



# City of Sarasota, Florida



## Investment Performance Review Quarter Ended September 30, 2014

### Financial Administration Department

1565 1st Street  
Sarasota, FL 34236  
(941) 954-4185  
(941) 954-4189 fax  
John C. Lege III, CGFO, Finance Director  
Kelly R. Strickland, CPA, CGFO, Deputy Finance Director

### PFM Asset Management LLC

300 S. Orange Avenue, Suite 1170  
Orlando, FL 32801  
(407) 648-2208  
(407) 648-1323 fax  
Steven Alexander, CTP, CGFO, Managing Director  
D. Scott Stitcher, CFA, Senior Managing Consultant  
Richard Pengelly, CFA, Senior Managing Consultant  
Gregg Manjerovic, CFA, Portfolio Manager  
Rebecca Geyer, CTP, Senior Analyst

Quarterly Investment Statistics as of September 30, 2014

Investments	Market Value	Quarterly Interest Income	Fiscal Year to Date Income
PFM Managed Investment/Short Term Portfolios	\$ 141,614,954	\$ 261,340	\$ 1,374,810
Fidelity Prime Institutional Money Market Fund	421,888	9	48
FMIvT	4,957,877	2,019	120,602
CD - Bank of America	-	-	6,083
Florida Prime (SBA)	10,016,448	4,076	12,816
Wells Fargo Money Market Account	-	10,311	95,393
Florida Community Bank	2,008,830	2,530	8,840
Fifth Third Bank NOW Account	20,728,037	-	-
Services Fees	n/a	(66,017)	(296,158)
Subtotal	\$ 179,748,034	\$ 214,267	\$ 1,322,434
Change in Fair Market Value	\$ (223,963)	\$ (243,580)	
Change in Accrued Interest		43,974	(94,117)
Subtotal	\$ (179,990)	\$ (337,697)	
Total	\$ 34,277	\$ 984,737	

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>	0.06%	0.73%	0.67%	Fidelity Prime Institutional Money Market Fund <sup>2</sup>	0.01%
<b>Benchmark:</b> Merrill Lynch 1-3 Year U.S. Treasury Index	0.03%	0.50%	0.47%	Certificates of Deposit	N/A
				Florida Prime (SBA)	0.16%
FMIvT Intermediate High Quality Bond Fund <sup>4</sup>	0.11%	2.49%	2.37%	Wells Fargo Money Market Account*	0.00%
<b>Benchmark:</b> Barclays Capital High Quality Intermediate Aggregate <sup>4</sup>	0.06%	2.47%	2.41%	Florida Community Bank	0.50%
				Fifth Third Bank NOW Account	N/A
				Weighted Average Yield	0.21%
				<b>Benchmark:</b>	
				Merrill Lynch 3-Month U.S. Treasury Bill	
				Index <sup>3</sup>	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.

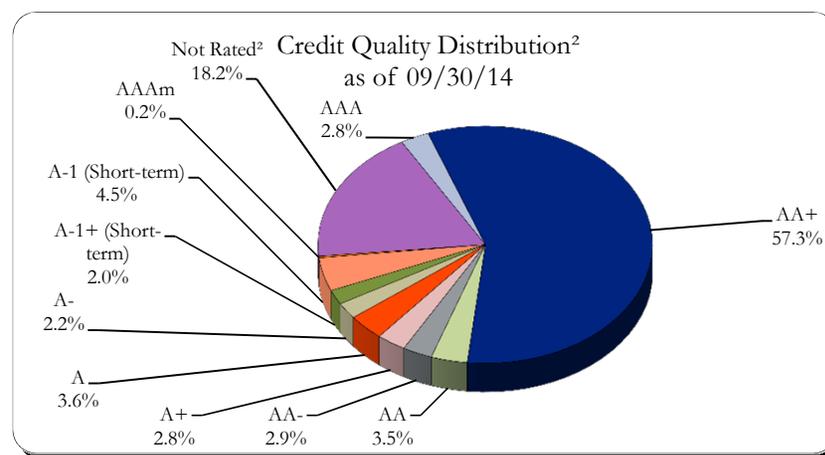
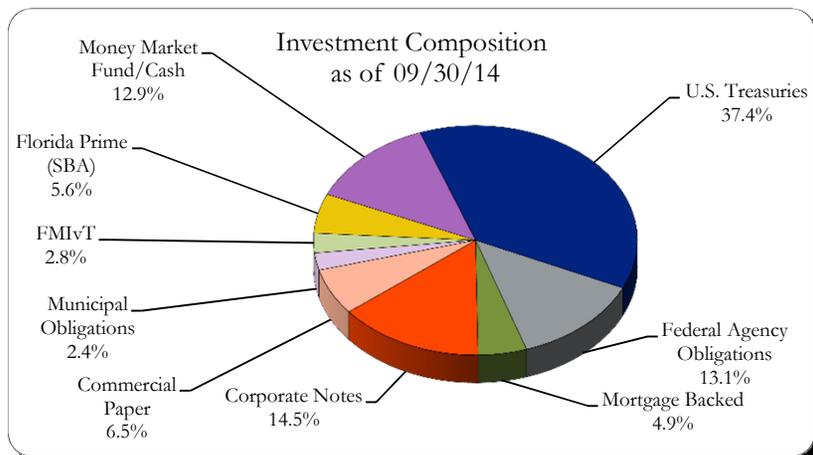
3. Bloomberg is the source of the yield at month end.

