



DATE: Monday, August 15, 2016

AGENDA ITEM # 2

**TO:** Financial Commission

**FROM:** Susan M. Stark, Staff Liaison

**SUBJECT:** Receive the Investment Portfolio Report Quarter Ended June 30, 2016

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## **BACKGROUND**

This report presents the status of the City's investment portfolio through June 30, 2016. The reporting model has been developed in coordination with PFM Asset Management LLC (PFM).

## **DISCUSSION**

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 holding as of June 30, 2016, was \$64,246,208.

As of June 30, 2016, 14% 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), 34% in U. S. Treasuries, and 12% in medium-term Corporate Notes and Commercial Paper, with the balance of 40% in LAIF. 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 which is included as Attachment 4: Investment Performance Review for the Quarter Ended June 30, 2016. 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 0.87%, which is highlighted on page 12 of the PFM Investment Review Report.

### **Attachments:**

1. Citywide Holdings and Investment Ladder
2. Portfolio Mix Charts
3. Investment Policy Compliance Chart
4. Investment Performance Review Quarter Ended June 30, 2016

Attachment 1  
Citywide Holdings and Investment Ladder  
June 30, 2016

Month	2016					2017					2018					2019					
	Maturity Date	YTM at Cost	Sec	Call Date	Amount	Maturity Date	YTM at Cost	Sec	Call Date	Amount	Maturity Date	YTM at Cost	Sec	Call Date	Amount	Maturity Date	YTM at Cost	Sec	Call Date	Amount	
30-Jun-16																					
LAIF		0.22%			25,607,855																
MMKT		0.01%			28,353																
Jan											1/16/2018	1.61%	WFC CN		625,000						
											1/31/2018	1.21%	USTreas		840,000						
											1/31/2018	1.11%	USTreas		1,250,000						
											1/31/2018	0.93%	USTreas		1,750,000						
Feb											2/28/2018	1.40%	CSCO CN		160,000	2/12/2019	1.62%	IBM CN		350,000	
																2/26/2019	1.08%	FNMA		1,825,000	
Mar											3/1/2018	1.83%	JPM CN	-	625,000	3/31/2019	1.05%	USTreas		775,000	
											3/2/2018	1.25%	CVX CN		450,000						
											3/6/2018	1.29%	XOM CN		500,000						
											3/28/2018	0.97%	FNMA		1,825,000						
Apr											4/2/2018	1.44%	GE CN		650,000	4/15/2019	1.10%	FMCC		750,000	
											4/6/2018	1.21%	TM CN		375,000	4/15/2019	1.10%	FMCC		1,000,000	
											4/30/2018	0.97%	USTreas		210,000	4/30/2019	0.70%	USTreas		2,075,000	
May											5/3/2018	1.42%	APPL CN		625,000	5/31/2019	0.92%	USTreas		100,000	
											5/31/2018	0.99%	USTreas		1,475,000						
Jun						6/15/2017	0.64%	USTreas		2,000,000	6/29/2018	0.99%	FHLMC		1,210,000	6/3/2019	1.35%	PFE CN		375,000	
						6/30/2017	0.87%	USTreas		1,050,000						6/21/2019	1.14%	FHLB		775,000	
Jul						7/28/2017	0.80%	FMCC		1,000,000											
						7/31/2017	0.85%	USTreas		725,000											
						7/31/2017	0.62%	USTreas		950,000											
Aug											8/10/2018	1.78%	DE CN		540,000						
Sep											9/30/2018	0.94%	USTreas		1,500,000						
Oct	10/3/2016	0.89%	USCP		775,000						10/19/2018	1.62%	FNMA		850,000						
	10/5/2016	0.87%	USCP		775,000																
Nov						11/30/2017	0.99%	USTreas		1,000,000	11/30/2018	1.18%	USTreas		1,250,000						
											11/30/2018	0.83%	USTreas		1,400,000						
Dec	12/12/2016	0.86%	USCP		775,000	12/31/2017	0.87%	USTreas		1,000,000	12/31/2018	1.22%	USTreas		1,175,000						
						12/31/2017	0.83%	USTreas		1,250,000											
Total					\$2,325,000					\$8,975,000					\$19,285,000						\$8,025,000
Count/Percent	3			0	6.02%	8			0	23.25%	21			1	49.95%	9					20.78%
Avg YTM/Days		0.87%			-14,097		0.81%			-10,337		1.25%			-5,847		0.21%				19,365
Total Face Value					\$ 2,325,000					\$ 11,300,000					\$ 30,585,000						\$ 38,610,000

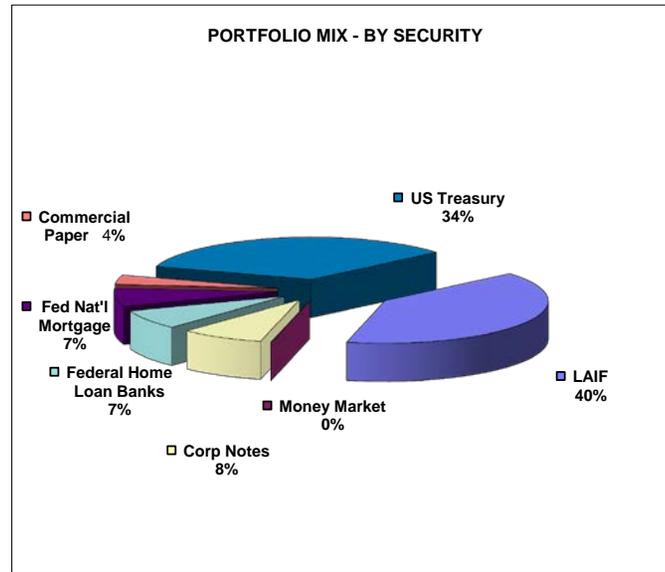
	No of Inv	Ladder Yield	Spread Over		Avg Mat	# of Callables	Face Value
			LAIF	%			
LAIF	1	0.220%	0.000%	40%	-730		25,607,855
Money Market Fund	0	0.010%	-0.210%	0%	-730		28,353
2016	3	0.873%	0.653%	4%	-586	0	2,325,000
2017	8	0.809%	0.589%	14%	-274	0	8,975,000
2018	21	1.247%	1.237%	30%	-38	1	19,285,000
2019	9	0.211%	-0.009%	12%	334	0	8,025,000
	42	0.63%	0.62%	100%	-320	1	\$64,246,208
						1%	

6/30/2016

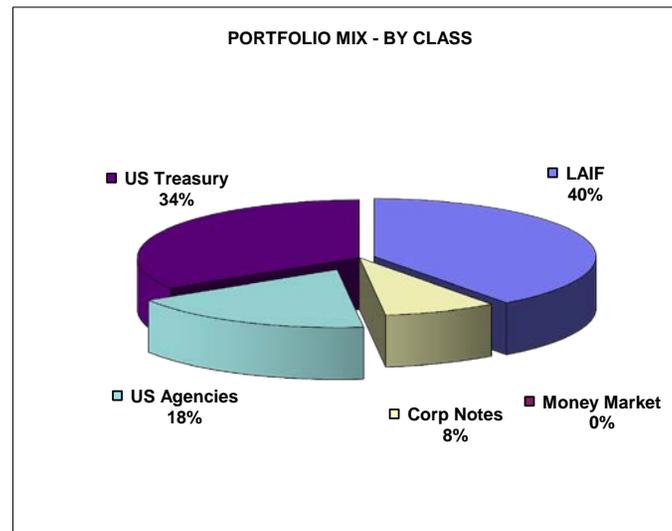
\* Reflects current investments broken out by year of maturity.

**Attachment 2  
Portfolio Mix Charts  
June 30, 2016**

Security Type	% of Total	Portfolio Mix By Security
LAIF	40%	25,607,855
Money Market	0%	28,353
Corp Notes	8%	5,275,000
Federal Home Loan Banks	7%	4,735,000
Federal Nat'l Mortgage	7%	4,500,000
Commercial Paper	4%	2,325,000
US Treasury	34%	21,775,000
	<b>100%</b>	<b>64,246,208</b>



Security Type	% of Total	Portfolio Mix Par Value	Market Value
LAIF	40%	25,607,855	25,607,855
Money Market	0%	28,353	28,353
Corp Notes	8%	5,275,000	5,321,536
US Agencies	18%	11,560,000	11,608,575
US Treasury	34%	21,775,000	22,029,372
	<b>100%</b>	<b>64,246,208</b>	<b>64,595,691</b>
Corp Notes		5,275,000	5,321,536
US Treasury/Agencies		33,335,000	33,637,947
Accrued Interest		-	96,676
		<b>38,610,000</b>	<b>39,056,160</b>
Margin Over (Under) Par			<b>446,160</b>



