



City of Sarasota

Investment Performance Review Quarter Ended September 30, 2011



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Quarterly Investment Statistics as of September 30, 2011

Investments	Market Value	Quarterly Interest Income	Fiscal Year to Date Income
PFM Managed Investment Portfolio	\$ 111,658,853.53	\$ 496,180.18	\$ 1,268,061.00
Portfolio Prior to PFM Management	0.00	0.00	552,836.00
Fidelity Prime Institutional Money Market Fund	33,531,786.78	10,814.55	40,771.00
FMIvT	9,052,158.64	134,586.00	220,918.00
1st Financial CD Portfolio - Anthem Bank and Trust	17,068,000.00	145,348.00	689,024.00
CD - Bank of America	3,470,000.00	10,035.00	42,823.67
Florida PRIME (SBA) ⁵	7,296.78	0.46	2.00
Wachovia Money Market Account	20,000,000.00	13,039.87	58,256.00
Services Fees	n/a	(5,864.33)	(182,928.00)
Subtotal	\$ 194,788,095.73	\$ 804,139.73	\$ 2,689,763.67
Change in Fair Market Value		(102,394.00)	(826,547.00)
Change in Accrued Interest		(81,335.83)	(106,449.80)
Subtotal		(183,729.83)	(932,996.80)
Total	\$	620,409.90	\$ 1,756,766.87

Long Term Investments	Quarterly Total Return	Short Term Investments	Net Book Value Rate of Return
PFM Managed Investment Portfolio ¹	0.30%	Fidelity Prime Institutional Money Market Fund ²	0.07%
Benchmark: Merrill Lynch 1-3 Year U.S. Treasury Index	0.49%	Certificates of Deposit	1.86%
FMIvT 1-3 Year High Quality Bond Fund ⁴	0.27%	Florida PRIME (SBA) ⁵	n/a
Benchmark: Merrill Lynch 1-3 Year U.S. Treasury/Agency Index ⁴	0.46%	Wachovia Money Market Account	0.00%
FMIvT Intermediate High Quality Bond Fund ⁴	2.74%	Weighted Average Yield	0.64%
Benchmark: Barclays Capital High Quality Intermediate Aggregate ⁴	2.41%	Benchmark: Merrill Lynch 90 Day U.S. Treasury Bill Index ³	0.02%

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.

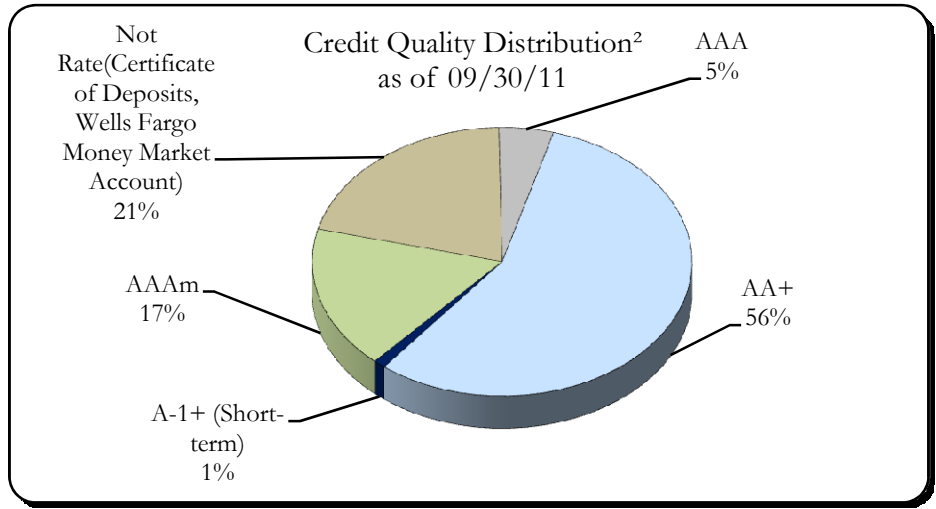
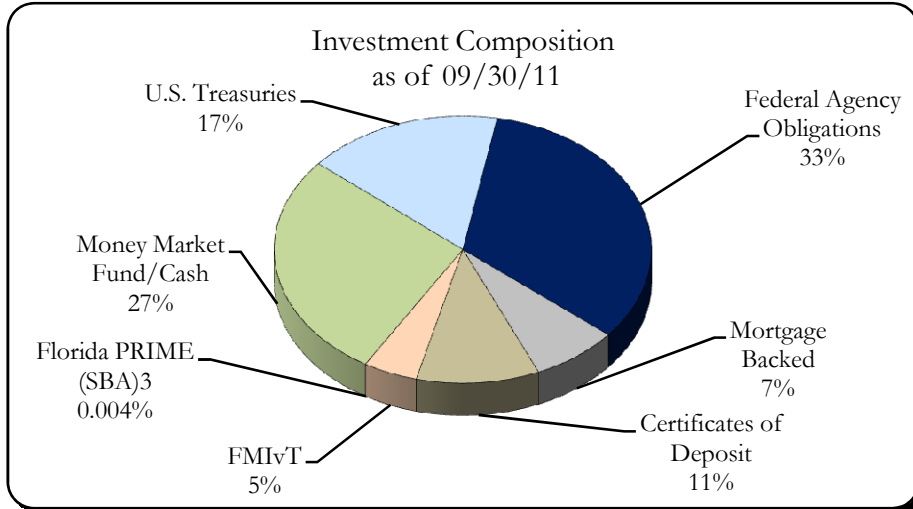
3. Bloomberg is the source of the yield at month end.

