



DATE: March 10, 2015

AGENDA ITEM # 2

TO: City Council
FROM: Kim Juran-Karageorgiou, Administrative Services Director
SUBJECT: Investment Portfolio Report

RECOMMENDATION:

Receive the Investment Portfolio Report through December 31, 2014

SUMMARY:

Estimated Fiscal Impact:

Amount: None

Budgeted: Not applicable

Public Hearing Notice: Not applicable

Previous Council Consideration: October 28, 2014

CEQA Status: Not applicable

Attachments:

1. Citywide Holdings and Investment Ladder
2. Portfolio Mix Chart
3. Investment Policy Compliance Chart
4. Investment Performance Review Fourth Quarter 2014

BACKGROUND

This report presents the status of the City's investment portfolio through December 31, 2014. The reporting model has been developed in coordination with PFM Asset Management LLC (PFM).

DISCUSSION

Current Portfolio Profile

The summary provided below, along with the investment ladder in Attachment 1, presents the sum total of all City investment holdings. The City's portfolio book value, excluding operating cash and bond holdings, as of December 31, 2014, was \$51,868,328. The City has proceeded cautiously during the low interest rate environment of the past few years, keeping investment durations short and heavily weighted in the Local Agency Investment Fund (LAIF). The portfolio has performed, on an inception-to-date basis, close to the City's yield benchmark and has experienced no principal losses.

As of December 31, 2014, 21% of the City's portfolio was placed in Federal Agency Securities (Fannie Mae, Federal Home Loan Bank, Federal Home Loan Mortgage and Federal Farm Credit), 16% in U.S. Treasuries, 4% in medium-term Corporate Notes, with the balance of 59% in LAIF and less than 1% in money market funds. This portfolio mix is illustrated as part of Attachment 2.

Full compliance with the City's Investment Policy is monitored closely and on a per-trade basis as illustrated in Attachment 3.

As part of these quarterly updates, a status report is prepared by PFM that is included as Attachment 4 – Investment Performance Review Fourth Quarter 2014. It is important to note that this report highlights the performance of City investments that fall outside its liquid holdings with LAIF. This has been intentionally crafted to isolate the performance of the City's independently-managed investments. The total return of the portfolio since inception is .71%, which is highlighted on page 8 of the PFM Investment Review report.

Subsequent Period Activity of Note

Staff has been working to move funds from LAIF to the City's investment portfolio with PFM during the first quarter of 2015 in an effort to maintain the City's holdings with LAIF to 50% or lower.

The City's Financial Commission received the fourth quarter investment report from Carlos Oblites of PFM Asset Management at its meeting on February 17, 2015. Based on this report, the Commission plans to further discuss the City's current investment strategy at its meeting in March and determine whether any changes are recommended.

FISCAL IMPACT

None

PUBLIC CONTACT

A review of the past quarter of investment activity was presented at the February 17, 2015 Financial Commission meeting.

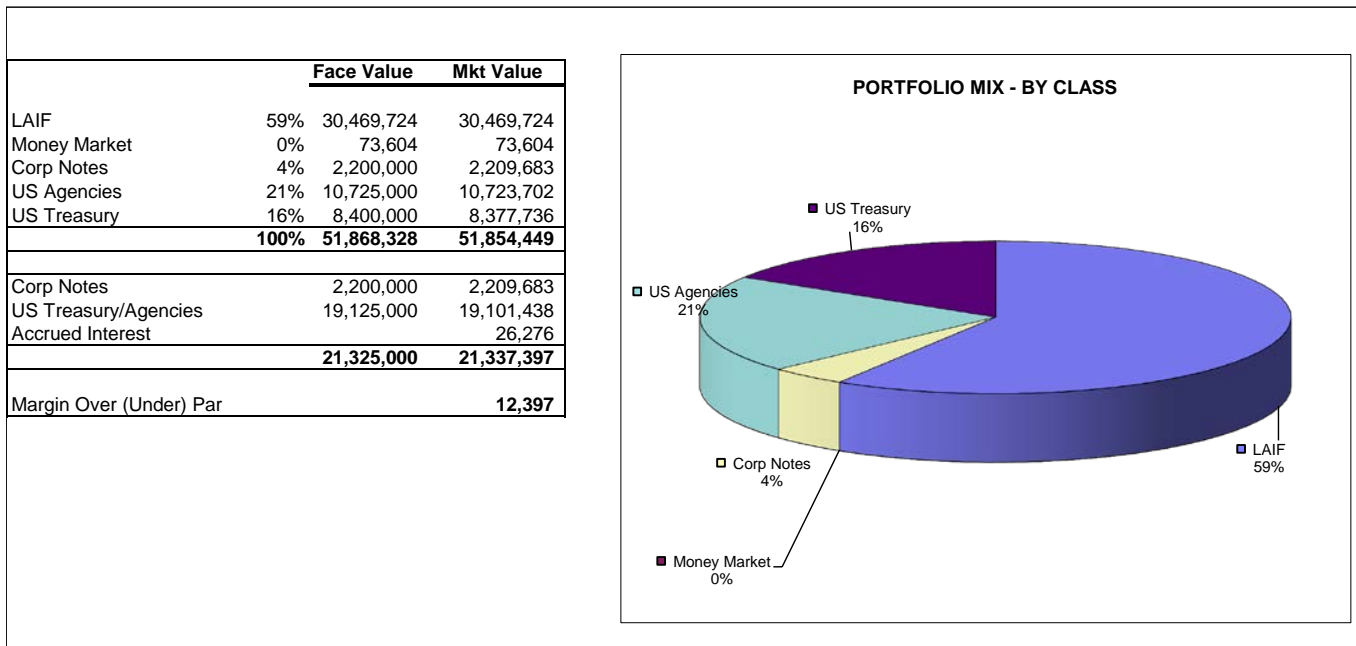
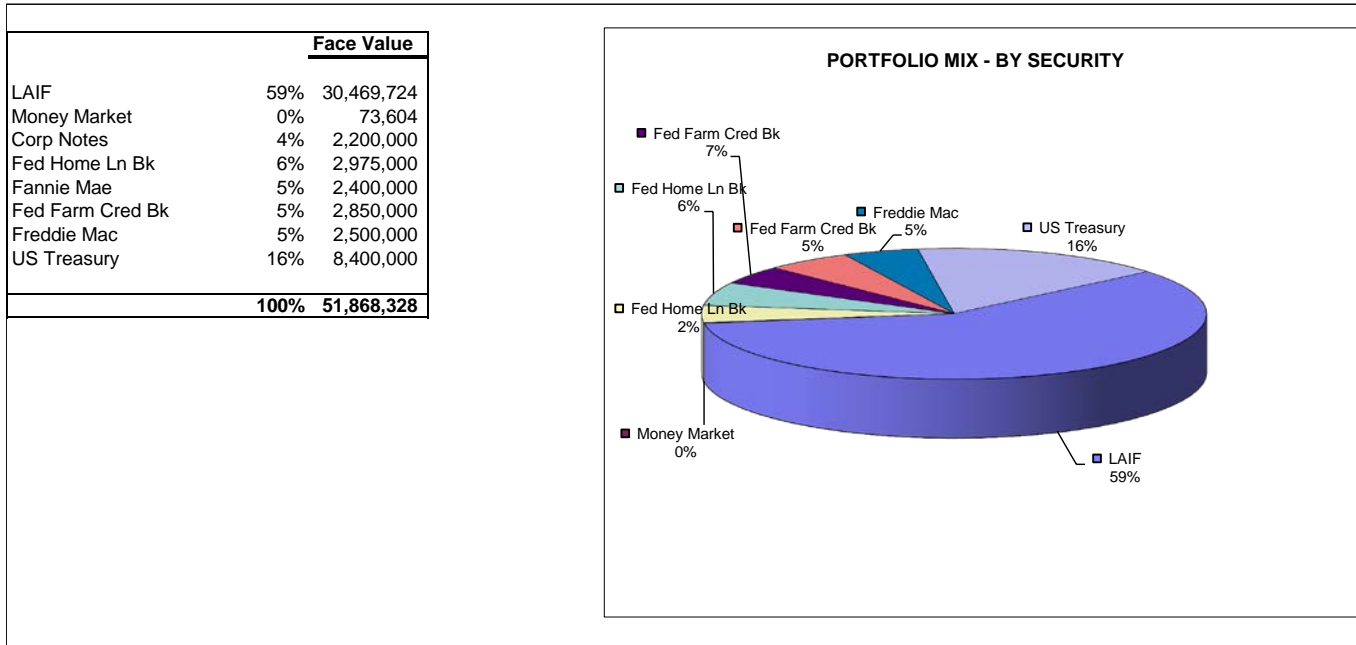
Posting of the meeting agenda serves as notice to the general public.

Attachments A
Citywide Holdings and Investment Ladder
December 31, 2014

31-Dec-14 Month	2015				2016				2017			
	YTM	Sec	Call Date	Amount	YTM	Sec	Call Date	Amount	YTM	Sec	Call Date	Amount
LAIF				\$ 30,469,724								
MMKT				\$ 73,604								
Jan					1/15/2016	0.36%	USTreas	300,000				
Feb					3/30/2016	0.52%	FNMA	750,000				
Mar	7/2/2015	0.61%	FNMA	900,000					4/30/2017	0.86%	USTreas	650,000
Apr					4/11/2016	0.52%	Wmart	800,000				
May					5/13/2016	0.41%	FHLMC	500,000				
Jun					5/13/2016	0.72%	FHLMC	2,000,000				
					6/15/2016	0.50%	USTreas	1,150,000	6/30/2017	0.87%	USTreas	1,050,000
					6/24/2016	0.77%	FHLB	1,200,000				
Jul	7/15/2015	0.38%	USTreas	750,000	7/15/2016	0.59%	USTreas	350,000				
	7/15/2015	0.40%	USTreas	1,000,000								
Aug					8/31/2016	0.60%	USTreas	525,000				
Sep					9/28/2016	0.45%	FHLB	1,775,000				
					9/29/2016	0.70%	3M	750,000				
Oct	10/9/2015	0.78%	CP GE	650,000								
Nov	11/16/2015	0.45%	FFCB	1,600,000					11/30/2017	0.99%	USTreas	1,000,000
Dec	12/21/2015	0.40%	FNMA	750,000								
	12/28/2015	0.41%	FFCB	1,250,000								
Total				\$6,900,000				\$10,100,000				\$2,700,000
Count/Percent	7		0	35.03%	11		0	51.27%	3		0	13.71%
Avg YTM/Days	0.49%		271		0.56%		529		0.91%		943	
Total Face Value				\$ 6,900,000				\$ 17,000,000				\$ 19,700,000

	No of Inv	Ladder Yield	Spread Over LAIF	%	Avg Maturity	# of Callables	Face Value
LAIF	1	0.267%	0.000%	59%	1	0	30,469,724
Money Mkt	0	0.010%	-0.257%	0%	1	0	73,604
2015	7	0.491%	0.224%	13%	271	0	6,900,000
2016	11	0.558%	0.291%	19%	529	0	10,100,000
2017	3	0.907%	0.640%	5%	943	0	2,700,000
2018	1	1.210%	1.200%	3%	1126	0	1,625,000
	22	0.42%	0.38%	97%	224	0	\$51,868,328

