

School District of Lake County



Investment Performance Review Quarter Ended September 30, 2014

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September 30, 2014 PFM Month-End Statement
(statements are available online at www.pfm.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

- While the U.S. economy continued its recovery during the quarter, global unrest and uncertainty about future central bank policy—including actions of the Federal Reserve (Fed)—resulted in volatility in the bond and equity markets.
- Ten-year Treasury bond yields were little changed compared to the end of the previous quarter, although yields experienced larger movements throughout the quarter. On the other hand, shorter-term rates generally rose while longer term rates fell modestly.
- Geopolitical uncertainty continued to move the markets. Military conflicts in Ukraine and the Middle East, as well as weaker economic data in the euro zone and various emerging markets such as China and Brazil, factored significantly in investor sentiment.

Economic Snapshot

- Second-quarter gross domestic product (GDP) rose at a revised annual rate of 4.6%, driven by increased consumption, inventories, exports, residential and nonresidential investment, and local government spending.
- The U.S. unemployment rate fell from 6.1% in June to 5.9% in September. While job growth has been impressive, wage growth has been weak and other measures such as the labor force participation rate and the number of part time workers for economic reasons indicate lingering levels of underutilization.
- Housing market data was also a “glass half empty, glass half full” scenario, as housing-related indicators experienced a series of ups and downs throughout the quarter. Most recently, new-home sales reached the highest level since 2008, while existing-home sales had a small, unexpected decline.

Interest Rates

- The Federal Open Market Committee (FOMC) reaffirmed that its quantitative easing bond purchase program will end in October. At the same time, the FOMC released updated assessments of where individual participants judged the appropriate level for the federal funds rate at the end of the next few calendar years. Those assessments showed a surprisingly fast upward trajectory for short-term rates that are inconsistent with both Fed Chair Janet Yellen’s public comments and persistently low current market rates.
- Inflation (as measured by the Consumer Price Index) unexpectedly decreased month over month in August. This marked the first decline in almost a year and a half. Inflation continues to run below the Fed’s 2% target rate.
- Yields on intermediate-maturity (two- to five-year) Treasuries ended the quarter higher. Surprisingly, this was not the case for longer maturities (10-30 years); instead, rates continued to fall modestly, causing a flattening of the Treasury yield curve.

Sector Performance

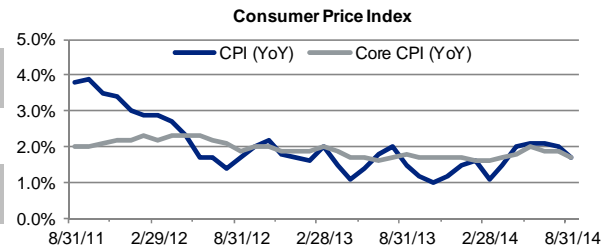
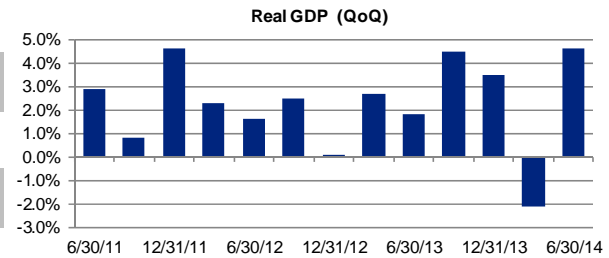
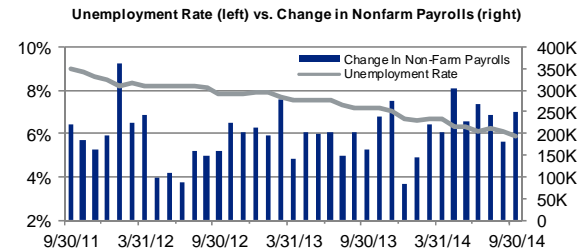
- Fixed-income performance was very modest for the quarter—or in some cases modestly negative—as income was offset by interest rate increases for short- and intermediate-term maturities across most sectors. The exceptions were longer-maturity Treasury, Agency, and municipal bonds, where yields actually fell modestly.
- Spreads generally widened in the quarter. While the impact was modest for the Agency sector, spread widening in corporates negatively affected performance in the sector. Still, corporates have been one of the best performing sectors over the past one-, three-, and five-year periods.
- Short-term markets continued to be driven by the Fed as well as new regulations affecting banks and money market funds.

