Town of Fountain Hills
Quarterly Investment Review
Quarter Ended June 30, 2014
Second Quarter 2014 Strategy and Recap

- U.S. Treasury yields moved in a somewhat random fashion, despite generally positive economic data.

- Uncertainty around future Fed action (timing and pace of eventual rate increases) posed a significant challenge in assessing the attractiveness of current yields.

- Active duration management was a critical aspect of our strategy to mitigate the effects of rising rates and to maximize relative performance.
  - Employed quantitative analysis to measure the relative risk-reward of individual bonds and to identify the steepest part of the curve, which benefits most from roll-down return.

- We added duration modestly when rates moved to the higher end of their recent trading ranges.

- We favored Treasuries in all (but select issues and maturities) as the yield spread between U.S. Treasuries and Agencies remained at historically narrow levels.

- Our goal was to position the portfolio to minimize the effects of interest rate volatility, while capitalizing on opportunities to prudently enhance the portfolio’s yield.
### Portfolio Composition and Credit Quality Characteristics

#### Portfolio Composition and Credit Quality Characteristics

<table>
<thead>
<tr>
<th>Security Type</th>
<th>June 30, 2014</th>
<th>% of Portfolio</th>
<th>% Change From Prior Quarter</th>
<th>Permitted by Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasuries</td>
<td>$12,069,680.51</td>
<td>80%</td>
<td>+2%</td>
<td>100%</td>
</tr>
<tr>
<td>Federal Agencies</td>
<td>$3,080,554.71</td>
<td>20%</td>
<td>-2%</td>
<td>100%</td>
</tr>
<tr>
<td>FNMA</td>
<td>$1,696,346.69</td>
<td>11%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>FHLB</td>
<td>$431,473.36</td>
<td>3%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>FHLMC</td>
<td>$452,301.10</td>
<td>3%</td>
<td>-2%</td>
<td>-</td>
</tr>
<tr>
<td>FFCB</td>
<td>$500,433.56</td>
<td>3%</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Money Market Fund</td>
<td>$73,639.19</td>
<td>&lt; 1%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Totals</td>
<td>$15,223,874.41</td>
<td>100%</td>
<td></td>
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</tr>
</tbody>
</table>

#### Portfolio Credit Quality Distribution

- AA+ 100%
- Money Market Fund <1%

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
### Portfolio Maturity Distribution

#### Maturity Distribution

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2014</th>
<th>March 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 6 Months</td>
<td>$73,639.19</td>
<td>$60,172.76</td>
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<tr>
<td>6 - 12 Months</td>
<td>$1,754,985.95</td>
<td>$3,362,519.59</td>
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<tr>
<td>1 - 2 Years</td>
<td>$7,849,249.89</td>
<td>$6,530,737.06</td>
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<td>2 - 3 Years</td>
<td>$5,545,999.38</td>
<td>$4,707,998.56</td>
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<td>3 Years and Over</td>
<td>$0.00</td>
<td>$526,326.84</td>
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<tr>
<td><strong>Totals</strong></td>
<td><strong>$15,223,874.41</strong></td>
<td><strong>$15,187,754.81</strong></td>
</tr>
</tbody>
</table>

1. Callable securities, if any, in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.
May Strategic Duration Extension

- We purchased a 3.5-year Treasury to maintain the portfolio's conservative duration position.
  - Took advantage of the steepest area of the yield curve which provides protection should rates rise.
- Yield spreads between Treasuries and Agencies are minimal to nonexistent in many issues.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Security</th>
<th>Maturity</th>
<th>Par Value (in Millions)</th>
<th>Yield</th>
<th>Gain/Loss from Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/6/14</td>
<td>Buy</td>
<td>U.S. Treasury Notes</td>
<td>11/30/17</td>
<td>$0.63</td>
<td>1.18%</td>
<td>-</td>
</tr>
<tr>
<td>5/6/14</td>
<td>Sell</td>
<td>FHLMC Notes</td>
<td>11/25/14</td>
<td>$0.33</td>
<td>0.09%</td>
<td>$738</td>
</tr>
<tr>
<td>5/6/14</td>
<td>Sell</td>
<td>U.S. Treasury Notes</td>
<td>12/15/14</td>
<td>$0.30</td>
<td>0.06%</td>
<td>$581</td>
</tr>
</tbody>
</table>

Source: Bloomberg
June Duration Adjustment

- We modestly extended the portfolio’s duration in June by selling securities with an average duration of 1.75 years and purchasing Treasuries with an average duration of 2.50 years.