**Attachment 3**  
**Investment Policy Compliance Chart**  
**June 30, 2016**

City Investment	% Mix	Face Value	Latest Term	City Policy \$ Limitation	City Policy % Limitation	CAPACITY	% Compliance Yes/No	Term Compliance Yes/No
LAIF	40%	25,607,855	06/30/21	50,000,000	100%	24,392,145	Yes	N/A
Money Market	0%	28,353	06/30/21		20%	12,820,888	Yes	N/A
Corp Notes	8%	5,275,000	06/30/21		15%	4,361,931	Yes	Yes
Federal Agencies	14%	9,235,000	06/30/21		24%	3,614,242	Yes	Yes
Commercial Paper	4%	2,325,000	06/30/21		15%	7,311,931	Yes	Yes
US Treasury	34%	21,775,000	06/30/21		100%	14,202,877	Yes	Yes
	<u>100%</u>	<u>64,246,208</u>						
<b>All Agencies</b>								
		52%	33,335,000		100%	30,911,208	Yes	
<b>Callables</b>								
			650,000		35%	21,836,173	Yes	



# PFM Asset Management LLC

## .....CITY OF LOS ALTOS ·

### Investment Performance Review For the Quarter Ended June 30, 2016

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# **Economic and Interest Rate**

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**Summary**

- On June 23, the British public voted to leave the European Union (EU) – so-called “Brexit” referendum – after forty-three years of membership. This historic vote was the first of its kind, shocking markets and triggering outsized market reactions. Bond yields fell sharply, sending 10- and 30-year Treasury yields to all-time lows. Equity indexes saw a sharp pullback following the vote, but pared losses by month-end amid anticipated central bank accommodation. Meanwhile, the British pound fell to its lowest level since 1985 against the U.S. dollar.
- Amid the uncertainty caused by Brexit, central banks around the world are expected to remain accommodative, keeping rates lower for longer and seemingly boosting equity prices – despite the potential slowdown of British and European economies.
- The Federal Reserve (Fed) left policy rates unchanged at both its second-quarter meetings. In June, even before the Brexit vote, the Federal Open Market Committee (FOMC) once again lowered its expectation for rate hikes in 2016 via the so-called “dot plot.” By quarter-end, the market was pricing in a 0% chance of a rate hike in July, and less than a 10% chance for a hike this year.

**Economic Snapshot**

- The modest U.S. economic expansion continued, and unemployment ended the quarter below 5%. However, measures of economic strength in the U.S. remained mixed.
- U.S. gross domestic product (GDP) grew at a 1.1% rate in the first quarter of 2016, driven by improving trade and business investment, which more than compensated for weakness in consumer spending. Economic growth is expected to rebound in the second quarter to around 2.5%, with a preliminary reading to be released in late July.
- Job growth decelerated for four straight months before a sharp rebound in June. The U.S. economy added 287,000 jobs in June, the largest gain since October 2015. Year-to-date, the economy added over 1 million jobs, but it is nearly 300,000 behind last year’s pace. The unemployment rate ended the quarter at 4.9%.

- Inflation pressures remained relatively unchanged in the second quarter as the personal consumption expenditure (PCE) price index, the Fed’s favored metric of inflation, rose 1.6% for the year ended May. Oil prices settled into a \$40 to \$50 per barrel range, while home prices rose 5.4% year-over-year. Average hourly earnings, an important measure of wages, grew 2.6% over the past 12 months, matching a nearly 7-year high.

**Interest Rates**

- Interest rates ended the quarter significantly lower amid the Fed’s dovish tone during the quarter and the flight to safety stimulated by the Brexit vote. Declines were led by longer maturity yields, flattening the yield curve. The spread between the two-year and 10-year Treasury yields fell to 89 basis points (0.89%) compared to 105 basis points (1.05%) at the end of the first quarter. The two-year Treasury yield fell 14 basis points (0.14%) during the quarter, while the yield on the 10-year Treasury fell 30 basis points (0.30%).
- In the money market space, shorter Treasuries posted modest increases, while short-term credit instruments, like commercial paper and bank certificates of deposit (CDs), continued to offer unusually wide yield spreads.

**Sector Performance**

- U.S. Treasury indexes posted another quarter of strong returns as rate declines boosted market values. Because the yield curve flattened, longer maturity issues performed best.
- Non-callable federal agency securities performed generally in line with comparable maturity Treasuries.
- Corporate yield spreads tightened throughout most of the second quarter as credit conditions stabilized from the first quarter’s energy price-driven volatility. Post Brexit, corporates experienced a brief spike in spreads, but quickly recovered by quarter end. The sector generated strong outperformance relative to Treasuries, adding to its 2016 return advantage.
- Mortgage-backed securities underperformed Treasuries for the second straight quarter. Declining interest rates, which drove accelerated prepayment expectations, continued to hurt the sector.

## Economic Snapshot

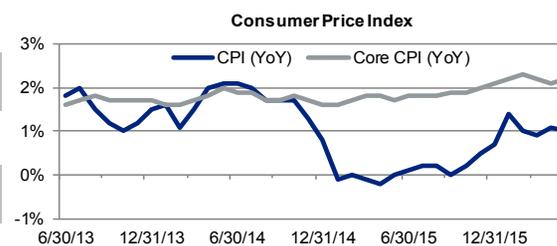
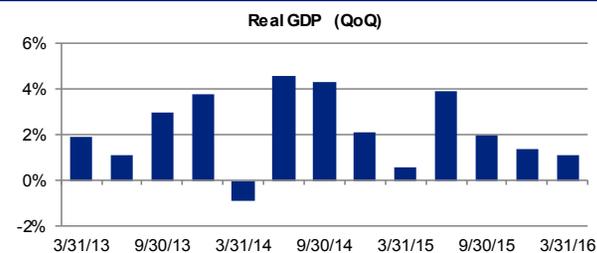
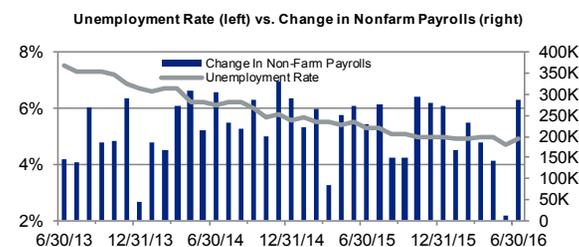
Labor Market		Latest	Mar 2016	Jun 2015
Unemployment Rate	Jun'16	4.9%	5.0%	5.3%
Change In Non-Farm Payrolls	Jun'16	287,000	186,000	228,000
Average Hourly Earnings (YoY)	Jun'16	2.6%	2.3%	2.0%
Personal Income (YoY)	May'16	4.0%	4.6%	4.6%
Initial Jobless Claims (week)	7/1/16	254,000	276,000	280,000

Growth				
Real GDP (QoQ SAAR)	2016Q1	1.1%	1.4% <sup>1</sup>	0.6% <sup>2</sup>
GDP Personal Consumption (QoQ SAAR)	2016Q1	1.5%	2.4% <sup>1</sup>	1.8% <sup>2</sup>
Retail Sales (YoY)	May'16	2.5%	1.7%	2.1%
ISM Manufacturing Survey (month)	Jun'16	53.2	51.8	53.1
Existing Home Sales SAAR (month)	May'16	5.53 mil.	5.36 mil.	5.41 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	May'16	0.9%	0.8%	0.3%
Consumer Price Index (YoY)	May'16	1.0%	0.9%	0.1%
Consumer Price Index Core (YoY)	May'16	2.2%	2.2%	1.8%
Crude Oil Futures (WTI, per barrel)	Jun 30	\$48.33	\$38.34	\$59.47
Gold Futures (oz.)	Jun 30	\$1,321	\$1,234	\$1,172



