

CITY OF FRANKLIN CORE

January 31, 2014



**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



JANUARY 2014

Treasury yields dropped dramatically in January as turmoil in the emerging markets fueled a worldwide equity sell-off. Along with the sell-off in equities, the markets have also witnessed a major sell-off in less liquid currencies and an increase in prices in the more liquid currencies such as the dollar, yen and Swiss franc.

Non-farm Payrolls/Unemployment: Bond prices increased after the announcement that non-farm payrolls in December rose 74,000, its smallest increase since January 2011. A gain of 197,000 was expected. Some estimates were over 200,000. Unemployment in December fell to 6.7% vs. 7.0% the previous month. The FOMC's current threshold level is 6.5% for rates to be increased. The 10-year Treasury yield dropped by 39 basis points from the beginning of the month to the end of the month and thirty-year bond yields dropped 37 basis points from 3.97% to 3.60%.

The Fed: As expected, the Fed announced a further \$10 billion reduction in its monthly bond purchases. The minutes were released from Fed Chairman Ben Bernanke's last meeting. There were no unexpected changes to the U.S. Central Bank's plan to keep interest rates low for some time to come. The decision received unanimous backing from Fed policymakers. It was the first policy meeting without a dissent since June 2011. Losses in U.S. stocks continued after the announcement while Treasury prices increased with the yield on the 10-year treasury reaching its lowest yield since November. Janet Yellen took over the Fed Chairmanship on the last day of January.

Other Headlines:

- The Dow Jones industrial average began the month at 16,576 and ended at 15,698.
- GDP grew at a 3.2% seasonally adjusted annual rate in the final three months of the year.
- The Budget – Spending levels for the next two fiscal years have been agreed on but nothing has been done on an extension of the debt ceiling.
- PPI in December rose .4% with the core rate (ex-food and energy) rising .13%. Gains of .4% and .1% were expected.
- Orders for durable goods unexpectedly slumped in December by the most in five months.
- Existing home sales rose 1.0% - this is the first rise since August.
- The ECB left policy unchanged at .25% but strengthened their forward guidance. The Governing Council strongly emphasized that it will maintain an accommodative stance of monetary policy for as long as necessary.

TREASURY YIELD CURVE TOTAL RETURNS OVER THE LAST 12 MONTHS*

<u>Maturity</u>	<u>Total Return (trailing 12 months)</u>
3 month Bill	.08
1 year Note	.29
2 year Note	.49
3 year Note	.42
5 year Note	-.45

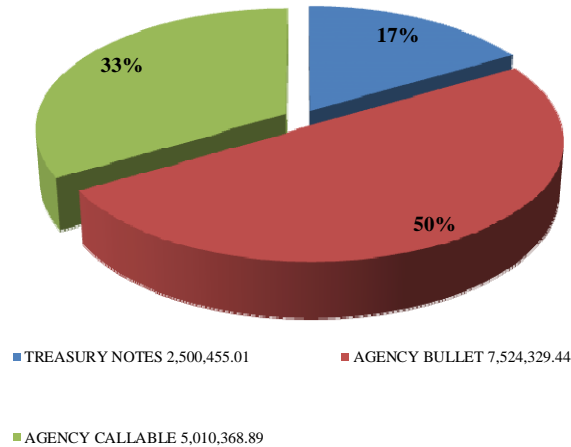
CHANGES IN THE TREASURY MARKET OVER THE PAST QUARTER (ABSOLUTE YIELD LEVELS)*:

	<u>11/30/2013</u>	<u>12/31/2013</u>	<u>01/31/14</u>	<u>Chg January</u>
3-month bill	0.06	0.07	0.02	-0.05
6-month bill	0.10	0.09	0.05	-0.04
2-year note	0.29	0.38	0.33	-0.05
3-year note	0.55	0.77	0.67	-0.10
5-year note	1.37	1.74	1.49	-0.25
10-year note	2.74	3.03	2.64	-0.39
30-year bond	3.81	3.97	3.60	-0.37

