



# City of Surprise

## Quarterly Performance Review

### Second Quarter Ended June 30, 2013



#### The PFM Group

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# 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.

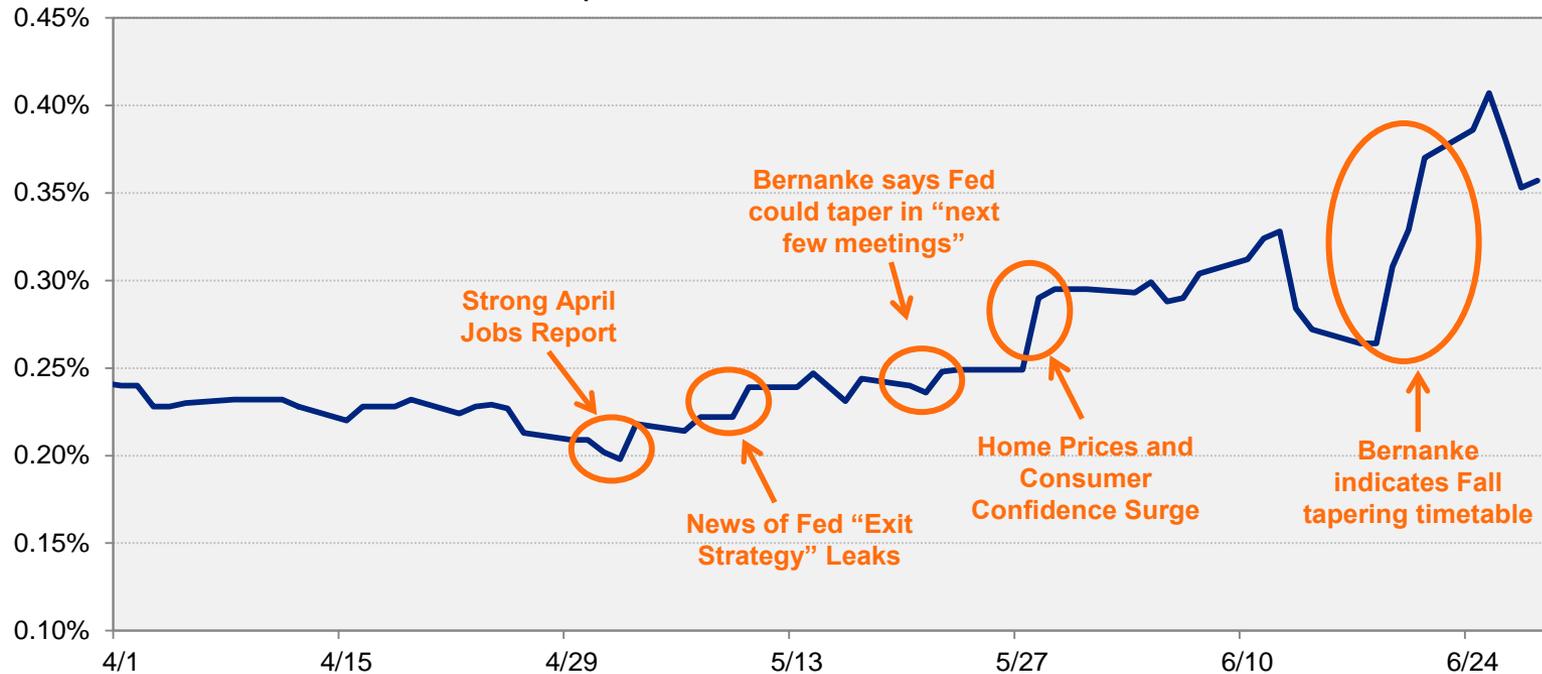
**Investment Guidelines:** In relation to the investment portfolio, the City's investment strategy focuses on the following:

- 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.

# Second Quarter Market Movers

- Interest rates rose significantly during the quarter, driven by positive economic news and FOMC indications that a reduction, and eventual end, to their asset purchase program was likely to occur earlier than the market had originally anticipated.

**2-Year U.S. Treasury Yields**  
April 1, 2013 – June 30, 2013

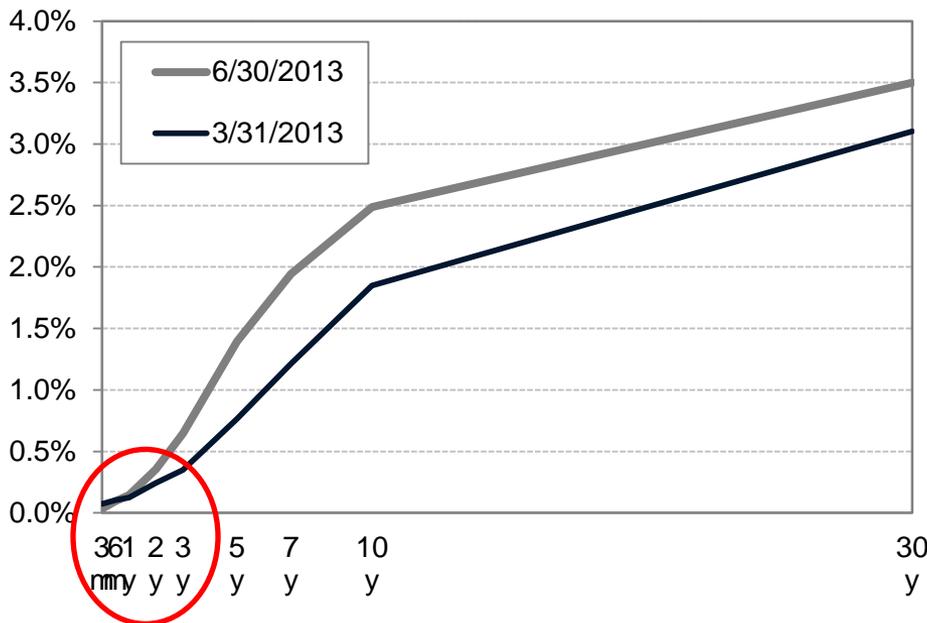


Source: Bloomberg

# Yield Curve Steepened

- Yields on maturities two years and shorter moved only modestly, as they remain anchored to the Fed's near-zero short-term rate policy, which is not expected to change for another year or two.
  - A 1-year Treasury changed by only a few basis points, while the 2-year Treasury ended the quarter at 0.36%, up just 12 basis points (0.12%) for the quarter.

Quarterly Changes to Treasury Yield Curve



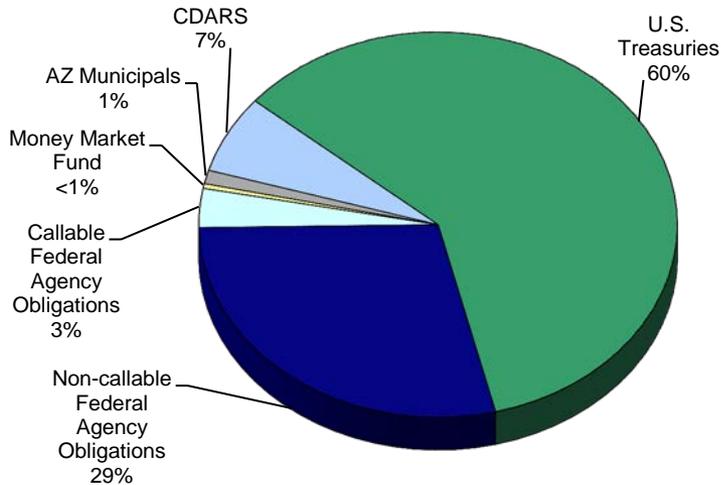
Maturity	March 31, 2013	June 30, 2013	Yield Change
1M	0.03	0.01	(0.02)
3M	0.07	0.03	(0.04)
6M	0.10	0.09	(0.01)
1Y	0.12	0.15	0.02
2Y	0.24	0.36	0.12
3Y	0.35	0.65	0.30
5Y	0.77	1.39	0.62
7Y	1.22	1.94	0.72
10Y	1.85	2.48	0.64
30Y	3.10	3.49	0.39

