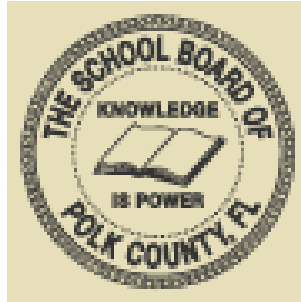


Polk County Public Schools, Florida



Investment Performance Review Quarter Ended December 31, 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

- In the fourth quarter, the markets were impacted by U.S. politics and policies—particularly the presidential election, the Federal Reserve’s (Fed’s) new round of quantitative easing (QE3), and fiscal cliff negotiations.
- The U.S. housing market continued to show signs of improvement, and the unemployment rate was unchanged for the quarter at 7.8%.
- The domestic economy has seen modest growth over the past year, and while the resolution of the fiscal cliff talks has relieved investors, increasing the federal debt ceiling must now be addressed.

Economic Snapshot

- New-home sales in the U.S. rose to their highest level in two-and-a-half years in November, jumping 15.3% from a year earlier.
- The Consumer Price Index rose 1.8% year-over-year in November before seasonal adjustment. Wage increases have been subdued as evidenced by the change in hourly earnings, which has averaged less than 2% in recent months.
- Fourth quarter U.S. gross domestic product (GDP) growth is expected to be in a range of 1% to 2%, which is slower than GDP growth experienced in the third quarter.
- Superstorm Sandy, which blew through the East Coast in October, caused massive amounts of damage, closed the markets for two days, and depressed economic activity across a third of the nation.
- Economic concerns about Europe somewhat subsided, which pushed European stock markets higher. The MSCI Europe Index rose 7.02% for the quarter.

Interest Rates

- Interest rates rose slightly during the quarter across most maturities, while yield spreads on Agencies, corporates, and mortgage-backed securities (MBS) remained narrow.
- Treasury yields fell in the first half of November, but then moved higher as investors shifted assets into the rallying stock market.
- The Fed announced that it will keep short-term rates at extremely low levels until the unemployment rate falls below 6.5%, and the prospect remains for long-run inflation to stay below 2.5%. The Fed also initiated further quantitative easing with an open-ended program to buy \$45 billion in Treasuries in addition to its existing program to purchase \$40 billion in Agency mortgage-backed securities each month.

Sector Performance

- Returns of high-quality corporate bonds (especially financial firms) performed well for the quarter, as these issuers continued to be bolstered by global central bank support for financial markets.
- The Fed’s QE3 purchase program initially caused Agency MBS to appreciate sharply in value, but that trend quickly reversed and Agency MBS underperformed other fixed-income sectors for the quarter.
- The performance of municipal bonds suffered in the fourth quarter, as fiscal cliff negotiations about possible changes to the tax code caused investors to sell positions.
- Reduced supply of Agencies kept spreads at historically narrow levels; Agencies became relatively less attractive over the quarter.

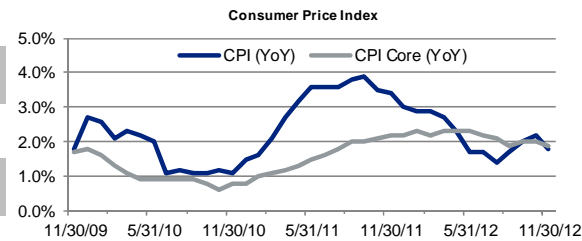
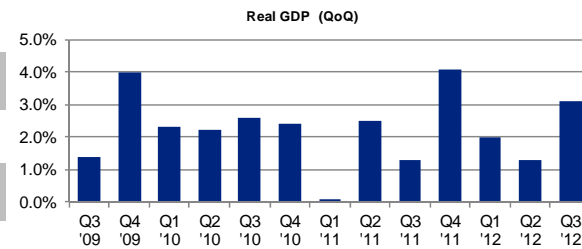
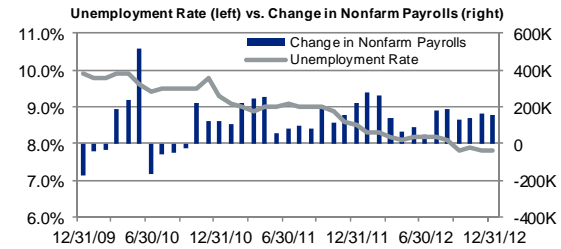
The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC (PFMAM) at the time of distribution and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFMAM cannot guarantee 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	Sep 2012	Dec 2011
Unemployment Rate	Dec	7.8%	7.8%	8.5%
Change In Non-Farm Payrolls (month)	Dec	155,000	132,000	223,000
Average Hourly Earnings (YoY)	Dec	2.1%	1.9%	2.1%
Personal Income (YoY)	Nov	4.1%	3.5%	3.6%
Initial Jobless Claims (Month)	Dec 28	372,000	369,000	383,000

