

City of Sarasota



Quarterly Investment Report

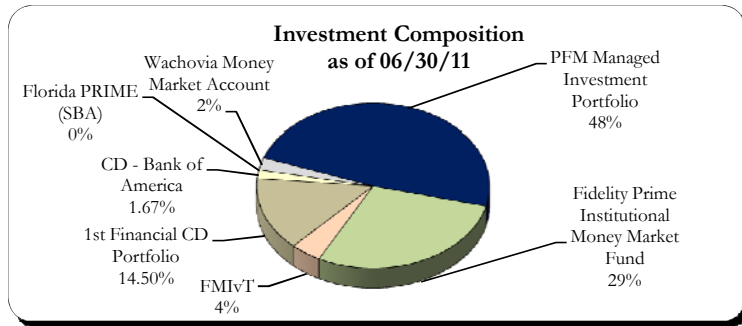
For Quarter ended June 30, 2011

Fiscal Year 2010-2011

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Quarterly Investment Statistics as of June 30, 2011

Investments	Market Value	Quarterly Interest Income	Fiscal Year to Date Income
PFM Managed Investment Portfolio	\$100,328,169	\$346,990	\$771,881
Portfolio Prior to PFM Management	0	N/A	579,810
Fidelity Prime Institutional Money Market Fund	59,475,119	15,659	29,957
FMIvT	8,917,573	104,434	86,332
1st Financial CD Portfolio	30,041,000	154,278	535,438
CD - Bank of America	3,470,000	22,755	32,789
Florida PRIME (SBA)	10,838	0	2
Wachovia Money Market Account	5,000,000	4,774	45,216
Services Fees	n/a	(71,938)	(177,064)
Subtotal	\$207,242,699	\$576,952	\$1,904,361



Change in Fair Market Value	299,561	(724,153)
Change in Accrued Interest	41,240	(25,114)
Subtotal	340,801	(749,267)
Total \$	917,753	\$ 1,155,094

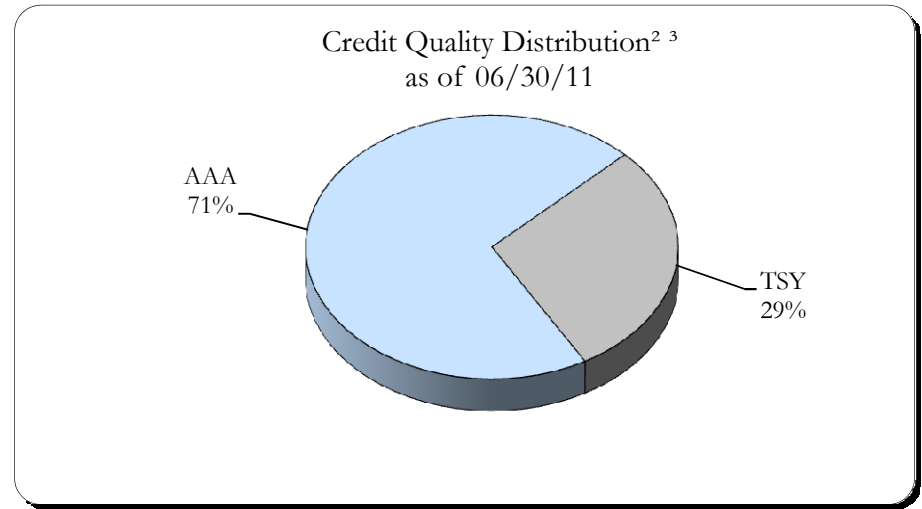
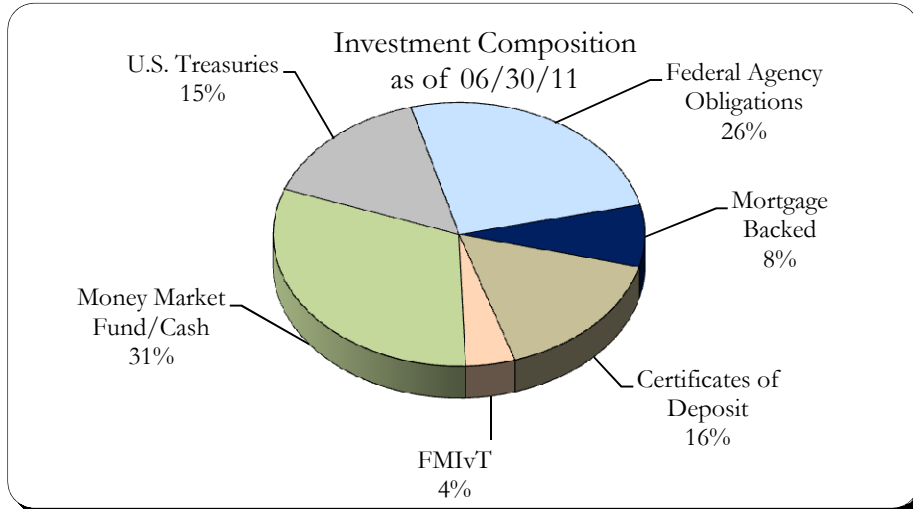
Long Term Investments	Quarterly Total Return	Short Term Investments	Net Book Value Rate of Return
PFM Managed Investment Portfolio ¹	0.68%	Fidelity Prime Institutional Money Market Fund ²	0.03%
Benchmark: Merrill Lynch 1-3 Year U.S. Treasury Index	0.83%	Certificates of Deposit	1.79%
1-3 Year High Quality Bond Fund and Intermedicate Fund ³	0.63%	Florida PRIME (SBA) ⁴	0.23%
Benchmark: Merrill Lynch 1-3 Year U.S. Treasury/Agency Index	0.82%	Wachovia Money Market Account	0.25%
Intermediate High Quality Bond Fund ³	1.78%	Weighted Average Yield	0.64%
Benchmark: Barclays Capital High Quality Intermediate Aggregate	2.14%	Benchmark:	
		Merrill Lynch 90 Day U.S. Treasury Bill Index ²	0.020%

