

Village of Wellington, Florida



Investment Performance Review Quarter Ended September 30, 2015

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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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TAB I

Summary

- The U.S. economy continued its forward progress, but more recent economic data suggests it is slowing from the strong second-quarter pace.
- Weakness in emerging-market economies, most notably China, changed market psychology, triggering heightened volatility and significant downward pressure on equity markets worldwide.
- The Federal Open Market Committee (FOMC) chose not to raise the federal funds target rate at either of its two meetings during the quarter, most recently citing concern about “recent global economic and financial developments.” FOMC officials, however, continue to condition investors for a possible rate hike before year-end.

Economic Snapshot

- Concern over Greece’s financial state last quarter was quickly resolved, only to be superseded by growth concerns emanating from emerging market economies, especially China, Russia and Brazil. A slowdown in emerging markets also negatively impacted commodity, oil, and export-driven economies, such as Australia and Canada.
- Second-quarter gross domestic product (GDP) grew at a 3.9% annualized pace, a strong rebound from the first quarter’s lackluster growth. The surge was bolstered by strong consumer spending and a pickup in business investment and inventories.
- Job growth slowed in the second quarter — averaging 167,000 new jobs per month, which was down from 231,000 per month in the prior quarter — but the unemployment rate fell further to 5.1%, its lowest rate since April 2008. Wage growth remained subdued.

Interest Rates

- Long-term Treasury yields trended lower throughout the quarter, supported by low inflation, slowing global growth, and a hesitant FOMC. The yield on the 10-year U.S. Treasury fell 31 basis points (0.31%), ending the quarter just above 2.0%.

- Yields on shorter-term instruments (two years and under) initially moved in the opposite direction, rising to peaks in mid-September in anticipation of a near-term federal funds target rate increase. After the Fed announced it would leave rates unchanged, yields retreated. Short-term Treasury yields ended the quarter mostly lower by a few basis points, while money market instruments like commercial paper and bank certificates of deposit held on to most of their rate increases during the quarter.
- Global sovereign debt yields followed those in the U.S., with lower long-term rates and fractionally lower short-term yields.

Sector Performance

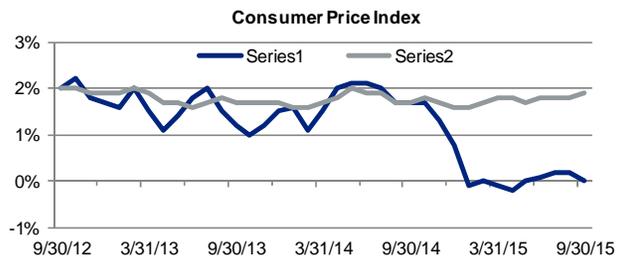
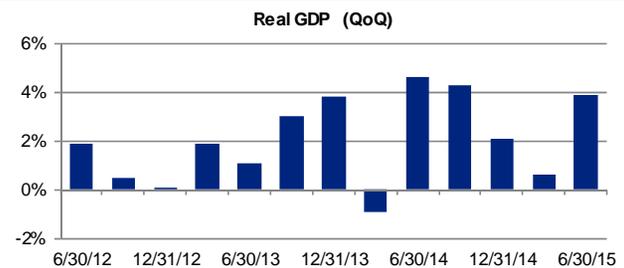
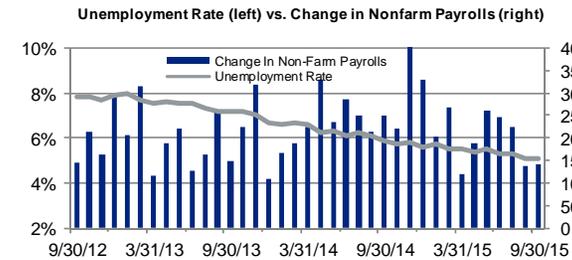
- U.S. Treasury benchmark indices generated strong returns as yields ended the quarter lower, providing price appreciation in addition to yield-based income. While this was true for maturities across the yield curve, longer maturities fared better due to their longer durations and more significant fall in rates.
- Federal Agency securities modestly outperformed comparable maturity Treasuries as yield spreads tightened modestly.
- Corporate yield spreads widened throughout the quarter, in some cases significantly. Returns were correlated with credit ratings. BBB-rated and high-yield issues performed poorly. A-rated issuers modestly underperformed government securities, while higher-rated issuers performed better.
- Mortgage-backed securities (MBS) underperformed comparable duration government securities as heightened volatility negatively impacted securities with imbedded optionality. This scenario has persisted for much of 2015.

