

# City of Hallandale Beach, Florida



## Investment Performance Review Quarter Ended March 31, 2013

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March 31, 2013 PFM Month-End Statement

(PFM Month End Statement is available online at [www.pfm.com](http://www.pfm.com))

PFM Funds March 31, 2013 Month-End Statement

(PFM Funds Month End Statement is available online at [www.pfmfunds.com](http://www.pfmfunds.com))

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# TAB I

### **Economic Summary**

- March was marked by evidence of continued gradual strengthening of the U.S. economy, while European political leaders struggled with how to handle the bailout in Cyprus.
  - Strong consumer spending and growing personal income in the U.S. led some economists to raise their forecasts for first-quarter gross domestic product (GDP) above 3%. If results are as predicted, this could mark the strongest outcome since the fourth quarter of 2011, when the U.S. economy grew at 4.1%.
  - At the same time, some economists concluded that the force of federal budget sequestration, which became effective March 1, will reduce GDP in the second half of the year to a level between 1.0% and 1.5%.
  - The Federal Reserve (Fed) voted to keep the federal funds rate near zero and reiterated its commitment to monthly purchases of Treasuries and mortgage-backed securities (MBS).
  - There were 236,000 more jobs added to payrolls in the U.S. in February compared to the prior month. The unemployment rate fell to 7.7%, which was due in part to shrinkage in the labor force as some unemployed workers gave up searching for jobs.
  - The bailout negotiations in Cyprus, Italy's difficulties creating a new government, and weakness in many European economies pushed the euro lower against the dollar, propped up U.S. Treasury prices, and renewed concern over the viability of the euro zone.
- Intermediate maturities, however, saw much more intra-month volatility. They headed higher early in the month on signs of U.S. growth, but then fell swiftly as the Cyprus bailout became more chaotic.
  - Five-year Treasury yields started the month at 0.76% and then climbed as high as 0.90% before dropping back to 0.75%. By comparison, two-year yields began the month at 0.23%, rose a few basis points to 0.26%, and finally finished at 0.24% as the Fed's zero-interest-rate policy continued to act as an anchor on short-maturity yields.
  - Monthly returns for most Treasury and Agency benchmarks were slightly above zero, driven by stable but narrow Treasury/Agency spreads and a slight uptick in rates. Corporate bonds performed well compared to Treasury benchmarks, driven by a significant income advantage and stable to somewhat tighter spreads.
  - The highest monthly returns were generated by MBS, while the lowest monthly returns came from tax-exempt municipal bonds. This sector performance is a reversal of what was seen in the previous two months.

### **Equity Markets**

- Domestic equities continued their rally, and both the Dow Jones Industrial Average and S&P 500 Index reached new highs in March as investors believed the economic recovery would endure. In Europe, stock prices were little changed during the month, while in Asia, the Nikkei rose sharply as the new Japanese government implemented yet another stimulus plan.

### **Bond Market**

- Yields were largely unchanged for both shorter-maturity (three years and under) and intermediate-maturity (five years and over) Treasury bonds.

**PFM Outlook**

- The U.S. economy seems to have gained some momentum at last, driven by strong consumer spending and an unmistakable rise in value for housing and equity securities, but this is played out against the backdrop of European drama. The forces associated with a stronger U.S. economy should push interest rates higher, but global investors seeking the safe haven of Treasuries have thwarted this move so far. The result has been range-bound yields, which could continue for months or even through the rest of 2013.
- There is little reason to recommend longer-maturity investments at these levels, but the fact is that shorter duration portfolios do not perform as well as longer-duration portfolios as markets remain in a range.
- Agency spreads remain narrow; this, combined with scarce supply, offers investors little value when compared to the lesser liquidity versus Treasuries.
- Corporate bonds offer some potential for return; although their spreads have narrowed dramatically from the highs of two years ago, they are near historical average levels. An expanding U.S. economy should provide general support to the credit markets.
- MBS—which suffered from the uncertainties of the Fed’s purchase program and the potential for a sharp rise in long-term rates that would push down mortgage pre-payments— appear to offer some value as investors have discounted these factors.