Growth		Latest	Sep 2012	Dec 2011
Real GDP (QoQ SAAR)	Q3	3.1%	1.3% ¹	4.1% ²
GDP Personal Consumption (QoQ SAAR)	Q3	1.6%	1.5% ¹	2.0% ²
Retail Sales (YoY)	Nov	3.7%	5.4%	6.8%
ISM Manufacturing Survey	Dec	50.7	51.5	53.1
Existing Home Sales (millions) - month	Nov	5.04	4.69	4.38

Inflation / Prices		Latest	Sep 2012	Dec 2011
Personal Consumption Expenditures (YoY)	Nov	1.4%	1.6%	2.4%
Consumer Price Index (YoY)	Nov	1.8%	2.0%	3.0%
Consumer Price Index Core (YoY)	Nov	1.5%	2.1%	4.7%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$91.82	\$92.19	\$98.83
Gold Futures (oz)	Dec 31	\$1,676	\$1,771	\$1,567

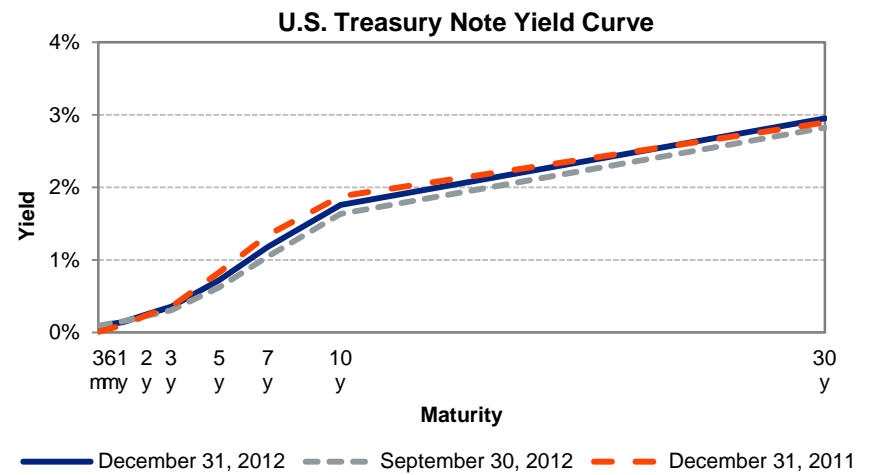
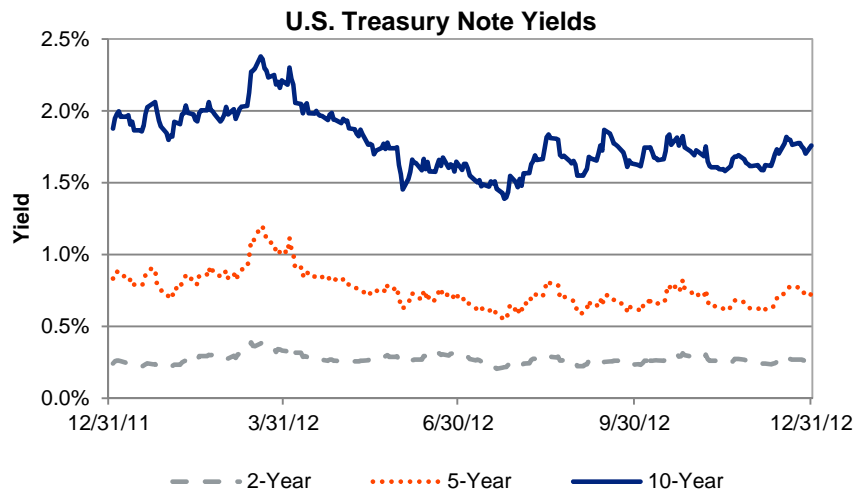


