

School District of Lake County



Investment Performance Review Quarter Ended June 30, 2015

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June 30, 2015 PFM Month-End Statement

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

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TAB I

Summary

- Throughout the quarter, improving U.S. economic conditions contrasted with global economic uncertainty, particularly the deteriorating negotiations between Greece and its international creditors, which came to a vital impasse at the end of the quarter.
- Market participants continued to weigh the impact that adverse global economic conditions would have on the interest rate setting policies of the Federal Open Market Committee (FOMC).

Economic Snapshot

- For the first quarter of 2015, gross domestic product (GDP) declined by 0.2%. While estimates initially reflected a larger decline, increases in consumer spending and inventories contributed to the upward revision.
- The U.S. labor market continued to improve, as the unemployment rate fell from 5.5% in March to 5.3% in June. While robust headline job creation continued, some of the underlying metrics related to employment—particularly wage growth—were weak.
- The housing market strengthened, as reflected by improvements in the pace of pending home sales, building permits, new-home sales, and housing starts.
- Greek-related tensions grew as the troubled nation missed a payment of 1.6 billion euros to the International Monetary Fund (IMF), and Greek voters overwhelmingly rejected austerity measures demanded by creditors as a condition for further financial assistance. These actions leave open the possibility that Greece would abandon the euro and even leave the eurozone.

Interest Rates

- The FOMC kept the federal funds target rate unchanged for the quarter. While the FOMC's statement left open the possibility of an interest rate increase in the latter half of 2015, this policy decision will depend on labor market conditions and inflation expectations.

- The timing for a potential interest rate hike became more uncertain at the end of the quarter due to the potential for the Greek debt crisis to affect the overall global economy.
- Treasury yields reacted differently across the curve. Yields for short maturities rose only modestly (two- and three-year Treasuries ended the quarter up 0.06% and 0.09%, respectively) while yields for intermediate and longer maturities had sizeable increases (five- and 10-year Treasuries ended the quarter higher by 0.24% and 0.40%, respectively).

Sector Performance

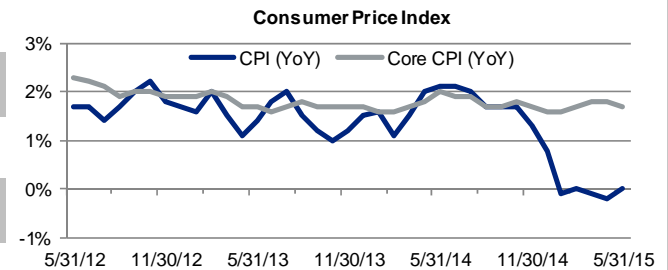
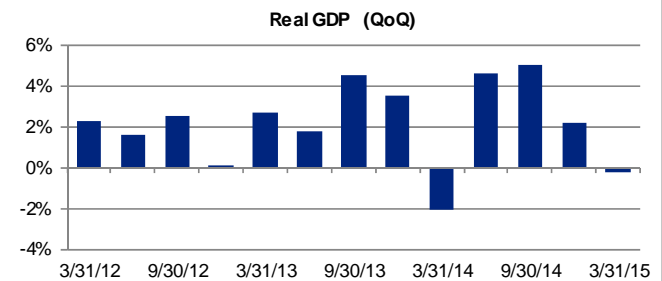
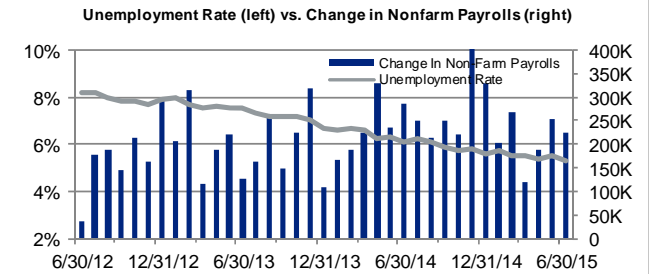
- Benchmark Treasury indices for shorter-maturity securities ended the quarter slightly positive, as more than sufficient income was generated to overcome the limited decrease in market value that resulted from the rise in yields. Longer maturities did not perform as well because they had significantly larger rate increases.
- Yield spreads for Federal Agency securities fluctuated within their historically low ranges for the quarter; as a result, the sector's performance was relatively flat when compared to Treasuries.
- Corporate securities underperformed government issues as yield spreads widened throughout the quarter; bonds with higher credit quality underperformed the most.
- Within the mortgage-backed securities (MBS) sector, structure and coupon were the major determinants of performance for the quarter. Higher-coupon structures were the strongest performers on both an absolute return and relative return basis (compared to similar-duration Treasuries).
- Asset-backed securities (ABS) were among the stronger-performing sectors, as their superior income and limited sensitivity to changes in interest rates fared well in what was a volatile market environment.

