



City of Surprise

Quarterly Performance Review

Fourth Quarter Ended December 31, 2013



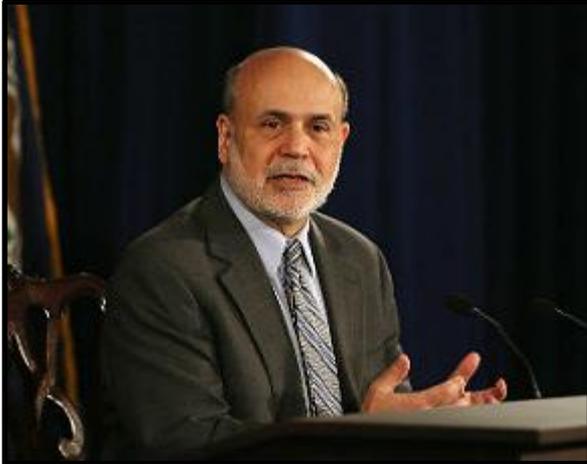
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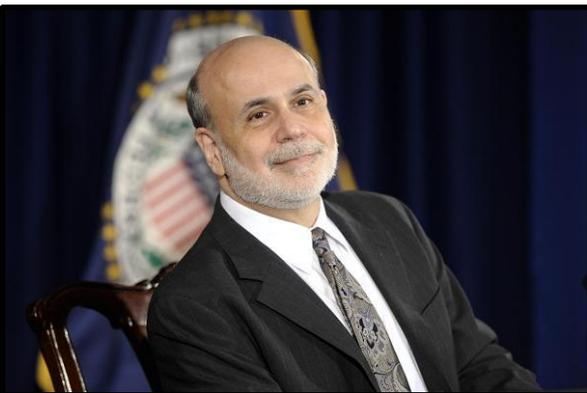
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“Taper Talk” Reverses . . . Again



FOMC Press Conference: September 18, 2013

*“In evaluating whether a modest reduction in the pace of asset purchases would be appropriate at this meeting, however, **the Committee concluded that the economic data do not yet provide sufficient confirmation of its baseline outlook . . .** the extent of the effects of restrictive fiscal policy policies remain unclear, and **upcoming fiscal debates may involve additional risks to financial markets and the broader economy”**.”*



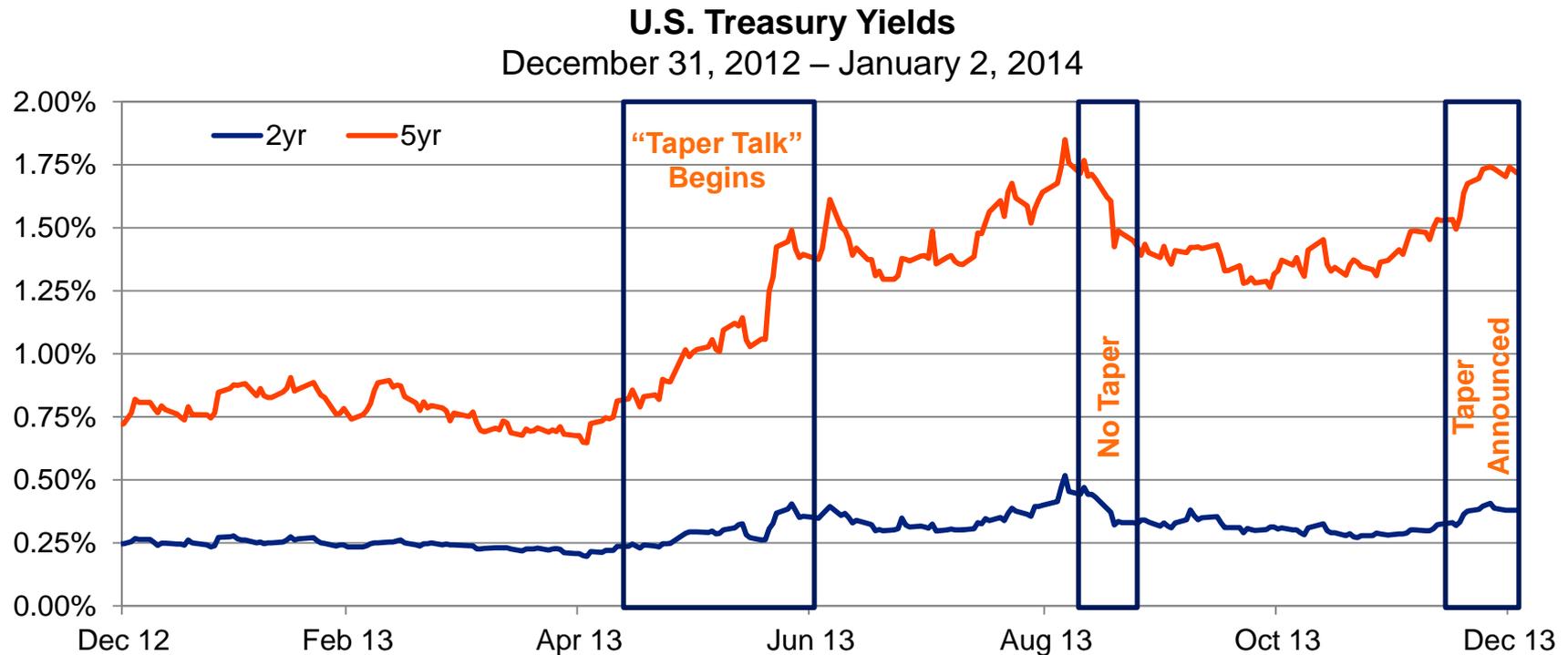
FOMC Statement: December 18, 2013

*“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%”**.”*

Source: Federal Reserve

Market Impact of FOMC Taper

- FOMC announced it would begin to reduce its monthly asset purchases by \$10B per month. A sizable interest rate hike was avoided as market participants largely anticipated a taper in the coming months.
- The FOMC reaffirmed their commitment to a near-zero Fed Funds Rate, further anchoring yields for shorter maturities.

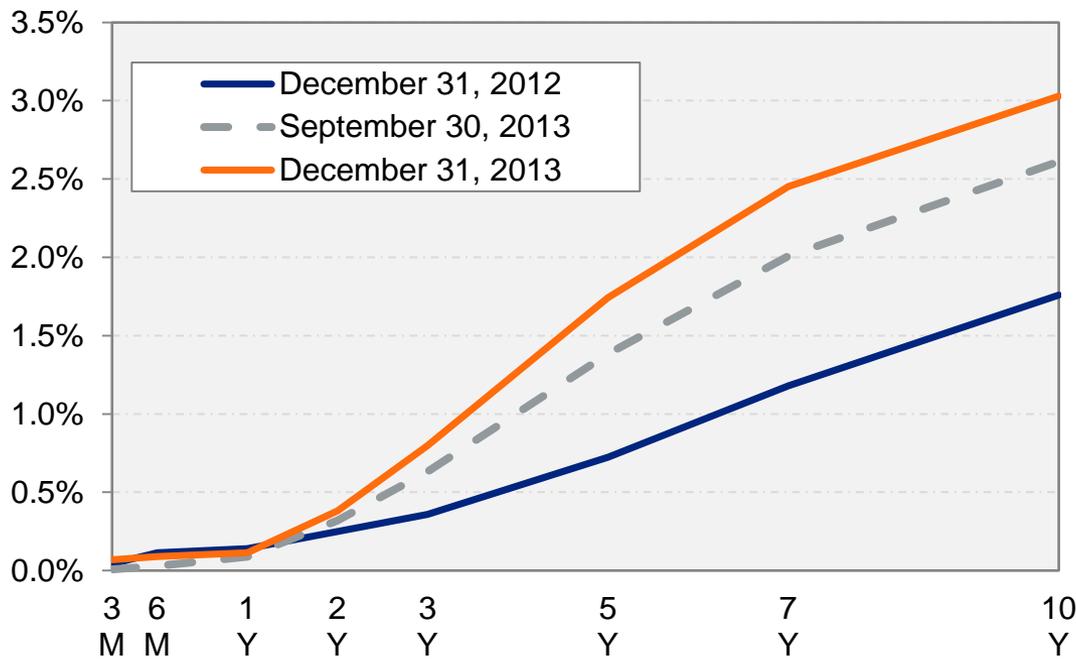


Source: Bloomberg

Long-Term Rates Rose and the Yield Curve Steepened

- Interest rates on maturities 2 years and longer rose moderately at the end of the quarter on strong economic data and the Fed's decision to begin tapering its bond purchase program.
- Over the course of the year, the yield on the 2-year Treasury moved 0.13% higher, and the yield on the 5-year Treasury moved 1.02% higher.

