

# City of Winter Springs, Florida

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Investment Performance Review  
Quarter Ended September 30, 2012



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(statements are available online at [www.pfm.com](http://www.pfm.com))

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# TAB I

### Summary

- During the third quarter, further easing measures by central banks around the world spurred investors' demand for riskier assets, resulting in strong performance for corporate bonds, mortgage-backed securities, and equities.
- While the U.S. housing recovery seemed to be building momentum, manufacturing activity and job growth have continued to show persistent weakness.
- The domestic economy will likely continue its sluggish recovery, despite uncertainties about the U.S. election and the looming fiscal cliff.

### Economic Snapshot

- The unemployment rate fell to 7.8% in September. The economy added 437,000 jobs in the third quarter, up from 200,000 in the prior period.
- The S&P Case-Shiller Index of home prices for July marked a year-over-year increase that was more than consensus predicted, reflecting a continued housing recovery.
- The Institute for Supply Management's manufacturing survey fell slightly below 50 for June, July, and August, indicating a weakening of the important manufacturing base, but rose to 51.5 in September, suggesting slow growth (A measure above 50 is the dividing point between growth and expansion.)
- The Consumer Price Index increased by 0.6% in August on a seasonally adjusted basis, its largest gain since June 2009; this was primarily due to increases in food and energy prices.
- Most economists expect U.S. gross domestic product (GDP) to grow by only 1.8% to 2% for the year.

### Interest Rates

- Interest rates ended the quarter modestly lower, while yield spreads on Federal Agencies, corporates, and mortgage-backed securities (MBS) tightened significantly.
- Long-term Treasury yields experienced significant intra-quarter volatility, while two-year Treasury yields remained in a tight range of 0.20% to 0.30% for the quarter.
- The Federal Reserve announced that it will keep short-term rates at extremely low levels through mid-2015. It also initiated a third round of Quantitative Easing (QE3), a new program to purchase \$40 billion in agency MBS each month until economic conditions improve.

### Sector Performance

- Accommodative measures by global central banks gave investors confidence in the prospects for economic growth. The resulting shift from Treasuries and Agencies to high-quality corporate bonds helped corporate bonds to outperform. Bonds issued by financial firms did particularly well, outpacing those in the industrial and utility sectors.
- Supported by the new QE3 purchase program, Agency MBS performed well, but returns were tempered as a result of increased pre-payments, which shortened their average lives.
- While the Municipal sector lagged the corporate sector, it generated returns in excess of Treasuries and Agencies, and offered the additional value of diversification.
- Supply reductions should keep Agency spreads narrow, as Fannie Mae and Freddie Mac reduce their retained portfolios by 15% per year, as mandated by the Treasury Department.

*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.*

### Economic Snapshot

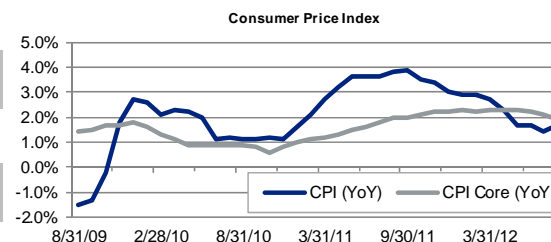
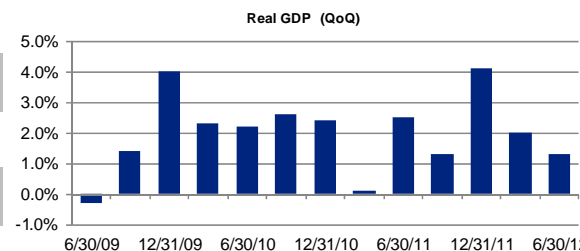
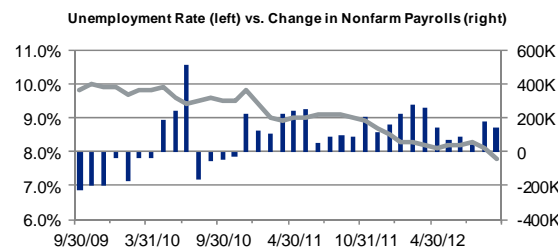
Labor Market		Latest	Jun 2012	Sep 2011
Unemployment Rate	Sep	7.8%	8.2%	9.0%
Change In Non-Farm Payrolls	Sep	114,000	45,000	202,000
Average Hourly Earnings (YoY)	Sep	1.8%	2.0%	2.0%
Personal Income (YoY)	Aug	3.5%	3.4%	4.6%
Initial Jobless Claims	Oct 12	388,000	376,000	402,000

