

Town of Longboat Key, Florida



Investment Performance Review Quarter Ended December 31, 2015

Investment Advisors

Steven Alexander, CTP, CGFO, CPPT, Managing Director
Robert Cheddar, CFA, Chief Credit Officer, Managing Director
D. Scott Stitche, CFA, Senior Managing Consultant
Richard Pengelly, CFA, CTP, Senior Managing Consultant
Michael Stewart, Analyst

PFM Asset Management LLC

One Keystone Plaza, Suite 300
North Front & Market Streets
Harrisburg, PA 17101-2044
717-232-2723 • 717-233-6073 fax

300 S. Orange Avenue, Suite 1170
Orlando, FL 32801
(407) 648-2208
(407) 648-1323 fax

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(PFM Month End Statement is available online at www.pfm.com)

PFM Funds December 31, 2015 Month-End Statement
(PFM Funds Month End Statement is available online at 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

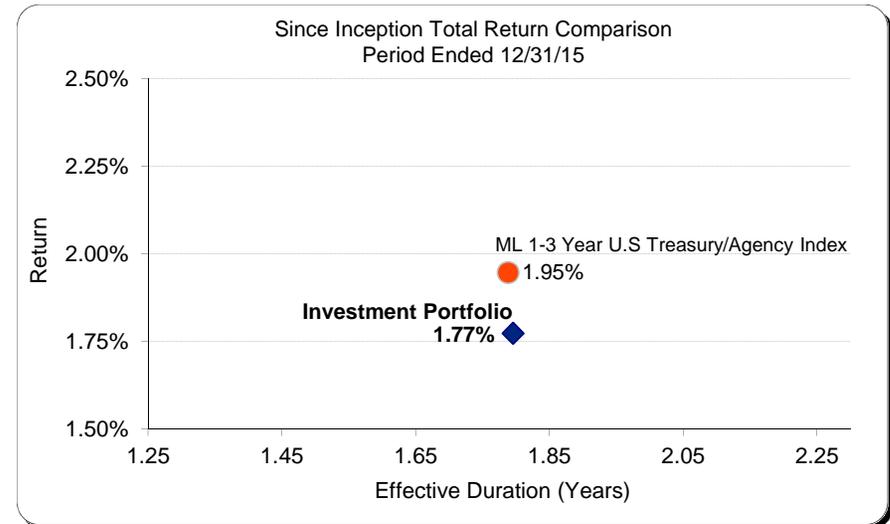
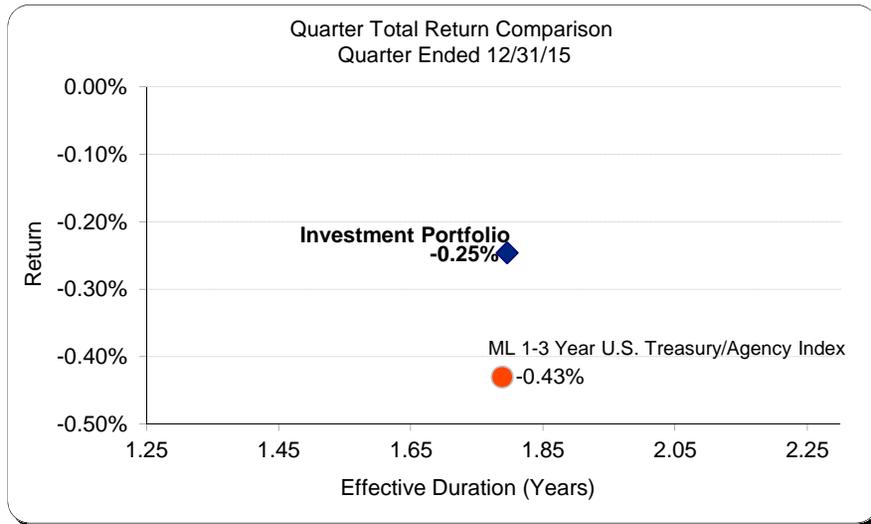
Executive Summary

