



City of Sarasota

Investment Performance Review Quarter Ended December 31, 2011



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Quarterly Investment Statistics as of December 31, 2011

Investments	Market Value	Quarterly Interest Income	Fiscal Year to Date Income
PFM Managed Investment Portfolio	\$118,664,566	\$328,077	\$328,077
Fidelity Prime Institutional Money Market Fund	48,044,896	8,845	8,845
FMIvT	9,075,985	23,826	23,826
Anthem Bank & Trust CD Portfolio	8,467,000	56,487	56,487
CD - Bank of America	3,470,000	0	0
Florida SBA Fund B	9,641	0	0
Wells Fargo Money Market Account	20,000,000	15,339	15,339
Services Fees	n/a	(54,421)	(54,421)
Subtotal	<u>\$207,732,088</u>	<u>\$378,153</u>	<u>\$378,153</u>
Change in Fair Market Value		53,132	53,132
Change in Accrued Interest		59,411	59,411
Subtotal		<u>112,543</u>	<u>112,543</u>
Total		<u>\$490,696</u>	<u>\$490,696</u>

Long Term Investments	Quarterly Total Return	Short Term Investments	Net Book Value Rate of Return
PFM Managed Investment Portfolio ¹	0.29%	Fidelity Prime Institutional Money Market Fund ²	0.11%
Benchmark: Merrill Lynch 1-3 Year U.S. Treasury Index	0.20%	Certificates of Deposit	1.74%
1-3 Year High Quality Bond Fund and Intermedicate Fund ⁴	0.11%	Florida PRIME (SBA) ⁵	n/a
Benchmark: Merrill Lynch 1-3 Year U.S. Treasury/Agency Index ⁷	0.20%	Wells Fargo Money Market Account	0.00%
Intermediate High Quality Bond Fund ⁴	0.54%	Weighted Average Yield	<u>0.43%</u>
Benchmark: Barclays Capital High Quality Intermediate Aggregate ⁴	0.83%	Benchmark: Merrill Lynch 90 Day U.S. Treasury Bill Index ⁷	<u>0.02%</u>

Notes:

1. 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.

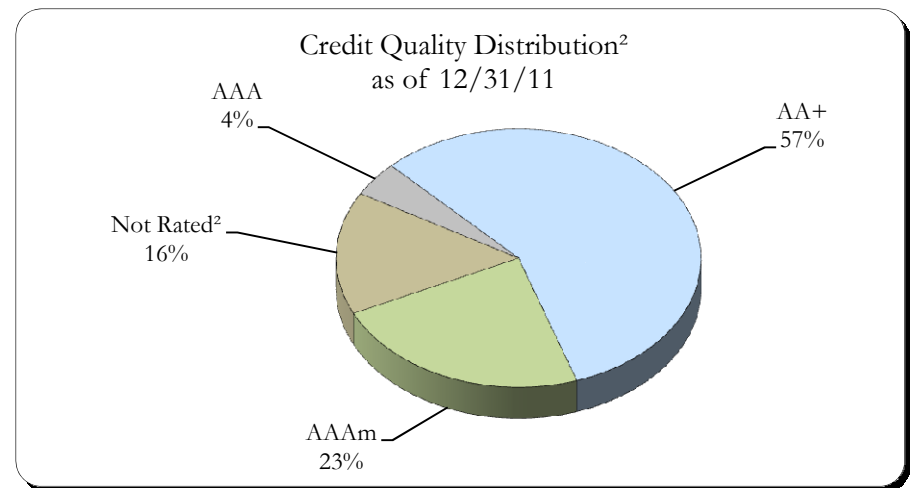
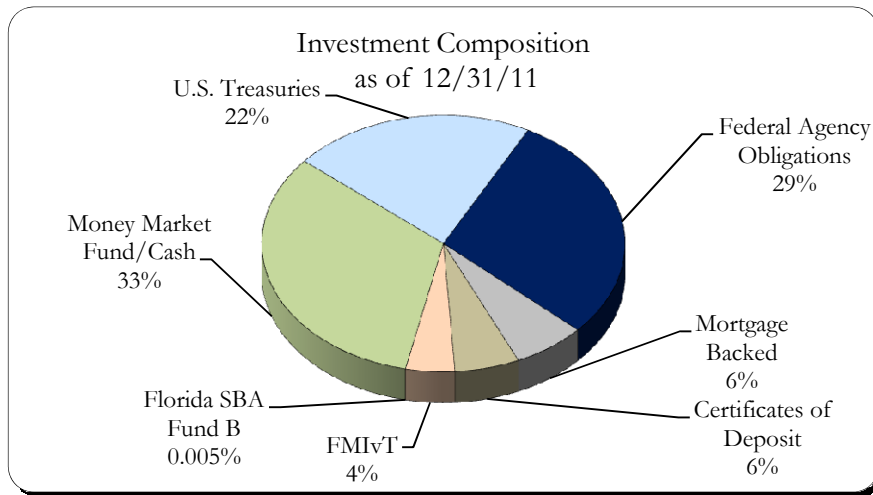
2. Bloomberg is the source of the 7-day yield at month end.

