

City of Winter Springs

Investment Performance Review
Quarter Ended June 30, 2009



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Table of Contents

Tab I.

Section A Market Review

Tab II.

Section B Executive Summary and General City Account Portfolio Performance
Section C Asset Allocation Chart

Tab III.

June 30, 2009 PFM Month-End Statement

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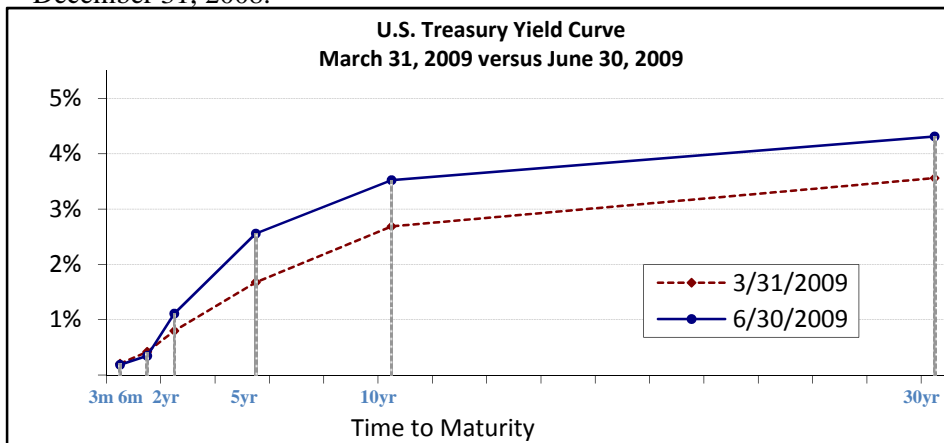
Strong performance by Federal Agency and corporate securities boosted second quarter fixed income portfolio returns in a period when money market yields hovered near zero, and returns of longer-duration Treasuries were depressed by rising long-term interest rates.

As the economy showed signs of bottoming and the stresses that wracked the financial markets seemed to subside, risk-adverse investors increased holdings of Federal Agency securities and began once again to buy corporates. These actions produced a sharp contraction in the spreads of these securities relative to risk-free U.S. Treasury obligations and boosted the returns of sectors other than Treasuries.

In markets like this, asset allocation and duration management were unusually powerful forces in producing excess returns. PFM’s disciplined strategy – recognizing that the market distortions of 2008 would unwind as market conditions returned toward normal – resulted in strong performance in the second quarter, as it did in the first three months of the year.

INTEREST RATES AND RETURNS

The rise in long-term rates reflected improving prospects for the economy and an outlook for record U.S. Treasury borrowings. As illustrated in the following chart, higher long-term rates caused the U.S. Treasury yield curve to steepen to record levels. The spread between the 2-year and 10-year U.S. Treasury note ended the quarter at approximately 240 basis points (2.40%), up from about 185 basis points on March 31st and 145 basis points on December 31, 2008.



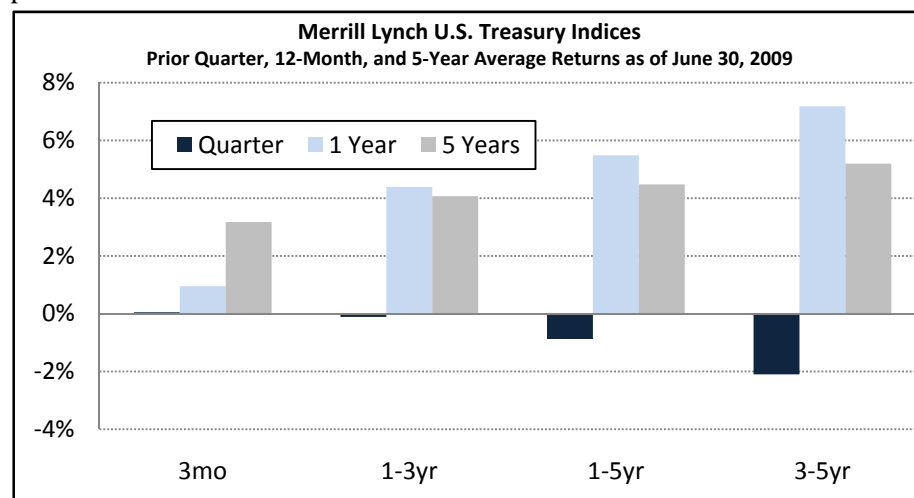
Source: Bloomberg

Higher long-term rates signal investor concern that once an economic recovery is firmly underway the Federal Reserve will be less accommodative and price pressures could return to the economy as demand for goods and services accelerate. Investors in intermediate- and longer-term securities demanded compensation for such risks and pushed the yield on the 10-year U.S. Treasury up from 2.21% at the end of last year to a high of 3.95% in mid-June.

