

# Town of Longboat Key, Florida



## Investment Performance Review Quarter Ended September 30, 2015

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(PFM Month End Statement is available online at [www.pfm.com](http://www.pfm.com))

PFM Funds September 30, 2015 Month-End Statement  
(PFM Funds Month End Statement is available online at [www.pfmfunds.com](http://www.pfmfunds.com))

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Market Review

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 recommendation. The information contained in this report is not an offer to purchase or sell any securities.

# TAB I

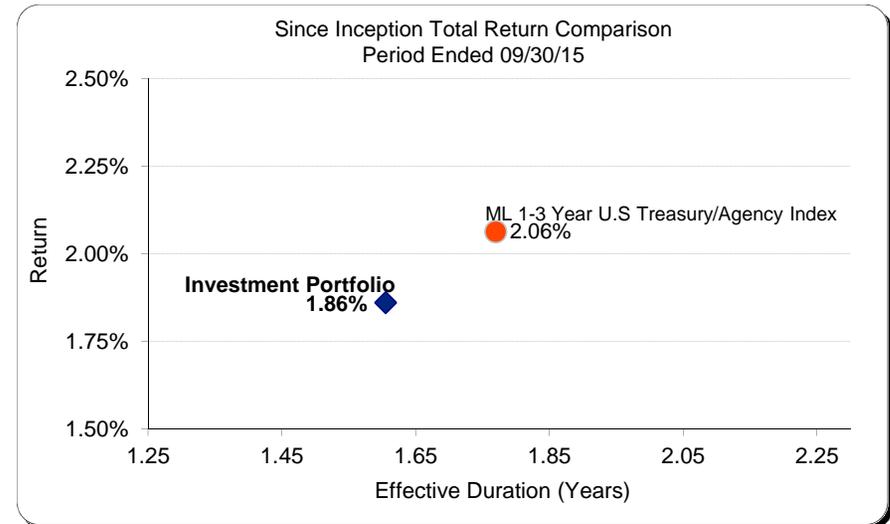
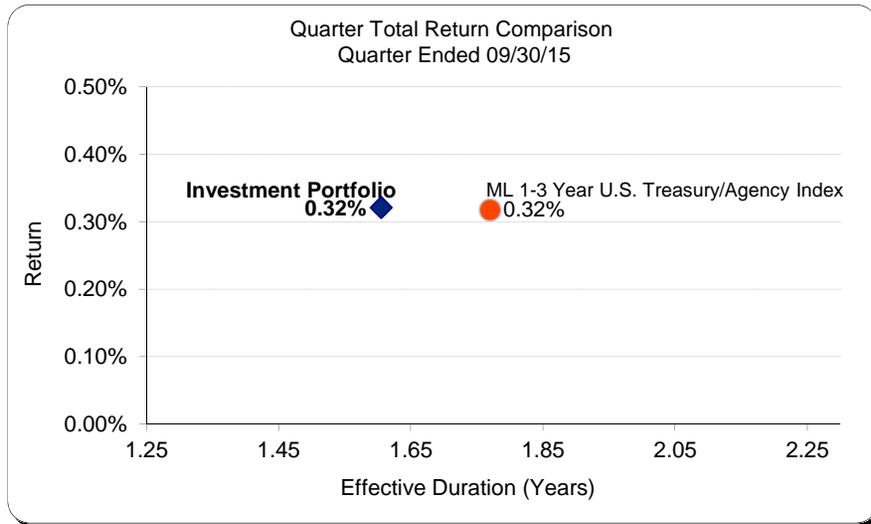
## Executive Summary

## PORTFOLIO STRATEGY

- The Town's Investment Portfolio is of high credit quality and invested in U.S. Treasury, Federal Agency, high quality corporate, and commercial paper securities.
- PFM continued to actively manage the Investment Portfolio during the third quarter and found value in the market, taking advantage of market inefficiencies or changes in economic outlook. As a result, the Portfolio realized \$1,591 in gains on sales (based on amortized cost) during the quarter. PFM is continually in the market monitoring for opportunities to add value to the Portfolio.
- The Investment Portfolio's quarterly total return performance was 0.32%, performing in-line with the benchmark performance of 0.32%. Over the past year, the Portfolio earned 1.04%, versus 1.17% for the benchmark.
- Treasury yields moved up and down in response to evolving economic conditions, tracking in part (i) the strength of global economy, (ii) the persistent low inflation environment, and (iii) the expectations for a Fed rate hike. Low inflation and tepid economic data, both in the U.S. and abroad, pushed longer-term yields lower.
- Yields on securities with maturities of two years or less, the part of the curve that is most dependent on Federal Reserve policy, moved up in advance of the September FOMC meeting, but quickly reversed after the "no hike" decision. The end result was that the quarter ended with generally lower yields and a flatter yield curve than at the beginning of the quarter.
- The FOMC continues to monitor economic progress towards its dual objectives of full employment and price stability. It recently added an acknowledgement that global economic instability has the potential to affect Fed policy. Because this creates a new level of uncertainty about the timing and pace of future rate hikes, our strategy may need to adapt to changing conditions throughout the fourth quarter.
- At present, we believe the Fed will raise rates in late 2015 or early 2016, and the subsequent pace of rate increases will likely be gradual and prolonged. If this occurs as expected, it is likely that rates on the shorter end of the curve will again rise ahead of upcoming FOMC meetings, while longer maturities will remain range bound in response to tempered global growth and dampened inflation expectations.
- PFM will continue to navigate the market environment with a keen focus on relative value sector analysis, prudent duration management, and efficient yield curve placement. While producing strong investment returns remains a priority, it is secondary to maintaining safety and liquidity, particularly in the current environment where we expect yields to trend higher.