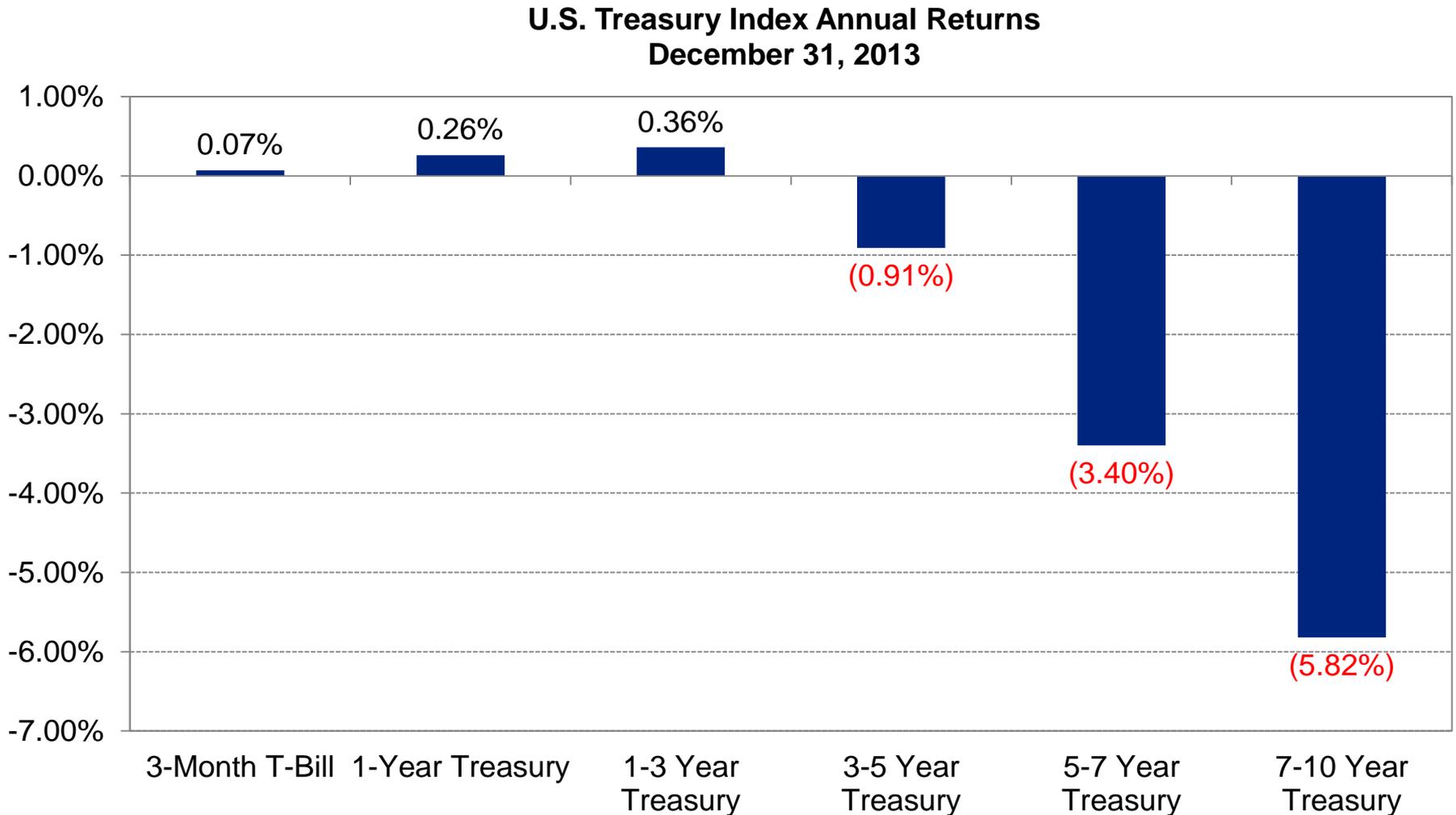
U.S. Treasury Yield Curve



	12/31/12	9/30/13	12/31/13
3-Mo.	0.04%	0.01%	0.07%
6-Mo.	0.11%	0.03%	0.09%
1-Yr.	0.14%	0.09%	0.11%
2-Yr.	0.25%	0.32%	0.38%
3-Yr.	0.36%	0.63%	0.80%
5-Yr.	0.72%	1.38%	1.74%
10-Yr.	1.76%	2.61%	3.03%

Source: Bloomberg

Rising Rates Negatively Impacted Longer Strategies



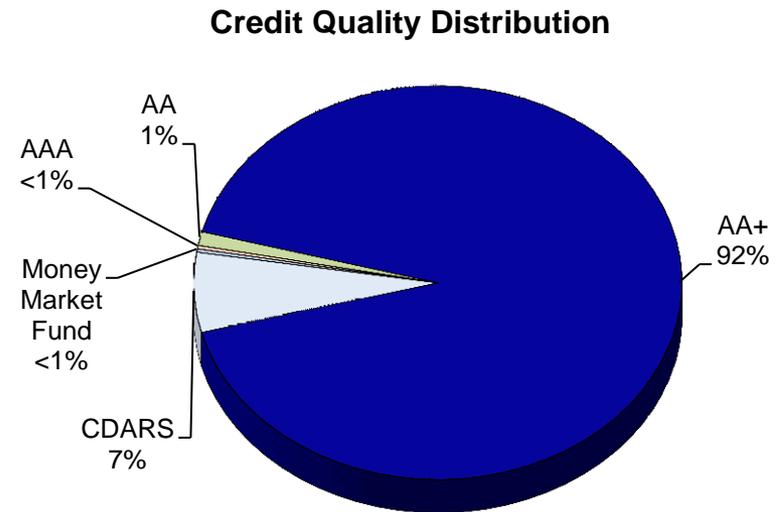
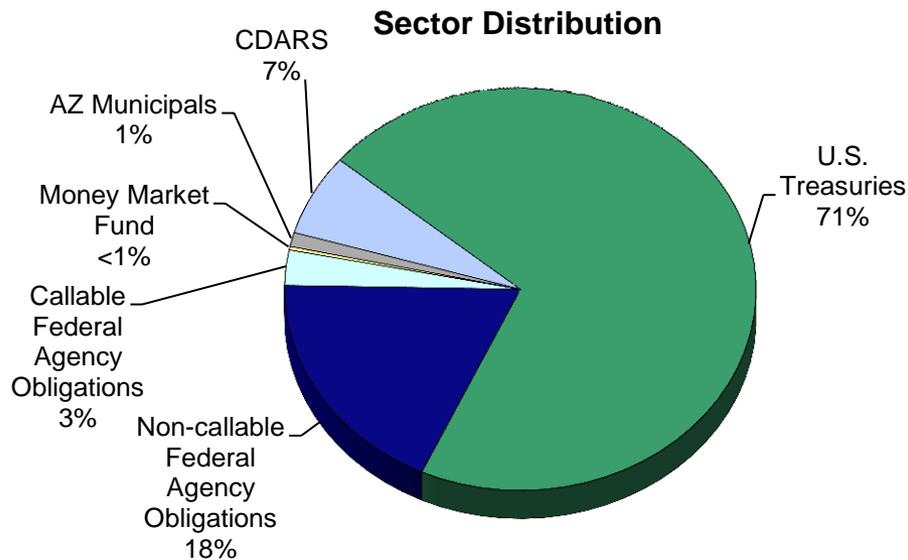
Sources: Bloomberg; BofA Merrill Lynch Indices

Fourth Quarter 2013 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.
- Our investment strategy was based on the view that interest rates would eventually rise in anticipation of a tapering of the Federal Reserve's large-scale bond purchase program, after being surprised by no such action in Q3.
- Yields drifted modestly lower in October and November, then jumped sharply December in expectation of the Fed's tapering of bond purchases.
- Our shorter-duration strategy was the right one, but the magnitude of the yield increases in December dampened all fixed-income returns for the quarter.
- The key components of our strategy included:
 - Maintaining a defensive posture by positioning portfolio's duration shorter than the benchmark.
 - General caution toward investments with optionality (callables) that could underperform if rates spike upward and make duration management more challenging.
 - Maintaining a more laddered maturity distribution, in recognition of the steepening yield curve.
 - Carefully monitoring yield spread relationships, which continued to compress across all sectors. In some sectors and maturities, spreads were so narrow as to diminish any value in holding them.