1. Data as of Fourth Quarter 2015

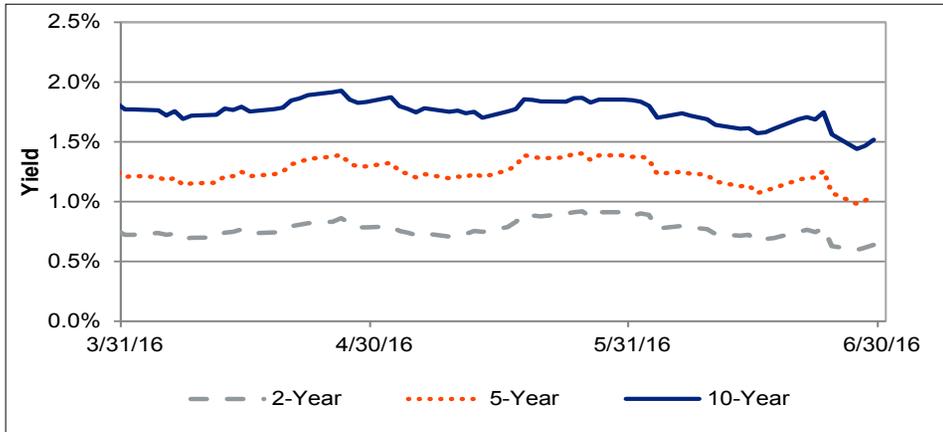
2. Data as of First Quarter 2015

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

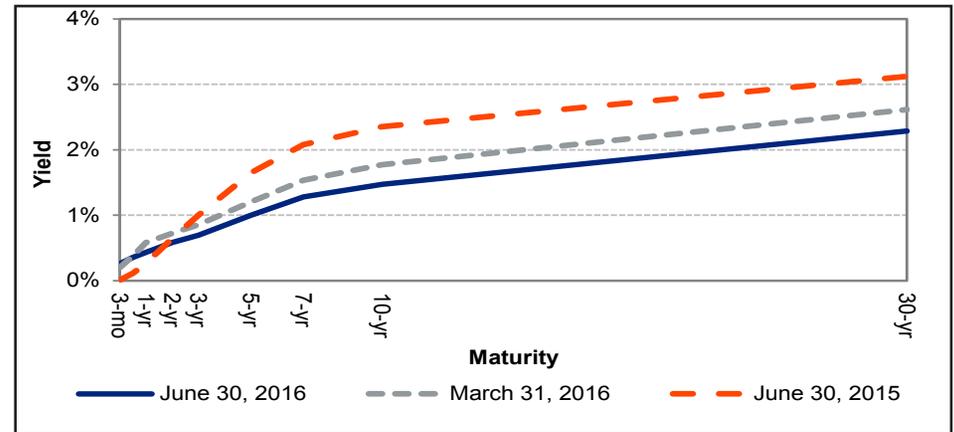
Source: Bloomberg

### Interest Rate Overview

U.S. Treasury Note Yields



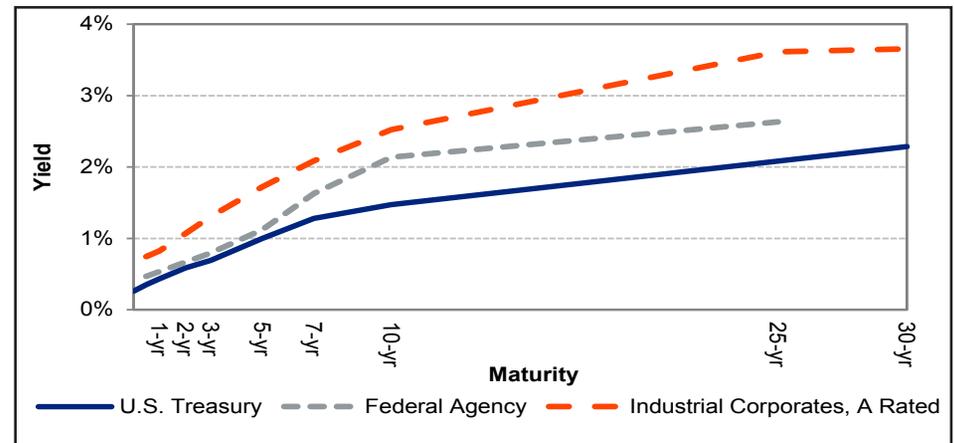
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	6/30/16	3/31/16	Change over Quarter	6/30/15	Change over Year
3-month	0.26%	0.20%	0.06%	0.01%	0.25%
1-year	0.44%	0.58%	(0.14%)	0.27%	0.17%
2-year	0.58%	0.72%	(0.14%)	0.65%	(0.07%)
5-year	1.00%	1.21%	(0.21%)	1.65%	(0.65%)
10-year	1.47%	1.77%	(0.30%)	2.35%	(0.88%)
30-year	2.29%	2.61%	(0.32%)	3.12%	(0.83%)

Yield Curves as of 6/30/16



Source: Bloomberg

## QUARTERLY MARKET SUMMARY

## BofA Merrill Lynch Index Returns

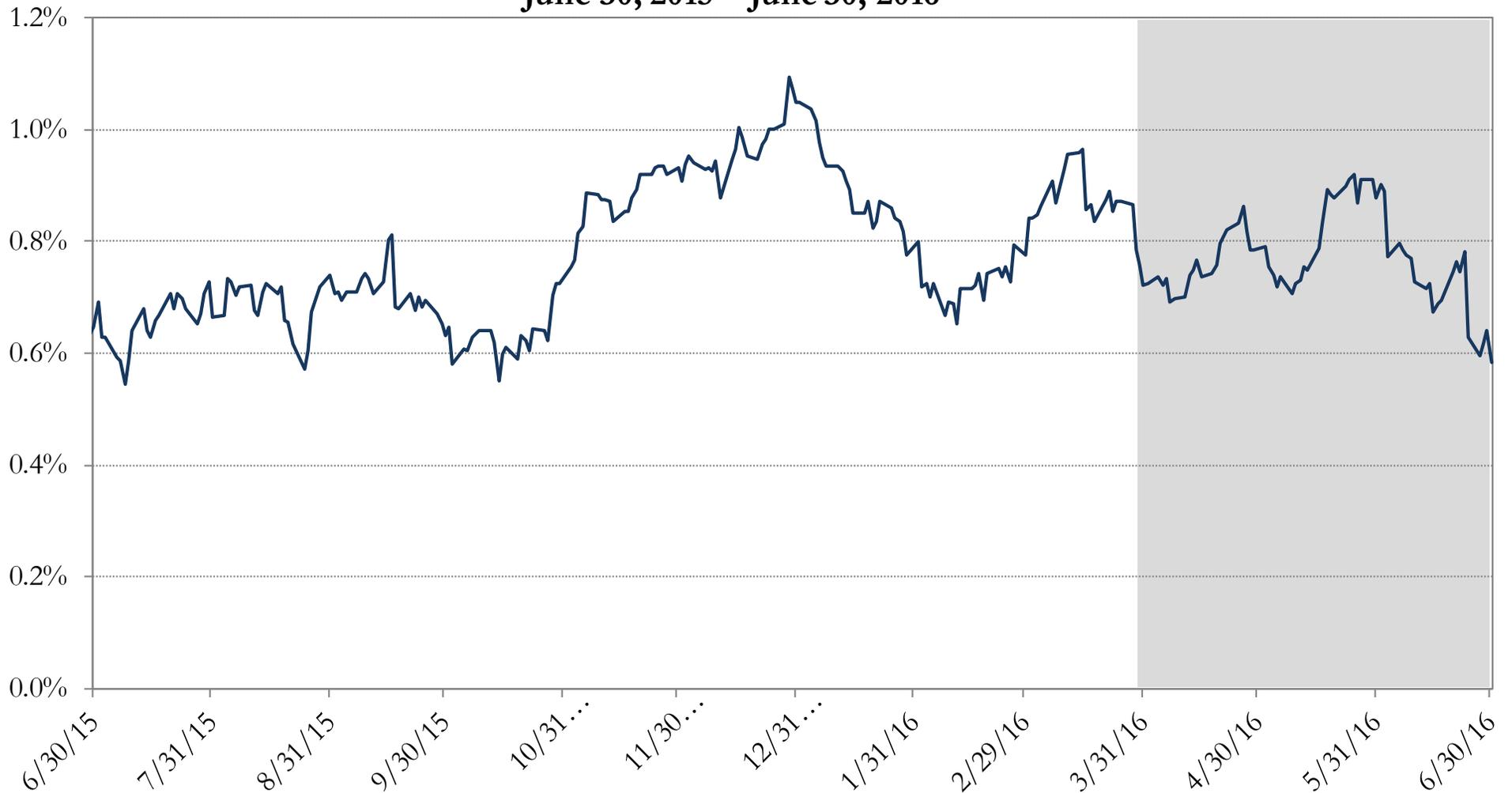
	As of 6/30/2016		Returns for Periods ended 6/30/2016		
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.90	0.60%	0.53%	1.31%	0.98%
Federal Agency	1.58	0.72%	0.41%	1.27%	1.04%
U.S. Corporates, A-AAA rated	1.94	1.35%	0.83%	2.24%	1.79%
Agency MBS (0 to 3 years)	2.22	1.22%	0.65%	2.50%	1.92%
Taxable Municipals	2.04	2.15%	1.38%	3.71%	2.21%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.74	0.72%	0.81%	2.43%	1.65%
Federal Agency	2.06	0.81%	0.59%	1.94%	1.59%
U.S. Corporates, A-AAA rated	2.77	1.57%	1.14%	3.32%	2.74%
Agency MBS (0 to 5 years)	3.35	1.75%	1.02%	3.37%	3.01%
Taxable Municipals	2.67	1.90%	1.78%	4.88%	3.01%
<b>Master Indices (Maturities 1 Year or Greater)</b>					
U.S. Treasury	6.62	1.13%	2.24%	6.67%	3.83%
Federal Agency	3.83	1.13%	1.34%	3.92%	2.89%
U.S. Corporates, A-AAA rated	7.11	2.44%	2.90%	7.89%	5.37%
Agency MBS (0 to 30 years)	3.47	1.81%	1.12%	4.38%	3.73%
Taxable Municipals	4.17	2.36%	2.61%	7.12%	4.25%

