



TOWN OF FOUNTAIN HILLS

Investment Performance Review For the Quarter Ended December 31, 2019

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QUARTERLY MARKET SUMMARY

SUMMARY

- In Q4, U.S. economic conditions were characterized by: (1) moderate economic growth; (2) robust job growth and elevated consumer confidence; (3) strong housing market but mixed manufacturing activity; (4) growing risks to the economic outlook, including re-escalation of trade conflicts, fallout from impeachment proceedings and the 2020 U.S. presidential election, and deteriorating business confidence and investment, and; (5) geopolitical risks taking center stage.
- After delivering two rate cuts in Q3, the Fed cut the overnight fed funds target rate again in October to the new range of 1.50% to 1.75%. The dynamics supporting the rate cuts were similar to those cited for the first two, including weakness in global growth, ongoing trade uncertainty and muted inflation. The Fed is expected to hold their target range steady over the near term absent a “material reassessment of their outlook.”
- Bond yields ended the year down markedly across the curve, boosting fixed income returns. In Q4 the yield curve steepened modestly, which was generally attributed to an improved economic outlook and a decline in uncertainties plaguing investors. U.S. equity markets continued to rally to new record highs. The S&P 500 Index returned 9.1% for Q4 and 31.5% for the year.

ECONOMIC SNAPSHOT

- The U.S. economy grew a moderate 2.1% in Q3. The reading highlighted continued reliance on the American consumer as consumer spending, which was 2%, accounted for nearly all of the growth. Government spending and residential housing were also positive contributors, while business investment was a detractor, marking the first back-to-back contraction in business investment of more than 1% since 2009.
- The U.S. labor market continued to grow at a solid pace in the final quarter of the year. The U.S. economy added an average of 180,000 jobs in Q4, bringing the 2019 monthly average to 177,000 which fell short of the 223,000 average of monthly gains in 2018. The unemployment rate held steady at a 50-year low of 3.5% to round out the year.
- Inflation remains muted, showing no indication of substantial upward price pressure heading into Q1. Year-over-year growth in the core Consumer Price Index reached 2.3% in December, while the Fed’s preferred inflation gauge, the core Personal Consumption Expenditure price index, dropped to 1.5% on a yearly basis in November, which is well below the Fed’s 2% target. Price pressures on services were stable in Q4, while price pressures on goods drifted lower amid a de-escalation of trade tensions.
- U.S. manufacturing activity was mixed in the fourth quarter. The ISM manufacturing PMI survey remained in contractionary territory during the quarter and fell to its lowest level since 2009 in December. A similar measure of manufacturing activity by Markit diverged, recovering from the slowdown in Q3 and remaining in expansionary territory in Q4. Each index tells a slightly different story as the result of a difference in methodology, as ISM data surveys large multinational companies, leaving it more exposed to U.S. and China trade tensions that have weighed on confidence and business decisions.
- Housing fundamentals remained strong in Q4. New home sales made solid gains in November, marking the best three months of growth since 2007, a sign of housing market momentum amid low interest rates and steady economic growth.

INTEREST RATES

- After falling for four consecutive quarters, the U.S. Treasury yield curve twisted around the 3-year inflection point in Q4. Shorter-term rates declined up to 0.40% and longer-term rates rose as much as 0.30%. This steepening effect is evidenced by the spread between the 3-month and 10-year Treasuries, which began the quarter at -14 bps and finished the quarter at +11 bps.
- At quarter-end, the yield on a 3-month Treasury bill stood at 1.55%, the 2-year note was 1.57%, the 5-year note was 1.69%, the 10-year note was 1.92%, and the 30-year Treasury ended the year at 2.39%.
- Shorter-duration portfolios benefited from the decline in yields in the short-end of the curve, while longer-duration portfolios were negatively impacted by the rise in long-term rates. The 3-month Treasury bill index generated 0.46% of total return for the quarter, while 10-year and 30-year Treasuries returned -1.77% and -4.93%, respectively.
- With the expectations for the Fed now on hold, ultra-short rates stabilized and settled into an equilibrium by year end. Investors found incremental value in short-term credit opportunities in Q4 as yield spreads on commercial paper and bank CDs widened to attractive levels, helping to offset a portion of recent declines in money market yields.

SECTOR PERFORMANCE

- Broad portfolio diversification was additive to portfolio performance in Q4. Lower quality corporates and mortgage-backed securities (MBS) led the pack and drove positive performance as spreads generally tightened across the board.
- Federal agency and supranational returns were muted as spread levels remained near historic tights and scarce supply largely limited value, capping both sectors’ excess returns. The slight incremental income relative to Treasuries helped buoy relative performance as each sector generally traded in a tight range.
- Corporate bonds performed top-of-class again as yield spreads broke prior 2019 lows and challenged post-recession tights. As a result, investment-grade corporates generated attractive excess returns for Q4 with longer duration and lower quality issuers once again outperforming their shorter- and higher-quality counterparts.
- Asset-backed securities were one of the few investment grade fixed income sectors that detracted from portfolio performance as excess returns in the sector were generally negative in Q4. The adverse impact of spreads rebounding off of prior multi-year lows weighed on the sector. Despite slightly negative excess returns, incremental income in the sector offset a majority of the negative impact of spreads drifting wider.
- Following a volatile Q3, MBS saw a retracement of volatility and spreads. As a result, most coupon and collateral structures generated strong absolute and relative performance. After leading the pack for most of 2019, performance of agency-backed commercial MBS lagged its peers in Q4.
- In the municipal sector, taxable issuance volume remained elevated but so too did investor appetite. As a result, the sector generated positive excess returns which helped buoy portfolio performance, especially for government-focused strategies.

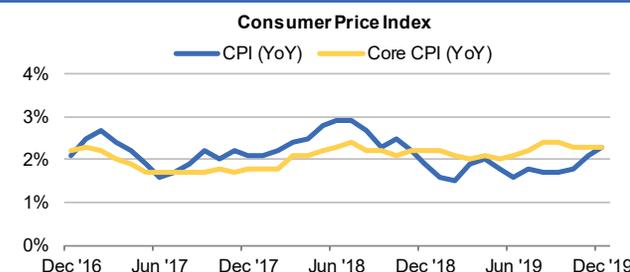
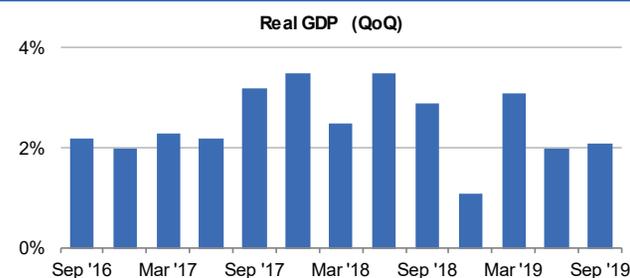
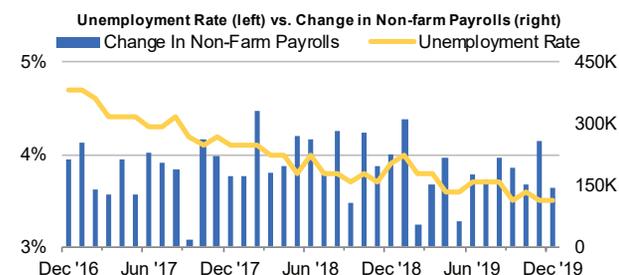
QUARTERLY MARKET SUMMARY

Economic Snapshot

Labor Market		Latest	Sep '19	Dec '18
Unemployment Rate	Dec '19	3.5%	3.5%	3.9%
Change In Non-Farm Payrolls	Dec '19	145,000	193,000	227,000
Average Hourly Earnings (YoY)	Dec '19	2.9%	3.0%	3.3%
Personal Income (YoY)	Nov '19	4.9%	4.6%	5.0%
Initial Jobless Claims (week)	1/11/20	204,000	220,000	231,000

Growth				
Real GDP (QoQ SAAR)	2019Q3	2.1%	2.0% ¹	2.9% ²
GDP Personal Consumption (QoQ SAAR)	2019Q3	3.2%	4.6% ¹	3.5% ²
Retail Sales (YoY)	Dec '19	5.8%	4.0%	1.5%
ISM Manufacturing Survey (month)	Dec '19	47.2	47.8	54.3
Existing Home Sales SAAR (month)	Dec '19	5.54 mil.	5.36 mil.	5.00 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	Nov '19	1.5%	1.3%	1.8%
Consumer Price Index (YoY)	Dec '19	2.3%	1.7%	1.9%
Consumer Price Index Core (YoY)	Dec '19	2.3%	2.4%	2.2%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$61.06	\$54.07	\$45.41
Gold Futures (oz.)	Dec 31	\$1,523	\$1,466	\$1,281



1. Data as of Second Quarter 2019.

2. Data as of Third Quarter 2018.

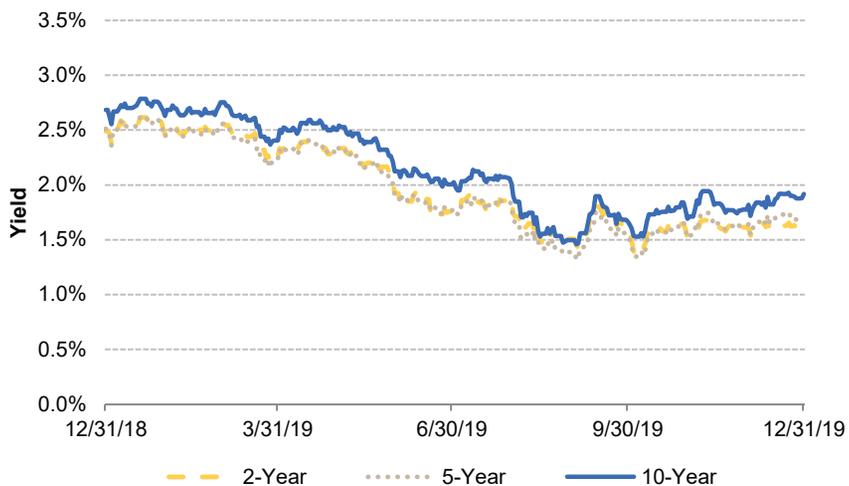
Note: YoY = year-over-year, QoQ = quarter-over-quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil.

