

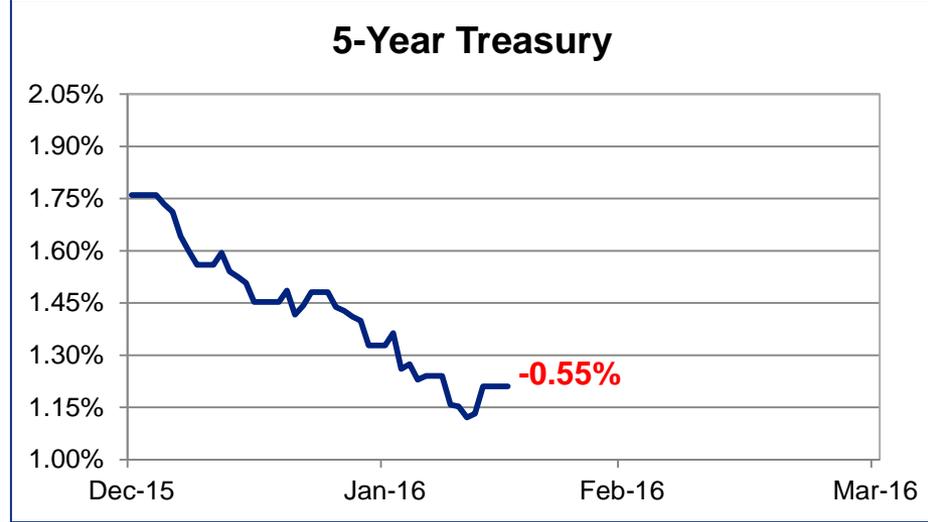
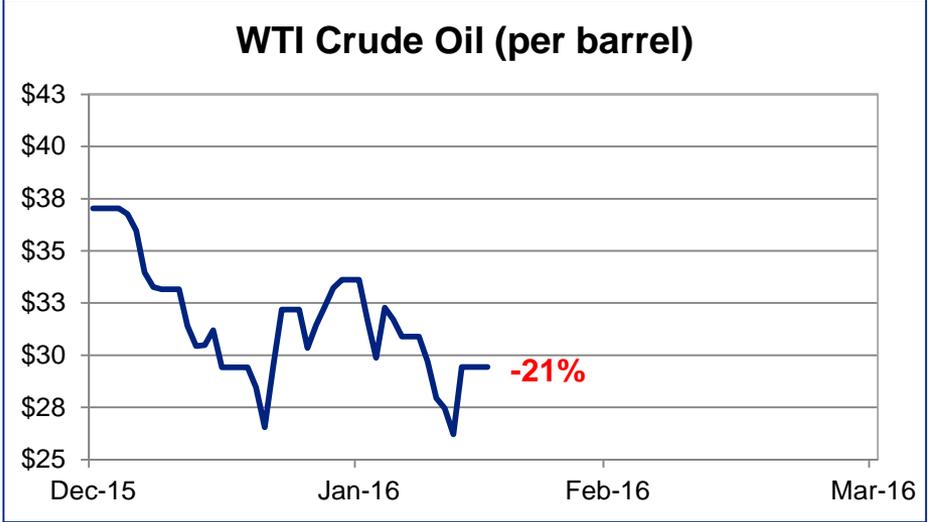
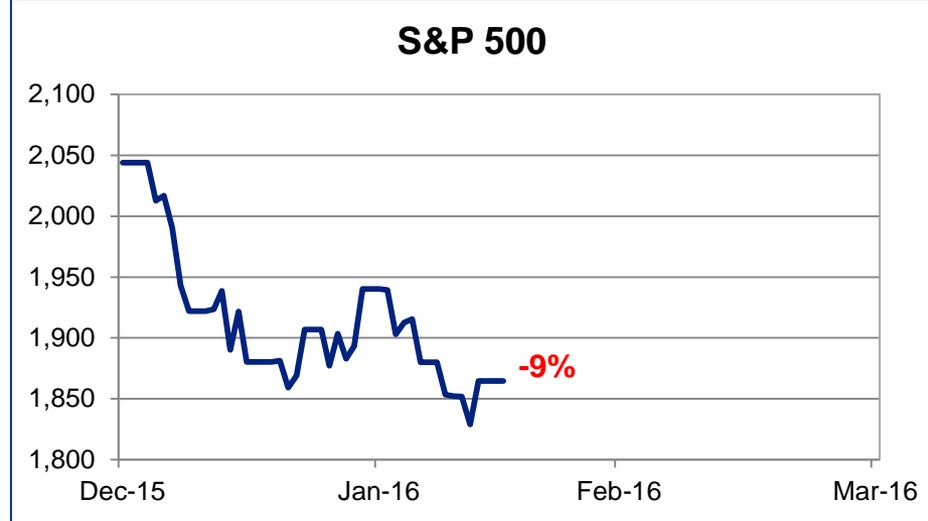
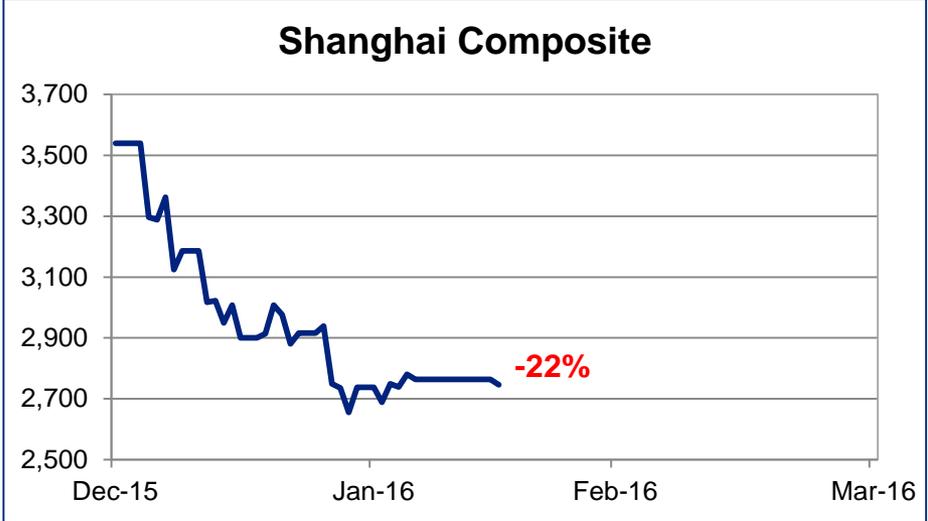


