

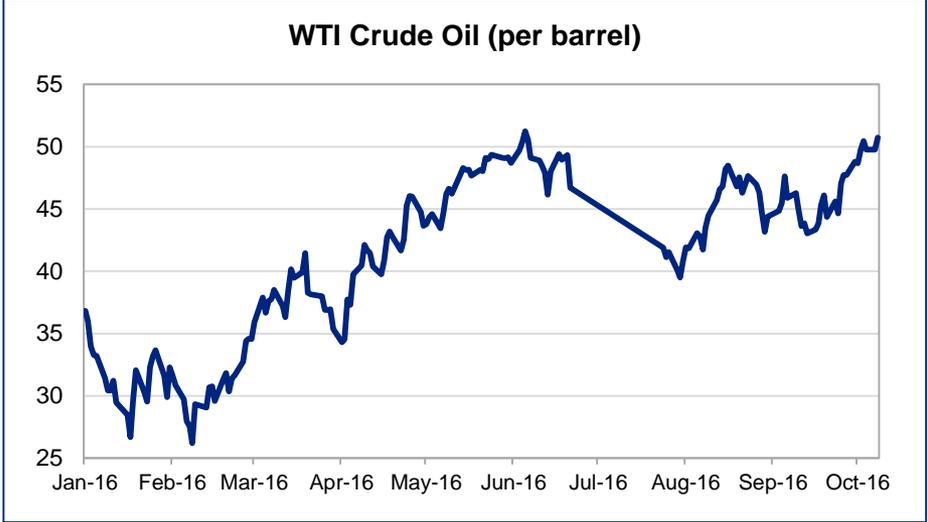
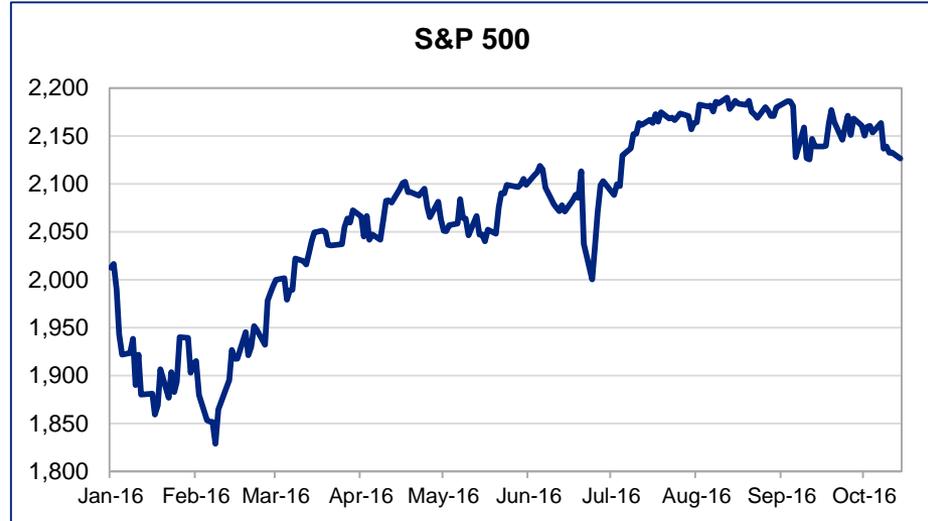


Town of Fountain Hills Quarterly Investment Review Quarter Ended September 30, 2016



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Rough Start to 2016, but Reversal Ensued

