



Essential Elements of a Successful Investment Program



PFM Asset Management LLC

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Investment Program Development Objectives

- 1) Create and Implement Sound Investment Policies
- 2) Determine the Investment Horizon
- 3) Understand and Implement Investment Performance Benchmarks
- 4) Developing an Investment Portfolio and Management Strategies
- 5) Track and Report Investments and Investment Earnings

Considerations for the Investment Program

- Florida Statutes
- GFOA Best Practices
- Association of Public Treasurers of the US & Canada
- Association of Financial Professionals
- CFA Institute
- GASB



1. Developing Investment Policies

Question

Florida State Statute requires you to have an investment policy?

True / False

Question

Which of the following factors should influence an entity's investment policy?

- a. Investment objectives
- b. Legal or internal restrictions
- c. Timing of cash flows
- d. All of the Above

Florida Statute 218.415 Local Government Investment Policies

Investment activity by a unit of local government must be consistent with a written investment plan adopted by the governing body, or in the absence of the existence of a governing body, the respective principal officer of the unit of local government and maintained by the unit of local government or, in the alternative, such activity must be conducted in accordance with subsection (17).

Any such unit of local government shall have an investment policy for any public funds in excess of the amounts needed to meet current expenses as provided in subsections (1)-(16), or shall meet the alternative investment guidelines contained in subsection (17).

Such policies shall be structured to place the **highest priority on the safety of principal and liquidity of funds**. The optimization of investment returns shall be secondary to the requirements for safety and liquidity. Each unit of local government shall adopt policies that are commensurate with the nature and size of the public funds within its custody.



Question

What are the permitted investments if you do not have an investment policy?

- a. Local Government Surplus Funds Trust Fund (SBA) or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act
- b. SEC Registered Money Market Funds
- c. Interest bearing time deposits or savings account in qualified public depositories
- d. Direct obligations of the U.S. Treasury
- e. All of the above

Question

Florida State Statute has specific limits for the overall Duration of your portfolio (e.g. 1-3 years)?

True / False


Question

Florida State Statute has specific limits on Credit Quality (e.g. AAA, AA, A)?

True / False

Question

A local government investment policy should include which of the following:

- a. List of portfolio holdings
- b. Reporting requirements
- c. Resumes of the investment staff
- d. Cash handling procedures
- e. Disbursement procedures

Key Components of an Investment Policy

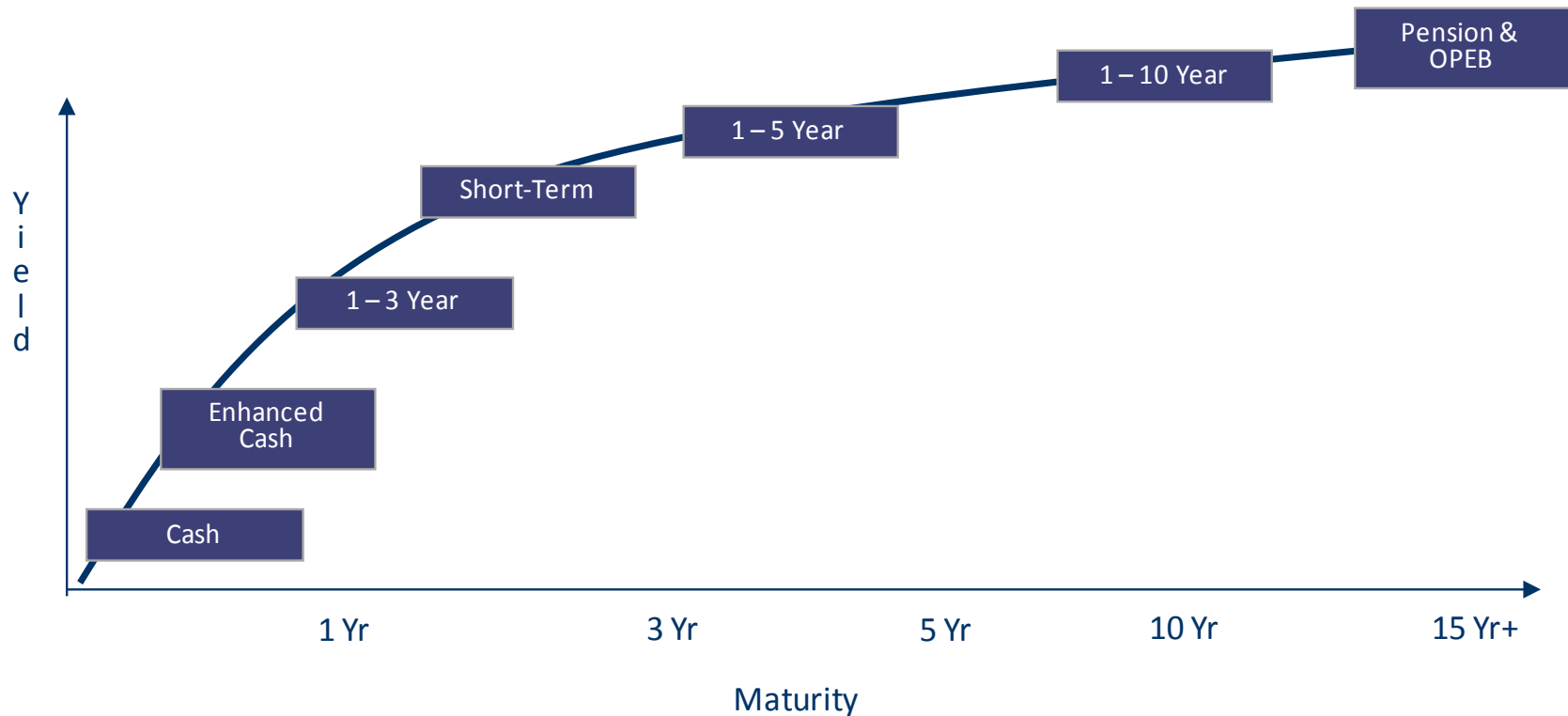
- I. Scope
- II. Investment Objectives
- III. Performance Measurement
- IV. Standards of Care
- V. Authorized Investments
- VI. Maturity & Liquidity
- VII. Authorized Financial Institutions
- VIII. Safekeeping & Custody
- IX. Bid Requirement
- X. Internal Controls
- XI. Continuing Education
- XII. Reporting Requirements

Key Points in Developing an Investment Policy

- Policy should be structured to place the highest priority on the:
 - Safety of principal
 - Liquidity of funds
- The optimization of Returns shall be secondary (yet important - maximize earnings that can be kept)
- Compliance with legal restrictions/regulations
- Flexibility
- Stability (Limited Volatility)
- Simplicity

2. Determining the Investment Horizon

Investment Horizons



Entity Type

- State & Local Governments
- Healthcare
- Higher Education
- Not-for-Profit
- Insurance

Fund Type

- Operating funds
- Capital & Reserves
- Core Fixed-Income
- Pension and OPEB
- Endowments & Foundation

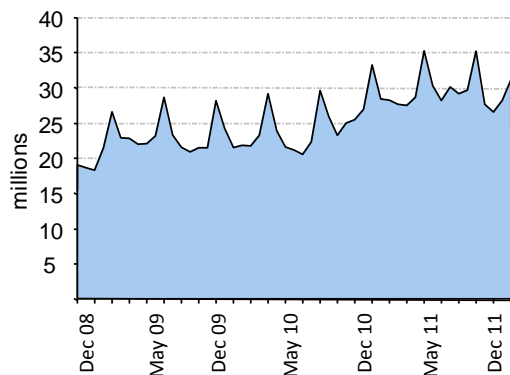
Benefits of a Cash Flow Analysis

- Important Component of an Effective Overall Investment Management Program
 - Determining Long Term versus Short Term Assets
- Better Understanding of Timing of Revenues and Expenditures
 - Results in more effective cash flow management, e.g. stretching out accounts payables and speeding up collection of receivable to finance part of the operations internally
- Better Investment Selection
 - Appropriate security selection
- Increase investment income
 - Amounts available for investment
 - Period of time to hold the investment



Cash Flow Analysis

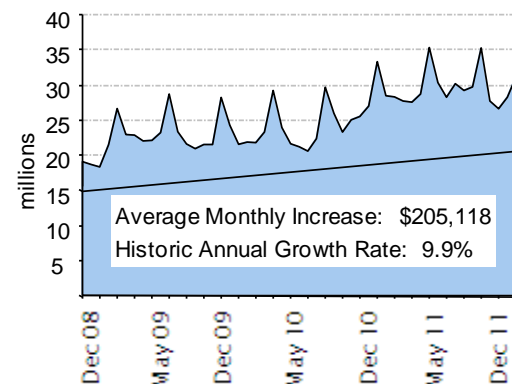
Step 1: Review Historic Balances



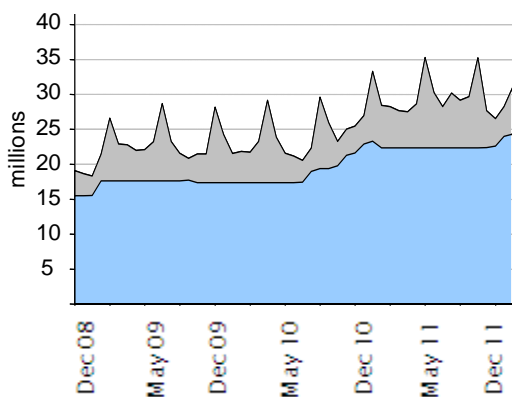
Step 2: Compute Seasonal Factors

Seasonal Factors	
January	94%
February	93%
March	94%
April	96%
May	116%
June	102%
July	96%
August	97%
September	96%
October	99%
November	118%
December	98%