Returns for periods greater than one year are annualized

Source: BofA Merrill Lynch Indices

# 2-Year U.S. Treasury Yield

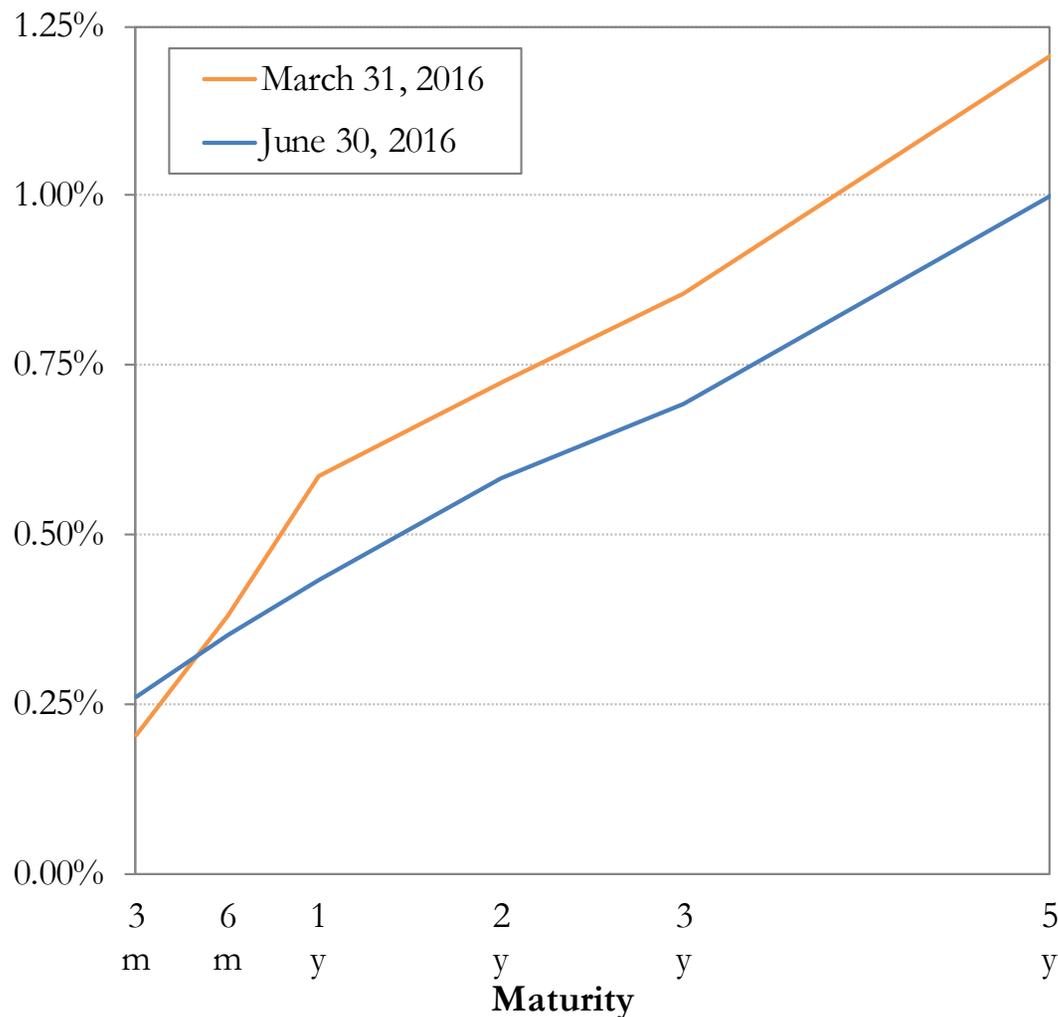
2-Year Treasury Yield  
June 30, 2015 – June 30, 2016



Source: Bloomberg

# Rates Move Lower Across the Curve

U.S. Treasury Yield Curves



	3/31/16	6/30/16	Δ
<b>3 month</b>	0.20%	0.26%	+0.06%
<b>6 month</b>	0.38%	0.35%	-0.03%
<b>1 year</b>	0.59%	0.43%	-0.16%
<b>2 year</b>	0.72%	0.58%	-0.14%
<b>3 year</b>	0.86%	0.69%	-0.17%
<b>5 year</b>	1.21%	1.00%	-0.21%
<b>10 year</b>	1.77%	1.47%	-0.30%
<b>30 year</b>	2.61%	2.27%	-0.34%

Source: Bloomberg

## Probability of Fed Rate Hikes or Cuts in 2016

Federal Reserve Meeting Dates	Probability of Fed Rate Movement					
	12/31/15		3/31/16		6/30/16	
	Hike	Cut	Hike	Cut	Hike	Cut
7/27/2016	79%	1%	33%	0%	0%	0%
9/21/2016	87%	1%	41%	0%	0%	8%
11/2/2016	90%	0%	45%	0%	0%	8%
12/14/2016	93%	0%	54%	0%	9%	7%

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. PFMAM is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. PFMAM's clients are state and local governments, non-profit corporations, pension funds, and similar institutional investors.*

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**PFM Asset Management LLC**



# **Portfolio Characteristics and Investment Strategy**

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- The portfolio complies with California Government Code and the City's Investment Policy. The portfolio is of high credit quality and well diversified by sector and issuer.
- Treasury yields ended the quarter significantly lower after the Federal Open Market Committee kept rates unchanged during the quarter, issuing a dovish tone, and the United Kingdom elected, surprisingly, to leave the European Union.
  - The “Brexit” vote induced volatility and uncertainty, instigating a flight-to-safety trade into quarter-end.
- Given the high degree of uncertainty, PFMAM maintained the portfolio's duration position near-neutral to the benchmark throughout the quarter.
  - The Fed appeared to be on hold throughout the summer amid moderate economic growth, continued subdued inflation, and uncertainty heading into the Brexit vote.
- The yield relationship between U.S. Treasury and federal agency securities remained mostly range-bound during the quarter, but agencies could not quite keep pace with the significant Treasury rally that resulted from Brexit. New issue supply helped keep shorter-maturity yield spreads elevated at attractive levels.
  - The widening yield spread increased the value of agencies and we added select issues to the portfolio during the quarter.
- Corporate yield spreads continued to march tighter throughout the second quarter as credit conditions improved from the first quarter slowdown in economic growth. Following the Brexit vote, corporate yield spreads experienced a brief spike in yield spreads, but quickly retraced all of the widening by quarter-end.
  - The sector generated strong outperformance relative to Treasuries, adding to its 2016 return advantage.
- Given the strong curve flattening trend, we sought to reduce yield curve mismatch to the benchmark. However, we saw continued value in utilizing 6-12 month commercial paper, in lieu of 1-2 year Treasuries and agencies. This allowed us to capture high yields without additional interest rate risk exposure.

Security Type	Market Value June 30, 2016	% of Portfolio	Permitted by Policy	In Compliance
U.S. Treasuries	\$22,029,371.67	56%	100%	✓
Federal Agencies	\$9,289,252.51	24%	100%	✓
Commercial Paper	\$2,319,323.90	6%	15%	✓
Corporate Notes	\$5,321,536.13	14%	15%	✓
Money Market Fund	\$28,353.28	<1%	20%	✓
<b>Totals</b>	<b>\$38,987,837.49</b>	<b>100%</b>		

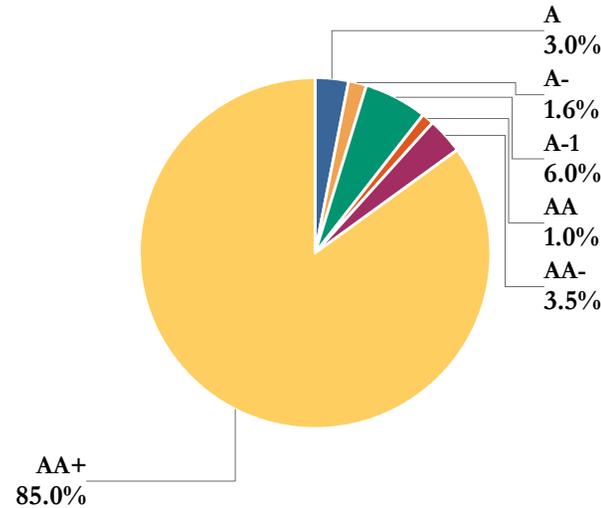
*Security market value excluding accrued interest.*

**Portfolio Statistics**

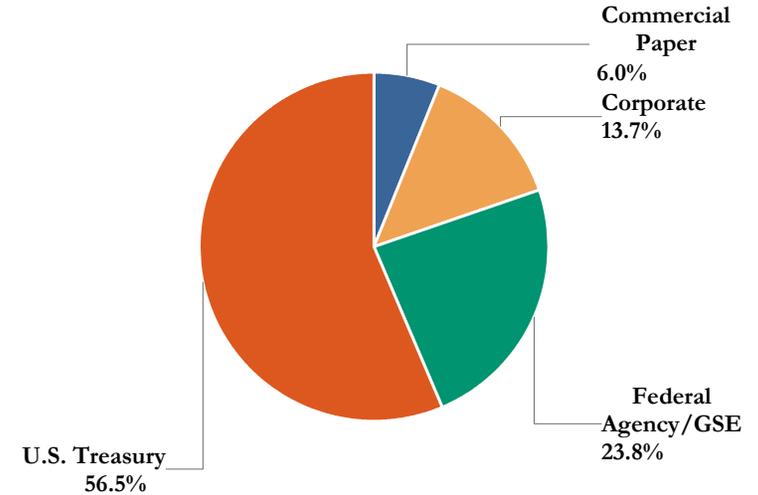
As of June 30, 2016

<b>Par Value:</b>	38,610,000
<b>Total Market Value:</b>	39,084,513
<b>Security Market Value:</b>	38,959,484
<b>Accrued Interest:</b>	96,676
<b>Cash:</b>	28,353
<b>PFM</b>	-
<b>Amortized Cost:</b>	38,728,348
<b>Yield at Market:</b>	0.70%
<b>Yield at Cost:</b>	1.02%
<b>Effective Duration:</b>	1.82 Years
<b>Duration to Worst:</b>	1.82 Years
<b>Average Maturity:</b>	1.85 Years
<b>Average Credit: **</b>	AA

