

City of Hallandale Beach, Florida



Investment Performance Review Quarter Ended December 31, 2012

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December 31, 2012 PFM Month-End Statement

(PFM Month End Statement is available online at www.pfm.com)

PFM Funds December 31, 2012 Month-End Statement

(PFM Funds Month End Statement is available online at www.pfmfunds.com)

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TAB I

Summary

- In the fourth quarter, the markets were impacted by U.S. politics and policies—particularly the presidential election, the Federal Reserve’s (Fed’s) new round of quantitative easing (QE), and fiscal cliff negotiations.
- The U.S. housing market continued to show signs of improvement, and the unemployment rate was unchanged for the quarter at 7.8%.
- The domestic economy has seen modest growth over the past year, and while the resolution of the fiscal cliff talks has relieved investors, the federal debt ceiling must now be addressed.

Economic Snapshot

- New-home sales in the U.S. rose to their highest level in two-and-a-half years in November, jumping 15.3% higher from where they were a year ago.
- The Consumer Price Index rose 1.8% year over year in November before seasonal adjustment. Wage increases have been subdued as evidenced by the change in hourly earnings, which has averaged less than 2% in recent months.
- Fourth-quarter U.S. gross domestic product (GDP) growth is expected to be in a range of 1% to 2%, which is slower than GDP growth experienced in the third quarter.
- Hurricane Sandy, which blew through the East Coast in October, caused large amounts of damage, closed the markets for two days, and depressed economic activity in about a third of the nation.
- European stock markets took an upward turn for the quarter, as the MSCI Europe Index rose 7.02% for the quarter in U.S. dollar terms.

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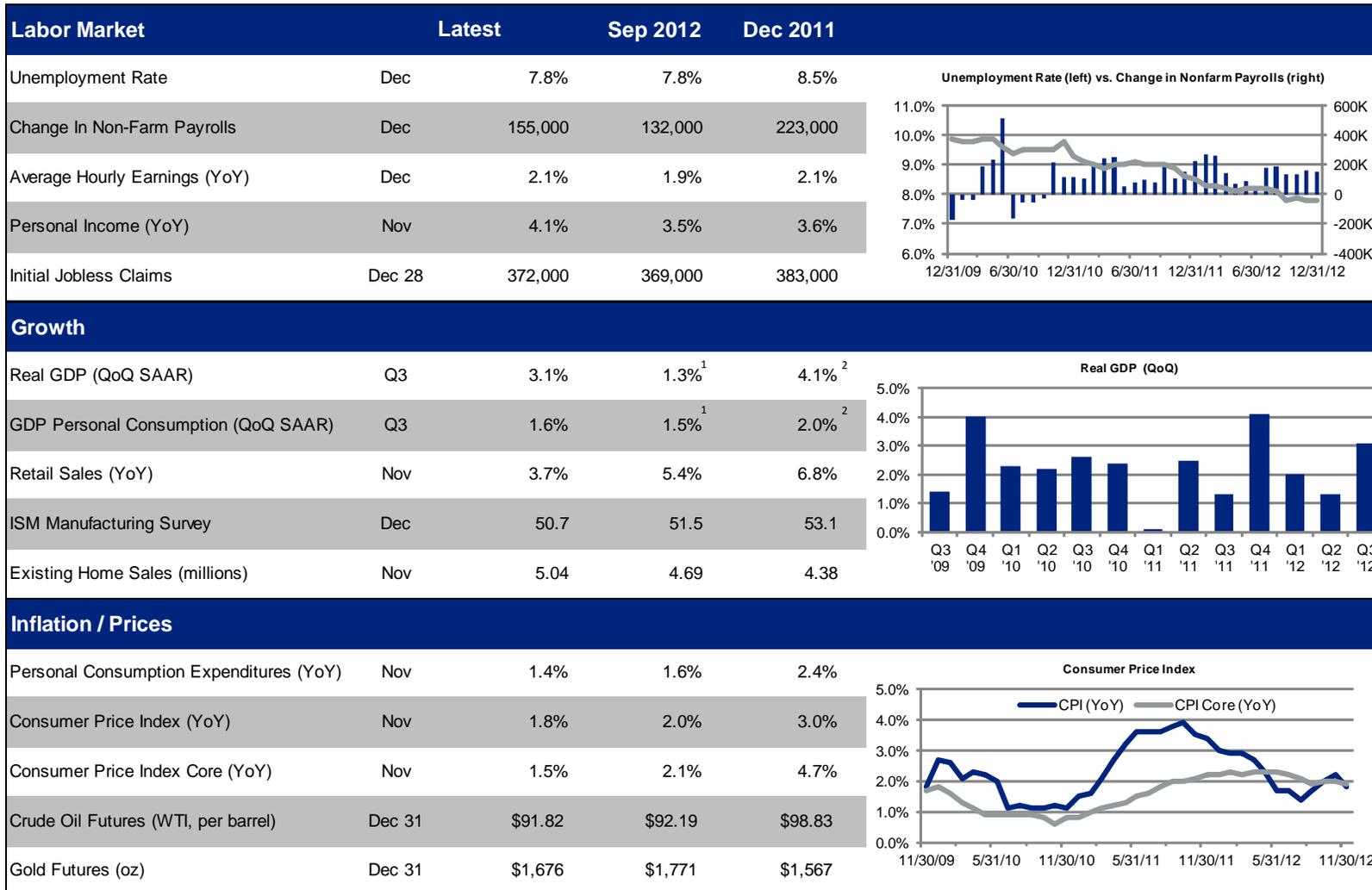
Interest Rates

