



PFM Asset Management LLC

CITY OF SURPRISE

Investment Performance Review For the Quarter Ended June 30, 2016

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Summary

- On June 23, the British public voted to leave the European Union (EU) – so-called “Brexit” referendum – after forty-three years of membership. This historic vote was the first of its kind, shocking markets and triggering outsized market reactions. Bond yields fell sharply, sending 10- and 30-year Treasury yields to all-time lows. Equity indexes saw a sharp pullback following the vote, but pared losses by month-end amid anticipated central bank accommodation. Meanwhile, the British pound fell to its lowest level since 1985 against the U.S. dollar.
- Amid the uncertainty caused by Brexit, central banks around the world are expected to remain accommodative, keeping rates lower for longer and seemingly boosting equity prices – despite the potential slowdown of British and European economies.
- The Federal Reserve (Fed) left policy rates unchanged at both its second-quarter meetings. In June, even before the Brexit vote, the Federal Open Market Committee (FOMC) once again lowered its expectation for rate hikes in 2016 via the so-called “dot plot.” By quarter-end, the market was pricing in a 0% chance of a rate hike in July, and less than a 10% chance for a hike this year.

Economic Snapshot

- The modest U.S. economic expansion continued, and unemployment ended the quarter below 5%. However, measures of economic strength in the U.S. remained mixed.
- U.S. gross domestic product (GDP) grew at a 1.1% rate in the first quarter of 2016, driven by improving trade and business investment, which more than compensated for weakness in consumer spending. Economic growth is expected to rebound in the second quarter to around 2.5%, with a preliminary reading to be released in late July.
- Job growth decelerated for four straight months before a sharp rebound in June. The U.S. economy added 287,000 jobs in June, the largest gain since October 2015. Year-to-date, the economy added over 1 million jobs, but it is nearly 300,000 behind last year’s pace. The unemployment rate ended the quarter at 4.9%.

- Inflation pressures remained relatively unchanged in the second quarter as the personal consumption expenditure (PCE) price index, the Fed’s favored metric of inflation, rose 1.6% for the year ended May. Oil prices settled into a \$40 to \$50 per barrel range, while home prices rose 5.4% year-over-year. Average hourly earnings, an important measure of wages, grew 2.6% over the past 12 months, matching a nearly 7-year high.

Interest Rates

- Interest rates ended the quarter significantly lower amid the Fed’s dovish tone during the quarter and the flight to safety stimulated by the Brexit vote. Declines were led by longer maturity yields, flattening the yield curve. The spread between the two-year and 10-year Treasury yields fell to 89 basis points (0.89%) compared to 105 basis points (1.05%) at the end of the first quarter. The two-year Treasury yield fell 14 basis points (0.14%) during the quarter, while the yield on the 10-year Treasury fell 30 basis points (0.30%).
- In the money market space, shorter Treasuries posted modest increases, while short-term credit instruments, like commercial paper and bank certificates of deposit (CDs), continued to offer unusually wide yield spreads.

Sector Performance

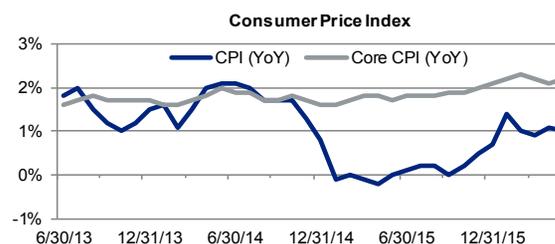
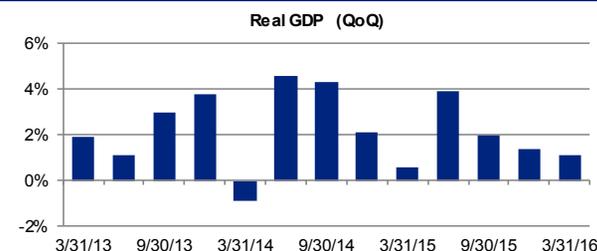
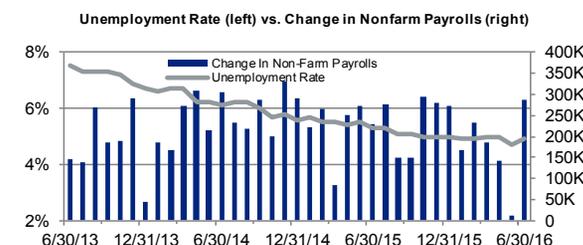
- U.S. Treasury indexes posted another quarter of strong returns as rate declines boosted market values. Because the yield curve flattened, longer maturity issues performed best.
- Non-callable federal agency securities performed generally in line with comparable maturity Treasuries.
- Corporate yield spreads tightened throughout most of the second quarter as credit conditions stabilized from the first quarter’s energy price-driven volatility. Post Brexit, corporates experienced a brief spike in spreads, but quickly recovered by quarter end. The sector generated strong outperformance relative to Treasuries, adding to its 2016 return advantage.
- Mortgage-backed securities underperformed Treasuries for the second straight quarter. Declining interest rates, which drove accelerated prepayment expectations, continued to hurt the sector.

Economic Snapshot

Labor Market	Latest	Mar 2016	Jun 2015	
Unemployment Rate	Jun'16	4.9%	5.0%	5.3%
Change In Non-Farm Payrolls	Jun'16	287,000	186,000	228,000
Average Hourly Earnings (YoY)	Jun'16	2.6%	2.3%	2.0%
Personal Income (YoY)	May'16	4.0%	4.6%	4.6%
Initial Jobless Claims (week)	7/1/16	254,000	276,000	280,000

Growth	Latest	Mar 2016	Jun 2015	
Real GDP (QoQ SAAR)	2016Q1	1.1%	1.4% ¹	0.6% ²
GDP Personal Consumption (QoQ SAAR)	2016Q1	1.5%	2.4% ¹	1.8% ²
Retail Sales (YoY)	May'16	2.5%	1.7%	2.1%
ISM Manufacturing Survey (month)	Jun'16	53.2	51.8	53.1
Existing Home Sales SAAR (month)	May'16	5.53 mil.	5.36 mil.	5.41 mil.

Inflation / Prices	Latest	Mar 2016	Jun 2015	
Personal Consumption Expenditures (YoY)	May'16	0.9%	0.8%	0.3%
Consumer Price Index (YoY)	May'16	1.0%	0.9%	0.1%
Consumer Price Index Core (YoY)	May'16	2.2%	2.2%	1.8%
Crude Oil Futures (WTI, per barrel)	Jun 30	\$48.33	\$38.34	\$59.47
Gold Futures (oz.)	Jun 30	\$1,321	\$1,234	\$1,172