Portfolio Summary and Characteristics

Security Type ¹	September 30, 2013	Current Quarter % of Portfolio	Previous Quarter % of Portfolio
U.S. Treasury	\$54,204,017	71%	63%
Federal Agency	\$16,296,001	21%	28%
Callable Federal Agency	\$2,171,357	3%	3%
Non-callable Federal Agency	\$14,124,645	18%	25%
CDARS²	\$5,027,564	7%	7%
AZ Municipals	\$866,150	1%	1%
Wells Fargo MMF	\$214,983	<1%	1%
Total Market Value	\$76,608,715	100%	100%



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

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

² 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> ³	<u>% of Portfolio</u>
Under 6 Months	\$5,242,546.61	7%
6 - 12 Months	\$11,315,697.79	15%
1 - 2 Years	\$32,713,971.85	43%
2 - 3 Years	\$27,336,498.87	35%
3 Years and Over	\$0.00	0%
Total Market Value	\$76,608,715.12	100%

Key Portfolio Statistics

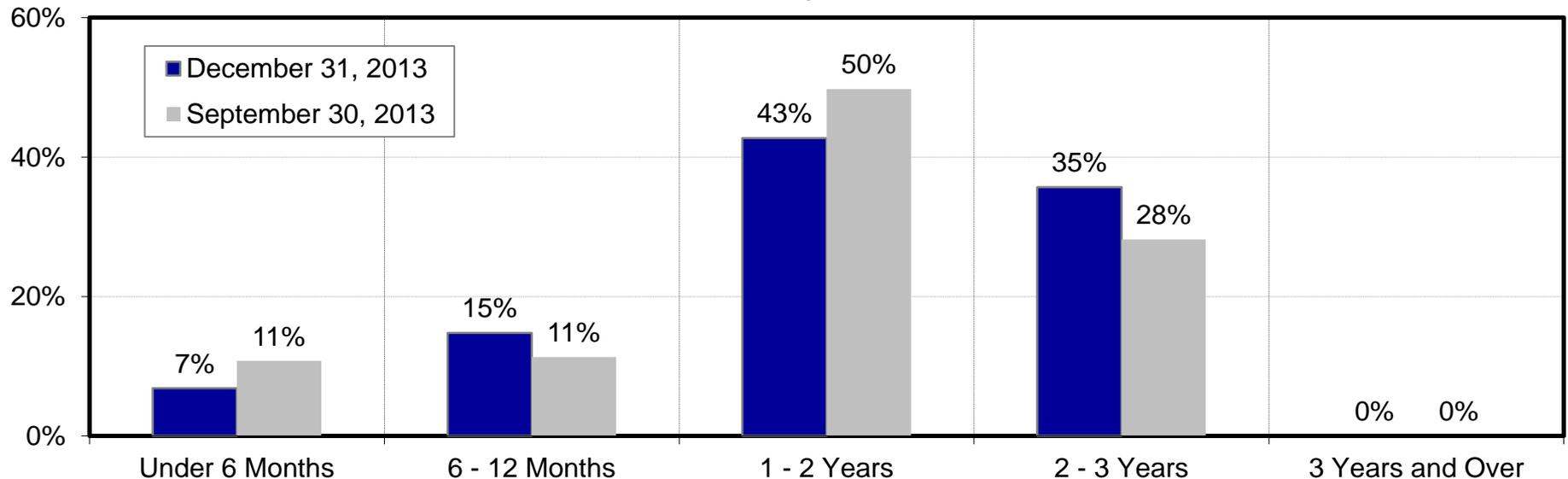
Effective Duration ¹	1.71 years
Benchmark Duration ²	1.83 years
Yield at Cost	0.48%

1. Duration to worst as of 12/31/2013 was 1.72.

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.

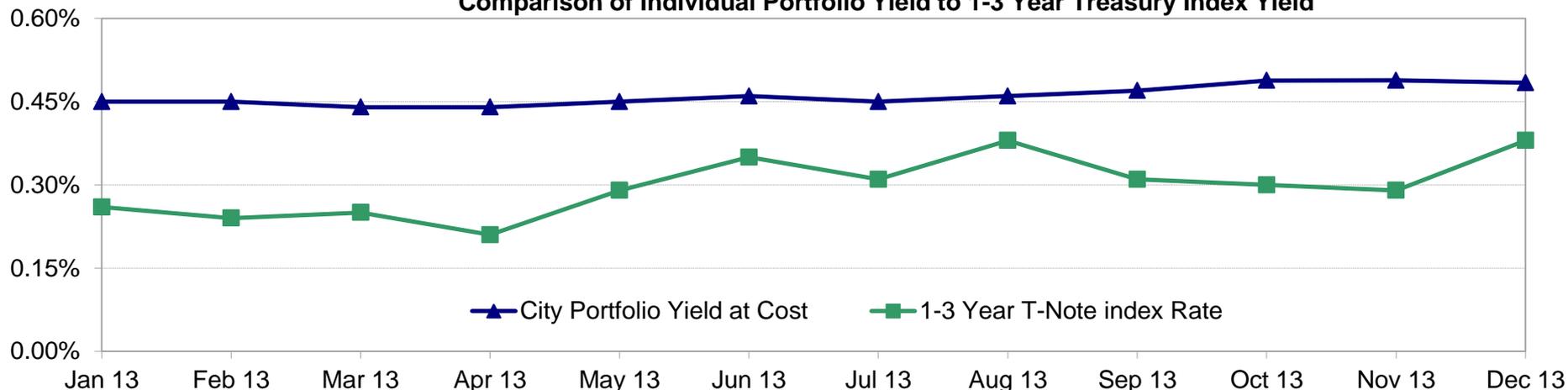
Maturity Distribution



Individual Portfolio Yield Summary

Date	Month-End Market Value ^{1,2}	Duration ²	Portfolio YTM at Cost ²	1-3 Year T-Note Index Rate ³
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%
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%

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



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

² Excludes CDARS and custody money market fund.