3. Bloomberg is the source of the yield at month end.

4. <http://www.floridaleagueofcities.com/Finance> is the source of the FMIvT quarterly total return performance.

Quarterly Investment Report Composition and Credit Quality Characteristics

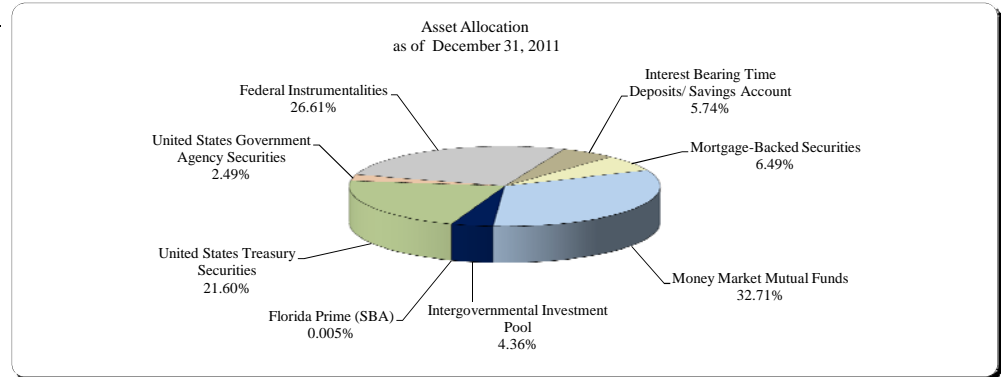
<u>Security Type¹</u>	<u>December 31, 2011</u>	<u>% of Portfolio</u>	<u>September 30, 2011</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$44,884,371.39	21.61%	\$32,725,801.20	16.80%
Federal Agencies	60,340,791.87	29.05%	64,457,698.94	33.09%
Mortgage Backed	13,439,402.78	6.47%	14,475,353.39	7.43%
Certificates of Deposit	11,937,000.00	5.75%	20,538,000.00	10.54%
FMIvT	9,075,984.53	4.37%	9,052,158.64	4.65%
Florida SBA Fund B	9,641.29	0.005%	7,296.78	0.00%
Money Market Fund/Cash	68,044,895.77	32.76%	53,531,786.78	27.48%
Totals	\$207,732,087.63	100.00%	\$194,788,095.73	100.00%



Notes:

1. End of quarter trade-date market values of portfolio holdings, excluding accrued interest.
2. The Certificate of Deposits, Florida SBA Fund B 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.

