TOWN OF FOUNTAIN HILLS

Investment Performance Review

For the Quarter Ended March 31, 2018

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QUARTERLY MARKET SUMMARY

SUMMARY

- The first quarter was characterized by a spike in volatility associated with an equity market correction, talks of tariffs and trade wars, a modest uptick in inflation, and a panoply of geopolitical concerns. Despite healthy fundamentals and a robust global economic backdrop, "risk-off" sentiment began to take hold of the financial markets. For the first time in nearly 10 years, both the stock market and bond market posted losses for the quarter.
- During the quarter, President Trump signed a $1.3 trillion omnibus spending bill which averted a government shutdown, significantly increased military spending, and increased funding in a variety of discretionary areas, including background checks for gun purchases, election security, infrastructure, the opioid crisis, child care, low-income housing, the National Park Service, veterans' hospitals, pay raises for the troops, school safety, and border security. As a result, the Congressional Budget Office (CBO) now estimates that the federal budget deficit will exceed $1 trillion per year by 2020.
- Under new Federal Reserve (Fed) chair Jay Powell, the Federal Open Market Committee (FOMC) raised the short-term federal funds target rate 0.25% to a new range of 1.50 to 1.75% at its March meeting. While widely anticipated, the March rate hike indicates the Fed remains committed to its well-defined and well-telegraphed path of monetary policy tightening. Expectations point to two or three more rate hikes over the balance of 2018, with additional hikes likely in 2019 and 2020 as well.
- Bond yields continued their ascent over the quarter, with the two-year Treasury reaching a near-decade high. Meanwhile, the S&P 500 index dipped into negative territory for the quarter—the first negative quarter for the headline index since the third quarter of 2015. International indices also posted declines for the quarter, but a weaker U.S. dollar helped temper those relative losses.

ECONOMIC SNAPSHOT

- Economic data continues to support growth and optimism (both business and consumer) as a myriad of indicators reached or remained at multi-year bests during the quarter, including the unemployment rate, consumer confidence, productivity, and manufacturing.
- The U.S. economy posted solid results last year, as the Gross Domestic Product (GDP) for the fourth quarter was revised up to show a real growth rate of 2.9%, after back-to-back readings in excess of 3.0% the prior two quarters. In the midst of eight straight years of domestic economic expansion, global growth is now in synchrony with nearly every advanced economy around the globe, including the Eurozone, Japan, and China, showing positive growth rates.
- The U.S. labor market remained strong as the unemployment rate hovered at a 17-year low of 4.1%. The economy also posted positive net job gains for consecutive months dating back to the fourth quarter of 2010. Meanwhile, wages are beginning to gain some traction, as average hourly earnings—an important measure of wage growth—increased 2.7% over the past year.

INTEREST RATES

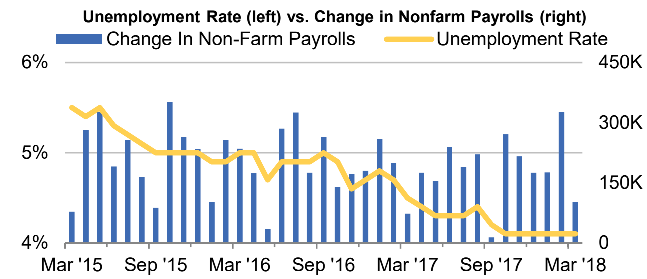
- U.S. Treasury yields rose across the yield curve, as the yield on the 2-year increased 38 basis points (bps) from 1.88 to 2.26%, while the yield on a 10-year increased 33 bps from 2.40 to 2.73%. Although the yield curve initially steepened early in the quarter, as longer-term rates moved up in response to a modest uptick in inflation expectations, the flattening trend ultimately resumed, retreating to post-recession tight levels by quarter-end.
- Money market investors have reaped the benefits of the Fed's rate increases as yields on securities with maturities less than one year continued to reflect rising short-term rates. In addition, a huge surge in the supply of U.S. Treasury bills pushed shorter-term yields higher still.
- After years of tightening yield spreads, the spike in market volatility caused spreads on corporates and other non-government sectors to widen sharply.

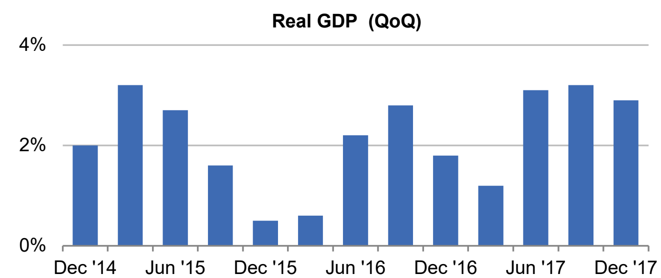
SECTOR PERFORMANCE

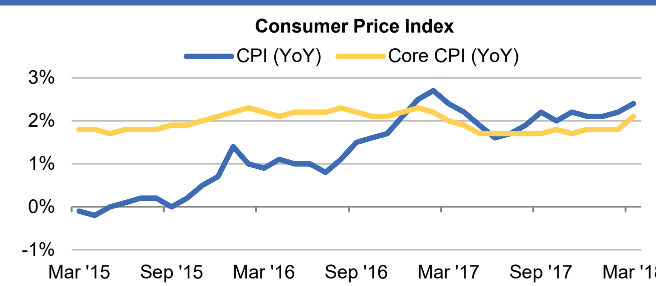
- The continued federal fund rate hikes resulted in negative returns for most bond indices, with longer maturities performing worst. Although higher yields provide greater income over time, that income was not sufficient to offset the adverse impact of increasing interest rates on fixed income prices.
- Although Federal Agency returns were also negative, they generated returns slightly more positive than similar duration Treasuries as their modest incremental income was a slight benefit.
- The municipal sector provided some reprieve for fixed income investors during the quarter as returns were positive and outperformed most other investment-grade (IG) alternatives. The large decline in new issuance in the first quarter, caused by tax changes enacted in the fourth quarter, created a supply/demand imbalance that benefited the sector.
- IG corporate yield spreads ended the quarter wider, resulting in the sector being one of the worst performing fixed-income sectors in the first quarter. Despite the poor quarter, trailing returns over longer time periods remain strong, and the underlying strength of corporate fundamentals remains intact.
- The mortgage-backed securities (MBS) sector struggled to find footing during the quarter as low yield spreads, upcoming seasonal supply, and Fed balance sheet unwinding continued to weigh on investor demand. As a result, the sector generated a negative excess return for the quarter.
- Short-term commercial paper (CP) and bank Certificates of Deposit (CDs) offered even greater incremental value in the first quarter as short-term yields rose in response to the burgeoning Treasury supply, and credit spreads widened. The incremental yield advantage offered in these sectors continues to be a valuable return attribute in the face of rising rates.

Economic Snapshot

Labor Market		Latest	Dec '17	Mar '17
Unemployment Rate	Mar '18	4.1%	4.1%	4.5%
Change In Non-Farm Payrolls	Mar '18	103,000	175,000	73,000
Average Hourly Earnings (YoY)	Mar '18	2.7%	2.7%	2.6%
Personal Income (YoY)	Feb '18	3.7%	4.3%	3.4%
Initial Jobless Claims (week)	4/7/18	233,000	248,000	241,000
Growth				
Real GDP (QoQ SAAR)	2017 Q4	2.9%	3.2%[1]	1.8%[2]
GDP Personal Consumption (QoQ SAAR)	2018 Q4	4.0%	2.2%[1]	2.9%[2]
Retail Sales (YoY)	Mar '18	4.5%	5.1%	4.9%
ISM Manufacturing Survey (month)	Mar '18	59.3	59.3	56.6
Existing Home Sales SAAR (month)	Feb '18	5.54 mil.	5.56 mil.	5.67 mil.
Inflation / Prices				
Personal Consumption Expenditures (YoY)	Feb '18	1.8%	1.7%	1.8%
Consumer Price Index (YoY)	Mar '18	2.4%	2.1%	2.4%
Consumer Price Index Core (YoY)	Mar '18	2.1%	1.8%	2.0%
Crude Oil Futures (WTI, per barrel)	3/31/18	$64.94	$60.42	$50.60
Gold Futures (oz.)	3/31/18	$1,323	$1,309	$1,247



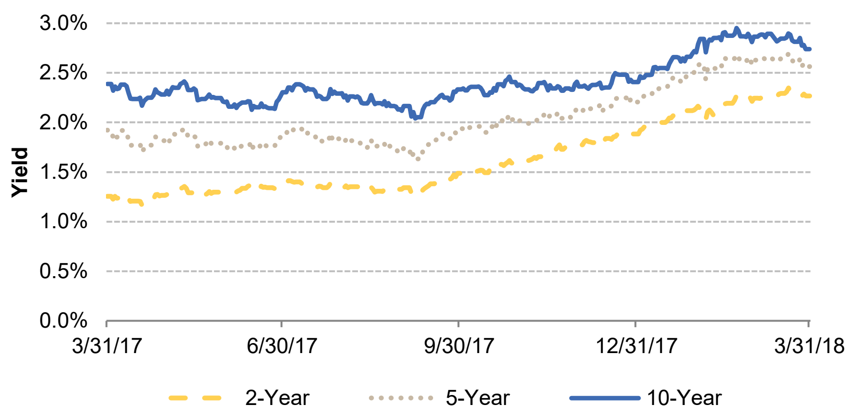




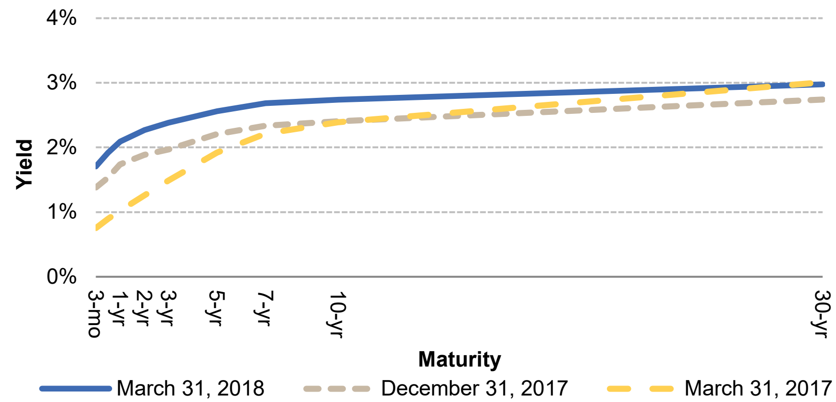
1. Data as of Third Quarter 2017.
2. Data as of Fourth Quarter 2016.
Note: YoY = year-over-year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil.
Source: Bloomberg.