Source: Bloomberg

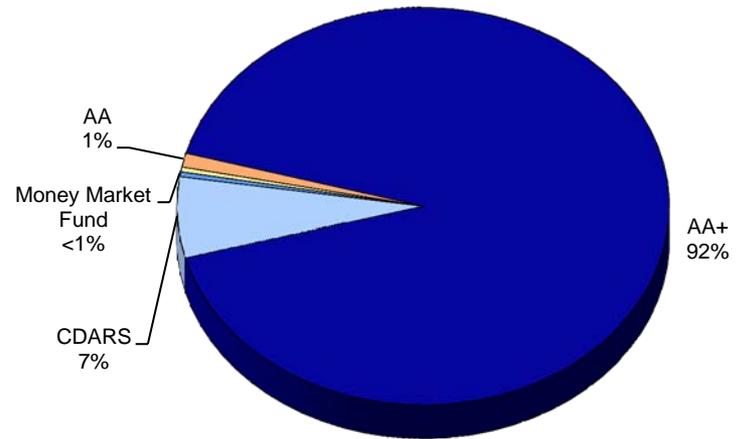
# Portfolio Summary and Characteristics

<u>Security Type</u>	<u>Current Holdings*</u>	<u>Current Quarter % of Portfolio</u>	<u>Previous Quarter % of Portfolio</u>
<b>U.S. Treasury</b>	<b>\$45,810,084</b>	<b>60%</b>	<b>59%</b>
<b>Federal Agency</b>	<b>\$24,335,655</b>	<b>32%</b>	<b>32%</b>
Callable Federal Agency	\$2,495,663	3%	3%
Non-callable Federal Agency	\$21,839,993	29%	29%
<b>CDARS**</b>	<b>\$5,000,000</b>	<b>7%</b>	<b>7%</b>
<b>AZ Municipals</b>	<b>\$868,077</b>	<b>1%</b>	<b>1%</b>
<b>Wells Fargo MMF</b>	<b>\$301,627</b>	<b>0%</b>	<b>&lt;1%</b>
<b>Total Market Value</b>	<b>\$76,315,444</b>	<b>100%</b>	<b>100%</b>

**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.

# Maturity Summary and Key Portfolio Statistics

## Maturity Distribution

<u>Maturity Class</u>	<u>Fair Value*</u>	<u>% of Portfolio</u>
Under 6 Months	\$5,301,627	7%
6 - 12 Months	\$6,106,993	8%
1 - 2 Years	\$39,096,334	51%
2 - 3 Years	\$23,808,373	32%
3 Years and Over	\$2,002,115	3%
<b>Total Market Value</b>	<b>\$76,315,444</b>	<b>100%</b>

## Key Portfolio Statistics

<b>Effective Duration<sup>1</sup></b>	<b>1.79 years</b>
<b>Benchmark Duration<sup>2</sup></b>	<b>1.81 years</b>
<b>Yield at Cost</b>	<b>0.46%</b>

1. Duration to worst as of 06/30/2013 was 1.80.

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

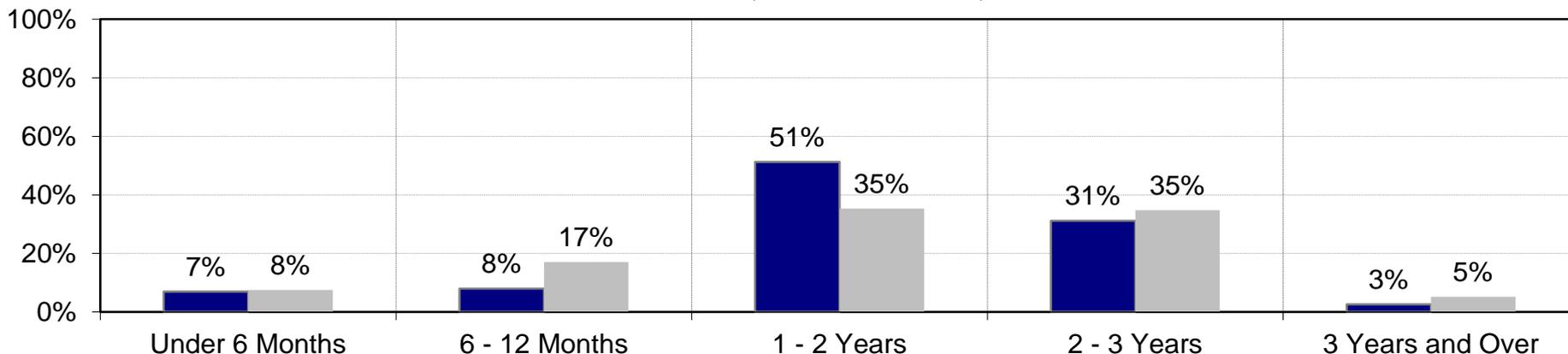
Performance statistics exclude money market fund and CDARS.

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

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

## Maturity Distribution

■ June 30, 2013    ■ March 31, 2013



# Individual Portfolio Yield Summary

Date	Month-End Market Value <sup>1</sup>	Duration <sup>2</sup>	Portfolio YTM at Cost <sup>2</sup>	1-3 Year T-Note Index Rate <sup>3</sup>
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%
Jan-13	\$71,355,860	1.81	0.45%	0.26%
Feb-13	\$71,535,993	1.75	0.45%	0.24%
Mar-13	\$71,436,261	1.80	0.44%	0.25%
Apr-13	\$71,448,901	1.71	0.44%	0.21%
May-13	\$71,411,221	1.87	0.45%	0.29%
Jun-13	\$71,315,444	1.79	0.46%	0.35%

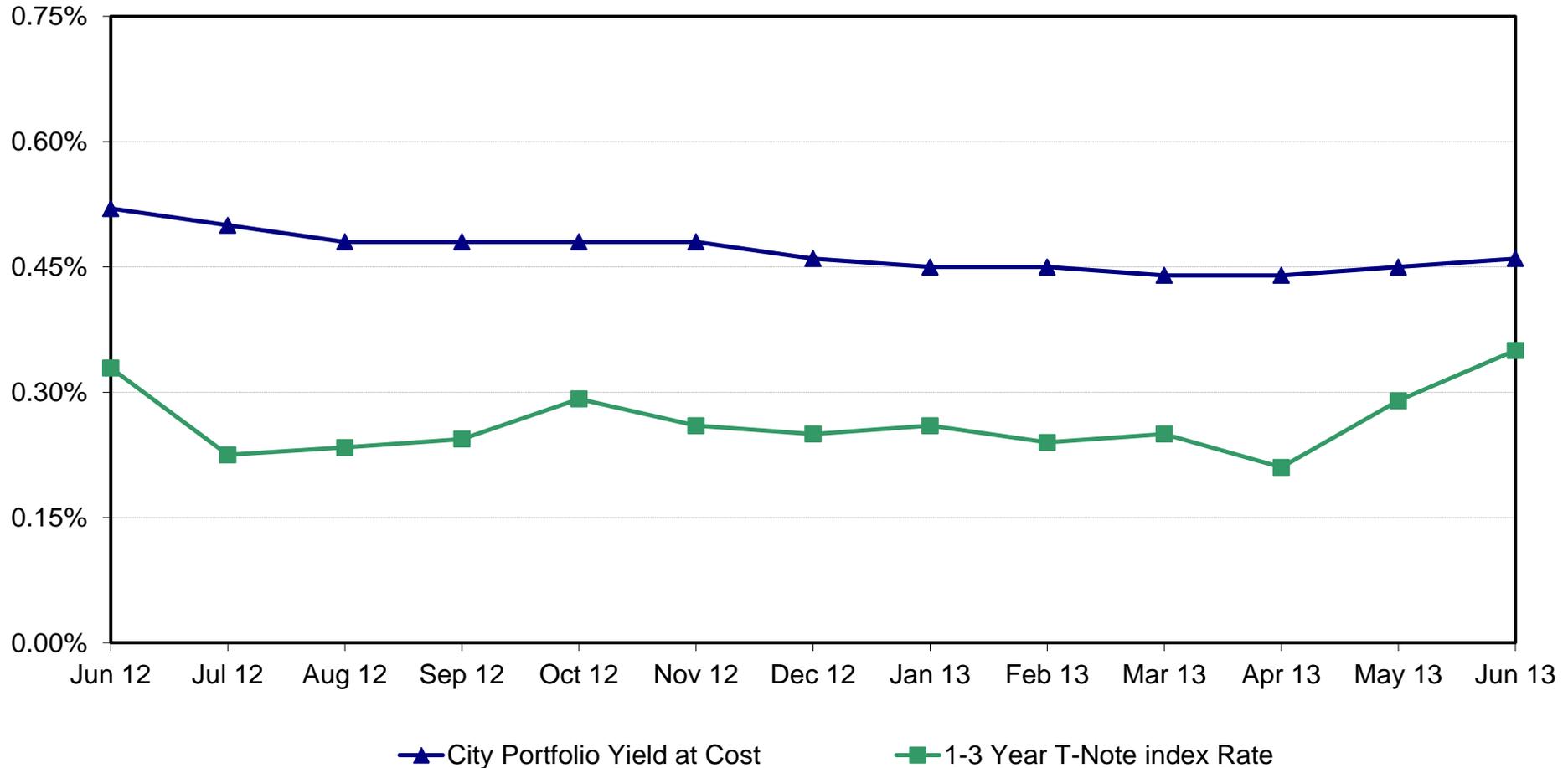
<sup>1</sup> Excludes accrued interest, CDARS, and NOW Account. Includes balance in the custody account MMF.