- The trades resulted in an average yield pick-up of 0.15%.

- The trades represent PFM’s dynamic and active portfolio duration management that is responsive to changes in the interest rate environment.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Security</th>
<th>Maturity</th>
<th>Par Value (in Millions)</th>
<th>Yield</th>
<th>Gain/Loss from Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/2/14</td>
<td>Buy</td>
<td>U.S. Treasury Notes</td>
<td>5/31/17</td>
<td>$0.83</td>
<td>0.81%</td>
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<tr>
<td>6/2/14</td>
<td>Buy</td>
<td>U.S. Treasury Notes</td>
<td>5/31/16</td>
<td>$0.83</td>
<td>0.38%</td>
<td>-</td>
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<tr>
<td>6/2/14</td>
<td>Sell</td>
<td>U.S. Treasury Notes</td>
<td>11/30/17</td>
<td>$0.63</td>
<td>1.04%</td>
<td>$2,873</td>
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<tr>
<td>6/2/14</td>
<td>Sell</td>
<td>U.S. Treasury Notes</td>
<td>2/15/15</td>
<td>$0.30</td>
<td>0.08%</td>
<td>$722</td>
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<tr>
<td>6/2/14</td>
<td>Sell</td>
<td>U.S. Treasury Notes</td>
<td>1/31/15</td>
<td>$0.25</td>
<td>0.09%</td>
<td>$522</td>
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<tr>
<td>6/2/14</td>
<td>Sell</td>
<td>U.S. Treasury Notes</td>
<td>12/15/14</td>
<td>$0.43</td>
<td>0.07%</td>
<td>$701</td>
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</tbody>
</table>
# Portfolio Performance

<table>
<thead>
<tr>
<th>Total Return$^{1,2,3,4}$</th>
<th>Quarter Ended June 30, 2014</th>
<th>Past 6 Months</th>
<th>Past 12 Months</th>
<th>Past 2 Years</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fountain Hills Portfolio</strong></td>
<td>0.25%</td>
<td>0.38%</td>
<td>0.72%</td>
<td>0.52%</td>
<td>0.57%</td>
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<tr>
<td><strong>ML 1-3 Year Treasury/Agency Index</strong></td>
<td>0.27%</td>
<td>0.41%</td>
<td>0.78%</td>
<td>0.55%</td>
<td>0.51%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Effective Duration</th>
<th>Yields</th>
<th>June 30, 2014</th>
<th>March 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fountain Hills Portfolio</strong></td>
<td>Yield at Market</td>
<td>0.38%</td>
<td>0.40%</td>
</tr>
<tr>
<td><strong>ML 1-3 Year Treasury/Agency Index</strong></td>
<td>Yield on Cost</td>
<td>0.48%</td>
<td>0.46%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quarter Total Return Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fountain Hills Portfolio</strong></td>
</tr>
<tr>
<td><strong>ML 1-3 Year Treasury/Agency Index</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Since Inception Total Return Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fountain Hills Portfolio</strong></td>
</tr>
<tr>
<td><strong>ML 1-3 Year Treasury/Agency Index</strong></td>
</tr>
</tbody>
</table>

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1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute’s Global Investment Performance Standards (GIPS).
3. Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than one year are presented on an annualized basis.
4. Inception date is 12/31/11.
Economic growth appears to be accelerating, accompanied by early signs of an uptick in inflation. The Fed is expected to end its quantitative easing program in October, opening the door to their next possible move—a Fed rate hike.

