



City of Surprise

Quarterly Performance Review

Fourth Quarter Ended December 31, 2015



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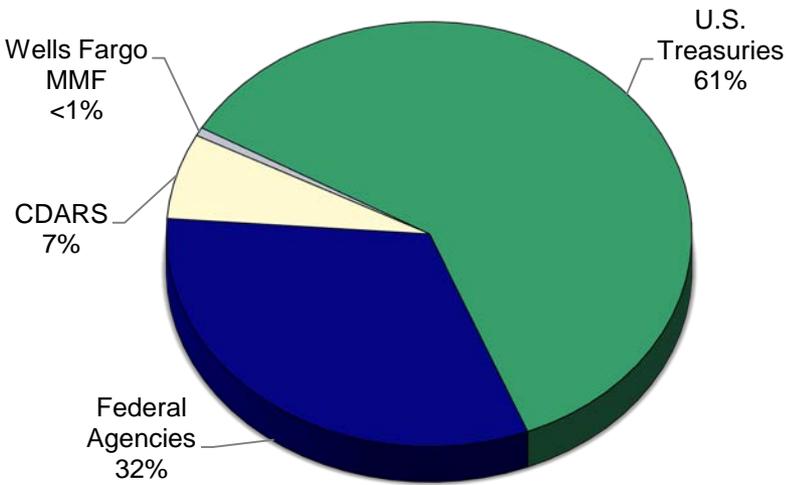
Fourth Quarter Strategy and Recap

- While Treasury yields across the curve ended the quarter higher, the path towards higher rates varied by maturity.
 - Short-maturity yields rose steadily throughout the quarter as expectations for a December FOMC rate hike increased with an inflow of modestly strong economic data.
 - After increasing during the first half of the quarter, longer maturities leveled off as market participants priced in moderate growth expectations.
 - These factors combined to produce a flatter yield curve.
- Market reaction after the FOMC's announcement to raise the target range for the federal funds rate was relatively subdued, evidence that the action was in line with market expectations.
- PFMAM maintained a defensive duration position as rates trended higher. As rates approached the upper end of recent ranges, we extended duration from short of the benchmark's duration to a near-neutral position.
- The yield relationship between U.S. Treasury and federal agency securities remained stable throughout the fourth quarter. Our relative value analysis of these sectors generally favored investments in U.S. Treasuries. We sought opportunities to capture value when agencies came to market if they offered higher yields than secondary market securities with similar maturities.

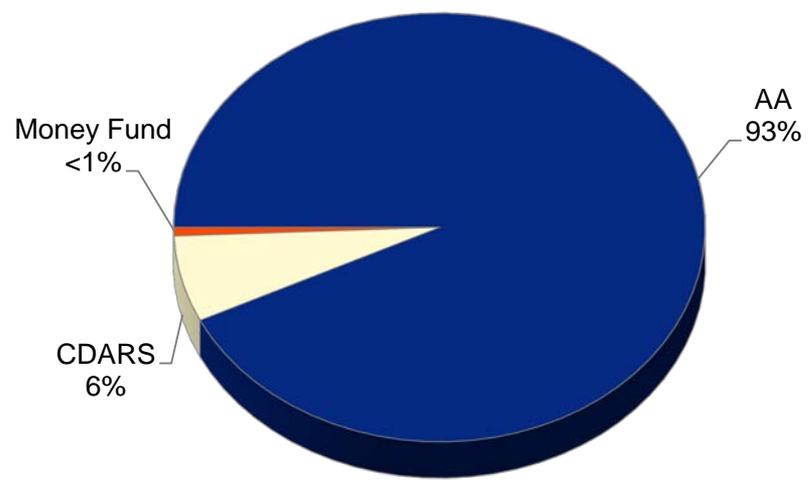
Portfolio Summary and Characteristics

Security Type ¹	December 31, 2015	Current Quarter % of Portfolio	Previous Quarter % of Portfolio
U.S. Treasury	\$47,028,115.90	61%	60%
Federal Agency	\$25,020,147.96	32%	33%
Non-callable Federal Agency	\$21,048,926.38	27%	28%
Callable Federal Agency	\$3,971,221.58	5%	5%
CDARS²	\$5,062,218.02	7%	6%
AZ Municipals	\$0.00	0%	0%
Wells Fargo MMF	\$503,116.24	<1%	<1%
Total Market Value	\$77,613,598.12	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 at maturity.

Maturity Summary and Key Portfolio Statistics

Maturity Distribution

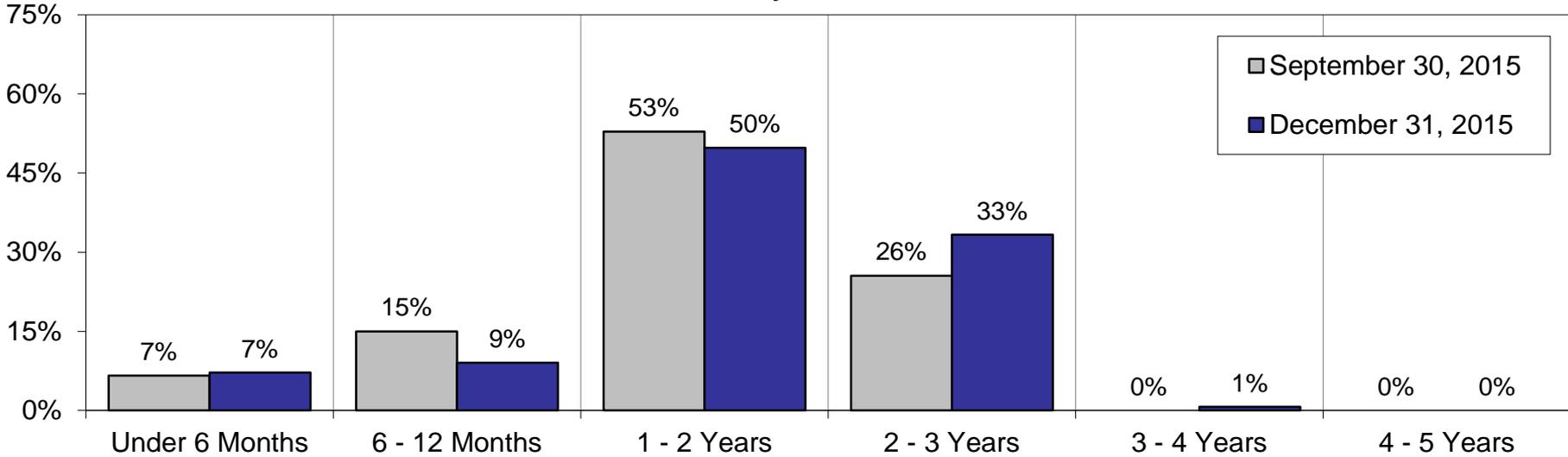
<u>Maturity Class</u>	<u>Fair Value³</u>	<u>% of Portfolio</u>
Under 6 Months	\$5,565,334.26	7%
6 - 12 Months	\$7,009,852.57	9%
1 - 2 Years	\$38,661,524.76	50%
2 - 3 Years	\$25,851,496.98	33%
3 - 4 Years	\$525,389.55	1%
4 - 5 Years	\$0.00	0%
Total Market Value	\$77,613,598.12	100%

