



Third Quarter Investment Report 2012

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Summary

- During the third quarter, further easing measures by central banks around the world spurred investors' demand for riskier assets, resulting in strong performance for corporate bonds, mortgage-backed securities, and equities.
- While the U.S. housing recovery seemed to be building momentum, manufacturing activity and job growth have continued to show persistent weakness.
- The domestic economy will likely continue its sluggish recovery, despite uncertainties about the U.S. election and the looming fiscal cliff.

Economic Snapshot

- The unemployment rate fell to 7.8% in September. The economy added 437,000 jobs in the third quarter, up from 200,000 in the prior period.
- The S&P Case-Shiller Index of home prices for July marked a year-over-year increase that was more than consensus predicted, reflecting a continued housing recovery.
- The Institute for Supply Management's manufacturing survey fell slightly below 50 for June, July, and August, indicating a weakening of the important manufacturing base, but rose to 51.5 in September, suggesting slow growth (A measure above 50 is the dividing point between growth and expansion.)
- The Consumer Price Index increased by 0.6% in August on a seasonally adjusted basis, its largest gain since June 2009; this was primarily due to increases in food and energy prices.
- Most economists expect U.S. gross domestic product (GDP) to grow by only 1.8% to 2% for the year.

Interest Rates

- Interest rates ended the quarter modestly lower, while yield spreads on Federal Agencies, corporates, and mortgage-backed securities (MBS) tightened significantly.
- Long-term Treasury yields experienced significant intra-quarter volatility, while two-year Treasury yields remained in a tight range of 0.20% to 0.30% for the quarter.
- The Federal Reserve announced that it will keep short-term rates at extremely low levels through mid-2015. It also initiated a third round of Quantitative Easing (QE3), a new program to purchase \$40 billion in agency MBS each month until economic conditions improve.

Sector Performance

- Accommodative measures by global central banks gave investors confidence in the prospects for economic growth. The resulting shift from Treasuries and Agencies to high-quality corporate bonds helped corporate bonds to outperform. Bonds issued by financial firms did particularly well, outpacing those in the industrial and utility sectors.
- Supported by the new QE3 purchase program, Agency MBS performed well, but returns were tempered as a result of increased pre-payments, which shortened their average lives.
- While the Municipal sector lagged the corporate sector, it generated returns in excess of Treasuries and Agencies, and offered the additional value of diversification.
- Supply reductions should keep Agency spreads narrow, as Fannie Mae and Freddie Mac reduce their retained portfolios by 15% per year, as mandated by the Treasury Department.

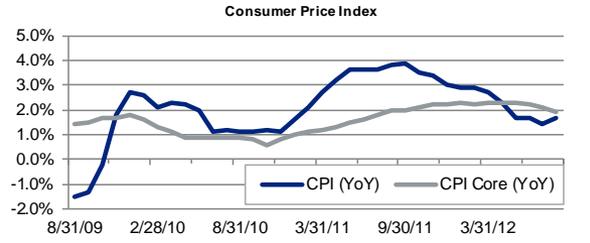
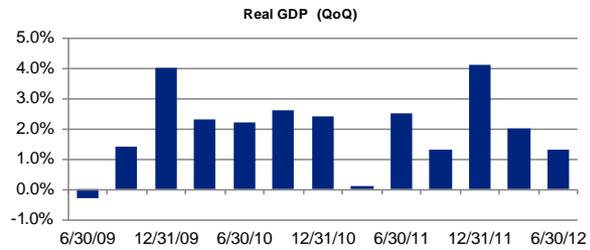
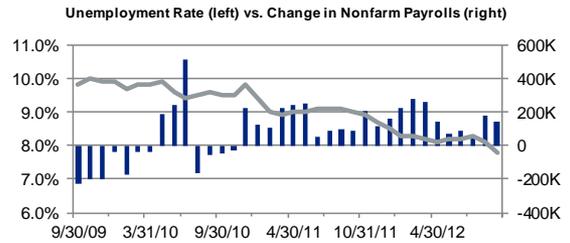
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Economic Snapshot

Labor Market		Latest	Jun 2012	Sep 2011
Unemployment Rate	Sep	7.8%	8.2%	9.0%
Change In Non-Farm Payrolls	Sep	114,000	45,000	202,000
Average Hourly Earnings (YoY)	Sep	1.8%	2.0%	2.0%
Personal Income (YoY)	Aug	3.5%	3.4%	4.6%
Initial Jobless Claims	Oct 12	388,000	376,000	402,000

Growth		Latest	Jun 2012	Sep 2011
Real GDP (QoQ SAAR)	Q2	1.3%	2.0% ¹	1.3%
GDP Personal Consumption (QoQ SAAR)	Q2	1.5%	2.4% ¹	1.7%
Retail Sales (YoY)	Sep	5.4%	3.5%	8.3%
ISM Manufacturing Survey	Sep	51.5	49.7	52.5
Existing Home Sales (millions)	Sep	4.75	4.37	4.28

Inflation / Prices		Latest	Jun 2012	Sep 2011
Personal Consumption Expenditures (YoY)	Aug 12	1.5%	1.5%	2.9%
Consumer Price Index (YoY)	Sep 12	2.0%	1.7%	3.9%
Consumer Price Index Core (YoY)	Sep 12	2.1%	0.7%	7.0%
Crude Oil Futures (WTI, per barrel)	Sep 30	\$92.19	\$84.96	\$79.20
Gold Futures (oz)	Sep 30	\$1,771	\$1,604	\$1,620



1. Data as of First Quarter 2012

Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

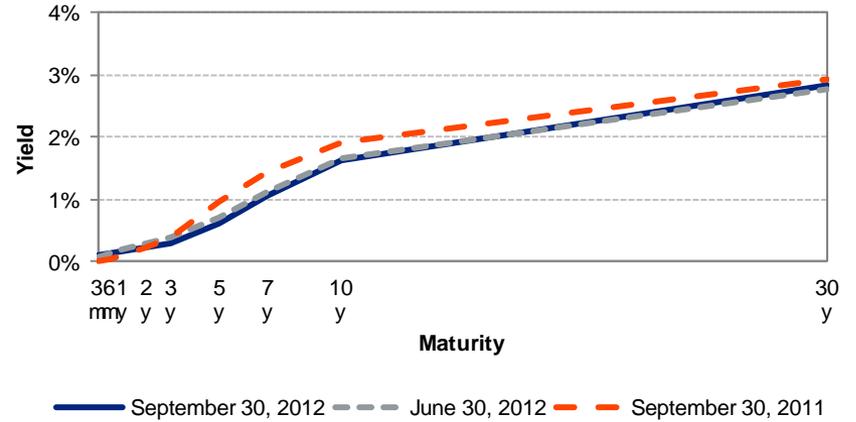
Source: Bloomberg

Interest Rate Overview

U.S. Treasury Note Yields



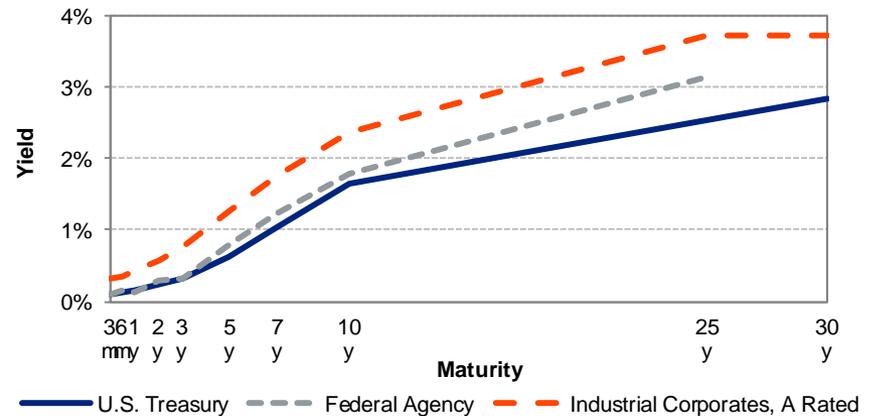
U.S. Treasury Note Yield Curve



U.S. Treasury Note Yields

Maturity	9/30/12	6/30/12	Change over Quarter	9/30/11	Change over Year
3-month	0.12%	0.11%	0.00%	0.02%	0.09%
1-year	0.16%	0.26%	(0.10%)	0.17%	(0.02%)
2-year	0.25%	0.32%	(0.08%)	0.28%	(0.04%)
5-year	0.63%	0.75%	(0.11%)	0.96%	(0.33%)
10-year	1.70%	1.73%	(0.04%)	2.01%	(0.31%)
30-year	2.82%	2.78%	0.04%	2.95%	(0.13%)

Yield Curves as of 9/30/12



Source: Bloomberg

B of A Merrill Lynch Index Returns

	As of 9/30/2012		Periods Ended 9/30/2012		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.89	0.25%	0.26%	0.56%	1.43%
Federal Agency	1.60	0.31%	0.25%	0.92%	1.58%
U.S. Corporates, A-AAA Rated	1.98	1.02%	1.50%	4.10%	3.63%
Agency MBS (0 to 3 years)	1.78	0.87%	0.91%	2.29%	3.78%
Municipals	1.84	0.52%	0.33%	1.33%	1.75%
1-5 Year Indices					
U.S. Treasury	2.74	0.34%	0.47%	1.29%	2.58%
Federal Agency	2.24	0.42%	0.46%	1.53%	2.29%
U.S. Corporates, A-AAA Rated	2.79	1.26%	2.18%	5.92%	4.98%
Agency MBS (0 to 5 years)	1.83	0.91%	1.08%	3.63%	4.73%
Municipals	2.59	0.71%	0.62%	2.23%	2.65%
Master Indices					
U.S. Treasury	6.05	0.91%	0.58%	3.19%	5.46%
Federal Agency	3.69	0.79%	0.84%	2.83%	3.95%
U.S. Corporates, A-AAA Rated	6.78	2.38%	3.53%	9.97%	8.26%
Agency MBS	1.82	0.92%	1.13%	3.74%	5.06%
Municipals	7.39	2.48%	2.51%	8.96%	6.20%

Returns for periods greater than one year are annualized
3 Month return is periodic

Source: Bloomberg

City of Surprise
Investment Guidelines and Objectives
Quarter Ended September 30, 2012

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.

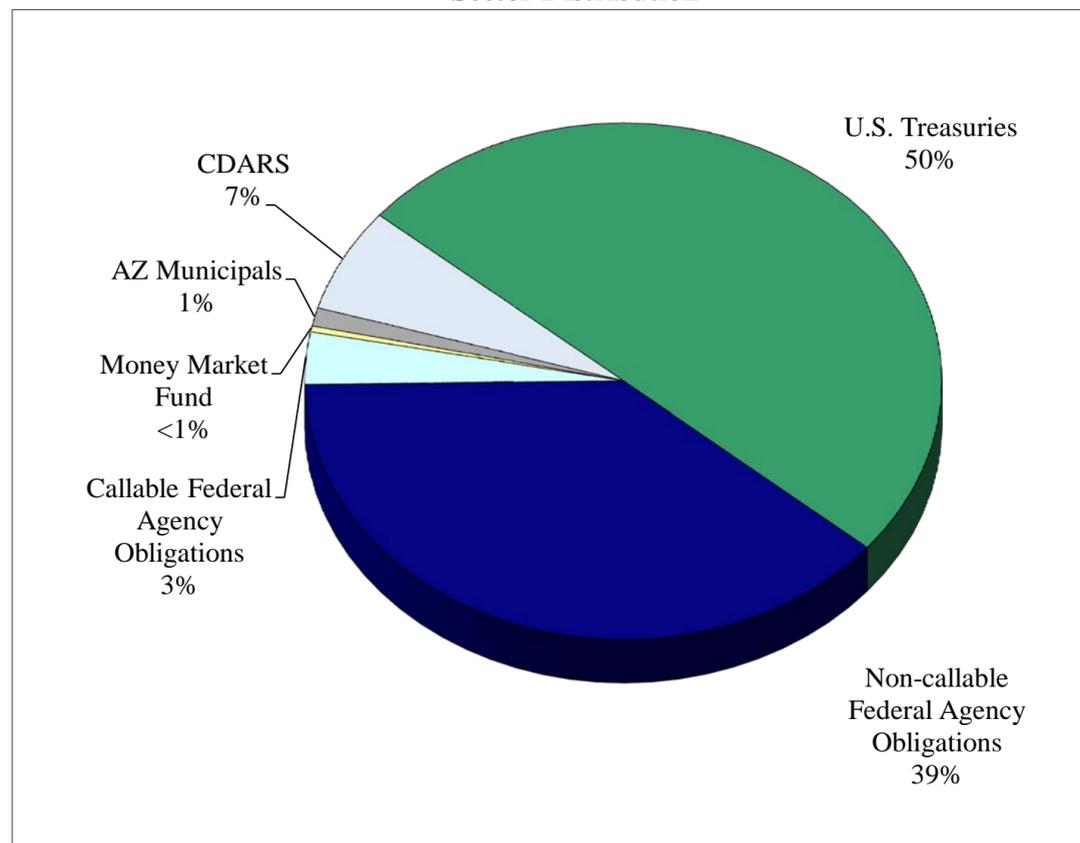
Investment Guidelines: In relation to the investment portfolio, the City's investment strategy focuses on the following:

- 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.

