



City of Salem

Quarterly Investment Report

Quarter Ended December 31, 2015



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Financial & Investment Advisors

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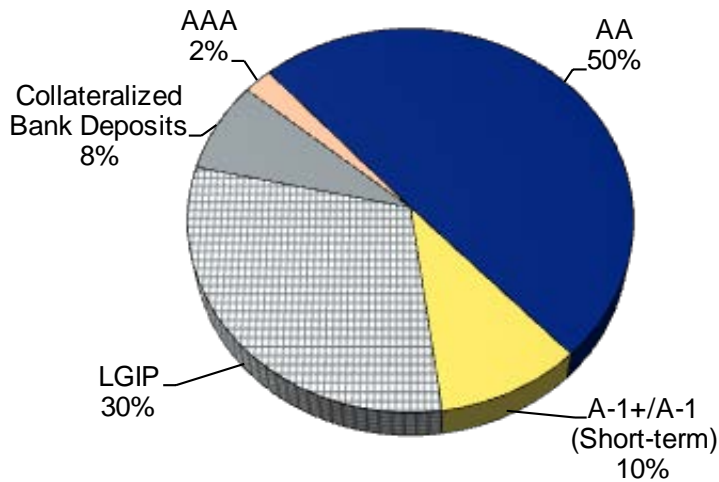
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Summary By Sector ¹	Amortized Cost	Market Value	% of Portfolio	Allowed by Policy
U.S. Treasuries	92,665,890	92,487,519	35%	100%
Federal Agencies	37,356,484	37,347,158	14%	100%
Municipal Obligations	418,087	418,929	<1%	10%
Corporate Notes	30,388,560	30,292,504	11%	15%
Commercial Paper	4,478,160	4,479,188	2%	20%
LGIP	81,647,175	81,647,175	30%	ORS limit
Collateralized Deposit Accounts	20,519,604	20,519,604	8%	100%
Total	\$267,473,960	\$267,192,077	100%	
Callable Securities	4,204,787	4,189,584	2%	25%

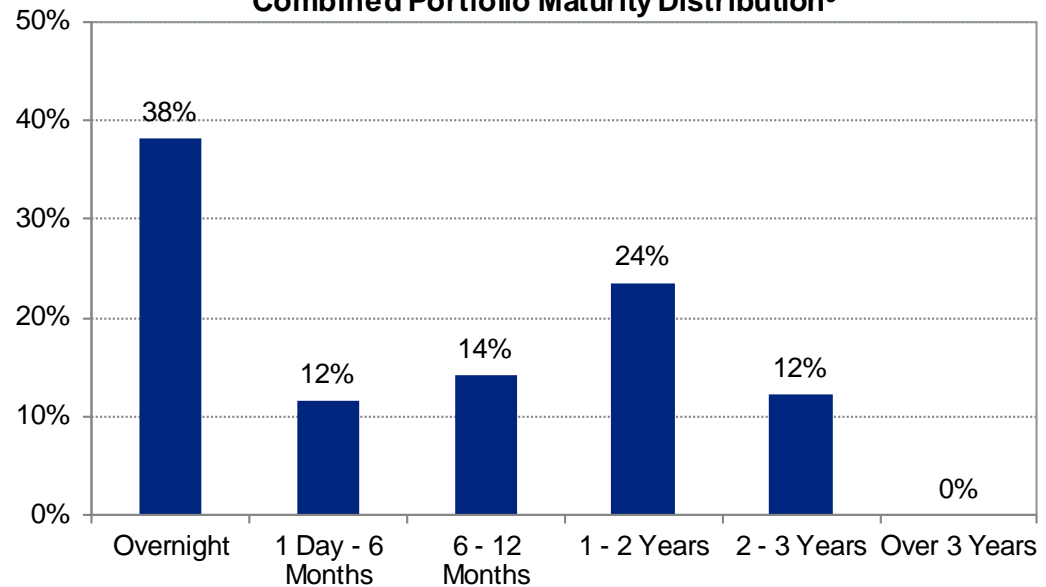
Combined Portfolio Statistics	
Combined Portfolio Yield on Cost (12/31/2015)	0.72%
Weighted Average Maturity (12/31/2015)	0.79 years

Combined Portfolio Earnings (excludes earnings on LGIP and deposit accounts)	
Cash Basis Earnings for Quarter	(\$725,411)
Accrual Basis Earnings for Quarter	\$304,169