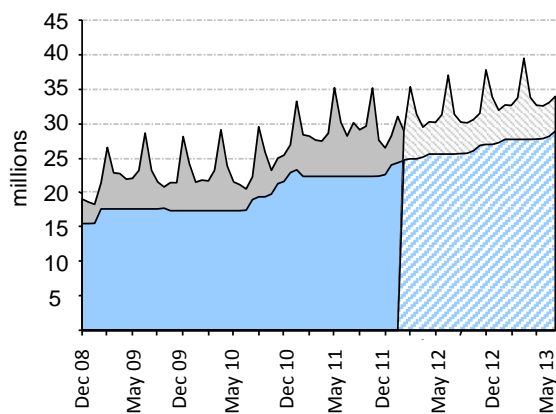
Step 3: Compute Growth



Step 4: Identify Core Portfolio



Step 5: Project Balances

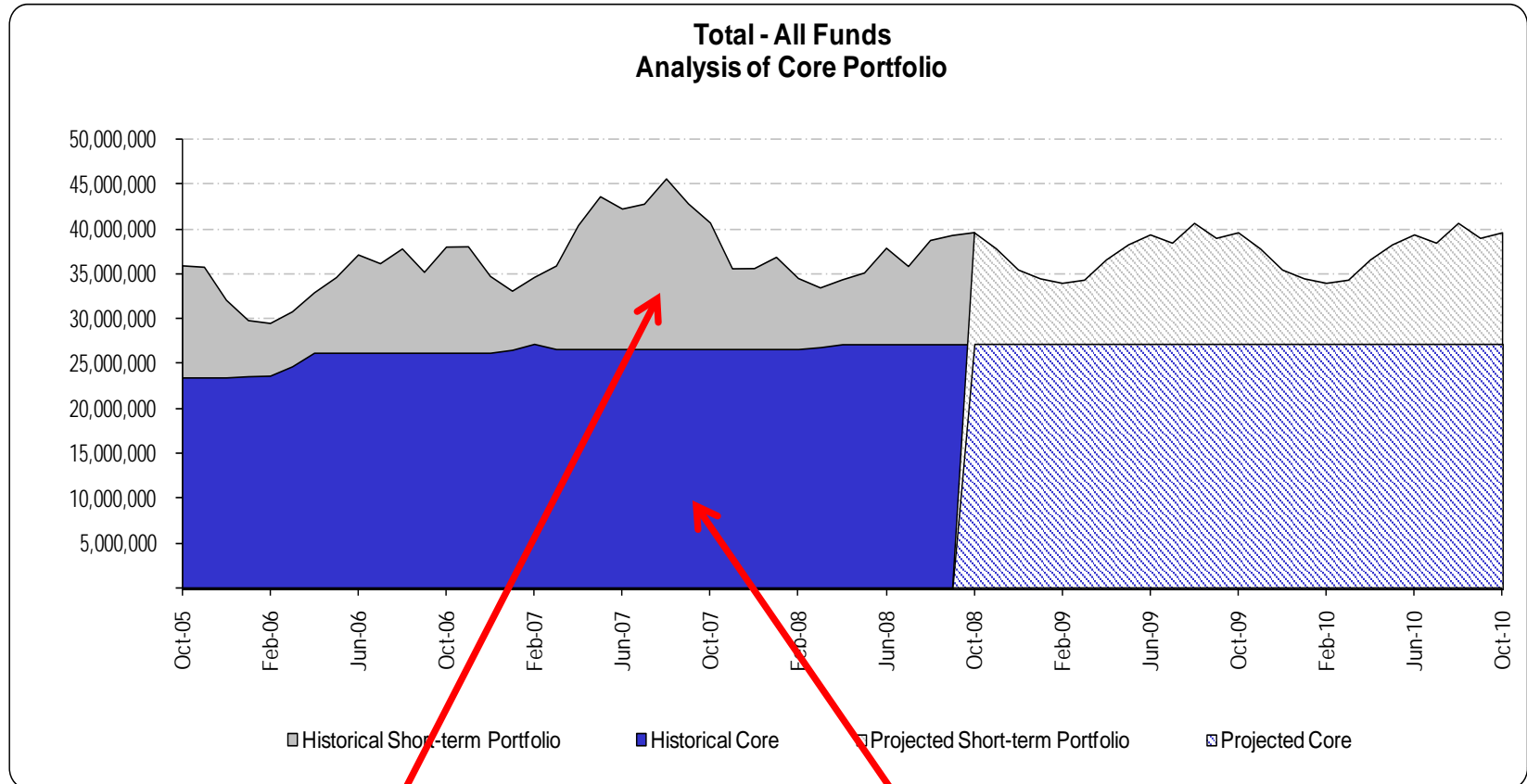


Step 6: Recommendations

The results of the Cash Flow analysis will help answer the following questions:

- How predictable are cash flows?
- Is there a statistically significant seasonal pattern?
- Is there a growth trend?
- What will the portfolio balance be during any month?
- How much is available for longer-term investment?
- How much money should remain in overnight or other highly liquid investments?

Components of Investment Assets



Short-term Portfolio

- Highly liquid funds
- Cover specific, predictable cash flows (i.e. payrolls, debt service)

Long-term ("Core") Portfolio

- Funds not expected to be spent
- Extraordinary circumstances
- Longer-term securities and higher expected return

3. Establishing Performance Benchmarks

The CFA Institute

- International, non-profit organization
- 120,000 investment practitioners in 142 countries
- Administers the Chartered Financial Analyst program
- Sponsors the Global Investment Performance Standards (GIPS)



Mission Statement

To lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

Why is GIPS® Good for Public Agencies?

The Standards provide assurance that a firm's presentation of investment performance is:

- Fairly presented
- Properly calculated
- Comparable across managers
- Of the highest professional standards

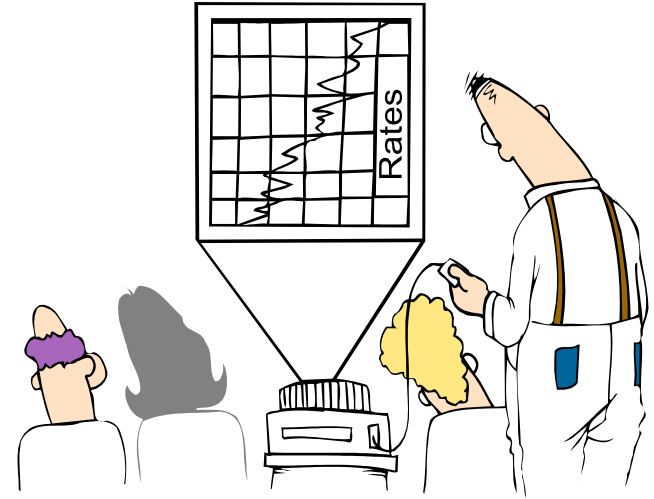


GIPS® Standards Requirements in 5 Key Areas

Key Area	Significant Requirements
Input Data	Portfolio valuations must be based on market values (not cost or book)
Calculation Methodology	Total Return must be used, including realized & unrealized gains and income
Composite Construction	All fee paying, discretionary portfolios must be in at least one composite
Disclosures	Statement of Official Compliance: <i>(FIRM) has prepared and presented this report in compliance with the Global Investment Performance Standards.</i>
Presentation & Reporting	<ul style="list-style-type: none"> • A minimum of 10 years of annual performance history • Annual returns for all years • The number of portfolios and amount of assets in the composite (or the percentage of the firm's total assets represented by the composite at the end of each period) • A measure of dispersion of individual component portfolios around the aggregate composite return

Total Return and Yield

- Returns shown could be:
 - Total Return
 - Yield
- **Returns** are retrospective
- **Yields** are prospective
- Total Return takes into account
 - interest earnings,
 - realized gains/losses, and
 - unrealized gains/losses



Question

A performance benchmark should not:

- a. reflect the composition of the portfolio
- b. be high just to give the portfolio manager something to strive for
- c. be an independent representation of the market
- d. accurately reflect the portfolio or strategy

Florida Statute 218.415

- (3) PERFORMANCE MEASUREMENT** – The investment policy shall specify performance measures as are appropriate for the nature and size of the public funds within the custody of the unit of local government.



Using Benchmarks in Portfolio Management

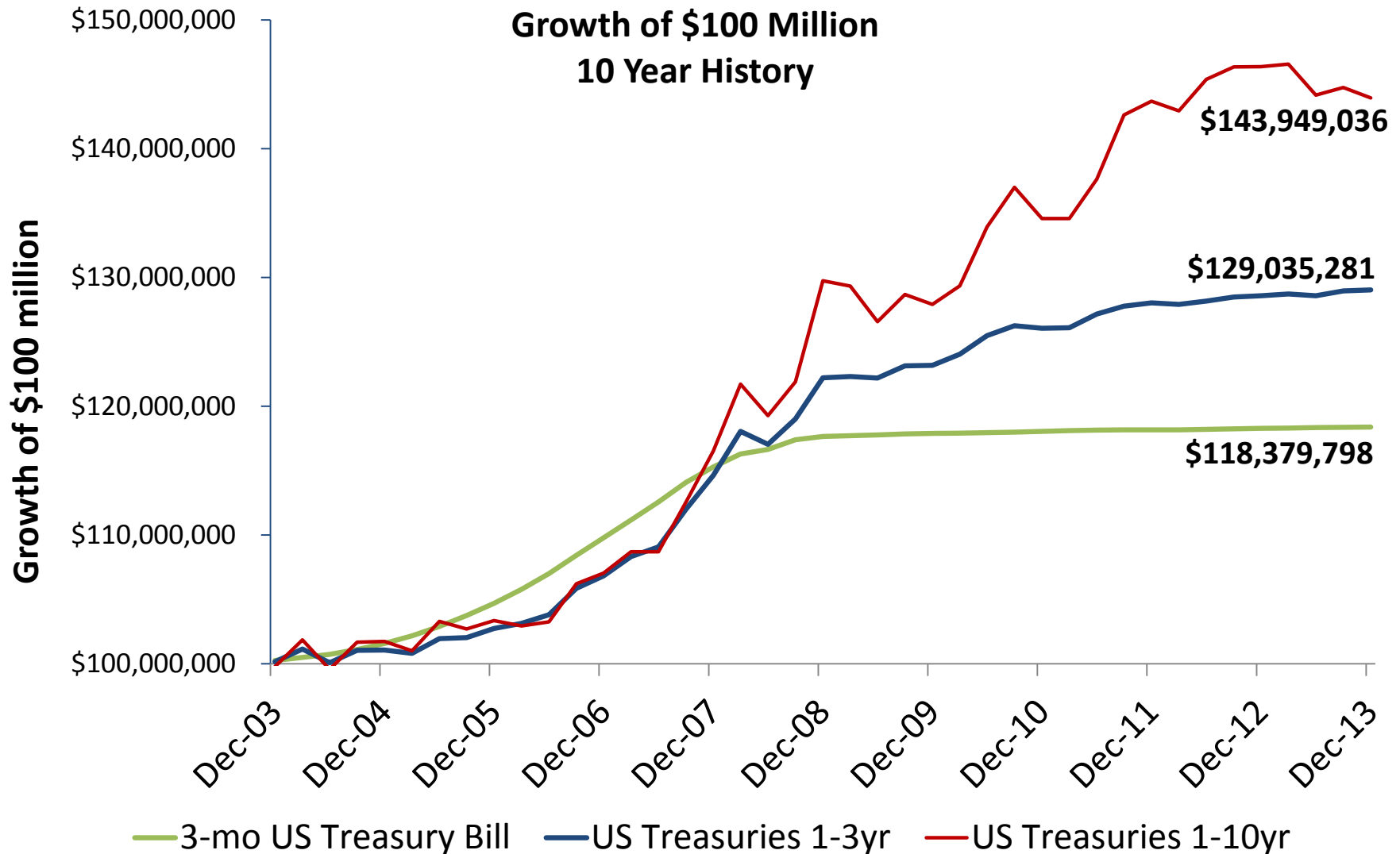
- **Comparability**
 - Close comparability between portfolio and selected benchmark
- **Identification and Explanation**
 - Specifically identified and explained before implementing the proposed portfolio strategy
- **Investable & Unambiguous**
 - Data should be available with the names and weights of the securities comprising the benchmark
- **Measurable**
 - The benchmark return should be readily available to compare portfolio performance

Typical Benchmarks* include:

- Merrill Lynch 1 Year T-Note Index
- Merrill Lynch 1-3 Year Treasury and Agency Index
- Merrill Lynch 1-5 Year Corporate and Government Index
- Barclays Capital 1-3 Year Government Index