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.
- <http://www.floridaleagueofcities.com/Finance> is the source of the FMIvT quarterly total return performance.
- Florida PRIME is the source of the yield.

Quarterly Investment Report Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>June 30, 2011</u>	<u>% of Portfolio</u>	<u>March 31, 2011</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$31,699,638	15.30%	\$24,049,927	11.89%
Federal Agencies	52,922,820	25.54%	60,065,625	29.70%
Mortgage Backed	15,705,711	7.58%	16,904,264	8.36%
Certificates of Deposit	33,511,000	16.17%	39,011,000	19.29%
FMIvT	8,917,573	4.30%	8,813,139	4.36%
Florida PRIME (SBA)	10,838	0.01%	10,838	0.01%
Money Market Fund/Cash	64,475,119	31.11%	53,391,348	26.40%
Totals	\$207,242,699	100.00%	\$202,246,141	100.00%



Notes:

1. End of quarter trade-date market values of portfolio holdings, excluding accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP and Certificate of Deposits. Standard & Poor's is the source of the credit ratings.
3. A rating of "TSY" indicates the security is an obligation of, or explicitly guaranteed by the U. S. Government.

Interest rates across the yield curve fell during the second quarter on fears of an economic slowdown, and as a result, fixed-income portfolios with longer durations posted strong positive returns. With their highest quarterly returns in a year, longer-duration fixed-income portfolios significantly outperformed cash-equivalent portfolios, where returns remained near zero.

Two factors caused the interest rate drop: first, weak economic reports set off fears of slower growth and lowered inflation expectations; second, sovereign debt concerns in Europe sparked a flight-to-quality. By the end of the quarter yields on Treasury securities had fallen from their 2011 highs, in some maturities, to all-time lows. The significant bond market rally made fixed-income investments one of best performing asset classes in the second quarter.

The Economy

Worries over slowing growth emerged after a series of releases of weak economic data. The final GDP estimate put first quarter growth at 1.9%, below expectations and lower than the 3% to 4% that is typical at this stage in an economic recovery.

After several months of strong job growth, the labor market appeared to slow down as well. Only 22,000 new jobs on average were created during the last two months of the second quarter compared to 215,000 new jobs on average during the last two months of the first quarter. Manufacturing activity slowed with the ISM manufacturing index falling from 61.2 in March to 55.3 in June, closer to the threshold of 50, which marks the beginning of a contraction in industrial activity.

Although the economic slowdown is troubling, many economists believe it is temporary. The earthquake and tsunami in Japan disrupted supply chains across the world causing repercussions to the global industrial system and affecting U.S. manufacturers who faced shortages of auto and electronics components. Toward the end of the quarter, production levels in Japan rebounded and U.S. companies started to increase production. Other temporary factors were higher

food prices due to the floods in the Midwest and higher oil prices due to the geopolitical tensions in the Middle East and Northern Africa. Higher food and energy prices had a dampening effect on consumer purchasing power and spending. For example, the pace of retail sales excluding automobiles and gas slowed in the second quarter to a monthly average of 0.2% compared to the preceding 3 month average of 1.0%.

