

City of Winter Springs

Investment Performance Review
Quarter Ended March 31, 2011



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(statements are available online at www.pfm.com)

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TAB I

Intermediate- and long-term interest rates rose modestly for the second consecutive quarter, driven by optimism for continued economic growth. As a result, returns on most fixed-income benchmarks were reduced by market value erosion that comes with rising rates. Despite two quarters of rising rates, returns over the last 12 months for longer fixed-income strategies were significantly higher than returns of cash-equivalent and money market investments, which remain near zero.

Rates experienced significant intra-quarter volatility as the natural disaster in Japan and geopolitical unrest temporarily counteracted the upward trend. By the end of the quarter, however, the net result was an increase of 20 to 30 basis points (0.20% to 0.30%) in yields on Treasury and Agency securities longer than one year. Despite this rise, the incremental income on longer-term investments and the impact of “rolling down” the yield curve helped protect the market value of portfolios.

The Economy

Behind the optimism was a slew of positive economic news. For example, the economy created 478,000 jobs during the first quarter with the headline unemployment rate dropping below 9% in February for the first time in almost two years. Manufacturing strengthened, as did retail sales and commodity and stock prices, while personal income grew at a pace that would support modest to strong GDP growth. Also fueling the continued recovery during the quarter were the effects of Congress’ move to extend the Bush era tax cuts along with reductions in the payroll (Social Security) tax.

The pace of wholesale and broad consumer price increases accelerated, but narrower inflation measures that focus on core prices remain muted. However, bond investors remain skittish on the inflation front. Thus comments from the Federal Reserve that it would complete the second phase of its program of Quantitative Easing and maintain an accommodative monetary policy put downward pressure on rates.

Volatility Rises

News of violent protests across the Middle East and North Africa, resulting in a toppled government in Egypt, an ongoing civil war in Libya, and great uncertainty surrounding the region all contributed to market volatility sending investors to the safety of U.S Treasury securities each time violence flared.

An earthquake and ensuing tsunami battered Japan in mid-March. The environmental and economic uncertainty surrounding the damage to nuclear reactors pushed yields to their lowest point during the quarter. However, the strength of the economic recovery reemerged, sparking a rally in yields that negated the effects of the flight to quality.

Interest Rates and Returns

By March 31, the rise in rates was most apparent in intermediate-term Treasuries—the so-called belly of the yield curve—with the yield on a 2-year U.S. Treasury note up 0.23% from its December 31, 2010 level while 10-year Treasury yields rose only 0.18% during the same period. The increase in rates negatively impacted returns for the quarter as the price and yield of a security are inversely related.

Short-term interest rates remained near historic lows throughout the quarter as the Fed continued to hold the Fed Funds rate in the range of zero to 25 basis points. Returns on investment strategies along most of the yield curve hovered just above zero.

Summary of U.S. Treasury Security Yields

Date	3M	6M	1Y	2Y	3Y	5Y	10Y
March 31, 2011	0.09%	0.17%	0.27%	0.82%	1.30%	2.28%	3.47%
December 31, 2010	0.12%	0.18%	0.26%	0.59%	0.99%	2.01%	3.29%
<i>Change over Quarter</i>	-0.03%	-0.01%	0.01%	0.23%	0.31%	0.27%	0.18%
March 31, 2010	0.15%	0.23%	0.38%	1.02%	1.57%	2.54%	3.83%
<i>Change over Year</i>	-0.06%	-0.06%	-0.11%	-0.20%	-0.27%	-0.27%	-0.36%