Town of Fountain Hills Quarterly Investment Review Quarter Ended March 31, 2016



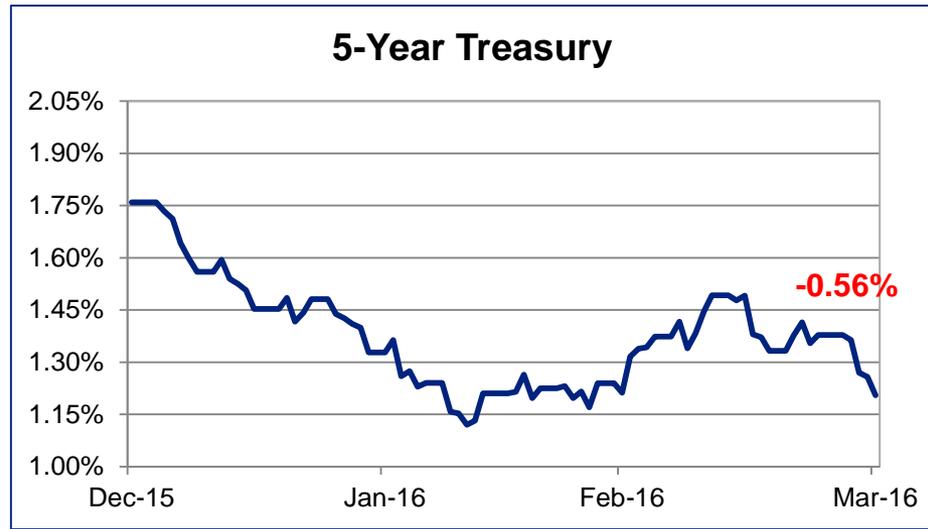
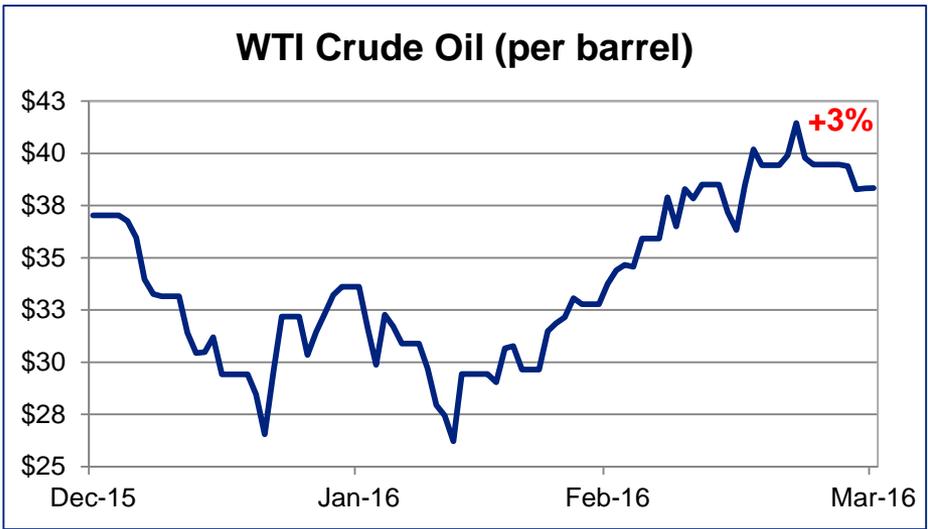
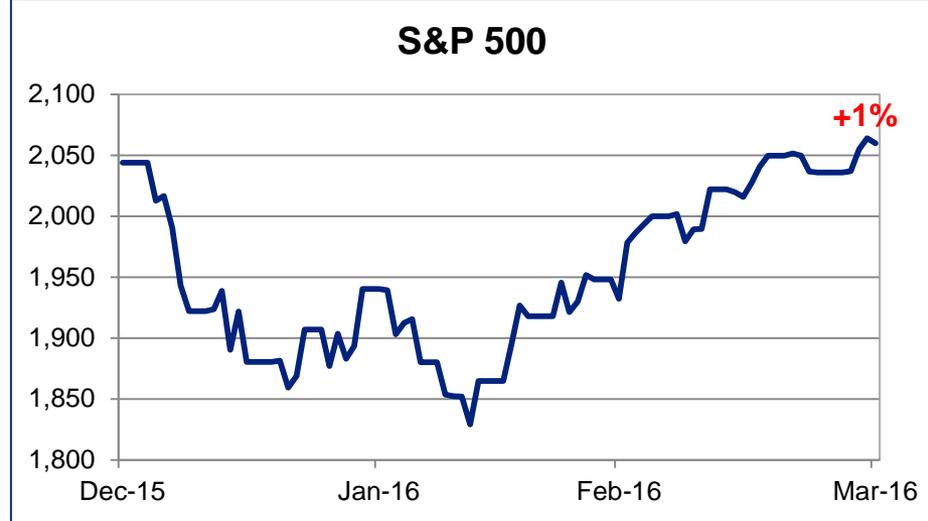
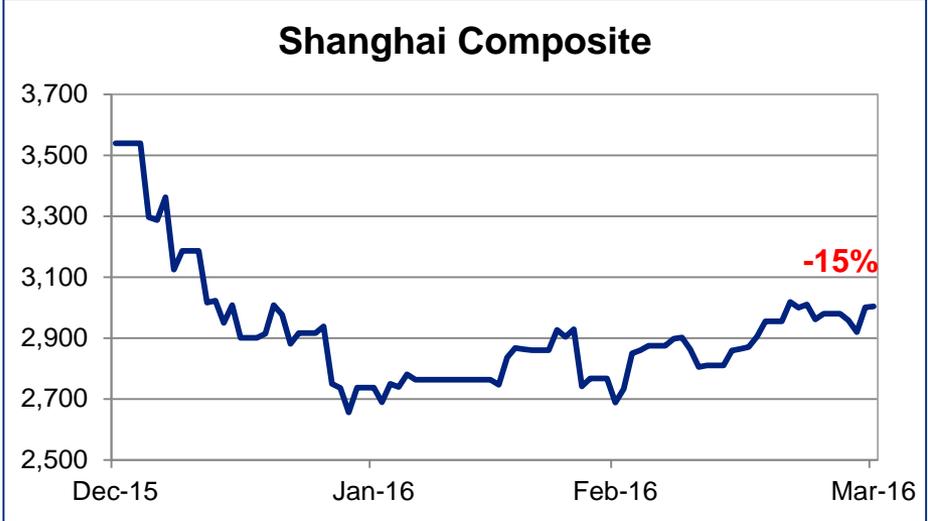
1820 East Ray Road
Chandler, AZ 85225
855-885-9621
brantl@pfm.com/woop@pfm.com

Rough Start to 2016



Source: Bloomberg

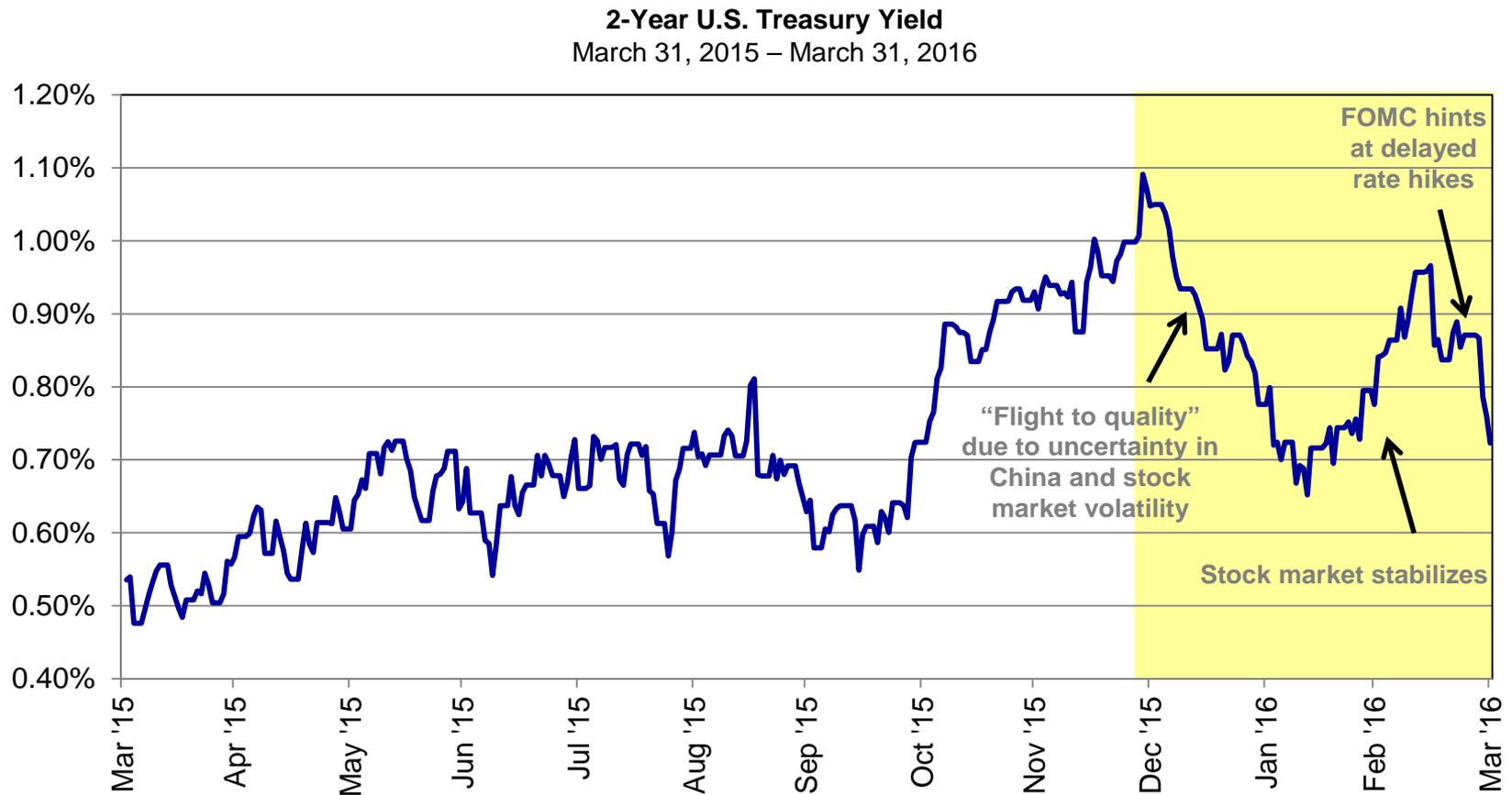
But, Significant Reversal Ensued



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.



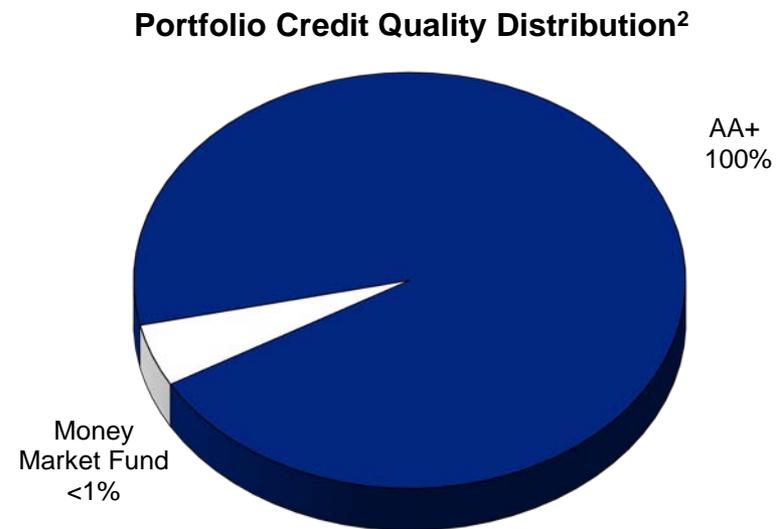
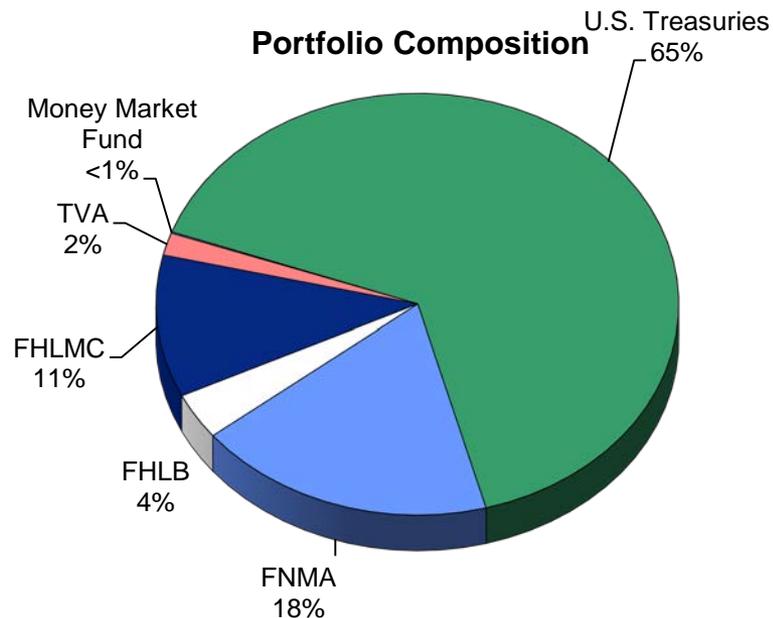
Source: Bloomberg

