

# Town of Palm 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 available online at [www.pfm.com](http://www.pfm.com))

PFM Funds December 31, 2012 Month-End Statement

(PFM Funds Month end Statement available online at [www.pmfunds.com](http://www.pmfunds.com))

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or recommendation. The information contained in this report is not an offer to purchase or sell any securities.

# TAB I

### Summary

- 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 (QE3), 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, increasing 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% from a year earlier.
- 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.
- Superstorm Sandy, which blew through the East Coast in October, caused massive amounts of damage, closed the markets for two days, and depressed economic activity across a third of the nation.
- Economic concerns about Europe somewhat subsided, which pushed European stock markets higher. The MSCI Europe Index rose 7.02% for the quarter.

### Interest Rates

- Interest rates rose slightly during 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 moved higher as investors shifted assets into 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 quantitative easing with an open-ended program to buy \$45 billion in Treasuries in addition to its existing program to purchase \$40 billion in Agency mortgage-backed securities each month.

### Sector Performance

- Returns of high-quality corporate bonds (especially financial firms) performed well for the quarter, as these issuers continued to be bolstered by global central bank support for financial markets.
- The Fed's QE3 purchase program initially caused Agency MBS to appreciate sharply in value, but that trend quickly reversed and Agency MBS underperformed other fixed-income sectors for the quarter.
- The performance of municipal bonds suffered in the fourth quarter, as fiscal cliff negotiations about possible changes to the tax code caused investors to sell positions.
- Reduced supply of Agencies kept spreads at historically narrow levels; Agencies became relatively less attractive over the quarter.

*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.*

**Economic Snapshot**

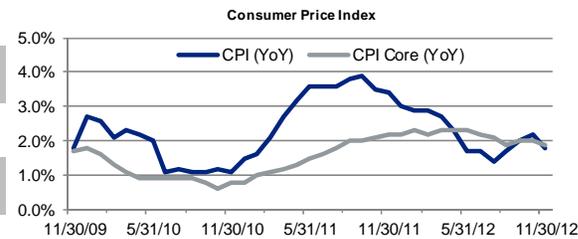
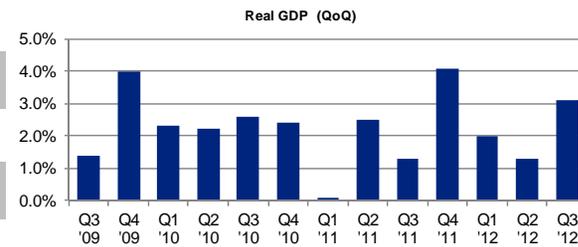
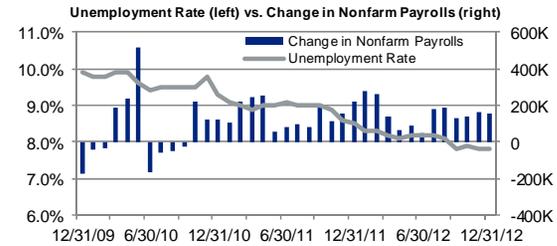
Labor Market		Latest	Sep 2012	Dec 2011
Unemployment Rate	Dec	7.8%	7.8%	8.5%
Change In Non-Farm Payrolls (month)	Dec	155,000	132,000	223,000
Average Hourly Earnings (YoY)	Dec	2.1%	1.9%	2.1%
Personal Income (YoY)	Nov	4.1%	3.5%	3.6%
Initial Jobless Claims (Month)	Dec 28	372,000	369,000	383,000

Growth		Latest	Sep 2012	Dec 2011
Real GDP (QoQ SAAR)	Q3	3.1%	1.3% <sup>1</sup>	4.1% <sup>2</sup>
GDP Personal Consumption (QoQ SAAR)	Q3	1.6%	1.5% <sup>1</sup>	2.0% <sup>2</sup>
Retail Sales (YoY)	Nov	3.7%	5.4%	6.8%
ISM Manufacturing Survey	Dec	50.7	51.5	53.1
Existing Home Sales (millions) - month	Nov	5.04	4.69	4.38

Inflation / Prices		Latest	Sep 2012	Dec 2011
Personal Consumption Expenditures (YoY)	Nov	1.4%	1.6%	2.4%
Consumer Price Index (YoY)	Nov	1.8%	2.0%	3.0%
Consumer Price Index Core (YoY)	Nov	1.5%	2.1%	4.7%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$91.82	\$92.19	\$98.83
Gold Futures (oz)	Dec 31	\$1,676	\$1,771	\$1,567

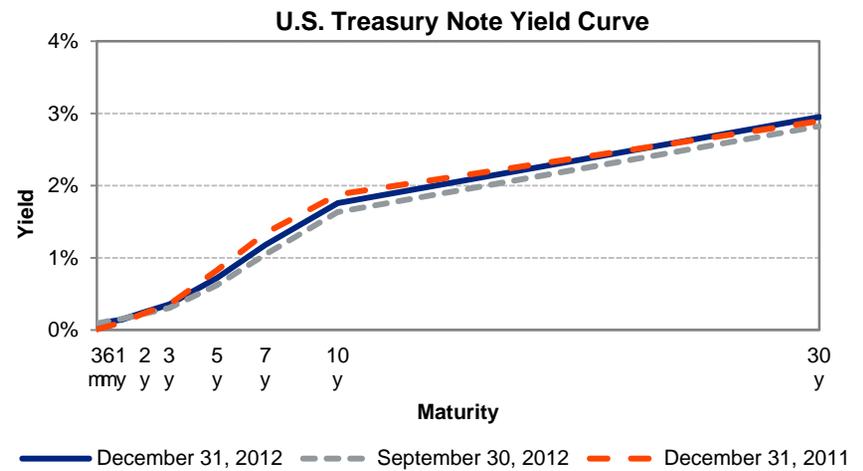
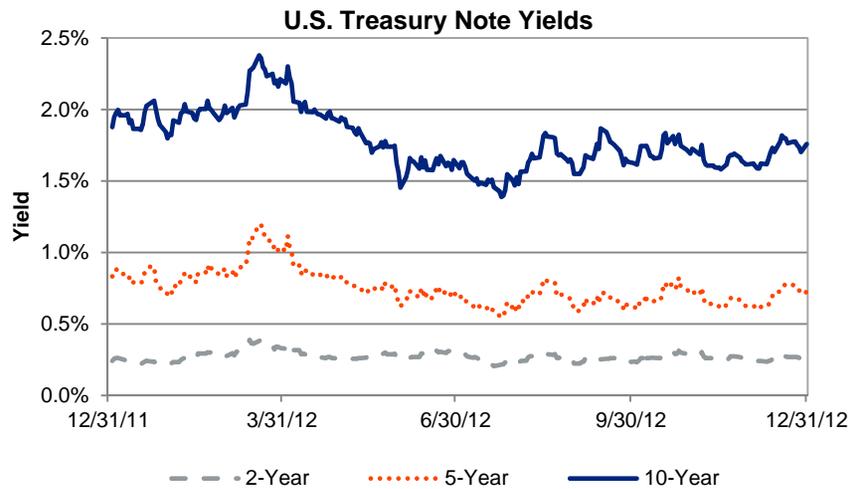