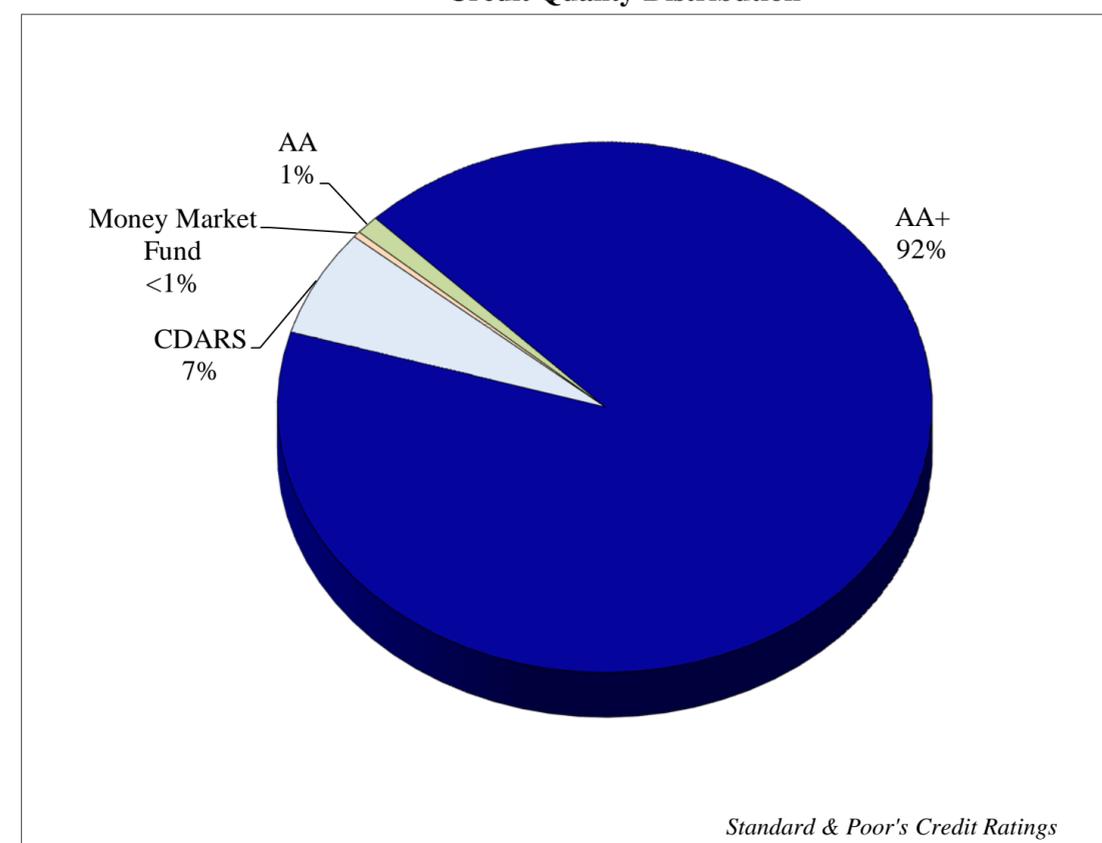
City of Surprise Portfolio Summary and Characteristics
Quarter Ended September 30, 2012

<u>Security Type</u>	<u>Current Holdings*</u>	<u>Current Quarter % of Portfolio</u>	<u>Previous Quarter % of Portfolio</u>
U.S. Treasury	\$38,192,307.31	50%	32%
Federal Agency	\$31,981,940.10	42%	52%
Callable Federal Agency	\$2,498,432.50	3%	0%
Non-callable Federal Agency	\$29,483,507.60	39%	53%
CDARS**	\$5,000,000.00	7%	15%
AZ Municipals	\$875,504.50	1%	1%
Wells Fargo MMF	\$281,270.89	<1%	<1%
Total Market Value	\$76,331,022.80	100%	100%

Sector Distribution



Credit Quality Distribution



The City's portfolio complies with the investment policy and the Arizona Revised Statutes.

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

**CDARS: FDIC-insured time certificate of deposit program through Alliance Bank of AZ. CDARS funds are managed internally by the City and are not included in the PFM-managed portfolio or performance data.

City of Surprise Maturity Summary and Key Portfolio Statistics

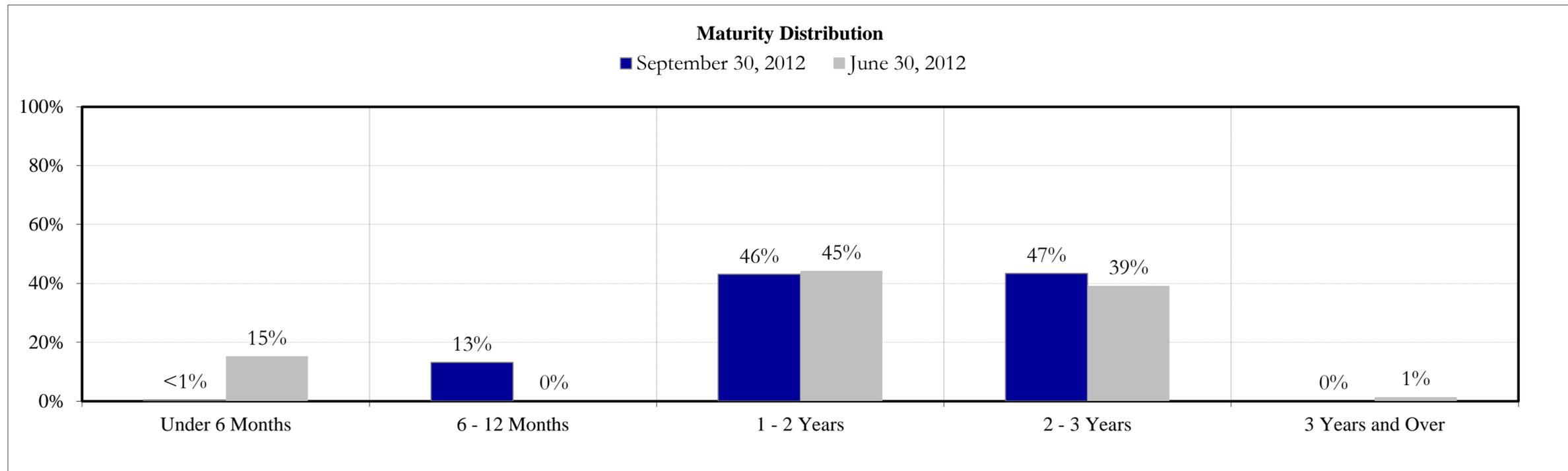
Quarter Ended September 30, 2012

Maturity Distribution Summary		
<u>Maturity Class</u>	<u>Fair Value*</u>	<u>% of Portfolio</u>
Under 6 Months	\$281,270.89	<1%
6 - 12 Months	\$10,037,580.00	13%
1 - 2 Years	\$32,893,296.24	43%
2 - 3 Years	\$33,118,875.67	44%
3 Years and Over	\$0.00	0%
Total Market Value	\$76,331,022.80	100%

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

Key Portfolio Statistics	
Effective Duration¹	1.82 years
Benchmark Duration²	1.82 years
Yield at Cost	0.48%

1. Duration to worst as of 09/30/2012 was 1.85
 2. The City's benchmark is the Merrill Lynch 1-3 year U.S. Treasury Index.
 Performance statistics exclude money market fund, CDARS and NOW Account 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

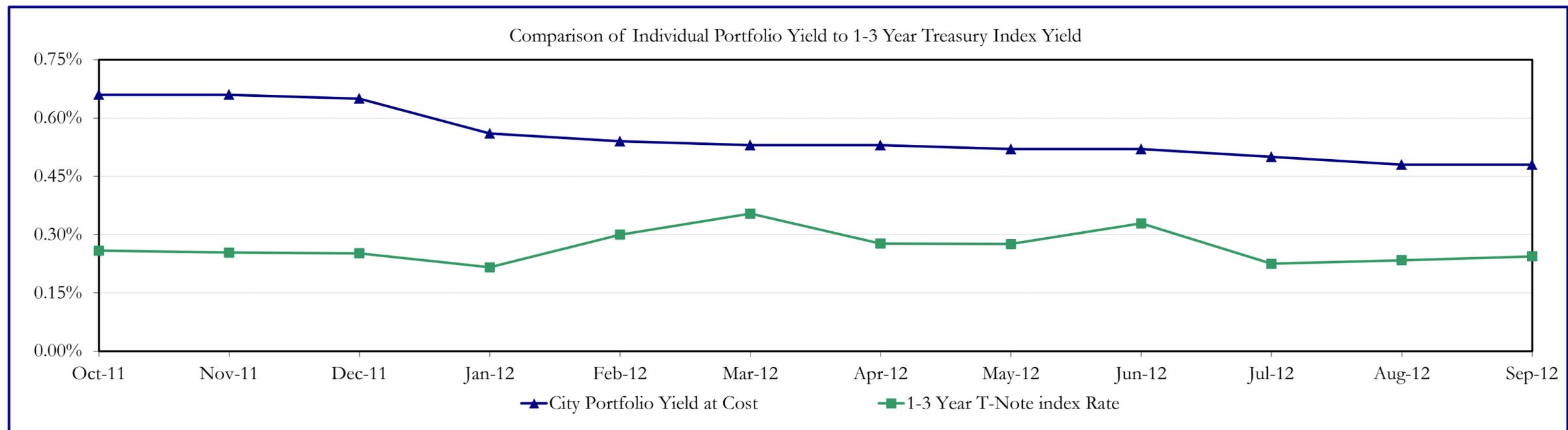
Trailing 12 Months

Date	Month-End Market Value ¹	Duration ²	Portfolio YTM at Cost ²	1-3 Year T-Note Index Rate ³
Oct-11	\$50,889,100	1.66	0.66%	0.26%
Nov-11	\$50,879,151	1.55	0.66%	0.25%
Dec-11	\$50,936,190	1.58	0.65%	0.25%
Jan-12	\$56,125,698	1.74	0.56%	0.22%
Feb-12	\$56,219,709	1.77	0.54%	0.30%
Mar-12	\$57,041,861	1.77	0.53%	0.35%
Apr-12	\$56,269,123	1.70	0.53%	0.28%
May-12	\$56,276,452	1.71	0.52%	0.28%
Jun-12	\$56,245,635	1.77	0.52%	0.33%
Jul-12	\$66,292,387	1.72	0.50%	0.23%
Aug-12	\$71,392,939	1.77	0.48%	0.23%
Sep-12	\$71,331,023	1.82	0.48%	0.24%

¹ Excludes accrued interest, CDARS, and NOW Account. Includes balance in the custody account MMF.

