



# City of Sarasota

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## Annual Investment Performance Review Fiscal Year Ended September 30, 2011



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## Annual Investment Report Commentary

## EXECUTIVE SUMMARY

- The City's is invested in high credit quality U.S. Treasury and Federal Instrumentality securities, FMIvT High Quality 1-3 Year Bond Fund, FMIvT Intermediate High Quality Bond Fund, SBA's Florida PRIME Fund, Fidelity Prime Institutional Money Market Fund, Certificate of Deposits, and a Wells Fargo Money Market Account.
- PFM began managing the City's Long Term Fund Portfolio in January 2011 and started presenting total return performance in the second quarter of 2011. The Long Term Portfolio's total return performance since inception was 0.98% underperforming the benchmark's return of 1.32%. U.S. Treasuries ended the fiscal year very strong, outperforming similar maturity federal agency and high-quality corporate securities. The outperformance of Treasuries was due to the significant decrease in Treasury yields across the curve – a result of the continuing flight-to-quality – while weaker economic data and troubles in Europe pressured yield spreads wider on other sectors. The portfolio's underperformance is a result of the portfolio holding approximately 30% in U.S. Treasuries, and 70% in Agencies, at fiscal yearend as compared to the benchmark which held 100% in U.S. Treasuries. With the higher percentage in treasuries the benchmark appreciated more than the portfolio. We will continue to monitor the markets and maintain a strategy to preserve principal. With the Federal Reserve determined to keep interest rates low until mid 2013, "Operation Twist" will likely increase short-term rates in the 1 to 5 year segment, in which we operate. Holding the duration of the portfolio slightly short of the benchmark's duration will allow for the extension of duration to capitalize on higher yields in the event they increase. We will closely monitor the markets to make select purchases of securities when rates move towards the upper end of their range.
- The FMIvT High Quality 1-3 Year Bond Fund's last 12 month total return of 1.14% underperformed its benchmark's performance of 1.21%. The FMIvT Intermediate High Quality Bond Fund's last 12 month total return of 4.17% underperformed its benchmark's performance of 4.25%.
- The City's Certificates of Deposits and short term investments, which include the SBA's Florida PRIME Fund, Fidelity Prime Institutional Money Market Fund, and Wells Fargo Money Market Account, provided the City with favorable yield relative to the benchmark. At quarter end the investments had a weighted average Yield to Maturity at Cost of 0.64%, exceeding the Yield to Maturity of its benchmark the Merrill Lynch 3 Month U.S. Treasury Bill Index by 62 basis points (0.62%).
- The consensus outlook for Q4 and beyond is for continued, frustratingly slow growth. According to Bloomberg's survey of economists, real GDP growth is expected to barely exceed 2% for the remainder of 2011 and all of 2012. Corporate profitability likewise is expected to increase but at a slower rate, falling from the double-digit expansion of 2011 to perhaps 9% in the first quarter of 2012. Banks' earnings will be particularly impacted by lower trading and capital markets activity. Not great news, but not a crisis either, as appears currently priced into to current Treasury yields. The market remains skittish about debt problems in the Euro-zone, and its impact on European banks' capital adequacy.

