



# TOWN OF FOUNTAIN HILLS

## Investment Performance Review For the Quarter Ended September 30, 2019

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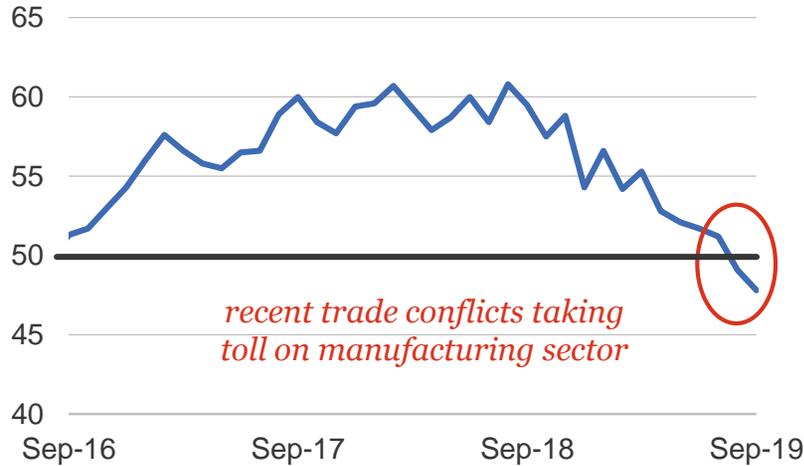
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## Market Indicators Mixed, but Recession Does Not Appear Imminent

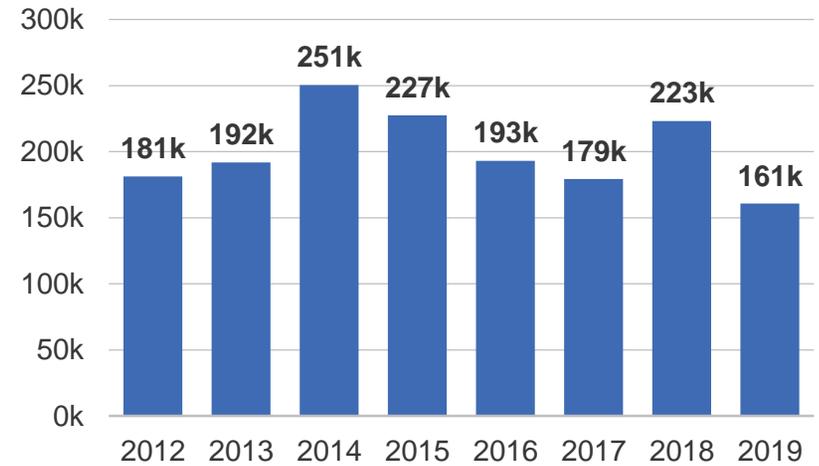
ISM Manufacturing Activity Index

*Recession fears growing as manufacturing slows and job growth moderates...*



*recent trade conflicts taking toll on manufacturing sector*

Average Monthly Job Growth

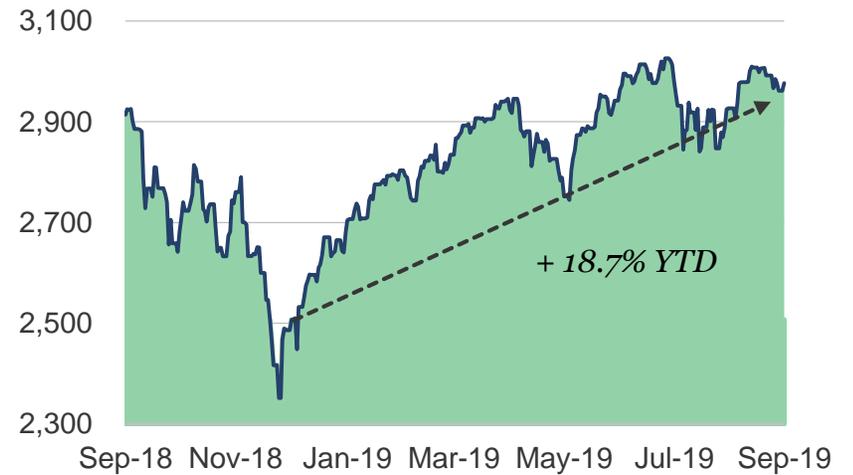


Conference Board Consumer Confidence

*...but consumers remain confident and financial markets seem optimistic*



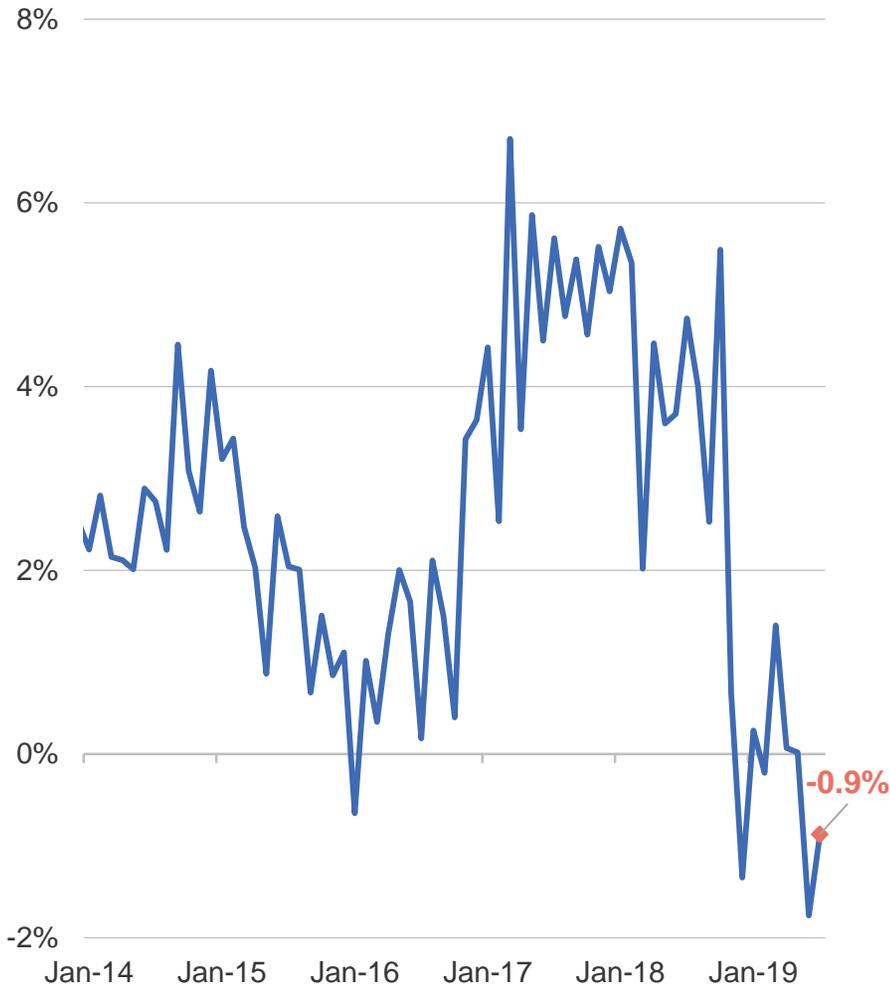
S&P 500 Price Change



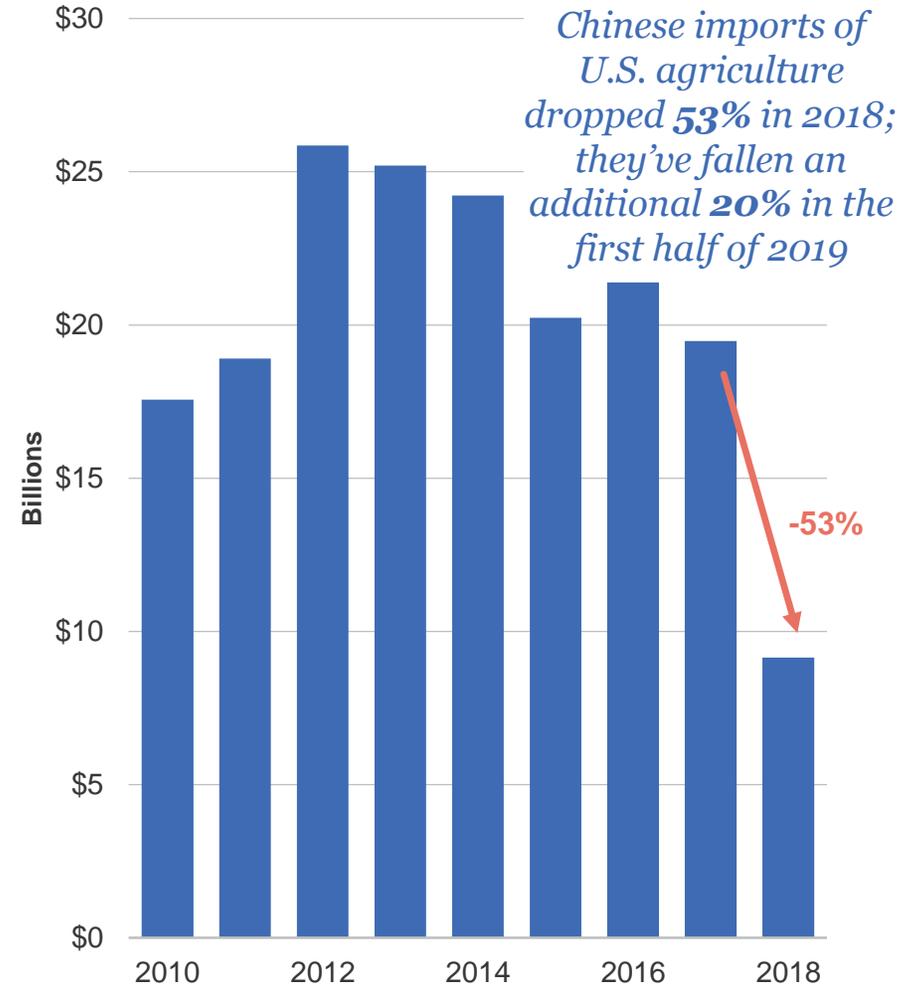
Source: Bloomberg, data available as of 9/30/19.

## Tariffs Take a Toll on Global Trade Volume, Especially U.S. Agriculture

### Global Trade Volume YoY



### U.S. Agricultural Exports to China



Source: CPB (left); Wall Street Journal & USDA Foreign Agricultural Service (right).

## The OECD Follows World Bank & IMF in Lowering Growth Projections

- ◆ The world growth outlook was cut to 2.9% for 2019, down from the 3.2% projection from 4 months ago.
- ◆ This rate is the slowest pace since the global financial crisis.

