



# City of Surprise

## Quarterly Performance Review

### First Quarter Ended March 31, 2014



#### The PFM Group

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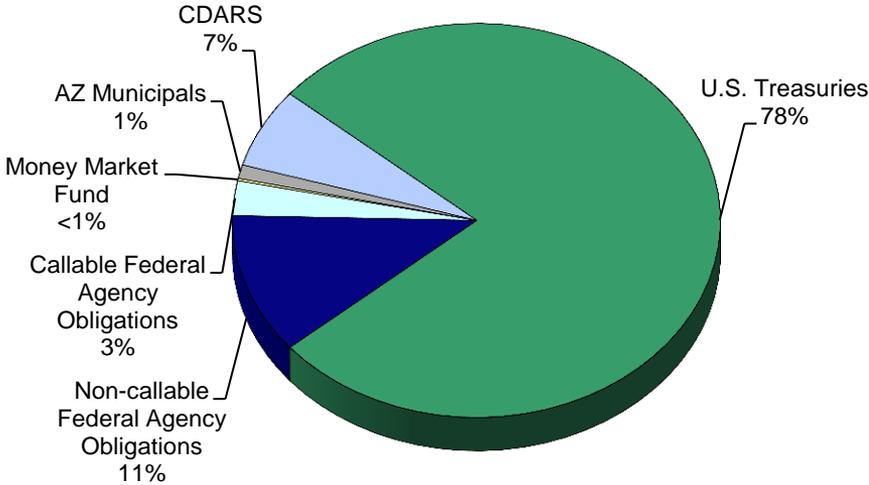
# First Quarter 2014 Strategy and Recap

- The portfolio complies with the Arizona Revised Statutes and the City of Surprise's investment policy. It is well diversified among U.S. Treasuries, Federal Agencies, and other sectors.
- Although harsh weather tempered growth in the first quarter, the resilience and duration of the expansion in the U.S. supported PFMAM's macro-level view that economic growth would continue.
- Our first quarter strategy included:
  - Maintaining a defensive duration shorter than benchmark to mitigate the impact of potentially higher rates for most of the first quarter.
  - Modestly extending duration in late March, capitalizing on the significant spike in rates following the March 19 FOMC meeting.
  - Adding value through careful timing of selective purchases in addition to matching benchmark duration extensions each month.
- We favored U.S. Treasuries for many shorter maturities as Agency yield spreads fell to near record lows. Therefore, investment opportunities in the agency sector have become issue-specific.
- Municipal issuance slowed sharply during the quarter, driving yield spreads tighter.

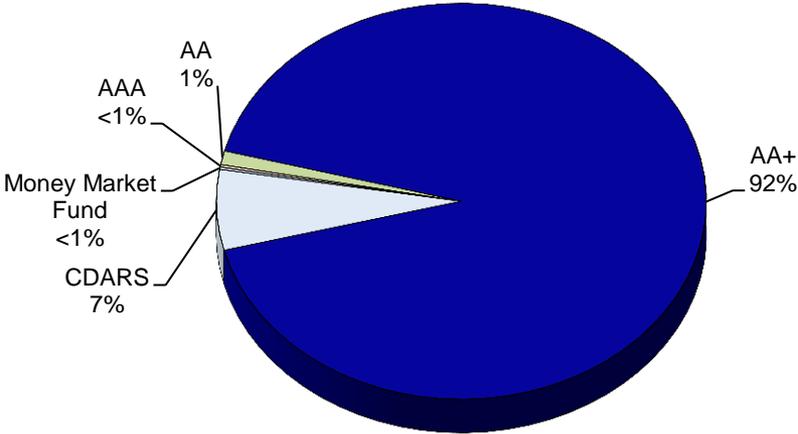
# Portfolio Summary and Characteristics

Security Type <sup>1</sup>	March 31, 2014	Current Quarter % of Portfolio	Previous Quarter % of Portfolio
<b>U.S. Treasury</b>	<b>\$59,593,148</b>	<b>78%</b>	71%
<b>Federal Agency</b>	<b>\$11,012,490</b>	<b>14%</b>	21%
Callable Federal Agency	\$2,170,572	3%	3%
Non-callable Federal Agency	\$8,841,918	11%	18%
<b>CDARS<sup>2</sup></b>	<b>\$5,035,831</b>	<b>7%</b>	7%
<b>AZ Municipals</b>	<b>\$863,784</b>	<b>1%</b>	1%
<b>Wells Fargo MMF</b>	<b>\$149,765</b>	<b>&lt;1%</b>	<1%
<b>Total Market Value</b>	<b>\$76,655,018</b>	<b>100%</b>	100%

**Sector Distribution**



**Credit Quality Distribution**



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

<sup>1</sup> Security market values excluding accrued interest as of trade date. Note that PFM statements reflect holdings as of trade date.

<sup>2</sup> 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.

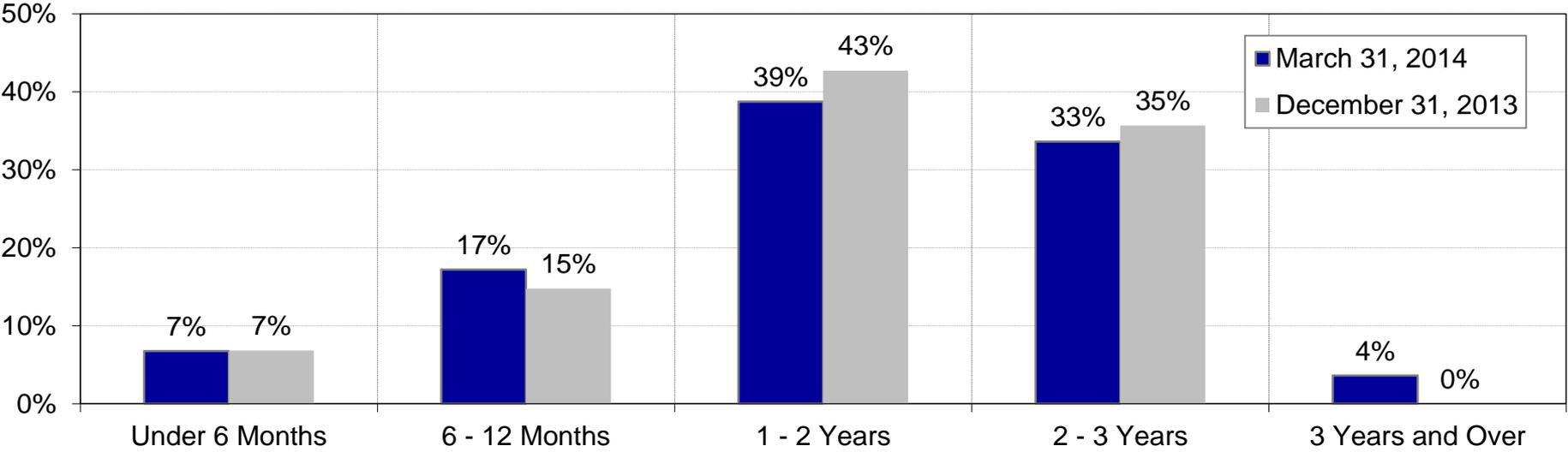
# Maturity Summary and Key Portfolio Statistics