Economic Snapshot

Labor Market		Latest	Jun 2015	Sep 2014
Unemployment Rate	Sep'15	5.1%	5.3%	5.9%
Change In Non-Farm Payrolls	Sep'15	142,000	245,000	250,000
Average Hourly Earnings (YoY)	Sep'15	2.2%	2.0%	2.0%
Personal Income (YoY)	Aug'15	4.2%	4.1%	4.5%
Initial Jobless Claims (week)	10/2/15	263,000	282,000	292,000

Growth		Latest	Jun 2015	Sep 2014
Real GDP (QoQ SAAR)	2015Q2	3.9%	0.6% ¹	4.6% ²
GDP Personal Consumption (QoQ SAAR)	2015Q2	3.6%	1.8% ¹	3.8% ²
Retail Sales (YoY)	Sep'15	2.4%	1.8%	4.4%
ISM Manufacturing Survey (month)	Sep'15	50.2	53.5	56.1
Existing Home Sales SAAR (month)	Aug'15	5.31 mil.	5.48 mil.	5.10 mil.

Inflation / Prices		Latest	Jun 2015	Sep 2014
Personal Consumption Expenditures (YoY)	Aug'15	0.3%	0.3%	1.5%
Consumer Price Index (YoY)	Aug'15	0.2%	0.1%	1.7%
Consumer Price Index Core (YoY)	Aug'15	1.8%	1.8%	1.7%
Crude Oil Futures (WTI, per barrel)	Sep 30	\$45.09	\$59.47	\$91.16
Gold Futures (oz.)	Sep 30	\$1,116	\$1,172	\$1,211