First Quarter Strategy 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 Composition and Credit Quality Characteristics

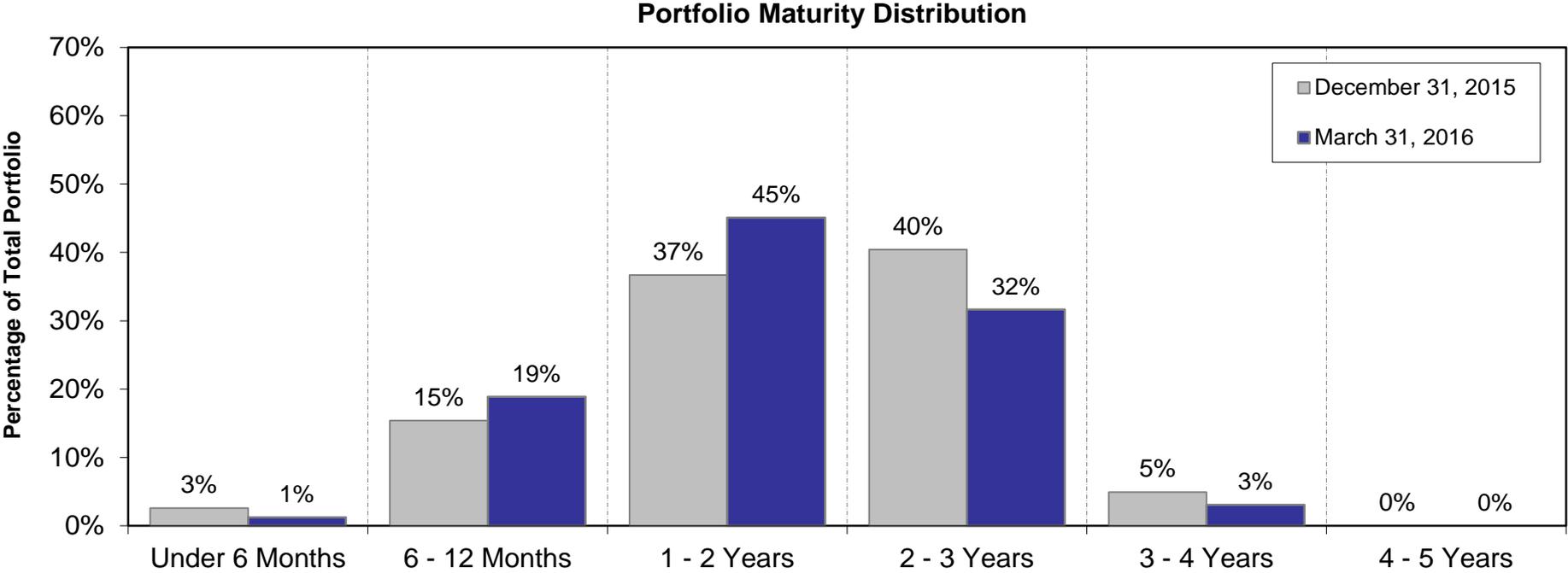
Security Type ¹	March 31, 2016	% of Portfolio	% Change From Prior Quarter	Permitted by Policy
U.S. Treasuries	\$10,093,923.77	65%	-13%	100%
Federal Agencies	\$5,360,105.55	35%	+13%	100%
<i>FNMA</i>	\$2,862,019.87	18%	+11%	-
<i>FHLB</i>	\$551,007.42	4%	-1%	-
<i>FHLMC</i>	\$1,681,131.91	11%	+3%	-
<i>TVA</i>	\$265,946.35	2%	-	-
Money Market Fund	\$17,030.29	<1%	-	-
Total	\$15,471,059.61	100%		



1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
 2. Ratings by Standard and Poor's.

Portfolio Maturity Distribution

Maturity Distribution	March 31, 2016	December 31, 2015
Under 6 Months	\$192,028.13	\$396,369.43
6 - 12 Months	\$2,925,225.93	\$2,359,921.04
1 - 2 Years	\$6,977,018.28	\$5,627,008.32
2 - 3 Years	\$4,899,773.98	\$6,193,732.25
3 - 4 Years	\$477,013.29	\$753,429.16
4 - 5 Years	\$0.00	\$0.00
Totals	\$15,471,059.61	\$15,330,460.20



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 Town's allocation to agencies by 13% over the quarter. Agency purchases included three 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	\$640,000	1.40%
2/19/16	FNMA Notes	2/26/19	\$750,000	1.08%
3/2/16	FNMA Notes	3/28/18	\$750,000	0.97%
3/30/16	FHLMC Notes	4/15/19	\$475,000	1.05%

**Bold indicates new issue*

Duration Extension Trades

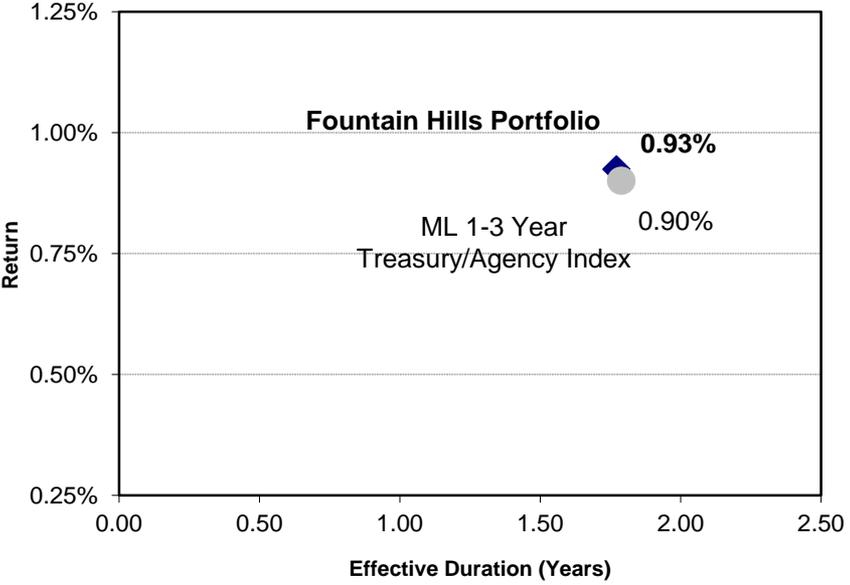
- Our current duration target is modestly short of the benchmark, due to elevated market volatility.
- As the portfolio's duration drifted shorter, we utilized U.S. Treasury Notes to extend duration, as well as to lock in an attractive yield. The following trades extended the portfolio by 2.60 years.

Trade Date	Trade Type	Security	Maturity	Par Value	Yield
2/1/16	Buy	U.S. Treasury Notes	2/28/19	\$350,000	1.02%
2/1/16	Sell	U.S. Treasury Notes	6/30/16	\$350,000	0.46%
3/2/16	Buy	U.S. Treasury Notes	3/31/19	\$525,000	1.05%
3/2/16	Sell	FNMA Notes	9/28/16	\$225,000	0.56%
3/2/16	Sell	U.S. Treasury Notes	8/31/16	\$285,000	0.52%

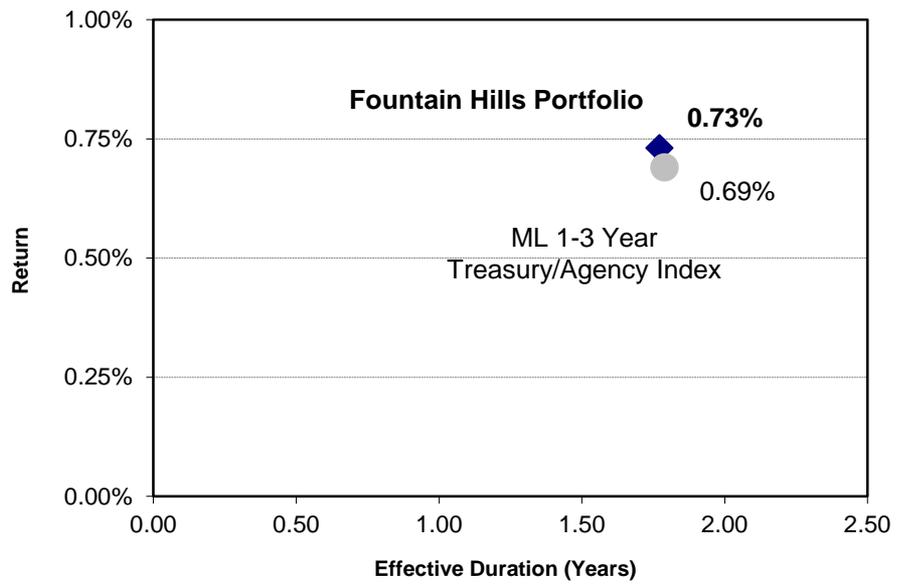
Portfolio Performance

Total Return ^{1,2,3,4}	Quarter Ended March 31, 2016	Past 12 Months	Past 2 Years	Past 3 Years	Since Inception
Fountain Hills Portfolio	0.93%	0.99%	0.96%	0.75%	0.73%
ML 1-3 Year Treasury/Agency Index	0.90%	0.93%	0.97%	0.78%	0.69%
Effective Duration	March 31, 2016	December 31, 2015	Yields	March 31, 2016	December 31, 2015
Fountain Hills Portfolio	1.77	1.78	Yield at Market	0.75%	1.05%
ML 1-3 Year Treasury/Agency Index	1.79	1.79	Yield on Cost	0.94%	0.89%

Quarter Total Return Comparison



Since Inception Total Return Comparison



1. Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than one year are presented on an annualized basis.
4. Inception date is December 31, 2011.