*“The global economy has become increasingly fragile and uncertain, with growth slowing and downside risks continuing to mount.”*

*-OECD, 9/19/19*

### OECD GDP Growth Projections September 2019

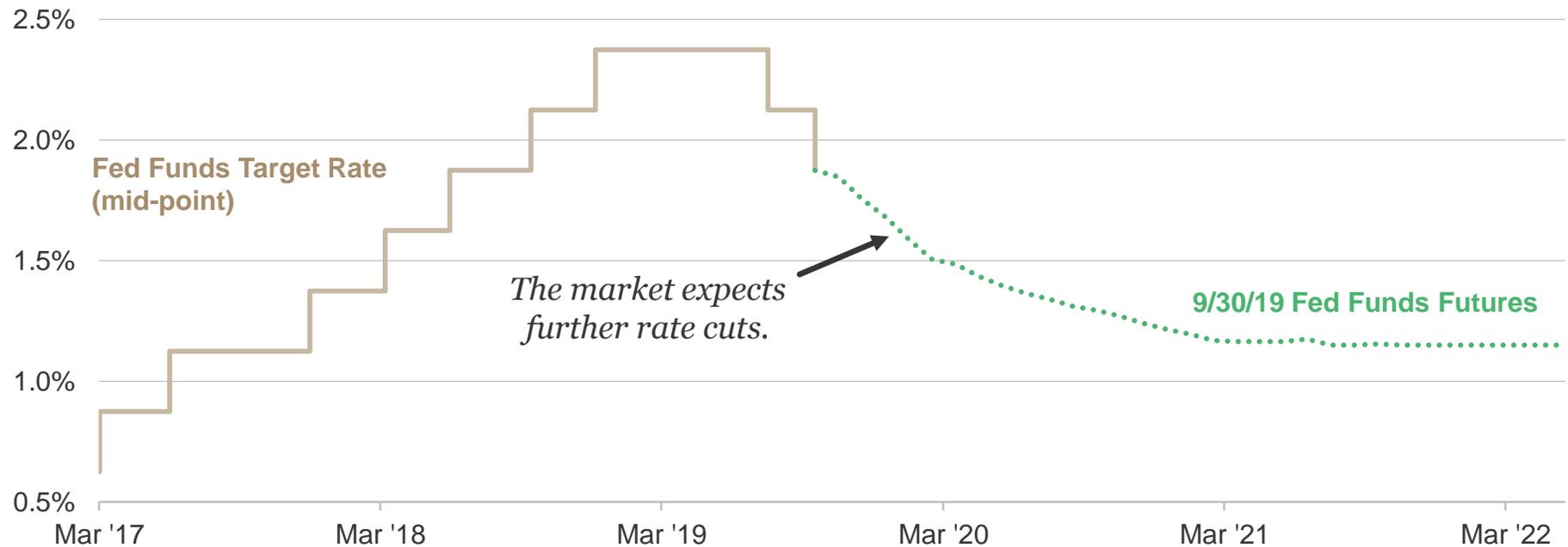
Region	2019	2020
World	2.9% ↓	3.0% ↓
U.S.	2.4% ↓	2.0% ↓
China	6.1% ↓	5.7% ↓
United Kingdom	1.0% ↓	0.9% ↓
Euro Area	1.1% ↓	1.0% ↓
Germany	0.5% ↓	0.6% ↓
France	1.3%	1.2% ↓
Italy	0.0%	0.4% ↓
Japan	1.0% ↑	0.6%
Canada	1.5% ↑	1.6% ↓

Source: The Organization for Economic Co-operation and Development. Arrows indicate change from prior projection.

### The Federal Reserve Cut Rates in July and September



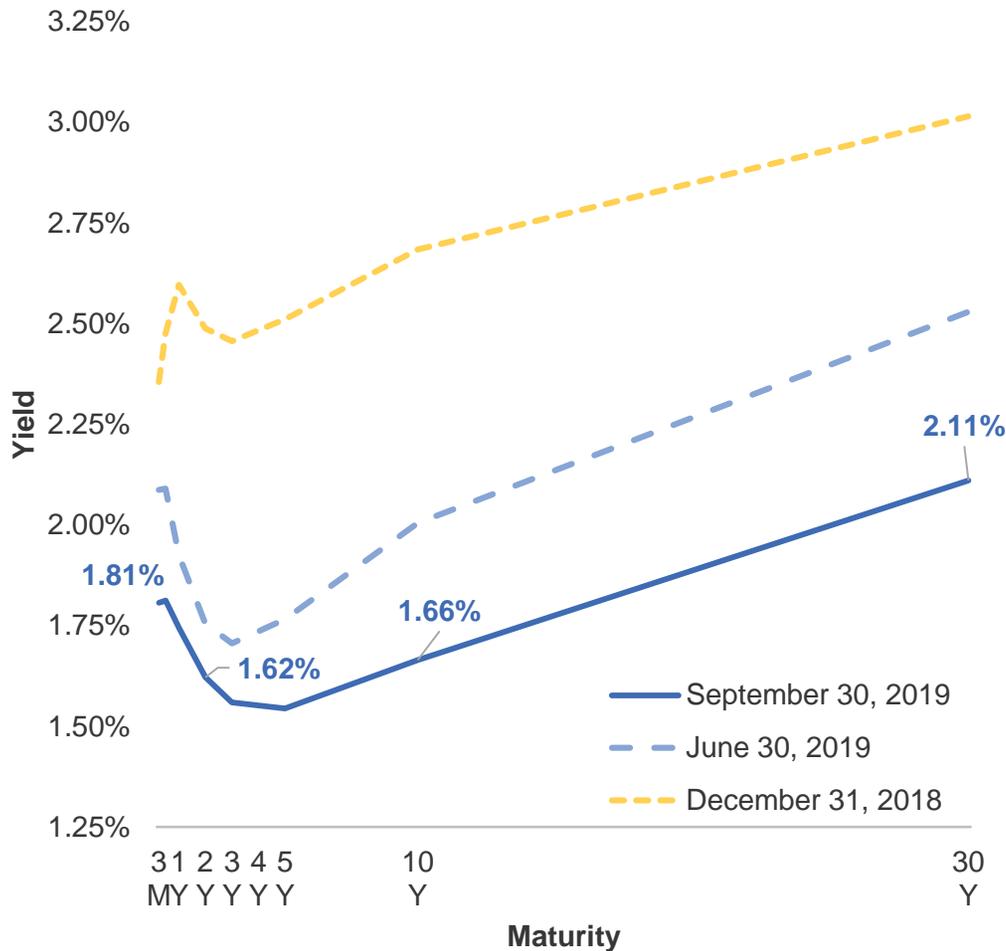
The Fed cited “...weak global growth...trade policy uncertainty...and muted inflation...”



Source: Federal Reserve and Bloomberg.

## Yields Continued to Decline in the Third Quarter

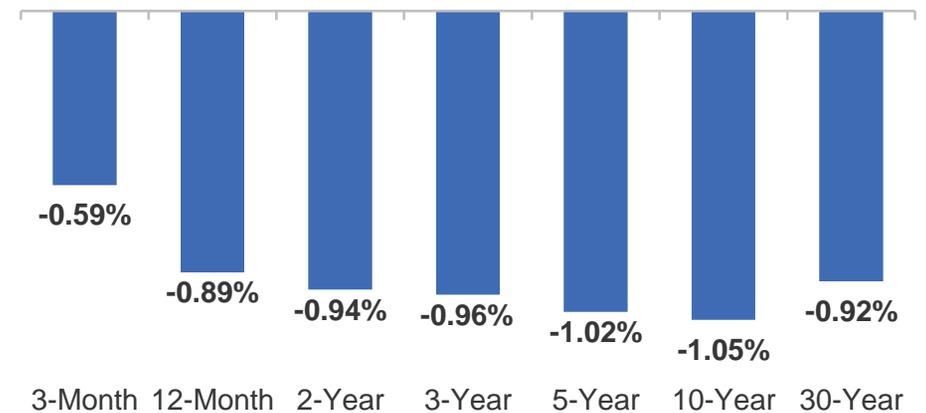
### U.S. Treasury Yield Curve



### Q3 Change in Yield



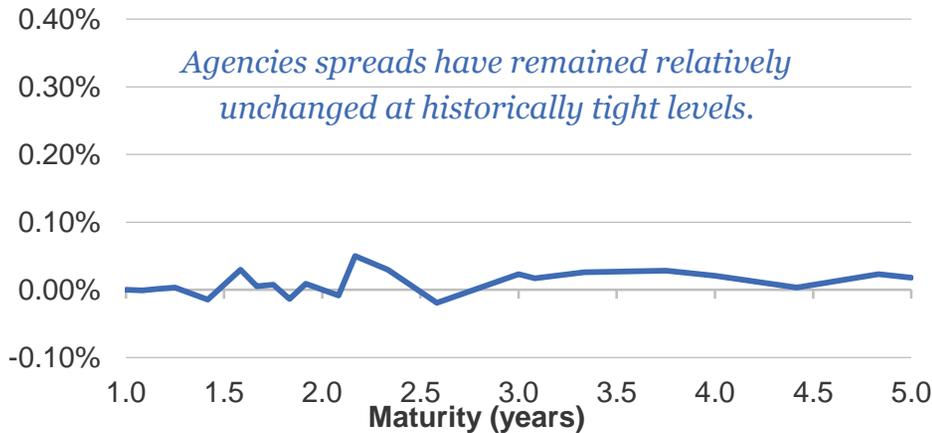
### YTD Change in Yield



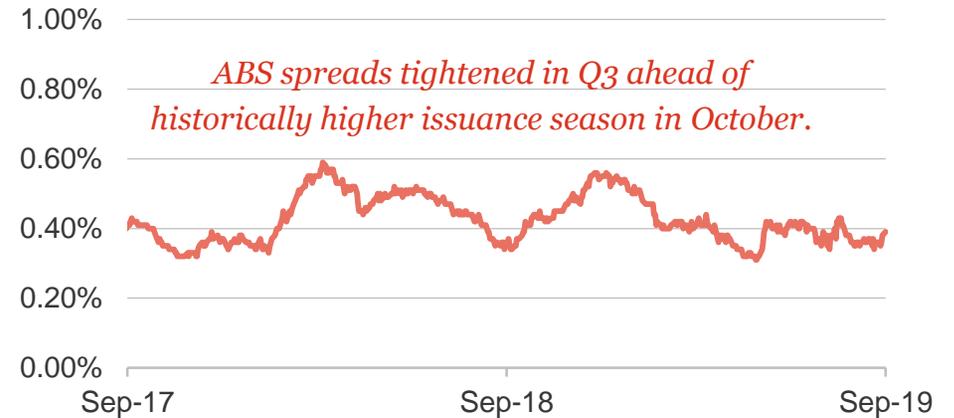
Source: Bloomberg, as of 9/30/19.