Economic Snapshot

Labor Market	Latest	Jun 2014	Sep 2013	
Unemployment Rate	Sep'14	5.9%	6.1%	7.2%
Change In Non-Farm Payrolls	Sep'14	248,000	267,000	164,000
Average Hourly Earnings (YoY)	Sep'14	2.0%	1.9%	2.0%
Personal Income (YoY)	Aug'14	4.3%	4.1%	2.8%
Initial Jobless Claims (week)	Sep 26	287,000	316,000	318,000

Growth	Latest	Jun 2014	Sep 2013	
Real GDP (QoQ SAAR)	2014Q2	4.6%	-2.1% ¹	4.5% ²
GDP Personal Consumption (QoQ SAAR)	2014Q2	2.5%	1.2% ¹	2.0% ²
Retail Sales (YoY)	Aug'14	5.0%	4.4%	3.2%
ISM Manufacturing Survey (month)	Sep'14	56.6	55.3	56.0
Existing Home Sales SAAR (month)	Aug'14	5.05 mil.	5.03 mil.	5.26 mil.

Inflation / Prices	Latest	Jun 2014	Sep 2013	
Personal Consumption Expenditures (YoY)	Aug'14	1.5%	1.6%	1.0%
Consumer Price Index (YoY)	Aug'14	1.7%	2.1%	1.2%
Consumer Price Index Core (YoY)	Aug'14	1.7%	1.9%	1.7%
Crude Oil Futures (WTI, per barrel)	Sep 30	\$91.16	\$105.37	\$102.33
Gold Futures (oz.)	Sep 30	\$1,211	\$1,322	\$1,327