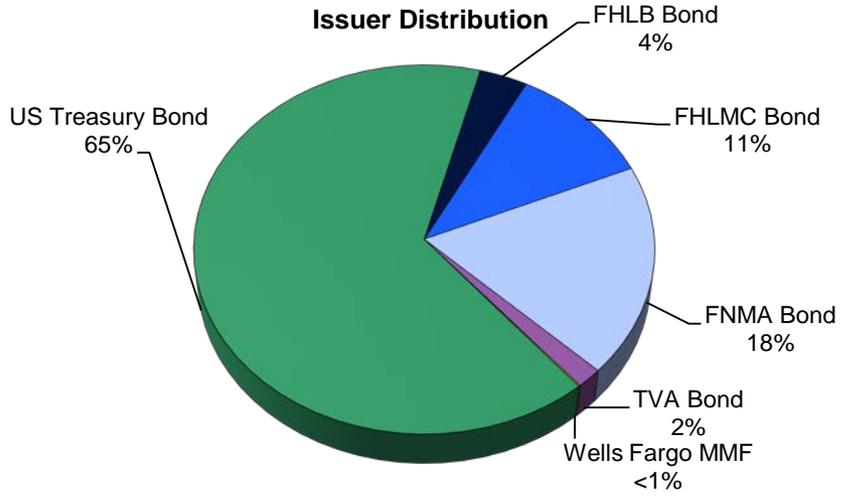
Second Quarter Outlook and Strategy

- 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.

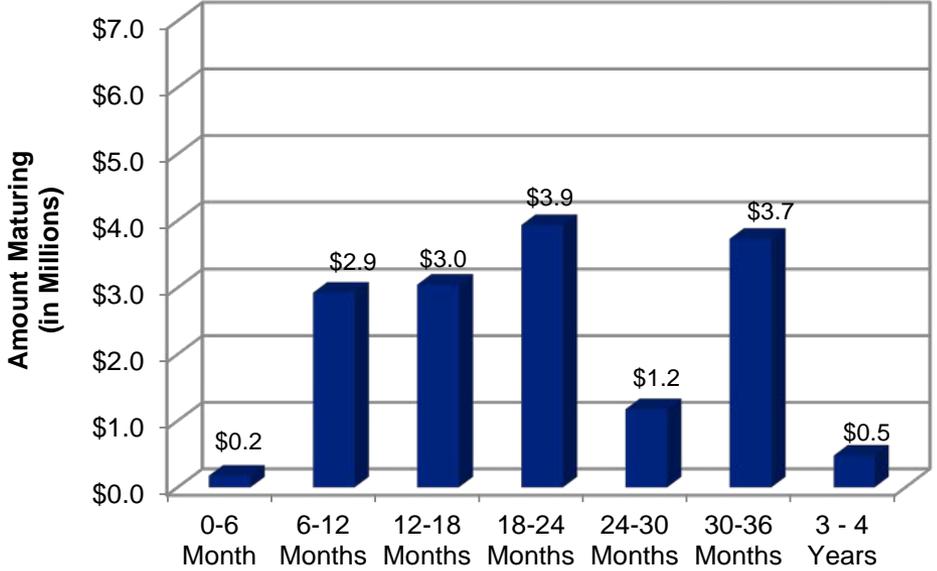
Town of Fountain Hills Portfolio Summary

Summary By Type	Book Value	Market Value ¹	Days to Maturity	% of Portfolio	% Allowed per Policy	YTM @ Cost
U.S. Treasury Bond	\$10,059,476	\$10,093,924	610	65.24%	100%	0.91%
FHLB Bond	\$550,916	\$551,007	219	3.56%	100%	0.57%
FHLMC Bond	\$1,678,385	\$1,681,132	617	10.87%	100%	0.88%
FNMA Bond	\$2,841,415	\$2,862,020	935	18.50%	100%	1.15%
TVA Bond	\$265,630	\$265,946	624	1.72%	100%	1.01%
Wells Fargo MMF	\$17,030	\$17,030	1	0.11%	N/A	0.01%
Total including cash	\$15,412,852	\$15,471,060	656	100.00%		0.94%
Total without cash	\$15,395,821	\$15,454,029				0.94%

Summary by Issuer	Book Value	% of Portfolio
U.S. Treasury	\$10,059,476	65.27%
FHLB	\$550,916	3.57%
FHLMC	\$1,678,385	10.89%
FNMA	\$2,841,415	18.44%
TVA Bond	\$265,630	1.72%
Wells Fargo	\$17,030	0.11%
Total	\$15,412,852	100%



Maturity Distribution²



Weighted Average Maturity (in years)	1.80
Duration Allowed by Policy	5.00
Current Portfolio Duration Including Cash	1.77
Current Portfolio Duration Without Cash	1.77

1. Market values of portfolio holdings include accrued interest.
 2. Excludes Money Market Balance.



Managed Account Detail of Securities Held

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

TOWN OF FOUNTAIN HILLS, OPERATING FUNDS

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 11/30/2011 0.875% 11/30/2016	912828RU6	400,000.00	AA+	Aaa	12/03/13	12/04/13	403,578.13	0.57	1,176.23	400,799.91	400,953.20
US TREASURY NOTES DTD 11/30/2011 0.875% 11/30/2016	912828RU6	450,000.00	AA+	Aaa	10/31/13	11/01/13	453,480.47	0.62	1,323.26	450,755.97	451,072.35
US TREASURY NOTES DTD 01/03/2012 0.875% 12/31/2016	912828RX0	100,000.00	AA+	Aaa	12/05/14	12/09/14	100,375.00	0.69	221.15	100,136.65	100,214.80
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	525,000.00	AA+	Aaa	03/19/14	03/21/14	526,209.96	0.92	14.34	525,402.40	526,927.80
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	650,000.00	AA+	Aaa	10/02/14	10/06/14	653,173.83	0.80	17.76	651,282.12	652,386.80
US TREASURY NOTES DTD 05/31/2012 0.625% 05/31/2017	912828SY7	825,000.00	AA+	Aaa	06/02/14	06/03/14	820,423.83	0.81	1,732.84	823,206.85	824,516.55
US TREASURY NOTES DTD 07/02/2012 0.750% 06/30/2017	912828TB6	550,000.00	AA+	Aaa	10/30/14	11/03/14	549,441.41	0.79	1,042.58	549,736.86	550,515.90
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	50,000.00	AA+	Aaa	02/06/15	02/10/15	49,582.03	0.84	41.90	49,773.72	49,876.95
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	130,000.00	AA+	Aaa	07/01/14	07/07/14	128,197.26	0.96	108.93	129,210.33	129,680.07
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	700,000.00	AA+	Aaa	02/02/15	02/04/15	697,785.16	0.63	586.54	698,810.21	698,277.30
US TREASURY NOTES DTD 09/30/2010 1.875% 09/30/2017	912828PA2	625,000.00	AA+	Aaa	09/02/14	09/04/14	640,673.83	1.04	32.02	632,705.13	635,791.25
US TREASURY NOTES DTD 12/31/2012 0.750% 12/31/2017	912828UE8	300,000.00	AA+	Aaa	12/01/14	12/03/14	298,535.15	0.91	568.68	299,163.25	300,105.60
US TREASURY NOTES DTD 01/31/2013 0.875% 01/31/2018	912828UJ7	675,000.00	AA+	Aaa	12/28/15	12/30/15	671,677.73	1.11	989.78	672,080.35	676,740.15
US TREASURY NOTES DTD 04/01/2013 0.750% 03/31/2018	912828UU2	200,000.00	AA+	Aaa	02/26/15	02/27/15	198,234.37	1.04	4.10	198,851.72	199,984.40



Managed Account Detail of Securities Held

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

TOWN OF FOUNTAIN HILLS, OPERATING FUNDS

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	1,100,000.00	AA+	Aaa	03/26/15	03/27/15	1,092,007.81	1.00	22.54	1,094,672.10	1,099,914.20
US TREASURY NOTES DTD 04/30/2013 0.625% 04/30/2018	912828UZ1	275,000.00	AA+	Aaa	04/28/15	04/30/15	272,787.11	0.90	722.44	273,459.77	274,183.53
US TREASURY NOTES DTD 04/30/2013 0.625% 04/30/2018	912828UZ1	900,000.00	AA+	Aaa	05/28/15	05/29/15	891,281.25	0.96	2,364.35	893,769.01	897,327.90
US TREASURY NOTES DTD 09/30/2011 1.375% 09/30/2018	912828RH5	500,000.00	AA+	Aaa	10/08/15	10/09/15	506,406.25	0.94	18.78	505,389.07	507,070.50
US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	185,000.00	AA+	Aaa	11/05/15	11/09/15	185,375.78	1.18	777.15	185,328.44	187,059.61
US TREASURY NOTES DTD 12/31/2013 1.500% 12/31/2018	912828A75	375,000.00	AA+	Aaa	12/01/15	12/04/15	378,178.71	1.22	1,421.70	377,847.59	381,753.00
US TREASURY NOTES DTD 03/31/2014 1.625% 03/31/2019	912828C65	525,000.00	AA+	Aaa	03/02/16	03/04/16	534,105.47	1.05	23.31	533,883.74	536,361.53
Security Type Sub-Total		10,040,000.00					10,051,510.54	0.91	13,210.38	10,046,265.19	10,080,713.39

