

# Brevard County, Florida

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Annual Investment Performance Review  
Fiscal Year Ended September 30, 2011



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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.

Total Portfolio Balances and Interest Earnings

<b>Balances Fund Name</b>	<b>Book Value as of September 30, 2011</b>	<b>Book Value as of September 30, 2010</b>	<b>Percent Change From FY 2011 - 2010</b>
General Fund	\$27,152,483.38	\$32,445,752.19	-16.31%
Special Revenue	184,453,173.80	195,981,108.65	-5.88%
Debt Service	4,601,658.34	7,984,257.44	-42.37%
Capital Projects	25,374,175.93	59,230,459.62	-57.16%
Enterprise	86,952,056.12	98,821,217.87	-12.01%
Internal Service	44,869,918.95	45,963,508.77	-2.38%
<b>Total</b>	<b>\$373,403,466.52</b>	<b>\$440,426,304.54</b>	<b>-15.22%</b>

<b>Interest Earnings Fund Name</b>	<b>Interest Earned Fiscal Year 2011</b>	<b>Interest Earned Fiscal Year 2010</b>	<b>Percent Change From FY 2011 - 2010</b>
General Fund	\$413,337.11	\$478,463.23	-13.61%
Special Revenue	1,976,537.42	2,476,739.21	-20.20%
Debt Service	130,503.60	189,265.02	-31.05%
Capital Projects	302,000.23	1,407,631.87	-78.55%
Enterprise	1,101,292.32	1,289,264.03	-14.58%
Internal Service	492,496.94	508,933.12	-3.23%
<b>Total</b>	<b>\$4,416,167.62</b>	<b>\$6,350,296.48</b>	<b>-30.46%</b>

<b>County Total Portfolio</b>	<b>Book Value as of September 30, 2011</b>	<b>Market Value as of September 30, 2011</b>
Short Term and Bond Portfolio	\$177,402,402.67	\$176,575,739.51
Long Term Portfolio	200,731,989.18	201,863,078.10
<b>Total</b>	<b>\$378,134,391.85</b>	<b>\$378,438,817.61</b>

Short Term and Bond Portfolio Yields

<b>Yields<sup>1,2</sup></b>	<b>Yield on Cost as of</b>	<b>Percent of Portfolio</b>	<b>Yield on Cost as of</b>	<b>Percent of Portfolio</b>
<b><u>Security Type</u></b>	<b><u>September 30, 2011</u></b>	<b><u>September 30, 2011</u></b>	<b><u>September 30, 2010</u></b>	<b><u>September 30, 2010</u></b>
Florida PRIME (SBA)	0.24%	2.40%	0.32%	1.58%
SunTrust Public Now Account	0.12%	29.44%	0.22%	12.55%
PFM Fund Institutional Class	0.12%	17.20%	0.23%	16.87%
SunTrust Bank CD <sup>4</sup>	0.00%	0.00%	0.58%	4.18%
Regions Bank CD <sup>4</sup>	0.00%	0.00%	0.30%	2.09%
U.S. Treasury Note	0.00%	0.00%	0.19%	4.18%
Federal Farm Credit Bureau	0.27%	22.64%	0.40%	16.73%
Federal Home Loan Bank	0.32%	28.32%	0.46%	25.11%
Federal Home Loan Mortgage Corp.	0.00%	0.00%	0.27%	16.70%
Federal National Mortgage Association	0.00%	0.00%	0.00%	0.00%
<b>Total Average Yield<sup>2</sup></b>	<b>0.21%</b>	<b>100.00%</b>	<b>0.33%</b>	<b>100.00%</b>

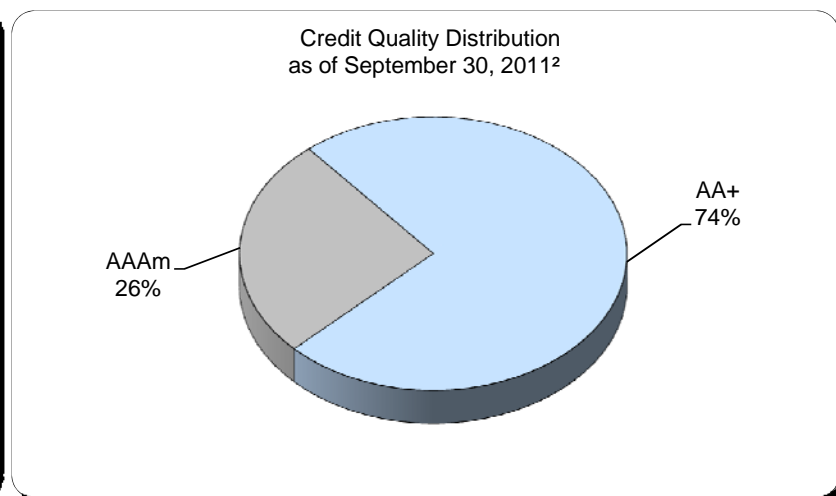
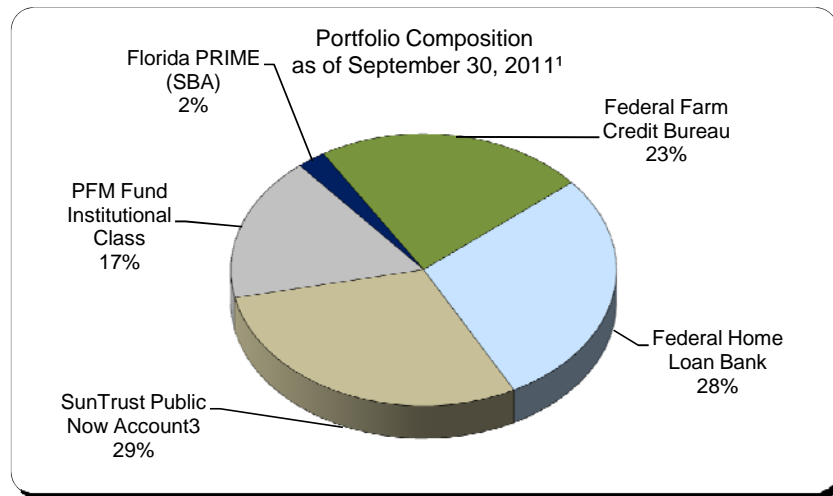
<b><u>Benchmarks</u></b>	<b><u>September 30, 2011</u></b>	<b><u>September 30, 2010</u></b>
S&P Rated GIP Index Government 30 Day Yield <sup>3</sup>	0.15%	0.31%

