



Town of Fountain Hills Quarterly Investment Review Quarter Ended September 30, 2014



1820 East Ray Road
Chandler, AZ 85225
855-885-9621
brantl@pfm.com / woop@pfm.com

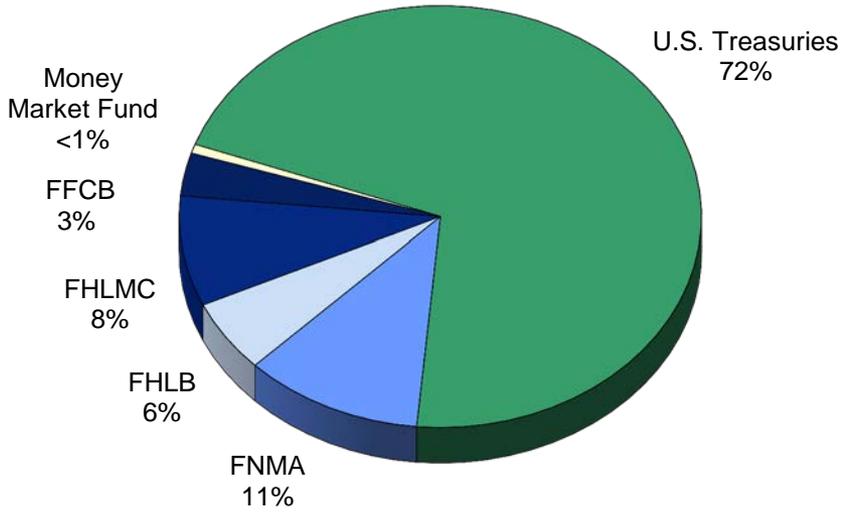
Third Quarter 2014 Strategy and Recap

- U.S. Treasury yields were volatile throughout the quarter, particularly around key economic data releases, Federal Reserve meetings, and in response to swings in global equity markets.
- The Fed continued to taper its bond buying program during the quarter and announced it will end its purchases in October.
- Our duration strategy remained defensive throughout the quarter, driven largely by our positive assessment of U.S. economic conditions and the expected market reaction to an eventual change in Federal Reserve monetary policy.
 - We capitalized on opportunities to modestly extend the portfolio's duration when rates moved toward the higher end of recent trading ranges.
- The yield spread between Treasuries and Agencies widened for a short period in August, which allowed us to increase the portfolio's allocation to the Agency sector.
- The impact of trades during the quarter resulted in an overall increase in the portfolio's yield at cost of +0.07%.
- The yield curve remains steep by historical standards, which means longer maturities continue to benefit from the favorable impact of "roll-down."

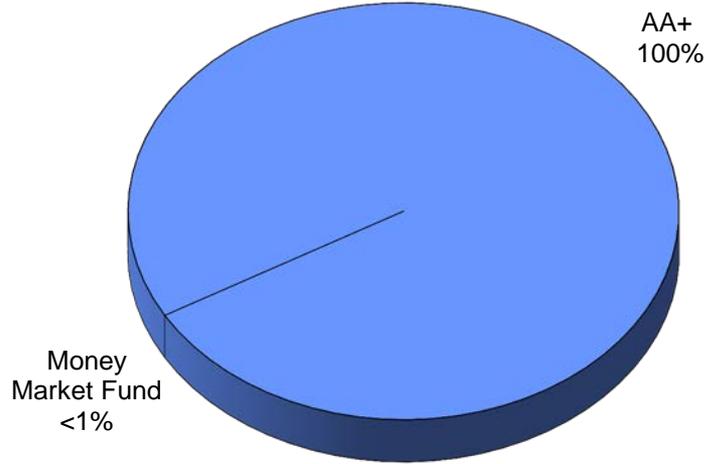
Portfolio Composition and Credit Quality Characteristics

Security Type ¹	September 30, 2014	% of Portfolio	% Change From Prior Quarter	Permitted by Policy
U.S. Treasuries	\$10,796,326.67	72%	-8%	100%
Federal Agencies	\$4,325,493.38	28%	+8%	100%
<i>FNMA</i>	\$1,691,052.15	11%	-	-
<i>FHLB</i>	\$849,788.25	6%	+3%	-
<i>FHLMC</i>	\$1,284,565.92	8%	+5%	-
<i>FFCB</i>	\$500,087.06	3%	-	-
Money Market Fund	\$106,352.41	<1%	-	
Totals	\$15,228,172.46	100%		

Portfolio Composition



Portfolio Credit Quality Distribution²

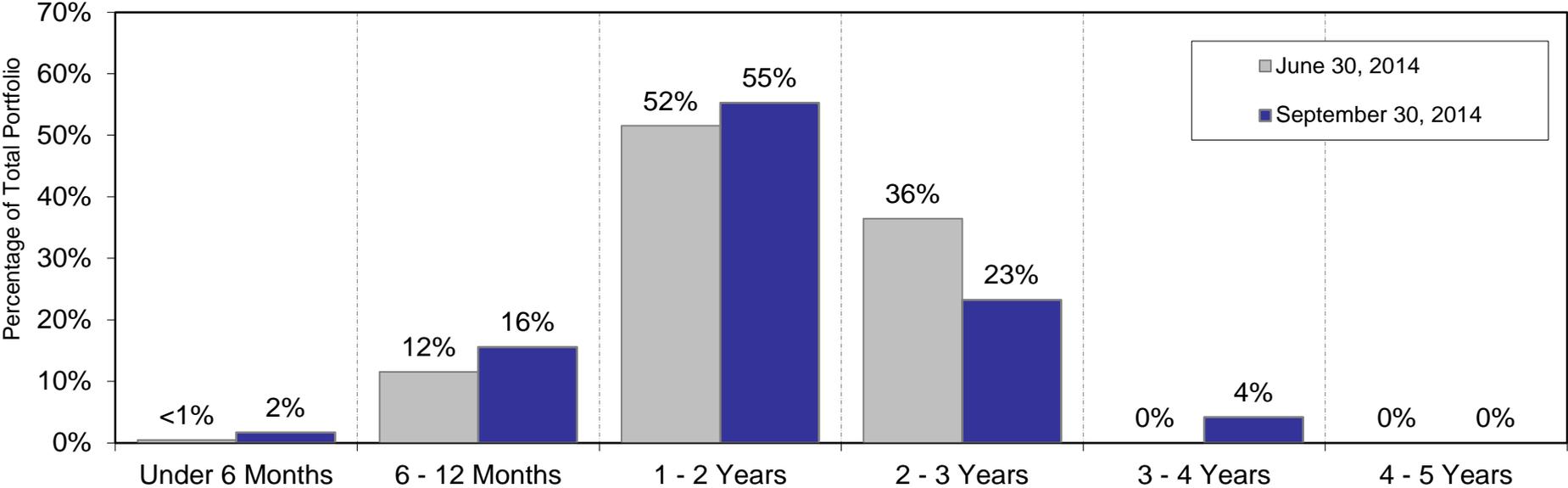


1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
 2. Ratings by Standard and Poor's.

