



TOWN OF FOUNTAIN HILLS

Investment Performance Review For the Quarter Ended June 30, 2019

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QUARTERLY MARKET SUMMARY

SUMMARY

- The second quarter saw plunging interest rates, surging equity prices, mixed economic data and increasing global growth concerns. While few economists expect the decade-long U.S. expansion to end soon, the Federal Reserve's (Fed) cautionary tone set the stage for rate cuts in the second half of the year.
- U.S. economic conditions are characterized by: (1) solid gross domestic product (GDP) growth in Q1, but more tempered expectations for Q2; (2) strong job growth, with a low unemployment rate of 3.7%; (3) softening inflation pressures; and (4) increased downside risks, including a slowdown in manufacturing, weaker business investments and protracted trade wars.
- At its June meeting, the Federal Open Market Committee (FOMC) maintained the overnight fed funds rate at a target range of 2.25%-2.50%, but acknowledged soft business investment, declining market-based inflation measures and increased uncertainty to the outlook. In their latest assessment of monetary policy, nearly half of respondents viewed two rate cuts as appropriate by year-end. In subsequent communications, Fed chair Jerome Powell all but assured a first preemptive rate cut will occur at the Fed's next meeting on July 30-31.
- Equity investors seemed to rejoice in the Fed's more dovish stance. By quarter-end, domestic equity markets had reversed losses from May and reached new record highs. The S&P 500 returned 4.3% for the quarter and is now up 17.3% for the year – the best first half of a year since 1997.

ECONOMIC SNAPSHOT

- U.S. GDP grew 3.1% in Q1, up from 2.2% in Q4. Growth was driven by an unexpected improvement in net exports and outsized growth in inventories, factors that are not likely to be sustained. But consumer spending, which makes up more than two thirds of total economic output, increased at a slower pace relative to prior quarters. Forecasts for Q2 are substantially lower – generally in the 1.5% to 2.0% range.
- The U.S. labor market remained strong, with average job growth of 172,000 per month in 2019, compared with average gains of 223,000 in 2018. The unemployment rate stood at 3.7% in June, near a 49-year low, as the economy remains at what is considered "full employment." Wages also rose, but at a modest 3.1% growth rate over the past year.
- Inflation continued to be tame. The Consumer Price Index (CPI) rose 1.6% over the past year, while the Fed's preferred inflation gauge, the Core Personal Consumption Expenditure (PCE) Price Index, excluding food and energy prices, also rose 1.6% over the past year, below the Fed's target of 2%.
- Recent manufacturing data weakened in the face of slowing global demand. The most recent Institute for Supply Management (ISM) manufacturing survey fell to a 30-month low, while new orders for manufactured goods have fallen in three of the past four months. Conversely, consumer confidence remains near all-time highs, while retail sales rebounded from weakness in Q1.

INTEREST RATES

- U.S. Treasury yields fell for a third consecutive quarter, with maturities beyond one year falling 40 to 50 basis points (bps). The yield on most longer Treasury maturities are now near 18-month lows. At quarter-end, the yield on a 3-month Treasury bill stood at 2.09%, the 2-year note was 1.76%, the 5-year was 1.77% and the 10-year yielded 2.01%.
- The yield curve reached its greatest level of inversion since 2007, as the spread between the 10-year and 3-month Treasuries reached -28 bps, although it finished the quarter narrower as short-term rates trended lower in expectation of rate cuts.
- Money market yield curves for Treasury bills and commercial paper are also now inverted, reflecting the market's expectation for lower Fed policy rates in the term. However, yields on short-term commercial paper and bank certificates of deposit remain attractive versus short-term government securities, despite the inverted curve.

SECTOR PERFORMANCE

- Absolute returns were very strong in Q2 as lower yields pushed prices higher. Treasury benchmarks posted some of their strongest quarterly returns in three years. The increasing yield curve inversion further boosted the returns of longer duration instruments, outperforming shorter-maturity counterparts. For example, the 3-month Treasury bill index returned 0.64% for the quarter, while 5-year and 10-year Treasury indices returned 2.81% and 4.23%, respectively.
- Federal agency returns underperformed similar-duration Treasury securities for the quarter, as agency yield spreads continued to trade at very narrow levels. Callable agencies underperformed non-callable structures by a wider margin as the large downward move in yields increased the likelihood of call, limiting price appreciation.
- Modest incremental income on supranational debt compared to federal agencies helped buoy modest positive relative performance over the quarter. Despite the historically tight level of yield spreads, the sector served as a portfolio diversifier and performance enhancer relative to Treasuries and agencies over the past year.
- Following superb performance in Q1, investment-grade corporates continued to be one of the best performing sectors in Q2. Despite intra-quarter spread volatility, the incremental income from the sector-supported positive excess returns – returns in excess of Treasuries adjusted to similar duration. For the second consecutive quarter, lower-quality credits outperformed higher-quality issues as risk appetite held firm.
- AAA-rated asset-backed securities (ABS) were modestly additive to performance for the quarter, despite spreads bouncing off 10-year lows in June. Within ABS, fixed-rate dominated floating rate structures and credit card collateral outpaced auto loans.
- The continued drop in rates pressured mortgage-backed securities (MBS) in Q2, resulting in underperformance and strongly negative excess returns. The decline in mortgage rates triggered expected increases in principal prepayments, generally a negative for the sector. On the flip side, agency-backed commercial mortgage-backed securities (CMBS) generated positive excess returns in back-to-back quarters, as these structures have less prepayment variability and interest rate sensitivity.