**Economic Snapshot**

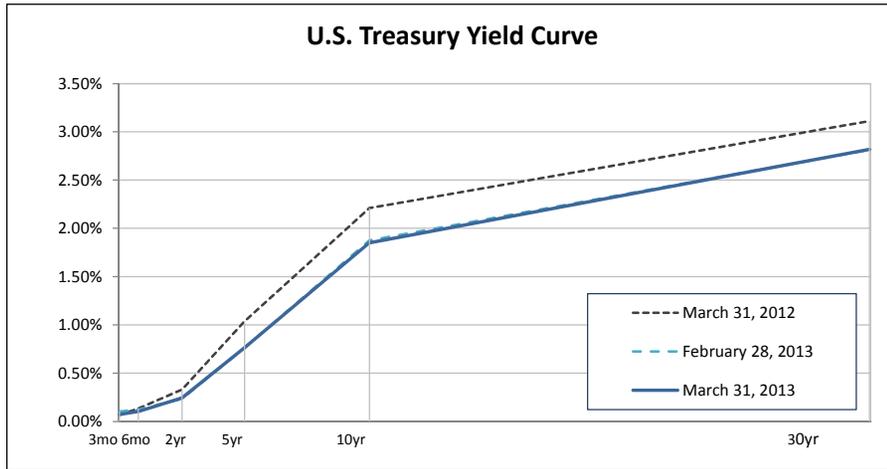
<b>U.S. Treasury Yields</b>				
	March 31, 2012	February 28, 2013	March 31, 2013	Monthly Change
3 Month	0.07%	0.10%	0.07%	(0.03%)
6 Month	0.13%	0.12%	0.10%	(0.02%)
2 Year	0.33%	0.24%	0.24%	0.01%
5 Year	1.04%	0.76%	0.77%	0.00%
10 Year	2.21%	1.88%	1.85%	(0.03%)
30 Year	3.11%	2.81%	2.82%	0.01%
<b>Federal Agency Yields</b>				
	March 31, 2012	February 28, 2013	March 31, 2013	Monthly Change
3 Month	0.09%	0.10%	0.09%	(0.01%)
6 Month	0.14%	0.13%	0.11%	(0.02%)
2 Year	0.42%	0.28%	0.32%	0.04%
5 Year	1.30%	0.91%	0.94%	0.02%
10 Year	2.86%	2.28%	2.29%	0.01%
20 Year	3.85%	3.39%	3.43%	0.04%
<b>Spot Prices</b>				
	March 31, 2012	February 28, 2013	March 31, 2013	Monthly Change
<b>US Dollars per Euro</b>	\$1.33	\$1.31	\$1.28	(1.8%)
<b>Crude Oil \$/Barrel</b>	\$103.02	\$92.05	\$97.23	5.6%

*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.*

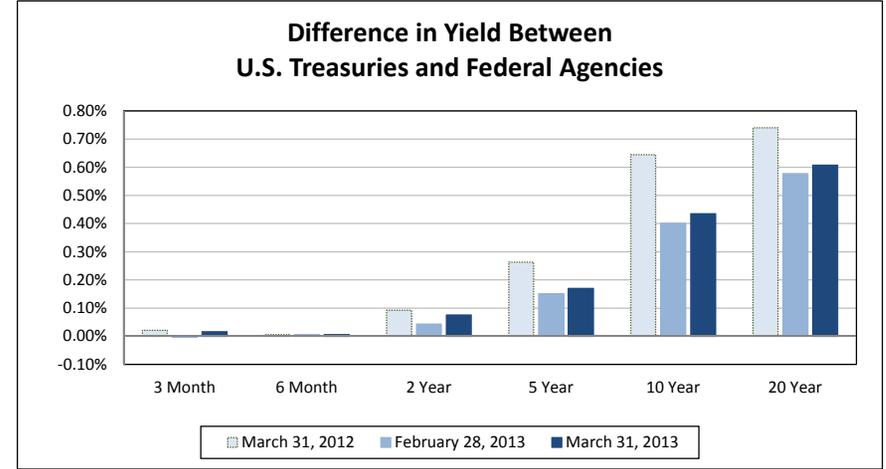
<b>Upcoming Indicators to Watch</b>						
Release Date	Release			For	Consensus	Prior
Apr 3	ISM Non-Manf. Composite			Mar	55.5	56.0
Apr 5	Trade Balance			Feb	-\$44.6B	-\$44.4B
Apr 5	Change in Nonfarm Payrolls			Mar	199K	236K
Apr 5	Unemployment Rate			Mar	7.70%	7.70%
Apr 5	Consumer Credit			Feb	\$15.000B	\$16.151B
Apr 9	Wholesale Inventories			Feb	0.50%	1.20%
Apr 12	Advance Retail Sales			Mar	0.00%	1.10%
Apr 12	Producer Price Index (YoY)			Mar	--	1.70%
Apr 12	U. of Michigan Confidence			Apr P	--	78.6
Apr 16	Consumer Price Index (YoY)			Mar	--	2.00%
Apr 16	Industrial Production			Mar	--	0.70%
Apr 22	Existing Home Sales MoM			Mar	--	0.80%
Apr 23	New Home Sales MoM			Mar	--	-4.60%
Apr 24	Durable Goods Orders			Mar	--	5.70%
Apr 26	GDP QoQ (Annualized)			1Q A	--	0.40%
<b>Benchmark Rates</b>						
		March 31, 2012	February 28, 2013	March 31, 2013	Monthly Change	
<b>1 Month LIBOR</b>		0.24%	0.20%	0.20%	0.0%	
<b>Fed Funds Target Rate</b>		0.25%	0.25%	0.25%	0.0%	

