SURPRISE
ARIZONA

May, 2011

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City of Surprise
Investment Guidelines and Objectives
Month Ended April 30, 2011

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.

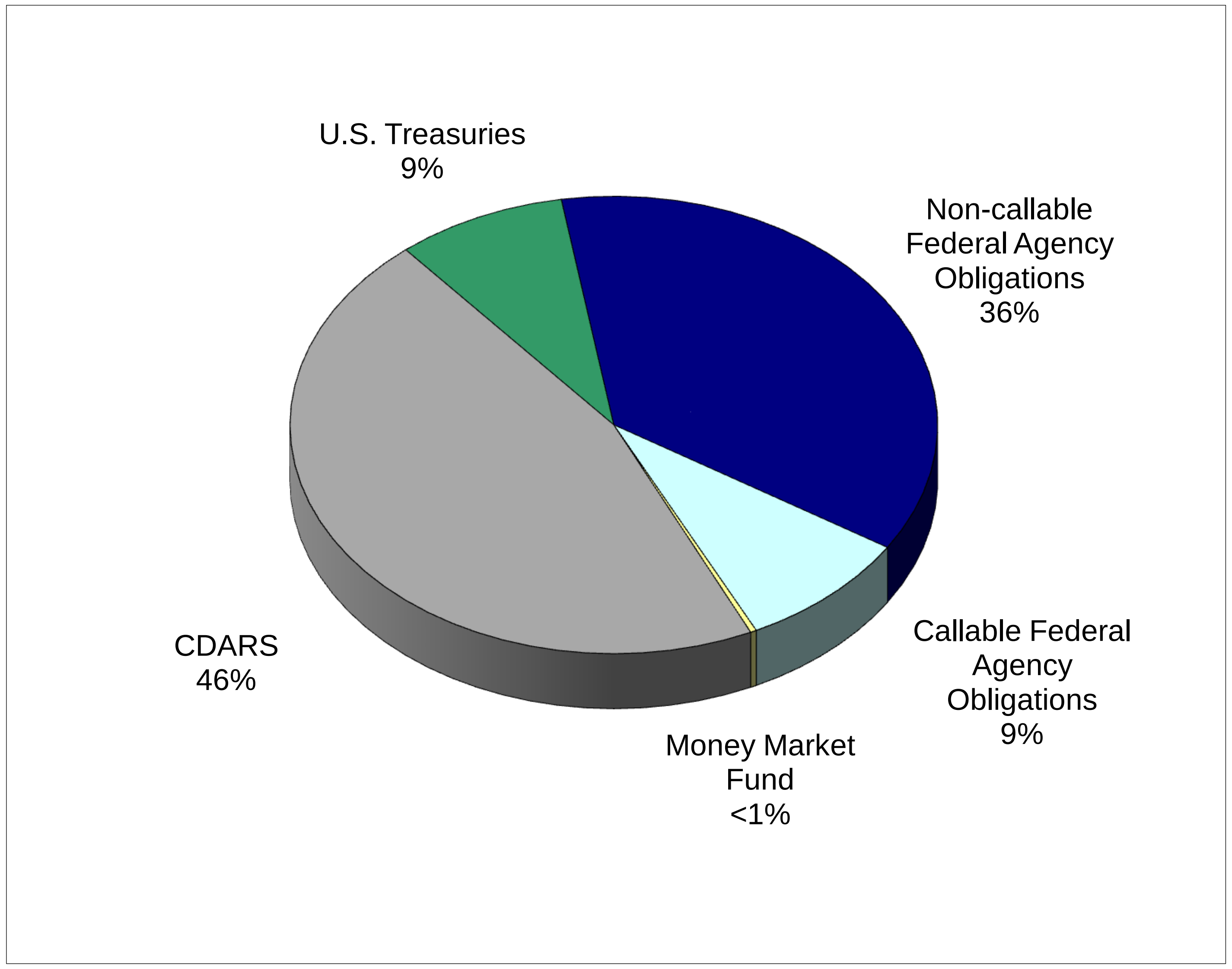
- Transactions prior to maturity – Securities shall generally be held to maturity with the following exceptions:
  - A security with a declining credit may be sold early to minimize loss of principal.
  - Liquidity needs of the portfolio require that the security be sold.
  - Securities may be sold to 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