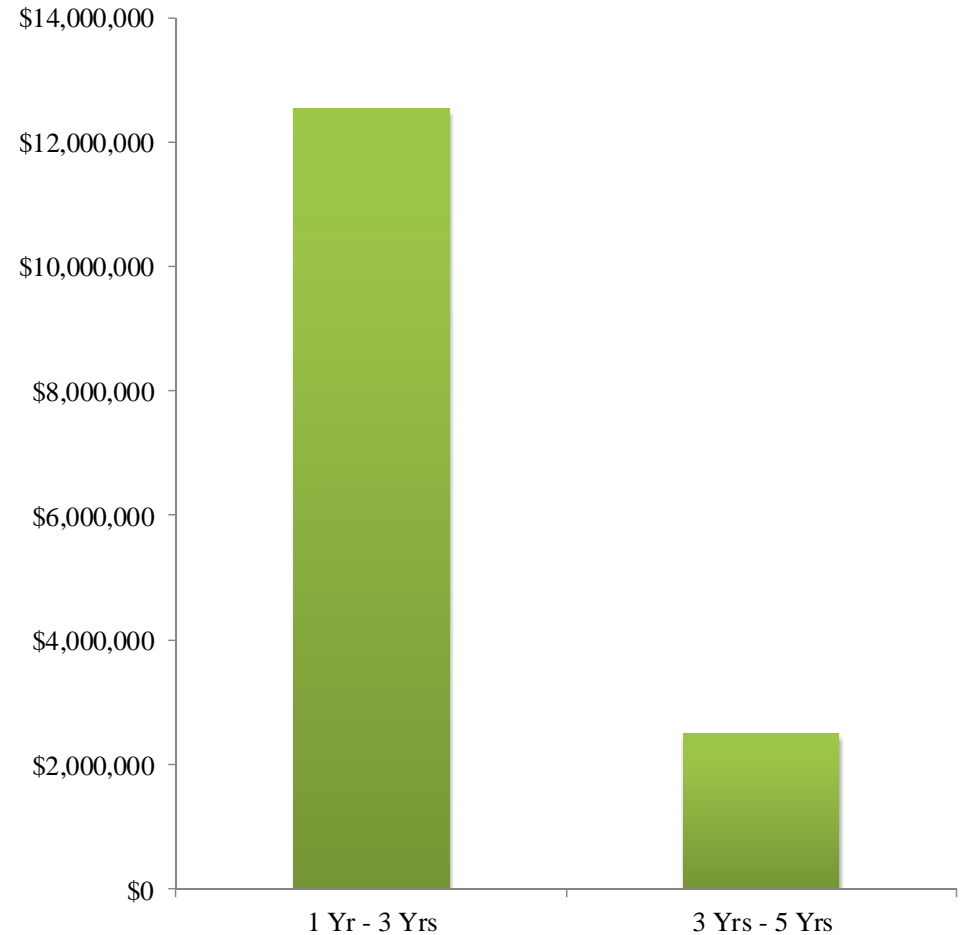
*Source: Bloomberg

CITY OF FRANKLIN CORE

DISTRIBUTION BY ASSET CLASS



DISTRIBUTION BY MATURITY



DISTRIBUTION BY ISSUER

Industry Groups	Market Value	Pct.
FHLB	5,026,131.11	33.43
FHLMC	5,007,903.06	33.31
FFCB	2,500,664.17	16.63
US TREASURY	2,500,455.01	16.63
Total	15,035,153.35	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
January 31, 2014

	<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>
TREASURY NOTES	2,500,000	2,499,121.09	2,499,155.76	2,498,437.50	-718.26	1,049	16.64	0.6	2.8	0.0
AGENCY BULLET	7,500,000	7,495,682.50	7,498,446.58	7,514,822.50	16,375.92	831	50.05	0.6	2.3	0.0
AGENCY CALLABLE	5,000,000	5,001,406.25	5,000,032.27	5,001,055.00	1,022.73	826	33.31	0.7	2.2	0.0
TOTAL	15,000,000	14,996,209.84	14,997,634.61	15,014,315.00	16,680.39	866	100.00	0.6	2.3	0.0

