



County of Fresno

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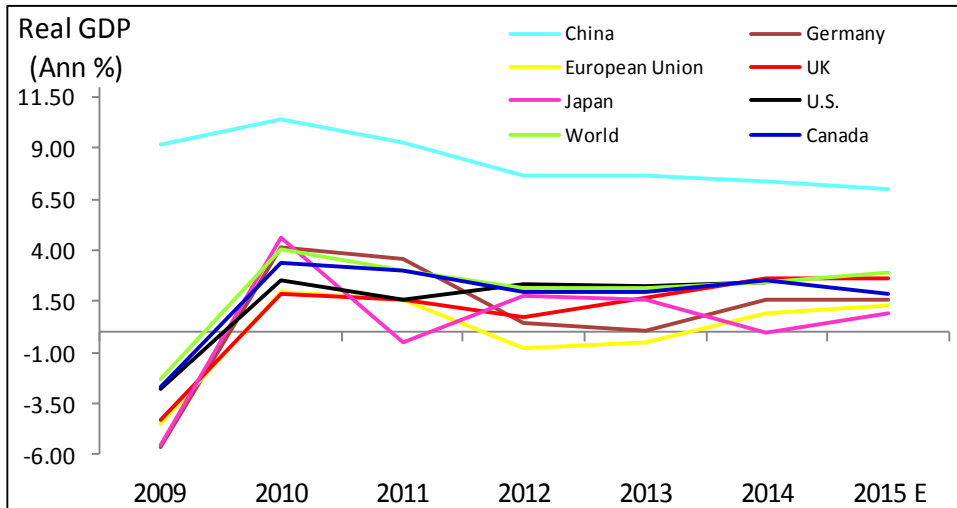
Economic and Capital Markets Review

1Q 2015

Global Economy

1Q 2015

Global Economy: Current State & Expectations

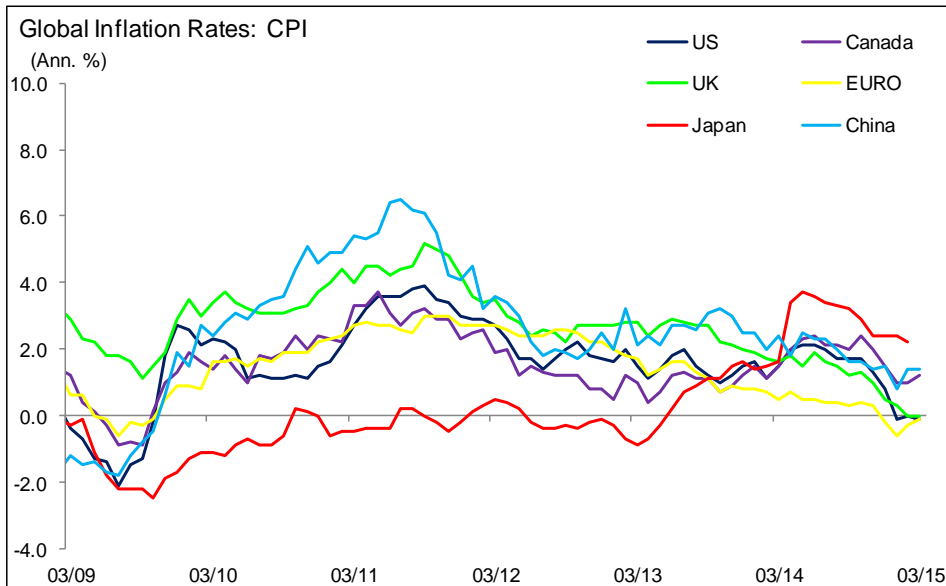


Global growth:

- ❑ Slowing: China, Canada
- ❑ Improving: Eurozone, Japan
- ❑ UK and U.S. growth ok / picking up