Key Portfolio Statistics

Effective Duration¹	1.81 years
Benchmark Duration²	1.80 years
Yield at Cost	0.91%

1. Portfolio statistics excludes funds invested in CDARS. Duration to worst as of 12/31/2015 was 1.82.
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



Capitalized on Rising Treasury Yields

- Interest rates gradually increased throughout the quarter, pricing in rate hike expectations leading up to the FOMC meeting. We locked in attractive longer-term Treasury yields where we saw the opportunity, selling out of shorter-term and lower-yielding securities.
- These trades served both to generate additional earnings and to extend duration in line with the target.

Trade Date	Trade Type	Security	Maturity	Par Value	Yield
10/9/15	Buy	U.S. Treasury Notes	9/30/18	\$4,160,000	0.95%
11/6/15	Buy	U.S. Treasury Notes	9/30/17	\$2,000,000	0.88%
11/6/15	Buy	U.S. Treasury Notes	7/15/18	\$2,875,000	1.17%
12/2/15	Buy	U.S. Treasury Notes	9/15/18	\$2,000,000	1.18%

3-Year U.S. Treasury Yields
December 31, 2012 – December 31, 2015



Reinvestment into Historically Higher Rates

- As expected in a rising rate environment, current holdings in the portfolio decrease in market value and can result in a realized loss when sold.
- However, reinvesting in the higher yields now available will ultimately provide greater earnings for the City in the long term.

Trade Date: 12/28/15			
Securities	Par Value	Yield	Earnings Through 10/31/16
U.S. Treasury Notes	\$525,000	1.36%	\$6,000
U.S. Treasury Notes	\$4,000,000	1.15%	\$38,800
U.S. Treasury Notes	\$1,100,000	0.73%	\$6,800
U.S. Treasury Notes	\$3,420,000	0.73%	\$21,100
			-\$5,227
Total benefit of trade			+\$67,473

< earnings on purchased security
< earnings giving up by selling
< realized loss on sale

Fixed-Income Returns

Overall rising interest rates and Fed rate hike

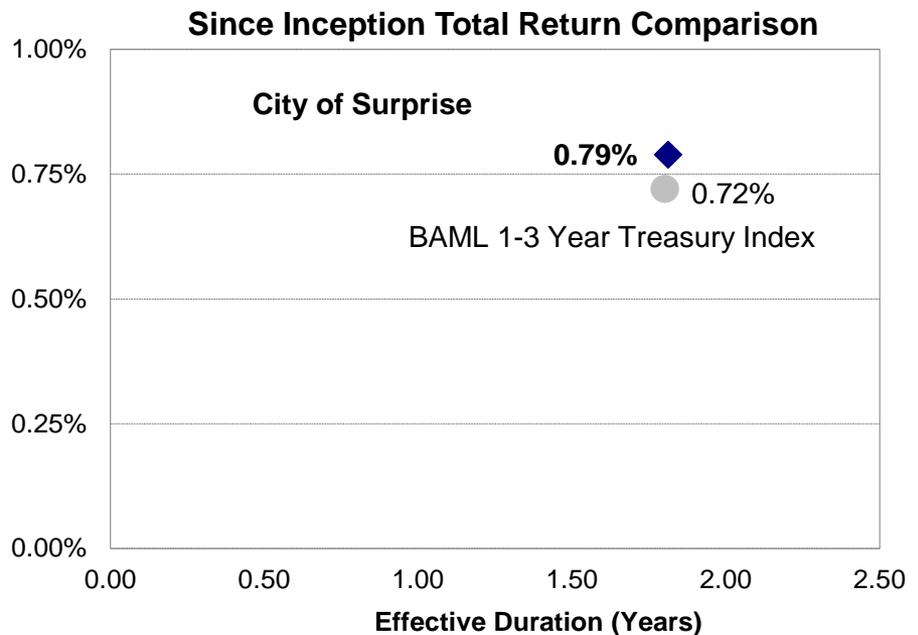
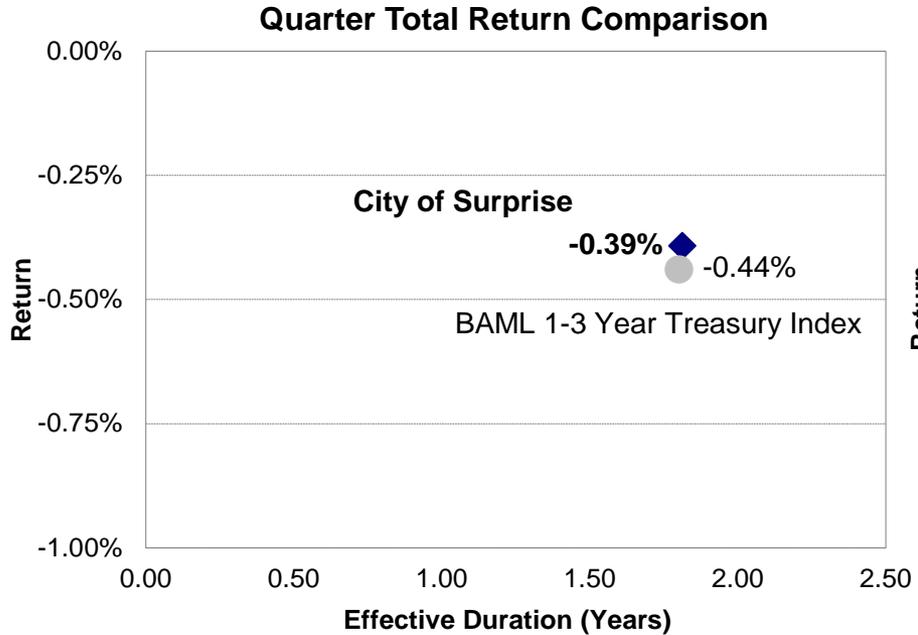
December 31, 2015	Effective Duration	Yield	YTD	1 Month	3 Month	1 Year	3 Years	5 Years
1-3 Year Indices								
U.S. Treasury	1.87	1.06%	0.54%	(0.09%)	(0.44%)	0.54%	0.51%	0.70%
Agency	1.73	1.14%	0.69%	(0.13%)	(0.37%)	0.69%	0.61%	0.84%
Corp A-AAA	1.90	1.82%	1.16%	(0.16%)	(0.05%)	1.16%	1.22%	1.85%
MBS (0 to 3 Years)	1.89	1.46%	1.68%	0.10%	0.98%	1.68%	1.20%	1.67%
Municipals	1.84	0.96%	0.76%	(0.02%)	(0.08%)	0.76%	0.85%	1.19%
1-5 Year Indices								
U.S. Treasury	2.70	1.29%	0.98%	(0.15%)	(0.66%)	0.98%	0.67%	1.25%
Agency	2.20	1.31%	0.97%	(0.16%)	(0.49%)	0.97%	0.76%	1.22%
Corp A-AAA	2.71	2.13%	1.52%	(0.26%)	(0.16%)	1.52%	1.59%	2.62%
MBS (0 to 5 Years)	3.35	2.23%	1.22%	(0.04%)	0.16%	1.22%	1.69%	2.52%
Municipals	2.52	1.15%	1.20%	0.03%	0.08%	1.20%	1.24%	1.80%
Master Indices (Maturities 1 Year and Greater)								
U.S. Treasury	6.19	1.77%	0.83%	(0.16%)	(0.93%)	0.83%	1.09%	2.99%
Agency	3.75	1.69%	0.99%	(0.25%)	(0.65%)	0.99%	1.05%	2.16%
Corp A-AAA	6.64	3.08%	0.67%	(0.42%)	(0.09%)	0.67%	1.97%	4.40%
MBS (0 to 30 Years)	4.53	2.63%	1.46%	(0.03%)	(0.06%)	1.46%	2.00%	2.93%
Municipals	6.74	2.34%	3.55%	0.79%	1.72%	3.55%	3.35%	5.65%