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

5. SBA's Fund B.

Quarterly Investment Report Composition and Credit Quality Characteristics

Security Type ¹	September 30, 2011	% of Portfolio	June 30, 2011	% of Portfolio
U.S. Treasuries	\$32,725,801.20	16.80%	\$31,699,637.60	15.30%
Federal Agencies	64,457,698.94	33.09%	52,922,819.78	25.54%
Mortgage Backed	14,475,353.39	7.43%	15,705,711.17	7.58%
Certificates of Deposit	20,538,000.00	10.54%	33,511,000.00	16.17%
FMIvT	9,052,158.64	4.65%	8,917,573.00	4.30%
Florida PRIME (SBA) ³	7,296.78	0.004%	10,837.88	0.01%
Money Market Fund/Cash	53,531,786.78	27.48%	64,475,118.65	31.11%
Totals	\$194,788,095.73	100.00%	\$207,242,698.08	100.00%



Notes:

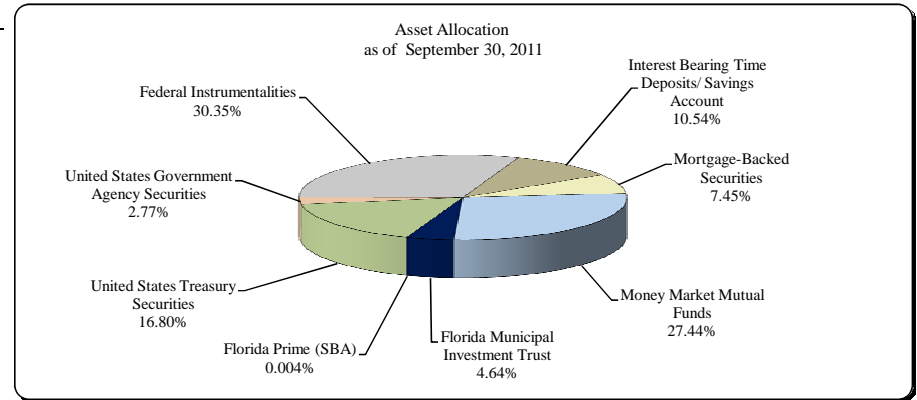
1. End of quarter trade-date market values of portfolio holdings, excluding accrued interest.
2. The Certificate of Deposits and Wells Fargo Money Market Account are not rated. Standard & Poor's is the source of the credit ratings, except for FMIvT Funds which are rated by Fitch.
3. SBA's Fund B.

