City of Colorado Springs
Review of Investment Performance

Quarter-ended March 31, 2018

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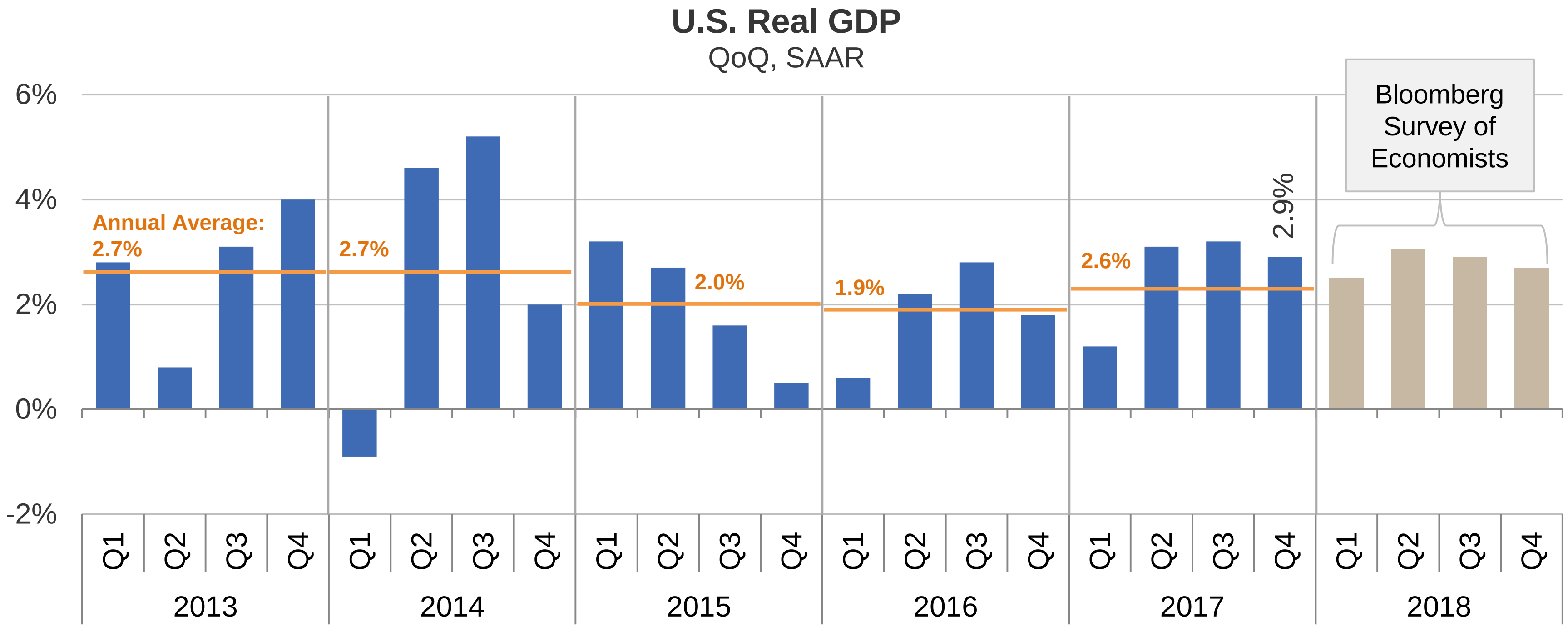
Economic and Market Update

Current Market Themes

- U.S. economic conditions are characterized by:
  - Strong pace of economic activity despite some recent signs of a slowdown in consumer spending after a second half of 2017
  - Tight labor market conditions with unemployment falling and wages beginning to accelerate
  - Growing concern about a global trade war, particularly between the U.S. and China
- Treasury yields moved higher in the first quarter, reflecting a positive outlook for growth and the Fed's March rate hike
  - The Fed raised rates by ¼ percent in early March and forecasts 2-3 additional hikes for 2018
  - The Fed upgraded their forecasts for growth and unemployment, while modestly increasing the inflation forecast in the out years
  - Treasury issuance picked up significantly to fund a widening budget deficit with the bulk of issuance in shorter maturity T-Bills, contributing to a modestly flatter yield curve to end the first quarter
- After starting the year off strong in January, U.S. equities were whipsawed in February and March, ending the quarter with losses YTD
  - Investors are trying to absorb the implications of trade tensions, higher interest rates, and higher expected inflation
  - Volatility in the stock market remains elevated even as corporate fundamentals are strong with the S&P 500 companies expected to see their earnings grow by more than 17% (YoY, FactSet) in Q1 2018
- Geopolitical risks continue to linger as uncertainty surrounding the global trade outlook and protectionist US economic policies remains a concern

Moderate U.S. Economic Expansion

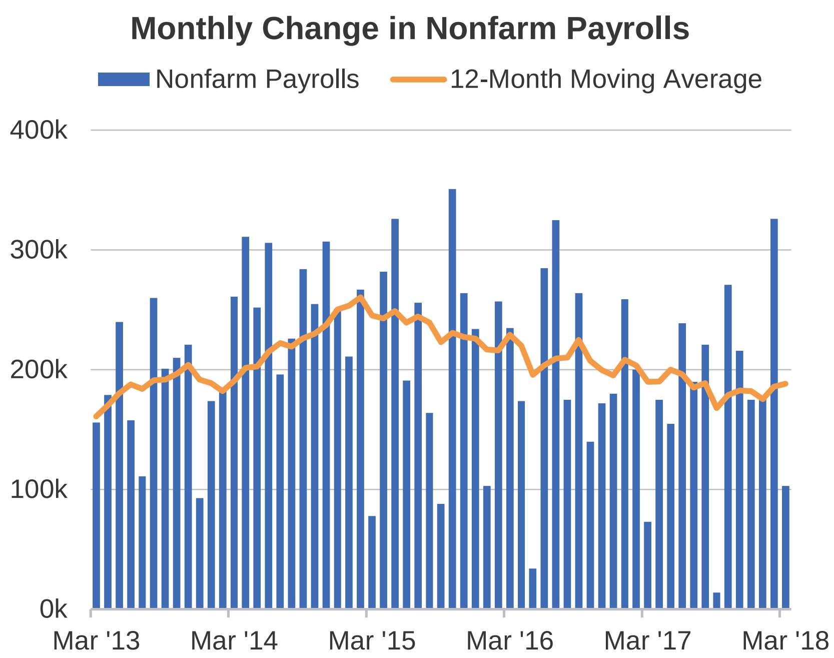
- U.S. gross domestic product (GDP) grew at an annualized rate of 2.9% in the fourth quarter of 2017. Despite slowing slightly from faster than 3% growth in the second quarter and the third quarter, the overall pace of economic activity remained solid as the economy grew at an average of 2.6% on a quarterly basis (annualized), the fastest pace since 2014.
- Strong growth in consumer spending and business investment continued to fuel economic activity over the quarter, while significant declines in inventories and net exports were a drag on reported GDP in the fourth quarter.

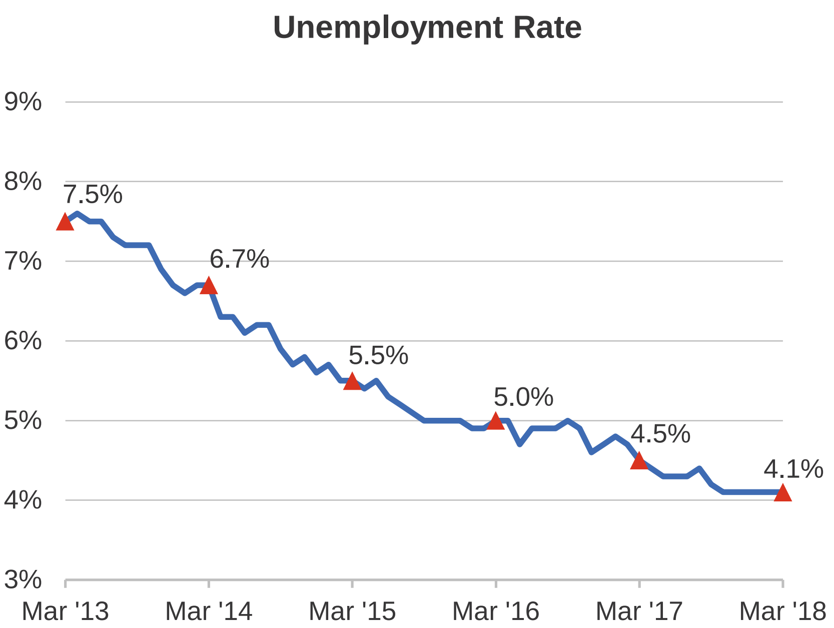


Source: Bloomberg, as of 3/31/2018.

