

# City of Rowlett, Texas



## Investment Performance Review Quarter Ended December 31, 2012

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# TAB I

### Summary

- In the fourth quarter, the markets were impacted by U.S. politics and policies—particularly the presidential election, the Federal Reserve's (Fed's) new round of quantitative easing (QE3), and fiscal cliff negotiations.
- The U.S. housing market continued to show signs of improvement, and the unemployment rate was unchanged for the quarter at 7.8%.
- The domestic economy has seen modest growth over the past year, and while the resolution of the fiscal cliff talks has relieved investors, increasing the federal debt ceiling must now be addressed.

### Economic Snapshot

- New-home sales in the U.S. rose to their highest level in two-and-a-half years in November, jumping 15.3% from a year earlier.
- The Consumer Price Index rose 1.8% year-over-year in November before seasonal adjustment. Wage increases have been subdued as evidenced by the change in hourly earnings, which has averaged less than 2% in recent months.
- Fourth quarter U.S. gross domestic product (GDP) growth is expected to be in a range of 1% to 2%, which is slower than GDP growth experienced in the third quarter.
- Superstorm Sandy, which blew through the East Coast in October, caused massive amounts of damage, closed the markets for two days, and depressed economic activity across a third of the nation.
- Economic concerns about Europe somewhat subsided, which pushed European stock markets higher. The MSCI Europe Index rose 7.02% for the quarter.

### Interest Rates

- Interest rates rose slightly during the quarter across most maturities, while yield spreads on Agencies, corporates, and mortgage-backed securities (MBS) remained narrow.
- Treasury yields fell in the first half of November, but then moved higher as investors shifted assets into the rallying stock market.
- The Fed announced that it will keep short-term rates at extremely low levels until the unemployment rate falls below 6.5%, and the prospect remains for long-run inflation to stay below 2.5%. The Fed also initiated further quantitative easing with an open-ended program to buy \$45 billion in Treasuries in addition to its existing program to purchase \$40 billion in Agency mortgage-backed securities each month.

### Sector Performance

- Returns of high-quality corporate bonds (especially financial firms) performed well for the quarter, as these issuers continued to be bolstered by global central bank support for financial markets.
- The Fed's QE3 purchase program initially caused Agency MBS to appreciate sharply in value, but that trend quickly reversed and Agency MBS underperformed other fixed-income sectors for the quarter.
- The performance of municipal bonds suffered in the fourth quarter, as fiscal cliff negotiations about possible changes to the tax code caused investors to sell positions.
- Reduced supply of Agencies kept spreads at historically narrow levels; Agencies became relatively less attractive over the quarter.

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**Economic Snapshot**

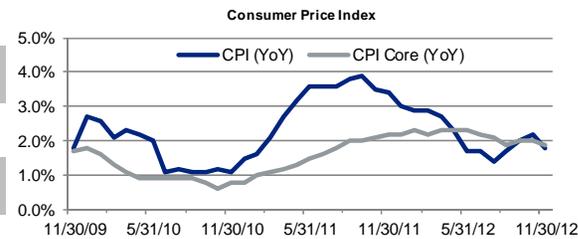
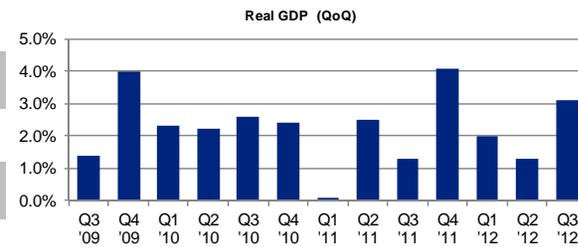
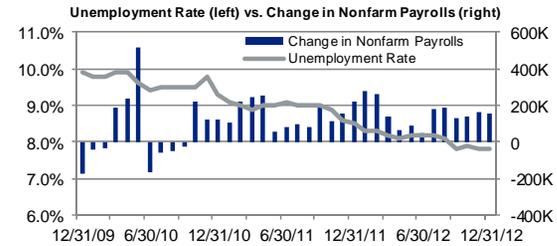
Labor Market		Latest	Sep 2012	Dec 2011
Unemployment Rate	Dec	7.8%	7.8%	8.5%
Change In Non-Farm Payrolls (month)	Dec	155,000	132,000	223,000
Average Hourly Earnings (YoY)	Dec	2.1%	1.9%	2.1%
Personal Income (YoY)	Nov	4.1%	3.5%	3.6%
Initial Jobless Claims (Month)	Dec 28	372,000	369,000	383,000

Growth		Latest	Sep 2012	Dec 2011
Real GDP (QoQ SAAR)	Q3	3.1%	1.3% <sup>1</sup>	4.1% <sup>2</sup>
GDP Personal Consumption (QoQ SAAR)	Q3	1.6%	1.5% <sup>1</sup>	2.0% <sup>2</sup>
Retail Sales (YoY)	Nov	3.7%	5.4%	6.8%
ISM Manufacturing Survey	Dec	50.7	51.5	53.1
Existing Home Sales (millions) - month	Nov	5.04	4.69	4.38

Inflation / Prices		Latest	Sep 2012	Dec 2011
Personal Consumption Expenditures (YoY)	Nov	1.4%	1.6%	2.4%
Consumer Price Index (YoY)	Nov	1.8%	2.0%	3.0%
Consumer Price Index Core (YoY)	Nov	1.5%	2.1%	4.7%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$91.82	\$92.19	\$98.83
Gold Futures (oz)	Dec 31	\$1,676	\$1,771	\$1,567