Economic Snapshot

Labor Market		Latest	Mar 2015	Jun 2014
Unemployment Rate	Jun'15	5.3%	5.5%	6.1%
Change In Non-Farm Payrolls	Jun'15	223,000	119,000	286,000
Average Hourly Earnings (YoY)	Jun'15	2.0%	2.1%	2.0%
Personal Income (YoY)	May'15	4.4%	4.0%	3.7%
Initial Jobless Claims (week)	7/2/15	281,000	267,000	313,000

Growth				
Real GDP (QoQ SAAR)	2015Q1	-0.2%	2.2% ¹	-2.1% ²
GDP Personal Consumption (QoQ SAAR)	2015Q1	2.1%	4.4% ¹	1.2% ²
Retail Sales (YoY)	May'15	2.7%	2.1%	4.3%
ISM Manufacturing Survey (month)	Jun'15	53.5	51.5	55.7
Existing Home Sales SAAR (month)	May'15	5.35 mil.	5.21 mil.	5.01 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	May'15	0.2%	0.3%	1.6%
Consumer Price Index (YoY)	May'15	0.0%	-0.1%	2.1%
Consumer Price Index Core (YoY)	May'15	1.7%	1.8%	1.9%
Crude Oil Futures (WTI, per barrel)	Jun 30	\$59.47	\$47.60	\$105.37
Gold Futures (oz.)	Jun 30	\$1,172	\$1,183	\$1,322