Higher interest rates, triggered by anticipated Fed action, are widely expected in the future. Since rising rates can result in unrealized market losses, we remain somewhat defensive with regard to duration.

We will continue to assess the benefit of higher yields available on longer maturities today against the negative impact of potentially rising rates in the future for every trade in the portfolio.

We expect yields spreads to remain narrow, favoring Treasuries over Agencies. However, specific Agency issues may offer value.

PFM seeks to add value in a variety of ways:
- Duration management.
- Adjusting maturities along the yield curve.
- Emphasizing sectors that offer the best value.
- Careful issue-level analysis and security selection.

Our strategy will remain flexible and may change in response to changes in interest rates, emerging economic data, or our market outlook.
Town of Fountain Hills Portfolio Summary

<table>
<thead>
<tr>
<th>Summary By Type</th>
<th>Book Value</th>
<th>Market Value</th>
<th>Days to Maturity</th>
<th>% of Portfolio</th>
<th>% Allowed per Policy</th>
<th>YTM @ Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Treasury Bond</td>
<td>$12,060,211</td>
<td>$12,069,681</td>
<td>640</td>
<td>79.28%</td>
<td>100%</td>
<td>0.47%</td>
</tr>
<tr>
<td>FHLB Bond</td>
<td>$430,532</td>
<td>$431,473</td>
<td>424</td>
<td>2.83%</td>
<td>100%</td>
<td>0.38%</td>
</tr>
<tr>
<td>FHLMC Bond</td>
<td>$450,955</td>
<td>$452,301</td>
<td>424</td>
<td>2.97%</td>
<td>100%</td>
<td>0.46%</td>
</tr>
<tr>
<td>FNMA Bond</td>
<td>$1,690,714</td>
<td>$1,696,347</td>
<td>685</td>
<td>11.14%</td>
<td>100%</td>
<td>0.63%</td>
</tr>
<tr>
<td>FFCB Bond</td>
<td>$499,934</td>
<td>$500,434</td>
<td>410</td>
<td>3.29%</td>
<td>100%</td>
<td>0.28%</td>
</tr>
<tr>
<td>JPMorgan MMF</td>
<td>$73,639</td>
<td>$73,639</td>
<td>1</td>
<td>0.48%</td>
<td>N/A</td>
<td>0.01%</td>
</tr>
<tr>
<td>Total including cash</td>
<td>$15,205,986</td>
<td>$15,223,874</td>
<td>622</td>
<td>100.00%</td>
<td></td>
<td>0.48%</td>
</tr>
<tr>
<td>Total without cash</td>
<td>$15,132,346</td>
<td>$15,150,235</td>
<td></td>
<td></td>
<td></td>
<td>0.48%</td>
</tr>
</tbody>
</table>

Issuer Distribution

US Treasury Bond 80%
FHLB Bond 3%
FHLMC Bond 3%
FNMA Bond 11%
FFCB Bond 3%
JPMorgan MMF <1%

Weighted Average Maturity (in years) 1.70
Duration Allowed by Policy 5.00
Current Portfolio Duration Including Cash 1.68
Current Portfolio Duration Without Cash 1.69

Summary by Issuer

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Book Value</th>
<th>% of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Treasury</td>
<td>$12,060,211</td>
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<td>2.97%</td>
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<tr>
<td>FNMA</td>
<td>$1,690,714</td>
<td>11.12%</td>
</tr>
<tr>
<td>FFCB</td>
<td>$499,934</td>
<td>3.29%</td>
</tr>
<tr>
<td>JPMorgan</td>
<td>$73,639</td>
<td>0.48%</td>
</tr>
<tr>
<td>Total / Average</td>
<td>$15,205,986</td>
<td>100%</td>
</tr>
</tbody>
</table>

Maturity Distribution

- 0-6 Month: $0.0
- 6-12 Months: $1.8
- 12-18 Months: $3.7
- 18-24 Months: $4.2
- 24-30 Months: $4.2
- 30-36 Months: $1.3
- 3 Years and Over: $0.0

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

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# Managed Account Detail of Securities Held

