



TOWN OF FOUNTAIN HILLS

Investment Performance Review For the Quarter Ended March 31, 2017

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SUMMARY

- The “Trump trade” dominated markets for much of the quarter, pushing interest rate and equity prices higher, as the Trump administration and the Republican Party continued to push a bold agenda that promised new jobs, lower taxes, deregulation, and massive infrastructure spending.
- On March 15, with almost unanimous certainty from the market, the Federal Open Market Committee (FOMC) raised the federal funds target range by 0.25% to a range of 0.75% to 1.00%. The FOMC also released updated economic forecasts and a new “dot plot.” These were largely unchanged from the forecasts released in December.
- Central banks in the developed world outside of the United States continued to apply highly accommodative monetary policies as economic growth and inflation remained subdued. As a result, sovereign bond yields were at or near historic lows, with yields throughout Europe and Japan below 0%. Emerging markets experienced a resurgence this past quarter, after reeling from lack of positive investor sentiment, turning in a strong beginning to 2017.

ECONOMIC SNAPSHOT

- The pace of U.S. economic expansion slowed in the fourth quarter of 2016. Measurements of growth in the first quarter of 2017 are forecasted to slow further; however, the labor market remained strong, consumer confidence continued to soar, business surveys picked up, and the housing market returned to near pre-crisis levels as the market continues to digest the size and scope of the Trump administration’s proposed policies.
- U.S. gross domestic product (GDP) grew at a rate of 2.1% in the fourth quarter of 2016, a slowdown from the third quarter’s pace of 3.5%. The deceleration reflected downturns in exports and federal government spending, and a deceleration in business investment. First quarter estimates are calling for further slowing in the pace of expansion to below 1.5% as consumer spending declines and business investment remains muted.
- The labor market added over 500,000 jobs in the first quarter as the unemployment rate declined to a decade low of 4.5% with the labor force participation rate rising to 63% for the first time in a year. Wage growth remained firm in the quarter, increasing at an annual rate of more than 2.5% during all three months.
- Confidence among Americans grew as the Conference Board’s March reading increased to its highest level since the end of 2000. Manufacturing extended its expansion during the quarter with the ISM manufacturing PMI rebounding,

after contracting over 2016 year-end, to its highest level since the end of 2014. On the housing front, existing home sales reached pre-crisis levels, selling at an annual rate of 5.69 million to start the year.

INTEREST RATES

- Short-term (under five years) yields ended the first quarter higher, reflecting the Fed’s March rate hike, while medium- to long-term yields declined amid subdued inflation expectations. For much of the quarter, yields remained range bound until entering an upward trend at the start of March in anticipation of the expected FOMC March rate hike. They declined as the Fed reiterated its expectation for gradual tightening and the ability of the Trump administration to enact bold, pro-growth policies came into question. The 2-year Treasury yield ended the quarter only seven basis points over December 31, while the yield on the 10-year Treasury fell 6 basis points.
- In the money market space, shorter-term Treasury yields rose as the expectation for a Fed rate hike gained certainty. Yields on commercial paper and certificates of deposit did not increase. However, yields on short-term credit instruments remained elevated and offered incremental yield.

SECTOR PERFORMANCE

- U.S. Treasury indexes posted positive returns in the first quarter of the year, the first positive quarter since the second quarter of 2016. Returns were largely generated by income rather than price appreciation as yields were little changed.
- Federal agency yield spreads remained near historically tight levels throughout the quarter as the supply-demand imbalance continued. The sector outperformed comparable-maturity Treasuries for the third quarter in a row.
- Corporate yield spreads continued to tighten during the quarter, reaching multi-year lows, before drifting mildly wider at the end of March. The sector generated strong outperformance relative to comparable-maturity Treasuries, as the sector turned in the sixth straight quarter of outperformance.
- Mortgage-backed securities (MBS) generally underperformed Treasuries due to duration extensions and headline risk surrounding the potential reduction in the Fed’s balance sheet holdings.
- Asset-backed securities (ABS) strongly outperformed Treasuries as AAA-rated tranches, in our view, continued to offer good value, adding to returns and diversification.

Economic Snapshot

Labor Market	Latest	Dec '16	Mar '16
Unemployment Rate	Feb'17 4.7%	4.7%	5.0%
Change In Non-Farm Payrolls	Feb'17 235,000	155,000	225,000
Average Hourly Earnings (YoY)	Feb'17 2.8%	2.9%	2.5%
Personal Income (YoY)	Feb'17 4.6%	3.6%	3.6%
Initial Jobless Claims (week)	3/24/17 258,000	241,000	275,000
Growth			
Real GDP (QoQ SAAR)	2017Q4 2.1%	3.5% ¹	0.9% ²
GDP Personal Consumption (QoQ SAAR)	2017Q4 3.5%	3.0% ¹	2.3% ²
Retail Sales (YoY)	Feb'17 5.7%	4.4%	1.7%
ISM Manufacturing Survey (month)	Mar'17 57.2	54.5	51.7
Existing Home Sales SAAR (month)	Feb'17 5.48 mil.	5.51 mil.	5.39 mil.
Inflation/Prices			
Personal Consumption Expenditures (YoY)	Feb'17 2.1%	1.6%	0.8%
Consumer Price Index (YoY)	Feb'17 2.7%	2.1%	0.9%
Consumer Price Index Core (YoY)	Feb'17 2.2%	2.2%	2.2%
Crude Oil Futures (WTI, per barrel)	Mar'17 \$50.60	\$53.72	\$38.34
Gold Futures (oz.)	Mar'17 \$1,247	\$1,152	\$1,234

Unemployment Rate (left) vs. Change in Nonfarm Payrolls (right)

Real GDP (QoQ)

Consumer Price Index

1. Data as of Third Quarter 2016.

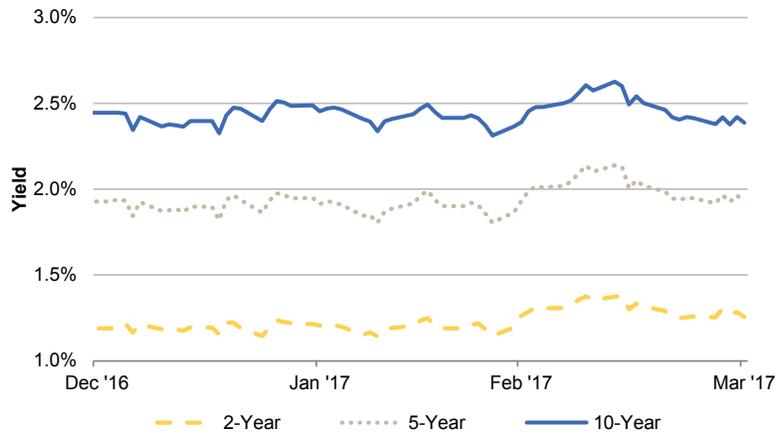
2. Data as of Fourth Quarter 2015.

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

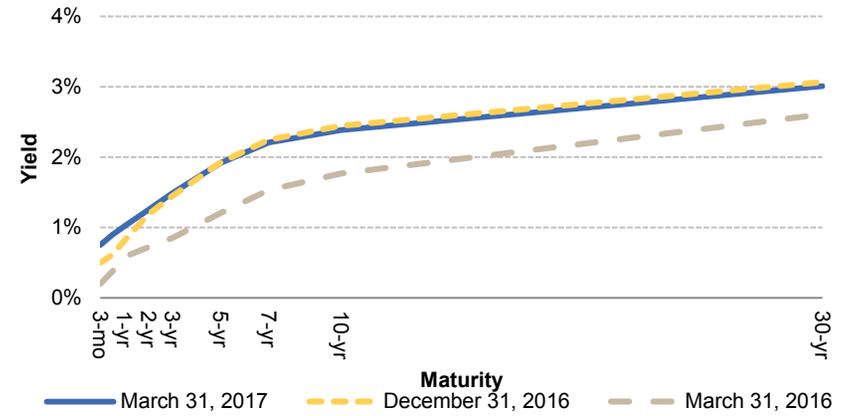
Source: Bloomberg.