Investment Portfolio Performance

<b>Total Portfolio Value<sup>1</sup></b>	<b>September 30, 2015</b>	<b>June 30, 2015</b>				
Market Value	\$22,322,281.22	\$22,324,546.61				
Amortized Cost	\$22,260,446.28	\$22,281,444.21				
<b>Total Return<sup>2,3,4,5,6</sup></b>	<b>Quarterly Return September 30, 2015</b>	<b>Last 12 Months</b>	<b>Last 3 Years</b>	<b>Last 5 Years</b>	<b>Last 7 Years</b>	<b>Since Inception September 30, 2007</b>
<b>Investment Portfolio</b>	<b>0.32%</b>	<b>1.04%</b>	<b>0.62%</b>	<b>0.76%</b>	<b>1.42%</b>	<b>1.86%</b>
Merrill Lynch 1-3 Year U.S. Treasury/ Agency Index	0.32%	1.17%	0.69%	0.78%	1.52%	2.06%
<b>Effective Duration(Years)<sup>4,5</sup></b>	<b>September 30, 2015</b>	<b>June 30, 2015</b>		<b>Yields</b>	<b>September 30, 2015</b>	<b>June 30, 2015</b>
<b>Investment Portfolio</b>	<b>1.61</b>	<b>1.78</b>		Yield at Market	<b>0.75%</b>	0.75%
Merrill Lynch 1-3 Year U.S. Treasury/ Agency Index	1.77	1.78		Yield at Cost	<b>0.93%</b>	0.88%
Portfolio Duration % of Benchmark Duration	91%	100%				

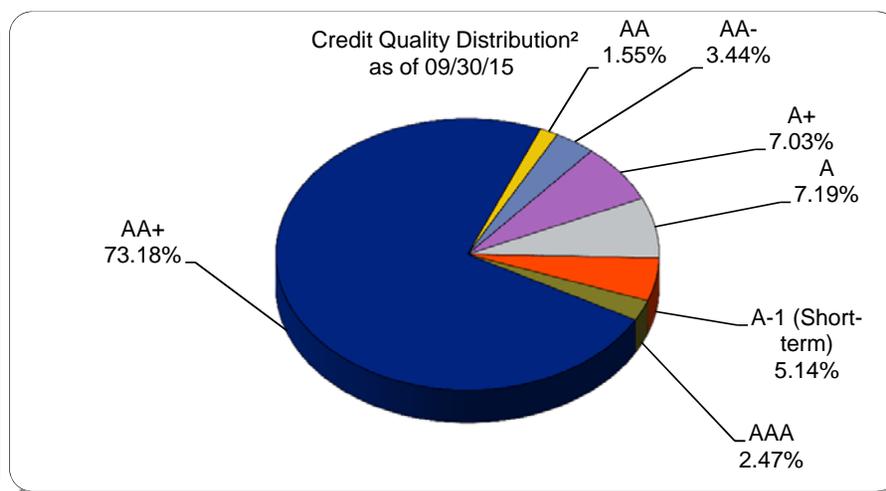
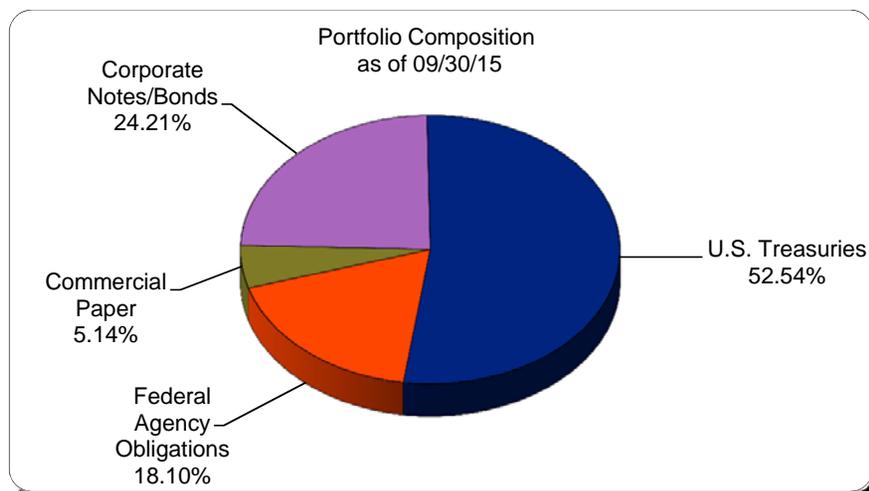