Interest Rates and Returns

Treasury yields fell steadily over the quarter with intermediate-term Treasuries showing the most change. As the following table shows, the yield on the 5-year U.S. Treasury Note declined by 52 basis points (0.52%) from 2.28% on March 31, 2011 to 1.76% on June 30, 2011. At the end of June, the yield on the 2-year U.S. Treasury Note reached a new all-time low on speculation that Greece's government would fail to pass austerity measures needed to secure a bailout.

Short-term interest rates, which are anchored to the Federal Funds rate, declined as well. A flight-to-quality, lack of short-term Treasury supply, and quarter-end demand from investors such as banks and securities firms drove the yield on the 3-month Treasury bill to 0.01%, and at some points in June some Treasury bills actually traded at negative yields.

Comparison of U.S. Treasury Yields

Date	3M	6M	1Y	2Y	3Y	5Y	10Y
June 30, 2011	0.01%	0.10%	0.18%	0.46%	0.80%	1.76%	3.16%
March 31, 2011	0.09%	0.17%	0.27%	0.82%	1.30%	2.28%	3.47%
Change over Quarter	-0.08%	-0.07%	-0.09%	-0.36%	-0.50%	-0.52%	-0.31%
June 30, 2010	0.17%	0.22%	0.31%	0.60%	0.96%	1.77%	2.93%
Change over Year	-0.16%	-0.12%	-0.13%	-0.14%	-0.16%	-0.01%	0.23%

Source data: Bloomberg

The sharp decline in interest rates through the quarter is illustrated by performance of the 2-year Treasury note (following chart) which ranged from 0.83% to 0.33%.

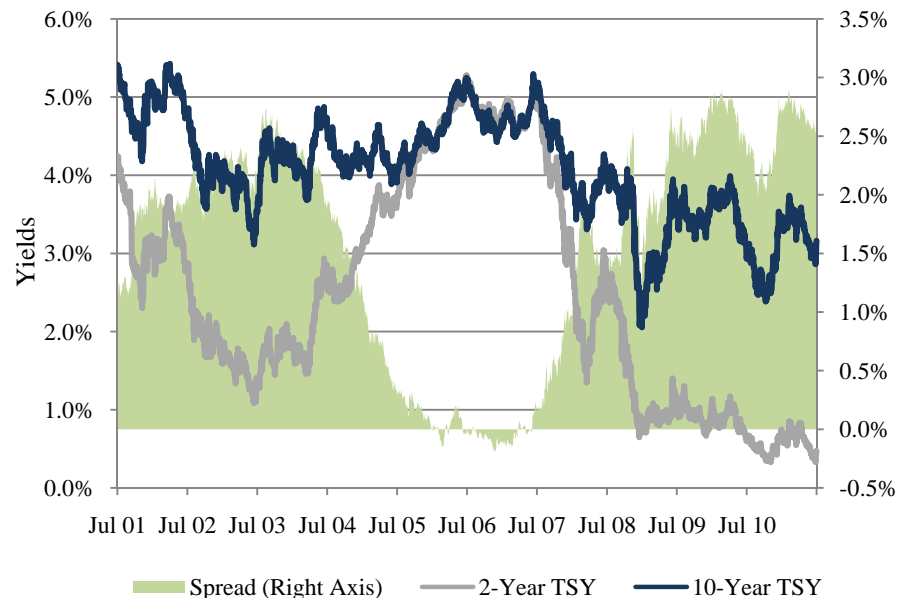
2-Year U.S. Treasury Note Yield
July 1, 2010 through June 30, 2011



Source data: Bloomberg

Despite low absolute yields, the yield curve remained steep. As seen in the chart on the right, the steepness of the yield curve, measured by the spread between 2-year and 10-year U.S. Treasury notes, was approximately 2.70% by the end of the quarter, very close to its 10 year widest spread. Market observers generally view a steep yield curve as anticipating rising growth and inflation, but in this case factors such as the flight to quality and the trillions of dollars of excess cash created by the Fed have boosted demand for short maturities.