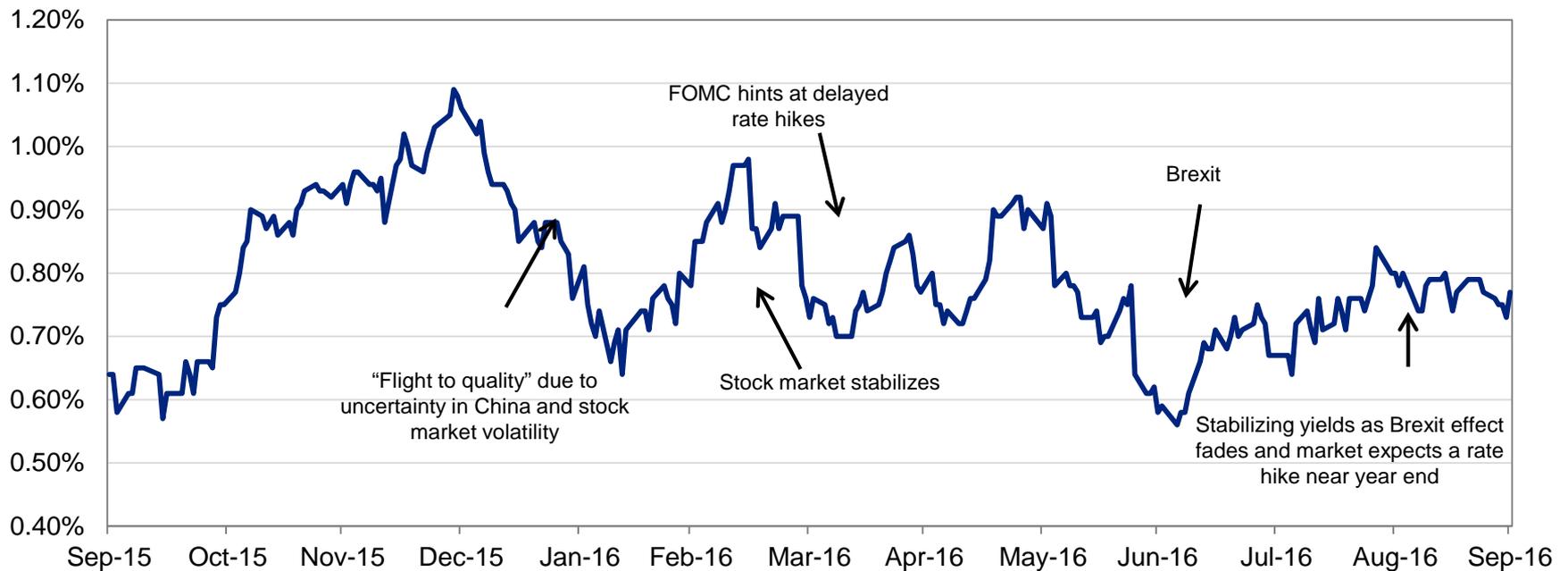


Source: Bloomberg

U.S. Treasury Yields Experienced Volatility

- Treasuries have had a rough ride so far this year: Yields fell to begin the year amid concerns over China's slowing economy. A dovish Fed in March led to a decline in yields, before recovering following the April meeting's minutes and stronger economic data. Yields fell substantially again following the Brexit vote, but have since stabilized as fears abated and investors looked ahead to a possible rate hike by year-end.

2-Year U.S. Treasury Yield
September 30, 2015 – September 30, 2016



Source: Bloomberg

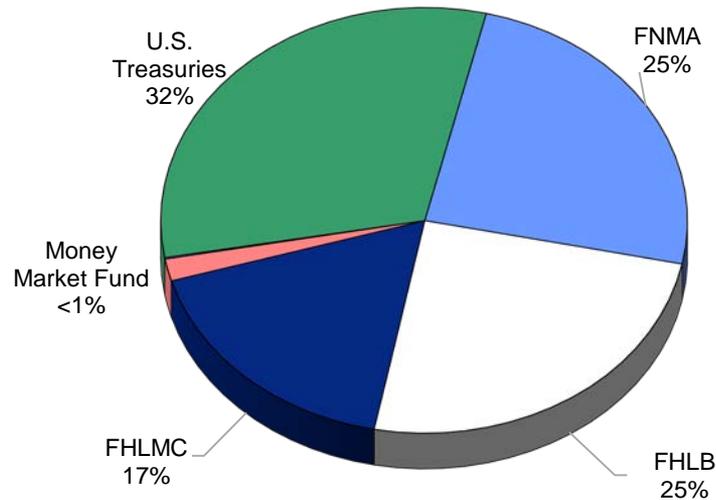
Third Quarter Strategy Recap

- Yields drifted modestly higher during the third quarter as early-quarter Brexit fears faded and U.S. economic data rebounded, bringing the Fed closer to an eventual rate hike, perhaps in December.
- Our primary strategy involved emphasizing allocations to agency issues as spreads are wider than they have been for several years.
- We sought to generally maintain portfolio durations and maturity distributions comparable to those of benchmarks to reduce potential performance mismatches given the uncertain rate environment.
- Yields remain lower across the curve for the year and the curve has flattened as the front end of the curve is closely correlated with the Fed Funds Rate and the longer end is influenced by economic growth and global demand factors.

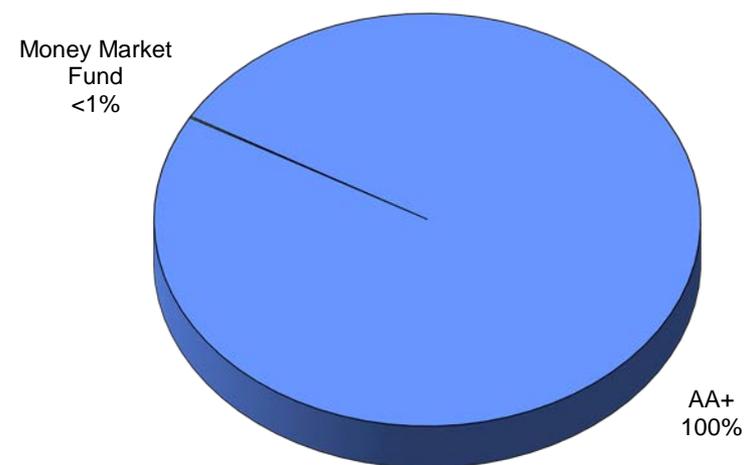
Portfolio Composition and Credit Quality Characteristics

Security Type ¹	September 30, 2016	% of Portfolio	% Change From Prior Quarter	Permitted by Policy
U.S. Treasuries	\$4,896,492.44	31.5%	-25%	100%
Federal Agencies	\$10,618,928.16	68.4%	+25%	100%
<i>FNMA</i>	\$3,807,615.67	25%	+6%	-
<i>FHLB</i>	\$3,854,242.18	25%	+18%	-
<i>FHLMC</i>	\$2,697,157.32	17%	+1%	-
<i>TVA</i>	\$259,912.99	2%	-	-
Money Market Fund	\$20,410.91	<1%	-	-
Total	\$15,532,450.89	100%		