Portfolio Mix Charts December 31, 2014



Investment Policy Compliance Chart

December 31, 2014

City Investment	% Mix	Par Value	Latest Term	City Policy \$ Limitation	City Policy % Limitation	CAPACITY	% Compliance Yes/No	Term Compliance Yes/No																		
LAIF	59%	30,469,724	12/31/19	50,000,000	100%	19,530,276	Yes	N/A																		
M FUND	0%	73,604	12/31/19		20%	10,300,061	Yes	N/A																		
MTNs	4%	2,200,000	12/31/19		15%	5,580,249	Yes	Yes																		
FHLB	6%	2,975,000	12/31/19		20%	7,398,666	Yes	Yes																		
FNMA	5%	2,400,000	12/31/19		20%	7,973,666	Yes	Yes																		
FFCB	5%	2,850,000	12/31/19		20%	7,523,666	Yes	Yes																		
FHLM	5%	2,500,000	12/31/19		20%	7,873,666	Yes	Yes																		
All Agencies		21%	12/31/19		100%	41,143,328	Yes	Yes																		
TREAS	16%	8,400,000	12/31/19		100%	43,468,328	Yes	Yes																		
	100%	51,868,328																								
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">All Agencies</td> <td style="width: 10%; text-align: center;">21%</td> <td style="width: 10%; text-align: right;">10,725,000</td> <td colspan="6"></td> </tr> <tr> <td>Callables</td> <td style="text-align: center;">0%</td> <td style="text-align: right;">-</td> <td colspan="6"></td> </tr> </table>									All Agencies	21%	10,725,000							Callables	0%	-						
All Agencies	21%	10,725,000																								
Callables	0%	-																								



City of Los Altos



Fourth Quarter 2014 Review of Portfolio February 10, 2014

PFM Asset Management LLC
50 California Street, Suite 2300
San Francisco, CA 94111
415-982-5544

Fourth Quarter Economic Summary

Economic Conditions

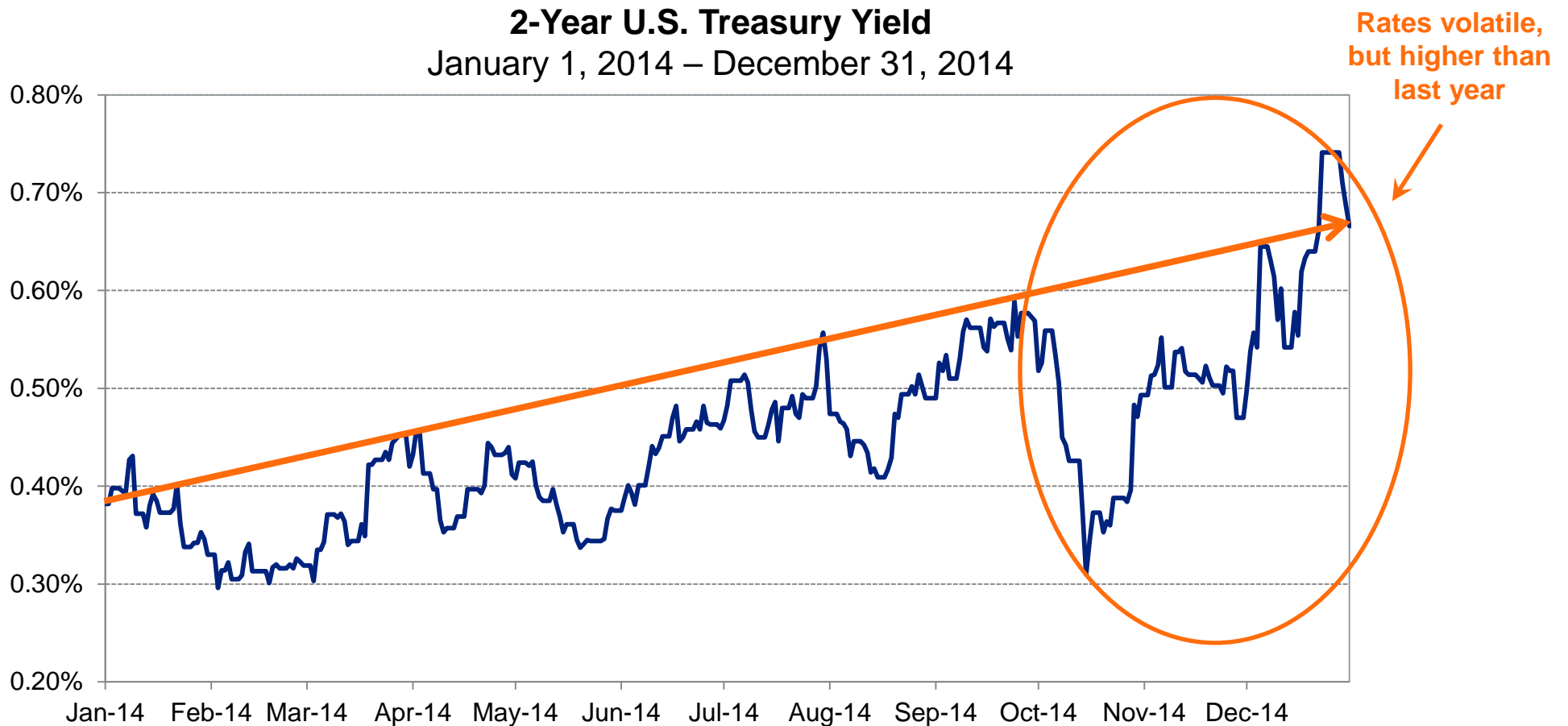
- The U.S. economy ended the year on a positive note as third-quarter U.S. GDP was revised upward to 5.0%, marking the strongest result since 2003.
- The economy added a total of 2.95MM jobs in 2014, the strongest growth in 15 years. Additionally, by year's end the unemployment rate had fallen to 5.6%, the lowest rate seen in six years.
- Oil prices continued to plummet and the US dollar strengthened further, injecting new dynamics into the global economic recovery.
- The European Central Bank and the Bank of Japan announced new stimulus measures.
- The FOMC said that it would be “patient” when normalizing its current accommodative monetary policy; the Committee stressed that policy decisions will be dependent on incoming economic data.

Market Reaction

- Short- and intermediate-term interest rates generally rose while longer maturity yields fell modestly.
- Agency spreads for maturities of seven years and less tightened in the last month of the year.
- Money market related securities (especially those with maturities greater than six months) rose notably, reflecting an expected Fed Funds rate hike in mid to late spring of 2015.

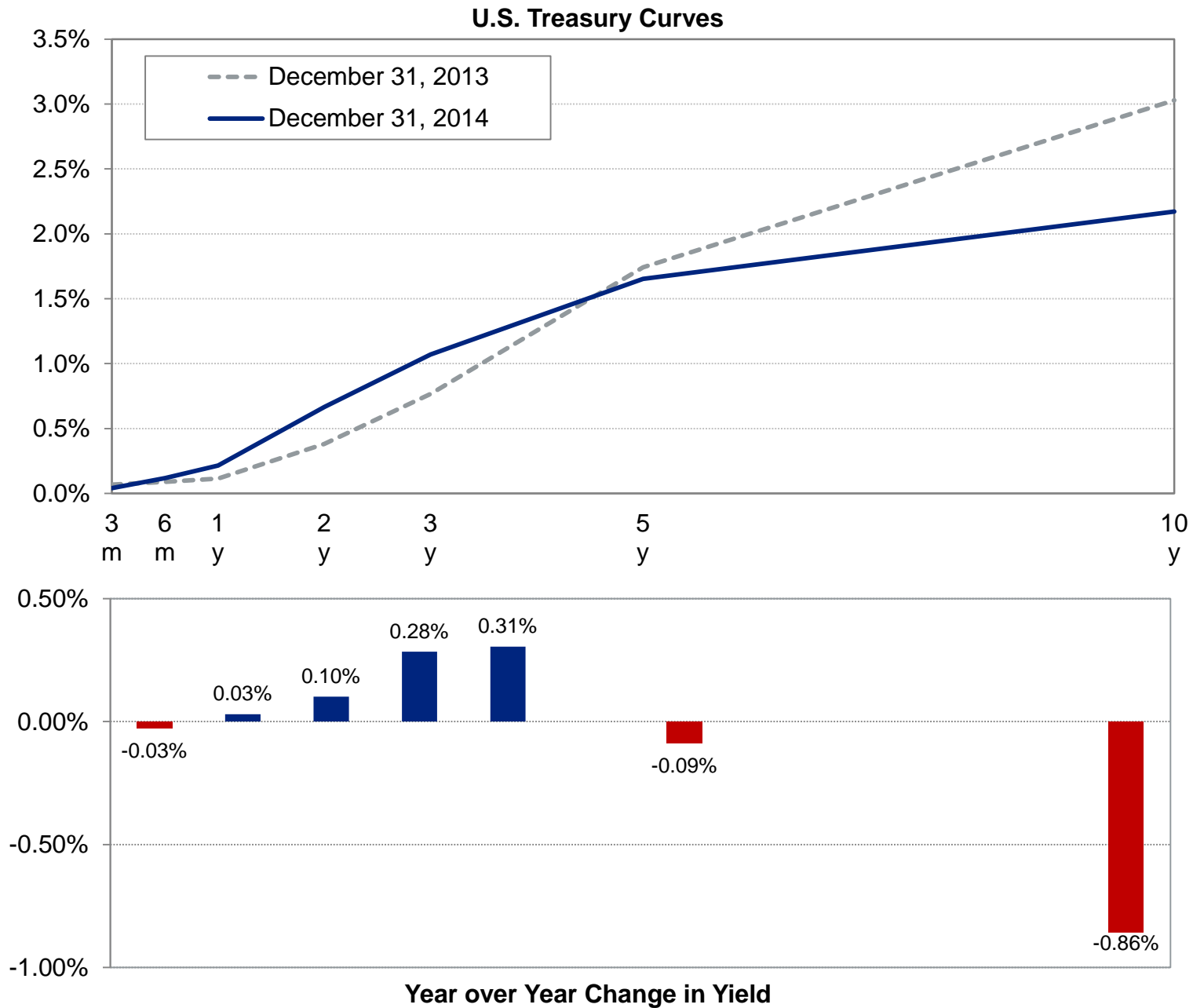
Interest Rates Are (Finally) on the Rise...

- Interest rates have almost doubled in the last year.
- At the end of 2014, as global fears eased, yields rose to their highest levels since 2011.



