

City of Winter Springs, Florida



Investment Performance Review Quarter Ended December 31, 2012

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

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TAB I

Summary

- In the fourth quarter, the markets were impacted by U.S. politics and policies—particularly the presidential election, the Federal Reserve's (Fed's) new round of quantitative easing (QE3), and fiscal cliff negotiations.
- The U.S. housing market continued to show signs of improvement, and the unemployment rate was unchanged for the quarter at 7.8%.
- The domestic economy has seen modest growth over the past year, and while the resolution of the fiscal cliff talks has relieved investors, increasing the federal debt ceiling must now be addressed.

Economic Snapshot

- New-home sales in the U.S. rose to their highest level in two-and-a-half years in November, jumping 15.3% from a year earlier.
- The Consumer Price Index rose 1.8% year-over-year in November before seasonal adjustment. Wage increases have been subdued as evidenced by the change in hourly earnings, which has averaged less than 2% in recent months.
- Fourth quarter U.S. gross domestic product (GDP) growth is expected to be in a range of 1% to 2%, which is slower than GDP growth experienced in the third quarter.
- Superstorm Sandy, which blew through the East Coast in October, caused massive amounts of damage, closed the markets for two days, and depressed economic activity across a third of the nation.
- Economic concerns about Europe somewhat subsided, which pushed European stock markets higher. The MSCI Europe Index rose 7.02% for the quarter.

Interest Rates

- Interest rates rose slightly during the quarter across most maturities, while yield spreads on Agencies, corporates, and mortgage-backed securities (MBS) remained narrow.
- Treasury yields fell in the first half of November, but then moved higher as investors shifted assets into the rallying stock market.
- The Fed announced that it will keep short-term rates at extremely low levels until the unemployment rate falls below 6.5%, and the prospect remains for long-run inflation to stay below 2.5%. The Fed also initiated further quantitative easing with an open-ended program to buy \$45 billion in Treasuries in addition to its existing program to purchase \$40 billion in Agency mortgage-backed securities each month.

Sector Performance

- Returns of high-quality corporate bonds (especially financial firms) performed well for the quarter, as these issuers continued to be bolstered by global central bank support for financial markets.
- The Fed's QE3 purchase program initially caused Agency MBS to appreciate sharply in value, but that trend quickly reversed and Agency MBS underperformed other fixed-income sectors for the quarter.
- The performance of municipal bonds suffered in the fourth quarter, as fiscal cliff negotiations about possible changes to the tax code caused investors to sell positions.
- Reduced supply of Agencies kept spreads at historically narrow levels; Agencies became relatively less attractive over the quarter.

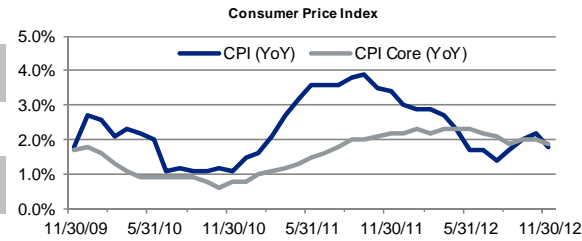
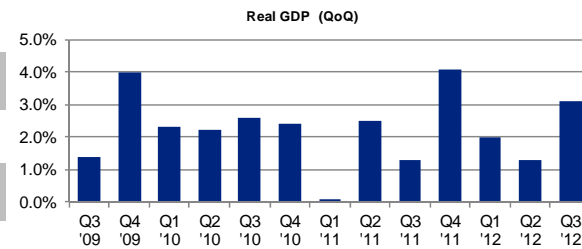
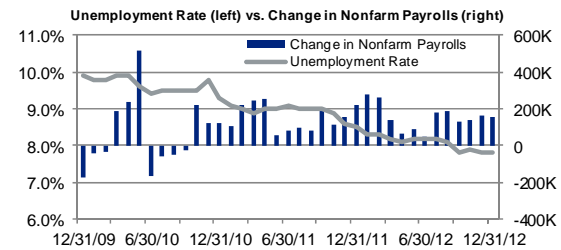
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Economic Snapshot