- Interest rates rose slightly for the quarter across most maturities, while yield spreads on Agencies, corporates, and mortgage-backed securities (MBS) remained narrow.
- Treasury yields fell in the first half of November, but then rose as investors turned away from fixed income to the rallying stock market.
- The Fed announced that it will keep short-term rates at extremely low levels until the unemployment rate falls below 6.5%, and the prospect remains for long-run inflation to stay below 2.5%. The Fed also initiated further QE with an open-ended program to buy \$45 billion in Treasuries each month in addition to its monthly purchases of \$40 billion in Agency mortgage-backed securities.

Sector Performance

- Returns of high-quality corporate bonds (especially Financials) performed well for the quarter, as these issuers continued to be bolstered by global central bank support for financial markets. Security selection has been especially important when purchasing corporates.
- The Fed’s QE3 purchase program initially caused Agency MBS to appreciate sharply on value, but that quickly reversed and Agency MBS underperformed other fixed-income sectors for the quarter.
- Municipal bonds struggled in the fourth quarter, as investors were uncertain whether their tax-exempt status would be changed as part of a fiscal cliff deal.
- Supply reductions kept Agency spreads at historically tight levels, and Agencies became relatively less attractive over the quarter.

Economic Snapshot



1. Data as of Second Quarter 2012 2. Data as of Fourth Quarter 2011

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

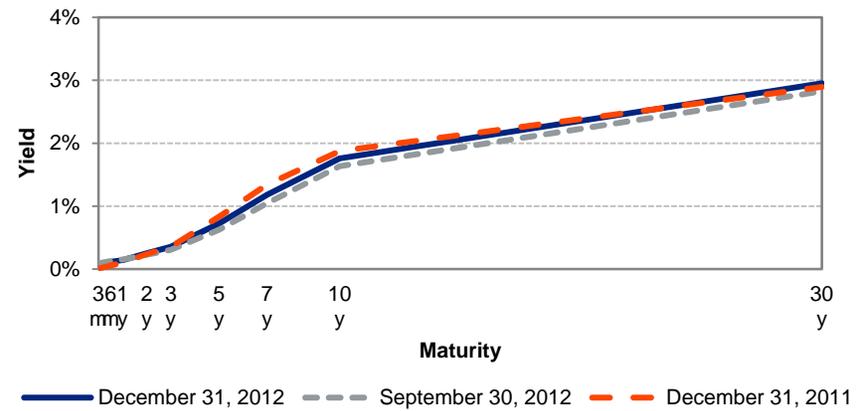
Source: Bloomberg

Interest Rate Overview

U.S. Treasury Note Yields

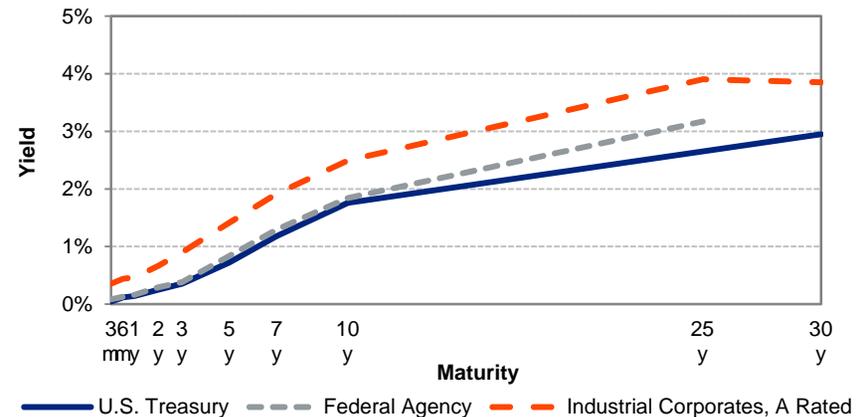


U.S. Treasury Note Yield Curve



Maturity	12/31/12	9/30/12	Change over Quarter	12/31/11	Change over Year
3-month	0.09%	0.12%	(0.03%)	0.02%	0.07%
1-year	0.14%	0.16%	(0.02%)	0.13%	0.01%
2-year	0.27%	0.25%	0.03%	0.28%	(0.00%)
5-year	0.74%	0.63%	0.11%	0.85%	(0.11%)
10-year	1.81%	1.70%	0.12%	1.96%	(0.14%)
30-year	2.94%	2.82%	0.12%	2.91%	0.03%

Yield Curves as of 12/31/12



Source: Bloomberg

B of A Merrill Lynch Index Returns

	As of 12/31/2012		Periods Ended 12/31/2012		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.87	0.26%	0.07%	0.43%	1.44%
Federal Agency	1.70	0.31%	0.12%	0.85%	1.56%
U.S. Corporates, A-AAA Rated	1.94	0.95%	0.44%	4.02%	3.31%
Agency MBS (0 to 3 years)	1.85	1.37%	(0.31%)	1.60%	3.42%
Municipals	1.81	0.61%	0.02%	1.03%	1.56%
1-5 Year Indices					
U.S. Treasury	2.72	0.38%	0.04%	0.91%	2.62%
Federal Agency	2.36	0.44%	0.16%	1.38%	2.28%
U.S. Corporates, A-AAA Rated	2.80	1.22%	0.55%	5.85%	4.70%
Agency MBS (0 to 5 years)	2.44	1.47%	(0.33%)	2.53%	4.45%
Municipals	2.53	0.84%	(0.10%)	1.63%	2.37%
Master Indices					
U.S. Treasury	5.99	0.96%	(0.10%)	2.16%	5.89%
Federal Agency	3.84	0.85%	0.22%	2.44%	4.10%
U.S. Corporates, A-AAA Rated	6.80	2.32%	0.79%	9.19%	8.32%
Agency MBS	2.14	1.47%	(0.27%)	2.59%	4.78%
Municipals	7.47	2.59%	0.51%	7.26%	6.83%

