

School District of Lake County



Investment Performance Review Quarter Ended December 31, 2014

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December 31, 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

- The fourth-quarter markets were characterized by heightened volatility, a continued strengthening of the U.S. dollar, and soaring U.S. equity markets, which reached new all-time highs.
- Globally, economic growth patterns diverged during the quarter, with the U.S. strengthening while other areas of the developed world (such as Europe and Japan) struggled with stagnation.
- Oil prices plummeted as global demand slowed, while the supply of oil continued to climb as a result of strong domestic output combined with the Organization of Petroleum Exporting Countries' (OPEC's) decision not to reduce the pace of its oil production.

Economic Snapshot

- Third-quarter gross domestic product (GDP) grew at 5%, reflecting increases in personal consumption expenditures, exports, and federal, state, and local government spending, among other factors.
- The U.S. labor market continued to improve, as the unemployment rate fell from 5.9% in September to 5.6% in December. The business services, retail, transportation, healthcare, and manufacturing sectors all saw job gains.
- The housing market had a lackluster quarter as both new- and existing-home sales fell and home price increases slowed to just 4.5% year over year through October 2014, compared to an increase of 10.9% in the prior year.
- The Consumer Price Index, which measures inflation, fell 0.3% in November, marking its largest decline since December 2008. Lower oil prices were a major contributor to the falling prices.

Interest Rates

- The Federal Open Market Committee (FOMC) rephrased its “considerable time” language in its statement released after its December meeting, saying that it would be “patient” when

normalizing monetary policy after taking extraordinary steps to support economic recovery after the financial crisis.

- The yield curve flattened over the quarter as short and intermediate rates rose, while longer maturities continued to see downward pressure. The two-year Treasury reached 0.7%, a three-year high, in late December. The 10-year Treasury ended the year at 2.2%, down from 2.5% at the beginning of the fourth quarter and 3% at the beginning of 2014.

Sector Performance

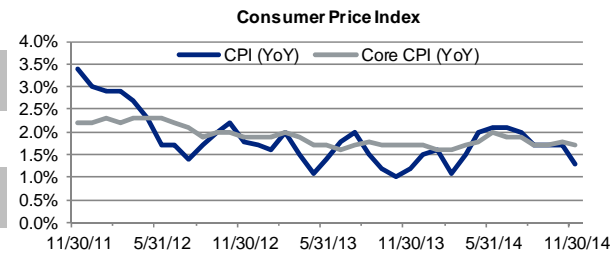
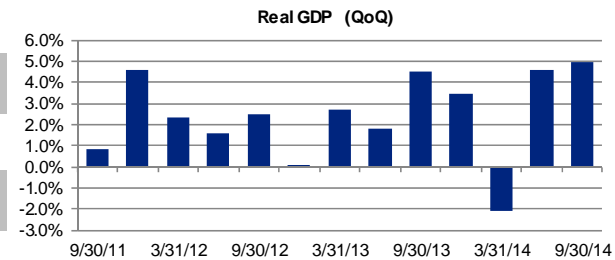
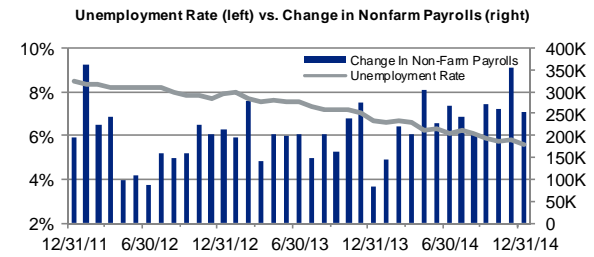
- Fixed-income market performance for the quarter depended on both maturity and sector.
- In short/intermediate maturities, the steep yield curve provided enough income and “roll down” to offset a slight increase in interest rates during the quarter. In the aggregate, these market dynamics helped to produce modest positive returns that essentially mirrored initial yields.
- Longer-duration investments were the strongest performers as they continued to benefit from falling long-term rates.
- Shorter-duration Agency spreads reversed the temporary widening that occurred in the third quarter and returned to historically tight levels. As a result, Agencies with shorter maturities performed better relative to Treasuries than Agencies with longer maturities.
- Corporate spreads widened modestly; however, their higher yields provided enough extra earnings to produce performance generally on par with Treasuries.
- Mortgage-backed securities had a strong quarter, while municipals lagged Treasuries significantly in all maturity ranges.
- Yields on money market securities, especially those with maturities greater than six months, rose notably towards the end of the quarter, reflecting an expected hike in the federal funds rate in the late spring of 2015.

