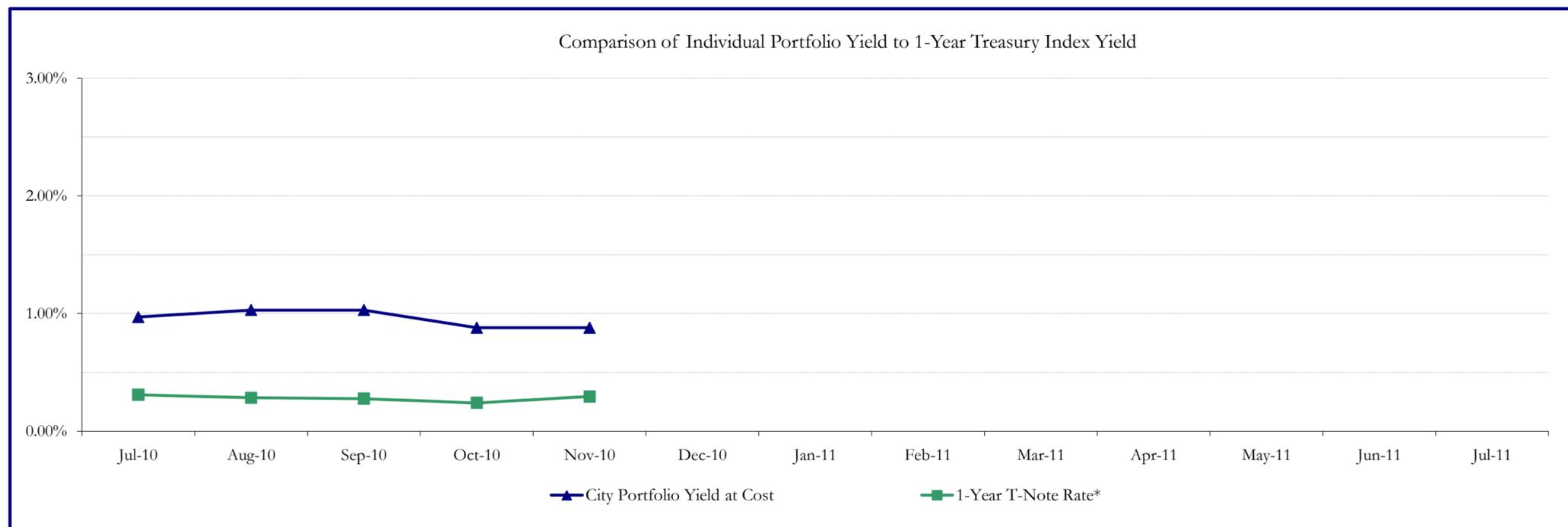


City of Surprise Individual Portfolio Yield Summary
Fiscal Year 2010-2011

| 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% |
| Nov-10 | \$35,295,699 | 1.82 | 0.88% | 0.29% |

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

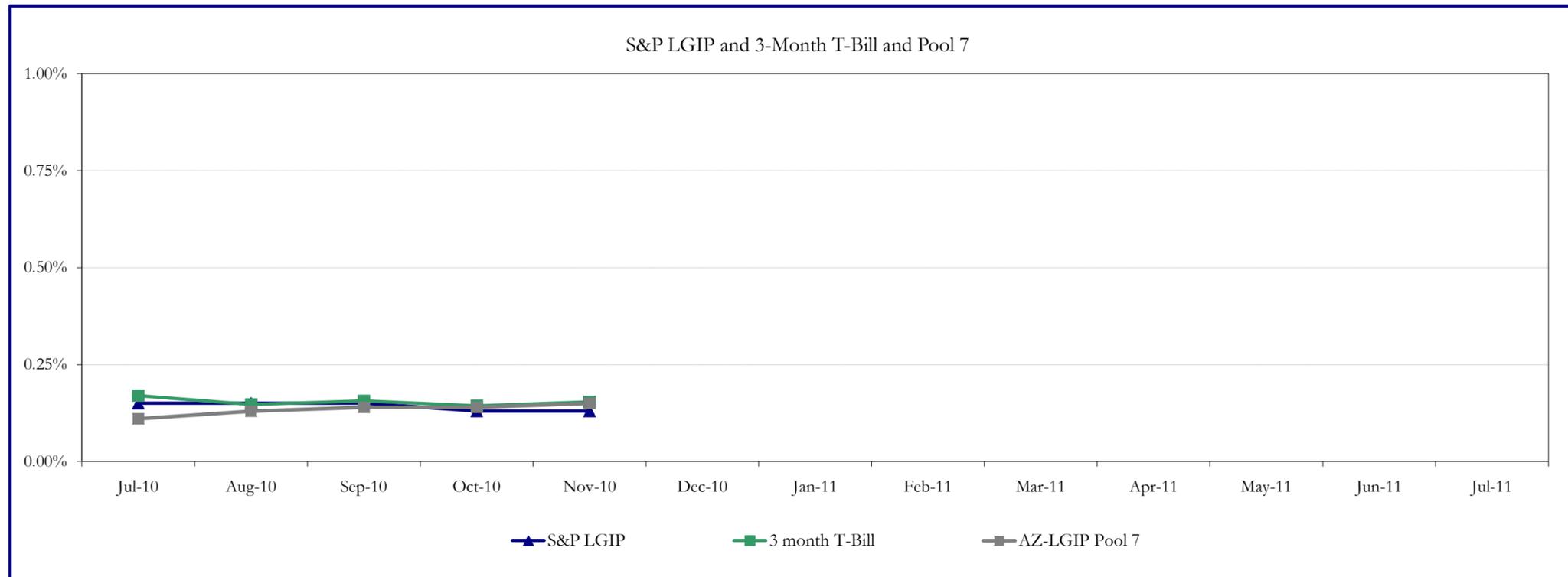


**City of Surprise Short-Term Benchmark Comparisons
Fiscal Year 2010-2011**

| 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% |
| Nov-10 | 0.13% | 0.15% | 0.15% |