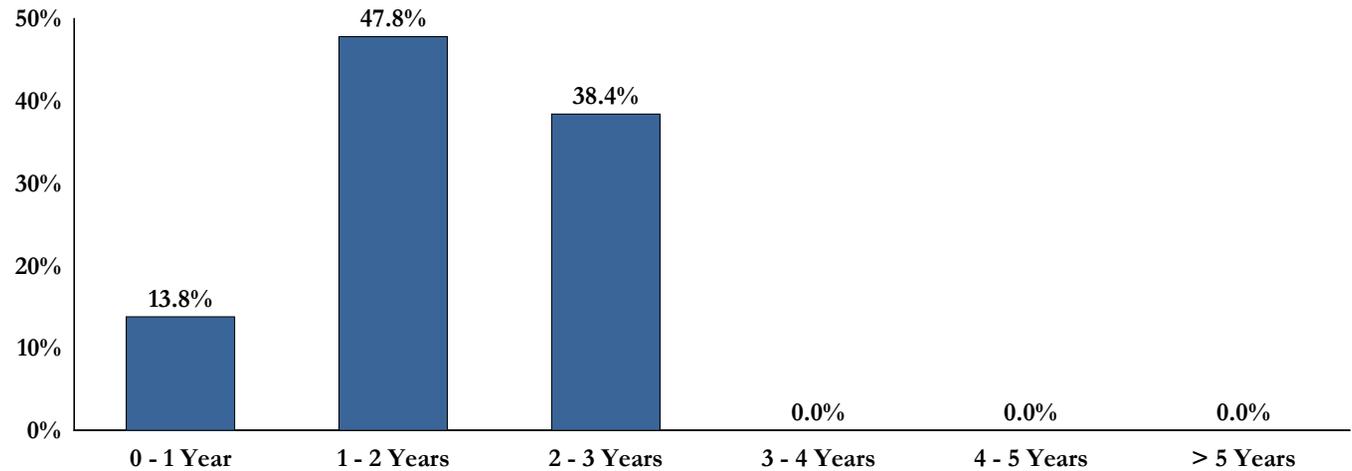
**Credit Quality (S&P Ratings)**



**Sector Allocation**



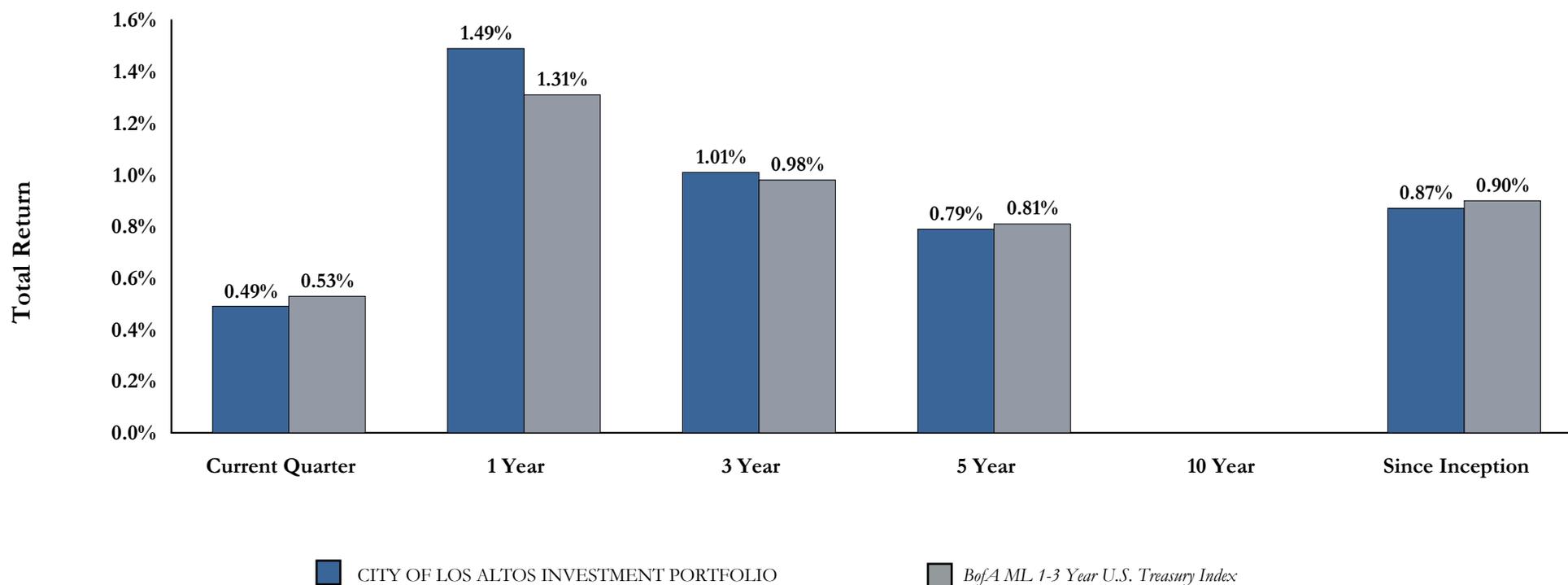
**Maturity Distribution**



\*\* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

### Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Current Quarter	1 Year	Annualized Return			Since Inception (06/30/10)
				3 Year	5 Year	10 Year	
<b>CITY OF LOS ALTOS INVESTMENT PORTFOLIO</b>	1.82	0.49%	1.49%	1.01%	0.79%	-	0.87%
<i>BofA ML 1-3 Year U.S. Treasury Index</i>	1.83	0.53%	1.31%	0.98%	0.81%	-	0.90%
<b>Difference</b>		-0.04%	0.18%	0.03%	-0.02%	-	-0.03%



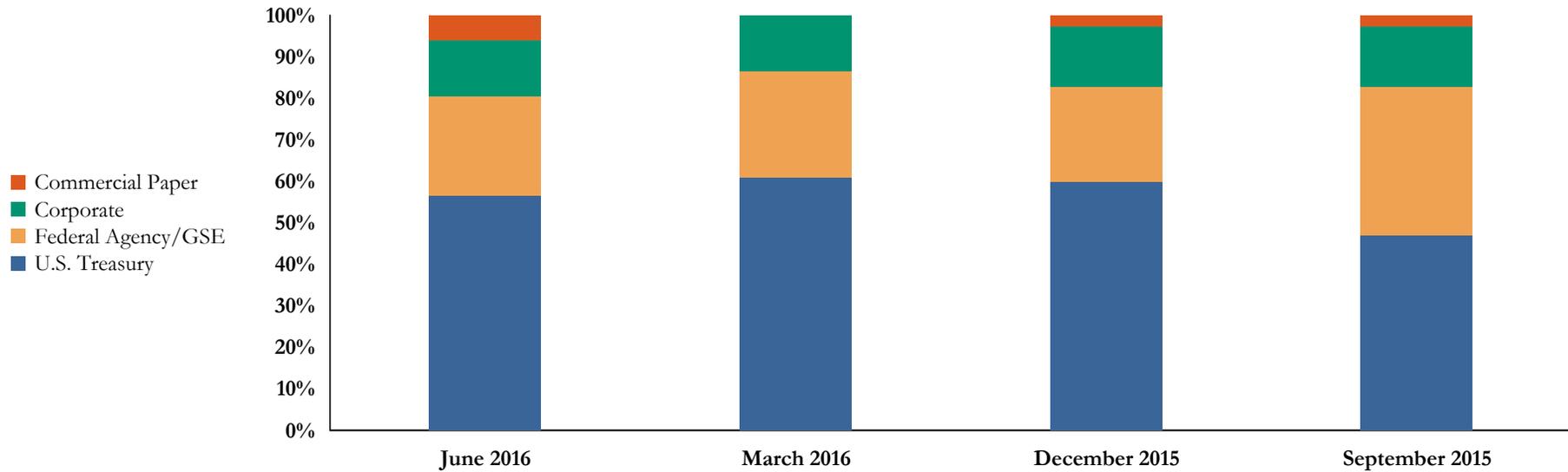
Portfolio performance is gross of fees unless otherwise indicated.