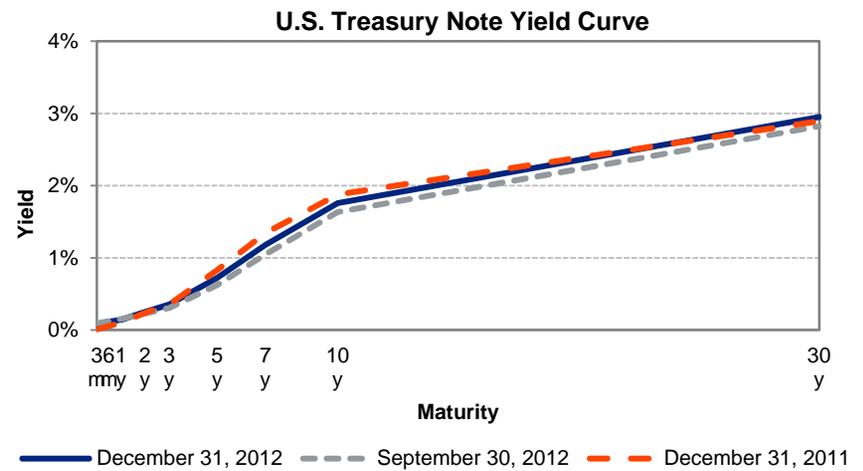
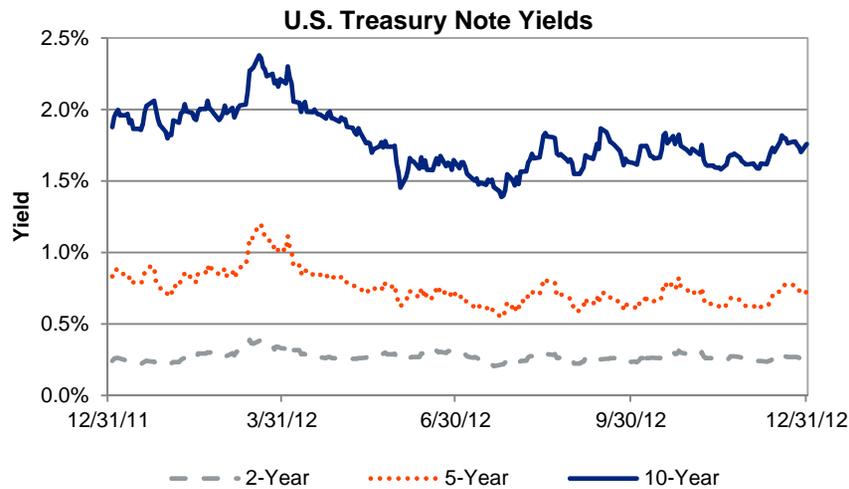


1. Data as of Second Quarter 2012      2. Data as of Fourth Quarter 2011

Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate

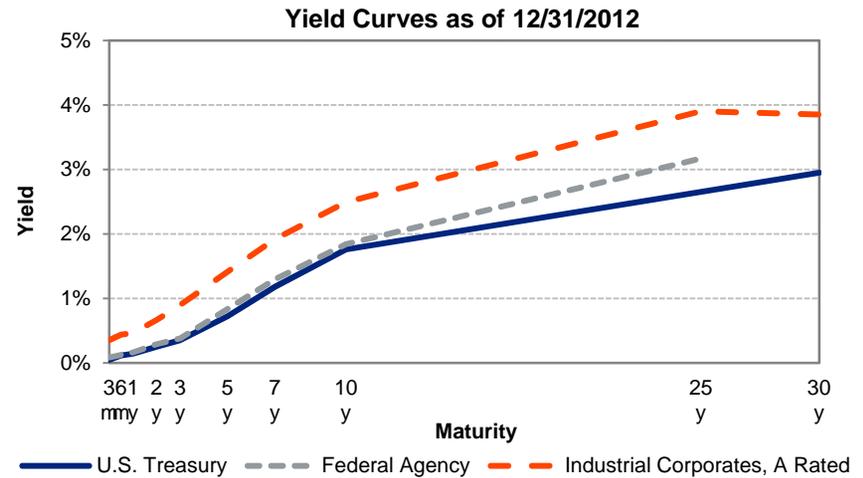
Source: Bloomberg

**Interest Rate Overview**



**U.S. Treasury Note Yields**

Maturity	12/31/12	9/30/12	Change over Quarter	12/31/11	Change over Year
3-month	0.09%	0.12%	(0.03%)	0.02%	0.07%
1-year	0.14%	0.16%	(0.02%)	0.13%	0.01%
2-year	0.27%	0.25%	0.03%	0.28%	(0.00%)
5-year	0.74%	0.63%	0.11%	0.85%	(0.11%)
10-year	1.81%	1.70%	0.12%	1.96%	(0.14%)
30-year	2.94%	2.82%	0.12%	2.91%	0.03%



Source: Bloomberg

**B of A Merrill Lynch Index Returns**

	As of 12/31/2012		Returns for Periods Ended 12/31/2012		
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.87	0.26%	0.07%	0.43%	1.44%
Federal Agency	1.70	0.31%	0.12%	0.85%	1.56%
U.S. Corporates, A-AAA Rated	1.94	0.95%	0.44%	4.02%	3.31%
Agency MBS (0 to 3 years)	1.85	1.37%	(0.31%)	1.60%	3.42%
Municipals	1.81	0.61%	0.02%	1.03%	1.56%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.72	0.38%	0.04%	0.91%	2.62%
Federal Agency	2.36	0.44%	0.16%	1.38%	2.28%
U.S. Corporates, A-AAA Rated	2.80	1.22%	0.55%	5.85%	4.70%
Agency MBS (0 to 5 years)	2.11	1.45%	(0.26%)	2.50%	4.45%
Municipals	2.53	0.84%	(0.10%)	1.63%	2.37%
<b>Master Indices</b>					
U.S. Treasury	5.99	0.96%	(0.10%)	2.16%	5.89%
Federal Agency	3.84	0.85%	0.22%	2.44%	4.10%
U.S. Corporates, A-AAA Rated	6.80	2.32%	0.79%	9.19%	8.32%
Agency MBS	2.14	1.47%	(0.27%)	2.59%	4.78%
Municipals	7.47	2.59%	0.51%	7.26%	6.83%

