

Village of Wellington, Florida



Investment Performance Review Quarter Ended September 30, 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

- While the U.S. economy continued its recovery during the quarter, global unrest and uncertainty about future central bank policy—including actions of the Federal Reserve (Fed)—resulted in volatility in the bond and equity markets.
- Ten-year Treasury bond yields were little changed compared to the end of the previous quarter, although yields experienced larger movements throughout the quarter. On the other hand, shorter-term rates generally rose while longer term rates fell modestly.
- Geopolitical uncertainty continued to move the markets. Military conflicts in Ukraine and the Middle East, as well as weaker economic data in the euro zone and various emerging markets such as China and Brazil, factored significantly in investor sentiment.

Economic Snapshot

- Second-quarter gross domestic product (GDP) rose at a revised annual rate of 4.6%, driven by increased consumption, inventories, exports, residential and nonresidential investment, and local government spending.
- The U.S. unemployment rate fell from 6.1% in June to 5.9% in September. While job growth has been impressive, wage growth has been weak and other measures such as the labor force participation rate and the number of part time workers for economic reasons indicate lingering levels of underutilization.
- Housing market data was also a “glass half empty, glass half full” scenario, as housing-related indicators experienced a series of ups and downs throughout the quarter. Most recently, new-home sales reached the highest level since 2008, while existing-home sales had a small, unexpected decline.

Interest Rates

- The Federal Open Market Committee (FOMC) reaffirmed that its quantitative easing bond purchase program will end in October. At the same time, the FOMC released updated assessments of where individual participants judged the appropriate level for the federal funds rate at the end of the next few calendar years. Those assessments showed a surprisingly fast upward trajectory for short-term rates that are inconsistent with both Fed Chair Janet Yellen’s public comments and persistently low current market rates.
- Inflation (as measured by the Consumer Price Index) unexpectedly decreased month over month in August. This marked the first decline in almost a year and a half. Inflation continues to run below the Fed’s 2% target rate.
- Yields on intermediate-maturity (two- to five-year) Treasuries ended the quarter higher. Surprisingly, this was not the case for longer maturities (10-30 years); instead, rates continued to fall modestly, causing a flattening of the Treasury yield curve.

Sector Performance

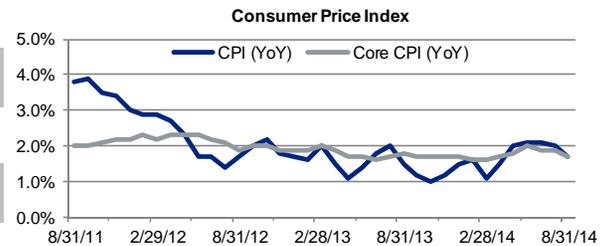
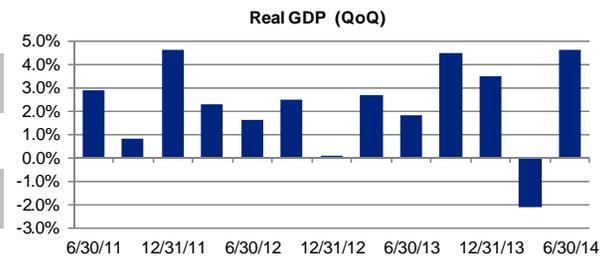
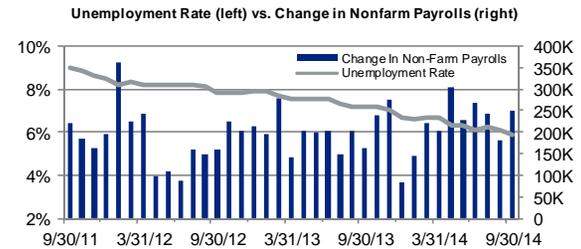
- Fixed-income performance was very modest for the quarter—or in some cases modestly negative—as income was offset by interest rate increases for short- and intermediate-term maturities across most sectors. The exceptions were longer-maturity Treasury, Agency, and municipal bonds, where yields actually fell modestly.
- Spreads generally widened in the quarter. While the impact was modest for the Agency sector, spread widening in corporates negatively affected performance in the sector. Still, corporates have been one of the best performing sectors over the past one-, three-, and five-year periods.
- Short-term markets continued to be driven by the Fed as well as new regulations affecting banks and money market funds.

