

# City of Rowlett, Texas

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Investment Performance Review  
Quarter Ended September 30, 2011



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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 2<sup>nd</sup>, 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 8<sup>th</sup> 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 9<sup>th</sup> 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%

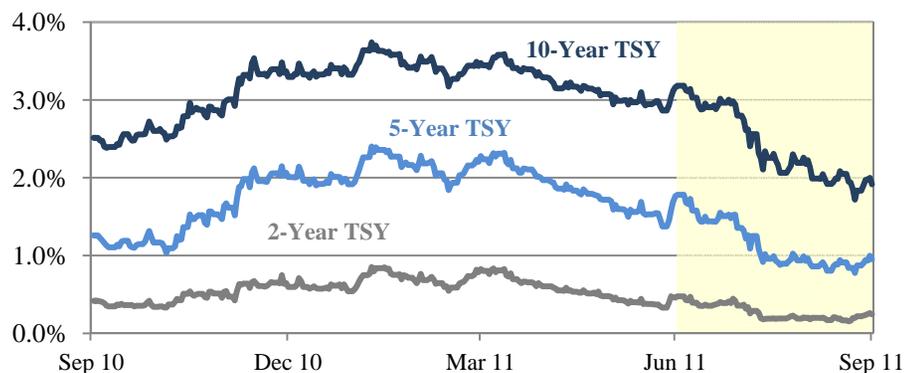
Source data: Bloomberg

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

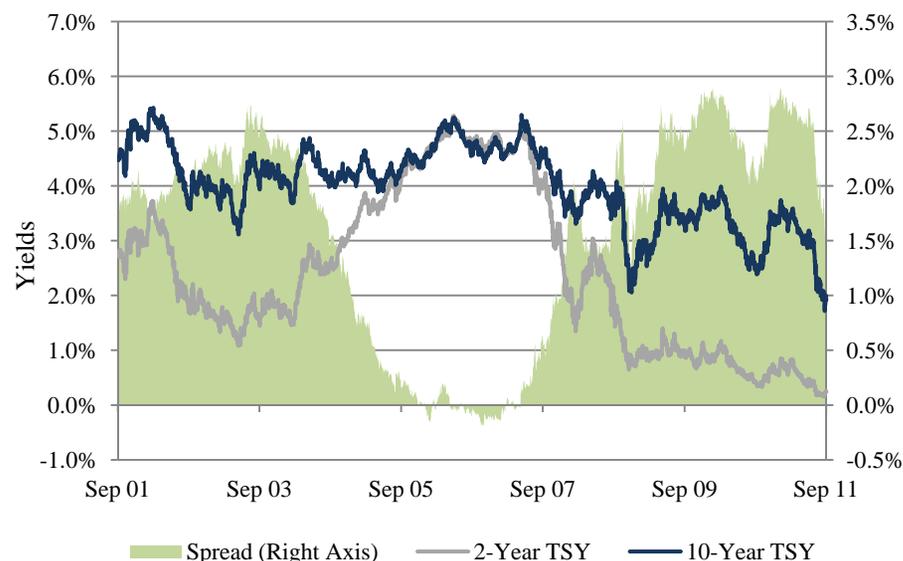


Source data: Bloomberg

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**

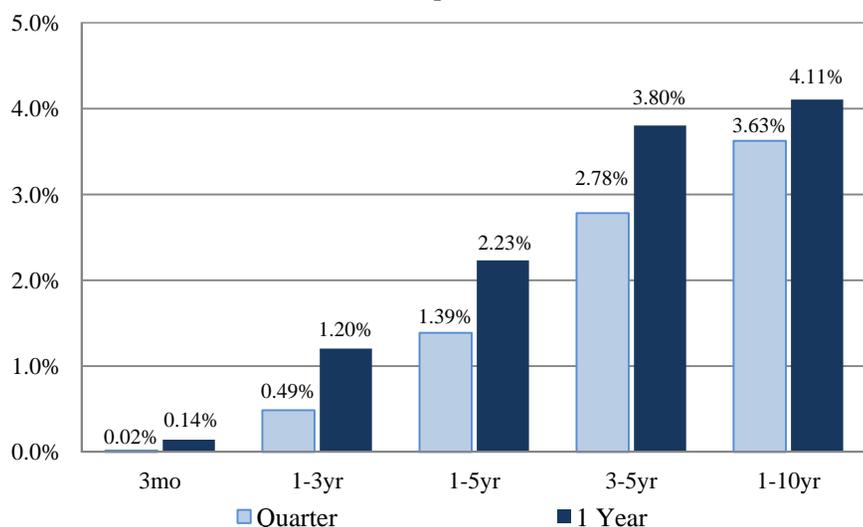
September 30, 2001 through September 30, 2011



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

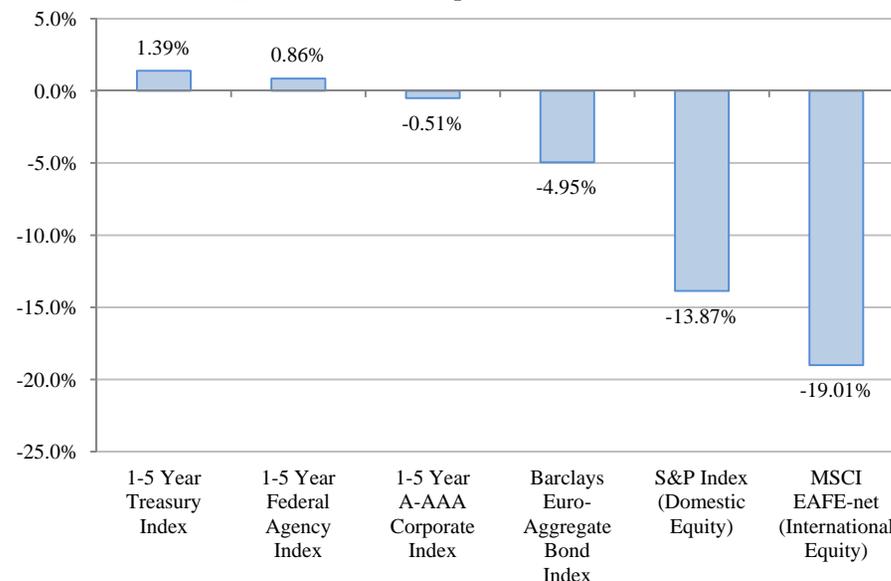


Source data: Bank of America Merrill Lynch; Bloomberg

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.

