



TOWN OF FOUNTAIN HILLS

Investment Performance Review For the Quarter Ended September 30, 2018

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QUARTERLY MARKET SUMMARY

SUMMARY

- U.S. growth remained healthy in the third quarter as the unemployment rate hit historical lows, confidence rose further, and stocks surged. This occurred despite ongoing concerns about a trade war with China, a disorderly Brexit, Italian budget concerns, Iran sanctions, a Turkish debt crisis, and other geopolitical risks.
- Positive domestic economic data included strong readings on the labor market, auto sales, industrial production, manufacturing and service sector purchasing manager surveys, and consumer sentiment. On the weaker side, residential housing has slowed due to escalating prices and higher mortgage rates. Broad measures of inflation also moderated a bit during the quarter. Lastly, the twin deficits—the federal budget deficit and trade deficit—both portend long-term imbalances that could be problematic for sustainable long-term growth of the U.S. economy.
- Amid strong economic fundamentals, the Federal Reserve (Fed) stayed the course, raising the federal funds rate by 0.25% to a new target range of 2.00% to 2.25%. Despite the removal of longstanding language from the Federal Open Market Committee (FOMC) statement that previously characterized the stance of monetary policy as “accommodative,” updated FOMC forecasts indicated an additional 0.25% hike is expected in December, followed by two to four more hikes in 2019.
- The S&P 500 Index (S&P) soared by 7.7% during the quarter, lifting the year-to-date (YTD) return to 10.6%. But, prices may have gotten ahead of themselves, increasing the risk of a near-term pullback. International indices also posted healthy gains, despite a few struggling emerging market (EM) economies.

ECONOMIC SNAPSHOT

- Real gross domestic product (GDP) in the U.S. grew at an annualized rate of 4.2% in the second quarter, the fastest pace since 2014. Growth in the third quarter is expected to slow a bit but remains healthy.
- U.S. labor market conditions remained strong during the quarter. The U.S. economy has added an average of more than 200,000 jobs per month this year, and the unemployment rate dropped to a 48-year low of 3.7%. Although there are a record number of job openings in the U.S., strong employment reports continue to suggest that the job market remains tight.
- On the inflation front, many gauges are now at or near the Fed’s 2% target. While job growth is solid, wage growth has been slower than in previous expansionary cycles as companies continue to resist raising wages. Tariffs could, however, push prices higher as a result of the increased cost of raw materials and growing supply bottlenecks. Rising oil prices may nudge overall prices higher in coming quarters.

INTEREST RATES

- U.S. Treasury yields rose by 20-30 basis points (bps) (0.20% to 0.30%) in the quarter, with short-term yields outpacing longer-term yields. For example, the yield on the two-year Treasury note rose 29 bps to 2.82%, while the yield on the 10-year note rose 20 bps to end the quarter at 3.06%. The result was a flatter yield curve over the quarter, but the pace of flattening moderated near quarter-end.

- The yield curve remains very flat from a historical perspective (less incentive for investors to increase maturity). The yield difference between 10-year and two-year U.S. Treasury notes ended the quarter at 24 bps (0.24%), only 8 bps off of the decade low. While a flattening curve is not a foolproof indicator of future recession, it is one of many signals investors look at for indications of the future economy.
- As a result of rising yields, shorter Treasury indices outperformed longer-maturity ones. Although longer maturities provided higher yields, the small incremental benefit due to a flat yield curve was not sufficient to offset the adverse impact on market values due to increasing yields. For example, the three-month Treasury bill index generated a return of 0.49% for the quarter, while the five- and 10-year Treasury returned -0.26% and -1.1%, respectively.

SECTOR PERFORMANCE

- Although Treasury returns were muted by rising rates during the quarter, diversification into other sectors added value as most other investment-grade (IG), fixed-income asset classes outperformed Treasuries. Corporates and asset-backed securities (ABS) performed well, generating strong, positive excess returns.
- Despite very narrow spreads available in the federal agency sector, returns in the sector generated excess returns near double digits for the third quarter. Because of their incremental yield and shorter durations, callable agencies accounted for the majority of the excess returns from the sector.
- Supranational securities performed well as the combination of tighter spreads and incremental income led to the sector posting attractive returns relative to both Treasuries and agencies.
- The corporate sector benefited the most from incremental income, posting attractive excess returns for the third quarter. Record earnings, stable credit fundamentals, and a generally positive economic environment continued to serve as tailwinds to the sector. Specifically, one- to three-year BBB-rated corporate issuers were one of the best-performing segments of the IG market during the third quarter.
- Similarly, AAA-rated ABS were a positive contributor to performance for the third quarter, posting excess returns on average in the 25-30 bps range.
- Mortgage-backed securities (MBS) generated positive excess returns for the second consecutive quarter, despite still being in the red YTD. Longer was better for the third quarter as 30-year collateral pools outperformed their 15-year counterparts. Meanwhile, agency-backed commercial MBS (CMBS) was the best segment of the securitized asset class as these structures are less sensitive to increasing interest rates.
- Commercial paper and certificate of deposit yield spreads grinded to one-year lows over the quarter. As a result, short-term credit instruments now look more expensive relative to U.S. Treasuries. Still, they offer incrementally higher yields relative to similar-maturity government alternatives.

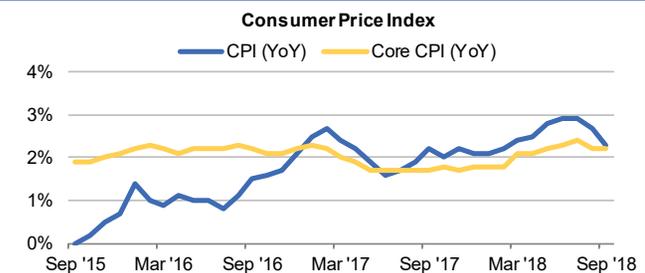
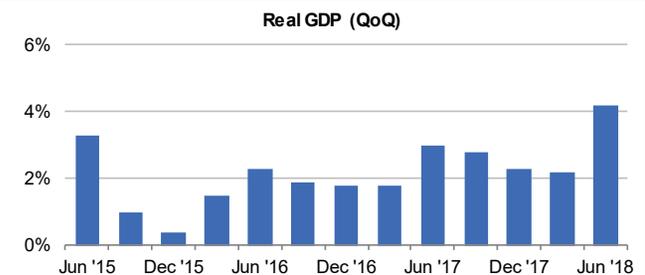
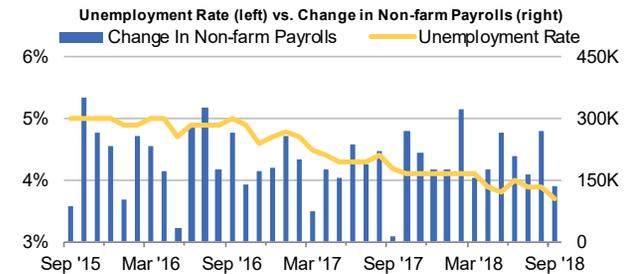
QUARTERLY MARKET SUMMARY

Economic Snapshot

Labor Market	Latest	Jun '18	Sep '17	
Unemployment Rate	Sep'18	3.7%	4.0%	4.2%
Change In Non-farm Payrolls	Sep'18	134,000	208,000	14,000
Average Hourly Earnings (YoY)	Sep'18	2.8%	2.8%	2.8%
Personal Income (YoY)	Aug'18	4.7%	4.9%	4.6%
Initial Jobless Claims (week)	10/6/18	214,000	232,000	254,000

Growth	Latest	Jun '18	Sep '17	
Real GDP (QoQ SAAR)	2018Q2	4.2%	2.2% ¹	3.0% ²
GDP Personal Consumption (QoQ SAAR)	2018Q2	3.8%	0.5% ¹	2.9% ²
Retail Sales (YoY)	Sep'18	4.7%	6.1%	5.2%
ISM Manufacturing Survey (month)	Sep'18	59.8	60.2	60.2
Existing Home Sales SAAR (month)	Aug'18	5.34 mil.	5.38 mil.	5.37 mil.

