

# City of Rowlett, Texas



## Investment Performance Review Quarter Ended June 30, 2014

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This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or recommendation. The information contained in this report is not an offer to purchase or sell any securities.

# TAB I

**Summary**

- Treasury prices rose during the second quarter, marking two consecutive quarters of price rallies—a pattern that has not occurred since 2012.
- Global central banks seem to be going their separate ways in terms of monetary policy, as the European Central Bank cut interest rates and added to bank liquidity in an effort to avoid deflation while the Federal Reserve (Fed) continued to scale back its quantitative easing program.
- Geopolitical uncertainty continued to be a primary focus for the markets, as tensions in Ukraine, Iraq, and Syria caused investors to move toward assets that are perceived to have less risk.

**Economic Snapshot**

- First-quarter gross domestic product (GDP) contracted at an annual rate of 2.9%—the first downward move in three years. The harsh winter weather was a primary contributor. Most economists expect a recovery as 2014 further unfolds.
- The U.S. unemployment rate fell from 6.7% in March to 6.1% at the end of the second quarter. While the U.S. is adding jobs at a steady pace, the reduction in unemployment can also be traced to an increase in the number of Americans who are no longer actively looking for work.
- The housing market continued to show modest strength during the quarter. New-home sales for May rose 18.6% from the prior month, marking a six-year high, while existing-home sales rose 4.9% from the prior month. However, the pace of housing starts remained well below pre-recession levels. Mortgage applications for purchase are down 17.6% year over year, and mortgage applications for refinancing are down 56.5% year over year.

**Interest Rates**

- The Fed continued to taper its bond buying program throughout the quarter, and at its June meeting, the Federal Open Market Committee (FOMC) cut bond purchases by another \$10 billion, resulting in monthly purchases of \$35 billion. The FOMC has continued to keep the federal funds target rate in a range of zero to 25 basis points.
- Inflation ticked up during the quarter as the Consumer Price Index rose at its fastest pace in more than a year in May—increasing twice as much as economists had anticipated. Core prices (which exclude food and energy prices) gained 2% on an annual basis, marking the fastest price increase since February 2013 and matching the Fed’s current target for inflation.
- The Treasury yield curve flattened over the quarter as intermediate- and long-maturity bond prices led the rally. This flattening expresses the current investor outlook that Fed tightening will be modest by historical standards and inflation will remain well-contained in coming years.

**Sector Performance**

- Portfolios maintained a modestly defensive maturity structure, with durations somewhat short of benchmarks. This structure is in place to reduce the effects of interest rate rises that normally occur when economic growth accelerates and the Fed moves to tighten credit.
- Federal Agency and corporate sector holdings generally contributed returns in excess of those on Treasuries. The excess resulted from the added income generated by these holdings and from spread narrowing, offsetting the drag on performance that resulted from the defensive duration position.
- Risk premiums on lower-rated corporate bonds and on callable and mortgage-backed securities narrowed further during the quarter to the point where there was diminished value relative to comparable Treasury benchmarks.

### Economic Snapshot

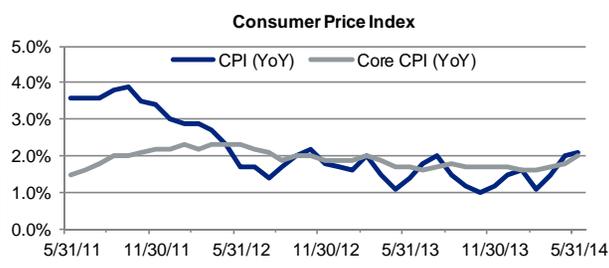
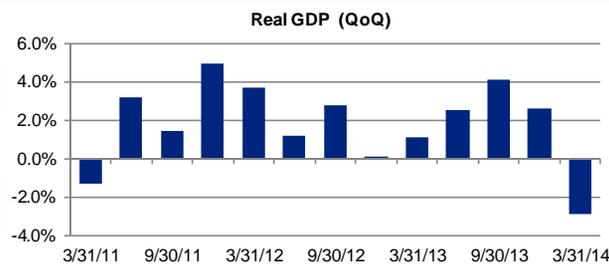
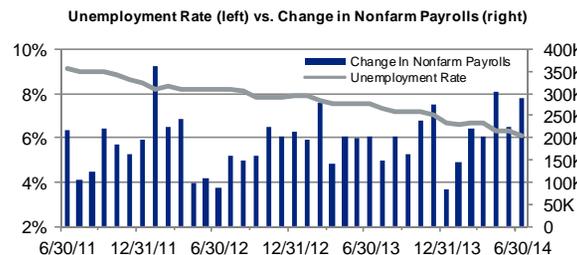
Labor Market	Latest	Mar 2014	Jun 2013	
Unemployment Rate	Jun'14	6.1%	6.7%	7.5%
Change In Nonfarm Payrolls	Jun'14	288,000	203,000	201,000
Average Hourly Earnings (YoY)	Jun'14	2.0%	2.1%	2.2%
Personal Income (YoY)	May'14	3.5%	3.3%	3.4%
Initial Jobless Claims (week)	Jul 11	302,000	332,000	344,000

Growth	Latest	Mar 2014	Jun 2013	
Real GDP (QoQ SAAR)	2014Q1	-2.9%	2.6% <sup>1</sup>	2.5% <sup>2</sup>
GDP Personal Consumption (QoQ SAAR)	2014Q1	1.0%	3.3% <sup>1</sup>	1.8% <sup>2</sup>
Retail Sales (YoY)	Jun'14	4.3%	4.1%	5.9%
ISM Manufacturing Survey (month)	Jun'14	55.3	53.7	52.5
Existing Home Sales SAAR (month)	May'14	4.89 mil.	4.59 mil.	5.16 mil.

Inflation / Prices	Latest	Mar 2014	Jun 2013	
Personal Consumption Expenditures (YoY)	May'14	1.8%	1.1%	1.3%
Consumer Price Index (YoY)	May'14	2.1%	1.5%	1.8%
Consumer Price Index Core (YoY)	May'14	2.0%	1.7%	1.6%
Crude Oil Futures (WTI, per barrel)	Jun 30	\$105.37	\$101.58	\$96.56
Gold Futures (oz.)	Jun 30	\$1,322	\$1,283	\$1,224

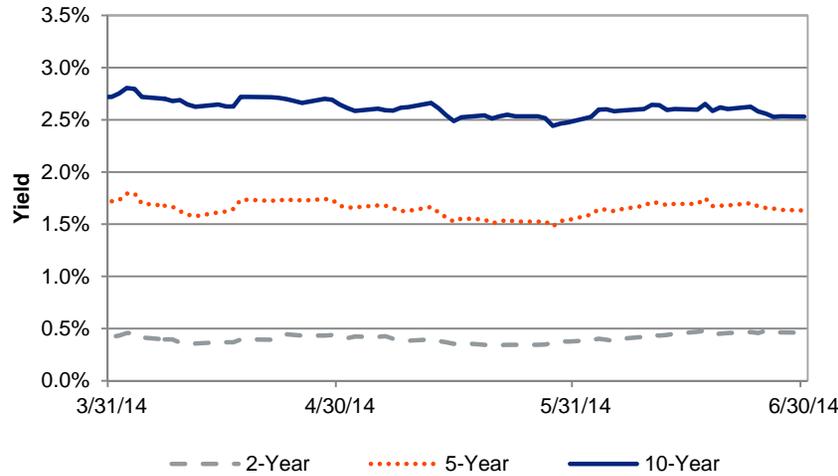


1. Data as of Fourth Quarter 2013 2. Data as of Second Quarter 2013  
 3. Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