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 fourth quarter and found value in the market, taking advantage of market inefficiencies or changes in economic outlook. As a result, the Portfolio realized \$4,243 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 of -0.25%, outperformed the benchmark performance of -0.43% by 18 basis points (0.18%). Over the past year, the Portfolio earned 0.64%, versus 0.56% for the benchmark.
- PFMAM maintained a modestly defensive duration position for much of the quarter as rates trended higher. As rates approached the upper end of recent ranges ahead of the FOMC meeting, we extended portfolio durations from short of the benchmark's duration to a near-neutral position; this more closely aligned portfolio durations with the durations of their respective benchmarks.
- Ahead of the December FOMC meeting, market expectations were for an initial Fed Funds hike, supported by assurances that future policy changes would be gradual. Market reaction after the FOMC's announcement to raise the target range for the federal funds rate was relatively subdued, evidence that the action was in line with these expectations, a goal of the FOMC's effort to provide transparency to investors.
- Recent FOMC projections indicate that Committee members anticipate that three or four rate hikes may be appropriate in 2016 – projections that most market participants believe to be overstated. We believe that expectations for low inflation will limit this year's rate hikes to two or three, and that short term yields will trend only modestly higher in the near term. We expect long-term rates to remain within modest ranges, resulting in further flattening of the yield curve.
- We maintain the outlook that the economy will continue to expand at a moderate pace in the intermediate term. We will continue to monitor any spillover effect that modest global growth and muted inflation may have on the U.S. economy. These factors will help justify the FOMC's stated intention to remain patient in the pace at which it raises the federal funds rate.
- 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

Total Portfolio Value¹	December 31, 2015	September 30, 2015				
Market Value	\$25,260,591.89	\$22,322,281.22				
Amortized Cost	\$25,322,751.91	\$22,260,446.28				
Total Return^{2,3,4,5,6}	Quarterly Return December 31, 2015	Last 12 Months	Last 3 Years	Last 5 Years	Last 7 Years	Since Inception September 30, 2007
Investment Portfolio	-0.25%	0.64%	0.51%	0.72%	1.07%	1.77%
Merrill Lynch 1-3 Year U.S. Treasury/ Agency Index	-0.43%	0.56%	0.52%	0.72%	1.02%	1.95%
Effective Duration(Years)^{4,5}	December 31, 2015	September 30, 2015			Yields	
Investment Portfolio	1.80	1.61			December 31, 2015	September 30, 2015
Merrill Lynch 1-3 Year U.S. Treasury/ Agency Index	1.79	1.77			Yield at Market	0.75%
Portfolio Duration % of Benchmark Duration	100%	91%			Yield at Cost	0.93%

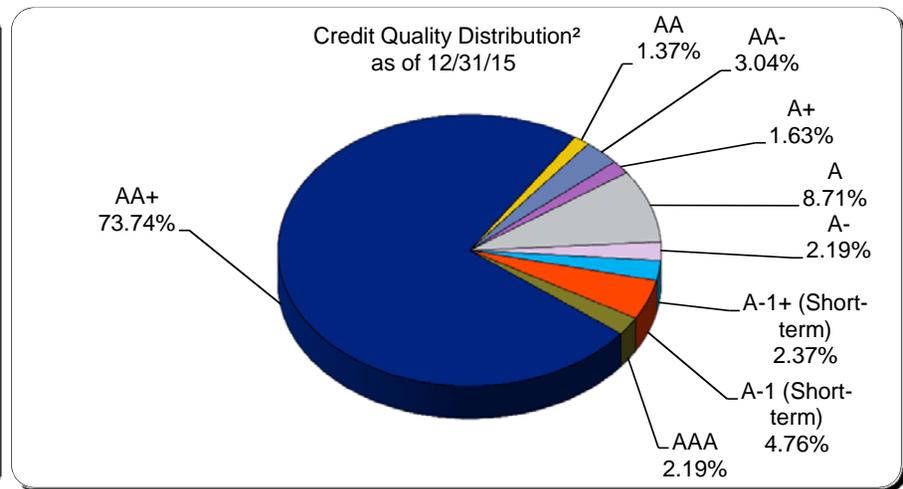
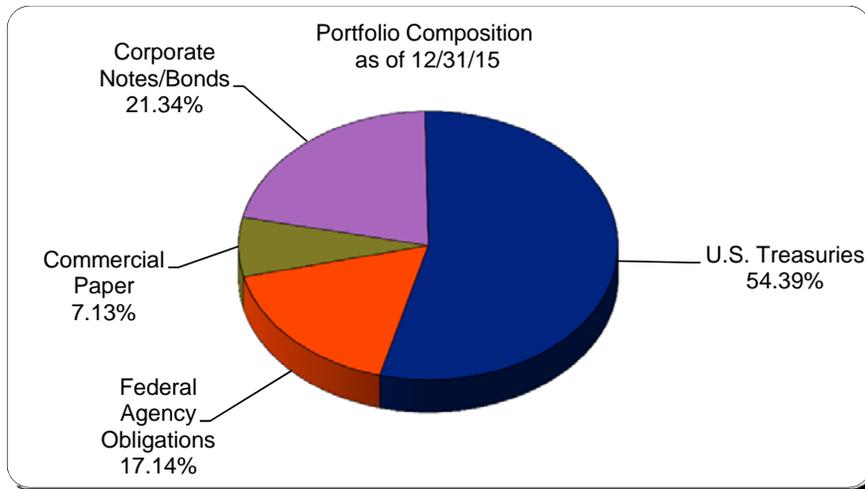