Growth		Latest	Jun 2012	Sep 2011
Real GDP (QoQ SAAR)	Q2	1.3%	2.0% <sup>1</sup>	1.3%
GDP Personal Consumption (QoQ SAAR)	Q2	1.5%	2.4% <sup>1</sup>	1.7%
Retail Sales (YoY)	Sep	5.4%	3.5%	8.3%
ISM Manufacturing Survey	Sep	51.5	49.7	52.5
Existing Home Sales (millions)	Sep	4.75	4.37	4.28

Inflation / Prices		Latest	Jun 2012	Sep 2011
Personal Consumption Expenditures (YoY)	Aug 12	1.5%	1.5%	2.9%
Consumer Price Index (YoY)	Sep 12	2.0%	1.7%	3.9%
Consumer Price Index Core (YoY)	Sep 12	2.1%	0.7%	7.0%
Crude Oil Futures (WTI, per barrel)	Sep 30	\$92.19	\$84.96	\$79.20
Gold Futures (oz)	Sep 30	\$1,771	\$1,604	\$1,620



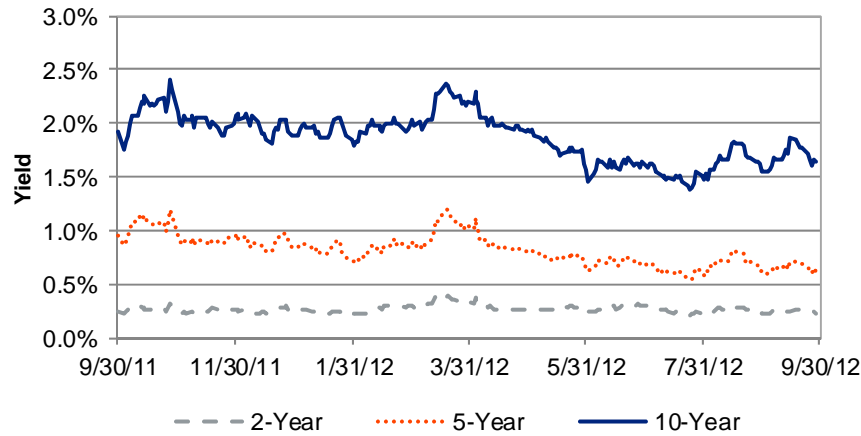
1. Data as of First Quarter 2012

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

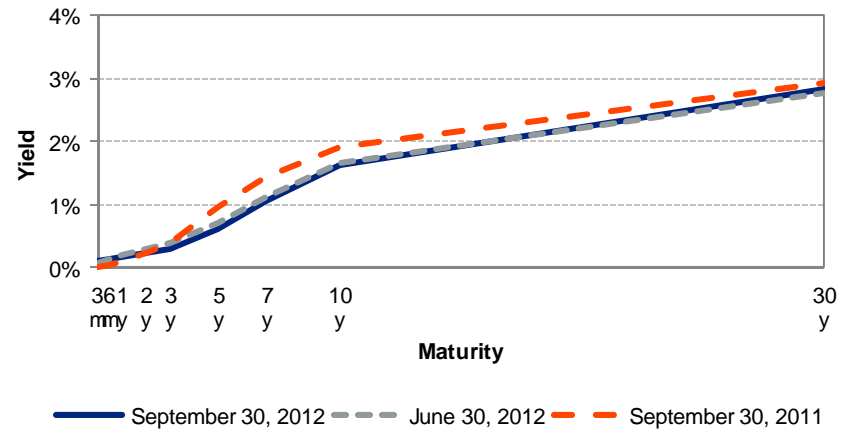
Source: Bloomberg

**Interest Rate Overview**

**U.S. Treasury Note Yields**



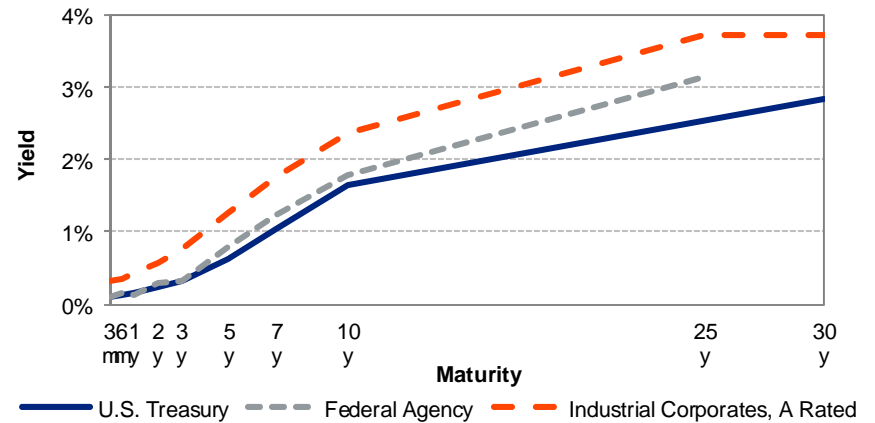
**U.S. Treasury Note Yield Curve**



**U.S. Treasury Note Yields**

Maturity	9/30/12	6/30/12	Change over Quarter	9/30/11	Change over Year
3-month	0.12%	0.11%	0.00%	0.02%	0.09%
1-year	0.16%	0.26%	(0.10%)	0.17%	(0.02%)
2-year	0.25%	0.32%	(0.08%)	0.28%	(0.04%)