For the Month Ending **June 30, 2014**

**TOWN OF FOUNTAIN HILLS, OPERATING FUNDS**

<table>
<thead>
<tr>
<th>Security Type/Description</th>
<th>CUSIP</th>
<th>Par</th>
<th>S&amp;P Rating</th>
<th>Moody’s Rating</th>
<th>Trade Date</th>
<th>Settle Date</th>
<th>Original Cost</th>
<th>YTM at Cost</th>
<th>Accrued Interest</th>
<th>Amortized Cost</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Treasury Bond / Note</strong></td>
<td></td>
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<tr>
<td>US TREASURY NOTES</td>
<td>912828SE1</td>
<td>450,000.00</td>
<td>AA+</td>
<td>Aaa</td>
<td>02/22/12</td>
<td>02/27/12</td>
<td>447,662.11</td>
<td>0.43</td>
<td>422.65</td>
<td>449,505.70</td>
<td>450,492.30</td>
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<td>DTD 02/15/2012 0.250% 02/15/2015</td>
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<td>912828SK7</td>
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<td>AA+</td>
<td>Aaa</td>
<td>03/13/12</td>
<td>03/15/12</td>
<td>298,992.19</td>
<td>0.49</td>
<td>330.16</td>
<td>299,761.37</td>
<td>300,609.30</td>
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<td>DTD 03/15/2012 0.375% 03/15/2015</td>
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<tr>
<td>US TREASURY NOTES</td>
<td>912828SK7</td>
<td>1,000,000.00</td>
<td>AA+</td>
<td>Aaa</td>
<td>06/27/12</td>
<td>06/28/12</td>
<td>999,218.75</td>
<td>0.40</td>
<td>1,100.54</td>
<td>999,796.00</td>
<td>1,002,031.00</td>
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<td>DTD 03/15/2012 0.375% 03/15/2015</td>
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<td>US TREASURY NOTES</td>
<td>912828NP1</td>
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<td>AA+</td>
<td>Aaa</td>
<td>08/21/12</td>
<td>08/22/12</td>
<td>467,525.39</td>
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<td>3,284.88</td>
<td>456,417.15</td>
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<td>DTD 08/02/2010 1.750% 07/31/2015</td>
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<tr>
<td>US TREASURY NOTES</td>
<td>912828NP1</td>
<td>525,000.00</td>
<td>AA+</td>
<td>Aaa</td>
<td>09/06/12</td>
<td>09/10/12</td>
<td>546,410.15</td>
<td>0.33</td>
<td>3,832.35</td>
<td>533,049.98</td>
<td>534,064.65</td>
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<tr>
<td>DTD 08/02/2010 1.750% 07/31/2015</td>
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<tr>
<td>US TREASURY NOTES</td>
<td>912828P33</td>
<td>625,000.00</td>
<td>AA+</td>
<td>Aaa</td>
<td>11/29/12</td>
<td>12/05/12</td>
<td>644,018.55</td>
<td>0.35</td>
<td>727.89</td>
<td>634,037.99</td>
<td>635,107.42</td>
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<tr>
<td>US TREASURY NOTES</td>
<td>912828P33</td>
<td>640,000.00</td>
<td>AA+</td>
<td>Aaa</td>
<td>11/01/12</td>
<td>11/05/12</td>
<td>658,950.00</td>
<td>0.40</td>