Inflation / Prices	Latest	Jun '18	Sep '17	
Personal Consumption Expenditures (YoY)	Aug'18	2.2%	2.3%	1.8%
Consumer Price Index (YoY)	Sep'18	2.3%	2.9%	2.2%
Consumer Price Index Core (YoY)	Sep'18	2.2%	2.3%	1.7%
Crude Oil Futures (WTI, per barrel)	Sep 30	\$73.25	\$74.15	\$51.67
Gold Futures (oz.)	Sep 30	\$1,192	\$1,255	\$1,282



1. Data as of First Quarter 2018.

2. Data as of Second Quarter 2017.

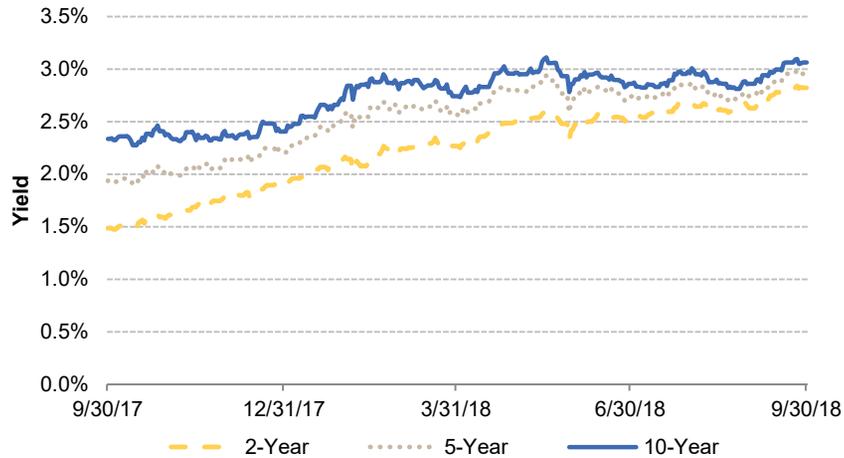
Note: YoY = year-over-year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil.

Source: Bloomberg.

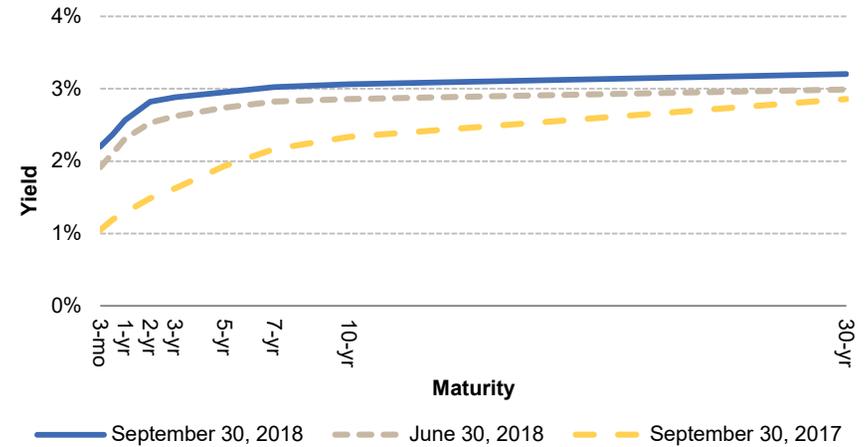
QUARTERLY MARKET SUMMARY

Interest Rate Overview

U.S. Treasury Note Yields



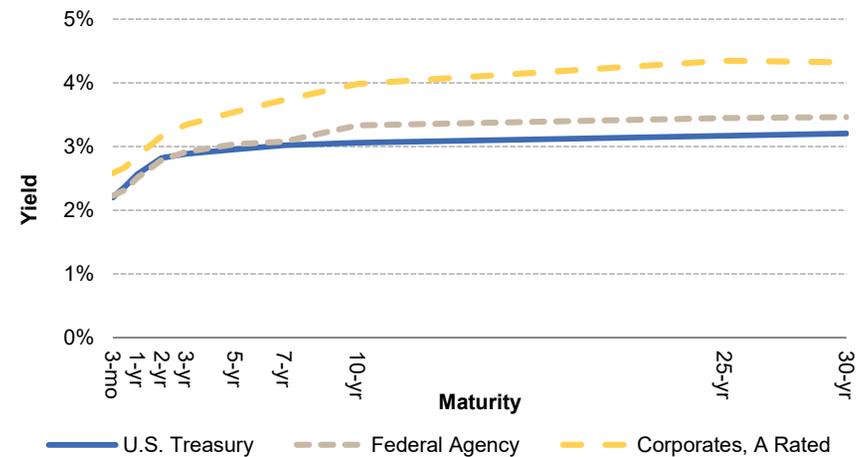
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	Sep '18	Jun '18	Change Over Quarter	Sep '17	Change Over Year
3-month	2.20%	1.92%	0.28%	1.05%	1.15%
1-year	2.57%	2.31%	0.26%	1.29%	1.28%
2-year	2.82%	2.53%	0.29%	1.49%	1.33%
5-year	2.95%	2.74%	0.21%	1.94%	1.01%
10-year	3.06%	2.86%	0.20%	2.33%	0.73%
30-year	3.21%	2.99%	0.22%	2.86%	0.35%

Yield Curves as of 9/30/18



Source: Bloomberg.

QUARTERLY MARKET SUMMARY

ICE BofAML Index Returns

September 30, 2018	As of 9/30/18		Returns for Periods Ended 9/30/18		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.81	2.80%	0.19%	0.04%	0.38%
Federal Agency	1.69	2.80%	0.32%	0.34%	0.59%
U.S. Corporates, A-AAA-rated	1.83	3.21%	0.67%	0.67%	1.38%
Agency MBS (0 to 3 years)	4.53	3.45%	(0.37%)	(0.38%)	0.82%
Taxable Municipals	1.80	3.06%	0.60%	1.32%	2.14%
1-5 Year Indices					
U.S. Treasury	2.58	2.85%	0.05%	(0.58%)	0.29%
Federal Agency	2.03	2.84%	0.26%	0.03%	0.59%
U.S. Corporates, A-AAA-rated	2.59	3.35%	0.66%	0.06%	1.47%
Agency MBS (0 to 5 years)	3.65	3.30%	0.11%	(0.82%)	0.81%
Taxable Municipals	2.41	3.38%	0.57%	1.08%	2.15%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.13	2.95%	(0.66%)	(1.64%)	0.28%
Federal Agency	3.89	2.99%	(0.01%)	(0.56%)	0.80%
U.S. Corporates, A-AAA-rated	6.82	3.79%	0.67%	(1.29%)	2.43%
Agency MBS (0 to 30 years)	5.11	3.56%	(0.12%)	(0.88%)	1.00%
Taxable Municipals	10.33	4.19%	(0.67%)	(0.38%)	4.67%

Returns for periods greater than one year are annualized.