Source: Bloomberg

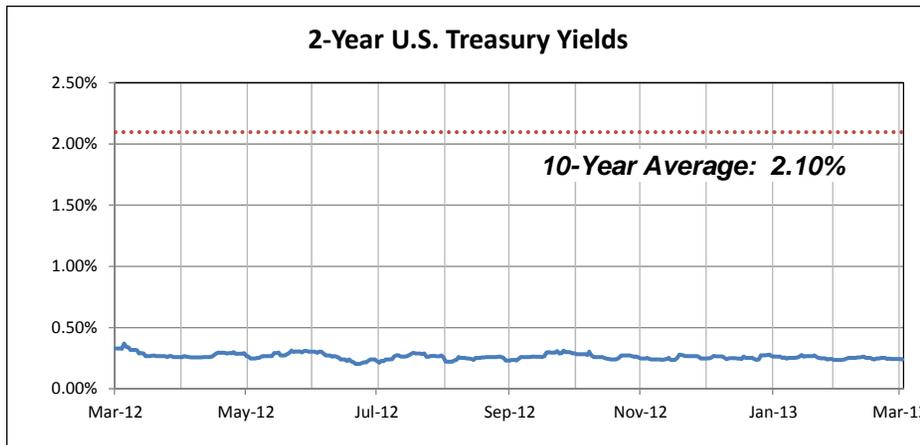
**Interest Rate Overview**



The shape of the Treasury yield curve was mostly unchanged for the month.

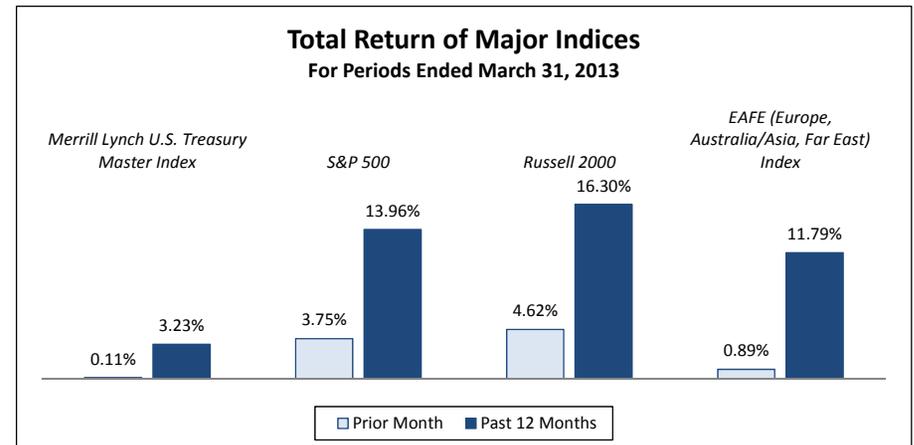


Agency spreads widened slightly for the month of March.

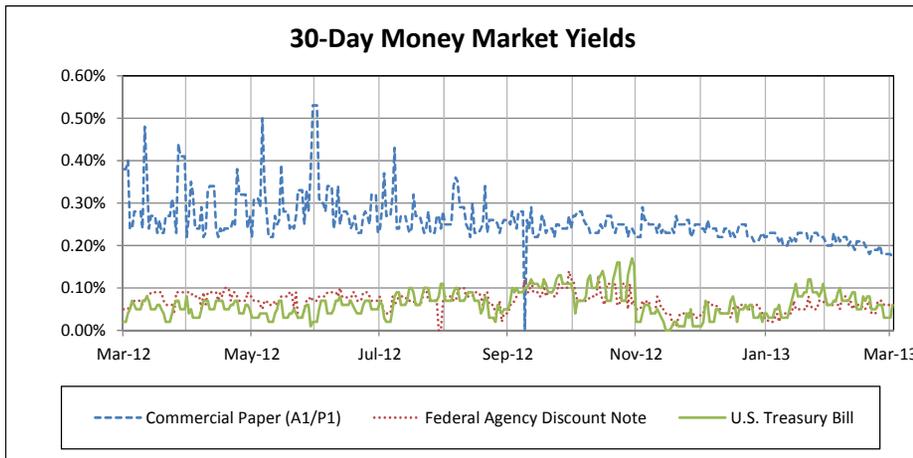


The yield on the two-year U.S. Treasury Note rose 1 basis point (0.01%) from the end of February to the end of March.