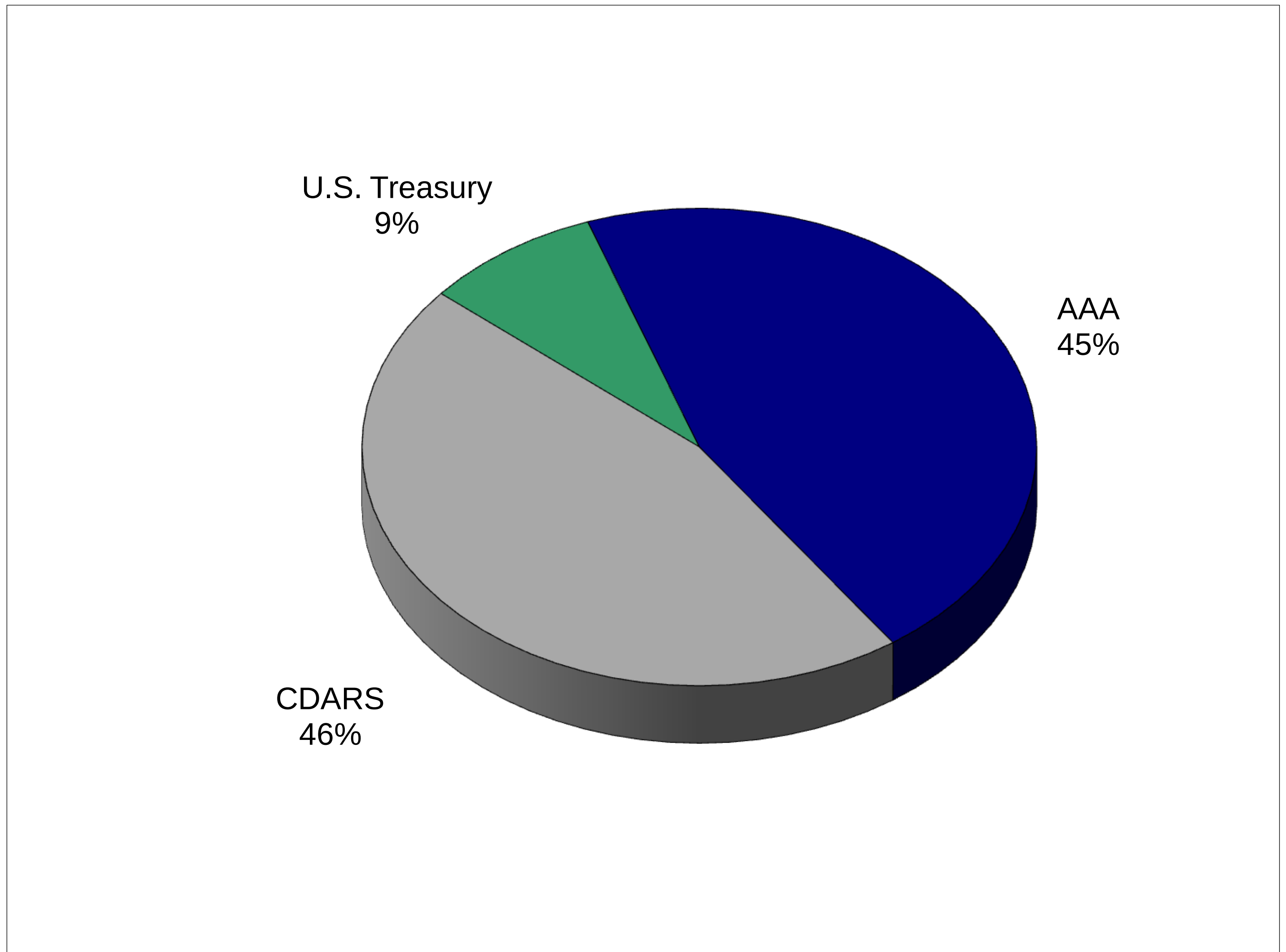
Month Ended April 30, 2011

Security Type	Current Holdings*	Current Month % of Portfolio	Previous Month % of Portfolio
U.S. Treasury	**$5,574,368.75**	**9%**	8%
Federal Agency	**$29,682,969.11**	**45%**	46%
Callable Federal Agency	$5,730,382.75	9%	9%
Non-callable Federal Agency	$23,952,586.36	36%	37%
CDARS	**$30,000,000.00**	**46%**	46%
Wells Fargo MMF	**$198,817.95**	<1%	<1%
Total Market Value	**$65,456,155.81**	**100%**	**100%**

Sector Distribution



Credit Quality Distribution



Standard & Poor's Credit Ratings

The City's portfolio complies 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 April 30, 2011

Maturity Distribution Summary

Maturity Class	Fair Value*	% of Portfolio
Under 6 Months	$25,198,817.95	38.5%
6 - 12 Months	$5,000,000.00	7.6%
1 - 2 Years	$14,407,629.36	22.0%
2 - 3 Years	$20,849,708.50	31.9%
3 Years and Over	$0.00	0.0%
Total Market Value	$65,456,155.81	100%

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

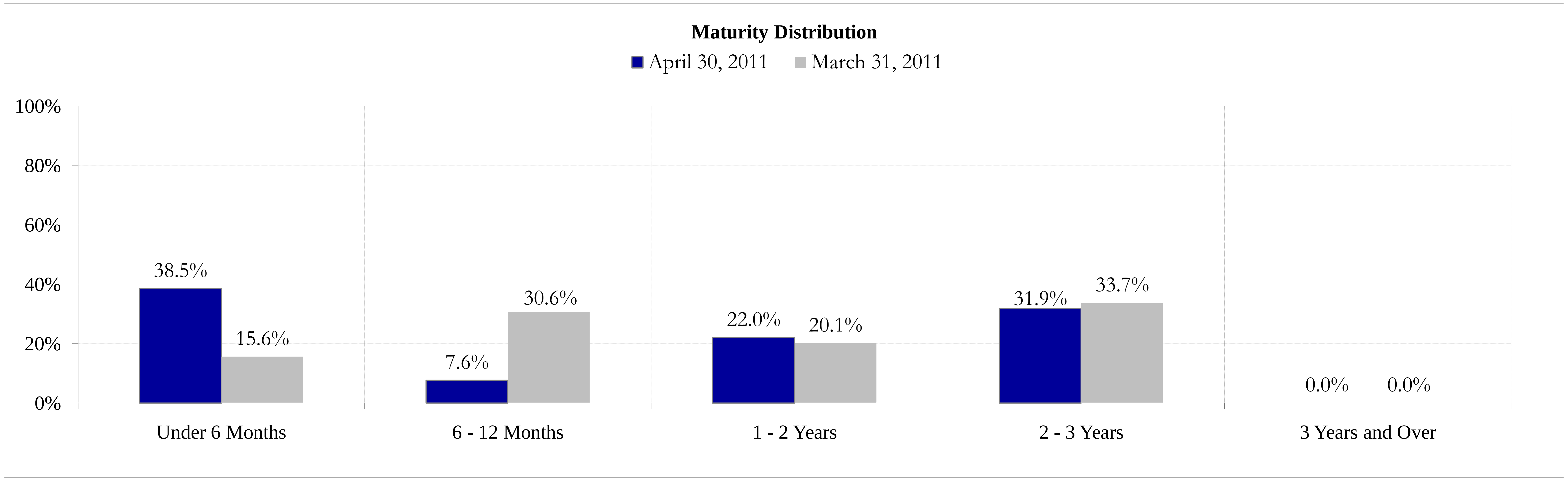
Key Portfolio Statistics

Effective Duration[1]	1.48 years
Benchmark Duration[2]	1.78 years
Yield at Cost	0.81%

