



City of Sarasota, Florida



Investment Performance Review Quarter Ended December 31, 2013

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Summary

- Over the quarter, the labor and housing markets showed signs of considerable improvement, reflecting a strengthening economic recovery and absorbing less of an impact from the temporary government shutdown than what was previously anticipated.
- Yields on intermediate- and longer-term bonds rose as the Federal Reserve (Fed) decided to begin reducing its monthly bond purchases.
- The U.S. Senate confirmed Janet Yellen, current vice chair of the Fed, to succeed Ben Bernanke when his term expires at the end of January 2014.

Economic Snapshot

- Third-quarter U.S. gross domestic product (GDP) growth was 4.1%, marking its fastest pace in two years as personal consumption and inventories exceeded expectations. Inflation, as measured by the Personal Consumption Expenditures (PCE) index, was mostly unchanged at an annualized rate of 0.9%.
- U.S. retail sales were strong, increasing by 0.7% in November and marking the largest gain in five months.
- In the housing market, new home sales, housing starts, and building permits all reached five-year highs during the quarter. Home prices also marched higher, with the S&P Case-Shiller Index reporting that prices for homes in 20 U.S. cities had increased 13.6% year over year in October—the largest 12-month gain since February 2006.
- In the euro zone, the pace of economic activity picked up, with December results from the Markit purchasing managers index (PMI) showing the second largest increase in business activity since June 2011 and the best quarter in two-and-a-half years.

Interest Rates

- At its December 17-18 meeting, the Federal Open Market Committee (FOMC) announced that it would begin tapering its bond-buying programs. The FOMC decided it would reduce its purchases of Treasuries and mortgage-backed securities each by \$5 billion a month beginning in January. Throughout 2013, the FOMC has bought \$85 billion of these securities each month to keep downward pressure on long-term interest rates. The FOMC announcement left the federal funds target rate unchanged.
- The FOMC's outlook seemed to take its cue from the flow of positive economic data, as the Committee raised its GDP forecasts for the coming years and reduced its projections for the unemployment rate.
- Interest rates seem to be on a path towards normalization from record lows as the Fed gradually unwinds its unprecedented monetary policy actions.

Sector Performance

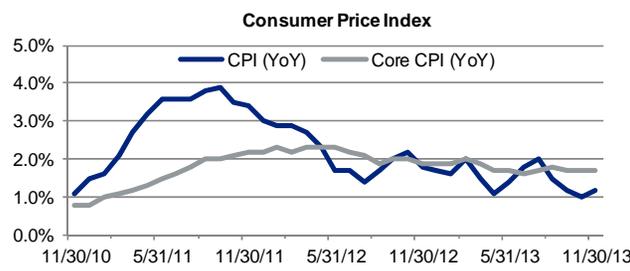
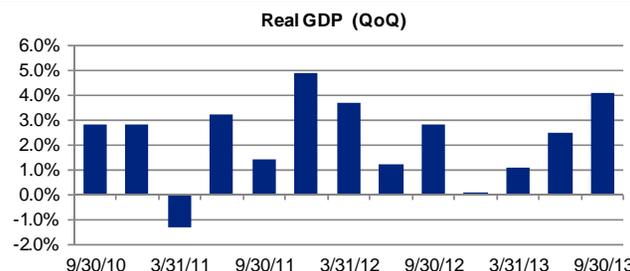
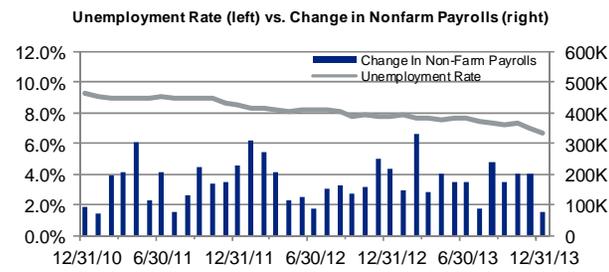
- Treasuries sold off during the quarter as interest rates resumed their move to higher levels.
- As was the case last quarter, fixed-income securities that were perceived to have the most risk (such as corporate bonds with the lowest credit ratings) performed best. On the other hand, U.S. Treasuries were the worst performers, with longer-term Treasuries hit especially hard.
- Within short to intermediate maturities, municipal bonds performed best in December due to a lack of supply and an increase in demand.

