



TOWN OF FOUNTAIN HILLS

Investment Performance Review For the Quarter Ended December 31, 2018

Client Management Team

Luke Schneider, CFA, Director
Annette Gaston, Senior Managing Consultant
Paulina Woo, Managing Director

PFM Asset Management LLC

1820 East Ray Road
Chandler, AZ 85225
855-885-9621

213 Market Street
Harrisburg, PA 17101-2141
717-232-2723

QUARTERLY MARKET SUMMARY

SUMMARY

- The fourth quarter was not for the faint of heart as markets experienced surging volatility, a worldwide equity sell-off, yield curve inversion, ongoing trade tensions and a partial government shutdown. Just as the New Year turned, however, a modicum of calm returned as stocks regained their footing amid the backdrop of stable U.S. economic prospects.
- The S&P 500 equity index plummeted 14% in the quarter, nearing bear market territory and erasing all gains for the year. International indices didn't fare any better, hampered by falling oil prices, rising protectionism and policy uncertainties.
- In response to the stock market sell-off and global turmoil, U.S. Treasury yields fell sharply and the yield curve partially inverted. While economists have so far shrugged off the yield curve flattening, and its typical interpretation as an early warning sign of an impending recession, weakening economic data emerging in both the U.S. and globally have added to the level of concern.
- The Federal Reserve (Fed) raised the federal funds target rate to a new range of 2.25% to 2.50% in December, the fourth rate increase in 2018. Unlike the well-choreographed path of rate hikes in 2018, the future direction of rates has become far less clear as the Fed appears to be recalibrating monetary policy by signaling a shift to a more "wait and see" and data-dependent approach. The Fed's December estimate was for two rate hikes in 2019, but the market expects none.
- The U.S. government ended the year embroiled in a partial shutdown that began on December 21. Six of 15 executive departments (representing about 75% of U.S. discretionary spending) are fully funded and operating normally. However, the departments of Agriculture, Commerce, Homeland Security, Housing and Urban Development, Justice, Interior, State, Transportation and Treasury are affected by the shutdown. Also affected are independent agencies, including the SEC and EPA. More than 800,000 federal employees and an estimated 4 million government contractors are affected. The White House Council of Economic Advisers estimated that gross domestic product (GDP) will be reduced by 0.13% for each week of the shutdown.

ECONOMIC SNAPSHOT

- U.S. real GDP grew at an annualized rate of 3.4% in the third quarter making the second and third quarters the best back-to-back quarters since 2014. The American consumer continued to drive strong third quarter growth that more than offset moderation in business investment and outright contraction in residential investment.
- U.S. labor market conditions remained healthy, providing the strongest evidence of continued growth of the U.S. economy. The economy added 762,000 new jobs in the fourth quarter, among the strongest quarters of the 9.5-year expansion. While the unemployment rate ticked higher to 3.9%, it was attributed to more workers entering the labor force, which is viewed as a positive sign.
- Inflation in the U.S. remained well-contained, hovering around the Fed's 2% target. Nevertheless inflation expectations weakened. While wage growth rose to match the expansion high, oil prices fell sharply, and home price growth slowed.

INTEREST RATES

- The U.S. Treasury yield curve inverted between 2- and 5-year maturities for the first time since March 2007. Short-term yields moved higher to parallel the December Fed rate hike, but yields on longer maturities plunged by up to 44 basis points (0.44%) as the market reassessed the trajectory for the U.S. economy and its implication for future Fed action.
- As stock markets fell and volatility rose, credit spreads widened sharply, reflecting heightened risk and uncertainty. Yield spreads on investment-grade corporates rose 44 basis points (63%) while spreads on high yield bonds (those rated below BBB) rose by 210 basis points (66%). Despite wider spreads, corporate profits and underlying fundamentals remained reasonably healthy.

SECTOR PERFORMANCE

- Total returns in the bond market were strong across the board in the quarter as lower yields pushed prices higher, reversing what had been dismal bond market returns over the first three quarters of the year. While diversification typically boosts returns, fourth quarter performance was led by the U.S. Treasury sector, as the flight to quality amid widespread market de-risking led to outperformance relative to most other investment-grade fixed income alternatives.
- As the long-end of the yield curve declined, it led to outperformance of longer maturities relative to shorter maturities. For example, the 3-month Treasury Bill Index generated 0.57% of total return for the quarter, while the 5-year and the 10-Year Treasury indices returned 1.49% and 2.21%, respectively.
- The federal agency sector inside of five years performed well, due to a combination of limited issuance and relative immunity from the quarter's spread widening across the credit sectors. Relative performance deteriorated farther out the curve, as even modestly wider spreads negatively impacted longer maturities. Supranationals also posted positive excess returns for the quarter as spreads remained in narrow ranges.
- The investment-grade corporate sector suffered from the market environment in the fourth quarter. Corporates underperformed Treasuries as spreads widened sharply, with higher-quality issues generally outperforming lower-quality ones. Poor fourth quarter performance dragged down trailing 12-month figures as well, which resulted in corporates underperforming Treasuries for the year.
- AAA-rated asset backed securities (ABS) posted negative excess returns for the quarter as spreads widened, but ABS outperformed corporates by a wide margin. The higher-quality and conservative structure of most ABS muted the impact of risk aversion on spread movements in the ABS sector.
- Mortgage-backed securities (MBS) generated negative excess returns for the third consecutive quarter. Increased volatility and negative convexity continued to hurt the sector. One bright spot, and one of our continued areas of emphasis, was the shorter agency-backed commercial mortgage-backed securities (CMBS), which was one of the best performing slices of the MBS universe.

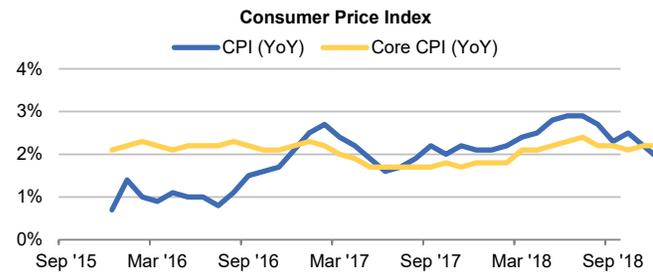
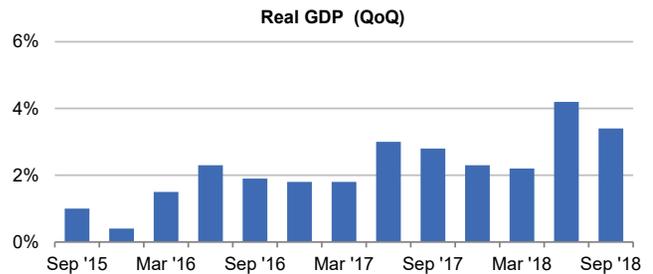
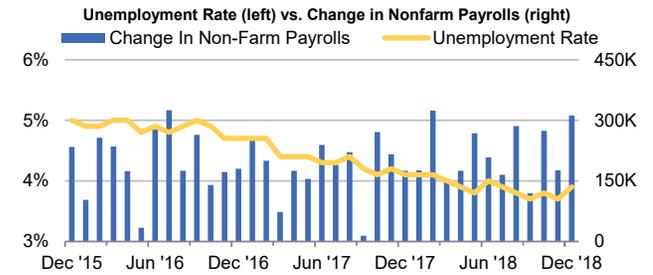
QUARTERLY MARKET SUMMARY