Economic Snapshot

Labor Market	Latest	Sep 2014	Dec 2013	
Unemployment Rate	Dec'14	5.6%	5.9%	6.7%
Change In Non-Farm Payrolls	Dec'14	252,000	271,000	84,000
Average Hourly Earnings (YoY)	Dec'14	1.7%	2.0%	1.9%
Personal Income (YoY)	Nov'14	4.2%	3.6%	-2.1%
Initial Jobless Claims (week)	Jan 02	294,000	288,000	344,000

Growth	Latest	Sep 2014	Dec 2013	
Real GDP (QoQ SAAR)	2014Q3	5.0%	4.6% ¹	3.5% ²
GDP Personal Consumption (QoQ SAAR)	2014Q3	3.2%	2.5% ¹	3.7% ²
Retail Sales (YoY)	Nov'14	5.1%	4.6%	3.4%
ISM Manufacturing Survey (month)	Dec'14	55.5	56.6	56.5
Existing Home Sales SAAR (month)	Nov'14	4.93 mil.	5.18 mil.	4.87 mil.

Inflation / Prices	Latest	Sep 2014	Dec 2013	
Personal Consumption Expenditures (YoY)	Nov'14	1.2%	1.4%	1.2%
Consumer Price Index (YoY)	Nov'14	1.3%	1.7%	1.5%
Consumer Price Index Core (YoY)	Nov'14	1.7%	1.7%	1.7%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$53.27	\$91.16	\$98.42
Gold Futures (oz.)	Dec 31	\$1,184	\$1,211	\$1,202