U.S. Treasury Yields and Yield Curve Steepness
July 1, 2001 to June 30, 2011

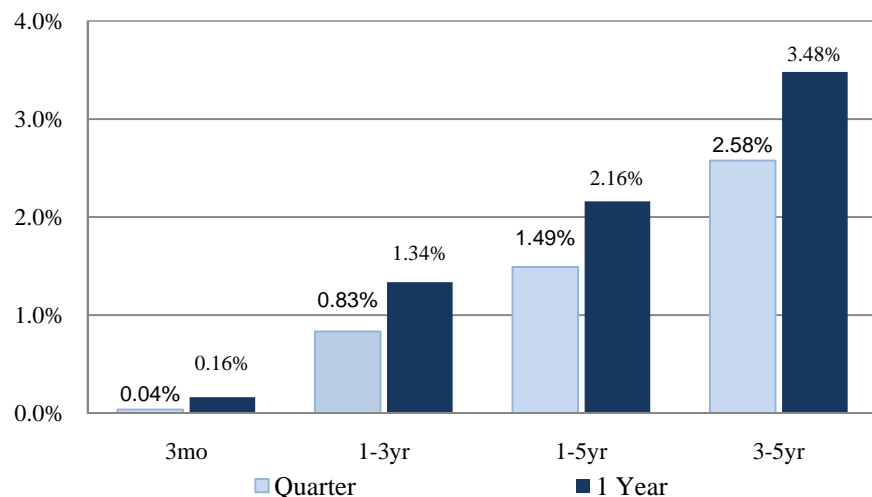


Source data: Bloomberg

Since intermediate and long-term rates fell more than short-term rates, longer-duration strategies outperformed shorter-duration strategies as seen in the following chart. For example, the 3- to 5-year U.S. Treasury index returned 2.58% (10.71% annualized) for the quarter versus a return on the 1- to 3-year U.S. Treasury index of 0.83% (3.36% annualized).

In the current positively sloped yield curve environment, portfolios with less duration than their benchmarks may perform just as well as, if not better than, their benchmarks as securities approaching their maturity dates will “roll-down” the curve and be priced as shorter, lower-yielding securities, increasing their return.

Total Returns of Merrill Lynch U.S. Treasury Indices
Quarterly and 12-Month Total Return as of June 30, 2011

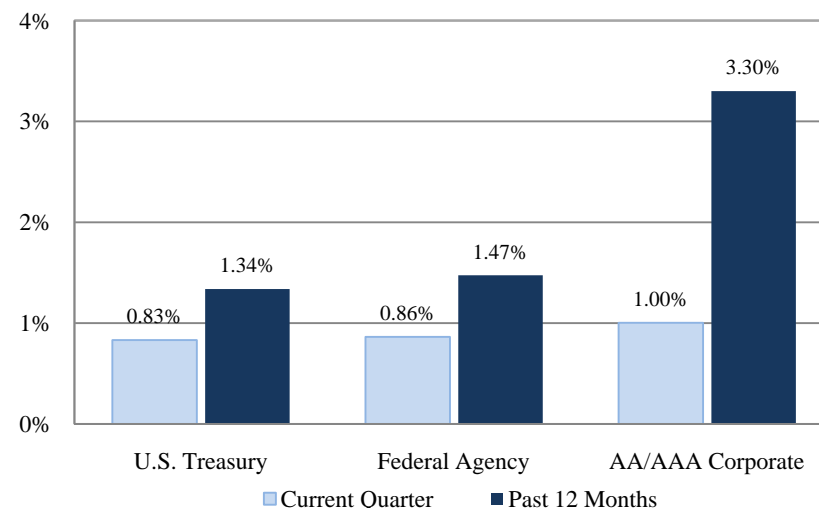


Source data: Bank of America Merrill Lynch; Bloomberg

Performance during the second quarter accounted for most of the return for the trailing 12 months. For example, the total return during the quarter represented more than 74% of the trailing 12-month return on the 3- to 5-year U.S. Treasury Index. Shorter-duration strategies continue to be limited by the extremely low Federal Funds rate and lag the performance of longer-duration strategies. So, for the 12 months ended June 30, 2011, the 3- to 5-year U.S. Treasury index returned 3.48% versus a return of 0.16% on the 3-month index, an outperformance of 332 basis points.

After several quarters of outperforming Treasuries, federal agency and corporate securities barely held their own in the second quarter. On a duration-adjusted basis, agencies and corporates returned 0.86% and 1.00% respectively, while Treasuries returned 0.83% as seen in the chart on the right. In these cases although credit spreads slightly widened, the additional income for agency and corporate securities was higher and offset the spread widening.