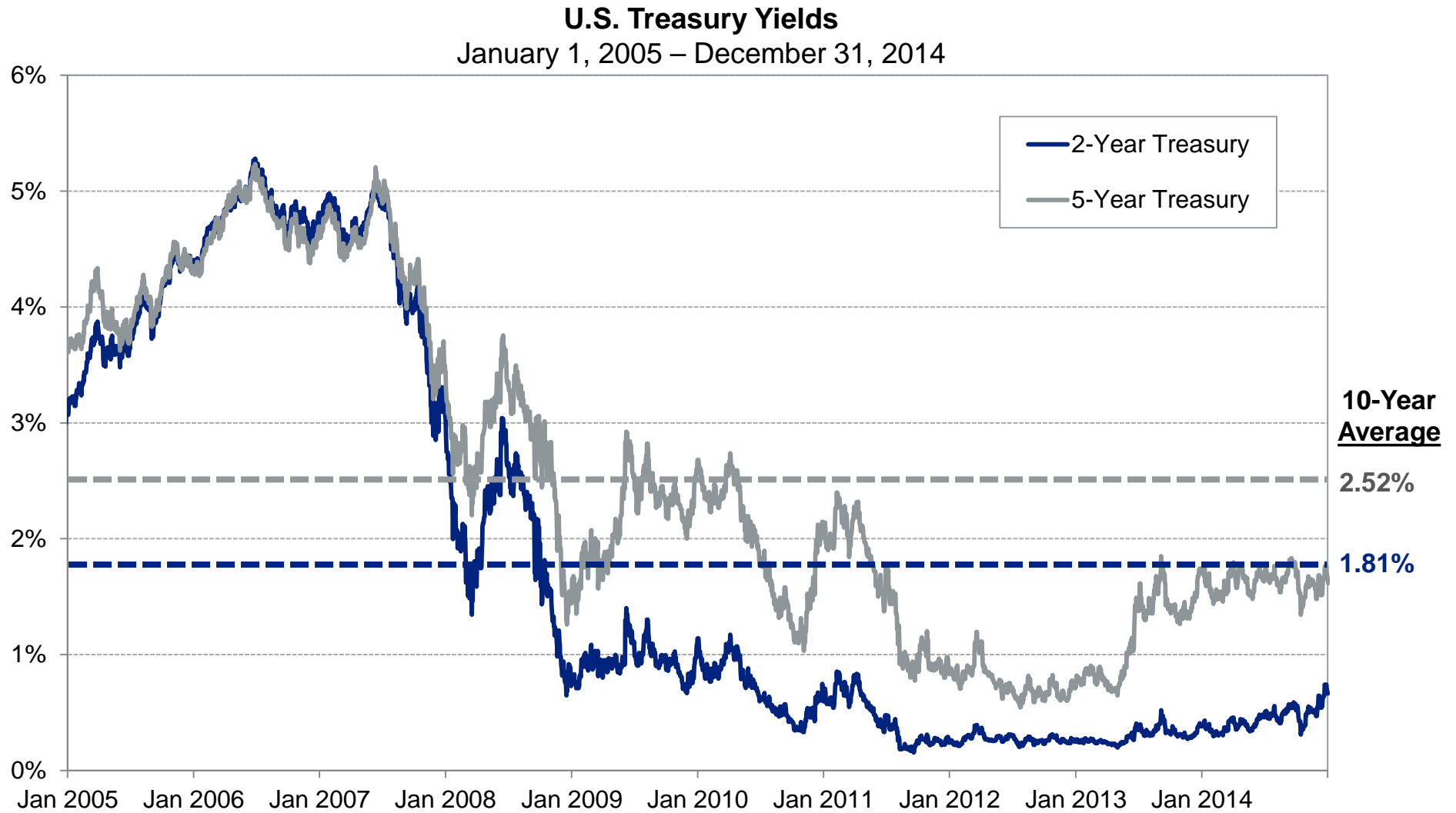
Source: Bloomberg

...in Intermediate-Term Maturities...



Source: Bloomberg

...But Remain Below Historical Averages



Source: Bloomberg

Fourth Quarter 2014 Recap

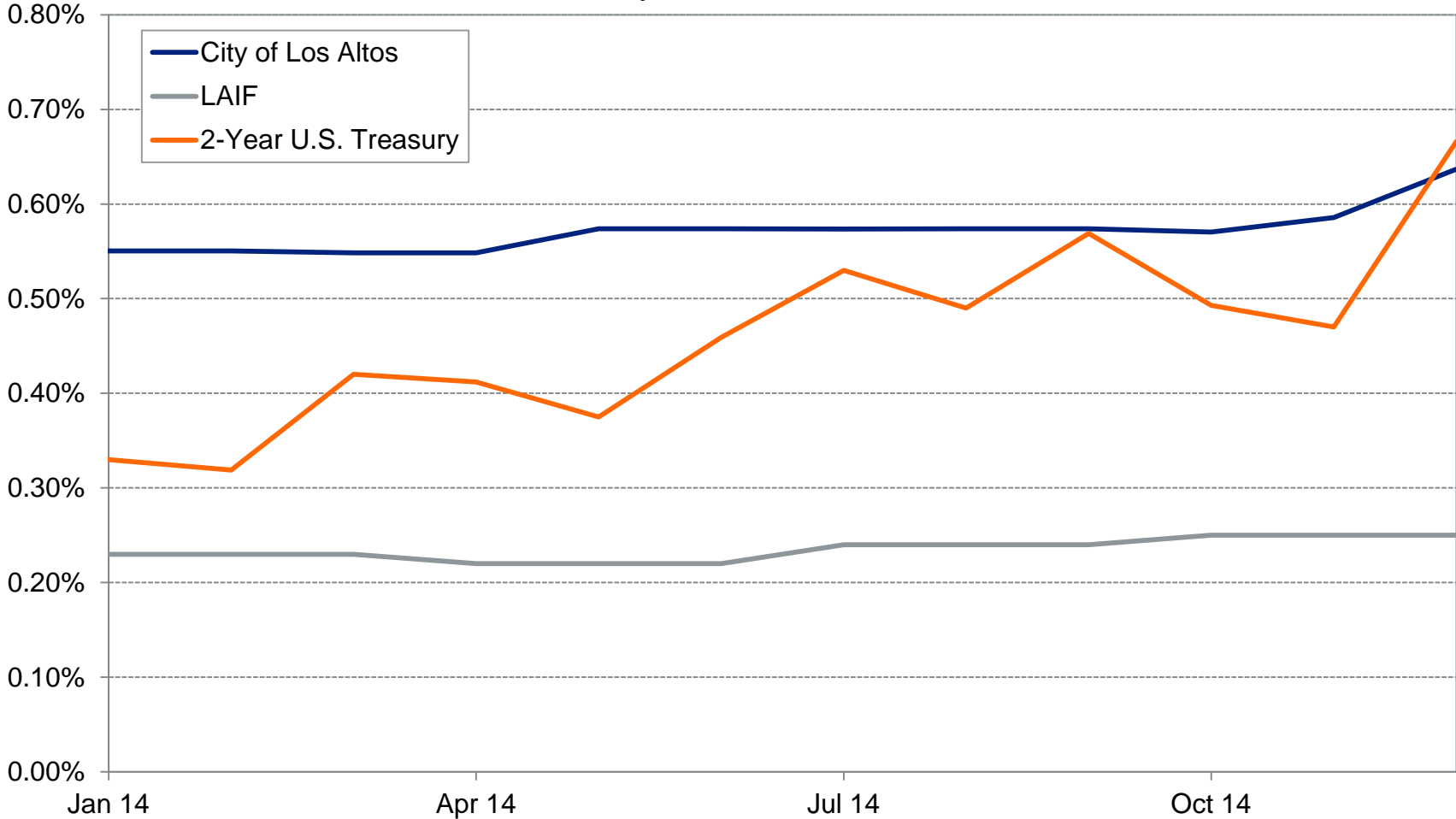
- U.S. Treasury yields experienced heightened volatility in the fourth quarter as market participants continued to weigh an improving domestic economy against declining growth prospects abroad, global deflationary pressures, and diverging policies from central banks around the world.
- We maintained a modestly defensive duration strategy—keeping the average portfolio maturity shorter than the benchmark—throughout the quarter in an effort to mitigate the impact that rising rates would have on portfolio performance.
- While the broader yield curve flattened further in the fourth quarter, the part of the yield curve under 5 years remained steep, increasing the relative attractiveness of longer investments within that range.

Fourth Quarter Trading Activity

Settle Date	Transaction	Issuer	Par	Maturity	Yield
10/15/14	Maturity	U.S. Treasury	\$1,700,000	10/15/14	-
10/21/14	Purchase	FHLB	\$1,775,000	9/28/16	0.45%
11/10/14	Maturity	FFCB	\$1,000,000	11/10/14	-
11/10/14	Purchase	U.S. Treasury	\$1,000,000	11/30/17	0.99%
12/31/14	Maturity	U.S. Treasury	\$1,625,000	12/31/14	-
12/31/14	Purchase	U.S. Treasury	\$1,600,000	1/31/18	1.21%

Rates Begin to Rise

Yield to Maturity
January 2014 – December 2014



Source: State Treasurer's website, Bloomberg

Portfolio Generated Strong Returns

- In 2014, the portfolio's total return was 0.49%.

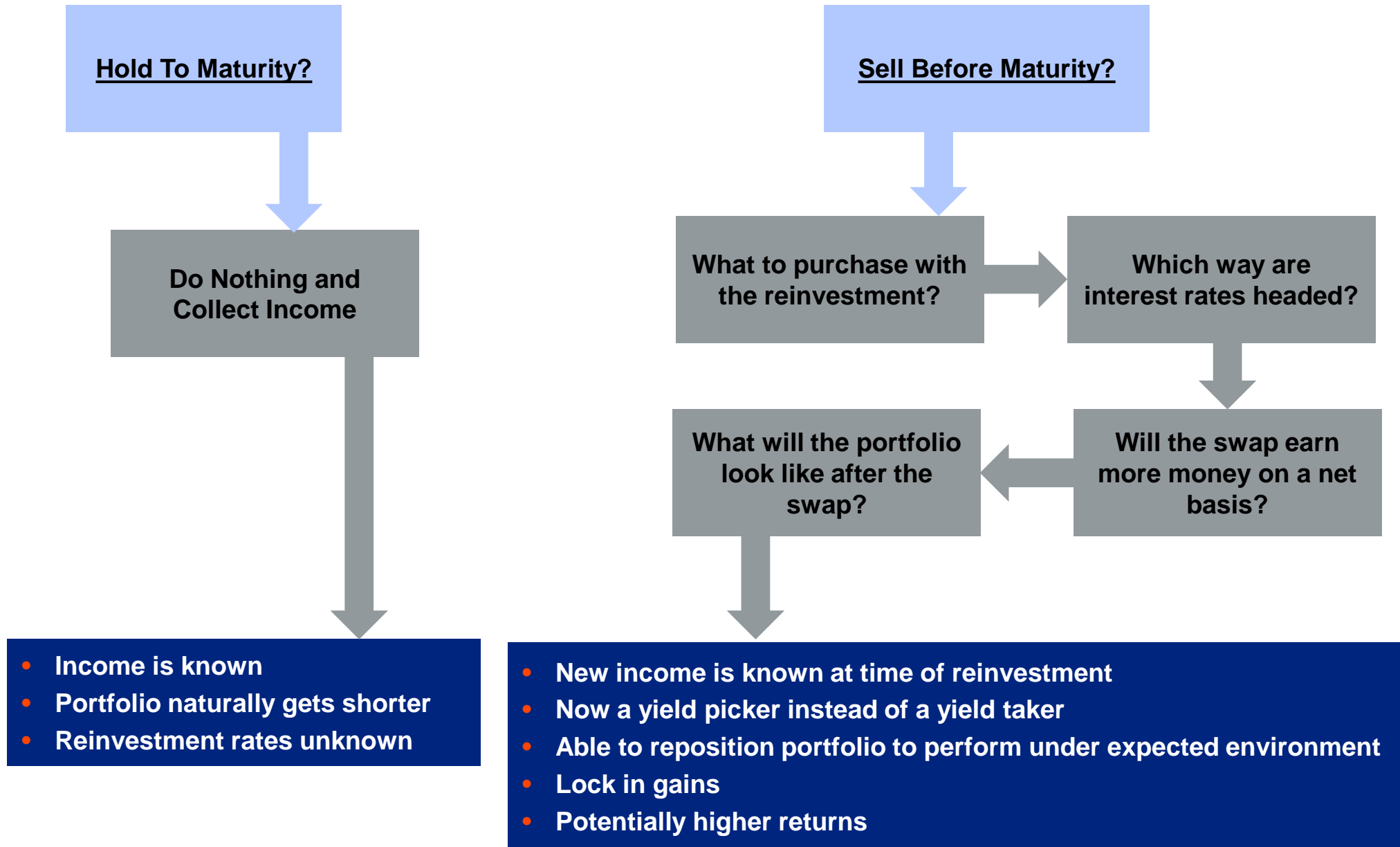
Total Returns for Periods ending December 31, 2014

	Duration (years)	Yield to Maturity	Past Quarter	Past Year	Past 3 Years	Since Inception
City of Los Altos	1.50	0.64%	0.09%	0.49%	0.50%	0.71%
Merrill Lynch 1 Year U.S. Treasury Index	0.91	0.28%	-0.07%	0.18%	0.23%	0.35%
Merrill Lynch 1-3 Year U.S. Treasury Index	1.82	0.64%	0.17%	0.62%	0.47%	0.76%
PFM 1-3 Year Fixed-Income Composite	1.77	0.72%	0.20%	0.69%	0.69%	0.93%

Notes:

- Performance on trade-date basis, gross (i.e., before fees) in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
- Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Inception date is third quarter 2010.
- Return calculation excludes LAIF
- Full composite information included on pages 23-25.

