



City of Surprise

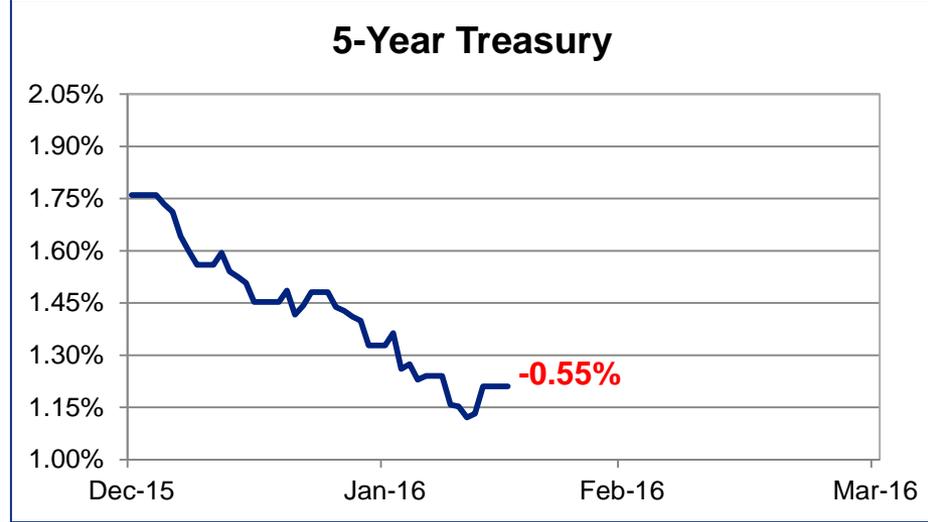
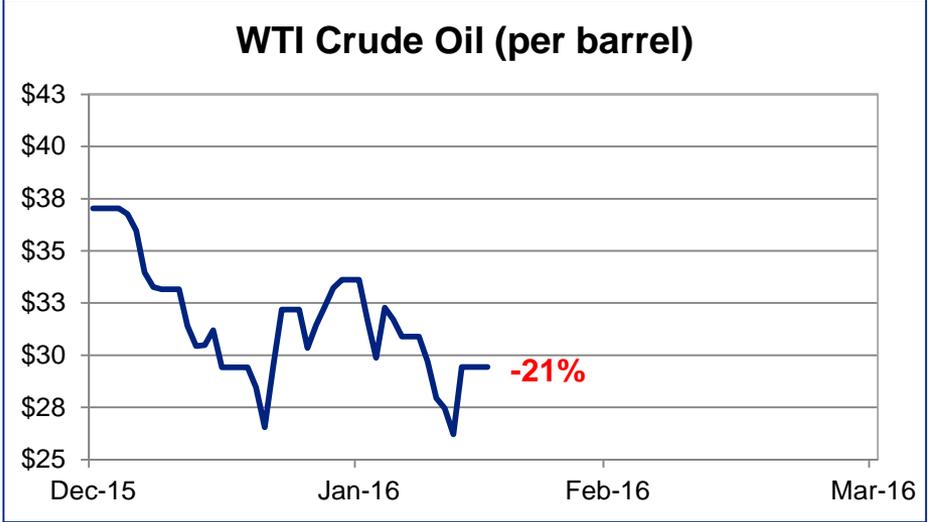
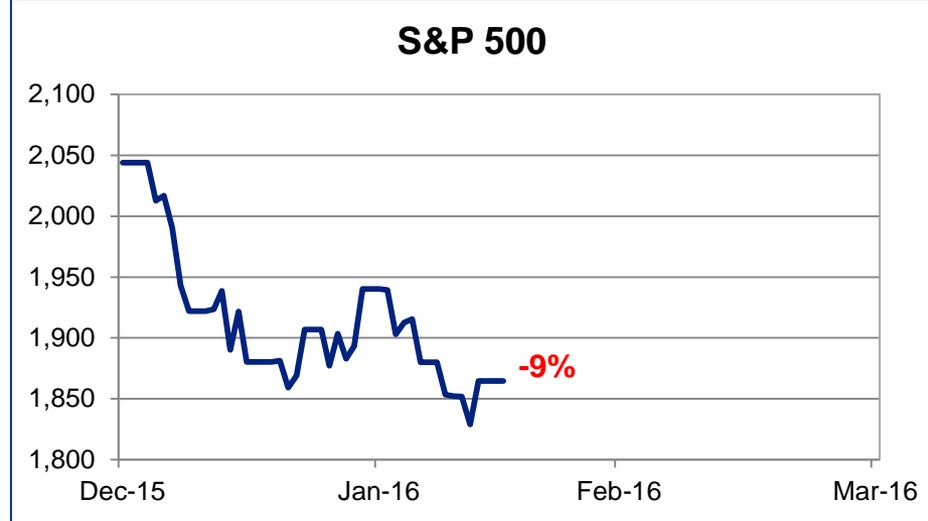
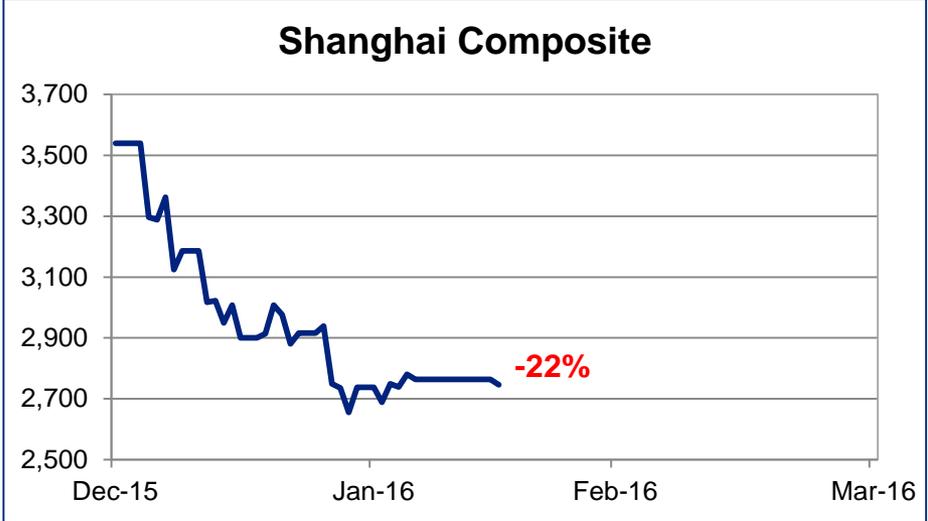
Quarterly Performance Review

