



PFM Asset Management LLC

CITY OF NORTHFIELD

Investment Performance Review For the Year Ended December 31, 2016

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Summary

- Bond yields and equity prices soared following the U.S. presidential election in November, as President-elect Donald Trump's proposed policies and his intentions to ramp up government spending boosted inflation expectations and growth forecasts. Major stock indexes including the S&P 500, NASDAQ, and Dow Jones Industrial Average closed at record highs during the quarter.
- On December 14, the Federal Open Market Committee (FOMC) raised the federal funds target range by 0.25% to a range of 0.50% to 0.75%. The unanimous decision, in line with market expectations, was the first rate hike since December 2015. The FOMC also released updated economic forecasts and a new "dot plot," forecasting three rate hikes in 2017.
- Central banks outside the U.S. continued to pursue accommodative monetary policy amid slow growth and low inflation. The European Central Bank (ECB) kept its benchmark interest rate at 0% and continued its asset purchase program, as did the Bank of England (BOE). At the same time, the Bank of Japan (BOJ) continued its quantitative easing programs aimed at keeping the 10-year Japanese government bond yield near 0% and expanding money supply until inflation remains above the 2% target.
- The Organization of the Petroleum Exporting Countries (OPEC) agreed in late November to a combined reduction in daily production. The agreement caused the price of oil to increase more than 10% during the fourth quarter.

Economic Snapshot

- The U.S. economy gained momentum during the latter half of the year. The labor market continued to show strength, booking a solid quarter of job gains. The housing market also strengthened in the fourth quarter as Americans continued to take advantage of historically low interest rates, driving home sales to decade-high levels.
- U.S. gross domestic product (GDP) grew at a 3.5% rate in the third quarter, rebounding from modest growth during the first half of 2016. (Fourth quarter GDP data is not yet available.) Consumer spending and exports contributed to the pick-up in expansion, while private inventories grew for the first time since the start of 2015.
- The unemployment rate fell to 4.6% during the fourth quarter — a post-recession low. In another positive sign, job openings remained near record highs, while initial unemployment filings remained near record lows.

- December's addition of 156,000 jobs finished a year of solid job growth performance in which the U.S. added 2.2 million net new jobs. For the year, wages rose 2.9%, the fastest pace since 2009.
- Americans continued to feel more confident about the economy as the Conference Board's December reading climbed to a 15-year high, and sentiment strengthened further as the University of Michigan's Consumer Sentiment Index reached its highest level since January 2004.

Interest Rates

- Interest rates surged in the fourth quarter, ending the year with net increases and a steeper yield curve. The two-year Treasury yield increased 43 basis points (bps) for the quarter, while the yield on the 10-year Treasury rose 85 bps — a considerable rebound from July's record-low yield.
- In the money market space, shorter-term Treasury yields rose alongside expectations of a Federal Reserve rate hike. Money market reforms took effect in October, significantly altering the supply-demand dynamic in the money markets. Yields on short-term credit instruments, such as commercial paper and negotiable bank certificates of deposit (CDs), continued to remain elevated and offer significant incremental yield.

Sector Performance

- U.S. Treasury indexes posted losses for the fourth quarter, declining for the second straight quarter as yields rose. For the year, returns were positive but muted. Shorter maturity issues outperformed longer maturities as the yield curve steepened.
- Federal agency yield spreads drifted tighter during the quarter as supply diminished, leading to the sector's modest outperformance relative to comparable-maturity Treasuries.
- Corporate yield spreads remained mostly unchanged until the November 8 presidential election, after which they tightened, reaching new lows for the year. Corporates outperformed Treasuries every quarter in 2016, resulting in the sector's best year since 2012.
- Mortgage-backed securities (MBS) generally underperformed Treasuries amid increased extension risk due to the rise in interest rates. Asset-backed securities (ABS) outperformed Treasuries due to declining prepayment risk.