	Current Inflation (3/31/15)		Real GDP	Expected Real GDP	
	Headline	Core	2014	2015	2016
Canada	1.2%	2.0%	2.5%	1.9%	2.2%
UK	0.0%	1.0%	2.6%	2.6%	2.3%
Euro	-0.1%	0.6%	0.9%	1.3%	1.6%
U.S.	-0.1%	1.8%	2.4%	2.9%	2.9%
China	1.4%	1.5%	7.4%	7.0%	6.7%
Japan	2.2%*	2.0%*	0.0%	0.9%	1.4%

*2/28/2015

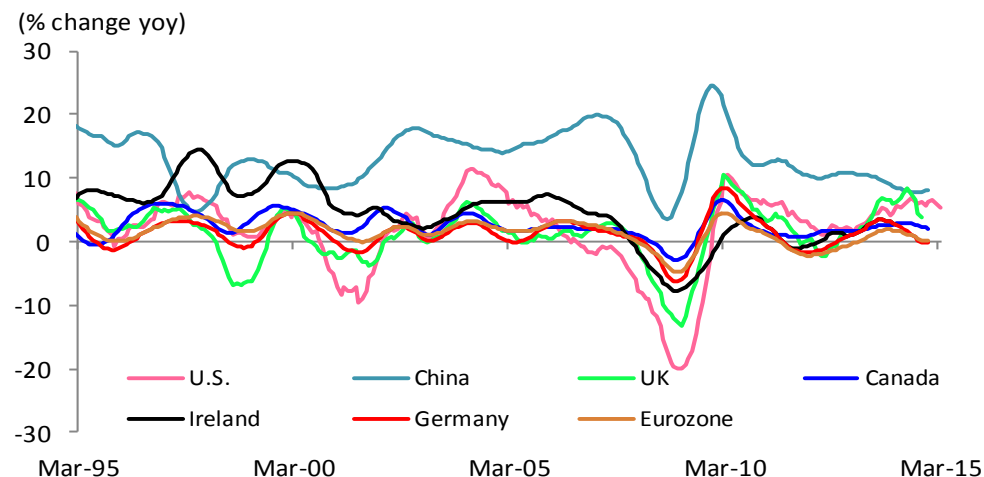


Global inflation; actual and expected:

- ❑ Global inflation rates low and generally moving lower
- ❑ Expectation moving lower

Regional Leading Economic Indicators

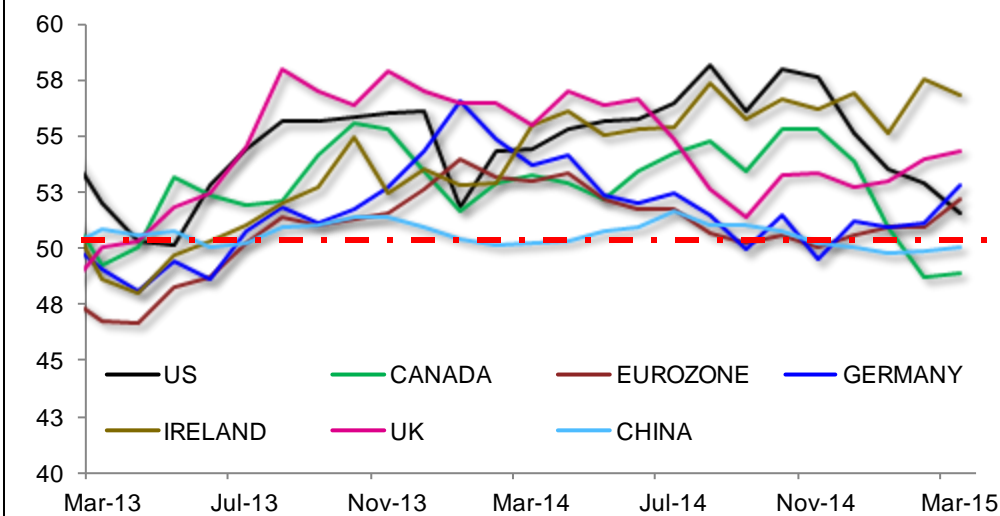
Index of Leading Economic Indicators



LEIs are mixed across the major regions of the global economy

- Real growth though is expected to be stronger in 2015 with lower oil prices adding 0.2% - 0.4% to global GDP next year