Returns for periods greater than one year are annualized

Source: Bloomberg

TAB II

Executive Summary

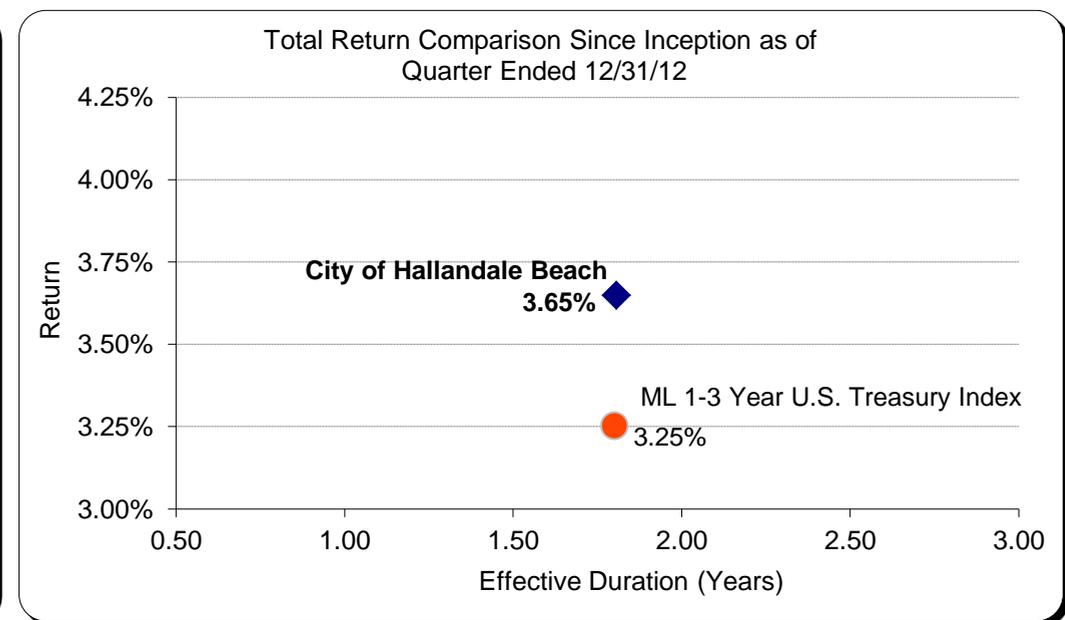
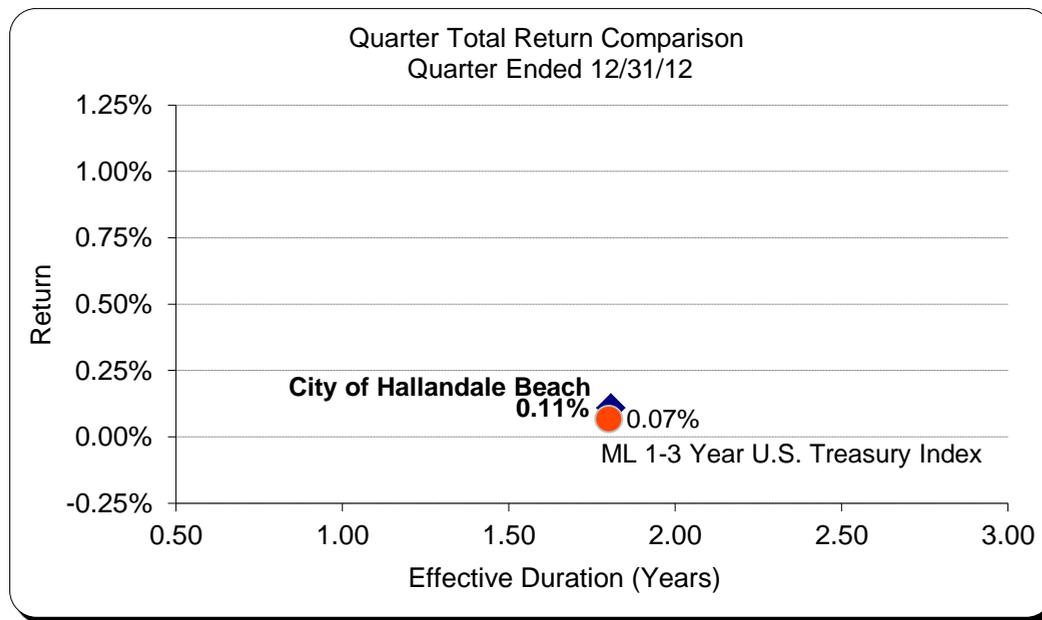
PORTFOLIO STRATEGY

- The City's Investment Portfolio is of high credit quality and invested in U.S. Treasury, Federal Agency, high quality corporate, municipal, and commercial paper securities.
- PFM continued to actively manage the Investment Portfolio during the fourth quarter and found value in the market, taking advantage of market inefficiencies or changes in economic outlook. As a result the Portfolio realized over \$9,000 in gains on sales during the quarter. PFM is continually in the market monitoring for opportunities to add value to the Portfolio.
- The Investment Portfolio's quarterly total return performance was 0.11%, outperforming the benchmark's performance of 0.07% by 0.04%. Over the past year, the Portfolio earned 0.99%, versus 0.43% for the benchmark.
- Five year Treasury yields swung in a 24 basis point range. Yields were driven lower by economic disruption from Hurricane Sandy, a higher projection for Greek debt, President Obama's re-election and assured continuity of an accommodative Federal Reserve (Fed), an expansion of the Fed's bond purchase program, and fears the U.S. would go over the fiscal cliff. Bond yields were pushed higher by stronger than expected job reports for September and November, a Greek debt buyback program, the prospect of Presidential candidate Mitt Romney appointing a replacement for Ben Bernanke at the Fed, a global rally in stocks, and confidence that the fiscal cliff would be avoided.