Notes:

1. Yields are presented as "Yield on Cost" pursuant to the County's Investment Policy Performance Section for short-term securities and compared to the benchmark which is the Standard & Poor's GIP 30 Day Index.
2. Yield on cost is a dollar weighted yield.
3. Monthly yield, gross of fees. Source Standard & Poor's Financial Institutions Ratings.
4. Bank Deposits in excess of \$250,000 are collateralized under Florida State Statute 280 with U.S. Government and U.S. Government Agency securities, including Mortgage Backed Securities.

Short Term and Bond Portfolio Composition (Market Value)

<u>Security Type<sup>1</sup></u>	<u>Balance as of September 30, 2011</u>	<u>Percent of Portfolio</u>	<u>Balance as of September 30, 2010</u>	<u>Percent of Portfolio</u>
Florida PRIME (SBA)	\$4,238,270.97	2.40%	\$3,778,063.66	1.58%
Federal Farm Credit Bureau	39,974,441.44	22.64%	39,983,666.33	16.73%
Federal Home Loan Bank	50,001,500.00	28.32%	60,009,400.00	25.11%
Federal Home Loan Mortgage Corp.	0.00	0.00%	39,912,314.06	16.70%
Federal National Mortgage Association	0.00	0.00%	0.00	0.00%
U.S. Treasury Note	0.00	0.00%	9,992,497.61	4.18%
SunTrust Public Now Account <sup>3</sup>	51,990,797.78	29.44%	30,004,877.65	12.55%
PFM Fund Institutional Class	30,370,729.32	17.20%	40,312,820.57	16.87%
SunTrust Bank CD	0.00	0.00%	10,000,000.00	4.18%
Regions Bank CD	0.00	0.00%	5,000,000.00	2.09%
<b>Totals</b>	<b>\$176,575,739.51</b>	<b>100.00%</b>	<b>\$238,993,639.88</b>	<b>100.00%</b>



Notes:

- Investment balances are market values as of September 30, 2011.
- Credit rating of securities held in portfolio, exclusive of Checking accounts, certificate of deposits and SBA Pool B.

Short Term and Bond Portfolio Holdings and Yields<sup>1</sup> as of September 30, 2011

Security Description	Coupon	CUSIP	Purchase Date	Maturity Date	Par Value	Book Amount	Market Value	Yield on Cost <sup>2</sup>
State Board of Administration - Fund A					\$1,483,759.26	\$1,483,759.26	\$1,483,759.26	0.24%
State Board of Administration - Fund B					3,639,496.87	3,639,496.87	2,754,511.71	n/a
SunTrust Public Now Account <sup>3</sup>					51,990,797.78	51,990,797.78	51,990,797.78	0.12%
PFM Fund Institutional Class					30,370,729.32	30,370,729.32	30,370,729.32	0.12%
Federal Home Loan Bank	0.28%	31337MF1	9/28/2011	9/28/2012	10,000,000.00	10,000,000.00	9,998,500.00	0.28%
Federal Home Loan Bank	0.30%	313375CR6	9/1/2011	9/10/2012	10,000,000.00	10,000,000.00	10,001,400.00	0.30%
Federal Home Loan Bank	0.35%	313375DC8	9/1/2011	9/12/2012	10,000,000.00	10,000,000.00	10,002,400.00	0.35%
Federal Home Loan Bank	0.40%	313374YU8	8/4/2011	8/17/2012	10,000,000.00	10,000,000.00	10,001,500.00	0.40%
Federal Home Loan Bank	0.25%	313374YB0	7/25/2011	7/25/2012	10,000,000.00	10,000,000.00	9,997,700.00	0.25%
Federal Farm Credit Bank	0.00%	313312TL4	2/23/2011	2/23/2012	10,000,000.00	9,971,611.11	9,988,722.11	0.28%
Federal Farm Credit Bank	0.00%	313312PJ3	1/10/2011	11/17/2011	10,000,000.00	9,976,675.00	9,996,475.00	0.27%
Federal Farm Credit Bank	0.00%	313312QP8	1/7/2011	12/16/2011	10,000,000.00	9,969,333.33	9,993,244.33	0.33%
Federal Farm Credit Bank	0.21%	31331KML1	6/1/2011	6/1/2012	10,000,000.00	10,000,000.00	9,996,000.00	0.21%
<b>Total</b>					<b>\$177,484,783.23</b>	<b>\$177,402,402.67</b>	<b>\$176,575,739.51</b>	<b>0.21%</b>

