

Village of Wellington, Florida



Investment Performance Review Quarter Ended December 31, 2014

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(statements are available online at www.pfm.com)

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(statements are available online at www.pfmfunds.com)

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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

- The fourth-quarter markets were characterized by heightened volatility, a continued strengthening of the U.S. dollar, and soaring U.S. equity markets, which reached new all-time highs.
- Globally, economic growth patterns diverged during the quarter, with the U.S. strengthening while other areas of the developed world (such as Europe and Japan) struggled with stagnation.
- Oil prices plummeted as global demand slowed, while the supply of oil continued to climb as a result of strong domestic output combined with the Organization of Petroleum Exporting Countries' (OPEC's) decision not to reduce the pace of its oil production.

Economic Snapshot

- Third-quarter gross domestic product (GDP) grew at 5%, reflecting increases in personal consumption expenditures, exports, and federal, state, and local government spending, among other factors.
- The U.S. labor market continued to improve, as the unemployment rate fell from 5.9% in September to 5.6% in December. The business services, retail, transportation, healthcare, and manufacturing sectors all saw job gains.
- The housing market had a lackluster quarter as both new- and existing-home sales fell and home price increases slowed to just 4.5% year over year through October 2014, compared to an increase of 10.9% in the prior year.
- The Consumer Price Index, which measures inflation, fell 0.3% in November, marking its largest decline since December 2008. Lower oil prices were a major contributor to the falling prices.

Interest Rates

- The Federal Open Market Committee (FOMC) rephrased its “considerable time” language in its statement released after its December meeting, saying that it would be “patient” when

normalizing monetary policy after taking extraordinary steps to support economic recovery after the financial crisis.

- The yield curve flattened over the quarter as short and intermediate rates rose, while longer maturities continued to see downward pressure. The two-year Treasury reached 0.7%, a three-year high, in late December. The 10-year Treasury ended the year at 2.2%, down from 2.5% at the beginning of the fourth quarter and 3% at the beginning of 2014.

Sector Performance

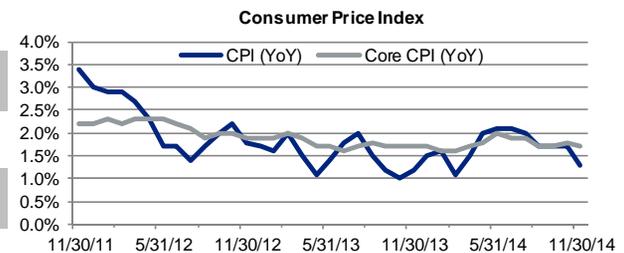
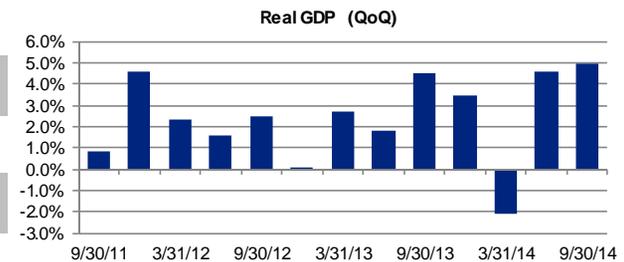
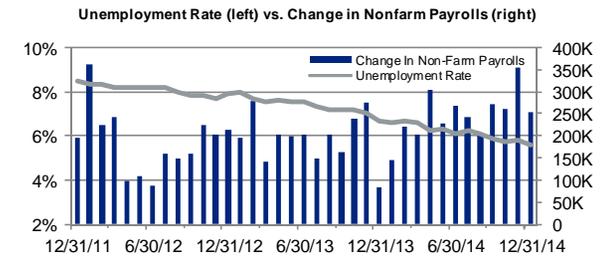
- Fixed-income market performance for the quarter depended on both maturity and sector.
- In short/intermediate maturities, the steep yield curve provided enough income and “roll down” to offset a slight increase in interest rates during the quarter. In the aggregate, these market dynamics helped to produce modest positive returns that essentially mirrored initial yields.
- Longer-duration investments were the strongest performers as they continued to benefit from falling long-term rates.
- Shorter-duration Agency spreads reversed the temporary widening that occurred in the third quarter and returned to historically tight levels. As a result, Agencies with shorter maturities performed better relative to Treasuries than Agencies with longer maturities.
- Corporate spreads widened modestly; however, their higher yields provided enough extra earnings to produce performance generally on par with Treasuries.
- Mortgage-backed securities had a strong quarter, while municipals lagged Treasuries significantly in all maturity ranges.
- Yields on money market securities, especially those with maturities greater than six months, rose notably towards the end of the quarter, reflecting an expected hike in the federal funds rate in the late spring of 2015.