Economic Snapshot

Labor Market	Latest	Jun 2014	Sep 2013	
Unemployment Rate	Sep'14	5.9%	6.1%	7.2%
Change In Non-Farm Payrolls	Sep'14	248,000	267,000	164,000
Average Hourly Earnings (YoY)	Sep'14	2.0%	1.9%	2.0%
Personal Income (YoY)	Aug'14	4.3%	4.1%	2.8%
Initial Jobless Claims (week)	Sep 26	287,000	316,000	318,000

Growth	Latest	Jun 2014	Sep 2013	
Real GDP (QoQ SAAR)	2014Q2	4.6%	-2.1% ¹	4.5% ²
GDP Personal Consumption (QoQ SAAR)	2014Q2	2.5%	1.2% ¹	2.0% ²
Retail Sales (YoY)	Aug'14	5.0%	4.4%	3.2%
ISM Manufacturing Survey (month)	Sep'14	56.6	55.3	56.0
Existing Home Sales SAAR (month)	Aug'14	5.05 mil.	5.03 mil.	5.26 mil.

Inflation / Prices	Latest	Jun 2014	Sep 2013	
Personal Consumption Expenditures (YoY)	Aug'14	1.5%	1.6%	1.0%
Consumer Price Index (YoY)	Aug'14	1.7%	2.1%	1.2%
Consumer Price Index Core (YoY)	Aug'14	1.7%	1.9%	1.7%
Crude Oil Futures (WTI, per barrel)	Sep 30	\$91.16	\$105.37	\$102.33
Gold Futures (oz.)	Sep 30	\$1,211	\$1,322	\$1,327