Portfolio Composition



Portfolio Credit Quality Distribution²



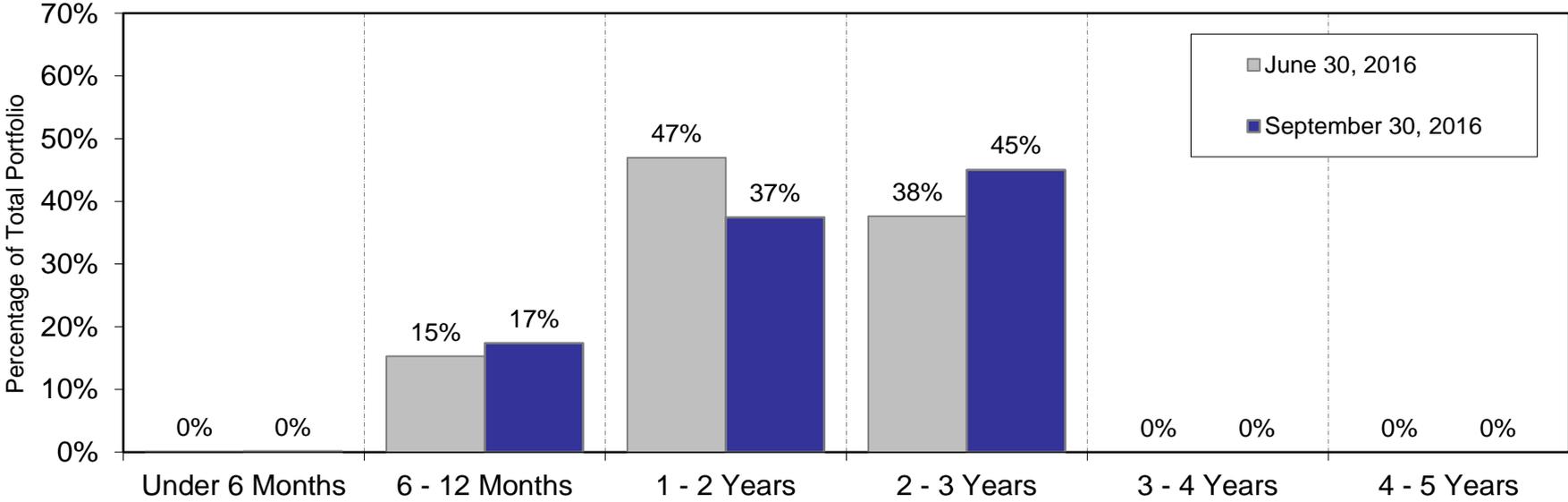
Ratings by Standard & Poor's

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	September 30, 2016	June 30, 2016
Under 6 Months	\$17,030.29	\$17,030.29
6 - 12 Months	\$2,702,326.52	\$2,371,902.36
1 - 2 Years	\$5,817,797.41	\$7,290,100.10
2 - 3 Years	\$6,995,296.67	\$5,838,458.96
3 - 4 Years	\$0.00	\$0.00
4 - 5 Years	\$0.00	\$0.00
Totals	\$15,532,450.89	\$15,517,491.71

Portfolio Maturity Distribution



Monitored Spreads for Attractive Agency Purchases

- The yield spread between U.S. Treasuries moved slightly tighter this quarter but still offer value in certain maturities. New issues offer the best opportunities.
- We increased the Town's allocation to agencies by 25% over the quarter. Agency purchases included ten new issues, which are commonly sold with a spread that is wider than the secondary market to entice buyers.

Agency purchases:

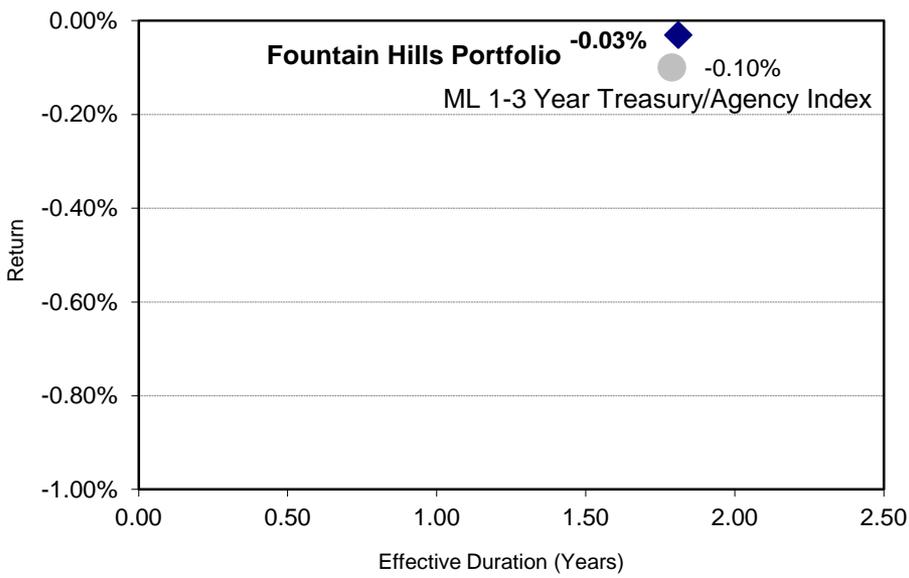
Trade Date	Security	Maturity	Par Value	Yield
7/6/16	FHLB Notes	6/21/19	\$250,000	0.79%
7/7/16	FHLB Notes	8/7/18	\$650,000	0.73%
7/19/16	FHLMC Notes	7/19/19	\$550,000	0.96%
7/20/16	FHLB Notes	1/19/18	\$800,000	0.81%
7/29/16	FNMA Notes	8/2/19	\$325,000	0.93%
8/10/16	FHLB Notes	8/7/18	\$200,000	0.81%
8/11/16	FHLB Agcy	6/29/18	\$275,000	0.86%
8/25/16	FHLB Notes	10/1/18	\$600,000	0.91%
8/31/16	FNMA Notes	8/28/19	\$625,000	1.06%
9/1/16	FHLMC Notes	7/19/19	\$150,000	1.05%

