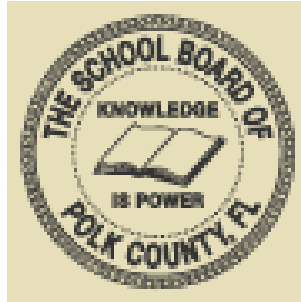


Polk County Public Schools, Florida



Investment Performance Review Quarter Ended September 30, 2012

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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.

TAB I

Summary

- During the third quarter, further easing measures by central banks around the world spurred investors' demand for riskier assets, resulting in strong performance for corporate bonds, mortgage-backed securities, and equities.
- While the U.S. housing recovery seemed to be building momentum, manufacturing activity and job growth have continued to show persistent weakness.
- The domestic economy will likely continue its sluggish recovery, despite uncertainties about the U.S. election and the looming fiscal cliff.

Economic Snapshot

- The unemployment rate fell to 7.8% in September. The economy added 437,000 jobs in the third quarter, up from 200,000 in the prior period.
- The S&P Case-Shiller Index of home prices for July marked a year-over-year increase that was more than consensus predicted, reflecting a continued housing recovery.
- The Institute for Supply Management's manufacturing survey fell slightly below 50 for June, July, and August, indicating a weakening of the important manufacturing base, but rose to 51.5 in September, suggesting slow growth (A measure above 50 is the dividing point between growth and expansion.)
- The Consumer Price Index increased by 0.6% in August on a seasonally adjusted basis, its largest gain since June 2009; this was primarily due to increases in food and energy prices.
- Most economists expect U.S. gross domestic product (GDP) to grow by only 1.8% to 2% for the year.

Interest Rates

- Interest rates ended the quarter modestly lower, while yield spreads on Federal Agencies, corporates, and mortgage-backed securities (MBS) tightened significantly.
- Long-term Treasury yields experienced significant intra-quarter volatility, while two-year Treasury yields remained in a tight range of 0.20% to 0.30% for the quarter.
- The Federal Reserve announced that it will keep short-term rates at extremely low levels through mid-2015. It also initiated a third round of Quantitative Easing (QE3), a new program to purchase \$40 billion in agency MBS each month until economic conditions improve.

Sector Performance

- Accommodative measures by global central banks gave investors confidence in the prospects for economic growth. The resulting shift from Treasuries and Agencies to high-quality corporate bonds helped corporate bonds to outperform. Bonds issued by financial firms did particularly well, outpacing those in the industrial and utility sectors.
- Supported by the new QE3 purchase program, Agency MBS performed well, but returns were tempered as a result of increased pre-payments, which shortened their average lives.
- While the Municipal sector lagged the corporate sector, it generated returns in excess of Treasuries and Agencies, and offered the additional value of diversification.
- Supply reductions should keep Agency spreads narrow, as Fannie Mae and Freddie Mac reduce their retained portfolios by 15% per year, as mandated by the Treasury Department.

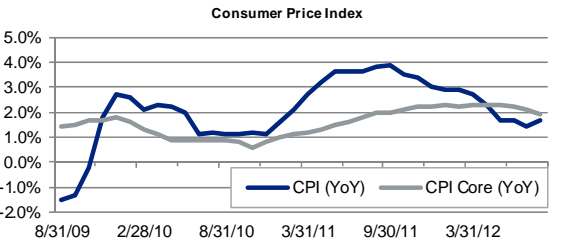
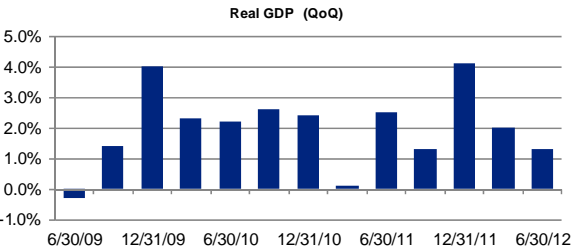
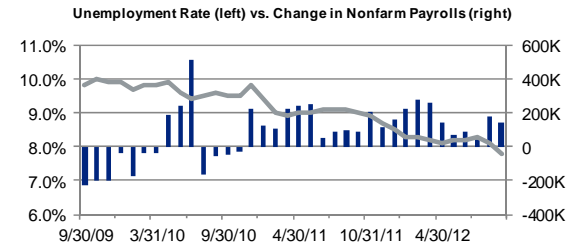
The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC (PFMAM) at the time of distribution and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFMAM cannot guarantee 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.

