



# Town of Fountain Hills

## Quarterly Investment Review

### Quarter Ended June 30, 2015



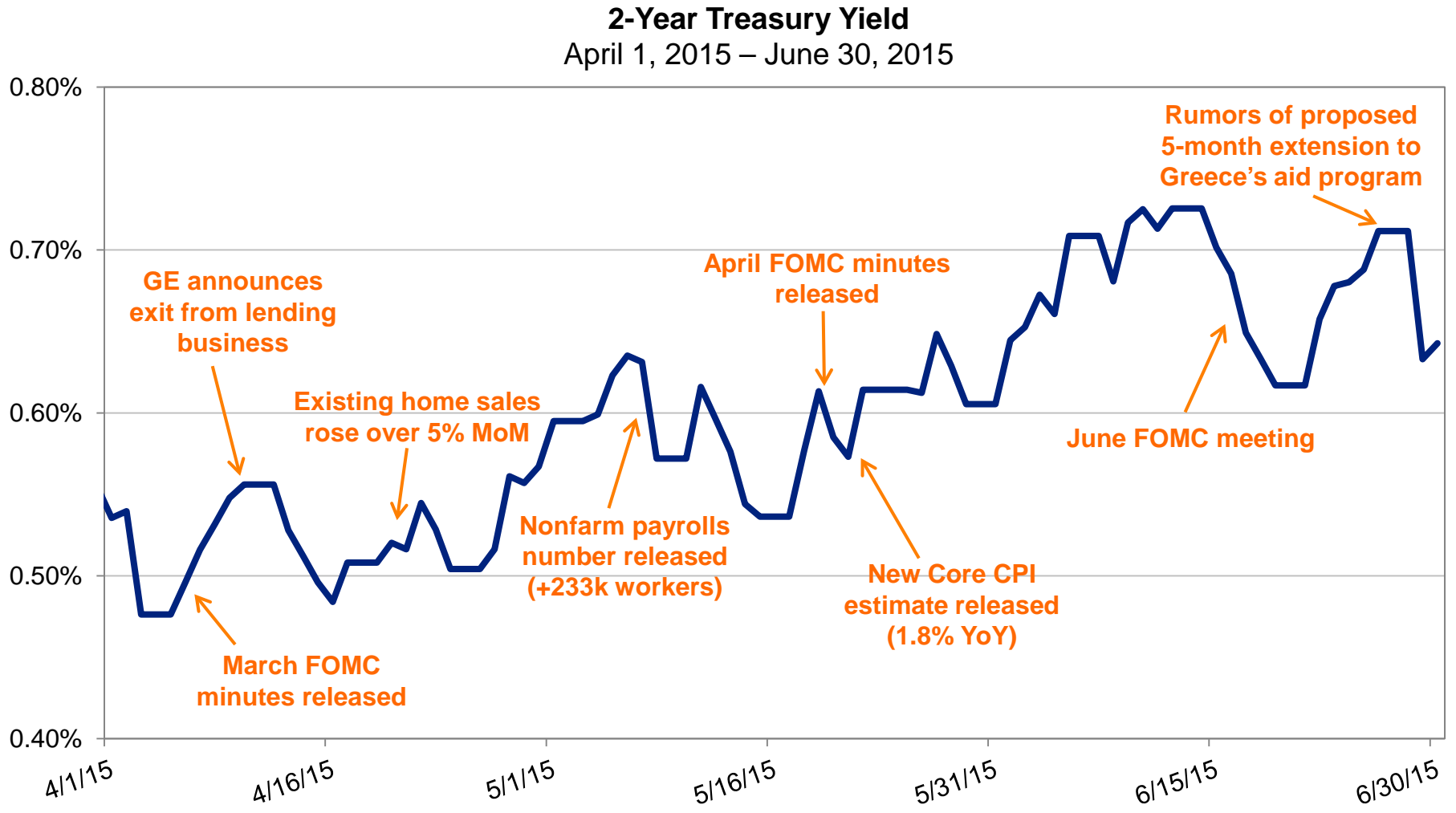
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# Second Quarter 2015 Strategy and Recap

- Treasury yields fluctuated throughout the quarter:
  - Higher on strong economic news in the U.S.
  - Lower when the Federal Open Market Committee (FOMC) indicated that they are not yet ready to raise rates and as the situation in Greece remained unresolved.
- Overall, the trend was toward higher rates with the greatest increase on longer-term yields.
- PFMAM kept the portfolio's duration slightly shorter than the benchmark's duration because of uncertainty regarding the short-term direction of interest rates.
- The yield difference between the Treasury and Agency sectors remained narrow for most of the quarter and therefore, we favored Treasuries because investors were not being compensated for being in any other sector.
- We focused on maturities where the yield curve was steepest and therefore offered both high-current yields and strong potential for “roll down” benefit (the natural tendency for securities to appreciate as they age).