Purchasing Manager's Index
Index Level

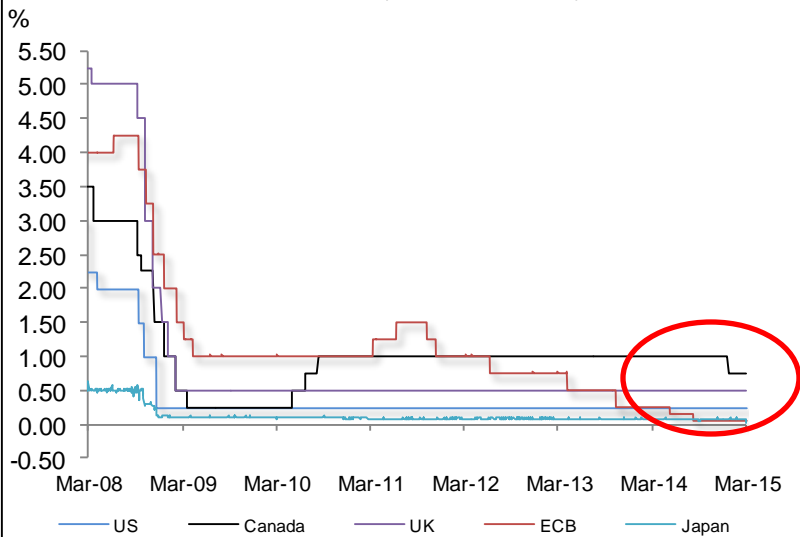


Manufacturing sector activity is mixed

- China and Canada remain at or below 50 indicating contraction
- U.S. PMI continues to move down
- The UK and the Eurozone are making gains

Central Banks: Policies & Programs

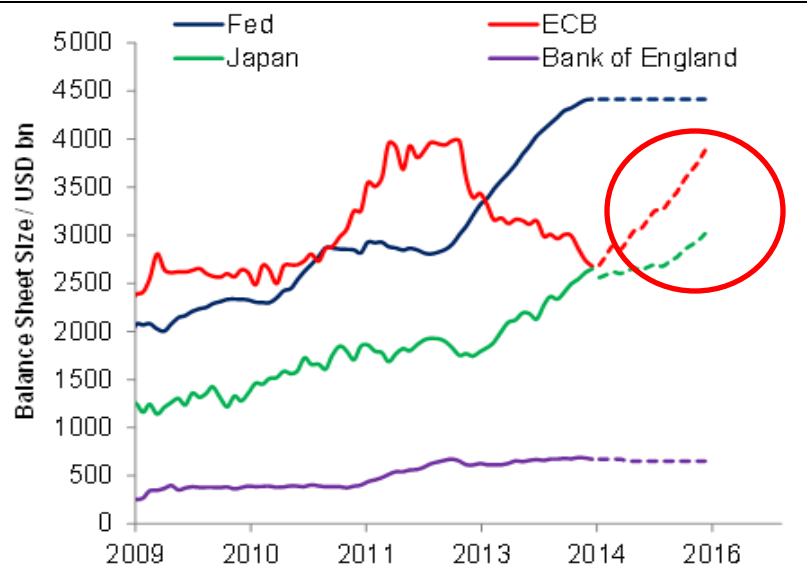
Global Central Bank Rates (as of 03/31/2015)