Credit Quality Distribution²

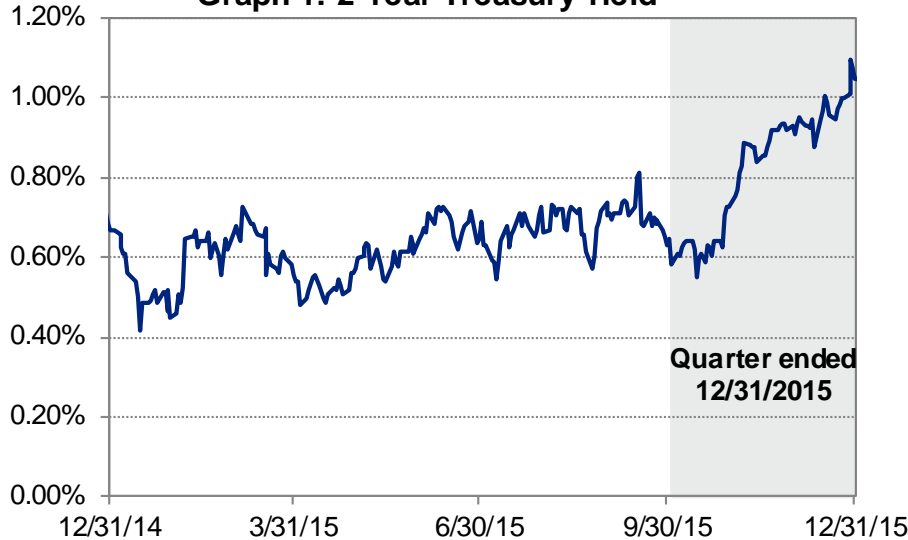


Combined Portfolio Maturity Distribution³

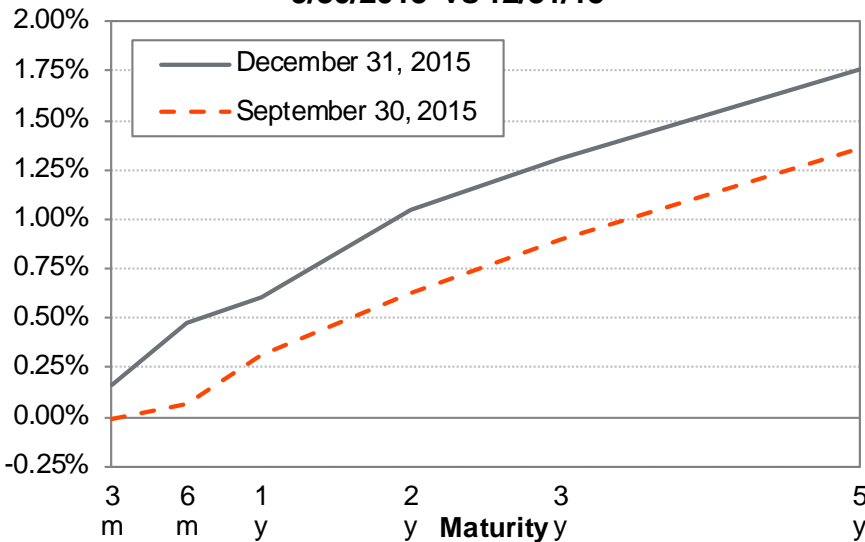


1. Values as of December 31, 2015, including accrued interest.
 2. Ratings by Standard & Poor's.
 3. Callable securities are included to their stated maturity dates.

Graph 1: 2-Year Treasury Yield



**Graph 2: U.S. Treasury Yield Curves
9/30/2015 vs 12/31/15**



- Graph 1: Interest rates on 2-year Treasuries moved steadily higher during the quarter ended December 31, 2015.
 - Strong employment data for October and November increased the likelihood the Federal Open Market Committee (FOMC) would raise the target rate at their December 15-16 meeting.
 - The FOMC did take action and raised the fed funds target rate from the range of 0%-0.25%, to 0.25%-0.50%, making it the first rate increase in over ten years.
 - Because the market anticipated the rate hike, interest rates reacted calmly and continued their upward trend.
- Graph 2: Graph 2 plots the yields of U.S. Treasuries at different maturities on September 30, 2015 and December 31, 2015.
 - Yields moved higher quarter over quarter in all maturities on the expectation the FOMC would, and then eventually did, raise the Fed funds target rate.
 - Because prices and yields on fixed-income securities have an inverse relationship, rising interest rates resulted in declining market values on fixed-income securities.
 - Although the fixed-income indices and the City's' portfolio experienced small unrealized market value losses during the quarter, higher interest rates will result in increased realized earnings going forward.