1. Data as of Second Quarter 2012      2. Data as of Fourth Quarter 2011

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

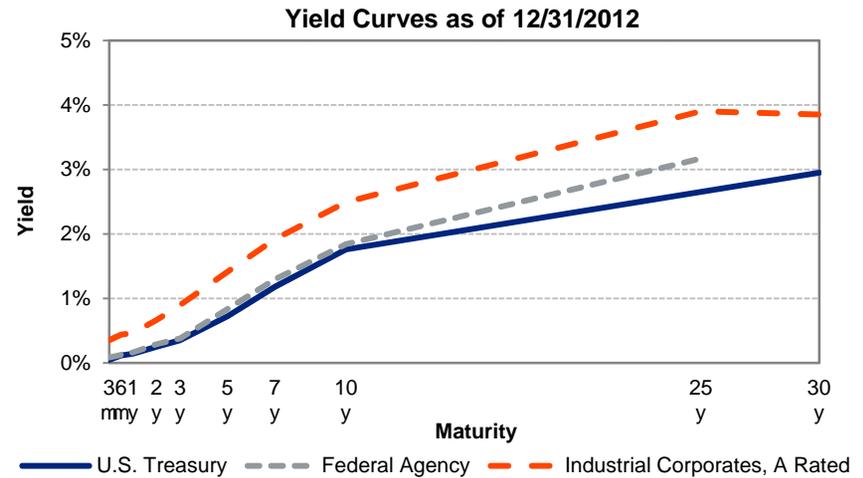
Source: Bloomberg

**Interest Rate Overview**



**U.S. Treasury Note Yields**

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%



Source: Bloomberg

**B of A Merrill Lynch Index Returns**

	As of 12/31/2012		Returns for Periods Ended 12/31/2012		
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
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%
<b>1-5 Year Indices</b>					
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)	2.11	1.45%	(0.26%)	2.50%	4.45%
Municipals	2.53	0.84%	(0.10%)	1.63%	2.37%
<b>Master Indices</b>					
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; 3 Month return is periodic

Source: Bloomberg

# TAB II

## Executive Summary

**PORTFOLIO STRATEGY**

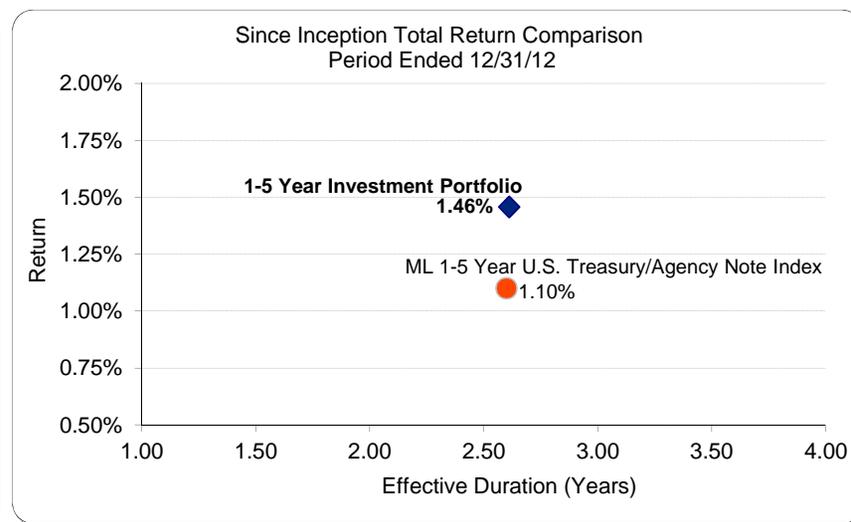
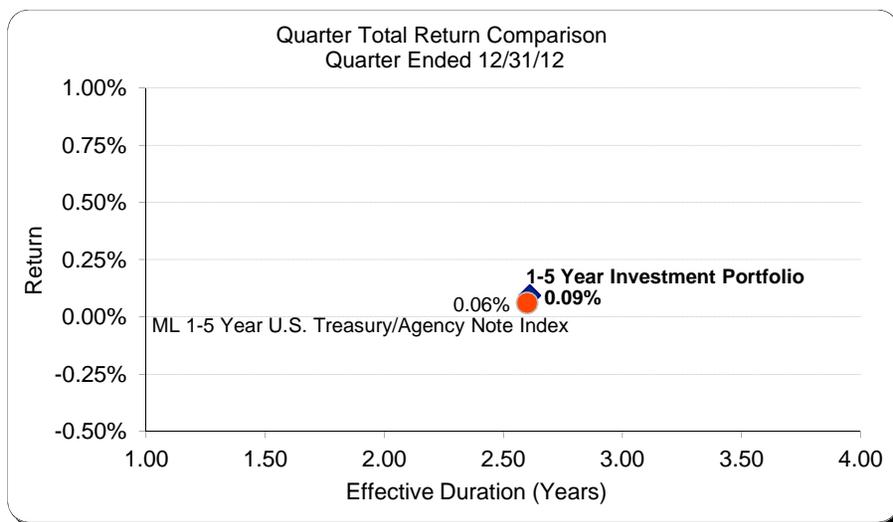
- The Town's 1-5 Year Investment, Short Term and 2010A CIP Portfolios are of high credit quality and invested in U.S. Treasury, Federal Agency, high quality corporate and commercial paper securities.
- PFM continued to actively manage the 1-5 Year Investment Portfolio during the fourth quarter and found value in the market, taking advantage of market inefficiencies or changes in economic outlook. As a result the Portfolio realized over \$3,667 in gains on sales during the quarter. PFM is continually in the market monitoring for opportunities to add value to the Portfolio.
- The 1-5 Year Investment Portfolio's quarterly total return performance was 0.09%, outperforming the benchmark's performance of 0.06% by 0.03%. Over the past year, the Portfolio earned 1.37%, versus 0.98% for the benchmark.
- The Short Term and 2010A CIP Portfolios continue to provide the Town with favorable yield relative to the benchmark. At quarter end the portfolios had a weighted average Yield to Maturity at Cost of 0.27%, exceeding the Yield of its benchmark the S&P GIP Government 30 Day Index by 9 basis points (0.09%).
- 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.
- 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 Town's Portfolios against the regularly recurring flights into Treasuries.
- In the 1-5 Year Investment Portfolio, 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 sector area 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.