Portfolio Maturity Distribution

Maturity Distribution ¹	September 30, 2014	June 30, 2014
Under 6 Months	\$256,599.87	\$73,639.19
6 - 12 Months	\$2,373,830.07	\$1,754,985.95
1 - 2 Years	\$8,418,333.57	\$7,849,249.89
2 - 3 Years	\$3,540,460.51	\$5,545,999.38
3 - 4 Years	\$638,948.44	\$0.00
4 - 5 Years	\$0.00	\$0.00
Totals	\$15,228,172.46	\$15,223,874.41

Portfolio Maturity Distribution¹



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.

Extended into Treasury Sector When Spreads Narrowed

- When spreads are narrow, we prefer to hold Treasury securities as investors are not being compensated to take on any amount of credit risk.
- The extensions took advantage of attractive rates on a steep yield curve and will benefit from appreciation as they “roll down the curve.”
- The Treasury purchases picked-up an average of +0.94% over those sold with a duration extension of 2.47 years.

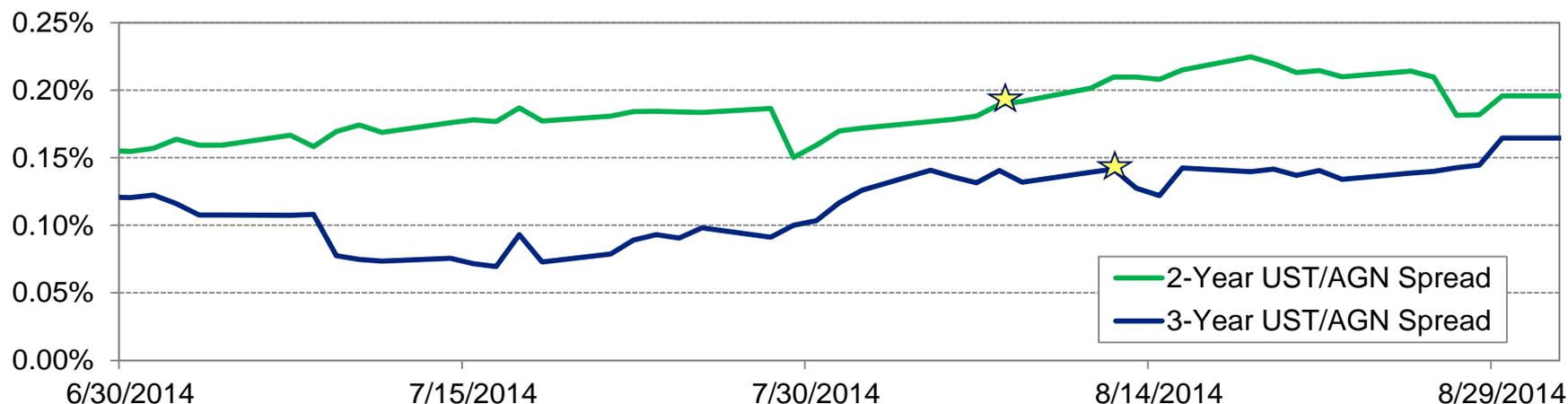
Date	Transaction	Issuer	Maturity	Par Value	Yield
7/1/14	Buy	U.S. Treasury Notes	7/31/17	\$300,000	0.96%
7/1/14	Sell	U.S. Treasury Notes	2/15/15	\$300,000	0.08%
7/29/14	Buy	U.S. Treasury Notes	7/31/17	\$675,000	1.02%
7/29/14	Sell	U.S. Treasury Notes	2/15/15	\$150,000	0.06%
7/29/14	Sell	U.S. Treasury Notes	3/15/15	\$500,000	0.09%
9/2/14	Buy	U.S. Treasury Notes	9/30/17	\$625,000	1.04%
9/2/14	Sell	U.S. Treasury Notes	3/15/15	\$650,000	0.07%

Traded into Agencies as Spreads Widened

- Spreads widening for a short period in August created opportunities to sell Treasury securities to purchase Agencies.
- The new purchases picked-up +0.07% over the sold securities and will add approximately \$2,500 (to the maturity of the sold security) without any significant extension to the portfolio's duration.

Date	Transaction	Issuer	Maturity	Par Value	Yield
8/6/14	Buy	FHLB Notes	9/28/16	\$420,000	0.61%
8/6/14	Sell	U.S. Treasury Notes	8/31/16	\$415,000	0.52%
8/12/14	Buy	FHLMC Notes	7/28/17	\$835,000	1.00%
8/12/14	Sell	U.S. Treasury Notes	7/31/17	\$845,000	0.93%

