



City of Surprise

Quarterly Performance Review

Fourth Quarter Ended December 31, 2012



The PFM Group

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Summary

- In the fourth quarter, the markets were impacted by U.S. politics and policies—particularly the presidential election, the Federal Reserve's (Fed's) new round of quantitative easing (QE), and "fiscal cliff" negotiations.
- The U.S. housing market continued to show signs of improvement, and the unemployment rate was unchanged for the quarter at 7.8%.
- The domestic economy has seen modest growth over the past year, and while the resolution of the "fiscal cliff" talks has relieved investors, the federal debt ceiling must now be addressed.

Economic Snapshot

- New-home sales in the U.S. rose to their highest level in two-and-a-half years in November, jumping 15.3% higher from where they were a year ago.
- The Consumer Price Index rose 1.8% year over year in November before seasonal adjustment. Wage increases have been subdued as evidenced by the change in hourly earnings, which has averaged less than 2% in recent months.
- Fourth-quarter U.S. gross domestic product (GDP) growth is expected to be in a range of 1% to 2%, which is slower than GDP growth experienced in the third quarter.
- Hurricane Sandy, which blew through the East Coast in October, caused large amounts of damage, closed the markets for two days and depressed economic activity in about a third of the nation.
- European stock markets took an upward turn for the quarter, as the MSCI Europe Index rose 7.02% for the quarter in U.S. dollar terms.

Interest Rates

- Interest rates rose slightly for the quarter across most maturities, while yield spreads on Agencies, corporates, and mortgage-backed securities (MBS) remained narrow.
- Treasury yields fell in the first half of November, but then rose as investors turned away from fixed income to the rallying stock market.
- The Fed announced that it will keep short-term rates at extremely low levels until the unemployment rate falls below 6.5%, and the prospect remains for long-run inflation to stay below 2.5%. The Fed also initiated further QE with an open-ended program to buy \$45 billion in Treasuries each month in addition to its monthly purchases of \$40 billion in Agency mortgage-backed securities.

Sector Performance

- Returns of high-quality corporate bonds (especially Financials) performed well for the quarter, as these issuers continued to be bolstered by global central bank support for financial markets. Security selection has been especially important when purchasing corporates.
- The Fed's QE3 purchase program initially caused Agency MBS to appreciate sharply on value, but that quickly reversed and Agency MBS underperformed other fixed-income sectors for the quarter.
- Municipal bonds struggled in the fourth quarter, as investors were uncertain whether their tax-exempt status would be changed as part of a "fiscal cliff" deal.
- Supply reductions kept Agency spreads at historically tight levels, and Agencies became relatively less attractive over the quarter.

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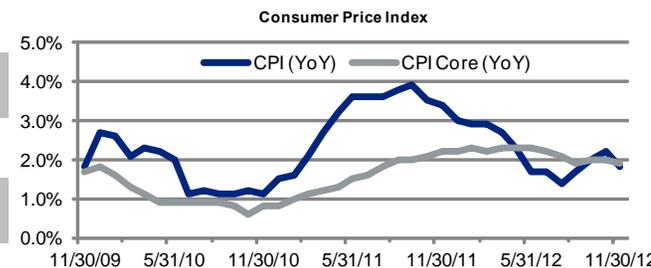
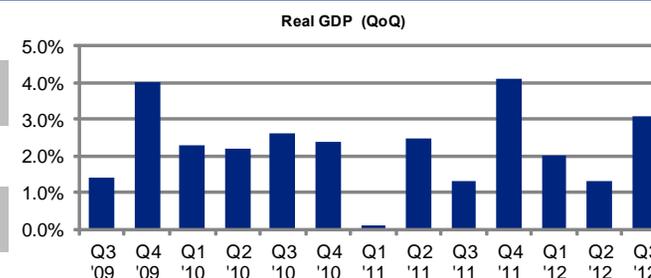
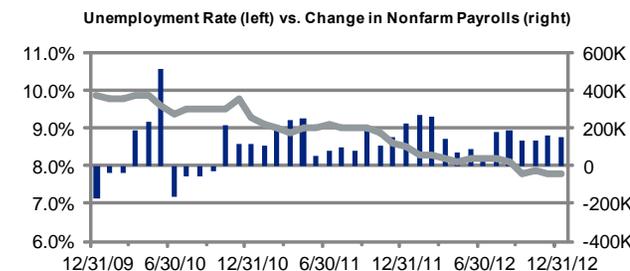


Economic Snapshot

Labor Market		Latest	Sep 2012	Dec 2011
Unemployment Rate	Dec	7.8%	7.8%	8.5%
Change In Non-Farm Payrolls	Dec	155,000	132,000	223,000
Average Hourly Earnings (YoY)	Dec	2.1%	1.9%	2.1%
Personal Income (YoY)	Nov	4.1%	3.5%	3.6%
Initial Jobless Claims	Dec 28	372,000	369,000	383,000

Growth		Latest	Sep 2012	Dec 2011
Real GDP (QoQ SAAR)	Q3	3.1%	1.3% ¹	4.1% ²
GDP Personal Consumption (QoQ SAAR)	Q3	1.6%	1.5% ¹	2.0% ²
Retail Sales (YoY)	Nov	3.7%	5.4%	6.8%
ISM Manufacturing Survey	Dec	50.7	51.5	53.1
Existing Home Sales (millions)	Nov	5.04	4.69	4.38

Inflation / Prices		Latest	Sep 2012	Dec 2011
Personal Consumption Expenditures (YoY)	Nov	1.4%	1.6%	2.4%
Consumer Price Index (YoY)	Nov	1.8%	2.0%	3.0%
Consumer Price Index Core (YoY)	Nov	1.5%	2.1%	4.7%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$91.82	\$92.19	\$98.83
Gold Futures (oz)	Dec 31	\$1,676	\$1,771	\$1,567



1. Data as of Second Quarter 2012 2. Data as of Fourth Quarter 2011

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

Source: Bloomberg

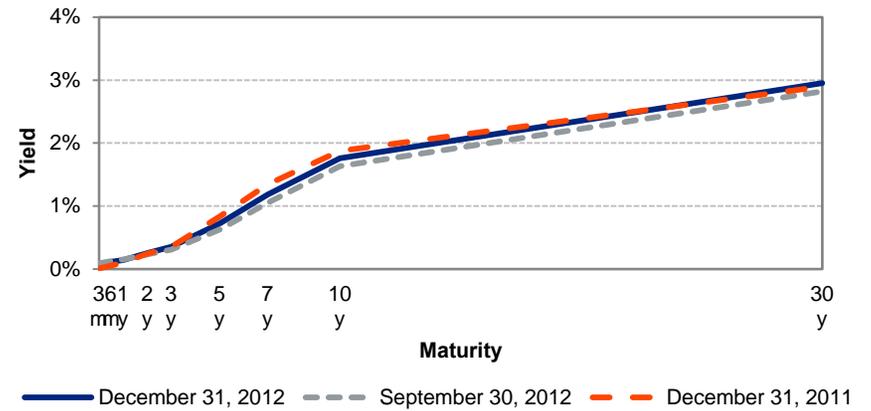


Interest Rate Overview

U.S. Treasury Note Yields

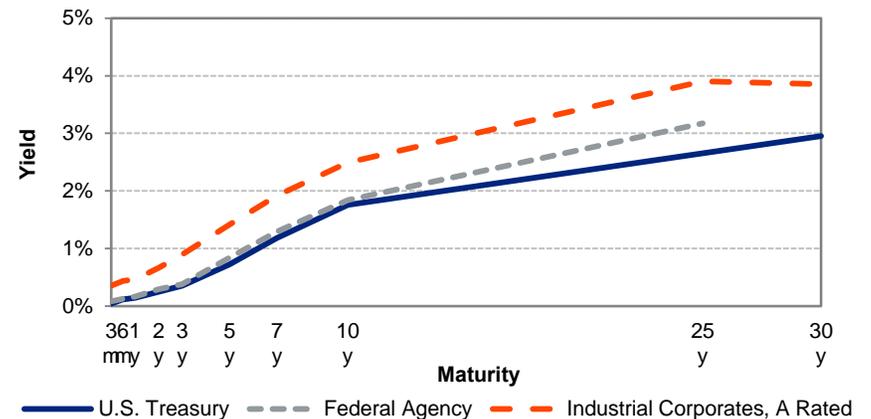


U.S. Treasury Note Yield Curve



Maturity	12/31/12	9/30/12	Change over Quarter	12/31/11	Change over Year
3-month	0.09%	0.12%	(0.03%)	0.02%	0.07%
1-year	0.14%	0.16%	(0.02%)	0.13%	0.01%
2-year	0.27%	0.25%	0.03%	0.28%	(0.00%)
5-year	0.74%	0.63%	0.11%	0.85%	(0.11%)
10-year	1.81%	1.70%	0.12%	1.96%	(0.14%)
30-year	2.94%	2.82%	0.12%	2.91%	0.03%

