



TOWN OF FOUNTAIN HILLS

Investment Performance Review For the Quarter Ended June 30, 2017

Client Management Team

Lauren Brant, Managing Director
Robert Cheddar, CFA, Managing Director/Senior Portfolio Manager
Paulina Woo, Director
Luke Schneider, CFA, Director

PFM Asset Management LLC

1820 East Ray Road
Chandler, AZ 85225
855-885-9621

One Keystone Plaza, Suite 300
Harrisburg, PA 17101-2044
717-232-2723

QUARTERLY MARKET SUMMARY

SUMMARY

- Despite mixed economic data, and political and policy difficulties in the U.S., market conditions were characterized by investor optimism amid very low volatility. Bond yields were relatively well behaved during the quarter, credit spreads narrowed further, and equity markets moved higher still.
- For the second time this year, the Federal Open Market Committee (FOMC) raised the federal funds rate by 0.25%, setting a new target range of 1.00% to 1.25% for the overnight benchmark rate. The FOMC's latest economic forecasts and "dot plot" were largely unchanged. The Federal Reserve (the Fed) is still forecasting one more rate hike this year, although market-implied probabilities show only about a 50% chance of a hike in the second half of the year.
- Perhaps just as important, the Fed announced plans to gradually reduce the size of its balance sheet by decreasing its reinvestment of principal payments on existing holdings. The reduction will be \$10 billion per month, initially, and will increase in steps of \$10 billion per month at three-month intervals until it reaches \$50 billion per month. The specific timetable is likely to be announced later this year.
- U.S. equity markets had another strong quarter. In the past three months, all three major U.S. indices hit new all-time highs. The S&P 500 Index (S&P 500) returned 3.1% and is up 9.3% for the first half of the year. The Health Care and Industrial sectors were the strongest performers during the quarter.

ECONOMIC SNAPSHOT

- U.S. economic data released in June was below expectations. While business investment accelerated, it was partly offset by weak consumer spending and a slowdown in government spending and inventories. On the positive side, the labor market remained strong, consumer confidence remained high, business surveys were optimistic, and the housing market returned to near pre-crisis levels. Second quarter gross domestic product (GDP) growth is expected to show a rebound from the weak 1.4% growth rate of the first quarter.
- The labor market remained strong in the second quarter as the U.S. economy added 581,000 net new jobs, the most since the third quarter of 2016. The unemployment rate declined to a 16-year low, ending the quarter at 4.4%, but the labor force participation rate remained suppressed. At the same time, wage growth remained tepid as average hourly earnings rose only 2.5% year-over-year (YoY) in June. The lack of wage pressures—a key driver of inflation—seems to indicate further slack remains in the labor market despite strong job gains.

INTEREST RATES

- Short-term (three years and under) yields ended the second quarter higher, reflecting the Fed's June rate hike, while medium- to long-term yields declined amid subdued inflation expectations and fading prospects for near-term stimulus from tax reform or infrastructure spending.
- The two-year Treasury note yield ended the quarter 13 basis points (bps) (0.13%) higher at 1.38%, while the 10-year Treasury yield fell 8 bps (0.08%) to 2.30%. The result was a notably flatter yield curve, which reduced the incentive to invest in longer maturities.
- In the money market space, shorter-term Treasury yields continued to rise, reflecting the Fed's June rate hike, but beyond 6-month maturities, yields flattened out. Yield spreads on commercial paper (CP) and certificates of deposit (CD) relative to U.S. Treasuries continued to narrow from their exceptionally wide levels of late 2016 and early 2017. CP/CD spreads now offer only modest incremental yield, similar to long-standing averages, and are considered fair value.

SECTOR PERFORMANCE

- U.S. Treasury indices posted positive returns in the second quarter. Returns for shorter indices were generated mostly by income, offset by modest price depreciation as yields on shorter maturities increased. Returns on longer Treasury indices were quite strong, benefitting from both income return and price appreciation from falling long-term rates and a flattening yield curve.
- Federal agency yield spreads tightened during the quarter as demand continued to outpace supply. The sector modestly outperformed comparable-duration Treasuries for the fourth quarter in a row.
- Corporate yield spreads tightened further during the quarter, reaching their narrowest levels since 2014 as the reach for yield continued globally. The sector generated strong outperformance relative to comparable-maturity Treasuries, its seventh straight quarter of outperformance.
- Shorter-duration mortgage-backed securities (MBS) outperformed Treasuries, but longer-duration structures could not keep pace. MBS remains at risk from the expected reduction in the Fed's balance sheet holdings later this year.
- For the second quarter in a row, asset-backed securities (ABS) posted strong outperformance versus Treasuries. Spreads across nearly all credit sectors tightened, including ABS.

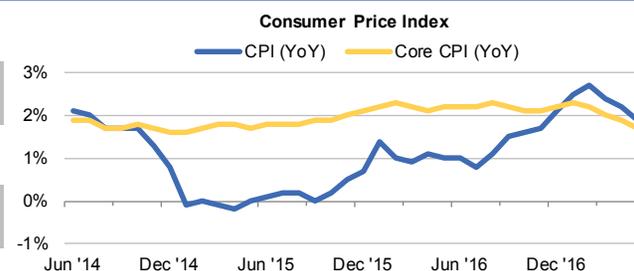
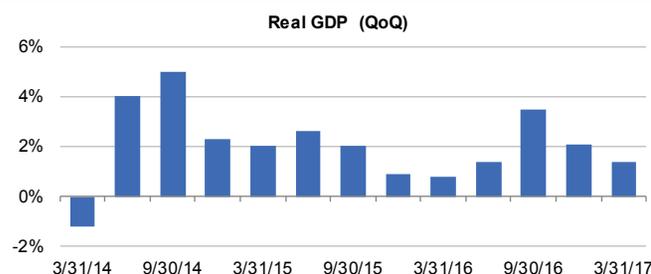
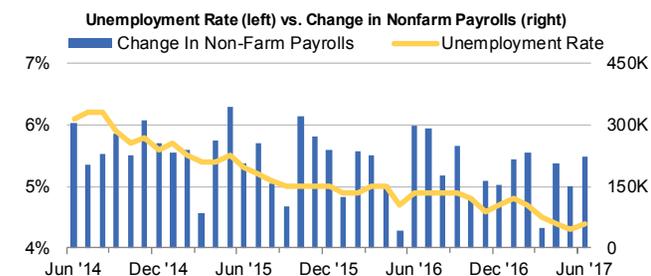
QUARTERLY MARKET SUMMARY

Economic Snapshot

Labor Market		Latest	Mar '17	Jun '16
Unemployment Rate	Jun'17	4.4%	4.5%	4.9%
Change In Non-Farm Payrolls	Jun'17	222,000	50,000	297,000
Average Hourly Earnings (YoY)	Jun'17	2.5%	2.6%	2.6%
Personal Income (YoY)	May'17	3.5%	3.9%	3.4%
Initial Jobless Claims (week)	7/1/17	248,000	235,000	267,000

Growth				
Real GDP (QoQ SAAR)	2017Q1	1.4%	1.4% ¹	1.4% ²
GDP Personal Consumption (QoQ SAAR)	2017Q1	1.1%	1.1% ¹	4.3% ²
Retail Sales (YoY)	May'17	3.8%	4.8%	3.0%
ISM Manufacturing Survey (month)	Jun'17	57.8	57.2	52.8
Existing Home Sales SAAR (month)	May'17	5.62 mil.	5.70 mil.	5.48 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	May'17	1.4%	1.8%	0.9%
Consumer Price Index (YoY)	May'17	1.9%	2.4%	1.0%
Consumer Price Index Core (YoY)	May'17	1.7%	2.0%	2.2%
Crude Oil Futures (WTI, per barrel)	Jun 30	\$46.04	\$50.60	\$48.33
Gold Futures (oz.)	Jun 30	\$1,242	\$1,247	\$1,321