## Annual Investment Report Statistics as of September 30, 2011

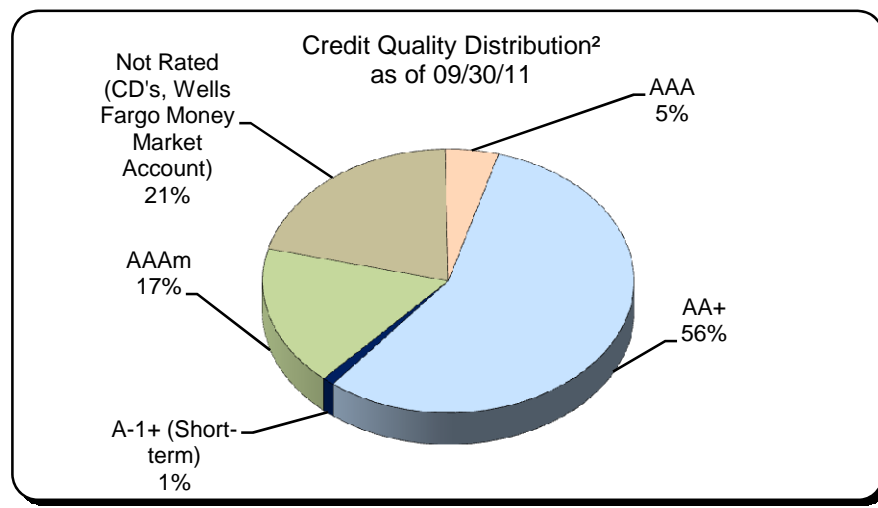
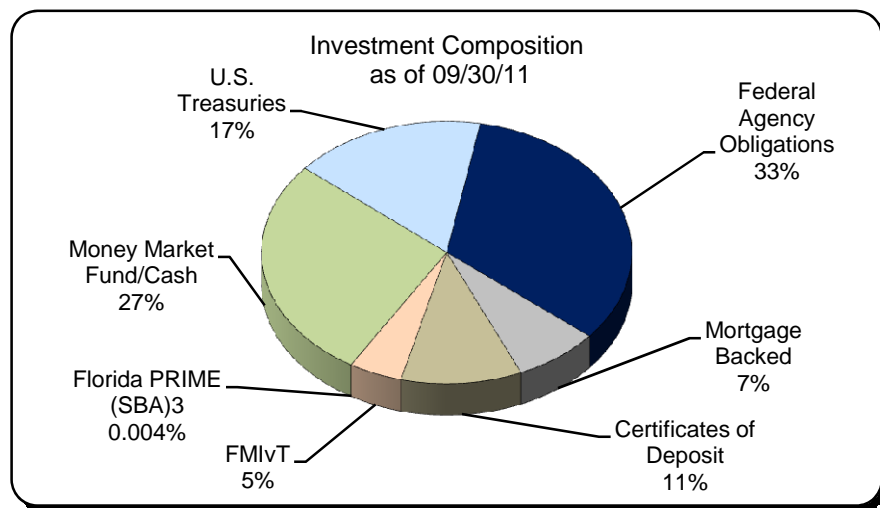
Investments	Market Value	Book Value	Fiscal Year 2011 Income
PFM Managed Investment Portfolio	\$ 111,658,853.53	\$ 110,753,110.00	\$ 1,268,061.00
Portfolio Prior to PFM Management	n/a	n/a	552,836.00
Fidelity Prime Institutional Money Market Fund	33,531,786.78	33,531,787.00	40,771.00
FMIvT	9,052,158.64	9,052,159.00	220,918.00
1st Financial CD Portfolio - Anthem Bank and Trust	17,068,000.00	17,068,000.00	689,024.00
CD - Bank of America	3,470,000.00	3,470,000.00	42,823.67
Florida PRIME (SBA) <sup>5</sup>	7,296.78	9,641.00	2.00
Wachovia Money Market Account	20,000,000.00	20,000,000.00	58,256.00
Services Fees	n/a	n/a	(182,928.00)
Subtotal	\$ 194,788,095.73	\$ 193,884,697.00	\$ 2,689,763.67
		Change in Fair Market Value	(826,547.00)
		Change in Accrued Interest	(106,449.80)
		Subtotal	(932,996.80)
		Total	\$ 1,756,766.87
Long Term Investments	Last 12 Month Total Return	Short Term Investments	Net Book Value Rate of Return
PFM Managed Investment Portfolio (Performance for Time Period March 31, 2011 to September 30, 2011) <sup>1</sup>	0.98%	Fidelity Prime Institutional Money Market Fund <sup>2</sup>	0.07%
<b>Benchmark:</b> Merrill Lynch 1-3 Year U.S. Treasury Index (Performance for Time Period March 31, 2011 to September 30, 2011)	1.32%	Certificates of Deposit	1.86%
FMIvT High Quality 1-3 Year Bond Fund <sup>4</sup>	1.14%	Florida PRIME (SBA) <sup>5</sup>	n/a
<b>Benchmark:</b> Merrill Lynch 1-3 Year U.S. Treasury/Agency Index <sup>4</sup>	1.21%	Wachovia Money Market Account	0.00%
FMIvT Intermediate High Quality Bond Fund <sup>4</sup>	4.17%	Weighted Average Yield	0.64%
<b>Benchmark:</b> Barclays Capital High Quality Intermediate Aggregate <sup>4</sup>	4.25%	<b>Benchmark:</b>	
		Merrill Lynch 90 Day U.S. Treasury Bill Index <sup>3</sup>	0.02%

## Notes:

- In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances. Performance on trade basis, gross (i.e., before fees), is in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Past performance is not indicative of future results. Excludes money market fund/cash in performance computation.
- Bloomberg is the source of the 7-day yield at month end.
- Bloomberg is the source of the yield at month end.
- <http://www.floridaleagueofcities.com/Finance> is the source of the FMIvT total return performance.
- SBA's Fund B.

