

# CITY OF FRANKLIN CORE

---

**January 31, 2013**



**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

JANUARY 2013

The curve steepened in January as three-month bills dropped to .07% and five-year treasuries increased from .75% to .88%. Yields increased to their highest levels since April 2012 for bonds with maturities between three years and thirty years.

**FOMC:** Bonds traded lower in prices after the FOMC minutes were released. The minutes indicated that the Quantitative Easing (QE) programs will end at some point, possibly in 2013. Members differed as to the timing with some expressing the end of the year as a target date, some well before the end of the year and some no time frame. Balance sheet expansion and financial stability were the major concerns. The FOMC is currently buying \$45 billion of treasuries and \$40 billion of MBS (Mortgage Backed Securities) each month. The threshold for keeping interest rates low is 6.5% unemployment and no more than 2.5% inflation. The minutes clearly distinguish that QE and the zero interest rate policy (ZIRP) are two distinct items, meaning QE can end but rates may continue to remain exceptionally low.

**Nonfarm Payrolls/Unemployment:** The numbers released in January were good, but not great. Nonfarm payrolls in December rose 155,000, close to expectations. Revisions to the previous two months added an additional 14,000 workers. Private employment rose by 168,000 while governmental fell 13,000. Unemployment in December was unchanged at 7.8%. A reading of 7.7% was expected. The labor force participation rate was unchanged at 63.6%, only 0.1% above the lowest level since January 1984.

### **Highlights of other market movers in January:**

- Initial jobless claims fell to a five year low of 5,000.
- Leading economic indicators in December rose 0.5%. A gain of 0.4% as expected. The report suggests moderate growth.
- The House approved legislation (285-144) to “disregard” the debt ceiling until May 18. The measure cleared the Senate on a vote of 64-34. It permits the Treasury to borrow above the current \$16.4 trillion debt limit through May 18. The legislation was forwarded to the President for his signature on the last day of the month.
- The IMF’s Managing Director Christine Lagarde stated that the global economy is in a “timid recovery.”
- The Dow Jones industrial average continued to make gains. The Dow began January at 13,412 and ended at 13,860 for a percentage return of 11.80%.
- The Treasury discontinued the issuance of “SLGS” (State and Local Government Securities).

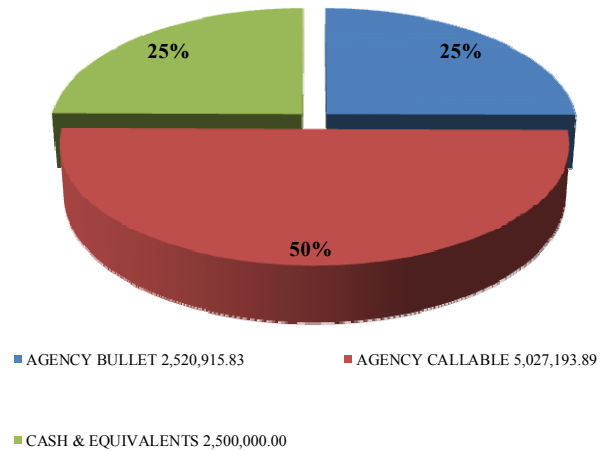
### CHANGES IN THE TREASURY MARKET OVER THE PAST QUARTER:

	<u>11/30/12</u>	<u>12/31/12</u>	<u>01/31/13</u>	<u>Chg Jan</u>
3-month bill	0.08	0.09	0.07	-0.02
6-month bill	0.13	0.16	0.11	-0.05
2-year note	0.25	0.25	0.26	+0.01
5-year note	0.62	0.75	0.88	+0.13
10-year note	1.62	1.77	1.99	+0.22