Source: Bloomberg

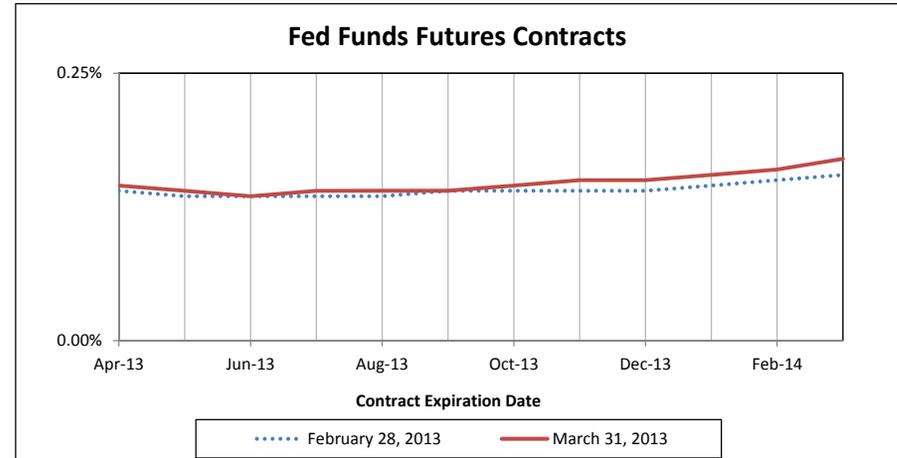


Domestic equities continued to outperform U.S. Treasuries and international developed-market equities in March.



Short-term Federal Agency and Treasury securities remain range-bound due to the low federal funds target rate.

Source: Bloomberg



Consistent with the Fed's statement about keeping rates low until the unemployment picture improves, the market expects no significant change in the federal funds target rate in the near future.

# TAB II

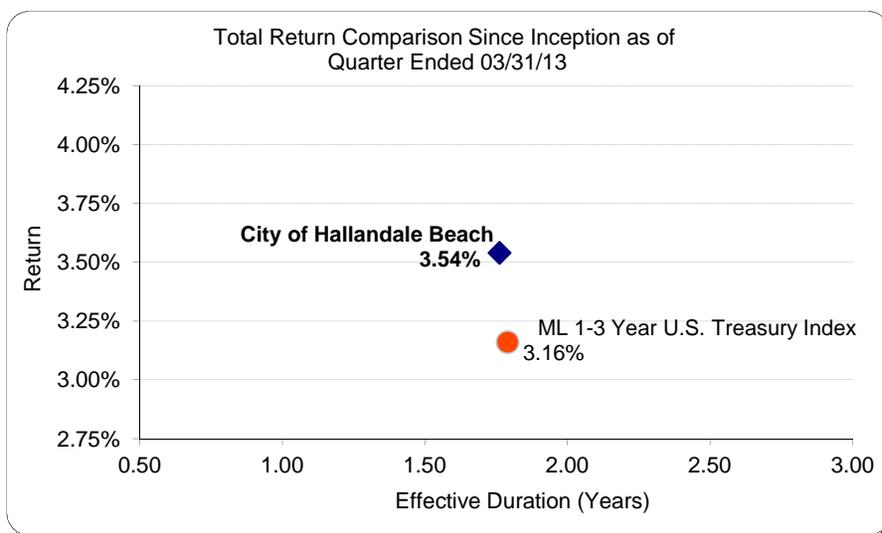
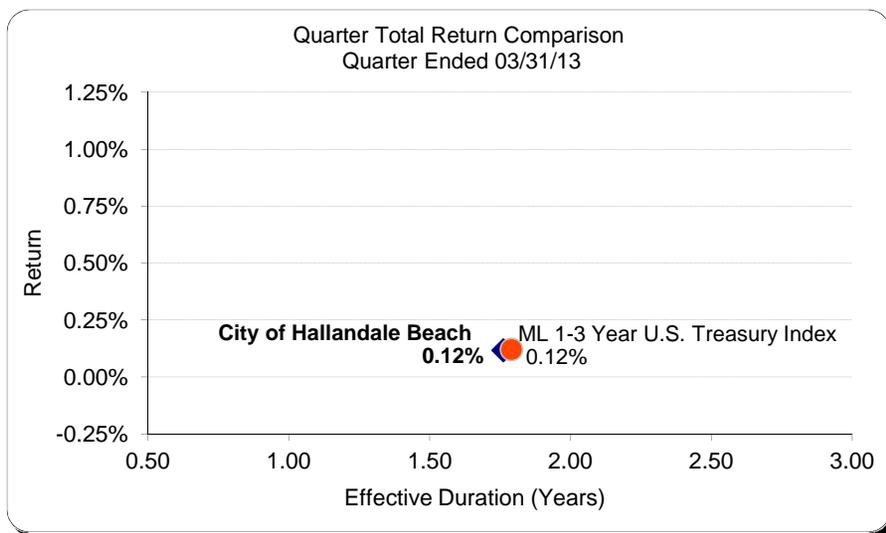
## Executive Summary