# Volatility in Treasury Yields

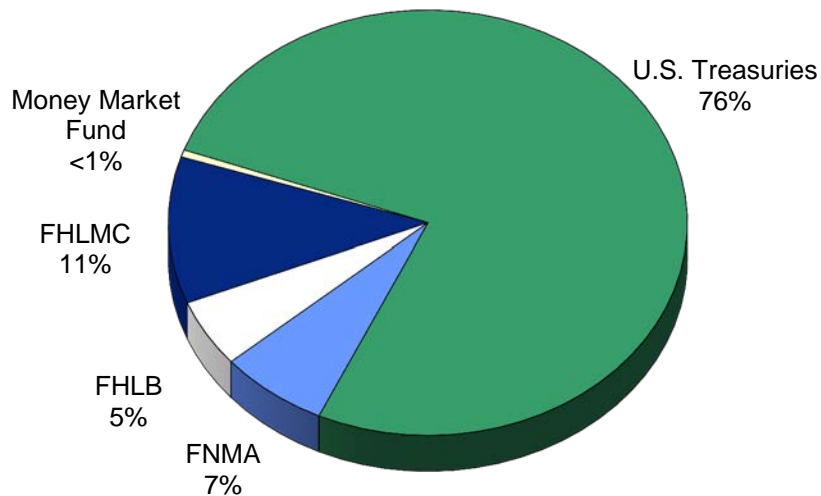


Source: Bloomberg.

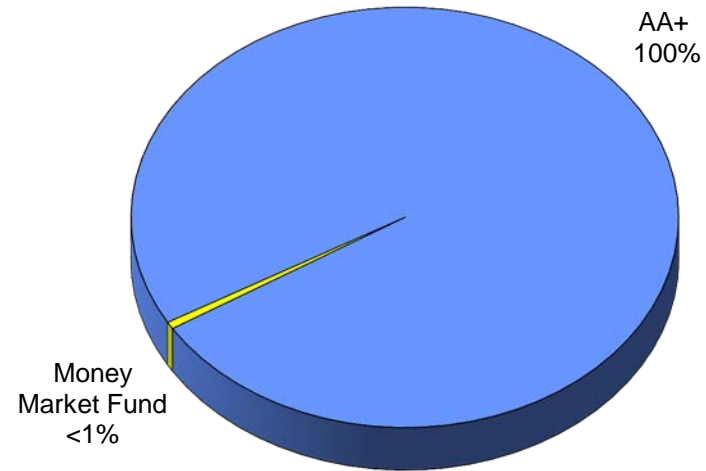
# Portfolio Composition and Credit Quality Characteristics

Security Type <sup>1</sup>	June 30, 2015	% of Portfolio	% Change From Prior Quarter	Permitted by Policy
<b>U.S. Treasuries</b>	<b>\$11,713,572.33</b>	<b>76%</b>	<b>+3%</b>	<b>100%</b>
<b>Federal Agencies</b>	<b>\$3,545,794.48</b>	<b>23%</b>	<b>-4%</b>	<b>100%</b>
<i>FNMA</i>	\$1,042,088.57	7%	-4%	-
<i>FHLB</i>	\$796,116.69	5%	-	-
<i>FHLMC</i>	\$1,707,589.22	11%	-	-
<i>FFCB</i>	\$0.00	0%	-	-
<b>Money Market Fund</b>	<b>\$84,300.48</b>	<b>1%</b>	<b>+1%</b>	<b>-</b>
<b>Total</b>	<b>\$15,343,667.29</b>	<b>100%</b>		