Source data: Bloomberg

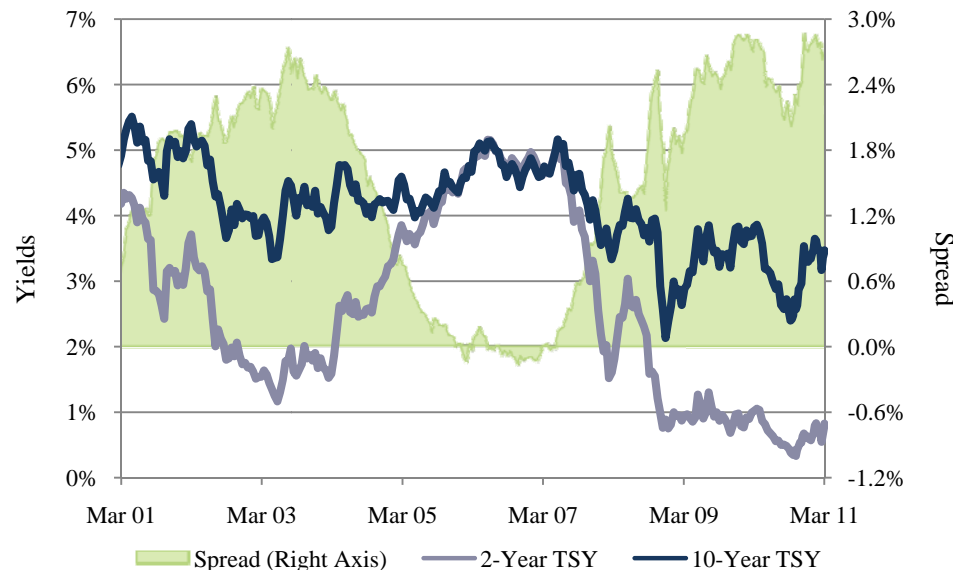
2-Year U.S. Treasury Note Yield
 April 1, 2009 through March 31, 2011



Source data: Bloomberg

The yield curve steepened even more during the quarter as the spread between shorter- and longer-maturity Treasuries rose. For example, as the following chart shows, the spread between 2-year and 10-year U.S. Treasury notes closed the quarter at 265 basis points, near the widest levels since 2003, before the yield curve flattened as a result of 17 consecutive hikes in the Fed Funds rate. The positive slope of the yield curve helps protect the market value of longer-duration portfolios. The steep yield curve allows fixed-income investors to benefit from a concept referred to as “rolling down the yield curve”. As securities approach their maturity date, they will be priced as shorter, lower-yielding securities. Pricing a security at a lower yield increases the market price of the security helping to offset the negative effects of rising yields.

U.S. Treasury Yields and Yield Curve Steepness
 March 2001 to March 2011

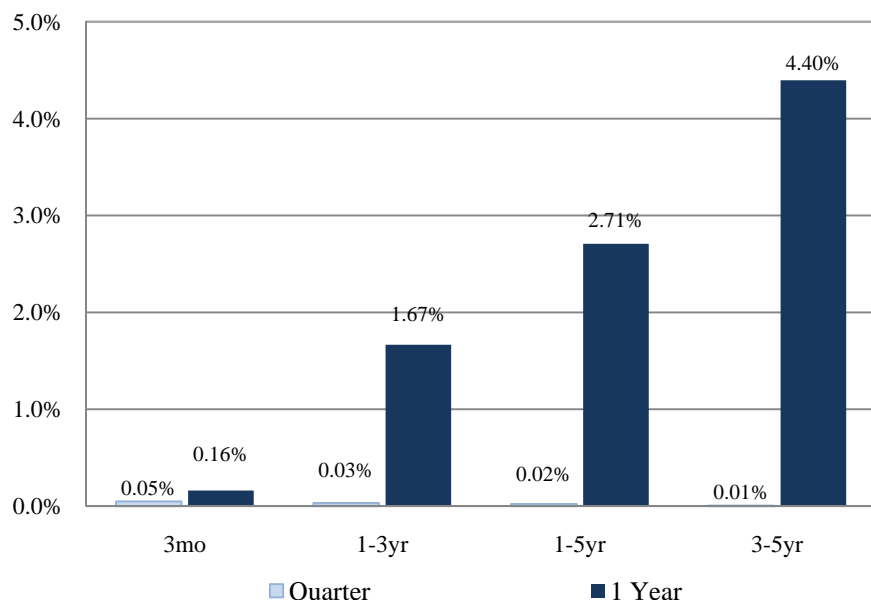


Source data: Bloomberg

As a result of the increase in interest rates during the quarter, longer-duration fixed-income strategies slightly underperformed their shorter-duration counterparts. As evidenced in the following chart, benchmark returns were barely positive, with the 1- to 3-year U.S. Treasury index returning 0.03% (0.12% annualized) for the quarter versus a return on the 3- to 5-year index of 0.01% (0.04% annualized).

However, as the following chart shows, year-over-year returns were still much higher for longer-duration strategies as short-term returns continue to be limited by the extremely low Fed Funds rate. For the 12 months ended March 31, 2011, the 3- to 5-year U.S. Treasury index returned 4.40% versus a return of 1.67% on the 1- to 3-year index, an outperformance of 273 basis points. Despite slightly better returns during the quarter, the 12-month performance of very short-term strategies continued to lag the performance of longer strategies as the 3-month U.S. Treasury benchmark returned only 0.16% over the prior 12 months.

