



# GOVERNMENT PORTFOLIO ADVISORS

## Monthly Report

7/31/2014

**Account**  
City of Franklin

BUDGET & FINANCE  
ITEM #8g  
9-11-14





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## MONTH END COMMENTARY

July 2014

With the exception of the 30-year long bond, yields rose in July, spurred on by a much higher than expected increase in GDP in the second quarter of 4%. This report was issued after the GDP in the first quarter was revised to a negative 2.1%. Growth in the first half of the year has now averaged 1%. The Bureau of Economic Analysis emphasized that the second quarter advance estimate was based on source data that are incomplete or subject to further revision by the Bureau. The "second" estimate for the second quarter, based on more complete data, will be released on August 28, 2014. Nevertheless, bonds reacted negatively with a large sell off in prices and an increase in yields across the curve.

**Geo-political Events:** Before the GDP number was released, bond prices had rallied to their highest point since March as a flight to quality continued due to a variety of global destabilizing events. The shooting down of a Malaysian plane in the Ukraine, Israel's escalating military operations in the Gaza strip and expanded sanctions in Russia contributed to the rush to the safety of U.S. Government bonds.

**FOMC Minutes:** The Federal Reserve will continue to taper and reduce its pace of bond purchases by another \$10 billion as labor market conditions improve and the unemployment rate declines further, the June FOMC meeting minutes said. However, the FOMC cautioned that there remains significant underutilization of labor resources, with the recovery in the housing sector moving at a slow pace. The federal funds rate will remain at the current 0 to .25% target range. The minutes showed the FOMC is debating having the final reduction come in a single \$15 billion reduction, or in a \$10 billion reduction followed by a \$5 billion reduction, which would make the final reduction in October.

### **Other economic data:**

**Non-farm Payrolls/Unemployment:** Payroll employment increased by 288,000 in the month of June, with upward revisions to both May and April. Job gains were broad based, with notable increases in business services outside of the temporary sector. The unemployment rate fell to 6.1%, the lowest reading since September 2008. Expectations were for the unemployment rate to remain unchanged at 6.3%.

**European Bond Yields:** Bonds yields have fallen to the lowest levels in modern history in Germany, France and other European nations. 10 Year German bonds fell to a record low of 1.1% while French 10 Year bonds fell to 1.50%. The 10 Year U.S. Bond ended the month at 2.56%. Risks of deflation and mounting concerns about sanctions against Russia contributed to the drop in European yields.

**Housing Data:** Housing starts fell 9.3% to an 893,000 annualized rate from a 985,000 pace in May that was weaker than initially estimated. The median estimate of 79 economists surveyed by Bloomberg called for a 1.02 million rate.

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Treasury Yield Curve Total Returns over the last 12 months:\*

Maturity      Total Return (trailing 12 months)

3month bill	.05
1 year note	.26
2 year note	.57
3 year note	.54
5 year note	1.06

Changes in the Treasury Market over the past quarter (absolute yield levels):\*

	<u>7/31/13</u>	<u>5/31/14</u>	<u>6/30/14</u>	<u>7/31/14</u>	<u>Change in July</u>	<u>Change from prior year</u>
3month bill	.04	.04	.02	.02	unch	-.02
6month bill	.07	.05	.07	.05	-.02	-.02
2 year note	.31	.38	.46	.53	+.07	+.22
3 year note	.59	.78	.87	.99	+.12	+.40
5 year note	1.38	1.54	1.63	1.76	+.13	+.38
10 year bond	2.58	2.48	2.53	2.56	+.03	-.02
30 year bond	3.64	3.33	3.36	3.31	-.05	-.33

\*Source: Bloomberg



# Portfolio Characteristics - Settled Trades

## Weighted Averages

Average Yield	0.64
Average Maturity	2.07
Average Coupon	0.69
Average Duration	2.04
Average Moody	Aaa
Average S&P	AA+
Average Fitch	Not Rated

## Fixed Income Allocation



## Fixed Income Totals

Par Value	17,500,000
Market Value	17,505,239.69
Total Cost	17,496,169.80
Net Gain/Loss	9,069.89
Annual Income	121,250.00

