

# WELLINGTON, FLORIDA



QUARTERLY INVESTMENT REPORT  
FOR THE QUARTER ENDED JUNE 30, 2014

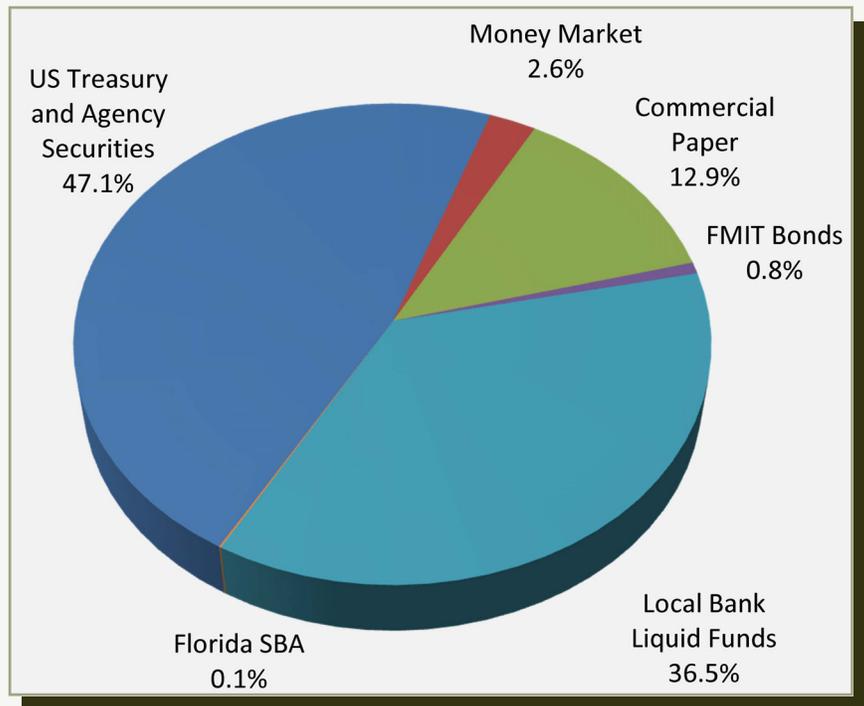
# CASH AND INVESTMENTS

JUNE 30, 2014

The investment management policy stresses safety, liquidity, and investment yields. To ensure the protection of the public's assets, investments have the highest possible credit rating. The portfolio consists of securities that maximize return on investments while structured to provide sufficient liquidity to pay current obligations and future capital project spending.

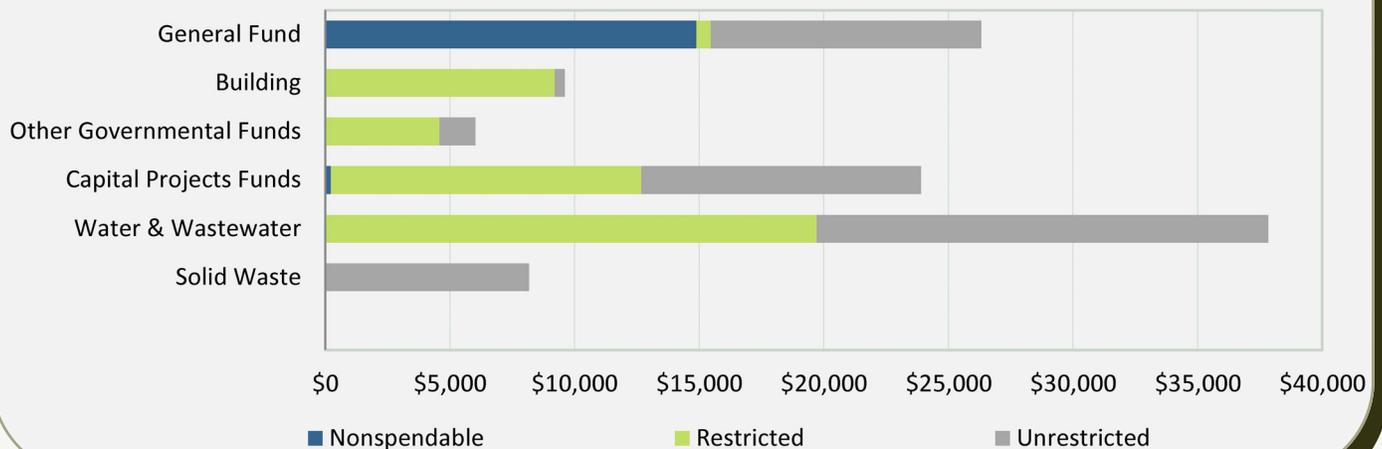
Wellington is authorized to invest in obligations of the US Treasury, its agencies and instrumentalities, repurchase agreements, certificates of deposit, Florida PRIME, SEC registered money market funds with the highest credit quality ratings, and mutual funds that restrict its investments to obligations of the US government.