Economic Snapshot

Labor Market		Latest	Jun 2012	Sep 2011
Unemployment Rate	Sep	7.8%	8.2%	9.0%
Change In Non-Farm Payrolls	Sep	114,000	45,000	202,000
Average Hourly Earnings (YoY)	Sep	1.8%	2.0%	2.0%
Personal Income (YoY)	Aug	3.5%	3.4%	4.6%
Initial Jobless Claims	Oct 12	388,000	376,000	402,000

Growth		Latest	Jun 2012	Sep 2011
Real GDP (QoQ SAAR)	Q2	1.3%	2.0% ¹	1.3%
GDP Personal Consumption (QoQ SAAR)	Q2	1.5%	2.4% ¹	1.7%
Retail Sales (YoY)	Sep	5.4%	3.5%	8.3%
ISM Manufacturing Survey	Sep	51.5	49.7	52.5
Existing Home Sales (millions)	Sep	4.75	4.37	4.28

Inflation / Prices		Latest	Jun 2012	Sep 2011
Personal Consumption Expenditures (YoY)	Aug 12	1.5%	1.5%	2.9%
Consumer Price Index (YoY)	Sep 12	2.0%	1.7%	3.9%
Consumer Price Index Core (YoY)	Sep 12	2.1%	0.7%	7.0%
Crude Oil Futures (WTI, per barrel)	Sep 30	\$92.19	\$84.96	\$79.20
Gold Futures (oz)	Sep 30	\$1,771	\$1,604	\$1,620



