

# OPERATING PORTFOLIO

12/31/15

Quarterly Summary

# **EXECUTIVE SUMMARY**

## Executive Summary

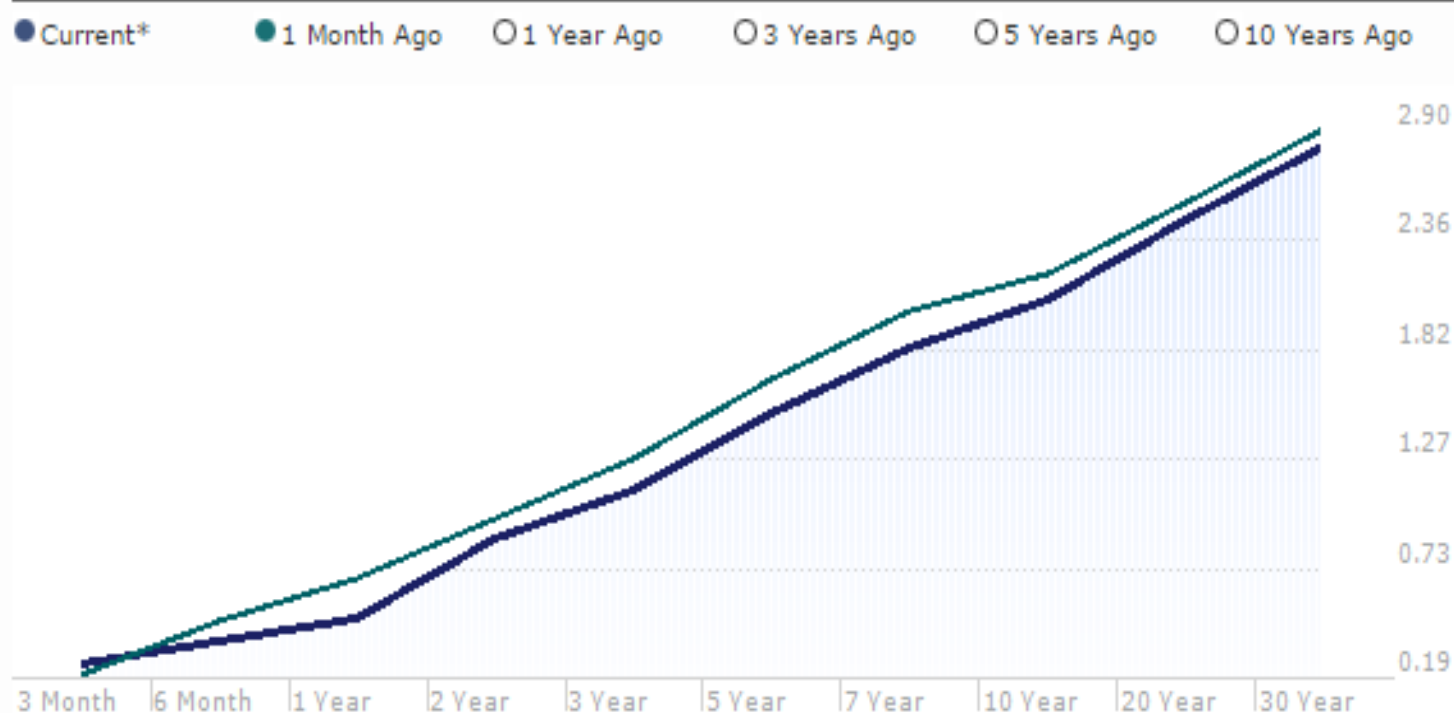
### Economic Highlights:

#### December 2015:

- The unemployment rate remained at 5.0% in December for the third month in a row, the lowest level since April 2008
- Fed Fund rate moved up to the 0.25%-0.50% range
- CPI remained unchanged in November as food and energy declined
- GDP in the third quarter rose 2.0%, next release is January 29th, 2016

#### Markets:

- Fed raised interest rates by 25 basis points bringing the new range to 0.25%-0.50% based on improved signs in the economy
- Higher volatility for global markets
- All three indexes experienced higher volatility in December ending lower



### U.S. Treasury Bond Yields

Maturity	Current*	Yesterday	Last Week	Last Month
3 Month	0.26	0.24	0.21	0.19
6 Month	0.37	0.37	0.47	0.47
2 Year	0.88	0.85	0.93	0.97
3 Year	1.11	1.08	1.18	1.27
5 Year	1.49	1.46	1.55	1.67
10 Year	2.06	2.03	2.12	2.19
20 Year	2.45	2.44	2.51	2.54
30 Year	2.82	2.81	2.89	2.90

Data as of last close \*

\*Source: Morningstar Treasury yield

# **BANK OF NEW YORK / IN HOUSE REPORTS**

## TOTAL GROSS OF FEES

12/31/2015

Account Name Benchmark Name	Market Value	% of Total	Month	3 Months	Fiscal YTD	YTD	1 Year	Annualized		
								3 Years	5 Years	1/1/2001 - 12/31/2015
<b>Total Operating Fund</b>	<b>814,600,396.25</b>	<b>100.00</b>	<b>-0.26</b>	<b>-0.19</b>	<b>-0.19</b>	<b>0.57</b>	<b>0.57</b>	<b>1.00</b>	<b>2.95</b>	<b>4.42</b>
Barclays U.S. Aggregate Bond Index			-0.32	-0.57	-0.57	0.55	0.55	1.44	3.25	4.97
<b>Excess Return</b>			<b>0.07</b>	<b>0.38</b>	<b>0.38</b>	<b>0.02</b>	<b>0.02</b>	<b>-0.44</b>	<b>-0.30</b>	<b>-0.54</b>
<b>Externally Managed</b>	<b>651,132,878.93</b>	<b>79.93</b>	<b>-0.32</b>	<b>-0.24</b>	<b>-0.24</b>	<b>0.79</b>	<b>0.79</b>	<b>1.23</b>	<b>3.43</b>	<b>4.93</b>
<b>Core Plus Fixed Income</b>	<b>360,675,654.65</b>	<b>44.28</b>	<b>-0.33</b>	<b>-0.15</b>	<b>-0.15</b>	<b>0.78</b>	<b>0.78</b>	<b>1.63</b>	<b>4.23</b>	
Western Asset	183,884,780.50	22.57	-0.49	-0.08	-0.08	0.66	0.66	2.21	4.52	5.60
Barclays U.S. Aggregate Bond Index			-0.32	-0.57	-0.57	0.55	0.55	1.44	3.25	4.97
<b>Excess Return</b>			<b>-0.17</b>	<b>0.49</b>	<b>0.49</b>	<b>0.11</b>	<b>0.11</b>	<b>0.76</b>	<b>1.27</b>	<b>0.64</b>
Pimco	176,790,874.15	21.70	-0.15	-0.22	-0.22	0.91	0.91	1.05	3.94	
Barclays U.S. Aggregate Bond Index			-0.32	-0.57	-0.57	0.55	0.55	1.44	3.25	
<b>Excess Return</b>			<b>0.17</b>	<b>0.35</b>	<b>0.35</b>	<b>0.36</b>	<b>0.36</b>	<b>-0.40</b>	<b>0.69</b>	
<b>Core Fixed Income</b>	<b>245,254,335.11</b>	<b>30.11</b>	<b>-0.23</b>	<b>-0.32</b>	<b>-0.32</b>	<b>1.18</b>	<b>1.18</b>	<b>1.23</b>	<b>2.47</b>	
Payden & Rygel	119,801,510.83	14.71	-0.11	-0.14	-0.14	1.00	1.00	0.92	1.57	3.45
BofA Merrill Lynch U.S. Corporate & Government 1-3 Yrs (B1A0			-0.14	-0.35	-0.35	0.67	0.67	0.72	1.04	3.18
<b>Excess Return</b>			<b>0.02</b>	<b>0.21</b>	<b>0.21</b>	<b>0.33</b>	<b>0.33</b>	<b>0.20</b>	<b>0.53</b>	<b>0.26</b>
Income Research & Mgmt	125,452,824.28	15.40	-0.35	-0.49	-0.49	1.35	1.35	1.54	3.36	5.06
Barclays U.S. Gov/Credit Intermediate Index			-0.33	-0.69	-0.69	1.07	1.07	1.10	2.58	4.53
<b>Excess Return</b>			<b>-0.02</b>	<b>0.20</b>	<b>0.20</b>	<b>0.28</b>	<b>0.28</b>	<b>0.45</b>	<b>0.78</b>	<b>0.53</b>
<b>TIPS</b>	<b>45,202,889.17</b>	<b>5.55</b>	<b>-0.78</b>	<b>-0.52</b>	<b>-0.52</b>	<b>-1.23</b>	<b>-1.23</b>	<b>-2.18</b>	<b>2.86</b>	
Brown Brothers	45,202,889.17	5.55	-0.78	-0.52	-0.52	-1.23	-1.23	-2.18	2.86	
BofA Merrill Lynch U.S. Treasuries Inflation-Linked (TIPS)			-0.85	-0.59	-0.59	-1.71	-1.71	-2.36	2.65	
<b>Excess Return</b>			<b>0.07</b>	<b>0.07</b>	<b>0.07</b>	<b>0.48</b>	<b>0.48</b>	<b>0.18</b>	<b>0.20</b>	
<b>Internally Managed</b>	<b>163,467,517.32</b>	<b>20.07</b>	<b>0.01</b>	<b>0.02</b>	<b>0.02</b>	<b>0.03</b>	<b>0.03</b>	<b>0.02</b>	<b>0.06</b>	<b>1.89</b>
Liquidity	138,457,345.07	17.00	0.01	0.03	0.03	0.04	0.04	0.02	0.01	1.76
BofA Merrill Lynch Treasury 182 Day G002			0.04	0.00	0.00	0.22	0.22	0.17	0.19	1.91
<b>Excess Return</b>			<b>-0.03</b>	<b>0.02</b>	<b>0.02</b>	<b>-0.18</b>	<b>-0.18</b>	<b>-0.15</b>	<b>-0.18</b>	<b>-0.15</b>



# City of Orlando Operating Fund - Performance Summary

Report ID: IPM0005

Reporting Currency: USD

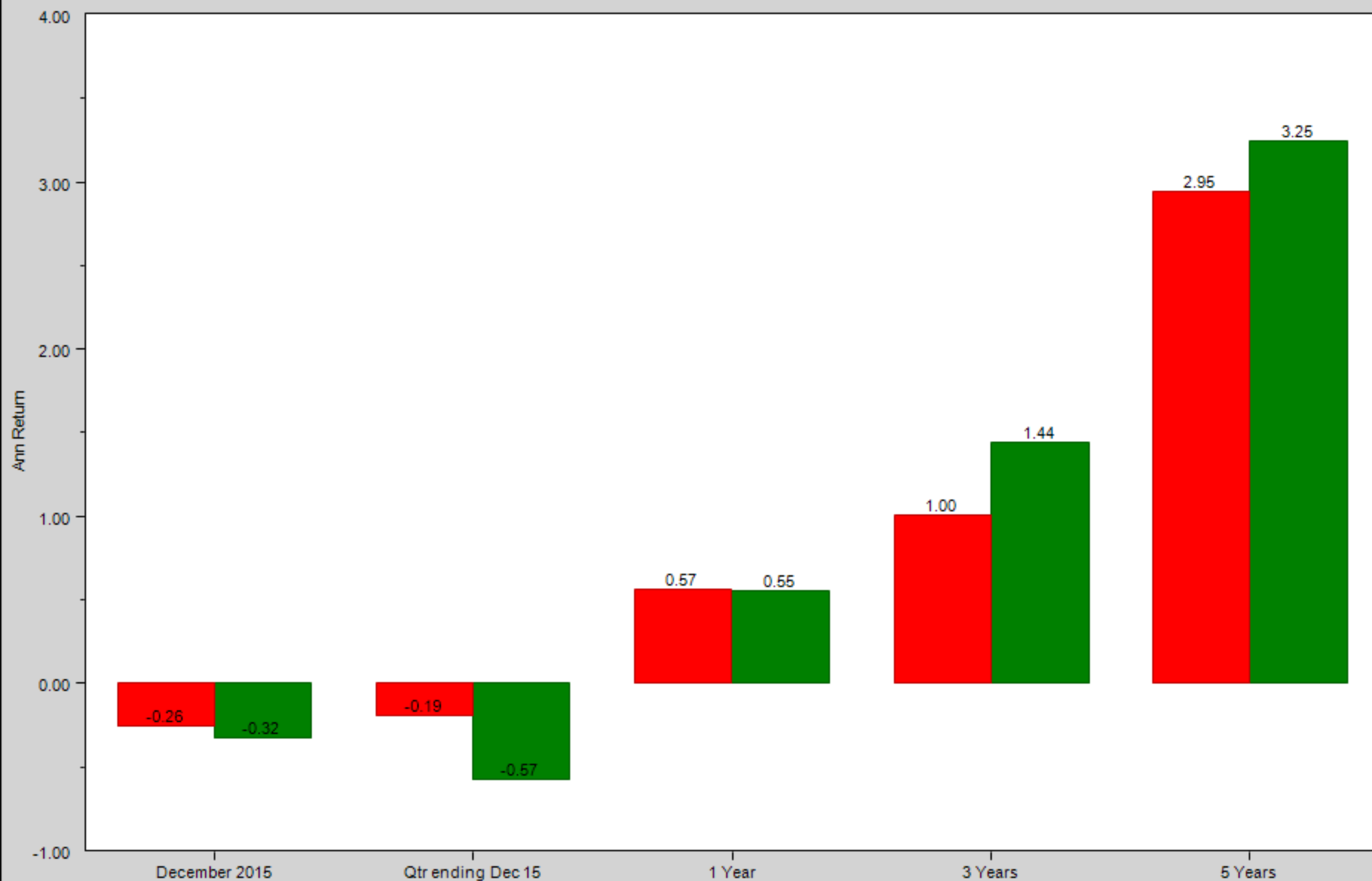
## TOTAL GROSS OF FEES

12/31/2015

								Annualized		
Account Name Benchmark Name	Market Value	% of Total	Month	3 Months	Fiscal YTD	YTD	1 Year	3 Years	5 Years	1/1/2001 - 12/31/2015
2014A TDT CRA Reserve	25,010,172.25	3.07	0.00	0.00	0.00	0.01	0.01			
BofA Merrill Lynch 1 Year US Treasury Note (GC03)			0.01	-0.17	-0.17	0.15	0.15			
Excess Return			-0.01	0.17	0.17	-0.14	-0.14			

# Total Operating Fund vs. Barclay's Capital Aggregate

Ending December 31, 2015  
Comparison

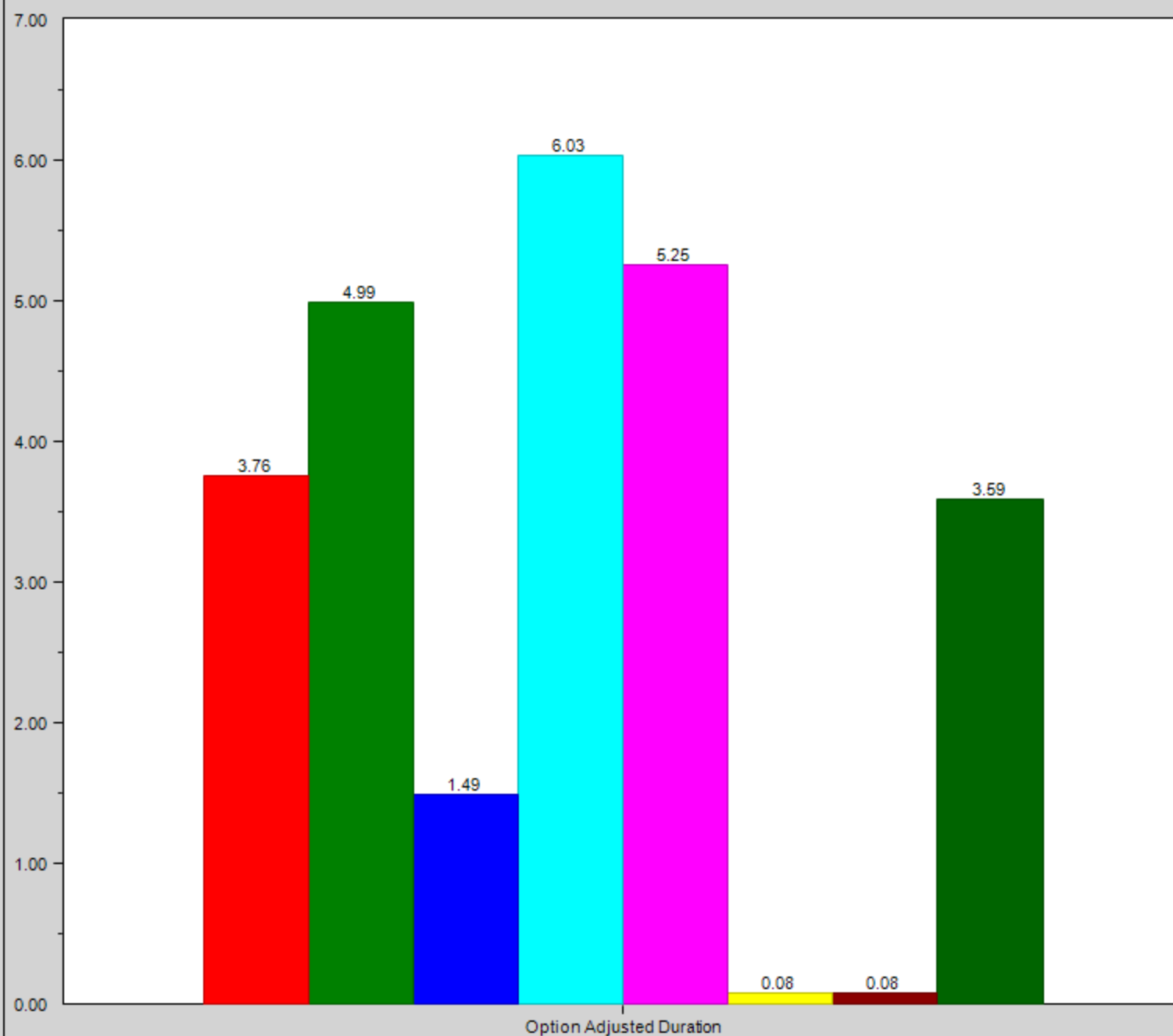
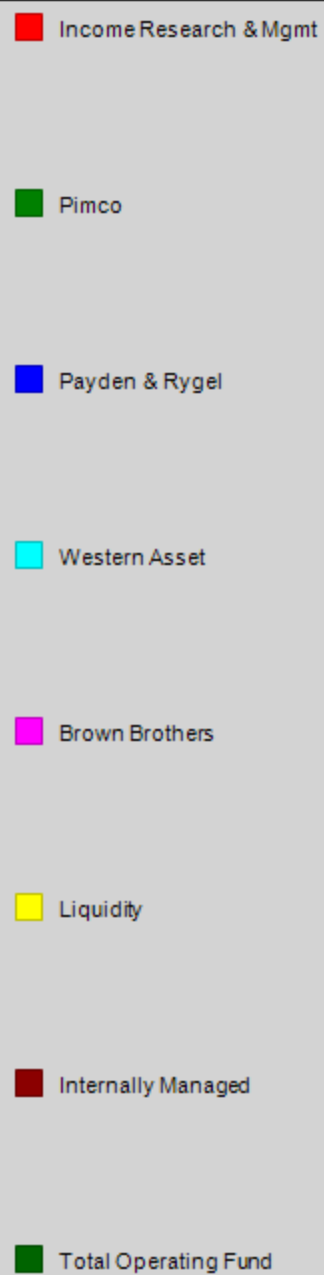