**Treasury/Agency Yield Spreads
June 30, 2014 – August 31, 2014**

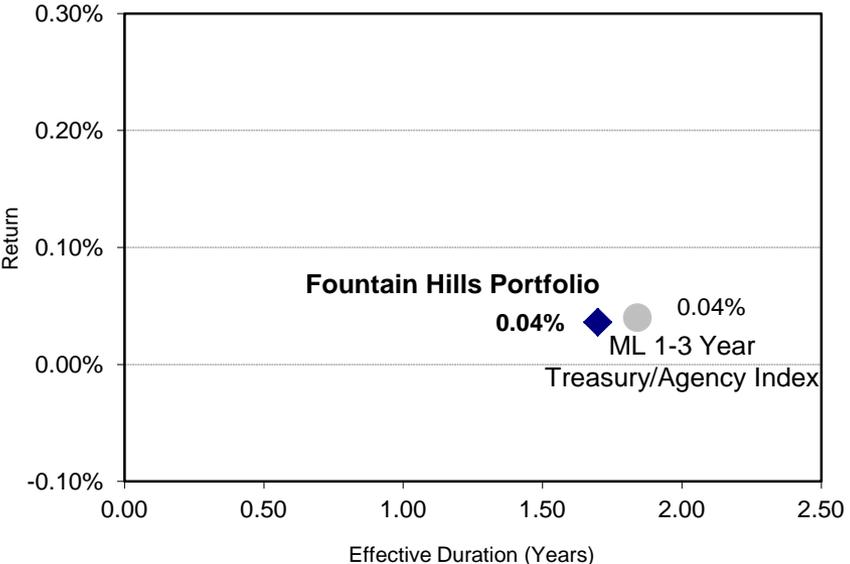


Source: Bloomberg

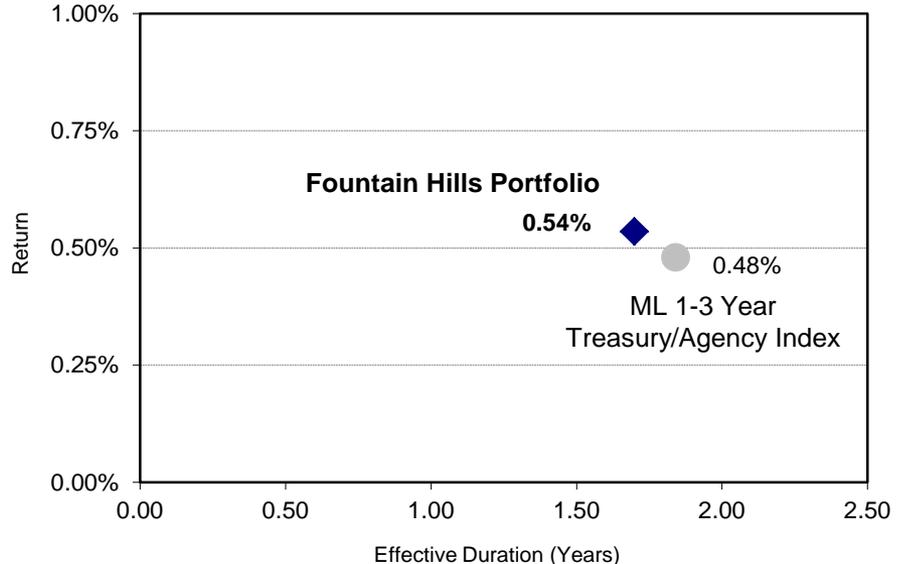
Portfolio Performance

Total Return ^{1,2,3,4}	Quarter Ended September 30, 2014	Past 6 Months	Past 12 Months	Past 2 Years	Since Inception
Fountain Hills Portfolio	0.04%	0.28%	0.49%	0.41%	0.54%
ML 1-3 Year Treasury/Agency Index	0.04%	0.31%	0.52%	0.44%	0.48%
Effective Duration	September 30, 2014	June 30, 2014	Yields	September 30, 2014	June 30, 2014
Fountain Hills Portfolio	1.70	1.69	Yield at Market	0.51%	0.38%
ML 1-3 Year Treasury/Agency Index	1.84	1.84	Yield on Cost	0.55%	0.48%

Quarter Total Return Comparison



Since Inception Total Return Comparison



1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
 2. Merrill Lynch Indices provided by Bloomberg Financial Markets.
 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.

Fourth Quarter 2014 Investment Strategy

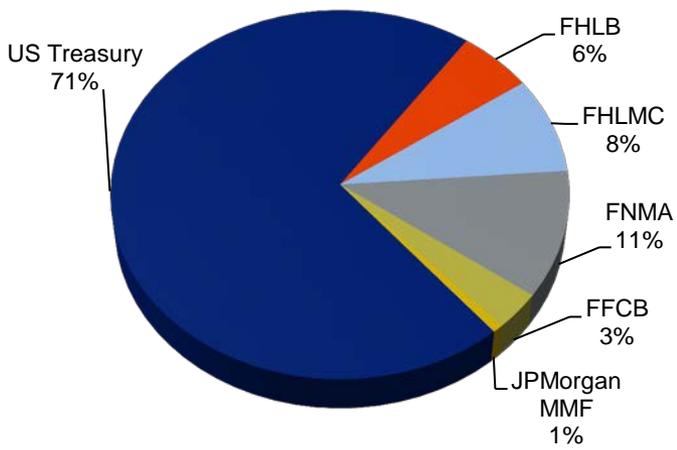
- Economic data is signaling a growing U.S. economy; however, weaker global growth is causing concern impacting:
 - Equity markets;
 - Timing and magnitude of expected rate hikes in 2015.
- The pace of rise in interest rates will determine the optimal investment strategy. Today's challenge is to create a balance between:
 - Conservative duration stance to mitigate unrealized market value losses;
 - Steep yield curve that offers considerably higher yields for even modest maturity extension.
- We expect yield differences/spreads to remain narrow and will favor Treasuries over Agencies.
- The SEC's recently finalized rules for Money Market Funds have not yet impacted the shortest maturity securities. These new rules, along with a multitude of new bank standards for capital and liquidity, are likely to influence the supply and structure of money market securities in the next year or two.
- We will continue to focus on relative value sector analysis, prudent duration management, and efficient yield curve placement to protect the portfolio and minimize the effects of market volatility.

Town of Fountain Hills Portfolio Summary

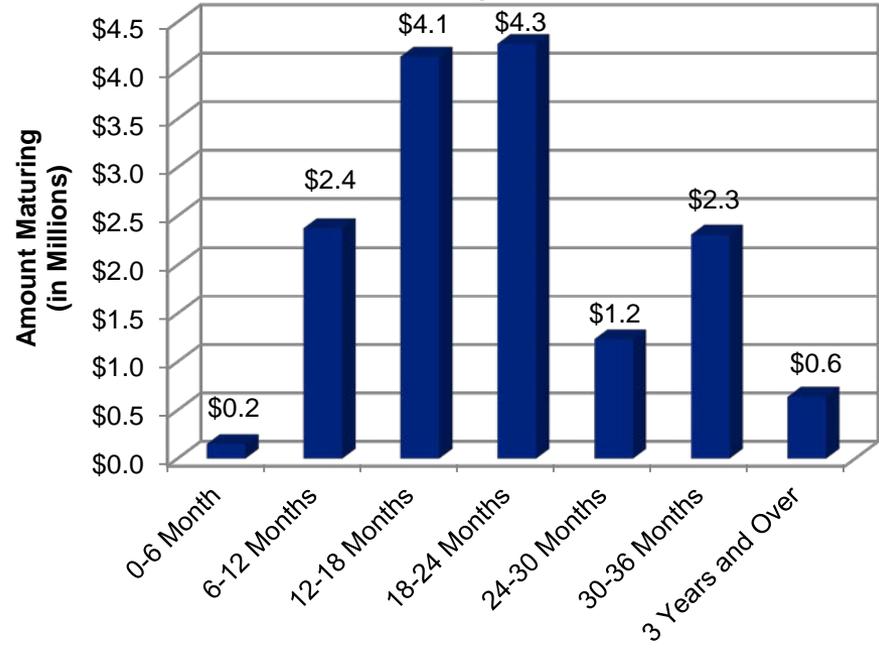
Summary By Type	Book Value	Market Value ¹	Days to Maturity	% of Portfolio	% Allowed per Policy	YTM @ Cost
US Treasury Bond	\$10,799,573	\$10,796,327	639	70.90%	100%	0.52%
FHLB Bond	\$849,280	\$849,788	528	5.58%	100%	0.49%
FHLMC Bond	\$1,286,755	\$1,284,566	786	8.44%	100%	0.81%
FNMA Bond	\$1,687,571	\$1,691,052	593	11.10%	100%	0.63%
FFCB Bond	\$499,783	\$500,087	318	3.28%	100%	0.28%
JPMorgan MMF	\$106,352	\$106,352	1	0.70%	N/A	0.01%
Total including cash	\$15,229,315	\$15,228,172	625	100.00%		0.54%
Total without cash	\$15,122,962	\$15,121,820				0.55%

Summary by Issuer	Book Value	% of Portfolio
US Treasury	\$10,799,573	70.91%
FHLB	\$849,280	5.58%
FHLMC	\$1,286,755	8.45%
FNMA	\$1,687,571	11.08%
FFCB Bond	\$499,783	3.28%
JPMorgan	\$106,352	0.70%
Total	\$15,229,315	100%

Issuer Distribution



Maturity Distribution²



Weighted Average Maturity (in years)	1.71
Duration Allowed by Policy	5.00
Current Portfolio Duration Including Cash	1.69
Current Portfolio Duration Without Cash	1.70