Maturity Distribution		
<u>Maturity Class</u>	<u>Fair Value</u> <sup>3</sup>	<u>% of Portfolio</u>
Under 6 Months	\$5,185,595	7%
6 - 12 Months	\$13,208,808	17%
1 - 2 Years	\$29,697,160	39%
2 - 3 Years	\$25,776,504	33%
3 Years and Over	\$2,786,950	4%
<b>Total Market Value</b>	<b>\$76,655,018</b>	<b>100%</b>

Key Portfolio Statistics	
Effective Duration <sup>1</sup>	1.66 years
Benchmark Duration <sup>2</sup>	1.84 years
Yield at Cost	0.48%

1. Duration to worst as of 3/31/2014 was 1.68.  
 2. The City's benchmark is the Merrill Lynch 1-3 Year U.S. Treasury Index. Performance statistics exclude money market fund and CDARS.  
 3. Security market values excluding accrued interest as of trade date. Note that PFM monthly statements reflect holdings as of trade date.

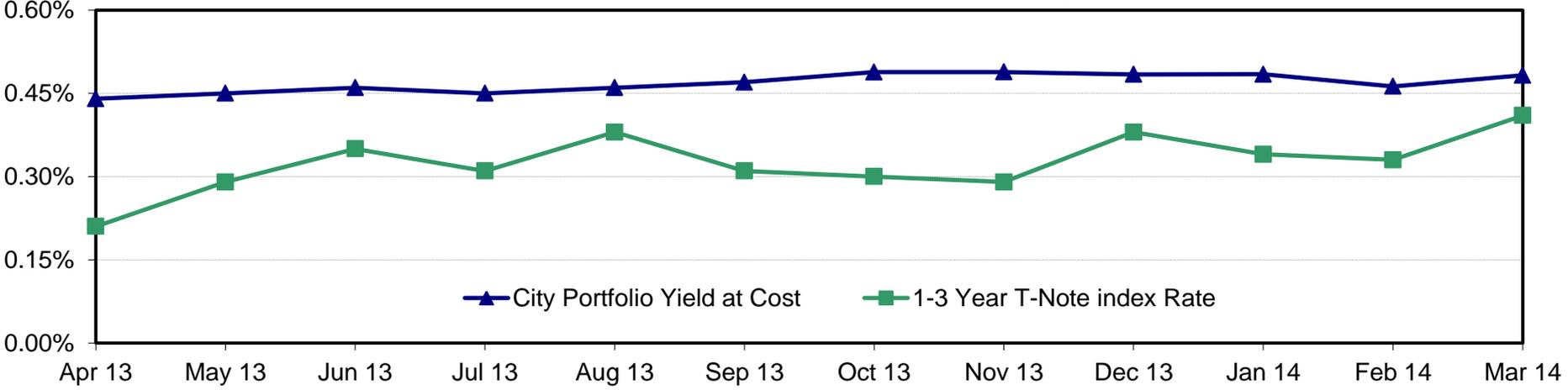
Maturity Distribution



# Individual Portfolio Yield Summary

Date	Month-End Market Value <sup>1,2</sup>	Duration <sup>2</sup>	Portfolio YTM at Cost <sup>2</sup>	1-3 Year T-Note Index Rate <sup>3</sup>
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%
Jul-13	\$71,447,857	1.71	0.45%	0.31%
Aug-13	\$71,473,114	1.63	0.46%	0.38%
Sep-13	\$71,522,668	1.67	0.47%	0.31%
Oct-13	\$71,527,474	1.73	0.49%	0.30%
Nov-13	\$71,718,093	1.66	0.49%	0.29%
Dec-13	\$71,581,151	1.71	0.48%	0.38%
Jan-14	\$71,692,788	1.63	0.48%	0.34%
Feb-14	\$71,765,140	1.66	0.46%	0.33%
Mar-14	\$71,619,187	1.66	0.48%	0.41%

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



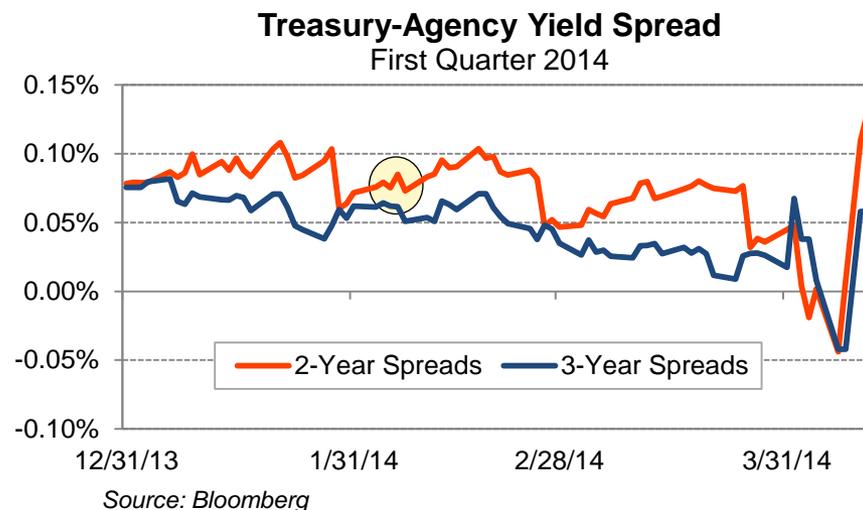
<sup>1</sup> Excludes accrued interest, CDARS. Includes balance in the custody account MMF.  
<sup>2</sup> Excludes CDARS and custody money market fund.  
<sup>3</sup> Rate represents the BoA/Merrill Lynch 1-3 Year U.S. Treasury Note Index month-end yield. Source: Bloomberg.

