

CITY OF FRANKLIN CORE

September 30, 2012



Davidson
Fixed Income Management

REGISTERED INVESTMENT ADVISER

We urge you to compare the information contained in this periodic statement with the account statement(s) you receive directly from the custodian that holds your account(s). Please notify us immediately if you identify any discrepancies or have any questions.

MONTHLY MARKET COMMENTARY



Davidson
Fixed Income Management
REGISTERED INVESTMENT ADVISER

SEPTEMBER 2012

Yields were slightly higher in September but remain near their all-time lows. The month began with a disappointing labor report which ignited the belief that additional accommodation will be forthcoming from the FOMC. Nonfarm payrolls in August rose 96,000. A gain of 130,000 was expected. Revisions to the previous two months subtracted 41,000 workers. Private sector employment rose 103,000. A gain of 142,000 was expected. The labor market is adding jobs, but at a very slow level. Unemployment in August fell .2% to 8.1%. An unchanged reading of 8.3% was expected. The improvement was due to a declining labor force which fell 368,000. Household employment fell 119,000 for its third decline in the last five months. The labor force participation rate fell .2% to 63.5%. This is the lowest level since September 1981. Average hourly earnings in August were unchanged. A gain of .2% was expected. The private workweek was unchanged and the factory workweek fell .5%.

Sector Performance

Nearly all of the major asset classes posted gains in September. However, the major concerns of the financial markets continue to be the “fiscal cliff” that threatens the U.S. economy, ongoing turmoil in Europe and any number of potential trouble spots in the Middle East. Even with all of these concerns, emerging market stocks were especially strong last month, rising 6.0%. REITs were September’s big loser, but only after real estate stocks had returned 14.9% so far this year. Both the commodity and capital markets finished the month on a strong note.

U.S. Bonds (Barclays U.S. Aggregate Bond)	0.10%	S&P 500	+2.6%
Cash (Three month Treasury Bill)	0.00%	Crude Oil	-4.4%
U.S. Stocks (Russell 3000)	+2.6%	Gold	+4.8%
Commodities (DJ-UBS Commodity)	+1.7%		

Source: Bloomberg IND and capitalspectator.com

The Fed Meeting

The third round of Quantitative Easing (QE3) was expected by market participants and the Fed delivered. The FOMC announced that specifically they would purchase an additional 40 billion of mortgage backed securities. These purchases were tied to economic outcomes by the following terms:

“If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability.”

The language guidance was pushed back to mid-2015. In addition, these two parts of the statement are more forceful than in the past:

“The Committee is concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens.”

CHANGES IN THE TREASURY MARKET OVER THE PAST QUARTER:

	<u>07/31/12</u>	<u>08/31/12</u>	<u>09/30/12</u>	<u>Chg Sept</u>
3-month bill	0.10	0.07	0.09	+02
6-month bill	0.13	0.13	0.13	Unch
2-year note	0.21	0.22	0.23	+01
5-year note	0.58	0.59	0.63	+04
10-year note	1.47	1.55	1.63	+08

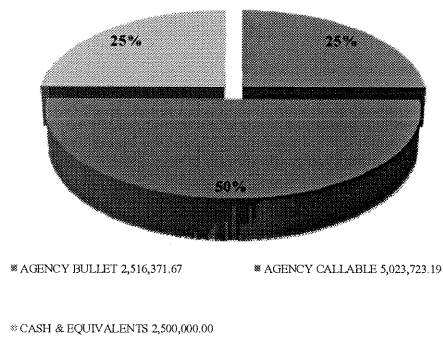
Source: Bloomberg

* This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.

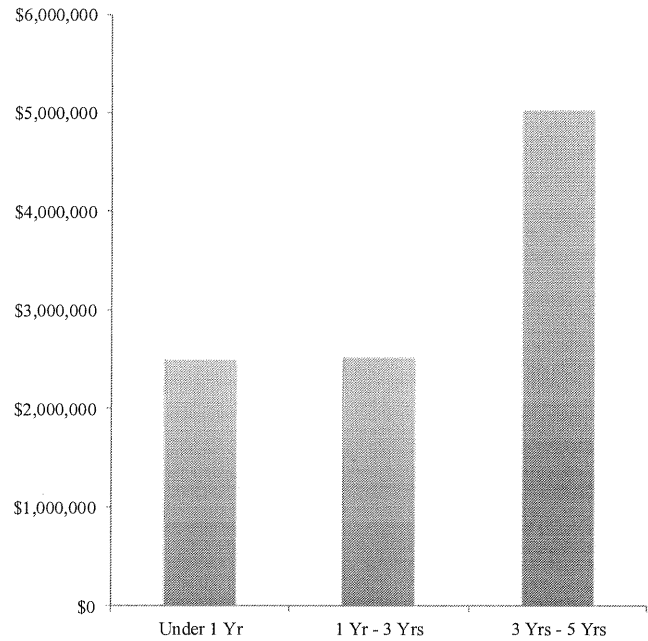


CITY OF FRANKLIN CORE

DISTRIBUTION BY ASSET CLASS



DISTRIBUTION BY MATURITY



DISTRIBUTION BY ISSUER

Industry Groups	Market Value	Pct.
FHLB	2,516,371.67	25.06
FHLMC	2,515,545.00	25.05
FFCB	2,508,178.19	24.98
CASH & EQUIVALENTS	2,500,000.00	24.90
Total	10,040,094.86	100.00

*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.