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



Managed Account Detail of Securities Held

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

TOWN OF FOUNTAIN HILLS, OPERATING FUNDS

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 03/15/2012 0.375% 03/15/2015	912828SK7	150,000.00	AA+	Aaa	06/27/12	06/28/12	149,882.81	0.40	24.86	149,980.25	150,222.60
US TREASURY NOTES DTD 08/02/2010 1.750% 07/31/2015	912828NP1	450,000.00	AA+	Aaa	08/21/12	08/22/12	467,525.39	0.42	1,326.77	454,977.51	456,152.34
US TREASURY NOTES DTD 08/02/2010 1.750% 07/31/2015	912828NP1	525,000.00	AA+	Aaa	09/06/12	09/10/12	546,410.15	0.33	1,547.89	531,183.66	532,177.73
US TREASURY NOTES DTD 11/30/2010 1.375% 11/30/2015	912828PJ3	625,000.00	AA+	Aaa	11/29/12	12/05/12	644,018.55	0.35	2,888.06	632,435.76	633,471.88
US TREASURY NOTES DTD 11/30/2010 1.375% 11/30/2015	912828PJ3	640,000.00	AA+	Aaa	11/01/12	11/05/12	658,950.00	0.40	2,957.38	647,215.60	648,675.20
US TREASURY NOTES DTD 01/31/2011 2.000% 01/31/2016	912828PS3	115,000.00	AA+	Aaa	01/30/13	02/04/13	120,327.73	0.44	387.50	117,381.81	117,632.47
US TREASURY NOTES DTD 01/31/2011 2.000% 01/31/2016	912828PS3	365,000.00	AA+	Aaa	03/04/14	03/05/14	376,805.47	0.30	1,229.89	373,241.85	373,355.22
US TREASURY NOTES DTD 01/31/2014 0.375% 01/31/2016	912828B41	1,100,000.00	AA+	Aaa	02/04/14	02/07/14	1,101,417.97	0.31	694.97	1,100,954.18	1,101,589.50
US TREASURY NOTES DTD 05/02/2011 2.000% 04/30/2016	912828OF0	475,000.00	AA+	Aaa	03/27/13	03/28/13	498,638.67	0.38	3,975.54	487,128.61	486,893.53
US TREASURY NOTES DTD 06/02/2014 0.375% 05/31/2016	912828WM8	825,000.00	AA+	Aaa	06/02/14	06/03/14	824,871.09	0.38	1,039.70	824,892.26	824,161.80
US TREASURY NOTES DTD 06/30/2009 3.250% 06/30/2016	912828KZ2	475,000.00	AA+	Aaa	05/22/13	05/24/13	516,024.41	0.44	3,901.32	498,174.80	497,803.80
US TREASURY NOTES DTD 06/30/2009 3.250% 06/30/2016	912828KZ2	500,000.00	AA+	Aaa	05/10/13	05/15/13	544,140.63	0.41	4,106.66	524,732.10	524,004.00
US TREASURY NOTES DTD 06/30/2009 3.250% 06/30/2016	912828KZ2	750,000.00	AA+	Aaa	05/24/13	05/31/13	812,402.34	0.53	6,159.99	785,489.69	786,006.00
US TREASURY NOTES DTD 08/31/2011 1.000% 08/31/2016	912828RF9	285,000.00	AA+	Aaa	02/27/14	03/03/14	288,595.90	0.49	244.06	287,766.35	287,315.63



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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 11/30/2011 0.875% 11/30/2016	912828RU6	450,000.00	AA+	Aaa	10/31/13	11/01/13	453,480.47	0.62	1,323.26	452,452.93	451,652.34
US TREASURY NOTES DTD 11/30/2011 0.875% 11/30/2016	912828RU6	775,000.00	AA+	Aaa	12/03/13	12/04/13	781,932.62	0.57	2,278.94	780,030.50	777,845.70
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	525,000.00	AA+	Aaa	03/19/14	03/21/14	526,209.96	0.92	14.42	526,000.74	526,599.61
US TREASURY NOTES DTD 05/31/2012 0.625% 05/31/2017	912828SY7	825,000.00	AA+	Aaa	06/02/14	06/03/14	820,423.83	0.81	1,732.84	820,920.30	817,845.60
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	130,000.00	AA+	Aaa	07/01/14	07/07/14	128,197.26	0.96	109.51	128,333.67	128,029.72
US TREASURY NOTES DTD 09/30/2010 1.875% 09/30/2017	912828PA2	625,000.00	AA+	Aaa	09/02/14	09/04/14	640,673.83	1.04	32.19	640,304.87	638,916.25
Security Type Sub-Total		10,610,000.00					10,900,929.08	0.52	35,975.75	10,763,597.44	10,760,350.92
Federal Agency Bond / Note											
FEDERAL FARM CREDIT BANK BONDS DTD 02/14/2014 0.200% 08/14/2015	3133EDFC1	500,000.00	AA+	Aaa	02/12/14	02/14/14	499,401.68	0.28	130.56	499,652.92	499,956.50
FEDERAL HOME LOAN BANK GLOBAL NOTES DTD 08/09/2013 0.375% 08/28/2015	313383V81	430,000.00	AA+	Aaa	08/08/13	08/09/13	429,982.80	0.38	147.81	429,993.99	430,853.12
FREDDIE MAC GLOBAL NOTES DTD 07/11/2012 0.500% 08/28/2015	3134G3ZA1	450,000.00	AA+	Aaa	07/30/12	07/31/12	450,525.15	0.46	206.25	450,157.96	451,331.10
FANNIE MAE GLOBAL NOTES DTD 02/15/2013 0.500% 03/30/2016	3135G0VA8	300,000.00	AA+	Aaa	03/12/13	03/13/13	300,141.00	0.48	4.17	300,069.51	300,229.50
FANNIE MAE GLOBAL NOTES DTD 02/15/2013 0.500% 03/30/2016	3135G0VA8	460,000.00	AA+	Aaa	02/14/13	02/15/13	459,475.60	0.54	6.39	459,747.52	460,351.90
FANNIE MAE GLOBAL NOTES DTD 02/15/2013 0.500% 03/30/2016	3135G0VA8	500,000.00	AA+	Aaa	08/29/13	08/30/13	497,335.00	0.71	6.94	498,449.70	500,382.50
FNMA NOTES DTD 08/19/2011 1.250% 09/28/2016	3135G0CM3	170,000.00	AA+	Aaa	10/01/13	10/03/13	172,510.90	0.75	17.71	171,680.95	172,010.59



Managed Account Detail of Securities Held

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

TOWN OF FOUNTAIN HILLS, OPERATING FUNDS

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Federal Agency Bond / Note											
FNMA NOTES DTD 08/19/2011 1.250% 09/28/2016	3135G0CM3	255,000.00	AA+	Aaa	10/01/13	10/03/13	258,826.56	0.74	26.56	257,561.64	258,015.89
FHLB NOTES DTD 08/07/2014 0.500% 09/28/2016	3130A2T97	420,000.00	AA+	Aaa	08/06/14	08/07/14	419,055.00	0.61	17.50	419,120.49	418,769.82
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	320,000.00	AA+	Aaa	08/12/14	08/14/14	319,960.32	1.00	560.00	319,962.13	318,684.48
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	515,000.00	AA+	Aaa	08/12/14	08/14/14	514,965.50	1.00	901.25	514,967.13	512,882.84
Security Type Sub-Total		4,320,000.00					4,322,179.51	0.62	2,025.14	4,321,363.94	4,323,468.24
Managed Account Sub-Total		14,930,000.00					15,223,108.59	0.55	38,000.89	15,084,961.38	15,083,819.16
Securities Sub-Total		\$14,930,000.00					\$15,223,108.59	0.55%	\$38,000.89	\$15,084,961.38	\$15,083,819.16
Accrued Interest											\$38,000.89
Total Investments											\$15,121,820.05