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

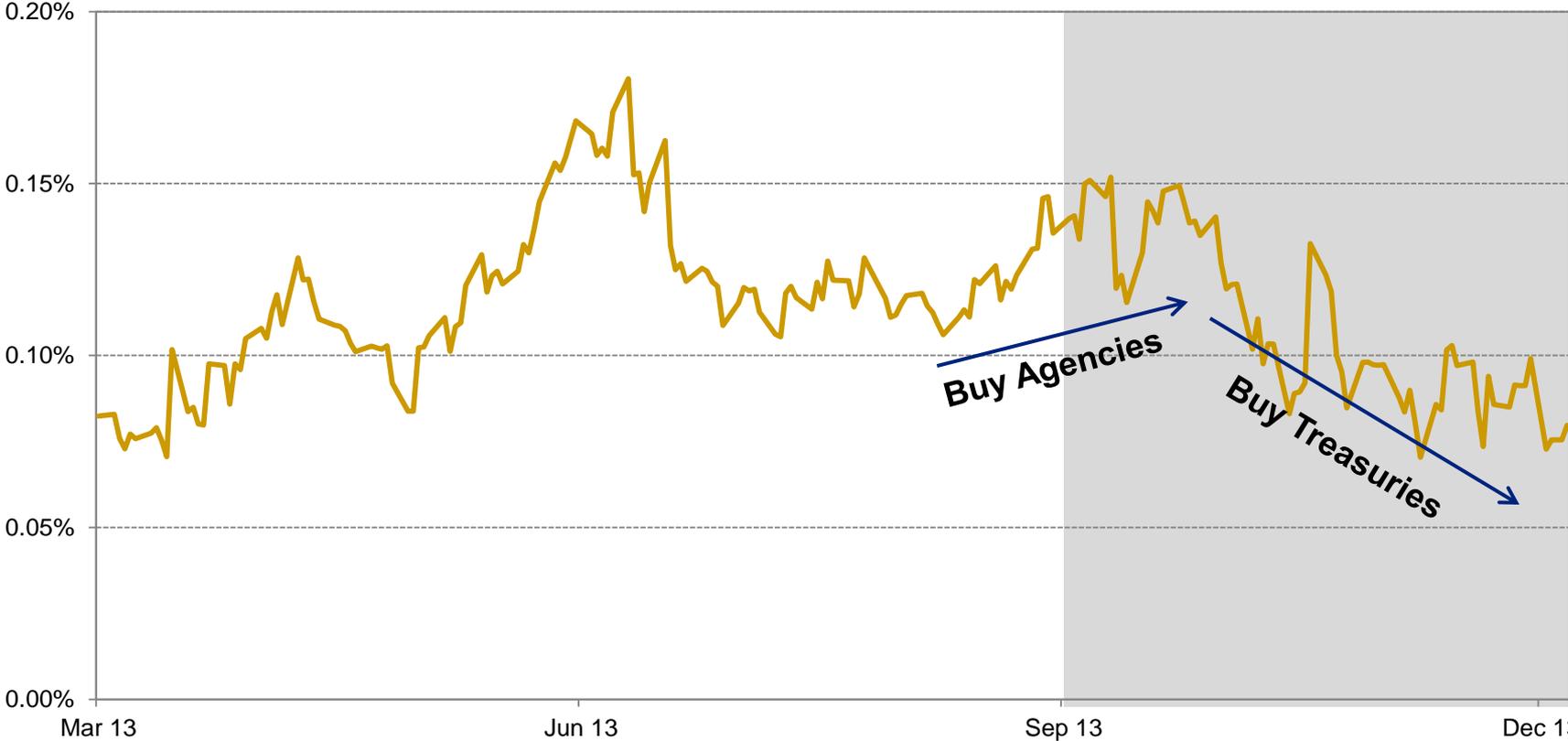
Holdings by Maturity

Issuer	Maturity	Years to Maturity	Fair Value	Yield to Maturity	Next Call Date	Frequency
Wells Fargo MMF	12/31/2013	0.00	\$214,983	0.01%		
Alliance Bank (CDARS)	2/13/2014	0.12	\$5,027,564	0.33%		
FHLMC	8/27/2014	0.66	\$1,005,815	0.94%		
FHLMC	8/27/2014	0.66	\$744,303	0.54%		
FNMA	8/28/2014	0.66	\$1,707,995	0.64%		
FNMA	10/30/2014	0.83	\$3,743,738	0.49%		
U.S. Treasury	12/15/2014	0.96	\$1,100,902	0.39%		
FHLMC	12/29/2014	1.00	\$3,012,945	0.66%		
U.S. Treasury	1/31/2015	1.08	\$2,392,102	0.40%		
U.S. Treasury	1/31/2015	1.08	\$2,351,212	0.38%		
U.S. Treasury	2/15/2015	1.13	\$2,387,146	0.37%		
U.S. Treasury	2/15/2015	1.13	\$2,345,449	0.33%		
U.S. Treasury	2/28/2015	1.16	\$789,280	0.51%		
U.S. Treasury	5/15/2015	1.38	\$1,890,499	0.28%		
U.S. Treasury	5/15/2015	1.38	\$1,053,203	0.33%		
FNMA	5/27/2015	1.41	\$1,328,511	0.59%		
U.S. Treasury	5/31/2015	1.42	\$5,425,592	0.35%		
U.S. Treasury	6/30/2015	1.50	\$2,376,188	0.43%		
AZ Municipal	7/1/2015	1.50	\$866,150	0.77%		
U.S. Treasury	7/31/2015	1.58	\$2,532,717	0.41%		
U.S. Treasury	7/31/2015	1.58	\$1,841,976	0.34%		
U.S. Treasury	11/15/2015	1.88	\$2,962,589	0.34%		
FHLB	12/30/2015	2.00	\$2,171,357	0.39%		
U.S. Treasury	1/31/2016	2.08	\$3,459,920	0.42%		
U.S. Treasury	4/30/2016	2.33	\$3,931,218	0.38%		
U.S. Treasury	4/30/2016	2.33	\$2,224,242	0.39%		
U.S. Treasury	5/31/2016	2.42	\$3,375,068	0.51%		
U.S. Treasury	6/30/2016	2.50	\$1,984,388	0.43%		
U.S. Treasury	8/31/2016	2.67	\$3,532,813	0.86%		
FNMA	9/28/2016	2.74	\$2,581,338	0.73%		
U.S. Treasury	11/30/2016	2.92	\$2,441,922	0.65%		
U.S. Treasury	11/30/2016	2.92	\$3,805,592	0.58%		
Total Market Value			\$ 76,608,715			

Significant Yield Spread Movement In Fourth Quarter

- When spreads are wide, we prefer Agencies. When spreads narrow, the Treasury sector offers value as investors are not being adequately compensated for taking on risk in other sectors.

3-Year Treasury-Agency Yield Spread
Second Quarter 2013 - Fourth Quarter 2013

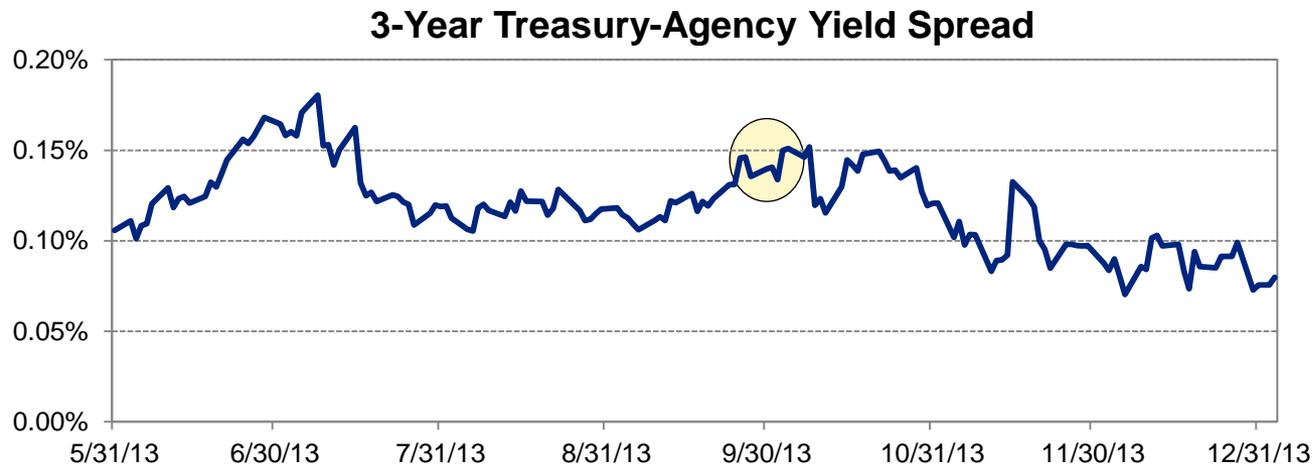


Source: Bloomberg

Agencies Offer Value Early in Q4

- Spread between Treasuries and Agencies were very wide early October. ~0.12%.
- Added 3-year Agency to the portfolio.
 - Extended portfolio’s duration closer to that of the benchmark.
 - Sold shorter-maturing Treasury note with little appreciation value left and invested funds in steepest part of yield curve to capitalize on “roll down.”

Date	Transaction	Security	Maturity	Par	Yield	Gain/Loss from Sale
10/2/2013	Buy	FNMA Note	9/28/2016	\$2,545,000	0.73%	-
10/2/2013	Sell	FNMA Note	2/27/2014	\$2,545,000	0.09%	\$4,111