1. Data as of First Quarter 2017.

2. Data as of Second Quarter 2016.

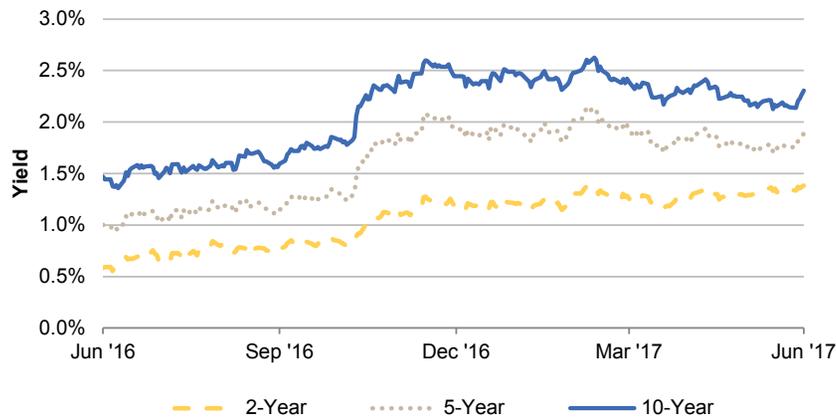
Note: YoY = year-over-year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil.

Source: Bloomberg.

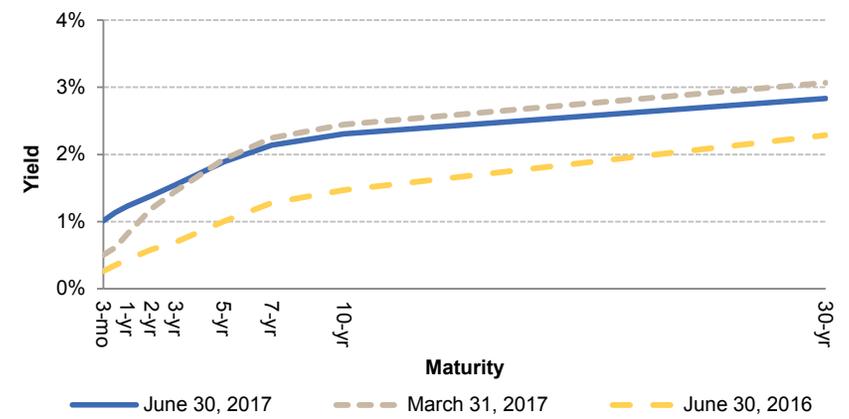
QUARTERLY MARKET SUMMARY

Interest Rate Overview

U.S. Treasury Note Yields



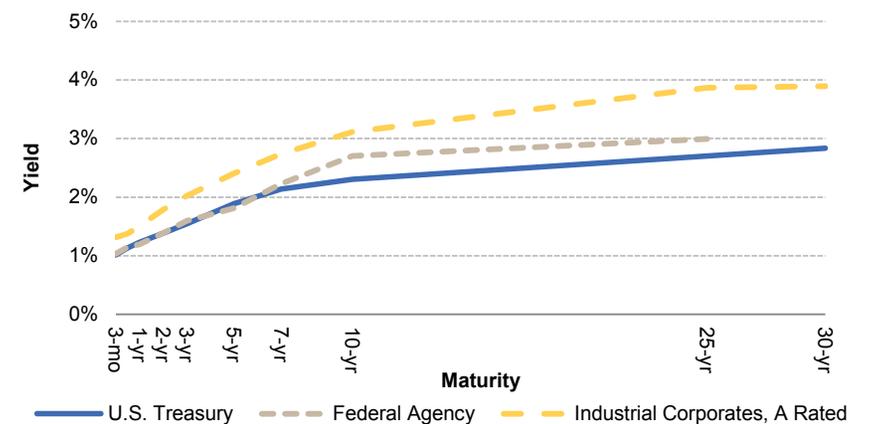
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	Jun '17	Mar '17	Change over Quarter	Jun '16	Change over Year
3-month	1.01%	0.75%	0.26%	0.26%	0.75%
1-year	1.23%	1.02%	0.21%	0.44%	0.79%
2-year	1.38%	1.26%	0.12%	0.58%	0.80%
5-year	1.89%	1.92%	(0.03%)	1.00%	0.89%
10-year	2.31%	2.39%	(0.08%)	1.47%	0.84%
30-year	2.84%	3.01%	(0.17%)	2.29%	0.55%

Yield Curves as of 6/30/17



Source: Bloomberg.

QUARTERLY MARKET SUMMARY

BofA Merrill Lynch Index Returns

June 30, 2017	As of 6/30/17		Returns for Periods ended 6/30/17		
	Duration	Yield	3-month	1-year	3-years
1-3 Year Indices					
U.S. Treasury	1.89	1.40%	0.17%	(0.11%)	0.69%
Federal Agency	1.78	1.48%	0.25%	0.25%	0.83%
U.S. Corporates, A-AAA rated	1.95	1.95%	0.55%	1.04%	1.43%
Agency MBS (0 to 3 years)	2.25	1.88%	0.60%	0.35%	1.15%
Taxable Municipals	1.74	2.34%	0.34%	1.20%	1.77%
1-5 Year Indices					
U.S. Treasury	2.69	1.54%	0.38%	(0.53%)	1.08%
Federal Agency	2.24	1.58%	0.37%	0.06%	1.10%
U.S. Corporates, A-AAA rated	2.80	2.16%	0.84%	0.99%	1.91%
Agency MBS (0 to 5 years)	3.33	2.32%	0.66%	0.04%	1.65%
Taxable Municipals	2.65	2.41%	0.56%	0.88%	2.27%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.36	1.91%	1.22%	(2.45%)	2.20%
Federal Agency	3.99	1.87%	0.88%	(0.35%)	1.88%
U.S. Corporates, A-AAA rated	7.16	2.91%	2.21%	0.98%	3.49%
Agency MBS (0 to 30 years)	4.69	2.76%	0.90%	(0.03%)	2.15%
Taxable Municipals	4.18	2.86%	0.94%	(0.16%)	2.74%

Returns for periods greater than one year are annualized.

Source: BofA Merrill Lynch Indices.

QUARTERLY MARKET SUMMARY

DISCLOSURES

PFM is the marketing name for a group of affiliated companies providing a range of services. All services are provided through separate agreements with each company. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation.

Investment advisory services are provided by PFM Asset Management LLC which is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. The information contained is not an offer to purchase or sell any securities. Additional applicable regulatory information is available upon request.

For more information regarding PFM's services or entities, please visit www.pfm.com.

The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC 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, 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 recommendation. The information contained in this report is not an offer to purchase or sell any securities.

© 2017 PFM Asset Management LLC. Further distribution is not permitted without prior written consent.



Portfolio Recap

- ◆ Key drivers of market conditions in the second quarter included
 - an additional Federal Reserve (Fed) rate hike;
 - mixed readings on key economic data in the U.S.;
 - persistently subdued inflation readings;
 - narrowing credit spreads; and
 - stronger growth readings and higher yields in Europe and elsewhere.

- ◆ Short-term and long-term Treasury yields diverged during the second quarter as short-term (three years and under) yields moved higher, pricing in the Fed's June rate hike, while yields on longer-term maturities fell amid muted inflation and fading prospects for stimulative fiscal policy. As a result, the yield curve flattened, retracing all the steepening that took place following the U.S. presidential election.

- ◆ Our duration strategy is to remain largely in line with the benchmark's duration unless we have a strong conviction that rates are not appropriately reflecting market risks and expectations. We positioned the portfolio to be "neutral" to start the second quarter. During May and June, however, we allowed the portfolio's duration to drift shorter as we believed that rates were not adequately pricing in the likelihood of a near-term Fed rate increase.