Yield Curves as of 12/31/12



Source: Bloomberg



B of A Merrill Lynch Index Returns

	As of 12/31/2012		Periods Ended 12/31/2012		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.87	0.26%	0.07%	0.43%	1.44%
Federal Agency	1.70	0.31%	0.12%	0.85%	1.56%
U.S. Corporates, A-AAA Rated	1.94	0.95%	0.44%	4.02%	3.31%
Agency MBS (0 to 3 years)	1.85	1.37%	(0.31%)	1.60%	3.42%
Municipals	1.81	0.61%	0.02%	1.03%	1.56%
1-5 Year Indices					
U.S. Treasury	2.72	0.38%	0.04%	0.91%	2.62%
Federal Agency	2.36	0.44%	0.16%	1.38%	2.28%
U.S. Corporates, A-AAA Rated	2.80	1.22%	0.55%	5.85%	4.70%
Agency MBS (0 to 5 years)	2.11	1.45%	(0.26%)	2.50%	4.45%
Municipals	2.53	0.84%	(0.10%)	1.63%	2.37%
Master Indices					
U.S. Treasury	5.99	0.96%	(0.10%)	2.16%	5.89%
Federal Agency	3.84	0.85%	0.22%	2.44%	4.10%
U.S. Corporates, A-AAA Rated	6.80	2.32%	0.79%	9.19%	8.32%
Agency MBS	2.14	1.47%	(0.27%)	2.59%	4.78%
Municipals	7.47	2.59%	0.51%	7.26%	6.83%

Returns for periods greater than one year are annualized

Source: Bloomberg

Investment Guidelines and Objectives

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

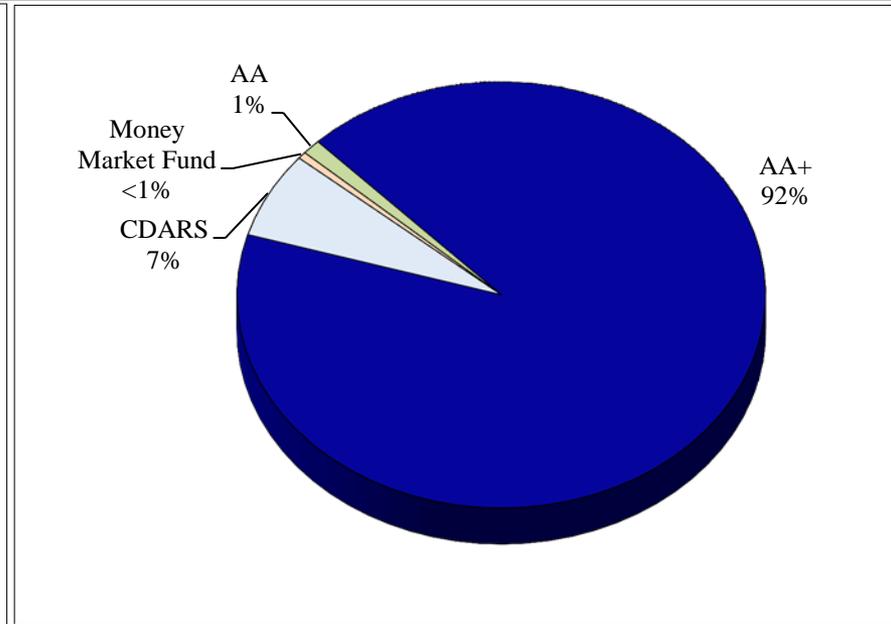
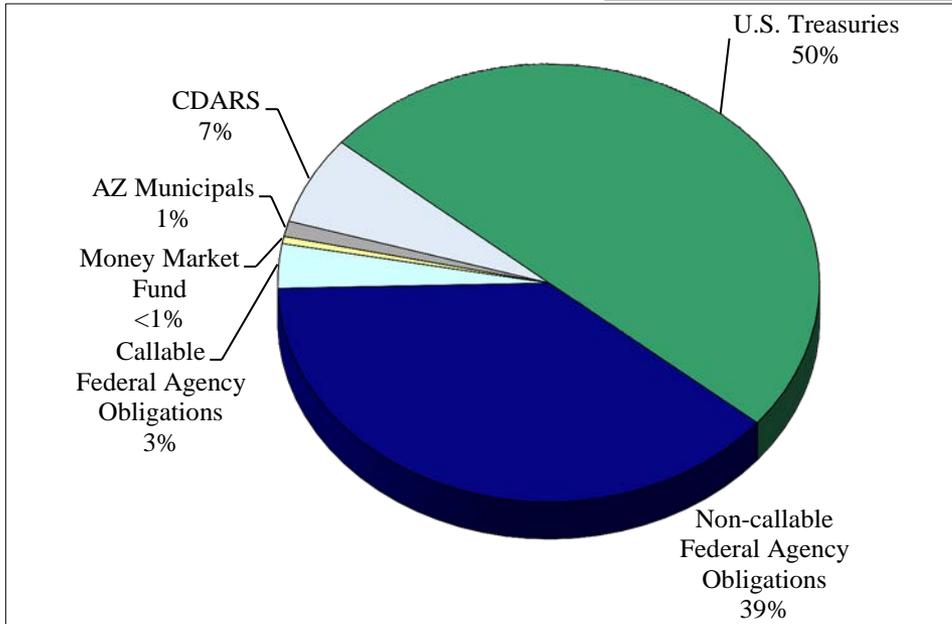
- A. Safety** – Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to prudently mitigate credit risk and interest rate risk. It is understood by the City that no investment is completely free of risk.
- B. Liquidity** – 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.

Portfolio Summary and Characteristics

<u>Security Type</u>	<u>Current Holdings*</u>	<u>Current Quarter % of Portfolio</u>	<u>Previous Quarter % of Portfolio</u>
U.S. Treasury	\$38,097,443.39	50%	50%
Federal Agency	\$31,954,188.74	42%	42%
Callable Federal Agency	\$2,500,210.00	3%	3%
Non-callable Federal Agency	\$29,453,978.74	39%	39%
CDARS**	\$5,000,000.00	7%	7%
AZ Municipals	\$871,026.00	1%	1%
Wells Fargo MMF	\$404,944.46	<1%	<1%
Total Market Value	\$76,327,602.59	100%	100%



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.

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**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.

Maturity Summary and Key Portfolio Statistics

Maturity Distribution Summary		
<u>Maturity Class</u>	<u>Fair Value*</u>	<u>% of Portfolio</u>
Under 6 Months	\$404,944.46	0.5%
6 - 12 Months	\$18,064,026.48	24%
1 - 2 Years	\$24,150,344.79	32%
2 - 3 Years	\$33,708,286.86	45%
3 Years and Over	\$0.00	0%
Total Market Value	\$76,327,602.59	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 Duration ¹	1.76 years
Benchmark Duration ²	1.80 years
Yield at Cost	0.46%

1. Duration to worst as of 12/31/2012 was 1.73

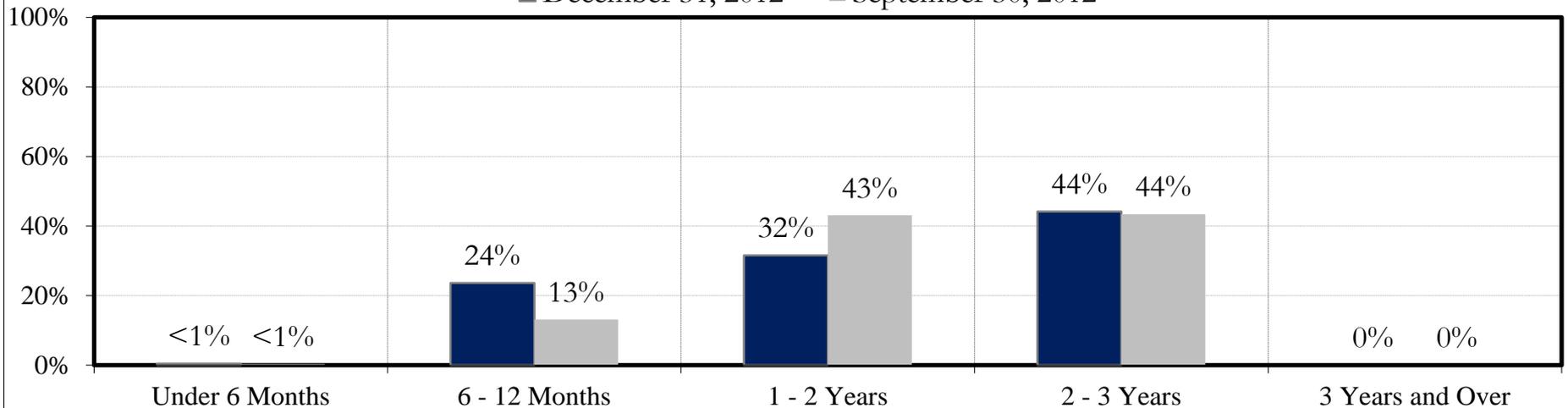
2. The City's benchmark is the Merrill Lynch 1-3 year U.S. Treasury Index.

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.

