



# City of Sarasota, Florida



## Investment Performance Review Quarter Ended June 30, 2014

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Quarterly Investment Statistics as of June 30, 2014

Investments	Market Value	Quarterly Interest Income	Fiscal Year to Date Income
PFM Managed Investment/Short Term Portfolios	\$ 141,536,205	\$ 442,602	\$ 1,113,470
Fidelity Prime Institutional Money Market Fund	442,523	18	39
FMIvT	4,955,859	65,851	118,584
CD - Bank of America	-	6,083	6,083
Florida Prime (SBA)	10,012,372	3,948	8,739
Wells Fargo Money Market Account	25,000,000	26,088	85,082
Florida Community Bank	2,006,300	2,307	6,310
Services Fees	n/a	(73,202)	(230,140)
Subtotal	\$ 183,953,259	\$ 473,695	\$ 1,108,167
Change in Fair Market Value	\$ 163,908	\$ (19,616)	
Change in Accrued Interest	(82,107)	(138,091)	
Subtotal	\$ 81,801	\$ (157,707)	
Total	\$ 555,496	\$ 950,460	

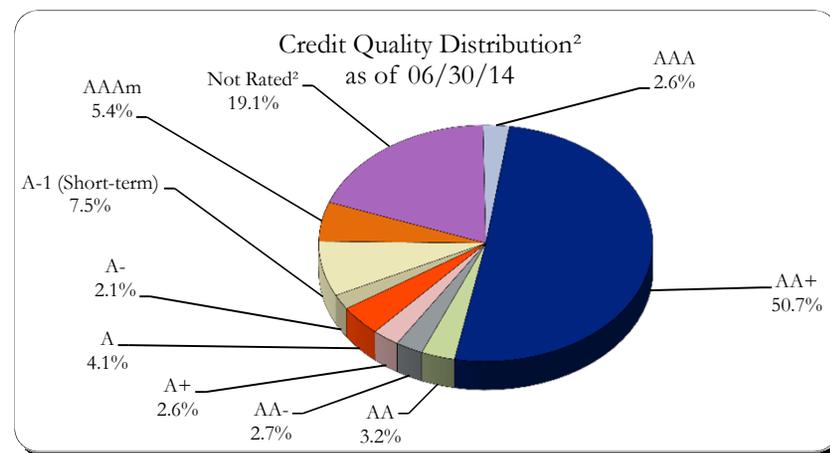
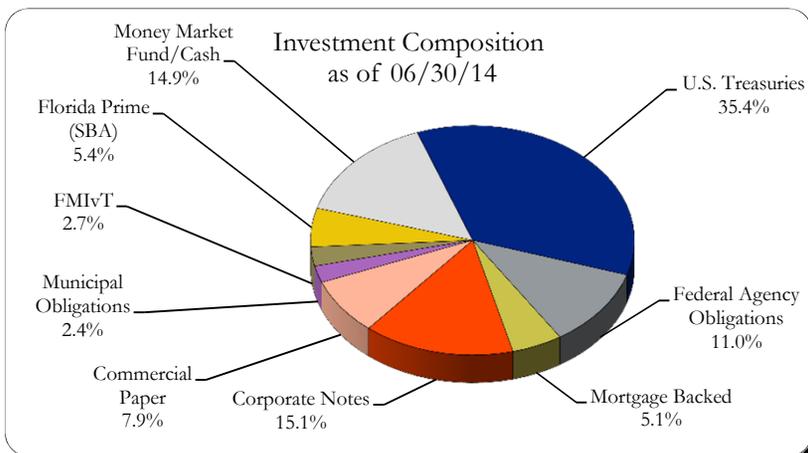
Long Term Investments	Quarterly Total Return	Current Fiscal Year to Date Return	Previous Fiscal Year to Date Return	Short Term Investments	Net Book Value Rate of Return
PFM Managed Investment Portfolio <sup>1</sup>	0.37%	0.67%	0.01%	Fidelity Prime Institutional Money Market Fund <sup>2</sup>	0.01%
<b>Benchmark:</b> Merrill Lynch 1-3 Year U.S. Treasury Index	0.27%	0.47%	0.07%	Certificates of Deposit	N/A
				Florida Prime (SBA)	0.16%
FMIvT Intermediate High Quality Bond Fund <sup>4</sup>	1.38%	2.37%	-1.59%	Wells Fargo Money Market Account*	0.00%
<b>Benchmark:</b> Barclays Capital High Quality Intermediate Aggregate <sup>4</sup>	1.56%	2.41%	-1.52%	Florida Community Bank	0.50%
				Weighted Average Yield	0.21%
				<b>Benchmark:</b>	
				Merrill Lynch 3-Month U.S. Treasury Bill Index <sup>3</sup>	0.02%