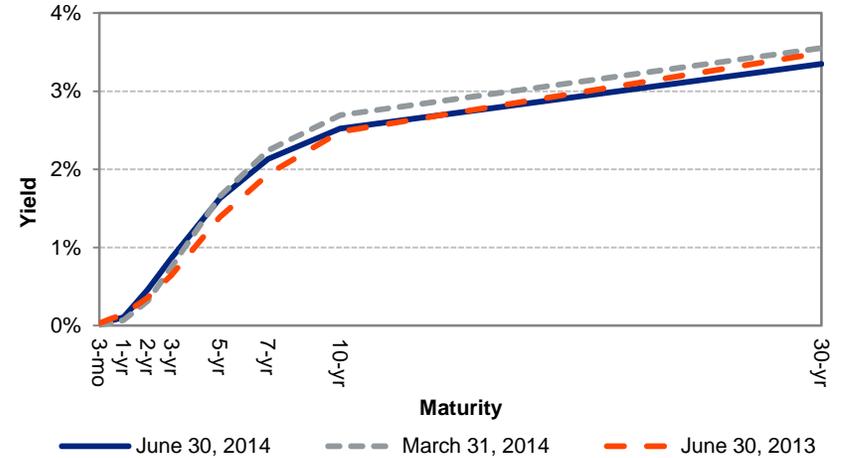
Source: Bloomberg

### Investment Rate Overview

U.S. Treasury Note Yields



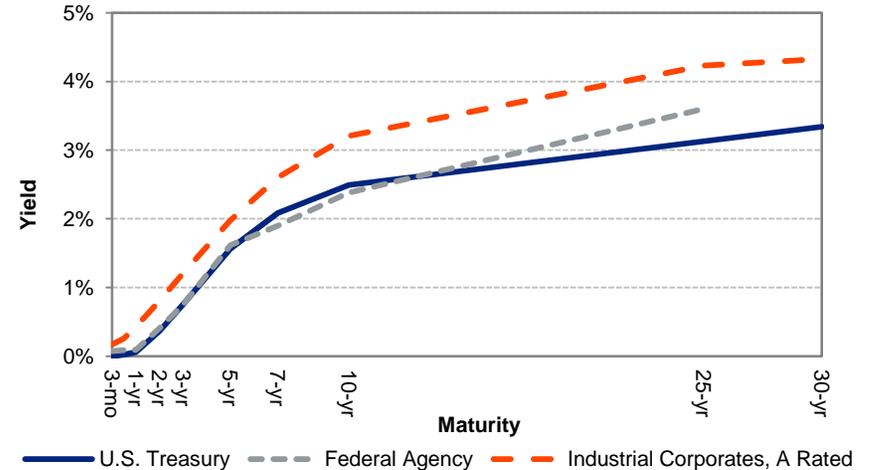
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	6/30/14	3/31/14	Change over Quarter	6/30/13	Change over Year
3-month	0.02%	0.03%	(0.01%)	0.03%	(0.01%)
1-year	0.10%	0.11%	(0.01%)	0.15%	(0.05%)
2-year	0.46%	0.42%	0.04%	0.36%	0.10%
5-year	1.63%	1.72%	(0.09%)	1.40%	0.23%
10-year	2.53%	2.72%	(0.19%)	2.49%	0.04%
30-year	3.36%	3.56%	(0.20%)	3.50%	(0.14%)

Yield Curves as of 6/30/2014



Source: Bloomberg

## BofA Merrill Lynch Index Returns

	As of 6/30/2014		Returns for Periods ended 6/30/2014		
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.93	0.45%	0.27%	0.76%	0.63%
Federal Agency	1.85	0.55%	0.24%	0.87%	0.75%
U.S. Corporates, A-AAA rated	1.95	0.90%	0.49%	2.12%	2.10%
Agency MBS (0 to 3 years)	1.52	0.93%	0.55%	2.68%	1.46%
Municipals	1.73	0.45%	0.34%	1.40%	1.16%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.72	0.79%	0.55%	1.16%	1.11%
Federal Agency	2.35	0.80%	0.54%	1.52%	1.15%
U.S. Corporates, A-AAA rated	2.88	1.40%	0.96%	3.45%	2.92%
Agency MBS (0 to 5 years)	3.05	2.04%	1.71%	4.12%	2.52%
Municipals	2.50	0.77%	0.60%	2.25%	1.78%
<b>Master Indices (Maturities 1 Year or Greater)</b>					
U.S. Treasury	5.89	1.51%	1.56%	2.29%	3.03%
Federal Agency	3.93	1.34%	1.24%	2.65%	2.18%
U.S. Corporates, A-AAA rated	6.74	2.60%	2.37%	6.58%	5.42%
Agency MBS (0 to 30 years)	4.69	2.61%	2.43%	4.68%	2.79%
Municipals	7.32	2.85%	2.69%	6.54%	5.62%

1. Duration and yield are after the indices were rebalanced at month end.

2. Returns are rolling returns. Returns for periods greater than one year are annualized.

Source: BofA Merrill Lynch Indices

**Disclosures**

The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC (PFMAM) at the time of distribution and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFMAM cannot guarantee its accuracy, completeness, or suitability. This material is for general information purposes only and is not intended to provide specific advice or recommendation. The information contained in this report is not an offer to purchase or sell any securities.

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# TAB II

## Executive Summary

**PORTFOLIO STRATEGY**

- The City's Pooled Funds and Long Term Pooled Fund Portfolios are of high credit quality and invested in TexPool, U.S. Treasury, Federal Agency, and high quality commercial paper securities.
- PFM continued to actively manage the Long Term Fund Portfolio during the second quarter and found value in the market, taking advantage of market inefficiencies or changes in economic outlook. As a result, the Portfolio realized \$2,033 in gains on sales (based on amortized cost) during the quarter. PFM is continually in the market monitoring for opportunities to add value to the Portfolio.
- The Long Term Fund Portfolio's quarterly total return performance of 0.25% underperformed the benchmark performance of 0.27% by 0.02%. This slight underperformance is due to the fact the Portfolio's duration has been positioned to be defensively shorter than the benchmark's duration. PFM did not rebalance and extend the duration of the Portfolio at the end of April and May, but instead waited to rebalance during the month of June. While this strategy helps to protect the Portfolio in a rising interest rate environment, the strategy sacrifices a small amount of yield by holding the shorter maturing securities and not swapping them for longer maturing securities. After the benchmark rebalanced its securities at the end of April and May, the Portfolio's duration was 94% and 89% of the benchmark's duration.
- The Pooled Funds Portfolio continues to provide the City with favorable yield relative to the benchmark. At quarter end, the portfolio had a Yield to Maturity at Cost of 0.27%, exceeding the Yield of its benchmark the TexPool by 24 basis points (0.24%).
- U.S. Treasury yields moved in somewhat random fashion, despite generally upbeat economic news. The long-awaited increase in rates failed to materialize and continued to confound investment managers. Uncertainty around future Fed action, in terms of the timing and pace of eventual rate increases, posed a significant challenge in assessing the attractiveness of current yields.
- Higher interest rates triggered by anticipated Fed action are widely expected in the future. The timing and pace of how interest rates rise will determine the optimal investment strategy. Since rising rates can result in unrealized market losses, we remain somewhat defensive. But, the steep yield curve offers considerably higher yields for even modest maturity extension. Balancing the benefit of higher yields available on longer maturities today against the negative impact of potentially rising rates in the future will be a difficult and dynamic undertaking, requiring frequent reassessments of strategy.
- Market volatility has been extremely low in the financial markets recently, encouraging risk taking. This extremely low level of volatility is likely not sustainable indefinitely. Any increase in volatility should create more trading opportunities, accentuating the role of active management.

