



Town of Fountain Hills

Quarterly Performance Review

For the Quarter Ended December 31, 2016

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U.S. Economic & Market Highlights

Over the Last 12 Months



Economy Grew **\$534 billion**



Jobs Created **2.3 million**



New Vehicles Sold **17.4 million**



New Homes Sold **561 thousand**

Economic Highlights



Consumer Confidence **Highest since 2001**



Jobless Claims **Lowest since 1974**



Consumer Prices **Highest since 2014**



Housing Prices **Record high**

Market Highlights



Equities **Record high**



2-Yr Treasury Yield **Highest since 2011**



US Dollar **Highest since 2003**

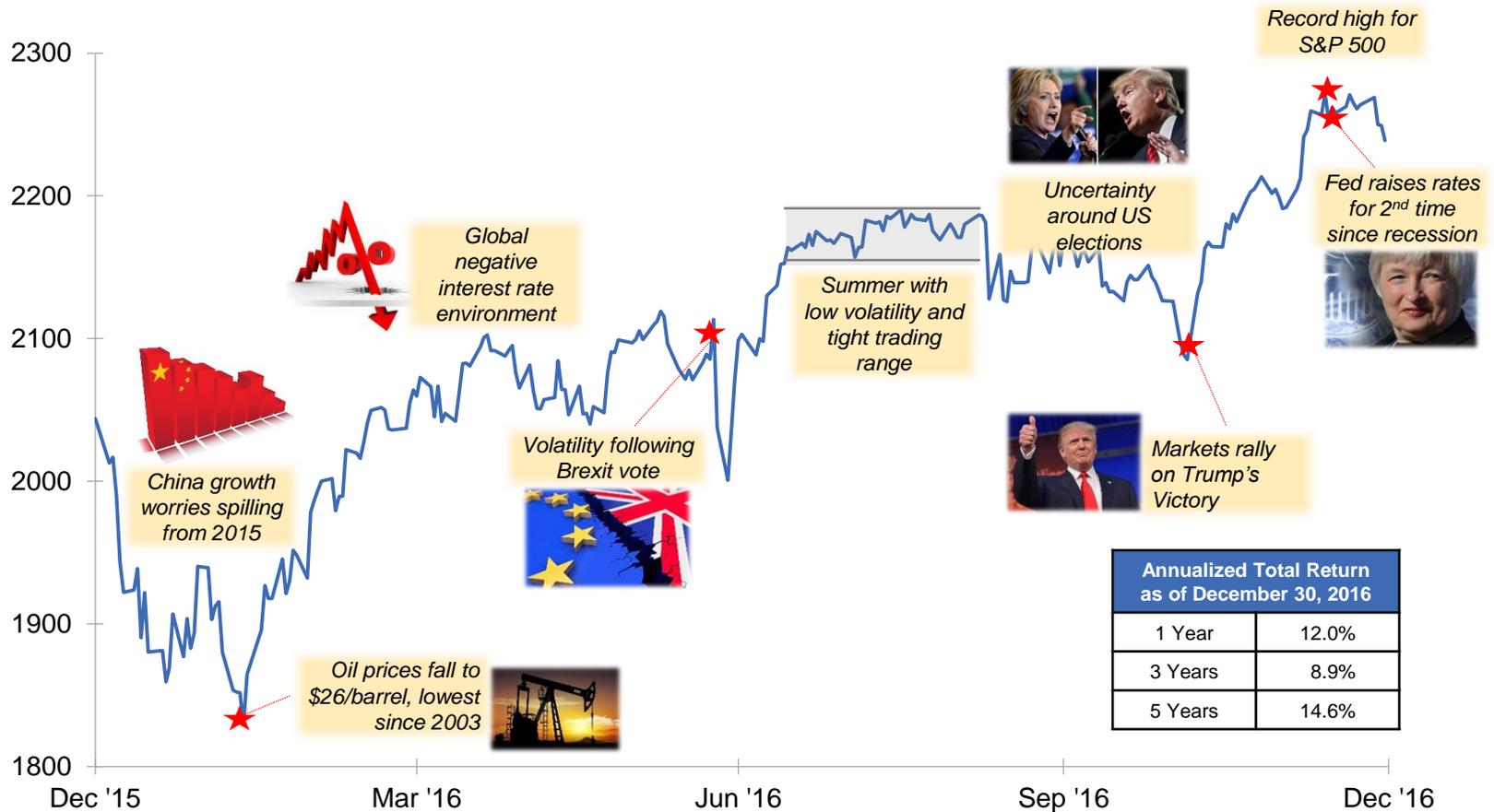


Oil **Highest since 2015**

Source: Bloomberg



S&P 500 Closes 2016 on a Strong Note



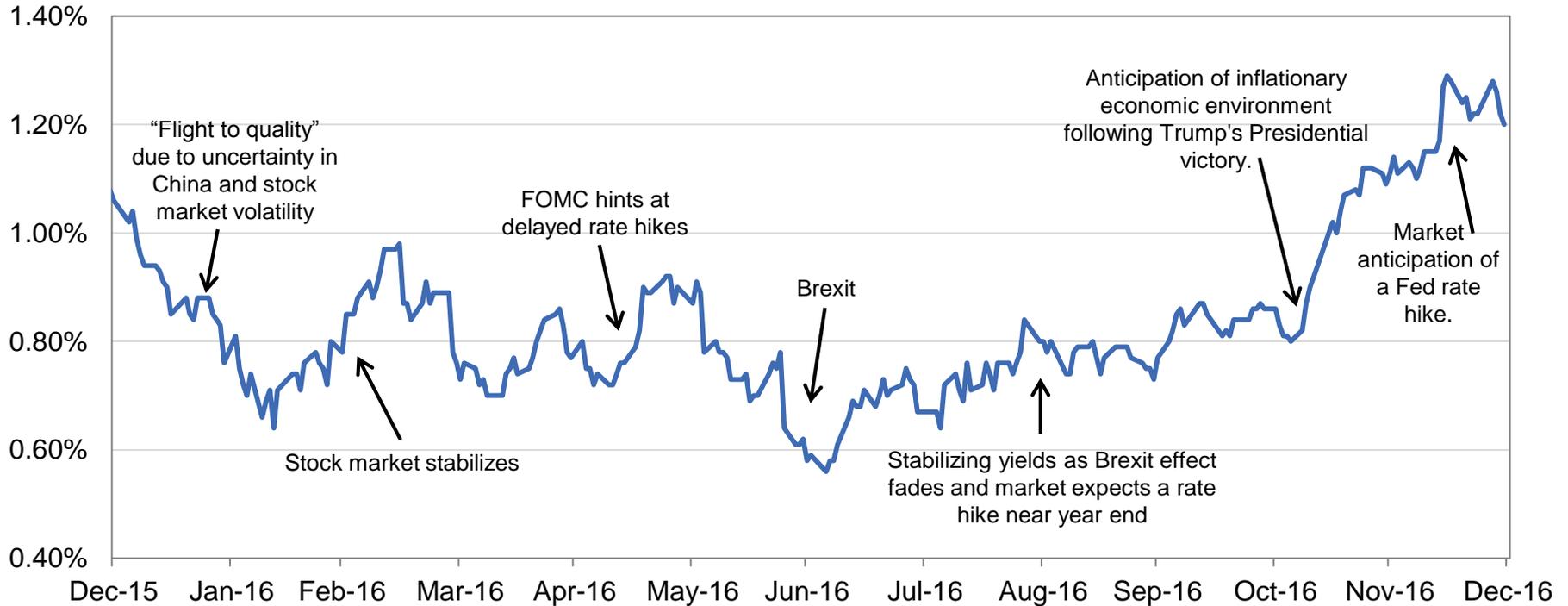
Source: Bloomberg



U.S. Treasury Yields Experienced Volatility

- Treasuries yields surged at the end of the year as the market expected a Fed rate hike in mid-December as well as an inflationary business environment from Trump's administration.

2-Year U.S. Treasury Yield
December 31, 2016 - December 31, 2016



Source: Bloomberg



Fourth Quarter Strategy Recap

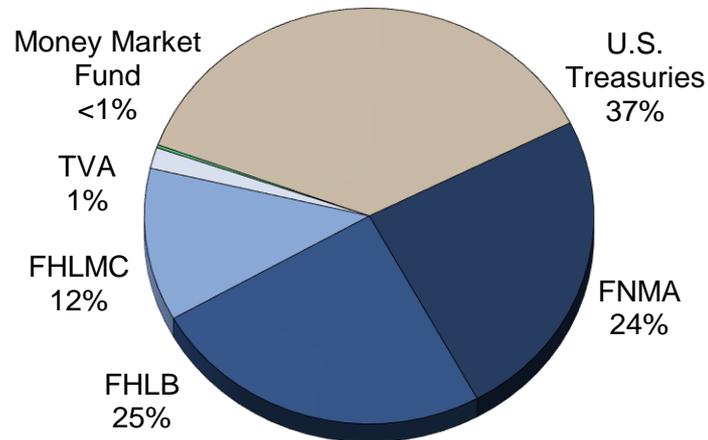
