



January 18, 2011

PFM Asset Management LLC

2375 E. Camelback Rd, Suite 5118

Phoenix, AZ 85016

602.387.5187

www.pfm.com

City of Surprise
Investment Guidelines and Objectives
Month Ended December 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:

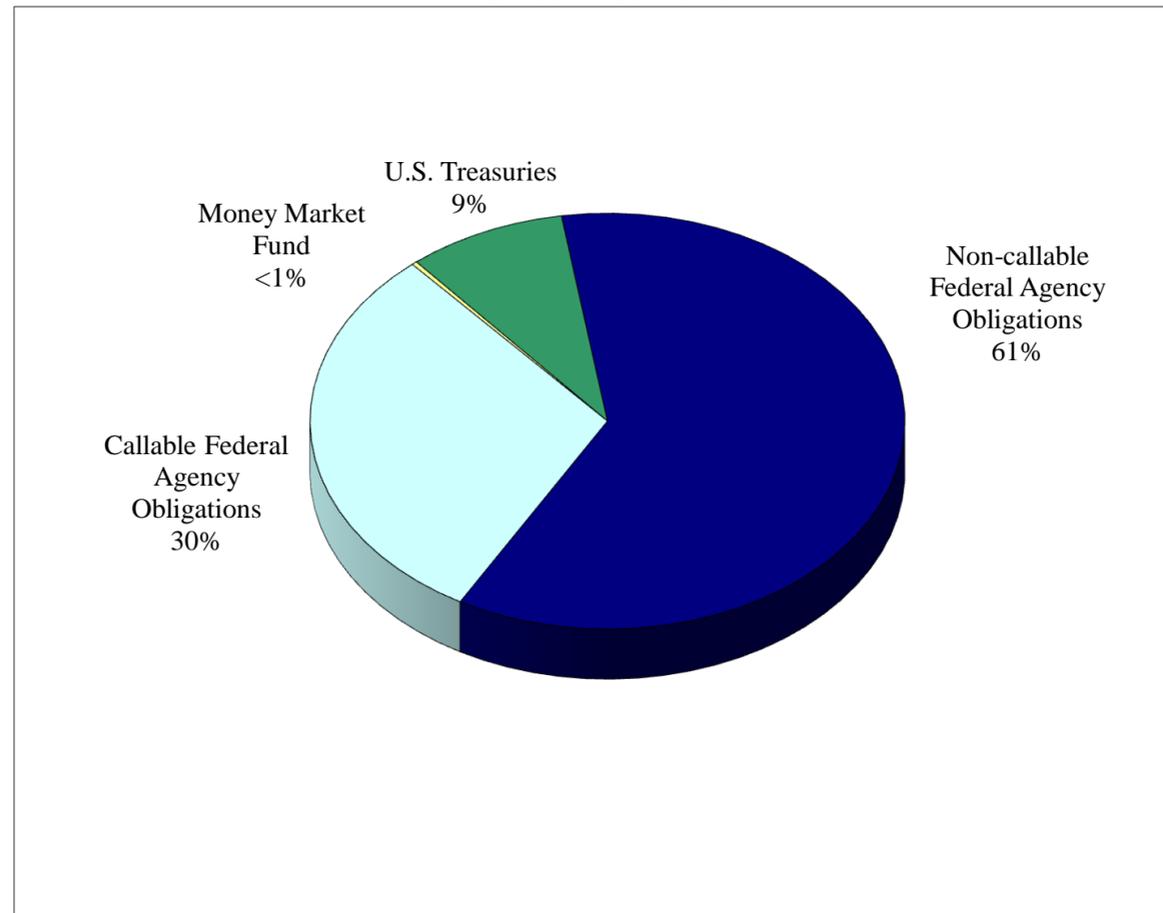
- **Permitted Investments.** The City will invest in permitted securities consistent with A.R.S.§35-323. Additionally, the City may desire to be more conservative in its investment portfolio and restrict or prohibit certain of the investments outlined in the Investment Policy.
- **Transactions prior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

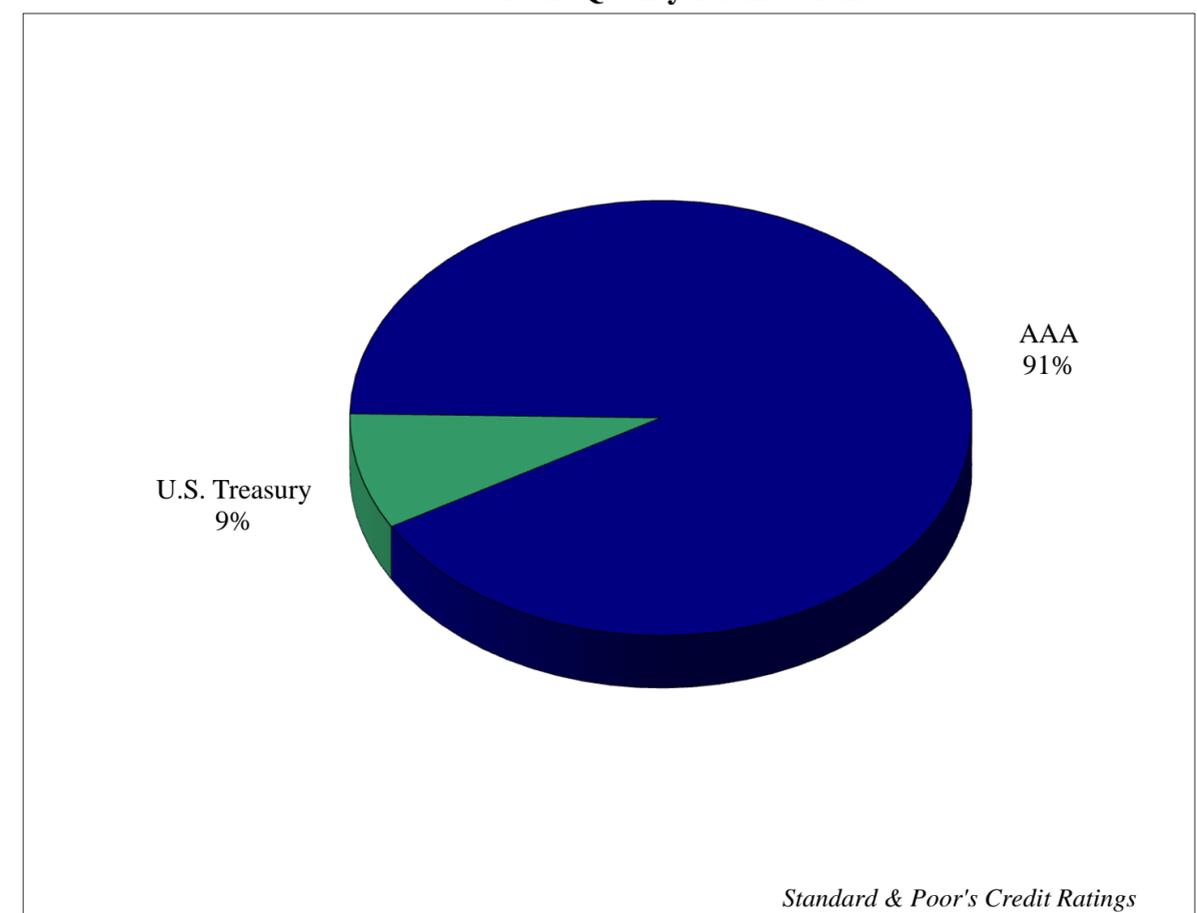
Month Ended December 31, 2010

<u>Security Type</u>	<u>Current Holdings*</u>	<u>Current Month % of Portfolio</u>	<u>Previous Month % of Portfolio</u>
U.S. Treasury	\$3,050,166.81	9%	0%
Federal Agency	\$32,163,688.49	91%	100%
Discount Federal Agency	\$0.00	0%	0%
Callable Federal Agency	\$10,721,700.75	30%	30%
Non-callable Federal Agency	\$21,441,987.74	61%	70%
Wells Fargo MMF	\$101,643.97	<1%	<1%
Total Market Value	\$35,315,499.27	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 December 31, 2010

Maturity Distribution Summary		
<u>Maturity Class</u>	<u>Fair Value*</u>	<u>% of Portfolio</u>
Under 6 Months	\$101,643.97	<0.5%
6 - 12 Months	\$0.00	0.0%
1 - 2 Years	\$8,150,946.00	23.1%
2 - 3 Years	\$27,062,909.30	76.6%
3 Years and Over	\$0.00	0.0%
Total Market Value	\$35,315,499.27	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	1.73 years
Benchmark Duration	1.77 years
Yield at Cost	0.90%