Economic Update

Stocks Sold Off Sharply, But Have Rebounded

S&P 500
October 13 – 17, 2014



Source: Yahoo

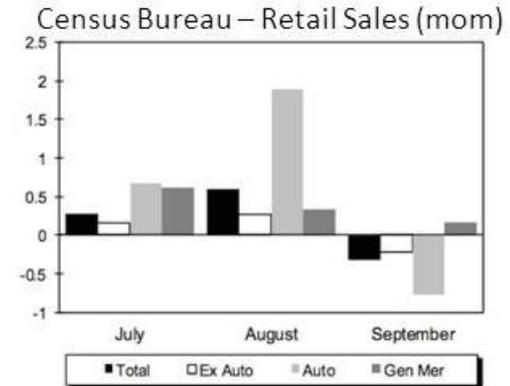
What's Causing Volatility—October 15“Correction”

➤ United States

- Manufacturing and retail sales lower than expected; decline in producer prices
- Ending of Fed's QE program

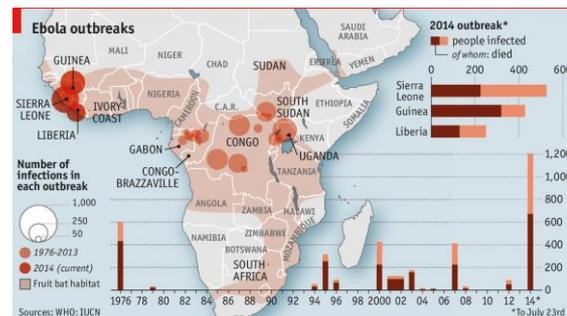
➤ Global Slowdown

- The International Monetary Fund forecast for euro zone 2014 GDP growth is 0.8%
 - Germany projected to expand only 1.4% in 2014
 - Italy will likely contract again in 2014
 - Effect of Russian sanctions on EU countries
- Japan's GDP expected to be 0.9% in 2014
- Chinese economy slowing
- Brazil's economy expected to grow only 0.3% in 2014



➤ Other Factors

- Ebola epidemic
- Declining oil prices
- Middle East conflict



Source: Economist, Telegraph Media Group

Flight to Quality—Reaction in Bond Markets

- After reaching their highest levels in over 3 years in September, the 2-year Treasury, and yields on all maturities, reversed course and declined sharply on October 15th.
- Recently reported weaker than expected economic data has pushed back some expectations on the timing of the Fed's first rate hike.



Source: Bloomberg.

What's Causing Volatility—October 17 “Rebound”

- Strong earnings from Morgan Stanley, General Electric, and others.
- Strong reading on September housing starts: up 17.8% year-over-year in September; up 6.3% from August.
- Michigan's consumer sentiment index rose to a seven-year high.
- A sense the Fed will support the markets if needed.



GE profit tops views as cost cuts drive margins; shares up

- General Electric Co reported a slightly higher-than-expected quarterly profit on F

Honeywell third-quarter profit tops forecast, actively seeks deals

- Honeywell International Inc, a diversified manufacturer of aircraft parts and electronic e
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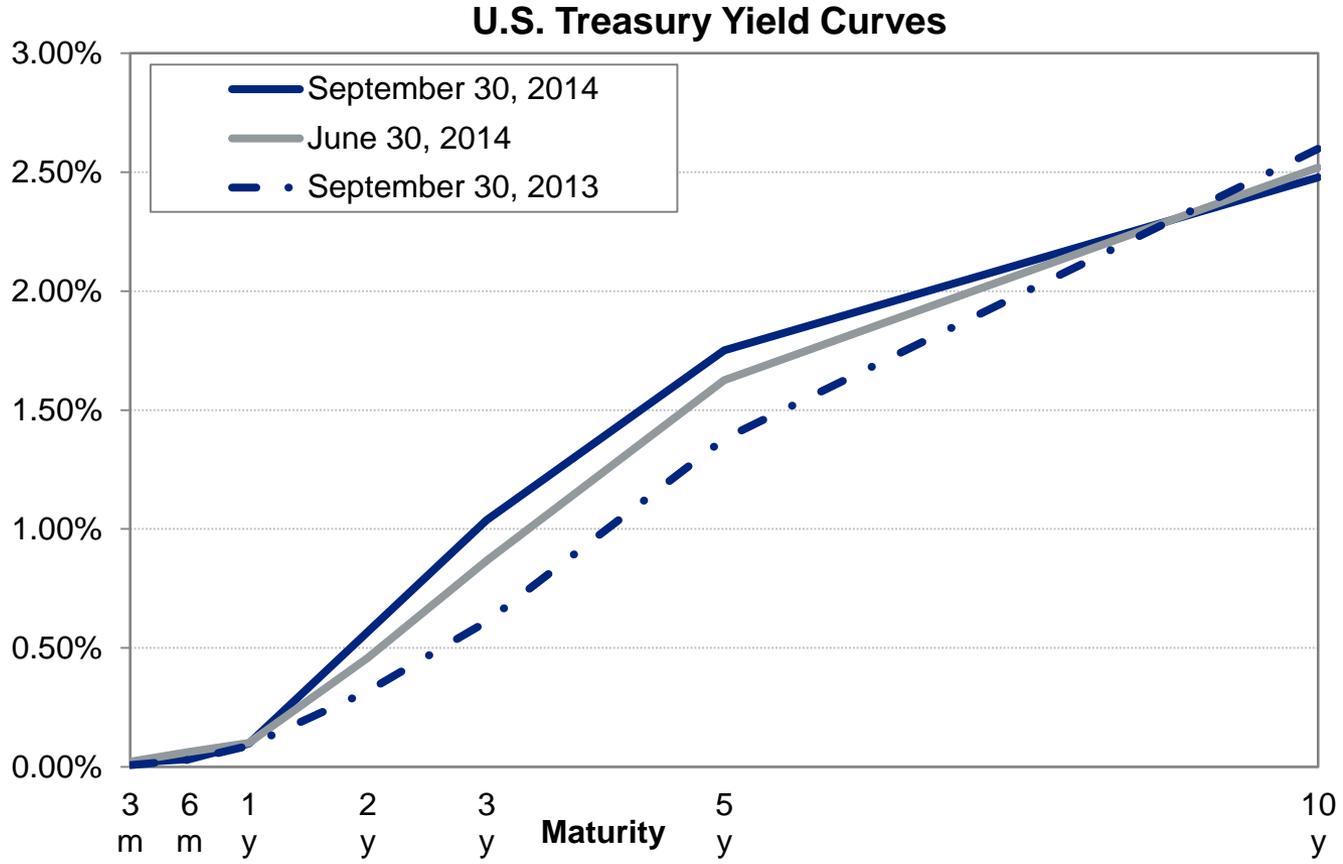
Morgan Stanley profit jumps as trading activity rebounds