Notes:

1. Yields are presented as "Yield on Cost" pursuant to the County's Investment Policy Performance Section for short-term securities and compared to the benchmark which is the Standard & Poor's GIP 30 Day Index.
2. Yield on Cost is a dollar weighted yield.
3. Bank Deposits in excess of \$250,000 are collateralized under Florida State Statute 280 with U.S. Government and U.S. Government Agency securities, including Mortgage Backed Securities.

## Executive Summary

**CURRENT STRATEGY**

- The County's Long Term Fund portfolio is of high credit quality and maintains adequate liquidity. The portfolio is invested entirely in Federal Agency, U.S. Treasury, municipal obligations, commercial paper and corporate note securities. The securities are allocated among high quality issuers rated AA+, AA- and A-1+.
- At the beginning of the Fiscal Year, we targeted the Long Term Fund portfolio's duration at 86% of the benchmark's duration and ended the Fiscal Year at 93% of the benchmark's duration. The Long Term Portfolio's Last 12 Month Total Return performance of 1.27% outperformed the benchmark's return of 1.20%, while maintaining a conservative investment strategy in anticipation of higher future interest rates. Our conservative investment approach was based on our investment philosophy, according to which the preservation of principle takes precedence over returns. This is particularly true when operating in a record-low interest environment, where the low level of income lessens the buffer created against adverse market moves. Although the Federal Reserve is determined to keep interest rates low until mid 2013, "Operation Twist" will likely increase short-term rates in the 1 to 5 year segment, in which we operate. Holding the duration of the portfolio slightly short of the benchmark's duration will allow for the extension of duration to capitalize on higher yields in the event they increase. We will closely monitor the markets to make select purchases of securities when rates move towards the upper end of their range.
- As a result of active management, the Long Term Fund Portfolio generated over \$1.5 million in realized gains on sales, based on amortized cost, for the Fiscal Year 2011.

**FUTURE STRATEGY**

- Given the market's expectation for a protracted domestic recovery, high unemployment, subdued inflation, and slow global growth, it appears the Federal Recent economic reports remain soft, with continued weakness in employment, housing and business activity. Although the economy is not currently expected to fall back into a double-dip recession, the Federal Reserve has noted that "there are significant downside risks to the economic outlook, including strains in global financial markets."
- The consensus outlook for Q4 and beyond is for continued, frustratingly slow growth. According to Bloomberg's survey of economists, real GDP growth is expected to barely exceed 2% for the remainder of 2011 and all of 2012. Corporate profitability likewise is expected to increase but at a slower rate, falling from the double-digit expansion of 2011 to perhaps 9% in the first quarter of 2012. Banks' earnings will be particularly impacted by lower trading and capital markets activity. Not great news, but not a crisis either, as appears currently priced into to current Treasury yields. The market remains skittish about debt problems in the Euro-zone, and its impact on European banks' capital adequacy.
- As always, we strive to maintain the safety of principal while at the same time positioning the portfolio for growth and searching for tactical opportunities to enhance return. In these changing times, our strategy will remain flexible and may change in response to changes in interest rates, economic data, market outlook or specific opportunities that arise.

Short Term and Long Term Portfolios Annual Review Fact Sheet

**Ending Balance as of September 30, 2011**

Short Term Portfolio Market Value <sup>1</sup>	\$ 176,575,739.51
Long Term Portfolio Market Value	<u>201,863,078.10</u>
Total All Assets	<u><u>\$ 378,438,817.61</u></u>

**Interest Earnings**

	<u>Last 12 Months</u>
Total Portfolio Interest Earnings for Fiscal Year 2010/2011	<u>\$4,416,167.62</u>

**Additional Annual Returns in Dollars<sup>2</sup>**

	<u>Last 12 Months</u>
<b>Total Return</b>	
Long Term Portfolio	\$2,549,050.71
Merrill Lynch 1-3 Year U.S. Treasury Index	<u>2,414,254.81</u>
Additional Returns over Benchmark	<u><u>\$134,795.89</u></u>

**Summary**

1. The Portfolio's average duration of 1.68 years for the Fiscal Year Ended September 30, 2011 is 93.94% of the Benchmark's average duration for the year.
2. The Portfolio's average since inception duration of 1.54 years for the Fiscal Year Ended September 30, 2011 is 91.09% of the Benchmark's average duration since inception.
3. As of September 30, 2011, the County's Portfolio is in compliance with the Investment Policy. The investment composition and allocation is provided on the Asset Allocation Chart in this report.

Notes:

1. The Short Term Portfolio is managed by the County.
2. Based on the Average Annual Balance. Long Term Portfolio Average Balance of: \$201,187,901.00.
3. Based on the Quarter-End Averages for the Fiscal Year.