Security Type	Market Value	% Fixed Income	% Assets
US Agency (USD)	7,507,972.50	42.9	42.9
US Treasury (USD)	9,997,267.19	57.1	57.1
<b>Fixed Income Total</b>	<b>17,505,239.69</b>	<b>100.0</b>	<b>100.0</b>

**PORTFOLIO HOLDINGS- SETTLED TRADES**  
**City of Franklin**  
 July 31, 2014

Cusip	Par Value	Security	Call Date	Trade Date	Amor Price	Book Yield	Market Price	Market Yield	Market Value	Accrued Interest	Total Value	Unrealized Gain/Loss	Pct. Assets	Dur Mat	Dur Call
<b>US Treasury</b>															
912828VR8	2,500,000	UNITED STATES TREAS NTS		03-27-14	100.00	0.62	100.09	0.58	2,502,345.00	7,165.06	2,509,510.06	2,261.20	14.3	2.02	2.02
		0.625% Due 08-15-16													
912828WA4	2,500,000	UNITED STATES TREAS NTS		03-27-14	99.83	0.70	99.90	0.67	2,497,460.00	4,567.96	2,502,027.96	1,695.08	14.3	2.18	2.18
		0.625% Due 10-15-16													
912828A59	2,500,000	UNITED STATES TREAS NTS		12-18-13	99.97	0.64	99.72	0.74	2,492,970.00	1,963.80	2,494,933.80	-6,331.69	14.2	2.35	2.35
		0.625% Due 12-15-16													
912828C5	2,500,000	UNITED STATES TREAS NTS		03-27-14	100.08	0.84	100.18	0.80	2,504,492.19	0.00	2,504,492.19	2,599.28	14.3	2.47	2.47
		0.875% Due 01-31-17													
	10,000,000								9,997,267.19	13,696.82	10,010,964.01	223.87	57.1	2.26	2.26
<b>US Agency Bullet</b>															
313378CN9	2,500,000	FEDERAL HOME LOAN BANKS		03-12-12	99.94	0.66	100.33	0.28	2,508,200.00	6,833.33	2,515,033.33	9,664.43	14.3	1.04	1.04
		0.600% Due 08-17-15													
313380L96	2,500,000	FEDERAL HOME LOAN BANKS		07-11-13	99.99	0.51	100.21	0.34	2,505,215.00	2,465.28	2,507,680.28	5,545.85	14.3	1.30	1.30
		0.500% Due 11-20-15													
3137EADJ5	2,500,000	FEDERAL HOME LN MTG CORP		12-18-13	100.04	0.99	99.78	1.07	2,494,557.50	208.33	2,494,765.83	-6,364.26	14.3	2.94	2.94
		1.000% Due 07-28-17													
	7,500,000								7,507,972.50	9,506.94	7,517,479.44	8,846.03	42.9	1.76	1.76
<b>TOTAL PORTFOLIO</b>	<b>17,500,000</b>								<b>17,505,239.69</b>	<b>23,203.76</b>	<b>17,528,443.45</b>	<b>9,069.89</b>	<b>100.0</b>	<b>2.04</b>	<b>2.04</b>