- Yields surged in the post-election period as expectations for U.S. economic growth and inflationary expectations rose and in anticipation of a December rate hike.
- Federal agency yield spreads continued to tighten over the quarter, erasing much of the value seen off and on during the year. Our few Agency purchases were generally new issues that came to market with yield concessions that offered more reasonable value.
- Significant money market reforms took effect in the fourth quarter. The result was increased demand for short-term government securities and reduced demand for short-term credit instruments.
- We maintained a duration position generally neutral to the specified mandate and market benchmark.



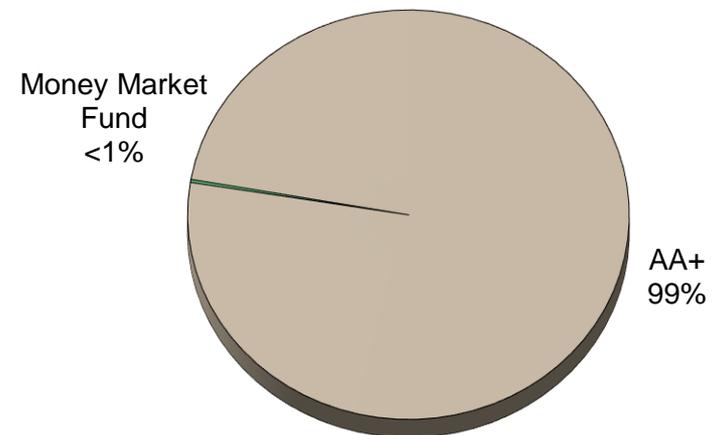
Portfolio Composition and Credit Quality Characteristics

Security Type ¹	December 31, 2016	% of Portfolio	% Change From Prior Quarter	Permitted by Policy
U.S. Treasuries	\$5,736,243.28	37%	+5.6%	100%
Federal Agencies	\$9,711,727.38	62%	-5.7%	100%
<i>FNMA</i>	<i>\$3,785,259.83</i>	<i>24%</i>	<i>-0.1%</i>	-
<i>FHLB</i>	<i>\$3,832,937.99</i>	<i>25%</i>	<i>-0.1%</i>	-
<i>FHLMC</i>	<i>\$1,840,999.93</i>	<i>12%</i>	<i>-5.5%</i>	-
<i>TVA</i>	<i>\$252,529.63</i>	<i>1%</i>	-	-
Money Market Fund	\$36,878.49	<1%	+0.1%	-
Total	\$15,484,849.15	100%		