1. Duration to worst as of 12/31/2010 was 1.98
 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.

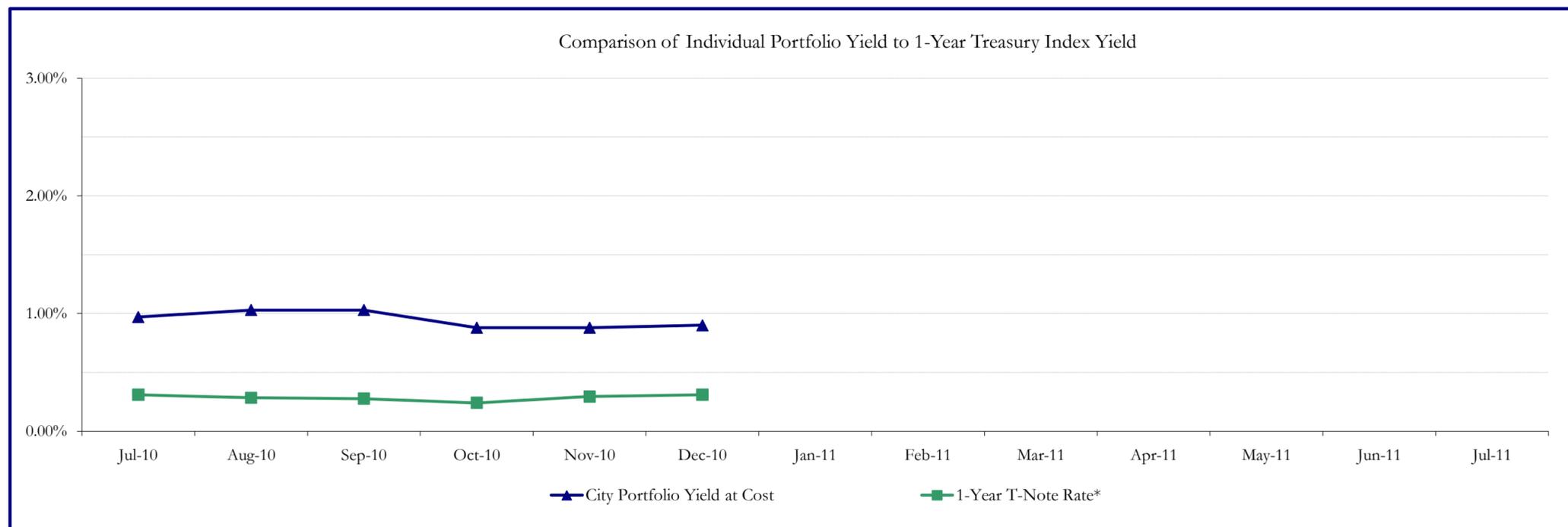


City of Surprise Individual Portfolio Yield Summary
Fiscal Year 2010-2011

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%
Dec-10	\$35,315,499	1.73	0.90%	0.31%

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

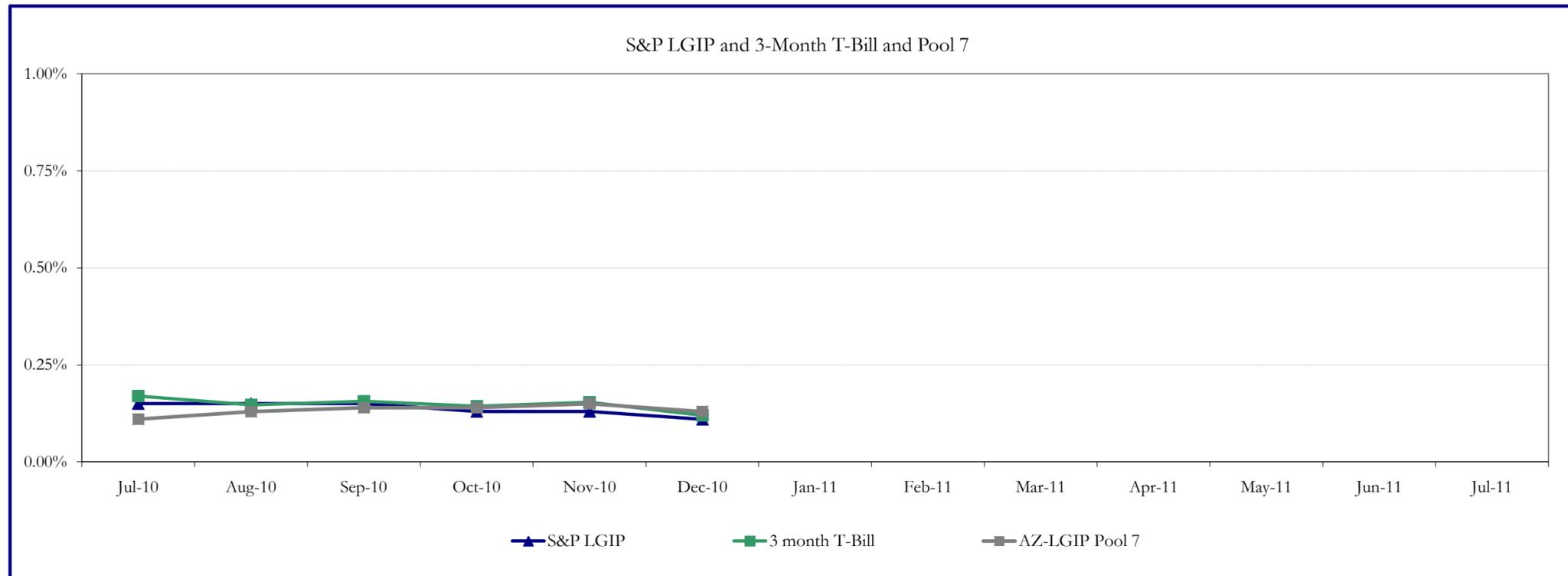


**City of Surprise Short-Term Benchmark Comparisons
Fiscal Year 2010-2011**

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%	0.14%	0.14%
Dec-10	0.11%	0.13%	0.12%

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 December 31, 2010

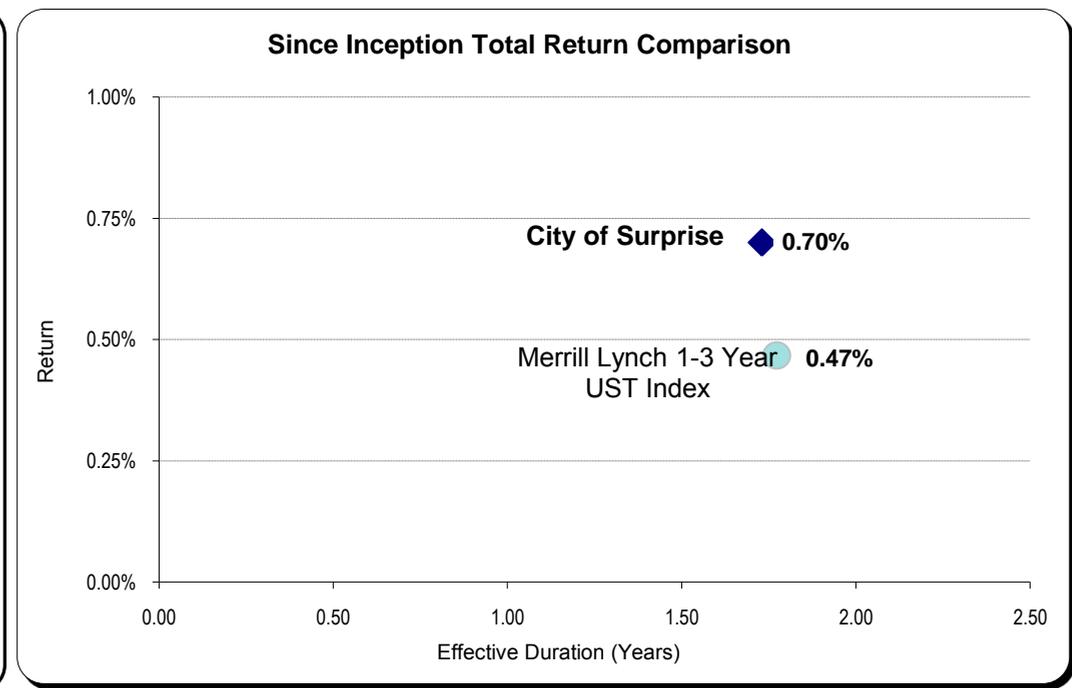
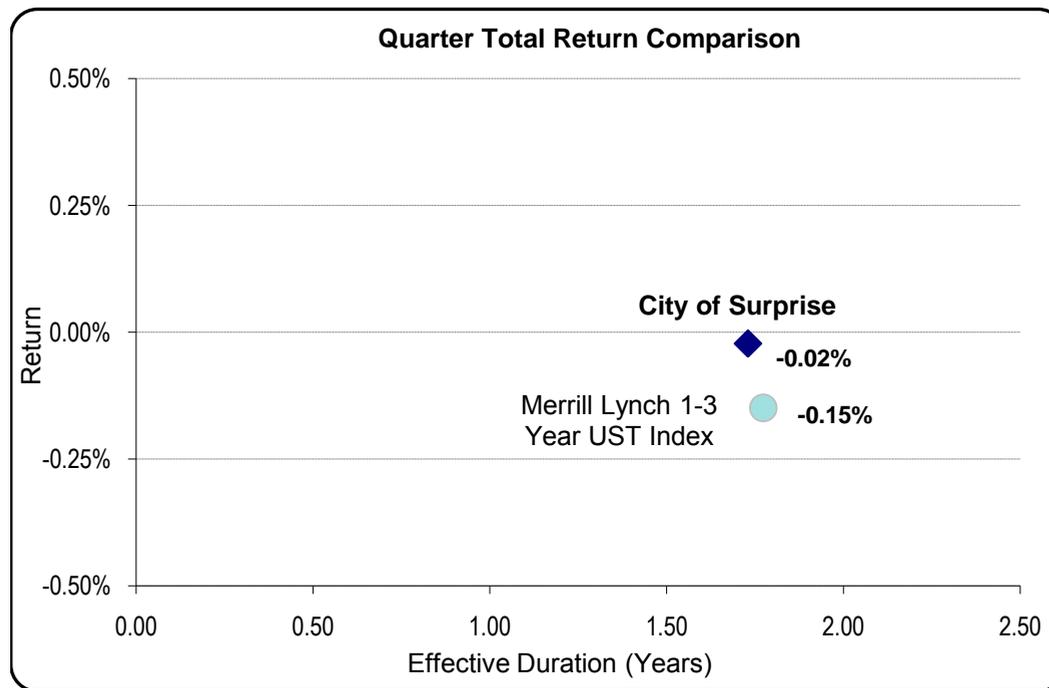
Operating Funds Investment Inventory by Maturity Date