- After all the ups and downs, Treasury yields finished the quarter modestly higher. Political turmoil may cause a transient flight-to-quality as has been seen this quarter and may be seen in the coming quarter. Yet, the larger, lasting effect is likely to come from the budding trend of equity fund inflows at the expense of bond fund outflows. The so-called "Great Rotation", as it is popularly called, is the reversal of fund flows from the past 4 years.
- Facing high political and policy risks, which do not lend themselves well to fundamental economic analysis, we increased Treasury weightings to move closer to benchmarks in terms of sector allocation. In particular, Agency bonds at historically tight spreads, and consequently little remaining value, were shifted into Treasuries continuing the re-allocation of the past several quarters.
- Fiscal drag caused by tax hikes on the wealthy and resumption of full payroll taxes, and concern over a possible government shutdown may be supportive of a counter-trend rally in the bond market. While our longer term view is that yields will eventually drift gradually higher, we intend to keep durations close to neutral to protect the City's portfolio against the regularly recurring flights into Treasuries.
- Our strategy for the upcoming quarter is very simple: with rates in established ranges, we will focus on adding incremental yield found in the corporate and municipal sectors, areas where we will concentrate our investment research. Corporate yield spreads tightened sharply throughout 2012, but remain attractive. We believe new issues will continue to offer good value and excellent entry points or favorable yields for adding to allocations.
- As always, we strive to maintain safety of principal and appropriate liquidity, while seeking opportunities to add value through active management. Our strategy will remain flexible and may change in response to changes in interest rates, economic data, market outlook or specific opportunities that arise.