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.

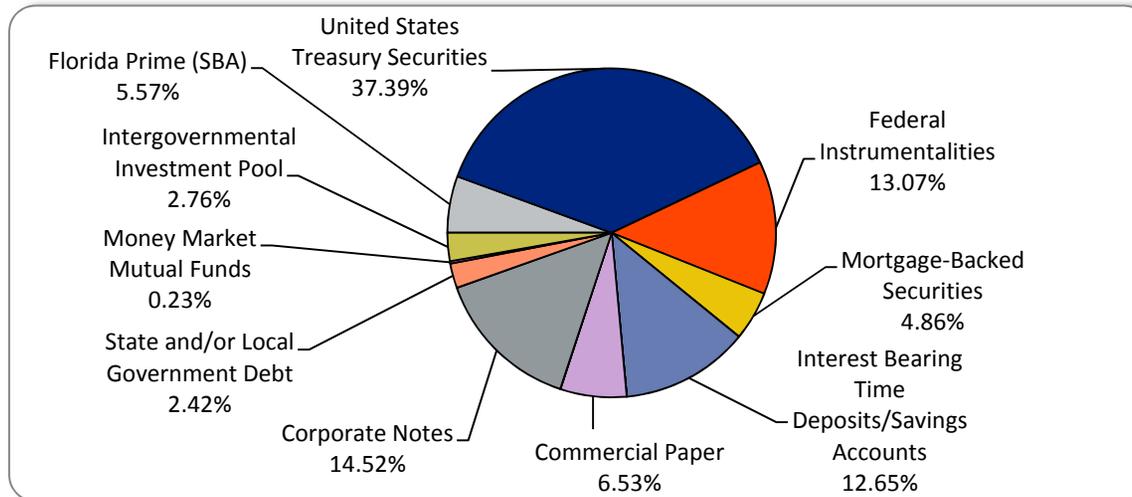
Quarterly Investment Report Composition and Credit Quality Characteristics