# Holdings by Maturity

Issuer	Maturity	Years to Maturity	Fair Value	Yield to Maturity	Next Call Date	Frequency
Wells Fargo MMF	3/31/2014	0.00	\$149,765	0.01%		
Alliance Bank (CDARS)	8/14/2014	0.37	\$5,035,831	0.33%		
FHLMC	12/29/2014	0.75	\$3,007,488	0.66%		
U.S. Treasury	1/31/2015	0.83	\$2,381,315	0.40%		
U.S. Treasury	1/31/2015	0.83	\$2,340,609	0.38%		
U.S. Treasury	2/15/2015	0.88	\$2,367,555	0.37%		
U.S. Treasury	2/15/2015	0.88	\$2,326,201	0.33%		
U.S. Treasury	2/28/2015	0.91	\$785,640	0.51%		
U.S. Treasury	5/15/2015	1.13	\$1,874,443	0.28%		
U.S. Treasury	5/15/2015	1.13	\$1,044,258	0.33%		
FNMA	5/27/2015	1.16	\$1,329,628	0.59%		
U.S. Treasury	5/31/2015	1.17	\$5,405,149	0.35%		
U.S. Treasury	6/30/2015	1.25	\$2,369,029	0.43%		
AZ Municipal	7/1/2015	1.25	\$863,784	0.77%		
U.S. Treasury	7/31/2015	1.33	\$2,526,530	0.41%		
U.S. Treasury	7/31/2015	1.33	\$1,837,476	0.34%		
U.S. Treasury	7/31/2015	1.33	\$1,965,079	0.20%		
U.S. Treasury	11/15/2015	1.63	\$2,937,236	0.34%		
FHLB	12/30/2015	1.75	\$2,170,572	0.39%	9/30/14	One-time
U.S. Treasury	1/31/2016	1.83	\$3,449,977	0.42%		
FHLB	2/19/2016	1.89	\$1,923,999	0.37%		
U.S. Treasury	4/30/2016	2.08	\$3,919,936	0.38%		
U.S. Treasury	4/30/2016	2.08	\$2,217,858	0.39%		
U.S. Treasury	5/31/2016	2.17	\$3,367,123	0.51%		
U.S. Treasury	6/30/2016	2.25	\$1,972,472	0.43%		
U.S. Treasury	7/31/2016	2.33	\$1,965,756	0.48%		
U.S. Treasury	8/31/2016	2.42	\$3,530,898	0.86%		
FNMA	9/28/2016	2.49	\$2,580,803	0.73%		
U.S. Treasury	11/30/2016	2.67	\$2,431,816	0.65%		
U.S. Treasury	11/30/2016	2.67	\$3,789,842	0.58%		
U.S. Treasury	3/31/2017	3.00	\$2,786,950	0.96%		
<b>Total Market Value</b>			<b>\$ 76,655,018</b>			

# Agency Yield Spreads Fell to Near Record Lows

- When the yield difference between Agencies and Treasuries is narrow, we prefer the Treasury sector as investors are not being adequately compensated for taking additional risk.
- We sold off shorter-maturing securities and reinvested a majority of the proceeds into U.S. Treasury notes to rebalance the portfolio and position the duration closer to the target duration.
  - Trades realized \$16,274 in gains.

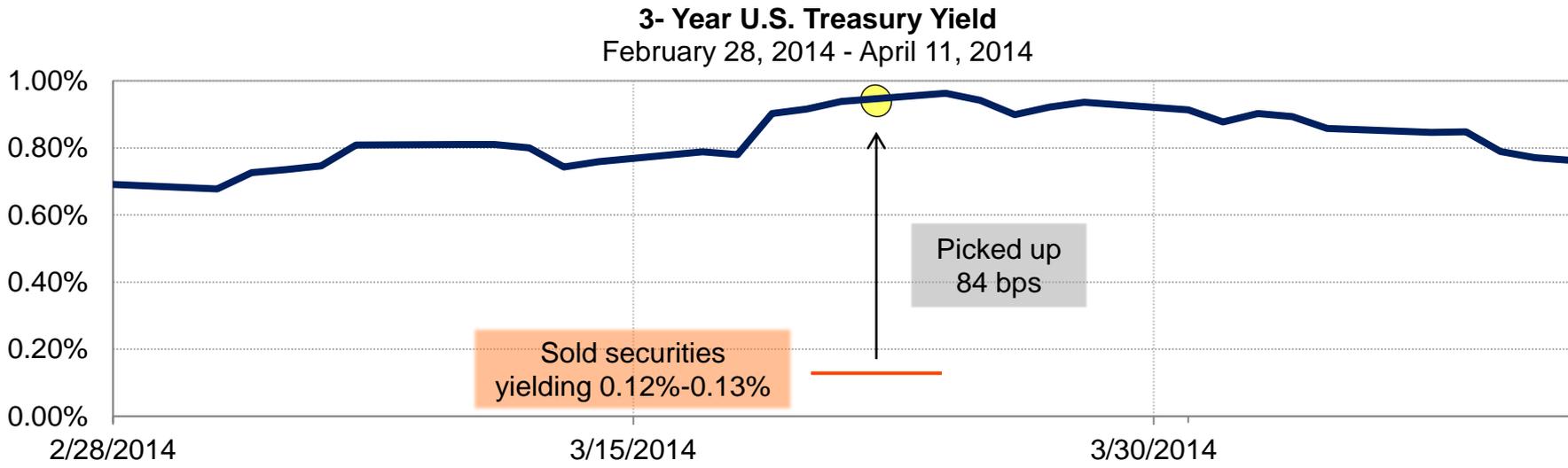


Date	Transaction	Security	Maturity	Par	Yield	Gain/Loss from Sale
2/4/14	Buy	U.S. Treasury Note	7/31/15	\$1,925,000	0.20%	-
2/4/24	Buy	FHLB Note	2/19/16	\$1,925,000	0.37%	-
2/4/24	Buy	U.S. Treasury Note	7/31/16	\$1,925,000	0.48%	-
2/4/14	Sell	FHLMC Notes	8/27/14	\$1,740,000	0.12%	\$6,267
2/4/14	Sell	FNMA Notes	8/28/14	\$1,700,000	0.11%	\$4,978
2/4/14	Sell	FNMA Notes	10/30/14	\$2,000,000	0.15%	\$4,909
2/6/14	Sell	FNMA Notes	10/30/14	\$50,000	0.16%	\$120

# Capitalized on Yield Spike After Fed Announcement

- We took advantage of the sell-off after the FOMC statement on March 19 and locked in higher yields.
- We sold off the shortest-maturing securities and purchased 3-Year Treasury Notes.
  - Trades realized \$5,585 in gains.
  - Enhanced the overall yield of the portfolio by 2 bps.

Date	Transaction	Security	Maturity	Par Value (millions)	Yield	Realized G/L
3/24/14	Buy	US Treasury Note	3/31/17	\$2,780,000	0.96%	-
3/24/14	Sell	FNMA Notes	10/30/14	\$1,680,000	0.12%	\$3,645
3/24/14	Sell	US Treasury Note	12/15/14	\$1,100,000	0.13%	\$2,120