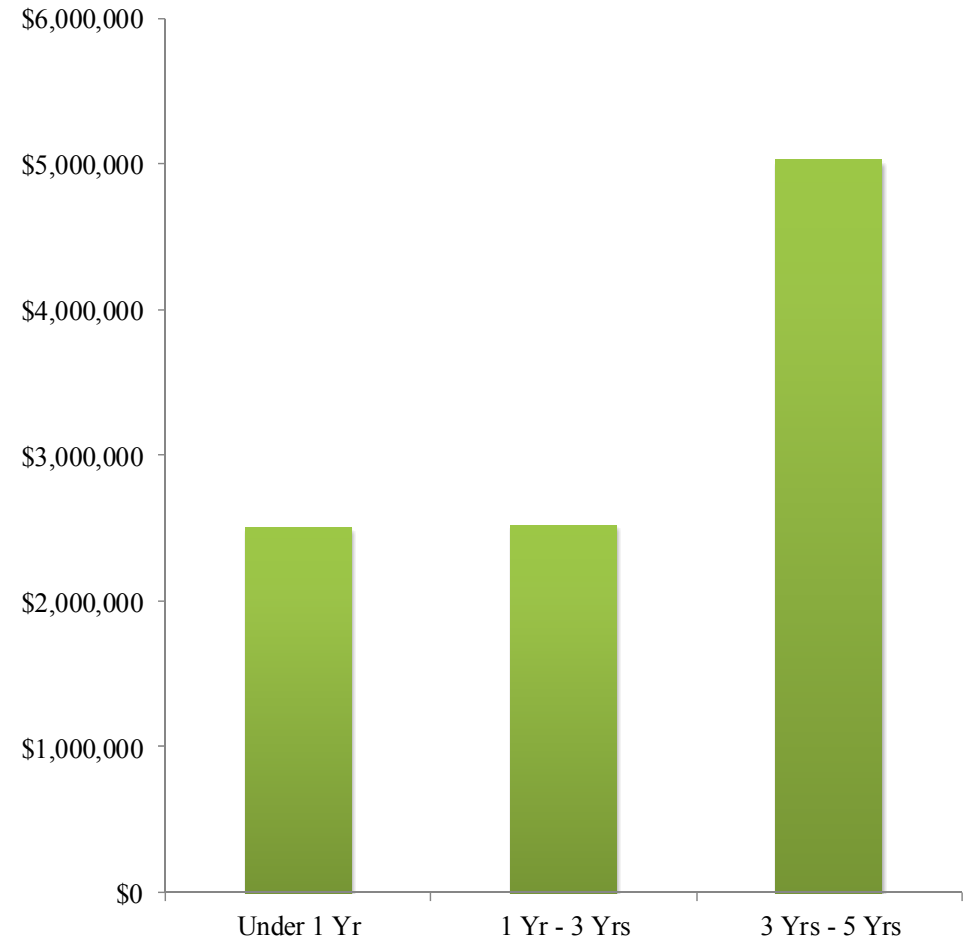
Source: Bloomberg

## CITY OF FRANKLIN CORE

DISTRIBUTION BY ASSET CLASS



DISTRIBUTION BY MATURITY



DISTRIBUTION BY ISSUER

Industry Groups	Market Value	Pct.
FHLMC	2,521,999.72	25.10
FHLB	2,520,915.83	25.09
FFCB	2,505,194.17	24.93
CASH & EQUIVALENTS	2,500,000.00	24.88
<b>Total</b>	<b>10,048,109.72</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**  
 January 31, 2013

	<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	2,496,425.61	2,514,082.50	17,656.89	928	25.06	0.4	2.5	0.0
AGENCY CALLABLE	5,000,000	5,001,406.25	5,000,707.14	5,017,880.00	17,172.86	1,191	50.02	0.6	3.2	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
<b>TOTAL</b>	<b>10,000,000</b>	<b>9,996,581.25</b>	<b>9,997,132.75</b>	<b>10,031,962.50</b>	<b>34,829.75</b>	<b>827</b>	<b>100.00</b>	<b>0.6</b>	<b>2.2</b>	<b>0.8</b>

**Securities Summary Report**  
**CITY OF FRANKLIN CORE**  
 January 31, 2013

	<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	2,496,425.61	2,514,082.50	17,656.89	928	25.06	0.4	2.5	0.0
FHLMC	2,500,000	2,500,625.00	2,500,332.14	2,513,277.50	12,945.36	1,119	25.05	0.6	3.0	1.1
FFCB	2,500,000	2,500,781.25	2,500,375.00	2,504,602.50	4,227.50	1,265	24.97	0.7	3.4	0.5
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
<b>TOTAL</b>	<b>10,000,000</b>	<b>9,996,581.25</b>	<b>9,997,132.75</b>	<b>10,031,962.50</b>	<b>34,829.75</b>	<b>827</b>	<b>100.00</b>	<b>0.6</b>	<b>2.2</b>	<b>0.8</b>

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



**SUMMARY OF AMORTIZED COST BASIS  
 RETURN FOR THE PERIOD  
 CITY OF FRANKLIN CORE  
 December 31, 2012 to January 31, 2013**

	<u>Total Portfolio</u>
Interest Earned	5,628.71
Accretion/Amortization	23.99
Realized Gain/Loss on Sales	0.00
Total Income on Portfolio	5,652.71
Average Daily Historical Cost	10,051,078.98
Return	0.06%
Annualized Return	0.67%
Annualized Return Net of Fees	0.67%
Weighted Duration to Maturity in Years	2.24
Weighted Days to Maturity	827

