

CITY OF FRANKLIN CORE

October 31, 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.

OCTOBER 2012

Super Storm Sandy superseded both the elections and economic numbers as the major influence on the financial markets during October. After the storm, on 10/28, the stock exchange was closed due to weather for an unprecedented two days in a row. The bond market was closed half of Monday following the storm and all of Tuesday. All financial markets were reopened on the last day of the month, October 31. It was interesting to note that the financial markets functioned smoothly and liquidity remained at a high level even with the disruption on the East Coast. At the end of the month, yields rose throughout the yield curve.

Part of the increase in yields came about due to the stronger than anticipated unemployment numbers which were reported at the beginning of the month. Nonfarm payroll growth was close to expectations but the unemployment rate fell to its lowest level since early 2009. Market participants interpreted this as a signal that the economy has found its bottom and is poised to grow. The unemployment rate in September fell 0.3% to 7.8%. A reading of 8% was expected. Household employment rose 873,000. This was the largest increase since January 2003. The labor force increased 418,000. The labor force participation rate rose 0.1% to 63.6%. This is definitely good news, however much improvement in the labor market remains to be seen.

The Fed:

Treasury prices declined after the Fed did not promise more accommodation after the expiration of Operation Twist in December. However, the Fed did say it is committed to keeping monetary policy accommodative. “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.” In other words, if the Fed does not see self-sustainable economic growth, we will see more accommodation.

The FOMC left interest rates unchanged, as expected and reaffirmed that “exceptionally low” interest rates will remain through mid-2015. The Fed will buy \$40 billion each month in MBS with no end date and Operation Twist will continue until the end of the year. In their statement, the Fed said there are “significant downside risks” to the economy. Unemployment remains elevated. Consumer spending and housing has improved at a quicker pace although from depressed levels. Inflation expectations are stable despite the recent uptick in the levels due to rising energy prices.

Other Economic Data:

- Durable goods orders rose 9.9%. A gain of 7.5% was expected.
- The GDP rose 2.00%, somewhat above expectations due to a surge in the contribution from the Federal Government.
- Existing Home Sales were 4.683 million in the third quarter, the best since the second quarter of 2010.
- Retail Sales increased 1.1% after increasing 1.2% in August.

***CHANGES IN THE TREASURY MARKET OVER THE PAST QUARTER:**

	<u>08/31/12</u>	<u>09/30/12</u>	<u>10/31/12</u>	<u>Change Oct</u>
3-month bill	0.07	0.09	0.11	+0.02
6-month bill	0.13	0.13	0.16	+0.03
2-year note	0.22	0.23	0.28	+0.05
5-year note	0.59	0.63	0.72	+0.09
10-year note	1.55	1.63	1.69	+0.06

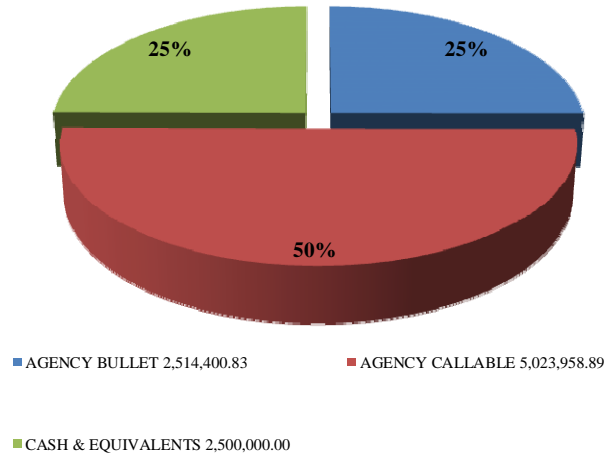
**Source: Bloomberg*

Going Forward The last quarter of the calendar year is a good time to review and rebalance portfolios, particularly this year, after the election. We are getting portfolio durations close to, if not slightly longer than the durations of the benchmarks. We are using the post-election period to make sure portfolios are aligned with their benchmarks and fully invested for year end. This is a good time for portfolio review before the end of the calendar year and the end of quarter four.