**Bold indicates new issue*

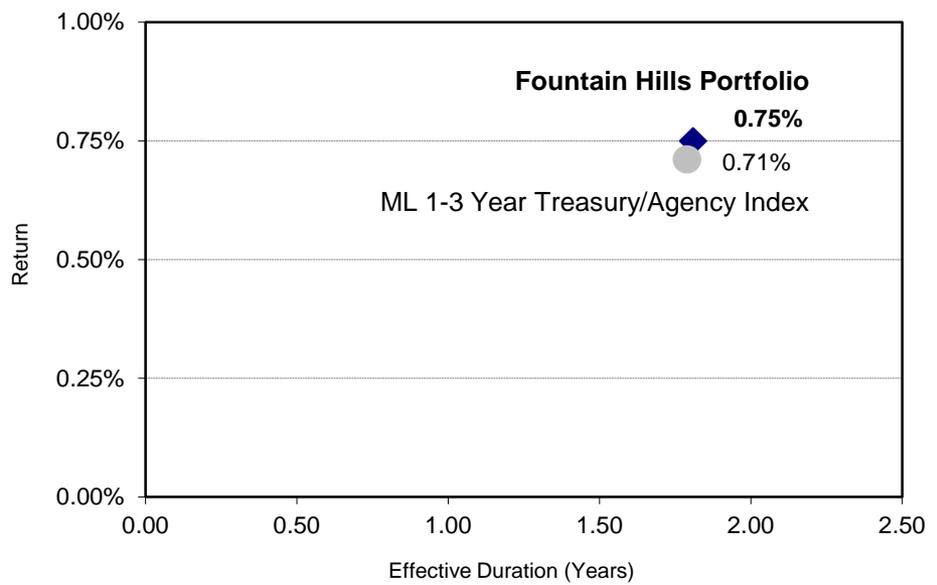
Portfolio Performance

Total Return ^{1,2,3,4}	Quarter Ended September 30, 2016	Past 12 Months	Past 2 Years	Past 3 Years	Since Inception
Fountain Hills Portfolio	-0.03%	0.96%	1.04%	0.85%	0.75%
ML 1-3 Year Treasury/Agency Index	-0.10%	0.89%	1.03%	0.86%	0.71%
Effective Duration	September 30, 2016	June 30, 2016	Yields	September 30, 2016	June 30, 2016
Fountain Hills Portfolio	1.81	1.80	Yield at Market	0.82%	0.64%
ML 1-3 Year Treasury/Agency Index	1.81	1.79	Yield on Cost	0.96%	0.95%

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 December 31, 2011.

Fourth Quarter Outlook and Strategy

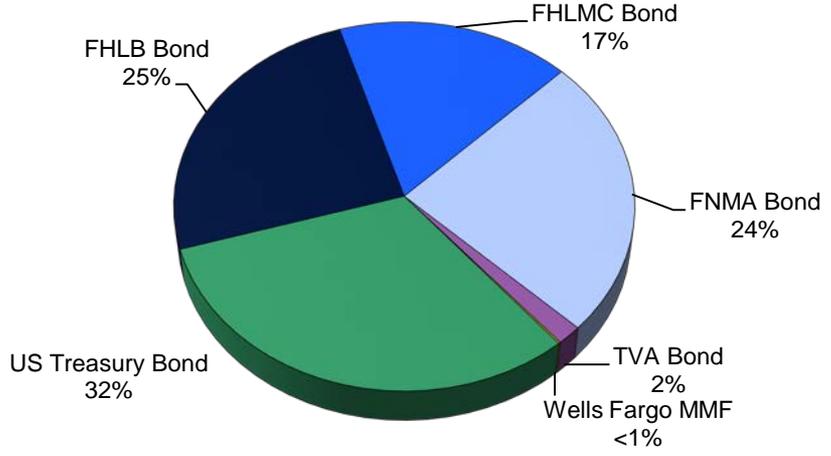
- Agency yield spreads moved modestly tighter during the third quarter, but still offer value in certain maturities. New issues, which typically offer a yield concession, offer the best opportunities.
- As we have done for most of the year, we plan to keep the duration and maturity distribution of portfolios generally in line with the distribution of their benchmarks, except where shifting to short-term credit securities offers better value
- We will continue to monitor incoming economic data to assess and confirm the prospect for a Fed rate hike by year-end. In the near-term, the upcoming U.S. Presidential election could be a source of market volatility.

Town of Fountain Hills Portfolio Summary

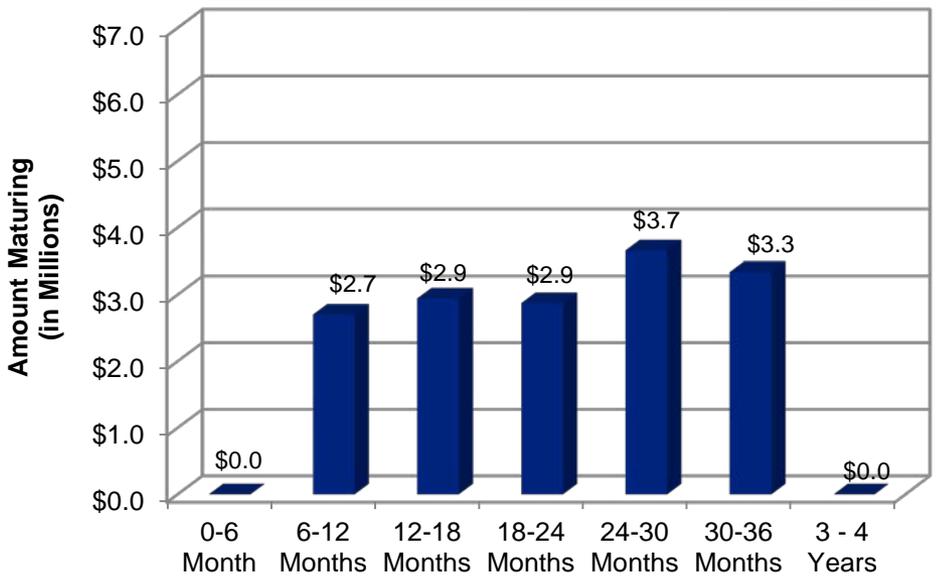
Summary By Type	Book Value	Market Value ¹	Days to Maturity	% of Portfolio	% Allowed per Policy	YTM @ Cost
U.S. Treasury Bond	\$4,881,103	\$4,896,492	504	31.52%	100%	0.94%
FHLB Bond	\$3,855,430	\$3,854,242	706	24.81%	100%	0.84%
FHLMC Bond	\$2,693,046	\$2,697,157	717	17.36%	100%	0.97%
FNMA Bond	\$3,791,814	\$3,807,616	827	24.51%	100%	1.11%
TVA Bond	\$259,447	\$259,913	441	1.67%	100%	1.01%
Wells Fargo MMF	\$20,411	\$20,411	1	0.13%	N/A	0.01%
Total including cash	\$15,501,252	\$15,535,832	669	100.00%		0.96
Total without cash	\$15,480,841	\$15,515,421				0.96