## Executive Summary

**PORTFOLIO STRATEGY**

- The City's Pooled Funds and Long Term Portfolios are of high credit quality and maintain adequate liquidity. The portfolios are invested entirely in Federal Agency, U.S. Treasury, and commercial paper securities. The securities are allocated among high quality issuers rated AA, A-1+ and A-1.
- Following the financial crisis in 2008, the investment universe bifurcated into safe assets (e.g. U.S. Treasuries and Agencies, gold, and currencies of export-based economies) and risky assets (e.g. almost everything else). The third quarter of 2011 was clearly a "risk off" quarter, as the weakening U.S. economy and lack of a comprehensive solution to the continuing European sovereign debt crisis weighed heavily on investors. As a result, safe assets performed well and riskier assets lost significant ground. In broad market terms, U.S. Treasuries were one of the best asset classes, while equities and lower-grade corporates lagged.
- Standard and Poor's lowered the United States of America's sovereign long-term credit rating to AA+ from AAA. Consequently, the ratings of agency securities that are backed by the U.S. Treasury also dropped to AA+ from AAA. The downgrade represents the credit rating agency's opinion that the effectiveness, stability and predictability of policymaking and political institutions have diminished, and therefore limit the government's ability to stabilize the medium term debt dynamics, during times of fiscal and economic challenges. The A-1+ short-term rating was affirmed. Standard and Poor's outlook on the long-term credit rating remained negative, leaving the possibility for a further downgrade to AA, if the fiscal and economic conditions do not improve within the next two years.
- Although the quarter began with rates very low, longer-term Treasury yields fell further in response to weakening economic fundamentals and the Fed's aggressively accommodative monetary policy actions. The 2-year Treasury note, which started the third quarter at a yield of 0.45%, hit a new all-time low of 0.15% (dating back to 1976) during the quarter before rebounding slightly to end the quarter at 0.25%. 5-year Treasuries also hit an all-time low (dating to 1953) of 0.76%. Treasuries of 10 year maturity and longer fell the most, as the market anticipated "Operation Twist," which was officially announced in late September.
- On September 21st, the Federal Reserve announced its new strategy, known as "Operation Twist", in which it will sell \$400 billion of short-term treasury securities and purchase the same amount in long-term maturities. The goal is to stimulate business investment and to allow for consumers to re-finance their mortgages at a lower rate. The Federal Reserve hopes that this action will increase disposable income and consumption, without having to further grow its balance sheet. This strategy is likely to result in a flatter yield curve, lowering yields on the long-end and raising yields on the short-end. The positive "roll down effect" would be reduced as the yield curve loses its steepness. Given that the Federal Reserve will stick to its strategy, this trend is likely to continue and may allow for us to take advantage of the yield increase going forward.
- At the beginning of the quarter, we targeted the Long Term Portfolio's duration at 81% of the benchmark's duration to reduce interest rate risk and the market value erosion that will occur if rates rise. For the third quarter, we fell 0.16% short of the benchmark return, as we maintained a conservative investment strategy in anticipation of higher future interest rates. Our conservative investment approach was based on our investment philosophy, according to which the preservation of principle takes precedence over returns. This is particularly true when operating in a record-low interest environment, where the low level of income lessens the buffer created against adverse market moves. Although the Federal Reserve is 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 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 Pooled Funds and Long Term Portfolios continue to provide the City with favorable yield relative to the benchmark. At quarter end the portfolios had a combined Yield to Maturity at Cost of 1.04%, exceeding the Yield of its benchmark the TexPool by 95 basis points (0.95%).
- As always, we strive to maintain the safety of principal while at the same time positioning the portfolios for growth and searching for tactical opportunities to enhance return. In these changing times, our strategy will remain flexible and may change in response to changes in interest rates, economic data, market outlook or specific opportunities that arise.

Summary Portfolio Statistics

<u>Amortized Cost and Market Value</u> <u>Account Name</u>	<b>Amortized Cost<sup>1,2,3</sup></b> <b>September 30, 2011</b>	Amortized Cost <sup>1,2,3</sup> June 30, 2011	<b>Market Value<sup>1,2,3</sup></b> <b>September 30, 2011</b>	Market Value <sup>1,2,3</sup> June 30, 2011	<b>Duration (Years)</b> <b>September 30, 2011</b>
Pooled Funds	\$5,402,021.88	\$5,401,265.76	\$5,403,478.38	\$5,404,410.26	0.120
Long Term Pooled Funds	18,864,547.04	18,889,947.43	19,062,553.78	19,082,388.97	1.220
TexPool	32,451,037.87	37,687,291.93	32,451,037.87	37,687,291.93	0.003
<b>Total</b>	<b>\$56,717,606.79</b>	<b>\$61,978,505.12</b>	<b>\$56,917,070.03</b>	<b>\$62,174,091.16</b>	<b>0.422</b>

<u>Yields</u> <u>Account Name</u>	<b>Yield to Maturity</b> <b>on Cost<sup>4</sup></b> <b>September 30, 2011</b>	Yield to Maturity on Cost <sup>4</sup> June 30, 2011	<b>Yield to Maturity</b> <b>at Market</b> <b>September 30, 2011</b>	Yield to Maturity at Market June 30, 2011	<b>Duration (Years)</b> <b>June 30, 2011</b>
Pooled Funds	0.37%	0.37%	0.18%	0.23%	0.370
Long Term Pooled Funds	1.23%	1.23%	0.26%	0.40%	1.460
TexPool <sup>5</sup>	0.09%	0.08%	0.09%	0.08%	0.003
<b>Weighted Average YTM</b>	<b>0.50%</b>	<b>0.46%</b>	<b>0.16%</b>	<b>0.19%</b>	<b>0.482</b>

**PFM Managed Portfolios Weighted Average YTM** 1.04%

<b>Monthly Interest earnings YTD<sup>6,7</sup></b>			
October 2010	\$45,640.24	April 2011	\$77,614.98
November 2010	(\$23,962.14)	May 2011	\$63,647.25
December 2010	(\$5,635.78)	June 2011	\$9,908.17
January 2011	\$27,183.66	July 2011	\$32,128.53
February 2011	(\$1,698.20)	August 2011	\$47,772.81
March 2011	\$6,547.82	September 2011	(\$10,889.49)

Notes:

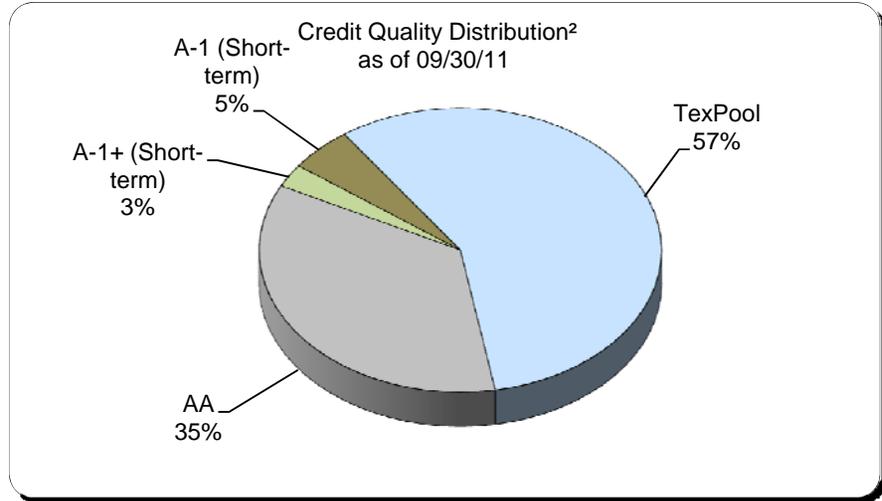
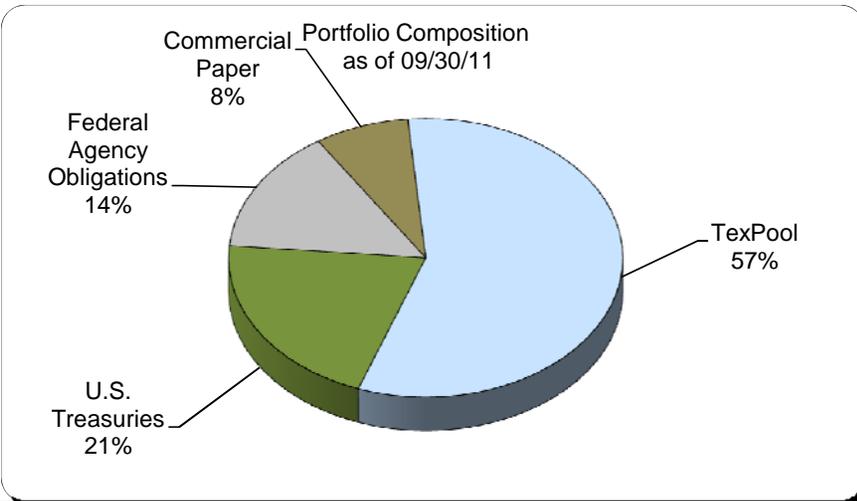
1. On a trade-date basis, including accrued interest.
2. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
3. Excludes any money market fund/cash balances held in custodian account.
4. Past performance is not indicative of future results.
5. TexPool yield is obtained from www.texpool.com.
6. Earnings are calculated on a cash basis and are subject to the receipt of coupon payments, maturities within the portfolio, and money market fund balances.
7. Earnings are net of fees.