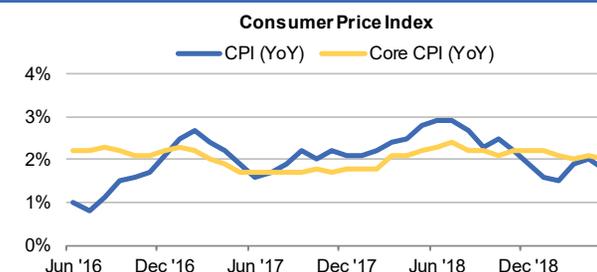
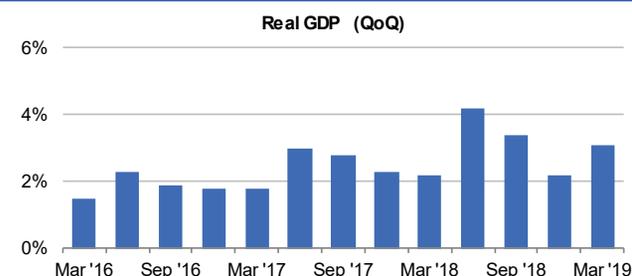
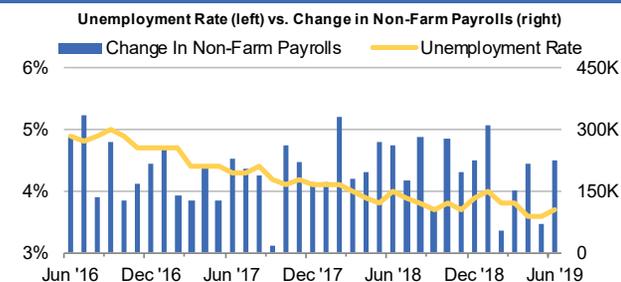
QUARTERLY MARKET SUMMARY

Economic Snapshot

Labor Market		Latest	Mar '19	Jun '18
Unemployment Rate	Jun '19	3.7%	3.8%	4.0%
Change In Non-Farm Payrolls	Jun '19	224,000	153,000	262,000
Average Hourly Earnings (YoY)	Jun '19	3.1%	3.2%	2.9%
Personal Income (YoY)	May '19	4.1%	3.5%	4.6%
Initial Jobless Claims (week)	Jun '19	221,000	204,000	229,000

Growth		Latest	Mar '19	Jun '18
Real GDP (QoQ SAAR)	2019Q1	3.1%	2.2% ¹	2.2% ²
GDP Personal Consumption (QoQ SAAR)	2019Q1	0.9%	2.5% ¹	0.5% ²
Retail Sales (YoY)	May '19	2.9%	3.8%	6.1%
ISM Manufacturing Survey (month)	Jun '19	51.7	55.3	60.0
Existing Home Sales SAAR (month)	May '19	5.34 mil.	5.21 mil.	5.39 mil.

Inflation / Prices		Latest	Mar '19	Jun '18
Personal Consumption Expenditures (YoY)	May '19	1.5%	1.5%	2.3%
Consumer Price Index (YoY)	May '19	1.8%	1.9%	2.9%
Consumer Price Index Core (YoY)	May '19	2.0%	2.0%	2.3%
Crude Oil Futures (WTI, per barrel)	Jun '19	\$58.47	\$60.14	\$74.15
Gold Futures (oz.)	Jun '19	\$1,414	\$1,293	\$1,255



1. Data as of Fourth Quarter 2018.

2. Data as of First Quarter 2018.

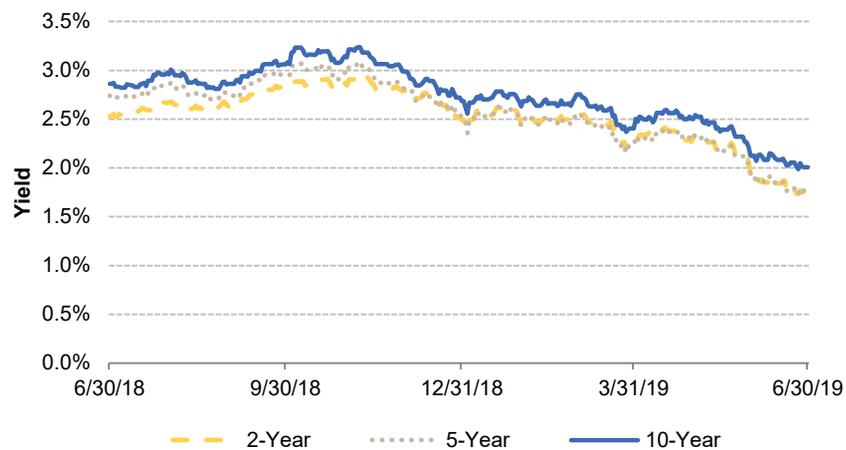
Note: YoY = year-over-year, QoQ = quarter-over-quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil.

Source: Bloomberg.