Davidson
Fixed Income Management
 REGISTERED INVESTMENT ADVISER

Securities Summary Report
CITY OF FRANKLIN CORE
 September 30, 2012

	Par Value	Purchase Cost	Amortized Cost	Market Value	Unrealized Gain/Loss	Weighted Days to Maturity	% Portfolio	Weighted Average Yield	Weighted Average Duration to Maturity	Weighted Average Duration to Call
AGENCY BULLET	2,500,000	2,495,175.00	2,495,950.84	2,514,580.00	18,629.16	1,051	25.06	0.4	2.9	0.0
AGENCY CALLABLE	5,000,000	5,001,406.25	5,001,086.71	5,018,222.50	17,135.79	1,314	50.02	0.6	3.5	1.1
CASH & EQUIVALENTS	2,500,000	2,500,000.00	2,500,000.00	2,500,000.00	0.00	1	24.92	0.6	0.0	0.0
TOTAL	10,000,000	9,996,581.25	9,997,037.56	10,032,802.50	35,764.94	920	100.00	0.6	2.5	1.1

Securities Summary Report
CITY OF FRANKLIN CORE
 September 30, 2012

	Par Value	Purchase Cost	Amortized Cost	Market Value	Unrealized Gain/Loss	Weighted Days to Maturity	% Portfolio	Weighted Average Yield	Weighted Average Duration to Maturity	Weighted Average Duration to Call
FHLB	2,500,000	2,495,175.00	2,495,950.84	2,514,580.00	18,629.16	1,051	25.06	0.4	2.9	0.0
FHLMC	2,500,000	2,500,625.00	2,500,437.16	2,513,545.00	13,107.84	1,242	25.05	0.6	3.3	1.4
FFCB	2,500,000	2,500,781.25	2,500,649.55	2,504,677.50	4,027.95	1,388	24.96	0.7	3.7	0.8
CASH & EQUIVALENTS	2,500,000	2,500,000.00	2,500,000.00	2,500,000.00	0.00	1	24.92	0.6	0.0	0.0
TOTAL	10,000,000	9,996,581.25	9,997,037.56	10,032,802.50	35,764.94	920	100.00	0.6	2.5	1.1

*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.



Davidson
Fixed Income Management
REGISTERED INVESTMENT ADVISER

DETAIL AMORTIZATION COST RETURN
CITY OF FRANKLIN CORE

From 08-31-12 to 09-30-12

CURRENT HOLDINGS	Interest Earned	Accretion (Amortization)	Realized Gain/Loss	Total Income
AGENCY BULLET	1,208.33	115.80	0.00	1,324.13
AGENCY CALLABLE	3,040.97	-92.58	0.00	2,948.39
CASH & EQUIVALENTS	1,191.78	0.00	0.00	1,191.78
TOTAL	5,441.09	23.22	0.00	5,464.30

SUMMARY OF AMORTIZED COST BASIS
RETURN FOR THE PERIOD
CITY OF FRANKLIN CORE
August 31, 2012 to September 30, 2012

	Total Portfolio
Interest Earned	5,441.09
Accretion/Amortization	23.22
Realized Gain/Loss on Sales	0.00
Total Income on Portfolio	5,464.30
Average Daily Historical Cost	10,036,360.83
Return	0.05%
Annualized Return	0.67%
Annualized Return Net of Fees	0.67%
Weighted Duration to Maturity in Years	2.49
Weighted Days to Maturity	920

*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.



Davidson
Fixed Income Management
REGISTERED INVESTMENT ADVISER

DETAIL ON MARKET VALUE RETURN
CITY OF FRANKLIN CORE
From 08-31-12 to 09-30-12

Current Holdings	Interest Earned	Change in Market Value	Total Income
AGENCY BULLET	1,208.33	357.50	1,565.83
AGENCY CALLABLE	3,040.97	-912.50	2,128.47
CASH & EQUIVALENTS	1,191.78	0.00	1,191.78
TOTAL	5,441.09	-555.00	4,886.09

PERFORMANCE REPORT
CITY OF FRANKLIN CORE

From 08-31-12 to 09-30-12

Portfolio Value on 08-31-12	10,033,357.50
Accrued Interest	3,043.06
Contributions	0.00
Withdrawals	-1,191.78
Market Value Change in Period	-555.00
Interest Earned in Period	5,441.09
Portfolio Value on 09-30-12	10,032,802.50
Accrued Interest	7,292.36
Weighted Portfolio Value	10,036,360.83
Total Return	4,886.09
Return For Period	0.03
Return For Period Annualized	0.34

*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.



