

City of Winter Springs, Florida



Investment Performance Review Quarter Ended June 30, 2013

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(statements are available online at www.pfm.com)

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TAB I

Summary

- After hitting 2013 lows during the quarter, interest rates skyrocketed on stronger economic prospects and the Federal Reserve's (Fed's) impending plan to reduce bond purchases.
- The U.S. housing market continued to strengthen, and the unemployment rate remained unchanged for the quarter at 7.6% as more Americans looked for employment.
- The domestic economy continues to show signs of improvement, but the potential for a cessation of the Fed's quantitative easing programs has increased volatility within the markets.

Economic Snapshot

- U.S. job creation was healthy, with an average of 196,000 jobs added each month in the second quarter, but the federal government continued to shed jobs.
- Consumer confidence was near a six-year high (University of Michigan index at 84.1 in June), boosted by an improving jobs market and the wealth effect of rising housing prices and a strong stock market.
- U.S. gross domestic product (GDP) grew by only 1.8% for the first quarter, the third reading below 2% in the past four quarters. Despite sluggish consumer spending, the Fed upgraded its projections for growth in 2014.
- In general, economic data for major economies outside of the U.S. was disappointing. The euro-zone economy marked a seventh consecutive quarter of contraction, and the Chinese economy exhibited slower growth.

Interest Rates

- Interest rates rose significantly during the latter half of the second quarter, as investors braced for the potential impact of reduced bond-buying by the Fed.
- The Federal Open Market Committee (FOMC) maintained its commitment to low short-term rates at its June 18-19 meeting. However, Fed Chairman Bernanke indicated the Fed would moderate the pace of bond purchases later this year if economic data is consistent with forecasted expectations.
- The spike in interest rates had elements of panic; however, in our opinion, rates needed to begin to normalize from the artificial lows of the past several years.

Sector Performance

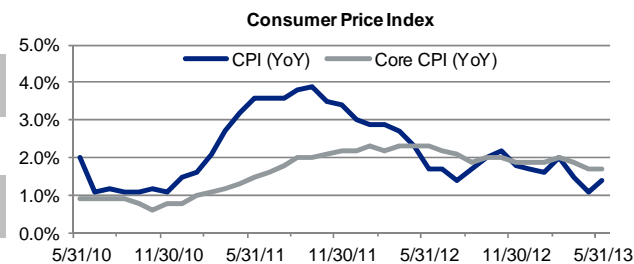
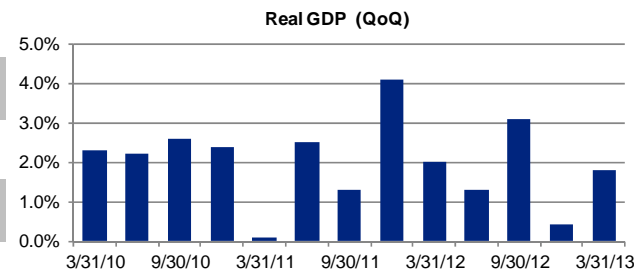
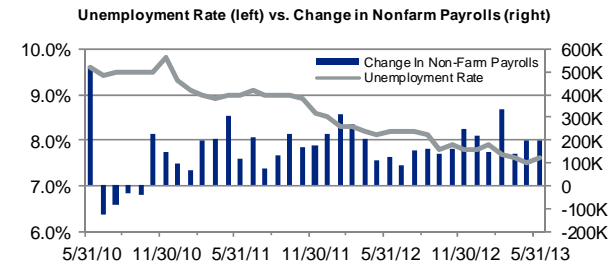
- Prices for fixed-income securities fell across the spectrum amid concerns about rising rates and a possible pull-back in accommodative monetary policy. Market volatility increased significantly since early May. Rising rates are a sign of the inevitable return to longer-term historical averages for interest rates.
- Treasuries looked more attractive relative to Agencies, as yield spreads on some similar-maturity Agencies were minimal. New-issue corporate bonds offered extra yield to entice investors given current spread levels. Despite stable fundamentals, yield spreads on Agencies and corporate bonds widened late in the quarter as liquidity dried up.
- Mortgage-backed securities (MBS) and longer-term municipal bonds experienced sharp sell-offs, resulting in significant negative returns for the quarter.