<u>Security Type</u> <sup>1</sup>	<u>September 30, 2014</u>		<u>June 30, 2014</u>	
		<u>% of Portfolio</u>		<u>% of Portfolio</u>
U.S. Treasuries	\$ 67,205,199	37.39%	\$ 65,200,803	35.44%
Federal Agencies	23,490,198	13.07%	20,316,408	11.04%
Mortgage Backed	8,733,016	4.86%	9,294,377	5.05%
Corporate Notes	26,103,640	14.52%	27,782,056	15.10%
Commercial Paper	11,731,564	6.53%	14,592,759	7.93%
Municipal Obligations	4,351,337	2.42%	4,349,802	2.36%
Certificates of Deposit	0	0.00%	0	0.00%
FMIvT	4,957,877	2.76%	4,955,859	2.69%
Florida Prime (SBA)	10,016,448	5.572%	10,012,372	5.44%
Money Market Fund/Cash	23,158,755	12.88%	27,448,823	14.92%
<b>Totals</b>	<b>\$ 179,748,034</b>	<b>100.00%</b>	<b>\$ 183,953,259</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)	10,016,448	5.57%	3	25%	YES
United States Treasury Securities	67,205,199	37.39%	4	100%	YES
United States Government Agency Securities	-	0.00%	4	50%	YES
Federal Instrumentalities	23,490,198	13.07%	4	75%	YES
Mortgage-Backed Securities	8,733,016	4.86%	4	20%	YES
Interest Bearing Time Deposits/Savings Accounts	22,736,866	12.65%	3	50%	YES
Repurchase Agreements	-	0.00%	-	25%	YES
Commercial Paper	11,731,564	6.53%	4,5	20%	YES
Corporate Notes - FDIC Insured	-	0.00%	5	50%	YES
Corporate Notes	26,103,640	14.52%	4,5	20%	YES
State and/or Local Government Debt	4,351,337	2.42%	4	20%	YES
Money Market Mutual Funds	421,888	0.23%	3	50%	YES
Intergovernmental Investment Pool	4,957,877	2.76%	3,6	75%	YES
<b>Total Market Value</b>	<b>\$ 179,748,034</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 September 30, 2014 is 21.05%.
6. Includes balances from the FMIvT Intermediate High Quality Bond Fund.

\*All Funds.

<b>Individual Issuer Breakdown</b>	<b>Market Value (Includes Interest)</b>	<b>Allocation Percentage</b>	<b>Notes</b>	<b>Permitted by Policy</b>	<b>In Compliance</b>
Florida Prime (SBA)	10,016,448	5.57%	3	25%	YES
United States Treasury Securities	67,205,199	37.39%	4	100%	YES
Government National Mortgage Association (GNMA)	1,993,832	1.11%	4	25%	YES
Federal Farm Credit Bank (FFCB)	-	0.00%	4	40%	YES
Federal Home Loan Bank (FHLB)	7,076,645	3.94%	4	40%	YES
Federal National Mortgage Association (FNMA)	12,379,719	6.89%	4	40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	10,773,018	5.99%	4	40%	YES
Money Market Account - Florida Community Bank	2,008,830	1.12%	3	25%	YES
HSBC USA Inc. Commercial Paper	3,998,760	2.22%	4	5%	YES
Toyota Motor Commercial Paper	3,573,892	1.99%	4	5%	YES
Bank of Tokyo Mitsubishi Commercial Paper	3,449,396	1.92%	4	5%	YES
Wells Fargo and Company Commercial Paper	709,516	0.39%	4	5%	YES
JP Morgan Chase Corporate Notes	2,649,232	1.47%	4	5%	YES
Bank of New York Mellon Corporate Notes	970,890	1.46%	4	5%	YES
General Electric Corporate Notes	2,627,586	0.54%	4	5%	YES
John Deere Corporate Notes	2,195,957	1.22%	4	5%	YES
PepsiCo Corporate Notes	1,002,834	0.56%	4	5%	YES
Caterpillar Corporate Notes	1,537,694	0.86%	4	5%	YES
Apple Inc. Corporate Notes	969,767	0.54%	4	5%	YES
Toyota Corporate Notes	1,487,858	0.83%	4	5%	YES
Wells Fargo and Company Corporate Notes	2,895,982	1.61%	4	5%	YES
Berkshire Hathaway Corporate Notes	1,160,615	0.65%	4	5%	YES
Coca-Cola Corporate Notes	776,501	0.43%	4	5%	YES
American Honda Corporate Notes	1,210,633	0.67%	4	5%	YES
IBM Corporate Notes	3,653,222	2.03%	4	5%	YES
American Express Corporate Notes	2,964,867	1.65%	4	5%	YES
University of California Taxable Revenue Bond	778,590	0.43%	4	5%	YES
Regional Trans Authority, IL Taxable Revenue Bonds	3,572,748	1.99%	4	5%	YES
FNMA Mortgage Backed Security	2,343,353	1.30%	4	15%	YES
FHLMC Mortgage Backed Security	4,395,831	2.45%	4	15%	YES
GNMA Mortgage Backed Security	1,993,832	1.11%	4	15%	YES
Money Market Fund - Bank of New York	421,888	0.23%	3	25%	YES
Fifth Third Bank NOW Account	20,728,036	11.53%	3	25%	YES
Intergovernmental Investment Pool - Florida Municipal Investment Trust	4,957,877	2.76%	3,6	25%	YES

## 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 September 30, 2014 is 21.05%.
6. Includes balances from the FMI/VT Intermediate High Quality Bond Fund.