Source: ICE BofAML Indices.

QUARTERLY MARKET SUMMARY

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Portfolio Recap

- We positioned the portfolio with a defensive duration posture, holding maturities shorter than the benchmark for the majority of the past two quarters in light of the Fed's impact on short-term rates. This strategy benefited portfolio returns as yields across the yield curve approached new highs for the cycle. Because the curve is so flat, holding longer maturities resulted in very little incremental yield. On balance, the tradeoff between slightly lower yields (a position short of the benchmark) and less exposure to the negative market value impact of the rise in rates during the quarter (from a shorter duration) resulted in outperformance vs. benchmarks.
- After a robust second quarter, strong economic fundamentals gave investors further confidence in corporate and other non-government sectors. Most investment-grade sectors contributed positive excess returns (returns in excess of similar-duration Treasuries) to fixed income portfolios for the quarter.
- As has been the case for some time, federal agency yield spreads remained extremely narrow throughout the quarter. We generally underweighted agencies in favor of U.S. Treasuries or other sectors.
- After adding to supranational allocations in the first half of the year, a sharp decline in issuance caused yield spreads to narrow, resulting in a strong performance for the sector but few new opportunities.
- In the corporate sector, strong economic tailwinds created a favorable investment landscape. Corporate returns dominated their government counterparts, adding significant value to the portfolio in the third quarter.
- After providing several consecutive quarters of incremental income relative to short-term government alternatives, yield spreads on commercial paper and negotiable bank certificates of deposit narrowed to 1-year lows. Our strategy in the third quarter was to be more selective with regard to issuer/maturity and wait for the next Fed rate hike (which occurred on September 26) before reassessing value in short credit instruments.

Outlook and Strategy

- While the Fed's policy actions will depend on future economic data, we believe the current strength of the U.S. Economy, coupled with a strong labor market and rising inflation, will cause the Fed to continue raising rates at a pace of about one quarter-percent hike per quarter well into 2019. Therefore, we plan to maintain a defensive duration posture to mitigate a portion of interest rate risk relative to the benchmark.
- Over the past several quarters, we have maintained a positive view on corporates and other spread products (non-government investments); however, we are cognizant of potential headwinds that could surface towards year-end. While diversification away from U.S. Treasury securities has added significant value over the last several quarters, very narrow spreads across most investment-grade sectors give us reason to turn a bit more cautious.
- Federal agency securities remain expensive as most maturities offer less than five basis points of incremental yield relative to U.S. Treasuries. We will continue to reduce agency exposure where spreads are tight, seeking better relative value in other sectors. As an alternative, we may selectively add callable agency issues because, in our view, they provide better value in today's market in addition to favorable diversification and income benefits.
- In conjunction with tight spreads, we plan to be more selective and defensive with corporate positioning. Our preference continues to favor financials and select industrial issuers with stronger balance sheets and fair valuations, which we think can better withstand the current phase of the credit cycle
- Broad diversification across all investment-grade sectors remains a key component of our portfolio strategy; we will also continue to maintain a high credit quality for the PFM-managed portfolio.

Sector Allocation and Compliance

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

Security Type	Market Value	% of Portfolio	% Change vs. 6/30/18	Permitted by Policy	In Compliance
U.S. Treasury	\$2,919,857	25.4%	+3.3%	100%	✓
Federal Agency	\$4,277,036	37.2%	+1.6%	100%	✓
Supranationals	\$587,817	5.1%	+0.2%	100%	✓
Negotiable CDs	\$859,997	7.5%	-3.0%	30%	✓
Corporate Notes	\$2,106,013	18.3%	+0.8%	30%	✓
Commercial Paper	\$249,026	2.2%	-2.8%	30%	✓
Securities Sub-Total	\$10,999,746	95.6%			
Accrued Interest	\$40,108				
Securities Total	\$11,039,854				
Money Market Fund	\$527,243	4.4%	+0.0%	100%	✓
Total Investments	\$11,567,097	100.0%			

*As of 9/30/2018. Detail may not add to total due to rounding.

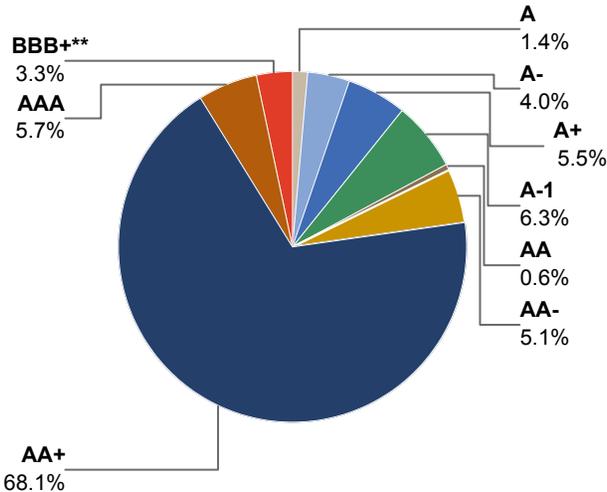
**Investment Policy as of April, 2017.

Portfolio Statistics

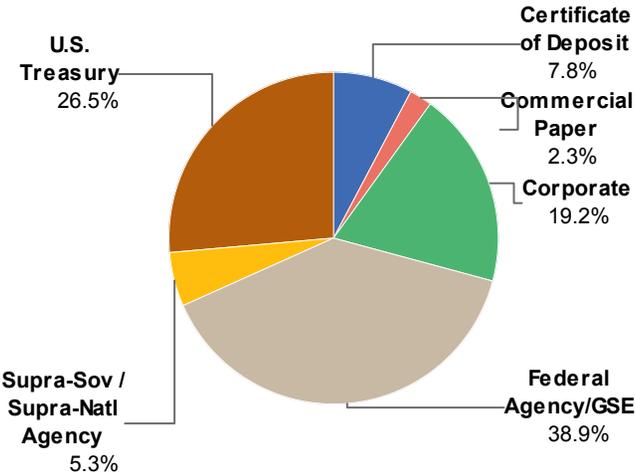
As of September 30, 2018

Par Value:	\$11,150,000
Total Market Value:	\$11,567,097
Security Market Value:	\$10,999,746
Accrued Interest:	\$40,108
Cash:	\$527,243
Amortized Cost:	\$11,144,088
Yield at Market:	2.67%
Yield at Cost:	1.52%
Effective Duration:	1.11 Years
Duration to Worst:	1.11 Years
Average Maturity:	1.14 Years
Average Credit: *	AA