■ Total Operating Fund

■ Barclays U.S. Aggregate Bond Index



**December 31, 2015**  
**Duration Comparison**



Account Date Country	Coupon Rate	Yrs Mat/ Call	Average Price	Moody Qual Rating	Current Yield	YTM/Call (EOP)	Option Adj Duration	Modified Duration	Option Adj Convexity	Holdings
<b>Payden &amp; Rygel - OROF20010102</b>										
<b>9/30/2008</b>										
DOMESTIC	4.12	7.3	100.14	Aaa	4.25	3.86	1.75	1.98	-0.40	76
<b>9/30/2009</b>										
DOMESTIC	3.92	7.6	101.99	Aa1	3.87	1.91	1.77	2.07	-0.03	124
<b>9/30/2010</b>										
DOMESTIC	2.93	3.8	102.44	Aa3	2.80	1.19	2.01	2.59	0.08	145
<b>9/30/2011</b>										
DOMESTIC	2.80	3.6	102.00	A1	2.72	1.59	1.98	2.32	0.10	153
<b>9/30/2012</b>										
DOMESTIC	2.19	2.9	103.03	A1	2.12	0.88	1.78	2.13	0.02	188
<b>9/30/2013</b>										
DOMESTIC	1.53	2.2	101.42	Aa3	1.51	0.87	1.61	2.62	0.11	230
<b>9/30/2014</b>										
DOMESTIC	1.44	2.0	100.42	A1	1.43	1.02	1.49	2.73	0.07	268
<b>9/30/2015</b>										
DOMESTIC	1.44	1.9	101.04	Aa3	1.45	1.25	1.58	2.50	0.03	244
<b>12/31/2015</b>										
DOMESTIC	1.46	1.9	99.63	Aa3	1.47	1.56	1.49	2.19	0.04	243
<b>Income Research &amp; Mgmt - OROF20010202</b>										
<b>9/30/2008</b>										
DOMESTIC	5.17	11.3	94.84	Aa2	5.70	5.92	3.54	4.54	0.23	109
<b>9/30/2009</b>										
DOMESTIC	4.94	10.7	102.57	Aa2	4.68	3.82	3.28	4.14	0.20	124
<b>9/30/2010</b>										
DOMESTIC	4.64	10.7	107.00	Aa2	4.22	2.21	3.30	4.18	0.23	133
<b>9/30/2011</b>										
DOMESTIC	4.66	10.8	107.01	Aa3	4.32	4.69	3.44	4.54	0.24	109
<b>9/30/2012</b>										
DOMESTIC	3.78	9.1	109.98	Aa2	3.33	1.36	3.86	3.96	0.29	109
<b>9/30/2013</b>										
DOMESTIC	3.59	9.0	106.85	Aa2	3.32	1.81	3.68	4.03	0.30	129
<b>9/30/2014</b>										
DOMESTIC	3.86	9.5	105.67	Aa3	3.54	1.97	3.73	4.13	0.32	137
<b>9/30/2015</b>										
DOMESTIC	3.60	9.2	104.19	Aa3	3.35	1.98	3.89	4.38	0.24	123
<b>12/31/2015</b>										
DOMESTIC	3.43	8.7	103.84	Aa3	3.27	2.44	3.76	4.25	0.22	115

Account Date Country	Coupon Rate	Yrs Mat/ Call	Average Price	Moody Qual Rating	Current Yield	YTM/Call (EOP)	Option Adj Duration	Modified Duration	Option Adj Convexity	Holdings
<b>Western Asset - OROF20010402</b>										
<b>9/30/2008</b>										
DOMESTIC	3.81	9.9	342.31	Aa1	5.94	6.84	3.40	3.37	-0.12	249
<b>9/30/2009</b>										
DOMESTIC	4.39	10.6	192.24	Aa3	4.27	4.09	5.31	5.70	0.47	281
<b>9/30/2010</b>										
DOMESTIC	2.71	13.2	70.20	Aa3	2.61	3.27	5.11	6.43	0.71	337
<b>9/30/2011</b>										
DOMESTIC	3.79	21.0	98.27	A1	4.17	4.36	4.55	6.32	0.40	906
<b>9/30/2012</b>										
DOMESTIC	3.67	16.2	108.12	A1	4.01	2.63	5.06	6.44	0.15	971
<b>9/30/2013</b>										
DOMESTIC	3.42	17.0	105.10	A1	3.92	3.01	5.42	5.68	0.10	1,146
<b>9/30/2014</b>										
DOMESTIC	3.43	16.5	138.76	A1	3.73	2.93	4.98	6.76	0.14	1,172
<b>9/30/2015</b>										
DOMESTIC	4.26	17.4	-98.10	Aa3	4.33	2.23	5.99	8.77	2.31	613
<b>12/31/2015</b>										
DOMESTIC	3.42	16.3	-22.06	Aa3	3.58	2.59	6.03	8.53	1.17	629

Account Date Country	Coupon Rate	Yrs Mat/ Call	Average Price	Moody Qual Rating	Current Yield	YTM/Call (EOP)	Option Adj Duration	Modified Duration	Option Adj Convexity	Holdings
<b>Pimco - OROF20012002</b>										
9/30/2010										
DOMESTIC	4.69	14.5	116.63	Aa3	4.35	4.73	5.36	5.65	0.11	337
9/30/2011										
DOMESTIC	6.01	33.9	644.41	A1	5.71	6.15	7.41	8.25	0.39	1,289
9/30/2012										
DOMESTIC	3.89	14.1	116.63	Aa2	3.54	2.25	5.96	5.78	0.19	1,218
9/30/2013										
DOMESTIC	3.39	15.9	219.96	Aa3	3.27	2.34	5.47	5.06	-0.33	1,168
9/30/2014										
DOMESTIC	3.78	9.6	122.83	A1	3.61	2.88	5.08	6.80	-0.08	1,191
9/30/2015										
DOMESTIC	4.66	28.0	18.69	Aa3	4.62	2.69	9.66	9.15	-1.27	232
12/31/2015										
DOMESTIC	3.10	16.5	-164.96	Aa3	3.13	3.59	4.99	8.43	-0.57	226
<b>Brown Brothers - OROF20013002</b>										
9/30/2010										
DOMESTIC	2.28	9.3	109.75	UST	2.06	1.96	4.92	7.74	0.57	15
9/30/2011										
DOMESTIC	2.09	9.5	115.81	Aaa	1.76	1.67	5.47	8.32	0.55	12
9/30/2012										
DOMESTIC	2.13	10.0	126.00	Aaa	1.68	1.39	6.63	8.71	0.79	11
9/30/2013										
DOMESTIC	1.64	9.2	109.91	Aaa	1.48	2.22	8.63	8.23	1.11	13
9/30/2014										
DOMESTIC	1.39	9.1	107.45	Aaa	1.27	2.10	7.61	8.10	1.17	12
9/30/2015										
DOMESTIC	0.78	8.6	99.22	Aaa	0.81	1.72	6.04	7.93	1.33	10
12/31/2015										
DOMESTIC	0.79	8.1	99.08	Aaa	0.79	2.00	5.25	7.58	1.10	11

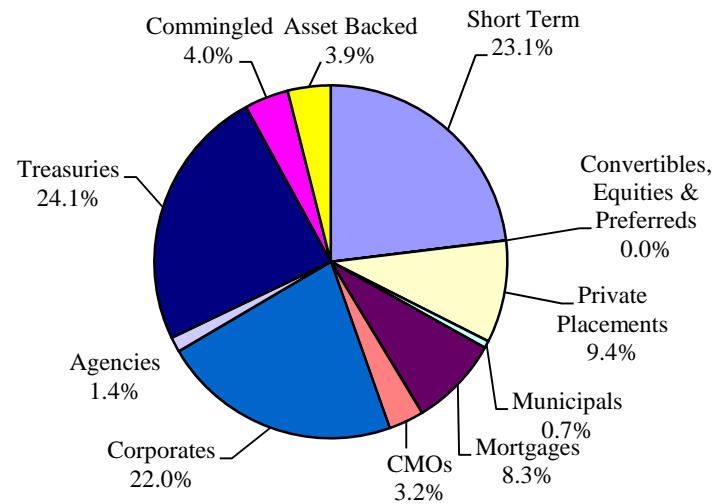
Account Date Country	Coupon Rate	Yrs Mat/ Call	Average Price	Moody Qual Rating	Current Yield	YTM/Call (EOP)	Option Adj Duration	Modified Duration	Option Adj Convexity	Holdings
<b>Liquidity - OROF20010602</b>										
<b>9/30/2008</b>										
DOMESTIC	0.82	0.3	28.79	Aaa	4.36	3.90	0.21	0.29	-0.74	15
<b>9/30/2009</b>										
DOMESTIC	0.22	0.2	14.86	Aaa	0.31	0.24	0.14	0.19	-0.30	7
<b>9/30/2010</b>										
DOMESTIC	0.02	0.1	6.00	Aa3	0.02	0.06	0.08	0.08	0.00	4
<b>9/30/2011</b>										
DOMESTIC	0.00	0.1	1.00	-	0.00	0.00	0.08	0.08	0.00	2
<b>9/30/2012</b>										
DOMESTIC	0.00	0.1	1.00	-	0.00	0.00	0.08	0.08	0.00	2
<b>9/30/2013</b>										
DOMESTIC	0.01	0.1	1.00	-	0.01	0.01	0.08	0.08		3
<b>9/30/2014</b>										
DOMESTIC	0.00	0.1	6.86	Aa3	0.00	0.01	0.10	0.10	0.00	5
<b>9/30/2015</b>										
DOMESTIC	0.00	0.1	1.00	-	0.00	0.00	0.08	0.08	0.00	3
<b>12/31/2015</b>										
DOMESTIC	0.14	0.1	1.00	-	0.05	0.05	0.08	0.08	0.00	3
<b>2014A TDT CRA Reserve - OROF20015002</b>										
<b>9/30/2014</b>										
DOMESTIC	0.00	0.1	99.99	Aa3	0.00	0.11	0.07	0.07	0.00	2
<b>9/30/2015</b>										
DOMESTIC	0.00	0.1	100.00	-	0.00	0.00	0.08	0.08	0.00	1
<b>12/31/2015</b>										
DOMESTIC	0.13	0.1	100.00	-	0.00	0.00	0.08	0.08	0.00	1
<b>Total Operating Fund - OROGTOTFND00</b>										
<b>9/30/2008</b>										
DOMESTIC	3.32	7.4	123.98	Aa1	5.19	5.52	2.35	2.47	-0.16	775
<b>9/30/2009</b>										
DOMESTIC	3.49	8.7	104.50	Aa2	3.73	2.99	2.89	3.28	0.17	1,017
<b>9/30/2010</b>										
DOMESTIC	3.23	9.6	89.07	Aa2	3.10	2.54	3.64	4.56	0.34	1,035
<b>9/30/2011</b>										
DOMESTIC	3.57	14.4	183.55	Aa3	3.56	3.51	3.80	4.86	0.30	2,477
<b>9/30/2012</b>										
DOMESTIC	3.10	10.3	183.55	Aa3	3.19	1.82	4.16	4.67	0.20	2,503
<b>9/30/2013</b>										

Account Date Country	Coupon Rate	Yrs Mat/ Call	Average Price	Moody Qual Rating	Current Yield	YTM/Call (EOP)	Option Adj Duration	Modified Duration	Option Adj Convexity	Holdings
DOMESTIC 9/30/2014	2.60	10.3	119.92	Aa3	2.63	1.86	3.87	4.16	0.10	2,693
DOMESTIC 9/30/2015	2.68	8.7	106.56	Aa3	2.75	2.05	3.68	4.82	0.18	2,788
DOMESTIC 12/31/2015	2.84	12.0	22.97	Aa3	2.91	1.74	4.02	5.44	0.65	1,227
DOMESTIC	2.34	9.4	-1.05	Aa3	2.43	2.20	3.59	5.24	0.30	1,229

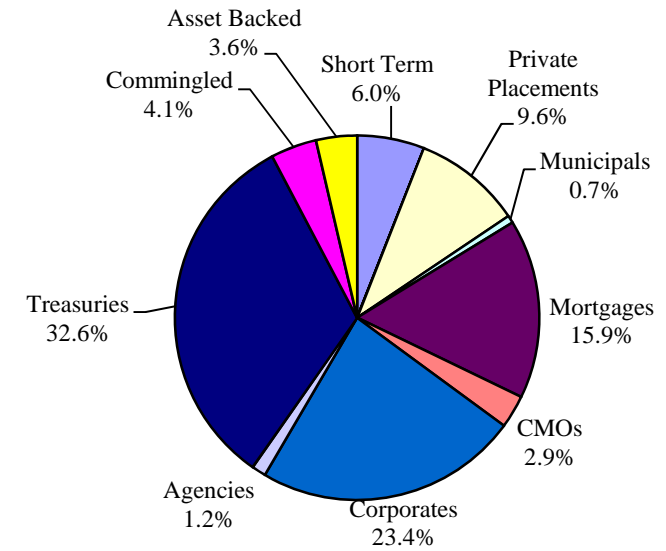
## City of Orlando Operating Fund

### Sector Breakdown

**6/30/2015**



**12/31/2015**



**Global Securities Lending  
Securities Lending Management Summary**

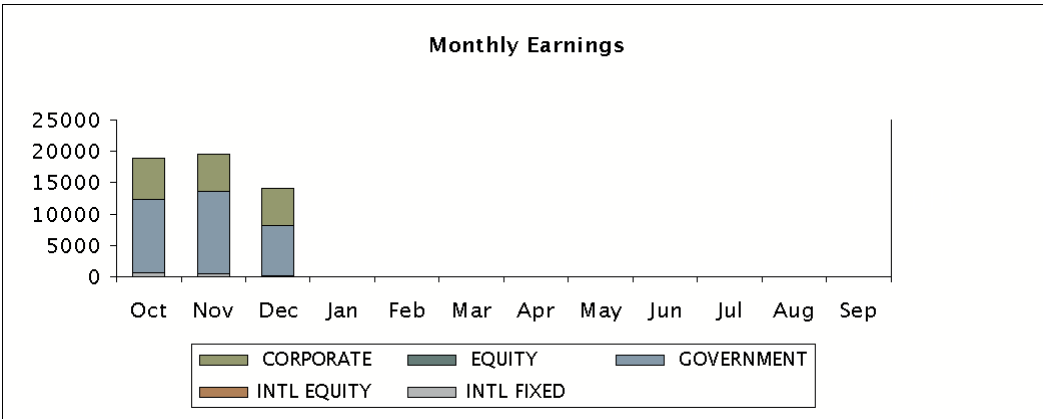
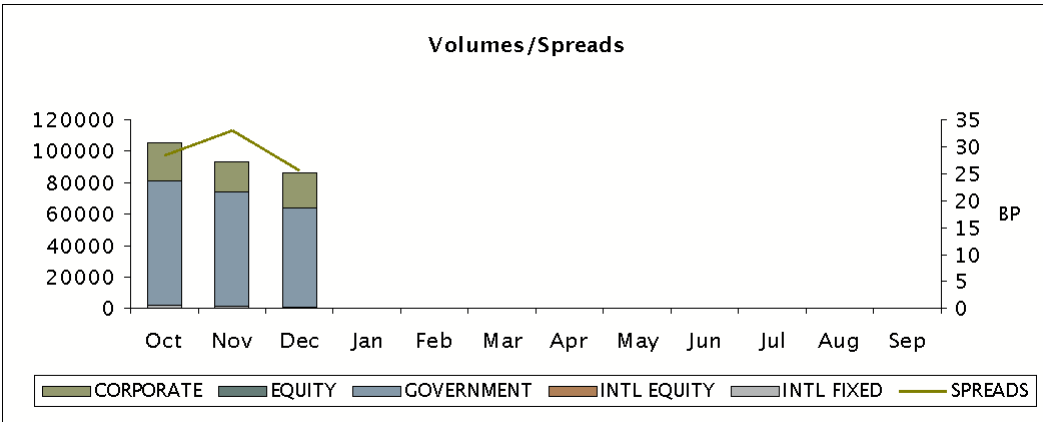
As of 12/31/2015

Report ID: **GSL217**  
Reporting Currency: **USD**

Earnings	Current Month	Year-to-Date
Governments	7,970	32,753
Equity	0	0
Corporate	5,926	18,475
International Fixed Income	222	1,420
International Equities	0	0
<b>Total</b>	<b>14,118</b>	<b>52,649</b>