\*All Funds.

### **Summary**

- While the U.S. economy continued its recovery during the quarter, global unrest and uncertainty about future central bank policy—including actions of the Federal Reserve (Fed)—resulted in volatility in the bond and equity markets.
- Ten-year Treasury bond yields were little changed compared to the end of the previous quarter, although yields experienced larger movements throughout the quarter. On the other hand, shorter-term rates generally rose while longer term rates fell modestly.
- Geopolitical uncertainty continued to move the markets. Military conflicts in Ukraine and the Middle East, as well as weaker economic data in the euro zone and various emerging markets such as China and Brazil, factored significantly in investor sentiment.

### **Economic Snapshot**

- Second-quarter gross domestic product (GDP) rose at a revised annual rate of 4.6%, driven by increased consumption, inventories, exports, residential and nonresidential investment, and local government spending.
- The U.S. unemployment rate fell from 6.1% in June to 5.9% in September. While job growth has been impressive, wage growth has been weak and other measures such as the labor force participation rate and the number of part time workers for economic reasons indicate lingering levels of underutilization.
- Housing market data was also a “glass half empty, glass half full” scenario, as housing-related indicators experienced a series of ups and downs throughout the quarter. Most recently, new-home sales reached the highest level since 2008, while existing-home sales had a small, unexpected decline.

### **Interest Rates**

- The Federal Open Market Committee (FOMC) reaffirmed that its quantitative easing bond purchase program will end in October. At the same time, the FOMC released updated assessments of where individual participants judged the appropriate level for the federal funds rate at the end of the next few calendar years. Those assessments showed a surprisingly fast upward trajectory for short-term rates that are inconsistent with both Fed Chair Janet Yellen’s public comments and persistently low current market rates.
- Inflation (as measured by the Consumer Price Index) unexpectedly decreased month over month in August. This marked the first decline in almost a year and a half. Inflation continues to run below the Fed’s 2% target rate.
- Yields on intermediate-maturity (two- to five-year) Treasuries ended the quarter higher. Surprisingly, this was not the case for longer maturities (10-30 years); instead, rates continued to fall modestly, causing a flattening of the Treasury yield curve.

### **Sector Performance**

- Fixed-income performance was very modest for the quarter—or in some cases modestly negative—as income was offset by interest rate increases for short- and intermediate-term maturities across most sectors. The exceptions were longer-maturity Treasury, Agency, and municipal bonds, where yields actually fell modestly.
- Spreads generally widened in the quarter. While the impact was modest for the Agency sector, spread widening in corporates negatively affected performance in the sector. Still, corporates have been one of the best performing sectors over the past one-, three-, and five-year periods.
- Short-term markets continued to be driven by the Fed as well as new regulations affecting banks and money market funds.

### Economic Snapshot

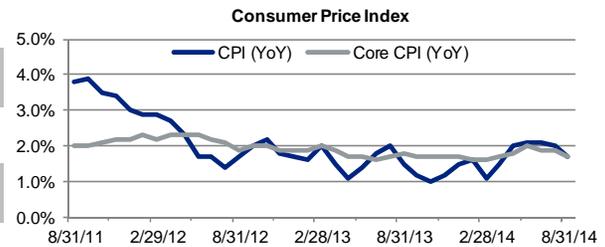
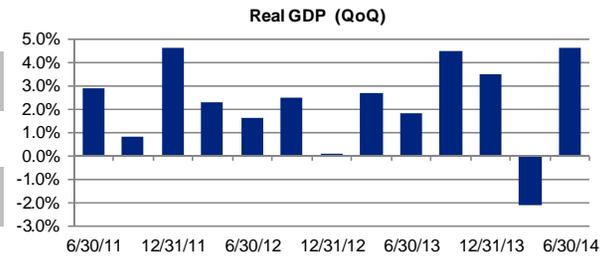
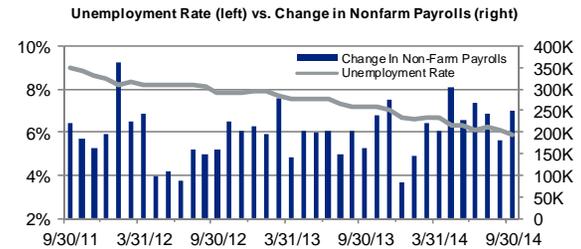
Labor Market	Latest	Jun 2014	Sep 2013	
Unemployment Rate	Sep'14	5.9%	6.1%	7.2%
Change In Non-Farm Payrolls	Sep'14	248,000	267,000	164,000
Average Hourly Earnings (YoY)	Sep'14	2.0%	1.9%	2.0%
Personal Income (YoY)	Aug'14	4.3%	4.1%	2.8%
Initial Jobless Claims (week)	Sep 26	287,000	316,000	318,000