## Yield Spreads Narrow Across All Spread Sectors

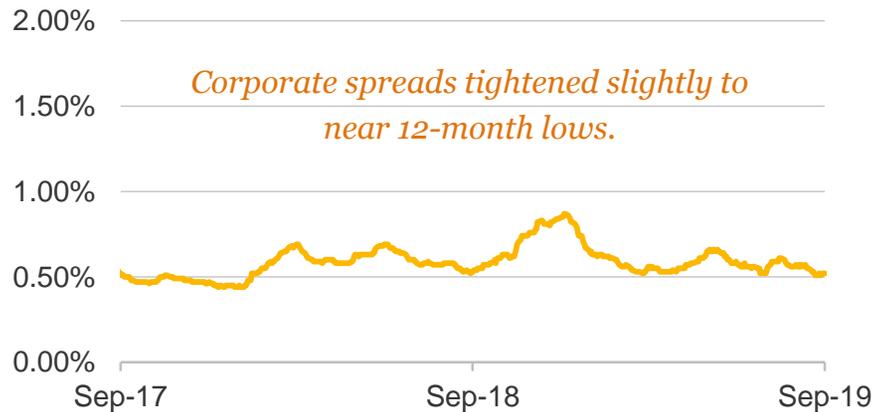
### Federal Agency Yield Spreads



### Auto Asset-Backed Securities Yield Spreads



### Corporate Notes (1-5 yr A-AAA) Yield Spreads



### Mortgage-Backed Securities Yield Spreads

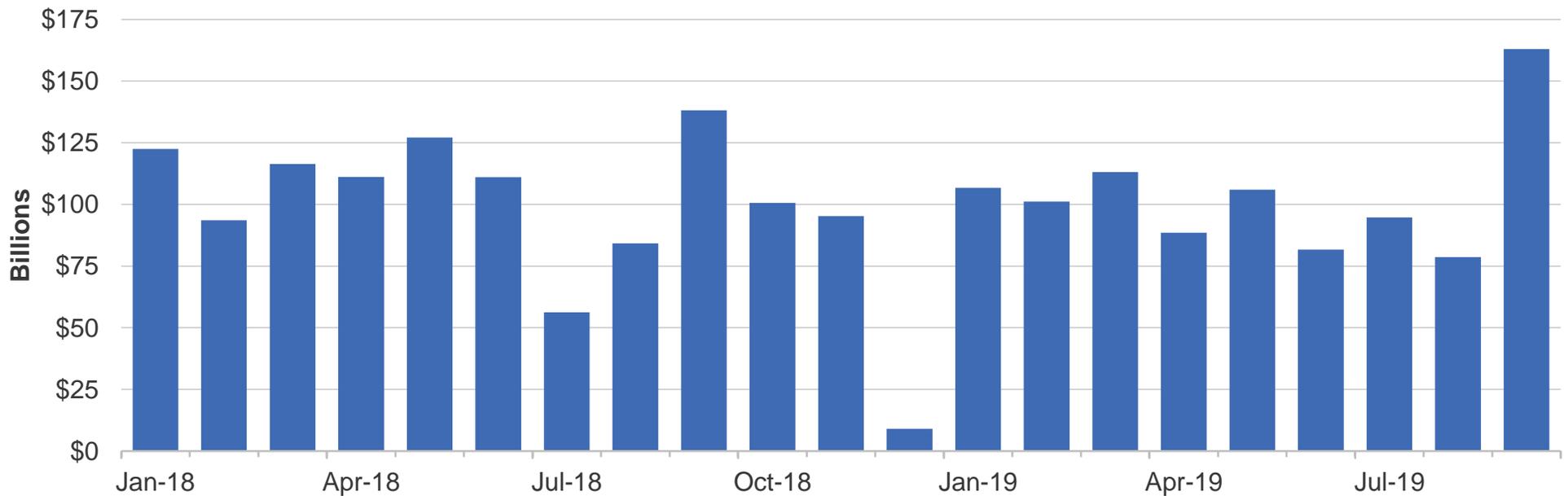


Source: Bloomberg, MarketAxess, and PFM. Spreads on ABS and MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. ICE BofAML 1-5 year Indices. Data as of 9/30/19. CMBS refers to Commercial Mortgage-Backed Securities.

## Corporate Issuance Surges in September

- ◆ After a slow start to the quarter, investment grade corporate issuance broke records in September.
  - \$163 billion issued in September.
  - Third busiest month on record.
  - The first week of September was the busiest single week on record.
- ◆ Spreads tightened as demand was high to meet the surge in supply.

### U.S. Corporate Investment Grade Issuance



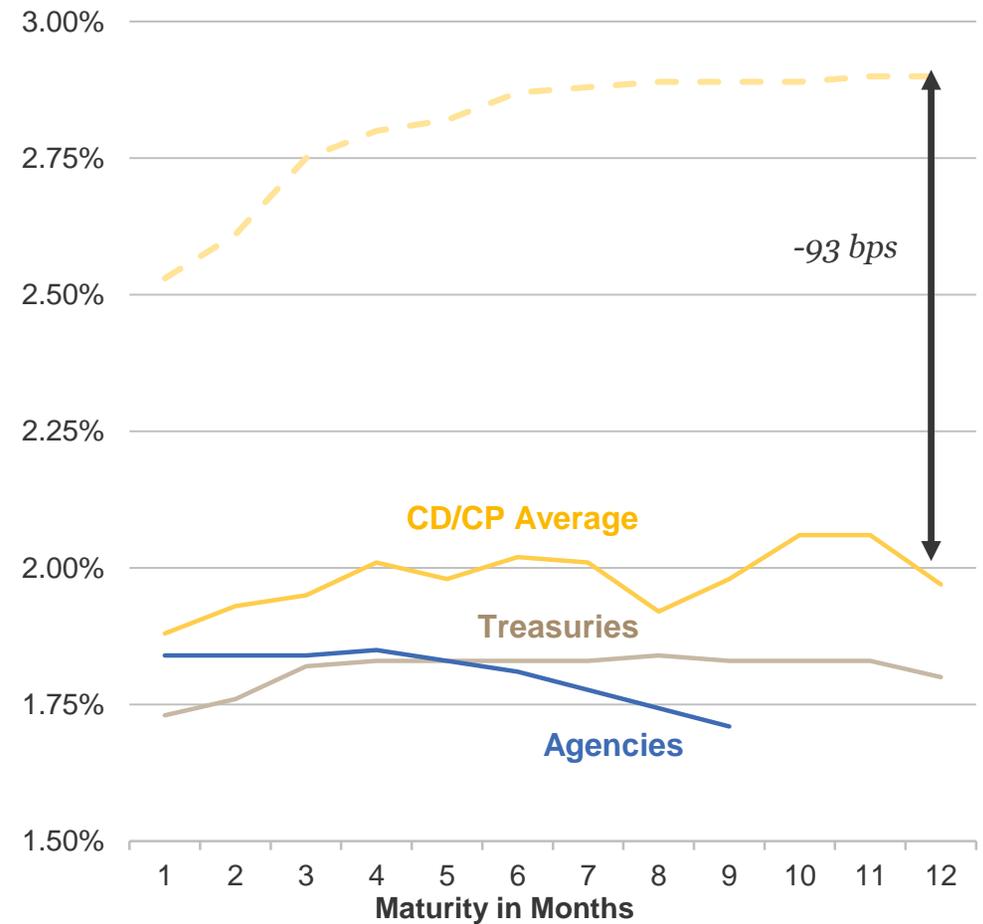
Source: SIFMA, as of September 2019.

## Short-Term Credit Spreads Stretch to Near 8-Month Wides

### Yield Spread on 6-month Commercial Paper over T-Bill



### Money Market Yield Curves



Source (left): Bloomberg, as of 9/30/19. Source (right): PFM Trading Desk, as of 9/30/19. 6-mo CP yield spread based on A1/P1 rated CP index.

### Fixed-Income Sector Outlook – October 2019

Sector	Our Investment Preferences	Comments
<b>COMMERCIAL PAPER / CD</b>		<ul style="list-style-type: none"> <li>CP/negotiable CD spreads are near historic tights, though securities appear cheap relative to corporate notes.</li> </ul>
<b>TREASURIES</b>		
<b>T-Bill</b>		<ul style="list-style-type: none"> <li>Treasury bill supply is expected to increase by over \$100 billion during the fourth quarter.</li> </ul>
<b>T-Note</b>		<ul style="list-style-type: none"> <li>The Treasury yield curve remains inverted, providing little opportunity to benefit from roll-down.</li> </ul>
<b>FEDERAL AGENCIES</b>		
<b>Bullets</b>		<ul style="list-style-type: none"> <li>Federal agency spreads remain near historic tights. Treasuries continue to be attractive relative to agencies.</li> <li>Callables have been underperforming duration-matched bullets as redemption activity has been elevated, especially in short lock-out structures.</li> </ul>
<b>Callables</b>		
<b>SUPRANATIONALS</b>		<ul style="list-style-type: none"> <li>Spreads remain near historical tights; Treasuries have better value.</li> <li>There may be opportunities to sell at single-digit yield spreads before a possible demand-side technical decay into year-end.</li> </ul>
<b>CORPORATES</b>		
<b>Financials</b>		<ul style="list-style-type: none"> <li>Tighter credit spreads and a cloudy economic outlook have reduced the attractiveness of the corporate sector.</li> <li>Steady demand from foreign investors and a lower interest rate environment, supported by recent FOMC action, are both positives for the sector.</li> </ul>
<b>Industrials</b>		
<b>SECURITIZED</b>		
<b>Asset-Backed</b>		<ul style="list-style-type: none"> <li>The AAA-rated ABS sector offers a defensive outlet to credit exposure but has tightened to near multi-year tights.</li> <li>As interest rates have fallen and supply has increased, MBS spreads have widened significantly to a more historic norm. We view this as a buying opportunity.</li> <li>Agency CMBS are an attractive alternative to other government sectors due to their incremental income potential.</li> </ul>
<b>Agency Mortgage-Backed</b>		
<b>Agency CMBS</b>		
<b>MUNICIPALS</b>		<ul style="list-style-type: none"> <li>The low interest rate environment should spur refunding activity and increase taxable municipal supply.</li> </ul>

● Current outlook

○ Outlook one month ago

Negative

Slightly Negative

Neutral

Slightly Positive

Positive



## Portfolio Recap

- ◆ Our strategy throughout the quarter included the following elements:
  - Our sector allocation strategy continued to favor broad diversification, including the widest range of permitted investments.
  - We continued to rotate out of the federal agency and supranational sectors as their yield spreads remained unattractive relative to comparable treasuries. Even new issue concessions were less attractive than in prior quarters. While limited supply is partly to blame, insatiable market demand has essentially capped any upside. As a result, we continued to prefer Treasuries over agencies and supranationals, and avoided callable agencies, due to significant early redemptions.
  - Corporate bonds rallied, pushing yield spreads back to near 12-month lows during the quarter as a more accommodative Fed and a temporary lull in the trade war offensive mitigated some of the imminent risk to the economy. As a result, investment-grade (IG) corporates generated attractive excess returns for the third quarter, with lower quality issuers outperforming higher quality ones. A bevy of new-issue corporates in September provided many opportunities, albeit at somewhat modest yield spreads. Our strategy in the third quarter was to maintain corporate allocations, make purchases a bit farther out on the yield curve within the sector, and selectively take advantage of new issues. Our focus remained on those issuers with lower leverage and less relative exposure to international trade risks.
  - After narrowing in the first half of 2019, yield spreads on short-term commercial paper and negotiable bank CDs gradually increased from multi-year lows. Short-term credit sectors once again offered favorable incremental yield opportunities for ultra-short-term investors.

## Investment Strategy Outlook

- Our strategy as we enter the final quarter of 2019 is to maintain a well-diversified portfolio as we seek to balance portfolio earnings potential with profit-taking in sectors that appear overly expensive. Issue selection has become increasingly important, regardless of sector, as market cross-currents have created both risks and opportunities.
- Our outlook for the major investment-grade fixed income sectors is as follows:
  - Federal agency yield spreads remain very tight. In some cases, agencies offer yields less than those on Treasuries of similar maturity. The U.S. Treasury Department also released an updated housing reform plan that seeks to reduce the role of the Federal Government, but implementation faces many political and practical difficulties. We continue to favor further reductions in agency holdings because their upside is limited.
  - Supranational yield spreads remain at multi-year lows, and we plan to further reduce allocations.
  - In the investment-grade (IG) corporate sector, we remain cautiously optimistic. Stable fundamentals, positive earnings growth, and a resilient equity market support the underlying stability of the credit markets; however, in addition to the myriad of geopolitical issues that have yet to be resolved, increased balance sheet leverage translates into somewhat elevated financial risks, especially in light of the narrow spreads currently available. As a result, we plan to reduce “rich” corporate holdings while creating room for new corporate opportunities as they become available.
  - On the heels of two Fed rate cuts in the third quarter, money market investors may see further rate adjustments in the coming months. Short-term credit spreads have widened recently, creating investment opportunities that offset some of the Fed’s lower overnight target rate.