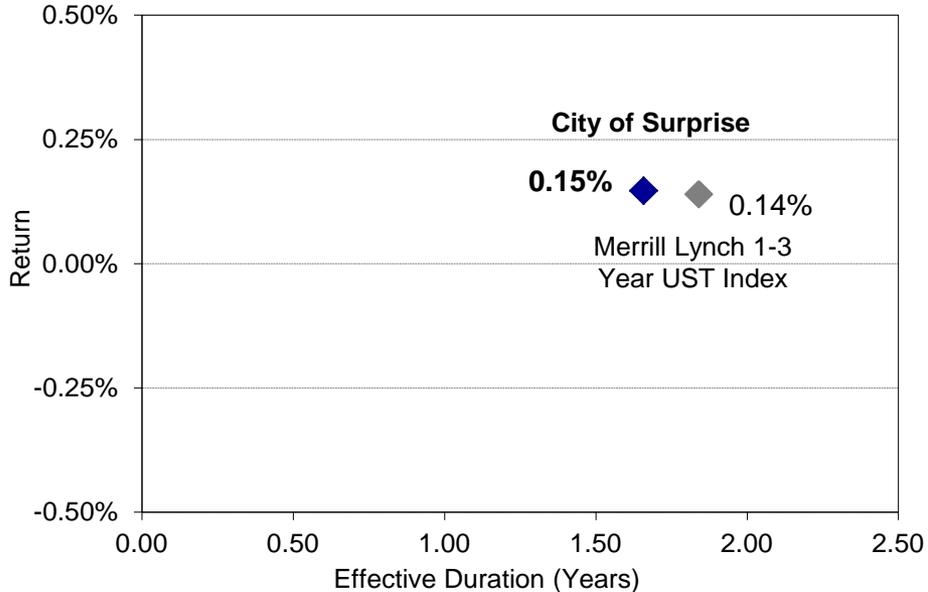


Source: Bloomberg

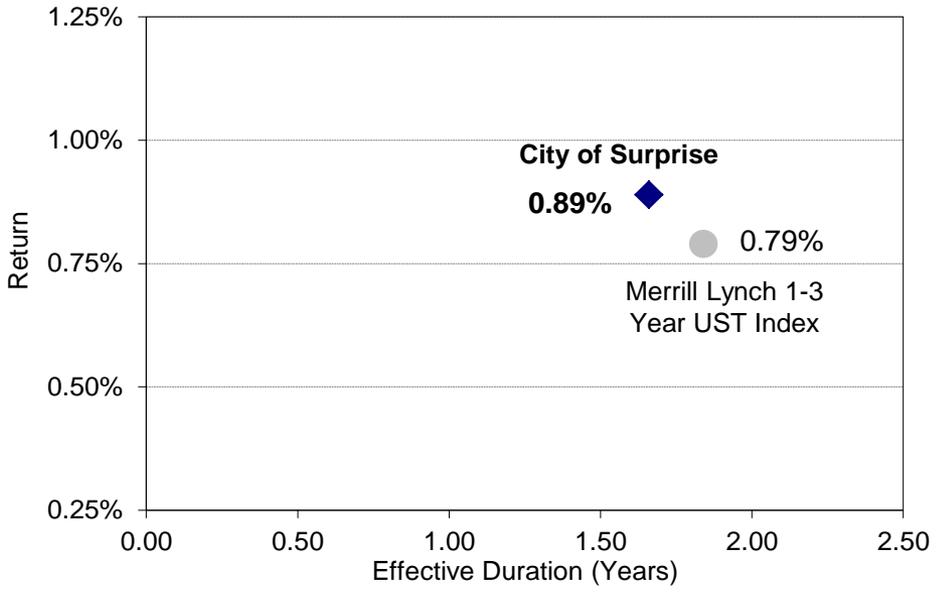
# Portfolio Performance

Total Return <sup>1,2,3,4,5</sup>	Quarter Ended March 31, 2014	Past 1 Year	Past 2 Years	Past 3 Years	Since Inception
<b>City of Surprise</b>	<b>0.15%</b>	<b>0.36%</b>	<b>0.54%</b>	<b>0.87%</b>	<b>0.89%</b>
Merrill Lynch 1-3 Year UST Index	0.14%	0.38%	0.51%	0.81%	0.79%
Effective Duration <sup>4</sup>	March 31, 2014	December 31, 2013	Yields	March 31, 2014	December 31, 2013
<b>City of Surprise</b>	<b>1.66</b>	<b>1.71</b>	Yield at Market	<b>0.39%</b>	<b>0.38%</b>
Merrill Lynch 1-3 Year UST Index	1.84	1.83	Yield on Cost	<b>0.48%</b>	<b>0.48%</b>

**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 2014 Strategy and Outlook

- PFMAM's longer-term view is that interest rates will move higher as market conditions normalize.
- Our strategic plan is to:
  - Maintain a conservative duration bias
  - Find occasional market opportunities to target a slightly longer duration when the steepness of the yield-curve offers sufficient value and roll-down potential
- Agency yield spreads are narrow, which generally limits opportunities:
  - Shorter agencies are near record tight spread levels and offer little value
  - Longer agencies offer small incremental yield and modest value
  - Agency performance has become highly idiosyncratic, requiring careful issue-by-issue analysis
  - Market volatility has created occasional opportunities in callable agencies, although we have generally avoided large allocations to this sector
- The past 5 years may not be a good roadmap for the next 5 years:
  - Economic conditions are expected to improve
  - Extraordinarily easy Fed policy is winding down
  - Potentially higher rates that warrant caution with regard to duration
  - Expect continued volatility around Fed policy announcements and any global disruptions or surprises

# Disclaimer

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## Managed Account Detail of Securities Held

For the Month Ending **March 31, 2014**

### 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 02/01/2010 2.250% 01/31/2015	912828MH0	2,300,000.00	AA+	Aaa	06/28/12	06/29/12	2,410,777.34	0.38	8,577.35	2,335,825.77	2,340,608.80
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	8,726.52	2,376,007.69	2,381,315.04
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	11,187.85	2,322,063.95	2,326,200.75
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	11,386.74	2,362,620.66	2,367,555.43
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	1,590.22	783,047.54	785,640.24
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	15,611.19	1,042,456.76	1,044,258.00
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	28,022.08	1,872,144.58	1,874,443.11
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	37,641.11	5,393,802.03	5,405,149.19
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	10,935.08	2,361,568.16	2,369,028.56
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	5,220.99	1,833,702.48	1,837,476.00
US TREASURY NOTES DTD 08/02/2010 1.750% 07/31/2015	912828NP1	1,925,000.00	AA+	Aaa	02/04/14	02/07/14	1,969,139.65	0.20	5,583.56	1,964,779.49	1,965,078.50
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	7,178.87	2,519,098.73	2,526,529.50
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	46,833.56	2,934,845.71	2,937,236.33
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	11,104.97	3,446,323.02	3,449,977.40



## Managed Account Detail of Securities Held

For the Month Ending **March 31, 2014**

### 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 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	18,055.25	2,221,547.06	2,217,858.30
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	31,911.60	3,927,252.39	3,919,935.60
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	19,238.46	3,367,735.24	3,367,123.36
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	15,195.99	1,977,067.14	1,972,472.34
US TREASURY NOTES DTD 08/01/2011 1.500% 07/31/2016	912828OX1	1,925,000.00	AA+	Aaa	02/04/14	02/07/14	1,973,500.98	0.48	4,785.91	1,970,652.22	1,965,755.86
US TREASURY NOTES DTD 08/31/2011 1.000% 08/31/2016	912828RF9	3,500,000.00	AA+	Aaa	09/12/13	09/13/13	3,514,218.75	0.86	3,043.48	3,511,604.01	3,530,898.00
US TREASURY NOTES DTD 11/30/2009 2.750% 11/30/2016	912828MA5	2,310,000.00	AA+	Aaa	10/31/13	11/01/13	2,457,352.73	0.65	21,291.35	2,437,691.69	2,431,815.54
US TREASURY NOTES DTD 11/30/2009 2.750% 11/30/2016	912828MA5	3,600,000.00	AA+	Aaa	12/03/13	12/04/13	3,831,328.13	0.58	33,181.32	3,806,420.87	3,789,842.40
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	2,780,000.00	AA+	Aaa	03/24/14	03/25/14	2,783,475.00	0.96	75.96	2,783,454.23	2,786,950.00
<b>Security Type Sub-Total</b>		<b>57,855,000.00</b>					<b>60,913,106.47</b>	<b>0.46</b>	<b>356,379.41</b>	<b>59,551,711.42</b>	<b>59,593,148.25</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	4,225.00	857,896.18	863,784.35
<b>Security Type Sub-Total</b>		<b>845,000.00</b>					<b>878,200.05</b>	<b>0.77</b>	<b>4,225.00</b>	<b>857,896.18</b>	<b>863,784.35</b>
<b>Federal Agency Bond / Note</b>											
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	2,999,219.70	3,007,488.00