Portfolio Composition



Portfolio Credit Quality Distribution²

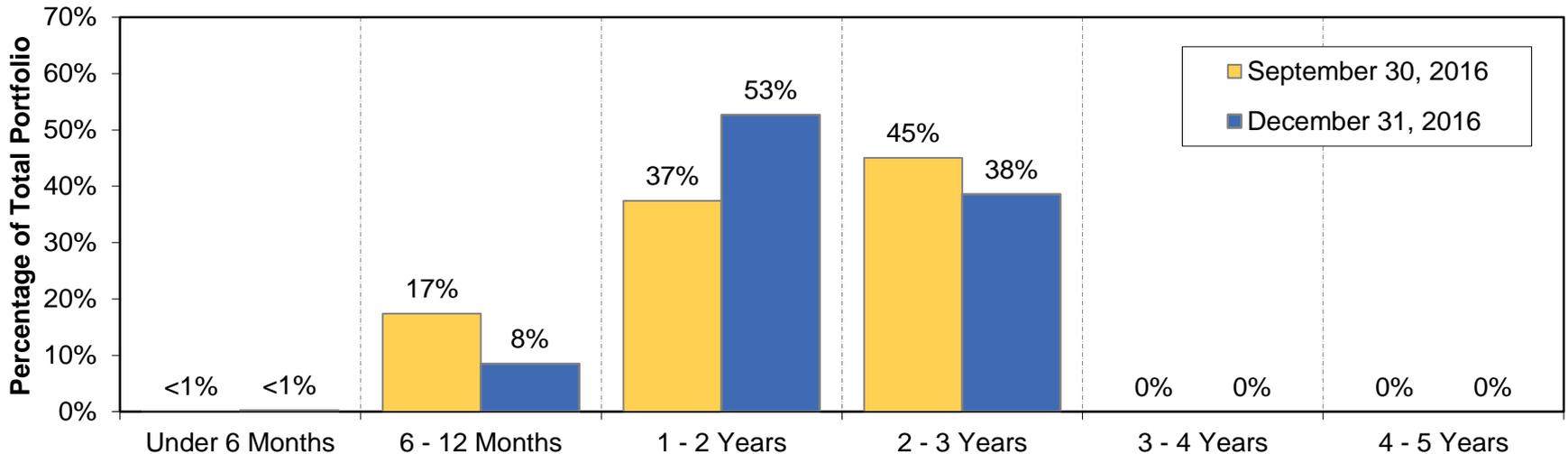




Portfolio Maturity Distribution

Maturity Distribution	December 31, 2016	September 30, 2016
Under 6 Months	\$36,878.49	\$20,410.91
6 - 12 Months	\$1,315,795.94	\$2,702,326.52
1 - 2 Years	\$8,153,309.75	\$5,817,797.41
2 - 3 Years	\$5,978,864.97	\$6,995,296.67
3 - 4 Years	\$0.00	\$0.00
4 - 5 Years	\$0.00	\$0.00
Totals	\$15,484,849.15	\$15,535,831.51

Portfolio Maturity Distribution





Found More Value in Treasuries Than Agencies

- The yield spread between U.S. Treasuries and Federal Agencies continued to narrow, leaving Agencies with far less value than we saw earlier in the year.
- We swapped from Agencies to Treasuries and from Treasuries to better Treasuries when we found those which were higher-yielding than current holdings.

Treasury purchases:

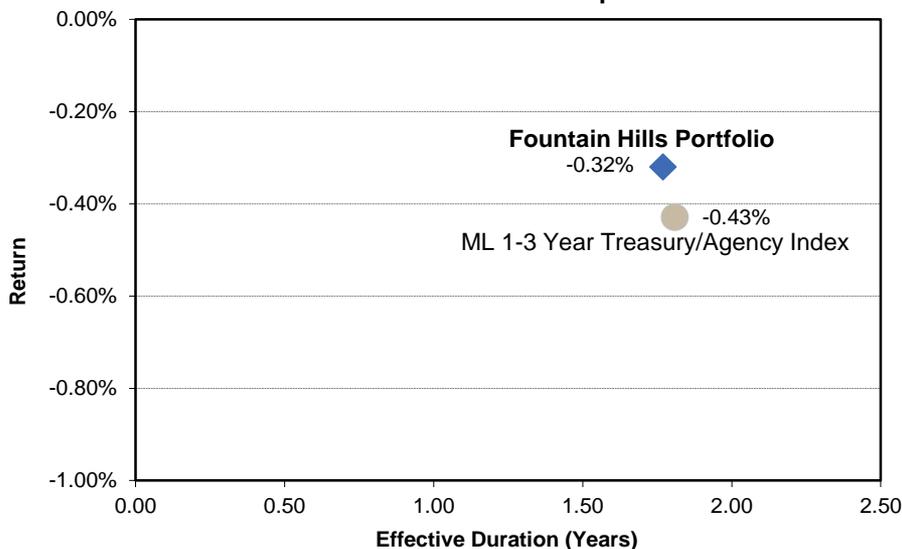
Trade Date	Transaction	Security	Maturity	Par Value	Yield
11/10/16	Buy	U.S. Treasury Note	4/30/19	\$420,000	1.06%
11/10/16	Sell	FHLMC Note	4/15/19	\$425,000	1.09%
12/1/16	Buy	U.S. Treasury Note	11/30/19	\$1,000,000	1.45%
12/1/16	Sell	FHLMC Note	7/28/17	\$785,000	0.78%
12/1/16	Sell	U.S. Treasury Note	7/31/17	\$200,000	0.72%



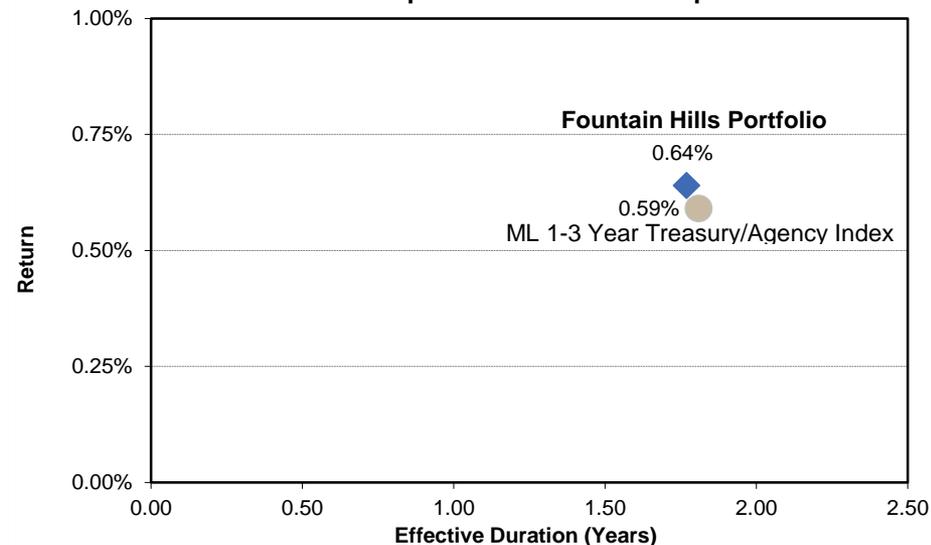
Portfolio Performance

Total Return ^{1,2,3,4}	Quarter Ended December 31, 2016	Past 12 Months	Past 2 Years	Past 3 Years	Since Inception
Fountain Hills Portfolio	-0.32%	1.04%	0.80%	0.72%	0.64%
ML 1-3 Year Treasury/Agency Index	-0.43%	0.89%	0.72%	0.69%	0.59%
Effective Duration	December 31, 2016	September 30, 2016	Yields	December 31, 2016	September 30, 2016
Fountain Hills Portfolio	1.77	1.81	Yield at Market	1.16%	0.82%
ML 1-3 Year Treasury/Agency Index	1.82	1.81	Yield on Cost	1.00%	0.96%

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 annualized basis. Performance numbers for periods greater than one year are presented on an annualized basis.
4. Inception date is December 31, 2011.