<td>745.36</td>
<td>648,704.64</td>
<td>650,350.00</td>
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<td>DTD 11/30/2010 1.375% 11/30/2015</td>
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<td>912828PS3</td>
<td>115,000.00</td>
<td>AA+</td>
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<td>01/30/13</td>
<td>02/04/13</td>
<td>120,327.73</td>
<td>0.44</td>
<td>959.39</td>
<td>117,829.99</td>
<td>118,113.05</td>
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<td>DTD 01/31/2011 2.000% 01/31/2016</td>
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<tr>
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<td>912828PS3</td>
<td>365,000.00</td>
<td>AA+</td>
<td>Aaa</td>
<td>03/04/14</td>
<td>03/05/14</td>
<td>376,805.47</td>
<td>0.30</td>
<td>3,045.03</td>
<td>374,760.44</td>
<td>374,880.55</td>
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<tr>
<td>DTD 01/31/2011 2.000% 01/31/2016</td>
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</tr>
<tr>
<td>US TREASURY NOTES</td>
<td>912828B41</td>
<td>1,100,000.00</td>
<td>AA+</td>
<td>Aaa</td>
<td>02/04/14</td>
<td>02/07/14</td>
<td>1,101,417.97</td>
<td>0.31</td>
<td>1,720.65</td>
<td>1,101,133.97</td>
<td>1,101,589.50</td>
</tr>
<tr>
<td>DTD 01/31/2014 0.375% 01/31/2016</td>
<td></td>
<td></td>
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<tr>
<td>US TREASURY NOTES</td>
<td>912828QF0</td>
<td>475,000.00</td>
<td>AA+</td>
<td>Aaa</td>
<td>03/27/13</td>
<td>03/28/13</td>
<td>498,638.67</td>
<td>0.38</td>
<td>1,600.54</td>
<td>489,038.97</td>
<td>488,990.18</td>
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<td>DTD 05/02/2011 2.000% 04/30/2016</td>
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<tr>
<td>US TREASURY NOTES</td>
<td>912828WM8</td>
<td>825,000.00</td>
<td>AA+</td>
<td>Aaa</td>
<td>06/02/14</td>
<td>06/03/14</td>
<td>824,871.09</td>
<td>0.38</td>
<td>262.04</td>
<td>824,609.05</td>
<td>824,259.15</td>
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<tr>
<td>DTD 06/02/2014 0.375% 05/31/2016</td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>US TREASURY NOTES</td>
<td>912828KZ2</td>
<td>475,000.00</td>
<td>AA+</td>
<td>Aaa</td>
<td>05/22/13</td>
<td>05/24/13</td>
<td>516,024.41</td>
<td>0.44</td>
<td>41.95</td>
<td>501,478.04</td>
<td>501,384.77</td>
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<td>DTD 06/30/2009 3.250% 06/30/2016</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>US TREASURY NOTES</td>
<td>912828KZ2</td>
<td>500,000.00</td>
<td>AA+</td>
<td>Aaa</td>
<td>05/10/13</td>
<td>05/15/13</td>
<td>544,140.63</td>
<td>0.41</td>
<td>44.16</td>
<td>528,258.44</td>
<td>527,773.44</td>
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<tr>
<td>DTD 06/30/2009 3.250% 06/30/2016</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Managed Account Detail of Securities Held