Economic Snapshot

Labor Market		Latest	Sep 2014	Dec 2013
Unemployment Rate	Dec'14	5.6%	5.9%	6.7%
Change In Non-Farm Payrolls	Dec'14	252,000	271,000	84,000
Average Hourly Earnings (YoY)	Dec'14	1.7%	2.0%	1.9%
Personal Income (YoY)	Nov14	4.2%	3.6%	-2.1%
Initial Jobless Claims (week)	Jan 02	294,000	288,000	344,000

Growth				
Real GDP (QoQ SAAR)	2014Q2	5.0%	4.6% ¹	3.5% ²
GDP Personal Consumption (QoQ SAAR)	2014Q2	3.2%	2.5% ¹	3.7% ²
Retail Sales (YoY)	Nov14	5.1%	4.6%	3.4%
ISM Manufacturing Survey (month)	Dec'14	55.5	56.6	56.5
Existing Home Sales SAAR (month)	Nov14	4.93 mil.	5.18 mil.	4.87 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	Nov14	1.2%	1.4%	1.2%
Consumer Price Index (YoY)	Nov14	1.3%	1.7%	1.5%
Consumer Price Index Core (YoY)	Nov14	1.7%	1.7%	1.7%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$53.27	\$91.16	\$98.42
Gold Futures (oz.)	Dec 31	\$1,184	\$1,211	\$1,202