Source: BofA Merrill Lynch Indices. Returns greater than one year are annualized.

Portfolio Performance

Total Return ^{1,2,3,4,5}	Quarter Ended December 31, 2015	Past 1 Year	Past 2 Years	Past 3 Years	Since Inception
City of Surprise	-0.39%	0.53%	0.58%	0.50%	0.79%
BAML1-3 Year UST Index	-0.44%	0.54%	0.58%	0.51%	0.72%

Effective Duration ⁴	December 31, 2015	September 30, 2015	Yields	December 31, 2015	September 30, 2015
City of Surprise	1.81	1.60	Yield at Market	1.08%	0.59%
BAML 1-3 Year UST Index	1.80	1.79	Yield on Cost	0.91%	0.79%



1. Performance on tradedate 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.

First Quarter Outlook and Strategy

- We will continue to monitor any spillover effect that modest global growth and muted inflation may have on the U.S. economy.
- Recent FOMC projections indicate that Committee members anticipate that three or four rate hikes may be appropriate in 2016—projections that most market participants believe to be overstated. We believe:
 - Expectations for low inflation will limit this year’s rate hikes to two or three;
 - Short-term yields will trend only modestly higher in the near term; and,
 - Long-term rates will remain within modest ranges, resulting in further flattening of the yield curve.
- Given the low likelihood that rates will move significantly higher in the near-term, we started the new quarter with duration positions closer to those of applicable benchmarks.
- Because of narrow yield spreads, federal agencies currently have limited appeal relative to comparable-maturity U.S. Treasuries.
 - We will monitor the yield relationship between the two sectors and take advantage of opportunities that may arise—opportunities that are most likely to occur with new-issue securities.



Managed Account Detail of Securities Held

For the Month Ending **December 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 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	5,554.10	2,353,975.47	2,349,794.37
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	8,655.74	3,671,042.65	3,662,017.20
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	730,000.00	AA+	Aaa	03/24/14	03/25/14	730,912.50	0.96	1,854.92	730,380.10	731,140.26
US TREASURY NOTES DTD 05/31/2012 0.625% 05/31/2017	912828SY7	485,000.00	AA+	Aaa	06/02/14	06/05/14	481,892.97	0.84	265.03	483,520.81	482,859.21
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	30.91	1,498,440.95	1,495,312.50
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	36.78	1,781,555.45	1,779,421.88
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	41.21	1,997,441.54	1,993,750.00
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	3,167.93	1,493,731.79	1,490,391.00
US TREASURY NOTES DTD 10/01/2012 0.625% 09/30/2017	912828TS9	2,000,000.00	AA+	Aaa	11/06/15	11/09/15	1,990,625.00	0.88	3,176.23	1,991,339.02	1,986,172.00
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	696.72	1,265,391.97	1,264,441.73
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	4,131.15	2,156,991.96	2,146,428.90
US TREASURY NOTES DTD 11/30/2012 0.625% 11/30/2017	912828UA6	3,280,000.00	AA+	Aaa	06/01/15	06/02/15	3,266,675.00	0.79	1,792.35	3,269,761.22	3,252,838.32
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	5,291.13	1,435,997.81	1,437,775.00
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	2,858.61	1,488,843.20	1,486,582.50



Managed Account Detail of Securities Held

For the Month Ending **December 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 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	4,002.05	2,091,373.35	2,081,215.50
US TREASURY NOTES DTD 04/01/2013 0.750% 03/31/2018	912828UU2	3,200,000.00	AA+	Aaa	04/29/15	04/30/15	3,186,625.00	0.90	6,098.36	3,189,679.04	3,171,376.00
US TREASURY NOTES DTD 04/01/2013 0.750% 03/31/2018	912828UU2	4,000,000.00	AA+	Aaa	12/28/15	12/30/15	3,964,687.50	1.15	7,622.95	3,964,772.44	3,964,220.00
UNITED STATES TREASURY NOTES DTD 07/15/2015 0.875% 07/15/2018	912828XK1	2,875,000.00	AA+	Aaa	11/06/15	11/09/15	2,852,988.28	1.17	11,621.09	2,854,159.41	2,849,058.88
US TREASURY NOTES DTD 08/01/2011 2.250% 07/31/2018	912828OY9	2,650,000.00	AA+	Aaa	07/02/15	07/06/15	2,744,716.80	1.06	24,951.77	2,729,878.05	2,719,149.10
US TREASURY NOTES DTD 09/15/2015 1.000% 09/15/2018	912828L40	2,000,000.00	AA+	Aaa	12/02/15	12/04/15	1,990,390.63	1.18	5,934.07	1,990,654.40	1,985,782.00
US TREASURY NOTES DTD 09/30/2011 1.375% 09/30/2018	912828RH5	4,160,000.00	AA+	Aaa	10/09/15	10/14/15	4,211,350.00	0.95	14,534.43	4,207,653.84	4,173,000.00
US TREASURY NOTES DTD 01/03/2012 1.375% 12/31/2018	912828RY8	525,000.00	AA+	Aaa	12/28/15	12/30/15	525,266.60	1.36	19.83	525,266.19	525,389.55
Security Type Sub-Total		47,020,000.00					47,441,369.16	0.93	112,337.36	47,171,850.66	47,028,115.90
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	659.72	1,000,613.27	998,041.00
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	2,170.97	1,014,059.63	1,010,915.64
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	10,409.58	3,323,168.74	3,318,270.28
FHLB GLOBAL NOTES (CALLABLE) DTD 03/24/2015 0.840% 03/24/2017	3130A4OV7	1,485,000.00	AA+	Aaa	03/17/15	03/24/15	1,485,000.00	0.84	3,361.05	1,485,000.00	1,482,814.08
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	6,800.00	3,408,171.02	3,405,616.80