Source: Bloomberg

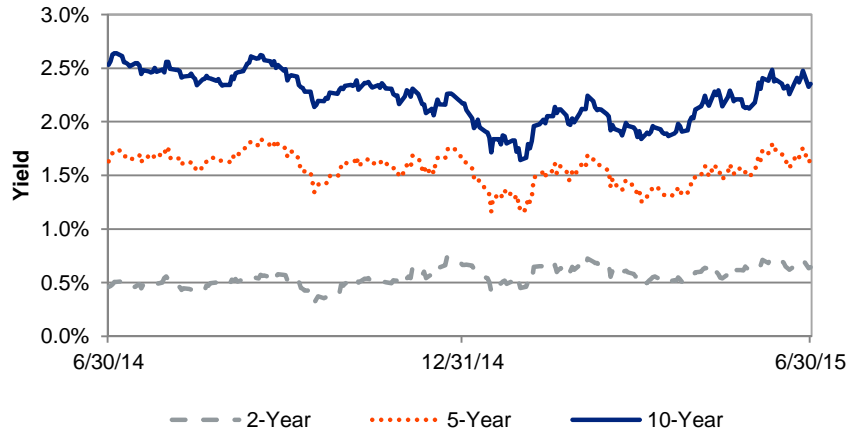
1. Data as of Fourth Quarter 2014

2. Data as of First Quarter 2014

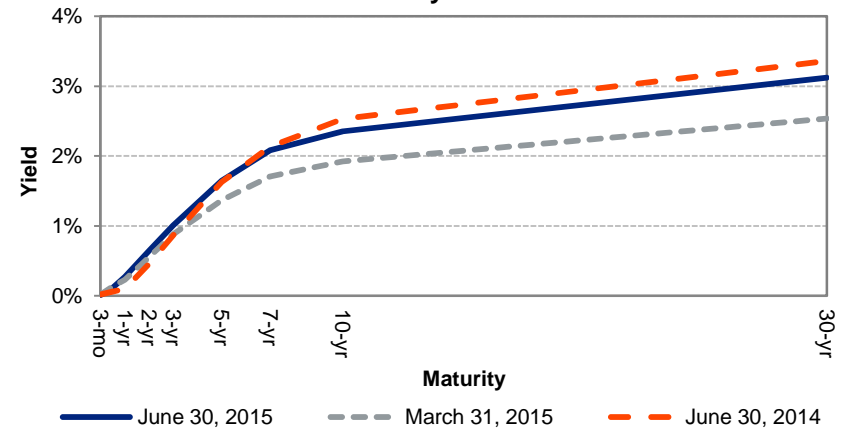
Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

Investment Rate Overview

U.S. Treasury Note Yields



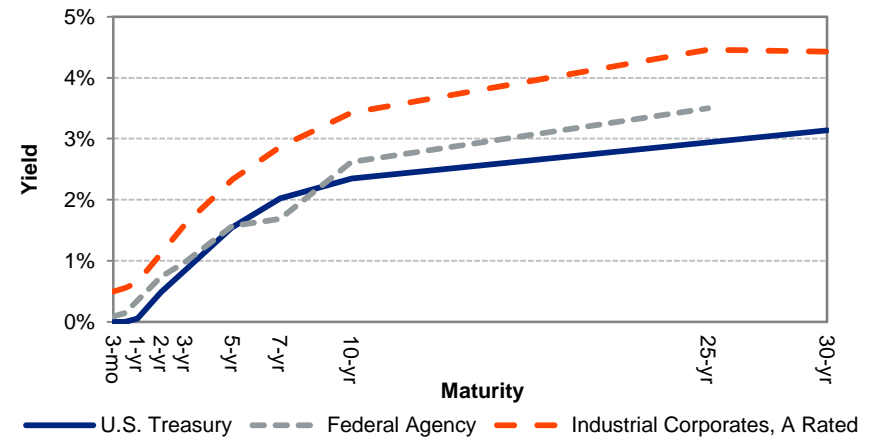
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	6/30/15	3/31/15	Change over Quarter	6/30/14	Change over Year
3-month	0.01%	0.02%	(0.01%)	0.02%	(0.01%)
1-year	0.27%	0.23%	0.04%	0.10%	0.17%
2-year	0.65%	0.56%	0.09%	0.46%	0.19%
5-year	1.65%	1.37%	0.28%	1.63%	0.02%
10-year	2.35%	1.92%	0.43%	2.53%	(0.18%)
30-year	3.12%	2.54%	0.58%	3.36%	(0.24%)

Yield Curves as of 6/30/2015



Source: Bloomberg

BofA Merrill Lynch Index Returns

	As of 6/30/2015		Returns for Periods ended 6/30/2015		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.87	0.63%	0.15%	0.88%	0.66%
Federal Agency	1.74	0.76%	0.16%	0.99%	0.73%
U.S. Corporates, A-AAA rated	2.05	1.45%	0.08%	1.02%	1.76%
Agency MBS (0 to 3 years)	1.93	1.53%	(0.07%)	0.62%	0.96%
Municipals	1.79	0.86%	0.01%	0.40%	0.80%
1-5 Year Indices					
U.S. Treasury	2.70	0.93%	0.02%	1.38%	0.83%
Federal Agency	2.18	0.96%	0.09%	1.31%	0.94%
U.S. Corporates, A-AAA rated	2.81	1.80%	(0.13%)	1.45%	2.36%
Agency MBS (0 to 5 years)	3.34	2.10%	(0.46%)	1.58%	1.68%
Municipals	2.54	1.13%	(0.01%)	0.62%	1.13%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.04	1.56%	(1.84%)	2.59%	0.94%
Federal Agency	3.71	1.41%	(0.66%)	2.11%	1.28%
U.S. Corporates, A-AAA rated	6.68	2.89%	(2.59%)	1.75%	3.04%
Agency MBS (0 to 30 years)	4.65	2.60%	(0.79%)	2.16%	1.87%
Municipals	6.93	2.63%	(0.97%)	3.10%	3.21%