Economic Snapshot

| Labor Market | Latest | Sep 2013 | Dec 2012 | |
|-------------------------------|--------|----------|----------|---------|
| Unemployment Rate | Dec'13 | 6.7% | 7.2% | 7.8% |
| Change In Non-Farm Payrolls | Dec'13 | 74,000 | 175,000 | 219,000 |
| Average Hourly Earnings (YoY) | Dec'13 | 1.8% | 2.1% | 2.1% |
| Personal Income (YoY) | Nov13 | 2.3% | 3.9% | 7.9% |
| Initial Jobless Claims (week) | Dec 27 | 339,000 | 308,000 | 372,000 |

| Growth | Latest | Sep 2013 | Dec 2012 | |
|-------------------------------------|---------|-----------|-------------------|-------------------|
| Real GDP (QoQ SAAR) | 2013 Q3 | 4.1% | 2.5% ¹ | 0.1% ² |
| GDP Personal Consumption (QoQ SAAR) | 2013 Q3 | 2.0% | 1.8% ¹ | 1.7% ² |
| Retail Sales (YoY) | Nov13 | 4.7% | 3.5% | 5.2% |
| ISM Manufacturing Survey (month) | Dec'13 | 57.0 | 56.2 | 50.2 |
| Existing Home Sales SAAR (month) | Nov13 | 4.90 mil. | 5.29 mil. | 4.90 mil. |

| Inflation / Prices | Latest | Sep 2013 | Dec 2012 | |
|---|--------|----------|----------|---------|
| Personal Consumption Expenditures (YoY) | Nov13 | 0.9% | 0.9% | 1.5% |
| Consumer Price Index (YoY) | Nov13 | 1.2% | 1.2% | 1.7% |
| Consumer Price Index Core (YoY) | Nov13 | 1.7% | 1.7% | 1.9% |
| Crude Oil Futures (WTI, per barrel) | Dec 31 | \$98.42 | \$102.33 | \$91.82 |
| Gold Futures (oz) | Dec 31 | \$1,202 | \$1,327 | \$1,676 |



1. Data as of Second Quarter 2013 2. Data as of Fourth Quarter 2012

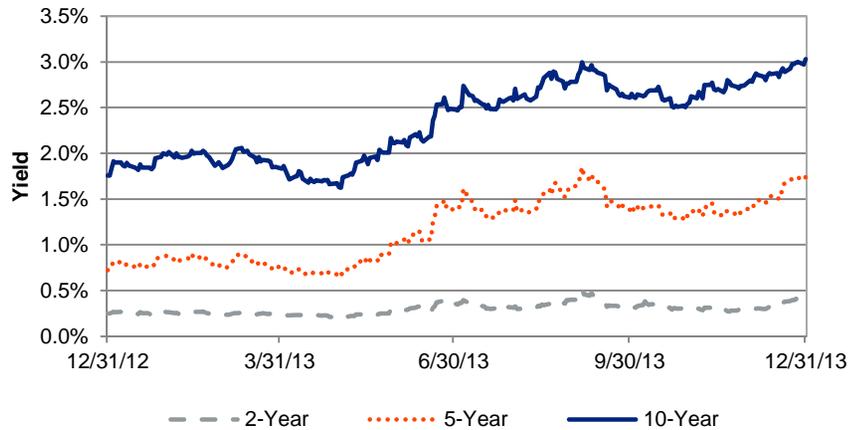
3. Some recent economic data has not been released due to the U.S. Government shutdown