**Portfolio Composition**



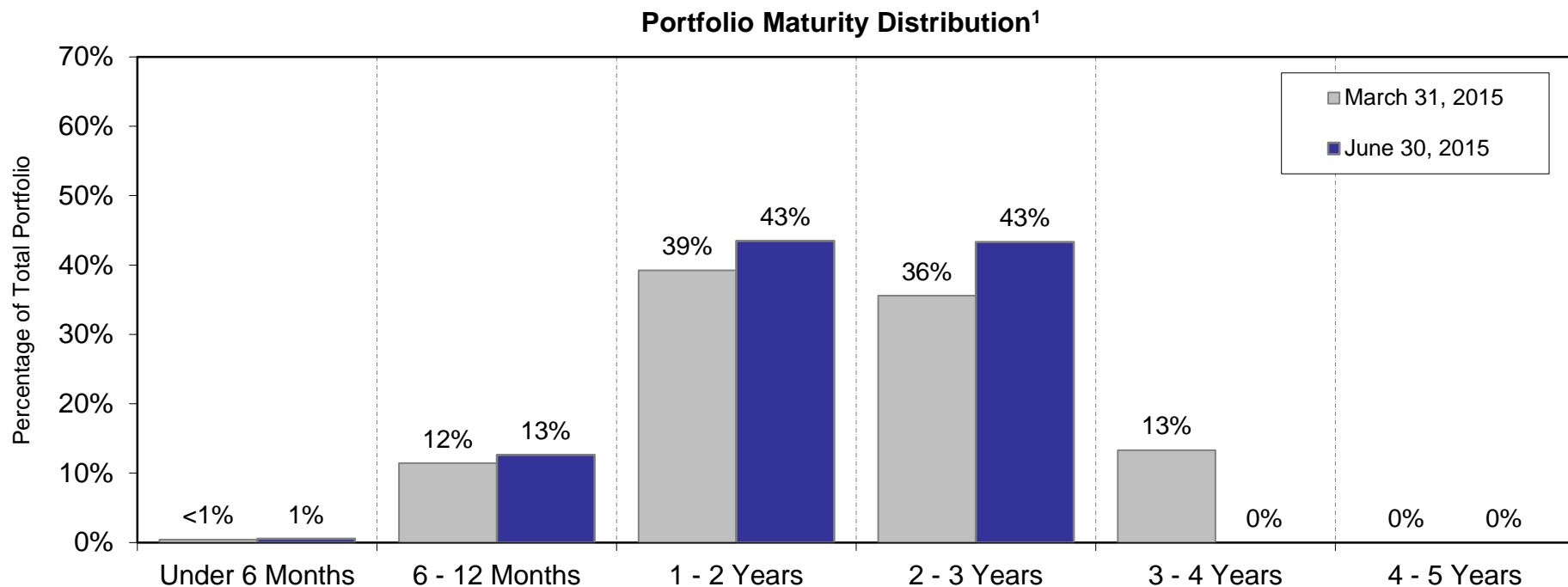
**Portfolio Credit Quality Distribution<sup>2</sup>**



1. End of quarter trade-date market values of portfolio holdings, including accrued interest.  
 2. Ratings by Standard and Poor's.

# Portfolio Maturity Distribution

Maturity Distribution <sup>1</sup>	June 30, 2015	March 31, 2015
Under 6 Months	\$84,300.48	\$66,748.95
6 - 12 Months	\$1,937,592.45	\$1,750,858.75
1 - 2 Years	\$6,673,255.07	\$6,015,517.92
2 - 3 Years	\$6,648,519.29	\$5,451,005.50
3 - 4 Years	\$0.00	\$2,040,913.36
4 - 5 Years	\$0.00	\$0.00
<b>Totals</b>	<b>\$15,343,667.29</b>	<b>\$15,325,044.48</b>



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

# Individual Portfolio Yield Summary

## Core Funds

## Liquid Funds

Date	Market Value <sup>1</sup>	Core Funds		Liquid Funds	
		Portfolio Yield (Cost)	1-3 Year Treasury/Agency Index Yield <sup>2</sup>	AZ-LGIP Pool 7 <sup>3</sup>	Wells Fargo MMF Yield <sup>4</sup>
Jul-14	\$15,186,857	0.52%	0.54%	0.05%	0.01%
Aug-14	\$15,200,009	0.52%	0.52%	0.06%	0.01%
Sep-14	\$15,190,172	0.55%	0.60%	0.05%	0.01%
Oct-14	\$15,233,264	0.58%	0.52%	0.06%	0.01%
Nov-14	\$15,243,198	0.58%	0.50%	0.07%	0.01%
Dec-14	\$15,225,956	0.61%	0.68%	0.08%	0.01%
Jan-15	\$15,288,391	0.61%	0.47%	0.08%	0.01%
Feb-15	\$15,251,169	0.66%	0.63%	0.08%	0.01%
Mar-15	\$15,297,198	0.71%	0.57%	0.09%	0.01%
Apr-15	\$15,288,916	0.72%	0.59%	0.11%	0.01%
May-15	\$15,298,473	0.74%	0.61%	0.08%	0.01%
Jun-15	\$15,320,962	0.74%	0.64%	0.09%	0.01%