1. Data as of Fourth Quarter 2015

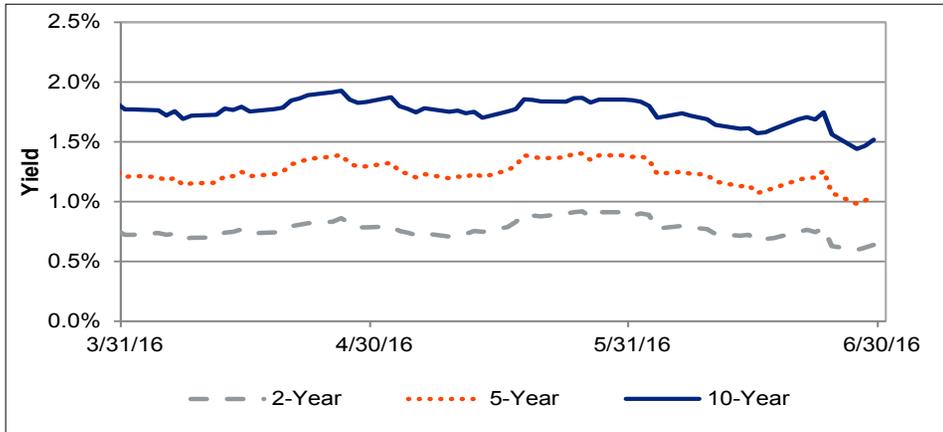
2. Data as of First Quarter 2015

Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

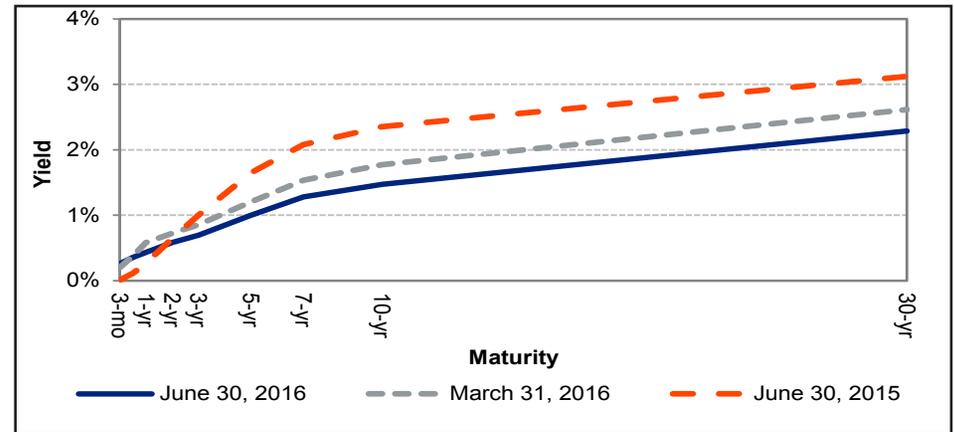
Source: Bloomberg

Interest Rate Overview

U.S. Treasury Note Yields



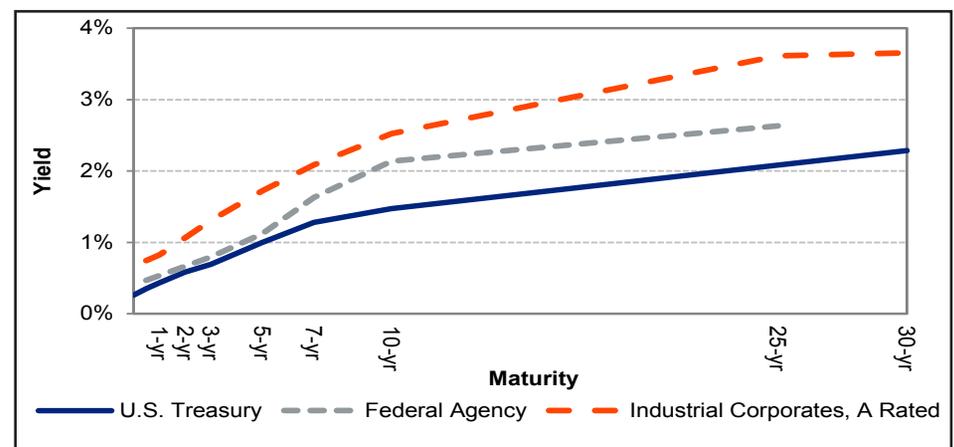
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	6/30/16	3/31/16	Change over Quarter	6/30/15	Change over Year
3-month	0.26%	0.20%	0.06%	0.01%	0.25%
1-year	0.44%	0.58%	(0.14%)	0.27%	0.17%
2-year	0.58%	0.72%	(0.14%)	0.65%	(0.07%)
5-year	1.00%	1.21%	(0.21%)	1.65%	(0.65%)
10-year	1.47%	1.77%	(0.30%)	2.35%	(0.88%)
30-year	2.29%	2.61%	(0.32%)	3.12%	(0.83%)

Yield Curves as of 6/30/16



Source: Bloomberg

BofA Merrill Lynch Index Returns

	As of 6/30/2016		Returns for Periods ended 6/30/2016		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.90	0.60%	0.53%	1.31%	0.98%
Federal Agency	1.58	0.72%	0.41%	1.27%	1.04%
U.S. Corporates, A-AAA rated	1.94	1.35%	0.83%	2.24%	1.79%
Agency MBS (0 to 3 years)	2.22	1.22%	0.65%	2.50%	1.92%
Taxable Municipals	2.04	2.15%	1.38%	3.71%	2.21%
1-5 Year Indices					
U.S. Treasury	2.74	0.72%	0.81%	2.43%	1.65%
Federal Agency	2.06	0.81%	0.59%	1.94%	1.59%
U.S. Corporates, A-AAA rated	2.77	1.57%	1.14%	3.32%	2.74%
Agency MBS (0 to 5 years)	3.35	1.75%	1.02%	3.37%	3.01%
Taxable Municipals	2.67	1.90%	1.78%	4.88%	3.01%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.62	1.13%	2.24%	6.67%	3.83%
Federal Agency	3.83	1.13%	1.34%	3.92%	2.89%
U.S. Corporates, A-AAA rated	7.11	2.44%	2.90%	7.89%	5.37%
Agency MBS (0 to 30 years)	3.47	1.81%	1.12%	4.38%	3.73%
Taxable Municipals	4.17	2.36%	2.61%	7.12%	4.25%

Returns for periods greater than one year are annualized

Source: BofA Merrill Lynch Indices

Disclosures

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PFM Asset Management LLC

PORTFOLIO RECAP

- Treasury yields ended the quarter significantly lower after the Federal Open Market Committee kept rates unchanged during the quarter, issuing a dovish tone, and the United Kingdom elected, surprisingly, to leave the European Union. The “Brexit” vote induced volatility and uncertainty, instigating a flight-to-safety trade into quarter-end.
- Given the high degree of uncertainty, PFMAM maintained portfolio duration positions near-neutral to benchmarks throughout the quarter. The Fed appeared to be on hold throughout the summer amid moderate economic growth, continued subdued inflation, and uncertainty heading into the Brexit vote.
- The yield relationship between U.S. Treasury and federal agency securities remained mostly range-bound during the quarter, but agencies could not quite keep pace with the significant Treasury rally that resulted from Brexit. New issue supply helped keep shorter-maturity yield spreads elevated at attractive levels. For the quarter, the agency sector slightly underperformed comparable maturity Treasuries.
- Corporate yield spreads continued to march tighter throughout the 2nd quarter as credit conditions improved from the 1st quarter slowdown in economic growth. Following the Brexit vote, corporate yield spreads experienced a brief spike in yield spreads, but quickly retraced all of the widening by quarter-end. Late in the quarter, we revised our assessment of the corporate sector from overweight to market weight due to:
 - o Generally narrow yield spreads,
 - o An apparent leveling off in oil prices after a sustained period of increase, which previously had a positive impact on the energy sector in late Q1 and early Q2,
 - o Modest deterioration in the credit fundamentals of the industrial sector due to lower profits, increased leverage and greater capital devoted to dividends and share buybacks, and
 - o Increased economic risks to the banking sector, especially for European banks, from the potential impact of Brexit.
- Falling long-term interest rates adversely impacted mortgage-backed security (MBS) prices, as prepayments are expected to accelerate and negatively impact returns. This caused the MBS sector to underperform Treasuries for the quarter and through the first half of the year. We held only modest allocations to MBS, where permitted, with most holdings in issues that carry limited interest rate sensitivity.
- Given the strong curve flattening trend, we sought to reduce yield curve mismatch to benchmarks. However, we saw continued value in utilizing 6-12 month commercial paper and negotiable CDs, where permitted, in lieu of 1-2 year Treasuries and agencies. This allowed us to capture high yields without additional interest rate risk exposure.

INVESTMENT STRATEGY OUTLOOK

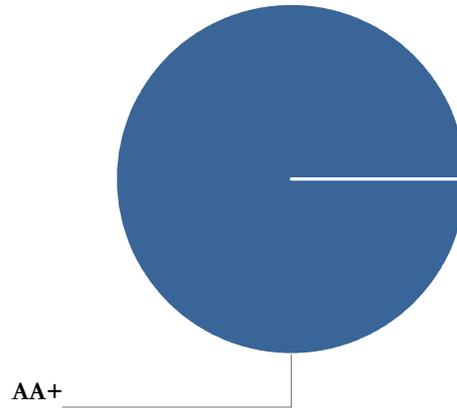
- We expect the U.S. economy to expand at a moderate pace in the second half of 2016, but potential spillover from Brexit may be a marginal drag. Outside the U.S., economic prospects are less certain as Europe grapples with the economic and political repercussions of Brexit, emerging markets continue to slow, and global central banks remain a strong influence. We will be closely monitoring incoming economic data for any changes that affect our view.
- The Brexit vote changed the prospects for expected Fed action. We now expect no rate hikes until December at the earliest, or even into 2017. This “lower for longer” landscape has implications for both expected returns and risks. Given the likelihood that rates will not move significantly higher in the near-term, we plan to keep durations neutral to benchmarks, avoiding any significant mismatches.
- Given the higher degree of uncertainty about both the global economy and the direction of interest rates, we plan to keep the maturity distribution of portfolios generally in line with the distribution of their benchmarks, except where shifting to short-term credit securities offers better value.
- Agency yield spreads widened modestly post-Brexit. New issues will likely continue to offer opportunities to capture incremental yield versus outstanding agency issues and comparable maturity Treasuries.
- Our strategy continues to favor credit sectors, including corporates notes, commercial paper, and negotiable CDs. We believe the best opportunities are currently with issuers in the U.S. financial industry, where capital is strong and spreads are wide. But, we are taking our time to closely review issuers’ exposure to the UK and Europe, and are being more cautious about adding credit exposure at this time.
- Yields on commercial paper and negotiable CDs continued to offer significant yield pickup relative to short-term government securities as looming money market reform drives market dynamics. Government securities, driven by Fed policy, have been depressed as the expectation for rate hikes this year has stagnated.