Source: Bloomberg.

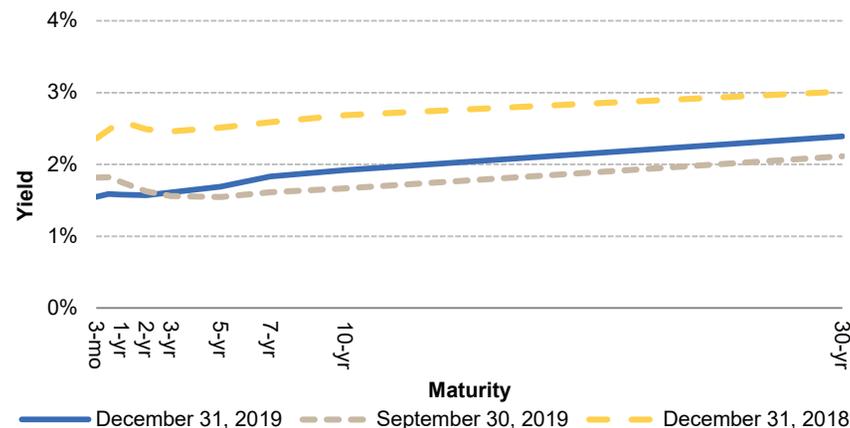
QUARTERLY MARKET SUMMARY

Interest Rate Overview

U.S. Treasury Note Yields



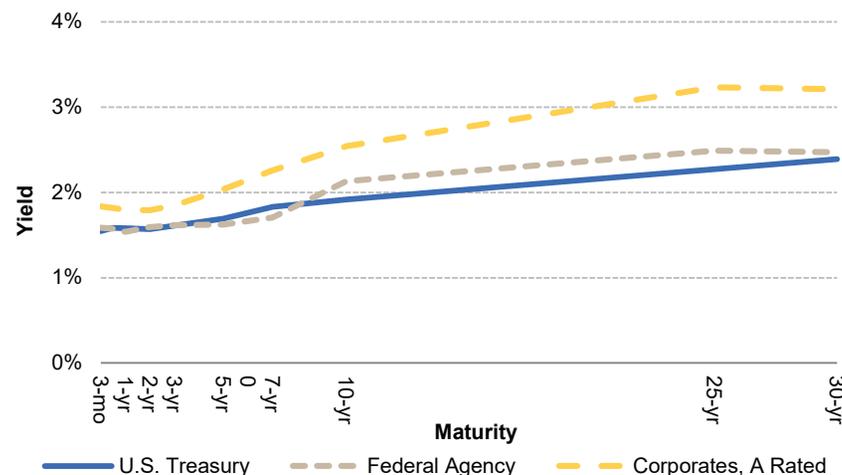
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	Dec '19	Sep '19	Change over Quarter	Dec '18	Change over Year
3-Month	1.55%	1.82%	(0.27%)	2.36%	(0.81%)
1-Year	1.58%	1.76%	(0.18%)	2.60%	(1.02%)
2-Year	1.57%	1.62%	(0.05%)	2.49%	(0.92%)
5-Year	1.69%	1.55%	0.14%	2.51%	(0.82%)
10-Year	1.92%	1.67%	0.25%	2.69%	(0.77%)
30-Year	2.39%	2.11%	0.28%	3.02%	(0.63%)

Yield Curves as of 12/31/19



Source: Bloomberg.

QUARTERLY MARKET SUMMARY

ICE BofAML Index Returns

December 31, 2019	As of 12/31/19		Returns for Periods ended 12/31/19		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.86	1.60%	0.51%	3.55%	1.84%
Federal Agency	1.57	1.62%	0.55%	3.48%	1.96%
U.S. Corporates, A-AAA rated	1.81	1.96%	0.79%	4.99%	2.75%
Agency MBS (0 to 3 years)	3.44	2.43%	0.77%	6.10%	3.05%
Taxable Municipals	1.60	1.89%	0.61%	4.66%	3.04%
1-5 Year Indices					
U.S. Treasury	2.60	1.62%	0.35%	4.20%	2.11%
Federal Agency	2.06	1.63%	0.47%	3.78%	2.11%
U.S. Corporates, A-AAA rated	2.59	2.06%	0.81%	6.33%	3.22%
Agency MBS (0 to 5 years)	2.15	2.40%	0.59%	5.83%	2.77%
Taxable Municipals	2.08	2.20%	0.59%	5.10%	3.13%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.70	1.82%	(0.89%)	6.99%	3.37%
Federal Agency	4.26	1.84%	(0.13%)	5.87%	3.11%
U.S. Corporates, A-AAA rated	7.75	2.60%	0.62%	12.58%	5.36%
Agency MBS (0 to 30 years)	3.53	2.55%	0.66%	6.51%	3.29%
Taxable Municipals	11.02	3.21%	(1.58%)	13.69%	7.38%

Returns for periods greater than one year are annualized.

Source: ICE BofAML Indices.

QUARTERLY MARKET SUMMARY

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Portfolio Recap

- ◆ Our strategy throughout the fourth quarter included the following elements:
 - Following three consecutive Fed rate cuts, we continued to maintain portfolio durations in line with benchmarks for the quarter as market expectations called for stable rates well into 2020.
 - We maintained broad diversification across all permitted fixed income sectors. Although most sector spread levels were on the tighter end of their recent trading history, the incremental income was generally additive to performance in a range-bound interest rate environment in the fourth quarter.
 - We continued to de-emphasize agencies and supranationals, generally reducing allocations in favor of other sectors. Value in federal agency and supranational issuers remained extremely limited, largely on scarce supply. Spreads remained near historically tight levels, capping both sectors' excess returns in the fourth quarter. In some instances, agencies were trading at yields less than similar-maturity Treasuries. We also largely avoided callable agencies during the quarter as early redemption risk remained elevated.
 - Corporate bonds performed top-of-class once again as yield spreads tightened to their lowest in 2019 and approached post-recession lows. As a result, investment-grade (IG) corporates generated attractive excess returns for the fourth quarter, with lower-quality issuers once again outperforming those of higher quality. Year-to-date excess returns from IG corporates were fantastic, generating 100 to 200 basis points (1% to 2%) of incremental return relative to similar duration Treasuries. Our corporate sector strategy during the fourth quarter included opportunistic selling, booking profits on the most expensive issues and modestly de-risking portfolios as spreads moved to very narrow levels.

Investment Strategy Outlook

- ◆ We expect the Fed to remain on hold for an extended period and rates to remain mostly range-bound in the near term. As a result, we plan to continue a duration-neutral strategy relative to benchmarks.
- ◆ Our outlook for the major investment-grade fixed income sectors is as follows:
 - Federal agency yield spreads remain very tight after trading in a close range for most of 2019. We do not expect this to change. We continue to favor further reductions in agency holdings as their benefit and upside are limited.
 - In the supranational sector, we are positioned to take advantage of any seasonal uptick in new issuance, if yield spreads represent fair value relative to other government sector alternatives. But we plan to remain on the sidelines until such opportunities are available.
 - In the IG corporate sector, we plan to continue to modestly reduce allocations and target a modestly higher average credit quality. Although the credit markets are benefiting from stable fundamentals, positive earnings growth, and strong demand, yield spreads have recently approached post-recession lows, making them less attractive.
 - In the money market space, a positively sloped yield curve and wide spreads have created opportunities for incremental earnings potential.