<sup>2</sup> Excludes CDARS, NOW Account, and custody money market fund.

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

# Individual Portfolio Yield Summary Continued

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



# Holdings by Maturity

Issuer	Maturity	Years to Maturity	Fair Value	Yield to Maturity	Next Call Date	Frequency
Wells Fargo MMF	6/30/2013	0.00	\$301,627	0.01%		
Alliance Bank (CDARS)	8/15/2013	0.13	\$5,000,000	0.51%		
U.S. Treasury	2/15/2014	0.63	\$1,023,984	0.30%		
FNMA	2/27/2014	0.66	\$1,229,191	0.44%		
FNMA	2/27/2014	0.66	\$3,853,818	0.55%		
FHLMC	8/27/2014	1.16	\$1,009,119	0.94%		
FHLMC	8/27/2014	1.16	\$1,251,308	0.54%		
FHLMC	8/27/2014	1.16	\$2,522,798	0.52%		
FNMA	8/28/2014	1.16	\$3,887,140	0.64%		
FNMA	10/30/2014	1.33	\$3,745,860	0.49%		
U.S. Treasury	12/15/2014	1.46	\$1,100,257	0.39%		
FHLMC	12/29/2014	1.50	\$3,013,599	0.66%		
U.S. Treasury	1/31/2015	1.58	\$2,412,851	0.40%		
U.S. Treasury	1/31/2015	1.58	\$2,371,606	0.38%		
U.S. Treasury	2/15/2015	1.63	\$2,427,221	0.37%		
U.S. Treasury	2/15/2015	1.63	\$2,384,824	0.33%		
U.S. Treasury	2/28/2015	1.66	\$796,619	0.51%		
U.S. Treasury	5/15/2015	1.88	\$1,921,632	0.28%		
U.S. Treasury	5/15/2015	1.88	\$1,070,547	0.33%		
FNMA	5/27/2015	1.91	\$1,327,161	0.59%		
U.S. Treasury	5/31/2015	1.92	\$5,464,193	0.35%		
U.S. Treasury	6/30/2015	2.00	\$2,389,600	0.43%		
AZ Municipal	7/1/2015	2.00	\$868,077	0.77%		

# Holdings by Maturity

Issuer	Maturity	Years to Maturity	Fair Value	Yield to Maturity	Next Call Date	Frequency
U.S. Treasury	7/31/2015	2.08	\$2,544,995	0.41%		
U.S. Treasury	7/31/2015	2.08	\$1,850,906	0.34%		
FNMA	8/7/2015	2.10	\$2,495,663	0.51%	8/7/13	Quarterly
U.S. Treasury	11/15/2015	2.38	\$3,010,607	0.34%		
U.S. Treasury	1/31/2016	2.58	\$3,476,409	0.42%		
U.S. Treasury	4/30/2016	2.83	\$3,946,064	0.38%		
U.S. Treasury	4/30/2016	2.83	\$2,232,642	0.39%		
U.S. Treasury	5/31/2016	2.92	\$3,383,012	0.51%		
U.S. Treasury	6/30/2016	3.00	\$2,002,115	0.43%		
<b>Total Market Value</b>			<b>\$76,315,444</b>			

# Quarterly Portfolio Activity

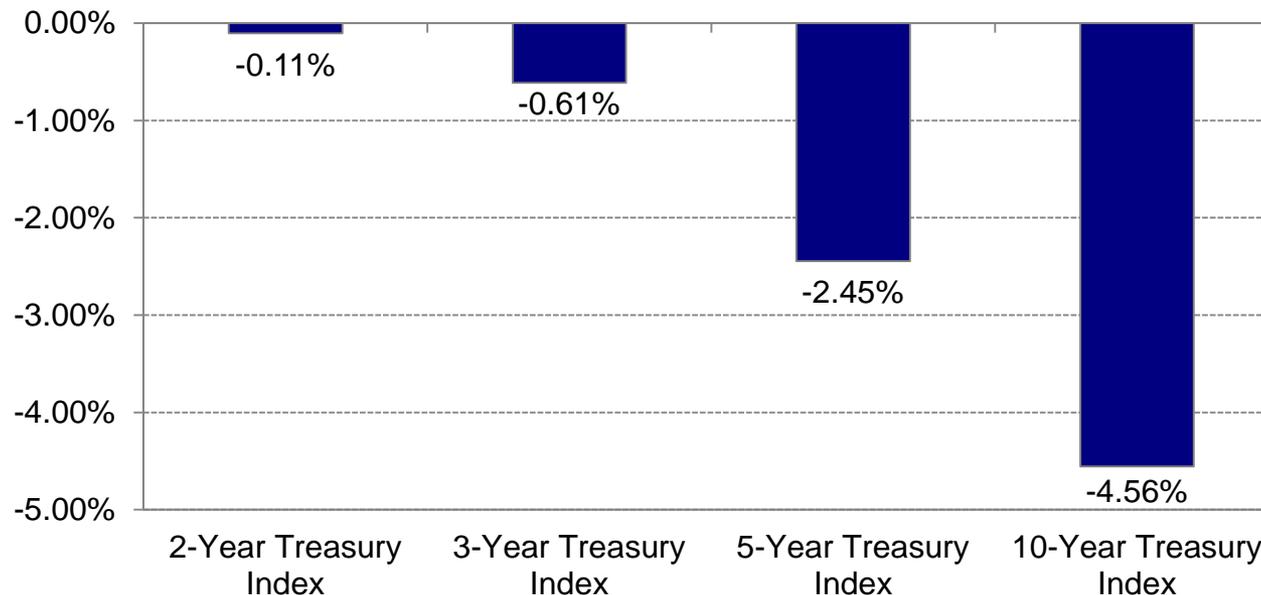
- As the yield curve remained steep, we sold securities maturing in under 9-months and reinvested the proceeds in 3-year Treasuries.
- Treasury purchases helped portfolio performance during the quarter as rates in this sector fell less overall compared to any other fixed-income sector.