1. Data as of Second Quarter 2015

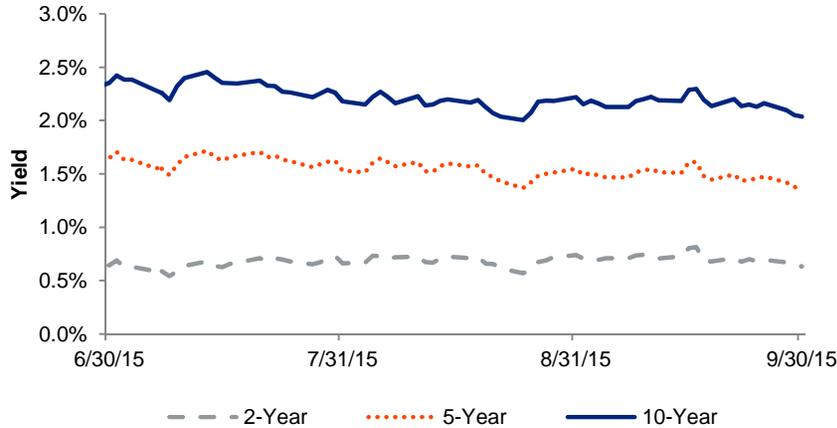
2. Data as of Third Quarter 2014

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

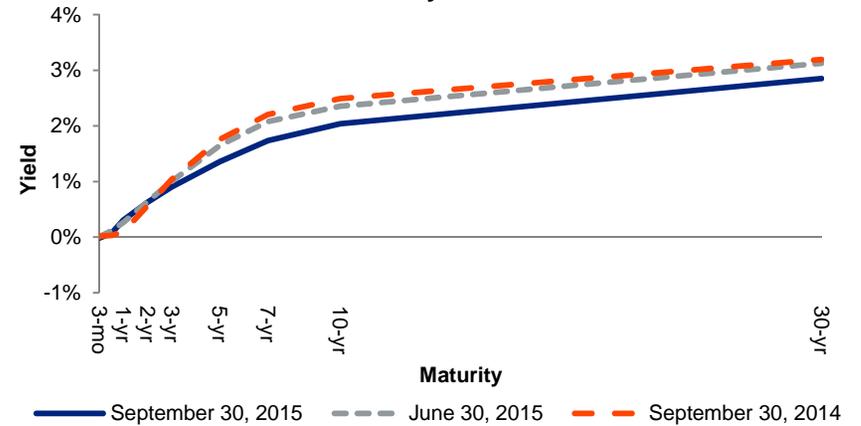
Source: Bloomberg

Investment Rate Overview

U.S. Treasury Note Yields



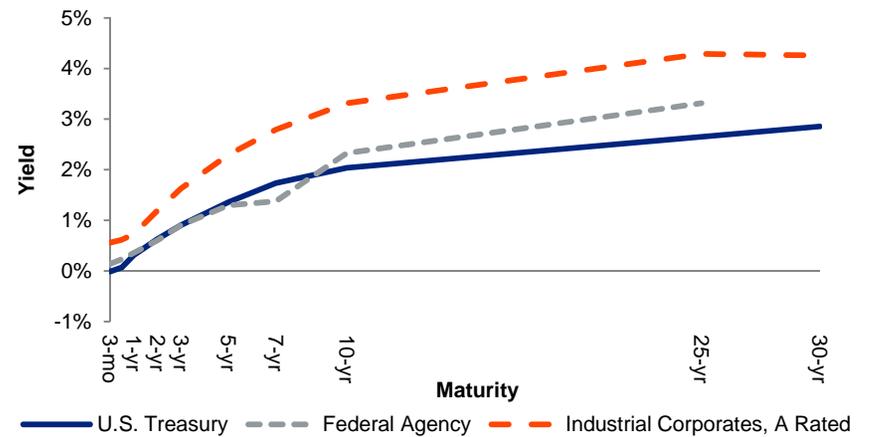
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	9/30/15	6/30/15	Change over Quarter	9/30/14	Change over Year
3-month	(0.02%)	0.01%	(0.03%)	0.02%	(0.04%)
1-year	0.31%	0.27%	0.04%	0.10%	0.21%
2-year	0.63%	0.65%	(0.02%)	0.57%	0.06%
5-year	1.36%	1.65%	(0.29%)	1.76%	(0.40%)
10-year	2.04%	2.35%	(0.31%)	2.49%	(0.45%)
30-year	2.85%	3.12%	(0.27%)	3.20%	(0.35%)

Yield Curves as of 9/30/2015



Source: Bloomberg

BofA Merrill Lynch Index Returns

	As of 9/30/2015		Returns for Periods ended 9/30/2015		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.87	0.63%	0.31%	1.16%	0.67%
Federal Agency	1.64	0.70%	0.36%	1.29%	0.77%
U.S. Corporates, A-AAA rated	1.98	1.53%	0.36%	1.37%	1.38%
Agency MBS (0 to 3 years)	1.92	1.58%	0.35%	1.11%	0.77%
Municipals	1.87	0.74%	0.57%	0.85%	0.88%
1-5 Year Indices					
U.S. Treasury	2.71	0.87%	0.70%	2.15%	0.91%
Federal Agency	2.07	0.86%	0.58%	1.90%	0.98%
U.S. Corporates, A-AAA rated	2.76	1.83%	0.61%	2.18%	1.83%
Agency MBS (0 to 5 years)	3.40	2.10%	0.69%	2.23%	1.55%
Municipals	2.58	1.01%	0.78%	1.09%	1.18%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.20	1.42%	1.90%	4.10%	1.38%
Federal Agency	3.68	1.29%	1.05%	2.93%	1.35%
U.S. Corporates, A-AAA rated	6.70	2.88%	1.23%	2.82%	2.27%
Agency MBS (0 to 30 years)	4.34	2.39%	1.31%	3.34%	1.93%
Municipals	6.93	2.38%	1.70%	3.16%	2.94%