Active Management: Decisions... Decisions...



Sample Swap Advantage

Swap Executed in February 2015

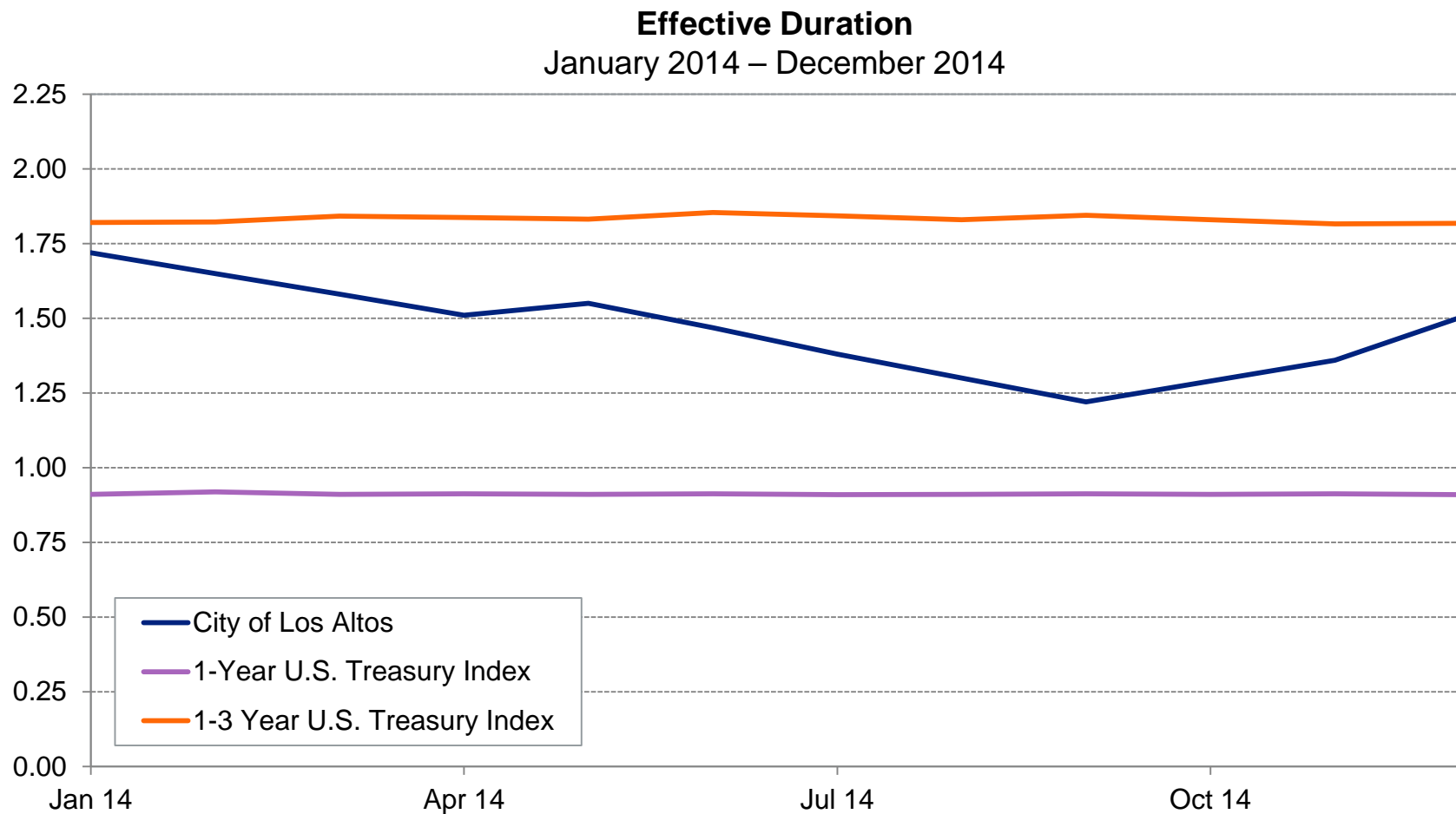
Settle Date	Trade Type	Issuer	Par	Maturity	Yield at Cost	Yield at Market	Gain on Sale	Earnings to 7/2/15	Total Cash Flow
2/3/15	Sale	FNMA	\$900,000	7/2/15	0.61%	0.16%	\$1,660	(\$2,272)	(\$612)
2/3/15	Purchase	U.S. Treasury	\$950,000	7/31/17	0.62%	0.62%	-	\$2,424	\$2,424
Additional Net Benefit to 7/2/15									\$1,812

Swap Proposed in February 2015

Settle Date	Trade Type	Issuer	Par	Maturity	Yield at Cost	Yield at Market	Gain on Sale	Earnings to 10/9/15	Total Cash Flow
2/6/15	Sale	General Electric	\$650,000	10/9/2015	0.78%	0.35%	\$211	(\$3,425)	(\$3,214)
2/6/15	Purchase	General Electric	\$600,000	12/6/2017	1.15%	1.15%	-	\$5,172	\$5,172
Additional Net Benefit to 10/9/15									\$1,958

Effective Duration Approaches Benchmark

- Beginning in the fourth quarter, the portfolio effective duration has begun to approach the benchmark, the 1-3 Year U.S. Treasury Index.



Source: Bloomberg

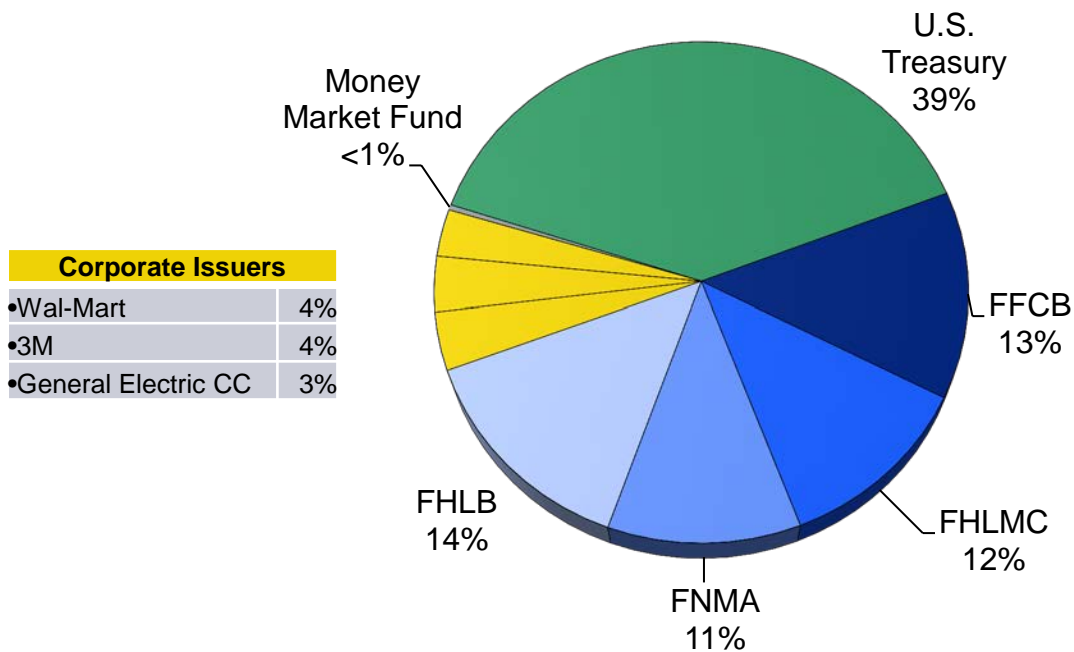
Portfolio Holdings in Compliance with California Code and City's Investment Policy

Security Type	Market Value as of December 31, 2014	Percent of Portfolio	Permitted by Policy	In Compliance
U.S. Treasury	\$8,390,836	39%	100%	✓
Federal Agencies	\$10,731,918	50%	100%	✓
Corporate Notes	\$2,214,643	11%	30%	✓
Money Market Fund	\$73,604	<1%	20%	✓
Total	\$21,411,001			

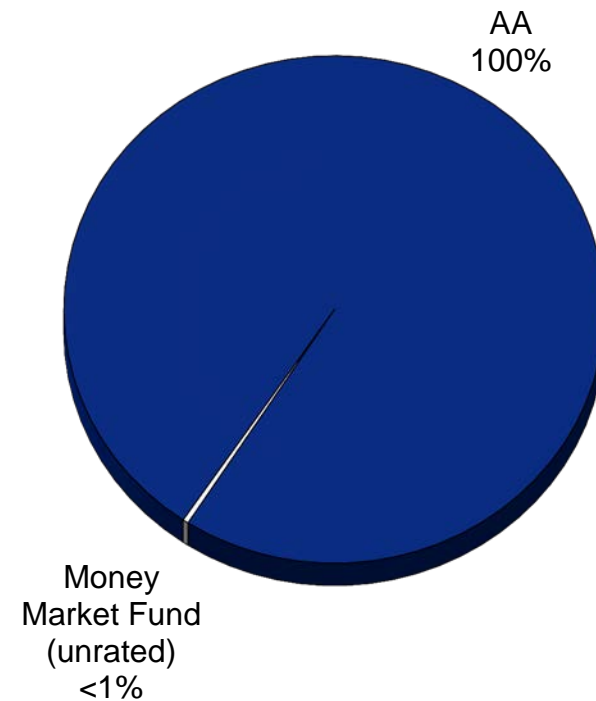
City's Holdings Maintain Highest Credit Quality

- The portfolio has excellent credit quality: 100% of the portfolio is invested in securities rated in S&P's second highest ratings category, AA.
- The City's portfolio continues to be well diversified by both sector and issuer.