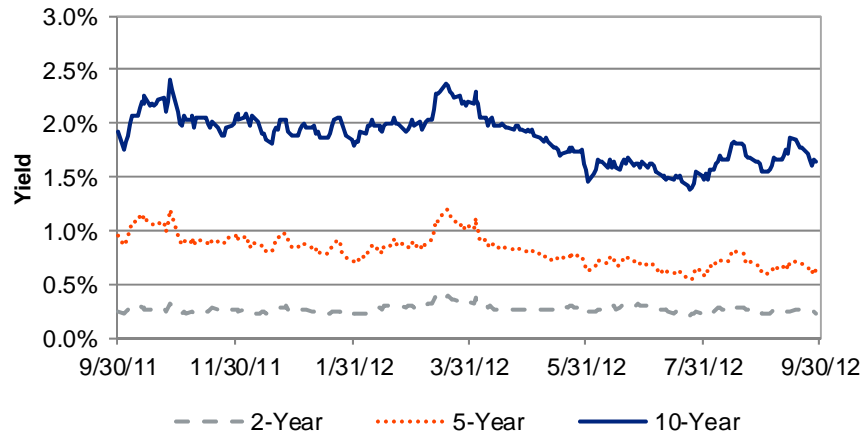
1. Data as of First Quarter 2012

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

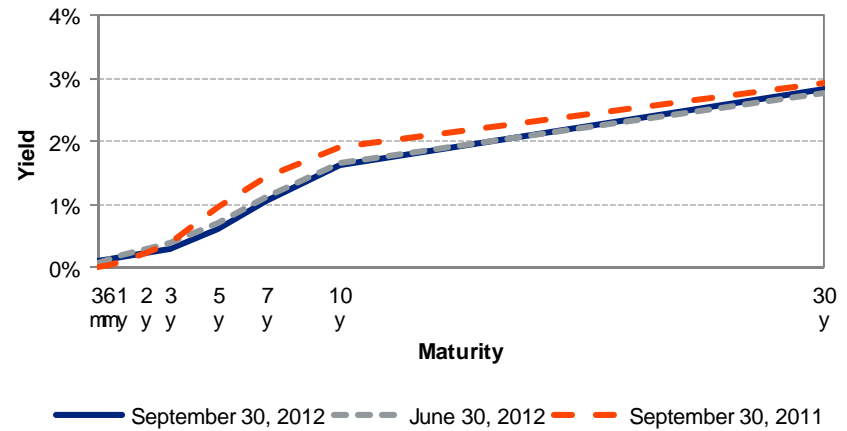
Source: Bloomberg

Interest Rate Overview

U.S. Treasury Note Yields



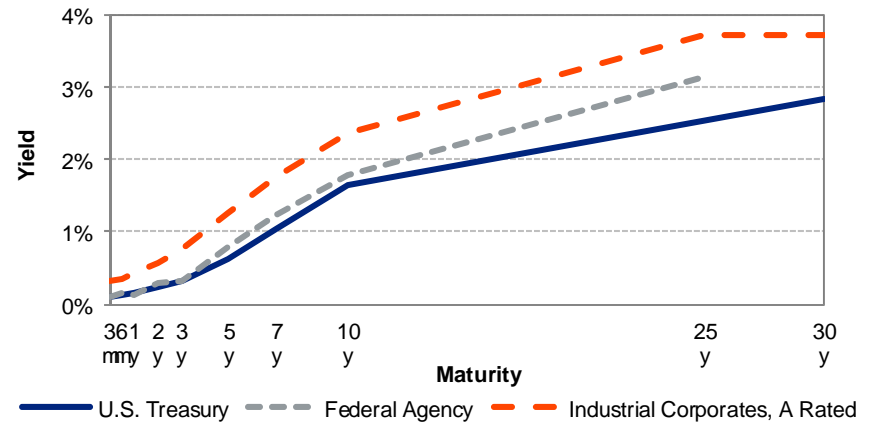
U.S. Treasury Note Yield Curve



U.S. Treasury Note Yields

Maturity	9/30/12	6/30/12	Change over Quarter	9/30/11	Change over Year
3-month	0.12%	0.11%	0.00%	0.02%	0.09%
1-year	0.16%	0.26%	(0.10%)	0.17%	(0.02%)
2-year	0.25%	0.32%	(0.08%)	0.28%	(0.04%)
5-year	0.63%	0.75%	(0.11%)	0.96%	(0.33%)
10-year	1.70%	1.73%	(0.04%)	2.01%	(0.31%)
30-year	2.82%	2.78%	0.04%	2.95%	(0.13%)

Yield Curves as of 9/30/12



Source: Bloomberg

B of A Merrill Lynch Index Returns

	As of 9/30/2012		Periods Ended 9/30/2012		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.89	0.25%	0.26%	0.56%	1.43%
Federal Agency	1.60	0.31%	0.25%	0.92%	1.58%
U.S. Corporates, A-AAA Rated	1.98	1.02%	1.50%	4.10%	3.63%
Agency MBS (0 to 3 years)	1.78	0.87%	0.91%	2.29%	3.78%
Municipals	1.84	0.52%	0.33%	1.33%	1.75%
1-5 Year Indices					
U.S. Treasury	2.74	0.34%	0.47%	1.29%	2.58%
Federal Agency	2.24	0.42%	0.46%	1.53%	2.29%
U.S. Corporates, A-AAA Rated	2.79	1.26%	2.18%	5.92%	4.98%
Agency MBS (0 to 5 years)	1.83	0.91%	1.08%	3.63%	4.73%
Municipals	2.59	0.71%	0.62%	2.23%	2.65%
Master Indices					
U.S. Treasury	6.05	0.91%	0.58%	3.19%	5.46%
Federal Agency	3.69	0.79%	0.84%	2.83%	3.95%
U.S. Corporates, A-AAA Rated	6.78	2.38%	3.53%	9.97%	8.26%
Agency MBS	1.82	0.92%	1.13%	3.74%	5.06%
Municipals	7.39	2.48%	2.51%	8.96%	6.20%

Returns for periods greater than one year are annualized

3 Month return is periodic

Source: Bloomberg

TAB II

Executive Summary

PORTFOLIO STRATEGY

- The School Board is invested in U.S. Treasury securities, Fifth-Third Institutional Money Market Mutual Fund, Small Business Administration Pool, the CORE Fund, Florida Education Investment Trust Fund, Florida PRIME, SBA Fund B, Wells Fargo Government Checking Account, and the Bank of Central Florida - CDARS. At quarter end, the investments were in compliance with the School Board's Investment Policy.
- At quarter end the School Board's investments had a weighted average yield of 0.52% versus the Merrill Lynch 3-Month U.S. Treasury Bill Index benchmark's yield of 0.06%. The investments provided 46 basis points of additional yield over the benchmark. During the quarter, the investments generated net income of \$639,435.
- The duration of the investments slightly increased since June and ended the quarter at 1.02 years.
- Bond yields remained highly correlated with headlines out of Europe. Weakening economic conditions in the Eurozone triggered a flight-to-quality that drove intermediate-term Treasury yields to new all-time record lows in July. The development of an European Central Bank ("ECB") sovereign debt purchase program reversed the trend, causing yields to rebound sharply. Despite several periods of sharp temporary yield movements, Treasury yields ended the quarter only modestly lower in most maturities.
- Agency notes received a boost during the quarter when the Treasury Department accelerated the wind down of Fannie Mae's and Freddie Mac's investment portfolio holdings, an action which will shrink Agency bond and discount note supply by \$1 trillion over the next few years.
- With the ECB's sovereign debt support program in place, we are turning our attention away from Europe and focusing on domestic issues, such as U.S. economic conditions, the upcoming election and the looming fiscal cliff, and other global issues, like the troubling slowdown in China and turmoil in the Middle East. These conditions create uncertainties that are hard to handicap, and virtually impossible to predict with any degree of certainty.
- Since all of these factors have more downside risk to economic growth than upside potential, and thus a greater chance of keeping yields low in Q4, we plan to keep the portfolio's duration generally in line with benchmark's duration.
- With central banks around the globe pumping an unprecedented amount of liquidity into the market and embarking on new large scale bond purchase programs, we are faced with a scenario of more dollars chasing fewer assets. As a result, our outlook for most "spread sectors" remains positive. We anticipate relatively low volatility in yields and expect income to be a major component of total returns in the upcoming quarter.
- As always, we strive to maintain safety of principal and appropriate liquidity, while seeking opportunities to add value through active management. Our strategy will remain flexible and may change in response to changes in interest rates, economic data, market outlook or specific opportunities that arise.