1. Excludes accrued interest and includes balance in the custody account MMF.

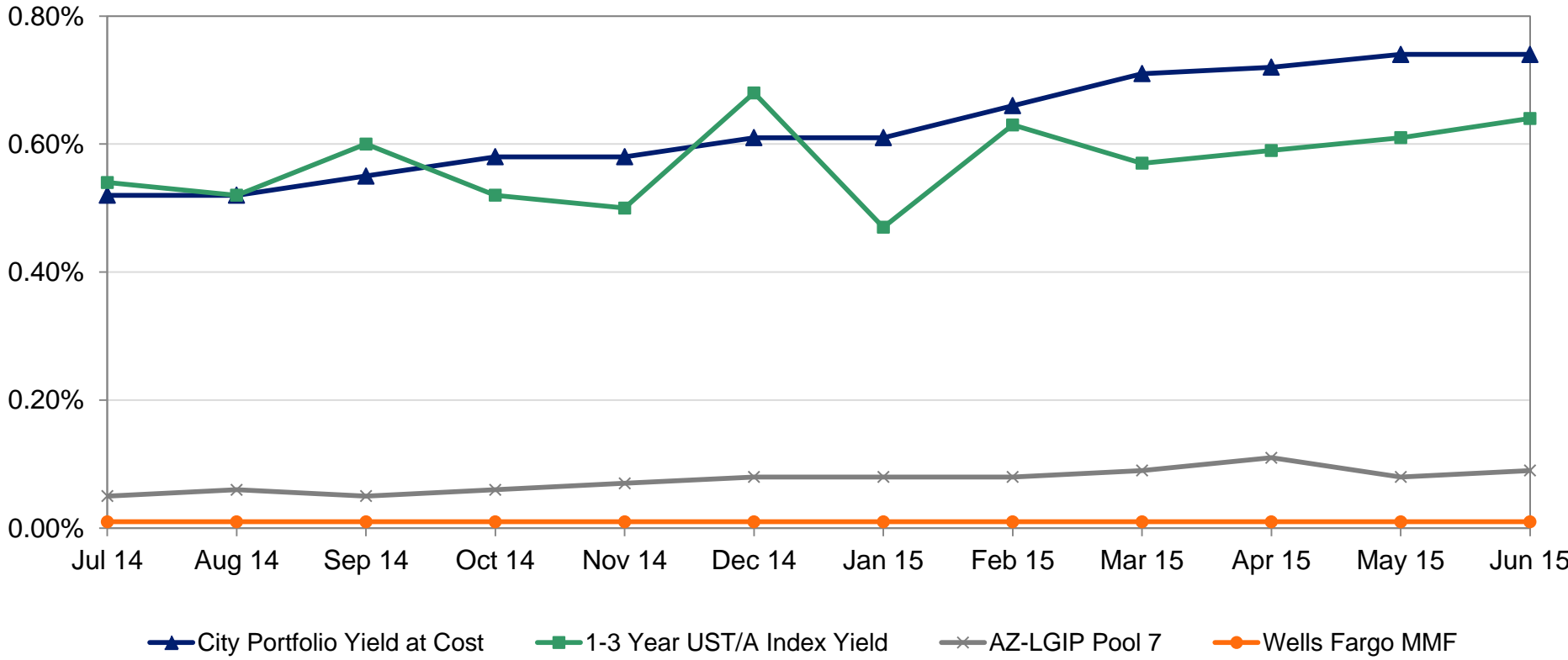
2. Rate represents the Merrill Lynch 1-3 Year U.S. Treasury / Agency Index month-end yield (G1A0). Source: Bloomberg.

3. Monthly Apportionment Yields. Source: Office of the Arizona State Treasurer.

4. Rate represents the Wells Fargo Advantage Government Money Market Service Fund.

# Individual Portfolio Yield Summary (Continued)

Comparison of Combined Portfolio Yield to Various Benchmarks<sup>1,2,3</sup>



1. Rate represents the Merrill Lynch 1-3 Year U.S. Treasury / Agency Index month-end yield (G1A0). Source: Bloomberg.  
 2. Monthly Apportionment Yields. Source: Office of the Arizona State Treasurer.  
 3. Rate represents the Wells Fargo Advantage Government Money Market Service Fund.



# Treasury Purchases Add Yield and Duration

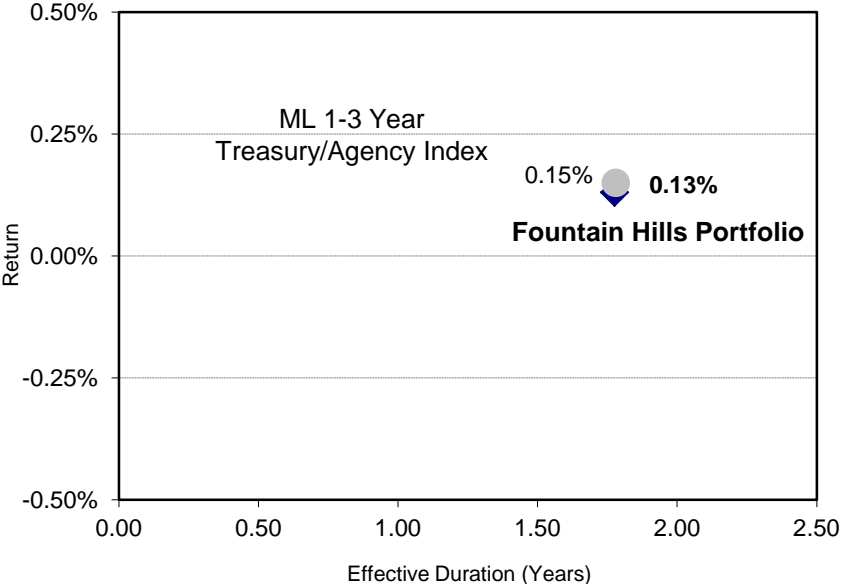
- The following purchases picked up an average of +0.69% over those sold with a duration extension of 2.15 years.
- The realized gains on the sales were \$1,682 in addition to incremental earnings of more than \$5,000 over the life of the securities.