Issuer	Maturity	Years to Maturity	Fair Value	Yield to Maturity	Next Call Date	Frequency
Wells Fargo MMF	12/31/2010	0.00	\$101,644	0.02%		
FHLB	6/8/2012	1.44	\$3,037,083	0.97%		
FHLMC	11/30/2012	1.92	\$2,982,141	0.66%		
FHLMC	12/21/2012	1.98	\$2,131,722	1.09%		
FHLMC	4/15/2013	2.29	\$1,236,298	0.56%		
FNMA	6/26/2013	2.49	\$2,028,684	1.41%		
FNMA	7/19/2013	2.55	\$2,006,282	1.39%	7/19/11	One-time
FNMA	8/16/2013	2.63	\$5,003,665	1.23%	2/16/11	One-time
FFCB	9/16/2013	2.71	\$5,033,625	0.43%		
FNMA	9/23/2013	2.73	\$4,992,435	0.73%		
FHLMC	11/15/2013	2.88	\$1,237,869	1.01%	2/15/11	Quarterly
U.S. Treasury	11/15/2013	2.88	\$3,050,167	0.81%		
FNMA	11/26/2013	2.91	\$2,473,885	0.98%	5/23/11	Quarterly
Total Market Value			\$ 35,315,499			

City of Surprise Quarterly Performance Month Ended December 31, 2010

Portfolio Performance

Total Return ^{1,2,3,5}	Quarter Ended December 31, 2010	Since Inception			
City of Surprise	-0.02%	0.70%			
Merrill Lynch 1-3 Year UST Index	-0.15%	0.47%			
Effective Duration ⁴	<u>December 31, 2010</u>	<u>November 30, 2010</u>	Yields	<u>December 31, 2010</u>	<u>November 30, 2010</u>
City of Surprise	1.73	1.45	Yield at Market	0.88%	0.75%
Merrill Lynch 1-3 Year UST Index	1.77	1.81	Yield on Cost	0.90%	0.88%



Notes:

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than one year are presented on an annualized basis.
3. Merrill Lynch Indices provided by Bloomberg Financial Markets.
4. Excludes money market fund in duration and performance computations.
5. Inception date is June 16, 2010.



Managed Account Detail of Securities Held

For the Month Ending **December 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
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 11/15/2010 0.500% 11/15/2013	912828PU8	3,090,000.00	TSY	TSY	12/01/10	12/02/10	3,062,117.58	0.81	2,005.94	3,062,892.39	3,050,166.81
Security Type Sub-Total		3,090,000.00					3,062,117.58	0.81	2,005.94	3,062,892.39	3,050,166.81
Federal Agency Bond / Note											
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	2,635.42	3,017,496.78	3,037,083.00
FHLMC NOTES DTD 10/22/2010 0.375% 11/30/2012	3137EACP2	3,000,000.00	AAA	Aaa	12/01/10	12/02/10	2,982,900.00	0.66	2,156.25	2,983,587.72	2,982,141.00
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	2,291.67	2,117,950.60	2,131,722.00
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	4,168.13	1,244,469.45	1,236,297.74
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	416.67	2,004,585.16	2,028,684.00
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	12,375.00	1,999,386.14	2,006,282.00
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	23,437.50	5,000,750.00	5,003,665.00
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	931.94	5,000,000.00	5,033,625.00
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	13,611.11	5,035,833.80	4,992,435.00
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	1,597.22	1,249,640.78	1,237,868.75
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	2,430.56	2,501,253.53	2,473,885.00
Security Type Sub-Total		31,965,000.00					32,199,779.65	0.91	66,051.47	32,154,953.96	32,163,688.49



Managed Account Detail of Securities Held

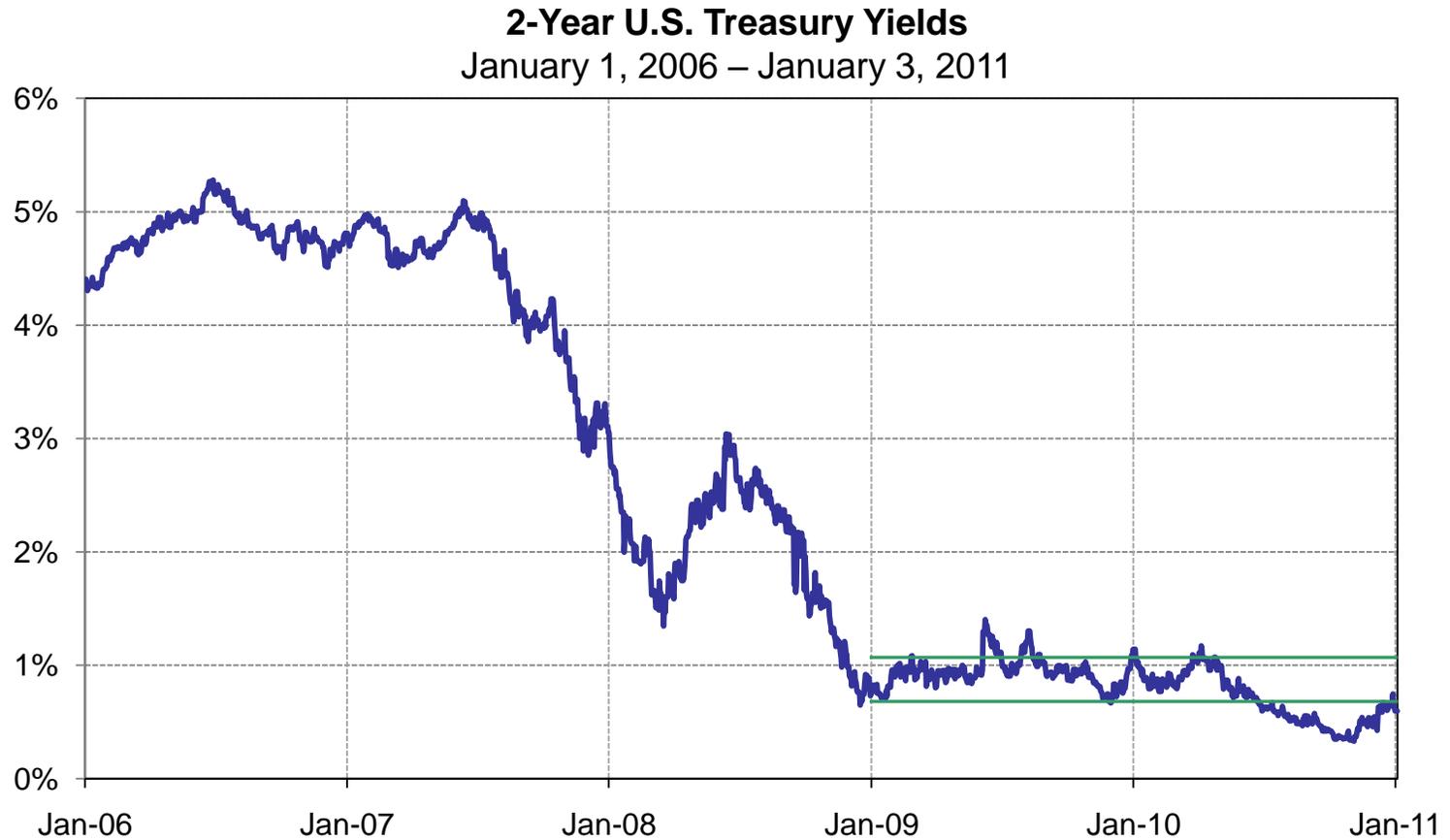
For the Month Ending **December 31, 2010**

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
Managed Account Sub-Total		35,055,000.00					35,261,897.23	0.90	68,057.41	35,217,846.35	35,213,855.30
Securities Sub-Total		\$35,055,000.00					\$35,261,897.23	0.90%	\$68,057.41	\$35,217,846.35	\$35,213,855.30
Accrued Interest											\$68,057.41
Total Investments											\$35,281,912.71