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. 9/30/19	Permitted by Policy	In Compliance
U.S. Treasury	\$7,441,223	81.7%	+41.4%	100%	✓
Federal Agency	\$0	0.0%	-9.6%	100%	✓
Supranationals	\$0	0.0%	-5.8%	30%	✓
Negotiable CDs	\$250,302	2.7%	-4.7%	30%	✓
Commercial Paper	\$0	0.0%	-3.9%	30%	✓
Corporate Notes	\$1,401,903	15.4%	-12.1%	30%	✓
Securities Sub-Total	\$9,093,428	99.8%			
Accrued Interest	\$46,430				
Securities Total	\$9,139,859	99.8%			
Money Market Fund	\$15,616	0.2%	-5.4%	100%	✓
Total Investments	\$9,155,475	100.0%			

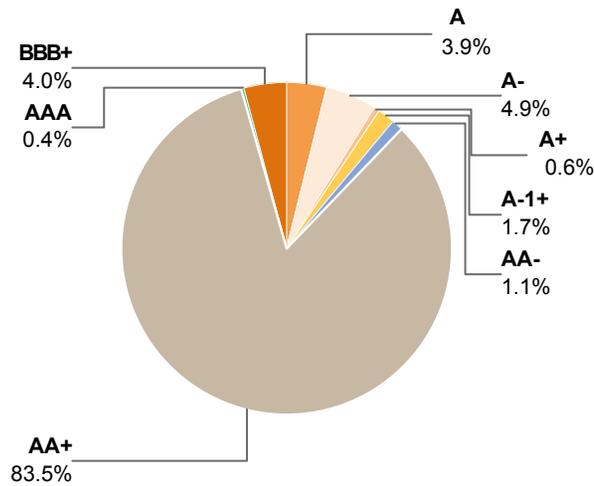
Market values, excluding accrued interest. Detail may not add to total due to rounding. Current investment policy as of April 2017.

Portfolio Statistics

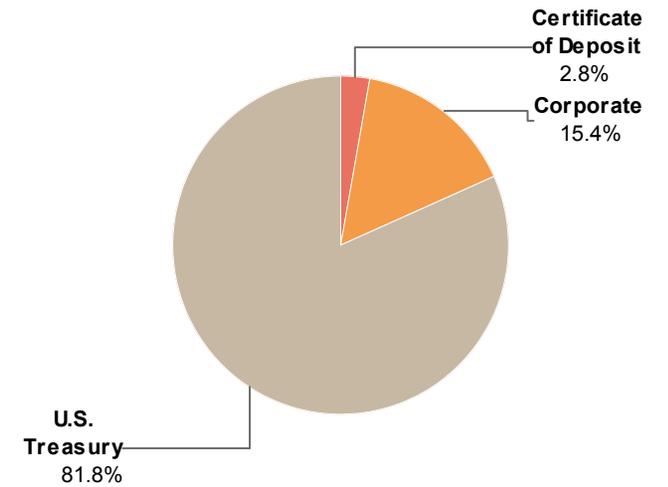
As of December 31, 2019

Par Value:	\$9,060,000
Total Market Value:	\$9,155,475
Security Market Value:	\$9,093,428
Accrued Interest:	\$46,430
Cash:	\$15,616
Amortized Cost:	\$9,086,646
Yield at Market:	1.66%
Yield at Cost:	1.71%
Effective Duration:	1.79 Years
Duration to Worst:	1.79 Years
Average Maturity:	1.86 Years
Average Credit: *	AA

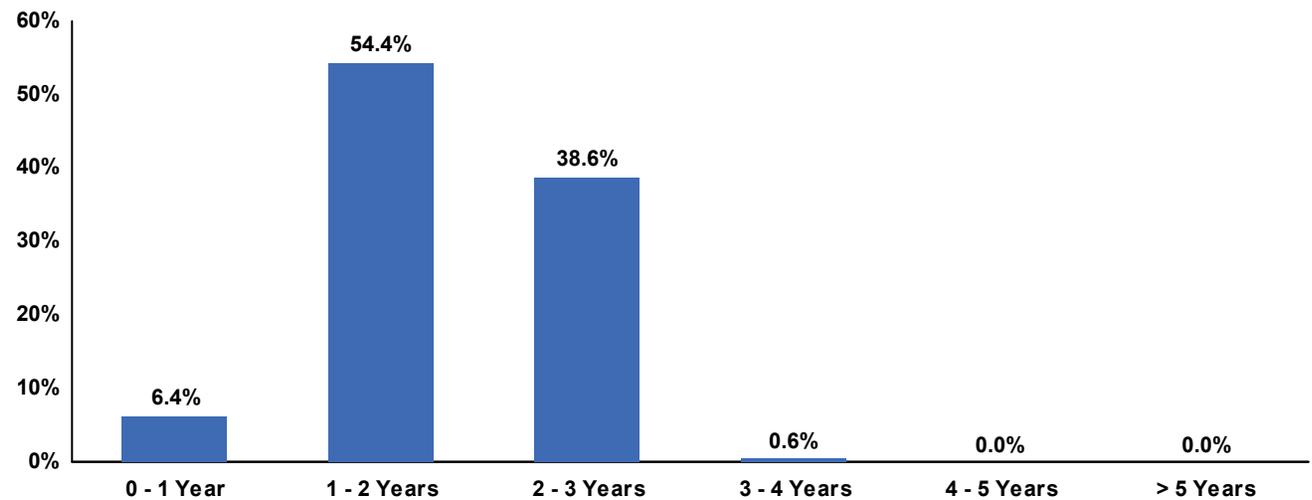
Credit Quality (S&P Ratings)**



Sector Allocation



Maturity Distribution

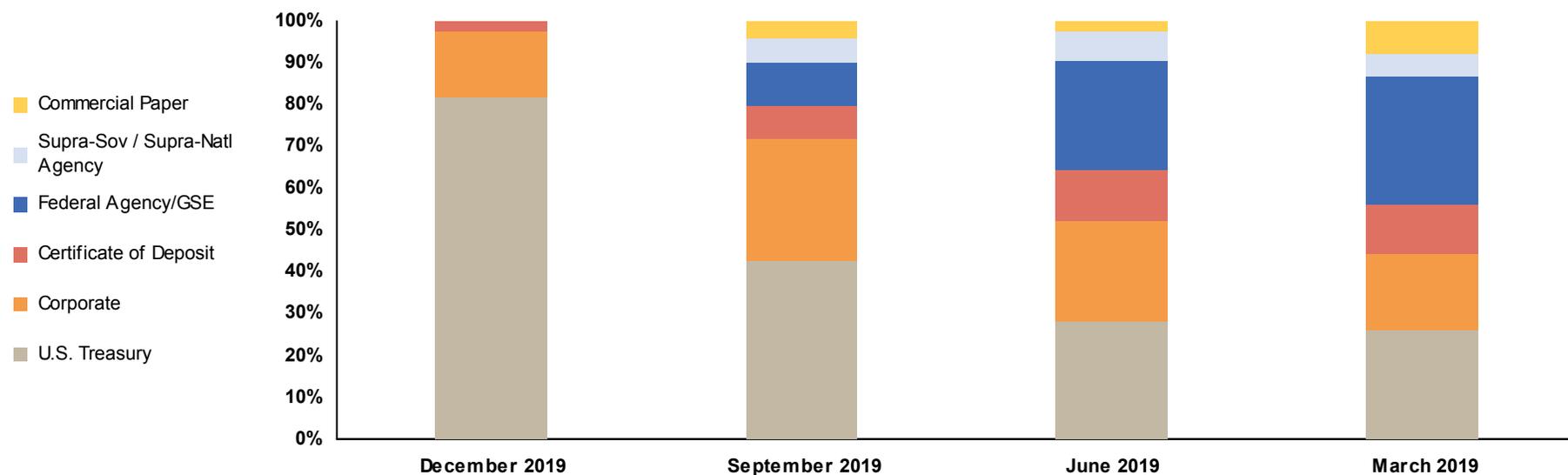


* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

**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, 2019		September 30, 2019		June 30, 2019		March 31, 2019	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
U.S. Treasury	7.4	81.8%	3.7	42.7%	2.5	28.2%	3.1	26.2%
Corporate	1.4	15.4%	2.5	29.1%	2.1	23.7%	2.1	18.2%
Certificate of Deposit	0.3	2.8%	0.7	7.8%	1.1	12.4%	1.4	11.7%
Commercial Paper	0.0	0.0%	0.3	4.1%	0.2	2.8%	0.9	8.1%
Federal Agency/GSE	0.0	0.0%	0.9	10.2%	2.4	26.3%	3.6	30.7%
Supra-Sov / Supra-Natl Agency	0.0	0.0%	0.5	6.1%	0.6	6.6%	0.6	5.1%
Total	\$9.1	100.0%	\$8.6	100.0%	\$9.0	100.0%	\$11.7	100.0%