Managed Account Detail of Securities Held

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

CITY OF SURPRISE OPERATING FUND

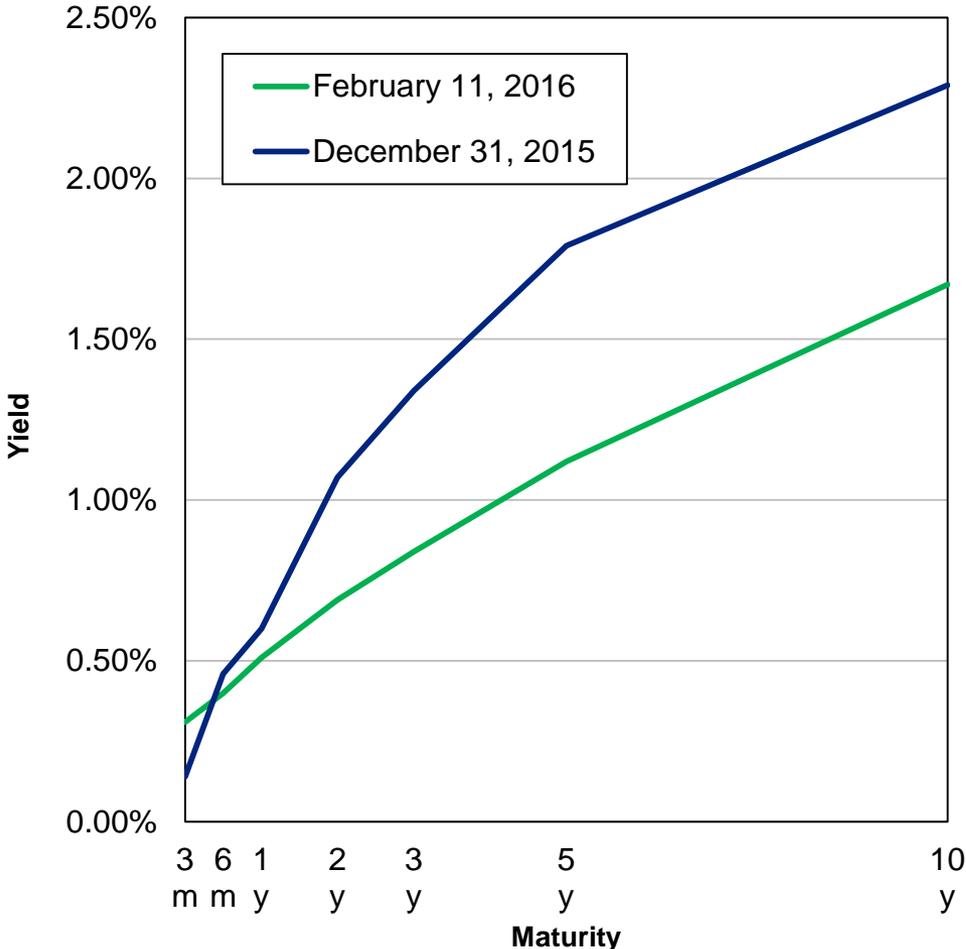
Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Federal Agency Bond / Note											
FHLB GLOBAL NOTES DTD 05/15/2015 0.625% 05/30/2017	3130A5EP0	1,900,000.00	AA+	Aaa	05/14/15	05/15/15	1,898,423.00	0.67	1,022.57	1,898,905.20	1,891,108.00
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	8,988.75	2,116,237.63	2,111,482.76
FHLB GLOBAL NOTE (CALLABLE) DTD 08/25/2015 0.900% 08/25/2017	3130A64C8	2,500,000.00	AA+	Aaa	07/29/15	08/25/15	2,499,750.00	0.91	7,875.00	2,499,793.45	2,488,407.50
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	2,872.22	1,097,771.84	1,097,520.60
FNMA NOTES DTD 08/25/2014 1.000% 09/27/2017	3135G0ZL0	3,075,000.00	AA+	Aaa	04/29/15	04/30/15	3,089,852.25	0.80	8,029.17	3,085,754.07	3,068,068.95
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	581.51	2,172,100.22	2,164,564.35
FNMA NOTES DTD 11/03/2015 1.125% 12/14/2018	3135G0G72	2,000,000.00	AA+	Aaa	12/02/15	12/04/15	1,988,680.00	1.32	1,062.50	1,988,954.32	1,983,338.00
Security Type Sub-Total		25,085,000.00					25,103,110.25	0.88	53,833.04	25,090,529.39	25,020,147.96
Managed Account Sub-Total		72,105,000.00					72,544,479.41	0.91	166,170.40	72,262,380.05	72,048,263.86
Securities Sub-Total		\$72,105,000.00					\$72,544,479.41	0.91%	\$166,170.40	\$72,262,380.05	\$72,048,263.86
Accrued Interest											\$166,170.40
Total Investments											\$72,214,434.26