City of Franklin

# Historical Performance

Net of Allocated Fees | US Dollar  
7/31/2014

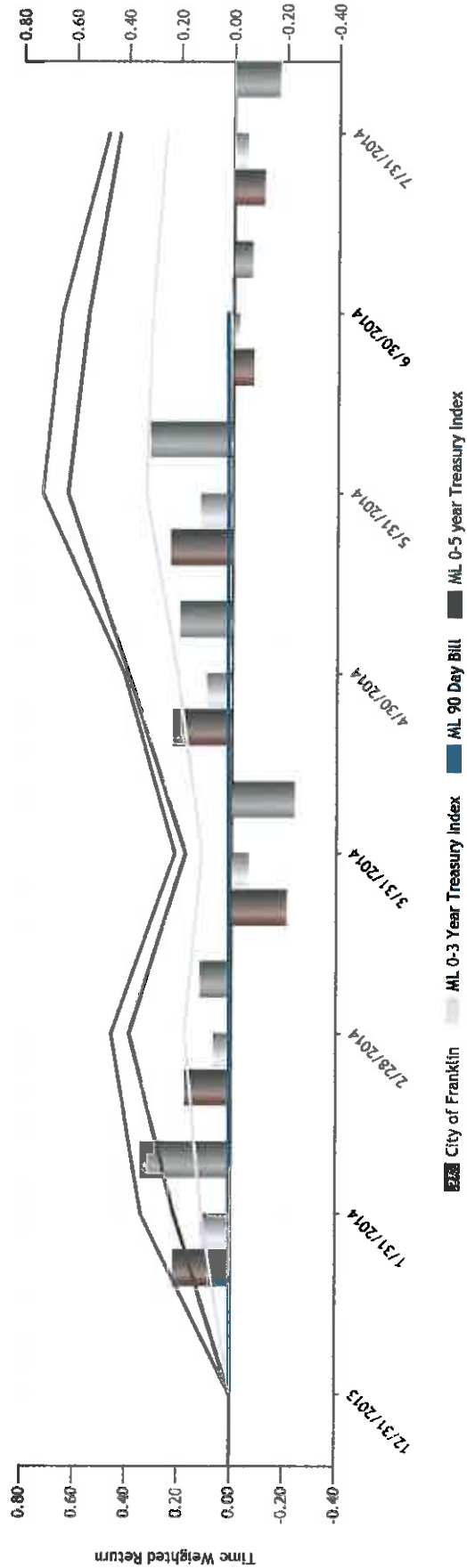
## Performance History

Industry Sector	Month To Date	Quarter To Date	Year To Date	Latest 1 Year	Inception To Date
Treasury	-0.16	-0.16	0.58	0.58	0.58
Agency	-0.05	-0.05	0.41	0.41	0.41
<b>Account</b>	<b>-0.12</b>	<b>-0.12</b>	<b>0.43</b>	<b>0.43</b>	<b>0.43</b>

### Index

ML 0-3 Year Treasury Index	-0.05	-0.05	0.26	0.26	0.26
ML 90 Day Bill					
ML 0-5 year Treasury Index	-0.17	-0.17	0.48	0.48	0.48

## Time Weighted Return Inception (12/31/2013) to Date





**GOVERNMENT  
PORTFOLIO  
ADVISORS**

# Yield Curve Distribution

vs. 0-3 Treasury Benchmark

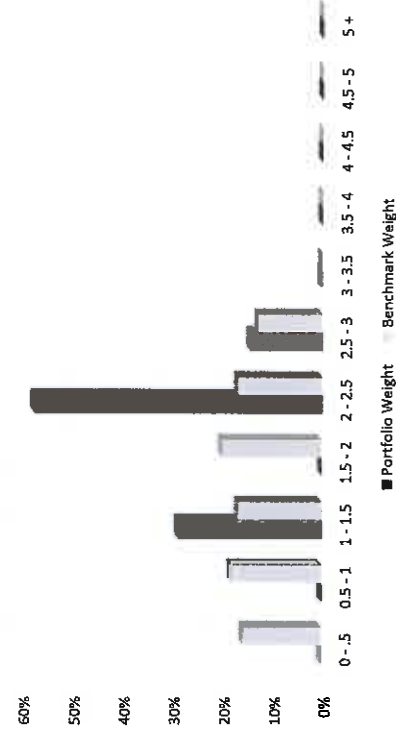
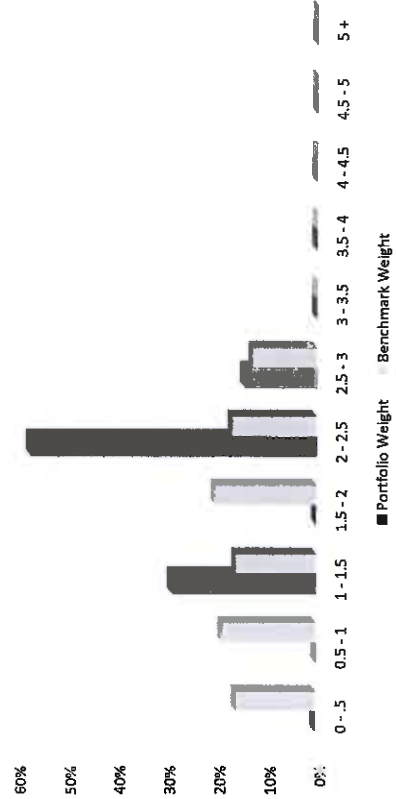
City of Franklin