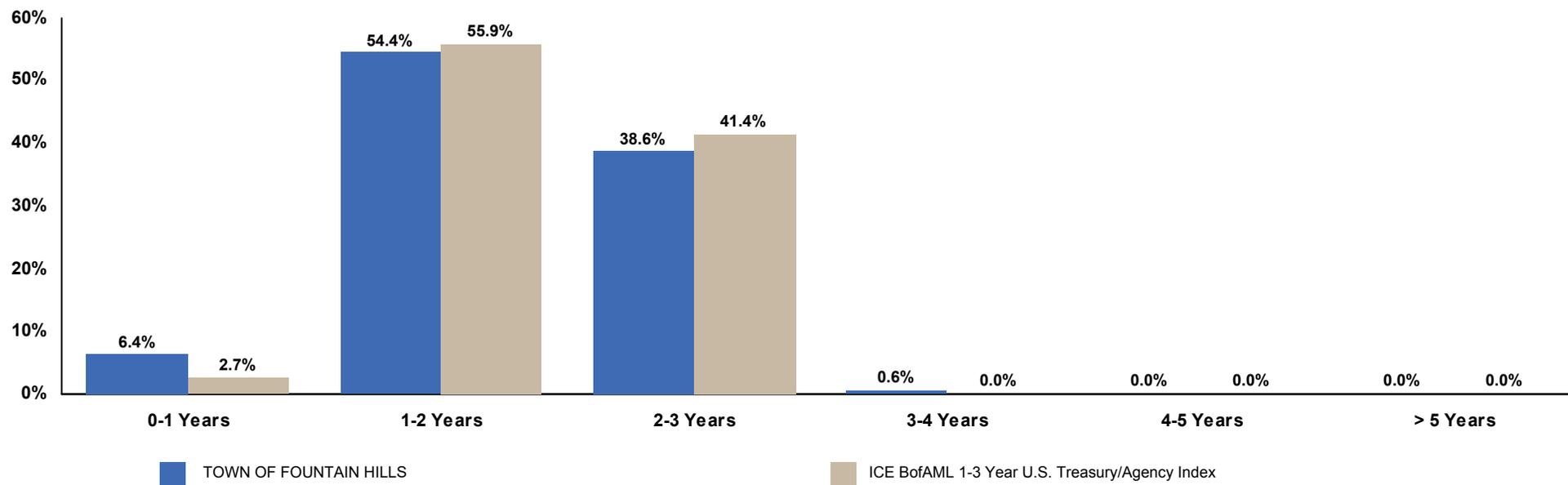


Detail may not add to total due to rounding.

Maturity Distribution

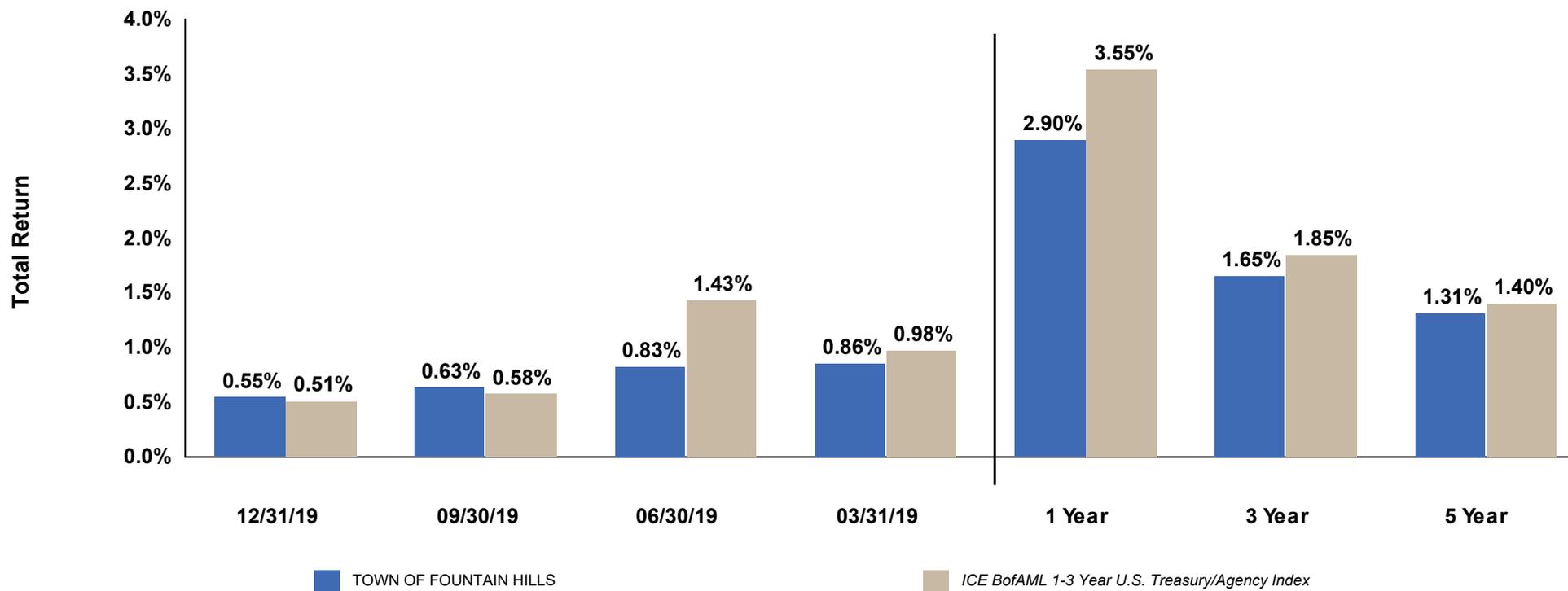
As of December 31, 2019

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	1.66%	1.86 yrs	6.4%	54.4%	38.6%	0.6%	0.0%	0.0%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index	1.60%	1.92 yrs	2.7%	55.9%	41.4%	0.0%	0.0%	0.0%



Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended				Annualized Return		
		12/31/19	09/30/19	06/30/19	03/31/19	1 Year	3 Year	5 Year
TOWN OF FOUNTAIN HILLS	1.79	0.55%	0.63%	0.83%	0.86%	2.90%	1.65%	1.31%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index	1.79	0.51%	0.58%	1.43%	0.98%	3.55%	1.85%	1.40%
Difference		0.04%	0.05%	-0.60%	-0.12%	-0.65%	-0.20%	-0.09%



Portfolio performance is gross of fees unless otherwise indicated.

Portfolio Earnings*Quarter-Ended December 31, 2019*

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (09/30/2019)	\$8,566,444.55	\$8,568,302.38
Net Purchases/Sales	\$519,437.92	\$519,437.92
Change in Value	\$7,545.71	(\$1,094.64)
Ending Value (12/31/2019)	\$9,093,428.18	\$9,086,645.66
Interest Earned	\$42,415.45	\$42,415.45
Portfolio Earnings	\$49,961.16	\$41,320.81

Sector/Issuer Distribution

As of December 31, 2019

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Certificate of Deposit			
DNB ASA	99,893	39.9%	1.1%
SWEDBANK AB	150,410	60.1%	1.7%
Sector Total	250,302	100.0%	2.8%
Corporate			
AMERICAN HONDA FINANCE	50,181	3.6%	0.6%
BANK OF AMERICA CO	150,427	10.7%	1.7%
BANK OF NOVA SCOTIA	100,161	7.1%	1.1%
BB&T CORPORATION	150,426	10.7%	1.7%
CITIGROUP INC	75,233	5.4%	0.8%
EXXON MOBIL CORP	150,010	10.7%	1.6%
GENERAL ELECTRIC CO	71,085	5.1%	0.8%
IBM CORP	102,262	7.3%	1.1%
JOHNSON & JOHNSON	35,062	2.5%	0.4%
MORGAN STANLEY	221,558	15.8%	2.4%
PACCAR FINANCIAL CORP	50,067	3.6%	0.6%
TORONTO-DOMINION BANK	100,096	7.1%	1.1%
UNITED PARCEL SERVICE INC	100,268	7.2%	1.1%
WELLS FARGO & COMPANY	45,066	3.2%	0.5%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Sector Total	1,401,903	100.0%	15.4%
U.S. Treasury			
UNITED STATES TREASURY	7,441,223	100.0%	81.8%
Sector Total	7,441,223	100.0%	81.8%
Portfolio Total	9,093,428	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									
10/17/19	10/17/19	750,000	9128282S8	US TREASURY NOTES	1.62%	8/31/22	752,657.64	1.57%	
10/17/19	10/17/19	750,000	9128286M7	UNITED STATES TREASURY NOTES	2.25%	4/15/22	762,045.34	1.60%	
10/17/19	10/17/19	750,000	912828V72	US TREASURY NOTES	1.87%	1/31/22	757,726.73	1.59%	
10/17/19	10/17/19	750,000	912828RC6	US TREASURY NOTES	2.12%	8/15/21	759,583.90	1.62%	
10/17/19	10/21/19	45,000	949746SA0	WELLS FARGO & CO CORP NOTES	2.10%	7/26/21	45,264.53	2.05%	
10/17/19	10/21/19	100,000	064159SH0	BANK OF NOVA SCOTIA HOUSTON CORP NOTES	2.00%	11/15/22	99,674.33	2.12%	
10/17/19	10/21/19	500,000	912828R77	US TREASURY NOTES	1.37%	5/31/21	500,654.88	1.63%	
10/17/19	10/21/19	100,000	89114QCD8	TORONTO-DOMINION BANK	1.90%	12/1/22	99,525.06	2.08%	
10/23/19	10/25/19	750,000	912828Q37	US TREASURY NOTES	1.25%	3/31/21	746,450.92	1.65%	
10/23/19	10/24/19	750,000	912828U65	US TREASURY NOTES	1.75%	11/30/21	757,550.11	1.60%	
10/25/19	10/29/19	45,000	61744YAH1	MORGAN STANLEY CORP NOTES	2.75%	5/19/22	46,166.05	2.20%	
10/25/19	10/29/19	350,000	912828P4	US TREASURY NOTES	1.87%	7/31/22	353,792.46	1.64%	
10/28/19	11/4/19	75,000	17308CC46	CITIGROUP INC	2.31%	11/4/22	75,000.00	2.31%	
10/30/19	11/1/19	100,000	459200JX0	IBM CORP	2.85%	5/13/22	103,398.17	2.00%	
10/31/19	11/7/19	50,000	69371RQ41	PACCAR FINANCIAL CORP NOTE	1.90%	2/7/23	49,997.50	1.90%	
11/1/19	11/4/19	425,000	912828YK0	UNITED STATES TREASURY NOTES	1.37%	10/15/22	423,293.94	1.54%	
11/8/19	11/12/19	225,000	912828B58	US TREASURY NOTES	2.12%	1/31/21	227,546.53	1.68%	
11/8/19	11/12/19	275,000	912828T67	US TREASURY NOTES	1.25%	10/31/21	272,793.01	1.69%	
11/18/19	11/21/19	50,000	02665WDF5	AMERICAN HONDA FINANCE CORP NOTES	1.95%	5/20/22	49,983.00	1.96%	
12/2/19	12/4/19	450,000	912828T67	US TREASURY NOTES	1.25%	10/31/21	447,097.68	1.66%	
12/4/19	12/6/19	100,000	23341VZT1	DNB BANK ASA/NY LT CD	2.04%	12/2/22	100,000.00	2.04%	
Total BUY		7,390,000					7,430,201.78		

