



Investment Program Update

November 12, 2013



The PFM Group

Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

1820 East Ray Road
Chandler, AZ 85225
855-885-9621

Lauren Brant, Managing Director
Paulina Woo, Senior Managing Consultant

City's Investment Objectives

- **Safety of Principal:** Ensure preservation of capital
- **Liquidity:** Provide liquidity to meet operating requirements
- **Yield:** Attain market rate of return; subordinate to safety and liquidity

Overview of PFM Asset Management LLC

- Independent investment advisor
- Registered with the SEC
- Public sector focus
- 30+ years of asset management experience
- 187 investment professionals
- \$47 billion of assets under management*
- Over \$2 billion of assets for Arizona public agencies

Representative List of PFM's Arizona City & Town Clients

Chandler	Mesa
Fountain Hills	Scottsdale
Gilbert	Surprise
Goodyear	Tempe
Maricopa	Tucson

*As of September 30, 2013

How PFM Supports the City



**Project
Team
Leaders**

Lauren Brant
Managing Director
Engagement Manager

Paulina Woo
Sr. Managing Consultant
Project Manager

Robert Cheddar, CFA
Managing Director
Sr. Portfolio Manager

**Additional
resources
available to the
City**

Portfolio Management
(15)

Client Services
(117)

**Accounting, Compliance,
Reporting**
(37)

**Analytics, Technical
Research**
(18)

PFM's Services To the City

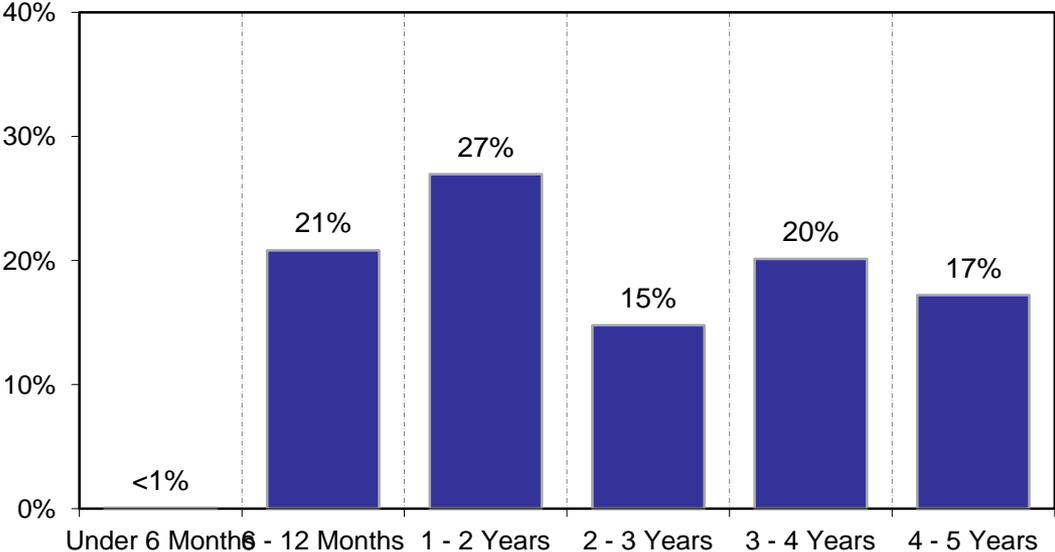
- **Independent, Professional Advice**
 - Acts in a fiduciary capacity
 - Long-term strategy development
 - Robust credit review process and approach
- **Portfolio Management**
 - Diversified portfolio—by sector and maturity
 - Trade execution and competitive bidding to achieve best pricing
 - Daily monitoring to identify investment opportunities and ensure proper portfolio structure regardless of rate environment
- **Investment Resource**
 - Comprehensive review of Investment Policy
 - Ongoing communication regarding portfolio and market events through regular meetings and educational forums
 - Transparent reports that comply with the City's Policy and other regulations