Economic Snapshot

Labor Market		Latest	Sep 2016	Dec 2015
Unemployment Rate	Nov16	4.6%	5.0%	5.0%
Change In Non-Farm Payrolls	Nov16	178,000	208,000	271,000
Average Hourly Earnings (YoY)	Nov16	2.5%	2.7%	2.6%
Personal Income (YoY)	Nov16	3.5%	3.6%	4.0%
Initial Jobless Claims (week)	12/24/16	265,000	246,000	285,000

Growth		Latest	Sep 2016	Dec 2015
Real GDP (QoQ SAAR)	2016Q3	3.5%	1.4% ¹	2.0% ²
GDP Personal Consumption (QoQ SAAR)	2016Q3	3.0%	4.3% ¹	2.7% ²
Retail Sales (YoY)	Nov16	3.8%	3.3%	2.8%
ISM Manufacturing Survey (month)	Nov16	53.2	51.5	48.0
Existing Home Sales SAAR (month)	Nov16	5.61 mil.	5.49 mil.	5.45 mil.

Inflation / Prices		Latest	Sep 2016	Dec 2015
Personal Consumption Expenditures (YoY)	Nov16	1.4%	1.2%	0.6%
Consumer Price Index (YoY)	Nov16	1.7%	1.5%	0.7%
Consumer Price Index Core (YoY)	Nov16	2.1%	2.2%	2.1%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$53.72	\$48.24	\$37.04
Gold Futures (oz.)	Dec 31	\$1,152	\$1,313	\$1,060

1. Data as of Second Quarter 2016

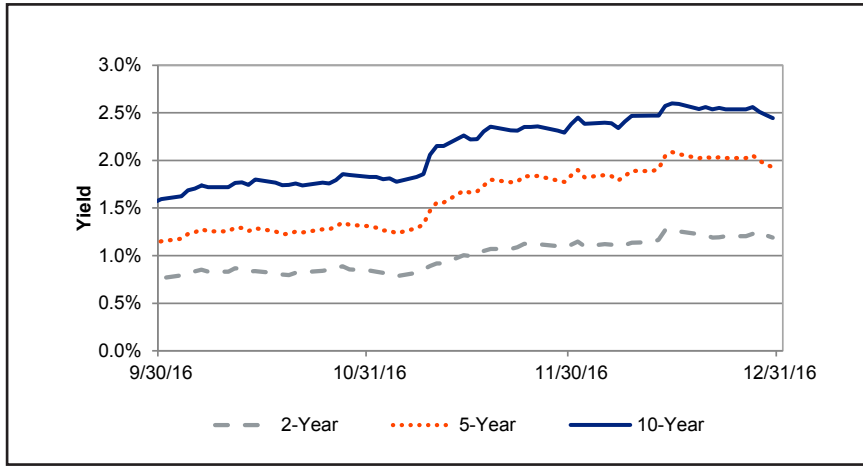
2. Data as of Third Quarter 2015

Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

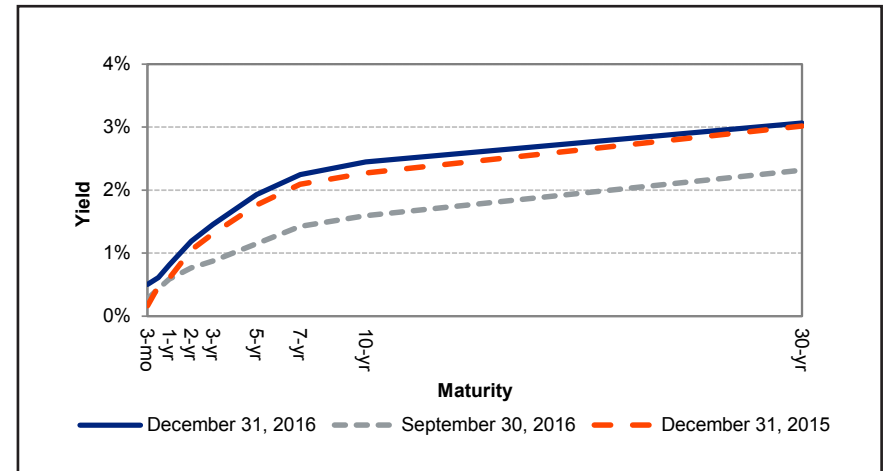
Source: Bloomberg.