## Summary Portfolio Amortized Cost and Market Value Analysis

MONEY MARKET FUNDS					6/30/2011	6/30/2011	6/30/2011	9/30/2011	9/30/2011	9/30/2011	CHANGE IN
CUSIP	DESCRIPTION	PAR	COUPON	MATURITY DATE	ACCRUED INTEREST	AMORTIZED COST	MARKET VALUE	ACCRUED INTEREST	AMORTIZED COST	MARKET VALUE	MARKET VALUE
TEXPOOL	TEXPOOL		0.000		0.00	37,687,291.93	37,687,291.93	0.00	32,451,037.87	32,451,037.87	-13.89%
					\$0.00	\$37,687,291.93	\$37,687,291.93	\$0.00	\$32,451,037.87	\$32,451,037.87	-13.89%
<b>TOTAL</b>					<b>\$0.00</b>	<b>\$37,687,291.93</b>	<b>\$37,687,291.93</b>	<b>\$0.00</b>	<b>\$32,451,037.87</b>	<b>\$32,451,037.87</b>	<b>-13.89%</b>
<b>POOLED FUNDS</b>											
<b>US TSY BOND/NOTE</b>											
912828MJ6	US TREASURY NOTES	\$1,000,000	0.875	01/31/12	\$3,649.86	\$1,003,078.31	\$1,004,375.00	\$1,474.18	\$1,001,751.29	\$1,002,695.00	-0.17%
		\$1,000,000			\$3,649.86	\$1,003,078.31	\$1,004,375.00	\$1,474.18	\$1,001,751.29	\$1,002,695.00	-0.17%
<b>COMMERCIAL PAPER</b>											
83365SXT5	SOCIETE GENERALE NA COMM PAPER	\$1,400,000	0.000	10/27/11	\$0.00	\$1,398,348.00	\$1,398,755.40	\$0.00	\$1,399,636.00	\$1,399,759.20	0.07%
0556N1XT5	BNP PARIBAS FINANCE INC COMM PAPER	1,500,000	0.000	10/27/11	0.00	1,498,082.51	1,498,815.00	0.00	1,499,577.50	1,499,775.00	0.06%
22532CXT6	CREDIT AGRICOLE NA COMM PAPER	1,500,000	0.000	10/27/11	0.00	1,498,107.08	1,498,815.00	0.00	1,499,582.91	1,499,775.00	0.06%
		\$4,400,000			\$0.00	\$4,394,537.59	\$4,396,385.40	\$0.00	\$4,398,796.41	\$4,399,309.20	0.07%
<b>TOTAL</b>		<b>\$5,400,000.00</b>			<b>\$3,649.86</b>	<b>\$5,397,615.90</b>	<b>\$5,400,760.40</b>	<b>\$1,474.18</b>	<b>\$5,400,547.70</b>	<b>\$5,402,004.20</b>	<b>0.023%</b>
<b>LONG TERM POOLED FUND</b>											
<b>FED AGY BOND/NOTE</b>											
3137EACF4	FHLMC NOTES	\$498,000	1.125	12/15/11	\$249.00	\$498,323.03	\$500,241.50	\$1,649.63	\$498,145.75	\$499,010.44	-0.25%
31398AB43	FNMA NOTES	2,260,000	0.875	01/12/12	9,283.26	2,257,086.57	2,267,383.42	4,339.51	2,258,458.88	2,264,501.92	-0.13%
3133XTAW6	FHLB GLOBAL BONDS	985,000	2.250	04/13/12	4,801.88	988,408.72	999,978.90	10,342.50	987,327.05	995,478.43	-0.45%
31398AYM8	FNMA NOTES	1,570,000	1.750	08/10/12	10,761.04	1,566,401.61	1,594,360.12	3,892.29	1,567,207.06	1,589,642.27	-0.30%
31398AJ94	FNMA GLOBAL NOTES	1,005,000	1.750	05/07/13	2,638.13	1,002,935.49	1,027,581.35	7,035.00	1,003,210.30	1,025,759.28	-0.18%
3133XGVF8	FHLB GLOBAL BONDS	905,000	5.125	08/14/13	17,650.64	982,321.71	992,475.49	6,055.33	973,287.70	984,815.57	-0.77%
3137EACL1	FHLMC NOTES	810,000	0.875	10/28/13	1,240.31	810,687.05	813,730.05	3,012.19	810,613.83	817,103.70	0.41%
		\$8,033,000			\$46,624.26	\$8,106,164.18	\$8,195,750.83	\$36,326.45	\$8,098,250.57	\$8,176,311.61	-0.24%
<b>US TSY BOND/NOTE</b>											
912828KP4	US TREASURY NOTES	\$2,000,000	1.375	5/15/2012	\$3,512.23	\$1,998,108.68	\$2,020,156.00	\$10,387.23	\$1,998,648.44	\$2,015,156.00	-0.25%
912828LB4	US TREASURY NOTES	1,500,000	1.500	7/15/2012	10,379.83	1,499,876.45	1,519,570.31	4,769.02	1,499,906.12	1,515,528.00	-0.27%
912828PD6	US TREASURY NOTES	1,620,000	0.375	10/31/2012	1,023.51	1,619,316.70	1,621,582.74	2,542.26	1,619,444.70	1,623,353.40	0.11%
912828QL7	US TREASURY NOTES	2,500,000	0.750	3/31/2013	4,713.11	2,497,852.10	2,514,650.00	51.23	2,498,158.95	2,519,625.00	0.20%
912828PU8	US TREASURY NOTES	600,000	0.500	11/15/2013	383.15	594,167.63	598,546.80	1,133.15	594,776.36	602,296.80	0.63%
912828PZ7	US TREASURY NOTES	2,500,000	1.250	3/15/2014	9,171.20	2,498,654.40	2,536,325.00	1,373.63	2,498,778.93	2,553,700.00	0.69%
		\$10,720,000			\$29,183.03	\$10,707,975.96	\$10,810,830.85	\$20,256.52	\$10,709,713.50	\$10,829,659.20	0.17%
<b>TOTAL</b>		<b>\$18,753,000</b>			<b>\$75,807.29</b>	<b>\$18,814,140.14</b>	<b>\$19,006,581.68</b>	<b>\$56,582.97</b>	<b>\$18,807,964.07</b>	<b>\$19,005,970.81</b>	<b>-0.003%</b>
<b>TOTAL PORTFOLIO</b>		<b>\$24,153,000</b>			<b>\$79,457.15</b>	<b>\$61,899,047.97</b>	<b>\$62,094,634.01</b>	<b>\$58,057.15</b>	<b>\$56,659,549.64</b>	<b>\$56,859,012.88</b>	<b>-8.43%</b>