Notes:

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. Includes 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 Type¹</u>	<u>December 31, 2015</u>	<u>% of Portfolio</u>	<u>September 30, 2015</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$13,681,390.80	54.2%	\$11,727,477.39	52.5%
Federal Agencies	4,310,420.54	17.1%	4,041,438.53	18.1%
Commercial Paper	1,794,558.00	7.1%	1,148,292.35	5.1%
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	5,369,127.62	21.3%	5,405,072.95	24.2%
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	105,094.93	0.4%	0.00	0.0%
Totals	\$25,260,591.89	100.0%	\$22,322,281.22	100.0%

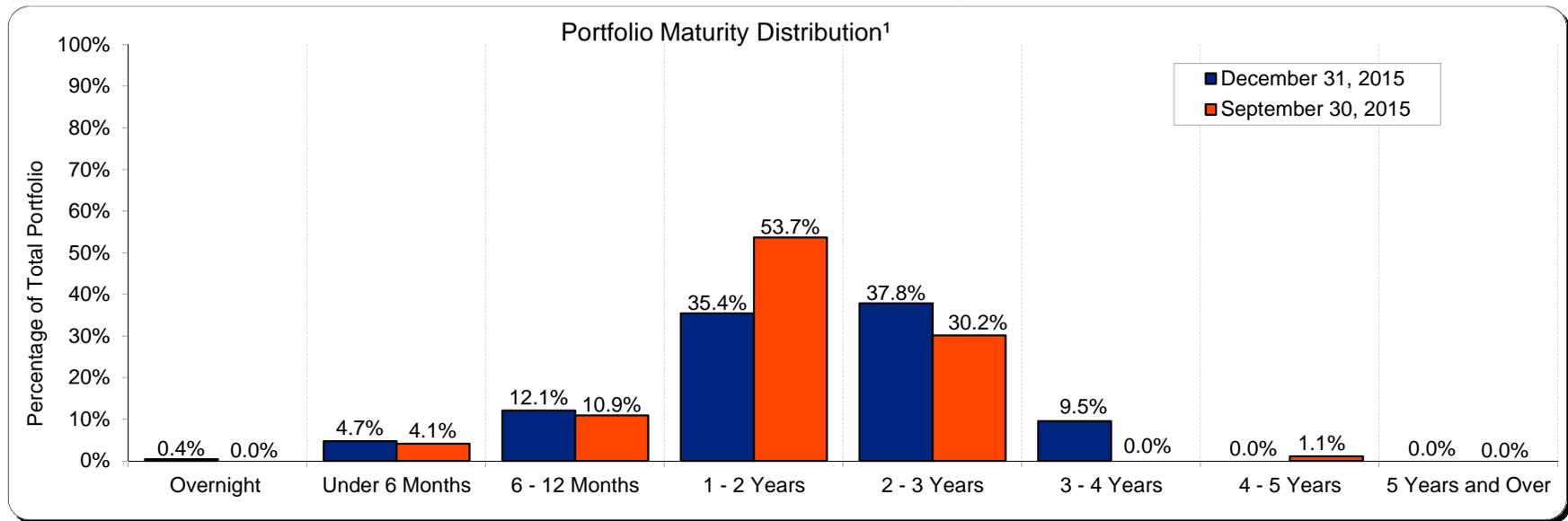


Notes:

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

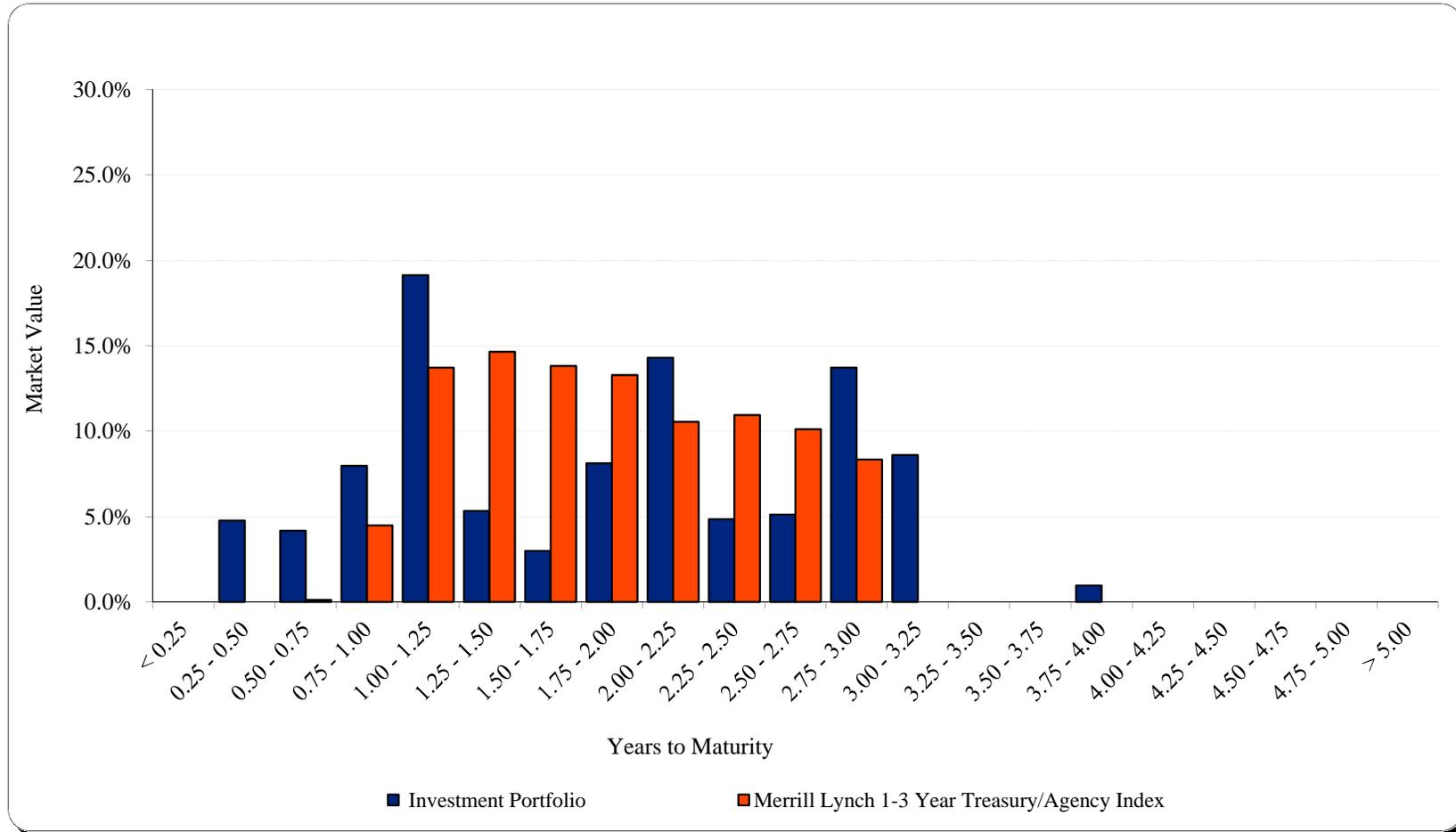
<u>Maturity Distribution</u> ¹	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Overnight (Money Market Fund)	\$105,094.93	\$0.00
Under 6 Months	1,197,477.60	920,230.71
6 - 12 Months	3,052,092.96	2,440,881.35
1 - 2 Years	8,947,873.09	11,982,757.33
2 - 3 Years	9,553,527.14	6,735,032.10
3 - 4 Years	2,404,526.17	0.00
4 - 5 Years	0.00	243,379.73
5 Years and Over	0.00	0.00
Totals	\$25,260,591.89	\$22,322,281.22