Interest Rate Overview

U.S. Treasury Note Yields



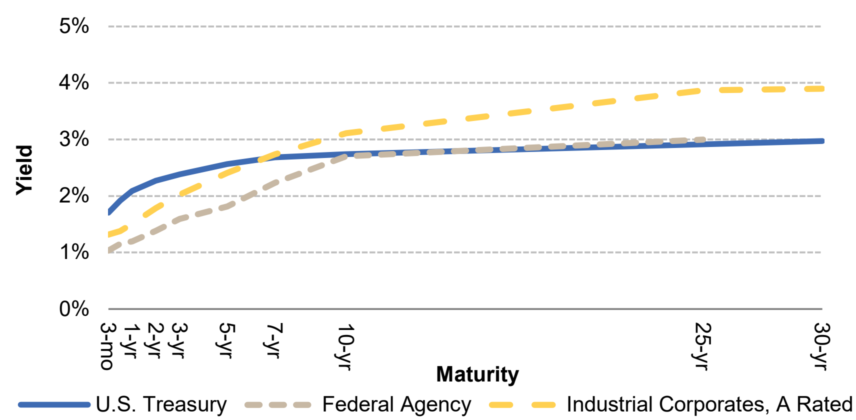
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	Mar '18	Dec '17	Change over Quarter	Mar '17	Change over Year
3-month	1.71%	1.38%	0.33%	0.75%	0.96%
1-year	2.09%	1.74%	0.35%	1.02%	1.07%
2-year	2.27%	1.89%	0.38%	1.26%	1.01%
5-year	2.56%	2.21%	0.35%	1.92%	0.64%
10-year	2.74%	2.41%	0.33%	2.39%	0.35%
30-year	2.97%	2.74%	0.23%	3.01%	(0.04%)

Yield Curves as of 3/31/18



Source: Bloomberg.

ICE BofAML Index Returns

	As of 3/31/18		Returns for Periods ended 3/31/18		
March 31, 2018	**Duration**	**Yield**	**3-Month**	**1-Year**	**3-Years**
1-3 Year Indices					
U.S. Treasury	1.80	2.27%	(0.13%)	0.03%	0.40%
Federal Agency	1.74	2.31%	(0.02%)	0.32%	0.58%
U.S. Corporates, A-AAA rated	1.81	2.90%	(0.41%)	0.65%	1.15%
Agency MBS (0 to 3 years)	2.38	2.57%	0.01%	0.99%	1.05%
Taxable Municipals	1.49	2.76%	0.25%	1.69%	1.83%
1-5 Year Indices					
U.S. Treasury	2.59	2.36%	(0.38%)	(0.10%)	0.47%
Federal Agency	2.10	2.36%	(0.18%)	0.26%	0.65%
U.S. Corporates, A-AAA rated	2.61	3.04%	(0.80%)	0.62%	1.31%
Agency MBS (0 to 5 years)	3.27	2.75%	(0.61%)	0.52%	0.92%
Taxable Municipals	2.23	2.84%	0.13%	1.62%	1.99%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.24	2.55%	(1.21%)	0.51%	0.47%
Federal Agency	3.86	2.53%	(0.53%)	0.85%	0.94%
U.S. Corporates, A-AAA rated	6.97	3.50%	(2.31%)	2.11%	1.96%
Agency MBS (0 to 30 years)	5.03	3.26%	(1.21%)	0.74%	1.10%
Taxable Municipals	10.63	3.88%	(1.73%)	6.82%	3.73%

Returns for periods greater than one year are annualized.

Source: ICE BofAML Indices.

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Portfolio Recap

- A long list of positive economic data remains a key driver of economic growth, consumer confidence, and business optimism.
  - GDP posted an upward revision of fourth-quarter GDP to 2.9%.
  - Estimates for 2018 GDP call for growth in the range of 2.7% to 2.8%.
  - Jobs growth continued to strengthen, averaging over 200,000 per month in the first quarter.
  - The unemployment rate remained at 4.1%—a 17-year low.
  - Productivity hit a 2-year high.
  - Manufacturing reached a 3-year high.
  - Consumer confidence rebounded after a dampened fourth quarter and now sits at a 14-year high.
  - Inflation, while below the Fed’s target of 2%, inched higher by most measures.
- New Fed Chair Jerome Powell made his first public address at February’s semi-annual monetary policy report to Congress. His maiden testimony hinted at a continuance of gradual rate hikes while acknowledging that “the economic outlook remains strong” and the expectation for inflation to increase and closely approach the FOMC’s 2% objective remains intact.
- The Fed remained true to its stated course, raising short-term rates by ¼ percent in March, and interest rates continued their ascent over the quarter. As a result, we strategically positioned the portfolio with a defensive duration bias relative to the benchmark to help insulate market values in the well-choreographed interest rate environment. However, with rates at or near multi-year highs, there were also opportunities to capture higher yields selectively in some parts of the yield curve when rebalancing the portfolio.

Portfolio Recap

- The combined effects of less predictable U.S. politics and policy (e.g., tariffs, trade wars, Facebook, global relations, budget deficits, etc.) created an environment of heightened volatility. The “risk off” sentiment triggered wider credit spreads.
  - Wider spreads caused corporate-related investments to underperform for the quarter. While portfolios typically benefit from increased credit allocations, returns in the first quarter were negatively affected.
  - Federal agency yield spreads remained very narrow throughout the quarter. New issue agencies continued to be our preferred—in some cases only—outlet to add exposure at relatively attractive yields. Generally, the agency sector added modest positive excess returns in the first quarter (returns in excess of similar-duration Treasuries) across much of the yield curve, benefiting portfolio performance.
  - Supranational seasonal supply increased as expected in the first quarter, and we utilized the opportunity to increase allocations in the sector at attractive yield spreads. This incremental income helped boost sector returns.
  - After yield spreads in the corporate sector reached another new post-recession low in January, we shifted our generally constructive view of the corporate sector to a slightly more defensive posture by holding current positions (and letting them drift shorter over time) rather than adding to allocations. In the latter half of the quarter, the story shifted abruptly as market volatility pushed credit spreads markedly wider through quarter-end. As a result, we began to add corporate exposure (including negotiable CDs) more aggressively again in March.

Outlook and Strategy

- The economic themes of the previous quarter have carried over into 2018: healthy job production, consistent GDP growth, positive corporate guidance, and heightened consumer confidence. However, where complacency had characterized the global markets quarter after quarter, volatility roared back in the first quarter. While rising volatility increases some market risks, it can also create investment opportunities.

- Our outlook for each of the major investment-grade fixed income sectors is as follows:

  - In the corporate sector, our view is that recent yield spread widening represents a modest normalization of spreads off of post-recession lows as opposed to a weakening in fundamentals. As such, wider spreads present an opportunity to selectively add to allocations that have become less expensive. While corporate fundamentals remain healthy and the outlook for the sector is still positive, careful issuer due diligence will drive selection. In particular, we are closely watching the supply/demand impacts of corporate profit repatriation (prompted by the December 2017 tax cuts) and signs of excessive balance sheet leverage in companies in certain industries.

  - Negotiable CDs remain an attractively priced credit sector, and we will continue to source new exposure.

  - Federal agency securities remain expensive, as spreads are in the low single digits across much of the yield curve; however, by quarter end, specific agency maturities (2- and 5-year) were more attractively priced, representing an opportunity to potentially increase allocations.

  - The expected spike in supranational issuance is approaching its seasonal slowdown. Over the next few months, this supply dynamic may nudge spreads temporarily wider and offer additional investment opportunities. Our current strategy calls for continuing to add to allocations of supranationals as an attractive alternative to Treasuries and agencies.

  - The short-term credit curve (under one year) steepened noticeably heading into the March Fed meeting and remained elevated through quarter end. With 6-month prime commercial paper and negotiable certificates of deposit spreads at 50 to 60 basis points over comparable Treasury securities, the sector appears very attractive and compensates investors for at least two more fed rate hikes in 2018.

Sector Allocation and Compliance

- The portfolio is in compliance with the Town's Investment Policy and the Arizona Revised Statutes.