1. Data as of Second Quarter 2012 2. Data as of Fourth Quarter 2011

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

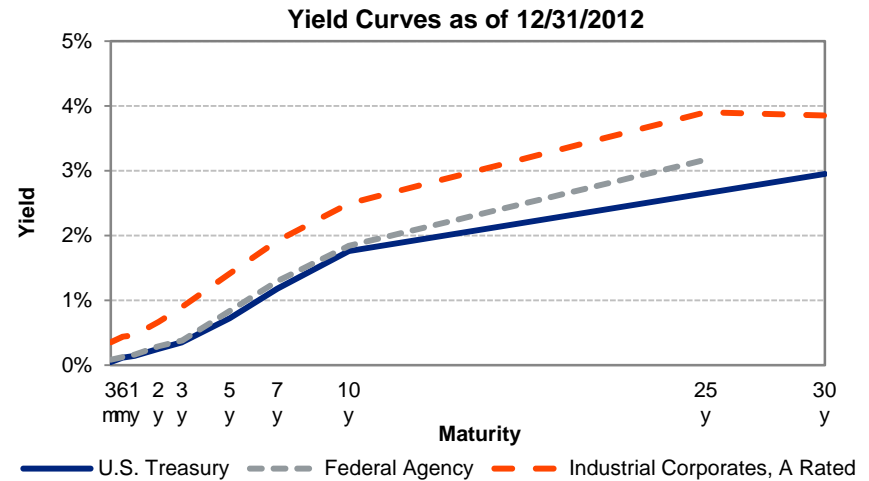
Source: Bloomberg

Interest Rate Overview



U.S. Treasury Note Yields

Maturity	12/31/12	9/30/12	Change over Quarter	12/31/11	Change over Year
3-month	0.09%	0.12%	(0.03%)	0.02%	0.07%
1-year	0.14%	0.16%	(0.02%)	0.13%	0.01%
2-year	0.27%	0.25%	0.03%	0.28%	(0.00%)
5-year	0.74%	0.63%	0.11%	0.85%	(0.11%)
10-year	1.81%	1.70%	0.12%	1.96%	(0.14%)
30-year	2.94%	2.82%	0.12%	2.91%	0.03%



Source: Bloomberg

B of A Merrill Lynch Index Returns

	As of 12/31/2012		Returns for Periods Ended 12/31/2012		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.87	0.26%	0.07%	0.43%	1.44%
Federal Agency	1.70	0.31%	0.12%	0.85%	1.56%
U.S. Corporates, A-AAA Rated	1.94	0.95%	0.44%	4.02%	3.31%
Agency MBS (0 to 3 years)	1.85	1.37%	(0.31%)	1.60%	3.42%
Municipals	1.81	0.61%	0.02%	1.03%	1.56%
1-5 Year Indices					
U.S. Treasury	2.72	0.38%	0.04%	0.91%	2.62%
Federal Agency	2.36	0.44%	0.16%	1.38%	2.28%
U.S. Corporates, A-AAA Rated	2.80	1.22%	0.55%	5.85%	4.70%
Agency MBS (0 to 5 years)	2.11	1.45%	(0.26%)	2.50%	4.45%
Municipals	2.53	0.84%	(0.10%)	1.63%	2.37%
Master Indices					
U.S. Treasury	5.99	0.96%	(0.10%)	2.16%	5.89%
Federal Agency	3.84	0.85%	0.22%	2.44%	4.10%
U.S. Corporates, A-AAA Rated	6.80	2.32%	0.79%	9.19%	8.32%
Agency MBS	2.14	1.47%	(0.27%)	2.59%	4.78%
Municipals	7.47	2.59%	0.51%	7.26%	6.83%