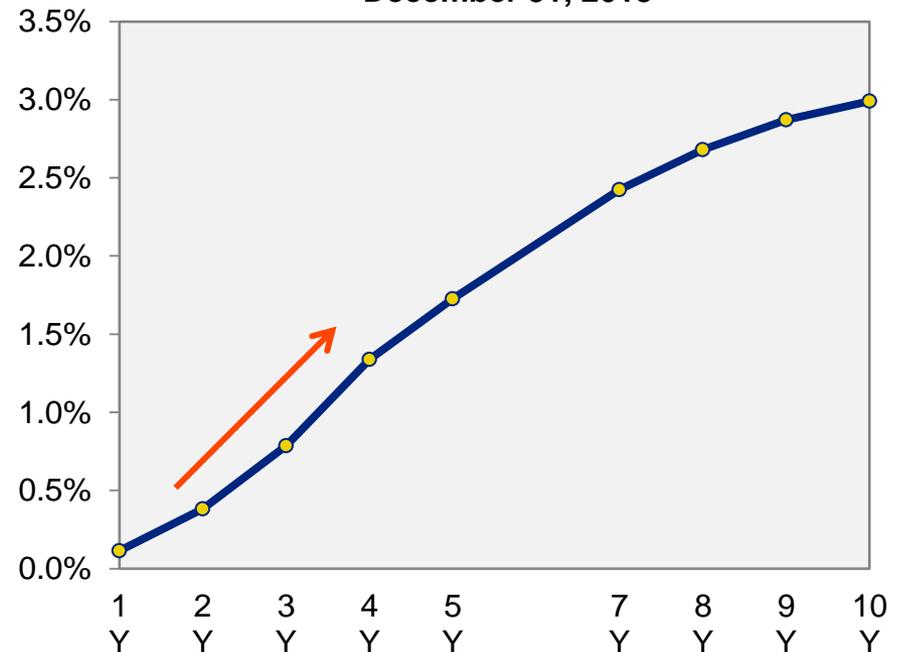
Source: Bloomberg

Capitalized on Steep Yield Curve

Date	Transaction	Security	Maturity	Par Value (millions)	Yield	Realized G/L
10/31/2013	Buy	US Treasury	11/30/2016	\$2,310,000	0.65%	-
10/31/2013	Sell	FNMA Notes (called)	11/7/2013	\$2,500,000	0.09%	\$174
12/3/2013	Buy	US Treasury	11/30/2016	\$3,600,000	0.58%	-
12/3/2013	Sell	FHLMC Notes	8/27/2014	\$3,000,000	0.16%	\$7,973

- We continue to purchase intermediate-term investments that are well-positioned on the yield curve to benefit from roll down.
- The US Treasury purchases was positioned in the 2.5- to 3-year range, where the yield curve has been steepest.

**U.S. Treasury Curve
December 31, 2013**



Source: Bloomberg

Callable Sector Offers Value

- We sold a short-term FNMA Note and purchased a 2-year callable FHLB note.
 - The trade resulted in a small realized gain.
 - The callable purchase has a one-time only call, on 9/30/2014.

Trade Date	Transaction	Security	Maturity	Par Value	Yield to Call	Yield to Maturity
12/16/2013	Buy	FHLB Note (Callable)	12/30/2015	\$2,175,000	0.42%	0.39%
12/16/2013	Sell	FNMA Notes	8/28/2014	\$2,160,000	-	0.16%

Non-Callable vs. Callable Yields

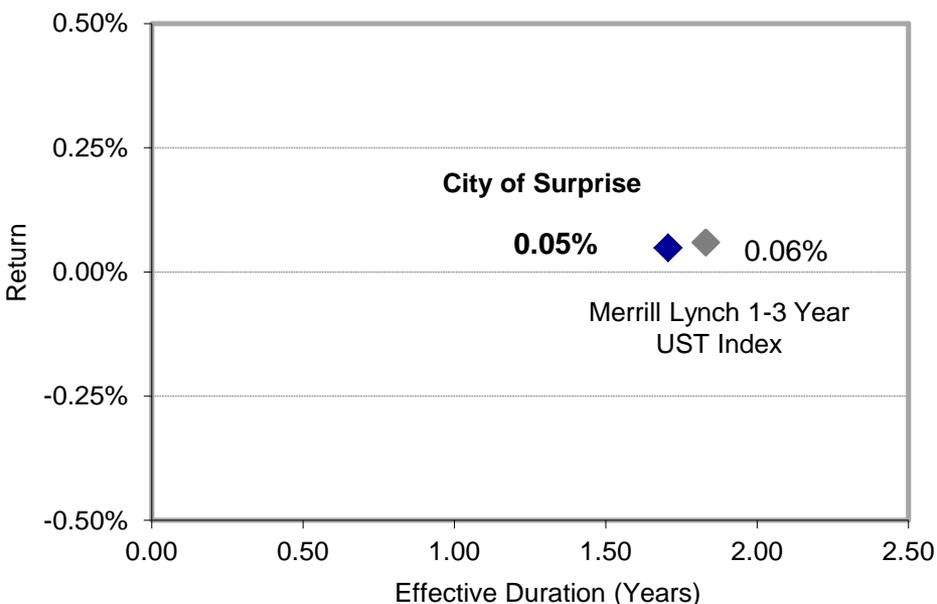
Maturity Date	FHLB Bullet Yield	FHLB Callable Yield
Sept 2014	0.14%	0.42%
Dec 2015	0.33%	0.39%

- Callable security is positioned to perform well, irrespective of the direction of interest rates.
 - The steepness of the yield curve between 1 and 2 years should help the callable agency retain its value.

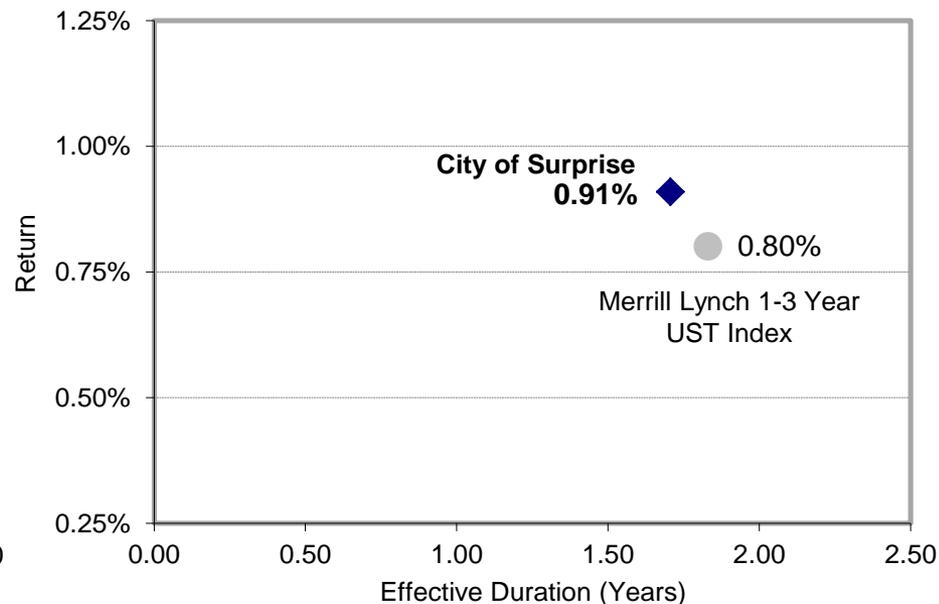
Portfolio Performance

Total Return ^{1,2,3,4,5}	Quarter Ended December 31, 2013	Past 1 Year	Past 2 Years	Past 3 Years	Since Inception
City of Surprise	0.05%	0.35%	0.58%	0.83%	0.91%
Merrill Lynch 1-3 Year UST Index	0.06%	0.36%	0.40%	0.78%	0.80%
Effective Duration ⁴	December 31, 2013	September 30, 2013	Yields	December 31, 2013	September 30, 2013
City of Surprise	1.71	1.67	Yield at Market	0.38%	0.31%
Merrill Lynch 1-3 Year UST Index	1.83	1.82	Yield on Cost	0.48%	0.47%

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.

First Quarter 2014 Strategy and Outlook

- If rates rise as the Fed withdraws its extraordinary monetary stimulus, negative returns on longer maturities may become unavoidable for short periods. However, over the long-term, the portfolio will be positioned to generate higher earnings in the future.
 - Active duration management will be a critical aspect of our strategy in 2014 to mitigate the effects of rate normalization and to maximize relative performance.
 - The steep yield curve will continue to offer enhanced earning potential.
- Treasury yields will likely be range bound due to the unevenness of the economic recovery .
- Agency yields spreads have little value in most shorter maturities, so we will continue to search value across the universe of allowable universe of high quality investments.
- Opportunities in the municipal sector may continue to decrease as interest rates rise and overall issuance slows.
- The “supranational” sector offers the City another high-quality sector with which to diversify its portfolio.
- Our strategy will remain flexible and may change in response to changes in interest rates, emerging economic data, or our market outlook.

Supranationals – World of Opportunity

- Supranational organizations are international financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management.
- Investment in sector opens up an additional asset class—an alternative to the shrinking quantity of U.S. Agencies.
- Can enhance portfolio diversification
- Adds an element of global exposure, but not currency risk
- Desirable characteristics that may include:
 - High ratings, with many of the largest issuers rated AAA
 - Active secondary markets with generally good liquidity
 - Availability in a wide range of maturities
 - Often a modest yield advantage over traditional U.S. Agencies
- Allowable investment for the City:
 - City’s Investment Policy. Obligations issued or guaranteed by the United States or any of the senior debt of its agencies sponsored agencies corporation sponsored corporations or **instrumentalities**.”