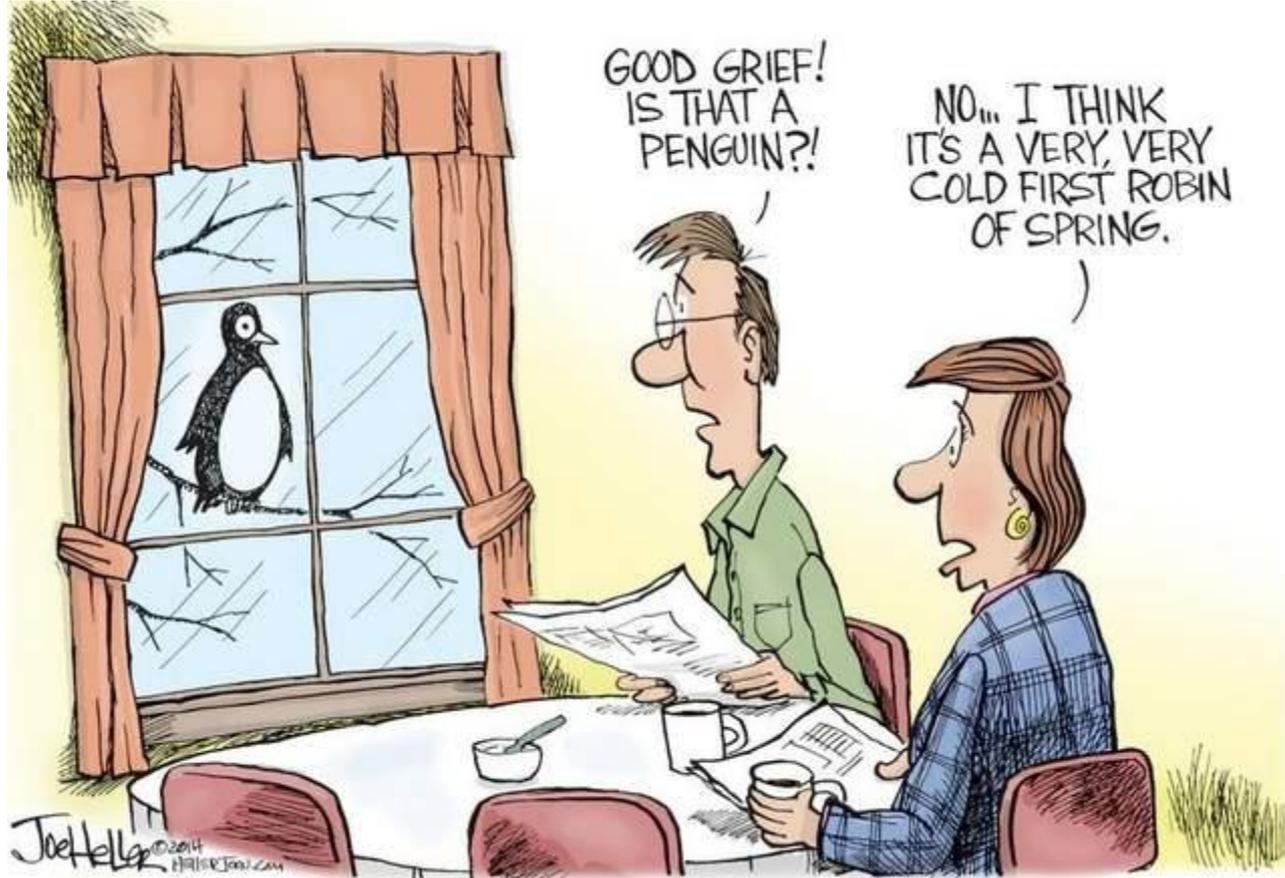
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For the Month Ending **March 31, 2014**

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<b>Federal Agency Bond / Note</b>											
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	1,323,566.80	1,329,628.23
FHLB (CALLABLE) GLOBAL NOTES DTD 12/30/2013 0.375% 12/30/2015	3130A0GK0	2,175,000.00	AA+	Aaa	12/16/13	12/30/13	2,174,238.75	0.39	2,061.72	2,174,334.69	2,170,571.70
FEDERAL HOME LOAN BANK GLOBAL NOTES DTD 01/24/2014 0.375% 02/19/2016	3130A0SD3	1,925,000.00	AA+	Aaa	02/04/14	02/07/14	1,925,115.50	0.37	842.19	1,925,106.84	1,923,999.00
FNMA NOTES DTD 08/19/2011 1.250% 09/28/2016	3135G0CM3	2,545,000.00	AA+	Aaa	10/02/13	10/03/13	2,583,760.35	0.73	265.10	2,577,401.23	2,580,803.06
<b>Security Type Sub-Total</b>		<b>10,970,000.00</b>					<b>11,001,135.35</b>	<b>0.57</b>	<b>10,242.62</b>	<b>10,999,629.26</b>	<b>11,012,489.99</b>
<b>Managed Account Sub-Total</b>		<b>69,670,000.00</b>					<b>72,792,441.87</b>	<b>0.48</b>	<b>370,847.03</b>	<b>71,409,236.86</b>	<b>71,469,422.59</b>
<b>Securities Sub-Total</b>		<b>\$69,670,000.00</b>					<b>\$72,792,441.87</b>	<b>0.48%</b>	<b>\$370,847.03</b>	<b>\$71,409,236.86</b>	<b>\$71,469,422.59</b>
<b>Accrued Interest</b>											<b>\$370,847.03</b>
<b>Total Investments</b>											<b>\$71,840,269.62</b>





## Economic Update



# Economic Summary: First Quarter in Review

## Economic Conditions

- While the year started with concerns over the pace of job growth, conditions strengthened through the quarter to create a respectable 533,000 net new jobs; the labor force grew modestly leaving the unemployment rate at 6.7%.
- Inclement weather conditions domestically, liquidity anxieties in Emerging Markets, and geopolitical uncertainty surrounding Russian intervention in the Ukraine, combined to threaten global growth prospects.
- In a changing of the guards, Janet Yellen replaced Ben Bernanke as FOMC Chairman and continued to reduce asset purchases at a measured pace; the Fed employment threshold was replaced with a timeline that referenced the end of the asset purchase program.