Investment Statistics (All Accounts)

<u>Account Name</u>	<u>Amortized Cost¹ September 30, 2012</u>	<u>Amortized Cost¹ June 30, 2012</u>	<u>Market Value¹ September 30, 2012</u>	<u>Market Value¹ June 30, 2012</u>	<u>Duration (Years) September 30, 2012</u>	<u>Duration (Years) June 30, 2012</u>
Wells Fargo Government Checking Account	\$ 68,919,399.09	\$ 39,036,711.05	\$ 68,919,399.09	\$ 39,036,711.05	0.003	0.003
Bank of Central Florida - CDARS	5,007,621.59	5,002,575.79	5,007,621.59	5,002,575.79	0.003	0.003
Wells Fargo - Fidelity Prime Money Market Fund - General Fund	-	30,070,630.56	-	30,070,630.56	-	0.003
Wells Fargo - Fidelity Prime Money Market Fund - General Fund	-	10,006,823.53	-	10,006,823.53	-	0.003
Wells Fargo - Fidelity Prime Money Market Fund - Student Account	-	5,003,411.77	-	5,003,411.77	-	0.003
Florida PRIME Fund - Agency Account #1442	185,504.20	86,569.86	185,504.20	86,569.86	0.003	0.003
Florida PRIME Fund - 2001A COPS #1443	10,610.34	4,951.57	10,610.34	4,951.57	0.003	0.003
Florida Education Investment Trust Fund (FEITF)	85,164,645.57	100,099,504.70	85,164,645.57	100,099,504.70	0.003	0.003
Investment Portfolio (PFM Managed) ²	55,210,478.28	55,149,401.00	55,247,460.12	55,086,828.67	1.83	1.80
The CORE Fund ³	52,616,085.27	52,628,456.44	52,616,085.27	52,628,456.44	3.000	3.000
SBA Fund B - Agency Account #1442B	3,224,385.34	3,409,756.98	3,059,838.86	2,846,502.82	4.080	5.730
SBA Fund B - 2001A COPS #1443B	184,425.92	195,028.67	175,014.32	162,812.09	4.080	5.730
Colson Small - Small Business Administration Pool	635,113.15	130,048.41	638,629.75	130,208.56	6.99	7.15
Total	\$ 271,158,268.75	\$ 300,823,870.33	\$ 271,024,809.11	\$ 300,165,987.41	1.02	0.92

Notes:

1. Market value and Accrued Interest information is from the statements provided by the School Board.
2. The Fifth Third custody statements do not provide Amortized Cost. PFM's statement does calculate Amortized Cost and has been used for this report.
3. Per the CORE Funds prospectus, the duration cannot be more than 3 years. Does provide next day liquidity.