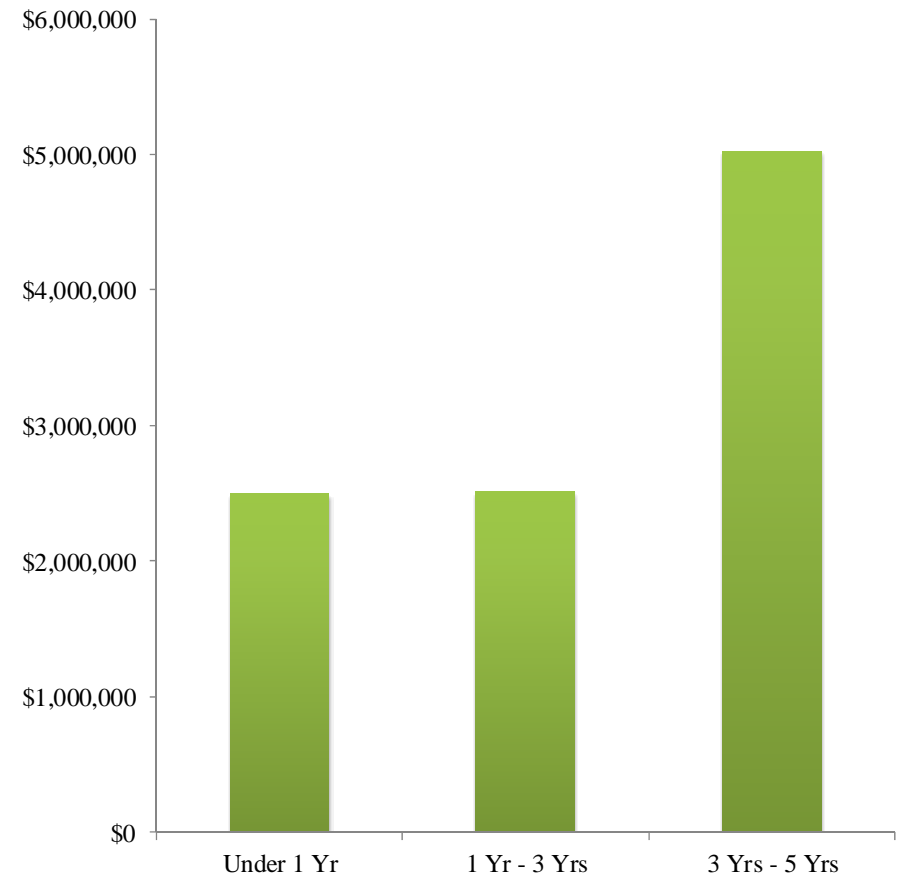


CITY OF FRANKLIN CORE

DISTRIBUTION BY ASSET CLASS



DISTRIBUTION BY MATURITY



DISTRIBUTION BY ISSUER

Industry Groups	Market Value	Pct.
FHLMC	2,516,649.72	25.07
FHLB	2,514,400.83	25.05
FFCB	2,507,309.17	24.98
CASH & EQUIVALENTS	2,500,000.00	24.90
Total	10,038,359.72	100.00

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



Securities Summary Report
CITY OF FRANKLIN CORE
October 31, 2012

	<u>Par Value</u>	<u>Purchase Cost</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/Loss</u>	<u>Weighted Days to Maturity</u>	<u>% Portfolio</u>	<u>Weighted Average Yield</u>	<u>Weighted Average Duration to Maturity</u>	<u>Weighted Average Duration to Call</u>
AGENCY BULLET	2,500,000	2,495,175.00	2,496,070.50	2,511,317.50	15,247.00	1,020	25.05	0.4	2.8	0.0
AGENCY CALLABLE	5,000,000	5,001,406.25	5,000,991.05	5,015,207.50	14,216.45	1,283	50.02	0.7	3.5	1.0
CASH & EQUIVALENTS	2,500,000	2,500,000.00	2,500,000.00	2,500,000.00	0.00	1	24.93	0.6	0.0	0.0
TOTAL	10,000,000	9,996,581.25	9,997,061.55	10,026,525.00	29,463.45	897	100.00	0.6	2.4	1.0

Securities Summary Report
CITY OF FRANKLIN CORE
October 31, 2012

	<u>Par Value</u>	<u>Purchase Cost</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/Loss</u>	<u>Weighted Days to Maturity</u>	<u>% Portfolio</u>	<u>Weighted Average Yield</u>	<u>Weighted Average Duration to Maturity</u>	<u>Weighted Average Duration to Call</u>
FHLB	2,500,000	2,495,175.00	2,496,070.50	2,511,317.50	15,247.00	1,020	25.05	0.4	2.8	0.0
FHLMC	2,500,000	2,500,625.00	2,500,410.69	2,512,927.50	12,516.81	1,211	25.06	0.6	3.3	1.3
FFCB	2,500,000	2,500,781.25	2,500,580.36	2,502,280.00	1,699.64	1,357	24.96	0.7	3.7	0.7
CASH & EQUIVALENTS	2,500,000	2,500,000.00	2,500,000.00	2,500,000.00	0.00	1	24.93	0.6	0.0	0.0
TOTAL	10,000,000	9,996,581.25	9,997,061.55	10,026,525.00	29,463.45	897	100.00	0.6	2.4	1.0