1. Data as of First Quarter 2014

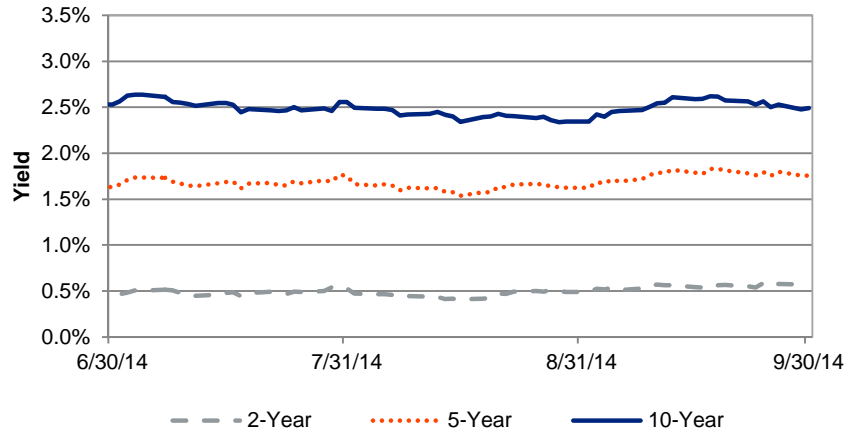
2. Data as of Third Quarter 2013

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

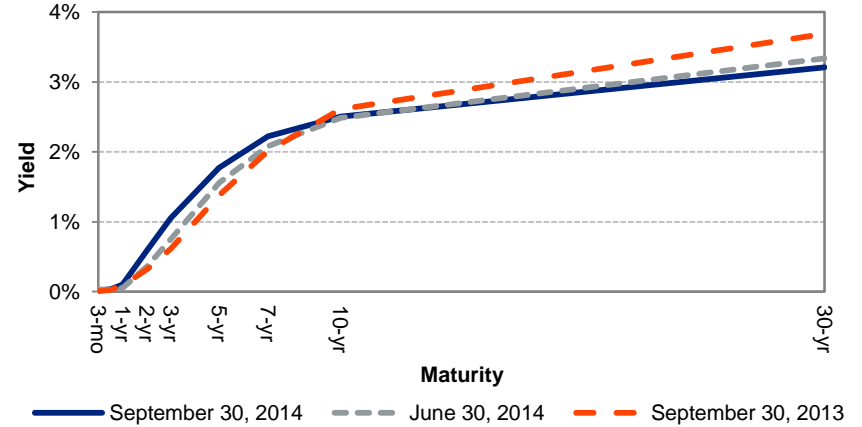
Source: Bloomberg

Investment Rate Overview

U.S. Treasury Note Yields



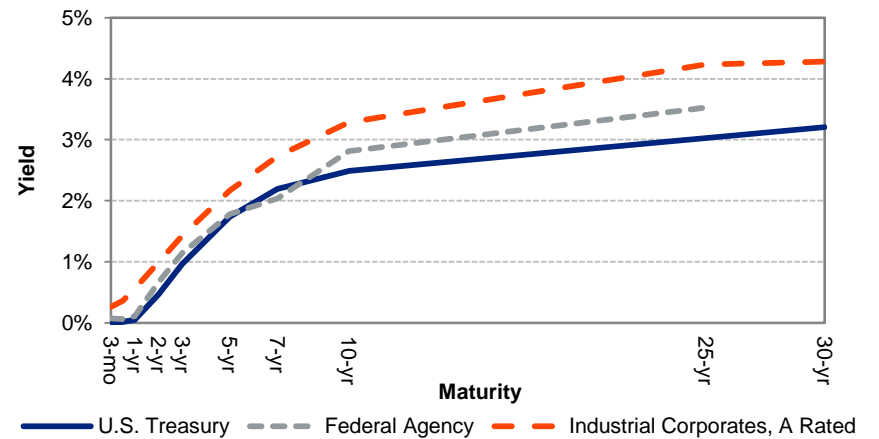
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	9/30/14	6/30/14	Change over Quarter	9/30/13	Change over Year
3-month	0.02%	0.02%	0.00%	0.01%	0.01%
1-year	0.10%	0.10%	0.00%	0.09%	0.01%
2-year	0.57%	0.46%	0.11%	0.32%	0.25%
5-year	1.76%	1.63%	0.13%	1.38%	0.38%
10-year	2.49%	2.53%	(0.04%)	2.61%	(0.12%)
30-year	3.20%	3.36%	(0.16%)	3.69%	(0.49%)

Yield Curves as of 9/30/2014



Source: Bloomberg

BofA Merrill Lynch Index Returns

	As of 9/30/2014		Returns for Periods ended 9/30/2014		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.91	0.59%	0.03%	0.50%	0.48%
Federal Agency	1.86	0.71%	0.07%	0.63%	0.65%
U.S. Corporates, A-AAA rated	1.96	1.14%	0.02%	1.39%	2.28%
Agency MBS (0 to 3 years)	1.56	1.21%	(0.14%)	1.49%	1.16%
Municipals	1.81	0.54%	0.12%	1.05%	1.04%
1-5 Year Indices					
U.S. Treasury	2.71	0.97%	(0.06%)	0.64%	0.63%
Federal Agency	2.36	0.97%	0.00%	0.99%	0.86%
U.S. Corporates, A-AAA rated	2.85	1.65%	(0.10%)	2.16%	3.06%
Agency MBS (0 to 5 years)	3.16	2.20%	0.05%	3.21%	2.01%
Municipals	2.58	0.83%	0.31%	1.88%	1.56%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	5.93	1.63%	0.43%	2.70%	1.08%
Federal Agency	3.95	1.48%	0.25%	2.55%	1.31%
U.S. Corporates, A-AAA rated	6.71	2.76%	0.17%	5.85%	4.58%
Agency MBS (0 to 30 years)	4.68	2.75%	0.15%	3.72%	2.06%
Municipals	6.99	2.65%	1.64%	8.73%	4.83%

Returns for periods greater than one year are annualized

Source: BofA Merrill Lynch Indices

Disclosures

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.