² Excludes CDARS, NOW Account and custoday account MMF.

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

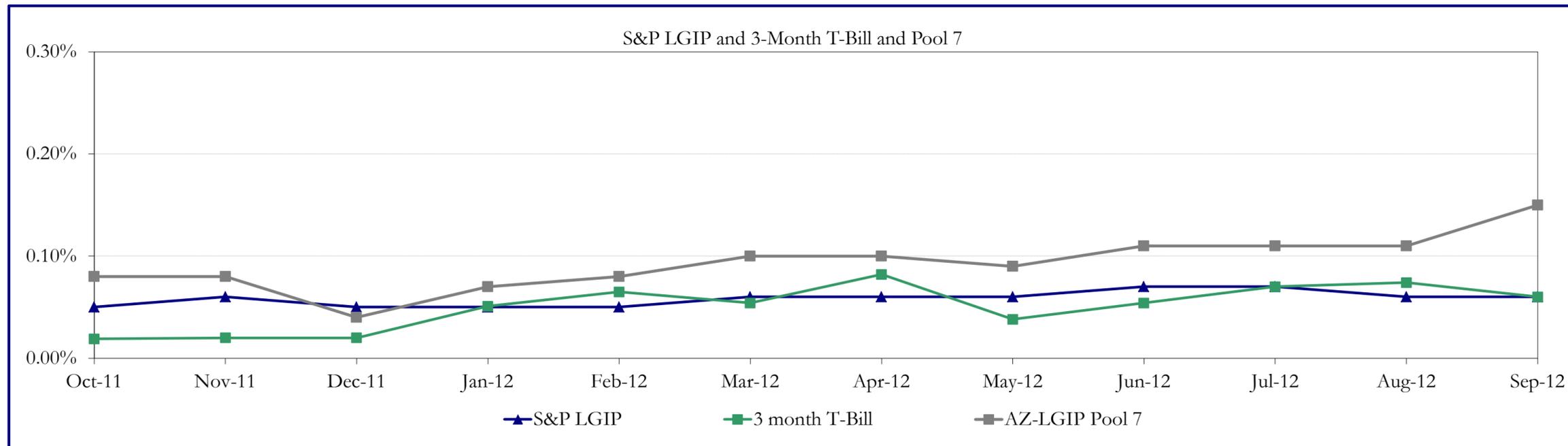


City of Surprise Short-Term Benchmark Comparisons
Trailing 12 Months

Date	S&P LGIP	AZ-LGIP Pool 7 ¹	3 month Treasury Bill ²
Oct-11	0.05%	0.08%	0.02%
Nov-11	0.06%	0.08%	0.02%
Dec-11	0.05%	0.04%	0.02%
Jan-12	0.05%	0.07%	0.05%
Feb-12	0.05%	0.08%	0.07%
Mar-12	0.06%	0.10%	0.05%
Apr-12	0.06%	0.10%	0.08%
May-12	0.06%	0.09%	0.04%
Jun-12	0.07%	0.11%	0.05%
Jul-12	0.07%	0.11%	0.07%
Aug-12	0.06%	0.11%	0.07%
Sep-12	0.06%	0.15%	0.06%

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. Source: Bloomberg.



City of Surprise Holdings
Quarter Ended September 30, 2012

Operating Funds Investment Inventory by Maturity Date

Issuer	Maturity	Years to Maturity	Fair Value	Yield to Maturity	Next Call Date	Frequency
Wells Fargo MMF	9/30/2012	0.00	\$281,271	0.01%		
CDARS	8/15/2013	0.88	\$5,000,000	0.51%		
FNMA	9/23/2013	0.98	\$5,037,580	0.73%		
U.S. Treasury	10/31/2013	1.08	\$3,760,507	0.27%		
U.S. Treasury	10/31/2013	1.08	\$1,669,624	0.29%		
U.S. Treasury	11/15/2013	1.13	\$3,100,138	0.81%		
FHLMC	12/23/2013	1.23	\$2,511,215	0.48%		
U.S. Treasury	12/31/2013	1.25	\$2,489,430	0.24%		
U.S. Treasury	12/31/2013	1.25	\$3,041,788	0.26%		
U.S. Treasury	2/15/2014	1.38	\$2,487,592	0.30%		
FNMA	2/27/2014	1.41	\$1,238,982	0.44%		
FNMA	2/27/2014	1.41	\$3,884,513	0.55%		
FHLMC	8/27/2014	1.91	\$1,014,070	0.94%		
FHLMC	8/27/2014	1.91	\$1,257,447	0.54%		
FHLMC	8/27/2014	1.91	\$2,535,175	0.52%		
FNMA	8/28/2014	1.91	\$3,902,815	0.64%		
FNMA	10/30/2014	2.08	\$3,754,185	0.49%		
U.S. Treasury	12/15/2014	2.21	\$1,099,743	0.39%		
FHLMC	12/29/2014	2.25	\$3,018,423	0.66%		
U.S. Treasury	1/31/2015	2.33	\$2,447,495	0.40%		
U.S. Treasury	1/31/2015	2.33	\$2,405,657	0.38%		
U.S. Treasury	2/15/2015	2.38	\$2,491,270	0.37%		
U.S. Treasury	2/15/2015	2.38	\$2,447,755	0.33%		
U.S. Treasury	2/28/2015	2.41	\$808,740	0.51%		
U.S. Treasury	5/15/2015	2.63	\$1,974,080	0.28%		
U.S. Treasury	5/15/2015	2.63	\$1,099,766	0.33%		
FNMA	5/27/2015	2.66	\$1,329,102	0.59%		
U.S. Treasury	6/30/2015	2.75	\$2,420,050	0.43%		
AZ Municipal	7/1/2015	2.75	\$875,505	0.77%		
U.S. Treasury	7/31/2015	2.83	\$2,575,547	0.41%		
U.S. Treasury	7/31/2015	2.83	\$1,873,125	0.34%		
FNMA	8/7/2015	2.85	\$2,498,433	0.51%	8/7/13	Quarterly
Total Market Value			\$ 76,331,023			

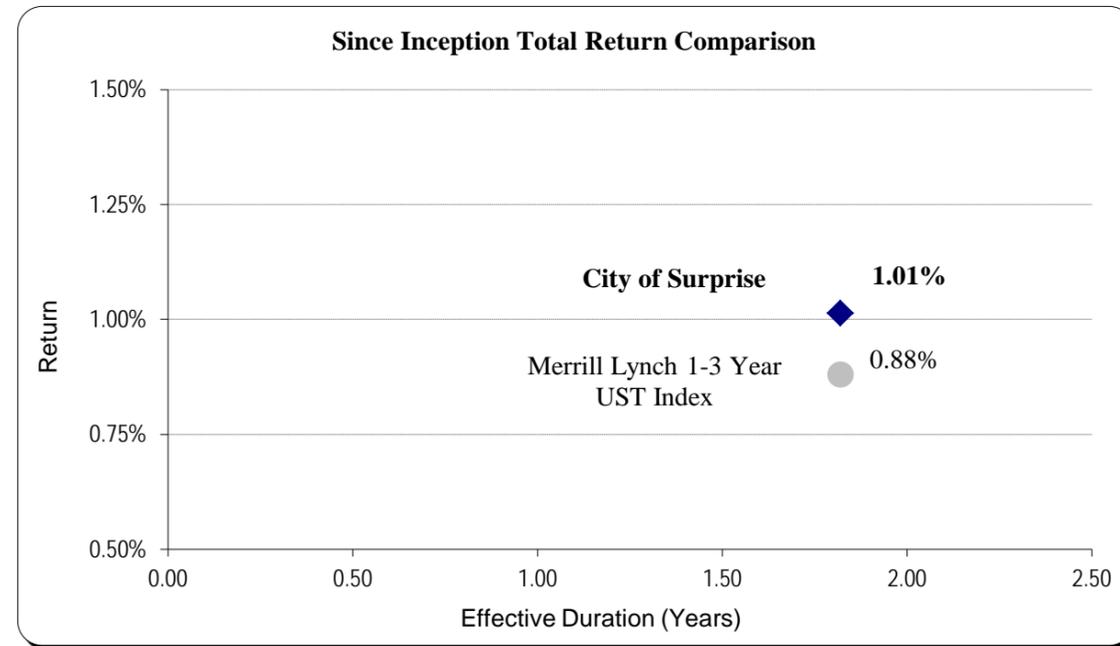
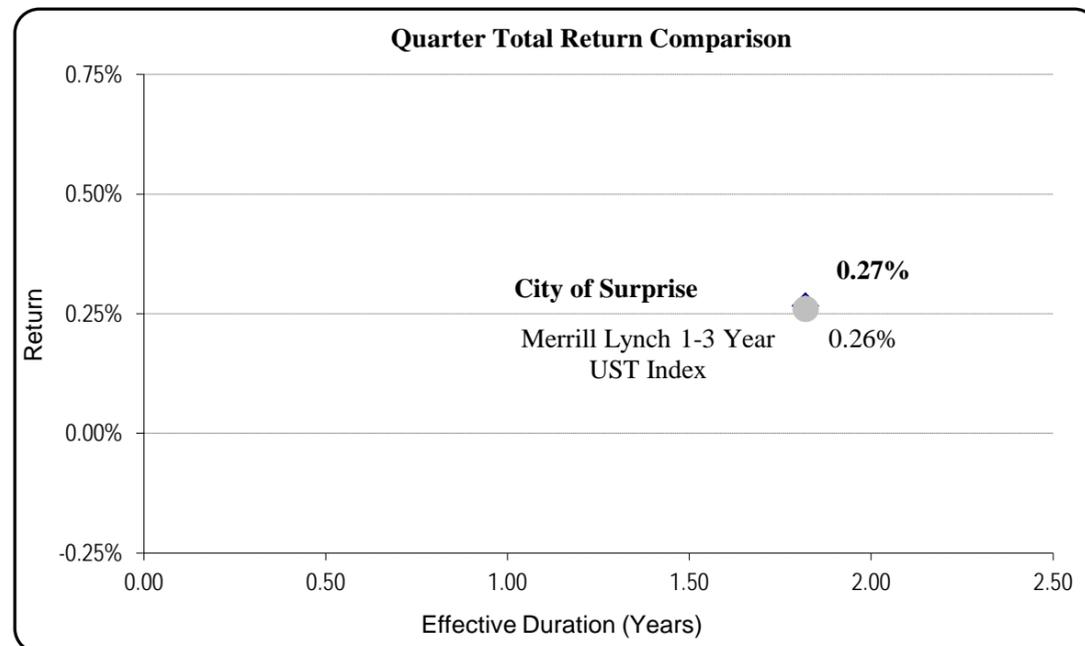
City of Surprise Quarterly Performance

Quarter Ended September 30, 2012

Portfolio Performance

Total Return ^{1,2,3,5}	Quarter Ended September 30, 2012	Past 6 Months	Past 1 Year	Past 2 Years	Since Inception
City of Surprise	0.27%	0.49%	0.89%	1.01%	1.22%
Merrill Lynch 1-3 Year UST In	0.26%	0.45%	0.56%	0.88%	1.06%

Effective Duration ⁴	September 30, 2012	June 30, 2012	Yields	September 30, 2012	June 30, 2012
City of Surprise	1.82	1.77	Yield at Market	0.27%	0.36%
Merrill Lynch 1-3 Year UST In	1.82	1.83	Yield on Cost	0.48%	0.52%



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 and CDARS/NOW Account in duration and performance computations.
5. Inception date is June 16, 2010.

Treasury Agency Yield Spreads At Very Narrow Levels

- The difference in yield (spread) between Treasuries and Agencies is at historically low levels due in part to the wind down of Fannie Mae and Freddie Mac reducing supply.