**Long Term Portfolio Performance**

	<u>Last 12 Months</u>
<b>Total Return</b>	
Long Term Portfolio	1.27%
Merrill Lynch 1-3 Year U.S. Treasury Index	<u>1.20%</u>
Performance over the Benchmark	<u><u>0.07%</u></u>
<b>Yield on Cost</b>	
Long Term Portfolio	0.98%
S&P Rated GIP Index Government 30 Day Gross Yield	<u>0.20%</u>
Performance over the S&P GIP Index	<u><u>0.78%</u></u>

**Average Annual Duration<sup>3</sup>**

	<u>Last 12 Months</u>
Long Term Portfolio	1.68 Years
Merrill Lynch 1-3 Year U.S. Treasury Index	1.79 Years

**Short Term Portfolio Performance**

	<u>Last 12 Months</u>
<b>Yield on Cost</b>	
Short Term Portfolio	0.23%
S&P Rated GIP Index Government 30 Day Gross Yield	<u>0.20%</u>
Performance over the Benchmark	<u><u>0.03%</u></u>

**Weighted Average Maturity**

	<u>As of September 30, 2011</u>
Short Term Portfolio	161 Days
S&P Rated GIP Index Government	41 Days

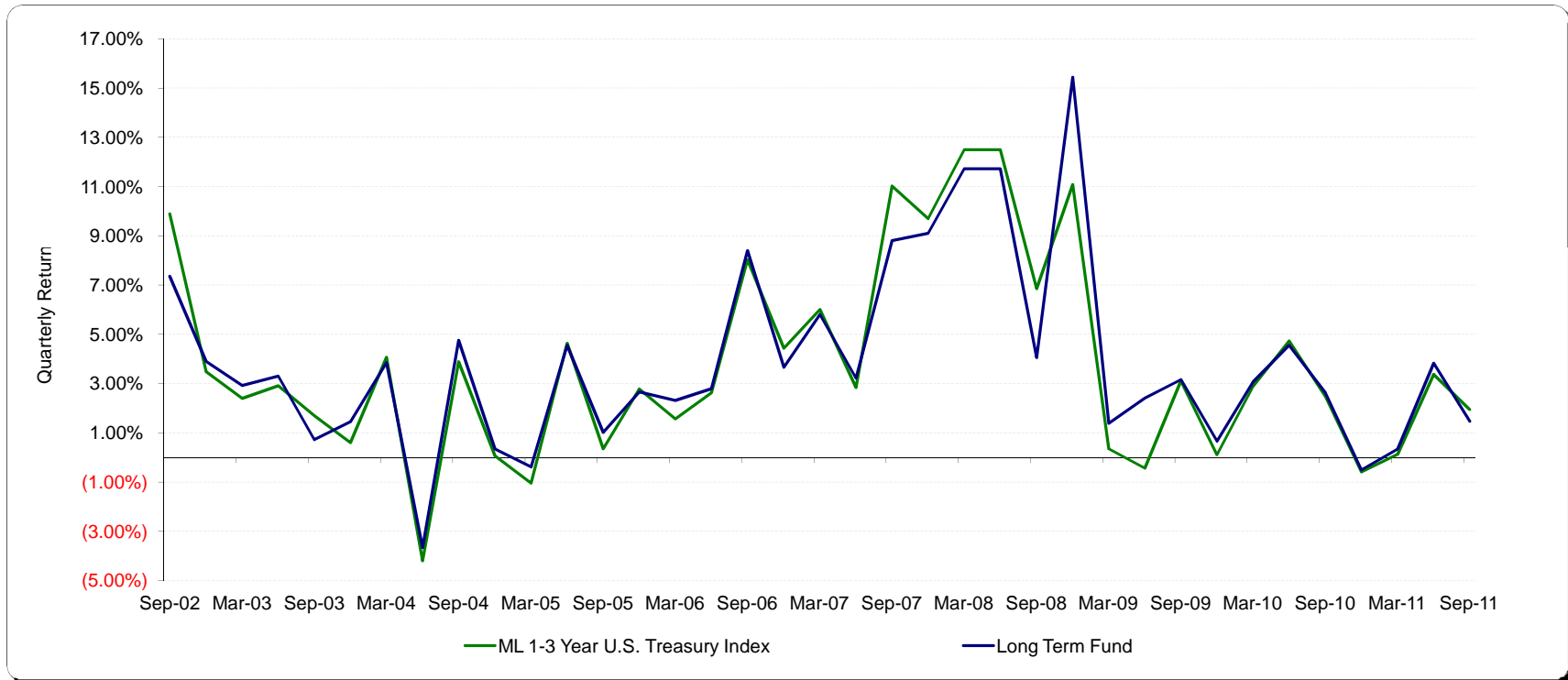


Long Term Fund Portfolio Yields - Since Inception History Versus Benchmarks<sup>1</sup>

<u>Account Name</u>	<u>Total Return Since Inception on March 31, 2002</u>	<u>Total Return Last 12 Months</u>	<u>Account Name</u>	<u>Total Return Since Inception on March 31, 2002</u>	<u>Total Return Last 12 Months</u>
Long Term Fund	3.62%	1.27%	Long Term Fund	3.62%	1.27%
ML 1-3 Year U.S. Treasury Index	3.40%	1.20%	S&P Rated GIP Index Government 30 Day Gross Yield	2.18%	0.20%
<b>Benefit Yield over Benchmark</b>	<b>0.22%</b>	<b>0.07%</b>	<b>Benefit Yield over S&amp;P GIP Index</b>	<b>1.44%</b>	<b>1.07%</b>