Summary by Issuer	Book Value	% of Portfolio
U.S. Treasury	\$4,881,103	31.49%
FHLB	\$3,855,430	24.87%
FHLMC	\$2,693,046	17.37%
FNMA	\$3,791,814	24.46%
TVA Bond	\$259,447	1.67%
Wells Fargo	\$20,411	0.13%
Total	\$15,501,252	100%

Issuer Distribution



Maturity Distribution²



Weighted Average Maturity (in years)	1.83
Duration Allowed by Policy	5.00
Current Portfolio Duration Including Cash	1.81
Current Portfolio Duration Without Cash	1.81

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, 2016**

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 07/02/2012 0.750% 06/30/2017	912828TB6	400,000.00	AA+	Aaa	10/30/14	11/03/14	399,593.75	0.79	758.15	399,885.13	400,436.80
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	50,000.00	AA+	Aaa	02/06/15	02/10/15	49,582.03	0.84	42.12	49,858.50	49,953.10
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	129,506.07	129,878.06
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	700,000.00	AA+	Aaa	02/02/15	02/04/15	697,785.16	0.63	589.67	699,256.38	699,343.40
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	630,145.31	632,373.13
US TREASURY NOTES DTD 01/31/2013 0.875% 01/31/2018	912828UJ7	675,000.00	AA+	Aaa	12/28/15	12/30/15	671,677.73	1.11	995.07	672,872.68	676,423.58
US TREASURY NOTES DTD 04/01/2013 0.750% 03/31/2018	912828UU2	455,000.00	AA+	Aaa	03/26/15	03/27/15	451,694.14	1.00	9.38	453,343.82	455,124.22
US TREASURY NOTES DTD 04/30/2013 0.625% 04/30/2018	912828UZ1	900,000.00	AA+	Aaa	05/28/15	05/29/15	891,281.25	0.96	2,353.94	895,250.35	898,523.10
US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	560,000.00	AA+	Aaa	05/03/16	05/06/16	565,906.25	0.83	2,352.46	564,984.88	565,162.64
US TREASURY NOTES DTD 12/31/2013 1.500% 12/31/2018	912828A75	375,000.00	AA+	Aaa	12/01/15	12/04/15	378,178.71	1.22	1,421.54	377,336.33	380,610.38
Security Type Sub-Total		4,870,000.00					4,874,570.11	0.94	8,664.03	4,872,439.45	4,887,828.41
Federal Agency Bond / Note											
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	350,000.00	AA+	Aaa	03/19/15	03/20/15	351,190.00	0.85	612.50	350,419.65	351,086.40
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	435,000.00	AA+	Aaa	08/12/14	08/14/14	434,970.86	1.00	761.25	434,991.90	436,350.24
TENNESSEE VALLEY AUTHORITY NOTES DTD 12/22/1997 6.250% 12/15/2017	880591CU4	240,000.00	AA+	Aaa	08/18/15	08/19/15	268,794.24	1.01	4,416.67	255,030.67	255,496.32



Managed Account Detail of Securities Held

For the Month Ending **September 30, 2016**

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											
FEDERAL HOME LOAN BANKS NOTES DTD 07/19/2016 0.750% 01/19/2018	3130A8SE4	800,000.00	AA+	Aaa	07/20/16	07/21/16	799,238.52	0.81	1,200.00	799,337.22	799,596.80
FNMA NOTE DTD 03/04/2016 0.875% 03/28/2018	3135G0J61	750,000.00	AA+	Aaa	03/02/16	03/04/16	748,500.00	0.97	54.69	748,913.67	750,570.00
FHLMC REFERENCE NOTE DTD 04/07/2016 0.750% 04/09/2018	3137EAEA3	375,000.00	AA+	Aaa	04/06/16	04/07/16	374,411.25	0.83	1,359.38	374,552.28	374,661.00
FEDERAL HOME LOAN BANKS AGCY DTD 05/27/2016 0.875% 06/29/2018	3130A8BD4	275,000.00	AA+	Aaa	08/11/16	08/12/16	275,104.50	0.85	614.93	275,097.12	276,057.10
FEDERAL HOME LOAN BANKS AGCY DTD 05/27/2016 0.875% 06/29/2018	3130A8BD4	470,000.00	AA+	Aaa	05/26/16	05/27/16	468,867.30	0.99	1,050.97	469,052.01	471,806.68
FHLB NOTES DTD 07/08/2016 0.625% 08/07/2018	3130A8PK3	200,000.00	AA+	Aaa	08/10/16	08/12/16	199,284.00	0.81	187.50	199,332.78	199,220.40
FHLB NOTES DTD 07/08/2016 0.625% 08/07/2018	3130A8PK3	650,000.00	AA+	Aaa	07/07/16	07/08/16	648,648.00	0.73	609.38	648,796.50	647,466.30
FHLB GLOBAL NOTE DTD 08/26/2016 0.875% 10/01/2018	3130A9AE1	600,000.00	AA+	Aaa	08/25/16	08/26/16	599,592.00	0.91	510.42	599,609.86	599,735.40
FNMA BENCHMARK NOTE DTD 09/01/2015 1.125% 10/19/2018	3135G0E58	700,000.00	AA+	Aaa	08/27/15	09/01/15	698,866.00	1.18	3,543.75	699,251.92	703,625.30
FNMA BENCHMARK NOTE DTD 01/08/2016 1.375% 01/28/2019	3135G0H63	640,000.00	AA+	Aaa	01/06/16	01/08/16	639,603.20	1.40	1,540.00	639,695.44	647,070.08
FNMA BENCHMARK NOTE DTD 02/23/2016 1.000% 02/26/2019	3135G0J53	750,000.00	AA+	Aaa	02/19/16	02/23/16	748,230.00	1.08	729.17	748,581.68	751,064.25
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	350,000.00	AA+	Aaa	05/26/16	05/31/16	350,269.50	1.10	2,078.13	350,240.26	351,554.35
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	475,000.00	AA+	Aaa	03/30/16	03/31/16	476,130.50	1.05	2,820.31	475,947.92	477,109.48
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	250,000.00	AA+	Aaa	07/06/16	07/08/16	252,600.00	0.77	781.25	252,399.03	251,038.25