8/1/2014

	Effective Duration	Modified Duration
Portfolio	2.03	2.03
Benchmark	1.45	1.46
Difference	0.58	0.57

Modified Duration	Market Value	Portfolio Weight	Benchmark Weight	Overweight/Underweight
0-5	\$ 17,533,276	0%	16%	-16%
0.5-1	\$ -	0%	19%	-19%
1-1.5	\$ 5,017,500	29%	16%	13%
1.5-2	\$ -	0%	20%	-20%
2-2.5	\$ 10,014,551	57%	17%	40%
2.5-3	\$ 2,501,225	14%	13%	2%
3-3.5	\$ -	0%	0%	0%
3.5-4	\$ -	0%	0%	0%
4-4.5	\$ -	0%	0%	0%
4.5-5	\$ -	0%	0%	0%
5+	\$ -	0%	0%	0%

Effective Duration	Market Value	Portfolio Weight	Benchmark Weight	Overweight/Underweight
0-0.5	\$ 17,533,276	0%	16%	-16%
0.5-1	\$ -	0%	18%	-18%
1-1.5	\$ 5,017,500	29%	17%	12%
1.5-2	\$ -	0%	20%	-20%
2-2.5	\$ 10,014,551	57%	17%	40%
2.5-3	\$ 2,501,225	14%	13%	2%
3-3.5	\$ -	0%	0%	0%
3.5-4	\$ -	0%	0%	0%
4-4.5	\$ -	0%	0%	0%
4.5-5	\$ -	0%	0%	0%
5+	\$ -	0%	0%	0%



Please review the last page of this report for our disclaimer



Government Portfolio Advisors  
**PERFORMANCE REPORT**

**NET OF FEES**  
**City of Franklin**

From 06-30-14 to 07-31-14

Portfolio Value on 06-30-14	17,534,019.7
Accrued Interest	36,262.24
Contributions	0.00
Withdrawals	-23,437.50
Realized Gains	0.00
Market Value Change in Period	-28,780.00
Interest	10,379
Portfolio Value on 07-31-14	<u>17,505,239.69</u>
Accrued Interest	23,203.76
Average Capital	17,568,316.21
Total Return	-20,484.31
Return for Period	<b>-0.12</b>
Annualized Return for period	-1.36

Government Portfolio Advisors  
**PORTFOLIO SUMMARY**  
 City of Franklin  
 July 31, 2014

Security Type	Total Cost	Total Adjusted Cost	Market Value	Pct. Assets	Yield On Cost	Est. Annual Income
Fixed Income Investments	17,492,166.88	17,496,169.80	17,505,239.69	100.0	0.71	121,250.00
<b>TOTAL PORTFOLIO</b>	<b>17,492,166.88</b>	<b>17,496,169.80</b>	<b>17,505,239.69</b>	<b>100.0</b>	<b>0.71</b>	<b>121,250.00</b>

Government Portfolio Advisors  
**EARNED INCOME REPORT**  
 City of Franklin  
 From 06-30-14 To 07-31-14