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TAB II

Executive Summary

PORTFOLIO STRATEGY

- The School District's Impact Fee Portfolio is of high credit quality and invested in commercial paper.
- The Impact Fee Portfolio continues to provide favorable yield relative to the benchmark. At quarter end, the portfolio had a Yield to Maturity at Cost of 0.23%, exceeding the Yield to Maturity of its benchmark the Merrill Lynch 3 Month U.S. Treasury Bill Index by 21 basis points (0.21%).
- As economic data continues to signal a prospering U.S. economy, we believe the Federal Reserve will reduce the significant monetary support that has driven capital markets for the past 6 years. The Fed will conclude its large-scale asset purchase program in October, after which all eyes will turn to the FOMC's main policy tool – the Fed Funds Rate – and the potential timing and magnitude of expected rate hikes in 2015.
- While the Fed recently offered more transparent policy normalization plans, helping to answer the “how” question, there remains significant debate on “when” an eventual rate hike will occur. Market expectations range between the spring and summer of 2015 for a first rate hike. As was experienced in previous periods of monetary policy adjustment, we believe a significant market move will precede a formal FOMC announcement. In such a higher risk period, we will continue to favor a defensive duration position for intermediate and longer duration portfolios. We believe this is less likely to impact very short duration (1 year and under) strategies in the near term. We acknowledge, however, that developing geopolitical uncertainties may produce increased volatility and downward rate pressure, at least temporarily, in coming quarters.
- The SEC's recently finalized rules for Money Market Funds have not yet impacted the shortest maturity securities. These new rules, along with a multitude of new bank standards for capital and liquidity, are likely to influence the supply and structure of money market securities in the next year or two. We will continue to closely monitor developments in this space and their potential impact on portfolio strategies.
- As always, we strive to maintain the safety of principal, while at the same time seeking opportunities to add value. Our strategy will remain flexible and may change in response to changes in interest rates, economic data, market outlook or specific opportunities that arise.

Impact Fee Portfolio Portfolio Statistics

<u>Account Name</u>	Amortized Cost^{1,2,3} September 30, 2014	Amortized Cost ^{1,2,3,5} <u>June 30, 2014</u>	Market Value^{1,2,3} September 30, 2014	Market Value ^{1,2,3,5} <u>June 30, 2014</u>	Duration (Years) September 30, 2014
Impact Fee Portfolio - Fixed Income Securities	\$26,096,345.15	N/A	\$26,098,230.39	N/A	0.32

<u>Account Name</u>	Yield to Maturity at Cost⁴ September 30, 2014	Yield to Maturity at Cost ^{4,5} <u>June 30, 2014</u>	Yield to Maturity at Market September 30, 2014	Yield to Maturity at Market ⁵ <u>June 30, 2014</u>	Duration (Years) ⁵ <u>June 30, 2014</u>
Impact Fee Portfolio - Fixed Income Securities	0.23%	N/A	0.20%	N/A	N/A