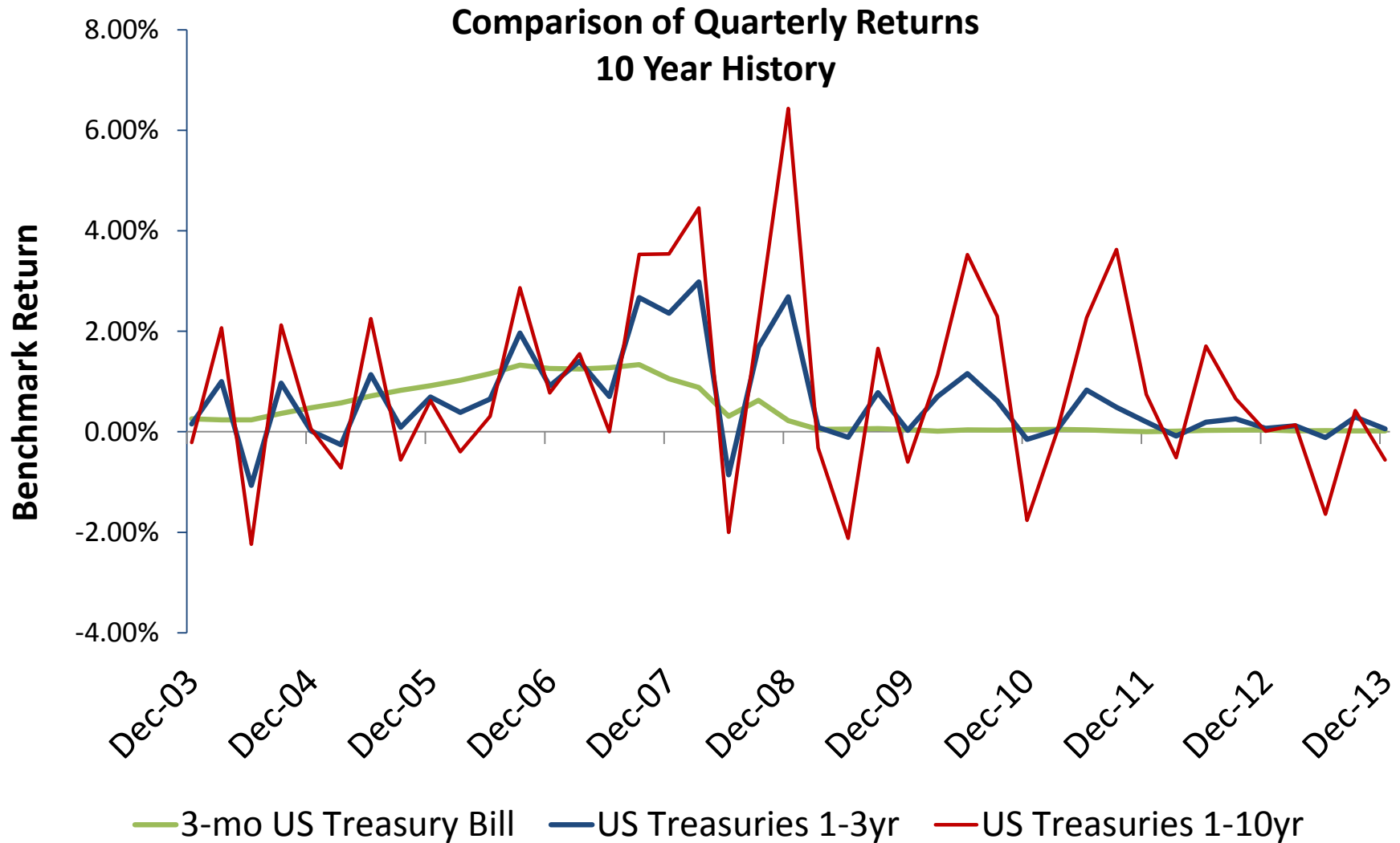
**This is a partial listing of available benchmarks*

Longer-Term Benchmark Provides Greater Expected Return in the Long-Term...



Source Bloomberg

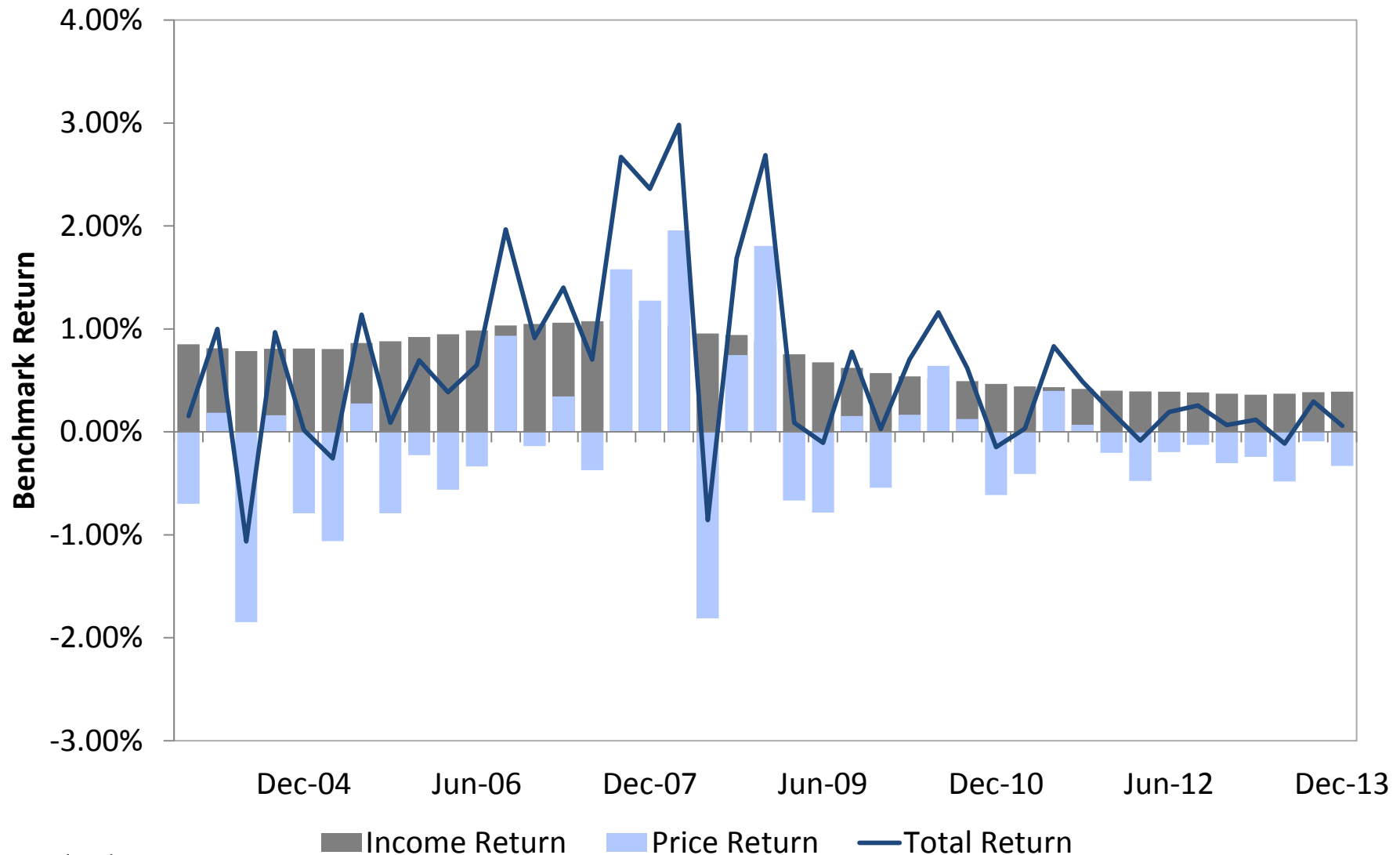
...Longer-Term Benchmark Also Provides Greater Volatility in the Short-Term



Source: Bloomberg

Historical Return Breakdown: Total Return

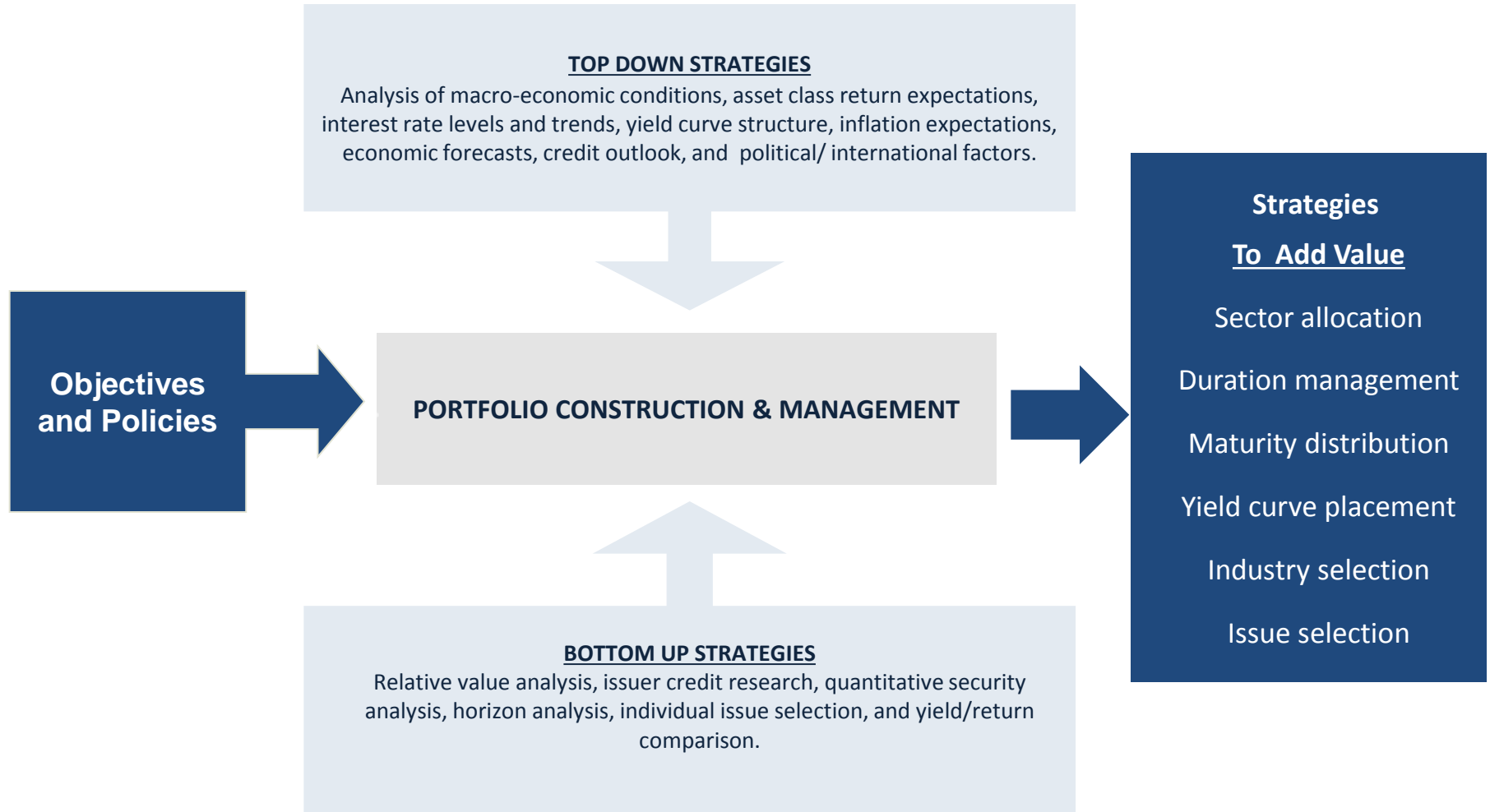
(1-3 Year BAML US Treasury Index – Quarterly Returns)