Summary Portfolio Composition and Credit Quality Characteristics

<u>Security Type<sup>1</sup></u>	<u>September 30, 2011</u>	<u>% of Portfolio</u>	<u>June 30, 2011</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$11,854,084.90	20.8%	\$11,848,038.74	4.4%
Federal Agencies	8,212,638.06	14.4%	8,242,375.09	49.1%
Commercial Paper	4,399,309.20	7.7%	4,396,385.40	0.0%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers Acceptances	0.00	0.0%	0.00	0.0%
Repurchase Agreements	0.00	0.0%	0.00	0.0%
Municipal Obligations	0.00	0.0%	0.00	0.0%
Corporate Notes/Bonds	0.00	0.0%	0.00	0.0%
TexSTAR	0.00	0.00%	0.00	0.0%
TexPool	32,451,037.87	57.0%	37,687,291.93	46.5%
<b>Totals</b>	<b>\$56,917,070.03</b>	<b>100.0%</b>	<b>\$62,174,091.16</b>	<b>100.0%</b>

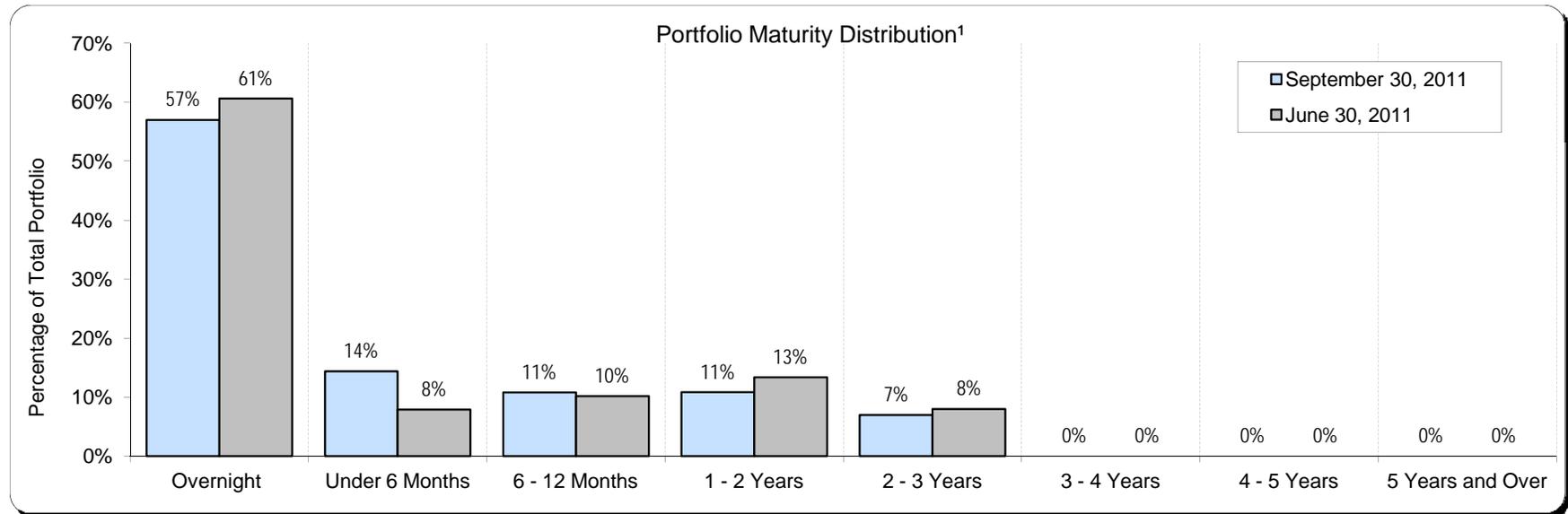


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP. Standard & Poor's is the source of the credit ratings.

Summary Portfolio Maturity Distribution

<u>Maturity Distribution</u> <sup>1</sup>	<u>September 30, 2011</u>	<u>June 30, 2011</u>
Overnight (Money Market Fund)	\$32,451,037.87	\$37,687,291.93
Under 6 Months	8,172,979.88	4,896,875.90
6 - 12 Months	6,145,195.74	6,313,140.55
1 - 2 Years	6,169,237.07	8,307,260.14
2 - 3 Years	3,978,619.47	4,969,522.64
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$56,917,070.03</b>	<b>\$62,174,091.16</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.

Summary Portfolio General Ledger Entries<sup>1</sup>

<b>Earnings Calculation</b>		<b>Market Value Basis</b>	<b>Source Document</b>
<b>7/31/2011</b>			
July Market Value		60,756,614.83	1 Account Summary Page
July Accrued Interest		76,077.39	2 Account Summary Page
Less (Purchases & Deposits)		(472,495.45)	3 Security Transactions & Interest
Less Purchased Interest		-	4 Security Transactions & Interest
Add (Sales, Maturities, Paydowns, Withdrawals)		1,820,000.00	5 Security Transactions & Interest
Add Interest Receipts		27,619.58	6 Security Transactions & Interest
Less June Market Value		(62,094,634.01)	7 Account Summary Page
Less June Accrued Interest		(79,457.15)	8 Account Summary Page
<b>Earnings</b>		<b>33,725.19</b>	

<b>Change in Investment Market Value</b>	<b>(1,338,019.18)</b>	(1 - 7)
<b>Change in Accrued Interest</b>	<b>(3,379.76)</b>	(2 - 8)
<b>Change in Cash</b>	<b>1,375,124.13</b>	(sum 3 thru 6)

<b>Investment Entries</b>		<b>Debit</b>	<b>Credit</b>	<b>Source Document</b>
<i>To Record Investment Activity</i>				
Cash	1,347,504.55			Security Transactions & Interest
Investments			1,338,019.18	Amortization/Accretion
Investment Income			9,485.37	Earnings
To record investment income/changes				
Cash	27,619.58			Security Transactions & Interest
Accrued Interest			3,379.76	Accrued Interest Difference
Investment Income			24,239.82	Earnings
To record interest income/changes				

Notes:

1. Earnings are calculated using Market Value. This includes unrealized gains and losses, and income.

Summary Portfolio General Ledger Entries<sup>1</sup>

<b>Earnings Calculation</b>		<b>Market Value Basis</b>	<b>Source Document</b>
<b>8/31/2011</b>			
August Market Value		58,049,101.50	1 Account Summary Page
August Accrued Interest		61,255.97	2 Account Summary Page
Less (Purchases & Deposits)		(1,309,379.71)	3 Security Transactions & Interest
Less Purchased Interest		-	4 Security Transactions & Interest
Add (Sales, Maturities, Paydowns, Withdrawals)		4,043,733.41	5 Security Transactions & Interest
Add Interest Receipts		39,510.27	6 Security Transactions & Interest
Less July Market Value		(60,758,721.91)	7 Account Summary Page
Less July Accrued Interest		(76,077.39)	8 Account Summary Page
<b>Earnings</b>		<b>49,422.14</b>	

<b>Change in Investment Market Value</b>	<b>-2,709,620.41</b>	(1 - 7)
<b>Change in Accrued Interest</b>	<b>(14,821.42)</b>	(2 - 8)
<b>Change in Cash</b>	<b>2,773,863.97</b>	(sum 3 thru 6)

<b>Investment Entries</b>			
<i>To Record Investment Activity</i>			
	<b>Debit</b>	<b>Credit</b>	<b>Source Document</b>
Cash	2,734,353.70		Security Transactions & Interest
Investments		2,709,620.41	Amortization/Accretion
Investment Income		24,733.29	Earnings
To record investment income/changes			
Cash	39,510.27		Security Transactions & Interest
Accrued Interest		14,821.42	Accrued Interest Difference
Investment Income		24,688.85	Earnings
To record interest income/changes			

Notes:

1. Earnings are calculated using Market Value. This includes unrealized gains and losses, and income.

Summary Portfolio General Ledger Entries<sup>1</sup>

<b>Earnings Calculation</b>		<b>Market Value Basis</b>	<b>Source Document</b>
<b>9/30/2011</b>			
September Market Value		56,856,521.79	1 Account Summary Page
September Accrued Interest		58,057.15	2 Account Summary Page
Less (Purchases & Deposits)		(498,160.11)	3 Security Transactions & Interest
Less Purchased Interest		-	4 Security Transactions & Interest
Add (Sales, Maturities, Paydowns, Withdrawals)		1,659,736.23	5 Security Transactions & Interest
Add Interest Receipts		27,491.09	6 Security Transactions & Interest
Less August Market Value		(58,051,683.64)	7 Account Summary Page
Less August Accrued Interest		(61,255.97)	8 Account Summary Page
<b>Earnings</b>		<b>(9,293.46)</b>	

<b>Change in Investment Market Value</b>	<b>(1,195,161.85)</b>	(1 - 7)
<b>Change in Accrued Interest</b>	<b>(3,198.82)</b>	(2 - 8)
<b>Change in Cash</b>	<b>1,189,067.21</b>	(sum 3 thru 6)

<b>Investment Entries</b>			
<i>To Record Investment Activity</i>	<b>Debit</b>	<b>Credit</b>	<b>Source Document</b>
Cash	1,161,576.12		Security Transactions & Interest
Investments		1,195,161.85	Amortization/Accretion
Investment Income	33,585.73		Earnings
To record investment income/changes			
Cash	27,491.09		Security Transactions & Interest
Accrued Interest		3,198.82	Accrued Interest Difference
Investment Income		24,292.27	Earnings
To record interest income/changes			

Notes:

1. Earnings are calculated using Market Value. This includes unrealized gains and losses, and income.

Pooled Funds Portfolio Statistics

<u>Account Name</u>	<b>Amortized Cost<sup>1,2,3</sup> September 30, 2011</b>	Amortized Cost <sup>1,2,3</sup> <u>June 30, 2011</u>	<b>Market Value<sup>1,2,3</sup> September 30, 2011</b>	Market Value <sup>1,2,3</sup> <u>June 30, 2011</u>	<b>Duration (Years) September 30, 2011</b>
Pooled Funds	<b>\$5,402,021.88</b>	\$5,401,265.76	<b>\$5,403,478.38</b>	\$5,404,410.26	<b>0.120</b>

<u>Account Name</u>	<b>Yield to Maturity on Cost<sup>4</sup> September 30, 2011</b>	Yield to Maturity on Cost <sup>4</sup> <u>June 30, 2011</u>	<b>Yield to Maturity at Market September 30, 2011</b>	Yield to Maturity at Market <u>June 30, 2011</u>	Duration (Years) <u>June 30, 2011</u>
Pooled Funds	<b>0.37%</b>	0.37%	<b>0.18%</b>	0.23%	0.370

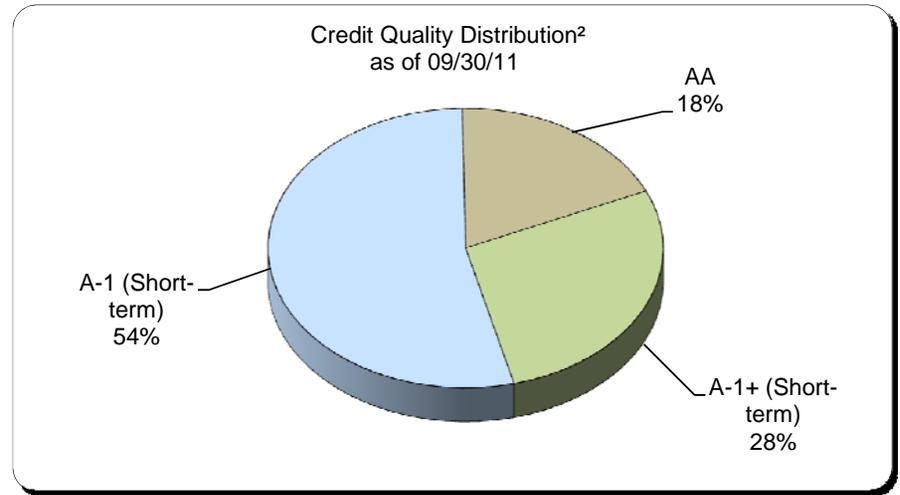
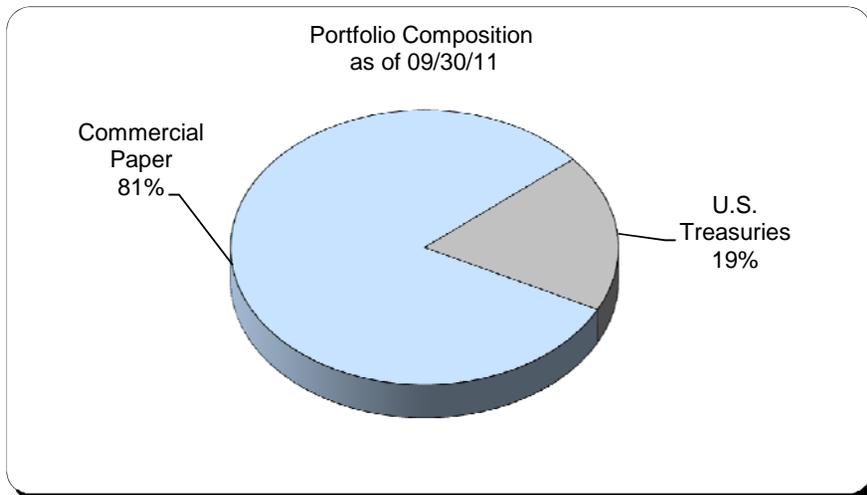
<u>Benchmarks<sup>5</sup></u>	<b>September 30, 2011</b>	<u>June 30, 2011</u>
TexPool <sup>6</sup>	<b>0.09%</b>	0.08%

Notes:

1. On a trade-date basis, including accrued interest.
2. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
3. Excludes any money market fund/cash balances held in custodian account.
4. Past performance is not indicative of future results.
5. Returns presented on an annualized basis as of September 30, 2011.
6. TexPool yield is obtained from www.texpool.com.

Pooled Funds Portfolio Composition and Credit Quality Characteristics

<u>Security Type<sup>1</sup></u>	<u>September 30, 2011</u>	<u>% of Portfolio</u>	<u>June 30, 2011</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$1,004,169.18	18.6%	\$1,008,024.86	18.7%
Federal Agencies	0.00	0.0%	0.00	0.0%
Commercial Paper	4,399,309.20	81.4%	4,396,385.40	81.3%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers Acceptances	0.00	0.0%	0.00	0.0%
Repurchase Agreements	0.00	0.0%	0.00	0.0%
Municipal Obligations	0.00	0.0%	0.00	0.0%
Corporate Notes/Bonds	0.00	0.0%	0.00	0.0%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	0.00	0.0%	0.00	0.0%
<b>Totals</b>	<b>\$5,403,478.38</b>	<b>100.0%</b>	<b>\$5,404,410.26</b>	<b>100.0%</b>