Market Update

Historical 2-Year U.S. Treasury Yield



Source: Bloomberg

Recent 2-Year U.S. Treasury Yield



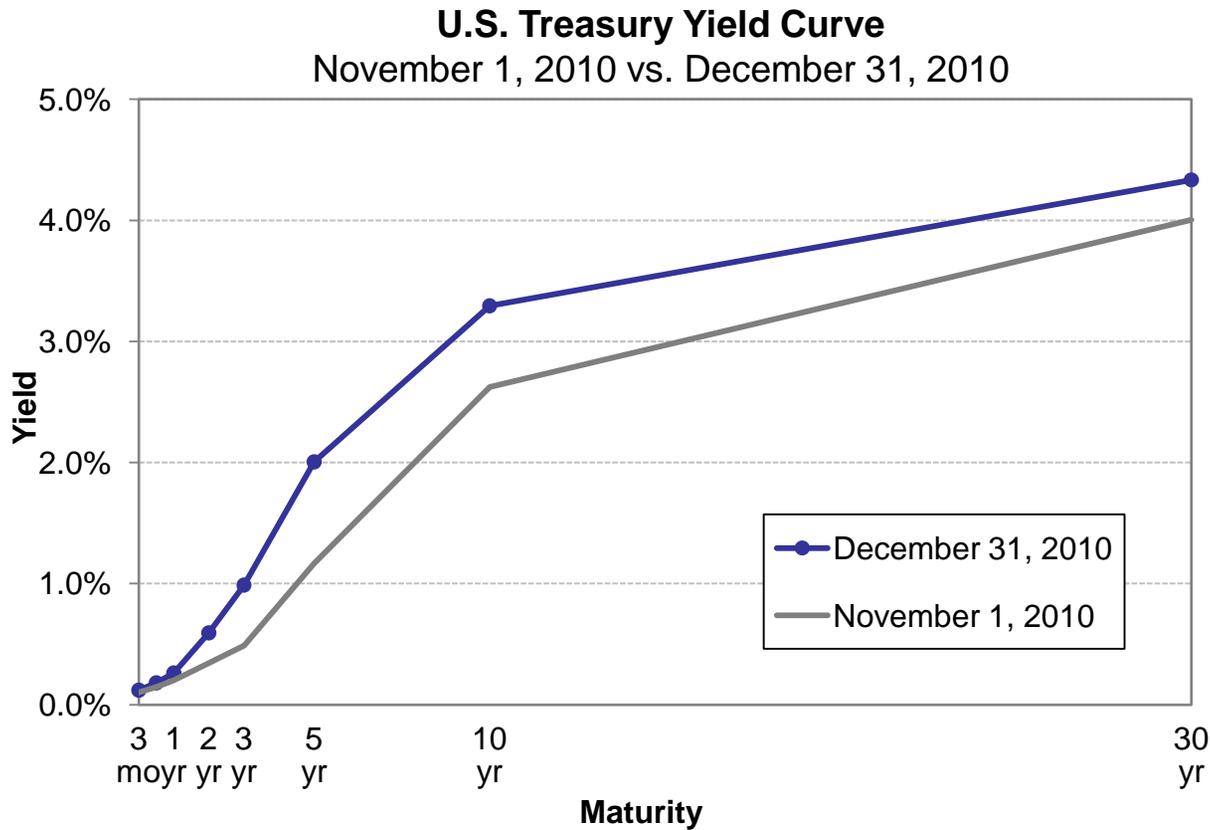
Source: Bloomberg

Recent Interest Rate Increases Driven By Economic Data

2-Year U.S. Treasury Intra-Day Yields
December 28, 2010 – January 8, 2011



The Yield Curve Has Steepened



	11/1/10	12/31/10	Change
3 month	0.10%	0.12%	+0.02%
6 month	0.15%	0.18%	+0.03%
1 year	0.20%	0.26%	+0.06%
2 year	0.34%	0.59%	+0.25%
3 year	0.49%	0.99%	+0.50%
5 year	1.17%	2.01%	+0.84%
10 year	2.62%	3.29%	+0.67%
30 year	4.00%	4.33%	+0.33%

Source: Bloomberg

The “Front-end” Has Steepened

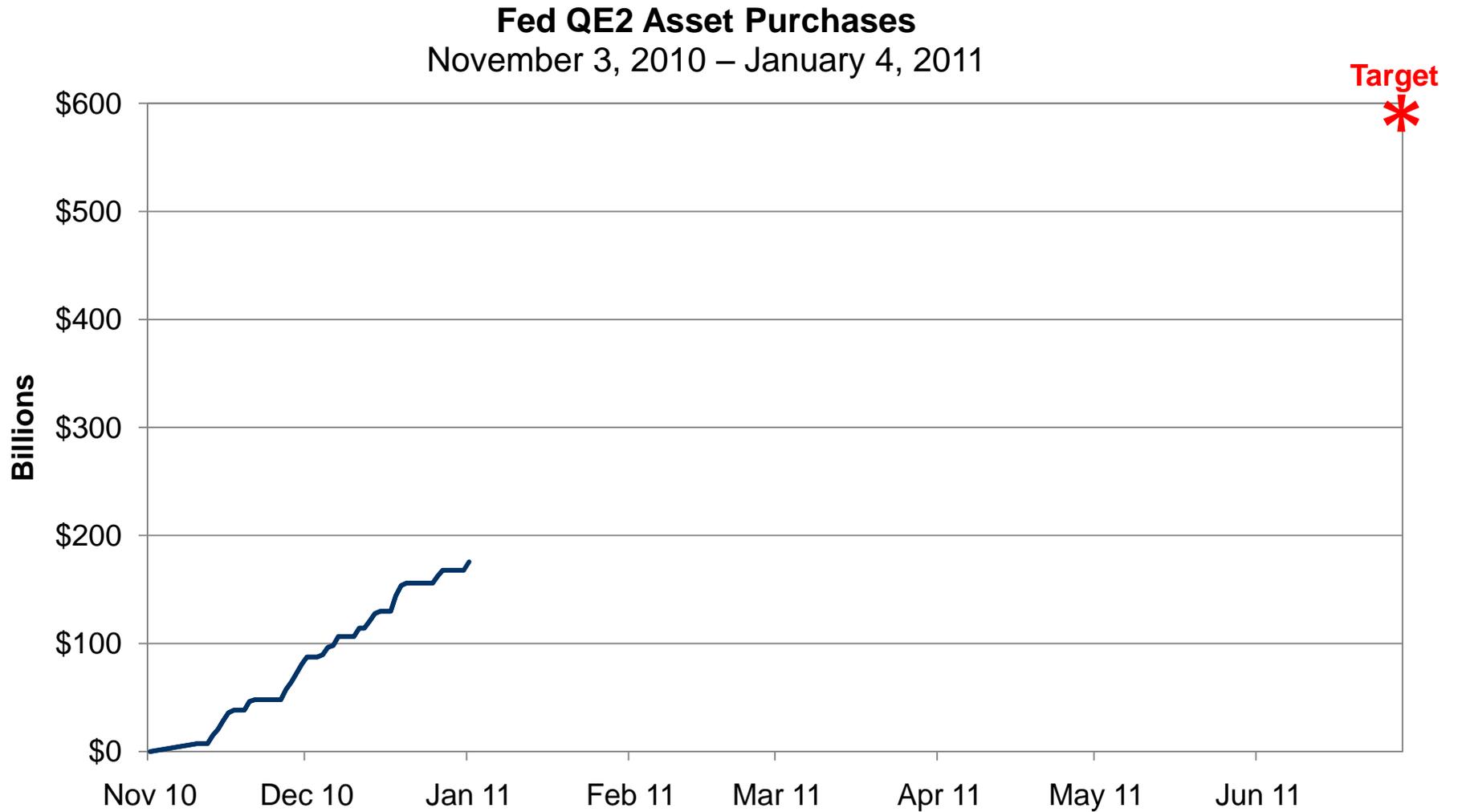
Yield Spread between Federal Funds Target Rate and 3-Year U.S. Treasury

January 1, 2009 – January 3, 2011



Source: Bloomberg

QE2 Treasury Purchases are 30% Complete



Federal Agency Spread to Treasuries

Yield Spread between 2-Year Federal Agency and 2-Year U.S. Treasury
January 1, 2010 – January 3, 2011



Source: Bloomberg

Economic Indicators Have Turned Positive

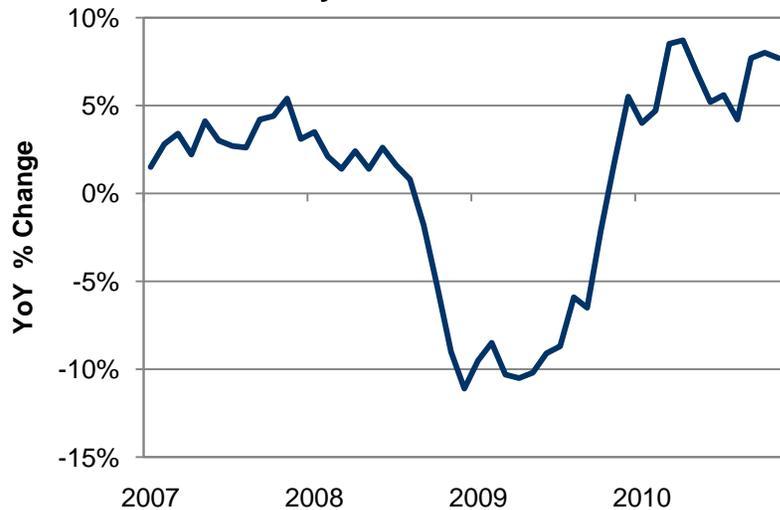
ISM Manufacturing Composite Index
January 2007 – December 2010



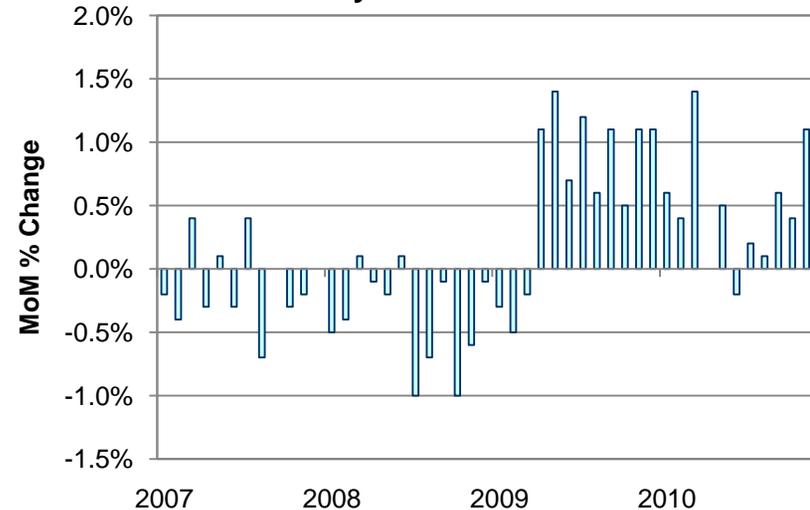
Consumer Confidence
January 2007 - December 2010