1. Data as of Second Quarter 2014

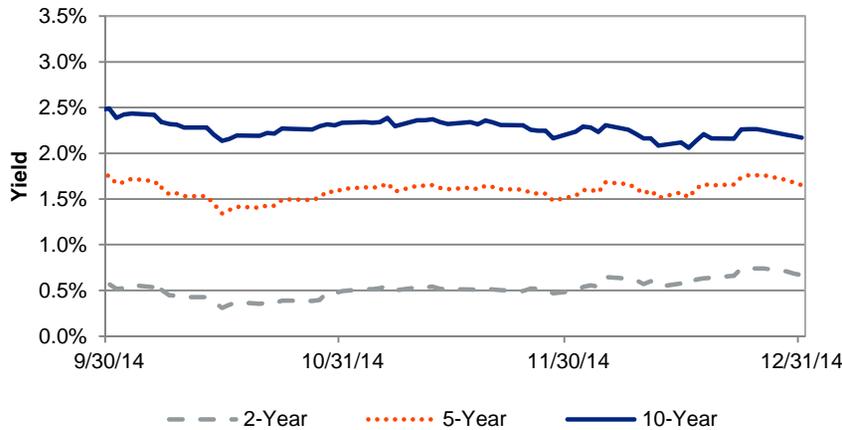
2. Data as of Fourth Quarter 2013

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

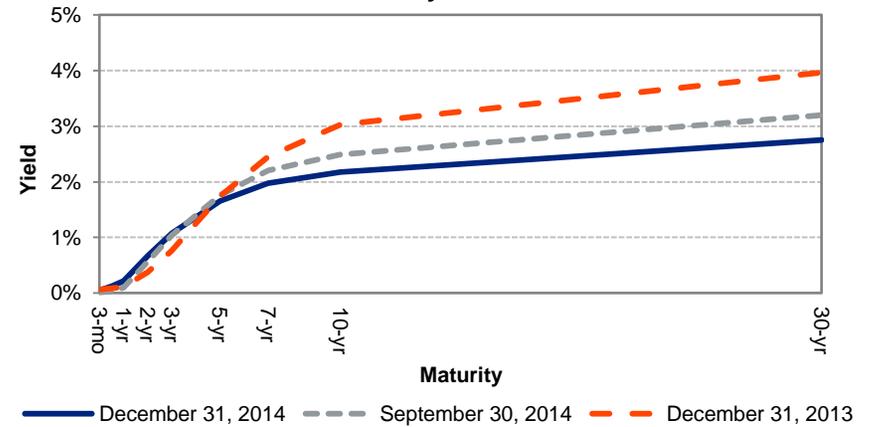
Source: Bloomberg

Investment Rate Overview

U.S. Treasury Note Yields



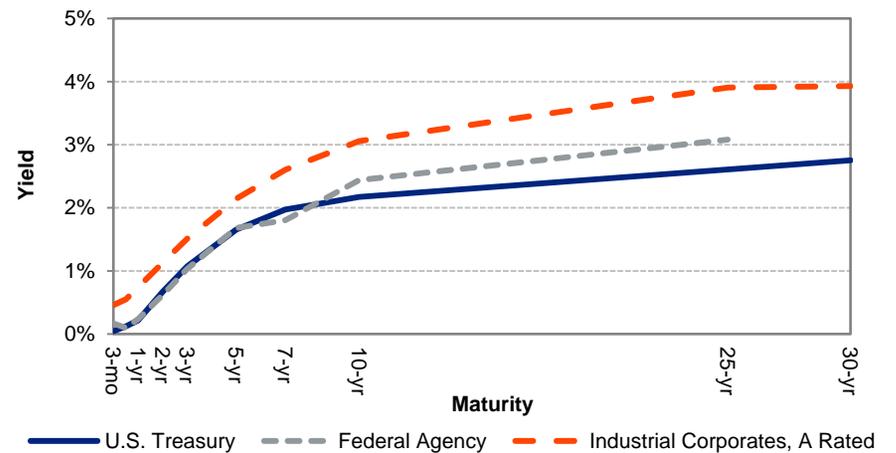
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	12/31/14	9/30/14	Change over Quarter	12/31/13	Change over Year
3-month	0.04%	0.02%	0.02%	0.07%	(0.03%)
1-year	0.22%	0.10%	0.12%	0.11%	0.11%
2-year	0.67%	0.57%	0.10%	0.38%	0.29%
5-year	1.65%	1.76%	(0.11%)	1.74%	(0.09%)
10-year	2.17%	2.49%	(0.32%)	3.03%	(0.86%)
30-year	2.75%	3.20%	(0.45%)	3.97%	(1.22%)

Yield Curves as of 12/31/2014



Source: Bloomberg

BofA Merrill Lynch Index Returns

	As of 12/31/2014	Returns for Periods ended 12/31/2014			
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.89	0.67%	0.17%	0.62%	0.47%
Federal Agency	1.87	0.80%	0.22%	0.70%	0.66%
U.S. Corporates, A-AAA rated	1.98	1.34%	0.15%	1.08%	2.16%
Agency MBS (0 to 3 years)	1.94	1.29%	0.42%	1.08%	1.18%
Municipals	1.79	0.67%	0.01%	0.72%	0.94%
1-5 Year Indices					
U.S. Treasury	2.69	0.98%	0.49%	1.24%	0.65%
Federal Agency	2.35	1.01%	0.42%	1.30%	0.90%
U.S. Corporates, A-AAA rated	2.79	1.73%	0.49%	2.12%	3.02%
Agency MBS (0 to 5 years)	3.23	2.03%	1.16%	3.90%	2.12%
Municipals	2.57	0.96%	(0.02%)	1.30%	1.39%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.13	1.52%	2.28%	6.02%	1.54%
Federal Agency	3.94	1.42%	1.25%	4.04%	1.53%
U.S. Corporates, A-AAA rated	6.87	2.73%	2.05%	7.34%	4.77%
Agency MBS (0 to 30 years)	4.00	2.30%	1.79%	6.07%	2.37%
Municipals	6.85	2.41%	1.33%	9.78%	4.56%