Total Returns of Merrill Lynch U.S. Treasury Indices
Quarterly and 12-Month Total Return as of March 31, 2011

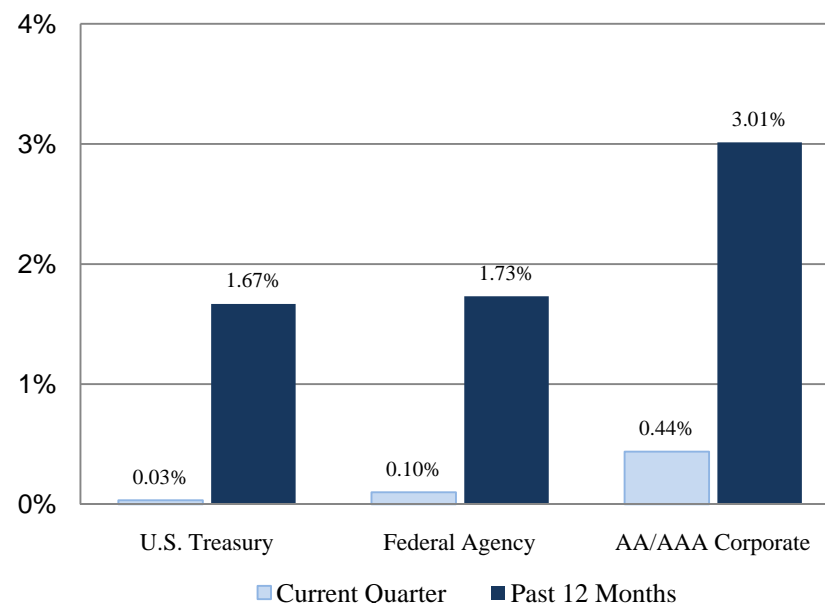


Source data: Bank of America Merrill Lynch; Bloomberg

Credit spreads continued to narrow despite beginning the quarter at historically low levels, resulting in enhanced returns from Agency and corporate bonds when compared with like-duration Treasuries. For example, the spread between 10-year Treasury debt and 10-year Agency debt narrowed by an additional four basis points to end the quarter at 26 basis points.

In the short end of the yield curve, corporate credits were in demand as signs of a strong economy improved corporate balance sheets and investors’ outlook for those credits. Increased appetite for credit risk, along with reduced Federal Agency issuance, drove up prices on corporate securities, propelling corporate indices higher than comparable U.S. Treasury and Federal Agency indices.

Duration Adjusted Returns of Merrill Lynch 1-3 Year Indices
Quarterly and 12-Month Total Return as of March 31, 2011



Source data: Bank of America Merrill Lynch; Bloomberg

Duration-adjusted return incorporates an adjustment to the market value return (but not the income return) of each benchmark to account for their varied durations, making it easier for investors to assess the relative risk and return of benchmarks of different lengths.

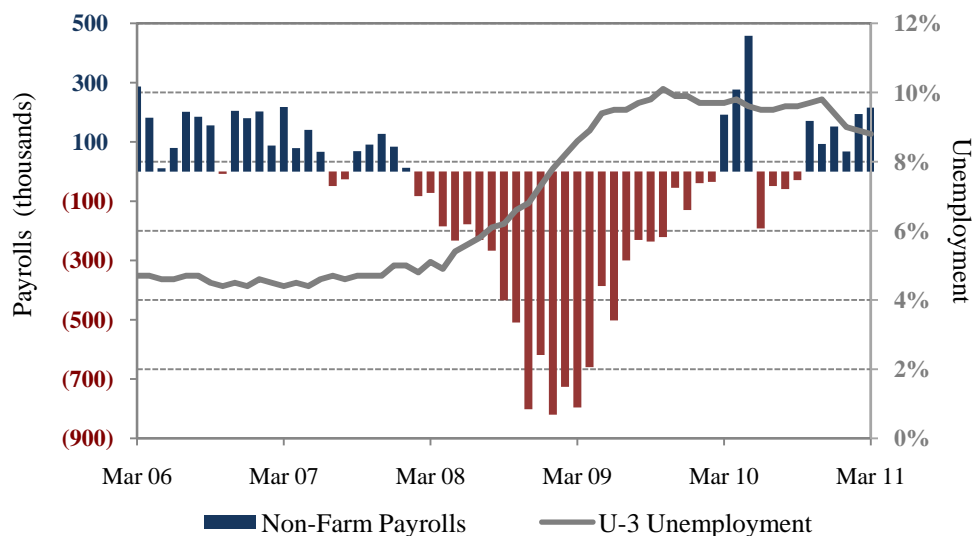
Economic Outlook

Positive economic data continues to show the economy is on a path of recovery despite a few remaining anchors.