Issuer Distribution



Credit Quality



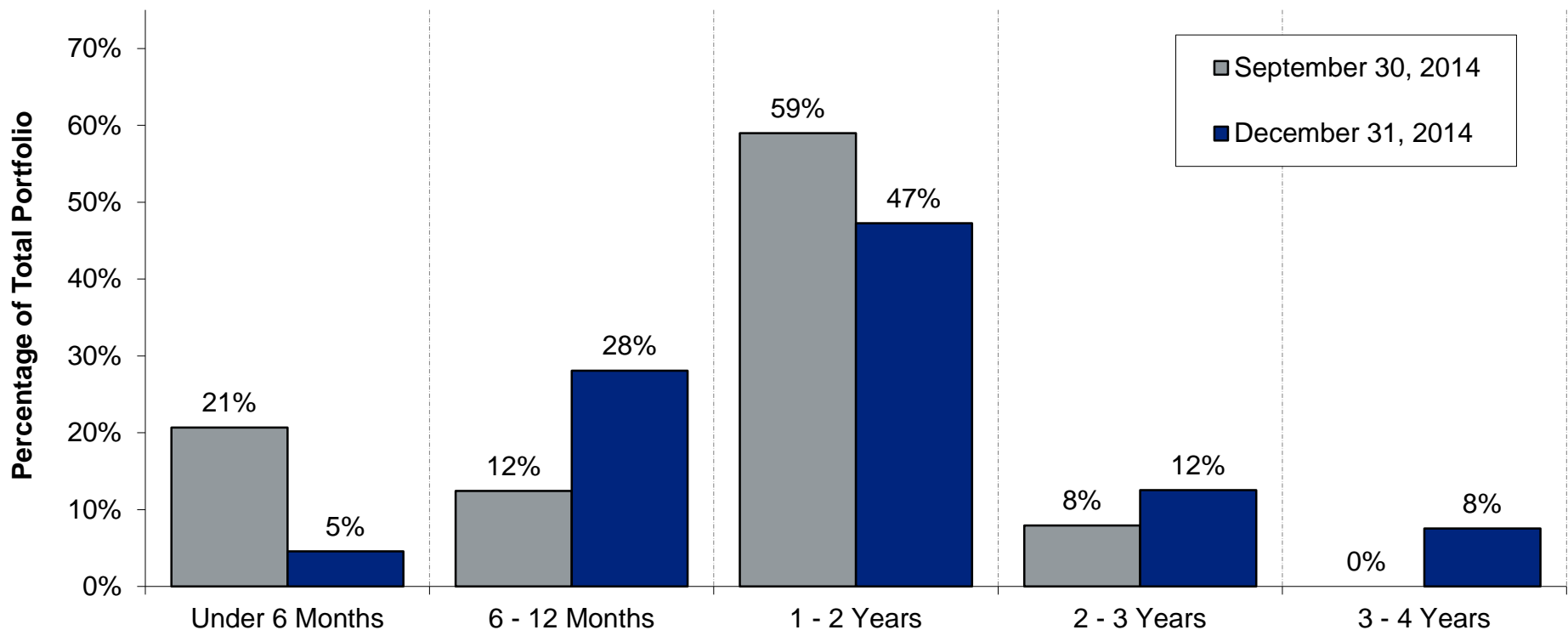
Notes:

- As of December 31, 2014
- Standard & Poor's Ratings

Portfolio Holdings Are Diversified by Maturity

- We extended a portion of the City's portfolio in securities slightly longer than 3 years to take advantage of the shape of the yield curve.

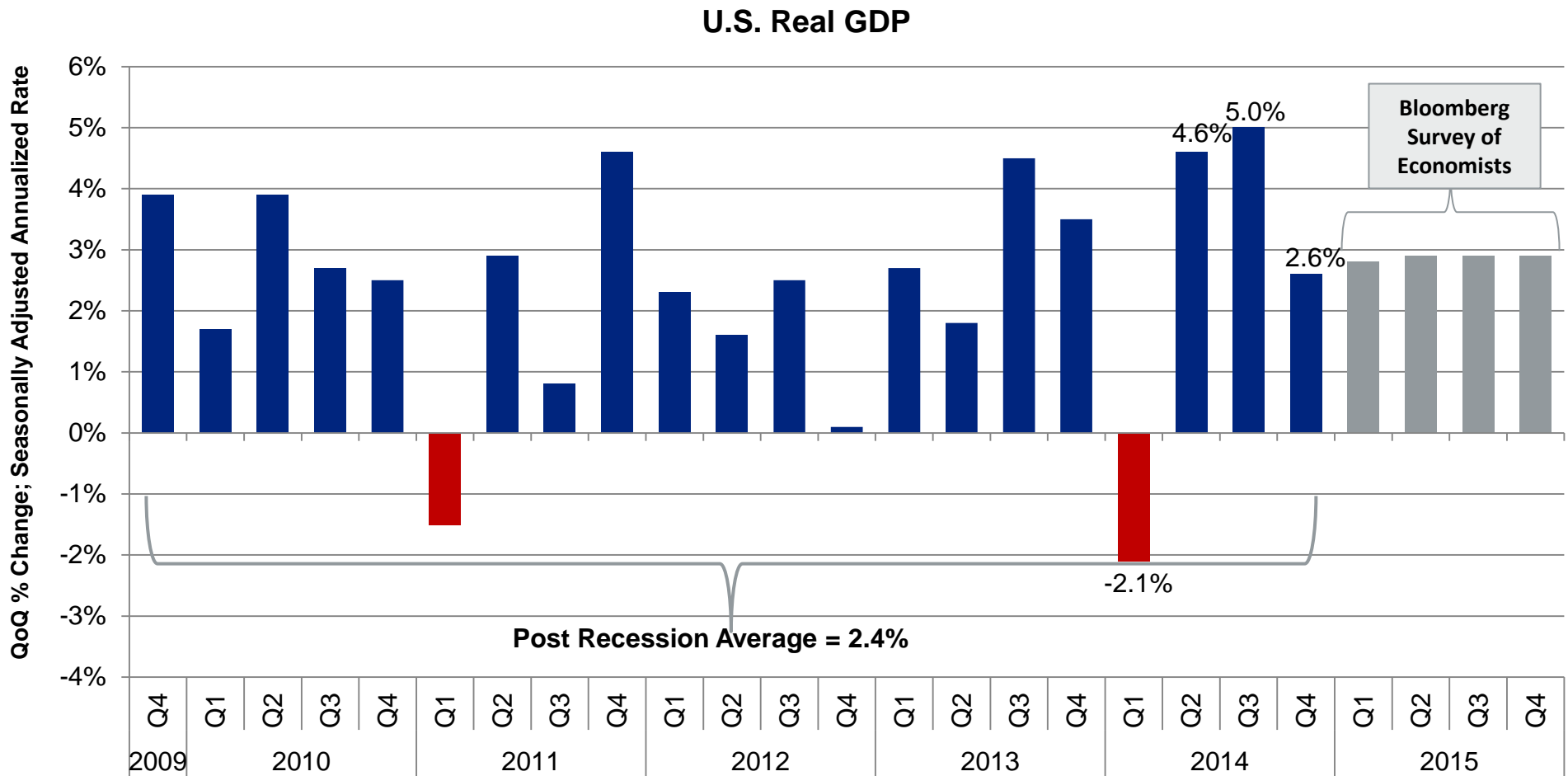
Portfolio Maturity Distribution ¹



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

U.S. Economy Expands Strongly in 2014

- After a slow start to 2014, GDP growth recovered strongly in the 2nd and 3rd quarters. 4th quarter GDP disappointed moderately at 2.6%.



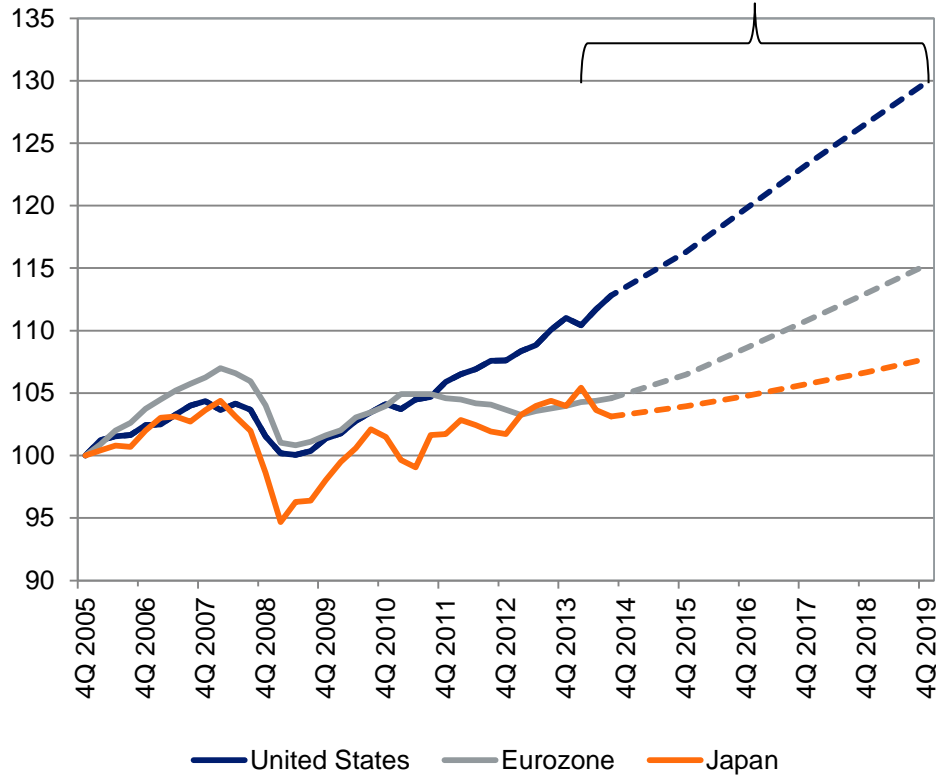
Source: Bureau Of Economic Analysis

Global Growth Rates Diverge

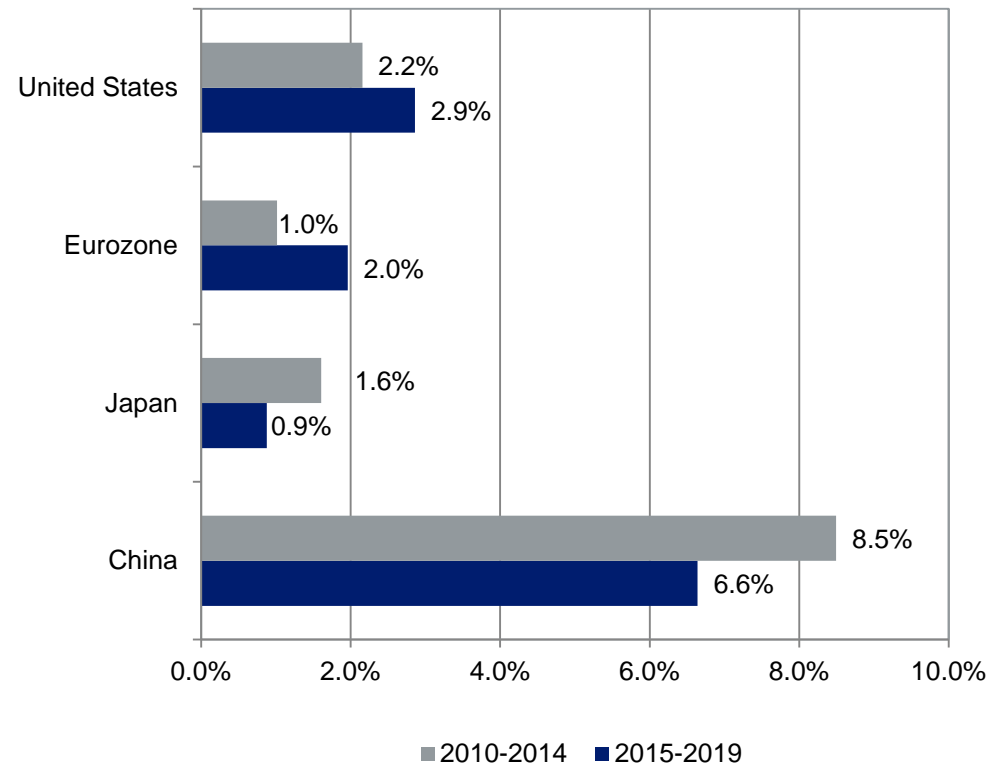
- U.S. GDP fully recovered from 2007-8 financial crisis; moderate growth expected
- Eurozone and Japan struggling
- Emerging markets slow from historic pace