1-5 Year Investment Portfolio (Actively Managed) Performance - 68904260

Total Portfolio Value <sup>1,2</sup>	December 31, 2012	September 30, 2012
	Market Value	\$17,839,349.92
Amortized Cost	\$17,694,918.42	\$17,658,398.25

Total Return <sup>1,2,3,4,5,6,7,8</sup>	Quarterly Return December 31, 2012	Calendar Year To Date	Last 12 Months	Last 24 Months	Since Inception 9/30/2011
<b>1-5 Year Investment Portfolio (Actively Managed)</b>	<b>0.09%</b>	<b>1.37%</b>	<b>1.37%</b>	<b>N/A</b>	<b>1.46%</b>
Merrill Lynch 1-5 Year U.S. Treasury/Agency Index	0.06%	0.98%	0.98%	N/A	1.10%

Effective Duration (Years) <sup>4</sup>	December 31, 2012	September 30, 2012	Yields	December 31, 2012	September 30, 2012
	<b>1-5 Year Investment Portfolio (Actively Managed)</b>	<b>2.61</b>		2.61	Yield at Market
Merrill Lynch 1-5 Year U.S. Treasury/Agency Index	2.60	2.58	Yield at Cost	<b>0.74%</b>	0.72%
Portfolio Duration % of Benchmark Duration	100%	101%			

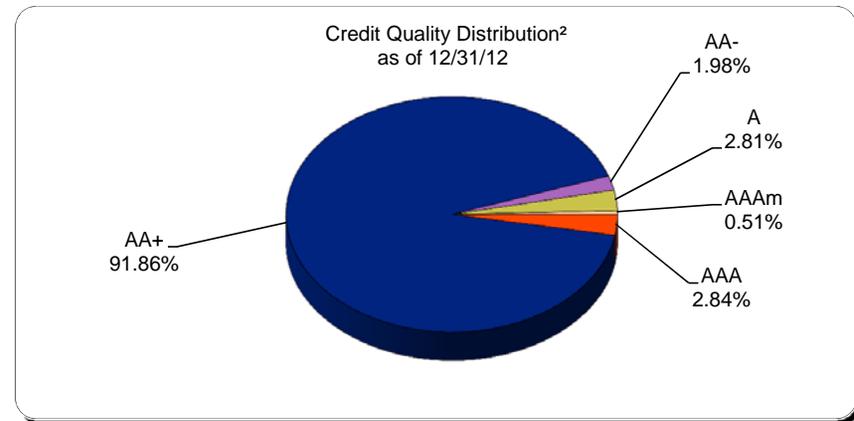
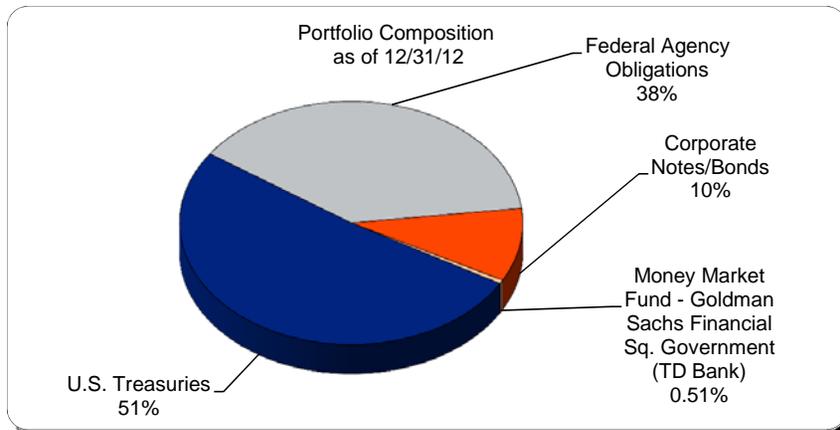


Notes:

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. Includes money market fund/cash.
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.

1-5 Year Investment Portfolio (Actively Managed) Composition and Credit Quality Characteristics

<u>Security Type<sup>1</sup></u>	<u>December 31, 2012</u>	<u>% of Portfolio</u>	<u>September 30, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$9,147,557.45	51.3%	\$9,850,820.26	55.3%
Federal Agencies	6,861,603.84	38.5%	6,624,427.48	37.2%
Commercial Paper	0.00	0.0%	0.00	0.0%
Commercial Paper - TLGP	0.00	0.0%	0.00	0.0%
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	1,738,801.59	9.7%	1,248,612.81	7.0%
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 - Goldman Sachs Financial Sq. Government (TD Bank)	91,387.04	0.5%	98,994.98	0.6%
<b>Totals</b>	<b>\$17,839,349.92</b>	<b>100.0%</b>	<b>\$17,822,855.53</b>	<b>100.0%</b>

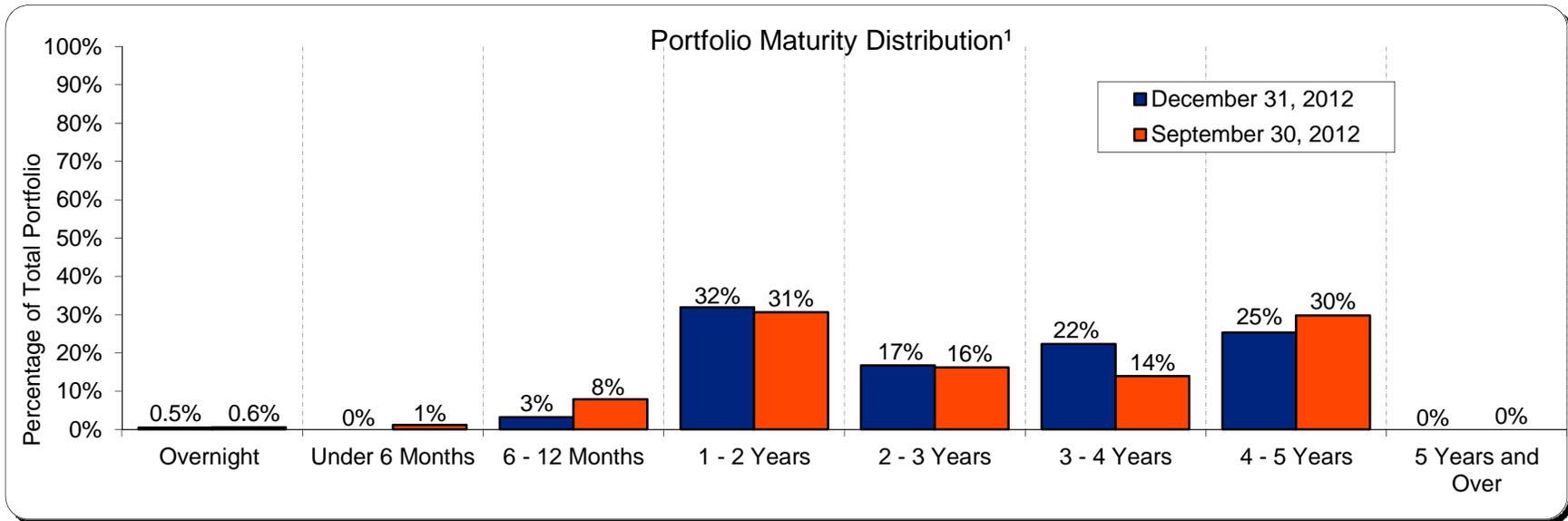


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, inclusive of money market fund/LGIP. Standard & Poor's is the source of the credit ratings.