Economic Snapshot

Labor Market		Latest	Sep '18	Dec '17
Unemployment Rate	Dec '18	3.9%	3.7%	4.1%
Change In Non-Farm Payrolls	Dec '18	312,000	119,000	175,000
Average Hourly Earnings (YoY)	Dec '18	3.2%	2.8%	2.7%
Personal Income (YoY)	Nov '18	4.2%	4.2%	4.6%
Initial Jobless Claims (week)	1/19/19	199,000	207,000	248,000

Growth		Latest	Sep '18	Dec '17
Real GDP (QoQ SAAR)	2018Q3	3.4%	4.2% ¹	2.8% ²
GDP Personal Consumption (QoQ SAAR)	2018Q3	3.5%	3.8% ¹	2.2% ²
Retail Sales (YoY)	Nov '18	4.2%	4.0%	5.3%
ISM Manufacturing Survey (month)	Dec '18	54.3	59.5	59.4
Existing Home Sales SAAR (month)	Dec '18	4.99 mil.	5.15 mil.	5.56 mil.

Inflation / Prices		Latest	Sep '18	Dec '17
Personal Consumption Expenditures (YoY)	Nov '18	1.8%	2.0%	1.8%
Consumer Price Index (YoY)	Dec '18	1.9%	2.3%	2.1%
Consumer Price Index Core (YoY)	Dec '18	2.2%	2.2%	1.8%
Crude Oil Futures (WTI, per barrel)	12/31/18	\$45.41	\$73.25	\$60.42
Gold Futures (oz.)	12/31/18	\$1,281	\$1,192	\$1,309



1. Data as of Second Quarter 2018.

2. Data as of Third Quarter 2017.

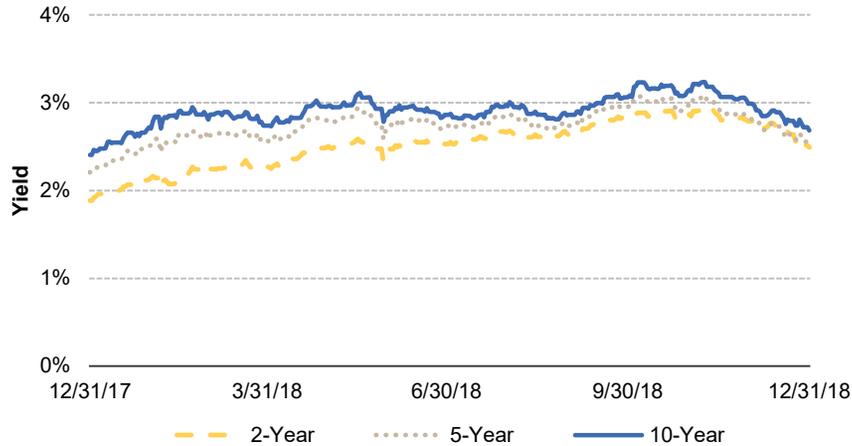
Note: YoY = year-over-year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil.

Source: Bloomberg.

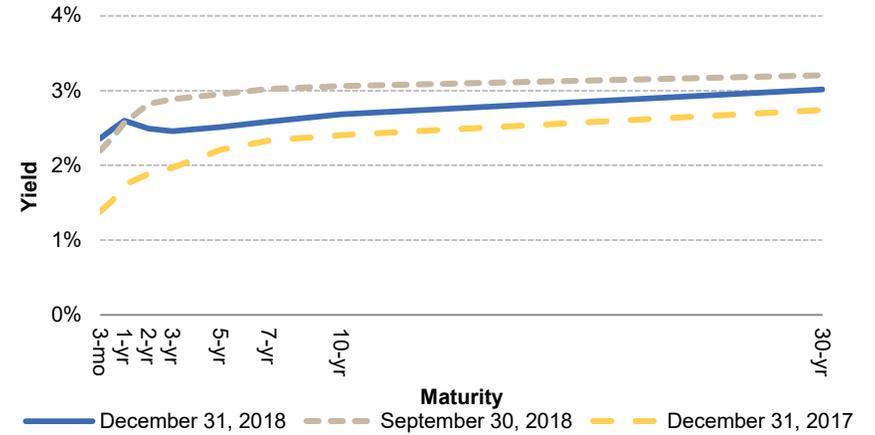
QUARTERLY MARKET SUMMARY

Interest Rate Overview

U.S. Treasury Note Yields



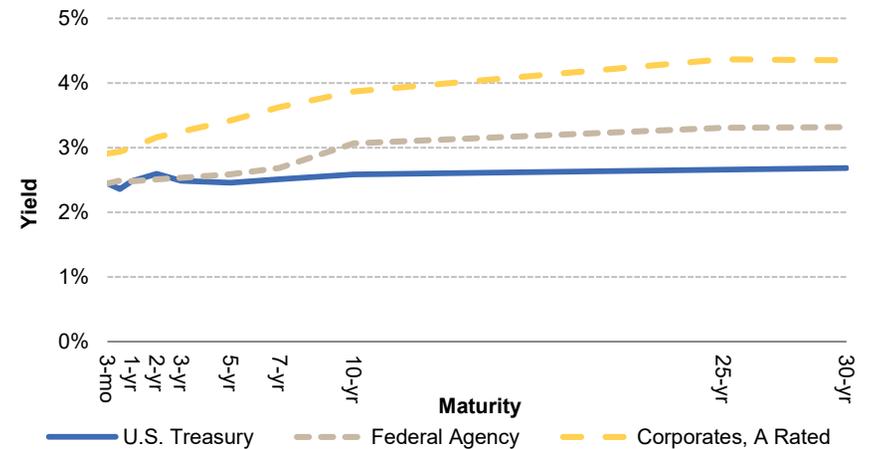
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	Dec '18	Sep '18	Change Over Quarter	Dec '17	Change Over Year
3-month	2.36%	2.20%	0.16%	1.38%	0.98%
1-year	2.60%	2.57%	0.03%	1.74%	0.86%
2-year	2.49%	2.82%	(0.33%)	1.89%	0.60%
5-year	2.51%	2.95%	(0.44%)	2.21%	0.30%
10-year	2.69%	3.06%	(0.37%)	2.41%	0.28%
30-year	3.02%	3.21%	(0.19%)	2.74%	0.28%

Yield Curves as of 12/31/18



Source: Bloomberg.

QUARTERLY MARKET SUMMARY

ICE BofAML Index Returns

December 31, 2018	As of 12/31/18		Returns for Periods ended 12/31/18		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.87	2.53%	1.29%	1.58%	0.96%
Federal Agency	1.73	2.56%	1.24%	1.78%	1.13%
U.S. Corporates, A-AAA rated	1.84	3.22%	0.91%	1.64%	1.70%
Agency MBS (0 to 3 years)	4.32	3.19%	2.17%	1.75%	1.21%
Taxable Municipals	1.92	3.06%	1.06%	2.33%	2.31%
1-5 Year Indices					
U.S. Treasury	2.62	2.51%	1.72%	1.52%	1.08%
Federal Agency	2.04	2.56%	1.42%	1.71%	1.23%
U.S. Corporates, A-AAA rated	2.58	3.35%	1.00%	1.16%	1.86%
Agency MBS (0 to 5 years)	3.60	3.11%	1.54%	0.82%	1.27%
Taxable Municipals	2.42	3.33%	1.17%	2.22%	2.49%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.30	2.62%	2.60%	0.80%	1.45%
Federal Agency	4.03	2.72%	1.95%	1.37%	1.67%
U.S. Corporates, A-AAA rated	6.85	3.81%	0.66%	(1.69%)	2.69%
Agency MBS (0 to 30 years)	4.86	3.38%	2.04%	1.00%	1.70%
Taxable Municipals	10.42	4.11%	1.60%	(1.10%)	4.79%

Returns for periods greater than one year are annualized.