INTEREST

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)
10/1/19	10/1/19	100,000	911312BP0	UNITED PARCEL SERVICE CORPORATE BOND	2.05%	4/1/21	1,025.00		
10/1/19	10/1/19	0	MONEY0002	MONEY MARKET FUND			80.02		
10/1/19	10/1/19	150,000	06051GGS2	BANK OF AMERICA CORP (CALLABLE)	2.32%	10/1/21	1,746.00		
10/9/19	10/9/19	70,000	931142DY6	WAL-MART STORES INC CORP NOTE	1.75%	10/9/19	612.50		
10/15/19	10/15/19	50,000	713448DX3	PEPSICO INC CORP (CALLABLE) NOTE	2.00%	4/15/21	500.00		
10/20/19	10/20/19	325,000	3137EAEF2	FHLMC AGENCY NOTES	1.37%	4/20/20	2,234.38		
10/23/19	10/23/19	95,000	38148LAA4	GOLDMAN SACHS GRP INC CORP NT (CALLABLE)	2.60%	4/23/20	1,235.00		
10/30/19	10/30/19	40,000	438516BQ8	HONEYWELL INTERNATIONAL CORP NOTES	1.80%	10/30/19	360.00		
10/30/19	10/30/19	150,000	025816BP3	AMERICAN EXPRESS CO CORP (CALLABLE) NOTE	2.20%	10/30/20	1,650.00		
10/31/19	10/31/19	120,000	912828L99	US TREASURY NOTES	1.37%	10/31/20	825.00		
11/1/19	11/1/19	0	MONEY0002	MONEY MARKET FUND			499.17		
11/9/19	11/9/19	150,000	4581X0CD8	INTER-AMERICAN DEVELOPMENT BANK	2.12%	11/9/20	1,593.75		
11/10/19	11/10/19	35,000	478160CH5	JOHNSON & JOHNSON CORP NOTE	1.95%	11/10/20	341.25		
11/13/19	11/13/19	100,000	459200JX0	IBM CORP	2.85%	5/13/22	1,409.17		
11/18/19	11/18/19	150,000	87019U6D6	SWEDBANK (NEW YORK) CERT DEPOS	2.27%	11/16/20	1,759.25		
11/19/19	11/19/19	45,000	61744YAH1	MORGAN STANLEY CORP NOTES	2.75%	5/19/22	618.75		
11/30/19	11/30/19	750,000	912828U65	US TREASURY NOTES	1.75%	11/30/21	6,562.50		
11/30/19	11/30/19	500,000	912828R77	US TREASURY NOTES	1.37%	5/31/21	3,437.50		
12/1/19	12/1/19	100,000	89114QCD8	TORONTO-DOMINION BANK	1.90%	12/1/22	269.17		
12/2/19	12/2/19	0	MONEY0002	MONEY MARKET FUND			81.81		
12/16/19	12/16/19	175,000	61761JB32	MORGAN STANLEY CORPORATE NOTES	2.80%	6/16/20	2,450.00		

Total INTEREST	3,105,000						29,290.22		
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MATURITY

10/9/19	10/9/19	70,000	931142DY6	WAL-MART STORES INC CORP NOTE	1.75%	10/9/19	70,000.00		0.00
10/16/19	10/16/19	250,000	09659CXG8	BNP PARIBAS NY BRANCH COMM PAPER	0.00%	10/16/19	250,000.00		0.00
10/21/19	10/21/19	250,000	17305TG71	CITIBANK NA CERT DEPOS	2.57%	10/21/19	253,212.50		0.00
10/30/19	10/30/19	40,000	438516BQ8	HONEYWELL INTERNATIONAL CORP NOTES	1.80%	10/30/19	40,000.00		0.00

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
Total MATURITY		610,000					613,212.50		0.00
SELL									
10/17/19	10/17/19	550,000	3137EAE5	FREDDIE MAC NOTES	1.50%	1/17/20	551,738.00	1.73%	(302.74)
10/17/19	10/17/19	350,000	912828J50	US TREASURY NOTES	1.37%	2/29/20	350,279.59	1.64%	(80.65)
10/17/19	10/21/19	225,000	06406HDD8	BNY MELLON CORP NOTE (CALLABLE)	2.60%	8/17/20	227,261.75	1.93%	614.08
10/17/19	10/17/19	850,000	912828H52	US TREASURY NOTES	1.25%	1/31/20	851,355.56	1.61%	(248.92)
10/17/19	10/17/19	270,000	912828F62	US TREASURY NOTES	1.50%	10/31/19	271,849.83	1.69%	74.37
10/17/19	10/17/19	645,000	912828UB4	US TREASURY NOTES	1.00%	11/30/19	646,945.68	1.64%	382.96
10/18/19	10/22/19	150,000	037833DJ6	APPLE INC CORP NOTES	2.00%	11/13/20	151,670.00	1.78%	390.31
10/23/19	10/24/19	325,000	3137EAEF2	FHLMC AGENCY NOTES	1.37%	4/20/20	324,539.40	1.70%	(325.73)
10/23/19	10/24/19	100,000	63873KY50	NATIXIS NY BRANCH COMM PAPER	0.00%	11/5/19	99,939.33	1.82%	15.33
10/23/19	10/25/19	115,000	14913Q2A6	CATERPILLAR FINL SERVICE NOTE	1.85%	9/4/20	115,194.45	1.96%	(78.67)
10/23/19	10/25/19	150,000	89236TCF0	TOYOTA MOTOR CORP NOTES	2.15%	3/12/20	150,539.71	1.87%	(55.07)
10/23/19	10/25/19	75,000	458140AZ3	INTEL CORP NOTES	1.85%	5/11/20	75,612.58	1.90%	(11.84)
10/23/19	10/25/19	65,000	02665WBT7	AMERICAN HONDA FINANCE CORP NOTES	1.95%	7/20/20	65,397.53	1.82%	79.51
10/23/19	10/25/19	50,000	92826CAB8	VISA INC (CALLABLE) CORP NOTES	2.20%	12/14/20	50,611.78	1.82%	28.26
10/23/19	10/25/19	150,000	459200HM6	IBM CREDIT CORPORATE NOTE	1.62%	5/15/20	150,877.83	1.87%	46.81
10/23/19	10/25/19	50,000	713448DX3	PEPSICO INC CORP (CALLABLE) NOTE	2.00%	4/15/21	50,206.78	1.75%	183.30
10/25/19	10/29/19	525,000	912828UV0	US TREASURY NOTES	1.12%	3/31/20	524,299.03	1.66%	110.53
10/25/19	10/29/19	85,000	02665WBZ3	AMERICAN HONDA FINANCE	2.00%	11/13/19	85,777.94	2.16%	(5.00)
10/28/19	10/28/19	105,000	912828L32	US TREASURY NOTES	1.37%	8/31/20	104,979.85	1.66%	(192.99)
11/1/19	11/4/19	150,000	459058FS7	INTL BANK OF RECON AND DEV GLOBAL NOTES	1.12%	11/27/19	150,675.09	1.76%	(24.58)
11/1/19	11/4/19	95,000	38148LAA4	GOLDMAN SACHS GRP INC CORP NT (CALLABLE)	2.60%	4/23/20	95,320.57	2.04%	126.71
11/1/19	11/4/19	145,000	46625HKA7	JPMORGAN CHASE & CO (CALLED OMD 1/23/20)	2.25%	12/23/19	145,977.66	2.04%	39.95
11/1/19	11/4/19	75,000	459058GA5	INTL BANK OF RECON AND DEV GLOBAL NOTES	1.62%	9/4/20	75,163.50	1.69%	(35.30)
11/8/19	11/12/19	270,000	96121T4A3	WESTPAC BANKING CORP NY CD	2.05%	8/3/20	271,757.63	1.81%	297.00
11/8/19	11/12/19	40,000	69371RN85	PACCAR FINANCIAL CORP NOTES	2.05%	11/13/20	40,460.92	1.92%	54.43

