

# CITY OF FRANKLIN CORE

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**December 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.*

MONTHLY MARKET COMMENTARY

DECEMBER 2012

It seems like we continue to wait and wait for something and we are not quite sure what we are waiting for. The fiscal cliff, budget resolution, debt reduction, something has to get yields to move more than 5 basis points, which is how much rates changed last week. Fundamentally, it seems like the continued stimulus being provided by QE4 should eventually lead to higher rates, but it may take a while to get there. So, what strategic moves should we be focusing on to make sure that investments are optimized? 1) Focus on maintaining low liquidity balances 2) Focus on keeping fully invested at the benchmarks or slightly long, and 3) Be patient and diligent with cash flow management.

The Fed

The US FOMC announced in December that it will keep interest rates near zero “at least as long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than a half percentage above the Committee’s 2% longer-run goal, and longer term inflation expectations continue to be well anchored.” In addition, the Fed will expand its asset purchases under QE3 to include longer term Treasury Securities, initially at a pace of \$45 Billion per month. A reduction in the unemployment rate to below 6.5% is probably still a long way off. An unusually large drop in the rate in the past three years (to 7.7% at the last count) may partly be a payback for the big rise in 2009.

Investor Outlook

Investors remained confident that interest rates will remain low for a long time while calm prevailed in the European money markets amid further signs of reduced imbalances.

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

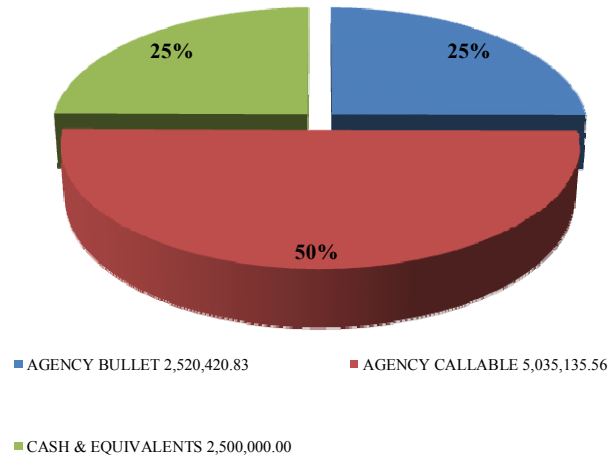
	<u>09/30/12</u>	<u>10/31/12</u>	<u>11/30/12</u>	<u>12/31/12</u>	<u>Chg Dec</u>
3-month bill	0.09	0.11	0.08	0.09	0.01
6-month bill	0.13	0.16	0.13	0.16	0.03
2-year note	0.23	0.28	0.25	0.30	0.05
5-year note	0.63	0.72	0.62	0.75	0.13
10-year note	1.63	1.69	1.62	1.77	0.15

Source: Bloomberg

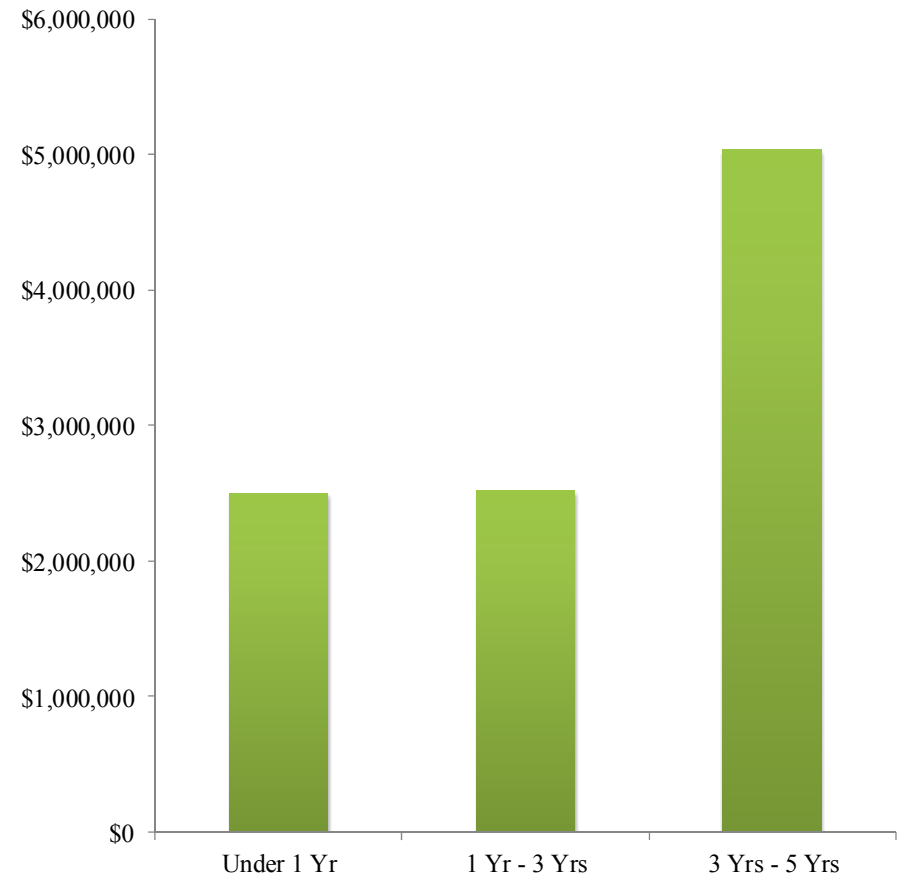
As we enter the New Year, we wish all of our clients a healthy, productive and peaceful 2013.

