



City of Surprise

Quarterly Performance Review

First Quarter Ended March 31, 2015



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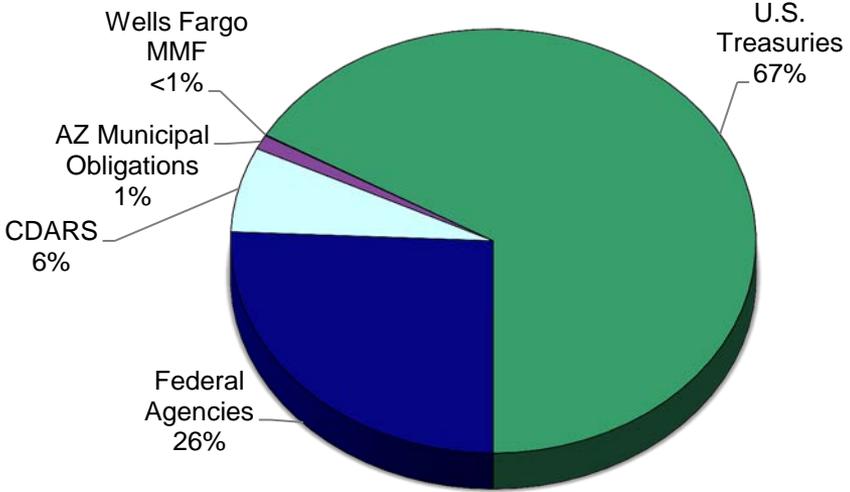
First Quarter 2015 Strategy and Recap

- Rates trended lower during the first quarter due to:
 - Lackluster economic data in the U.S.;
 - Economic uncertainty in the European Union exacerbated by Greece's unsettled political situation;
 - The Federal Open Market Committee's (FOMC) indication that it is in no hurry to raise the Fed Funds rate.
- There was a greater decline in the yields of securities with longer maturities than of those with shorter maturities; this has been attributed to expectations of continued low inflation.
- At the beginning of the quarter, PFM kept the duration of the portfolio somewhat shorter than the duration of the benchmark, seeking to mitigate the potential price depreciation of the portfolio if the Fed decides to raise rates mid-year.
- As new economic data was released, and FOMC statements suggested that the Fed would likely not raise the Fed Funds rate in June, we gradually extended the portfolio's duration to closer to the duration of the benchmark.
- In doing so, we paid careful attention to the selection of maturities along the yield curve, buying those securities which captured the higher yields offered by longer-term investments and maximized the benefit of "roll down."

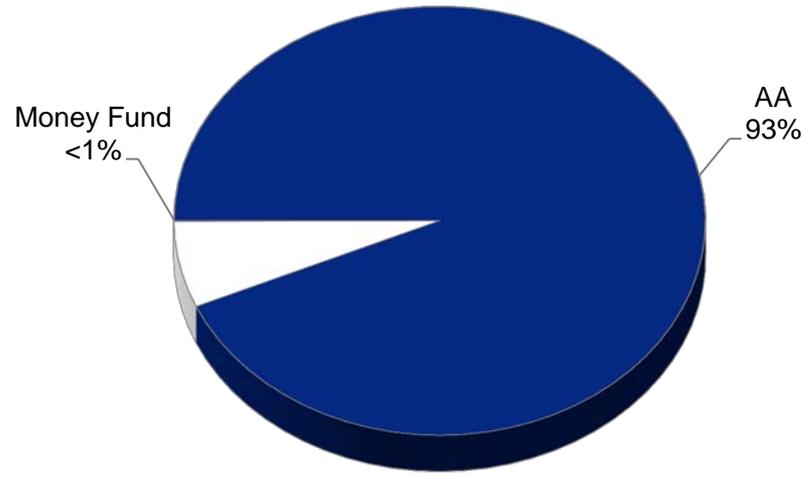
Portfolio Summary and Characteristics

Security Type ¹	March 31, 2015	Current Quarter % of Portfolio	Previous Quarter % of Portfolio
U.S. Treasury	\$51,832,939.80	67%	67%
Federal Agency	\$19,948,188.12	26%	25%
Callable Federal Agency	\$3,150,985.94	4%	2%
Non-callable Federal Agency	\$16,797,202.18	22%	23%
CDARS²	\$5,051,816.10	6%	7%
AZ Municipals	\$852,993.70	1%	1%
Wells Fargo MMF	\$48,768.40	<1%	<1%
Total Market Value	\$77,734,706.12	100%	100%

Sector Distribution



Credit Quality Distribution



Ratings by Standard & Poor's

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. Value includes principal and interest tat maturity.

Maturity Summary and Key Portfolio Statistics

Maturity Distribution

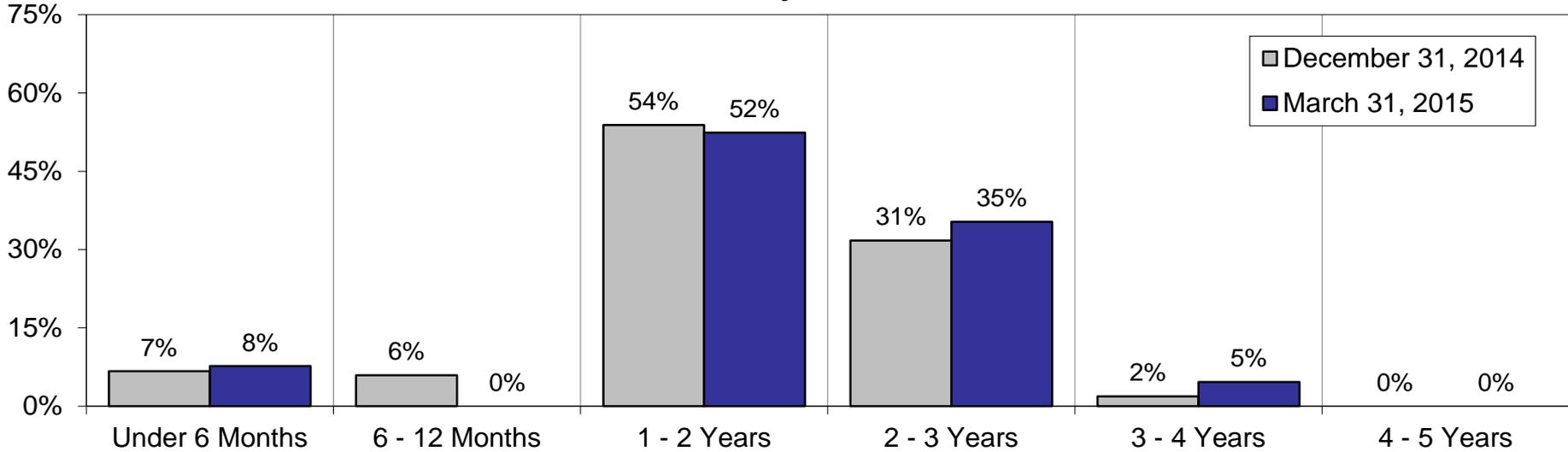
<u>Maturity Class</u>	<u>Fair Value</u> ³	<u>% of Portfolio</u>
Under 6 Months	\$5,953,578.20	8%
6 - 12 Months	\$0.00	0%
1 - 2 Years	\$40,752,634.61	52%
2 - 3 Years	\$27,444,450.34	35%
3 - 4 Years	\$3,584,042.97	5%
4 - 5 Years	\$0.00	0%
Total Market Value	\$72,682,890.02	100%

Key Portfolio Statistics

Effective Duration ¹	1.78 years
Benchmark Duration ²	1.79 years
Yield at Cost	0.74%

1. Portfolio statistics excludes funds invested in CDARS. Duration to worst as of 3/31/2015 was 1.77.
2. The City's benchmark is the Bank of America /Merrill Lynch 1-3 Year U.S. Treasury Index.
3. Security market values excluding accrued interest as of trade date. Note that PFM monthly statements reflect holdings as of trade date.