The market has had to absorb a large volume of U.S. Treasury issuances in the second quarter. In the final week of the quarter, the U.S. Treasury auctioned \$104 billion in U.S. Treasury notes, a then-record for issuance in a single week. U.S. Treasury borrowing has surged as it is estimated that the U.S. Treasury will issue almost \$2 trillion in debt during the fiscal year ending this September. Market participants have begun to question the U.S. Treasury’s ability to continue to successfully sell such a record volume.

With short-term yields tied to the low Fed Funds target rate and longer-term yields influenced by expectations of an economic recovery in the next few years, intermediate-term interest rates were range-bound for most of the quarter with the 2-year U.S. Treasury trading between 0.80% and 1.10%.

Even a modest rise in rates from their current low levels can erode income earned. Thus, as the following chart shows, most U.S. Treasury benchmarks generated negative returns for the quarter, giving back some of the strong positive results that were realized in 2008.



Source: Bloomberg

Short-duration U.S. Treasury benchmarks, like the Merrill Lynch 3-month U.S. Treasury Index, outperformed longer-term benchmarks during the quarter as intermediate- and longer-term interest rates rose and short-term interest rates remained near zero. However, returns on longer-duration benchmarks over the past one and five years continued to outperform as they benefited the most from the sharp declines in interest rates and the appreciation in market values over these periods.

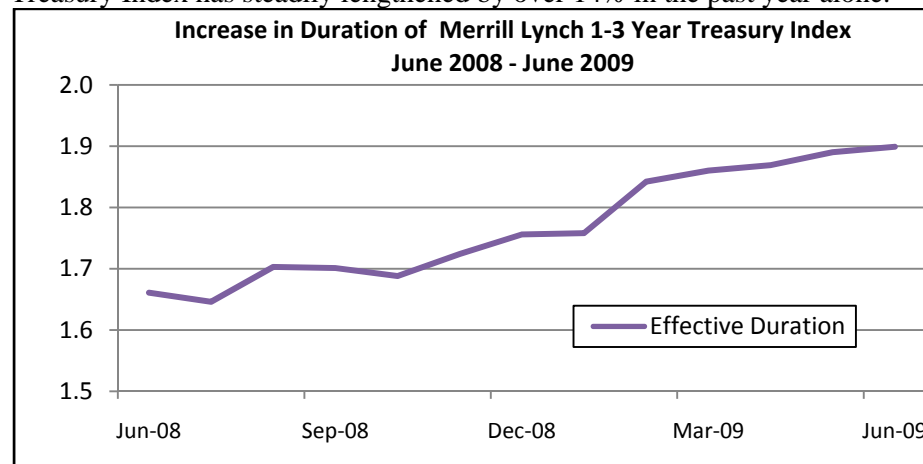
Merrill Lynch U.S. Treasury Index Return						
	3m	6m	1-3 yr	1-5 yr	3-5 yr	1-10 yr
Quarterly	0.05%	0.20%	-0.11%	-0.87%	-2.10%	-2.12%
Per Unit of Risk**	0.22%	0.41%	-0.06%	-0.33%	-0.54%	-0.54%
Last 12 Months	0.95%	2.24%	4.39%	5.48%	7.18%	6.12%
Per Unit of Risk**	4.10%	4.66%	2.31%	2.07%	1.85%	1.56%

Source: Bloomberg

**Return per unit of risk equals the periodic return divided by index duration.

DURATION MANAGEMENT

Duration management played a large role in portfolio performance in the second quarter. As the U.S. Treasury finances its deficit and increases the federal debt burden, the volume of new-issue U.S. Treasury securities has caused the durations of U.S. Treasury benchmarks to increase. As shown in the following graph, the duration of the Merrill Lynch 1-3 Year U.S. Treasury Index has steadily lengthened by over 14% in the past year alone.