1. Data as of First Quarter 2014

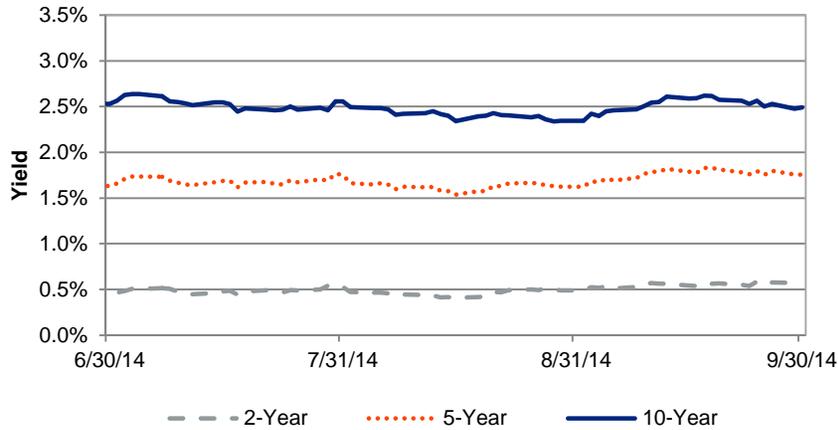
2. Data as of Third Quarter 2013

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

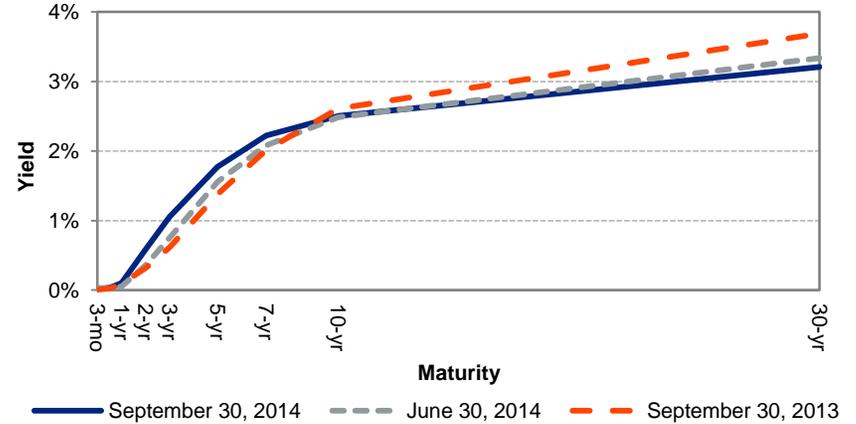
Source: Bloomberg

Investment Rate Overview

U.S. Treasury Note Yields



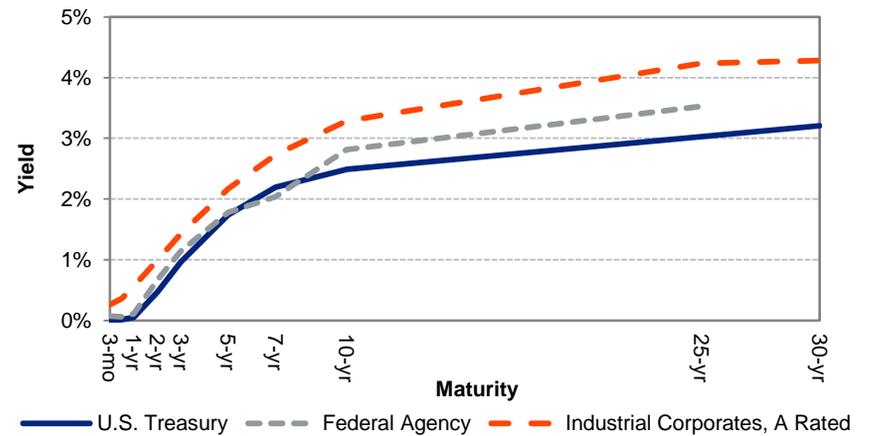
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	9/30/14	6/30/14	Change over Quarter	9/30/13	Change over Year
3-month	0.02%	0.02%	0.00%	0.01%	0.01%
1-year	0.10%	0.10%	0.00%	0.09%	0.01%
2-year	0.57%	0.46%	0.11%	0.32%	0.25%
5-year	1.76%	1.63%	0.13%	1.38%	0.38%
10-year	2.49%	2.53%	(0.04%)	2.61%	(0.12%)
30-year	3.20%	3.36%	(0.16%)	3.69%	(0.49%)

Yield Curves as of 9/30/2014



Source: Bloomberg

BofA Merrill Lynch Index Returns

	As of 9/30/2014		Returns for Periods ended 9/30/2014		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.91	0.59%	0.03%	0.50%	0.48%
Federal Agency	1.86	0.71%	0.07%	0.63%	0.65%
U.S. Corporates, A-AAA rated	1.96	1.14%	0.02%	1.39%	2.28%
Agency MBS (0 to 3 years)	1.56	1.21%	(0.14%)	1.49%	1.16%
Municipals	1.81	0.54%	0.12%	1.05%	1.04%
1-5 Year Indices					
U.S. Treasury	2.71	0.97%	(0.06%)	0.64%	0.63%
Federal Agency	2.36	0.97%	0.00%	0.99%	0.86%
U.S. Corporates, A-AAA rated	2.85	1.65%	(0.10%)	2.16%	3.06%
Agency MBS (0 to 5 years)	3.16	2.20%	0.05%	3.21%	2.01%
Municipals	2.58	0.83%	0.31%	1.88%	1.56%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	5.93	1.63%	0.43%	2.70%	1.08%
Federal Agency	3.95	1.48%	0.25%	2.55%	1.31%
U.S. Corporates, A-AAA rated	6.71	2.76%	0.17%	5.85%	4.58%
Agency MBS (0 to 30 years)	4.68	2.75%	0.15%	3.72%	2.06%
Municipals	6.99	2.65%	1.64%	8.73%	4.83%