**DETAIL AMORTIZATION COST RETURN  
 CITY OF FRANKLIN CORE  
 From 12-31-12 to 01-31-13**

<u>CURRENT HOLDINGS</u>	<u>Interest Earned</u>	<u>Accretion (Amortization)</u>	<u>Realized Gain/Loss</u>	<u>Total Income</u>
AGENCY BULLET	1,250.00	119.66	0.00	1,369.66
AGENCY CALLABLE	3,145.83	-95.67	0.00	3,050.17
CASH & EQUIVALENTS	1,232.88	0.00	0.00	1,232.88
<b>TOTAL</b>	<b>5,628.71</b>	<b>23.99</b>	<b>0.00</b>	<b>5,652.71</b>

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



**DETAIL ON MARKET VALUE RETURN**  
**CITY OF FRANKLIN CORE**  
 From 12-31-12 to 01-31-13

<b>Current Holdings</b>	<b>Interest Earned</b>	<b>Change in Market Value</b>	<b>Total Income</b>
AGENCY BULLET	1,250.00	-755.00	495.00
AGENCY CALLABLE	3,145.83	-2,212.50	933.33
CASH & EQUIVALENTS	1,232.88	0.00	1,232.88
<b>TOTAL</b>	<b>5,628.71</b>	<b>-2,967.50</b>	<b>2,661.21</b>

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

From 12-31-12 to 01-31-13

Portfolio Value on 12-31-12	10,034,930.00
Accrued Interest	20,626.39
Contributions	0.00
Withdrawals	-10,107.88
Market Value Change in Period	-2,967.50
Interest Earned in Period	5,628.71
Portfolio Value on 01-31-13	10,031,962.50
Accrued Interest	16,147.22
Weighted Portfolio Value	10,051,078.98
Total Return	2,661.21
<b>Return For Period</b>	<b>0.01</b>
<b>Return For Period Annualized</b>	<b>0.07</b>



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

**Target Benchmark: Treas 0-3 Year**  
From 06-30-12 to 01-31-13  
Inception Date: 01-31-12

**Market Value and Return**

**Duration Comparison**

Period Ending	Beginning Value	Contribution/Withdrawal	Principal Change	Interest Earnings	Ending Value	Total Return	Portfolio Duration	Treas 0-3 Year Duration	Difference
06/30/2012					10,020,766.67				
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
11/30/2012	10,038,359.72	-1,191.78	8,432.50	5,441.09	10,051,041.53	13,873.59	1.62	1.45	0.171
12/31/2012	10,051,041.53	-1,150.68	-27.50	5,693.04	10,055,556.39	5,665.54	1.57	1.44	0.128
01/31/2013	10,055,556.39	-10,107.88	-2,967.50	5,628.71	10,048,109.72	2,661.21	1.53	1.43	0.100
Total		-34,602.10	22,956.25	38,988.91		61,945.16			

**Monthly Return**

**Cumulative Return**

Date	Price Return	Interest Return	Portfolio Return	Treas 0-3 Year Return	YTD Portfolio	YTD Treas 0-3 Year	Difference	Since Inception Portfolio	Since Inception Treas 0-3 Year	
07/31/2012	0.163%	0.055%	0.197%	0.174%	0.197%	0.174%	0.023%	0.499%	0.184%	
08/31/2012	0.079%	0.054%	0.113%	0.009%	0.310%	0.182%	0.127%	0.612%	0.193%	
09/30/2012	-0.006%	0.054%	0.028%	0.014%	0.338%	0.196%	0.142%	0.640%	0.206%	
10/31/2012	-0.063%	0.058%	-0.026%	-0.036%	0.312%	0.160%	0.152%	0.615%	0.170%	
11/30/2012	0.084%	0.054%	0.117%	0.068%	0.430%	0.228%	0.201%	0.733%	0.239%	
12/31/2012	0.000%	0.057%	0.036%	0.032%	0.465%	0.260%	0.205%	0.769%	0.270%	
01/31/2013	-0.030%	0.056%	0.006%	0.015%	0.471%	0.275%	0.196%	0.774%	0.285%	
					<b>Annualized</b>	<b>0.803%</b>	<b>0.468%</b>	<b>0.335%</b>	<b>0.774%</b>	<b>0.285%</b>

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



**CITY OF FRANKLIN CORE  
PORTFOLIO HOLDINGS**

January 31, 2013

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	99.86	0.66	100.56	0.38	2,514,082.50	6,833.33	2,520,915.83	17,656.89	25.1	2.52	2.52
<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	100.53	0.62	2,513,277.50	8,722.22	2,521,999.72	12,945.36	25.1	3.02	1.06
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	100.18	0.66	2,504,602.50	591.67	2,505,194.17	4,227.50	25.0	3.42	0.47
	5,000,000					0.75		0.64	5,017,880.00	9,313.89	5,027,193.89	17,172.86	50.0	3.22	0.76
<b>CASH &amp; EQUIVALENTS</b>															
FRNKCASH	2,500,000	FRANKLIN CASH 0.600% Due 02-01-13		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>10,031,962.50</b>	<b>16,147.22</b>	<b>10,048,109.72</b>	<b>34,829.75</b>	<b>100.0</b>	<b>2.24</b>	<b>1.01</b>

\*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.