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

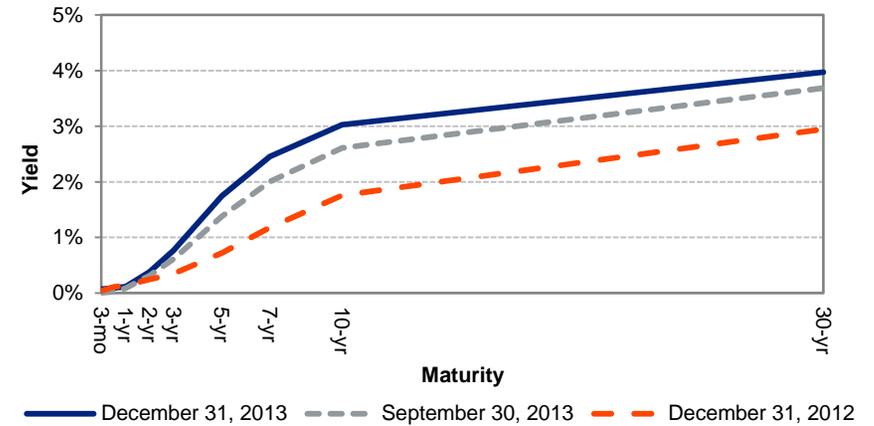
Source: Bloomberg

Investment Rate Overview

U.S. Treasury Note Yields



U.S. Treasury Yield Curve

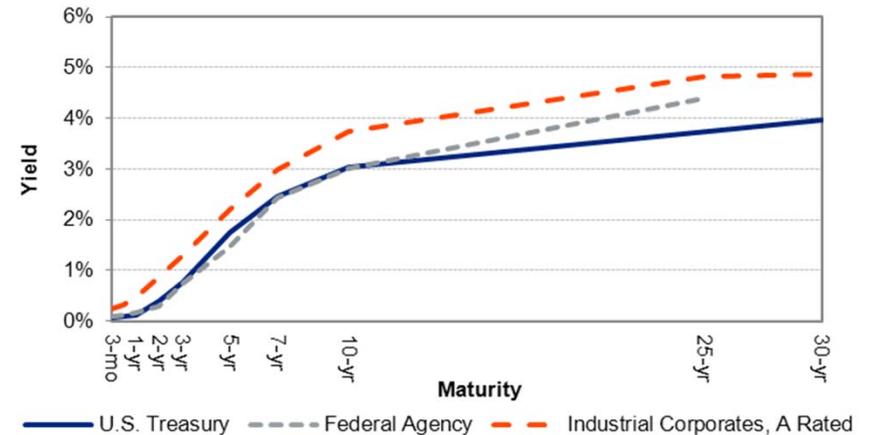


U.S. Treasury Yields

| Maturity | 12/31/13 | 9/30/13 | Change over Quarter | 12/31/12 | Change over Year |
|----------|----------|---------|---------------------|----------|------------------|
| 3-month | 0.07% | 0.01% | +0.06% | 0.04% | +0.03% |
| 1-year | 0.14% | 0.11% | +0.03% | 0.14% | +0.00% |
| 2-year | 0.36% | 0.32% | +0.04% | 0.27% | +0.09% |
| 5-year | 1.76% | 1.39% | +0.37% | 0.74% | +1.02% |
| 10-year | 3.11% | 2.67% | +0.44% | 1.81% | +1.30% |
| 30-year | 3.97% | 3.68% | +0.29% | 2.94% | +1.03% |

