



PFM Asset Management LLC

CITY OF SURPRISE

Investment Performance Review For the Quarter Ended September 30, 2016

Client Management Team

PFM Asset Management LLC

Lauren Brant, Managing Director

1820 East Ray Road

One Keystone Plaza, Suite 300

Kenneth Schiebel, CFA, Senior Portfolio Manager

Chandler, AZ 85225

Harrisburg, PA 17101-2044

Paulina Woo, Director

885-855-9621

717-232-2723

Summary

- The volatile effects of Britain's Brexit vote to leave the European Union (EU) quickly dissipated at the beginning of the third quarter as investors concluded that any effects could take up to two years to play out. Investors turned their focus back to fundamental economic factors, such as growth, inflation, and the timing of future rate hikes by the Federal Reserve (Fed).
- The Fed left rates unchanged at its third quarter meetings and lowered rate expectations in September. Given the upcoming U.S. presidential election, the market expects no action at the Fed's November meeting, but holds roughly a 60% chance of a rate hike in December.
- Other central banks continued to implement accommodative monetary policy. The European Central Bank (ECB) kept its benchmark interest rate near 0% and continued its 80-billion-euro monthly bond-buying program. Meanwhile, the Bank of Japan (BoJ) introduced two policies: one keeps 10-year Japanese government bond yields near zero percent; the other expands money supply until inflation remains above the 2% target. The Bank of England (BoE) joined the easing by cutting its interest rate to 0.25% from 0.50% and enacting a bond purchase program to the tune of 10 billion pounds a month.

Economic Snapshot

- The U.S. economy continued to grow at a slow but steady pace. Consumers drove growth in the first half of the year, while business investment lagged. The labor market remained strong, with the unemployment rate remaining below 5% throughout most of the third quarter. The housing market was arguably the economy's strongest sector as home sales rose to levels not seen since before the 2008 financial crisis.
- U.S. gross domestic product (GDP) grew at a 1.4% rate in the second quarter, a modest rebound from the first quarter's 0.8% rate. Consumer spending drove growth in the second quarter, contributing the most to GDP since 2014, while weakness in business investment detracted the most since 2009. Economic growth is expected to rebound in the third quarter to between 2.5% and 3%.
- The unemployment rate ticked up to 5.0% by the end of the third quarter, as the pace of hiring aligned with the pace of economic growth. September's modest addition of 156,000 jobs rounded out a quarter that added 575,000 jobs, the most jobs added since the first quarter of 2016.

Weekly unemployment filings continued to fall to levels not seen since the early 1970s, while job openings reached record levels. Both were positive indications of labor market strength.

- Inflation pressures firmed slightly over the third quarter as the personal consumption expenditure (PCE) price index, the Fed's favored inflation metric, rose 1.7% for the year ended August 31. Housing and medical costs continued to rise. Average hourly earnings, an important measure of wages in the manufacturing sector, grew 2.6% over the 12 months ended September, the 19th consecutive month of greater than 2% year-over-year (YoY) growth.

Interest Rates

- Interest rates rose significantly in the third quarter, reversing second-quarter declines spurred by Brexit. Short-term yields led the rise, as expectations rebounded for a Fed rate hike this year, slightly flattening the yield curve. The two-year Treasury yield climbed 18 basis points (bps), while the yield on the 10-year Treasury rose 12 bps.
- In the money market space, shorter-term Treasury yields rebounded from their second-quarter compression. Short-term credit instruments, like commercial paper and negotiable bank certificates of deposit (CDs), continued to offer significant added income as yields remained elevated ahead of the Securities and Exchange Commission's money market reform effective October 14.

Sector Performance

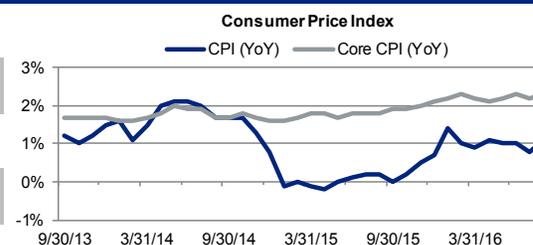
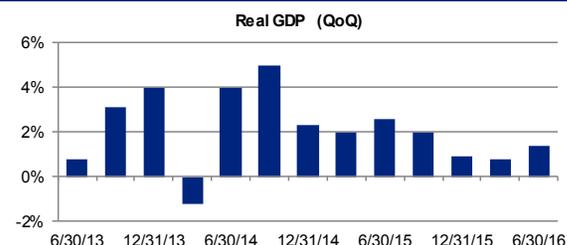
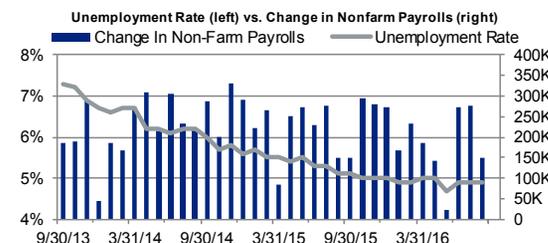
- Returns declined for U.S. Treasury indexes for the third quarter as yields rose, decreasing market values. The declines offset second quarter gains. Shorter-maturity issues outperformed longer maturities.
- Non-callable federal agency spreads drifted tighter during the quarter, leading to the sector's modest outperformance relative to comparable-maturity Treasuries.
- Corporate yield spreads tightened throughout most of the third quarter, reaching their lowest levels of the year, as Brexit fears abated and investors' search for yield continued. The sector once again outperformed Treasuries.
- Mortgage-backed (MBS) and asset-backed securities (ABS) outperformed Treasuries for the first quarter this year as rising interest rates decreased prepayment risk.

Economic Snapshot

Labor Market	Latest	Jun 2016	Sep 2015	
Unemployment Rate	Aug'16	4.9%	4.9%	5.1%
Change In Non-Farm Payrolls	Aug'16	151,000	271,000	149,000
Average Hourly Earnings (YoY)	Aug'16	2.4%	2.6%	2.4%
Personal Income (YoY)	Aug'16	3.1%	3.1%	4.0%
Initial Jobless Claims (week)	9/23/16	254,000	270,000	277,000

Growth	Latest	Jun 2016	Sep 2015	
Real GDP (QoQ SAAR)	2016Q2	1.4%	0.8% ¹	2.6% ²
GDP Personal Consumption (QoQ SAAR)	2016Q2	4.3%	1.6% ¹	2.9% ²
Retail Sales (YoY)	Aug'16	1.9%	2.8%	2.1%
ISM Manufacturing Survey (month)	Aug'16	49.4	53.2	50.0
Existing Home Sales SAAR (month)	Aug'16	5.33 mil.	5.57 mil.	5.44 mil.

Inflation / Prices	Latest	Jun 2016	Sep 2015	
Personal Consumption Expenditures (YoY)	Aug'16	1.0%	0.9%	0.2%
Consumer Price Index (YoY)	Aug'16	1.1%	1.0%	0.0%
Consumer Price Index Core (YoY)	Aug'16	2.3%	2.3%	1.9%
Crude Oil Futures (WTI, per barrel)	Sep 30	\$48.24	\$48.33	\$45.09
Gold Futures (oz.)	Sep 30	\$1,313	\$1,321	\$1,116



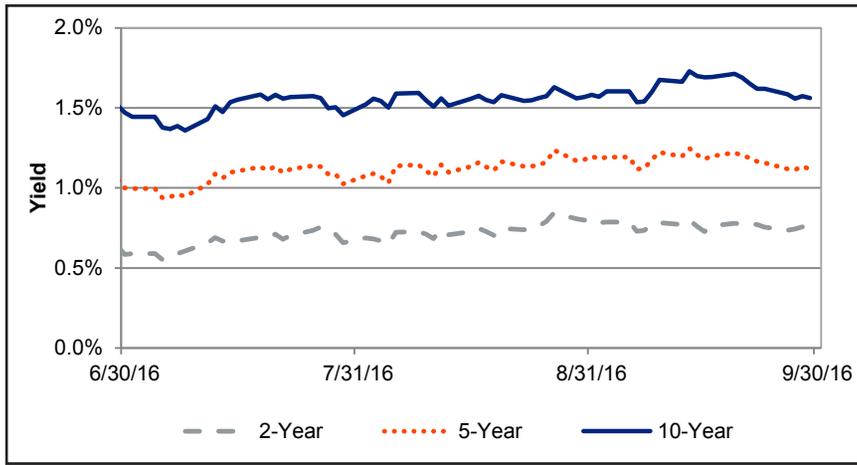
1. Data as of Fourth Quarter 2015

2. Data as of First Quarter 2015

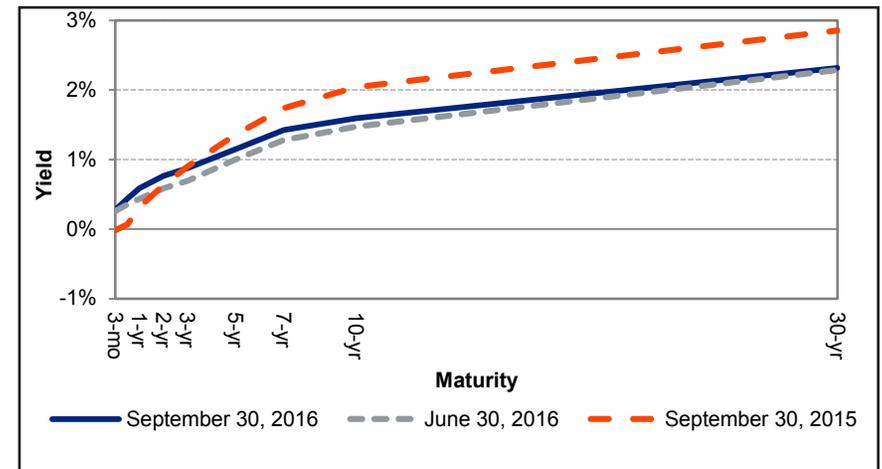
Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