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 School Board's investments had a weighted average yield of 0.42% versus the Merrill Lynch 3-Month U.S. Treasury Bill Index benchmark's yield of 0.03%. The investments provided 39 basis points of additional yield over the benchmark. During the quarter, the investments generated net income of \$224,750.
- The duration of the investments slightly increased since June and ended the quarter at 0.84 years.
- Five year Treasury yields swung in a 24 basis point range. Yields were driven lower by economic disruption from Hurricane Sandy, a higher projection for Greek debt, President Obama's re-election and assured continuity of an accommodative Federal Reserve (Fed), an expansion of the Fed's bond purchase program, and fears the U.S. would go over the fiscal cliff. Bond yields were pushed higher by stronger than expected job reports for September and November, a Greek debt buyback program, the prospect of Presidential candidate Mitt Romney appointing a replacement for Ben Bernanke at the Fed, a global rally in stocks, and confidence that the fiscal cliff would be avoided.
- After all the ups and downs, Treasury yields finished the quarter modestly higher. Political turmoil may cause a transient flight-to-quality as has been seen this quarter and may be seen in the coming quarter. Yet, the larger, lasting effect is likely to come from the budding trend of equity fund inflows at the expense of bond fund outflows. The so-called "Great Rotation", as it is popularly called, is the reversal of fund flows from the past 4 years.
- 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 December 31, 2012</u>	<u>Amortized Cost¹ September 30, 2012</u>	<u>Market Value¹ December 31, 2012</u>	<u>Market Value¹ September 30, 2012</u>	<u>Duration (Years) December 31, 2012</u>	<u>Duration (Years) September 30, 2012</u>
Wells Fargo Government Checking Account	\$ 22,054,569.44	\$ 68,919,399.09	\$ 22,054,569.44	\$ 68,919,399.09	0.003	0.003
Bank of Central Florida - CDARS	5,012,281.13	5,007,621.59	5,012,281.13	5,007,621.59	0.003	0.003
Wells Fargo - Fidelity Prime Money Market Fund - General Fund	104,002,826.51	-	104,002,826.51	-	0.003	-
Wells Fargo - Fidelity Prime Money Market Fund - General Fund	-	-	-	-	-	-
Wells Fargo - Fidelity Prime Money Market Fund - Student Account	-	-	-	-	-	-
Florida PRIME Fund - Agency Account #1442	69,847.12	185,504.20	69,847.12	185,504.20	0.003	0.003
Florida PRIME Fund - 2001A COPS #1443	3,995.09	10,610.34	3,995.09	10,610.34	0.003	0.003
Florida PRIME Fund - Polk County School Board #1814	387.16	-	387.16	-	0.003	-
Florida Education Investment Trust Fund (FEITF)	65,200,838.28	85,164,645.57	65,200,838.28	85,164,645.57	0.003	0.003
Investment Portfolio (PFM Managed) ²	55,202,110.30	55,157,153.28	55,284,744.26	55,247,460.12	1.80	1.83
The CORE Fund ³	52,593,749.17	52,616,085.27	52,593,749.17	52,616,085.27	3.000	3.000
SBA Fund B - Agency Account #1442B ⁴	3,032,384.53	3,224,385.34	2,980,930.69	3,059,838.86	N/A	4.080
SBA Fund B - 2001A COPS #1443B ⁴	179,208.81	184,425.92	172,101.81	175,014.32	N/A	4.080
SBA Fund B - Polk County School Board #1814 ⁴	440.77	-	433.29	-	N/A	-
Colson Small - Small Business Administration Pool	47,378.77	635,113.15	47,602.08	638,629.75	6.08	6.94
Total	\$ 307,400,017.08	\$ 271,104,943.75	\$ 307,424,306.03	\$ 271,024,809.11	0.84	1.02

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.
4. Duration for the SBA Fund B as of December 31, 2012 was not available at the time this report was completed. Information provided by SBA's website.