Date	Trade Type	Security	Maturity	Par Value	Yield
<b>4/28/15</b>	<b>Buy</b>	<b>U.S. Treasury Notes</b>	<b>4/30/18</b>	<b>\$275,000</b>	<b>0.90%</b>
4/28/15	Sell	U.S. Treasury Notes	1/31/16	\$115,000	0.21%
4/28/15	Sell	U.S. Treasury Notes	1/31/16	\$135,000	0.21%
<b>5/28/15</b>	<b>Buy</b>	<b>U.S. Treasury Notes</b>	<b>4/30/18</b>	<b>\$900,000</b>	<b>0.96%</b>
5/28/15	Sell	FNMA Notes	3/30/16	\$460,000	0.30%
5/28/15	Sell	FNMA Notes	3/30/16	\$190,000	0.30%
5/28/15	Sell	U.S. Treasury Notes	1/31/16	\$230,000	0.17%

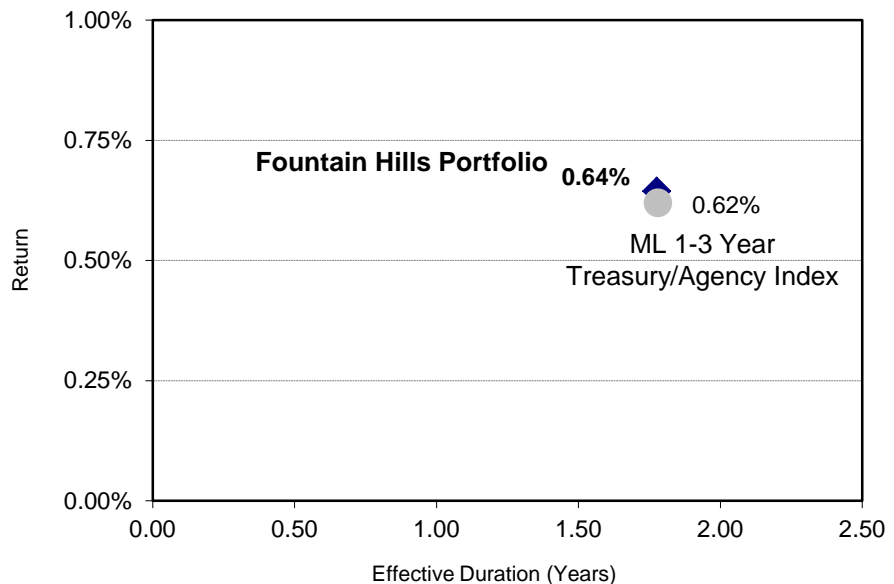
# Portfolio Performance

Total Return <sup>1,2,3,4</sup>	Quarter Ended June 30, 2015	Past 12 Months	Past 2 Years	Past 3 Years	Since Inception
<b>Fountain Hills Portfolio</b>	<b>0.13%</b>	<b>0.82%</b>	<b>0.77%</b>	<b>0.62%</b>	<b>0.64%</b>
ML 1-3 Year Treasury/Agency Index	0.15%	0.89%	0.83%	0.66%	0.62%
Effective Duration	June 30, 2015	March 31, 2015	Yields	June 30, 2015	March 31, 2015
<b>Fountain Hills Portfolio</b>	<b>1.78</b>	<b>1.86</b>	Yield at Market	0.62%	0.56%
ML 1-3 Year Treasury/Agency Index	1.78	1.78	Yield on Cost	0.74%	0.71%

**Quarter Total Return Comparison**



**Since Inception Total Return Comparison**



1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).  
 2. Merrill Lynch Indices provided by Bloomberg Financial Markets.  
 3. Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than one year are presented on an annualized basis.  
 4. Inception date is 12/31/11.