Source: Bloomberg

Combined Portfolio Summary¹

	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Market Value (MV)	267,192,077	206,261,434	216,024,822	254,505,219
Amortized Cost	267,473,960	205,841,850	215,740,635	254,069,058

Quarterly Summary	Quarter Ending December 31, 2015
Beginning MV	\$206,261,434
Change in cash	\$61,723,875
Change in MV	(\$793,232)
Ending MV	\$267,192,077

PORTFOLIO RECAP

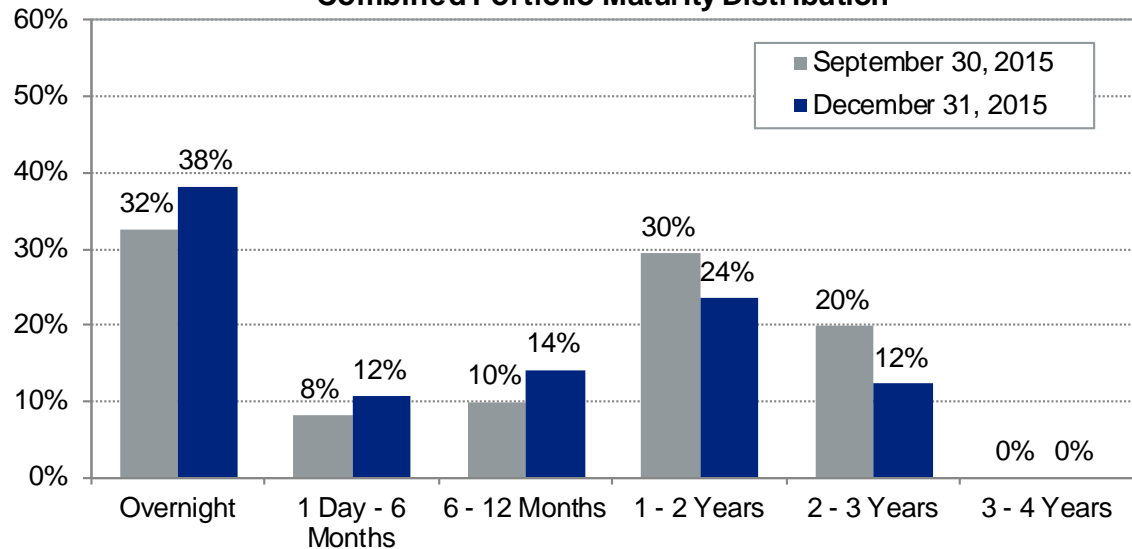
- The portfolio is in compliance with applicable state statutes and the City's Investment Policy C-7.
- The portfolio has sufficient liquidity to cover upcoming needs, is diversified among high quality fixed-income sectors, and is of high credit quality.
- Although rising interest rates resulted in negative performance for the quarter, the portfolio outperformed the benchmark, the Bank of America Merrill Lynch 0-3 Year Treasury index. The City's portfolio has consistently delivered strong performance relative to its benchmark. Outperformance can be attributed to:
 - The portfolio's allocation to high quality corporate securities. The corporate sector outperformed Treasuries and Agencies over the past quarter, adding to the portfolio's higher return and higher yield.
 - The maturity distribution of the portfolio. The portfolio is well laddered among maturities out to three years, however focused on maturities in the one to two year area of the curve. Securities here benefit from the steepness of the yield curve, with higher yields than shorter maturities, and have the potential for additional return through roll down. In addition, these investments have less interest rate risk than longer maturities.
- PFM is carefully managing the duration of the portfolio in an effort to balance the risk and reward of fixed-income investments. Longer maturity securities have higher yields but increased interest rate risk, while shorter maturity securities have less interest rate risk but offer lower yields.

1. Values as of quarter end, including accrued interest

Combined Portfolio Change Over Quarter

Security Type	Change in Allocation
U.S. Treasuries	-2%
Federal Agencies	-2%
Municipal Obligations	-
Corporate Notes	-4%
Commercial Paper	+2%
LGIP	+7%
Collateralized Deposit Accounts	-1%

Combined Portfolio Maturity Distribution



Operating Portfolio Total Return Performance

Total Return ^{1,2,3,4,5}	Total Return for Quarter Ended December 31, 2015	Total Return for Past 1 Year	Total Return for Past 2 Years	Total Return Since Inception
City of Salem Operating Portfolio	-0.28%	0.50%	0.53%	0.48%
Bank of America Merrill Lynch 0-3 Year U.S. Treasury Index	-0.31%	0.43%	0.44%	0.39%
Effective Duration	December 31, 2015	September 30, 2015		
City of Salem Operating Portfolio	1.42	1.47		
Bank of America Merrill Lynch 0-3 Year U.S. Treasury Index	1.35	1.36		

Notes:

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis.
4. Inception date is December 31, 2012.
5. Excludes Special Purpose and Streets & Bridges accounts as well as LGIP and bank balances in the performance and duration calculations.