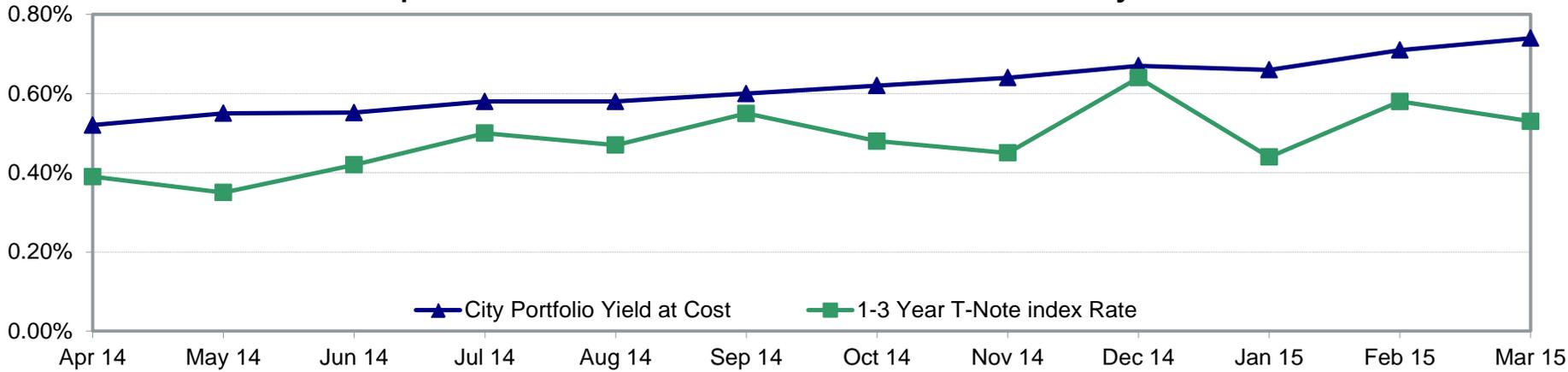
Maturity Distribution



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
Apr-14	\$71,700,877	1.59	0.52%	0.39%
May-14	\$71,951,724	1.67	0.55%	0.35%
Jun-14	\$71,929,301	1.72	0.55%	0.42%
Jul-14	\$72,119,635	1.77	0.58%	0.50%
Aug-14	\$72,229,199	1.70	0.58%	0.47%
Sep-14	\$71,922,824	1.72	0.60%	0.55%
Oct-14	\$72,142,335	1.70	0.62%	0.48%
Nov-14	\$72,289,236	1.71	0.64%	0.45%
Dec-14	\$72,133,418	1.77	0.67%	0.64%
Jan-15	\$72,482,467	1.69	0.66%	0.44%
Feb-15	\$72,239,444	1.76	0.71%	0.58%
Mar-15	\$72,418,741	1.80	0.74%	0.53%

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.

Strategic Duration Extensions

- Given expectation that the Fed will wait until the fall to raise interest rates, we extended the portfolio's duration to align with the benchmark with by purchasing longer-maturity Treasuries with attractive yields.
- The duration extension purchases extend the portfolio duration by approximately 1.94 years and result in additional incremental earnings of about \$39,400.

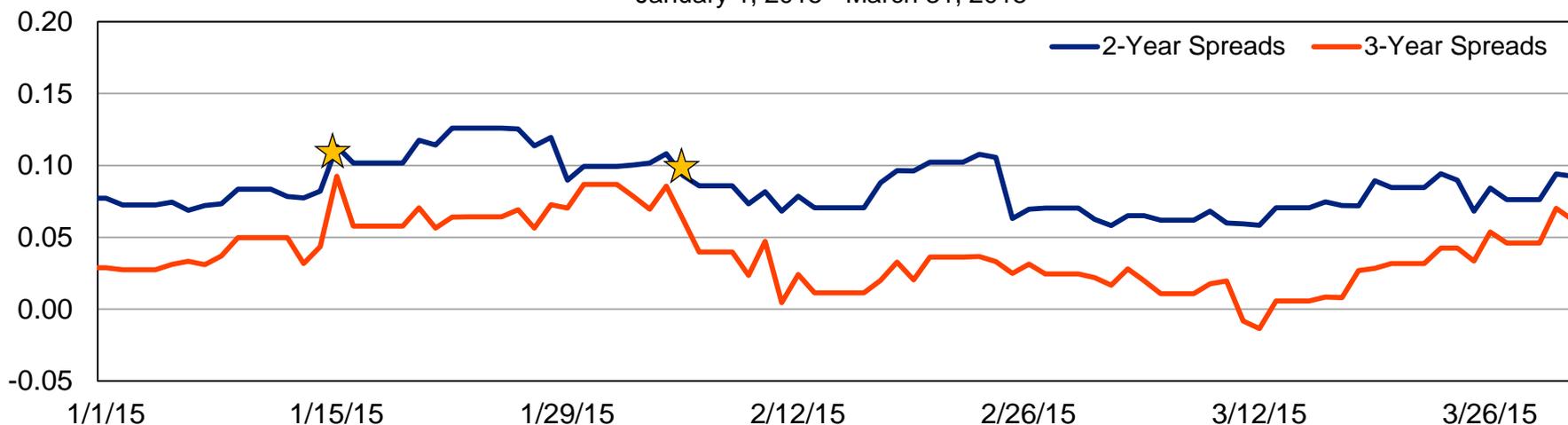
Trade Date	Trade Type	Security	Maturity	Par Value	Yield	Gain on Sale
2/27/15	Buy	U.S. Treasury Notes	8/31/17	\$1,500,000	0.88%	-
2/27/15	Buy	U.S. Treasury Notes	3/31/18	\$1,500,000	1.09%	-
2/27/15	Sell	U.S. Treasury Notes	1/31/16	\$1,135,000	0.25%	\$696
2/27/15	Sell	U.S. Treasury Notes	1/31/16	\$1,865,000	0.25%	\$3,078
3/30/15	Buy	U.S. Treasury Notes	11/30/17	\$2,100,000	0.82%	-
3/30/15	Buy	U.S. Treasury Notes	3/31/18	\$2,100,000	0.94%	-
3/30/15	Sell	FHLB Notes	2/19/16	\$1,925,000	0.33%	\$681
3/30/15	Sell	U.S. Treasury Notes	12/31/15	\$500,000	0.24%	\$157
3/30/15	Sell	U.S. Treasury Notes	1/31/16	\$1,485,000	0.26%	\$2,113

Treasury-Agency Sector Swaps

- The difference in yields between U.S. Treasury and Federal agency securities fluctuated throughout the quarter. We were able to capitalize on the changes in these differences by adding Federal agency notes when spreads were at attractive levels.