Returns for periods greater than one year are annualized

Source: BofA Merrill Lynch Indices

Disclosures

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TAB II

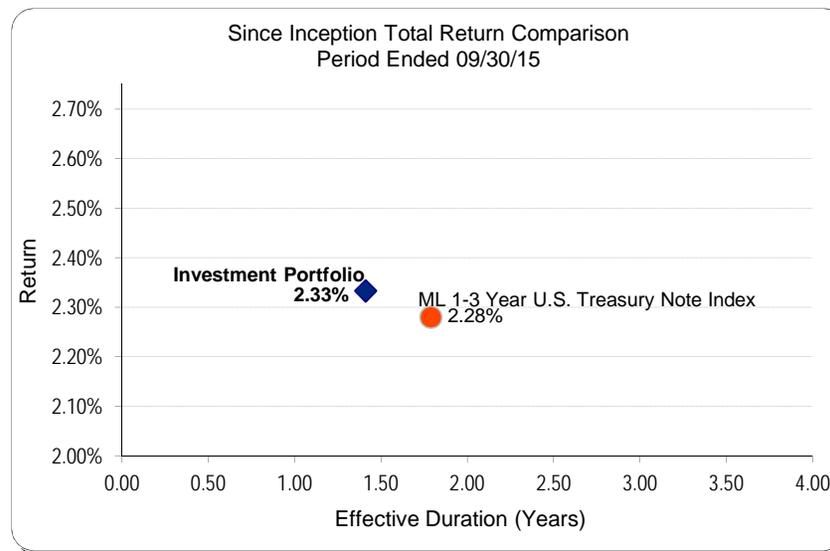
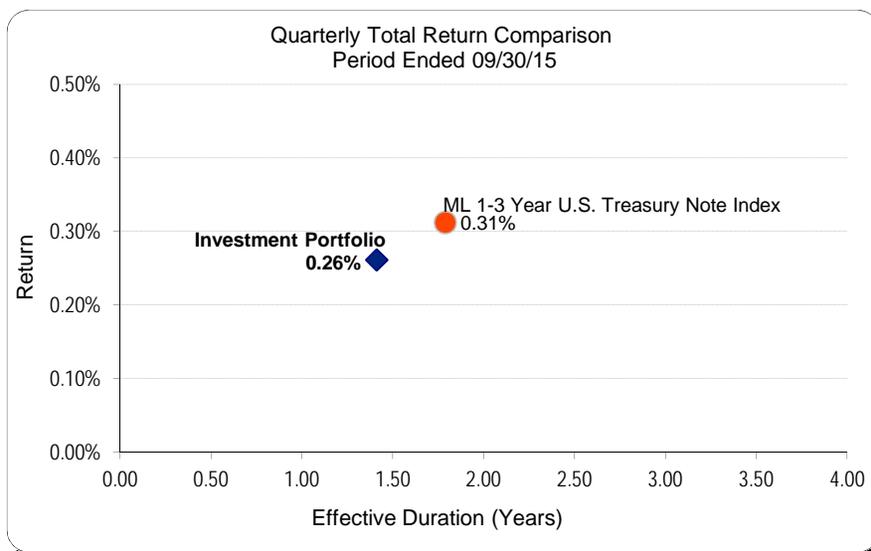
Executive Summary

PORTFOLIO STRATEGY

- The Village's Investment Portfolio is of high credit quality and invested in U.S. Treasury, Federal Agency securities, high quality corporate notes, and commercial paper.
- The Investment Portfolio's quarterly total return performance of 0.26% underperformed the benchmark performance of 0.31% by 0.05%. This underperformance is due to the difference between the Investment Portfolio's duration and benchmark's duration. At the end of the third quarter, the portfolio's duration was 79% of the benchmark's duration. The portfolio's duration has been lengthened; however, the disparity between the portfolio's duration and benchmark's duration is still materially significant.
- Treasury yields moved up and down in response to evolving economic conditions, tracking in part (i) the strength of global economy, (ii) the persistent low inflation environment, and (iii) the expectations for a Fed rate hike. Low inflation and tepid economic data, both in the U.S. and abroad, pushed longer-term yields lower.
- Yields on securities with maturities of two years or less, the part of the curve that is most dependent on Federal Reserve policy, moved up in advance of the September FOMC meeting, but quickly reversed after the "no hike" decision. The end result was that the quarter ended with generally lower yields and a flatter yield curve than at the beginning of the quarter.
- The FOMC continues to monitor economic progress towards its dual objectives of full employment and price stability. It recently added an acknowledgement that global economic instability has the potential to affect Fed policy. Because this creates a new level of uncertainty about the timing and pace of future rate hikes, our strategy may need to adapt to changing conditions throughout the fourth quarter.
- At present, we believe the Fed will raise rates in late 2015 or early 2016, and the subsequent pace of rate increases will likely be gradual and prolonged. If this occurs as expected, it is likely that rates on the shorter end of the curve will again rise ahead of upcoming FOMC meetings, while longer maturities will remain range bound in response to tempered global growth and dampened inflation expectations.
- PFM will continue to navigate the market environment with a keen focus on relative value sector analysis 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, 2015	June 30, 2015				
Market Value	\$83,307,308.00	\$83,090,235.49				
Amortized Cost	\$83,090,620.71	\$82,940,997.82				
Total Return^{2,3,4,5}	Quarterly Return September 30, 2015	Last 12 Months	Last 2 Years	Last 5 Years	Last 10 Years	Since Inception on March 31, 2004
Investment Portfolio	0.26%	0.76%	0.64%	0.67%	2.51%	2.33%
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.31%	1.16%	0.83%	0.76%	2.54%	2.28%
Effective Duration(Years)^{4,5}	September 30, 2015	June 30, 2015		Yields	September 30, 2015	June 30, 2015
Investment Portfolio	1.41	1.26		Yield at Market ⁶	0.61%	0.48%
Merrill Lynch 1-3 Year U.S. Treasury Note Index	1.79	1.80		Yield at Cost ⁷	0.77%	0.62%
Portfolio Duration % of Benchmark Duration	79%	70%		SBA Yield	0.25%	0.22%