Maturity Distribution

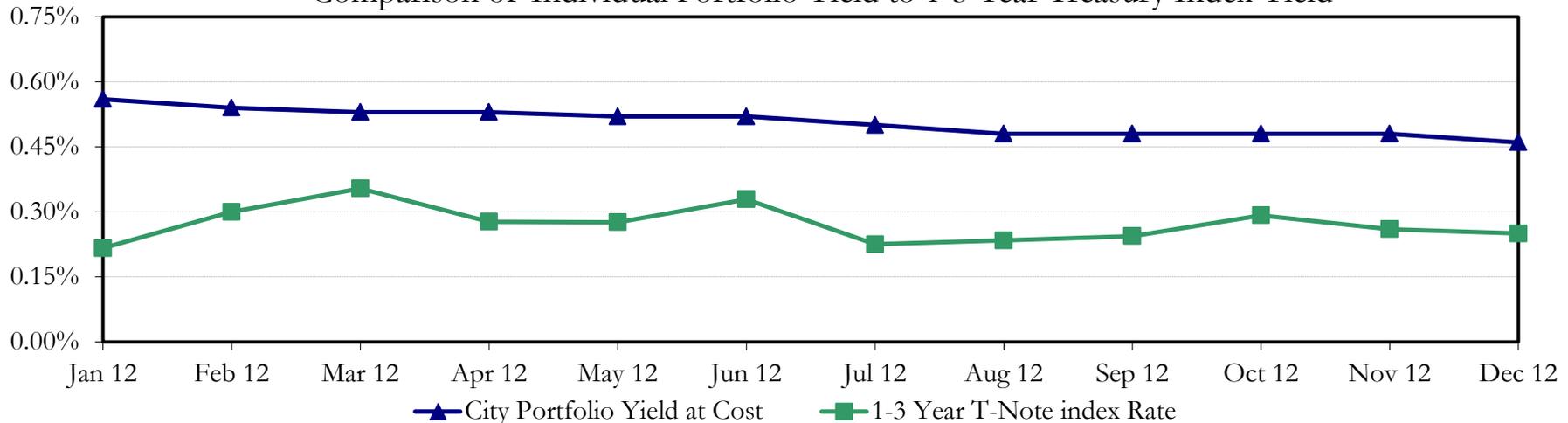
■ December 31, 2012 ■ September 30, 2012



Individual Portfolio Yield Summary

Date	Month-End Market Value ¹	Duration ²	Portfolio YTM at Cost ²	1-3 Year T-Note Index Rate ³
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%
Oct-12	\$71,293,077	1.73	0.48%	0.29%
Nov-12	\$71,348,136	1.78	0.48%	0.26%
Dec-12	\$71,327,603	1.76	0.46%	0.25%

Comparison of Individual Portfolio Yield to 1-3 Year Treasury Index Yield

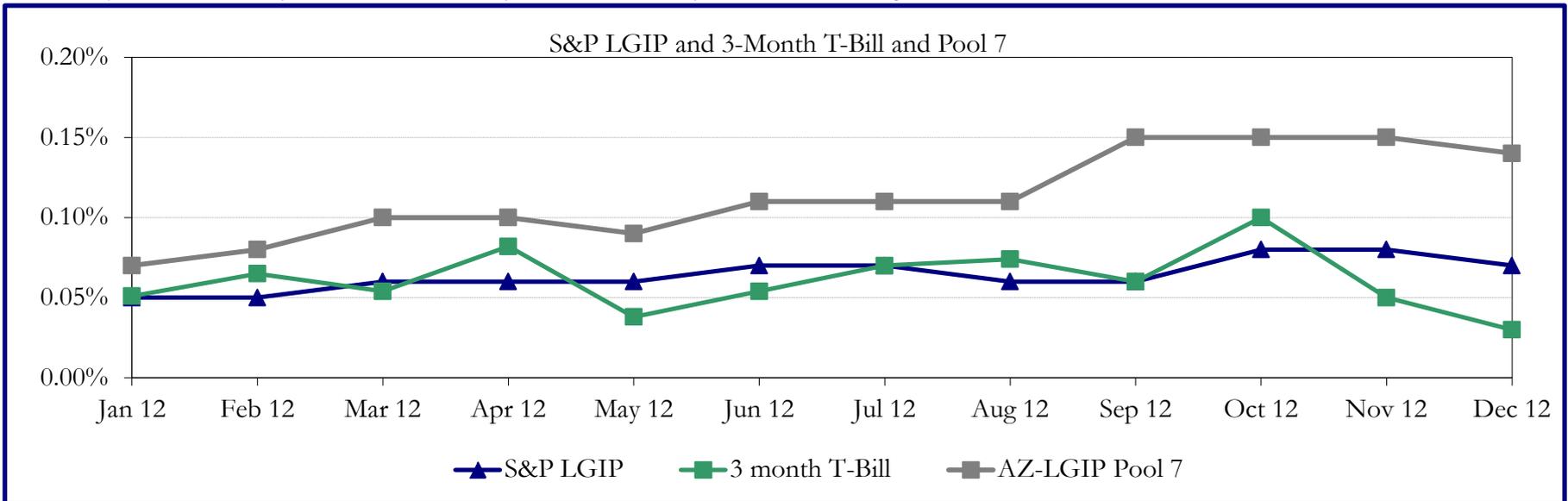


Short-Term Benchmark Comparisons

Date	S&P LGIP	AZ-LGIP Pool 7 ¹	3 month Treasury Bill ²
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%
Oct-12	0.08%	0.15%	0.10%
Nov-12	0.08%	0.15%	0.05%
Dec-12	0.07%	0.14%	0.03%

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.



Operating Funds Investment Inventory by Maturity Date

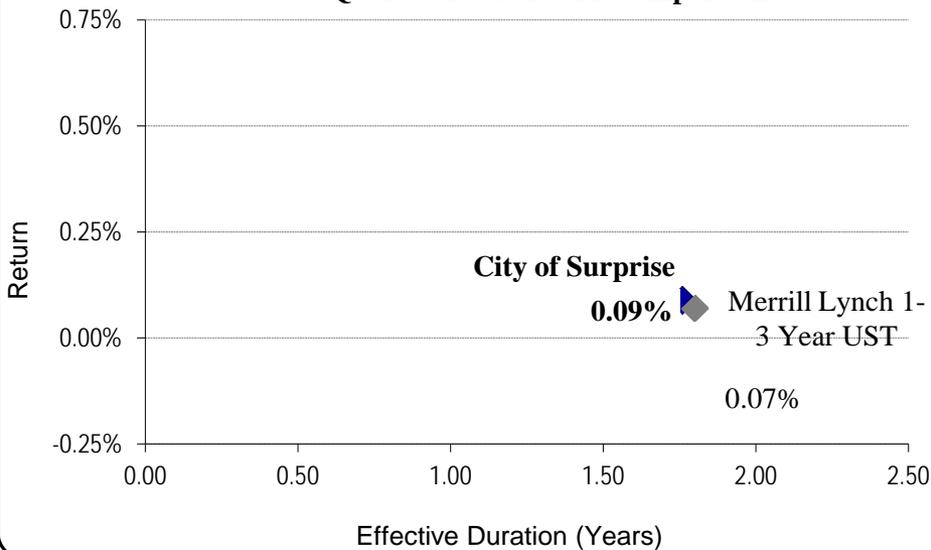
Issuer	Maturity	Years to Maturity	Fair Value	Yield to Maturity	Next Call Date	Frequency
Wells Fargo MMF	12/31/2012	0.00	\$404,944	0.01%		
CDARS	8/15/2013	0.63	\$5,000,000	0.51%		
FNMA	9/23/2013	0.73	\$5,028,960	0.73%		
FHLMC	12/23/2013	0.98	\$2,510,100	0.48%		
U.S. Treasury	12/31/2013	1.00	\$2,481,870	0.24%		
U.S. Treasury	12/31/2013	1.00	\$3,043,097	0.26%		
U.S. Treasury	2/15/2014	1.13	\$2,465,236	0.30%		
FNMA	2/27/2014	1.16	\$1,236,271	0.44%		
FNMA	2/27/2014	1.16	\$3,876,014	0.55%		
FHLMC	8/27/2014	1.66	\$1,012,938	0.94%		
FHLMC	8/27/2014	1.66	\$1,256,043	0.54%		
FHLMC	8/27/2014	1.66	\$2,532,345	0.52%		
FNMA	8/28/2014	1.66	\$3,898,866	0.64%		
FNMA	10/30/2014	1.83	\$3,753,245	0.49%		
U.S. Treasury	12/15/2014	1.96	\$1,100,000	0.39%		
FHLMC	12/29/2014	2.00	\$3,019,386	0.66%		
U.S. Treasury	1/31/2015	2.08	\$2,435,795	0.40%		
U.S. Treasury	1/31/2015	2.08	\$2,394,157	0.38%		
U.S. Treasury	2/15/2015	2.13	\$2,469,623	0.37%		
U.S. Treasury	2/15/2015	2.13	\$2,426,486	0.33%		
U.S. Treasury	2/28/2015	2.16	\$804,650	0.51%		
U.S. Treasury	5/15/2015	2.38	\$1,956,410	0.28%		
U.S. Treasury	5/15/2015	2.38	\$1,089,922	0.33%		
FNMA	5/27/2015	2.41	\$1,329,810	0.59%		
U.S. Treasury	5/31/2015	2.42	\$5,514,152	0.35%		
U.S. Treasury	6/30/2015	2.50	\$2,409,900	0.43%		
AZ Municipal	7/1/2015	2.50	\$871,026	0.77%		
U.S. Treasury	7/31/2015	2.58	\$2,565,491	0.41%		
U.S. Treasury	7/31/2015	2.58	\$1,865,812	0.34%		
FNMA	8/7/2015	2.60	\$2,500,210	0.51%	8/7/13	Quarterly
U.S. Treasury	11/15/2015	2.88	\$3,074,844	0.34%		
Total Market Value			\$ 76,327,603			