Trade Date	Trade Type	Security	Maturity	Par Value	Yield	Gain on Sale
1/15/15	Buy	FHLMC Notes	1/27/17	\$1,015,000	0.59%	-
1/15/15	Sell	U.S. Treasury Notes	1/31/17	\$1,015,000	0.52%	\$6,769
2/4/15	Buy	FHLB Notes	11/23/16	\$1,000,000	0.56%	-
2/4/15	Sell	U.S. Treasury Notes	12/31/15	\$1,000,000	0.20%	\$775

Treasury-Agency Yield Spread
January 1, 2015 - March 31, 2015

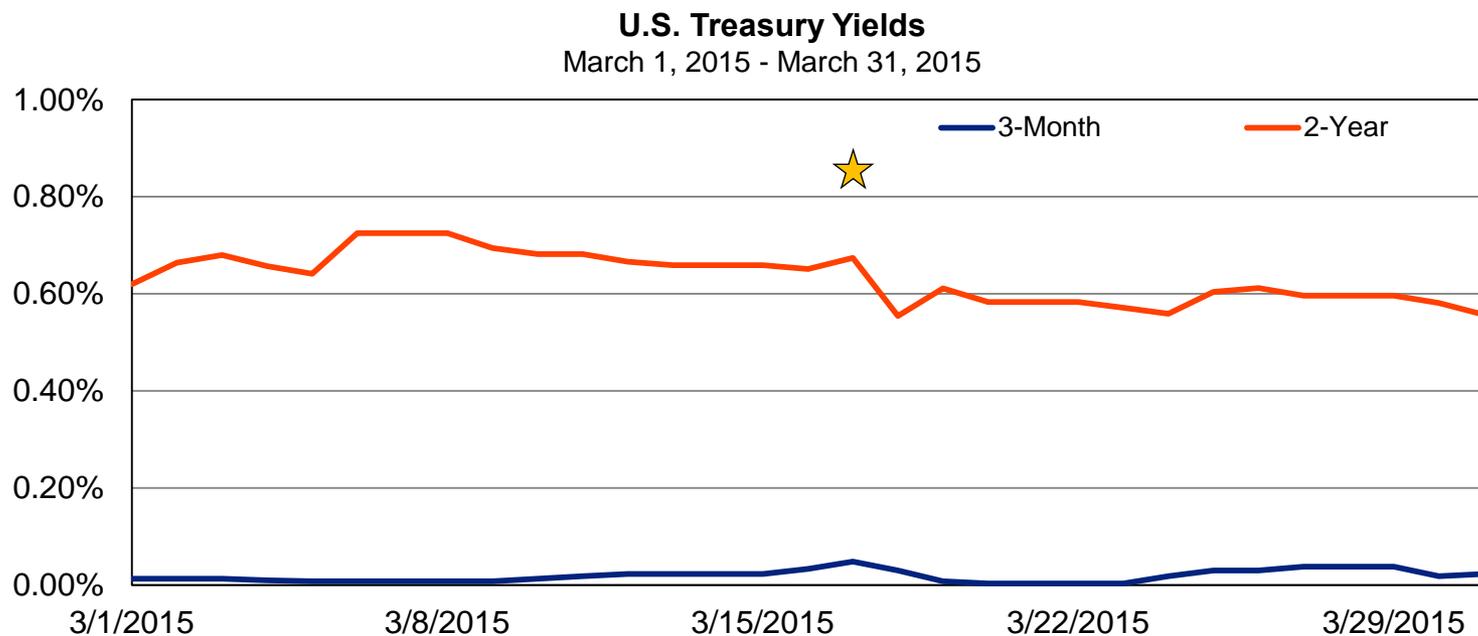


Source: Bloomberg.

Value in Callable Agency

- We found value in callable FHLB Notes with limited optionality (one-time calls) in which the yield to call and maturity are comparable.
- Even if the Agency is called prior to its maturity date, the City's portfolio will benefit from the same yield as if it was held to maturity.

Trade Date	Yield to Market	Yield to Call	Maturity	First Call Date	Call Frequency
3/17/15	0.84%	0.84%	3/24/17	3/24/16	One-time



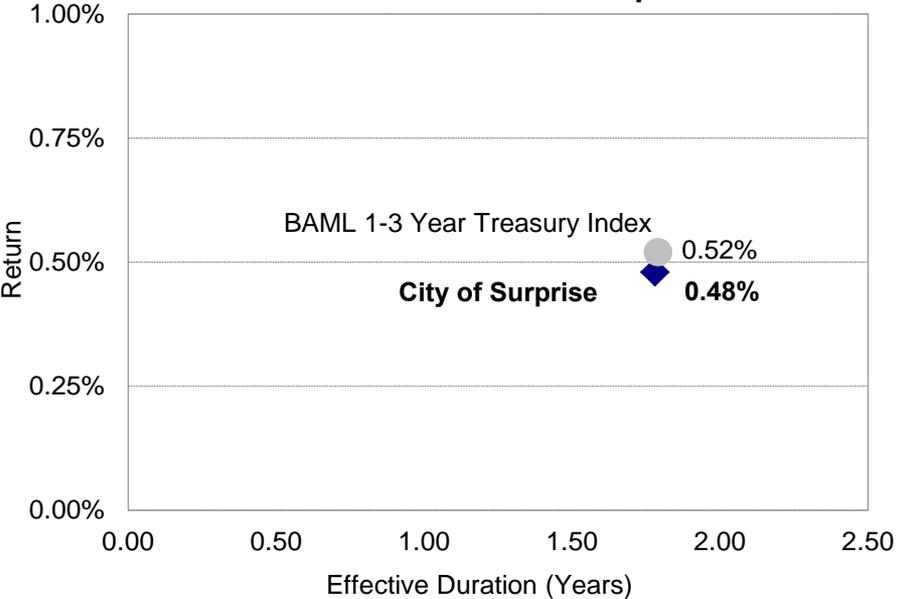
Source: Bloomberg.