## PORTFOLIO STRATEGY

- The City's Investment Portfolio is of high credit quality and invested in U.S. Treasury, Federal Agency, high quality corporate, commercial paper and municipal securities.
- PFM continued to actively manage the Investment Portfolio during the first quarter and found value in the market, taking advantage of market inefficiencies or changes in economic outlook. As a result the Portfolio realized over \$22,130 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 0.12%, performing in-line with the benchmark's performance of 0.12%. Over the past year, the Portfolio earned 0.79%, versus 0.64% for the benchmark.
- Interest rates for short maturity Treasuries (3 years or less) barely budged during the quarter as the Federal Reserve's zero interest rate policy on overnight lending continued to anchor the front end of the yield curve. Yields on Two year Treasury Notes started the quarter at 0.25%, fluctuated no higher than 0.29% and no lower than 0.23%, before ending the quarter at 0.24% for a net change of -1 basis point.
- Intermediate maturity Treasuries (5 – 10 years) saw a little more intra-quarter volatility as stronger economic data in the US encouraged yields higher and unfolding developments in the European debt crisis and consequent demand for safe assets drove bond yields lower. Five year Treasury Notes began the year at 0.72%, climbed as high as 0.91% on strong February Retail Sales and then fell back to 0.78% at the end of the quarter as the Cyprus bailout became more chaotic. Ten year yields reached 2% for the first time in a year.
- Municipal bonds had an exceptional quarter and were the best performing sector. They generated relatively strong gains for the first 2 months of the year and finally leveled off in March. Investors were relieved that muni's did not lose their tax-exempt status as part of the fiscal cliff deal as many had feared.
- Likewise, corporate bonds had a solid quarter returning almost as much as municipals (better than muni's if single-A rated corporates are included). Superior performance came from both income return due to the larger coupon and capital gains due to spread narrowing. The latter reflects the Federal Reserve's objective to move investors out of cash and into capital markets further evidenced by the stock market's recent new all-time high.
- Moderate economic expansion has so far corresponded to job growth only slightly faster than population growth. Therefore the unemployment rate should only come down slowly and the consensus still expects the Fed to continue their monthly purchases of Treasury and Agency bonds through 2013 although the Fed may taper the amount somewhat.
- Besides Fed purchases, ongoing issues in the Eurozone such as Italy's failure to form a government post-election will keep Treasury bonds bid among European investors as well as export-oriented economies in Asia with growing foreign-exchange reserves that require Treasury bonds to absorb their U.S. dollars.
- As always, we strive to maintain safety of principal and appropriate liquidity, while maximizing value through careful, prudent 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

<b>Total Portfolio Value<sup>1,2</sup></b>		<b>March 31, 2013</b>	<b>December 31, 2012</b>					
	Market Value	<b>\$56,974,924.17</b>	\$55,826,429.77					
	Amortized Cost	<b>\$56,757,395.46</b>	\$55,567,302.08					
<b>Total Return<sup>1,2,3,4,5,6,7,8</sup></b>		<b>Quarterly Return March 31, 2013</b>	<b>Calendar Year to Date</b>	<b>Last 12 Months</b>	<b>Last 2 Years</b>	<b>Last 5 Years</b>	<b>Since Inception December 31, 2005</b>	
<b>Investment Portfolio</b>		<b>0.12%</b>	<b>0.12%</b>	<b>0.79%</b>	<b>1.34%</b>	<b>2.29%</b>	<b>3.54%</b>	
Merrill Lynch 1-3 Year U.S. Treasury Index		0.12%	0.12%	0.64%	1.03%	1.75%	3.16%	
<b>Effective Duration(Years)<sup>4</sup></b>		<b>March 31, 2013</b>	<b>December 31, 2012</b>		<b>Yields</b>		<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>Investment Portfolio</b>		<b>1.76</b>	<b>1.81</b>		Yield at Market		<b>0.29%</b>	0.29%
Merrill Lynch 1-3 Year U.S. Treasury Index		1.79	1.80		Yield at Cost		<b>0.58%</b>	0.61%
Portfolio Duration % of Benchmark Duration		98%	100%					