Notes:

1. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Performance on trade date basis, gross (i.e., before fees), is in accordance with The CFA Institute's Global Investment Performance Standards (GIPS). Quarterly returns are presented on an unannualized basis. Returns presented for 12 months or longer are presented on an annual basis. Past performance is not indicative of future results.
3. The benchmark originally was the Merrill Lynch 1-3 Year U.S. Treasury Note Index. On June 30, 2010, the benchmark was moved to the Merrill Lynch 1-3 Year U.S. Treasury/Agency Note Index. The benchmark's total return performance is a blended performance of the benchmarks for time periods that include dates prior to June 30, 2010.
4. Merrill Lynch Indices provided by Bloomberg Financial Markets.
5. Excludes money market fund/cash in performance and duration computations.
6. The Investment Advisory Agreement expired on April 30, 2013 and the new extension was signed on September 19, 2013. PFM did not manage the Town's funds during this 5 month period.

Investment Portfolio Composition and Credit Quality Characteristics

<u>Security Type<sup>1</sup></u>	<u>September 30, 2015</u>	<u>% of Portfolio</u>	<u>June 30, 2015</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$11,727,477.39	52.5%	\$12,927,396.49	57.9%
Federal Agencies	4,041,438.53	18.1%	4,041,799.52	18.1%
Commercial Paper	1,148,292.35	5.1%	549,131.55	2.5%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers Acceptances	0.00	0.0%	0.00	0.0%
Repurchase Agreements	0.00	0.0%	0.00	0.0%
Municipal Obligations	0.00	0.0%	0.00	0.0%
Corporate Notes/Bonds	5,405,072.95	24.2%	4,806,219.05	21.5%
Corporate Notes TLGP - FDIC insured	0.00	0.0%	0.00	0.0%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	0.00	0.0%	0.00	0.0%
<b>Totals</b>	<b>\$22,322,281.22</b>	<b>100.0%</b>	<b>\$22,324,546.61</b>	<b>100.0%</b>