Economic Update

Interest Rate Update

U.S. Treasury Yield Curves

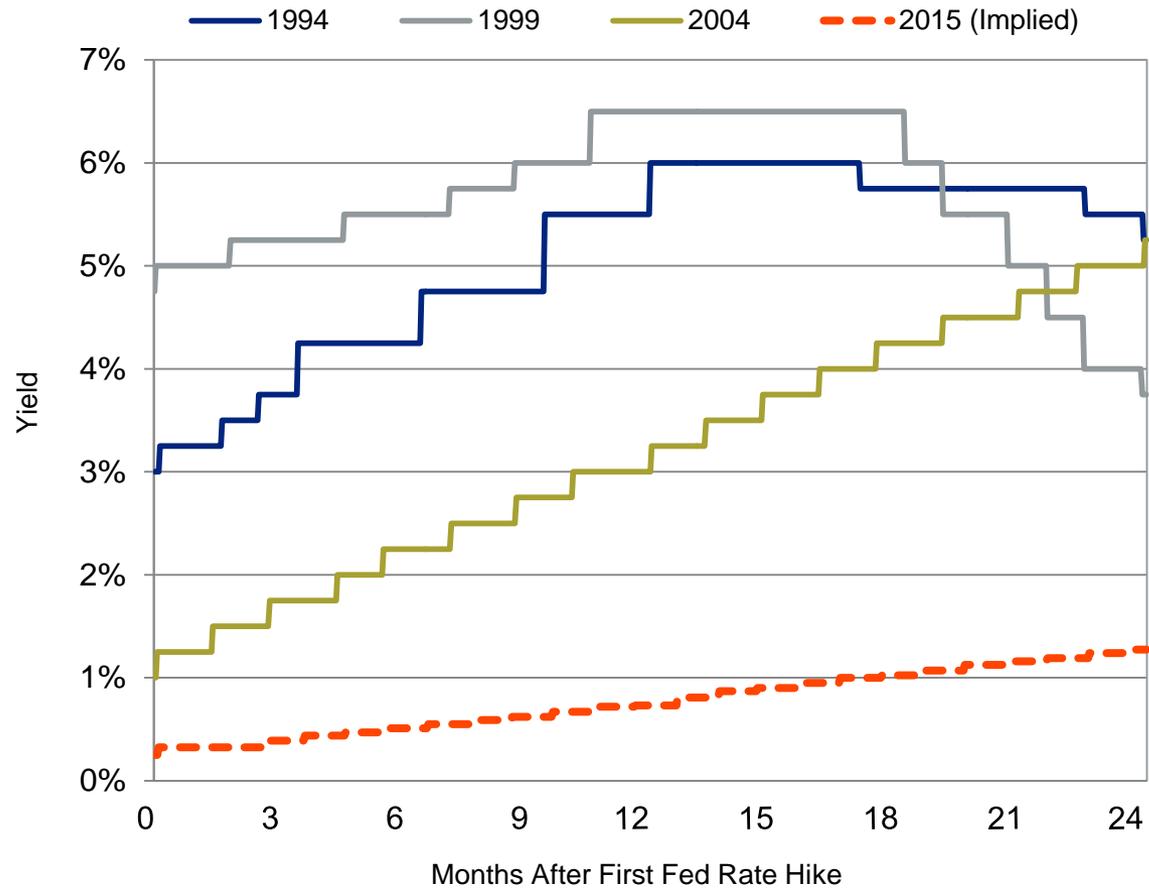


	2/11/16	12/31/15	Δ
3 month	0.31%	0.14%	+0.17%
6 month	0.40%	0.46%	-0.06%
1 year	0.51%	0.60%	-0.09%
2 year	0.69%	1.07%	-0.38%
3 year	0.84%	1.34%	-0.50%
5 year	1.12%	1.79%	-0.67%
10 year	1.67%	2.29%	-0.62%
30 year	2.49%	3.03%	-0.54%

Source: Bloomberg

A New Path for the Fed

Federal Funds Target Rate

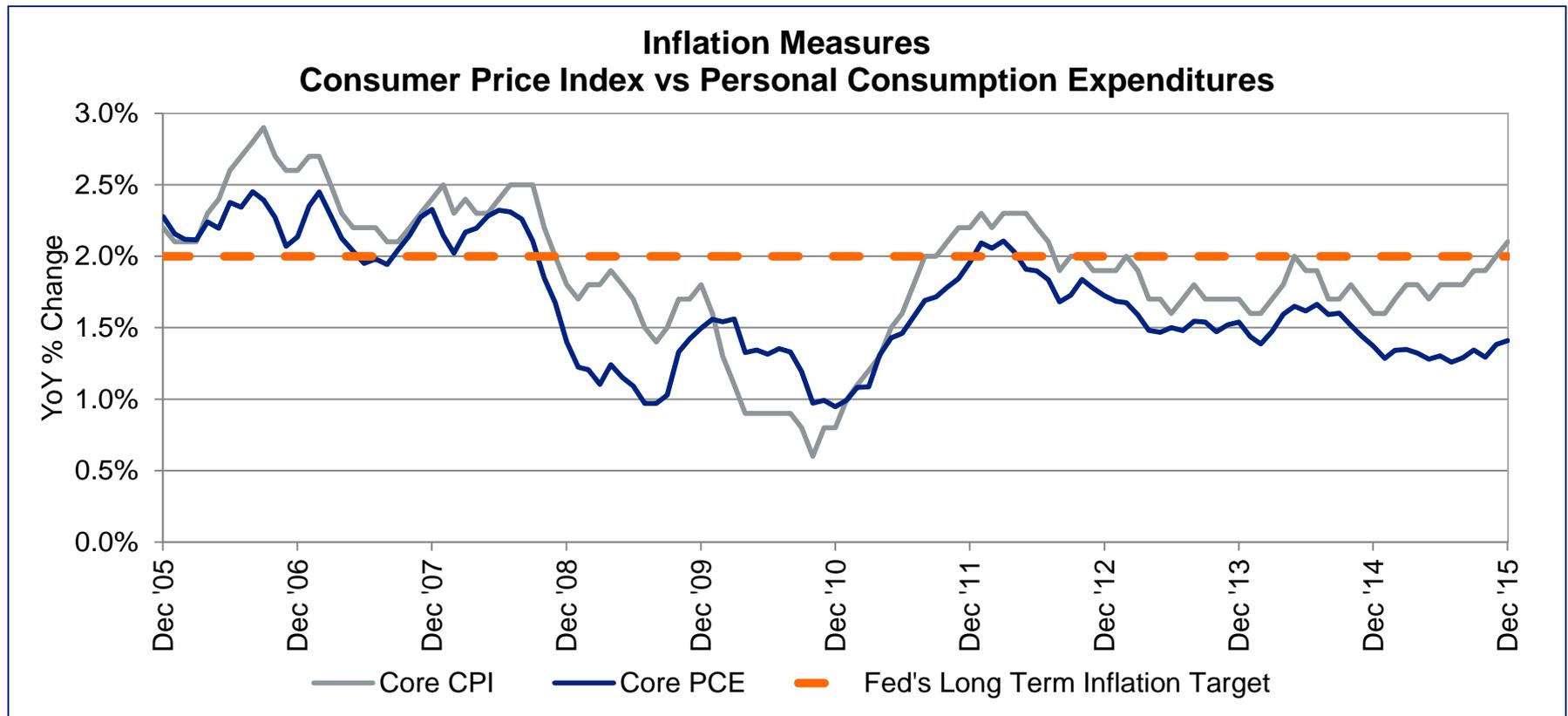


United States	
1) Overview	
2) Future Implied Probabilities	
Current Implied Probabilities	
Dates	Meeting
03/16/2016	4.0%
04/27/2016	9.8%
06/15/2016	18.8%
07/27/2016	20.4%
09/21/2016	26.8%
11/02/2016	28.3%
12/14/2016	41.1%
02/01/2017	41.1%

Source: Bloomberg as of 2/18/16. 2015 forecast is based on federal funds futures contracts as of 2/18/16.