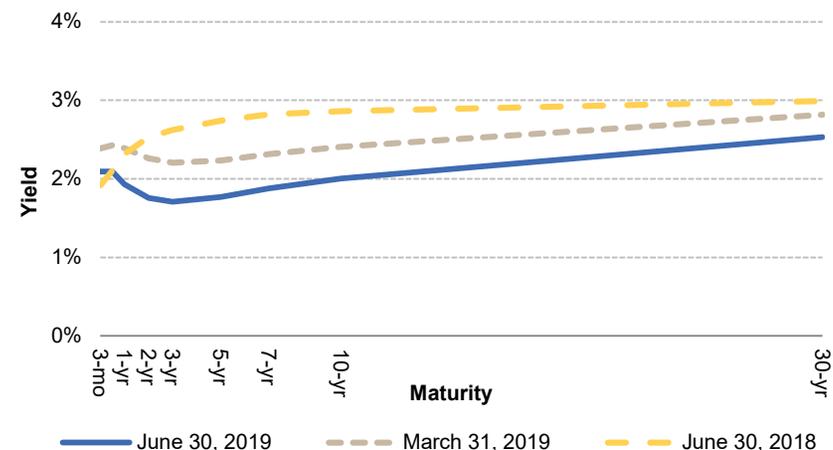
QUARTERLY MARKET SUMMARY

Interest Rate Overview

U.S. Treasury Note Yields



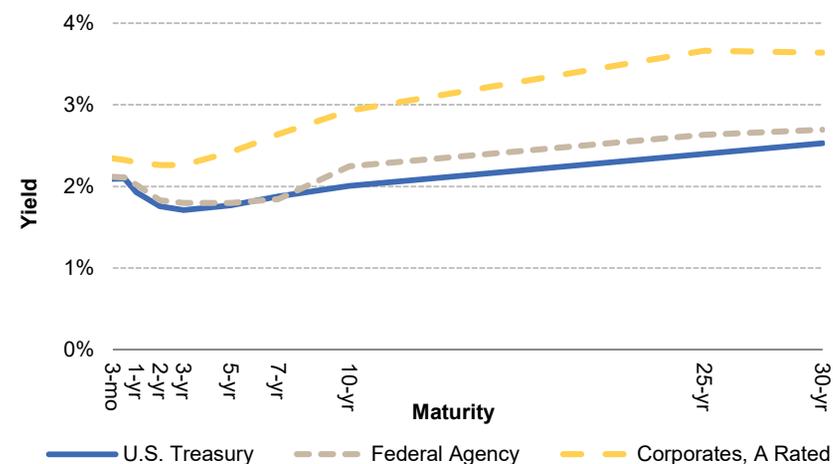
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	Jun '19	Mar '19	Change over Quarter	Jun '18	Change over Year
3-Month	2.09%	2.39%	(0.30%)	1.92%	0.17%
1-Year	1.93%	2.39%	(0.46%)	2.31%	(0.38%)
2-Year	1.76%	2.26%	(0.50%)	2.53%	(0.77%)
5-Year	1.77%	2.23%	(0.46%)	2.74%	(0.97%)
10-Year	2.01%	2.41%	(0.40%)	2.86%	(0.85%)
30-Year	2.53%	2.82%	(0.29%)	2.99%	(0.46%)

Yield Curves as of 6/30/19



Source: Bloomberg.

QUARTERLY MARKET SUMMARY

ICE BofAML Index Returns

June 30, 2019	As of 6/30/19		Returns for Periods ended 6/30/19		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.87	1.80%	1.44%	3.96%	1.29%
Federal Agency	1.54	1.83%	1.30%	3.88%	1.46%
U.S. Corporates, A-AAA rated	1.87	2.30%	1.54%	4.84%	2.13%
Agency MBS (0 to 3 years)	3.57	2.63%	1.59%	5.69%	2.10%
Taxable Municipals	1.77	2.19%	1.52%	4.77%	2.56%
1-5 Year Indices					
U.S. Treasury	2.63	1.77%	1.82%	4.89%	1.31%
Federal Agency	1.83	1.80%	1.44%	4.30%	1.46%
U.S. Corporates, A-AAA rated	2.65	2.36%	2.01%	6.06%	2.34%
Agency MBS (0 to 5 years)	3.18	2.68%	1.86%	5.56%	1.71%
Taxable Municipals	2.22	2.43%	1.38%	5.11%	2.45%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.64	1.94%	3.06%	7.33%	1.34%
Federal Agency	4.04	1.98%	2.32%	6.20%	1.89%
U.S. Corporates, A-AAA rated	7.46	2.87%	4.04%	10.11%	3.32%
Agency MBS (0 to 30 years)	3.83	2.75%	2.01%	6.32%	2.10%
Taxable Municipals	10.83	3.34%	4.99%	11.36%	4.38%

Returns for periods greater than one year are annualized.

Source: ICE BofAML Indices.

QUARTERLY MARKET SUMMARY

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Portfolio Recap

- ◆ Interest rates plummeted in the second quarter, with yields on 2- to 5-year Treasury securities falling around 50 basis points (0.50%) to the lowest levels since 2017. Rates fell in response to slowing global growth expectations, weakness in manufacturing due to renewed trade disputes, low inflation, and expectations for multiple Fed rate cuts in the second half of the year. Much of the yield curve remains inverted, where longer-term yields are lower than short-term yields.
- ◆ U.S. equity markets reached new all-time highs in the quarter and credit-sensitive fixed income assets performed well despite elevated geopolitical risks and yield spreads on corporate bonds widening modestly over the quarter.
- ◆ Our strategy throughout the quarter included the following elements:
 - Broad diversification, generally including the widest range of permitted investments, which reduces the overall risk in the portfolio and provides the opportunity for better returns over the long term.
 - We maintained a portfolio duration in line with the benchmark. Maintaining a neutral duration—despite the inverted yield curve—drove strong market-value returns across most fixed-income sectors as market prices on fixed-income securities tend to rise as yields fall.
 - Federal agency and supranational yields did not offer much value compared to treasury alternatives. This has been driven mainly by a lack of new supply, particularly in supranationals. Non-callable agencies generated small out-performance due to their modestly higher yields, but callable agencies underperformed as lower rates increased the likelihood of a call before maturity.
 - Corporate yield spreads remain tight by historical standards but widened briefly amid trade tensions. Corporates generated excess returns for the second consecutive quarter. We focused allocations on high quality issuers with relatively less exposure to international trade risks. We also had a slight preference for industrials over financials in the quarter.
 - Short-term commercial paper and negotiable bank CD yield spreads narrowed in the second quarter, reducing their overall attractiveness. By quarter-end, the money market yield curve was also inverted.

Investment Strategy Outlook

- ◆ While we expect U.S. and global economic growth to moderate in the second half of the year amid elevated risks to the economy, we do not believe a recession is imminent.
- ◆ The Fed has officially shifted its stance on monetary policy from “patient” to “appropriate,” and rates have continued to move lower. As such, our view is to continue to maintain a portfolio duration in line with the benchmark in order to minimize risk and optimize performance relative to the benchmark in the event yields continue to decline. While market-implied probabilities and economist surveys strongly suggest that the Fed will cut rates as early as July, the key questions of “when” and “how much” will drive our strategy over the rest of the year.
- ◆ Our outlook for each of the major investment-grade fixed-income sectors is as follows:
 - Federal agency spreads are very tight and we expect them to remain so. Although callable agency spreads are wider than they have been in a while, the sharp downward move in rates has reduced the likelihood of outperformance.
 - In supranationals, supply constraints have led us to recalibrate our strategy to account for lower allocations. We will still seek to add supranationals to the portfolio as attractive issues become available.
 - As a result of the Fed’s more accommodative stance and our positive view of the corporate sector, we will maintain corporate allocations and seek to modestly extend the duration of our allocations, while remaining diligent in our issuer and security selection process.
 - Historically tight spreads have also reduced the range of high-quality, short-term credit issues that offer adequate incremental income to warrant purchase. Careful maturity selection around Fed meeting expectations will be an important consideration going forward, particularly with both the Treasury and credit yield curves inverted.