Cash and investments of each fund, except certain investments in the debt service and enterprise funds, are accounted for in pooled cash and investment accounts with each fund maintaining its proportionate equity in the pooled accounts. The use of pooled cash and investment accounts enables Wellington to invest idle cash for short periods of time, thereby maximizing earnings potential.



Investment	Amount
US Treasury & Agency Securities	\$ 52,671,502
Money Market	2,915,133
Commercial Paper	14,477,327
FMIT	855,238
Local Bank Liquid Funds	40,827,552
Florida SBA	104,510
<b>Total</b>	<b>\$ 111,851,262</b>

**CASH AND INVESTMENT BALANCES BY FUND (in thousands)  
AS OF JUNE 30, 2014**



# Village of Wellington, Florida



## Investment Performance Review Quarter Ended June 30, 2014

### Investment Advisors

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(statements are available online at [www.pfm.com](http://www.pfm.com))

PFM Funds June 30, 2014 Month-End Statement

(statements are available online at [www.pfmfunds.com](http://www.pfmfunds.com))

Tab IV. Surplus Fund Portfolio Transaction Page for the Quarter

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

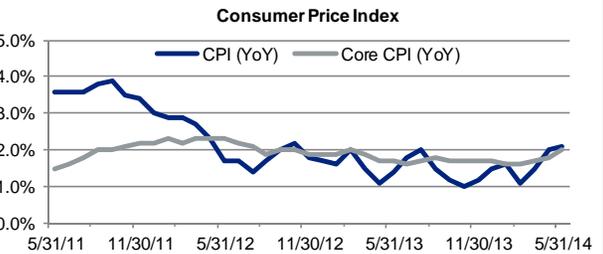
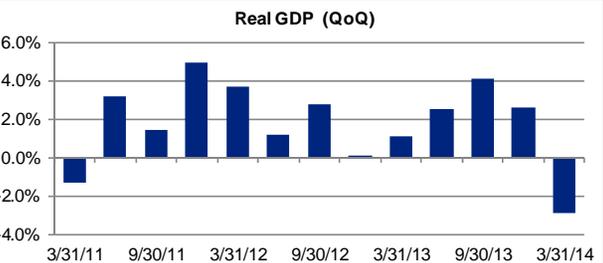
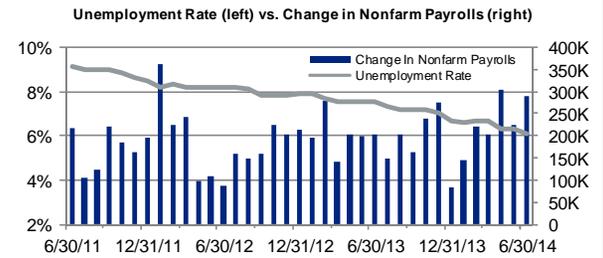
Labor Market	Latest	Mar 2014	Jun 2013	
Unemployment Rate	Jun'14	6.1%	6.7%	7.5%
Change In Nonfarm Payrolls	Jun'14	288,000	203,000	201,000
Average Hourly Earnings (YoY)	Jun'14	2.0%	2.1%	2.2%
Personal Income (YoY)	May'14	3.5%	3.3%	3.4%
Initial Jobless Claims (week)	Jul 11	302,000	332,000	344,000