1. Duration to worst as of 04/30/2011 was 1.93
2. The City's benchmark is the Merill Lynch 1-3 year U.S. Treasury Index

Performance statistics exclude money market fund and CDARS investments

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



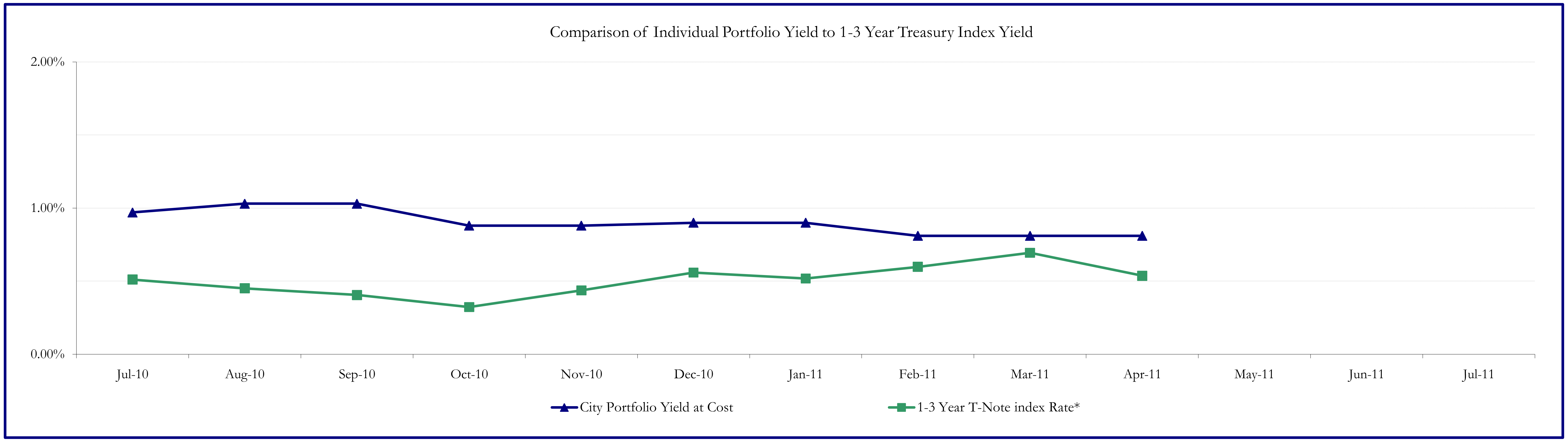
City of Surprise Individual Portfolio Yield Summary
Fiscal Year 2010-2011

Date	Month-End Market Value[1]	Duration[2]	Portfolio YTM at Cost[2]	1-3 Year T-Note Index Rate[3]
Jul-10	$15,279,792	1.75	0.97%	0.51%
Aug-10	$20,296,127	1.37	1.03%	0.45%
Sep-10	$20,306,987	1.29	1.03%	0.41%
Oct-10	$34,159,429	1.72	0.88%	0.32%
Nov-10	$35,295,699	1.82	0.88%	0.44%
Dec-10	$35,315,499	1.73	0.90%	0.56%
Jan-11	$35,342,530	1.50	0.90%	0.52%
Feb-11	$35,312,485	1.75	0.81%	0.60%
Mar-11	$35,311,883	1.66	0.81%	0.69%
Apr-11	$35,456,156	1.48	0.81%	0.54%

[1] Excludes accrued interest and CDARS. Includes balance in the custody account MMF

[2] Excludes CDARS and custoday account MMF

[3] Rate represents the Merrill Lynch 1-3 Year U.S. Treasury Note Index month-end yield. Source Bloomberg

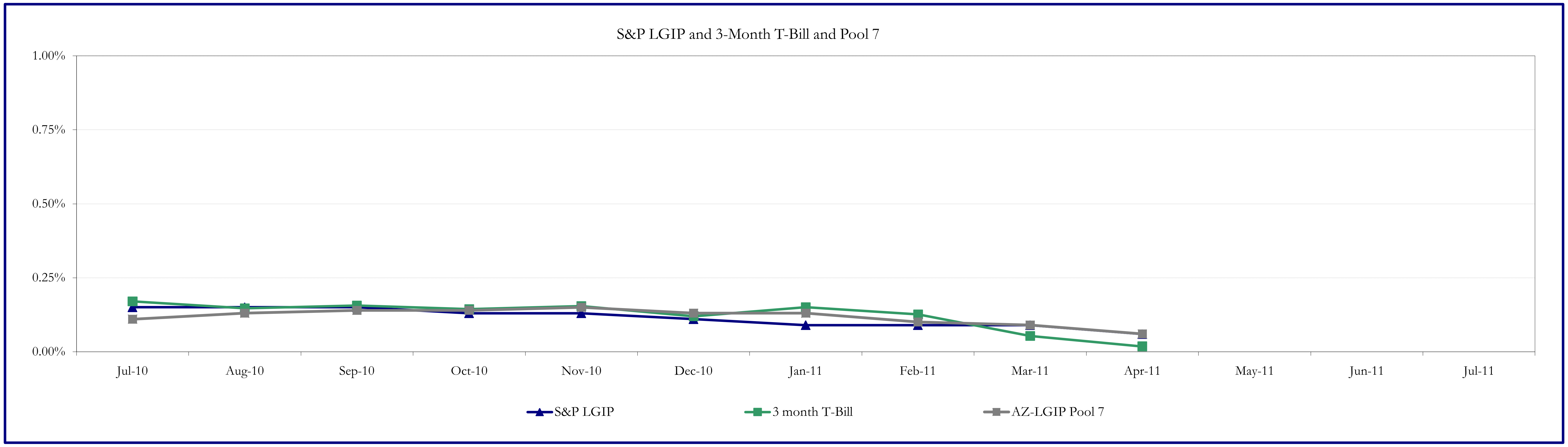


City of Surprise Short-Term Benchmark Comparisons
Fiscal Year 2010-2011

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%
Jan-11	0.09%	0.13%	0.15%
Feb-11	0.09%	0.10%	0.13%
Mar-11	0.09%	0.09%	0.05%
Apr-11	0.06%	0.06%	0.02%

[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 April 30, 2011

Operating Funds Investment Inventory by Maturity Date

Issuer	Maturity	Years to Maturity	Fair Value	Yield to Maturity	Next Call Date	Frequency
Wells Fargo MMF	4/30/2011	0.00	$198,818	0.01%		
Alliance Bank (CDARS)	6/30/2011	0.17	$10,000,000	0.55%		
Alliance Bank (CDARS)	9/29/2011	0.41	$15,000,000	1.01%		
Alliance Bank (CDARS)	12/29/2011	0.66	$5,000,000	0.88%		
U.S. Treasury	6/30/2012	1.17	$2,509,475	0.52%		
FNMA	10/30/2012	1.50	$2,499,928	0.77%		
FHLMC	11/30/2012	1.58	$2,992,662	0.66%		
FHLMC	12/21/2012	1.64	$2,115,260	1.09%		
FNMA	2/26/2013	1.82	$3,052,533	0.83%		
FHLMC	4/15/2013	1.96	$1,237,772	0.56%		
FNMA	6/26/2013	2.16	$2,032,232	1.41%		
FNMA	7/19/2013	2.22	$2,004,034	1.39%	7/19/11	One-time
FFCB	9/16/2013	2.38	$5,013,270	0.43%		
FNMA	9/23/2013	2.40	$5,008,930	0.73%		
FHLMC	11/15/2013	2.54	$1,241,864	1.01%	5/15/11	Quarterly
U.S. Treasury	11/15/2013	2.54	$3,064,894	0.81%		
FNMA	11/26/2013	2.57	$2,484,485	0.98%	5/23/11	Quarterly
Total Market Value			**$ 65,456,156**			