Sector Allocation and Compliance

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

Security Type	Market Value	% of Portfolio	% Change vs. 3/31/19	Permitted by Policy	In Compliance
U.S. Treasury	\$2,533,485	28.1%	+2.0%	100%	✓
Federal Agency	\$2,369,538	26.3%	-4.5%	100%	✓
Supranationals	\$598,452	6.6%	+1.6%	100%	✓
Negotiable CDs	\$1,119,239	12.4%	+0.8%	30%	✓
Corporate Notes	\$2,138,370	23.7%	+5.6%	30%	✓
Commercial Paper	\$248,654	2.8%	-5.3%	30%	✓
Securities Sub-Total	\$9,007,739	100.0%			
Accrued Interest	\$42,811				
Securities Total	\$9,050,550				
Money Market Fund	\$0	0.0%	-0.1%	100%	✓
Total Investments	\$9,050,550	100.0%			

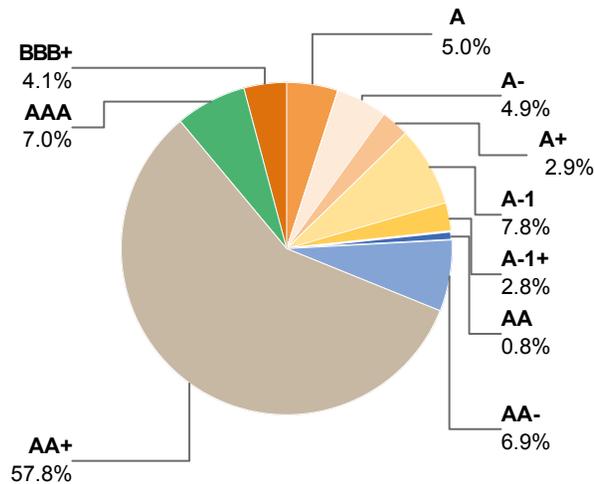
Market values, excluding accrued interest. Detail may not add to total due to rounding. Current investment policy as of April 2017.

Portfolio Statistics

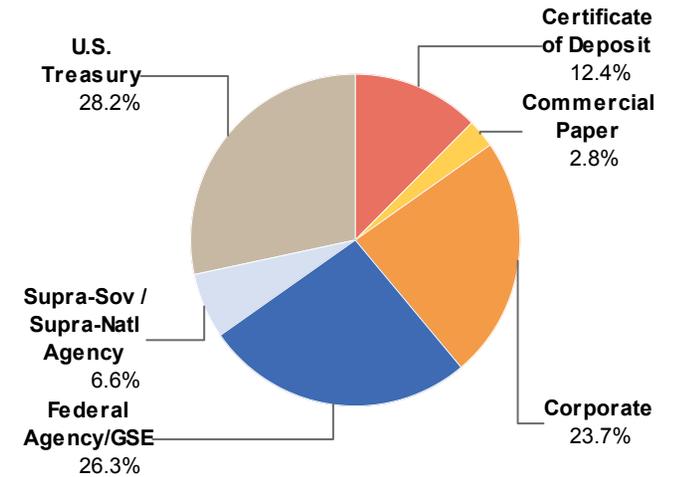
As of June 30, 2019

Par Value:	\$9,030,000
Total Market Value:	\$9,050,550
Security Market Value:	\$9,007,739
Accrued Interest:	\$42,811
Cash:	-
Amortized Cost:	\$9,023,988
Yield at Market:	2.19%
Yield at Cost:	1.75%
Effective Duration:	0.62 Years
Duration to Worst:	0.64 Years
Average Maturity:	0.65 Years
Average Credit: *	AA