Annual Investment Report Composition and Credit Quality Characteristics

<u>Security Type<sup>1</sup></u>	<u>September 30, 2011</u>	<u>% of Portfolio</u>	<u>September 30, 2010</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$32,725,801.20	16.80%	\$0.00	0.00%
Federal Agencies	64,457,698.94	33.09%	50,049,522.00	22.84%
Mortgage Backed	14,475,353.39	7.43%	20,276,191.00	9.25%
Certificates of Deposit	20,538,000.00	10.54%	44,800,000.00	20.44%
FMIvT	9,052,158.64	4.65%	8,831,241.00	4.03%
Florida PRIME (SBA) <sup>3</sup>	7,296.78	0.004%	8,583.00	0.00%
Money Market Fund/Cash	53,531,786.78	27.48%	95,196,526.01	43.44%
<b>Totals</b>	<b>\$194,788,095.73</b>	<b>100.00%</b>	<b>\$219,162,063.01</b>	<b>100.00%</b>

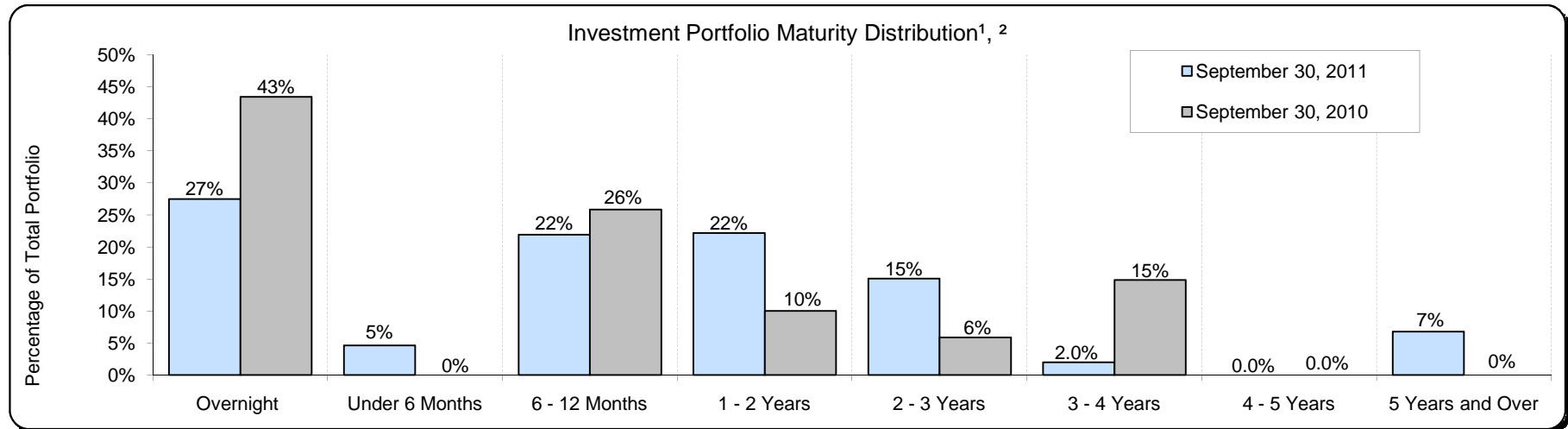


Notes:

1. End of fiscal year trade-date market values of portfolio holdings, excluding accrued interest.
2. The Certificate of Deposits and Wells Fargo Money Market Account are not rated. Standard & Poor's is the source of the credit ratings, except for FMIvT Funds which are rated by Fitch.
3. SBA's Fund B.

Annual Investment Report Maturity Distribution

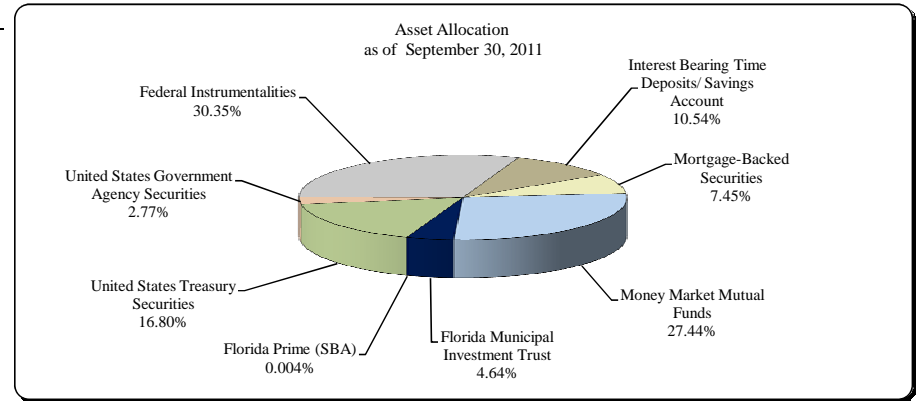
<u>Maturity Distribution</u> <sup>1</sup>	<u>September 30, 2011</u>	<u>September 30, 2010</u>	<u>Security Type</u>	<u>Weighted Average Maturity (Years)</u>
Overnight (Money Market Fund)	\$53,539,083.56	\$95,205,109.01	U.S. Treasuries	1.06
Under 6 Months	9,025,246.00	0.00	Federal Agencies	1.37
6 - 12 Months	42,687,972.20	56,643,713.00	Mortgage Backed	4.66
1 - 2 Years	43,214,682.28	21,982,000.00	Certificates of Deposit	0.35
2 - 3 Years	29,296,323.14	12,831,241.00	FMLvT	2.30
3 - 4 Years	3,848,939.74	32,500,000.00	Florida PRIME (SBA) <sup>3</sup>	7.16
4 - 5 Years	0.00	0.00	Money Market Fund/Cash	0.01
5 Years and Over	13,175,848.81	0.00		
<b>Totals</b>	<b>\$194,788,095.73</b>	<b>\$219,162,063.01</b>	<b>Portfolio Weighted Average Maturity</b>	<b>1.12</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.
2. This chart is based on securities final maturity date; including mortgage backed securities.
3. SBA's Fund B.

