



# City of Sarasota, Florida



## Investment Performance Review Quarter Ended June 30, 2015

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**Summary**

- Throughout the quarter, improving U.S. economic conditions contrasted with global economic uncertainty, particularly the deteriorating negotiations between Greece and its international creditors, which came to a vital impasse at the end of the quarter.
- Market participants continued to weigh the impact that adverse global economic conditions would have on the interest rate setting policies of the Federal Open Market Committee (FOMC).

**Economic Snapshot**

- For the first quarter of 2015, gross domestic product (GDP) declined by 0.2%. While estimates initially reflected a larger decline, increases in consumer spending and inventories contributed to the upward revision.
- The U.S. labor market continued to improve, as the unemployment rate fell from 5.5% in March to 5.3% in June. While robust headline job creation continued, some of the underlying metrics related to employment—particularly wage growth—were weak.
- The housing market strengthened, as reflected by improvements in the pace of pending home sales, building permits, new-home sales, and housing starts.
- Greek-related tensions grew as the troubled nation missed a payment of 1.6 billion euros to the International Monetary Fund (IMF), and Greek voters overwhelmingly rejected austerity measures demanded by creditors as a condition for further financial assistance. These actions leave open the possibility that Greece would abandon the euro and even leave the eurozone.

**Interest Rates**

- The FOMC kept the federal funds target rate unchanged for the quarter. While the FOMC's statement left open the possibility of an interest rate increase in the latter half of 2015, this policy decision will depend on labor market conditions and inflation expectations.

- The timing for a potential interest rate hike became more uncertain at the end of the quarter due to the potential for the Greek debt crisis to affect the overall global economy.
- Treasury yields reacted differently across the curve. Yields for short maturities rose only modestly (two- and three-year Treasuries ended the quarter up 0.06% and 0.09%, respectively) while yields for intermediate and longer maturities had sizeable increases (five- and 10-year Treasuries ended the quarter higher by 0.24% and 0.40%, respectively).

**Sector Performance**

- Benchmark Treasury indices for shorter-maturity securities ended the quarter slightly positive, as more than sufficient income was generated to overcome the limited decrease in market value that resulted from the rise in yields. Longer maturities did not perform as well because they had significantly larger rate increases.
- Yield spreads for Federal Agency securities fluctuated within their historically low ranges for the quarter; as a result, the sector's performance was relatively flat when compared to Treasuries.
- Corporate securities underperformed government issues as yield spreads widened throughout the quarter; bonds with higher credit quality underperformed the most.
- Within the mortgage-backed securities (MBS) sector, structure and coupon were the major determinants of performance for the quarter. Higher-coupon structures were the strongest performers on both an absolute return and relative return basis (compared to similar-duration Treasuries).
- Asset-backed securities (ABS) were among the stronger-performing sectors, as their superior income and limited sensitivity to changes in interest rates fared well in what was a volatile market environment.