Portfolio Performance

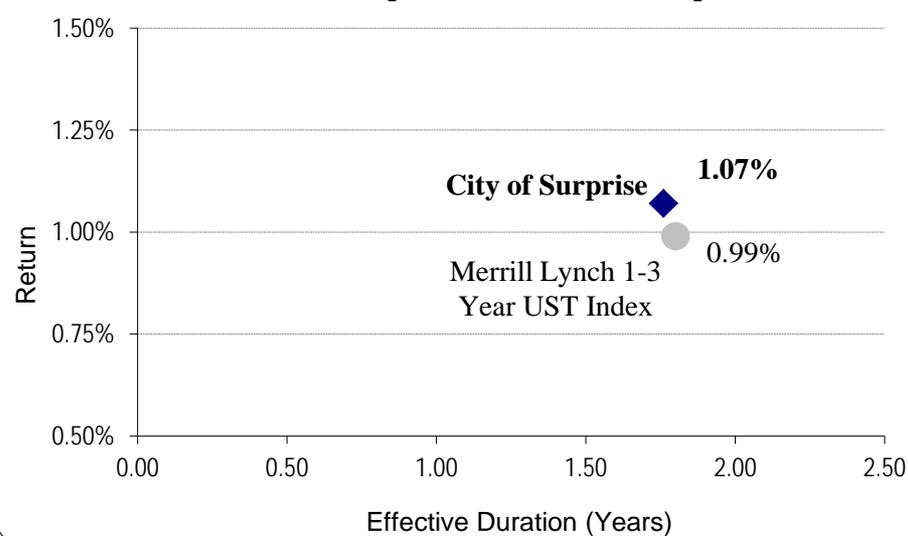
Total Return ^{1,2,3,5}	Quarter Ended December 31, 2012	Past 6 Months	Past 1 Year	Past 2 Years	Since Inception
City of Surprise	0.09%	0.36%	0.82%	1.07%	1.14%
Merrill Lynch 1-3 Year UST Index	0.07%	0.32%	0.43%	0.99%	0.98%

Effective Duration ⁴	December 31, 2012	September 30, 2012	Yields	December 31, 2012	September 30, 2012
City of Surprise	1.76	1.81	Yield at Market	0.27%	0.27%
Merrill Lynch 1-3 Year UST Index	1.80	1.82	Yield on Cost	0.46%	0.48%

Quarter Total Return Comparison



Since Inception Total Return Comparison



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.

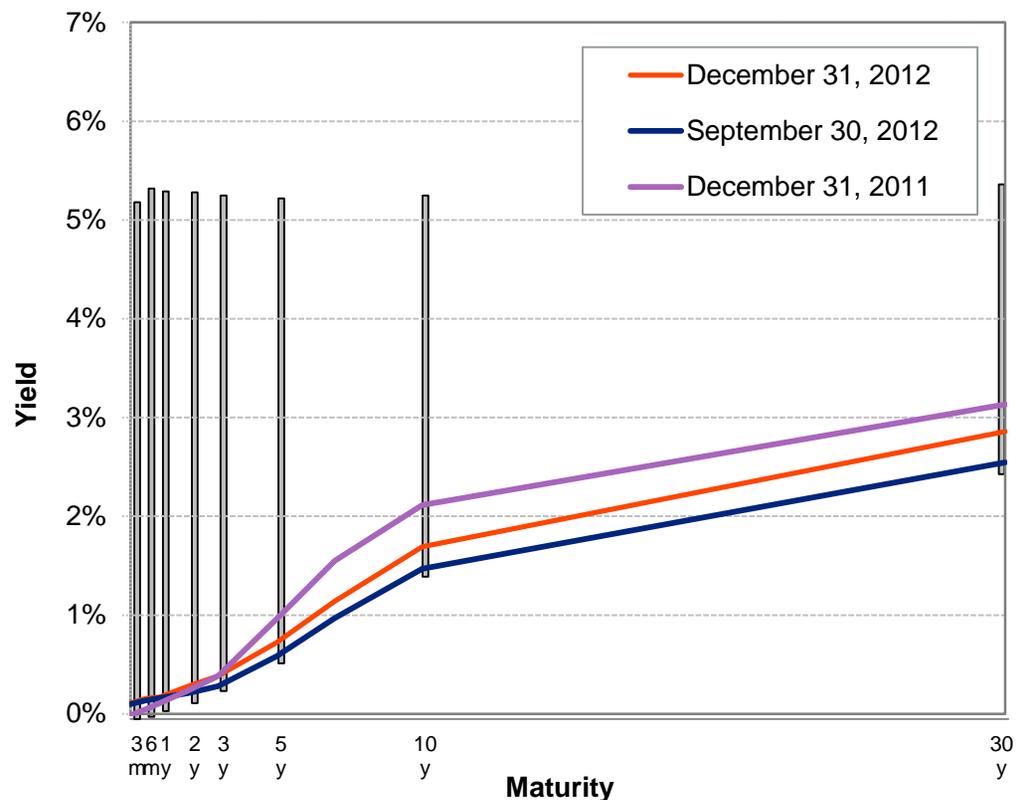
4. Excludes money market fund and CDARS/NOW Account in duration and performance computations.

5. Inception date is June 16, 2010.

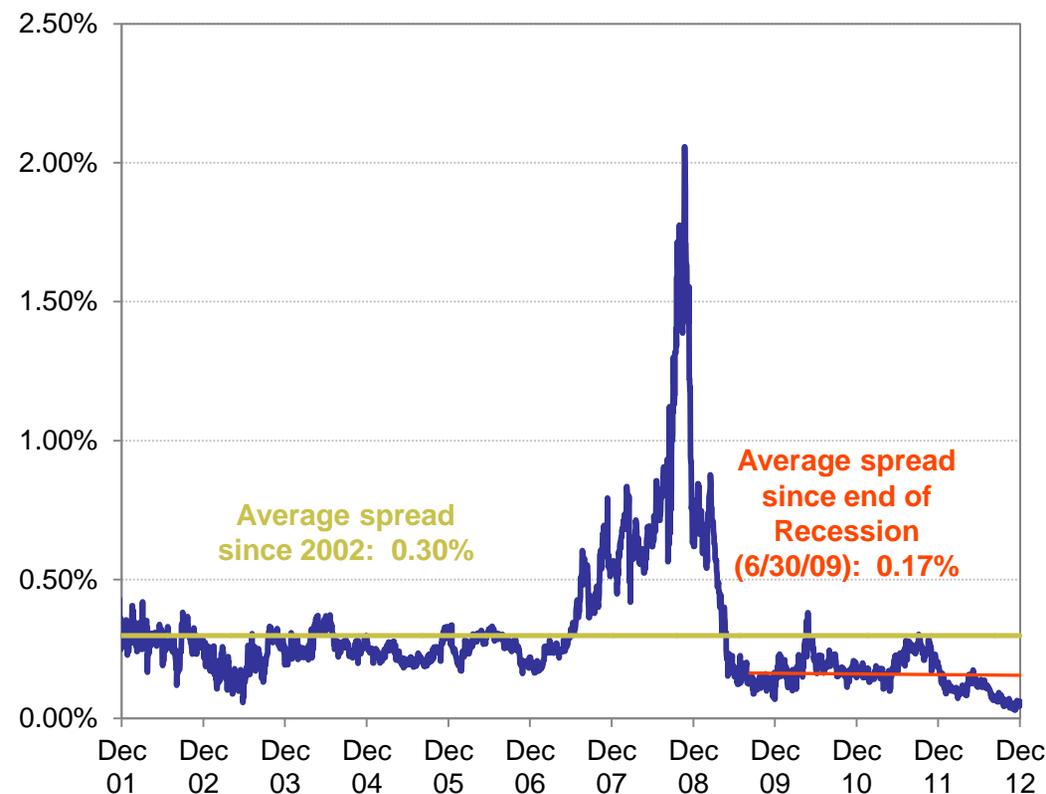
Sustained Low-Interest Rate Environment

- Interest Rates remain near historic lows
- Yield difference (spread) between fixed-income sectors is very compressed
- Extraordinary demand for high-quality debt

U.S. Treasury Yield Curve
Current Yields vs. 10-Year Ranges



2-Year Federal Agency Spreads Over U.S. Treasuries
2002 – 2012



Source: Bloomberg

Adding Value Through Extension Trades

- Average maturity extension: 2.69 years
- Average extension trade yield pick-up: 0.14%
- Total realized gains: \$21,001

Date	Transaction	Security	Maturity	Par (Millions)	Yield	Gain/Loss
11/2/12	Buy	U.S. Treasury Notes	5/31/15	\$5.285	0.35%	-
11/2/12	Sell	U.S. Treasury Notes	10/31/13	\$5.285	0.21%	\$3,440
12/5/12	Buy	U.S. Treasury Notes	11/15/15	\$2.570	0.34%	-
12/5/12	Sell	U.S. Treasury Notes	11/15/13	\$3.090	0.21%	\$17,561