Interest Rate Overview

U.S. Treasury Note Yields



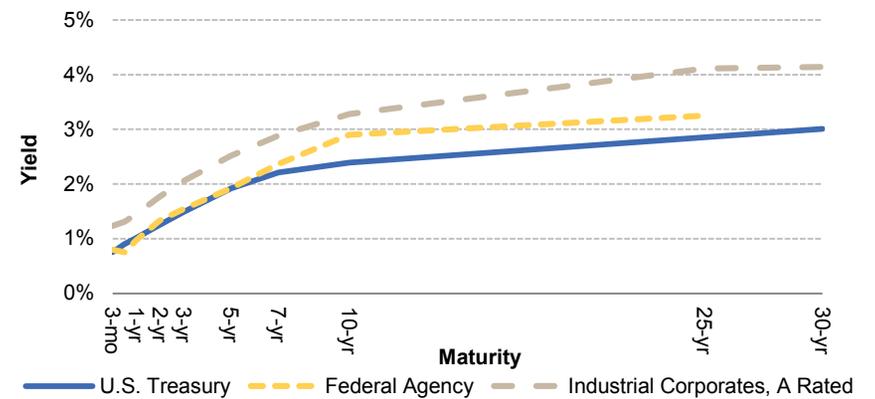
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	March 31, 2017	December 31, 2016	Change over Quarter	March 31, 2016	Change over Year
3-month	0.75%	0.50%	0.25%	0.20%	0.55%
1-year	1.02%	0.81%	0.21%	0.58%	0.44%
2-year	1.26%	1.19%	0.07%	0.72%	0.54%
5-year	1.92%	1.93%	(0.01%)	1.21%	0.71%
10-year	2.39%	2.45%	(0.06%)	1.77%	0.62%
30-year	3.01%	3.07%	(0.06%)	2.61%	0.40%

Yield Curves as of 3/31/17



Source: Bloomberg.

QUARTERLY MARKET SUMMARY

BofA Merrill Lynch Index Returns

	As of 3/31/17	Returns for Periods ended 3/31/17			
March 31, 2017	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.89	1.27%	0.26%	0.25%	0.72%
Federal Agency	1.79	1.37%	0.30%	0.41%	0.83%
U.S. Corporates, A-AAA rated	1.93	1.92%	0.60%	1.32%	1.41%
Agency MBS (0 to 3 years)	2.08	1.98%	0.38%	0.40%	1.13%
Taxable Municipals	1.89	2.24%	0.70%	2.26%	1.92%
1-5 Year Indices					
U.S. Treasury	2.70	1.48%	0.37%	(0.10%)	1.14%
Federal Agency	2.27	1.51%	0.41%	0.28%	1.16%
U.S. Corporates, A-AAA rated	2.77	2.19%	0.80%	1.29%	1.96%
Agency MBS (0 to 5 years)	3.29	2.25%	0.59%	0.39%	2.00%
Taxable Municipals	2.67	2.36%	0.61%	2.12%	2.49%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.25	1.92%	0.68%	(1.47%)	2.32%
Federal Agency	3.91	1.84%	0.74%	0.11%	2.00%
U.S. Corporates, A-AAA rated	6.98	3.01%	1.11%	1.65%	3.54%
Agency MBS (0 to 30 years)	4.90	2.81%	0.46%	0.18%	2.66%
Taxable Municipals	3.81	2.81%	0.59%	1.49%	3.13%

Returns for periods greater than one year are annualized. Source: BofA

Merrill Lynch Indices.

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

<u>Security Type</u> ^{1,2}	<u>Market Value as of March 31, 2017</u>	<u>% of Portfolio</u>	<u>Market Value as of December 31, 2016</u>	<u>% of Portfolio</u>	<u>Permitted by Policy</u>
U.S. Treasuries	\$6,037,176	38.9%	\$5,736,243	37.0%	100%
Federal Agencies	\$9,456,432	60.9%	\$9,711,727	62.7%	100%
Money Market Fund	\$33,122	0.2%	\$36,878	0.2%	100%
Totals	\$15,526,729	100.0%	\$15,484,849	100.0%	

Notes:

- End of quarter trade-date market values of portfolio holding, including accrued interest.
- Detail may not add due to rounding.

Portfolio Recap

- Key drivers of market conditions in the first quarter included:
 - Federal Reserve policy;
 - the inauguration of President Trump and the early rollout of various policies;
 - continued improvement in consumer confidence; and
 - further stock market appreciation.
- Yields remained within a narrow range in the first few months before rising sharply in anticipation of the March FOMC rate hike.
- Yields on the short end of the curve ended the quarter higher, reflecting the FOMC rate hike, while long-term yields declined alongside future inflation expectations.
- Our duration position remained “neutral” through January and most of February as market conditions were consistent with an economic outlook expectation of moderate growth.
- In late February, we observed that investor complacency regarding potential near-term FOMC rate hikes was keeping rates too low. In order to position durations for future rate hikes, we shifted to a modestly short, more defensive posture.
- Once a March rate hike became imminent, rates rose quickly. We were able to take advantage of the higher yields by extending duration just before the March 15 Fed meeting. Although the Fed raised rates, market yields fell after the meeting as the Fed’s accompanying statement implied a more gradual tightening path than anticipated.
- Federal agency yield spreads remained historically tight throughout the quarter as demand continued to outpace supply.

Investment Strategy Outlook

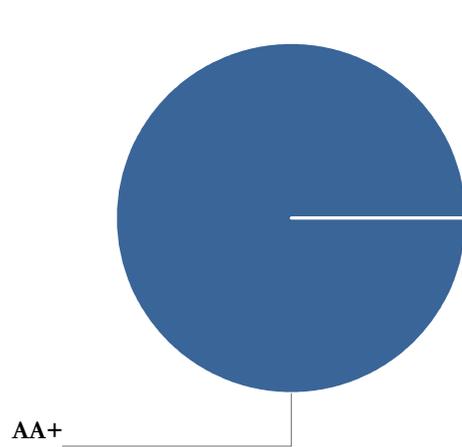
- We anticipate the Fed to remain on track to make the three total hikes projected for 2017 by the Federal Open Market Committee’s “dot plot.” In addition, a potential reduction in the size of the Fed’s balance sheet later in the year could have significant implications for the markets.
- As the market awaits clarity on policies proposed and enacted by the Trump administration, financial markets (both bonds and equities) may become more range-bound.
- Since yields are currently stable and we expect no action at the next FOMC meeting in May, we are targeting portfolio duration to closely match that of the benchmark. We will continue to revisit this position regularly, especially in light of the potential for higher yields later in the year.
- During periods of rising rates, our active management approach, which seeks to maximize long-term returns, may result in the realization of short-term losses with investment into generally higher yielding securities due to higher overall interest rate levels. This is in contrast to the gains realized over the past several years, which resulted from generally declining rates.
- Agency yield spreads over Treasuries continue to remain historically narrow. As a result, our strategy will generally favor U.S. Treasuries over agencies unless specific issues offer identifiable value.
- We will continue to monitor incoming economic data, Fed policy, and sector relationships.

Portfolio Statistics

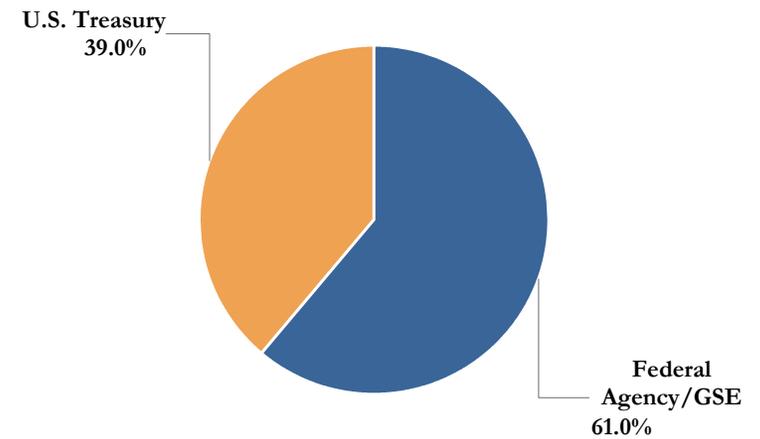
As of March 31, 2017

Par Value:	15,520,000
Total Market Value:	15,526,729
Security Market Value:	15,454,752
Accrued Interest:	38,856
Cash:	33,122
PFM	-
Amortized Cost:	15,507,602
Yield at Market:	1.29%
Yield at Cost:	1.09%
Effective Duration:	1.82 Years
Duration to Worst:	1.82 Years
Average Maturity:	1.86 Years
Average Credit: *	AA