Labor Market Strength Remains

- The U.S. labor market added 605,000 jobs in the first quarter of 2018
  - The headline unemployment rate held steady at 4.1% in March for the sixth straight month, matching the lowest level in 17 years
  - The labor force participation rate ended the quarter at 62.9%, up slightly from 62.7% at the end of 2017
  - The tight labor market is slowly pushing up worker pay. Average hourly earnings – a key measure of wage growth – rose 2.7% over the past 12 months, ending March



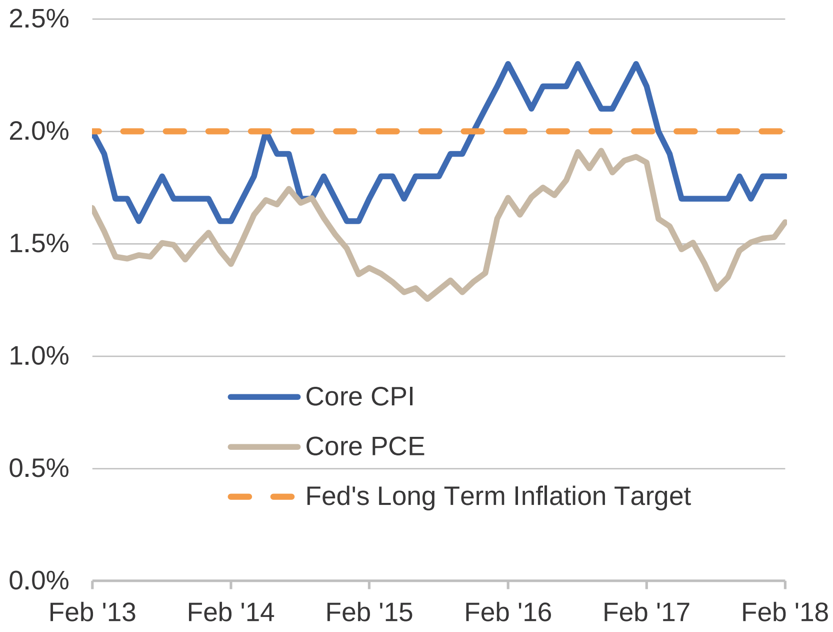


Source: Bloomberg, as of March 2018.

Inflation Expectations Have Moved Higher

- The core personal consumption expenditures (PCE) price index, the Fed's preferred measure of inflation, ticked slightly higher to 1.6% year-over-year in February, but still remains firmly below the Fed's 2% target.
- Forward-looking inflation expectations have risen.

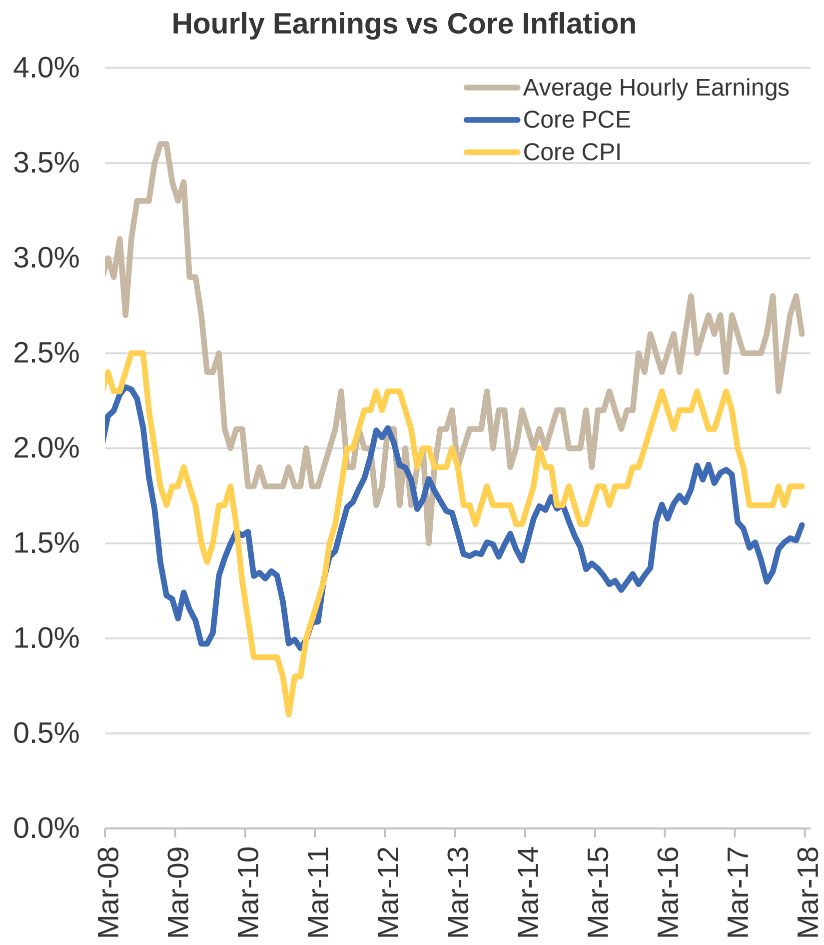
Inflation Measures
(YoY)

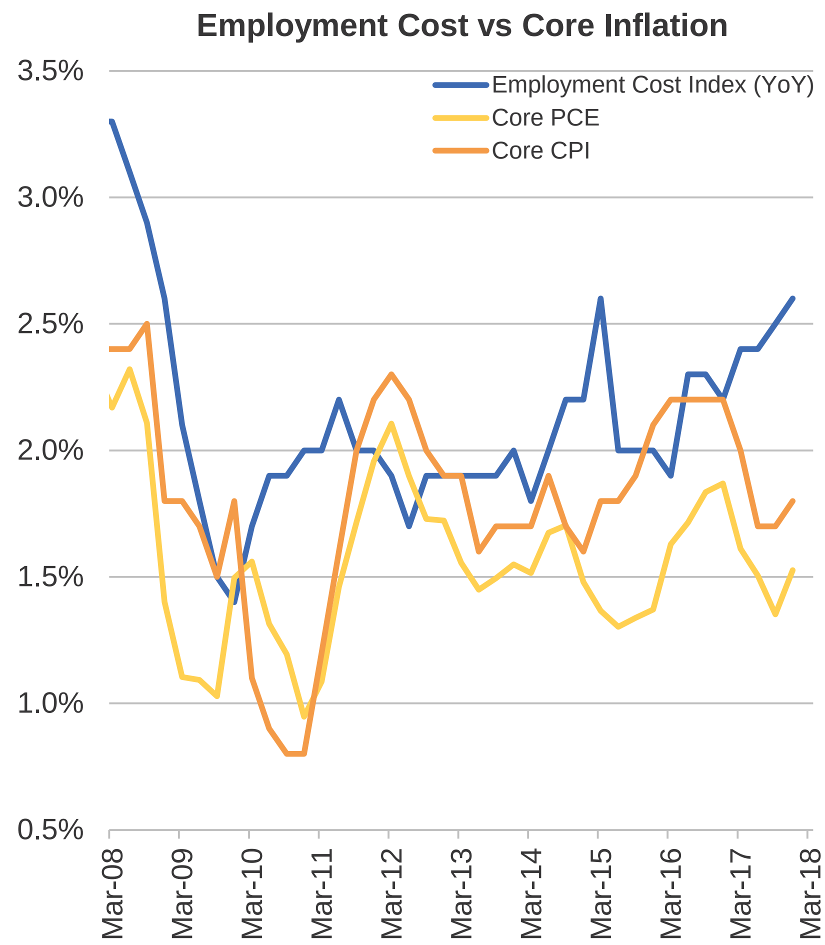


Expectations for Average Inflation Rate over next 5 years

Source: Bloomberg, latest data available as of March 2018. Inflation expectations based on yield difference between 5-year Treasury note and 5-year Treasury Inflation Protected Securities (TIPS).