Returns for periods greater than one year are annualized; 3 Month return is periodic

Source: Bloomberg

# TAB II

## Executive Summary

**PORTFOLIO STRATEGY**

- The City's Long Term Pooled Portfolio is of high credit quality and invested in U.S. Treasury and Federal Agency securities.
- The Long Term Pooled Portfolio's quarterly total return performance was 0.09%, outperforming the benchmark's performance of 0.07% by 0.02%. Over the past year, the Portfolio earned 0.54%, versus 0.43% for the benchmark.
- Five year Treasury yields swung in a 24 basis point range. Yields were driven lower by economic disruption from Hurricane Sandy, a higher projection for Greek debt, President Obama's re-election and assured continuity of an accommodative Federal Reserve (Fed), an expansion of the Fed's bond purchase program, and fears the U.S. would go over the fiscal cliff. Bond yields were pushed higher by stronger than expected job reports for September and November, a Greek debt buyback program, the prospect of Presidential candidate Mitt Romney appointing a replacement for Ben Bernanke at the Fed, a global rally in stocks, and confidence that the fiscal cliff would be avoided.
- After all the ups and downs, Treasury yields finished the quarter modestly higher. Political turmoil may cause a transient flight-to-quality as has been seen this quarter and may be seen in the coming quarter. Yet, the larger, lasting effect is likely to come from the budding trend of equity fund inflows at the expense of bond fund outflows. The so-called "Great Rotation", as it is popularly called, is the reversal of fund flows from the past 4 years.
- Fiscal drag caused by tax hikes on the wealthy and resumption of full payroll taxes, and concern over a possible government shutdown may be supportive of a counter-trend rally in the bond market. While our longer term view is that yields will eventually drift gradually higher, we intend to keep durations close to neutral to protect the City's portfolio against the regularly recurring flights into Treasuries.
- As always, we strive to maintain safety of principal and appropriate liquidity, while seeking opportunities to add value. 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

<b>Amortized Cost and Market Value</b>	<b>Amortized Cost<sup>1,2,3</sup></b>	<b>Amortized Cost<sup>1,2,3</sup></b>	<b>Market Value<sup>1,2,3</sup></b>	<b>Market Value<sup>1,2,3</sup></b>	<b>Duration (Years)</b>
<u>Account Name</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>	<u>December 31, 2012</u>
Long Term Pooled Fund	\$18,753,214.57	\$18,781,485.52	\$18,827,642.99	\$18,871,345.32	1.100
TexPool	36,378,219.57	31,473,698.69	36,378,219.57	31,473,698.69	0.003
<b>Total</b>	<b>\$55,131,434.14</b>	<b>\$50,255,184.21</b>	<b>\$55,205,862.56</b>	<b>\$50,345,044.01</b>	<b>0.377</b>

<b>Yields</b>	<b>Yield to Maturity on Cost<sup>4</sup></b>	<b>Yield to Maturity on Cost<sup>4</sup></b>	<b>Yield to Maturity at Market</b>	<b>Yield to Maturity at Market</b>	<b>Duration (Years)</b>
<u>Account Name</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>	<u>September 30, 2012</u>
Long Term Pooled Fund	0.67%	0.67%	0.24%	0.26%	1.340
TexPool <sup>5</sup>	0.15%	0.15%	0.15%	0.15%	0.003
<b>Weighted Average YTM</b>	<b>0.33%</b>	<b>0.34%</b>	<b>0.18%</b>	<b>0.19%</b>	<b>0.504</b>

Monthly Interest earnings YTD<sup>6,7</sup>

October 2012	(\$1,010.71)	April 2013	
November 2012	13,432.25	May 2013	
December 2012	12,032.85	June 2013	
January 2013		July 2013	
February 2013		August 2013	
March 2013		September 2013	

**Total Fiscal Year Net Earnings** \$24,454.39

Notes:

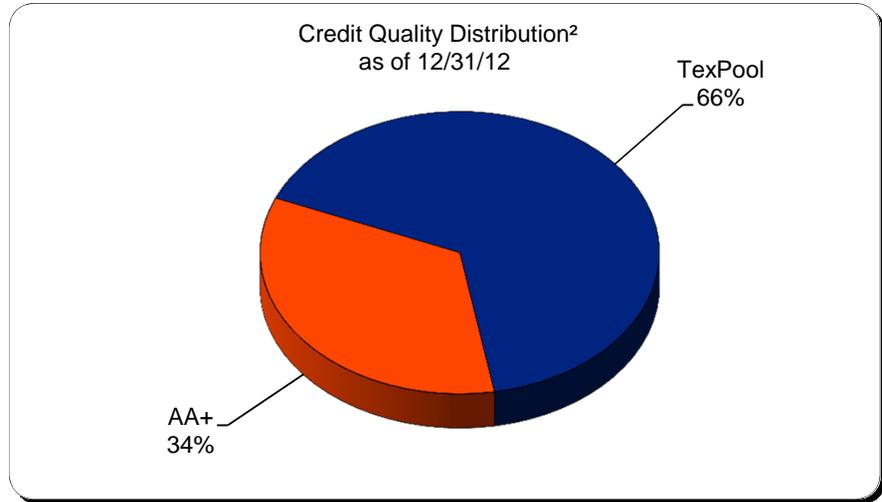
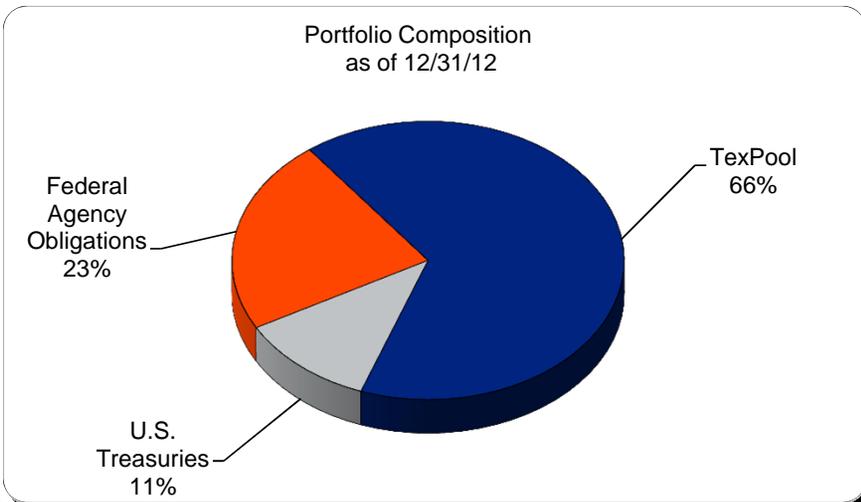
1. On a trade-date basis, including accrued interest.
2. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
3. Excludes any money market fund/cash balances held in custodian account.
4. Past performance is not indicative 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					9/30/2012	9/30/2012	9/30/2012	12/31/2012	12/31/2012	12/31/2012	CHANGE IN
CUSIP	DESCRIPTION	PAR	COUPON	MATURITY DATE	ACCRUED INTEREST	AMORTIZED COST	MARKET VALUE	ACCRUED INTEREST	AMORTIZED COST	MARKET VALUE	MARKET VALUE
TEXPOOL	TEXPOOL				0.00	31,473,698.69	31,473,698.69	0.00	36,378,219.57	36,378,219.57	15.58%
					\$0.00	\$31,473,698.69	\$31,473,698.69	\$0.00	\$36,378,219.57	\$36,378,219.57	15.58%
<b>TOTAL</b>					<b>\$0.00</b>	<b>\$31,473,698.69</b>	<b>\$31,473,698.69</b>	<b>\$0.00</b>	<b>\$36,378,219.57</b>	<b>\$36,378,219.57</b>	<b>15.58%</b>
<b>LONG TERM POOLED FUND</b>											
<b>FED AGY BOND/NOTE</b>											
31398AJ94	FNMA GLOBAL NOTES	\$1,005,000	1.750	05/07/13	\$7,035.00	\$1,004,322.89	\$1,013,970.63	\$2,638.13	\$1,004,604.41	\$1,010,508.41	-0.34%
3133XGVF8	FHLB GLOBAL BONDS	905,000	5.125	08/14/13	6,055.33	936,918.95	944,022.70	17,650.64	927,768.30	932,797.08	-1.19%
3133XSAE8	FHLB GLOBAL BENCHMARK NOTES	2,000,000	3.625	10/18/13	32,826.39	2,067,185.36	2,070,886.00	14,701.39	2,051,166.66	2,054,344.00	-0.80%
3137EACL1	FHLMC NOTES	810,000	0.875	10/28/13	3,012.19	810,319.32	815,709.69	1,240.31	810,245.28	814,622.67	-0.13%
3137EACZ0	FREDDIE MAC GLOBAL NOTES	2,000,000	0.375	11/27/13	2,583.33	1,998,433.18	2,003,428.00	708.33	1,998,771.48	2,003,516.00	0.00%
31398A5W8	FNMA NOTES	1,600,000	0.750	12/18/13	3,433.33	1,605,939.01	1,610,622.40	433.33	1,604,718.82	1,609,216.00	-0.09%
31398AVD1	FNMA GLOBAL NOTES	1,500,000	2.750	02/05/14	6,416.67	1,548,963.21	1,551,832.50	16,729.17	1,539,874.46	1,542,963.00	-0.57%
3135G0NP4	FANNIE MAE (CALLABLE) GLOBAL NOTES	2,500,000	0.500	08/20/15	1,423.61	2,498,556.58	2,502,537.50	4,548.61	2,498,680.78	2,503,202.50	0.03%
		\$4,720,000			\$62,785.85	\$12,470,638.50	\$12,513,009.42	\$58,649.91	\$12,435,830.19	\$12,471,169.66	-0.33%
<b>US TSY BOND/NOTE</b>											
912828PU8	US TREASURY NOTES	\$600,000	0.500	11/15/2013	\$1,133.15	\$597,225.33	\$601,968.60	\$389.50	\$597,846.32	\$601,663.80	-0.05%
912828PZ7	US TREASURY NOTES	2,500,000	1.250	3/15/2014	1,381.22	2,499,271.68	2,537,110.00	9,323.20	2,499,398.00	2,531,054.69	-0.24%
912828RZ5	US TREASURY NOTES	1,510,000	0.250	1/15/2015	800.14	1,508,034.98	1,509,528.88	1,743.89	1,508,248.97	1,509,528.88	0.00%
912828NP1	US TREASURY NOTES	1,575,000	1.750	7/31/2015	4,643.68	1,635,570.99	1,638,984.38	11,534.31	1,630,250.28	1,632,585.15	-0.39%
		\$3,085,000			\$7,958.19	\$6,240,102.98	\$6,287,591.86	\$22,990.90	\$6,235,743.57	\$6,274,832.52	-0.20%
<b>TOTAL</b>		<b>\$7,805,000</b>			<b>\$70,744.04</b>	<b>\$18,710,741.48</b>	<b>\$18,800,601.28</b>	<b>\$81,640.81</b>	<b>\$18,671,573.76</b>	<b>\$18,746,002.18</b>	<b>-0.290%</b>
<b>TOTAL PORTFOLIO</b>		<b>\$7,805,000</b>			<b>\$70,744.04</b>	<b>\$50,184,440.17</b>	<b>\$50,274,299.97</b>	<b>\$81,640.81</b>	<b>\$55,049,793.33</b>	<b>\$55,124,221.75</b>	<b>9.65%</b>