Monthly Performance Measures	Avg.Loan Volume(000's)	Avg.Wgt. Spread(BP)
Governments	63,496	20
Equity	0	0
Corporate	21,926	42
International Fixed Income	709	49
International Equities	0	0
<b>Total</b>	<b>86,130</b>	<b>26</b>

**Trend Analysis**



	EARNINGS YTD					
	Government	Equity	Corporate	Int'l Fixed	Int'l Equities	Total
Oct	11,698	0	6,658	633	0	18,990
Nov	13,085	0	5,892	565	0	19,542
Dec	7,970	0	5,926	222	0	14,118
<b>Totals</b>	<b>32,753</b>	<b>0</b>	<b>18,475</b>	<b>1,420</b>	<b>0</b>	<b>52,649</b>

	OUTSTANDINGS (000's) YTD					
	Government	Equity	Corporate	Int'l Fixed	Int'l Equities	Total
Oct	79,055	0	24,085	1,909	0	105,049
Nov	72,561	0	19,137	1,721	0	93,418
Dec	63,496	0	21,926	709	0	86,130
<b>Average</b>	<b>71,704</b>	<b>0</b>	<b>21,716</b>	<b>1,446</b>	<b>0</b>	<b>94,866</b>

	Spreads YTD					
	Government	Equity	Corporate	Int'l Fixed	Int'l Equities	Total
Oct	23	0	43	52	0	28
Nov	28	0	49	52	0	33
Dec	20	0	42	49	0	26
<b>Average</b>	<b>24</b>	<b>0</b>	<b>45</b>	<b>51</b>	<b>0</b>	<b>29</b>



# **WESTERN ASSET**

Western Asset Management Company  
**CITY OF ORLANDO OPERATING FUND**  
 Portfolio Performance as of: December 31, 2015

**Portfolio Returns**

	December 31, 2015	Trailing 3 Months	Fiscal YTD (10/1-12/31)	Trailing Year	Since Inception (1/1/01) Annualized
City of Orlando					
Gross	-0.50%	-0.07%	-0.07%	0.61%	5.63%
Net	-0.52%	-0.13%	-0.13%	0.38%	5.38%
Barclays Cap U.S. Agg USD Bond Index	-0.32%	-0.57%	-0.57%	0.55%	4.21%

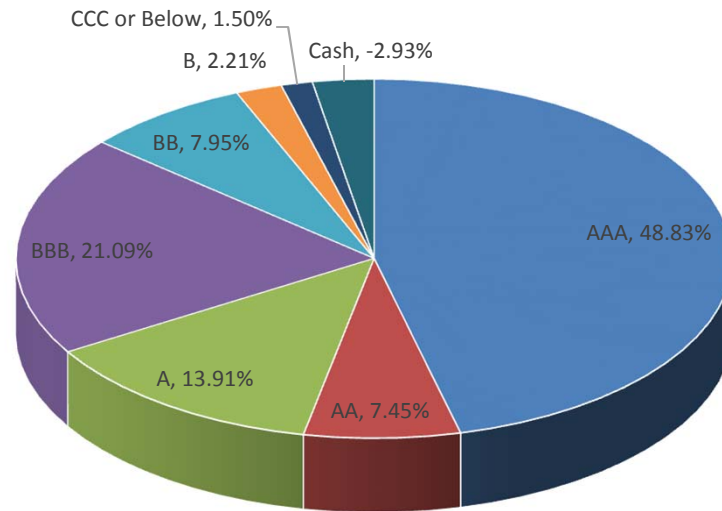
**Portfolio Summary**

	November	December
Portfolio Market Value (includes accrued interest)	\$184,818,943	\$183,897,823
Average Credit Quality	AA-	AA-
Duration	6.10	6.30
Yield to Maturity	3.48%	3.71%

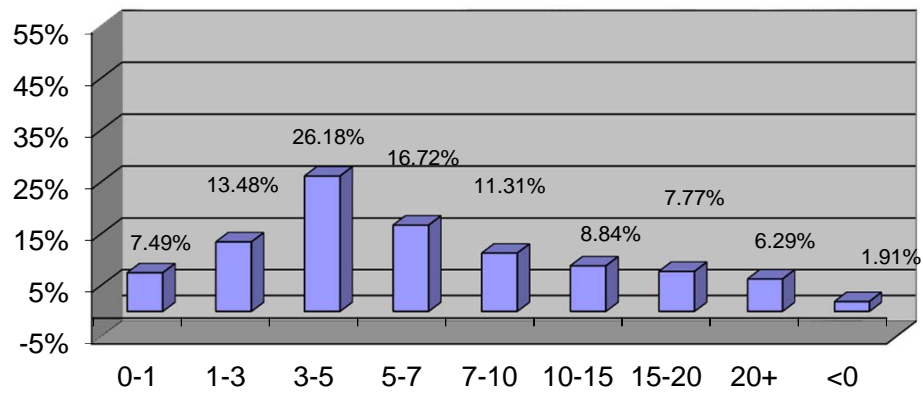
**Compliance Verification**

	Max/Min Allowable	Actual	Complies
<u>Sector</u>			
UST	min 15%	22.28%	Yes
UST + Agencies	min 25%	46.68%	Yes
Investment Grade	min 82%	91.10%	Yes
Corporates	up to 60%	35.09%	Yes
MBS (including Agency MBS)	up to 50%	33.66%	Yes
EMD	up to 18%	4.51%	Yes
non-U.S. IG	up to 18%	0.64%	Yes
Derivatives	up to 5%	0.21%	Yes
BIG^	up to 18%	8.81%	Yes
<u>Credit Quality</u>			
Weighted average	min AA-	A+	Yes
<u>Maturity/Duration</u>			
Effective Duration: Barclays +/- 20%	5.65	6.3	Yes
Min	4.52		
Max	6.78		

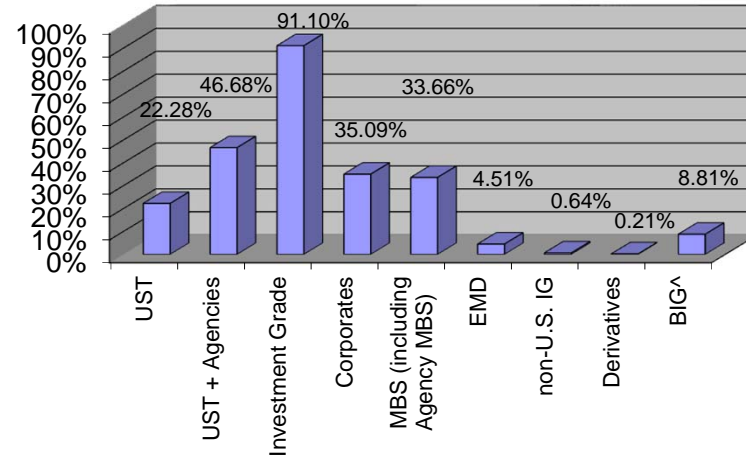
**Credit Quality**



**Duration Distribution**



### Sector Distribution



# 4Q

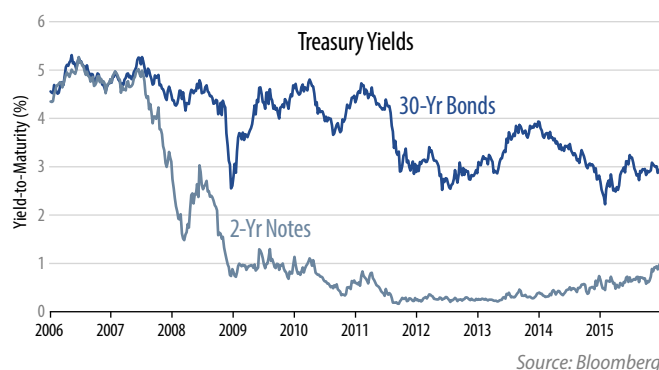
2015

## Investment Report US



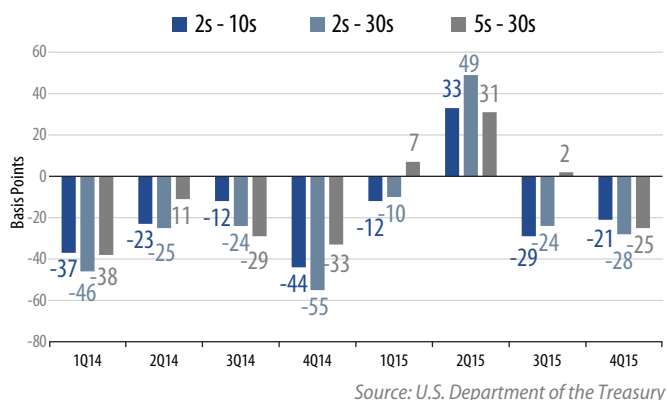
### Interest Rate Trends

Interest rates increased moderately over the quarter as markets anticipated a December Fed rate increase.



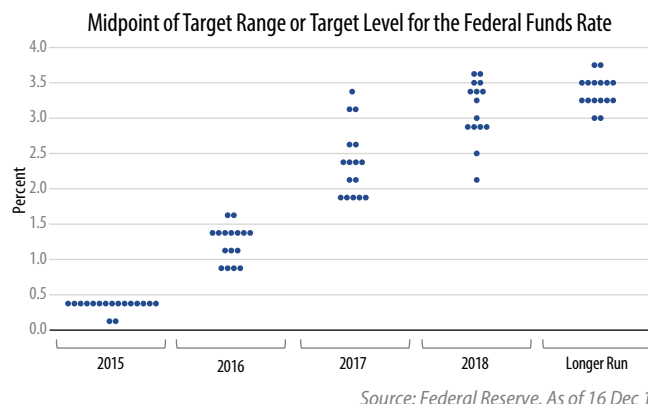
### Yield Curve Slope

The yield curve flattened, with shorter rates increasing more than longer rates.



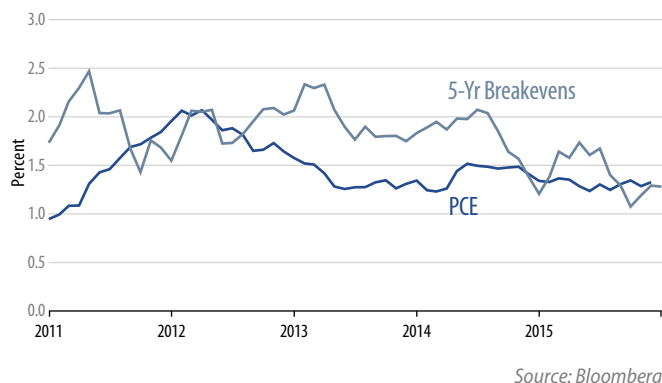
### Fed Watch: FOMC Participant's Assessments of Appropriate Monetary Policy

In December the Fed increased the fed funds target rate by 25 bps, as expected. This represents the Fed's first step toward monetary policy normalization. The FOMC's latest interest rate forecasts point to four rate hikes in 2016.



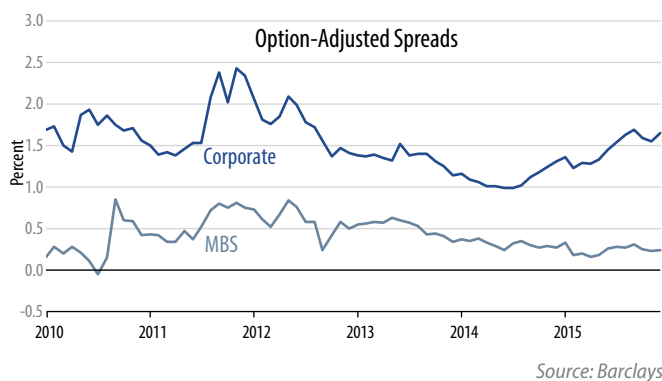
### Inflation Watch

Most inflation measures remained low, and were well below the Fed's 2% target. Headline inflation increased to 0.5% YoY. Core CPI inched up to 2.0% YoY but the core personal consumption expenditures deflator, the Fed's preferred gauge of inflation, ended the period at 1.3% YoY. 5-year breakeven inflation, a measure of inflation expectations, inched up to 1.4%.



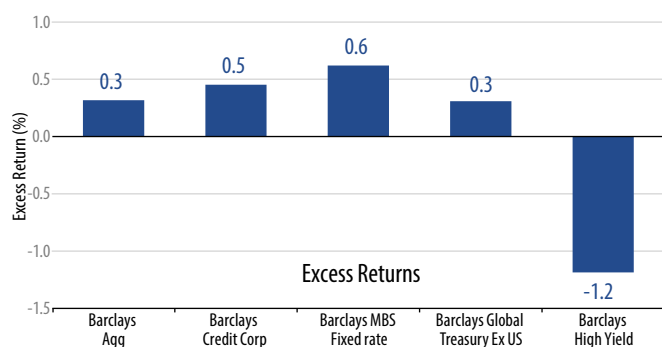
### Sector Spreads

Investor demand for risk assets was mixed over the quarter. Spreads on agency mortgages and investment-grade credit tightened slightly while high-yield bond spreads moderately widened.



### 4Q15 Fixed-Income Returns

Most major asset classes underperformed USTs.



Source: Barclays, JPMorgan, Western Asset

## PERFORMANCE SCORECARD

We thought that ...	Therefore, we ...	And the results ...
Most major asset classes underperformed USTs.	Held a modest overweight to the corporate sector, particularly in financials.	+ A slight overweight benefited performance as the sector outperformed USTs.
Downside risks to the agency mortgage sector were heightened due to a variety of factors, including uncertainty surrounding how prepayment speeds would respond to low rates and when the Fed would stop reinvesting principal payments into its MBS portfolio.	Maintained our underweight position and took advantage of relative value opportunities in coupon swaps. Maintained exposure to pools with slower prepayment speeds.	+ Agency MBS excess returns were slightly negative. While our underweight position benefited performance, our coupon and pool strategies slightly detracted.
The housing market and non-agency MBS fundamentals were improving. Fundamentals would stay positive on strong demand and limited supply. We were cautious about slowing house price increases, but comfortable with current market expectations.	Maintained exposure to non-agency issues, with an emphasis on lower dollar-priced bonds with more exposure to housing-recovery optionality.	+ Price movements were mixed, but performance generally benefited from positive carry and continued principal paydowns.
High-yield corporates were attractive from a fundamental valuation perspective and should benefit in a growing US economy.	Where allowed, we held out-of-benchmark exposure to high-yield bonds.	– High-yield exposure detracted as energy companies continued to be impacted by falling energy prices.
Inflation would likely remain subdued.	Held a limited exposure to TIPS for diversification and as a hedge against unexpected inflation.	+ Measures of inflation remained at low levels but picked up slightly.
The ECB and the BoJ would continue to take aggressive action to stimulate growth and encourage positive inflation.	Where allowed, we held a modest short position in the euro and reduced our short position in the yen.	+ Short positions in the euro and yen benefited performance as they depreciated versus the USD (-2.8% and -0.4%, respectively).

## OUTLOOK

While the Fed began the process of interest rate normalization last month, we expect the pace of normalization to be extremely gradual, with the Fed remaining largely accommodative for some time. While US labor market conditions have improved, inflation is low and may remain so for some time, which sets the stage for continued Fed accommodative policy. Furthermore, while inflation remains subdued, a sustained rise in long-term US bond yields is unlikely. Meanwhile, economic data in the US support our slightly reduced expectation for growth of about 1.5% to 2.0% in 2016.

Developments in China have been a key source of volatility in recent months as side effects of Chinese efforts to transform its economy have reverberated around the world. As China shifts from an investment- and export-led growth model to a more sustainable consumption- and service-based economy, its growth has in turn slowed and Chinese demand for commodities has decreased. We feel that this shift is a prudent long-term transformation for China and that Chinese officials have the monetary and policy tools and the ability to manage the change, albeit with hiccups likely along the way. Many emerging market (EM) countries, however, face a more challenging environment given the recent downturn in commodity prices. Longer term, we believe EM countries will benefit from the recovery in global growth.

Given our view that the global economic recovery will continue despite challenges, and that the US economy will experience

further modest growth, we remain constructive on spread product, believing it will outperform US Treasuries in the intermediate and long term. Continued central bank expansionary policy is key to this view. Our portfolios are modestly overweight investment-grade credit, particularly financials, which currently offer attractive yields while appearing more utility-like in the face of increased regulation. Where allowed, we are overweight to the high-yield and bank loan sectors as we believe these sectors should benefit from the continued economic recovery. On a fundamental value basis, very high implied default rates, which are much higher than realized rates, signal attractive valuations. We are underweight to agency MBS given the uncertainty regarding when the Fed will stop investing principal payments from its MBS portfolio, how a Fed rate hike will affect spreads and also due to the current level of tight spreads. The spread between EM and developed market yields remains wide, and, in our opinion, presents an opportunity to add value in select countries.

While market volatility eased in 4Q15, risks to a fragile global recovery are not insignificant. Our focus remains on longer-term fundamentals with diversified strategies to manage risk. Portfolios remain invested in the spread product sectors, while seeking to take advantage of attractive valuations, using duration opportunistically as valuations change and to help mitigate downside risks.