- Morgan Stanley reported an 87 percent rise in third-quarter earnings as the Wall Stre
 investment banking and wealth management businesses benefited from increased cl

Source: Bloomberg, Reuters

Intermediate Area of the Yield Curve Remains Steep

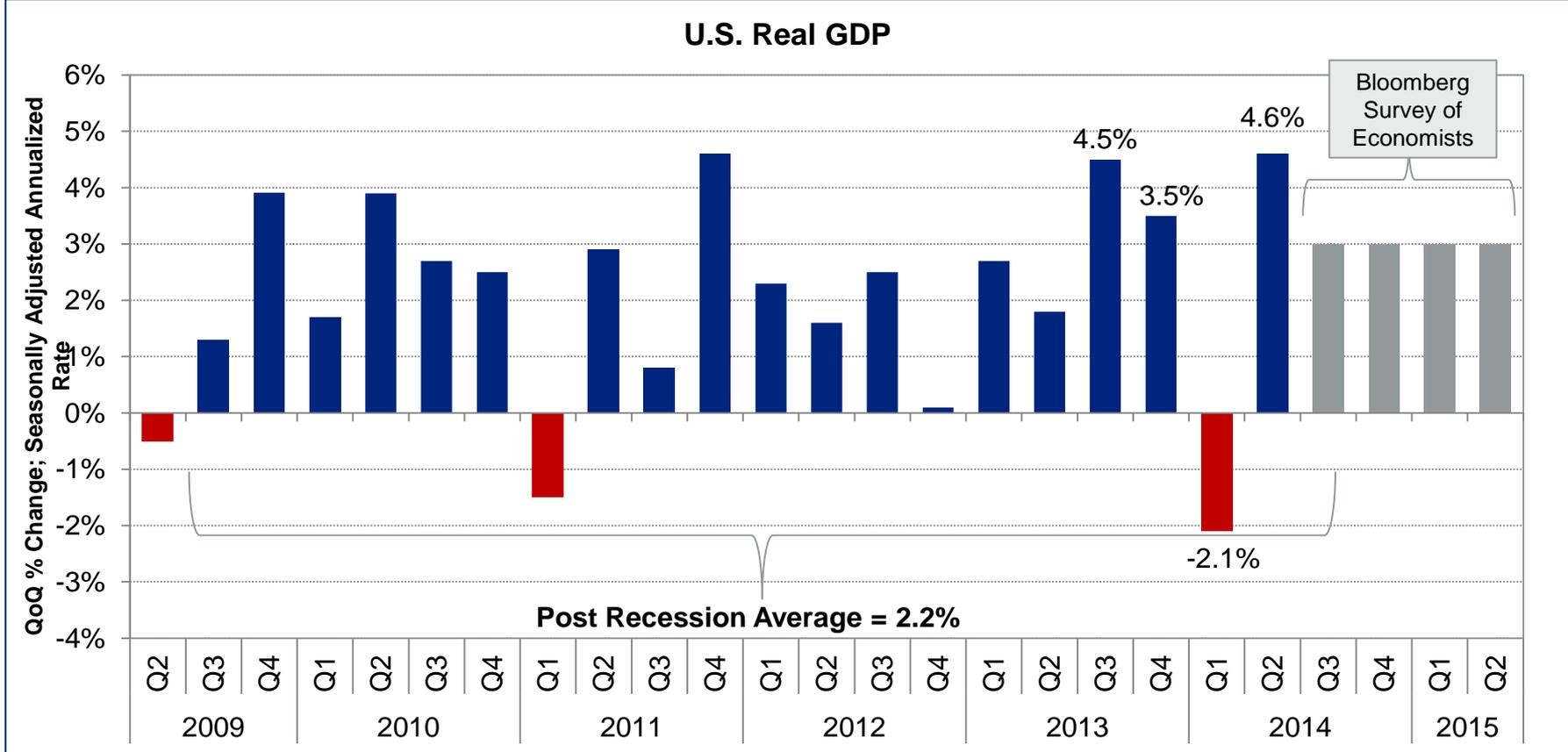
- The yield curve remains steep in the 2-5 year maturity area as the short end of the curve continues to be anchored by the Fed Policy.
- In the longer end of the curve, yields are down slightly year-over-year on low inflation expectations and flights to quality caused by concerns abroad.



Source: Bloomberg

U.S. Economy Surges in 2nd Quarter of 2014

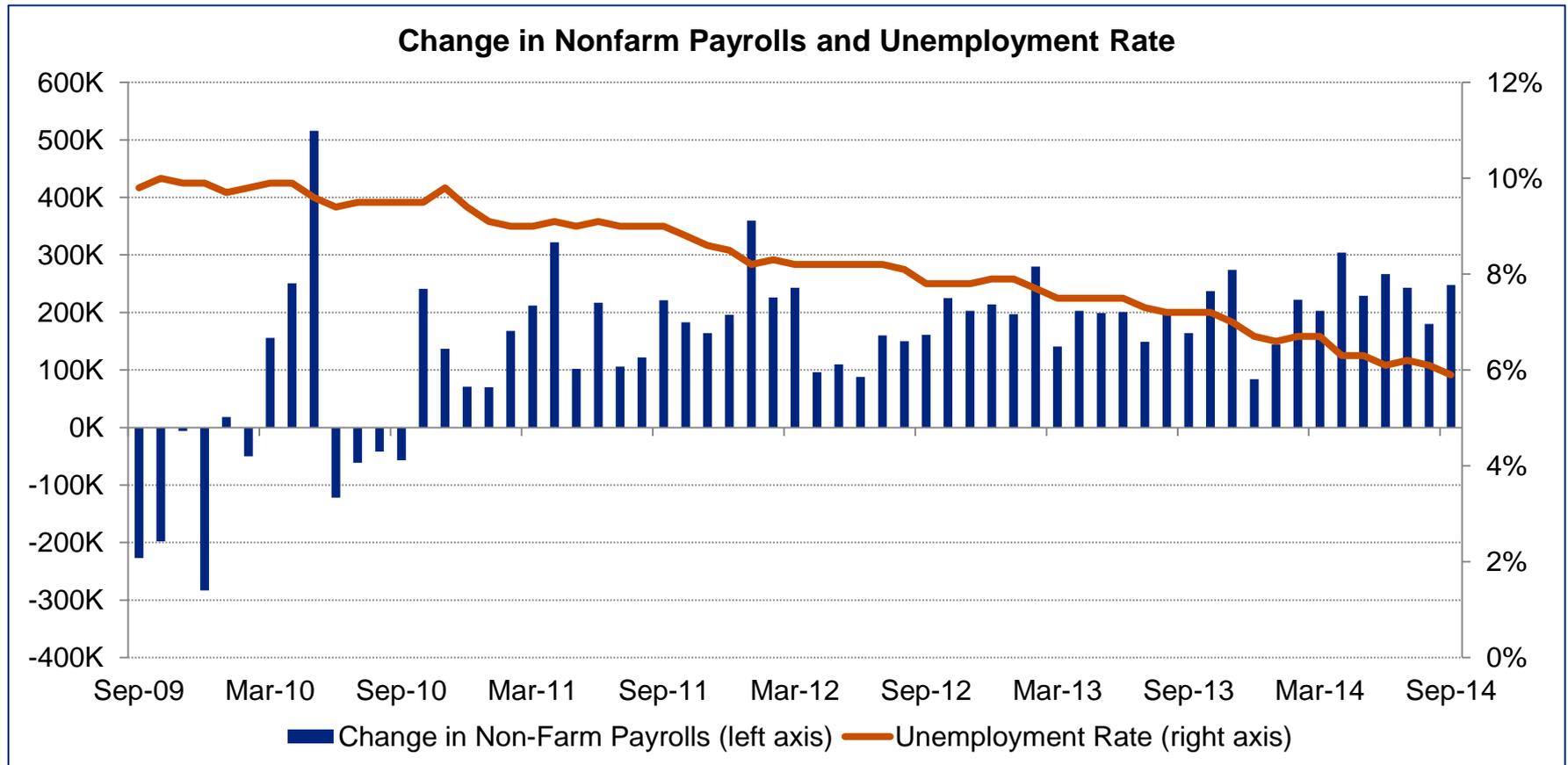
- Second quarter U.S. GDP was revised upward to a 4.6% annualized rate; the increase was mainly due to a larger than previously estimated increase in nonresidential fixed investment and exports.