Trade Date	Transaction	Security	Maturity	Par Value (millions)	Yield	Realized G/L
<b>5/13/13</b>	<b>Buy</b>	<b>U.S. Treasury</b>	<b>4/30/16</b>	<b>\$2.15</b>	<b>0.39%</b>	-
5/13/13	Sell	U.S. Treasury	12/31/13	\$1.45	0.10%	\$1,273
<b>5/23/13</b>	<b>Buy</b>	<b>U.S. Treasury</b>	<b>6/30/16</b>	<b>\$1.86</b>	<b>0.43%</b>	-
5/23/13	Sell	U.S. Treasury	12/31/13	\$2.05	0.11%	\$1,812
<b>5/30/13</b>	<b>Buy</b>	<b>U.S. Treasury</b>	<b>5/31/16</b>	<b>\$3.28</b>	<b>0.51%</b>	-
5/30/13	Sell	U.S. Treasury	2/15/14	\$1.37	0.12%	\$1,758
5/30/13	Sell	U.S. Treasury	12/31/13	\$1.00	0.11%	\$803
5/30/13	Sell	U.S. Treasury	12/31/13	\$1.00	0.11%	\$913

# Large Rate Increase Led to Negative Market Returns

- The sharp rise in interest rates depressed market returns.
  - Yields and prices of fixed-income instruments are inversely related.
  - Magnitude of rate increases led to negative market returns.
  - Longer-term investments were impacted more than shorter-term investments.

**Market Return of Various Maturity Treasuries  
Second Quarter 2013**



Source: BofA Merrill Lynch Bond Indices

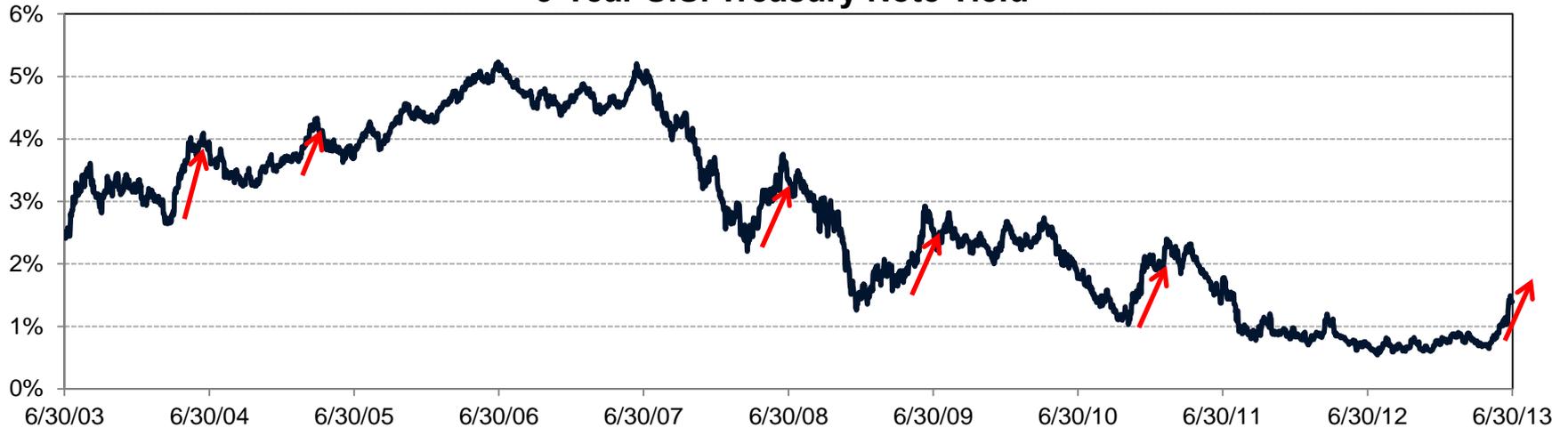
# Returns Were Depressed Across all Sectors and Maturities

	As of 6/30/2013		Returns for Periods ended 6/30/2013		
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.89	0.37%	(0.10%)	0.33%	0.82%
Federal Agency	1.80	0.48%	(0.13%)	0.34%	0.97%
U.S. Corporates, A-AAA rated	1.99	1.20%	(0.22%)	2.16%	2.63%
Agency MBS (0 to 3 years)	1.69	1.67%	(1.00%)	(0.40%)	1.75%
Municipals	1.77	0.70%	(0.16%)	0.62%	1.27%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.72	0.66%	(0.67%)	(0.03%)	1.44%
Federal Agency	2.61	0.81%	(0.74%)	0.01%	1.28%
U.S. Corporates, A-AAA rated	2.91	1.70%	(1.09%)	2.19%	3.40%
Agency MBS (0 to 5 years)	3.06	2.66%	(1.37%)	(0.60%)	2.46%
Municipals	2.51	1.04%	(0.61%)	0.53%	1.86%
<b>Master Indices (Maturities 1 Year or Greater)</b>					
U.S. Treasury	5.78	1.40%	(2.21%)	(2.00%)	3.03%
Federal Agency	4.01	1.34%	(1.97%)	(0.90%)	2.12%
U.S. Corporates, A-AAA rated	6.57	2.96%	(3.12%)	0.89%	5.08%
Agency MBS	4.61	2.96%	(1.92%)	(1.15%)	2.52%
Municipals	7.81	3.21%	(3.33%)	0.10%	4.66%

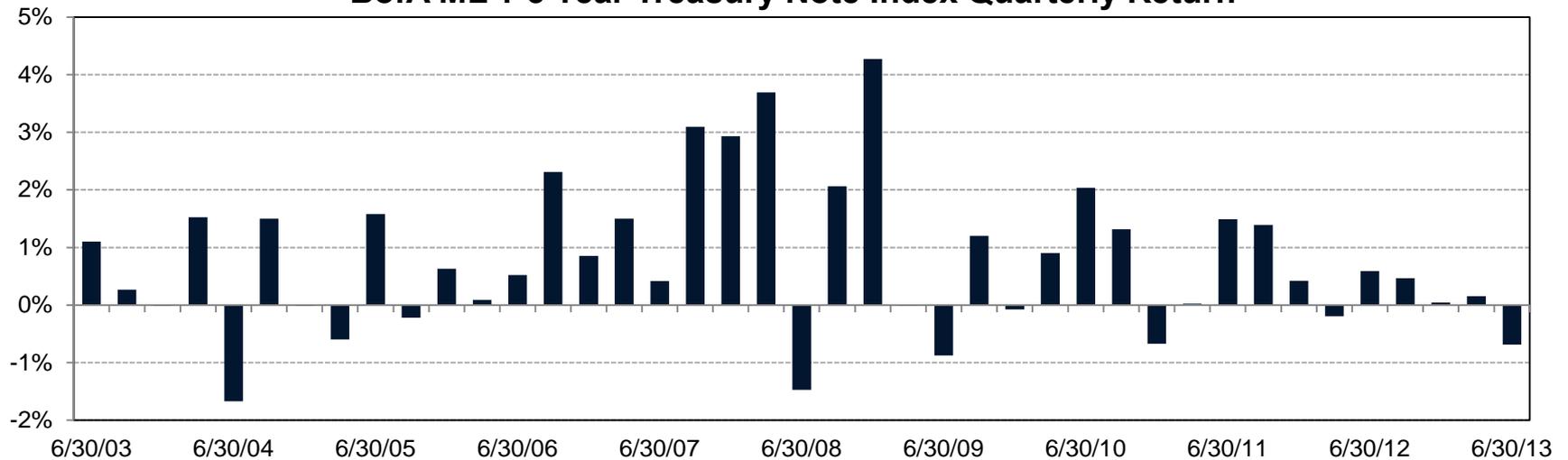
Returns for periods greater than one year are annualized