Interest Rate Overview

U.S. Treasury Note Yields



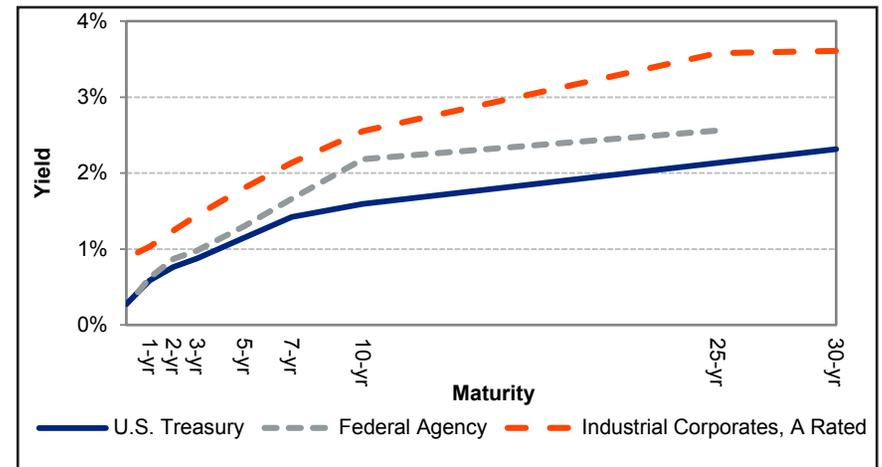
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	9/30/16	6/30/16	Change over Quarter	9/30/15	Change over Year
3-month	0.28%	0.26%	0.02%	(0.02%)	0.30%
1-year	0.59%	0.44%	0.15%	0.31%	0.28%
2-year	0.76%	0.58%	0.18%	0.63%	0.13%
5-year	1.15%	1.00%	0.15%	1.36%	(0.21%)
10-year	1.60%	1.47%	0.13%	2.04%	(0.44%)
30-year	2.32%	2.29%	0.03%	2.85%	(0.53%)

Yield Curves as of 9/30/2016



Source: Bloomberg

QUARTERLY MARKET SUMMARY

BofA Merrill Lynch Index Returns

	As of 9/30/16	Yield	Returns for Periods ended 9/30/16		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.90	0.78%	(0.11%)	0.88%	0.85%
Federal Agency	1.69	0.90%	0.03%	0.94%	0.95%
U.S. Corporates, A-AAA rated	1.90	1.48%	0.17%	2.04%	1.60%
Agency MBS (0 to 3 years)	2.22	1.40%	0.29%	2.43%	1.67%
Taxable Municipals	1.99	1.95%	0.56%	3.44%	2.71%
1-5 Year Indices					
U.S. Treasury	2.73	0.90%	(0.19%)	1.52%	1.43%
Federal Agency	2.14	0.98%	0.00%	1.36%	1.41%
U.S. Corporates, A-AAA rated	2.76	1.66%	0.30%	3.01%	2.44%
Agency MBS (0 to 5 years)	3.29	1.81%	0.61%	3.29%	2.91%
Taxable Municipals	2.64	1.90%	0.52%	4.16%	3.64%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.59	1.28%	(0.33%)	4.33%	3.70%
Federal Agency	3.90	1.27%	0.13%	2.98%	2.82%
U.S. Corporates, A-AAA rated	7.16	2.46%	0.89%	7.52%	5.38%
Agency MBS (0 to 30 years)	3.49	1.90%	0.61%	3.66%	3.57%
Taxable Municipals	4.09	2.43%	0.09%	5.53%	5.19%

Returns for periods greater than one year are annualized.

Source: BofA Merrill Lynch Indices

Disclosures

The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC (PFMAM) at the time of distribution and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFMAM cannot guarantee its accuracy, completeness, or suitability. This material is for general information purposes only and is not intended to provide specific advice or recommendation. The information contained in this report is not an offer to purchase or sell any securities. PFMAM is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. PFMAM's clients are state and local governments, non-profit corporations, pension funds, and similar institutional investors. www.pfm.com

© 2016 PFM Asset Management LLC. Further distribution is not permitted without prior written consent.



Third Quarter 2016 Portfolio Recap

- Amid new agency issuance during the quarter, primarily in two- to three-year maturities, we continued to swap out of Treasuries into agencies where additional yield pickup was available. Yields on longer-term agencies, those four- to five-years narrowed versus comparable-maturity Treasuries. New agency issuance does not occur as frequently in maturities much longer than five years.
- The agency sector experienced modest tightening in yield spreads relative to Treasuries during the quarter, reversing the temporary widening caused by the Brexit vote in late June coupled with continuous supply. Volatility subsided and investors refocused on supply-and-demand metrics. While yields continued to move in tandem with Treasuries, the slight spread tightening led to modest outperformance for the agency and extended year-to-date gains.
- Agency security issuance remained steady in the third quarter as callable security redemptions continued in large volume.
- We sought to generally maintain the portfolio duration and maturity distribution comparable to that of the benchmark to reduce potential performance mismatches given the uncertain rate environment.
- Yields drifted modestly higher during the third quarter as early-quarter Brexit fears faded and U.S. economic data rebounded, bringing the Fed closer to an eventual rate hike, perhaps in December.

Fourth Quarter Strategy and Outlook

- Yields remain linked to expectations for the U.S. economy and Federal Reserve policymakers. A potential rate hike in December could push yields modestly higher. But, global yields remain remarkably low, in some cases negative, which could limit any market move in the U.S.
- Since yield spreads moved modestly tighter in the third quarter, there is slightly less value in the federal agency sector at the beginning of the fourth quarter. We expect spread levels to remain generally tight across the yield curve as investor demand remains strong. However, new issues are expected to continue, offering opportunities to capture incremental yield vs. outstanding agency issues and comparable-maturity Treasuries.
- As we have done for most of the year, we plan to keep the duration and maturity distribution of the portfolio generally in line with the distribution of the benchmark.
- We will continue to monitor incoming economic data to assess and confirm the prospect for a Fed rate hike by year-end.

- The City of Surprise's portfolio is in compliance with Arizona Government Code.

<u>Security Type¹</u>	<u>September 30, 2016</u>	<u>% of Portfolio</u>	<u>June 30, 2016</u>	<u>% of Portfolio</u>	<u>Permitted by Policy</u>
U.S. Treasury	\$19,338,357	26%	\$27,636,909.90	38%	100%
Federal Agency/GSE	\$53,932,848	73%	\$45,854,000	62%	100%
Wells Fargo MMF	\$272,872	0%	\$109,347	0%	
Totals	\$73,544,076	100%	\$73,600,257	100%	

Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest and PFM Funds cash account balances.

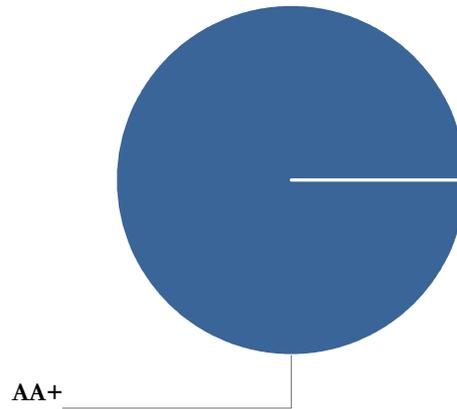
Detail may not add to total due to rounding.