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Ending Accrued Interest	Earned Interest	Amortization/ Accretion	Earned Income
<b>US Agency (USD)</b>									
US Agency Bullet									
313378CN9	FEDERAL HOME LOAN BANKS 0.600% Due 08-17-15	5,541.67	0.00	0.00	0.00	6,833.33	1,291.67	119.47	1,411.14
313380L96	FEDERAL HOME LOAN BANKS 0.500% Due 11-20-15	1,388.89	0.00	0.00	0.00	2,465.28	1,076.39	21.62	1,098.00
3137EADJ5	FEDERAL HOME LN MTG CORP 1.000% Due 07-28-17	10,555.56	0.00	0.00	-12,500.00	208.33	2,152.78	-25.77	2,127.01
		17,486.11	0.00	0.00	-12,500.00	9,506.94	4,520.83	115.31	4,636.15
	US Agency (USD) Total	17,486.11	0.00	0.00	-12,500.00	9,506.94	4,520.83	115.31	4,636.15
<b>US Treasury (USD)</b>									
US Treasury									
912828VR8	UNITED STATES TREAS NTS 0.625% Due 08-15-16	5,827.00	0.00	0.00	0.00	7,165.06	1,338.05	-3.49	1,334.56
912828WAA4	UNITED STATES TREAS NTS 0.625% Due 10-15-16	3,244.54	0.00	0.00	0.00	4,567.96	1,323.43	163.25	1,486.68
912828A59	UNITED STATES TREAS NTS 0.625% Due 12-15-16	640.37	0.00	0.00	0.00	1,963.80	1,323.43	24.99	1,348.42
912828SC5	UNITED STATES TREAS NTS 0.875% Due 01-31-17	9,064.23	0.00	0.00	-10,937.50	0.00	1,873.27	-64.40	1,808.87
		18,776.13	0.00	0.00	-10,937.50	13,696.82	5,858.18	120.35	5,978.53
	US Treasury (USD) Total	18,776.13	0.00	0.00	-10,937.50	13,696.82	5,858.18	120.35	5,978.53
	<b>TOTAL PORTFOLIO</b>	<b>36,262.24</b>	<b>0.00</b>	<b>0.00</b>	<b>-23,437.50</b>	<b>23,203.76</b>	<b>10,379.02</b>	<b>235.66</b>	<b>10,614.68</b>



City of Franklin

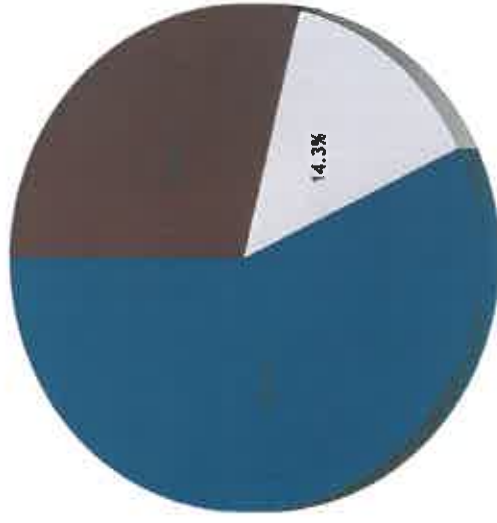
# Activity and Issuer Overview - Settled

Net of Fees | US Dollar  
6/30/2014 - 7/31/2014

## Activity Summary

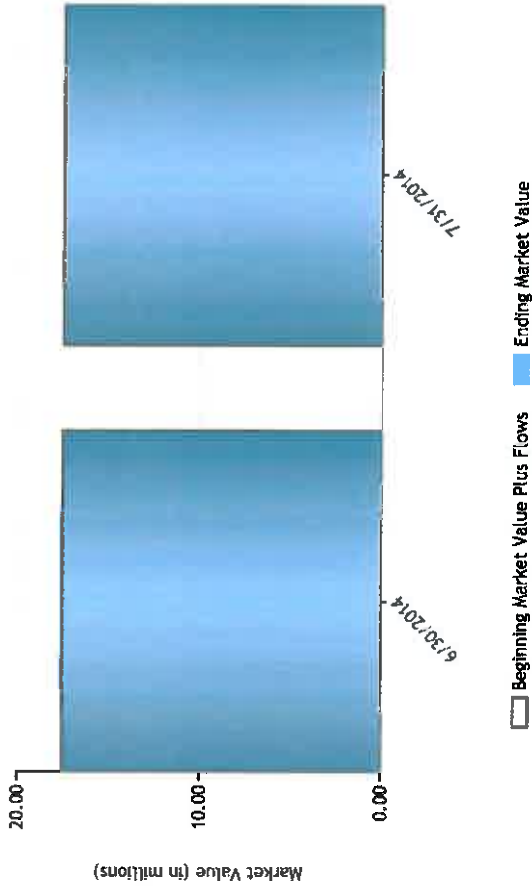
	Month to Date
<b>Beginning Value</b>	<b>17,534,019.69</b>
Accrued Interest	36,262.24
Net Contributions/Withdrawals	-23,437.50
Realized Gains	0.00
Unrealized Gains	-28,780.00
Income Received	23,437.50
Change in Accrued Interest	-13,058.48
<b>Ending Value</b>	<b>17,505,239.69</b>
Accrued Interest	23,203.76
Management Fees Paid By Client	-2,083.33