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.
- \* 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.

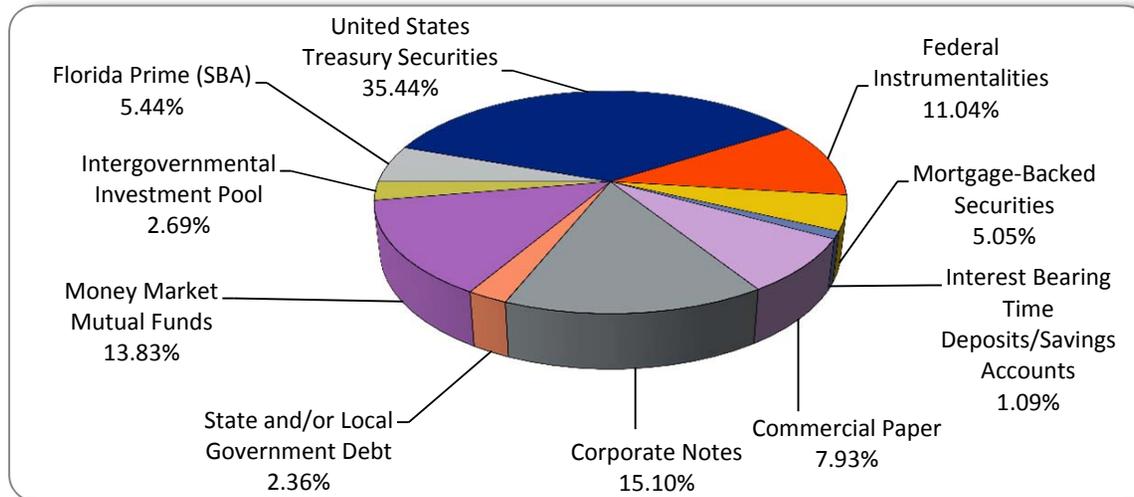
Quarterly Investment Report Composition and Credit Quality Characteristics

<u>Security Type</u> <sup>1</sup>	<u>June 30, 2014</u>	<u>% of Portfolio</u>	<u>March 31, 2014</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$ 65,200,803	35.44%	\$ 55,362,999	29.08%
Federal Agencies	20,316,408	11.04%	29,216,337	15.35%
Mortgage Backed	9,294,377	5.05%	9,787,435	5.14%
Corporate Notes	27,782,056	15.10%	31,696,460	16.65%
Commercial Paper	14,592,759	7.93%	18,042,371	9.48%
Municipal Obligations	4,349,802	2.36%	779,508	0.41%
Certificates of Deposit	0	0.00%	3,000,000	1.58%
FMIvT	4,955,859	2.69%	4,890,008	2.57%
Florida Prime (SBA)	10,012,372	5.443%	10,008,424	5.26%
Money Market Fund/Cash	27,448,823	14.92%	27,588,940	14.49%
<b>Totals</b>	<b>\$ 183,953,259</b>	<b>100.00%</b>	<b>\$ 190,372,483</b>	<b>100.00%</b>