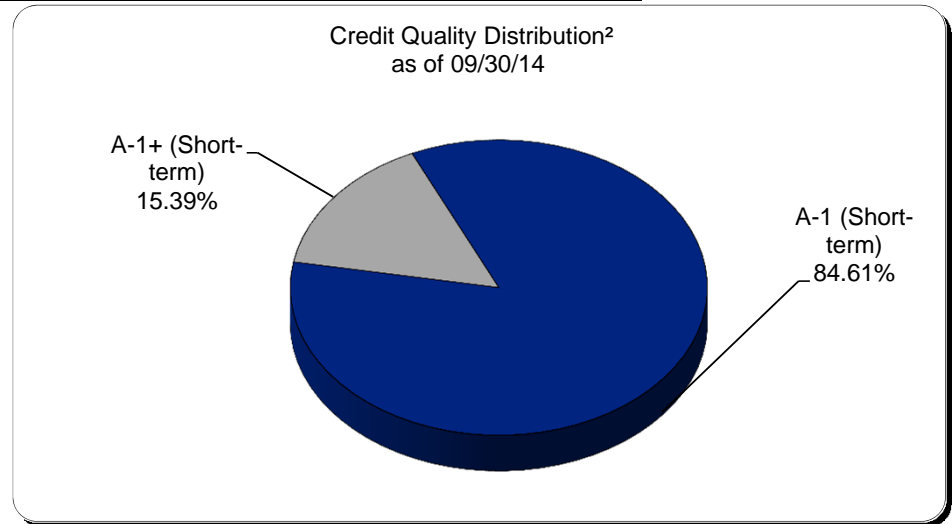
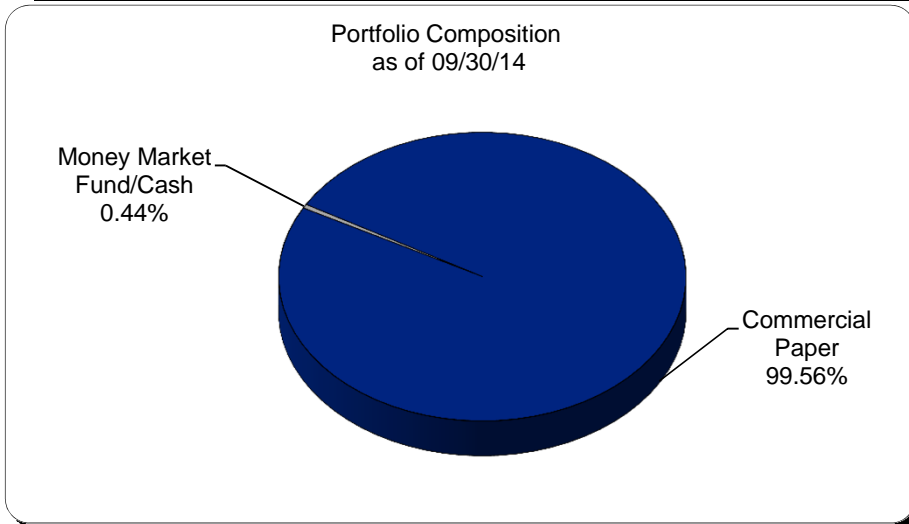
<u>Benchmarks</u>	September 30, 2014	<u>June 30, 2014</u>
Merrill Lynch 3 Month T-Bill Index	0.02%	N/A

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. Includes any money market fund/cash balances held in custodian account.
4. Past performance is not indicative of future results.
5. "N/A" means the portfolio did not exist at this time.

Impact Fee Portfolio Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>September 30, 2014</u>	<u>% of Portfolio</u>	<u>June 30, 2014</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$0.00	0.0%	N/A	N/A
Federal Agencies	0.00	0.0%	N/A	N/A
Commercial Paper	25,982,568.00	99.6%	N/A	N/A
Certificates of Deposit	0.00	0.0%	N/A	N/A
Bankers Acceptances	0.00	0.0%	N/A	N/A
Repurchase Agreements	0.00	0.0%	N/A	N/A
Municipal Obligations	0.00	0.0%	N/A	N/A
Corporate Notes/Bonds	0.00	0.0%	N/A	N/A
Mortgage Backed	0.00	0.0%	N/A	N/A
Money Market Fund/Cash	115,662.39	0.4%	N/A	N/A
Totals	\$26,098,230.39	100.0%	N/A	N/A