## Portfolio Allocation as of 7/31/2014



Issuer	Market Value	% Assets	Yield
FEDERAL HOME LOAN BANKS	5,013,415.00	28.6	0.6
FEDERAL HOME LN MTG CORP	2,494,557.50	14.3	1.0
UNITED STATES TREAS NTS	9,997,267.19	57.1	0.7
<b>Total</b>	<b>17,505,239.69</b>	<b>100.0</b>	<b>0.7</b>

## Change in Portfolio





City of Franklin

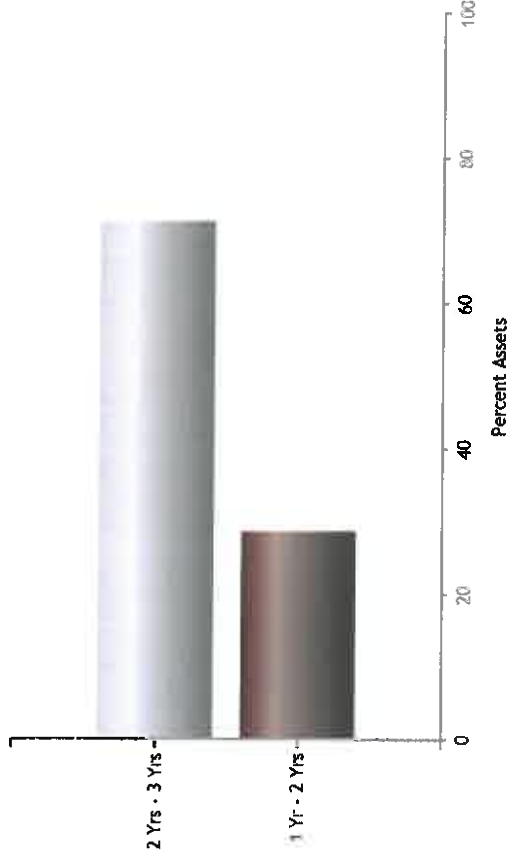
# Duration/Maturity Distribution

US Dollar  
7/31/2014

## Distribution by Duration

Duration	Number	Market Value	% FI Holdings	Average YTM	Average Coupon	Average Duration
1 Yr - 2 Yrs	2	5,013,415.00	28.6	0.3	0.550%	1.2
2 Yrs - 3 Yrs	5	12,491,824.69	71.4	0.8	0.750%	2.4