First Quarter Ended March 31, 2016



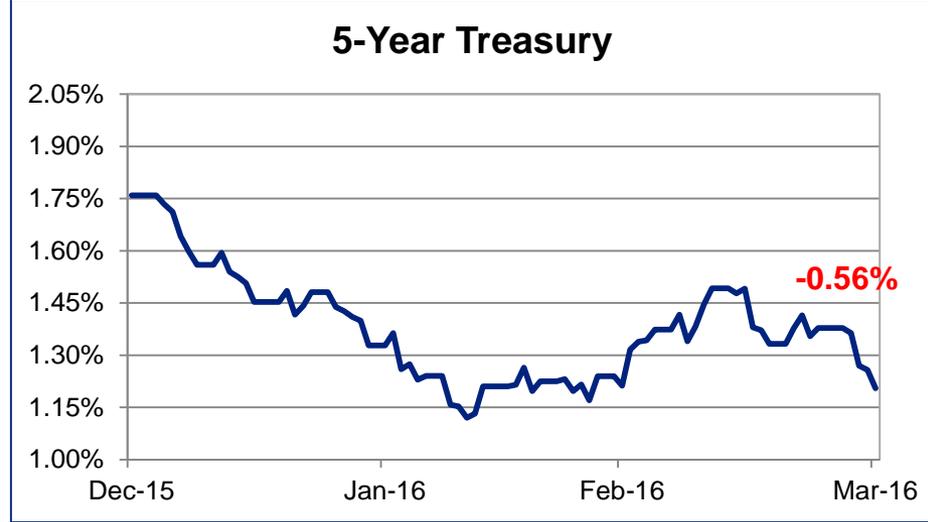
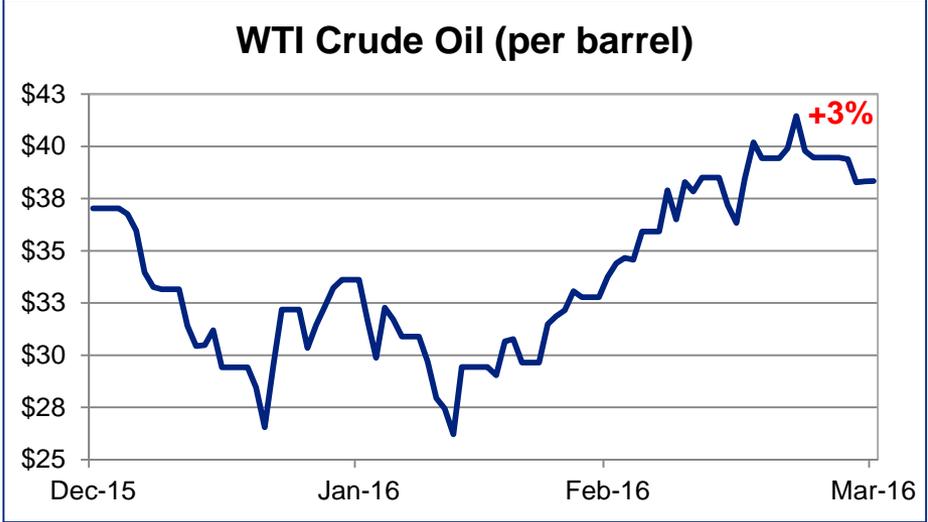
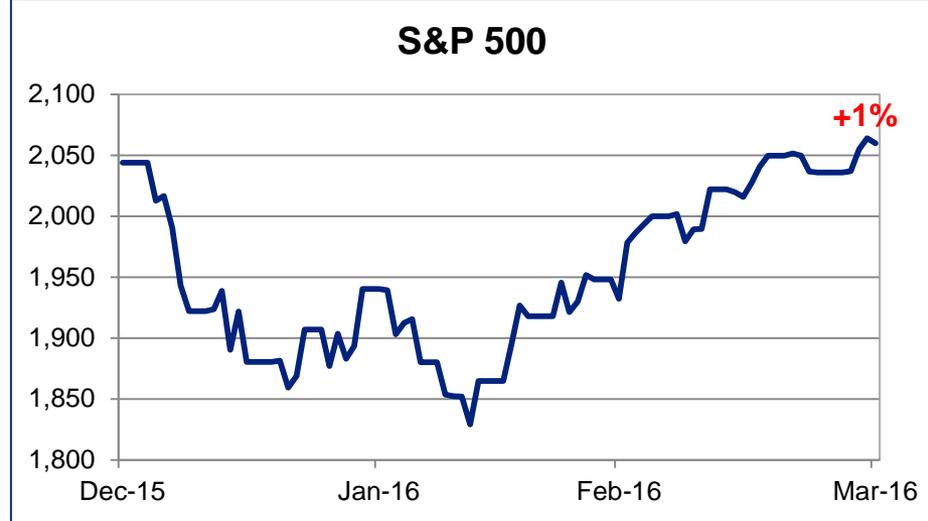
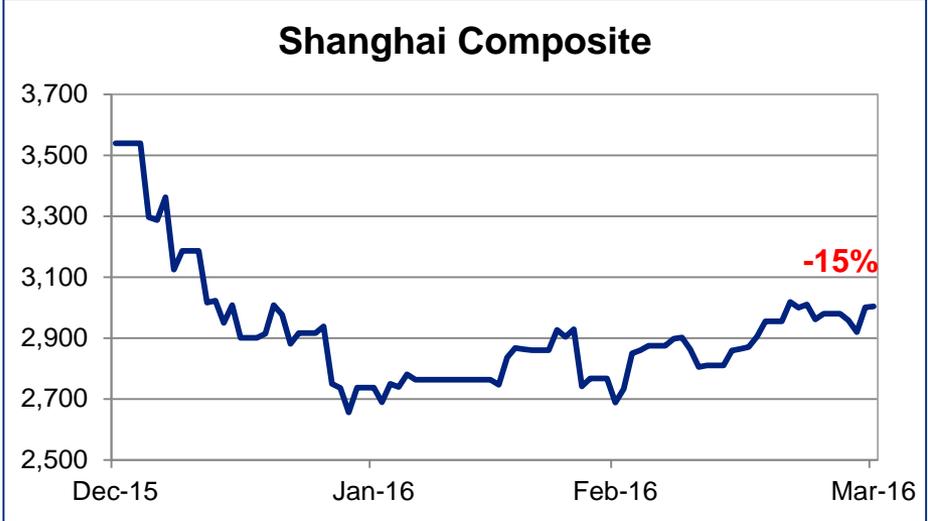
Paulina Woo, Director
woop@pfm.com
1820 East Ray Road
Chandler, AZ 85225
855-885-9621

