

CITY OF FRANKLIN CORE

September 30, 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

SEPTEMBER 2013

Treasuries rallied the most in almost two years after the Federal Reserve unexpectedly maintained the pace of monthly bond purchases that have made the central bank the largest holder of U.S. Government debt. The FOMC surprised financial market participants by refraining from any tapering of asset purchases. In related FOMC news, yields also dropped on the news that former Treasury Secretary Larry Summers withdrew his name for consideration as Fed Chairman. Other candidates including Janet Yellen are viewed as much more “dovish” regarding FOMC policy. The following is a summary of the Fed’s comments:

- Fed wants “More evidence” of growth progress before tapering.
- “Tightening of financial conditions” could slow growth.
- “Asset purchases are not on a preset course.”
- Most Fed officials see first interest-rate rise in 2015.
- Rise in mortgage rates, fiscal policy restrain growth.

The effect of these announcements on the Treasury market was swift and substantial. The 10-year Treasury yield plunged by 16 basis points after the FOMC’s policy statement was released at 2 pm and dropped by 31 basis points since touching 3.00% on September 6th. Thirty-year bond yields fell eight basis points to 3.75%. The yield on the two-year Treasury dropped from .47% on 9/10 to .32% on 9/18.

Economic Indicators

- Non-farm payrolls rose 169,000. A gain of 180,000 was expected. Unemployment fell .1% to 7.3%, its lowest level since December 2008.
- Existing home sales rose 1.7% to 5.48 million units, annualized to a six year high. This is the highest level of sales since November 2008 and shows little reaction to higher mortgage rates.
- The Philadelphia manufacturing index rose to 22.3. A gain to 10.3 was expected
- Leading economic indicators rose .7%. A gain of .6% was expected. The report is indicative of modest growth.

TREASURY YIELD CURVE TOTAL RETURNS OVER THE LAST 12 MONTHS*

<u>Maturity</u>	<u>Total Return (trailing 12 months)</u>
3 month Bill	0.097
1 year Note	0.29
2 year Note	0.29
3 year Note	-0.009
5 year note	-1.565

Source: Bloomberg

CHANGES IN THE TREASURY MARKET OVER THE PAST QUARTER (ABSOLUTE YIELD LEVELS):

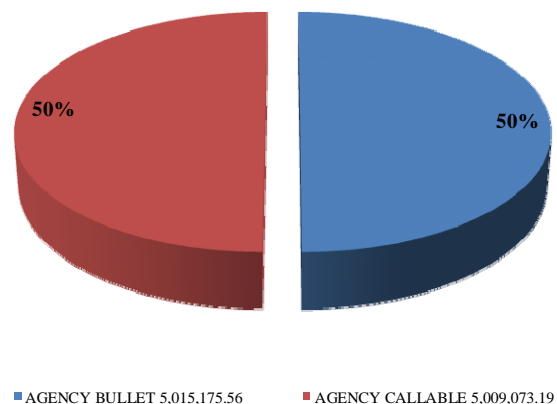
	<u>07/31/13</u>	<u>08/31/13</u>	<u>09/30/13</u>	<u>Chg September</u>
3-month bill	0.04	0.02	0.01	-0.01
6-month bill	0.07	0.05	0.03	-0.02
2-year note	0.31	0.40	0.32	-0.08
3-year note	0.59	0.78	0.61	-0.17
5-year note	1.38	1.64	1.38	-0.26
10-year note	2.58	2.78	2.61	-0.17
30-year bond	3.64	3.70	3.69	-0.01