Economic Snapshot

Labor Market		Latest	Mar 2013	Jun 2012
Unemployment Rate	Jun'13	7.6%	7.6%	8.2%
Change In Non-Farm Payrolls	Jun'13	195,000	142,000	87,000
Average Hourly Earnings (YoY)	Jun'13	2.2%	1.8%	2.0%
Personal Income (YoY)	May'13	3.3%	2.8%	3.1%
Initial Jobless Claims (week)	Jun 28	343,000	388,000	374,000

Growth		Latest	Mar 2013	Jun 2012
Real GDP (QoQ SAAR)	2013Q1	1.8%	0.4% ¹	1.3% ²
GDP Personal Consumption (QoQ SAAR)	2013Q1	2.6%	1.8% ¹	1.5% ²
Retail Sales (YoY)	May'13	4.3%	3.2%	3.7%
ISM Manufacturing Survey (month)	Jun'13	50.9	51.3	50.2
Existing Home Sales (month)	May'13	5.18 mil.	4.94 mil.	4.41 mil.

Inflation / Prices		Latest	Mar 2013	Jun 2012
Personal Consumption Expenditures (YoY)	May'13	1.0%	1.0%	1.5%
Consumer Price Index (YoY)	May'13	1.4%	1.5%	1.7%
Consumer Price Index Core (YoY)	May'13	1.7%	1.9%	2.2%
Crude Oil Futures (WTI, per barrel)	Jun 30	\$96.56	\$97.23	\$84.96
Gold Futures (oz)	Jun 30	\$1,224	\$1,595	\$1,604

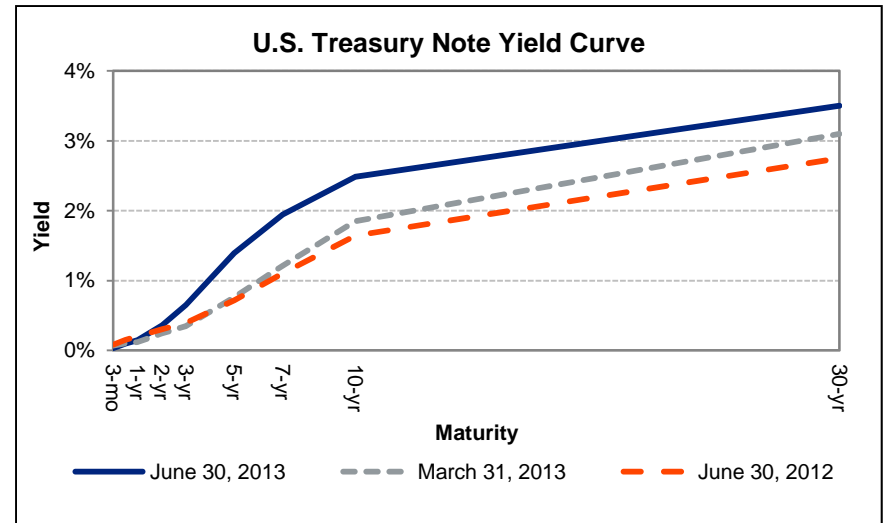
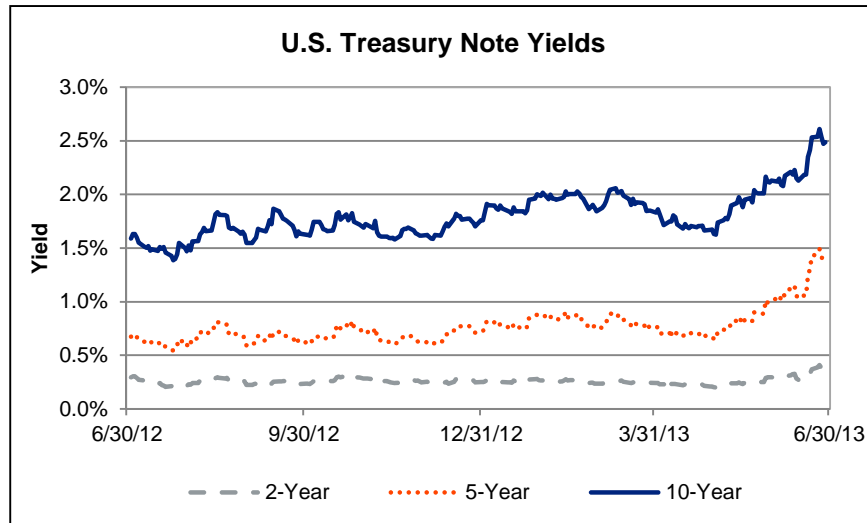