Summary Portfolio Statistics

<u>Amortized Cost and Market Value</u> <u>Account Name</u>	<u>Amortized Cost<sup>1,2,3</sup></u> <u>June 30, 2014</u>	<u>Amortized Cost<sup>1,2,3</sup></u> <u>March 31, 2014</u>	<u>Market Value<sup>1,2,3</sup></u> <u>June 30, 2014</u>	<u>Market Value<sup>1,2,3</sup></u> <u>March 31, 2014</u>	<u>Duration (Years)</u> <u>June 30, 2014</u>
Pooled Funds	\$6,992,347.42	\$6,990,466.38	\$6,994,563.40	\$6,991,857.60	0.430
Long Term Pooled Fund	18,619,400.30	18,651,809.24	18,653,622.60	18,663,373.53	1.830
TexPool	13,076,968.57	17,216,680.12	13,076,968.57	17,216,680.12	0.003
<b>Total</b>	<b>\$38,688,716.29</b>	<b>\$42,858,955.74</b>	<b>\$38,725,154.57</b>	<b>\$42,871,911.25</b>	<b>0.960</b>

<u>Yields</u> <u>Account Name</u>	<u>Yield to Maturity</u> <u>at Cost<sup>4</sup></u> <u>June 30, 2014</u>	<u>Yield to Maturity</u> <u>at Cost<sup>4</sup></u> <u>March 31, 2014</u>	<u>Yield to Maturity</u> <u>at Market</u> <u>June 30, 2014</u>	<u>Yield to Maturity</u> <u>at Market</u> <u>March 31, 2014</u>	<u>Duration (Years)</u> <u>March 31, 2014</u>
Pooled Funds	0.27%	0.30%	0.18%	0.24%	0.470
Long Term Pooled Fund	0.53%	0.48%	0.43%	0.44%	1.880
TexPool <sup>5</sup>	0.03%	0.03%	0.03%	0.03%	0.003
<b>Weighted Average YTM</b>	<b>0.31%</b>	<b>0.27%</b>	<b>0.25%</b>	<b>0.24%</b>	<b>0.896</b>

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

October 2013	\$37,355.39	April 2014	\$27,665.35
November 2013	\$13,452.76	May 2014	\$27,889.87
December 2013	(23,084.61)	June 2014	(\$6,193.08)
January 2014	30,640.00	July 2014	
February 2014	20,379.05	August 2014	
March 2014	(20,195.40)	September 2014	

**Total Fiscal Year Net Earnings** \$107,909.33

Notes:

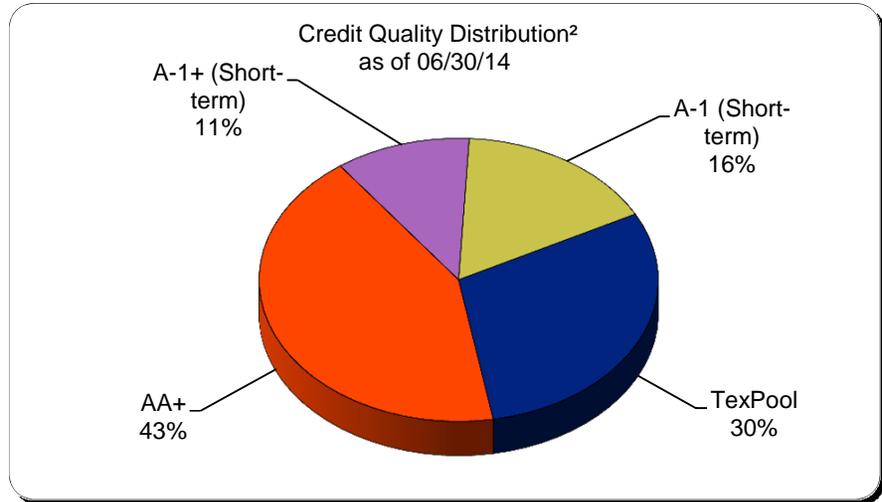
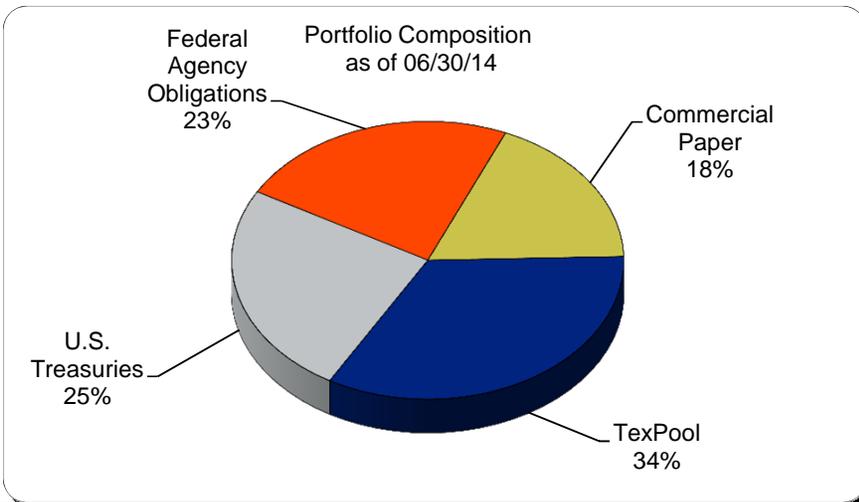
1. On a trade-date basis, including accrued interest.
2. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
3. Excludes any money market fund/cash balances held in custodian account.
4. Past performance is not indicative 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					3/31/2014	3/31/2014	3/31/2014	6/30/2014	6/30/2014	6/30/2014	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	\$17,216,680.12	\$17,216,680.12	\$0.00	\$13,076,968.57	\$13,076,968.57	-24.04%
					\$0.00	\$17,216,680.12	\$17,216,680.12	\$0.00	\$13,076,968.57	\$13,076,968.57	-24.04%
<b>TOTAL</b>					<b>\$0.00</b>	<b>\$17,216,680.12</b>	<b>\$17,216,680.12</b>	<b>\$0.00</b>	<b>\$13,076,968.57</b>	<b>\$13,076,968.57</b>	<b>-24.04%</b>
<b>POOLED FUNDS</b>											
<b>COMMERCIAL PAPER</b>											
0556N1FA6	BNP PARIBAS FINANCE INC COMM PAPER	\$2,400,000.00	0.000	06/10/14	\$0.00	\$2,398,553.33	\$2,399,143.20	\$0.00	\$0.00	\$0.00	0.00%
46640QKH3	JP MORGAN SECURITIES LLC COMM PAPER	2,400,000	0.000	10/17/14	0.00	2,395,356.67	2,395,600.80	0.00	2,397,480.00	2,398,648.80	0.13%
89233HM27	TOYOTA MOTOR CREDIT CORP COMM	2,200,000	0.000	12/02/14	0.00	2,196,556.38	2,197,113.60	0.00	2,197,835.44	2,198,739.40	0.07%
06538CMG3	BANK OF TOKYO MITSUBISHI COMM PAPER	1,200,000	0.000	12/16/14	0.00	0.00	0.00	0.00	1,198,711.99	1,198,726.80	0.00%
36959JQA4	GENERAL ELEC CAP CORP COMM PAPER	1,200,000	0.000	03/10/15	0.00	0.00	0.00	0.00	1,198,319.99	1,198,448.40	0.00%
		\$9,400,000			\$0.00	\$6,990,466.38	\$6,991,857.60	\$0.00	\$6,992,347.42	\$6,994,563.40	0.04%
<b>TOTAL</b>		<b>\$9,400,000</b>			<b>\$0.00</b>	<b>\$6,990,466.38</b>	<b>\$6,991,857.60</b>	<b>\$0.00</b>	<b>\$6,992,347.42</b>	<b>\$6,994,563.40</b>	<b>0.039%</b>
<b>LONG TERM POOLED FUND</b>											
<b>FED AGY BOND/NOTE</b>											
3135G0VA8	FANNIE MAE GLOBAL NOTES	\$1,000,000.00	0.500	03/30/16	\$13.89	\$1,001,903.10	\$1,000,671.00	\$1,263.89	\$1,001,665.60	\$1,001,704.00	0.10%
3135G0VA8	FANNIE MAE GLOBAL NOTES	2,000,000	0.500	03/30/16	27.78	1,998,950.42	2,001,342.00	2,527.78	1,999,081.28	2,003,408.00	0.10%
3137EADQ9	FREDDIE MAC GLOBAL NOTES	2,000,000	0.500	05/13/16	3,833.33	1,998,629.18	1,999,720.00	1,333.33	1,998,790.30	2,000,862.00	0.06%
3133834R9	FEDERAL HOME LOAN BANK GLOBAL NOTES	2,000,000	0.375	06/24/16	2,020.83	1,991,358.44	1,991,832.00	145.83	1,992,321.02	1,994,422.00	0.13%
3137EADS5	FHLMC NOTES	2,000,000	0.875	10/14/16	8,118.06	2,003,037.74	2,006,038.00	3,743.06	2,002,740.84	2,013,008.00	0.35%
		\$9,000,000			\$14,013.89	\$8,993,878.88	\$8,999,603.00	\$9,013.89	\$8,994,599.04	\$9,013,404.00	0.15%
<b>US TSY BOND/NOTE</b>											
912828RZ5	US TREASURY NOTES	\$1,510,000.00	0.250	1/15/2015	\$792.54	\$1,509,319.97	\$1,511,651.94	\$0.00	\$0.00	\$0.00	0.00%
912828NP1	US TREASURY NOTES	1,575,000	1.750	7/31/2015	4,568.37	1,603,622.62	1,607,791.50	11,497.06	1,598,241.53	1,602,193.95	-0.35%
912828WB2	US TREASURY NOTES	2,500,000	0.250	10/31/2015	2,624.31	2,499,284.68	2,499,415.00	1,052.99	2,499,397.08	2,502,147.50	0.11%
912828PM6	US TREASURY NOTES	2,425,000	2.125	12/31/2015	12,953.99	2,501,555.60	2,500,402.95	140.03	2,490,581.82	2,492,635.68	-0.31%
912828RU6	US TREASURY NOTES	1,500,000	0.875	11/30/2016	4,399.04	1,504,795.35	1,505,157.00	1,111.68	1,504,351.32	1,509,257.81	0.27%
912828WP1	US TREASURY NOTES	1,510,000	0.009	6/15/2017	0.00	0.00	0.00	577.60	1,508,836.26	1,510,590.41	0.00%
		\$9,510,000			\$25,338.25	\$9,618,578.22	\$9,624,418.39	\$14,379.36	\$9,601,408.01	\$9,616,825.35	-0.08%
<b>TOTAL</b>		<b>\$18,510,000</b>			<b>\$39,352.14</b>	<b>\$18,612,457.10</b>	<b>\$18,624,021.39</b>	<b>\$23,393.25</b>	<b>\$18,596,007.05</b>	<b>\$18,630,229.35</b>	<b>0.033%</b>
<b>TOTAL PORTFOLIO</b>		<b>\$27,910,000</b>			<b>\$39,352.14</b>	<b>\$42,819,603.60</b>	<b>\$42,832,559.11</b>	<b>\$23,393.25</b>	<b>\$38,665,323.04</b>	<b>\$38,701,761.32</b>	<b>-9.64%</b>