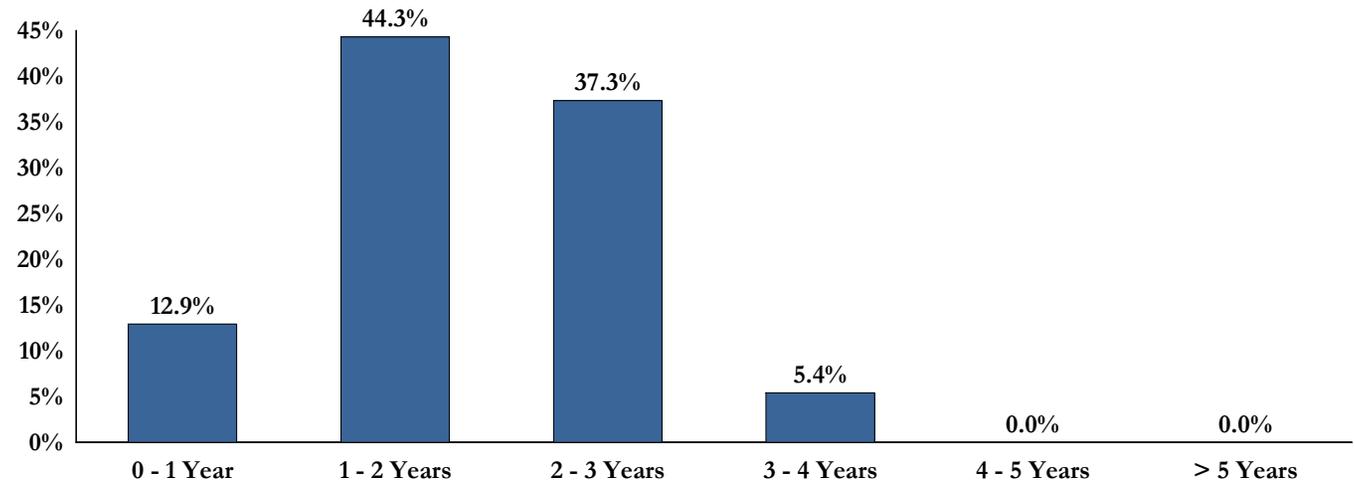
Credit Quality (S&P Ratings)



Sector Allocation



Maturity Distribution

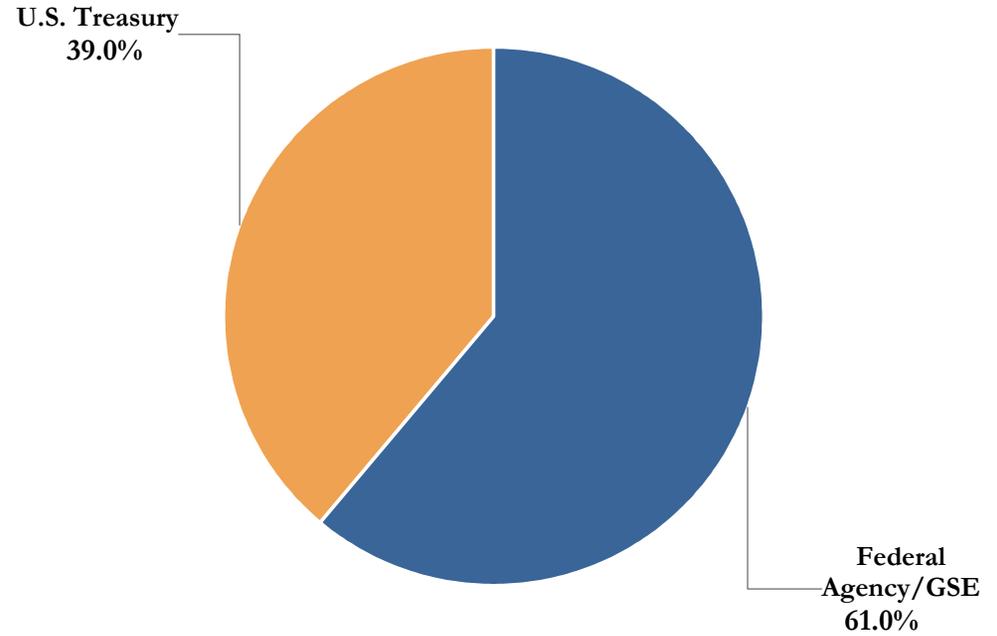


* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

Sector Allocation

As of March 31, 2017

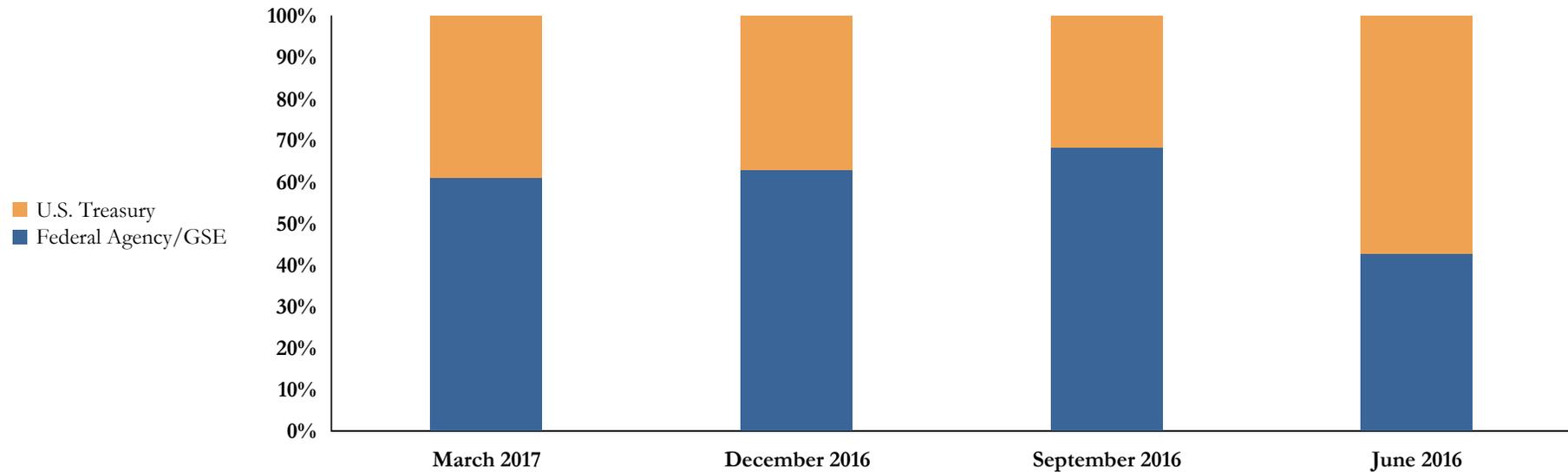
Sector	Market Value (\$)	% of Portfolio
Federal Agency/GSE	9,434,195	61.0%
U.S. Treasury	6,020,557	39.0%
Total	15,454,752	100.0%



Detail may not add to total due to rounding.

Sector Allocation

Sector	March 31, 2017		December 31, 2016		September 30, 2016		June 30, 2016	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
Federal Agency/GSE	9.4	61.0%	9.7	62.9%	10.6	68.4%	6.6	42.7%
U.S. Treasury	6.0	39.0%	5.7	37.1%	4.9	31.6%	8.9	57.3%
Total	\$15.5	100.0%	\$15.4	100.0%	\$15.5	100.0%	\$15.5	100.0%