Tempered Inflation Expectations

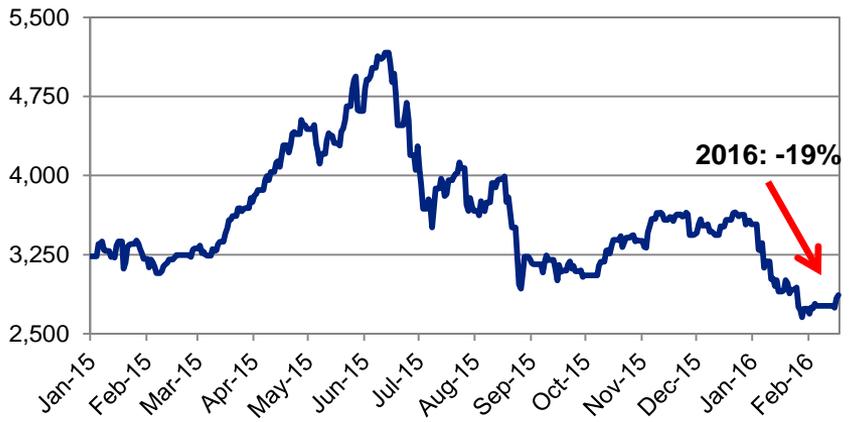
- The most recent Fed minutes indicate concern that falling commodity prices and the rout in financial markets may pose a risk to the U.S. economy.
- Policy makers noted that additional energy price decline and continued dollar appreciation “likely implied that inflation would take somewhat longer than previously anticipated” to rise to the target.



Source: Bloomberg

Significant Volatility Across the Financial Markets

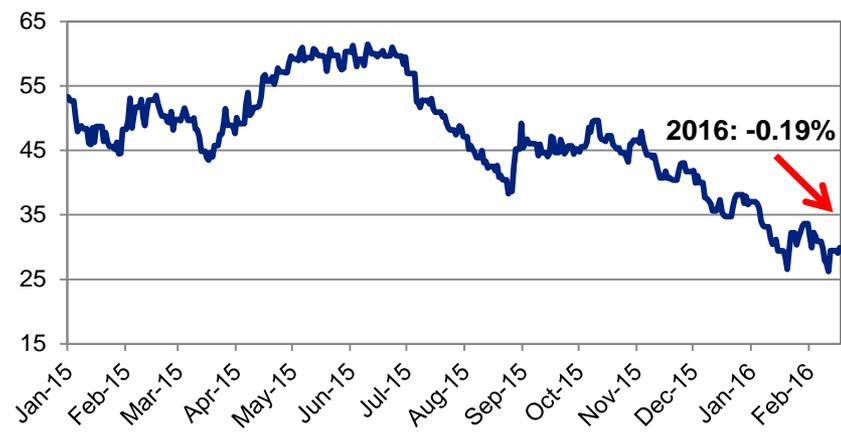
Shanghai Composite



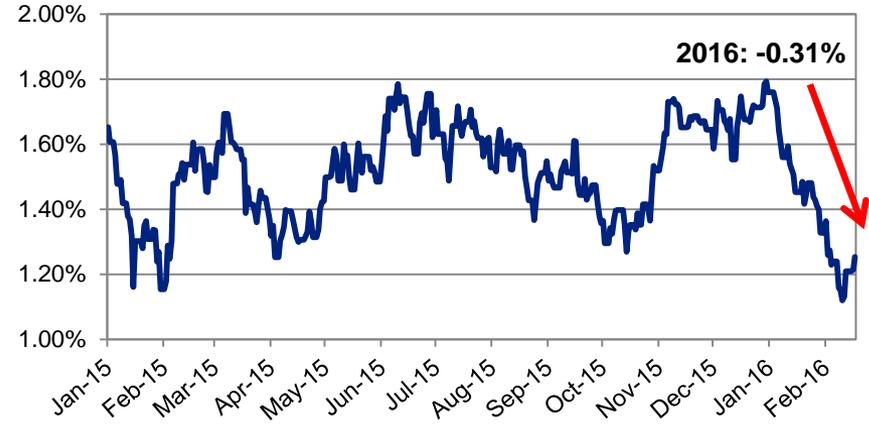
S&P 500



WTI Crude Oil (per barrel)