- ◆ Federal agency yield spreads narrowed further amid minimal new issuance, ending the quarter at historically tight levels. Our strategy remained opportunistic as we sought to consider swap opportunities out of expensive agency holdings into U.S. Treasuries or other sectors.

Investment Strategy Outlook

- Our outlook for the third quarter is for continued modest growth in the U.S. economy. But, the future path of Fed tightening is less certain as recent economic data has been disappointing, fiscal policy initiatives have stalled, and inflation remains below the Fed's 2% target.
- With rates priced for the current level of uncertainty, we are once again positioning the portfolio's duration to match the benchmark. We will continue to assess our duration positioning during the quarter as we gain more clarity surrounding Fed policy and the trajectory of the U.S. and global economy.
- Agency yield spreads remain at or near historically tight levels as demand remains strong while supply is minimal. Unless we find an issue with appropriate yield spread, our strategy will generally favor U.S. Treasuries over agencies.
- We will continue to monitor incoming economic data, Fed policy, and sector relationships to identify market opportunities. This will include assessing the impact of any additional policies put forth by the Trump administration.

Sector Allocation and Compliance

- The portfolio is in compliance with the Town's Investment Policy and Arizona Revised Statutes.

<u>Security Type</u>	<u>Market Value as of June 30, 2017¹</u>	<u>% of Portfolio</u>	<u>% Change from March 31, 2017</u>	<u>Permitted by Policy</u>	<u>In Compliance</u>
U.S. Treasuries	\$6,742,883	43%	+5%	100%	✓
Federal Agencies	\$8,758,395	56%	-5%	100%	✓
Money Market Fund	\$20,002	<1%	-	100%	✓
Security Sub-Total	\$15,521,279	100%			
Accrued Interest	\$38,440				
Total	\$15,559,720				

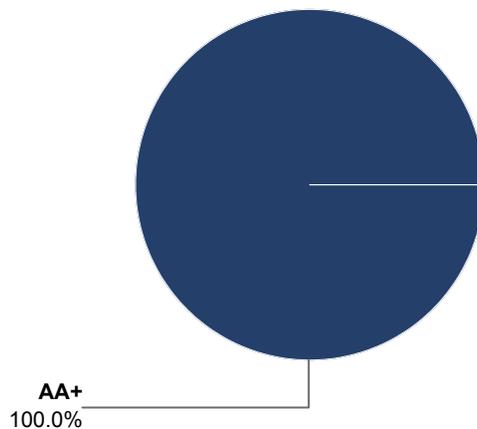
1. End of quarter trade-date market values of portfolio holding, including accrued interest.
Detail may not add due to rounding.

Portfolio Statistics

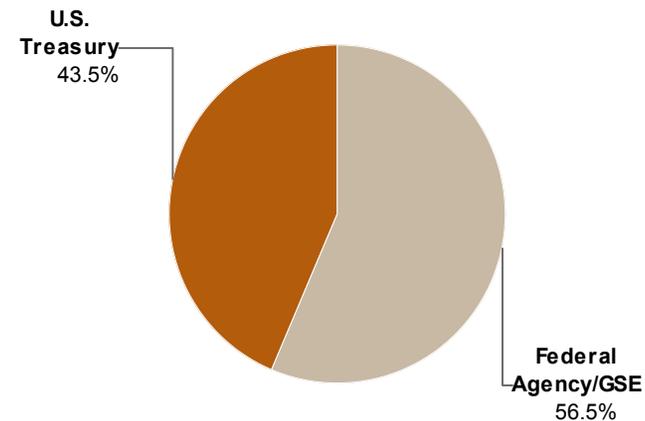
As of June 30, 2017

Par Value:	\$15,565,000
Total Market Value:	\$15,559,720
Security Market Value:	\$15,501,278
Accrued Interest:	\$38,440
Cash:	\$20,002
Amortized Cost:	\$15,562,823
Yield at Market:	1.41%
Yield at Cost:	1.15%
Effective Duration:	1.80 Years
Duration to Worst:	1.80 Years
Average Maturity:	1.84 Years
Average Credit: *	AA

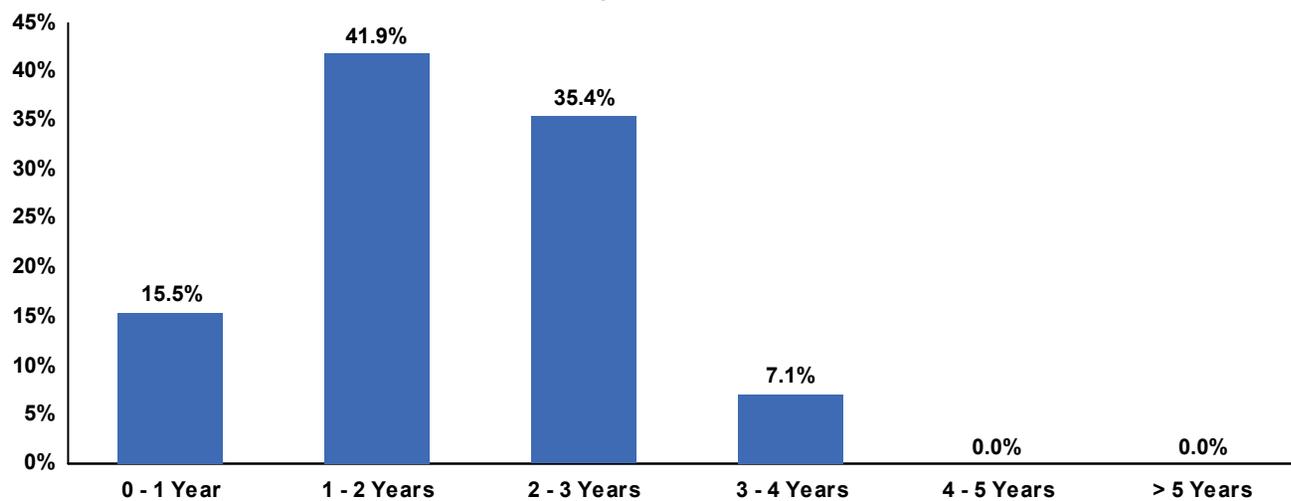
Credit Quality (S&P Ratings)