Rough Start to 2016



Source: Bloomberg

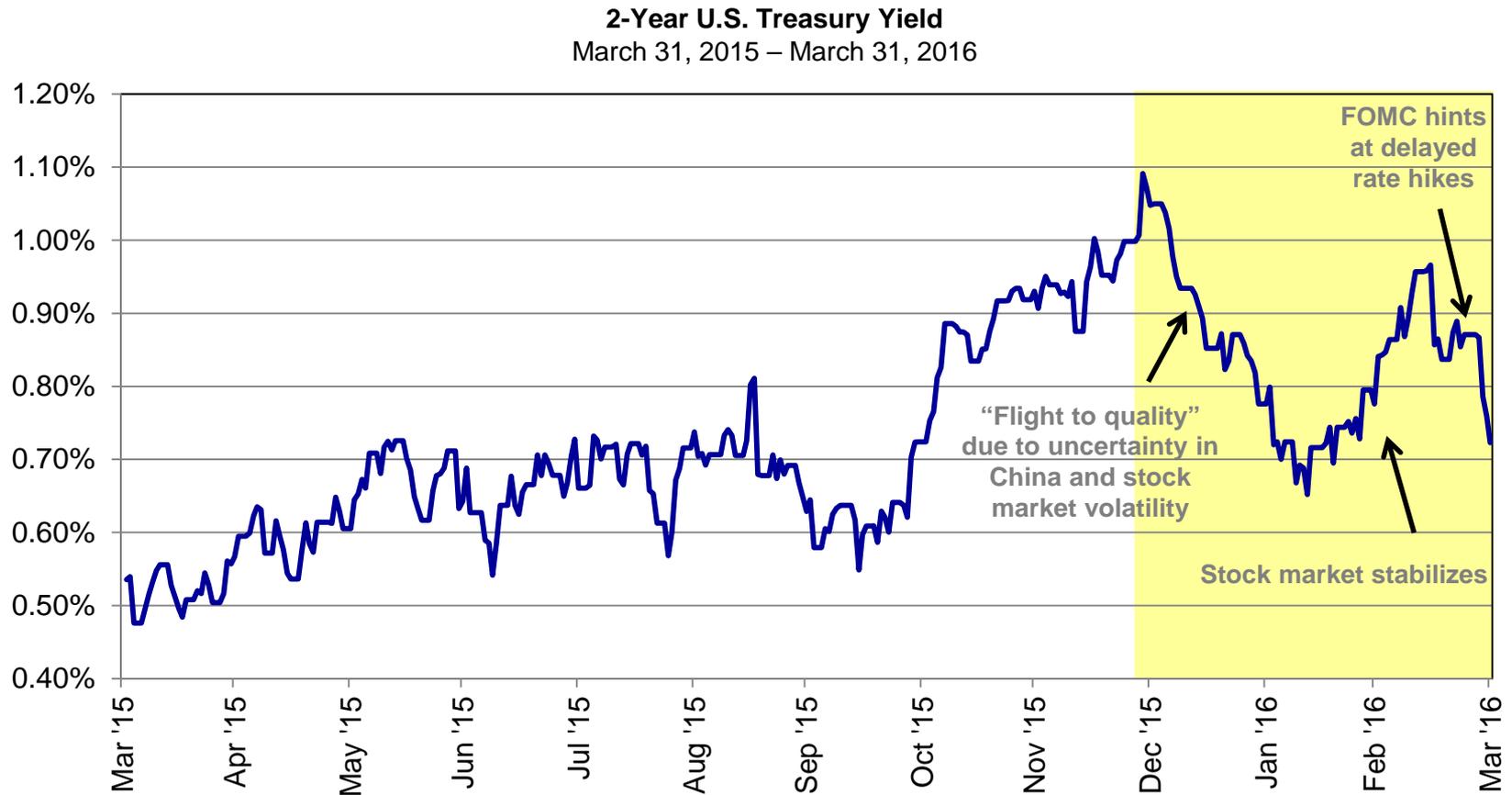
But, Significant Reversal Ensued



Source: Bloomberg

U.S. Treasury Yields Experienced Volatility

- Interest rates fell at the beginning of 2016 due to concerns over slowing global economic growth.
- Rates recovered modestly at the end of February and beginning of March, but ended the quarter significantly lower than December 2015.



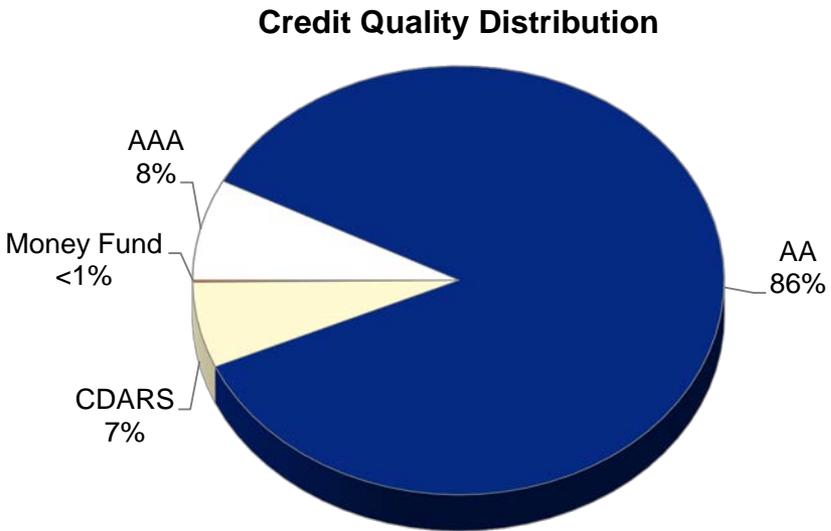
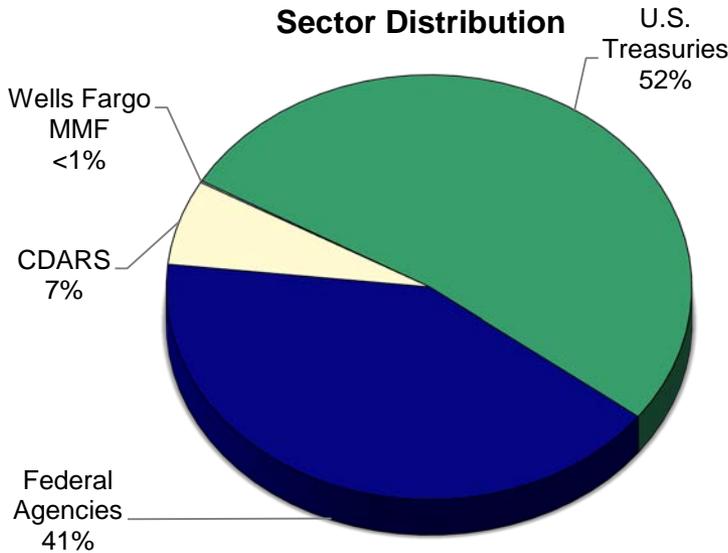
Source: Bloomberg

First Quarter Strategy and Recap

- Treasury yields ended the quarter significantly lower, as fears of a global economic slowdown and falling oil prices pummeled equity and credit markets around the globe.
- As fears began to abate in mid-February and volatility subsided, market sentiment for risk assets improved, sending asset prices higher through the end of the quarter.
- The “dovish” tone of the FOMC reduced expectations of future rate increases to just one or two hikes this year, keeping Treasury yields low even as equities rallied and corporate yield spreads recovered.
- In this volatile environment, PFMAM maintained a duration position near-neutral to benchmark through January and February. As yields appeared to have bottomed in February, we allowed the portfolio to shorten slightly in March.
- The yield relationship between U.S. Treasury and federal agency securities oscillated throughout the quarter. We increased the City’s allocation to Agency securities where we found attractive opportunities.