1. Data as of Fourth Quarter 2012 2. Data as of Second Quarter 2012

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

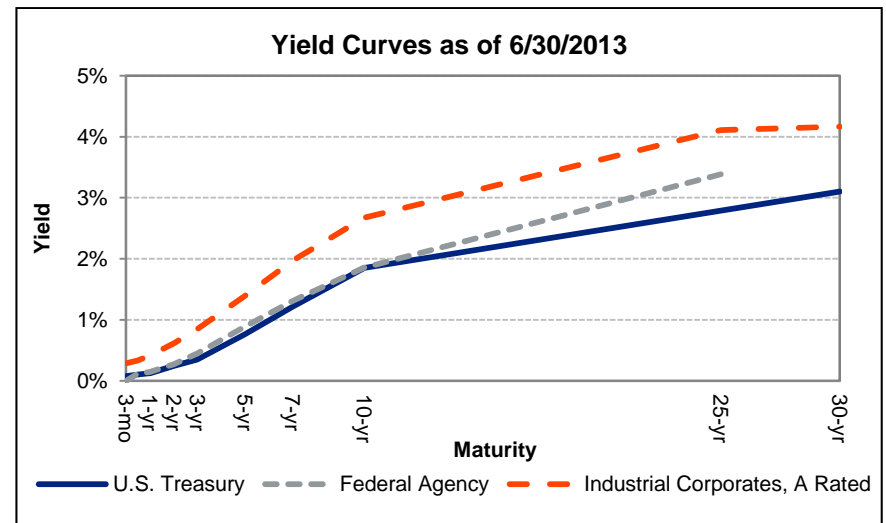
Source: Bloomberg

Investment Rate Overview



U.S. Treasury Note Yields

Maturity	6/30/13	3/31/13	Change over Quarter	6/30/12	Change over Year
3-month	0.07%	0.07%	0.00%	0.11%	(0.04%)
1-year	0.17%	0.13%	0.04%	0.26%	(0.09%)
2-year	0.37%	0.28%	0.09%	0.32%	0.05%
5-year	1.40%	0.79%	0.61%	0.75%	0.65%
10-year	2.52%	1.93%	0.59%	1.73%	0.79%
30-year	3.48%	3.10%	0.38%	2.78%	0.70%



Source: Bloomberg

BofA Merrill Lynch Index Returns

	As of 6/30/2013		Returns for Periods ended 6/30/2013		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.89	0.37%	(0.10%)	0.33%	0.82%
Federal Agency	1.80	0.48%	(0.13%)	0.34%	0.97%
U.S. Corporates, A-AAA rated	1.99	1.20%	(0.22%)	2.16%	2.63%
Agency MBS (0 to 3 years)	1.69	1.67%	(1.00%)	(0.40%)	1.75%
Municipals	1.77	0.70%	(0.16%)	0.62%	1.27%
1-5 Year Indices					
U.S. Treasury	2.72	0.66%	(0.67%)	(0.03%)	1.44%
Federal Agency	2.61	0.81%	(0.74%)	0.01%	1.28%
U.S. Corporates, A-AAA rated	2.91	1.70%	(1.09%)	2.19%	3.40%
Agency MBS (0 to 5 years)	3.06	2.66%	(1.37%)	(0.60%)	2.46%
Municipals	2.51	1.04%	(0.61%)	0.53%	1.86%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	5.78	1.40%	(2.21%)	(2.00%)	3.03%
Federal Agency	4.01	1.34%	(1.97%)	(0.90%)	2.12%
U.S. Corporates, A-AAA rated	6.57	2.96%	(3.12%)	0.89%	5.08%
Agency MBS	4.61	2.96%	(1.92%)	(1.15%)	2.52%
Municipals	7.81	3.21%	(3.33%)	0.10%	4.66%

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

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.