One of those anchors is elevated unemployment and the large number of jobs lost during the recession. Although unemployment remains high, considerable improvement has been made since the unemployment rate peaked at 10.1% in October 2009. Continued improvement in the employment situation will be a key driver of a sustained recovery.

The following chart shows the positive trend seen in recent employment data releases.

U-3 Unemployment Rate and Non-Farm Payrolls
 March 31, 2006 to March 31, 2011



Source data: Bloomberg

The bleak housing market continues to be a concern going forward, as prices fell further during the quarter. Median house prices in the United States fell more than 8% over the prior 3 months to \$156,100 in February. Demand for existing and new homes remains weak as buyers face tougher borrowing requirements and reservations about when prices will bottom out. A reversal in the trend of falling home prices and stagnant demand would accelerate economic growth, possibly stoking inflation concerns.

A close eye will be kept on the situation in the Middle East and North Africa. Higher oil prices as a result of the turmoil have the potential to decrease disposable income and stall the economic recovery in the United States. Despite the price of oil rising 16% to the highest levels

since September 2008, investors have set aside these concerns for the time being and appear to be focused on brighter prospects for the economy.

Markets will also be monitoring Japan’s ability to rebound from its environmental disaster. With Japan being the third-largest economy and the largest consumer of U.S. exports, their ability to bounce back will have a direct impact on the future of the U.S. recovery. The events in Japan also renewed concerns about nuclear power as a viable alternative to meet the growing demand for energy.

Investment Strategy

Although the economy continues to improve, the Federal Reserve remains reluctant to raise short-term rates. Investors choosing cash equivalent strategies should be reconciled to near-zero returns. Given the recent back-up in rates and the steepness of the yield curve, we feel that intermediate fixed-income securities offer value.

Although the longer-term trend is for higher rates, the Federal Reserve does not look set to tighten monetary conditions anytime soon. This fact will exert pressure to keep rates low for the time being and present opportunities for intermediate-term securities to produce returns in excess of cash. Until the Federal Reserve begins posturing to tighten monetary policy, managing portfolios with a duration target that is only slightly defensive has the potential to produce good performance, especially when compared with the near zero level of short-term rates.

TAB II

Executive Summary

PORTFOLIO STRATEGY

- The City's General City Account portfolio is of high credit quality and maintains adequate liquidity. The portfolio is invested entirely in Federal Agency, U.S. Treasury, and commercial paper securities. The securities in the portfolios are allocated among high quality issuers rated AAA and A-1+.
- The U.S. economy continued to show signs of modest improvement in the first quarter of 2011. Fourth quarter 2010 GDP was released at \$13.38 trillion, surpassing the previous peak of \$13.36 trillion in the second quarter of 2008.
- Over the quarter, interest rates were volatile across the yield curve due to positive economic releases, such as the manufacturing and employment reports, and significant developments abroad, such as the political turmoil in the Middle East and the earthquake in Japan. Despite the volatility, intermediate-term yields finished the quarter 20 basis points higher than the previous quarter on signs of better growth prospects and higher inflation expectation in the U.S.
- Commercial paper remains an attractive investment when compared to comparable maturity U.S. Treasury and federal agency securities. Given the outlook for the economy and credit we are comfortable continuing to utilize commercial paper.
- The General City Account Portfolio continues to provide the City with favorable yield relative to the benchmark. Over the quarter the portfolio had a weighted average Yield to Maturity at Cost of 0.65%, exceeding the average Yield to Maturity of its benchmark the Merrill Lynch 1 Year U.S. Treasury Note Index by 38 basis points (0.38%).
- PFM will continue to follow the prudent investment strategies that have safely provided the City with favorable yield and maintained adequate liquidity during this period of significant market and economic turmoil.
- Although interest rates have rebounded from all time lows, we believe the Federal Reserve is highly unlikely to change its policy in the short term. Economists expect the second round of quantitative easing will run its course, through June. However, an internal debate over monetary policy among the Fed Governors has been at the forefront of the conversation in Washington throughout the first quarter. Such heated debate may be a sign that monetary policy change is on the horizon, although not in the near term. As long as the economy continues to stay the course, we expect the first interest rate tightening to occur sometime after the first quarter of 2012.
- While near-time events (Japan earthquake, continued Middle East uncertainty) could slow the pace of economic growth, the economy appears to be on track for continued modest growth over the next several quarters. Many positive economic forces, such as strength in manufacturing, improving job market, strong corporate earnings supporting continued rising stock prices, and solid retail sales indicate the economy is in the growth phase.