Interest Rate Overview

U.S. Treasury Note Yields



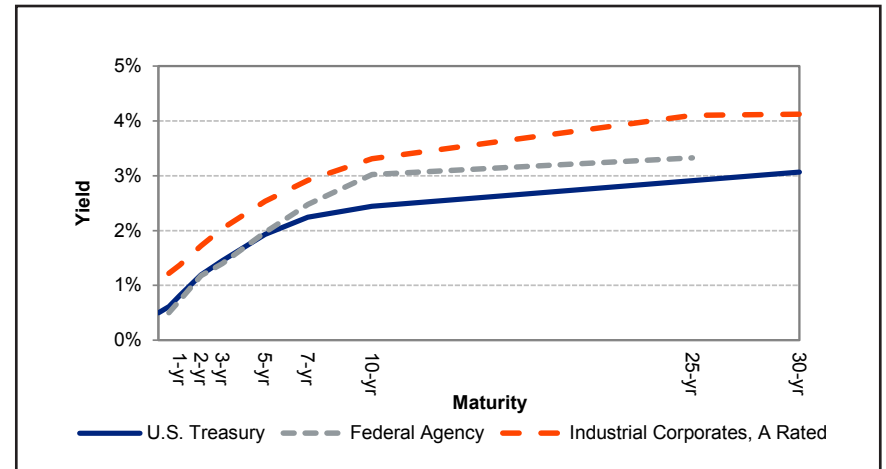
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	12/31/16	9/30/16	Change over Quarter	12/31/15	Change over Year
3-month	0.50%	0.28%	0.22%	0.17%	0.33%
1-year	0.81%	0.59%	0.22%	0.60%	0.21%
2-year	1.19%	0.76%	0.43%	1.05%	0.14%
5-year	1.93%	1.15%	0.78%	1.76%	0.17%
10-year	2.45%	1.60%	0.85%	2.27%	0.18%
30-year	3.07%	2.32%	0.75%	3.02%	0.05%

Yield Curves as of 12/31/16



Source: Bloomberg.

QUARTERLY MARKET SUMMARY

BofA Merrill Lynch Index Returns

	As of 12/31/16		Returns for Periods ended 12/31/16		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.89	1.18%	(0.43%)	0.89%	0.68%
Federal Agency	1.86	1.29%	(0.34%)	0.96%	0.78%
U.S. Corporates, A-AAA rated	1.85	1.89%	(0.28%)	1.81%	1.35%
Agency MBS (0 to 3 years)	2.10	1.95%	(0.91%)	0.52%	1.09%
Taxable Municipals	1.85	2.34%	(0.40%)	2.47%	2.34%
1-5 Year Indices					
U.S. Treasury	2.71	1.42%	(1.09%)	1.09%	1.10%
Federal Agency	2.33	1.45%	(0.72%)	1.12%	1.13%
U.S. Corporates, A-AAA rated	2.72	2.20%	(0.95%)	2.19%	1.94%
Agency MBS (0 to 5 years)	3.31	2.20%	(1.81%)	1.26%	2.12%
Taxable Municipals	2.53	2.41%	(0.80%)	3.15%	3.06%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.23	1.90%	(3.96%)	1.14%	2.63%
Federal Agency	3.97	1.82%	(2.08%)	1.50%	2.17%
U.S. Corporates, A-AAA rated	6.91	3.03%	(3.15%)	4.23%	4.04%
Agency MBS (0 to 30 years)	4.88	2.76%	(1.98%)	1.67%	3.04%
Taxable Municipals	3.86	2.96%	(1.77%)	3.64%	4.19%

Returns for periods greater than one year are annualized.

Source: BofA Merrill Lynch Indices.