Portfolio Statistics

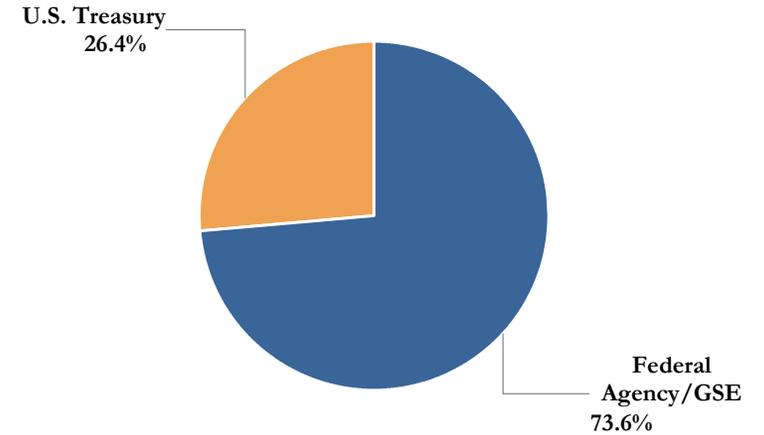
As of September 30, 2016

Par Value:	72,845,000
Total Market Value:	73,686,797
Security Market Value:	73,271,204
Accrued Interest:	142,720
Cash:	272,872
PFM	-
Amortized Cost:	73,133,131
Yield at Market:	0.83%
Yield at Cost:	0.95%
Effective Duration:	1.83 Years
Duration to Worst:	1.83 Years
Average Maturity:	1.86 Years
Average Credit: *	AA

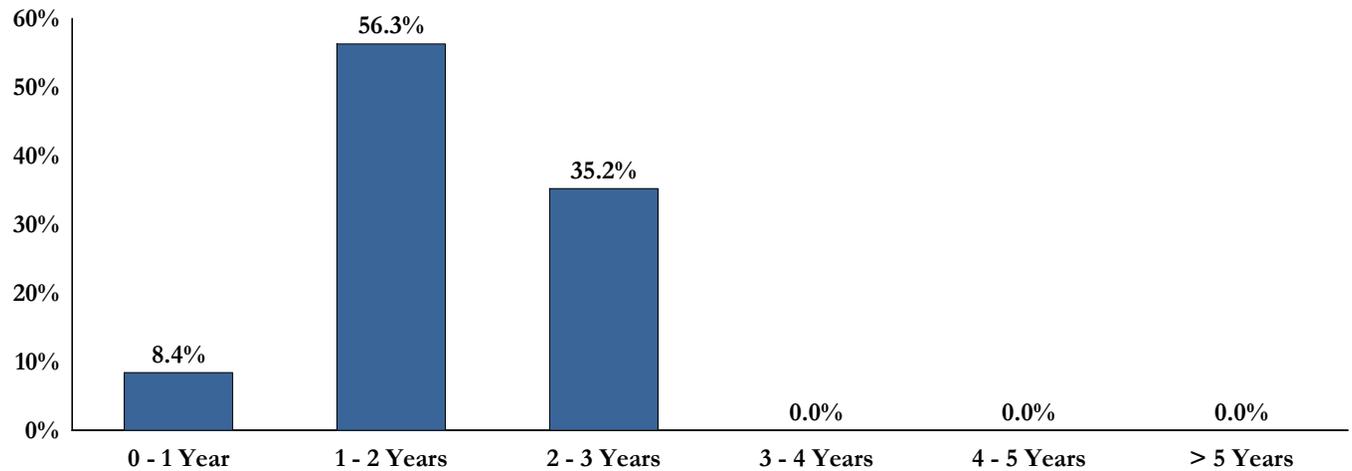
Credit Quality (S&P Ratings)



Sector Allocation



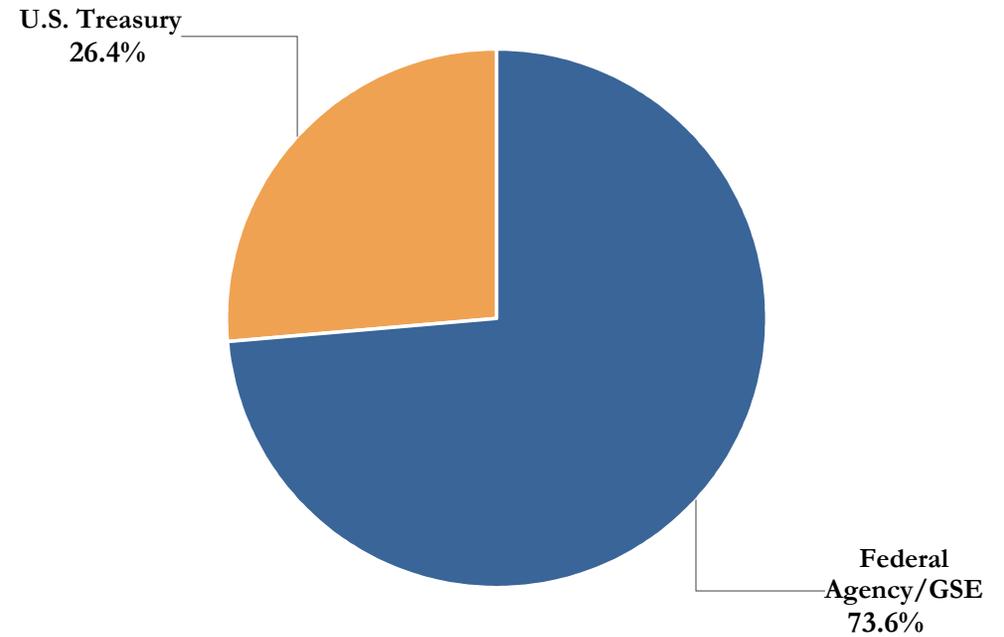
Maturity Distribution



*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 September 30, 2016

Sector	Market Value (\$)	% of Portfolio
Federal Agency/GSE	53,932,848	73.6%
U.S. Treasury	19,338,357	26.4%
Total	73,271,204	100.0%



Detail may not add to total due to rounding.

Sector Allocation

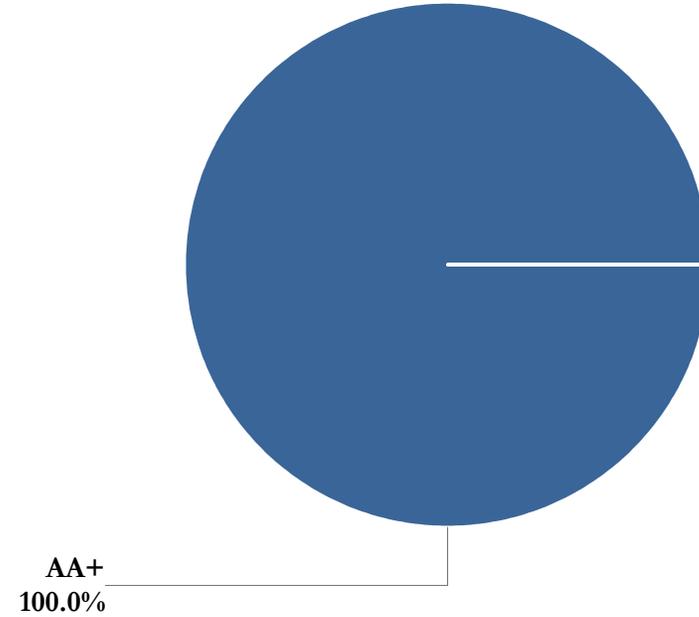
Sector	September 30, 2016		June 30, 2016		March 31, 2016		December 31, 2015	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
Federal Agency/GSE	53.9	73.6%	45.9	62.4%	32.4	44.2%	25.0	34.7%
U.S. Treasury	19.3	26.4%	27.6	37.6%	40.8	55.8%	47.0	65.3%
Total	\$73.3	100.0%	\$73.5	100.0%	\$73.2	100.0%	\$72.0	100.0%



Detail may not add to total due to rounding.

Credit Quality
As of September 30, 2016

S&P Rating	Market Value (\$)	% of Portfolio
AA+	\$73,271,204	100.0%
Totals	\$73,271,204	100.0%

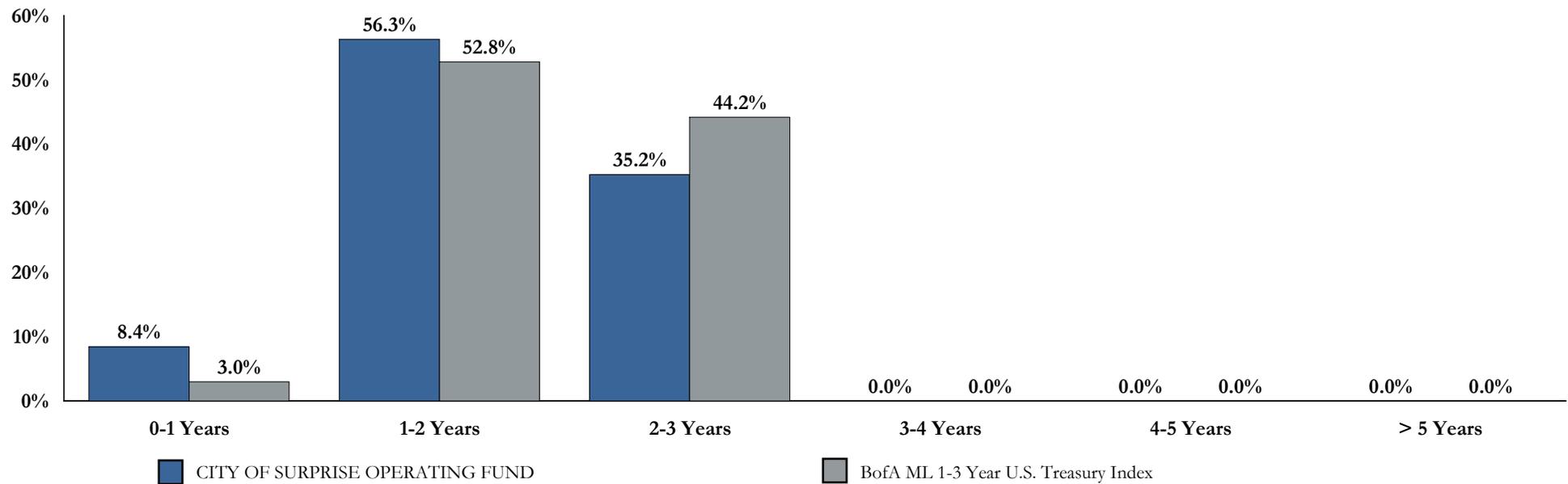


Detail may not add to total due to rounding.