Portfolio Performance

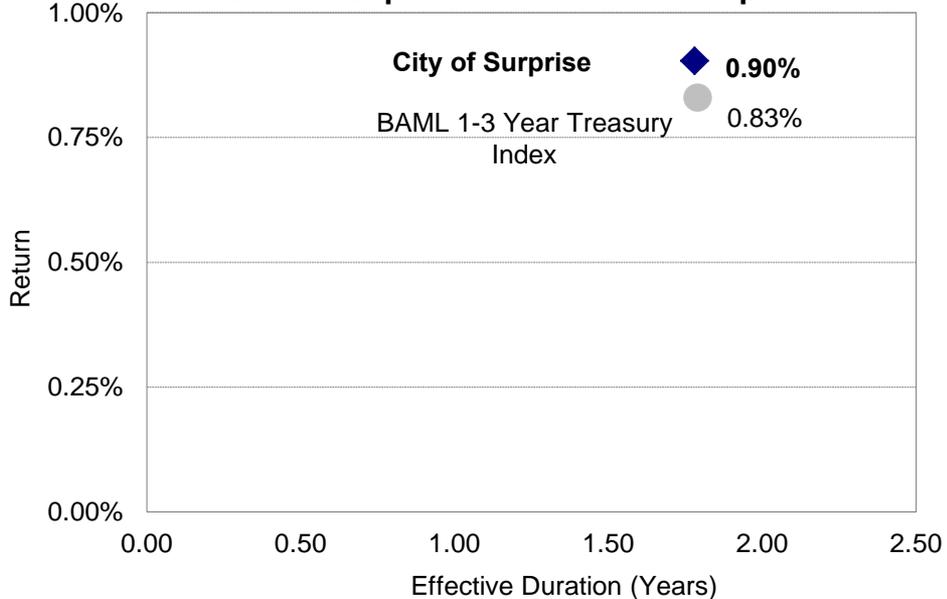
Total Return ^{1,2,3,4,5}	Quarter Ended March 31, 2015	Past 1 Year	Past 2 Years	Past 3 Years	Since Inception
City of Surprise	0.48%	0.96%	0.66%	0.68%	0.90%
BAML1-3 Year UST Index	0.52%	1.00%	0.69%	0.67%	0.83%

Effective Duration ⁴	March 31, 2015	December 31, 2014	Yields	March 31, 2015	December 31, 2014
City of Surprise	1.78	1.77	Yield at Market	0.59%	0.66%
BAML 1-3 Year UST Index	1.79	1.82	Yield on Cost	0.74%	0.67%

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. Bank of America Merrill Lynch (BAML) 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 2015 Strategy

- We expect U.S. economic conditions to gradually advance in the second quarter, including improvements in GDP, employment, retail sales, and consumer sentiment.
- The FOMC changed the language in their March statement, replacing the notion that they “can be patient” in their plans to raise rates with a statement that they need to be “reasonably confident that inflation will move back to its two percent objective” before taking any action on rates.
- This stronger emphasis on inflation, combined with the FOMC’s more conservative projections for the future trajectory of the federal funds rate, informs our market view that rates will remain within their current range in the coming months.
- Because FOMC policy continues to evolve, we expect volatility to continue throughout the quarter. In a potentially turbulent market environment, we will carefully manage the duration of the portfolio within narrow target ranges.
- We will focus on individual security selection and yield curve placement, as we believe these factors will be the primary drivers of good performance.
- We will continue to actively manage government sector allocations between Treasuries and Federal agencies as their yield relationships change. We also plan to continue to look for new issue securities with favorable yields.



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2015**

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	18,055.25	2,187,222.93	2,188,633.35
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	3,866,200.83	3,868,282.20
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	3,327,324.43	3,333,300.00
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	1,925,143.11	1,926,697.74
US TREASURY NOTES DTD 08/01/2011 1.500% 07/31/2016	912828QX1	1,925,000.00	AA+	Aaa	02/04/14	02/07/14	1,973,500.98	0.48	4,785.91	1,951,155.84	1,953,122.33
US TREASURY NOTES DTD 08/01/2011 1.500% 07/31/2016	912828QX1	3,420,000.00	AA+	Aaa	06/02/14	06/05/14	3,495,881.25	0.46	8,502.76	3,467,076.71	3,469,962.78
US TREASURY NOTES DTD 08/31/2011 1.000% 08/31/2016	912828RF9	2,030,000.00	AA+	Aaa	09/12/13	09/13/13	2,038,246.87	0.86	1,765.22	2,033,957.93	2,046,810.43
US TREASURY NOTES DTD 10/31/2011 1.000% 10/31/2016	912828RM4	2,600,000.00	AA+	Aaa	05/07/14	05/08/14	2,622,648.44	0.65	10,917.13	2,614,481.69	2,622,750.00
US TREASURY NOTES DTD 10/31/2011 1.000% 10/31/2016	912828RM4	3,420,000.00	AA+	Aaa	06/02/14	06/05/14	3,455,001.56	0.57	14,360.22	3,443,078.43	3,449,925.00
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	2,390,031.41	2,397,528.21
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	3,729,327.48	3,736,407.60
US TREASURY NOTES DTD 01/31/2012 0.875% 01/31/2017	912828SC5	160,000.00	AA+	Aaa	07/30/14	07/31/14	160,093.75	0.85	232.04	160,068.97	161,049.92
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	2,782,312.74	2,803,238.02
US TREASURY NOTES DTD 05/31/2012 0.625% 05/31/2017	912828SY7	2,385,000.00	AA+	Aaa	06/02/14	06/05/14	2,369,721.09	0.84	4,996.05	2,373,887.43	2,385,186.03



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2015**

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 07/02/2012 0.750% 06/30/2017	912828TB6	1,500,000.00	AA+	Aaa	11/03/14	11/04/14	1,497,246.09	0.82	2,828.04	1,497,666.00	1,503,046.50
US TREASURY NOTES DTD 07/02/2012 0.750% 06/30/2017	912828TB6	1,785,000.00	AA+	Aaa	12/09/14	12/10/14	1,779,142.97	0.88	3,365.37	1,779,844.46	1,788,625.34
US TREASURY NOTES DTD 07/02/2012 0.750% 06/30/2017	912828TB6	2,000,000.00	AA+	Aaa	12/04/14	12/05/14	1,995,625.00	0.84	3,770.72	1,996,170.04	2,004,062.00
US TREASURY NOTES DTD 08/31/2012 0.625% 08/31/2017	912828TM2	1,500,000.00	AA+	Aaa	02/27/15	03/02/15	1,490,625.00	0.88	815.22	1,490,928.71	1,497,304.50
US TREASURY NOTES DTD 11/30/2012 0.625% 11/30/2017	912828UA6	1,275,000.00	AA+	Aaa	11/03/14	11/04/14	1,259,660.16	1.02	2,670.84	1,261,664.11	1,269,620.78
US TREASURY NOTES DTD 11/30/2010 2.250% 11/30/2017	912828PK0	2,100,000.00	AA+	Aaa	03/30/15	03/31/15	2,179,242.19	0.82	15,836.54	2,179,161.58	2,181,211.20
US TREASURY NOTES DTD 01/31/2013 0.875% 01/31/2018	912828UJ7	1,445,000.00	AA+	Aaa	12/30/14	12/31/14	1,431,735.35	1.18	2,095.65	1,432,796.44	1,446,241.26
US TREASURY NOTES DTD 04/01/2013 0.750% 03/31/2018	912828UU2	1,500,000.00	AA+	Aaa	02/27/15	03/02/15	1,484,765.63	1.09	30.74	1,485,168.71	1,493,320.50
US TREASURY NOTES DTD 04/01/2013 0.750% 03/31/2018	912828UU2	2,100,000.00	AA+	Aaa	03/30/15	03/31/15	2,088,515.63	0.94	43.03	2,088,525.98	2,090,648.70
Security Type Sub-Total		50,925,000.00					52,055,560.56	0.69	215,965.41	51,463,195.96	51,616,974.39
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	4,225.00	847,587.17	848,768.70
Security Type Sub-Total		845,000.00					878,200.05	0.77	4,225.00	847,587.17	848,768.70
Federal Agency Bond / Note											
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	2,564,468.28	2,573,392.02