Summary Portfolio Composition and Credit Quality Characteristics

<u>Security Type<sup>1</sup></u>	<u>June 30, 2014</u>	<u>% of Portfolio</u>	<u>March 31, 2014</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$9,631,204.71	24.9%	\$9,649,756.64	4.4%
Federal Agencies	9,022,417.89	23.3%	9,013,616.89	49.1%
Commercial Paper	6,994,563.40	18.1%	6,991,857.60	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	13,076,968.57	33.8%	17,216,680.12	46.5%
<b>Totals</b>	<b>\$38,725,154.57</b>	<b>100.0%</b>	<b>\$42,871,911.25</b>	<b>100.0%</b>

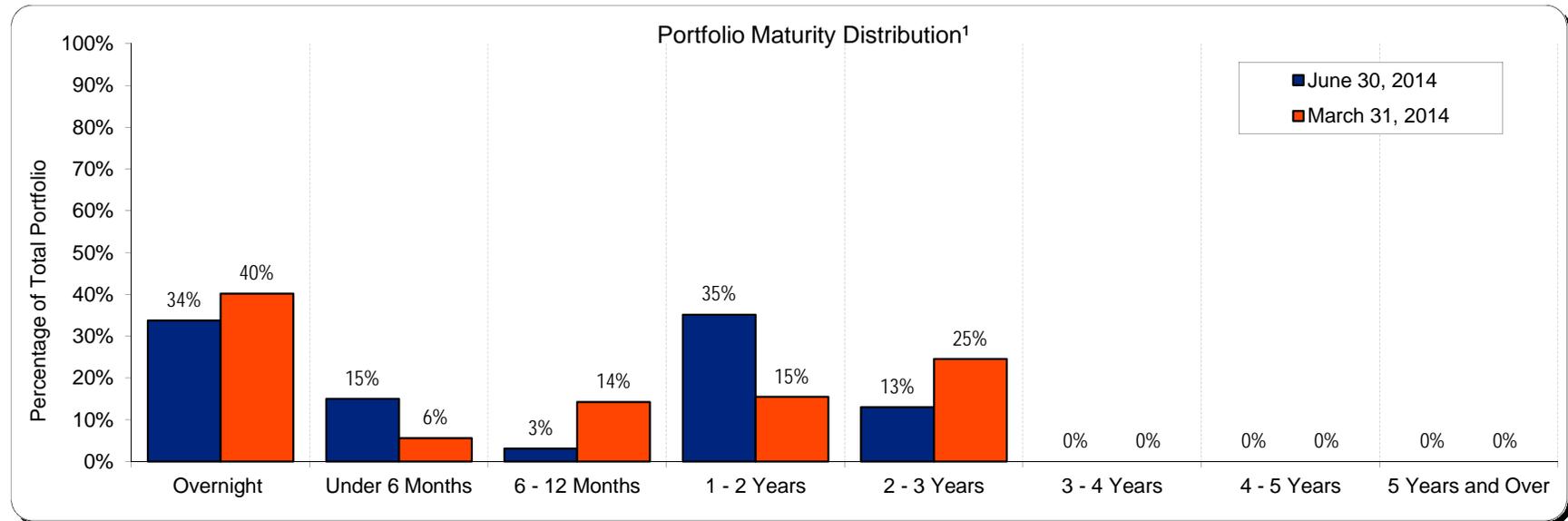


Notes:

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<sup>1</sup></u>	<u>June 30, 2014</u>	<u>March 31, 2014</u>
Overnight (Money Market Fund)	\$13,076,968.57	\$17,216,680.12
Under 6 Months	5,796,115.00	2,399,143.20
6 - 12 Months	1,198,448.40	6,105,158.88
1 - 2 Years	13,615,334.04	6,627,756.12
2 - 3 Years	5,038,288.56	10,523,172.93
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>\$38,725,154.57</b>	<b>\$42,871,911.25</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>4/30/2014</b>			
April Market Value		40,713,575.43	1 Account Summary Page
April Accrued Interest		40,110.79	2 Account Summary Page
Less (Purchases & Deposits)		(364,740.39)	3 Security Transactions & Interest
Less Purchased Interest		-	4 Security Transactions & Interest
Add (Sales, Maturities, Paydowns, Withdrawals)		2,500,000.00	5 Security Transactions & Interest
Add Interest Receipts		12,311.54	6 Security Transactions & Interest
Less March Market Value		(42,832,559.11)	7 Account Summary Page
Less March Accrued Interest		(39,352.14)	8 Account Summary Page
<b>Earnings</b>		<b>29,346.12</b>	