Source: ICE BofAML Indices.

QUARTERLY MARKET SUMMARY

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Portfolio Recap

- Investors gravitated toward lower-risk assets through the final months of 2018 as volatility surged, stocks lost their footing, credit spreads widened, and the belly of the curve (maturities between one and five years) began trading at rates lower than shorter- and longer-term securities (maturities one year or less and maturities greater than five years). U.S. Treasury yields reversed course during the quarter as maturities beyond one year declined 30 – 40 basis points (0.30% to 0.40%).
- For the past several quarters we have positioned the portfolio with a duration less than that of the benchmark. This benefited the portfolio for most of 2018 as the Federal Reserve raised rates, and yields across the curve increased. However, in the fourth quarter, sudden shifts in market sentiment caused interest rates to fall, which eroded some of those benefits, negatively impacting portfolio performance versus the benchmark. At the same time, the declines in longer-term yields positively impacted the portfolio's absolute performance.
 - Our strategy over the past several months was to actively reduce exposure to credit sectors (and increase allocations to safer U.S. Treasuries), which helped to reduce relative underperformance versus the benchmark as U.S. Treasuries outperformed credit sectors for the quarter.
 - The federal agency sector generated positive returns for the fourth quarter, adding to the overall performance of the portfolio, while underperforming comparable U.S. Treasuries.
 - Incremental income from supranationals contributed to positive performance for the quarter.
 - Corporates felt the pressure of wider spreads across all industries. As a result, the sector underperformed most fixed income alternatives in the quarter. While portfolio allocations to the sector detracted from performance relative to the benchmark, our shift to a more defensive bias at the beginning of the quarter—favoring higher quality issuers, active selling of lower-yielding issues, and shorter durations—helped mitigate the underperformance.
 - After yields narrowed to 12-month lows in the third quarter, spreads on negotiable bank certificates of deposit and commercial paper issuers rebounded in the fourth quarter. As a result, the portfolio benefited from additional allocations to these high-quality, short-term credit instruments at attractive yields.

Investment Strategy Outlook

- While the path of future Fed rate hikes is less clear than in recent years, we expect future tightening (additional Fed rate hikes) to be modest. Further, political gridlock adds additional uncertainty. As a result, we will seek to increase portfolio duration to be more in line with (neutral to) the benchmark.
- Our outlooks for the major investment-grade fixed income sectors are as follows:
 - Federal agency spreads (incremental yield) remain very narrow as most maturities offer less than five basis points (0.05%) of incremental yield relative to U.S. Treasuries. We will continue to moderate use of agencies where yield differences are narrow, seeking better relative value in either Treasuries or other sectors. Callable agencies will continue to be evaluated, and, where analyses indicate strong value, we will seek to utilize these securities as portfolio diversifiers.
 - Supranational issuance is expected to increase during the first quarter of 2019. We will seek to take advantage of attractively priced new issues through the first several months of the year.
 - Although it appears that volatility may not dissipate quickly, the significant sell-off in the corporate sector (resulting in wider spreads) presents an opportunity to selectively add to the sector. We prefer high-quality, defensive issuers with a focus on one- to three-year maturities and continue to prefer financials (specifically domestic issuers) and to remain selective in industrial issuers.
 - Short-term money market investors continue to reap the rewards of current monetary policy as the fed funds effective rate now nears two and a half percent. Short-term negotiable bank certificates of deposit and commercial paper have since normalized following very narrow yield differences at year-end, and once again provide an attractive, high-quality source of incremental income.

Sector Allocation and Compliance

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

Security Type	Market Value	% of Portfolio	% Change vs. 9/30/18	Permitted by Policy	In Compliance
U.S. Treasury	\$3,238,933	27.9%	+2.6%	100%	✓
Federal Agency	\$3,591,559	30.9%	-6.2%	100%	✓
Supranationals	\$591,871	5.1%	-	100%	✓
Negotiable CDs	\$860,771	7.4%	-	30%	✓
Corporate Notes	\$2,110,165	18.2%	-0.1%	30%	✓
Commercial Paper	\$1,194,716	10.3%	+8.1%	30%	✓
Securities Sub-Total	\$11,588,014	99.8%			
Accrued Interest	\$42,080				
Securities Total	\$11,630,094				
Money Market Fund	\$19,797	0.2%	-4.4%	100%	✓
Total Investments	\$11,649,891	100.0%			

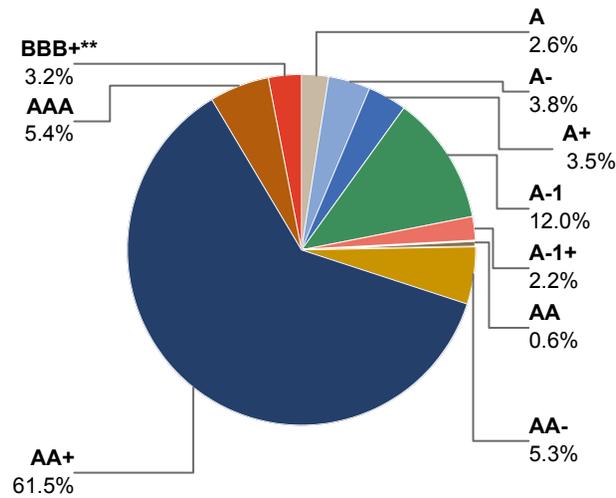
Market values, excluding accrued interest. Detail may not add to total due to rounding. Current investment policy as of April, 2017.

Portfolio Statistics

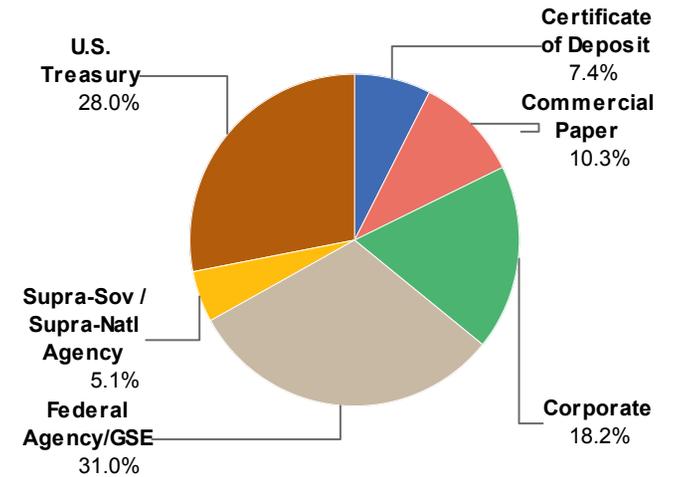
As of December 31, 2018

Par Value:	\$11,710,000
Total Market Value:	\$11,649,890
Security Market Value:	\$11,588,014
Accrued Interest:	\$42,080
Cash:	\$19,797
Amortized Cost:	\$11,696,342
Yield at Market:	2.68%
Yield at Cost:	1.70%
Effective Duration:	0.87 Years
Duration to Worst:	0.89 Years
Average Maturity:	0.91 Years
Average Credit: *	AA