Duration Adjusted Returns of Merrill Lynch 1-3 Year Indices
Quarterly and 12-Month Total Return as of June 30, 2011



Source data: Bank of America Merrill Lynch; Bloomberg

Duration-adjusted return incorporates an adjustment to the market value return (but not the income return) of each benchmark to account for their varied durations, making it easier for investors to assess the relative risk and return of benchmarks of different lengths.

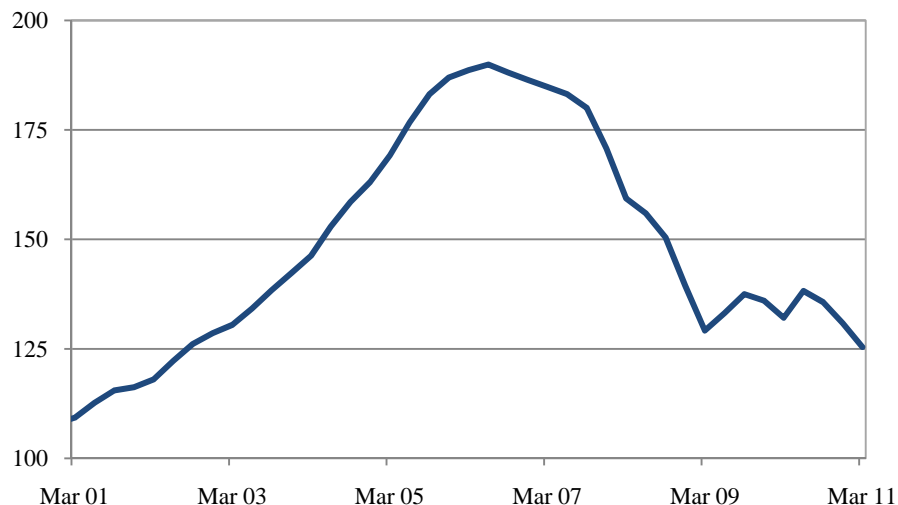
Economic Outlook

The temporary factors that slowed the economy in the second quarter should subside and lead to a rebound in the second half. However, Federal Reserve officials have lowered their growth forecasts for the second time this year from 3.1% to 3.3% in April to 2.7% to 2.9%. The Fed’s latest forecast reflects the obstacles that continue to weigh on the domestic and global economies.

The lack of a rebound in the housing market in the United States is a big reason why the current recovery is stagnant. Banks have imposed tighter underwriting standards for home mortgages and uncertain job prospects have constrained the demand for housing. Meanwhile, with a large supply of vacant and foreclosed properties on the market, potential home buyers can strike deals, making new construction a more costly alternative. As shown on the following chart, the Case Shiller Home Price Index fell 4.2% over the first quarter to \$125.41.

Despite the support for sales seen in 2009 and 2010, due to the first-time home buyers’ tax credit, there has been no recovery or stabilization in home prices. Home prices are down 5.1% compared to their level a year-ago and continue on their downward spiral with no relief in sight.

Case-Shiller Home Price Index
 March 31, 2001 to March 31, 2011



Source data: Bloomberg

Another growth obstacle is the shrinking government sector. State and local governments are cutting spending and government employment is shrinking with a loss of 390,000 government jobs over the past three years. As the stimulus provided by the American Recovery and Reinvestment Act winds down there is a widening revenue gap for state and local government. Cutbacks in Federal spending--which seem inevitable--may in the long run reduce the Federal deficit and boost the private sector but in the short run they will further reduce economic activity and retard the recovery.

Despite these obstacles and the recent economic slowdown, the Federal Reserve believes the recovery is still underway. Though the

pace is slower than desired, the Fed is wary of doing more to bolster growth and a third round of quantitative easing is unlikely.

Investment Strategy

Value is difficult to find in the fixed income markets because interest rates are at or near all-time lows, and the corporate and Federal agency sectors are not particularly attractive, as interest rate spreads have narrowed considerably from recent levels. A stagnant economy, the uncertainty surrounding the sovereign debt situation in both the United States and Europe and commodity-related pressure on global prices add to the challenge.

Our portfolio strategy is a defensive one: we are positioning portfolios somewhat short of benchmark durations with the expectation that the positively-sloped yield curve will reduce the effect of a sharp rise in interest rates, and the additional value gained by rolling down the curve will compensate for the shorter duration. We plan to take advantage of any widening in spreads to add incremental income by re-allocating assets into Federal Agency or high quality corporate obligations where policies permit, but we will carefully manage interest rate risk to minimize the effects of an inevitable rise in rates.