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# CITY OF FRANKLIN CORE

## August 31, 2013

DAVIDSON COMPANIES

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.*

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# MONTHLY MARKET COMMENTARY

AUGUST 2013

Bond yields continued to move higher as the financial markets prepare for an expected tapering of security purchases by the Fed in September. For example, the yield on the two-year Treasury note has more than doubled from .20% on 5/1st to .40% on 8/30th. The biggest question mark remaining is, has the expected tapering been priced into the market, or not? The following are the returns on U.S. Treasuries over the last twelve months:

**Treasury Yield Curve Total Returns Over The Last 12 Months:**

| Maturity | Total Return (trailing 12 months) |
|---|---|
| 3-Month Bill | 0.105 |
| 1-Year Note | 0.255 |
| 2-Year Note | 0.104 |
| 3-Year Note | -0.495 |
| 5-Year Note | -3.83 |

*Source: Bloomberg*

**Non-farm Payrolls/Unemployment Report:**

Non-farm payrolls in July rose 162,000. A gain of 185,000 was expected. Revisions to the previous two months subtracted 26,000 workers. Unemployment in July fell to 7.4%.

**The Fed:**

Pimco's Mohamed El-Erian said it is "almost a given" that the Fed will start tapering this year even though there won't be enough economic growth to justify it. "The reason they'd be doing it is because they're starting to get more and more worried about what Mr. Bernanke has called 'the cost and risk of prolonged unconventional and experimental monetary policy.'"

**Other Economic Data:**

- Retail Sales rose .2% after rising .6% (previously +.4%) in June and increasing .5% in May (previously +.2%).
- August Consumer Confidence rose .5 points to 81.5 from an upwardly revised 81.0 in July (previously 80.3). The recent Consumer Confidence readings have been the highest since January 2008.
- The Leading Economic Index increased by .6% in July, which was the largest monthly gain in three months. Eight out of ten components made positive contributions to the index.

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

| | 06/30/13 | 07/31/13 | 08/31/13 | Change August |
|---|---|---|---|---|
| 3-month bill | 0.03 | 0.04 | 0.02 | -0.02 |
| 6-month bill | 0.09 | 0.07 | 0.05 | -0.02 |
| 2-year note | 0.36 | 0.31 | 0.40 | +0.09 |
| 3-year note | 0.65 | 0.59 | 0.78 | +0.19 |
| 5-year note | 1.40 | 1.38 | 1.64 | +0.26 |
| 10-year note | 2.49 | 2.58 | 2.78 | +0.20 |
| 30-year bond | 3.50 | 3.64 | 3.70 | +0.06 |

*Source: Bloomberg*

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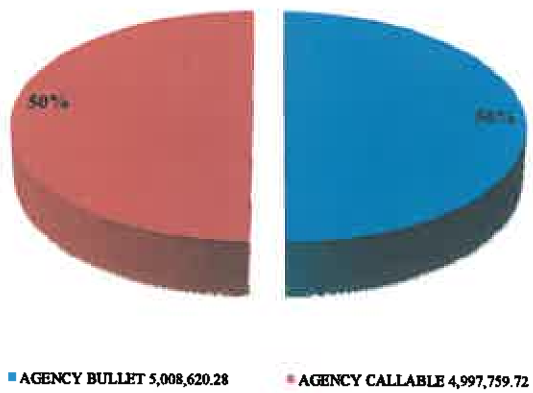
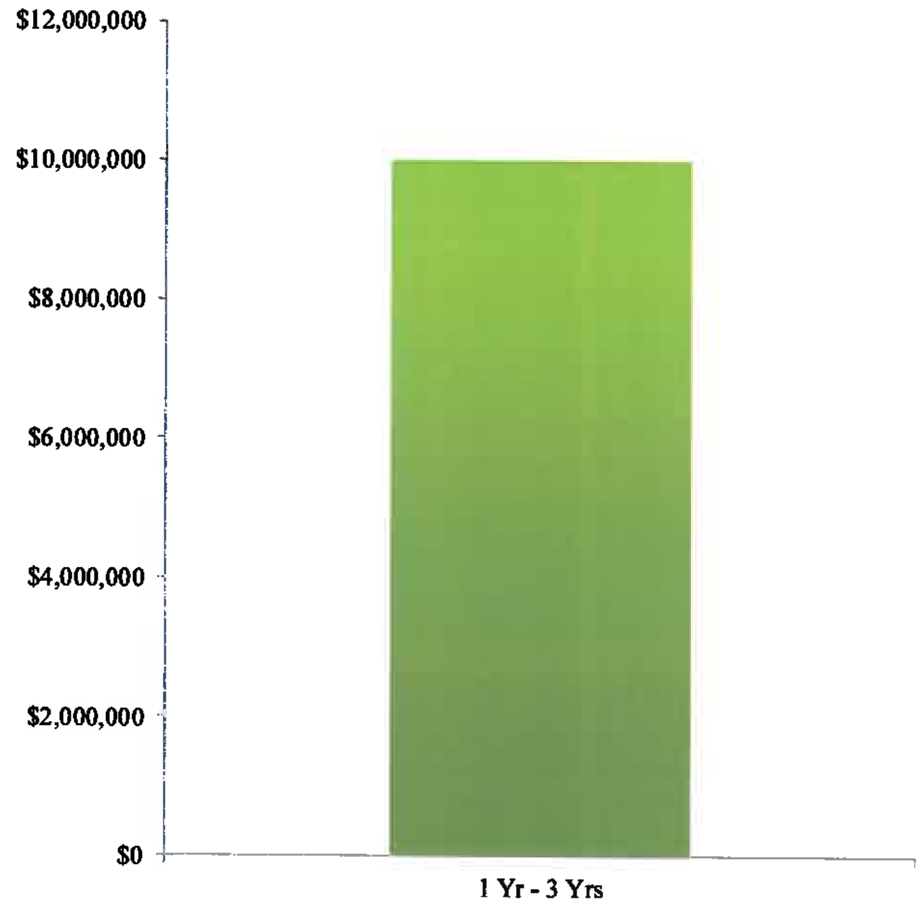
# CITY OF FRANKLIN CORE