## INVESTMENT THEMES AND STRATEGIES

Themes	Strategies
Investment-grade corporate fundamentals are generally supportive and valuations have improved. Spreads are still attractive relative to long-term historical averages.	Continue a modest overweight exposure to investment-grade corporates, especially to financials and certain industrial names.
High-yield bonds remain appealing given the current environment of low default rates, ongoing central bank monetary accommodation and positive economic growth. Spreads have widened to levels seen in mid-2012. Bank loans, a high-yield alternative, tend to be much less sensitive to rising rates than intermediate-duration USTs.	Where allowed, hold a moderate exposure to high-yield debt and bank loans.
Risks to the downside continue to dominate. Market participants believe the Fed will stop reinvesting MBS principal payments shortly after the first hike in the fed funds rate, which will increase rate volatility and likely will be a negative for agency MBS. Spreads continue to be relatively tight. Home Affordable Refinance Program (HARP) refinancing activity will continue to slow.	Maintain an overall short position versus the benchmark while continuing to tactically trade the coupon stack. Overweight specified pools with low loan balances and post-HARP high loan-to-value (LTV) ratios. Own interest-only (IO) and inverse-IO in select accounts where appropriate.
Both the ECB and the BoJ are continuing aggressive asset purchase programs to combat the threat of deflation and to stimulate exports and growth.	Where allowed, hold a modest short position in the euro and the yen.
While economic growth forecasts across many EM nations have been downgraded, EM growth should still continue to outpace that of the developed world in the longer term. In the short term, we expect EM central banks to maintain a cautious stance with respect to monetary and/or exchange rate policy.	Where allowed, hold EM debt in corporate, sovereign and quasi-sovereign names. We favor EM corporates and EM countries with strong fundamentals.
We believe economic data will likely remain mildly positive, and the slow growth environment will persist. Central banks should remain highly accommodative.	Maintain a tactical duration policy with a bias toward a long-duration posture.
Longer-dated USTs are apt to be less sensitive should the Fed continue to normalize policy and may also provide some protection if volatility increases.	Maintain a modest overweight to longer-dated securities.

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**PIMCO**

City of Orlando (Account #7149)  
Compliance Verification  
As of 12/31/2015

Portfolio Guidelines	Max/Min Allowed	Actual	Complies (Y/N)
Sectors			
US Government (Treasuries, Agencies, Instrumentalities)	Min 25%	125.9%	Y
- US Treasury	Min 12%	96.8%	Y
Mortgage Securities	Max 50%	38.9%	Y
Corporate Securities	Max 60%	31.2%	Y
- Below BBB	Max 18%	9.2%	Y
Non-USD Denominated	Max 30%	0.0%	Y
Emerging Markets	Max 18%	0.1%	Y
Private Placements (excl 144A)	Max 10%	0.0%	Y
Convertible Securities	Max 5%	0.0%	Y
Foreign Currency Exposure (abs value of all positions)	Max 5%	0.0%	Y
Quality			
Individual Security (at purchase)	Min B-	B	Y
Average Portfolio Quality	Min A+	AA-	Y
Duration			
Portfolio Duration	Index +/- 2 yrs Portfolio BCAG	-0.98	Y

Account No: 7149

## City of Orlando

Flash Report  
as of December 31, 2015

Summary Information	
Net Market Value	176,956,347 USD
Estimated Income	5,332,672 USD
Effective Duration - PIMCO New (yrs)	4.70 yrs
Effective Duration - PIMCO Previous (yrs)	4.76 yrs
Benchmark Duration - Provider (yrs)	5.68 yrs
Benchmark Duration - PIMCO (yrs)	5.26 yrs
Current Yield	3.00 %
Estimated Yield To Maturity	3.32 %
Effective Maturity <sup>2</sup>	5.69 yrs
Average Coupon <sup>2</sup>	3.22 %
Average Quality	AA-

	Portfolio Before Fees	Portfolio After Fees	Benchmark <sup>1</sup>
YTD	0.93%	0.62%	0.55%
1 Month	-0.12	-0.12	-0.32
3 Months	-0.03	-0.10	-0.57
6 Months	0.61	0.46	0.65
9 Months	-0.80	-1.03	-1.04
12 Months	0.93	0.62	0.55
2 Years*	3.17	2.86	3.22
3 Years*	1.06	0.76	1.44
5 Years*	3.97	3.66	3.25
10 Years*	N/A	N/A	N/A
Since Inception Aug 31, 2010*	3.52%	3.22%	2.81%
Tracking Error (3 Years)	0.98		
Information Ratio (3 Years)	-0.36		

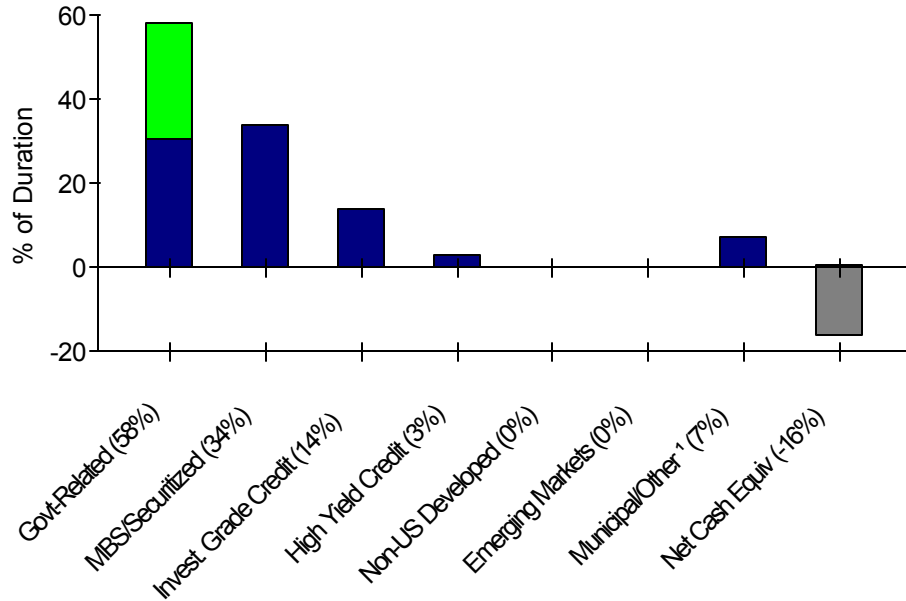
\* For periods of 12 months or more, the return is annualized

PIMCO generated performance as of 01/08/2016

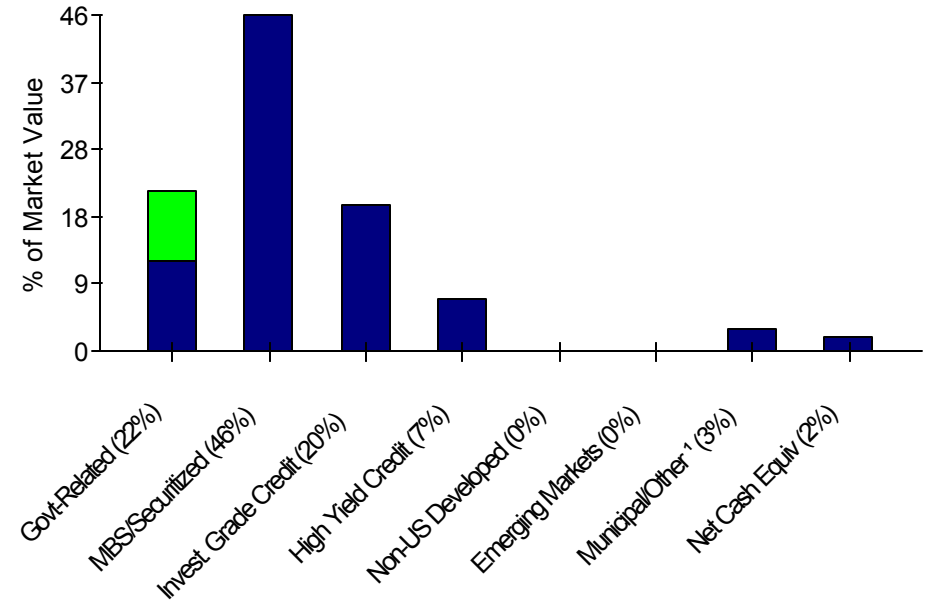
<sup>1</sup> Barclays U.S. Aggregate Index

<sup>2</sup> Portfolio characteristics are calculated using the weighted average characteristics of each individual position. Derivative exposures are integrated into these characteristics at "bond equivalent value", which approximates the delta-adjusted notional exposure. Amortizing assets and those with embedded options (such as mortgage-backed securities and callable bonds) are included in maturity statistics based on the expected life of these instruments. Varying mathematical protocols may be applied across characteristics as needed to best capture the risk profile of each type of exposure. For example, sector allocations will include all positions at bond-equivalent value, whether settled or unsettled, while quality tiers will include only settled positions aggregated at market value. Average quality indicates the portfolio's expected sensitivity to changes in credit spreads; consequently, bond futures and interest rate swaps are included in this calculation at bond equivalent value, rather than market value, to best reflect this sensitivity.

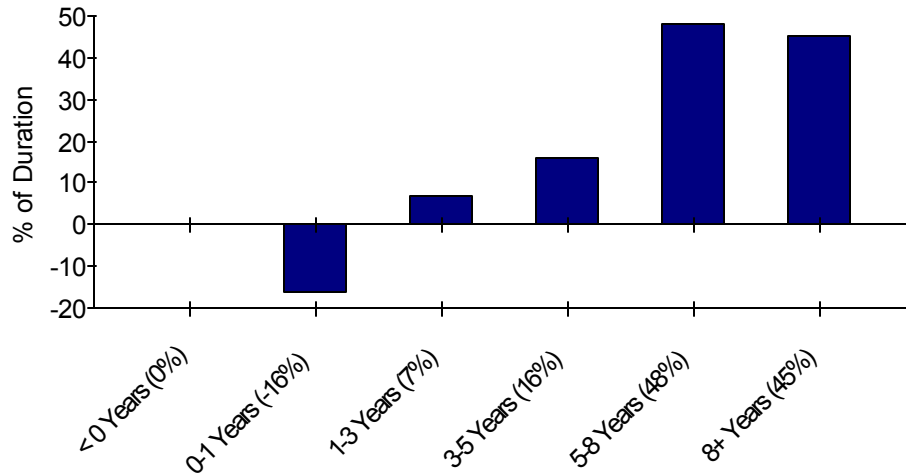
Sector - Duration Weighted



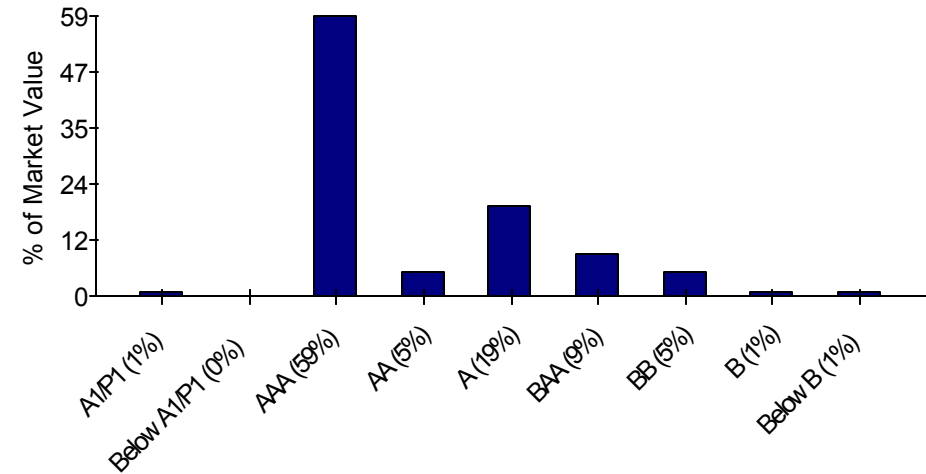
Sector - Market Value Weighted



Maturity - Duration Weighted



Quality <sup>2</sup> - Market Value Weighted



\* Derivatives included at bond-equivalent exposure where appropriate

<sup>1</sup>Includes municipals, private placements, preferred stocks, and convertibles

<sup>2</sup>Credit quality detail statistics are designed to reflect a portfolio's exposure to default risk. Consequently, this calculation includes only settled or funded positions, and incorporates interest rate swaps at market value rather than bond equivalent value.

■ Inflation Protected Securities  
■ Money Market Futures

	% of Duration	% of Mkt Value	Total Mkt Value <sup>1</sup>
<b>Government Related</b>	<b>57.8%</b>	<b>21.8%</b>	<b>38,492,118.13</b>
<b>Treasury</b>	<b>57.2</b>	<b>32.5</b>	<b>57,561,696.47</b>
Nominal Bonds	70.5	58.1	102,863,642
Government Futures - U.S.	-13.2	-25.6	-45,301,945
<b>Inflation Protected Bonds</b>	<b>27.4</b>	<b>9.8</b>	<b>17,374,084.83</b>
Inflation Protected Securities	27.4	9.8	17,374,085
<b>Other</b>	<b>-26.9</b>	<b>-20.6</b>	<b>-36,443,663.17</b>
Interest Rate Swaps	-26.9	-20.6	-36,443,663
<b>MBS/Securitized</b>	<b>34.2%</b>	<b>46.2%</b>	<b>81,719,902.30</b>
<b>FNMA</b>	<b>24.1</b>	<b>22.2</b>	<b>39,365,760.99</b>
<b>FHLMC</b>	<b>0.1</b>	<b>0.2</b>	<b>404,158.69</b>
<b>GNMA</b>	<b>5.1</b>	<b>6.2</b>	<b>10,957,470.89</b>
<b>Non-Agency CMO</b>	<b>0.4</b>	<b>1.1</b>	<b>1,885,815.56</b>
<b>Home Equity ABS</b>	<b>0.1</b>	<b>0.2</b>	<b>373,296.07</b>
<b>Non-Agency Hybrid ARM</b>	<b>0.4</b>	<b>1.8</b>	<b>3,264,084.58</b>
<b>Non-Agency Pay Option ARM</b>	<b>-0.1</b>	<b>1.5</b>	<b>2,637,093.07</b>
<b>CMBS</b>	<b>1.2</b>	<b>3.7</b>	<b>6,466,973.63</b>
<b>Other</b>	<b>0.0</b>	<b>0.0</b>	<b>21,186.65</b>
<b>Pooled Funds</b>	<b>2.8</b>	<b>9.2</b>	<b>16,344,062.17</b>
<b>Invest. Grade Credit</b>	<b>14.4%</b>	<b>19.7%</b>	<b>34,811,103.22</b>
<b>Energy &amp; Power</b>	<b>0.8</b>	<b>1.1</b>	<b>1,934,141.92</b>
<b>Communication</b>	<b>1.5</b>	<b>2.3</b>	<b>4,053,045.39</b>
<b>Finance and Real Estate</b>	<b>6.4</b>	<b>9.1</b>	<b>16,101,198.49</b>
<b>Retail &amp; Food</b>	<b>2.4</b>	<b>2.4</b>	<b>4,160,674.55</b>
<b>Medical</b>	<b>0.7</b>	<b>0.7</b>	<b>1,251,281.18</b>
<b>Commodity related</b>	<b>0.1</b>	<b>0.2</b>	<b>340,548.21</b>
<b>Other</b>	<b>2.5</b>	<b>3.9</b>	<b>6,970,213.48</b>
<b>High Yield Credit</b>	<b>2.8%</b>	<b>7.0%</b>	<b>12,470,210.95</b>
<b>Energy &amp; Power</b>	<b>1.1</b>	<b>1.1</b>	<b>1,925,000.00</b>
<b>Communication</b>	<b>0.5</b>	<b>2.2</b>	<b>3,820,875.00</b>

<sup>1</sup>Swaps and Futures are reported above at bond equivalent exposure and offset in "Net Cash Equivalents". Refer to the Cash Equivalent Summary at the back of the Portfolio Inventory report for details.

	% of Duration	% of Mkt Value	Total Mkt Value <sup>1</sup>
Finance and Real Estate	0.4	1.5	2,702,660.95
Retail & Food	0.2	0.4	793,425.00
Other	0.7	1.8	3,228,250.00
Emerging Markets	0.0%	0.1%	98,750.00
Latin America	0.0	0.1	98,750.00
Municipal/Other	6.7%	3.3%	5,925,374.35
Yankees	1.1	1.2	2,110,209.85
Municipal	5.6	2.2	3,815,164.50
Net Cash Equivalents	-16.0%	1.9%	3,438,887.61
Net Cash Equivalents	-16.0	1.9	3,438,887.61
TOTAL	100.0%	100.0%	176,956,346.56

<sup>1</sup>Swaps and Futures are reported above at bond equivalent exposure and offset in "Net Cash Equivalents". Refer to the Cash Equivalent Summary at the back of the Portfolio Inventory report for details.

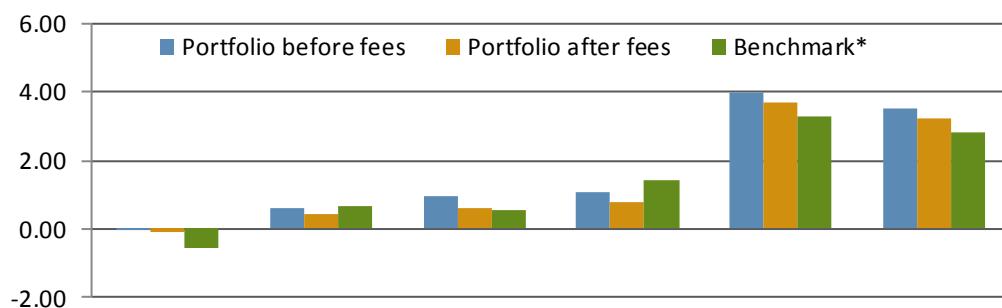
# Executive Summary

Despite a generally muted response to the historic Fed move, markets remained on edge heading into year end, and at least part of the nervousness was due to oil.

- U.S. economic indicators continued to suggest a healthy pace of growth. Amid signs that job gains may be transitioning to income gains, inflation expectations rose modestly, despite new lows in oil prices. This positive tone allowed the Fed to lift the policy rate by 25 basis points (bps) on December 16.
- In the eurozone, anemic inflation led markets to anticipate another ECB policy bazooka, but the deposit rate cut and QE expansion disappointed markets. In Japan, focus shifted to Prime Minister Abe's new set of policy arrows designed to revive the economy.
- In addition to ongoing efforts of Chinese policymakers to implement longer-term structural reform while deploying stimulus to cushion the slowdown in growth, the yuan was welcomed into IMF's Special Drawing Rights (SDR) basket.
- At the December OPEC meeting, leaders of oil-producing nations were unable to come to an agreement to cut production, which caused another leg down in energy prices. Brent crude prices fell 23% during the quarter (down 35% in 2015) and weighed heavily on the outlook for energy companies and exporting countries.

Market Reaction: The S&P 500 bounced back from third quarter lows to end the fourth quarter 7.0% higher and credit spreads for investment grade corporates and emerging markets were tighter, but markets ended the year on a fairly subdued note. U.S. yields, particularly at the front-end, rose while front-end eurozone yields fell.