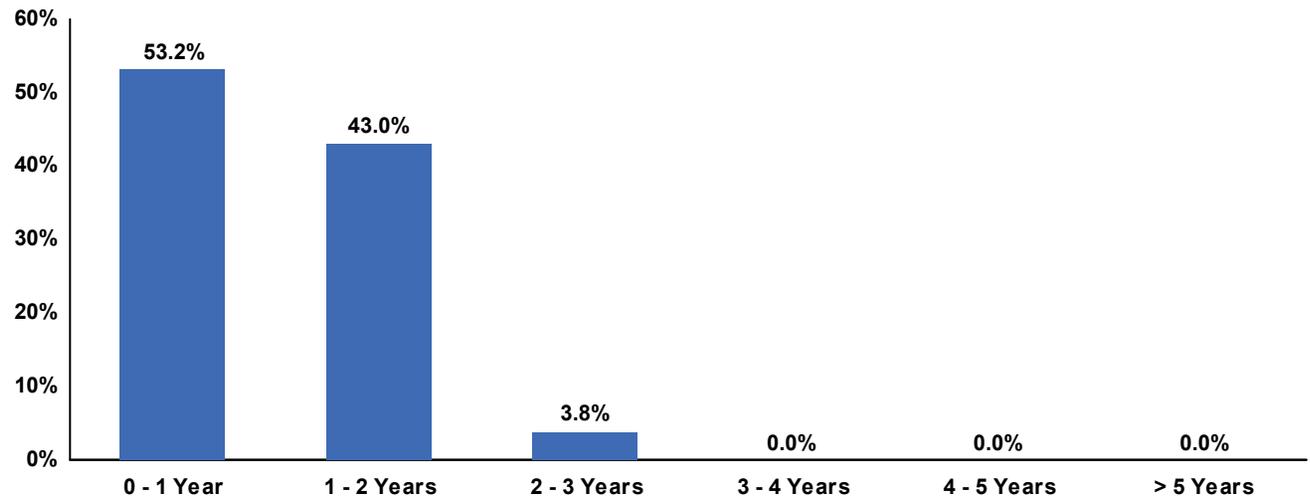
Credit Quality (S&P Ratings)



Sector Allocation



Maturity Distribution

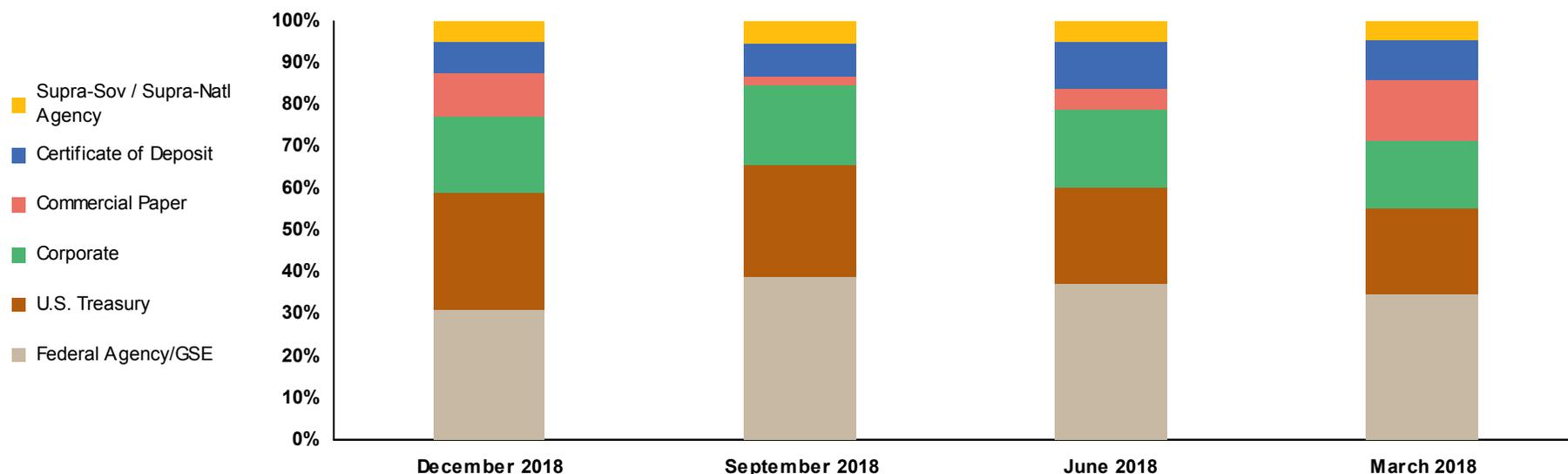


*An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

**Securities held in the Town's portfolio are in compliance with Arizona Revised Statutes and the Town's investment policy dated April, 2017.

Sector Allocation

Sector	December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
Federal Agency/GSE	3.6	31.0%	4.3	38.9%	4.3	37.2%	4.5	34.8%
U.S. Treasury	3.2	28.0%	2.9	26.5%	2.6	23.1%	2.6	20.4%
Corporate	2.1	18.2%	2.1	19.2%	2.1	18.4%	2.1	16.3%
Commercial Paper	1.2	10.3%	0.2	2.3%	0.6	5.2%	1.8	14.2%
Certificate of Deposit	0.9	7.4%	0.9	7.8%	1.3	11.0%	1.3	9.7%
Supra-Sov / Supra-Natl Agency	0.6	5.1%	0.6	5.3%	0.6	5.1%	0.6	4.6%
Total	\$11.6	100.0%	\$11.0	100.0%	\$11.5	100.0%	\$12.9	100.0%

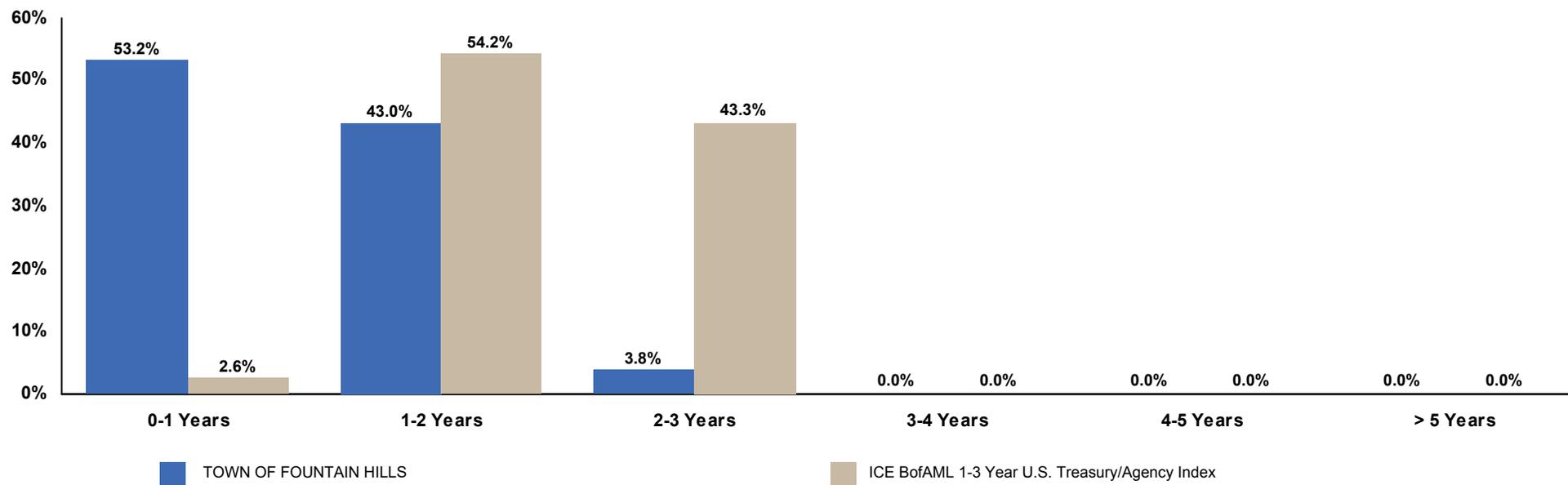


Detail may not add to total due to rounding.