<b>Change in Investment Market Value</b>	<b>(2,118,983.68)</b>	(1 - 7)
<b>Change in Accrued Interest</b>	<b>758.65</b>	(2 - 8)
<b>Change in Cash</b>	<b>2,147,571.15</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		2,135,259.61		Security Transactions & Interest
Investments			2,118,983.68	Amortization/Accretion
Investment Income			16,275.93	Earnings
To record investment income/changes				
Cash		12,311.54		Security Transactions & Interest
Accrued Interest		758.65		Accrued Interest Difference
Investment Income			13,070.19	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>5/31/2014</b>	<b>Market Value Basis</b>	<b>Source Document</b>
May Market Value	41,286,939.90	1 Account Summary Page
May Accrued Interest	41,455.52	2 Account Summary Page
Less (Purchases & Deposits)	(556,529.76)	3 Security Transactions & Interest
Less Purchased Interest	-	4 Security Transactions & Interest
Add (Sales, Maturities, Paydowns, Withdrawals)	-	5 Security Transactions & Interest
Add Interest Receipts	11,883.72	6 Security Transactions & Interest
Less April Market Value	(40,714,011.97)	7 Account Summary Page
Less April Accrued Interest	(40,110.79)	8 Account Summary Page
<b>Earnings</b>	<b>29,626.62</b>	

<b>Change in Investment Market Value</b>	<b>572,927.93</b>	(1 - 7)
<b>Change in Accrued Interest</b>	<b>1,344.73</b>	(2 - 8)
<b>Change in Cash</b>	<b>(544,646.04)</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		556,529.76	Security Transactions & Interest
Investments	572,927.93		Amortization/Accretion
Investment Income		16,398.17	Earnings
To record investment income/changes			
Cash	11,883.72		Security Transactions & Interest
Accrued Interest	1,344.73		Accrued Interest Difference
Investment Income		13,228.45	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>6/30/2014</b>			
June Market Value		38,701,442.66	1 Account Summary Page
June Accrued Interest		23,393.25	2 Account Summary Page
Less (Purchases & Deposits)		(4,343,579.19)	3 Security Transactions & Interest
Less Purchased Interest		(36.10)	4 Security Transactions & Interest
Add (Sales, Maturities, Paydowns, Withdrawals)		6,911,533.59	5 Security Transactions & Interest
Add Interest Receipts		31,419.37	6 Security Transactions & Interest
Less May Market Value		(41,287,261.12)	7 Account Summary Page
Less May Accrued Interest		(41,455.52)	8 Account Summary Page
<b>Earnings</b>		<b>(4,543.06)</b>	

<b>Change in Investment Market Value</b>	<b>(2,585,818.46)</b>	(1 - 7)
<b>Change in Accrued Interest</b>	<b>(18,062.27)</b>	(2 - 8)
<b>Change in Cash</b>	<b>2,599,337.67</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	2,567,954.40		Security Transactions & Interest
Investments		2,585,818.46	Amortization/Accretion
Investment Income	17,864.06		Earnings
To record investment income/changes			
Cash	31,383.27		Security Transactions & Interest
Accrued Interest		18,062.27	Accrued Interest Difference
Investment Income		13,321.00	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> June 30, 2014</b>	Amortized Cost <sup>1,2,3</sup> March 31, 2014	<b>Market Value<sup>1,2,3</sup> June 30, 2014</b>	Market Value <sup>1,2,3</sup> March 31, 2014	<b>Duration (Years) June 30, 2014</b>
Pooled Funds	<b>\$6,992,347.42</b>	\$6,990,466.38	<b>\$6,994,563.40</b>	\$6,991,857.60	<b>0.43</b>

<u>Account Name</u>	<b>Yield to Maturity at Cost<sup>4</sup> June 30, 2014</b>	Yield to Maturity at Cost <sup>4</sup> March 31, 2014	<b>Yield to Maturity at Market June 30, 2014</b>	Yield to Maturity at Market March 31, 2014	Duration (Years) March 31, 2014
Pooled Funds	<b>0.27%</b>	0.30%	<b>0.18%</b>	0.24%	0.47

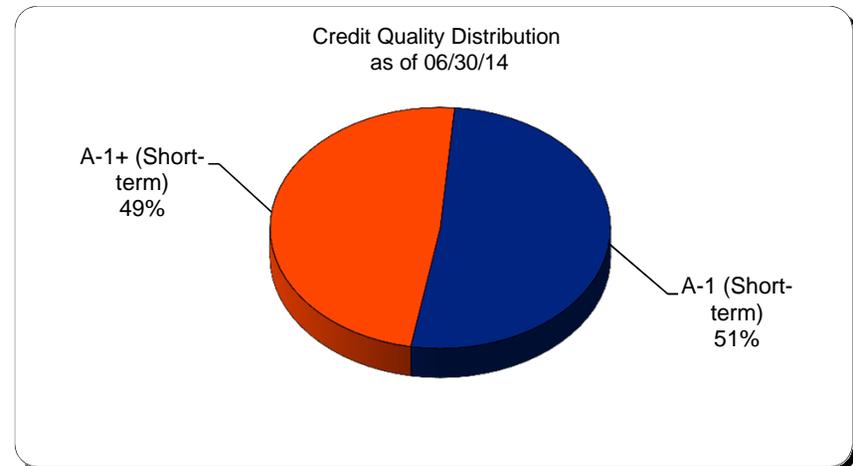
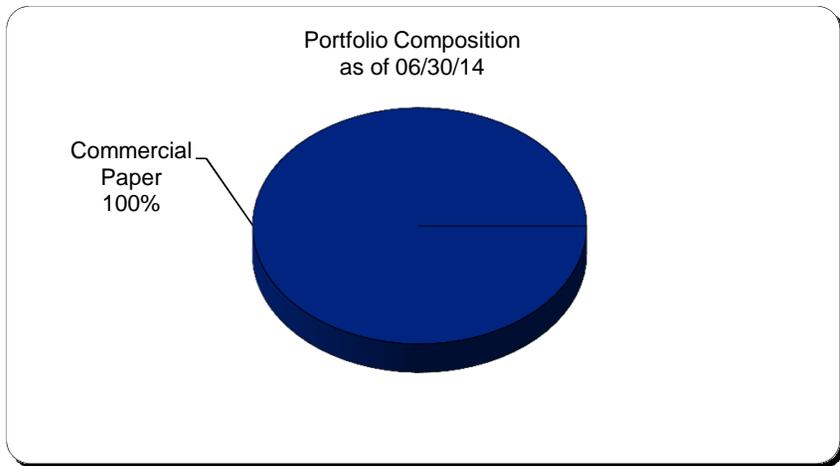
<u>Benchmarks<sup>5</sup></u>	<b>June 30, 2014</b>	March 31, 2014
TexPool <sup>6</sup>	<b>0.03%</b>	0.03%

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. Yields presented on an annualized basis as of June 30, 2014.
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>June 30, 2014</u>	<u>% of Portfolio</u>	<u>March 31, 2014</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$0.00	0.00%	\$0.00	0.00%
Federal Agencies	0.00	0.00%	0.00	0.00%
Commercial Paper	6,994,563.40	100.00%	6,991,857.60	100.00%
Commercial Paper - TLGP	0.00	0.00%	0.00	0.00%
Certificates of Deposit	0.00	0.00%	0.00	0.00%
Bankers Acceptances	0.00	0.00%	0.00	0.00%
Repurchase Agreements	0.00	0.00%	0.00	0.00%
Municipal Obligations	0.00	0.00%	0.00	0.00%
Corporate Notes/Bonds	0.00	0.00%	0.00	0.00%
Mortgage Backed	0.00	0.00%	0.00	0.00%
Money Market Fund/Cash	0.00	0.00%	0.00	0.00%
<b>Totals</b>	<b>\$6,994,563.40</b>	<b>100.00%</b>	<b>\$6,991,857.60</b>	<b>100.00%</b>