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TAB II

Executive Summary

PORTFOLIO STRATEGY

- The City's General City Portfolio is of high credit quality and invested in U.S. Treasury, Federal Agency, and high quality commercial paper securities.
- The General City Portfolio continues to provide the City with favorable yield relative to the benchmark. At quarter end the portfolio had a Yield to Maturity at Cost of 0.29%, exceeding the Yield to Maturity of its benchmark the Merrill Lynch 1 Year U.S. Treasury Note Index by 11 basis points (0.11%).
- The second quarter started with interest rates well entrenched within long-standing ranges, U.S. economic conditions improving at a modest pace, and the Federal Reserve (Fed) purchasing \$85 billion of long-term Treasuries and agency mortgage-backed securities (MBS) per month. As conditions appeared relatively stable, the strategy at the beginning of the quarter was to remain slightly short of duration targets relative to benchmarks.
- Conditions began to reverse in May, in part due to what seemed like a rather innocuous comment by Fed Chairman Bernanke about possible tapering of Fed bond purchases in the Q&A portion of his testimony to the Joint Economic Committee of Congress. Rates moved higher, but in a normal and orderly fashion within the existing trading ranges. At that point, the impact on Treasuries was negative, but contained, and spread movements on agency and corporate debt were minimal. 2-year, 5-year and 10-year Treasuries had risen by 6, 25 and 28 basis points (0.06%, 0.25%, 0.28%), respectively, from March 31 to May 31.
- Conditions deteriorated quickly in June, after Bernanke laid out a more definitive plan to curtail bond purchases later this year. By quarter end, longer-term yields had surged further, with the 5-year Treasury reaching 1.40% and the 10-year reaching 2.49% – the highest levels since August 2011. The scale and pace of the rate spike in late June had elements of panic and surprised most investors. Massive selling and deleveraging in certain market sectors caused liquidity to dry up, which further affected market prices.
- The second quarter adjustment process has bequeathed investors with a much steeper yield curve, which offers the ability to enhance return through “roll-down” – the natural tendency of bonds to appreciate as time passes and their maturity shortens. Although longer maturities have greater market risk, they also offer higher yields and greater roll-down potential.
- Risk management will remain a key aspect of our overall approach under volatile market conditions. In particular, ensuring adequate liquidity will be an important element of the strategy, so as not to have to sell into adverse market conditions. Furthermore, given wider differences between bid prices and offering prices in most sectors (the “bid/ask spread”), we will likely carry more Treasuries than usual to provide additional flexibility to adjust portfolio composition or duration as opportunities arise.
- We will focus more than ever on safety of principal and appropriate liquidity in this new and challenging environment, while maximizing value through careful, prudent management. Our strategy will remain appropriately flexible and may change in response to changes in interest rates, economic data, market outlook or specific opportunities that arise.

The City's Investment Statistics

<u>Account Name</u>	<u>Amortized Cost^{1,2,3}</u>	<u>Amortized Cost^{1,2,3}</u>	<u>Market Value^{1,2,3}</u>	<u>Market Value^{1,2,3}</u>	<u>Duration (Years)</u>
	<u>June 30, 2013</u>	<u>March 31, 2013</u>	<u>June 30, 2013</u>	<u>March 31, 2013</u>	<u>June 30, 2013</u>
General City Account Portfolio	\$29,119,608.11	\$29,559,080.54	\$29,122,353.50	\$29,578,872.15	1.04
Fidelity Institutional Money Market Fund Government Portfolio (Fund #257)	46,001.79	42,001.60	46,001.79	42,001.60	0.003
Money Market Fund - State Board of Administration Pool A	254,383.09	52,697.78	254,383.09	52,697.78	43 Days
Money Market Fund - State Board of Administration Pool B	257,378.41	458,965.45	257,378.41	458,965.45	3.980
Bank of America Cash for Operation - depository	2,457,389.13	2,807,933.69	2,457,389.13	2,807,933.69	0.003
Water & Sewer 2000 - Fidelity Institutional Money Market Fund Government Portfolio (Account #364)	716,785.17	716,767.10	716,785.17	716,767.10	0.003
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool A	7,382.89	1,529.43	7,382.89	1,529.43	43 Days
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool B	7,469.83	13,320.42	7,469.83	13,320.42	3.980
Total	\$32,866,398.42	\$33,652,296.01	\$32,869,143.81	\$33,672,087.62	