## Distribution by Asset Class




## Distribution by Maturity




## Distribution by Issuer

| Industry Groups | Market Value | Pct. |
|---|---|---|
| FHLB | 5,008,620.28 | 50.05 |
| FHLMC | 2,506,313.89 | 25.05 |
| FFCB | 2,491,445.83 | 24.90 |
| **Total** | **10,006,380.00** | **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
August 31, 2013

| | 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 | 5,000,000 | 4,994,575.00 | 4,996,677.54 | 5,004,530.00 | 7,852.46 | 763 | 50.05 | 0.5 | 2.1 | 0.0 |
| AGENCY CALLABLE | 5,000,000 | 5,001,406.25 | 5,000,150.68 | 4,995,300.00 | -4,850.68 | 979 | 49.95 | 0.8 | 2.7 | 0.5 |
| **TOTAL** | **10,000,000** | **9,995,981.25** | **9,996,828.22** | **9,999,830.00** | **3,001.78** | **872** | **100.00** | **0.6** | **2.4** | **0.5** |

# Securities Summary Report
## CITY OF FRANKLIN CORE
August 31, 2013

| | 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 | 5,000,000 | 4,994,575.00 | 4,996,677.54 | 5,004,530.00 | 7,852.46 | 763 | 50.05 | 0.5 | 2.1 | 0.0 |
| FHLMC | 2,500,000 | 2,500,625.00 | 2,500,150.68 | 2,505,925.00 | 5,774.32 | 907 | 25.06 | 0.7 | 2.5 | 0.5 |
| FFCB | 2,500,000 | 2,500,781.25 | 2,500,000.00 | 2,489,375.00 | -10,625.00 | 1,053 | 24.89 | 0.9 | 2.8 | 0.0 |
| **TOTAL** | **10,000,000** | **9,995,981.25** | **9,996,828.22** | **9,999,830.00** | **3,001.78** | **872** | **100.00** | **0.6** | **2.4** | **0.5** |

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# SUMMARY OF AMORTIZED COST BASIS RETURN FOR THE PERIOD
## CITY OF FRANKLIN CORE
July 31, 2013 to August 31, 2013

| | Total Portfolio |
|---|---|
| Interest Earned | 5,437.50 |
| Accretion/Amortization | 114.83 |
| Realized Gain/Loss on Sales | 0.00 |
| Total Income on Portfolio | 5,552.33 |
| Average Daily Historical Cost | 10,025,345.32 |
| Return | 0.06% |
| Annualized Return | 0.65% |
| Annualized Return Net of Fees | 0.65% |
| | |
| Weighted Duration to Maturity in Years | 2.36 |
| Weighted Days to Maturity | 872 |

# DETAIL AMORTIZATION COST RETURN
## CITY OF FRANKLIN CORE
From 07-31-13 to 08-31-13

| CURRENT HOLDINGS | Interest Earned | Accretion (Amortization) | Realized Gain/Loss | Total Income |
|---|---|---|---|---|
| AGENCY BULLET | 2,291.67 | 141.37 | 0.00 | 2,433.04 |
| AGENCY CALLABLE | 3,145.83 | -26.54 | 0.00 | 3,119.29 |
| **TOTAL** | **5,437.50** | **114.83** | **0.00** | **5,552.33** |