Labor Market		Latest	Sep 2012	Dec 2011
Unemployment Rate	Dec	7.8%	7.8%	8.5%
Change In Non-Farm Payrolls (month)	Dec	155,000	132,000	223,000
Average Hourly Earnings (YoY)	Dec	2.1%	1.9%	2.1%
Personal Income (YoY)	Nov	4.1%	3.5%	3.6%
Initial Jobless Claims (Month)	Dec 28	372,000	369,000	383,000

Growth				
Real GDP (QoQ SAAR)	Q3	3.1%	1.3% ¹	4.1% ²
GDP Personal Consumption (QoQ SAAR)	Q3	1.6%	1.5% ¹	2.0% ²
Retail Sales (YoY)	Nov	3.7%	5.4%	6.8%
ISM Manufacturing Survey	Dec	50.7	51.5	53.1
Existing Home Sales (millions) - month	Nov	5.04	4.69	4.38

Inflation / Prices				
Personal Consumption Expenditures (YoY)	Nov	1.4%	1.6%	2.4%
Consumer Price Index (YoY)	Nov	1.8%	2.0%	3.0%
Consumer Price Index Core (YoY)	Nov	1.5%	2.1%	4.7%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$91.82	\$92.19	\$98.83
Gold Futures (oz)	Dec 31	\$1,676	\$1,771	\$1,567

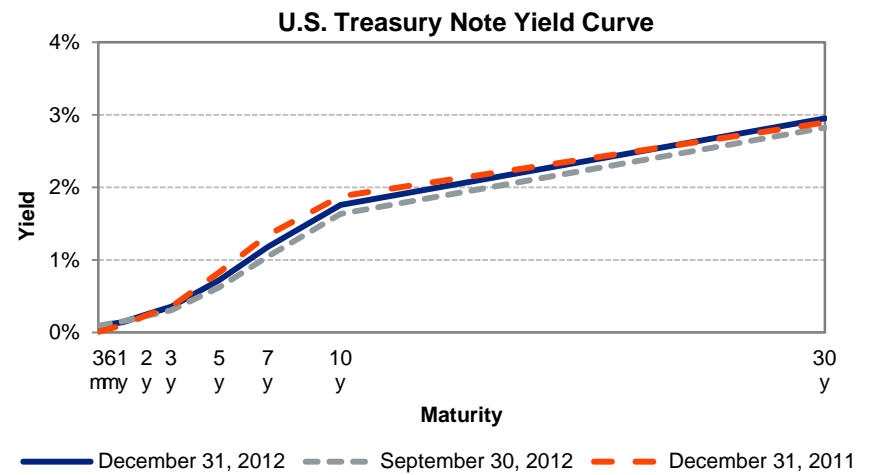
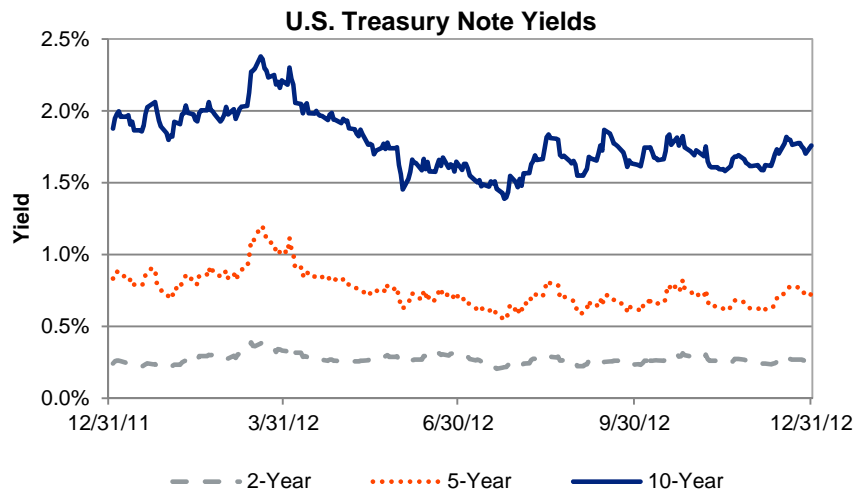