# Returns Follow Market Rates

## 5-Year U.S. Treasury Note Yield



## BofA ML 1-5 Year Treasury Note Index Quarterly Return

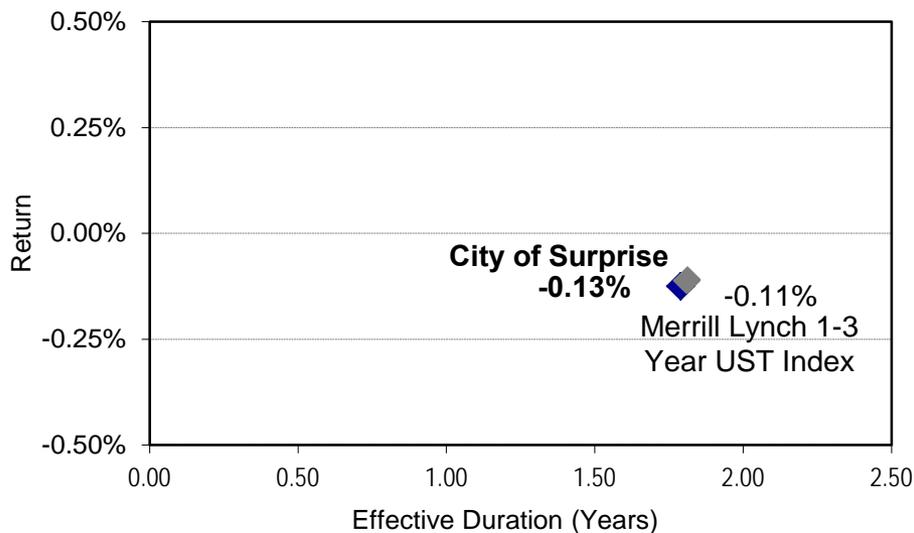


Source: BofA Merrill Lynch Bond Indices

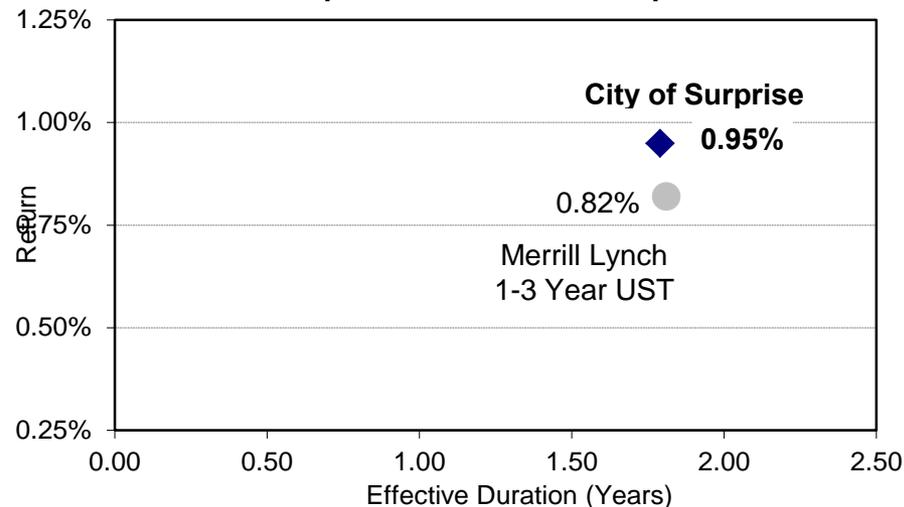
# Quarterly Performance

	Quarter Ended	Past	Past	Past	Since
<b>Total Return</b> <sup>1,2,3,4,5</sup>	June 30, 2013	6 Months	1 Year	2 Years	Inception
<b>City of Surprise</b>	<b>-0.13%</b>	<b>0.01%</b>	<b>0.36%</b>	<b>0.63%</b>	<b>0.95%</b>
Merrill Lynch 1-3 Year UST Index	-0.11%	0.00%	0.33%	0.56%	0.82%
<b>Effective Duration</b> <sup>4</sup>	June 30, 2013	March 31, 2013	<b>Yields</b>	June 30, 2013	March 31, 2013
<b>City of Surprise</b>	<b>1.79</b>	<b>1.80</b>	Yield at Market	<b>0.37%</b>	0.26%
Merrill Lynch 1-3 Year UST Index	1.81	1.79	Yield on Cost	<b>0.44%</b>	0.44%

**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.

# Second Quarter Total Return Detail

- Total return: Includes interest earnings, realized gains/losses, and unrealized gains/losses. Assumes all holdings are sold at market rates.

### Calculating Return in Dollars

Ending Market Value + Accrued Interest	\$71,640,397	
- Beginning Market Value + Accrued Interest	- \$71,731,245	
+ Distributions	+ \$935	
- Contributions	- \$0	
<b>= Total Return</b>	<b>-\$89,913</b>	

### Components of Dollar Return

Realized Gain/Loss:	\$16,569	<b>Realized Return</b>
Net Interest Income:	+ \$68,607	
<b>Realized Dollar Return:</b>	<b>\$85,176</b>	<b>→ +0.119%</b>
<hr/>		
Unrealized Gain/Loss:	- \$175,089	
<b>Total Return</b>	<b>-\$89,913</b>	

### Calculating Average Balance

Beginning Market Value + Accrued Interest	\$71,731,245	
- Time-Weighted Distributions	- \$935	
+ Time-Weighted Contributions	+ \$0	
<b>= Time Weighted Average Balance</b>	<b>\$71,730,310</b>	





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## Economic Update

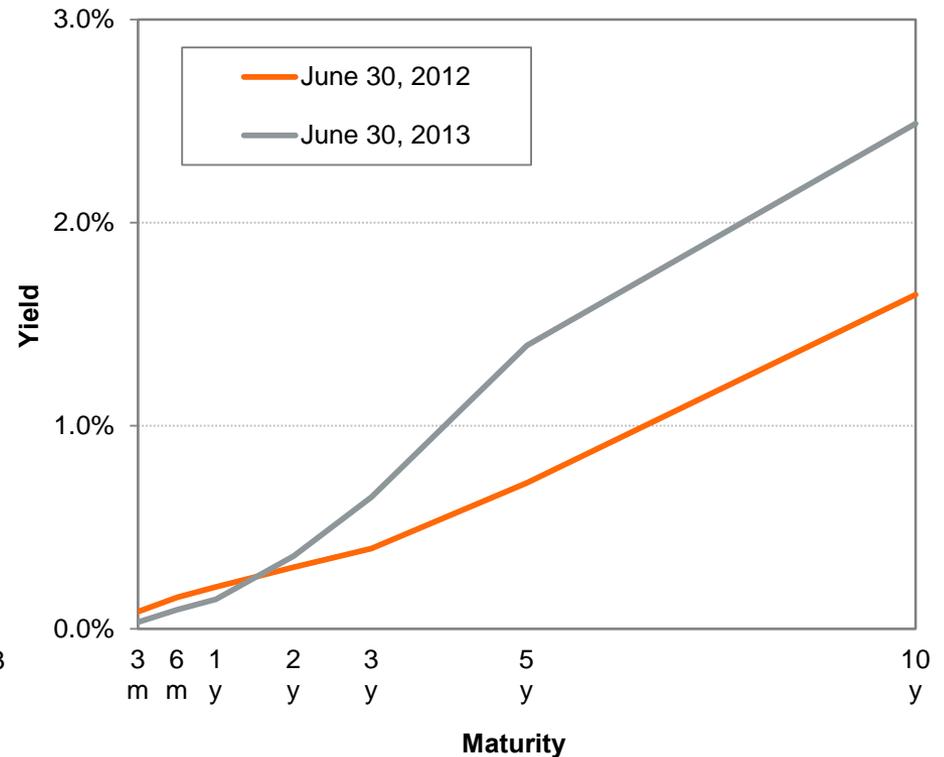
# Interest Rates Surge to Highest Levels in Almost Two Years

- Interest rates began higher in May on speculation the Fed could taper quantitative easing before the end of the year. Rates continued to move up in June on further speculation as well as positive economic data.