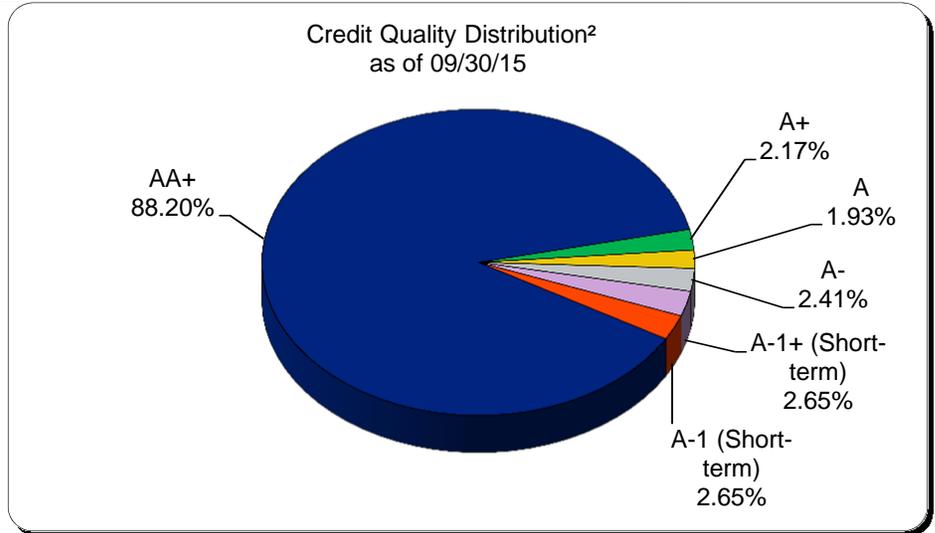
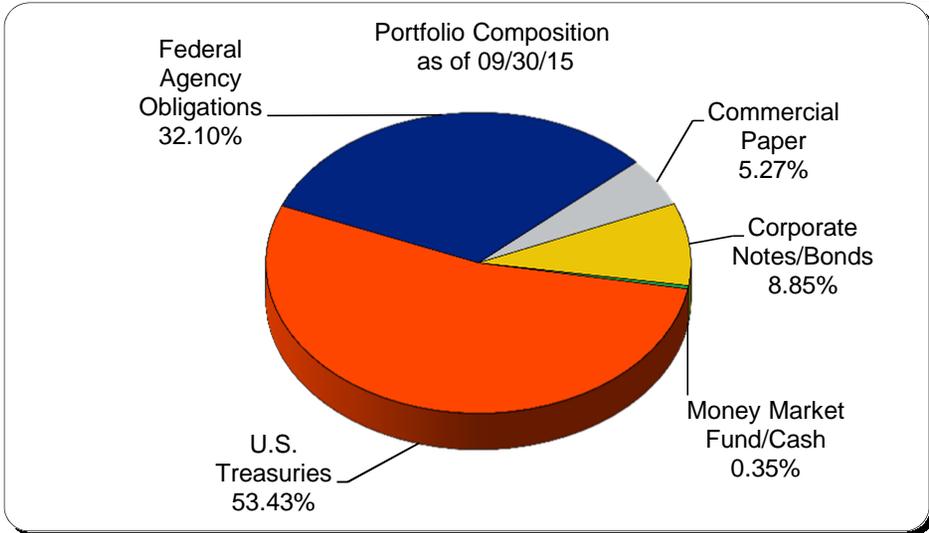