Davidson
Fixed Income Management
REGISTERED INVESTMENT ADVISER

**CITY OF FRANKLIN, TN
PORTFOLIO RETURNS**
Target Benchmark: Treas 0-3 Year
From 01-31-12 to 09-30-12
Inception Date: 01-31-12

Market Value and Return

Period Ending	Beginning Value	Contribution/Withdrawal	Principal Change	Interest Earnings	Ending Value	Total Return
01/31/2012					0.00	
02/29/2012	0.00	7,495,597.60	-17,340.00	5,305.18	7,483,562.78	-12,034.82
03/31/2012	7,483,562.78	2,491,984.93	-10,337.50	6,801.18	9,972,011.39	-3,536.32
04/30/2012	9,972,011.39	-4,171.23	37,480.00	6,990.67	10,012,310.83	44,470.67
05/31/2012	10,012,310.83	-4,315.07	-437.50	7,328.96	10,014,887.22	6,891.46
06/30/2012	10,014,887.22	-4,171.23	3,060.00	6,990.67	10,020,766.67	10,050.67
07/31/2012	10,020,766.67	-2,465.75	16,312.50	5,479.64	10,040,093.06	21,792.14
08/31/2012	10,040,093.06	-17,261.35	8,038.75	5,530.10	10,036,400.56	13,568.85
09/30/2012	10,036,400.56	-1,191.78	-555.00	5,441.09	10,040,094.86	4,886.09
Total		9,954,006.12	36,221.25	49,867.49		86,088.74

Duration Comparison

Portfolio Duration	Treas 0-3 Year Duration	Difference
1.12	1.46	-0.346
1.66	1.45	0.211
1.59	1.46	0.131
1.54	1.47	0.068
1.49	1.46	0.033
1.40	1.46	-0.066
1.84	1.47	0.378
1.79	1.45	0.335

Monthly Return

Date	Price Return	Interest Return	Portfolio Return	Treas 0-3 Year Return
02/29/2012	-0.231%	0.071%	-0.188%	-0.100%
03/31/2012	-0.114%	0.075%	-0.062%	-0.035%
04/30/2012	0.376%	0.070%	0.425%	0.150%
05/31/2012	-0.004%	0.073%	0.048%	0.035%
06/30/2012	0.031%	0.070%	0.080%	-0.039%
07/31/2012	0.163%	0.055%	0.197%	0.174%
08/31/2012	0.079%	0.054%	0.113%	0.009%
09/30/2012	-0.006%	0.054%	0.028%	0.014%

Cumulative Return

YTD Portfolio	YTD Treas 0-3 Year	Difference	Since Inception Portfolio	Since Inception Treas 0-3 Year
-0.188%	-0.100%	-0.089%	-0.188%	-0.100%
-0.250%	-0.135%	-0.115%	-0.250%	-0.135%
0.174%	0.015%	0.159%	0.174%	0.015%
0.222%	0.050%	0.173%	0.222%	0.050%
0.302%	0.010%	0.291%	0.302%	0.010%
0.499%	0.184%	0.315%	0.499%	0.184%
0.612%	0.193%	0.420%	0.612%	0.193%
0.640%	0.206%	0.434%	0.640%	0.206%
Annualized	0.966%	0.311%	0.655%	0.966%

*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.



Davidson
Fixed Income Management
REGISTERED INVESTMENT ADVISER

**CITY OF FRANKLIN CORE
PORTFOLIO HOLDINGS**

September 30, 2012

Security Symbol	Quantity	Security	Call Date	Pur Date	Amort Price	Book Yield	Market Price	Market Yield	Market Value	Accrued Interest	Total Value	Unrealized Gain/Loss	Pct. Assets	Dur Mat	Dur Call
AGENCY BULLET															
313378CN9	2,500,000	FEDERAL HOME LN BKS 0.600% Due 08-17-15		03-12-12	99.84	0.66	100.58	0.40	2,514,580.00	1,791.67	2,516,371.67	18,629.16	25.1	2.85	2.85
AGENCY CALLABLE															
3134G3MX5	2,500,000	FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16	02-24-14	02-01-12	100.02	0.79	100.54	0.64	2,513,545.00	2,000.00	2,515,545.00	13,107.84	25.1	3.35	1.39
3133EAYQ5	2,500,000	FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16	07-19-13	08-01-12	100.03	0.70	100.19	0.66	2,504,677.50	3,500.69	2,508,178.19	4,027.95	25.0	3.74	0.80
	5,000,000					0.75		0.65	5,018,222.50	5,500.69	5,023,723.19	17,135.79	50.0	3.54	1.10
CASH & EQUIVALENTS															
FRNKCASH	2,500,000	FRANKLIN CASH 0.600% Due 10-01-12		02-01-12	1.00	0.60	1.00	0.60	2,500,000.00	0.00	2,500,000.00	0.00	24.9	0.00	0.00
TOTAL	10,000,000					0.69		0.57	10,032,802.50	7,292.36	10,040,094.86	35,764.94	100.0	2.49	1.26

*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.