Security Type	Market Value	% of Portfolio	% Change vs. 12/31/17	Permitted by Policy	In Compliance
U.S. Treasury	$2,647,403	19.6%	-7.7%	100%	✓
Federal Agency	$4,266,697	31.6%	-4.8%	100%	✓
Federal Agency Discount Note	$249,622	1.8%	+1.8%	100%	✓
Supranationals	$589,206	4.4%	+0.5%	100%	✓
Negotiable CDs	$1,252,808	9.3%	+3.7%	30%	✓
Corporate Notes	$2,104,717	15.6%	+1.9%	30%	✓
Commercial Paper	$1,839,124	13.6%	+13.6%	30%	✓
Securities Sub-Total	**$12,949,577**	**95.9%**			
Accrued Interest	$45,068				
Securities Total	**$12,994,645**				
Money Market Fund	$547,560	4.1%	-9.0%	100%	✓
Total Investments	**$13,542,205**	**100.0%**			

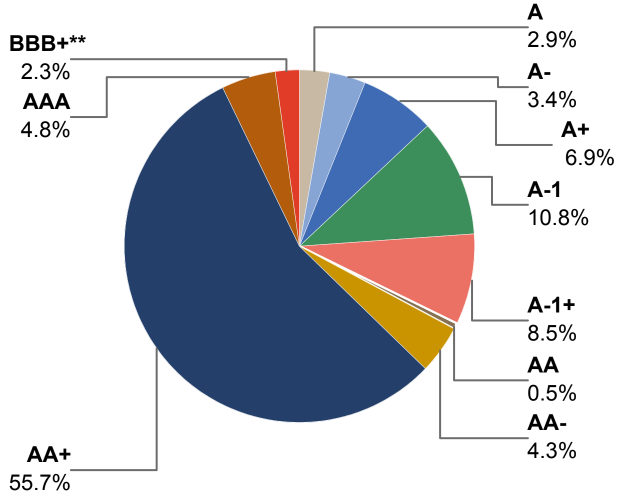
As of 3/31/2018. Detail may not add to total due to rounding.

Portfolio Statistics

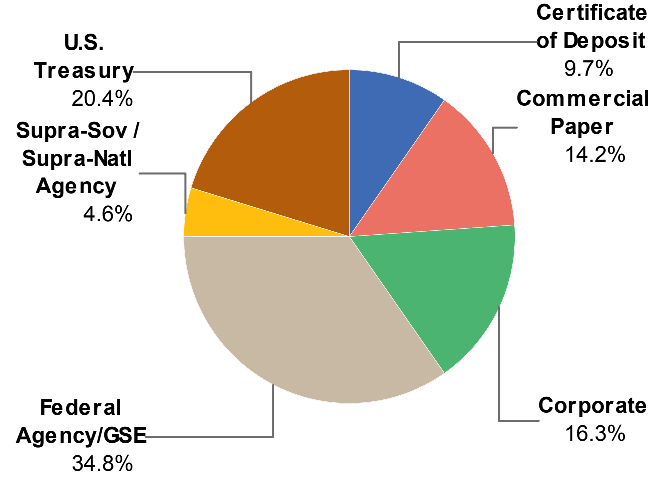
As of March 31, 2018

Par Value:	$13,125,000
Total Market Value:	$13,542,205
Security Market Value:	$12,949,577
Accrued Interest:	$45,068
Cash:	$547,560
Amortized Cost:	$13,109,211
Yield at Market:	2.35%
Yield at Cost:	1.59%
Effective Duration:	1.37 Years
Duration to Worst:	1.38 Years
Average Maturity:	1.42 Years
Average Credit: *	AA

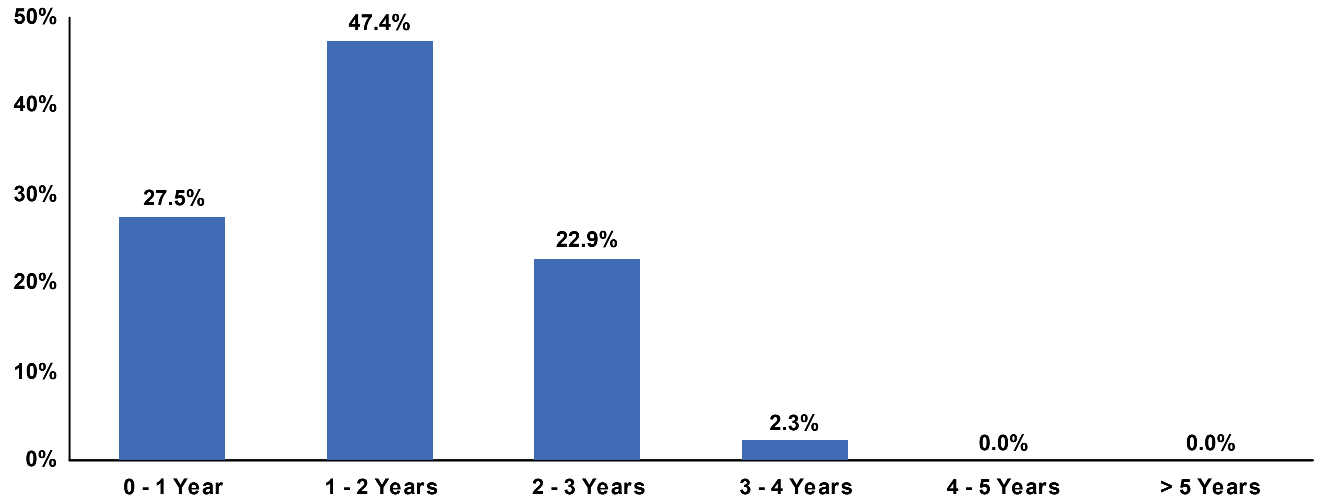
Credit Quality (S&P Ratings)



Sector Allocation



Maturity Distribution

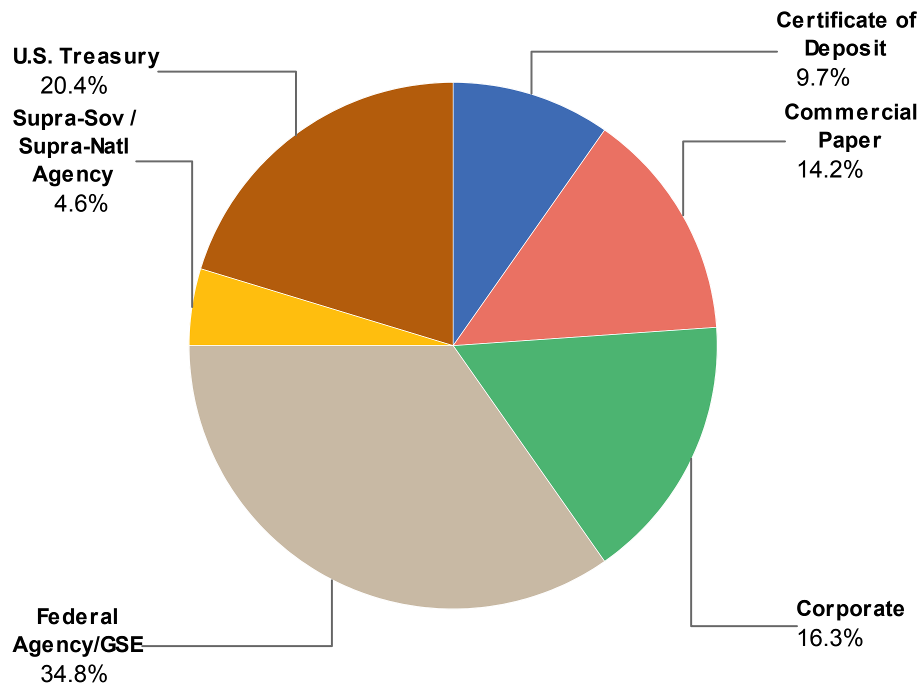


*An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.
**The "BBB+" category comprises securities rated A or better by Moody's and/or Fitch.

Sector Allocation

As of March 31, 2018

Sector	Market Value ($)	% of Portfolio
Federal Agency/GSE	4,516,319	34.8%
U.S. Treasury	2,647,403	20.4%
Corporate	2,104,717	16.3%
Commercial Paper	1,839,124	14.2%
Certificate of Deposit	1,252,808	9.7%
Supra-Sov / Supra-Natl Agency	589,206	4.6%
Total	**$12,949,577**	**100.0%**



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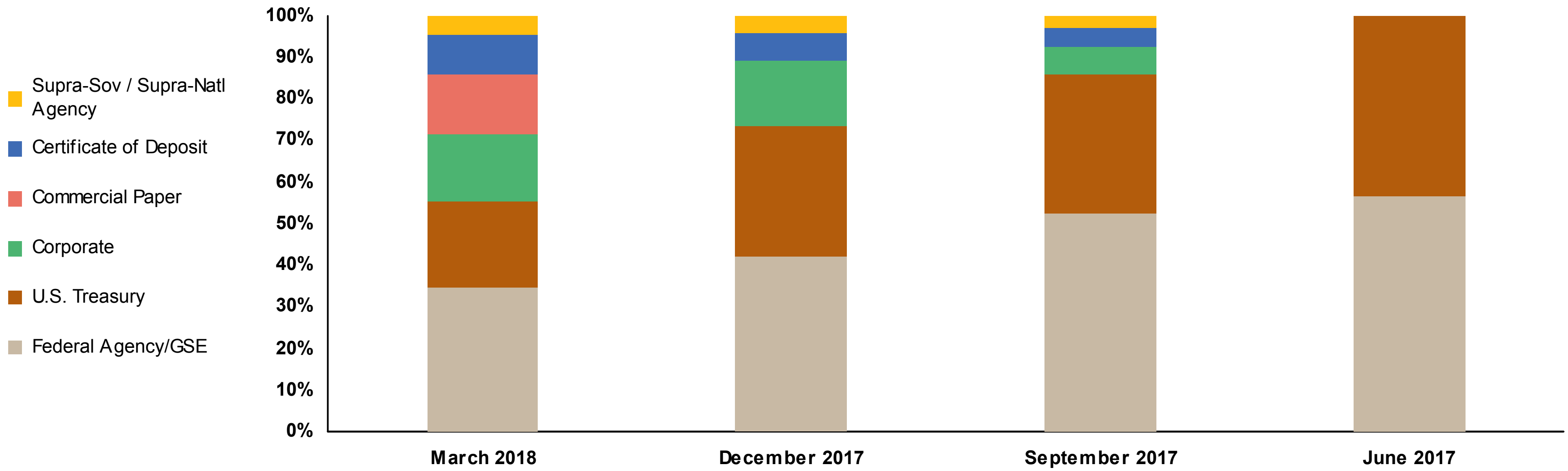
Sector Allocation