Disclosures

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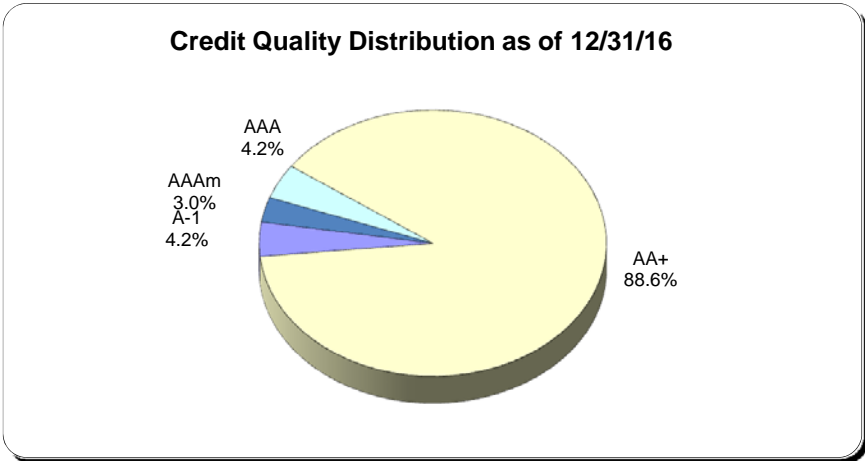
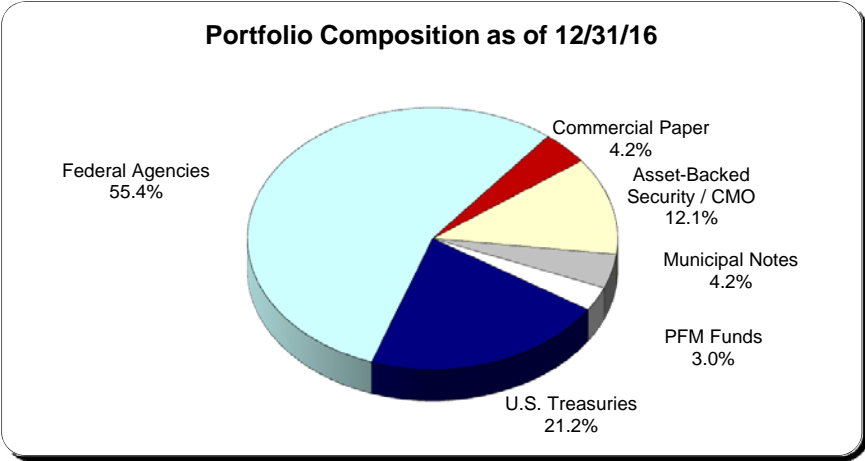


Consolidated Allocation – Combined Portfolio

<u>Account</u>	<u>December 31, 2016</u> <u>Market Value</u>	<u>December 31, 2015</u> <u>Market Value</u>
Core	19,181,619	18,973,970
Segregated	1,523,937	1,517,631
Totals	20,705,555	20,491,601