## Market Reaction

- Treasury yield curve continued its steepening trend, particularly for intermediate maturities — this impact was amplified around FOMC meetings; yields for maturities less than a year remained anchored.
- Credit spreads remained tight throughout the quarter as investors embraced new and sizable Corporate supply and Municipal issuance slowed.
- Despite intra-quarter volatility, Global Equity markets continued their march towards new, historically high levels.

# Impact of Weather on Economic Data

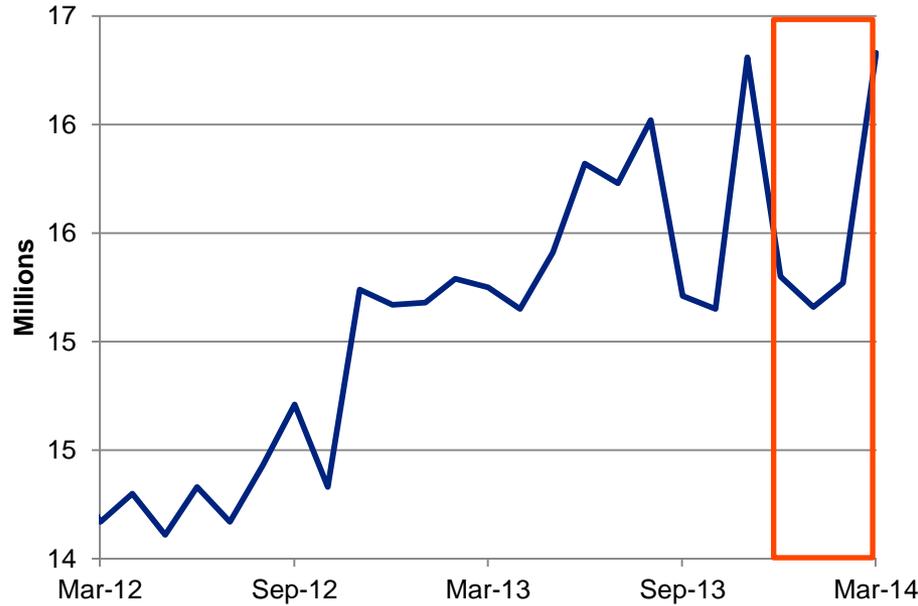
- December and January Auto Sales saw deviations from their recent growth trends thanks to the impact of multiple winter storms.
- Both indices saw a reversal of this trend in March as winter conditions began to subside.

## The Polar Vortex 2013/14 Winter Facts

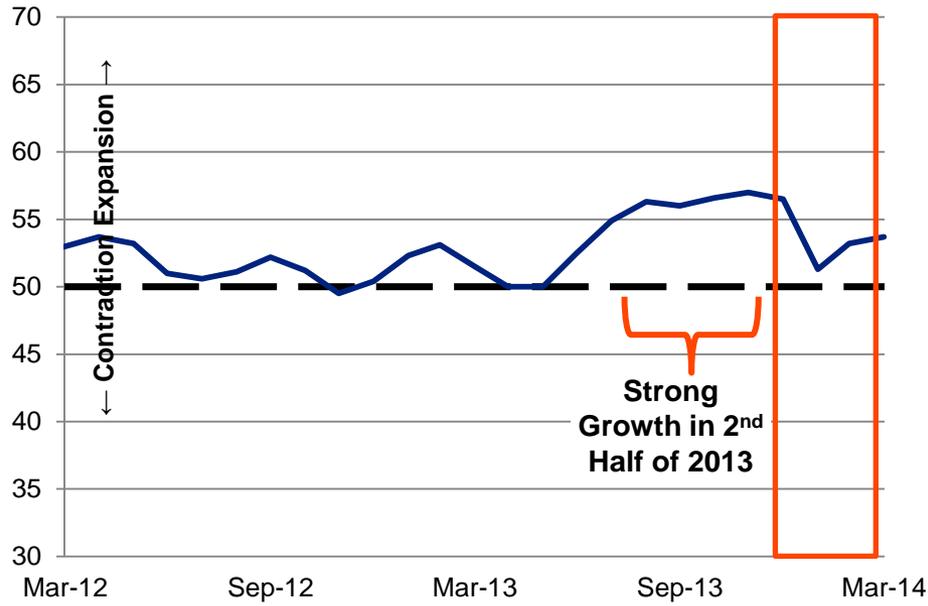
- 34th coldest winter for the contiguous 48 states as a whole since modern records began in 1895.
- Many mid-western states registered a top 10 coldest winter.
- Cities in Minnesota and North Dakota had 70 days with sub-zero temperatures.



Auto Sales



ISM Manufacturing



Source: Institute for Supply Management, Bloomberg.

# FOMC Statement Highlights

December

18

*“In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, the Committee decided to **modestly reduce the pace of its asset purchases . . . asset purchases are not on a preset course** and remain contingent on the Committee’s outlook . . . It likely will be appropriate to maintain the current target range for the federal funds rate **well past the time that the unemployment rate declines below 6.5%**”.*

January

29

*“In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, **the Committee decided to make a further measured reduction in the pace of its asset purchases . . .** It likely will be appropriate to maintain the current target range for the federal funds **rate well past the time that the unemployment rate declines below 6.5%**”.*