Source: Bloomberg

Increased Allocation to Treasury Sector

- Narrow spreads favor swapping from Agencies to Treasuries:
 - Capitalize on value appreciation
 - Positions the portfolio optimally for spread widening
 - Avoids investment in sectors in which investors are not being compensated adequately for risk
- Trades also maintained portfolio's duration relative to the benchmark
- Swapped from the Agency sector into the Treasury sector
- Concentrated investment of new funds in the Treasury sector

Treasury Sector Swaps

- Trades resulted in an average yield pick-up of 0.12% and extending the portfolio's duration by an average of 1.79 years

Trade Date	Trade Type	Security	Par (millions)	Maturity	Yield	Gain on Sale
8/1/12	Buy	U.S. Treasury Notes	\$1.795	5/15/15	0.28%	-
8/1/12	Sell	FFCB Notes (Floating)	\$2.00	9/16/13	0.20%	\$4,118
8/21/12	Buy	U.S. Treasury Notes	\$2.475	7/31/15	0.41%	-
8/21/12	Sell	FHLB Notes	\$2.58	8/28/13	0.24%	\$131
9/6/12	Buy	U.S. Treasury Notes	\$1.00	5/15/15	0.33%	-
9/6/12	Buy	U.S. Treasury Notes	\$1.80	7/31/15	0.34%	-
9/6/12	Sell	FFCB Notes (Floating)	\$3.00	9/16/13	0.24%	\$5,280

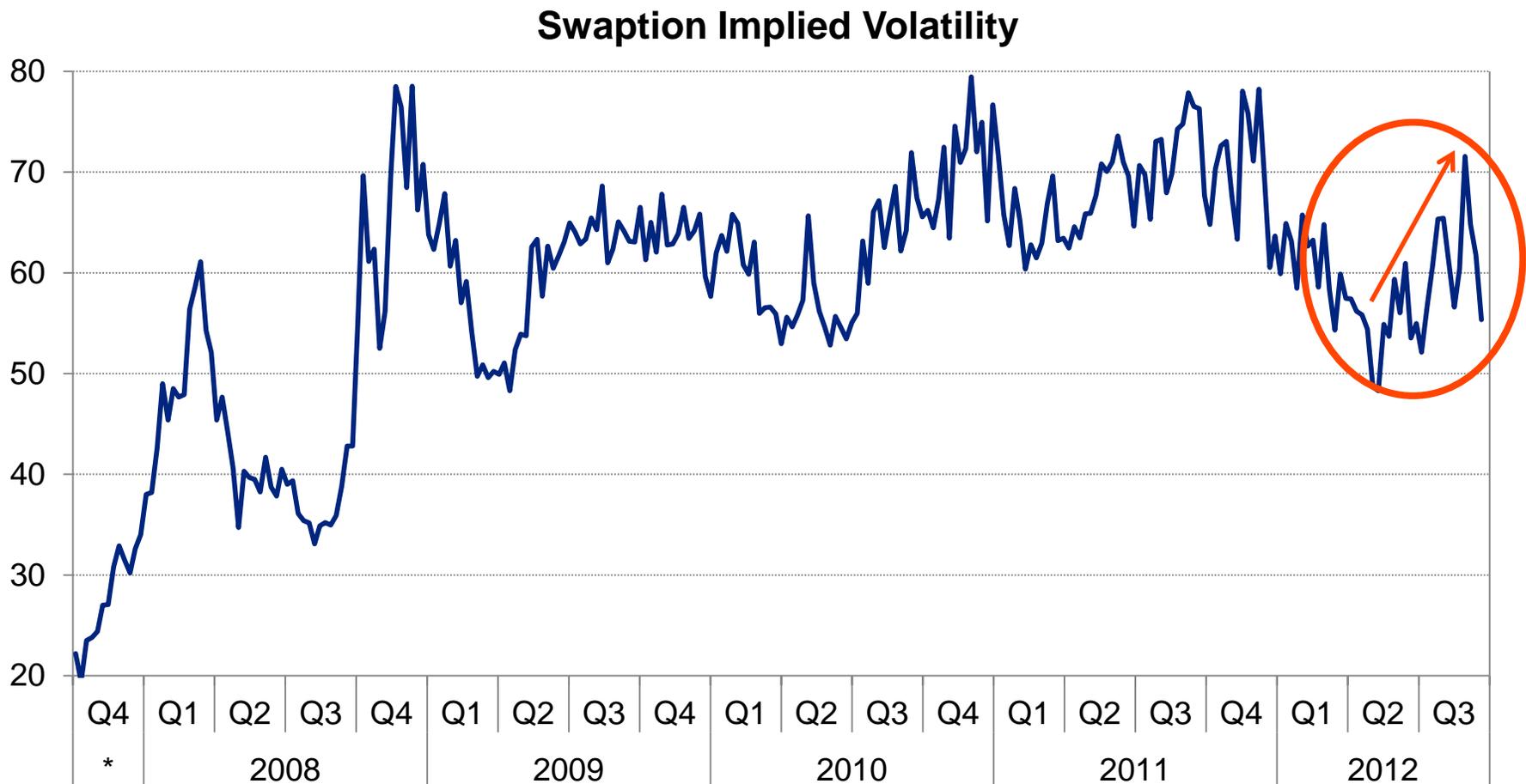
New Portfolio Funds Investment

- During the quarter the City invested \$15 million of maturing CDARs proceeds in the portfolio.
- Average yield of new investments was 0.33%

Trade Date	Trade Type	Security	Par (millions)	Maturity	Yield
7/5/12	Buy	U.S. Treasury Notes	\$2.365	2/15/14	0.30%
7/5/12	Buy	U.S. Treasury Notes	\$2.29	2/15/15	0.37%
8/7/12	Buy	FNMA Notes (Callable quarterly after 8/17/13)	\$2.50	8/7/15	0.51%
8/8/12	Buy	FHLB Notes	\$2.58	8/28/13	0.24%
8/8/12	Buy	U.S. Treasury Notes	\$2.25	2/15/15	0.33%
8/8/12	Buy	U.S. Treasury Notes	\$2.45	12/31/13	0.24%

Volatility Spike Provides Opportunity in Callables

- Increased volatility results in significant price variances in the callable sector. Pricing dislocations offer strategic opportunities.
- Careful selection and analysis is required when utilizing callables.



Source: Bloomberg

New Callable Purchase

Trade Date	Trade Type	Security	Par (millions)	Maturity	Yield
8/7/12	Buy	FNMA Notes (Callable quarterly after 8/17/13)	\$2.50	8/7/15	0.51%

OPTION-ADJUSTED SPREAD ANALYSIS
 FANNIE MAE FNMA 0 1/2 15-13 100.000/100.000 (0.50/0.50) TRAC

Calculate **Price** **OAS (bp)** **Volatility**
 (P,0,V) P) 99.99000 0) + 7.90 V) 57.52

Cusip / ID# 3135GONG4 Option Px Value: 0.19
 Settle 8/ 7/2012 Bench settle 10/17/2012 Vega: 0.00
 Spread 23.7bp vs2Y T 0 1/4 09/30/14 Govt@99-31 (0.266)

2) Customize
 Curve CMT Semi
 Const. Mty Tsy Cu
 Dated 10/16/2012
 Settle 8/ 7/2012

Shift +0(bps)
 Yield Spread

	OAS Method	Option Free	To Call on 8/ 7/2013	To Mty
Yld		0.438	0.510	0.503
Sprd		7.8	34.2	14.3
M Dur	1.85		1.00	2.97
Risk	1.85		1.00	2.97
Cnvx	-2.58		0.01	0.10

3) Call Schedule

Date	Yield
8/ 7/13	100.00
11/ 7/13	100.00
2/ 7/14	100.00
5/ 7/14	100.00
8/ 7/14	100.00
11/ 7/14	100.00
2/ 7/15	100.00
5/ 7/15	100.00

Model L=Lognormal
 Exercise Premium 0.00

3m 0.083
 6m 0.145
 1y 0.168
 2y 0.271
 3y 0.360
 4y 0.530
 5y 0.698
 7y 1.144
 10y 1.751
 20y 2.332
 30y 2.913

88) REFRESH

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2012 Bloomberg Finance L.P.
 SN 867297 EDT GMT-4:00 6531-1121-0 16-Oct-2012 19:41:24



Managed Account Detail of Securities Held

For the Month Ending **September 30, 2012**

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 10/31/2008 2.750% 10/31/2013	912828JQ4	1,625,000.00	AA+	Aaa	05/21/12	05/22/12	1,682,509.76	0.29	18,700.75	1,668,207.97	1,669,624.02
US TREASURY NOTES DTD 10/31/2008 2.750% 10/31/2013	912828JQ4	3,660,000.00	AA+	Aaa	02/10/12	02/13/12	3,814,692.19	0.27	42,119.84	3,757,835.13	3,760,507.03
US TREASURY NOTES DTD 11/15/2010 0.500% 11/15/2013	912828PU8	3,090,000.00	AA+	Aaa	12/01/10	12/02/10	3,062,117.58	0.81	5,835.73	3,079,327.29	3,100,138.29
US TREASURY NOTES DTD 12/31/2008 1.500% 12/31/2013	912828JW1	2,450,000.00	AA+	Aaa	08/08/12	08/09/12	2,492,779.30	0.24	9,287.36	2,488,356.83	2,489,430.30
US TREASURY N/B DTD 01/03/2012 0.125% 12/31/2013	912828RW2	3,045,000.00	AA+	Aaa	01/05/12	01/09/12	3,036,792.77	0.26	961.91	3,039,812.99	3,041,787.53
US TREASURY NOTES DTD 02/17/2004 4.000% 02/15/2014	912828CA6	2,365,000.00	AA+	Aaa	07/05/12	07/06/12	2,505,606.64	0.30	12,082.07	2,484,895.16	2,487,591.99
US TREASURY NOTES DTD 12/15/2011 0.250% 12/15/2014	912828RV4	1,100,000.00	AA+	Aaa	01/05/12	01/09/12	1,095,445.31	0.39	811.48	1,096,569.86	1,099,742.60
US TREASURY NOTES DTD 02/01/2010 2.250% 01/31/2015	912828MH0	2,300,000.00	AA+	Aaa	06/28/12	06/29/12	2,410,777.34	0.38	8,718.75	2,399,849.33	2,405,657.40
US TREASURY NOTES DTD 02/01/2010 2.250% 01/31/2015	912828MH0	2,340,000.00	AA+	Aaa	01/23/12	01/26/12	2,469,522.66	0.40	8,870.38	2,440,340.07	2,447,494.92
US TREASURY NOTES DTD 02/15/2005 4.000% 02/15/2015	912828DM9	2,250,000.00	AA+	Aaa	08/08/12	08/09/12	2,456,542.97	0.33	11,494.57	2,444,748.93	2,447,754.75
US TREASURY NOTES DTD 02/15/2005 4.000% 02/15/2015	912828DM9	2,290,000.00	AA+	Aaa	07/05/12	07/06/12	2,505,760.94	0.37	11,698.91	2,486,202.96	2,491,270.39
US TREASURY NOTES DTD 03/01/2010 2.375% 02/28/2015	912828MR8	770,000.00	AA+	Aaa	03/13/12	03/14/12	812,109.37	0.51	1,566.06	804,371.79	808,740.24
US TREASURY NOTES DTD 05/16/2005 4.125% 05/15/2015	912828DV9	1,000,000.00	AA+	Aaa	09/06/12	09/10/12	1,101,171.88	0.33	15,580.84	1,099,027.11	1,099,766.00
US TREASURY NOTES DTD 05/16/2005 4.125% 05/15/2015	912828DV9	1,795,000.00	AA+	Aaa	08/01/12	08/02/12	1,986,139.45	0.28	27,967.61	1,974,993.75	1,974,079.97