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 06/30/2010 0.625% 06/30/2012	912828NS5	2,500,000.00	TSY	TSY	02/16/11	02/16/11	2,503,710.94	0.52	5,222.72	2,503,159.50	2,509,475.00
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	7,127.49	3,065,991.60	3,064,893.75
Security Type Sub-Total		**5,590,000.00**					**5,565,828.52**	**0.68**	**12,350.21**	**5,569,151.10**	**5,574,368.75**
Federal Agency Bond / Note											
FANNIE MAE GLOBAL NOTES DTD 10/08/2010 0.500% 10/30/2012	31398A4T6	2,500,000.00	AAA	Aaa	02/16/11	02/16/11	2,488,575.00	0.77	34.72	2,489,965.13	2,499,927.50
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	5,906.25	2,986,433.52	2,992,662.00
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	2,098,180.40	2,115,260.00
FNMA NOTES DTD 01/18/2011 0.750% 02/26/2013	3135G0AK9	3,045,000.00	AAA	Aaa	02/02/11	02/03/11	3,039,747.38	0.83	4,123.44	3,040,363.50	3,052,533.33
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	1,240,202.44	1,237,771.53
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	2,003,979.02	2,032,232.00
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	1,999,465.22	2,004,034.00
FFCB (FLOATING) NOTE DTD 09/16/2010 0.340% 09/16/2013	31331JG64	5,000,000.00	AAA	Aaa	10/12/10	10/13/10	5,000,000.00	0.43	2,434.72	5,000,000.00	5,013,270.00
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	5,031,495.35	5,008,930.00
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	5,763.89	1,249,681.91	1,241,863.75
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	10,763.89	2,500,194.20	2,484,485.00

Managed Account Detail of Securities Held

CITY OF SURPRISE OPERATING FUND

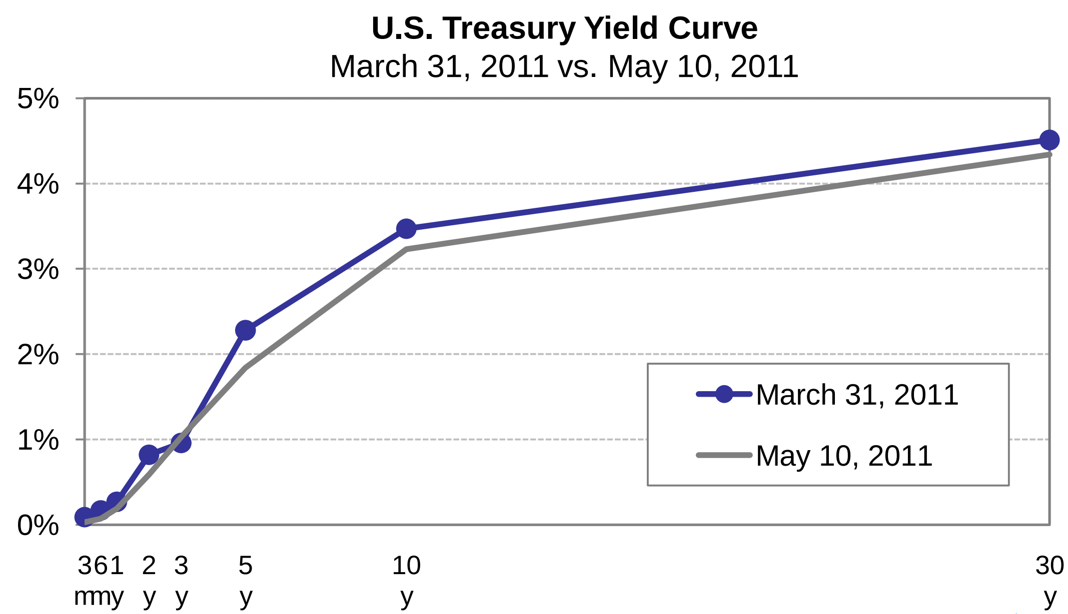
Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Security Type Sub-Total		29,510,000.00					29,701,102.03	0.83	83,182.20	29,639,960.69	29,682,969.11
Managed Account Sub-Total		35,100,000.00					35,266,930.55	0.81	95,532.41	35,209,111.79	35,257,337.86
Securities Sub-Total		$35,100,000.00					$35,266,930.55	0.81%	$95,532.41	$35,209,111.79	$35,257,337.86
Accrued Interest											$95,532.41
Total Investments											$35,352,870.27

Market Update

Yields Have Fallen Again, But Yield Curve Remains Steep

- Disappointing employment data, European sovereign debt concerns, and global inflation fears drove interest rates back down to their historic lows.

- Despite an overall decrease in rates, the yield curve still remains steep and offers opportunities in the intermediate maturity ranges.



Source: Bloomberg Financial Markets

Yields Remain Stuck in a Low Range

2-Year U.S. Treasury Note Yield
April 1, 2006 – May 5, 2011

Source: Bloomberg

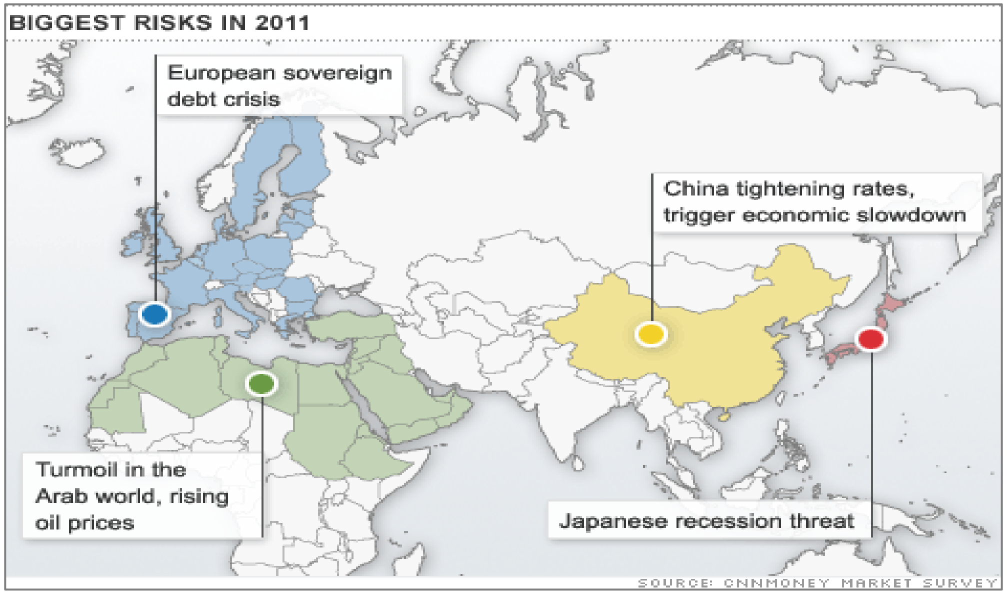
Spreads Remain Historically Narrow As Global Economic Concerns Heighten Market Volatility

- The spread between the yields of the Treasury and Agency sectors continues to be well below its 10-year average.
  - In a compressed spread environment, Treasuries offer an attractive investment option versus other sectors.