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 the School District with favorable yield relative to the benchmark. At quarter end, the portfolio had a Yield to Maturity at Cost of 0.31%, exceeding the Yield to Maturity of its benchmark, the Merrill Lynch 3 Month U.S. Treasury Bill Index, by 31 basis points (0.31%).
- Treasury yields fluctuated throughout the quarter, moving higher on strong economic news in the U.S., and lower when the Federal Open Market Committee (FOMC) indicated that they are not yet ready to raise rates and when investors sought the safety of high quality government bonds as uncertain financial conditions in Greece continued to worsen. Overall, the trend was toward higher rates with the greatest increase on longer term yields.
- We expect U.S. economic conditions to rebound from the first quarter 2015 contraction. Rising consumer confidence, growth in personal spending and a stronger housing sector should contribute to improved economic conditions.
- Improving employment statistics in the U.S. suggest that an increase in the benchmark Federal Funds rate may be appropriate soon. However, stubbornly low inflation remains a concern for the Federal Reserve policy makers. Market participants still expect the FOMC to initiate at least one rate hike in 2015, but the pace of subsequent increases is likely to be gradual.
- It is likely that developments in Greece will continue to cause market volatility as investors weigh the impact of possible outcomes on global economic conditions.
- 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} June 30, 2015	Amortized Cost ^{1,2,3} <u>March 31, 2015</u>	Market Value^{1,2,3} June 30, 2015	Market Value ^{1,2,3} <u>March 31, 2015</u>	Duration (Years) June 30, 2015
Impact Fee Portfolio - Fixed Income Securities	\$26,148,740.53	\$26,128,522.45	\$26,153,621.74	\$26,131,935.37	0.19

<u>Account Name</u>	Yield to Maturity at Cost⁴ June 30, 2015	Yield to Maturity at Cost ⁴ <u>March 31, 2015</u>	Yield to Maturity at Market June 30, 2015	Yield to Maturity at Market <u>March 31, 2015</u>	Duration (Years) <u>March 31, 2015</u>
Impact Fee Portfolio - Fixed Income Securities	0.31%	0.30%	0.19%	0.25%	0.35