Source: Bloomberg

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CITY OF FRANKLIN CORE

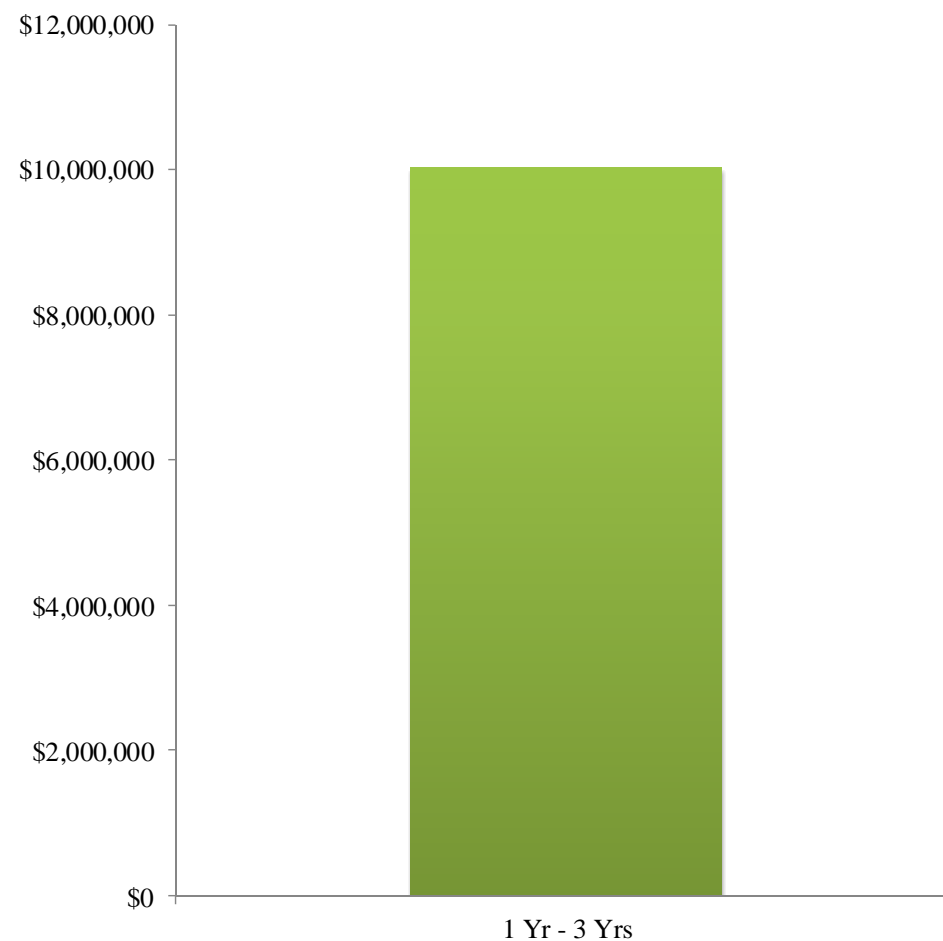
DISTRIBUTION BY ASSET CLASS



DISTRIBUTION BY ISSUER

Industry Groups	Market Value	Pct.
FHLB	5,015,175.56	50.03
FHLMC	2,507,185.00	25.01
FFCB	2,501,888.19	24.96
Total	10,024,248.75	100.00

DISTRIBUTION BY MATURITY





Securities Summary Report
CITY OF FRANKLIN CORE
September 30, 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	4,996,814.35	5,008,870.00	12,055.65	733	50.03	0.5	2.0	0.0
AGENCY CALLABLE	5,000,000	5,001,406.25	5,000,151.57	5,003,572.50	3,420.93	949	49.97	0.7	2.6	0.2
TOTAL	10,000,000	9,995,981.25	9,996,965.92	10,012,442.50	15,476.58	842	100.00	0.6	2.3	0.2

Securities Summary Report
CITY OF FRANKLIN CORE
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FHLB	5,000,000	4,994,575.00	4,996,814.35	5,008,870.00	12,055.65	733	50.03	0.5	2.0	0.0
FHLMC	2,500,000	2,500,625.00	2,500,125.00	2,505,185.00	5,060.00	877	25.02	0.7	2.4	0.4
FFCB	2,500,000	2,500,781.25	2,500,026.57	2,498,387.50	-1,639.07	1,023	24.95	0.7	2.8	0.0
TOTAL	10,000,000	9,995,981.25	9,996,965.92	10,012,442.50	15,476.58	842	100.00	0.6	2.3	0.2



**SUMMARY OF AMORTIZED COST BASIS
RETURN FOR THE PERIOD
CITY OF FRANKLIN CORE
August 31, 2013 to September 30, 2013**

	Total Portfolio
Interest Earned	5,256.25
Accretion/Amortization	57.99
Realized Gain/Loss on Sales	0.00
Total Income on Portfolio	5,314.24
Average Daily Historical Cost	10,006,380.00
Return	0.05%
Annualized Return	0.65%
Annualized Return Net of Fees	0.65%
Weighted Duration to Maturity in Years	2.28
Weighted Days to Maturity	842

**DETAIL AMORTIZATION COST RETURN
CITY OF FRANKLIN CORE
From 08-31-13 to 09-30-13**

CURRENT HOLDINGS	Interest Earned	Accretion (Amortization)	Realized Gain/Loss	Total Income
AGENCY BULLET	2,215.28	136.81	0.00	2,352.09
AGENCY CALLABLE	3,040.97	-78.83	0.00	2,962.15
TOTAL	5,256.25	57.99	0.00	5,314.24



DETAIL ON MARKET VALUE RETURN
CITY OF FRANKLIN CORE
From 08-31-13 to 09-30-13

<u>Current Holdings</u>	<u>Interest Earned</u>	<u>Change in Market Value</u>	<u>Total Income</u>
AGENCY BULLET	2,215.28	4,340.00	6,555.28
AGENCY CALLABLE	3,040.97	8,272.50	11,313.47
TOTAL	5,256.25	12,612.50	17,868.75