Managed Account Detail of Securities Held

For the Month Ending **December 31, 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 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	101.52	2,480,678.61	2,481,869.60
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	10.51	3,040,851.22	3,043,096.88
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	35,732.07	2,463,088.09	2,465,235.80
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	128.43	1,096,959.71	1,100,000.00
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	21,656.25	2,389,186.16	2,394,157.40
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	22,032.88	2,429,627.08	2,435,794.92
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	33,994.57	2,424,297.62	2,426,485.50
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	34,598.91	2,465,606.61	2,469,623.02
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	6,213.71	800,772.84	804,650.00
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	5,355.66	1,089,543.12	1,089,921.88
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	9,613.42	1,957,746.13	1,956,409.77
US TREASURY NOTES DTD 06/01/2010 2.125% 05/31/2015	912828NF3	5,285,000.00	AA+	Aaa	11/02/12	11/06/12	5,524,063.67	0.35	9,873.08	5,509,821.68	5,514,152.32
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	120.17	2,402,920.56	2,409,900.00
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	13,182.07	1,865,072.03	1,865,811.60



Managed Account Detail of Securities Held

For the Month Ending **December 31, 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 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	18,125.34	2,560,110.18	2,565,490.95
US TREASURY NOTES DTD 11/15/2005 4.500% 11/15/2015	912828EN6	2,750,000.00	AA+	Aaa	12/04/12	12/05/12	3,084,941.41	0.34	16,066.99	3,076,494.58	3,074,843.75
Security Type Sub-Total		36,335,000.00					38,345,800.40	0.35	226,805.58	38,052,776.22	38,097,443.39
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	8,450.00	870,673.88	871,026.00
Security Type Sub-Total		845,000.00					878,200.05	0.77	8,450.00	870,673.88	871,026.00
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	13,611.11	5,009,628.95	5,028,960.00
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	347.22	2,503,428.58	2,510,100.00
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	5,252.78	1,231,391.38	1,236,271.14
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	16,468.75	3,855,986.82	3,876,014.03
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	3,444.44	1,000,998.21	1,012,938.00
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	4,271.11	1,249,487.00	1,256,043.12
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	8,611.11	2,519,795.35	2,532,345.00
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	11,539.79	3,874,737.98	3,898,866.34

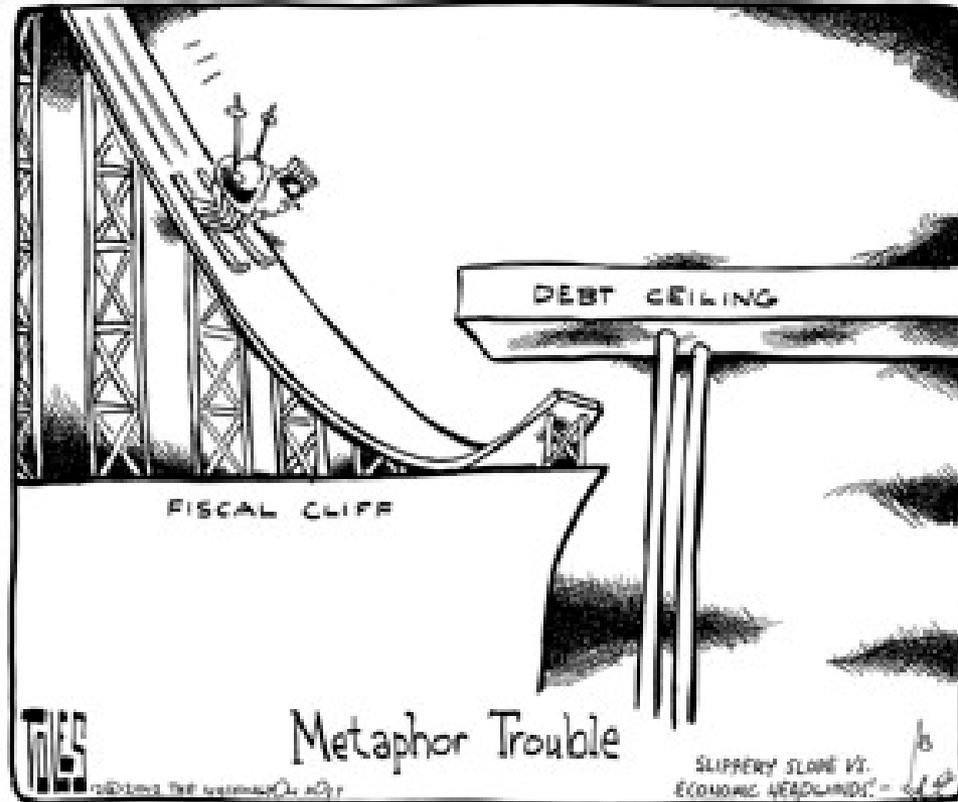


Managed Account Detail of Securities Held

For the Month Ending **December 31, 2012**

CITY OF SURPRISE OPERATING FUND

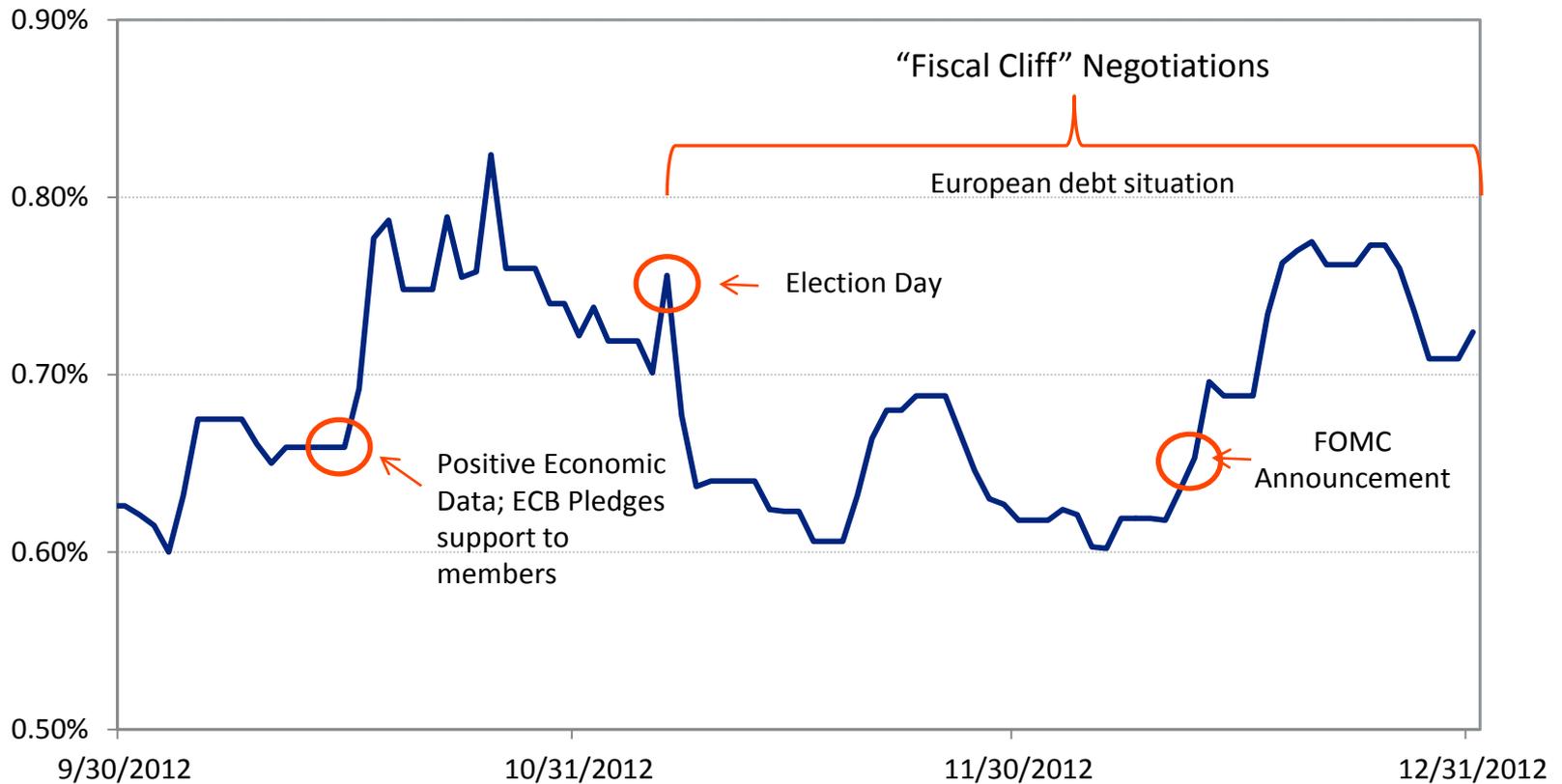
Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Federal Agency Bond / Note											
FANNIE MAE GLOBAL NOTES DTD 09/27/2011 0.625% 10/30/2014	3135G0DW0	3,730,000.00	AA+	Aaa	05/25/12	05/29/12	3,742,495.50	0.49	3,950.17	3,739,468.34	3,753,245.36
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	104.17	2,997,917.49	3,019,386.00
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	625.69	1,322,027.23	1,329,809.75
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	5,000.00	2,499,457.33	2,500,210.00
Security Type Sub-Total		31,700,000.00					31,915,438.80	0.59	73,226.34	31,804,324.66	31,954,188.74
Managed Account Sub-Total		68,880,000.00					71,139,439.25	0.46	308,481.92	70,727,774.76	70,922,658.13
Securities Sub-Total		\$68,880,000.00					\$71,139,439.25	0.46%	\$308,481.92	\$70,727,774.76	\$70,922,658.13
Accrued Interest											\$308,481.92
Total Investments											\$71,231,140.05