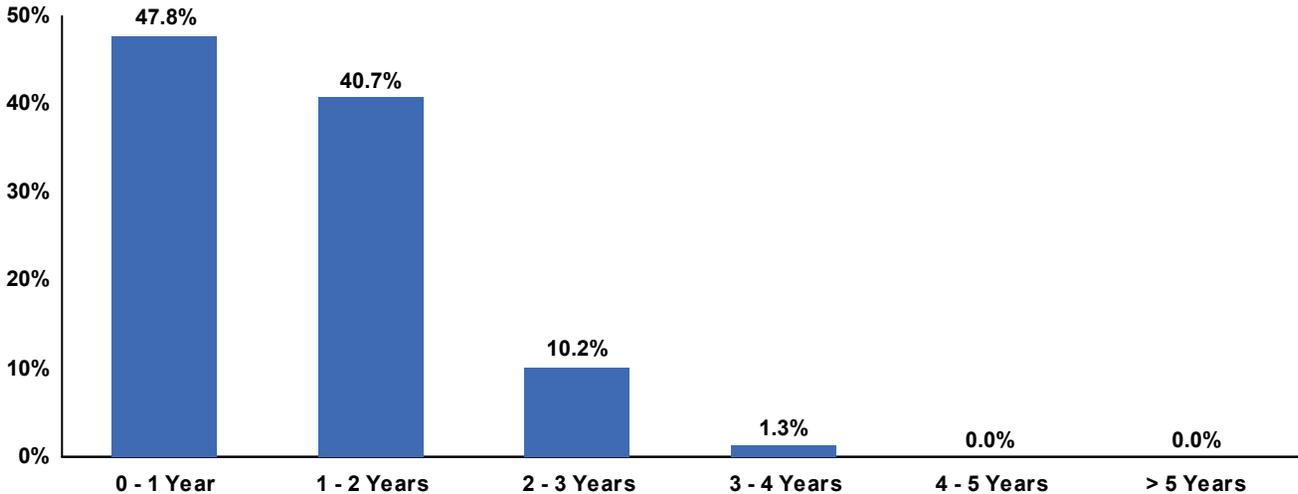
Credit Quality (S&P Ratings)



Sector Allocation



Maturity Distribution

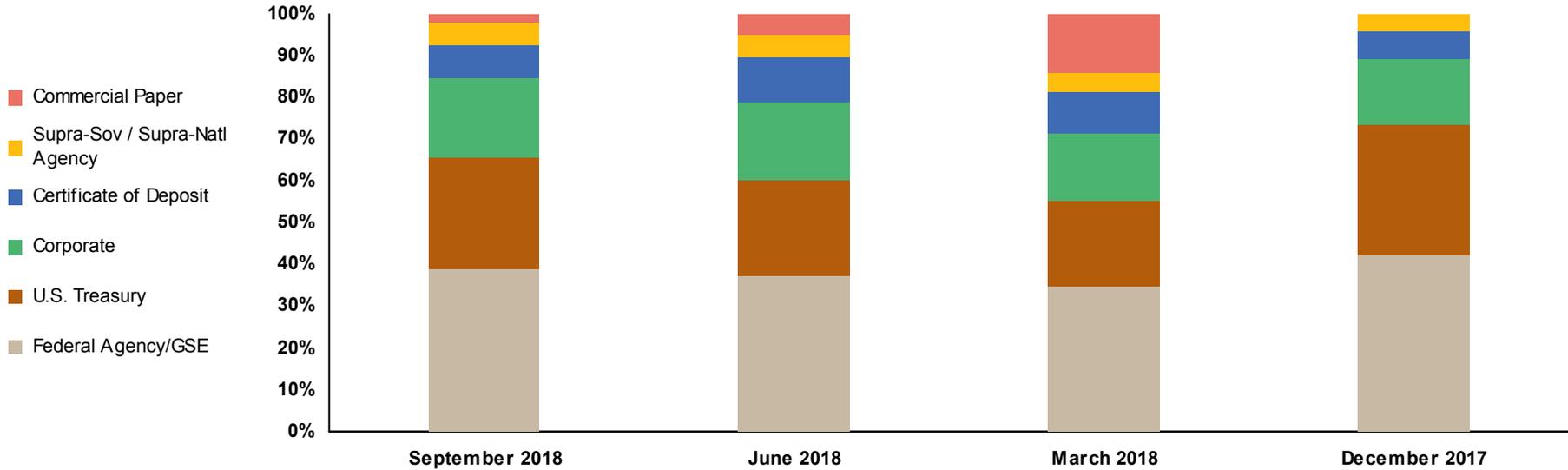


* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

** The BBB+ category comprises securities rated A- or better by Moody's and Fitch.

Sector Allocation

Sector	September 30, 2018		June 30, 2018		March 31, 2018		December 31, 2017	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
Federal Agency/GSE	4.3	38.9%	4.3	37.2%	4.5	34.8%	5.7	41.9%
U.S. Treasury	2.9	26.5%	2.6	23.1%	2.6	20.4%	4.2	31.5%
Corporate	2.1	19.2%	2.1	18.4%	2.1	16.3%	2.1	15.8%
Certificate of Deposit	0.9	7.8%	1.3	11.0%	1.3	9.7%	0.9	6.4%
Supra-Sov / Supra-Natl Agency	0.6	5.3%	0.6	5.1%	0.6	4.6%	0.6	4.4%
Commercial Paper	0.2	2.3%	0.6	5.2%	1.8	14.2%	0.0	0.0%
Total	\$11.0	100.0%	\$11.5	100.0%	\$12.9	100.0%	\$13.5	100.0%