### Economic Snapshot

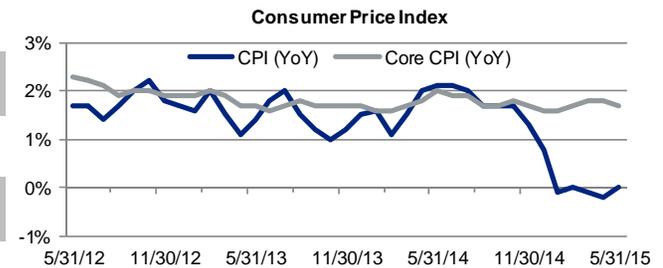
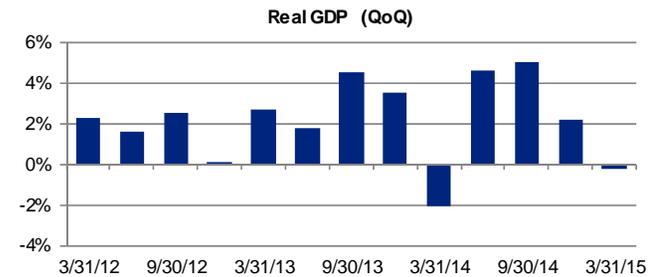
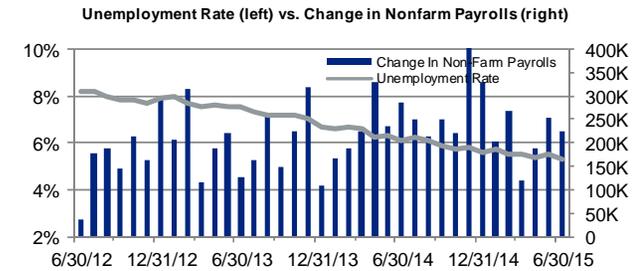
Labor Market		Latest	Mar 2015	Jun 2014
Unemployment Rate	Jun'15	5.3%	5.5%	6.1%
Change In Non-Farm Payrolls	Jun'15	223,000	119,000	286,000
Average Hourly Earnings (YoY)	Jun'15	2.0%	2.1%	2.0%
Personal Income (YoY)	May'15	4.4%	4.0%	3.7%
Initial Jobless Claims (week)	7/2/15	281,000	267,000	313,000

Growth				
Real GDP (QoQ SAAR)	2015Q1	-0.2%	2.2% <sup>1</sup>	-2.1% <sup>2</sup>
GDP Personal Consumption (QoQ SAAR)	2015Q1	2.1%	4.4% <sup>1</sup>	1.2% <sup>2</sup>
Retail Sales (YoY)	May'15	2.7%	2.1%	4.3%
ISM Manufacturing Survey (month)	Jun'15	53.5	51.5	55.7
Existing Home Sales SAAR (month)	May'15	5.35 mil.	5.21 mil.	5.01 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	May'15	0.2%	0.3%	1.6%
Consumer Price Index (YoY)	May'15	0.0%	-0.1%	2.1%
Consumer Price Index Core (YoY)	May'15	1.7%	1.8%	1.9%
Crude Oil Futures (WTI, per barrel)	Jun 30	\$59.47	\$47.60	\$105.37
Gold Futures (oz.)	Jun 30	\$1,172	\$1,183	\$1,322



Source: Bloomberg

1. Data as of Fourth Quarter 2014

2. Data as of First Quarter 2014

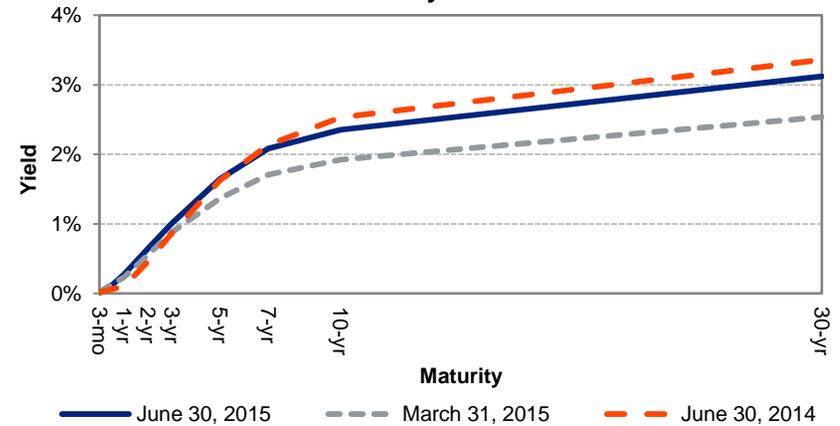
Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