Largest AAA-rated Supranationals in the BofA Merrill Lynch U.S. Corporate, Government & Mortgage Index

Organization	Rating	U.S. Participant
European Investment Bank	AAA	No
International Bank for Reconstruction and Development (The World Bank)	AAA	Yes
Asian Development Bank	AAA	Yes
Inter-American Development Bank	AAA	Yes
African Development Bank	AAA	Yes



Managed Account Detail of Securities Held

For the Month Ending **December 31, 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
U.S. Treasury Bond / Note											
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	1,098,513.33	1,100,902.00
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	2,346,425.71	2,351,211.80
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	22,032.88	2,386,660.33	2,392,102.44
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	2,342,320.88	2,345,449.22
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	34,598.91	2,383,030.27	2,387,146.09
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	6,213.71	786,568.96	789,280.03
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	1,051,847.68	1,053,203.00
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	9,613.42	1,889,213.16	1,890,499.39
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	5,416,844.53	5,425,591.57
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	2,369,823.44	2,376,188.08
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	1,839,932.80	1,841,976.00
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	18,125.34	2,527,246.95	2,532,717.00
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	2,963,097.78	2,962,588.75
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	28,038.04	3,459,253.89	3,459,920.20



Managed Account Detail of Securities Held

For the Month Ending **December 31, 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
U.S. Treasury Bond / Note											
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	7,364.64	2,230,058.30	2,224,241.65
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	13,016.57	3,942,392.16	3,931,217.80
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	5,046.15	3,377,697.39	3,375,067.52
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	166.99	1,989,948.38	1,984,387.50
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	11,892.27	3,512,778.08	3,532,812.50
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	5,584.62	2,449,430.88	2,441,921.79
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	8,703.30	3,825,417.92	3,805,592.40
Security Type Sub-Total		52,325,000.00					55,282,436.15	0.44	270,774.06	54,188,502.82	54,204,016.73
Municipal Bond / Note											
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	860,463.53	866,150.35
Security Type Sub-Total		845,000.00					878,200.05	0.77	8,450.00	860,463.53	866,150.35
Federal Agency Bond / Note											
FHLMC NOTES DTD 07/05/2011 1.000% 08/27/2014	3137EACV9	740,000.00	AA+	Aaa	08/26/11	08/29/11	750,204.60	0.54	2,548.89	742,247.54	744,303.10
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	1,000,397.02	1,005,815.00
FNMA NOTES DTD 07/18/2011 0.875% 08/28/2014	3135G0BY8	1,700,000.00	AA+	Aaa	10/03/11	10/04/11	1,711,305.00	0.64	5,082.29	1,702,626.04	1,707,995.10

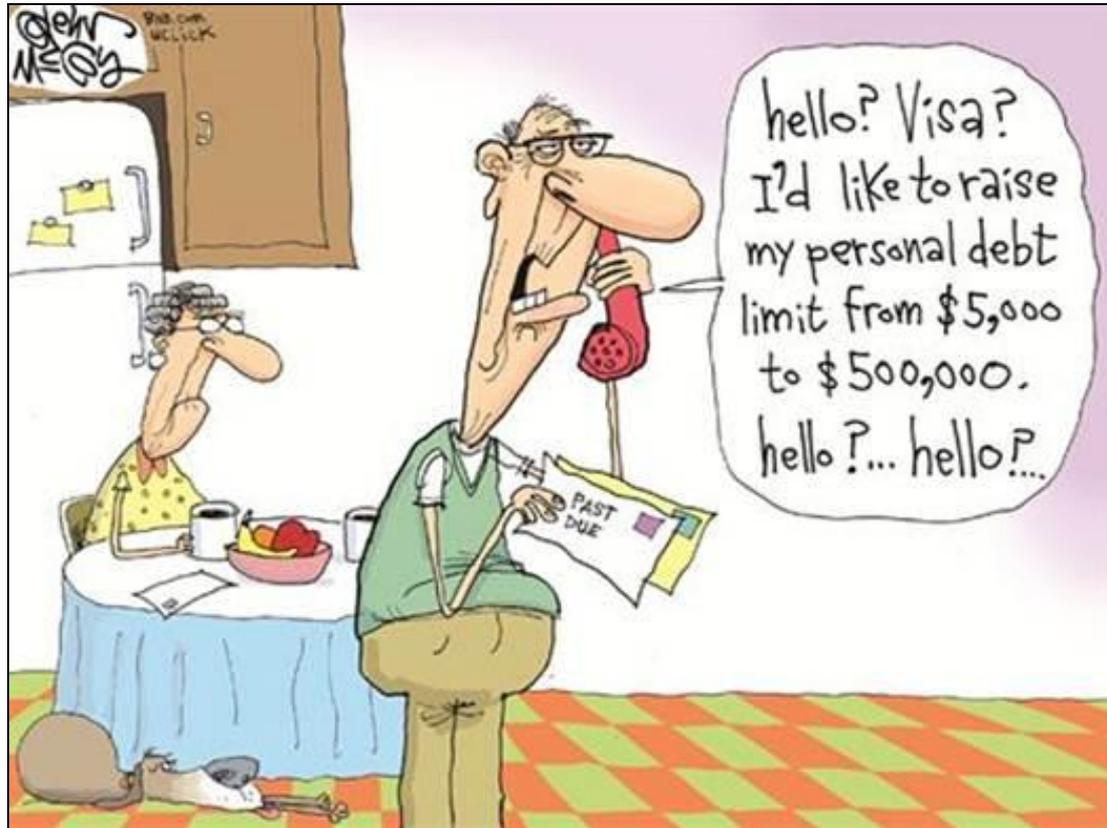


Managed Account Detail of Securities Held

For the Month Ending **December 31, 2013**

CITY OF SURPRISE OPERATING FUND

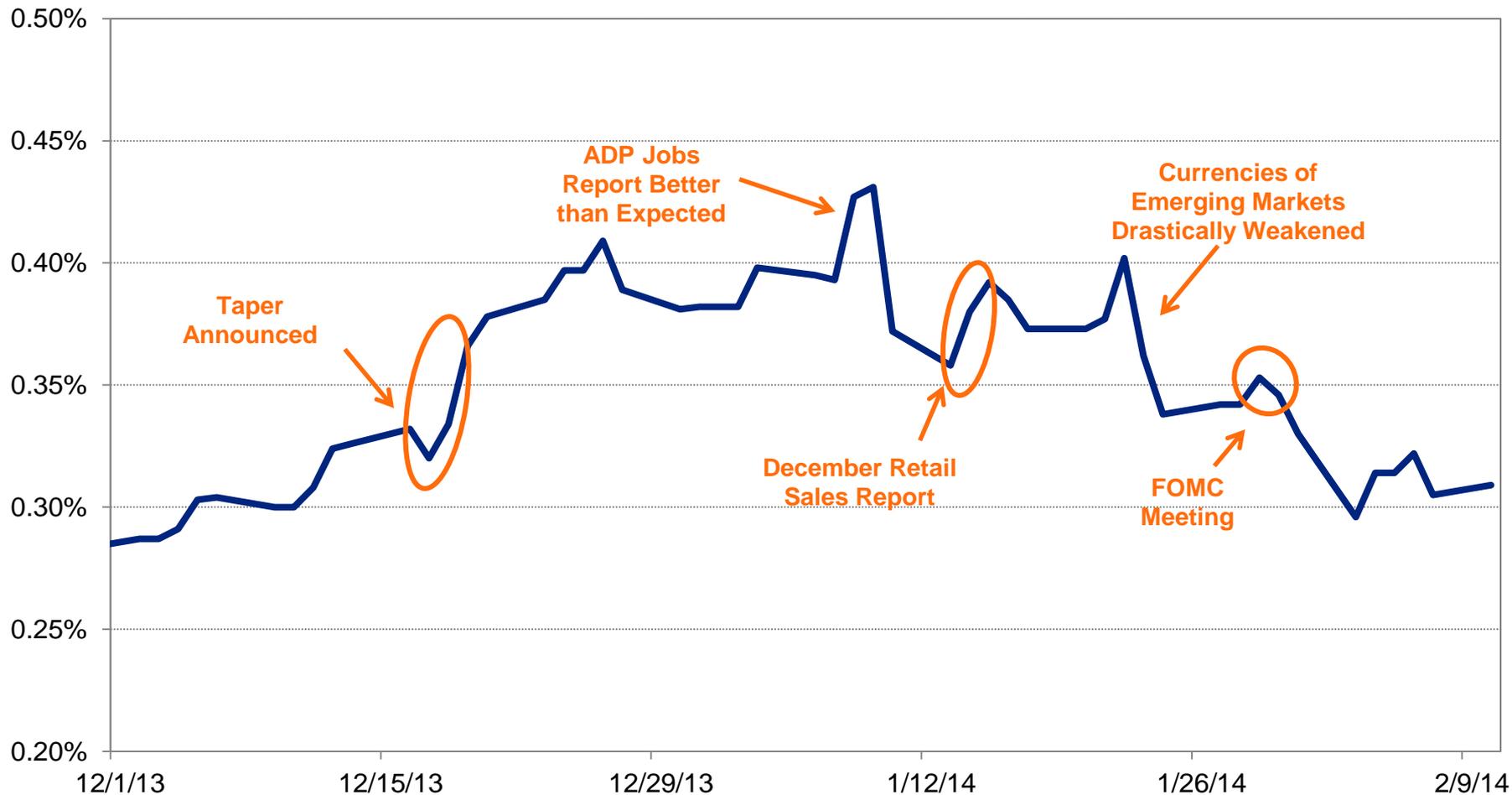
Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Federal Agency Bond / Note											
FANNIE MAE GLOBAL NOTES DTD 09/27/2011 0.625% 10/30/2014	3135G0DW0	3,730,000.00	AA+	Aaa	05/25/12	05/29/12	3,742,495.50	0.49	3,950.17	3,734,305.99	3,743,737.59
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	2,998,958.22	3,012,945.00
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	1,323,257.93	1,328,511.25
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	22.66	2,174,239.79	2,171,356.88
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	8,218.23	2,580,616.72	2,581,337.51
Security Type Sub-Total		16,215,000.00					16,281,884.95	0.60	23,996.54	16,256,649.25	16,296,001.43
Managed Account Sub-Total		69,385,000.00					72,442,521.15	0.48	303,220.60	71,305,615.60	71,366,168.51
Securities Sub-Total		\$69,385,000.00					\$72,442,521.15	0.48%	\$303,220.60	\$71,305,615.60	\$71,366,168.51
Accrued Interest											\$303,220.60
Total Investments											\$71,669,389.11