Sector Allocation



Maturity Distribution

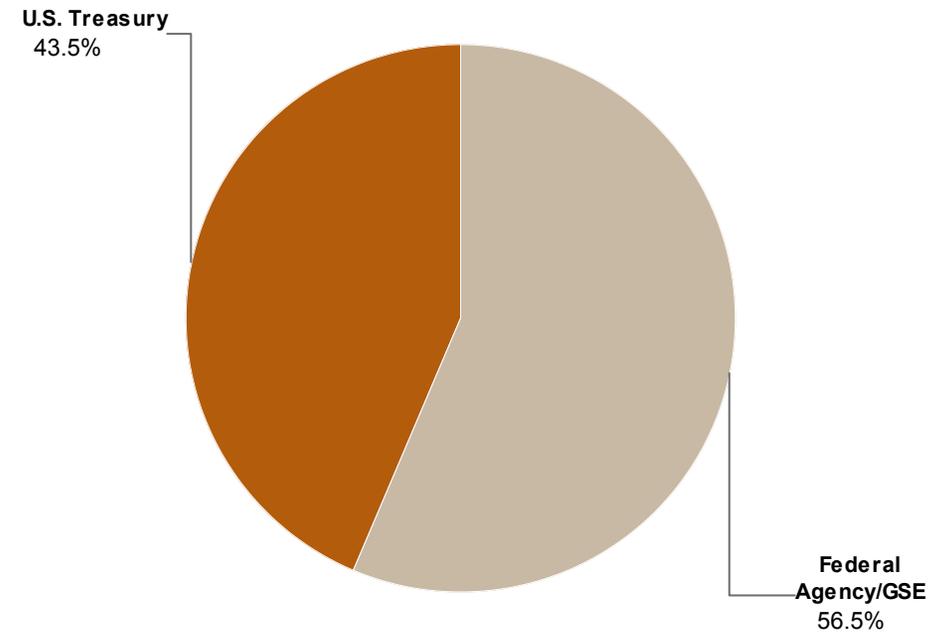


*An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

Sector Allocation

As of June 30, 2017

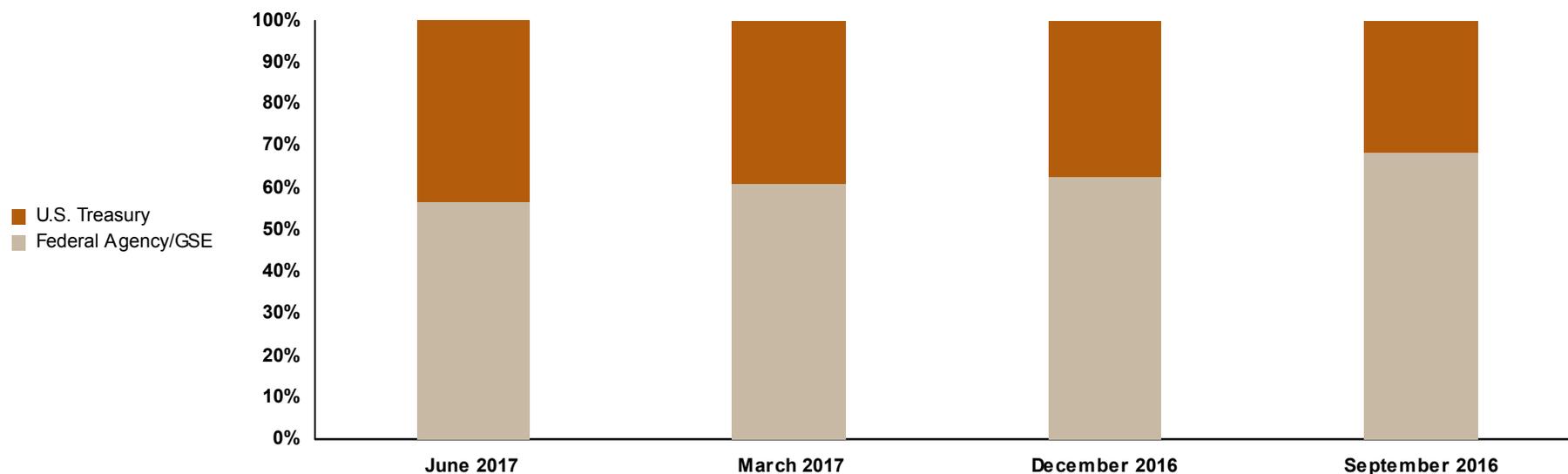
Sector	Market Value (\$)	% of Portfolio
Federal Agency/GSE	8,758,395	56.5%
U.S. Treasury	6,742,883	43.5%
Total	\$15,501,278	100.0%



Detail may not add to total due to rounding.

Sector Allocation

Sector	June 30, 2017		March 31, 2017		December 31, 2016		September 30, 2016	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
Federal Agency/GSE	8.8	56.5%	9.4	61.0%	9.7	62.9%	10.6	68.4%
U.S. Treasury	6.7	43.5%	6.0	39.0%	5.7	37.1%	4.9	31.6%
Total	\$15.5	100.0%	\$15.5	100.0%	\$15.4	100.0%	\$15.5	100.0%

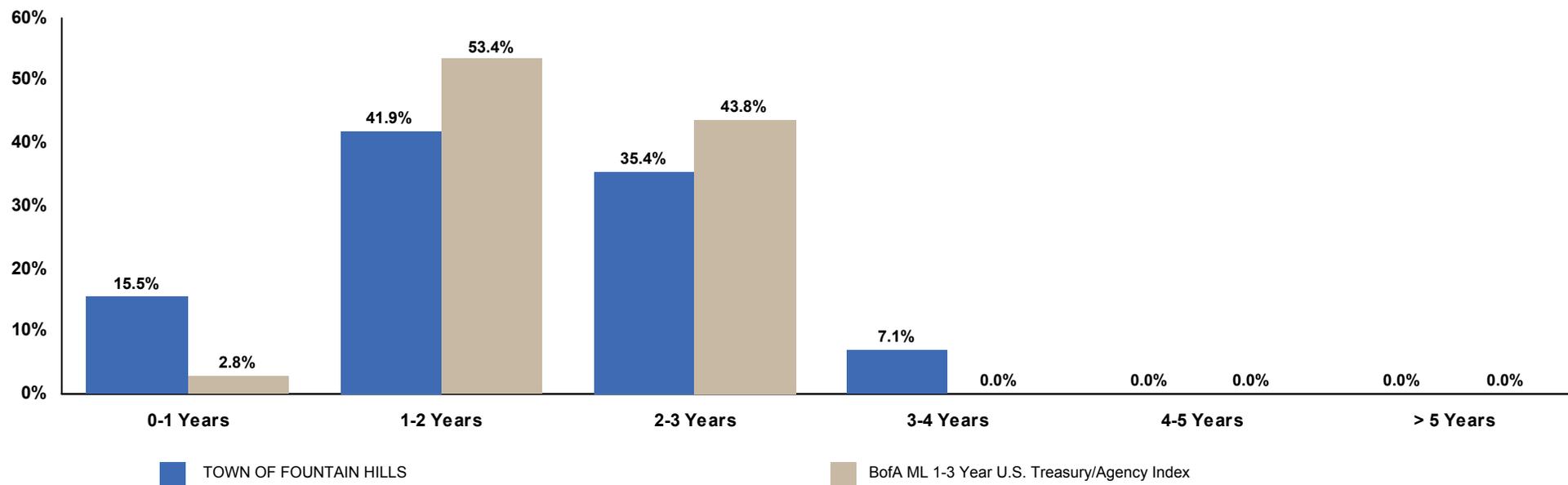


Detail may not add to total due to rounding.