- In addition to domestic concerns, several key financial markets pose a diverse set of risks to the global economic recovery.

2-Year U.S. Treasury Yields vs 2-Year Federal Agency Yields

May 1, 2010 – May10, 2011



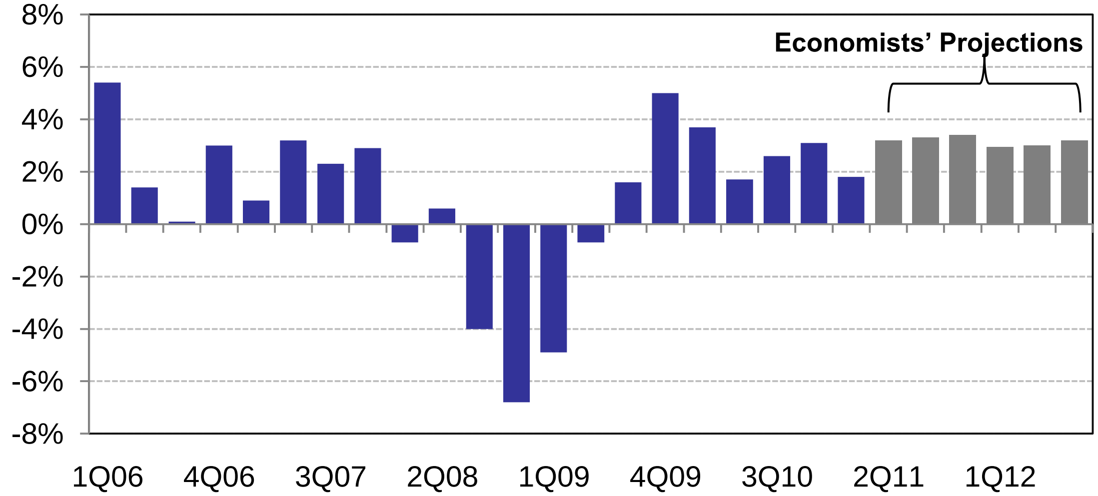
Source: Bloomberg Financial Markets

Economic Recovery Has Slowed

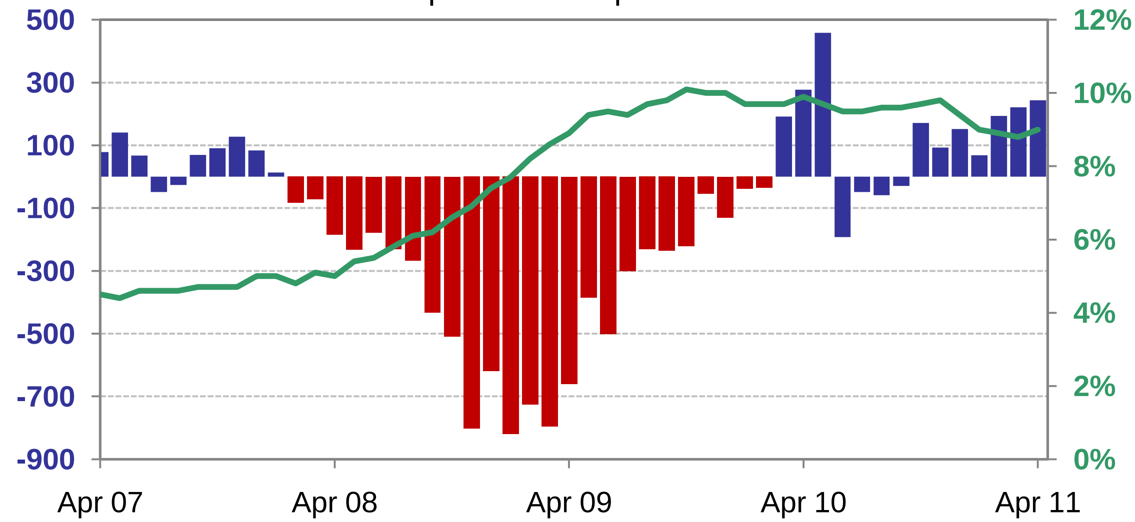
- The first quarter 2011 GDP is generally viewed as weak at 1.8%. Projections remain low due to:
  - Higher commodity prices, especially oil
  - Continued cuts to government spending

- The unemployment rate rose to 9.0% in April, but the economy added 244,000 jobs.
  - Hiring in the private sector posted the largest increase since 2006. The biggest gain occurred in the retail sector, where 57,000 people found jobs.
  - Continuing a recent trend, the biggest decline was in the government sector, which lost 24,000 jobs.

Gross Domestic Product (GDP) Growth
2006 –2010



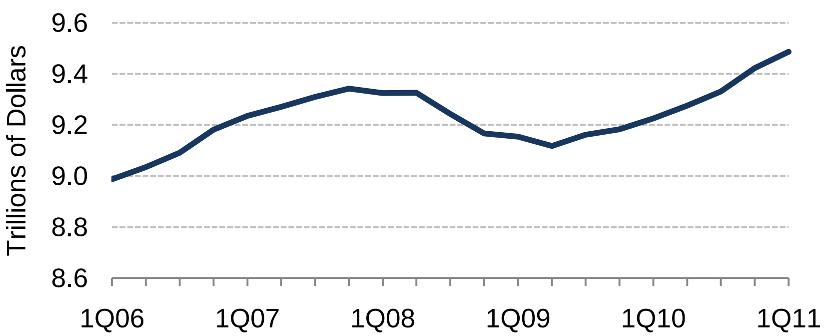
Change in Non-Farm Payrolls/ Unemployment Rate
April 2007 – April 2011