Maturity Distribution

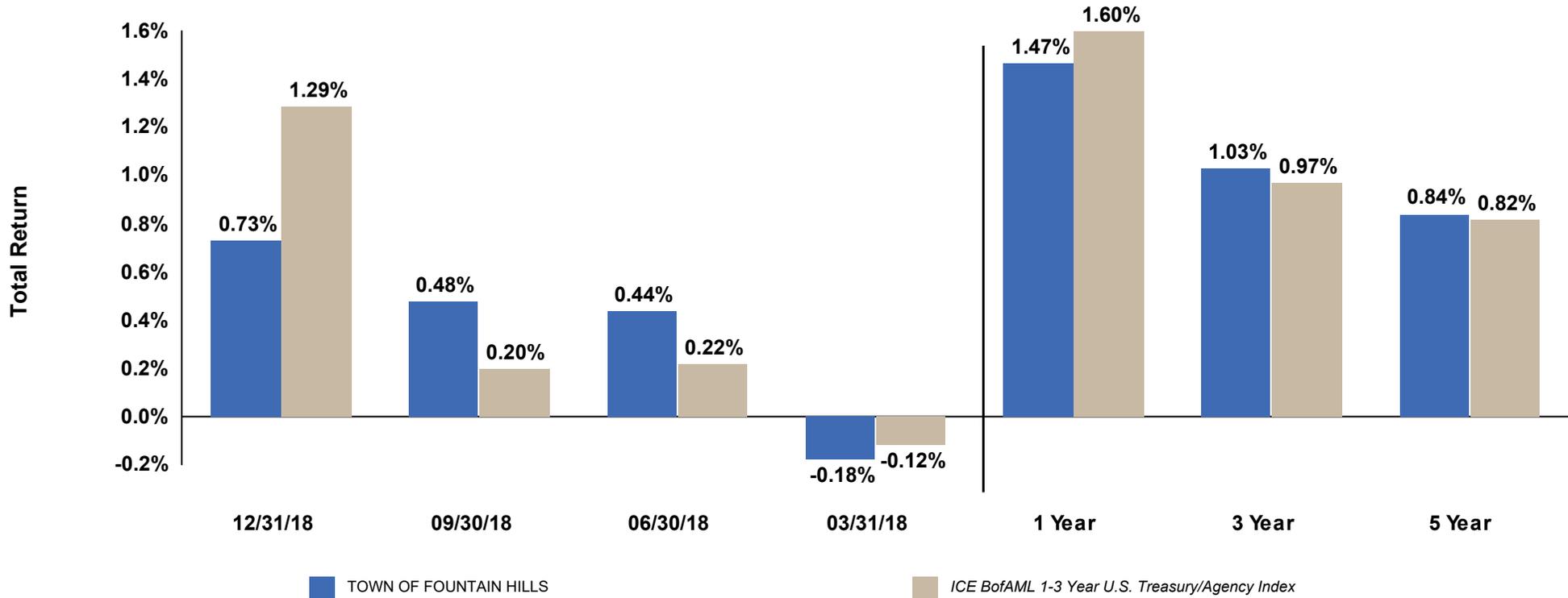
As of December 31, 2018

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	2.68%	0.91 yrs	53.2%	43.0%	3.8%	0.0%	0.0%	0.0%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index	2.53%	1.94 yrs	2.6%	54.2%	43.3%	0.0%	0.0%	0.0%



Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended				Annualized Return		
		12/31/18	09/30/18	06/30/18	03/31/18	1 Year	3 Year	5 Year
TOWN OF FOUNTAIN HILLS	0.87	0.73%	0.48%	0.44%	-0.18%	1.47%	1.03%	0.84%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index	1.80	1.29%	0.20%	0.22%	-0.12%	1.60%	0.97%	0.82%
Difference		-0.56%	0.28%	0.22%	-0.06%	-0.13%	0.06%	0.02%



Portfolio performance is gross of fees unless otherwise indicated.

Portfolio Earnings*Quarter-Ended December 31, 2018*

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (09/30/2018)	\$10,999,746.00	\$11,144,087.54
Net Purchases/Sales	\$543,299.45	\$543,299.45
Change in Value	\$44,968.44	\$8,955.02
Ending Value (12/31/2018)	\$11,588,013.89	\$11,696,342.01
Interest Earned	\$39,074.75	\$39,074.75
Portfolio Earnings	\$84,043.19	\$48,029.77

Sector/Issuer Distribution

As of December 31, 2018

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Certificate of Deposit			
MITSUBISHI UFJ FINANCIAL GROUP INC	148,953	17.3%	1.3%
SKANDINAVISKA ENSKILDA BANKEN AB	298,324	34.7%	2.6%
SWEDBANK AB	147,156	17.1%	1.3%
WESTPAC BANKING CORP	266,338	30.9%	2.3%
Sector Total	860,771	100.0%	7.4%
Commercial Paper			
BNP PARIBAS	446,353	37.4%	3.9%
CREDIT AGRICOLE SA	249,439	20.9%	2.2%
MITSUBISHI UFJ FINANCIAL GROUP INC	249,452	20.9%	2.2%
TOYOTA MOTOR CORP	249,472	20.9%	2.2%
Sector Total	1,194,716	100.0%	10.3%
Corporate			
AMERICAN EXPRESS CO	147,293	7.0%	1.3%
AMERICAN HONDA FINANCE	148,307	7.0%	1.3%
APPLE INC	148,024	7.0%	1.3%
BANK OF AMERICA CO	147,072	7.0%	1.3%
BB&T CORPORATION	146,843	7.0%	1.3%
CATERPILLAR INC	112,760	5.3%	1.0%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
EXXON MOBIL CORP	148,652	7.0%	1.3%
GENERAL ELECTRIC CO	69,900	3.3%	0.6%
GOLDMAN SACHS GROUP INC	148,705	7.0%	1.3%
HONEYWELL INTERNATIONAL	39,608	1.9%	0.3%
IBM CORP	147,037	7.0%	1.3%
INTEL CORPORATION	74,081	3.5%	0.6%
JOHNSON & JOHNSON	34,487	1.6%	0.3%
JP MORGAN CHASE & CO	143,556	6.8%	1.2%
PACCAR FINANCIAL CORP	39,354	1.9%	0.3%
PEPSICO INC	49,004	2.3%	0.4%
TOYOTA MOTOR CORP	148,263	7.0%	1.3%
UNITED PARCEL SERVICE INC	98,253	4.7%	0.8%
VISA INC	49,457	2.3%	0.4%
WAL-MART STORES INC	69,509	3.3%	0.6%
Sector Total	2,110,165	100.0%	18.2%
Federal Agency/GSE			
FANNIE MAE	791,656	22.0%	6.8%
FEDERAL HOME LOAN BANKS	844,161	23.5%	7.3%
FREDDIE MAC	1,955,742	54.5%	16.9%
Sector Total	3,591,559	100.0%	31.0%
Supra-Sov / Supra-Natl Agency			
AFRICAN DEVELOPMENT BANK	74,169	12.5%	0.6%
INTER-AMERICAN DEVELOPMENT BANK	148,600	25.1%	1.3%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
INTL BANK OF RECONSTRUCTION AND DEV	369,102	62.4%	3.2%
Sector Total	591,871	100.0%	5.1%
U.S. Treasury			
UNITED STATES TREASURY	3,238,933	100.0%	28.0%
Sector Total	3,238,933	100.0%	28.0%
Portfolio Total	11,588,014	100.0%	100.0%