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 (G001). Source: Bloomberg



City of Surprise Holdings
Month Ended November 30, 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 | 11/30/2010 | 0.00 | \$17,929 | 0.02% | | |
| FHLB | 12/28/2011 | 1.08 | \$3,016,734 | 0.62% | | |
| FHLB | 1/9/2012 | 1.11 | \$3,004,689 | 0.65% | | |
| FHLB | 6/8/2012 | 1.52 | \$3,038,130 | 0.97% | | |
| FHLMC | 12/21/2012 | 2.06 | \$2,140,974 | 1.09% | | |
| FHLMC | 4/15/2013 | 2.38 | \$1,240,679 | 0.56% | | |
| FNMA | 6/26/2013 | 2.57 | \$2,037,006 | 1.41% | | |
| FNMA | 7/19/2013 | 2.64 | \$2,008,064 | 1.39% | 7/19/11 | One-time |
| FNMA | 8/16/2013 | 2.71 | \$5,006,020 | 1.23% | 2/16/11 | One-time |
| FFCB | 9/16/2013 | 2.79 | \$5,034,720 | 0.43% | | |
| FNMA | 9/23/2013 | 2.81 | \$5,018,785 | 0.73% | | |
| FHLMC | 11/15/2013 | 2.96 | \$1,244,666 | 1.01% | 2/15/11 | Quarterly |
| FNMA | 11/26/2013 | 2.99 | \$2,487,303 | 0.98% | 5/23/11 | Quarterly |
| Total Market Value | | | \$ 35,295,699 | | | |



Managed Account Detail of Securities Held

For the Month Ending **November 30, 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 | 12,750.00 | 3,012,073.80 | 3,016,734.00 |
| 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 | 7,395.83 | 2,999,061.81 | 3,004,689.00 |
| 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 | 19,822.92 | 3,018,505.77 | 3,038,130.00 |
| 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 | 36,666.67 | 2,122,875.16 | 2,140,974.00 |
| 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 | 2,522.81 | 1,245,535.81 | 1,240,679.03 |
| 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 | 12,916.67 | 2,004,735.82 | 2,037,006.00 |
| 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 | 10,083.33 | 1,999,366.48 | 2,008,064.00 |
| 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 | 18,229.17 | 5,001,250.00 | 5,006,020.00 |
| FFCB (FLOATING) NOTE DTD 09/16/2010 0.450% 09/16/2013 | 31331JG64 | 5,000,000.00 | AAA | Aaa | 10/12/10 | 10/13/10 | 5,000,000.00 | 0.43 | 4,687.50 | 5,000,000.00 | 5,034,720.00 |
| 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 | 9,444.44 | 5,036,916.95 | 5,018,785.00 |
| 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 | 555.56 | 1,249,630.49 | 1,244,666.25 |
| FNMA NOTES (CALLABLE) DTD 11/26/2010 1.000% 11/26/2013 | 31398A5Y4 | 2,500,000.00 | AAA | Aaa | 11/05/10 | 11/26/10 | 2,501,562.50 | 0.98 | 347.22 | 2,501,518.35 | 2,487,302.50 |
| Security Type Sub-Total | | 34,965,000.00 | | | | | 35,232,569.65 | 0.88 | 135,422.12 | 35,191,470.44 | 35,277,769.78 |
| Managed Account Sub-Total | | 34,965,000.00 | | | | | 35,232,569.65 | 0.88 | 135,422.12 | 35,191,470.44 | 35,277,769.78 |



Managed Account Detail of Securities Held

For the Month Ending **November 30, 2010**

CITY OF SURPRISE OPERATING FUND

| | | | | | | |
|-----------------------------|------------------------|------------------------|--------------|---------------------|------------------------|------------------------|
| Securities Sub-Total | \$34,965,000.00 | \$35,232,569.65 | 0.88% | \$135,422.12 | \$35,191,470.44 | \$35,277,769.78 |
| Accrued Interest | | | | | | \$135,422.12 |
| Total Investments | | | | | | \$35,413,191.90 |