### Investment Rate Overview

U.S. Treasury Note Yields



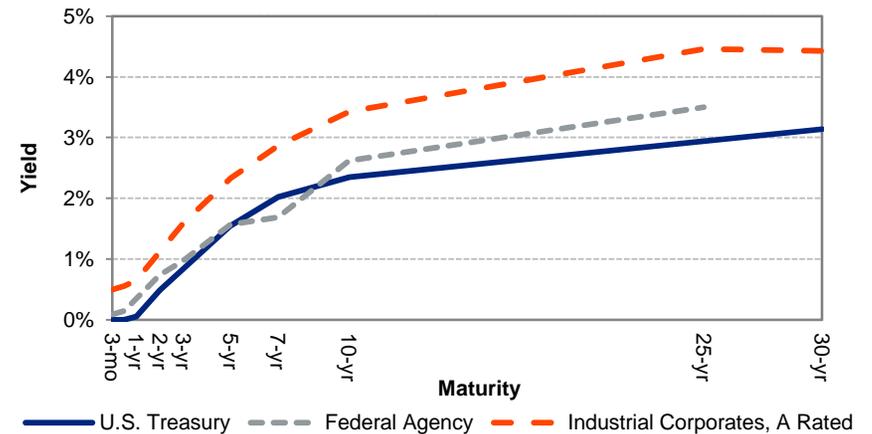
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	6/30/15	3/31/15	Change over Quarter	6/30/14	Change over Year
3-month	0.01%	0.02%	(0.01%)	0.02%	(0.01%)
1-year	0.27%	0.23%	0.04%	0.10%	0.17%
2-year	0.65%	0.56%	0.09%	0.46%	0.19%
5-year	1.65%	1.37%	0.28%	1.63%	0.02%
10-year	2.35%	1.92%	0.43%	2.53%	(0.18%)
30-year	3.12%	2.54%	0.58%	3.36%	(0.24%)

Yield Curves as of 6/30/2015



Source: Bloomberg

## BofA Merrill Lynch Index Returns

	As of 6/30/2015		Returns for Periods ended 6/30/2015		
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.87	0.63%	0.15%	0.88%	0.66%
Federal Agency	1.74	0.76%	0.16%	0.99%	0.73%
U.S. Corporates, A-AAA rated	2.05	1.45%	0.08%	1.02%	1.76%
Agency MBS (0 to 3 years)	1.93	1.53%	(0.07%)	0.62%	0.96%
Municipals	1.79	0.86%	0.01%	0.40%	0.80%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.70	0.93%	0.02%	1.38%	0.83%
Federal Agency	2.18	0.96%	0.09%	1.31%	0.94%
U.S. Corporates, A-AAA rated	2.81	1.80%	(0.13%)	1.45%	2.36%
Agency MBS (0 to 5 years)	3.34	2.10%	(0.46%)	1.58%	1.68%
Municipals	2.54	1.13%	(0.01%)	0.62%	1.13%
<b>Master Indices (Maturities 1 Year or Greater)</b>					
U.S. Treasury	6.04	1.56%	(1.84%)	2.59%	0.94%
Federal Agency	3.71	1.41%	(0.66%)	2.11%	1.28%
U.S. Corporates, A-AAA rated	6.68	2.89%	(2.59%)	1.75%	3.04%
Agency MBS (0 to 30 years)	4.65	2.60%	(0.79%)	2.16%	1.87%
Municipals	6.93	2.63%	(0.97%)	3.10%	3.21%

Returns for periods greater than one year are annualized

Source: BofA Merrill Lynch Indices

**Disclosures**

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Quarterly Investment Statistics as of June 30, 2015

Investments	Market Value	Quarterly Interest Income	Fiscal Year to Date Income
PFM Managed Investment/Short Term Portfolios	\$ 122,879,196	\$ 73,893	\$ 715,934
Fidelity Prime Institutional Money Market Fund	236,525	56	84
FMIvT	5,040,615	(29,271)	82,738
Florida Prime (SBA)	10,030,139	5,120	13,690
Florida Community Bank	5,024,319	6,251	15,500
Fifth Third Bank NOW Account	34,590,966	32,875	93,286
Services Fees	n/a	(71,143)	(229,645)
Subtotal	\$ 177,801,760	\$ 17,781	\$ 691,587
Change in Fair Market Value	\$ 86,223	\$ 427,538	
Change in Accrued Interest		(22,769)	(11,750)
Subtotal	\$ 63,454	\$ 415,788	
Total	\$ 81,234	\$ 1,107,375	