Asset Allocation Compliance

City of Sarasota

Asset Allocation as of September 30, 2011*

Security Type ¹	Balance	Percentage	Notes	Permitted by Policy
Florida Prime (SBA) ⁸	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:

1. End of month trade-date market value of portfolio holdings, including accrued interest.
 2. 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%.
 3. Minimum of 15% invested in Federal Instrumentalities. The total as of Percentage is 30.35%.
 4. Managed by the City. Balances provided by City per statement.
 5. Includes balances from the 1-3 Year High Quality Bond Fund and Intermediate High Quality Bond Fund.
 6. Managed by PFM Asset Management LLC.
 7. A detailed list of each individual security may be obtained in the City's Financial Administration Department.
 8. SBA's Fund B.
- * All Assets

Intermediate-term and long-term interest rates fell sharply for the second consecutive quarter, in many cases to new all-time lows, as market participants digested a myriad of events, including:

- Renewed slowdown in U.S. and global economies,
- Heightened concern over European sovereign and bank debt,
- Budget and debt ceiling wrangling in Washington,
- S&P's downgrade of the U.S. government's credit rating, and
- Bold new Federal Reserve initiatives.

These factors conspired to cause a collapse in consumer and business confidence, a sharp sell-off in equity markets around the globe, and a continued “flight-to-quality” into U.S. Treasuries. U.S. monetary policy initiatives also contributed to declining interest rates, as the Federal Reserve promised to keep short-term rates low for at least the next two years and announced a new program to purchase long-term debt. As a result, longer-term fixed-income portfolios posted their largest quarterly returns in nearly three years, while shorter-term portfolios remained hostage to near zero rate levels. High quality U.S. fixed-income investments continued to be one of the strongest performing asset classes during the third quarter.

The Economy: Recap of a Historic Quarter

At the beginning of the quarter, European debt concerns continued to serve as a shadowy backdrop to a sputtering U.S. recovery. In the face of stubbornly high unemployment, a battered housing market and plunging consumer confidence, GDP growth in the U.S. averaged only 0.8% in the first half of the year. Throughout the quarter, economists, including those at the Federal Reserve, progressively lowered their GDP projections for the balance of the year. At the same time, Washington grappled with the debt ceiling and a possible default.

Capitol Hill was in need of an eleventh hour agreement to give the Treasury the authority to issue additional debt to pay the government's bills. On August 2nd, one day before the Treasury's drop dead date, Congress finally agreed on a stopgap policy, which included upwards of \$2.4 trillion in spending cuts over the next decade and an increase in

the statutory debt limit by at least \$2.1 trillion. Default was averted, but much of the hard work of hammering out the details was pushed off to a bipartisan “Super Committee.” The process revealed the worst of the U.S. government's political gridlock and gamesmanship.

As it had previously warned, on August 8th Standard and Poor's (S&P) cut the long-term sovereign debt rating of the United States from AAA to AA+. S&P characterized the budget deal as insufficient to stabilize the government's debt over the long term and noted that “the political brinksmanship of recent months highlights what we see as America's governance and policymaking becoming less stable, less effective, and less predictable.” The rating downgrade also affected U.S. Federal Agencies, FDIC-backed debt, thousands of municipal bonds, and many funds that invest in Treasuries and Agencies. Even after the downgrade, investors continued to flock to the safety of U.S. Treasuries, further driving down yields and pushing prices upward.

At the August 9th meeting of the Federal Open Market Committee (FOMC), the Fed stated that weak economic conditions were “likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.” This marked the first time in history that the Fed had placed an explicit timetable on its monetary policy. Increased certainty that short-term rates are likely to remain low for two years drove rates lower still.

Then, at an extended two-day September meeting, the Fed announced “Operation Twist,” yet another initiative designed to boost economic recovery. The FOMC said it would extend the average maturity of its security holdings to “put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative.” The Committee intends to purchase, by the end of June 2012, \$400 billion of Treasury securities with remaining maturities of 6 to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less. The market initially responded by pushing long-term rates down and shorter-term rates up, although the rise in short-term rates was limited by the Fed's near-zero rate policy.

Interest Rates and Returns

Treasury yields continued their descent over the quarter, with yields of longer-term maturities falling the most, as shown in the following table.