<u>Account Name</u>	<u>Yield to Maturity on Cost⁴</u>	<u>Yield to Maturity on Cost⁴</u>	<u>Yield to Maturity at Market</u>	<u>Yield to Maturity at Market</u>	<u>Duration (Years)</u>
	<u>June 30, 2013</u>	<u>March 31, 2013</u>	<u>June 30, 2013</u>	<u>March 31, 2013</u>	<u>March 31, 2013</u>
General City Account Portfolio	0.29%	0.27%	0.24%	0.20%	0.95
Fidelity Institutional Money Market Fund Government Portfolio (Fund #257)	0.01%	0.01%	0.01%	0.01%	0.003
Money Market Fund - State Board of Administration Pool A	0.20%	0.23%	0.20%	0.23%	41 Days
Money Market Fund - State Board of Administration Pool B	0.00%	0.00%	0.00%	0.00%	N/A
Bank of America Cash for Operation - depository	0.20%	0.20%	0.20%	0.20%	0.003
Water & Sewer 2000 - Fidelity Institutional Money Market Fund Government Portfolio (Account #364)	0.01%	0.01%	0.01%	0.01%	0.003
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool A	0.20%	0.23%	0.20%	0.23%	41 Days
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool B	0.00%	0.00%	0.00%	0.00%	N/A
Weighted Average Yield	0.27%	0.25%	0.23%	0.19%	

Benchmarks

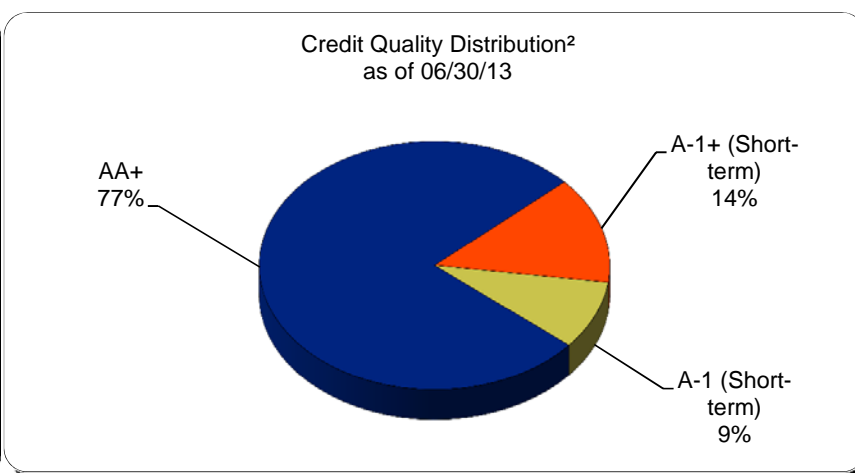
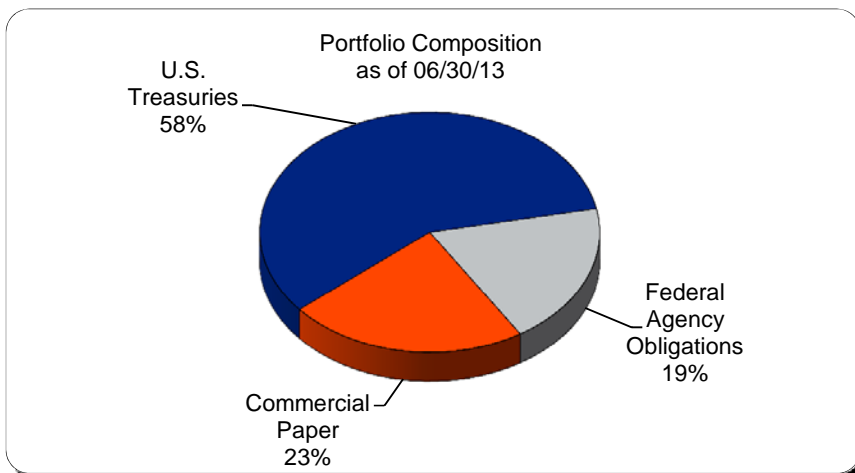
	<u>June 30, 2013</u>	<u>March 31, 2013</u>
Merrill Lynch 1 Year U.S. Treasury Note Index ⁵	0.18%	0.16%

Notes:

1. On a trade-date basis, including accrued interest.
2. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
3. Excludes any money market fund/cash balances held in custodian account.
4. Past performance is not indicative of future results.
5. Source Bloomberg. Benchmark is pursuant to the Investment Policy.