Economic Update

Fourth Quarter Market Volatility

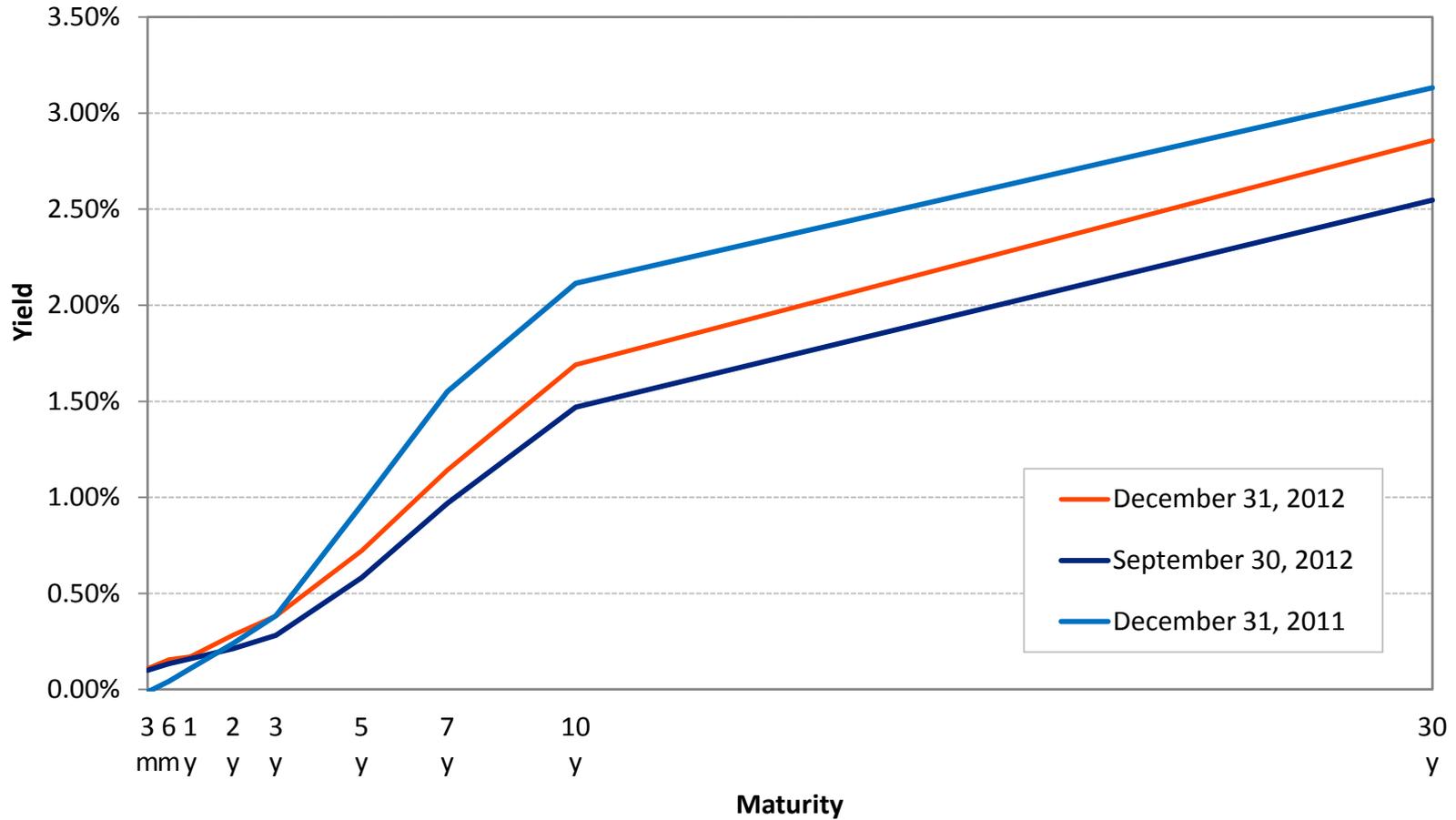
5-Year U.S. Treasury Yields



Source: Bloomberg

U.S. Treasury Yield Curve

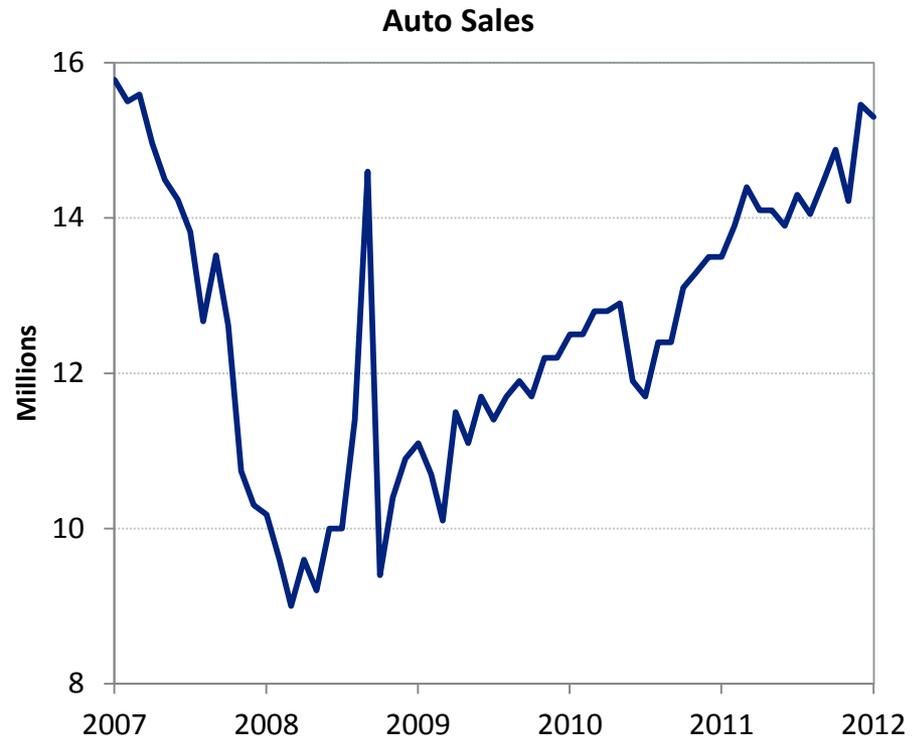
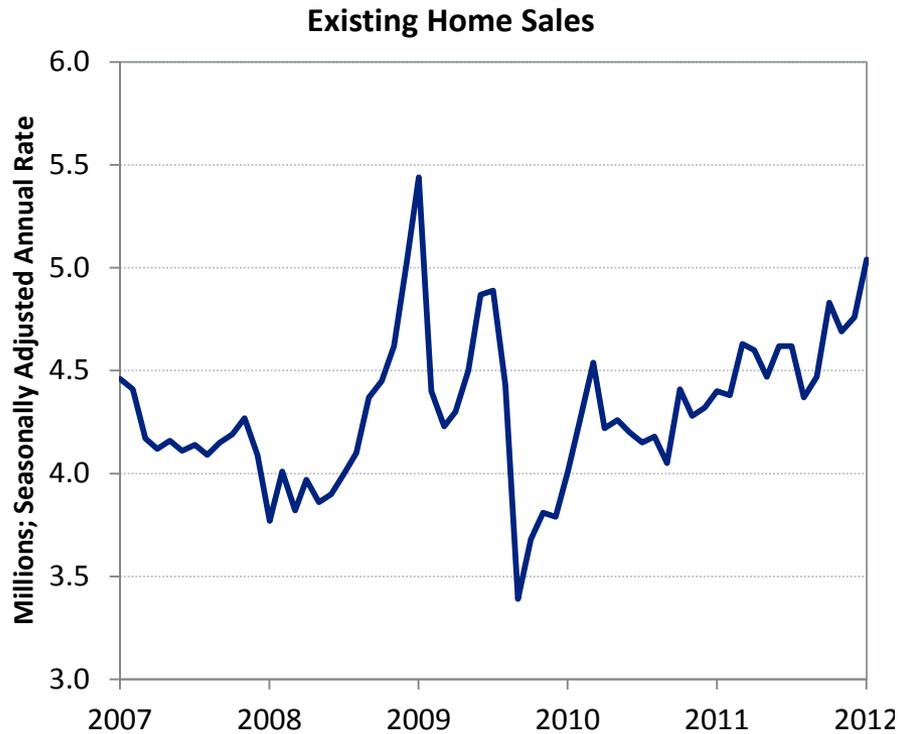
U.S. Treasury Yield Curve



Source: Bloomberg

Cyclical Sectors Improving

- Cyclical economic sectors have begun to see improvement from their recession lows offering an encouraging indication of steady economic growth.