Since Inception Earnings Over the Benchmark \$3,646,858.37

Since Inception Earnings Over the S&P GIP Index \$23,598,280.83



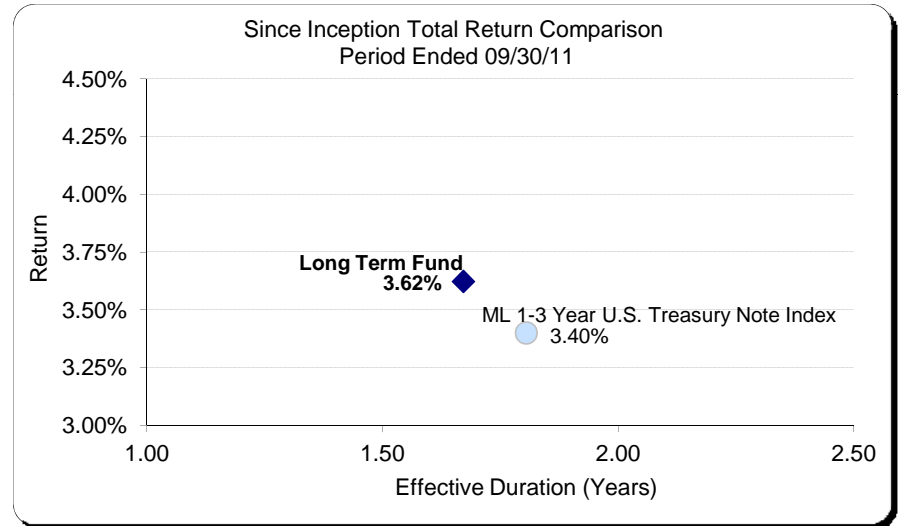
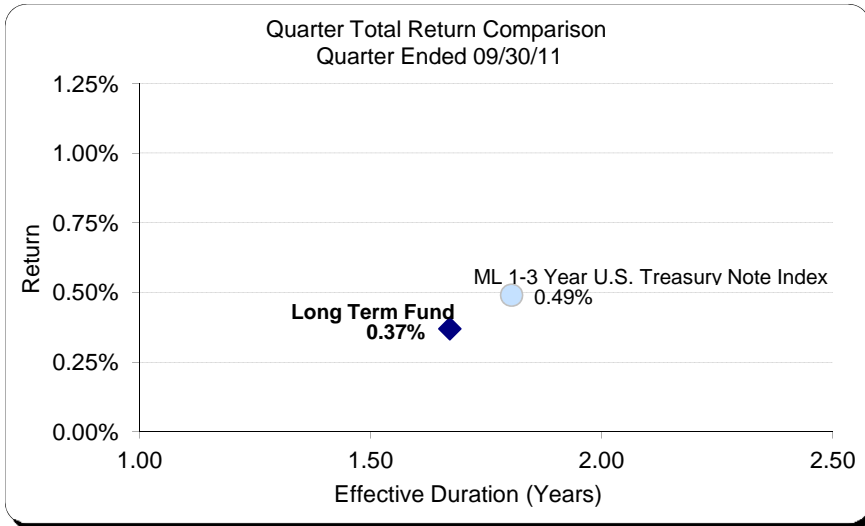
Notes:  
1. Annualized Quarterly Returns Since Inception.

Long Term Fund Portfolio Performance

<b>Total Portfolio Value<sup>1,2</sup></b>	<b>September 30, 2011<sup>1</sup></b>	<b>September 30, 2010</b>
Market Value	\$201,863,078.10	\$189,808,864.74
Amortized Cost	\$200,731,989.18	\$187,668,975.99

<b>Total Return<sup>1,2,3,4,5,6,7,8</sup></b>	<b>Quarterly Return September 30, 2011</b>	<b>Year to Date</b>	<b>Last 12 Months</b>	<b>Last 24 Months</b>	<b>Since Inception 3/31/2002</b>
<b>Long Term Fund</b>	<b>0.37%</b>	<b>1.40%</b>	<b>1.27%</b>	<b>1.99%</b>	<b>3.62%</b>
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.49%	1.36%	1.20%	1.87%	3.40%

<b>Effective Duration (Years)<sup>4</sup></b>	<b>September 30, 2011</b>	<b>September 30, 2010</b>	<b>Yields</b>	<b>September 30, 2011</b>	<b>September 30, 2010</b>
<b>Long Term Fund</b>	<b>1.67</b>	<b>1.55</b>	Yield at Market	<b>0.49%</b>	0.65%
ML 1-3 Year U.S. Treasury Note Index	1.81	1.81	Yield at Cost	<b>0.83%</b>	1.29%
Portfolio Duration % of Benchmark Duration	93%	86%			