## Performance periods ended 31 December '15



	3 mo	6 mo	1 yr	3 yrs	5yrs	SI
Portfolio before fees	-0.03	0.61	0.93	1.06	3.97	3.52
Portfolio after fees	-0.10	0.46	0.62	0.76	3.66	3.22
Benchmark*	-0.57	0.65	0.55	1.44	3.25	2.81

\*Barclays U.S. Aggregate Index

<b>Inception date:</b>	<b>31 Aug '10</b>
<b>Market value (in millions):</b>	<b>\$176.96</b>
<b>Average quality:</b>	<b>AA-</b>
<b>Yield to maturity (%):</b>	<b>3.32%</b>

<b>Summary information</b>	<b>31 Dec '15</b>
Effective duration (yrs)	4.70
Benchmark duration – provider (yrs)	5.68
Benchmark duration – PIMCO (yrs)	5.26
Effective maturity (yrs)	5.69
Average coupon	3.22%
Net currency exposure	0.00%
Tracking error (5 yrs)	1.00
Information Ratio (5 yrs)	0.72

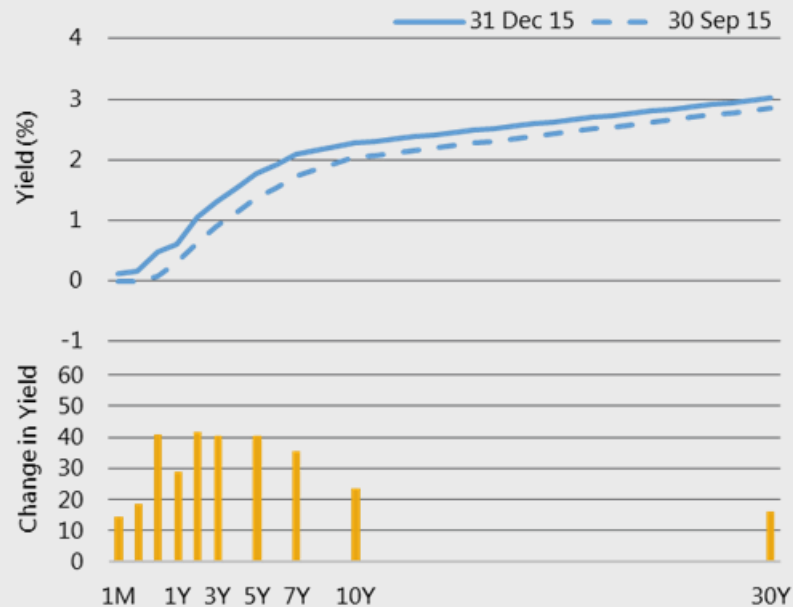
Sector allocation	Duration (yrs)	Market value
Government related	2.72	21.75%
Mortgage	1.61	46.18%
Investment grade credit	0.68	19.67%
High yield credit	0.13	7.05%
Non-U.S. developed	0.00	0.00%
Emerging markets	0.00	0.06%
Municipal/Other	0.31	3.35%
Net other short duration instruments	-0.75	1.94%
Total	4.70	100%

# Quarter in Review

## Front-end yields rose with the Fed while credit was resilient despite oil-driven headlines

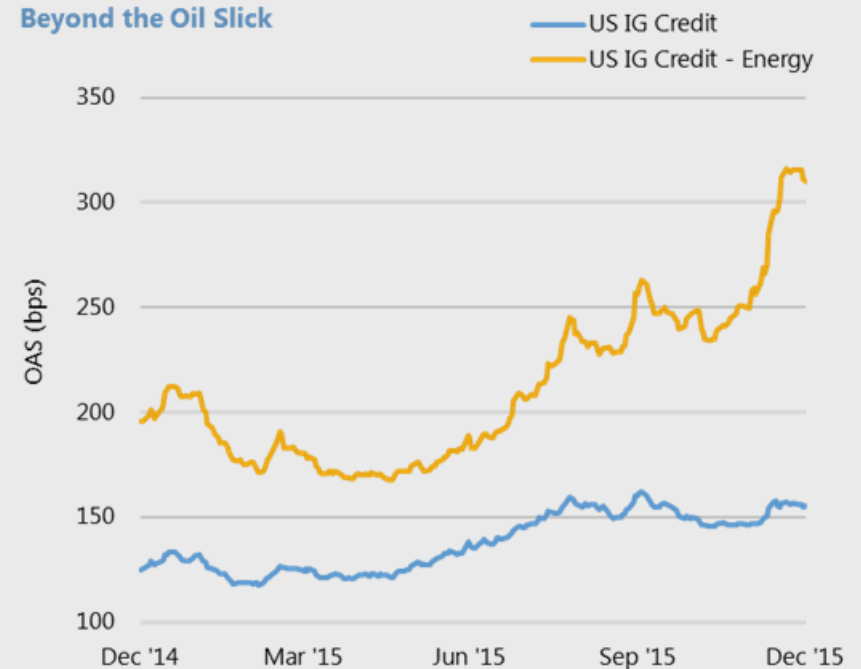
In the fourth quarter, the Fed embarked upon a (gradual) hiking cycle for the first time in nearly a decade after economic data indicated that the U.S. economy remained on track, driven by robust job gains. Global growth fears from the previous quarter dissipated somewhat as the global economy appeared on solid footing, though falling crude oil prices continued to weigh on risk assets in the energy sector. Outside the U.S., the ECB added to its easing program, China also eased and made progress in internationalizing the yuan, and Japanese PM Abe focused on a new set of economic goals.

### Fed Induced Flattening



In the lead-up to the Fed's historic rate hike, yields rose across the curve, particularly at the front-end, as markets came around to the likelihood of lift-off amid supportive data and the Fed's own communications

### Beyond the Oil Slick



Fresh multi-year lows in oil prices continued to roil the energy sector, but spread movements outside energy were more benign.



# Market Summary

## U.S. Duration

U.S. yields, particularly at the front-end, rose as the Federal Reserve raised rates for the first time in nearly a decade. Economic data in the months leading up to the December Federal Open Markets Committee (FOMC) meeting indicated that the U.S. economy remained on track, driven by robust job gains.

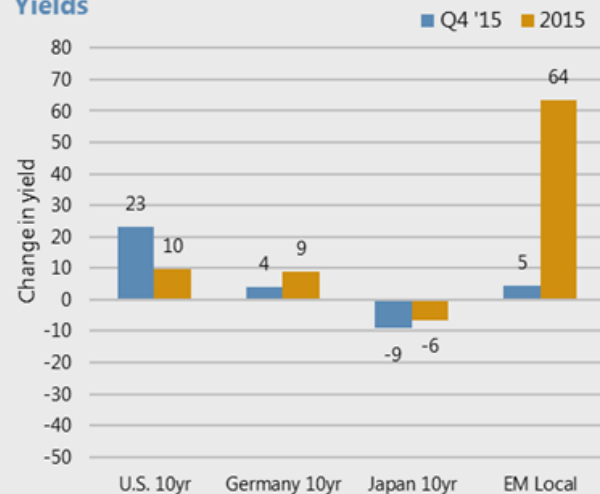
## Investment-Grade Credit

New lows in oil prices continued to roil the energy sector, but spread movements outside energy were more subdued. Investment-grade spreads recovered over the quarter after global growth fears and negative risk sentiment from last quarter receded. While heavy issuance and technical factors contributed to spread widening over the year, fundamentals outside energy remained solid.

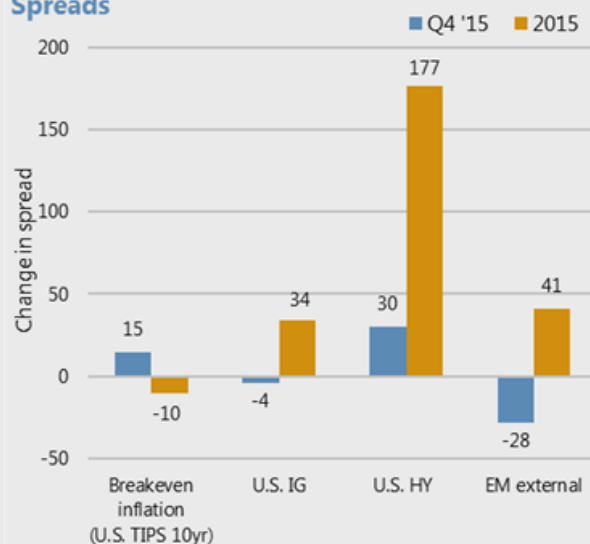
## Currencies

The U.S. dollar generally outperformed most developed market counterparts as the Fed raised policy rates for the first time since 2006. Central banks in Europe, Japan and China remained firmly - and increasingly - in easing mode, while tumbling commodity prices weighed on the currencies of commodity exporting countries.

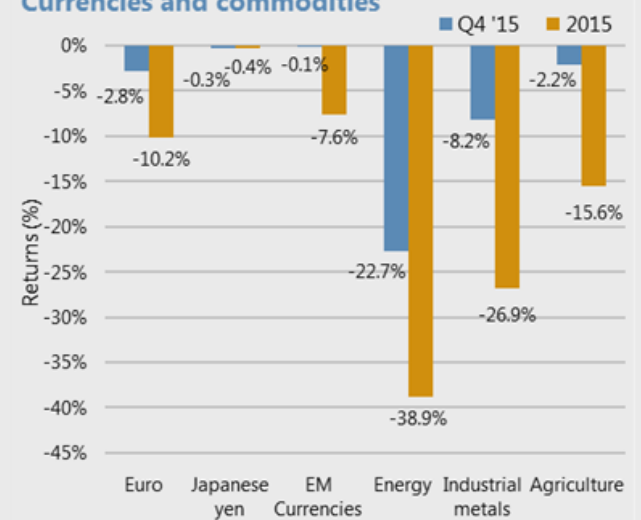
### Yields



### Spreads



### Currencies and commodities



# PIMCO's Global Outlook

## PIMCO expects the world's major economies to continue converging in 2016 while central bank policies diverge.

The U.S. recovery will remain on a fairly stable trajectory, underpinned by solid personal consumption and modest contributions from both fiscal spending and investment. Growth in Europe will be modest, but above trend given ongoing policy support. Japan is also projected to increase only modestly as weakness in trading partners will be a headwind to gains made domestically. BRIM economies should continue to improve, but from very different starting points including recession in both Brazil and Russia. Finally, The Fed will be one of few central banks hiking in 2016, as many will likely ease policy through rate cuts, quantitative easing (QE) or, at least, keeping rates on hold.

### Americas: U.S. and Mexico remain robust, Brazil fragile

- U.S. growth will remain both broad-based and above trend (2.0–2.5%). Job growth and wage gains will support consumption and the fiscal budget is mildly expansionary, but exports and investment will be more subdued. The Fed will take a slow, moderate path in raising rates.
- Mexico will benefit from reforms and U.S. trade ties, with growth approaching 3%.
- Brazil will remain in recession amid elevated political gridlock.

**Underweight U.S. duration as the Fed tightens policy. Seek opportunities in credit where non-oil fundamentals remain solid; favor TIPS on low inflation expectations. Overweight Mexico, but tactical in Brazil.**

### Europe: Expect above trend growth, modest inflation

- Eurozone GDP will grow around 1.5% as QE measures keep bank lending rates low and net exports are underpinned by a weak euro. Lower than target inflation may lead to expansion of QE measures.
- U.K. will post above-trend GDP of 2%–2.5% as private domestic demand will continue to drive growth.
- Emerging Europe will benefit from low oil and relative insulation from China, but politics weigh for some.

**Seek opportunities in bank capital, which is likely to benefit from supportive ECB policies. Prefer Spain & France over German duration. Ongoing quantitative easing backs modest underweight in euro.**

### Asia: Low oil, cheaper currencies cushion China drag

- In Japan, a weak yen may support corporate profits, but the slowdown in China will be a headwind to net exports. Watch for details of new fiscal policy goals.
- Chinese growth will be around 6% as policies will remain broadly supportive and the yuan is likely to weaken, but policy mistakes are likely.
- China will weigh on Asia, but many will benefit from low oil, more competitive currencies, and reform-minded governments.

**Pare back underweight in yen, but remain underweight a basket of Asian currencies as China's ongoing yuan devaluation may not be smooth and will pressure others lower. Tactical Australian duration on domestic strength.**

### Global: Stabilizing expansion

- The ongoing and cumulative benefits of global monetary policy accommodation, reduced fiscal austerity and low oil prices will allow the global expansion to continue.
- The modest pace of growth suggests inflationary pressures will remain contained. This persistent trend will allow the U.S. Fed to normalize rates at a moderate pace, especially as easy policies outside the U.S. will remain or expand.

**Relative benign economic outlook versus known potential risks:**

- Commodity fluctuations
- EM/China spillover
- Inflation/deflation surprise
- Liquidity crunches

Refer to Appendix for additional outlook and forecast information. Brazil, Russia, India, Mexico (BRIM); emerging markets (EM); European Central Bank (ECB); gross domestic product (GDP); U.S. Federal Reserve (Fed); U.S. Treasury Inflation-Protected Securities (TIPS);

# Sector Exposure

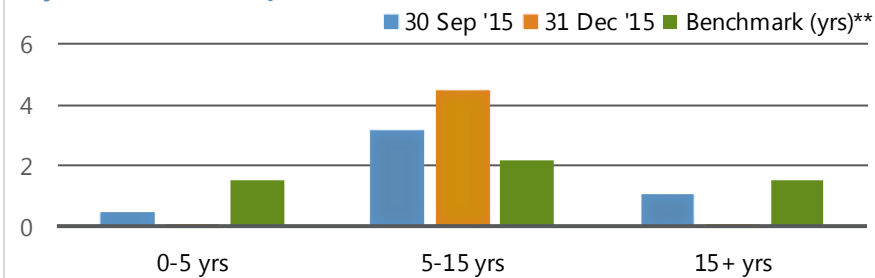
Sector exposure						
	Portfolio				Benchmark	
	% of Market value		Duration in years		% of Market value	Duration in years
	30 Sep '15	31 Dec '15	30 Sep '15	31 Dec '15	31 Dec '15	31 Dec '15
Government - Related	20.57	21.75	2.39	2.72	42.46	2.35
Government - Treasury	55.65	42.35	4.55	3.98	38.26	2.19
Government - Agency	0.00	0.00	0.00	0.00	4.20	0.16
Swaps and liquid rates	-35.08	-20.59	-2.16	-1.26	0.00	0.00
Mortgage	47.02	46.18	1.64	1.61	31.07	1.39
Investment grade credit	18.70	19.67	0.62	0.68	23.88	1.70
High yield credit	7.11	7.05	0.15	0.13	0.00	0.00
Non-U.S. developed	0.00	0.00	0.00	0.00	0.00	0.00
Emerging markets	0.06	0.06	0.00	0.00	1.72	0.14
Municipal/Other	3.36	3.35	0.32	0.31	0.87	0.10
Net other short duration instruments*	3.19	1.94	-0.38	-0.75	0.00	0.00
Commingled cash vehicles	0.11	0.24	0.00	0.00	0.00	0.00
Certificate of deposit/Commercial paper/STIF	2.92	2.86	0.01	0.00	0.00	0.00
Government related	0.00	0.00	0.00	0.00	0.00	0.00
MBS/ABS	1.93	2.13	0.00	0.00	0.00	0.00
Credit	3.61	3.61	0.01	0.01	0.00	0.00
Other	1.76	1.60	0.00	0.00	0.00	0.00
EM short duration instruments	0.00	0.00	0.00	0.00	0.00	0.00
Short duration derivatives and derivative offsets	41.91	46.21	-0.39	-0.76	0.00	0.00
Net unsettled trades	-49.06	-54.70	0.00	0.00	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>	<b>4.74</b>	<b>4.70</b>	<b>100</b>	<b>5.68</b>

\*Net Other Short Duration Instruments includes securities and other instruments (except instruments tied to emerging markets by country of risk) with an effective duration less than one year and rated investment grade or higher or, if unrated, determined by PIMCO to be of comparable quality, commingled liquidity funds, uninvested cash, interest receivables, net unsettled trades, broker money and derivatives offset. With respect to certain categories of short duration securities, the Adviser reserves the discretion to require a minimum credit rating higher than investment grade for inclusion in this category.

Benchmark: Barclays U.S. Aggregate Index

# Portfolio Characteristics

## Key rate duration exposure



	Portfolio (yrs)		Benchmark (yrs)**
	30 Sep '15	31 Dec '15	31 Dec '15
0-5 yrs	0.49	0.11	1.56
5-15 yrs	3.18	4.48	2.18
15+ yrs	1.06	0.11	1.52
<b>Total</b>	<b>4.74</b>	<b>4.70</b>	<b>5.26</b>

\* Shown as a percentage of market value

\*\* Benchmark duration is calculated by PIMCO

Benchmark: Barclays U.S. Aggregate Index

## Interest rate exposure

	Portfolio (yrs)		Benchmark (yrs)**
	30 Sep '15	31 Dec '15	31 Dec '15
Effective duration	4.74	4.70	5.26
Bull market duration	4.46	4.41	5.02
Bear market duration	5.53	5.30	5.49
<b>Spread duration</b>			
Mortgage spread duration	2.11	2.07	1.37
Corporate spread duration	1.12	1.16	1.71
Emerging markets spread duration	0.08	0.08	0.15
Swap spread duration	-2.55	-2.03	0.00
Covered bond spread duration	0.00	0.00	0.00
Sovereign related spread duration	0.00	0.00	0.19

## Derivative exposure (% of Duration)

	30 Sep '15	31 Dec '15
Government Futures	-9.00	-13.23
Interest Rate Swaps	-45.77	-26.89
Credit Default Swaps*	0.00	0.00
Purchased Swaps	0.00	0.00
Written Swaps	0.00	0.00
Options	0.25	0.00
Purchased Options	0.00	0.00
Written Options	0.25	0.00
Mortgage Derivatives	0.00	0.00
Money Market Derivatives	-8.28	-16.26
Futures	-8.28	-16.26
Interest Rate Swaps	0.00	0.00
Other Derivatives	0.00	0.00

# Country and Currency Exposure

Country exposure by currency of settlement				
	30 Sep '15		31 Dec '15	
	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)
United States	4.74	0.00	4.70	0.00
Total	4.74	0.00	4.70	0.00

Emerging markets exposure by country of risk						
	30 Sep '15			31 Dec '15		
	% of MV short duration instruments	% of MV bonds	Duration (yrs)	% of MV short duration instruments	% of MV bonds	Duration (yrs)
Brazil	0.00	0.06	0.00	0.00	0.06	0.00
Total	0.00	0.06	0.00	0.00	0.06	0.00

**PAYDEN  
&  
RYGEL**



**Payden & Rygel**  
**City of Orlando Operating Fund (Acct 842)**  
**December 31, 2015**

**Portfolio Returns**

12/31/2015	Month	Trailing 3 Months	Fiscal YTD (10/1/15)	Annualized	
				Trailing 1 Year	Since Incept (1/1/01)
Portfolio:					
Gross	-0.07%	-0.10%	-0.10%	1.07%	3.38%
Net	-0.08%	-0.14%	-0.14%	0.88%	3.20%
Benchmark*	-0.14%	-0.35%	-0.35%	0.67%	3.09%

**\*Benchmark History**

3/1/08: Payden & Rygel reinstated to actively manage portfolio versus the Merrill Lynch 1-3 Year Government/Credit Index.