Portfolio Summary and Characteristics

Security Type ¹	March 31, 2016	Current Quarter % of Portfolio	Previous Quarter % of Portfolio
U.S. Treasury	\$40,799,013.47	52%	61%
Federal Agency	\$32,357,437.55	41%	32%
Non-callable Federal Agency	\$29,856,815.05	38%	27%
Callable Federal Agency	\$2,500,622.50	3%	5%
CDARS²	\$5,079,940.00	6%	7%
AZ Municipals	\$0.00	0%	0%
Wells Fargo MMF	\$109,346.75	<1%	<1%
Total Market Value	\$78,345,737.77	100%	100%



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

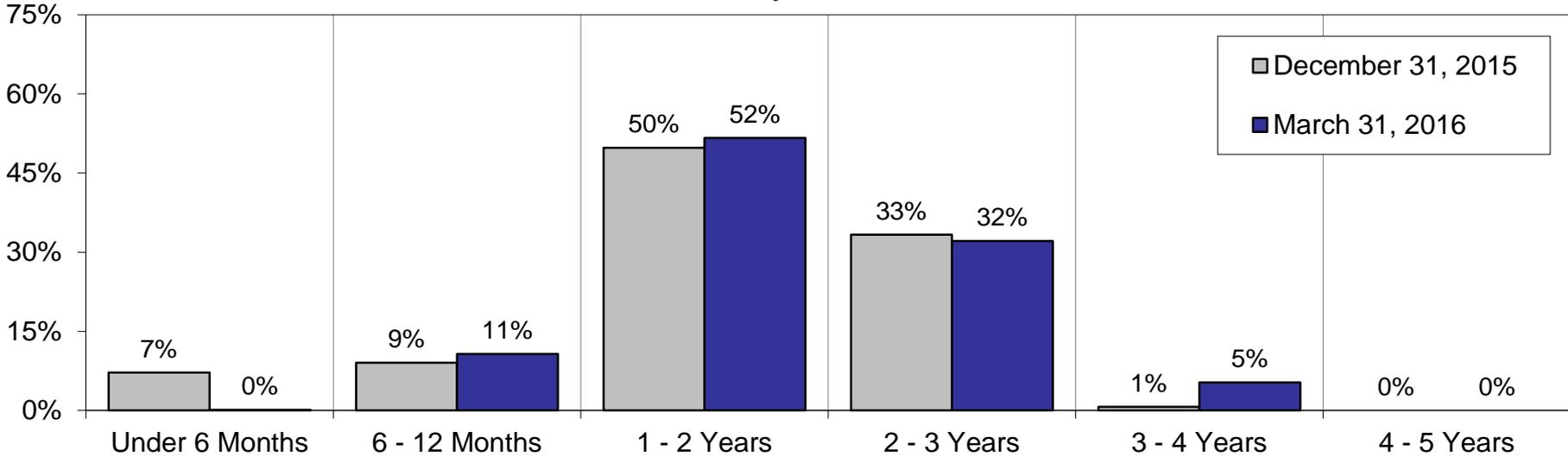
<u>Maturity Class</u>	<u>Fair Value³</u>	<u>% of Portfolio</u>
Under 6 Months	\$109,346.75	<1%
6 - 12 Months	\$3,326,487.28	11%
1 - 2 Years	\$40,469,168.99	52%
2 - 3 Years	\$25,181,979.86	32%
3 - 4 Years	\$4,178,814.89	5%
4 - 5 Years	\$0.00	0%
Total Market Value	\$77,866,495.46	100%

Key Portfolio Statistics

Effective Duration¹	1.81 years
Benchmark Duration²	1.82 years
Yield at Cost	0.97%

1. Portfolio statistics excludes funds invested in CDARS. Duration to worst as of 3/31/2016 was 1.78.
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



Monitored Spreads for Attractive Agency Purchases

- The yield spread between U.S. Treasuries and federal agencies widened during the quarter, and at times agency yield spreads increased to multi-year highs.
- We increased the City's allocation to agencies by 9% over the quarter. Agency purchases included two new issues, which are commonly sold with a spread that is wider than the secondary market to entice buyers.

Agency purchases:

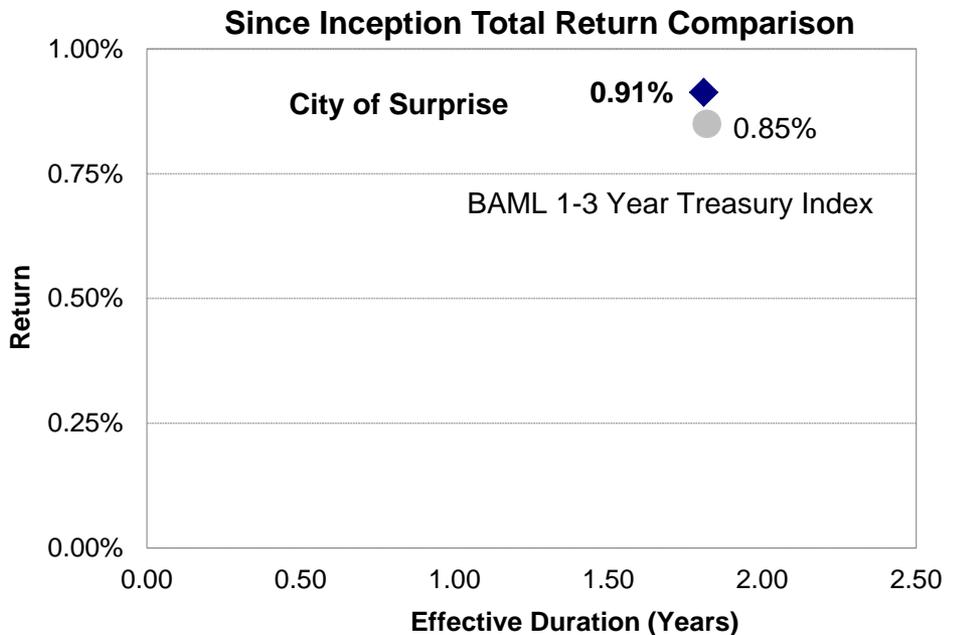
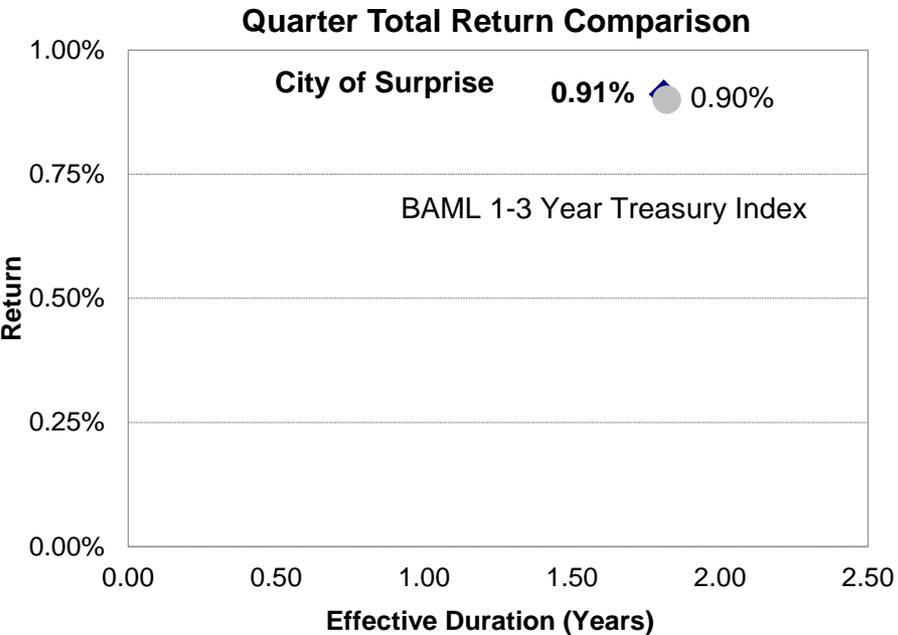
Trade Date	Security	Maturity	Par Value	Yield
1/6/16	FNMA Notes	1/28/19	\$2,000,000	1.40%
1/7/16	FNMA Notes	1/28/19	\$500,000	1.36%
3/2/16	FNMA Notes	3/28/18	\$6,000,000	0.97%
3/23/16	FHLMC Notes	4/15/19	\$2,160,000	1.15%

Bold indicates new issue.