First Quarter Outlook and Strategy

- Although we enter 2017 with a high degree of political uncertainty, our expectations are for a modest uptick in economic growth in the U.S., a trend toward higher inflation, and a gradual upward trajectory of interest rates.
- As 2017 starts with the highest yields in several years, we plan to initially position the portfolio's duration to be aligned with the benchmark.
- Agency yield spreads over Treasuries remain narrow. As a result, our strategy will generally favor U.S. Treasuries over Agencies, unless specific issues offer identifiable value.

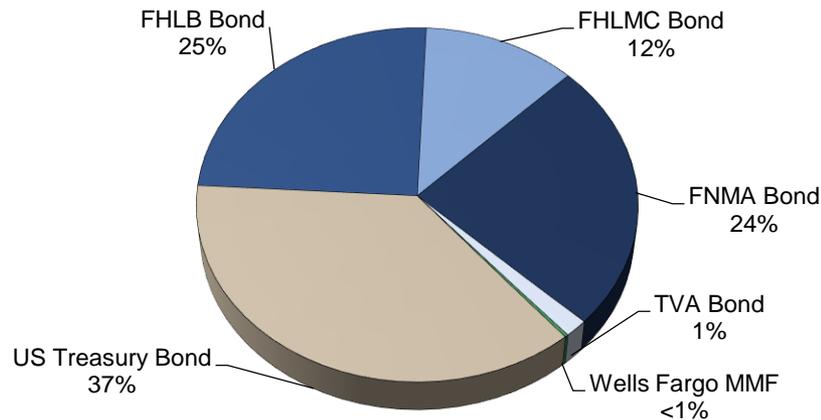


Town of Fountain Hills Portfolio Summary

Summary By Type	Book Value ¹	Market Value ¹	Days to Maturity	% of Portfolio	% Allowed per Policy	YTM @ Cost
U.S. Treasury Bond	\$5,742,732	\$5,736,243	617	37.04%	100%	1.06%
FHLB Bond	\$3,854,918	\$3,832,938	613	24.75%	100%	0.84%
FHLMC Bond	\$1,853,759	\$1,841,000	758	11.89%	100%	0.94%
FNMA Bond	\$3,798,410	\$3,785,260	735	24.44%	100%	1.11%
TVA Bond	\$252,597	\$252,530	349	1.63%	100%	1.01%
Wells Fargo MMF	\$36,878	\$36,878	1	0.24%	N/A	0.01%
Total including cash	\$15,539,294	\$15,484,849	656	100.00%		1.00
Total without cash	\$15,502,415	\$15,447,971				1.00

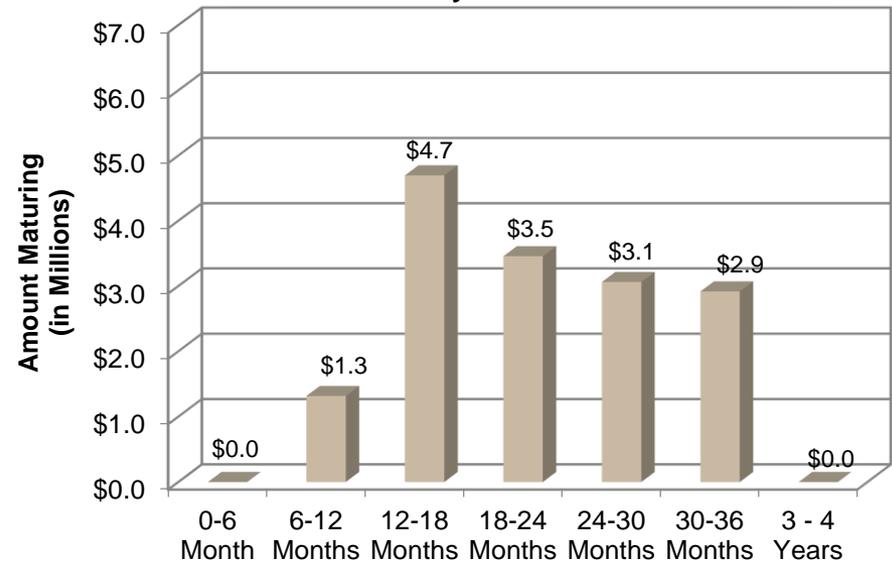
Summary by Issuer	Book Value	% of Portfolio
U.S. Treasury	\$5,742,732	36.96%
FHLB	\$3,854,918	24.81%
FHLMC	\$1,853,759	11.93%
FNMA	\$3,798,410	24.44%
TVA Bond	\$252,597	1.63%
Wells Fargo	\$36,878	0.24%
Total	\$15,539,294	100%

Issuer Distribution



Weighted Average Maturity (in years)	1.80
Duration Allowed by Policy	5.00
Current Portfolio Duration Including Cash	1.77
Current Portfolio Duration Without Cash	1.77

Maturity Distribution²



Managed Account Detail of Securities Held

For the Month Ending **December 31, 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 07/31/2012 0.500% 07/31/2017	912828TG5	50,000.00	AA+	Aaa	02/06/15	02/10/15	49,582.03	0.84	104.62	49,900.94	49,949.20
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	380,000.00	AA+	Aaa	02/02/15	02/04/15	378,797.66	0.63	795.11	379,717.46	379,613.92
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	2,994.08	628,844.67	629,809.38
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	2,471.64	673,269.60	674,499.15
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	871.88	453,622.00	453,684.60
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	963.40	896,005.11	895,605.30
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	615.38	564,409.45	560,809.20
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	15.54	377,079.86	377,182.50
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	1,168.92	425,436.26	423,281.04
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	1,518.39	280,084.58	276,901.35
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	1,318.68	1,001,524.48	1,002,070.00
Security Type Sub-Total		5,715,000.00					5,735,639.26	1.06	12,837.64	5,729,894.41	5,723,405.64
Federal Agency Bond / Note											
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	666.67	251,930.41	251,862.96
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	2,700.00	799,464.10	798,984.80