1-5 Year Investment Portfolio (Actively Managed) Maturity Distribution

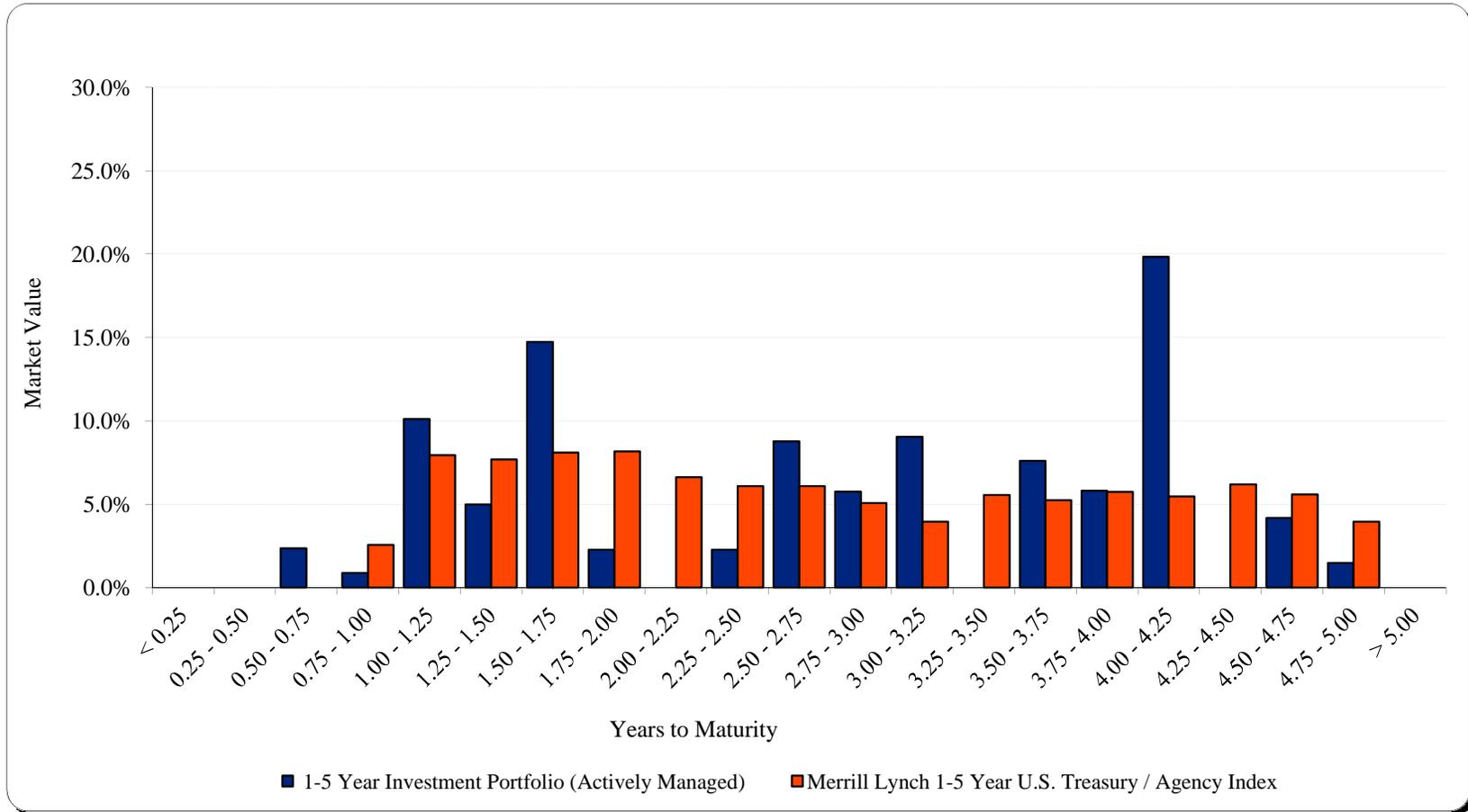
<u>Maturity Distribution<sup>1</sup></u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>
Overnight (Money Market Fund)	\$91,387.04	98,994.98
Under 6 Months	0.00	200,352.86
6 - 12 Months	570,469.01	1,403,937.51
1 - 2 Years	5,695,173.77	5,455,380.87
2 - 3 Years	2,977,154.43	2,881,054.24
3 - 4 Years	3,982,747.97	2,474,962.67
4 - 5 Years	4,522,417.70	5,308,172.40
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$17,839,349.92</b>	<b>\$17,822,855.53</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.

1-5 Year Investment Portfolio (Actively Managed) 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.

Short Term and Bond Proceed Portfolios Statistics

<u>Account Name</u>	<u>Amortized Cost<sup>1,2,3</sup> December 31, 2012</u>	<u>Amortized Cost<sup>1,2,3</sup> September 30, 2012</u>	<u>Market Value<sup>1,2,3</sup> December 31, 2012</u>	<u>Market Value<sup>1,2,3</sup> September 30, 2012</u>	<u>Duration (Years)<sup>4</sup> December 31, 2012</u>
Short Term Fund - 68904245	\$27,936,682.29	\$12,940,474.81	\$27,943,799.23	\$12,948,293.37	0.48
2010A CIP Fund - 68904255	9,721,487.73	22,237,504.16	9,727,687.38	22,254,190.45	0.32
Money Market Fund - PFM Funds Prime Series Excess Funds - 995174	9,193,537.97	11,688,914.89	9,193,537.97	11,688,914.89	53 Days
Money Market Fund - PFM Funds Prime Series 2010B WORTH AVENUE - 995179	69,483.15	86,800.82	69,483.15	86,800.82	53 Days
Money Market Fund - PFM Funds Prime Series 2010A CIP - 995180	11,198,613.32	4,866,248.46	11,198,613.32	4,866,248.46	53 Days
Money Market Fund - Goldman Sachs Financial Squares Government Fund (TD Bank) - Short Term Fund	81,947.99	65,530.43	81,947.99	65,530.43	51 Days
Money Market Fund - Goldman Sachs Financial Squares Government Fund (TD Bank) - 2010A CIP	48,223.04	61,850.73	48,223.04	61,850.73	51 Days
<b>Total</b>	<b>\$58,249,975.49</b>	<b>\$51,947,324.30</b>	<b>\$58,263,292.08</b>	<b>\$51,971,829.15</b>	