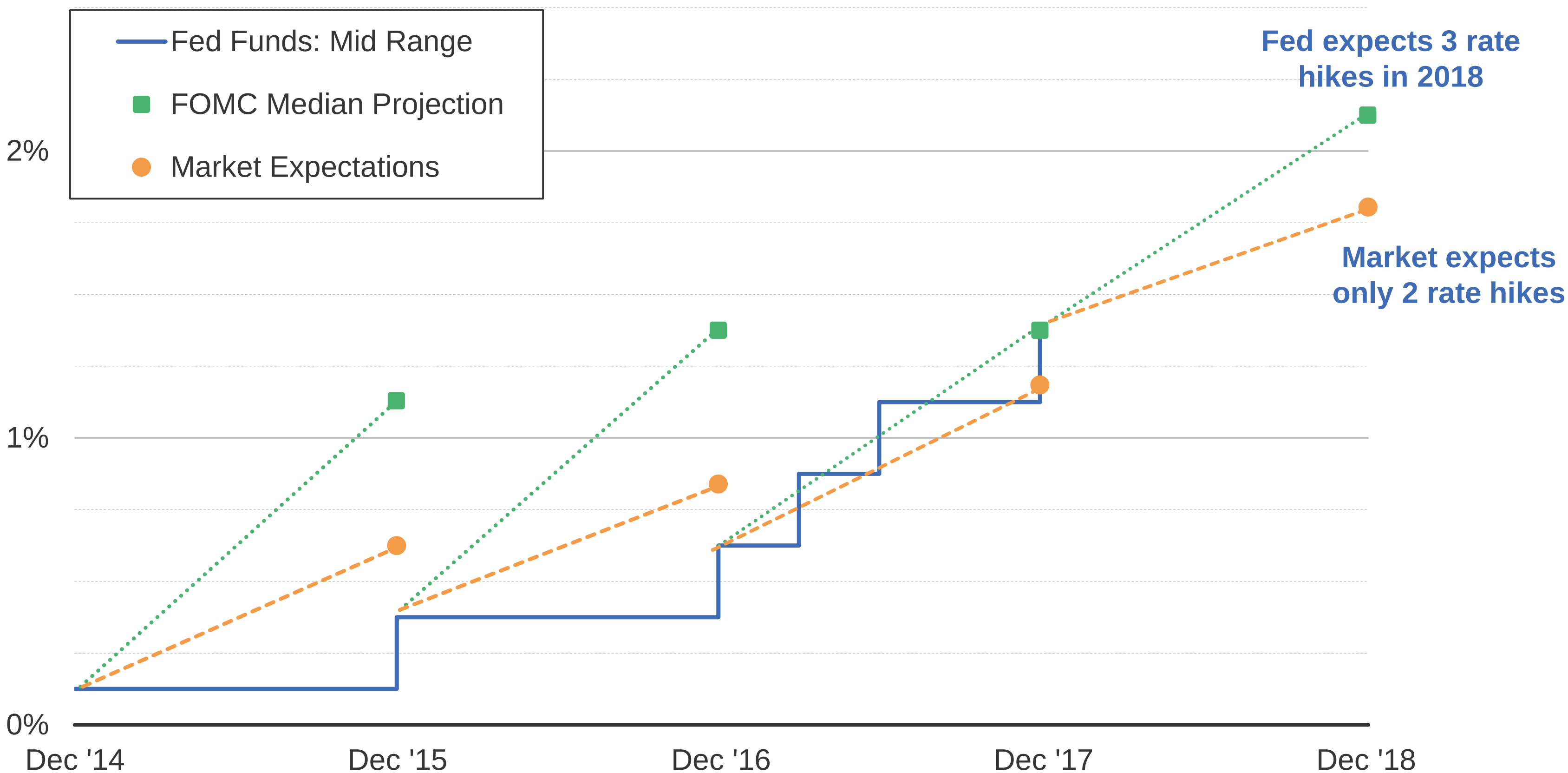
Wage Growth vs Inflation





Source: Bloomberg.

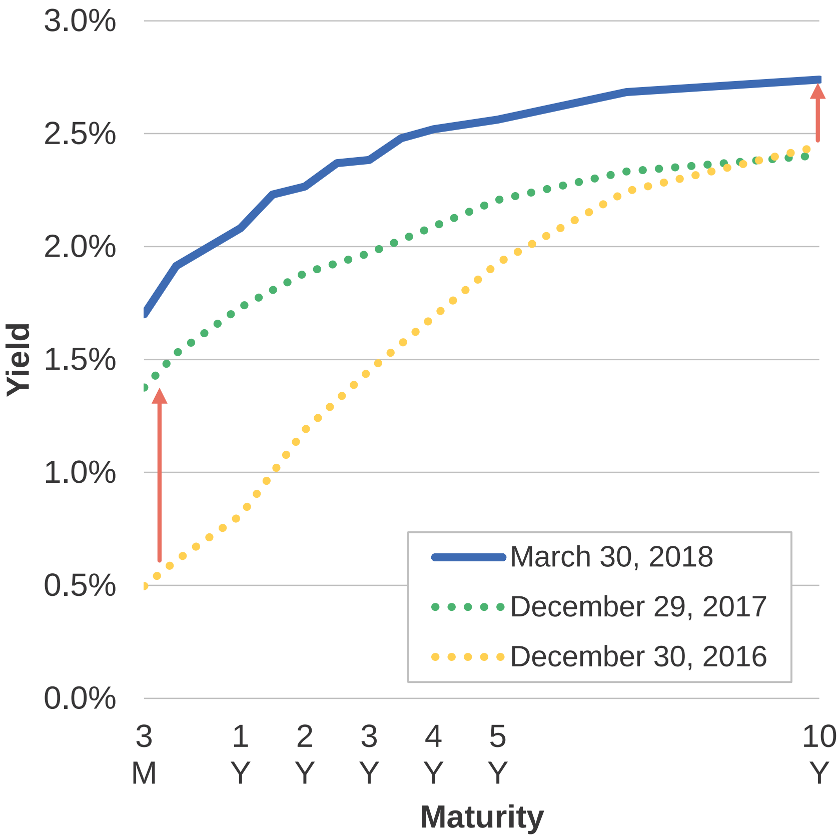
FOMC and Investors Synched Up in 2017



Source: Federal Reserve, Bloomberg. Market expectations as measured by Fed Funds futures.