Portfolio Composition and Credit Quality Characteristics - Core

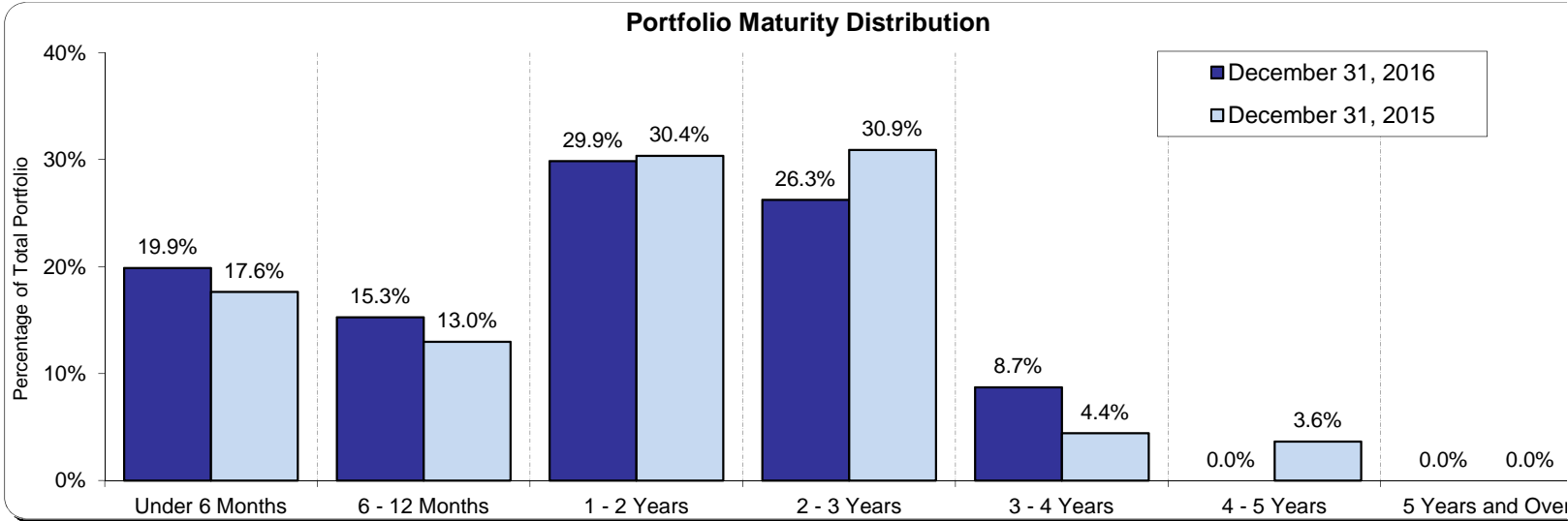
<u>Security Type¹</u>	<u>December 31, 2016</u>	<u>% of Portfolio</u>	<u>December 31, 2015</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$4,060,852	21.2%	\$5,265,340	27.8%
Federal Agencies	\$10,621,580	55.4%	\$7,739,730	40.8%
Commercial Paper	\$796,526	4.2%	\$2,747,391	14.5%
Repurchase Agreements	\$0	0.0%	\$0	0.0%
Mortgage-Backed Securities	\$0	0.0%	\$0	0.0%
Asset-Backed Security / CMO	\$2,312,325	12.1%	\$2,091,244	11.0%
Municipal Notes	\$813,492	4.2%	\$1,084,055	5.7%
PFM Funds	\$576,843	3.0%	\$46,211	0.2%
Totals	\$19,181,619	100.0%	\$18,973,970	100.0%



Notes:
 1. End of quarter trade-date market values of portfolio holdings, including accrued interest.

Portfolio Maturity Distribution - Core

<u>Maturity Distribution</u> ¹	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Under 6 Months	\$3,813,890	\$3,348,695
6 - 12 Months	\$2,929,639	\$2,463,559
1 - 2 Years	\$5,729,468	\$5,761,958
2 - 3 Years	\$5,036,935	\$5,867,618
3 - 4 Years	\$1,671,687	\$839,639
4 - 5 Years	\$0	\$692,501
5 Years and Over	\$0	\$0
Totals	\$19,181,619	\$18,973,970