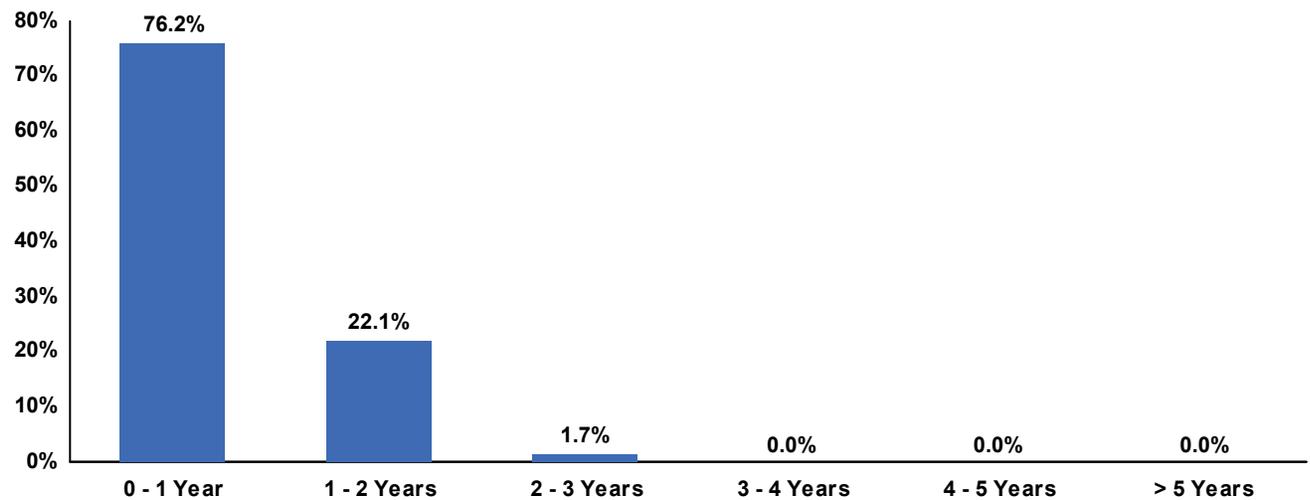
Credit Quality (S&P Ratings)**



Sector Allocation



Maturity Distribution

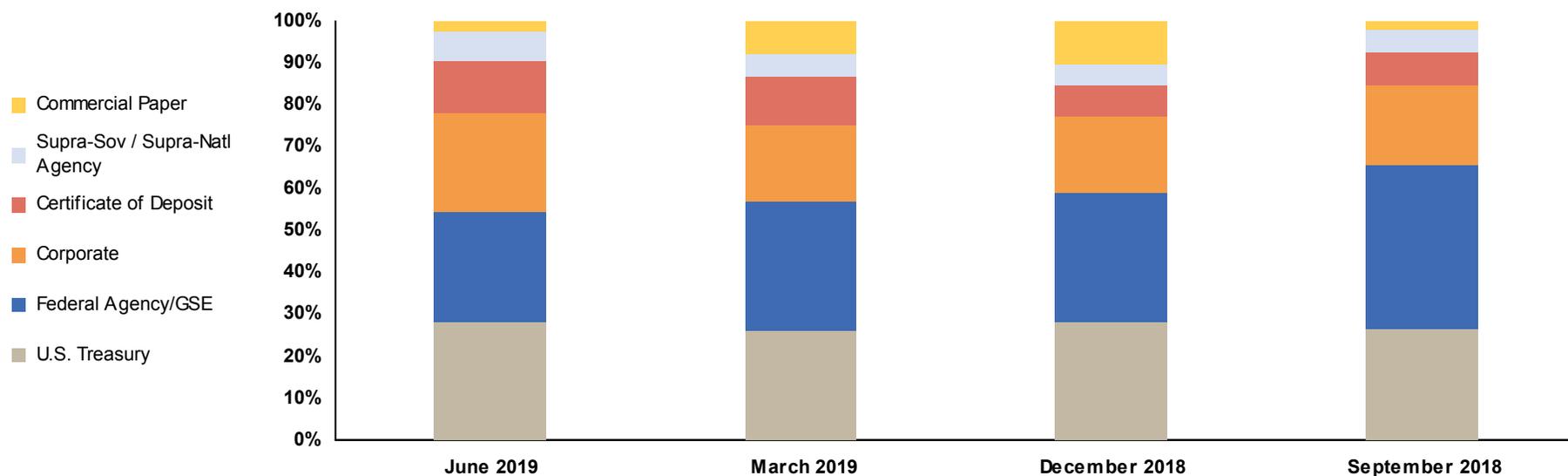


*An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

**Securities held in the Town's portfolio are in compliance with Arizona Revised Statutes and the Town's investment policy dated April 2017.

Sector Allocation

Sector	June 30, 2019		March 31, 2019		December 31, 2018		September 30, 2018	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
U.S. Treasury	2.5	28.2%	3.1	26.2%	3.2	28.0%	2.9	26.5%
Federal Agency/GSE	2.4	26.3%	3.6	30.7%	3.6	31.0%	4.3	38.9%
Corporate	2.1	23.7%	2.1	18.2%	2.1	18.2%	2.1	19.2%
Certificate of Deposit	1.1	12.4%	1.4	11.7%	0.9	7.4%	0.9	7.8%
Supra-Sov / Supra-Natl Agency	0.6	6.6%	0.6	5.1%	0.6	5.1%	0.6	5.3%
Commercial Paper	0.2	2.8%	0.9	8.1%	1.2	10.3%	0.2	2.3%
Total	\$9.0	100.0%	\$11.7	100.0%	\$11.6	100.0%	\$11.0	100.0%

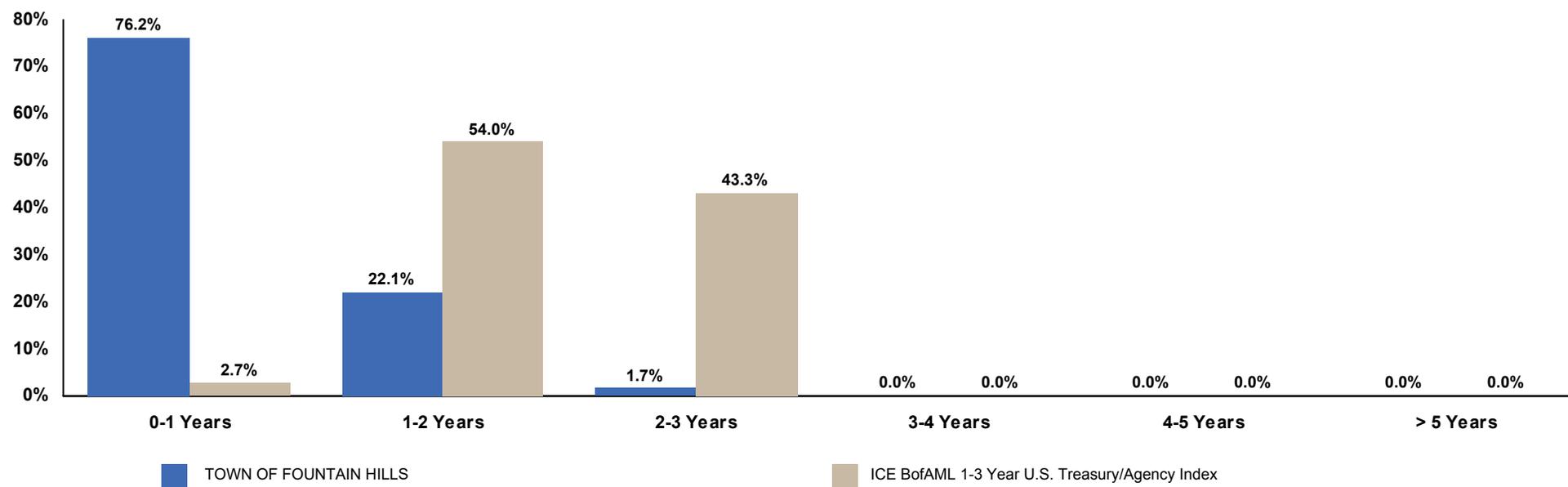


Detail may not add to total due to rounding.