1. Data as of Second Quarter 2012 2. Data as of Fourth Quarter 2011

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

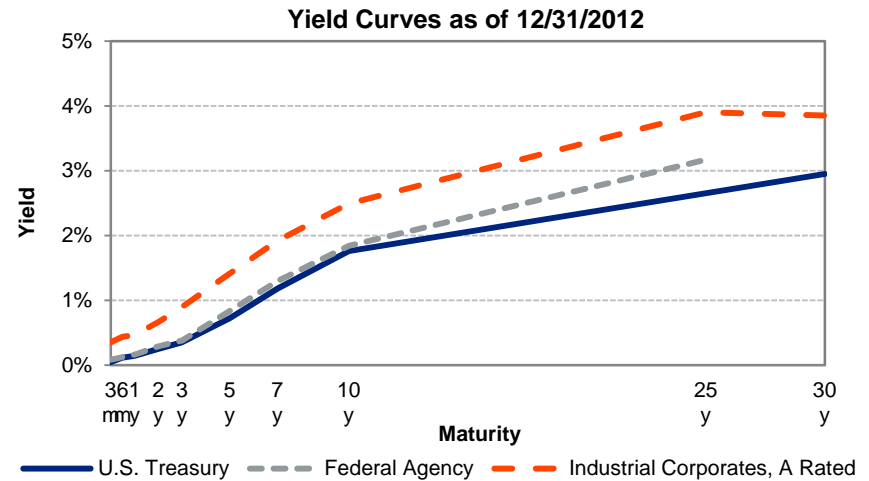
Source: Bloomberg

Interest Rate Overview



U.S. Treasury Note Yields

Maturity	12/31/12	9/30/12	Change over Quarter	12/31/11	Change over Year
3-month	0.09%	0.12%	(0.03%)	0.02%	0.07%
1-year	0.14%	0.16%	(0.02%)	0.13%	0.01%
2-year	0.27%	0.25%	0.03%	0.28%	(0.00%)
5-year	0.74%	0.63%	0.11%	0.85%	(0.11%)
10-year	1.81%	1.70%	0.12%	1.96%	(0.14%)
30-year	2.94%	2.82%	0.12%	2.91%	0.03%



Source: Bloomberg

B of A Merrill Lynch Index Returns

	As of 12/31/2012		Returns for Periods Ended 12/31/2012		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.87	0.26%	0.07%	0.43%	1.44%
Federal Agency	1.70	0.31%	0.12%	0.85%	1.56%
U.S. Corporates, A-AAA Rated	1.94	0.95%	0.44%	4.02%	3.31%
Agency MBS (0 to 3 years)	1.85	1.37%	(0.31%)	1.60%	3.42%
Municipals	1.81	0.61%	0.02%	1.03%	1.56%
1-5 Year Indices					
U.S. Treasury	2.72	0.38%	0.04%	0.91%	2.62%
Federal Agency	2.36	0.44%	0.16%	1.38%	2.28%
U.S. Corporates, A-AAA Rated	2.80	1.22%	0.55%	5.85%	4.70%
Agency MBS (0 to 5 years)	2.11	1.45%	(0.26%)	2.50%	4.45%
Municipals	2.53	0.84%	(0.10%)	1.63%	2.37%
Master Indices					
U.S. Treasury	5.99	0.96%	(0.10%)	2.16%	5.89%
Federal Agency	3.84	0.85%	0.22%	2.44%	4.10%
U.S. Corporates, A-AAA Rated	6.80	2.32%	0.79%	9.19%	8.32%
Agency MBS	2.14	1.47%	(0.27%)	2.59%	4.78%
Municipals	7.47	2.59%	0.51%	7.26%	6.83%