Growth	Latest	Jun 2014	Sep 2013	
Real GDP (QoQ SAAR)	2014Q2	4.6%	-2.1% <sup>1</sup>	4.5% <sup>2</sup>
GDP Personal Consumption (QoQ SAAR)	2014Q2	2.5%	1.2% <sup>1</sup>	2.0% <sup>2</sup>
Retail Sales (YoY)	Aug'14	5.0%	4.4%	3.2%
ISM Manufacturing Survey (month)	Sep'14	56.6	55.3	56.0
Existing Home Sales SAAR (month)	Aug'14	5.05 mil.	5.03 mil.	5.26 mil.

Inflation / Prices	Latest	Jun 2014	Sep 2013	
Personal Consumption Expenditures (YoY)	Aug'14	1.5%	1.6%	1.0%
Consumer Price Index (YoY)	Aug'14	1.7%	2.1%	1.2%
Consumer Price Index Core (YoY)	Aug'14	1.7%	1.9%	1.7%
Crude Oil Futures (WTI, per barrel)	Sep 30	\$91.16	\$105.37	\$102.33
Gold Futures (oz.)	Sep 30	\$1,211	\$1,322	\$1,327



1. Data as of First Quarter 2014

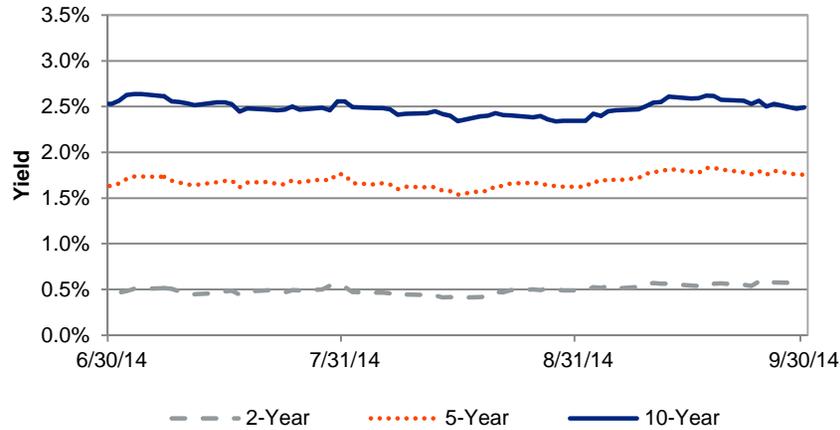
2. Data as of Third Quarter 2013

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

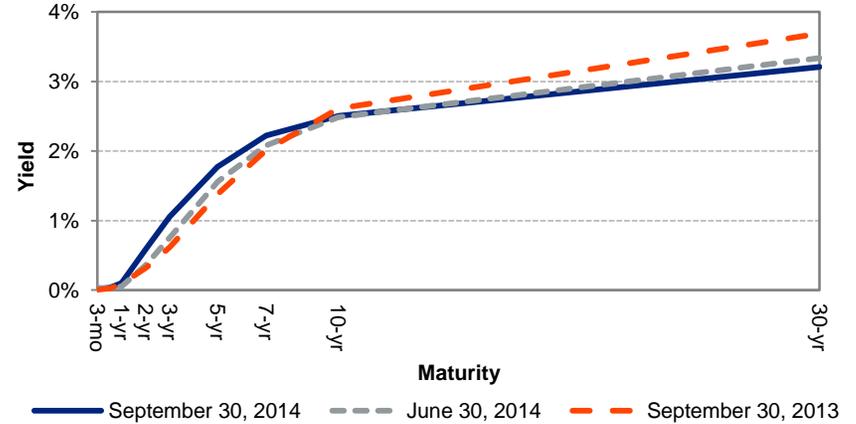
Source: Bloomberg

### Investment Rate Overview

U.S. Treasury Note Yields



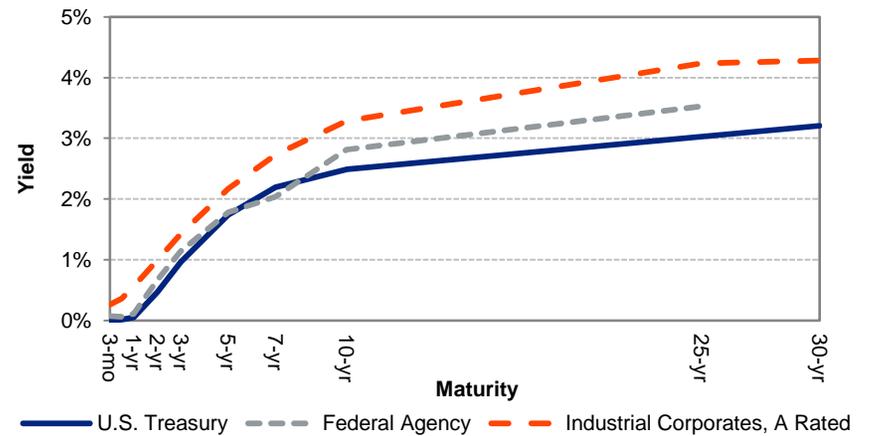
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	9/30/14	6/30/14	Change over Quarter	9/30/13	Change over Year
3-month	0.02%	0.02%	0.00%	0.01%	0.01%
1-year	0.10%	0.10%	0.00%	0.09%	0.01%
2-year	0.57%	0.46%	0.11%	0.32%	0.25%
5-year	1.76%	1.63%	0.13%	1.38%	0.38%
10-year	2.49%	2.53%	(0.04%)	2.61%	(0.12%)
30-year	3.20%	3.36%	(0.16%)	3.69%	(0.49%)

Yield Curves as of 9/30/2014



Source: Bloomberg

## BofA Merrill Lynch Index Returns

	As of 9/30/2014		Returns for Periods ended 9/30/2014		