Portfolio Performance

Total Return ^{1,2,3,4,5}	Quarter Ended March 31, 2016	Past 1 Year	Past 2 Years	Past 3 Years	Since Inception
City of Surprise	0.91%	0.96%	0.96%	0.76%	0.91%
BAML1-3 Year UST Index	0.90%	0.92%	0.96%	0.77%	0.85%

Effective Duration ⁴	March 31, 2016	December 31, 2015	Yields	March 31, 2016	December 31, 2015
City of Surprise	1.81	1.81	Yield at Market	0.77%	1.08%
BAML 1-3 Year UST Index	1.82	1.80	Yield on Cost	0.97%	0.91%



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.

Second Quarter Outlook and Strategy

- We maintain the outlook that the U.S. economy will continue to expand at a moderate pace in 2016 as consumer spending continues to drive growth. Global growth is a bit more challenged, but we believe most global economies will avoid recession.
- Given the outlook for the U.S. economy as well as continued headwinds/uncertainty from overseas, we believe the Fed will remain patient in raising rates this year.
- The FOMC's March projections reduced Committee members' expectations to just two rate hikes in 2016, down from four projected in December.
 - Their revised projections are more in line with what the market had previously been expecting.
- Due to narrowed yield spreads, federal agencies now currently have less appeal relative to comparable-maturity U.S. Treasuries.
 - We will continue to monitor the yield relationship and take advantage of any opportunities that arise—opportunities that are most likely to occur with new-issues.



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2016**

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 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	19.95	730,304.69	732,680.56
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	1,018.70	483,780.01	484,715.79
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	2,843.41	1,498,700.21	1,501,407.00
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	3,383.65	1,782,128.06	1,786,674.33
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	3,791.21	1,997,866.94	2,001,876.00
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	1,494,665.03	1,498,183.50
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	34.15	1,992,565.00	1,997,422.00
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	2,678.02	1,266,631.04	1,272,957.45
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	15,879.10	2,149,630.31	2,152,418.10
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	6,889.34	3,271,084.04	3,274,745.44
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	2,118.87	1,437,064.22	1,448,725.21
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	1,490,063.55	1,499,883.00
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	2,092,318.52	2,099,836.20
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	65.57	3,190,810.34	3,199,750.40



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2016**

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	4,000,000.00	AA+	Aaa	12/28/15	12/30/15	3,964,687.50	1.15	81.97	3,968,637.24	3,999,688.00
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	5,321.51	2,856,185.91	2,880,278.50
US TREASURY NOTES DTD 08/01/2011 2.250% 07/31/2018	912828QY9	2,650,000.00	AA+	Aaa	07/02/15	07/06/15	2,744,716.80	1.06	9,992.10	2,722,261.10	2,738,610.70
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	156.28	4,203,396.04	4,218,826.56
US TREASURY NOTES DTD 06/02/2014 1.500% 05/31/2019	912828WL0	1,975,000.00	AA+	Aaa	03/30/16	03/31/16	2,006,322.27	0.99	9,955.94	2,006,295.77	2,010,334.73
Security Type Sub-Total		40,560,000.00					40,643,353.34	0.96	65,118.76	40,634,388.02	40,799,013.47
Federal Agency Bond / Note											
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	3,322,477.28	3,326,487.28
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	3,406,634.32	3,415,929.00
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	3,991.32	1,899,098.09	1,898,808.70
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	2,116,042.31	2,122,641.50
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	2,250.00	2,499,824.55	2,500,622.50
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	122.22	1,098,089.19	1,104,141.50
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	341.67	3,084,218.27	3,086,577.38
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	2,172,465.69	2,178,443.03

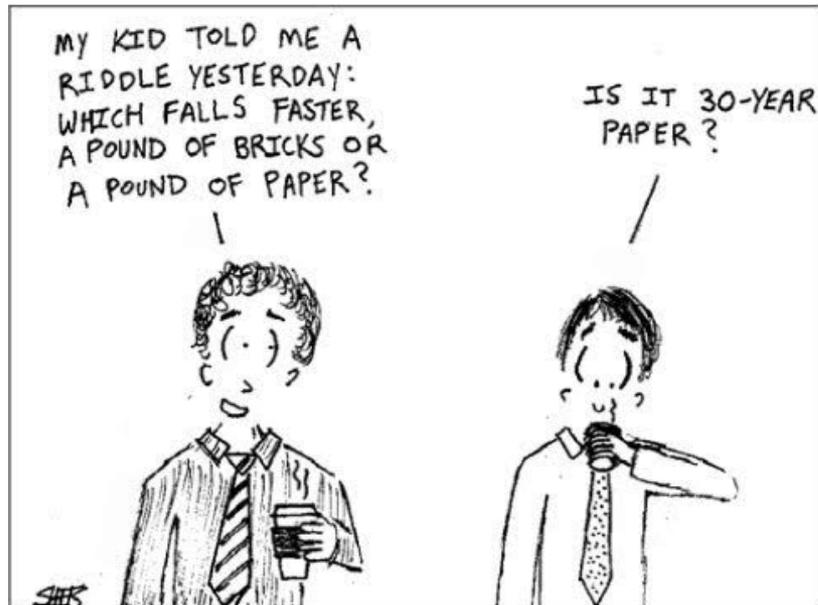


Managed Account Detail of Securities Held

For the Month Ending **March 31, 2016**

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											
FNMA NOTE DTD 03/04/2016 0.875% 03/28/2018	3135G0J61	6,000,000.00	AA+	Aaa	03/02/16	03/04/16	5,988,000.00	0.97	437.50	5,988,424.32	6,010,200.00
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	6,687.50	1,989,874.00	2,012,534.00
FNMA BENCHMARK NOTE DTD 01/08/2016 1.375% 01/28/2019	3135G0H63	500,000.00	AA+	Aaa	01/07/16	01/08/16	500,305.00	1.35	1,203.13	500,281.33	506,514.50
FNMA BENCHMARK NOTE DTD 01/08/2016 1.375% 01/28/2019	3135G0H63	2,000,000.00	AA+	Aaa	01/06/16	01/08/16	1,999,580.00	1.38	4,812.50	1,999,606.80	2,026,058.00
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	2,160,000.00	AA+	Aaa	03/23/16	03/24/16	2,158,466.40	1.15	675.00	2,158,476.18	2,168,480.16
Security Type Sub-Total		32,245,000.00					32,250,007.90	0.98	49,070.99	32,235,512.33	32,357,437.55
Managed Account Sub-Total		72,805,000.00					72,893,361.24	0.97	114,189.75	72,869,900.35	73,156,451.02
Securities Sub-Total		\$72,805,000.00					\$72,893,361.24	0.97%	\$114,189.75	\$72,869,900.35	\$73,156,451.02
Accrued Interest											\$114,189.75
Total Investments											\$73,270,640.77