	March 31, 2018		December 31, 2017		September 30, 2017		June 30, 2017	
Sector	**MV ($MM)**	**% of Total**	**MV ($MM)**	**% of Total**	**MV ($MM)**	**% of Total**	**MV ($MM)**	**% of Total**
Federal Agency/GSE	4.5	34.8%	5.7	41.9%	8.1	52.3%	8.8	56.5%
U.S. Treasury	2.6	20.4%	4.2	31.5%	5.2	33.6%	6.7	43.5%
Corporate	2.1	16.3%	2.1	15.8%	1.0	6.6%	0.0	0.0%
Commercial Paper	1.8	14.2%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Certificate of Deposit	1.3	9.7%	0.9	6.4%	0.7	4.6%	0.0	0.0%
Supra-Sov / Supra-Natl Agency	0.6	4.6%	0.6	4.4%	0.4	2.9%	0.0	0.0%
Total	**$12.9**	**100.0%**	**$13.5**	**100.0%**	**$15.5**	**100.0%**	**$15.5**	**100.0%**



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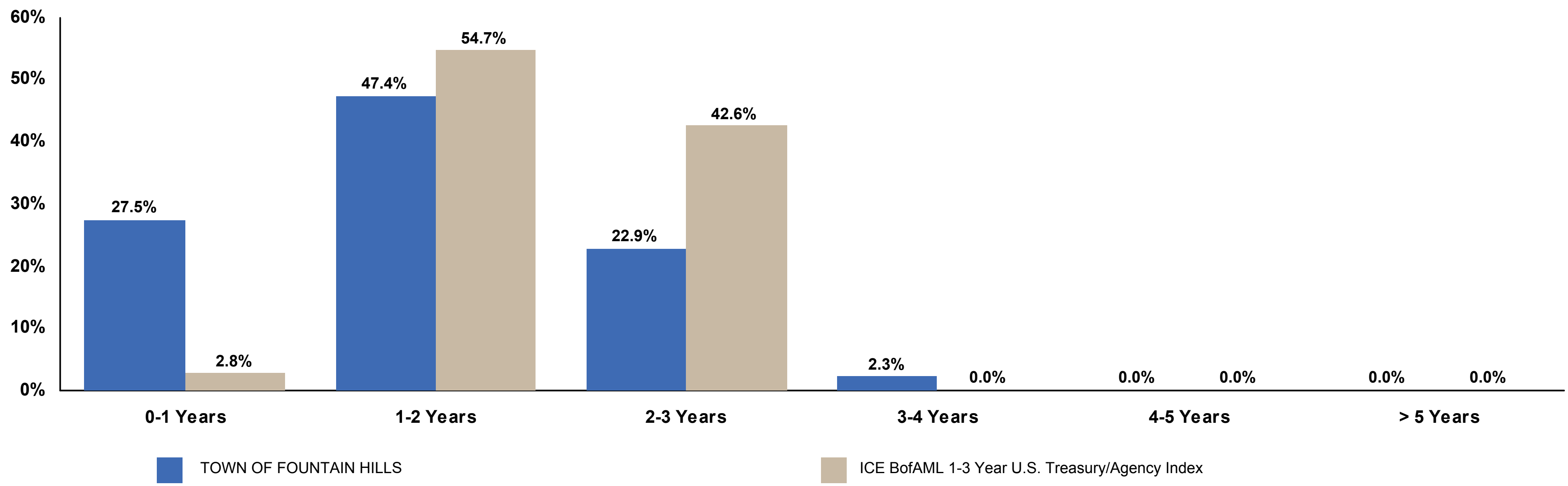
Maturity Distribution

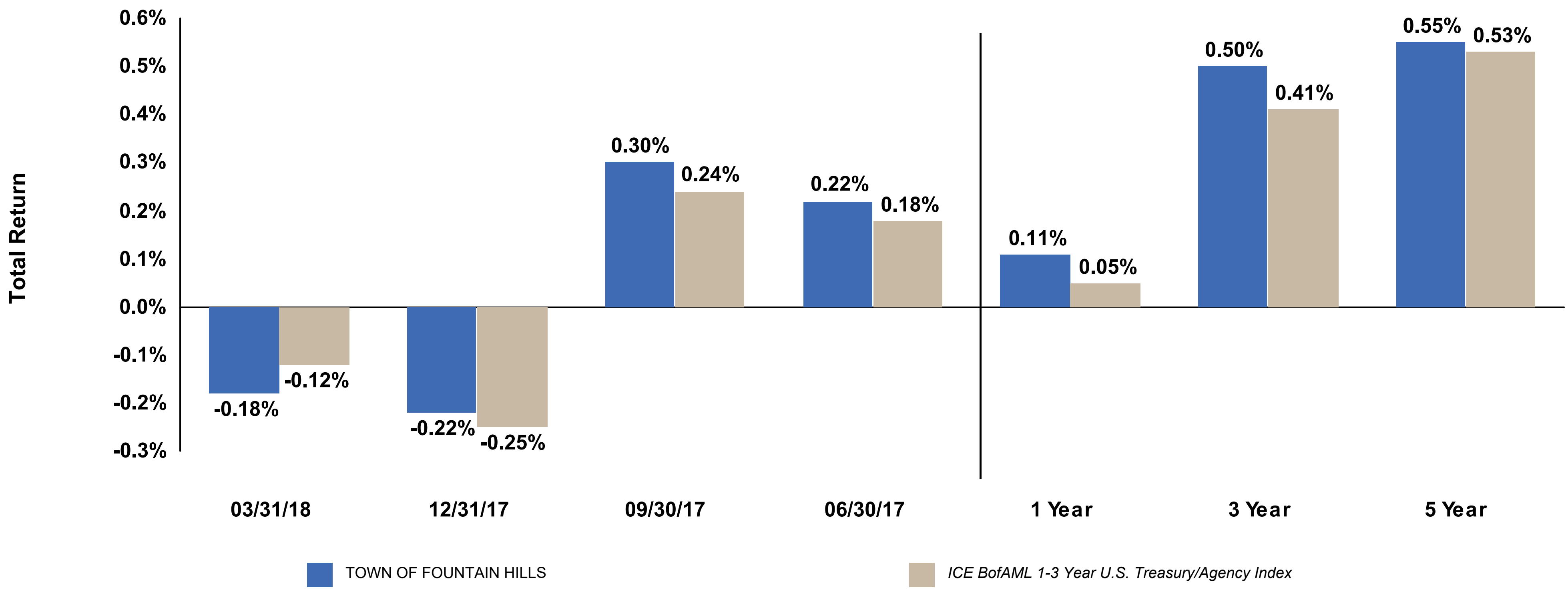
As of March 31, 2018

Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
TOWN OF FOUNTAIN HILLS	2.35%	1.42 yrs	27.5%	47.4%	22.9%	2.3%	0.0%	0.0%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index	*2.29%*	*1.93 yrs*	*2.8%*	*54.7%*	*42.6%*	*0.0%*	*0.0%*	*0.0%*



Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended 03/31/18	12/31/17	09/30/17	06/30/17	1 Year	Annualized Return 3 Year	5 Year
TOWN OF FOUNTAIN HILLS*	1.37	-0.18%	-0.22%	0.30%	0.22%	0.11%	0.50%	0.55%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index	*1.79*	*-0.12%*	*-0.25%*	*0.24%*	*0.18%*	*0.05%*	*0.41%*	*0.53%*
Difference		-0.06%	0.03%	0.06%	0.04%	0.06%	0.09%	0.02%