Maturity Distribution

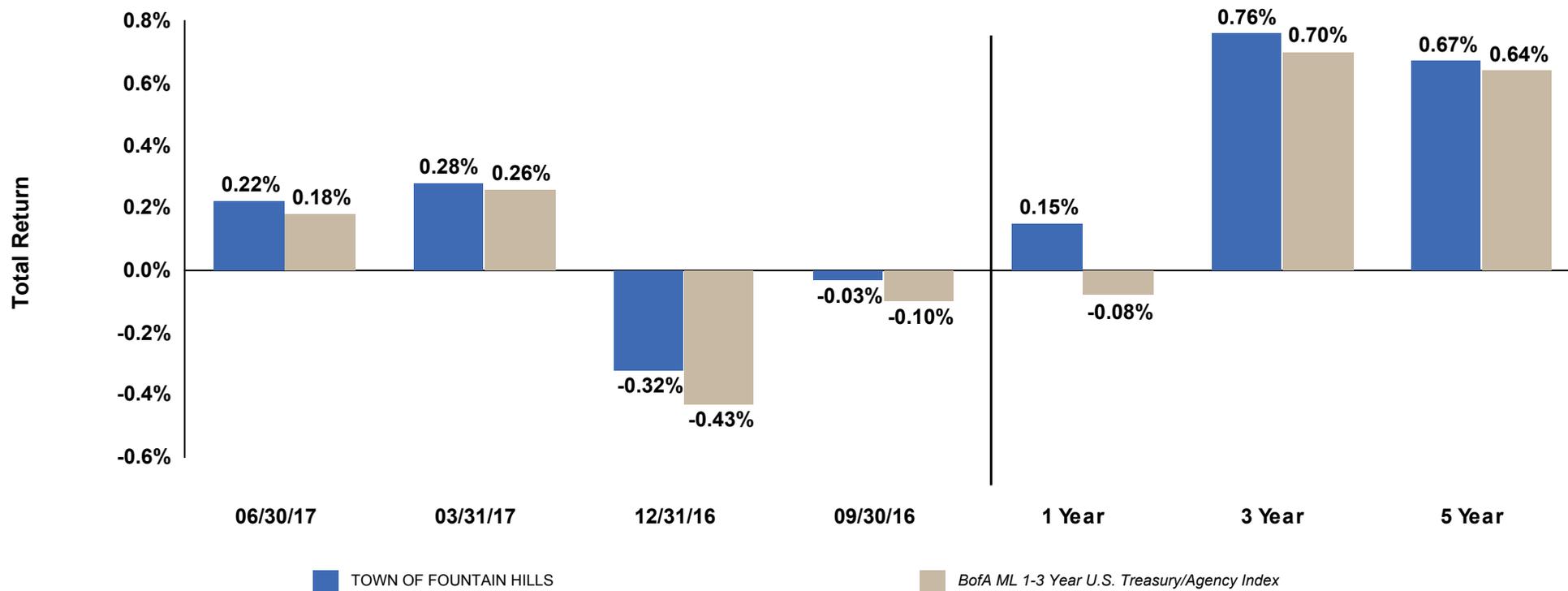
As of June 30, 2017

Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
TOWN OF FOUNTAIN HILLS	1.41%	1.84 yrs	15.5%	41.9%	35.4%	7.1%	0.0%	0.0%
BofA ML 1-3 Year U.S. Treasury/Agency Index	1.41%	1.94 yrs	2.8%	53.4%	43.8%	0.0%	0.0%	0.0%



Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended				1 Year	Annualized Return	
		06/30/17	03/31/17	12/31/16	09/30/16		3 Year	5 Year
TOWN OF FOUNTAIN HILLS	1.80	0.22%	0.28%	-0.32%	-0.03%	0.15%	0.76%	0.67%
BofA ML 1-3 Year U.S. Treasury/Agency Index	1.81	0.18%	0.26%	-0.43%	-0.10%	-0.08%	0.70%	0.64%
Difference		0.04%	0.02%	0.11%	0.07%	0.23%	0.06%	0.03%



Portfolio performance is gross of fees unless otherwise indicated.

Portfolio Earnings*Quarter-Ended June 30, 2017*

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (03/30/2017)	\$15,454,751.71	\$15,507,602.01
Net Purchases/Sales	\$54,053.88	\$54,053.88
Change in Value	(\$7,527.95)	\$1,167.35
Ending Value (06/30/2017)	\$15,501,277.64	\$15,562,823.24
Interest Earned	\$41,768.60	\$41,768.60
Portfolio Earnings	\$34,240.65	\$42,935.95

Sector/Issuer Distribution

As of June 30, 2017

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Federal Agency/GSE			
FANNIE MAE	3,022,716	34.5%	19.5%
FEDERAL HOME LOAN BANKS	3,026,896	34.6%	19.5%
FREDDIE MAC	2,708,784	30.9%	17.5%
Sector Total	8,758,395	100.0%	56.5%
U.S. Treasury			
UNITED STATES TREASURY	6,742,883	100.0%	43.5%
Sector Total	6,742,883	100.0%	43.5%
Portfolio Total	15,501,278	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	4/1/17	4/1/17	600,000.00	3130A9AE1	FHLB GLOBAL NOTE	0.87%	10/1/18	2,625.00		
INTEREST	4/3/17	4/3/17	0.00	MONEY0002	MONEY MARKET FUND			4.82		
BUY	4/3/17	4/5/17	550,000.00	3137EAAA5	FREDDIE MAC AGENCY NOTE	1.50%	1/17/20	(551,545.50)	1.52%	
SELL	4/3/17	4/5/17	525,000.00	3130A8SE4	FEDERAL HOME LOAN BANKS NOTES	0.75%	1/19/18	524,508.25	1.07%	(1,058.56)
INTEREST	4/9/17	4/9/17	375,000.00	3137EAEA3	FHLMC REFERENCE NOTE	0.75%	4/9/18	1,406.25		
INTEREST	4/12/17	4/12/17	375,000.00	3137EAED7	FHLMC REFERENCE NOTE	0.87%	10/12/18	1,877.60		
INTEREST	4/15/17	4/15/17	400,000.00	3137EADZ9	FREDDIE MAC NOTES	1.12%	4/15/19	2,250.00		
INTEREST	4/19/17	4/19/17	700,000.00	3135G0E58	FNMA BENCHMARK NOTE	1.12%	10/19/18	3,937.50		
BUY	4/19/17	4/20/17	325,000.00	3137EAFF2	FHLMC AGENCY NOTES	1.37%	4/20/20	(323,888.50)	1.49%	
SELL	4/19/17	4/20/17	325,000.00	912828UV0	US TREASURY NOTES	1.12%	3/31/20	322,851.17	1.38%	3,081.80
INTEREST	4/30/17	4/30/17	420,000.00	912828D23	US TREASURY NOTES	1.62%	4/30/19	3,412.50		
INTEREST	4/30/17	4/30/17	900,000.00	912828UZ1	US TREASURY NOTES	0.62%	4/30/18	2,812.50		
INTEREST	5/1/17	5/1/17	0.00	MONEY0002	MONEY MARKET FUND			4.08		
INTEREST	5/31/17	5/31/17	560,000.00	912828A34	US TREASURY NOTES	1.25%	11/30/18	3,500.00		
INTEREST	5/31/17	5/31/17	1,000,000.00	912828G61	US TREASURY NOTES	1.50%	11/30/19	7,500.00		
INTEREST	6/1/17	6/1/17	0.00	MONEY0002	MONEY MARKET FUND			6.36		
INTEREST	6/21/17	6/21/17	600,000.00	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	3,375.00		
INTEREST	6/21/17	6/21/17	250,000.00	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	1,406.25		
BUY	6/26/17	6/28/17	1,100,000.00	912828XH8	US TREASURY NOTES	1.62%	6/30/20	(1,112,791.87)	1.50%	
SELL	6/26/17	6/28/17	750,000.00	3135G0J61	FNMA NOTE	0.87%	3/28/18	749,728.13	1.22%	(1,364.55)

TOWN OF FOUNTAIN HILLS

Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
SELL	6/26/17	6/28/17	55,000.00	912828UU2	US TREASURY NOTES	0.75%	3/31/18	54,917.69	1.19%	(81.09)
SELL	6/26/17	6/28/17	275,000.00	3130A8SE4	FEDERAL HOME LOAN BANKS NOTES	0.75%	1/19/18	275,223.44	1.20%	(589.36)
INTEREST	6/29/17	6/29/17	275,000.00	3130A8BD4	FEDERAL HOME LOAN BANKS AGCY	0.87%	6/29/18	1,203.13		
INTEREST	6/29/17	6/29/17	470,000.00	3130A8BD4	FEDERAL HOME LOAN BANKS AGCY	0.87%	6/29/18	2,056.25		
INTEREST	6/30/17	6/30/17	375,000.00	912828A75	US TREASURY NOTES	1.50%	12/31/18	2,812.50		
INTEREST	6/30/17	6/30/17	1,100,000.00	912828XH8	US TREASURY NOTES	1.62%	6/30/20	8,937.50		
TOTALS								(11,869.95)		(11.76)

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 that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg, or Telerate. 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 the 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 and 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 (i.e., coupon payments and maturity proceeds) occurs on a non-business day, 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, 2017**