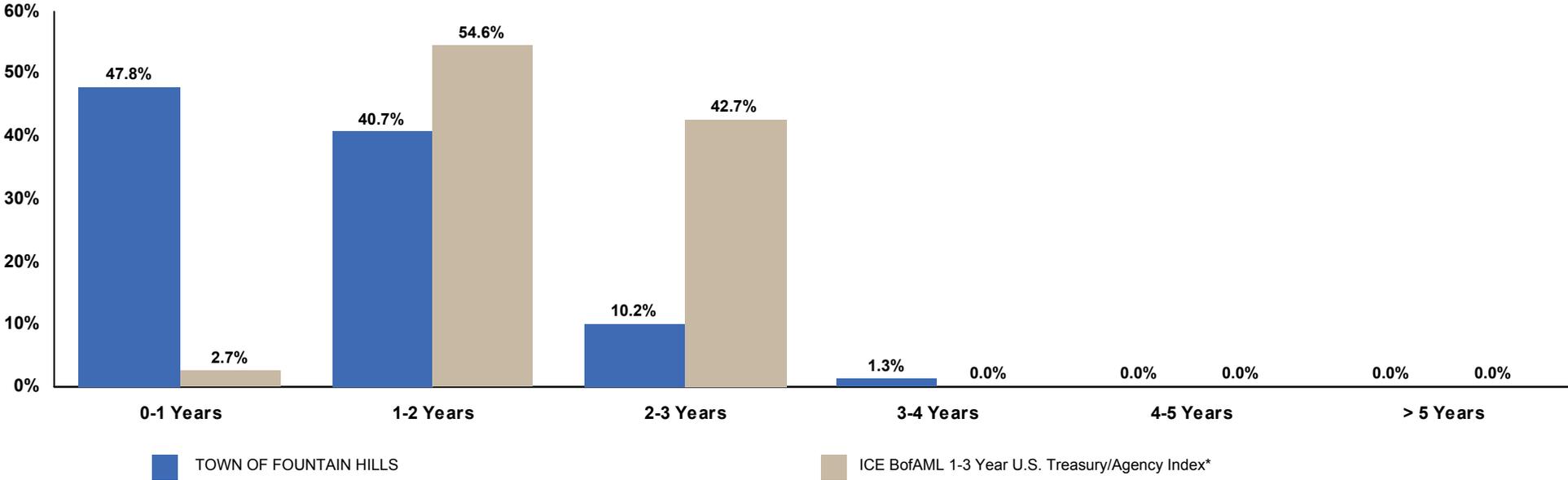


Detail may not add to total due to rounding.

Maturity Distribution

As of September 30, 2018

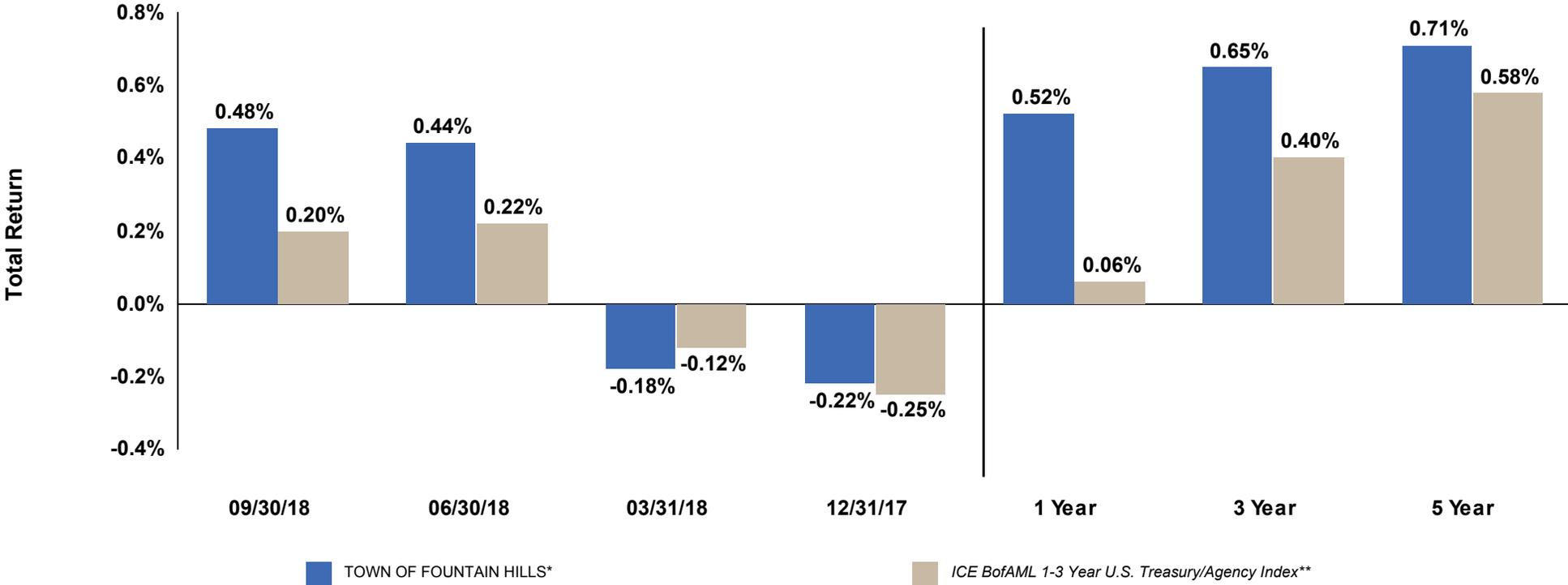
Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
TOWN OF FOUNTAIN HILLS	2.67%	1.14 yrs	47.8%	40.7%	10.2%	1.3%	0.0%	0.0%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index*	2.81%	1.93 yrs	2.7%	54.6%	42.7%	0.0%	0.0%	0.0%



*The benchmark is the Intercontinental Exchange Bank of America Merrill Lynch 1-3 Year U.S. Treasury/Agency Index.

Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended				Annualized Return		
		09/30/18	06/30/18	03/31/18	12/31/17	1 Year	3 Year	5 Year
TOWN OF FOUNTAIN HILLS*	1.11	0.48%	0.44%	-0.18%	-0.22%	0.52%	0.65%	0.71%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index**	1.80	0.20%	0.22%	-0.12%	-0.25%	0.06%	0.40%	0.58%
Difference		0.28%	0.22%	-0.06%	0.03%	0.46%	0.25%	0.13%



*Portfolio performance is gross of fees unless otherwise indicated.

**The benchmark is the Intercontinental Exchange Bank of America Merrill Lynch 1-3 Year U.S. Treasury/Agency Index.

Portfolio Earnings
Quarter-Ended September 30, 2018

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (06/30/2018)	\$11,463,159.41	\$11,618,228.42
Net Purchases/Sales	(\$478,932.86)	(\$478,932.86)
Change in Value	\$15,519.45	\$4,791.98
Ending Value (09/30/2018)	\$10,999,746.00	\$11,144,087.54
Interest Earned	\$40,333.80	\$40,333.80
Portfolio Earnings	\$55,853.25	\$45,125.78