1. Data as of Second Quarter 2014

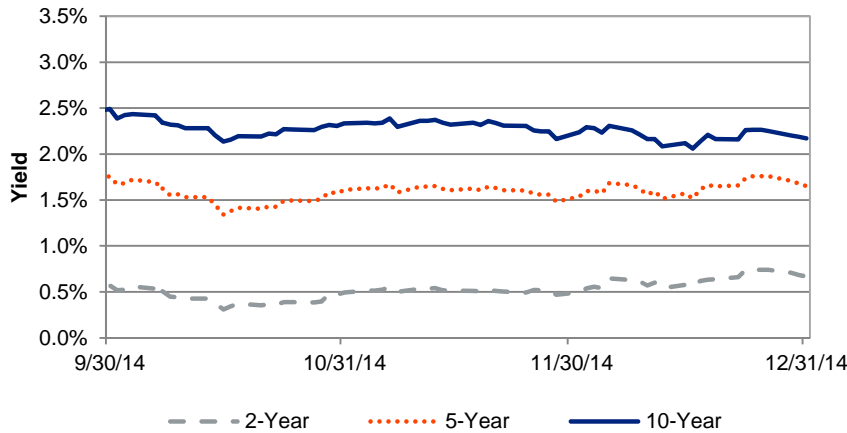
2. Data as of Fourth Quarter 2013

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

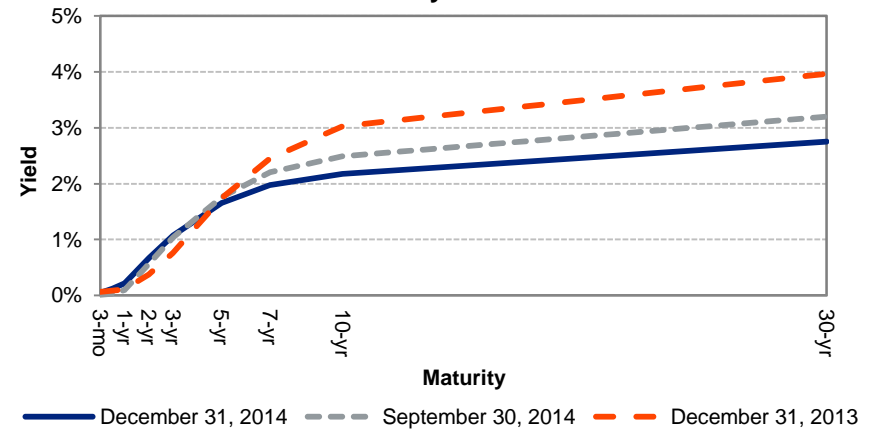
Source: Bloomberg

Investment Rate Overview

U.S. Treasury Note Yields



U.S. Treasury Yield Curve

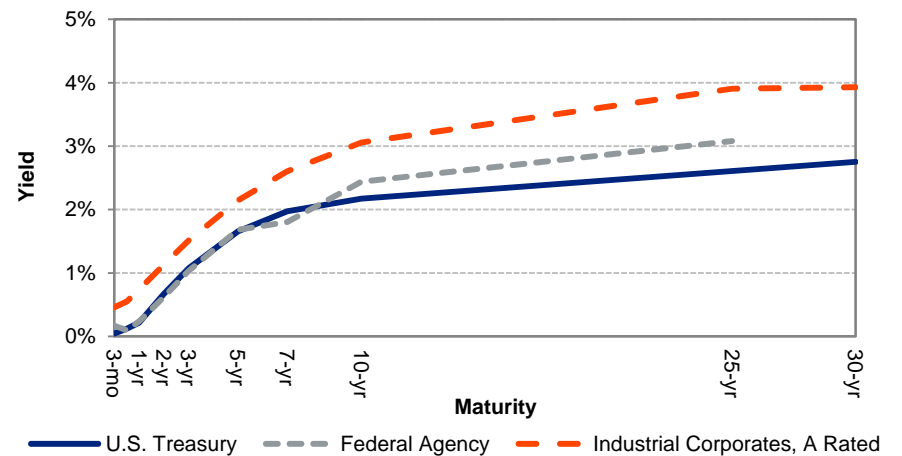


U.S. Treasury Yields

Maturity	12/31/14	9/30/14	Change over Quarter	12/31/13	Change over Year
3-month	0.04%	0.02%	0.02%	0.07%	(0.03%)
1-year	0.22%	0.10%	0.12%	0.11%	0.11%
2-year	0.67%	0.57%	0.10%	0.38%	0.29%
5-year	1.65%	1.76%	(0.11%)	1.74%	(0.09%)
10-year	2.17%	2.49%	(0.32%)	3.03%	(0.86%)
30-year	2.75%	3.20%	(0.45%)	3.97%	(1.22%)

Source: Bloomberg

Yield Curves as of 12/31/2014



BofA Merrill Lynch Index Returns

	As of 12/31/2014	Returns for Periods ended 12/31/2014			
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.89	0.67%	0.17%	0.62%	0.47%
Federal Agency	1.87	0.80%	0.22%	0.70%	0.66%
U.S. Corporates, A-AAA rated	1.98	1.34%	0.15%	1.08%	2.16%
Agency MBS (0 to 3 years)	1.94	1.29%	0.42%	1.08%	1.18%
Municipals	1.79	0.67%	0.01%	0.72%	0.94%
1-5 Year Indices					
U.S. Treasury	2.69	0.98%	0.49%	1.24%	0.65%
Federal Agency	2.35	1.01%	0.42%	1.30%	0.90%
U.S. Corporates, A-AAA rated	2.79	1.73%	0.49%	2.12%	3.02%
Agency MBS (0 to 5 years)	3.23	2.03%	1.16%	3.90%	2.12%
Municipals	2.57	0.96%	(0.02%)	1.30%	1.39%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.13	1.52%	2.28%	6.02%	1.54%
Federal Agency	3.94	1.42%	1.25%	4.04%	1.53%
U.S. Corporates, A-AAA rated	6.87	2.73%	2.05%	7.34%	4.77%
Agency MBS (0 to 30 years)	4.00	2.30%	1.79%	6.07%	2.37%
Municipals	6.85	2.41%	1.33%	9.78%	4.56%