Combined Portfolio Transactions¹

Trade Date	Trade Type	Security	Maturity Date	Broker	Par Value	Yield to Maturity	S&P Rating
10/26/2015	Maturity	FNMA Notes	10/26/2015	-	7,500,000	-	AA+
10/26/2015	Maturity	FNMA Notes	10/26/2015	-	750,000	-	AA+
10/27/2015	Buy	U.S. Treasury Notes	4/30/2017	Merrill Lynch, Pierce, Fenner & Smith Incorporated	7,500,000	0.51%	AA+
10/27/2015	Buy	U.S. Treasury Notes	4/30/2017	Merrill Lynch, Pierce, Fenner & Smith Incorporated	745,000	0.51%	AA+
10/29/2015	Buy	Microsoft Corporate Notes	11/3/2018	J.P. Morgan Securities LLC	1,845,000	1.33%	AAA
10/30/2015	Sell	Google Inc Notes	5/19/2016	Susquehanna Financial Group, LP	1,845,000	0.33%	AA
11/16/2015	Buy	U.S. Treasury Notes	9/15/2016	Citigroup Global Markets Inc	1,500,000	0.56%	AA+
11/16/2015	Buy	U.S. Treasury Notes	11/15/2016	Citigroup Global Markets Inc	1,500,000	0.61%	AA+
11/17/2015	Maturity	FHLMC Notes	11/17/2015	-	7,500,000	-	AA+
11/17/2015	Buy	U.S. Treasury Notes	11/15/2016	Citigroup Global Markets Inc	3,750,000	0.61%	AA+
11/17/2015	Maturity	FHLMC Notes	11/17/2015	-	750,000	-	AA+
11/18/2015	Buy	JP Morgan Securities LLC Commercial Paper	8/12/2016	J.P. Morgan Securities LLC	3,750,000	0.79%	A-1
11/18/2015	Buy	JP Morgan Securities LLC Commercial Paper	8/12/2016	J.P. Morgan Securities LLC	750,000	0.79%	A-1
12/9/2015	Buy	FHLB Discount Note	5/27/2016	HSBC Securities (USA) Inc.	22,000,000	0.59%	AA+
12/9/2015	Buy	U.S. Treasury Notes	10/31/2016	Barclays Capital Inc.	2,000,000	0.75%	AA+

1. Does not include transactions in the LGIP and bank accounts

Combined Portfolio Holdings by Maturity

Issuer	CUSIP	Par Value ¹	Maturity Date	Call Date	S&P Rating	Market Value ²	Yield to Maturity ³
LGIP - City	-	44,622,336	-	-	-	44,622,336	0.60%
LGIP - URA	-	37,024,839	-	-	-	37,024,839	0.60%
U.S. Bank	-	20,519,604	-	-	-	20,519,604	0.50%
Federal National Mortgage Association	3135G0VA8	5,000,000	3/30/2016	-	AA+	5,006,704	0.55%
U.S. Treasury	912828KT6	1,090,000	3/31/2016	-	AA+	1,101,773	0.65%
Federal Home Loan Mortgage Corporation	3137EAAD1	1,000,000	4/18/2016	-	AA+	1,024,581	0.48%
Google Inc Global Notes	38259PAC6	2,155,000	5/19/2016	-	AA	2,172,870	0.59%
Federal Home Loan Bank	313384XJ3	22,000,000	5/27/2016	-	A-1+	21,949,535	0.58%
U.S. Treasury	912828QR4	3,795,000	6/30/2016	-	AA+	3,812,648	0.78%
U.S. Treasury	912828QR4	2,075,000	6/30/2016	-	AA+	2,084,649	0.60%
Washington State	93974DBN7	400,000	8/1/2016	-	AA+	418,929	0.80%
JP Morgan Chase & Co	46640PHC0	3,750,000	8/12/2016	-	A-1	3,732,656	0.78%
JP Morgan Chase & Co	46640PHC0	750,000	8/12/2016	-	A-1	746,531	0.78%
U.S. Treasury	912828RF9	280,000	8/31/2016	-	AA+	281,515	0.59%
U.S. Treasury	912828VW7	1,500,000	9/15/2016	-	AA+	1,505,769	0.56%
U.S. Treasury	912828RJ1	2,058,000	9/30/2016	-	AA+	2,067,329	0.89%
U.S. Treasury	912828RJ1	600,000	9/30/2016	-	AA+	602,720	0.71%
U.S. Treasury	912828WA4	2,490,000	10/15/2016	-	AA+	2,490,981	0.66%
U.S. Treasury	912828RM4	2,000,000	10/31/2016	-	AA+	2,007,313	0.75%
Coca-Cola Co	191216BC3	2,400,000	11/1/2016	-	AA	2,401,514	0.31%
Procter & Gamble	742718ED7	1,510,000	11/4/2016	-	AA-	1,508,042	0.66%
Procter & Gamble	742718ED7	2,990,000	11/4/2016	-	AA-	2,986,123	0.67%
U.S. Treasury	912828WF3	1,500,000	11/15/2016	-	AA+	1,499,219	0.61%
U.S. Treasury	912828WF3	3,750,000	11/15/2016	-	AA+	3,748,046	0.61%
U.S. Treasury	912828RX0	5,000,000	12/31/2016	-	AA+	5,003,245	0.61%