Maturity Distribution

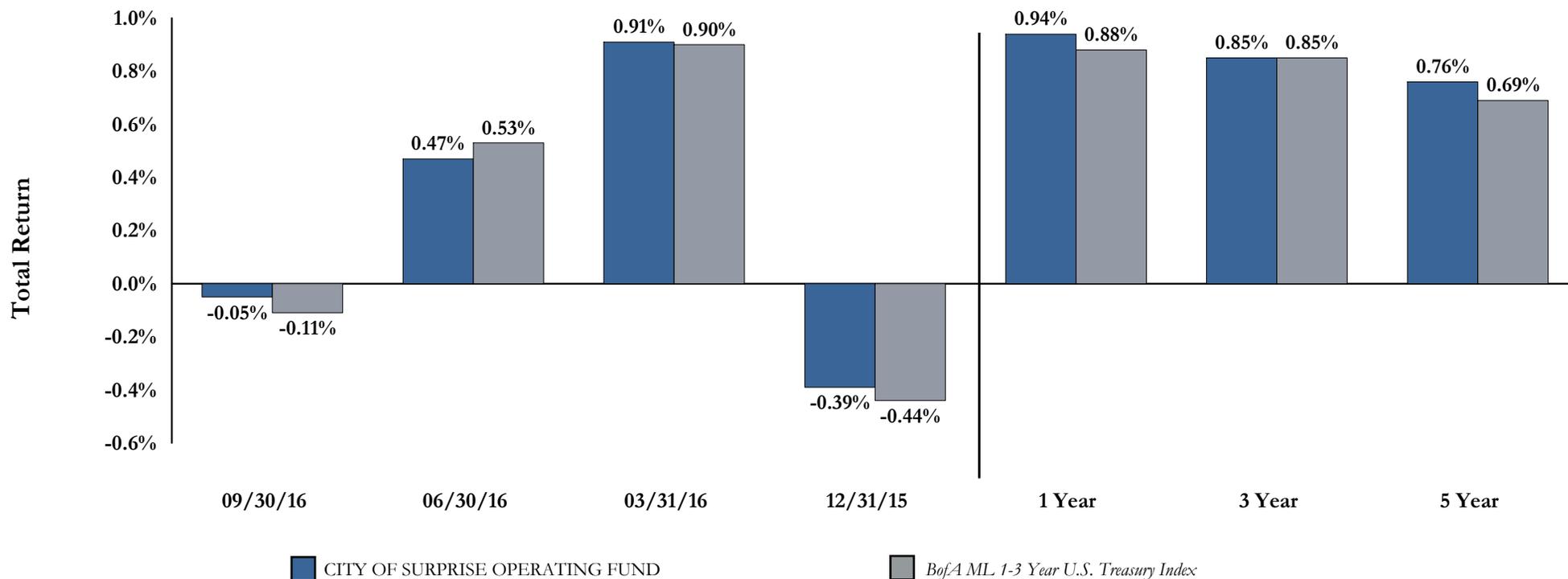
As of September 30, 2016

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	0.83%	1.86 yrs	8.4%	56.3%	35.2%	0.0%	0.0%	0.0%
BofA ML 1-3 Year U.S. Treasury Index	0.78%	1.95 yrs	3.0%	52.8%	44.2%	0.0%	0.0%	0.0%



Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended				1 Year	Annualized Return	
		09/30/16	06/30/16	03/31/16	12/31/15		3 Year	5 Year
CITY OF SURPRISE OPERATING FUND	1.83	-0.05%	0.47%	0.91%	-0.39%	0.94%	0.85%	0.76%
<i>BofA ML 1-3 Year U.S. Treasury Index</i>	1.83	-0.11%	0.53%	0.90%	-0.44%	0.88%	0.85%	0.69%
Difference		0.06%	-0.06%	0.01%	0.05%	0.06%	0.00%	0.07%



Portfolio performance is gross of fees unless otherwise indicated.

Portfolio Earnings
Quarter-Ended September 30, 2016

	<u>Market Value Basis</u>	<u>Accrual (Amortized Cost) Basis</u>
Beginning Value (06/30/2016)	\$73,490,909.91	\$73,105,363.79
Net Purchases/Sales	\$21,464.89	\$21,464.89
Change in Value	(\$241,170.61)	\$6,302.39
Ending Value (09/30/2016)	\$73,271,204.19	\$73,133,131.07
Interest Earned	\$204,887.58	\$204,887.58
Portfolio Earnings	(\$36,283.03)	\$211,189.97

Sector/Issuer Distribution

As of September 30, 2016

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Federal Agency/GSE			
FANNIE MAE	33,350,828	61.8%	45.5%
FEDERAL HOME LOAN BANKS	4,905,053	9.1%	6.7%
FREDDIE MAC	15,676,967	29.1%	21.4%
Sector Total	53,932,848	100.0%	73.6%
U.S. Treasury			
UNITED STATES TREASURY	19,338,357	100.0%	26.4%
Sector Total	19,338,357	100.0%	26.4%
Portfolio Total	73,271,204	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	7/1/16	7/1/16	0.00	MONEY0002	MONEY MARKET FUND			0.75		
BUY	7/8/16	7/11/16	1,735,000.00	3137EACA5	FHLMC NOTES	3.75%	3/27/19	(1,890,218.88)	0.81%	
BUY	7/8/16	7/11/16	1,900,000.00	3130A8PK3	FHLB NOTES	0.62%	8/7/18	(1,895,291.96)	0.75%	
SELL	7/8/16	7/11/16	1,900,000.00	3130A5EP0	FHLB GLOBAL NOTES	0.62%	5/30/17	1,901,485.43	0.62%	820.29
SELL	7/8/16	7/11/16	485,000.00	912828SY7	US TREASURY NOTES	0.62%	5/31/17	485,642.70	0.55%	1,234.95
SELL	7/8/16	7/11/16	1,400,000.00	3135G0JA2	FNMA NOTES	1.12%	4/27/17	1,409,089.50	0.60%	3,825.75
INTEREST	7/15/16	7/15/16	2,875,000.00	912828XK1	UNITED STATES TREASURY NOTES	0.87%	7/15/18	12,578.13		
INTEREST	7/28/16	7/28/16	500,000.00	3135G0H63	FNMA BENCHMARK NOTE	1.37%	1/28/19	3,437.50		
INTEREST	7/28/16	7/28/16	2,115,000.00	3137EADJ5	FREDDIE MAC GLOBAL NOTES	1.00%	7/28/17	10,575.00		
INTEREST	7/28/16	7/28/16	2,000,000.00	3135G0H63	FNMA BENCHMARK NOTE	1.37%	1/28/19	13,750.00		
BUY	7/29/16	8/2/16	2,115,000.00	3135G0N33	FNMA BENCHMARK NOTE	0.87%	8/2/19	(2,111,446.80)	0.93%	
SELL	7/29/16	8/2/16	2,115,000.00	3137EADJ5	FREDDIE MAC GLOBAL NOTES	1.00%	7/28/17	2,121,770.35	0.69%	5,756.04
INTEREST	7/31/16	7/31/16	2,650,000.00	912828QY9	US TREASURY NOTES	2.25%	7/31/18	29,812.50		
INTEREST	7/31/16	7/31/16	1,445,000.00	912828UJ7	US TREASURY NOTES	0.87%	1/31/18	6,321.88		
INTEREST	8/1/16	8/1/16	0.00	MONEY0002	MONEY MARKET FUND			0.55		
INTEREST	8/7/16	8/7/16	1,900,000.00	3130A8PK3	FHLB NOTES	0.62%	8/7/18	956.60		
BUY	8/24/16	8/25/16	4,230,000.00	3135G0YM9	FANNIE MAE GLOBAL NOTES	1.87%	9/18/18	(4,352,953.76)	0.85%	
BUY	8/24/16	8/25/16	4,475,000.00	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	(4,465,068.61)	0.98%	
SELL	8/24/16	8/25/16	4,160,000.00	912828RH5	US TREASURY NOTES	1.37%	9/30/18	4,234,161.27	0.78%	14,657.75
SELL	8/24/16	8/25/16	1,975,000.00	912828WL0	US TREASURY NOTES	1.50%	5/31/19	2,016,832.16	0.85%	7,463.40