Market Update

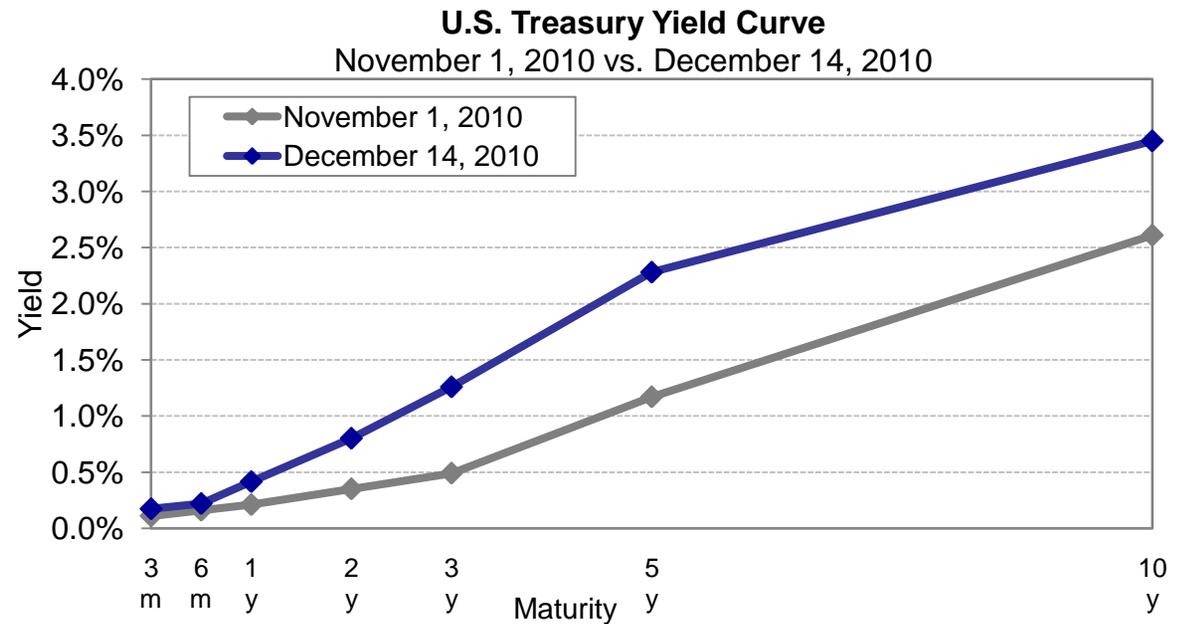
Yields Rise as Spreads Widen

Yields have been moving higher since early November, due to:

- Fed's announcement of QE2 and the public's support
- Better than expected economic data: manufacturing, retail sales, and consumer confidence
- Boosted growth forecasts from economists and investors
- President Obama's fiscal stimulus proposal and his agreement to the extension of all the Bush-era tax cuts

Treasury-Agency Spreads Widen

- In the beginning of December, Agency spreads widened from their record tight levels.



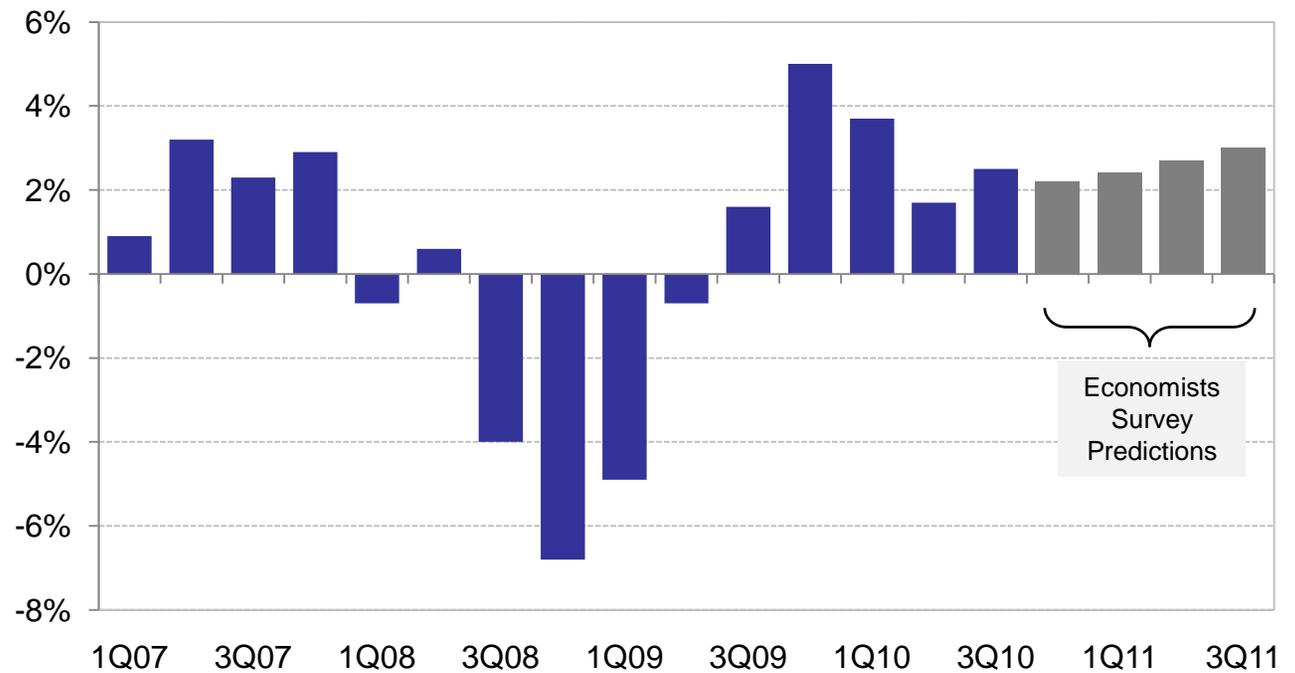
Source: Bloomberg

3rd Quarter GDP Revised Upward, But Overall Growth Still Sluggish

GDP Revised up to 2.5% for 3rd Quarter

- Indicates better than expected consumer demand
- Companies increased shipments abroad