1. End of quarter trade-data par values of portfolio holdings.

2. End of quarter trade-data market values of portfolio holdings including accrued interest.

3. LGIP yield is provided by OSTF website. U.S. Bank yield (before fees) is provided by the City.

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Combined Portfolio Holdings by Maturity

Issuer	CUSIP	Par Value ¹	Maturity Date	Call Date	S&P Rating	Market Value ²	Yield to Maturity ³
U.S. Treasury	912828RX0	1,000,000	12/31/2016		AA+	1,000,649	0.83%
U.S. Treasury	912828SC5	3,150,000	1/31/2017		AA+	3,161,780	0.65%
Federal Home Loan Bank	3130A4QV7	2,200,000	3/24/2017	3/24/2016	AA+	2,201,741	0.84%
U.S. Treasury	912828SM3	3,000,000	3/31/2017		AA+	3,012,309	0.79%
U.S. Treasury	912828SM3	1,000,000	3/31/2017		AA+	1,004,103	0.95%
General Electric Co	36962G5W0	2,500,000	4/27/2017		AA+	2,540,905	1.18%
Federal National Mortgage Association	3135G0JA2	3,000,000	4/27/2017		AA+	3,010,956	0.81%
U.S. Treasury	912828K66	7,500,000	4/30/2017		AA+	7,467,132	0.51%
U.S. Treasury	912828K66	745,000	4/30/2017		AA+	741,735	0.51%
U.S. Treasury	912828WH9	5,000,000	5/15/2017		AA+	5,002,524	0.78%
Toyota Motor Credit Corp	89233P6D3	2,800,000	5/22/2017		AA-	2,823,332	1.18%
Federal Home Loan Mortgage Corporation	3137EADH9	3,000,000	6/29/2017		AA+	2,999,870	0.94%
Federal Home Loan Mortgage Corporation	3137EADH9	675,000	6/29/2017		AA+	674,971	1.10%
U.S. Treasury	912828WT3	7,445,000	7/15/2017		AA+	7,462,586	0.72%
U.S. Treasury	912828WT3	983,000	7/15/2017		AA+	985,322	0.72%
U.S. Treasury	912828NR7	3,400,000	7/31/2017		AA+	3,505,512	1.00%
U.S. Treasury	912828TG5	4,000,000	7/31/2017		AA+	3,978,058	0.71%
Federal Home Loan Mortgage Corporation	3137EADL0	225,000	9/29/2017		AA+	224,955	1.22%
U.S. Treasury	912828TS9	2,500,000	9/30/2017		AA+	2,486,685	1.06%
U.S. Treasury	912828G20	5,000,000	11/15/2017		AA+	4,988,264	0.97%
Johnson & Johnson	478160BL7	1,560,000	11/21/2017		AAA	1,561,591	1.15%
Chevron Corp	166764AA8	2,000,000	12/5/2017	11/5/2017	AA	1,987,843	1.15%
Federal National Mortgage Association	3135G0RT2	255,000	12/20/2017		AA+	253,845	1.32%
U.S. Treasury	912828UE8	930,000	12/31/2017		AA+	923,734	1.17%
U.S. Treasury	912828UJ7	2,000,000	1/31/2018		AA+	1,997,323	1.08%