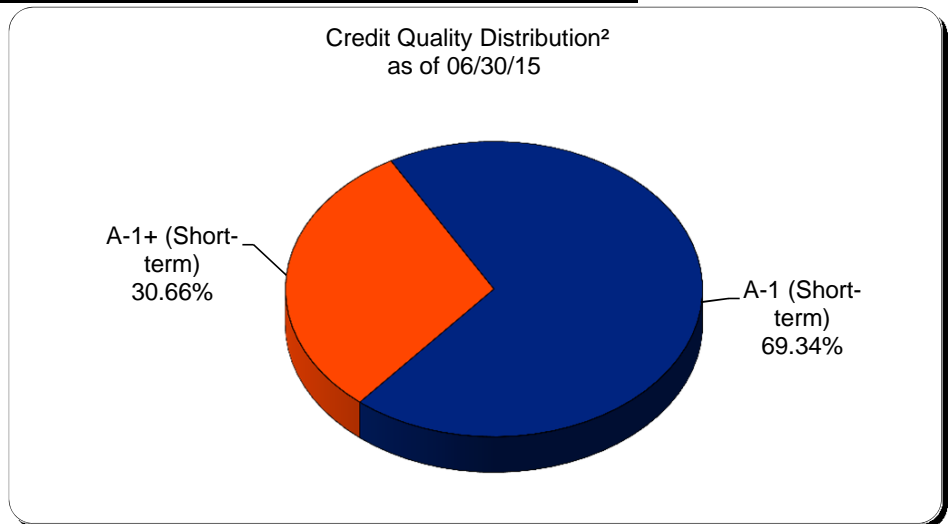
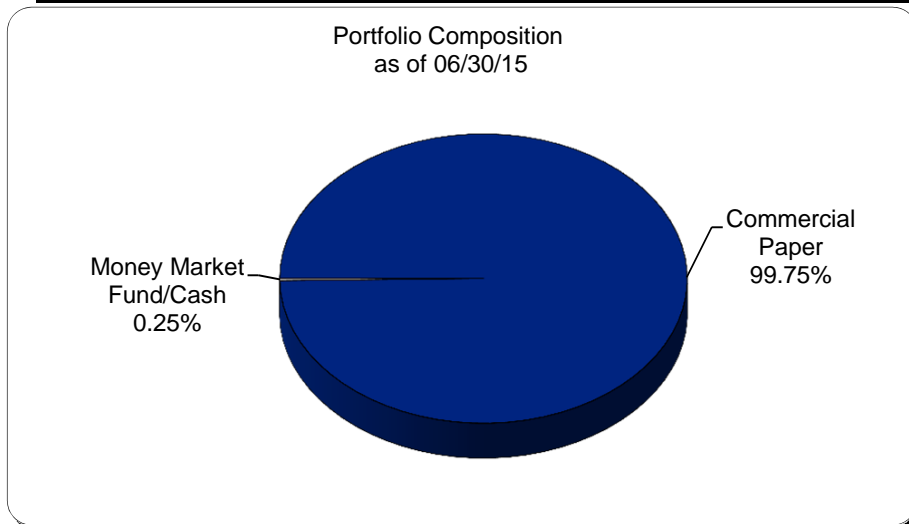
<u>Benchmarks</u>	June 30, 2015	<u>March 31, 2015</u>
Merrill Lynch 3 Month T-Bill Index	0.00%	0.02%

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>June 30, 2015</u>	<u>% of Portfolio</u>	<u>March 31, 2015</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	26,088,845.20	99.8%	26,075,661.40	99.8%
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	64,776.54	0.2%	56,273.97	0.2%
Totals	\$26,153,621.74	100.0%	\$26,131,935.37	100.0%