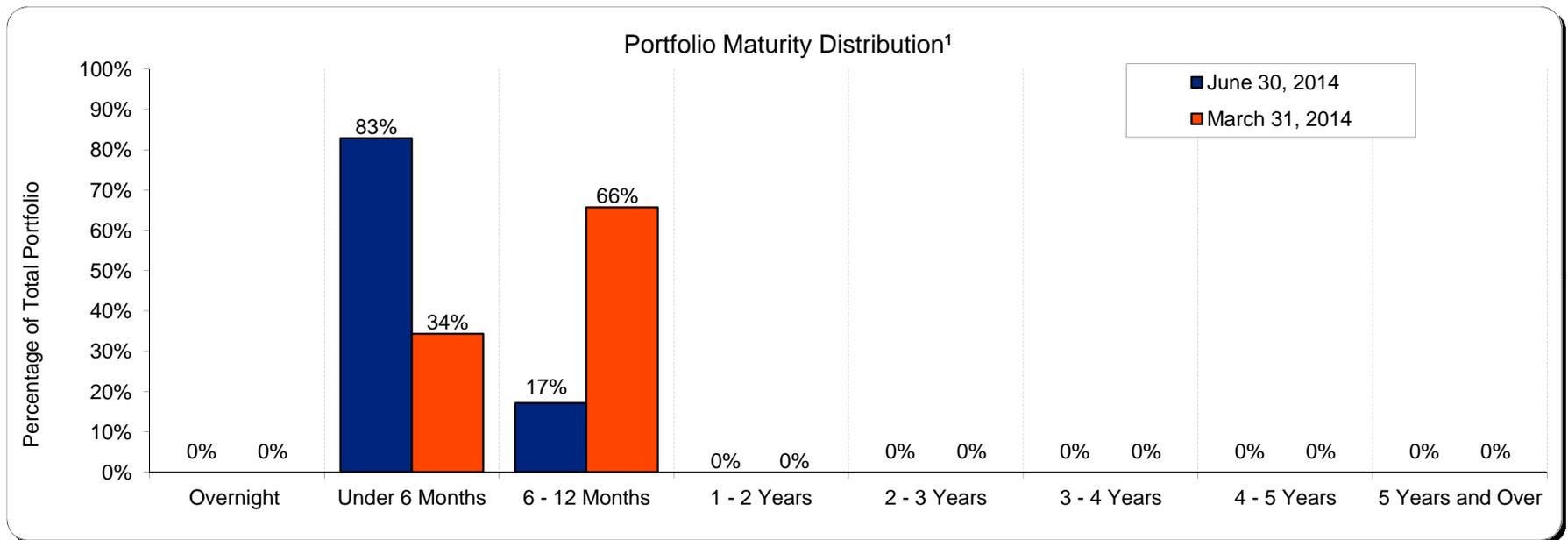


Notes:

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>June 30, 2014</u>	<u>March 31, 2014</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	5,796,115.00	2,399,143.20
6 - 12 Months	1,198,448.40	4,592,714.40
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>\$6,994,563.40</b>	<b>\$6,991,857.60</b>



Notes:

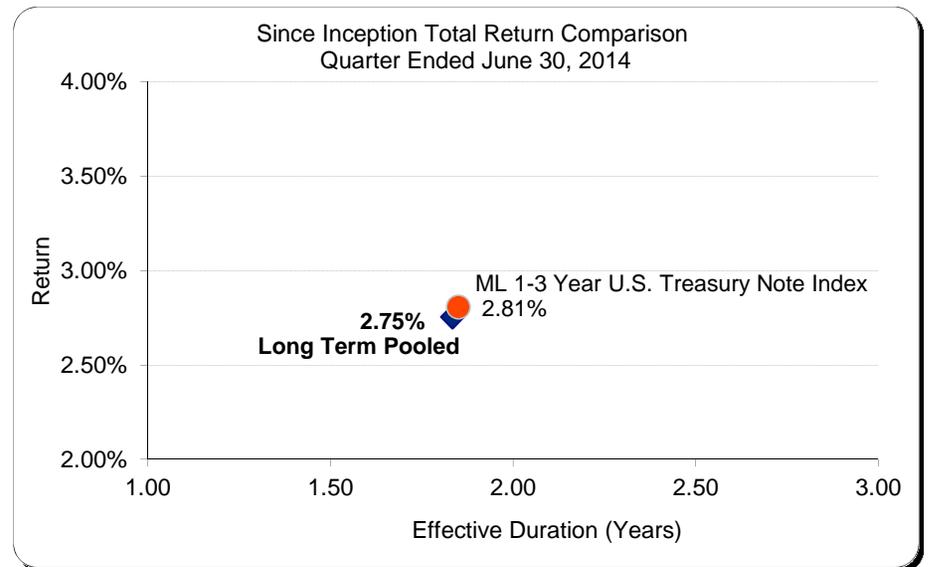
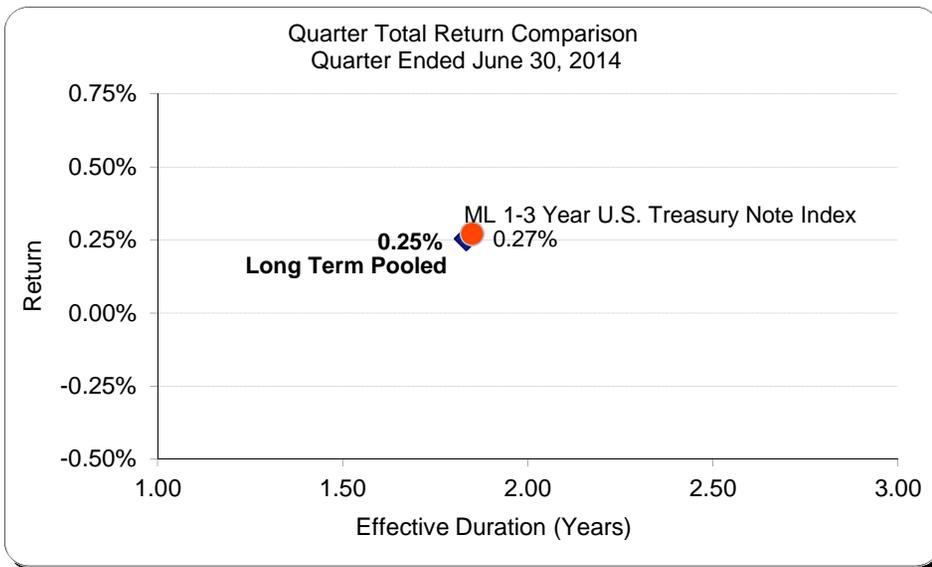
1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

Long Term Pooled Fund Portfolio Performance

<b>Total Portfolio Value<sup>1</sup></b>	<b>June 30, 2014</b>	March 31, 2014
<b>Market Value</b>	<b>\$18,653,622.60</b>	\$18,663,373.53
<b>Amortized Cost</b>	<b>\$18,619,400.30</b>	\$18,651,809.24

<b>Total Return<sup>2,3,4,5</sup></b>	Quarterly Return June 30, 2014	Last 12 Months	Last 2 Years	Last 5 Years	Last 7 Years	Since Inception June 30, 2006
<b>Long Term Pooled Fund</b>	<b>0.25%</b>	<b>0.84%</b>	<b>0.52%</b>	<b>1.10%</b>	<b>2.37%</b>	<b>2.75%</b>
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.27%	<b>0.76%</b>	<b>0.55%</b>	1.18%	2.49%	2.81%

<b>Effective Duration(Years)<sup>4,5</sup></b>	June 30, 2014	March 31, 2014	<b>Yields</b>	June 30, 2014	March 31, 2014
<b>Long Term Pooled Fund</b>	<b>1.83</b>	<b>1.88</b>	Yield at Market	<b>0.53%</b>	0.48%
Merrill Lynch 1-3 Year U.S. Treasury Note Index	1.85	1.84	Yield at Cost	<b>0.43%</b>	0.44%
Portfolio Duration % of Benchmark Duration	99%	102%			