1. End of quarter trade-data par values of portfolio holdings.

2. End of quarter trade-data market values of portfolio holdings including accrued interest.

3. LGIP yield is provided by OSTF website. U.S. Bank yield (before fees) is provided by the City.

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Combined Portfolio Holdings by Maturity (continued)

Issuer	CUSIP	Par Value ¹	Maturity Date	Call Date	S&P Rating	Market Value ²	Yield to Maturity ³
IBM Corp	459200HZ7	2,500,000	2/6/2018		AA-	2,494,588	1.23%
Exxon Mobil Corp	30231GAL6	2,500,000	3/6/2018		AAA	2,506,449	1.31%
U.S. Treasury	912828UU2	7,500,000	3/31/2018		AA+	7,447,206	1.08%
U.S. Treasury	912828UZ1	5,500,000	4/30/2018		AA+	5,435,169	1.02%
U.S. Treasury	912828UZ1	5,750,000	4/30/2018		AA+	5,682,222	1.11%
Apple Inc Global Notes	037833AJ9	2,500,000	5/3/2018		AA+	2,483,715	1.34%
Berkshire Hathaway Inc	084664BW0	3,000,000	5/15/2018		AA	2,979,960	1.07%
Microsoft Corp	594918BF0	1,845,000	11/3/2018		AAA	1,845,571	1.33%
Total Value PFM Managed Funds		\$165,056,000				\$165,025,298	0.81%
LGIP		\$81,647,175				\$81,647,175	0.60%
Bank Balances		\$20,519,604				\$20,519,604	0.50%
Total Value All Funds		\$267,222,779				\$267,192,077	0.72%

1. End of quarter trade-data par values of portfolio holdings.

2. End of quarter trade-data market values of portfolio holdings including accrued interest.

3. LGIP yield is provided by OSTF website. U.S. Bank yield (before fees) is provided by the City.

PFM Asset Management LLC

Approved Broker/Dealer List

Fourth Quarter 2015

- * Barclays Capital Inc.
BB&T Capital Markets
- † Blaylock Robert Van LLC
- * BMO Capital Markets Corp
- * BNP Paribas Securities Corp.
BNY Capital Markets LLC
BOSC, Inc.
- † Cabrera Capital Markets LLC
- * Cantor Fitzgerald & Co.
- † CastleOak Securities
- * Citigroup Global Markets Inc.
- † C.L. King & Associates, Inc.
Commerz Markets LLC
Credit Agricole Securities (USA), Inc.
- * Credit Suisse Securities (USA) LLC
- * Daiwa Capital Markets America Inc.
- * Deutsche Bank Securities Inc.
- † Drexel Hamilton LLC
Fifth Third Securities, Inc.
FTN Financial
- * Goldman, Sachs & Co.
- * HSBC Securities (USA) Inc.
INTL FCStone Partners L.P.
Incapital LLC
- * Jefferies & Company, Inc.
- * J.P. Morgan Securities LLC
Keybank Capital Markets
- † Loop Capital Markets LLC
MarketAxess Corporation
- * Merrill Lynch, Pierce, Fenner & Smith Inc.
Mesirow Financial, Inc.
Mitsubishi UFJ Securities (USA), Inc.
- * Mizuho Securities (USA), Inc.
- * Morgan Stanley & Co. LLC
- † Muriel Siebert & Co., Inc.
- * Nomura Securities International, Inc.
PNC Capital Markets LLC
- * RBC Capital Markets LLC
- * RBS Securities Inc.
Scotia Capital (USA), Inc.
- † Siebert Brandford Shank & Co. LLC
- * SG Americas Securities LLC
Southwest Securities Inc.
Stifel, Nicolaus & Company, Incorporated
SunTrust Robinson Humphrey, Inc.
Susquehanna Financial Group, LP
- * TD Securities (USA) LLC
Tradition Asiel Securities, Inc.
- † The Williams Capital Group, LP
- * UBS Securities LLC
U.S. Bancorp Investments, Inc.
Vining Sparks IBG, L.P.
Wells Fargo Securities LLC
Zions Direct, Inc.

* *Primary Government Securities Dealer*

† *Minority or woman owned business enterprise*

Note: Direct issuers of CP and CDs are considered to be approved counterparties if approved as an issuer.

Important Disclosures

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