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

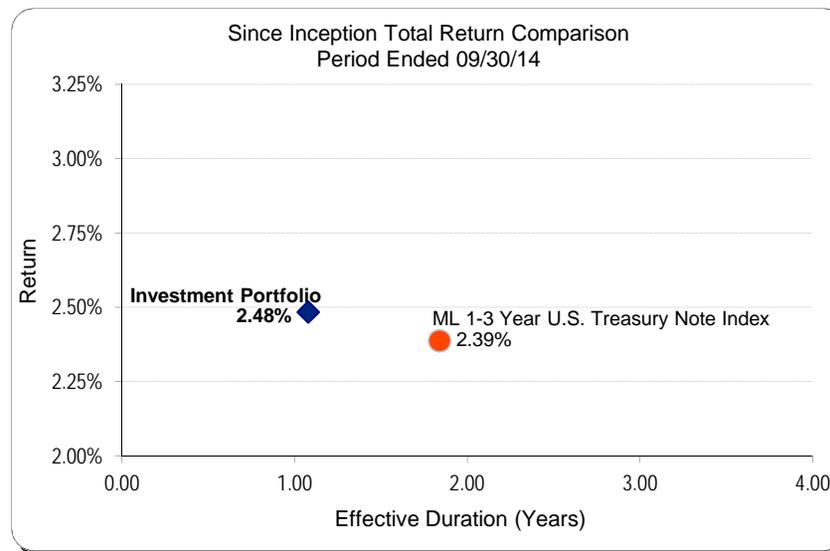
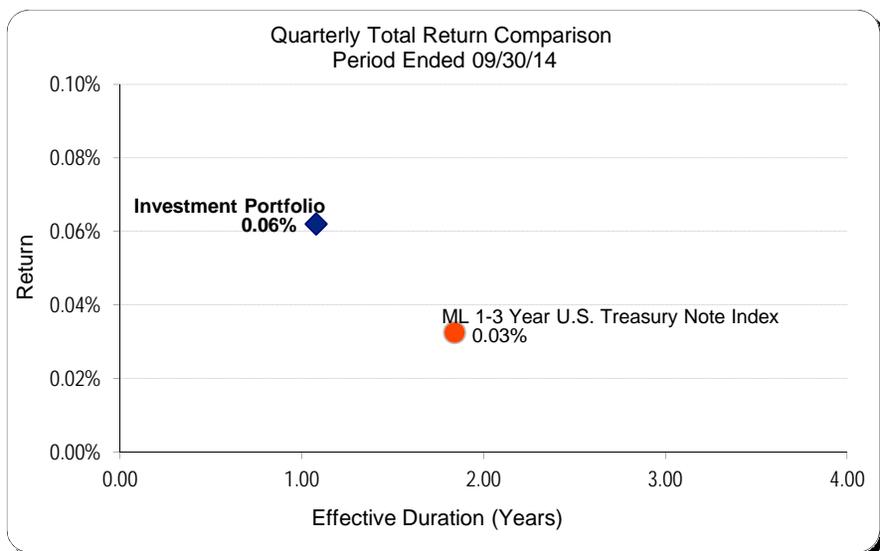
Executive Summary