# Third Quarter Investment Strategy

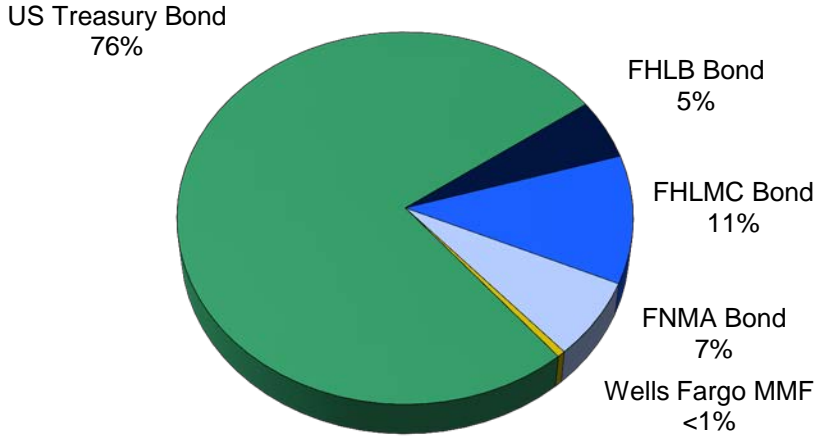
- We expect U.S. economic conditions to rebound from the first quarter 2015 contraction due to:
  - Rising consumer confidence;
  - Growth in personal spending; and
  - A stronger housing sector.
- Stubbornly low inflation remains a concern for policy makers. Market participants still expect the FOMC to initiate at least one rate hike in 2015, but the pace of subsequent increases is likely to be gradual.
- It is likely that developments in Europe and Asia will continue to cause market volatility as investors weigh the impact of possible outcomes on global economic conditions.
- Our strategy will be to focus on identifying relative value from among the full range of investment options. We will pay careful attention to sector allocation, yield curve placement, credit market dynamics, and individual security selection. These factors will likely be key drivers of performance in an uncertain rate environment.
- We will continue to monitor the spread relationship and further shift assets into Federal Agencies if the yield difference widens sufficiently.

# Town of Fountain Hills Portfolio Summary

Summary By Type	Book Value	Market Value <sup>1</sup>	Days to Maturity	% of Portfolio	% Allowed per Policy	YTM @ Cost
US Treasury Bond	\$11,688,252	\$11,713,572	706	76.34%	100%	0.77%
FHLB Bond	\$795,599	\$796,117	482	5.19%	100%	0.58%
FHLMC Bond	\$1,704,853	\$1,707,589	590	11.13%	100%	0.70%
FNMA Bond	\$1,039,032	\$1,042,089	349	6.79%	100%	0.70%
FFCB Bond	\$0	\$0	-	0.00%	100%	-
Wells Fargo MMF	\$84,300	\$84,300	1	0.55%	N/A	0.01%
<b>Total including cash</b>	<b>\$15,312,038</b>	<b>\$15,343,667</b>	<b>654</b>	<b>100.00%</b>		<b>0.74%</b>
<b>Total without cash</b>	<b>\$15,227,738</b>	<b>\$15,259,367</b>				<b>0.74%</b>

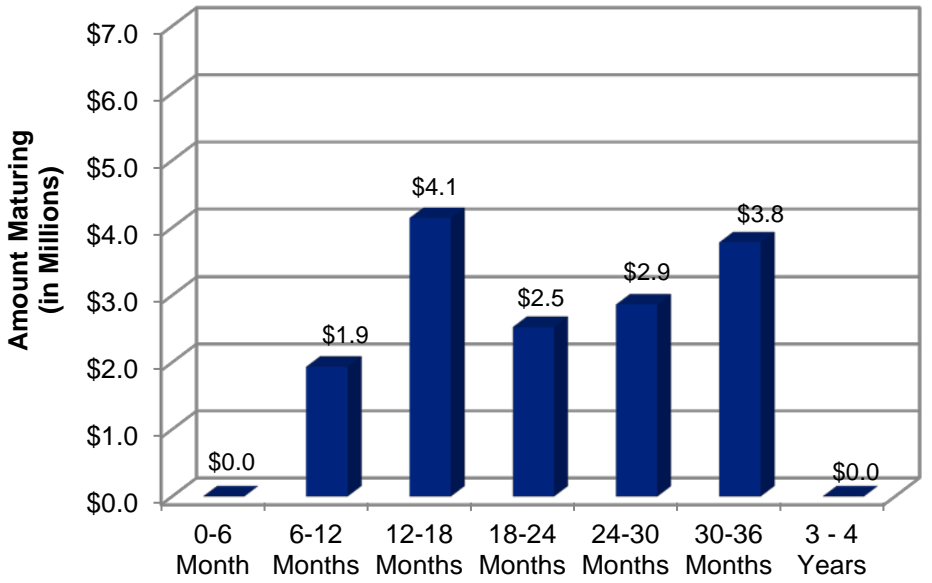
Summary by Issuer	Book Value	% of Portfolio
US Treasury	\$11,688,252	76.33%
FHLB	\$795,599	5.20%
FHLMC	\$1,704,853	11.13%
FNMA	\$1,039,032	6.79%
FFCB Bond	\$0	0.00%
Wells Fargo	\$84,300	0.55%
<b>Total</b>	<b>\$15,312,038</b>	<b>100%</b>