Managed Account Detail of Securities Held

For the Month Ending **September 30, 2012**

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 1.875% 06/30/2015	912828NL0	2,320,000.00	AA+	Aaa	06/28/12	06/29/12	2,419,596.88	0.43	10,993.21	2,411,169.55	2,420,050.00
US TREASURY NOTES DTD 08/02/2010 1.750% 07/31/2015	912828NP1	1,800,000.00	AA+	Aaa	09/06/12	09/10/12	1,872,773.44	0.34	5,307.07	1,871,342.21	1,873,125.00
US TREASURY NOTES DTD 08/02/2010 1.750% 07/31/2015	912828NP1	2,475,000.00	AA+	Aaa	08/21/12	08/23/12	2,571,776.37	0.41	7,297.21	2,568,303.22	2,575,546.88
Security Type Sub-Total		36,675,000.00					38,296,114.85	0.37	199,293.75	38,115,354.15	38,192,307.31
Municipal Bond / Note											
MESA, AZ GO BONDS DTD 04/04/2012 2.000% 07/01/2015	590485WN4	845,000.00	AA	Aa2	03/02/12	04/04/12	878,200.05	0.77	4,225.00	873,211.78	875,504.50
Security Type Sub-Total		845,000.00					878,200.05	0.77	4,225.00	873,211.78	875,504.50
Federal Agency Bond / Note											
FANNIE MAE GLOBAL NOTES DTD 08/06/2010 1.000% 09/23/2013	31398A2S0	5,000,000.00	AA+	Aaa	10/12/10	10/13/10	5,038,650.00	0.73	1,111.11	5,012,928.30	5,037,580.00
FHLMC NOTES DTD 11/18/2011 0.625% 12/23/2013	3134G3BF6	2,500,000.00	AA+	Aaa	12/19/11	12/20/11	2,507,025.00	0.48	4,253.47	2,504,302.20	2,511,215.00
FNMA GLOBAL NOTES DTD 02/01/2011 1.250% 02/27/2014	3135G0AP8	1,220,000.00	AA+	Aaa	08/15/11	08/15/11	1,244,900.20	0.44	1,440.28	1,233,848.85	1,238,981.98
FNMA GLOBAL NOTES DTD 02/01/2011 1.250% 02/27/2014	3135G0AP8	3,825,000.00	AA+	Aaa	10/03/11	10/04/11	3,889,068.75	0.55	4,515.63	3,862,667.03	3,884,513.18
FHLMC NOTES DTD 07/05/2011 1.000% 08/27/2014	3137EACV9	1,000,000.00	AA+	Aaa	07/19/11	07/20/11	1,001,860.00	0.94	944.44	1,001,147.67	1,014,070.00
FHLMC NOTES DTD 07/05/2011 1.000% 08/27/2014	3137EACV9	1,240,000.00	AA+	Aaa	08/26/11	08/29/11	1,257,099.60	0.54	1,171.11	1,250,912.68	1,257,446.80
FHLMC NOTES DTD 07/05/2011 1.000% 08/27/2014	3137EACV9	2,500,000.00	AA+	Aaa	01/13/12	01/13/12	2,531,275.00	0.52	2,361.11	2,522,770.55	2,535,175.00



Managed Account Detail of Securities Held

For the Month Ending **September 30, 2012**

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											
FNMA NOTES DTD 07/18/2011 0.875% 08/28/2014	3135G0BY8	3,860,000.00	AA+	Aaa	10/03/11	10/04/11	3,885,669.00	0.64	3,096.04	3,876,946.91	3,902,815.12
FANNIE MAE GLOBAL NOTES DTD 09/27/2011 0.625% 10/30/2014	3135G0DW0	3,730,000.00	AA+	Aaa	05/25/12	05/29/12	3,742,495.50	0.49	9,778.30	3,740,755.01	3,754,185.32
FHLMC NOTES DTD 12/16/2011 0.625% 12/29/2014	3137EADA4	3,000,000.00	AA+	Aaa	12/16/11	12/19/11	2,996,850.00	0.66	4,791.67	2,997,658.56	3,018,423.00
FANNIE MAE GLOBAL NOTES DTD 04/19/2012 0.500% 05/27/2015	3135G0KM4	1,325,000.00	AA+	Aaa	04/17/12	04/19/12	1,321,170.75	0.59	2,281.94	1,321,720.74	1,329,102.20
FNMA NOTES (CALLABLE) DTD 08/07/2012 0.500% 08/07/2015	3135G0NG4	2,500,000.00	AA+	Aaa	08/07/12	08/08/12	2,499,375.00	0.51	1,875.00	2,499,405.53	2,498,432.50
Security Type Sub-Total		31,700,000.00					31,915,438.80	0.59	37,620.10	31,825,064.03	31,981,940.10
Managed Account Sub-Total		69,220,000.00					71,089,753.70	0.48	241,138.85	70,813,629.96	71,049,751.91
Securities Sub-Total		\$69,220,000.00					\$71,089,753.70	0.48%	\$241,138.85	\$70,813,629.96	\$71,049,751.91
Accrued Interest											\$241,138.85
Total Investments											\$71,290,890.76



Economic Update

Economic and Market Conditions in Third Quarter

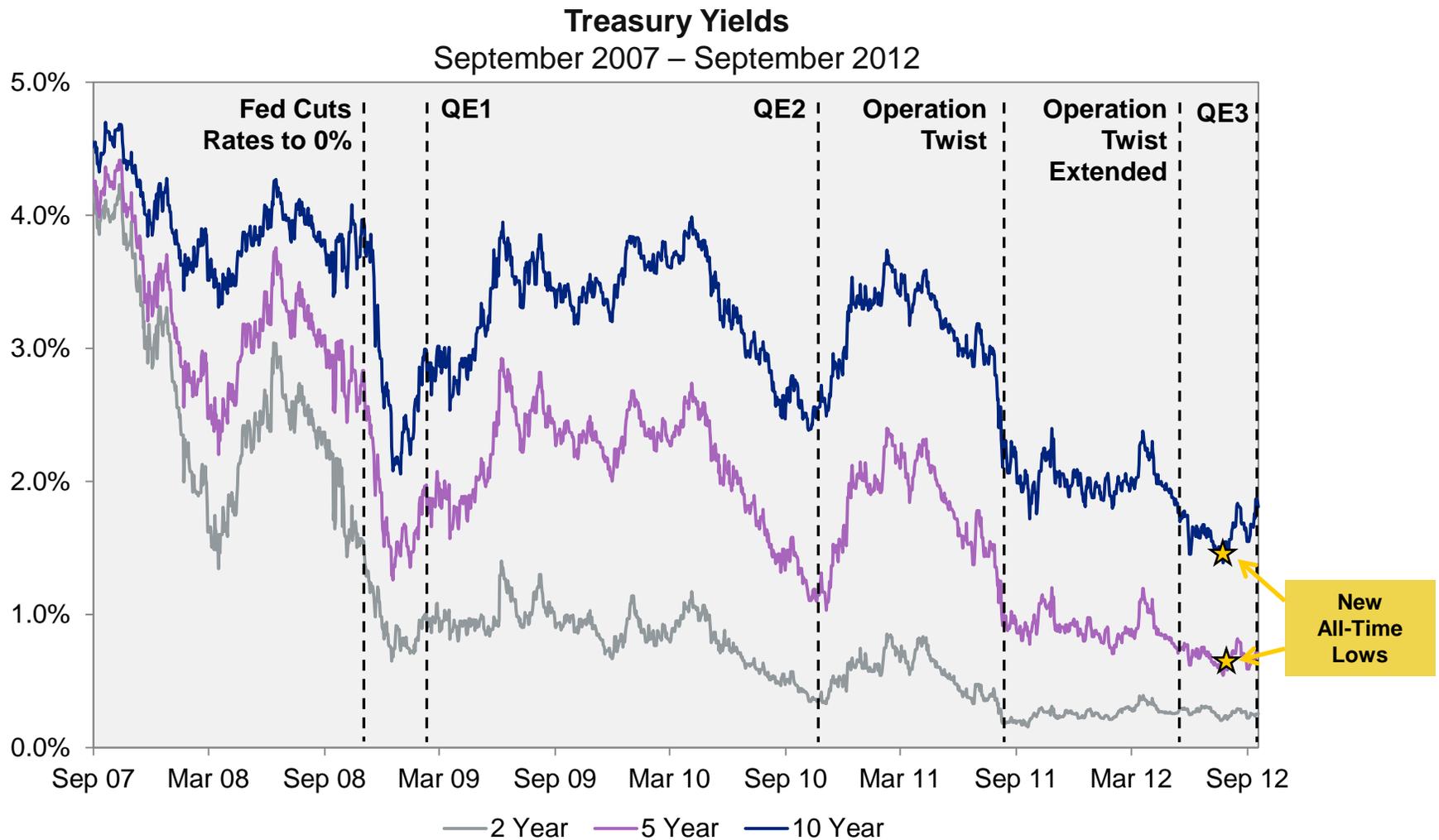
Economic Conditions

- U.S. GDP slowed to 1.3% in the second quarter and is forecast at 1.8% for the third quarter.
- Unemployment fell to 7.8% as a result of decreased workforce participation.
- The U.S. housing market quietly gained momentum.
- The European Central Bank's (ECB) sovereign debt purchase plan calmed markets.
- Global growth slowed, led by Europe and Asia.
- The U.S. economic growth, November election, "fiscal cliff," U.S. debt ceiling, and turmoil in Middle East continue to create uncertainty.

Market Reaction

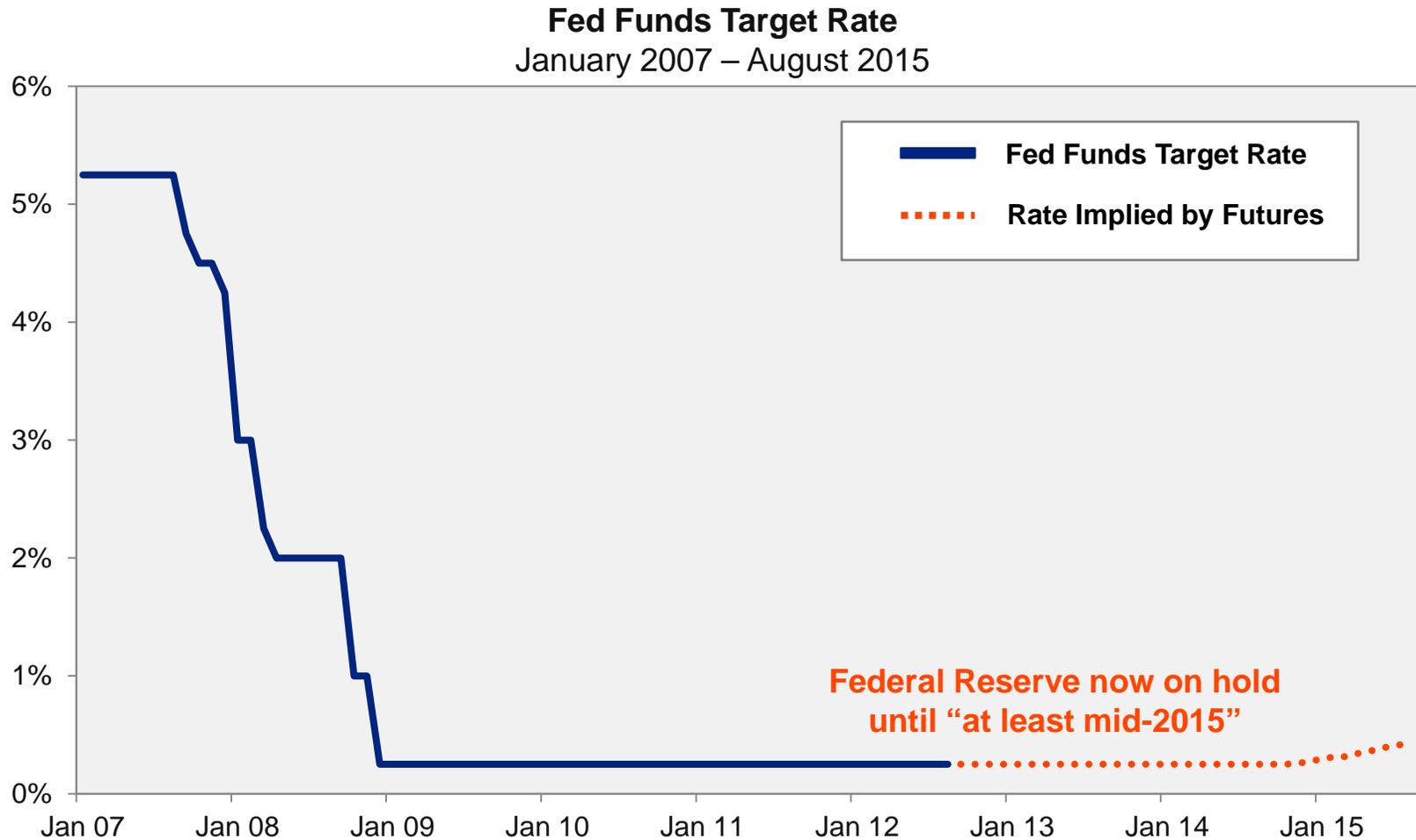
- U.S. Treasury yields plunged to new all-time record lows in July.
- Agency and corporate spreads narrowed sharply by the end of the third quarter after widening in April and May.
- Equity markets fell in the second quarter but rebounded strongly in the third quarter to highest level since 2007.
- Inflation expectations surged on Fed action, but have since moderated.