March

19

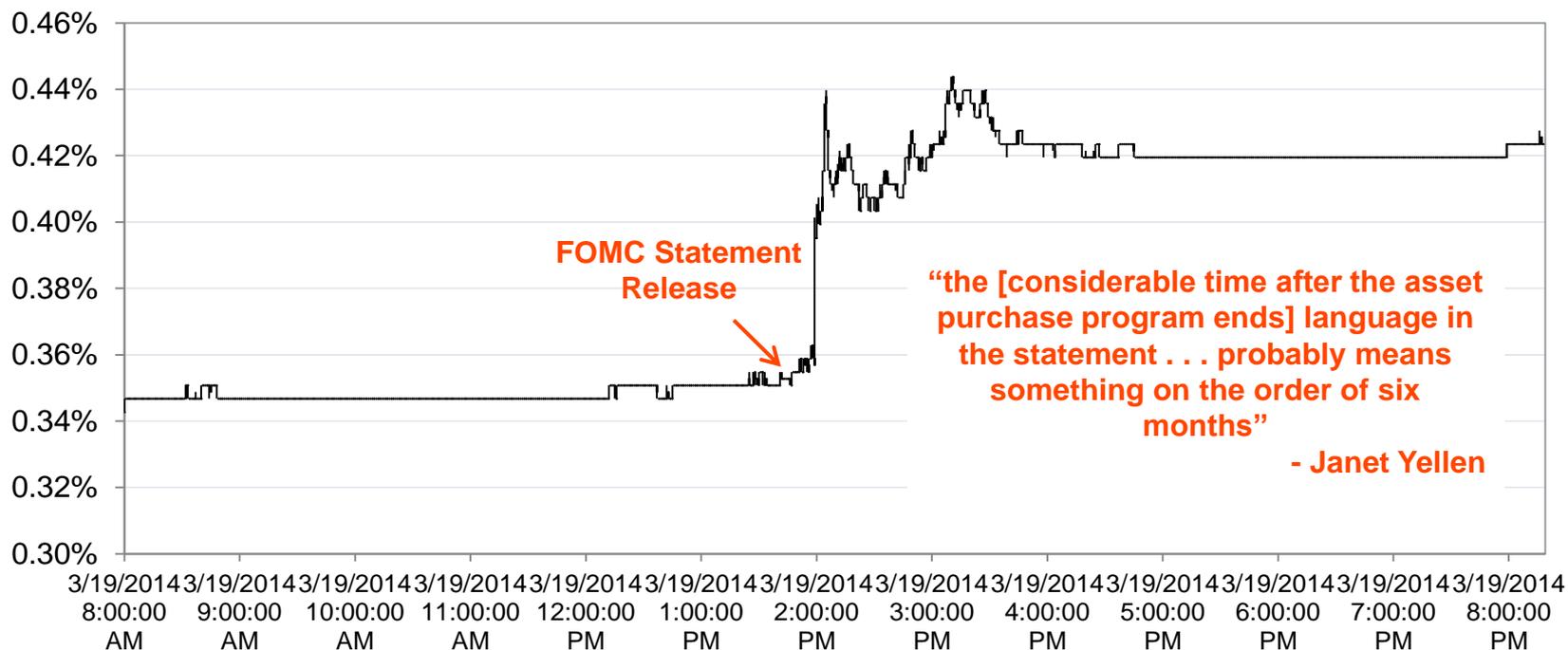
*“The Committee currently judges that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market condition . . . decided to make a further measured reduction in the pace of its asset purchases . . . **will likely reduce the pace of asset purchases in further measured steps . . .** it likely will be appropriate to maintain the current target range for the federal funds rate for a **considerable time after the asset purchase program ends**”.*

Source: Federal Reserve

# Yellen Debut Rattles Markets

- Highlights from Janet Yellen's first press conference as Chairman after a FOMC meeting:
  - Suggested the Fed Fund's target rate could be increased in early 2015
  - Rattled the markets
- As expected, the FOMC reduced asset purchases by an additional \$10B to \$55B.

2yr Treasury Intraday Yields: March 19, 2014



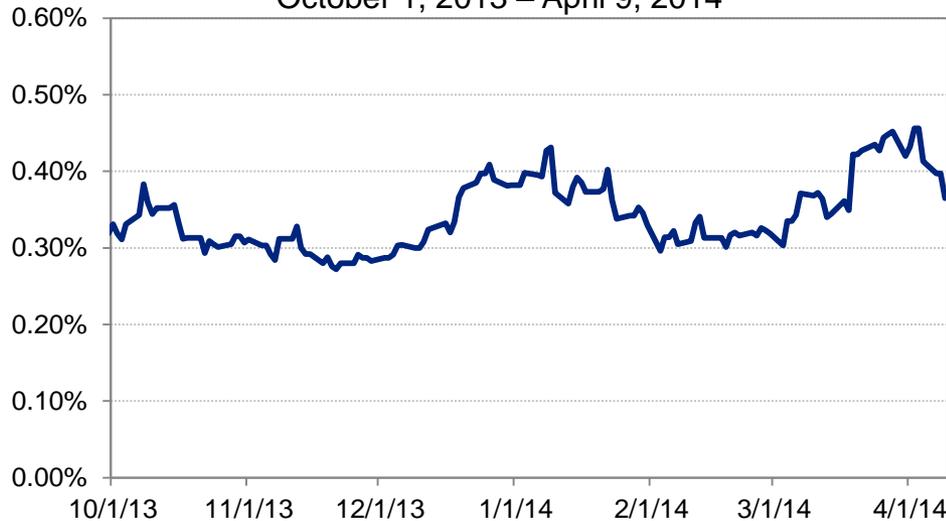
Source: Bloomberg, Federal Reserve

# Yields Trend Higher On Economic News and Fed Comments

**2-Year Treasury Yield**  
January 1, 2011 – April 9, 2014



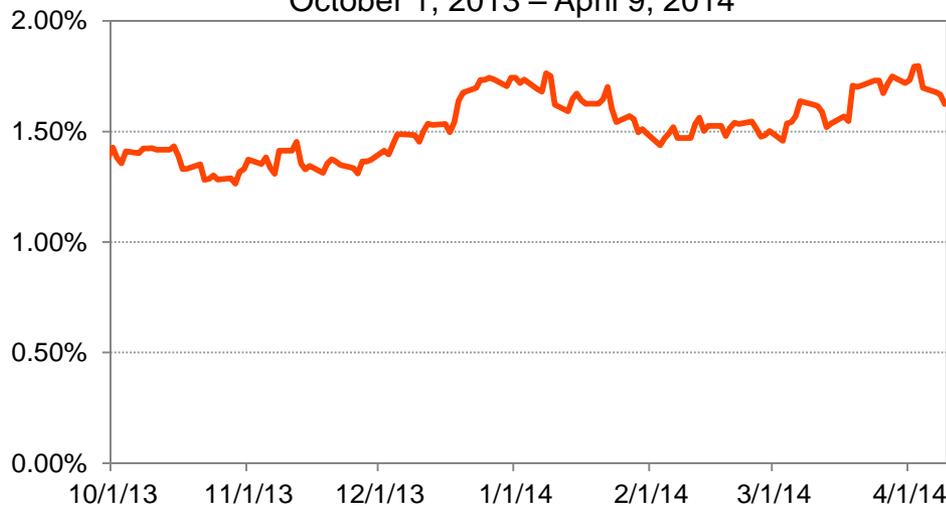
**2-Year Treasury Yield**  
October 1, 2013 – April 9, 2014