**Issuer Distribution**



<b>Weighted Average Maturity (in years)</b>	<b>1.79</b>
<b>Duration Allowed by Policy</b>	<b>5.00</b>
<b>Current Portfolio Duration Including Cash</b>	<b>1.77</b>
<b>Current Portfolio Duration Without Cash</b>	<b>1.78</b>

**Maturity Distribution<sup>2</sup>**



<sup>1</sup> Market values of portfolio holdings include accrued interest.  
<sup>2</sup> Excludes Money Market Balance.



**Managed Account Detail of Securities Held**

For the Month Ending **June 30, 2015**

**TOWN OF FOUNTAIN HILLS, OPERATING FUNDS - 29050100**

<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>U.S. Treasury Bond / Note</b>											
US TREASURY NOTES DTD 06/02/2014 0.375% 05/31/2016	912828WM8	825,000.00	AA+	Aaa	06/02/14	06/03/14	824,871.09	0.38	262.04	824,940.66	825,579.98
US TREASURY NOTES DTD 06/30/2009 3.250% 06/30/2016	912828KZ2	475,000.00	AA+	Aaa	05/22/13	05/24/13	516,024.41	0.44	41.95	488,250.28	488,656.25
US TREASURY NOTES DTD 06/30/2009 3.250% 06/30/2016	912828KZ2	500,000.00	AA+	Aaa	05/10/13	05/15/13	544,140.63	0.41	44.16	514,138.59	514,375.00
US TREASURY NOTES DTD 06/30/2009 3.250% 06/30/2016	912828KZ2	750,000.00	AA+	Aaa	05/24/13	05/31/13	812,402.34	0.53	66.24	770,297.85	771,562.50
US TREASURY NOTES DTD 08/31/2011 1.000% 08/31/2016	912828RF9	285,000.00	AA+	Aaa	02/27/14	03/03/14	288,595.90	0.49	952.58	286,687.54	287,048.58
US TREASURY NOTES DTD 11/30/2011 0.875% 11/30/2016	912828RU6	400,000.00	AA+	Aaa	12/03/13	12/04/13	403,578.13	0.57	296.45	401,701.78	402,343.60
US TREASURY NOTES DTD 11/30/2011 0.875% 11/30/2016	912828RU6	450,000.00	AA+	Aaa	10/31/13	11/01/13	453,480.47	0.62	333.50	451,608.04	452,636.55
US TREASURY NOTES DTD 01/03/2012 0.875% 12/31/2016	912828RX0	100,000.00	AA+	Aaa	12/05/14	12/09/14	100,375.00	0.69	2.38	100,273.18	100,585.90
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	525,000.00	AA+	Aaa	03/19/14	03/21/14	526,209.96	0.92	1,319.67	525,703.04	529,019.40
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	650,000.00	AA+	Aaa	10/02/14	10/06/14	653,173.83	0.80	1,633.88	652,241.06	654,976.40
US TREASURY NOTES DTD 05/31/2012 0.625% 05/31/2017	912828SY7	825,000.00	AA+	Aaa	06/02/14	06/03/14	820,423.83	0.81	436.73	822,057.91	824,871.30
US TREASURY NOTES DTD 07/02/2012 0.750% 06/30/2017	912828TB6	550,000.00	AA+	Aaa	10/30/14	11/03/14	549,441.41	0.79	11.21	549,579.77	551,074.15
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	50,000.00	AA+	Aaa	02/06/15	02/10/15	49,582.03	0.84	104.28	49,647.34	49,824.20
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	130,000.00	AA+	Aaa	07/01/14	07/07/14	128,197.26	0.96	271.13	128,769.84	129,542.92