U.S. Treasury Curve

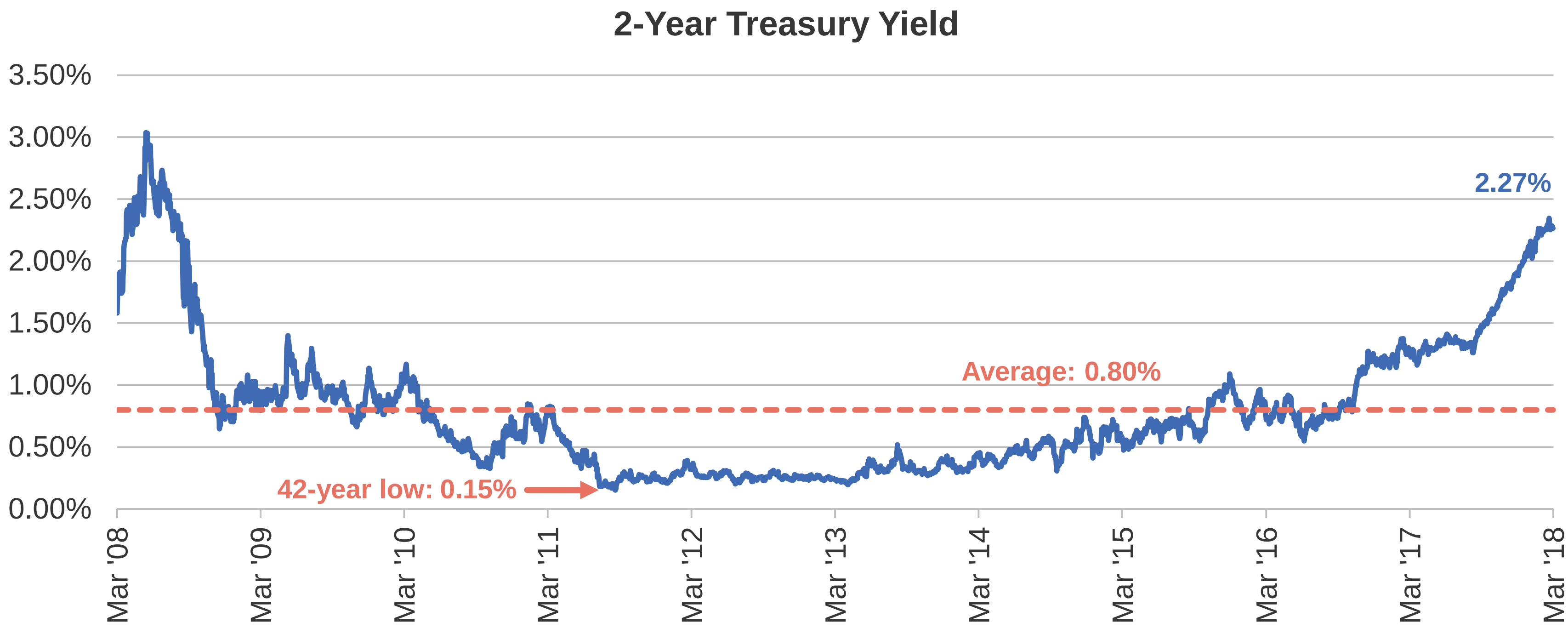
	Current 3/31/18	Year-End 12/29/17	Year-End 12/30/16
3 month	**1.70%**	1.38%	0.50%
6 month	**1.91%**	1.53%	0.61%
1 year	**2.08%**	1.73%	0.81%
2 year	**2.27%**	1.88%	1.19%
3 year	**2.38%**	1.97%	1.45%
5 year	**2.56%**	2.21%	1.93%
10 year	**2.74%**	2.41%	2.44%



Source: Bloomberg, as of 3/31/2018.

Short-Term Treasury Yields Continue to Rise

- The 2-year Treasury yield continued to move higher throughout the first quarter of 2018, increasing 38 basis points (0.38%) to 2.27%, levels not seen since 2008.
- The first quarter marked the seventh straight quarterly rise in the 2-year yield as the U.S. economy remained strong and the Federal Reserve continued on its path of quantitative tightening, raising the federal funds target rate by 25 basis points to a range of between of 1.50% to 1.75% at its March meeting.



Source: Bloomberg, as of 3/31/2018.

Yield Environment as of March 31, 2018

Maturity	Treasury	Federal Agency	AA Corporate
3-Month	1.70%	1.72%	2.11%
6-Month	1.91%	1.85%	2.32%
1-Year	2.08%	2.06%	2.54%
2-Year	2.27%	2.35%	2.66%
3-Year	2.38%	2.44%	2.82%
5-Year	2.56%	2.66%	3.08%
10-Year	2.74%	3.08%	3.58%

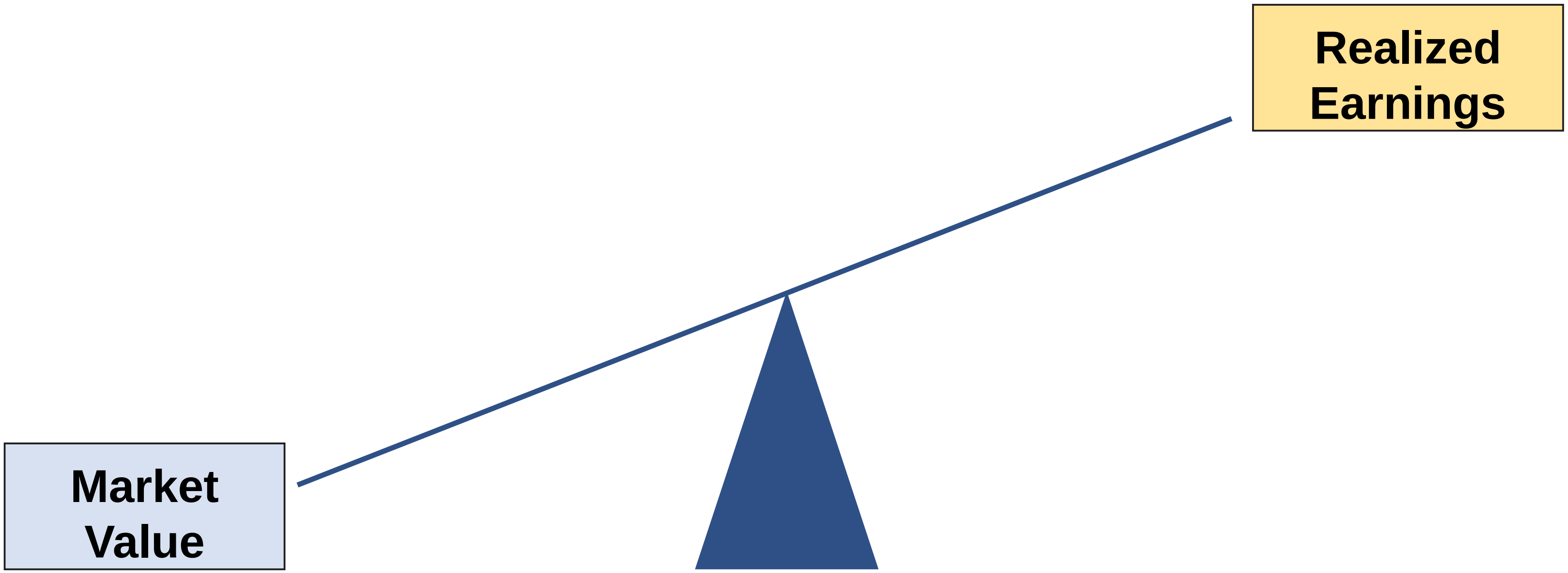
Source: Bloomberg BVAL yield curves for Treasury and Corporate. TradeWeb for Federal Agency yields. 3 and 6 month corporate yields from commercial paper; A-1+ for AA and A-1 for A. Yields are for indicative purposes only; actual yields may vary by issue.