**CITY OF FRANKLIN CORE**

DISTRIBUTION BY ASSET CLASS



DISTRIBUTION BY MATURITY



DISTRIBUTION BY ISSUER

Industry Groups	Market Value	Pct.
FHLMC	2,521,863.06	25.08
FHLB	2,520,420.83	25.06
FFCB	2,513,272.50	24.99
CASH & EQUIVALENTS	2,500,000.00	24.86
<b>Total</b>	<b>10,055,556.39</b>	<b>100.00</b>

\*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**  
 December 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	2,496,305.96	2,514,837.50	18,531.54	959	25.06	0.4	2.6	0.0
AGENCY CALLABLE	5,000,000	5,001,406.25	5,000,802.80	5,020,092.50	19,289.70	1,222	50.03	0.6	3.3	0.8
CASH & EQUIVALENTS	2,500,000	2,500,000.00	2,500,000.00	2,500,000.00	0.00	1	24.91	0.6	0.0	0.0
<b>TOTAL</b>	<b>10,000,000</b>	<b>9,996,581.25</b>	<b>9,997,108.76</b>	<b>10,034,930.00</b>	<b>37,821.24</b>	<b>851</b>	<b>100.00</b>	<b>0.6</b>	<b>2.3</b>	<b>0.8</b>

**Securities Summary Report**  
**CITY OF FRANKLIN CORE**  
 December 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	2,496,305.96	2,514,837.50	18,531.54	959	25.06	0.4	2.6	0.0
FHLMC	2,500,000	2,500,625.00	2,500,358.61	2,514,807.50	14,448.89	1,150	25.06	0.6	3.1	1.1
FFCB	2,500,000	2,500,781.25	2,500,444.20	2,505,285.00	4,840.80	1,296	24.97	0.6	3.5	0.6
CASH & EQUIVALENTS	2,500,000	2,500,000.00	2,500,000.00	2,500,000.00	0.00	1	24.91	0.6	0.0	0.0
<b>TOTAL</b>	<b>10,000,000</b>	<b>9,996,581.25</b>	<b>9,997,108.76</b>	<b>10,034,930.00</b>	<b>37,821.24</b>	<b>851</b>	<b>100.00</b>	<b>0.6</b>	<b>2.3</b>	<b>0.8</b>

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## DETAIL AMORTIZATION COST RETURN CITY OF FRANKLIN CORE

From 11-30-12 to 12-31-12

<b>CURRENT HOLDINGS</b>	<b>Interest Earned</b>	<b>Accretion (Amortization)</b>	<b>Realized Gain/Loss</b>	<b>Total Income</b>
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	1,150.68	0.00	0.00	1,150.68
<b>TOTAL</b>	<b>5,693.04</b>	<b>23.99</b>	<b>0.00</b>	<b>5,717.03</b>