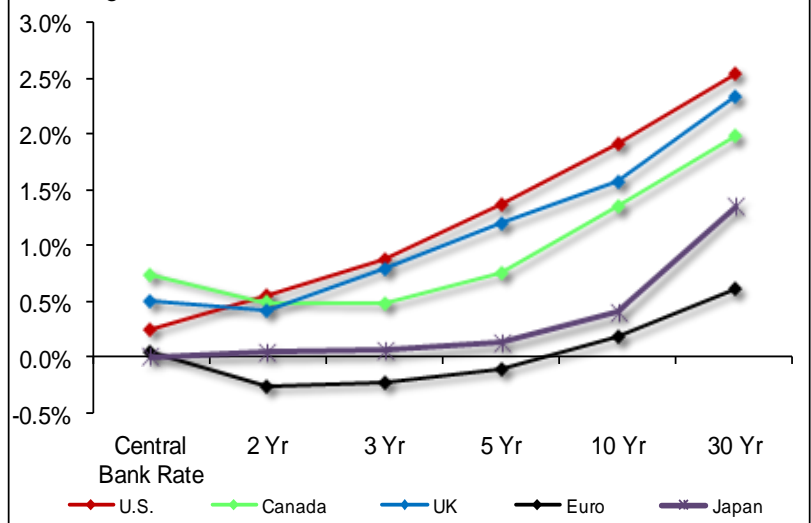
Global effort to stimulate economies

- ❑ ECB balance sheet expansion via QE: €60 billion monthly asset purchases through September 2016
- ❑ Japan implements another round of QE and postpones a planned sales tax increase
- ❑ China's Central Bank cut policy rates in February' and announced another cut on April 19
- ❑ Bank of Canada cut policy rates 1Q15
- ❑ The Fed and the Bank of England have terminated stimulus programs and policy rate hikes are being considered
 - assets held on balance sheets will remain constant; maturities and cashflows (P&I) will be reinvested