Returns for periods greater than one year are annualized

Source: BofA Merrill Lynch Indices

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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 0.24%, exceeding the Yield to Maturity of its benchmark, the Merrill Lynch 3 Month U.S. Treasury Bill Index, by 22 basis points (0.22%).
- We expect that the new year will see a continuation of the narrative that dominated the latter half of 2014: the response of central banks to improving domestic economic data contrasted against the headwinds of global uncertainty. Additionally, the recent plummet of oil prices, combined with a strengthening US Dollar have injected a new dynamic to the global inflationary outlook and its impact on market volatility and geopolitical risks.
- We continue to closely monitor the movements of the FOMC as it remains a significant, but uncertain market force. While the market generally expects the Fed to finally raise rates in 2015, the Committee has stated its intention to be "patient in beginning to normalize the stance of monetary policy," which means the timing and pace of future rate hikes is still uncertain. As we have for much of the past year, we start the year with a modestly conservative and defensive duration posture to reflect that uncertainty.
- Yields spreads on Agency and Municipal securities remain narrow, and in some instances, non-existent.
- Yields on money market securities, especially those with maturities greater than six months, have risen notably recently, and we expect this trend to continue as we near late spring/summer of 2015; the time frame when most market participants expect to see a first hike in the Federal Funds rate. Somewhat longer maturity commercial paper and CDs appear to offer value.
- 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

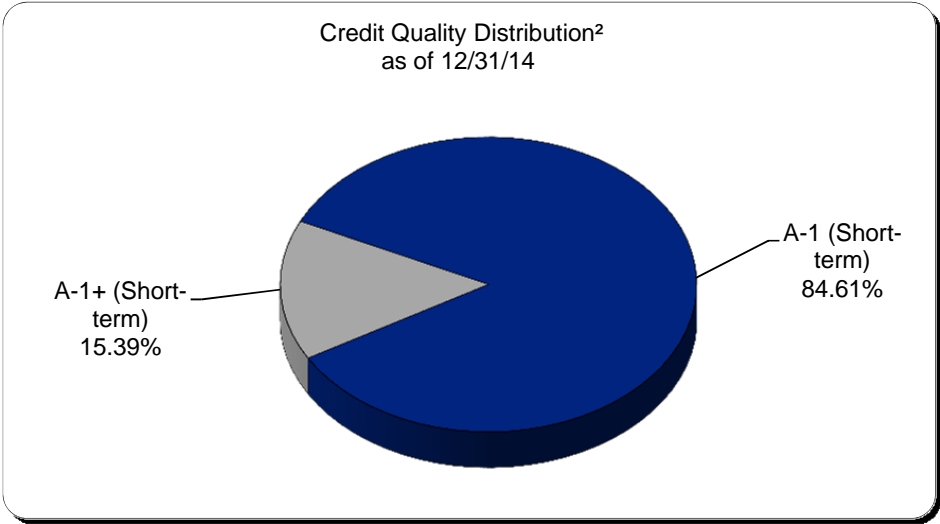
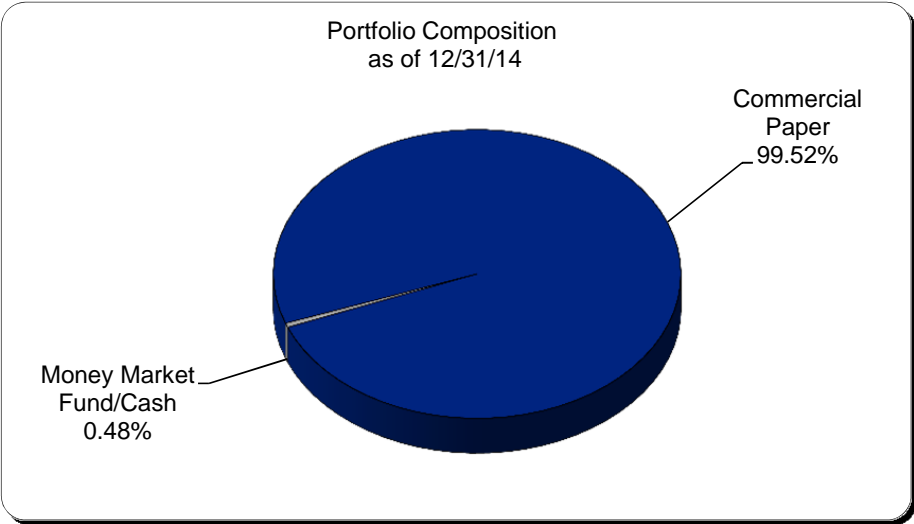
<u>Account Name</u>	Amortized Cost^{1,2,3} December 31, 2014	Amortized Cost ^{1,2,3} <u>September 30, 2014</u>	Market Value^{1,2,3} December 31, 2014	Market Value ^{1,2,3} <u>September 30, 2014</u>	Duration (Years) December 31, 2014
Impact Fee Portfolio - Fixed Income Securities	\$26,111,545.97	\$26,096,345.15	\$26,116,768.24	\$26,098,230.39	0.20
<u>Account Name</u>	Yield to Maturity at Cost⁴ December 31, 2014	Yield to Maturity at Cost ⁴ <u>September 30, 2014</u>	Yield to Maturity at Market December 31, 2014	Yield to Maturity at Market <u>September 30, 2014</u>	Duration (Years) <u>September 30, 2014</u>
Impact Fee Portfolio - Fixed Income Securities	0.24%	0.23%	0.13%	0.20%	0.32
<u>Benchmarks</u>	December 31, 2014	<u>September 30, 2014</u>			
Merrill Lynch 3 Month T-Bill Index	0.02%	0.02%			