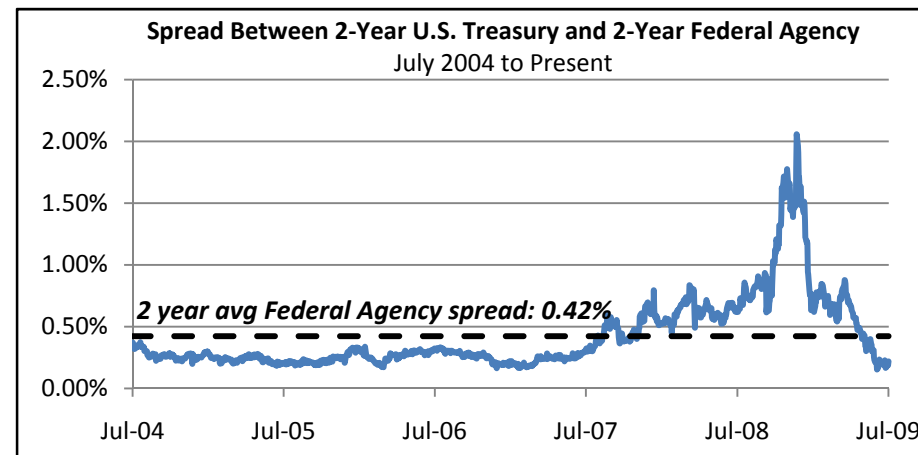


Source: Bloomberg

PFM anticipated the higher likelihood of rising rates and the greater sensitivity of benchmarks to rising rates, and actively and prudently positioned portfolio durations short of the benchmark.

SECTOR ALLOCATION

As U.S. Treasury yields rose, intermediate-term Federal Agency and corporate rates fell, driving spreads to more neutral valuations. Interest rates declined by approximately 20 basis points for 2-year Federal Agencies, and dropped by approximately 200 basis points for 2-year AA corporate securities. Spreads between 2-year U.S. Treasury and Federal Agency securities ended the quarter under 30 basis points (see following chart). The spread was nearly 200 basis points (2.00%) in November of 2008 and has now collapsed to pre-credit crisis levels.



Source: Bloomberg

By the end of the quarter, short-term Agency securities (i.e., discount notes) traded with essentially no yield benefit relative to comparable maturity U.S. Treasury bills. Factors of the remarkable decline in Agency spreads include:

- (i) stabilization of the overall financial markets;
- (ii) confidence in the federal government’s increased support for Fannie Mae and Freddie Mac;
- (iii) the market’s improving appetite for risk;
- (iv) the Federal Reserve’s purchase program for Federal Agency debt and mortgage-backed securities; and
- (v) light issuance by the government sponsored enterprises.

At current spreads, PFM has begun to favor Treasuries over Agencies for maturities two years and under.

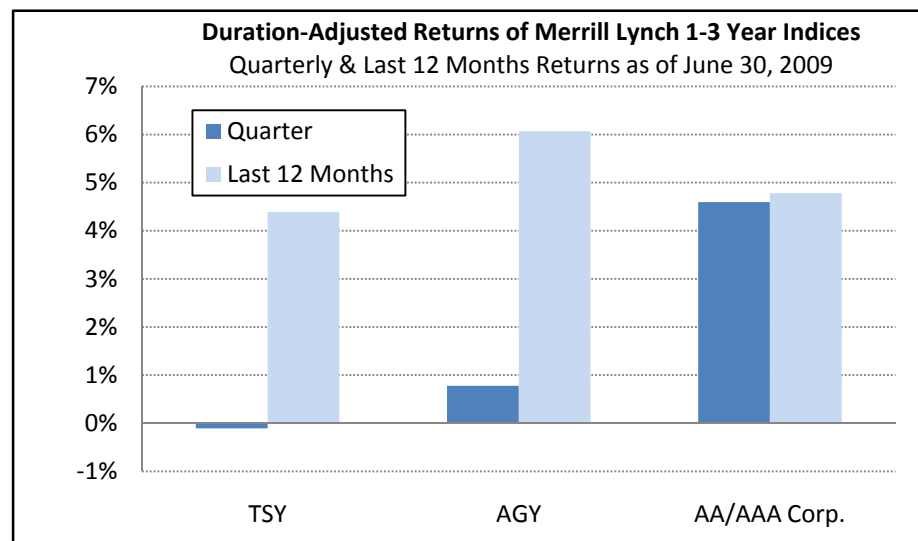
Investment-grade corporate bond spreads to comparable Treasuries narrowed even more than Federal Agency spreads in the second quarter. Corporate bond yields and benchmark rates, such as 3-month LIBOR, experienced significant drops during the quarter as some of the heightened premium for credit risk disappeared. The efforts of central banks and financial institutions from around the world to stabilize the financial markets appeared to be somewhat successful.