G4 Central Bank Balance Sheets & Forecasts



Sovereign Yield Curves: 03/31/2015

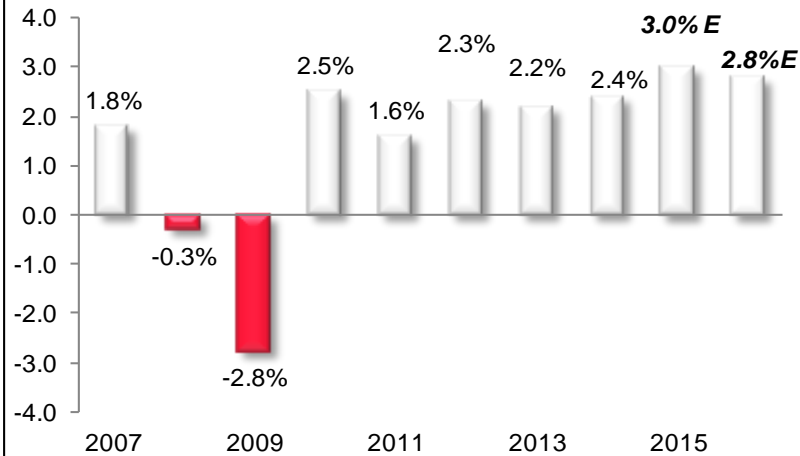


U.S. Economy

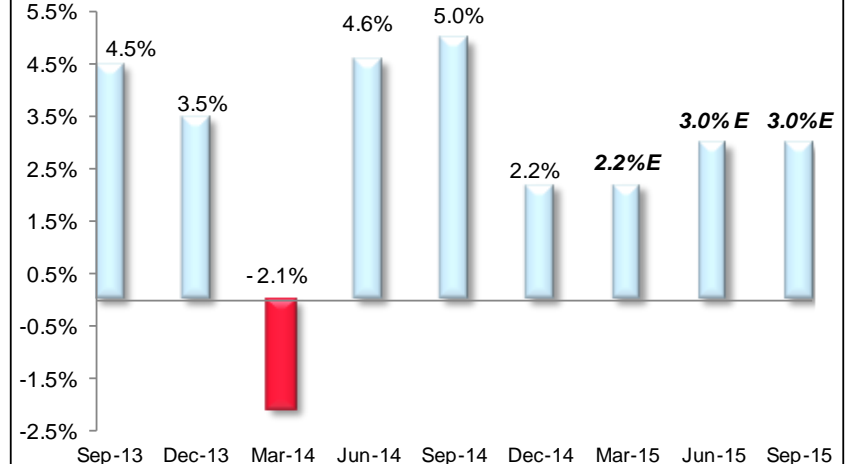
1Q 2015

U.S. Economy: Current State & Expectations

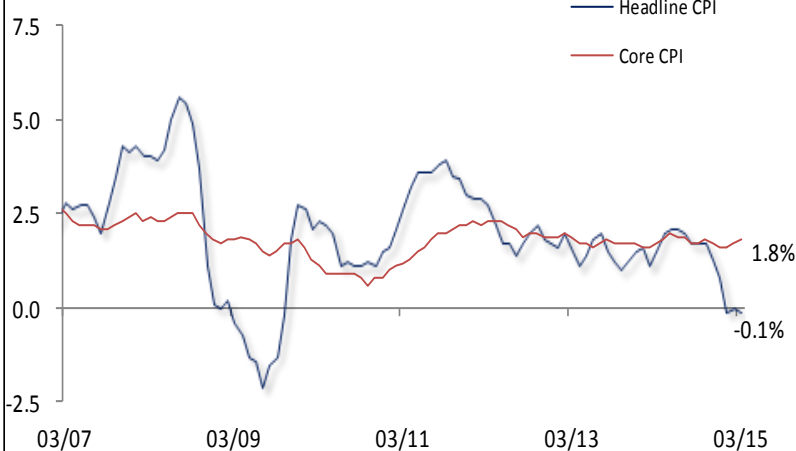
Real GDP Growth
(Annual % Change)



Real GDP Growth: U.S.
(qoq Annualized)

