

School District of Lake County



Investment Performance Review Quarter Ended March 31, 2015

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(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

- For the first quarter of 2015, accommodative global central bank policies were a major driver of financial markets. The European Central Bank (ECB) initiated an asset purchase program similar to the Federal Reserve's (Fed's) quantitative easing (QE) policies that concluded last year, and the Federal Open Market Committee (FOMC) seemed to relax its stance on tightening monetary policy in the near future.
- U.S. Treasuries experienced their longest period of quarterly gains since 1998. The 10-year Treasury yield fell for the fifth consecutive quarter.
- After a brief period of recovery, oil prices headed toward the lower end of recent ranges.

Economic Snapshot

- For the fourth quarter of 2014, gross domestic product (GDP) grew at a pace of 2.2%. The components of the GDP report showed that household spending rose to a nine-year high and that an increase in exports was offset by growth in inventories, which were weaker than previously expected.
- The U.S. labor market continued to improve, as the unemployment rate fell from 5.6% in December to 5.5% in March, marking its lowest point since mid- 2008.
- Consumer confidence for the first quarter reached its highest level since the second quarter of 2007, as lower gasoline prices and an increase in personal income helped generate higher amounts of disposable income. However, consumers slowed the pace of their spending for the quarter, as retail sales fell for the months of December, January, and February.
- New-home sales rose nearly 8% in February, marking their highest level since early 2008 and serving as a bright spot in a mixed bag of recent housing-market data.

Interest Rates

- At its March meeting, the FOMC removed the word "patient" from its previous statement, indicating that the current target range for the federal funds rate will be appropriate until the FOMC is "reasonably confident" that inflation is moving toward its 2% objective. The statement also implied that economic growth has been somewhat weaker than it was earlier in the year.
- A Reuters poll released at the end of March showed that 17 of 21 primary dealers expect the first interest rate hike to occur in September at the earliest, with only four dealers expecting the first hike to occur in June.

Sector Performance

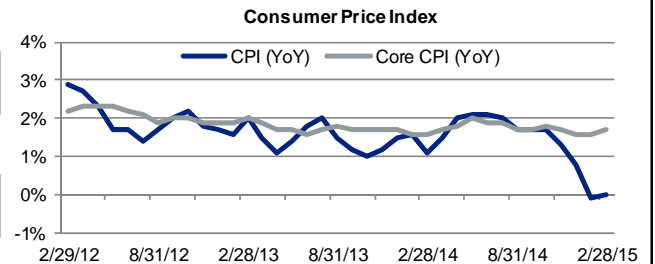
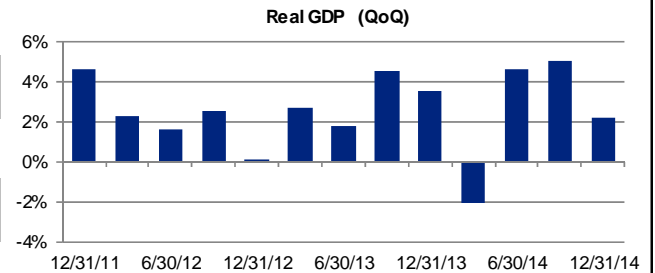
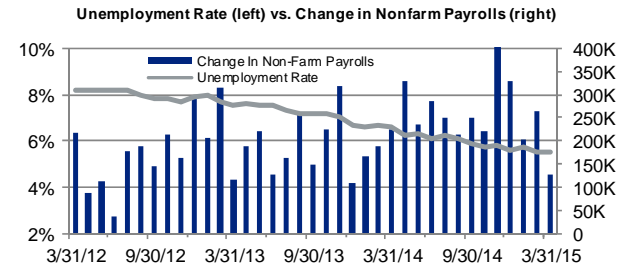
- Driven by a Treasury market rally, fixed-income market performance was generally positive for the quarter. Returns were dependent on both maturity and sector.
- The yield curve flattened modestly over the quarter as longer maturities declined further than shorter maturities. This market movement and its positive impact on longer durations combined to provide performance in excess of initial yields.
- Agency spreads for short and intermediate maturities widened modestly during the quarter. Accordingly, the sector's performance was largely in line with comparable-maturity Treasuries.
- Corporate securities slightly outperformed government-related options with similar maturities, as they were aided by excess income and a relatively unchanged yield spread relationship.
- While still generating positive performance, mortgage-backed and asset-backed securities trailed other high-quality investment options for the quarter.
- Yields on money market-related securities remained at the elevated levels to which they rose at the end of 2014, making them attractive options for short-maturity investment needs.