<u>Account Name</u>	<u>Yield to Maturity on Cost<sup>5</sup> December 31, 2012</u>	<u>Yield to Maturity on Cost<sup>5</sup> September 30, 2012</u>	<u>Yield to Maturity at Market December 31, 2012</u>	<u>Yield to Maturity at Market September 30, 2012</u>	<u>Duration (Years)<sup>4</sup> September 30, 2012</u>
Short Term Fund - 68904245	0.28%	0.32%	0.22%	0.23%	0.61
2010A CIP Fund - 68904255	0.42%	0.59%	0.22%	0.30%	0.32
Money Market Fund - PFM Funds Prime Series Excess Funds - 995174 <sup>6</sup>	0.18%	0.21%	0.18%	0.21%	47 Days
Money Market Fund - PFM Funds Prime Series 2010B WORTH AVENUE - 995179 <sup>6</sup>	0.18%	0.21%	0.18%	0.21%	47 Days
Money Market Fund - PFM Funds Prime Series 2010A CIP - 995180 <sup>6</sup>	0.18%	0.21%	0.18%	0.21%	47 Days
Money Market Fund - Goldman Sachs Financial Squares Government Fund (TD Bank) - Short Term Fund	0.01%	0.01%	0.01%	0.01%	53 Days
Money Market Fund - Goldman Sachs Financial Squares Government Fund (TD Bank) - 2010A CIP	0.01%	0.01%	0.01%	0.01%	53 Days
<b>Weighted Average Yield</b>	<b>0.27%</b>	<b>0.40%</b>	<b>0.21%</b>	<b>0.25%</b>	

**Benchmarks**

	<u>December 31, 2012</u>	<u>September 30, 2012</u>
S&P GIP Government 30 Day Index <sup>7</sup>	0.18%	0.17%

Notes:

- End of quarter trade-date market values of portfolio holdings, including accrued interest.
- In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
- Includes any money market fund/cash balances held in custodian account.
- Money Market Fund duration is based on weighted average duration in days.
- Past performance is not indicative of future results.
- Seven day yield as of quarter end. The yields shown above represent past performance. Past performance is no guarantee of future results and yields may vary. The current fund performance may be higher or lower than that cited. The current seven-day yield does not include realized gains and losses on the sale of securities. The yields shown above may reflect fee waivers by service providers that subsidize and reduce the total operating expenses of the Funds. Fund yields would be lower if there were no such waivers.
- Monthly yields, source Bloomberg.

Short Term Portfolio Statistics

<u>Account Name</u>	<u>Amortized Cost<sup>1,2,3</sup> December 31, 2012</u>	<u>Amortized Cost<sup>1,2,3</sup> September 30, 2012</u>	<u>Market Value<sup>1,2,3</sup> December 31, 2012</u>	<u>Market Value<sup>1,2,3</sup> September 30, 2012</u>	<u>Duration (Years)<sup>4</sup> December 31, 2012</u>
Short Term Fund - 68904245	\$27,936,682.29	\$12,940,474.81	\$27,943,799.23	\$12,948,293.37	0.48
Money Market Fund - PFM Funds Prime Series Excess Funds - 995174	9,193,537.97	1,283,786.84	9,193,537.97	1,283,786.84	53 Days
Money Market Fund - Goldman Sachs Financial Squares Government Fund (TD Bank)	81,947.99	65,530.43	81,947.99	65,530.43	51 Days
<b>Total</b>	<b>\$37,212,168.25</b>	<b>\$14,289,792.08</b>	<b>\$37,219,285.19</b>	<b>\$14,297,610.64</b>	

<u>Account Name</u>	<u>Yield to Maturity on Cost<sup>5</sup> December 31, 2012</u>	<u>Yield to Maturity on Cost<sup>5</sup> September 30, 2012</u>	<u>Yield to Maturity at Market December 31, 2012</u>	<u>Yield to Maturity at Market September 30, 2012</u>	<u>Duration (Years) September 30, 2012</u>
Short Term Fund - 68904245	0.28%	0.32%	0.22%	0.23%	0.61
Money Market Fund - PFM Funds Prime Series Excess Funds - 995174 <sup>6</sup>	0.18%	0.21%	0.18%	0.21%	47 Days
Money Market Fund - Goldman Sachs Financial Squares Government Fund (TD Bank)	0.01%	0.01%	0.01%	0.01%	53 Days
<b>Weighted Average Yield</b>	<b>0.25%</b>	<b>0.31%</b>	<b>0.21%</b>	<b>0.23%</b>	

**Benchmarks**

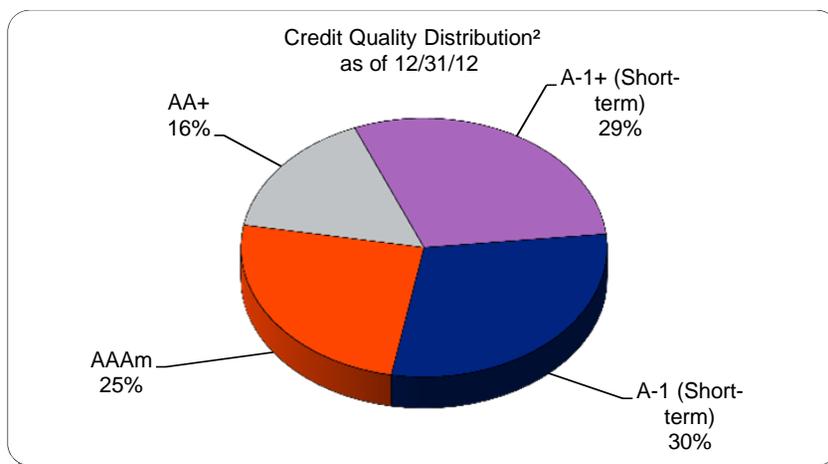
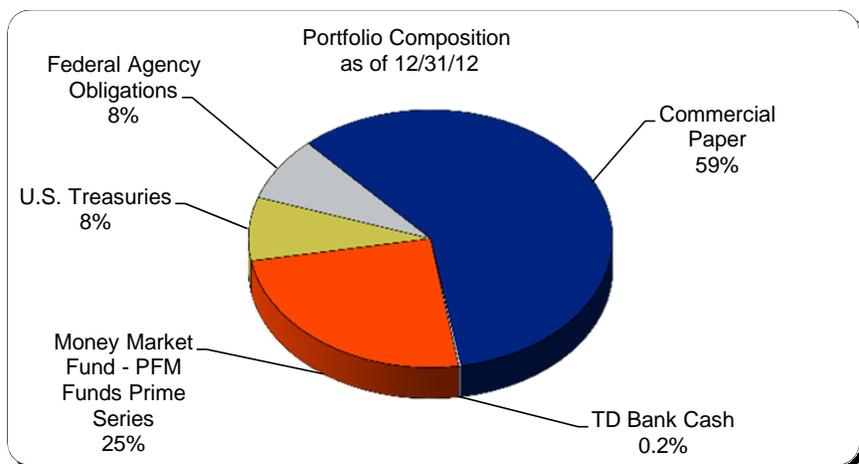
	<u>December 31, 2012</u>	<u>September 30, 2012</u>
S&P GIP Government 30 Day Index <sup>7</sup>	0.18%	0.18%

Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
3. Excludes any money market fund/cash balances held in custodian account.
4. Money Market Fund duration is based on weighted average duration in days.
5. Past performance is not indicative of future results.
6. Seven day yield as of quarter end. The yields shown above represent past performance. Past performance is no guarantee of future results and yields may vary. The current fund performance may be higher or lower than that cited. The current seven-day yield does not include realized gains and losses on the sale of securities. The yields shown above may reflect fee waivers by service providers that subsidize and reduce the total operating expenses of the Funds. Fund yields would be lower if there were no such waivers.
7. Monthly yields, source Bloomberg.

Short Term Fund Portfolio Composition and Credit Quality Characteristics

<u>Security Type</u> <sup>1</sup>	<u>December 31, 2012</u>	<u>% of Portfolio</u>	<u>September 30, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$2,965,881.84	8.0%	\$2,964,309.37	12.0%
Federal Agencies	3,001,956.39	8.1%	0.00	0.0%
Commercial Paper	21,975,961.00	59.0%	9,983,984.00	40.4%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers Acceptances	0.00	0.0%	0.00	0.0%
Repurchase Agreements	0.00	0.0%	0.00	0.0%
Municipal Obligations	0.00	0.0%	0.00	0.0%
Corporate Notes/Bonds	0.00	0.0%	0.00	0.0%
TD Bank Cash	81,947.99	0.2%	65,530.43	0.3%
Money Market Fund - PFM Funds Prime Series	9,193,537.97	24.7%	11,688,914.89	47.32%
<b>Totals</b>	<b>\$37,219,285.19</b>	<b>100.0%</b>	<b>\$24,702,738.69</b>	<b>100.0%</b>

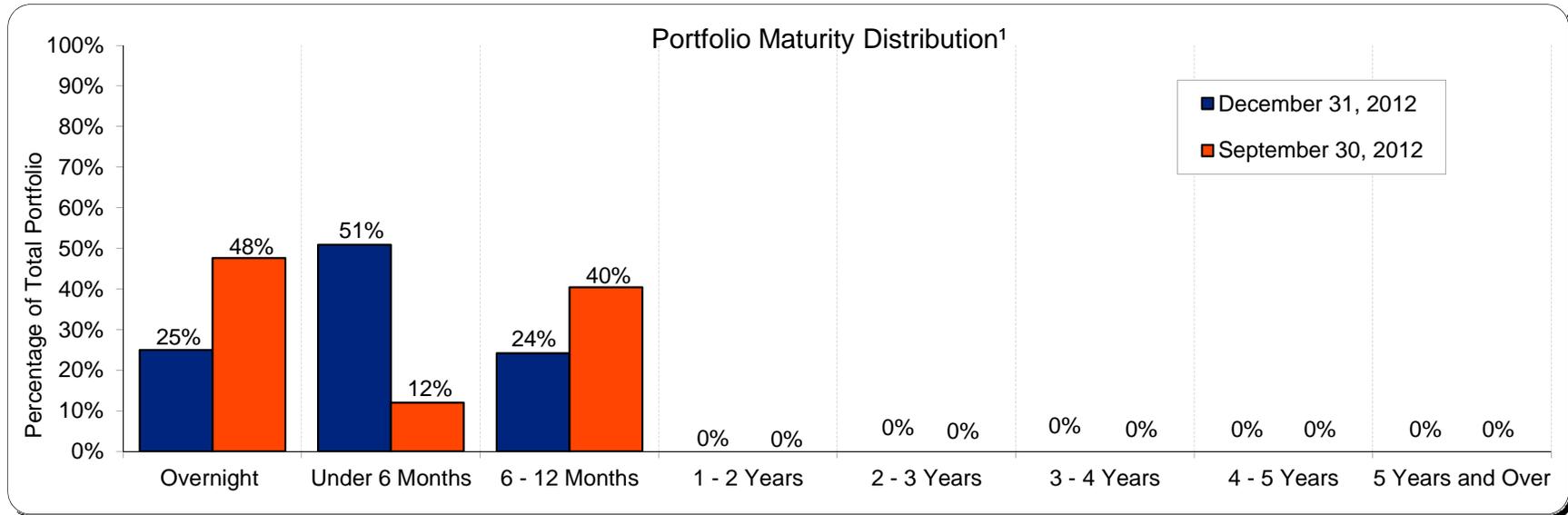


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, inclusive of money market fund/LGIP. Standard & Poor's is the source of the credit ratings.

Short Term Fund Portfolio Maturity Distribution

<u>Maturity Distribution<sup>1</sup></u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>
Overnight (Money Market Fund)	\$9,275,485.96	\$11,754,445.32
Under 6 Months	18,951,943.84	2,964,309.37
6 - 12 Months	8,991,855.39	9,983,984.00
1 - 2 Years	0.00	0.00
2 - 3 Years	0.00	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$37,219,285.19</b>	<b>\$24,702,738.69</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.

2010A CIP Portfolio Statistics

<u>Account Name</u>	<u>Amortized Cost<sup>1,2,3</sup> December 31, 2012</u>	<u>Amortized Cost<sup>1,2,3</sup> September 30, 2012</u>	<u>Market Value<sup>1,2,3</sup> December 31, 2012</u>	<u>Market Value<sup>1,2,3</sup> September 30, 2012</u>	<u>Duration (Years)<sup>4</sup> December 31, 2012</u>
CIP Fund - 68904255	\$9,721,487.73	\$22,237,504.16	\$9,727,687.38	\$22,254,190.45	0.32
Money Market Fund - PFM Funds Prime Series 2010A CIP - 995180	11,198,613.32	4,866,248.46	11,198,613.32	4,866,248.46	53 Days
Money Market Fund - Goldman Sachs Financial Squares Government Fund (TD Bank)	48,223.04	61,850.73	48,223.04	61,850.73	51 Days
<b>Total</b>	<b>\$20,968,324.09</b>	<b>\$27,165,603.35</b>	<b>\$20,974,523.74</b>	<b>\$27,182,289.64</b>	