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	8/25/16	8/25/16	2,500,000.00	3130A64C8	FHLB GLOBAL NOTE (CALLED, OMD 08/25/17)	0.90%	8/25/16	11,250.00		
MATURITY	8/25/16	8/25/16	2,500,000.00	3130A64C8	FHLB GLOBAL NOTE (CALLED, OMD 08/25/17)	0.90%	8/25/16	2,500,000.00		0.00
INTEREST	8/26/16	8/26/16	3,320,000.00	3135G0J53	FNMA BENCHMARK NOTE	1.00%	2/26/19	16,600.00		
INTEREST	8/31/16	8/31/16	1,500,000.00	912828TM2	US TREASURY NOTES	0.62%	8/31/17	4,687.50		
INTEREST	9/1/16	9/1/16	0.00	MONEY0002	MONEY MARKET FUND			20.76		
BUY	9/1/16	9/2/16	1,500,000.00	3135G0P49	FNMA NOTES	1.00%	8/28/19	(1,496,310.00)	1.08%	
SELL	9/1/16	9/2/16	1,500,000.00	912828TS9	US TREASURY NOTES	0.62%	9/30/17	1,502,622.63	0.71%	2,668.39
INTEREST	9/18/16	9/18/16	4,230,000.00	3135G0YM9	FANNIE MAE GLOBAL NOTES	1.87%	9/18/18	39,656.25		
INTEREST	9/18/16	9/18/16	2,285,000.00	3135G0YM9	FANNIE MAE GLOBAL NOTES	1.87%	9/18/18	21,421.88		
INTEREST	9/27/16	9/27/16	3,075,000.00	3135G0ZL0	FNMA NOTES	1.00%	9/27/17	15,375.00		
INTEREST	9/27/16	9/27/16	1,100,000.00	3135G0ZL0	FNMA NOTES	1.00%	9/27/17	5,500.00		
INTEREST	9/27/16	9/27/16	1,735,000.00	3137EACA5	FHLMC NOTES	3.75%	3/27/19	32,531.25		
INTEREST	9/28/16	9/28/16	6,000,000.00	3135G0J61	FNMA NOTE	0.87%	3/28/18	26,250.00		
INTEREST	9/30/16	9/30/16	2,100,000.00	912828UU2	US TREASURY NOTES	0.75%	3/31/18	7,875.00		
INTEREST	9/30/16	9/30/16	500,000.00	912828TS9	US TREASURY NOTES	0.62%	9/30/17	1,562.50		
INTEREST	9/30/16	9/30/16	1,500,000.00	912828UU2	US TREASURY NOTES	0.75%	3/31/18	5,625.00		
TOTALS								226,102.08		36,426.57

Important Disclosures

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.

- 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 **September 30, 2016**

CITY OF SURPRISE

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 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	802.83	1,496,540.46	1,499,590.50
US TREASURY NOTES DTD 10/01/2012 0.625% 09/30/2017	912828TS9	500,000.00	AA+	Aaa	11/06/15	11/09/15	497,656.25	0.88	8.59	498,759.29	499,765.50
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	2,678.02	1,269,131.34	1,274,004.23
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	2,134,785.45	2,137,237.20
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	3,273,751.30	3,277,438.32
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	2,130.20	1,439,216.92	1,448,047.51
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	30.91	1,492,531.01	1,500,409.50
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	43.27	2,094,228.17	2,100,573.30
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	5,332.03	2,860,257.98	2,880,278.50
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	10,045.52	2,706,891.07	2,721,012.05
Security Type Sub-Total		19,225,000.00					19,296,580.29	0.98	43,839.81	19,266,092.99	19,338,356.61
Federal Agency Bond / Note											
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	1,098,727.37	1,103,533.20
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	3,081,134.72	3,084,876.90
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	2,173,198.53	2,178,245.10



Managed Account Detail of Securities Held

For the Month Ending **September 30, 2016**

CITY OF SURPRISE

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	5,991,309.36	6,004,560.00
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	26,100.00	7,191,403.78	7,193,491.20
FHLB NOTES DTD 07/08/2016 0.625% 08/07/2018	3130A8PK3	1,900,000.00	AA+	Aaa	07/08/16	07/11/16	1,895,193.00	0.75	1,781.25	1,895,704.21	1,892,593.80
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	1,547.14	2,336,632.23	2,331,623.14
FANNIE MAE GLOBAL NOTES DTD 08/23/2013 1.875% 09/18/2018	3135G0YM9	4,230,000.00	AA+	Aaa	08/24/16	08/25/16	4,318,364.70	0.85	2,864.06	4,314,124.80	4,316,308.92
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	1,991,720.58	2,009,594.00
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	9,529.69	2,856,125.16	2,863,671.45
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	500,232.31	505,523.50
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	1,999,675.30	2,022,094.00
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	3,227.78	3,322,372.57	3,324,711.08
FHLMC NOTES DTD 03/27/2009 3.750% 03/27/2019	3137EACA5	1,735,000.00	AA+	Aaa	07/08/16	07/11/16	1,871,423.05	0.81	722.92	1,860,366.85	1,854,505.07
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	12,825.00	2,158,727.59	2,169,592.56
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	9,375.00	3,025,804.74	3,012,459.00
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	4,475,000.00	AA+	Aaa	08/24/16	08/25/16	4,461,261.75	0.98	7,722.48	4,461,731.27	4,459,377.78



Managed Account Detail of Securities Held

For the Month Ending **September 30, 2016**

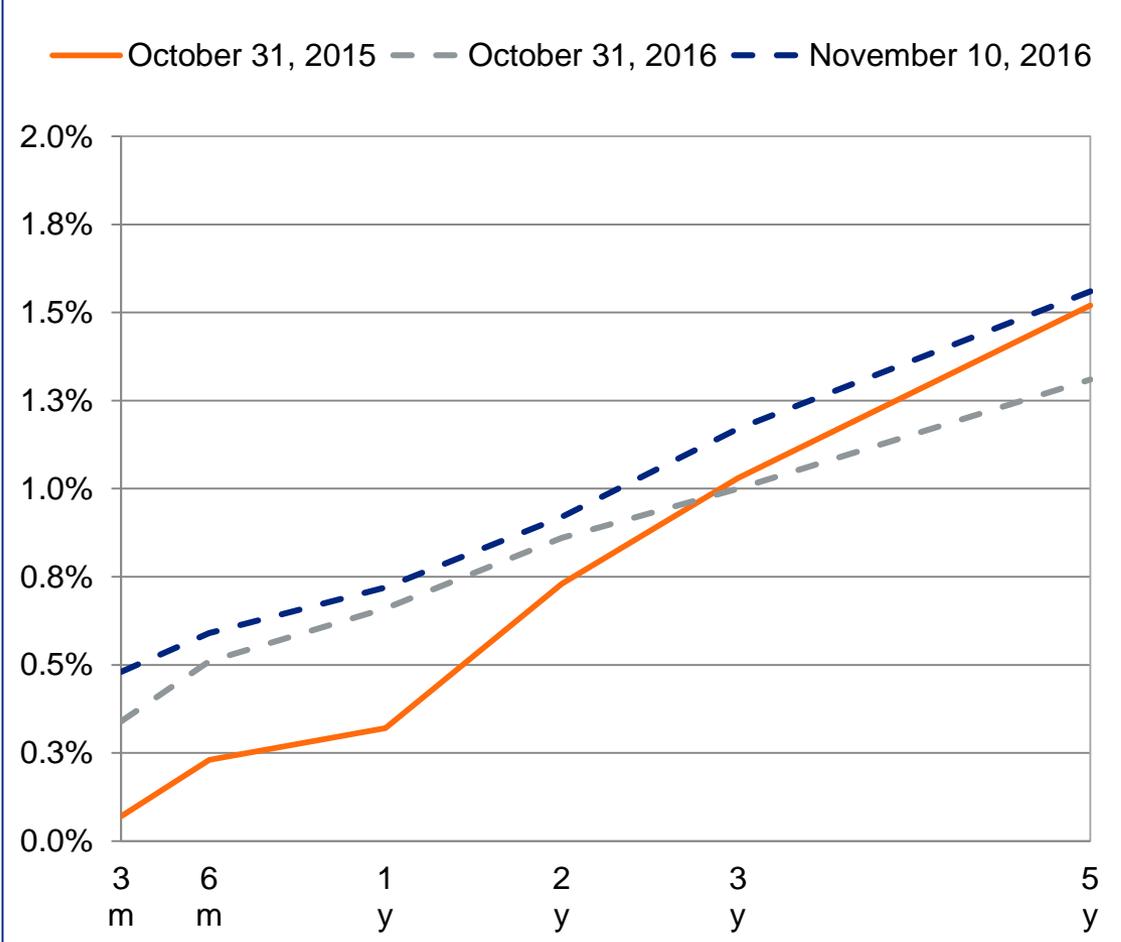
CITY OF SURPRISE

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 08/02/2016 0.875% 08/02/2019	3135G0N33	2,115,000.00	AA+	Aaa	07/29/16	08/02/16	2,111,446.80	0.93	3,032.97	2,111,638.65	2,106,776.88
FNMA NOTES DTD 09/02/2016 1.000% 08/28/2019	3135G0P49	1,500,000.00	AA+	Aaa	09/01/16	09/02/16	1,496,310.00	1.08	1,208.33	1,496,408.06	1,499,310.00
Security Type Sub-Total		53,620,000.00					53,885,746.40	0.95	98,880.46	53,867,038.08	53,932,847.58
Managed Account Sub-Total		72,845,000.00					73,182,326.69	0.95	142,720.27	73,133,131.07	73,271,204.19
Securities Sub-Total		\$72,845,000.00					\$73,182,326.69	0.95%	\$142,720.27	\$73,133,131.07	\$73,271,204.19
Accrued Interest											\$142,720.27
Total Investments											\$73,413,924.46

Economic Update

Rates Remain Steady after the Election

U.S. Treasury Yield Curves



Yield Curve History

	10/31/15	10/31/16	11/10/16
3-Mo.	0.07	0.34	0.48
6-Mo.	0.23	0.51	0.59
1-Yr.	0.32	0.66	0.72
2-Yr.	0.73	0.86	0.92
3-Yr.	1.03	1.00	1.17
5-Yr.	1.52	1.31	1.56
10-Yr.	2.14	1.84	2.15
30-Yr.	2.92	2.58	2.94