Investment Statistics (All Accounts)

	Quarterly Return December 31, 2012	Calendar Year To Date	Last 12 Months	Yield to Maturity at Cost December 31, 2012	Yield to Maturity at Cost September 30, 2012
Total Return¹					
Investment Portfolio (PFM Managed) ^{1, 2, 3, 4, 6}	0.07%	0.45%	N/A	0.34%	0.33%
Merrill Lynch 1-3 Year U.S. Treasury Note Index ^{3, 5}	0.07%	0.43%	N/A	0.25%	0.24%
Total Return¹					
The CORE Fund ^{10, 12}	-0.05%	0.02%	0.02%	1.61%	1.60%
1-Year Constant Maturity Treasury Index ¹¹	N/A	N/A	N/A	0.16%	0.18%

Account Name	Yield to Maturity at Cost ^{7, 8, 9, 10, 12} December 31, 2012	Yield to Maturity at Cost ^{7, 8, 9, 10, 12} September 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	0.08%	-
Wells Fargo - Fidelity Prime Money Market Fund - General Fund	-	-
Wells Fargo - Fidelity Prime Money Market Fund - Student Account	-	-
Florida PRIME Fund - Agency Account #1442	0.25%	0.31%
Florida PRIME Fund - 2001A COPS #1443	0.25%	0.31%
Florida PRIME Fund - Polk County School Board #1814	0.25%	-
Florida Education Investment Trust Fund (FEITF)	0.17%	0.26%
Investment Portfolio (PFM Managed) ⁴	0.34%	0.33%
The CORE Fund ¹⁰	1.61%	1.60%
SBA Fund B - Agency Account #1442B	-	-
SBA Fund B - 2001A COPS #1443B	-	-
SBA Fund B - Polk County School Board #1814	-	-
Colson Small - Small Business Administration Pool	1.20%	1.20%
Weighted Average Yield	0.42%	0.52%

Benchmarks	December 31, 2012	September 30, 2012
Merrill Lynch 3-Month U.S. Treasury Bill Index ⁵	0.03%	0.06%

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 February 22, 2013. 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
	September 30, 2012	December 31, 2012	During the Quarter	Adjustment	During the Quarter	Income
Wells Fargo Government Checking Account	\$ 68,919,399.09	\$ 22,054,569.44	\$ (46,864,829.65)	\$ -	\$ -	\$ -
Bank of Central Florida - CDARS	5,007,621.59	5,012,281.13	-	-	4,659.54	4,659.54
Wells Fargo - Fidelity Prime Money Market Fund - General Fund	-	104,002,826.51	104,000,000.00	-	2,826.51	2,826.51
Wells Fargo - Fidelity Prime Money Market Fund - General Fund	-	-	-	-	-	-
Wells Fargo - Fidelity Prime Money Market Fund - Student Account	-	-	-	-	-	-
Florida PRIME Fund - Agency Account #14422	185,504.20	69,847.12	(115,739.62)	-	82.54	82.54
Florida PRIME Fund - 2001A COPS #14432	10,610.34	3,995.09	(6,620.00)	-	4.75	4.75
Florida PRIME Fund - Polk County School Board #1814	-	387.16	387.08	-	0.08	-
Florida Education Investment Trust Fund (FEITF)	85,164,645.57	65,200,838.28	(20,000,000.00)	-	36,192.71	36,192.71
Investment Portfolio (PFM Managed) ¹	55,028,306.65	55,114,673.80	907.63	(127,729.26)	213,188.78	85,459.52
The CORE Fund	52,616,085.27	52,593,749.17	-	(22,336.10)	-	(22,336.10)
SBA Fund B - Agency Account #1442B2	3,059,838.86	2,980,930.69	(192,000.81)	113,092.64	-	113,092.64
SBA Fund B - 2001A COPS #1443B2	175,014.32	172,101.81	(10,981.91)	8,069.40	-	8,069.40
SBA Fund B - Polk County School Board #1814	-	433.29	(27.90)	461.19	-	-
Colson Small - Small Business Administration Pool	637,975.64	47,602.08	(587,072.14)	(3,373.76)	72.34	(3,301.42)
Total	\$ 270,805,001.53	\$ 307,254,235.57	\$ 36,224,022.68	\$ (31,815.89)	\$ 257,027.25	\$ 224,750.09