5-year	0.63%	0.75%	(0.11%)	0.96%	(0.33%)
10-year	1.70%	1.73%	(0.04%)	2.01%	(0.31%)
30-year	2.82%	2.78%	0.04%	2.95%	(0.13%)

**Yield Curves as of 9/30/12**



Source: Bloomberg

**B of A Merrill Lynch Index Returns**

	As of 9/30/2012		Periods Ended 9/30/2012		
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.89	0.25%	0.26%	0.56%	1.43%
Federal Agency	1.60	0.31%	0.25%	0.92%	1.58%
U.S. Corporates, A-AAA Rated	1.98	1.02%	1.50%	4.10%	3.63%
Agency MBS (0 to 3 years)	1.78	0.87%	0.91%	2.29%	3.78%
Municipals	1.84	0.52%	0.33%	1.33%	1.75%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.74	0.34%	0.47%	1.29%	2.58%
Federal Agency	2.24	0.42%	0.46%	1.53%	2.29%
U.S. Corporates, A-AAA Rated	2.79	1.26%	2.18%	5.92%	4.98%
Agency MBS (0 to 5 years)	1.83	0.91%	1.08%	3.63%	4.73%
Municipals	2.59	0.71%	0.62%	2.23%	2.65%
<b>Master Indices</b>					
U.S. Treasury	6.05	0.91%	0.58%	3.19%	5.46%
Federal Agency	3.69	0.79%	0.84%	2.83%	3.95%
U.S. Corporates, A-AAA Rated	6.78	2.38%	3.53%	9.97%	8.26%
Agency MBS	1.82	0.92%	1.13%	3.74%	5.06%
Municipals	7.39	2.48%	2.51%	8.96%	6.20%

Returns for periods greater than one year are annualized  
3 Month return is periodic