**For the Month Ending June 30, 2014**

## TOWN OF FOUNTAIN HILLS, OPERATING FUNDS

### Security Type/Description

<table>
<thead>
<tr>
<th>Date Dated/Coupon/Maturity</th>
<th>Security Type/Description</th>
<th>CUSIP</th>
<th>S&amp;P Par Rating</th>
<th>Moody’s Rating</th>
<th>Trade Settle Date</th>
<th>Original Cost</th>
<th>YTM at Cost</th>
<th>Accrued Interest</th>
<th>Amortized Cost</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Treasury Bond / Note</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DTD 06/30/2009 3.250% 06/30/2016</td>
<td>US TREASURY NOTES</td>
<td>912828KZ2</td>
<td>750,000.00</td>
<td>AA+</td>
<td>05/24/13</td>
<td>812,402.34</td>
<td>0.53</td>
<td>66.24</td>
<td>790,544.69</td>
<td>791,660.16</td>
</tr>
<tr>
<td>DTD 08/31/2011 1.000% 08/31/2016</td>
<td>US TREASURY NOTES</td>
<td>912828RF9</td>
<td>700,000.00</td>
<td>AA+</td>
<td>02/27/14</td>
<td>708,832.03</td>
<td>0.49</td>
<td>2,339.67</td>
<td>707,681.95</td>
<td>707,218.40</td>
</tr>
<tr>
<td>DTD 11/30/2011 0.875% 11/30/2016</td>
<td>US TREASURY NOTES</td>
<td>912828RU6</td>
<td>450,000.00</td>
<td>AA+</td>
<td>10/31/13</td>
<td>453,480.47</td>
<td>0.62</td>
<td>333.50</td>
<td>452,735.83</td>
<td>452,777.34</td>
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<tr>
<td>DTD 11/30/2011 0.875% 11/30/2016</td>
<td>US TREASURY NOTES</td>
<td>912828RU6</td>
<td>775,000.00</td>
<td>AA+</td>
<td>12/03/13</td>
<td>781,932.62</td>
<td>0.57</td>
<td>574.37</td>
<td>780,611.00</td>
<td>779,783.20</td>
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<tr>
<td>DTD 03/31/2012 1.000% 03/31/2017</td>
<td>US TREASURY NOTES</td>
<td>912828SM3</td>
<td>525,000.00</td>
<td>AA+</td>
<td>03/19/14</td>
<td>526,209.96</td>
<td>0.92</td>
<td>1,319.67</td>
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<td>528,117.45</td>
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<td>DTD 05/31/2012 0.625% 05/31/2017</td>
<td>US TREASURY NOTES</td>
<td>912828SY7</td>
<td>825,000.00</td>
<td>AA+</td>
<td>06/02/14</td>
<td>820,423.83</td>
<td>0.81</td>
<td>436.73</td>
<td>820,539.67</td>
<td>819,521.18</td>
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</table>

### Security Type Sub-Total

| Security Type Sub-Total | 11,870,000.00 | 12,148,284.36 | 0.47 | 23,187.77 | 12,037,022.95 | 12,046,492.74 |

### Federal Agency Bond / Note

<table>
<thead>
<tr>
<th>Date Dated/Coupon/Maturity</th>
<th>Security Type/Description</th>
<th>CUSIP</th>
<th>S&amp;P Par Rating</th>
<th>Moody’s Rating</th>
<th>Trade Settle Date</th>
<th>Original Cost</th>
<th>YTM at Cost</th>
<th>Accrued Interest</th>
<th>Amortized Cost</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>DTD 02/14/2014 0.200% 08/14/2015</td>
<td>FEDERAL FARM CREDIT BANK BONDS</td>
<td>3133EDFC1</td>
<td>500,000.00</td>
<td>AA+</td>
<td>02/12/14</td>
<td>499,401.68</td>
<td>0.28</td>
<td>380.56</td>
<td>499,553.27</td>
<td>500,053.00</td>
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<tr>
<td>DTD 08/09/2013 0.375% 08/28/2015</td>
<td>FEDERAL HOME LOAN BANK GLOBAL NOTES</td>
<td>313383V81</td>
<td>430,000.00</td>
<td>AA+</td>
<td>08/08/13</td>
<td>429,982.80</td>
<td>0.38</td>
<td>541.98</td>
<td>429,990.22</td>
<td>430,931.38</td>
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<tr>
<td>DTD 07/11/2012 0.500% 08/28/2015</td>
<td>FREDDIE MAC GLOBAL NOTES</td>
<td>3134G3ZA1</td>
<td>450,000.00</td>
<td>AA+</td>
<td>07/30/12</td>
<td>450,525.15</td>
<td>0.46</td>
<td>756.25</td>
<td>450,198.93</td>
<td>451,544.85</td>
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<tr>
<td>DTD 02/15/2013 0.500% 03/30/2016</td>
<td>FANNIE MAE GLOBAL NOTES</td>
<td>3135G0VA8</td>
<td>300,000.00</td>
<td>AA+</td>
<td>03/12/13</td>
<td>300,141.00</td>
<td>0.48</td>
<td>379.17</td>
<td>300,081.07</td>
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</tr>
<tr>
<td>DTD 02/15/2013 0.500% 03/30/2016</td>
<td>FANNIE MAE GLOBAL NOTES</td>
<td>3135G0VA8</td>
<td>460,000.00</td>
<td>AA+</td>
<td>02/14/13</td>
<td>459,475.60</td>
<td>0.54</td>
<td>581.39</td>
<td>459,705.59</td>
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<tr>
<td>DTD 02/15/2013 0.500% 03/30/2016</td>
<td>FANNIE MAE GLOBAL NOTES</td>
<td>3135G0VA8</td>
<td>500,000.00</td>
<td>AA+</td>
<td>08/29/13</td>
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<td>DTD 08/19/2011 1.250% 09/28/2016</td>
<td>FNMA NOTES</td>
<td>3135G0CM3</td>
<td>170,000.00</td>
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<td>10/01/13</td>
<td>172,510.90</td>
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<td>548.96</td>
<td>171,890.01</td>
<td>172,493.90</td>
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**PFM Asset Management LLC**
## Managed Account Detail of Securities Held