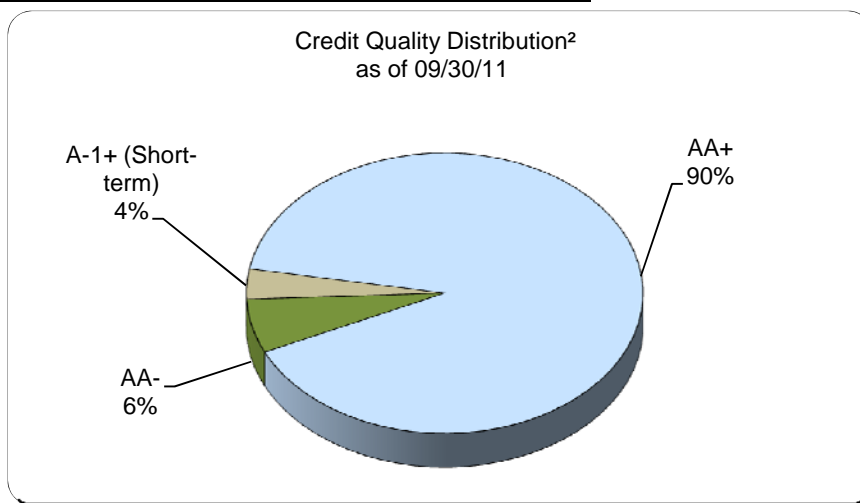
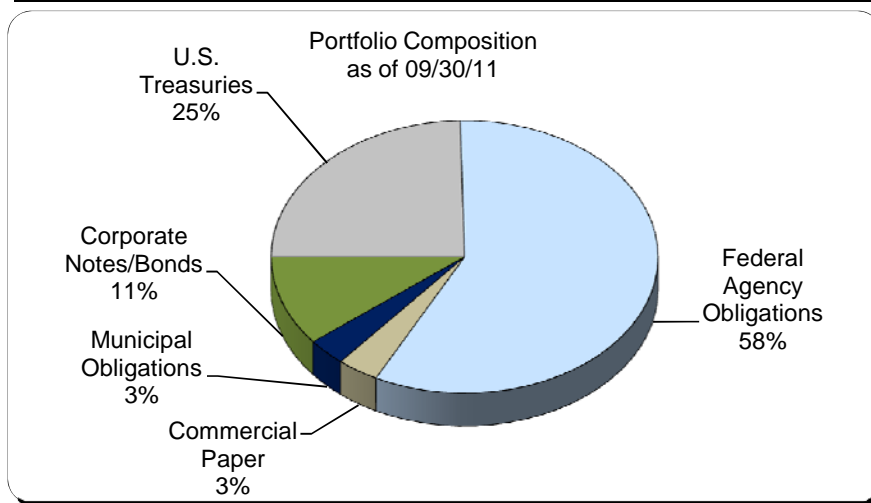


Notes:

1. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
2. End of quarter trade-date market values of portfolio holdings, including accrued interest.
3. Performance on trade date basis, gross (i.e., before fees), is in accordance with The CFA Institute's Global Investment Performance Standards (GIPS).
4. Merrill Lynch Indices provided by Bloomberg Financial Markets.
5. Quarterly returns are presented on both an unannualized and annualized basis. The annualized return assumes the quarterly return is compounded at the same rate for four quarters and is presented for reference only. The actual annual return will be the result of chaining the most recent four quarterly returns.
6. Excludes money market fund/cash in performance and duration computations.
7. Returns presented for 12 months or longer are presented on an annual basis.
8. Past performance is not indicative of future results.

Long Term Fund Portfolio Composition and Credit Quality Characteristics

<u>Security Type<sup>1</sup></u>	<u>September 30, 2011</u>	<u>% of Portfolio</u>	<u>September 30, 2010</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$49,737,398.11	24.6%	\$54,795,499.71	28.9%
Federal Agencies	116,940,396.17	57.9%	100,465,065.01	52.9%
Commercial Paper	7,037,592.32	3.5%	7,007,511.42	3.7%
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	6,522,294.30	3.2%	0.00	0.0%
Corporate Notes/Bonds	21,625,397.20	10.7%	9,606,263.12	5.1%
Corporate Notes/Bonds - FDIC Insured	0.00	0.0%	17,934,525.48	9.4%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	0.00	0.0%	0.00	0.0%
<b>Totals</b>	<b>\$201,863,078.10</b>	<b>100.0%</b>	<b>\$189,808,864.74</b>	<b>100.0%</b>