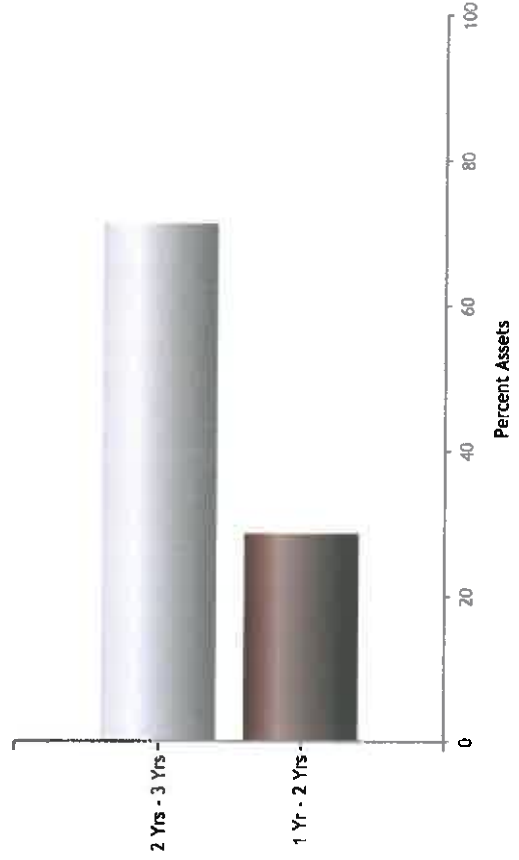
## Distribution by Duration



## Distribution by Maturity

Maturity	Number	Market Value	% FI Holdings	Average YTM	Average Coupon	Average Duration
1 Yr - 2 Yrs	2	5,013,415.00	28.6	0.3	0.550%	1.2
2 Yrs - 3 Yrs	5	12,491,824.69	71.4	0.8	0.750%	2.4

## Distribution by Maturity





City of Franklin

# Rating Distribution

US Dollar  
7/31/2014

## Distribution by S&P Rating

S&P Rating	Number	Market Value	% FI Holdings	Average YTM	Average Coupon	Average Duration
AA+	7	17,505,239.69	100.0	0.7	0.693%	2.8

AA+

## Distribution by S&P Rating



## Distribution by Moody Rating

Moody Rating	Number	Market Value	% FI Holdings	Average YTM	Average Coupon	Average Duration
Aaa	7	17,505,239.69	100.0	0.7	0.693%	2.8

Aaa

## Distribution by Moody Rating





City of Franklin

# Transaction Summary

US Dollar  
7/1/2014 - 7/31/2014

## Interest

Trade Date	Settle Date	Symbol	Security	Amount
7/28/2014	7/28/2014	3137EADJ5	FEDERAL HOME LN MTG CORP	12,500.00
7/31/2014	7/31/2014	912828SC5	1.000% Due 07-28-17 UNITED STATES TREAS NTS 0.875% Due 01-31-17	10,937.50
<b>Total Interest</b>				<b>23,437.50</b>

## Expenses

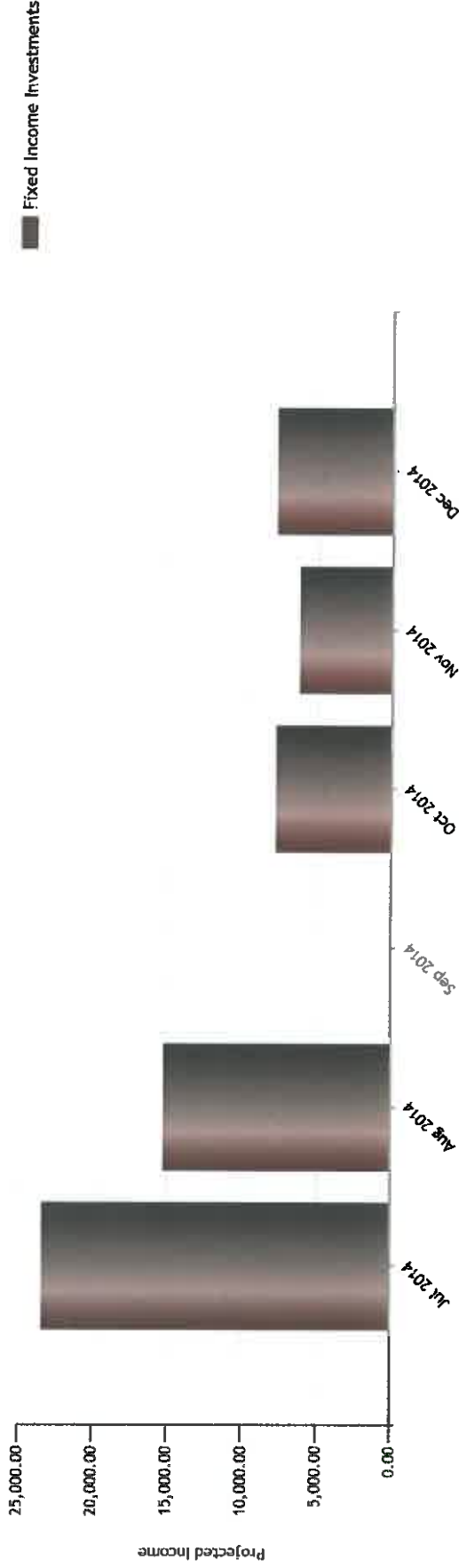
Trade Date	Settle Date	Symbol	Security	Amount
7/31/2014	7/31/2014	manfee	Management Fee	2,083.33
<b>Total Expenses</b>				<b>2,083.33</b>