**Portfolio Earnings**  
*Quarter-Ended June 30, 2016*

	<u>Market Value Basis</u>	<u>Accrual (Amortized Cost) Basis</u>
<b>Beginning Value (03/30/2016)</b>	\$38,762,270.20	\$38,618,895.67
<b>Net Purchases/Sales</b>	\$114,631.84	\$114,631.84
<b>Change in Value</b>	\$82,582.17	(\$5,179.28)
<b>Ending Value (06/30/2016)</b>	\$38,959,484.21	\$38,728,348.23
<b>Interest Earned</b>	\$109,654.94	\$109,654.94
<b>Portfolio Earnings</b>	\$192,237.11	\$104,475.66

Sector Allocation

Sector	June 30, 2016		March 30, 2016		December 30, 2015		September 30, 2015	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
U.S. Treasury	22.0	56.5%	23.6	61.0%	18.8	59.8%	14.9	47.1%
Federal Agency/GSE	9.3	23.8%	9.9	25.7%	7.2	22.9%	11.2	35.6%
Corporate	5.3	13.7%	5.2	13.4%	4.6	14.7%	4.6	14.7%
Commercial Paper	2.3	6.0%	0.0	0.0%	0.8	2.5%	0.8	2.5%
<b>Total</b>	<b>\$39.0</b>	<b>100.0%</b>	<b>\$38.8</b>	<b>100.1%</b>	<b>\$31.4</b>	<b>99.9%</b>	<b>\$31.6</b>	<b>99.9%</b>

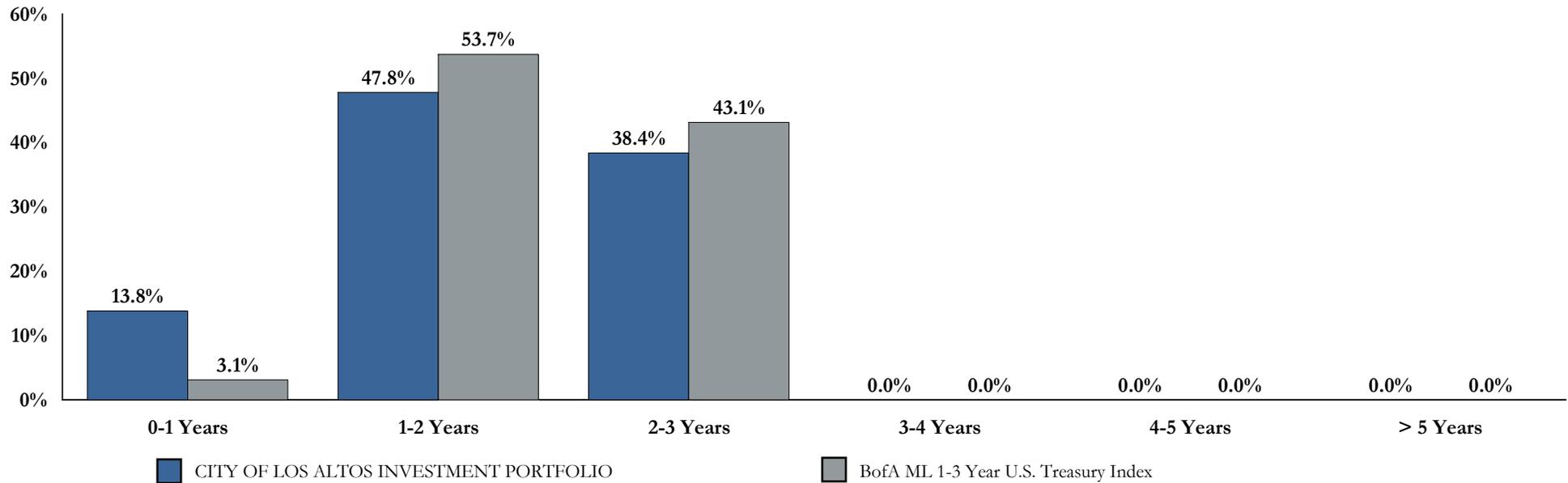


Detail may not add to total due to rounding.

### Maturity Distribution

As of June 30, 2016

Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
<b>CITY OF LOS ALTOS INVESTMENT PORTFOLIO</b>	0.70%	1.85 yrs	13.8%	47.8%	38.4%	0.0%	0.0%	0.0%
<b>BofA ML 1-3 Year U.S. Treasury Index</b>	0.60%	1.94 yrs	3.1%	53.7%	43.1%	0.0%	0.0%	0.0%



- The U.S. economy is expected to expand at a moderate pace in the second half of 2016, but potential spillover from Brexit may be a marginal drag. Outside the U.S., economic prospects are less certain as Europe grapples with the economic and political repercussions of Brexit, emerging markets continue to slow, and global central banks remain a strong influence.
  - We will be closely monitoring incoming economic data for any changes that affect our view.
- The Brexit vote changed the prospects for expected Fed action and no rate hikes are expected until December at the earliest, or even into 2017. This “lower for longer” landscape has implications for both expected returns and risks.
  - Given the likelihood that rates will not move significantly higher in the near-term, we plan to keep the portfolio’s duration near neutral to the benchmark.
  - Given the higher degree of uncertainty about both the global economy and the direction of interest rates, we plan to keep the maturity distribution of the portfolio generally in line with the distribution of the benchmark, except where shifting to short-term credit securities offers better value.
- Agency yield spreads widened modestly post-Brexit. New issues will likely continue to offer opportunities to capture incremental yield versus outstanding agency issues and comparable maturity Treasuries.
- Our strategy continues to favor credit sectors, including corporates notes and commercial paper. We believe the best opportunities are currently with issuers in the U.S. financial industry, where capital is strong and spreads are wide. But, we are taking our time to closely review issuers’ exposure to the UK and Europe, and are being more cautious about adding credit exposure at this time.
- Yields on commercial paper continue to offer significant yield pickup relative to short-term government securities as looming money market reform drives market dynamics. Government securities, driven by Fed policy, have been depressed as the expectation for rate hikes this year has stagnated.

## Issuer Distribution

As of June 30, 2016

Issuer	Market Value (\$)	% of Portfolio
UNITED STATES TREASURY	22,029,372	56.5%
FANNIE MAE	4,523,070	11.6%
FREDDIE MAC	2,769,149	7.1%
FEDERAL HOME LOAN BANKS	1,997,033	5.1%
BNP PARIBAS	773,683	2.0%
MITSUBISHI UFJ FINANCIAL GROUP INC	773,661	2.0%
BANK OF MONTREAL	771,981	2.0%
GENERAL ELECTRIC CO	659,225	1.7%
WELLS FARGO & COMPANY	628,500	1.6%
JP MORGAN CHASE & CO	628,461	1.6%
APPLE INC	626,538	1.6%
DEERE & COMPANY	547,793	1.4%
EXXON MOBIL CORP	503,902	1.3%
CHEVRON CORP	452,471	1.2%
PFIZER INC	378,122	1.0%
TOYOTA MOTOR CORP	376,469	1.0%
IBM CORP	358,606	0.9%
CISCO SYSTEMS INC	161,449	0.4%

Top 5 = 82.4%

Top 10 = 91.3%

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Grand Total:	38,959,484	100.0%
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## Quarterly Portfolio Transactions

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
<b>BUY</b>									
4/5/16	4/8/16	375,000	89236TCX1	TOYOTA MOTOR CREDIT CORP	1.20%	4/6/18	374,910.00	1.21%	
4/6/16	4/6/16	775,000	06538BK36	BANK OF TOKYO MITSUBISHI UFJ COMM PAPER	0.00%	10/3/16	771,551.25	0.89%	
4/8/16	4/8/16	775,000	09659BK58	BNP PARIBAS NY BRANCH COMM PAPER	0.00%	10/5/16	771,628.75	0.87%	
5/3/16	5/6/16	725,000	912828WL0	US TREASURY NOTES	1.50%	5/31/19	742,467.13	0.92%	
5/3/16	5/6/16	1,400,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	1,422,320.27	0.83%	
5/26/16	5/31/16	1,000,000	3137EADZ9	FREDDIE MAC NOTES	1.12%	4/15/19	1,002,957.50	1.10%	
5/26/16	5/27/16	1,210,000	3130A8BD4	FEDERAL HOME LOAN BANKS AGCY	0.87%	6/29/18	1,207,083.90	0.99%	
6/2/16	6/3/16	775,000	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	774,674.50	1.14%	
6/3/16	6/8/16	375,000	717081DU4	PFIZER INC CORP NOTES	1.45%	6/3/19	376,181.77	1.35%	
6/15/16	6/16/16	775,000	06366GMC0	BANK OF MONTREAL CHICAGO COMM PAPER	0.00%	12/12/16	771,686.01	0.86%	
6/27/16	6/29/16	2,075,000	912828D23	US TREASURY NOTES	1.62%	4/30/19	2,134,317.93	0.70%	
<b>Total BUY</b>		<b>10,260,000</b>					<b>10,349,779.01</b>		
<b>INTEREST</b>									
4/1/16	4/1/16	0	MONEY0002	MONEY MARKET FUND			2.98		
4/2/16	4/2/16	650,000	36962G6W9	GENERAL ELEC CAP CORP GLOBAL NOTES	1.62%	4/2/18	5,281.25		
4/19/16	4/19/16	850,000	3135G0E58	FNMA BENCHMARK NOTE	1.12%	10/19/18	4,781.25		
4/30/16	4/30/16	650,000	912828SS0	US TREASURY NOTES	0.87%	4/30/17	2,843.75		
4/30/16	4/30/16	25,000	912828UZ1	US TREASURY NOTES	0.62%	4/30/18	78.13		
4/30/16	4/30/16	1,400,000	912828UZ1	US TREASURY NOTES	0.62%	4/30/18	4,375.00		
5/2/16	5/2/16	0	MONEY0002	MONEY MARKET FUND			0.07		
5/3/16	5/3/16	625,000	037833AJ9	APPLE INC GLOBAL NOTES	1.00%	5/3/18	3,125.00		
5/31/16	5/31/16	1,250,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	7,812.50		
5/31/16	5/31/16	1,000,000	912828UA6	US TREASURY NOTES	0.62%	11/30/17	3,125.00		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
5/31/16	5/31/16	500,000	912828WL0	US TREASURY NOTES	1.50%	5/31/19	3,750.00		
5/31/16	5/31/16	1,400,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	8,750.00		
5/31/16	5/31/16	1,475,000	912828VE7	US TREASURY NOTES	1.00%	5/31/18	7,375.00		
5/31/16	5/31/16	1,750,000	912828NG1	US TREASURY NOTES	2.75%	5/31/17	24,062.50		
5/31/16	5/31/16	725,000	912828WL0	US TREASURY NOTES	1.50%	5/31/19	5,437.50		
6/1/16	6/1/16	0	MONEY0002	MONEY MARKET FUND			0.02		
6/15/16	6/15/16	2,000,000	912828WP1	US TREASURY NOTES	0.87%	6/15/17	8,750.00		
6/21/16	6/21/16	775,000	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	435.94		
6/29/16	6/29/16	1,210,000	3130A8BD4	FEDERAL HOME LOAN BANKS AGCY	0.87%	6/29/18	941.11		
6/30/16	6/30/16	1,000,000	912828UE8	US TREASURY NOTES	0.75%	12/31/17	3,750.00		
6/30/16	6/30/16	1,175,000	912828A75	US TREASURY NOTES	1.50%	12/31/18	8,812.50		
6/30/16	6/30/16	1,050,000	912828TB6	US TREASURY NOTES	0.75%	6/30/17	3,937.50		
6/30/16	6/30/16	1,250,000	912828UE8	US TREASURY NOTES	0.75%	12/31/17	4,687.50		
<b>Total INTEREST</b>		<b>20,760,000</b>					<b>112,114.50</b>		