	Election Day	Day After Election	Change
2-Yr.	0.87	0.90	+0.03
10-Yr.	1.88	2.07	+0.19
S&P 500	2,139.56	2,163.26	+23.7

Source: Bloomberg as of 11/10/16

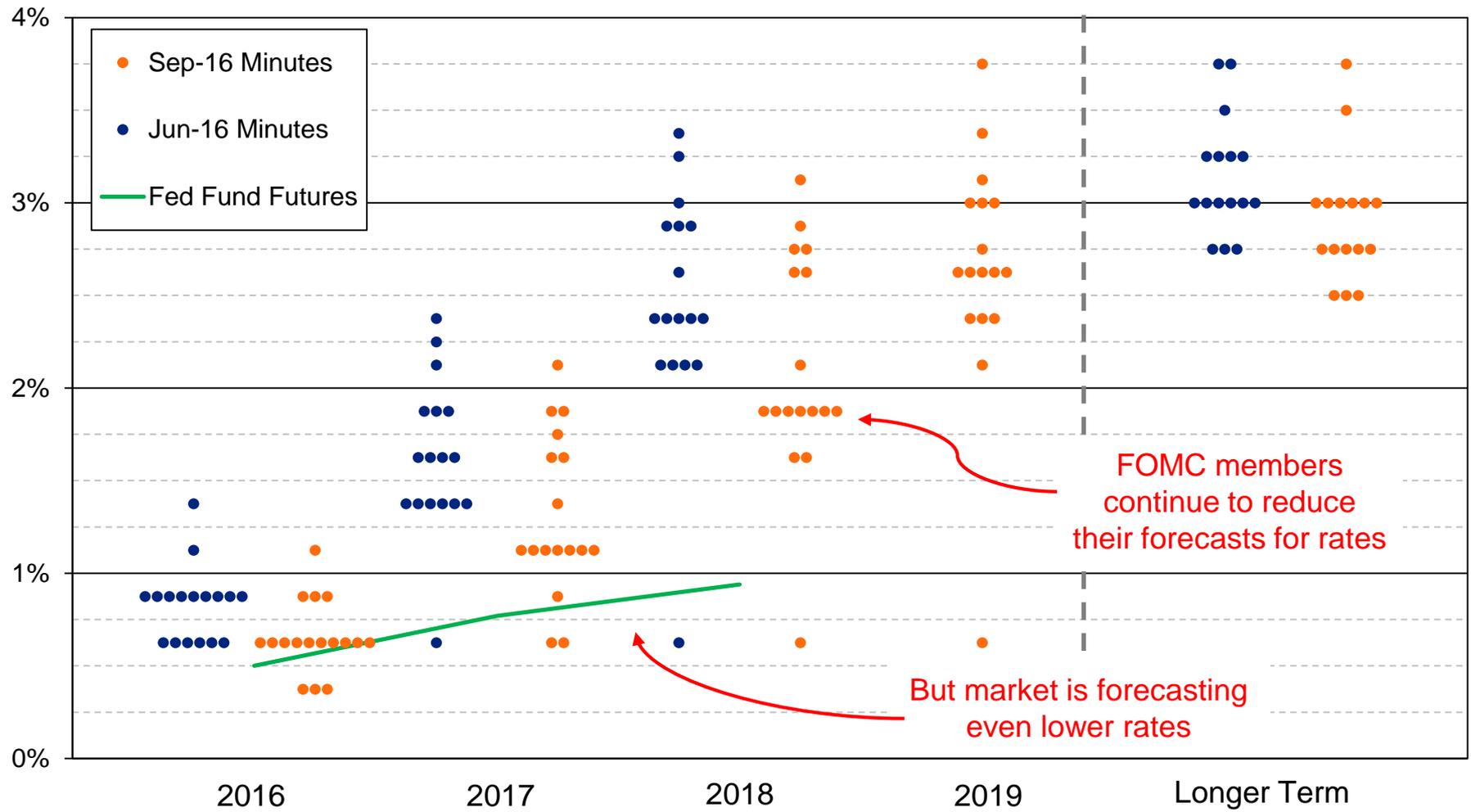
U.S. Treasury Yields

October 31, 2015 - November 10, 2016



Source: Bloomberg as of 11/10/16

FOMC "Dot Plot"



Source: Federal Reserve; Fed Funds Futures as of 10/31/16. Individual dots represent each of the 17 FOMC members' judgment of the midpoint of the appropriate target range for the federal funds rate. One participant did not submit longer-run projections in the September 2016 meeting.

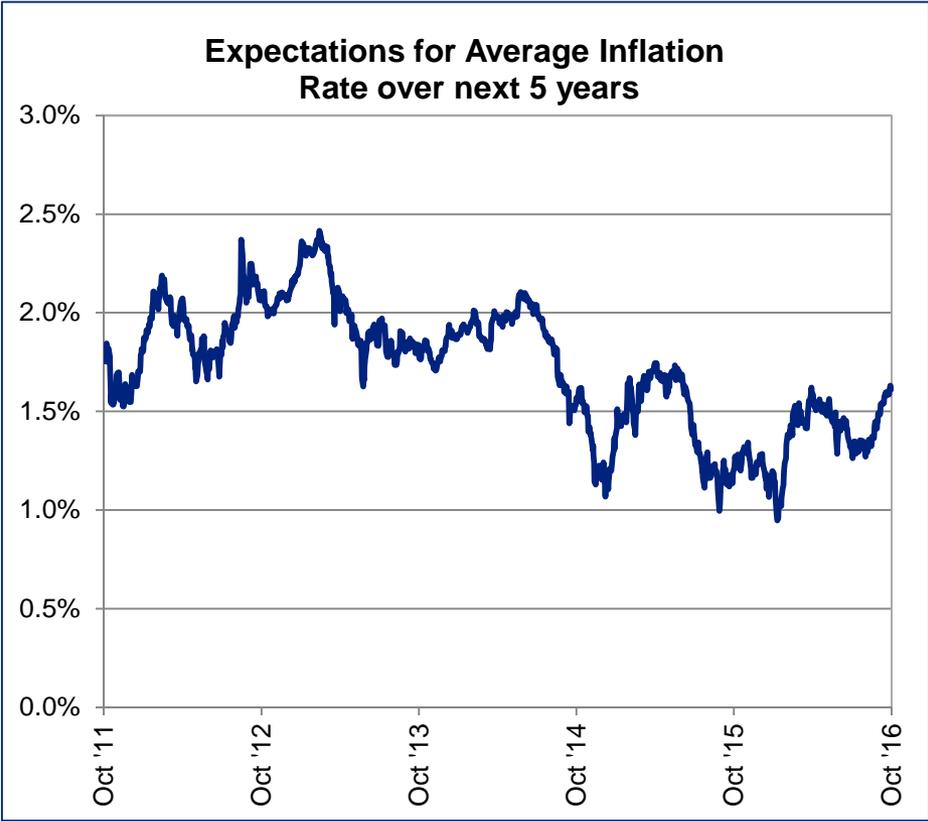
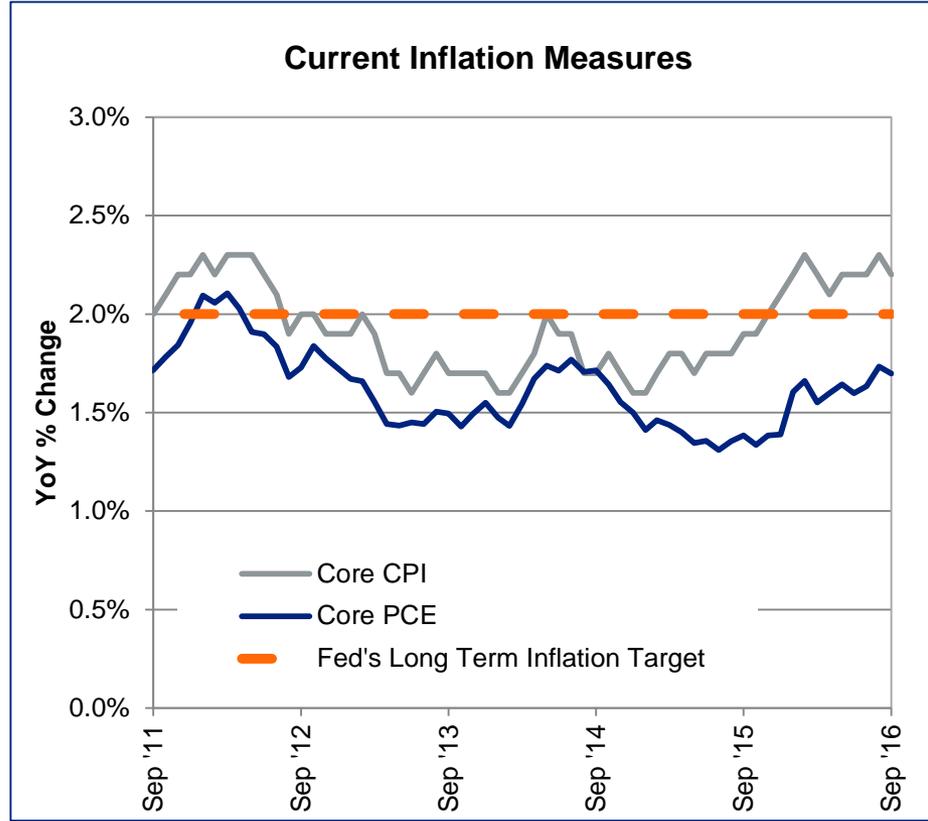
Regional Fed's Outlook for December Rate Hikes