The Impact of Rising Interest Rates

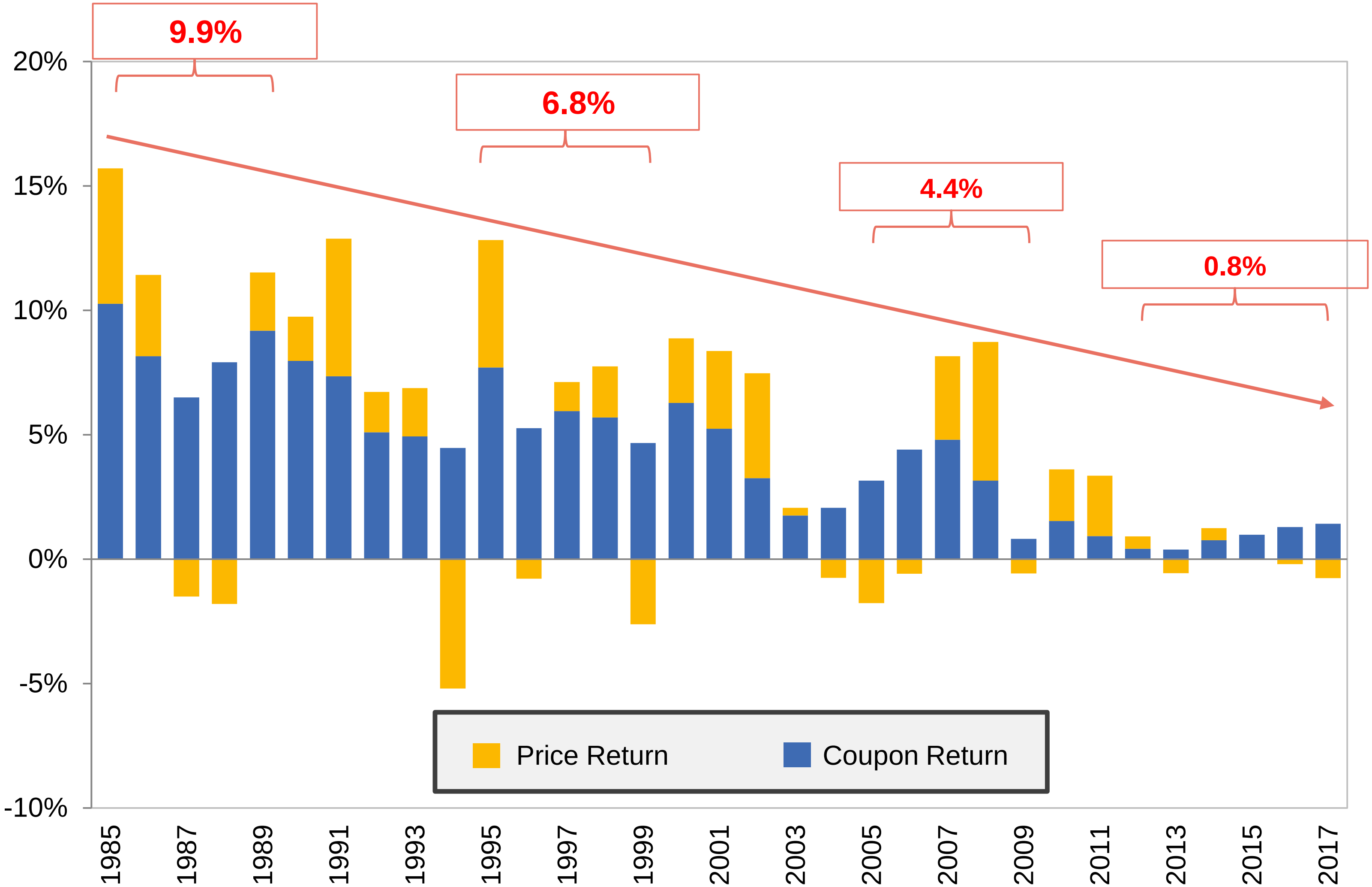
- For fixed-income holdings, when interest rates rise. . .
- Market values of existing holdings decline, resulting in *unrealized* market value losses and possibly negative total return;

HOWEVER

- Realized earnings will increase over time as new securities are added at higher interest rates.

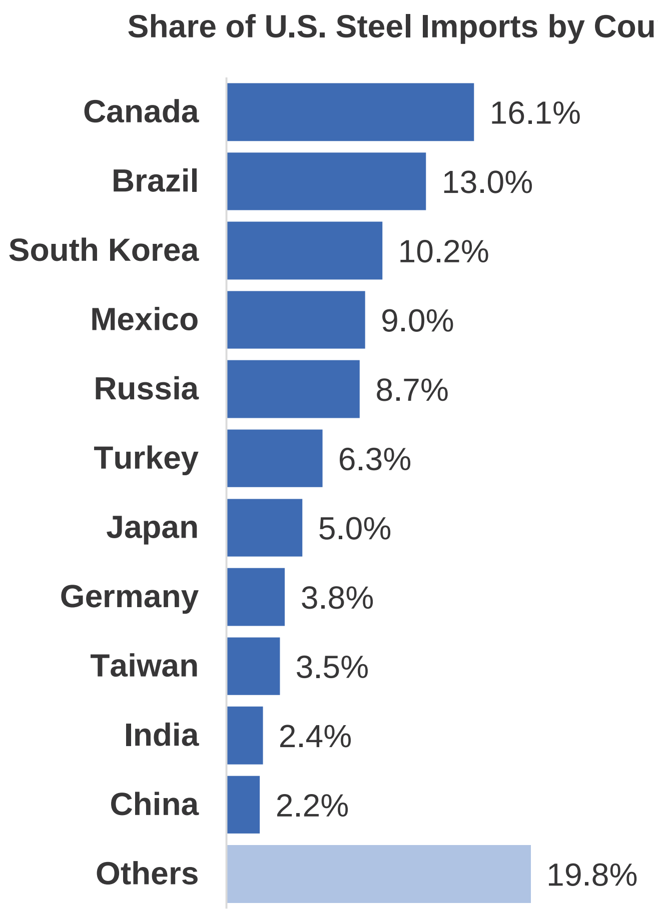


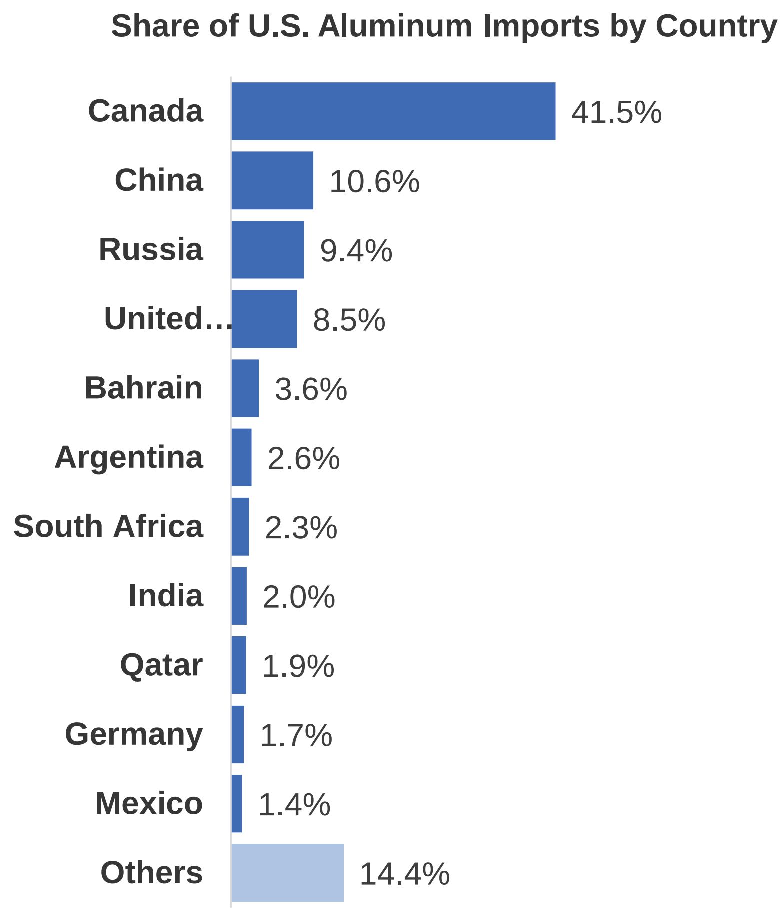
Lower Yields = Less Income & Smaller Buffer



Source: Bloomberg, ICE BofAML 1-5 Year U.S. Treasury Index, as of 12/31/17.