Economic Snapshot

Labor Market		Latest	Dec 2014	Mar 2014
Unemployment Rate	Mar'15	5.5%	5.6%	6.6%
Change In Non-Farm Payrolls	Mar'15	126,000	329,000	225,000
Average Hourly Earnings (YoY)	Mar'15	2.1%	1.8%	2.2%
Personal Income (YoY)	Feb'15	4.5%	4.8%	3.7%
Initial Jobless Claims (week)	3/27/15	268,000	293,000	329,000

Growth				
Real GDP (QoQ SAAR)	2014Q4	2.2%	5.0% ¹	3.5% ²
GDP Personal Consumption (QoQ SAAR)	2014Q4	4.4%	3.2% ¹	3.7% ²
Retail Sales (YoY)	Feb'15	1.7%	3.3%	4.1%
ISM Manufacturing Survey (month)	Mar'15	51.5	55.1	54.4
Existing Home Sales SAAR (month)	Feb'15	4.88 mil.	5.07 mil.	4.70 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	Feb'15	0.3%	0.8%	1.2%
Consumer Price Index (YoY)	Feb'15	0.0%	0.8%	1.5%
Consumer Price Index Core (YoY)	Feb'15	1.7%	1.6%	1.7%
Crude Oil Futures (WTI, per barrel)	Mar 31	\$47.60	\$53.27	\$101.58
Gold Futures (oz.)	Mar 31	\$1,183	\$1,184	\$1,283