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)	10,012,372	5.44%	3	25%	YES
United States Treasury Securities	65,200,803	35.44%	4	100%	YES
United States Government Agency Securities	-	0.00%	4	50%	YES
Federal Instrumentalities	20,316,408	11.04%	4	75%	YES
Mortgage-Backed Securities	9,294,377	5.05%	4	20%	YES
Interest Bearing Time Deposits/Savings Accounts	2,006,300	1.09%	3	50%	YES
Repurchase Agreements	-	0.00%		25%	YES
Commercial Paper	14,592,759	7.93%	4,5	20%	YES
Corporate Notes - FDIC Insured	-	0.00%	5	50%	YES
Corporate Notes	27,782,056	15.10%	4,5	20%	YES
State and/or Local Government Debt	4,349,802	2.36%	4	20%	YES
Money Market Mutual Funds	25,442,523	13.83%	3	50%	YES
Intergovernmental Investment Pool	4,955,859	2.69%	3,6	75%	YES
<b>Total Market Value</b>	<b>\$ 183,953,259</b>	<b>100.00%</b>			

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 June 30, 2014 is 23.04%.
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)	10,012,372	5.44%	3	25%	YES
United States Treasury Securities	65,200,803	35.44%	4	100%	YES
Government National Mortgage Association (GNMA)	2,150,459	1.17%	4	25%	YES
Federal Farm Credit Bank (FFCB)	-	0.00%	4	40%	YES
Federal Home Loan Bank (FHLB)	5,689,691	3.09%	4	40%	YES
Federal National Mortgage Association (FNMA)	13,628,357	7.41%	4	40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	8,142,278	4.43%	4	40%	YES
Certificate of Deposit - Bank of America	-	0.00%	3	25%	YES
Money Market Account - Florida Community Bank	2,006,300	1.09%	3	25%	YES
HSBC USA Inc. Commercial Paper	3,996,148	2.17%	4	5%	YES
Bank of Nova Scotia Commercial Paper	3,574,961	1.94%	4	5%	YES
Bank of Tokyo Mitsubishi Commercial Paper	3,447,344	1.87%	4	5%	YES
Wells Fargo and Company Commercial Paper	3,574,306	1.94%	4	5%	YES
JP Morgan Chase Corporate Notes	4,025,913	2.19%	4	5%	YES
Bank of New York Mellon Corporate Notes	974,127	1.43%	4	5%	YES
General Electric Corporate Notes	2,628,541	0.53%	4	5%	YES
John Deere Corporate Notes	2,205,970	1.20%	4	5%	YES
Walt Disney Corporate Notes	826,129	0.45%	4	5%	YES
PepsiCo Corporate Notes	1,004,818	0.55%	4	5%	YES
Caterpillar Corporate Notes	983,434	0.53%	4	5%	YES
Apple Inc. Corporate Notes	968,640	0.53%	4	5%	YES
Toyota Corporate Notes	1,489,599	0.81%	4	5%	YES
Wells Fargo and Company Corporate Notes	2,897,522	1.58%	4	5%	YES
Berkshire Hathaway Corporate Notes	1,165,344	0.63%	4	5%	YES
Coca-Cola Corporate Notes	775,264	0.42%	4	5%	YES
American Honda Corporate Notes	1,210,206	0.66%	4	5%	YES
IBM Corporate Notes	3,652,255	1.99%	4	5%	YES
American Express Corporate Notes	2,974,293	1.62%	4	5%	YES
University of California Taxable Revenue Bond	777,216	0.42%	4	5%	YES
Regional Trans Authority, IL Taxable Revenue Bonds	3,572,587	1.94%	4	5%	YES
FNMA Mortgage Backed Security	2,530,954	1.38%	4	15%	YES
FHLMC Mortgage Backed Security	4,612,964	2.51%	4	15%	YES
GNMA Mortgage Backed Security	2,150,459	1.17%	4	15%	YES
Money Market Fund - Wells Fargo Bank	25,000,000	13.59%	3	25%	YES
Money Market Fund - Bank of New York	442,523	0.24%	3	25%	YES
Intergovernmental Investment Pool - Florida Municipal Investment Trust	4,955,859	2.69%	3,6	25%	YES

## Notes:

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\*All Funds.