Source: U.S. Department of Commerce & U.S. Department of Labor

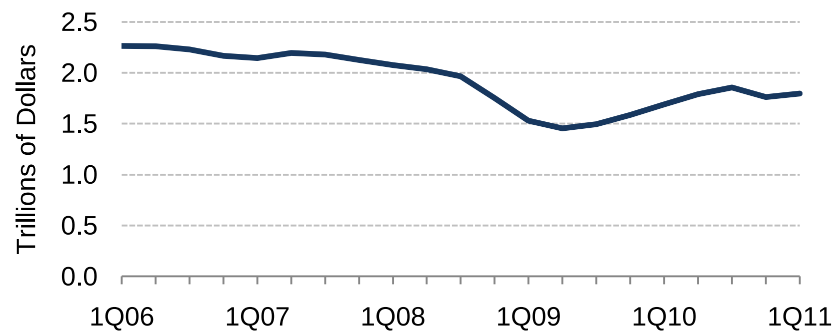
GDP Component Trends

Private Consumption



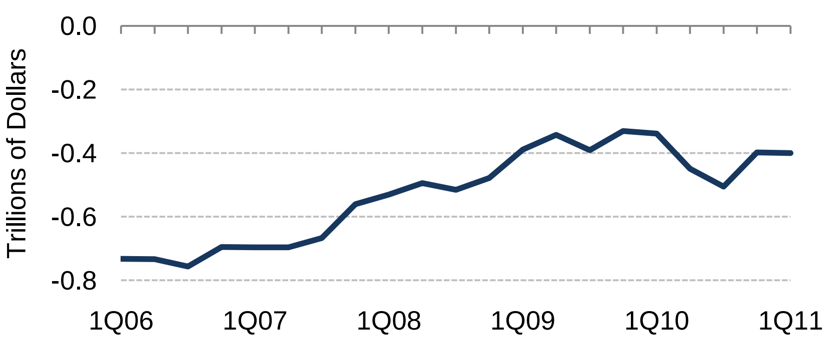
- Job losses and fear created by the financial crisis led to a decline in private consumption.
- The economic recovery, low rates, and low inflation environment have boosted consumption to new all-time highs.

Investment



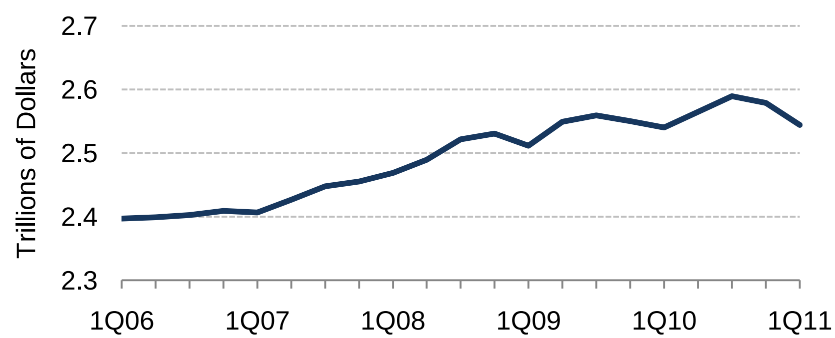
- Investment, which includes residential housing, has not recovered.
- Strength in the manufacturing sector has resulted in some increases in business capital investment .

Net Exports



- Net exports are inversely correlated to the value of the US$.
- Devaluation of the US$ has fueled a rise in net exports.

Government Expenditure



- Government spending increased through fiscal stimulus.
- More recently, federal budget issues have resulted in pressure on state and local government spending.

Source: Bloomberg

Housing Prices Falling Anew

TEN HARDEST-HIT CITIES

Cities where house prices have fallen most since peak at height of bubble, with drops by percentage

1. Merced, California, 69.4 per cent

Peak: $343,740 (2005), now: $105,110

2. Stockton, California, 63.8 per cent

Peak: $409,773 (2006), now: $148,231

3. Modesto, California, 63.6 per cent

Peak: $364,591 (2006), now: $132,849

4. Las Vegas, Nevada, 60.7 per cent

Peak: $306,086 (2006), now: $120,334

5. Fort Myers, Florida, 60.3 per cent

Peak: $304,561 (2006), now: $120,990

6. Vallejo, California, 58.9 per cent

Peak: $472,819 (2006), now: $194,210

7. Port St Lucie, Florida, 57.9 per cent

Peak: $253,925 (2006) now: $106,995

8. Bakersfield, California, 57.5 per cent

Peak: $274,500 (2006), now: $116,616

9. Salinas, California, 57.2 per cent

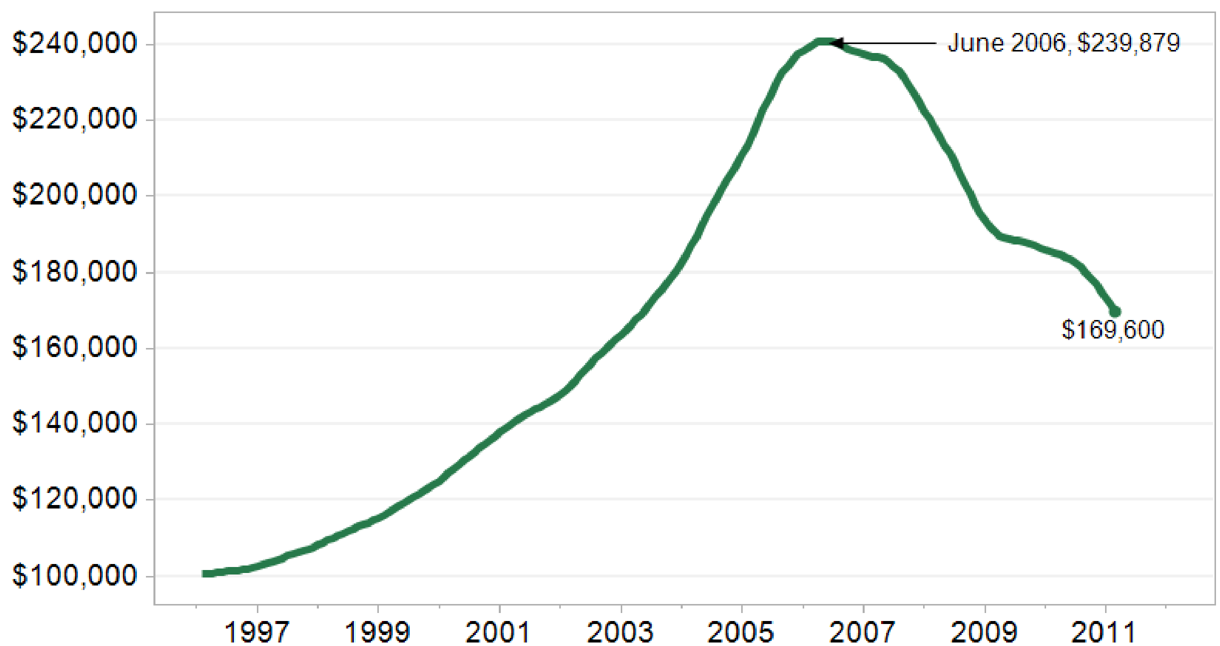
Peak: 686,488 (2005), now: $293,775

10. Melbourne, Florida, 56.7 per cent

Peak: $232,732 (2005), now: $100,805

- Home values fell 3% in the first quarter of 2011, the largest decrease since 2008.
- The cumulative decline in home values since the market peak is now 29.5%.
- Month-over-month the Phoenix area home prices declined 11.2%, 8th largest in the country.