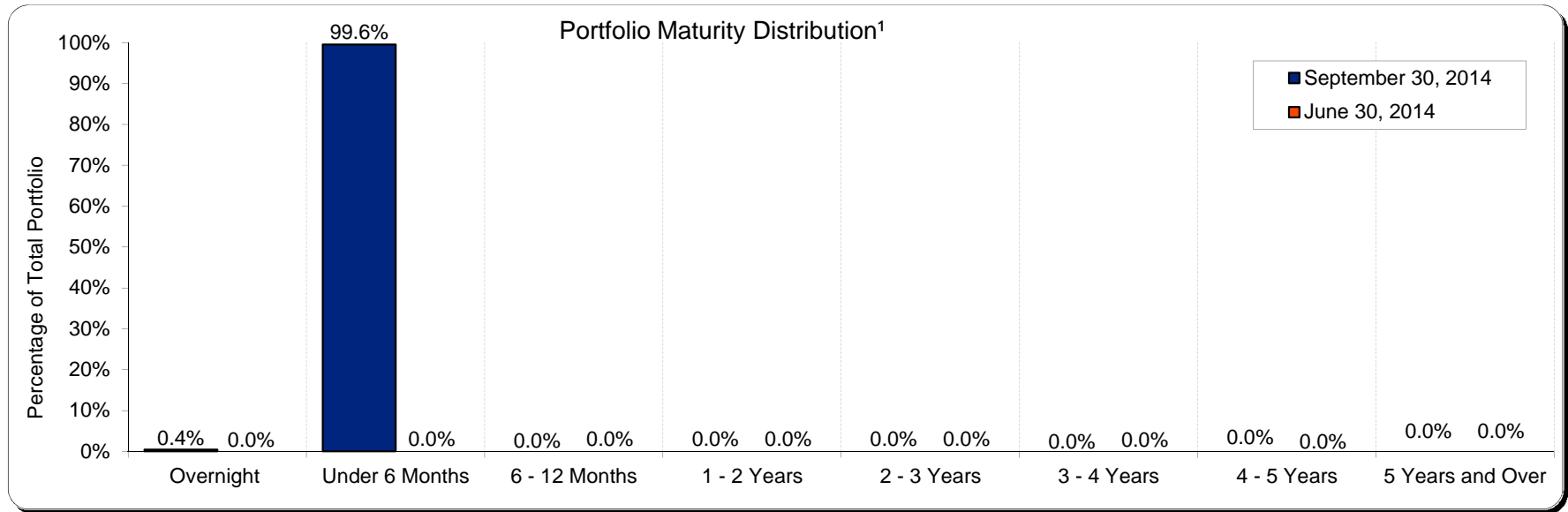


Notes:

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.

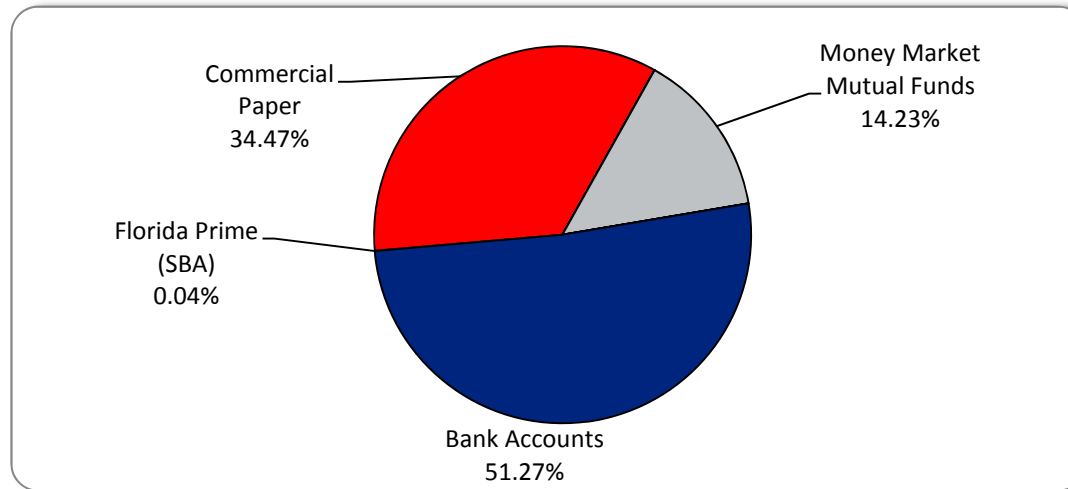
Impact Fee Portfolio Maturity Distribution