Special note: At this time AXYS does not correctly calculate book or market yields for variable rate, floating rate, or mortgage backed securities.



Davidson
Fixed Income Management
REGISTERED INVESTMENT ADVISER

CITY OF FRANKLIN CORE TRANSACTION SUMMARY

From 09-01-12 To 09-30-12

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
Deposit							
09-30-12	09-30-12	manfee		Management Fee		2,083.34	
Interest							
09-30-12	09-30-12	FRNKCASH		FRANKLIN CASH 0.600% Due 10-01-12		1,191.78	

*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.

AMORTIZATION AND ACCRETION - SETTLED TRADES
CITY OF FRANKLIN CORE
 September 30, 2012



Davidson
Fixed Income Management
 REGISTERED INVESTMENT ADVISER

Purchase Information					Amortization/Accretion Information				
Quantity	Lot	Purchase Date	Price	Total Cost	Month To Date	Year To Date	Total To Date	Balance	Adjusted Cost
FHLB(Straight Line)									
FEDERAL HOME LN BKS 0.600% Due 08-17-15 (313378CN9)									
2,500,000	1	03-12-12	99.807	2,495,175.00	115.80	775.84	775.84	4,049.16	2,495,950.84
FFCB CALLABLE(Straight Line)									
FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16 (3133EAYQ5)									
2,500,000	1	08-01-12	100.031	2,500,781.25	-66.96	-131.70	-131.70	-649.55	2,500,649.55
FHLMC CALLABLE(Straight Line)									
FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16 (3134G3MX5)									
2,500,000	1	02-01-12	100.025	2,500,625.00	-25.61	-187.84	-187.84	-437.16	2,500,437.16
CASH(Straight Line)									
FRANKLIN CASH 0.600% Due 10-01-12 (FRNKCASH)									
2,500,000	1	02-01-12	1.000	2,500,000.00	0.00	0.00	0.00	0.00	2,500,000.00
GRAND TOTAL				9,996,581.25	23.22	456.31	456.31	2,962.44	9,997,037.56

*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.

Special Note: If a security matures or is sold between prior month end and this report it will not be included on this table. Please make adjustments as needed.



INTEREST ACCRUALS
CITY OF FRANKLIN CORE
From 08-31-12 To 09-30-12

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
AGENCY							
AGENCY BULLET							
FHLB 313378CN9	FEDERAL HOME LN BKS 0.600% Due 08-17-15	583.33	0.00	0.00	0.00	1,208.33	1,791.67
		583.33	0.00	0.00	0.00	1,208.33	1,791.67
	AGENCY BULLET Total	583.33	0.00	0.00	0.00	1,208.33	1,791.67
AGENCY CALLABLE							
FHLMC 3134G3MX5	FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16	388.89	0.00	0.00	0.00	1,611.11	2,000.00
		388.89	0.00	0.00	0.00	1,611.11	2,000.00
FFCB 3133EAYQ5	FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16	2,070.83	0.00	0.00	0.00	1,429.86	3,500.69
		2,070.83	0.00	0.00	0.00	1,429.86	3,500.69
	AGENCY CALLABLE Total	2,459.72	0.00	0.00	0.00	3,040.97	5,500.69
	AGENCY Total	3,043.06	0.00	0.00	0.00	4,249.31	7,292.36
CASH							
CASH & EQUIVALENTS							
FRNKCASH	CASH & EQUIVALENTS FRANKLIN CASH 0.600% Due 10-01-12	0.00	0.00	0.00	-1,191.78	1,191.78	0.00
		0.00	0.00	0.00	-1,191.78	1,191.78	0.00

*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.



Davidson
Fixed Income Management
REGISTERED INVESTMENT ADVISER

INTEREST ACCRUALS
CITY OF FRANKLIN CORE
From 08-31-12 To 09-30-12

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
	CASH & EQUIVALENTS Total	0.00	0.00	0.00	-1,191.78	1,191.78	0.00
	CASH Total	0.00	0.00	0.00	-1,191.78	1,191.78	0.00
	TOTAL PORTFOLIO	3,043.06	0.00	0.00	-1,191.78	5,441.09	7,292.36