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2015**

CITY OF SURPRISE OPERATING FUND

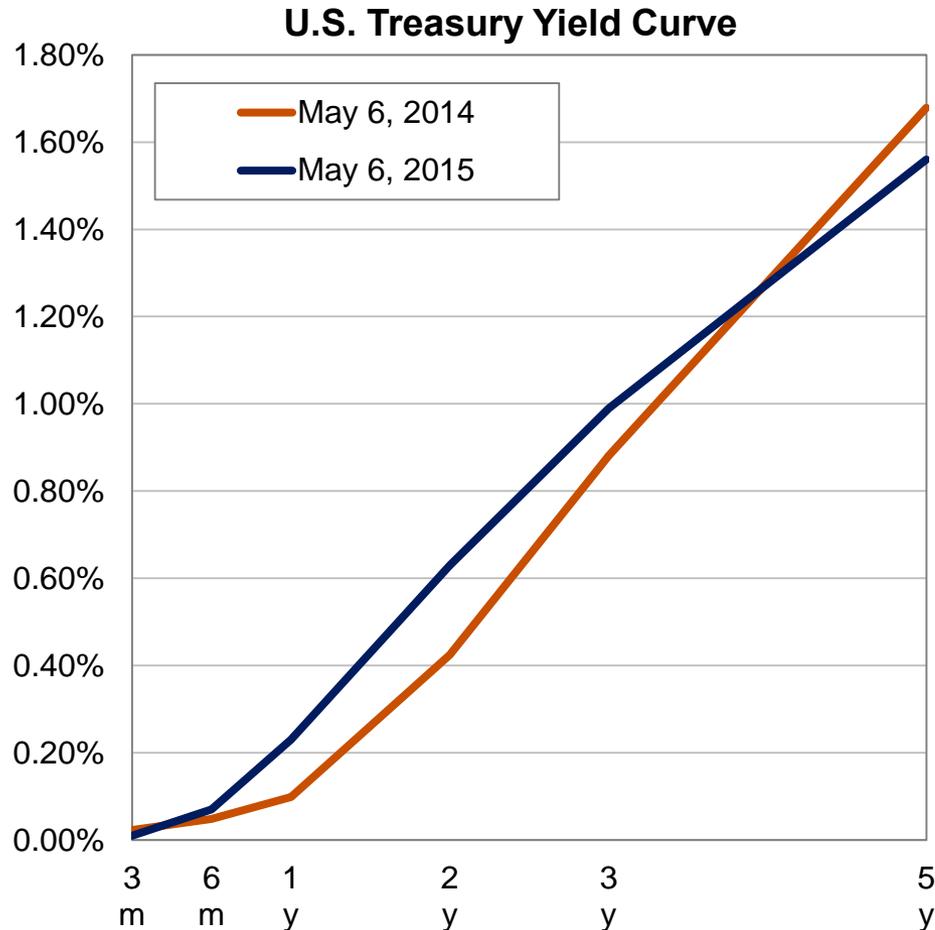
Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Federal Agency Bond / Note											
FHLB NOTES DTD 11/17/2014 0.625% 11/23/2016	3130A3J70	1,000,000.00	AA+	Aaa	02/04/15	02/05/15	1,001,230.00	0.56	2,326.39	1,001,124.67	1,000,955.00
FHLMC REFERENCE NOTE DTD 01/16/2015 0.500% 01/27/2017	3137EADU0	1,015,000.00	AA+	Aaa	01/15/15	01/16/15	1,013,223.75	0.59	1,057.29	1,013,405.26	1,013,253.19
FHLMC NOTES DTD 01/21/2014 0.875% 02/22/2017	3137EADT3	3,320,000.00	AA+	Aaa	10/08/14	10/09/14	3,326,540.40	0.79	3,147.08	3,325,235.37	3,336,434.00
FHLB GLOBAL NOTES (CALLABLE) DTD 03/24/2015 0.840% 03/24/2017	3130A4QV7	1,485,000.00	AA+	Aaa	03/17/15	03/24/15	1,485,000.00	0.84	242.55	1,485,000.00	1,487,655.18
FNMA NOTES DTD 03/01/2012 1.125% 04/27/2017	3135G0JA2	3,400,000.00	AA+	Aaa	09/03/14	09/04/14	3,416,252.00	0.94	16,362.50	3,412,762.65	3,430,783.60
FHLB GLOBAL NOTE (CALLABLE) DTD 04/28/2014 1.625% 04/28/2017	3130A1LJ5	1,650,000.00	AA+	Aaa	04/03/14	04/28/14	1,668,315.00	1.25	11,395.31	1,651,375.37	1,651,692.90
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	2,115,000.00	AA+	Aaa	08/13/14	08/14/14	2,117,305.35	0.96	3,701.25	2,116,820.40	2,130,773.67
FNMA NOTES DTD 08/25/2014 1.000% 09/27/2017	3135G0ZL0	1,100,000.00	AA+	Aaa	08/21/14	08/25/14	1,096,073.00	1.12	122.22	1,096,823.49	1,104,154.70
FANNIE MAE GLOBAL NOTES DTD 10/30/2012 0.875% 12/20/2017	3135G0RT2	2,175,000.00	AA+	Aaa	02/04/15	02/05/15	2,170,780.50	0.94	5,339.32	2,171,007.64	2,175,134.85
Security Type Sub-Total		19,805,000.00					19,878,480.35	0.88	43,959.01	19,838,023.13	19,904,229.11
Managed Account Sub-Total		71,575,000.00					72,812,240.96	0.74	264,149.42	72,148,806.26	72,369,972.20
Securities Sub-Total		\$71,575,000.00					\$72,812,240.96	0.74%	\$264,149.42	\$72,148,806.26	\$72,369,972.20
Accrued Interest											\$264,149.42
Total Investments											\$72,634,121.62



Economic Update

Yield Curve Update

- The yield curve remains steep as intermediate-term rates have witnessed some upward pressure in recent months.