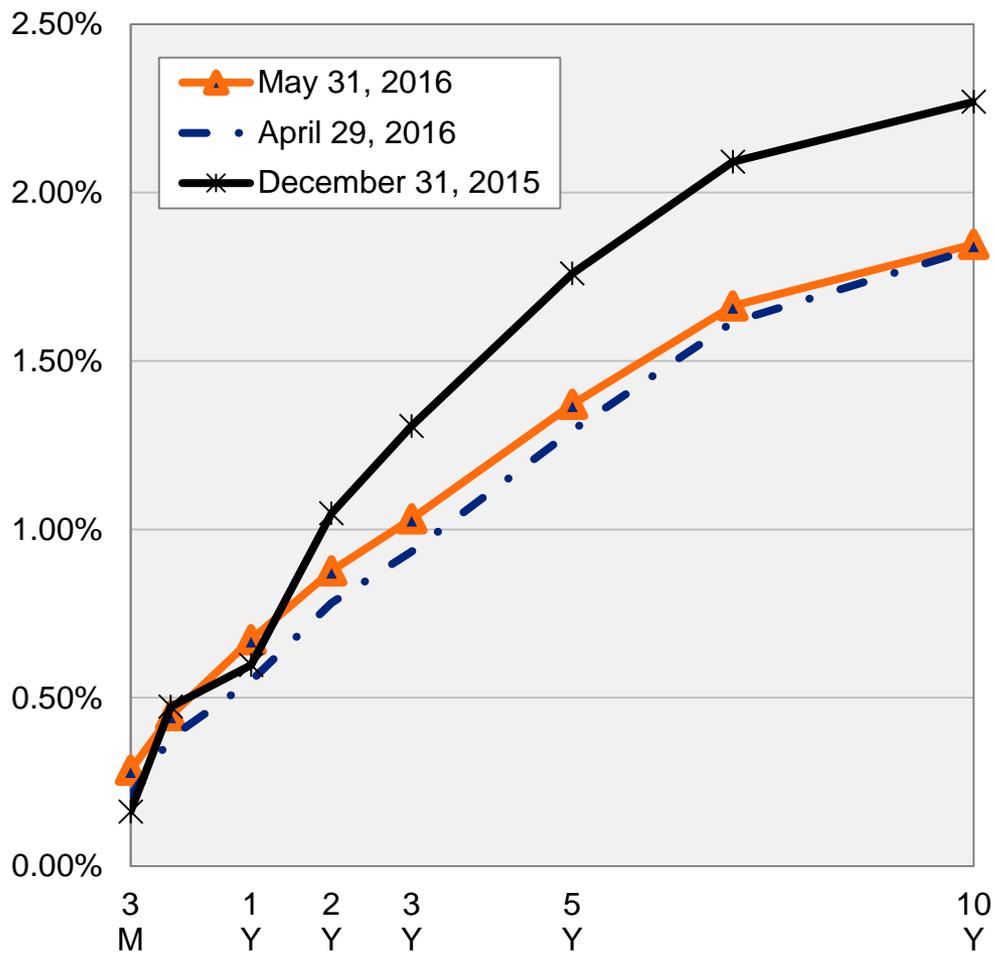


© 2013 Morgan Stanley

Economic Update

Interest Rate Update

U.S. Treasury Yield Curves

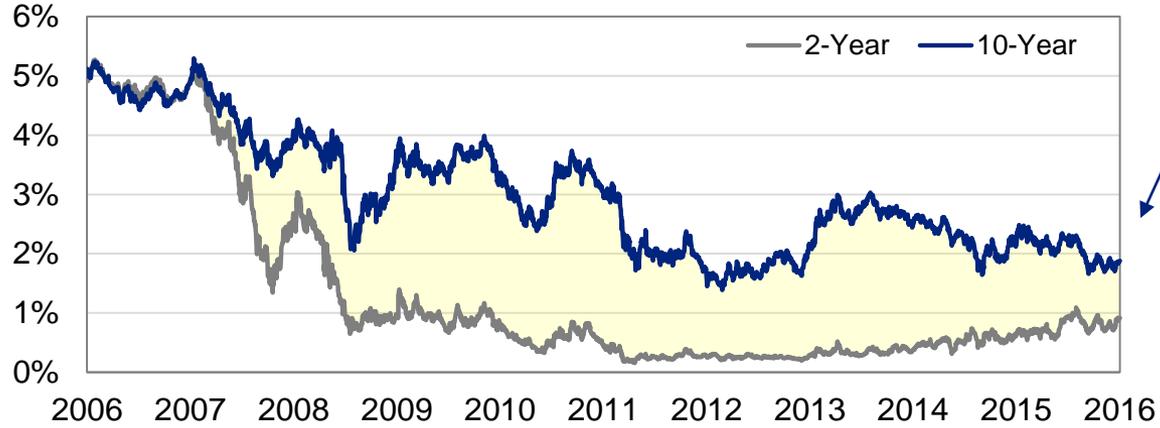


	5/31/16	12/31/15	Δ
3 month	0.28%	0.16%	+0.12%
6 month	0.45%	0.47%	-0.03%
1 year	0.67%	0.60%	+0.08%
2 year	0.88%	1.05%	-0.17%
3 year	1.03%	1.31%	-0.28%
5 year	1.37%	1.76%	-0.39%
7 year	1.66%	2.09%	-0.43%
10 year	1.85%	2.27%	-0.42%
30 year	2.65%	3.02%	-0.37%

Source: Bloomberg

Flattest Yield Curve Since 2007

Treasury Yields



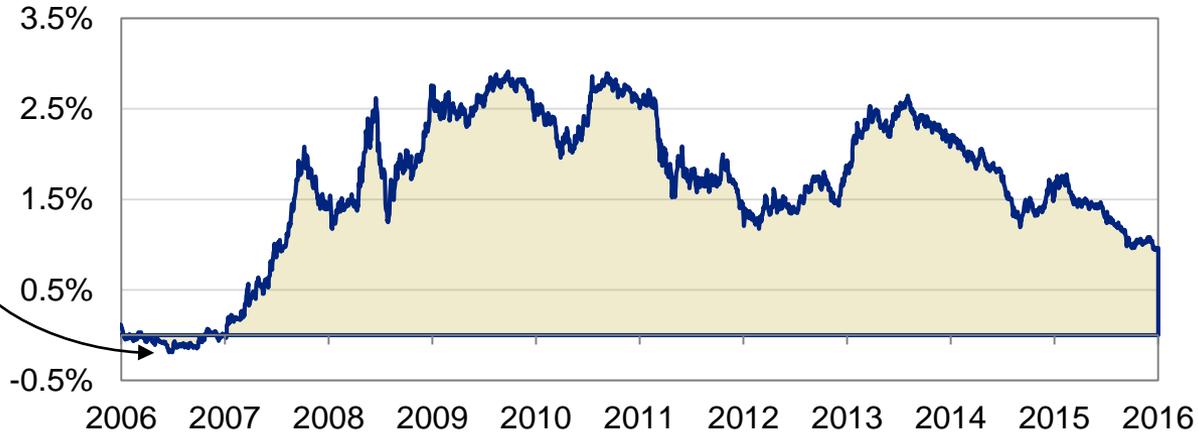
Long-term rates depressed by:

- Global appetite for safe yield
- Muted long-term inflation expectations

Short-term rates buoyed by:

- “Hawkish” Fed commentary
- Optimistic economic data

Spread Between 2-Year and 10-Year



An inverted yield curve is sometimes considered a harbinger of recession.