With deposits up by approximately \$400 billion over the past six months, U.S. banks are now flush with liquidity. This has reduced their dependence on short-term funding markets and interbank lending. Outstanding commercial paper has declined from \$1.8 trillion a year ago to \$1.3 trillion on June 30th. Financial firms have also been helped by the steepening U.S. Treasury yield curve, which has improved their net interest margins, as they pay near zero for deposits and other liquid funds, and then invest them in longer-maturity securities.

Some peril remains in corporate credit, however, as the true value of illiquid securities is not known, and prolonged weakness in the economy could raise default rates on housing and commercial loans.

With tightening spreads and higher initial yields, Federal Agency and corporate indices outperformed similar duration U.S. Treasury indices by considerable margins. Investment-grade corporate securities, especially those issued by corporations considered systemically vital, experienced exceptionally strong performance. Easing credit conditions brought banks and other financial firms back into the capital markets as issuers of non-guaranteed debt, a strong signal to the markets that the financial system may soon not need the federal government’s life support.

As the following chart illustrates, while high quality corporate benchmarks outperformed Agencies and Treasuries for the quarter, over the past year Federal Agencies still performed best.



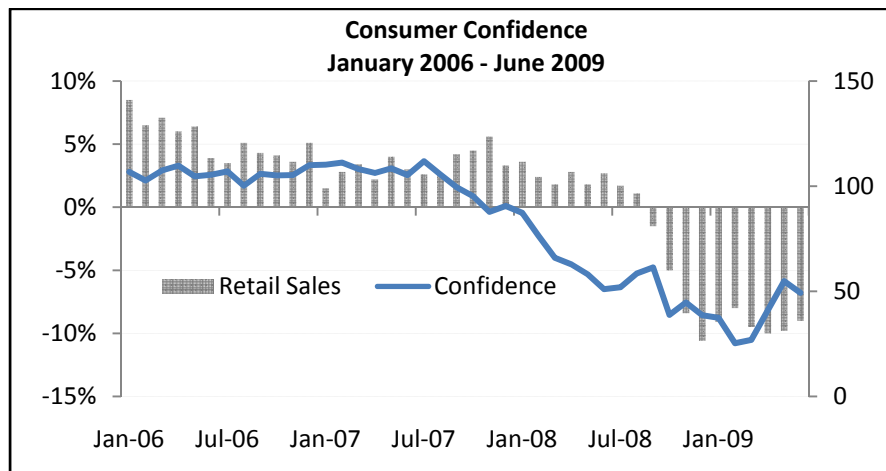
Source: Bloomberg

SIGNS OF STABILIZATION IN THE SECOND QUARTER OF 2009

The rise in intermediate- and longer-term rates evidences that market participants saw hope for the economy on the horizon. The federal stimulus package has helped to plant seeds for an economic recovery and provided much needed support to the financial system. No systemically vital financial institutions failed during the quarter, although Chrysler and General Motors were forced into bankruptcy, as largely expected.

The release of stress tests clarified the capital needs of some banks. With a semblance of normalcy in the capital markets, banks issued new common equity and converted preferred shares to common in order to insulate their balance sheets from potentially higher capital losses. Investor perception that the financial system is healing and that bank balance sheets are strengthening resulted in tightening corporate spreads.

Even with mounting job losses, consumers are growing less pessimistic on current conditions and the outlook for the future. Employment is a lagging indicator of economic vitality and the labor market is expected to be weak well into any economic recovery. However, the market is finding hope in recent consumer confidence reports. Retail sales have also improved somewhat modestly, and consumer confidence tends to move in tandem with retail sales, as the following chart illustrates.