Source Bloomberg

4. Developing and Managing Portfolios

Overview of Investment Portfolio Management Process



Risk Management

Portfolio risk management

- Duration managed within defined bands
- Diligent, proactive credit process
- Credit monitoring tools for timely identification of emerging trends
- Regular sector/issuer exposure reviews
- Competitive bid process with aggressive price negotiation

Compliance

- Pre-trade and post-trade compliance checking
- Daily policy compliance check on every portfolio
- Comprehensive compliance policies and procedures
- Active, integrated Compliance Department
- Full transparency

“Pragmatic” Credit Process – More than Ratings

- Credit Committee: Responsible for developing and maintaining approved credit list
- Pragmatic approach that focuses on market events and security price tracking
- Early warning system drives proactive credit decisions

**Preliminary
Screening**

**General Market
Assessment**

**Issuer
Review**

**Approved
Issuer List**

Quantitative Analysis

- Balance sheet analysis
- Earnings: actual and projections
- Asset quality and impairments
- Price movement of fixed-income and equity securities
- Monitor credit default swap levels
- Trading volume
- Dividend and capital policies

Qualitative Analysis

- Industry trends
- Competitive environment
- Business cycle
- Corporate governance
- Regulatory environment
- Analysts' recommendations
- Rating agency actions
- News releases

Example of Active Credit Management

Quarter Ended	2006		2007				2008				2009				2010				2011			
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
American Express Credit	Approved	Approved	Approved	Approved	Hold	Approved	Approved	Approved	Hold	Hold	Hold	Removed	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved
Bank Of Nova Scotia	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved
Bear Stearns Co Inc	Approved	Approved	Approved	Approved	Hold	Hold	Removed	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved
BNP Paribas Finance Inc	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Hold	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved
Citigroup Funding Inc	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Approved	Hold	Removed	Approved
Danske Corporation	Approved	Approved	Approved	Approved	Hold	Approved	Approved	Approved	Hold	Approved	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Removed	Approved	Approved	Approved
Dexia Delaware LLC	Approved	Approved	Approved	Approved	Hold	Hold	Approved	Approved	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Removed	Approved	Approved	Approved
HSBC Finance Corp	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Hold	Hold	Removed	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved
Lehman Brothers	Approved	Approved	Approved	Approved	Hold	Hold	Hold	Hold	Hold	Removed	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved
Merrill Lynch & Co	Approved	Approved	Approved	Approved	Approved	Hold	Hold	Hold	Hold	Removed	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved
Rabobank USA Fin Corp	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Hold	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved
Royal Bank Of Canada	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Hold	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved
Societe Generale	Approved	Approved	Approved	Approved	Approved	Approved	Hold	Hold	Hold	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved
Toyota Motor Credit Corp	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Hold	Hold	Hold	Hold	Hold	Hold	Approved	Approved	Approved	Approved	Approved	Hold	Hold	Approved
Wal-Mart Stores Inc	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Hold	Hold	Hold	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved
Westpac Banking Corp	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved	Approved

Approved
Hold
Removed

Overview of Strategies

- Portfolio managers use a variety of strategies in order to earn the highest returns for client portfolios:
 - Buy and Hold
 - Active Management
 - Duration Management
 - Maturity Distribution - Ladder, Barbell or Bullet
 - Sector Allocation
 - Security Selection
- A benchmark is selected to monitor portfolio performance

Sector Allocation Strategy Minimizes Risk & Enhances Return

- Diversification
 - Concentration of funds in one sector may leave a portfolio vulnerable to unique sector risks



- Alter sector allocation to take advantage of spread changes
 - Purchase when spreads are high
 - Sell once spreads narrow

Fixed Income Sector Returns

Quarterly 1-3 Year Index Returns

Index / Ending Duration	06/30/10	09/30/10	12/31/10	03/31/11	06/30/11	09/30/11	12/31/11	03/31/12	06/30/12	09/30/12	12/31/12	03/31/13	06/30/13
U.S. Treasury / 1.89 Years	0.85%	2.28%	0.97%	1.00%	1.39%	0.76%	0.83%	2.28%	0.58%	1.91%	0.88%	0.76%	-0.11%
Bullet Agencies / 1.85 Years	0.60%	2.07%	0.60%	0.68%	1.08%	0.57%	0.62%	1.89%	0.39%	1.69%	0.50%	0.48%	-0.13%
Callable Agencies / 1.61 Years	0.59%	1.81%	0.17%	0.66%	1.07%	0.49%	0.40%	1.19%	0.36%	1.05%	0.31%	0.45%	-0.13%
Corp AAA / 2.10 Years	0.56%	1.34%	0.10%	0.61%	1.05%	0.48%	0.37%	0.76%	0.35%	0.91%	0.21%	0.35%	-0.17%
Corp AA / 1.99 Years	0.54%	0.70%	0.05%	0.42%	1.01%	0.42%	0.32%	0.43%	0.25%	0.88%	0.13%	0.29%	-0.18%
Corp A / 1.98 Years	0.50%	0.62%	-0.03%	0.30%	0.89%	0.17%	0.23%	0.42%	0.19%	0.33%	0.11%	0.12%	-0.20%
Corp BBB / 1.96 Years	0.43%	0.52%	-0.04%	0.14%	0.85%	-0.38%	0.20%	0.30%	0.19%	0.27%	0.07%	0.11%	-0.20%
MBS 0 - 3 / 1.69 Years	0.24%	0.52%	-0.15%	0.13%	0.83%	-0.68%	0.18%	0.21%	0.19%	0.26%	0.02%	0.09%	-0.25%
Municipals / 1.77 Years	0.14%	0.20%	-0.37%	0.03%	0.66%	-0.72%	-0.23%	-0.08%	0.16%	0.17%	-0.31%	0.01%	-1.00%

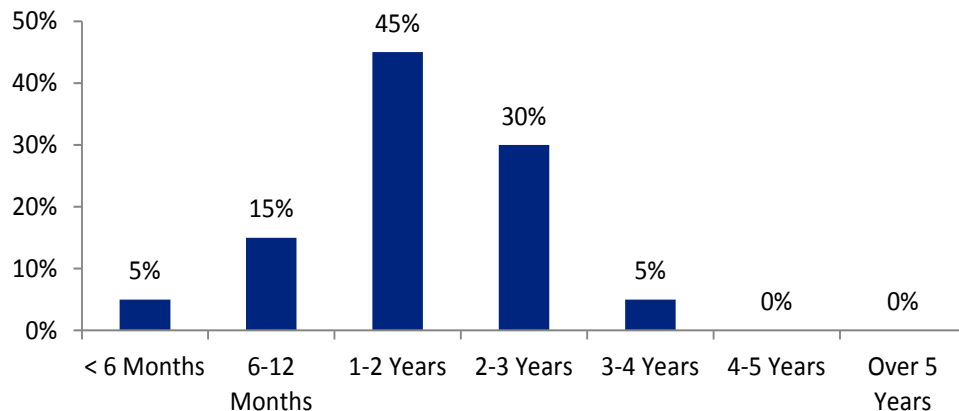
Source: BofA Merrill Lynch Indices

Sample Portfolio

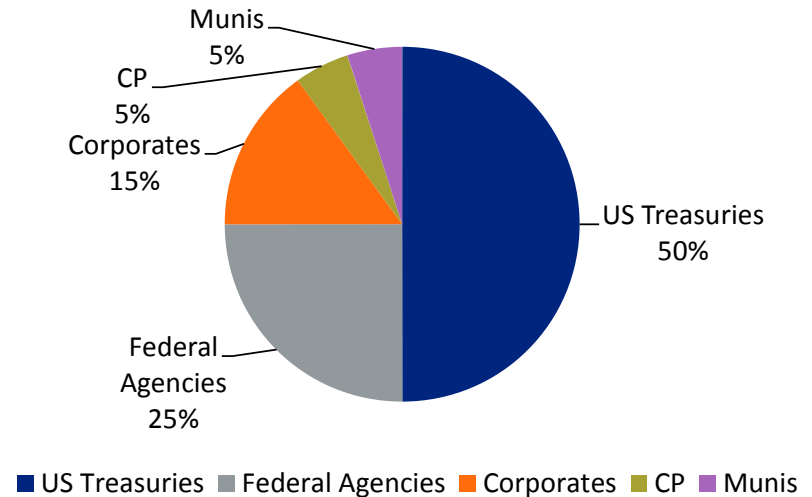
Summary Characteristics

Strategy	1-3 Year Government / Minimum "A"- Rated Corporate
Size	\$50 Million
Yield to Maturity at Market	0.47%
Effective Duration	1.69 Years
Average Credit Quality	AA+

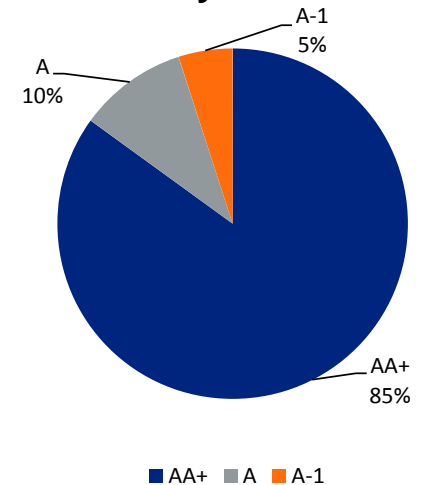
Portfolio Maturity Distribution



Portfolio Composition



Credit Quality Distribution



Trading

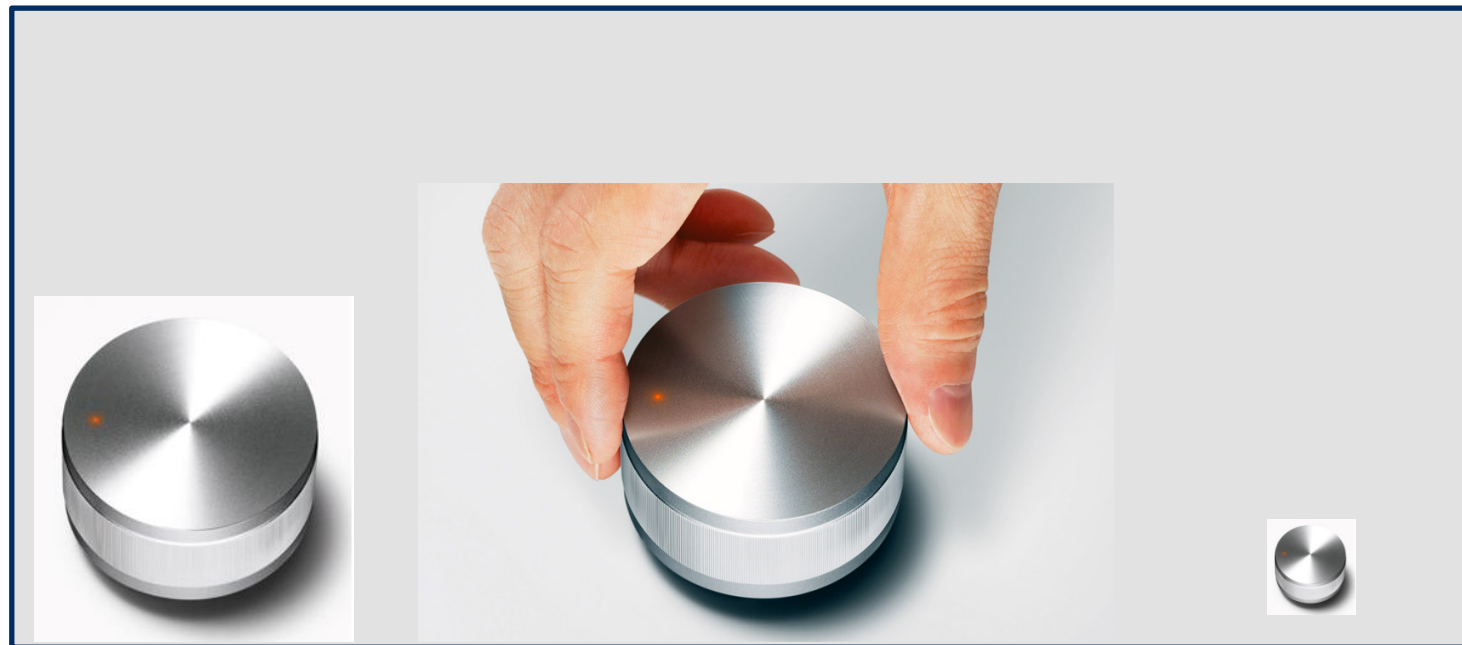
- Need for periodic rebalancing
 - passage of time
 - changing interest rates
 - actuarial assumptions
- To generate incremental income
- To enhance total return