Security Type ⁶	Balance	Percentage	Notes	Permitted by Policy
Florida Prime (SBA) ⁷	9,641.29	0.005%	3	25%
United States Treasury Securities	44,935,205.14	21.60%	5	100%
United States Government Agency Securities	5,178,624.89	2.49%	5	50%
Federal Instrumentalities	55,364,774.13	26.61%	5	75%
Interest Bearing Time Deposits/ Savings Account	11,937,000.00	5.74%	3	50%
Repurchase Agreements	-	0.00%		25%
Commercial Paper	-	0.00%	2	20%
Corporate Notes	-	0.00%	2	20%
Corporate Notes - FDIC	-	0.00%	2	50%
Mortgage-Backed Securities	13,492,667.65	6.49%	5	20%
State and/or Local Government Debt	-	0.00%		20%
Money Market Mutual Funds	68,044,895.77	32.71%	3	50%
Intergovernmental Investment Pool	9,075,984.53	4.36%	3, 4	75%



Individual Issuer Breakdown	Balance	Percentage	Notes	Permitted by Policy
Government National Mortgage Association (GNMA)	5,178,624.89	2.49%	5	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)	11,038,724.33	5.31%	5	40%
Federal Home Loan Bank (FHLB)	18,186,756.98	8.74%	5	40%
Federal National Mortgage Association (FNMA)	19,309,096.82	9.28%	5	40%
Federal Home Loan Mortgage Corporation (FHLMC)	20,322,863.65	9.77%	5	40%

Individual Issuer Breakdown	Balance	Percentage	Notes	Permitted by Policy
CD - 1st Financial Bank	8,467,000.00	4.07%	3	25%
CD - Bank of America	3,470,000.00	1.67%	3	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	4,560,143.44	2.19%	5	15%
FHLMC Mortgage Backed Security	3,753,899.32	1.80%	5	15%
GNMA Mortgage Backed Security	5,178,624.89	2.49%	5	15%
Money Market Fund - Bank of New York	48,044,895.77	23.09%	3	25%
Money Market Fund - Wells Fargo Bank	20,000,000.00	9.61%	3	25%
Intergovernmental Investment Pool - Florida Municipal Investment Trust	9,075,984.53	4.36%	3, 4	25%

Notes:

- End of month trade-date market value of portfolio holdings, including accrued interest.
- Combined total of Corporate Obligations and Commercial Paper shall not exceed 35% of the total investments. The combined total as of December 31, 2011 is .00%.
- 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



Summary

- Quarterly returns for fixed income were positive but failed to beat returns on domestic equities.
- For the quarter, short- to intermediate-duration portfolios with diversified fixed-income holdings outpaced money market accounts that avoided European exposure, including Libor-based time deposits.
- PFM strives to maintain the safety of principal while at the same time positioning for growth and searching for tactical opportunities to enhance return.

Economic News

Growth in the U.S. has improved while the uncertainty surrounding Europe continues. Gross domestic product (GDP) in the U.S. has shown steady increases over the first three quarters of 2011, coming in at 0.4%, 1.3% and 1.8%, respectively. Most projections for fourth-quarter GDP growth are near 3%. Although much of the economic expansion can be attributed to the release of pent-up demand for autos and a restocking of inventories by businesses, positive signals have emerged, showing more stabilization and a fundamental strengthening of the domestic economic recovery.

While signs of tentative recovery are now occurring in the housing market, there is still a significant amount of foreclosures in the pipeline, suggesting a higher inventory of unoccupied houses. A massive downward revision to earlier existing-home sales data showed that the housing market suffered a larger loss than many previously thought. Sales from 2007 onward have had significant downward revisions of 14% on average. Recently,

though, there have been positive trends in home sales, with the October-November average annual rate of home sales up 20% from the third quarter. In November, existing-home sales rose 4.0%, significantly above the consensus of 2.2%, while new-home sales rose by 1.6% and housing starts increased by 9.3%.

Indicators are showing improvement in labor market conditions, but there is still much that needs to be resolved in this arena as well. The unemployment rate fell to a 2½-year low of 8.5% in December; however, much of this outcome has to do with the fact that the labor force participation rate has reached a two-year low. Market participants continue to wait for the abatement of excess slack in the labor market.