Source: Bloomberg

U.S. ECONOMY STILL HAS A DISTANCE TO GO...

Though there were recent signs of stabilization, a recovery of 5% to 6% annual growth in GDP, typical in the recovery of a business cycle, is unlikely this time around. Meanwhile the economy continued to lose jobs with the number of unemployed persons in the U.S. reaching 14.7 million in June. Thirty percent of those unemployed have been unemployed for six months or longer. Further compounding problems is the fact that those with incomes are reluctant to spend it, spiking the savings rate to 6.9%, its highest level since 1993.

The housing market will continue to dampen a rebound, as this market is expected to take five or more years to revive. Furthermore, if long-term interest rates rise in reaction to positive economic prospects, a rebound in the housing market will be delayed by higher mortgage rates.

OUTLOOK

The market expects a gradual economic recovery over the next year or two. At some point, the Fed will have to unwind its extraordinary efforts to liquefy the markets. The Fed will be challenged to do this early enough to avoid stoking inflation and without causing undue harm that could quench a recovery or cause financial market dislocation. The hope is that excess capacity will dampen future inflation and offer a window of opportunity for the Fed to unwind positions. Thus, short- and intermediate-term rates are likely to be range bound for the next three to six months as these theories are tested. However, as the theory of an economic recovery continues to gain momentum, risks, such as interest rate risk, may force returns on intermediate- and long-term fixed-income portfolios to be low or negative. Duration management will become even more critical in this phase of the economic/interest rate cycle.

Executive Summary

PORTFOLIO STRATEGY

- The United States remains mired in its longest lasting recession since the Great Depression. Most economists believe that intermediate term growth will be sluggish at best. This recession is not unique to the United States; most developing countries continue to experience negative growth. For instance, the European Commission estimates that all but one European Union member state will experience negative growth for 2009. Economists are predicting that World GDP will contract by 1.5% in 2009.
- The City's portfolio has performed extremely well, especially considering the current state of the market: the portfolio is well diversified among U.S. Treasury, federal agency, and FDIC-insured corporate securities. The General City Account Portfolio's Yield to Maturity at Cost out yielded the Yield to Maturity of its benchmark Merrill Lynch 6 Month U.S. Treasury Bill Index by 73 basis points (0.73%).
- The portfolio complies with the City's investment policy and Florida investment statutes. During these uncertain times, we continue to focus on safety and liquidity in the portfolios.
- While recent economic news has been less negative, there is no clear evidence that the economy has begun its recovery. At its June meeting, the Federal Open Market Committee reiterated their position that "economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period." We are unlikely to see any consistent significant change in rates until there are clear signs of economic recovery.
- We will maintain a well diversified portfolio. Over the past quarter, federal agencies lost much of their yield advantage relative to Treasuries. While the additional yield offered by federal agencies over Treasuries remains low, we will likely maintain a higher allocation to Treasury securities than in the recent past.

The City's Investment Statistics

<u>Account Name</u>	<u>Amortized Cost^{1,2,3} June 30, 2009</u>	<u>Amortized Cost^{1,2,3} March 31, 2009</u>	<u>Market Value^{1,2,3} June 30, 2009</u>	<u>Market Value^{1,2,3} March 31, 2009</u>	<u>Duration (Years) June 30, 2009</u>
General City Account Portfolio	\$19,712,249.80	\$15,199,681.71	\$19,801,113.21	\$15,234,207.93	0.86
General City Account U.S. Treasury Direct	N/A	4,283,264.53	N/A	4,283,264.53	N/A
Fidelity Institutional Money Market Fund Government Portfolio (Fund #257)	5,355,529.41	7,031,121.18	5,355,529.41	7,031,121.18	0.003
Money Market Fund - State Board of Administration	1,061,117.14	1,104,555.15	657,403.27	657,403.27	0.003
Water & Sewer Series 2000 U.S. Treasury Direct	N/A	716,110.48	N/A	716,110.48	N/A
Water & Sewer 2000 - Money Market Fund - State Board of Administration	30,796.42	32,057.10	30,796.42	19,079.57	0.003
Water & Sewer Series 1992 Refunding Revenue Reserve - BONY	1,305,069.93	1,305,069.93	1,305,069.93	1,305,069.93	0.003
Total	\$27,464,762.70	\$29,671,860.08	\$27,149,912.24	\$29,246,256.89	