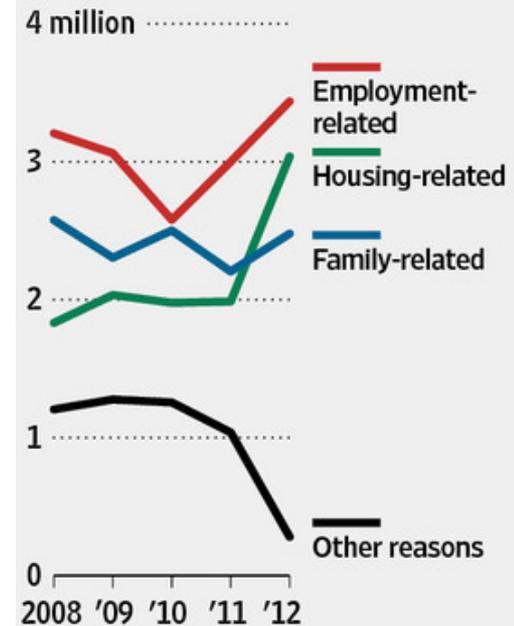
Source: U.S. Census Bureau, Bloomberg

Arizona Sees Influx of New Residents

- Americans, freed from their current locations by increased job prospects and a recovering housing market, once again began moving at a pace not seen since before the recession.
- Arizona's diverse economy and large housing market are likely contributors to the increase in population the state has seen recently.

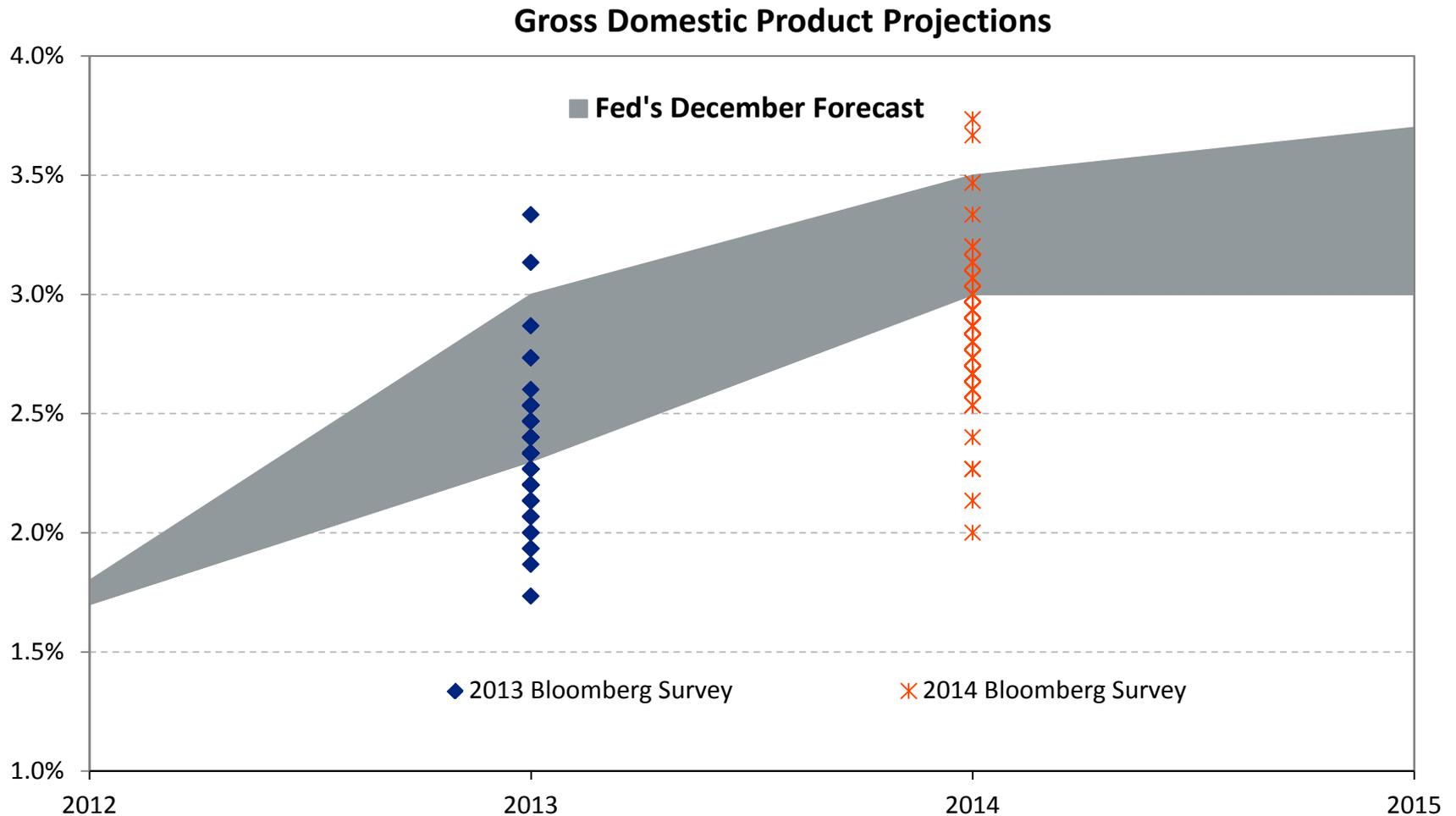
Change in population due to domestic migration April 1, 2010 – July 1, 2012		
Top five	Texas	290,354
	Florida	219,003
	North Carolina	72,136
	Colorado	62,296
	Arizona	48,259
Bottom five	New York	-224,468
	Illinois	-156,197
	California	-104,093
	New Jersey	-103,252
	Michigan	-93,368

Broad reasons why Americans 16 years or older moved to a different county



The Wall Street Journal

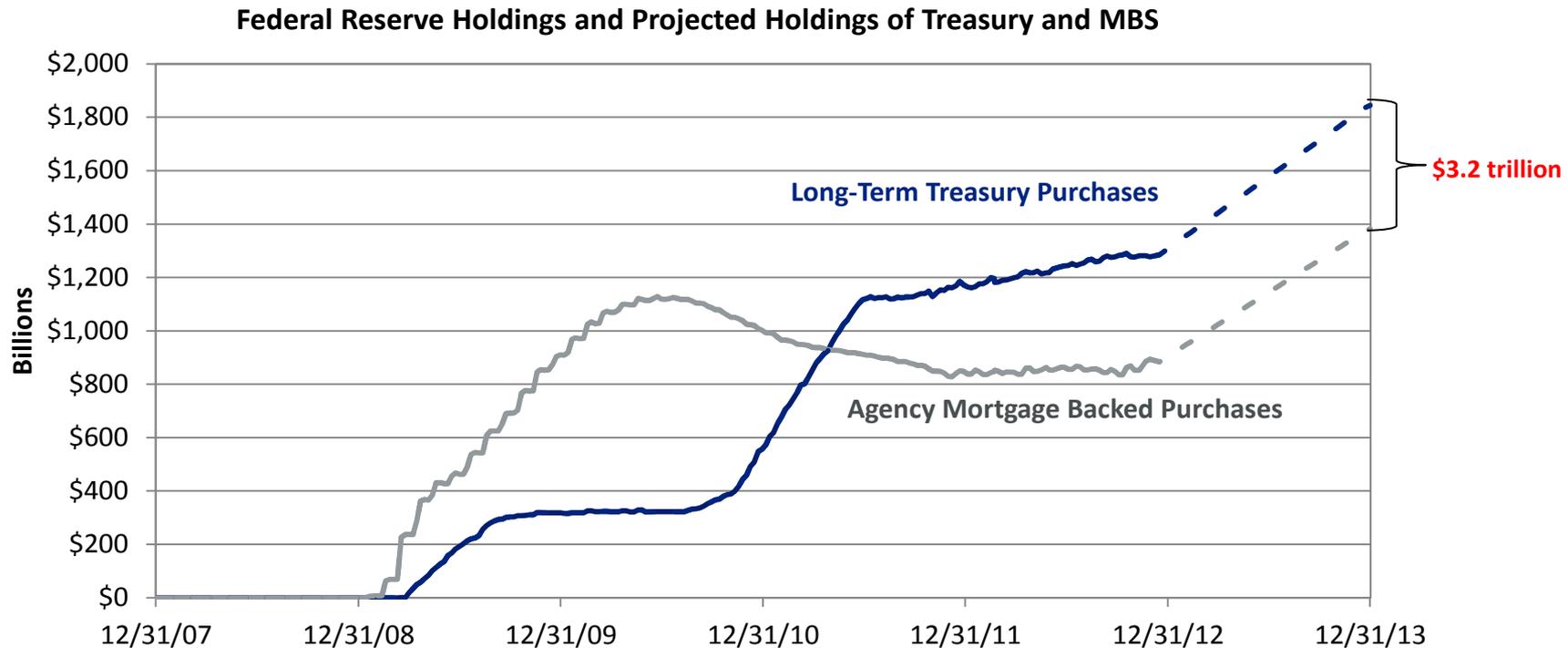
Fed Forecasts Gradual Improvement



1. Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, December 2012
2. Estimates are the 'central tendency' which excludes the three highest and three lowest projections in each year