Summary Portfolio Composition and Credit Quality Characteristics

<u>Security Type</u> <sup>1</sup>	<u>December 31, 2012</u>	<u>% of Portfolio</u>	<u>September 30, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$6,297,823.42	11.4%	\$6,295,550.05	4.4%
Federal Agencies	12,529,819.57	22.7%	12,575,795.27	49.1%
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	0.00%	0.00	0.0%
TexPool	36,378,219.57	65.9%	31,473,698.69	46.5%
<b>Totals</b>	<b>\$55,205,862.56</b>	<b>100.0%</b>	<b>\$50,345,044.01</b>	<b>100.0%</b>

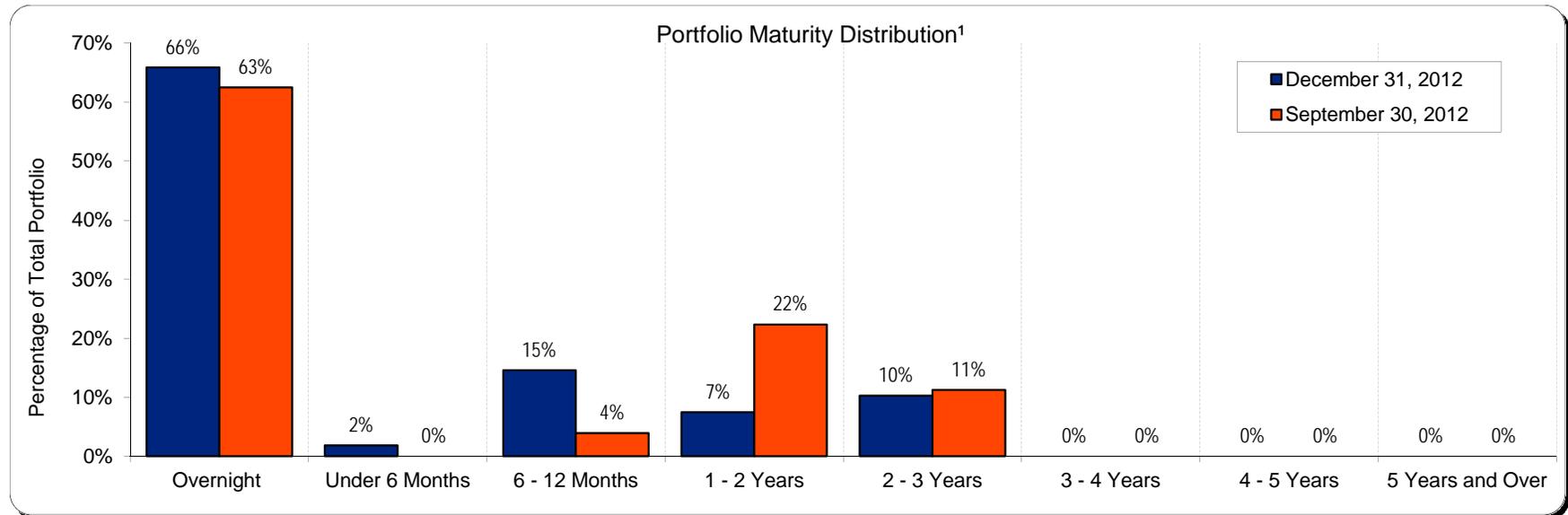


Notes:

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>December 31, 2012</u>	<u>September 30, 2012</u>
Overnight (Money Market Fund)	\$36,378,219.57	\$31,473,698.69
Under 6 Months	1,013,146.54	0.00
6 - 12 Months	8,051,283.05	1,971,083.66
1 - 2 Years	4,100,070.06	11,242,343.47
2 - 3 Years	5,663,143.34	5,657,918.19
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>\$55,205,862.56</b>	<b>\$50,345,044.01</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>10/31/2012</b>			
October Market Value		48,679,309.87	1 Account Summary Page
October Accrued Interest		54,586.14	2 Account Summary Page
Less (Purchases & Deposits)		(432,668.25)	3 Security Transactions & Interest
Less Purchased Interest			4 Security Transactions & Interest
Add (Sales, Maturities, Paydowns, Withdrawals)		2,000,000.00	5 Security Transactions & Interest
Add Interest Receipts		44,077.39	6 Security Transactions & Interest
Less September Market Value		(50,274,299.97)	7 Account Summary Page
Less September Accrued Interest		(70,744.04)	8 Account Summary Page
<b>Earnings</b>		<b>261.14</b>	

<b>Change in Investment Market Value</b>	<b>(1,594,990.10)</b>	(1 - 7)
<b>Change in Accrued Interest</b>	<b>(16,157.90)</b>	(2 - 8)
<b>Change in Cash</b>	<b>1,611,409.14</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	1,567,331.75		Security Transactions & Interest
Investments		1,594,990.10	Amortization/Accretion
Investment Income	27,658.35		Earnings
To record investment income/changes			
Cash	44,077.39		Security Transactions & Interest
Accrued Interest		16,157.90	Accrued Interest Difference
Investment Income		27,919.49	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>11/30/2012</b>			
November Market Value		47,173,223.72	1 Account Summary Page
November Accrued Interest		64,000.77	2 Account Summary Page
Less (Purchases & Deposits)		(502,195.65)	3 Security Transactions & Interest
Less Purchased Interest		-	4 Security Transactions & Interest
Add (Sales, Maturities, Paydowns, Withdrawals)		2,000,000.00	5 Security Transactions & Interest
Add Interest Receipts		17,812.52	6 Security Transactions & Interest
Less October Market Value		(48,683,593.51)	7 Account Summary Page
Less October Accrued Interest		(54,586.14)	8 Account Summary Page
<b>Earnings</b>		<b>14,661.71</b>	