TOWN OF FOUNTAIN HILLS

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	400,000.00	AA+	Aaa	03/26/15	03/27/15	397,093.75	1.00	754.10	399,269.59	398,515.60
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	947.69	897,494.33	895,219.20
US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	560,000.00	AA+	Aaa	05/03/16	05/06/16	565,906.25	0.83	592.90	563,270.47	559,256.32
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	15.29	376,563.94	375,820.50
US TREASURY NOTES DTD 04/30/2014 1.625% 04/30/2019	912828D23	420,000.00	AA+	Aaa	11/10/16	11/14/16	425,742.19	1.06	1,149.86	424,286.88	421,821.12
US TREASURY NOTES DTD 08/31/2014 1.625% 08/31/2019	912828D80	275,000.00	AA+	Aaa	10/03/16	10/05/16	280,542.97	0.92	1,493.63	279,148.92	276,256.75
US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019	912828G61	1,000,000.00	AA+	Aaa	12/01/16	12/05/16	1,001,562.50	1.45	1,270.49	1,001,269.39	1,000,938.00
US TREASURY NOTES DTD 02/02/2015 1.250% 01/31/2020	912828H52	850,000.00	AA+	Aaa	01/03/17	01/05/17	843,226.56	1.52	4,431.98	844,284.28	844,786.95
UNITED STATES TREASURY NOTES DTD 03/02/2015 1.375% 02/29/2020	912828J50	350,000.00	AA+	Aaa	02/01/17	02/03/17	347,880.86	1.58	1,608.53	348,154.81	348,769.40
US TREASURY NOTES DTD 04/01/2013 1.125% 03/31/2020	912828UV0	525,000.00	AA+	Aaa	03/15/17	03/17/17	515,956.05	1.71	1,484.63	516,801.05	519,565.20
US TREASURY NOTES DTD 06/30/2015 1.625% 06/30/2020	912828XH8	1,100,000.00	AA+	Aaa	06/26/17	06/28/17	1,103,953.13	1.50	48.57	1,103,942.87	1,101,933.80

Security Type Sub-Total 6,755,000.00 6,751,324.22 1.29 13,797.67 6,754,486.53 6,742,882.84

Federal Agency Bond / Note											
FHLMC REFERENCE NOTE DTD 04/07/2016 0.750% 04/09/2018	3137EAEA3	375,000.00	AA+	Aaa	04/06/16	04/07/16	374,411.25	0.83	640.63	374,772.21	373,593.00
FEDERAL HOME LOAN BANKS AGCY DTD 05/27/2016 0.875% 06/29/2018	3130A8BD4	275,000.00	AA+	Aaa	08/11/16	08/12/16	275,104.50	0.85	13.37	275,055.72	273,850.50



Managed Account Detail of Securities Held

For the Month Ending **June 30, 2017**

TOWN OF FOUNTAIN HILLS

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											
FEDERAL HOME LOAN BANKS AGCY DTD 05/27/2016 0.875% 06/29/2018	3130A8BD4	470,000.00	AA+	Aaa	05/26/16	05/27/16	468,867.30	0.99	22.85	469,457.49	468,035.40
FHLB NOTES DTD 07/08/2016 0.625% 08/07/2018	3130A8PK3	200,000.00	AA+	Aaa	08/10/16	08/12/16	199,284.00	0.81	500.00	199,602.11	198,449.60
FHLB NOTES DTD 07/08/2016 0.625% 08/07/2018	3130A8PK3	650,000.00	AA+	Aaa	07/07/16	07/08/16	648,648.00	0.73	1,625.00	649,282.48	644,961.20
FHLB GLOBAL NOTE DTD 08/26/2016 0.875% 10/01/2018	3130A9AE1	600,000.00	AA+	Aaa	08/25/16	08/26/16	599,592.00	0.91	1,312.50	599,755.39	596,374.20
FHLMC REFERENCE NOTE DTD 09/16/2016 0.875% 10/12/2018	3137EAED7	375,000.00	AA+	Aaa	10/03/16	10/05/16	374,887.50	0.89	720.05	374,928.38	372,714.00
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	1,575.00	699,523.62	697,823.00
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	3,740.00	639,792.61	639,912.32
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	2,604.17	749,020.55	744,993.75
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	400,000.00	AA+	Aaa	03/30/16	03/31/16	400,952.00	1.05	950.00	400,563.74	398,202.80
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	250,000.00	AA+	Aaa	07/06/16	07/08/16	252,600.00	0.77	78.13	251,743.23	248,595.50
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	600,000.00	AA+	Aaa	06/27/16	06/29/16	605,438.09	0.82	187.50	603,616.55	596,629.20
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	150,000.00	AA+	Aaa	09/01/16	09/02/16	149,278.50	1.04	590.63	149,484.56	148,212.45
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	550,000.00	AA+	Aaa	07/19/16	07/20/16	548,669.00	0.96	2,165.63	549,085.56	543,445.65
FNMA BENCHMARK NOTE DTD 08/02/2016 0.875% 08/02/2019	3135G0N33	325,000.00	AA+	Aaa	07/29/16	08/02/16	324,454.00	0.93	1,177.00	324,618.75	321,092.85



Managed Account Detail of Securities Held

For the Month Ending **June 30, 2017**

TOWN OF FOUNTAIN HILLS

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 09/02/2016 1.000% 08/28/2019	3135G0P49	625,000.00	AA+	Aaa	08/31/16	09/02/16	624,025.00	1.05	2,100.69	624,292.26	618,893.75
FREDDIE MAC AGENCY NOTE DTD 01/17/2017 1.500% 01/17/2020	3137EAEES	550,000.00	AA+	Aaa	04/03/17	04/05/17	549,758.00	1.52	3,758.33	549,781.28	549,538.00
FHLMC AGENCY NOTES DTD 04/20/2017 1.375% 04/20/2020	3137EAEF2	325,000.00	AA+	Aaa	04/19/17	04/20/17	323,888.50	1.49	881.34	323,960.22	323,077.63
Security Type Sub-Total		8,810,000.00					8,806,556.84	1.03	24,642.82	8,808,336.71	8,758,394.80
Managed Account Sub-Total		15,565,000.00					15,557,881.06	1.15	38,440.49	15,562,823.24	15,501,277.64
Securities Sub-Total		\$15,565,000.00					\$15,557,881.06	1.15%	\$38,440.49	\$15,562,823.24	\$15,501,277.64
Accrued Interest											\$38,440.49
Total Investments											\$15,539,718.13



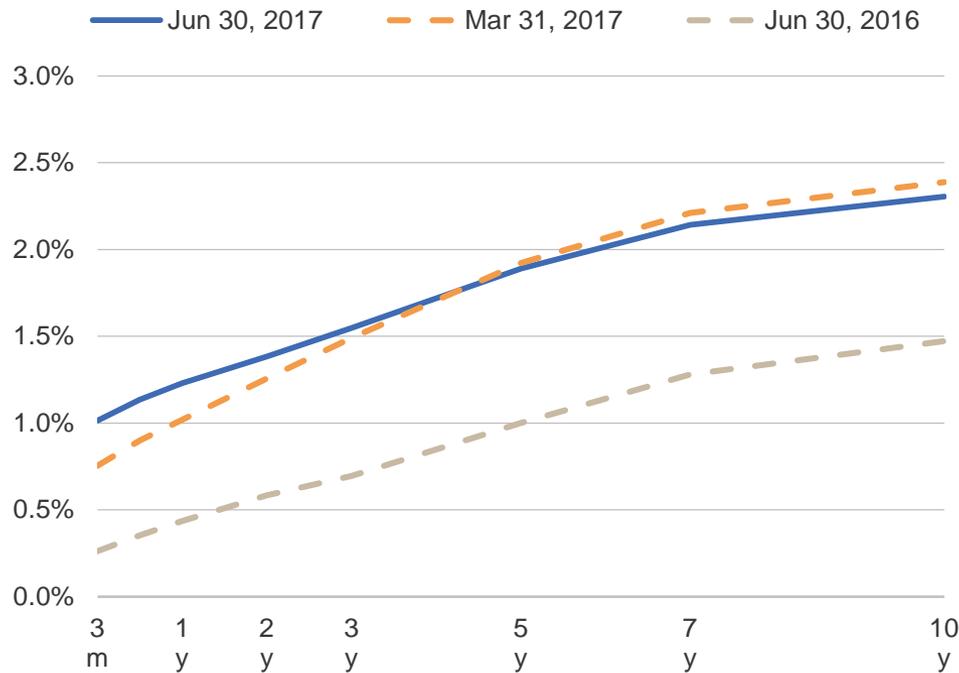
Economic Update



Short-Term Yields Higher, but Curve Flatter in Second Quarter

- Treasury yields are substantially higher compared to a year ago: short-term yields rose as the Fed raised rates to normalize policy, while longer yields moved in tandem with higher inflation expectations following the elections.
- The yield curve has flattened over the second quarter as some of these inflation expectations moderated.