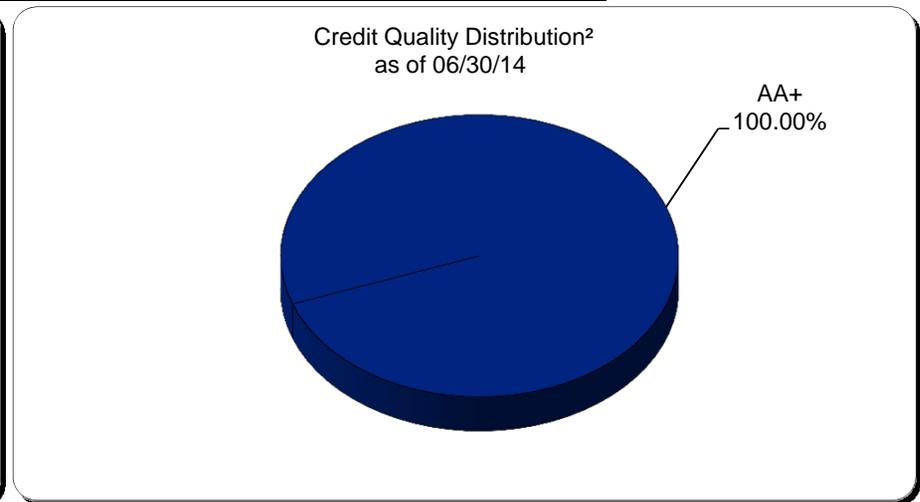
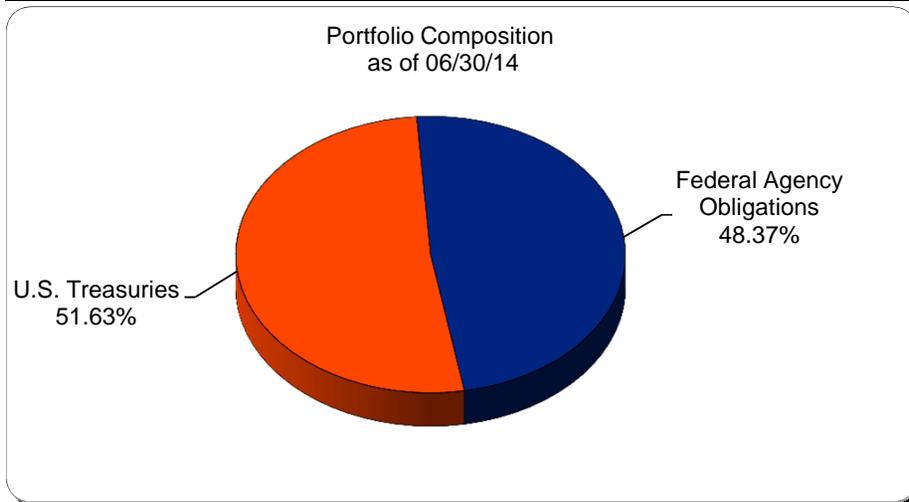


Notes:

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

Long Term Pooled Fund Portfolio Composition and Credit Quality Characteristics

<u>Security Type<sup>1</sup></u>	<u>June 30, 2014</u>	<u>% of Portfolio</u>	<u>March 31, 2014</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$9,631,204.71	51.6%	\$9,649,756.64	51.7%
Federal Agencies	9,022,417.89	48.4%	9,013,616.89	48.3%
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>\$18,653,622.60</b>	<b>100.0%</b>	<b>\$18,663,373.53</b>	<b>100.0%</b>

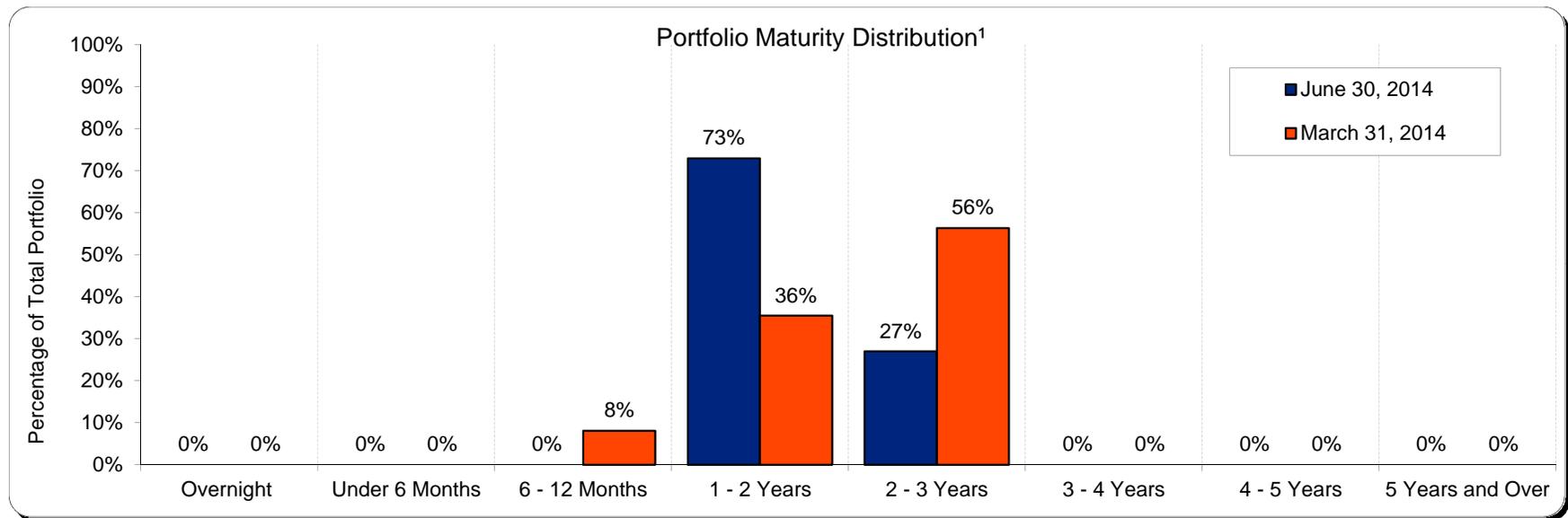


Notes:

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

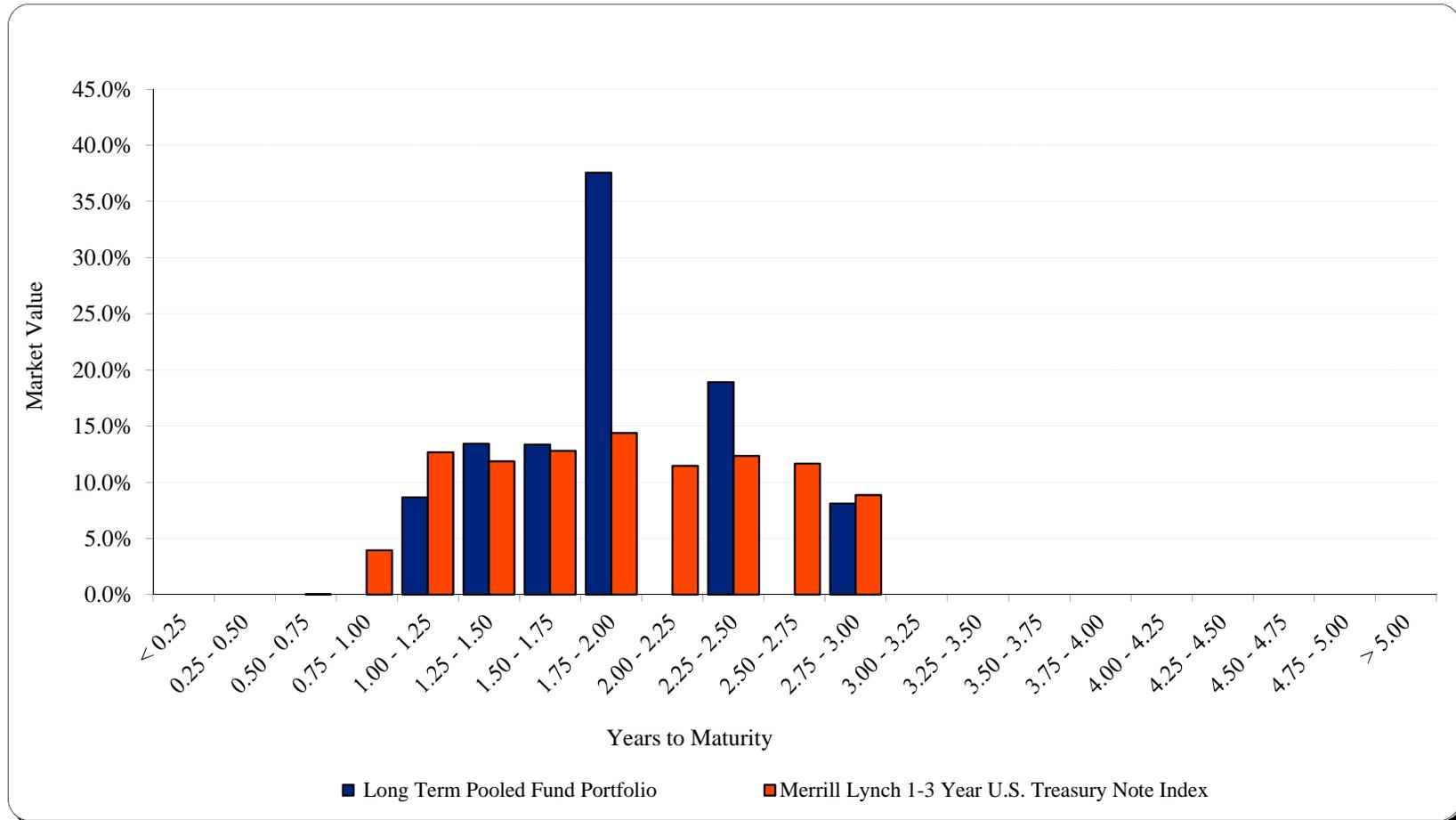
<u>Maturity Distribution<sup>1</sup></u>	<u>June 30, 2014</u>	<u>March 31, 2014</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	0.00	0.00
6 - 12 Months	0.00	1,512,444.48
1 - 2 Years	13,615,334.04	6,627,756.12
2 - 3 Years	5,038,288.56	10,523,172.93
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$18,653,622.60</b>	<b>\$18,663,373.53</b>



Notes:

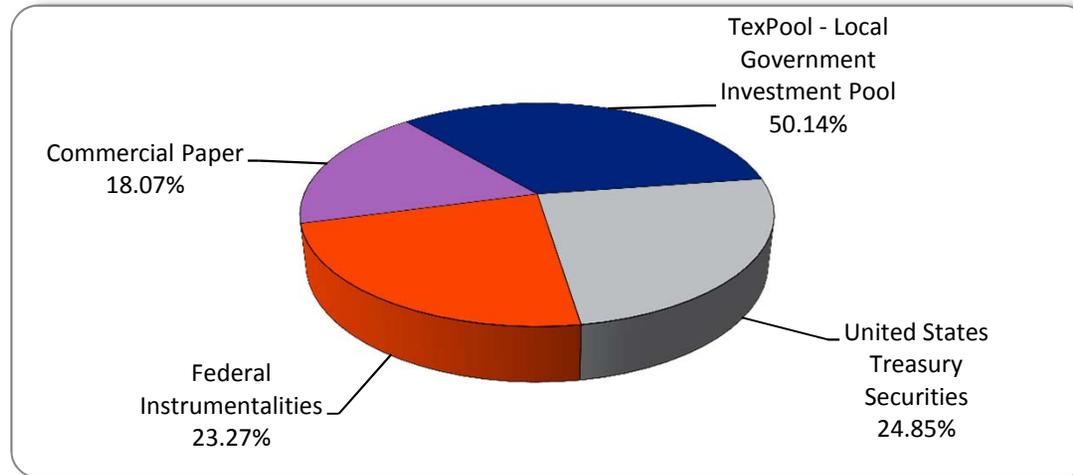
1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

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>1</sup>	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
TexStar - Local Government Investment Pool	-	0.00%		100%	YES
TexPool - Local Government Investment Pool	13,076,968.57	33.80%		100%	YES
United States Treasury Securities	9,615,787.37	24.85%		100%	YES
United States Government Agency Securities	-	0.00%		100%	YES
Federal Instrumentalities	9,003,612.93	23.27%	2	100%	YES
Mortgage-Backed Securities	-	0.00%	2,3	20%	YES
Certificates of Deposit	-	0.00%		20%	YES
Repurchase Agreements	-	0.00%		20%	YES
Commercial Paper	6,992,347.42	18.07%		25%	YES
Corporate Notes TLGP - FDIC Insured	-	0.00%		50%	YES
Bankers' Acceptances	-	0.00%		25%	YES
State and/or Local Government Debt	-	0.00%		25%	YES
Fixed Income Money Market Mutual Funds	-	0.00%		50%	YES

Notes:

1. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
2. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 100%. The combined total as of June 30, 2014 is 23.27%.
3. The Investment Policy does allow for Government and Federal Agency mortgage backed securities (MBS). Which is limited to GNMA, FHLMC, and FNMA mortgage backed securities. GNMA securities have the full faith and credit of the United States Treasury. As of September 6, 2008, FHLMC and FNMA have been under conservatorship with the United States Treasury. PFM has imposed an internal maximum allocation limit of 20% in MBS'. PFM will notify the City prior to adding MBS' to the portfolio.
4. The balance of the TexPool dropped during the month of February causing the individual commercial paper percentages to exceed 5%. These securities were in compliance at the time of purchase. PFM purchased a Toyota Commercial Paper on March 7, 2014. We confirmed with the City the current balance at TexPool was \$18.8 million. This was enough to purchase the Toyota Commercial Paper in compliance with the Investment Policy. The TexPool balance dropped down to \$17.2 million by the end of March. This pushed the Toyota Commercial Paper over the permitted limit.

Individual Issuer Breakdown	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Government National Mortgage Association (GNMA)	-	0.00%		40%	YES
Federal Farm Credit Bank (FFCB)	-	0.00%		40%	YES
Federal Home Loan Bank (FHLB)	1,992,466.85	5.15%		40%	YES
Federal National Mortgage Association (FNMA)	3,004,538.55	7.77%		40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	4,006,607.53	10.36%		40%	YES
JP Morgan Securities Commercial Paper	2,397,480.00	6.20%	4	5%	NO
General Electric Commercial Paper	1,198,319.99	3.10%		5%	YES
Toyota Commercial Paper	2,197,835.44	5.68%	4	5%	NO
Bank of Tokyo Mitsubishi Commercial Paper	1,198,711.99	3.10%		5%	YES

Notes:

1. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
2. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 100%. The combined total as of June 30, 2014 is 23.27%.
3. The Investment Policy does allow for Government and Federal Agency mortgage backed securities (MBS'). Which is limited to GNMA, FHLMC, and FNMA mortgage backed securities. GNMA securities have the full faith and credit of the United States Treasury. As of September 6, 2008, FHLMC and FNMA have been under conservatorship with the United States Treasury. PFM has imposed an internal maximum allocation limit of 20% in MBS'. PFM will notify the City prior to adding MBS' to the portfolio.
4. The balance of the TexPool dropped during the month of February causing the individual commercial paper percentages to exceed 5%. These securities were in compliance at the time of purchase. PFM purchased a Toyota Commercial Paper on March 7, 2014. We confirmed with the City the current balance at TexPool was \$18.8 million. This was enough to purchase the Toyota Commercial Paper in compliance with the Investment Policy. The TexPool balance dropped down to \$17.2 million by the end of March. This pushed the Toyota Commercial Paper over the permitted limit.

**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 June 30, 2014, 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.

In consideration of the safety and security of our client's sensitive information, PFM Asset Management's compliance department does not allow the inclusion of month end statements in any electronic communication including this version of the quarterly performance 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.

The most current statements are always available to the client online, however they can only be accessed with the designated username and password.

# TAB IV