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

Source: Bloomberg

TAB II

Executive Summary

PORTFOLIO STRATEGY

- The General City Account Portfolio is of high credit quality and invested in U.S. Treasury, Federal Agency and commercial paper securities.
- PFM continued to manage the General City Account Portfolio during the fourth quarter and found value in the market, taking advantage of market inefficiencies or changes in economic outlook. As a result the Portfolio realized over \$3,265 in gains on sales during the quarter. PFM is continually in the market monitoring for opportunities to add value to the Portfolio.
- 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 0.30%, exceeding the average Yield to Maturity of its benchmark the Merrill Lynch 1 Year U.S. Treasury Index by 11 basis points (0.11%).
- Five year Treasury yields swung in a 24 basis point range. Yields were driven lower by economic disruption from Hurricane Sandy, a higher projection for Greek debt, President Obama's re-election and assured continuity of an accommodative Federal Reserve (Fed), an expansion of the Fed's bond purchase program, and fears the U.S. would go over the fiscal cliff. Bond yields were pushed higher by stronger than expected job reports for September and November, a Greek debt buyback program, the prospect of Presidential candidate Mitt Romney appointing a replacement for Ben Bernanke at the Fed, a global rally in stocks, and confidence that the fiscal cliff would be avoided.
- After all the ups and downs, Treasury yields finished the quarter modestly higher. Political turmoil may cause a transient flight-to-quality as has been seen this quarter and may be seen in the coming quarter. Yet, the larger, lasting effect is likely to come from the budding trend of equity fund inflows at the expense of bond fund outflows. The so-called "Great Rotation", as it is popularly called, is the reversal of fund flows from the past 4 years.
- Fiscal drag caused by tax hikes on the wealthy and resumption of full payroll taxes, and concern over a possible government shutdown may be supportive of a counter-trend rally in the bond market. While our longer term view is that yields will eventually drift gradually higher, we intend to keep durations close to neutral to protect the City's portfolio against the regularly recurring flights into Treasuries.
- As always, we strive to maintain safety of principal and appropriate liquidity, while 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^{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>December 31, 2012</u>	<u>September 30, 2012</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>	<u>December 31, 2012</u>
General City Account Portfolio	\$29,040,317.08	\$23,830,926.22	\$29,060,938.11	\$23,854,238.40	0.95
Fidelity Institutional Money Market Fund Government Portfolio (Fund #257)	25,639.02	910,279.14	25,639.02	910,279.14	0.003
Money Market Fund - State Board of Administration Pool A	30,486.66	7.86	30,486.66	7.86	44 Days
Money Market Fund - State Board of Administration Pool B	481,151.91	511,616.90	481,151.91	511,616.90	N/A
Bank of America Cash for Operation - depository	2,804,015.60	2,319,251.50	2,804,015.60	2,319,251.50	0.003
Water & Sewer 2000 - Fidelity Institutional Money Market Fund Government Portfolio (Account #364)	716,749.42	716,731.55	716,749.42	716,731.55	0.003
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool A	884.81	0.22	884.81	0.22	44 Days
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool B	13,964.33	14,848.51	13,964.33	14,848.51	N/A
Total	\$33,113,208.83	\$28,303,661.90	\$33,133,829.86	\$28,326,974.08	

<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>December 31, 2012</u>	<u>September 30, 2012</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>	<u>September 30, 2012</u>
General City Account Portfolio	0.30%	0.37%	0.20%	0.24%	0.94
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	0.25%	0.31%	0.25%	0.31%	39 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	0.25%	0.31%	0.25%	0.31%	39 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	0.28%	0.33%	0.20%	0.22%	