The City's Investment Statistics

<u>Account Name</u>	<u>Amortized Cost^{1,2,3}</u>	<u>Amortized Cost^{1,2,3}</u>	<u>Market Value^{1,2,3}</u>	<u>Market Value^{1,2,3}</u>	<u>Duration (Years)</u>
	<u>March 31, 2011</u>	<u>December 31, 2010</u>	<u>March 31, 2011</u>	<u>December 31, 2010</u>	<u>March 31, 2011</u>
General City Account Portfolio	\$19,823,417.14	\$13,091,000.27	\$19,832,204.38	\$13,126,876.31	1.12
Fidelity Institutional Money Market Fund Government Portfolio (Fund #257)	8,109,252.22	6,912,903.22	8,109,252.22	6,912,903.22	0.003
Money Market Fund - State Board of Administration Pool A	73,676.09	44,806.15	73,676.09	44,806.15	40 Days
Money Market Fund - State Board of Administration Pool B	678,940.57	707,769.33	678,940.57	707,769.33	N/A
Bank of America Cash for Operation - depository	2,908,464.21	8,272,728.54	2,908,464.21	8,272,728.54	0.003
Water & Sewer 2000 - Fidelity Institutional Money Market Fund Government Portfolio (Account #364)	716,618.03	716,605.85	716,618.03	716,605.85	0.003
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool A	2,138.30	1,300.40	2,138.30	1,300.40	40 Days
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool B	19,704.67	20,541.35	19,704.67	20,541.35	N/A
Water & Sewer Series 1992 Refunding Revenue Reserve - BONY	1,305,931.84	1,305,196.99	1,305,931.84	1,305,196.99	0.003
Total	\$33,638,143.07	\$31,072,852.10	\$33,646,930.31	\$31,108,728.14	

<u>Account Name</u>	<u>Yield to Maturity on Cost⁴</u>	<u>Yield to Maturity on Cost⁴</u>	<u>Yield to Maturity at Market</u>	<u>Yield to Maturity at Market</u>	<u>Duration (Years)</u>
	<u>March 31, 2011</u>	<u>December 31, 2010</u>	<u>March 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2010</u>
General City Account Portfolio	0.65%	1.07%	0.49%	0.27%	0.39
Fidelity Institutional Money Market Fund Government Portfolio (Fund #257)	0.01%	0.01%	0.01%	0.01%	0.003
Money Market Fund - State Board of Administration Pool A	0.27%	0.27%	0.27%	0.27%	35 Days
Money Market Fund - State Board of Administration Pool B	0.00%	0.00%	0.00%	0.00%	N/A
Bank of America Cash for Operation - depository	0.30%	0.30%	0.30%	0.30%	0.003
Water & Sewer 2000 - Fidelity Institutional Money Market Fund Government Portfolio (Account #364)	0.01%	0.01%	0.01%	0.01%	0.003
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool A	0.27%	0.27%	0.27%	0.27%	35 Days
Water & Sewer 2000 - Money Market Fund - State Board of Administration Pool B	0.00%	0.00%	0.00%	0.00%	N/A
Water & Sewer Series 1992 Refunding Revenue Reserve - BONY	0.00%	0.27%	0.00%	0.27%	0.003
Weighted Average Yield	0.41%	0.54%	0.32%	0.21%	