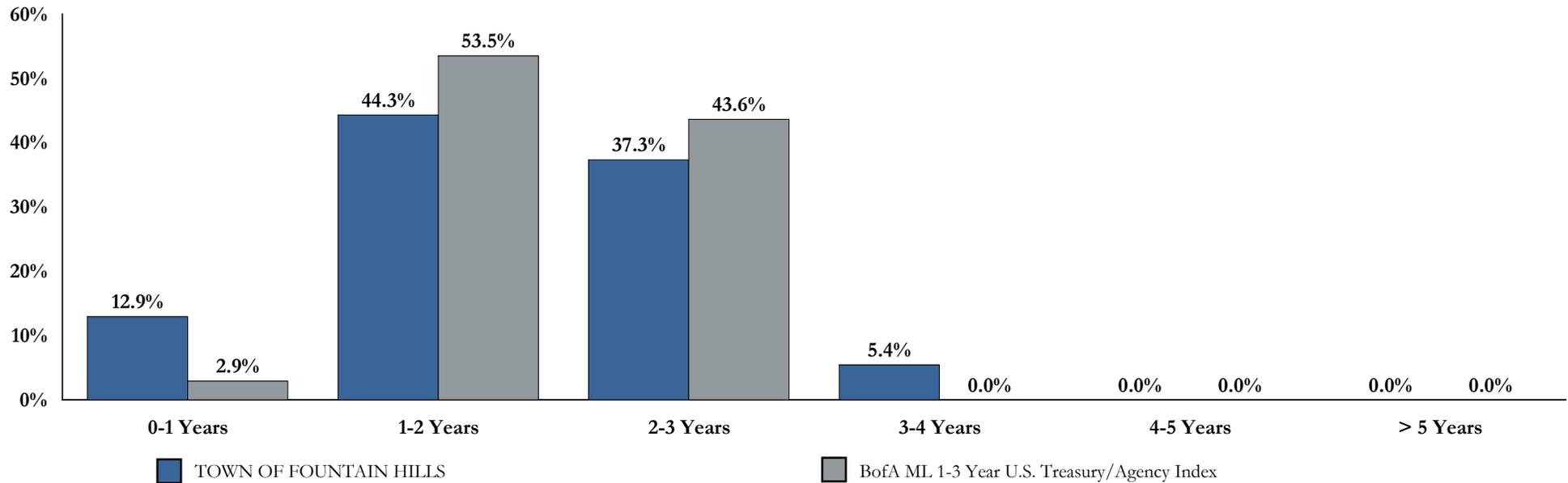


Detail may not add to total due to rounding.

Maturity Distribution

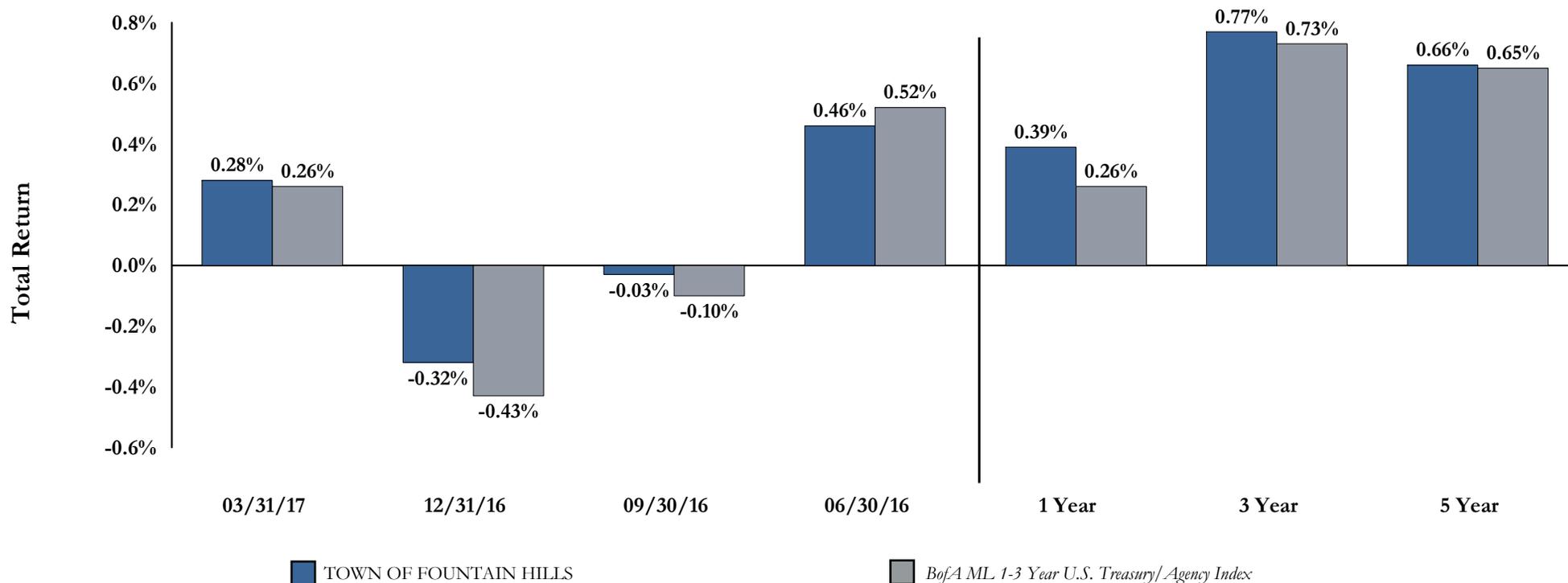
As of March 31, 2017

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	1.29%	1.86 yrs	12.9%	44.3%	37.3%	5.4%	0.0%	0.0%
BofA ML 1-3 Year U.S. Treasury/Agency Index	1.28%	1.94 yrs	2.9%	53.5%	43.6%	0.0%	0.0%	0.0%



Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended				1 Year	Annualized Return	
		03/31/17	12/31/16	09/30/16	06/30/16		3 Year	5 Year
TOWN OF FOUNTAIN HILLS	1.82	0.28%	-0.32%	-0.03%	0.46%	0.39%	0.77%	0.66%
<i>BofA ML 1-3 Year U.S. Treasury/Agency Index</i>	1.81	0.26%	-0.43%	-0.10%	0.52%	0.26%	0.73%	0.65%
Difference		0.02%	0.11%	0.07%	-0.06%	0.13%	0.04%	0.01%



Portfolio performance is gross of fees unless otherwise indicated.

Portfolio Earnings
Quarter-Ended March 31, 2017

	<u>Market Value Basis</u>	<u>Accrual (Amortized Cost) Basis</u>
Beginning Value (12/31/2016)	\$15,409,882.65	\$15,464,327.12
Net Purchases/Sales	\$44,315.30	\$44,315.30
Change in Value	\$553.76	(\$1,040.41)
Ending Value (03/31/2017)	\$15,454,751.71	\$15,507,602.01
Interest Earned	\$42,576.32	\$42,576.32
Portfolio Earnings	\$43,130.08	\$41,535.91

Sector/Issuer Distribution

As of March 31, 2017

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Federal Agency/GSE			
FANNIE MAE	3,772,042	40.0%	24.4%
FEDERAL HOME LOAN BANKS	3,826,109	40.6%	24.8%
FREDDIE MAC	1,836,043	19.5%	11.9%
Sector Total	9,434,195	100.0%	61.0%
U.S. Treasury			
UNITED STATES TREASURY	6,020,557	100.0%	39.0%
Sector Total	6,020,557	100.0%	39.0%
Portfolio Total	15,454,752	100.0%	100.0%

Quarterly Portfolio Transactions

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	1/3/17	1/3/17	0.00	MONEY0002	MONEY MARKET FUND			0.83		
BUY	1/3/17	1/5/17	850,000.00	912828H52	US TREASURY NOTES	1.25%	1/31/20	(847,788.38)	1.52%	
SELL	1/3/17	1/5/17	50,000.00	912828TG5	US TREASURY NOTES	0.50%	7/31/17	50,060.47	0.66%	50.35
SELL	1/3/17	1/5/17	380,000.00	912828TG5	US TREASURY NOTES	0.50%	7/31/17	380,459.51	0.66%	(78.98)
SELL	1/3/17	1/5/17	400,000.00	912828PA2	US TREASURY NOTES	1.87%	9/30/17	405,061.13	0.83%	638.10
INTEREST	1/19/17	1/19/17	550,000.00	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	2,392.88		
INTEREST	1/19/17	1/19/17	150,000.00	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	652.60		
INTEREST	1/19/17	1/19/17	800,000.00	3130A8SE4	FEDERAL HOME LOAN BANKS NOTES	0.75%	1/19/18	3,000.00		
INTEREST	1/28/17	1/28/17	640,000.00	3135G0H63	FNMA BENCHMARK NOTE	1.37%	1/28/19	4,400.00		
INTEREST	1/31/17	1/31/17	850,000.00	912828H52	US TREASURY NOTES	1.25%	1/31/20	5,312.50		
INTEREST	1/31/17	1/31/17	675,000.00	912828UJ7	US TREASURY NOTES	0.87%	1/31/18	2,953.13		
INTEREST	2/1/17	2/1/17	0.00	MONEY0002	MONEY MARKET FUND			2.30		
BUY	2/1/17	2/3/17	350,000.00	912828J50	UNITED STATES TREASURY NOTES	1.37%	2/29/20	(349,954.76)	1.58%	
SELL	2/1/17	2/3/17	100,000.00	912828UJ7	US TREASURY NOTES	0.87%	1/31/18	99,987.72	0.89%	215.69
SELL	2/1/17	2/3/17	225,000.00	912828PA2	US TREASURY NOTES	1.87%	9/30/17	228,121.47	0.74%	445.00
INTEREST	2/2/17	2/2/17	325,000.00	3135G0N33	FNMA BENCHMARK NOTE	0.87%	8/2/19	1,421.88		
INTEREST	2/7/17	2/7/17	650,000.00	3130A8PK3	FHLB NOTES	0.62%	8/7/18	2,031.25		
INTEREST	2/7/17	2/7/17	200,000.00	3130A8PK3	FHLB NOTES	0.62%	8/7/18	625.00		
INTEREST	2/26/17	2/26/17	750,000.00	3135G0J53	FNMA BENCHMARK NOTE	1.00%	2/26/19	3,750.00		
INTEREST	2/28/17	2/28/17	350,000.00	912828J50	UNITED STATES TREASURY NOTES	1.37%	2/29/20	2,406.25		