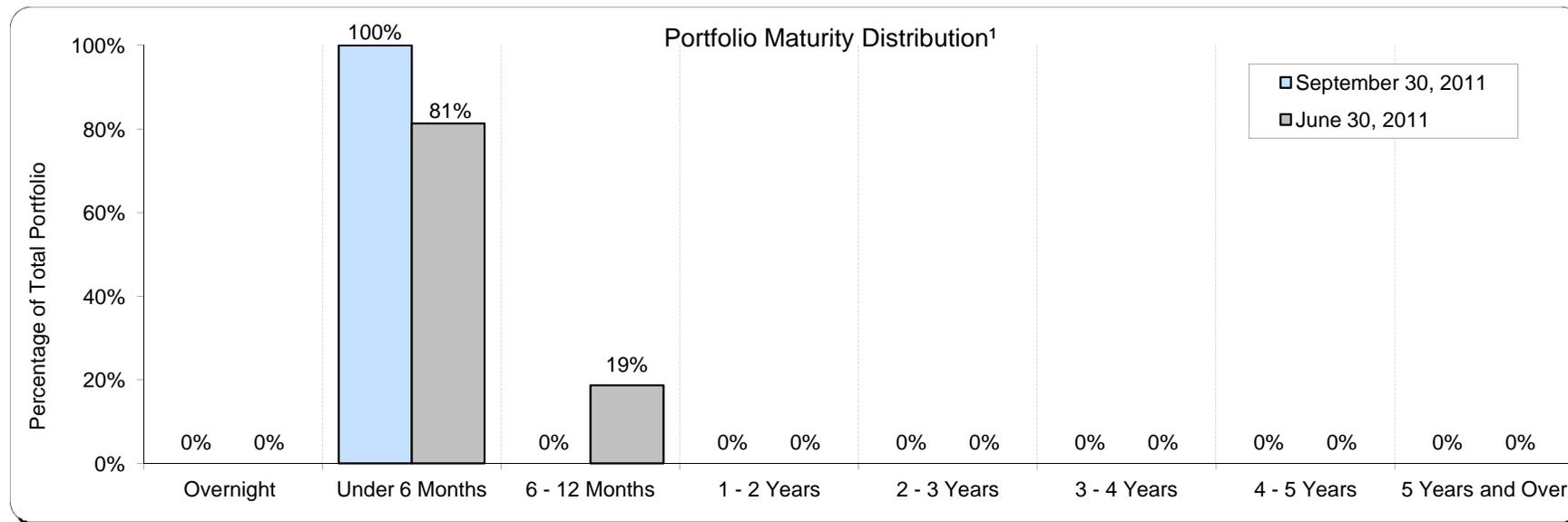


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP. Standard & Poor's is the source of the credit ratings.

Pooled Funds Portfolio Maturity Distribution

<u>Maturity Distribution<sup>1</sup></u>	<u>September 30, 2011</u>	<u>June 30, 2011</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	5,403,478.38	4,396,385.40
6 - 12 Months	0.00	1,008,024.86
1 - 2 Years	0.00	0.00
2 - 3 Years	0.00	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$5,403,478.38</b>	<b>\$5,404,410.26</b>



Notes:

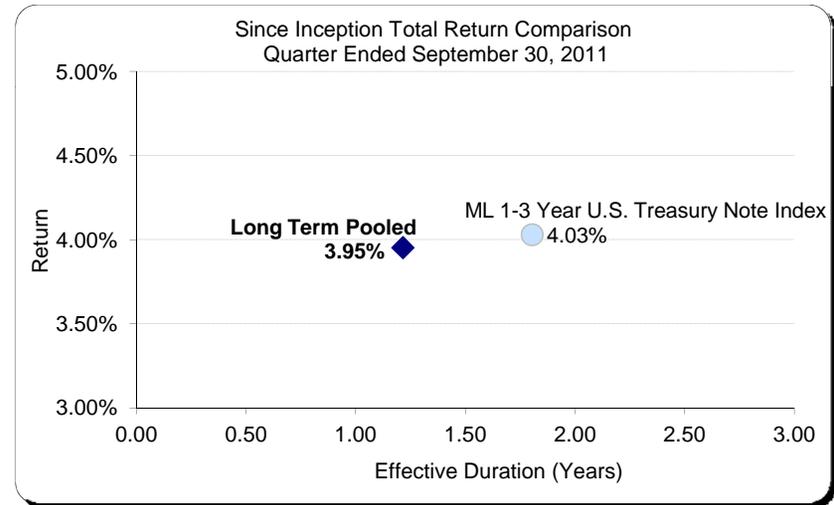
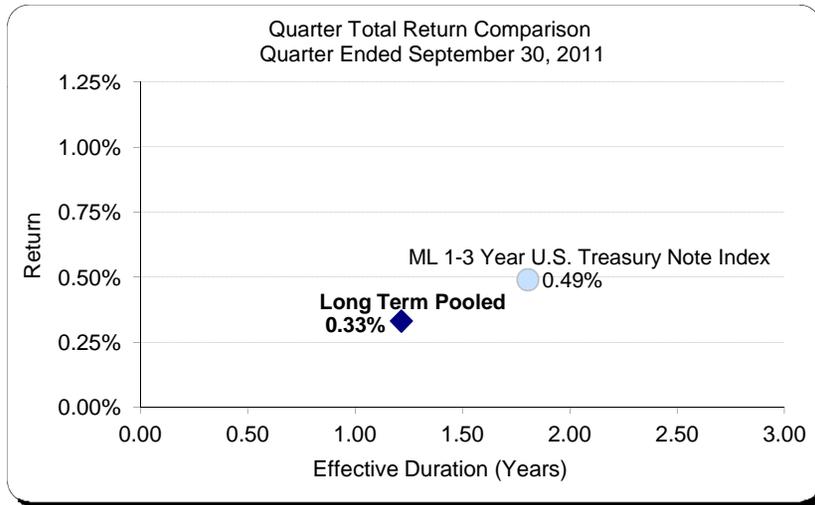
1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

Long Term Pooled Fund Portfolio Performance

Total Portfolio Value <sup>1,2</sup>	September 30, 2011	June 30, 2011
Market Value	\$19,062,553.78	\$19,082,388.97
Amortized Cost	\$18,864,547.04	\$18,889,947.43

Total Return <sup>1,2,3,4,5,7,8</sup>	Quarterly Return September 30, 2011	Year to Date	Last 12 Months	Last 24 Months	Since Inception 6/30/2006
<b>Long Term Pooled Fund</b>	<b>0.33%</b>	<b>1.18%</b>	<b>1.17%</b>	<b>1.70%</b>	<b>3.95%</b>
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.49%	1.36%	1.20%	1.87%	4.03%

Effective Duration(Years)	September 30, 2011	June 30, 2011	Yields	September 30, 2011	June 30, 2011
<b>Long Term Pooled Fund</b>	<b>1.22</b>	<b>1.46</b>	Yield at Market	<b>0.26%</b>	0.40%
ML 1-3 Year U.S. Treasury Note Index	1.81	1.80	Yield at Cost	<b>1.23%</b>	1.23%
Portfolio Duration % of Benchmark Duration	67%	81%			