## 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. 6/30/19	Permitted by Policy	In Compliance
U.S. Treasury	\$3,658,347	40.3%	+12.2%	100%	✓
Federal Agency	\$873,381	9.6%	-16.7%	100%	✓
Supranationals	\$524,792	5.8%	-0.9%	100%	✓
Negotiable CDs	\$670,999	7.4%	-5.0%	30%	✓
Corporate Notes	\$2,489,357	27.4%	+3.7%	30%	✓
Commercial Paper	\$349,568	3.9%	+1.1%	30%	✓
<b>Securities Sub-Total</b>	<b>\$8,566,445</b>	<b>94.4%</b>			
Accrued Interest	\$36,063				
<b>Securities Total</b>	<b>\$8,602,507</b>				
Money Market Fund	\$504,240	5.6%	+5.6%	100%	✓
<b>Total Investments</b>	<b>\$9,106,748</b>	<b>100.0%</b>			

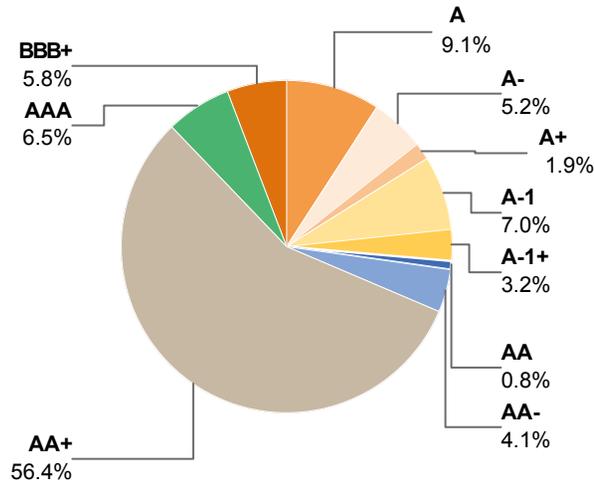
Market values, excluding accrued interest. Detail may not add to total due to rounding. Current investment policy as of April 2017.

**Portfolio Statistics**

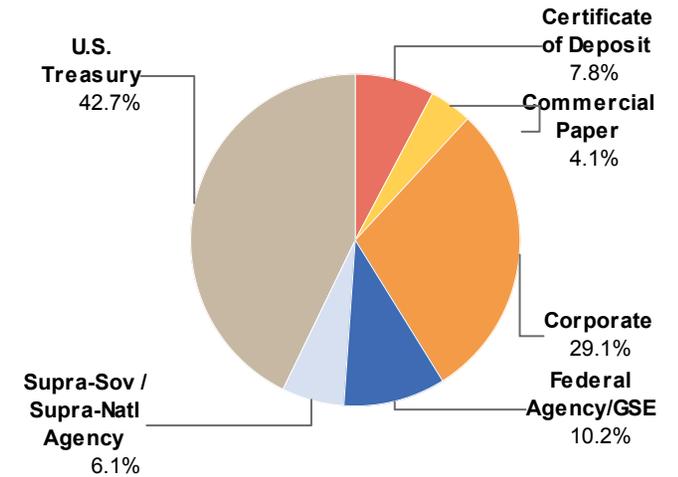
As of September 30, 2019

<b>Par Value:</b>	\$8,560,000
<b>Total Market Value:</b>	\$9,106,748
<b>Security Market Value:</b>	\$8,566,445
<b>Accrued Interest:</b>	\$36,063
<b>Cash:</b>	\$504,240
<b>Amortized Cost:</b>	\$8,568,302
<b>Yield at Market:</b>	1.94%
<b>Yield at Cost:</b>	1.88%
<b>Effective Duration:</b>	0.64 Years
<b>Duration to Worst:</b>	0.64 Years
<b>Average Maturity:</b>	0.68 Years
<b>Average Credit: *</b>	AA

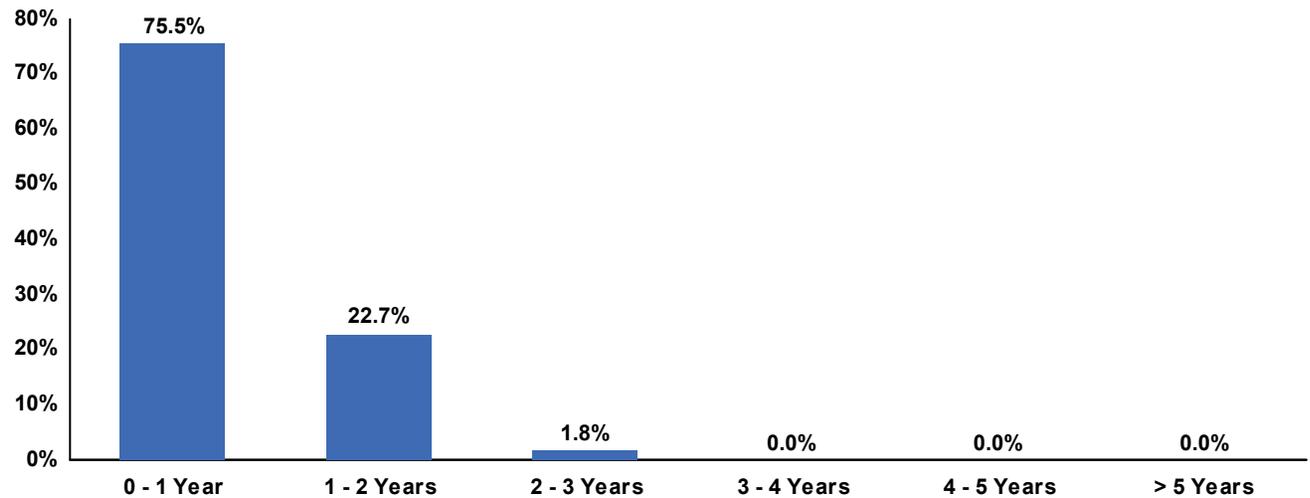
**Credit Quality (S&P Ratings)\*\***



**Sector Allocation**



**Maturity Distribution**

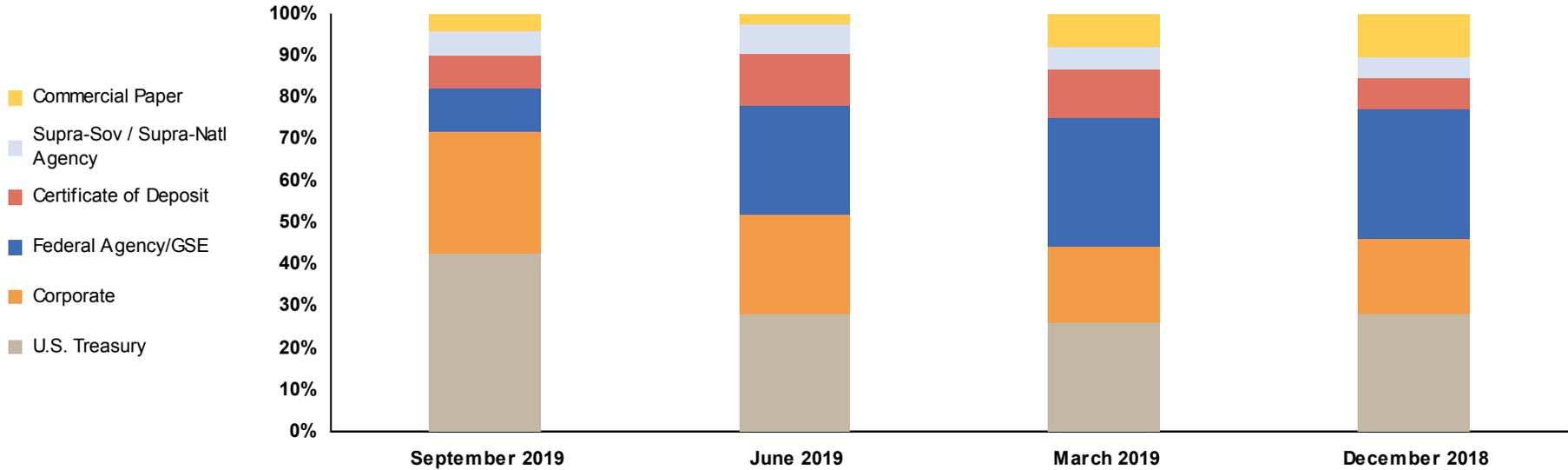


\* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

\*\*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	September 30, 2019		June 30, 2019		March 31, 2019		December 31, 2018	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
U.S. Treasury	3.7	42.7%	2.5	28.2%	3.1	26.2%	3.2	28.0%
Corporate	2.5	29.1%	2.1	23.7%	2.1	18.2%	2.1	18.2%
Federal Agency/GSE	0.9	10.2%	2.4	26.3%	3.6	30.7%	3.6	31.0%
Certificate of Deposit	0.7	7.8%	1.1	12.4%	1.4	11.7%	0.9	7.4%
Supra-Sov / Supra-Natl Agency	0.5	6.1%	0.6	6.6%	0.6	5.1%	0.6	5.1%
Commercial Paper	0.3	4.1%	0.2	2.8%	0.9	8.1%	1.2	10.3%
<b>Total</b>	<b>\$8.6</b>	<b>100.0%</b>	<b>\$9.0</b>	<b>100.0%</b>	<b>\$11.7</b>	<b>100.0%</b>	<b>\$11.6</b>	<b>100.0%</b>

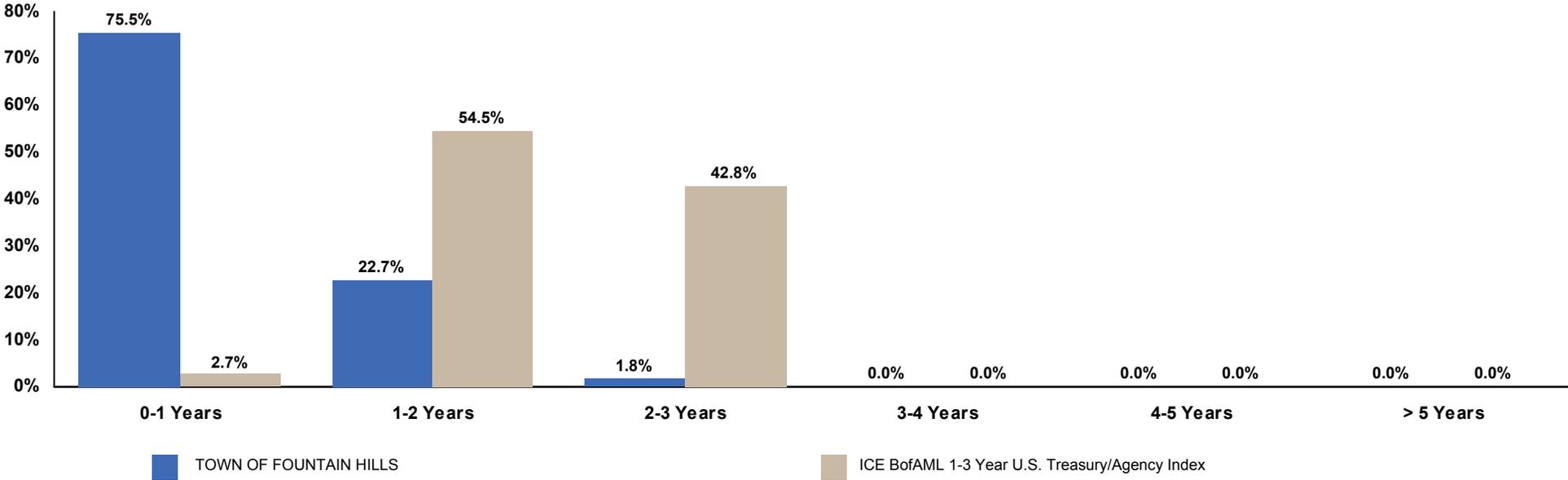


Detail may not add to total due to rounding.