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

Date	3-month	1-year	2-year	5-year	10-year	30-year
30-Sep-11	0.02%	0.10%	0.24%	0.95%	1.92%	2.91%
30-Jun-11	0.01%	0.18%	0.46%	1.76%	3.16%	4.37%
<i>Change over Quarter</i>	0.01%	-0.08%	-0.22%	-0.81%	-1.24%	-1.46%
30-Sep-10	0.15%	0.25%	0.42%	1.26%	2.51%	3.69%
<i>Change over Year</i>	-0.13%	-0.15%	-0.18%	-0.31%	-0.59%	-0.78%

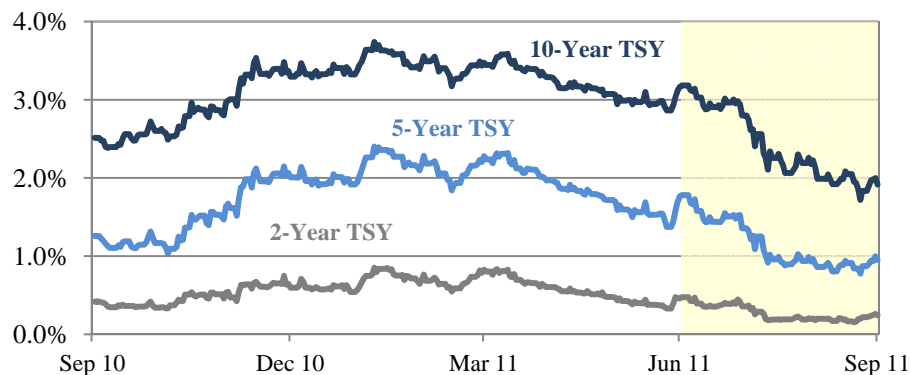
Source data: Bloomberg

Because yields on maturities less than one year are in large part dictated by the federal funds target rate, short-term yields continue to be anchored near all-time-low levels. In fact, given very strong demand for high quality short-term investments, it has become commonplace for ultra-short Treasury bills to trade at zero or negative yields.

The continued decline in interest rates through the quarter is illustrated in the chart below.

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

September 30, 2010 through September 30, 2011

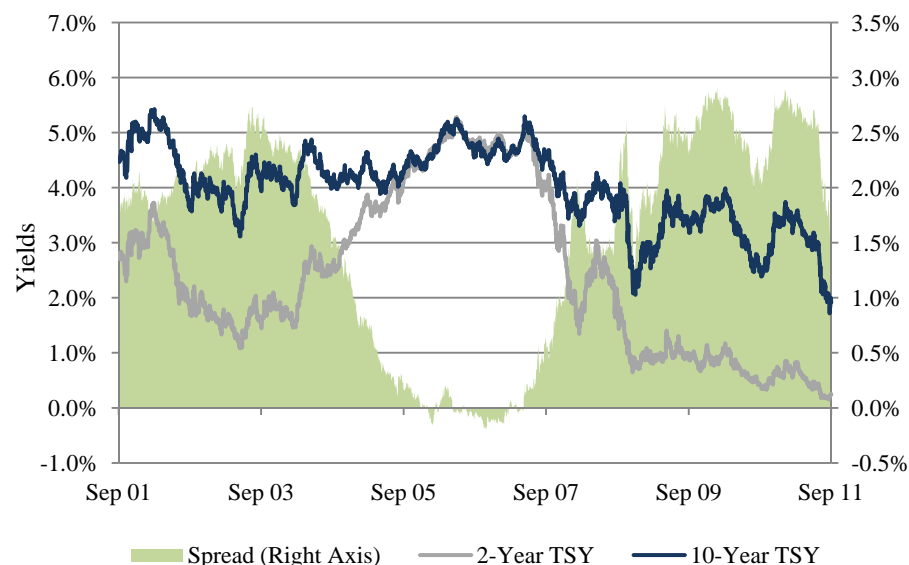


Source data: Bloomberg

The announcement of “Operation Twist” contributed to a significant flattening of the yield curve. As shown in the chart below, the steepness of the yield curve, measured by the spread between 2- and 10-year U.S. Treasury notes, flattened significantly. Note that the steepness of the yield curve through time is mostly a function of short-term rates, especially during periods of strong Fed accommodation. The most recent move, however, was more unusual, being driven by sharply lower long-term yields.