**2-Year Treasury Yield**  
July 1, 2011 – July 22, 2013



**U.S. Treasury Curves**

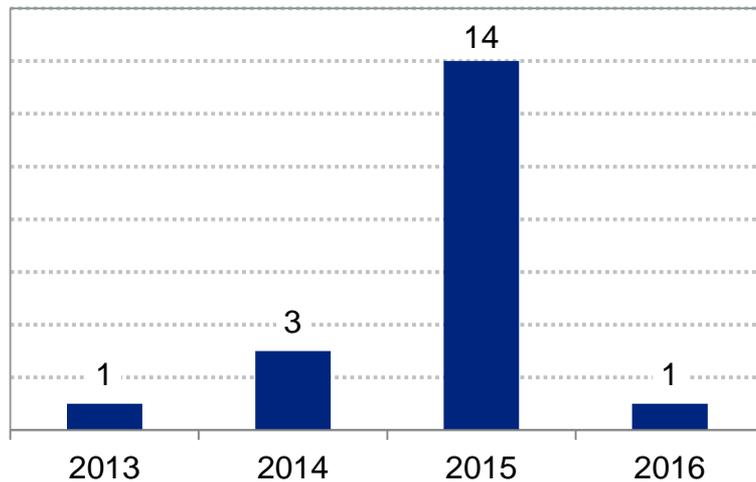


Source: Bloomberg

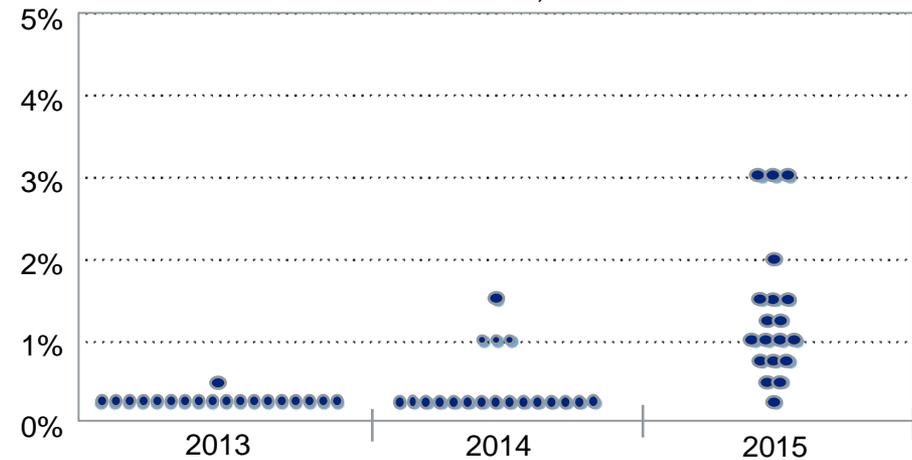
# Fed Rate Guidance Indicates Continued Low Rates Through At Least 2015

- Since unemployment remains at uncomfortably high levels, and inflation remains at low levels, the Federal Reserve is still expected to keep interest rates low until 2015. However, in the Fed's June release they indicated that bond purchases are likely to taper near the end of 2013.

**FOMC Participant Votes on Appropriate Timing of Policy Firming**  
as of June 19, 2013



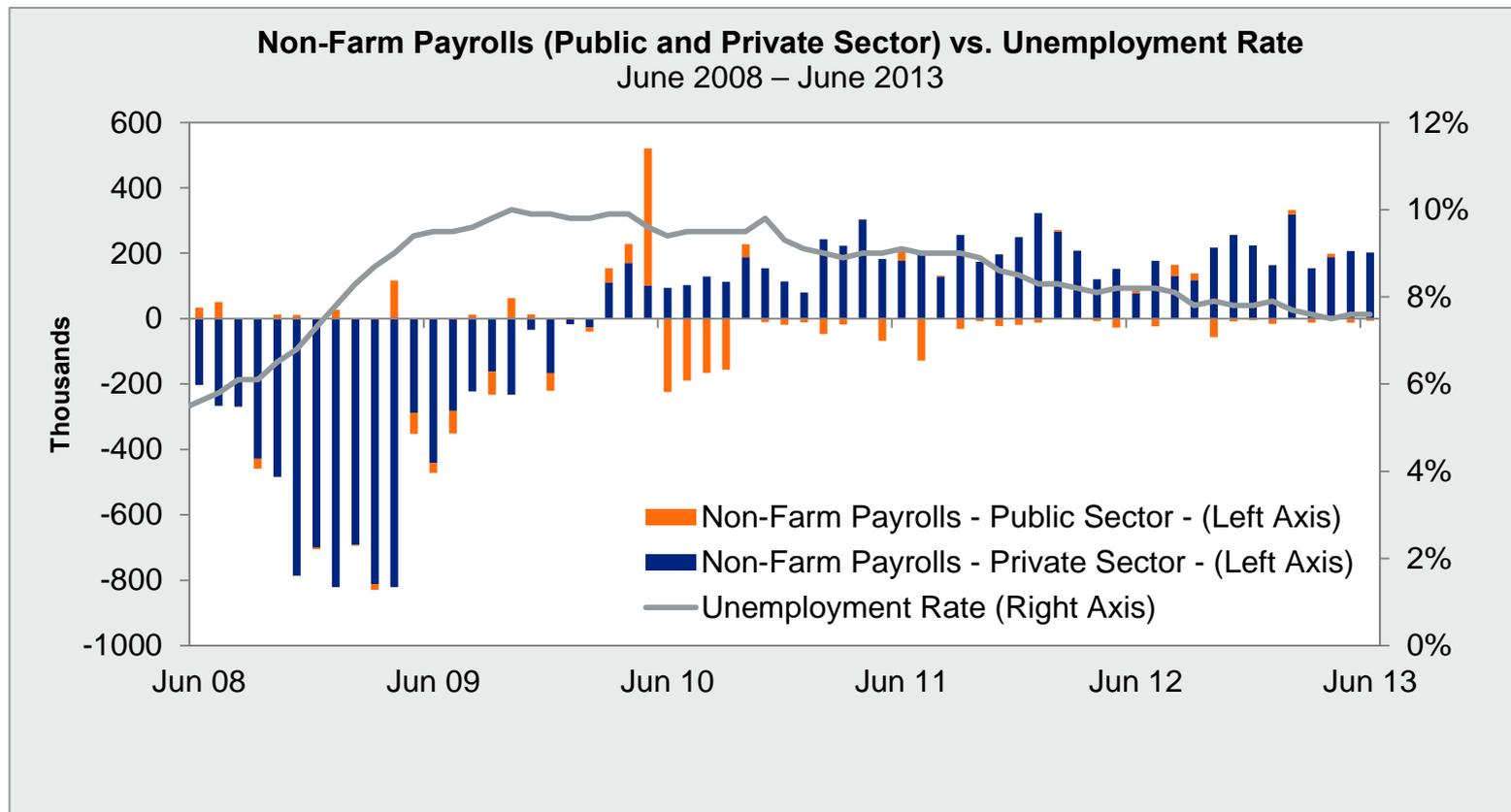
**Targeted Federal Funds Rate at Year-End**  
FOMC Participant Forecasts  
as of June 19, 2013



- *Individual FOMC participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year.*

# Encouraging Employment Data

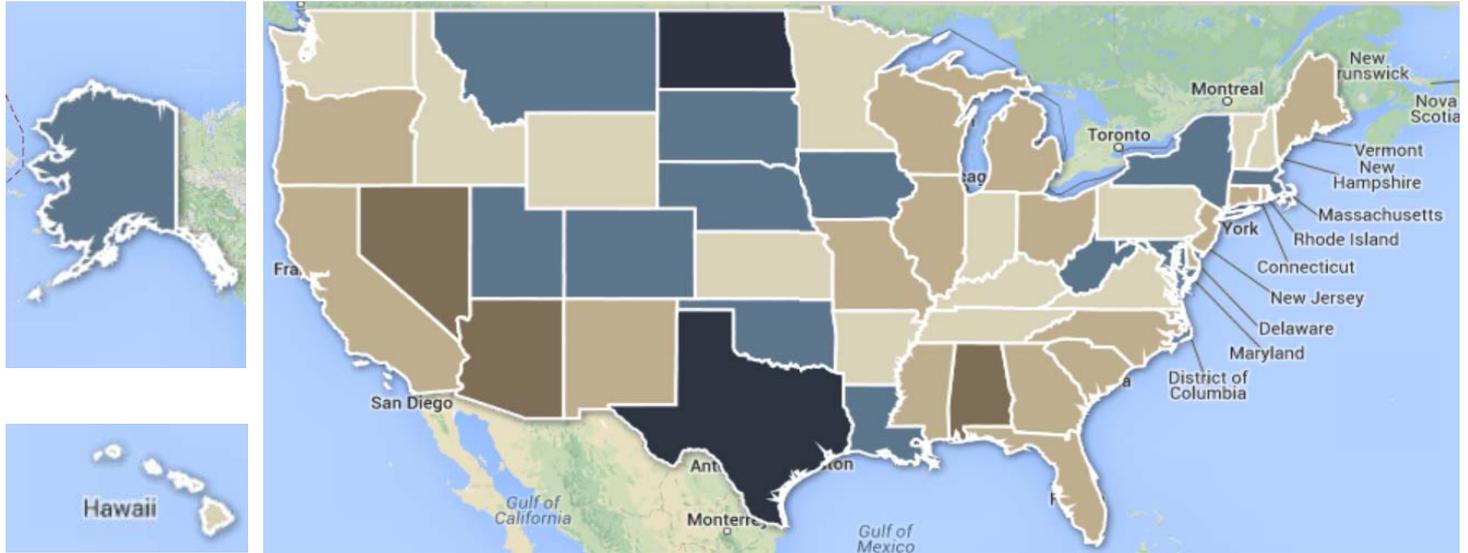
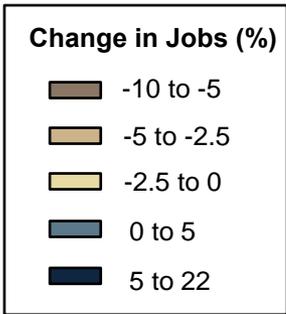
- Over the past twelve months the economy has average 179,000 jobs a month and the unemployment rate has fallen from 8.2% to 7.6%.