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**DETAIL AMORTIZATION COST RETURN
CITY OF FRANKLIN CORE**

From 09-30-12 to 10-31-12

CURRENT HOLDINGS	Interest Earned	Accretion (Amortization)	Realized Gain/Loss	Total Income
AGENCY BULLET	1,291.67	119.66	0.00	1,411.32
AGENCY CALLABLE	3,250.69	-95.67	0.00	3,155.03
CASH & EQUIVALENTS	1,232.88	0.00	0.00	1,232.88
TOTAL	5,775.24	23.99	0.00	5,799.23

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

	Total Portfolio
Interest Earned	5,775.24
Accretion/Amortization	23.99
Realized Gain/Loss on Sales	0.00
Total Income on Portfolio	5,799.23
Average Daily Historical Cost	10,040,055.09
Return	0.06%
Annualized Return	0.68%
Annualized Return Net of Fees	0.68%
Weighted Duration to Maturity in Years	2.43
Weighted Days to Maturity	897



DETAIL ON MARKET VALUE RETURN
CITY OF FRANKLIN CORE
 From 09-30-12 to 10-31-12

Current Holdings	Interest Earned	Change in Market Value	Total Income
AGENCY BULLET	1,291.67	-3,262.50	-1,970.83
AGENCY CALLABLE	3,250.69	-3,015.00	235.69
CASH & EQUIVALENTS	1,232.88	0.00	1,232.88
TOTAL	5,775.24	-6,277.50	-502.26

PERFORMANCE REPORT
CITY OF FRANKLIN CORE

From 09-30-12 to 10-31-12

Portfolio Value on 09-30-12	10,032,802.50
Accrued Interest	7,292.36
Contributions	0.00
Withdrawals	-1,232.88
Market Value Change in Period	-6,277.50
Interest Earned in Period	5,775.24
Portfolio Value on 10-31-12	10,026,525.00
Accrued Interest	11,834.72
Weighted Portfolio Value	10,040,055.09
Total Return	-502.26
Return For Period	-0.03
Return For Period Annualized	-0.30



**CITY OF FRANKLIN, TN
PORTFOLIO RETURNS
NET OF FEES**

**Target Benchmark: Treas 0-3 Year
From 01-31-12 to 10-31-12
Inception Date: 01-31-12**

Market Value and Return

Duration Comparison

<u>Period Ending</u>	<u>Beginning Value</u>	<u>Contribution/ Withdrawal</u>	<u>Principal Change</u>	<u>Interest Earnings</u>	<u>Ending Value</u>	<u>Total Return</u>	<u>Portfolio Duration</u>	<u>Treas 0-3 Year Duration</u>	<u>Difference</u>
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	1.12	1.46	-0.346
03/31/2012	7,483,562.78	2,491,984.93	-10,337.50	6,801.18	9,972,011.39	-3,536.32	1.66	1.45	0.211
04/30/2012	9,972,011.39	-4,171.23	37,480.00	6,990.67	10,012,310.83	44,470.67	1.59	1.46	0.131
05/31/2012	10,012,310.83	-4,315.07	-437.50	7,328.96	10,014,887.22	6,891.46	1.54	1.47	0.068
06/30/2012	10,014,887.22	-4,171.23	3,060.00	6,990.67	10,020,766.67	10,050.67	1.49	1.46	0.033
07/31/2012	10,020,766.67	-2,465.75	16,312.50	5,479.64	10,040,093.06	21,792.14	1.40	1.46	-0.066
08/31/2012	10,040,093.06	-17,261.35	8,038.75	5,530.10	10,036,400.56	13,568.85	1.84	1.47	0.378
09/30/2012	10,036,400.56	-1,191.78	-555.00	5,441.09	10,040,094.86	4,886.09	1.79	1.45	0.335
10/31/2012	10,040,094.86	-1,232.88	-6,277.50	5,775.24	10,038,359.72	-502.26	1.74	1.45	0.288
Total		9,952,773.24	29,943.75	55,642.73		85,586.48			