Source: Bloomberg

# TAB II



## Executive Summary

## PORTFOLIO STRATEGY

- The City's General City Account Portfolio is of high credit quality and invested in Federal Agency, U.S. Treasury, and commercial paper securities.
- The General City Account 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 0.37%, exceeding the Yield to Maturity of its benchmark the Merrill Lynch 1 Year U.S. Treasury Note Index by 19 basis points (0.19%).
- Bond yields remained highly correlated with headlines out of Europe. Weakening economic conditions in the Eurozone triggered a flight-to-quality that drove intermediate-term Treasury yields to new all-time record lows in July. The development of an European Central Bank ("ECB") sovereign debt purchase program reversed the trend, causing yields to rebound sharply. Despite several periods of sharp temporary yield movements, Treasury yields ended the quarter only modestly lower in most maturities.
- Agency notes received a boost during the quarter when the Treasury Department accelerated the wind down of Fannie Mae's and Freddie Mac's investment portfolio holdings, an action which will shrink Agency bond and discount note supply by \$1 trillion over the next few years.
- With the ECB's sovereign debt support program in place, we are turning our attention away from Europe and focusing on domestic issues, such as U.S. economic conditions, the upcoming election and the looming fiscal cliff, and other global issues, like the troubling slowdown in China and turmoil in the Middle East. These conditions create uncertainties that are hard to handicap, and virtually impossible to predict with any degree of certainty.
- With central banks around the globe pumping an unprecedented amount of liquidity into the market and embarking on new large scale bond purchase programs, we are faced with a scenario of more dollars chasing fewer assets. As a result, our outlook for most "spread sectors" remains positive.
- As always, we strive to maintain the safety of principal, while at the same time seeking opportunities to add value. Our strategy will remain 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<sup>1,2,3</sup></u>	Amortized Cost <sup>1,2,3</sup>	<u>Market Value<sup>1,2,3</sup></u>	Market Value <sup>1,2,3</sup>	<u>Duration (Years)</u>
	<u>September 30, 2012</u>	<u>June 30, 2012</u>	<u>September 30, 2012</u>	<u>June 30, 2012</u>	<u>September 30, 2012</u>
General City Account Portfolio	\$23,830,926.22	\$26,159,249.53	\$23,854,238.40	\$26,184,497.07	0.94
Fidelity Institutional Money Market Fund Government Portfolio (Fund #257)	910,279.14	42,670.22	910,279.14	42,670.22	0.003
Money Market Fund - State Board of Administration Pool A	7.86	24,019.50	7.86	24,019.50	39 Days
Money Market Fund - State Board of Administration Pool B	511,616.90	541,030.03	511,616.90	541,030.03	N/A
Bank of America Cash for Operation - depository	2,319,251.50	2,419,929.76	2,319,251.50	2,419,929.76	0.003
Water & Sewer 2000 - Fidelity Institutional Money Market Fund Government Portfolio (Account #364)	716,731.55	716,712.48	716,731.55	716,712.48	0.003
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool A	0.22	697.12	0.22	697.12	39 Days
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool B	14,848.51	15,702.15	14,848.51	15,702.15	N/A
<b>Total</b>	<b>\$28,303,661.90</b>	<b>\$29,920,010.79</b>	<b>\$28,326,974.08</b>	<b>\$29,945,258.33</b>	

<u>Account Name</u>	<u>Yield to Maturity on Cost<sup>4</sup></u>	Yield to Maturity on Cost <sup>4</sup>	<u>Yield to Maturity at Market</u>	Yield to Maturity at Market	<u>Duration (Years)</u>
	<u>September 30, 2012</u>	<u>June 30, 2012</u>	<u>September 30, 2012</u>	<u>June 30, 2012</u>	<u>June 30, 2012</u>
General City Account Portfolio	0.37%	0.44%	0.24%	0.28%	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	0.31%	0.31%	0.31%	0.31%	38 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	0.25%	0.25%	0.25%	0.25%	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	0.31%	0.31%	0.31%	0.31%	38 Days
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool B	0.00%	0.00%	0.00%	0.00%	N/A
<b>Weighted Average Yield</b>	<b>0.33%</b>	<b>0.41%</b>	<b>0.22%</b>	<b>0.27%</b>	