Results for the Conference Board’s Consumer Confidence Survey reflected an increase in positive sentiment, with the number of respondents reporting that jobs are currently “hard to get” falling to 41.8%, the lowest level of the recovery. This development, along with other strong economic releases in the fourth quarter, led to robust quarterly performance for U.S. equities. The S&P 500 Index increased 11.8% in the fourth quarter, erasing the losses in the previous two quarters.

U.S. Treasury Yields – Quarter and Year-over-Year Changes

Date	3-month	1-year	2-year	5-year	10-year	30-year
31-Dec-11	0.01%	0.10%	0.24%	0.83%	1.88%	2.89%
30-Sep-11	0.02%	0.10%	0.24%	0.95%	1.92%	2.91%
Change over Quarter	-0.01%	0.00%	0.00%	-0.12%	-0.04%	-0.02%
31-Dec-10	0.12%	0.26%	0.59%	2.01%	3.29%	4.33%
Change over Year	-0.11%	-0.16%	-0.35%	-1.18%	-1.41%	-1.44%

Source data: Bloomberg



Interest Rates

U.S. Treasuries fluctuated within a narrow range, finishing the quarter close to where they began. Short-term rates remained near zero due to the Federal Reserve’s (Fed’s) continued commitment to keep the target rate between zero and 0.25% until at least mid 2013. Meanwhile, intermediate- and long-term rates have stabilized due to the offsetting forces of positive economic data in the U.S., a flight-to-quality reaction to the European debt crisis and the Fed’s Operation Twist program, where the U.S. central bank purchases longer-dated securities while selling shorter-dated securities in an effort to keep longer-term interest rates down.

2-Year, 5-Year, and 10-Year U.S. Treasury Note Yields

December 31, 2010 through December 31, 2011



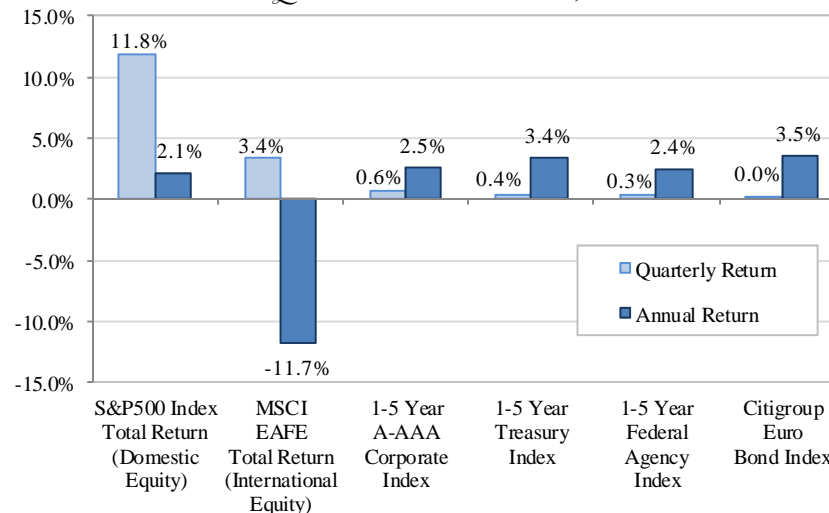
Source: Bloomberg

Bond Markets

Although signs point towards a stronger economy in the U.S., continued uncertainty in the global economic outlook has resulted in investors becoming more cautious and gravitating towards securities that are perceived to be less risky. Assets have flowed out of prime money market funds into government funds on concerns of the funds’ potential exposure to the sovereign debt of struggling European nations. Treasuries have benefitted from this need for safety, posting positive performance for the quarter. Treasury yields are still hovering around their record lows. Agency spreads widened during the fourth quarter, while corporate spreads tightened. Both sectors offered value for investors.

Total Returns of Various Asset Classes

Quarter ended December 31, 2011



Sources: Bank of America Merrill Lynch, Citigroup, Bloomberg

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