Notes:

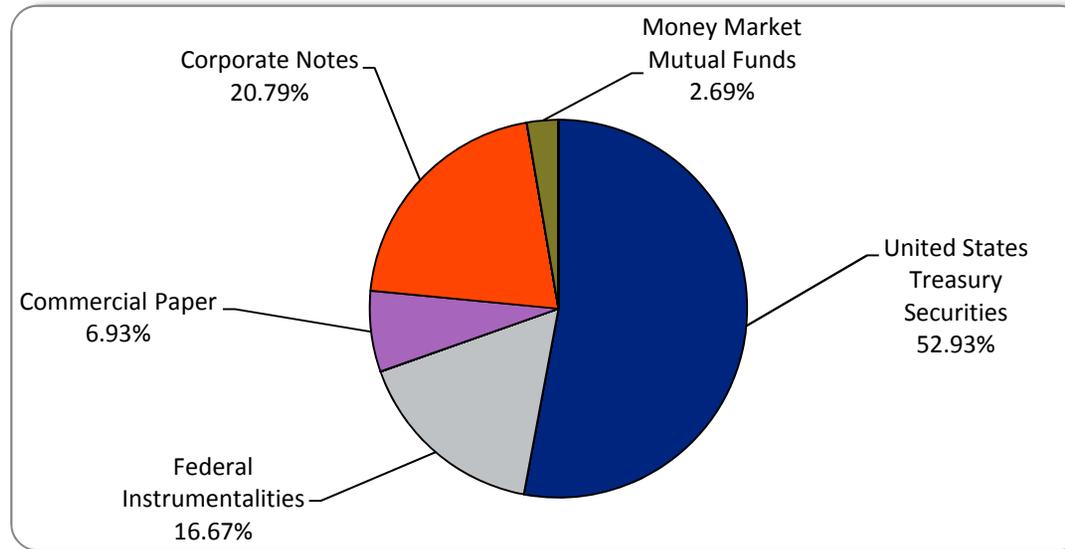
1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

Investment Portfolio Maturity Distribution versus the Benchmark¹



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 ¹	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
United States Treasury Securities	13,717,030.79	52.93%		100%	YES
United States Government Agency Securities	-	0.00%		50%	YES
Federal Instrumentalities	4,319,076.87	16.67%		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	1,794,594.00	6.93%		25%	YES
Corporate Notes	5,386,955.32	20.79%		25%	YES
Bankers' Acceptances	-	0.00%		25%	YES
State and/or Local Government Debt	-	0.00%		20%	YES
Money Market Mutual Funds	696,282.06	2.69%		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