Notes:

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. Includes money market fund/cash in performance and duration computations.
6. 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.
7. 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, 2015</u>	<u>% of Portfolio</u>	<u>June 30, 2015</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$44,507,912.79	53.4%	\$45,036,168.97	54.2%
Federal Agencies	26,745,183.93	32.1%	33,415,456.43	40.2%
Commercial Paper	4,392,201.00	5.3%	2,498,667.50	3.0%
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	7,369,510.36	8.8%	2,023,230.00	2.4%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	292,499.92	0.4%	116,712.59	0.1%
Totals	\$83,307,308.00	100.0%	\$83,090,235.49	100.0%

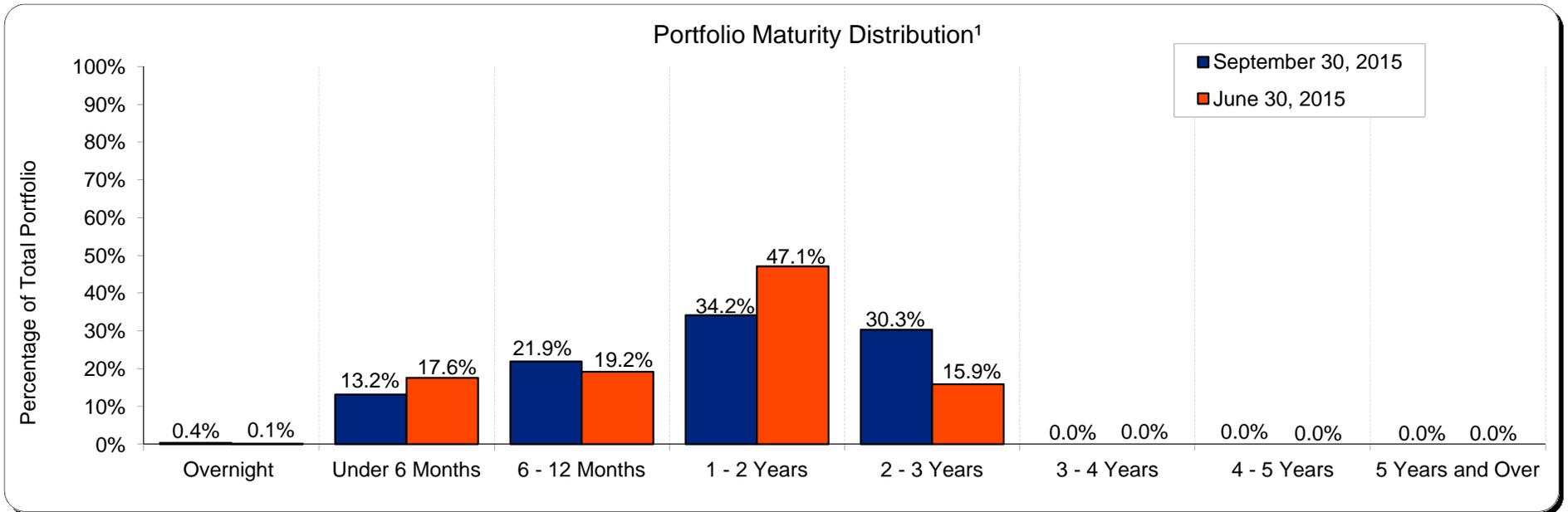


Notes:

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

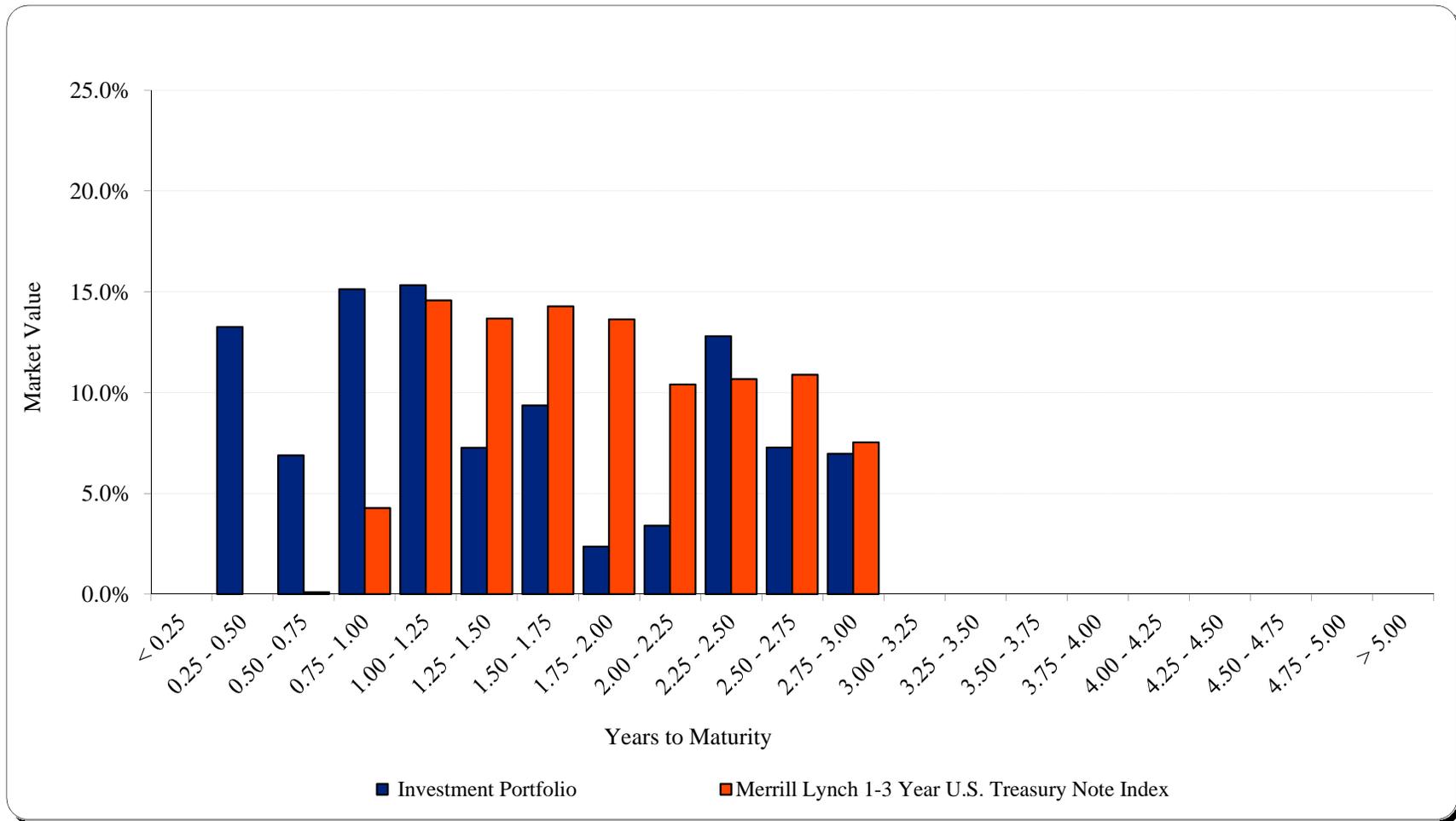
<u>Maturity Distribution¹</u>	<u>September 30, 2015</u>	<u>June 30, 2015</u>
Overnight (Money Market Fund)	\$292,499.92	\$116,712.59
Under 6 Months	10,998,238.71	14,623,964.25
6 - 12 Months	18,267,381.51	15,968,163.20
1 - 2 Years	28,480,959.41	39,161,835.09
2 - 3 Years	25,268,228.45	13,219,560.36
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$83,307,308.00	\$83,090,235.49



Notes:

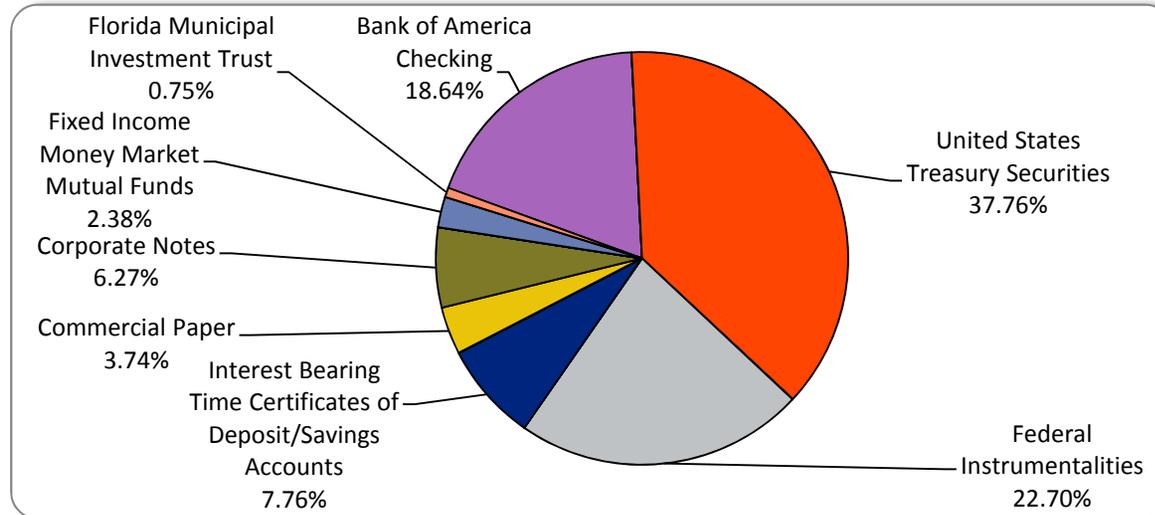
1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

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	21,904,693.41	18.64%	2,3	100%	YES
Florida SBA Prime Fund	-	0.00%	3	25%	YES
United States Treasury Securities	44,372,440.57	37.76%		100%	YES
United States Government Agency Securities	-	0.00%		50%	YES
Federal Instrumentalities	26,672,081.58	22.70%	4	80%	YES
Mortgage-Backed Securities	-	0.00%	4	20%	YES
Interest Bearing Time Certificates of Deposit/Savings Accounts	9,114,818.00	7.76%	2,3	25%	YES
Repurchase Agreements	-	0.00%		50%	YES
Commercial Paper	4,390,606.62	3.74%		25%	YES
Corporate Notes	7,362,992.02	6.27%		15%	YES
Bankers' Acceptances	-	0.00%		25%	YES
State and/or Local Government Debt	-	0.00%		20%	YES
Fixed Income Money Market Mutual Funds	2,802,127.04	2.38%		50%	YES
Florida Municipal Investment Trust	876,869.49	0.75%	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, 2015 is 22.7%.

* 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)	8,021,327.56	6.83%		40%	YES
Federal National Mortgage Association (FNMA)	15,632,132.40	13.30%		40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	3,018,621.62	2.57%		40%	YES
American Express Company Corporate Notes	2,010,410.19	1.71%		5%	YES
General Electric Capital Corporation Corporate Notes	1,954,119.37	1.66%		5%	YES
JP Morgan Chase & Company Corporate Notes	1,597,599.49	1.36%		5%	YES
Wells Fargo & Company Corporate Notes	1,800,862.97	1.53%		5%	YES
JP Morgan Chase & Company Commercial Paper	2,194,979.12	1.87%		5%	YES
Toyota Motor Corporation Commercial Paper	2,195,627.50	1.87%		5%	YES
Fidelity (BONY) Money Market Fund	292,499.92	0.25%		25%	YES
Bank of America Operating	21,904,693.41	18.64%	2,3	100%	YES
Bank of America Money Market Savings	9,114,818.00	7.76%	2,3	15%	YES
FMIvT - Intermediate	775,206.82	0.66%	3	15%	YES
FMIvT - 1-3 years	101,662.67	0.09%	3	15%	YES
PFM Funds Government Series Money Market Fund	2,509,627.12	2.14%		25%	YES

Notes:

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