Investment Portfolio Performance

Total Portfolio Value ^{1,2}	December 31, 2012		September 30, 2012			
	Market Value	\$55,826,429.77	\$55,765,759.22	\$55,473,002.07		
	Amortized Cost	\$55,567,302.08	\$55,473,002.07			
Total Return ^{1,2,3,4,5,6,7,8}	Quarterly Return December 31, 2012	Calendar Year to Date	Last 12 Months	Last 24 Months	Last 36 Months	Since Inception December 31, 2005
Investment Portfolio	0.11%	0.99%	0.99%	1.32%	1.68%	3.65%
Merrill Lynch 1-3 Year U.S. Treasury Index	0.07%	0.43%	0.43%	0.99%	1.44%	3.25%

Effective Duration(Years) ⁴	December 31, 2012		September 30, 2012		Yields	December 31, 2012		September 30, 2012	
	Investment Portfolio	1.81	1.81	Yield at Market		0.29%	0.30%		
Merrill Lynch 1-3 Year U.S. Treasury Index	1.80	1.82	Yield at Cost	0.61%	0.61%				
Portfolio Duration % of Benchmark Duration	100%	99%							

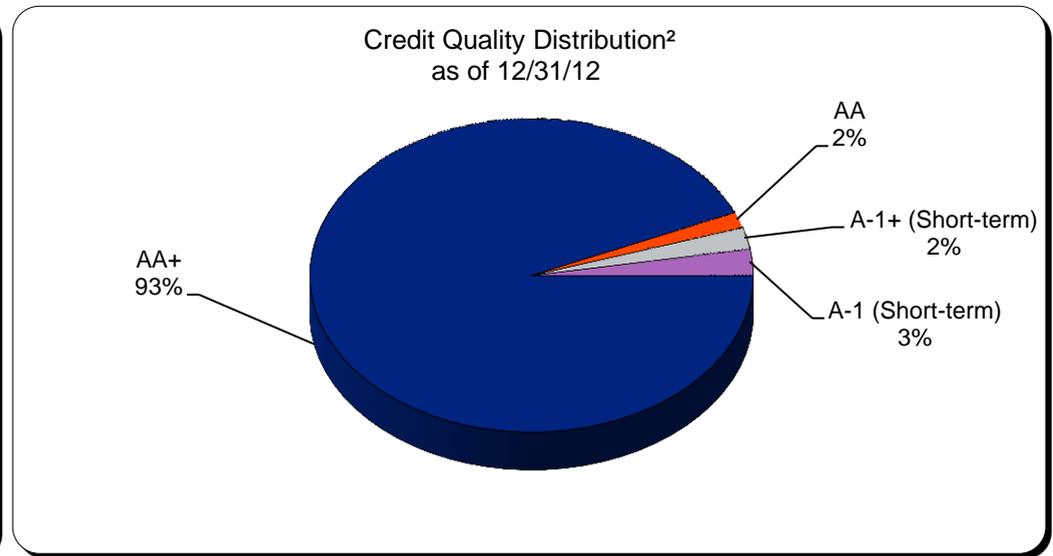
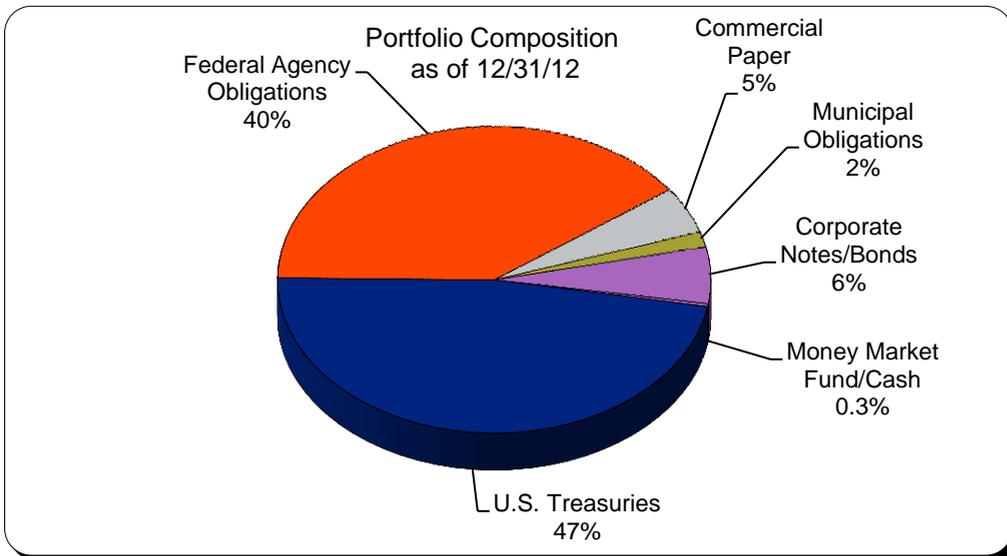