Gross Domestic Product
1st Quarter 2007 – 3rd Quarter 2010

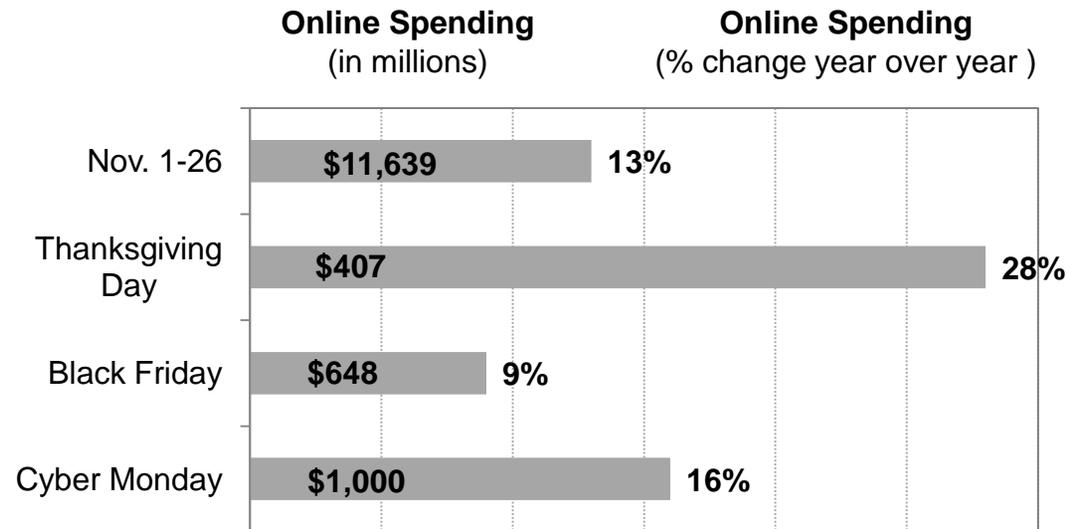


Source: Bloomberg

Holiday Weekend Shopping Delivers

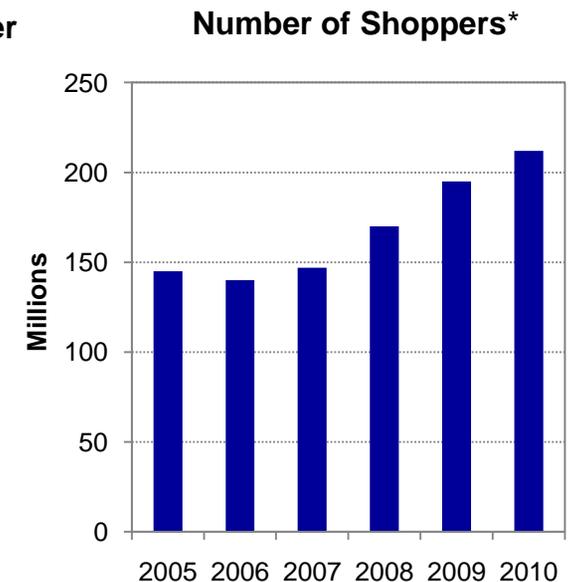
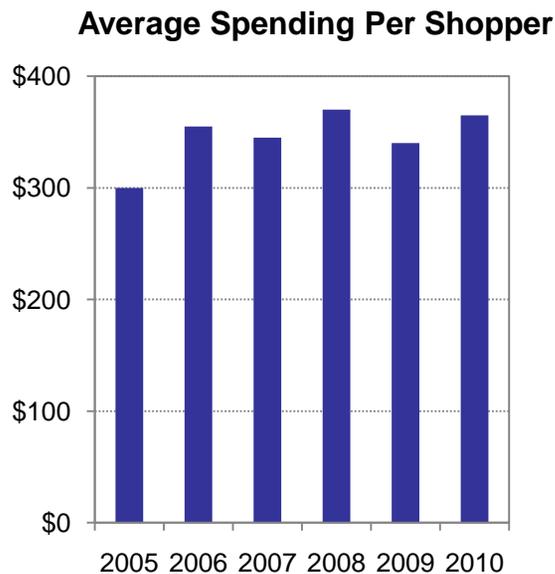
Cyber Monday has strong showing

- Order levels and the number of people logging on to stores' websites hit new levels on Cyber Monday



Increases in shoppers and spending over holiday weekend

- Highest number of Thanksgiving weekend shoppers since the first survey in 2004
- Average amount spent per person from Thursday to Sunday was 6% more than a year ago



Source: Wall Street Journal, New York Times
*Includes multiple trips

Unemployment Remains Major Obstacle To Recovery

Disappointing November Jobs Report

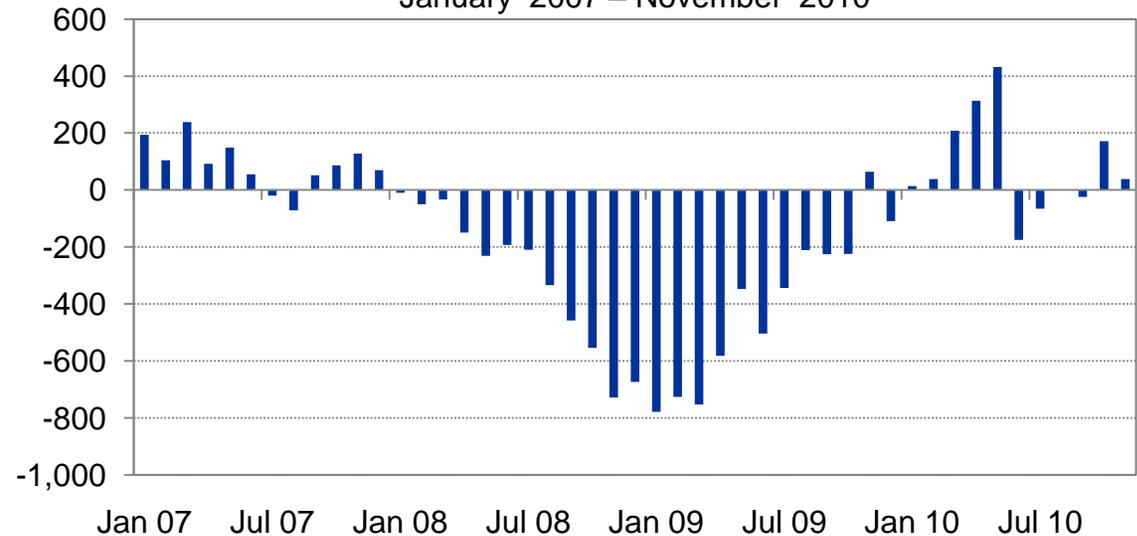
- Expected job creation fell short of expectations by 105,000 jobs.
- Large, unexpected declines in retail trade sector.