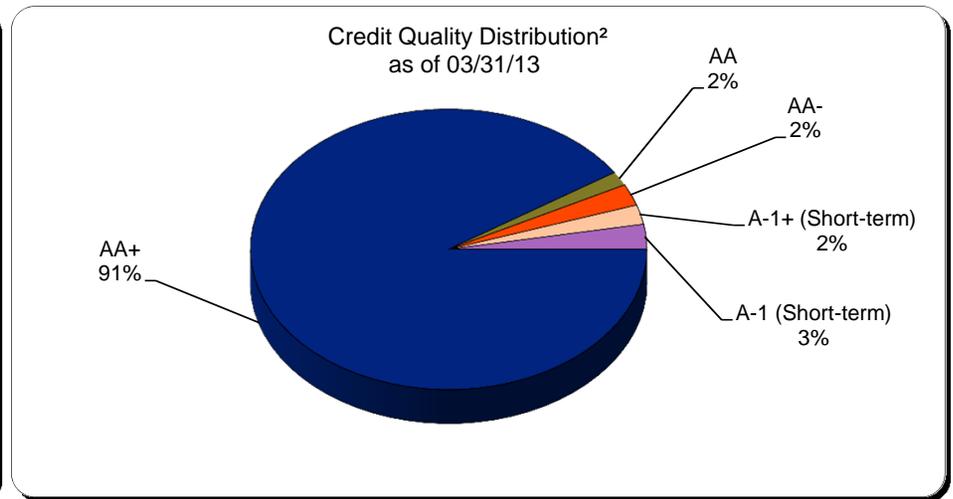
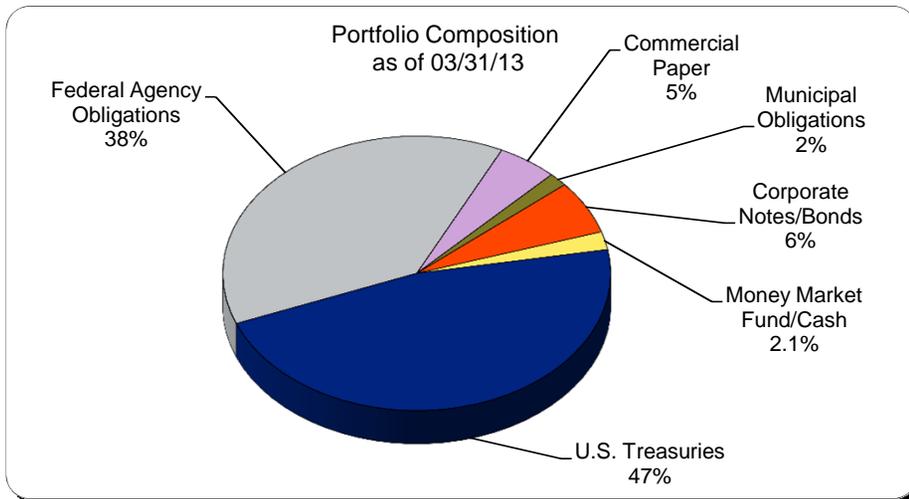


Notes:

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 Type<sup>1</sup></u>	<u>March 31, 2013</u>	<u>% of Portfolio</u>	<u>December 31, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$26,670,880.69	46.8%	\$26,480,233.89	47.4%
Federal Agencies	21,761,572.66	38.2%	22,227,347.90	39.8%
Commercial Paper	2,849,263.50	5.0%	2,748,593.50	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	906,972.00	1.6%	905,001.00	1.6%
Corporate Notes/Bonds	3,583,334.65	6.3%	3,301,731.09	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	1,202,900.67	2.1%	163,522.39	0.3%
<b>Totals</b>	<b>\$56,974,924.17</b>	<b>100.0%</b>	<b>\$55,826,429.77</b>	<b>100.0%</b>