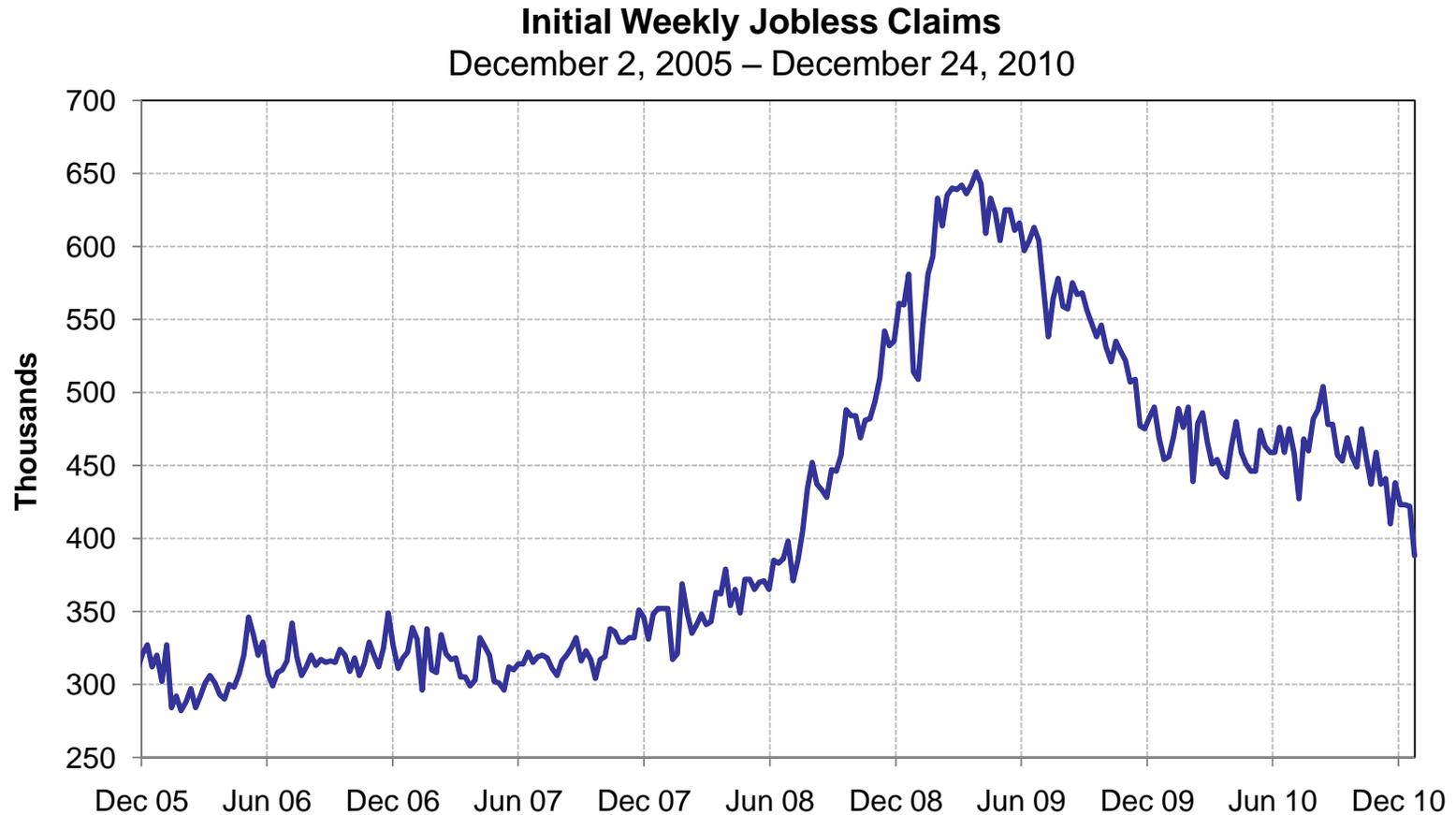
Retail Sales
January 2007 - November 2010