5-Year Treasury

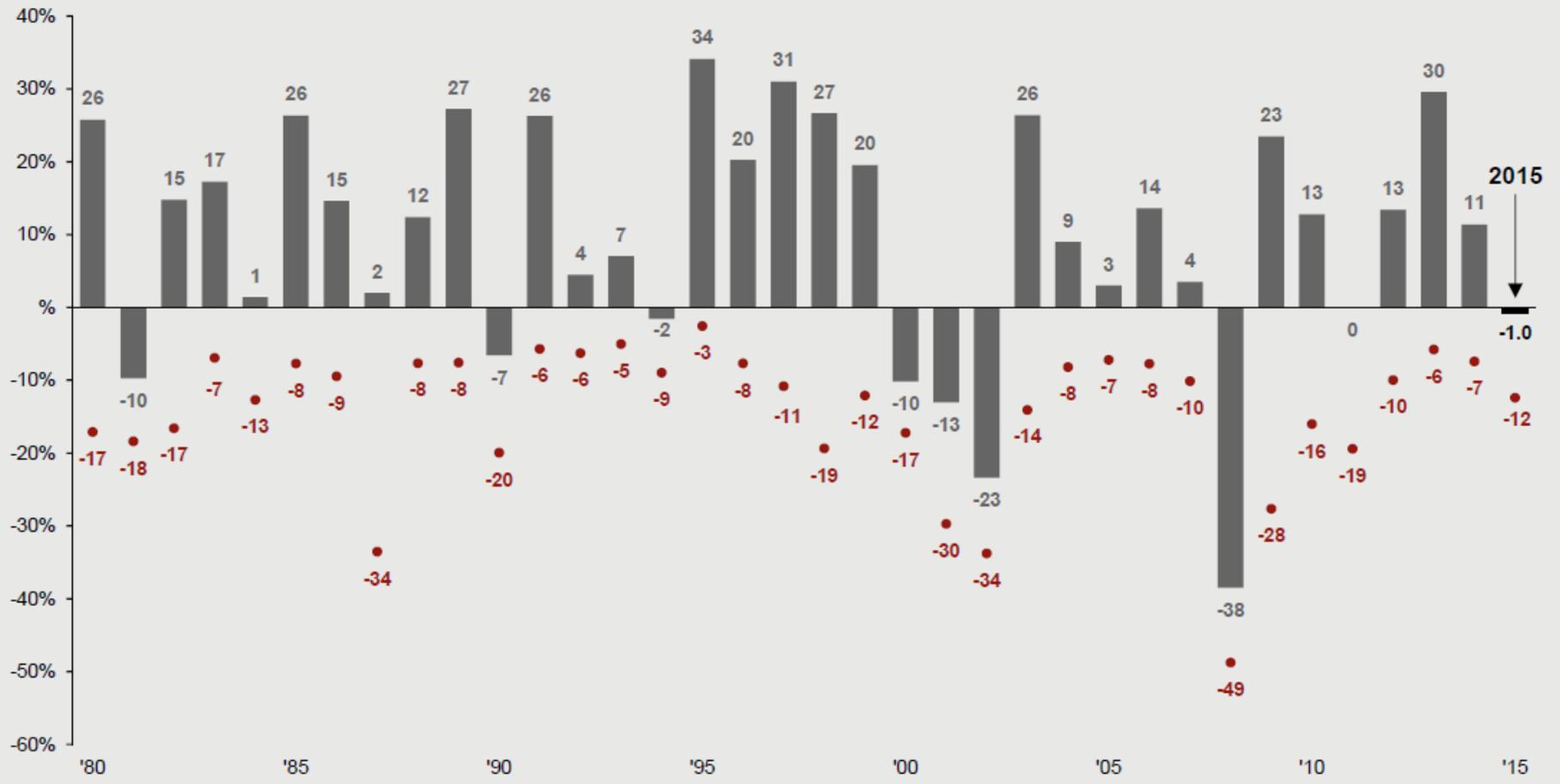


Source: Bloomberg as of 2/16/16.

However, Stock Market Corrections Are Common

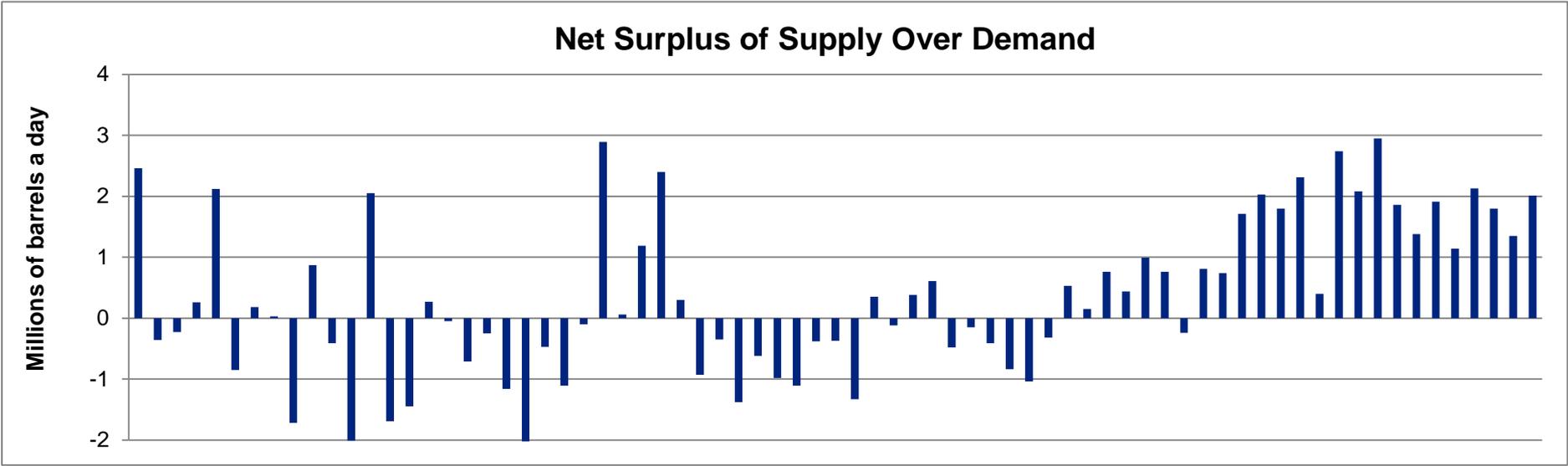
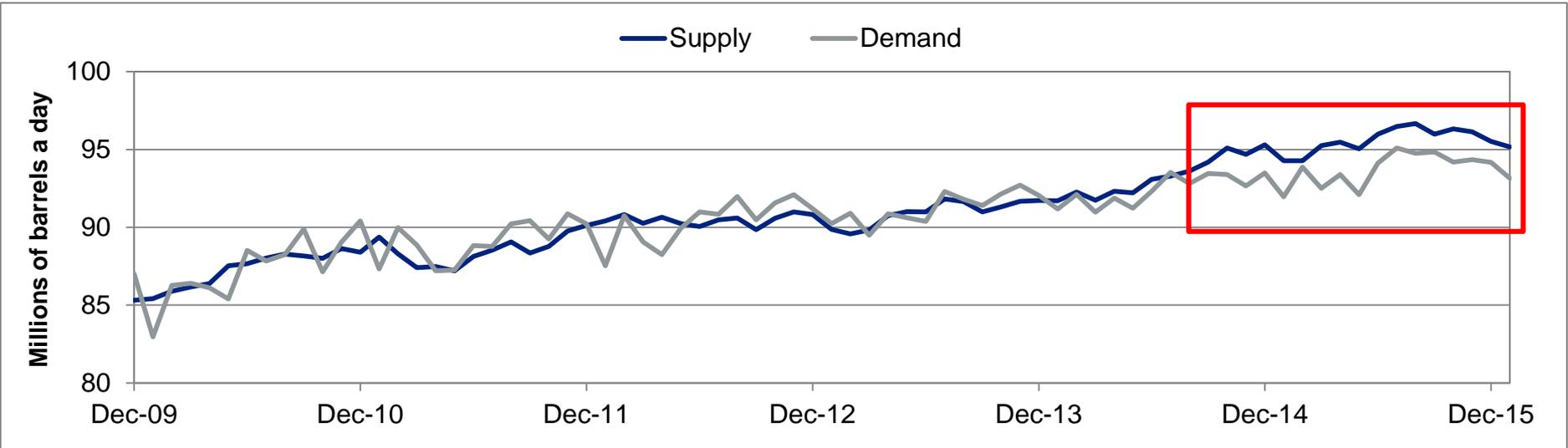
S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns positive in 27 of 36 years