**SELL**

4/5/16	4/8/16	375,000	912828UZ1	US TREASURY NOTES	0.62%	4/30/18	375,048.77	0.75%	1,322.21
4/6/16	4/6/16	750,000	3130A2T97	FHLB NOTES	0.50%	9/28/16	750,015.83	0.52%	(243.95)
4/8/16	4/8/16	750,000	912828RU6	US TREASURY NOTES	0.87%	11/30/16	754,293.83	0.47%	42.12
5/3/16	5/6/16	625,000	90331HMC4	US BANK CORP NOTE (CALLABLE)	1.10%	1/30/17	628,002.08	0.84%	126.38
5/3/16	5/6/16	525,000	3130A2T97	FHLB NOTES	0.50%	9/28/16	525,424.08	0.43%	45.03
5/3/16	5/6/16	1,000,000	3130A3J70	FHLB NOTES	0.62%	11/23/16	1,003,569.86	0.49%	447.81
5/26/16	5/27/16	25,000	912828UZ1	US TREASURY NOTES	0.62%	4/30/18	24,892.32	0.87%	24.55
5/26/16	5/27/16	1,190,000	912828UZ1	US TREASURY NOTES	0.62%	4/30/18	1,184,874.60	0.87%	2,132.80
5/26/16	5/31/16	1,000,000	3137EADU0	FHLMC REFERENCE NOTE	0.50%	1/27/17	1,000,772.22	0.65%	(427.06)
6/2/16	6/3/16	500,000	912828WL0	US TREASURY NOTES	1.50%	5/31/19	506,995.07	1.03%	(677.31)
6/2/16	6/3/16	265,000	912828WL0	US TREASURY NOTES	1.50%	5/31/19	268,707.39	1.03%	(879.42)
6/3/16	6/8/16	360,000	912828WL0	US TREASURY NOTES	1.50%	5/31/19	366,305.53	0.91%	28.55

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
6/15/16	6/16/16	400,000	3137EADU0	FHLMC REFERENCE NOTE	0.50%	1/27/17	400,628.22	0.56%	51.91
6/15/16	6/16/16	350,000	912828SS0	US TREASURY NOTES	0.87%	4/30/17	351,334.49	0.56%	883.09
6/27/16	6/29/16	1,750,000	912828NG1	US TREASURY NOTES	2.75%	5/31/17	1,789,223.34	0.54%	4,140.16
6/27/16	6/29/16	300,000	912828SS0	US TREASURY NOTES	0.87%	4/30/17	301,330.33	0.51%	852.76
<b>Total SELL</b>		<b>10,165,000</b>					<b>10,231,417.96</b>		<b>7,869.63</b>



## Managed Account Detail of Securities Held

For the Month Ending **June 30, 2016**

### CITY OF LOS ALTOS

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>U.S. Treasury Bond / Note</b>											
US TREASURY NOTES DTD 06/16/2014 0.875% 06/15/2017	912828WP1	2,000,000.00	AA+	Aaa	05/13/15	05/14/15	2,009,765.63	0.64	765.03	2,004,489.54	2,006,876.00
US TREASURY NOTES DTD 07/02/2012 0.750% 06/30/2017	912828TB6	1,050,000.00	AA+	Aaa	05/16/14	05/19/14	1,046,062.50	0.87	21.40	1,048,728.67	1,052,420.25
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	725,000.00	AA+	Aaa	02/13/15	02/17/15	718,826.17	0.85	1,513.74	722,260.41	724,773.80
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	950,000.00	AA+	Aaa	02/02/15	02/03/15	947,142.58	0.62	1,983.52	948,753.43	949,703.60
US TREASURY NOTES DTD 11/30/2012 0.625% 11/30/2017	912828UA6	1,000,000.00	AA+	Aaa	11/10/14	11/10/14	988,945.31	0.99	529.37	994,837.43	1,000,820.00
US TREASURY NOTES DTD 12/31/2012 0.750% 12/31/2017	912828UE8	1,000,000.00	AA+	Aaa	01/23/15	01/26/15	996,679.69	0.87	20.38	998,292.24	1,002,617.00
US TREASURY NOTES DTD 12/31/2012 0.750% 12/31/2017	912828UE8	1,250,000.00	AA+	Aaa	03/29/16	03/29/16	1,248,193.36	0.83	25.48	1,248,459.53	1,253,271.25
US TREASURY NOTES DTD 01/31/2013 0.875% 01/31/2018	912828UJ7	840,000.00	AA+	Aaa	12/29/14	12/31/14	831,534.38	1.21	3,069.23	835,618.65	843,904.32
US TREASURY NOTES DTD 01/31/2013 0.875% 01/31/2018	912828UJ7	1,250,000.00	AA+	Aaa	12/28/15	12/30/15	1,243,847.66	1.11	4,567.31	1,245,324.21	1,255,810.00
US TREASURY NOTES DTD 01/31/2011 2.625% 01/31/2018	912828PT1	1,750,000.00	AA+	Aaa	01/25/16	01/25/16	1,809,199.22	0.93	19,182.69	1,796,549.98	1,806,122.50
US TREASURY NOTES DTD 04/30/2013 0.625% 04/30/2018	912828UZ1	210,000.00	AA+	Aaa	01/25/16	01/25/16	208,383.98	0.97	221.13	208,690.32	210,139.44
US TREASURY NOTES DTD 05/31/2013 1.000% 05/31/2018	912828VE7	1,475,000.00	AA+	Aaa	05/13/15	05/14/15	1,475,288.09	0.99	1,249.32	1,475,183.08	1,486,407.65
US TREASURY NOTES DTD 09/30/2011 1.375% 09/30/2018	912828RH5	1,500,000.00	AA+	Aaa	10/08/15	10/09/15	1,519,218.75	0.94	5,184.43	1,514,572.59	1,524,784.50
US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	1,250,000.00	AA+	Aaa	11/05/15	11/09/15	1,252,539.06	1.18	1,323.43	1,252,015.09	1,267,822.50



## Managed Account Detail of Securities Held

For the Month Ending **June 30, 2016**

### CITY OF LOS ALTOS

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>U.S. Treasury Bond / Note</b>											
US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	1,400,000.00	AA+	Aaa	05/03/16	05/06/16	1,414,765.63	0.83	1,482.24	1,413,895.98	1,419,961.20
US TREASURY NOTES DTD 12/31/2013 1.500% 12/31/2018	912828A75	1,175,000.00	AA+	Aaa	12/01/15	12/04/15	1,184,959.96	1.22	47.89	1,183,123.93	1,199,234.38
US TREASURY NOTES DTD 03/31/2014 1.625% 03/31/2019	912828C65	775,000.00	AA+	Aaa	03/02/16	03/04/16	788,441.41	1.05	3,165.64	787,040.43	794,435.45
US TREASURY NOTES DTD 04/30/2014 1.625% 04/30/2019	912828D23	2,075,000.00	AA+	Aaa	06/27/16	06/29/16	2,128,820.31	0.70	5,680.88	2,128,718.20	2,128,010.03
US TREASURY NOTES DTD 06/02/2014 1.500% 05/31/2019	912828WL0	100,000.00	AA+	Aaa	05/03/16	05/06/16	101,761.72	0.92	127.05	101,675.14	102,257.80