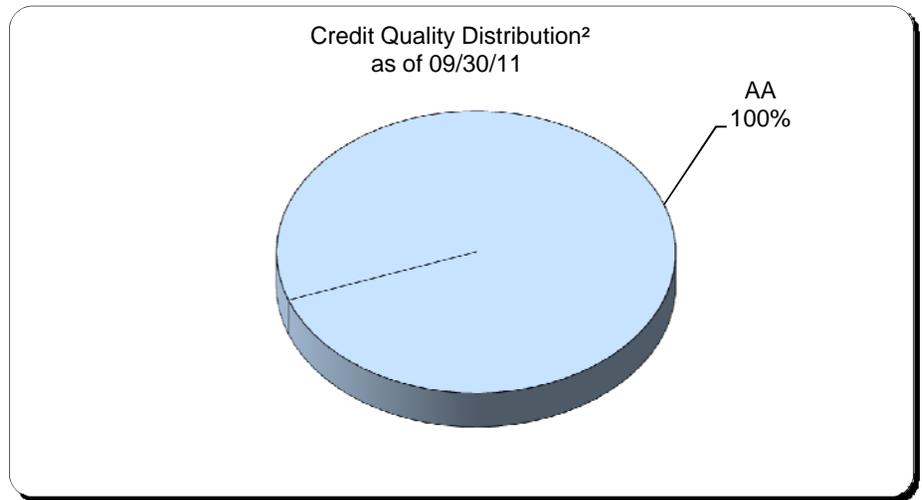
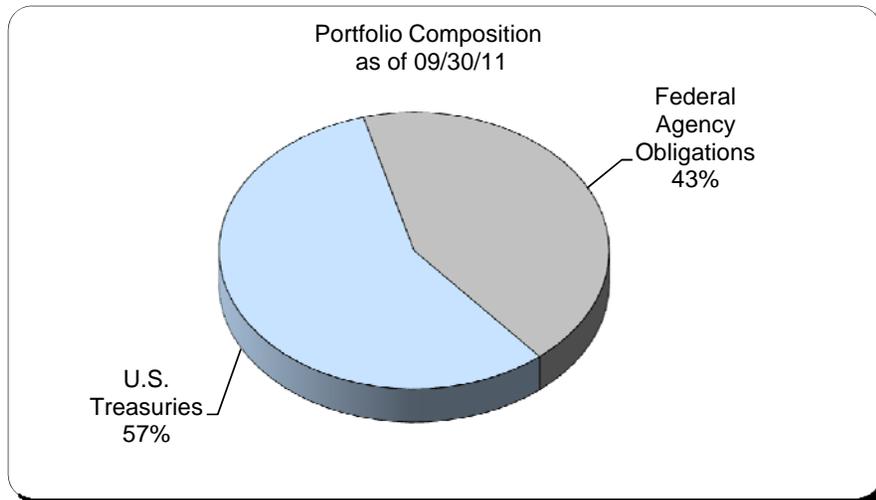


Notes:

1. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
2. End of quarter trade-date market values of portfolio holdings, including accrued interest.
3. Performance on trade date basis, gross (i.e., before fees), is in accordance with The CFA Institute's Global Investment Performance Standards (GIPS).
4. Merrill Lynch Indices provided by Bloomberg Financial Markets.
5. Quarterly returns are presented on an unannualized basis.
6. Excludes money market fund/cash in performance and duration computations.
7. Returns presented for 12 months or longer are presented on an annual basis.
8. Past performance is not indicative of future results.

Long Term Pooled Fund Portfolio Composition and Credit Quality Characteristics

<u>Security Type<sup>1</sup></u>	<u>September 30, 2011</u>	<u>% of Portfolio</u>	<u>June 30, 2011</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$10,849,915.72	56.9%	\$10,840,013.88	56.8%
Federal Agencies	8,212,638.06	43.1%	8,242,375.09	43.2%
Commercial Paper	0.00	0.0%	0.00	0.0%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers Acceptances	0.00	0.0%	0.00	0.0%
Repurchase Agreements	0.00	0.0%	0.00	0.0%
Municipal Obligations	0.00	0.0%	0.00	0.0%
Corporate Notes/Bonds	0.00	0.0%	0.00	0.0%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	0.00	0.0%	0.00	0.0%
<b>Totals</b>	<b>\$19,062,553.78</b>	<b>100.0%</b>	<b>\$19,082,388.97</b>	<b>100.0%</b>

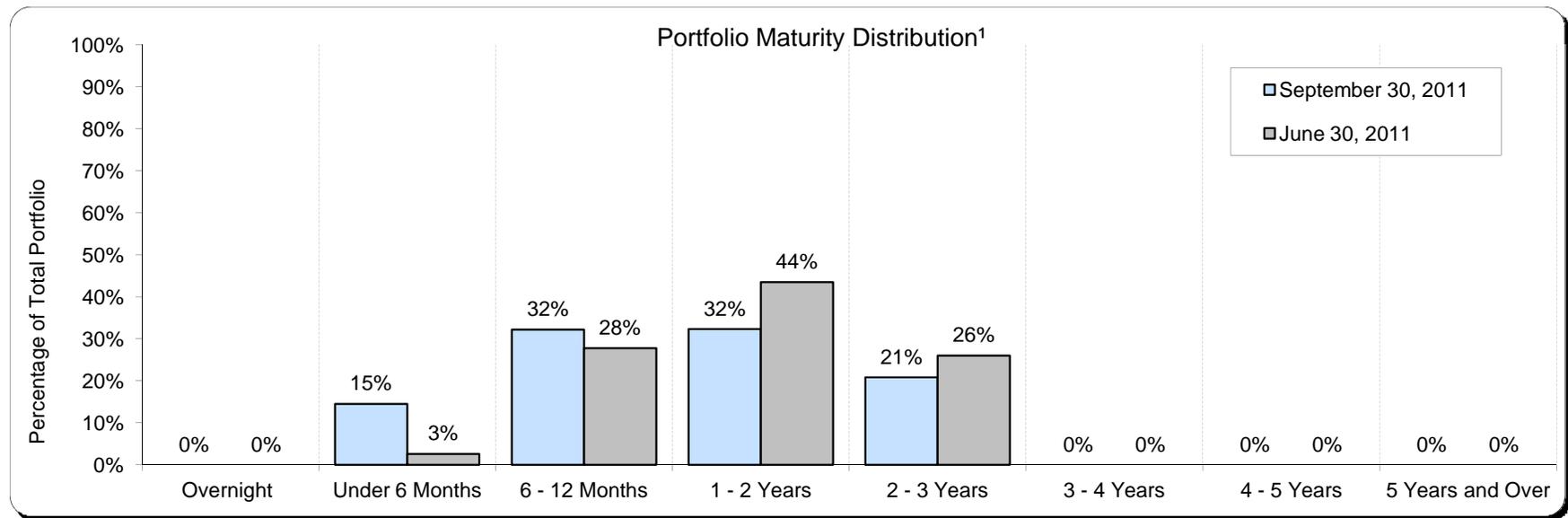


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP. Standard & Poor's is the source of the credit ratings.