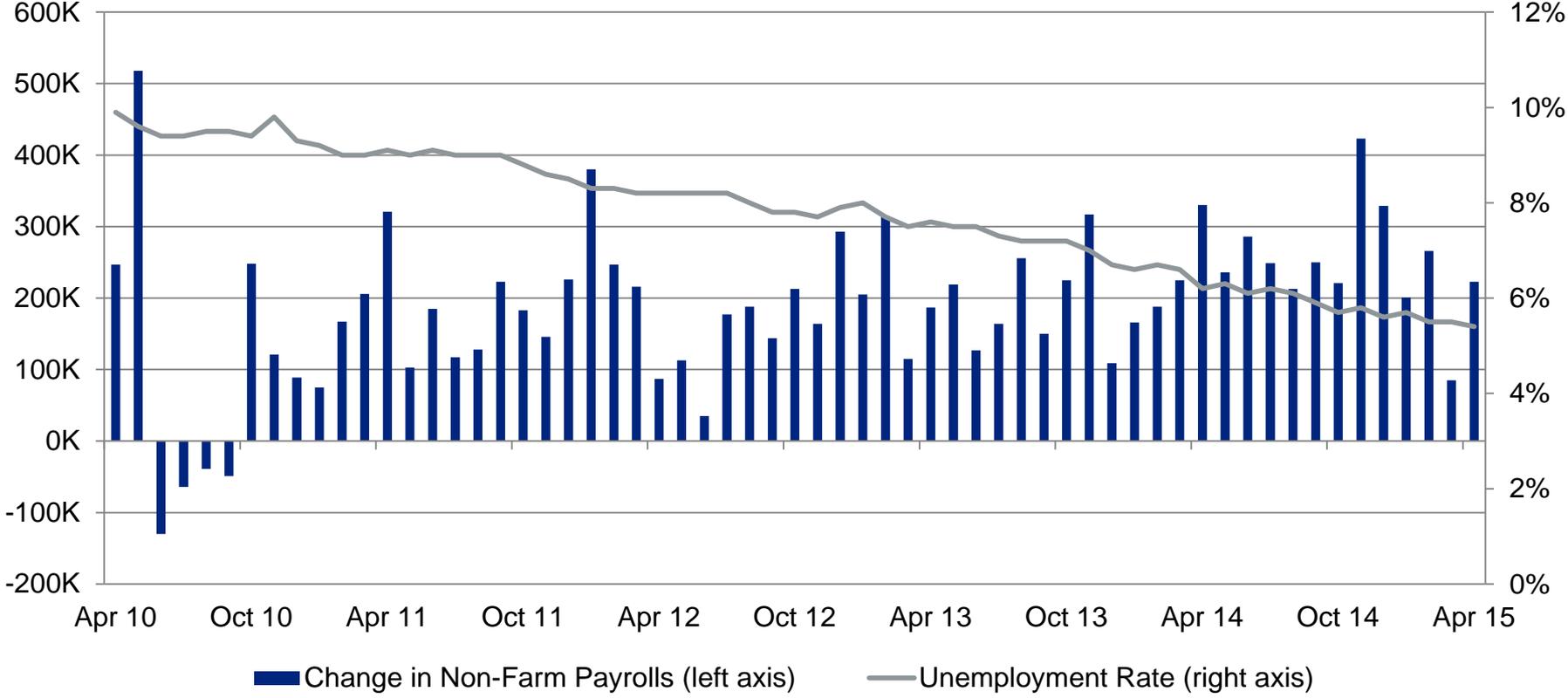
	5/6/14	5/6/15
3 month	0.02%	0.01%
6 month	0.05%	0.07%
1 year	0.10%	0.23%
2 year	0.42%	0.63%
3 year	0.88%	0.99%
5 year	1.68%	1.56%
10 year	2.59%	2.21%
30 year	3.38%	2.94%

Source: Bloomberg.

Sharp Rebound in Nonfarm Payrolls

- The economy added 223,000 workers in April with the construction and health care industries leading the way.
- Unfortunately, March's reported gain of 126,000 jobs was revised down to 85,000—the smallest increase since June 2012.

Change in Nonfarm Payrolls and Unemployment Rate

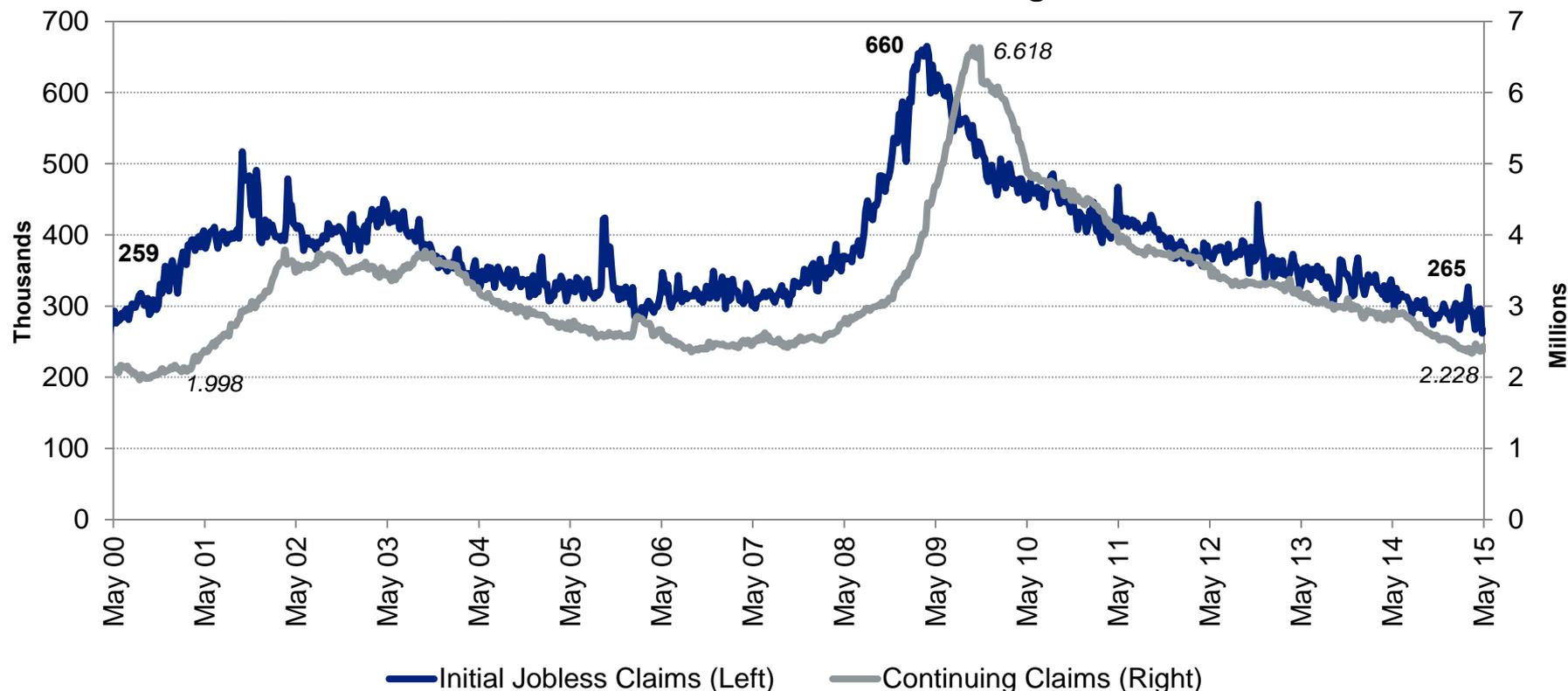


Source: Bureau of Labor Statistics.

Labor Market Statistics

- The unemployment rate fell to 5.4% in April, the lowest since May 2008, and the labor force participation rate ticked higher to 62.8%.
- U.S. initial jobless claims fell to 265,000 in May, bringing the 4-week average to its lowest point since May 2000. Continuing claims fell to 2.228 million the week ending April 25, the lowest level since November 2000.