Source: Bureau Of Economic Analysis

Labor Market Regains Some Momentum

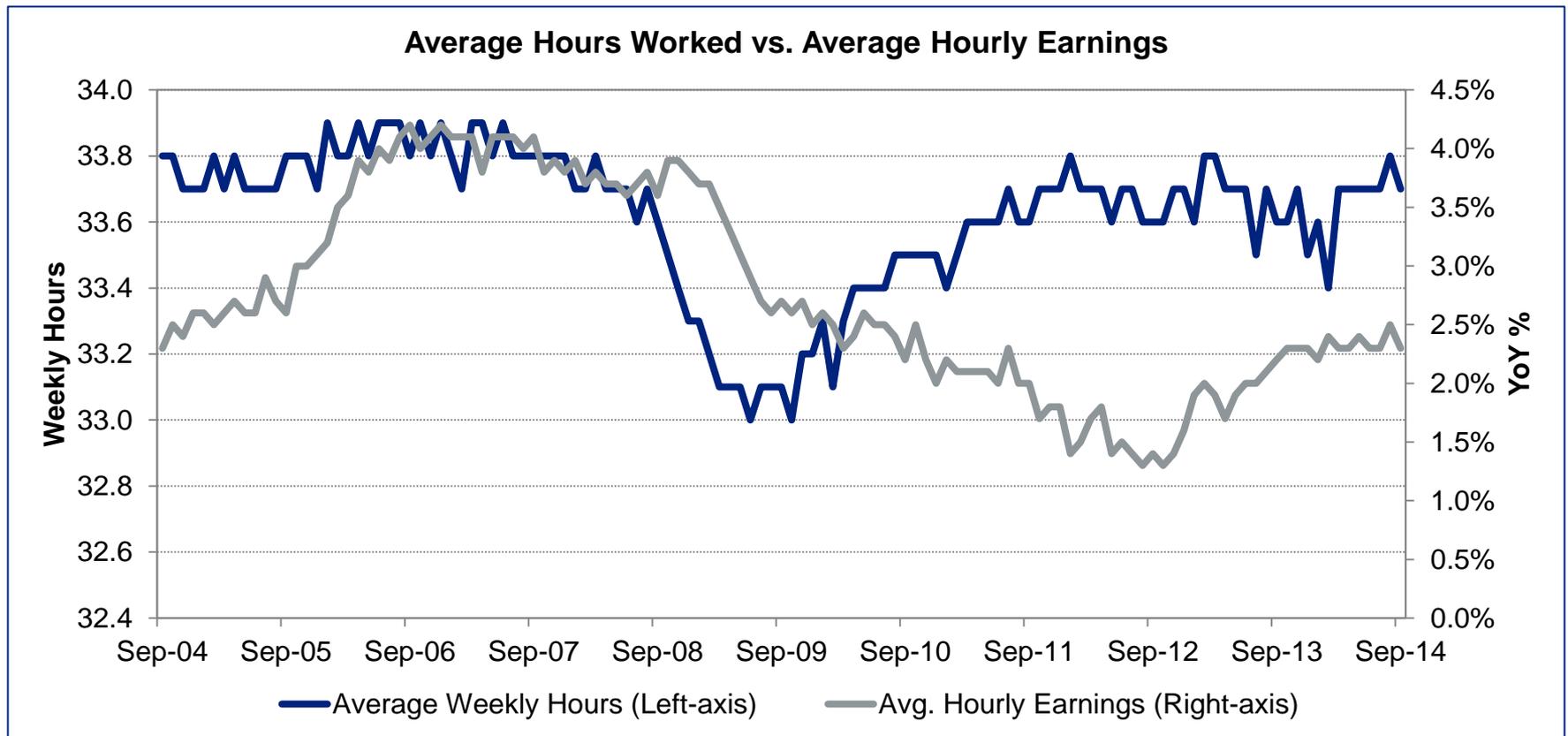
- U.S. job creation rebounded, adding an average of 224,000 net new jobs per month in the third quarter and the unemployment rate fell to 5.9%, hitting the lowest level since before the recession.