Unemployment Rises

- Unexpectedly rose to 9.8%, the highest level since April.
- Longest stretch at such an elevated level since WWII.

Change in Non-Farm Payrolls (in thousands)

January 2007 – November 2010



Housing Sector Continues To Struggle

Month-Over-Month Home Sales Decline

- Home sales fell unexpectedly in October and prices dropped to a seven-year low pointing sustained weakness in the housing market.

New Home Sales (Thousands)
January 2005 – October 2010



Existing Home Sales (Millions)
January 2005 – October 2010



Source: Bloomberg

Markets React to Concern Abroad

LIBOR Rises due to European debt concerns

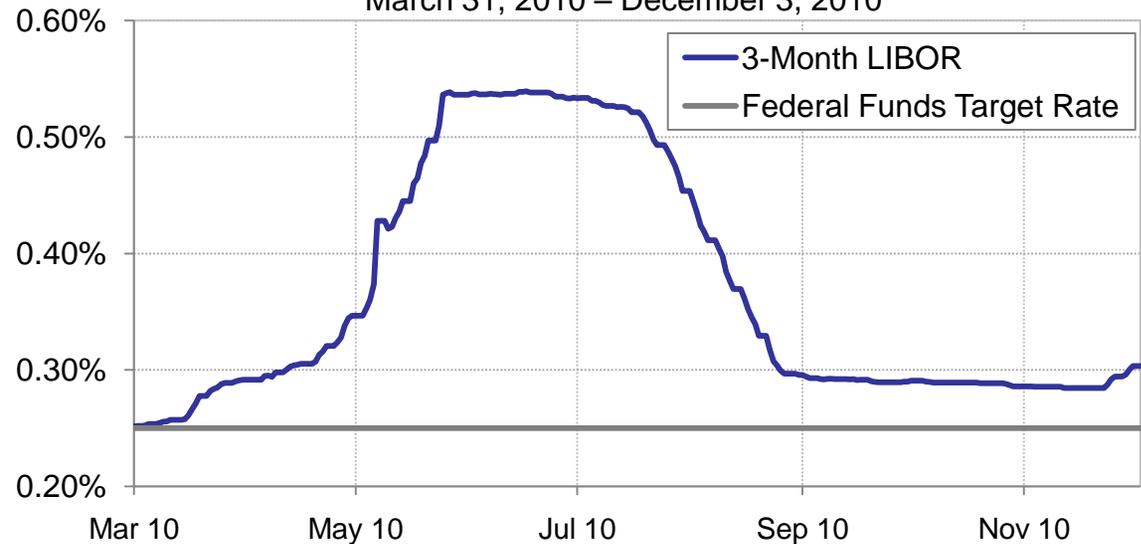
- LIBOR rates began trending upward as the threat of several sovereign debt crises loom.
- Bailout plans have not been able to restore investor confidence in the Eurozone market.

US Stocks recover from losses in Mid-November

- Fear that Europe's debt crisis could spiral out of control pushed stocks off two-year highs.
- Index recovered to early November levels on a wave of positive economic data, especially regarding consumer spending and retail sales.