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

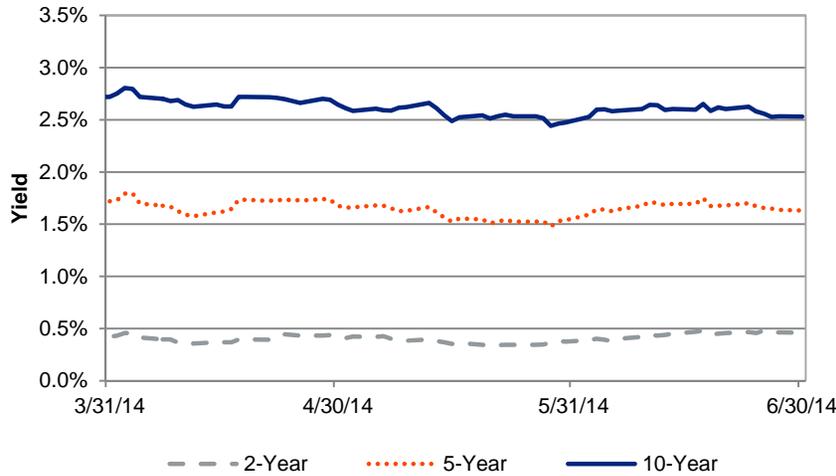


1. Data as of Fourth Quarter 2013 2. Data as of Second Quarter 2013  
 3. Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