Regional Fed President	Region	FOMC Vote for No Rate Change		Support for Rate Hike in 2016?*	Indicated December Specifically	Is a Voter in:	
		September Meeting	November Meeting				
William Dudley	New York	✓	✓	✓		Permanent	
Eric Rosengren	Boston	Prefer immediate rate hike	✓	✓	✓	2016	
Loretta Mester	Cleveland	Prefer immediate rate hike	Prefer immediate rate hike	✓		2016	2018
Esther George	Kansas City	Prefer immediate rate hike	Prefer immediate rate hike	✓		2016	
James Bullard	St. Louis	✓	✓	✓	✓	2016	
Charles Evans	Chicago	-	-	✓		2017	
Robert Kaplan	Dallas	-	-			2017	
Neil Kashkari	Minneapolis	-	-			2017	
Patrick Harker	Philadelphia	-	-	✓	✓	2017	
Dennis Lockhart	Atlanta	-	-	✓		2018	
Jeffrey Lacker	Richmond	-	-	✓		2018	
John Williams	San Francisco	-	-	✓	✓	2018	

Source: Federal Reserve and Bloomberg News, as of 11/02/16. *Officials who indicated support for a rate hike through a public speech since the September FOMC meeting.

Inflation Rising Slowly

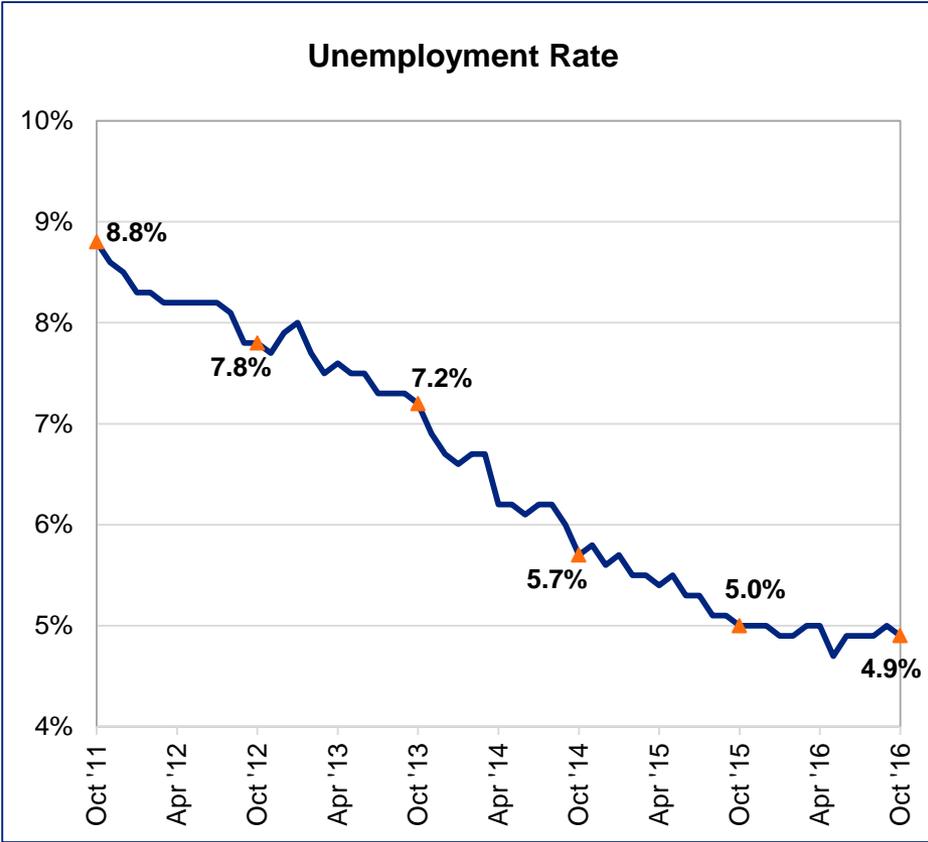
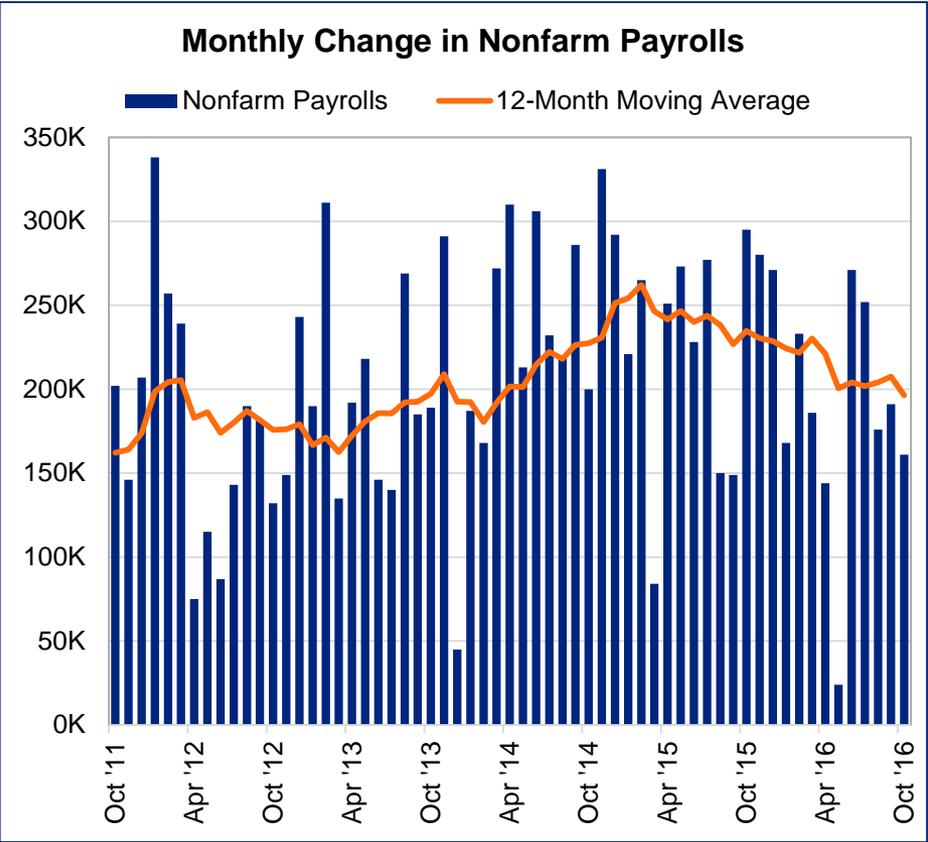
- The core personal consumption expenditures (PCE) price index, the Fed's preferred gauge of core inflation, stayed around 1.7% year-over-year through September, continuing to modestly undershoot the Fed's 2% target.
- However, investors are expecting inflation to pick up, with market expectations for inflation over the next five years recovering back to levels in mid 2015.



Source: Bloomberg as of 10/31/2016. Five year breakeven rate measures market expectations for inflation over next 5 years, as indicated by difference between yields on 5 year TIPS and 5 year treasury notes.