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)
11/8/19	11/12/19	150,000	4581X0CD8	INTER-AMERICAN DEVELOPMENT BANK	2.12%	11/9/20	150,568.06	1.76%	85.15
12/2/19	12/4/19	150,000	025816BP3	AMERICAN EXPRESS CO CORP (CALLABLE) NOTE	2.20%	10/30/20	150,589.17	1.99%	337.71
12/2/19	12/4/19	120,000	912828L99	US TREASURY NOTES	1.37%	10/31/20	119,816.62	1.69%	(47.56)
12/2/19	12/4/19	150,000	45905UP32	INTL BANK OF RECONSTRUCTION AND DEV NOTE	1.56%	9/12/20	150,360.84	1.71%	(77.55)
12/4/19	12/6/19	100,000	9128282S8	US TREASURY NOTES	1.62%	8/31/22	100,542.42	1.58%	(28.57)
Total SELL		6,280,000					6,300,309.10		1,351.24

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 NOTES DTD 01/31/2014 2.125% 01/31/2021	912828B58	225,000.00	AA+	Aaa	11/8/2019	11/12/2019	226,195.31	1.68	2,000.85	226,064.29	226,177.65
US TREASURY NOTES DTD 03/31/2016 1.250% 03/31/2021	912828Q37	750,000.00	AA+	Aaa	10/23/2019	10/25/2019	745,810.55	1.65	2,382.17	746,350.45	746,572.50
US TREASURY NOTES DTD 05/31/2016 1.375% 05/31/2021	912828R77	500,000.00	AA+	Aaa	10/17/2019	10/21/2019	497,968.75	1.63	601.09	498,216.68	498,476.50
UNITED STATES TREASURY NOTES DTD 07/16/2018 2.625% 07/15/2021	912828Y20	465,000.00	AA+	Aaa	8/27/2019	8/28/2019	474,154.69	1.56	5,638.76	472,510.24	472,229.36
US TREASURY NOTES DTD 08/15/2011 2.125% 08/15/2021	912828RC6	750,000.00	AA+	Aaa	10/17/2019	10/17/2019	756,855.47	1.62	6,019.87	756,094.34	756,269.25
US TREASURY NOTES DTD 08/15/2011 2.125% 08/15/2021	912828RC6	75,000.00	AA+	Aaa	9/16/2019	9/20/2019	75,454.10	1.80	601.99	75,388.49	75,626.93
US TREASURY NOTES DTD 08/15/2011 2.125% 08/15/2021	912828RC6	250,000.00	AA+	Aaa	9/16/2019	9/16/2019	251,484.38	1.81	2,006.62	251,262.75	252,089.75
US TREASURY NOTES DTD 10/31/2016 1.250% 10/31/2021	912828T67	450,000.00	AA+	Aaa	12/2/2019	12/4/2019	446,572.27	1.66	958.10	446,709.12	447,292.80
US TREASURY NOTES DTD 10/31/2016 1.250% 10/31/2021	912828T67	275,000.00	AA+	Aaa	11/8/2019	11/12/2019	272,679.69	1.69	585.51	272,839.78	273,345.60
US TREASURY NOTES DTD 11/30/2016 1.750% 11/30/2021	912828U65	750,000.00	AA+	Aaa	10/23/2019	10/24/2019	752,314.45	1.60	1,147.54	752,113.47	752,314.50
US TREASURY NOTES DTD 01/31/2017 1.875% 01/31/2022	912828V72	750,000.00	AA+	Aaa	10/17/2019	10/17/2019	754,746.09	1.59	5,884.85	754,328.75	754,394.25
UNITED STATES TREASURY NOTES DTD 04/15/2019 2.250% 04/15/2022	9128286M7	750,000.00	AA+	Aaa	10/17/2019	10/17/2019	761,953.13	1.60	3,596.31	760,973.99	761,016.00
US TREASURY NOTES DTD 07/31/2017 1.875% 07/31/2022	912828P4	350,000.00	AA+	Aaa	10/25/2019	10/29/2019	352,187.50	1.64	2,746.26	352,054.31	352,474.50
US TREASURY NOTES DTD 08/31/2017 1.625% 08/31/2022	912828S8	650,000.00	AA+	Aaa	10/17/2019	10/17/2019	650,939.45	1.57	3,569.20	650,874.41	650,533.00
UNITED STATES TREASURY NOTES DTD 10/15/2019 1.375% 10/15/2022	912828YK0	425,000.00	AA+	Aaa	11/1/2019	11/4/2019	422,974.61	1.54	1,245.39	423,081.83	422,410.05

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
Security Type Sub-Total		7,415,000.00					7,442,290.44	1.62	38,984.51	7,438,862.90	7,441,222.64
Corporate Note											
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	150,011.30	150,009.75
MORGAN STANLEY CORPORATE NOTES DTD 06/16/2015 2.800% 06/16/2020	61761JB32	175,000.00	BBB+	A3	7/19/2019	7/23/2019	175,698.25	2.35	204.17	175,359.54	175,727.30
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	71,244.61	71,084.93
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	34,989.06	35,062.30
BRANCH BANKING & TRUST (CALLABLE) NOTES DTD 10/26/2017 2.150% 02/01/2021	05531FAZ6	70,000.00	A-	A3	11/16/2017	11/20/2017	69,636.00	2.32	627.08	69,873.49	70,198.73
BRANCH BANKING & TRUST (CALLABLE) NOTES DTD 10/26/2017 2.150% 02/01/2021	05531FAZ6	80,000.00	A-	A3	10/23/2017	10/26/2017	79,963.20	2.17	716.67	79,987.11	80,227.12
UNITED PARCEL SERVICE CORPORATE BOND DTD 11/14/2017 2.050% 04/01/2021	911312BP0	100,000.00	A	A2	11/9/2017	11/14/2017	99,842.00	2.10	512.50	99,939.94	100,267.80
WELLS FARGO & CO CORP NOTES DTD 07/25/2016 2.100% 07/26/2021	949746SA0	45,000.00	A-	A2	10/17/2019	10/21/2019	45,041.40	2.05	406.88	45,037.28	45,066.11
BANK OF AMERICA CORP (CALLABLE) DTD 09/18/2017 2.328% 10/01/2021	06051GGS2	150,000.00	A-	A2	11/27/2017	11/29/2017	149,293.50	2.46	873.00	149,670.94	150,427.35
IBM CORP DTD 05/15/2019 2.850% 05/13/2022	459200JX0	100,000.00	A	A2	10/30/2019	11/1/2019	102,084.00	2.00	380.00	101,950.12	102,262.20
MORGAN STANLEY CORP NOTES DTD 05/19/2017 2.750% 05/19/2022	61744YAH1	45,000.00	BBB+	A3	10/25/2019	10/29/2019	45,616.05	2.20	144.38	45,575.80	45,831.02

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 HONDA FINANCE CORP NOTES DTD 11/21/2019 1.950% 05/20/2022	02665WDF5	50,000.00	A	A2	11/18/2019	11/21/2019	49,983.00	1.96	108.33	49,983.74	50,181.40
CITIGROUP INC DTD 11/04/2019 2.312% 11/04/2022	17308CC46	75,000.00	BBB+	A3	10/28/2019	11/4/2019	75,000.00	2.31	274.55	75,000.00	75,233.48
BANK OF NOVA SCOTIA HOUSTON CORP NOTES DTD 10/15/2019 2.000% 11/15/2022	064159SH0	100,000.00	A-	A2	10/17/2019	10/21/2019	99,641.00	2.12	422.22	99,663.50	100,161.40
TORONTO-DOMINION BANK DTD 10/10/2019 1.900% 12/01/2022	89114QCD8	100,000.00	A	Aa3	10/17/2019	10/21/2019	99,467.00	2.08	158.33	99,498.71	100,095.80
PACCAR FINANCIAL CORP NOTE DTD 11/07/2019 1.900% 02/07/2023	69371RQ41	50,000.00	A+	A1	10/31/2019	11/7/2019	49,997.50	1.90	142.50	49,997.62	50,066.60
Security Type Sub-Total		1,395,000.00					1,401,753.95	2.13	6,876.70	1,397,782.76	1,401,903.29
Certificate of Deposit											
SWEDBANK (NEW YORK) CERT DEPOS DTD 11/17/2017 2.270% 11/16/2020	87019U6D6	150,000.00	A-1+	P-1	11/16/2017	11/17/2017	150,000.00	2.30	416.17	150,000.00	150,409.65
DNB BANK ASA/NY LT CD DTD 12/04/2019 2.040% 12/02/2022	23341VZT1	100,000.00	AA-	Aa2	12/4/2019	12/6/2019	100,000.00	2.04	153.00	100,000.00	99,892.60
Security Type Sub-Total		250,000.00					250,000.00	2.20	569.17	250,000.00	250,302.25
Managed Account Sub Total		9,060,000.00					9,094,044.39	1.71	46,430.38	9,086,645.66	9,093,428.18
Securities Sub-Total		\$9,060,000.00					\$9,094,044.39	1.71%	\$46,430.38	\$9,086,645.66	\$9,093,428.18
Accrued Interest											\$46,430.38
Total Investments											\$9,139,858.56

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 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 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.