Source: Bloomberg

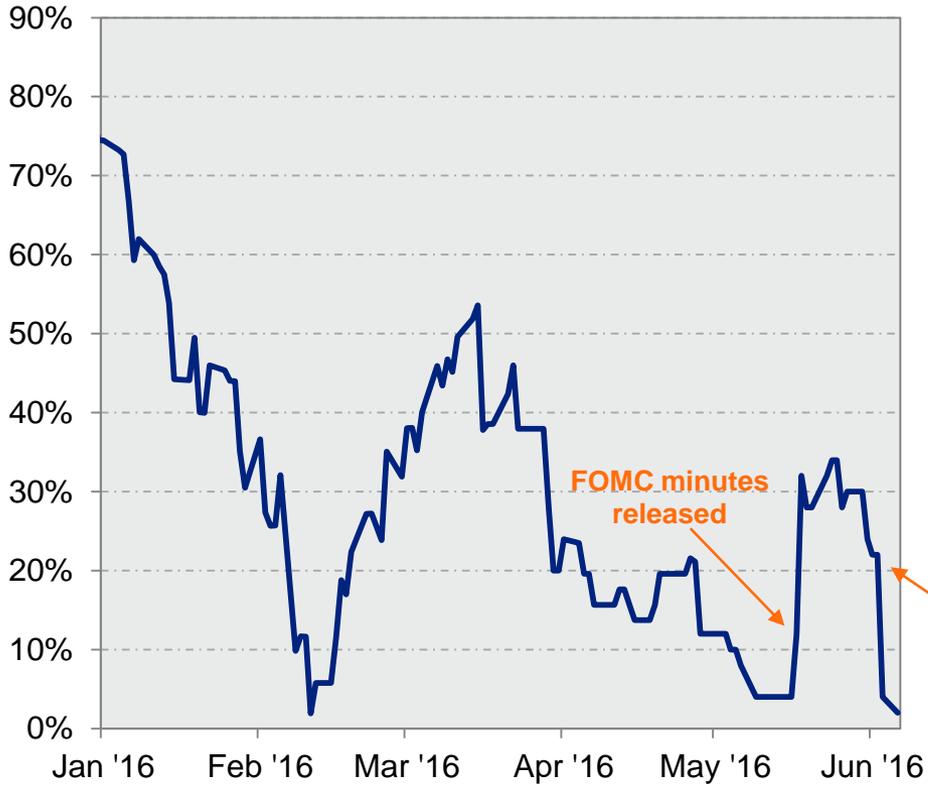
Fed Officials Offer Insights

FOMC Voting Member	April Vote	Date of Recent Speech	Highlights
Janet Yellen (Chair)	For	27-May	"The economy is continuing to improve. We saw weak growth in Q1 and relatively weak growth at the end of last year. Growth looks to be picking up from the various data that we monitor. If that continues and the labor market continues to improve (and I expect that to happen)...it's appropriate for the Fed to gradually and cautiously increase our overnight interest rate over time, and probably in the coming months such a move would be appropriate."
William Dudley (Vice-Chairman)	For	19-May	"If I'm convinced that my own forecast is on track, then I think a tightening in the summer, the June-July time frame, is a reasonable expectation", but U.K. referendum is a risk factor.
Lael Brainard (Board of Governors)	For	-	N/A
James Bullard (St. Louis Fed)	For	30-May	"My sense is that markets are well-prepared for a possible rate increase globally, and that this is not too surprising given our liftoff from December and the policy of the committee which has been to try to normalize rates slowly and gradually over time... As far as a rate hike in June or July , I would prefer to reserve judgment."
Jerome Powell (Board of Governors)	For	26-May	"If incoming data continue to support those expectations [strengthening of GDP growth in 2nd quarter, further strengthening of labor market and increases in wage inflation] ..., another rate increase may be appropriate fairly soon ."
Daniel Tarullo (Board of Governors)	For	20-May	Steered clear from commenting on monetary policy or the economy. (Talked only on insurance regulations)
Stanley Fischer (Board of Governors)	For	19-May	"What we need most, now that we are near full employment and approaching our target inflation rate, is faster potential growth." (No comment on June hike)
Loretta Mester (Cleveland Fed)	For	12-May	No reference to possible rate hikes. Only suggested FOMC providing error band around inflation projections, and talked about inflation expectations and related models
Eric Rosengren (Boston Fed)	For	12-May	"In my view, the market remains too pessimistic about the fundamental strength of the U.S. economy... If the incoming economic data continue to be consistent with gradual improvement in labor markets and inflation getting closer to target, the Fed should be ready to gradually normalize interest rates..."
Esther George (Kansas City Fed)	Against	12-May	"I support a gradual adjustment of short-term interest rates toward a more normal level, but I view the current level as too low for today's economic conditions. The economy is at or near full employment and inflation is close to the FOMC's target of 2 %, yet short-term interest rates remain near historic lows."

Probability of a Summer Rate Increase

- While Fed officials seem intent on priming the market for a summer interest rate hike, they remain at the mercy of incoming economic data.
- Optimistic rhetoric from the April meeting minutes briefly stoked market expectations, before hopes for a rate increase were extinguished by May's abysmal employment data.