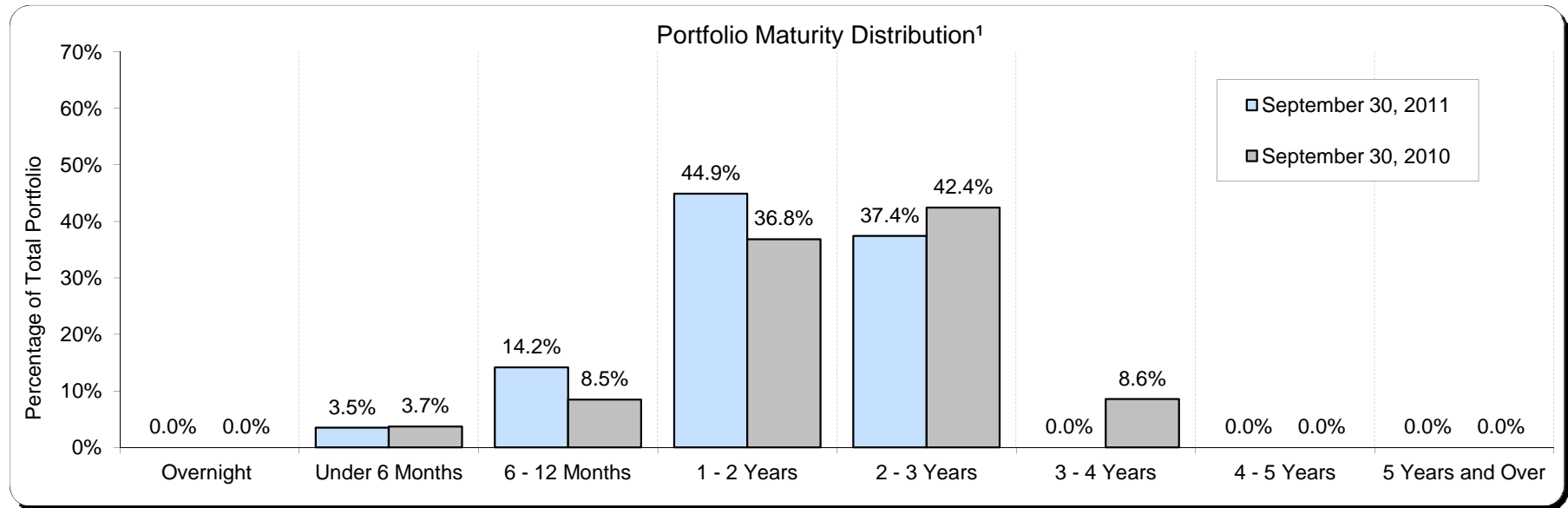


Notes:

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.

Long Term Fund Portfolio Maturity Distribution

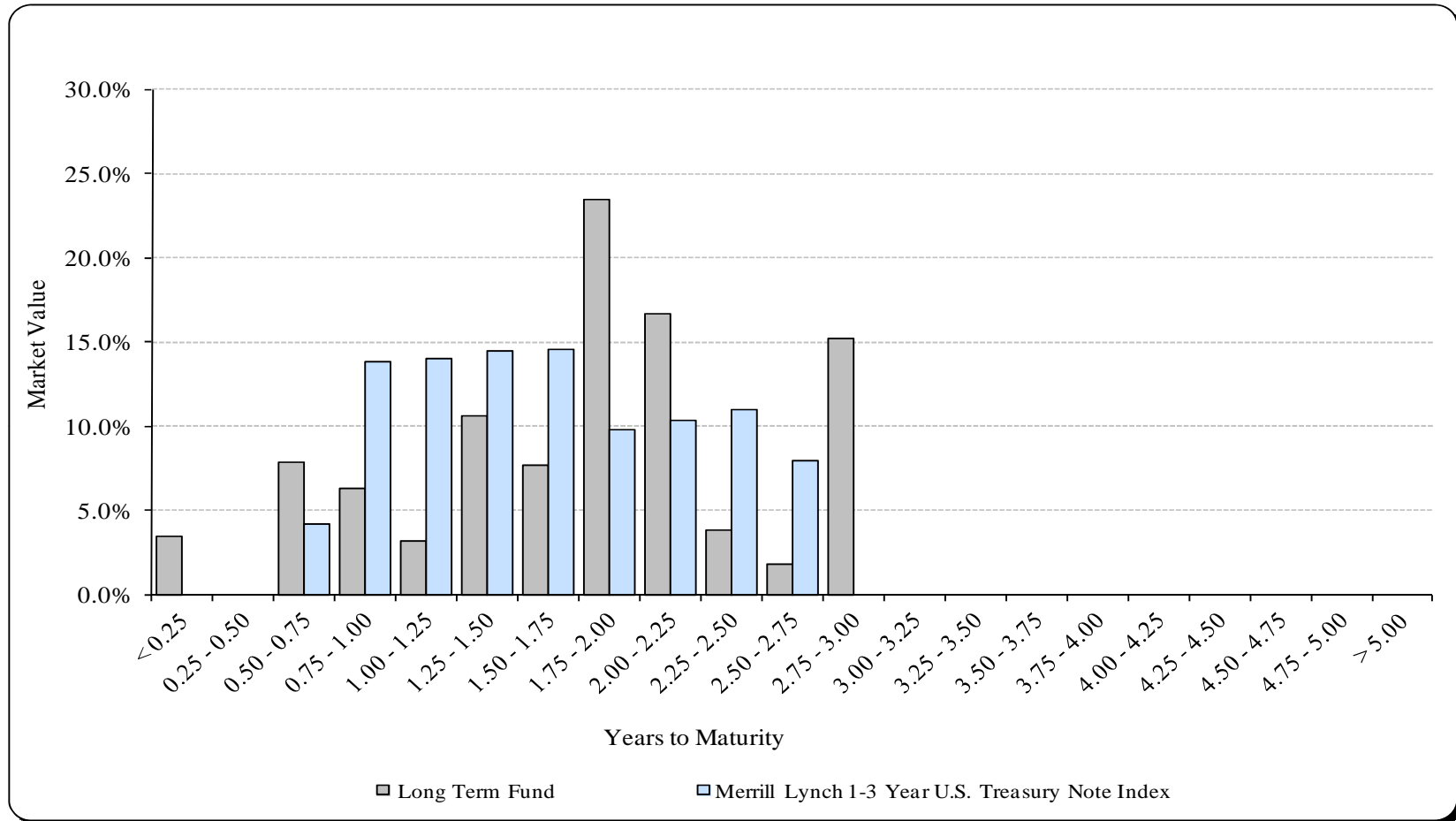
<u>Maturity Distribution<sup>1</sup></u>	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	7,037,592.32	7,007,511.42
6 - 12 Months	28,629,068.10	16,082,966.24
1 - 2 Years	90,668,868.59	69,941,916.93
2 - 3 Years	75,527,549.09	80,523,632.35
3 - 4 Years	0.00	16,252,837.80
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$201,863,078.10</b>	<b>\$189,808,864.74</b>