Dialing Up Risks (and Reward)

There are three main drivers of portfolio performance for short to intermediate term core portfolios

Portfolio Manager Investment Decisions

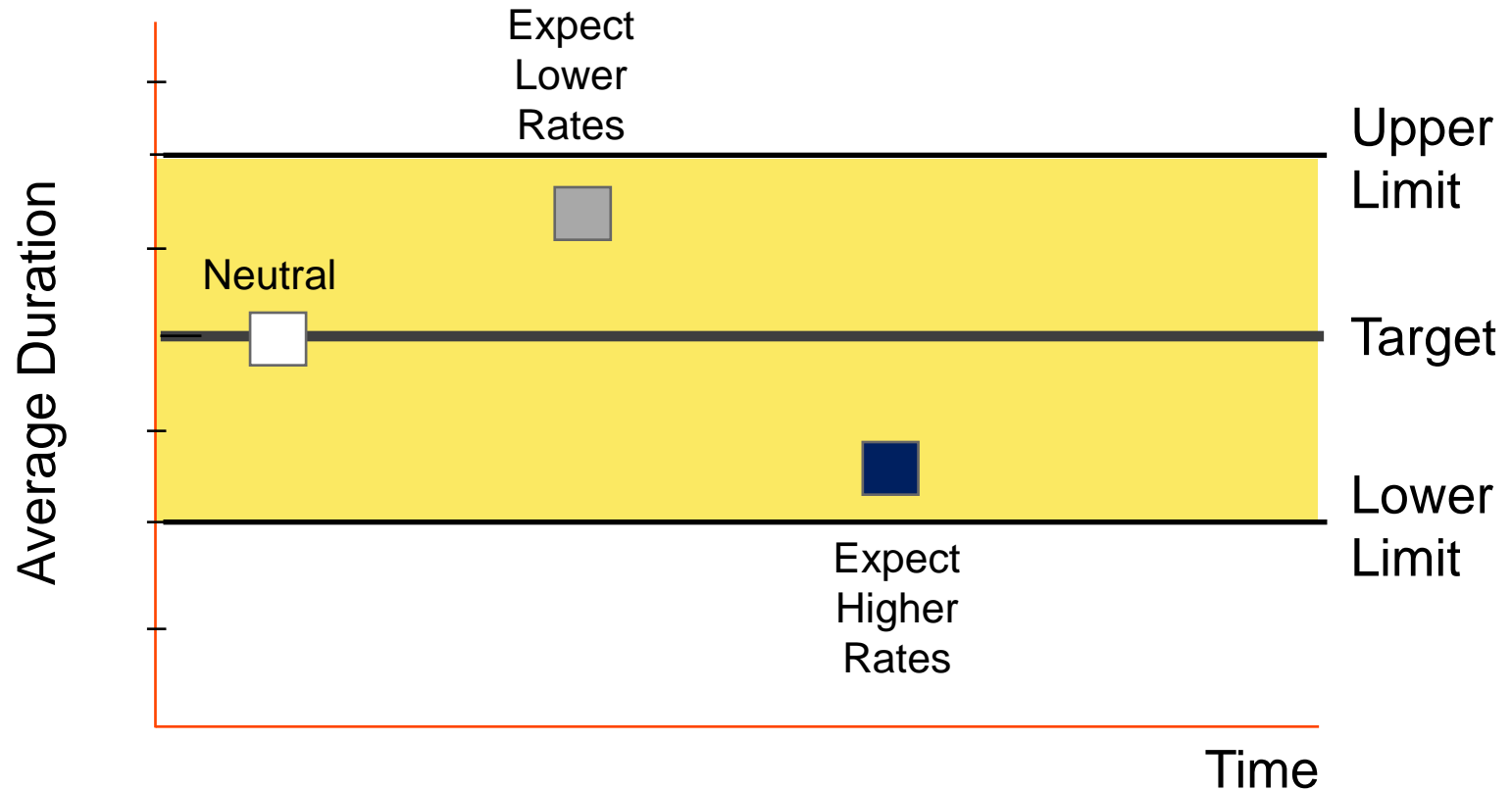


**Sector
Allocation**

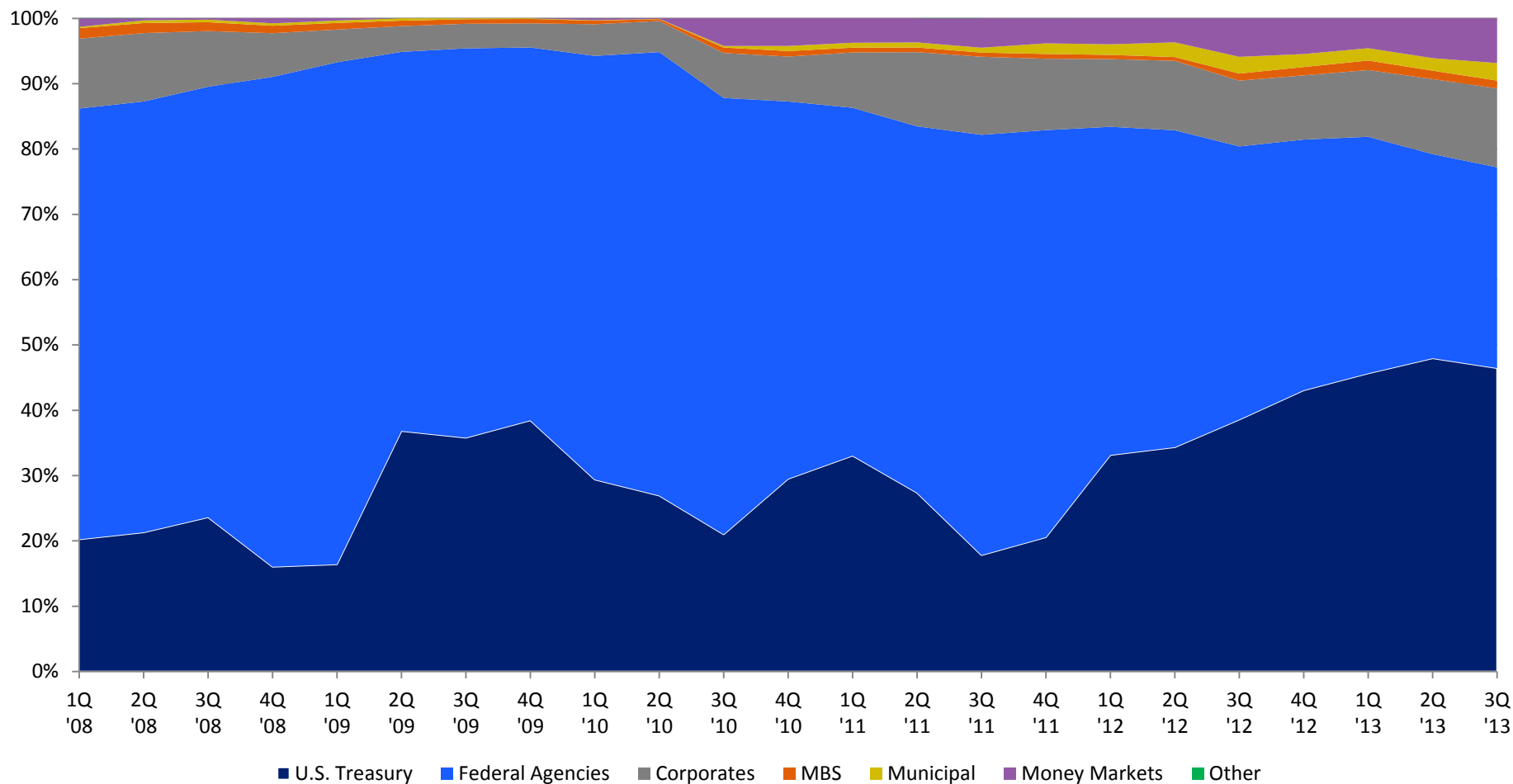
Duration

**Individual
Security
Selection**

Active Duration Management

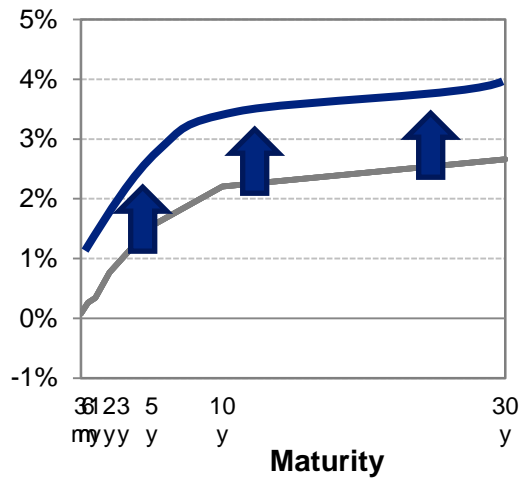


Relative Value Sector Allocation Over Time

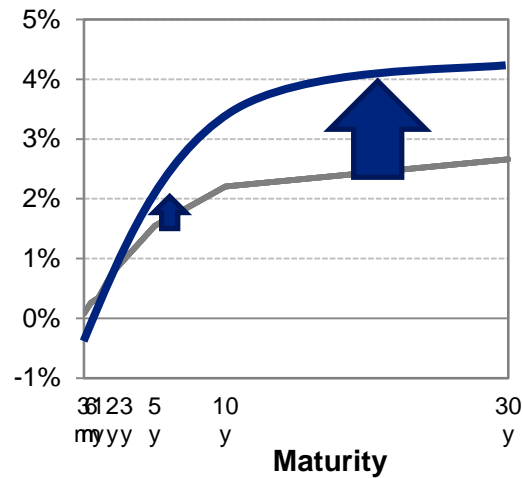


Yield Curve Shape Variability

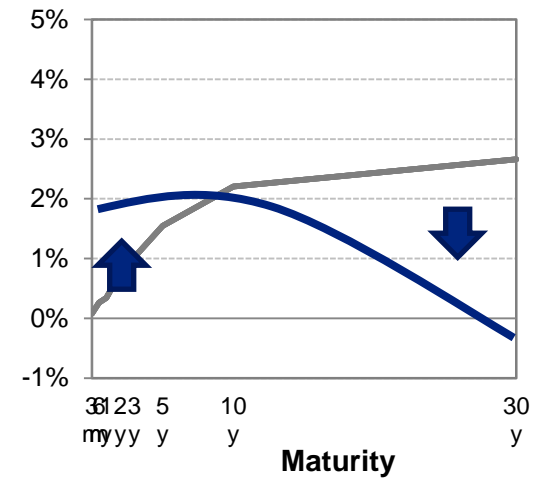
Parallel Shift



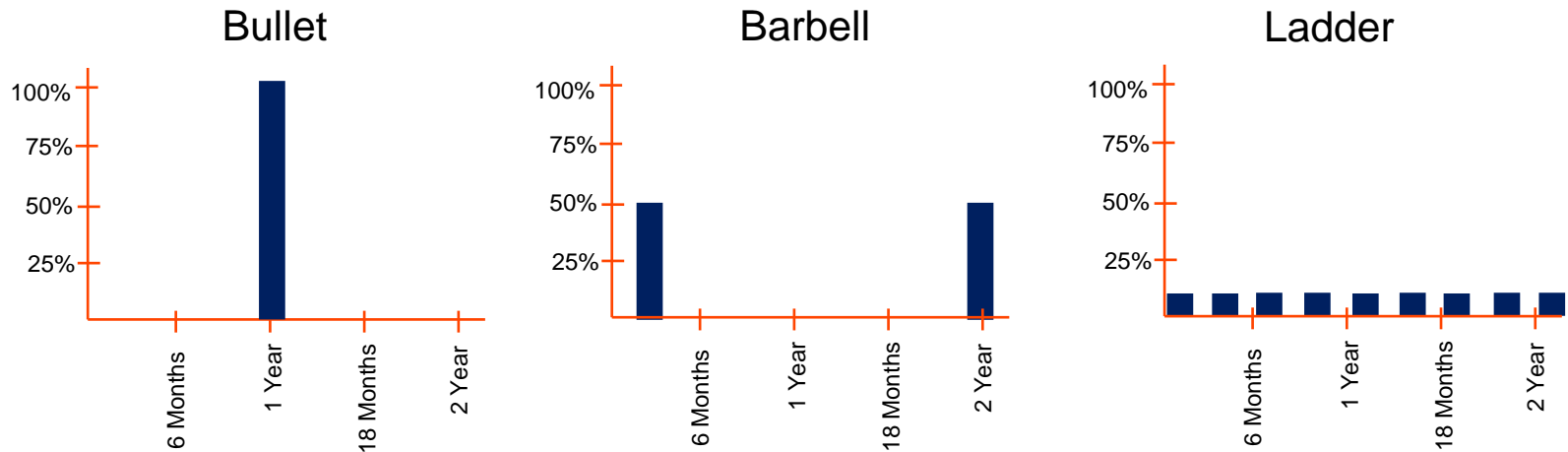
Non-Parallel Shift



Twist



Maturity Distribution Strategies

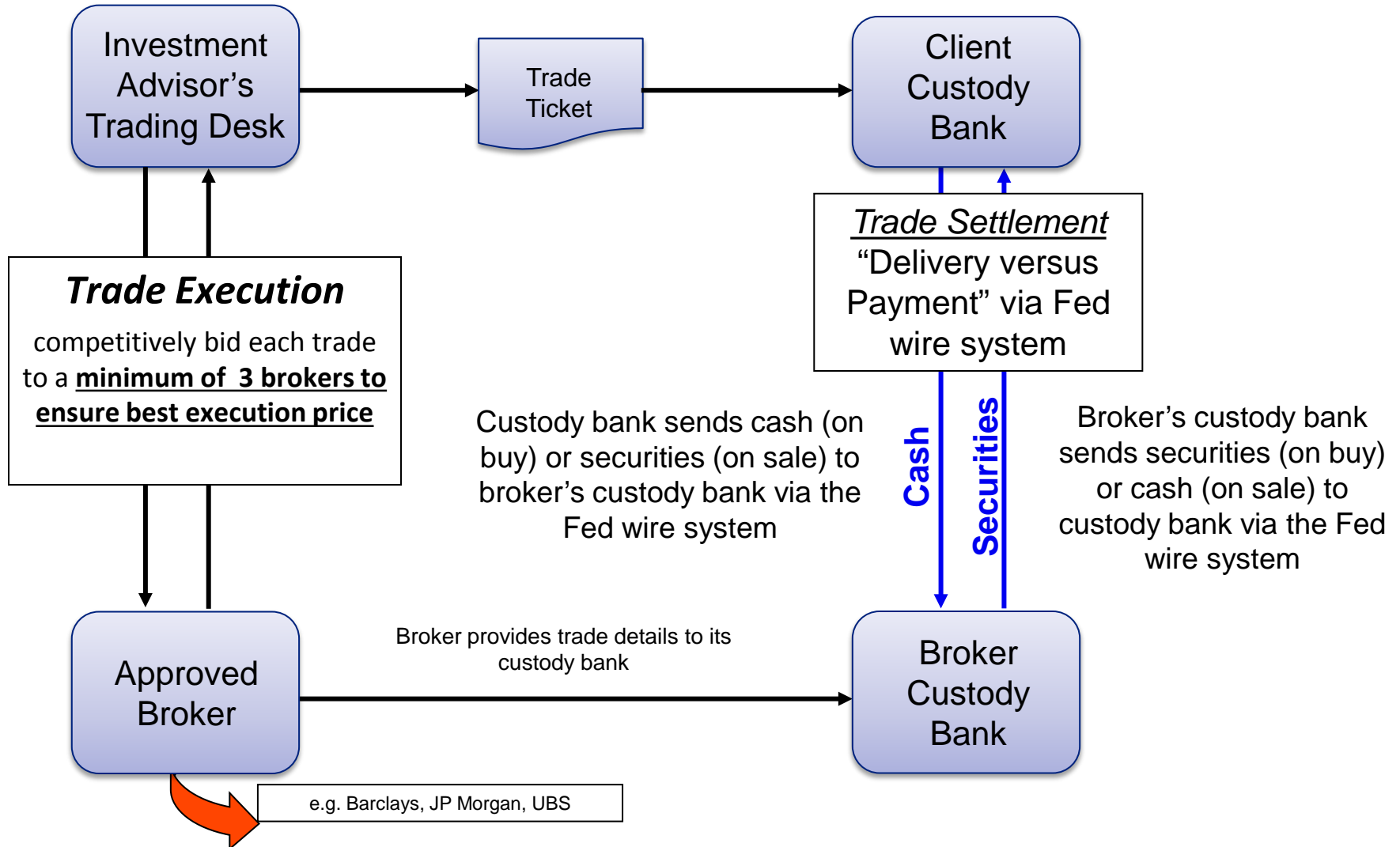


- **Bullet Portfolio**
 - Single maturity to meet an expected future liability
- **Barbell Portfolio**
 - Short and long term investment maturities, typically used in low interest rate environments to maintain liquidity while earning higher yields further out on the yield curve
- **Ladder Portfolio**
 - Evenly spaced investment maturities to minimize loss due to interest rate changes

Competitively Shop Around!

Broker	Price (32nds)	Price (decimal)	Yield	Cost (\$)	Difference (\$)
Barclays	116-08 5/8	116.27	1.044%	8,364,294.34	-
Merrill Lynch	116-08 5/8	116.27	1.044%	8,364,294.34	-
BNP Paribas	116-09	116.28	1.042%	8,365,126.37	832.03
JP Morgan Chase	116-09 1/8	116.29	1.041%	8,365,403.71	1,109.37
Deutsche Bank	116-17 7/8	116.56	0.986%	8,384,817.78	20,523.44

Transaction Process - Delivery versus Payment



5. Reporting

Reporting Securities Holdings

Regular reporting of securities holdings is required by the investment policy



Managed Account Detail of Securities Held

For the Month Ending March 31, 2013

Sample Client - Investment Portfolio

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
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 04/15/2011 1.250% 04/15/2014	912828QC7	2,000,000.00	AA+	Aaa	04/29/11	05/02/11	2,014,687.50	1.00	11,538.46	2,005,213.82	2,022,188.00