Maturity Distribution

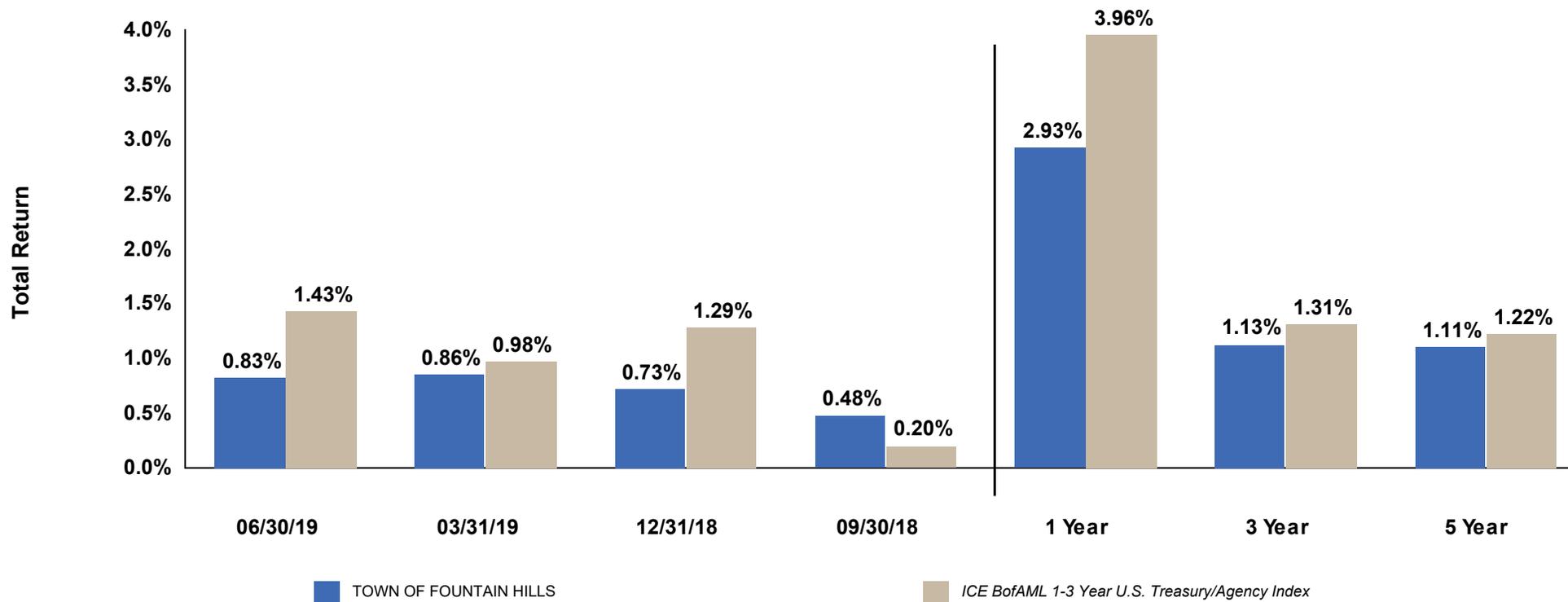
As of June 30, 2019

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	2.19%	0.65 yrs	76.2%	22.1%	1.7%	0.0%	0.0%	0.0%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index	1.80%	1.94 yrs	2.7%	54.0%	43.3%	0.0%	0.0%	0.0%



Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended				1 Year	Annualized Return	
		06/30/19	03/31/19	12/31/18	09/30/18		3 Year	5 Year
TOWN OF FOUNTAIN HILLS	0.62	0.83%	0.86%	0.73%	0.48%	2.93%	1.13%	1.11%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index	1.80	1.43%	0.98%	1.29%	0.20%	3.96%	1.31%	1.22%
Difference		-0.60%	-0.12%	-0.56%	0.28%	-1.03%	-0.18%	-0.11%



Portfolio performance is gross of fees unless otherwise indicated.

Portfolio Earnings*Quarter-Ended June 30, 2019*

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (03/31/2019)	\$11,698,638.63	\$11,756,585.23
Net Purchases/Sales	(\$2,738,808.59)	(\$2,738,808.59)
Change in Value	\$47,908.73	\$6,211.35
Ending Value (06/30/2019)	\$9,007,738.77	\$9,023,987.99
Interest Earned	\$40,131.97	\$40,131.97
Portfolio Earnings	\$88,040.70	\$46,343.32