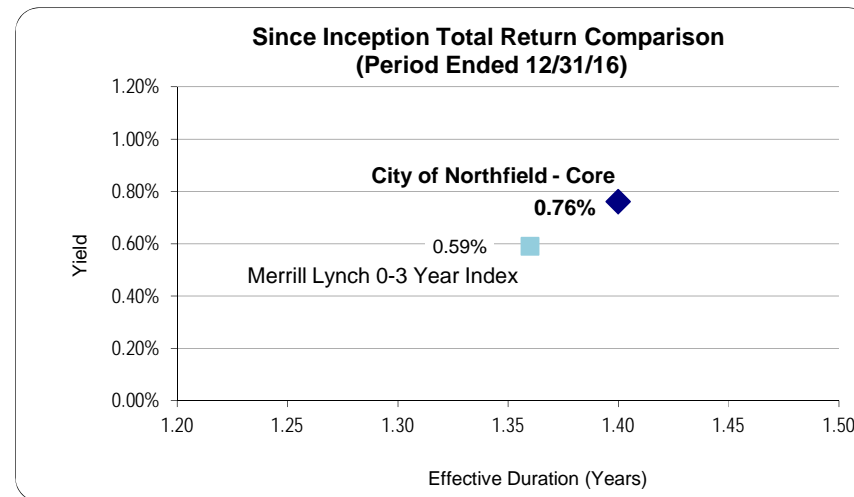
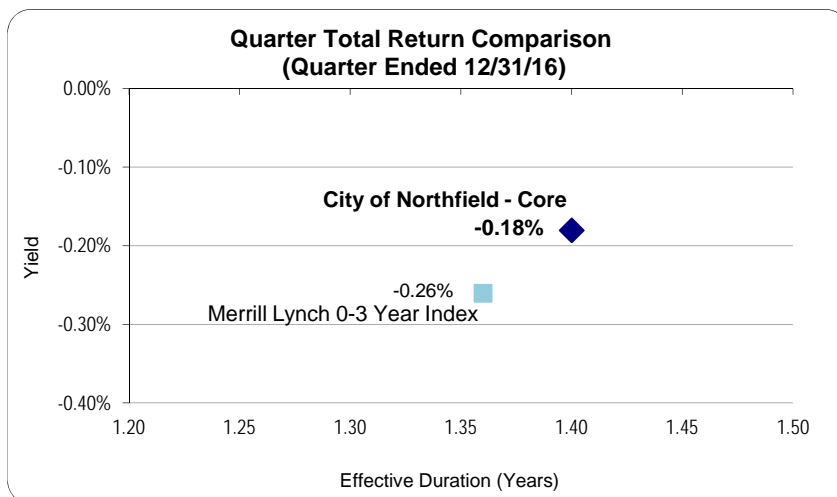
Notes:

1. Callable securities and mortgage-back securities, if any, in the portfolio are included in the maturity distribution analysis to their legally stated final maturity date (includes cash/money market).

Portfolio Performance - Core

Total Return ^{1,2,3,4,5}	Quarter Ended December 31, 2016	Past 12 Months	Since Inception
City of Northfield - Core	-0.18%	0.99%	0.76%
Merrill Lynch 0-3 Year Index	-0.26%	0.78%	0.59%

<u>Duration</u>	December 31, 2016	December 31, 2015	<u>Yields</u>	December 31, 2016
City of Northfield - Core	1.40	1.35	Yield at Market	1.15%
Merrill Lynch 0-3 Year Index	1.36	1.35	Yield at Cost	1.01%



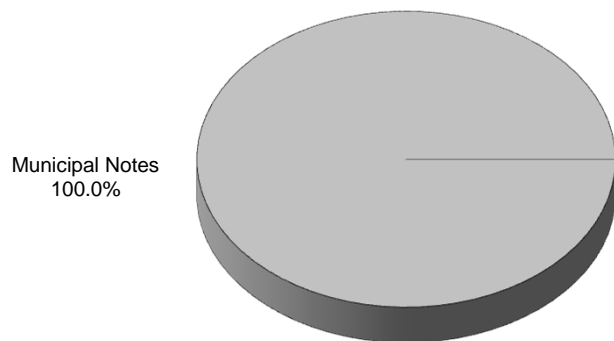
Notes:

1. Performance on trade-date basis, gross (i.e., before fees) in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Merrill Lynch Index provided by Bloomberg Financial Markets.
3. Quarterly returns are presented on an unannualized basis.
4. Since inception returns represent unannualized returns from September 30, 2014 to December 31, 2016

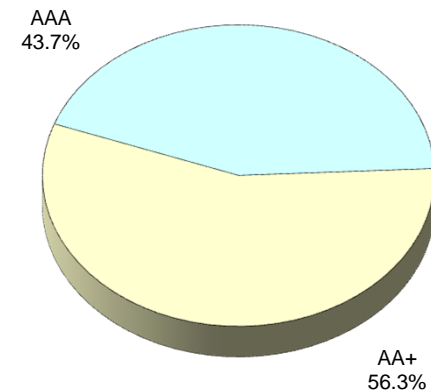
Portfolio Composition and Credit Quality Characteristics - Segregated