US TREASURY NOTES DTD 05/16/2011 1.000% 05/15/2014	912828QM5	1,960,000.00	AA+	Aaa	03/27/12	03/29/12	1,985,878.13	0.38	7,417.68	1,973,657.44	1,977,839.92
US TREASURY NOTES DTD 10/17/2011 0.500% 10/15/2014	912828RL6	2,210,000.00	AA+	Aaa	10/27/11	10/31/11	2,210,949.61	0.49	5,100.00	2,210,496.15	2,219,323.99
US TREASURY NOTES DTD 12/15/2011 0.250% 12/15/2014	912828RV4	3,070,000.00	AA+	Aaa	01/05/12	01/06/12	3,057,288.28	0.39	2,256.11	3,062,606.21	3,071,200.37
	912828SE1	1,405,000.00	AA+	Aaa	02/22/12	02/27/12	1,397,481.06	0.43	436.64	1,400,235.84	1,404,945.12
	912828SK7	630,000.00	AA+	Aaa	03/13/12	03/15/12	627,883.59	0.49	109.14	628,618.18	631,501.29
	912828SK7	2,980,000.00	AA+	Aaa	06/27/12	06/29/12	2,977,322.66	0.41	516.24	2,978,069.20	2,987,101.34
	912828NZ9	300,000.00	AA+	Aaa	09/06/12	09/10/12	308,250.00	0.34	10.25	306,751.21	307,054.80
	912828NZ9	3,200,000.00	AA+	Aaa	08/29/12	08/30/12	3,285,125.00	0.38	109.29	3,268,993.50	3,275,251.20
US TREASURY NOTES DTD 11/01/2010 1.250% 10/31/2015	912828PE4	3,195,000.00	AA+	Aaa	11/29/12	12/05/12	3,279,118.36	0.34	16,769.34	3,269,795.37	3,271,130.46
US TREASURY NOTES DTD 11/30/2010 1.375% 11/30/2015	912828PJ3	4,800,000.00	AA+	Aaa	11/01/12	11/05/12	4,942,312.50	0.40	22,120.88	4,923,697.15	4,932,748.80
US TREASURY NOTES DTD 01/15/2013 0.375% 01/15/2016	912828UG3	530,000.00	AA+	Aaa	01/30/13	02/04/13	529,275.39	0.42	417.27	529,313.28	530,538.48
US TREASURY N/B DTD 05/02/2011 2.000% 04/30/2016	912828QF0	3,325,000.00	AA+	Aaa	03/27/13	04/01/13	3,489,951.17	0.38	27,922.65	3,489,951.17	3,489,431.23
Security Type Sub-Total		29,605,000.00					30,105,523.25	0.44	94,723.95	30,047,398.52	30,120,255.00

Detailed information describing the securities as well as purchase information and market values

Reporting Portfolio Transaction Activity

All transactions related to securities that occurred during the month should also be reported on a regular basis to show and monitor trading activity