Sector/Issuer Distribution

As of June 30, 2019

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Certificate of Deposit			
CITIGROUP INC	250,469	22.4%	2.8%
MITSUBISHI UFJ FINANCIAL GROUP INC	149,784	13.4%	1.7%
SKANDINAVISKA ENSKILDA BANKEN AB	299,806	26.8%	3.3%
SWEDBANK AB	149,558	13.4%	1.7%
WESTPAC BANKING CORP	269,623	24.1%	3.0%
Sector Total	1,119,239	100.0%	12.4%
Commercial Paper			
DEXIA GROUP	248,654	100.0%	2.8%
Sector Total	248,654	100.0%	2.8%
Corporate			
AMERICAN EXPRESS CO	149,821	7.0%	1.7%
AMERICAN HONDA FINANCE	149,677	7.0%	1.7%
APPLE INC	149,920	7.0%	1.7%
BANK OF AMERICA CO	149,819	7.0%	1.7%
BB&T CORPORATION	149,735	7.0%	1.7%
CATERPILLAR INC	114,595	5.4%	1.3%
EXXON MOBIL CORP	149,747	7.0%	1.7%
GENERAL ELECTRIC CO	71,428	3.3%	0.8%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
GOLDMAN SACHS GROUP INC	150,168	7.0%	1.7%
HONEYWELL INTERNATIONAL	39,930	1.9%	0.4%
IBM CORP	149,139	7.0%	1.7%
INTEL CORPORATION	74,731	3.5%	0.8%
JOHNSON & JOHNSON	35,030	1.6%	0.4%
JP MORGAN CHASE & CO	144,956	6.8%	1.6%
PACCAR FINANCIAL CORP	39,969	1.9%	0.4%
PEPSICO INC	49,986	2.3%	0.6%
TOYOTA MOTOR CORP	149,926	7.0%	1.7%
UNITED PARCEL SERVICE INC	99,834	4.7%	1.1%
VISA INC	50,078	2.3%	0.6%
WAL-MART STORES INC	69,881	3.3%	0.8%
Sector Total	2,138,370	100.0%	23.7%
Federal Agency/GSE			
FANNIE MAE	798,705	33.7%	8.9%
FREDDIE MAC	1,570,834	66.3%	17.4%
Sector Total	2,369,538	100.0%	26.3%
Supra-Sov / Supra-Natl Agency			
AFRICAN DEVELOPMENT BANK	74,795	12.5%	0.8%
INTER-AMERICAN DEVELOPMENT BANK	150,372	25.1%	1.7%
INTL BANK OF RECONSTRUCTION AND DEV	373,286	62.4%	4.1%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Sector Total	598,452	100.0%	6.6%
U.S. Treasury			
UNITED STATES TREASURY	2,533,485	100.0%	28.1%
Sector Total	2,533,485	100.0%	28.1%
Portfolio Total	9,007,739	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									
4/24/19	4/24/19	250,000	17305TG71	CITIBANK NA CERT DEPOS	2.57%	10/21/19	250,000.00	2.57%	
Total BUY		250,000					250,000.00		
INTEREST									
4/1/19	4/1/19	0	MONEY0002	MONEY MARKET FUND					30.81
4/1/19	4/1/19	100,000	911312BP0	UNITED PARCEL SERVICE CORPORATE BOND	2.05%	4/1/21	1,025.00		
4/1/19	4/1/19	150,000	06051GGS2	BANK OF AMERICA CORP (CALLABLE)	2.32%	10/1/21	1,746.00		
4/9/19	4/9/19	70,000	931142DY6	WAL-MART STORES INC CORP NOTE	1.75%	10/9/19	612.50		
4/15/19	4/15/19	400,000	3137EADZ9	FREDDIE MAC NOTES	1.12%	4/15/19	2,250.00		
4/15/19	4/15/19	50,000	713448DX3	PEPSICO INC CORP (CALLABLE) NOTE	2.00%	4/15/21	500.00		
4/20/19	4/20/19	325,000	3137EAEF2	FHLMC AGENCY NOTES	1.37%	4/20/20	2,234.38		
4/23/19	4/23/19	95,000	38148LAA4	GOLDMAN SACHS GRP INC CORP NT (CALLABLE)	2.60%	4/23/20	1,235.00		
4/30/19	4/30/19	120,000	912828L99	US TREASURY NOTES	1.37%	10/31/20	825.00		
4/30/19	4/30/19	40,000	438516BQ8	HONEYWELL INTERNATIONAL CORP NOTES	1.80%	10/30/19	360.00		
4/30/19	4/30/19	150,000	025816BP3	AMERICAN EXPRESS CO CORP (CALLABLE) NOTE	2.20%	10/30/20	1,650.00		
4/30/19	4/30/19	115,000	912828D23	US TREASURY NOTES	1.62%	4/30/19	934.38		
4/30/19	4/30/19	270,000	912828F62	US TREASURY NOTES	1.50%	10/31/19	2,025.00		
5/1/19	5/1/19	0	MONEY0002	MONEY MARKET FUND					386.58
5/9/19	5/9/19	150,000	4581X0CD8	INTER-AMERICAN DEVELOPMENT BANK	2.12%	11/9/20	1,593.75		
5/10/19	5/10/19	35,000	478160CH5	JOHNSON & JOHNSON CORP NOTE	1.95%	11/10/20	341.25		
5/11/19	5/11/19	75,000	458140AZ3	INTEL CORP NOTES	1.85%	5/11/20	693.75		
5/13/19	5/13/19	150,000	037833DJ6	APPLE INC	2.00%	11/13/20	1,500.00		
5/13/19	5/13/19	85,000	02665WBZ3	AMERICAN HONDA FINANCE	2.00%	11/13/19	850.00		
5/13/19	5/13/19	40,000	69371RN85	PACCAR FINANCIAL CORP NOTES	2.05%	11/13/20	410.00		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
5/15/19	5/15/19	150,000	459200HM6	IBM CREDIT CORPORATE NOTE	1.62%	5/15/20	1,218.75		
5/16/19	5/16/19	150,000	87019U6D6	SWEDBANK (NEW YORK) CERT DEPOS	2.27%	11/16/20	1,711.96		
5/27/19	5/27/19	150,000	459058FS7	INTL BANK OF RECON AND DEV GLOBAL NOTES	1.12%	11/27/19	844.50		
5/31/19	5/31/19	175,000	912828SX9	US TREASURY NOTES	1.12%	5/31/19	984.38		
6/3/19	6/3/19	0	MONEY0002	MONEY MARKET FUND			156.46		
6/14/19	6/14/19	50,000	92826CAB8	VISA INC (CALLABLE) CORP NOTES	2.20%	12/14/20	550.00		
6/21/19	6/21/19	600,000	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	3,375.00		
6/21/19	6/21/19	250,000	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	1,406.25		
Total INTEREST		3,945,000					31,450.70		
MATURITY									
4/15/19	4/15/19	400,000	3137EADZ9	FREDDIE MAC NOTES	1.12%	4/15/19	400,000.00		0.00
4/17/19	4/17/19	450,000	09659CRH3	BNP PARIBAS NY BRANCH COMM PAPER	0.00%	4/17/19	450,000.00		0.00
4/30/19	4/30/19	115,000	912828D23	US TREASURY NOTES	1.62%	4/30/19	115,000.00		0.00
5/23/19	5/23/19	250,000	90333VZL7	US BANK NA CINCINNATI CERT DEPOS	2.81%	5/23/19	254,136.94		0.00
5/29/19	5/29/19	250,000	60700A6Y5	MIZUHO BANK LTD/NY CERT DEPOS	2.66%	5/29/19	252,216.67		0.00
5/31/19	5/31/19	175,000	912828SX9	US TREASURY NOTES	1.12%	5/31/19	175,000.00		0.00
6/4/19	6/4/19	250,000	63873KT49	NATIXIS NY BRANCH COMM PAPER	0.00%	6/4/19	250,000.00		0.00
6/21/19	6/21/19	600,000	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	600,000.00		0.00
6/21/19	6/21/19	250,000	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	250,000.00		0.00
Total MATURITY		2,740,000					2,746,353.61		0.00
SELL									
4/24/19	4/24/19	250,000	912828F62	US TREASURY NOTES	1.50%	10/31/19	250,621.44	2.43%	8.75