**Portfolio performance is gross of fees unless otherwise indicated.*

Portfolio Earnings

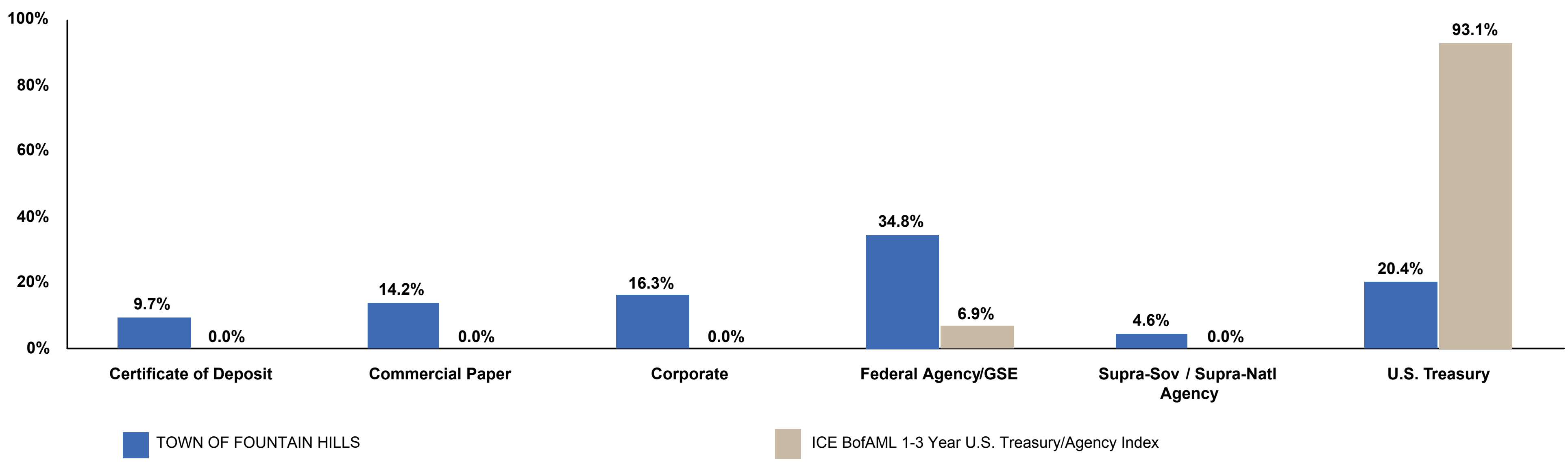
Quarter-Ended March 31, 2018

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (12/31/2017)	$13,488,915.54	$13,609,455.55
Net Purchases/Sales	($465,547.57)	($465,547.57)
Change in Value	($73,791.16)	($34,697.05)
Ending Value (03/31/2018)	$12,949,576.81	$13,109,210.93
Interest Earned	$48,500.49	$48,500.49
Portfolio Earnings	($25,290.67)	$13,803.44

Sector Allocation

As of March 31, 2018

Sector	Market Value ($)	% of Portfolio	% of Benchmark
Federal Agency/GSE	4,516,319	34.8%	*6.9%*
U.S. Treasury	2,647,403	20.4%	*93.1%*
Corporate	2,104,717	16.3%	-
Commercial Paper	1,839,124	14.2%	-
Certificate of Deposit	1,252,808	9.7%	-
Supra-Sov / Supra-Natl Agency	589,206	4.6%	-
Total	**$12,949,577**	**100.0%**	***100.0%***



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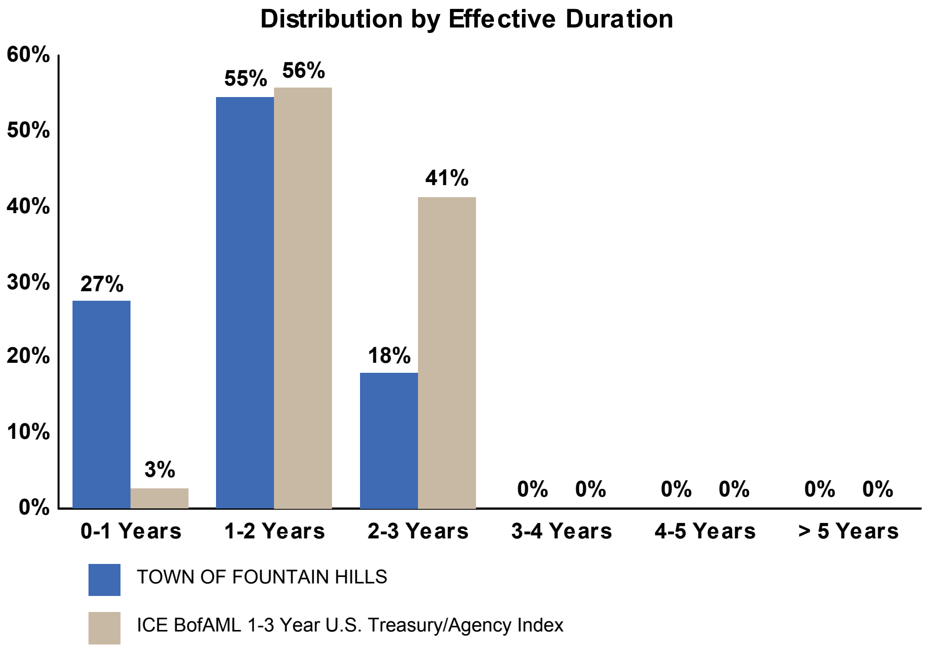
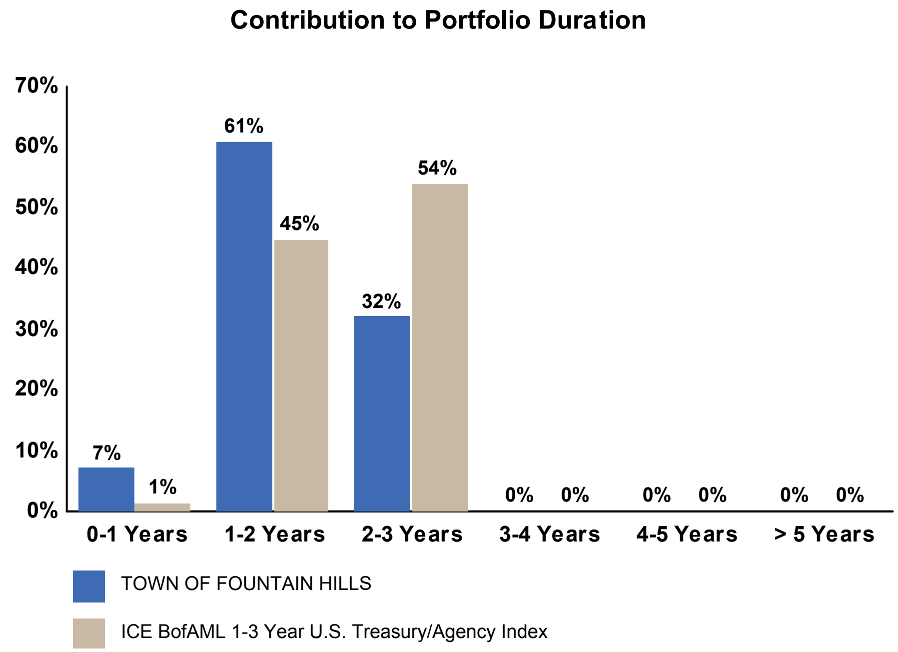
Duration Distribution

As of March 31, 2018

Portfolio / Benchmark	Effective Duration	0-1 YEARS	1-2 YEARS	2-3 YEARS	3-4 YEARS	4-5 YEARS	> 5 YEARS
TOWN OF FOUNTAIN HILLS	1.37	27.5%	54.6%	18.0%	0.0%	0.0%	0.0%
ICE BofAML 1-3 Year U.S. Treasury/Agency Index	*1.79*	*2.8%*	*55.8%*	*41.4%*	*0.0%*	*0.0%*	*0.0%*

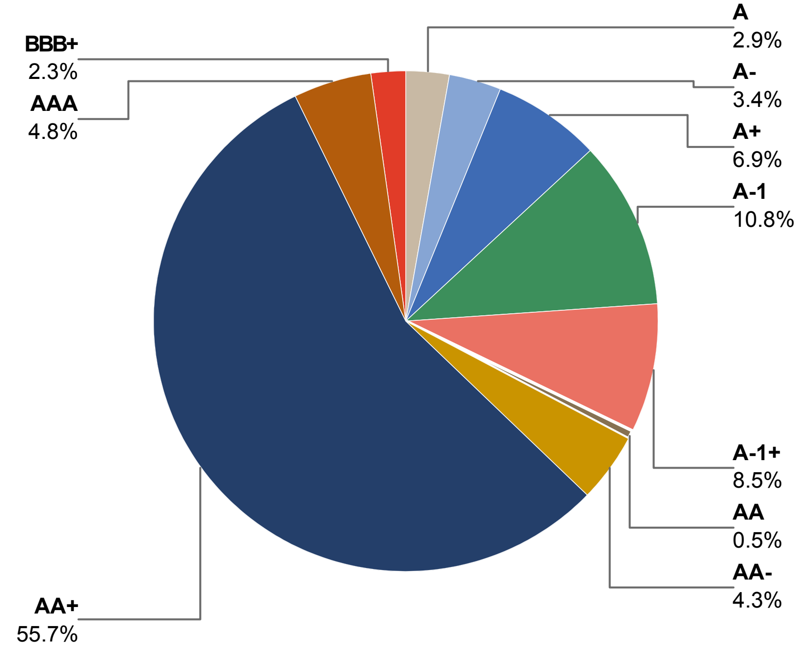




Credit Quality

As of March 31, 2018

S&P Rating	Market Value ($)	% of Portfolio
AA+	$7,209,354	55.7%
A-1	$1,391,789	10.8%
A-1+	$1,095,937	8.5%
A+	$894,037	6.9%
AAA	$623,636	4.8%
AA-	$562,527	4.3%
A-	$436,128	3.4%
A	$372,135	2.9%
BBB+	$294,786	2.3%
AA	$69,247	0.5%
Totals	**$12,949,577**	**100.0%**



Detail may not add to total due to rounding.