## SUMMARY OF AMORTIZED COST BASIS RETURN FOR THE PERIOD CITY OF FRANKLIN CORE

November 30, 2012 to December 31, 2012

	<b>Total Portfolio</b>
Interest Earned	5,693.04
Accretion/Amortization	23.99
Realized Gain/Loss on Sales	0.00
Total Income on Portfolio	5,717.03
Average Daily Historical Cost	10,051,004.41
Return	0.06%
Annualized Return	0.67%
Annualized Return Net of Fees	0.67%
Weighted Duration to Maturity in Years	2.30
Weighted Days to Maturity	851



**DETAIL ON MARKET VALUE RETURN**  
**CITY OF FRANKLIN CORE**

From 11-30-12 to 12-31-12

<b>Current Holdings</b>	<b>Interest Earned</b>	<b>Change in Market Value</b>	<b>Total Income</b>
AGENCY BULLET	1,291.67	225.00	1,516.67
AGENCY CALLABLE	3,250.69	-252.50	2,998.19
CASH & EQUIVALENTS	1,150.68	0.00	1,150.68
<b>TOTAL</b>	<b>5,693.04</b>	<b>-27.50</b>	<b>5,665.54</b>

**PERFORMANCE REPORT**  
**CITY OF FRANKLIN CORE**

From 11-30-12 to 12-31-12

Portfolio Value on 11-30-12	10,034,957.50
Accrued Interest	16,084.03
Contributions	0.00
Withdrawals	-1,150.68
Market Value Change in Period	-27.50
Interest Earned in Period	5,693.04
Portfolio Value on 12-31-12	10,034,930.00
Accrued Interest	20,626.39
Weighted Portfolio Value	10,051,004.41
Total Return	5,665.54
<b>Return For Period</b>	<b>0.04</b>
<b>Return For Period Annualized</b>	<b>0.42</b>



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

**Target Benchmark: Treas 0-3 Year**

From 01-31-12 to 12-31-12

Inception Date: 01-31-12

**Market Value and Return**

<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>
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
10/31/2012	10,040,094.86	-1,232.88	-6,277.50	5,775.24	10,038,359.72	-502.26
11/30/2012	10,038,359.72	-1,191.78	8,432.50	5,441.09	10,051,041.53	13,873.59
12/31/2012	10,051,041.53	-1,150.68	-27.50	5,693.04	10,055,556.39	5,665.54
<b>Total</b>		<b>9,950,430.78</b>	<b>38,348.75</b>	<b>66,776.86</b>		<b>105,125.61</b>

**Duration Comparison**

<u>Portfolio Duration</u>	<u>Treas 0-3 Year Duration</u>	<u>Difference</u>
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
1.74	1.45	0.288
1.62	1.45	0.171
1.57	1.44	0.128



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

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

**Monthly Return**

**Cumulative Return**

<b>Date</b>	<b>Price Return</b>	<b>Interest Return</b>	<b>Portfolio Return</b>	<b>Treas 0-3 Year Return</b>	<b>YTD Portfolio</b>	<b>YTD Treas 0-3 Year</b>	<b>Difference</b>	<b>Since Inception Portfolio</b>	<b>Since Inception Treas 0-3 Year</b>	
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%	
11/30/2012	0.084%	0.054%	0.117%	0.068%	0.733%	0.239%	0.494%	0.733%	0.239%	
12/31/2012	0.000%	0.057%	0.036%	0.032%	0.769%	0.270%	0.498%	0.769%	0.270%	
					<b>Annualized</b>	<b>0.840%</b>	<b>0.295%</b>	<b>0.545%</b>	<b>0.840%</b>	<b>0.295%</b>

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**CITY OF FRANKLIN CORE  
PORTFOLIO HOLDINGS**

December 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
<b>AGENCY BULLET</b>															
313378CN9	2,500,000	FEDERAL HOME LN BKS 0.600% Due 08-17-15		03-12-12	99.85	0.66	100.59	0.37	2,514,837.50	5,583.33	2,520,420.83	18,531.54	25.1	2.60	2.60
<b>AGENCY CALLABLE</b>															
3134G3MX5	2,500,000	FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16	02-24-14	02-01-12	100.01	0.79	100.59	0.61	2,514,807.50	7,055.56	2,521,863.06	14,448.89	25.1	3.10	1.14
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	100.21	0.65	2,505,285.00	7,987.50	2,513,272.50	4,840.80	25.0	3.49	0.55
	5,000,000					0.75		0.63	5,020,092.50	15,043.06	5,035,135.56	19,289.70	50.0	3.30	0.85
<b>CASH &amp; EQUIVALENTS</b>															
FRNKCASH	2,500,000	FRANKLIN CASH 0.600% Due 01-01-13		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
<b>TOTAL</b>	<b>10,000,000</b>					<b>0.69</b>		<b>0.56</b>	<b>10,034,930.00</b>	<b>20,626.39</b>	<b>10,055,556.39</b>	<b>37,821.24</b>	<b>100.0</b>	<b>2.30</b>	<b>1.08</b>