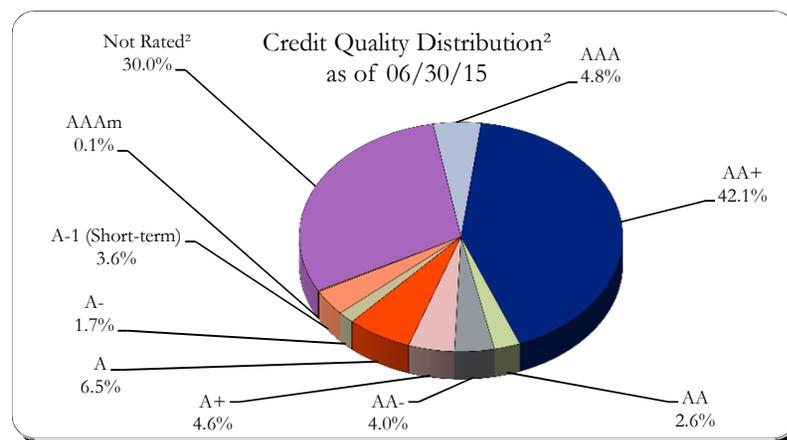
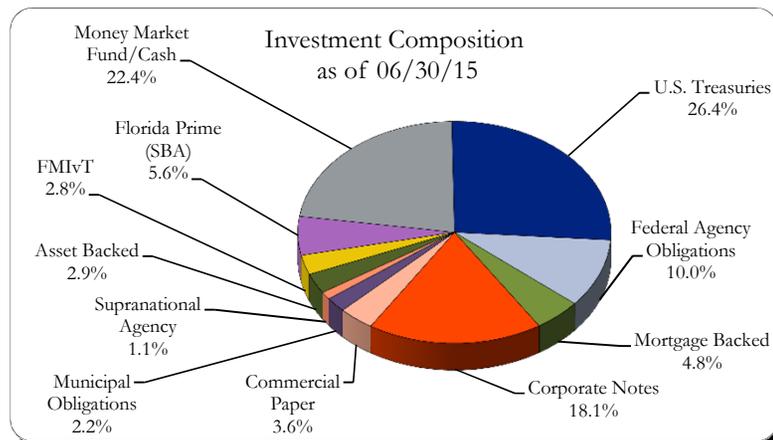
Long Term Investments	Quarterly Total Return	Current Fiscal Year to Date Return	Previous Fiscal Year to Date Return	Short Term Investments	Net Book Value Rate of Return
PFM Managed Investment Portfolio <sup>1</sup>	0.10%	0.82%	0.72%	Fidelity Prime Institutional Money Market Fund <sup>2</sup>	0.07%
<b>Benchmark:</b> Merrill Lynch 1-3 Year U.S. Treasury Index	0.15%	0.84%	0.70%	Florida Prime (SBA)	0.22%
				Florida Community Bank	0.50%
FMIvT Intermediate High Quality Bond Fund <sup>4</sup>	-0.56%	1.82%	2.39%	Fifth Third Bank NOW Account	N/A
<b>Benchmark:</b> Barclays Capital High Quality Intermediate Aggregate <sup>4</sup>	-0.63%	1.91%	2.55%	Weighted Average Yield	0.31%
				<b>Benchmark:</b>	
				Merrill Lynch 3-Month U.S. Treasury Bill	0.00%

Notes:

- In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances. Performance on trade basis, gross (i.e., before fees), is in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Past performance is not indicative of future results. Excludes money market fund/cash in performance computation.
- Bloomberg is the source of the 7-day yield at month end.
- Bloomberg is the source of the yield at month end.
- <http://www.floridaleagueofcities.com/Finance> is the source of the FMIvT total return performance.