U.S. Treasury Yields Remain Very Low



Source: Bloomberg

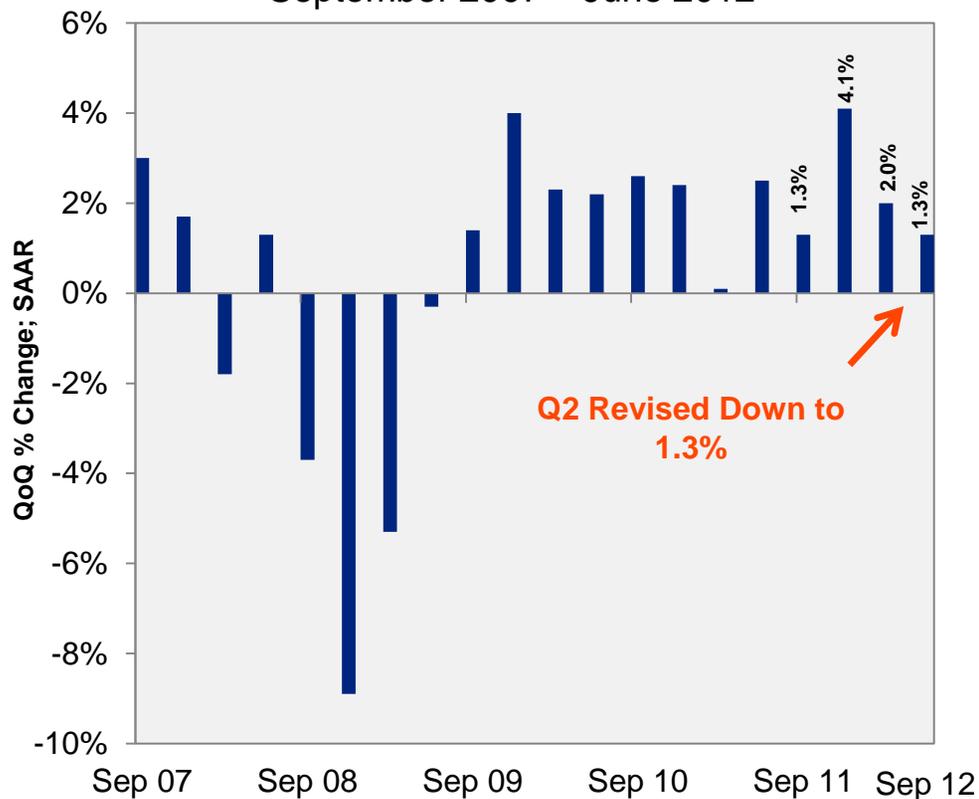
Short-Term Rates Will Remain Low



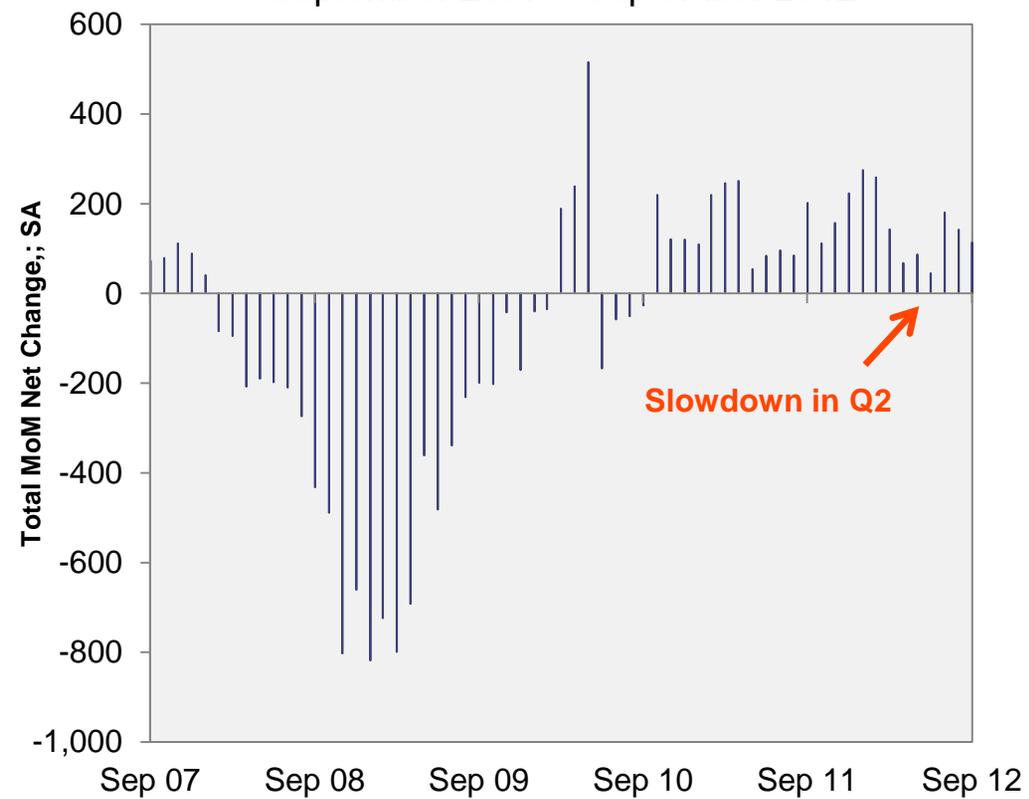
Source: Bloomberg, as of 10/02/12

GDP Growth Is Too Slow to Reduce Joblessness

U.S. Gross Domestic Product
September 2007 – June 2012



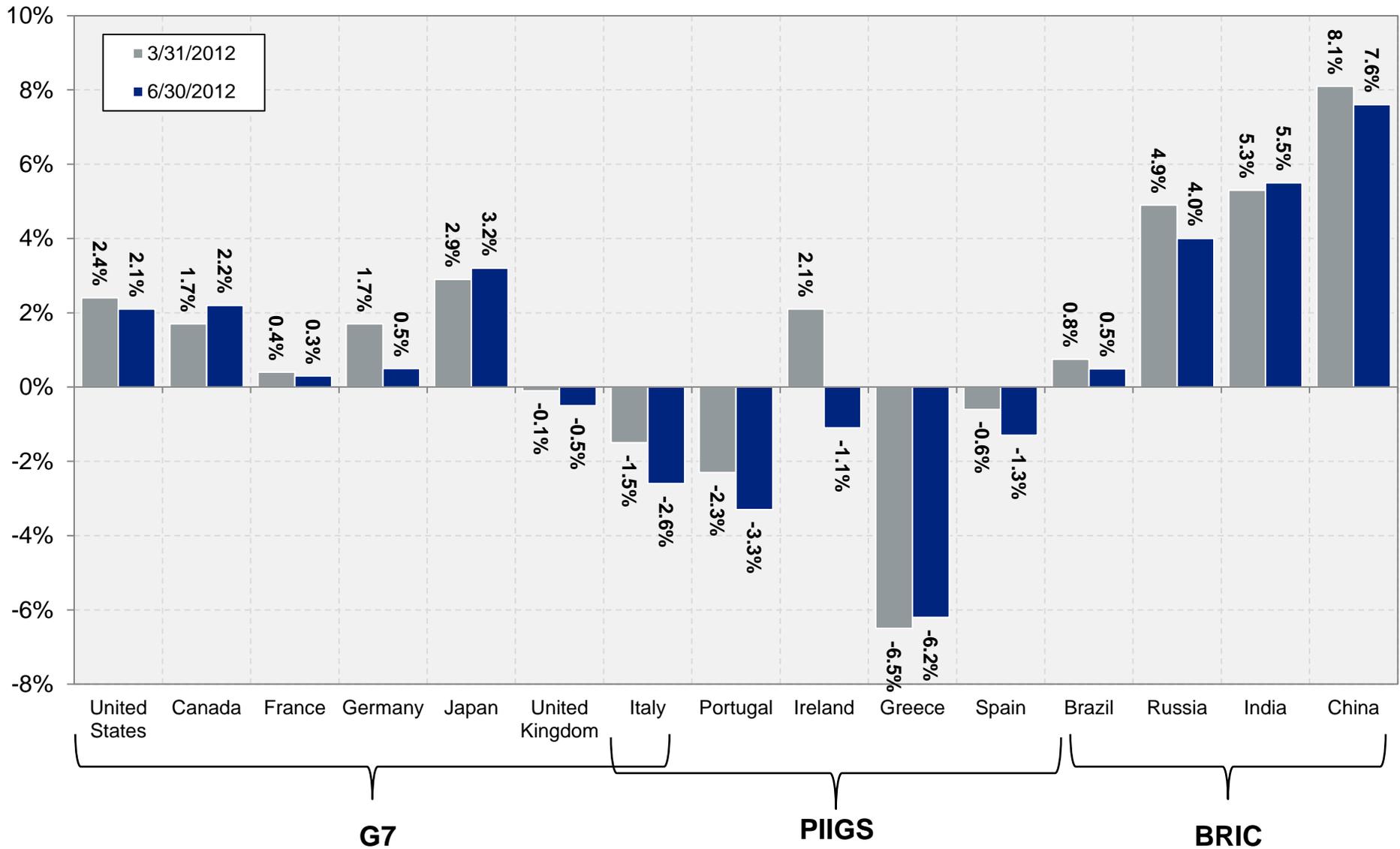
Change in Nonfarm Payrolls
September 2007 – September 2012