For the Month Ending **June 30, 2014**

**TOWN OF FOUNTAIN HILLS, OPERATING FUNDS**

<table>
<thead>
<tr>
<th>Security Type/Description</th>
<th>CUSIP</th>
<th>Par Value</th>
<th>S&amp;P Rating</th>
<th>Moody's Rating</th>
<th>Trade Date</th>
<th>Settle Date</th>
<th>Original Cost</th>
<th>YTM at Cost</th>
<th>Accrued Interest</th>
<th>Amortized Cost</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Agency Bond / Note</td>
<td></td>
<td>255,000.00</td>
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<td>Aaa</td>
<td>10/01/13</td>
<td>10/03/13</td>
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<tr>
<td>FNMA NOTES</td>
<td>3135G0CM3</td>
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<td></td>
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</tr>
<tr>
<td>DTD 08/19/2011 1.250% 09/28/2016</td>
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<td>255,000.00</td>
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<td>4,643.69</td>
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<td>15,216,483.05</td>
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<td>27,831.46</td>
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<td>15,122,403.76</td>
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<td>$27,831.46</td>
<td>$15,104,514.95</td>
<td>$15,122,403.76</td>
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<tr>
<td>Accrued Interest</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$27,831.46</td>
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<tr>
<td>Total Investments</td>
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<td></td>
<td></td>
<td></td>
<td>$15,150,235.22</td>
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</tbody>
</table>
July Economic Update
Economic Conditions

- U.S. GDP grew 4% in the second quarter, with growth consistent across the major components.
- The labor market remained robust in July, however came in lower than expected, with 209,000 nonfarm jobs added.
- The unemployment rate rose slightly to 6.2% on a modest increase in labor participation.
- The Federal Reserve noted an increase in economic activity as it further reduced its bond-purchasing program down to $25 billion a month.
- Geopolitical issues in Ukraine and the Middle East heightened market volatility.

Market Reaction

- Aside from brief periods of “flight to quality,” U.S. Treasury yields generally rose during July in response to stronger economic data.
- At the beginning of August yields fell after the payroll announcement and intensified geopolitical events.
- Short-term yields remain anchored by Federal Reserve policy and decreased supply of U.S. Treasury and Federal Agency securities.
- Credit and Federal Agency spreads remained at historically tight levels as demand outstripped supply and investors continue to struggle to find yield.
July Market Movers

2-Year U.S. Treasury Yields
June 30, 2014 – Aug 11, 2014

June Employment Report
Retail Sales for June;
Industrial Product
Durable Goods
Q2 GDP at 4%
Concerns over
Europe and Asia
Concerns over
Ukraine and the
Middle-East
Housing Starts
below expectations;
Building Permits
declined
Consumer Price Index;
Existing Home Sales
July Employment
Report;
Personal Spending
and Income

Source: Bloomberg
Yield Curve Remains Steep

- Encouraging economic indicators caused intermediate yields to rise in July, adding evidence that the labor market is strengthening.