Overview of City's Current Managed Portfolio

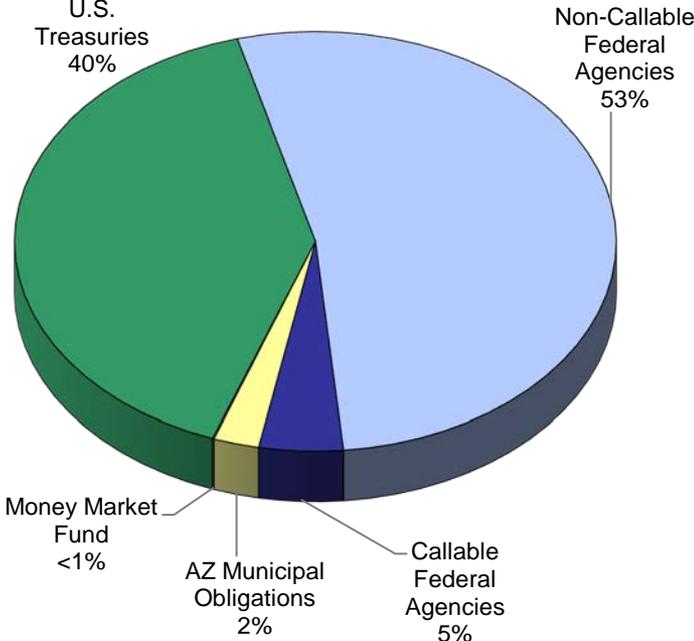
Portfolio Characteristics as of September 30, 2013

- Market Value: \$55,948,737
- Average Credit Quality: AA+
- Yield at Cost: 0.70%
- Average Maturity: 2.44 years

Maturity Distribution

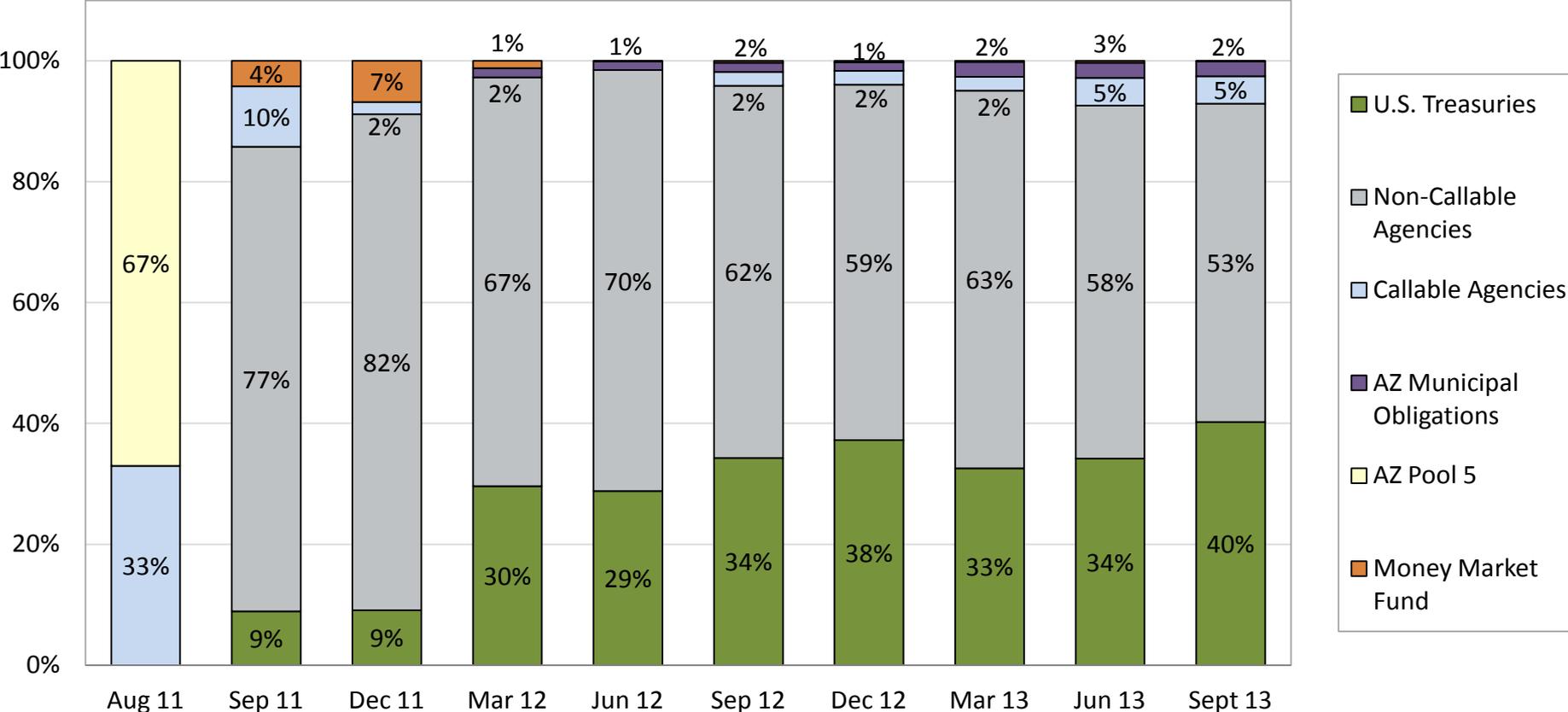


Sector Allocation



Sector Diversification

**Flagstaff Sector Allocation
August 2011 - September 2013**



Value of Proactive Management

- We always purchase securities with intent to hold to maturity.
- In some instances opportunities arise where it makes sense to rebalance the portfolio.
- In addition to purchasing the initial portfolio, we have executed 80 trades since inception.