Index of Leading Economic Indicators
January 2007 - November 2010



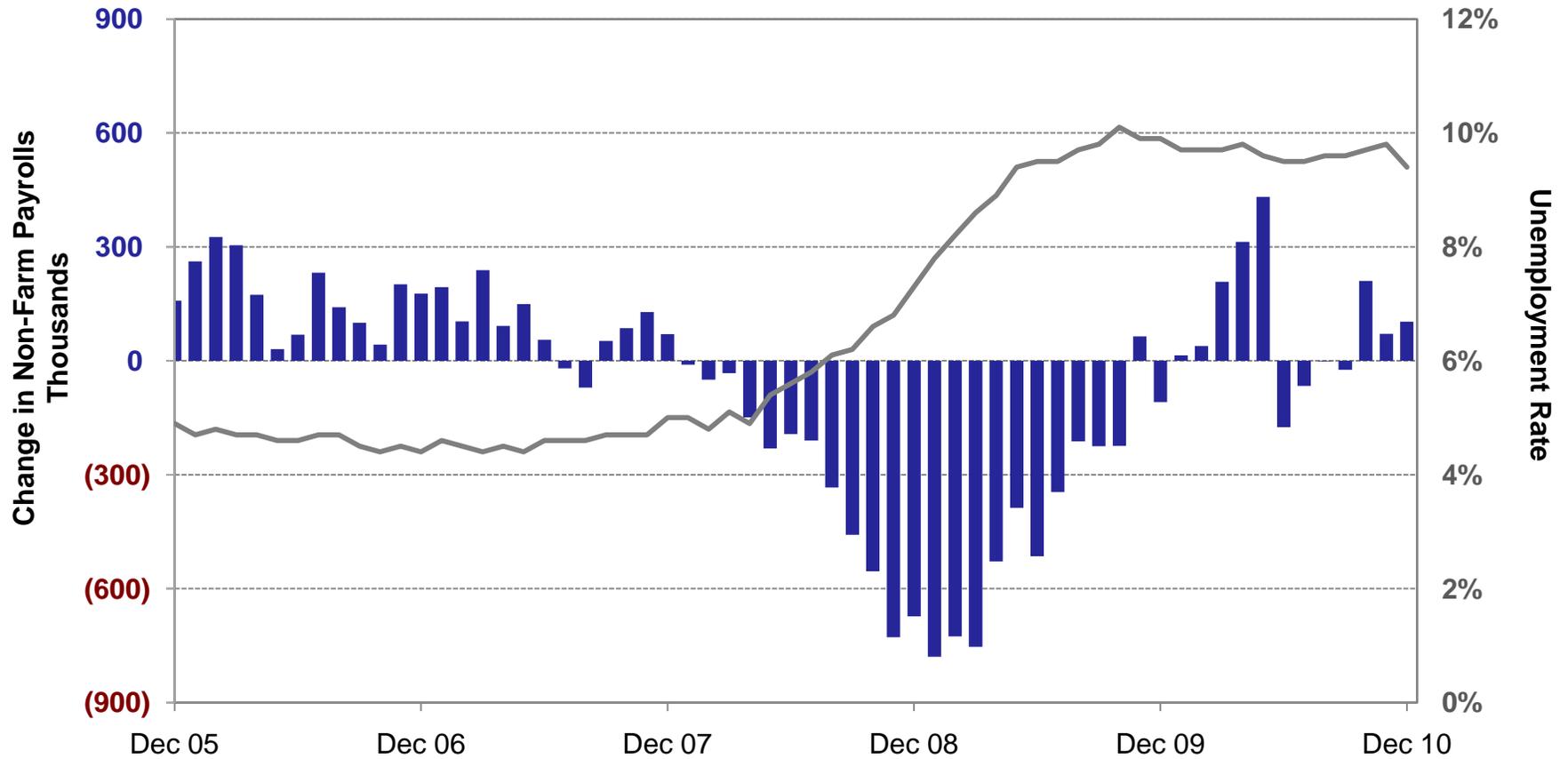
Recent Labor Data Has Been Encouraging



Source: U.S. Department of Labor, Bureau of Labor Statistics

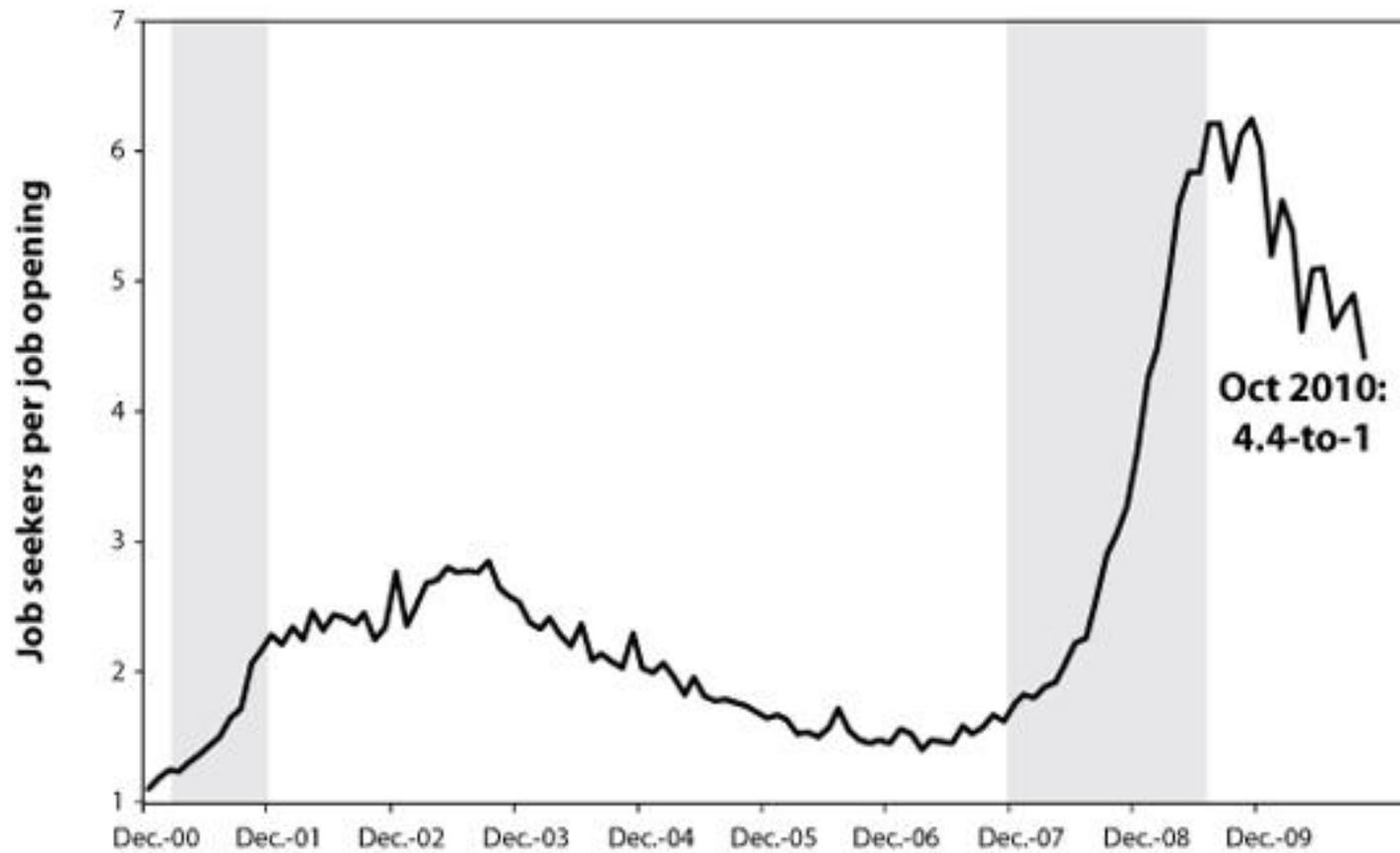
Overall Unemployment Remains Problematic

Change in Non-Farm Payrolls/ Unemployment Rate
December 2005 – December 2010



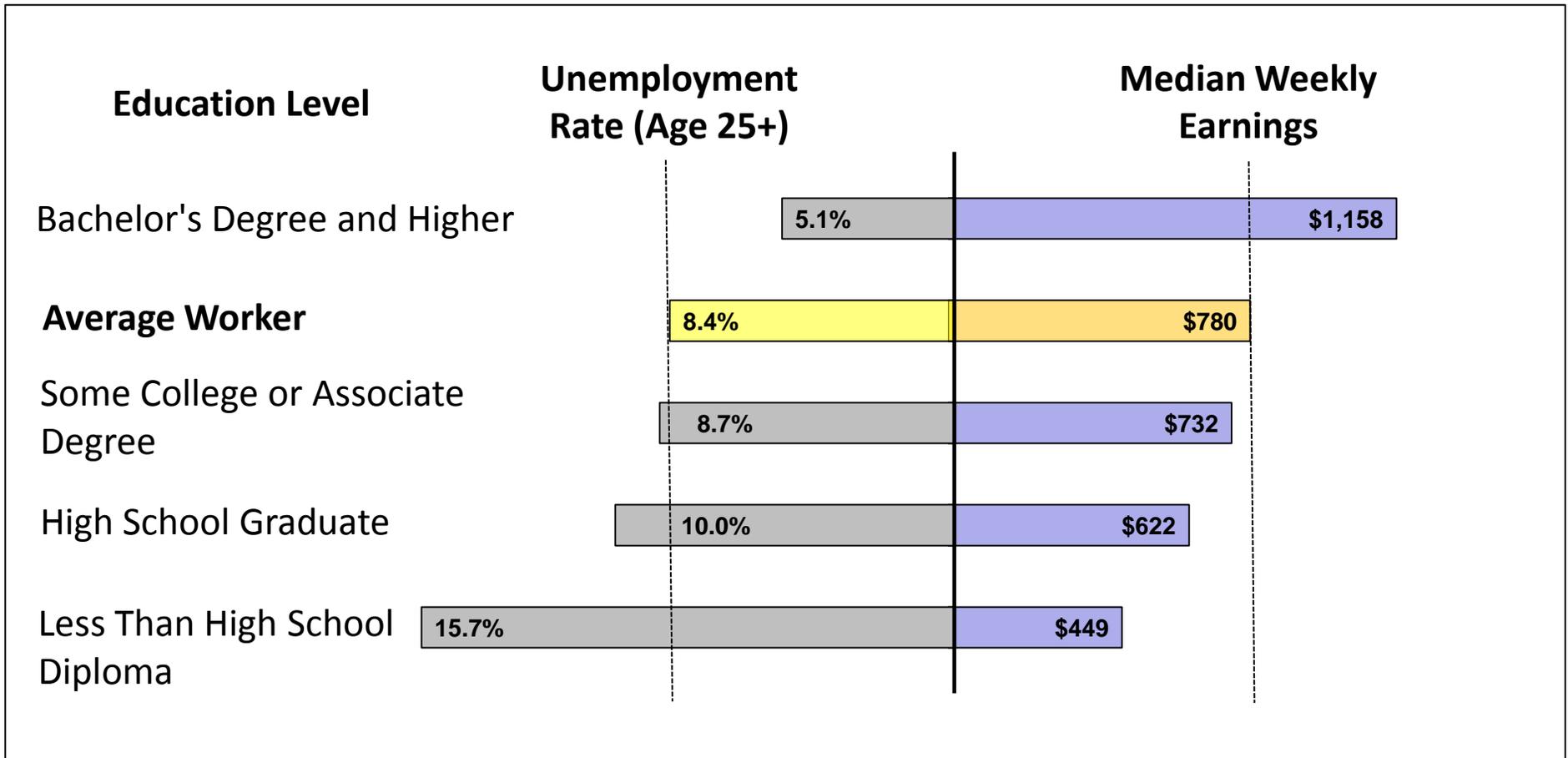
Job Opportunities Remain Scarce

Job seekers to job openings ratio, 2000-10



Source: Economic Policy Institute

Impact of Education on Employment Prospects

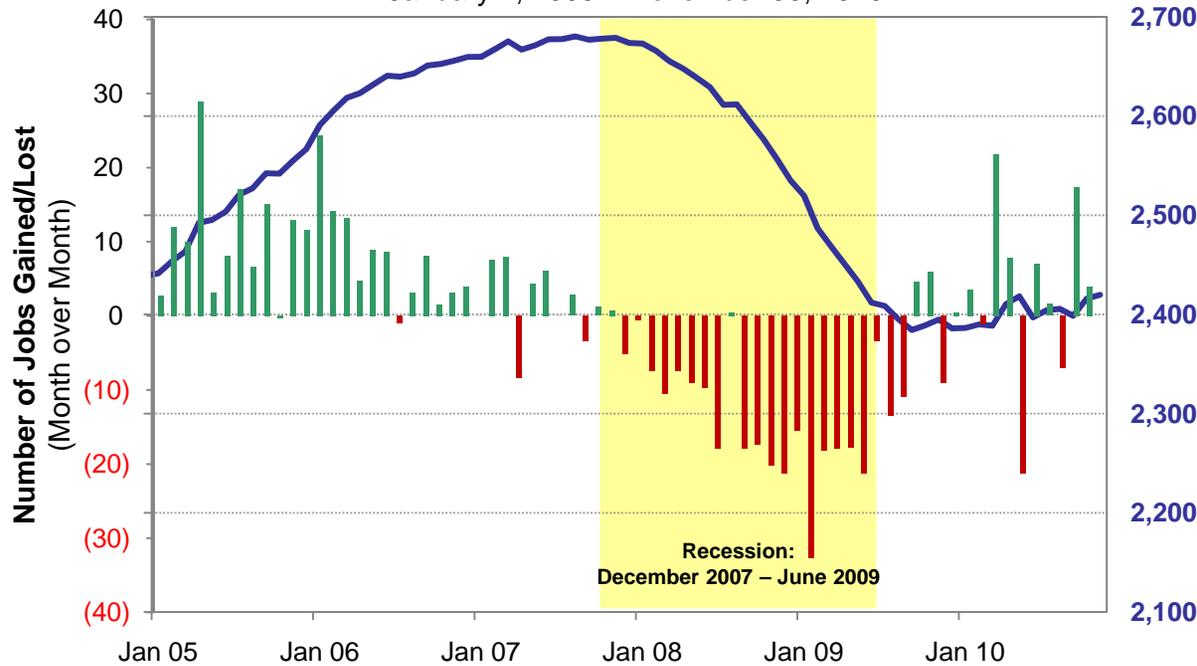


Source: November 2010 data from the Bureau of Labor Statistics Current Population Survey (Age 25+)