### **Summary**

- Treasury prices rose during the second quarter, marking two consecutive quarters of price rallies—a pattern that has not occurred since 2012.
- Global central banks seem to be going their separate ways in terms of monetary policy, as the European Central Bank cut interest rates and added to bank liquidity in an effort to avoid deflation while the Federal Reserve (Fed) continued to scale back its quantitative easing program.
- Geopolitical uncertainty continued to be a primary focus for the markets, as tensions in Ukraine, Iraq, and Syria caused investors to move toward assets that are perceived to have less risk.

### **Economic Snapshot**

- First-quarter gross domestic product (GDP) contracted at an annual rate of 2.9%—the first downward move in three years. The harsh winter weather was a primary contributor. Most economists expect a recovery as 2014 further unfolds.
- The U.S. unemployment rate fell from 6.7% in March to 6.1% at the end of the second quarter. While the U.S. is adding jobs at a steady pace, the reduction in unemployment can also be traced to an increase in the number of Americans who are no longer actively looking for work.
- The housing market continued to show modest strength during the quarter. New-home sales for May rose 18.6% from the prior month, marking a six-year high, while existing-home sales rose 4.9% from the prior month. However, the pace of housing starts remained well below pre-recession levels. Mortgage applications for purchase are down 17.6% year over year, and mortgage applications for refinancing are down 56.5% year over year.

### **Interest Rates**

- The Fed continued to taper its bond buying program throughout the quarter, and at its June meeting, the Federal Open Market Committee (FOMC) cut bond purchases by another \$10 billion, resulting in monthly purchases of \$35 billion. The FOMC has continued to keep the federal funds target rate in a range of zero to 25 basis points.
- Inflation ticked up during the quarter as the Consumer Price Index rose at its fastest pace in more than a year in May—increasing twice as much as economists had anticipated. Core prices (which exclude food and energy prices) gained 2% on an annual basis, marking the fastest price increase since February 2013 and matching the Fed’s current target for inflation.
- The Treasury yield curve flattened over the quarter as intermediate- and long-maturity bond prices led the rally. This flattening expresses the current investor outlook that Fed tightening will be modest by historical standards and inflation will remain well-contained in coming years.

### **Sector Performance**

- Portfolios maintained a modestly defensive maturity structure, with durations somewhat short of benchmarks. This structure is in place to reduce the effects of interest rate rises that normally occur when economic growth accelerates and the Fed moves to tighten credit.
- Federal Agency and corporate sector holdings generally contributed returns in excess of those on Treasuries. The excess resulted from the added income generated by these holdings and from spread narrowing, offsetting the drag on performance that resulted from the defensive duration position.
- Risk premiums on lower-rated corporate bonds and on callable and mortgage-backed securities narrowed further during the quarter to the point where there was diminished value relative to comparable Treasury benchmarks.

### Economic Snapshot

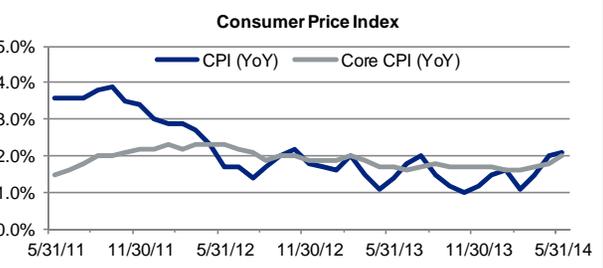
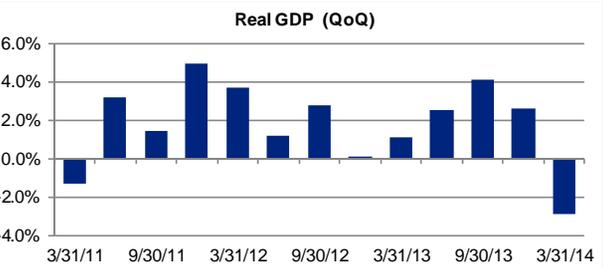
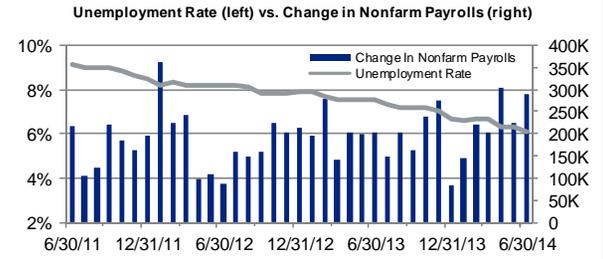
Labor Market	Latest	Mar 2014	Jun 2013	
Unemployment Rate	Jun'14	6.1%	6.7%	7.5%
Change In Nonfarm Payrolls	Jun'14	288,000	203,000	201,000
Average Hourly Earnings (YoY)	Jun'14	2.0%	2.1%	2.2%
Personal Income (YoY)	May'14	3.5%	3.3%	3.4%
Initial Jobless Claims (week)	Jul 11	302,000	332,000	344,000