Trade Date	Transaction	Security	Maturity	Par Value (millions)	Market Yield	Realized G/L
8/29/13	Buy	U.S. Treasury	8/31/16	\$2.6	0.82%	-
8/29/13	Sell	FHLB Notes	5/28/14	\$1.5	0.14%	\$3,736
8/29/13	Sell	FNMA Notes	4/15/14	\$1.1	0.13%	\$2,374
10/1/13	Buy	FHLMC Notes	10/14/16	\$1.0	0.77%	-
10/1/13	Sell	FHLB Notes	5/28/14	\$1.0	0.11%	\$2,289

Federal Agency Acronyms

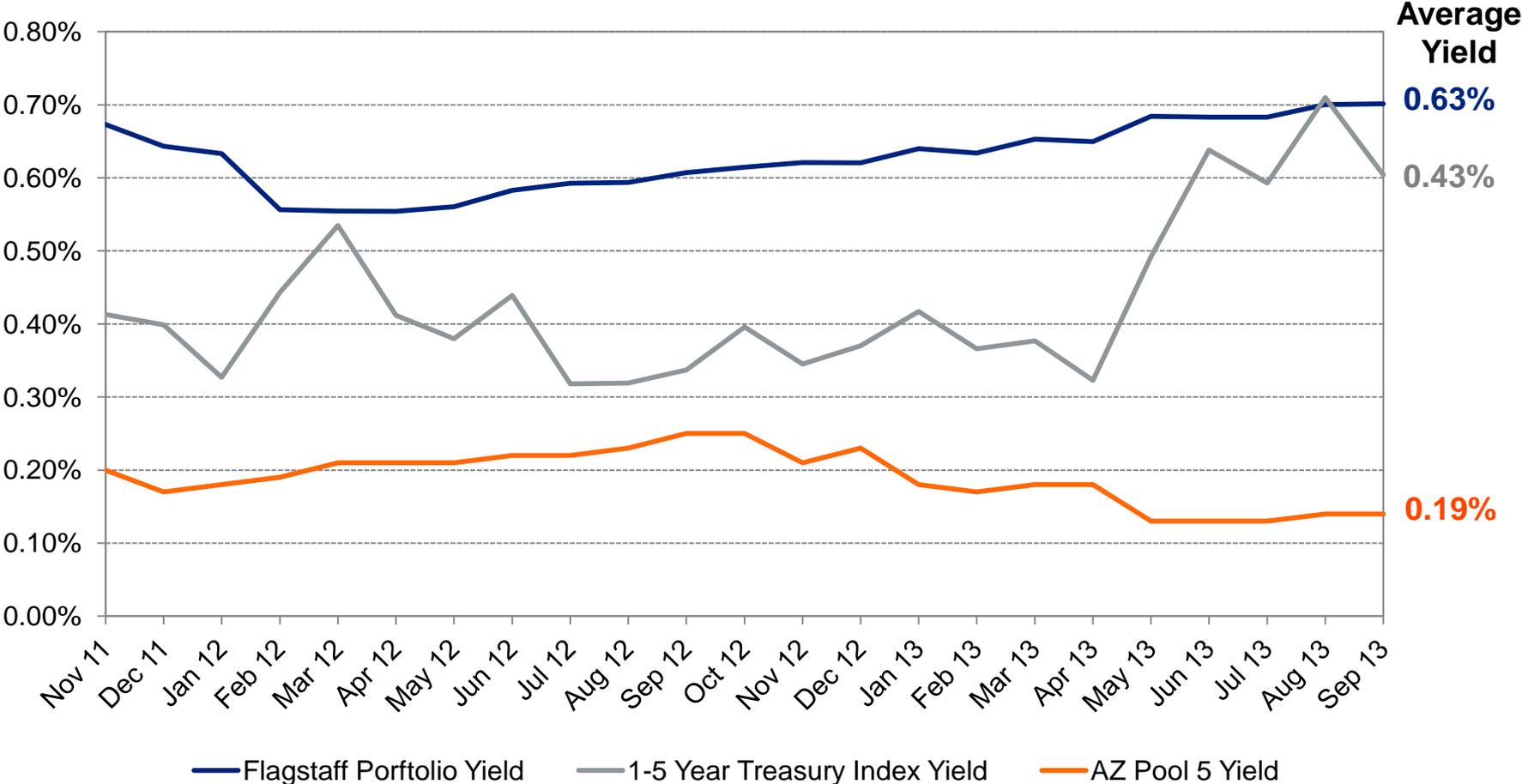
FHLB: Federal Home Loan Banks

FHLMC: Federal Home Loan Mortgage Corporation (Freddie Mac)