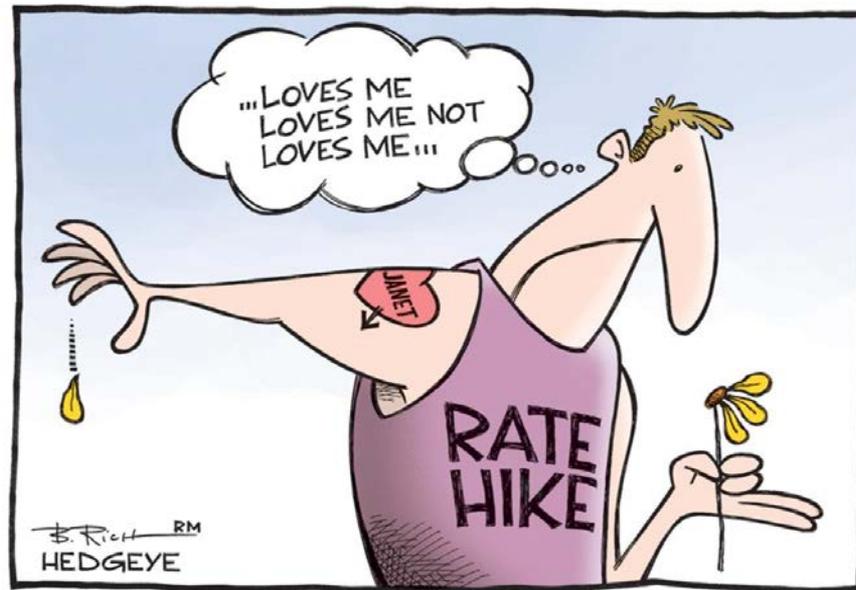


Managed Account Detail of Securities Held

For the Month Ending **September 30, 2016**

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											
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	600,000.00	AA+	Aaa	06/27/16	06/29/16	605,438.09	0.82	1,875.00	604,976.26	602,491.80
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	150,000.00	AA+	Aaa	09/01/16	09/02/16	149,278.50	1.04	258.85	149,298.47	149,476.35
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	550,000.00	AA+	Aaa	07/19/16	07/20/16	548,669.00	0.96	949.13	548,755.53	548,079.95
FNMA BENCHMARK NOTE DTD 08/02/2016 0.875% 08/02/2019	3135G0N33	325,000.00	AA+	Aaa	07/29/16	08/02/16	324,454.00	0.93	466.06	324,483.48	323,736.40
FNMA NOTES DTD 09/02/2016 1.000% 08/28/2019	3135G0P49	625,000.00	AA+	Aaa	08/31/16	09/02/16	624,025.00	1.05	503.47	624,050.91	624,712.50
Security Type Sub-Total		10,560,000.00					10,586,164.46	0.97	26,922.81	10,572,814.56	10,592,005.35
Managed Account Sub-Total		15,430,000.00					15,460,734.57	0.96	35,586.84	15,445,254.01	15,479,833.76
Securities Sub-Total		\$15,430,000.00					\$15,460,734.57	0.96%	\$35,586.84	\$15,445,254.01	\$15,479,833.76
Accrued Interest											\$35,586.84
Total Investments											\$15,515,420.60