Portfolio Statistics

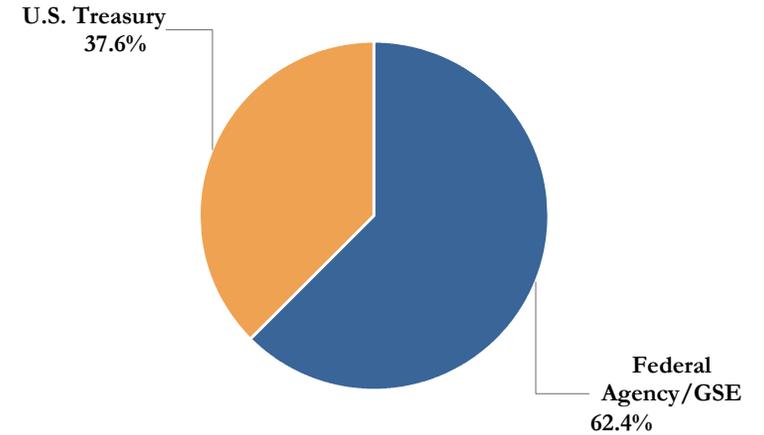
As of June 30, 2016

Par Value:	72,925,000
Total Market Value:	73,723,080
Security Market Value:	73,490,910
Accrued Interest:	185,400
Cash:	46,770
PFM	-
Amortized Cost:	73,105,364
Yield at Market:	0.67%
Yield at Cost:	0.96%
Effective Duration:	1.81 Years
Duration to Worst:	1.81 Years
Average Maturity:	1.87 Years
Average Credit: **	AA

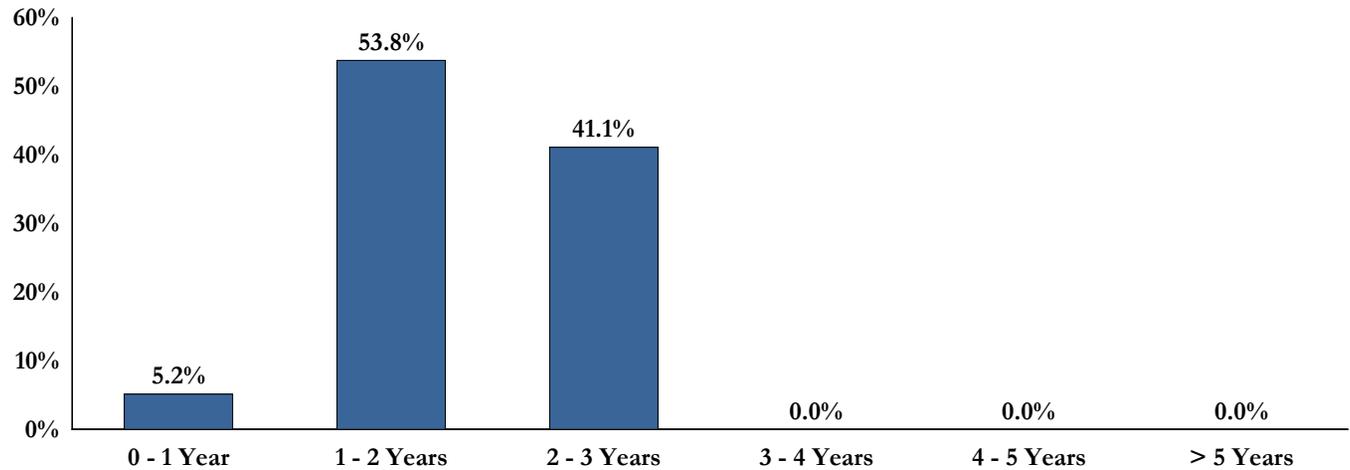
Credit Quality (S&P Ratings)



Sector Allocation



Maturity Distribution

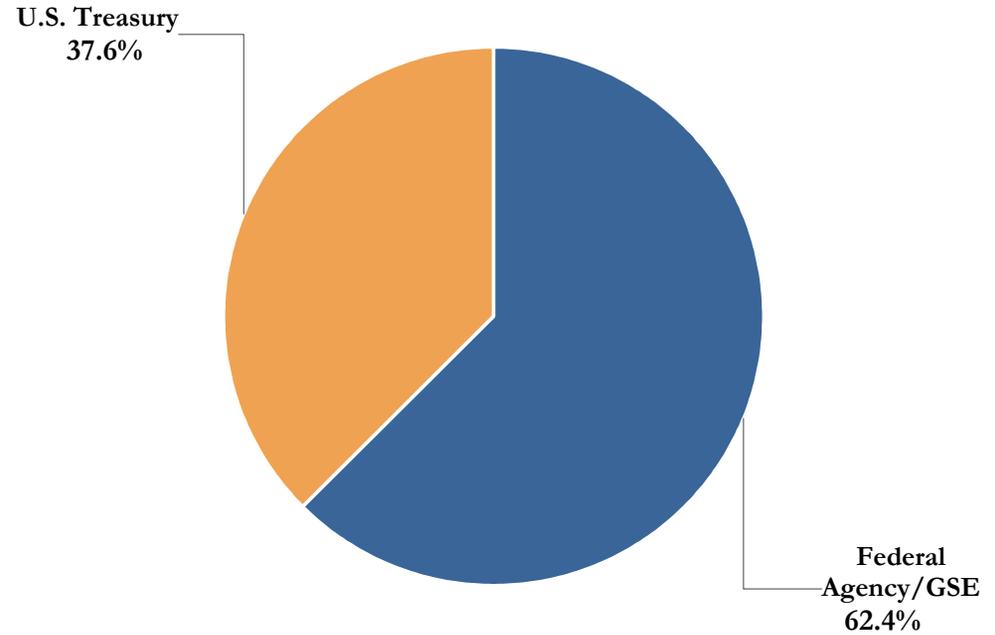


** An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

Sector Allocation

As of June 30, 2016

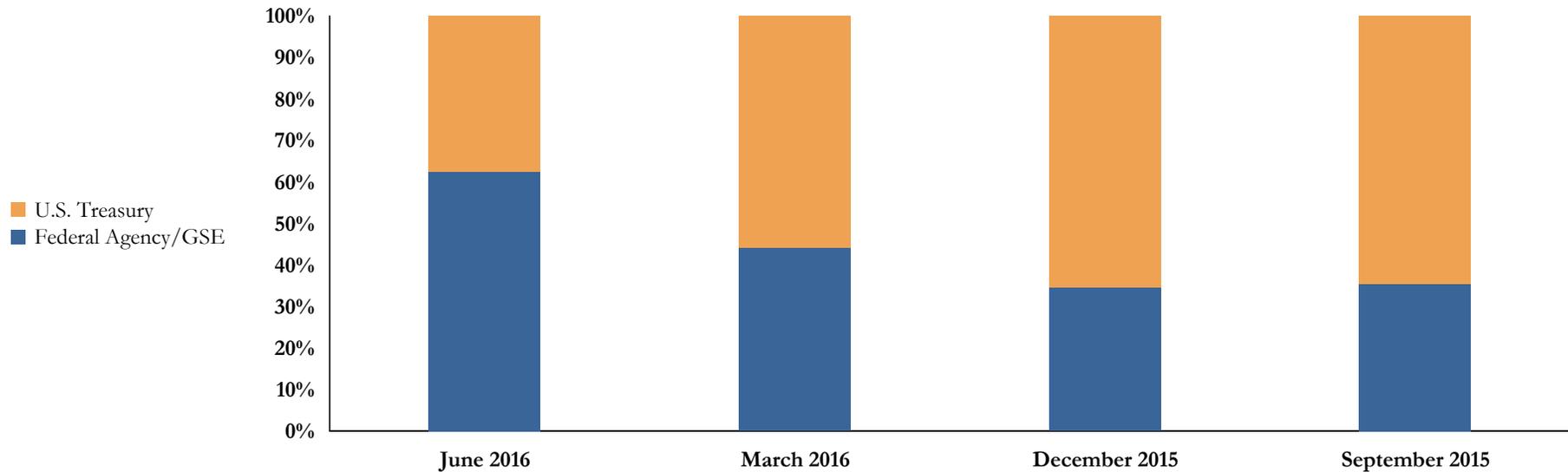
Sector	Market Value (\$)	% of Portfolio
Federal Agency/GSE	45,854,000	62.4%
U.S. Treasury	27,636,910	37.6%
Total	73,490,910	100.0%



Detail may not add to total due to rounding.