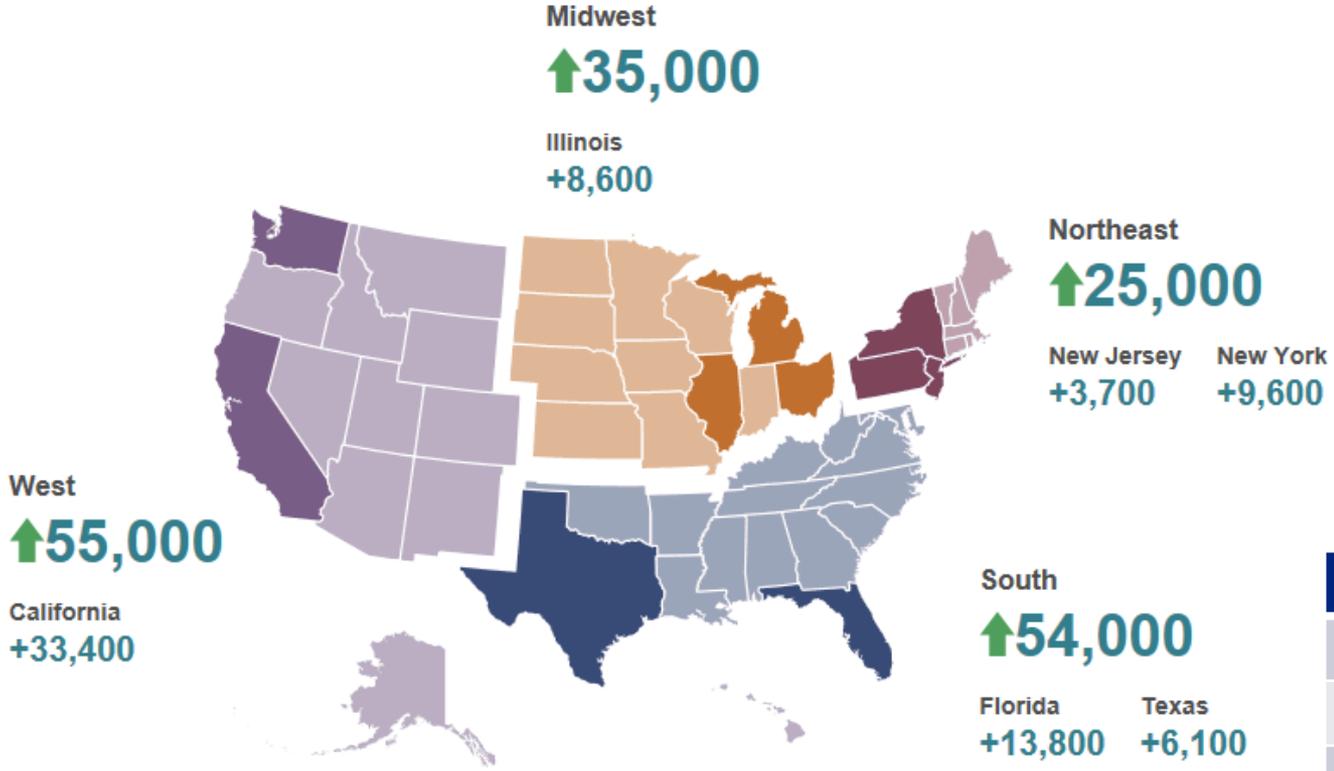
Initial Jobless Claims and Continuing Claims



Source: Bureau of Labor Statistics.

West Region of U.S. Leads in Job Growth Numbers

- Regional employment growth shifted as lower energy prices impacted the economy in the South.
- In April, Arizona added 3,200 nonfarm private sector jobs, which is a 0.15% increase over the previous month.



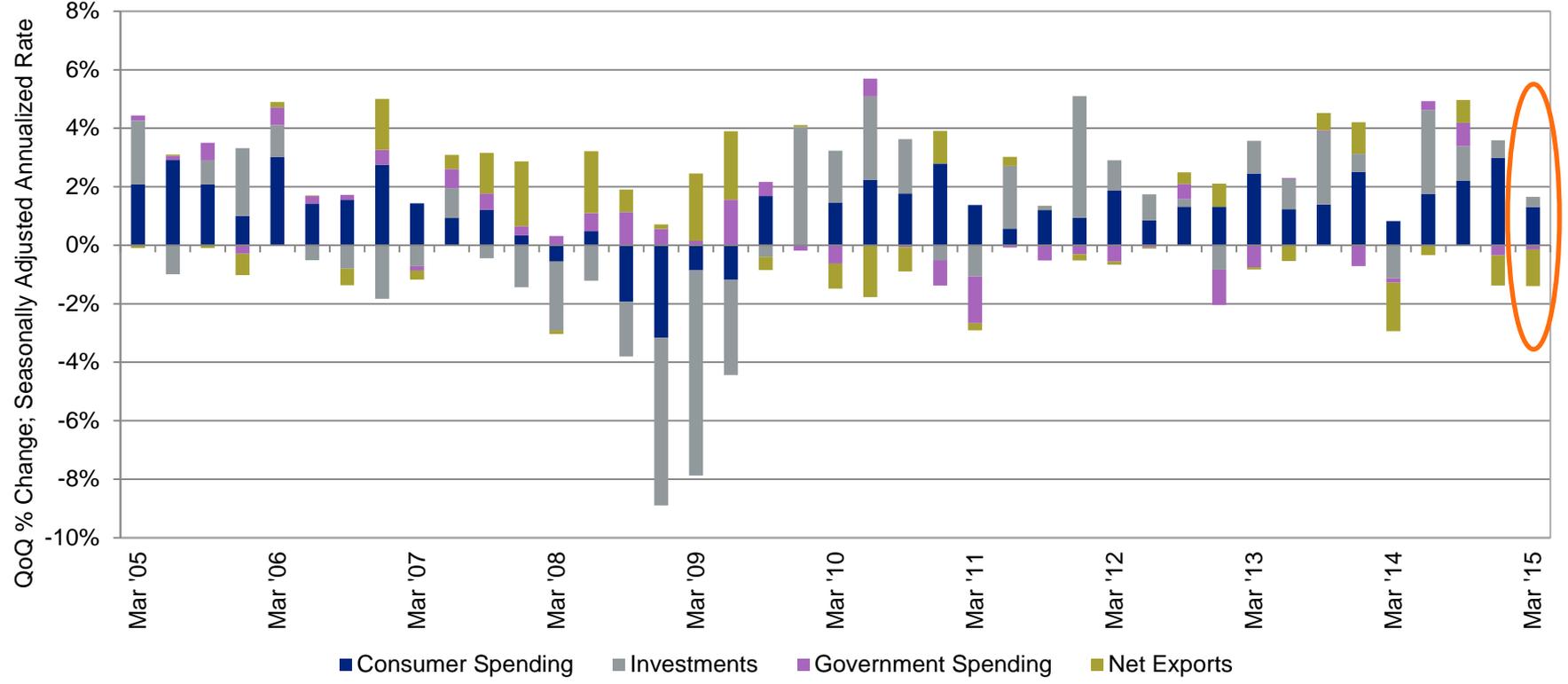
Region	% Growth
South	+0.13%
West	+0.21%
Midwest	+0.13%
Northeast	+0.11%

Source: ADP Regional Employment Report.