Monthly Return

Cumulative Return

<u>Date</u>	<u>Price Return</u>	<u>Interest Return</u>	<u>Portfolio Return</u>	<u>Treas 0-3 Year Return</u>	<u>YTD Portfolio</u>	<u>YTD Treas 0-3 Year</u>	<u>Difference</u>	<u>Since Inception Portfolio</u>	<u>Since Inception Treas 0-3 Year</u>	
02/29/2012	-0.231%	0.071%	-0.188%	-0.100%	-0.188%	-0.100%	-0.089%	-0.188%	-0.100%	
03/31/2012	-0.114%	0.075%	-0.062%	-0.035%	-0.250%	-0.135%	-0.115%	-0.250%	-0.135%	
04/30/2012	0.376%	0.070%	0.425%	0.150%	0.174%	0.015%	0.159%	0.174%	0.015%	
05/31/2012	-0.004%	0.073%	0.048%	0.035%	0.222%	0.050%	0.173%	0.222%	0.050%	
06/30/2012	0.031%	0.070%	0.080%	-0.039%	0.302%	0.010%	0.291%	0.302%	0.010%	
07/31/2012	0.163%	0.055%	0.197%	0.174%	0.499%	0.184%	0.315%	0.499%	0.184%	
08/31/2012	0.079%	0.054%	0.113%	0.009%	0.612%	0.193%	0.420%	0.612%	0.193%	
09/30/2012	-0.006%	0.054%	0.028%	0.014%	0.640%	0.206%	0.434%	0.640%	0.206%	
10/31/2012	-0.063%	0.058%	-0.026%	-0.036%	0.615%	0.170%	0.444%	0.615%	0.170%	
					Annualized	0.822%	0.228%	0.594%	0.822%	0.228%



**CITY OF FRANKLIN CORE
PORTFOLIO HOLDINGS**

October 31, 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	100.45	0.44	2,511,317.50	3,083.33	2,514,400.83	15,247.00	25.0	2.77	2.77
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	100.52	0.64	2,512,927.50	3,722.22	2,516,649.72	12,516.81	25.1	3.26	1.31
3133EAYQ5	2,500,000	FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16	07-19-13	08-01-12	100.02	0.70	100.09	0.68	2,502,280.00	5,029.17	2,507,309.17	1,699.64	25.0	3.66	0.72
	5,000,000					0.75		0.66	5,015,207.50	8,751.39	5,023,958.89	14,216.45	50.0	3.46	1.01
CASH & EQUIVALENTS															
FRNKCASH	2,500,000	FRANKLIN CASH 0.600% Due 11-01-12		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		0.59	10,026,525.00	11,834.72	10,038,359.72	29,463.45	100.0	2.43	1.20

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



CITY OF FRANKLIN CORE TRANSACTION SUMMARY

From 10-01-12 To 10-31-12

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
Deposit							
10-31-12	10-31-12	manfee		Management Fee		2,083.33	
Interest							
10-31-12	10-31-12	FRNKCASH		FRANKLIN CASH 0.600% Due 11-01-12		1,232.88	

AMORTIZATION AND ACCRETION - SETTLED TRADES
CITY OF FRANKLIN CORE
 October 31, 2012



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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	119.66	895.50	895.50	3,929.50	2,496,070.50
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	-69.20	-200.89	-200.89	-580.36	2,500,580.36
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	-26.47	-214.31	-214.31	-410.69	2,500,410.69
CASH(Straight Line)									
FRANKLIN CASH 0.600% Due 11-01-12 (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	23.99	480.30	480.30	2,938.45	9,997,061.55

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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 09-30-12 To 10-31-12

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	1,791.67	0.00	0.00	0.00	1,291.67	3,083.33
		1,791.67	0.00	0.00	0.00	1,291.67	3,083.33
AGENCY BULLET Total		1,791.67	0.00	0.00	0.00	1,291.67	3,083.33
AGENCY CALLABLE							
FHLMC 3134G3MX5	FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16	2,000.00	0.00	0.00	0.00	1,722.22	3,722.22
		2,000.00	0.00	0.00	0.00	1,722.22	3,722.22
FFCB 3133EAYQ5	FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16	3,500.69	0.00	0.00	0.00	1,528.47	5,029.17
		3,500.69	0.00	0.00	0.00	1,528.47	5,029.17
AGENCY CALLABLE Total		5,500.69	0.00	0.00	0.00	3,250.69	8,751.39
AGENCY Total		7,292.36	0.00	0.00	0.00	4,542.36	11,834.72
CASH							
CASH & EQUIVALENTS							
CASH & EQUIVALENTS FRNKCASH	FRANKLIN CASH 0.600% Due 11-01-12	0.00	0.00	0.00	-1,232.88	1,232.88	0.00
		0.00	0.00	0.00	-1,232.88	1,232.88	0.00



INTEREST ACCRUALS
CITY OF FRANKLIN CORE
From 09-30-12 To 10-31-12

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	-1,232.88	1,232.88	0.00
	CASH Total	0.00	0.00	0.00	-1,232.88	1,232.88	0.00
TOTAL PORTFOLIO		7,292.36	0.00	0.00	-1,232.88	5,775.24	11,834.72