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 0.06%, outperformed the benchmark performance of 0.03% by 0.03%. Over the past year, the Portfolio earned 0.52%, versus 0.50% for the benchmark.
- Our duration strategy remained defensive throughout the quarter, driven largely by our positive assessment of U.S. economic conditions and the expected market reaction to an eventual change in Federal Reserve monetary policy. We sought, and capitalized on, opportunities to modestly extend portfolio duration when rates moved toward the higher end of recent trading ranges.
- The yield curve remains steep by historical standards, which means longer maturities continue to benefit from the favorable impact of "roll-down." The steep curve also increases the opportunity cost associated with maintaining liquid balances at near zero short-term rates. Our strategy has been to minimize excess liquidity, maintain a reasonable balance between liquid assets and longer term "core" investments, and carefully manage duration to mitigate exposure to potentially rising rates.
- As economic data continues to signal a prospering U.S. economy, we believe the Federal Reserve will reduce the significant monetary support that has driven capital markets for the past 6 years. The Fed will conclude its large-scale asset purchase program in October, after which all eyes will turn to the FOMC's main policy tool – the Fed Funds Rate – and the potential timing and magnitude of expected rate hikes in 2015.
- We expect yield spreads will remain narrow; however, portfolios are positioned with the flexibility to capitalize on any temporary market dislocations or specific opportunities. We will continue to evaluate the broadest range of permitted investments as we seek to capture favorable investment opportunities and optimize sector allocations.
- 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	September 30, 2014	June 30, 2014				
Market Value	\$67,696,501.21	\$67,654,554.91				
Amortized Cost	\$67,637,720.40	\$67,564,917.02				
Total Return^{2,3,4,5}	Quarterly Return September 30, 2014	Last 6 Months	Last 12 Months	Last 2 Years	Last 5 Years	Since Inception on March 31, 2004
Investment Portfolio	0.06%	0.28%	0.52%	0.42%	0.83%	2.48%
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.03%	0.30%	0.50%	0.43%	1.03%	2.39%
Effective Duration(Years)^{4,5}	September 30, 2014	June 30, 2014		Yields	September 30, 2014	June 30, 2014
Investment Portfolio	1.08	1.20		Yield at Market ⁶	0.33%	0.32%
Merrill Lynch 1-3 Year U.S. Treasury Note Index	1.84	1.85		Yield at Cost ⁷	0.43%	0.45%
Portfolio Duration % of Benchmark Duration	59%	65%		SBA Yield	0.16%	0.16%

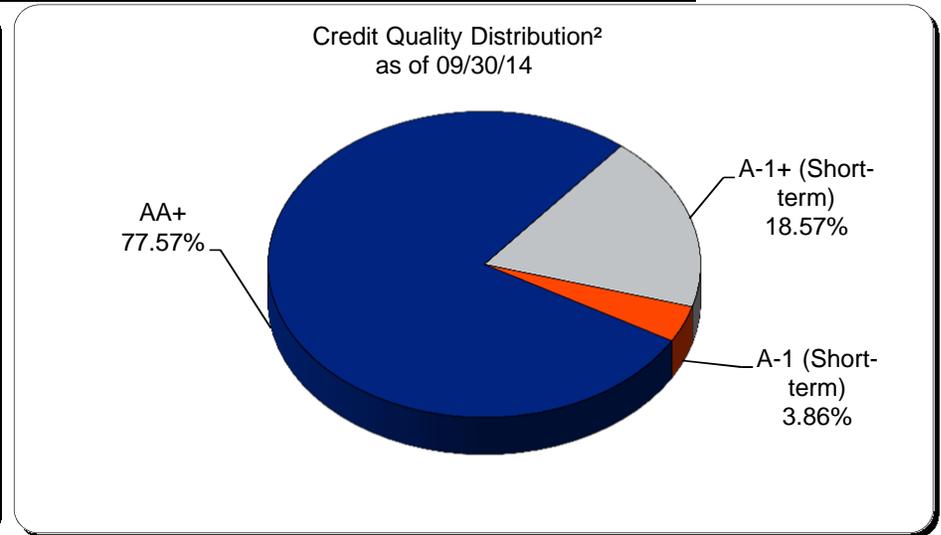
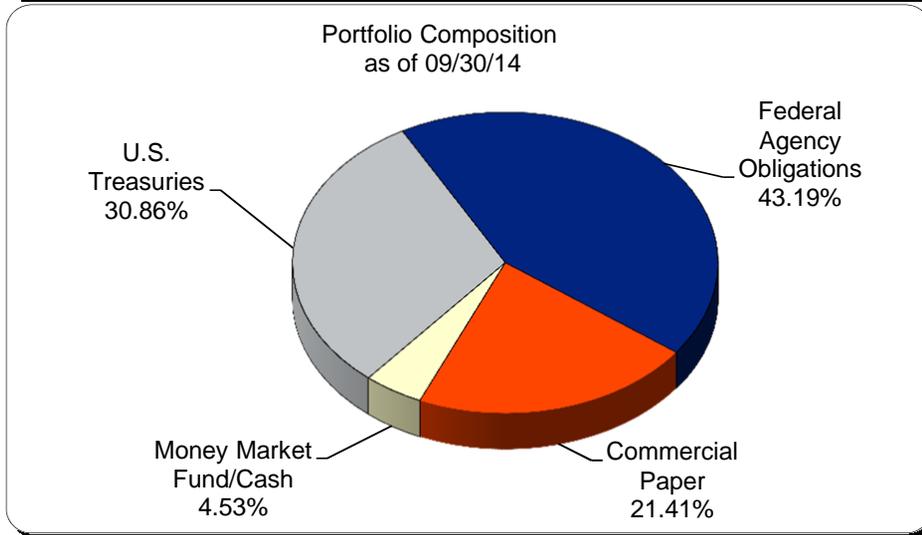