Economic Update

Recent Market Movers

2-year U.S. Treasury Note Yield
December 1, 2013 – February 10, 2014

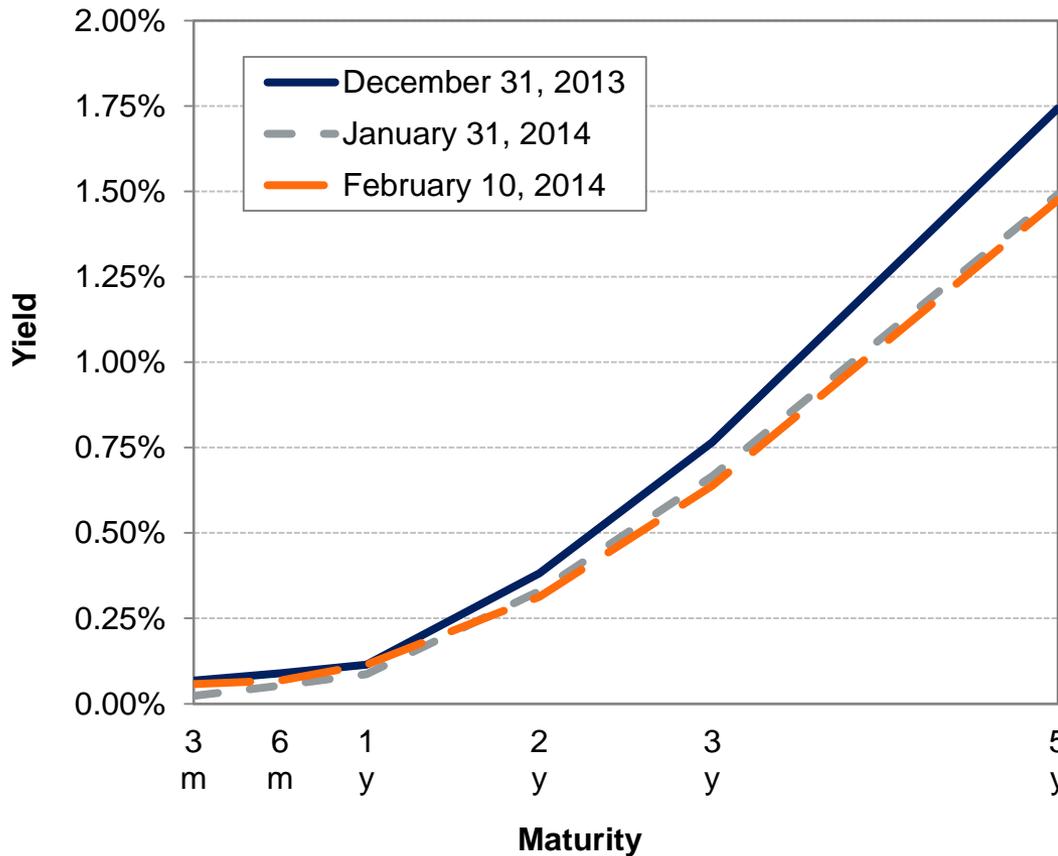


Source: Bloomberg

Yield Curve Flattened in Early February

- The yield curve flattened as yields on longer-term securities fell on concerns that the U.S. economy was again slowing and that volatility within the emerging markets would rise.