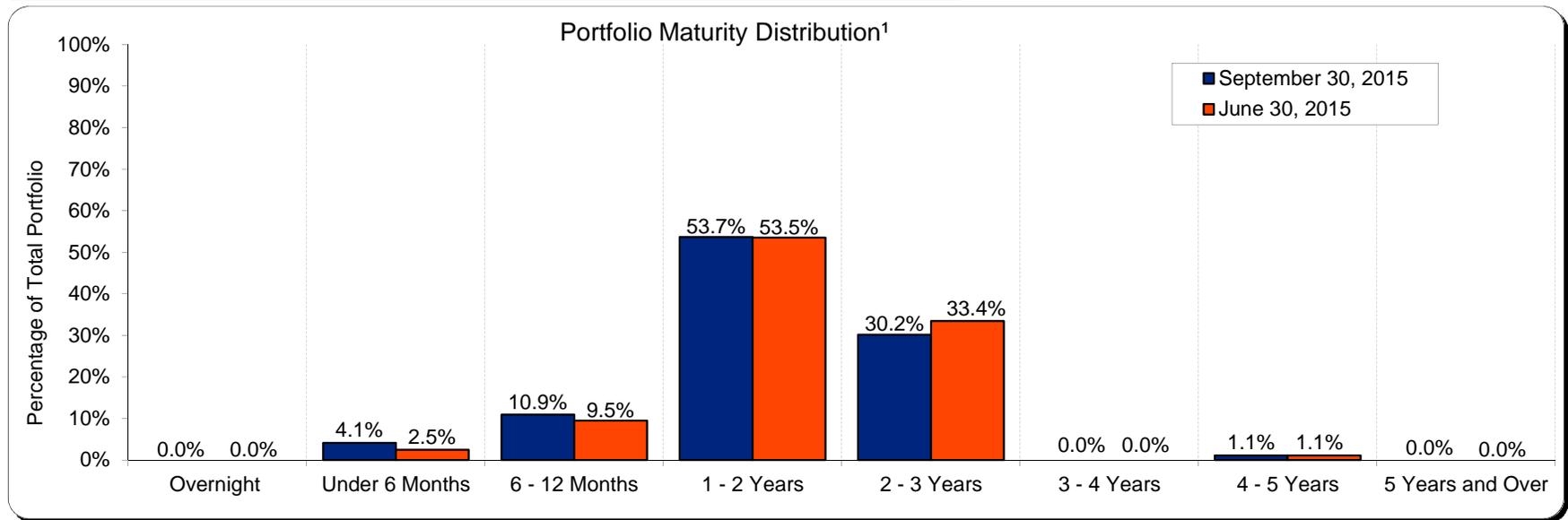


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP. Standard & Poor's is the source of the credit ratings.

Investment Portfolio Maturity Distribution

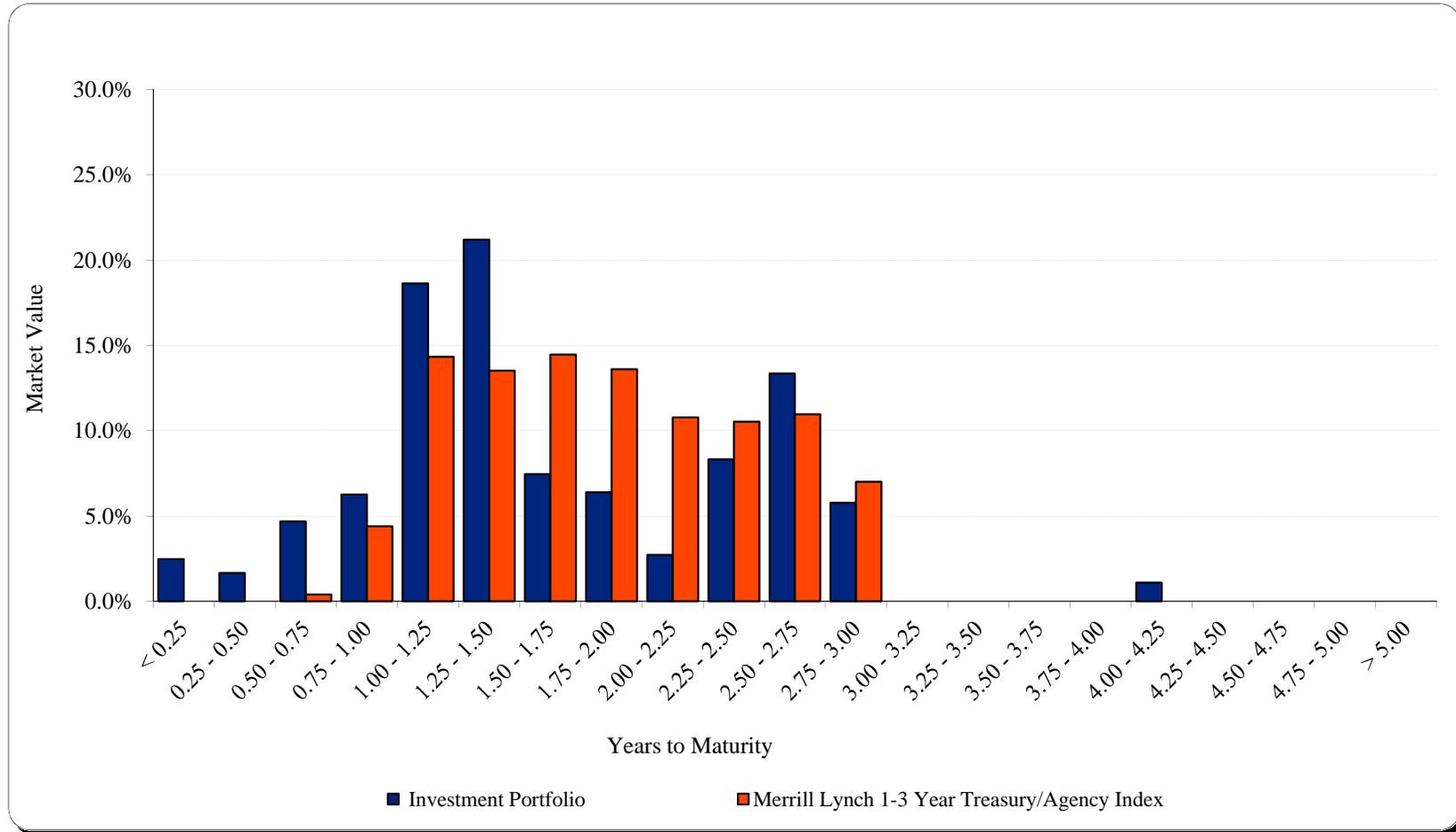
<u>Maturity Distribution<sup>1</sup></u>	<u>September 30, 2015</u>	<u>June 30, 2015</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	920,230.71	549,131.55
6 - 12 Months	2,440,881.35	2,117,761.82
1 - 2 Years	11,982,757.33	11,953,157.34
2 - 3 Years	6,735,032.10	7,464,647.76
3 - 4 Years	0.00	0.00
4 - 5 Years	243,379.73	239,848.14
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$22,322,281.22</b>	<b>\$22,324,546.61</b>