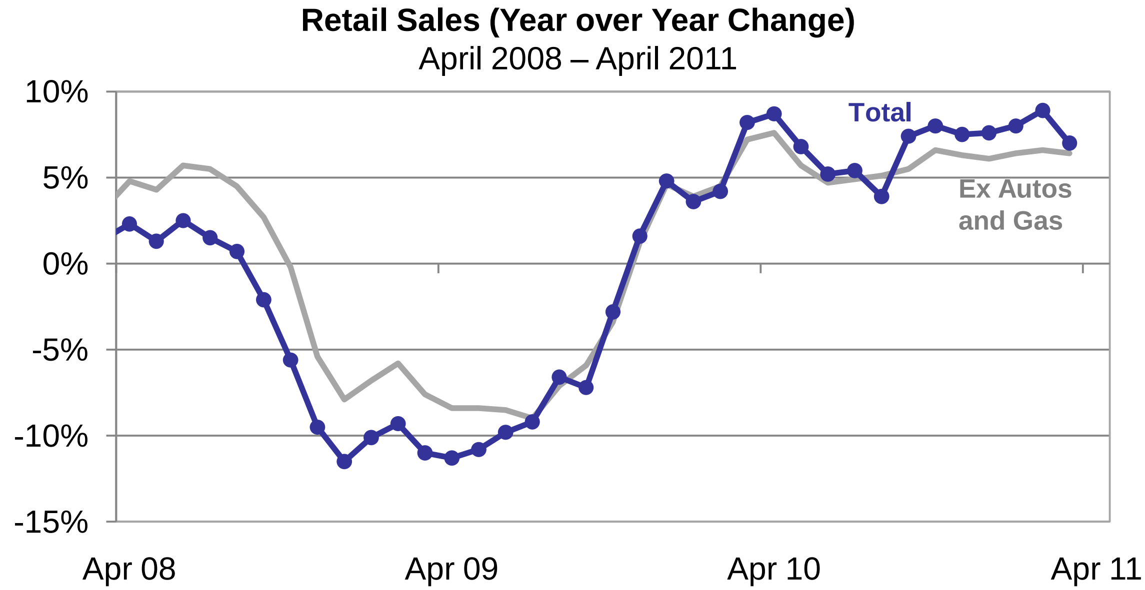
Zillow Home Value Index
1996 - 2011

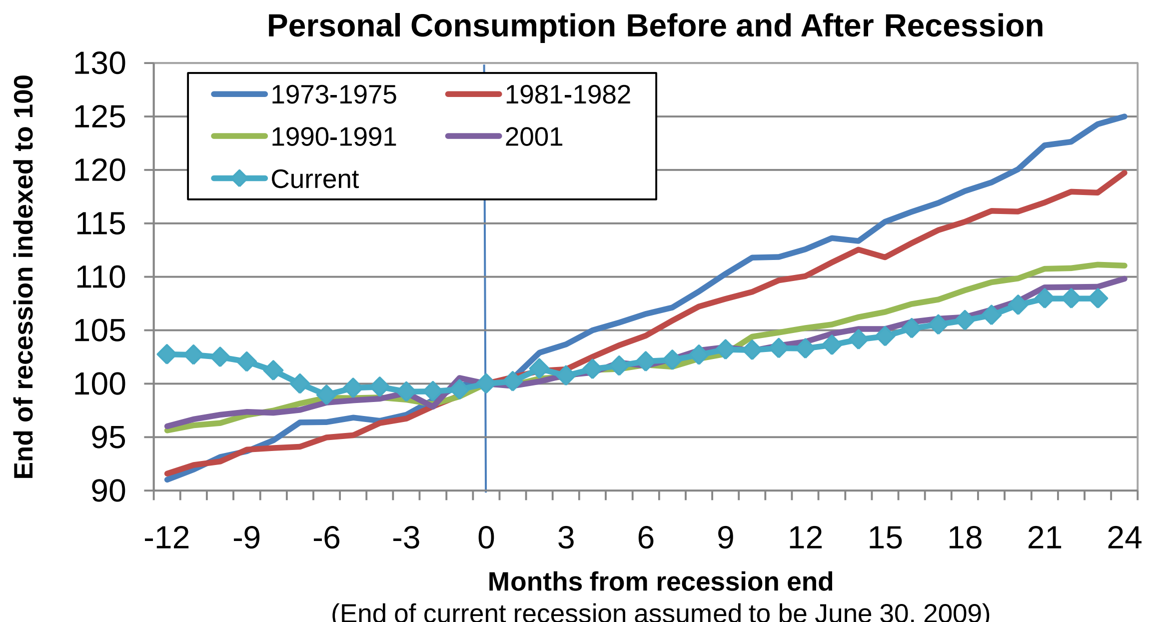


Source: Zillow.com
Zillow home value index is based on the median home prices of approximately 125 metropolitan areas.

Sluggish Retail Sales and Personal Consumption Headwinds to Further Recovery

- Retail sales rose in April at the slowest pace in nine months and consumer sentiment declined.
- Spending improved at service stations and grocery stores and dropped at furniture and electronics dealers, illustrating the trade-off between increased food and gasoline costs and disposable income.
- Personal consumption has not rebounded as quickly or at the same levels as at the end of previous recessions.





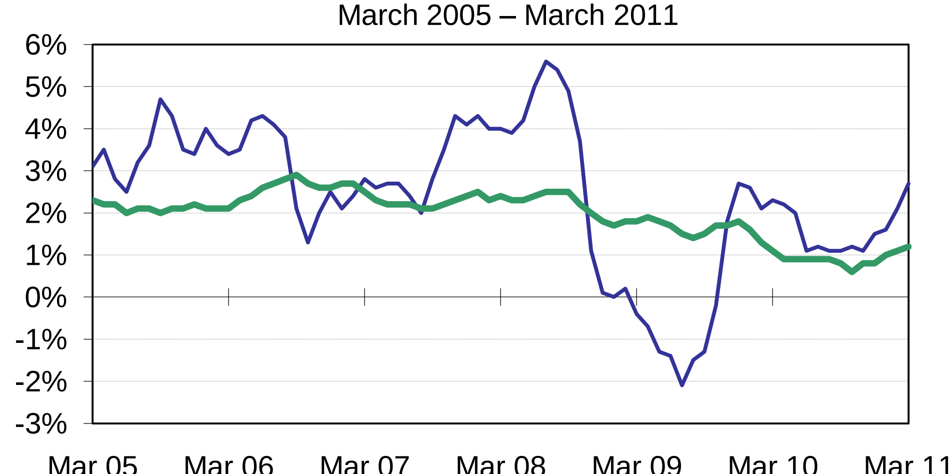
Sources: Bloomberg and Bureau of Economic Analysis

Commodity Prices Pull Back, Inflation Remains Modest

- A record plunge in oil prices led the sharpest sell-off in commodities in two years on May 5 amid mounting concern over the strength of the global recovery.
- The steep slide in everything from cocoa to silver could relieve fears of growing inflation and mark an end to the impressive bull run that had taken the price of many commodities to record highs.
- While March headline CPI (including food and energy) was up 2.7% over the prior year, the core index increased by a more modest 1.2%.