<b>Change in Investment Market Value</b>	<b>-1,510,369.79</b>	(1 - 7)
<b>Change in Accrued Interest</b>	<b>9,414.63</b>	(2 - 8)
<b>Change in Cash</b>	<b>1,515,616.87</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	1,497,804.35		Security Transactions & Interest
Investments		1,510,369.79	Amortization/Accretion
Investment Income	12,565.44		Earnings
To record investment income/changes			
Cash	17,812.52		Security Transactions & Interest
Accrued Interest	9,414.63		Accrued Interest Difference
Investment Income		27,227.15	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>12/31/2012</b>	<b>Market Value Basis</b>	<b>Source Document</b>
December Market Value	55,120,183.04	1 Account Summary Page
December Accrued Interest	81,640.81	2 Account Summary Page
Less (Purchases & Deposits)	(7,957,565.86)	3 Security Transactions & Interest
Less Purchased Interest	-	4 Security Transactions & Interest
Add (Sales, Maturities, Paydowns, Withdrawals)	-	5 Security Transactions & Interest
Add Interest Receipts	10,038.71	6 Security Transactions & Interest
Less November Market Value	(47,176,992.49)	7 Account Summary Page
Less November Accrued Interest	(64,000.77)	8 Account Summary Page
<b>Earnings</b>	<b>13,303.44</b>	

<b>Change in Investment Market Value</b>	<b>7,943,190.55</b>	(1 - 7)
<b>Change in Accrued Interest</b>	<b>17,640.04</b>	(2 - 8)
<b>Change in Cash</b>	<b>(7,947,527.15)</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		7,957,565.86	Security Transactions & Interest
Investments	7,943,190.55		Amortization/Accretion
Investment Income	14,375.31		Earnings
To record investment income/changes			
Cash	10,038.71		Security Transactions & Interest
Accrued Interest	17,640.04		Accrued Interest Difference
Investment Income		27,678.75	Earnings
To record interest income/changes			

Notes:

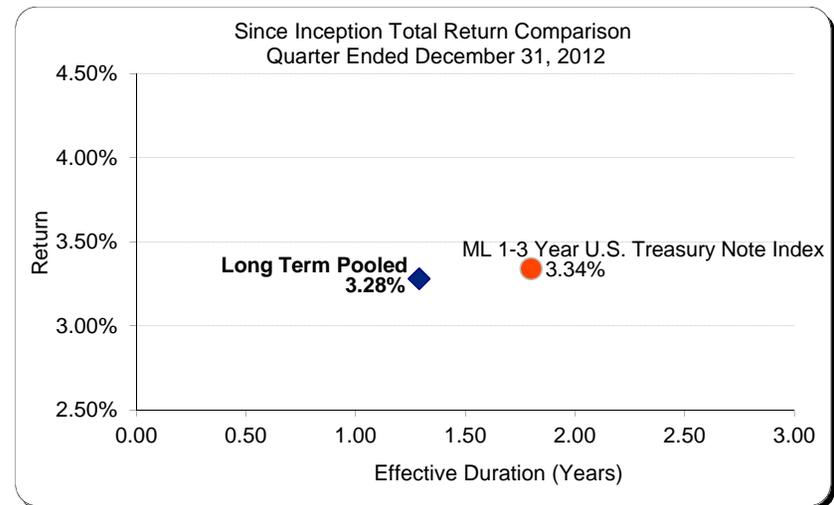
1. Earnings are calculated using Market Value. This includes unrealized gains and losses, and income.

Long Term Pooled Fund Portfolio Performance

Total Portfolio Value <sup>1,2</sup>	December 31, 2012	September 30, 2012
Market Value	\$18,827,642.99	\$18,871,345.32
Amortized Cost	\$18,753,214.57	\$18,781,485.52

Total Return <sup>1,2,3,4,5,7,8</sup>	Quarterly Return December 31, 2012	Year to Date	Last 12 Months	Last 2 Years	Last 5 Years	Since Inception 6/30/2006
<b>Long Term Pooled Fund</b>	<b>0.09%</b>	<b>0.54%</b>	<b>0.54%</b>	<b>0.91%</b>	<b>2.40%</b>	<b>3.28%</b>
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.07%	0.43%	0.43%	0.99%	2.32%	3.34%

Effective Duration(Years)	December 31, 2012	September 30, 2012	Yields	December 31, 2012	September 30, 2012
	<b>Long Term Pooled Fund</b>	<b>1.29</b>		<b>1.44</b>	Yield at Market
Merrill Lynch 1-3 Year U.S. Treasury Note Index	1.80	1.82	Yield at Cost	<b>0.67%</b>	0.67%
Portfolio Duration % of Benchmark Duration	72%	79%			