U.S. Treasury Yield Curve



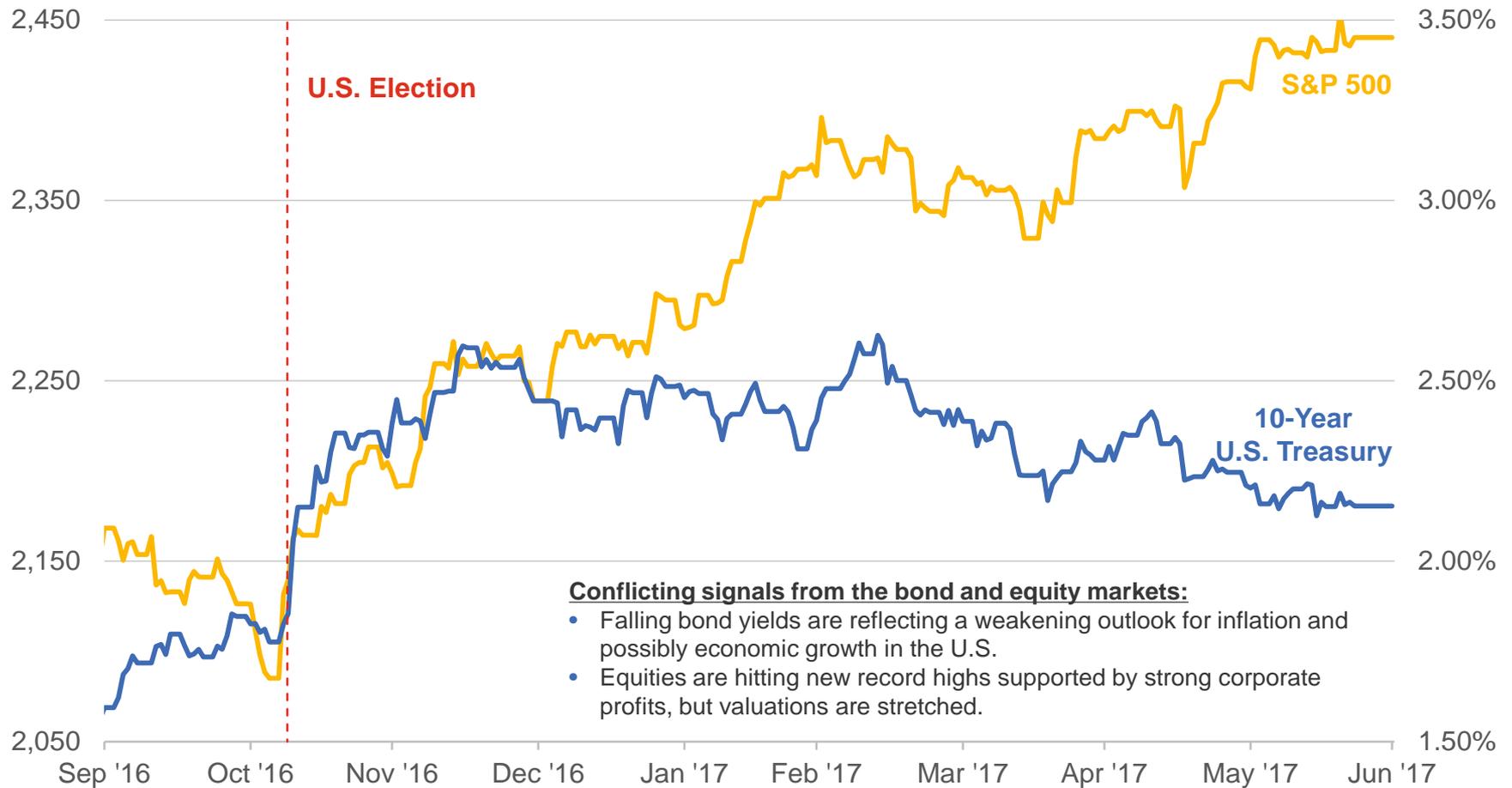
Yield Curve History

Maturity	06/30/17	03/31/17	06/30/16
1-Mo.	0.84	0.73	0.17
3-Mo.	1.01	0.75	0.26
6-Mo.	1.13	0.90	0.35
1-Yr.	1.23	1.02	0.44
2-Yr.	1.38	1.26	0.58
3-Yr.	1.55	1.49	0.69
5-Yr.	1.89	1.92	1.00
7-Yr.	2.14	2.21	1.28
10-Yr.	2.31	2.39	1.47
30-Yr.	2.84	3.01	2.29

Source: Bloomberg, as of 06/30/17.



A Tale of Two Markets



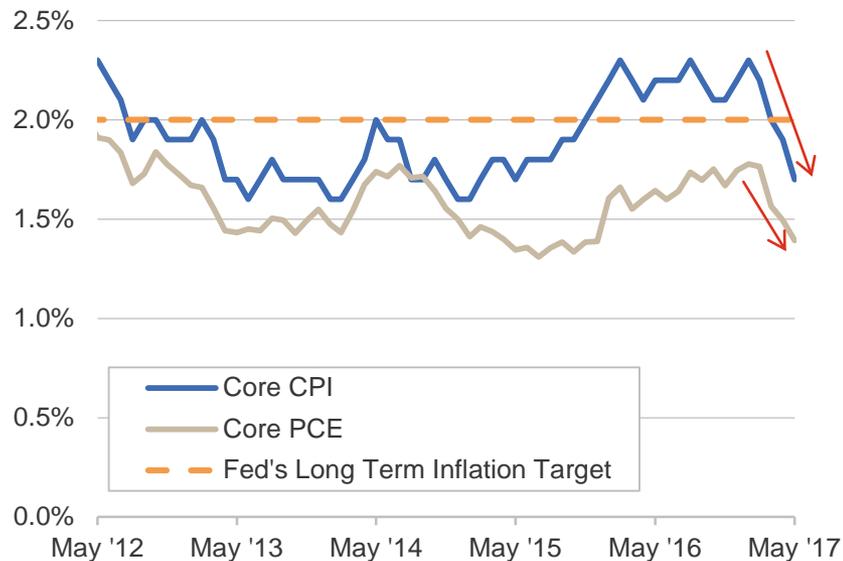
Source: The WSJ Daily Shot, Bloomberg, as of 06/30/17.



Inflation Continues to Trend Lower

- The core personal consumption expenditures (PCE) price index, slipped to 1.4% year-over-year in May, marking the fourth consecutive month of decline. While some Fed officials, including Chair Janet Yellen, expect this weakness in inflation to be transitory, the prospect for another rate hike in 2017 may be diminished should this trend continue.
- Following the U.S. election, inflation expectations jumped as President Trump's proposed spending policies would likely increase price pressures. The inflation outlook has since softened, reflecting doubts in the new administration's ability to implement its agenda.