Returns for periods greater than one year are annualized

Source: BofA Merrill Lynch Indices

Source: BofA Merrill Lynch Indices

Disclosures

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TAB II

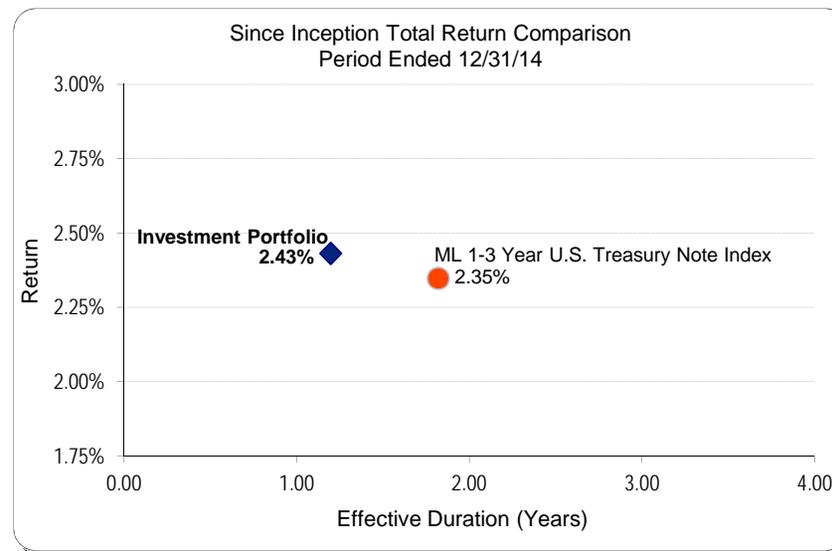
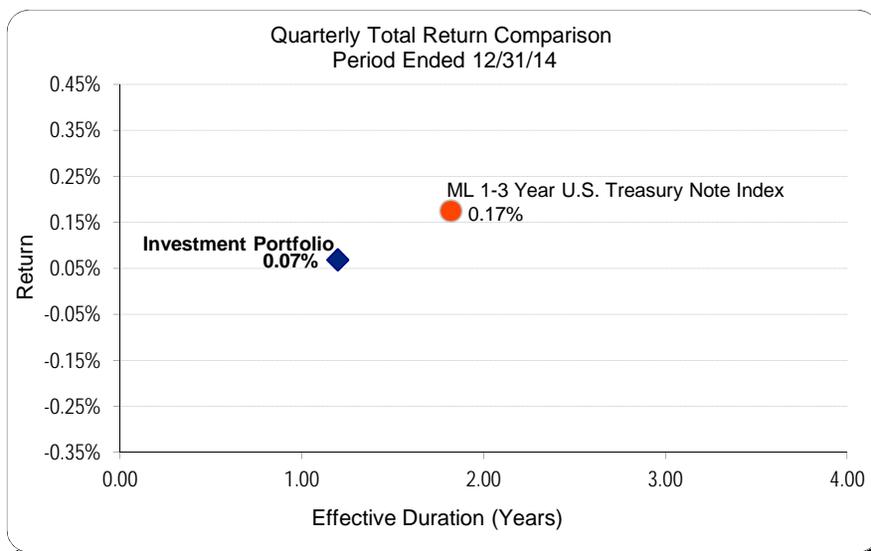
Executive Summary

PORTFOLIO STRATEGY

- The Village's Investment Portfolio is of high credit quality and invested in U.S. Treasury, Federal Agency securities, and Commercial Paper.
- The Investment Portfolio's quarterly total return performance of 0.07% underperformed the benchmark performance of 0.17% by 0.10%. This underperformance is due to the sizeable difference between the Investment Portfolio's duration and the benchmark's duration. At the end of the fourth quarter, the portfolio's duration was 66% of the benchmark's duration. Per the Village's request, the portfolio is structured to meet the cash flow needs of the Village whereas the benchmark is structured for a one to three year time period. At this point it serves as more of a comparison rather than a traditional benchmark.
- U.S. Treasury yields experienced heightened volatility in the fourth quarter as market participants continued to balance the convergence of an improving domestic economy, declining global growth prospects, deflationary pressures, and varying stages of support from central banks around the world. Shorter maturities (under 3 years) ended the quarter modestly higher, while longer maturities continued to trend lower causing the yield curve to flatten.
- While the broader yield curve flattened further in the fourth quarter, the shorter end of the yield curve (under 5 years) remained near historically steep levels; increasing the relative attractiveness of longer duration investments.
- We expect that the new year will see a continuation of the narrative that dominated the latter half of 2014: the response of central banks to improving domestic economic data contrasted against the headwinds of global uncertainty. Additionally, the recent plummet of oil prices, combined with a strengthening US Dollar have injected a new dynamic to the global inflationary outlook and its impact on market volatility and geopolitical risks.
- We continue to closely monitor the movements of the FOMC as it remains a significant, but uncertain market force. While the market generally expects the Fed to finally raise rates in 2015, the Committee has stated its intention to be "patient in beginning to normalize the stance of monetary policy," which means the timing and pace of future rate hikes is still uncertain. As we have for much of the past year, we start the year with a modestly conservative and defensive duration posture to reflect that uncertainty.
- PFM will continue to navigate the market environment with a keen focus on relative value sector analysis, prudent duration management, and efficient yield curve placement. While producing strong investment returns remains a priority, it is secondary to maintaining safety and liquidity, particularly in the current environment where we expect yields to trend higher.