<u>Account Name</u>	<u>Yield to Maturity on Cost⁴ June 30, 2009</u>	<u>Yield to Maturity on Cost⁴ March 31, 2009</u>	<u>Yield to Maturity at Market June 30, 2009</u>	<u>Yield to Maturity at Market March 31, 2009</u>	<u>Duration (Years) March 31, 2009</u>
General City Account Portfolio	1.02%	1.20%	0.62%	1.06%	1.26
General City Account U.S. Treasury Direct	N/A	0.01%	N/A	0.01%	0.01
Fidelity Institutional Money Market Fund Government Portfolio (Fund #257)	0.02%	0.34%	0.02%	0.34%	0.00
Money Market Fund - State Board of Administration	0.00%	0.00%	0.00%	0.00%	0.00
Water & Sewer Series 2000 U.S. Treasury Direct	N/A	0.01%	N/A	0.01%	0.01
Water & Sewer 2000 - Money Market Fund - State Board of Administration	0.00%	0.00%	0.00%	0.00%	0.00
Water & Sewer Series 1992 Refunding Revenue Reserve - BONY	0.00%	0.00%	0.00%	0.00%	0.00
Weighted Average Yield	0.74%	0.70%	0.46%	0.64%	

Benchmarks

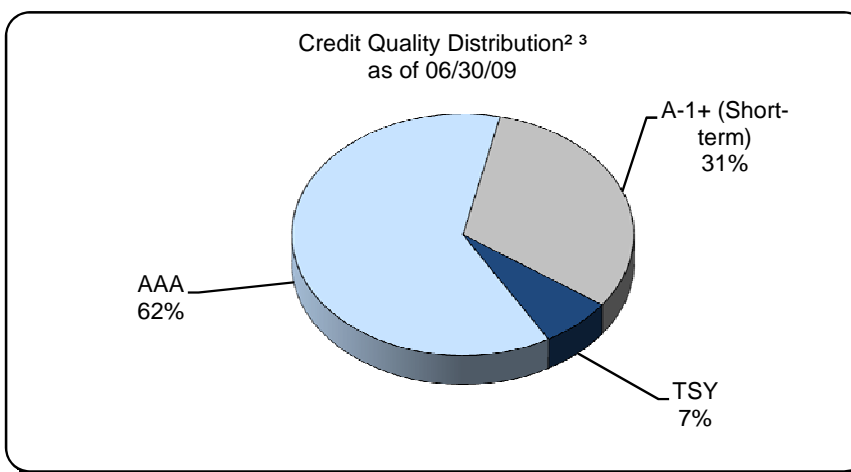
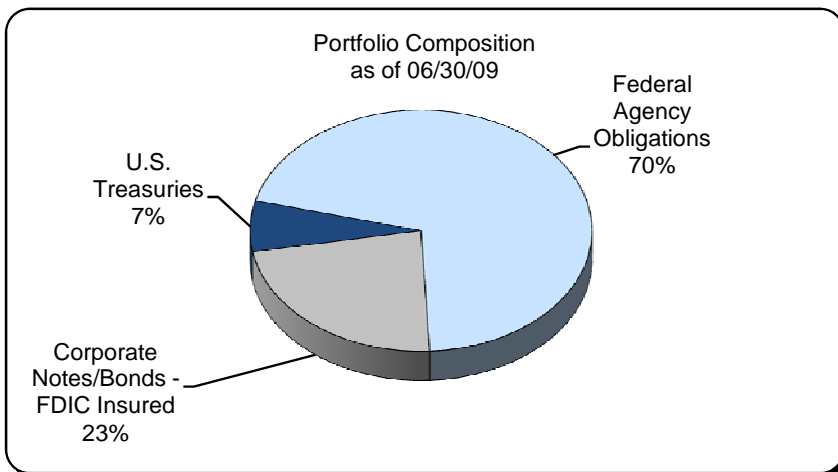
	<u>June 30, 2009</u>	<u>March 31, 2009</u>
6 Month U.S. Treasury Bill Index ⁵	0.29%	0.31%

Notes:

1. On a trade-date basis, 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. Past performance is not indicative of future results.
5. Source Bloomberg.