**Maturity Distribution**

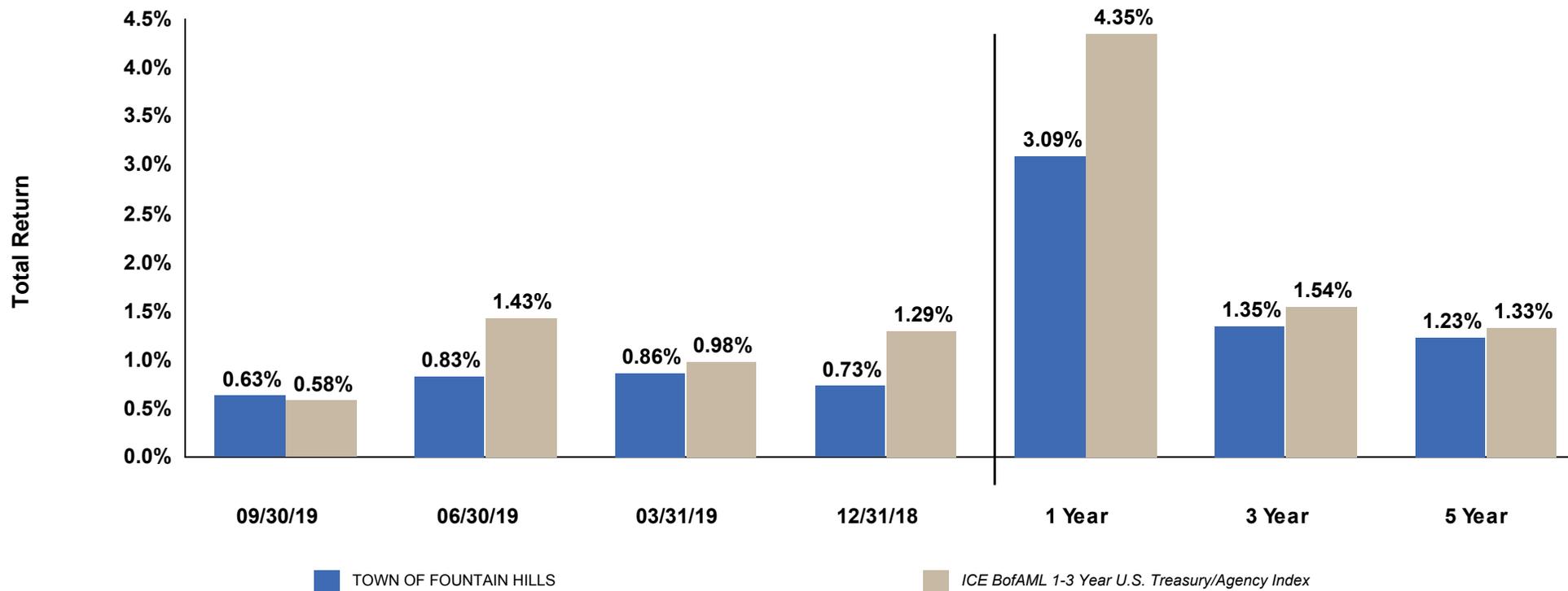
As of September 30, 2019

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	1.94%	0.68 yrs	75.5%	22.7%	1.8%	0.0%	0.0%	0.0%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index	1.69%	1.94 yrs	2.7%	54.5%	42.8%	0.0%	0.0%	0.0%



Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended				1 Year	Annualized Return	
		09/30/19	06/30/19	03/31/19	12/31/18		3 Year	5 Year
TOWN OF FOUNTAIN HILLS	0.64	0.63%	0.83%	0.86%	0.73%	3.09%	1.35%	1.23%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index	1.80	0.58%	1.43%	0.98%	1.29%	4.35%	1.54%	1.33%
Difference		0.05%	-0.60%	-0.12%	-0.56%	-1.26%	-0.19%	-0.10%



Portfolio performance is gross of fees unless otherwise indicated.

**Portfolio Earnings**  
**Quarter-Ended September 30, 2019**

	<b>Market Value Basis</b>	<b>Accrual (Amortized Cost) Basis</b>
<b>Beginning Value (06/30/2019)</b>	\$9,007,738.77	\$9,023,987.99
<b>Net Purchases/Sales</b>	(\$461,878.06)	(\$461,878.06)
<b>Change in Value</b>	\$20,583.84	\$6,192.45
<b>Ending Value (09/30/2019)</b>	\$8,566,444.55	\$8,568,302.38
<b>Interest Earned</b>	\$36,863.64	\$36,863.64
<b>Portfolio Earnings</b>	\$57,447.48	\$43,056.09

## Sector/Issuer Distribution

As of September 30, 2019

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
<b>Certificate of Deposit</b>			
CITIGROUP INC	250,153	37.3%	2.9%
SWEDBANK AB	150,282	22.4%	1.8%
WESTPAC BANKING CORP	270,565	40.3%	3.2%
<b>Sector Total</b>	<b>670,999</b>	<b>100.0%</b>	<b>7.8%</b>
<b>Commercial Paper</b>			
BNP PARIBAS	249,780	71.5%	2.9%
NATIXIS NY BRANCH	99,789	28.5%	1.2%
<b>Sector Total</b>	<b>349,568</b>	<b>100.0%</b>	<b>4.1%</b>
<b>Corporate</b>			
AMERICAN EXPRESS CO	150,224	6.0%	1.8%
AMERICAN HONDA FINANCE	149,962	6.0%	1.8%
APPLE INC	150,315	6.0%	1.8%
BANK OF AMERICA CO	150,168	6.0%	1.8%
BB&T CORPORATION	150,247	6.0%	1.8%
CATERPILLAR INC	114,846	4.6%	1.3%
EXXON MOBIL CORP	149,930	6.0%	1.8%
GENERAL ELECTRIC CO	71,209	2.9%	0.8%
GOLDMAN SACHS GROUP INC	95,176	3.8%	1.1%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
HONEYWELL INTERNATIONAL	39,992	1.6%	0.5%
IBM CORP	149,712	6.0%	1.7%
INTEL CORPORATION	74,946	3.0%	0.9%
JOHNSON & JOHNSON	35,016	1.4%	0.4%
JP MORGAN CHASE & CO	145,038	5.8%	1.7%
MORGAN STANLEY	175,884	7.1%	2.1%
PACCAR FINANCIAL CORP	40,059	1.6%	0.5%
PEPSICO INC	50,155	2.0%	0.6%
THE BANK OF NEW YORK MELLON CORPORATION	226,064	9.1%	2.6%
TOYOTA MOTOR CORP	150,157	6.0%	1.8%
UNITED PARCEL SERVICE INC	100,077	4.0%	1.2%
VISA INC	50,186	2.0%	0.6%
WAL-MART STORES INC	69,993	2.8%	0.8%
<b>Sector Total</b>	<b>2,489,357</b>	<b>100.0%</b>	<b>29.1%</b>
<b>Federal Agency/GSE</b>			
FREDDIE MAC	873,381	100.0%	10.2%
<b>Sector Total</b>	<b>873,381</b>	<b>100.0%</b>	<b>10.2%</b>
<b>Supra-Sov / Supra-Natl Agency</b>			
INTER-AMERICAN DEVELOPMENT BANK	150,464	28.7%	1.8%
INTL BANK OF RECONSTRUCTION AND DEV	374,329	71.3%	4.4%
<b>Sector Total</b>	<b>524,792</b>	<b>100.0%</b>	<b>6.1%</b>

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
<b>U.S. Treasury</b>			
UNITED STATES TREASURY	3,658,347	100.0%	42.7%
<b>Sector Total</b>	<b>3,658,347</b>	<b>100.0%</b>	<b>42.7%</b>
<b>Portfolio Total</b>	<b>8,566,445</b>	<b>100.0%</b>	<b>100.0%</b>

## Quarterly Portfolio Transactions

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
<b>BUY</b>									
7/19/19	7/19/19	100,000	63873KY50	NATIXIS NY BRANCH COMM PAPER	0.00%	11/5/19	99,309.67	2.30%	
7/19/19	7/23/19	175,000	61761JB32	MORGAN STANLEY CORPORATE NOTES	2.80%	6/16/20	176,201.86	2.35%	
7/19/19	7/23/19	225,000	06406HDD8	BNY MELLON CORP NOTE (CALLABLE)	2.60%	8/17/20	228,340.50	2.26%	
7/19/19	7/19/19	250,000	09659CXG8	BNP PARIBAS NY BRANCH COMM PAPER	0.00%	10/16/19	248,634.10	2.22%	
8/1/19	8/2/19	645,000	912828UB4	US TREASURY NOTES	1.00%	11/30/19	643,691.50	2.15%	
8/27/19	8/28/19	465,000	912828Y20	UNITED STATES TREASURY NOTES	2.62%	7/15/21	475,614.13	1.56%	
9/16/19	9/16/19	250,000	912828RC6	US TREASURY NOTES	2.12%	8/15/21	251,946.34	1.81%	
9/16/19	9/20/19	75,000	912828RC6	US TREASURY NOTES	2.12%	8/15/21	75,610.01	1.80%	
<b>Total BUY</b>		<b>2,185,000</b>					<b>2,199,348.11</b>		
<b>INTEREST</b>									
7/1/19	7/1/19	0	MONEY0002	MONEY MARKET FUND			678.27		
7/17/19	7/17/19	550,000	3137EAEE5	FREDDIE MAC NOTES	1.50%	1/17/20	4,125.00		
7/19/19	7/19/19	150,000	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	656.25		
7/19/19	7/19/19	550,000	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	2,406.25		
7/20/19	7/20/19	65,000	02665WBT7	AMERICAN HONDA FINANCE CORP NOTES	1.95%	7/20/20	633.75		
7/23/19	7/23/19	145,000	46625HKA7	JPMORGAN CHASE & CO (CALLABLE)	2.25%	1/23/20	1,631.25		
7/23/19	7/23/19	55,000	38141GWP5	GOLDMAN SACHS GROUP INC CORP NOTE	1.95%	7/23/19	536.25		
7/31/19	7/31/19	850,000	912828H52	US TREASURY NOTES	1.25%	1/31/20	5,312.50		
8/1/19	8/1/19	70,000	05531FAZ6	BRANCH BANKING & TRUST (CALLABLE) NOTES	2.15%	2/1/21	752.50		
8/1/19	8/1/19	80,000	05531FAZ6	BRANCH BANKING & TRUST (CALLABLE) NOTES	2.15%	2/1/21	860.00		
8/1/19	8/1/19	0	MONEY0002	MONEY MARKET FUND			82.22		
8/2/19	8/2/19	325,000	3135G0N33	FNMA BENCHMARK NOTE	0.87%	8/2/19	1,421.88		
8/2/19	8/2/19	300,000	83050FXT3	SKANDINAVISKA ENSKILDA BANKEN NY CD	1.84%	8/2/19	2,744.67		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
8/7/19	8/7/19	270,000	96121T4A3	WESTPAC BANKING CORP NY CD	2.05%	8/3/20	2,767.50		
8/17/19	8/17/19	225,000	06406HDD8	BNY MELLON CORP NOTE (CALLABLE)	2.60%	8/17/20	2,925.00		
8/28/19	8/28/19	475,000	3135G0P49	FNMA NOTES	1.00%	8/28/19	2,375.00		
8/31/19	8/31/19	350,000	912828J50	US TREASURY NOTES	1.37%	2/29/20	2,406.25		
8/31/19	8/31/19	105,000	912828L32	US TREASURY NOTES	1.37%	8/31/20	721.88		
9/3/19	9/3/19	0	MONEY0002	MONEY MARKET FUND			12.34		
9/4/19	9/4/19	115,000	14913Q2A6	CATERPILLAR FINL SERVICE NOTE	1.85%	9/4/20	1,063.75		
9/4/19	9/4/19	75,000	459058GA5	INTL BANK OF RECON AND DEV GLOBAL NOTES	1.62%	9/4/20	609.75		
9/6/19	9/6/19	150,000	30231GAG7	EXXON MOBIL (CALLABLE) CORP NOTE	1.91%	3/6/20	1,434.00		
9/12/19	9/12/19	150,000	89236TCF0	TOYOTA MOTOR CORP NOTES	2.15%	3/12/20	1,612.50		
9/12/19	9/12/19	150,000	45905UP32	INTL BANK OF RECONSTRUCTION AND DEV NOTE	1.56%	9/12/20	1,171.50		
9/16/19	9/16/19	70,000	36962G4R2	GENERAL ELECTRIC CAPITAL CORP CORP NOTE	4.37%	9/16/20	1,531.25		
9/20/19	9/20/19	75,000	00828EBQ1	AFRICAN DEVELOPMENT BANK NOTE	1.12%	9/20/19	421.88		
9/25/19	9/25/19	150,000	06539RGM3	MUFG BANK LTD/NY CERT DEPOS	2.07%	9/25/19	3,148.13		
9/30/19	9/30/19	325,000	912828F39	US TREASURY NOTES	1.75%	9/30/19	2,843.75		
9/30/19	9/30/19	525,000	912828UV0	US TREASURY NOTES	1.12%	3/31/20	2,953.13		
<b>Total INTEREST</b>		<b>6,350,000</b>					<b>49,838.40</b>		