Quarterly Portfolio Transactions

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
BUY									
10/1/18	10/1/18	250,000	62479MNX7	MUFG BANK LTD/NY COMM PAPER	0.00%	1/31/19	247,941.25	2.45%	
10/1/18	10/1/18	250,000	89233HNX8	TOYOTA MOTOR CREDIT CORP COMM PAPER	0.00%	1/31/19	247,975.14	2.41%	
10/12/18	10/12/18	250,000	22533UP15	CREDIT AGRICOLE CIB NY COMM PAPER	0.00%	2/1/19	248,055.56	2.52%	
10/19/18	10/19/18	450,000	09659CRH3	BNP PARIBAS NY BRANCH COMM PAPER	0.00%	4/17/19	443,925.00	2.74%	
11/30/18	11/30/18	300,000	912828W30	US TREASURY N/B	1.12%	2/28/19	299,910.91	2.38%	
12/27/18	12/31/18	660,000	912828SX9	US TREASURY NOTES	1.12%	5/31/19	656,919.85	2.49%	
Total BUY		2,160,000					2,144,727.71		
INTEREST									
10/1/18	10/1/18	0	MONEY0002	MONEY MARKET FUND			93.86		
10/1/18	10/1/18	100,000	911312BP0	UNITED PARCEL SERVICE CORPORATE BOND	2.05%	4/1/21	1,025.00		
10/1/18	10/1/18	150,000	06051GGS2	BANK OF AMERICA CORP (CALLABLE)	2.32%	10/1/21	1,746.00		
10/9/18	10/9/18	70,000	931142DY6	WAL-MART STORES INC CORP NOTE	1.75%	10/9/19	612.50		
10/15/18	10/15/18	400,000	3137EADZ9	FREDDIE MAC NOTES	1.12%	4/15/19	2,250.00		
10/15/18	10/15/18	50,000	713448DX3	PEPSICO INC CORP (CALLABLE) NOTE	2.00%	4/15/21	500.00		
10/19/18	10/19/18	450,000	3135G0E58	FNMA BENCHMARK NOTE	1.12%	10/19/18	2,531.25		
10/20/18	10/20/18	325,000	3137EAEF2	FHLMC AGENCY NOTES	1.37%	4/20/20	2,234.38		
10/23/18	10/23/18	95,000	38148LAA4	GOLDMAN SACHS GROUP INC CORP NOTES	2.60%	4/23/20	1,235.00		
10/30/18	10/30/18	150,000	025816BP3	AMERICAN EXPRESS CO CORP (CALLABLE) NOTE	2.20%	10/30/20	1,650.00		
10/30/18	10/30/18	40,000	438516BQ8	HONEYWELL INTERNATIONAL CORP NOTES	1.80%	10/30/19	360.00		
10/31/18	10/31/18	120,000	912828L99	US TREASURY NOTES	1.37%	10/31/20	825.00		
10/31/18	10/31/18	365,000	912828D23	US TREASURY NOTES	1.62%	4/30/19	2,965.63		
11/1/18	11/1/18	0	MONEY0002	MONEY MARKET FUND			61.84		
11/9/18	11/9/18	150,000	4581X0CD8	INTER-AMERICAN DEVELOPMENT BANK	2.12%	11/9/20	1,593.75		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
11/10/18	11/10/18	35,000	478160CH5	JOHNSON & JOHNSON CORP NOTE	1.95%	11/10/20	341.25		
11/11/18	11/11/18	75,000	458140AZ3	INTEL CORP NOTES	1.85%	5/11/20	693.75		
11/13/18	11/13/18	150,000	037833DJ6	APPLE INC	2.00%	11/13/20	1,500.00		
11/13/18	11/13/18	85,000	02665WBZ3	AMERICAN HONDA FINANCE	2.00%	11/13/19	850.00		
11/13/18	11/13/18	40,000	69371RN85	PACCAR FINANCIAL CORP NOTES	2.05%	11/13/20	410.00		
11/15/18	11/15/18	150,000	459200HM6	IBM CREDIT CORPORATE NOTE	1.62%	5/15/20	1,218.75		
11/16/18	11/16/18	150,000	87019U6D6	SWEDBANK (NEW YORK) CERT DEPOS	2.27%	11/16/20	1,740.33		
11/27/18	11/27/18	150,000	459058FS7	INTL BANK OF RECON AND DEV GLOBAL NOTES	1.12%	11/27/19	844.50		
12/3/18	12/3/18	0	MONEY0002	MONEY MARKET FUND			87.36		
12/14/18	12/14/18	50,000	92826CAB8	VISA INC (CALLABLE) CORP NOTES	2.20%	12/14/20	550.00		
12/21/18	12/21/18	250,000	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	1,406.25		
12/21/18	12/21/18	600,000	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	3,375.00		
12/31/18	12/31/18	375,000	912828A75	US TREASURY NOTES	1.50%	12/31/18	2,812.50		
12/31/18	12/31/18	275,000	912828U99	US TREASURY N/B	1.25%	12/31/18	1,718.75		
Total INTEREST		4,850,000					37,232.65		
MATURITY									
10/19/18	10/19/18	450,000	3135G0E58	FNMA BENCHMARK NOTE	1.12%	10/19/18	450,000.00		0.00
11/30/18	11/30/18	250,000	63873KLW5	NATIXIS NY BRANCH COMM PAPER	0.00%	11/30/18	250,000.00		0.00
12/31/18	12/31/18	375,000	912828A75	US TREASURY NOTES	1.50%	12/31/18	375,000.00		0.00
12/31/18	12/31/18	275,000	912828U99	US TREASURY N/B	1.25%	12/31/18	275,000.00		0.00
Total MATURITY		1,350,000					1,350,000.00		0.00
SELL									
10/12/18	10/12/18	250,000	3135G0E58	FNMA BENCHMARK NOTE	1.12%	10/19/18	251,299.06	2.19%	(49.94)

TOWN OF FOUNTAIN HILLS

Portfolio Activity

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
Total SELL		250,000					251,299.06		-49.94