<u>Security Type^{1,2}</u>	<u>December 31, 2016</u>	<u>% of Portfolio</u>	<u>December 31, 2015</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$0	0.0%	\$0	0.0%
Federal Agencies	\$0	0.0%	\$0	0.0%
Commercial Paper	\$0	0.0%	\$0	0.0%
Repurchase Agreements	\$0	0.0%	\$0	0.0%
Mortgage-Backed Security	\$0	0.0%	\$0	0.0%
Asset-Backed Security / CMO	\$0	0.0%	\$0	0.0%
Municipal Notes	\$1,523,937	100.0%	\$1,517,631	100.0%
PFM Funds	\$0	0.0%	\$0	0.0%
Totals	\$1,523,937	100.0%	\$1,517,631	100.0%

Portfolio Composition as of 12/31/16



Credit Quality Distribution as of 12/31/16

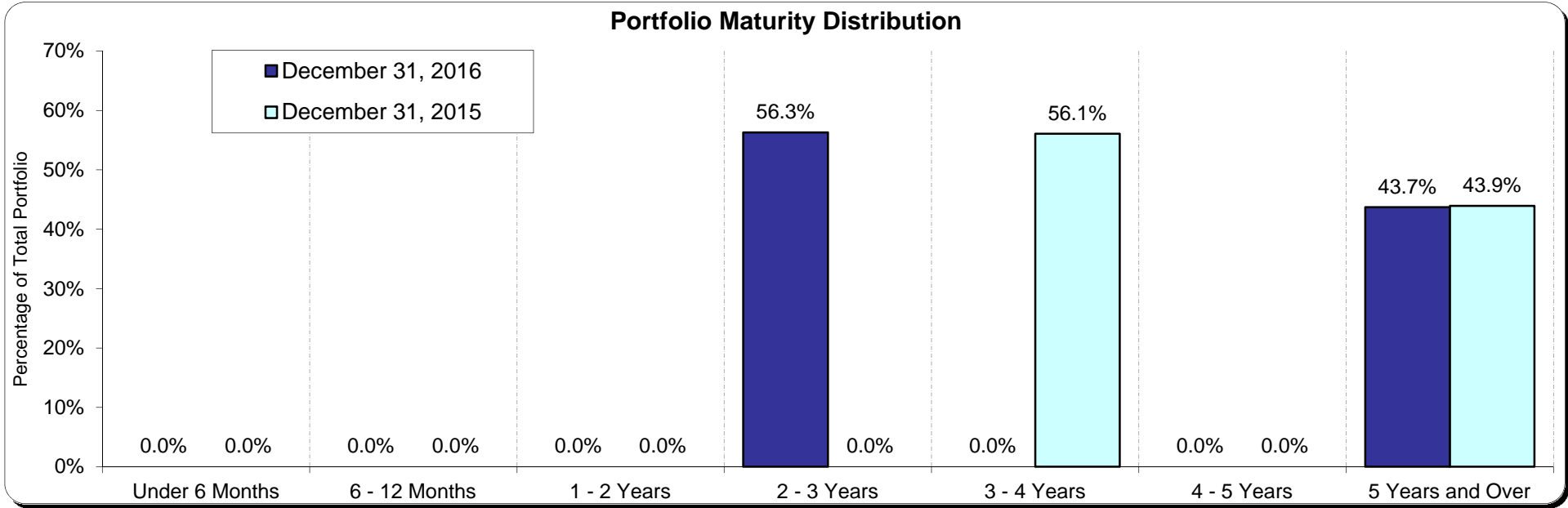


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.

Portfolio Maturity Distribution - Segregated

<u>Maturity Distribution¹</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Under 6 Months	\$0	\$0
6 - 12 Months	\$0	\$0
1 - 2 Years	\$0	\$0
2 - 3 Years	\$857,717	\$0
3 - 4 Years	\$0	\$851,117
4 - 5 Years	\$0	\$0
5 Years and Over	\$666,219	\$666,514
Totals	\$1,523,937	\$1,517,631



Notes:

1. Callable securities and mortgage-back securities, if any, in the portfolio are included in the maturity distribution analysis to their legally stated final maturity date (includes cash/money market).