Individual Issuer Breakdown	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Government National Mortgage Association (GNMA)	-	0.00%		25%	YES
Federal Farm Credit Bank (FFCB)	-	0.00%		40%	YES
Federal Home Loan Bank (FHLB)	1,560,718.34	6.02%		40%	YES
Federal National Mortgage Association (FNMA)	280,163.94	1.08%		40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	2,478,194.59	9.56%		40%	YES
American Honda Finance Corporate Notes	411,439.72	1.59%		5%	YES
Bank of New York Company Inc. Corporate Notes	550,912.91	2.13%		5%	YES
Chevron Corporation Corporate Notes	346,556.67	1.34%		5%	YES
Cisco Systems, Inc. Corporate Notes	470,278.72	1.81%		5%	YES
ConocoPhillips Corporate Notes	90,163.87	0.35%		5%	YES
Deere & Company Corporate Notes	301,339.32	1.16%		5%	YES
Exxon Mobil Corporation Corporate Notes	552,292.81	2.13%		5%	YES
General Electric Capital Corporation Corporate Notes	560,850.32	2.16%		5%	YES
HSBC Holdings plc Corporate Notes	552,638.93	2.13%		5%	YES
JP Morgan Chase & Company Corporate Notes	553,458.31	2.14%		5%	YES
PepsiCo, Inc. Corporate Notes	110,222.70	0.43%		5%	YES
Toyota Motor Corporation Corporate Notes	291,888.77	1.13%		5%	YES
Wells Fargo & Company Corporate Notes	594,912.27	2.30%		5%	YES
Bank of Tokyo Mitsubishi, Inc. Commercial Paper	598,600.00	2.31%		15%	YES
JP Morgan Chase & Company Commercial Paper	598,920.00	2.31%		15%	YES
Toyota Motor Corporation Commercial Paper	597,074.00	2.30%		15%	YES
Money Market Fund - Sweep Account	105,094.93	0.41%		25%	YES
Money Market Fund - PFM Funds Government Series	591,187.13	2.28%		25%	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 Federal Open Market Committee (FOMC) increased the target federal funds rate by 25 basis points (bps) (0.25%) at its December meeting — its first rate hike since 2006. In doing so, the FOMC stressed its intention to normalize rates at a gradual pace.
- The year ended with strong job growth momentum as the economy added 292,000 new jobs in December. This brought the 2015 tally to 2.65 million new jobs in total — enough to shrink the unemployment rate to 5%. Wage inflation edged up modestly, suggesting a chance for future inflation.
- While the Federal Reserve (Fed) took the first step to normalize interest rates, other central banks have continued to implement accommodative monetary policies. The European Central Bank (ECB) extended its monetary easing policy through the first quarter of 2017 and cut its deposit rate further into negative territory (-0.3%). The Bank of Japan (BOJ) and People’s Bank of China (PBOC) also remain accommodative.
- **Economic Snapshot**
- U.S. gross domestic product (GDP) expanded at a 2% rate in the third quarter, down from the second quarter due to a reduction in inventory accumulation.
- In a year-end bipartisan negotiation, Congress passed a \$1.1 trillion spending and tax budget, which also lifted the 40-year ban on U.S. crude oil exports.
- Global commodity prices continued to fall, increasing concerns over global growth and the sustainability of producers within the energy sector. Headlining this rout were oil prices, which continued to slide, sinking to less than \$35 per barrel in December — the lowest level since February 2009.
- China continued to allow the yuan to weaken, ending the year at its lowest level versus the U.S. dollar in nearly six years. The Chinese economy continued to slow — stoking market concern over the world’s second-largest economy — though it is expected to meet its major economic targets for the year.

Interest Rates

- The new target range for the federal funds rate, as established by the FOMC, is 25 to 50 bps, ending the FOMC’s seven-year “zero interest rate policy.”
- Interest rates across the curve moved up significantly throughout the quarter, with the 10-year rising approximately 23 bps to 2.27% and the two-year moving almost 42 bps to 1.05%.
- On the shorter end, 12-month Treasury bills ticked up approximately 30 bps to 0.60%.

Sector Performance

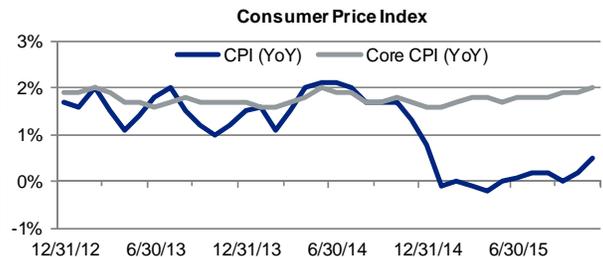
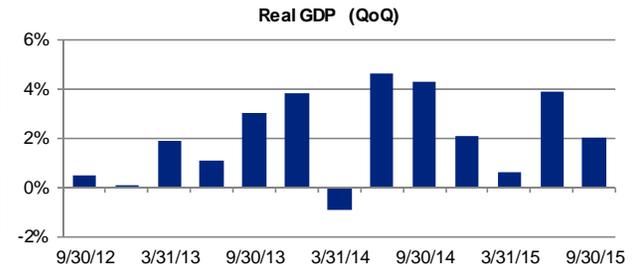
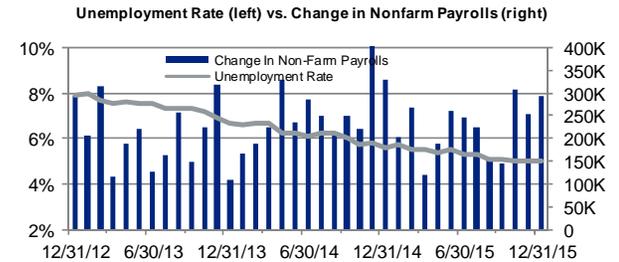
- U.S. Treasury benchmark returns were negative for all but the shortest maturities (six months and under), as rates rose across the curve. While the rate increase was less pronounced for longer maturities, their extended durations — and accompanying sensitivity to changes in rates — caused their performance to trail the greatest.
- Non-callable federal agency securities performed in line with comparable maturity Treasuries; callable securities modestly outperformed as their incremental yield helped as rates rose.
- Corporate yield spreads reversed the prior quarter’s widening, which helped the sector to outperform government-related sectors; however, absolute return was still negative. A-rated issuers were the best-performing quality category.
- Mortgage-backed securities (MBS) were among the strongest-performing sectors in the fourth quarter, aided by slowly rising long-term rates, which helped to slow prepayments; this was particularly true for higher coupon issues. MBS joined municipals as the lone sectors to produce positive performance for the quarter.