Benchmarks

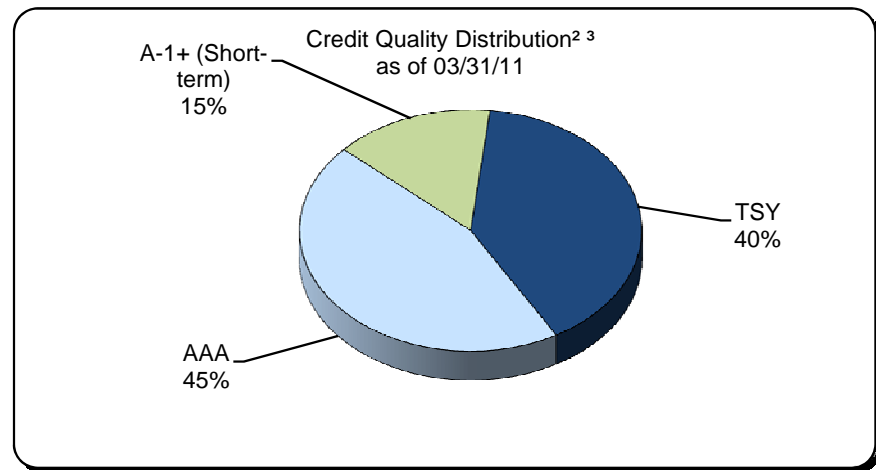
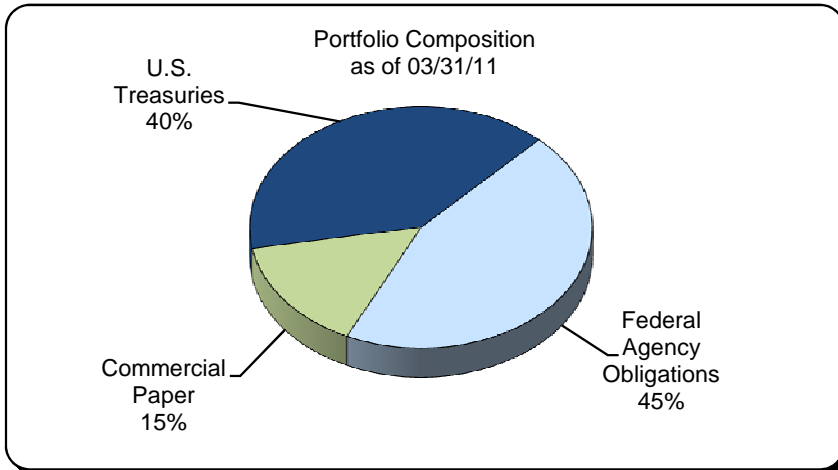
	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Merrill Lynch 1 Year U.S. Treasury Note Index ⁵	0.27%	0.31%

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>March 31, 2011</u>	<u>% of Portfolio</u>	<u>December 31, 2010</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$7,903,765.40	39.85%	\$2,613,555.36	19.91%
Federal Agencies	8,932,274.98	45.04%	7,489,012.45	57.05%
Commercial Paper	2,996,164.00	15.11%	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	0.00	0.00%	3,024,308.50	23.04%
Mortgage Backed	0.00	0.00%	0.00	0.00%
Money Market Fund/Cash	0.00	0.00%	0.00	0.00%
Totals	\$19,832,204.38	100.00%	\$13,126,876.31	100.00%