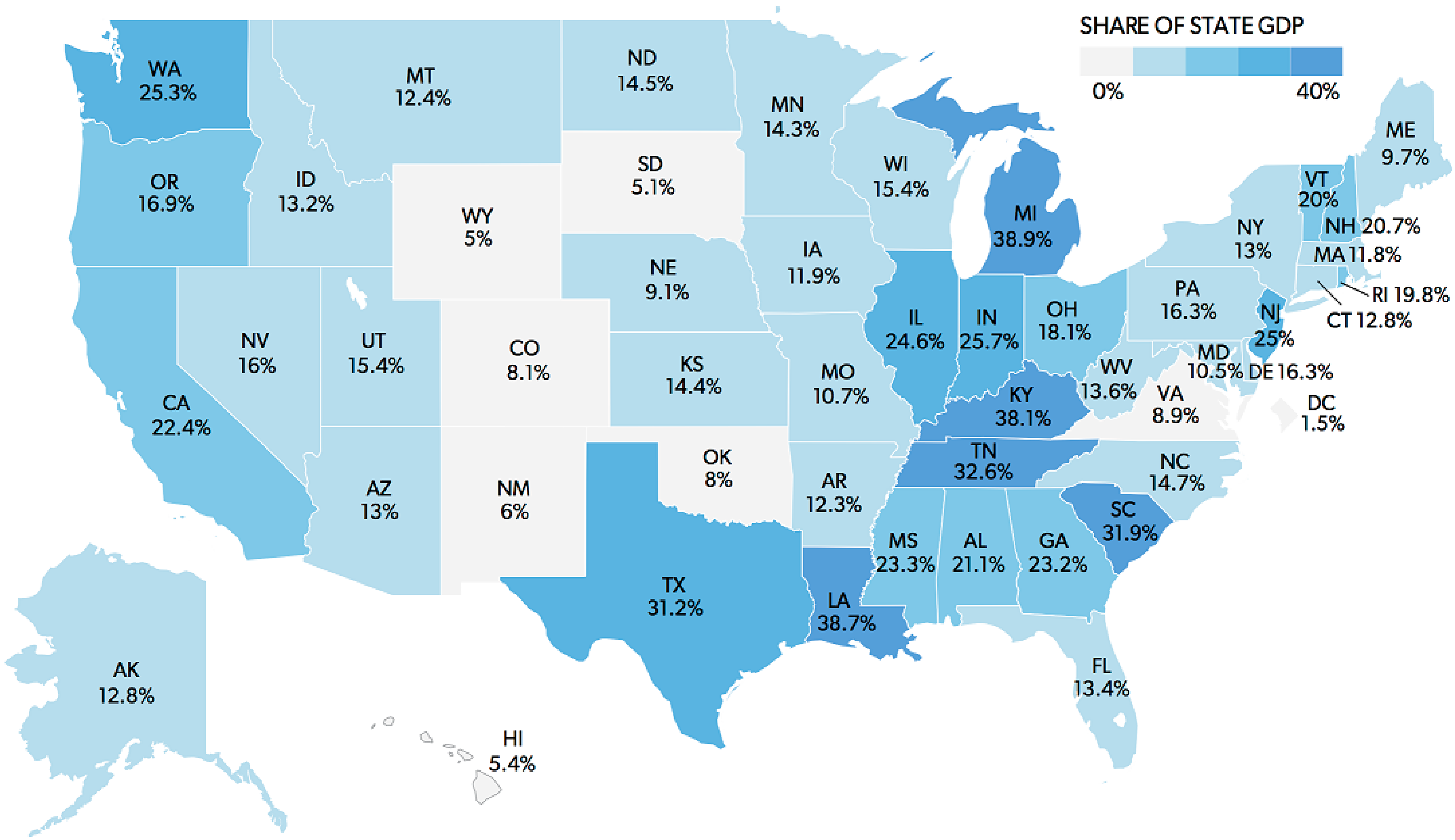
Steel and Aluminum Tariffs – a Trade War?





Source: Steel data from U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Division, IHS Global Trade Atlas Database: Revised Statistics for 2011 -2017. 2017 data is annualized based on YTD 2017 through October. Aluminum data from U.S. Census Bureau, accessed through USITC Dataweb.

International Trade as a Share of State GDP (2017)



Source: US Census Bureau and Bureau of Economic Analysis.

Portfolio Characteristics and Investment Strategy

Portfolio Recap

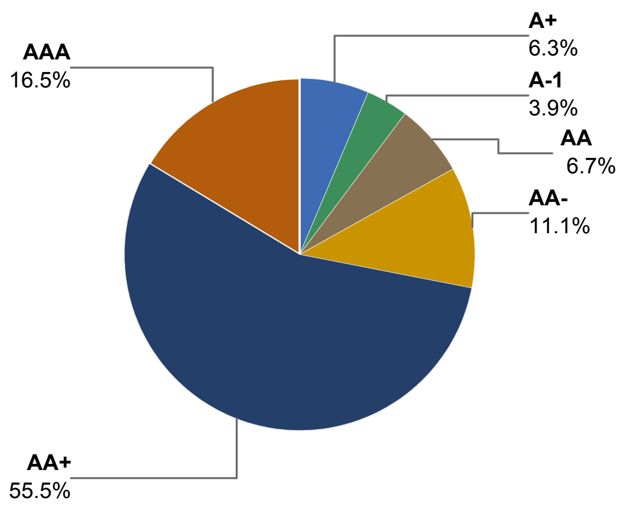
- The Fed remained true to its stated course, raising short-term rates by ¼ percent in March, and interest rates continued their ascent over the quarter. As a result, we strategically positioned portfolios with a defensive duration bias relative to benchmarks to help insulate market values in the well-choreographed interest rate environment. However, with rates at or near multi-year highs, there were also opportunities to capture higher yields selectively in some parts of the yield curve when rebalancing portfolios.
- The combined effects of less predictable U.S. politics and policy (e.g. tariffs, trade wars, Facebook, global relations, budget deficits, etc.) created an environment of heightened volatility. The "risk off" sentiment triggered wider credit spreads.
  - Wider spreads caused corporate-related investments to underperform for the quarter. While portfolios typically benefit from increased credit allocations, returns in Q1 were negatively affected.
  - Federal agency yield spreads remained very narrow throughout the quarter. New issue agencies continued to be our preferred – in some cases only -- outlet to add exposure at relatively attractive yields. Generally, the agency sector added modest positive excess returns in Q1 (returns in excess of similar duration Treasuries) across much of the yield curve, benefitting portfolio performance.
  - Supranational seasonal supply increased as expected in Q1 and we utilized the opportunity to increase allocations in the sector at attractive yield spreads. This incremental income helped boost returns in the sector.
  - Following a flurry of 2017 year-end issuance ahead of tax reform and notable underperformance, the municipal sector bounced back in Q1 as short- to intermediate-term municipal indexes generated strong relative performance for the quarter. But, the temporary nature of the outperformance was not a compelling reason to jump into the sector in full force.
  - After yield spreads in the corporate sector reached another new post-recession low in January, we shifted our generally constructive view of the corporate sector to a slightly more defensive posture by holding current positions (and letting them drift shorter over time) rather than adding to allocations.

Portfolio Statistics

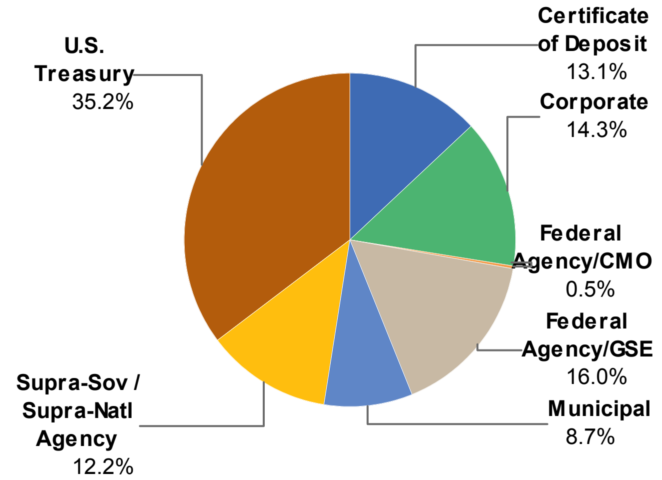
As of March 31, 2018

Par Value:	$76,045,175
Total Market Value:	$75,336,658
Security Market Value:	$74,857,765
Accrued Interest:	$307,990
Cash:	$170,903
Amortized Cost:	$76,323,700
Yield at Market:	2.44%
Yield at Cost:	1.68%
Effective Duration:	2.38 Years
Duration to Worst:	2.38 Years
Average Maturity:	2.48 Years
Average Credit: *	AA