Probability of a June Rate Hike

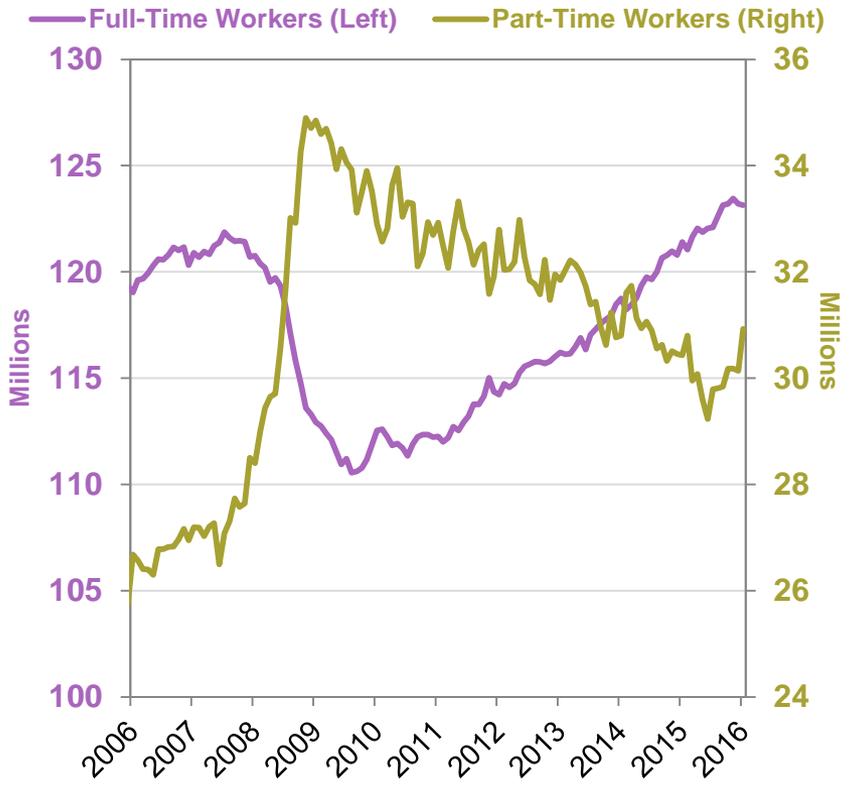
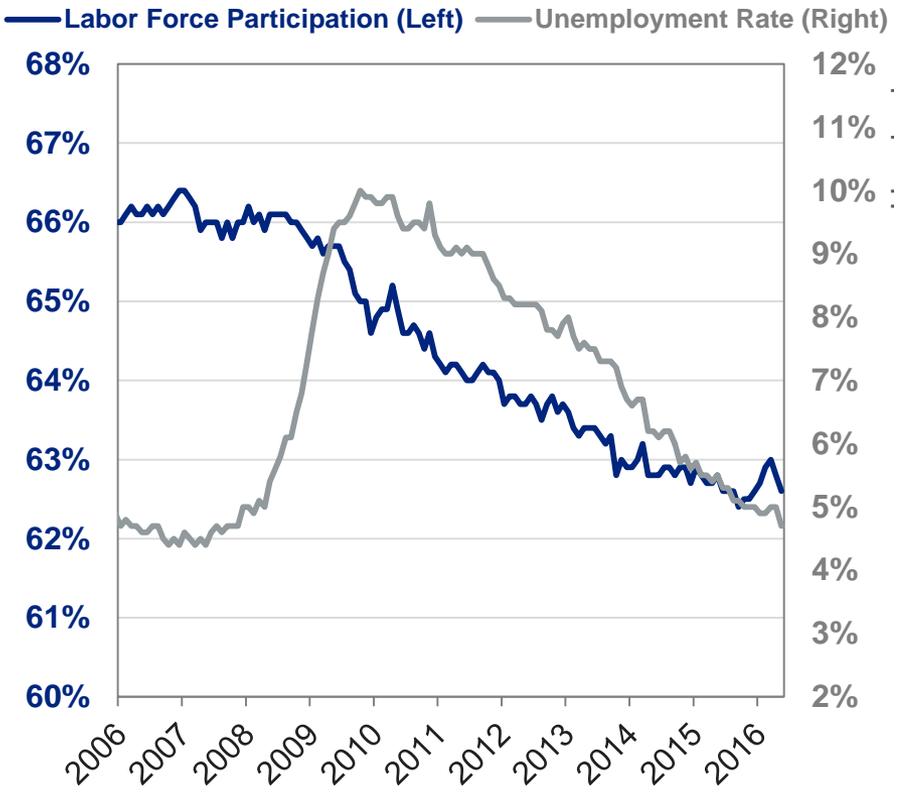


	Today	Last Week	Before April Minutes
Meeting	06/06/16	05/31/16	05/16/16
06/15/16	4%	30%	4%
07/27/16	31%	57%	19%
09/21/16	45%	64%	37%
11/02/16	48%	67%	41%
12/14/16	63%	78%	56%
02/01/17	65%	81%	60%

Source: Bloomberg

Snapshot of Labor Market

- May added 38,000 jobs, the lowest since 2010 and below even the most pessimistic of forecasts.
 - Unemployment rate declined due to people leaving the work force (participation rate decreased).
 - Number of full-time workers has decreased, while the number of part-timers is ticking upward.

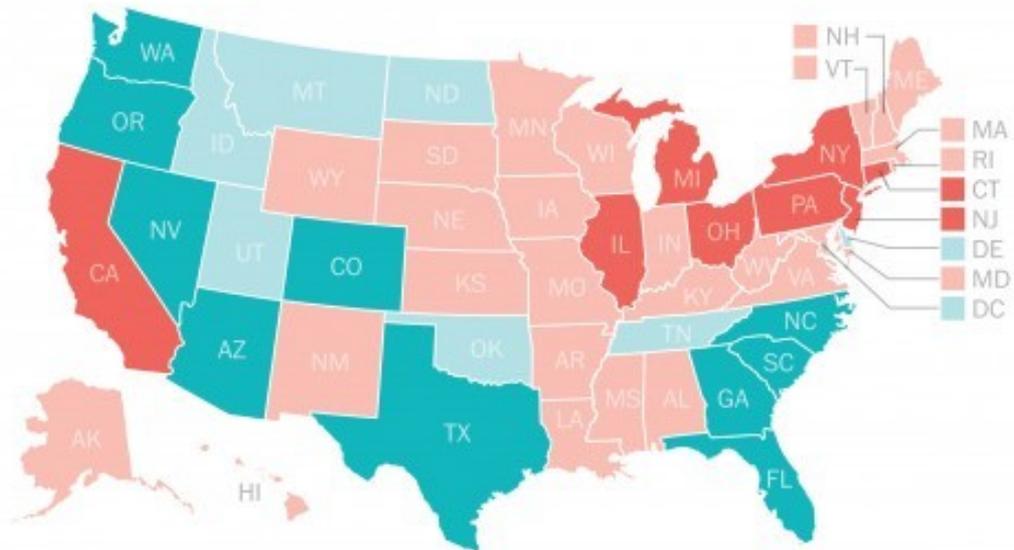


Source: Bureau of Labor Statistics

Recent Population Shifts Within the U.S.

- Census data indicates that population movements within the U.S. have shifted towards warmer locales in the West and South, with Arizona gaining over 45,000+ domestic movers.
- The direction of growth indicates a preference away from once-hot major cities, such as New York, Boston, and San Francisco, and towards those with stronger job markets and lower housing costs.

Net migration between states, July 2014-July 2015



Note: Does not include immigration into the U.S.

Source: William H. Frey analysis of Census estimates DARLA CAMERON / THE WASHINGTON POST

FASTEST-GROWING AZ CITIES		
(July 1, 2014 – July 1, 2015)		
#15	Goodyear	4.33%
#16	Buckeye	4.31%
#36	Gilbert	3.39%
#67	Scottsdale	2.68%
#76	Chandler	2.50%
#77	Peoria	2.50%
#107	Casa Grande	2.13%
#118	Flagstaff	2.05%
#177	Surprise	1.69%
#186	Tempe	1.66%
#192	Phoenix	1.60%
#243	Mesa	1.39%

Source: Data from U.S. Census Bureau. Graphic from The Washington Post.

Disclaimer

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.