Notes:

- 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>September 30, 2014</u>	<u>% of Portfolio</u>	<u>June 30, 2014</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$20,889,918.78	30.9%	\$23,448,692.69	34.7%
Federal Agencies	29,240,632.43	43.2%	29,311,127.82	43.3%
Commercial Paper	14,496,323.50	21.4%	14,488,646.50	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	3,069,626.50	4.5%	406,087.90	0.6%
Totals	\$67,696,501.21	100.0%	\$67,654,554.91	100.0%

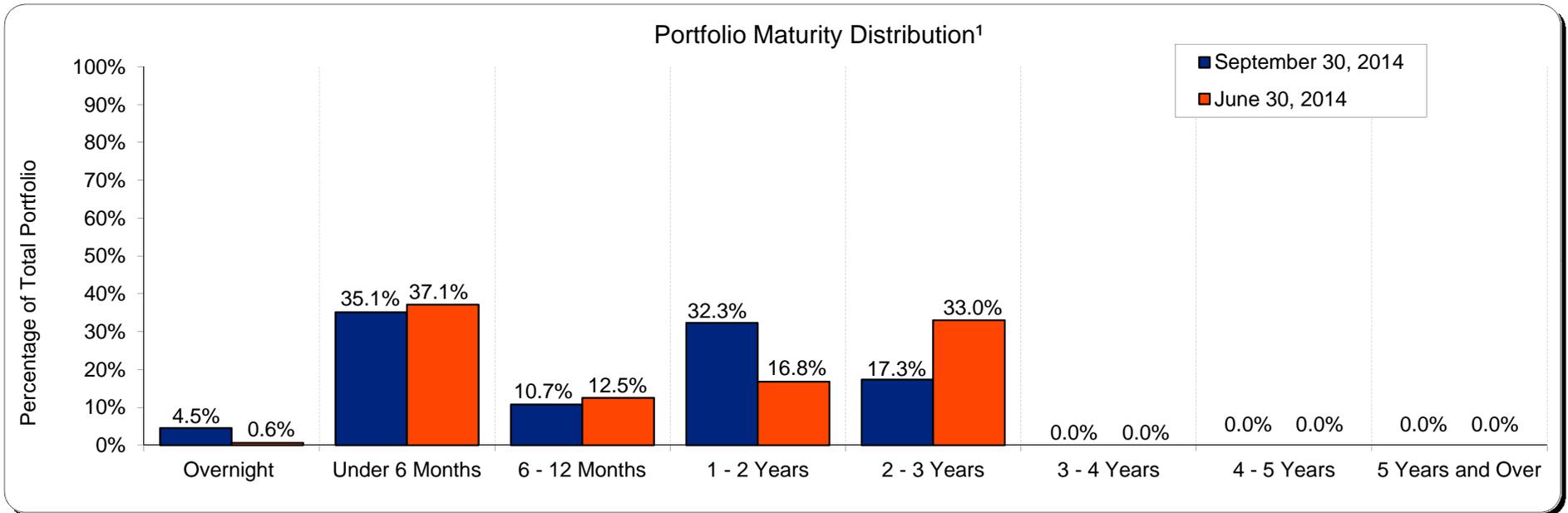


Notes:

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

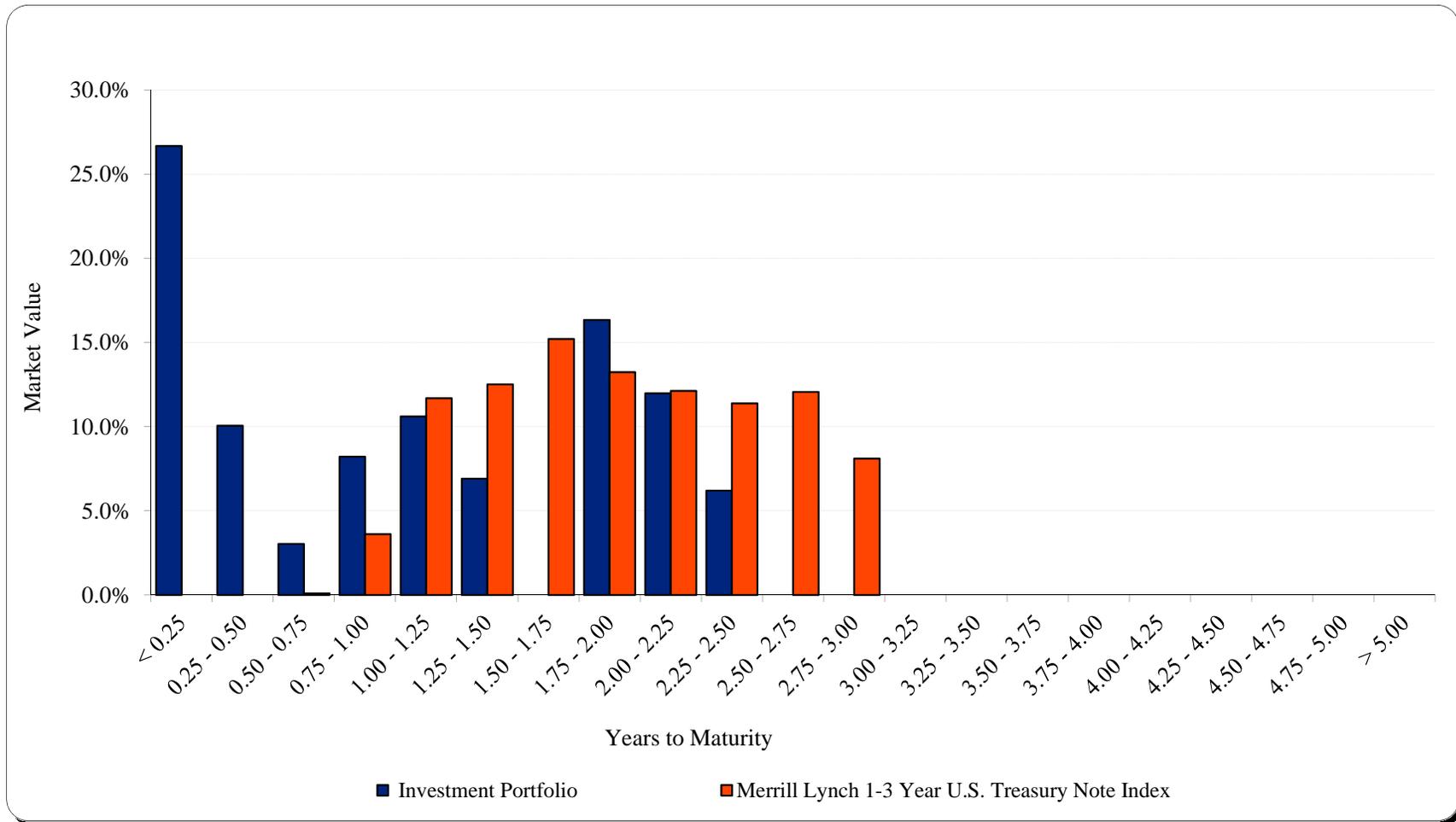
<u>Maturity Distribution¹</u>	<u>September 30, 2014</u>	<u>June 30, 2014</u>
Overnight (Money Market Fund)	\$3,069,626.50	\$406,087.90
Under 6 Months	23,741,178.06	25,104,269.08
6 - 12 Months	7,261,021.62	8,458,433.79
1 - 2 Years	21,885,074.98	11,342,924.11
2 - 3 Years	11,739,600.05	22,342,840.03
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$67,696,501.21	\$67,654,554.91