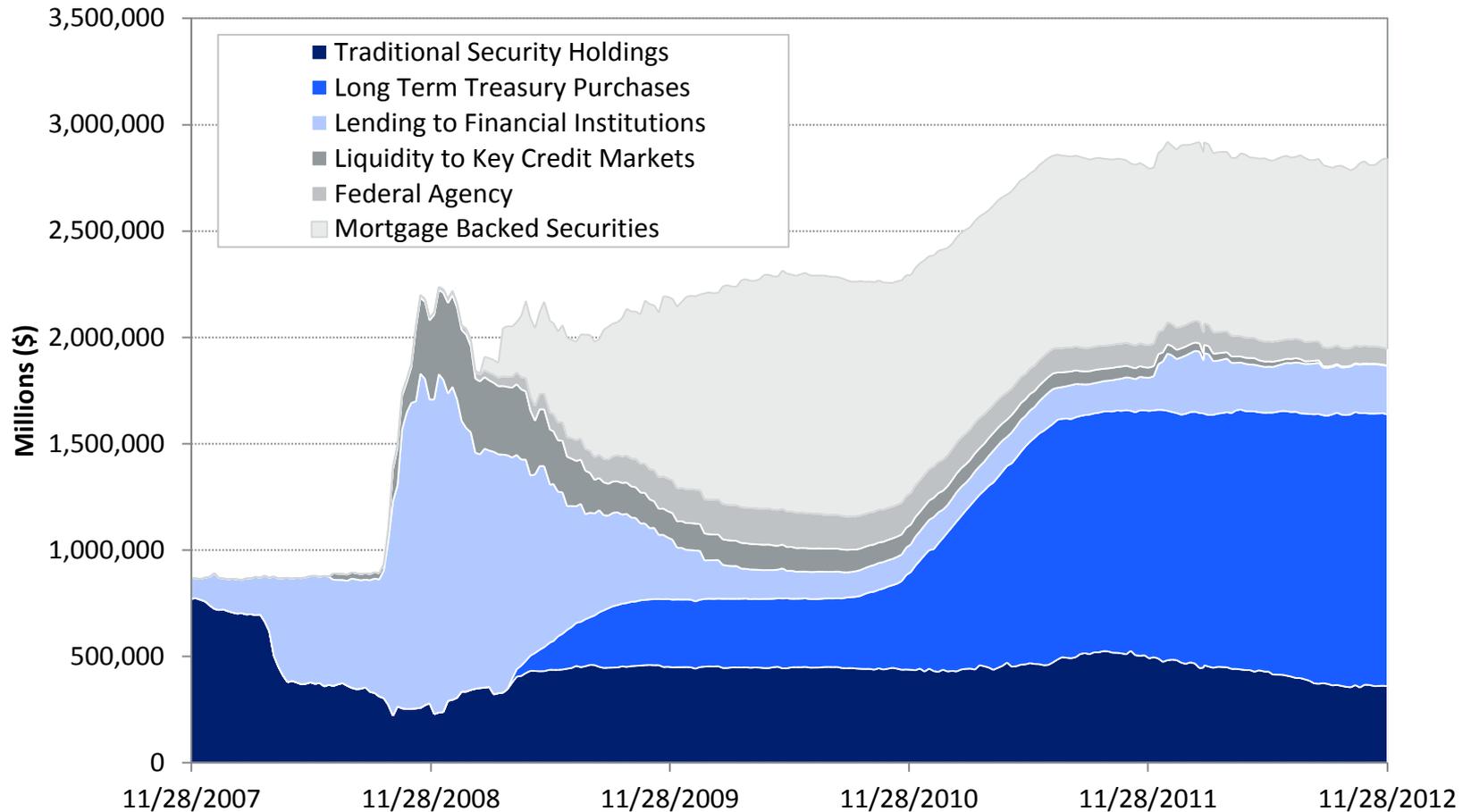
Fed to Continue Accommodation into 2013

- The December 12th Federal Reserve statement detailed additional accommodation:
 - Continue to purchase \$40 billion per month of agency mortgage-backed securities
 - Continue to re-invest principal and interest payments of mortgage-backed securities
 - Begin purchasing \$45 billion per month of long-term Treasuries beginning at year end
 - Resume rolling over Treasury maturities



Source: http://www.clevelandfed.org/research/data/credit_easing/index.cfm

Federal Reserve Balance Sheet



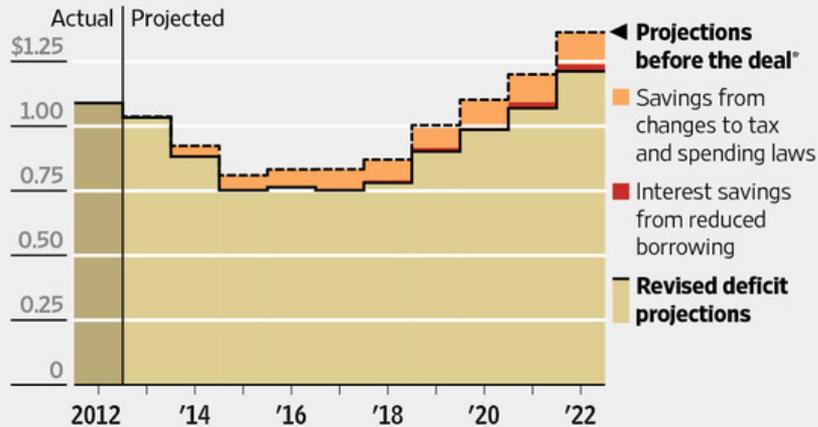
Source: http://www.clevelandfed.org/research/data/credit_easing/index.cfm

Details of the “Fiscal Cliff” Deal

A Dent in the Deficit

Impact of the fiscal-cliff deal on annual deficit projections

In trillions



*Congressional Budget Office August 2012 alternative scenario, which assumes then-current policies, including extension of all Bush tax cuts and alternative minimum tax fix

Sources: Congressional Budget Office (previous projections);
White House Office of Management and Budget (changes)

The Wall Street Journal

Increased Revenue:

- Elimination of payroll tax holiday
- Higher tax rates for individuals earning over \$400,000 and families earning more than \$450,000
- Increased taxes on dividends and capital gains
- Additional limits on personal exemptions and deductions
- Increased estate taxes

Extended benefits:

- Nine month extension of the farm bill
- One year extension on Unemployment benefits
- 5 year extension on tax credits for college tuition
- The “doc fix” is included
- The Alternative Minimum Tax has been indexed to inflation
- 1 year extension of existing business tax benefits

“Kicking the Can”:

- Delayed the sequester for two months
- Did not raise the debt ceiling

Beyond the Fiscal Cliff

The Debt Ceiling

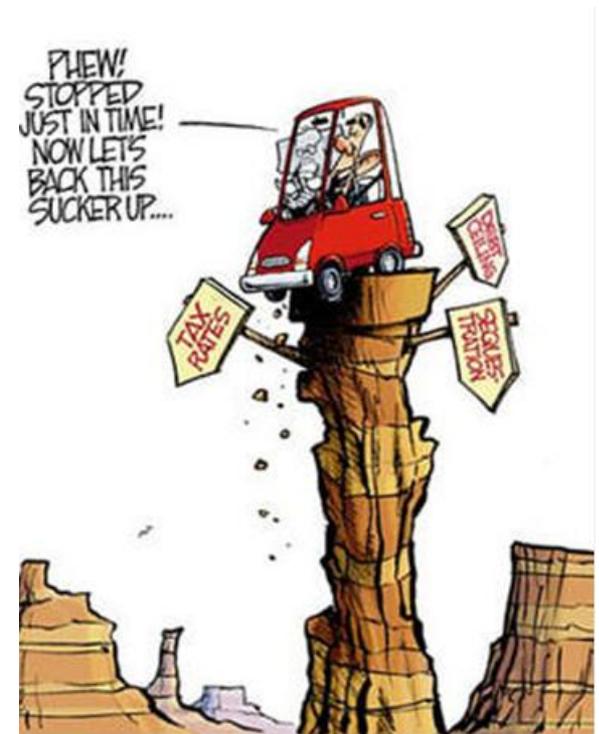
- The U.S. hit the debt ceiling, currently set at \$16.394 trillion, on Dec. 31
- Using certain measures, Treasury will be able to pay its obligations for the next few months
- Will likely cause another battle with Congress
- Debt ceiling must be raised by late February to prevent default

The Sequester

- Created out of the 2011 fight over the debt ceiling
- Comprises cuts to discretionary appropriations and mandatory spending that add up to \$1.2 trillion over nine years, beginning in 2013
- Cuts split between defense and domestic discretionary spending (with some exemptions)
- The fiscal cliff deal delayed the sequester by two months

Continuing resolution of the fiscal year 2013 budget

- Fiscal year 2013 began on October 1, 2012, yet Congress has not finalized the budget
- Instead has passed short-term “continuing resolutions” with current resolution expiring on March 27
- Congress will have to pass another continuing resolution to avoid a temporary shutdown of some government functions, worker furloughs and a pullback in programs



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