TOWN OF FOUNTAIN HILLS

Portfolio Activity

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
Total	SELL	250,000					250,621.44		8.75

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 09/30/2014 1.750% 09/30/2019	912828F39	325,000.00	AA+	Aaa	2/27/2019	2/28/2019	323,527.34	2.53	1,429.64	324,374.68	324,657.13
US TREASURY NOTES DTD 10/31/2014 1.500% 10/31/2019	912828F62	270,000.00	AA+	Aaa	3/27/2019	3/29/2019	268,523.44	2.44	682.34	269,168.18	269,441.10
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	4,431.98	848,691.04	845,816.30
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	1,608.53	349,532.13	348,441.45
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	1,484.63	522,729.92	521,554.95
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	482.56	104,920.83	104,351.94
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	277.99	119,575.63	119,221.92
Security Type Sub-Total		2,545,000.00					2,522,947.65	1.80	10,397.67	2,538,992.41	2,533,484.79
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	236.72	74,937.97	74,794.50
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	159.38	149,765.61	149,325.00
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	396.09	74,993.74	74,714.93
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	708.95	149,853.27	149,245.95

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	460.42	150,621.57	150,372.00
Security Type Sub-Total		600,000.00					599,161.37	1.64	1,961.56	600,172.16	598,452.38
Federal Agency Bond / Note											
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	590.63	149,987.33	149,878.65
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	2,165.63	549,977.53	549,555.05
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	1,177.00	324,984.15	324,606.10
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	1,622.92	474,960.22	474,098.45
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	3,758.33	549,952.63	548,050.25
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	881.34	324,697.86	323,349.65
Security Type Sub-Total		2,375,000.00					2,370,307.00	1.18	10,195.85	2,374,559.72	2,369,538.15
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	470.71	54,999.79	54,986.14
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	279.03	69,999.78	69,881.14
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	122.00	39,994.77	39,929.68

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											
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	226.67	84,991.09	84,888.74
JPMORGAN CHASE & CO (CALLABLE) DTD 01/23/2015 2.250% 01/23/2020	46625HKA7	145,000.00	A-	A2	7/7/2017	7/12/2017	145,394.40	2.14	1,431.88	145,078.64	144,955.63
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	916.17	150,069.56	149,746.95
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	976.46	150,382.99	149,926.20
GOLDMAN SACHS GRP INC CORP NT (CALLABLE) 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	466.56	95,222.60	95,181.64
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	192.71	74,987.92	74,730.53
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	311.46	149,605.11	149,138.85
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	566.85	64,976.52	64,787.91
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	691.44	114,961.40	114,594.97
GENERAL ELECTRIC CAPITAL CORP CORP NOTE DTD 09/16/2010 4.375% 09/16/2020	36962G4R2	70,000.00	BBB+	Baa1	8/30/2017	8/31/2017	75,236.00	1.84	893.23	72,114.20	71,428.49
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	559.17	149,911.94	149,820.60
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	96.69	34,982.77	35,030.24
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	109.33	39,998.33	39,969.48

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											
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	400.00	149,941.67	149,919.90
VISA INC (CALLABLE) CORP NOTES DTD 12/14/2015 2.200% 12/14/2020	92826CAB8	50,000.00	AA-	Aa3	8/25/2017	8/30/2017	50,546.00	1.86	51.94	50,237.63	50,078.45
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	627.08	69,816.14	69,876.52
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	716.67	79,981.26	79,858.88
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	512.50	99,916.34	99,834.40
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	211.11	49,994.79	49,986.30
BANK OF AMERICA CORP (CALLABLE) DTD 09/18/2017 2.328% 10/01/2021	06051GGS2	150,000.00	A-	A2	11/27/2017	11/29/2017	149,293.50	2.46	873.00	149,579.43	149,818.50
Security Type Sub-Total		2,140,000.00					2,145,371.55	2.03	11,702.66	2,141,744.67	2,138,370.14
Commercial Paper											
DEXIA CREDIT LOCAL SA NY COMM PAPER DTD 01/24/2019 0.000% 09/16/2019	25214W3X4	250,000.00	A-1+	P-1	1/23/2019	1/24/2019	245,495.83	2.81	0.00	248,524.17	248,654.00
Security Type Sub-Total		250,000.00					245,495.83	2.81	0.00	248,524.17	248,654.00
Certificate of Deposit											
SKANDINAVISKA 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	2,284.67	299,994.86	299,805.90

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
Certificate of Deposit											
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	2,406.38	150,000.00	149,784.00
CITIBANK NA CERT DEPOS DTD 04/24/2019 2.570% 10/21/2019	17305TG71	250,000.00	A-1	P-1	4/24/2019	4/24/2019	250,000.00	2.57	1,213.61	250,000.00	250,468.80
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	2,214.00	270,000.00	269,622.81
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	435.08	150,000.00	149,557.80
Security Type Sub-Total		1,120,000.00					1,119,883.00	2.15	8,553.74	1,119,994.86	1,119,239.31
Managed Account Sub Total		9,030,000.00					9,003,166.40	1.75	42,811.48	9,023,987.99	9,007,738.77
Securities Sub-Total		\$9,030,000.00					\$9,003,166.40	1.75%	\$42,811.48	\$9,023,987.99	\$9,007,738.77
Accrued Interest											\$42,811.48
Total Investments											\$9,050,550.25

Bolded items are forward settling trades.

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.