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# DETAIL ON MARKET VALUE RETURN
## CITY OF FRANKLIN CORE
From 07-31-13 to 08-31-13

| Current Holdings | Interest Earned | Change in Market Value | Total Income |
|---|---|---|---|
| AGENCY BULLET | 2,291.67 | -4,640.00 | -2,348.33 |
| AGENCY CALLABLE | 3,145.83 | -8,472.50 | -5,326.67 |
| **TOTAL** | **5,437.50** | **-13,112.50** | **-7,675.00** |

# PERFORMANCE REPORT
## CITY OF FRANKLIN CORE
From 07-31-13 to 08-31-13

| | | |
|---|---|---|
| Portfolio Value on 07-31-13 | | 10,012,942.50 |
| Accrued Interest | | 18,612.50 |
| | Contributions | 0.00 |
| | Withdrawals | -17,500.00 |
| | Market Value Change in Period | -13,112.50 |
| | Interest Earned in Period | 5,437.50 |
| Portfolio Value on 08-31-13 | | 9,999,830.00 |
| Accrued Interest | | 6,550.00 |
| Weighted Portfolio Value | | 10,025,345.32 |
| Total Return | | -7,675.00 |
| **Return For Period** | | **-0.10** |
| **Return For Period Annualized** | | **-1.14** |

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

**Target Benchmark: Treas 0-3 Year**
From 06-30-13 to 08-31-13
Inception Date: 01-31-12

**Market Value and Return**

| Period Ending | Beginning Value | Contribution/ Withdrawal | Principal Change | Interest Earnings | Ending Value | Total Return |
|---|---|---|---|---|---|---|
| 06/30/2013 | | | | | 10,024,897.36 | |
| 07/31/2013 | 10,024,897.36 | -8,044.73 | 9,125.00 | 5,577.37 | 10,031,555.00 | 14,702.37 |
| 08/31/2013 | 10,031,555.00 | -17,500.00 | -13,112.50 | 5,437.50 | 10,006,380.00 | -7,675.00 |
| Total | | -25,544.73 | -3,987.50 | 11,014.87 | | 7,027.37 |

**Duration Comparison**

| Portfolio Duration | Treas 0-3 Year Duration | Difference |
|---|---|---|
| 1.79 | 1.46 | 0.331 |
| 1.79 | 1.46 | 0.329 |

**Monthly Return**

| Date | Price Return | Interest Return | Portfolio Return | Treas 0-3 Year Return |
|---|---|---|---|---|
| 07/31/2013 | 0.088% | 0.054% | 0.122% | 0.132% |
| 08/31/2013 | -0.131% | 0.054% | -0.097% | -0.075% |

**Cumulative Return**

| | YTD Portfolio | YTD Treas 0-3 Year | Difference | Since Inception Portfolio | Since Inception Treas 0-3 Year |
|---|---|---|---|---|---|
| | 0.122% | 0.132% | -0.010% | 0.781% | 0.435% |
| | 0.025% | 0.058% | -0.033% | 0.683% | 0.360% |
| **Annualized** | **0.145%** | **0.339%** | **-0.195%** | **0.431%** | **0.227%** |

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# CITY OF FRANKLIN CORE
# PORTFOLIO HOLDINGS

August 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **AGENCY BULLET** | | | | | | | | | | | | | | | |
| 313378CN9 | 2,500,000 | FEDERAL HOME LN BKS 0.600% Due 08-17-15 | | 03-12-12 | 99.89 | 0.66 | 100.29 | 0.45 | 2,507,237.50 | 583.33 | 2,507,820.83 | 9,993.58 | 25.1 | 1.95 | 1.95 |
| 313380L96 | 2,500,000 | FEDERAL HOME LN BKS 0.500% Due 11-20-15 | | 07-11-13 | 99.98 | 0.51 | 99.89 | 0.55 | 2,497,292.50 | 3,506.94 | 2,500,799.44 | -2,141.12 | 25.0 | 2.20 | 2.20 |
| | 5,000,000 | | | | | 0.58 | | 0.50 | 5,004,530.00 | 4,090.28 | 5,008,620.28 | 7,852.46 | 50.0 | 2.08 | 2.08 |
| **AGENCY CALLABLE** | | | | | | | | | | | | | | | |
| 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 | 100.24 | 0.70 | 2,505,925.00 | 388.89 | 2,506,313.89 | 5,774.32 | 25.1 | 2.45 | 0.48 |
| 3133EAYQ5 | 2,500,000 | FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16 | | 08-01-12 | 100.00 | 0.70 | 99.58 | 0.86 | 2,489,375.00 | 2,070.83 | 2,491,445.83 | -10,625.00 | 24.9 | 2.85 | 2.85 |
| | 5,000,000 | | | | | 0.75 | | 0.78 | 4,995,300.00 | 2,459.72 | 4,997,759.72 | -4,850.68 | 50.0 | 2.65 | 1.66 |
| **TOTAL** | **10,000,000** | | | | | **0.67** | | **0.64** | **9,999,830.00** | **6,550.00** | **10,006,380.00** | **3,001.78** | **100.0** | **2.36** | **1.87** |

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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.