## CITY OF FRANKLIN CORE TRANSACTION SUMMARY

From 01-01-13 To 01-31-13

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
<b>Deposit</b>							
01-31-13	01-31-13	manfee		Management Fee		2,083.33	
<b>Interest</b>							
01-13-13	01-13-13	FRNKCASH		FRANKLIN CASH 0.600% Due 02-01-13		1,232.88	
01-19-13	01-19-13	3133EAYQ5		FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16	07-19-13	8,875.00	
						<hr/> 10,107.88	



AMORTIZATION AND ACCRETION - SETTLED TRADES  
CITY OF FRANKLIN CORE  
January 31, 2013

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	119.66	1,250.61	3,574.39	2,496,425.61
<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	-69.20	-406.25	-375.00	2,500,375.00
<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	-26.47	-292.86	-332.14	2,500,332.14
<b>CASH(Straight Line)</b>									
FRANKLIN CASH 0.600% Due 02-01-13 (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>23.99</b>	<b>551.50</b>	<b>2,867.25</b>	<b>9,997,132.75</b>

\*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 12-31-12 To 01-31-13

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	5,583.33	0.00	0.00	0.00	1,250.00	6,833.33
		<u>5,583.33</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,250.00</u>	<u>6,833.33</u>
	AGENCY BULLET Total	<u>5,583.33</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,250.00</u>	<u>6,833.33</u>
AGENCY CALLABLE							
FHLMC 3134G3MX5	FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16	7,055.56	0.00	0.00	0.00	1,666.67	8,722.22
		<u>7,055.56</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,666.67</u>	<u>8,722.22</u>
FFCB 3133EAYQ5	FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16	7,987.50	0.00	0.00	-8,875.00	1,479.17	591.67
		<u>7,987.50</u>	<u>0.00</u>	<u>0.00</u>	<u>-8,875.00</u>	<u>1,479.17</u>	<u>591.67</u>
	AGENCY CALLABLE Total	<u>15,043.06</u>	<u>0.00</u>	<u>0.00</u>	<u>-8,875.00</u>	<u>3,145.83</u>	<u>9,313.89</u>
	AGENCY Total	<u>20,626.39</u>	<u>0.00</u>	<u>0.00</u>	<u>-8,875.00</u>	<u>4,395.83</u>	<u>16,147.22</u>
<b>CASH</b>							
CASH & EQUIVALENTS							
CASH & EQUIVALENTS FRNKCASH	FRANKLIN CASH 0.600% Due 02-01-13	0.00	0.00	0.00	-1,232.88	1,232.88	0.00
		<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>-1,232.88</u>	<u>1,232.88</u>	<u>0.00</u>



**INTEREST ACCRUALS**  
**CITY OF FRANKLIN CORE**  
From 12-31-12 To 01-31-13

<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	-1,232.88	1,232.88	0.00
	CASH Total	0.00	0.00	0.00	-1,232.88	1,232.88	0.00
<b>TOTAL PORTFOLIO</b>		<b>20,626.39</b>	<b>0.00</b>	<b>0.00</b>	<b>-10,107.88</b>	<b>5,628.71</b>	<b>16,147.22</b>



**PROJECTED FIXED INCOME CASH FLOWS**  
**CITY OF FRANKLIN CORE**  
Beginning January 31, 2013

<b>Security</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Total</b>
<b>AGENCY</b>													
FEDERAL HOME LN BKS 0.600% Due 08-17-15		7,500.00						7,500.00					15,000.00
FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16		10,000.00						10,000.00					20,000.00
FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16							8,875.00						8,875.00
<b>TOTAL</b>		17,500.00					8,875.00	17,500.00					43,875.00
<b>CASH</b>													
FRANKLIN CASH 0.600% Due 02-01-13		2,500,000.00											2,500,000.00
<b>TOTAL</b>		2,500,000.00											2,500,000.00
<b>GRAND TOTAL</b>		<b>2,517,500.00</b>					<b>8,875.00</b>	<b>17,500.00</b>					<b>2,543,875.00</b>

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