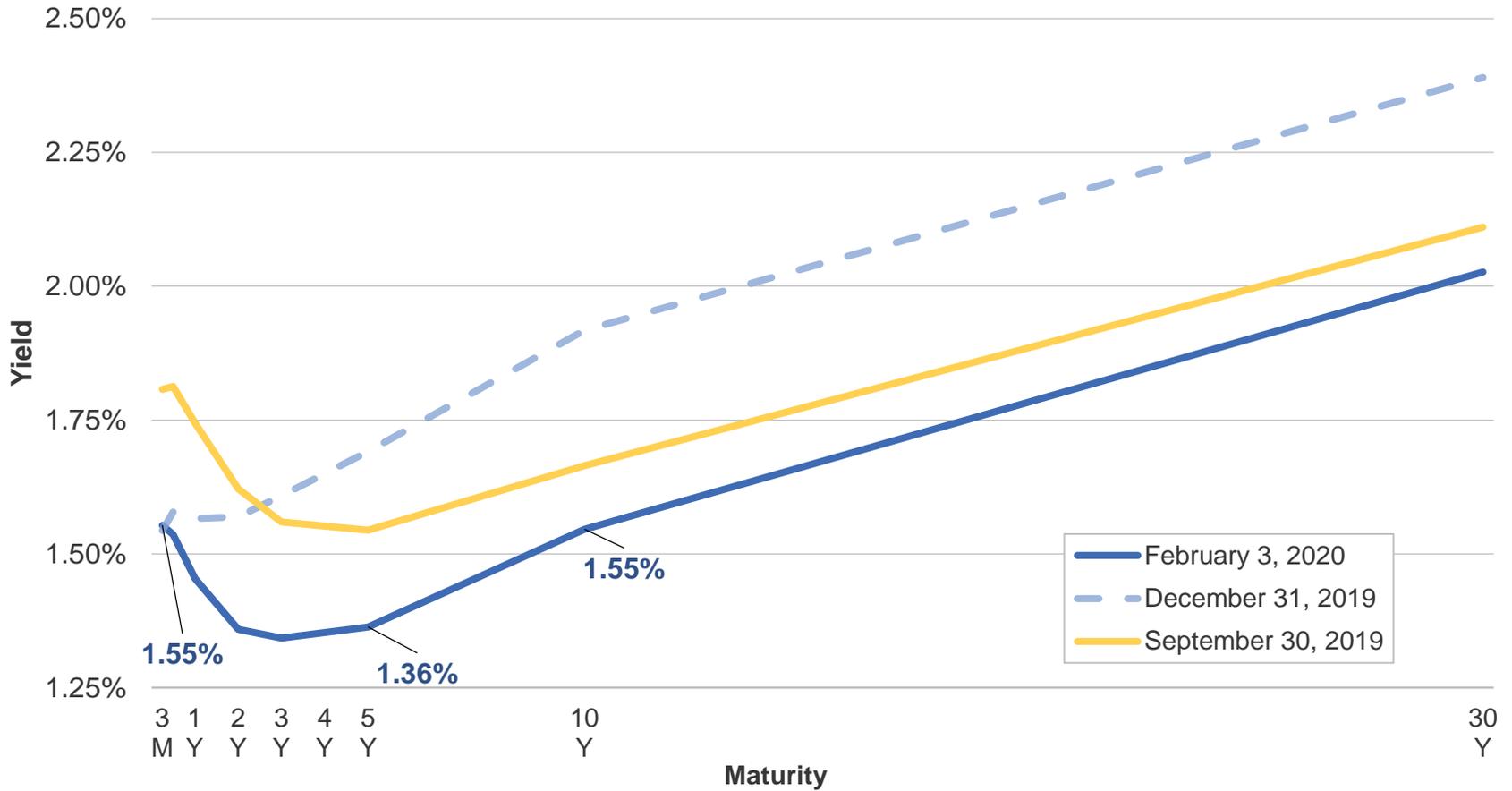
Economic Update





Yield Curve Slightly Inverted

U.S. Treasury Yield Curve



Source: Bloomberg, as of 2/3/2020.



Although the Fed Is on Hold, the Market Expects a Rate Cut in 2020

Federal Reserve Target Overnight Rate

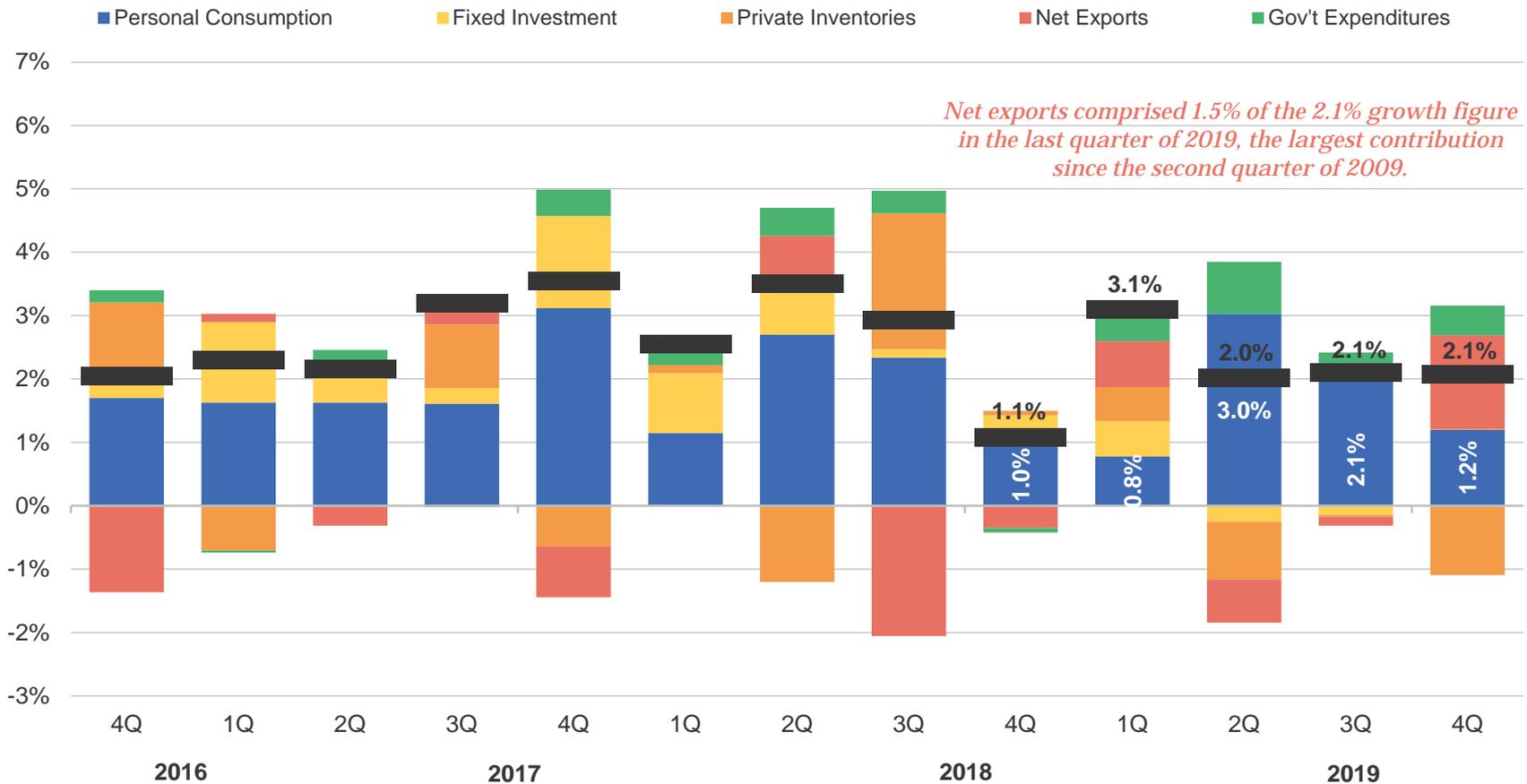


Source: Bloomberg. Market Projection as of 1/31/20.