7/12/07: Instructed by the City to discontinue trading of the portfolio; portfolio naturally ages with maturities reinvested 6 months or less.

Benchmark not relevant during the period.

9/1/06: Portfolio transition to the Lehman Government/Credit Index.

1/1/01: Inception of the portfolio versus the Merrill Lynch 1-3 Year Treasury Index.

**Portfolio Summary**

	Begin Month	End Month
Portfolio - Market Value	\$ 119,573,982	\$ 119,422,667
Mkt Value incl. Accrued Int	\$ 119,899,169	\$ 119,821,629
Average Credit Quality	AA-	AA-
Duration	1.38 yrs	1.4 years
Yield to Maturity	1.4%	1.6%
Yield at Cost	1.3%	1.4%

**Compliance Verification**

PORTFOLIO GUIDELINE	MAX ALLOWED	MBS/ABS Breakout	ACTUAL	COMPLIES
Money Markets	100% Maximum		0%	X
Municipals	10% Maximum		0%	X
Corporates <sup>3</sup>	75% Maximum		55%	X
Non-Mortgage ABS			14%	
Mortgages	35% Maximum		3%	X
CMBS	0% Maximum	0%		*
CMO	0% Maximum	0%		*
Non-Agency	0% Maximum	2%		*
Agency <sup>2</sup>		1%		X
Treasuries <sup>1</sup>	12% Minimum		22%	X
Agencies <sup>2</sup>	13% Minimum		5%	X
<b>TOTAL</b>			100%	

QUALITY	MIN ALLOWED	ACTUAL	COMPLIES
Minimum Security Quality			
Short-term	A1/P1	N/A	X
Long-term (by security)	BBB-	BBB-	X
Portfolio Quality	A+	AA-	X
MATURITY/DURATION	MAX ALLOWED	ACTUAL	COMPLIES
Portfolio	3 years	1.4 years	X

1 Minimum 12% Treasury/GNMA/FDIC paper included.

2 Minimum 25% Treasury & Agency combined.

3 Maximum 75% Corporate & Non-Mortgage Asset-Backed combined.

# Payden & Rygel

## QUARTERLY PORTFOLIO REVIEW

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**4<sup>th</sup> Quarter 2015**



PAYDEN.COM

LOS ANGELES | BOSTON | LONDON | PARIS



January 2016

Dear Client,

As investment managers, we evaluate future trends in the economy and translate them into investment decisions for your portfolios. Over the past several years, low-interest rates and concerns about when interest rates might rise dominated discussions. Well, no longer as the Federal Reserve Board raised its overnight interest rate in December. However, deeper questions remain: how fast and how far will interest rates rise and what will be the impact on the global economy?

First, we think the Federal Reserve Board will move slowly and gradually. Remember, the much-anticipated rate hike was just  $\frac{1}{4}$  of 1%. The US economy is not in perfect condition and inflation is still low, so there is no urgency for the Fed to move quickly. The broad consensus view is that short-term interest rates will end 2016 around 1%. Second, other global economies face a range of economic and political challenges and global central banks seem in no rush to raise interest rates. As a result, we think low-interest rates will continue to be a dominant global theme in 2016.

However, we believe there are reasons for optimism for our longer-term prospects. For example, the United States is a leader in innovation and things are changing quickly with breakthroughs like driverless cars, delivery drones, 3D printers and 4D movies. Ultimately, innovation will provide the seeds of future economic growth and employment, though the journey may be a difficult one for workers who will need to retool their skill sets for the 21st-century economy.

The most important message we can give our clients is that we are thinking about how these factors impact financial markets. Since the global economy is so interconnected, financial markets have also converged. Investors used to look only to bonds as their income source. Today, investors look to a variety of tools including stocks, and currencies as well as bonds, to find income opportunities. We expect this trend to continue in the years ahead.

We thank you for continuing to place your trust in us. Most important, we wish health and happiness for you and your families in the New Year.

Best wishes,

A handwritten signature in black ink, appearing to read "Joan A. Payden". The signature is fluid and cursive, with the first name "Joan" and last name "Payden" clearly distinguishable.

Joan A. Payden

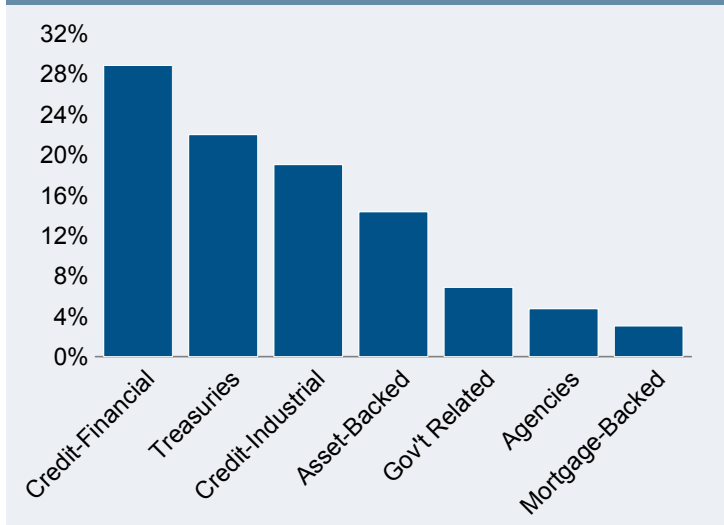
President & CEO

## Portfolio Review and Market Update - 4th Quarter 2015

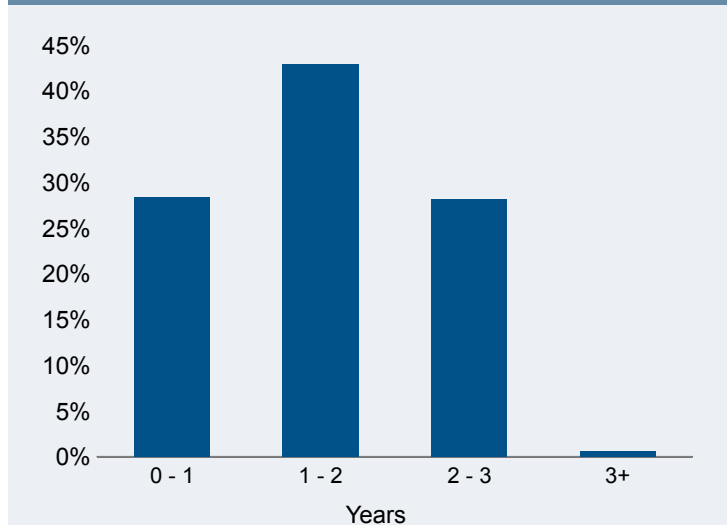
## PORTFOLIO CHARACTERISTICS (As of 12/31/2015)

Portfolio Market Value	\$119.8 million
Weighted Average Credit Quality	AA-
Weighted Average Duration	1.41 years
Weighted Average Yield to Maturity	1.61%

## SECTOR ALLOCATION



## DURATION DISTRIBUTION



## PORTFOLIO RETURNS - Periods Ending 12/31/2015

	4th Quarter	2015	Trailing 3 Yrs	Trailing 5 Yrs	Trailing 10 Yrs	Since Inception (1/1/01)
<b>CITY OF ORLANDO OP. RESERVE (gross)</b>	<b>-0.10%</b>	<b>1.07%</b>	<b>0.93%</b>	<b>1.58%</b>	<b>3.00%</b>	<b>3.38%</b>
CITY OF ORLANDO OP. RESERVE (net)	-0.14%	0.88%	0.74%	1.39%	2.81%	3.20%
BAML 1-3 Gov't/Credit Index*	-0.35%	0.67%	0.72%	1.04%	2.80%	3.09%

Periods over one year annualized

\*Lehman Gov't/Credit Index from 9/1/06 to 2/29/08. BAML 1-3 Year Treasury Index prior.



## MARKET THEMES

The Federal Reserve increased the overnight lending rate for the first time since 2006. Their decision to move rates higher by 0.25% in December was based on strength in the labor market and improvement in household spending, business investment, and housing market conditions. The yield curve flattened with shorter-maturity bond yields increasing more than longer-maturity bond yields. Credit markets were able to absorb higher rates and robust new issuance with spreads tightening modestly. However, persistent commodity weakness and increased geo-political tensions limited credit performance.

## STRATEGY

- The portfolio holds a diversified mix of credit sectors for income generation and was positioned in anticipation of rising short-term interest rates, including our expectation of a hike in the Federal Funds rate before year-end. After the mid-December rate hike, we began to extend the portfolio duration. We will continue to move maturities out the yield curve to capture the higher yields now available.
- Corporate bonds remain attractive, and we anticipate maintaining our exposure through the purchase of bonds in the new issue market. Within the corporate sector, we utilized floating-rate exposure to help mitigate interest rate risk.
- We maintain our allocation to high-quality asset-backed and mortgage-backed securities (ABS/MBS) with short duration profiles for their yield and diversification benefits.

## INTEREST RATES

- Treasury returns fell as short-maturity bonds rose 38 basis points on average during the quarter, with most of the move happening in November on the heels of strong employment data.
- The portfolio's underweight duration positioning was a positive contributor to performance.
- The longer-maturity corporate positions contributed positively as price appreciation from the modest spread tightening and the higher income outweighed the negative price return from rising yields.

## SECTORS

- Credit spreads tightened led by financial and auto companies as the Federal Reserve displayed confidence in the economy by raising rates. The portfolio's overweight to credit and our security selection added to performance.
- ABS and MBS spreads were mixed while the performance impact was positive due to the higher yields over Treasuries.



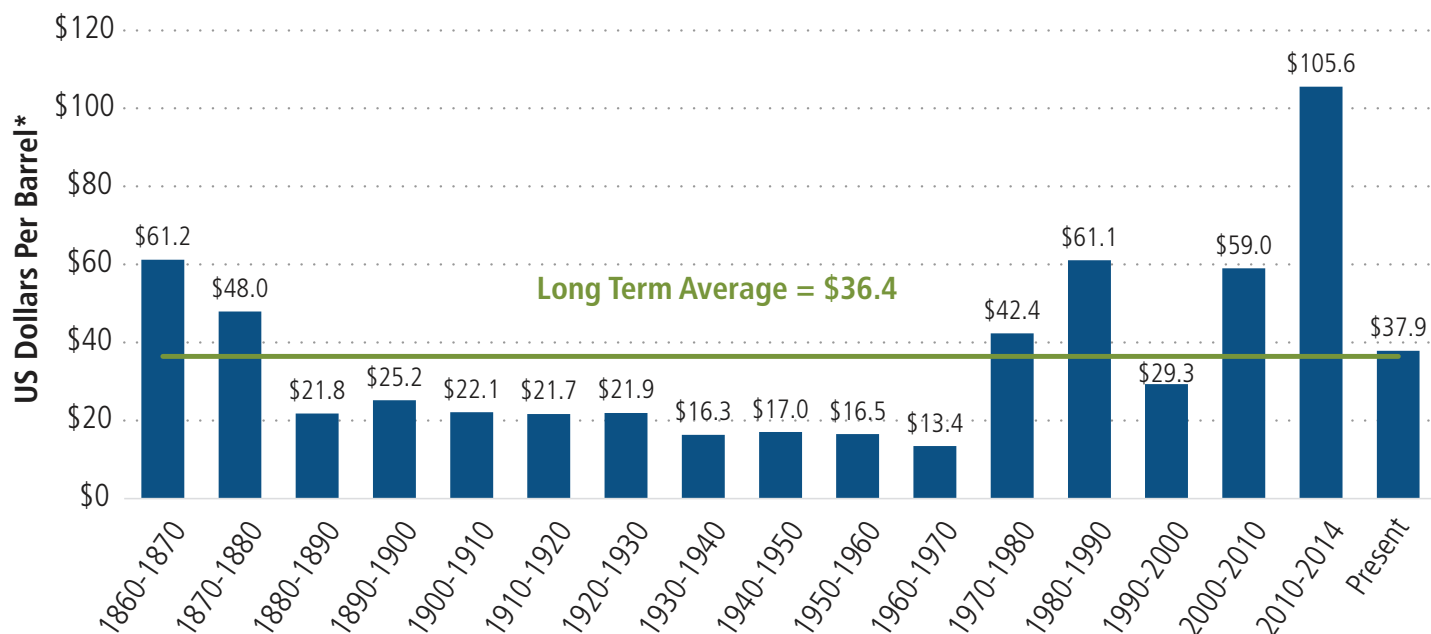
## MARKET PERSPECTIVE

### So Much for that Peak Oil Theory

The price of a barrel of oil tumbled to an 11 year low of \$34 in December, and oil's plunge impacted global markets in 2015. First we will look at the reasons behind the price decline and then we will address the market impact.

Both lower demand and excess supply drove the decline in oil. Lower demand was driven by lackluster global economic growth with the sum of goods and services rising just over 2% in 2015. A key reason for the slowdown in global growth was China. Economic output rose less than 7% in China (after years of growth rates closer to 10%) as the country attempted to realign its economy away from manufacturing and toward domestic consumption. From a supply perspective, the US and other oil producers continued to generate large quantities of oil and inventories of unsold production remained large. All things considered, and with the benefit of hindsight, lower oil prices make sense.

#### History of the Price of Oil on Global Markets



Sources: BP Statistical Review of Energy, Bloomberg, Payden Calculations

\* Decade averages: Inflation adjusted in 2014 dollars

But an important question remains: what is a "normal" price for oil? Many investors seem to think low oil prices are somehow abnormal. We have a different point of view. One of our favorite charts of 2015 (above) puts the dramatic oil price decline in proper perspective. Stripping out inflation, the real price of a barrel of oil simply returned to its long-term average since 1860 of \$36.40. Did the early part of this decade constitute an anomaly? We think so.

Oil's price decline goes a long way to explaining lackluster 2015 returns in both stocks and bonds. The S&P 500 index return was a modest 1.4% for the year, dragged down by the energy sector which has fallen more than 20%. Globally, equity markets of countries that import energy fared far better than those that export energy. For example, Japan's Nikkei did better than the MSCI Latin America index.

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INCOME RESEARCH + MANAGEMENT

## QUARTERLY INSTITUTIONAL MARKET COMMENTARY

December 31, 2015

Index Returns <sup>1</sup>	4Q15	3Q15
Barclays 1-3 Year Treasury	-0.43%	0.31%
Barclays Intermediate G/C	-0.69%	0.95%
Barclays Aggregate	-0.57%	1.23%
Barclays G/C	-0.74%	1.20%
Barclays Long G/C	-0.94%	2.18%
BofA Merrill Lynch Investment Grade Convertible	3.82%	-4.74%
Barclays TIPS	-0.64%	-1.15%
Barclays 1-10 Year Municipal Blend	0.79%	1.32%

## Corporates

- Investment-grade spreads rallied 14bps to 154bps through November as higher all-in yields brought in buyers; however, renewed commodity weakness drove spreads wider in December, closing the quarter at 165bps<sup>1</sup>
- The consistent themes of corporate consolidation and shareholder friendly activity continued, and spurred heavy primary market activity
  - 2015 issuance set a new annual record at over \$1.1 trillion<sup>2</sup>

## Securitized

- Agency mortgage-backed securities (MBS) outperformed Treasuries during the fourth quarter as the Fed's announcement that it would continue to reinvest MBS proceeds removed uncertainty
- Commercial mortgage-backed securities (CMBS) underperformed Treasuries by 0.28%, as heavy issuance during the quarter overwhelmed demand<sup>1</sup>

## Convertibles

- Investment-grade convertibles posted positive absolute performance in the fourth quarter, largely driven by a strong equity market rally in October<sup>3</sup>

## TIPS

- Real yields generally increased in the fourth quarter – the 10-year TIPS real yield rose 24bps to 0.71% as the Fed began normalizing monetary policy<sup>3</sup>

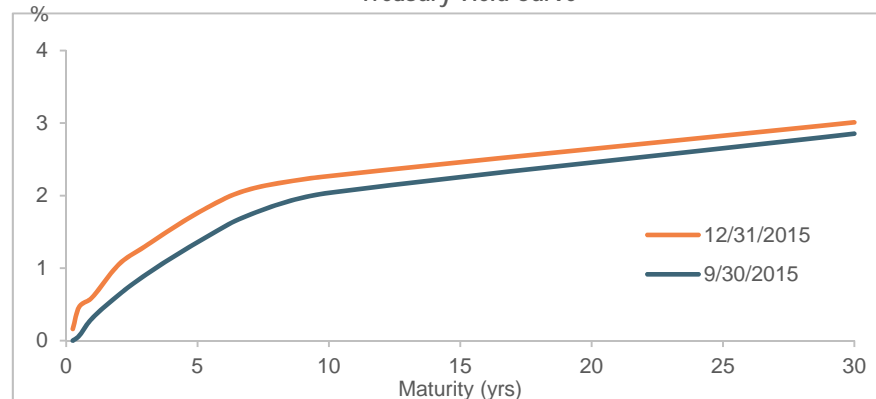
## Municipals

- The municipal market benefited from an attractive technical environment during the fourth quarter, as demand outpaced supply and drove positive total returns
- The Barclays Municipal Bond Index returned 1.50% in the fourth quarter, bringing annual performance to 3.30% for 2015<sup>1</sup>

Excess Returns <sup>1</sup>	4Q15	3Q15
Corporates	0.45%	-1.46%
MBS Hybrid ARMS	-0.13%	0.06%
CMBS	-0.28%	-0.05%
Interest Rates <sup>2</sup>	12/31/2015	9/30/2015
Fed Funds Target Rate	0.25-0.50%	0-0.25%
2-Year Treasury Rate	1.05%	0.63%
10-Year Treasury Rate	2.27%	2.04%
30-Year Treasury Rate	3.02%	2.85%

## Interest Rates

Treasury rates rose steadily during the fourth quarter as the Federal Reserve (Fed) indicated that tightening was on the horizon amid improving economic conditions. As expected, the Fed raised their target for the federal funds rate in December to a range of 0.25% to 0.50%. On the heels of the rate-hike decision, short-term Treasury rates moved modestly higher during December, extending the sell-off that started earlier in the fourth quarter. The 2-year Treasury closed the quarter 42bps higher at 1.05%, while longer-dated Treasuries were more stable over the same period; for instance, the 30-year yield moved just 17bps higher to 3.02%.<sup>3</sup>

Treasury Yield Curve<sup>2</sup><sup>1</sup>Barclays; <sup>2</sup>JPMorgan; <sup>3</sup>Bloomberg

All data in the above commentary is as of 12/31/15. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations for, or projected returns of any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management.