Benchmarks

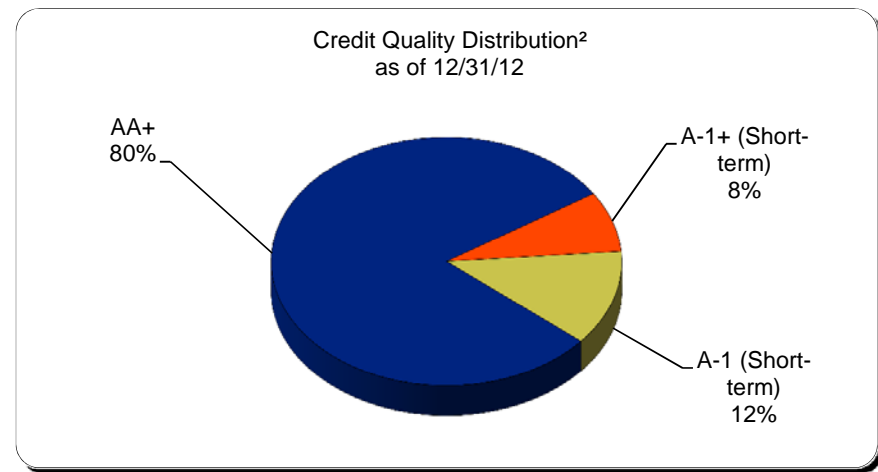
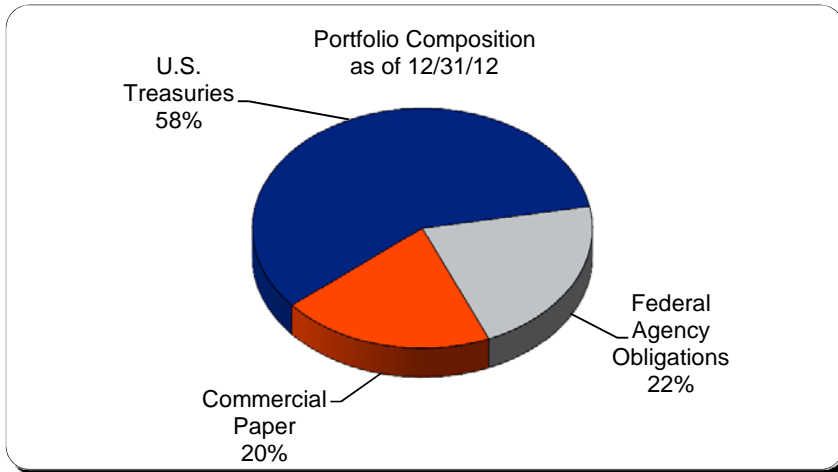
	<u>December 31, 2012</u>	<u>September 30, 2012</u>
Merrill Lynch 1 Year U.S. Treasury Note Index ⁵	0.19%	0.18%

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> ¹	<u>December 31, 2012</u>	<u>% of Portfolio</u>	<u>September 30, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$16,917,846.22	58.22%	\$14,532,193.67	60.92%
Federal Agencies	6,245,858.09	21.49%	6,424,248.63	26.93%
Commercial Paper	5,897,233.80	20.29%	2,897,796.10	12.15%
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	\$29,060,938.11	100.00%	\$23,854,238.40	100.00%