Growth	Latest	Mar 2014	Jun 2013	
Real GDP (QoQ SAAR)	2014Q1	-2.9%	2.6% <sup>1</sup>	2.5% <sup>2</sup>
GDP Personal Consumption (QoQ SAAR)	2014Q1	1.0%	3.3% <sup>1</sup>	1.8% <sup>2</sup>
Retail Sales (YoY)	Jun'14	4.3%	4.1%	5.9%
ISM Manufacturing Survey (month)	Jun'14	55.3	53.7	52.5
Existing Home Sales SAAR (month)	May'14	4.89 mil.	4.59 mil.	5.16 mil.

Inflation / Prices	Latest	Mar 2014	Jun 2013	
Personal Consumption Expenditures (YoY)	May'14	1.8%	1.1%	1.3%
Consumer Price Index (YoY)	May'14	2.1%	1.5%	1.8%
Consumer Price Index Core (YoY)	May'14	2.0%	1.7%	1.6%
Crude Oil Futures (WTI, per barrel)	Jun 30	\$105.37	\$101.58	\$96.56
Gold Futures (oz.)	Jun 30	\$1,322	\$1,283	\$1,224

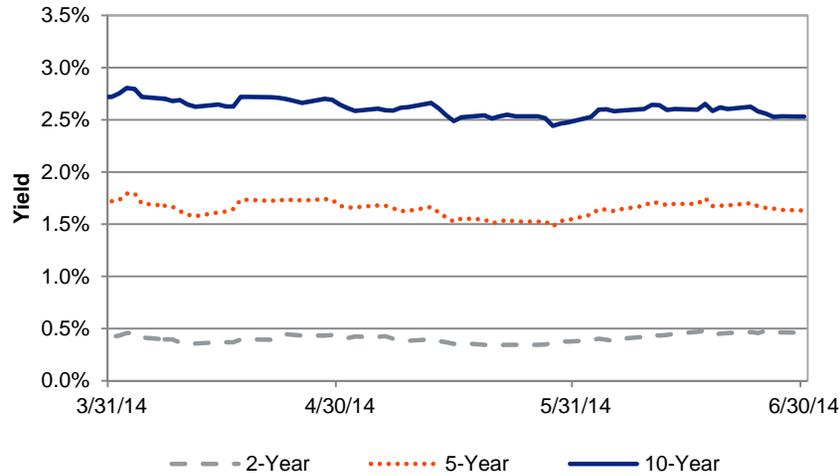


1. Data as of Fourth Quarter 2013 2. Data as of Second Quarter 2013  
 3. Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