Source: Bureau of Labor Statistics

Underlying Slack in Employment Market

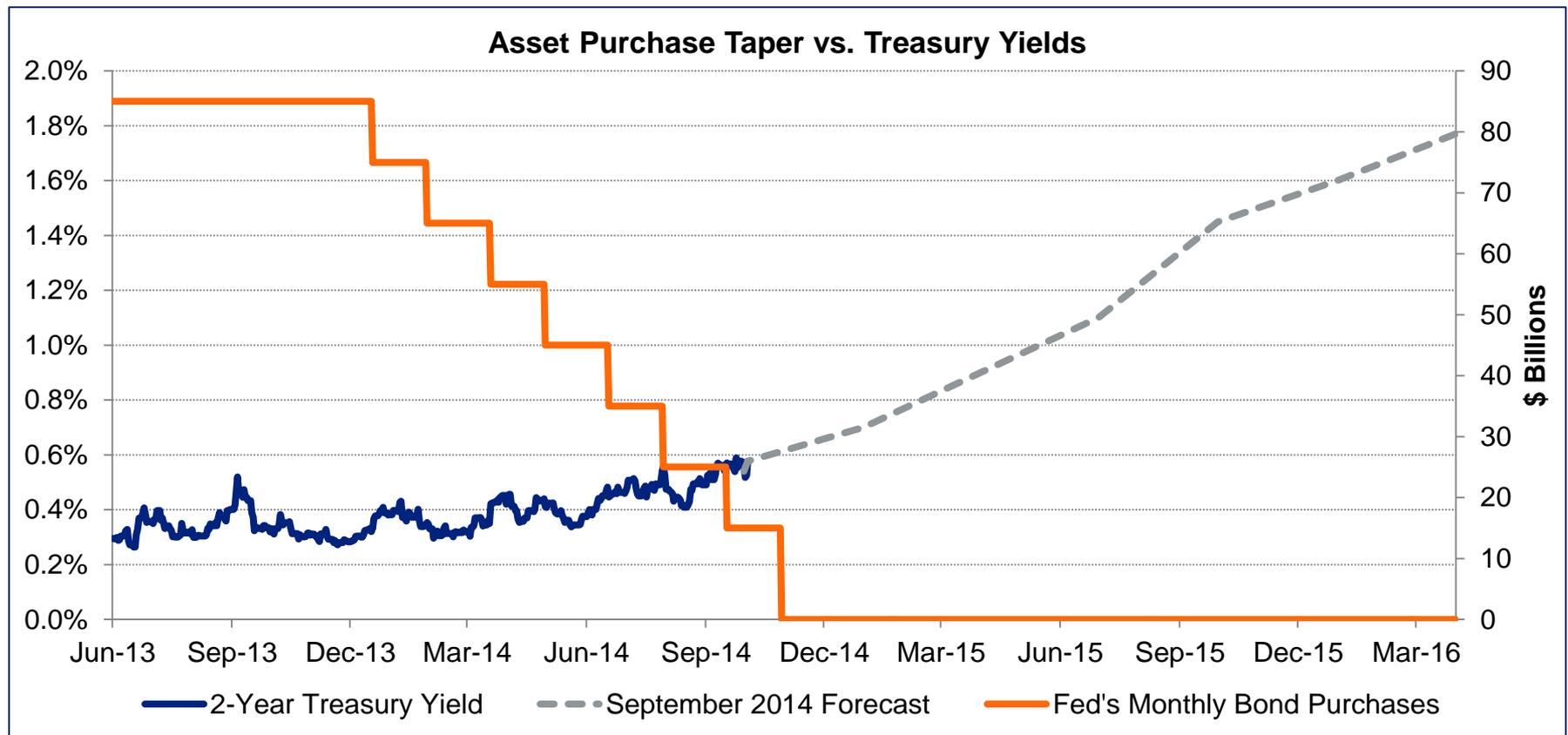
- Recent FOMC meeting minutes have referenced persistent “labor market slack” as a key policy consideration.
- As shown below, measures of weekly hours worked and hourly earnings growth both remain below pre-recession levels.



Source: Bloomberg, Bureau of Labor Statistics

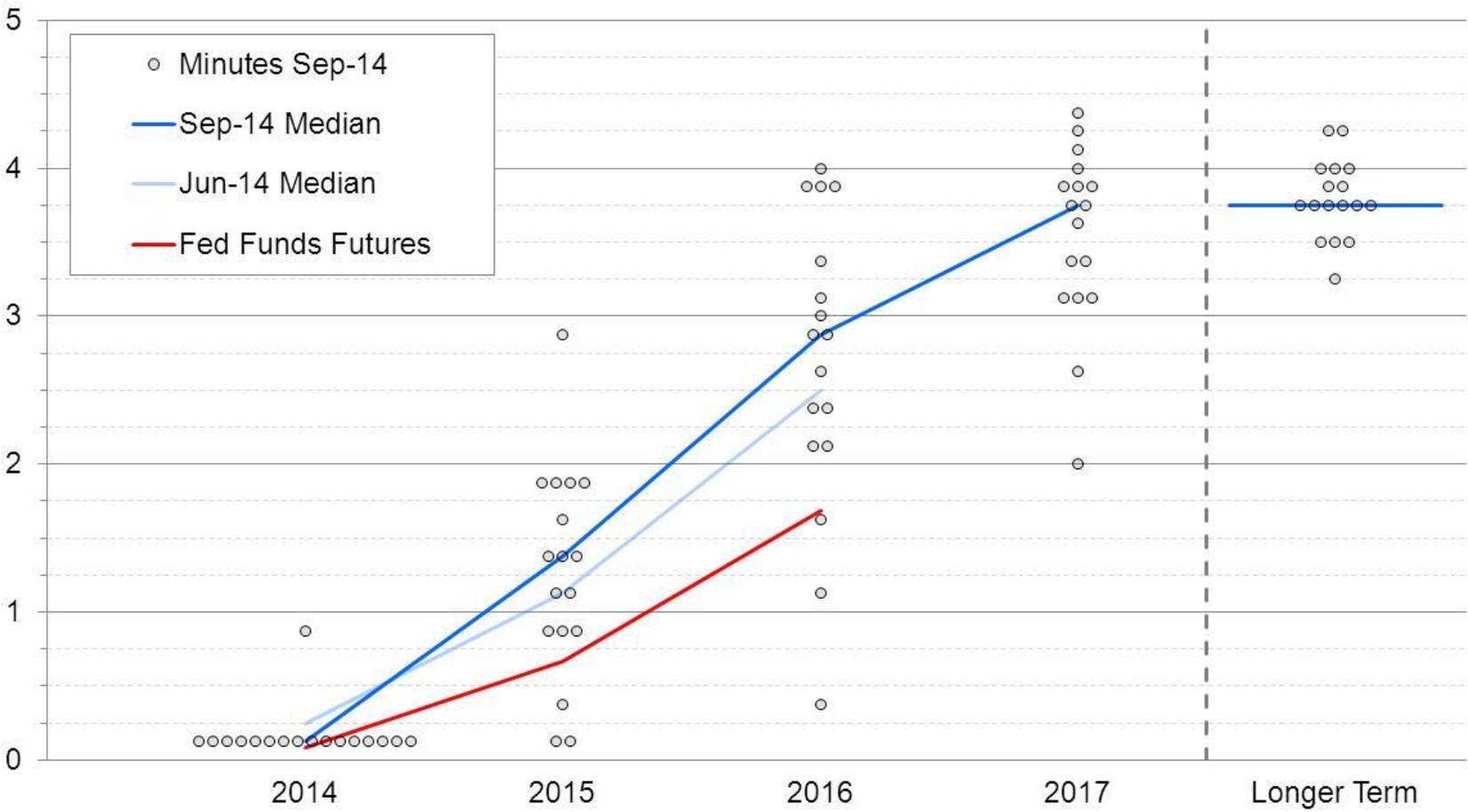
Fed Bond Purchase Program Coming to an End

- Since December 2013, the Fed has been reducing its amount of monthly bond purchases by \$10 billion after each subsequent FOMC meeting.
- The FOMC will end the program in October setting the stage for the Fed to raise its Target Rate.



Source: Bloomberg, Bloomberg Survey of Economists

Outlook: Overnight Market Priced Below Dot Plot



Source: Bloomberg; Federal Reserve

Economic and Market Outlook

Growth Shows Signs of Acceleration

- Rates continue to have an upward bias
 - Intermediate maturities affected most, while long rates are contained
 - Yield curve remains steeply sloped
-

Inflation Remains Benign

- Wage rate growth is stagnant
 - Modest global demand causes prices of headline commodities to rise
 - Inflation remains below trend, but rising towards Federal Reserve targets
-

Fed Policies in Transition

- Bond purchases phased out in October 2014
 - Fed Funds could rise modestly in mid-2015
-

Modest Global Economic Outlook

- Europe out of recession, but growth will likely be moderate
 - Emerging markets will be a moderate drag
 - China growth will moderate
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Disclaimer

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