Source: Bloomberg

Yield Curves as of 12/31/13



BofA Merrill Lynch Index Returns

| | As of 12/31/2013 | | Returns for Periods ended 12/31/2013 | | |
|--|------------------|-------|--------------------------------------|---------|---------|
| | Duration | Yield | 3 Month | 1 Year | 3 Years |
| 1-3 Year Indices | | | | | |
| U.S. Treasury | 1.91 | 0.40% | 0.06% | 0.36% | 0.78% |
| Federal Agency | 1.77 | 0.49% | 0.15% | 0.42% | 0.93% |
| U.S. Corporates, A-AAA rated | 1.85 | 0.91% | 0.46% | 1.41% | 2.34% |
| Agency MBS (0 to 3 years) | 1.80 | 1.06% | 0.82% | 0.85% | 1.87% |
| Municipals | 1.81 | 0.59% | 0.34% | 1.07% | 1.49% |
| 1-5 Year Indices | | | | | |
| U.S. Treasury | 2.70 | 0.76% | (0.11%) | (0.19%) | 1.35% |
| Federal Agency | 2.48 | 0.83% | 0.11% | 0.03% | 1.28% |
| U.S. Corporates, A-AAA rated | 2.76 | 1.46% | 0.52% | 1.14% | 3.16% |
| Agency MBS (0 to 5 years) | 3.42 | 2.55% | 0.49% | 0.00% | 2.51% |
| Municipals | 2.55 | 0.93% | 0.55% | 1.24% | 2.17% |
| Master Indices (Maturities 1 Year or Greater) | | | | | |
| U.S. Treasury | 5.61 | 1.64% | (0.92%) | (3.35%) | 2.72% |
| Federal Agency | 3.97 | 1.47% | (0.20%) | (1.79%) | 1.93% |
| U.S. Corporates, A-AAA rated | 6.40 | 2.86% | 0.63% | (1.87%) | 4.70% |
| Agency MBS (0 to 30 Years) | 5.57 | 3.18% | (0.47%) | (1.39%) | 2.40% |
| Municipals | 8.09 | 3.50% | 0.37% | (2.89%) | 5.01% |

1. Duration and yield are after the indices were rebalanced at month end.

2. Returns are rolling returns. Returns for periods greater than one year are annualized.

Source: Bloomberg

Disclosures

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Quarterly Investment Statistics as of December 31, 2013

| Investments | Market Value | Quarterly Interest Income | Fiscal Year to Date Income |
|--|----------------|---------------------------|----------------------------|
| PFM Managed Investment/Short Term Portfolios | \$ 144,171,482 | \$ 416,884 | \$ 416,884 |
| Fidelity Prime Institutional Money Market Fund | 1,023,885 | 12 | 12 |
| FMIvT | 5,307,285 | 36,761 | 36,761 |
| CD - Bank of America | 3,000,000 | - | - |
| Florida Prime (SBA) | 10,004,303 | 941 | 941 |
| Wells Fargo Money Market Account | 25,000,000 | 29,793 | 29,793 |
| Florida Community Bank | 2,001,525 | 1,535 | 1,535 |
| Services Fees | n/a | (77,734) | (77,734) |
| Subtotal | \$ 190,508,480 | \$ 408,192 | \$ 408,192 |
| Change in Fair Market Value | \$ (180,125) | \$ (180,125) | \$ (180,125) |
| Change in Accrued Interest | | (103,193) | (103,193) |
| Subtotal | \$ (283,317) | \$ (283,317) | \$ (283,317) |
| Total | \$ 124,875 | \$ 124,875 | \$ 124,875 |

| Long Term Investments | Quarterly Total Return | Short Term Investments | Net Book Value Rate of Return |
|---|------------------------|---|-------------------------------|
| PFM Managed Investment Portfolio ¹ | 0.10% | Fidelity Prime Institutional Money Market Fund ² | 0.01% |
| Benchmark: Merrill Lynch 1-3 Year U.S. Treasury Index | 0.06% | Certificates of Deposit | 0.20% |
| | | Florida Prime (SBA) | 0.16% |
| FMIvT Intermediate High Quality Bond Fund ⁴ | -0.15% | Wells Fargo Money Market Account* | 0.00% |
| Benchmark: Barclays Capital High Quality Intermediate Aggregate ⁴ | -0.25% | Weighted Average Yield | 0.15% |
| | | Benchmark: | |
| | | Merrill Lynch 3-Month U.S. Treasury Bill Index ³ | 0.02% |

Notes:

1. 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.