Source: Bloomberg

# But, Overall Jobs Recovery is Uneven

**Job Recovery Since 2008 by State**  
(January 2008 vs. June 2013 estimated)



- The U.S. has recovered 5.3 million jobs since job losses bottomed out, about 2.2 million below pre-recession levels.
- Arizona had the second largest employment percentage drop behind Nevada.
- Only 14 states and the District of Columbia have fully recovered jobs dating back to 2008.

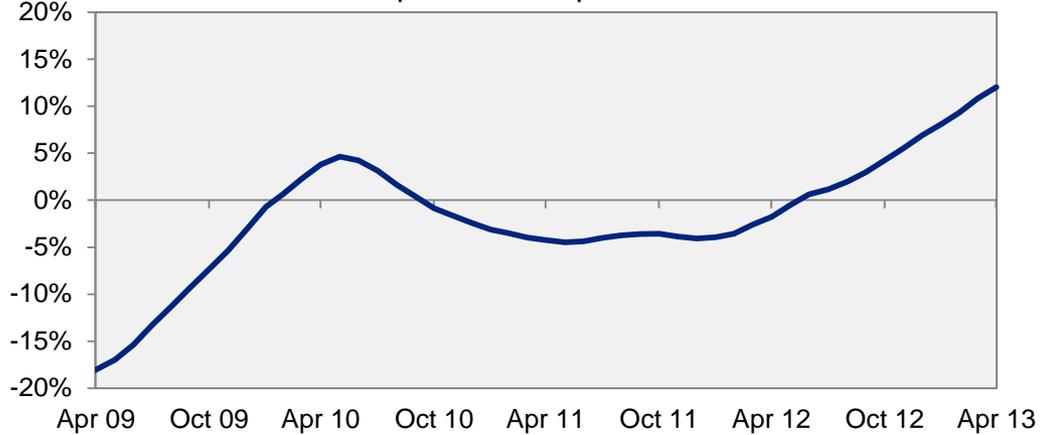
State	Net Employment Change (2008 vs. 2013)	Net Employment Change % (2008 vs. 2013)
Arizona	-169,000	-6.3%
California	-487,600	-3.2%
Nevada	-126,700	-9.8%
Florida	-386,300	-4.9%
Texas	606,800	5.7%
North Dakota	78,800	21.6%

Source: Bureau of Labor Statistics, nonfarm seasonally-adjusted employment.

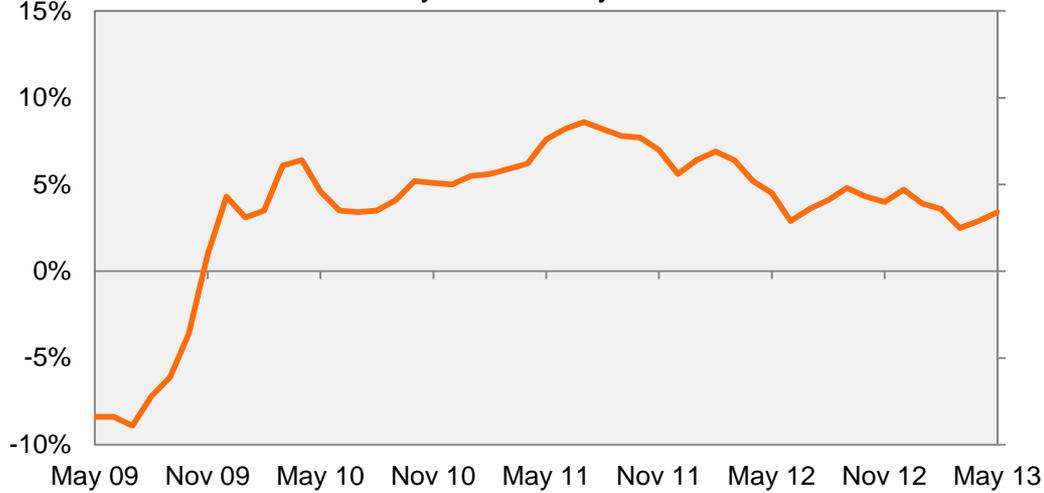
# Housing and Retail Sales Continue to Advance

- Home prices continued to show significant appreciation, with year-over-year prices improving by 12.1% through April (the most recently available data).
- The increase in prices has largely been due to low mortgage rates, dwindling supply, pick-up in the new construction market, and affordability.
  
- Retail sales improved by 0.6% during May, slightly beating expectations of 0.5%.
- Auto sales increased to an annualized rate of 15.9 million in June, which is close to the pace before the financial crisis.

**Case-Shiller 20 City Home Price Index (YoY)**  
April 2008 – April 2013



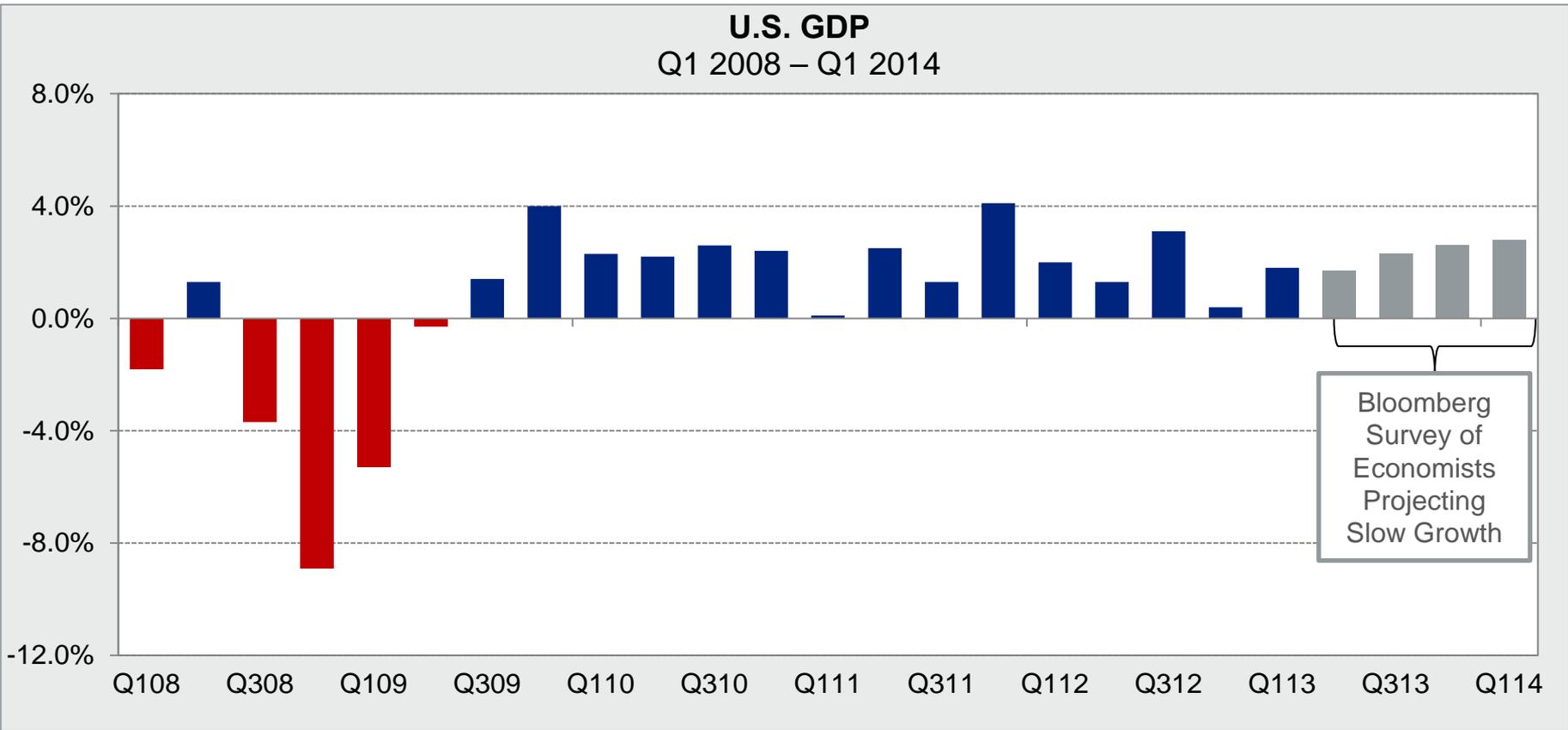
**Retail Sales Including Autos (YoY)**  
May 2009 – May 2013