Notes:

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

Investment Portfolio Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>December 31, 2012</u>	<u>% of Portfolio</u>	<u>September 30, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$26,480,233.89	47.4%	\$22,529,783.39	40.4%
Federal Agencies	22,227,347.90	39.8%	26,178,289.70	46.9%
Commercial Paper	2,748,593.50	4.9%	2,746,454.75	4.9%
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	905,001.00	1.6%	907,630.00	1.6%
Corporate Notes/Bonds	3,301,731.09	5.9%	3,295,485.53	5.9%
Corporate Notes-FDIC Insured	0.00	0.0%	0.00	0.0%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	163,522.39	0.3%	108,115.85	0.2%
Totals	\$55,826,429.77	100.0%	\$55,765,759.22	100.0%

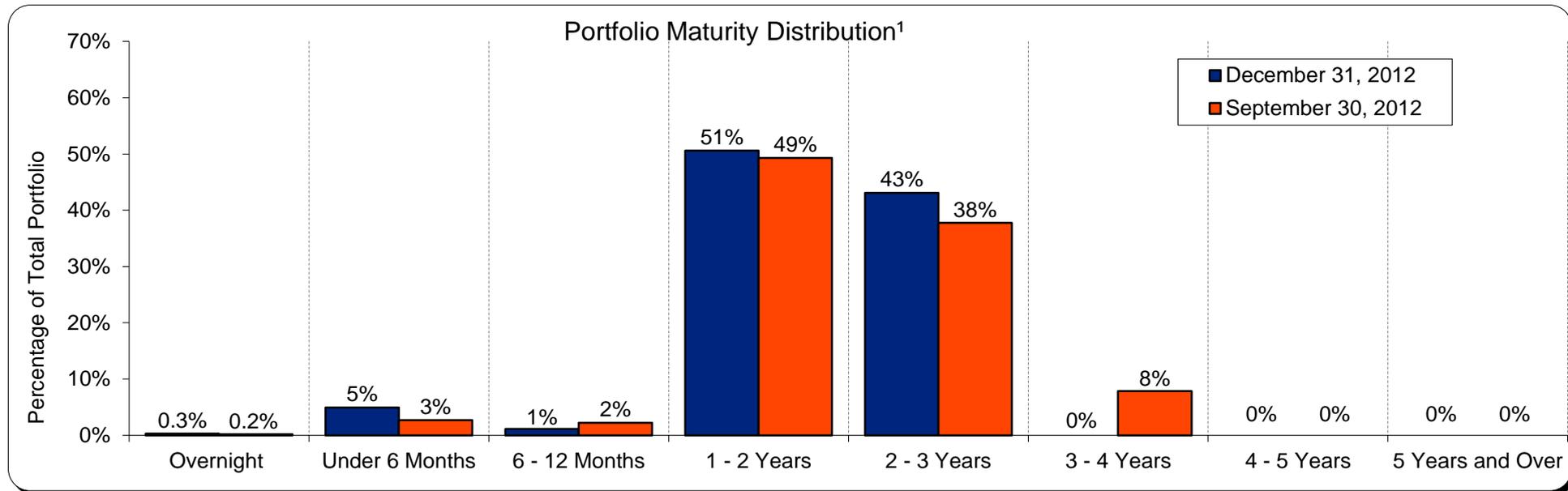


Notes:

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 Maturity Distribution

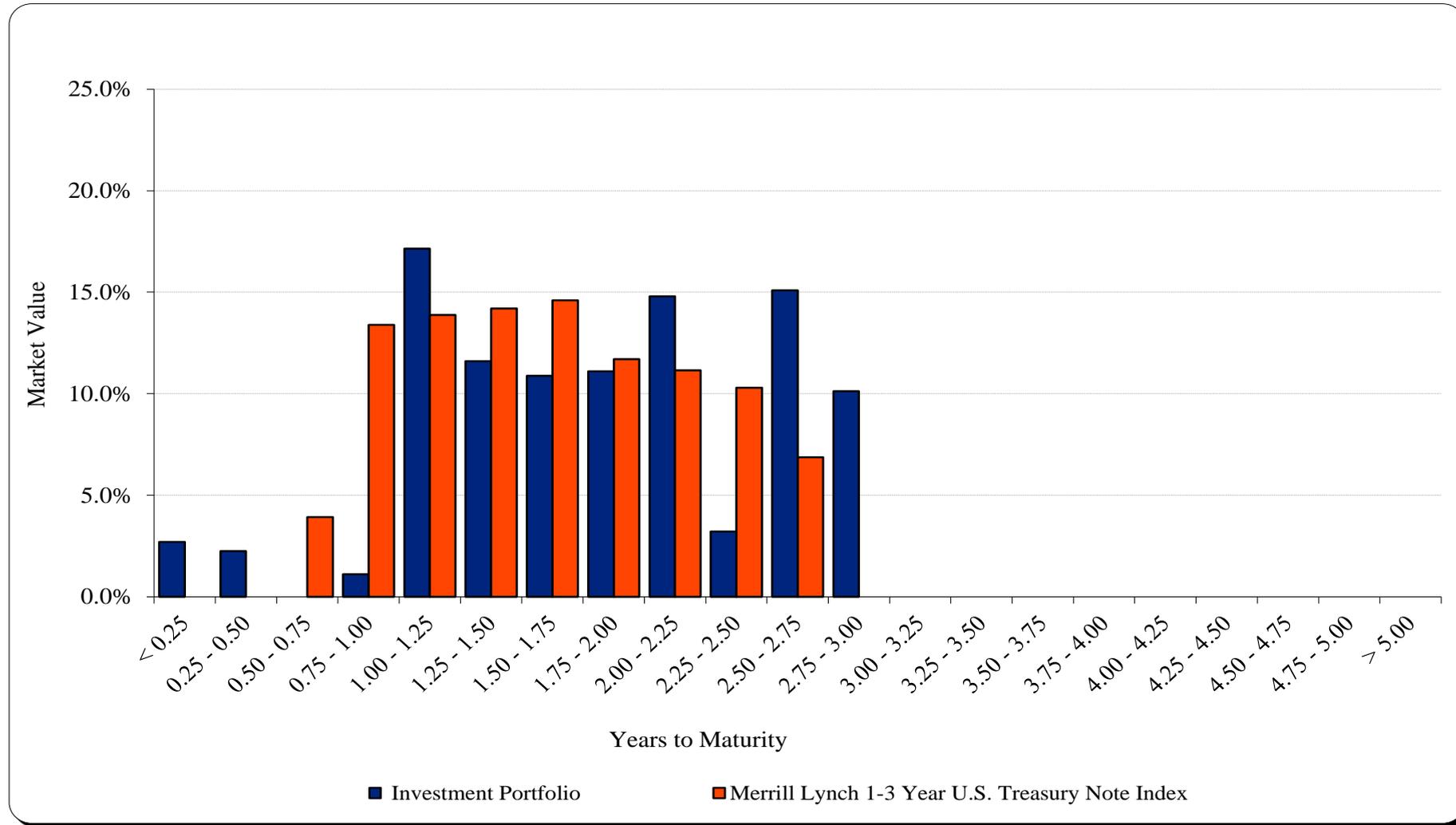
<u>Maturity Distribution¹</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>
Overnight (Money Market Fund)	\$163,522.39	\$108,115.85
Under 6 Months	2,748,593.50	1,498,438.50
6 - 12 Months	616,731.44	1,248,016.25
1 - 2 Years	28,239,328.06	27,487,187.10
2 - 3 Years	24,058,254.38	21,050,847.23
3 - 4 Years	0.00	4,373,154.29
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$55,826,429.77	\$55,765,759.22



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.