Sector Allocation

Sector	June 30, 2016		March 30, 2016		December 30, 2015		September 30, 2015	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
Federal Agency/GSE	45.9	62.4%	32.4	44.2%	25.0	34.7%	25.7	35.4%
U.S. Treasury	27.6	37.6%	40.8	55.8%	47.0	65.3%	47.0	64.6%
Total	\$73.5	100.0%	\$73.2	100.0%	\$72.0	100.0%	\$72.7	100.0%

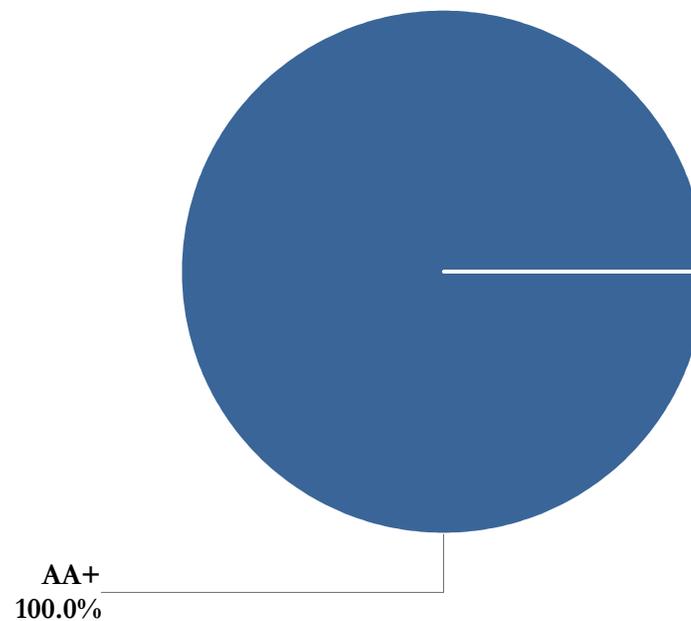


Detail may not add to total due to rounding.

Credit Quality

As of June 30, 2016

S&P Rating	Market Value (\$)	% of Portfolio
AA+	\$73,490,910	100.0%
Totals	\$73,490,910	100.0%

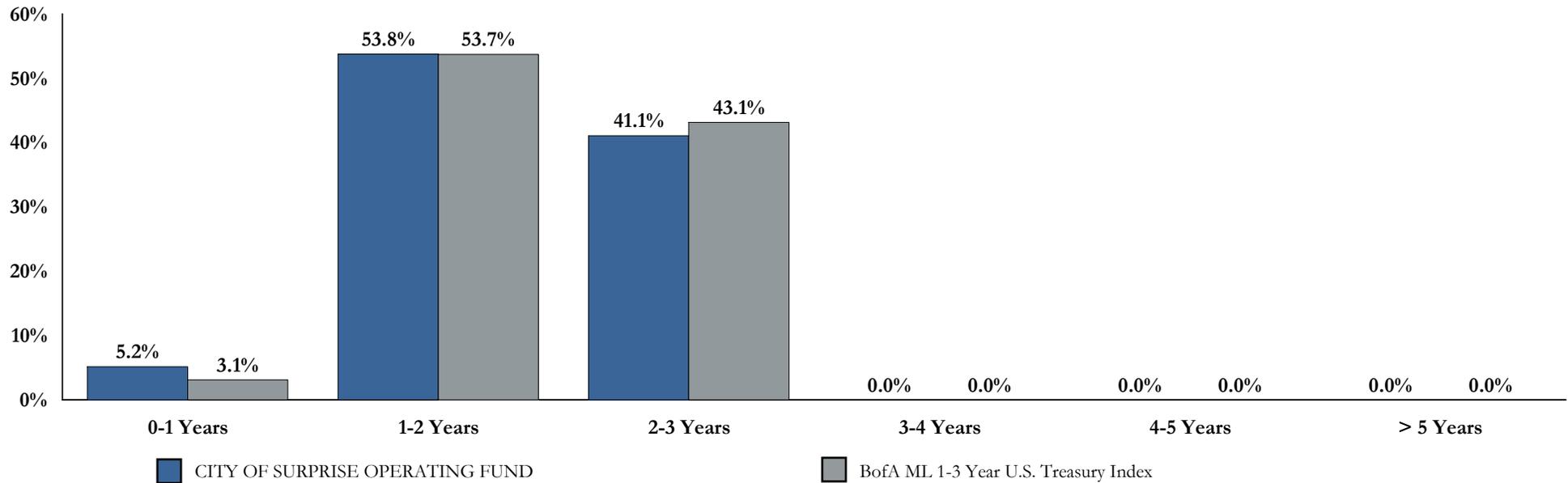


Detail may not add to total due to rounding.

Maturity Distribution

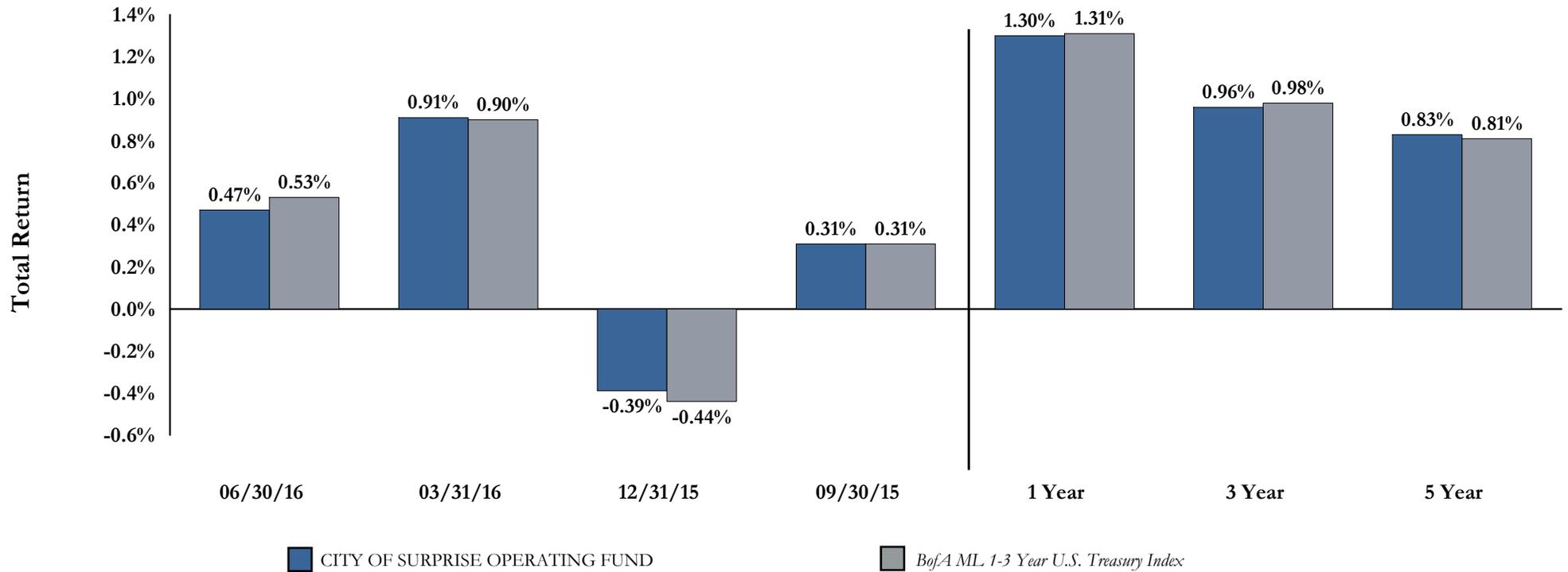
As of June 30, 2016

Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
CITY OF SURPRISE OPERATING FUND	0.67%	1.87 yrs	5.2%	53.8%	41.1%	0.0%	0.0%	0.0%
BofA ML 1-3 Year U.S. Treasury Index	0.60%	1.94 yrs	3.1%	53.7%	43.1%	0.0%	0.0%	0.0%



Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended				1 Year	Annualized Return	
		06/30/16	03/31/16	12/31/15	09/30/15		3 Year	5 Year
CITY OF SURPRISE OPERATING FUND	1.81	0.47%	0.91%	-0.39%	0.31%	1.30%	0.96%	0.83%
<i>BofA ML 1-3 Year U.S. Treasury Index</i>	1.83	0.53%	0.90%	-0.44%	0.31%	1.31%	0.98%	0.81%
Difference		-0.06%	0.01%	0.05%	0.00%	-0.01%	-0.02%	0.02%



Portfolio performance is gross of fees unless otherwise indicated.

Sector/Issuer Distribution

As of June 30, 2016

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Federal Agency/GSE			
FANNIE MAE	26,913,543	58.7%	36.6%
FEDERAL HOME LOAN BANKS	7,429,759	16.2%	10.1%
FREDDIE MAC	11,510,698	25.1%	15.7%
Sector Total	45,854,000	100.0%	62.4%
U.S. Treasury			
UNITED STATES TREASURY	27,636,910	100.0%	37.6%
Sector Total	27,636,910	100.0%	37.6%
Portfolio Total	73,490,910	100.0%	100.0%

Quarterly Portfolio Transactions

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	4/1/16	4/1/16	0.00	MONEY0002	MONEY MARKET FUND			4.25		
BUY	4/6/16	4/7/16	7,200,000.00	3137EAEA3	FHLMC REFERENCE NOTE	0.75%	4/9/18	(7,188,696.00)	0.83%	
SELL	4/6/16	4/7/16	4,000,000.00	912828UU2	US TREASURY NOTES	0.75%	3/31/18	4,001,042.52	0.74%	31,576.27
SELL	4/6/16	4/7/16	3,200,000.00	912828UU2	US TREASURY NOTES	0.75%	3/31/18	3,200,834.02	0.74%	9,489.72
INTEREST	4/27/16	4/27/16	3,400,000.00	3135G0JA2	FNMA NOTES	1.12%	4/27/17	19,125.00		
INTEREST	5/2/16	5/2/16	0.00	MONEY0002	MONEY MARKET FUND			1.01		
BUY	5/3/16	5/6/16	3,320,000.00	3135G0J53	FNMA BENCHMARK NOTE	1.00%	2/26/19	(3,329,211.16)	0.97%	
SELL	5/3/16	5/6/16	3,320,000.00	3137EADT3	FHLMC NOTES	0.87%	2/22/17	3,333,408.19	0.59%	5,229.03
BUY	5/26/16	5/27/16	2,850,000.00	3135G0G72	FNMA NOTES	1.12%	12/14/18	(2,871,585.19)	1.03%	
SELL	5/26/16	5/27/16	2,000,000.00	3135G0JA2	FNMA NOTES	1.12%	4/27/17	2,009,815.00	0.69%	4,601.34
SELL	5/26/16	5/27/16	730,000.00	912828SM3	US TREASURY NOTES	1.00%	3/31/17	733,132.98	0.67%	1,738.04
INTEREST	5/30/16	5/30/16	1,900,000.00	3130A5EP0	FHLB GLOBAL NOTES	0.62%	5/30/17	5,937.50		
INTEREST	5/31/16	5/31/16	3,280,000.00	912828UA6	US TREASURY NOTES	0.62%	11/30/17	10,250.00		
INTEREST	5/31/16	5/31/16	485,000.00	912828SY7	US TREASURY NOTES	0.62%	5/31/17	1,515.63		
INTEREST	5/31/16	5/31/16	1,975,000.00	912828WL0	US TREASURY NOTES	1.50%	5/31/19	14,812.50		
INTEREST	5/31/16	5/31/16	2,100,000.00	912828PK0	US TREASURY NOTES	2.25%	11/30/17	23,625.00		
INTEREST	5/31/16	5/31/16	1,275,000.00	912828UA6	US TREASURY NOTES	0.62%	11/30/17	3,984.38		
INTEREST	6/1/16	6/1/16	0.00	MONEY0002	MONEY MARKET FUND			1.07		
INTEREST	6/14/16	6/14/16	2,000,000.00	3135G0G72	FNMA NOTES	1.12%	12/14/18	11,250.00		
INTEREST	6/14/16	6/14/16	2,850,000.00	3135G0G72	FNMA NOTES	1.12%	12/14/18	16,031.25		

CITY OF SURPRISE

Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	6/20/16	6/20/16	2,175,000.00	3135G0RT2	FANNIE MAE GLOBAL NOTES	0.87%	12/20/17	9,515.63		
BUY	6/28/16	6/29/16	2,285,000.00	3135G0YM9	FANNIE MAE GLOBAL NOTES	1.87%	9/18/18	(2,355,310.40)	0.71%	
BUY	6/28/16	6/29/16	3,000,000.00	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	(3,028,950.00)	0.80%	
SELL	6/28/16	6/29/16	1,500,000.00	912828TB6	US TREASURY NOTES	0.75%	6/30/17	1,509,051.12	0.52%	4,503.26
SELL	6/28/16	6/29/16	2,000,000.00	912828TB6	US TREASURY NOTES	0.75%	6/30/17	2,012,068.16	0.52%	6,326.37
SELL	6/28/16	6/29/16	1,785,000.00	912828TB6	US TREASURY NOTES	0.75%	6/30/17	1,795,770.84	0.52%	6,425.78
TOTALS								(62,576.70)		69,889.81

Important Disclosures

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- Market values which include accrued interest, are derived from closing bid prices as of the last business day of the month as supplied by a third party vendor. Where prices are not available from generally recognized sources the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.
- MBS maturities are represented by expected average life.

Glossary

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the insurer.
- **COMMERCIAL PAPER:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **CONTRIBUTION TO DURATION:** Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- **DURATION TO WORST:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years, computed from cash flows to the maturity date or to the put date, whichever results in the highest yield to the investor.
- **EFFECTIVE DURATION:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **EFFECTIVE YIELD:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **INTEREST RATE:** Interest per year divided by principal amount, expressed as a percentage.
- **MARKET VALUE:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- **NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually \$1 million or more that can be traded in secondary markets.
- **PAR VALUE:** The nominal dollar face amount of a security.

Glossary

- **PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.
- **REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **SETTLE DATE:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction occurs on a non-business day (i.e. coupon payments and maturity proceeds), the funds are exchanged on the next business day.
- **TRADE DATE:** The date on which the transaction occurred however the final consummation of the security transaction and payment has not yet taken place.
- **UNSETTLED TRADE:** A trade which has been executed however the final consummation of the security transaction and payment has not yet taken place.
- **U.S. TREASURY:** The department of the U.S. government that issues Treasury securities.
- **YIELD:** The rate of return based on the current market value, the annual interest receipts, maturity value and the time period remaining until maturity, stated as a percentage, on an annualized basis.
- **YTM AT COST:** The yield to maturity at cost is the expected rate of return, based on the original cost, the annual interest receipts, maturity value and the time period from purchase date to maturity, stated as a percentage, on an annualized basis.
- **YTM AT MARKET:** The yield to maturity at market is the rate of return, based on the current market value, the annual interest receipts, maturity value and the time period remaining until maturity, stated as a percentage, on an annualized basis.