1. Data as of Third Quarter 2014

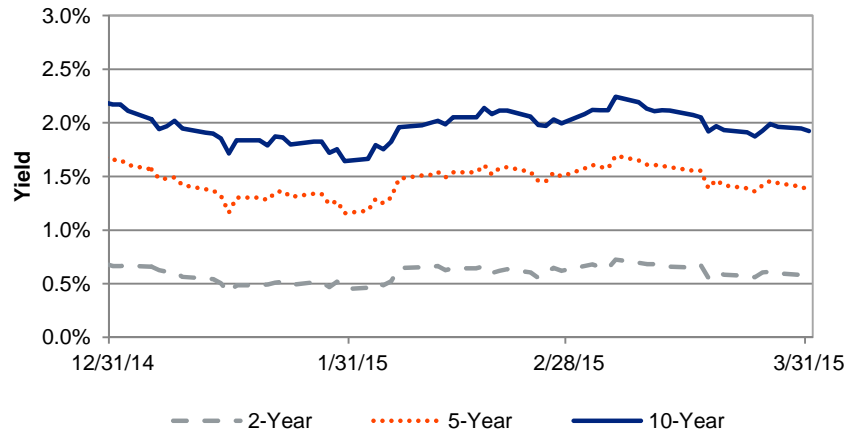
2. Data as of Fourth Quarter 2013

Source: Bloomberg

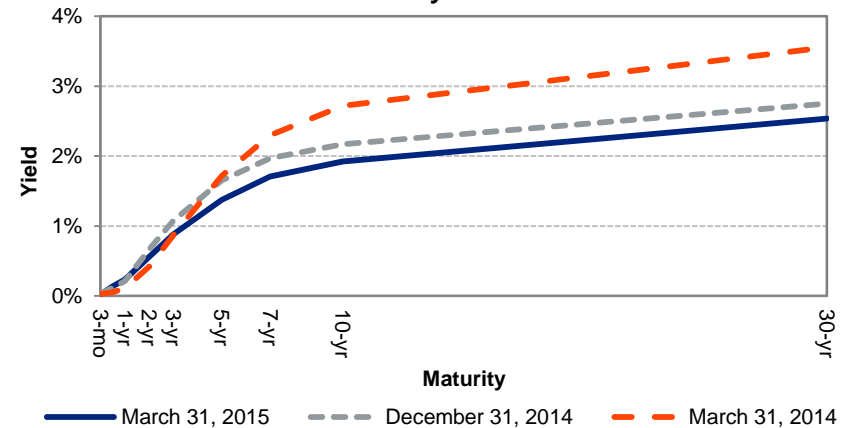
Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

Investment Rate Overview

U.S. Treasury Note Yields



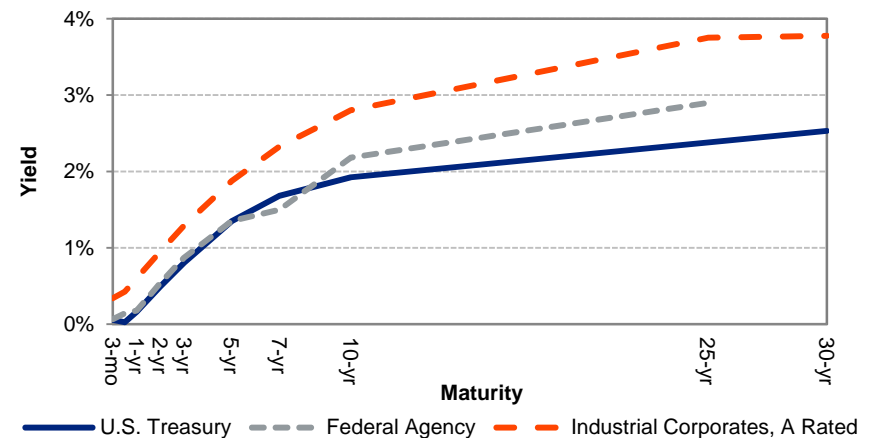
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	3/31/15	12/31/14	Change over Quarter	3/31/14	Change over Year
3-month	0.02%	0.04%	(0.02%)	0.03%	(0.01%)
1-year	0.23%	0.22%	0.01%	0.11%	0.12%
2-year	0.56%	0.67%	(0.11%)	0.42%	0.14%
5-year	1.37%	1.65%	(0.28%)	1.72%	(0.35%)
10-year	1.92%	2.17%	(0.25%)	2.72%	(0.80%)
30-year	2.54%	2.75%	(0.21%)	3.56%	(1.02%)

Yield Curves as of 3/31/2015



Source: Bloomberg

BofA Merrill Lynch Index Returns

	As of 3/31/15		Returns for Periods ended 3/31/15		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.87	0.55%	0.52%	1.00%	0.67%
Federal Agency	1.72	0.68%	0.54%	1.07%	0.74%
U.S. Corporates, A-AAA rated	2.05	1.24%	0.77%	1.43%	1.86%
Agency MBS (0 to 3 years)	2.07	1.36%	0.41%	1.25%	1.18%
Municipals	1.75	0.65%	0.26%	0.73%	0.88%
1-5 Year Indices					
U.S. Treasury	2.69	0.81%	0.92%	1.91%	1.02%
Federal Agency	2.15	0.84%	0.79%	1.77%	1.06%
U.S. Corporates, A-AAA rated	2.87	1.56%	1.20%	2.57%	2.64%
Agency MBS (0 to 5 years)	3.29	1.88%	0.83%	3.79%	2.20%
Municipals	2.54	0.95%	0.35%	1.24%	1.30%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.23	1.33%	1.75%	6.15%	2.57%
Federal Agency	3.72	1.21%	1.27%	4.07%	1.97%
U.S. Corporates, A-AAA rated	6.96	2.52%	2.18%	6.93%	4.84%
Agency MBS (0 to 30 years)	3.78	2.11%	1.00%	5.48%	2.51%
Municipals	6.80	2.18%	1.09%	6.90%	4.23%

Returns for periods greater than one year are annualized.