INCOME RESEARCH + MANAGEMENT

City of Orlando

## PORTFOLIO INVESTMENT REPORT

December 31, 2015

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### PORTFOLIO SUMMARY

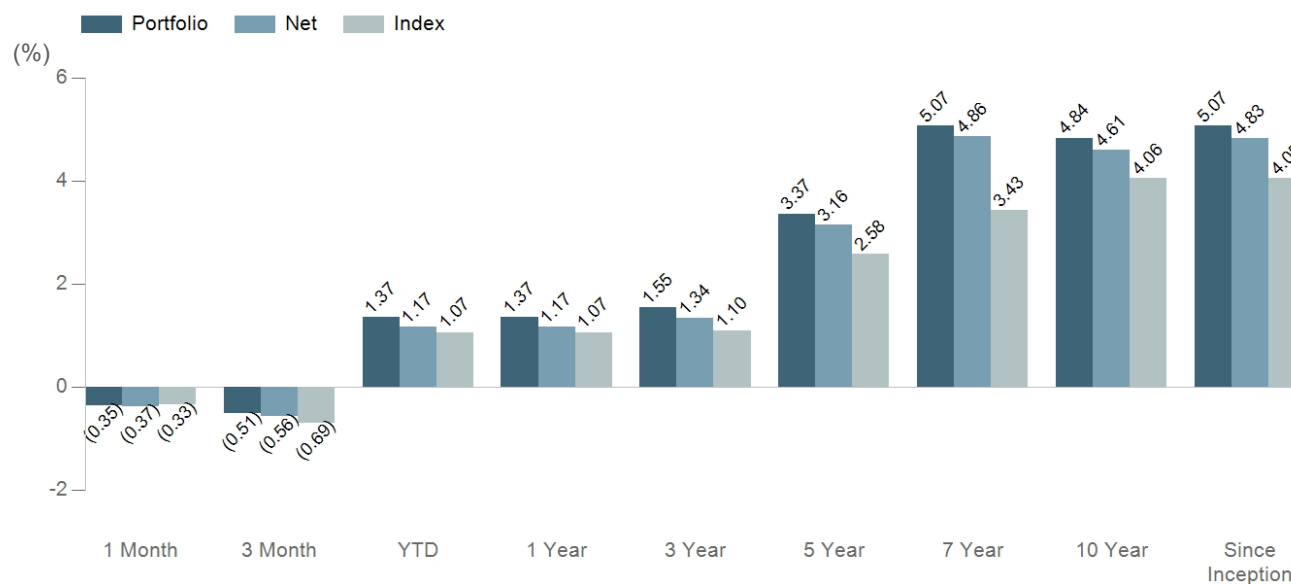
INCEPTION DATE:  
12/27/2000

MARKET VALUE:  
\$125,427,866.37

INDEX:  
Barclays Intermediate G/C Index

IR+M CONTACT:  
Matt Drasser  
(617) 330-9333  
mdrasser@incomeresearch.com

### INVESTMENT RESULTS



### PORTFOLIO CHARACTERISTICS

Characteristics	Portfolio 12/31/15	Index 12/31/15	Portfolio 12/31/14	Index 12/31/14
Yield (%)	2.52	2.06	2.11	1.67
Duration (yrs)	3.82	3.97	3.82	3.89
Convexity	0.23	0.21	0.21	0.20
Average Quality (Moody's/S&P)	Aa3/AA-	Aa2/AA-	Aa3/AA-	Aa2/AA-

Performance periods over 1 year are annualized.  
Net of Fee performance is calculated using the effective fee from the most recent quarterly invoice.  
Prior to 8/31/06 Index was BofA Merrill Lynch 1-5 Year Treasury Index.



## SECTOR DISTRIBUTION (%)

Sector	Portfolio 12/31/15	Index 12/31/15	Portfolio 12/31/14	Index 12/31/14
Government	35.5	61.7	31.6	62.4
Treasury	27.5	57.1	21.6	56.9
Agency	-	4.2	1.0	5.1
Govt Guaranteed	8.0	0.4	9.0	0.4
Credit	39.5	38.0	38.5	37.4
Finance	13.3	11.5	13.8	11.4
Industrial	22.0	18.1	19.3	16.7
Utility	3.6	1.6	4.7	1.6
Non-corporate	0.6	6.8	0.7	7.7
Securitized	21.4	-	27.2	-
RMBS	1.5	-	3.6	-
ABS	8.3	-	8.6	-
CMBS	11.6	-	15.0	-
Municipal	3.3	0.3	2.4	0.2
Pre-Refund/ETM	0.4	-	0.5	-
GO	-	0.1	-	0.1
Revenue	2.9	0.1	1.9	0.1
Municipal Other	-	0.1	-	-
Cash & Equiv	0.3	-	0.5	-
Cash & Equiv	0.3	-	0.5	-
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

## QUALITY DISTRIBUTION (%)

Rating	Portfolio 12/31/15	Index 12/31/15	Portfolio 12/31/14	Index 12/31/14
AAA	47.5	64.6	50.2	65.2
AA	8.3	5.9	8.0	6.1
A	22.0	13.4	19.6	14.7
BBB	22.0	16.1	21.7	14.0
Cash & Equiv	0.3	-	0.5	-
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Average Quality (Moody's/S&P)	Aa3/AA-	Aa2/AA-	Aa3/AA-	Aa2/AA-

## CONTRIBUTION TO DURATION (YRS)

Sector	Portfolio 12/31/15	Index 12/31/15	Portfolio 12/31/14	Index 12/31/14
Government	1.82	2.34	1.53	2.29
Credit	1.60	1.61	1.75	1.59
Securitized	0.31	-	0.48	-
Municipal	0.09	0.01	0.06	0.01
<i>Total</i>	<i>3.82</i>	<i>3.97</i>	<i>3.82</i>	<i>3.89</i>





INCOME RESEARCH + MANAGEMENT

City of Orlando  
PORTFOLIO SUMMARY

December 31, 2015

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Portfolio Returns as of 12/31/2015

	<u>Month</u>	<u>Trailing 3 Months</u>	<u>Fiscal YTD*</u>	<u>Annualized Fiscal Year**</u>	<u>Since Inception Annualized**</u>	<u>Last 12 Months</u>
<u>Portfolio</u>						
Gross	(0.35%)	(0.51%)	(0.51%)	(2.01%)	5.07%	1.37%
Net	(0.37%)	(0.56%)	(0.56%)	(2.20%)	4.83%	1.17%
<u>Index****</u>						
Barclays Intermediate G/C Index	(0.33%)	(0.69%)	(0.69%)	(2.71%)	4.05%	1.07%

\*Fiscal Year ends: September 30

\*\*As requested, we have annualized Fiscal YTD return. However, please note this methodology is not GIPS compliant, and there can be no assurances regarding future returns.

\*\*\*Inception Date: 12/27/00

\*\*\*\*Prior to 8/31/06 Index was Merrill Lynch 1-5 Year Treasury Index.

Portfolio Summary

	<u>Begin Month</u>	<u>End Month</u>
Market Value	\$125,065,748	\$124,550,866
Accrued Interest	\$804,846	\$877,000
Market Value including Accrued Interest	\$125,870,595	\$125,427,866
Average Quality	AA-	AA-
Effective Duration	3.83	3.82
Yield to Maturity	2.33	2.52
Yield to Maturity at Book	121.55	119.91
Convexity	0.24	0.23

Compliance Verification

	<u>Max/Min Allowed</u>	<u>Actual</u>	<u>Complies</u>
Portfolio Guideline			
Sectors			
US Governments	15% Min	35.5%	✓
Treasury	5% Min	27.5%	✓
Agency		0.0%	✓
Govt Guaranteed		8.0%	✓
Securitized	35% Max	21.4%	✓
RMBS****		1.5%	✓
CMBS****	30% Max	11.6%	✓
ABS		8.3%	✓
Credit	85% Max	39.5%	✓
Non-Corporate	20% Max	0.6%	✓
Utility		3.6%	✓
Industrial		22.0%	✓
Finance		13.3%	✓
Municipal	10% Max	3.3%	✓
Cash	5% Max	0.3%	✓
Quality	<u>Max/Min Allowed</u>	<u>Actual</u>	<u>Complies</u>
Minimum Quality			
Individual Security	Ba/BBB	Baa3/BBB-	***
Portfolio	A+	AA-	✓
BBB and below Securities	25% Max	22.0%	✓
Effective Duration**			
Individual Security	NA	8.56	✓
Barclays Int G/C	NA	3.97	NA
Portfolio vs. Barclays Int G/C	+/- 0.5 yrs	(0.15)	✓

\*\*Note: Effective duration is the most accurate measure of duration for the portfolio due to the high weighting of puttable bonds.

\*\*\*Exception request for the temporary holding of Lehman assets is currently under review with the Investment Committee of the City of Orlando.

\*\*\*\* Due to Barclays' inclusion of agency mortgages backed by multifamily collateral to its Aggregate indexes on June 30, 2014, we have reclassified these securities from RMBS to CMBS.



INCOME RESEARCH + MANAGEMENT

City of Orlando

## COMPLIANCE STATEMENT

December 31, 2015

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According to the investment objectives provided to Income Research + Management, the City of Orlando portfolio managed by IR+M was in compliance as of 12/31/2015.

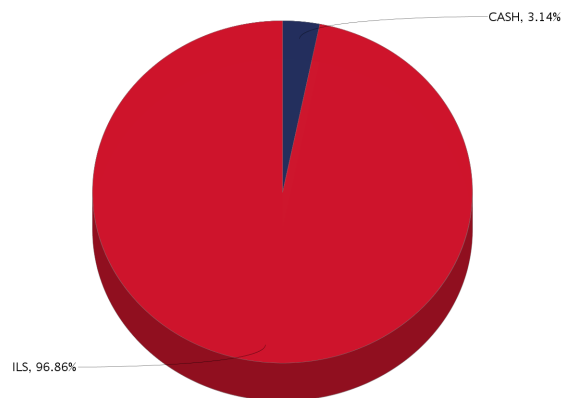
A handwritten signature in black ink, appearing to read 'Rick Kizik', written over a horizontal line.

Rick Kizik, Chief Compliance Officer

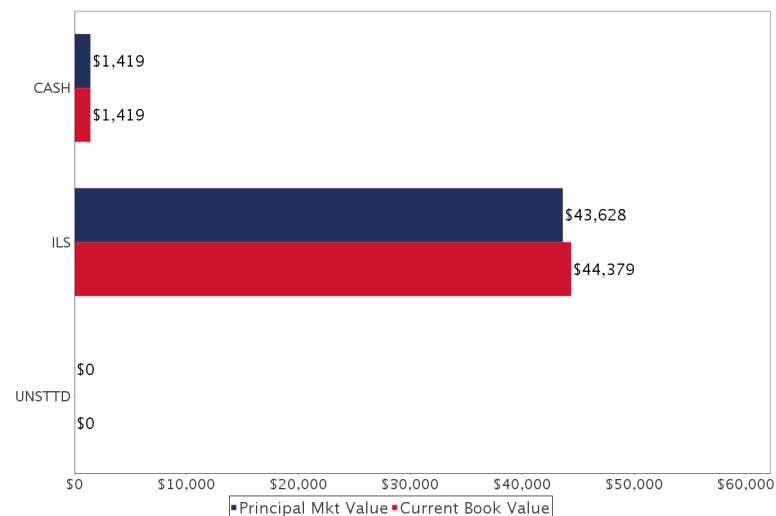
**BROWN BROTHERS  
HARRIMAN**

## Portfolio Overview Report

### Asset Allocation



### Principal Mkt Value vs Current Book Value



### Portfolio Characteristics

Weighted Average Quality\*\*\* GOV

### Portfolio Holdings

	Sector Market Value USD	YTM ( % )	Allocation ( % )
CASH - Cash and Cash Equivalents	1,419,281.30	- %	3.14%
ILS - Inflation-Indexed Securities	43,782,858.88	0.62%	96.86%
UNSTTD - Cash Due To/From Counterparties*	-	- %	- %
<b>Total Portfolio</b>	<b>45,202,140.18</b>	<b>0.62%</b>	<b>100.00%</b>

\* Net Cash Due to/from Counterparties: unsettled trades, interest, and paydowns due but not yet received.

All data above are based on information believed to be correct but cannot be guaranteed for tax reporting purposes. This should be checked against your reports and verified by your tax preparer.

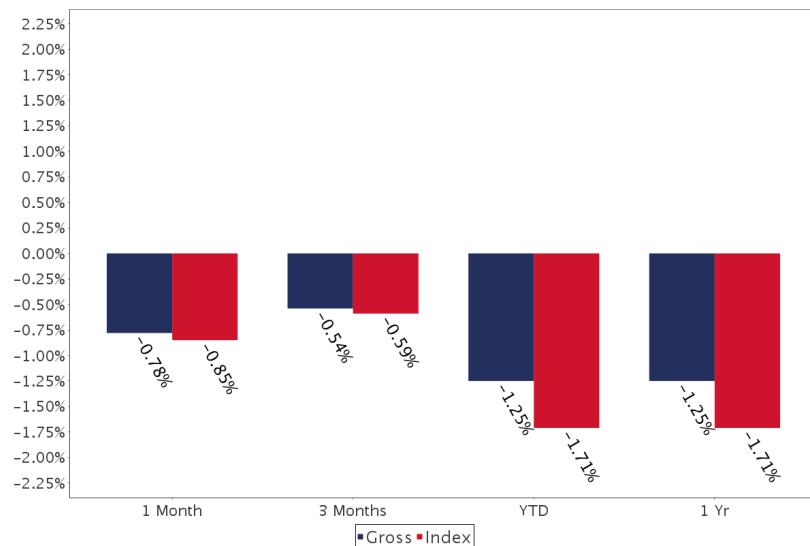
## Performance Summary Report

Reporting Currency: USD

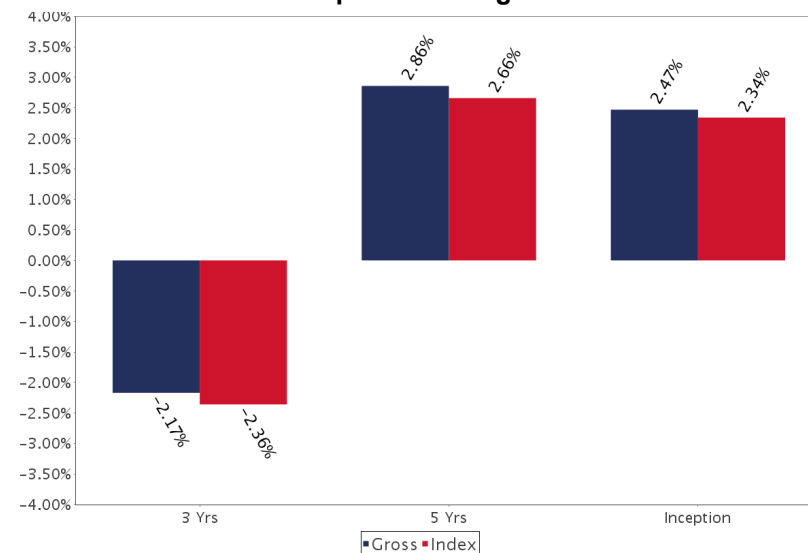
	Annualized							
	1 Month	3 Months	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
CITY OF ORLANDO TIPS ACCOUNT Gross	-0.78 %	-0.54 %	-1.25 %	-1.25 %	-2.17 %	2.86 %	n/a	2.47 %
The BofA Merrill Lynch US Inflation-Linked Treasur	-0.85 %	-0.59 %	-1.71 %	-1.71 %	-2.36 %	2.66 %	n/a	2.34 %

## Performance Overview Report

**Returns period ending Dec-31-2015**



**Annualized Returns period ending Dec-31-2015**



### Activity Summary

Beginning Market Value	45,555,084
Net Capital Added ( Withdrawn )	3,687
Net Investment Return:	
Interest Received	-
Change in Accrued Interest	29,376
Accretion / Amortization	(36,411)
Realized Gain/Loss	(65,192)
Unrealized Gain/Loss on Asset Transfer	-
Change in Unrealized Gain/Loss	(284,404)
Total Net Investment Return	(356,631)
Ending Market Value	45,202,140
Average Investable Assets during Period:	45,557,106

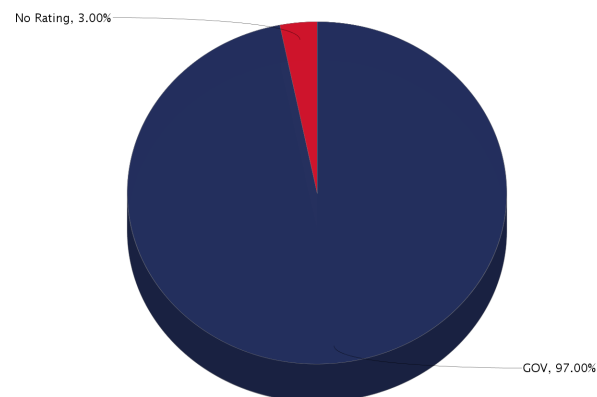
## Distribution By Quality (High\*)

Reporting Currency: USD

## Legend

CASH	Cash and Cash Equivalents
MUNI	Municipal Securities
UST	U.S. Treasuries
SOV	Sovereign Non-U.S. Treasuries
ILS	Inflation-Linked Securities
AGY	Agency Securities
CORP	Corporate Securities
MBS	Mortgage-Backed Securities
ABS	Asset-Backed Securities
EQUITY	Equity
OTHER	Other Securities

Quality Distribution



	CASH	MUNI	UST	SOV	ILS	AGY	CORP	MBS	ABS	EQUITY	OTHER	TOTAL
GOV	-	-	-	-	43,782,858.88	-	-	-	-	-	-	43,782,858.88
AGN	-	-	-	-	-	-	-	-	-	-	-	-
AAA	-	-	-	-	-	-	-	-	-	-	-	-
AA	-	-	-	-	-	-	-	-	-	-	-	-
A	-	-	-	-	-	-	-	-	-	-	-	-
BBB	-	-	-	-	-	-	-	-	-	-	-	-
NR or Below BBB	-	-	-	-	-	-	-	-	-	-	-	-
Short Term	-	-	-	-	-	-	-	-	-	-	-	-
No Rating	1,419,281.30	-	-	-	-	-	-	-	-	-	-	1,419,281.30
Total	1,419,281.30	-	-	-	43,782,858.88	-	-	-	-	-	-	45,202,140.18

\* This report distributes the portfolio's assets by the rating. Rating is defined as the Higher or Lower by comparison of S&P and Moody's as indicated in the title.