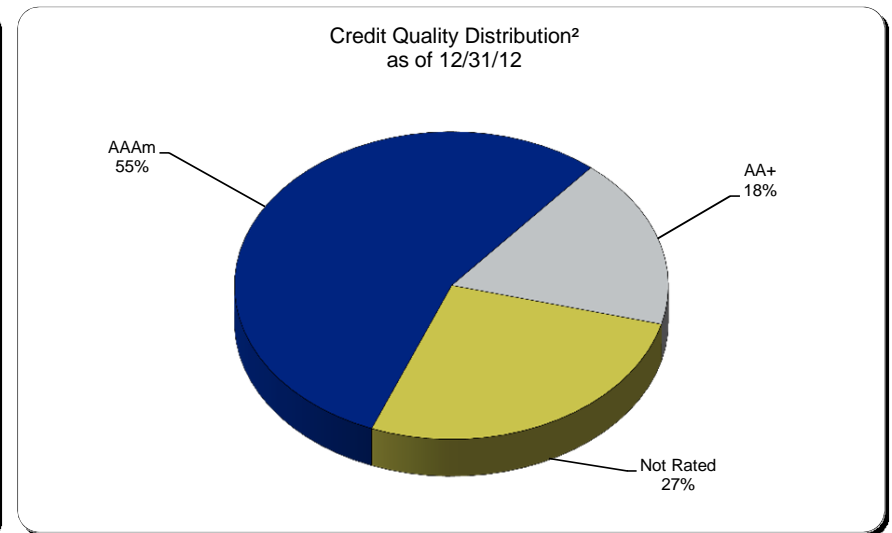
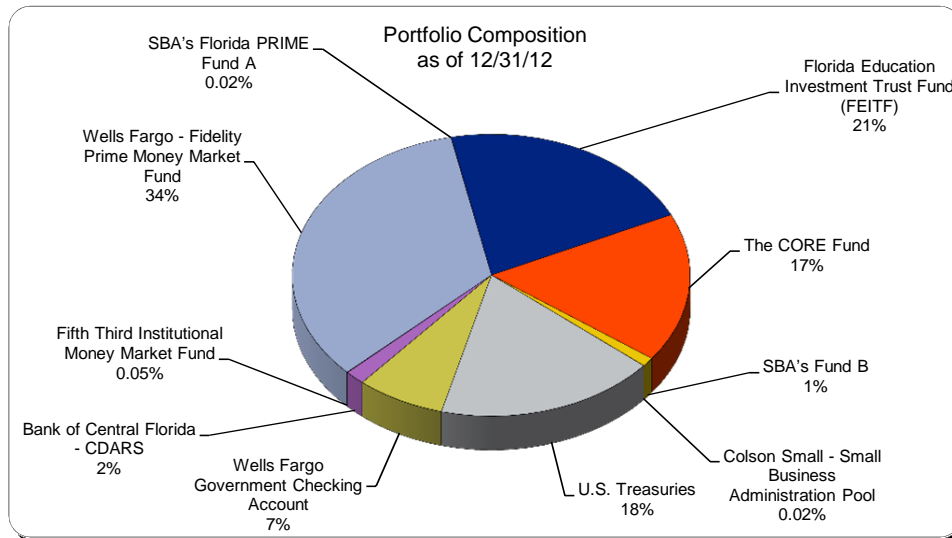
Notes:

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 \$54,967,266 and the Money Market Fund had \$147,408.