Securities Summary Report
CITY OF FRANKLIN CORE
January 31, 2014

	<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	5,000,000	4,994,575.00	4,997,375.28	5,016,832.50	19,457.22	610	33.41	0.3	1.7	0.0
FHLMC	5,000,000	5,001,732.50	5,001,091.00	4,998,972.50	-2,118.50	1,014	33.29	0.9	2.7	0.1
FFCB	2,500,000	2,500,781.25	2,500,012.58	2,500,072.50	59.92	900	16.65	0.7	2.4	0.0
US TREASURY	2,500,000	2,499,121.09	2,499,155.76	2,498,437.50	-718.26	1,049	16.64	0.6	2.8	0.0
TOTAL	15,000,000	14,996,209.84	14,997,634.61	15,014,315.00	16,680.39	866	100.00	0.6	2.3	0.0



**SUMMARY OF AMORTIZED COST BASIS
RETURN FOR THE PERIOD
CITY OF FRANKLIN CORE
December 31, 2013 to January 31, 2014**

	<u>Total Portfolio</u>
Interest Earned	8,851.53
Accretion/Amortization	70.42
Realized Gain/Loss on Sales	0.00
Total Income on Portfolio	8,921.95
Average Daily Historical Cost Return	15,016,887.14 0.06%
Annualized Return	0.70%
Annualized Return Net of Fees	0.70%
Weighted Duration to Maturity in Years	2.35
Weighted Days to Maturity	866

**DETAIL AMORTIZATION COST RETURN
CITY OF FRANKLIN CORE
From 12-31-13 to 01-31-14**

<u>CURRENT HOLDINGS</u>	<u>Interest Earned</u>	<u>Accretion (Amortization)</u>	<u>Realized Gain/Loss</u>	<u>Total Income</u>
TREASURY NOTES	1,330.70	24.99	0.00	1,355.69
AGENCY BULLET	4,375.00	115.28	0.00	4,490.28
AGENCY CALLABLE	3,145.83	-69.85	0.00	3,075.98
TOTAL	8,851.53	70.42	0.00	8,921.95



DETAIL ON MARKET VALUE RETURN
CITY OF FRANKLIN CORE
From 12-31-13 to 01-31-14

<u>Current Holdings</u>	<u>Interest Earned</u>	<u>Change in Market Value</u>	<u>Total Income</u>
TREASURY NOTES	1,330.70	8,592.50	9,923.20
AGENCY BULLET	4,375.00	18,170.00	22,545.00
AGENCY CALLABLE	3,145.83	-1,307.50	1,838.33
TOTAL	8,851.53	25,455.00	34,306.53

PERFORMANCE REPORT
CITY OF FRANKLIN CORE

From 12-31-13 to 01-31-14

Portfolio Value on 12-31-13	14,988,860.00
Accrued Interest	33,361.81
Contributions	0.00
Withdrawals	-21,375.00
Market Value Change in Period	25,455.00
Interest Earned in Period	8,851.53
Portfolio Value on 01-31-14	15,014,315.00
Accrued Interest	20,838.35
Weighted Portfolio Value	15,016,887.14
Total Return	34,306.53
Return For Period	0.21
Return For Period Annualized	2.56