Managed Account Detail of Securities Held

For the Month Ending **December 31, 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											
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	1,695.31	749,094.85	748,495.50
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	640.63	374,625.45	373,616.25
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	13.37	275,083.55	274,043.83
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	22.85	469,186.73	468,365.81
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	500.00	199,422.38	198,410.40
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	1,625.00	648,958.18	644,833.80
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	1,312.50	599,658.29	596,698.20
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	957.03	374,901.04	372,961.88
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	1,575.00	699,342.28	699,139.00
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	3,740.00	639,727.70	640,888.32
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	2,604.17	748,727.60	745,337.25
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	950.00	400,719.46	398,381.20
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	78.13	252,181.01	248,577.00
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	187.50	604,524.25	596,584.80

Managed Account Detail of Securities Held

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TOWN OF FOUNTAIN HILLS, OPERATING FUNDS

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Federal Agency Bond / Note											
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	586.98	149,360.45	148,018.65
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	2,152.26	548,865.21	542,735.05
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	1,177.00	324,528.45	320,485.43
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	2,065.97	624,131.32	618,056.88
Security Type Sub-Total		9,725,000.00					9,749,443.10	0.97	25,250.37	9,734,432.71	9,686,477.01
Managed Account Sub-Total		15,440,000.00					15,485,082.36	1.00	38,088.01	15,464,327.12	15,409,882.65
Securities Sub-Total		\$15,440,000.00					\$15,485,082.36	1.00%	\$38,088.01	\$15,464,327.12	\$15,409,882.65
Accrued Interest											\$38,088.01
Total Investments											\$15,447,970.66



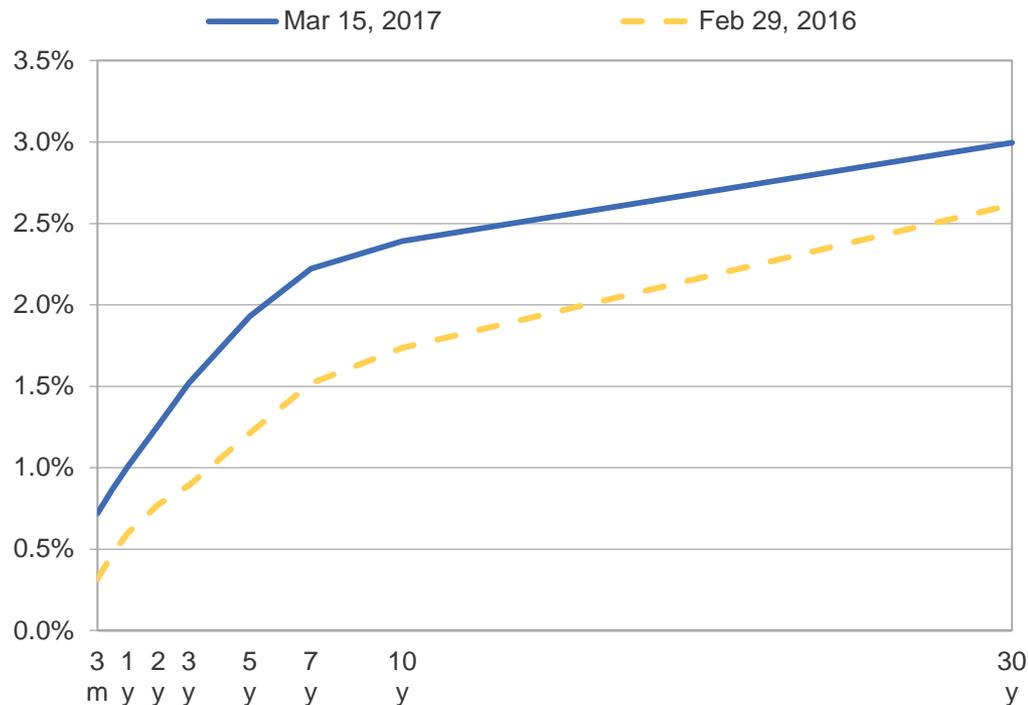
Economic Update



Yield Curve Continues Upward

- Yields traded within a narrow range so far in 2017, until heightened likelihood of a March Fed rate hike generated a slight upswing toward month-end.

U.S. Treasury Yield Curve



Yield Curve History

Maturity	03/15/17	02/29/16
1-Mo.	0.68	0.23
3-Mo.	0.72	0.33
6-Mo.	0.87	0.49
1-Yr.	1.01	0.62
2-Yr.	1.31	0.78
3-Yr.	1.59	0.91
5-Yr.	2.01	1.22
7-Yr.	2.30	1.52
10-Yr.	2.50	1.74
30-Yr.	3.11	2.61

Source: Bloomberg as of 03/15/17.

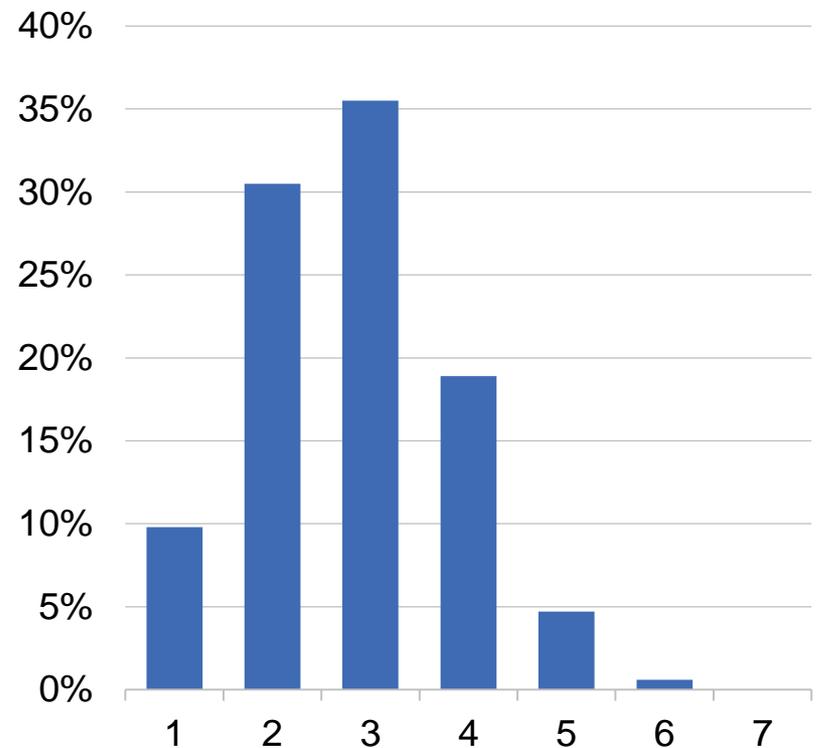


Fed Rate Hikes Expected in 2017

Probability of Fed Rate Hike

Meeting	3/13/17
3/15/2017	100%
5/3/2017	100%
6/14/2017	100%
7/26/2017	100%
9/20/2017	100%
11/1/2017	100%
12/13/2017	100%