Investment Statistics (All Accounts)

	Quarterly Return September 30, 2012	Calendar Year To Date	Last 12 Months	Yield to Maturity at Cost September 30, 2012	Yield to Maturity at Cost June 30, 2012
Total Return¹					
Investment Portfolio (PFM Managed) ^{1, 2, 3, 4, 6}	0.26%	0.37%	N/A	0.33%	0.31%
Merrill Lynch 1-3 Year U.S. Treasury Note Index ^{3, 5}	0.26%	0.37%	N/A	0.24%	0.33%
Total Return¹					
The CORE Fund ^{10, 12}	-0.02%	0.07%	-0.12%	1.60%	1.59%
1-Year Constant Maturity Treasury Index ¹¹	N/A	N/A	N/A	0.18%	0.19%

Account Name	Yield to Maturity at Cost ^{7, 8, 9, 10, 12} September 30, 2012	Yield to Maturity at Cost ^{7, 8, 9, 10, 12} June 30, 2012
Wells Fargo Government Checking - Combined Government Account	0.20%	0.20%
Bank of Central Florida - CDARS	0.40%	0.40%
Wells Fargo - Fidelity Prime Money Market Fund - General Fund	-	0.11%
Wells Fargo - Fidelity Prime Money Market Fund - General Fund	-	0.11%
Wells Fargo - Fidelity Prime Money Market Fund - Student Account	-	0.11%
Florida PRIME Fund - Agency Account #1442	0.31%	0.31%
Florida PRIME Fund - 2001A COPS #1443	0.31%	0.31%
Florida Education Investment Trust Fund (FEITF)	0.26%	0.28%
Investment Portfolio (PFM Managed) ⁴	0.33%	0.31%
The CORE Fund ¹⁰	1.60%	1.59%
SBA Fund B - Agency Account #1442B	-	-
SBA Fund B - 2001A COPS #1443B	-	-
Colson Small - Small Business Administration Pool	1.20%	1.20%
Weighted Average Yield	0.52%	0.48%

Benchmarks	September 30, 2012	June 30, 2012
Merrill Lynch 3-Month U.S. Treasury Bill Index ⁵	0.06%	0.05%

Notes:

- PFM's Market Values are used to calculate performance on the PFM Managed Investment Portfolio. Past performance is not indicative of future results.
- In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances. Performance on trade date basis, gross (i.e., before fees), is in accordance with The CFA Institute's Global Investment performance Standards (GIPS).
- Quarterly returns are presented on an unannualized basis. Returns presented for 12 months or longer are presented on an annual basis.
- Includes the Fifth Third Institutional money market fund/cash in performance and duration computations.
- Merrill Lynch Indices provided by Bloomberg Financial Markets.
- End of quarter trade-date market values of portfolio holdings, including accrued interest.
- Seven day yield as of month end is used for the SBA's Florida PRIME Fund A, FEITF, and the Money Market Funds. The yields shown above represent past performance. Past performance is no guarantee of future results and yields may vary. The current fund performance may be higher or lower than that cited. The current seven-day yield does not include realized gains and losses on the sale of securities. The yields shown above may reflect fee waivers by service providers that subsidize and reduce the total operating expenses of the Funds. Fund yields would be lower if there were no such waivers.
- The SBA's website is the information source for Fund A's 7-day yield.
- The FEITF's website is the information source of the 7-day yield.
- Morningstar is the source of the CORE Funds yield and total return performance. The yield is as of October 29, 2012. They do not provide historical yield information.
- Information provided by Bloomberg.
- Information is from statements provided by School Board.

Investment Statistics (All Accounts)