Sector/Issuer Distribution

As of September 30, 2018

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Certificate of Deposit			
MITSUBISHI UFJ FINANCIAL GROUP INC	148,768	17.3%	1.4%
SKANDINAVISKA ENSKILDA BANKEN AB	298,056	34.7%	2.7%
SWEDBANK AB	147,048	17.1%	1.3%
WESTPAC BANKING CORP	266,124	30.9%	2.4%
Sector Total	859,997	100.0%	7.8%
Commercial Paper			
NATIXIS NY BRANCH	249,026	100.0%	2.3%
Sector Total	249,026	100.0%	2.3%
Corporate			
AMERICAN EXPRESS CO	146,835	7.0%	1.3%
AMERICAN HONDA FINANCE	147,850	7.0%	1.3%
APPLE INC	147,330	7.0%	1.3%
BANK OF AMERICA CO	146,753	7.0%	1.3%
BB&T CORPORATION	146,403	7.0%	1.3%
CATERPILLAR INC	112,212	5.3%	1.0%
EXXON MOBIL CORP	148,202	7.0%	1.3%
GENERAL ELECTRIC CO	71,514	3.4%	0.7%
GOLDMAN SACHS GROUP INC	148,656	7.1%	1.4%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
HONEYWELL INTERNATIONAL	39,608	1.9%	0.4%
IBM CORP	146,879	7.0%	1.3%
INTEL CORPORATION	73,800	3.5%	0.7%
JOHNSON & JOHNSON	34,293	1.6%	0.3%
JP MORGAN CHASE & CO	143,516	6.8%	1.3%
PACCAR FINANCIAL CORP	39,058	1.9%	0.4%
PEPSICO INC	48,665	2.3%	0.4%
TOYOTA MOTOR CORP	148,559	7.1%	1.4%
UNITED PARCEL SERVICE INC	97,377	4.6%	0.9%
VISA INC	49,135	2.3%	0.4%
WAL-MART STORES INC	69,368	3.3%	0.6%
Sector Total	2,106,013	100.0%	19.1%
Federal Agency/GSE			
FANNIE MAE	1,488,225	34.8%	13.5%
FEDERAL HOME LOAN BANKS	841,361	19.7%	7.6%
FREDDIE MAC	1,947,450	45.5%	17.7%
Sector Total	4,277,036	100.0%	38.9%
Supra-Sov / Supra-Natl Agency			
AFRICAN DEVELOPMENT BANK	73,841	12.6%	0.7%
INTER-AMERICAN DEVELOPMENT BANK	147,544	25.1%	1.3%
INTL BANK OF RECONSTRUCTION AND DEV	366,433	62.3%	3.3%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Sector Total	587,817	100.0%	5.3%
U.S. Treasury			
UNITED STATES TREASURY	2,919,857	100.0%	26.5%
Sector Total	2,919,857	100.0%	26.5%
Portfolio Total	10,999,746	100.0%	100.0%

Quarterly Portfolio Transactions

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
BUY									
7/31/18	8/1/18	250,000	62479MJU8	MUFG BANK LTD/NY COMM PAPER	0.00%	9/28/18	249,154.17	2.11%	
7/31/18	7/31/18	250,000	89233HJU9	TOYOTA MOTOR CREDIT CORP COMM PAPER	0.00%	9/28/18	249,151.88	2.08%	
8/30/18	8/31/18	250,000	63873KLW5	NATIXIS NY BRANCH COMM PAPER	0.00%	11/30/18	248,609.72	2.21%	
8/30/18	8/31/18	275,000	912828U99	US TREASURY N/B	1.25%	12/31/18	274,730.51	2.18%	
Total BUY		1,025,000					1,021,646.28		
INTEREST									
7/2/18	7/2/18	0	MONEY0002	MONEY MARKET FUND			137.07		
7/17/18	7/17/18	550,000	3137EAE5	FREDDIE MAC NOTES	1.50%	1/17/20	4,125.00		
7/19/18	7/19/18	150,000	3137EAE1	FHLMC REFERENCE NOTE	0.87%	7/19/19	656.25		
7/19/18	7/19/18	550,000	3137EAE1	FHLMC REFERENCE NOTE	0.87%	7/19/19	2,406.25		
7/20/18	7/20/18	65,000	02665WBT7	AMERICAN HONDA FINANCE CORP NOTES	1.95%	7/20/20	633.75		
7/23/18	7/23/18	55,000	38141GWP5	GOLDMAN SACHS GROUP INC CORP NOTE	1.95%	7/23/19	536.25		
7/23/18	7/23/18	145,000	46625HKA7	JPMORGAN CHASE & CO (CALLABLE)	2.25%	1/23/20	1,631.25		
7/31/18	7/31/18	850,000	912828H52	US TREASURY NOTES	1.25%	1/31/20	5,312.50		
8/1/18	8/1/18	80,000	05531FAZ6	BRANCH BANKING & TRUST (CALLABLE) NOTES	2.15%	2/1/21	860.00		
8/1/18	8/1/18	0	MONEY0002	MONEY MARKET FUND			36.27		
8/1/18	8/1/18	70,000	05531FAZ6	BRANCH BANKING & TRUST (CALLABLE) NOTES	2.15%	2/1/21	752.50		
8/2/18	8/2/18	325,000	3135G0N33	FNMA BENCHMARK NOTE	0.87%	8/2/19	1,421.88		
8/2/18	8/2/18	300,000	83050FXT3	SKANDINAV ENSKILDA BANKEN NY CD	1.84%	8/2/19	2,775.33		
8/7/18	8/7/18	270,000	96121T4A3	WESTPAC BANKING CORP NY CD	2.05%	8/3/20	2,767.50		
8/28/18	8/28/18	475,000	3135G0P49	FNMA NOTES	1.00%	8/28/19	2,375.00		
8/31/18	8/31/18	350,000	912828J50	US TREASURY NOTES	1.37%	2/29/20	2,406.25		
8/31/18	8/31/18	105,000	912828L32	US TREASURY NOTES	1.37%	8/31/20	721.88		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
9/4/18	9/4/18	0	MONEY0002	MONEY MARKET FUND			38.12		
9/4/18	9/4/18	75,000	459058GA5	INTL BANK OF RECON AND DEV GLOBAL NOTES	1.62%	9/4/20	609.75		
9/4/18	9/4/18	115,000	14913Q2A6	CATERPILLAR FINL SERVICE NOTE	1.85%	9/4/20	1,063.75		
9/6/18	9/6/18	150,000	30231GAG7	EXXON MOBIL (CALLABLE) CORP NOTE	1.91%	3/6/20	1,434.00		
9/12/18	9/12/18	150,000	89236TCF0	TOYOTA MOTOR CORP NOTES	2.15%	3/12/20	1,612.50		
9/12/18	9/12/18	150,000	45905UP32	INTL BANK OF RECONSTRUCTION AND DEV NOTE	1.56%	9/12/20	1,171.50		
9/16/18	9/16/18	70,000	36962G4R2	GENERAL ELECTRIC CAPITAL CORP CORP NOTE	4.37%	9/16/20	1,531.25		
9/20/18	9/20/18	75,000	00828EBQ1	AFRICAN DEVELOPMENT BANK NOTE	1.12%	9/20/19	421.88		
9/25/18	9/25/18	150,000	06539RGM3	MUFG BANK LTD/NY CERT DEPOS	2.07%	9/25/19	3,130.88		
9/30/18	9/30/18	525,000	912828UV0	US TREASURY NOTES	1.12%	3/31/20	2,953.13		
Total INTEREST		5,800,000					43,521.69		

MATURITY

7/31/18	7/31/18	100,000	89233HGX6	TOYOTA MOTOR CREDIT CORP COMM PAPER	0.00%	7/31/18	100,000.00		0.00
7/31/18	7/31/18	400,000	22549LFW0	CREDIT SUISSE NEW YORK CERT DEPOS	1.67%	7/31/18	406,754.22		0.00
8/31/18	8/31/18	400,000	22533UHX4	CREDIT AGRICOLE CIB NY COMM PAPER	0.00%	8/31/18	400,000.00		0.00
8/31/18	8/31/18	100,000	89233HHX5	TOYOTA MOTOR CREDIT CORP COMM PAPER	0.00%	8/31/18	100,000.00		0.00
9/28/18	9/28/18	250,000	89233HJU9	TOYOTA MOTOR CREDIT CORP COMM PAPER	0.00%	9/28/18	250,000.00		0.00
9/28/18	9/28/18	250,000	62479MJU8	MUFG BANK LTD/NY COMM PAPER	0.00%	9/28/18	250,000.00		0.00
Total MATURITY		1,500,000					1,506,754.22		0.00