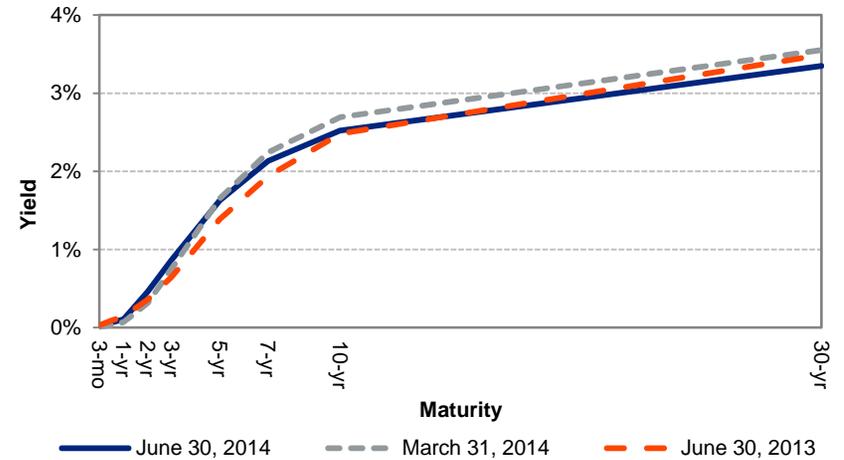
Source: Bloomberg

### Investment Rate Overview

U.S. Treasury Note Yields



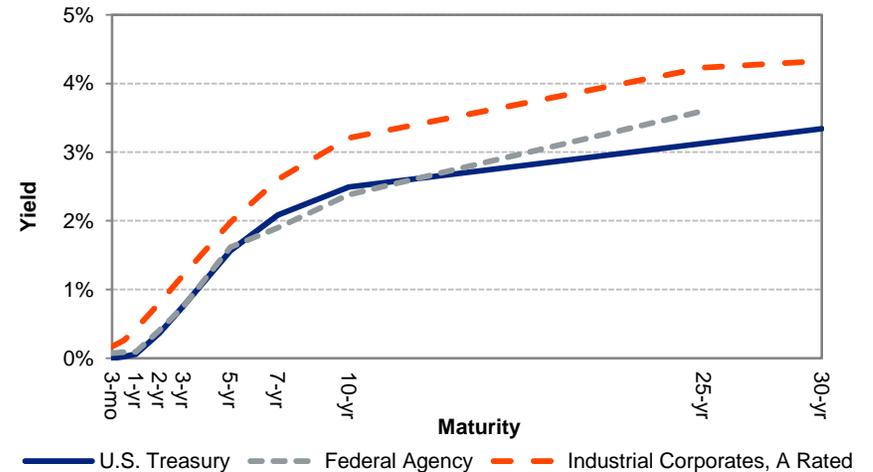
U.S. Treasury Yield Curve



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**

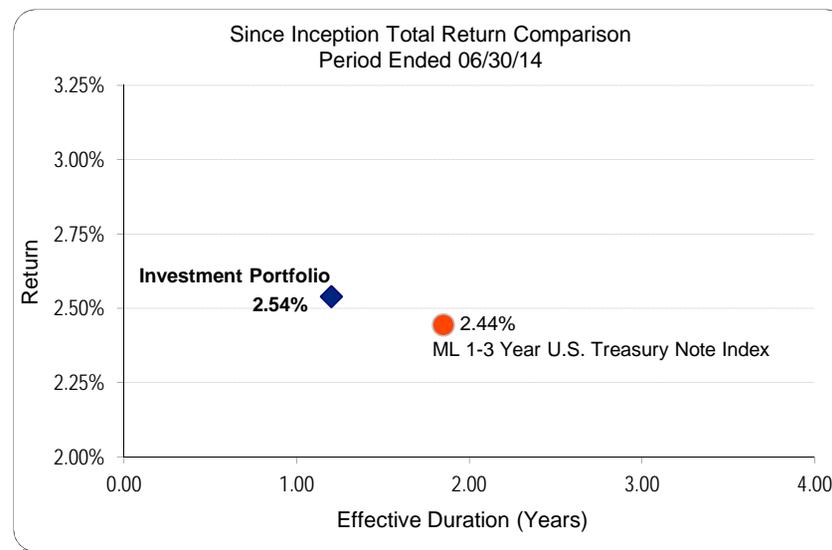
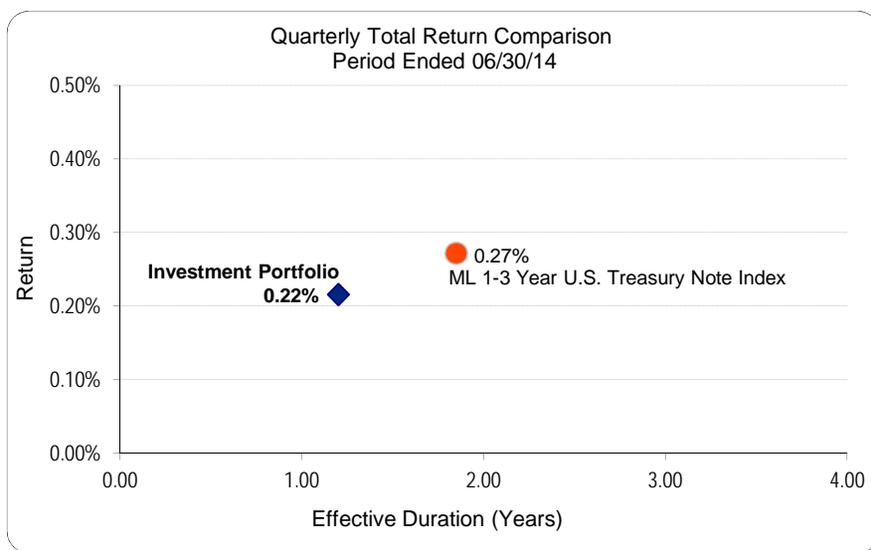
## Executive Summary

## PORTFOLIO STRATEGY

- The 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 0.22% underperformed the benchmark performance of 0.27% by 0.05%. This slight underperformance is due to the fact the Portfolio's duration has been positioned to be defensively shorter than the benchmark's duration. While this strategy helps to protect the Portfolio in a rising interest rate environment, the strategy sacrifices a small amount of yield by selecting shorter maturing securities. At quarter end, the Portfolio's duration was 65% of the benchmark's duration.
- 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.
- PFM seeks to add value in a variety of ways: duration management, adjusting maturities along the yield curve, emphasizing sectors that offer the best value, and careful issue-level analysis and security selection. This is supported by both quantitative and qualitative assessments of market conditions and credit quality.
- We believe the Fed is nearing the point where it has engineered the achievement of its dual mandate – full employment with price stability. Economic growth appears to be accelerating, accompanied by early signs of an uptick in inflation. The unwinding of the Fed's quantitative easing program of bond purchases has gone remarkably smoothly, opening the door to their next possible move – a Fed rate hike.
- 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.
- We expect yields spreads to remain narrow, favoring Treasuries over Agencies, and corporates and other credit instruments over government securities. Credit spreads should remain stable as demand for high quality investments is currently outstripping supply.