Benchmarks

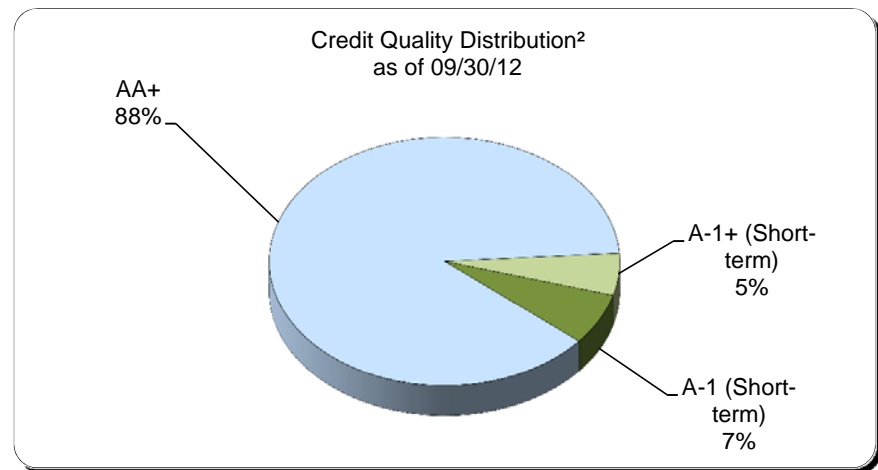
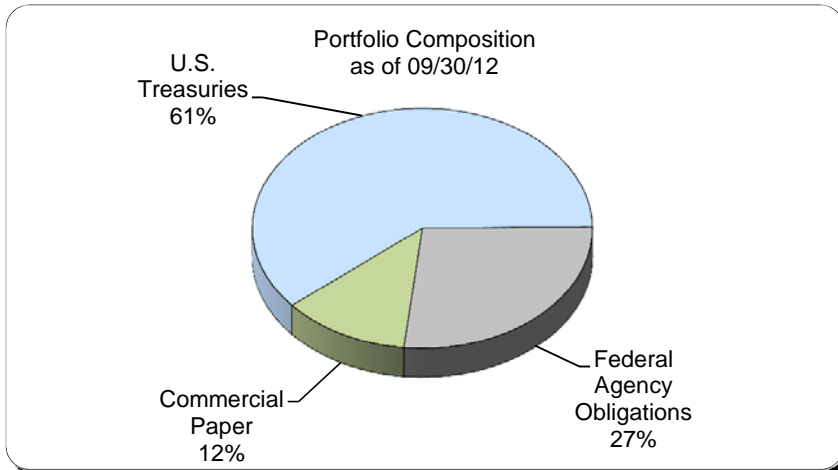
	<u>September 30, 2012</u>	<u>June 30, 2012</u>
Merrill Lynch 1 Year U.S. Treasury Note Index <sup>5</sup>	0.18%	0.24%

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.

General City Account Portfolio Composition and Credit Quality Characteristics

<u>Security Type</u> <sup>1</sup>	<u>September 30, 2012</u>	<u>% of Portfolio</u>	<u>June 30, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$14,532,193.67	60.92%	\$15,059,825.64	57.51%
Federal Agencies	6,424,248.63	26.93%	8,320,442.58	31.78%
Commercial Paper	2,897,796.10	12.15%	2,804,228.85	10.71%
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%
<b>Totals</b>	<b>\$23,854,238.40</b>	<b>100.00%</b>	<b>\$26,184,497.07</b>	<b>100.00%</b>