Managed Account Detail of Securities Held

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 12/31/2013 1.500% 12/31/2018	912828A75	375,000.00	AA+	Aaa	12/1/2015	12/4/2015	378,178.71	1.22	1,421.54	375,259.86	374,319.00
US TREASURY N/B DTD 12/31/2016 1.250% 12/31/2018	912828U99	275,000.00	AA+	Aaa	8/30/2018	8/31/2018	274,151.37	2.18	868.72	274,367.00	274,332.58
US TREASURY NOTES DTD 04/30/2014 1.625% 04/30/2019	912828D23	365,000.00	AA+	Aaa	11/10/2016	11/14/2016	369,990.24	1.06	2,482.10	366,190.53	363,260.41
US TREASURY NOTES DTD 02/02/2015 1.250% 01/31/2020	912828H52	850,000.00	AA+	Aaa	1/3/2017	1/5/2017	843,226.56	1.52	1,790.08	847,026.22	833,531.25
US TREASURY NOTES DTD 03/02/2015 1.375% 02/29/2020	912828J50	350,000.00	AA+	Aaa	2/1/2017	2/3/2017	347,880.86	1.58	412.12	349,011.41	343,328.30
US TREASURY NOTES DTD 04/01/2013 1.125% 03/31/2020	912828UV0	525,000.00	AA+	Aaa	3/15/2017	3/17/2017	515,956.05	1.71	16.23	520,485.47	512,428.88
US TREASURY NOTES DTD 08/31/2015 1.375% 08/31/2020	912828L32	105,000.00	AA+	Aaa	8/31/2017	9/1/2017	104,799.02	1.44	123.64	104,870.67	102,186.32
US TREASURY NOTES DTD 10/31/2015 1.375% 10/31/2020	912828L99	120,000.00	AA+	Aaa	10/3/2017	10/5/2017	119,034.38	1.64	690.49	119,340.51	116,470.32
Security Type Sub-Total		2,965,000.00					2,953,217.19	1.53	7,804.92	2,956,551.67	2,919,857.06
Supra-National Agency Bond / Note											
AFRICAN DEVELOPMENT BANK NOTE DTD 09/20/2016 1.125% 09/20/2019	00828EBQ1	75,000.00	AAA	Aaa	8/30/2017	8/31/2017	74,426.25	1.50	25.78	74,726.94	73,840.58
INTL BANK OF RECON AND DEV GLOBAL NOTES DTD 10/27/2016 1.125% 11/27/2019	459058FS7	150,000.00	AAA	Aaa	8/28/2017	8/30/2017	148,720.50	1.51	581.25	149,335.68	147,138.45
INTL BANK OF RECON AND DEV GLOBAL NOTES DTD 08/29/2017 1.625% 09/04/2020	459058GA5	75,000.00	AAA	Aaa	8/22/2017	8/29/2017	74,984.25	1.63	91.41	74,989.81	73,234.35
INTL BANK OF RECONSTRUCTION AND DEV NOTE DTD 09/19/2017 1.561% 09/12/2020	45905UP32	150,000.00	AAA	Aaa	9/12/2017	9/19/2017	149,640.00	1.64	123.58	149,762.73	146,059.95

Managed Account Detail of Securities Held

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
Supra-National Agency Bond / Note											
INTER-AMERICAN DEVELOPMENT BANK DTD 11/08/2013 2.125% 11/09/2020	4581X0CD8	150,000.00	AAA	Aaa	10/2/2017	10/10/2017	151,390.37	1.81	1,257.29	150,959.15	147,543.75
Security Type Sub-Total		600,000.00					599,161.37	1.63	2,079.31	599,774.31	587,817.08
Federal Agency Bond / Note											
FNMA BENCHMARK NOTE DTD 09/01/2015 1.125% 10/19/2018	3135G0E58	700,000.00	AA+	Aaa	8/27/2015	9/1/2015	698,866.00	1.18	3,543.75	699,981.59	699,631.80
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	400,000.00	AA+	Aaa	3/30/2016	3/31/2016	400,952.00	1.05	2,075.00	400,170.93	397,172.00
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	250,000.00	AA+	Aaa	7/6/2016	7/8/2016	252,600.00	0.77	781.25	250,641.23	247,459.25
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	600,000.00	AA+	Aaa	6/27/2016	6/29/2016	605,438.09	0.82	1,875.00	601,330.69	593,902.20
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	150,000.00	AA+	Aaa	9/1/2016	9/2/2016	149,278.50	1.04	262.50	149,797.61	148,026.60
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	550,000.00	AA+	Aaa	7/19/2016	7/20/2016	548,669.00	0.96	962.50	549,641.13	542,764.20
FNMA BENCHMARK NOTE DTD 08/02/2016 0.875% 08/02/2019	3135G0N33	325,000.00	AA+	Aaa	7/29/2016	8/2/2016	324,454.00	0.93	466.06	324,846.34	320,439.28
FNMA NOTES DTD 09/02/2016 1.000% 08/28/2019	3135G0P49	475,000.00	AA+	Aaa	8/31/2016	9/2/2016	474,259.00	1.05	435.42	474,772.35	468,153.83
FREDDIE MAC NOTES DTD 01/17/2017 1.500% 01/17/2020	3137EAEE5	550,000.00	AA+	Aaa	4/3/2017	4/5/2017	549,758.00	1.52	1,695.83	549,888.03	541,419.45
FHLMC AGENCY NOTES DTD 04/20/2017 1.375% 04/20/2020	3137EAEF2	325,000.00	AA+	Aaa	4/19/2017	4/20/2017	323,888.50	1.49	1,998.52	324,418.58	318,067.75
Security Type Sub-Total		4,325,000.00					4,328,163.09	1.09	14,095.83	4,325,488.48	4,277,036.36