General City Account Portfolio Composition and Credit Quality Characteristics

<u>Security Type</u> ¹	<u>June 30, 2013</u>	<u>% of Portfolio</u>	<u>March 31, 2013</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$16,881,107.46	57.97%	\$14,425,513.93	48.77%
Federal Agencies	5,594,438.09	19.21%	8,507,227.32	28.76%
Commercial Paper	6,646,807.95	22.82%	6,646,130.90	22.47%
Certificates of Deposit	0.00	0.00%	0.00	0.00%
Bankers Acceptances	0.00	0.00%	0.00	0.00%
Repurchase Agreements	0.00	0.00%	0.00	0.00%
Municipal Obligations	0.00	0.00%	0.00	0.00%
Corporate Notes/Bonds	0.00	0.00%	0.00	0.00%
Corporate Notes/Bonds - FDIC Insured	0.00	0.00%	0.00	0.00%
Mortgage Backed	0.00	0.00%	0.00	0.00%
Money Market Fund/Cash	0.00	0.00%	0.00	0.00%
Totals	\$29,122,353.50	100.00%	\$29,578,872.15	100.00%

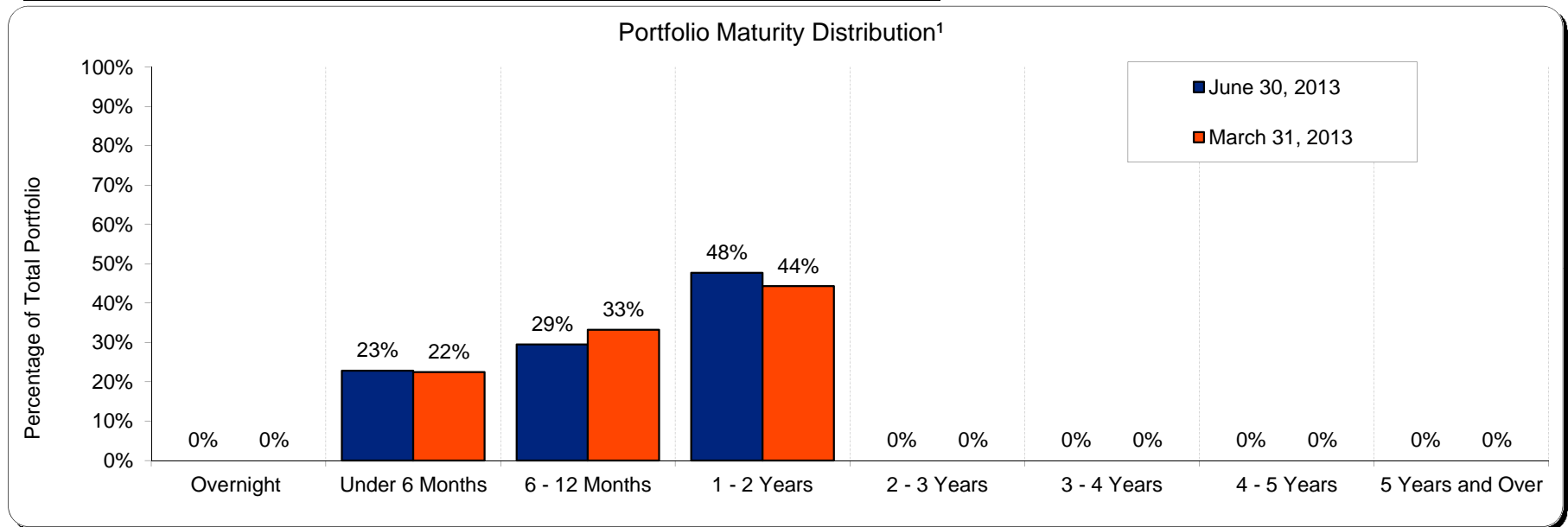


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP. Standard & Poor's is the source of the credit ratings.