Investment Portfolio Performance

<b>Total Portfolio Value<sup>1</sup></b>	<b>June 30, 2014</b>	<b>March 31, 2014</b>					
Market Value	<b>\$67,654,554.91</b>	\$55,538,272.34					
Amortized Cost	<b>\$67,564,917.02</b>	\$55,490,963.40					
<b>Total Return<sup>2,3,4,5</sup></b>	<b>Quarterly Return June 30, 2014</b>	<b>Last 6 Months</b>	<b>Last 12 Months</b>	<b>Last 2 Years</b>	<b>Last 5 Years</b>	<b>Since Inception on March 31, 2004</b>	
<b>Investment Portfolio</b>	<b>0.22%</b>	<b>0.36%</b>	<b>0.65%</b>	<b>0.46%</b>	<b>0.93%</b>	<b>2.54%</b>	
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.27%	0.41%	0.76%	0.55%	1.18%	2.44%	
<b>Effective Duration(Years)<sup>4,5</sup></b>	<b>June 30, 2014</b>	<b>March 31, 2014</b>		<b>Yields</b>		<b>June 30, 2014</b>	<b>March 31, 2014</b>
<b>Investment Portfolio</b>	<b>1.20</b>	<b>1.59</b>		<b>Yield at Market<sup>6</sup></b>		<b>0.33%</b>	0.41%
Merrill Lynch 1-3 Year U.S. Treasury Note Index	1.85	1.84		<b>Yield at Cost<sup>7</sup></b>		<b>0.45%</b>	0.53%
Portfolio Duration % of Benchmark Duration	65%	87%		<b>SBA Yield</b>		<b>0.16%</b>	0.16%

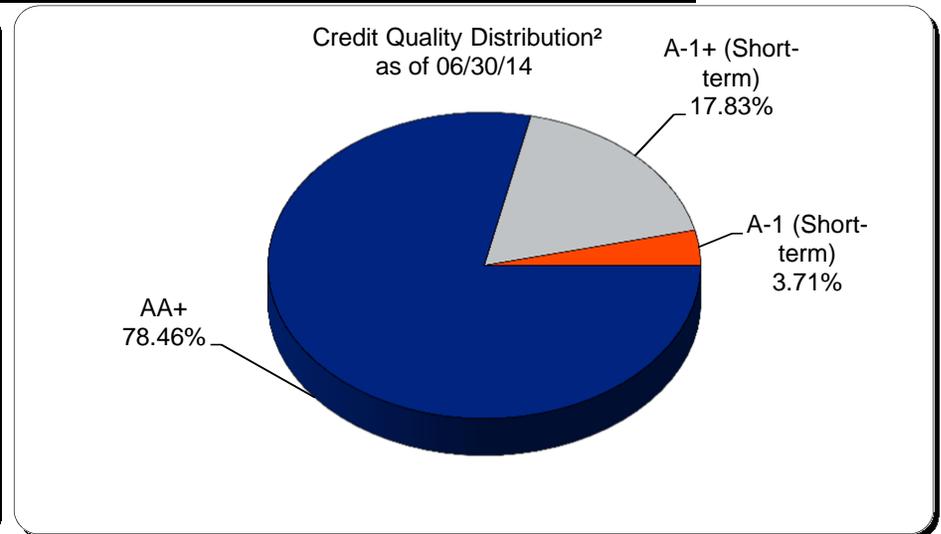
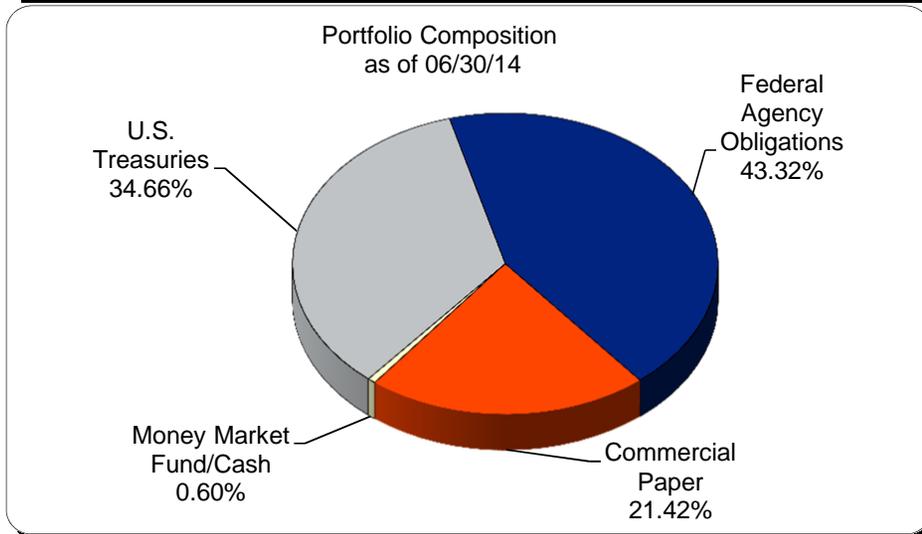