FNMA: Federal National Mortgage Association (Fannie Mae)

Portfolio Maintains Attractive Yield

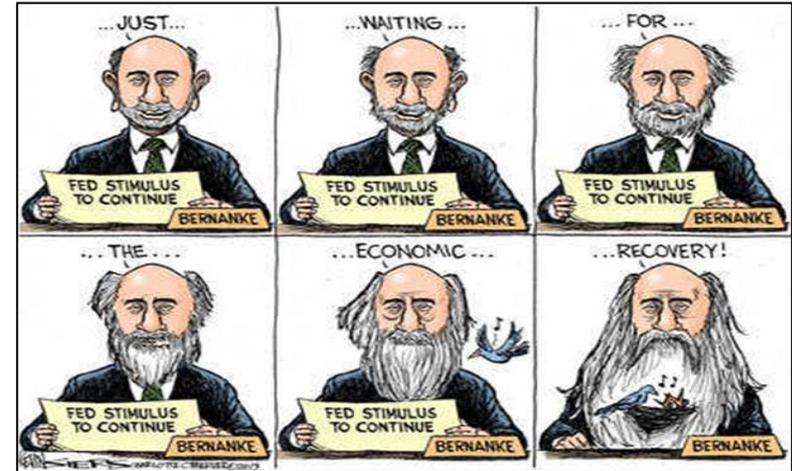
Yield Comparisons
 October 31, 2011 – September 30, 2013



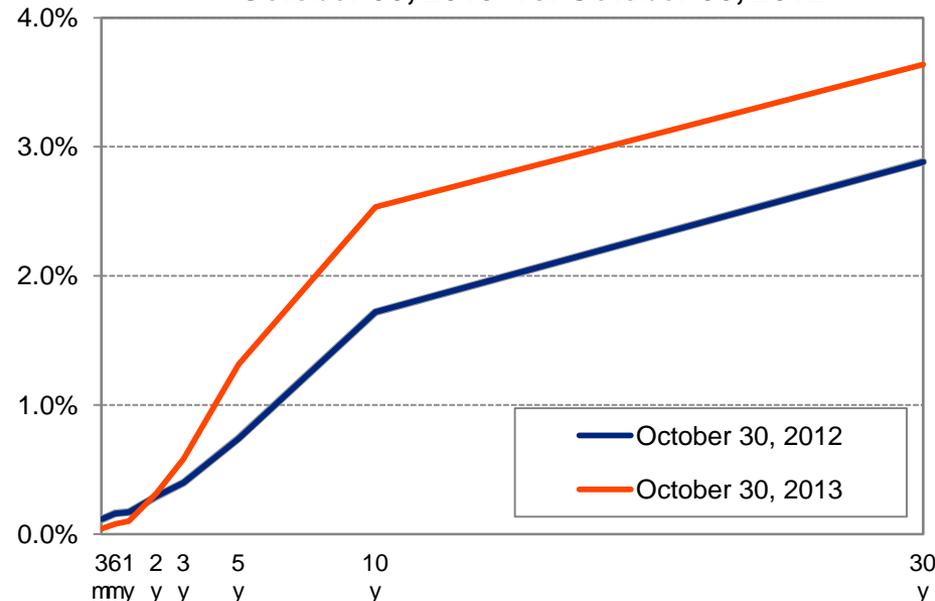
Sources: Merrill Lynch/BofA Global Bond Indices and Arizona Treasurer's Website.

Low Interest Rate Environment

- Fed's overnight rate at 0.00-0.25% since 2008
- Accommodative monetary policy
- Interest rates reached all-time lows in the past year
- Extraordinary demand for high-quality fixed-income securities



U.S. Treasury Yield Curve
October 30, 2013 vs. October 30, 2012



U.S. Treasury	October 30, 2013	12 Month Average	10 Year Average
1-Year	0.10%	0.16%	1.84%
2-Year	0.32%	0.29%	2.03%
5-Year	1.31%	1.03%	2.72%
10-Year	2.53%	2.15%	3.52%
30-Year	3.64%	3.28%	4.24%

Source: Bloomberg

Current Investment Strategy

- Maintain safety of City's assets, while strategically enhancing earnings.
- Utilize the following management strategies:
 - Actively adjust the average maturity of the portfolio in the volatile interest rate environment.
 - Take advantage of the yield relationship changes between sectors.
 - Add high-quality corporates and municipal securities to increase diversification and earnings.
 - Capitalize on specific market events.



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