Security Type <sup>1</sup>	Balance	Percentage	Notes	Permitted by Policy
Florida Prime (SBA) <sup>8</sup>	7,296.78	0.004%	4	25%
United States Treasury Securities	32,765,541.47	16.80%	2, 6	100%
United States Government Agency Securities	5,411,998.06	2.77%	2, 6	50%
Federal Instrumentalities	59,195,875.68	30.35%	3, 6	75%
Interest Bearing Time Deposits/ Savings Account	20,554,064.35	10.54%	4	50%
Repurchase Agreements	-	0.00%		25%
Commercial Paper	-	0.00%		20%
Corporate Notes	-	0.00%		20%
Corporate Notes - FDIC	-	0.00%		50%
Mortgage-Backed Securities	14,532,733.59	7.45%	2, 6	20%
State and/or Local Government Debt	-	0.00%		20%
Money Market Mutual Funds	53,531,786.78	27.44%	4	50%
Florida Municipal Investment Trust	9,052,158.64	4.64%	4, 5	75%



Individual Issuer Breakdown	Balance	Percentage	Notes	Permitted by Policy
Government National Mortgage Association (GNMA)	5,411,998.06	2.77%	6	25%
US Export-Import Bank (Ex-Im)	-	0.00%		25%
Farmers Home Administration (FMHA)	-	0.00%		25%
Federal Financing Bank	-	0.00%		25%
Federal Housing Administration (FHA)	-	0.00%		25%
General Services Administration	-	0.00%		25%
New Communities Act Debentures	-	0.00%		25%
US Public Housing Notes & Bonds	-	0.00%		25%
US Dept. of Housing and Urban Development	-	0.00%		25%
Federal Farm Credit Bank (FFCB)	11,029,164.78	5.65%	6	40%
Federal Home Loan Bank (FHLB)	18,233,915.99	9.35%	6	40%
Federal National Mortgage Association (FNMA)	20,861,729.69	10.70%	6	40%
Federal Home Loan Mortgage Corporation (FHLMC)	23,603,798.81	12.10%	6	40%

Individual Issuer Breakdown	Balance	Percentage	Notes	Permitted by Policy
CD - 1st Financial Bank	17,074,029.85	8.75%	4	25%
CD - Bank of America	3,480,034.50	1.78%	4	25%
Fully collateralized Repo - A	-	0.00%		10%
CP A	-	0.00%		5%
Corporate Notes A	-	0.00%		5%
Corporate Notes - FDIC A	-	0.00%		25%
Municipal Notes/Bonds	-	0.00%		5%
FNMA Mortgage Backed Security	5,044,699.85	2.59%	6	15%
FHLMC Mortgage Backed Security	4,076,035.68	2.09%	6	15%
GNMA Mortgage Backed Security	5,411,998.06	2.77%	6	15%
Money Market Fund - Bank of New York	33,531,786.78	17.19%	4	25%
Money Market Fund - Wells Fargo Bank	20,000,000.00	10.25%	4	25%

Notes:

- End of month trade-date market value of portfolio holdings, including accrued interest.
  - Minimum of 40% invested in U.S. Treasuries, Government Agency and Mortgage-Back Securities. The combined total as of September 30, 2011 is 27.02%.
  - Minimum of 15% invested in Federal Instrumentalities. The total as of Percentage is 30.35%.
  - Managed by the City. Balances provided by City per statement.
  - Includes balances from the 1-3 Year High Quality Bond Fund and Intermediate High Quality Bond Fund.
  - Managed by PFM Asset Management LLC.
  - A detailed list of each individual security may be obtained in the City's Financial Administration Department.
  - SBA's Fund B.
- \* All Assets