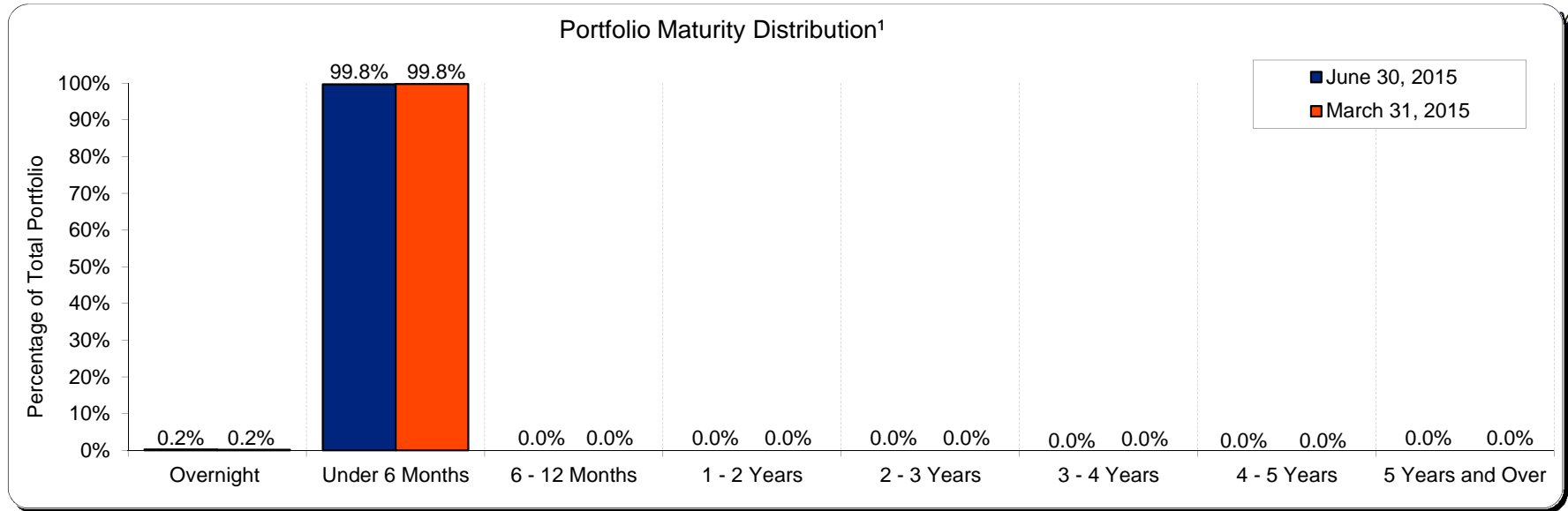


Notes:

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.

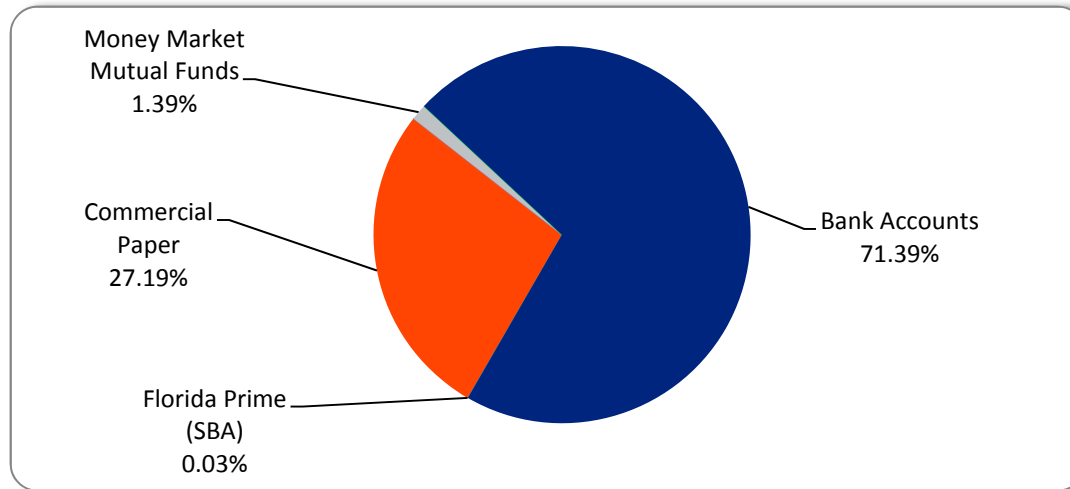
Impact Fee Portfolio Maturity Distribution

<u>Maturity Distribution¹</u>	<u>June 30, 2015</u>	<u>March 31, 2015</u>
Overnight (Money Market Fund)	\$64,776.54	\$56,273.97
Under 6 Months	26,088,845.20	26,075,661.40
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	\$26,153,621.74	\$26,131,935.37



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)	27,749.46	0.03%		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	26,083,963.99	27.19%	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	1,334,905.62	1.39%		50%	YES
Intergovernmental Investment Pool	-	0.00%		25%	YES
Bank Accounts	68,487,871.31	71.39%		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 June 30, 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
Bank of Tokyo Mitsubishi, Inc. Commercial Paper	4,098,651.55	4.27%		10%	YES
BNP Paribas Commercial Paper	4,996,659.70	5.21%		10%	YES
General Electric Company Commercial Paper	3,997,977.76	4.17%		10%	YES
JP Morgan Chase & Company Commercial Paper	4,993,813.90	5.21%		10%	YES
Rabobank Nederland Commercial Paper	3,997,833.32	4.17%		10%	YES
Toyota Motor Corporation Commercial Paper	3,999,027.76	4.17%		10%	YES
Bank Accounts	68,487,871.31	71.39%		100%	YES
Money Market Fund - Impact Fees	1,334,905.62	1.39%		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.