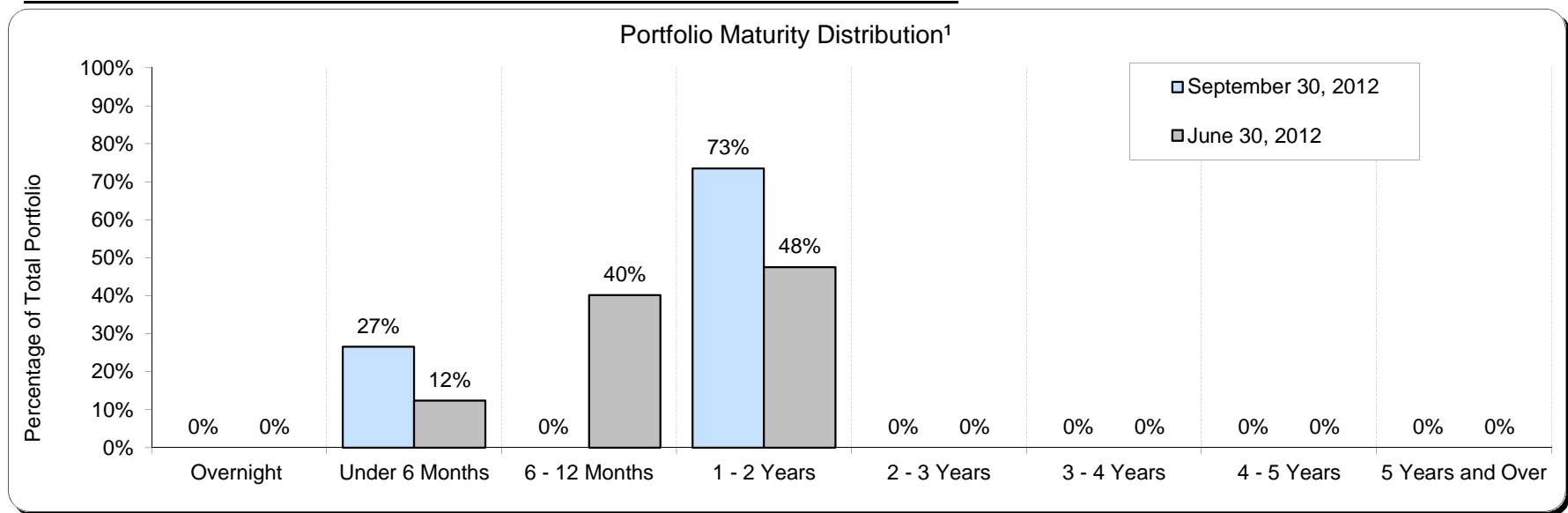


Notes:

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

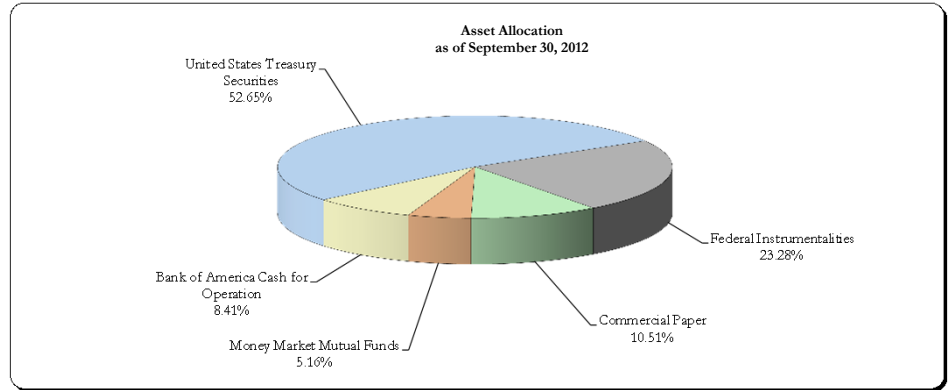
<u>Maturity Distribution<sup>1</sup></u>	<u>September 30, 2012</u>	<u>June 30, 2012</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	6,326,956.42	3,234,407.40
6 - 12 Months	0.00	10,511,056.45
1 - 2 Years	17,527,281.98	12,439,033.22
2 - 3 Years	0.00	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$23,854,238.40</b>	<b>\$26,184,497.07</b>



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 <sup>1</sup>	September 30, 2012	September 30, 2012	Notes	Permitted by Policy
United States Treasury Securities	14,516,462.99	52.65%		100%
United States Government Agency Securities	-	0.00%		75%
Federal Instrumentalities	6,417,428.59	23.28%		80%
Mortgage-Backed Securities	-	0.00%		0%
Certificates of Deposit	-	0.00%		25%
Repurchase Agreements	-	0.00%		50%
Commercial Paper	2,897,034.64	10.51%		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	1,421,903.90	5.16%		100%
Intergovernmental Investment Pool	-	0.00%		25%
Bank of America Cash for Operation	2,319,251.50	8.41%	2	100%



Individual Issuer Breakdown	September 30, 2012	September 30, 2012	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)	-	0.00%		25%
Federal National Mortgage Association (FNMA)	4,898,228.25	17.77%		25%
Federal Home Loan Mortgage Corporation (FHLMC)	1,519,200.34	5.51%		25%

Individual Issuer Breakdown	September 30, 2012	September 30, 2012	Notes	Permitted by Policy
Bank of Tokyo Mitsubishi CP	1,598,469.33	5.80%		10%
Toyota CP	1,298,565.31	4.71%		10%
Fidelity Institutional Money Market Fund Government Portfolio (Fund #257)	910,279.14	3.30%	2	25%
Money Market Fund - Florida Prime (SBA)	7.86	0.00003%	2	25%
Money Market Fund - Florida SBA Fund B	511,616.90	1.86%	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](http://www.pfm.com)**  
login and click on the link to “Monthly Statements”  
on the left side of the screen.