Sector/Issuer Distribution

As of March 31, 2018

Sector / Issuer	Market Value ($)	% of Sector	% of Total Portfolio
Certificate of Deposit			
CREDIT SUISSE GROUP	398,980	31.8%	3.1%
MITSUBISHI UFJ FINANCIAL GROUP INC	148,599	11.9%	1.1%
SKANDINAVISKA ENSKILDA BANKEN AB	290,913	23.2%	2.2%
SWEDBANK AB	147,575	11.8%	1.1%
WESTPAC BANKING CORP	266,742	21.3%	2.1%
Sector Total	**1,252,808**	**100.0%**	**9.7%**
Commercial Paper			
BNP PARIBAS	397,729	21.6%	3.1%
CREDIT AGRICOLE SA	396,039	21.5%	3.1%
DEXIA GROUP	398,461	21.7%	3.1%
MITSUBISHI UFJ FINANCIAL GROUP INC	199,042	10.8%	1.5%
TOYOTA MOTOR CORP	447,854	24.4%	3.5%
Sector Total	**1,839,124**	**100.0%**	**14.2%**
Corporate			
AMERICAN EXPRESS CO	146,282	7.0%	1.1%
AMERICAN HONDA FINANCE	147,769	7.0%	1.1%
APPLE INC	147,388	7.0%	1.1%
BANK OF AMERICA CO	146,682	7.0%	1.1%

Sector / Issuer	Market Value ($)	% of Sector	% of Total Portfolio
BB&T CORPORATION	146,207	6.9%	1.1%
CATERPILLAR INC	112,273	5.3%	0.9%
EXXON MOBIL CORP	147,866	7.0%	1.1%
GENERAL ELECTRIC CO	71,789	3.4%	0.6%
GOLDMAN SACHS GROUP INC	148,503	7.1%	1.1%
HONEYWELL INTERNATIONAL	39,474	1.9%	0.3%
IBM CORP	146,560	7.0%	1.1%
INTEL CORPORATION	73,824	3.5%	0.6%
JOHNSON & JOHNSON	34,430	1.6%	0.3%
JP MORGAN CHASE & CO	143,238	6.8%	1.1%
PACCAR FINANCIAL CORP	39,200	1.9%	0.3%
PEPSICO INC	48,758	2.3%	0.4%
TOYOTA MOTOR CORP	148,211	7.0%	1.1%
UNITED PARCEL SERVICE INC	97,803	4.6%	0.8%
VISA INC	49,210	2.3%	0.4%
WAL-MART STORES INC	69,247	3.3%	0.5%
Sector Total	**2,104,717**	**100.0%**	**16.3%**
Federal Agency/GSE			
FANNIE MAE	1,482,875	32.8%	11.5%
FEDERAL HOME LOAN BANKS	1,088,770	24.1%	8.4%
FREDDIE MAC	1,944,674	43.1%	15.0%
Sector Total	**4,516,319**	**100.0%**	**34.9%**
Supra-Sov / Supra-Natl Agency			

Sector / Issuer	Market Value ($)	% of Sector	% of Total Portfolio
AFRICAN DEVELOPMENT BANK	73,669	12.5%	0.6%
INTER-AMERICAN DEVELOPMENT BANK	148,742	25.2%	1.1%
INTL BANK OF RECONSTRUCTION AND DEV	366,796	62.3%	2.8%
Sector Total	**589,206**	**100.0%**	**4.5%**
U.S. Treasury			
UNITED STATES TREASURY	2,647,403	100.0%	20.4%
Sector Total	**2,647,403**	**100.0%**	**20.4%**
Portfolio Total	**12,949,577**	**100.0%**	**100.0%**

Quarterly Portfolio Transactions

Tran. Type	Trade Date	Settle Date	Par ($)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt ($)	Yield	Realized G/L (BV)
INTEREST	1/2/18	1/2/18	0.00	MONEY0002	MONEY MARKET FUND			641.05		
INTEREST	1/17/18	1/17/18	550,000.00	3137EAEE5	FREDDIE MAC NOTES	1.50%	1/17/20	4,125.00		
INTEREST	1/19/18	1/19/18	550,000.00	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	2,406.25		
INTEREST	1/19/18	1/19/18	150,000.00	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	656.25		
INTEREST	1/20/18	1/20/18	65,000.00	02665WBT7	AMERICAN HONDA FINANCE CORP NOTES	1.95%	7/20/20	633.75		
INTEREST	1/23/18	1/23/18	55,000.00	38141GWP5	GOLDMAN SACHS GROUP INC CORP NOTE	1.95%	7/23/19	533.27		
INTEREST	1/23/18	1/23/18	145,000.00	46625HKA7	JPMORGAN CHASE & CO (CALLABLE)	2.25%	1/23/20	1,631.25		
INTEREST	1/28/18	1/28/18	640,000.00	3135G0H63	FNMA BENCHMARK NOTE	1.37%	1/28/19	4,400.00		
INTEREST	1/31/18	1/31/18	850,000.00	912828H52	US TREASURY NOTES	1.25%	1/31/20	5,312.50		
INTEREST	2/1/18	2/1/18	0.00	MONEY0002	MONEY MARKET FUND			118.70		
INTEREST	2/1/18	2/1/18	80,000.00	05531FAZ6	BRANCH BANKING & TRUST (CALLABLE) NOTES	2.15%	2/1/21	453.89		
INTEREST	2/1/18	2/1/18	70,000.00	05531FAZ6	BRANCH BANKING & TRUST (CALLABLE) NOTES	2.15%	2/1/21	397.15		
INTEREST	2/2/18	2/2/18	325,000.00	3135G0N33	FNMA BENCHMARK NOTE	0.87%	8/2/19	1,421.88		
INTEREST	2/2/18	2/2/18	300,000.00	83050FXT3	SKANDINAV ENSKILDA BANKEN NY CD	1.84%	8/2/19	2,790.67		
INTEREST	2/7/18	2/7/18	270,000.00	96121T4A3	WESTPAC BANKING CORP NY CD	2.05%	8/3/20	2,767.50		
INTEREST	2/26/18	2/26/18	750,000.00	3135G0J53	FNMA BENCHMARK NOTE	1.00%	2/26/19	3,750.00		
INTEREST	2/28/18	2/28/18	475,000.00	3135G0P49	FNMA NOTES	1.00%	8/28/19	2,375.00		
INTEREST	2/28/18	2/28/18	105,000.00	912828L32	US TREASURY NOTES	1.37%	8/31/20	721.88		
INTEREST	2/28/18	2/28/18	350,000.00	912828J50	US TREASURY NOTES	1.37%	2/29/20	2,406.25		
INTEREST	3/1/18	3/1/18	0.00	MONEY0002	MONEY MARKET FUND			40.77		

Tran. Type	Trade Date	Settle Date	Par ($)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt ($)	Yield	Realized G/L (BV)
INTEREST	3/4/18	3/4/18	75,000.00	459058GA5	INTL BANK OF RECON AND DEV GLOBAL NOTES	1.62%	9/4/20	626.25		
INTEREST	3/4/18	3/4/18	115,000.00	14913Q2A6	CATERPILLAR FINL SERVICE NOTE	1.85%	9/4/20	1,046.02		
INTEREST	3/6/18	3/6/18	150,000.00	30231GAG7	EXXON MOBIL (CALLABLE) CORP NOTE	1.91%	3/6/20	1,434.00		
INTEREST	3/12/18	3/12/18	150,000.00	45905UP32	INTL BANK OF RECONSTRUCTION AND DEV NOTE	1.56%	9/12/20	1,125.00		
INTEREST	3/12/18	3/12/18	150,000.00	89236TCF0	TOYOTA MOTOR CORP NOTES	2.15%	3/12/20	1,612.50		
BUY	3/15/18	3/16/18	100,000.00	06538CEX5	BANK OF TOKYO MITSUBISHI UFJ LTD CP	0.00%	5/31/18	(99,573.56)	2.03%	
BUY	3/15/18	3/16/18	100,000.00	06538CFV8	BANK OF TOKYO MITSUBISHI UFJ COMM PAPER	0.00%	6/29/18	(99,367.08)	2.18%	
BUY	3/15/18	3/16/18	400,000.00	22533UHX4	CREDIT AGRICOLE CIB NY COMM PAPER	0.00%	8/31/18	(395,949.33)	2.19%	
BUY	3/15/18	3/16/18	400,000.00	36960MCW1	GENERAL ELECTRIC CO COMM PAPER	0.00%	3/30/18	(399,735.56)	1.70%	
BUY	3/15/18	3/16/18	250,000.00	89233HDS0	TOYOTA MOTOR CREDIT CORP COMM PAPER	0.00%	4/26/18	(249,487.50)	1.80%	
BUY	3/15/18	3/16/18	100,000.00	89233HGX6	TOYOTA MOTOR CREDIT CORP COMM PAPER	0.00%	7/31/18	(99,162.78)	2.22%	
BUY	3/15/18	3/16/18	100,000.00	89233HHX5	TOYOTA MOTOR CREDIT CORP COMM PAPER	0.00%	8/31/18	(98,954.67)	2.26%	
BUY	3/15/18	3/16/18	100,000.00	06538CCW9	BANK OF TOKYO MITSUBISHI UFJ LTD CP	0.00%	3/30/18	(99,938.17)	1.59%	
BUY	3/15/18	3/16/18	400,000.00	25214PEW9	DEXIA CREDIT LOCAL SA NY COMM PAPER	0.00%	5/31/18	(398,311.11)	2.01%	
BUY	3/15/18	3/16/18	250,000.00	313385WE2	FED HOME LN DISCOUNT NT	0.00%	4/30/18	(249,465.63)	1.71%	
BUY	3/15/18	3/16/18	400,000.00	22549LFW0	CREDIT SUISSE NEW YORK CERT DEPOS	1.67%	7/31/18	(403,342.50)	2.22%	
BUY	3/15/18	3/16/18	400,000.00	09659CFV5	BNP PARIBAS NY BRANCH COMM PAPER	0.00%	6/29/18	(397,538.33)	2.12%	
SELL	3/15/18	3/16/18	1,100,000.00	912828XH8	US TREASURY NOTES	1.62%	6/30/20	1,085,914.32	2.35%	(20,820.48)
SELL	3/15/18	3/16/18	495,000.00	912828A34	US TREASURY NOTES	1.25%	11/30/18	494,133.49	2.02%	(4,120.01)
SELL	3/15/18	3/16/18	750,000.00	3135G0J53	FNMA BENCHMARK NOTE	1.00%	2/26/19	742,234.17	2.17%	(7,620.66)
SELL	3/15/18	3/16/18	640,000.00	3135G0H63	FNMA BENCHMARK NOTE	1.37%	1/28/19	636,974.93	2.14%	(4,083.74)
INTEREST	3/16/18	3/16/18	70,000.00	36962G4R2	GENERAL ELECTRIC CAPITAL CORP CORP NOTE	4.37%	9/16/20	1,531.25		