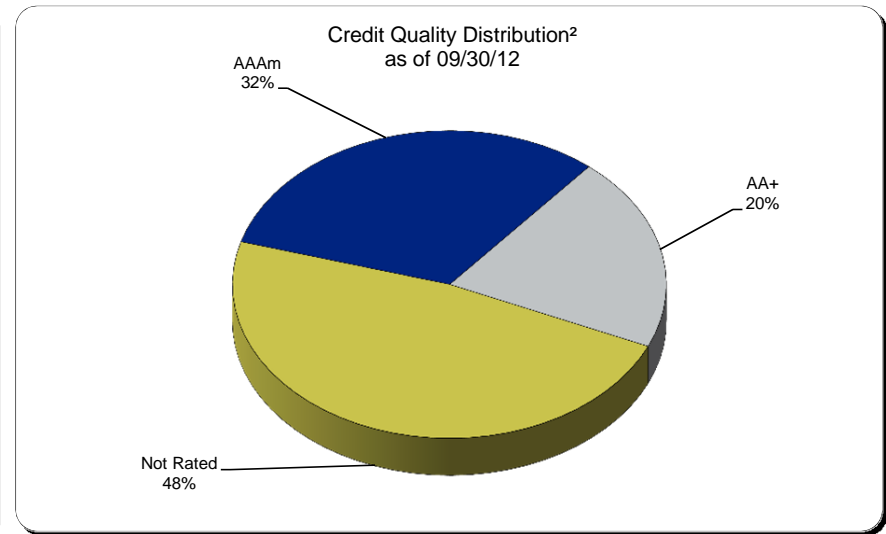
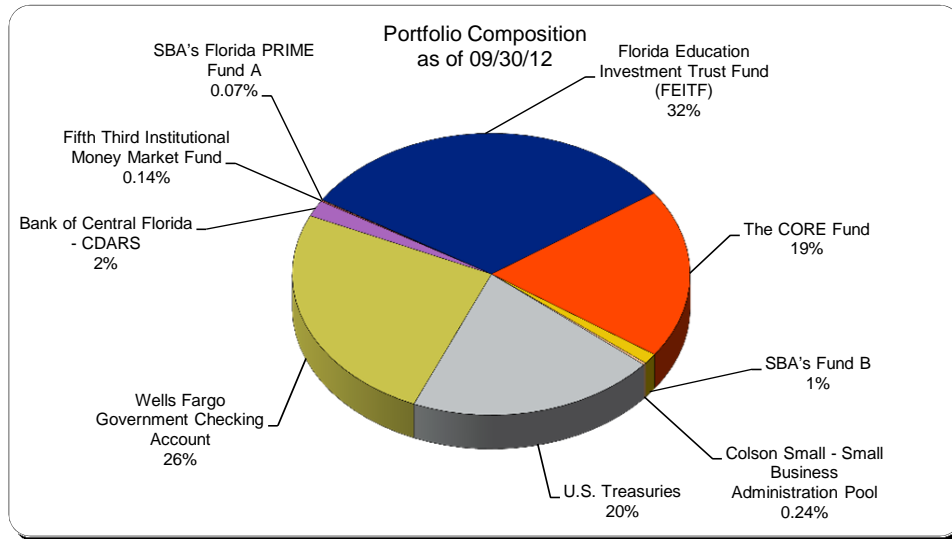
Account Name	Beginning Balance	Ending Balance	Deposit/Withdrawal	Market Value ²	Interest Income	Net
	June 30, 2012	September 30, 2012	During the Quarter	Adjustment	During the Quarter	Income
Wells Fargo Government Checking Account	\$ 39,036,711.05	\$ 68,919,399.09	\$ 29,882,688.04	\$ -	\$ -	\$ -
Bank of Central Florida - CDARS	5,002,575.79	5,007,621.59	-	-	5,045.80	5,045.80
Wells Fargo - Fidelity Prime Money Market Fund - General Fund	30,070,630.56	-	(30,078,353.31)	-	7,722.75	7,722.75
Wells Fargo - Fidelity Prime Money Market Fund - General Fund	10,006,823.53	-	(10,007,792.82)	-	969.29	969.29
Wells Fargo - Fidelity Prime Money Market Fund - Student Account	5,003,411.77	-	(5,003,896.41)	-	484.64	484.64
Florida PRIME Fund - Agency Account #14422	86,569.86	185,504.20	98,801.78	-	132.56	132.56
Florida PRIME Fund - 2001A COPS #14432	4,951.57	10,610.34	5,651.18	-	7.59	7.59
Florida Education Investment Trust Fund (FEITF)	100,099,504.70	85,164,645.57	(15,000,000.00)	-	65,140.87	65,140.87
Investment Portfolio (PFM Managed) ¹	54,879,220.10	55,028,306.65	861.96	(39,902.12)	188,126.71	148,224.59
The CORE Fund	52,628,456.44	52,616,085.27	-	(12,371.17)	-	(12,371.17)
SBA Fund B - Agency Account #1442B2	2,846,502.82	3,059,838.86	(185,371.64)	398,707.68	-	398,707.68
SBA Fund B - 2001A COPS #1443B2	162,812.09	175,014.32	(10,602.75)	22,804.98	-	22,804.98
Colson Small - Small Business Administration Pool	130,074.47	637,975.64	505,335.00	2,495.60	70.57	2,566.17
Total	\$ 299,958,244.75	\$ 270,805,001.53	\$ (29,792,678.97)	\$ 371,734.97	\$ 267,700.78	\$ 639,435.75

Notes:

1. The Investment Portfolio (PFM Managed) includes the Fifth Third Institutional Money Market Fund and is showing the Market Value provided by Fifth Third. As of quarter end the Investment Portfolio had a market value balance of \$54,660,654 and the Money Market Fund had \$367,653.
2. Market value adjustments contain both realized and unrealized gains and losses.