Managed Account Detail of Securities Held

For the Month Ending **June 30, 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 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	256.75	484,039.58	485,435.53
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	3,133.49	1,495,594.31	1,501,347.00
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	3,142.08	1,993,794.26	2,001,876.00
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	674.95	1,267,872.25	1,276,045.50
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	4,002.05	2,142,258.41	2,149,383.60
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	1,736.34	3,272,408.64	3,282,689.60
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	5,279.81	1,438,136.52	1,451,716.36
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	2,827.87	1,491,290.48	1,504,101.00
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	3,959.02	2,093,268.07	2,105,741.40
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	11,610.58	2,858,215.23	2,890,499.13
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	24,898.35	2,714,603.53	2,739,747.55
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	14,378.14	4,199,116.36	4,228,735.68
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	2,509.22	2,003,877.36	2,019,591.55
Security Type Sub-Total		27,345,000.00					27,489,114.28	0.97	78,408.65	27,454,475.00	27,636,909.90



Managed Account Detail of Securities Held

For the Month Ending **June 30, 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 NOTES DTD 03/01/2012 1.125% 04/27/2017	3135G0JA2	1,400,000.00	AA+	Aaa	09/03/14	09/04/14	1,406,692.00	0.94	2,800.00	1,402,096.89	1,406,199.20
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	1,899,291.21	1,900,877.80
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	2,115,846.72	2,124,050.09
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	2,499,855.73	2,501,050.00
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	1,098,408.23	1,105,035.80
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	3,082,676.61	3,089,077.35
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	2,172,831.35	2,182,684.28
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	13,562.50	5,989,866.72	6,020,652.00
FHLMC REFERENCE NOTE DTD 04/07/2016 0.750% 04/09/2018	3137EAEA3	7,200,000.00	AA+	Aaa	04/06/16	04/07/16	7,188,696.00	0.83	12,600.00	7,190,003.23	7,208,294.40
FANNIE MAE GLOBAL NOTES DTD 08/23/2013 1.875% 09/18/2018	3135G0YM9	2,285,000.00	AA+	Aaa	06/28/16	06/29/16	2,343,290.35	0.71	12,258.07	2,343,145.69	2,343,386.32
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	1,990,794.84	2,018,182.00
FNMA NOTES DTD 11/03/2015 1.125% 12/14/2018	3135G0G72	2,850,000.00	AA+	Aaa	05/26/16	05/27/16	2,857,068.00	1.03	1,514.06	2,856,812.30	2,875,909.35
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	2,921.88	500,256.88	507,216.50
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	11,687.50	1,999,640.98	2,028,866.00

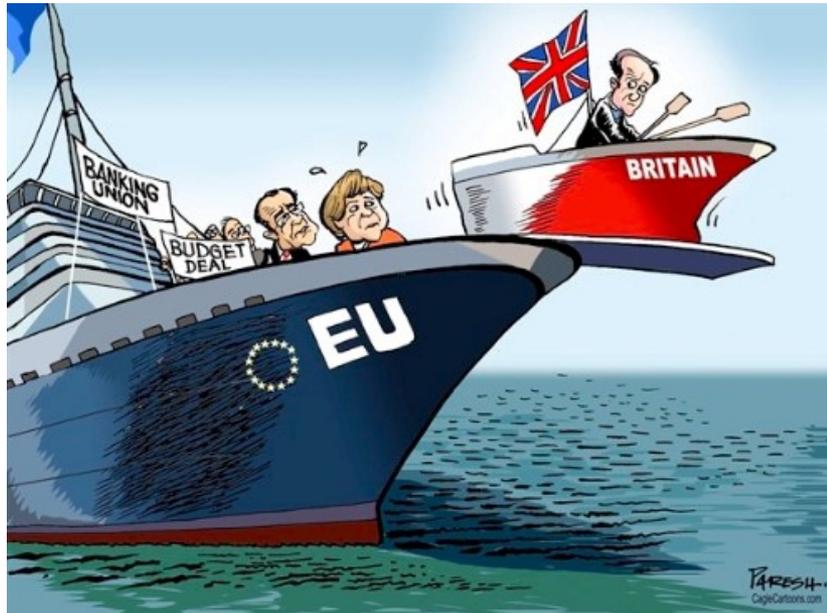


Managed Account Detail of Securities Held

For the Month Ending **June 30, 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 BENCHMARK NOTE DTD 02/23/2016 1.000% 02/26/2019	3135G0J53	3,320,000.00	AA+	Aaa	05/03/16	05/06/16	3,322,755.60	0.97	11,527.78	3,322,611.61	3,336,334.40
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	6,750.00	2,158,601.88	2,178,353.52
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	3,000,000.00	AA+	Aaa	06/28/16	06/29/16	3,028,200.00	0.80	937.50	3,028,147.92	3,027,831.00
Security Type Sub-Total		45,580,000.00					45,653,917.45	0.95	106,991.01	45,650,888.79	45,854,000.01
Managed Account Sub-Total		72,925,000.00					73,143,031.73	0.96	185,399.66	73,105,363.79	73,490,909.91
Securities Sub-Total		\$72,925,000.00					\$73,143,031.73	0.96%	\$185,399.66	\$73,105,363.79	\$73,490,909.91
Accrued Interest											\$185,399.66
Total Investments											\$73,676,309.57