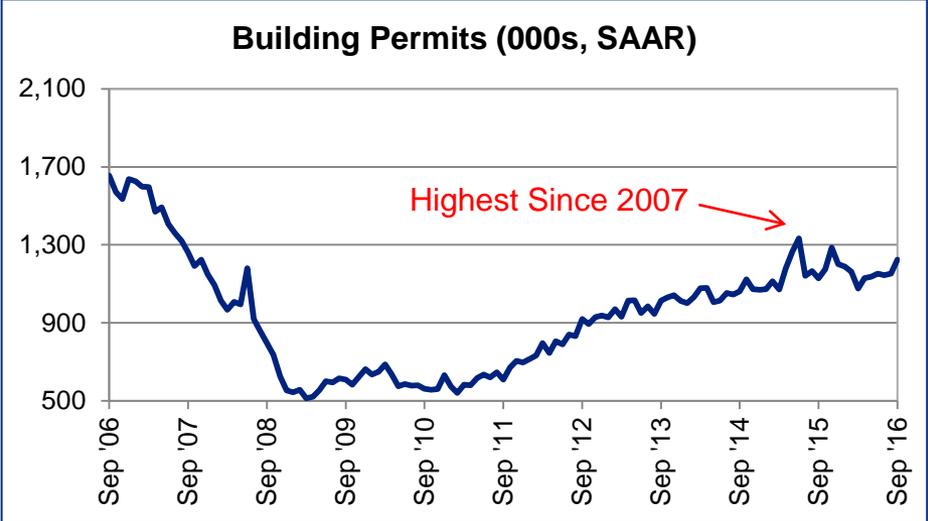
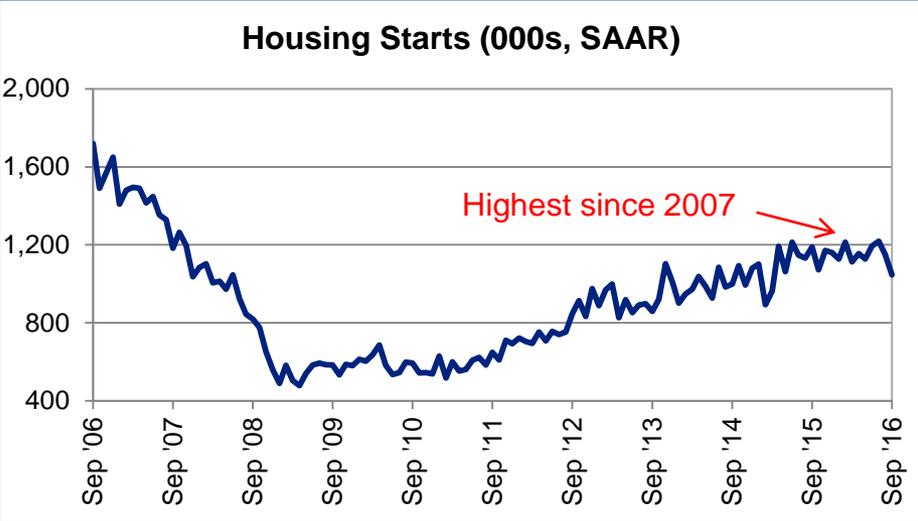
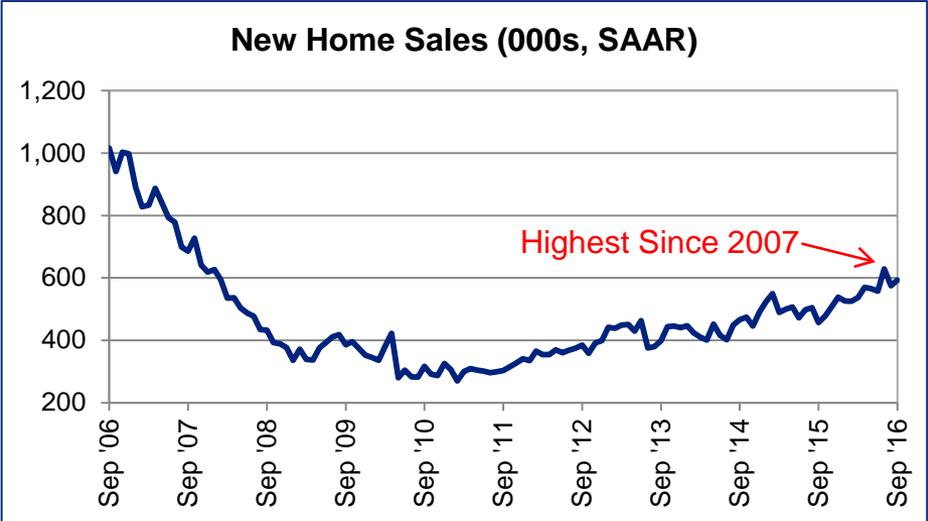
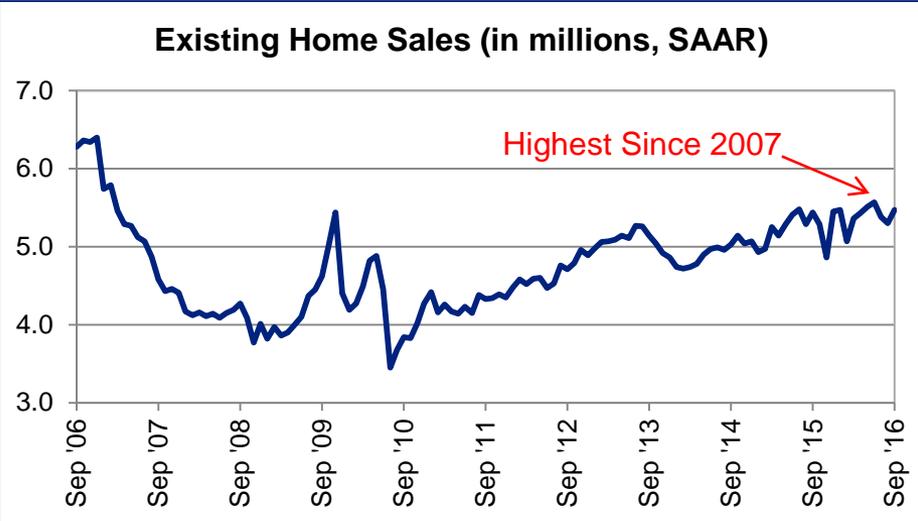
Labor Market Strength Continues

- The U.S. labor market added 161,000 jobs in October, short of the 173,000 expectations, while the prior month's were revised up by 35,000 additional jobs.
- The unemployment rate fell to 4.9%. More notably, the US unemployment rate, which includes part-time and discouraged workers for economic reasons, ticked down to 9.5%, the lowest since 2008.
- Average hourly earnings surprised markets with an increase of 2.8% year-over-year, the strongest growth rate since 2009.



Source: Bureau of Labor Statistics, as of 11/04/16.

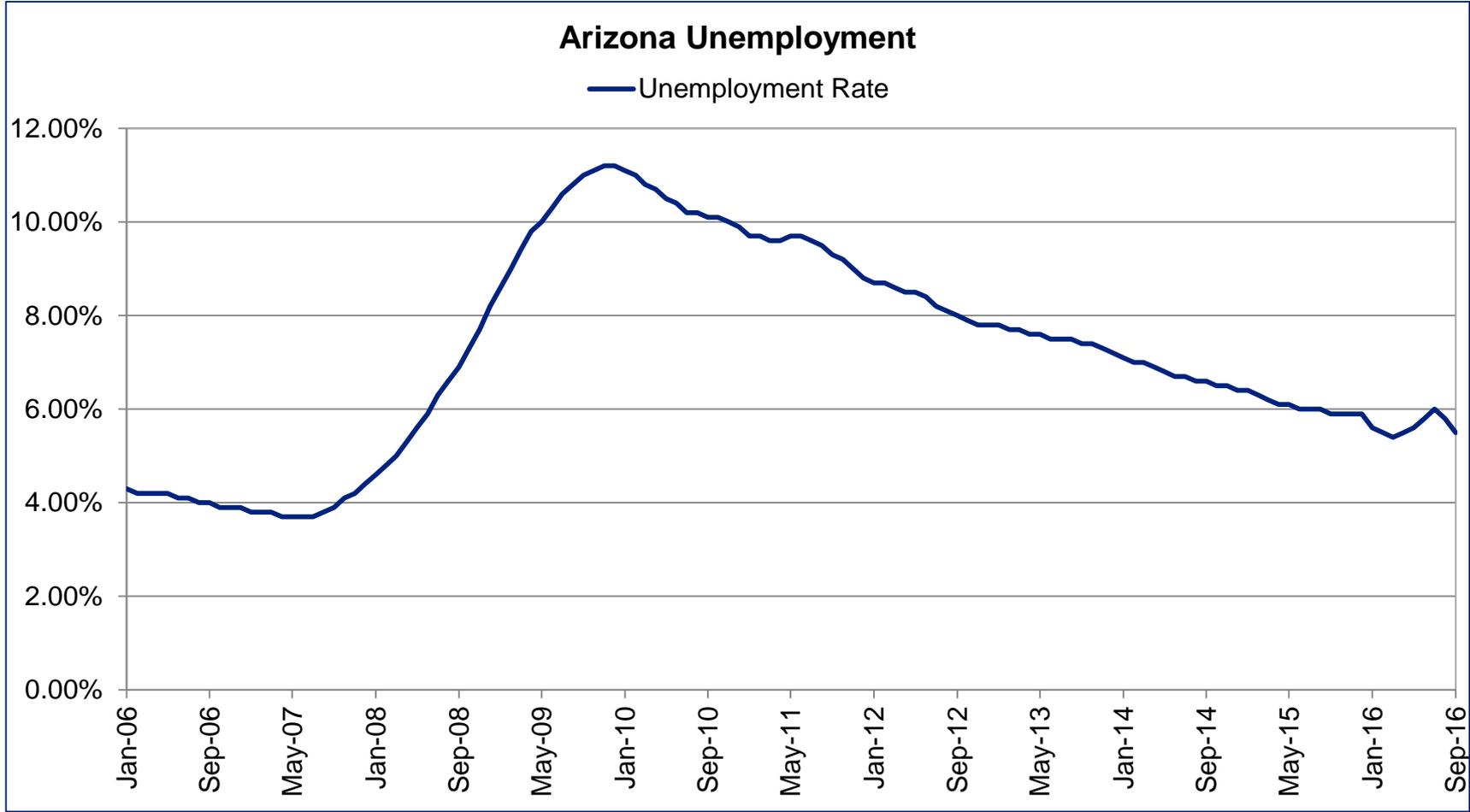
Housing Market Continues Upward Climb



Source: Bloomberg. As of 09/30/2016. SAAR is the seasonally adjusted annualized rate.

Arizona's Unemployment

- In September, unemployment in Arizona fell 0.3% to 5.5% as the state unemployment rate remains 0.5% higher than the national average.



Source: bls.gov

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.