Tran. Type	Trade Date	Settle Date	Par ($)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt ($)	Yield	Realized G/L (BV)
INTEREST	3/20/18	3/20/18	75,000.00	00828EBQ1	AFRICAN DEVELOPMENT BANK NOTE	1.12%	9/20/19	421.88		
MATURITY	3/30/18	3/30/18	400,000.00	36960MCW1	GENERAL ELECTRIC CO COMM PAPER	0.00%	3/30/18	400,000.00		0.00
MATURITY	3/30/18	3/30/18	100,000.00	06538CCW9	BANK OF TOKYO MITSUBISHI UFJ LTD CP	0.00%	3/30/18	100,000.00		0.00
INTEREST	3/31/18	3/31/18	525,000.00	912828UV0	US TREASURY NOTES	1.12%	3/31/20	2,953.13		
TOTALS								**516,763.73**		**(36,644.89)**

IMPORTANT DISCLOSURES

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 a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some, but not all of which, are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results.The information contained in this presentation is not an offer to purchase or sell any securities.

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

GLOSSARY

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **COMMERCIAL PAPER:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **CONTRIBUTION TO DURATION:** Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- **DURATION TO WORST:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years, computed from cash flows to the maturity date or to the put date, whichever results in the highest yield to the investor.
- **EFFECTIVE DURATION:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **EFFECTIVE YIELD:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while ominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **INTEREST RATE:** Interest per year divided by principal amount and expressed as a percentage.
- **MARKET VALUE:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- **NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually $1 million or more, that can be traded in secondary markets.
- **PAR VALUE:** The nominal dollar face amount of a security.

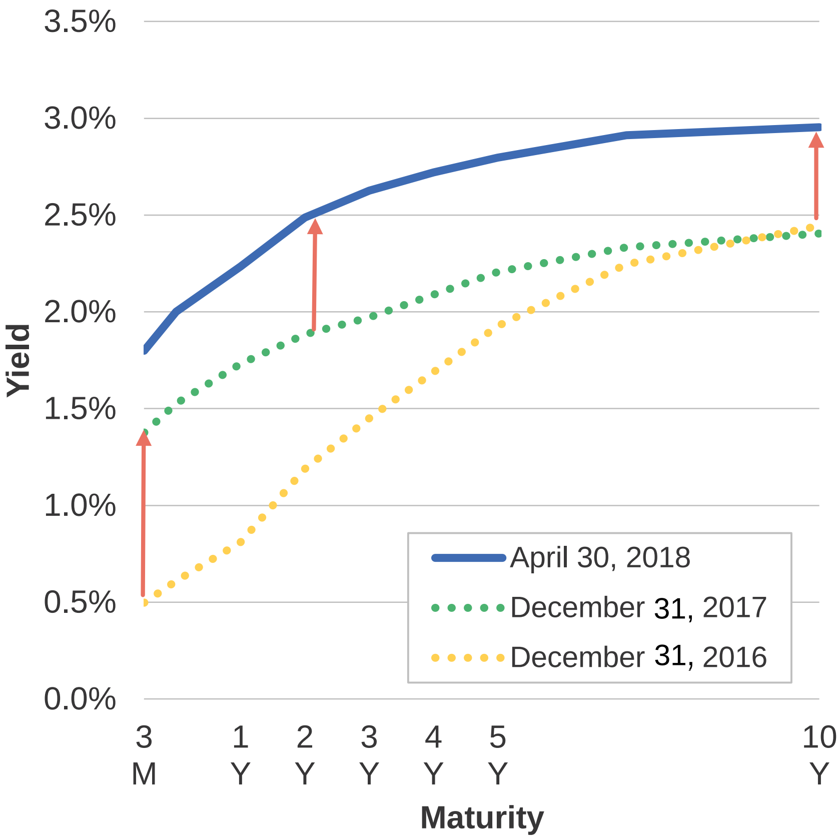
GLOSSARY

- **PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.
- **REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **SETTLE DATE:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- **TRADE DATE:** The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- **UNSETTLED TRADE:** A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- **U.S. TREASURY:** The department of the U.S. government that issues Treasury securities.
- **YIELD:** The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- **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 as a percentage on an annualized basis.
- **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 as a percentage on an annualized basis.

Economic Update

U.S. Treasury Yield Curve Update

	Current 4/30/18	Year-End 12/31/17	Year-End 12/31/16
3 month	**1.80%**	1.38%	0.50%
6 month	**2.00%**	1.53%	0.61%
1 year	**2.23%**	1.73%	0.81%
2 year	**2.49%**	1.88%	1.19%
3 year	**2.63%**	1.97%	1.45%
5 year	**2.80%**	2.21%	1.93%
10 year	**2.95%**	2.41%	2.44%



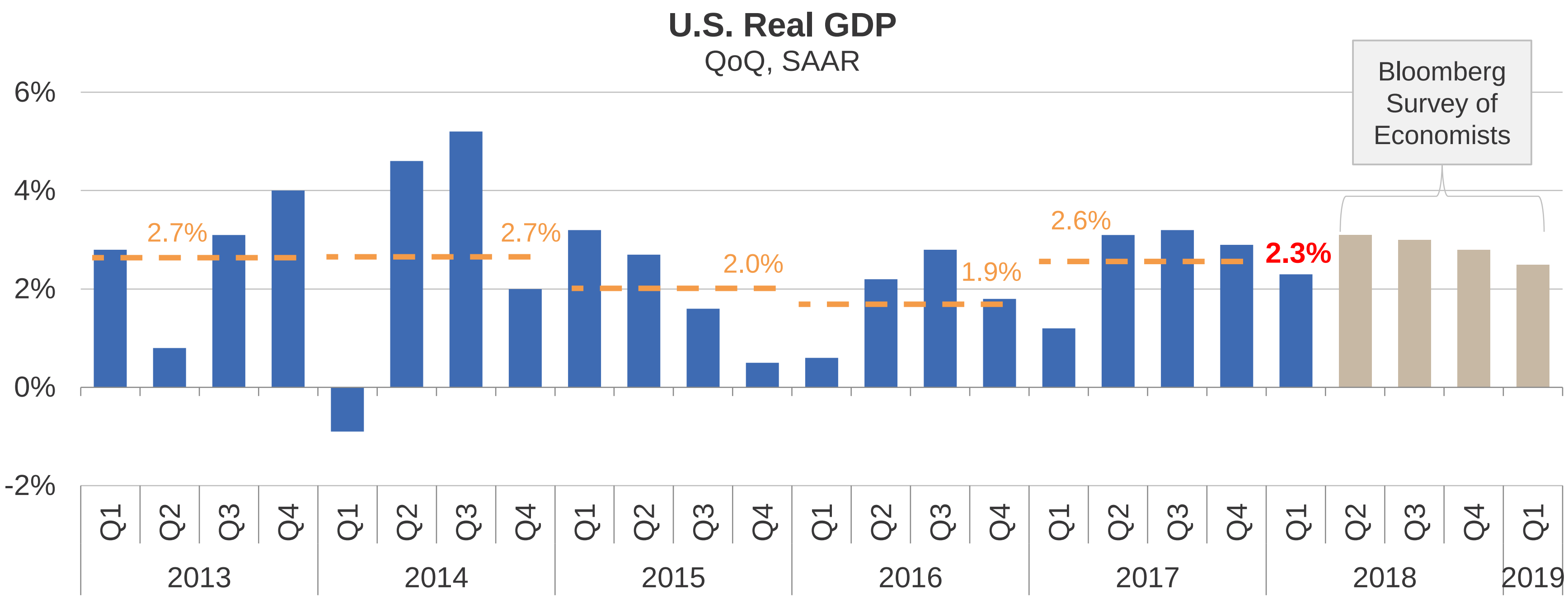
Source: Bloomberg, as of 4/30/2018.

U.S. Treasury Yield History

Source: Bloomberg, as of 4/30/18.

First Quarter 2018 Economic Growth Exceeds Expectations

- U.S. Gross domestic product (GDP) grew at an annualized rate of 2.3% in the first quarter of 2018, somewhat slower than in the prior three quarters, but modestly better than analysts' forecasts.
- The increase in real GDP reflected positive contributions from non-residential fixed investment, personal consumption expenditures, exports, private inventory investment, and both federal and state local government spending.