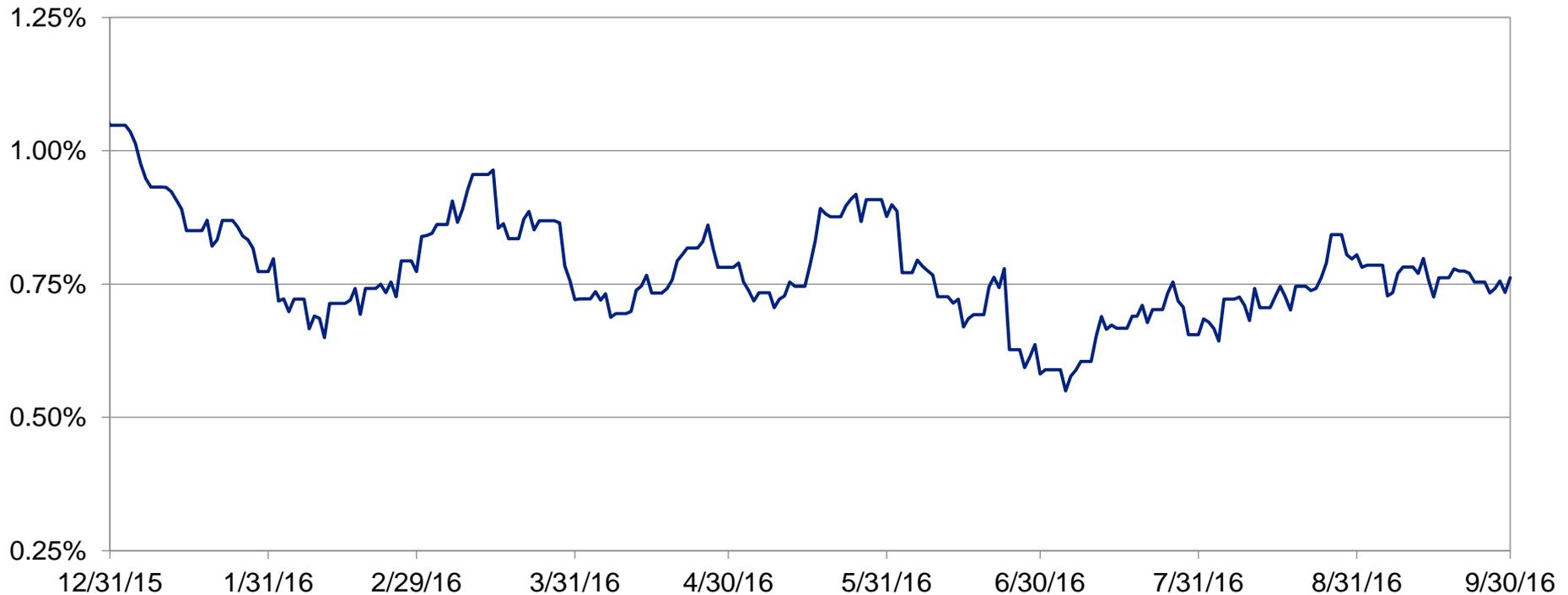


Economic Update

U.S. Treasury Yields

- Treasury yields remained low in September, and most areas of the yield curve declined modestly.
- The yield curve steepened as the difference between 2-year and 30-year Treasury yields widened by 17 basis points.
- The Fed's reluctance to raise rates put downward pressure on short- and intermediate-term rates, while the perception of a modest rise in labor costs and increases in commodity prices pressured long-term maturity yields upward.

2-Year Treasury Yields



Source: Bloomberg

Fed Holds off in September but Hints at 2016 Rate Hike

- At the Federal Reserve’s September meeting, they voted to keep the fed funds target range at 0.25% to 0.50%.
 - However, three dissenters cast their votes *in favor* of a rate hike.
- Highlights from the September 21 Press Release:
 - “. . . the labor market has continued to strengthen, and growth of economic activity has picked up . . .”
 - “The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives.”
 - “. . . the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.”

Probability of Fed Rate Hike				
Meeting	9/30/16	8/31/16	7/31/16	6/30/16
11/02/16	17%	42%	20%	0%
12/14/16	60%	60%	36%	9%
02/01/17	61%	62%	36%	9%
03/15/17	66%	68%	41%	13%
05/03/17	68%	70%	42%	14%
6/14/17	72%	74%	46%	23%

Source: Federal Reserve and Bloomberg. WIRP.

Fed Projections Revised Downward

- In the post-meeting press conference, Janet Yellen shared insight on the Fed's outlook and decision-making process.
- When questioned about the consistent downward revisions, Yellen emphasized that the economic outlook is inherently uncertain and that there is no preset, fixed plan for future policy.