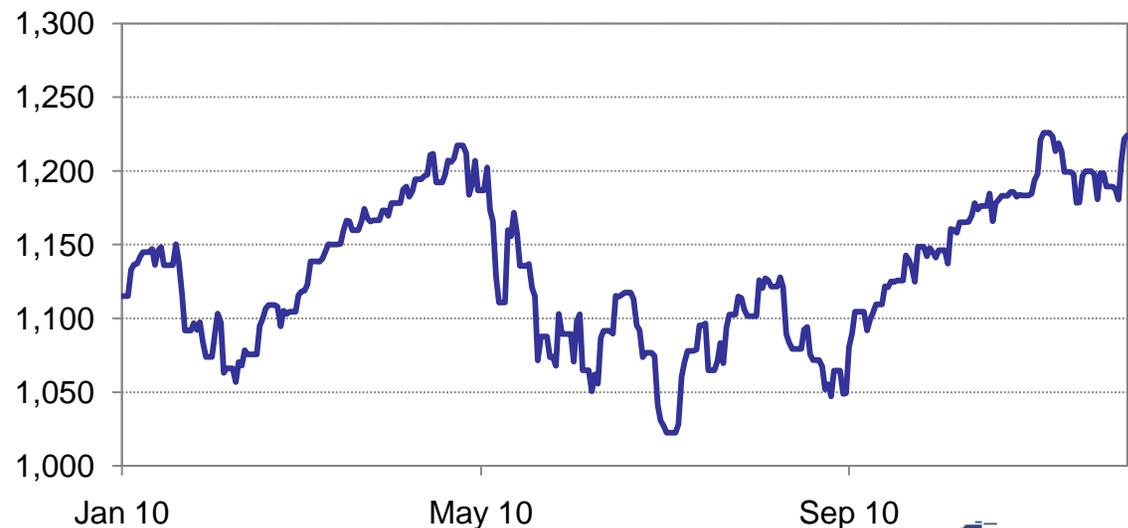
3 Month LIBOR and Fed Funds Target Rate

March 31, 2010 – December 3, 2010



S&P 500 Stock Index

January 1, 2010 – December 3, 2010



Source: Bloomberg

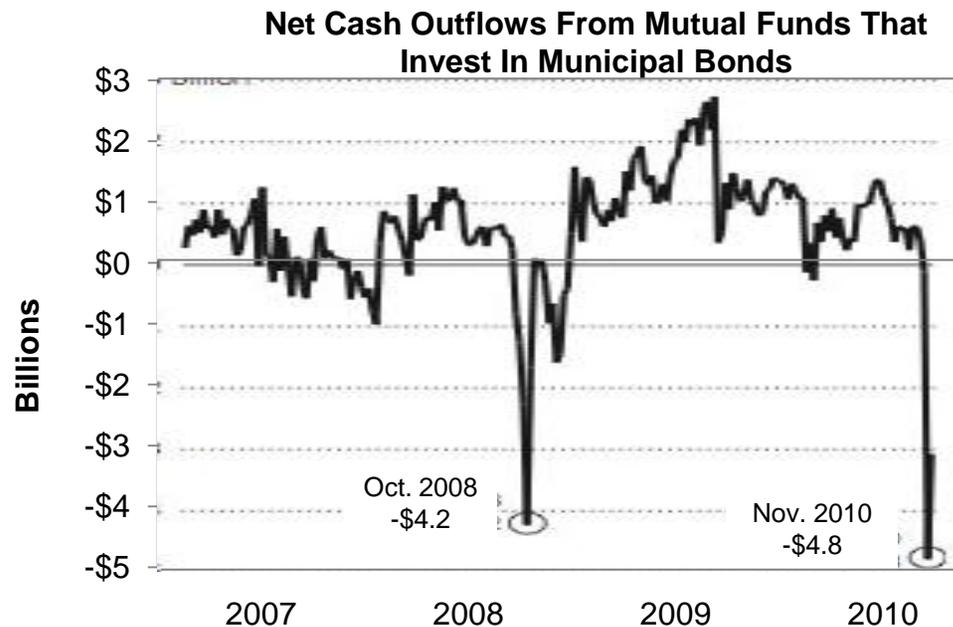
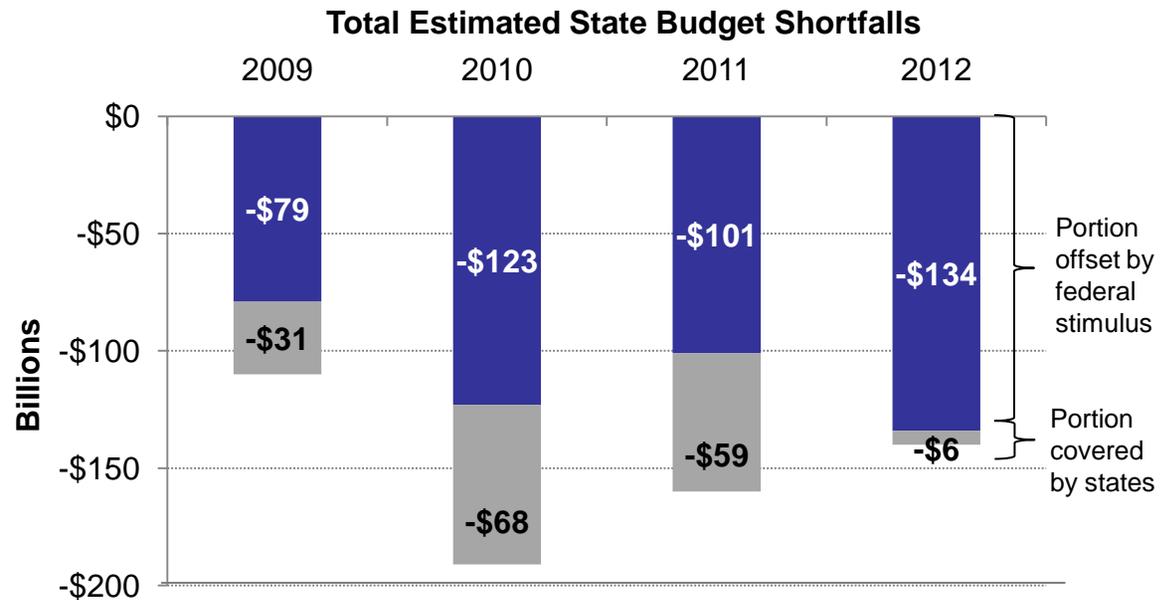
State Budget Problems Will Continue

When Federal stimulus money runs out, deficits remain

- Some worry when the economy recovers, state and local government shortfalls will not disappear.

Investors pulling money from mutual funds invested in Muni Bonds

- Investors pulling money out at a faster rate than during market crisis in 2008
- Analysts fear that at some point investors could stop lending to the weakest states, setting off a crisis that could spread to the stronger ones.