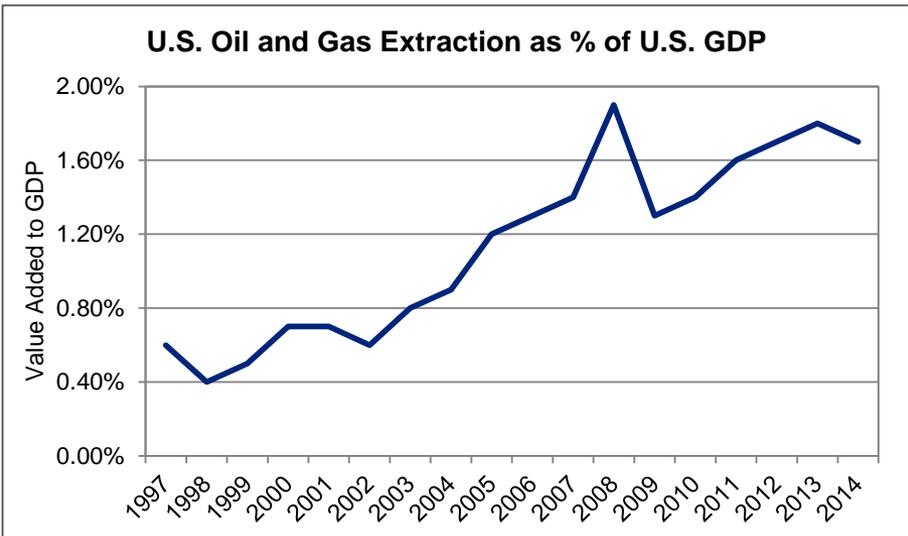
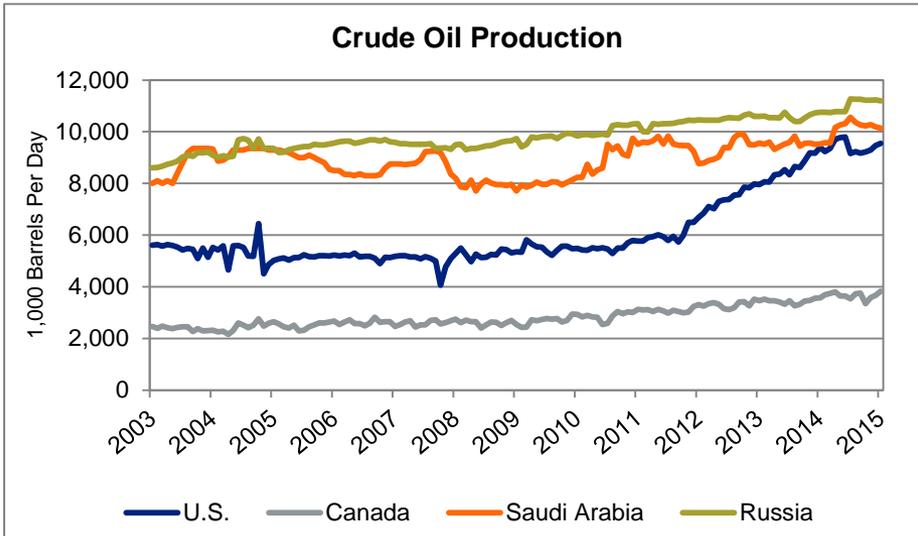
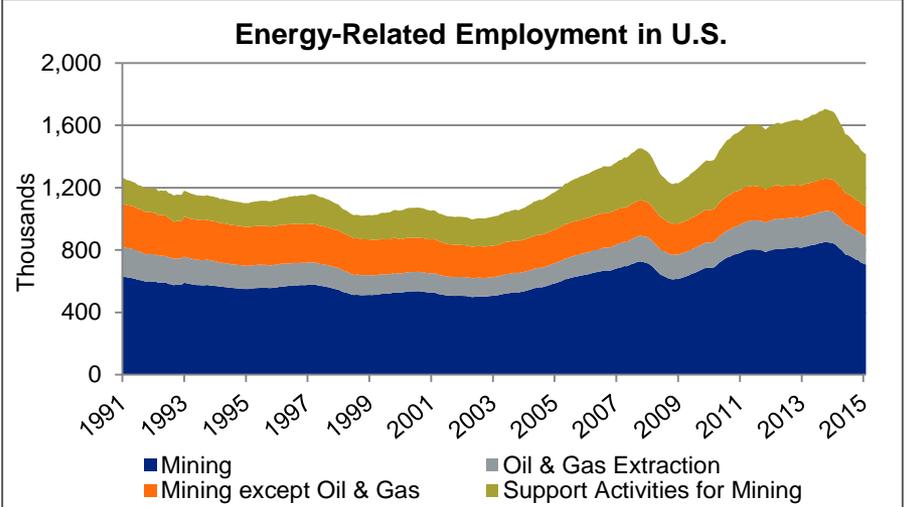
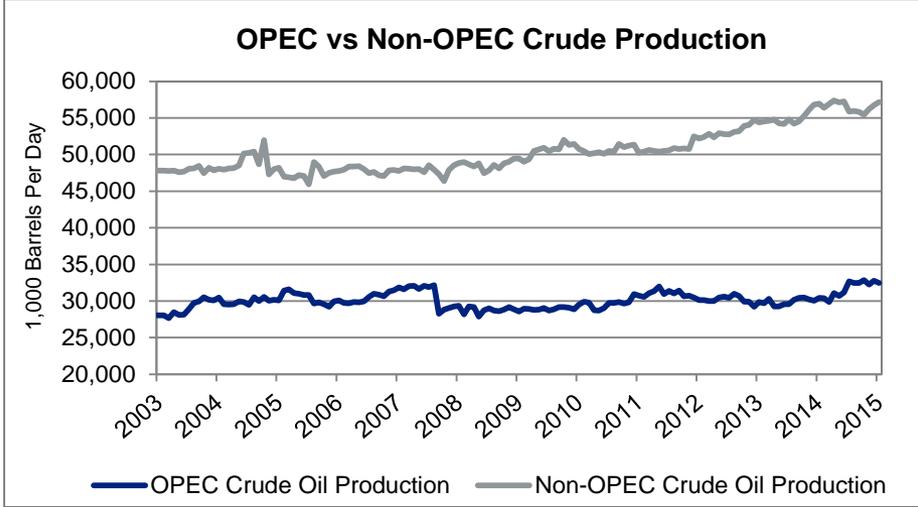
Source: J.P. Morgan Asset Management. For illustrative purposes only.

Supply-Demand Imbalance in Oil



Source: Bloomberg, U.S. Department of Energy

Far-Reaching Effects of Oil Market Performance



Source: Bloomberg, Energy Intelligence Group

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