<b>Security Type Sub-Total</b>	<b>21,775,000.00</b>		<b>21,914,375.41</b>	<b>0.91</b>	<b>50,160.16</b>	<b>21,908,228.85</b>	<b>22,029,371.67</b>
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<b>Federal Agency Bond / Note</b>											
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	1,000,000.00	AA+	Aaa	03/23/15	03/24/15	1,004,520.00	0.80	4,250.00	1,002,083.87	1,004,279.00
FNMA NOTE DTD 03/04/2016 0.875% 03/28/2018	3135G0J61	1,825,000.00	AA+	Aaa	03/02/16	03/04/16	1,821,350.00	0.97	4,125.26	1,821,917.79	1,831,281.65
FEDERAL HOME LOAN BANKS AGCY DTD 05/27/2016 0.875% 06/29/2018	3130A8BD4	1,210,000.00	AA+	Aaa	05/26/16	05/27/16	1,207,083.90	0.99	58.82	1,207,212.64	1,214,843.63
FNMA BENCHMARK NOTE DTD 09/01/2015 1.125% 10/19/2018	3135G0E58	850,000.00	AA+	Aaa	08/27/15	09/01/15	848,623.00	1.18	1,912.50	848,982.42	857,809.80
FNMA BENCHMARK NOTE DTD 02/23/2016 1.000% 02/26/2019	3135G0J53	1,825,000.00	AA+	Aaa	02/19/16	02/23/16	1,820,693.00	1.08	6,336.81	1,821,194.86	1,833,979.00
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	750,000.00	AA+	Aaa	03/29/16	03/29/16	750,502.50	1.10	2,343.75	750,461.76	756,372.75
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	1,000,000.00	AA+	Aaa	05/26/16	05/31/16	1,000,770.00	1.10	3,125.00	1,000,748.60	1,008,497.00
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	775,000.00	AA+	Aaa	06/02/16	06/03/16	774,674.50	1.14	242.19	774,681.58	782,189.68



## Managed Account Detail of Securities Held

For the Month Ending **June 30, 2016**

### CITY OF LOS ALTOS

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
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#### Federal Agency Bond / Note

<b>Security Type Sub-Total</b>		<b>9,235,000.00</b>					<b>9,228,216.90</b>	<b>1.04</b>	<b>22,394.33</b>	<b>9,227,283.52</b>	<b>9,289,252.51</b>
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#### Corporate Note

WELLS FARGO & COMPANY GLOBAL NOTES DTD 12/26/2012 1.500% 01/16/2018	94974BFG0	625,000.00	A	A2	09/08/15	09/11/15	623,431.25	1.61	4,296.88	623,965.73	628,500.00
CISCO SYSTEMS INC CORP NOTE DTD 02/29/2016 1.400% 02/28/2018	17275RBA9	160,000.00	AA-	A1	02/22/16	02/29/16	160,000.00	1.40	752.89	160,000.00	161,448.96
JP MORGAN CHASE CORP NOTES (CALLABLE) DTD 03/02/2015 1.700% 03/01/2018	46623EKD0	625,000.00	A-	A3	09/08/15	09/11/15	623,056.25	1.83	3,541.67	623,681.28	628,460.63
CHEVRON CORP NOTES DTD 03/03/2015 1.365% 03/02/2018	166764AV2	450,000.00	AA-	Aa2	03/23/15	03/26/15	451,485.00	1.25	2,030.44	450,852.21	452,471.40
EXXON MOBIL CORP NOTES DTD 03/06/2015 1.305% 03/06/2018	30231GAL6	500,000.00	AA+	Aaa	03/13/15	03/18/15	500,230.00	1.29	2,084.38	500,131.71	503,902.00
GENERAL ELEC CAP CORP GLOBAL NOTES DTD 04/02/2013 1.625% 04/02/2018	36962G6W9	650,000.00	AA+	A1	07/02/15	07/08/15	653,139.50	1.44	2,611.28	652,029.95	659,224.80
TOYOTA MOTOR CREDIT CORP DTD 04/08/2016 1.200% 04/06/2018	89236TCX1	375,000.00	AA-	Aa3	04/05/16	04/08/16	374,910.00	1.21	1,037.50	374,920.28	376,469.25
APPLE INC GLOBAL NOTES DTD 05/03/2013 1.000% 05/03/2018	037833AJ9	625,000.00	AA+	Aa1	07/23/15	07/28/15	617,943.75	1.42	1,006.94	620,277.50	626,538.13
JOHN DEERE CAPITAL CORP NOTE DTD 09/11/2015 1.750% 08/10/2018	24422ETA7	540,000.00	A	A2	09/08/15	09/11/15	539,470.80	1.78	3,701.25	539,612.27	547,793.28
IBM CORP NOTE DTD 02/12/2014 1.950% 02/12/2019	459200HT1	350,000.00	AA-	Aa3	02/17/16	02/22/16	353,307.50	1.62	2,635.21	352,917.22	358,605.80
PFIZER INC CORP NOTES DTD 06/03/2016 1.450% 06/03/2019	717081DU4	375,000.00	AA	A1	06/03/16	06/08/16	376,106.25	1.35	422.92	376,083.00	378,121.88

<b>Security Type Sub-Total</b>		<b>5,275,000.00</b>					<b>5,273,080.30</b>	<b>1.50</b>	<b>24,121.36</b>	<b>5,274,471.15</b>	<b>5,321,536.13</b>
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**Managed Account Detail of Securities Held**

For the Month Ending **June 30, 2016**

**CITY OF LOS ALTOS**

<b>Security Type/Description Dated Date/Coupon/Maturity</b>	<b>CUSIP</b>	<b>Par</b>	<b>S&amp;P Rating</b>	<b>Moody's Rating</b>	<b>Trade Date</b>	<b>Settle Date</b>	<b>Original Cost</b>	<b>YTM at Cost</b>	<b>Accrued Interest</b>	<b>Amortized Cost</b>	<b>Market Value</b>
<b>Commercial Paper</b>											
BANK OF TOKYO MITSUBISHI UFJ COMM PAPER -- 0.000% 10/03/2016	06538BK36	775,000.00	A-1	P-1	04/06/16	04/06/16	771,551.25	0.89	0.00	773,198.99	773,660.80
BNP PARIBAS NY BRANCH COMM PAPER -- 0.000% 10/05/2016	09659BK58	775,000.00	A-1	P-1	04/08/16	04/08/16	771,628.75	0.87	0.00	773,202.00	773,682.50
BANK OF MONTREAL CHICAGO COMM PAPER -- 0.000% 12/12/2016	06366GMC0	775,000.00	A-1	P-1	06/15/16	06/16/16	771,686.01	0.86	0.00	771,963.72	771,980.60
<b>Security Type Sub-Total</b>		<b>2,325,000.00</b>					<b>2,314,866.01</b>	<b>0.88</b>	<b>0.00</b>	<b>2,318,364.71</b>	<b>2,319,323.90</b>
<b>Managed Account Sub-Total</b>		<b>38,610,000.00</b>					<b>38,730,538.62</b>	<b>1.02</b>	<b>96,675.85</b>	<b>38,728,348.23</b>	<b>38,959,484.21</b>
<b>Securities Sub-Total</b>		<b>\$38,610,000.00</b>					<b>\$38,730,538.62</b>	<b>1.02%</b>	<b>\$96,675.85</b>	<b>\$38,728,348.23</b>	<b>\$38,959,484.21</b>
<b>Accrued Interest</b>											<b>\$96,675.85</b>
<b>Total Investments</b>											<b>\$39,056,160.06</b>

## Important Disclosures

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

- Market values which include accrued interest, are derived from closing bid prices as of the last business day of the month as supplied by a third party vendor. Where prices are not available from generally recognized sources the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.
- MBS maturities are represented by expected average life.

## Glossary

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the insurer.
- **COMMERCIAL PAPER:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **CONTRIBUTION TO DURATION:** Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- **DURATION TO WORST:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years, computed from cash flows to the maturity date or to the put date, whichever results in the highest yield to the investor.
- **EFFECTIVE DURATION:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **EFFECTIVE YIELD:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **INTEREST RATE:** Interest per year divided by principal amount, expressed as a percentage.
- **MARKET VALUE:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- **NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually \$1 million or more that can be traded in secondary markets.
- **PAR VALUE:** The nominal dollar face amount of a security.

## Glossary

- **PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.
- **REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **SETTLE DATE:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction occurs on a non-business day (i.e. coupon payments and maturity proceeds), the funds are exchanged on the next business day.
- **TRADE DATE:** The date on which the transaction occurred however the final consummation of the security transaction and payment has not yet taken place.
- **UNSETTLED TRADE:** A trade which has been executed however the final consummation of the security transaction and payment has not yet taken place.
- **U.S. TREASURY:** The department of the U.S. government that issues Treasury securities.
- **YIELD:** The rate of return based on the current market value, the annual interest receipts, maturity value and the time period remaining until maturity, stated as a percentage, on an annualized basis.
- **YTM AT COST:** The yield to maturity at cost is the expected rate of return, based on the original cost, the annual interest receipts, maturity value and the time period from purchase date to maturity, stated as a percentage, on an annualized basis.
- **YTM AT MARKET:** The yield to maturity at market is the rate of return, based on the current market value, the annual interest receipts, maturity value and the time period remaining until maturity, stated as a percentage, on an annualized basis.