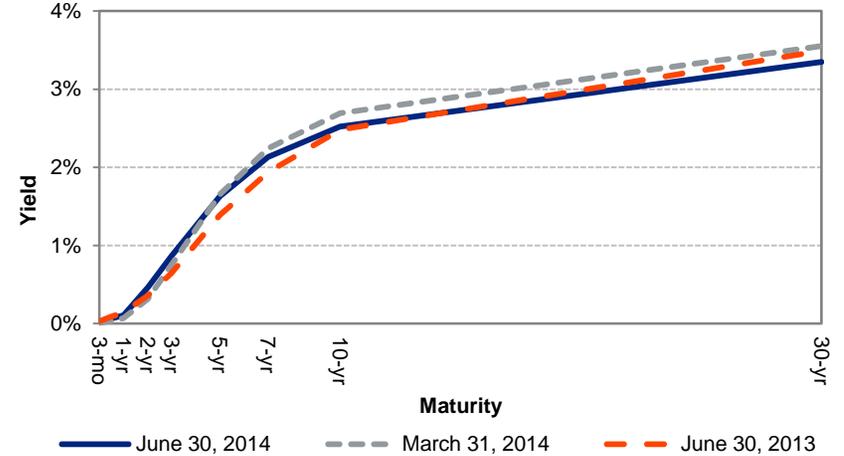
Source: Bloomberg

### Investment Rate Overview

U.S. Treasury Note Yields



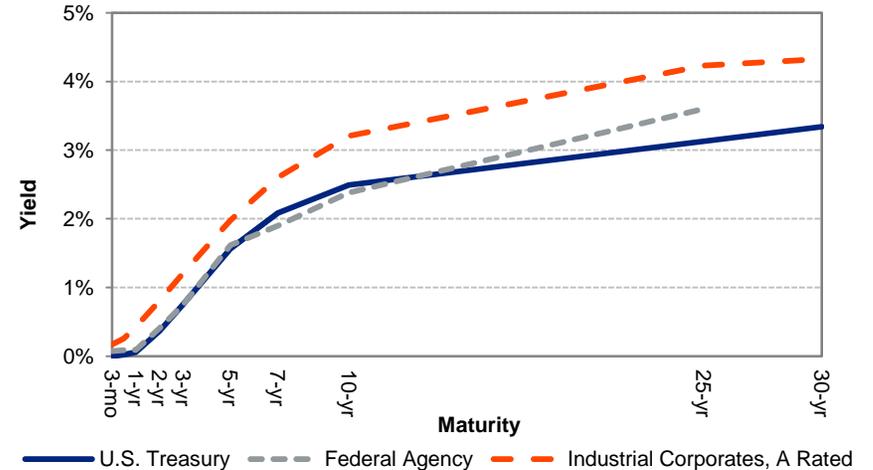
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	6/30/14	3/31/14	Change over Quarter	6/30/13	Change over Year
3-month	0.02%	0.03%	(0.01%)	0.03%	(0.01%)
1-year	0.10%	0.11%	(0.01%)	0.15%	(0.05%)
2-year	0.46%	0.42%	0.04%	0.36%	0.10%
5-year	1.63%	1.72%	(0.09%)	1.40%	0.23%
10-year	2.53%	2.72%	(0.19%)	2.49%	0.04%
30-year	3.36%	3.56%	(0.20%)	3.50%	(0.14%)

Yield Curves as of 6/30/2014



Source: Bloomberg

## BofA Merrill Lynch Index Returns

	As of 6/30/2014		Returns for Periods ended 6/30/2014		
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.93	0.45%	0.27%	0.76%	0.63%
Federal Agency	1.85	0.55%	0.24%	0.87%	0.75%
U.S. Corporates, A-AAA rated	1.95	0.90%	0.49%	2.12%	2.10%
Agency MBS (0 to 3 years)	1.52	0.93%	0.55%	2.68%	1.46%
Municipals	1.73	0.45%	0.34%	1.40%	1.16%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.72	0.79%	0.55%	1.16%	1.11%
Federal Agency	2.35	0.80%	0.54%	1.52%	1.15%
U.S. Corporates, A-AAA rated	2.88	1.40%	0.96%	3.45%	2.92%
Agency MBS (0 to 5 years)	3.05	2.04%	1.71%	4.12%	2.52%
Municipals	2.50	0.77%	0.60%	2.25%	1.78%
<b>Master Indices (Maturities 1 Year or Greater)</b>					
U.S. Treasury	5.89	1.51%	1.56%	2.29%	3.03%
Federal Agency	3.93	1.34%	1.24%	2.65%	2.18%
U.S. Corporates, A-AAA rated	6.74	2.60%	2.37%	6.58%	5.42%
Agency MBS (0 to 30 years)	4.69	2.61%	2.43%	4.68%	2.79%
Municipals	7.32	2.85%	2.69%	6.54%	5.62%

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: BofA Merrill Lynch Indices

**Disclosures**

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