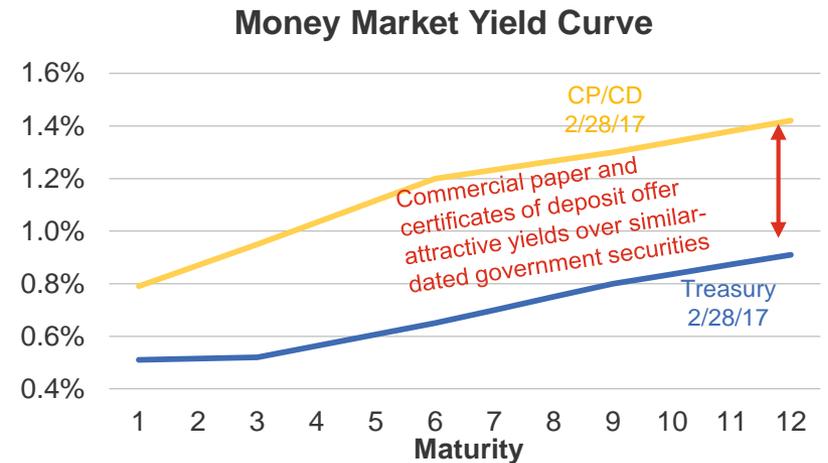
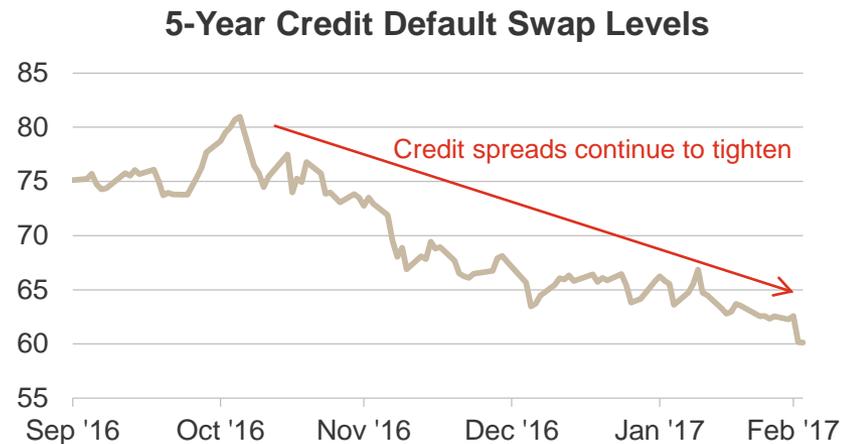
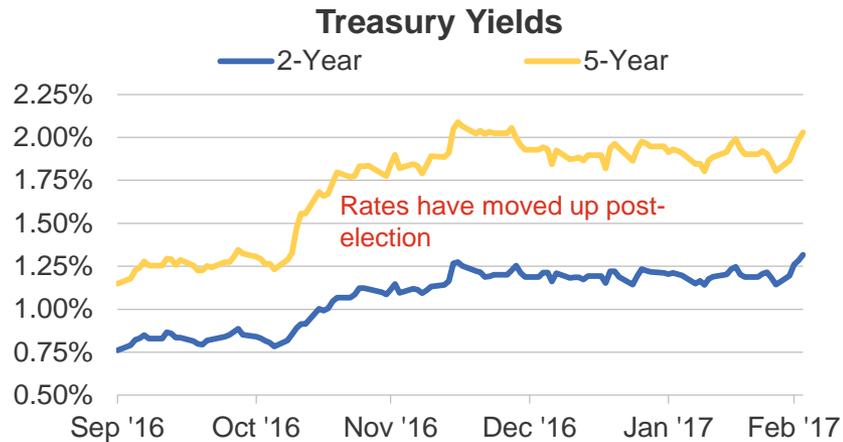
Number of Rate Hikes Expected in 2017



Source: Bloomberg WIRP, as of 3/13/17.