Investment Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>September 30, 2012</u>	<u>% of Portfolio</u>	<u>June 30, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$54,879,807.12	20.25%	\$54,875,925.67	18.28%
Wells Fargo Government Checking Account	68,919,399.09	25.43%	39,036,711.05	13.01%
Bank of Central Florida - CDARS	5,007,621.59	1.85%	5,002,575.79	1.67%
Fifth Third Institutional Money Market Fund	367,653.00	0.14%	210,903.00	0.07%
Wells Fargo - Fidelity Prime Money Market Fund	0.00	0.00%	45,080,865.86	15.02%
SBA's Florida PRIME Fund A	196,114.54	0.07%	91,521.43	0.03%
Florida Education Investment Trust Fund (FEITF)	85,164,645.57	31.42%	100,099,504.70	33.35%
The CORE Fund	52,616,085.27	19.41%	52,628,456.44	17.53%
SBA's Fund B	3,234,853.18	1.19%	3,009,314.91	1.00%
Colson Small - Small Business Administration Pool	638,629.75	0.24%	130,208.56	0.04%
Totals	\$271,024,809.11	100.00%	\$300,165,987.41	100.00%

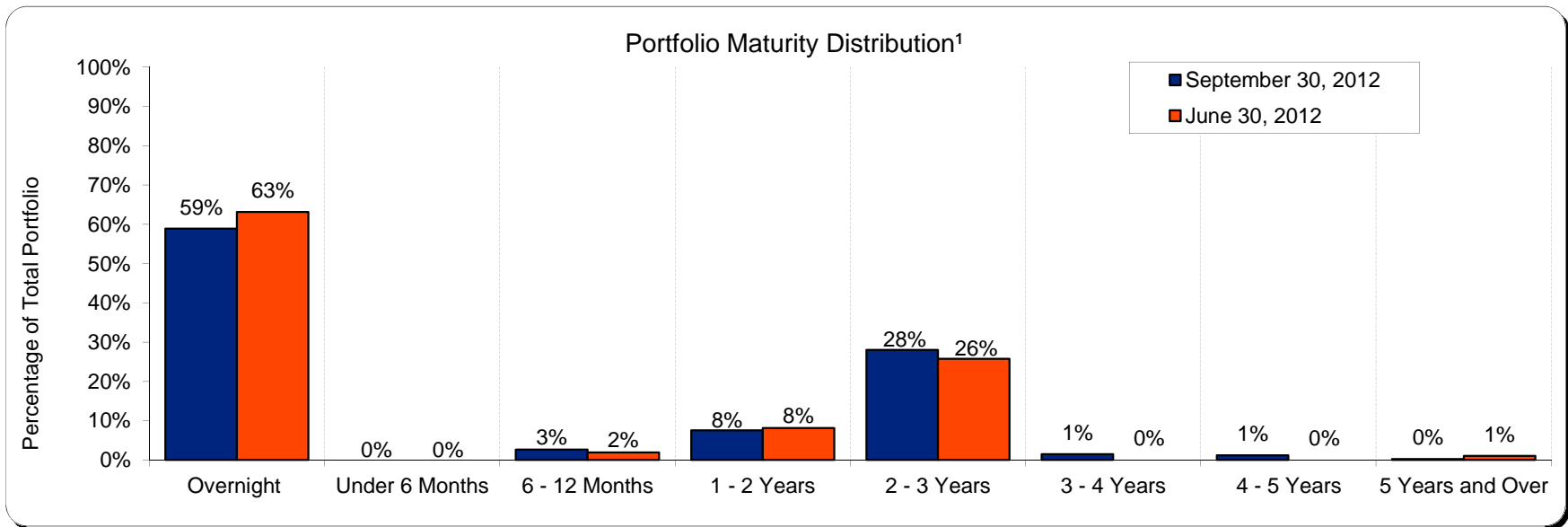


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, inclusive of money market fund/LGIP. The Wachovia Government Checking, Bank of Central Florida - CDARS, The CORE Fund, and SBA's Fund B, are not rated by Standard & Poor's. Standard & Poor's is the source of the credit rating.