2. Market value adjustments contain both realized and unrealized gains and losses.

Investment Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>December 31, 2012</u>	<u>% of Portfolio</u>	<u>September 30, 2012</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$55,137,336.26	17.94%	\$54,879,807.12	20.25%
Wells Fargo Government Checking Account	22,054,569.44	7.17%	68,919,399.09	25.43%
Bank of Central Florida - CDARS	5,012,281.13	1.63%	5,007,621.59	1.85%
Fifth Third Institutional Money Market Fund	147,408.00	0.05%	367,653.00	0.14%
Wells Fargo - Fidelity Prime Money Market Fund	104,002,826.51	33.83%	0.00	0.00%
SBA's Florida PRIME Fund A	74,229.37	0.02%	196,114.54	0.07%
Florida Education Investment Trust Fund (FEITF)	65,200,838.28	21.21%	85,164,645.57	31.42%
The CORE Fund	52,593,749.17	17.11%	52,616,085.27	19.41%
SBA's Fund B	3,153,465.79	1.03%	3,234,853.18	1.19%
Colson Small - Small Business Administration Pool	47,602.08	0.02%	638,629.75	0.24%
Totals	\$307,424,306.03	100.00%	\$271,024,809.11	100.00%

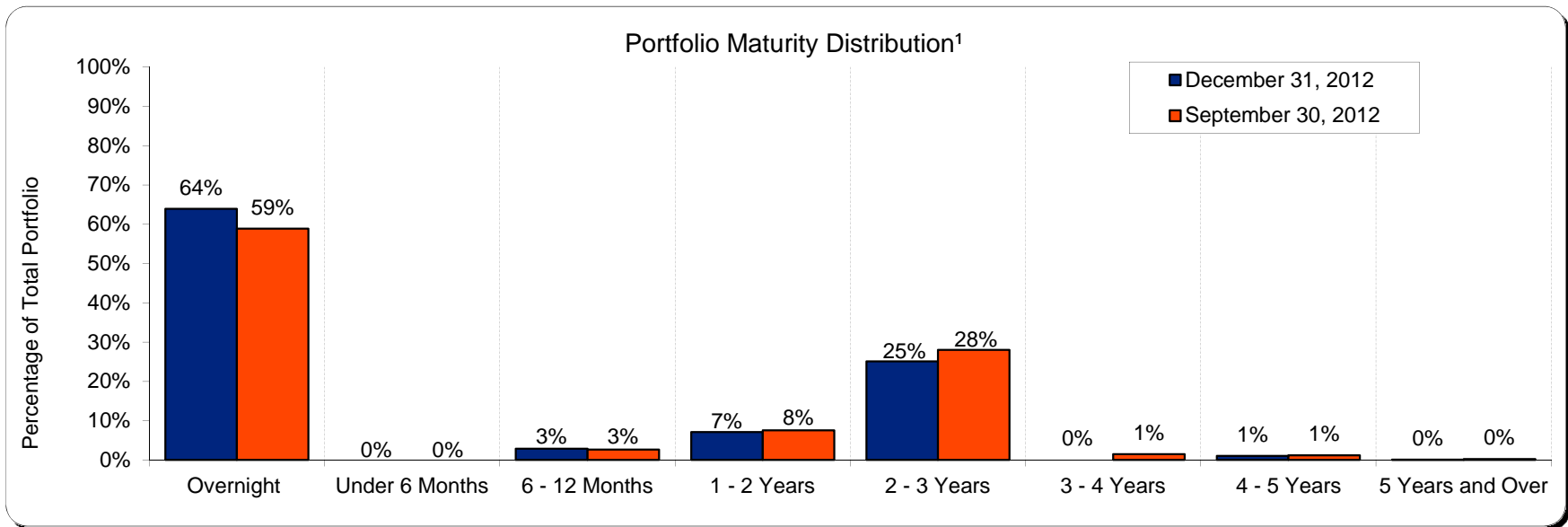


Notes:

- End of quarter trade-date market values of portfolio holdings, including accrued interest.
- 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