U.S. Markets Current Backdrop

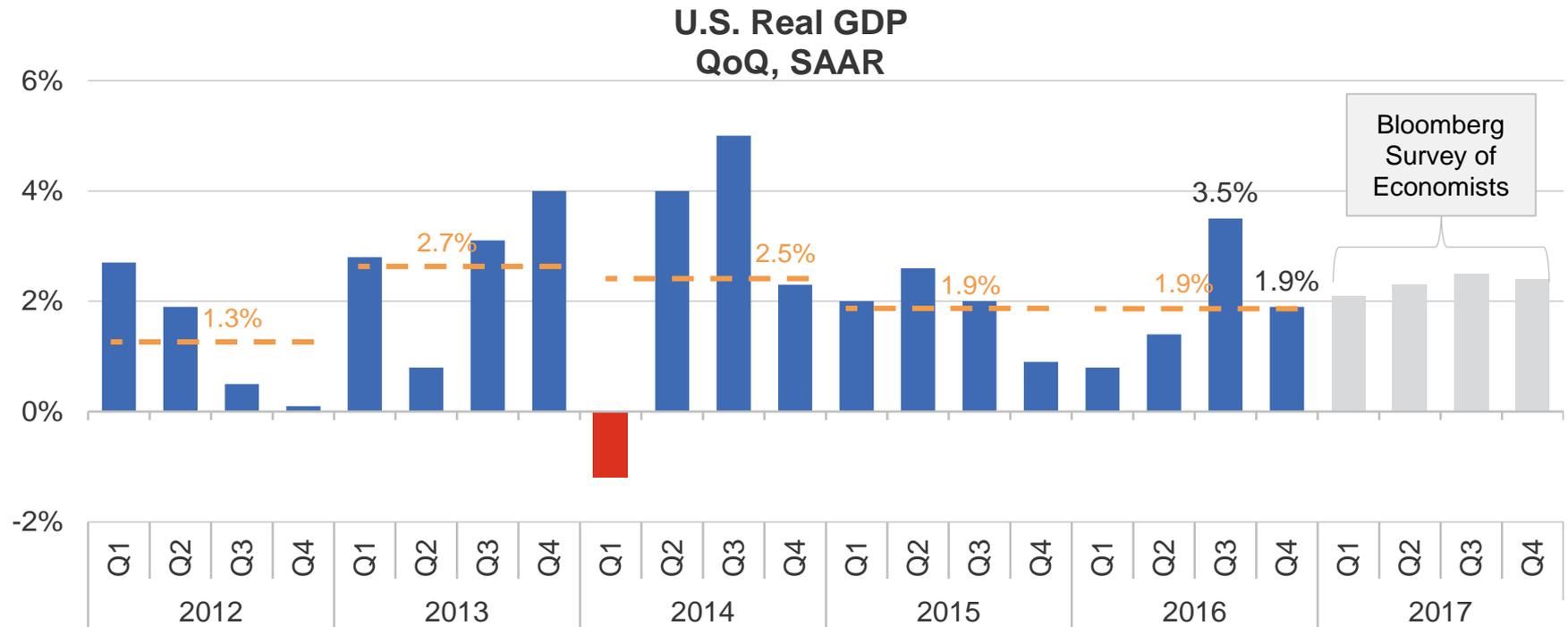


Source: Bloomberg as of 03/02/17.



Economic Growth Slowed in Fourth Quarter Due to One-Time Factor

- Fourth quarter GDP growth was 1.9%, down from 3.5% for the third quarter.
- GDP reflected positive personal consumption, fixed investment, private inventories, and government spending, offset by a large one-time drop in net exports.



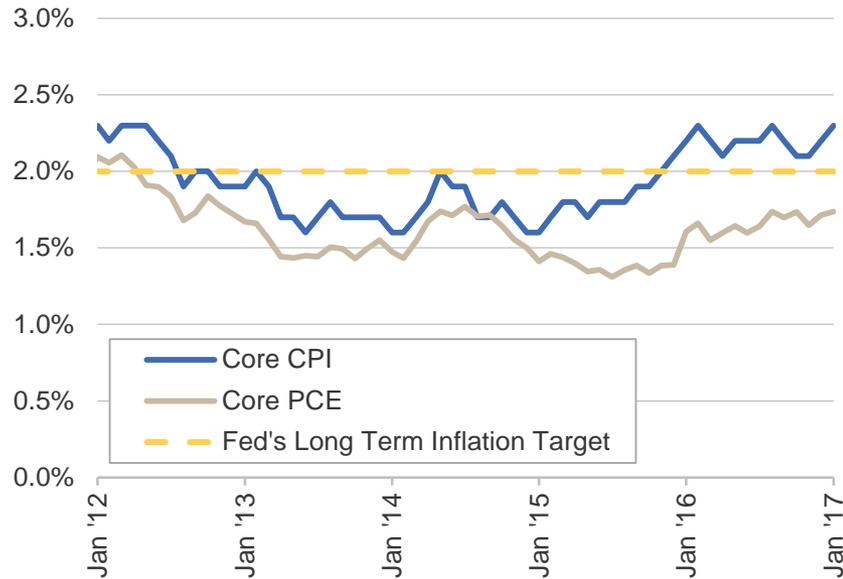
Source: Bloomberg as of February 2017. SAAR is seasonally adjusted annualized rate.



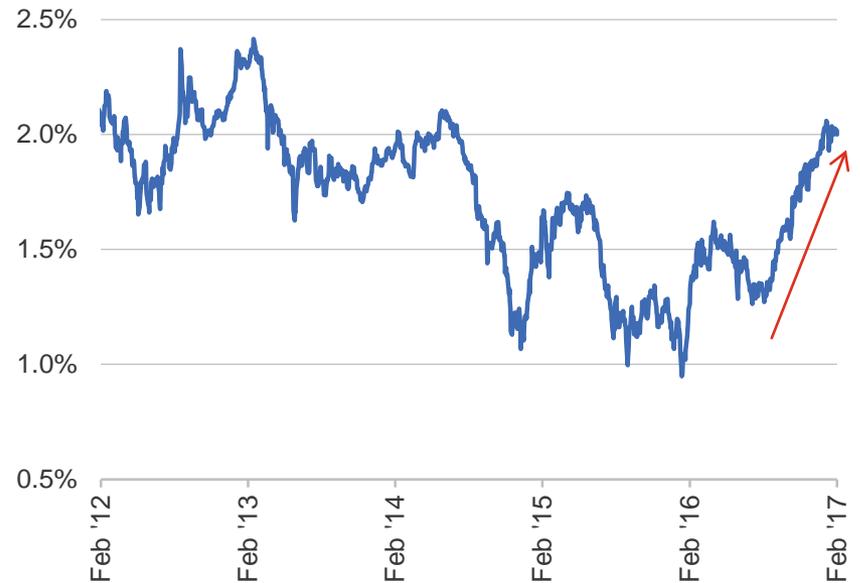
Inflation Rising, but Slowly

- The core personal consumption expenditures (PCE) price index remains below the Fed's 2% target at 1.7% year-over-year through January.
- Inflation is expected to rise to levels last seen in 2014; President Trump's proposed spending policies could result in price pressures, prompting faster Fed rate hikes.

Core Inflation Measures (YoY)