Investment Portfolio Performance

Total Portfolio Value¹		December 31, 2014	September 30, 2014				
Market Value		\$80,734,225.87	\$67,696,501.21				
Amortized Cost		\$80,715,527.12	\$67,637,720.40				
Total Return^{2,3,4,5}		Quarterly Return December 31, 2014	Last 6 Months	Last 12 Months	Last 2 Years	Last 5 Years	Since Inception on March 31, 2004
Investment Portfolio		0.07%	0.13%	0.49%	0.41%	0.82%	2.43%
Merrill Lynch 1-3 Year U.S. Treasury Note Index		0.17%	0.21%	0.62%	0.49%	1.06%	2.35%
Effective Duration(Years)^{4,5}		December 31, 2014	September 30, 2014		Yields		
Investment Portfolio		1.20	1.08		Yield at Market ⁶	December 31, 2014	September 30, 2014
Merrill Lynch 1-3 Year U.S. Treasury Note Index		1.82	1.84		Yield at Cost ⁷	0.45%	0.33%
Portfolio Duration % of Benchmark Duration		66%	59%		SBA Yield	0.16%	0.16%

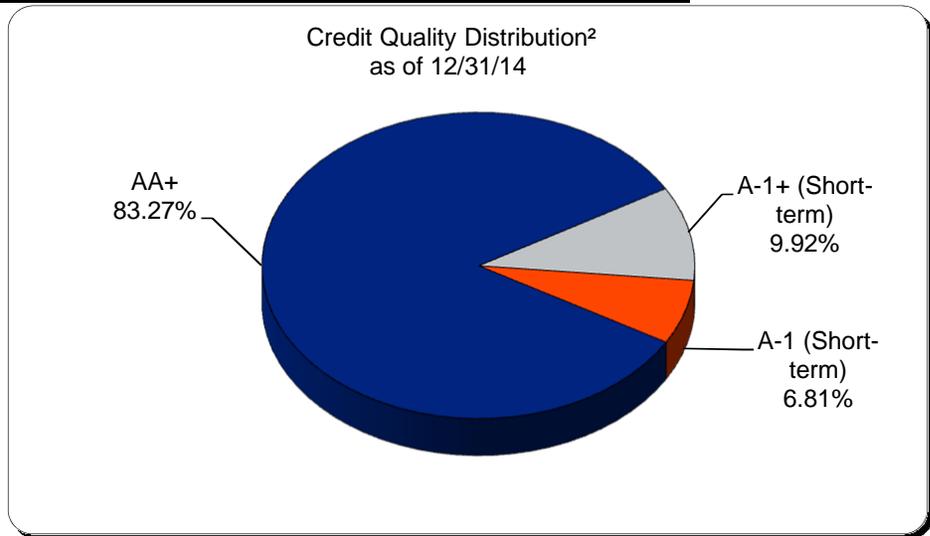
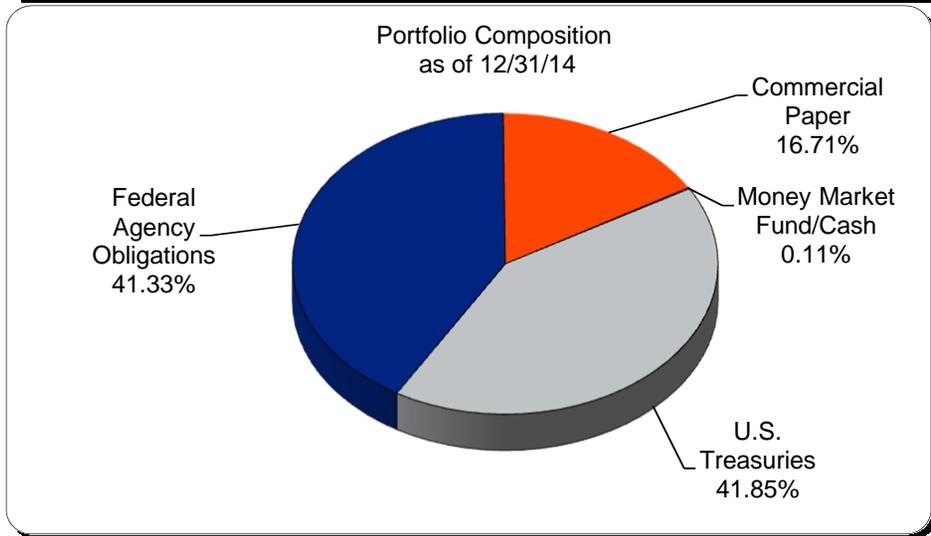


Notes:

- 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.
- 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.
- Since Inception the benchmark has been the Merrill Lynch 1-3 Year U.S. Treasury Note.
- Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Includes money market fund/cash in performance and duration computations.
- YTM at Market: The yield to maturity at market is the rate of return, based on the current market value, the annual interest receipts, maturity value and the time period remaining until maturity, stated on percentage.
- YTM at Cost: The yield to maturity at cost is the expected rate of return, based on the original cost, the annual interest receipts, maturity value and the time period from purchase date to maturity, stated in percentage.