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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 12-01-12 To 12-31-12

<b>Trade Date</b>	<b>Settle Date</b>	<b>Cusip</b>	<b>Quantity</b>	<b>Security</b>	<b>Call Date</b>	<b>Amount</b>	<b>Broker</b>
<b>Deposit</b>							
12-31-12	12-31-12	manfee		Management Fee		2,083.34	
<b>Interest</b>							
12-31-12	12-31-12	FRNKCASH		FRANKLIN CASH 0.600% Due 01-01-13		1,150.68	



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

Purchase Information					Amortization/Accretion Information				
Quantity	Lot	Purchase Date	Price	Total Cost	Month To Date	Year To Date	Total To Date	Balance	Adjusted Cost
<b>FHLB(Straight Line)</b>									
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	1,130.96	1,130.96	3,694.04	2,496,305.96
<b>FFCB CALLABLE(Straight Line)</b>									
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	-337.05	-337.05	-444.20	2,500,444.20
<b>FHLMC CALLABLE(Straight Line)</b>									
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	-266.39	-266.39	-358.61	2,500,358.61
<b>CASH(Straight Line)</b>									
FRANKLIN CASH 0.600% Due 01-01-13 (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
<b>GRAND TOTAL</b>				<b>9,996,581.25</b>	<b>23.99</b>	<b>527.51</b>	<b>527.51</b>	<b>2,891.24</b>	<b>9,997,108.76</b>

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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 11-30-12 To 12-31-12

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
<b>AGENCY</b>							
AGENCY BULLET							
FHLB 313378CN9	FEDERAL HOME LN BKS 0.600% Due 08-17-15	4,291.67	0.00	0.00	0.00	1,291.67	5,583.33
		4,291.67	0.00	0.00	0.00	1,291.67	5,583.33
AGENCY BULLET Total		4,291.67	0.00	0.00	0.00	1,291.67	5,583.33
AGENCY CALLABLE							
FHLMC 3134G3MX5	FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16	5,333.33	0.00	0.00	0.00	1,722.22	7,055.56
		5,333.33	0.00	0.00	0.00	1,722.22	7,055.56
FFCB 3133EAYQ5	FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16	6,459.03	0.00	0.00	0.00	1,528.47	7,987.50
		6,459.03	0.00	0.00	0.00	1,528.47	7,987.50
AGENCY CALLABLE Total		11,792.36	0.00	0.00	0.00	3,250.69	15,043.06
AGENCY Total		16,084.03	0.00	0.00	0.00	4,542.36	20,626.39
<b>CASH</b>							
CASH & EQUIVALENTS							
CASH & EQUIVALENTS FRNKCASH	FRANKLIN CASH 0.600% Due 01-01-13	0.00	0.00	0.00	-1,150.68	1,150.68	0.00
		0.00	0.00	0.00	-1,150.68	1,150.68	0.00



**INTEREST ACCRUALS**  
**CITY OF FRANKLIN CORE**  
From 11-30-12 To 12-31-12

<b>Security Symbol</b>	<b>Description</b>	<b>Beginning Accrued Interest</b>	<b>Purchased Interest</b>	<b>Sold Interest</b>	<b>Interest Received</b>	<b>Earned Interest</b>	<b>Ending Accrued Interest</b>
	CASH & EQUIVALENTS Total	0.00	0.00	0.00	-1,150.68	1,150.68	0.00
	CASH Total	0.00	0.00	0.00	-1,150.68	1,150.68	0.00
<b>TOTAL PORTFOLIO</b>		<b>16,084.03</b>	<b>0.00</b>	<b>0.00</b>	<b>-1,150.68</b>	<b>5,693.04</b>	<b>20,626.39</b>