**5-Year Treasury Yield**  
January 1, 2011 – April 9, 2014



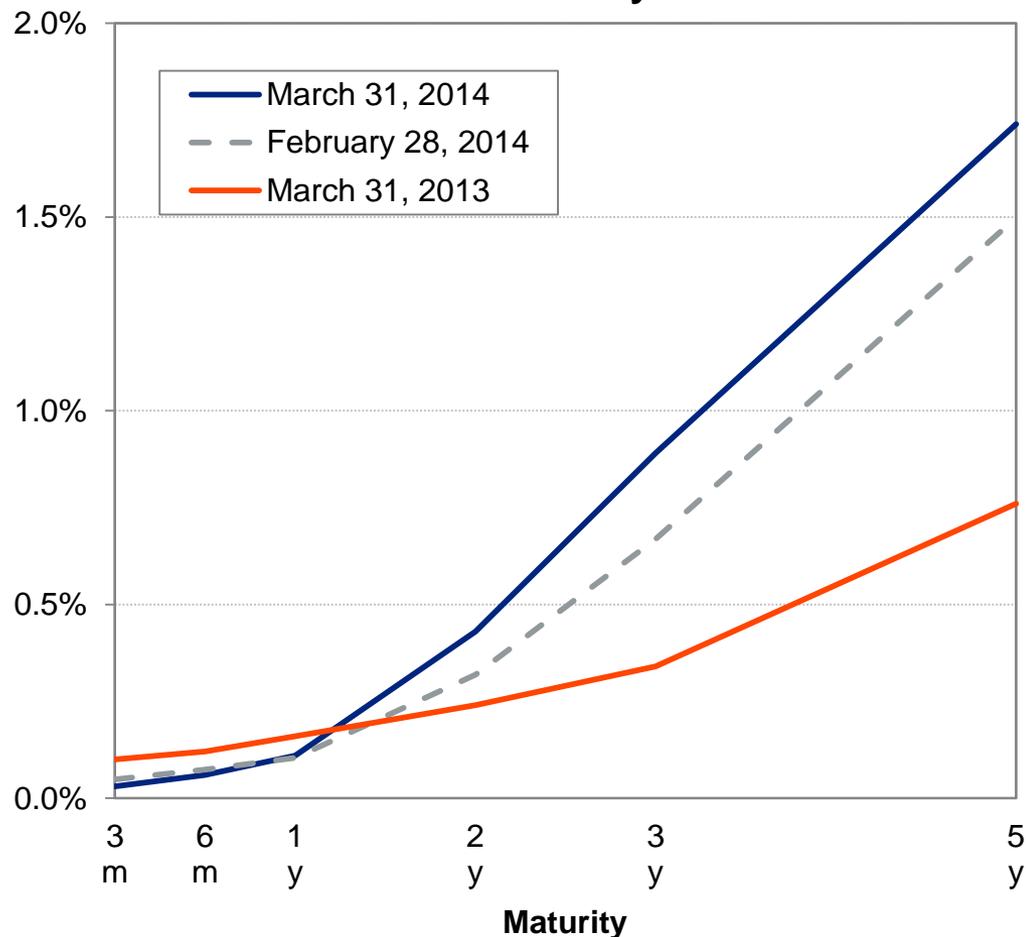
**5-Year Treasury Yield**  
October 1, 2013 – April 9, 2014



# Yield Curve Steepens

- The yield curve steepened as yields increased in all maturities except those under one year and securely anchored by the Fed Funds target rate.

## U.S. Treasury Curves

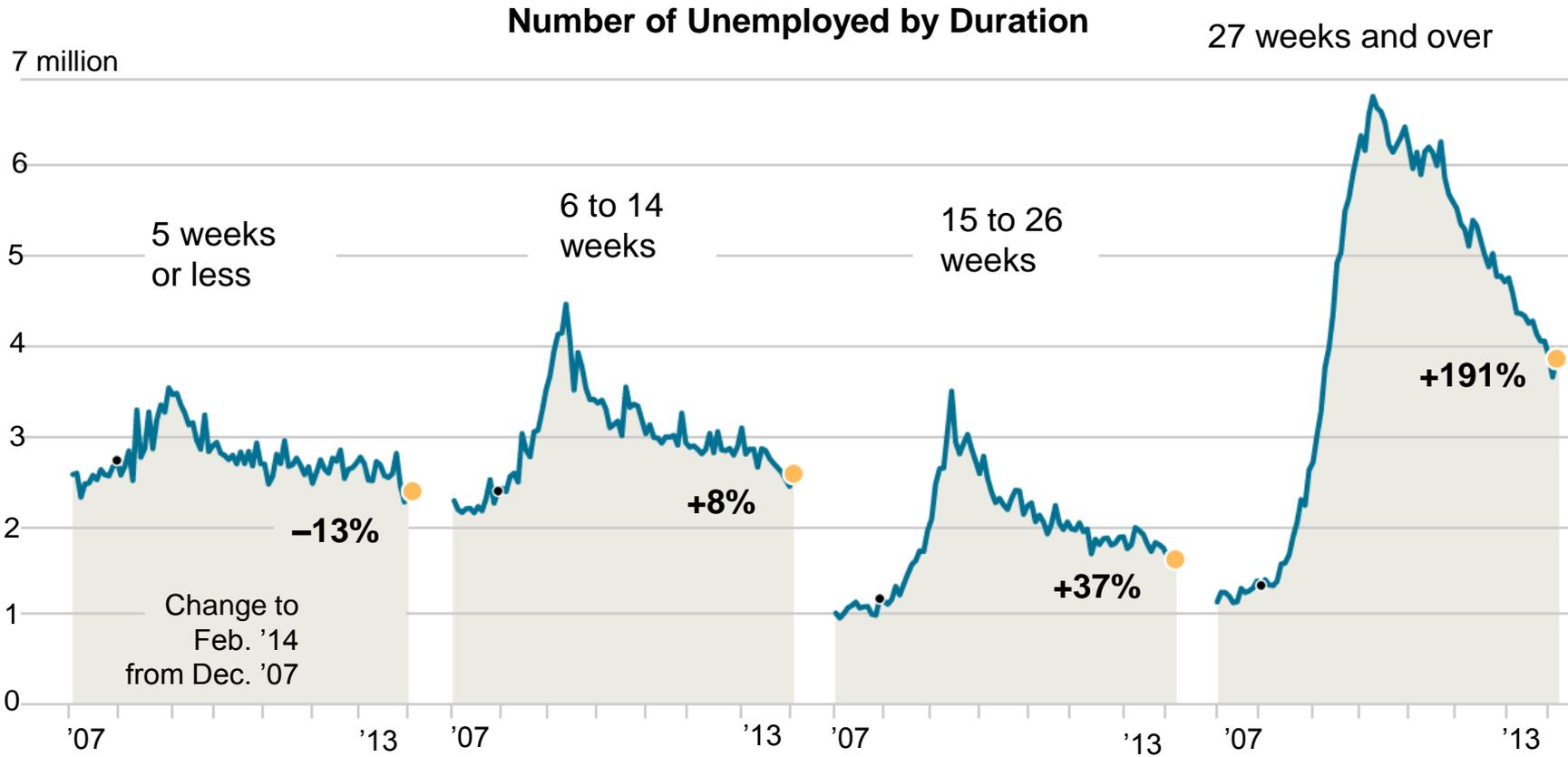


	3/31/13	2/28/14	3/31/14
3-Mo.	0.10%	0.05%	0.03%
6-Mo.	0.12%	0.07%	0.06%
1-Yr.	0.16%	0.10%	0.11%
2-Yr.	0.24%	0.32%	0.43%
3-Yr.	0.34%	0.67%	0.89%
5-Yr.	0.76%	1.50%	1.74%
10-Yr.	1.88%	2.63%	2.74%
30-Yr.	3.09%	3.56%	3.57%

Source: Bloomberg

# Persistent Long-Term Unemployment

- While short-term unemployment has fallen to its prerecession level, long-term unemployment remains more than twice as high as it was in 2007.
- The high level of the long-term unemployed contributed to the Fed's decision to remove the 6.5% threshold on raising the Fed Funds target rate.



Source: Bureau of Labor Statistics and NY Times

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