Investment Portfolio Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>December 31, 2014</u>	<u>% of Portfolio</u>	<u>September 30, 2014</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$33,786,445.24	41.8%	\$20,889,918.78	30.9%
Federal Agencies	33,370,667.50	41.3%	29,240,632.43	43.2%
Commercial Paper	13,491,310.00	16.7%	14,496,323.50	21.4%
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	85,803.13	0.1%	3,069,626.50	4.5%
Totals	\$80,734,225.87	100.0%	\$67,696,501.21	100.0%

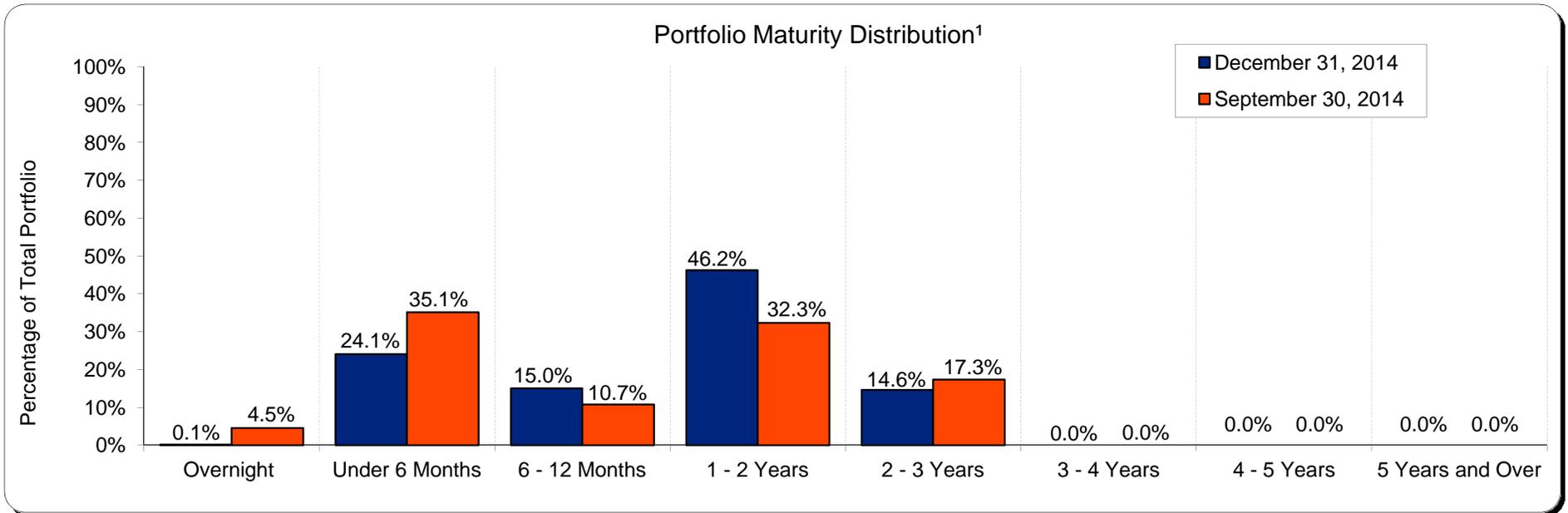


Notes:

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.