Notes:

- 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 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	\$23,448,692.69	34.7%	\$23,468,838.34	42.3%
Federal Agencies	29,311,127.82	43.3%	31,736,032.21	57.1%
Commercial Paper	14,488,646.50	21.4%	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	406,087.90	0.6%	333,401.79	0.6%
<b>Totals</b>	<b>\$67,654,554.91</b>	<b>100.0%</b>	<b>\$55,538,272.34</b>	<b>100.0%</b>

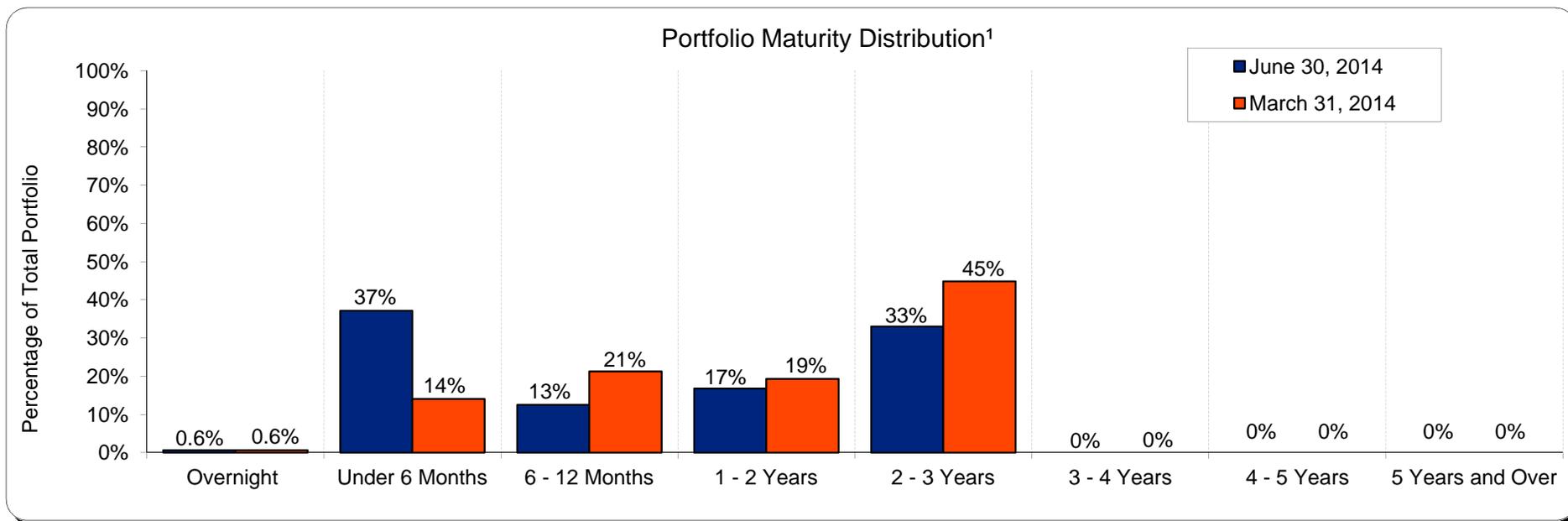


Notes:

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.