Source: BofA Merrill Lynch Indices

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 0.30%, exceeding the Yield to Maturity of its benchmark, the Merrill Lynch 3 Month U.S. Treasury Bill Index, by 28 basis points (0.28%).
- Macroeconomic conditions in the U.S. moderated throughout the quarter evidenced by lackluster economic data, Greek inspired geopolitical uncertainty, and a FOMC that indicated a tendency for lower rates throughout the period. The market reacted with a Treasury rally that sent yields across the curve generally lower; the impact being greater on longer maturities which continued to reflect persistently low inflation expectations.
- Federal Agency yield spreads fluctuated throughout the quarter as they were unable to keep pace with the volatility experienced by their U.S. Treasury counterparts; spreads widened when Treasuries rallied, and narrowed when Treasuries sold off.
- We expect U.S. economic conditions to continue to gradually improve in the second quarter, supported by progressing fundamentals, a strengthening labor market, and continued monetary policy support.
- The FOMC has indicated a strong focus on their inflation mandate by removing its "patient" guidance in favor of a need to be "reasonably confident that inflation will move back to its two percent objective." This emphasis on what continues to be stubbornly low inflation, combined with the FOMC's more conservative projections for the future trajectory of the federal funds rate, formulates our market view that rates will remain in their current range in the coming months.
- We expect volatility to continue throughout the quarter; particularly around the announcement of key economic releases as market participants digest the impact not only on the timing of an initial FOMC rate hike, but also on the pace and rate of subsequent hikes as well.
- Yields on money market related securities remain attractive; specifically those with maturities greater than six months as the market continues price in future FOMC rate hike expectations. While supply/demand dynamics have started to hinder availability, longer maturity commercial paper appears attractive.
- 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} March 31, 2015	Amortized Cost ^{1,2,3} <u>December 31, 2014</u>	Market Value^{1,2,3} March 31, 2015	Market Value ^{1,2,3} <u>December 31, 2014</u>	Duration (Years) March 31, 2015
Impact Fee Portfolio - Fixed Income Securities	\$26,128,522.45	\$26,111,545.97	\$26,131,935.37	\$26,116,768.24	0.35

<u>Account Name</u>	Yield to Maturity at Cost⁴ March 31, 2015	Yield to Maturity at Cost ⁴ <u>December 31, 2014</u>	Yield to Maturity at Market March 31, 2015	Yield to Maturity at Market <u>December 31, 2014</u>	Duration (Years) <u>December 31, 2014</u>
Impact Fee Portfolio - Fixed Income Securities	0.30%	0.24%	0.25%	0.13%	0.20