U.S. Treasury Curves

<table>
<thead>
<tr>
<th>Maturity</th>
<th>6/30/14</th>
<th>7/31/14</th>
<th>MoM change</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-Mo.</td>
<td>0.02%</td>
<td>0.02%</td>
<td>-</td>
</tr>
<tr>
<td>6-Mo.</td>
<td>0.06%</td>
<td>0.05%</td>
<td>-0.01%</td>
</tr>
<tr>
<td>1-Yr.</td>
<td>0.10%</td>
<td>0.11%</td>
<td>+0.01%</td>
</tr>
<tr>
<td>2-Yr.</td>
<td>0.46%</td>
<td>0.53%</td>
<td>+0.07%</td>
</tr>
<tr>
<td>3-Yr.</td>
<td>0.87%</td>
<td>0.99%</td>
<td>+0.12%</td>
</tr>
<tr>
<td>5-Yr.</td>
<td>1.63%</td>
<td>1.75%</td>
<td>+0.12%</td>
</tr>
<tr>
<td>10-Yr.</td>
<td>2.52%</td>
<td>2.55%</td>
<td>+0.03%</td>
</tr>
</tbody>
</table>

Source: Bloomberg
Drop in Jobless Claims

- Jobless claims fell unexpectedly by 14,000 to 289,000 for the week ended August 2\textsuperscript{nd}.
  - The figure is the year’s second-lowest level, a new sign of a further strengthening labor market.
- The four-week moving average of the claims hit 293,500, the lowest level since February 2006.

**Initial Jobless Claims**

*Source: Bloomberg*
Fed Continues Taper Of Bond Purchase Program

- The Federal Reserve has continued to taper at a $10 billion pace at each meeting.
  - The FOMC has expressed its intention to end the program in October.
- Market participants have now turned their attention to a change in monetary policy as it relates to the Fed Fund’s Rate.

### Asset Purchase Taper vs. Treasury Yields

- **2-Year Treasury Yield**
- **July 2014 Forecast**
- **Fed Tapering (right-axis)**

**Source:** Bloomberg, Bloomberg Survey of Economists
Janet Yellen’s Dashboard of Jobs Data

<table>
<thead>
<tr>
<th>Pre-Recession Level</th>
<th>Worst Level Since 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Layoffs/discharges rate</strong></td>
<td>Layoffs and discharges as a percentage of paid employees</td>
</tr>
<tr>
<td><strong>Current</strong></td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>Job openings rate</strong></td>
<td>Job openings as a share of the sum of job openings and paid employment</td>
</tr>
<tr>
<td><strong>Nonfarm payrolls</strong></td>
<td>Three-month moving average of change in payrolls based on a survey of employers</td>
</tr>
<tr>
<td><strong>245K</strong></td>
<td>March 2009</td>
</tr>
<tr>
<td><strong>Unemployment rate</strong></td>
<td>Percentage of unemployed as a percentage of the labor force</td>
</tr>
<tr>
<td><strong>2.8%</strong></td>
<td>June 2009</td>
</tr>
<tr>
<td><strong>Hires rate</strong></td>
<td>Percentage of hires as a percentage of paid employees</td>
</tr>
<tr>
<td><strong>Quits rate</strong></td>
<td>Percentage of quits as a percentage of paid employees</td>
</tr>
<tr>
<td><strong>U-6 underemployment rate</strong></td>
<td>Includes part-time workers who want full-time work and those not in the labor force who would take a job if one were available</td>
</tr>
<tr>
<td><strong>Long-term unemployed share</strong></td>
<td>Share of unemployed who have been out of work for 27 weeks or longer</td>
</tr>
<tr>
<td><strong>Labor force participation rate</strong></td>
<td>Labor force as a percentage of the working-age civilian, noninstitutional population</td>
</tr>
</tbody>
</table>

- Janet Yellen uses an “employment dashboard” to help guide monetary policy.
- Signs of strengthening labor market:
  - The increase in job openings.
  - Highest readings for the number of people hired/leaving their jobs since 2008.
- Improvement is still measured and uneven.

Source: Bureau of Labor Statistics, data compiled by Bloomberg and Bloomberg Visual Data
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