Economic Update

Brexit: Immediate Treasury Market Reaction



2-Year U.S. Treasury Yield
Intraday-June 24, 2016

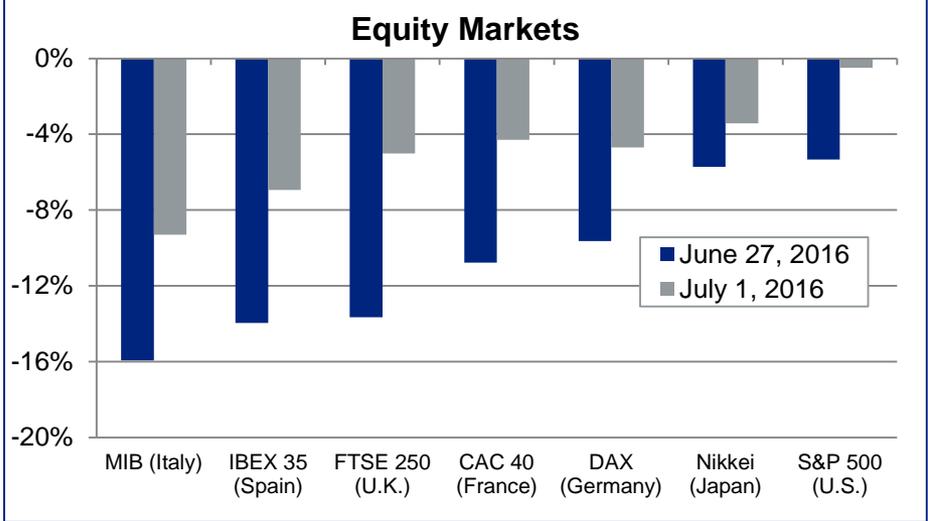


10-Year U.S. Treasury Yield
Intraday-June 24, 2016

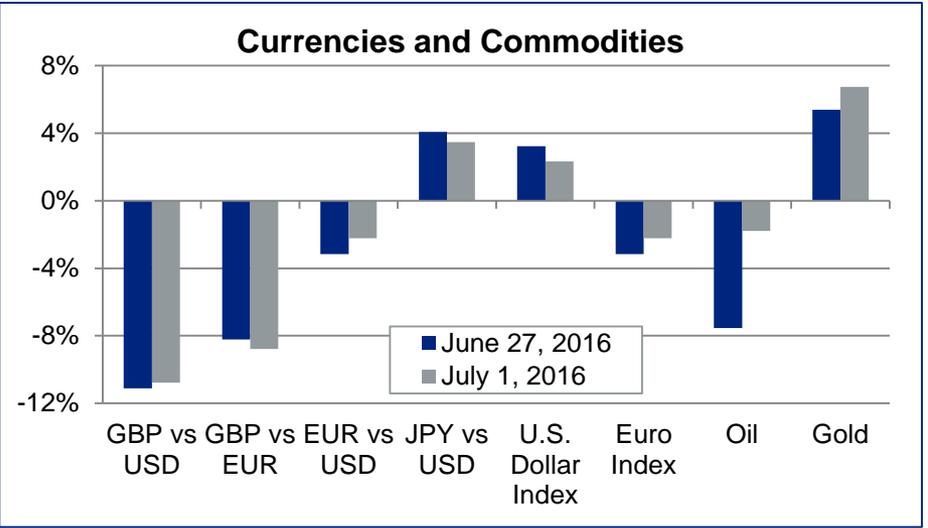


Source: Bloomberg

Brexit: Immediate Reaction vs. a Week Later



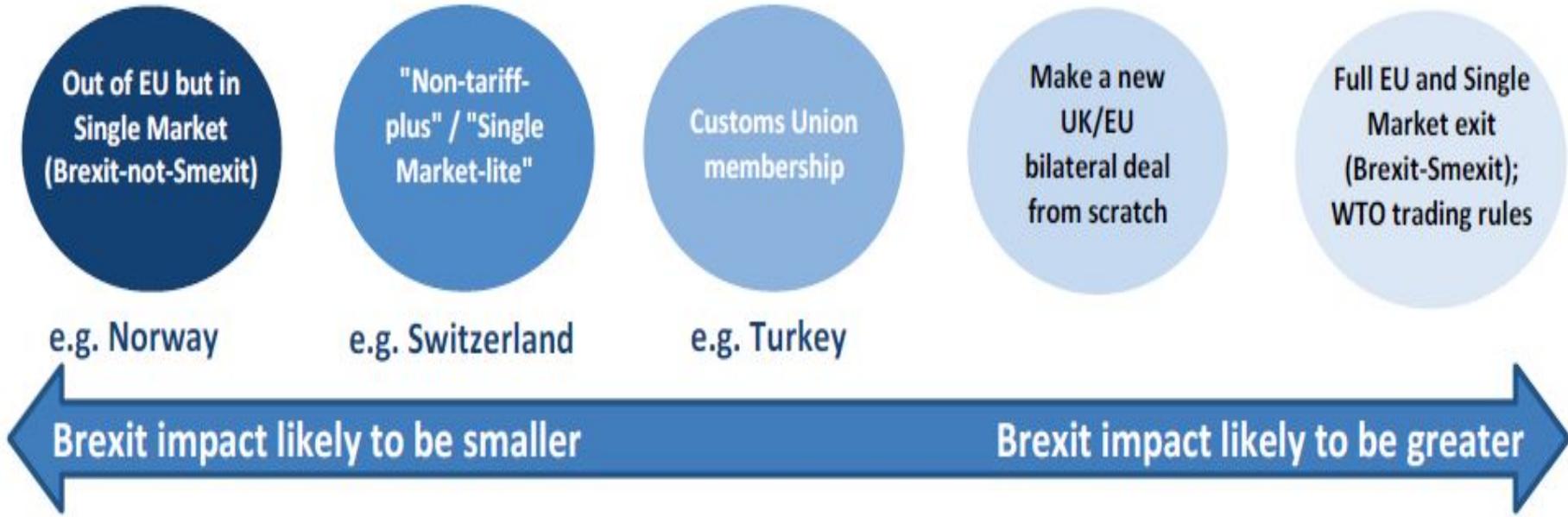
	U.K.	U.S.	France	Germany	Switzerland	Japan
Yield (July 1)	0.86%	1.44%	0.16%	-0.13%	-0.58%	-0.25%
Change	-0.51%	-0.30%	-0.30%	-0.22%	-0.21%	-0.11%



	June 23	June 27	July 1
CDX Investment Grade	76 bps	92 bps	77 bps
CDX High Yield	422 bps	479 bps	425 bps
Euro Investment Grade	75 bps	99 bps	79 bps
Euro High Yield	320 bps	417 bps	347 bps
U.K. CDS	38 bps	50 bps	41 bps
German CDS	20 bps	26 bps	21 bps
U.S. CDS	25 bps	29 bps	25 bps

Source: Bloomberg

Brexit: Range of Possible Outcomes for UK-EU Deal



- The U.K. will have up to 2 years to negotiate terms of a new trading relationship after they invoke Article 50
- Not likely to happen until after a new Prime Minister is elected (several months down the road)

Source: "Brexit...or did you mean Smexit?", RBC Capital Markets

2-Year U.S. Treasury Yield

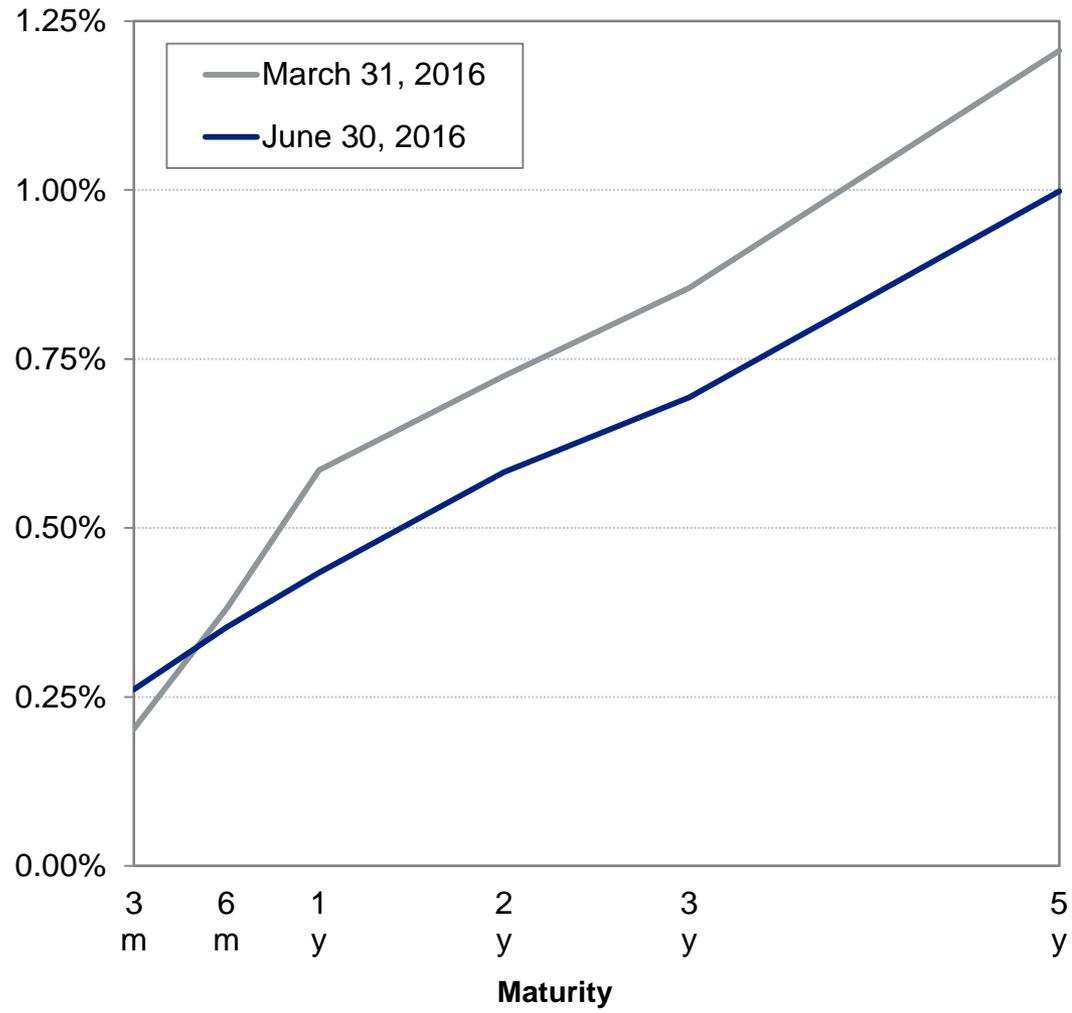
2-Year Treasury Yield
June 30, 2015 – June 30, 2016



Source: Bloomberg

Rates Move Lower Across the Curve

U.S. Treasury Yield Curves



	3/31/16	6/30/16	Δ
3 month	0.20%	0.26%	+0.06%
6 month	0.38%	0.35%	-0.03%
1 year	0.59%	0.43%	-0.16%
2 year	0.72%	0.58%	-0.14%
3 year	0.86%	0.69%	-0.17%
5 year	1.21%	1.00%	-0.21%
10 year	1.77%	1.47%	-0.30%
30 year	2.61%	2.27%	-0.34%