Notes:

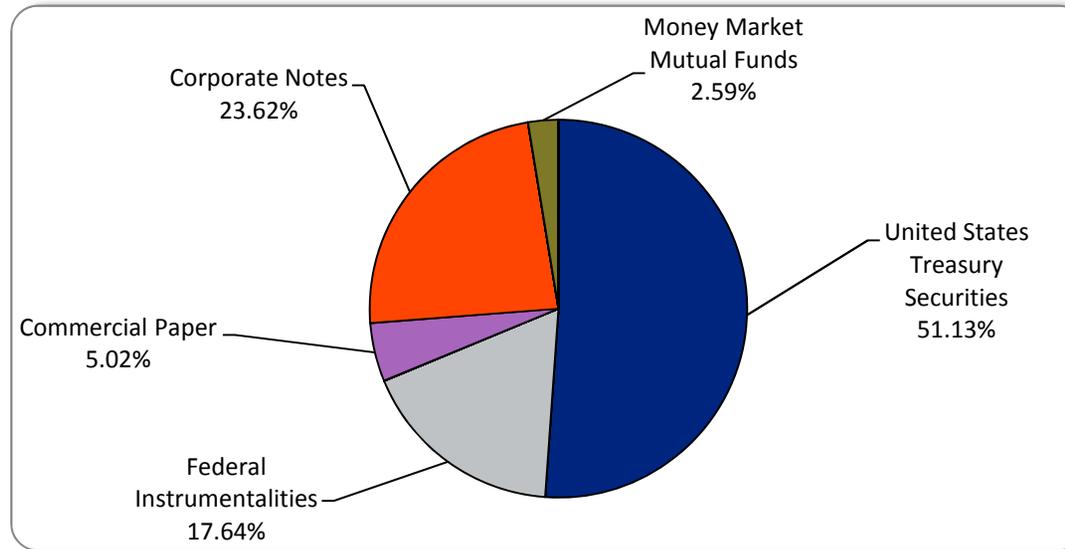
1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

Investment Portfolio Maturity Distribution versus the Benchmark<sup>1</sup>



Notes:

1. Due to the nature of the security, Mortgage-Backed Securities are represented based on their average life maturity rather than their final maturity.



Security Type <sup>1</sup>	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
United States Treasury Securities	11,682,879.47	51.13%		100%	YES
United States Government Agency Securities	-	0.00%		50%	YES
Federal Instrumentalities	4,031,735.44	17.64%		80%	YES
Mortgage-Backed Securities	-	0.00%		20%	YES
Non-Negotiable Certificates of Deposit or Bank Accounts	-	0.00%		50%	YES
Repurchase Agreements	-	0.00%		50%	YES
Commercial Paper	1,147,452.45	5.02%		25%	YES
Corporate Notes	5,398,378.92	23.62%		25%	YES
Bankers' Acceptances	-	0.00%		25%	YES
State and/or Local Government Debt	-	0.00%		20%	YES
Money Market Mutual Funds	591,121.96	2.59%		50%	YES
Intergovernmental Investment Pool	-	0.00%		75%	YES
Florida PRIME	-	0.00%		25%	YES

Notes:

1. End of month trade-date amortized cost of portfolio holdings, including accrued interest.

\* Does not include Bond Proceeds

<b>Individual Issuer Breakdown</b>	<b>Amortized Cost (Includes Interest)</b>	<b>Allocation Percentage</b>	<b>Notes</b>	<b>Permitted by Policy</b>	<b>In Compliance</b>
Government National Mortgage Association (GNMA)	-	0.00%		<b>25%</b>	YES
Federal Farm Credit Bank (FFCB)	-	0.00%		<b>40%</b>	YES
Federal Home Loan Bank (FHLB)	899,621.64	3.94%		<b>40%</b>	YES
Federal National Mortgage Association (FNMA)	649,320.70	2.84%		<b>40%</b>	YES
Federal Home Loan Mortgage Corporation (FHLMC)	2,482,793.10	10.86%		<b>40%</b>	YES
American Honda Finance Corporate Notes	409,856.96	1.79%		<b>5%</b>	YES
Bank of New York Company Inc. Corporate Notes	552,937.85	2.42%		<b>5%</b>	YES
Chevron Corporation Corporate Notes	345,379.36	1.51%		<b>5%</b>	YES
Cisco Systems, Inc. Corporate Notes	472,167.89	2.07%		<b>5%</b>	YES
ConocoPhillips Corporate Notes	90,489.23	0.40%		<b>5%</b>	YES
Deere & Company Corporate Notes	300,002.97	1.31%		<b>5%</b>	YES
Exxon Mobil Corporation Corporate Notes	550,498.44	2.41%		<b>5%</b>	YES
General Electric Capital Corporation Corporate Notes	565,626.44	2.48%		<b>5%</b>	YES
HSBC Holdings plc Corporate Notes	550,259.36	2.41%		<b>5%</b>	YES
JP Morgan Chase & Company Corporate Notes	551,746.39	2.41%		<b>5%</b>	YES
PepsiCo, Inc. Corporate Notes	110,565.36	0.48%		<b>5%</b>	YES
Toyota Motor Corporation Corporate Notes	290,744.88	1.27%		<b>5%</b>	YES
Wells Fargo & Company Corporate Notes	608,103.79	2.66%		<b>5%</b>	YES
BNP Paribas Commercial Paper	549,452.45	2.40%		<b>15%</b>	YES
JP Morgan Chase & Company Commercial Paper	598,000.00	2.62%		<b>15%</b>	YES
Money Market Fund - PFM Funds Government Series	591,121.96	2.59%		<b>25%</b>	YES

# TAB II

Insert Month End Statement here to complete the report.

In consideration of the safety and security of our client's sensitive information, PFM Asset Management's compliance department does not allow the inclusion of month end statements in any electronic communication including this version of the quarterly performance report.

Statements are available online at **www.pfm.com** login and click on the link to "Monthly Statements" on the left side of the screen.

The most current statements are always available to the client online, however they can only be accessed with the designated username and password.

# TAB III

### **Summary**

- The U.S. economy continued its forward progress, but more recent economic data suggests it is slowing from the strong second-quarter pace.
- Weakness in emerging-market economies, most notably China, changed market psychology, triggering heightened volatility and significant downward pressure on equity markets worldwide.
- The Federal Open Market Committee (FOMC) chose not to raise the federal funds target rate at either of its two meetings during the quarter, most recently citing concern about “recent global economic and financial developments.” FOMC officials, however, continue to condition investors for a possible rate hike before year-end.

### **Economic Snapshot**

- Concern over Greece’s financial state last quarter was quickly resolved, only to be superseded by growth concerns emanating from emerging market economies, especially China, Russia and Brazil. A slowdown in emerging markets also negatively impacted commodity, oil, and export-driven economies, such as Australia and Canada.
- Second-quarter gross domestic product (GDP) grew at a 3.9% annualized pace, a strong rebound from the first quarter’s lackluster growth. The surge was bolstered by strong consumer spending and a pickup in business investment and inventories.
- Job growth slowed in the second quarter — averaging 167,000 new jobs per month, which was down from 231,000 per month in the prior quarter — but the unemployment rate fell further to 5.1%, its lowest rate since April 2008. Wage growth remained subdued.

### **Interest Rates**

- Long-term Treasury yields trended lower throughout the quarter, supported by low inflation, slowing global growth, and a hesitant FOMC. The yield on the 10-year U.S. Treasury fell 31 basis points (0.31%), ending the quarter just above 2.0%.

- Yields on shorter-term instruments (two years and under) initially moved in the opposite direction, rising to peaks in mid-September in anticipation of a near-term federal funds target rate increase. After the Fed announced it would leave rates unchanged, yields retreated. Short-term Treasury yields ended the quarter mostly lower by a few basis points, while money market instruments like commercial paper and bank certificates of deposit held on to most of their rate increases during the quarter.
- Global sovereign debt yields followed those in the U.S., with lower long-term rates and fractionally lower short-term yields.

### **Sector Performance**

- U.S. Treasury benchmark indices generated strong returns as yields ended the quarter lower, providing price appreciation in addition to yield-based income. While this was true for maturities across the yield curve, longer maturities fared better due to their longer durations and more significant fall in rates.
- Federal Agency securities modestly outperformed comparable maturity Treasuries as yield spreads tightened modestly.
- Corporate yield spreads widened throughout the quarter, in some cases significantly. Returns were correlated with credit ratings. BBB-rated and high-yield issues performed poorly. A-rated issuers modestly underperformed government securities, while higher-rated issuers performed better.
- Mortgage-backed securities (MBS) underperformed comparable duration government securities as heightened volatility negatively impacted securities with imbedded optionality. This scenario has persisted for much of 2015.