## MATURITY

7/19/19	7/19/19	150,000	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	150,000.00		0.00
7/19/19	7/19/19	550,000	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	550,000.00		0.00
7/23/19	7/23/19	55,000	38141GWP5	GOLDMAN SACHS GROUP INC CORP NOTE	1.95%	7/23/19	55,000.00		0.00
8/2/19	8/2/19	325,000	3135G0N33	FNMA BENCHMARK NOTE	0.87%	8/2/19	325,000.00		0.00
8/2/19	8/2/19	300,000	83050FXT3	SKANDINAVISKA ENSKILDA BANKEN NY CD	1.84%	8/2/19	300,000.00		0.00
8/28/19	8/28/19	475,000	3135G0P49	FNMA NOTES	1.00%	8/28/19	475,000.00		0.00
9/16/19	9/16/19	250,000	25214W3X4	DEXIA CREDIT LOCAL SA NY COMM PAPER	0.00%	9/16/19	250,000.00		0.00
9/20/19	9/20/19	75,000	00828EBQ1	AFRICAN DEVELOPMENT BANK NOTE	1.12%	9/20/19	75,000.00		0.00
9/25/19	9/25/19	150,000	06539RGM3	MUFG BANK LTD/NY CERT DEPOS	2.07%	9/25/19	150,000.00		0.00

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)
9/30/19	9/30/19	325,000	912828F39	US TREASURY NOTES	1.75%	9/30/19	325,000.00		0.00
<b>Total MATURITY</b>		<b>2,655,000</b>					<b>2,655,000.00</b>		<b>0.00</b>

## 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
<b>U.S. Treasury Bond / Note</b>											
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	1,694.84	269,795.45	269,867.70
US TREASURY NOTES DTD 11/30/2012 1.000% 11/30/2019	912828UB4	645,000.00	AA+	Aaa	8/1/2019	8/2/2019	642,581.25	2.15	2,167.62	643,790.63	643,886.09
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	849,254.70	848,107.05
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	409.86	349,707.90	349,234.20
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	16.14	523,487.88	523,072.20
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	122.96	104,937.76	104,548.82
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	119,654.58	119,446.92
UNITED STATES TREASURY NOTES DTD 07/16/2018 2.625% 07/15/2021	912828Y20	465,000.00	AA+	Aaa	8/27/2019	8/28/2019	474,154.69	1.56	2,587.19	473,710.95	472,556.25
US TREASURY NOTES DTD 08/15/2011 2.125% 08/15/2021	912828RC6	75,000.00	AA+	Aaa	9/16/2019	9/20/2019	75,454.10	1.80	203.55	75,447.09	75,606.45
US TREASURY NOTES DTD 08/15/2011 2.125% 08/15/2021	912828RC6	250,000.00	AA+	Aaa	9/16/2019	9/16/2019	251,484.38	1.81	678.50	251,453.31	252,021.50
<b>Security Type Sub-Total</b>		<b>3,655,000.00</b>					<b>3,643,094.73</b>	<b>1.76</b>	<b>10,361.23</b>	<b>3,661,240.25</b>	<b>3,658,347.18</b>
<b>Supra-National Agency Bond / Note</b>											
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	149,910.10	149,785.50
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	74,995.06	74,873.33

## 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
<b>Supra-National Agency Bond / Note</b>											
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	149,883.65	149,669.70
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	150,508.08	150,463.80
<b>Security Type Sub-Total</b>		<b>525,000.00</b>					<b>524,735.12</b>	<b>1.65</b>	<b>2,053.53</b>	<b>525,296.89</b>	<b>524,792.33</b>
<b>Federal Agency Bond / Note</b>											
FREDDIE MAC NOTES DTD 01/17/2017 1.500% 01/17/2020	3137EAAE5	550,000.00	AA+	Aaa	4/3/2017	4/5/2017	549,758.00	1.52	1,695.83	549,974.37	549,327.90
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	324,791.52	324,052.63
<b>Security Type Sub-Total</b>		<b>875,000.00</b>					<b>873,646.50</b>	<b>1.51</b>	<b>3,694.35</b>	<b>874,765.89</b>	<b>873,380.53</b>
<b>Corporate Note</b>											
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	69,999.98	69,993.00
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	39,998.73	39,991.64
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	84,997.17	84,999.15
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	616.25	145,037.48	145,038.28
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	150,040.37	149,930.10
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	150,246.28	150,156.75

## 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
<b>Corporate Note</b>											
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	1,084.06	95,146.39	95,176.42
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	74,991.41	74,946.08
IBM CREDIT CORPORATE NOTE DTD 05/07/2013 1.625% 05/15/2020	459200HM6	150,000.00	A	A2	7/7/2017	7/12/2017	148,735.50	1.93	920.83	149,717.67	149,712.15
MORGAN STANLEY CORPORATE NOTES DTD 06/16/2015 2.800% 06/16/2020	61761JB32	175,000.00	BBB+	A3	7/19/2019	7/23/2019	175,698.25	2.35	1,429.17	175,552.73	175,884.10
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	64,982.06	64,963.02
BNY MELLON CORP NOTE (CALLABLE) DTD 08/17/2015 2.600% 08/17/2020	06406HDD8	225,000.00	A	A1	7/19/2019	7/23/2019	225,805.50	2.26	715.00	225,653.19	226,064.03
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	114,969.54	114,846.36
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	127.60	71,681.06	71,209.11
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	149,928.28	150,223.65
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	34,985.91	35,015.82
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	39,998.63	40,059.44
APPLE INC CORP NOTES 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	149,952.23	150,314.70

## 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
<b>Corporate Note</b>											
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	326.94	50,194.69	50,185.60
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	79,984.18	80,131.60
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	69,844.76	70,115.15
UNITED PARCEL SERVICE CORPORATE BOND DTD 11/14/2017 2.050% 04/01/2021	911312BP0	100,000.00	A	A2	11/9/2017	11/14/2017	99,842.00	2.10	1,025.00	99,928.08	100,077.40
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	461.11	49,995.50	50,155.20
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	1,746.00	149,624.91	150,168.15
<b>Security Type Sub-Total</b>		<b>2,485,000.00</b>					<b>2,491,881.90</b>	<b>2.08</b>	<b>14,962.72</b>	<b>2,487,451.23</b>	<b>2,489,356.90</b>
<b>Commercial Paper</b>											
BNP PARIBAS NY BRANCH COMM PAPER DTD 04/17/2019 0.000% 10/16/2019	09659CXG8	250,000.00	A-1	P-1	7/19/2019	7/19/2019	248,634.10	2.22	0.00	249,769.79	249,779.50
NATIXIS NY BRANCH COMM PAPER DTD 06/05/2019 0.000% 11/05/2019	63873KY50	100,000.00	A-1	P-1	7/19/2019	7/19/2019	99,309.67	2.30	0.00	99,778.33	99,788.80
<b>Security Type Sub-Total</b>		<b>350,000.00</b>					<b>347,943.77</b>	<b>2.24</b>	<b>0.00</b>	<b>349,548.12</b>	<b>349,568.30</b>
<b>Certificate of Deposit</b>											
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	2,855.56	250,000.00	250,152.65

## 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
<b>Certificate of Deposit</b>											
WESTPAC BANKING CORP NY CD DTD 08/07/2017 2.050% 08/03/2020	96121T4A3	270,000.00	A-1+	P-1	8/3/2017	8/7/2017	270,000.00	2.05	830.25	270,000.00	270,565.11
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	150,281.55
<b>Security Type Sub-Total</b>		<b>670,000.00</b>					<b>670,000.00</b>	<b>2.30</b>	<b>4,991.06</b>	<b>670,000.00</b>	<b>670,999.31</b>
<b>Managed Account Sub Total</b>		<b>8,560,000.00</b>					<b>8,551,302.02</b>	<b>1.88</b>	<b>36,062.89</b>	<b>8,568,302.38</b>	<b>8,566,444.55</b>
<b>Securities Sub-Total</b>		<b>\$8,560,000.00</b>					<b>\$8,551,302.02</b>	<b>1.88%</b>	<b>\$36,062.89</b>	<b>\$8,568,302.38</b>	<b>\$8,566,444.55</b>
<b>Accrued Interest</b>											<b>\$36,062.89</b>
<b>Total Investments</b>											<b>\$8,602,507.44</b>

Bolded items are forward settling trades.

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**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.

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**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 or 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.

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**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.