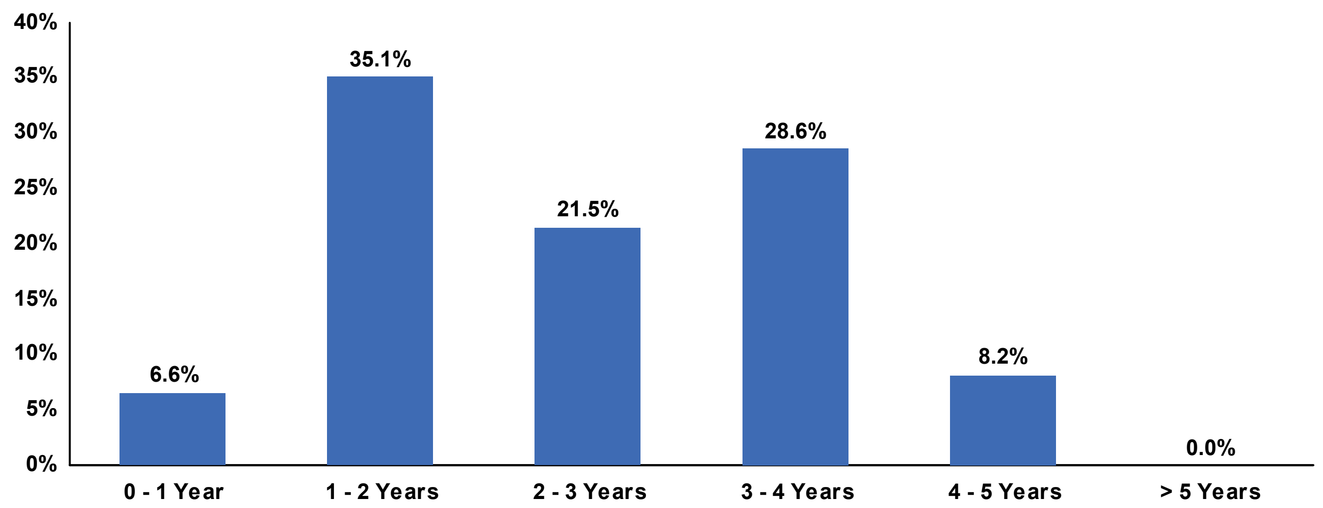
Credit Quality (S&P Ratings)



Sector Allocation



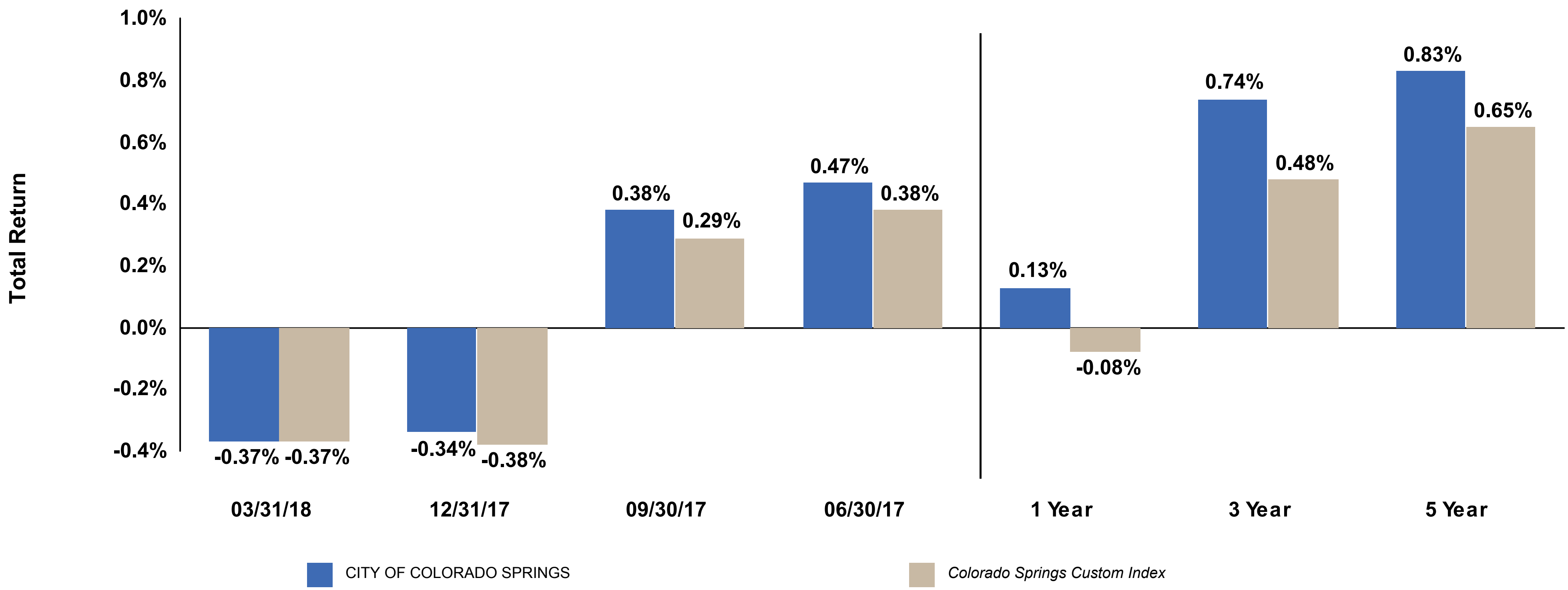
Maturity Distribution



** An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.*

Portfolio Performance (Total Return)

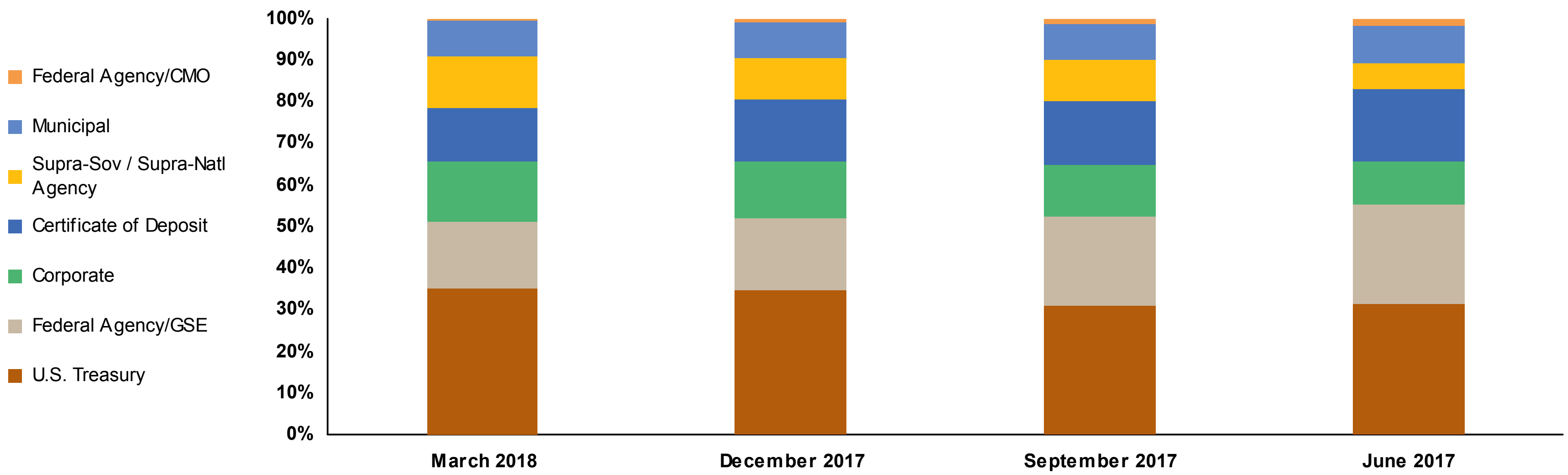
Portfolio/Benchmark	Effective Duration	Quarter Ended 03/31/18	12/31/17	09/30/17	06/30/17	1 Year	Annualized Return 3 Year	5 Year
CITY OF COLORADO SPRINGS	2.38	-0.37%	-0.34%	0.38%	0.47%	0.13%	0.74%	0.83%
Colorado Springs Custom Index	*2.56*	*-0.37%*	*-0.38%*	*0.29%*	*0.38%*	*-0.08%*	*0.48%*	*0.65%*
Difference		0.00%	0.04%	0.09%	0.09%	0.21%	0.26%	0.18%



Portfolio performance is gross of fees unless otherwise indicated.