Managed Account Detail of Securities Held

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 N/B DTD 02/28/2017 1.125% 02/28/2019	912828W30	300,000.00	AA+	Aaa	11/30/2018	11/30/2018	299,062.50	2.38	1,146.75	299,395.83	299,395.50
US TREASURY NOTES DTD 04/30/2014 1.625% 04/30/2019	912828D23	365,000.00	AA+	Aaa	11/10/2016	11/14/2016	369,990.24	1.06	1,015.85	365,673.49	363,973.62
US TREASURY NOTES DTD 05/31/2012 1.125% 05/31/2019	912828SX9	660,000.00	AA+	Aaa	12/27/2018	12/31/2018	656,287.50	2.49	652.75	656,312.09	656,287.50
US TREASURY NOTES DTD 02/02/2015 1.250% 01/31/2020	912828H52	850,000.00	AA+	Aaa	1/3/2017	1/5/2017	843,226.56	1.52	4,446.33	847,579.83	837,714.95
US TREASURY NOTES DTD 03/02/2015 1.375% 02/29/2020	912828J50	350,000.00	AA+	Aaa	2/1/2017	2/3/2017	347,880.86	1.58	1,635.19	349,187.57	345,105.60
US TREASURY NOTES DTD 04/01/2013 1.125% 03/31/2020	912828UV0	525,000.00	AA+	Aaa	3/15/2017	3/17/2017	515,956.05	1.71	1,509.01	521,241.07	515,873.93
US TREASURY NOTES DTD 08/31/2015 1.375% 08/31/2020	912828L32	105,000.00	AA+	Aaa	8/31/2017	9/1/2017	104,799.02	1.44	490.56	104,887.64	103,018.97
US TREASURY NOTES DTD 10/31/2015 1.375% 10/31/2020	912828L99	120,000.00	AA+	Aaa	10/3/2017	10/5/2017	119,034.38	1.64	282.60	119,419.47	117,562.56
Security Type Sub-Total		3,275,000.00					3,256,237.11	1.78	11,179.04	3,263,696.99	3,238,932.63
Supra-National Agency Bond / Note											
AFRICAN DEVELOPMENT BANK NOTE DTD 09/20/2016 1.125% 09/20/2019	00828EBQ1	75,000.00	AAA	Aaa	8/30/2017	8/31/2017	74,426.25	1.50	236.72	74,797.09	74,169.30
INTL BANK OF RECON AND DEV GLOBAL NOTES DTD 10/27/2016 1.125% 11/27/2019	459058FS7	150,000.00	AAA	Aaa	8/28/2017	8/30/2017	148,720.50	1.51	159.38	149,478.41	148,045.80
INTL BANK OF RECON AND DEV GLOBAL NOTES DTD 08/29/2017 1.625% 09/04/2020	459058GA5	75,000.00	AAA	Aaa	8/22/2017	8/29/2017	74,984.25	1.63	396.09	74,991.12	73,804.35
INTL BANK OF RECONSTRUCTION AND DEV NOTE DTD 09/19/2017 1.561% 09/12/2020	45905UP32	150,000.00	AAA	Aaa	9/12/2017	9/19/2017	149,640.00	1.64	708.95	149,792.81	147,251.40

Managed Account Detail of Securities Held

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
Supra-National Agency Bond / Note											
INTER-AMERICAN DEVELOPMENT BANK DTD 11/08/2013 2.125% 11/09/2020	4581X0CD8	150,000.00	AAA	Aaa	10/2/2017	10/10/2017	151,390.37	1.81	460.42	150,847.11	148,600.05
Security Type Sub-Total		600,000.00					599,161.37	1.64	1,961.56	599,906.54	591,870.90
Federal Agency Bond / Note											
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	400,000.00	AA+	Aaa	3/30/2016	3/31/2016	400,952.00	1.05	950.00	400,091.67	398,508.80
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	600,000.00	AA+	Aaa	6/27/2016	6/29/2016	605,438.09	0.82	187.50	600,871.16	595,878.00
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	250,000.00	AA+	Aaa	7/6/2016	7/8/2016	252,600.00	0.77	78.13	250,419.76	248,282.50
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	150,000.00	AA+	Aaa	9/1/2016	9/2/2016	149,278.50	1.04	590.63	149,860.65	148,569.15
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	550,000.00	AA+	Aaa	7/19/2016	7/20/2016	548,669.00	0.96	2,165.63	549,752.94	544,753.55
FNMA BENCHMARK NOTE DTD 08/02/2016 0.875% 08/02/2019	3135G0N33	325,000.00	AA+	Aaa	7/29/2016	8/2/2016	324,454.00	0.93	1,177.00	324,892.16	321,717.83
FNMA NOTES DTD 09/02/2016 1.000% 08/28/2019	3135G0P49	475,000.00	AA+	Aaa	8/31/2016	9/2/2016	474,259.00	1.05	1,622.92	474,834.82	469,938.40
FREDDIE MAC NOTES DTD 01/17/2017 1.500% 01/17/2020	3137EAEE5	550,000.00	AA+	Aaa	4/3/2017	4/5/2017	549,758.00	1.52	3,758.33	549,909.46	543,830.65
FHLMC AGENCY NOTES DTD 04/20/2017 1.375% 04/20/2020	3137EAEF2	325,000.00	AA+	Aaa	4/19/2017	4/20/2017	323,888.50	1.49	881.34	324,511.39	320,080.15
Security Type Sub-Total		3,625,000.00					3,629,297.09	1.08	11,411.48	3,625,144.01	3,591,559.03
Corporate Note											

Managed Account Detail of Securities Held

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
Corporate Note											
GOLDMAN SACHS GROUP INC CORP NOTE DTD 07/24/2017 1.950% 07/23/2019	38141GWP5	55,000.00	BBB+	A3	7/19/2017	7/24/2017	54,993.40	1.96	470.71	54,998.12	54,633.92
WAL-MART STORES INC CORP NOTE DTD 10/20/2017 1.750% 10/09/2019	931142DY6	70,000.00	AA	Aa2	10/11/2017	10/20/2017	69,998.60	1.75	279.03	69,999.39	69,508.53
HONEYWELL INTERNATIONAL CORP NOTES DTD 10/30/2017 1.800% 10/30/2019	438516BQ8	40,000.00	A	A2	10/23/2017	10/30/2017	39,968.80	1.84	122.00	39,986.91	39,608.04
AMERICAN HONDA FINANCE DTD 11/16/2017 2.000% 11/13/2019	02665WBZ3	85,000.00	A+	A2	11/13/2017	11/16/2017	84,952.40	2.03	226.67	84,979.03	84,334.45
JPMORGAN CHASE & CO (CALLABLE) DTD 01/23/2015 2.250% 01/23/2020	46625HKA7	145,000.00	A-	A2	7/7/2017	7/12/2017	145,394.40	2.14	1,431.88	145,160.92	143,555.80
EXXON MOBIL (CALLABLE) CORP NOTE DTD 03/06/2015 1.912% 03/06/2020	30231GAG7	150,000.00	AA+	Aaa	7/5/2017	7/10/2017	150,292.50	1.84	916.17	150,127.52	148,651.50
TOYOTA MOTOR CORP NOTES DTD 03/12/2015 2.150% 03/12/2020	89236TCF0	150,000.00	AA-	Aa3	8/24/2017	8/25/2017	151,377.00	1.78	976.46	150,654.95	148,262.70
GOLDMAN SACHS GROUP INC CORP NOTES DTD 01/23/2015 2.600% 04/23/2020	38148LAA4	95,000.00	BBB+	A3	11/1/2017	11/3/2017	95,716.30	2.28	466.56	95,384.89	94,070.81
INTEL CORP NOTES DTD 05/11/2017 1.850% 05/11/2020	458140AZ3	75,000.00	A+	A1	7/7/2017	7/12/2017	74,960.25	1.87	192.71	74,980.98	74,080.95
IBM CREDIT CORPORATE NOTE DTD 05/07/2013 1.625% 05/15/2020	459200HM6	150,000.00	A	A1	7/7/2017	7/12/2017	148,735.50	1.93	311.46	149,381.58	147,037.20
AMERICAN HONDA FINANCE CORP NOTES DTD 07/20/2017 1.950% 07/20/2020	02665WBT7	65,000.00	A+	A2	7/17/2017	7/20/2017	64,934.35	1.98	566.85	64,965.54	63,972.55
CATERPILLAR FINL SERVICE NOTE DTD 09/07/2017 1.850% 09/04/2020	14913Q2A6	115,000.00	A	A3	9/5/2017	9/7/2017	114,903.40	1.88	691.44	114,945.22	112,760.38
GENERAL ELECTRIC CAPITAL CORP CORP NOTE DTD 09/16/2010 4.375% 09/16/2020	36962G4R2	70,000.00	BBB+	Baa1	8/30/2017	8/31/2017	75,236.00	1.84	893.23	72,975.89	69,900.32