Source: Bloomberg

# Continued Slow GDP Growth

- Economic growth is expected to average 2.1% in 2013, which is not considered high enough to drive significant job growth.



Source: U.S. Bureau of Economic Analysis

# Detroit Files for Bankruptcy

- July 18: Detroit becomes largest municipality to file for Chapter 9 bankruptcy protection.
  - Chapter 9 refers to the section of the bankruptcy code related to municipal bankruptcy.
  - Fewer than 500 municipalities have qualified for bankruptcy under Chapter 9.
- Causes of Bankruptcy:
  - Significant population decrease.
  - Decline of a major industry and public revenues.
  - Disabling levels of obligations to pensioners and other contracts.
- \$18 billion of debt: A federal judge will ultimately decide how much the city has to pay its creditors.
  - Chapter 9 requires that a city prove to be "insolvent" before it can go through bankruptcy proceedings.
  - Federal bailout unlikely.
- Detroit's bankruptcy not a surprise to the market or credit rating agencies.

Sources: State of Michigan, City of Detroit, Governing Magazine, Huffington Post



# Disclaimer

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## Managed Account Detail of Securities Held

For the Month Ending **June 30, 2013**

### 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
<b>U.S. Treasury Bond / Note</b>											
US TREASURY NOTES DTD 02/17/2004 4.000% 02/15/2014	912828CA6	1,000,000.00	AA+	Aaa	07/05/12	07/06/12	1,059,453.12	0.30	15,027.62	1,023,087.67	1,023,984.00
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	120.22	1,097,731.12	1,100,257.40
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	21,586.33	2,367,883.86	2,371,605.90
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	21,961.74	2,408,223.19	2,412,851.22
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	33,812.15	2,383,509.51	2,384,824.22
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	34,413.26	2,424,523.78	2,427,221.09
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	6,112.40	793,758.63	796,618.90
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	5,268.34	1,070,790.72	1,070,546.88
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	9,456.67	1,923,649.09	1,921,631.64
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	9,512.28	5,463,672.85	5,464,193.21
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	118.21	2,386,391.44	2,389,600.00
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	13,139.50	1,852,547.15	1,850,905.80
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	18,066.82	2,543,739.78	2,544,995.48
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	15,805.03	3,020,084.60	3,010,606.50



## Managed Account Detail of Securities Held

For the Month Ending **June 30, 2013**

### 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
<b>U.S. Treasury Bond / Note</b>											
US TREASURY NOTES DTD 01/31/2011 2.000% 01/31/2016	912828PS3	3,350,000.00	AA+	Aaa	01/30/13	01/31/13	3,507,162.11	0.42	27,947.51	3,485,425.59	3,476,408.90
US TREASURY NOTES DTD 05/02/2011 2.000% 04/30/2016	912828QF0	2,150,000.00	AA+	Aaa	05/13/13	05/14/13	2,251,705.08	0.39	7,244.57	2,247,248.56	2,232,641.70
US TREASURY NOTES DTD 05/02/2011 2.000% 04/30/2016	912828QF0	3,800,000.00	AA+	Aaa	03/28/13	04/01/13	3,988,070.31	0.38	12,804.35	3,972,971.48	3,946,064.40
US TREASURY NOTES DTD 05/31/2011 1.750% 05/31/2016	912828QP8	3,280,000.00	AA+	Aaa	05/30/13	05/31/13	3,401,334.38	0.51	4,861.75	3,397,930.33	3,383,011.68
US TREASURY NOTES DTD 06/30/2009 3.250% 06/30/2016	912828KZ2	1,860,000.00	AA+	Aaa	05/23/13	05/28/13	2,020,642.97	0.43	164.27	2,015,800.52	2,002,115.16
<b>Security Type Sub-Total</b>		<b>43,915,000.00</b>					<b>46,538,989.66</b>	<b>0.39</b>	<b>257,423.02</b>	<b>45,878,969.87</b>	<b>45,810,084.08</b>
<b>Municipal Bond / Note</b>											
MESA, AZ T/E 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	865,578.52	868,076.95
<b>Security Type Sub-Total</b>		<b>845,000.00</b>					<b>878,200.05</b>	<b>0.77</b>	<b>8,450.00</b>	<b>865,578.52</b>	<b>868,076.95</b>
<b>Federal Agency Bond / Note</b>											
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	1,226,469.00	1,229,191.48
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	3,842,601.31	3,853,817.55
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	1,000,698.32	1,009,119.00
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	1,246,630.39	1,251,307.56
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	2,513,834.28	2,522,797.50



**Managed Account Detail of Securities Held**

For the Month Ending **June 30, 2013**

**CITY OF SURPRISE OPERATING FUND**

<b>Security Type/Description Dated Date/Coupon/Maturity</b>	<b>CUSIP</b>	<b>Par</b>	<b>S&amp;P Rating</b>	<b>Moody's Rating</b>	<b>Trade Date</b>	<b>Settle Date</b>	<b>Original Cost</b>	<b>YTM at Cost</b>	<b>Accrued Interest</b>	<b>Amortized Cost</b>	<b>Market Value</b>
<b>Federal Agency Bond / Note</b>											
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	11,352.15	3,870,326.19	3,887,139.66
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	3,736,890.32	3,745,859.96
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	2,998,437.00	3,013,599.00
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	1,322,641.67	1,327,161.08
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	2,499,561.15	2,495,662.50
<b>Security Type Sub-Total</b>		<b>24,200,000.00</b>					<b>24,369,763.80</b>	<b>0.57</b>	<b>59,080.37</b>	<b>24,258,089.63</b>	<b>24,335,655.29</b>
<b>Managed Account Sub-Total</b>		<b>68,960,000.00</b>					<b>71,786,953.51</b>	<b>0.45</b>	<b>324,953.39</b>	<b>71,002,638.02</b>	<b>71,013,816.32</b>
<b>Securities Sub-Total</b>		<b>\$68,960,000.00</b>					<b>\$71,786,953.51</b>	<b>0.45%</b>	<b>\$324,953.39</b>	<b>\$71,002,638.02</b>	<b>\$71,013,816.32</b>
<b>Accrued Interest</b>											<b>\$324,953.39</b>
<b>Total Investments</b>											<b>\$71,338,769.71</b>