Consumption Cooled to End 2019

U.S. GDP Contributors and Detractors

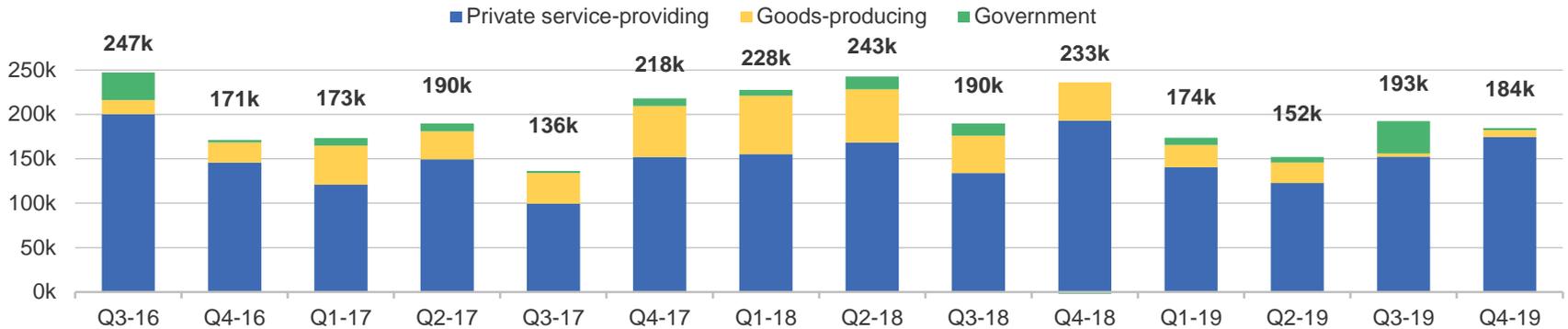


Source: Bureau of Economic Analysis

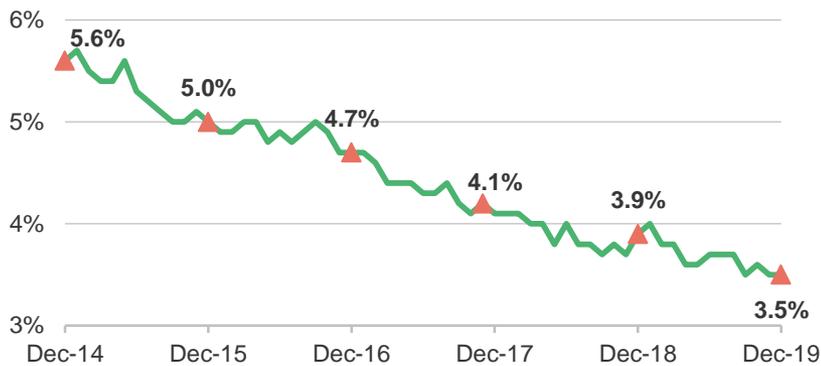


U.S. Labor Market Remains Strong

Average Monthly Job Growth



Unemployment Rate



Average Hourly Earnings

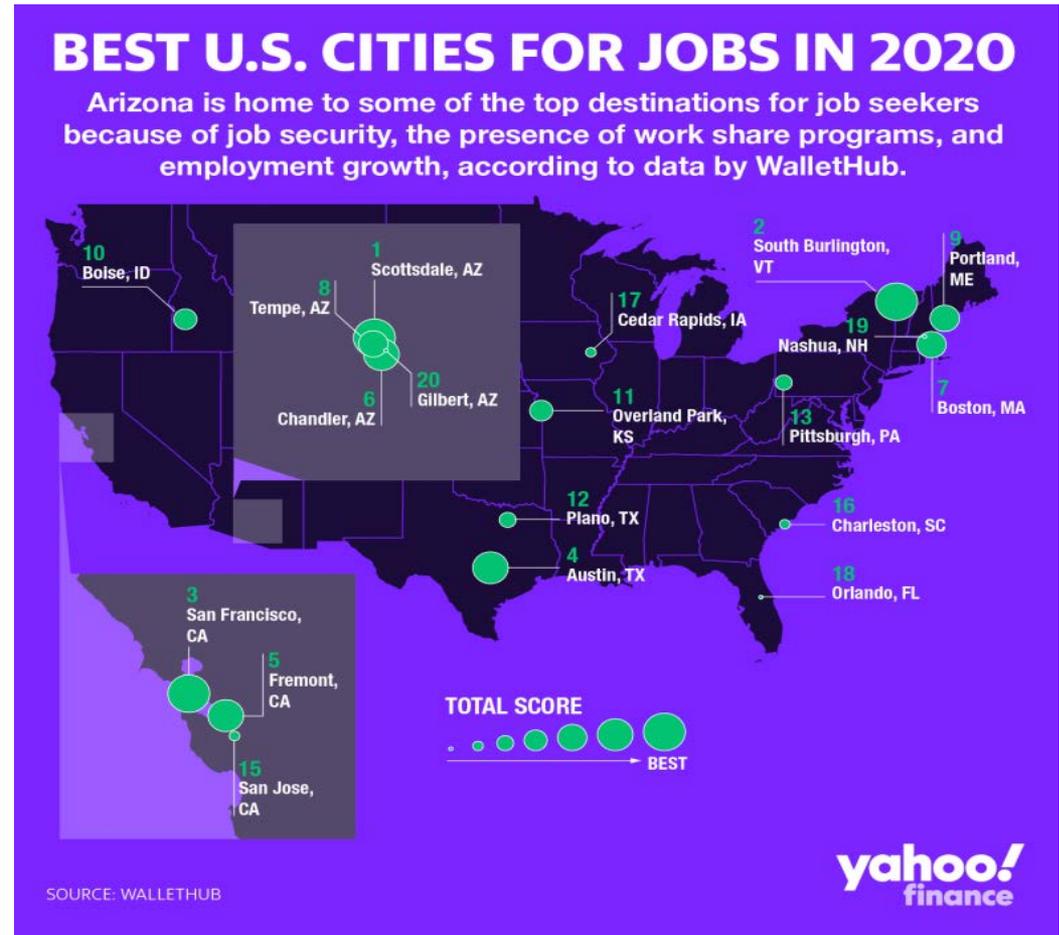


Source: Bloomberg, as of 11/30/19.



Arizona Top Destination for Jobs

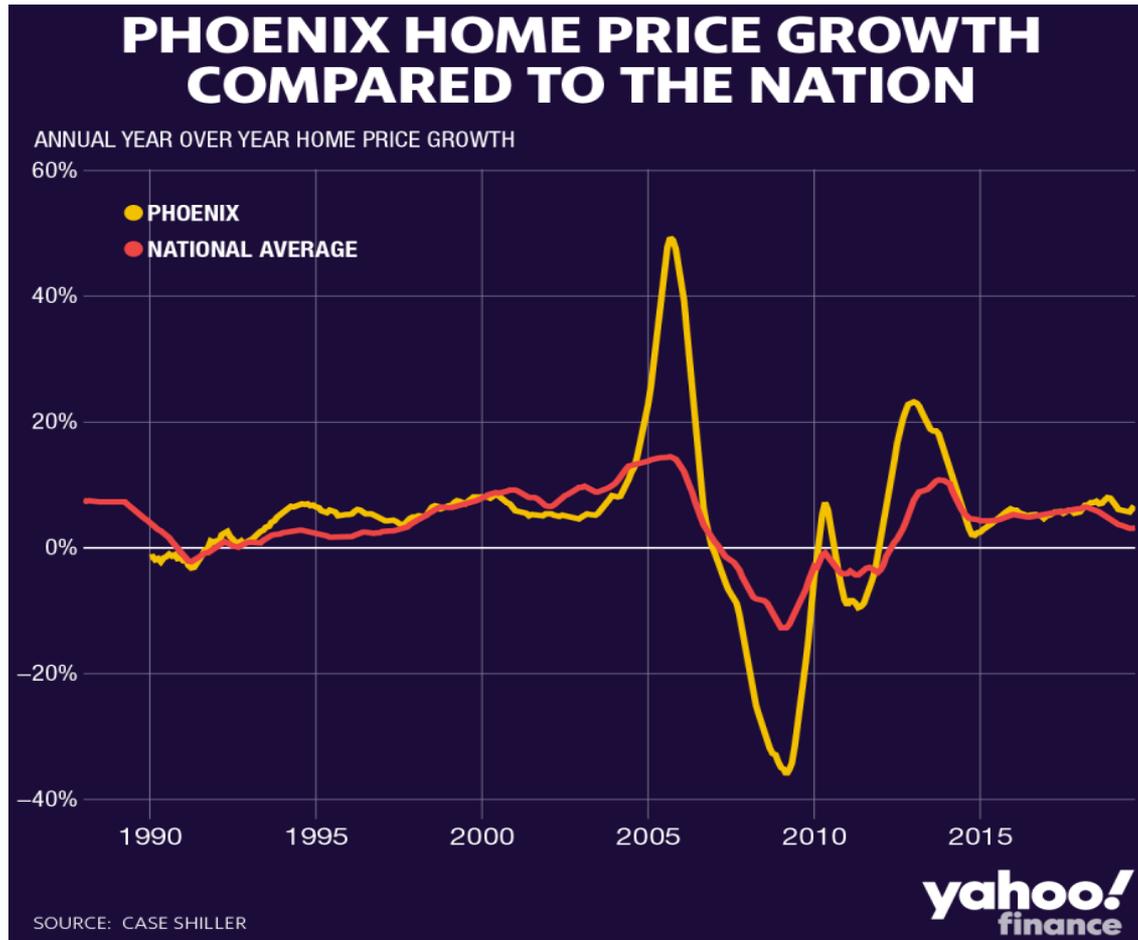
- Study compared 182 cities by analyzing metrics including: job opportunities, employment growth, starting salaries, in addition to other metrics.
- Reasons Americans are moving:
 - To seek a new job
 - Relocate for current job
- Arizona is home to three cities in the top 10 for employment:
 - #1 Scottsdale
 - #6 Chandler
 - #8 Tempe



<https://money.yahoo.com/best-cities-jobs-171827960.html>



Phoenix Housing Value Growth Exceeds National Average



Sept 2019

AZ 6%
National 3.2%

<https://finance.yahoo.com/news/phoenix-the-hottest-housing-market-of-2019-133346968.html?guccounter=1>