TOWN OF FOUNTAIN HILLS

Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	2/28/17	2/28/17	625,000.00	3135G0P49	FNMA NOTES	1.00%	8/28/19	3,055.56		
INTEREST	2/28/17	2/28/17	275,000.00	912828D80	US TREASURY NOTES	1.62%	8/31/19	2,234.38		
INTEREST	3/1/17	3/1/17	0.00	MONEY0002	MONEY MARKET FUND			2.30		
BUY	3/15/17	3/17/17	850,000.00	912828UV0	US TREASURY NOTES	1.12%	3/31/20	(839,770.88)	1.71%	
SELL	3/15/17	3/17/17	240,000.00	880591CU4	TENNESSEE VALLEY AUTHORITY NOTES	6.25%	12/15/17	252,894.78	1.14%	(240.11)
SELL	3/15/17	3/17/17	575,000.00	912828UJ7	US TREASURY NOTES	0.87%	1/31/18	574,412.54	1.12%	(18.17)
INTEREST	3/28/17	3/28/17	750,000.00	3135G0J61	FNMA NOTE	0.87%	3/28/18	3,281.25		
INTEREST	3/31/17	3/31/17	850,000.00	912828UV0	US TREASURY NOTES	1.12%	3/31/20	4,781.25		
INTEREST	3/31/17	3/31/17	455,000.00	912828UU2	US TREASURY NOTES	0.75%	3/31/18	1,706.25		
TOTALS								(2,506.79)		1,011.88

Important Disclosures

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- 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 portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.
- MBS maturities are represented by expected average life.

Glossary

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill 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, expressed as a percentage.
- **MARKET VALUE:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- **NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually \$1 million or more that can be traded in secondary markets.
- **PAR VALUE:** The nominal dollar face amount of a security.

Glossary

- **PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.
- **REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **SETTLE DATE:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction occurs on a non-business day (i.e. coupon payments and maturity proceeds), 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.



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2017**

TOWN OF FOUNTAIN HILLS

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 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	9.32	453,894.14	453,507.15
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	2,361.88	896,748.55	895,324.50
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	2,346.15	563,842.98	560,371.84
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	1,414.02	376,823.31	376,758.00
US TREASURY NOTES DTD 04/30/2014 1.625% 04/30/2019	912828D23	420,000.00	AA+	Aaa	11/10/16	11/14/16	425,742.19	1.06	2,865.75	424,862.65	422,903.88
US TREASURY NOTES DTD 08/31/2014 1.625% 08/31/2019	912828D80	275,000.00	AA+	Aaa	10/03/16	10/05/16	280,542.97	0.92	388.59	279,617.64	276,643.68
US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019	912828G61	1,000,000.00	AA+	Aaa	12/01/16	12/05/16	1,001,562.50	1.45	5,027.47	1,001,397.73	1,001,680.00
US TREASURY NOTES DTD 02/02/2015 1.250% 01/31/2020	912828H52	850,000.00	AA+	Aaa	01/03/17	01/05/17	843,226.56	1.52	1,761.05	843,740.09	844,521.75
UNITED STATES TREASURY NOTES DTD 03/02/2015 1.375% 02/29/2020	912828J50	350,000.00	AA+	Aaa	02/01/17	02/03/17	347,880.86	1.58	418.48	347,987.40	348,673.85
US TREASURY NOTES DTD 04/01/2013 1.125% 03/31/2020	912828UV0	850,000.00	AA+	Aaa	03/15/17	03/17/17	835,357.42	1.71	26.13	835,552.40	840,172.30
Security Type Sub-Total		6,035,000.00					6,021,372.85	1.27	16,618.84	6,024,466.89	6,020,556.95
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	799,591.38	798,785.60
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	749,276.06	748,206.75
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	1,343.75	374,698.69	373,518.00



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2017**

TOWN OF FOUNTAIN HILLS

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 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	275,069.63	273,937.13
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	469,322.10	468,183.45
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	199,512.17	198,481.80
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	649,120.21	645,065.85
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	2,625.00	599,706.73	596,415.00
FHLMC REFERENCE NOTE DTD 09/16/2016 0.875% 10/12/2018	3137EAED7	375,000.00	AA+	Aaa	10/03/16	10/05/16	374,887.50	0.89	1,777.34	374,915.22	372,966.75
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	699,432.73	698,866.00
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	639,760.12	640,729.60
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	748,873.84	745,098.00
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	400,000.00	AA+	Aaa	03/30/16	03/31/16	400,952.00	1.05	2,075.00	400,641.77	398,064.40
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	251,962.16	248,600.00
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	604,070.50	596,640.00
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	262.50	149,422.49	148,177.35
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	962.50	548,975.33	543,316.95



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2017**

TOWN OF FOUNTAIN HILLS

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 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	324,573.56	320,781.50
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	538.19	624,210.43	618,360.63
Security Type Sub-Total		9,485,000.00					9,480,648.86	0.97	22,236.98	9,483,135.12	9,434,194.76
Managed Account Sub-Total		15,520,000.00					15,502,021.71	1.09	38,855.82	15,507,602.01	15,454,751.71
Securities Sub-Total		\$15,520,000.00					\$15,502,021.71	1.09%	\$38,855.82	\$15,507,602.01	\$15,454,751.71
Accrued Interest											\$38,855.82
Total Investments											\$15,493,607.53



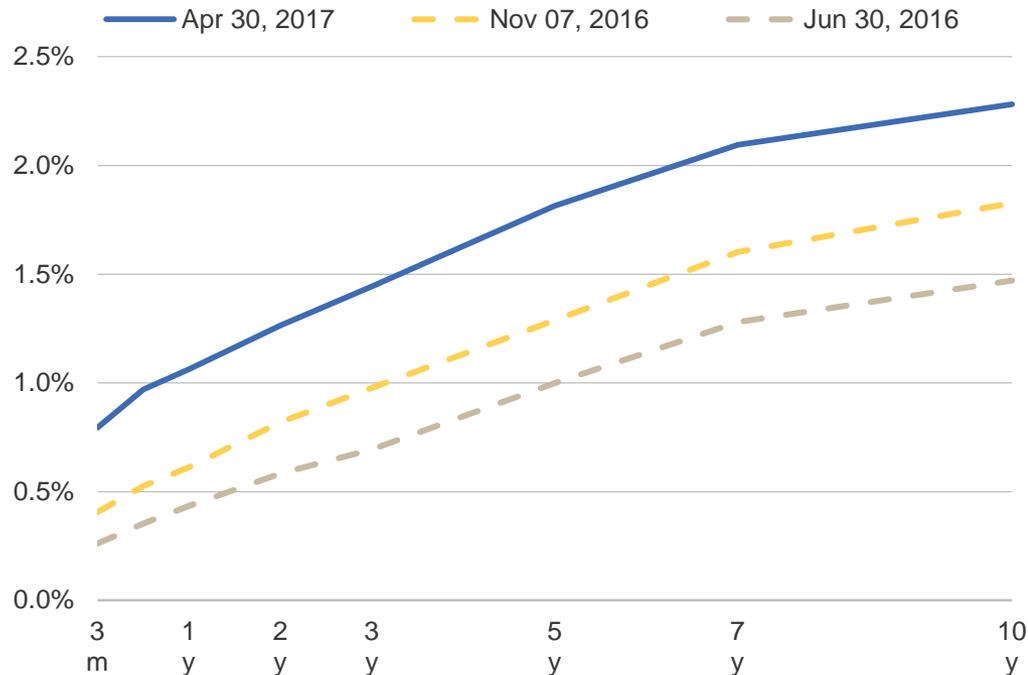
Economic Update



Yield Curve Substantially Higher Post-Election

- Treasury rates surged following the U.S. election, with longer maturities rising due to higher inflation expectations from the president's proposed fiscal policies.
- Shorter-term yields moved higher as markets priced in rate hikes in December 2016 and March 2017.