PERFORMANCE REPORT
CITY OF FRANKLIN CORE

From 08-31-13 to 09-30-13

Portfolio Value on 08-31-13	9,999,830.00
Accrued Interest	6,550.00
Contributions	0.00
Withdrawals	0.00
Market Value Change in Period	12,612.50
Interest Earned in Period	5,256.25
Portfolio Value on 09-30-13	10,012,442.50
Accrued Interest	11,806.25
Weighted Portfolio Value	10,006,380.00
Total Return	17,868.75
Return For Period	0.16
Return For Period Annualized	1.94



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

**Target Benchmark: Treas 0-3 Year
 From 06-30-13 to 09-30-13
 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
09/30/2013	10,006,380.00	0.00	12,612.50	5,256.25	10,024,248.75	17,868.75
Total		-25,544.73	8,625.00	16,271.12		24,896.12

Duration Comparison

Portfolio Duration	Treas 0-3 Year Duration	Difference
1.79	1.46	0.331
1.79	1.46	0.329
1.64	1.46	0.184

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	
07/31/2013	0.088%	0.054%	0.122%	0.132%	0.122%	0.132%	-0.010%	0.781%	0.435%	
08/31/2013	-0.131%	0.054%	-0.097%	-0.075%	0.025%	0.058%	-0.033%	0.683%	0.360%	
09/30/2013	0.126%	0.053%	0.158%	0.163%	0.182%	0.220%	-0.038%	0.841%	0.523%	
					Annualized	0.725%	0.876%	-0.151%	0.504%	0.314%



CITY OF FRANKLIN CORE PORTFOLIO HOLDINGS

September 30, 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	100.35	0.41	2,508,712.50	1,791.67	2,510,504.17	11,352.79	25.1	1.87	1.87
313380L96	2,500,000	FEDERAL HOME LN BKS 0.500% Due 11-20-15		07-11-13	99.98	0.51	100.01	0.50	2,500,157.50	4,513.89	2,504,671.39	702.86	25.0	2.12	2.12
	5,000,000					0.58		0.46	5,008,870.00	6,305.56	5,015,175.56	12,055.65	50.0	1.99	1.99
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	100.21	0.71	2,505,185.00	2,000.00	2,507,185.00	5,060.00	25.0	2.37	0.40
3133EAYQ5	2,500,000	FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16	10-16-13	08-01-12	100.00	0.70	99.94	0.73	2,498,387.50	3,500.69	2,501,888.19	-1,639.07	25.0	2.77	0.04
	5,000,000					0.75		0.72	5,003,572.50	5,500.69	5,009,073.19	3,420.93	50.0	2.57	0.22
TOTAL	10,000,000					0.67		0.59	10,012,442.50	11,806.25	10,024,248.75	15,476.58	100.0	2.28	1.11

*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 09-01-13 To 09-30-13

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
Deposit							
09-30-13	09-30-13	manfee		Management Fee		2,083.34	



AMORTIZATION AND ACCRETION - SETTLED TRADES
CITY OF FRANKLIN CORE
September 30, 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	115.80	1,053.76	2,184.71	2,640.29	2,497,359.71
FEDERAL HOME LN BKS 0.500% Due 11-20-15 (313380L96)									
2,500,000	1	07-11-13	99.976	2,499,400.00	21.01	54.64	54.64	545.36	2,499,454.64
Total				4,994,575.00	136.81	1,108.39	2,239.35	3,185.65	4,996,814.35
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	-53.14	-485.71	-754.68	-26.57	2,500,026.57
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	-25.68	-233.61	-500.00	-125.00	2,500,125.00
GRAND TOTAL				9,995,981.25	57.99	389.08	984.67	3,034.08	9,996,965.92

*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 08-31-13 To 09-30-13

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	583.33	0.00	0.00	0.00	1,208.33	1,791.67
313380L96	FEDERAL HOME LN BKS 0.500% Due 11-20-15	3,506.94	0.00	0.00	0.00	1,006.94	4,513.89
		4,090.28	0.00	0.00	0.00	2,215.28	6,305.56
AGENCY BULLET Total		4,090.28	0.00	0.00	0.00	2,215.28	6,305.56
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		6,550.00	0.00	0.00	0.00	5,256.25	11,806.25
TOTAL PORTFOLIO		6,550.00	0.00	0.00	0.00	5,256.25	11,806.25



PROJECTED FIXED INCOME CASH FLOWS
CITY OF FRANKLIN CORE
Beginning September 30, 2013

Security	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Total
AGENCY													
FEDERAL HOME LN BKS 0.600% Due 08-17-15						7,500.00						7,500.00	15,000.00
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	20,000.00
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	17,500.00	65,250.00
GRAND TOTAL			6,250.00		8,875.00	17,500.00			6,250.00		8,875.00	17,500.00	65,250.00

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