Investment Investment Portfolio Maturity Distribution

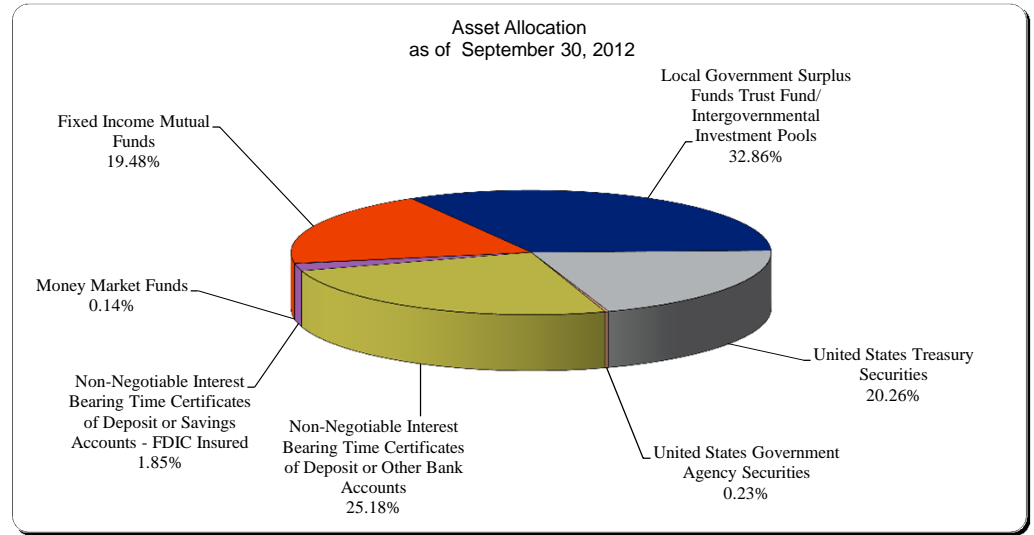
<u>Maturity Distribution¹</u>	<u>September 30, 2012</u>	<u>June 30, 2012</u>
Overnight Liquidity	\$159,655,433.79	\$189,522,081.83
Under 6 Months	0.00	0.00
6 - 12 Months	7,115,292.89	5,707,582.86
1 - 2 Years	20,501,658.21	24,449,044.41
2 - 3 Years	75,877,305.79	77,347,754.84
3 - 4 Years	4,001,635.50	0.00
4 - 5 Years	3,234,853.18	0.00
5 Years and Over	638,629.75	3,139,523.47
Totals	\$271,024,809.11	\$300,165,987.41



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	September 30, 2012	Notes	Permitted by Policy
Local Government Surplus Funds Trust Fund/ Intergovernmental Investment Pools	32.86%		50%
United States Treasury Securities	20.26%		100%
United States Government Agency Securities	0.23%		60%
Federal Instrumentalities	0.00%		0%
Mortgage-Backed Securities	0.00%		0%
Non-Negotiable Interest Bearing Time Certificates of Deposit or Other Bank Accounts	25.18%	2	60%
Non-Negotiable Interest Bearing Time Certificates of Deposit or Savings Accounts - FDIC Insured	1.85%	2	75%
Non-Primary Depository Bank Demand Deposit Accounts/Money Market Accounts/Public Funds Interest Checking Accounts	0.00%		50%
Repurchase Agreements	0.00%		0%
Bankers' Acceptances	0.00%		0%
State and/or Local Government Debt	0.00%		25%
Money Market Funds	0.14%		40%
Fixed Income Mutual Funds	19.48%	2	20%



Individual Issuer Breakdown	September 30, 2012	Notes	Permitted by Policy
Government National Mortgage Association (GNMA)	0.00%		40%
Small Business Administration Pool	0.23%		40%
Farmers Home Administration (FMHA)	0.00%		40%
Federal Financing Bank	0.00%		40%
Federal Housing Administration (FHA)	0.00%		40%
General Services Administration	0.00%		40%
New Communities Act Debentures	0.00%		40%
US Public Housing Notes & Bonds	0.00%		40%
US Dept. of Housing and Urban Development	0.00%		40%
Federal Farm Credit Bank (FFCB)	0.00%		0%
Federal Home Loan Bank (FHLB)	0.00%		0%
Federal National Mortgage Association (FNMA)	0.00%		0%
Federal Home Loan Mortgage Corporation (FHLMC)	0.00%		0%

Individual Issuer Breakdown	September 30, 2012	Notes	Permitted by Policy
CDARS - Bank of Central Florida	1.85%	2	30%
Florida Prime (SBA) - Local Government Surplus Funds Trust Fund	0.07%	2	40%
SBA Fund B	1.26%	2	N/A
Florida Education Investment Trust Fund - Intergovernmental Investment Pool	31.53%		40%
Qualified Public Deposit Account - Wells Fargo Combined Public Funds	25.18%	2	30%
Money Market Fund - Fifth Third Institutional Money Market Fund	0.14%		30%
Fixed Income Mutual Funds - The CORE Fund	19.48%	2	20%

Notes:
 1. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
 2. Managed by the District.