Managed Account Security Transactions & Interest

For the Month Ending March 31, 2013

Sample Client - Investment Portfolio

Transaction Type	Trade	Settle	Security Description	CUSIP	Par	Principal Proceeds	Accrued Interest	Total	Realized G/L Cost	Realized G/L Amort Cost	Sale Method				
BUY															
03/01/13	03/06/13		TOYOTA MOTOR CREDIT CORP DTD 02/17/2012 1.000% 02/17/2015	89233P5Z5	1,825,000.00	(1,841,589.25)	(963.19)	(1,842,552.44)							
03/27/13	04/01/13		US TREASURY N/B DTD 05/02/2011 2.000% 04/30/2016	912828QF0	3,325,000.00	(3,489,951.17)	(27,922.65)	(3,517,873.82)							
Transaction Type Sub-Total					5,150,000.00	(5,331,540.42)	(28,885.84)	(5,360,426.26)							
INTEREST							Transaction activity includes interest payments, buys, sells, and maturities along with any realized gains or losses								
03/01/13	03/01/13		MONEY MARKET FUND	MONEY0002	0.00	0.00									
03/04/13	03/04/13		GENERAL ELEC CAP CORP (FLOATING) DTD 06/02/2011 0.917% 06/02/2014	36962G5E0	1,550,000.00	0.00									
03/15/13	03/15/13		US TREASURY NOTES DTD 03/15/2012 0.375% 03/15/2015	912828SK7	2,980,000.00	0.00									
03/15/13	03/15/13		US TREASURY NOTES DTD 03/15/2012 0.375% 03/15/2015	912828SK7	630,000.00	0.00									
03/19/13	03/19/13		FHLMC NOTES DTD 08/12/2011 0.500% 09/19/2014	3134G2YJ5	4,040,000.00	0.00						1			
03/19/13	03/19/13		FHLMC NOTES DTD 08/12/2011 0.500% 09/19/2014	3134G2YJ5	3,960,000.00	0.00									
03/22/13	03/22/13		FREDDIE MAC GLOBAL NOTES DTD 08/05/2011 0.750% 09/22/2014	3134G2WG3	3,600,000.00	0.00						1			
03/30/13	03/30/13		FANNIE MAE GLOBAL NOTES DTD 02/15/2013 0.500% 03/30/2016	3135G0VA8	1,820,000.00	0.00						1,137.50	1,137.50		
03/31/13	03/31/13		US TREASURY NOTES DTD 09/30/2010 1.250% 09/30/2015	912828NZ9	3,200,000.00	0.00						20,000.00	20,000.00		
03/31/13	03/31/13		US TREASURY NOTES DTD 09/30/2010 1.250% 09/30/2015	912828NZ9	300,000.00	0.00	1,875.00	1,875.00							
Transaction Type Sub-Total					22,080,000.00	0.00	67,903.99	67,903.99							
SELL															
03/01/13	03/06/13		US TREASURY NOTES DTD 02/15/2012 0.250% 02/15/2015	912828E1	1,835,000.00	1,835,286.72	240.78	1,835,527.50	10,106.84	6,746.38	SPEC LOT				

Transaction activity includes interest payments, buys, sells, and maturities along with any realized gains or losses

Quarterly Performance Reporting

Sample Portfolio Performance

Total Portfolio Value		March 31, 2013	December 31, 2012
Market Value		\$83,928,698.91	\$83,381,512.65
Amortized Cost		\$83,595,459.42	\$82,974,541.23

Total Return	Quarterly Return March 31, 2013	Calendar Year to Date	Last 12 Months	Last 2 Years	Last 7 Years	Since Inception on 12/31/98
Sample Portfolio	0.12%	0.12%	0.77%	1.27%	3.55%	3.90%
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.12%	0.12%	0.64%	1.03%	3.21%	3.66%

Effective Duration (Years)

Sample Portfolio
Merrill Lynch 1-3 Year U.S. Treasury
Portfolio Duration % of Benchmark

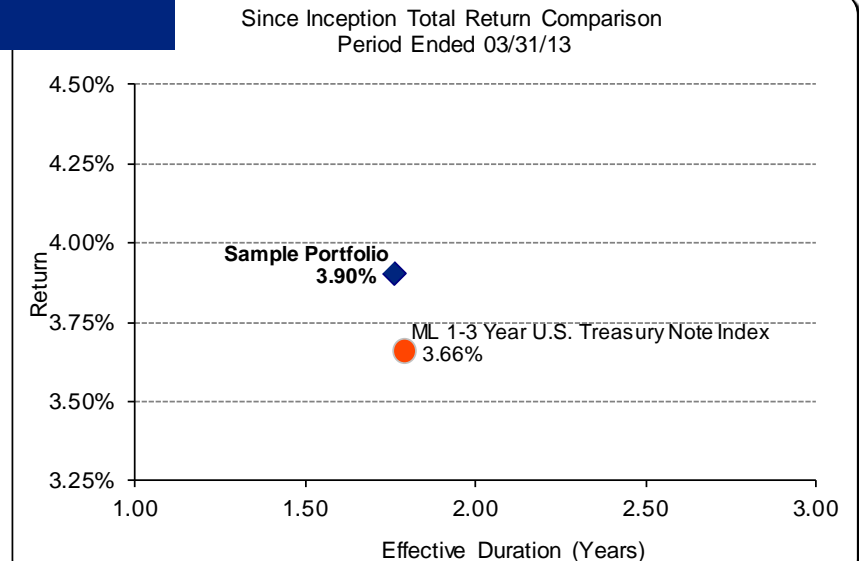
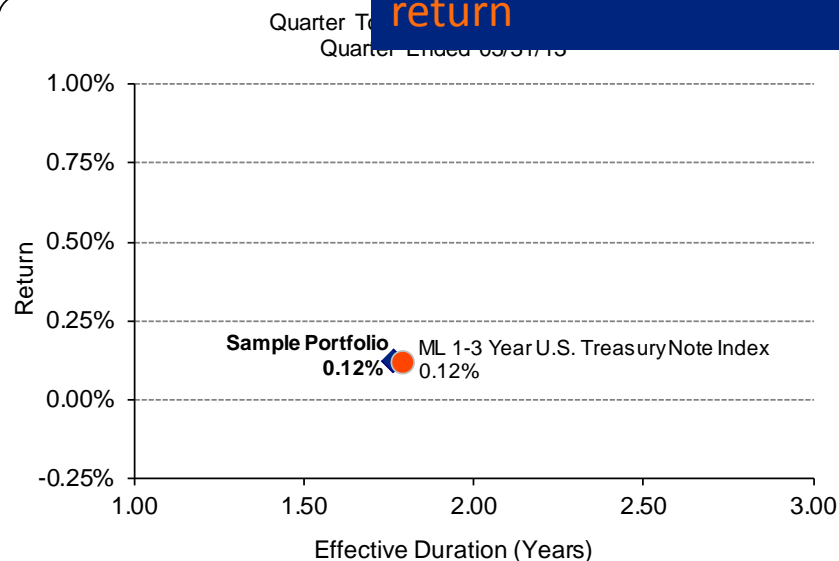
March 31, 2013 December 31, 2012

Yields

Yield at Market
Yield at Cost

	March 31, 2013	December 31, 2012
Yield at Market	0.30%	0.30%
Yield at Cost	0.62%	0.65%

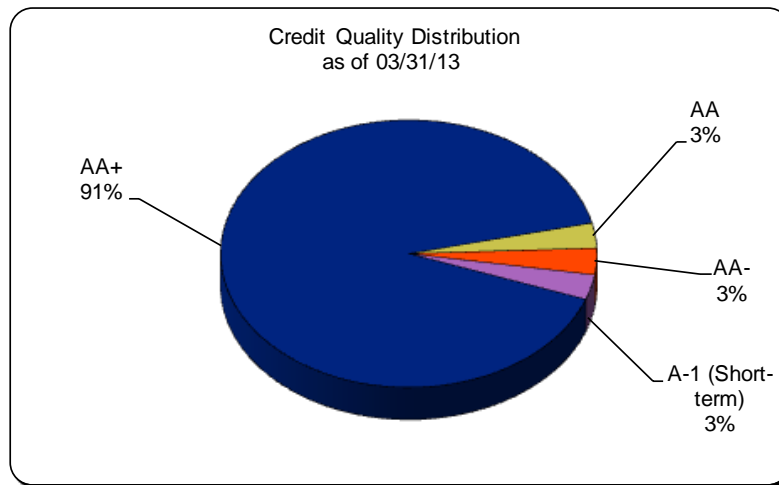
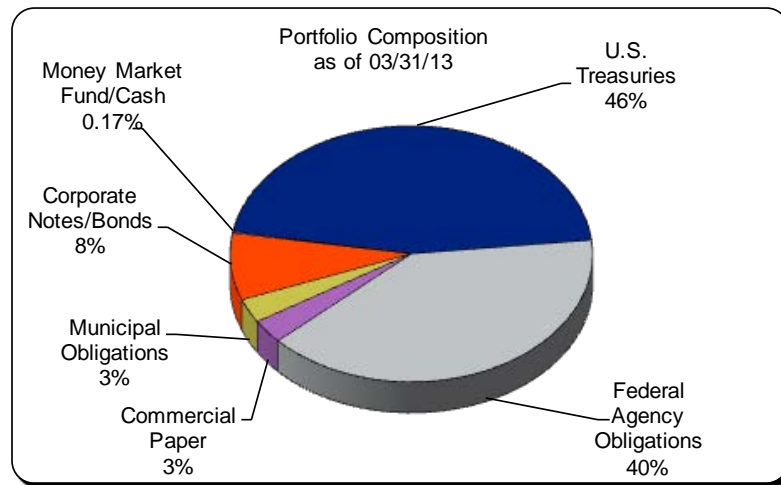
Total return and yield are the two common measures of return



Portfolio Characteristics

Sample Portfolio Composition and Credit Quality Characteristics

<u>Security Type</u>	<u>March 31, 2013</u>	<u>% of Portfolio</u>	<u>December 31, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$38,199,468.46	45.5%	\$37,823,518.07	45.4%
Federal Agencies	33,426,813.80	39.8%	36,041,870.82	43.2%
Commercial Paper	2,529,592.67	3.0%	2,527,697.70	3.0%
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	2,539,650.00	3.0%	2,534,600.00	3.0%
Corporate Notes/Bonds	7,089,720.32	8.4%	4,453,826.06	5.3%
Corporate Notes/Bonds - FDIC Insured	0.00	0.0%	0.00	0.0%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	143,453.66	0.2%	0.00	0.0%
Totals	\$83,928,698.91	100.0%	\$83,381,512.65	100.0%