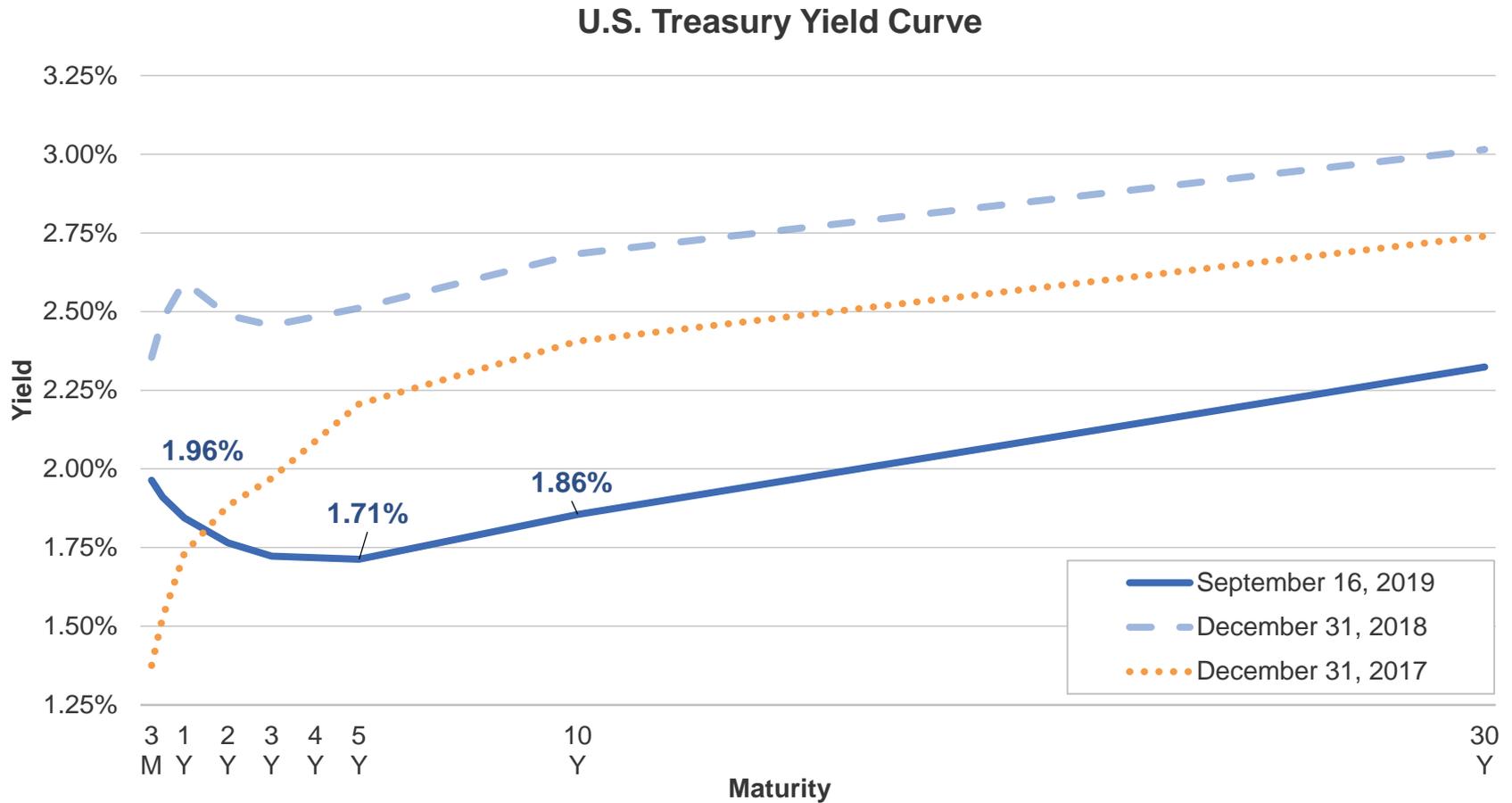
# Economic Update







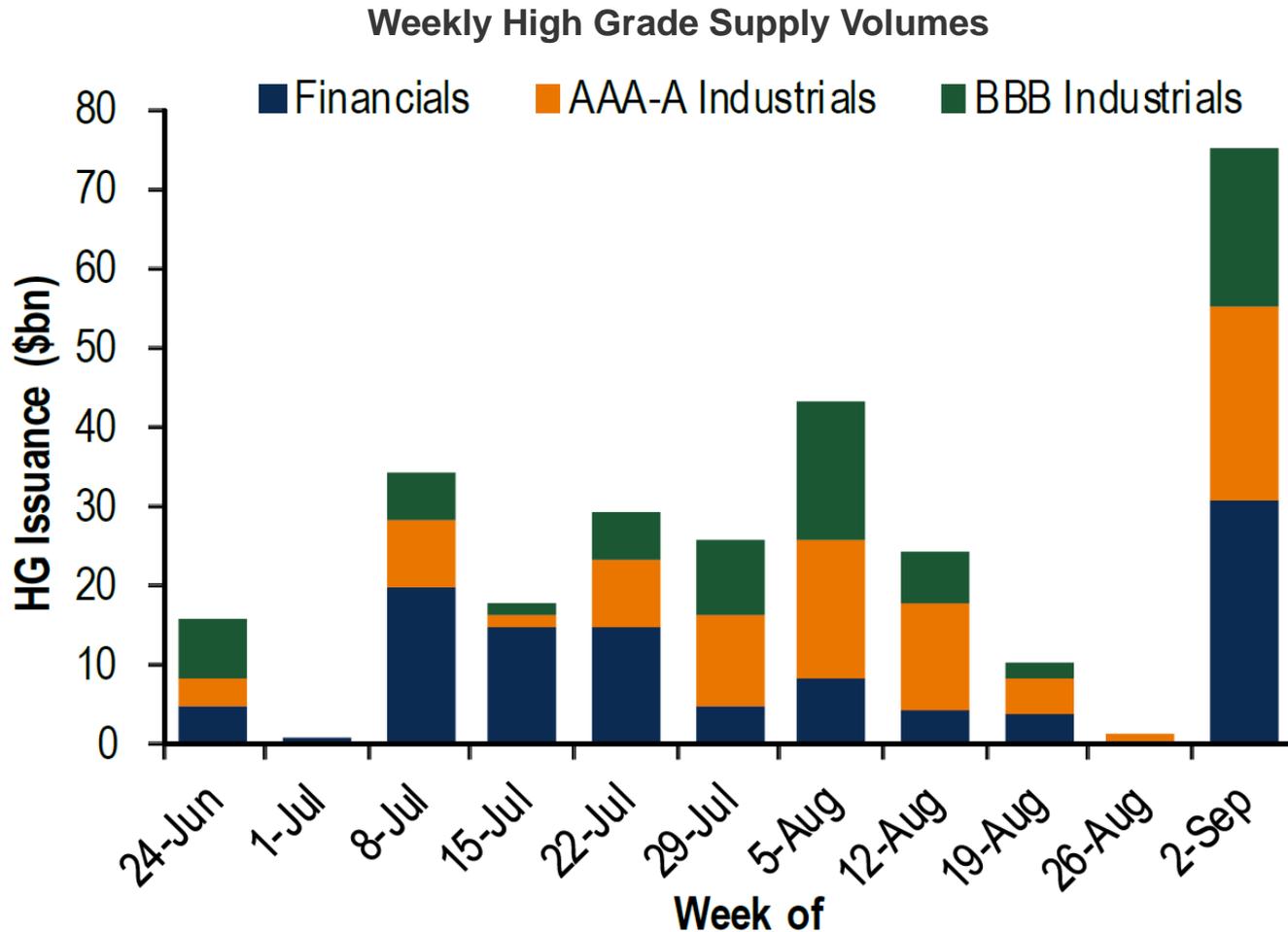
# U.S. Treasury Yield Curve Still Inverted



Source: Bloomberg, as of 9/16/2019.



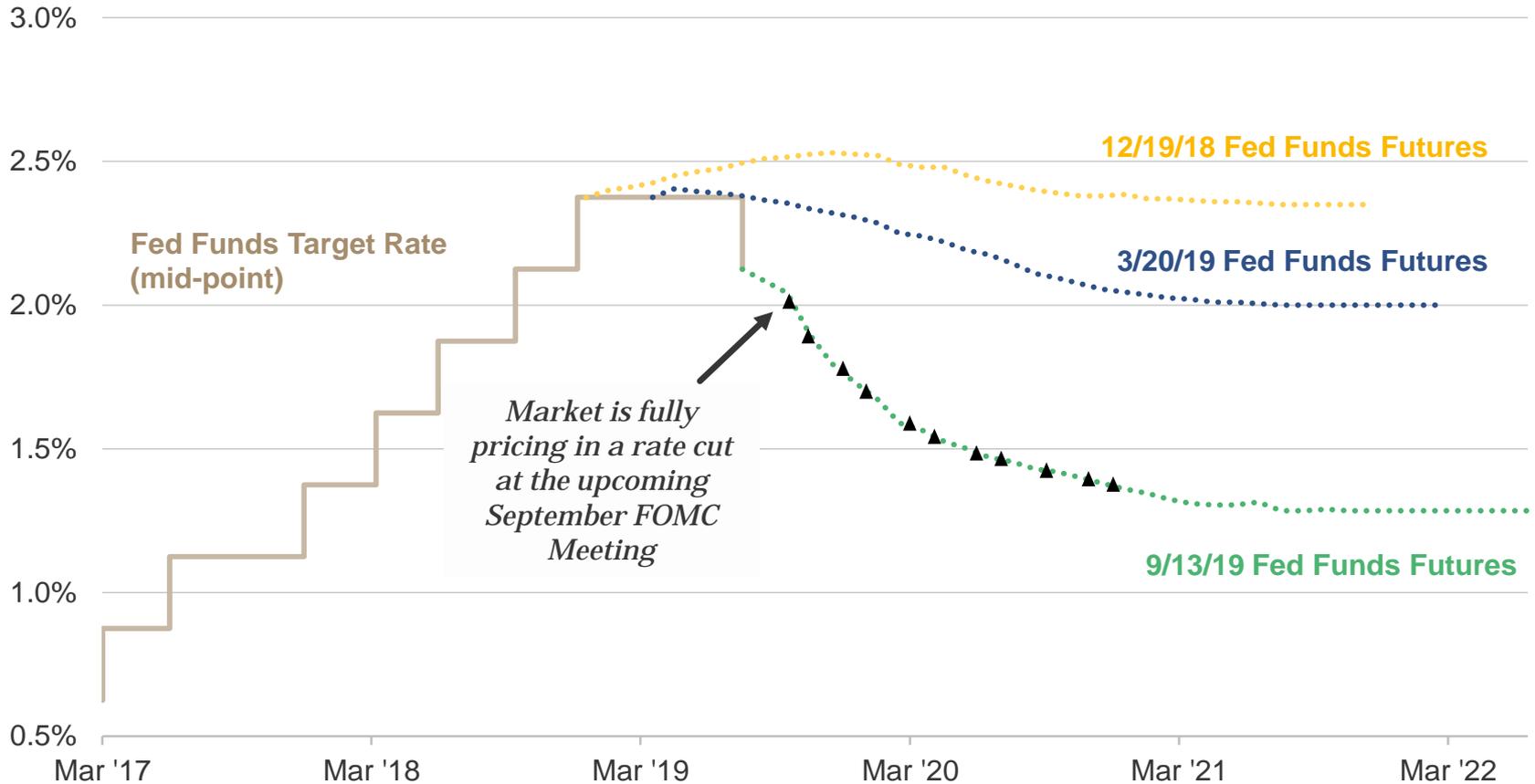
## Corporate Issuance Spikes in the First Week of September



Source: BAML.



## Market Expects Two More Rate Cuts This Year

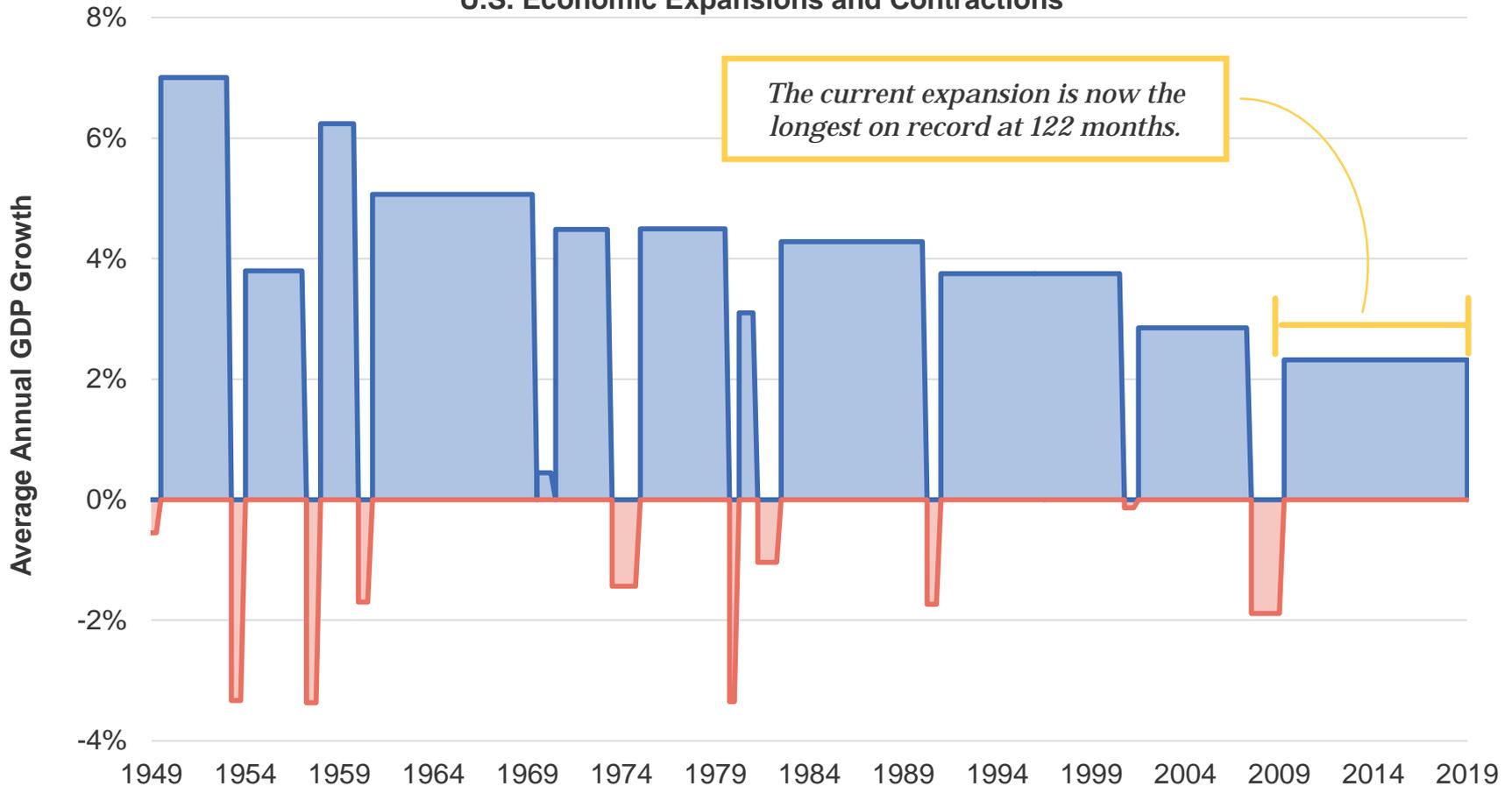


Source: Federal Reserve and Bloomberg. Fed funds futures as of Fed meeting dates of 12/19/2018 and 3/20/2019 as well as 9/13/2019.