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# CITY OF FRANKLIN CORE
## TRANSACTION SUMMARY

From 08-01-13 To 08-31-13

| Trade Date | Settle Date | Cusip | Quantity | Security | Call Date | Amount | Broker |
|---|---|---|---|---|---|---|---|
| **Deposit** | | | | | | | |
| 08-31-13 | 08-31-13 | manfee | | Management Fee | | 2,083.33 | |
| **Interest** | | | | | | | |
| 08-17-13 | 08-17-13 | 313378CN9 | | FEDERAL HOME LN BKS 0.600% Due 08-17-15 | | 7,500.00 | |
| 08-24-13 | 08-24-13 | 3134G3MX5 | | FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16 | 02-24-14 | 10,000.00 | |
| | | | | | | 17,500.00 | |

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# AMORTIZATION AND ACCRETION - SETTLED TRADES
## CITY OF FRANKLIN CORE
August 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 |
| **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 | 937.96 | 2,068.92 | 2,756.08 | 2,497,243.92 |
| FEDERAL HOME LN BKS 0.500% Due 11-20-15 (313380L96) | | | | | | | | | |
| 2,500,000 | 1 | 07-11-13 | 99.976 | 2,499,400.00 | 21.71 | 33.62 | 33.62 | 566.38 | 2,499,433.62 |
| Total | | | | 4,994,575.00 | 141.37 | 971.58 | 2,102.54 | 3,322.46 | 4,996,677.54 |
| **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 | 0.00 | -444.20 | -781.25 | 0.00 | 2,500,000.00 |
| **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 | -26.54 | -207.92 | -474.32 | -150.68 | 2,500,150.68 |
| **GRAND TOTAL** | | | | **9,995,981.25** | **114.83** | **319.46** | **846.97** | **3,171.78** | **9,996,828.22** |

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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.

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# INTEREST ACCRUALS
## CITY OF FRANKLIN CORE
From 07-31-13 To 08-31-13

| 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 | 6,833.33 | 0.00 | 0.00 | -7,500.00 | 1,250.00 | 583.33 |
| 313380L96 | FEDERAL HOME LN BKS 0.500% Due 11-20-15 | 2,465.28 | 0.00 | 0.00 | 0.00 | 1,041.67 | 3,506.94 |
| | | 9,298.61 | 0.00 | 0.00 | -7,500.00 | 2,291.67 | 4,090.28 |
| AGENCY BULLET Total | | 9,298.61 | 0.00 | 0.00 | -7,500.00 | 2,291.67 | 4,090.28 |
| AGENCY CALLABLE | | | | | | | |
| FHLMC | | | | | | | |
| 3134G3MX5 | FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16 | 8,722.22 | 0.00 | 0.00 | -10,000.00 | 1,666.67 | 388.89 |
| | | 8,722.22 | 0.00 | 0.00 | -10,000.00 | 1,666.67 | 388.89 |
| FFCB | | | | | | | |
| 3133EAYQ5 | FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16 | 591.67 | 0.00 | 0.00 | 0.00 | 1,479.17 | 2,070.83 |
| | | 591.67 | 0.00 | 0.00 | 0.00 | 1,479.17 | 2,070.83 |
| AGENCY CALLABLE Total | | 9,313.89 | 0.00 | 0.00 | -10,000.00 | 3,145.83 | 2,459.72 |
| AGENCY Total | | 18,612.50 | 0.00 | 0.00 | -17,500.00 | 5,437.50 | 6,550.00 |
| **TOTAL PORTFOLIO** | | **18,612.50** | **0.00** | **0.00** | **-17,500.00** | **5,437.50** | **6,550.00** |

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# PROJECTED FIXED INCOME CASH FLOWS
## CITY OF FRANKLIN CORE
Beginning August 31, 2013

| Security | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **AGENCY** | | | | | | | | | | | | | |
| FEDERAL HOME LN BKS 0.600% Due 08-17-15 | | | | | | | 7,500.00 | | | | | | 7,500.00 |
| FEDERAL HOME LN BKS 0.500% Due 11-20-15 | | | | 6,250.00 | | | | | | 6,250.00 | | | 12,500.00 |
| FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16 | | | | | | | 10,000.00 | | | | | | 10,000.00 |
| FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16 | | | | | | 8,875.00 | | | | | | 8,875.00 | 17,750.00 |
| TOTAL | | | | 6,250.00 | | 8,875.00 | 17,500.00 | | | 6,250.00 | | 8,875.00 | 47,750.00 |
| **GRAND TOTAL** | | | | **6,250.00** | | **8,875.00** | **17,500.00** | | | **6,250.00** | | **8,875.00** | **47,750.00** |

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