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.91	0.59%	0.03%	0.50%	0.48%
Federal Agency	1.86	0.71%	0.07%	0.63%	0.65%
U.S. Corporates, A-AAA rated	1.96	1.14%	0.02%	1.39%	2.28%
Agency MBS (0 to 3 years)	1.56	1.21%	(0.14%)	1.49%	1.16%
Municipals	1.81	0.54%	0.12%	1.05%	1.04%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.71	0.97%	(0.06%)	0.64%	0.63%
Federal Agency	2.36	0.97%	0.00%	0.99%	0.86%
U.S. Corporates, A-AAA rated	2.85	1.65%	(0.10%)	2.16%	3.06%
Agency MBS (0 to 5 years)	3.16	2.20%	0.05%	3.21%	2.01%
Municipals	2.58	0.83%	0.31%	1.88%	1.56%
<b>Master Indices (Maturities 1 Year or Greater)</b>					
U.S. Treasury	5.93	1.63%	0.43%	2.70%	1.08%
Federal Agency	3.95	1.48%	0.25%	2.55%	1.31%
U.S. Corporates, A-AAA rated	6.71	2.76%	0.17%	5.85%	4.58%
Agency MBS (0 to 30 years)	4.68	2.75%	0.15%	3.72%	2.06%
Municipals	6.99	2.65%	1.64%	8.73%	4.83%

Returns for periods greater than one year are annualized

Source: BofA Merrill Lynch Indices

**Disclosures**

The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC (PFMAM) at the time of distribution and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFMAM cannot guarantee its accuracy, completeness, or suitability. This material is for general information purposes only and is not intended to provide specific advice or recommendation. The information contained in this report is not an offer to purchase or sell any securities.

Further distribution is not permitted without prior written consent.