Source: Bloomberg

World GDP Growth is Slowing

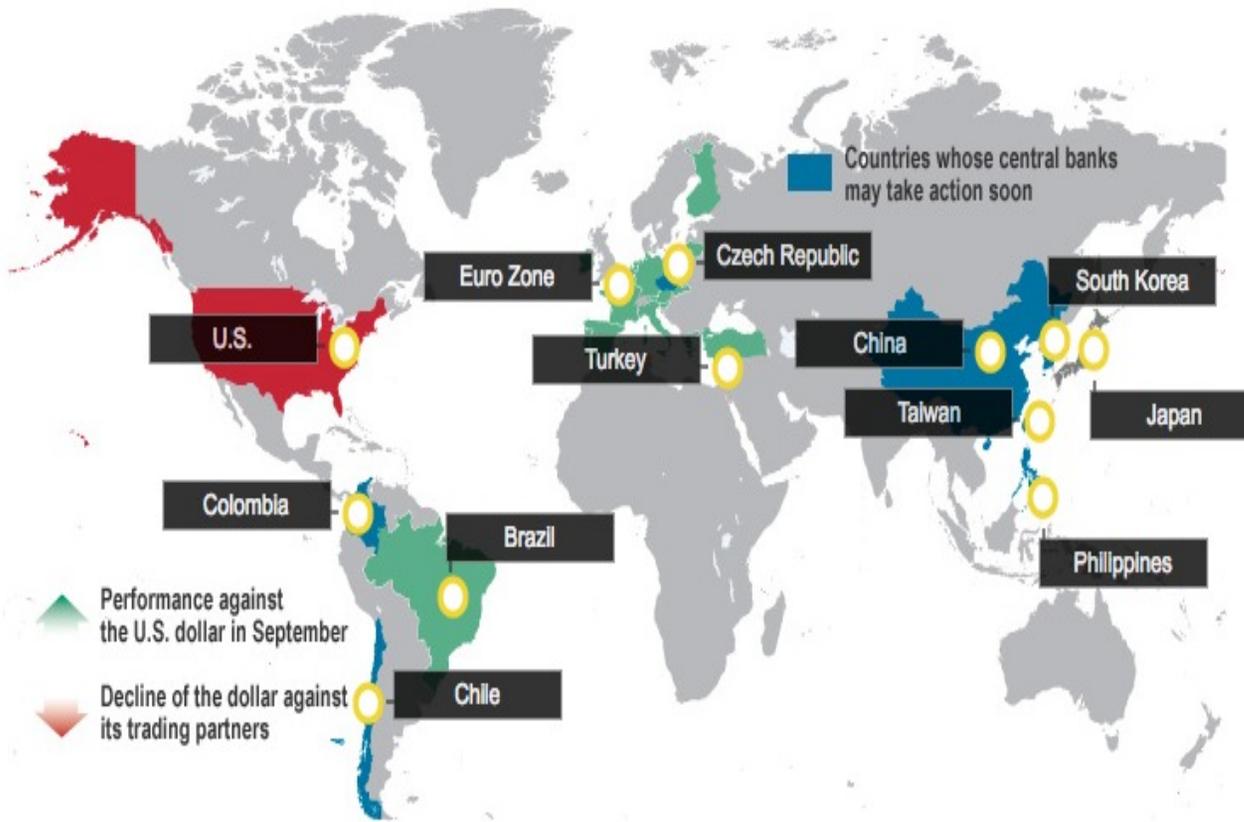
Real Gross Domestic Product YoY



Global Stimulus Efforts

The Big Easing

Central banks around the world are taking steps to ease monetary policy to bolster their economies and push down their currencies.

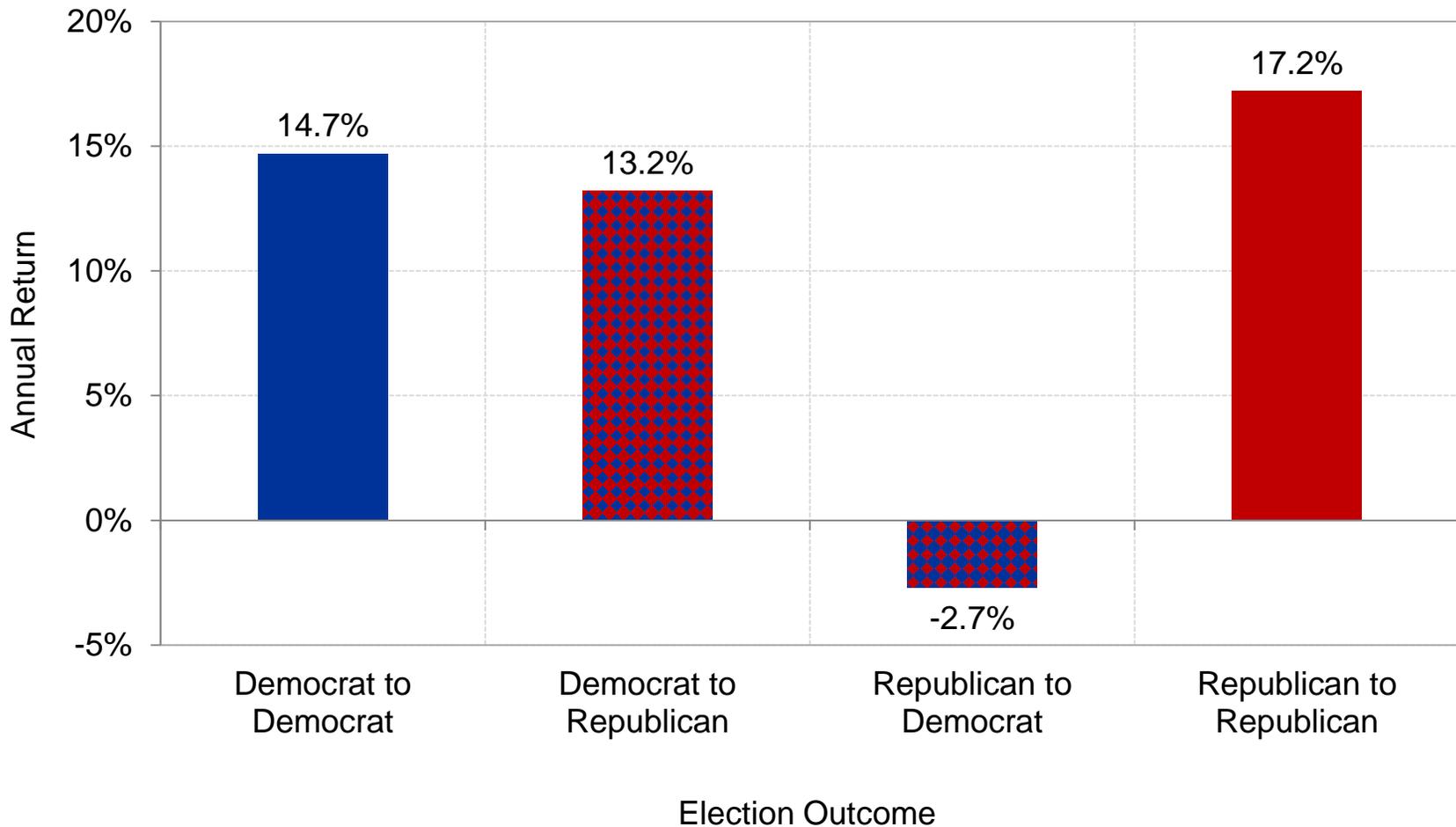


Source: Bloomberg

- ECB announced an unlimited bond-buying program to reduce member borrowing costs.
- Federal Reserve committed to purchasing \$40 billion Agency MBS securities a month.
- China injected \$58 billion into its financial system to stem a potential credit crunch.
- Bank of Japan will purchase \$10 billion in securities to jumpstart flagging economy.
- Quantitative easing lowers interest rates and increases money supply/weakens currency:
 - A weak currency helps increase exports.
 - Lower interest rates encourage investment in riskier sectors.

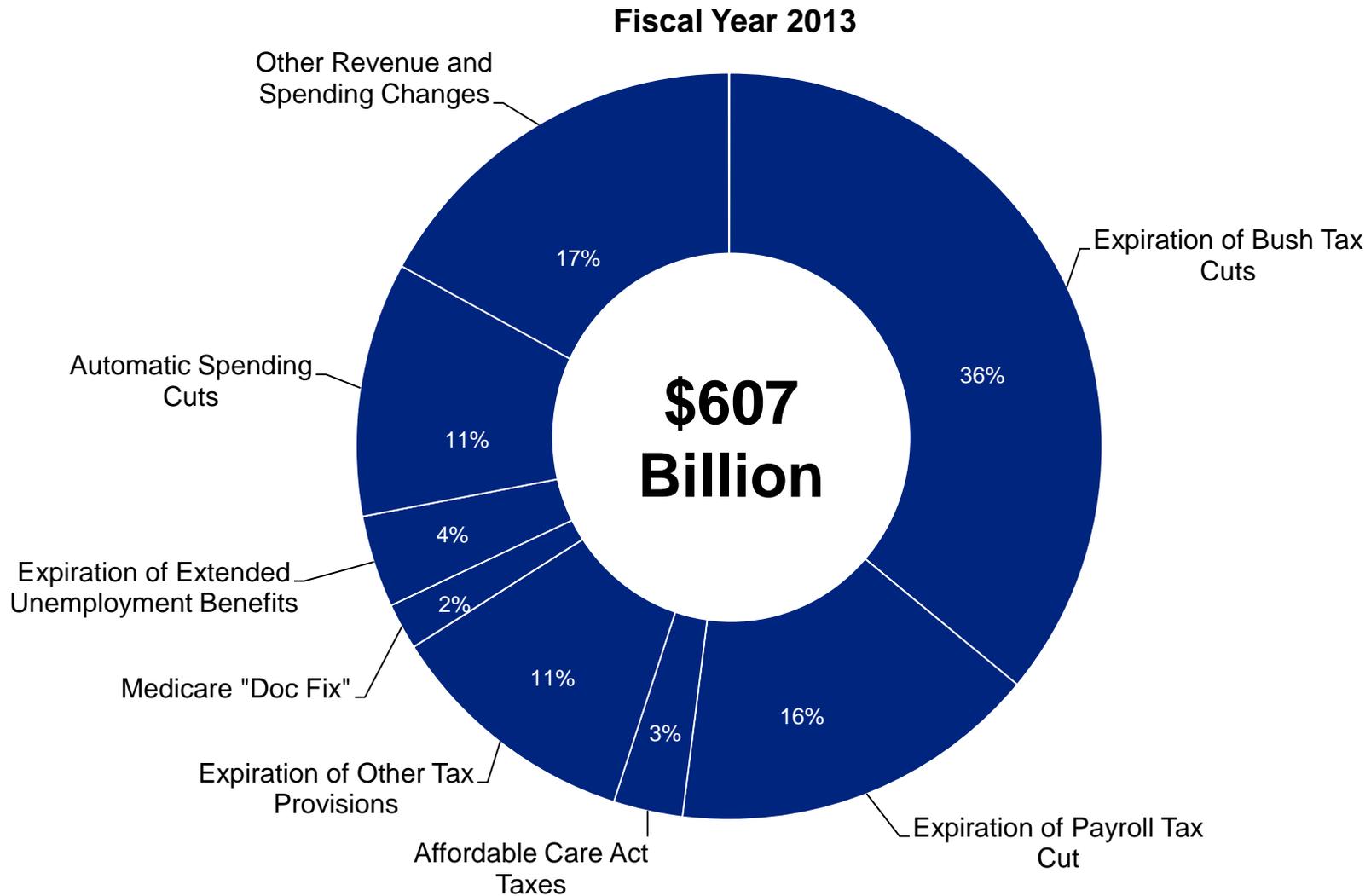
Historical S&P 500 Returns In Election Years

Election Year Returns by Political Continuity



Source: Credit Suisse Quantitative Equity Research

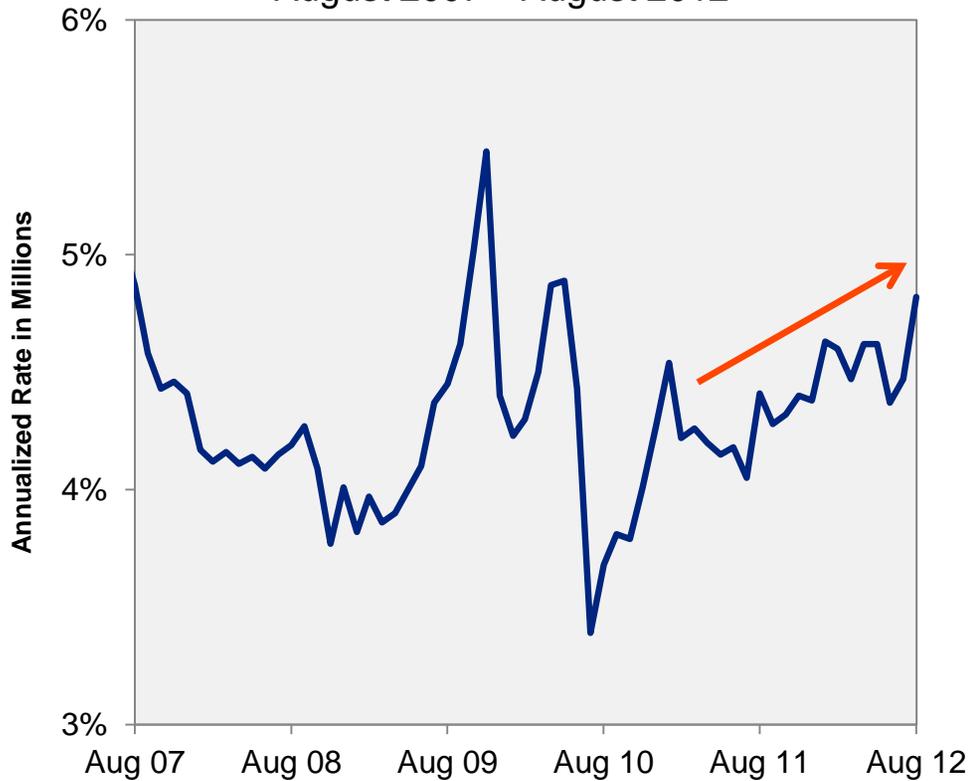
The Looming “Fiscal Cliff” Creates Uncertainty