Federal Agency Bond / Note											
FHLB NOTES DTD 08/07/2014 0.500% 09/28/2016	3130A2T97	175,000.00	AA+	Aaa	08/06/14	08/07/14	174,606.25	0.61	7.29	174,909.13	174,990.55
FHLB NOTES DTD 11/17/2014 0.625% 11/23/2016	3130A3J70	375,000.00	AA+	Aaa	01/21/15	01/22/15	375,471.59	0.56	833.33	375,166.16	375,176.25
FHLMC REFERENCE NOTE DTD 01/16/2015 0.500% 01/27/2017	3137EADU0	415,000.00	AA+	Aaa	01/15/15	01/16/15	414,273.75	0.59	368.89	414,704.91	414,539.77
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	350,000.00	AA+	Aaa	03/19/15	03/20/15	351,190.00	0.85	612.50	350,672.62	351,264.55
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	435,000.00	AA+	Aaa	08/12/14	08/14/14	434,970.86	1.00	761.25	434,987.03	436,571.66
TENNESSEE VALLEY AUTHORITY NOTES DTD 12/22/1997 6.250% 12/15/2017	880591CU4	240,000.00	AA+	Aaa	08/18/15	08/19/15	268,794.24	1.01	4,416.67	261,212.86	261,529.68



Managed Account Detail of Securities Held

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

TOWN OF FOUNTAIN HILLS, OPERATING FUNDS

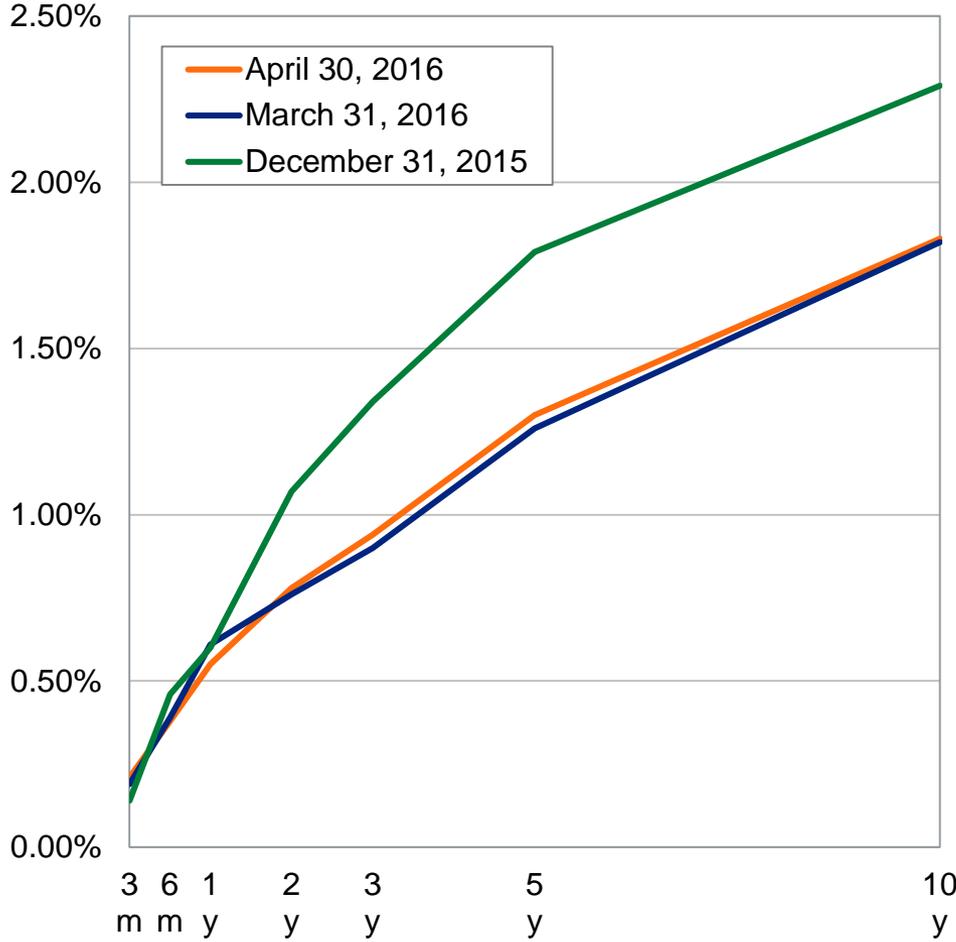
Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Federal Agency Bond / Note											
FNMA NOTE DTD 03/04/2016 0.875% 03/28/2018	3135G0J61	750,000.00	AA+	Aaa	03/02/16	03/04/16	748,500.00	0.97	54.69	748,553.04	751,275.00
FNMA BENCHMARK NOTE DTD 09/01/2015 1.125% 10/19/2018	3135G0E58	700,000.00	AA+	Aaa	08/27/15	09/01/15	698,866.00	1.18	3,543.75	699,072.17	704,879.70
FNMA BENCHMARK NOTE DTD 01/08/2016 1.375% 01/28/2019	3135G0H63	640,000.00	AA+	Aaa	01/06/16	01/08/16	639,603.20	1.40	1,540.00	639,631.21	648,338.56
FNMA BENCHMARK NOTE DTD 02/23/2016 1.000% 02/26/2019	3135G0J53	750,000.00	AA+	Aaa	02/19/16	02/23/16	748,230.00	1.08	729.17	748,291.10	751,659.00
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	475,000.00	AA+	Aaa	03/30/16	03/31/16	476,130.50	1.05	148.44	476,129.49	476,864.85
Security Type Sub-Total		5,305,000.00					5,330,636.39	1.00	13,015.98	5,323,329.72	5,347,089.57
Managed Account Sub-Total		15,345,000.00					15,382,146.93	0.94	26,226.36	15,369,594.91	15,427,802.96
Securities Sub-Total		\$15,345,000.00					\$15,382,146.93	0.94%	\$26,226.36	\$15,369,594.91	\$15,427,802.96
Accrued Interest											\$26,226.36
Total Investments											\$15,454,029.32



Economic Update

Interest Rate Update

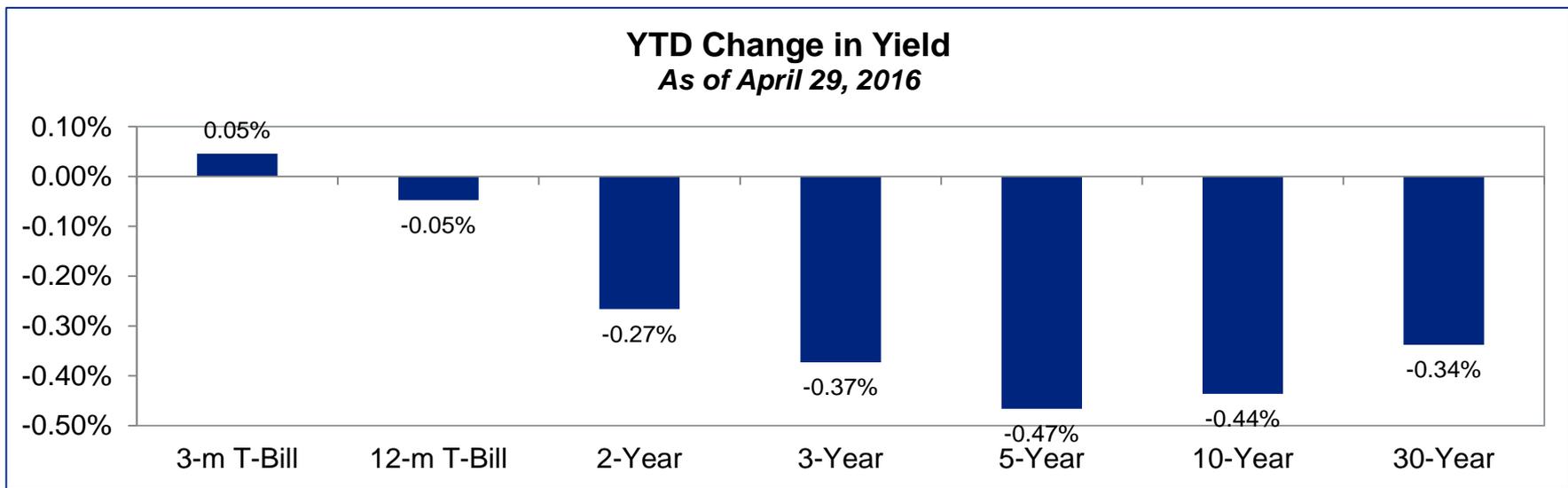
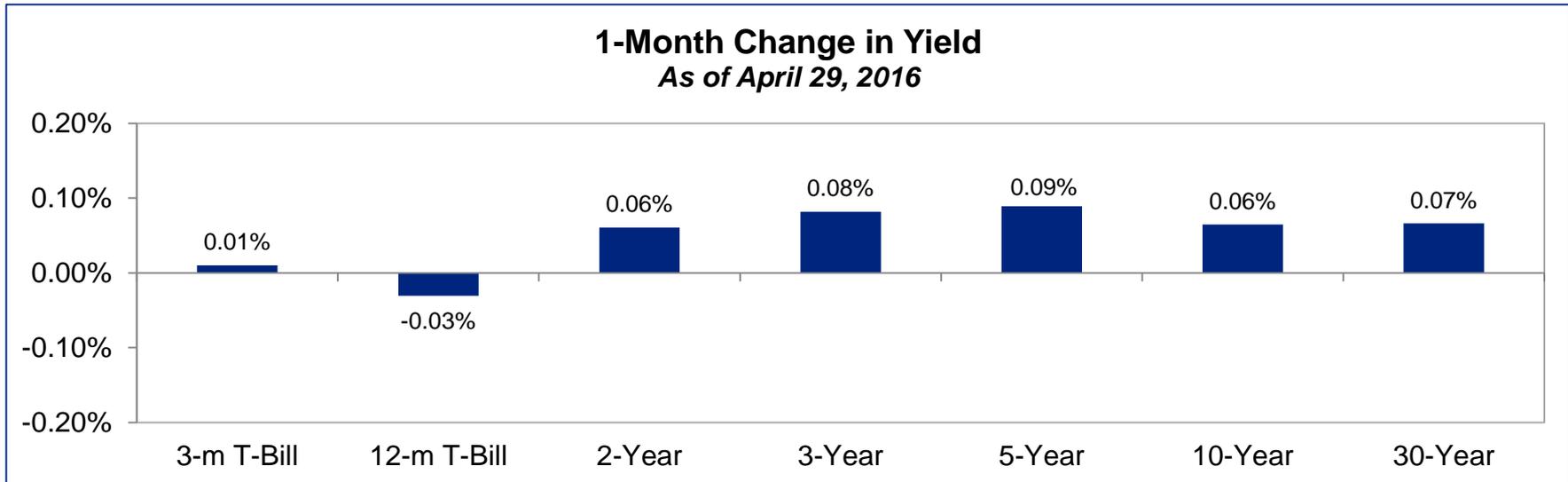
U.S. Treasury Yield Curves