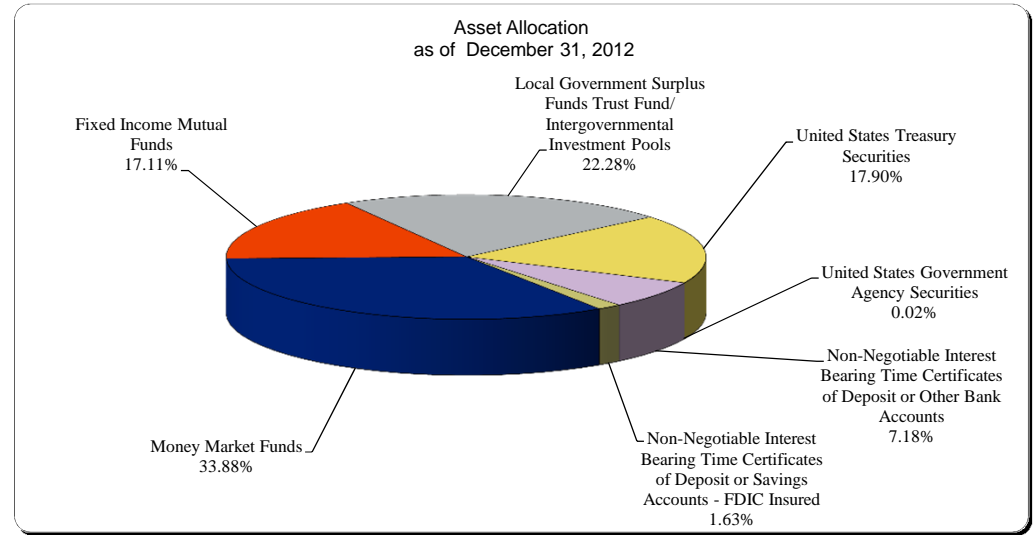
<u>Maturity Distribution¹</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>
Overnight Liquidity	\$196,492,152.73	\$159,655,433.79
Under 6 Months	0.00	0.00
6 - 12 Months	8,731,637.52	7,115,292.89
1 - 2 Years	21,920,974.88	20,501,658.21
2 - 3 Years	77,078,473.03	75,877,305.79
3 - 4 Years	0.00	4,001,635.50
4 - 5 Years	3,153,465.79	3,234,853.18
5 Years and Over	47,602.08	638,629.75
Totals	\$307,424,306.03	\$271,024,809.11



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 ²	December 31, 2012	Notes	Permitted by Policy
Local Government Surplus Funds Trust Fund/ Intergovernmental Investment Pools	22.28%		50%
United States Treasury Securities	17.90%		100%
United States Government Agency Securities	0.02%	1	60%
Federal Instrumentalities	0.00%		0%
Mortgage-Backed Securities	0.00%		0%
Non-Negotiable Interest Bearing Time Certificates of Deposit or Other Bank Accounts	7.18%	3	60%
Non-Negotiable Interest Bearing Time Certificates of Deposit or Savings Accounts - FDIC Insured	1.63%	3	75%
Non-Primary Depository Bank Demand Deposit Accounts/Money Market Accounts/Public Funds Interest Checking Accounts	0.00%		50%
Repurchase Agreements	0.00%		0%
Commercial Paper TLGP - FDIC Insured	0.00%	1	40%
Corporate Notes - FDIC Insured	0.00%	1	40%
Bankers' Acceptances	0.00%		0%
State and/or Local Government Debt	0.00%		25%
Money Market Funds	33.88%		40%
Fixed Income Mutual Funds	17.11%	3	20%



Individual Issuer Breakdown	December 31, 2012	Notes	Permitted by Policy
Government National Mortgage Association (GNMA)	0.00%		40%
Small Business Administration Pool	0.02%		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	December 31, 2012	Notes	Permitted by Policy
CDARS - Bank of Central Florida	1.63%	3	30%
Florida Prime (SBA) - Local Government Surplus Funds Trust Fund	0.02%	3	40%
SBA Fund B	1.04%	3	N/A
Florida Education Investment Trust Fund - Intergovernmental Investment Pool	21.21%		40%
Qualified Public Deposit Account - Wells Fargo Combined Public Funds	7.18%	3	30%
Money Market Fund - Fifth Third Institutional Money Market Fund	0.05%		30%
Money Market Fund - Wells Fargo	33.84%	3	30%
Fixed Income Mutual Funds - The CORE Fund	17.11%	3	20%

Notes:
 1. Combined allocations cannot exceed 60% per Investment Policy.
 2. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
 3. Managed by the District.