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.

Impact Fee Portfolio Composition and Credit Quality Characteristics

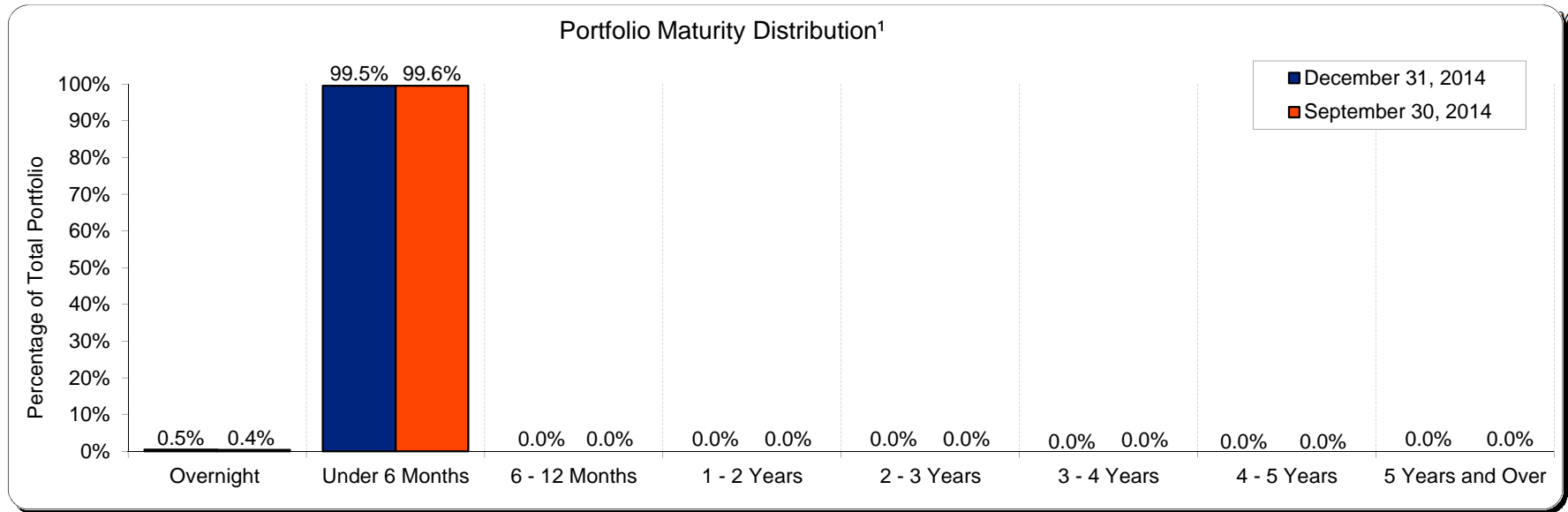
<u>Security Type</u> ¹	<u>December 31, 2014</u>	<u>% of Portfolio</u>	<u>September 30, 2014</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$0.00	0.0%	\$0.00	0.0%
Federal Agencies	0.00	0.0%	0.00	0.0%
Commercial Paper	25,992,632.00	99.5%	25,982,568.00	99.6%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers 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%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	124,136.24	0.5%	115,662.39	0.4%
Totals	\$26,116,768.24	100.0%	\$26,098,230.39	100.0%