Expectations for Average Inflation Rate over next 5 years

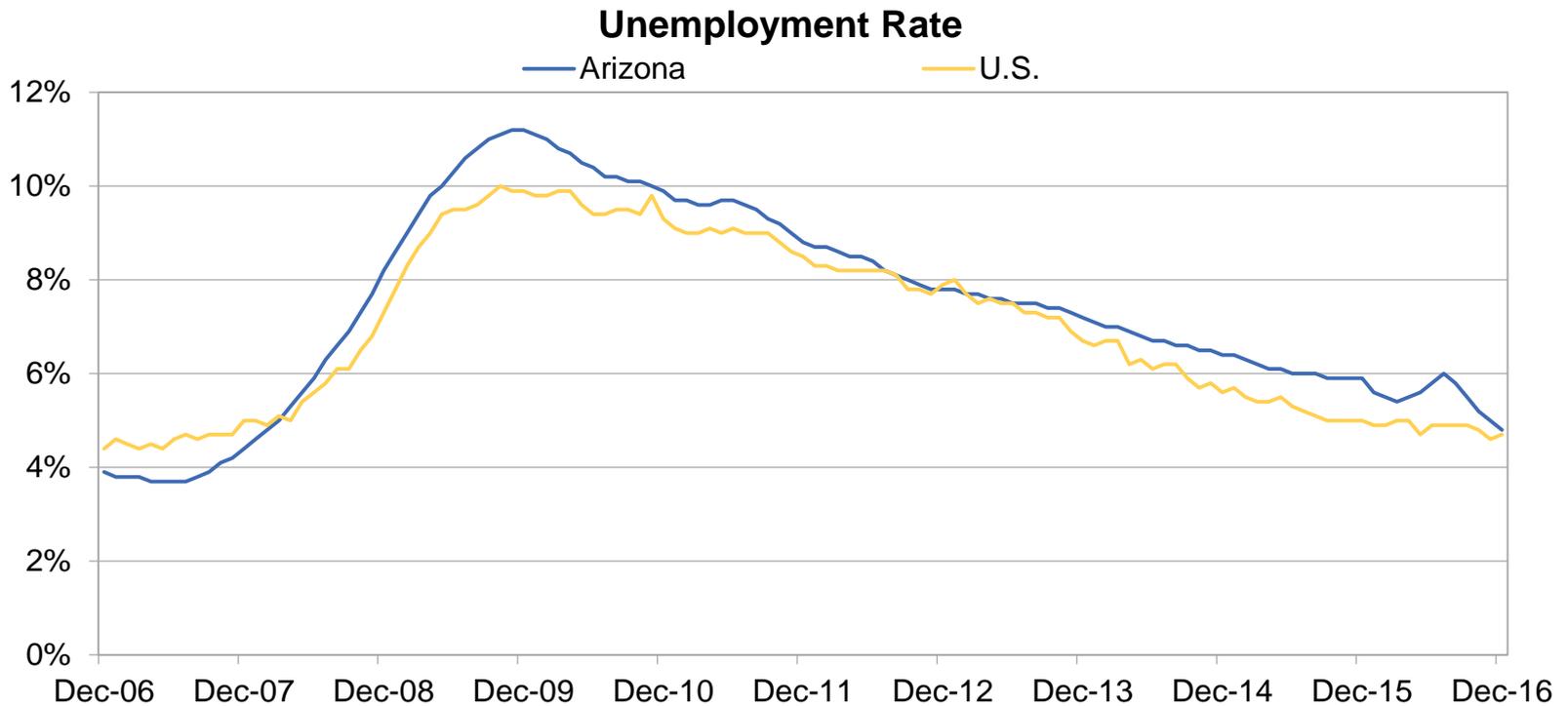


Source: Bloomberg as of February 2017.



Unemployment Rate Continues to Fall

- Arizona's unemployment rate continues to tick downward, although it is still slightly higher than the national rate.

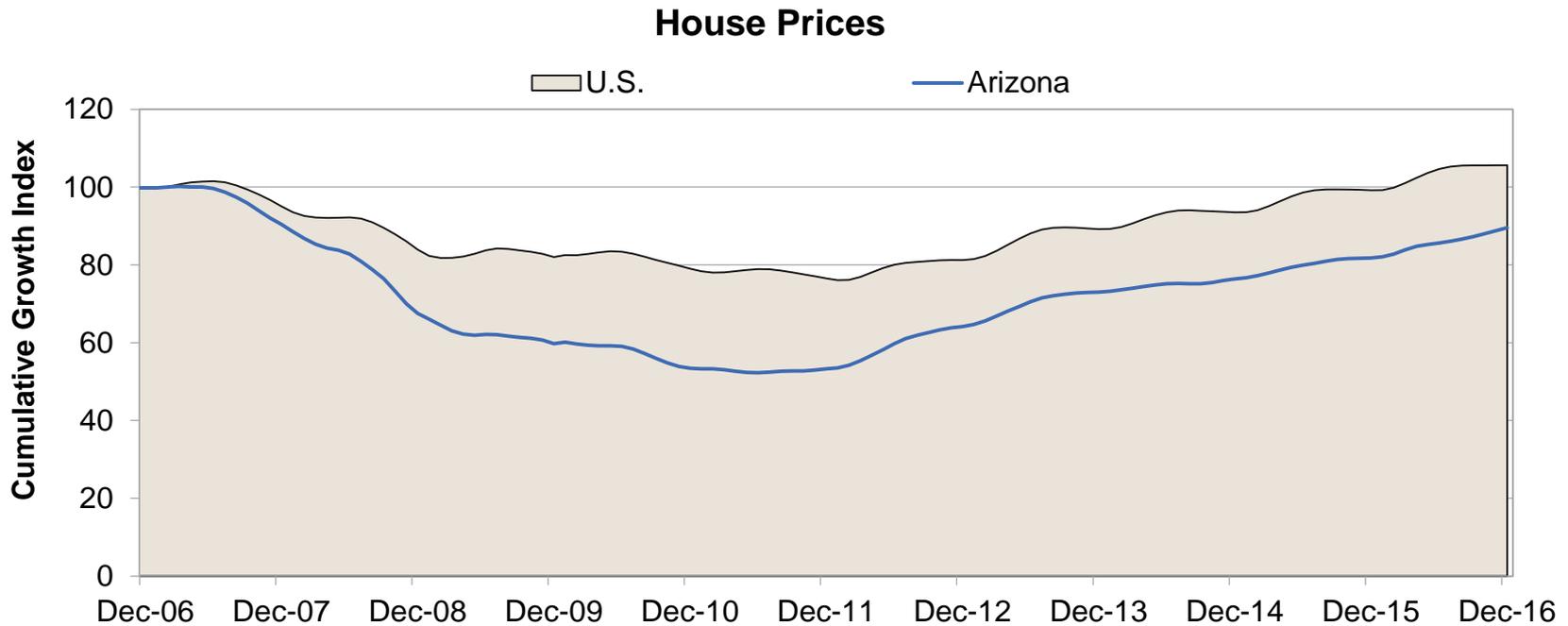


Source: Bloomberg



Housing Market on the Rise

- The Arizona housing market is expected to be stronger in 2017 and start to move more in line with the rest of the United States.
- Realtor.com predicts the metro Phoenix area to be the number one housing market in 2017, with prices climbing 5.9% and sales rising 7.2%.



Source: Bloomberg and Realtor.com

Important Disclosures

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- *Market values which include accrued interest, are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg or Telerate. Where prices are not available from generally recognized sources the securities are priced using a yield based matrix system to arrive at an estimated market value.*
- *In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances and forward settling sales are excluded.*
- *Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.*
- *Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.*
- *Money market fund/cash balances are included in performance and duration computations.*
- *Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.*
- *Callable securities in 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.*

Thank You



pfm