GDP Growth (4Q2005 = 100)

IMF Projections



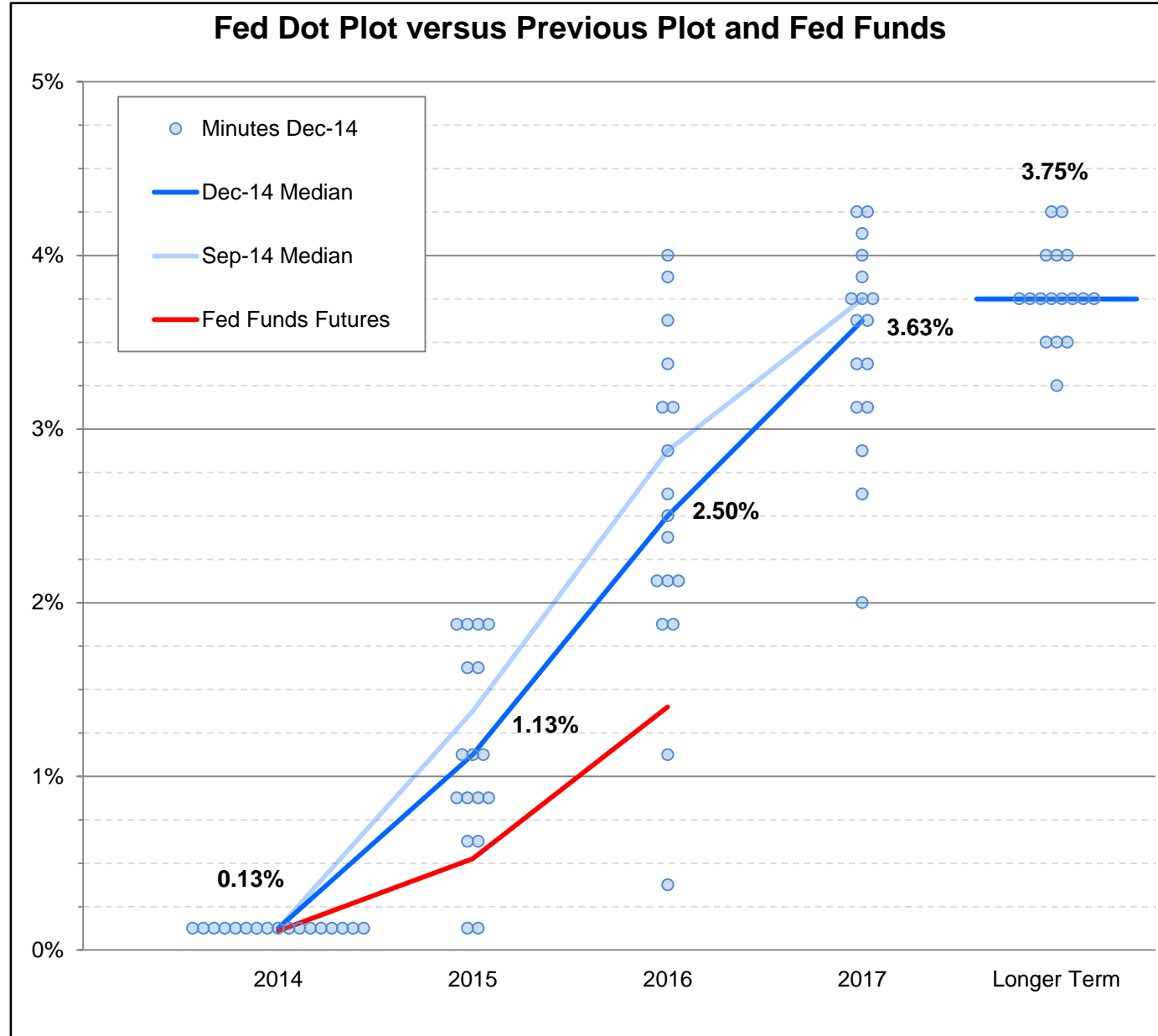
Historical and Expected Long-Term GDP Growth Rates



Sources: Bloomberg and International Monetary Fund (IMF) expectations. Actual data through 3Q2014.

Fed Likely to Begin Rate Normalization in 2015

- Reinvestments will continue
- Rate hike is data dependent – no preset course
- When rate increases arrive, they are expected to be modest and over an extended period of time

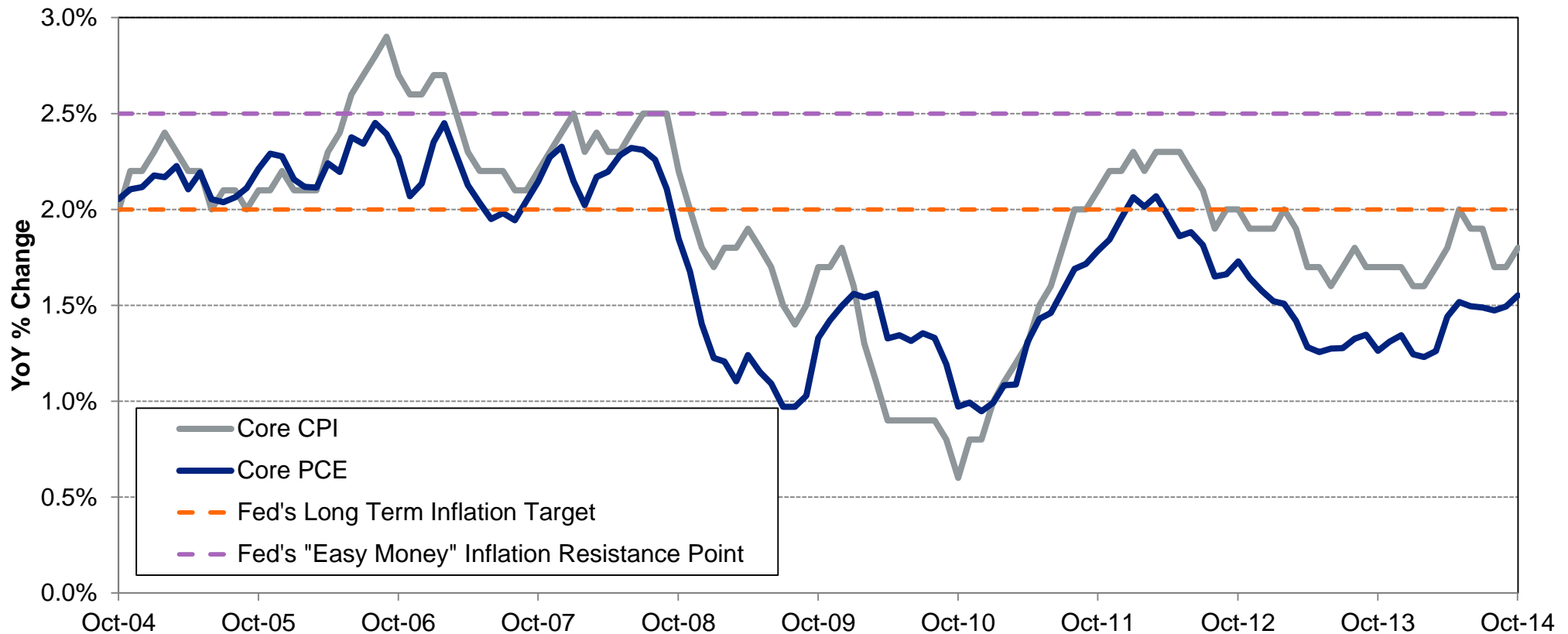


Sources: Bloomberg and Federal Reserve. Summary of economic projections from December 17, 2014.

Inflation Remains Muted

- The personal consumption expenditures (PCE) price index, the Federal Reserve's preferred gauge of core inflation, continues to be less than the Federal Reserve's 2% target; the PCE index advanced 1.6% year-over-year through October.
- The Core Consumer Price Index (CPI) registered 1.8% year-over-year growth through October.

**Inflation Measures:
Consumer Price Index vs Personal Consumption Expenditures**

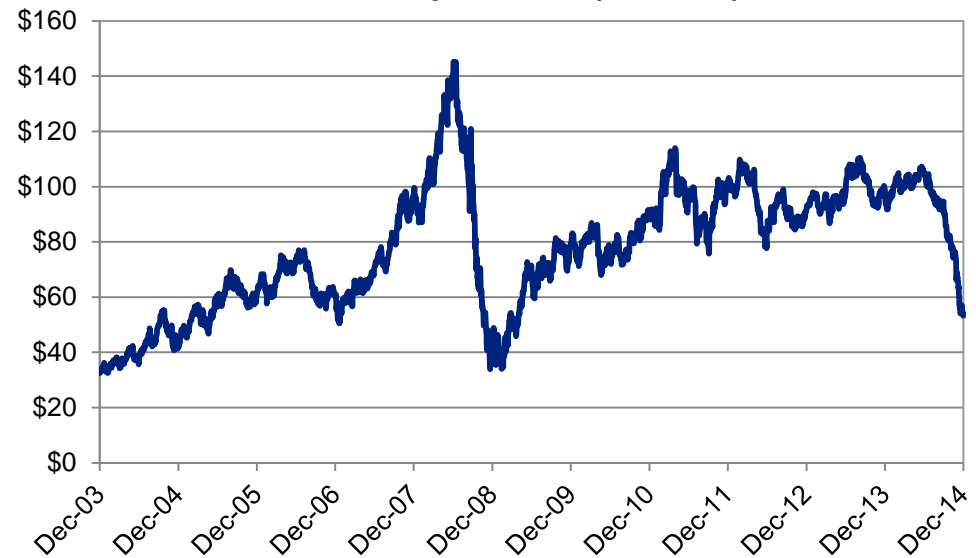


Source: Bloomberg

Falling Oil Prices: Current Conditions

- **West Texas Intermediate (WTI) Crude:**
 - 46% year-to-date decline
 - 50% decline from the 2014 peak
- **Plunge in oil prices attributed to:**
 - Oversupply
 - Increased North American production
 - OPEC maintaining output
 - Slowing global demand
 - Weaker global economy
 - Improvements in energy efficiency and use of alternative energy sources

WTI Price per Barrel (10 Years)