Investment Portfolio Portfolio Maturity Distribution

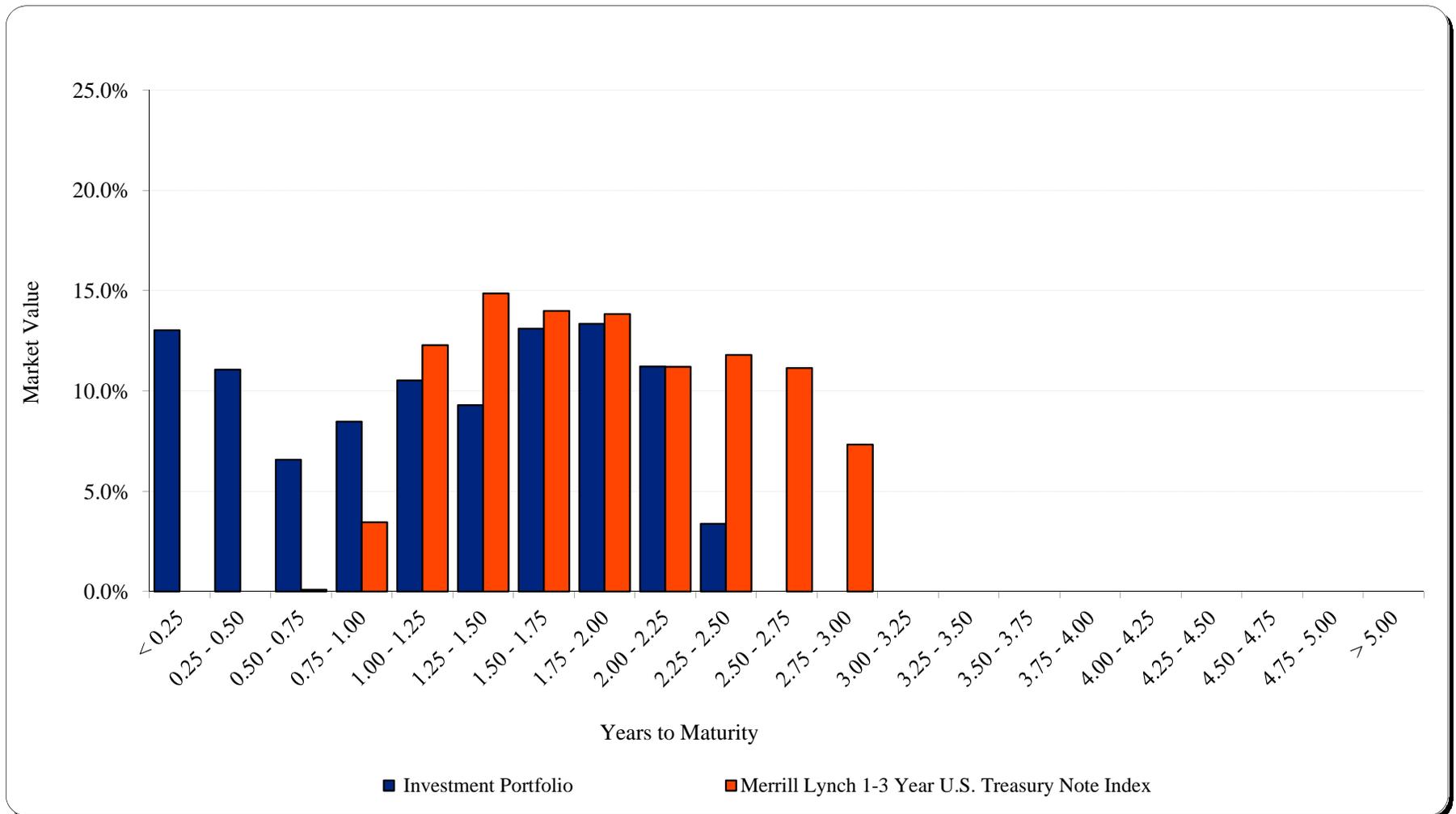
<u>Maturity Distribution¹</u>	<u>December 31, 2014</u>	<u>September 30, 2014</u>
Overnight (Money Market Fund)	\$85,803.13	\$3,069,626.50
Under 6 Months	19,431,007.39	23,741,178.06
6 - 12 Months	12,138,287.09	7,261,021.62
1 - 2 Years	37,308,127.23	21,885,074.98
2 - 3 Years	11,771,001.03	11,739,600.05
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$80,734,225.87	\$67,696,501.21



Notes:

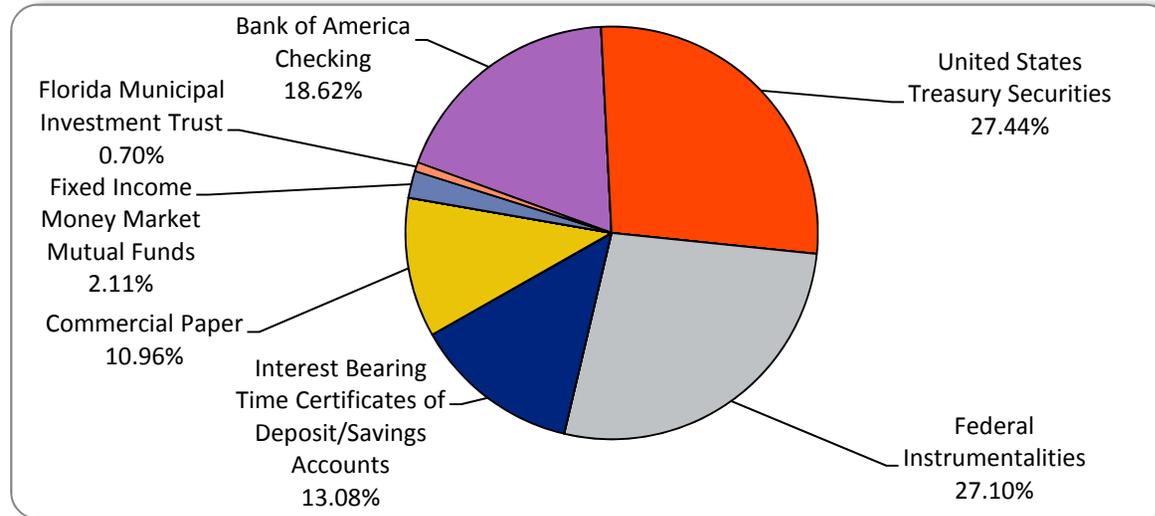
1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

Investment Portfolio Maturity Distribution versus the Benchmark¹



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.



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Security Type ¹	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Bank of America Checking	22,923,141.62	18.62%	2,3	100%	YES
Florida SBA Prime Fund	-	0.00%	3	25%	YES
United States Treasury Securities	33,779,364.05	27.44%		100%	YES
United States Government Agency Securities	-	0.00%		50%	YES
Federal Instrumentalities	33,359,247.32	27.10%	4	80%	YES
Mortgage-Backed Securities	-	0.00%	4	20%	YES
Interest Bearing Time Certificates of Deposit/Savings Accounts	16,101,088.42	13.08%	2,3	25%	YES
Repurchase Agreements	-	0.00%		50%	YES
Commercial Paper	13,491,112.62	10.96%		25%	YES
Corporate Notes	-	0.00%		15%	YES
Bankers' Acceptances	-	0.00%		25%	YES
State and/or Local Government Debt	-	0.00%		20%	YES
Fixed Income Money Market Mutual Funds	2,595,097.46	2.11%		50%	YES
Florida Municipal Investment Trust	863,903.66	0.70%	3	15%	YES

Notes:

1. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
2. Assets invested in overnight demand deposit accounts with Qualified Public Depositories are collateralized in accordance with Florida Statutes Chapter 280.
3. Managed by the Village.
4. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 80%. The combined total as of December 31, 2014 is 27.1%.

* All Assets

Individual Issuer Breakdown	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Government National Mortgage Association (GNMA)	-	0.00%		25%	YES
Federal Farm Credit Bank (FFCB)	-	0.00%		40%	YES
Federal Home Loan Bank (FHLB)	10,815,743.55	8.79%		40%	YES
Federal National Mortgage Association (FNMA)	19,526,808.00	15.86%		40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	3,016,695.77	2.45%		40%	YES
General Electric Commercial Paper	3,997,088.88	3.25%		5%	YES
U.S. Bank Commercial Paper	3,999,303.32	3.25%		5%	YES
PNC Bank Commercial Paper	2,996,576.67	2.43%		5%	YES
JP Morgan Securities Commercial Paper	2,498,143.75	2.03%		5%	YES
Bank of America Operating	22,923,141.62	18.62%	2,3	100%	YES
Bank of America Money Market Savings	16,101,088.42	13.08%	2,3	15%	YES
PFM Funds Government Series Money Market Fund	2,509,294.33	2.04%		25%	YES
Fidelity (BONY) Money Market Fund	85,803.13	0.07%		25%	YES
Florida Prime	-	0.00%	3	25%	YES
FMIvT - Intermediate	762,895.33	0.62%	3	15%	YES
FMIvT - 1-3 years	101,008.33	0.08%	3	15%	YES

Notes:

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- * All Assets

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.

PFM Funds statements are available online at **www.pfmfunds.com**

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

Insert Transaction Page here to complete the report.

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Transactions are available online at **www.pfm.com** login and click on the link to "Month to Date Transactions" on the left side of the screen.

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