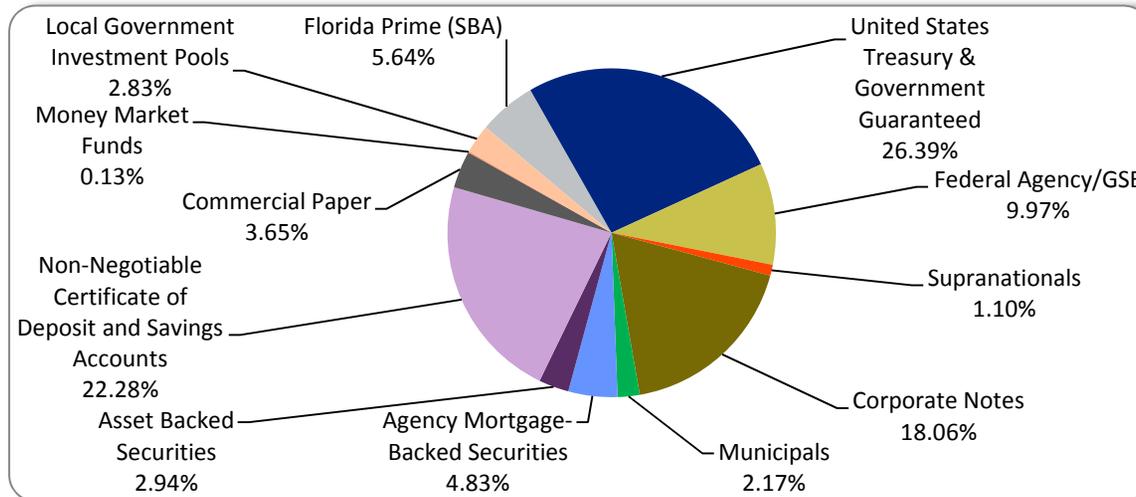
Quarterly Investment Report Composition and Credit Quality Characteristics

<u>Security Type</u> <sup>1</sup>	<u>June 30, 2015</u>	<u>% of Portfolio</u>	<u>March 31, 2015</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$ 46,915,898	26.39%	\$ 73,447,413	39.14%
Federal Agencies	17,730,501	9.97%	17,718,621	9.44%
Mortgage Backed	8,592,022	4.83%	7,844,744	4.18%
Corporate Notes	32,118,796	18.06%	26,921,939	14.35%
Commercial Paper	6,488,461	3.65%	2,599,516	1.39%
Municipal Obligations	3,856,868	2.17%	4,355,972	2.32%
Supranational Agency	1,948,269	1.10%	0	0.00%
Asset Backed	5,228,380	2.94%	0	0.00%
FMIvT	5,040,615	2.83%	5,069,887	2.70%
Florida Prime (SBA)	10,030,139	5.641%	10,025,019	5.34%
Money Market Fund/Cash	39,851,810	22.41%	39,663,837	21.14%
<b>Totals</b>	<b>\$ 177,801,760</b>	<b>100.00%</b>	<b>\$ 187,646,949</b>	<b>100.00%</b>



Notes:

- End of quarter trade-date market values of portfolio holdings, including accrued interest.
- The Certificate of Deposits and Money Market Accounts are not rated. Standard & Poor's is the source of the credit ratings, except for FMIvT Funds which are rated by Fitch. Several of the asset backed securities are not rated by Standard & Poor's and are included in this category. They are rated "Aaa" by Moody's.



Security Type	Market Value (Includes Interest)	Allocation Percentage	Permitted Notes	by Policy	In Compliance
Florida Prime (SBA)	10,030,139	5.64%	3	25%	YES
United States Treasury & Government Guaranteed	46,915,898	26.39%	4	100%	YES
Federal Agency/GSE	17,730,501	9.97%	4,6	75%	YES
Supranationals	1,948,269	1.10%	4	10%	YES
Corporate Notes	32,118,796	18.06%	4,5	35%	YES
Municipals	3,856,868	2.17%	4	25%	YES
Agency Mortgage-Backed Securities	8,592,022	4.83%	4,6	25%	YES
Asset Backed Securities	5,228,380	2.94%	4	10%	YES
Non-Negotiable Certificate of Deposit and Savings Accounts	39,615,285	22.28%	3	50%	YES
Commercial Paper	6,488,461	3.65%	4,5	35%	YES
Money Market Funds	236,525	0.13%	3	50%	YES
Local Government Investment Pools	5,040,615	2.83%	3,7	50%	YES
<b>Total Market Value</b>	<b>\$ 177,801,760</b>	<b>100.00%</b>			