2. Bloomberg is the source of the 7-day yield at month end.

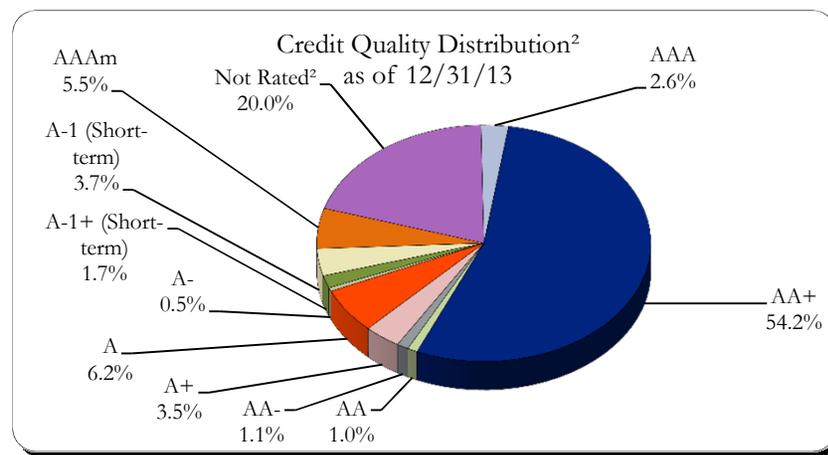
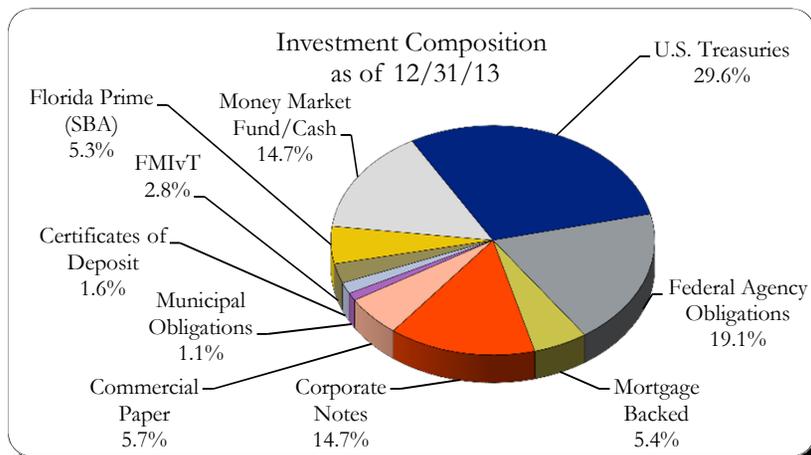
3. Bloomberg is the source of the yield at month end.

4. <http://www.floridaleagueofcities.com/Finance> is the source of the FMIvT total return performance.

* Wells Fargo Money Market Account pays an Earnings Credit Rate (ECR) on the available balance maintained at the bank and is used to cover the monthly bank service fees.

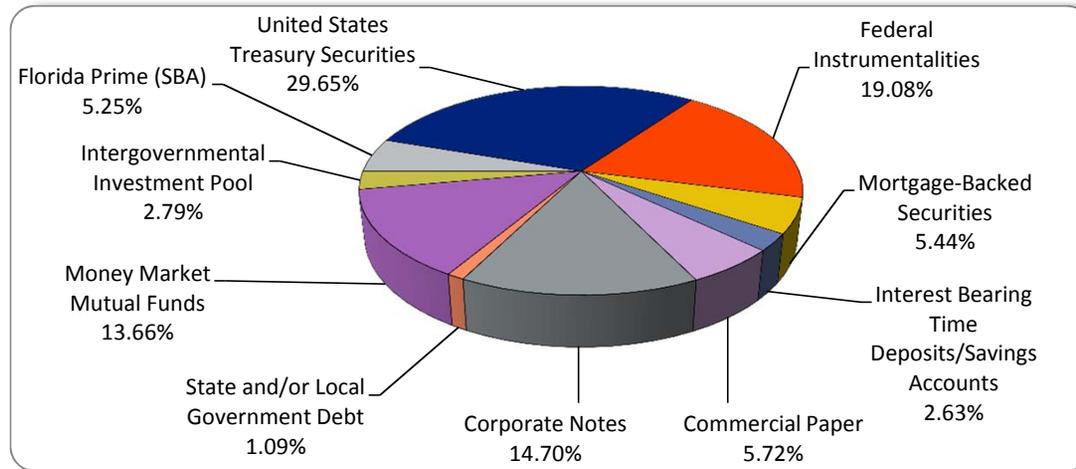
Quarterly Investment Report Composition and Credit Quality Characteristics