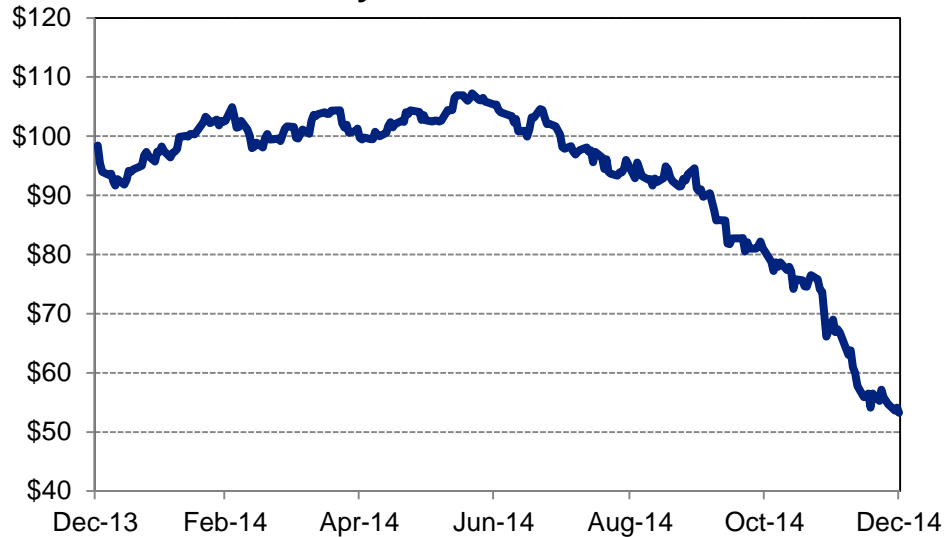


- **Net Positive For U.S. Economy:**
 - Oil prices boost consumer discretionary income
 - Energy employment may decline, but offset by gains in other industries
 - Municipalities with fleets of vehicles should save money

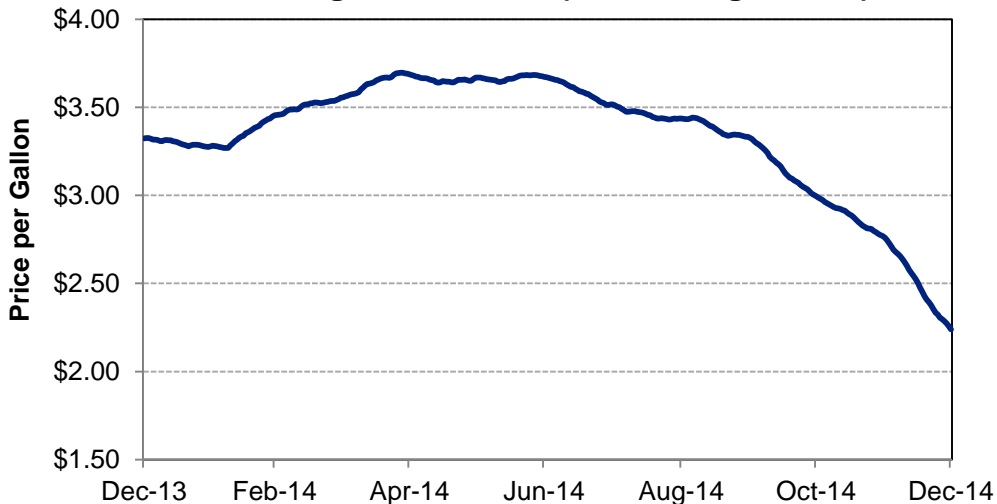
Source: Bloomberg and Barclays. Data as of December 31, 2014.

Implications for the U.S. from Lower Oil Prices

West Texas Intermediate Oil Price per Barrel
January 2014 – December 2014



Price of Regular Gasoline (U.S. Average Retail)



Source: Bloomberg

- Oil prices have steadily fallen over the past 6 months.
- **Growth:** Typically, lower oil prices boost consumer discretionary income, while lower production costs for energy-intensive industries increase efficiency and profitability
- **Jobs:** Energy employment may decline, but may be offset by gains in other industries
- **Inflation:** Expect lower headline inflation, with modest spillover to core price indexes
- **Capital Expenditures:** Oil related industries' capital expenditures may decline as new projects are halted or deferred
- **Trade:** Lower import prices should narrow trade deficits

The Global Winners and Losers

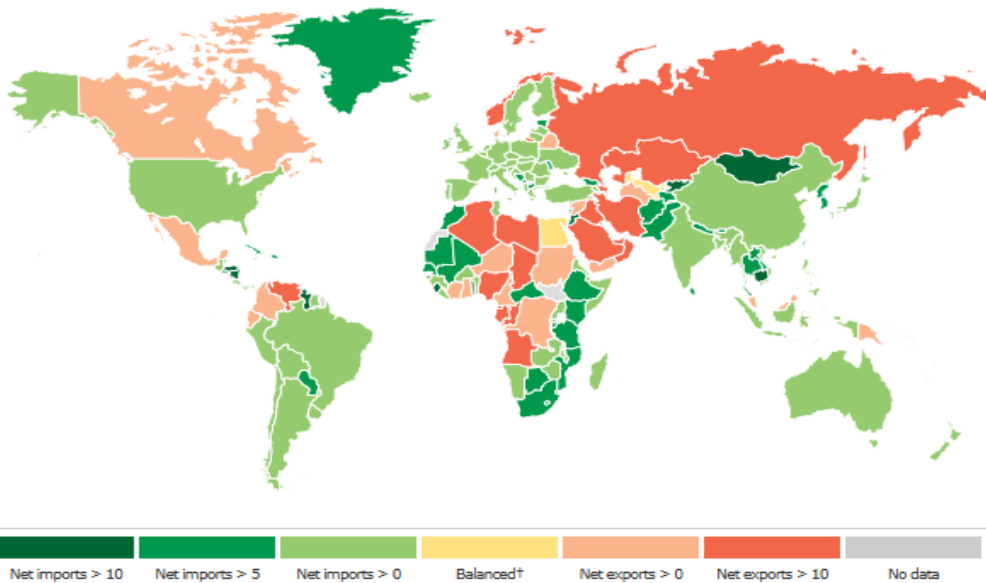
Winners:

- United States
- China
- Japan
- India
- South Korea
- Germany
- France
- Spain

Losers:

- Saudi Arabia
- Russia
- U.A.E.
- Kuwait
- Iraq
- Nigeria
- Iran
- Venezuela

Oil imports/exports
Including petroleum products**

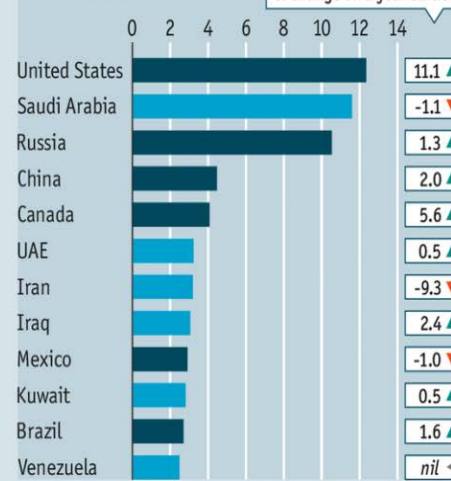


Source: UNCTAD

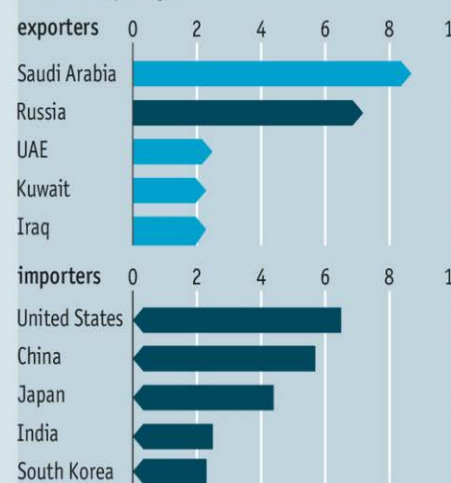
**Such as refined oil or kerosene †Net imports/exports of less than 0.1% of GDP

Unsettled outlook

Biggest oil producers
2013, barrels per day, m



Biggest net oil:
2013, barrels per day, m



Sources: EIA; Deutsche Bank; Bloomberg

Government budgets' break-even oil price
2014, \$ per barrel

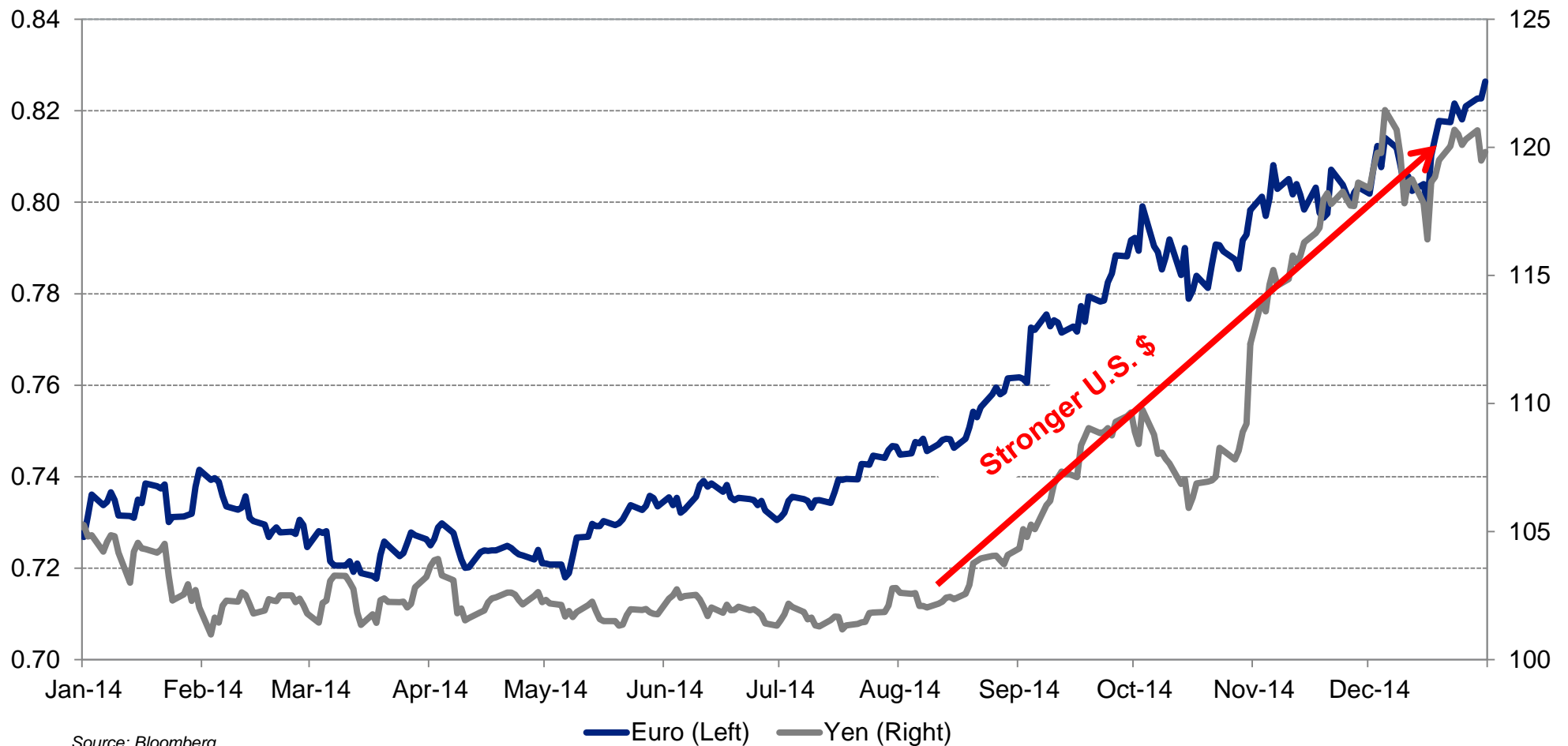


Source: The Economist; Deutsche Bank.