Economic Snapshot

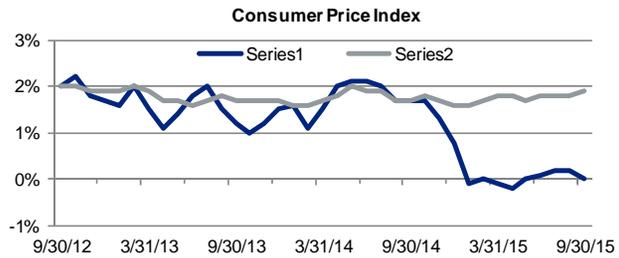
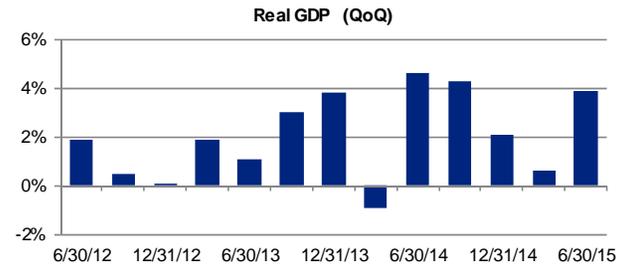
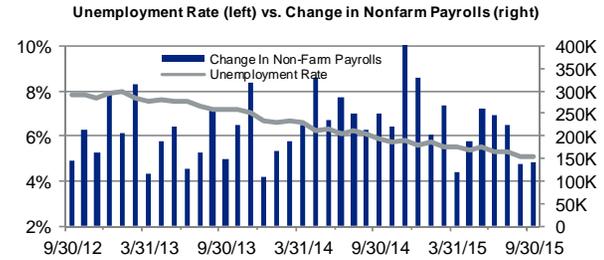
Labor Market		Latest	Jun 2015	Sep 2014
Unemployment Rate	Sep'15	5.1%	5.3%	5.9%
Change In Non-Farm Payrolls	Sep'15	142,000	245,000	250,000
Average Hourly Earnings (YoY)	Sep'15	2.2%	2.0%	2.0%
Personal Income (YoY)	Aug'15	4.2%	4.1%	4.5%
Initial Jobless Claims (week)	10/2/15	263,000	282,000	292,000

Growth		Latest	Jun 2015	Sep 2014
Real GDP (QoQ SAAR)	2015Q2	3.9%	0.6% <sup>1</sup>	4.6% <sup>2</sup>
GDP Personal Consumption (QoQ SAAR)	2015Q2	3.6%	1.8% <sup>1</sup>	3.8% <sup>2</sup>
Retail Sales (YoY)	Sep'15	2.4%	1.8%	4.4%
ISM Manufacturing Survey (month)	Sep'15	50.2	53.5	56.1
Existing Home Sales SAAR (month)	Aug'15	5.31 mil.	5.48 mil.	5.10 mil.

Inflation / Prices		Latest	Jun 2015	Sep 2014
Personal Consumption Expenditures (YoY)	Aug'15	0.3%	0.3%	1.5%
Consumer Price Index (YoY)	Aug'15	0.2%	0.1%	1.7%
Consumer Price Index Core (YoY)	Aug'15	1.8%	1.8%	1.7%
Crude Oil Futures (WTI, per barrel)	Sep 30	\$45.09	\$59.47	\$91.16
Gold Futures (oz.)	Sep 30	\$1,116	\$1,172	\$1,211