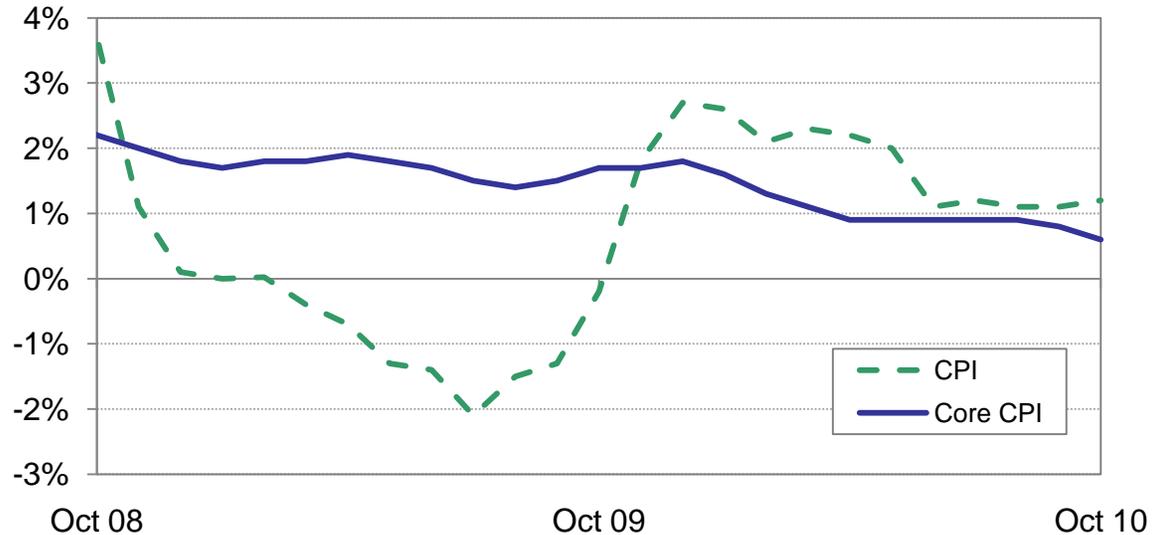
Source: New York Times

Inflation Subdued

CPI at historically low levels

- Core CPI has continued to fall to historically low levels.
- Despite rising commodity prices, hesitant consumers limit manufacturers' ability to pass along higher costs to consumers.

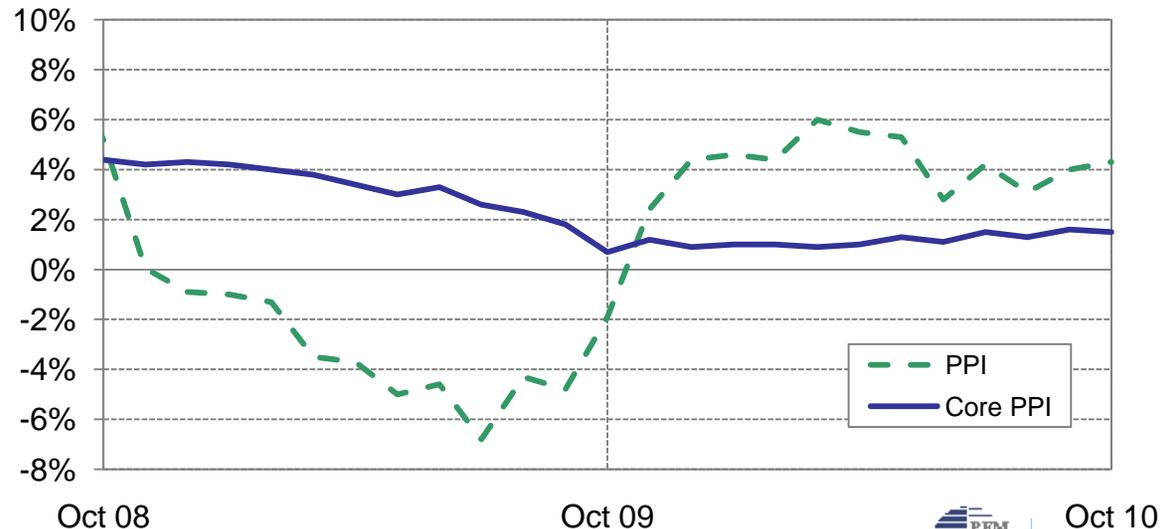
Core Consumer Price Index vs CPI (year-over-year)
October 2008 – October 2010