City of Franklin

# Income Projection

US Dollar  
7/1/2014 - 12/31/2014



	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014
Fixed Income Investments	23,437.50	15,312.50	0.00	7,812.50	6,250.00	7,812.50
US Agency (USD)	12,500.00	7,500.00	0.00	0.00	6,250.00	0.00
US Treasury (USD)	10,937.50	7,812.50	0.00	7,812.50	0.00	7,812.50
<b>Total</b>	<b>23,437.50</b>	<b>15,312.50</b>	<b>0.00</b>	<b>7,812.50</b>	<b>6,250.00</b>	<b>7,812.50</b>
<b>Grand Total</b>	<b>60,625.00</b>					





# Disclaimer & Terms

7/31/2014

This report is for general informational purposes only and is not intended to provide specific advice or recommendations. Government Portfolio Advisors (GPA) is an investment advisor registered with the Securities and Exchange Commission and is required to maintain a written disclosure statement of our background and business experience.

**Questions About an Account:** GPA's monthly report is intended to detail our investment advisory activity managed by GPA. In addition, at the request of the account, the report may include bank balances, LGIP balances and other funds that are held but not invested at the direction of GPA. The custodian bank maintains the control of assets and executes (ie. Settles) all investment transactions. The custodian statement is the official record of security and cash holdings and transactions. GPA recognizes that clients may use these reports to facilitate record keeping and that the custodian bank statement and the GPA report should be reconciled and differences resolved. Many custodians use a settlement date basis which may result in the need to reconcile due to a timing difference.

## Account Control

GPA does not have the authority to withdraw funds from or deposit funds to the custodian. Our clients retain responsibility for their deposit funds to the custodian. Our clients retain responsibility for their internal accounting policies, implementing and enforcing internal controls and generating ledger entries or otherwise recording transactions.

## Market Value

Generally, market prices in GPA's reports are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data or Bloomberg. Where prices are not available from generally recognized sources the securities are priced using a yield-based matrix system to arrive at an estimated market value. Prices that fall between data points are interpolated. Non-negotiable FDIC - insured bank certificates of deposit are priced at par. Although GPA believes the prices to be reliable, the values of the securities do not always represent the prices at which the securities could have been bought or sold. Explanation of the valuation methods for money market and TERM funds is contained in the appropriate fund information statement.

## Amortized Cost

The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premiums with respect to short term securities (those with less than one year to maturity at time of issuance) is amortized on a straightline basis. Such discount or premium with respect to longer term securities is amortized using the constant yield basis.

## Financial Situation

In order to better serve you, GPA should be promptly notified of any material change in your investment objective or financial situation.

## Callable Securities

Securities subject to redemption prior to maturity may be redeemed in whole or in part before maturity, which could affect the yield represented. Certain call dates may not show up on the report if the call date has passed and it is continuously callable.

## Duration

The duration listed on the reports is duration to maturity and duration to call. These reports do not calculate the effective duration that incorporates callable bonds. GPA will provide this number in the strategic reports.

## Portfolio

The securities in this portfolio are not guaranteed or otherwise protected by GPA, the FDIC (except for non-negotiable certificates of deposit) or any government agency. Investment in securities involves risks, including the possible loss of the amount invested.

## Rating

Information provided for ratings is based upon a good faith inquiry of selected sources, but its accuracy and completeness cannot be guaranteed.