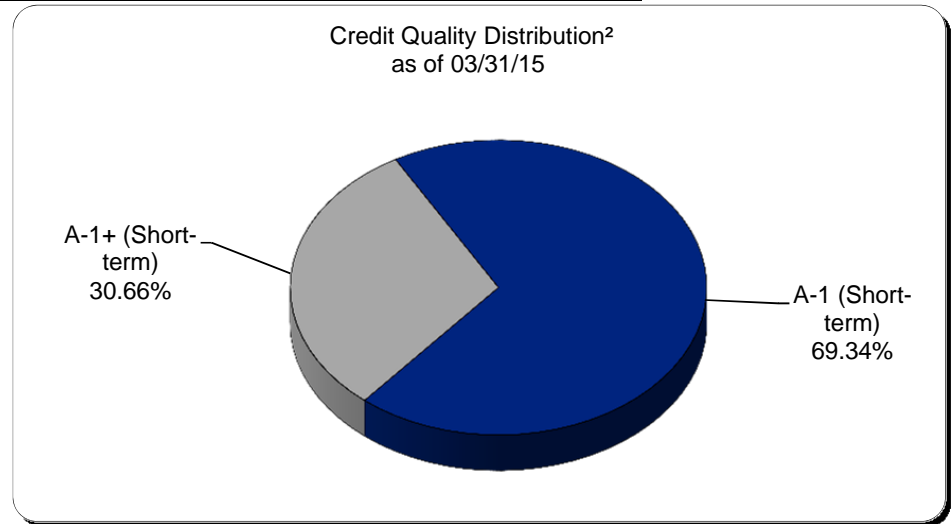
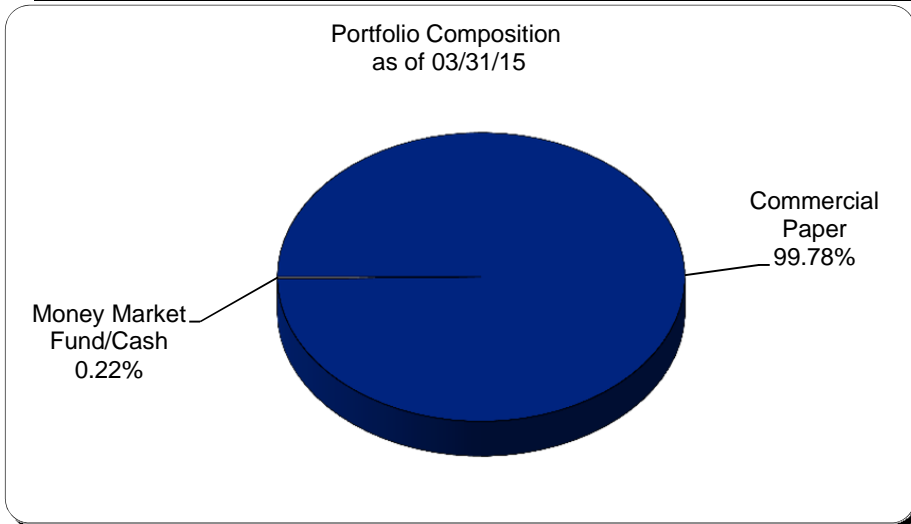
<u>Benchmarks</u>	March 31, 2015	<u>December 31, 2014</u>
Merrill Lynch 3 Month T-Bill Index	0.02%	0.02%

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>March 31, 2015</u>	<u>% of Portfolio</u>	<u>December 31, 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	26,075,661.40	99.8%	25,992,632.00	99.5%
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	56,273.97	0.2%	124,136.24	0.5%
Totals	\$26,131,935.37	100.0%	\$26,116,768.24	100.0%