Corporate Note

Managed Account Detail of Securities Held

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
Corporate Note											
GOLDMAN SACHS GROUP INC CORP NOTE DTD 07/24/2017 1.950% 07/23/2019	38141GWP5	55,000.00	BBB+	A3	7/19/2017	7/24/2017	54,993.40	1.96	202.58	54,997.28	54,615.28
WAL-MART STORES INC CORP NOTE DTD 10/20/2017 1.750% 10/09/2019	931142DY6	70,000.00	AA	Aa2	10/11/2017	10/20/2017	69,998.60	1.75	585.28	69,999.19	69,368.25
HONEYWELL INTERNATIONAL CORP NOTES DTD 10/30/2017 1.800% 10/30/2019	438516BQ8	40,000.00	A	A2	10/23/2017	10/30/2017	39,968.80	1.84	302.00	39,983.01	39,608.32
AMERICAN HONDA FINANCE DTD 11/16/2017 2.000% 11/13/2019	02665WBZ3	85,000.00	A+	A2	11/13/2017	11/16/2017	84,952.40	2.03	651.67	84,973.05	84,150.60
JPMORGAN CHASE & CO (CALLABLE) DTD 01/23/2015 2.250% 01/23/2020	46625HKA7	145,000.00	A-	A3	7/7/2017	7/12/2017	145,394.40	2.14	616.25	145,201.18	143,516.22
EXXON MOBIL (CALLABLE) CORP NOTE DTD 03/06/2015 1.912% 03/06/2020	30231GAG7	150,000.00	AA+	Aaa	7/5/2017	7/10/2017	150,292.50	1.84	199.17	150,156.05	148,201.65
TOYOTA MOTOR CORP NOTES DTD 03/12/2015 2.150% 03/12/2020	89236TCF0	150,000.00	AA-	Aa3	8/24/2017	8/25/2017	151,377.00	1.78	170.21	150,790.21	148,559.40
GOLDMAN SACHS GROUP INC CORP NOTES DTD 01/23/2015 2.600% 04/23/2020	38148LAA4	95,000.00	BBB+	A3	11/1/2017	11/3/2017	95,716.30	2.28	1,084.06	95,457.13	94,040.98
INTEL CORP NOTES DTD 05/11/2017 1.850% 05/11/2020	458140AZ3	75,000.00	A+	A1	7/7/2017	7/12/2017	74,960.25	1.87	539.58	74,977.54	73,799.55
IBM CREDIT CORPORATE NOTE DTD 05/07/2013 1.625% 05/15/2020	459200HM6	150,000.00	A+	A1	7/7/2017	7/12/2017	148,735.50	1.93	920.83	149,270.62	146,879.25
AMERICAN HONDA FINANCE CORP NOTES DTD 07/20/2017 1.950% 07/20/2020	02665WBT7	65,000.00	A+	A2	7/17/2017	7/20/2017	64,934.35	1.98	249.98	64,960.10	63,699.87
CATERPILLAR FINL SERVICE NOTE DTD 09/07/2017 1.850% 09/04/2020	14913Q2A6	115,000.00	A	A3	9/5/2017	9/7/2017	114,903.40	1.88	159.56	114,937.18	112,211.71

Managed Account Detail of Securities Held

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
Corporate Note											
GENERAL ELECTRIC CAPITAL CORP CORP NOTE DTD 09/16/2010 4.375% 09/16/2020	36962G4R2	70,000.00	A	A2	8/30/2017	8/31/2017	75,236.00	1.84	127.60	73,404.44	71,514.38
AMERICAN EXPRESS CO CORP (CALLABLE) NOTE DTD 10/30/2017 2.200% 10/30/2020	025816BP3	150,000.00	BBB+	A3	10/23/2017	10/30/2017	149,805.00	2.25	1,384.17	149,863.41	146,835.00
JOHNSON & JOHNSON CORP NOTE DTD 11/10/2017 1.950% 11/10/2020	478160CH5	35,000.00	AAA	Aaa	11/8/2017	11/10/2017	34,962.55	1.99	267.31	34,973.45	34,292.62
PACCAR FINANCIAL CORP NOTES DTD 11/13/2017 2.050% 11/13/2020	69371RN85	40,000.00	A+	A1	11/6/2017	11/13/2017	39,996.40	2.05	314.33	39,997.44	39,057.60
APPLE INC DTD 11/13/2017 2.000% 11/13/2020	037833DJ6	150,000.00	AA+	Aa1	11/6/2017	11/13/2017	149,874.00	2.03	1,150.00	149,910.33	147,330.45
VISA INC (CALLABLE) CORP NOTES DTD 12/14/2015 2.200% 12/14/2020	92826CAB8	50,000.00	A+	A1	8/25/2017	8/30/2017	50,546.00	1.86	326.94	50,365.03	49,134.80
BRANCH BANKING & TRUST (CALLABLE) NOTES DTD 10/26/2017 2.150% 02/01/2021	05531FAZ6	80,000.00	A-	A2	10/23/2017	10/26/2017	79,963.20	2.17	286.67	79,972.61	78,081.36
BRANCH BANKING & TRUST (CALLABLE) NOTES DTD 10/26/2017 2.150% 02/01/2021	05531FAZ6	70,000.00	A-	A2	11/16/2017	11/20/2017	69,636.00	2.32	250.83	69,731.37	68,321.19
UNITED PARCEL SERVICE CORPORATE BOND DTD 11/14/2017 2.050% 04/01/2021	911312BP0	100,000.00	A+	A1	11/9/2017	11/14/2017	99,842.00	2.10	1,025.00	99,881.37	97,376.80
PEPSICO INC CORP (CALLABLE) NOTE DTD 10/10/2017 2.000% 04/15/2021	713448DX3	50,000.00	A+	A1	10/5/2017	10/10/2017	49,990.00	2.01	461.11	49,992.66	48,664.90
BANK OF AMERICA CORP (CALLABLE) DTD 09/18/2017 2.328% 10/01/2021	06051GGS2	150,000.00	A-	A3	11/27/2017	11/29/2017	149,293.50	2.46	1,746.00	149,444.12	146,752.95
Security Type Sub-Total		2,140,000.00					2,145,371.55	2.03	13,021.13	2,143,238.77	2,106,013.13

Commercial Paper

Managed Account Detail of Securities Held

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
Commercial Paper											
NATIXIS NY BRANCH COMM PAPER DTD 07/03/2018 0.000% 11/30/2018	63873KLW5	250,000.00	A-1	P-1	8/30/2018	8/31/2018	248,609.72	2.21	0.00	249,083.33	249,025.75
Security Type Sub-Total		250,000.00					248,609.72	2.21	0.00	249,083.33	249,025.75
Certificate of Deposit											
SKANDINAV ENSKILDA BANKEN NY CD DTD 08/04/2017 1.840% 08/02/2019	83050FXT3	300,000.00	A-1	P-1	8/3/2017	8/4/2017	299,883.00	1.85	920.00	299,950.98	298,056.00
MUFG BANK LTD/NY CERT DEPOS DTD 09/27/2017 2.070% 09/25/2019	06539RGM3	150,000.00	A-1	P-1	9/25/2017	9/27/2017	150,000.00	2.07	51.75	150,000.00	148,768.35
WESTPAC BANKING CORP NY CD DTD 08/07/2017 2.050% 08/03/2020	96121T4A3	270,000.00	AA-	Aa3	8/3/2017	8/7/2017	270,000.00	2.05	830.25	270,000.00	266,124.42
SWEDBANK (NEW YORK) CERT DEPOS DTD 11/17/2017 2.270% 11/16/2020	87019U6D6	150,000.00	AA-	Aa2	11/16/2017	11/17/2017	150,000.00	2.30	1,305.25	150,000.00	147,047.85
Security Type Sub-Total		870,000.00					869,883.00	2.03	3,107.25	869,950.98	859,996.62
Managed Account Sub Total		11,150,000.00					11,144,405.92	1.52	40,108.44	11,144,087.54	10,999,746.00
Securities Sub-Total		\$11,150,000.00					\$11,144,405.92	1.52%	\$40,108.44	\$11,144,087.54	\$10,999,746.00
Accrued Interest											\$40,108.44
Total Investments											\$11,039,854.44

Bolted items are forward settling trades.

IMPORTANT DISCLOSURES

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- 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.