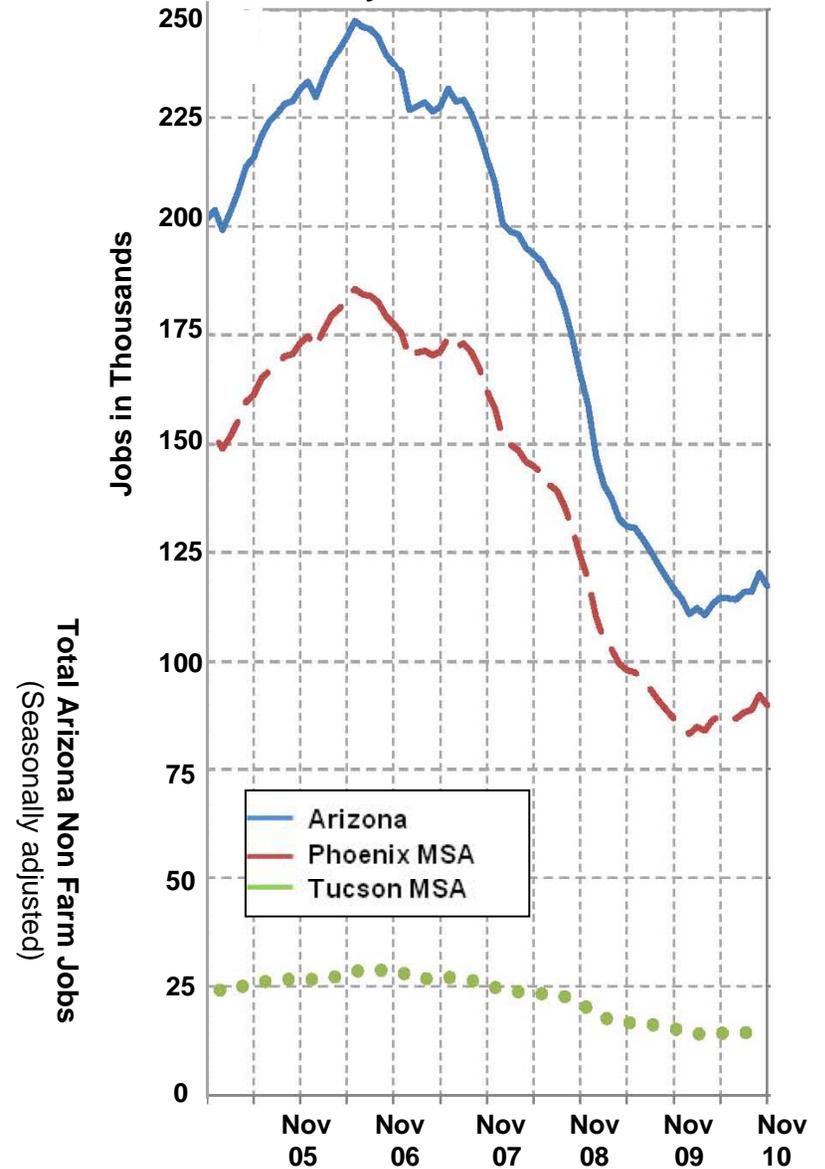
In Arizona: Overall Jobs Data Positive, Housing Industry Remains Depressed

- Total non-farm jobs increased in Arizona in both October and November.
- However, construction employment fell in November, signaling the persistence of the weak housing market.

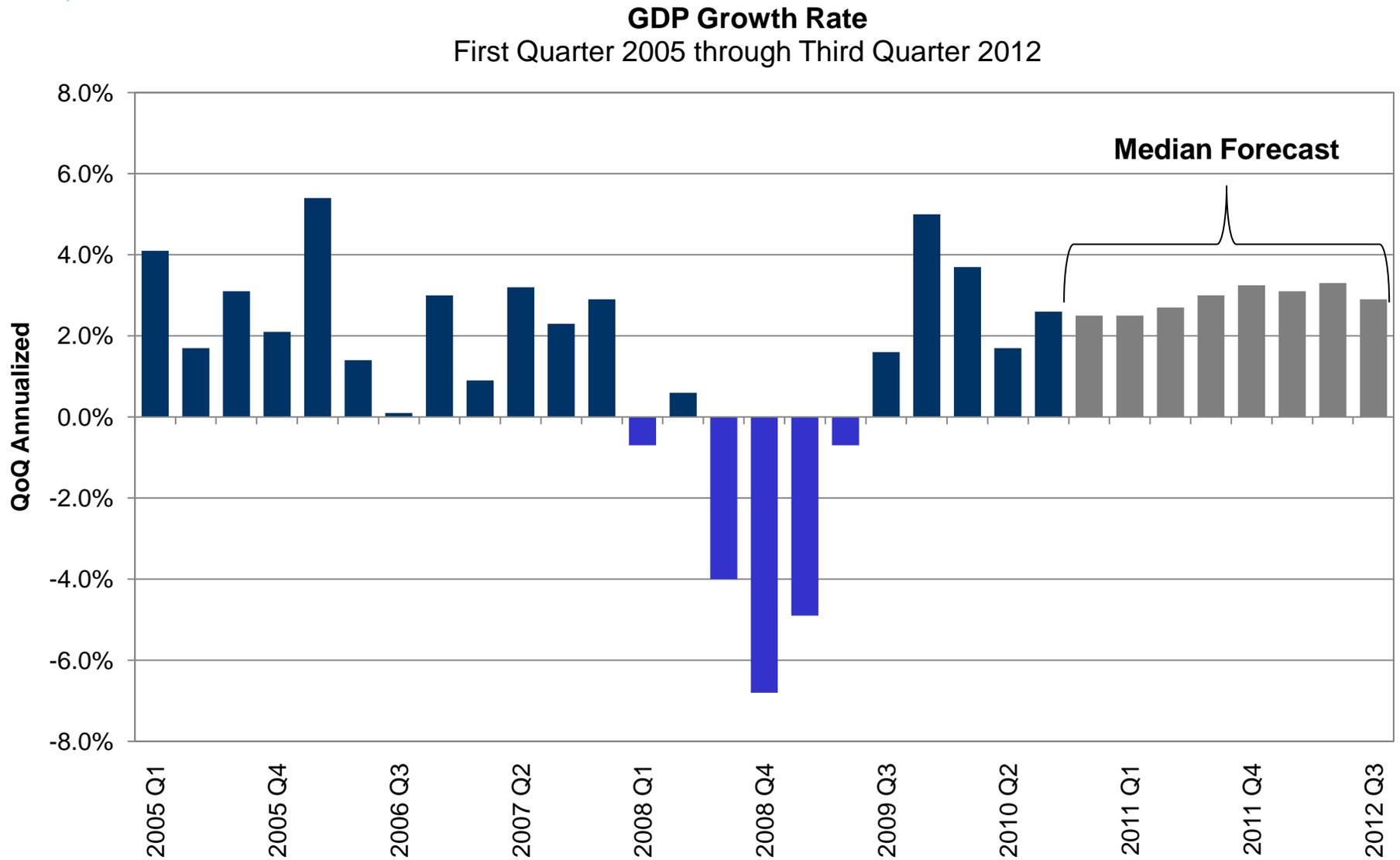
Non-Farm Jobs in Arizona (thousands)
January 1, 2005 – November 30, 2010



Construction Employment
January 2005 – November 2010



Forecasted GDP Growth Is Insufficient



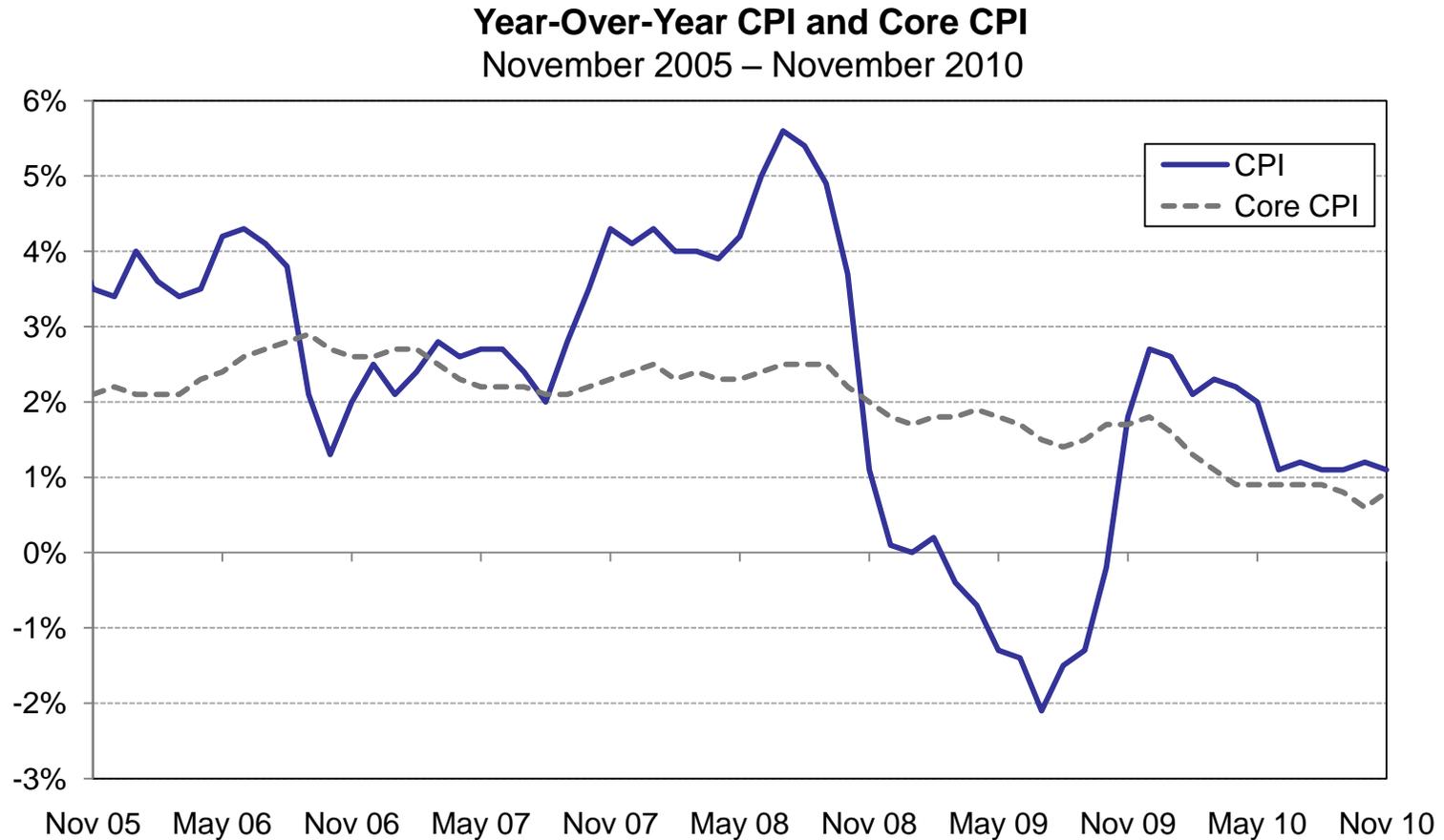
Source: Bloomberg December Survey of Economists

Commodity Prices are Rising Sharply...