First Quarter GDP Stalled

- U.S. GDP expanded at only a 0.2% annualized rate in the first quarter, which was far below growth in the prior three quarters.
- Key contributors to slower growth included a sharp deceleration in consumer spending, a large drop in exports caused by the stronger U.S. dollar, and weaker business spending.

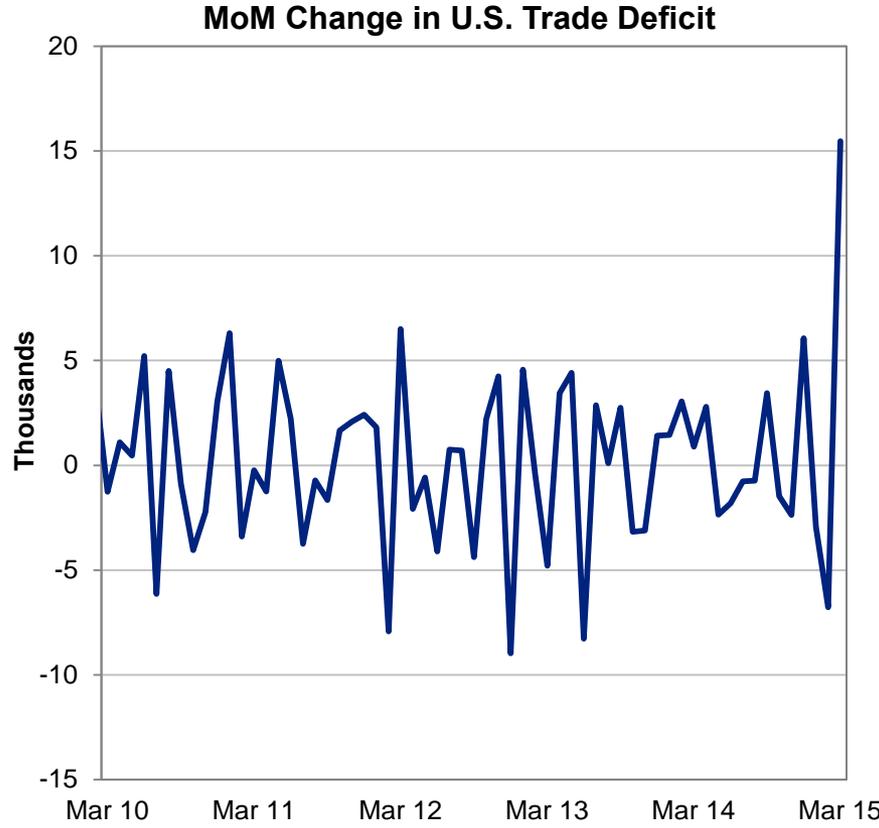
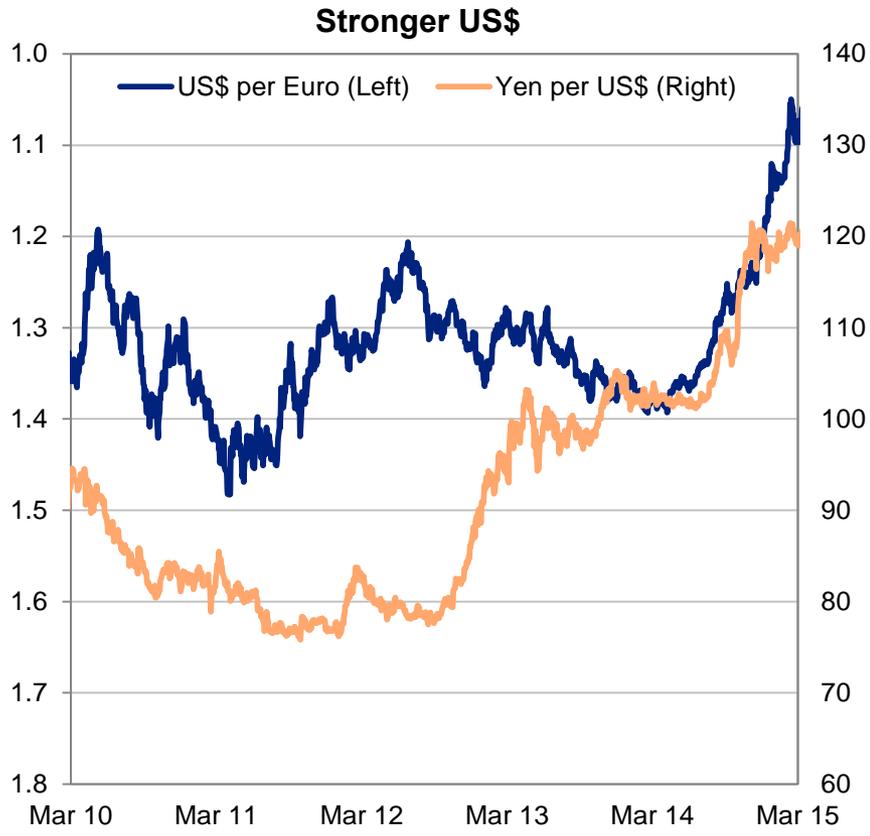
Contribution to GDP



Source: Bureau of Economic Analysis.

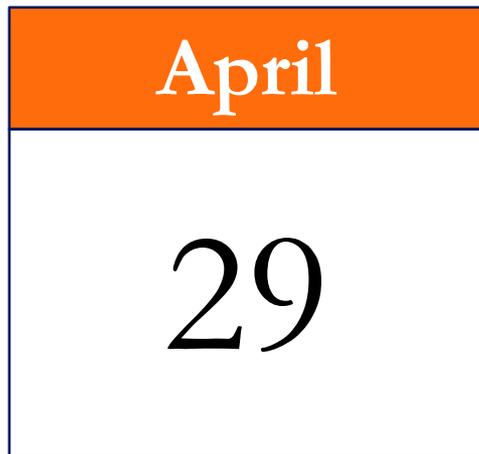
International Trade Deficit Widens

- The nation's trade deficit jumped by 43.1% in March to \$51.4 billion, its highest-level in more than 6 years as imports of food, capital goods and consumer products all set records.
- The increased deficit, in combination with lower than expected inventory data for March, may cause Q1's initial 0.2% GDP reading to be revised even lower, into negative territory.



Source: Bloomberg, Bureau of Economic Analysis.

FOMC Statement Highlights



- Economic growth ***slowed during the winter months, in part reflecting transitory factors***. The pace of job gains moderated, and the unemployment rate remained steady...***underutilization of labor resources was little changed***.
 - ***Inflation continued to run below the Committee's longer-run objective***, partly reflecting earlier declines in energy prices and decreasing prices of non-energy imports...inflation is ***anticipated to remain near its recent low-level in the near-term***, but the Committee expects inflation to rise gradually toward 2% over the medium-term.
-
- The current 0 – 0.25% target range for the federal funds rate remains appropriate ...the Committee will assess progress—***both realized and expected***—toward its objective of maximum employment at 2% inflation.
 - Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvements in the labor market and is ***reasonably confident that inflation will move back to its 2% objective over the medium-term***.

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