U.S. Dollars Gains on Global Economic Weakness

- As economic conditions have improved in the United States and global expectations have weakened, the dollar has increased in value relative to foreign currencies.

Value of U.S. Dollar vs. Euro and Japanese Yen
January 2014 – December 2014



Source: Bloomberg

Sector Preferences – January 2015

Sector	PFMAM Investment Preference	Sector Considerations
MMF/LGIP		<p>CP/CDs Supply is constrained for shorter maturities, but Fed expectations has improved value in 6-12 month maturities.</p> <p>Treasuries New issuance shrinking as federal deficit improves; 1-5 year maturities offer value near the upper end of recent trading ranges.</p> <p>Federal Agencies Housing GSEs continue to reduce issuance as they shrink their balance sheets; result is diminished supply and shrinking spreads, little value in short maturities.</p> <p>Corporates Positive macro environment is particularly supportive of industrial issuers which appear attractive; some new issues still contain price concessions; bank sector may come under ratings pressure in 2015, but still provide an opportunity to enhance returns.</p> <p>Municipals Supply has diminished as advance refundings decline and new money projects lag; taxables offer occasional value compared to other spread products.</p> <p>ABS Economic outlook supports incremental value in AAA senior fixed-rate auto loan and credit card tranches.</p> <p>MBS Sector remains vulnerable to volatility, bank regulations and investor preferences; risk of slowing pre-payments if rates rise; seasoned issues with shorter final maturities have modest value.</p>
Commercial Paper/CDs		
Treasury: T-Bill		
T-Note		
Agency: <= 3 years		
> 3 Years		
Corporates: Financials		
Industrials		
Municipal Bonds		
Asset-Backed		
Mortgage-Backed		

Source: PFMAM. As of December 31, 2014. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. Analysis is subject to changes in the market environment, and may vary based on the client's particular circumstances.



PFM Asset Management LLC

PFMAM 1 – 3 Year Fixed-Income Composite

As of December 31, 2014

Year	PFMAM Composite Return (Gross of Fees)	BofA Merrill Lynch 1-3 Year Treasury Index Return	PFMAM Composite Dispersion	Number of Accounts	Composite Assets (Millions)	Percentage of Firm Assets	Total Firm Assets (Millions)
2014	0.69%	0.62%	0.14%	122	\$8,138	14.8%	\$54,889
2013	0.40%	0.36%	0.11%	115	\$7,507	14.5%	\$51,650
2012	1.00%	0.43%	0.23%	111	\$7,133	14.5%	\$49,093
2011	1.58%	1.55%	0.28%	112	\$7,022	16.0%	\$43,933
2010	2.31%	2.35%	0.27%	97	\$6,002	14.1%	\$42,686
2009	2.05%	0.78%	0.42%	80	\$5,115	13.0%	\$39,273
2008	7.06%	6.61%	0.28%	77	\$5,230	14.1%	\$37,052
2007	6.85%	7.32%	0.18%	71	\$4,399	13.1%	\$33,568
2006	4.52%	3.96%	0.13%	56	\$3,685	13.4%	\$27,509
2005	1.96%	1.67%	0.07%	59	\$3,677	15.2%	\$24,123

Periods Ended 12/31/14	Cumulative Annualized Return		Ex-Post Standard Deviation of Returns	
	PFMAM Composite (Gross of Fees)	BofA Merrill Lynch 1-3 Year Treasury Index	PFMAM Composite	BofA Merrill Lynch 1-3 Year Treasury Index
1 Year	0.69%	0.62%	0.49%	0.53%
2 Year	0.55%	0.49%	0.45%	0.47%
3 Year	0.69%	0.47%	0.42%	0.44%
4 Year	0.91%	0.74%	0.46%	0.51%
5 Year	1.19%	1.06%	0.59%	0.66%
6 Year	1.34%	1.01%	0.67%	0.80%
7 Year	2.13%	1.79%	1.23%	1.26%
8 Year	2.71%	2.47%	1.29%	1.40%
9 Year	2.91%	2.63%	1.25%	1.35%
10 Year	2.81%	2.54%	1.22%	1.33%

3-Year Periods Ending	3-Year Cumulative Return		3-Year Ex-Post Standard Deviation	
	PFMAM Composite (Gross of Fees)	BofA Merrill Lynch 1-3 Year Treasury Index	PFMAM Composite	BofA Merrill Lynch 1-3 Year Treasury Index
2014	0.69%	0.47%	0.42%	0.44%
2013	0.99%	0.78%	0.45%	0.51%
2012	1.62%	1.44%	0.64%	0.74%
2011	1.98%	1.56%	0.83%	1.04%
2010	3.78%	3.22%	1.70%	1.76%
2009	5.29%	4.86%	1.75%	1.96%
2008	6.13%	5.95%	1.62%	1.72%
2007	4.42%	4.29%	1.11%	1.37%
2006	2.55%	2.17%	1.14%	1.22%
2005	1.81%	1.49%	1.27%	1.32%

Please refer to the accompanying Important Disclosures.



PFM Asset Management LLC

PFMAM 1 – 3 Year Fixed-Income Composite

As of December 31, 2014

Quarterly Returns

Quarter Ended	Total Return (Gross of Fees)	
	PFMAM Composite	BofA Merrill Lynch 1-3 Year Treasury Index
12/31/2014	0.20%	0.17%
9/30/2014	0.03%	0.03%
6/30/2014	0.29%	0.27%
3/31/2014	0.18%	0.14%
12/31/2013	0.10%	0.06%
9/30/2013	0.32%	0.29%
6/30/2013	-0.17%	-0.11%
3/31/2013	0.14%	0.12%
12/31/2012	0.12%	0.07%
9/30/2012	0.35%	0.26%
6/30/2012	0.23%	0.19%
3/31/2012	0.30%	-0.08%
12/31/2011	0.25%	0.20%
9/30/2011	0.33%	0.49%
6/30/2011	0.87%	0.83%
3/31/2011	0.11%	0.03%
12/31/2010	-0.11%	-0.15%
9/30/2010	0.62%	0.62%
6/30/2010	1.12%	1.16%
3/31/2010	0.67%	0.70%

Quarter Ended	Total Return (Gross of Fees)	
	PFMAM Composite	BofA Merrill Lynch 1-3 Year Treasury Index
12/31/2009	0.14%	0.03%
9/30/2009	0.86%	0.78%
6/30/2009	0.71%	-0.11%
3/31/2009	0.34%	0.09%
12/31/2008	3.75%	2.69%
9/30/2008	0.88%	1.68%
6/30/2008	-0.46%	-0.86%
3/31/2008	2.76%	2.98%
12/31/2007	2.18%	2.36%
9/30/2007	2.28%	2.67%
6/30/2007	0.79%	0.70%
3/31/2007	1.43%	1.40%
12/31/2006	1.11%	0.91%
9/30/2006	2.00%	1.97%
6/30/2006	0.73%	0.65%
3/31/2006	0.61%	0.38%
12/31/2005	0.68%	0.69%
9/30/2005	0.23%	0.09%
6/30/2005	1.16%	1.14%
3/31/2005	-0.11%	-0.26%

Please refer to the accompanying Important Disclosures.



PFM Asset Management LLC

PFMAM 1 – 3 Year Fixed-Income Composite

As of December 31, 2014

Required Disclosures for the

PFM Asset Management LLC (PFMAM) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. PFMAM has not been independently verified.

Firm Definition: For the purposes of complying with the GIPS standards, the firm is defined as PFMAM. PFMAM is an investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. PFMAM was created in 2001; prior to 2001, PFMAM's investment advisory business was operated as part of Public Financial Management, Inc. utilizing the same personnel and investment process. Firm performance includes accounts managed by PFMAM, but which may have been previously managed by Public Financial Management, Inc. PFMAM manages short-term pools and money market funds, investment-grade fixed-income portfolios, and multi-asset class portfolios under a variety of individual client mandates.

Composite Description: The *PFMAM 1 – 3 Year Fixed-Income Composite* includes all institutional fixed-income portfolios with the majority of their assets in securities with maturities or effective durations between 1 and 3 years, and that are managed against the *BofA Merrill Lynch 1-3 Year US Treasury Index* or an index with a similar effective duration. Accounts typically invest in US dollar denominated, investment-grade fixed-income securities, including US government securities, including bonds and notes of federal agencies, high quality money market, municipal and corporate debt instruments, generally limited to those rated A or better, and agency mortgage-backed securities. Accounts in this composite do not use leverage, complex derivatives, or short positions. Accounts in the composite will typically maintain an overall effective duration similar to that of the *BofA Merrill Lynch 1-3 Year US Treasury Index*, but may vary by plus or minus 25%, or more. Individual accounts may have policies that are more or less restrictive than those described above, in some cases significantly so, and may use specific benchmarks that differ from the composite benchmark used in this presentation.

The composite creation date is September 2003; the composite inception date is January 1, 1998. The minimum portfolio size for inclusion in the composite is \$10 million. Only actual portfolios are included in the composites; the composite contains no simulated, model or non-fee paying portfolios. Prior to 2012Q4, the composite was known as the "PFM 1 – 3 Year Fixed Income Composite" or the "PFM Short-Term 1 – 3 Year Composite."

Benchmark Description: Composite performance is compared to the *BofA Merrill Lynch 1-3 Year US Treasury Index*. Benchmark returns are provided to represent the investment environment that existed during the time periods shown. The *BofA Merrill Lynch 1-3 Year US Treasury Index* comprises all US Treasury securities (excluding TIPS and STRIPS) with maturities between 1 and 3 years, and is rebalanced monthly.

Performance Calculations: Valuations are computed, and performance results and asset values are reported in US dollars. Gross-of-fees returns are presented before management fees, custodial fees and taxes, but after brokerage and other transaction fees, if any. A client's return will be reduced by advisory fees and other expenses the portfolio may incur. PFMAM's standard investment advisory fee schedule is: 0.25% per annum on first \$25 million, 0.15% per annum on assets over \$25 million. Actual fees may be lower. Internal dispersion is calculated using the equal-weighted standard deviation of the annual gross returns of those portfolios that were included in the composite for the entire year; for years where there are five or fewer portfolios in the composite for the full annual period, dispersion is not presented, as it is deemed not meaningful. Benchmark returns are presented on a gross basis.

Risk Disclosure: Actual performance results may differ from composite returns, depending on the size of the account, investment guidelines and restrictions, inception date and other factors. Past performance is not indicative of future results. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. There can be no assurance that a client portfolio will meet its performance objective.

Additional Information: A list of composite descriptions is available upon request. The firm's policies for valuing portfolios, calculating performance, and preparing compliance presentations are also available upon request. Requests should be made to Kenneth Schiebel, CFA, at schiebelk@pfm.com.

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