<u>Maturity Distribution¹</u>	<u>September 30, 2014</u>	<u>June 30, 2014</u>
Overnight (Money Market Fund)	\$115,662.39	N/A
Under 6 Months	25,982,568.00	N/A
6 - 12 Months	0.00	N/A
1 - 2 Years	0.00	N/A
2 - 3 Years	0.00	N/A
3 - 4 Years	0.00	N/A
4 - 5 Years	0.00	N/A
5 Years and Over	0.00	N/A
Totals	\$26,098,230.39	N/A



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	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Florida Prime (SBA)	27,709.40	0.04%		25%	YES
United States Treasury Securities	-	0.00%		100%	YES
United States Government Agency Securities	-	0.00%		50%	YES
Federal Instrumentalities	-	0.00%	2	80%	YES
Mortgage-Backed Securities	-	0.00%	2,3	20%	YES
Certificates of Deposit or Savings Account	-	0.00%		25%	YES
Repurchase Agreements	-	0.00%		50%	YES
Commercial Paper	25,980,682.76	34.47%		35%	YES
Corporate Notes	-	0.00%		0%	YES
Bankers' Acceptances	-	0.00%		35%	YES
State and/or Local Government Debt	-	0.00%		20%	YES
Money Market Mutual Funds	10,721,802.94	14.23%		50%	YES
Intergovernmental Investment Pool	-	0.00%		25%	YES
Bank Accounts	38,640,538.50	51.27%		100%	YES

Notes:

- End of month trade-date amortized cost of portfolio holdings, including accrued interest.
- The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 80%. The combined total as of September 30, 2014 is .00%.
- The Investment Policy does allow for Government and Federal Agency mortgage backed securities (MBS'). Which is limited to GNMA, FHLMC, and FNMA mortgage backed securities. GNMA securities have the full faith and credit of the United States Treasury. As of September 6, 2008, FHLMC and FNMA have been under conservatorship with the United States Treasury. PFM has imposed an internal maximum allocation limit of 20% in MBS'. PFM will notify the School District prior to adding MBS' to the portfolio.
- The School District added \$18.5 million to the Impact Fees Money Market Fund during the month of May. The deposit has pushed the account out of compliance.

* No Bond Proceeds

Individual Issuer Breakdown	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Government National Mortgage Association (GNMA)	-	0.00%		25%	YES
Federal Farm Credit Bank (FFCB)	-	0.00%		40%	YES
Federal Home Loan Bank (FHLB)	-	0.00%		40%	YES
Federal National Mortgage Association (FNMA)	-	0.00%		40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	-	0.00%		40%	YES
BNP Paribas Finance Inc. Commercial Paper	3,994,700.00	5.30%		10%	YES
Societe Generale NA Commercial Paper	4,998,083.35	6.63%		10%	YES
Toyota Motor Commercial Paper	3,997,297.76	5.30%		10%	YES
Bank of Tokyo Mitsubishi Commercial Paper	3,996,773.32	5.30%		10%	YES
Credit Agricole NY Commercial Paper	4,997,891.65	6.63%		10%	YES
UBS Finance Delaware LLC Commercial Paper	3,995,936.68	5.30%		10%	YES
Bank Accounts	38,640,538.50	51.27%		100%	YES
Money Market Fund - Impact Fees	10,721,802.94	14.23%	4	25%	YES

Notes:

1. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
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TAB III

Insert Month End Statement here to complete the report.

In consideration of the safety and security of our client's sensitive information, PFM Asset Management's compliance department does not allow the inclusion of month end statements in any electronic communication including this version of the quarterly performance 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.

The most current statements are always available to the client online, however they can only be accessed with the designated username and password.