% Price Change Through December 31, 2010

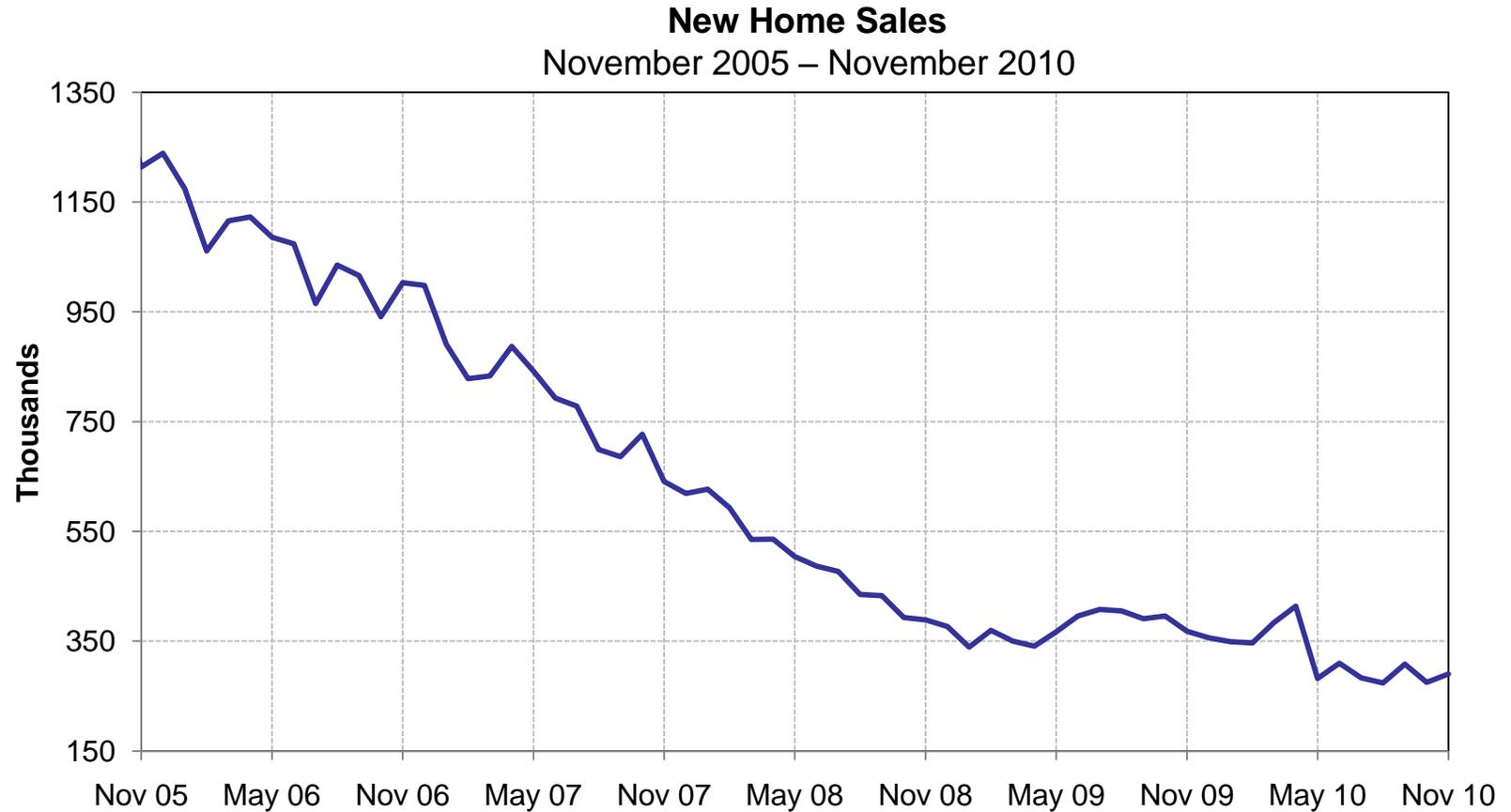
Commodity	1 Year	3 Years	5 Years
Oil	+15.1%	-4.8%	+49.7%
Unleaded Gasoline	+19.5%	-0.9%	+41.0%
Gold	+29.7%	+69.6%	+173.9%
Silver	+83.7%	+108.9%	+250.5%
Corn	+51.7%	+38.1%	+191.5%
Soybeans	+34.0%	+16.2%	+131.5%
Coffee	+76.9%	+76.6%	+124.6%
Cotton	+91.5%	+112.9%	+167.2%

...But The Fed Is Not Worried About Inflation



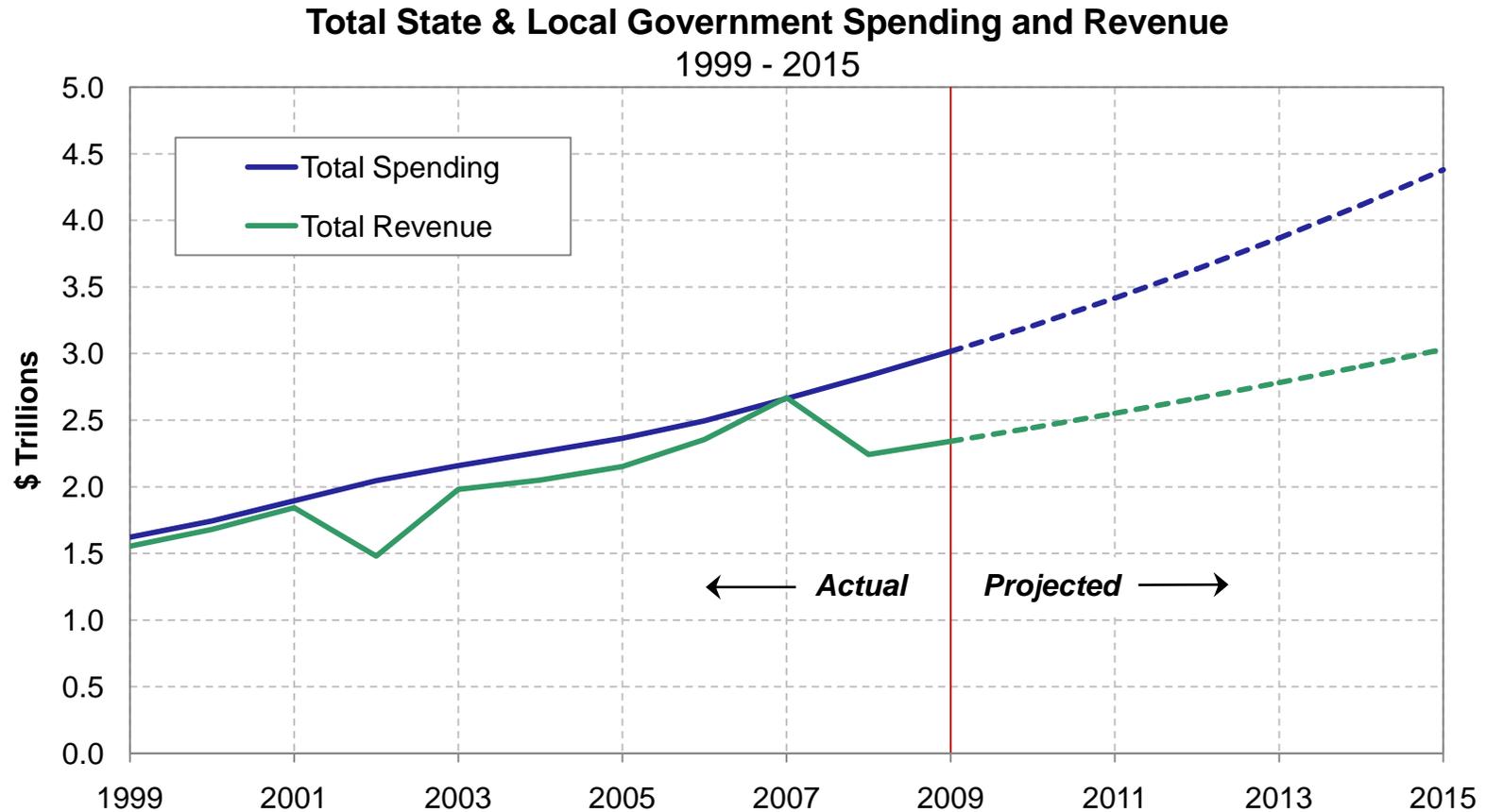
Source: U.S. Department of Commerce, Bureau of the Census

Housing Will Be A Headwind



Source: National Association of Realtors

State & Local Budgets Remain Under Pressure



Source: usgovernmentspending.com; usgovernmentrevenue.com

Disclaimer

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.