Investment Portfolio Portfolio Maturity Distribution

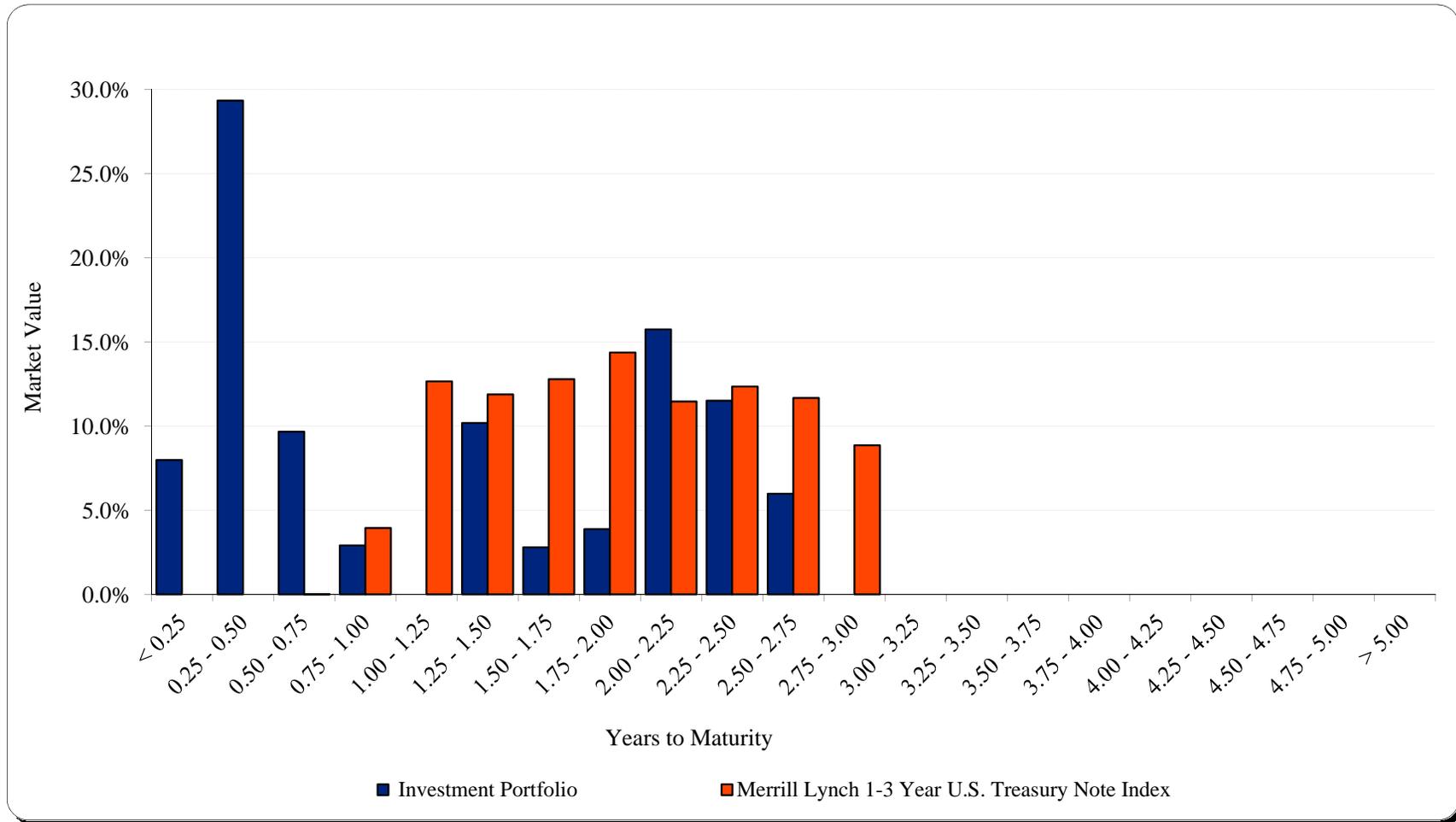
<u>Maturity Distribution<sup>1</sup></u>	<u>June 30, 2014</u>	<u>March 31, 2014</u>
Overnight (Money Market Fund)	\$406,087.90	\$333,401.79
Under 6 Months	25,104,269.08	7,809,956.29
6 - 12 Months	8,458,433.79	11,781,976.33
1 - 2 Years	11,342,924.11	10,717,616.39
2 - 3 Years	22,342,840.03	24,895,321.54
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>\$67,654,554.91</b>	<b>\$55,538,272.34</b>



Notes:

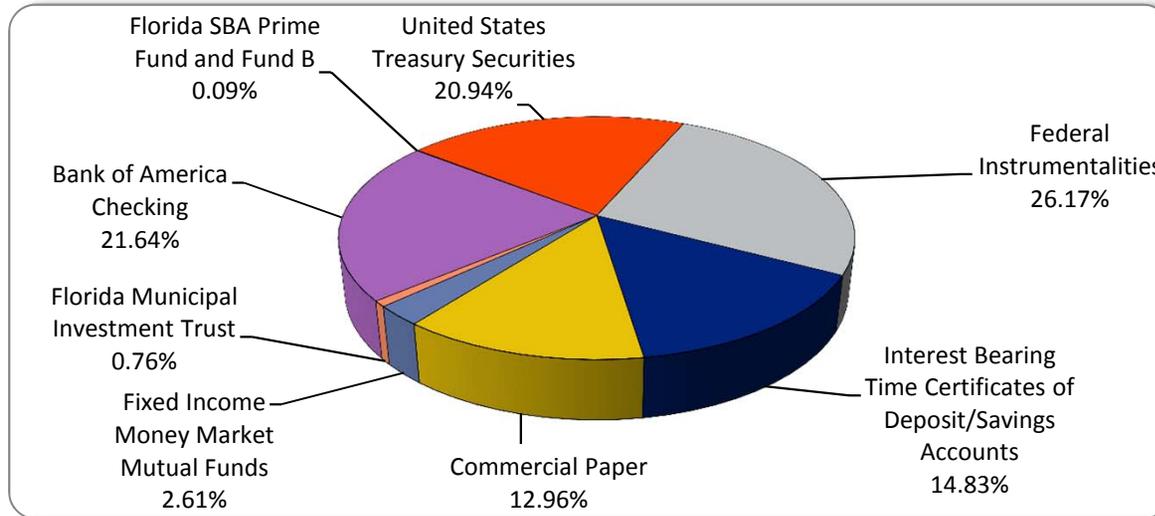
1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

Investment 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
Bank of America Checking	24,201,816.13	21.64%	2,3	100%	YES
Florida SBA Prime Fund and Fund B	104,510.29	0.09%	3	25%	YES
United States Treasury Securities	23,410,898.98	20.94%		100%	YES
United States Government Agency Securities	-	0.00%		50%	YES
Federal Instrumentalities	29,260,603.04	26.17%	4	80%	YES
Mortgage-Backed Securities	-	0.00%	4	20%	YES
Interest Bearing Time Certificates of Deposit/Savings Accounts	16,585,197.86	14.83%	2,3	25%	YES
Repurchase Agreements	-	0.00%		50%	YES
Commercial Paper	14,487,327.10	12.96%		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	2,915,132.91	2.61%		50%	YES
Florida Municipal Investment Trust	855,237.78	0.76%	3	15%	YES

Notes:

- End of month trade-date amortized cost of portfolio holdings, including accrued interest.
- Assets invested in overnight demand deposit accounts with Qualified Public Depositories are collateralized in accordance with Florida Statutes Chapter 280.
- Managed by the Village.
- The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 80%. The combined total as of June 30, 2014 is 26.17%.

\* 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)	4,005,438.52	3.58%		40%	YES
Federal National Mortgage Association (FNMA)	16,868,047.79	15.08%		40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	8,387,116.73	7.50%		40%	YES
General Electric Commercial Paper	3,997,600.00	3.58%		5%	YES
U.S. Bank Commercial Paper	3,998,050.00	3.58%		5%	YES
Toyota Motor Commercial Paper	3,997,750.00	3.58%		5%	YES
JP Morgan Securities Commercial Paper	2,493,927.10	2.23%		5%	YES
Bank of America Operating	24,201,816.13	21.64%	2,3	100%	YES
Bank of America Money Market Savings	16,585,197.86	14.83%	2,3	15%	YES
PFM Funds Government Series Money Market Fund	2,509,045.01	2.24%		25%	YES
Fidelity (BONY) Money Market Fund	406,087.90	0.36%		25%	YES
Florida Prime	0.44	0.00%	3	25%	YES
SBA Fund B	104,509.85	0.09%	3	N/A	YES
FMIvT - Intermediate	754,331.38	0.67%	3	15%	YES
FMIvT - 1-3 years	100,906.40	0.09%	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 June 30, 2014 is 26.17%.

\* 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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