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.

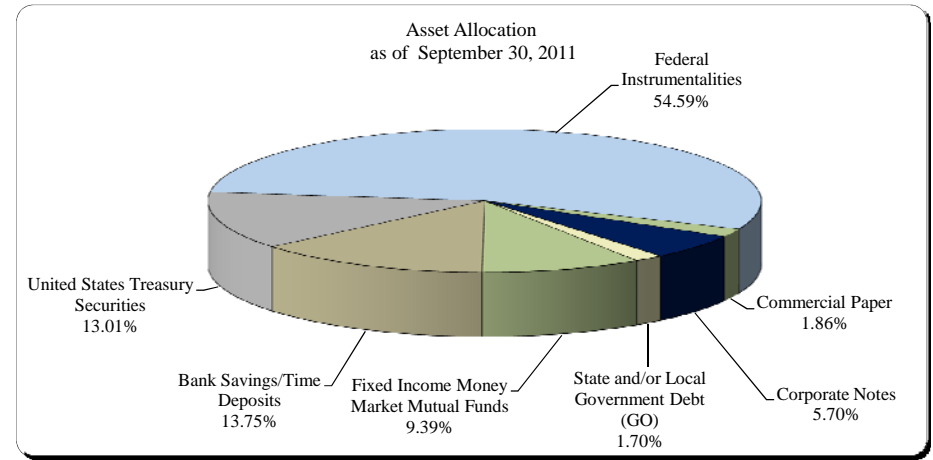
Long Term Fund Maturity Distribution versus the Benchmark<sup>1</sup>



Notes:

1. Due to the nature of the security, Mortgage-Backed Securities are represented based on their average life maturity rather than their final maturity.

Security Type <sup>1</sup>	September 30, 2011	Notes	Permitted by Policy
United States Treasury Securities	13.01%		100%
United States Government Agency Securities	0.00%		50%
Federal Instrumentalities	54.59%	2	100%
Certificates of Deposit	0.00%	3	10%
Repurchase Agreements	0.00%		20%
Commercial Paper	1.86%		25%
Corporate Notes	5.70%		15%
Mortgage-Backed Securities	0.00%	2	100%
Bankers' Acceptances	0.00%		25%
State and/or Local Government Debt (GO)	1.70%		25%
State and/or Local Government Debt (Revenue)	0.00%		25%
Fixed Income Money Market Mutual Funds	9.39%		40%
Bank Savings/Time Deposits	13.75%	3	100%



Individual Issuer Breakdown	September 30, 2011	Notes	Permitted by Policy
Government National Mortgage Association (GNMA)	0.00%		10%
US Export-Import Bank (Ex-Im)	0.00%		10%
Farmers Home Administration (FMHA)	0.00%		10%
Federal Financing Bank	0.00%		10%
Federal Housing Administration (FHA)	0.00%		10%
General Services Administration	0.00%		10%
New Communities Act Debentures	0.00%		10%
US Public Housing Notes & Bonds	0.00%		10%
US Dept. of Housing and Urban Development	0.00%		10%
Federal Farm Credit Bank (FFCB)	15.89%		25%
Federal Home Loan Bank (FHLB)	21.40%		25%
Federal National Mortgage Association (FNMA)	7.80%		25%
Federal Home Loan Mortgage Corporation (FHLMC)	9.50%		25%
Student Loan Marketing Association (SLMA)	0.00%		0%

Individual Issuer Breakdown	September 30, 2011	Notes	Permitted by Policy
CD - A	0.00%	3	10%
CD - B	0.00%	3	10%
Toyota CP	1.86%		5%
CP B	0.00%		5%
CP C	0.00%		5%
CP D	0.00%		5%
General Electric Corporate Notes	2.53%		5%
Procter & Gamble Corporate Notes	1.58%		5%
Berkshire Hathaway Corporate Notes	1.59%		5%
Corporate Notes D	0.00%		5%
Corporate Notes E	0.00%		5%
BA Bank A	0.00%		5%
BA Bank B	0.00%		5%
Michigan State Municipal Bond	1.70%		10%
SunTrust Public Now Bank Account	13.75%	3	100%
PFM Fund Prime Series Money Market Fund	8.03%		10%
Florida Prime (SBA)	1.35%	3	10%

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 100%. The combined total as of September 30, 2011 is 54.59%.
3. Managed by the County.