Economic Snapshot

Labor Market		Latest	Sep 2015	Dec 2014
Unemployment Rate	Dec'15	5.0%	5.1%	5.6%
Change In Non-Farm Payrolls	Dec'15	292,000	145,000	329,000
Average Hourly Earnings (YoY)	Dec'15	2.5%	2.3%	1.8%
Personal Income (YoY)	Nov15	4.4%	4.6%	5.2%
Initial Jobless Claims (week)	1/1/16	277,000	276,000	293,000

Growth				
Real GDP (QoQ SAAR)	2015Q3	2.0%	3.9% ¹	4.3% ²
GDP Personal Consumption (QoQ SAAR)	2015Q3	3.0%	3.6% ¹	3.5% ²
Retail Sales (YoY)	Nov15	1.4%	2.2%	3.3%
ISM Manufacturing Survey (month)	Dec'15	48.2	50.2	55.1
Existing Home Sales SAAR (month)	Nov15	4.76 mil.	5.55 mil.	5.07 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	Nov15	0.4%	0.2%	0.8%
Consumer Price Index (YoY)	Nov15	0.5%	0.0%	0.8%
Consumer Price Index Core (YoY)	Nov15	2.0%	1.9%	1.6%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$37.04	\$45.09	\$53.27
Gold Futures (oz.)	Dec 31	\$1,060	\$1,116	\$1,184