U.S. Treasury Yield Curves

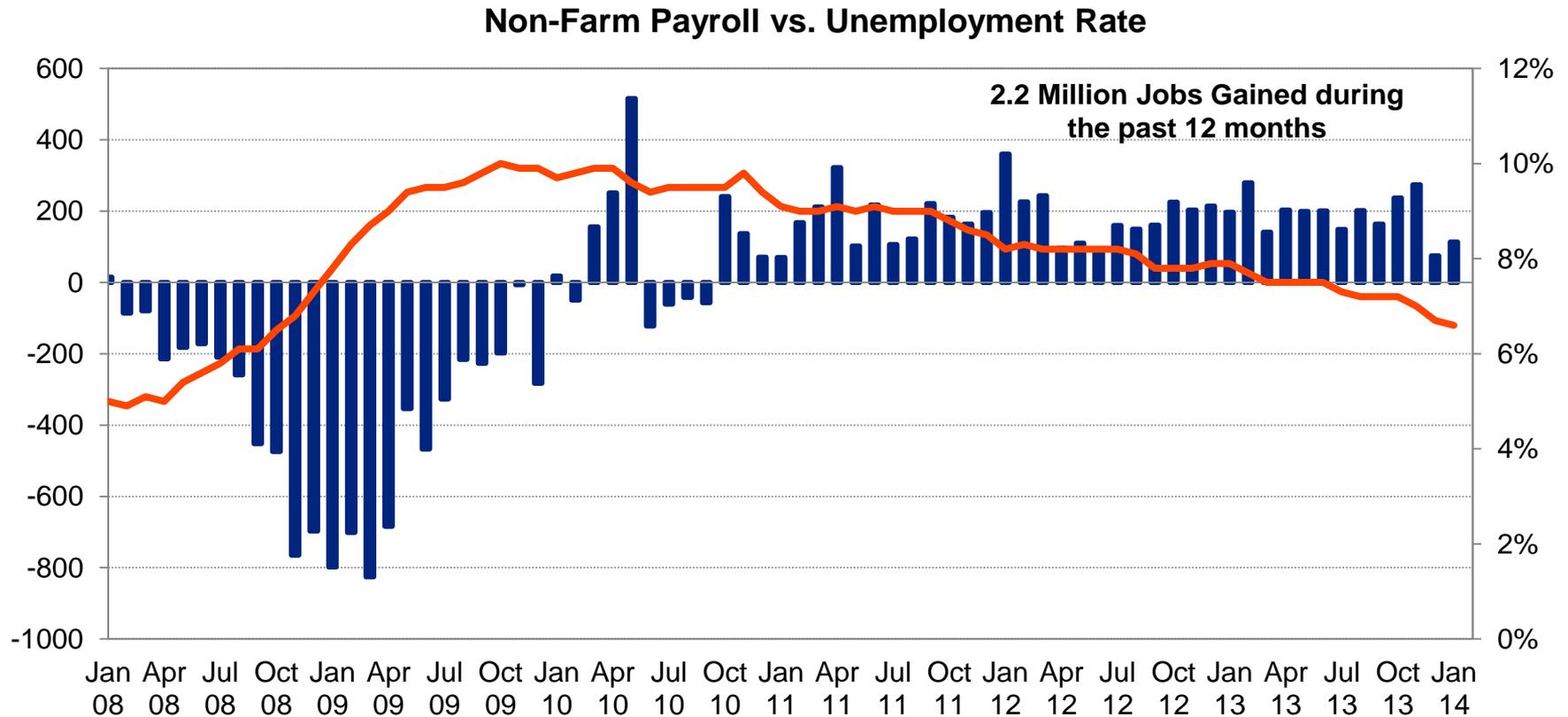


	Dec 31, 2013	Feb 10, 2014	Change
3 Month	0.07%	0.06%	-0.01%
6 Month	0.09%	0.07%	-0.02%
1 Year	0.11%	0.11%	0.00%
2 Year	0.38%	0.31%	-0.07%
3 Year	0.80%	0.64%	-0.16%
5 Year	1.74%	1.48%	-0.26%

Source: Bloomberg

Labor Market Generally Strengthening

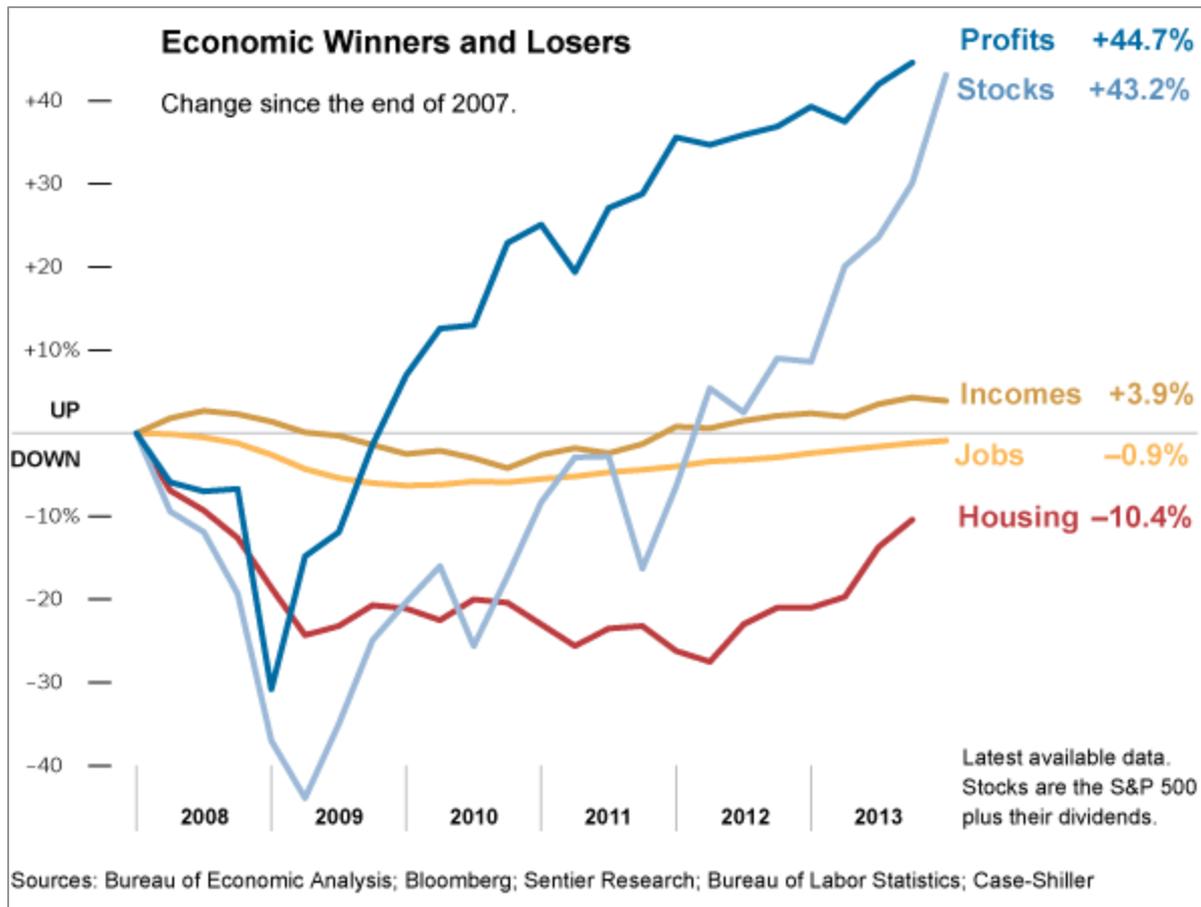
- Total payroll jobs in January rose 113,000, and December and November numbers were revised up.
- The Unemployment Rate moved down to 6.6% from 6.7%.



Source: Bureau of Labor Statistics

Economic Winners and Losers

Corporate Profit and Personal Income Disparity



Winning

- **Corporate Profits**

- Rose to a record \$2.1 trillion dollars
- Earnings grew by cutting costs

- **Housing**

- Strength from Federal Reserve holding down interest rates

Losing

- **Personal Income & Jobs**

- Income remained nearly flat, indication of little to no raises
- Number of new jobs grew slowly

Debt Limit Suspended—Shutdown Avoided

Latest on the debt ceiling

- Extension goes through March 2015
- Avoids another political standoff surrounding the country's debt and budget
- Devoid of conditions or measures that are often attached to legislation such as this



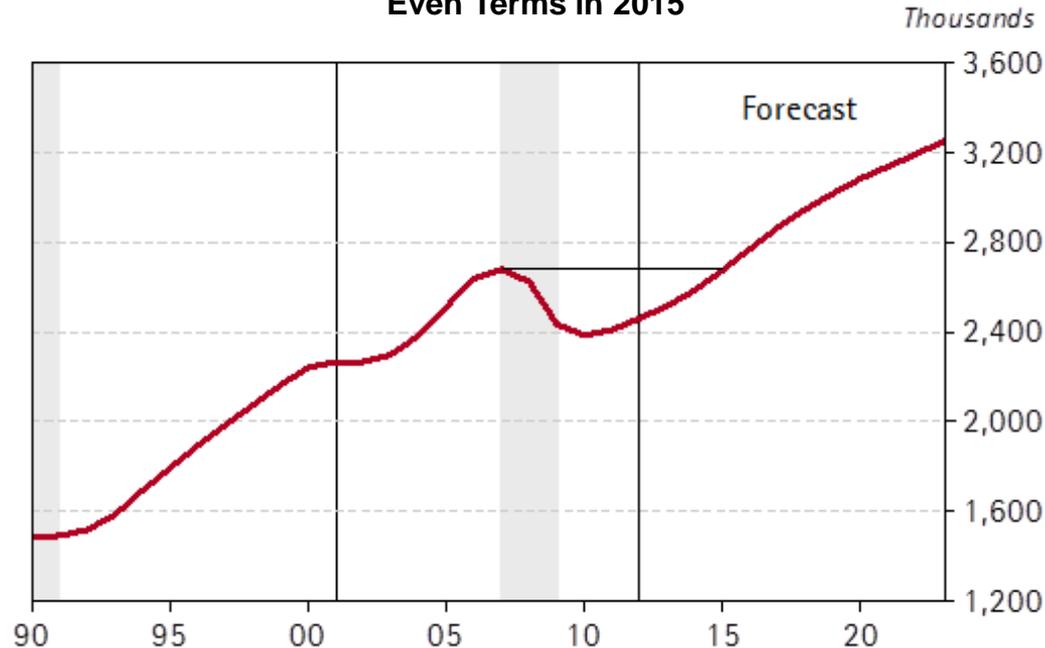
Arizona Growth & Recovery Forecasted to Continue

- Since end of the great recession, AZ has seen significant growth in jobs, income, retail sales, and population.
- Year-over-year job growth outpaced the nation through August 2013.
- Retail sales expect lag into 2014, boost in 2015.

Arizona Personal Income Growth Expectations

2014	2015
5.2%	5.9%

Arizona Jobs Get Back on Even Terms in 2015



Source: azcentral.com

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