Source: Bloomberg

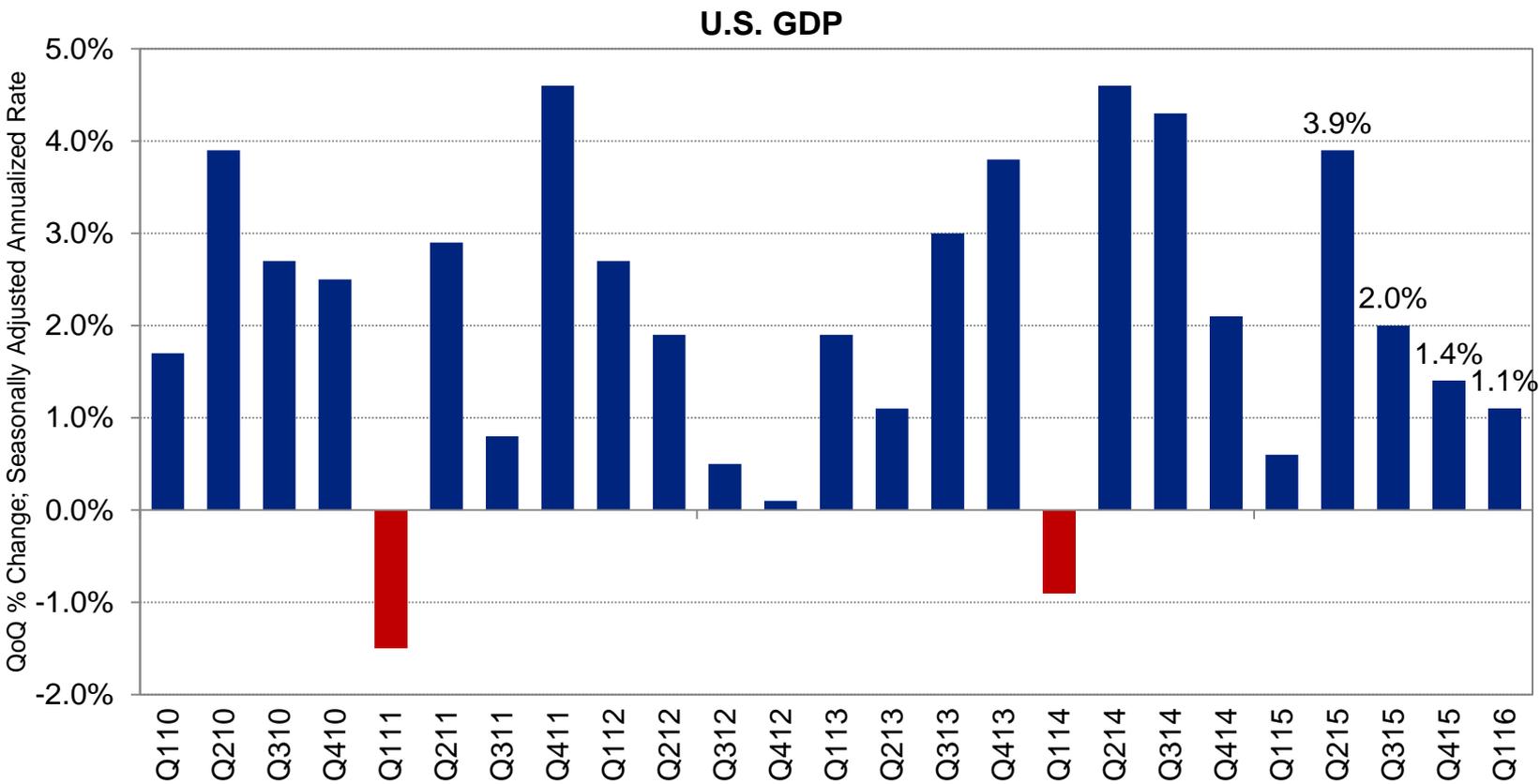
10-year at All-Time Lows



Source: Bloomberg

First Quarter GDP Revised Higher

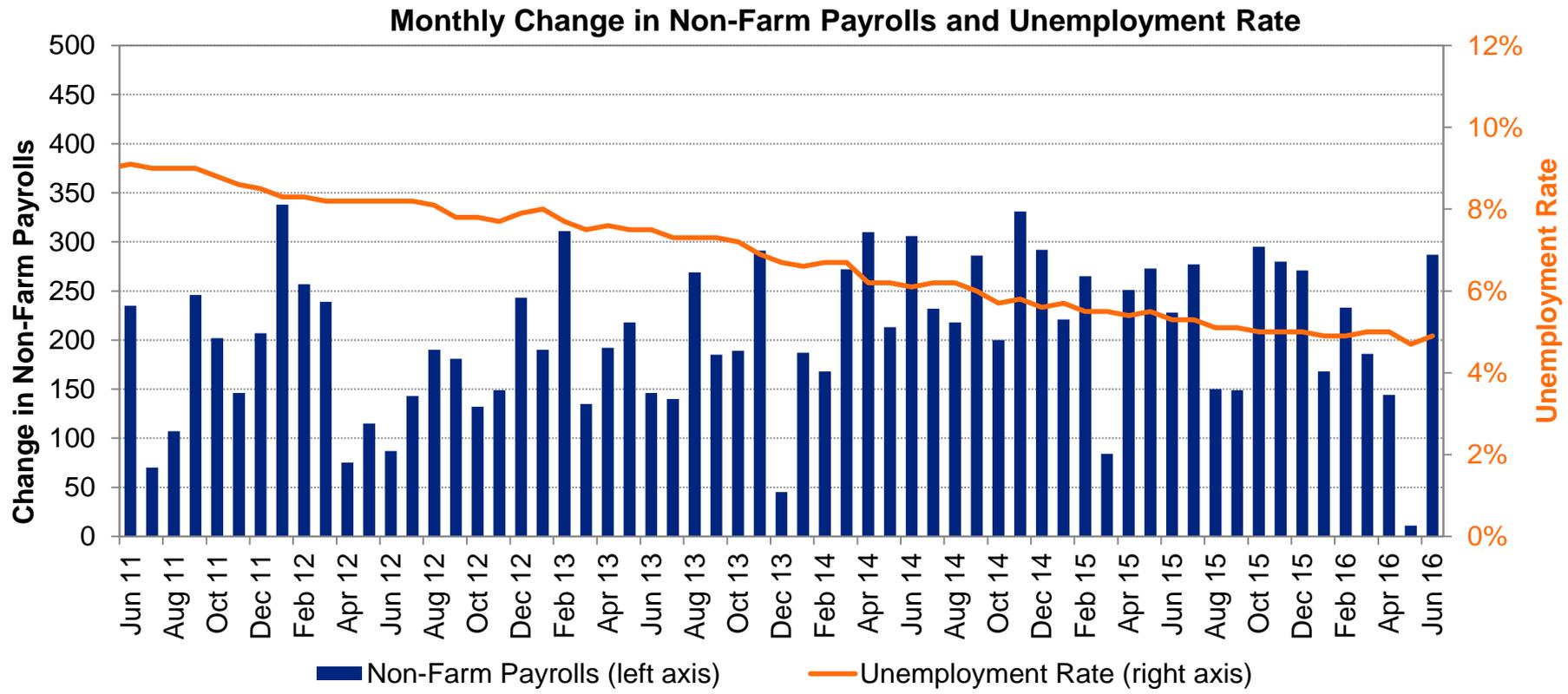
- After an initial reading of 0.5%, the final reading of 1st quarter GDP came out to 1.1%, as improved performance in trade and business investment compensated for weak consumer spending.
- Consumer spending contributed only 1.5% to first quarter growth, weaker than the 2% expected and the prior reading of 1.9%



Source: Bloomberg, Bureau of Economic Analysis

Employment Sector Rebounds

- After adding only 11,000 jobs in May, the U.S. labor market bounced back in June as nonfarm payrolls increased by a robust 287,000. Average monthly job growth for the second quarter was 147,000 jobs a month.
 - The unemployment rate rose to 4.9% from May's reading of 4.7%, while the labor force participation rate ticked up to 62.7% from 62.6%.
 - Average hourly earnings increased 0.1% over the month, bringing the year-over-year rate to 2.6%.



Source: Bloomberg, Bureau Of Labor Statistics

To Cut or to Hike?

Federal Reserve Meeting	Prob. Of Cut		Prob. Of Hike		
	07/05/16	06/27/16	07/05/16	06/27/16	05/31/16
07/27/16	0%	8%	2%	0%	53%
09/21/16	0%	23%	2%	0%	59%
11/02/16	2%	23%	2%	0%	62%
12/14/16	2%	20%	12%	8%	74%
02/01/17	4%	20%	12%	9%	77%

Source: Bloomberg

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