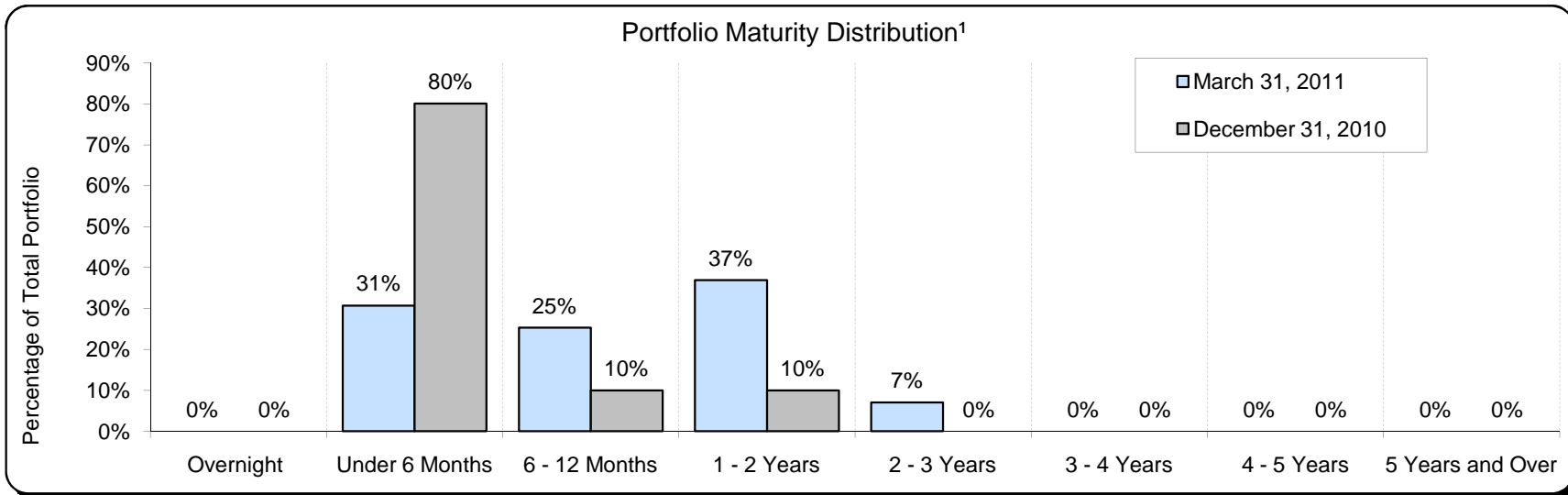


Notes:

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/LGIP. Standard & Poor's is the source of the credit ratings.
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

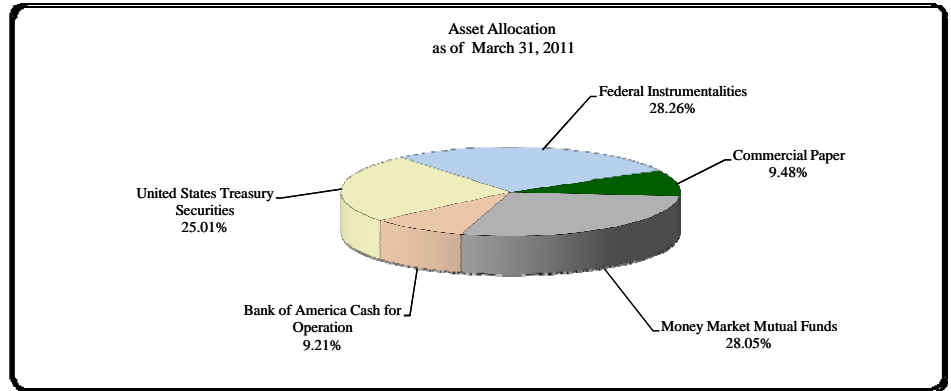
<u>Maturity Distribution¹</u>	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	6,094,083.04	10,510,578.27
6 - 12 Months	5,020,114.34	1,307,782.23
1 - 2 Years	7,318,984.25	1,308,515.81
2 - 3 Years	1,399,022.75	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$19,832,204.38	\$13,126,876.31



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 ¹	March 31, 2011	March 31, 2011	Notes	Permitted by Policy
United States Treasury Securities	7,900,864.15	25.01%		100%
United States Government Agency Securities	-	0.00%		75%
Federal Instrumentalities	8,927,963.27	28.26%		80%
Certificates of Deposit	-	0.00%		25%
Repurchase Agreements	-	0.00%		50%
Commercial Paper	2,994,589.72	9.48%		30%
Corporate Notes - FDIC Insured	-	0.00%		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	8,861,868.88	28.05%	2	100%
Intergovernmental Investment Pool	-	0.00%		25%
Bank of America Cash for Operation	2,908,464.21	9.21%	2	100%



Individual Issuer Breakdown	March 31, 2011	March 31, 2011	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)	4,314,611.05	13.66%		25%
Federal National Mortgage Association (FNMA)	1,509,732.32	4.78%		25%
Federal Home Loan Mortgage Corporation (FHLMC)	3,103,619.90	9.82%		25%
Student Loan Marketing Association (SLMA)	-	0.00%		25%

Individual Issuer Breakdown	March 31, 2011	March 31, 2011	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%
BNP Paribas CP	1,996,850.00	6.32%		10%
Credit Agricole CP	997,739.72	3.16%		10%
Corporate Notes - FDIC insured A	-	0.00%		25%
Corporate Notes - FDIC insured B	-	0.00%		25%
Corporate Notes - FDIC insured C	-	0.00%		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 #257)	8,109,252.22	25.67%	2	25%
Money Market Fund - State Board of Administration	752,616.66	2.38%	2	25%

Notes:
 1. Does not include bond proceeds.
 2. Managed by the City.
 3. End of month trade-date amortized cost of portfolio holdings, including accrued interest.