	Last Price/ Contract	Today's Change	1 Month Change
Brent Crude Oil As of May 05 2011 17:53 BST.	110.76	-10.43 -8.61%	-9.29%
Natural Gas As of May 05 2011 17:14 BST.	4.21	-0.36 -7.93%	+1.59%
Gold 100oz As of May 05 2011 15:36 BST.	1,471.00	-43.90 -2.90%	+1.02%
Silver 5000oz As of May 05 2011 16:42 BST.	3,456.50	-481.80 -12.23%	-12.27%
Corn As of May 05 2011 13:14 BST.	705.00	0.00 0.00%	-7.90%
Wheat As of May 05 2011 13:11 BST.	722.50	0.00 0.00%	-7.96%

Consumer Prices (Year-Over-Year)
March 2005 – March 2011



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

Fed’s Internal Debate Regarding Monetary Policy

- “Monetary policy will have to reverse course in the not-too-distant future and begin to remove the massive amount of accommodation it has supplied.” *- Philadelphia Fed President Charles Plosser; March 25, 2011*

- “QE was appropriate, But more is not called for.”

  - Chicago Fed President Charles Evans; March 28, 2011

- “The FOMC may not be willing or able to wait until all global uncertainties are resolved to begin normalizing policy.”

  - St. Louis Fed President James Bullard; March 29, 2011

- “It's "certainly possible" the Fed's target for short-term interest rates, now near zero, would be lifted by more than half a percentage point late this year.” *- Minneapolis Fed President Narayana Kocherlakota; March 31, 2011*

- “The recovery is still tenuous. And, we are still far from the mark with regard to the Fed's dual mandate.”

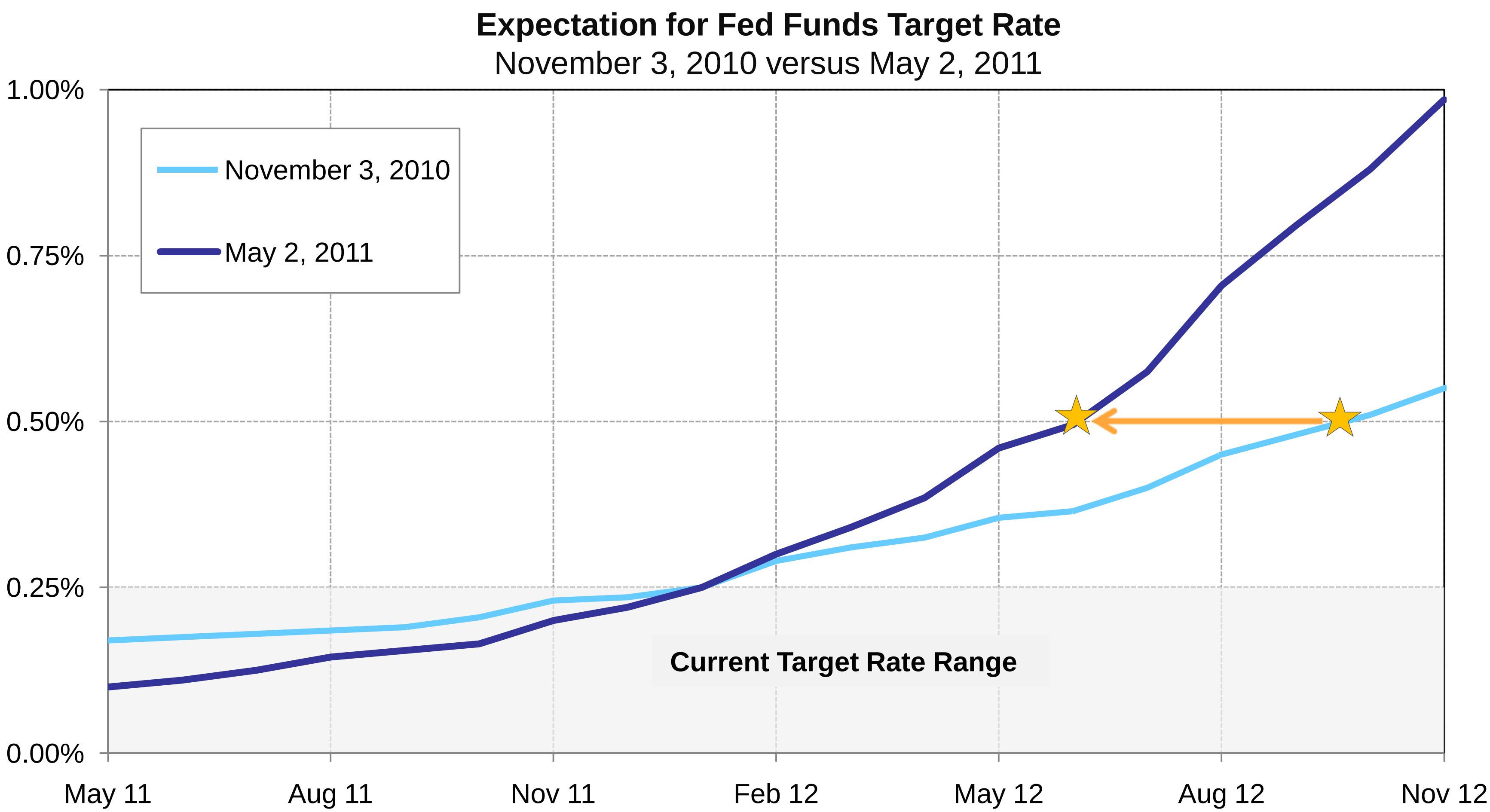
  - New York Fed President William Dudley; April 1, 2011

- “Improving economy warrants current Fed stimulus.”

  - Chicago Fed President Charles Evans; April 4, 2011

Fed Funds Target Rate Expectations

- The market currently expects the first Fed rate hike will occur in June 2012 — four months earlier than was forecast before the commencement of QE2 on November 3, 2010.



Source: Bloomberg

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