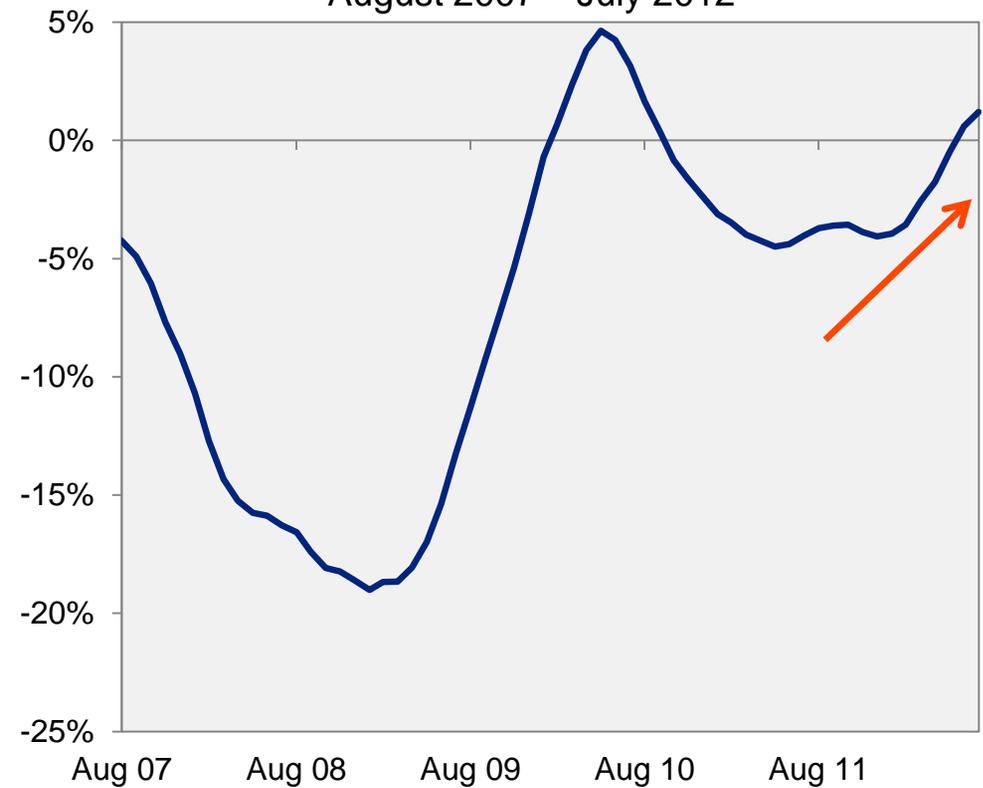
Source: Congressional Budget Office

Housing Market Beginning to Recover

U.S. Existing Home Sales
August 2007 – August 2012



Case-Shiller U.S. Home Price Index YoY
August 2007 – July 2012



Source: Bloomberg

Arizona Retail Sales Continue to Improve

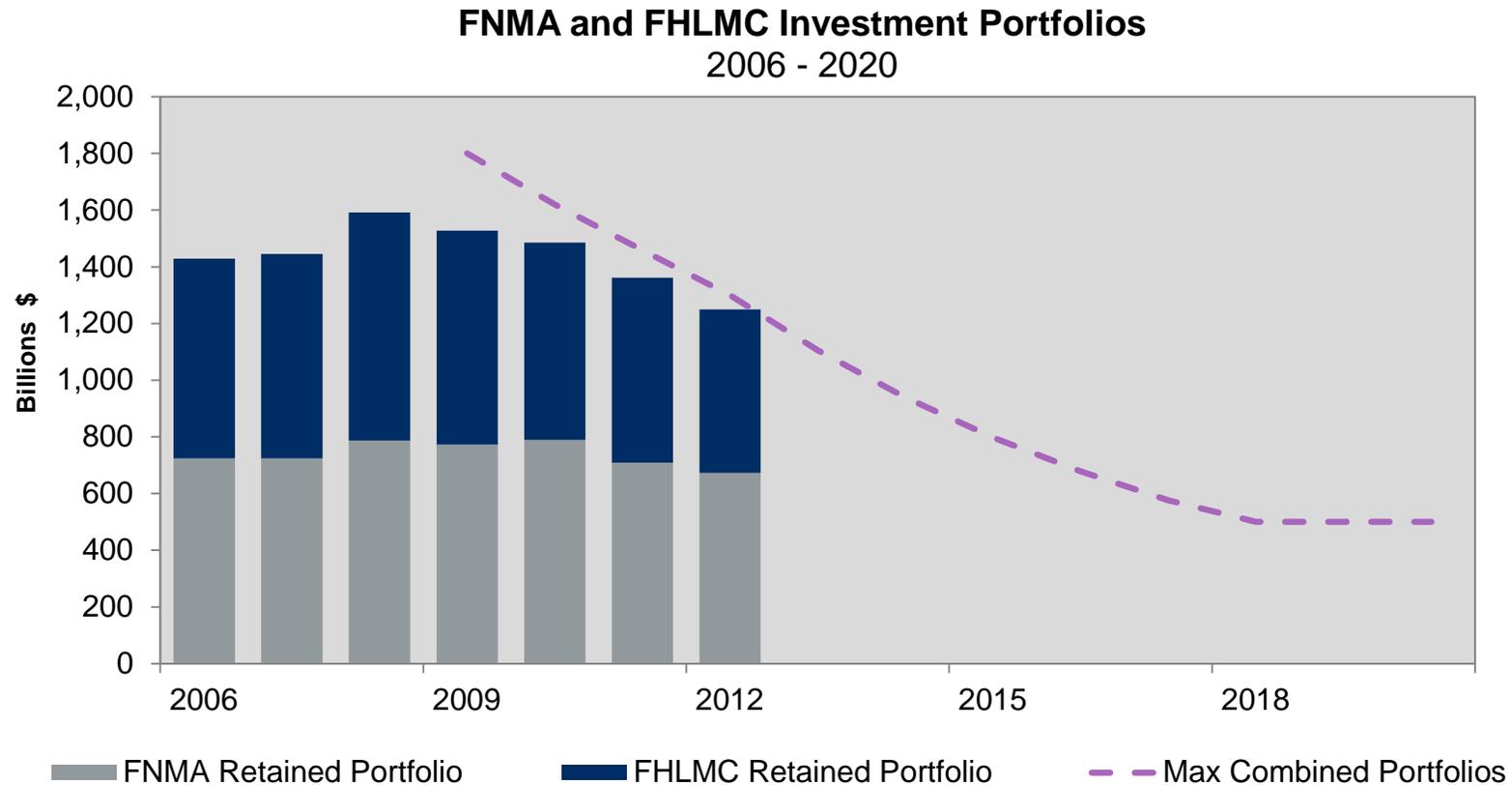
Arizona Retail Sales
(Seasonally and Inflation Adjusted)
2005-2012



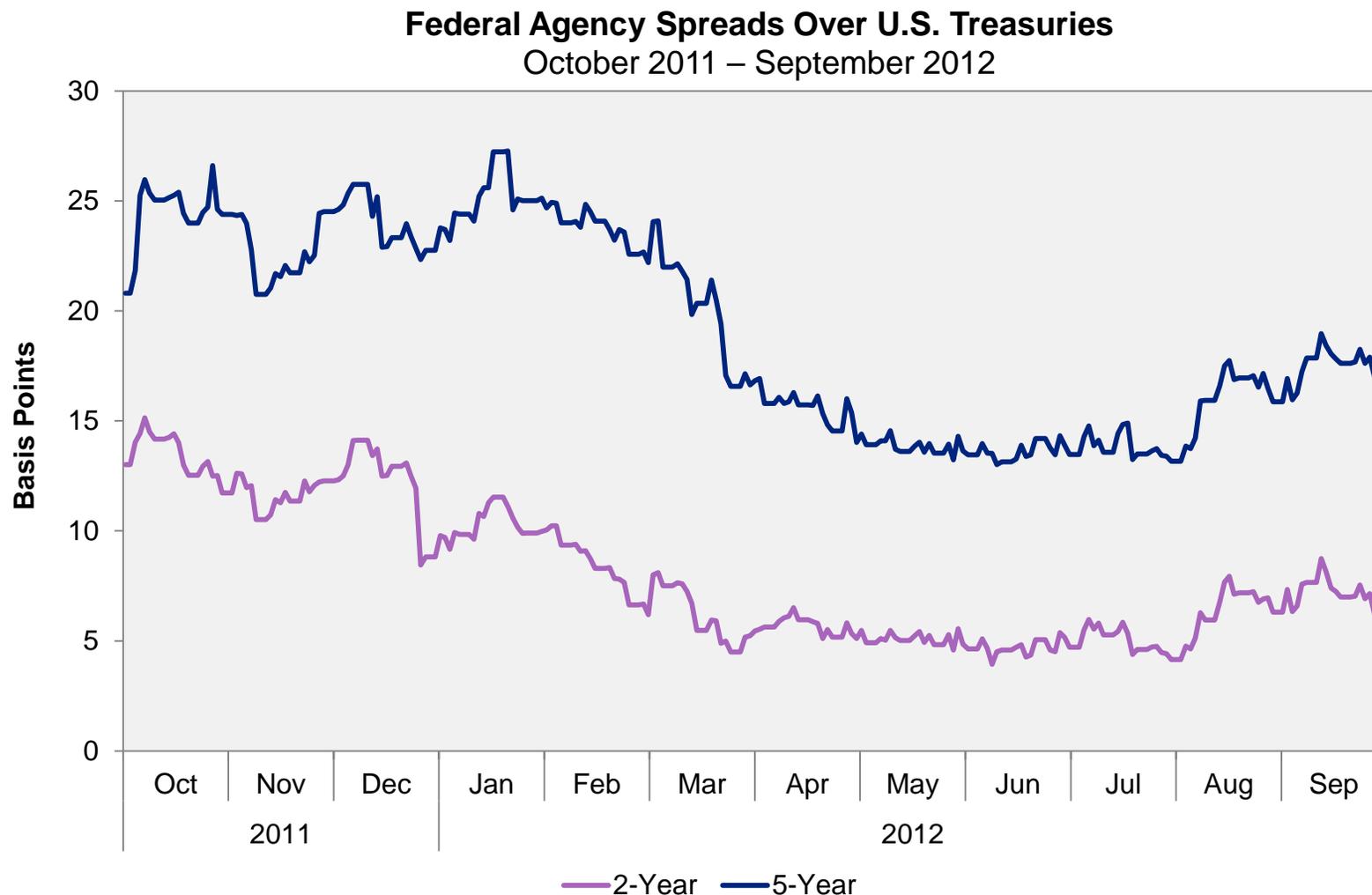
Source: Arizona Department of Revenue and U.S. Bureau of Labor and Statistics

Agency Supply Set to Decline

- On August 17, the Treasury Department mandated that Fannie Mae's and Freddie Mac's maximum allowable retained mortgage portfolio decline by 15% annually until their individual portfolios reach \$250 billion – resulting in a \$1 trillion reduction in Agency Supply over the next 6 years.



Agency Spreads Tighten on Accelerated Wind Down



Source: Bloomberg Fair Value Curve

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