U.S. Treasury Yield Curve



Yield Curve History

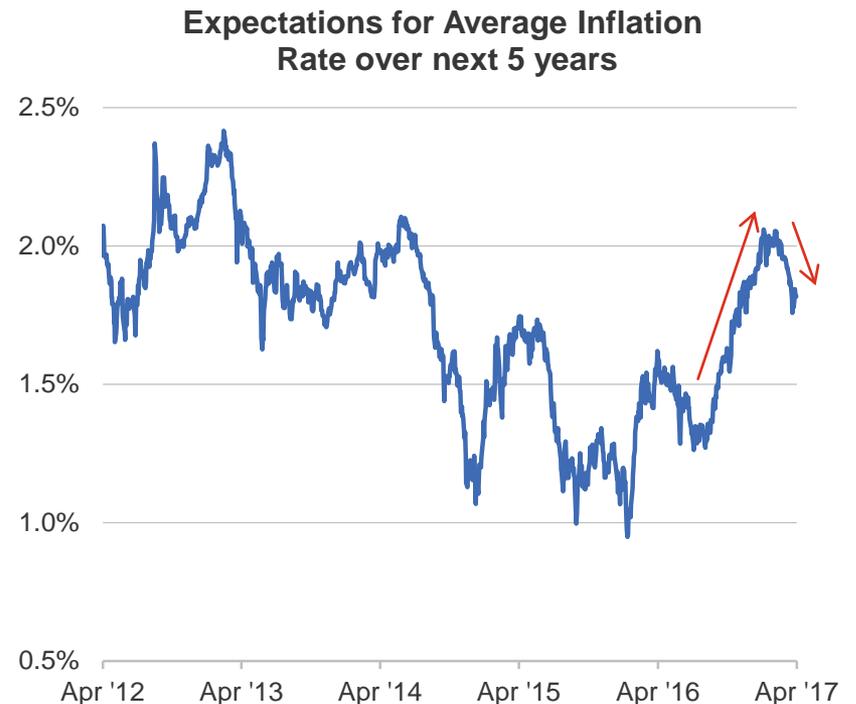
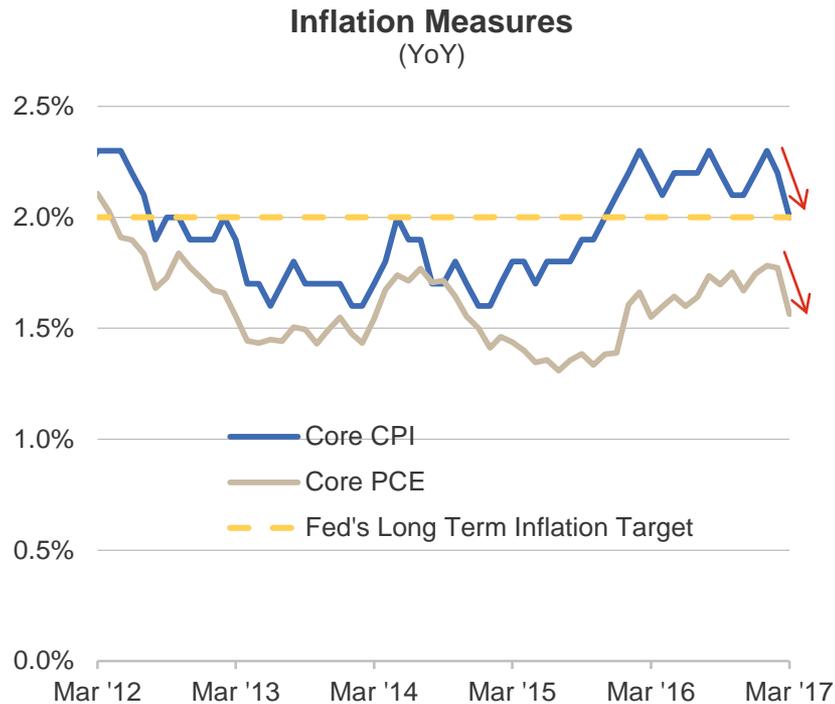
Maturity	Current	Pre-election	Mid-2016
	04/30/17	11/07/16	06/30/16
1-Mo.	0.66	0.26	0.17
3-Mo.	0.80	0.41	0.26
6-Mo.	0.97	0.53	0.35
1-Yr.	1.06	0.61	0.44
2-Yr.	1.26	0.82	0.58
3-Yr.	1.44	0.98	0.69
5-Yr.	1.82	1.29	1.00
7-Yr.	2.10	1.60	1.28
10-Yr.	2.28	1.83	1.47
30-Yr.	2.95	2.60	2.29

Source: Bloomberg, as of 04/30/17.



Inflation Trend Reverses

- The core personal consumption expenditures (PCE) price index, the Fed's preferred gauge of core inflation, edged lower to 1.6% year-over-year through March, continuing to modestly undershoot the Fed's 2% target.
- Following the U.S. elections, inflation expectations jumped as President Trump's proposed spending policies would likely increase price pressures. The inflation outlook has since softened, reflecting doubts in the new administration's ability to pursue its agenda.



Source: Bloomberg, as of 04/30/17. Inflation expectations based on yield difference between 5-year Treasury note and 5-year Treasury Inflation Protected Securities (TIPS).

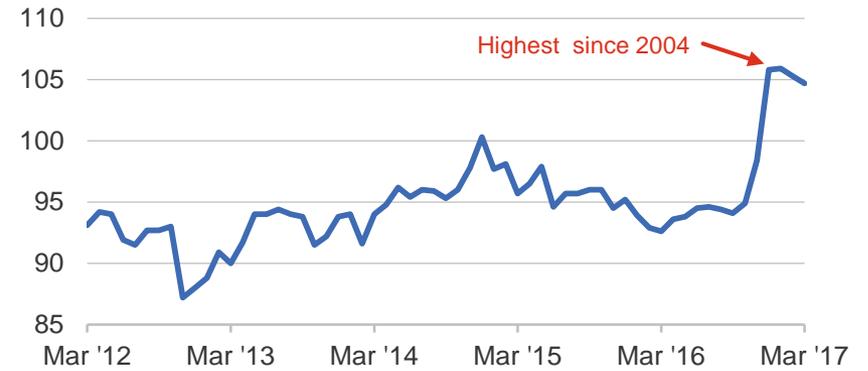


Divergence between “Soft” and “Hard” Data

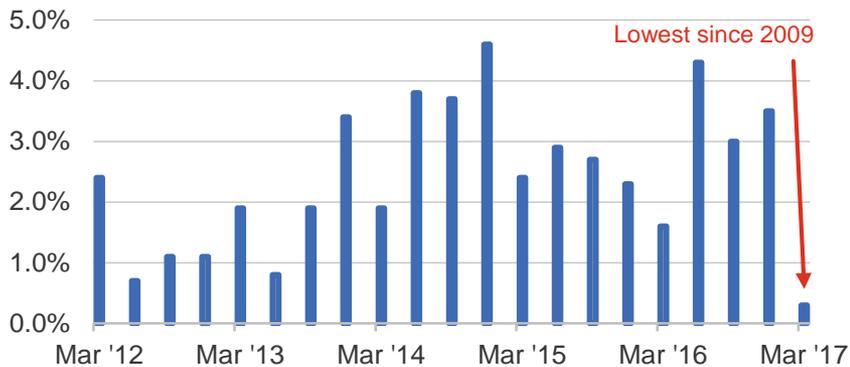
Consumer Confidence



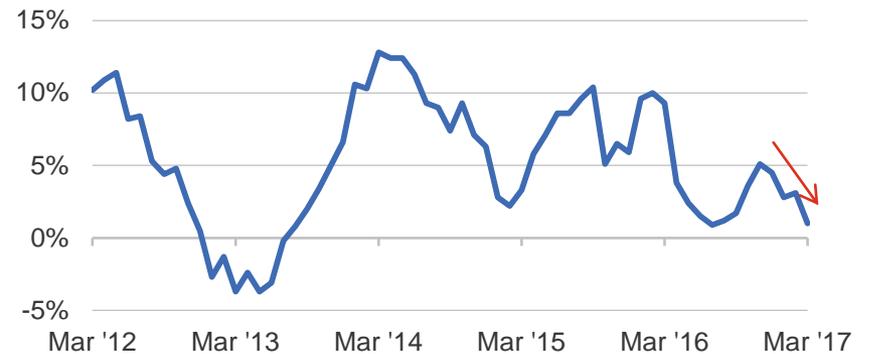
Small Business Optimism Index



Personal Consumption (QoQ)



Nonresidential Construction Spending (YoY)



Source: Bloomberg, as of April 2017.