1. Data as of Second Quarter 2015

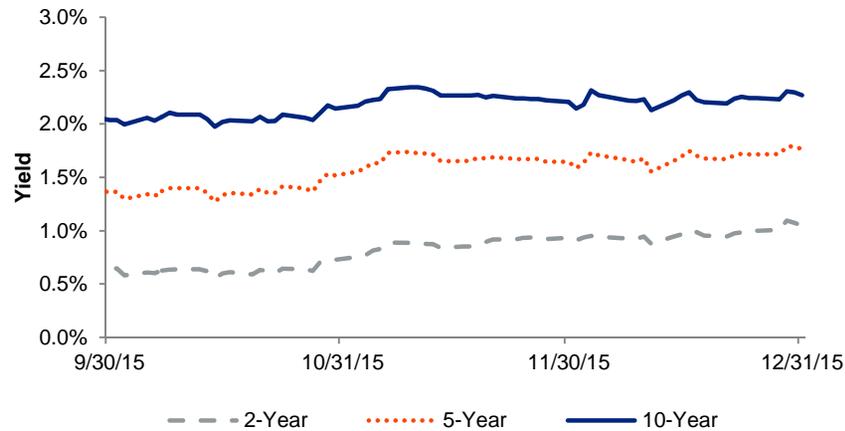
2. Data as of Third Quarter 2014

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

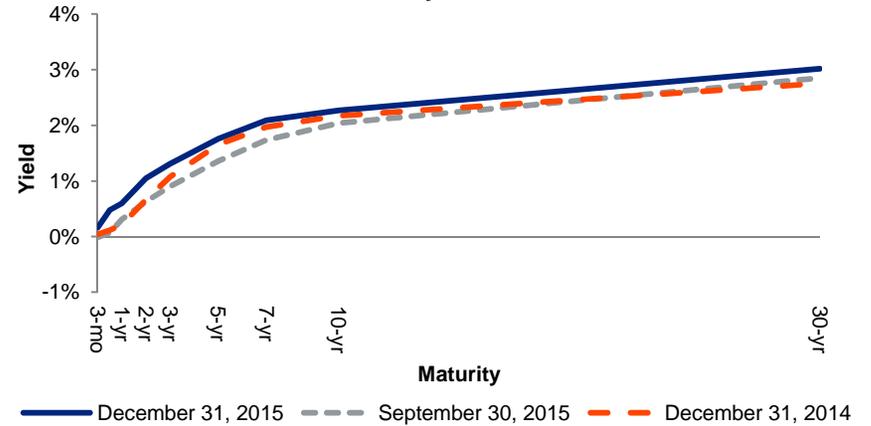
Source: Bloomberg

Investment Rate Overview

U.S. Treasury Note Yields



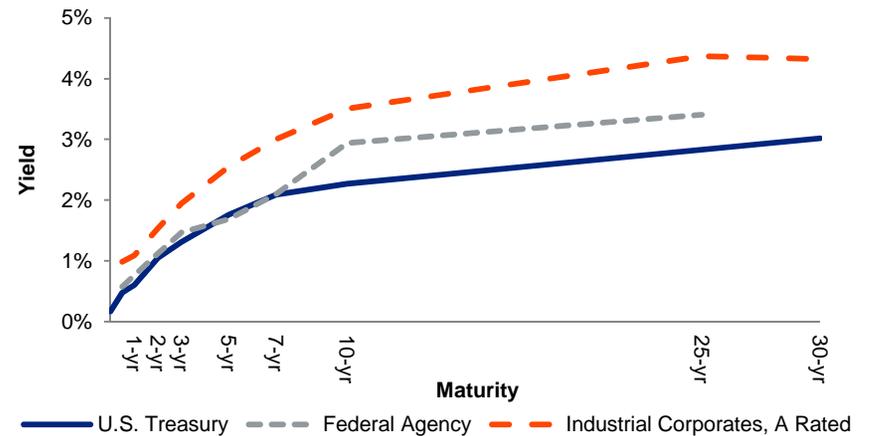
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	12/31/15	9/30/15	Change over Quarter	12/31/14	Change over Year
3-month	0.17%	(0.02%)	0.19%	0.04%	0.13%
1-year	0.60%	0.31%	0.29%	0.22%	0.38%
2-year	1.05%	0.63%	0.42%	0.67%	0.38%
5-year	1.76%	1.36%	0.40%	1.65%	0.11%
10-year	2.27%	2.04%	0.23%	2.17%	0.10%
30-year	3.02%	2.85%	0.17%	2.75%	0.27%

Yield Curves as of 12/31/2015



Source: Bloomberg

BofA Merrill Lynch Index Returns

	As of 12/31/2015		Returns for Periods ended 12/31/2015		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.87	1.06%	(0.44%)	0.54%	0.51%
Federal Agency	1.73	1.14%	(0.37%)	0.69%	0.61%
U.S. Corporates, A-AAA rated	1.90	1.82%	(0.05%)	1.16%	1.22%
Agency MBS (0 to 3 years)	1.89	1.46%	0.98%	1.68%	1.20%
Municipals	1.84	0.96%	(0.08%)	0.76%	0.85%
1-5 Year Indices					
U.S. Treasury	2.70	1.29%	(0.66%)	0.98%	0.67%
Federal Agency	2.20	1.31%	(0.49%)	0.97%	0.76%
U.S. Corporates, A-AAA rated	2.71	2.13%	(0.16%)	1.52%	1.59%
Agency MBS (0 to 5 years)	3.35	2.23%	0.16%	1.22%	1.69%
Municipals	2.52	1.15%	0.08%	1.20%	1.24%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.19	1.77%	(0.93%)	0.83%	1.09%
Federal Agency	3.75	1.69%	(0.65%)	0.99%	1.05%
U.S. Corporates, A-AAA rated	6.64	3.08%	(0.09%)	0.67%	1.97%
Agency MBS (0 to 30 years)	4.53	2.63%	(0.06%)	1.46%	2.00%
Municipals	6.74	2.34%	1.72%	3.55%	3.35%

Returns for periods greater than one year are annualized

Source: BofA Merrill Lynch Indices

Disclosures

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