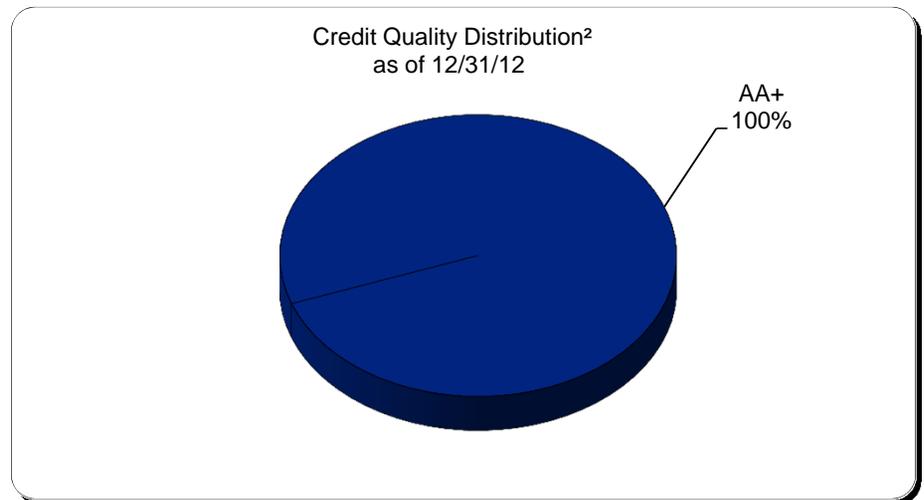
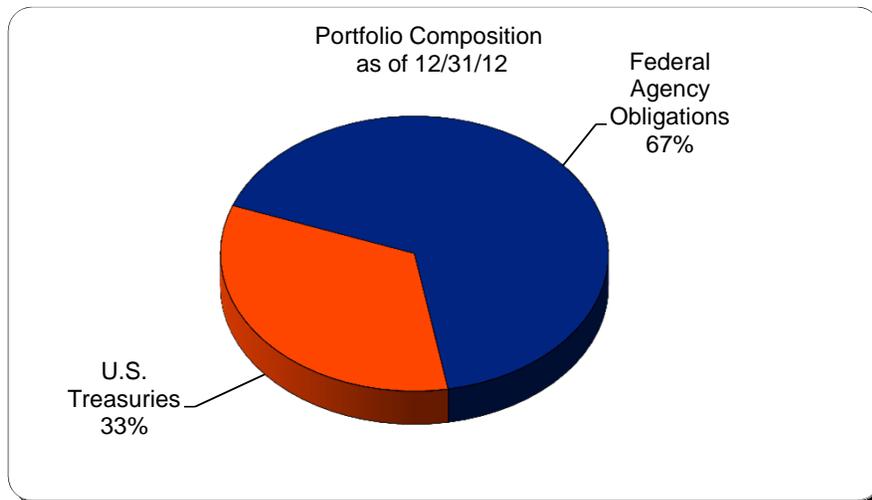


Notes:

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>December 31, 2012</u>	<u>% of Portfolio</u>	<u>September 30, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$6,297,823.42	33.4%	\$6,295,550.05	33.4%
Federal Agencies	12,529,819.57	66.6%	12,575,795.27	66.6%
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>\$18,827,642.99</b>	<b>100.0%</b>	<b>\$18,871,345.32</b>	<b>100.0%</b>

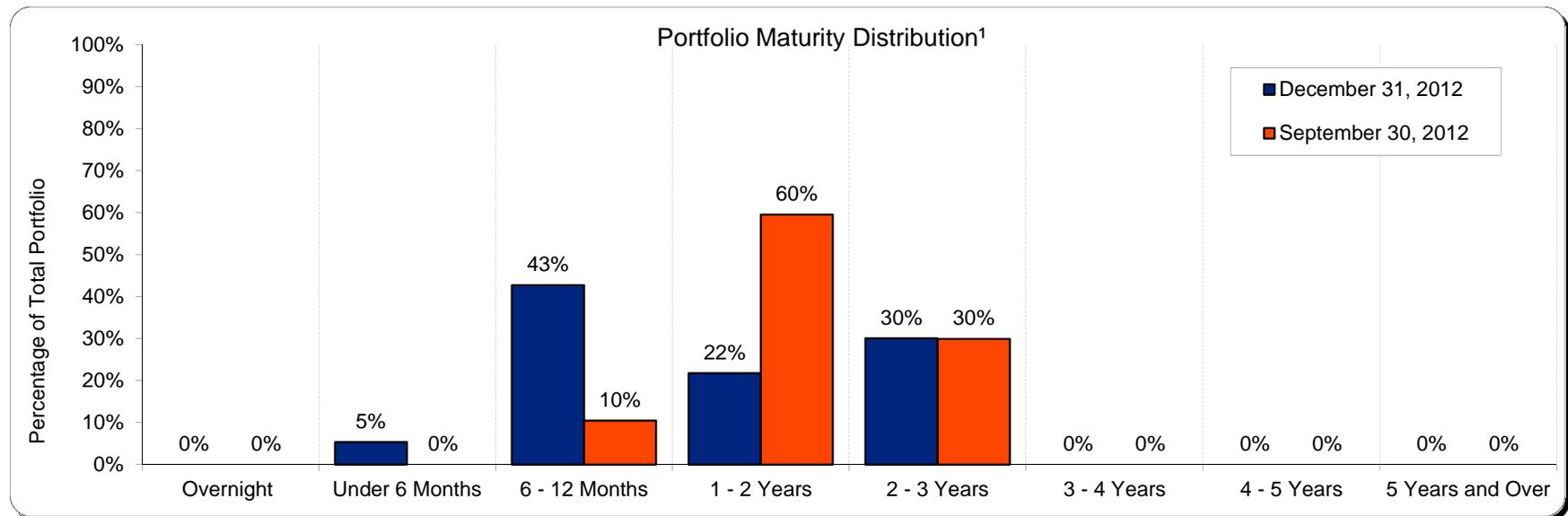


Notes:

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

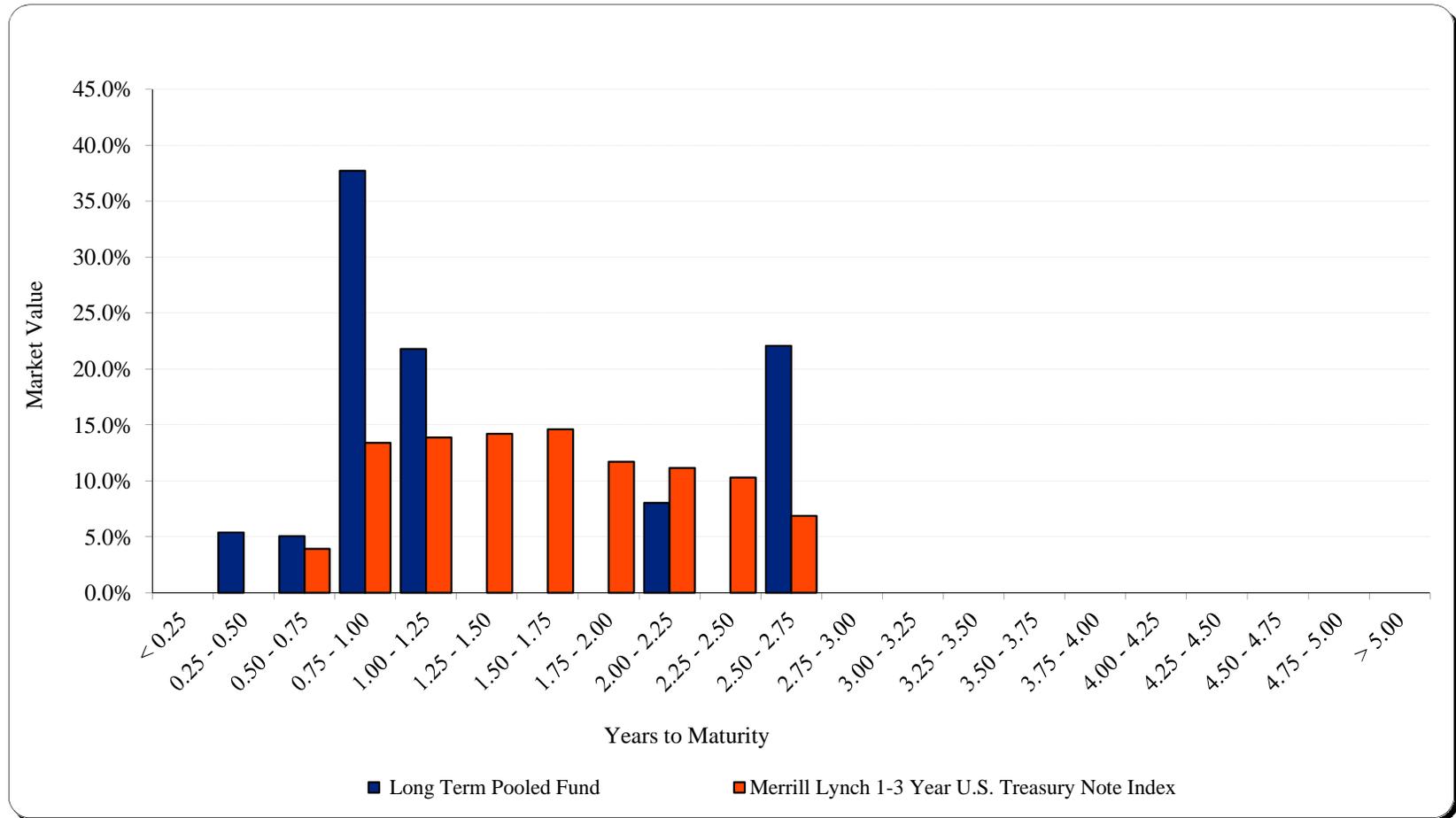
<u>Maturity Distribution<sup>1</sup></u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	1,013,146.54	0.00
6 - 12 Months	8,051,283.05	1,971,083.66
1 - 2 Years	4,100,070.06	11,242,343.47
2 - 3 Years	5,663,143.34	5,657,918.19
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$18,827,642.99</b>	<b>\$18,871,345.32</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.

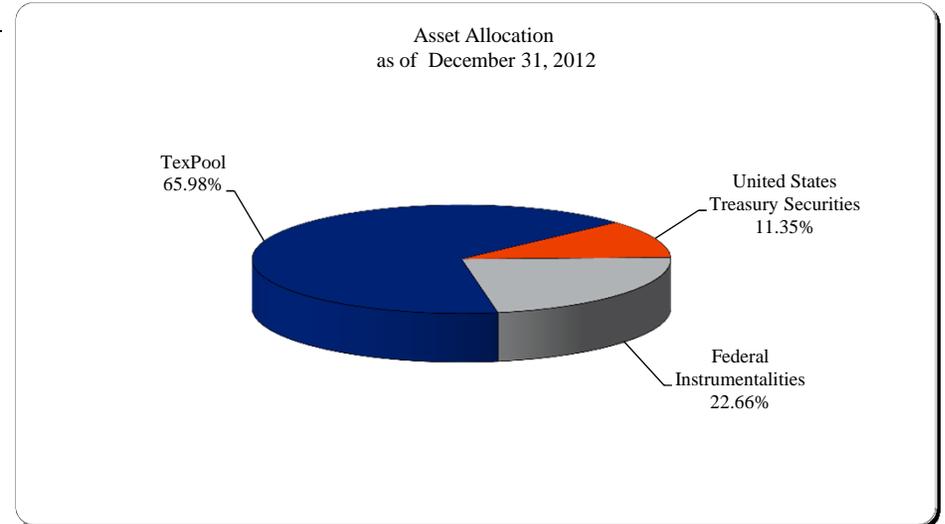
Long Term Pooled Fund Portfolio Maturity Distribution versus the Benchmark<sup>1</sup>



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>	December 31, 2012	Notes	Permitted by Policy
TexStar	0.00%		100%
TexPool	65.98%		100%
United States Treasury Securities	11.35%		100%
United States Government Agency Securities	0.00%		100%
Federal Instrumentalities	22.66%	1	100%
Mortgage-Backed Securities	0.00%	1	40%
Certificates of Deposit	0.00%		20%
Repurchase Agreements	0.00%		20%
Commercial Paper	0.00%		25%
Corporate Notes TLGP - FDIC insured	0.00%		50%
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	December 31, 2012	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)	5.46%		40%
Federal National Mortgage Association (FNMA)	12.10%		40%
Federal Home Loan Mortgage Corporation (FHLMC)	5.10%		40%

Individual Issuer Breakdown	December 31, 2012	Notes	Permitted by Policy
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Notes:

1. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 100%. The combined total as of December 31, 2012 is 22.66%.
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 December 31, 2012, 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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Alan Guard, Director of Financial Services

# TAB III

Insert Month End Statement here to complete the report.

Statements are available online at **www.pfm.com**  
login and click on the link to “Monthly Statements”  
on the left side of the screen.

# TAB IV