Source: Bloomberg, as of Q1 2018. SAAR is seasonally adjusted annualized rate. Orange denotes rolling four-quarter averages.

U.S. Economy Added over 200,000 Jobs in April

↑ 204,000

Total employment change in U.S. nonfarm private business sector from March to April.

Change by Business Size

Small	1-49 Employees	↑ 62,000
Midsized	50-499 Employees	↑ 88,000
Large	500+ Employees	↑ 54,000

Goods-producing Sector

↑ 44,000

Natural Resources & Mining	↑ 7,000
Manufacturing	↑ 10,000
Construction	↑ 27,000

Service-providing Sector

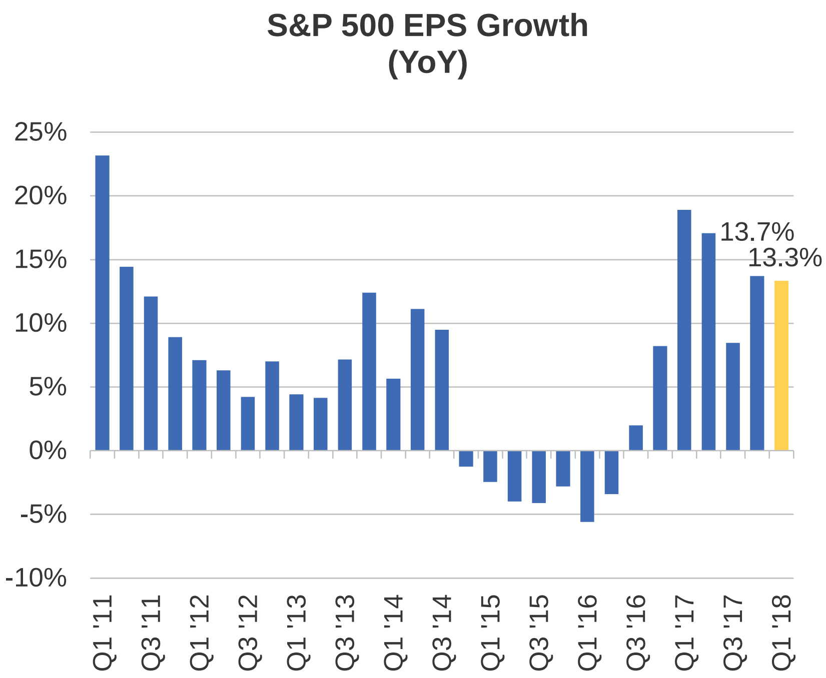
↑ 160,000

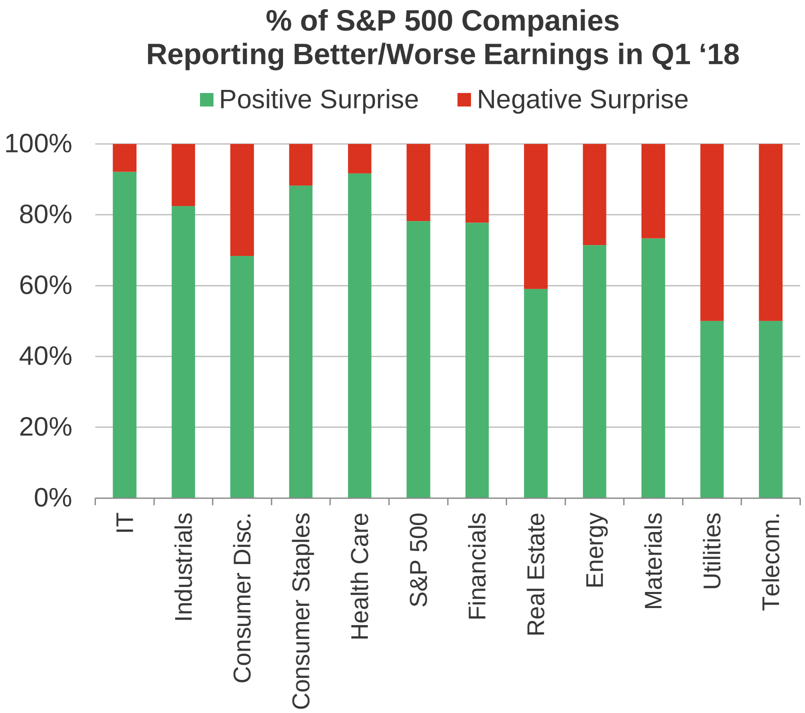
Trade, Transportation & Utilities	↑ 14,000
Education & Health	↑ 39,000
Information	↓ -2,000
Leisure & Hospitality	↑ 36,000
Financial Activities	↑ 7,000
Other Services	↑ 8,000
Professional & Business	↑ 58,000

Source: ADP Research Institute.

Corporate Earnings Remain Strong

- S&P 500 companies continue to report strong first quarter profits.
  - Earnings per share grew 14% YoY through the fourth quarter and are estimated to grow more than 13% in the first quarter of 2018.
  - 78% of the S&P 500 companies have reported earnings above analysts' expectations so far.

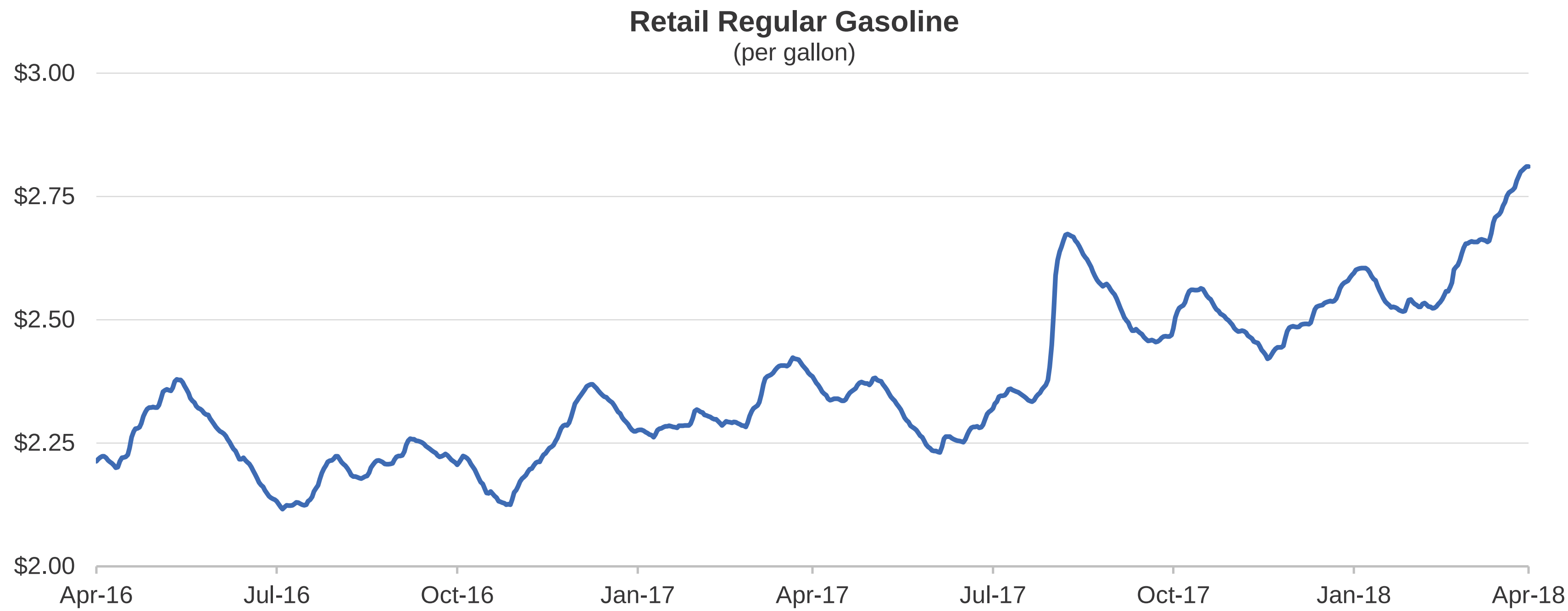




Source: Bloomberg, as of 5/1/18.

Possible Inflation Pressures Reflected in Commodities Prices

- For the April through September summer driving season, the Energy Information Administration (“EIA”) forecasts regular gasoline retail prices to average $2.90/gallon, up 49 cents from $2.41/gallon last summer.
- Higher forecasted prices are the result of higher forecasted crude oil prices, which is primarily due to OPEC and its allies (Russia) production cuts lasted through the end of 2018.



Source: EIA, Bloomberg.

Arizona Ranks #5 in Economic Momentum

- Arizona jumped from 6th to 5th place overall year-over-year in a national ranking of economic momentum.
  - The study ranks states based on three primary measures: personal income growth, employment growth, and population growth. The table below shows Arizona's improvement year-over-year.

Ranking in Each Year		
Measure	**2018**	**2017**
Personal Income Growth	3	6
Employment Growth	9	10
Population Growth	6	8
Overall Ranking	**5**	**6**

Top Five States		
Rank	**2018**	**2017**
1	Nevada	Nevada
2	Idaho	Utah
3	Utah	Florida
4	Washington	Washington
5	Arizona	Idaho

Source: The Index of State of Economic Momentum, a quarterly report published by the Washington D.C.-based State Policy Reports.

Disclosures

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