| <u>Security Type</u> ¹ | <u>December 31, 2013</u> | | <u>September 30, 2013</u> | |
|-----------------------------------|--------------------------|-----------------------|---------------------------|-----------------------|
| | | <u>% of Portfolio</u> | | <u>% of Portfolio</u> |
| U.S. Treasuries | \$ 56,485,099 | 29.65% | \$ 55,769,739 | 29.94% |
| Federal Agencies | 36,354,052 | 19.08% | 45,449,012 | 24.40% |
| Mortgage Backed | 10,354,781 | 5.44% | 11,299,333 | 6.07% |
| Corporate Notes | 28,008,178 | 14.70% | 25,956,863 | 13.94% |
| Commercial Paper | 10,889,844 | 5.72% | 0 | 0.00% |
| Municipal Obligations | 2,079,528 | 1.09% | 2,071,201 | 1.11% |
| Certificates of Deposit | 3,000,000 | 1.57% | 3,000,000 | 1.61% |
| FMIvT | 5,307,285 | 2.79% | 9,188,224 | 4.93% |
| Florida Prime (SBA) | 10,004,303 | 5.251% | 4,114 | 0.00% |
| Money Market Fund/Cash | 28,025,410 | 14.71% | 33,521,648 | 18.00% |
| Totals | \$ 190,508,480 | 100.00% | \$ 186,260,134 | 100.00% |



Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. 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.



| Security Type | Market Value (Includes Interest) | Allocation Percentage | Notes | Permitted by Policy | In Compliance |
|---|-------------------------------------|--------------------------|-------|------------------------|------------------|
| Florida Prime (SBA) | \$ 10,004,303 | 5.25% | 3 | 25% | YES |
| United States Treasury Securities | 56,485,099 | 29.65% | 4 | 100% | YES |
| United States Government Agency Securities | - | 0.00% | 4 | 50% | YES |
| Federal Instrumentalities | 36,354,052 | 19.08% | 4 | 75% | YES |
| Mortgage-Backed Securities | 10,354,781 | 5.44% | 4 | 20% | YES |
| Interest Bearing Time Deposits/Savings Accounts | 5,001,525 | 2.63% | 3 | 50% | YES |
| Repurchase Agreements | - | 0.00% | | 25% | YES |
| Commercial Paper | 10,889,844 | 5.72% | 4,5 | 20% | YES |
| Corporate Notes - FDIC Insured | - | 0.00% | 5 | 20% | YES |
| Corporate Notes | 28,008,178 | 14.70% | 4,5 | 50% | YES |
| State and/or Local Government Debt | 2,079,528 | 1.09% | 4 | 20% | YES |
| Money Market Mutual Funds | 26,023,885 | 13.66% | 3 | 50% | YES |
| Intergovernmental Investment Pool | 5,307,285 | 2.79% | 3,6 | 75% | YES |
| Total Market Value | \$ 190,508,480 | 100.00% | | | |

Notes:

1. End of month trade-date market value of portfolio holdings, including accrued interest.
 2. A detailed list of each individual security may be obtained in the City's Financial Administration Department.
 3. Managed by the City. Balances provided by City per statement.
 4. Managed by PFM Asset Management LLC.
 5. Combined total of Corporate Obligations and Commercial Paper shall not exceed 35% of the total investments. The combined total as of December 31, 2013 is 20.42%.
 6. 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) | 10,004,303 | 5.25% | 3 | 25% | YES |
| United States Treasury Securities | 56,485,099 | 29.65% | 4 | 100% | YES |
| Government National Mortgage Association (GNMA) | 2,474,550 | 1.30% | 4 | 50% | YES |
| Federal Farm Credit Bank (FFCB) | 3,502,235 | 1.84% | 4 | 20% | YES |
| Federal Home Loan Bank (FHLB) | 7,511,968 | 3.94% | 4 | 20% | YES |
| Federal National Mortgage Association (FNMA) | 21,221,786 | 11.14% | 4 | 20% | YES |
| Federal Home Loan Mortgage Corporation (FHLMC) | 11,998,294 | 6.30% | 4 | 20% | YES |
| Certificate of Deposit - Bank of America | 3,000,000 | 1.57% | 3 | 25% | YES |
| Money Market Account - Florida Community Bank | 2,001,525 | 1.05% | 3 | 25% | YES |
| Rabobank USA Fin Corp Commercial Paper | 3,447,540 | 1.81% | 4 | 5% | YES |
| HSBC USA Inc. Commercial Paper | 3,995,188 | 2.10% | 4 | 5% | YES |
| Bank of Tokyo Mitsubishi Commercial Paper | 3,447,116 | 1.81% | 4 | 5% | YES |
| JP Morgan Chase Corporate Notes | 4,024,545 | 2.11% | 4 | 5% | YES |
| Bank of New York Mellon Corporate Notes | 2,991,219 | 1.38% | 4 | 5% | YES |
| General Electric Corporate Notes | 2,623,408 | 1.57% | 4 | 5% | YES |
| John Deere Corporate Notes | 3,123,131 | 1.64% | 4 | 5% | YES |
| McDonald's Corporate Notes | 1,409,097 | 0.74% | 4 | 5% | YES |
| Walt Disney Corporate Notes | 824,465 | 0.43% | 4 | 5% | YES |
| Anheuser-Busch Corporate Notes | 2,017,332 | 1.06% | 4 | 5% | YES |
| Pepsico Corporate Notes | 997,245 | 0.52% | 4 | 5% | YES |
| Caterpillar Corporate Notes | 980,829 | 0.51% | 4 | 5% | YES |
| Apple Inc. Corporate Notes | 1,500,132 | 0.79% | 4 | 5% | YES |
| Toyota Corporate Notes | 1,483,026 | 0.78% | 4 | 5% | YES |
| Wells Fargo and Company Corporate Notes | 2,889,651 | 1.52% | 4 | 5% | YES |
| Berkshire Hathaway Corporate Notes | 1,164,384 | 0.61% | 4 | 5% | YES |
| Coca-Cola Corporate Notes | 771,771 | 0.41% | 4 | 5% | YES |
| American Honda Corporate Notes | 1,207,942 | 0.63% | 4 | 5% | YES |
| Minnesota State GO Bond | 1,305,042 | 0.69% | 4 | 5% | YES |
| University of California Taxable Revenue Bond | 774,486 | 0.41% | 4 | 5% | YES |
| FNMA Mortgage Backed Security | 2,936,814 | 1.54% | 4 | 15% | YES |
| FHLMC Mortgage Backed Security | 4,943,417 | 2.59% | 4 | 15% | YES |
| GNMA Mortgage Backed Security | 2,474,550 | 1.30% | 4 | 15% | YES |
| Money Market Fund - Wells Fargo Bank | 25,000,000 | 13.12% | 3 | 25% | YES |
| Money Market Fund - Bank of New York | 1,023,885 | 0.54% | 3 | 25% | YES |
| Intergovernmental Investment Pool - Florida Municipal Investment Trust | 5,307,285 | 2.79% | 3,6 | 25% | YES |

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