## Current U.S. Expansion Is Long, but Sluggish

Average Annual Growth in Real GDP During  
U.S. Economic Expansions and Contractions



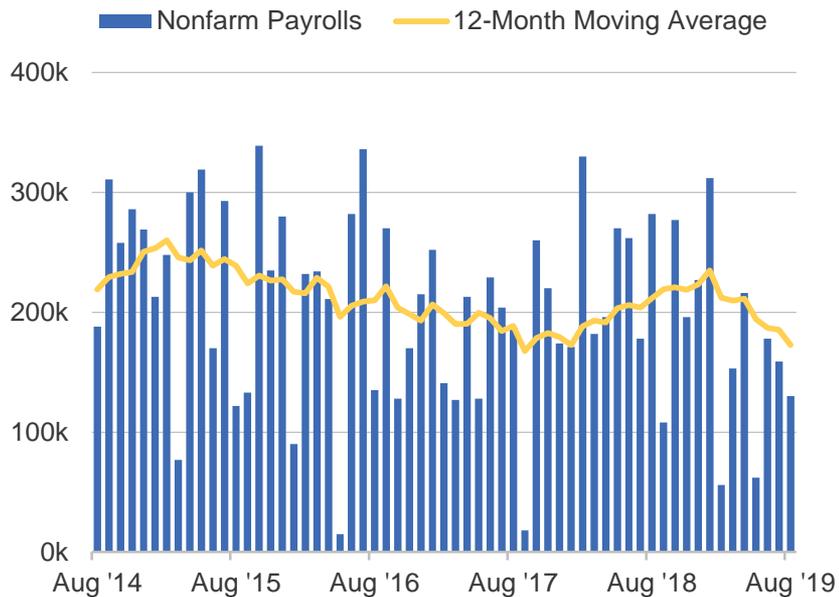
Source: Bloomberg, as of 6/30/19.



## U.S. Job Growth Moderates

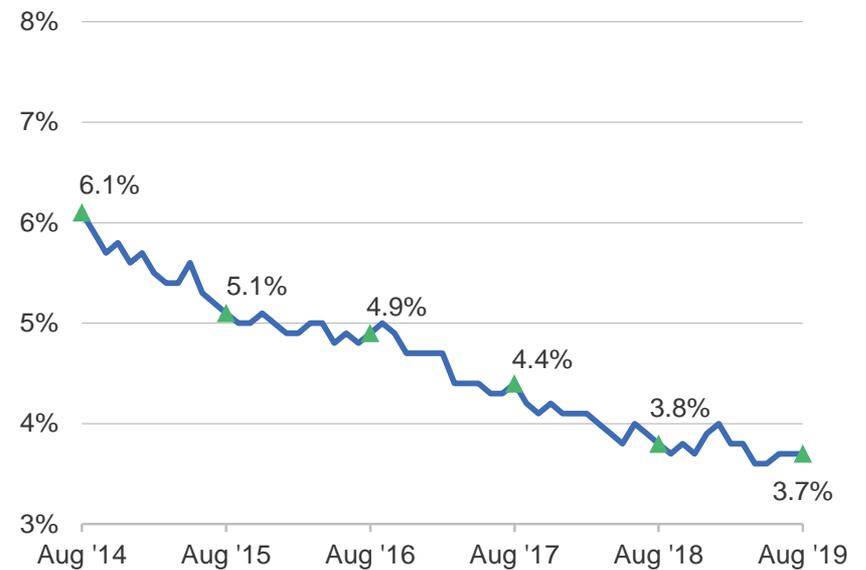
- The U.S. economy added 130,000 jobs in August.
  - The unemployment rate remained unchanged at 3.7%, near a half-century low.
  - Average hourly earnings slipped modestly to 3.2% YoY.
- For the year, the economy has added an average of 158,000 jobs, less than the 2018 average of 223,000.

### Monthly Change in Nonfarm Payrolls



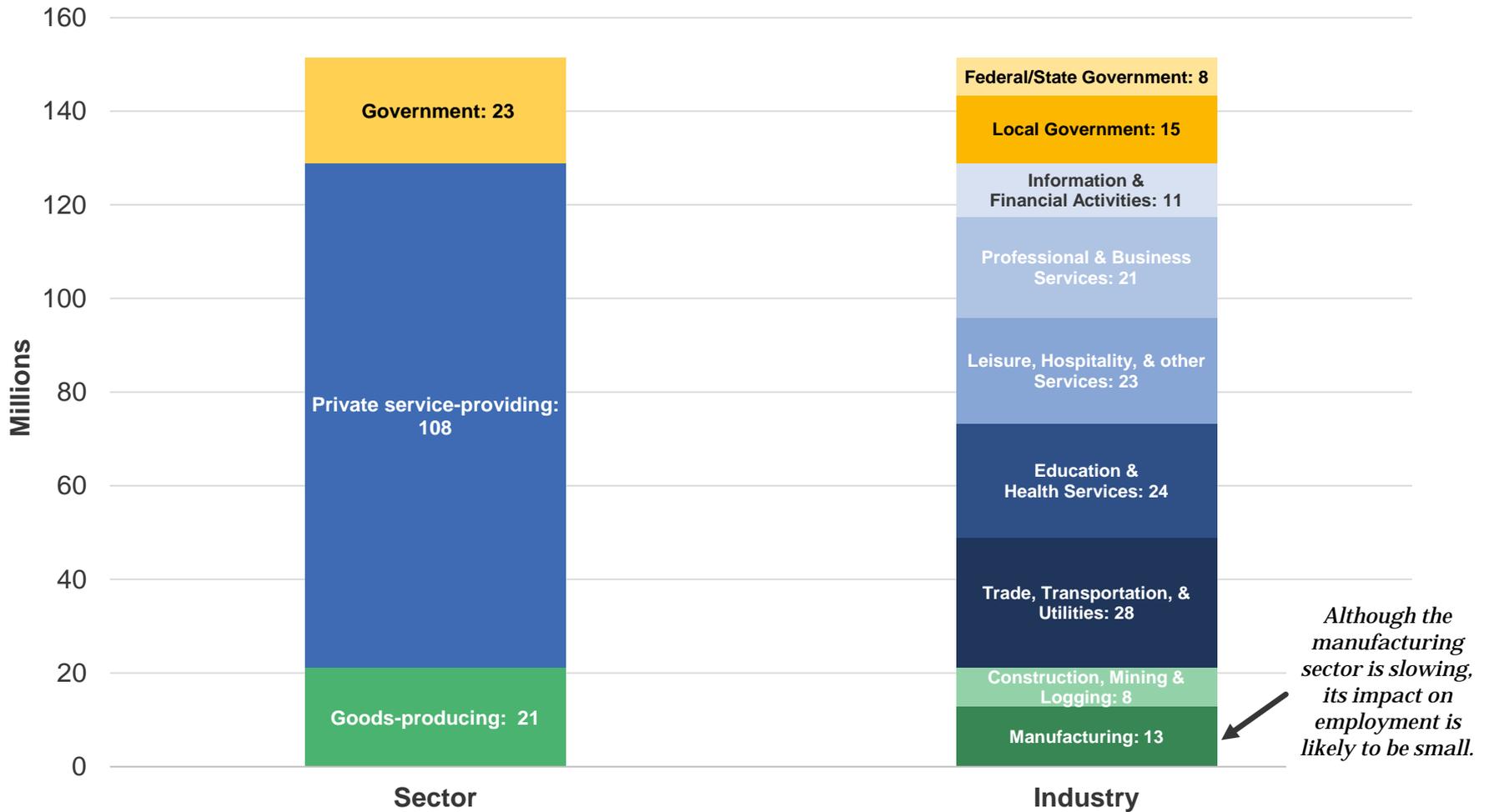
Source: Bloomberg, as of August 2019.

### U.S. Unemployment Rate





## Employment by Sector and Industry

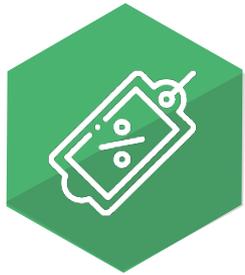


Source: Bureau of Labor Statistics, as of July 2019.



## Retail Sales Post 6<sup>th</sup> Straight Month of Growth

August 2019



*retail*  
**+0.4%**



*auto and other motor vehicles*  
**+1.1%**



*clothing and clothing accessories*  
**+0.9%**



*furniture and home furnishings*  
**+1.7%**



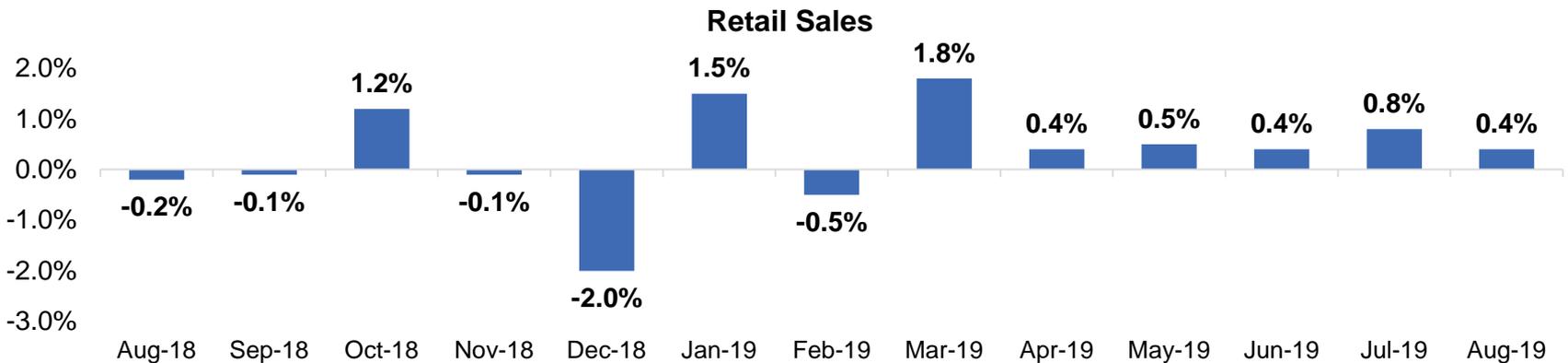
*food and beverage stores*  
**+0.5%**



*restaurants and bars*  
**+1.9%**



*electronics and appliances*  
**+0.9%**



Source (top): U.S. Census Bureau, as of 08/31/2019. Source (bottom): Bloomberg.