**Managed Account Detail of Securities Held**

For the Month Ending **June 30, 2015**

**TOWN OF FOUNTAIN HILLS, OPERATING FUNDS - 29050100**

<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>U.S. Treasury Bond / Note</b>											
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	700,000.00	AA+	Aaa	02/02/15	02/04/15	697,785.16	0.63	1,459.94	698,144.29	697,538.80
US TREASURY NOTES DTD 09/30/2010 1.875% 09/30/2017	912828PA2	625,000.00	AA+	Aaa	09/02/14	09/04/14	640,673.83	1.04	2,945.70	636,525.17	640,820.00
US TREASURY NOTES DTD 12/31/2012 0.750% 12/31/2017	912828UE8	575,000.00	AA+	Aaa	12/01/14	12/03/14	572,192.38	0.91	11.72	572,715.21	573,787.33
US TREASURY NOTES DTD 04/01/2013 0.750% 03/31/2018	912828UU2	950,000.00	AA+	Aaa	02/26/15	02/27/15	941,613.28	1.04	1,790.98	942,523.73	945,175.90
US TREASURY NOTES DTD 04/01/2013 0.750% 03/31/2018	912828UU2	1,100,000.00	AA+	Aaa	03/26/15	03/27/15	1,092,007.81	1.00	2,073.77	1,092,695.74	1,094,414.20
US TREASURY NOTES DTD 04/30/2013 0.625% 04/30/2018	912828UZ1	275,000.00	AA+	Aaa	04/28/15	04/30/15	272,787.11	0.90	289.57	272,910.00	272,529.40
US TREASURY NOTES DTD 04/30/2013 0.625% 04/30/2018	912828UZ1	900,000.00	AA+	Aaa	05/28/15	05/29/15	891,281.25	0.96	947.69	891,545.86	891,914.40
<b>Security Type Sub-Total</b>		<b>11,640,000.00</b>					<b>11,778,837.11</b>	<b>0.77</b>	<b>15,295.57</b>	<b>11,672,956.88</b>	<b>11,698,276.76</b>
<b>Federal Agency Bond / Note</b>											
FANNIE MAE GLOBAL NOTES DTD 02/15/2013 0.500% 03/30/2016	3135G0VA8	110,000.00	AA+	Aaa	03/12/13	03/13/13	110,051.70	0.48	139.03	110,012.74	110,152.57
FANNIE MAE GLOBAL NOTES DTD 02/15/2013 0.500% 03/30/2016	3135G0VA8	500,000.00	AA+	Aaa	08/29/13	08/30/13	497,335.00	0.71	631.94	499,224.46	500,693.50
FHLMC REFERENCE NOTE DTD 11/21/2014 0.400% 05/27/2016	3134G5RF4	500,000.00	AA+	Aaa	11/19/14	11/21/14	499,850.00	0.42	188.89	499,910.36	499,944.50
FNMA NOTES DTD 08/19/2011 1.250% 09/28/2016	3135G0CM3	170,000.00	AA+	Aaa	10/01/13	10/03/13	172,510.90	0.75	548.96	171,050.71	171,639.65
FNMA NOTES DTD 08/19/2011 1.250% 09/28/2016	3135G0CM3	255,000.00	AA+	Aaa	10/01/13	10/03/13	258,826.56	0.74	823.44	256,601.15	257,459.48
FHLB NOTES DTD 08/07/2014 0.500% 09/28/2016	3130A2T97	420,000.00	AA+	Aaa	08/06/14	08/07/14	419,055.00	0.61	542.50	419,450.53	420,099.54



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<b>Federal Agency Bond / Note</b>											
FHLB NOTES DTD 11/17/2014 0.625% 11/23/2016	3130A3J70	375,000.00	AA+	Aaa	01/21/15	01/22/15	375,471.59	0.56	247.40	375,358.89	375,227.25
FHLMC REFERENCE NOTE DTD 01/16/2015 0.500% 01/27/2017	3137EADU0	415,000.00	AA+	Aaa	01/15/15	01/16/15	414,273.75	0.59	951.04	414,437.02	414,512.79
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	350,000.00	AA+	Aaa	03/19/15	03/20/15	351,190.00	0.85	1,487.50	351,049.99	351,629.95
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	435,000.00	AA+	Aaa	08/12/14	08/14/14	434,970.86	1.00	1,848.75	434,979.76	437,025.80
<b>Security Type Sub-Total</b>		<b>3,530,000.00</b>					<b>3,533,535.36</b>	<b>0.67</b>	<b>7,409.45</b>	<b>3,532,075.61</b>	<b>3,538,385.03</b>
<b>Managed Account Sub-Total</b>		<b>15,170,000.00</b>					<b>15,312,372.47</b>	<b>0.74</b>	<b>22,705.02</b>	<b>15,205,032.49</b>	<b>15,236,661.79</b>
<b>Securities Sub-Total</b>		<b>\$15,170,000.00</b>					<b>\$15,312,372.47</b>	<b>0.74%</b>	<b>\$22,705.02</b>	<b>\$15,205,032.49</b>	<b>\$15,236,661.79</b>
<b>Accrued Interest</b>											<b>\$22,705.02</b>
<b>Total Investments</b>											<b>\$15,259,366.81</b>