	4/30/16	12/31/15	Δ
3 month	0.21%	0.14%	+0.07%
6 month	0.38%	0.46%	-0.08%
1 year	0.55%	0.60%	-0.05%
2 year	0.78%	1.07%	-0.29%
3 year	0.94%	1.34%	-0.40%
5 year	1.30%	1.79%	-0.49%
10 year	1.83%	2.29%	-0.46%
30 year	2.68%	3.03%	-0.35%

Source: Bloomberg

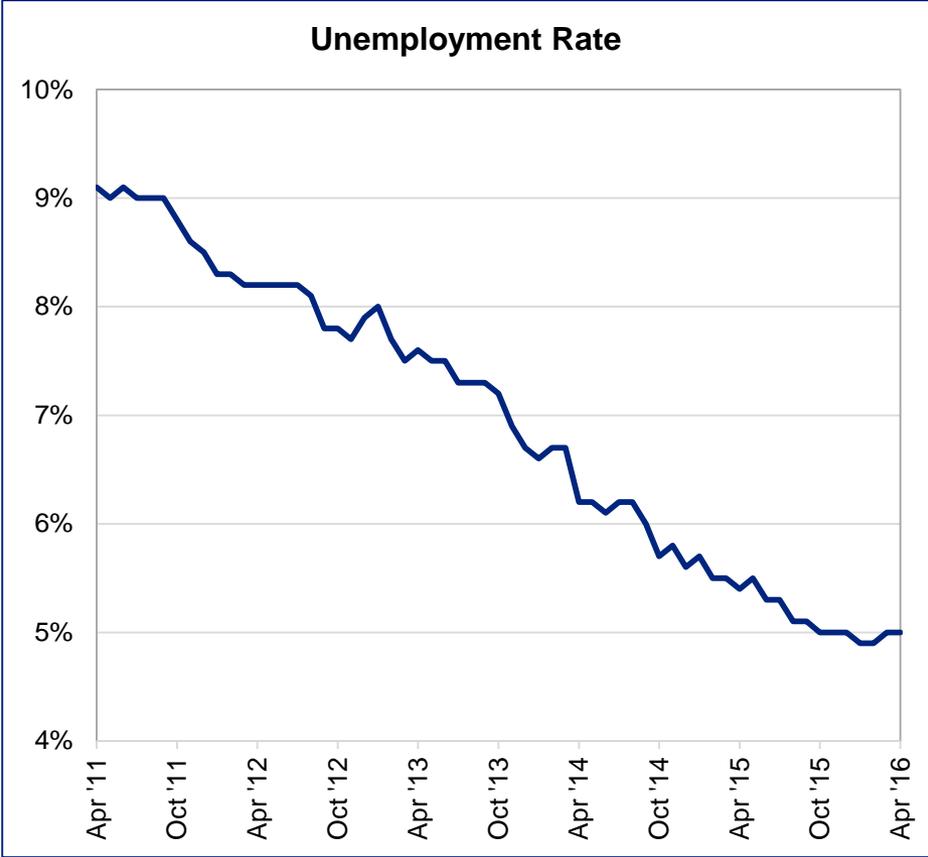
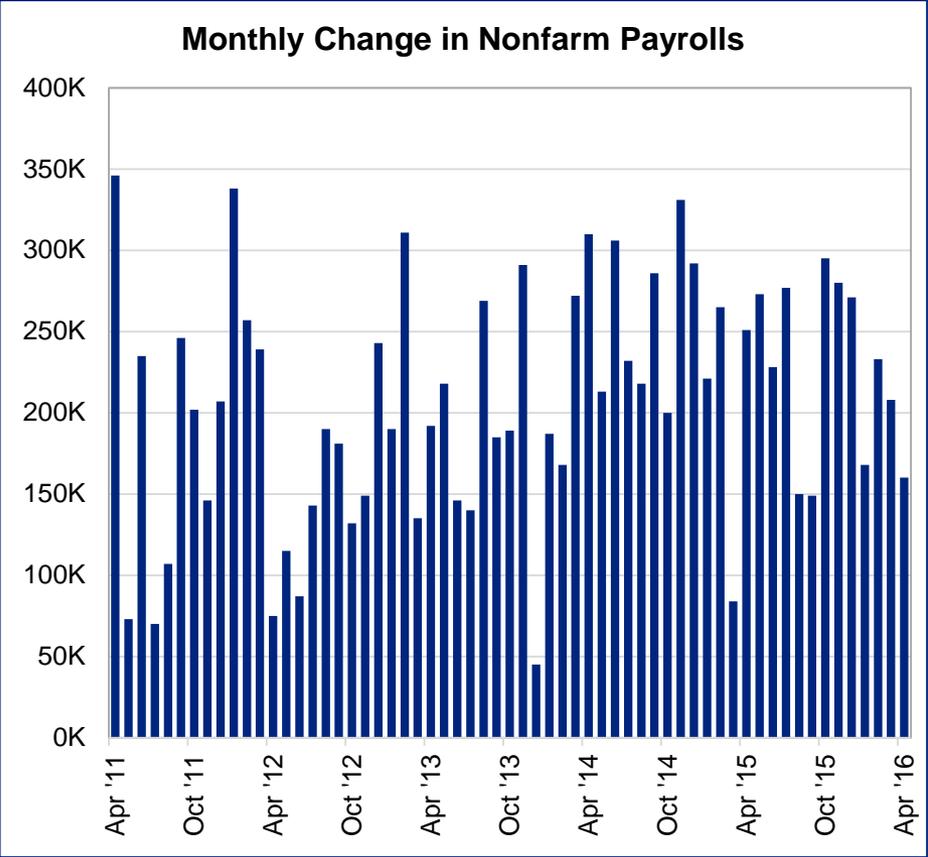
Interest Rate Update