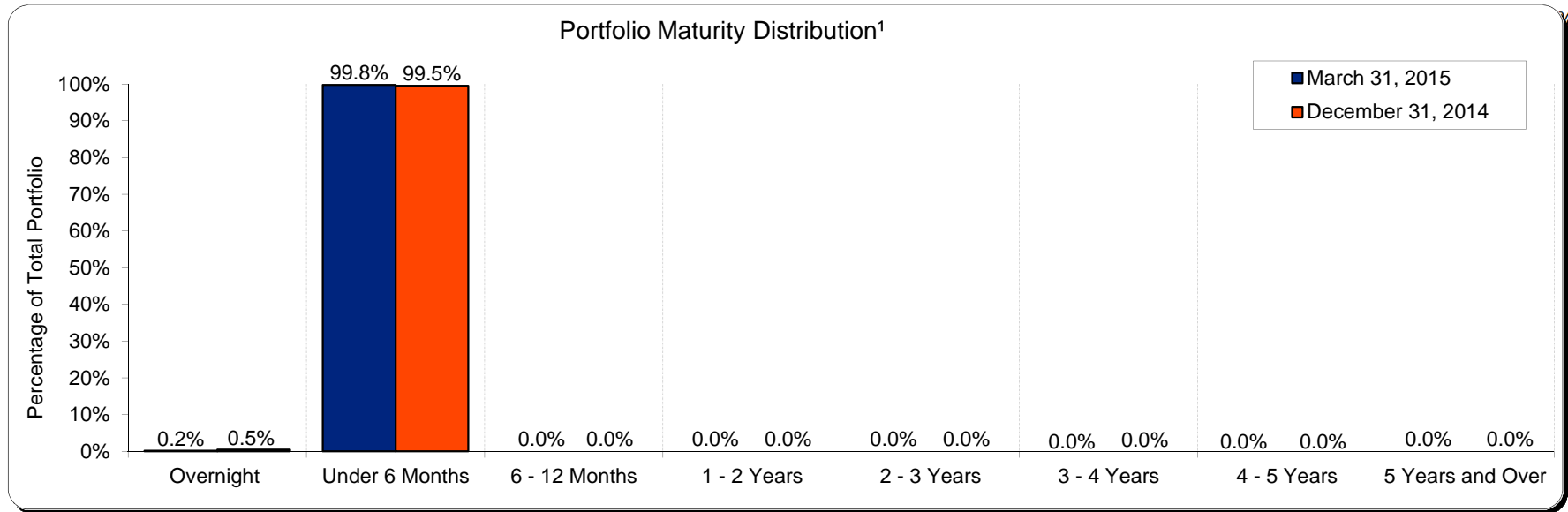


Notes:

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.

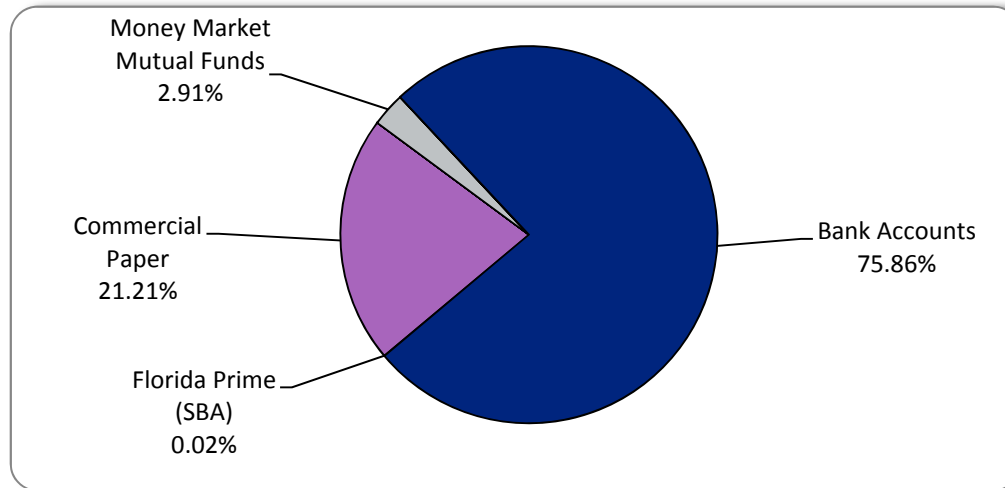
Impact Fee Portfolio Maturity Distribution

<u>Maturity Distribution¹</u>	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Overnight (Money Market Fund)	\$56,273.97	\$124,136.24
Under 6 Months	26,075,661.40	25,992,632.00
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	\$26,131,935.37	\$26,116,768.24



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)	27,727.77	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	26,072,248.48	21.21%	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	3,571,452.43	2.91%		50%	YES
Intergovernmental Investment Pool	-	0.00%		25%	YES
Bank Accounts	93,239,715.83	75.86%		100%	YES

Notes:

1. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
2. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 80%. The combined total as of March 31, 2015 is .00%.
3. 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	4,991,983.35	4.06%		10%	YES
JP Morgan Commercial Paper	4,998,483.35	4.07%		10%	YES
Toyota Motor Commercial Paper	3,996,500.00	3.25%		10%	YES
General Electric Commercial Paper	3,995,146.68	3.25%		10%	YES
Bank of Tokyo Mitsubishi Commercial Paper	4,095,335.10	3.33%		10%	YES
Rabobank Nederland NV NY Commercial Paper	3,994,800.00	3.25%		10%	YES
Bank Accounts	93,239,715.83	75.86%		100%	YES
Money Market Fund - Impact Fees	3,571,452.43	2.91%		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.