Notes:

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- Combined total of Corporate and bank credit instruments shall not exceed 50% of the total investments. The combined total as of June 30, 2015 is 21.71%.
- Maximum exposure to any one Federal Agency, including the combined holdings of Agency debt and Agency MBS, is 40%.
- Includes balances from the FMIvT Intermediate High Quality Bond Fund.

\*All Funds.



Individual Issuer Breakdown	Market Value (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Florida Prime (SBA)	10,030,139	5.64%	3	25%	YES
United States Treasury Securities	46,915,898	26.39%	4	100%	YES
Government National Mortgage Association (GNMA)	1,627,063	0.92%	4	40%	YES
Federal Farm Credit Bank (FFCB)	-	0.00%	4	40%	YES
Federal Home Loan Bank (FHLB)	6,403,845	3.60%	4	40%	YES
Federal National Mortgage Association (FNMA)	3,883,454	2.18%	4,6	40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	14,408,161	8.10%	4,6	40%	YES
Money Market Account - Florida Community Bank	5,024,319	2.83%	3	25%	YES
Bank of Tokyo Mitsubishi Commercial Paper	3,295,898	1.85%	4	5%	YES
BNP Paribas NY Commercial Paper	3,192,563	1.80%	4	5%	YES
Bank of New York Mellon Corporate Notes	3,202,663	1.51%	4	5%	YES
Cisco Systems Corporate Notes	2,681,200	1.80%	4	5%	YES
John Deere Corporate Notes	2,202,782	1.24%	4	5%	YES
Caterpillar Corporate Notes	1,549,523	0.87%	4	5%	YES
JP Morgan Corporate Notes	3,026,364	1.70%	4	5%	YES
Toyota Corporate Notes	791,099	0.44%	4	5%	YES
Wells Fargo and Company Corporate Notes	2,890,109	1.63%	4	5%	YES
Coca-Cola Corporate Notes	776,631	0.44%	4	5%	YES
American Honda Corporate Notes	2,110,721	1.19%	4	5%	YES
IBM Corporate Notes	3,593,453	2.02%	4	5%	YES
PepsiCo Corporate Notes	658,653	0.37%	4	5%	YES
HSBC Corporate Notes	2,084,669	1.17%	4	5%	YES
Boeing Corporate Notes	1,501,853	0.84%	4	5%	YES
ConocoPhillips Corporate Notes	520,554	0.29%	4	5%	YES
Apple Corporate Notes	1,562,306	0.88%	4	5%	YES
American Express Corporate Notes	2,966,216	1.67%	4	5%	YES
University of California Taxable Revenue Bond	276,130	0.16%	4	5%	YES
Regional Trans Authority, IL Taxable Revenue Bonds	3,580,738	2.01%	4	5%	YES

Notes:

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\*All Funds.



Individual Issuer Breakdown	Market Value (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
HONDA ABS 2015-2 A2	1,500,204	0.84%	4	5%	YES
FORDO 2015-B A2A	2,498,820	1.41%	4	5%	YES
Nissan Auto Receivables Owner 2015-A	1,229,357	0.69%	4	5%	YES
Intl Bank of Recon and Dev Global Notes	1,948,269	1.10%	4	5%	YES
FNMA Mortgage Backed Security	1,834,597	1.03%	4,6	40%	YES
FHLMC Mortgage Backed Security	5,130,362	2.89%	4,6	40%	YES
GNMA Mortgage Backed Security	1,627,063	0.92%	4	40%	YES
Money Market Fund - Bank of New York	236,525	0.13%	3	25%	YES
Fifth Third Bank NOW Account	34,590,966	19.45%	3	25%	YES
Intergovernmental Investment Pool - Florida Municipal	5,040,615	2.83%	3,7	25%	YES

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