Sector Allocation

	March 31, 2018		December 31, 2017		September 30, 2017		June 30, 2017	
Sector	**MV ($MM)**	**% of Total**	**MV ($MM)**	**% of Total**	**MV ($MM)**	**% of Total**	**MV ($MM)**	**% of Total**
U.S. Treasury	26.4	35.2%	25.9	34.5%	23.3	31.1%	23.4	31.1%
Federal Agency/GSE	11.9	16.0%	13.0	17.3%	16.0	21.3%	18.0	24.0%
Corporate	10.7	14.3%	10.3	13.7%	9.2	12.2%	7.7	10.3%
Certificate of Deposit	9.8	13.1%	11.3	15.1%	11.4	15.2%	13.1	17.5%
Supra-Sov / Supra-Natl Agency	9.2	12.2%	7.4	9.9%	7.5	10.0%	4.7	6.3%
Municipal	6.5	8.7%	6.5	8.7%	6.6	8.8%	6.6	8.8%
Federal Agency/CMO	0.4	0.5%	0.6	0.8%	1.0	1.4%	1.5	2.0%
Total	**$74.9**	**100.0%**	**$75.0**	**100.0%**	**$74.9**	**100.0%**	**$75.1**	**100.0%**



Detail may not add to total due to rounding.

Sector/Issuer Distribution

As of March 31, 2018

Sector / Issuer	Market Value ($)	% of Sector	% of Total Portfolio
Certificate of Deposit			
BANK OF MONTREAL	1,498,593	15.3%	2.0%
BANK OF NOVA SCOTIA	1,441,886	14.7%	1.9%
CANADIAN IMPERIAL BANK OF COMMERCE	1,445,955	14.8%	1.9%
NORDEA BANK AB	1,445,608	14.8%	1.9%
SKANDINAVISKA ENSKILDA BANKEN AB	1,406,079	14.4%	1.9%
SWEDBANK AB	1,426,554	14.6%	1.9%
WESTPAC BANKING CORP	1,121,303	11.5%	1.5%
Sector Total	**9,785,976**	**100.0%**	**13.1%**
Corporate			
ANZ BANKING GROUP LTD	490,033	4.6%	0.7%
APPLE INC	1,424,032	13.3%	1.9%
BERKSHIRE HATHAWAY INC	616,105	5.8%	0.8%
CHEVRON CORPORATION	1,346,159	12.6%	1.8%
COCA-COLA COMPANY	765,450	7.1%	1.0%
EXXON MOBIL CORP	1,429,372	13.3%	1.9%
JOHNSON & JOHNSON	395,668	3.7%	0.5%
MICROSOFT CORP	1,333,666	12.5%	1.8%
PROCTER & GAMBLE CO	471,378	4.4%	0.6%
TOYOTA MOTOR CORP	1,251,718	11.7%	1.7%

Sector / Issuer	Market Value ($)	% of Sector	% of Total Portfolio
WAL-MART STORES INC	692,474	6.5%	0.9%
WELLS FARGO & COMPANY	494,615	4.6%	0.7%
Sector Total	**10,710,670**	**100.0%**	**14.3%**
Federal Agency/CMO			
FANNIE MAE	358,178	100.0%	0.5%
Sector Total	**358,178**	**100.0%**	**0.5%**
Federal Agency/GSE			
FANNIE MAE	6,035,149	50.5%	8.1%
FEDERAL HOME LOAN BANKS	4,052,317	33.9%	5.4%
FREDDIE MAC	1,858,860	15.6%	2.5%
Sector Total	**11,946,326**	**100.0%**	**16.0%**
Municipal			
CITY OF NEW YORK CITY, NY	1,408,747	21.6%	1.9%
FLORIDA ST HURRICAN CAT FUND	1,446,404	22.2%	1.9%
MISSISSIPPI STATE	878,038	13.5%	1.2%
NEW YORK CITY NY TRANSITIONAL	1,431,346	21.9%	1.9%
STATE OF CONNECTICUT	1,363,508	20.9%	1.8%
Sector Total	**6,528,043**	**100.0%**	**8.7%**
Supra-Sov / Supra-Natl Agency			
AFRICAN DEVELOPMENT BANK	2,887,659	31.5%	3.9%

Sector / Issuer	Market Value ($)	% of Sector	% of Total Portfolio
ASIAN DEVELOPMENT BANK	2,624,561	28.6%	3.5%
INTER-AMERICAN DEVELOPMENT BANK	1,962,663	21.4%	2.6%
INTL BANK OF RECONSTRUCTION AND DEV	1,691,357	18.5%	2.3%
Sector Total	**9,166,240**	**100.0%**	**12.2%**
U.S. Treasury			
UNITED STATES TREASURY	26,362,333	100.0%	35.2%
Sector Total	**26,362,333**	**100.0%**	**35.2%**
Portfolio Total	**74,857,765**	**100.0%**	**100.0%**

Investment Outlook and Strategy

- The economic themes that carried over into 2018 remain: healthy job production, consistent GDP growth, positive corporate guidance, and heightened consumer confidence. However, where complacency had characterized the global markets quarter after quarter, volatility roared back in Q1. While rising volatility increases some market risks, it can also create investment opportunities.
- The short-term credit curve (under one year) steepened noticeably heading into the March Fed meeting and remained elevated through quarter-end. With 6-month prime commercial paper and negotiable certificates of deposit spreads at 50 to 60 basis points over comparable Treasury securities, the sector appears very attractive and compensates investors for at least two more fed rate hikes in 2018.
- Federal agency securities remain expensive, as spreads are in the low single digits across the much of the yield curve; however, by quarter-end, specific agency maturities (2- and 5-year) cheapened modestly, representing an opportunity to potentially increase allocations.
- The increasing pace of Fed balance sheet run-off in the MBS sector, coupled with an anticipated increase in seasonal supply, warrants a cautious approach to the sector. Portfolio additions will be based on specific collateral, coupon, and overall sensitivity to rising rates.
- The expected spike in supranational issuance is approaching its seasonal slowdown. Over the next few months, this supply dynamic may nudge spreads temporarily wider and offer additional investment opportunities. Our current strategy calls for continuing to add to allocations of supranationals as an attractive alternative to Treasuries and agencies.
- With municipal market issuance down significantly year-to-date, opportunities to add to the sector remain limited. However, municipals provide positive diversification prospects to portfolios and we will continue to seek out attractive issues in both the secondary and new issue markets.

IMPORTANT DISCLOSURES

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 a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some, but not all of which, are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results.The information contained in this presentation is not an offer to purchase or sell any securities.

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

GLOSSARY

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **COMMERCIAL PAPER:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **CONTRIBUTION TO DURATION:** Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- **DURATION TO WORST:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years, computed from cash flows to the maturity date or to the put date, whichever results in the highest yield to the investor.
- **EFFECTIVE DURATION:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **EFFECTIVE YIELD:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while ominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **INTEREST RATE:** Interest per year divided by principal amount and expressed as a percentage.
- **MARKET VALUE:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- **NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually $1 million or more, that can be traded in secondary markets.
- **PAR VALUE:** The nominal dollar face amount of a security.

GLOSSARY

- **PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.
- **REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **SETTLE DATE:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- **TRADE DATE:** The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- **UNSETTLED TRADE:** A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- **U.S. TREASURY:** The department of the U.S. government that issues Treasury securities.
- **YIELD:** The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- **YTM AT COST:** The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- **YTM AT MARKET:** The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.