U.S. Treasury Yields and Yield Curve Steepness

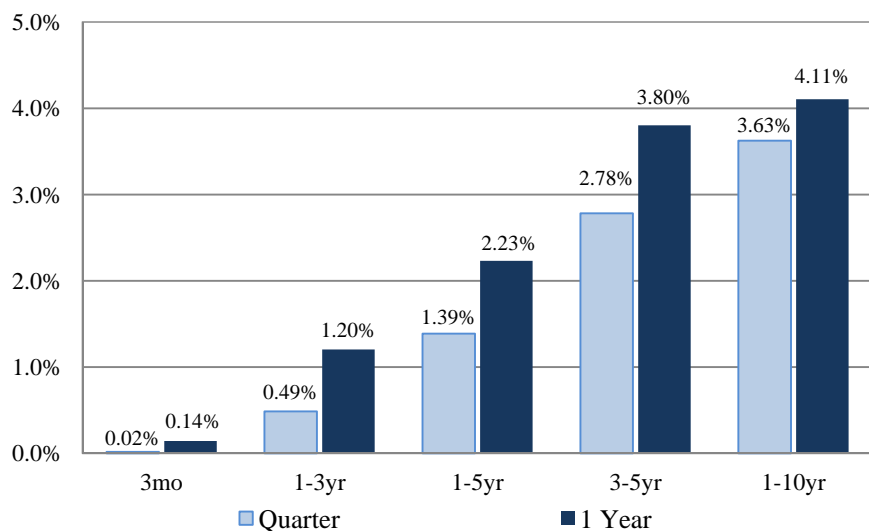
September 30, 2001 through September 30, 2011



Source data: Bloomberg

Since intermediate- and long-term interest rates fell more than short-term rates, longer-duration strategies outperformed shorter-duration strategies for the quarter ended September 30, 2011, as seen on the chart on the following page. As was the case last quarter, longer was better by a wide margin.

Total Returns of Merrill Lynch U.S. Treasury Indices
 Periods ended September 30, 2011

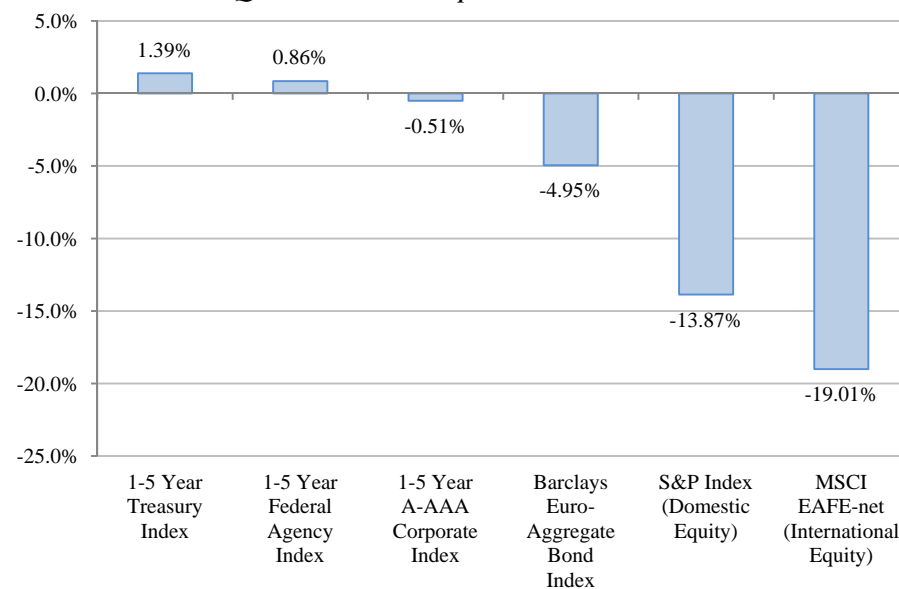


Source data: Bank of America Merrill Lynch; Bloomberg

U.S. Treasuries, in particular, had a very strong quarter, 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.

As shown on the next chart, the risk aversion trade during the quarter punished riskier asset classes, as the return on Treasuries surpassed that of federal agencies and, in general, low risk fixed-income investments outpaced equities and alternative investment classes, which fell sharply during the quarter. As is usually the case during periods of uncertainty, yield spreads widened, risk premiums rose, and equity multiples fell. In such volatile market conditions, diversification remains an important principle of prudent portfolio management.