Managed Account Detail of Securities Held

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
Corporate Note											
AMERICAN EXPRESS CO CORP (CALLABLE) NOTE DTD 10/30/2017 2.200% 10/30/2020	025816BP3	150,000.00	BBB+	A3	10/23/2017	10/30/2017	149,805.00	2.25	559.17	149,879.51	147,292.95
JOHNSON & JOHNSON CORP NOTE DTD 11/10/2017 1.950% 11/10/2020	478160CH5	35,000.00	AAA	Aaa	11/8/2017	11/10/2017	34,962.55	1.99	96.69	34,976.55	34,487.29
PACCAR FINANCIAL CORP NOTES DTD 11/13/2017 2.050% 11/13/2020	69371RN85	40,000.00	A+	A1	11/6/2017	11/13/2017	39,996.40	2.05	109.33	39,997.73	39,354.32
APPLE INC DTD 11/13/2017 2.000% 11/13/2020	037833DJ6	150,000.00	AA+	Aa1	11/6/2017	11/13/2017	149,874.00	2.03	400.00	149,920.73	148,024.05
VISA INC (CALLABLE) CORP NOTES DTD 12/14/2015 2.200% 12/14/2020	92826CAB8	50,000.00	AA-	A1	8/25/2017	8/30/2017	50,546.00	1.86	51.94	50,322.80	49,456.85
BRANCH BANKING & TRUST (CALLABLE) NOTES DTD 10/26/2017 2.150% 02/01/2021	05531FAZ6	70,000.00	A-	A2	11/16/2017	11/20/2017	69,636.00	2.32	627.08	69,759.44	68,526.92
BRANCH BANKING & TRUST (CALLABLE) NOTES DTD 10/26/2017 2.150% 02/01/2021	05531FAZ6	80,000.00	A-	A2	10/23/2017	10/26/2017	79,963.20	2.17	716.67	79,975.48	78,316.48
UNITED PARCEL SERVICE CORPORATE BOND DTD 11/14/2017 2.050% 04/01/2021	911312BP0	100,000.00	A+	A1	11/9/2017	11/14/2017	99,842.00	2.10	512.50	99,892.98	98,252.60
PEPSICO INC CORP (CALLABLE) NOTE DTD 10/10/2017 2.000% 04/15/2021	713448DX3	50,000.00	A+	A1	10/5/2017	10/10/2017	49,990.00	2.01	211.11	49,993.36	49,004.05
BANK OF AMERICA CORP (CALLABLE) DTD 09/18/2017 2.328% 10/01/2021	06051GGS2	150,000.00	A-	A3	11/27/2017	11/29/2017	149,293.50	2.46	873.00	149,489.04	147,072.15
Security Type Sub-Total		2,140,000.00					2,145,371.55	2.03	11,702.66	2,142,748.56	2,110,164.81

Commercial Paper

Managed Account Detail of Securities Held

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
Commercial Paper											
TOYOTA MOTOR CREDIT CORP COMM PAPER DTD 10/01/2018 0.000% 01/31/2019	89233HNX8	250,000.00	A-1+	P-1	10/1/2018	10/1/2018	247,975.14	2.41	0.00	249,502.08	249,471.75
MUFG BANK LTD/NY COMM PAPER DTD 08/07/2018 0.000% 01/31/2019	62479MNX7	250,000.00	A-1	P-1	10/1/2018	10/1/2018	247,941.25	2.45	0.00	249,493.75	249,452.25
CREDIT AGRICOLE CIB NY COMM PAPER DTD 05/07/2018 0.000% 02/01/2019	22533UP15	250,000.00	A-1	P-1	10/12/2018	10/12/2018	248,055.56	2.52	0.00	249,461.81	249,439.00
BNP PARIBAS NY BRANCH COMM PAPER DTD 10/19/2018 0.000% 04/17/2019	09659CRH3	450,000.00	A-1	P-1	10/19/2018	10/19/2018	443,925.00	2.74	0.00	446,422.50	446,352.75
Security Type Sub-Total		1,200,000.00					1,187,896.95	2.56	0.00	1,194,880.14	1,194,715.75
Certificate of Deposit											
SKANDINAV ENSKILDA BANKEN NY CD DTD 08/04/2017 1.840% 08/02/2019	83050FXT3	300,000.00	A-1	P-1	8/3/2017	8/4/2017	299,883.00	1.85	2,330.67	299,965.77	298,323.90
MUFG BANK LTD/NY CERT DEPOS DTD 09/27/2017 2.070% 09/25/2019	06539RGM3	150,000.00	A-1	P-1	9/25/2017	9/27/2017	150,000.00	2.07	845.25	150,000.00	148,953.45
WESTPAC BANKING CORP NY CD DTD 08/07/2017 2.050% 08/03/2020	96121T4A3	270,000.00	AA-	Aa3	8/3/2017	8/7/2017	270,000.00	2.05	2,214.00	270,000.00	266,337.72
SWEDBANK (NEW YORK) CERT DEPOS DTD 11/17/2017 2.270% 11/16/2020	87019U6D6	150,000.00	AA-	Aa2	11/16/2017	11/17/2017	150,000.00	2.30	435.08	150,000.00	147,155.70
Security Type Sub-Total		870,000.00					869,883.00	2.03	5,825.00	869,965.77	860,770.77
Managed Account Sub Total		11,710,000.00					11,687,847.07	1.70	42,079.74	11,696,342.01	11,588,013.89

TOWN OF FOUNTAIN HILLS

Portfolio Holdings

Securities Sub-Total	\$11,710,000.00	\$11,687,847.07	1.70%	\$42,079.74	\$11,696,342.01	\$11,588,013.89
Accrued Interest						\$42,079.74
Total Investments						\$11,630,093.63

Bolded items are forward settling trades.

IMPORTANT DISCLOSURES

This material is based on information obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some, but not all of which, are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

- Market values that 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 the 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 of 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 and 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 (i.e., coupon payments and maturity proceeds) occurs on a non-business day, 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.