Inflation Measures
(YoY)



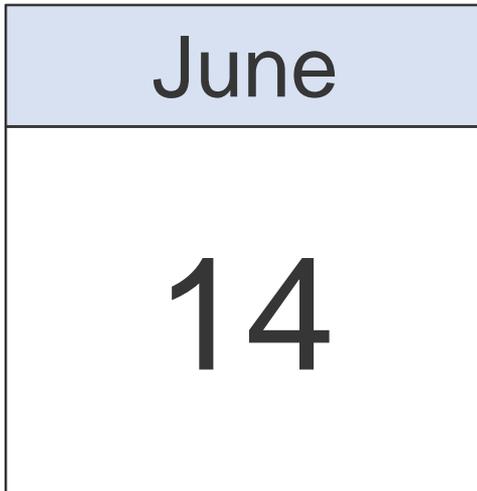
Expectations for Average Inflation Rate over Next 5 Years



Source: Bloomberg, as of 06/30/17. Inflation expectations based on yield difference between 5-year Treasury note and 5-year Treasury Inflation Protected Securities (TIPS).



FOMC Statement Highlights



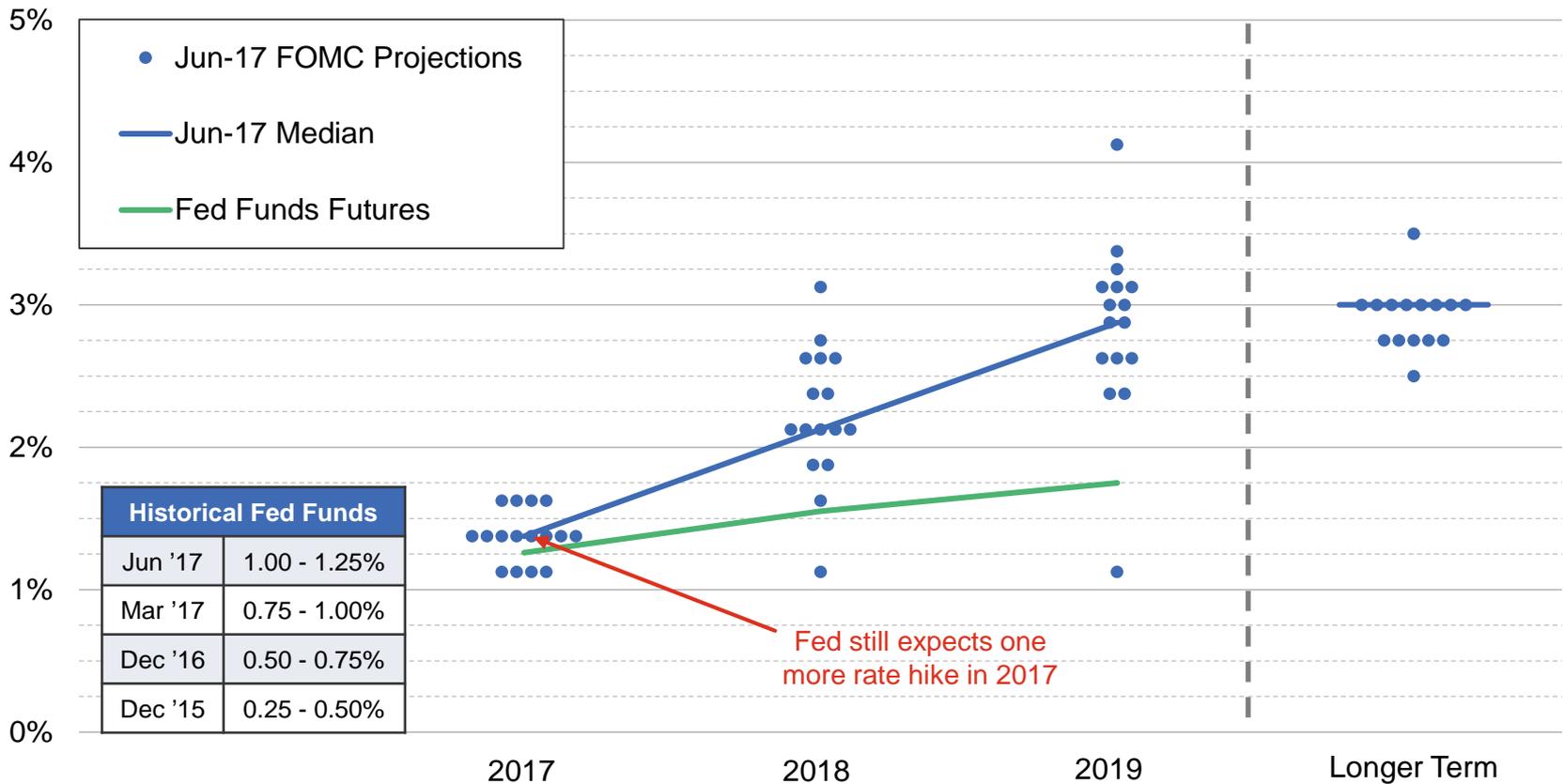
- Information received since the FOMC met in May indicates that the **labor market has continued to strengthen** and that economic activity has been rising moderately so far this year. **Job gains have moderated but have been solid**, on average, since the beginning of the year, and the **unemployment rate has declined**.
- Inflation on a 12-month basis **is expected to remain somewhat below 2 percent in the near term** but to stabilize around the Committee's 2 percent objective over the medium term.
- The Committee decided to **raise the target range for the federal funds rate to 1 to 1-¼ percent**. The committee expects that economic conditions will evolve in a manner that will warrant **gradual increases in the federal funds rate**.
- The Committee currently **expects to begin implementing a balance sheet normalization program this year**, provided that the economy evolves broadly as anticipated. This program, which would gradually reduce the Federal Reserve's securities holdings by **decreasing reinvestment of principal payments** from those securities.
- All voting members supported the monetary policy actions, except for Neel Kashkari (Minneapolis Fed President), who preferred to maintain the existing target range for the federal funds rate.

Source: Federal Reserve.



FOMC “Dot Plot”

Fed Participants’ Assessments of “Appropriate” Monetary Policy



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members’ judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed funds futures as of 06/30/17.



The Fed's Economic Projections

Indicator	Actual 2016	2017		2018		2019		Longer run	
		Mar.	Jun.	Mar.	Jun.	Mar.	Jun.	Mar.	Jun.
Real GDP (YoY)	1.9%	2.1%	2.2%	2.1%	2.1%	1.9%	1.9%	1.8%	1.8%
Unemployment Rate	4.7%	4.5%	4.3%	4.5%	4.2%	4.5%	4.2%	4.7%	4.6%
PCE Inflation (YoY)	1.6%	1.9%	1.6%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Core PCE (YoY)	1.7%	1.9%	1.7%	2.0%	2.0%	2.0%	2.0%	-	-
Federal Funds Rate (Median)	0.7%	1.4%	1.4%	2.1%	2.1%	3.0%	2.9%	3.0%	3.0%

Source: Federal Reserve, as of June 2017. Green denotes an improved projection in June compared to March, red for lower projection.



Economic Outlook for Arizona

- The national economy is expected to continue to expand over the next decade with moderate acceleration in the near term, boosting the real GDP to 2.6% by 2018, up from 1.6% growth seen last year.
- Arizona is expected to outpace the nation in job, population, and income growth.
- Sustained job growth means faster population gains as Arizona draws migrants from other states.
- The minimum wage raise and generally tighter labor market conditions explain the large increase in 2017's income projection.

	(Actual) 2016	(Forecast) 2017	(Forecast) 2018	(Forecast) 2019
Growth Rate				
Nonfarm Jobs	2.6	2.4	2.7	2.3
Personal Income	4.3	5.7	6.1	5.8
Retail Sales Less Food	3.0	3.4	4.6	5.2
Population	1.1	1.5	1.7	1.7
Level				
Unemployment Rate	5.2	4.7	4.3	4.2
Housing Permits	36,561	41,090	45,443	46,314

Source: www.azeeconomy.org.



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.