Source: Bloomberg

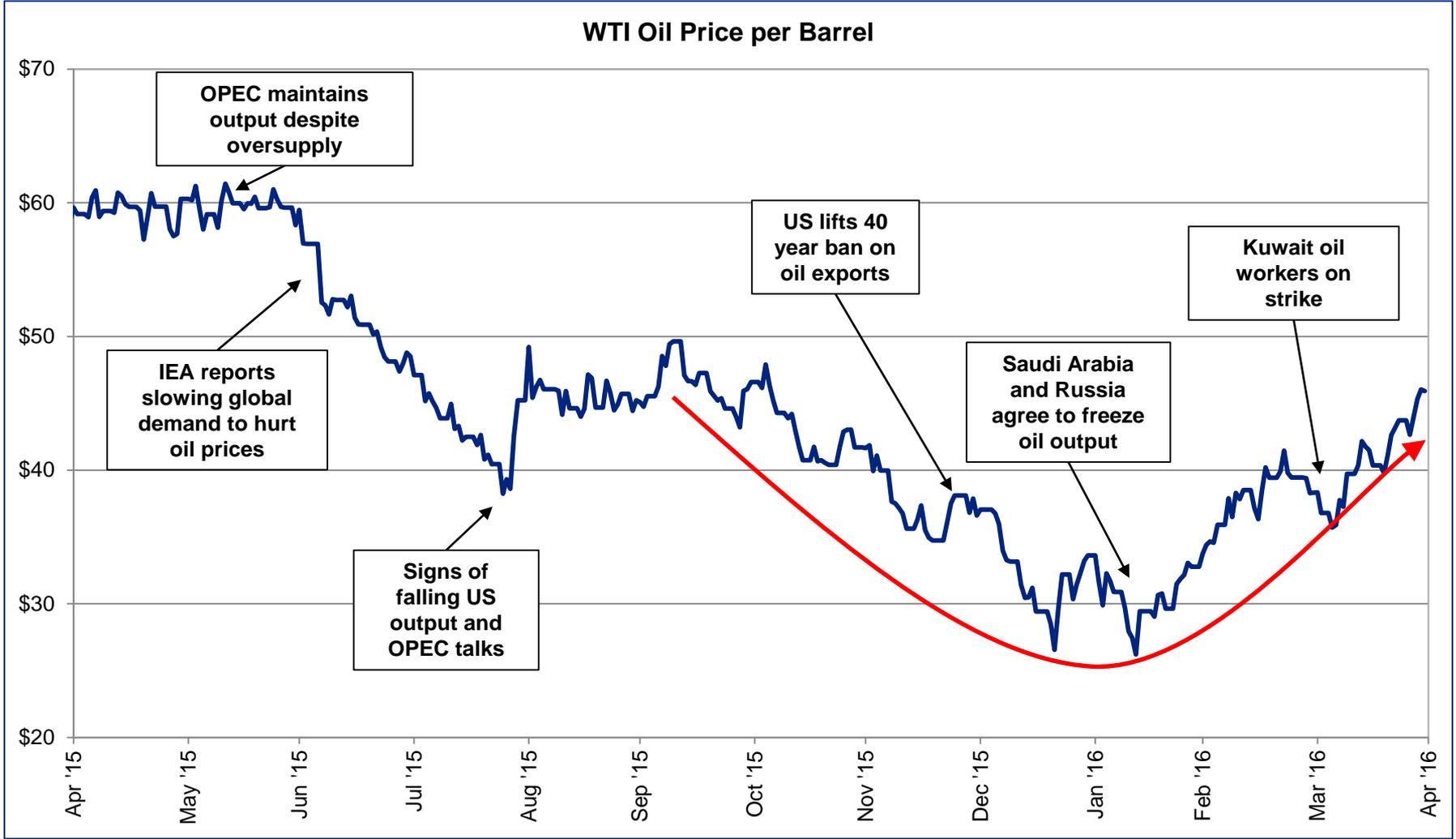
Mixed Signs in the Labor Market

- The U.S. labor market added 160,000 jobs in April, falling short of the the 200,000 median expectation. The unemployment rate remained at 5.0% as the participation rate declined back below 63% to 62.8%.
- However, job openings hit an eight-month high in March, rising 3.9%, reflecting that there is currently a strong demand for labor.



Source: Bureau of Labor Statistics

Oil Prices Continue to Generate Volatility



Source: Bloomberg

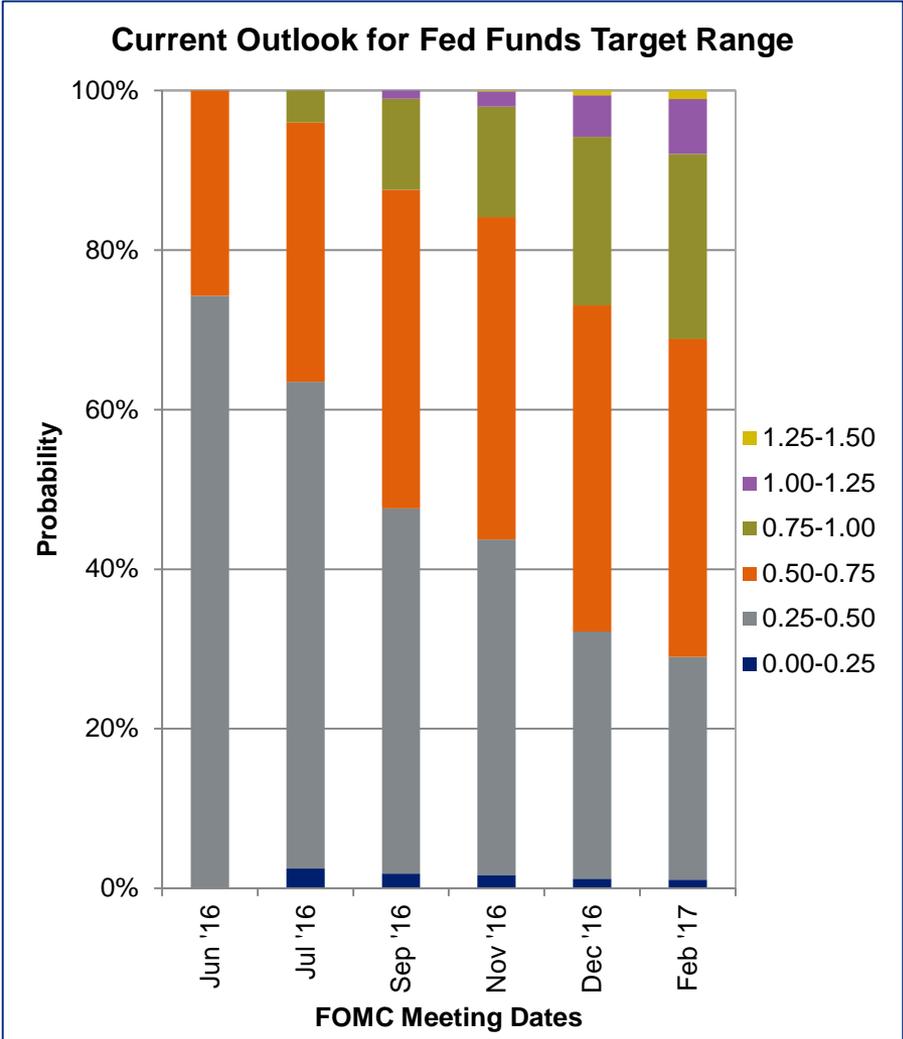
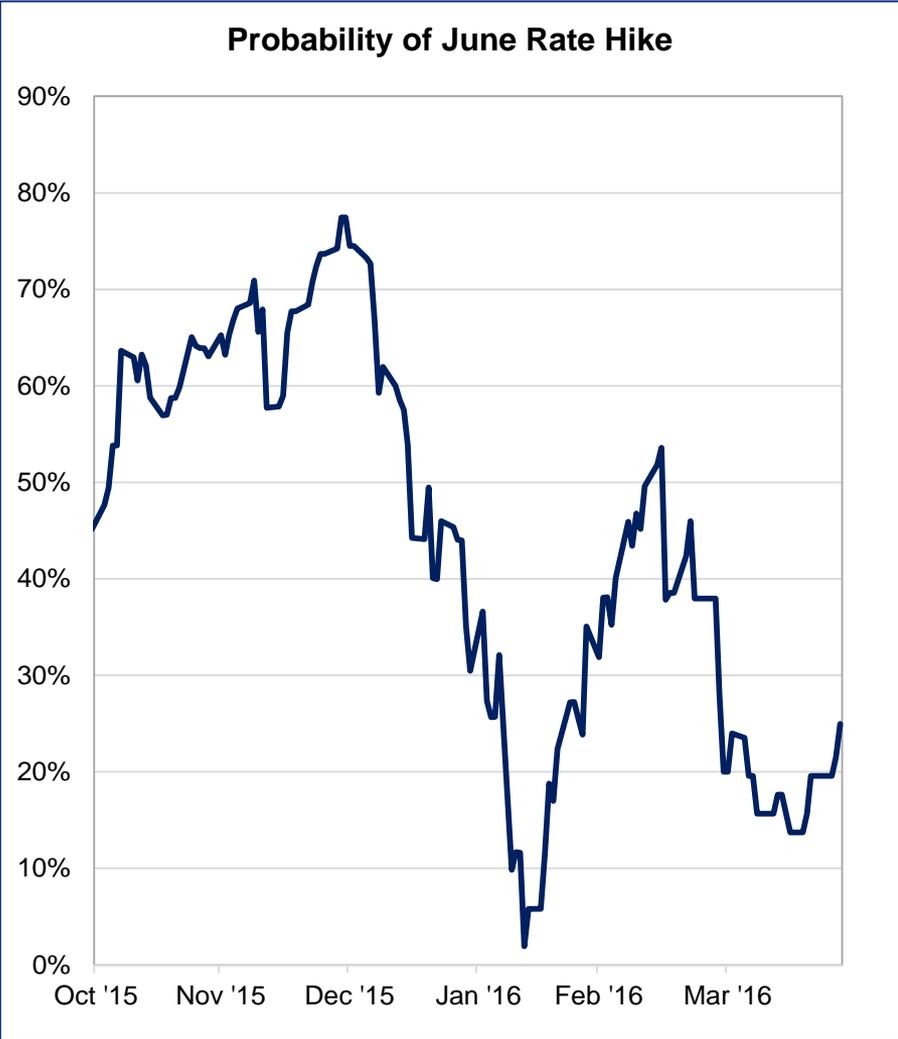
April FOMC Statement Highlights

April

27

- **Labor market conditions have improved further even as growth in economic activity appears to have slowed.** Growth in household spending has moderated, although households' **real income has risen at a solid rate** and consumer sentiment remains high.
- **Inflation has continued to run below the Committee's 2% longer-run objective**, partly reflecting earlier declines in energy prices and falling prices of non-energy imports. Market-based measures of inflation compensation remain low... **inflation is expected to remain low in the near term.**
- The Committee continues to closely monitor inflation indicators and **global economic and financial developments.**
- Against this backdrop, **the Committee decided to maintain the target range for the federal funds rate at 0.25 – 0.50%. The stance of monetary policy remains accommodative...**
- In light of the current shortfall of inflation from 2%, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant **only gradual increases in the federal funds rate.**