Total Returns of Various Asset Classes
 Quarter ended September 30, 2011



Source data: Bank of America Merrill Lynch; Barclays Capital; Bloomberg

For an additional comparison of the disparity in returns along the risk spectrum, 1-5 year AAA-rated corporate securities outperformed 1-5 year A-rated corporate securities by 206 basis points (2.06%), for the quarter, 1.28% versus -0.78%.

Worldwide concern over bank exposure to European debt also took its toll on corporate sector returns, as 1-5 year industrials outperformed financials by 192 basis points (1.92%), 0.34% versus -1.58% for the quarter.

Economic and Market Outlook

Although the U.S. economy has posted eight straight quarters of positive GDP growth, recent growth has been anemic. With uncertainty regarding future fiscal policy, both here and abroad, economists expect the lackluster GDP trend to remain at sub-3% growth levels for the foreseeable future.

The European sovereign debt and bank crisis was a significant storyline throughout the quarter and a continuing major headwind to the U.S. recovery. The sovereign debt woes of Greece have spread to other EU nations, including Spain, Italy, and Portugal. In June, in an attempt to quiet those fears, a series of new austerity measures was passed by the Greek parliament. In July, euro-zone members agreed to a €440 billion European Financial Stability Facility (ESFS) to address the growing crisis; however, as of quarter end, that measure was still being held up by Slovakia lawmakers. Getting 17 countries to agree on any proposal will be an ongoing challenge.

Until the European debt crisis is resolved, equity markets are expected to remain volatile. Volatility, as measured by the VIX index, rose to a 2½ year high during the third quarter. Amid the heightened volatility, the S&P 500 Index had shown signs of strength through the first two quarters of 2011, only to have those returns dissipate over the last three months.

In light of European debt issues, the dollar experienced a healthy rally relative to the euro – increasing over 8% for the quarter. Similarly, or perhaps in parallel, gold also rose 8%. However, commodity prices in general fell sharply over the quarter with oil leading the way, down 17%, as global demand slowed.

Although the economy added nearly 100,000 jobs per month in the past two quarters, the unemployment rate remains stuck above 9%. Current job creation is simply insufficient to have significant positive impact on the unemployment rate.

On the housing front, the story remains unchanged. Despite the biggest drop in home prices in over two years and mortgage rates at all-time lows, home sales have been disappointing. Credit remains tight while consumers are focused on relieving their own personal debt concerns. With winter around the corner, prospects remain dim.

Personal consumption increased modestly, led by stronger auto sales, but the ISM manufacturing index still experienced a sharp decline.

Consumer confidence plunged during the quarter as economic conditions weakened, equity markets fell, and jobs remain scarce.

Despite these obstacles, the Fed continues to express resolve and remains prepared to consider “the range of policy tools available to promote a stronger economic recovery in a context of price stability.”

Investment Strategy

The Federal Reserve’s commitment to maintain the federal funds target rate at its current range until at least mid-2013 has essentially removed much of the uncertainty regarding potential short- to intermediate-term interest rate spikes in the near future. Because the Fed is on hold, maturity extensions can safely add value to portfolios. The benefits of “roll-down” can be viewed as a valuable contributor to fixed-income portfolio performance.

Short-maturity U.S. Treasury and federal agency yields remain at near zero levels. Some analysts have dubbed this relationship as “return-less risk” – the lack of total return opportunities in that portion of the yield curve is insufficient relative to the impact of potential interest rate fluctuations. Alternative short-term sectors, including high-quality certificates of deposit and commercial paper, floating rate securities, and callable agencies do have value, but each must be evaluated carefully.

Further out the yield curve, as credit spreads have widened, federal agency and high-quality corporate securities are attractive. Where applicable, we will increase exposure in both, but the corporate sector requires investors to be both thoughtful and nimble.

Still, as yields remain very low by historical measures, we will take a cautious approach to duration management. For this reason, we will target duration at or below benchmarks. In these unprecedented economic and market conditions, taking on extreme duration or credit risk is not warranted.