All data above are based on information believed to be correct but cannot be guaranteed for tax reporting purposes. This should be checked against your reports and verified by your tax preparer.

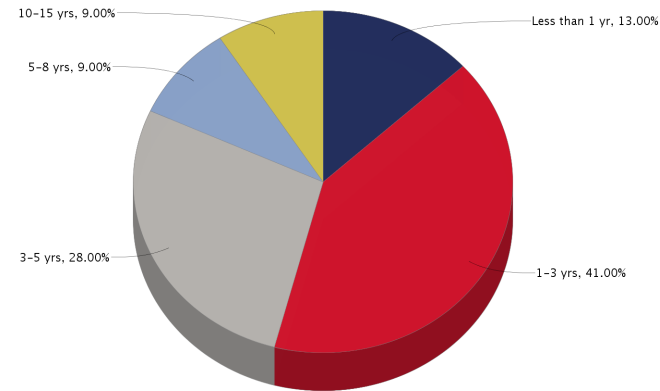
## Distribution By Duration

Reporting Currency: USD

### Legend

CASH	Cash and Cash Equivalents
MUNI	Municipal Securities
UST	U.S. Treasuries
SOV	Sovereign Non-U.S. Treasuries
ILS	Inflation-Linked Securities
AGY	Agency Securities
CORP	Corporate Securities
MBS	Mortgage-Backed Securities
ABS	Asset-Backed Securities
EQUITY	Equity
OTHER	Other Securities

Duration Distribution



	CASH	MUNI	UST	SOV	ILS	AGY	CORP	MBS	ABS	EQUITY	OTHER	TOTAL
Less than 1 yr	1,419,281.30	-	-	-	4,545,362.94	-	-	-	-	-	-	5,964,644.24
1-3 yrs	-	-	-	-	18,499,413.28	-	-	-	-	-	-	18,499,413.28
3-5 yrs	-	-	-	-	12,504,278.81	-	-	-	-	-	-	12,504,278.81
5-8 yrs	-	-	-	-	4,111,343.16	-	-	-	-	-	-	4,111,343.16
8-10 yrs	-	-	-	-	-	-	-	-	-	-	-	-
10-15 yrs	-	-	-	-	4,122,460.69	-	-	-	-	-	-	4,122,460.69
More than 15 yrs	-	-	-	-	-	-	-	-	-	-	-	-
No Duration	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,419,281.30	-	-	-	43,782,858.88	-	-	-	-	-	-	45,202,140.18



## BBH U.S. TIPS Strategy

### Quarterly Strategy Update / 4Q 2015

#### Heads or Tails (Winds)?

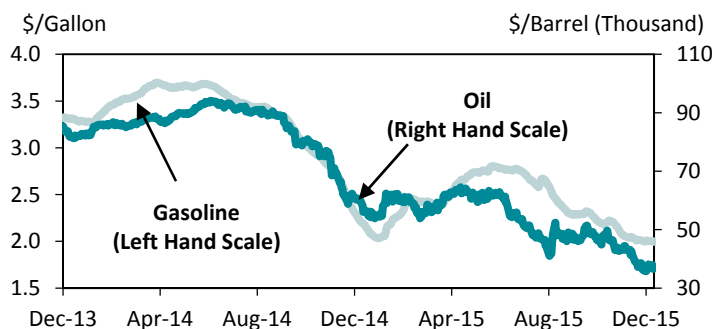
The Federal Reserve's decision in December to raise the Federal Funds target rate range by 25 basis points<sup>1</sup> was a major milestone worthy of reflection. The action marked the first step in what is likely to be a gradual, but persistent reversal of highly accommodative monetary policy that had been in place for seven years. Beside a zero percent Federal Funds rate, the central bank's monetary policy actions during that period also included three unprecedented bond buying initiatives, affectionately known as QE 1-2-3, and a "twist" (The swapping of short-maturity debt for long-maturity debt). These actions increased the Federal Reserve's balance sheet to over \$4 trillion from below \$1 trillion prior to the crisis. While the Fed's policy actions remain controversial, most would agree they were decisive and their outcome — a quickly healing banking system and sustained six-year economic expansion — were certainly welcomed. The Federal Reserve's December rate hike was well telegraphed and its forward guidance for 2016 was generally consistent with market expectations, already discounted into rates. As a result, the reaction in fixed income markets to the move was not particularly eventful.

Much more significant to the performance of fixed income markets in 2015 was the unrelenting decline of commodity prices, particularly oil prices, which at \$37/barrel for West Texas Intermediate (WTI) crude, ended the year near its low for the cycle. With significant leverage applied to the energy sector in recent years, the enormous decline in prices has led to a great deal of stress in credit markets. High Yield excess returns<sup>2</sup> were down more than 500 basis points in 2015, and most investment grade sectors also underperformed U.S. Treasuries. U.S. TIPS did not fare well either. Flight-to-quality trades often lead to lagging TIPS performance, but this year falling gasoline prices and CPI inflation were more likely the driver. While gasoline prices currently only make up 3.5% of the Consumer Price Index (CPI), they declined by 25%, leading to a disproportionate impact on the index of approximately 1%. The substantial weakness of this constituent led to a CPI reading near 0% percent for much of the year, and not surprisingly, lower investor inflation expectations which negatively impacted TIPS valuations. As measured by the Barclays U.S. TIPS index, U.S. TIPS returned -0.64% in the fourth quarter and -1.44% for 2015. While TIPS modestly outperformed nominal U.S. Treasuries in the fourth quarter due to a slight increase in investor inflation expectations TIPS, like credit, significantly underperformed for the year.

<sup>1</sup> A unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

<sup>2</sup> Sector returns compared to U.S. Treasuries

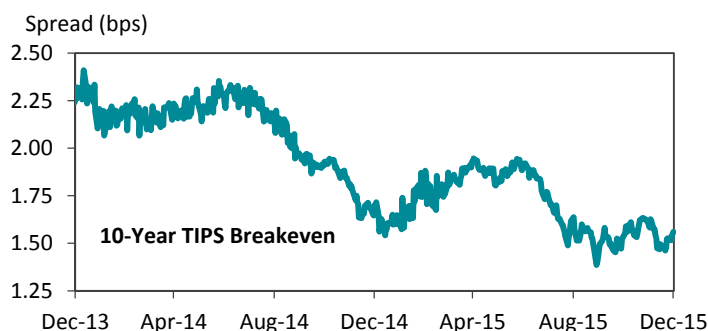
#### Gasoline and Oil Prices (Trailing 12 Months)



Sources: Bloomberg and BBH Analysis

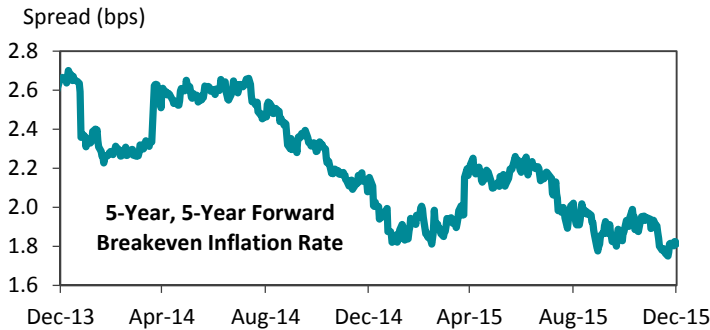
While gasoline prices have fueled the most recent leg of low inflation and weak investor inflation expectations, several other factors are also culpable. Primary among these factors have been the lack of wage growth despite steadily improving labor market conditions, economic growth concerns in Europe and China, and the recent strength of the U.S. dollar. No doubt these are a fairly daunting set of headwinds to inflation, and they have resulted in tepid demand for the inflation-protected asset class in recent years. At year's end, investor inflation expectations, as measured by the ten-year breakeven inflation rate and the five-year, five-year forward breakeven inflation rate were 1.57%, and 1.72%, respectively. These readings are well below the historic average for U.S. inflation (2.5% to 3%) and the Fed's stated target of 2%, and they reflect a very bearish outlook for inflation. However, from today's low levels, one does not have to make a particularly bullish case for inflation to envision a scenario where U.S. TIPS outperform their nominal counterpart. Here are few things inflation naysayers should consider.

#### 10-Year TIPS Breakeven Inflation Rate



Sources: Bloomberg and BBH Analysis

*This information has been prepared for sophisticated investors*

**5-Year, 5-Year Forward Breakeven Inflation Rate**

Sources: Bloomberg and BBH Analysis

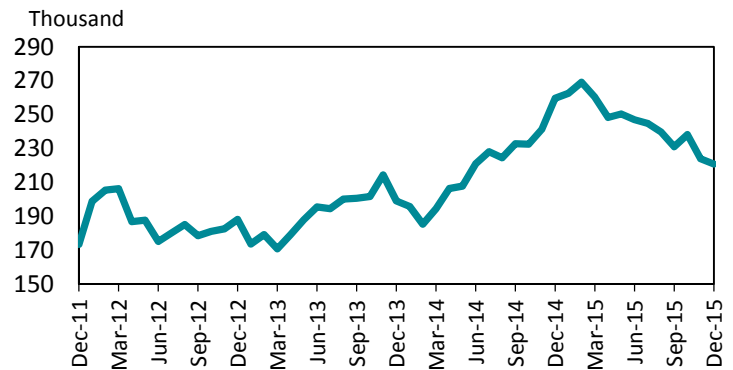
First, the size of gasoline's constituency in the CPI has declined with the substantial drop in prices during the past two years (5% in December, 2013 vs. 3.5% in November, 2015). Therefore, further declines in the price of gasoline, should they occur, will have less of an impact on the index going forward. Not to mention that further declines anywhere near the magnitude already experienced seem less likely given the low starting point. If gasoline prices simply remain unchanged in 2015, this alone would remove nearly 1% of downside impact to CPI.

Second, it probably comes as no surprise to our readers that a number of constituents of the CPI related to education, medical and housing costs have been steadily rising. While their impact has been meaningful, it has largely been eclipsed by the sharp decline in energy prices. This is evidenced by the large disparity between core inflation (CPI Ex. Food and Energy), currently 2% year-over-year through November, and the full CPI at just 0.5% year-over-year through November. Once again, if energy prices simply stabilize the steady price increases in these constituents will become more apparent in the CPI and should play a greater role in shaping forward looking investor inflation expectations.

Third, many observers continue to question the inherent strength of U.S. labor market data given the low participation rates and stagnant wage growth. While these factors probably help to explain the sluggish labor market recovery to date, job creation in excess of 200,000 per month for the past five years and a declining unemployment rate, now at 5%, indicate that the return of wage growth is likely inching ever closer.

Finally, net supply of TIPS is expected to decline by 10% in 2016. We believe this positive technical factor is particularly notable in light of better demand evidenced by stronger auction results in recent months. Anecdotally, we have seen a meaningful increase in TIPS active management inquiries over the past six months.

Could the headwinds of recent quarters be easing or even shifting to tailwinds? It is early to say, but we continue to note that CPI and/or expectations need only trend back towards the Fed's target and historic norms to significantly outperform nominal U.S. Treasuries. At BBH we are value investors, and our experience in this asset class tells us that TIPS remain at levels which have historically offered attractive relative value to nominal U.S. Treasuries.

**Nonfarm Payroll Net Changes (1-Year Rolling Average)**

Sources: Bloomberg and BBH Analysis

The active BBH U.S. TIPS strategy performed quite well versus the passive index and our peer group both in the fourth quarter and throughout 2015. Depending on guideline constraints, accounts were typically up 10-20 basis points relative to the index for the quarter and 40-50 basis points in 2015. Fourth quarter outperformance was attributable to several factors. We maintained portfolio durations shorter than the benchmark for much of the year anticipating higher real rates. This underweight was concentrated in shorter maturity securities where we believed the impact of Fed rate hikes would be more pronounced. The position was additive during the quarter as real rates did indeed move 10-20 basis points higher for maturities less than ten years. Positions implemented in anticipation of seasonal yield curve flattening and concentrated security selection based upon roll down analysis were also additive to relative performance during the quarter. In eligible accounts, we maintained long-breakeven positions which further added to relative performance as breakeven inflation rates moved modestly higher during the quarter.

We ring in the New Year with continued expectations for higher real rates, normalizing U.S. inflation, and rising investor inflation expectations from depressed levels. In line with this view, we continue to maintain a duration target in client portfolios short of benchmarks. Seasonal patterns suggest that breakeven inflation rates often rise in the first half of the calendar year and that the real yield curve typically steepens. With more than one reason to believe inflation expectations will rise, we have positioned for this in eligible accounts. We have also implemented a bulleted yield curve position in expectation of seasonal yield curve steepening ahead of the approach of the summer driving season. We wish our readers a happy and prosperous New Year and remain grateful for your continued support.

Sincerely,

James J. Evans, CFA  
Portfolio Manager



**OPEB**

## TOTAL GROSS OF FEES

12/31/2015

Account Name Benchmark Name	Market Value	% of Total	Month	3 Months	Fiscal YTD	YTD	1 Year	Annualized			12/1/2009 - 12/31/2015
								2 Years	3 Years		
OPEB Total Fund	86,646,161.76	100.00	-1.60	2.68	2.68	-1.98	-1.98	1.68	5.51	7.38	
U.S. Equity	29,334,332.62	33.86	-2.63	5.92	5.92	0.27	0.27	5.44	14.58	13.82	
Rhumbline S&P 500	19,681,046.58	22.71	-1.57	7.03	7.03	1.37	1.37	7.33	15.08	13.11	
S&P 500 - Total Return Index			-1.58	7.04	7.04	1.38	1.38	7.36	15.13	13.15	
Excess Return			0.01	-0.01	-0.01	-0.01	-0.01	-0.03	-0.05	-0.03	
Rhumbline S&P 600	9,653,286.04	11.14	-4.73	3.72	3.72	-1.89	-1.89	1.87	13.59	15.13	
S&P Smallcap 600 Index			-4.79	3.72	3.72	-1.97	-1.97	1.82	13.57	15.18	
Excess Return			0.05	-0.01	-0.01	0.08	0.08	0.06	0.01	-0.05	
International Equity	10,368,462.23	11.97	-2.07	6.86	6.86	-3.64	-3.64	-4.35	2.11	3.88	
Artisan Intl Eq	10,368,462.23	11.97	-2.07	6.86	6.86	-3.52	-3.52				
MSCI All Country World Ex United States Net Index			-1.88	3.24	3.24	-5.66	-5.66				
Excess Return			-0.19	3.62	3.62	2.14	2.14				
Fixed Income	30,045,585.66	34.68	-0.43	-0.44	-0.44	0.37	0.37	3.68	2.05	4.25	
Inc Res & Mgmt Core	30,045,585.66	34.68	-0.43	-0.44	-0.44	0.37	0.37	3.68	2.05	4.25	
Barclays U.S. Aggregate Bond Index			-0.32	-0.57	-0.57	0.55	0.55	3.22	1.44	3.47	
Excess Return			-0.11	0.13	0.13	-0.18	-0.18	0.46	0.61	0.78	
Cash Account	138,636.02	0.16	0.02	0.03	0.03	0.05	0.05	0.04	0.04	0.07	
Multi-Asset Class	16,759,145.23	19.34	-1.53	-0.01	-0.01	-8.70	-8.70	-4.06	-2.48	3.48	
PIMCO All Asset Fund	16,759,145.23	19.34	-1.53	-0.01	-0.01	-8.70	-8.70	-4.06	-2.48	3.48	
CPI plus 500 bps			0.07	0.64	0.64	5.73	5.73	5.74	6.00	6.48	
Excess Return			-1.60	-0.66	-0.66	-14.43	-14.43	-9.81	-8.48	-3.00	