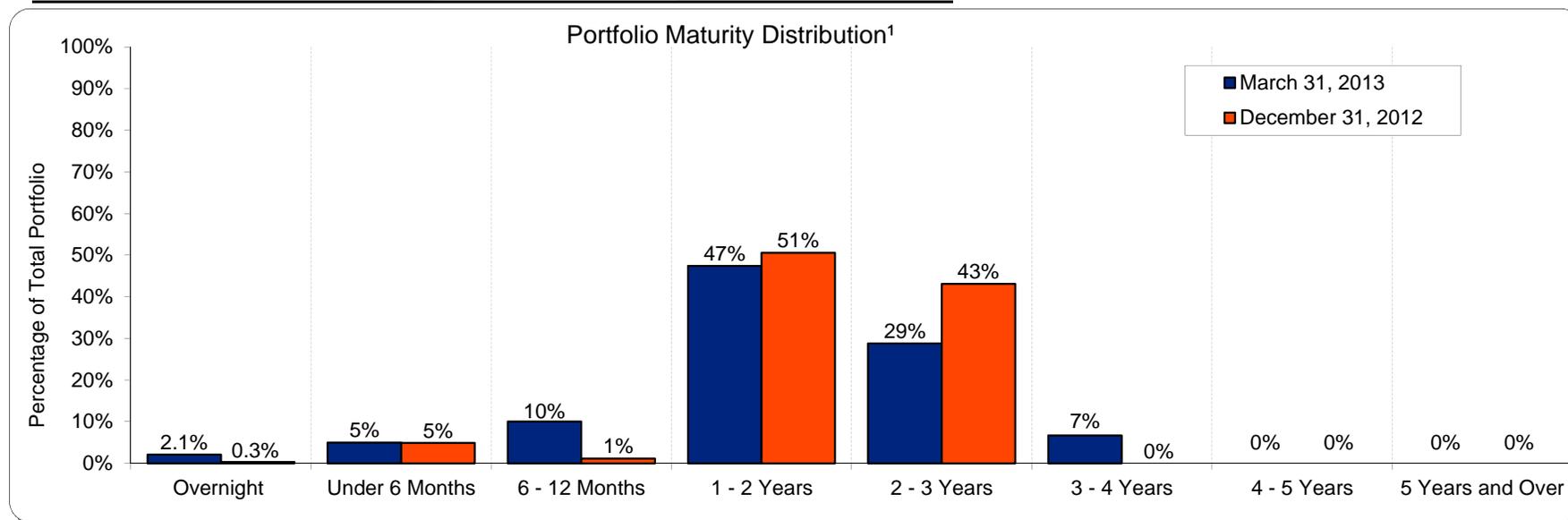


Notes:

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 Maturity Distribution

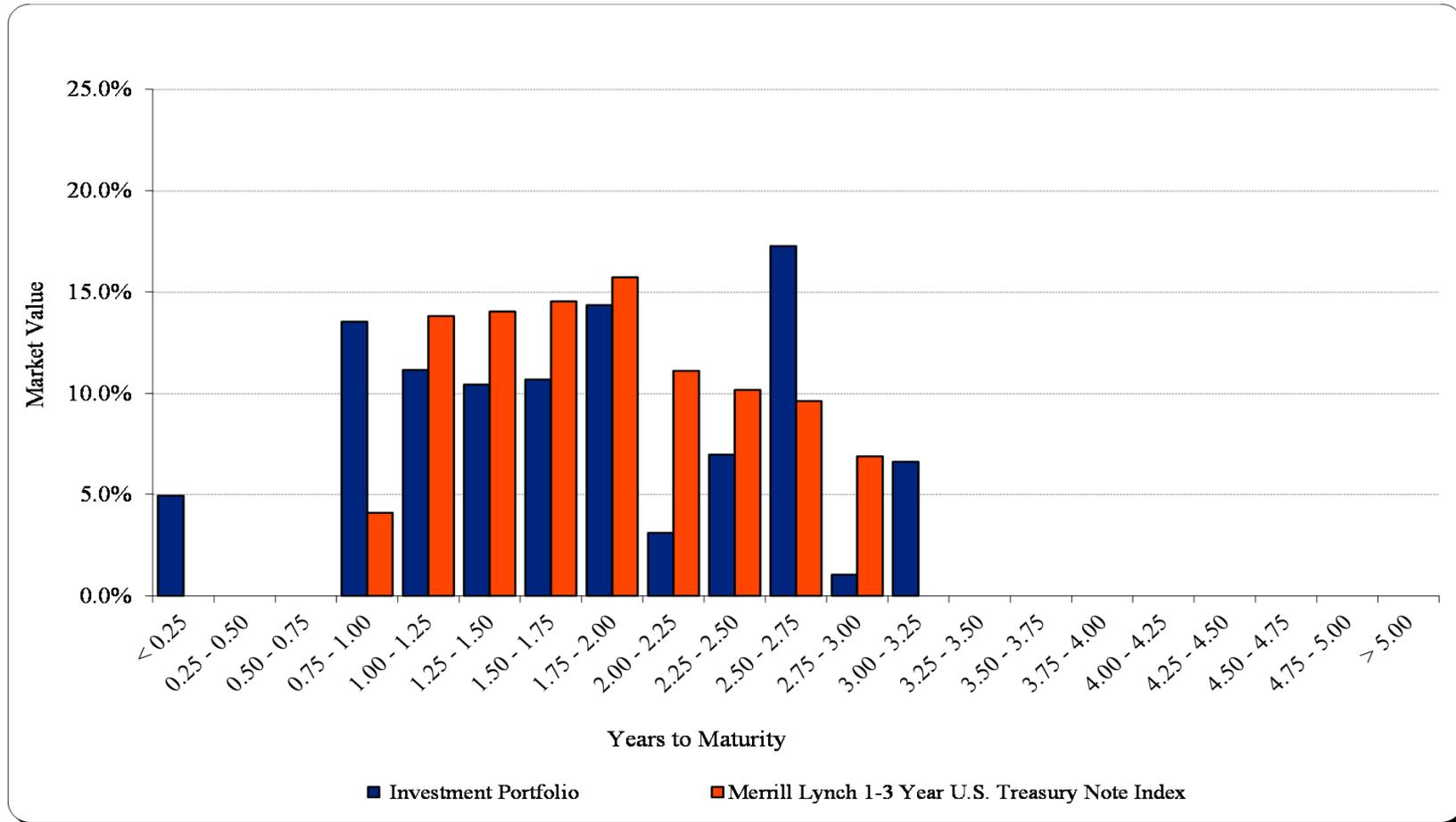
<u>Maturity Distribution<sup>1</sup></u>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Overnight (Money Market Fund)	\$1,202,900.67	\$163,522.39
Under 6 Months	2,849,263.50	2,748,593.50
6 - 12 Months	5,701,364.71	616,731.44
1 - 2 Years	27,001,625.12	28,239,328.06
2 - 3 Years	16,403,204.84	24,058,254.38
3 - 4 Years	3,816,565.33	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$56,974,924.17</b>	<b>\$55,826,429.77</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.