<u>Account Name</u>	<u>Yield to Maturity on Cost<sup>5</sup> December 31, 2012</u>	<u>Yield to Maturity on Cost<sup>5</sup> September 30, 2012</u>	<u>Yield to Maturity at Market December 31, 2012</u>	<u>Yield to Maturity at Market September 30, 2012</u>	<u>Duration (Years) September 30, 2012</u>
CIP Fund - 68904255	0.42%	0.59%	0.22%	0.30%	0.32
Money Market Fund - PFM Funds Prime Series 2010A CIP - 995180 <sup>6</sup>	0.18%	0.21%	0.18%	0.21%	47 Days
Money Market Fund - Goldman Sachs Financial Squares Government Fund (TD Bank)	0.01%	0.01%	0.01%	0.01%	53 Days
<b>Weighted Average Yield</b>	<b>0.29%</b>	<b>0.52%</b>	<b>0.20%</b>	<b>0.28%</b>	

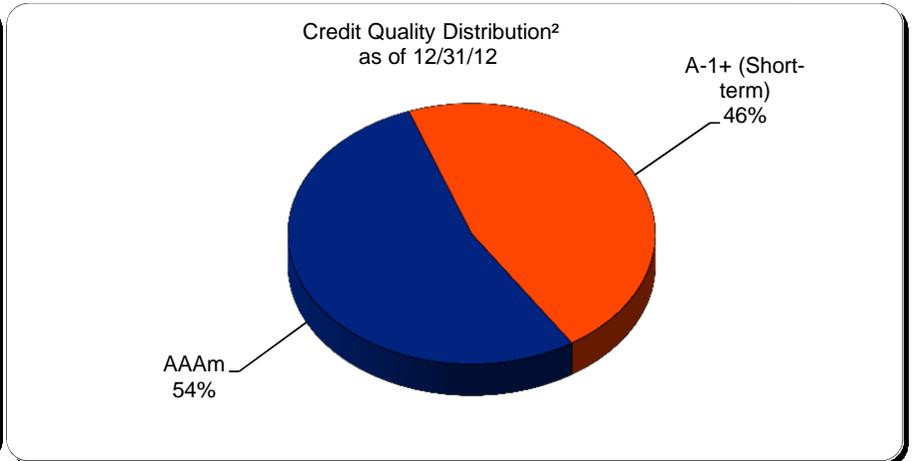
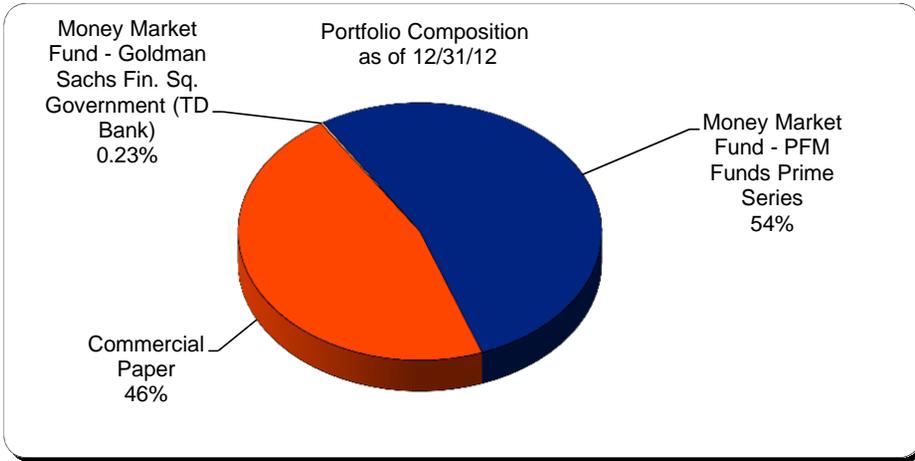
<u>Benchmarks</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>
S&P GIP Government 30 Day Index <sup>7</sup>	0.18%	0.18%

Notes:

- End of quarter trade-date market values of portfolio holdings, including accrued interest.
- In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
- Excludes any money market fund/cash balances held in custodian account.
- Money Market Fund duration is based on weighted average duration in days.
- Past performance is not indicative of future results.
- Seven day yield as of quarter end. The yields shown above represent past performance. Past performance is no guarantee of future results and yields may vary. The current fund performance may be higher or lower than that cited. The current seven-day yield does not include realized gains and losses on the sale of securities. The yields shown above may reflect fee waivers by service providers that subsidize and reduce the total operating expenses of the Funds. Fund yields would be lower if there were no such waivers.
- Monthly returns, source Bloomberg.

2010A CIP Portfolio Composition and Credit Quality Characteristics

<u>Security Type</u> <sup>1</sup>	<u>December 31, 2012</u>	<u>% of Portfolio</u>	<u>September 30, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$0.00	0.0%	\$3,493,306.65	12.9%
Federal Agencies	0.00	0.0%	9,039,530.84	33.3%
Commercial Paper	9,727,687.38	46.4%	9,721,352.96	35.8%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers Acceptances	0.00	0.0%	0.00	0.0%
Repurchase Agreements	0.00	0.0%	0.00	0.0%
Municipal Obligations	0.00	0.0%	0.00	0.0%
Corporate Notes/Bonds	0.00	0.0%	0.00	0.0%
Money Market Fund - Goldman Sachs Fin. Sq. Government (TD Bank)	48,223.04	0.2%	61,850.73	0.2%
Money Market Fund - PFM Funds Prime Series	11,198,613.32	53.4%	4,866,248.46	17.9%
<b>Totals</b>	<b>\$20,974,523.74</b>	<b>100.0%</b>	<b>\$27,182,289.64</b>	<b>100.0%</b>