Long Term Pooled Fund Portfolio Maturity Distribution

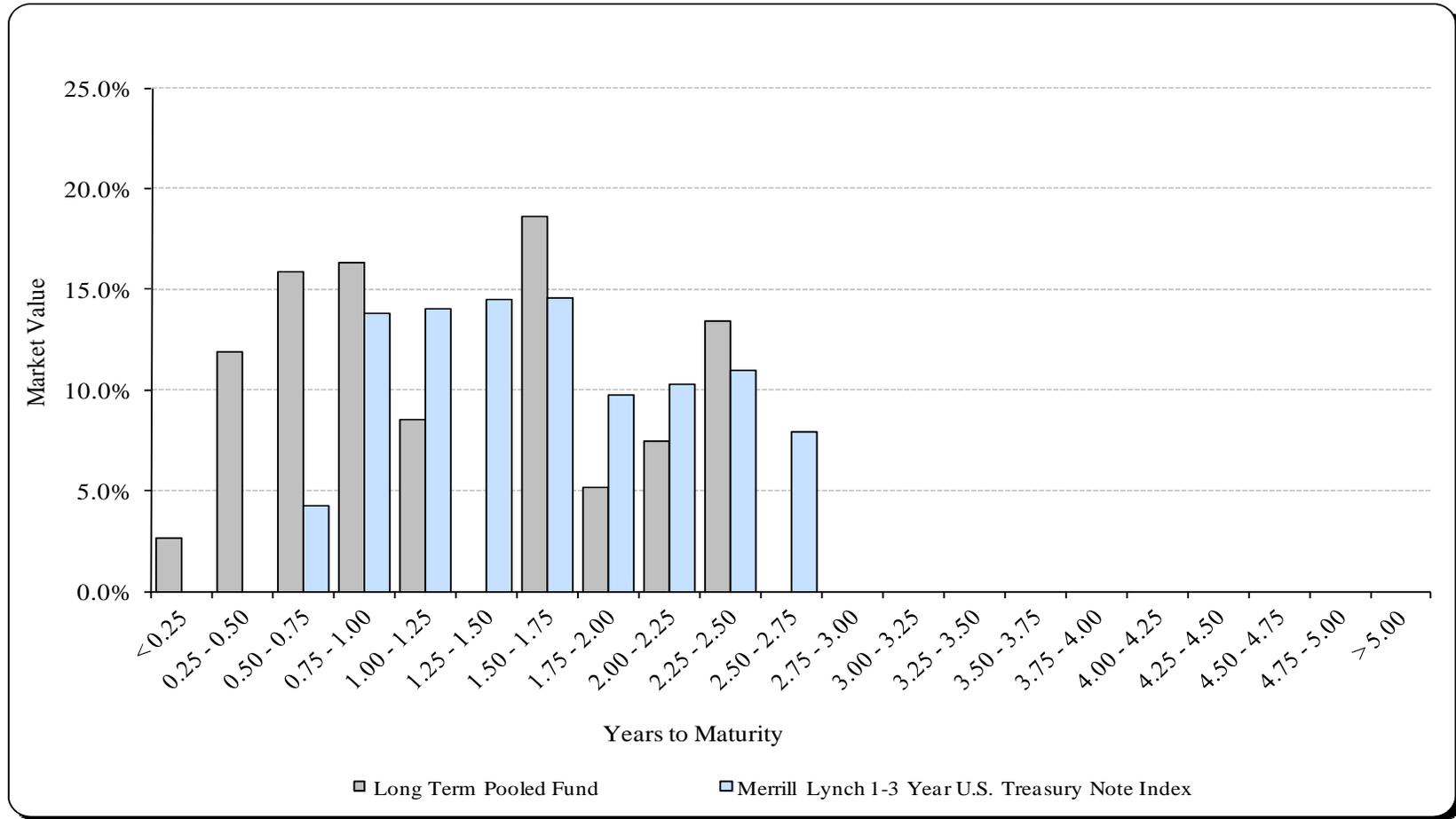
<u>Maturity Distribution<sup>1</sup></u>	<u>September 30, 2011</u>	<u>June 30, 2011</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	2,769,501.50	500,490.50
6 - 12 Months	6,145,195.74	5,305,115.69
1 - 2 Years	6,169,237.07	8,307,260.14
2 - 3 Years	3,978,619.47	4,969,522.64
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$19,062,553.78</b>	<b>\$19,082,388.97</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.

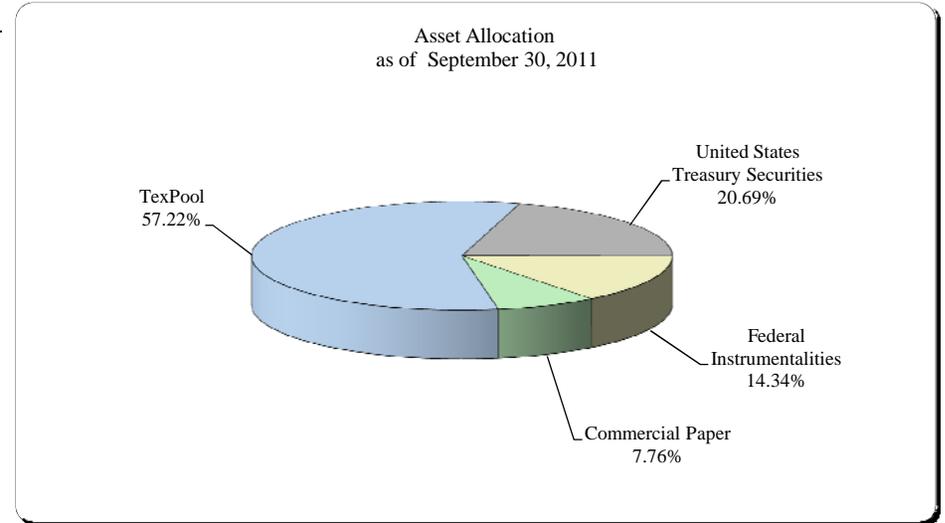
Long Term Pooled Fund Portfolio Maturity Distribution versus the Benchmark<sup>1</sup>



Notes:

1. Due to the nature of the security, Mortgage-Backed Securities are represented based on their average life maturity rather than their final maturity.

Security Type <sup>2</sup>	September 30, 2011	Notes	Permitted by Policy
TexStar	0.00%		100%
TexPool	57.22%		100%
United States Treasury Securities	20.69%		100%
United States Government Agency Securities	0.00%		100%
Federal Instrumentalities	14.34%	1	100%
Certificates of Deposit	0.00%		20%
Repurchase Agreements	0.00%		20%
Commercial Paper	7.76%		25%
Corporate Notes TLGP - FDIC insured	0.00%		50%
Mortgage-Backed Securities	0.00%	1	40%
Bankers' Acceptances	0.00%		25%
State and/or Local Government Debt	0.00%		25%
Fixed Income Money Market Mutual Funds	0.00%		50%
Intergovernmental Investment Pool	0.00%		100%



Individual Issuer Breakdown	September 30, 2011	Notes	Permitted by Policy
Government National Mortgage Association (GNMA)	0.00%		40%
US Export-Import Bank (Ex-Im)	0.00%		40%
Farmers Home Administration (FMHA)	0.00%		40%
Federal Financing Bank	0.00%		40%
Federal Housing Administration (FHA)	0.00%		40%
General Services Administration	0.00%		40%
New Communities Act Debentures	0.00%		40%
US Public Housing Notes & Bonds	0.00%		40%
US Dept. of Housing and Urban Development	0.00%		40%
Federal Farm Credit Bank (FFCB)	0.00%		40%
Federal Home Loan Bank (FHLB)	3.49%		40%
Federal National Mortgage Association (FNMA)	8.54%		40%
Federal Home Loan Mortgage Corporation (FHLMC)	2.32%		40%
Student Loan Marketing Association (SLMA)	0.00%		N/A

Individual Issuer Breakdown	September 30, 2011	Notes	Permitted by Policy
CD - Bank A	0.00%		10%
CD - Bank B	0.00%		10%
Fully collateralized Repo - A	0.00%		10%
Fully collateralized Repo - B	0.00%		10%
BNP Paribas CP	2.64%		5%
Credit Agricole CP	2.64%		5%
Societe Generale CP	2.47%		5%
Corporate Notes TLGP - FDIC insured A	0.00%		25%
Corporate Notes TLGP - FDIC insured B	0.00%		25%
BA Bank A	0.00%		5%
BA Bank B	0.00%		5%
State and/or Local Government Debt	0.00%		25%
Money Market Fund A	0.00%		25%
Money Market Fund B	0.00%		25%

Notes:  
 1. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 100%. The combined total as of September 30, 2011 is 14.34%.  
 2. End of month trade-date amortized cost of portfolio holdings, including accrued interest.

**Investment Officer's Certification**

This report is prepared for City of Rowlett (the "City") in accordance with Chapter 2256 of the Public Funds Investment Act ("PFIA"). Section 2256.023(a) of the PFIA states that "Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of the investment transactions for all funds covered by this chapter for the preceding reporting period." This report which covers the month ended September 30, 2011, is signed by the City's investment officers and includes the disclosures required in the PFIA.

The investment portfolio complied with the PFIA and the City's approved Investment Policy and Strategy throughout the month. All investment transactions made in the City's portfolio during this month were made on behalf of the City and were made in full compliance with the PFIA and the City's approved Investment Policy.

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Brian Funderburk, Assistant City Manager

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Ann M. Honza, Director of Financial Services