Notes:

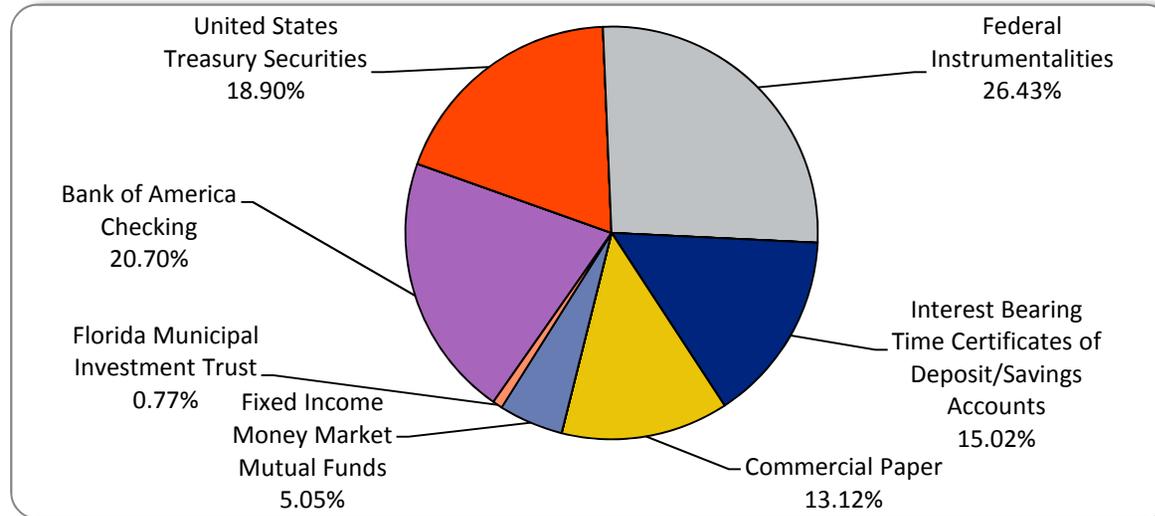
1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

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.



Security Type ¹	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Bank of America Checking	22,871,416.86	20.70%	2,3	100%	YES
Florida SBA Prime Fund	0.11	0.00%	3	25%	YES
United States Treasury Securities	20,876,273.82	18.90%		100%	YES
United States Government Agency Securities	-	0.00%		50%	YES
Federal Instrumentalities	29,197,886.89	26.43%	4	80%	YES
Mortgage-Backed Securities	-	0.00%	4	20%	YES
Interest Bearing Time Certificates of Deposit/Savings Accounts	16,593,559.93	15.02%	2,3	25%	YES
Repurchase Agreements	-	0.00%		50%	YES
Commercial Paper	14,493,933.19	13.12%		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	5,578,814.82	5.05%		50%	YES
Florida Municipal Investment Trust	855,575.57	0.77%	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 September 30, 2014 is 26.43%.

* 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)	6,805,593.30	6.16%		40%	YES
Federal National Mortgage Association (FNMA)	19,367,493.68	17.53%		40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	3,024,799.91	2.74%		40%	YES
General Electric Commercial Paper	3,999,235.56	3.62%		5%	YES
U.S. Bank Commercial Paper	3,999,378.88	3.62%		5%	YES
Toyota Motor Commercial Paper	3,999,283.32	3.62%		5%	YES
JP Morgan Securities Commercial Paper	2,496,035.43	2.26%		5%	YES
Bank of America Operating	22,871,416.86	20.70%	2,3	100%	YES
Bank of America Money Market Savings	16,593,559.93	15.02%	2,3	15%	NO
PFM Funds Government Series Money Market Fund	2,509,188.32	2.27%		25%	YES
Fidelity (BONY) Money Market Fund	3,069,626.50	2.78%		25%	YES
Florida Prime	0.11	0.00%	3	25%	YES
FMIvT - Intermediate	754,638.61	0.68%	3	15%	YES
FMIvT - 1-3 years	100,936.96	0.09%	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.

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