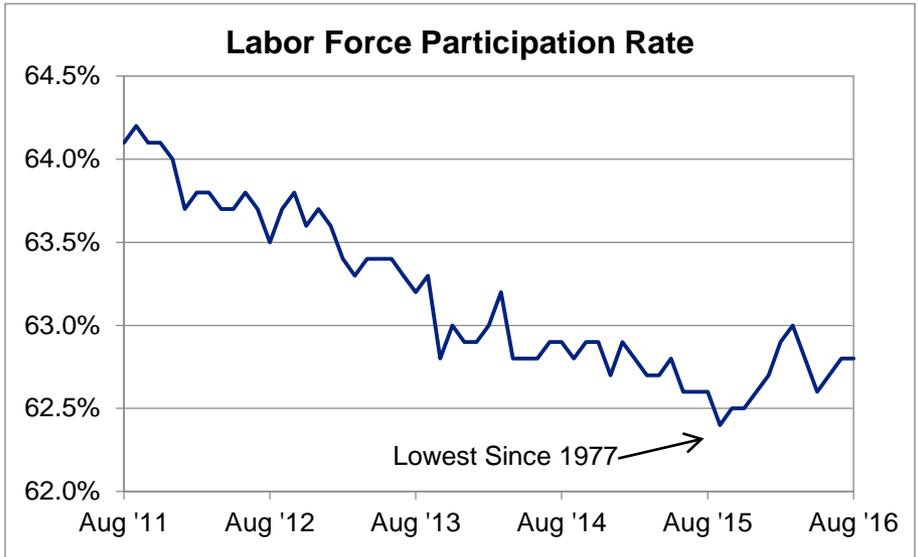
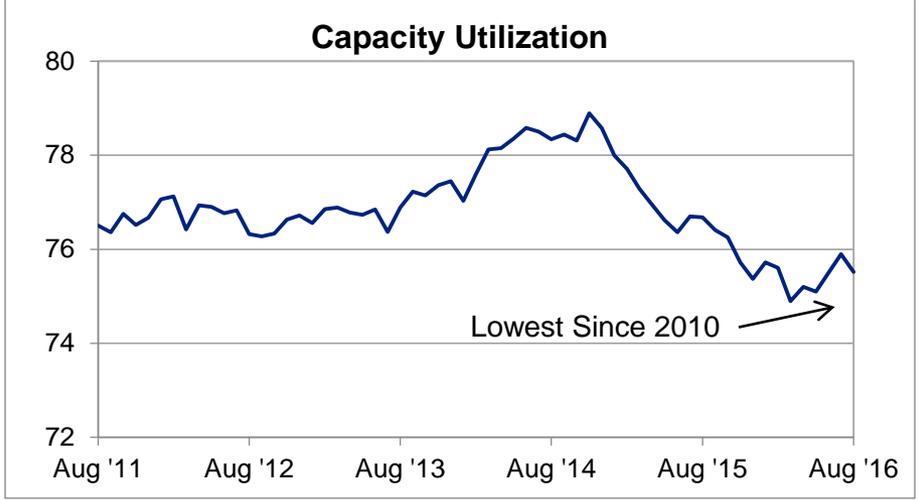
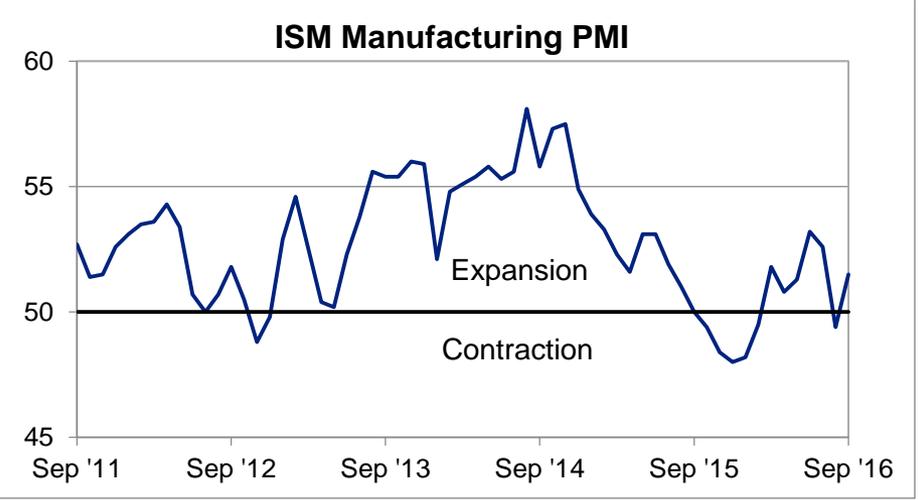
"We're struggling with a difficult set of issues about what is the new normal in this economy, and the global economy more generally, which explains why we keep revising down the rate path."



Indicator	Actual 2015	2016		2017		2018		2019		Longer run	
		June	Sept.	June	Sept.	June	Sept.	June	Sept.	June	Sept.
Real GDP (YoY)	2.0%	2.0%	1.8%	2.0%	2.0%	2.0%	2.0%	N/A	1.8%	2.0%	1.8%
Unemployment Rate	5.0%	4.7%	4.8%	4.6%	4.6%	4.6%	4.5%	N/A	4.6%	4.8%	4.8%
PCE Inflation (YoY)	0.7%	1.4%	1.3%	1.9%	1.9%	2.0%	2.0%	N/A	2.0%	2.0%	2.0%
Core PCE (YoY)	1.4%	1.7%	1.7%	1.9%	1.8%	2.0%	2.0%	N/A	2.0%	-	-
Federal Funds Rate (Median)	0.4%	0.9%	0.6%	1.6%	1.1%	2.4%	1.9%	N/A	2.6%	3.0%	2.9%

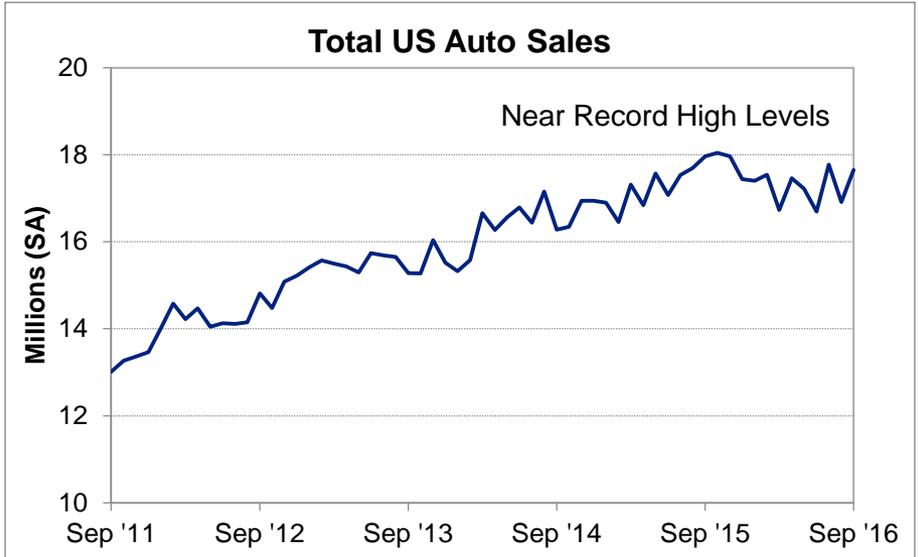
Source: Federal Reserve and Reuters

Areas of Economic Weakness



Source: Bloomberg. As of 09/30/16. SA is seasonally adjusted.

Areas of Economic Strength



Source: Bloomberg. As of 09/30/16. SA is seasonally adjusted.

Disclaimer

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