General City Account Portfolio Composition and Credit Quality Characteristics

<u>Security Type</u> ¹	<u>June 30, 2009</u>	<u>% of Portfolio</u>	<u>March 31, 2009</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$1,343,674.01	6.79%	\$1,340,052.59	8.80%
Federal Agencies	13,896,255.03	70.18%	9,363,052.17	61.46%
Commercial Paper	0.00	0.00%	0.00	0.00%
Certificates of Deposit	0.00	0.00%	0.00	0.00%
Bankers Acceptances	0.00	0.00%	0.00	0.00%
Repurchase Agreements	0.00	0.00%	0.00	0.00%
Municipal Obligations	0.00	0.00%	0.00	0.00%
Corporate Notes/Bonds	0.00	0.00%	0.00	0.00%
Corporate Notes/Bonds - FDIC Insured	4,561,184.17	23.03%	4,531,103.17	29.74%
Mortgage Backed	0.00	0.00%	0.00	0.00%
Money Market Fund/Cash	0.00	0.00%	0.00	0.00%
Totals	\$19,801,113.21	100.00%	\$15,234,207.93	100.00%

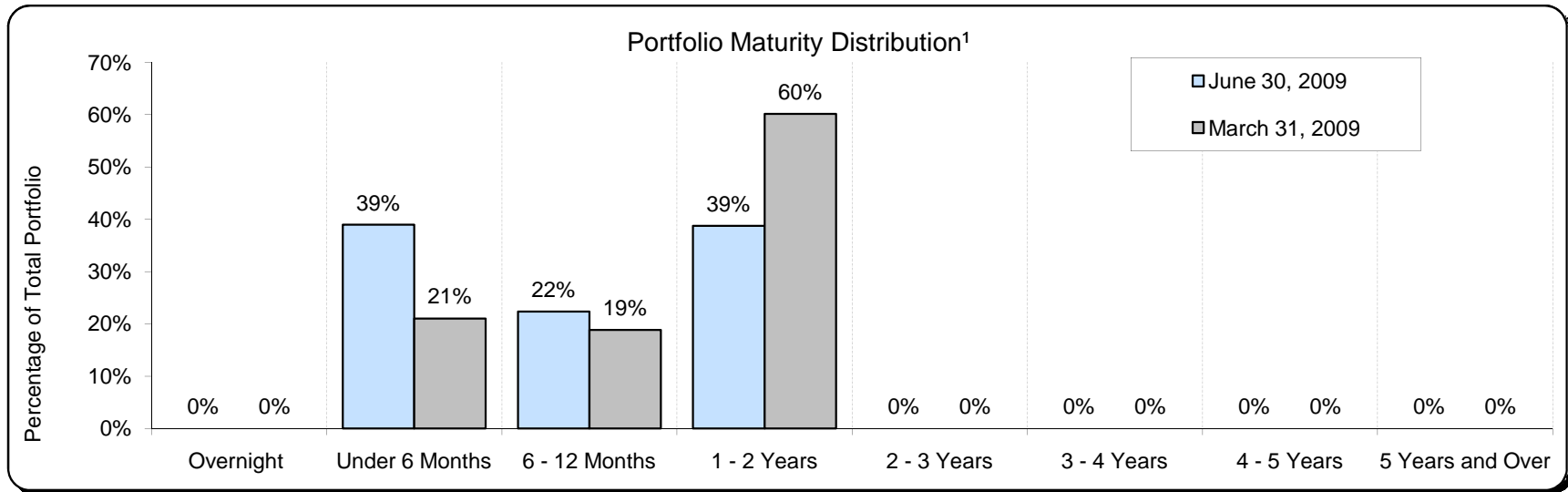


Notes:

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.
3. A rating of "TSY" indicates the security is an obligation of, or explicitly guaranteed by the U. S. Government.