U6-U3 Spread Not Far from Pre-Crisis Levels

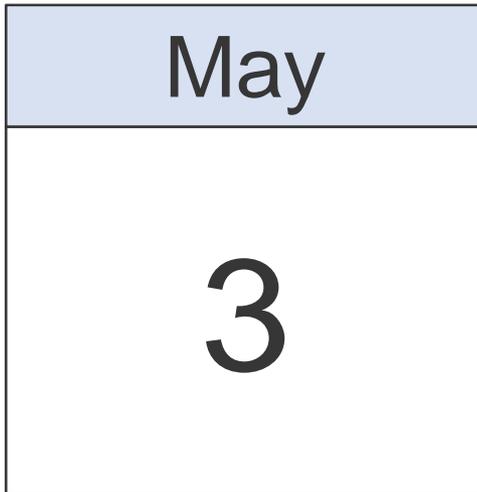
- The U6-U3 spread, or the difference between the official unemployment number and the broader measure of unemployment, is thinning to levels last seen prior to the financial crisis.



Source: Bloomberg.



FOMC Statement Highlights

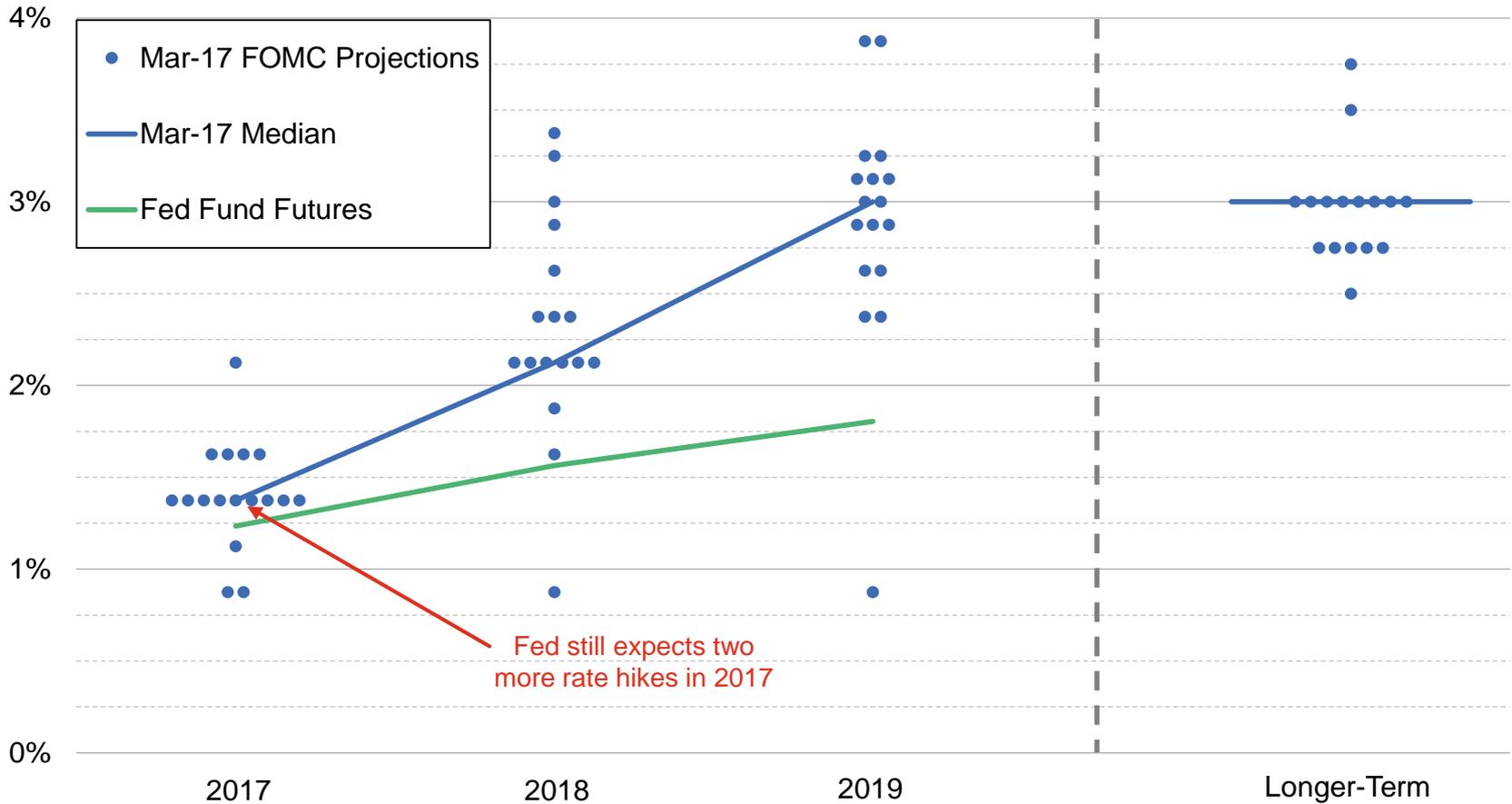


- Information received since the FOMC met in March indicates that the **labor market has continued to strengthen** even as **growth in economic activity has slowed...** The Committee views the **slowing in growth during the quarter as likely to be transitory...**
 - **Job gains were solid**, on average, in recent months, and the **unemployment rate declined.**
 - **Inflation** measured on a 12-month basis recently **has been running close to the Committee's 2% longer-run objective.** Excluding energy and food prices, **consumer prices declined in March and inflation continued to run somewhat below 2%.**
-
- In view of realized and expected labor market conditions and inflation, the Committee decided to **maintain the target range for the federal funds rate at 0.75% – 1.00%.**
 - The committee expects that economic conditions will evolve in a manner that will warrant **gradual increases in the federal funds rate.**
 - All nine voting members of the FOMC supported the monetary policy action.

Source: Federal Reserve. Fed Governor Daniel Tarullo stepped down in April, leaving only nine voting members.



FOMC “Dot Plot”

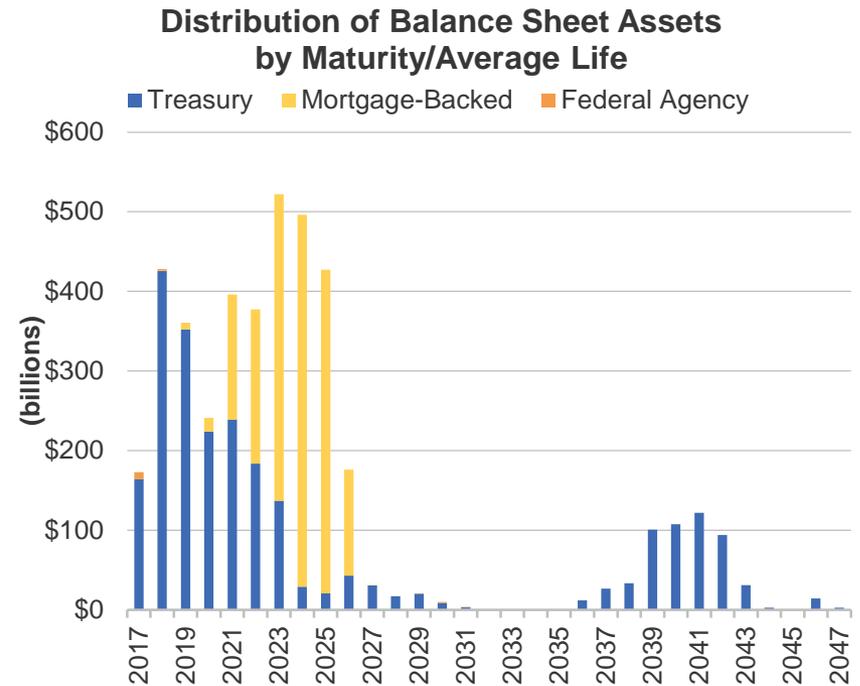
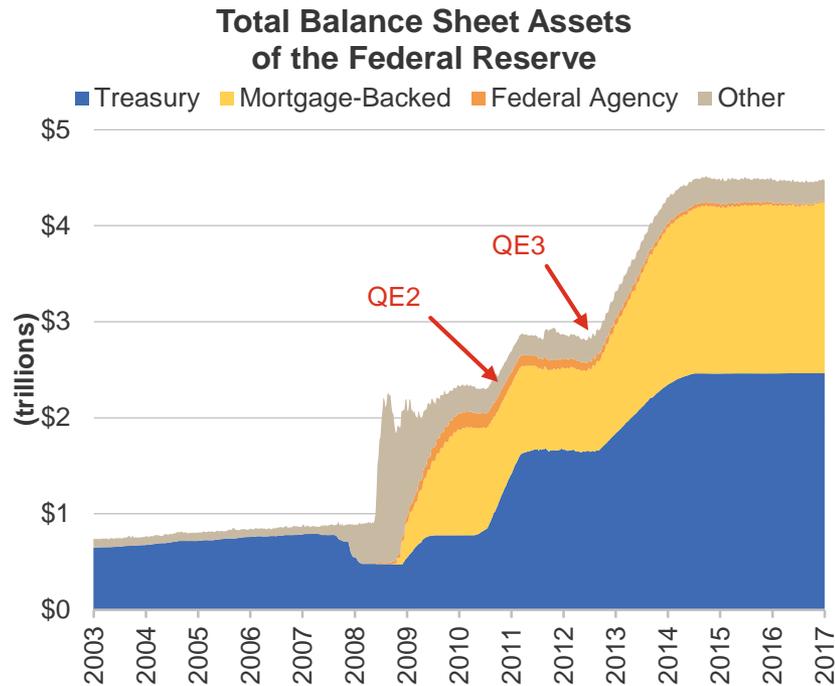


Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed fund futures as of 04/30/17.



Fed's Next Area of Focus: Size of Balance Sheet

- After multiple rounds of quantitative easing, the Federal Reserve's balance sheet swelled to nearly \$4.5 trillion.
- The Fed is now evaluating the strategy and timing to start trimming the size of its balance sheet as part of the monetary policy normalization process. Most officials have expressed a preference for a gradual phasing out of reinvestments of both Treasury and agency MBS securities and anticipate that this change will be announced in late 2017 or early 2018.



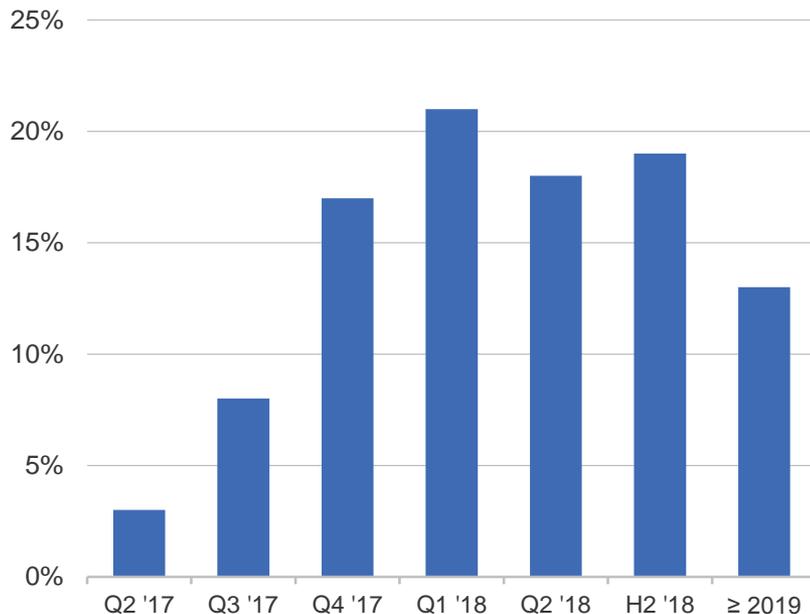
Source: The Federal Reserve, FRB of St. Louis, as of 04/26/17. MBS maturity distribution based on weighted average life, from Bloomberg as of 04/07/17. Mortgage securities pay down over time. Weighted average life measures the average length of time an issues is expected to be outstanding.



Path to Further Normalization: Fed Balance Sheet Reduction

- Provided that the economy continues to perform generally as expected, the Fed will likely announce a change in its reinvestment policy to start reducing the size of its balance sheet sometime between late 2017 and early 2018.
- Based on the March FOMC minutes, nearly all officials agreed that the process should be gradual and predictable, and that the Fed's intentions should be communicated to the public well in advance of an actual change.

Expected Timing for FOMC to Announce a Change in its Reinvestment Policy



Recent Fed Speeches related to the Balance Sheet:

- *San Francisco's Williams*: "It would make sense to take the next step in terms of starting the normalization process of our balance sheet... my own view would be towards the end of this year..."
- *St. Louis's Bullard*: "We've delayed a little bit too long in reducing the size of the balance sheet... [The Fed could begin allowing the balance sheet to shrink] maybe sometime in the second half of the year."
- *Boston's Rosengren*: "In my view that process could begin relatively soon, and should not significantly alter the FOMC's continuing gradual normalization of short-term interest rates."
- *Kansas City's George*: "Balance sheet adjustments will need to be gradual and smooth... the process should be on autopilot and not necessarily vary with moderate movements in the economic data."

Source: Chart is average probability according to 23 primary dealers from New York Fed survey, as of March 2017.



Arizona 2018 Legislative Budget: Frontrunners

Frontrunners	Detail of Budget Approved
Governor Doug Ducey	<ul style="list-style-type: none"> • 2% pay hikes for public-school teachers • Modest income-tax cut for residents • \$1 billion in extra bonding authority for the state's public universities
"Freedom Schools"	<ul style="list-style-type: none"> • These temporary, alternative free schools for African Americans have been approved at Arizona State University and University of Arizona
Arizona State University, University of Arizona, Northern Arizona University and Arizona Board of Regents	<ul style="list-style-type: none"> • These schools will receive extra bonding authority to allow them to build new research facilities, attract more federal grants, and create new business partnerships
Cities and Towns	<ul style="list-style-type: none"> • Cities home to public universities will benefit from construction packages that the \$1 billion public university bonding package will fund
Rural Arizona	<ul style="list-style-type: none"> • Rural communities have secured \$30 million annually to help pay for state police
Taxpayers	<ul style="list-style-type: none"> • Taxpayers will get a small tax break due to Ducey's plan to take about \$10 million from the general fund over the next two years
Michael Crow, President of ASU	<ul style="list-style-type: none"> • Secured extra bonding that will fund new research facilities
Commercial Developers	<ul style="list-style-type: none"> • University bonding plan means that the construction industry is in line for upcoming projects up to \$1 billion near the universities • The state also approved \$100 million to help build six new schools in Chandler, Vail, and Queen Creek

Source: azcentral.com



Arizona 2018 Legislative Budget: Runners-Up

Runners-Up	Detail of Budget Denied
Democrats in the Legislature	<ul style="list-style-type: none"> • Democrats pushed for a 4% pay raise for teachers
Arizona's Poor	<ul style="list-style-type: none"> • Arizona's cash-assistance program has a short benefit period of one year with strict lifetime limits • Democrats hoped to restore this program two years through the budget, but the policy is in a separate bill which has yet to get a vote in the Senate
Disability Providers	<ul style="list-style-type: none"> • Provider contracts do not cover higher costs of wage increases • They received \$33 million but it will likely not cover the requirement to pay sick leave, nor a 50-cent per hour increase in base pay that kicks in January 1st
Planned Parenthood	<ul style="list-style-type: none"> • Planned Parenthood and other abortion providers were removed from federal program that funds reproductive-health services
Maricopa County Sheriff Paul Penzone	<ul style="list-style-type: none"> • The budget cut \$1.6 million from the Maricopa County Sheriff's Office for gang enforcement
Arizona Board of Regents	<ul style="list-style-type: none"> • They won the bonding deal, but the potential lawsuit mentioned by President Eileen Klein if not granted the bonding package could inflict long-term damage to their relationship with conservatives
State Employees	<ul style="list-style-type: none"> • Rank-and-file workers will receive no across-the-board pay raises
Buses, Buildings, and Books	<ul style="list-style-type: none"> • Budget includes \$17 million for K-12 school repairs and \$63 million for new-school construction, but previous cuts to soft-capital funding for things like buses, books, technology, and curriculum will not be restored

Source: azcentral.com



Disclosures

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