Lower than forecast October PPI

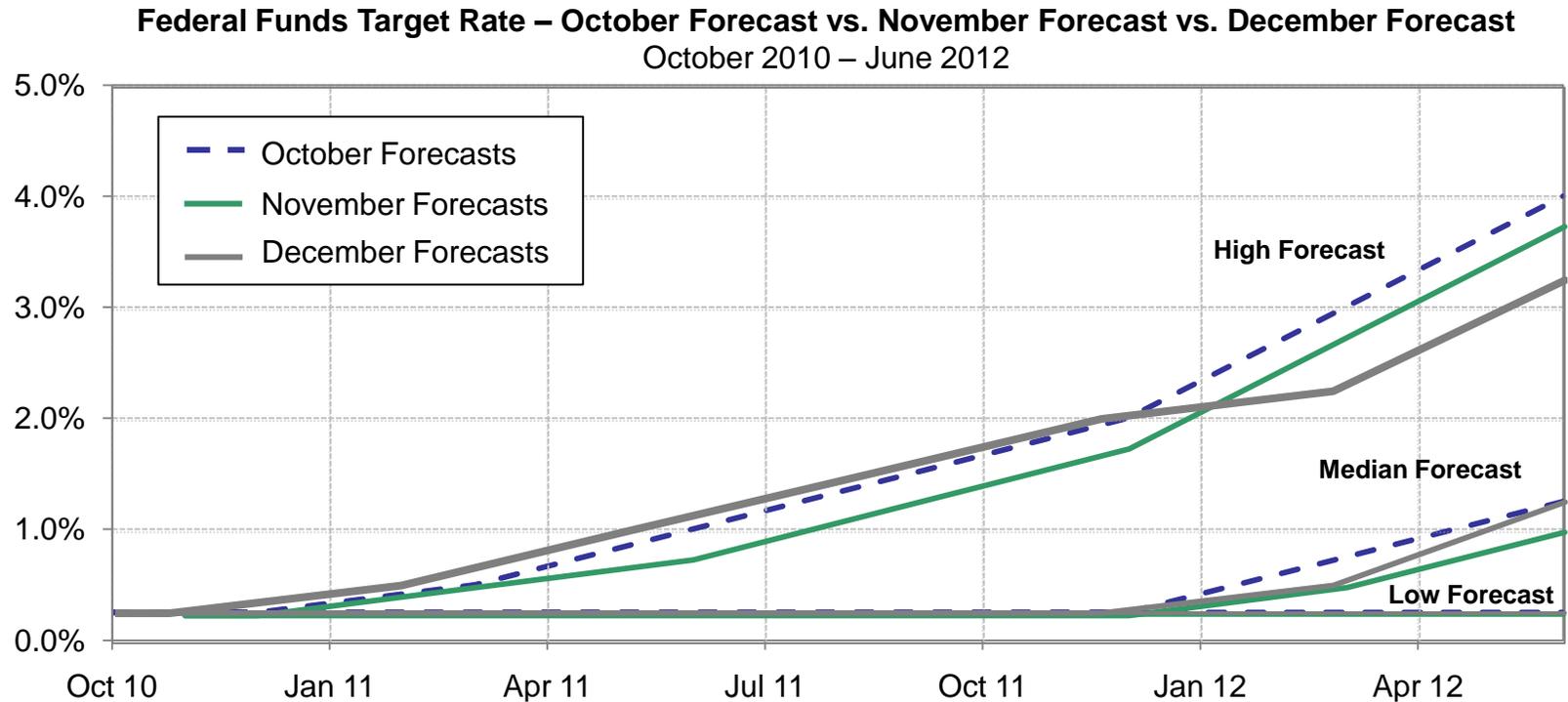
- PPI rose for the fourth straight month, but by 0.4% less than economists' expectations.
- Indicates that disinflation pressures remain in the economy.

Core Producer Price Index vs PPI (year over year)
October 2008 – October 2010



Source: Bloomberg

Fed Funds Forecast – December 2010



Fed Funds Target Rate: low rates not going away soon

- Some expect the Fed to increase the target rate steadily through the next few years
- A majority believe it will remain where it is through 2011

Source: Bloomberg

Economic Calendar

 Market-moving economic releases

| Date | Event | Survey | Actual | Prior | Revised |
|------------|---------------------------------------|--------|--------|--------|---------|
| 12/22/2010 | Personal Consumption | -- | -- | 2.80% | -- |
| 12/22/2010 | GDP QoQ (Annualized) – Third Estimate | 2.80% | -- | 2.50% | -- |
| 12/22/2010 | Existing Home Sales | 4.75M | -- | 4.43M | -- |
| 12/22/2010 | Existing Home Sales MoM | 7.20% | -- | -2.20% | -- |
| 12/23/2010 | Durable Goods Orders | -0.50% | -- | -3.30% | -3.40% |
| 12/23/2010 | Personal Income | 0.30% | -- | 0.50% | -- |
| 12/23/2010 | Personal Spending | 0.40% | -- | 0.40% | -- |
| 12/23/2010 | PCE Core (MoM) | 0.10% | -- | 0.00% | -- |
| 12/23/2010 | Initial Jobless Claims | -- | -- | -- | -- |
| 12/23/2010 | Continuing Claims | -- | -- | -- | -- |
| 12/23/2010 | New Home Sales | 300K | -- | 283K | -- |
| 12/23/2010 | New Home Sales MoM | 6.00% | -- | -8.10% | -- |
| 12/28/2010 | Consumer Confidence | -- | -- | 54.1 | -- |

Source: Bloomberg

Portfolio Purchases

- As growing optimism about the outlook for economic growth resulted in an increase in yields across the curve in November and December, we swapped out of lower yielding one-year Agencies and purchased longer-term Agency and Treasury notes at much higher yields.

| Date | Transaction | Par | Security | Maturity Date | Yield to Maturity |
|---------|-------------|-------------|-------------------|---------------|-------------------|
| 12/2/09 | Buy | \$3,000,000 | FHLMC Notes | 11/30/12 | 0.66% |
| 12/2/09 | Buy | \$3,090,000 | US Treasury Notes | 11/15/13 | 0.81% |
| 12/2/09 | Sell | \$3,000,000 | FHLB Notes | 1/9/12 | 0.40% |
| 12/2/09 | Sell | \$3,000,000 | FHLB Global Bonds | 12/28/11 | 0.36% |

Disclaimer

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