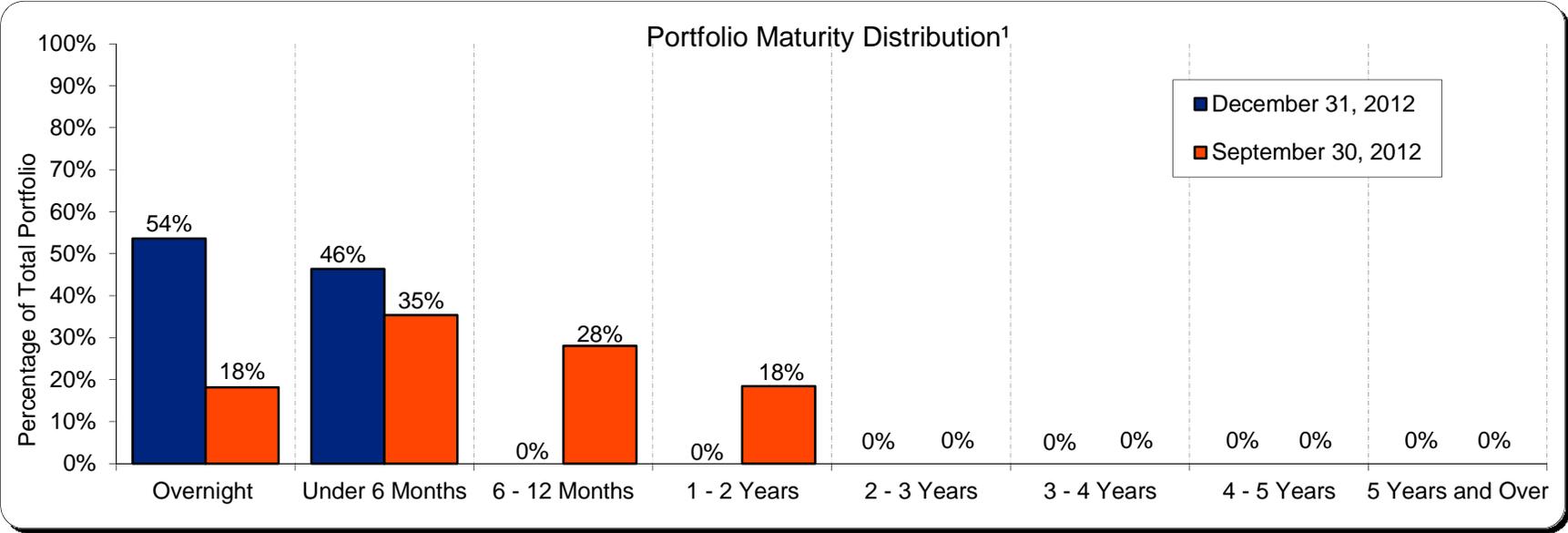


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, inclusive of money market fund/LGIP. Standard & Poor's is the source of the credit ratings.

2010A CIP Portfolio Maturity Distribution

<u>Maturity Distribution<sup>1</sup></u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>
Overnight (Money Market Fund)	\$11,246,836.36	\$4,928,099.19
Under 6 Months	9,727,687.38	9,622,667.37
6 - 12 Months	0.00	7,623,484.46
1 - 2 Years	0.00	5,008,038.62
2 - 3 Years	0.00	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$20,974,523.74</b>	<b>\$27,182,289.64</b>



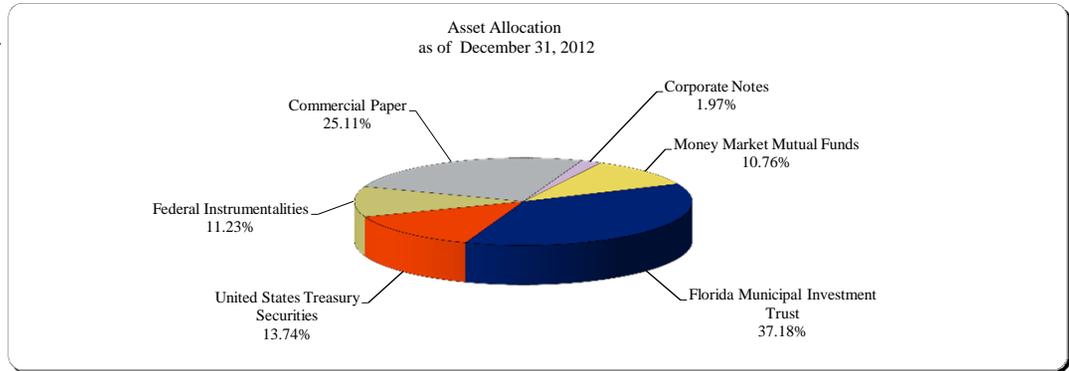
Notes:

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.

Town of Palm Beach - Non-Bond Funds<sup>1</sup>

Asset Allocation as of December 31, 2012\*

Security Type	December 31, 2012	December 31, 2012	Notes	Permitted by
				Policy
United States Treasury Securities	12,023,685.08	13.74%		100%
United States Government Agency Securities	-	0.00%		50%
Federal Instrumentalities	9,825,645.82	11.23%		80%
Certificates of Deposit	-	0.00%		50%
Repurchase Agreements	-	0.00%		50%
Commercial Paper	21,969,585.43	25.11%		25%
Corporate Notes	1,721,297.34	1.97%	5	25%
Corporate Notes TLGP - FDIC insured	-	0.00%		50%
Bankers' Acceptances	-	0.00%		35%
State and/or Local Government Debt	-	0.00%		20%
Money Market Mutual Funds	9,415,096.04	10.76%		50%
Florida Municipal Investment Trust	32,526,960.00	37.18%	2,4	50%



Individual Issuer Breakdown	December 31, 2012	December 31, 2012	Notes	Permitted by
				Policy
Government National Mortgage Association (GNMA)	-	0.00%		25%
US Export-Import Bank (Ex-Im)	-	0.00%		25%
Farmers Home Administration (FMHA)	-	0.00%		25%
Federal Financing Bank	-	0.00%		25%
Federal Housing Administration (FHA)	-	0.00%		25%
General Services Administration	-	0.00%		25%
New Communities Act Debentures	-	0.00%		25%
US Public Housing Notes & Bonds	-	0.00%		25%
US Dept. of Housing and Urban Development	-	0.00%		25%
Federal Farm Credit Bank (FFCB)	1,790,096.96	2.05%		30%
Federal Home Loan Bank (FHLB)	415,526.51	0.47%		30%
Federal National Mortgage Association (FNMA)	6,164,544.33	7.05%		30%
Federal Home Loan Mortgage Corporation (FHLMC)	1,455,478.02	1.66%		30%

Individual Issuer Breakdown	December 31, 2012	December 31, 2012	Notes	Permitted by
				Policy
Toyota CP	5,989,176.66	6.85%		15%
Bank of Nova Scotia CP	4,993,670.85	5.71%		15%
General Electric CP	4,993,161.67	5.71%		15%
Barclays CP	2,997,399.99	3.43%		15%
JP Morgan Chase CP	2,996,176.26	3.42%		15%
Johnson & Johnson Corporate Notes	500,499.11	0.57%		5%
Procter & Gamble Corporate Notes	350,666.64	0.40%		5%
General Electric Corporate Notes	369,207.65	0.42%		5%
JP Morgan Chase Corporate Notes	500,923.94	0.57%		5%
Money Market Fund - PFM Funds Prime Series 995174	9,193,537.97	10.51%		25%
Money Market Fund - Goldman Sachs Financial Squares Government Fund (TD Bank)	221,558.07	0.25%	3	25%
FMIVT 1-3	23,049,372.00	26.35%	2	50%
FMIVT Intermediate	9,477,588.00	10.83%	2	50%

Notes:

1. End of month trade-date amortized cost values of portfolio holdings, including accrued interest.
  2. Managed by the Town.
  3. Money Market Fund Sweep Account includes cash from Series 2010A at Town's request.
  4. Combined total for Florida Municipal Investment Trust cannot exceed 50%.
  5. Maximum allocation in A rated securities is 10%. At month end there was 1.91% rated A by Moody's.
- \* Does not include 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**