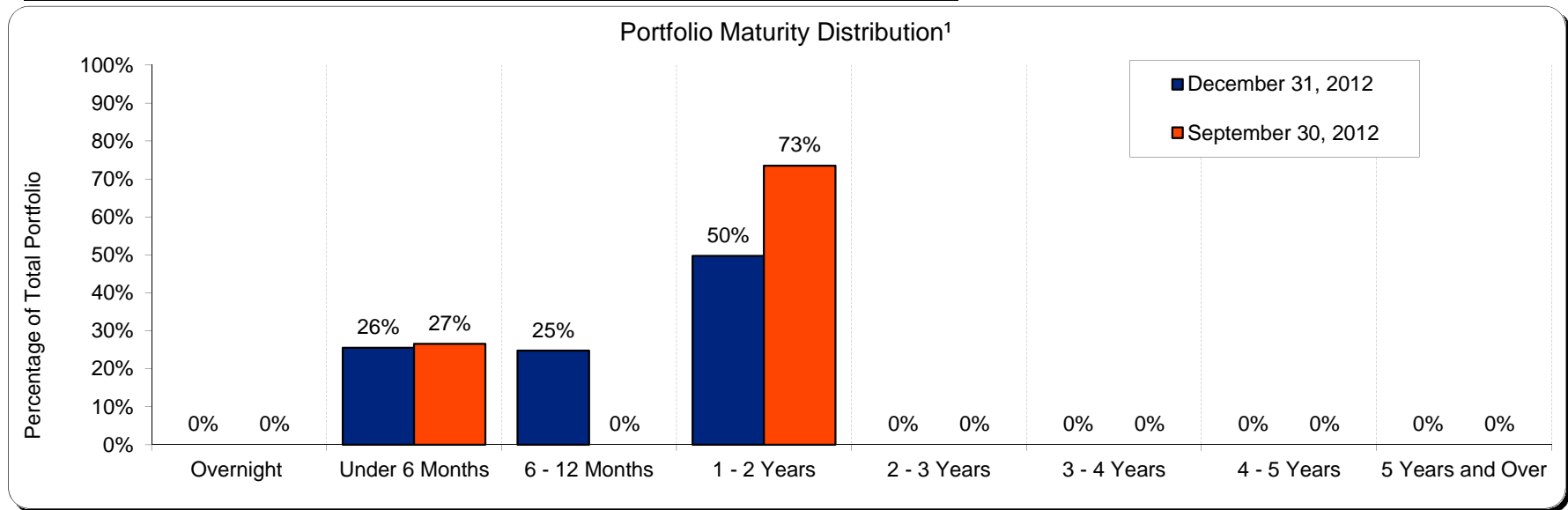


Notes:

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

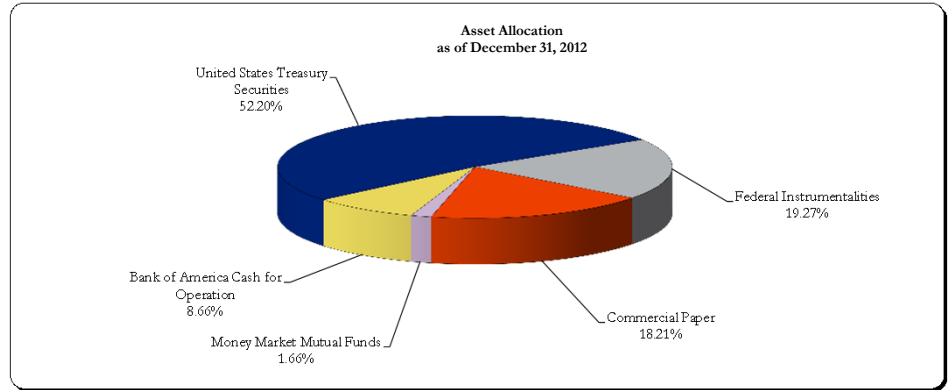
<u>Maturity Distribution¹</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	7,422,464.88	6,326,956.42
6 - 12 Months	7,189,131.81	0.00
1 - 2 Years	14,449,341.42	17,527,281.98
2 - 3 Years	0.00	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$29,060,938.11	\$23,854,238.40



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	December 31, 2012	December 31, 2012	Notes	Permitted by Policy
United States Treasury Securities	16,904,406.17	52.20%		100%
United States Government Agency Securities	-	0.00%		75%
Federal Instrumentalities	6,239,717.27	19.27%		80%
Mortgage-Backed Securities	-	0.00%		0%
Certificates of Deposit	-	0.00%		25%
Repurchase Agreements	-	0.00%		50%
Commercial Paper	5,896,193.64	18.21%		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	537,277.59	1.66%		100%
Intergovernmental Investment Pool	-	0.00%		25%
Bank of America Cash for Operation	2,804,015.60	8.66%	2	100%



Individual Issuer Breakdown	December 31, 2012	December 31, 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)	4,717,204.51	14.57%		25%
Federal Home Loan Mortgage Corporation (FHLMC)	1,522,512.76	4.70%		25%

Individual Issuer Breakdown	December 31, 2012	December 31, 2012	Notes	Permitted by Policy
Bank of Tokyo Mitsubishi CP	1,598,593.78	4.94%		10%
Toyota CP	1,299,528.75	4.01%		10%
Nordea North America CP	999,506.95	3.09%		10%
Barclays CP	999,432.22	3.09%		10%
JP Morgan Chase CP	999,131.94	3.09%		10%
Fidelity Institutional Money Market Fund Government Portfolio (Fund #257)	25,639.02	0.08%	2	25%
Money Market Fund - Florida Prime (SBA)	30,486.66	0.09%	2	25%
Money Market Fund - Florida SBA Fund B	481,151.91	1.49%	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.