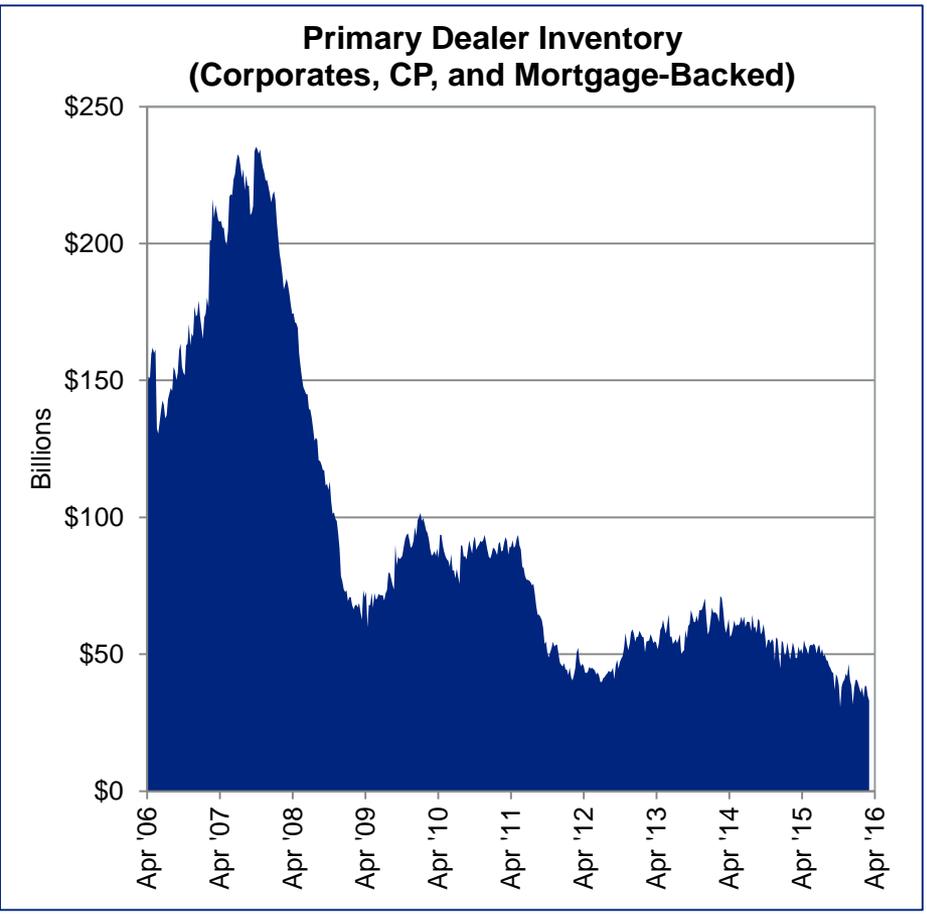
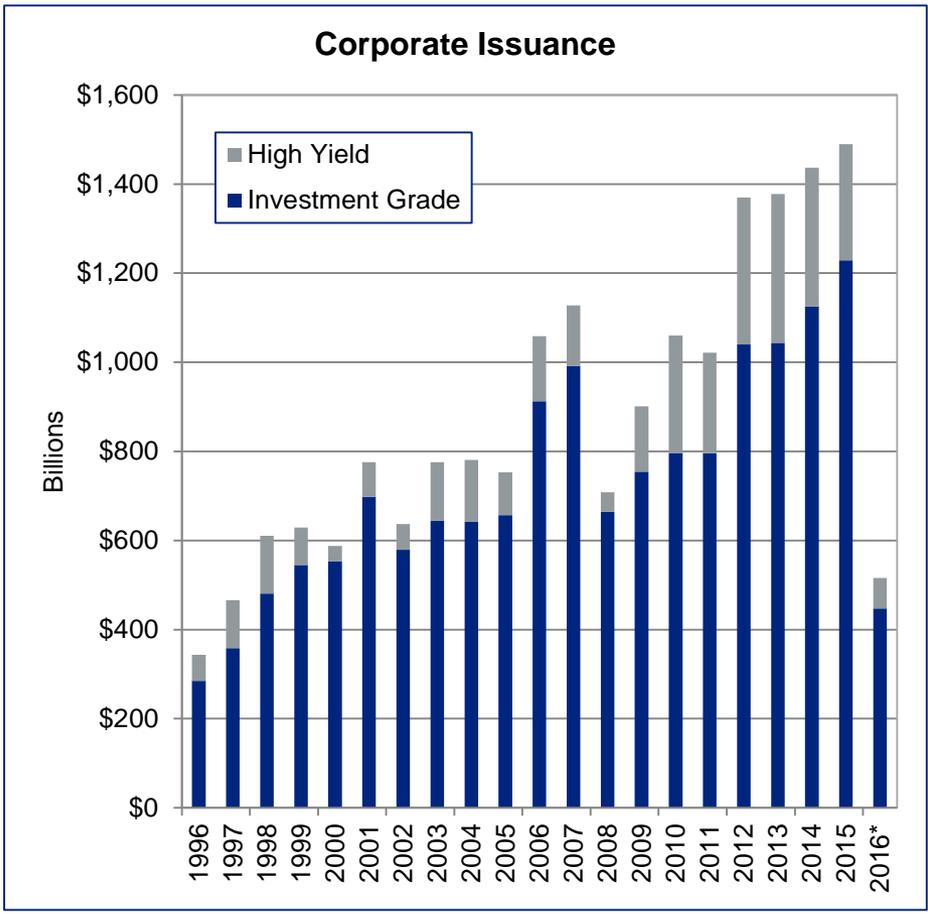
Outlook for the Fed Funds Target Rate



Source: Bloomberg WIRP as of 4/27/16.

Corporate Issuance Rises

- While primary market issuance remains robust, dealer inventories are at their lowest levels in at least 14 years.

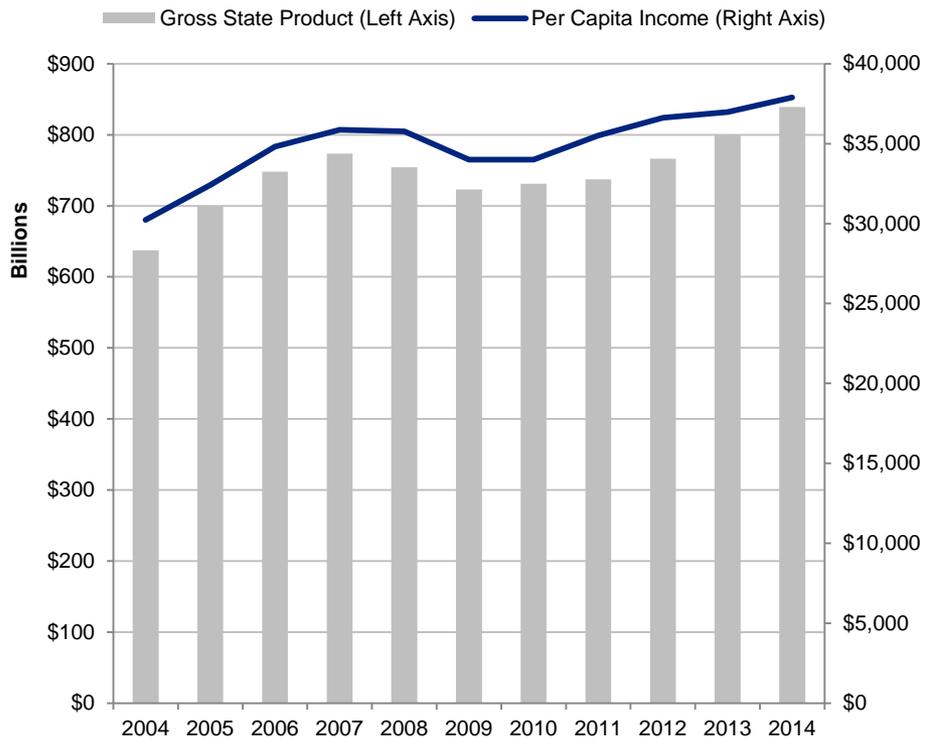


Source: Corporate issuance from SIFMA as of 04/29/16. *2016 is YTD. Dealer Inventory from MarketAxess as of 04/18/2016.

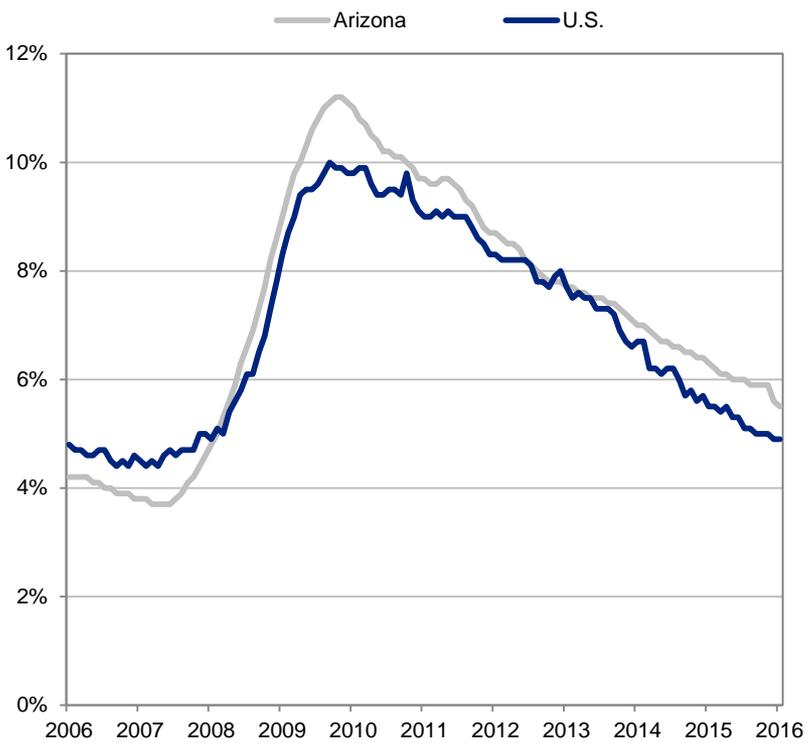
Arizona's Economy Remains Steady

- The State continues to see modest improvements in the labor market and population growth.
- Although low oil and gasoline prices have adversely impacted oil-producing states such as Texas and Oklahoma, the lower energy costs have resulted in a net positive for Arizona.

**State of Arizona
Gross State Product and Per Capita Income**



Unemployment Rate



Source: Bloomberg, AZEconomy.org

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