General City Account Portfolio Maturity Distribution

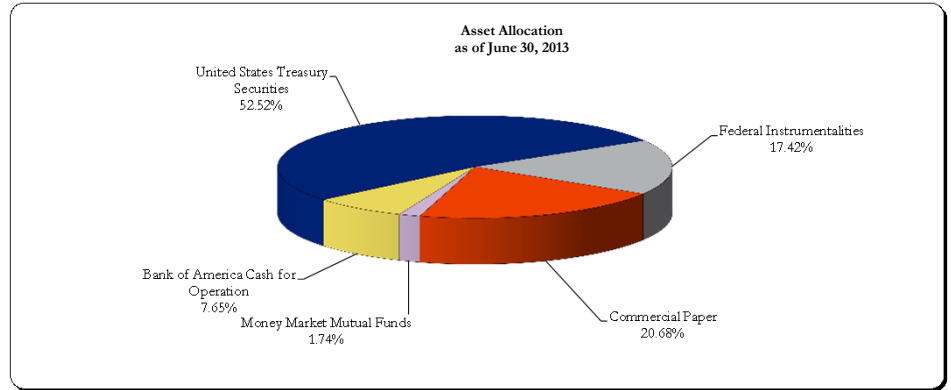
<u>Maturity Distribution¹</u>	<u>June 30, 2013</u>	<u>March 31, 2013</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	6,646,807.95	6,646,130.90
6 - 12 Months	8,587,842.17	9,833,214.46
1 - 2 Years	13,887,703.38	13,099,526.79
2 - 3 Years	0.00	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$29,122,353.50	\$29,578,872.15



Notes:

1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

Security Type ¹	June 30, 2013	June 30, 2013	Notes	Permitted by Policy
United States Treasury Securities	16,875,826.78	52.52%		100%
United States Government Agency Securities	-	0.00%		75%
Federal Instrumentalities	5,597,455.28	17.42%		80%
Mortgage-Backed Securities	-	0.00%		0%
Certificates of Deposit	-	0.00%		25%
Repurchase Agreements	-	0.00%		50%
Commercial Paper	6,646,326.05	20.68%		30%
Corporate Notes - FDIC Insured	-	0.00%		50%
Bankers' Acceptances	-	0.00%		30%
State and/or Local Government Debt (GO and Revenue)	-	0.00%		20%
Money Market Mutual Funds	557,763.29	1.74%		100%
Intergovernmental Investment Pool	-	0.00%		25%
Bank of America Cash for Operation	2,457,389.13	7.65%	2	100%



Individual Issuer Breakdown	June 30, 2013	June 30, 2013	Notes	Permitted by Policy
Government National Mortgage Association (GNMA)	-	0.00%		50%
US Export-Import Bank (Ex-Im)	-	0.00%		50%
Farmers Home Administration (FMHA)	-	0.00%		50%
Federal Financing Bank	-	0.00%		50%
Federal Housing Administration (FHA)	-	0.00%		50%
General Services Administration	-	0.00%		50%
New Communities Act Debentures	-	0.00%		50%
US Public Housing Notes & Bonds	-	0.00%		50%
US Dept. of Housing and Urban Development	-	0.00%		50%
Federal Farm Credit Bank (FFCB)	-	0.00%		25%
Federal Home Loan Bank (FHLB)	1,080,132.35	3.36%		25%
Federal National Mortgage Association (FNMA)	3,916,992.26	12.19%		25%
Federal Home Loan Mortgage Corporation (FHLMC)	600,330.67	1.87%		25%

Individual Issuer Breakdown	June 30, 2013	June 30, 2013	Notes	Permitted by Policy
Bank of Tokyo Mitsubishi Commercial Paper	1,598,705.78	4.98%		10%
Rabobank USA Commercial Paper	1,299,913.33	4.05%		10%
Nordea North America Commercial Paper	1,749,724.16	5.44%		10%
BNP Paribas Commercial Paper	998,502.78	3.11%		10%
Toyota Commercial Paper	999,480.00	3.11%		10%
Fidelity Institutional Money Market Fund Government Portfolio (Fund #257)	46,001.79	0.14%	2	25%
Money Market Fund - Florida Prime (SBA)	254,383.09	0.79%	2	25%
Money Market Fund - Florida SBA Fund B	257,378.41	0.80%	2	N/A

Notes:
 1. Does not include bond proceeds.
 2. Managed by the City.
 3. End of month trade-date amortized cost of portfolio holdings, including accrued interest.

TAB III

Insert Month End Statement here to complete the report.

Statements are available online at **www.pfm.com**
login and click on the link to “Monthly Statements”
on the left side of the screen.