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.

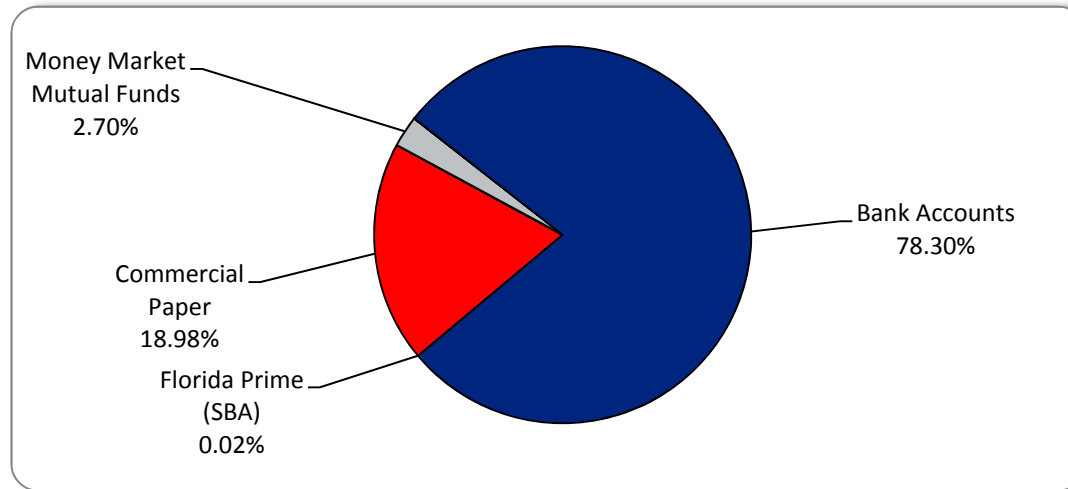
Impact Fee Portfolio Maturity Distribution

<u>Maturity Distribution¹</u>	<u>December 31, 2014</u>	<u>September 30, 2014</u>
Overnight (Money Market Fund)	\$124,136.24	115,662.39
Under 6 Months	25,992,632.00	25,982,568.00
6 - 12 Months	0.00	0.00
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
Totals	\$26,116,768.24	\$26,098,230.39



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)	27,717.66	0.02%		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	25,987,409.73	18.98%	4	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	3,695,588.67	2.70%		50%	YES
Intergovernmental Investment Pool	-	0.00%		25%	YES
Bank Accounts	107,206,610.39	78.30%		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 December 31, 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.

* 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	3,997,766.68	2.92%		10%	YES
JP Morgan Securities LLC Commercial Paper	4,995,233.35	3.65%		10%	YES
Toyota Motor Commercial Paper	3,999,240.00	2.92%		10%	YES
Bank of Tokyo Mitsubishi Commercial Paper	3,999,022.24	2.92%		10%	YES
Credit Agricole NY Commercial Paper	4,997,859.70	3.65%		10%	YES
UBS Finance Delaware LLC Commercial Paper	3,998,287.76	2.92%		10%	YES
Bank Accounts	107,206,610.39	78.30%		100%	YES
Money Market Fund - Impact Fees	3,695,588.67	2.70%		25%	YES

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.