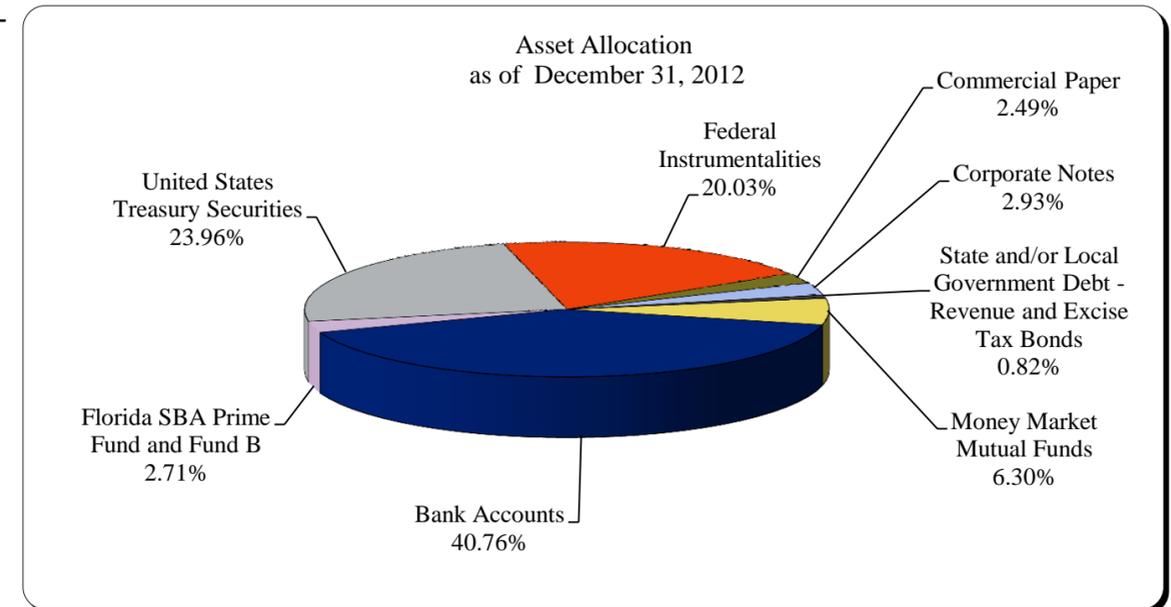
Investment Portfolio Maturity Distribution versus the Benchmark¹



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 ³	December 31, 2012	Notes	Permitted by Policy
Florida SBA Prime Fund and Fund B	2.71%	2	100%
United States Treasury Securities	23.96%		100%
United States Government Agency Securities	0.00%		100%
Federal Instrumentalities	20.03%	1	100%
Mortgage-Backed Securities	0.00%	1	40%
Certificates of Deposit	0.00%		10%
Repurchase Agreements	0.00%		20%
Commercial Paper	2.49%		25%
Corporate Notes	2.93%		15%
Bankers' Acceptances	0.00%		25%
State and/or Local Government Debt - General Obligation Bonds	0.00%		25%
State and/or Local Government Debt - Revenue and Excise Tax Bonds	0.82%		10%
Money Market Mutual Funds	6.30%		20%
Intergovernmental Investment Pool	0.00%		25%
Bank Accounts	40.76%	2	100%



Individual Issuer Breakdown	December 31, 2012	Notes	Permitted by Policy
Government National Mortgage Association (GNMA)	0.00%		40%
US Export-Import Bank (Ex-Im)	0.00%		40%
Farmers Home Administration (FMHA)	0.00%		40%
Federal Financing Bank	0.00%		40%
Federal Housing Administration (FHA)	0.00%		40%
General Services Administration	0.00%		40%
New Communities Act Debentures	0.00%		40%
US Public Housing Notes & Bonds	0.00%		40%
US Dept. of Housing and Urban Development	0.00%		40%
Federal Farm Credit Bank (FFCB)	0.00%		40%
Federal Home Loan Bank (FHLB)	2.18%		40%
Federal National Mortgage Association (FNMA)	10.64%		40%
Federal Home Loan Mortgage Corporation (FHLMC)	7.21%		40%

Individual Issuer Breakdown	December 31, 2012	Notes	Permitted by Policy
Toyota CP	1.13%		5%
Bank of Tokyo Mitsubishi CP	1.36%		5%
General Electric Corporate Notes	1.57%		5%
Berkshire Hathaway Corporate Notes	1.36%		5%
Regional Trans Authority, IL Revenue Bond	0.82%		10%
PFM Funds Prime Series Money Market Fund	6.30%		10%
Florida Prime	2.34%	2	100%
SBA Fund B	0.37%	2	N/A
City National Bank Account	40.76%	2	100%

Notes:

1. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 100%. The combined total as of December 31, 2012 is 20.03%.
 2. Managed by the City.
 3. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
- * No Bond Proceeds

TAB III

Insert Month End Statement here to complete the 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**