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

**Target Benchmark: Treas 0-3 Year
From 06-30-13 to 01-31-14
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
06/30/2013					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	1.79	1.46	0.331
08/31/2013	10,031,555.00	-17,500.00	-13,112.50	5,437.50	10,006,380.00	-7,675.00	1.79	1.46	0.329
09/30/2013	10,006,380.00	0.00	12,612.50	5,256.25	10,024,248.75	17,868.75	1.64	1.46	0.184
10/31/2013	10,024,248.75	0.00	10,807.50	5,618.75	10,040,675.00	16,426.25	1.48	1.46	0.021
11/30/2013	10,040,675.00	-6,250.00	100.00	5,256.25	10,039,781.25	5,356.25	1.39	1.47	-0.081
12/31/2013	10,039,781.25	5,010,304.33	-34,718.59	6,854.82	15,022,221.81	-27,863.77	1.99	1.47	0.523
01/31/2014	15,022,221.81	-21,375.00	25,455.00	8,851.53	15,035,153.35	34,306.53	1.89	1.47	0.421
Total		4,957,134.60	10,268.91	42,852.48		53,121.39			

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%	
10/31/2013	0.108%	0.056%	0.143%	0.068%	0.326%	0.289%	0.037%	0.986%	0.592%	
11/30/2013	0.001%	0.052%	0.033%	0.063%	0.358%	0.352%	0.006%	1.019%	0.655%	
12/31/2013	-0.282%	0.056%	-0.201%	-0.086%	0.156%	0.265%	-0.109%	0.815%	0.568%	
01/31/2014	0.170%	0.059%	0.215%	0.111%	0.371%	0.376%	-0.005%	1.032%	0.680%	
					Annualized	0.631%	0.640%	-0.009%	0.514%	0.339%

*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, 2014

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	99.91	0.66	100.44	0.31	2,511,122.50	6,833.33	2,517,955.83	13,288.02	16.7	1.54	1.54
313380L96	2,500,000	FEDERAL HOME LN BKS 0.500% Due 11-20-15		07-11-13	99.98	0.51	100.23	0.37	2,505,710.00	2,465.28	2,508,175.28	6,169.21	16.7	1.79	1.79
3137EADJ5	2,500,000	FEDERAL HOME LOAN MTG CORP 1.000% Due 07-28-17		12-18-13	100.04	0.99	99.92	1.02	2,497,990.00	208.33	2,498,198.33	-3,081.31	16.6	3.43	3.43
	7,500,000					0.72		0.57	7,514,822.50	9,506.94	7,524,329.44	16,375.92	50.1	2.25	2.25
AGENCY CALLABLE															
3134G3MX5	2,500,000	FEDERAL HOME LN MTG CORP 0.800% Due 02-24-16	02-24-14	02-01-12	100.00	0.79	100.04	0.78	2,500,982.50	8,722.22	2,509,704.72	962.81	16.7	2.04	0.07
3133EAYQ5	2,500,000	FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16	02-10-14	08-01-12	100.00	0.70	100.00	0.71	2,500,072.50	591.67	2,500,664.17	59.92	16.7	2.44	0.03
	5,000,000					0.75		0.74	5,001,055.00	9,313.89	5,010,368.89	1,022.73	33.3	2.24	0.05
TREASURY NOTES															
912828A59	2,500,000	UNITED STATES TREAS NTS 0.625% Due 12-15-16		12-18-13	99.97	0.64	99.94	0.65	2,498,437.50	2,017.51	2,500,455.01	-718.26	16.6	2.84	2.84
TOTAL	15,000,000					0.71		0.64	15,014,315.00	20,838.35	15,035,153.35	16,680.39	100.0	2.35	1.61

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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 01-01-14 To 01-31-14

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
Deposit							
01-31-14	01-31-14	manfee		Management Fee		2,083.33	
Interest							
01-19-14	01-19-14	3133EAYQ5		FEDERAL FARM CR BKS CONS 0.710% Due 07-19-16	02-10-14	8,875.00	
01-28-14	01-28-14	3137EADJ5		FEDERAL HOME LOAN MTG CORP 1.000% Due 07-28-17		12,500.00	
						<hr/> 21,375.00	