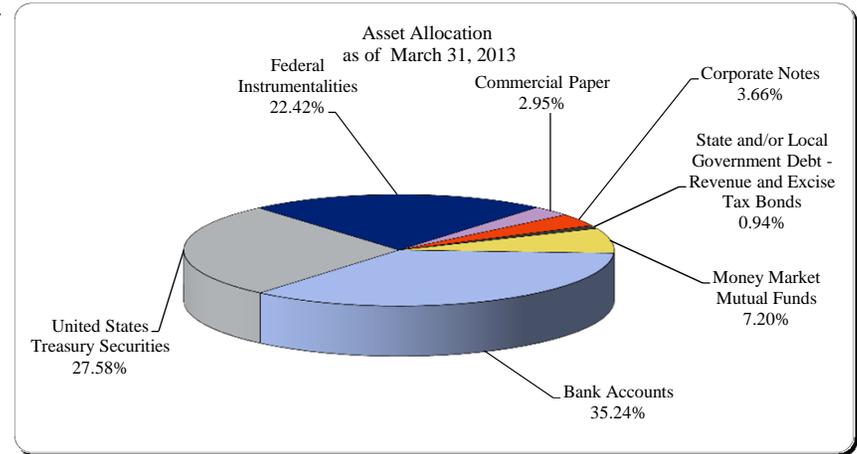
Investment Portfolio Maturity Distribution versus the Benchmark<sup>1</sup>



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>a</sup>	March 31, 2013	Notes	Permitted by Policy
Florida SBA Prime Fund and Fund B	0.00%	2	100%
United States Treasury Securities	27.58%		100%
United States Government Agency Securities	0.00%		100%
Federal Instrumentalities	22.42%	1	100%
Mortgage-Backed Securities	0.00%	1	40%
Certificates of Deposit	0.00%		10%
Repurchase Agreements	0.00%		20%
Commercial Paper	2.95%		25%
Corporate Notes	3.66%		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	0.94%		10%
Money Market Mutual Funds	7.20%		20%
Intergovernmental Investment Pool	0.00%		25%
Bank Accounts	35.24%	2	100%



Individual Issuer Breakdown	March 31, 2013	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)	2.08%		40%
Federal National Mortgage Association (FNMA)	12.75%		40%
Federal Home Loan Mortgage Corporation (FHLMC)	7.60%		40%

Individual Issuer Breakdown	March 31, 2013	Notes	Permitted by Policy
Toyota Commercial Paper	1.29%		5%
Bank of Tokyo Mitsubishi Commercial Paper	1.66%		5%
General Electric Corporate Notes	1.79%		5%
Berkshire Hathaway Corporate Notes	0.44%		5%
Toyota Corporate Notes	1.44%		10%
Regional Trans Authority, IL Revenue Bond	0.94%		10%
PFM Funds Prime Series Money Market Fund	7.20%		10%
Florida Prime	0.00%	2, 4	100%
SBA Fund B	0.00%	2, 4	N/A
City National Bank Account	35.24%	2	100%

Notes:

- The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 100%. The combined total as of March 31, 2013 is 22.42%.
  - Managed by the City.
  - End of month trade-date amortized cost of portfolio holdings, including accrued interest.
  - Florida Prime and SBA Fund B balances were not available at the time this report was finalized.
- \* 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**