General City Account Portfolio Maturity Distribution

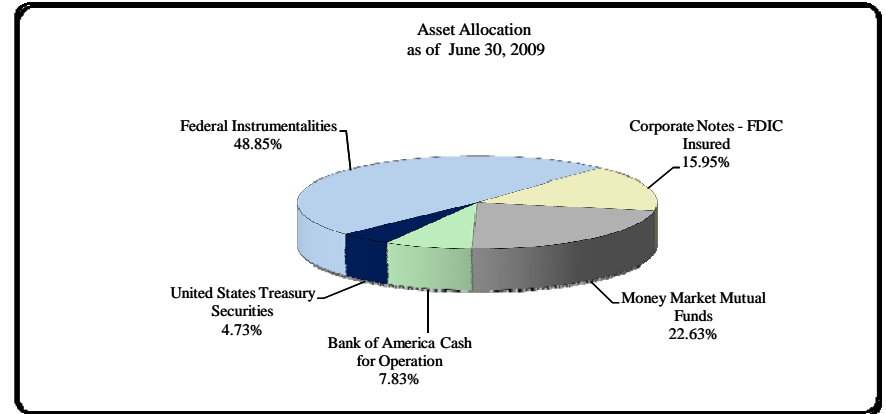
<u>Maturity Distribution¹</u>	<u>June 30, 2009</u>	<u>March 31, 2009</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	7,711,672.99	3,203,250.13
6 - 12 Months	4,421,526.89	2,873,665.09
1 - 2 Years	7,667,913.33	9,157,292.71
2 - 3 Years	0.00	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$19,801,113.21	\$15,234,207.93



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.

Security Type	June 30, 2009	June 30, 2009	Notes	Permitted by Policy
United States Treasury Securities	1,341,188.22	4.73%		100%
United States Government Agency Securities	-	0.00%		75%
Federal Instrumentalities	13,848,536.82	48.85%		80%
Certificates of Deposit	-	0.00%		25%
Repurchase Agreements	-	0.00%		50%
Commercial Paper	-	0.00%		30%
Corporate Notes - FDIC Insured	4,522,524.76	15.95%		50%
Mortgage-Backed Securities	-	0.00%		0%
Bankers' Acceptances	-	0.00%		30%
State and/or Local Government Debt (GO and Revenue)	-	0.00%		20%
Money Market Mutual Funds	6,416,646.55	22.63%		100%
Intergovernmental Investment Pool	-	0.00%		25%
Bank of America Cash for Operation	2,220,277.26	7.83%		100%



Individual Issuer Breakdown	June 30, 2009	June 30, 2009	Notes	Permitted by Policy
Government National Mortgage Association (GNMA)	-	0.00%		50%
US Export-Import Bank (Ex-Im)	-	0.00%		50%
Farmers Home Administration (FMHA)	-	0.00%		50%
Federal Financing Bank	-	0.00%		50%
Federal Housing Administration (FHA)	-	0.00%		50%
General Services Administration	-	0.00%		50%
New Communities Act Debentures	-	0.00%		50%
US Public Housing Notes & Bonds	-	0.00%		50%
US Dept. of Housing and Urban Development	-	0.00%		50%
Federal Farm Credit Bank (FFCB)	-	0.00%		25%
Federal Home Loan Bank (FHLB)	5,714,455.57	20.16%		25%
Federal National Mortgage Association (FNMA)	1,505,669.28	5.31%		25%
Federal Home Loan Mortgage Corporation (FHLMC)	6,628,411.97	23.38%		25%
Student Loan Marketing Association (SLMA)	-	0.00%		25%

Individual Issuer Breakdown	June 30, 2009	June 30, 2009	Notes	Permitted by Policy
CD - Bank A	-	0.00%		15%
CD - Bank B	-	0.00%		15%
Fully collateralized Repo - A	-	0.00%		25%
Fully collateralized Repo - B	-	0.00%		25%
CP A	-	0.00%		10%
CP B	-	0.00%		10%
General Electric Corporate Notes - FDIC insured	1,508,264.88	5.32%		25%
JP Morgan Chase Corporate Notes - FDIC insured	1,508,830.69	5.32%		25%
Bank of America Corporate Notes - FDIC insured	1,505,429.19	5.31%		25%
Corporate Notes - FDIC insured D	-	0.00%		25%
Corporate Notes - FDIC insured E	-	0.00%		25%
BA Bank A	-	0.00%		10%
BA Bank B	-	0.00%		10%
BA Bank C	-	0.00%		10%
Municipal Notes/Bonds	-	0.00%		20%
Fidelity Institutional Money Market Fund Government Portfolio (Fund #657)	5,355,529.41	18.89%		25%
Money Market Fund - State Board of Administration	1,061,117.14	3.74%		25%

Notes:
1. Does not include bond proceeds.