AMORTIZATION AND ACCRETION - SETTLED TRADES
CITY OF FRANKLIN CORE
 January 31, 2014

Purchase Information					Amortization/Accretion Information				
Quantity	Lot	Purchase Date	Price	Total Cost	Month To Date	Year To Date	Total To Date	Balance	Adjusted Cost
TREASURY NOTE(Straight Line)									
UNITED STATES TREAS NTS 0.625% Due 12-15-16 (912828A59)									
2,500,000	1	12-18-13	99.965	2,499,121.09	24.99	24.99	34.67	844.24	2,499,155.76
FHLMC(Straight Line)									
FEDERAL HOME LOAN MTG CORP 1.000% Due 07-28-17 (3137EADJ5)									
2,500,000	1	12-18-13	100.044	2,501,107.50	-26.09	-26.09	-36.19	-1,071.31	2,501,071.31
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	119.66	2,659.48	2,165.52	2,497,834.48
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	21.71	140.79	459.21	2,499,540.79
Total				4,994,575.00	141.37	141.37	2,800.28	2,624.72	4,997,375.28
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	-43.31	-43.31	-768.67	-12.58	2,500,012.58
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	-26.54	-605.31	-19.69	2,500,019.69
GRAND TOTAL				14,996,209.84	70.42	70.42	1,424.77	2,365.39	14,997,634.61

*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 12-31-13 To 01-31-14

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
TREASURY							
TREASURY NOTES							
US TREASURY							
912828A59	UNITED STATES TREAS NTS 0.625% Due 12-15-16	686.81	0.00	0.00	0.00	1,330.70	2,017.51
		686.81	0.00	0.00	0.00	1,330.70	2,017.51
	TREASURY NOTES Total	686.81	0.00	0.00	0.00	1,330.70	2,017.51
	TREASURY Total	686.81	0.00	0.00	0.00	1,330.70	2,017.51
AGENCY							
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
313380L96	FEDERAL HOME LN BKS 0.500% Due 11-20-15	1,423.61	0.00	0.00	0.00	1,041.67	2,465.28
		7,006.94	0.00	0.00	0.00	2,291.67	9,298.61
FHLMC							
3137EADJ5	FEDERAL HOME LOAN MTG CORP 1.000% Due 07-28-17	10,625.00	0.00	0.00	-12,500.00	2,083.33	208.33
		10,625.00	0.00	0.00	-12,500.00	2,083.33	208.33
	AGENCY BULLET Total	17,631.94	0.00	0.00	-12,500.00	4,375.00	9,506.94



INTEREST ACCRUALS
CITY OF FRANKLIN CORE
 From 12-31-13 To 01-31-14

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
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>32,675.00</u>	<u>0.00</u>	<u>0.00</u>	<u>-21,375.00</u>	<u>7,520.83</u>	<u>18,820.83</u>
TOTAL PORTFOLIO		33,361.81	0.00	0.00	-21,375.00	8,851.53	20,838.35



PROJECTED FIXED INCOME CASH FLOWS
CITY OF FRANKLIN CORE
 Beginning January 31, 2014

Security	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
TREASURY													
UNITED STATES						7,812.50						7,812.50	15,625.00
TREAS NTS													
0.625% Due 12-15-16													
TOTAL						7,812.50						7,812.50	15,625.00
AGENCY													
FEDERAL HOME		7,500.00						7,500.00					15,000.00
LN BKS													
0.600% Due 08-17-15													
FEDERAL HOME					6,250.00						6,250.00		12,500.00
LN BKS													
0.500% Due 11-20-15													
FEDERAL HOME		10,000.00						10,000.00					20,000.00
LN MTG CORP													
0.800% Due 02-24-16													
FEDERAL FARM							8,875.00						8,875.00
CR BKS CONS													
0.710% Due 07-19-16													
FEDERAL HOME							12,500.00						12,500.00
LOAN MTG													
CORP													
1.000% Due 07-28-17													
TOTAL		17,500.00			6,250.00		21,375.00	17,500.00			6,250.00		68,875.00
GRAND TOTAL		17,500.00			6,250.00	7,812.50	21,375.00	17,500.00			6,250.00	7,812.50	84,500.00

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