Duration Comparison

Sample Portfolio Performance

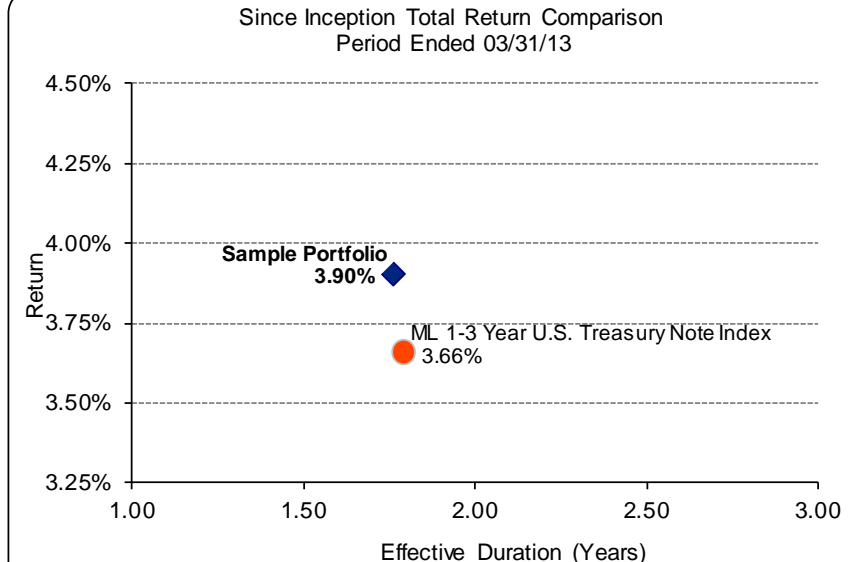
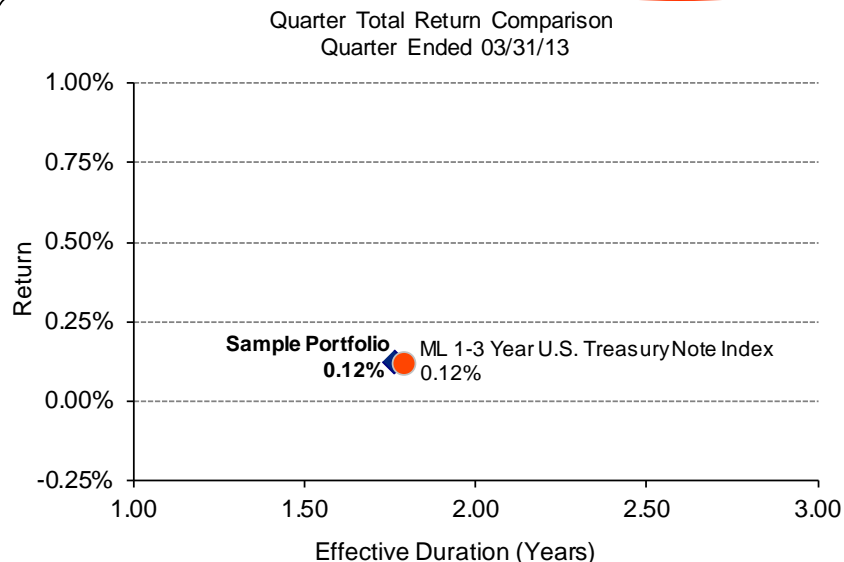
Total Portfolio Value		March 31, 2013	December 31, 2012
Market Value		\$83,928,698.91	\$83,381,512.65
Amortized Cost		\$83,595,459.42	\$82,974,541.23

Total Return	Quarterly Return March 31, 2013	Calendar Year to Date
Sample Portfolio	0.12%	0.12%
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.12%	0.12%

Effective Duration (Years)	March 31, 2013	December 31, 2012
Sample Portfolio	1.76	1.82
Merrill Lynch 1-3 Year U.S. Treasury Note Index	1.79	1.80
Portfolio Duration % of Benchmark Duration	98%	101%

Comparing portfolio duration to prior period and benchmarks shows changing and relative risk level

Yields	March 31, 2013	December 31, 2012
Yield at Market	0.30%	0.30%
Yield at Cost	0.62%	0.65%

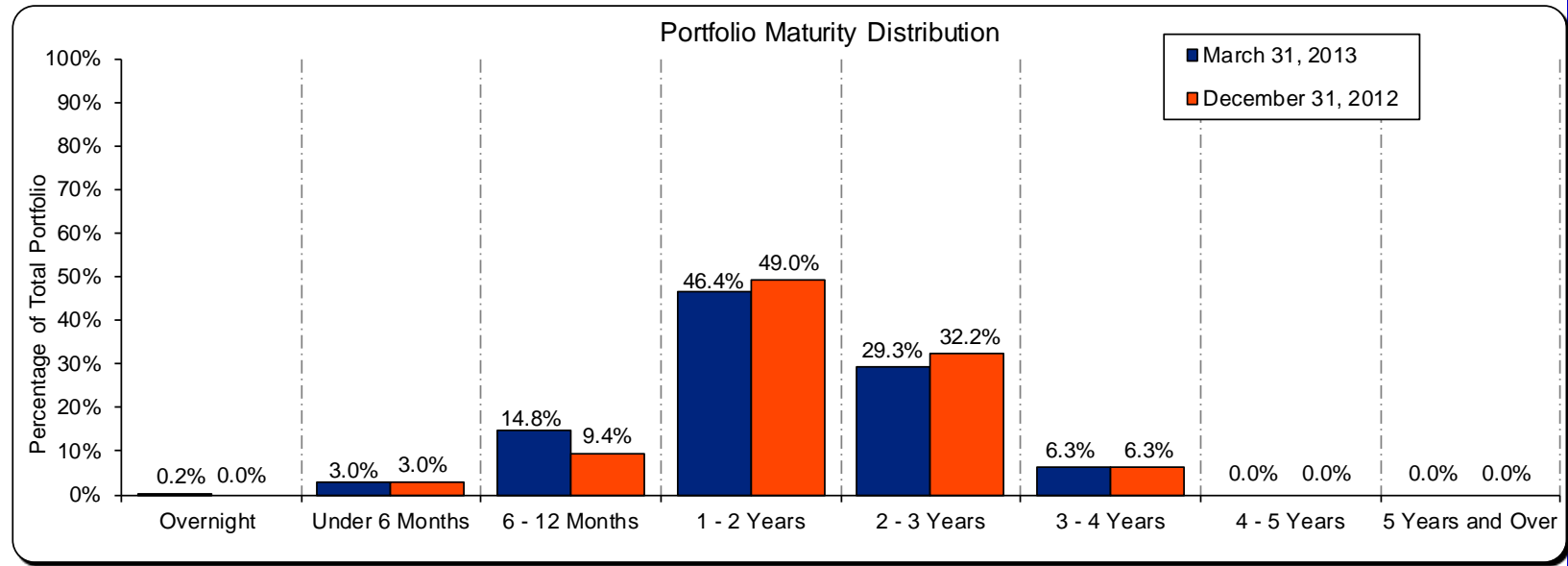


Portfolio Characteristics: Maturity

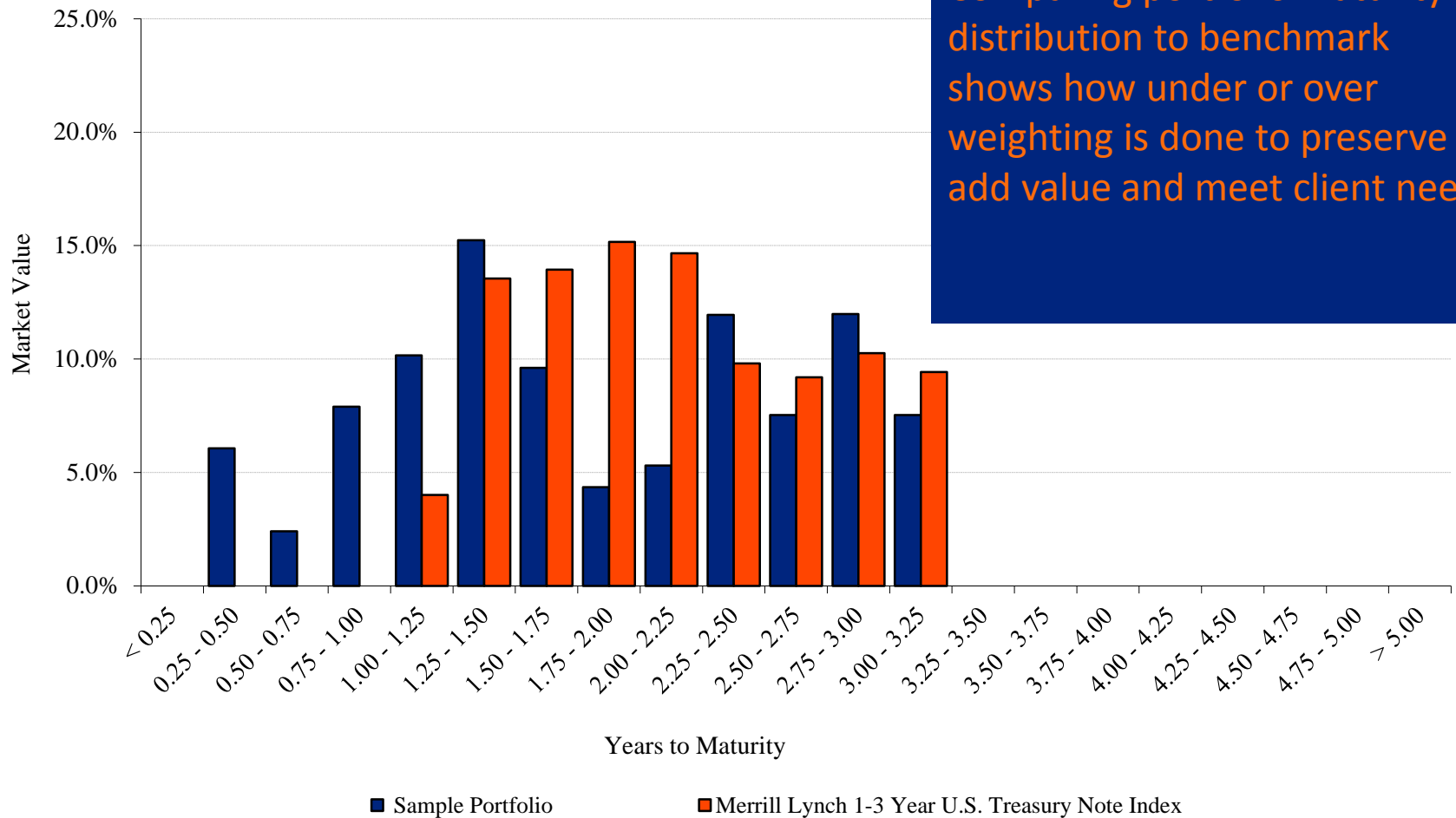
Sample Portfolio Maturity Distribution

<u>Maturity Distribution</u>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Overnight (Money Market Fund)	\$143,453.66	\$0.00
Under 6 Months	2,529,592.67	2,527,697.70
6 - 12 Months	12,417,368.46	7,797,277.82
1 - 2 Years	38,961,822.55	40,893,268.20
2 - 3 Years	24,627,655.00	26,875,337.30
3 - 4 Years	5,248,806.57	5,287,931.63
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$83,928,698.91	\$83,381,512.65

Comparing current to prior maturity distribution shows how portfolio is being changed to reflect markets and client needs



Portfolio Maturity vs Benchmark



Investment Policy Compliance

Security Type	Balance	Percent Allocation	Permitted by Policy
United States Treasury Securities	113,756,971.02	59.92%	100%
Federal Instrumentalities	28,727,002.90	15.13%	80%
Commercial Paper	2,527,880.42	1.33%	35%
Corporate Notes	10,811,781.85	5.70%	15%
State and/or Local Government Debt	2,510,750.00	1.32%	20%
Fixed Income Money Market Mutual Funds	10,429,120.83	5.49%	75%
Intergovernmental Investment Pools	21,071,859.05	11.10%	25%

Individual Issuer Breakdown	Balance	Percent Allocation	Permitted by Policy
FNMA	11,337,406.74	5.97%	50%
FHLMC	17,389,596.16	9.16%	50%
Commercial Paper Issuer A	2,527,880.42	1.33%	10%
Corporate Notes Issuer A	3,677,218.15	1.94%	5%
Corporate Notes Issuer B	2,013,093.28	1.06%	5%
Corporate Notes Issuer D	2,494,987.93	1.31%	5%
Corporate Notes Issuer E	2,626,482.49	1.38%	5%
Municipal Bond Issuer F	2,510,750.00	1.32%	20%
Money Market Fund – G	10,429,120.83	5.49%	25%

Disclaimer

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