1. Data as of Second Quarter 2015

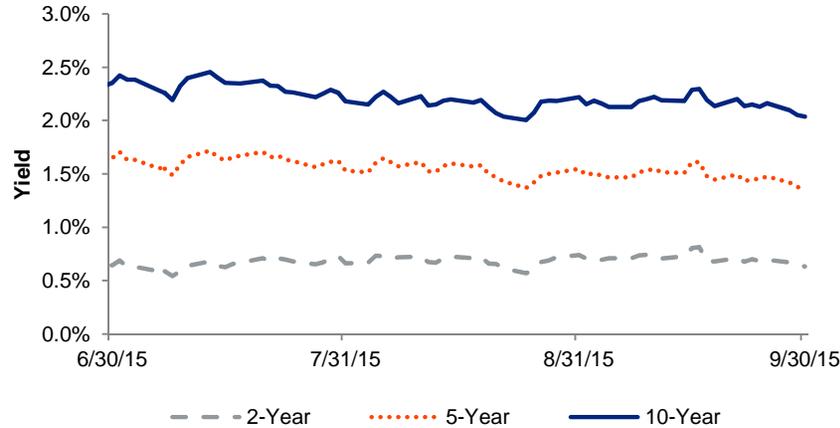
2. Data as of Third Quarter 2014

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

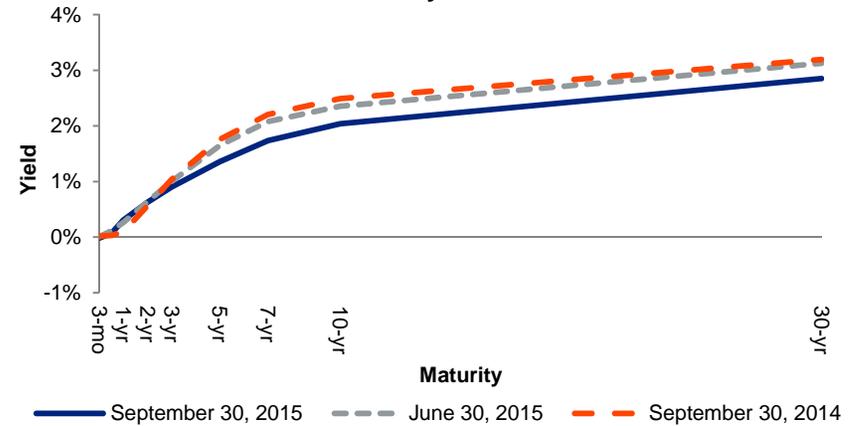
Source: Bloomberg

### Investment Rate Overview

U.S. Treasury Note Yields



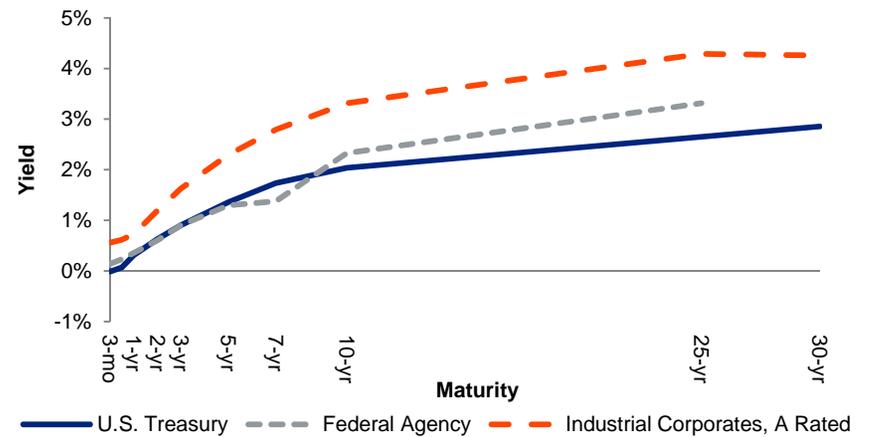
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	9/30/15	6/30/15	Change over Quarter	9/30/14	Change over Year
3-month	(0.02%)	0.01%	(0.03%)	0.02%	(0.04%)
1-year	0.31%	0.27%	0.04%	0.10%	0.21%
2-year	0.63%	0.65%	(0.02%)	0.57%	0.06%
5-year	1.36%	1.65%	(0.29%)	1.76%	(0.40%)
10-year	2.04%	2.35%	(0.31%)	2.49%	(0.45%)
30-year	2.85%	3.12%	(0.27%)	3.20%	(0.35%)

Yield Curves as of 9/30/2015



Source: Bloomberg

### BofA Merrill Lynch Index Returns

	As of 9/30/2015		Returns for Periods ended 9/30/2015		
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.87	0.63%	0.31%	1.16%	0.67%
Federal Agency	1.64	0.70%	0.36%	1.29%	0.77%
U.S. Corporates, A-AAA rated	1.98	1.53%	0.36%	1.37%	1.38%
Agency MBS (0 to 3 years)	1.92	1.58%	0.35%	1.11%	0.77%
Municipals	1.87	0.74%	0.57%	0.85%	0.88%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.71	0.87%	0.70%	2.15%	0.91%
Federal Agency	2.07	0.86%	0.58%	1.90%	0.98%
U.S. Corporates, A-AAA rated	2.76	1.83%	0.61%	2.18%	1.83%
Agency MBS (0 to 5 years)	3.40	2.10%	0.69%	2.23%	1.55%
Municipals	2.58	1.01%	0.78%	1.09%	1.18%
<b>Master Indices (Maturities 1 Year or Greater)</b>					
U.S. Treasury	6.20	1.42%	1.90%	4.10%	1.38%
Federal Agency	3.68	1.29%	1.05%	2.93%	1.35%
U.S. Corporates, A-AAA rated	6.70	2.88%	1.23%	2.82%	2.27%
Agency MBS (0 to 30 years)	4.34	2.39%	1.31%	3.34%	1.93%
Municipals	6.93	2.38%	1.70%	3.16%	2.94%

Returns for periods greater than one year are annualized

Source: BofA Merrill Lynch Indices

**Disclosures**

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