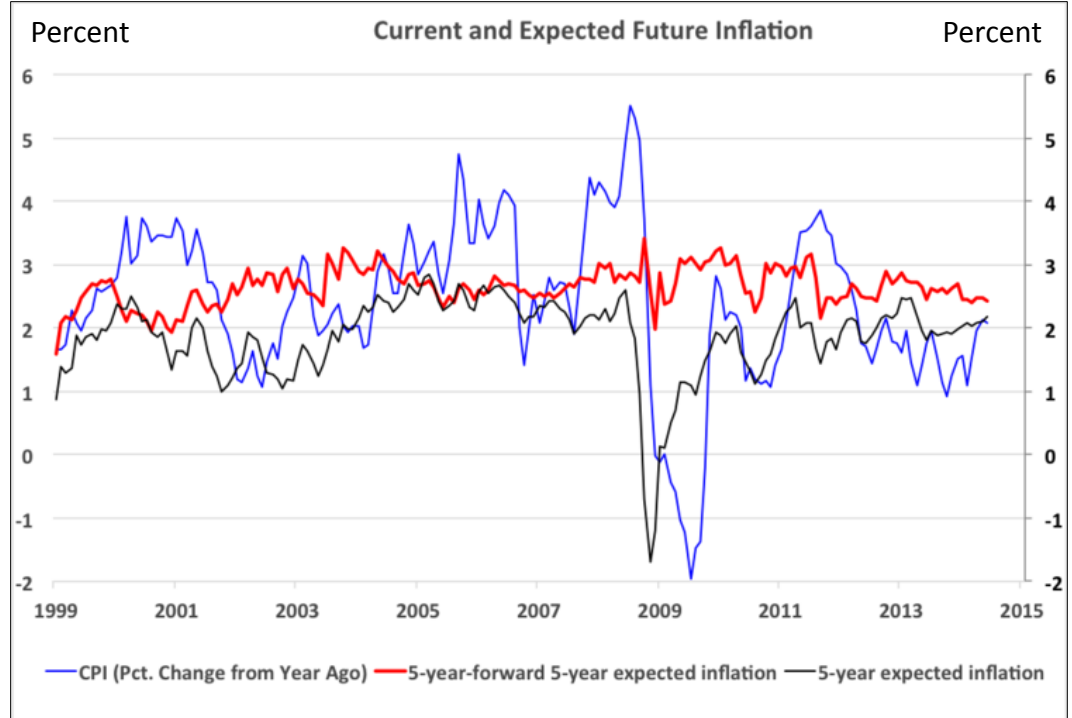
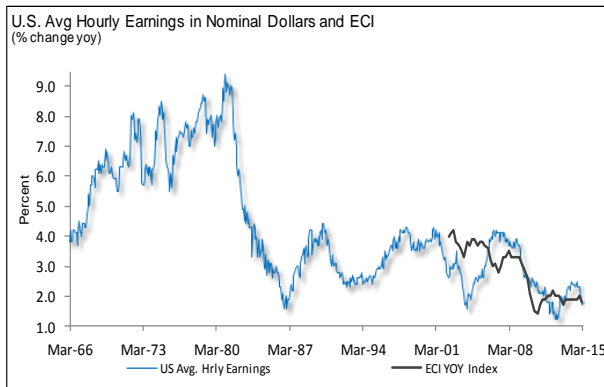
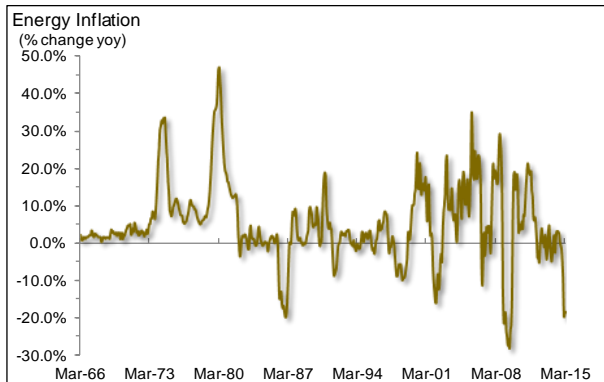
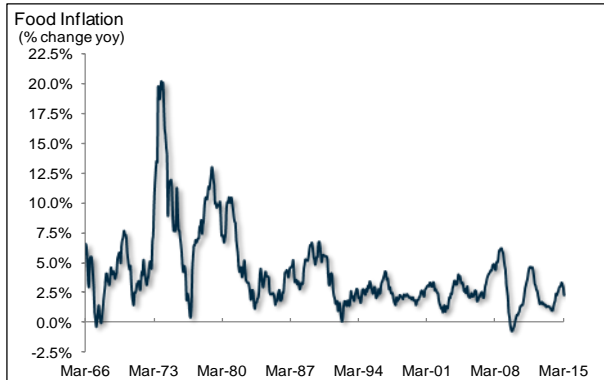


U.S. Consumer Price Index
(Annual %)

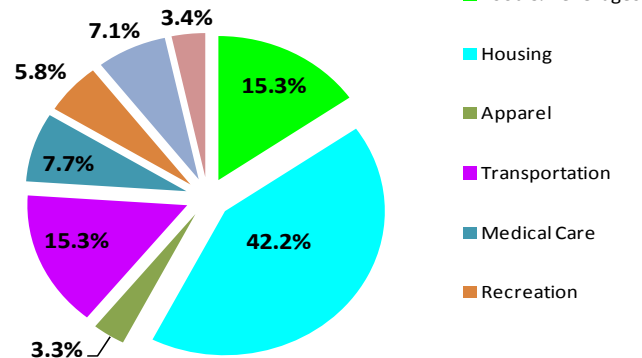


- ❑ Solid real growth / solid expectations but headwinds in place
- ❑ Low inflation – headline and core
 - trend is down
 - wage inflation not reflected in the data
- ❑ Domestic demand, consumption and business investment up modestly
- ❑ Strong and broad-based job creation through 2014 and into 2015

Inflation & Inflation Expectations: Contained



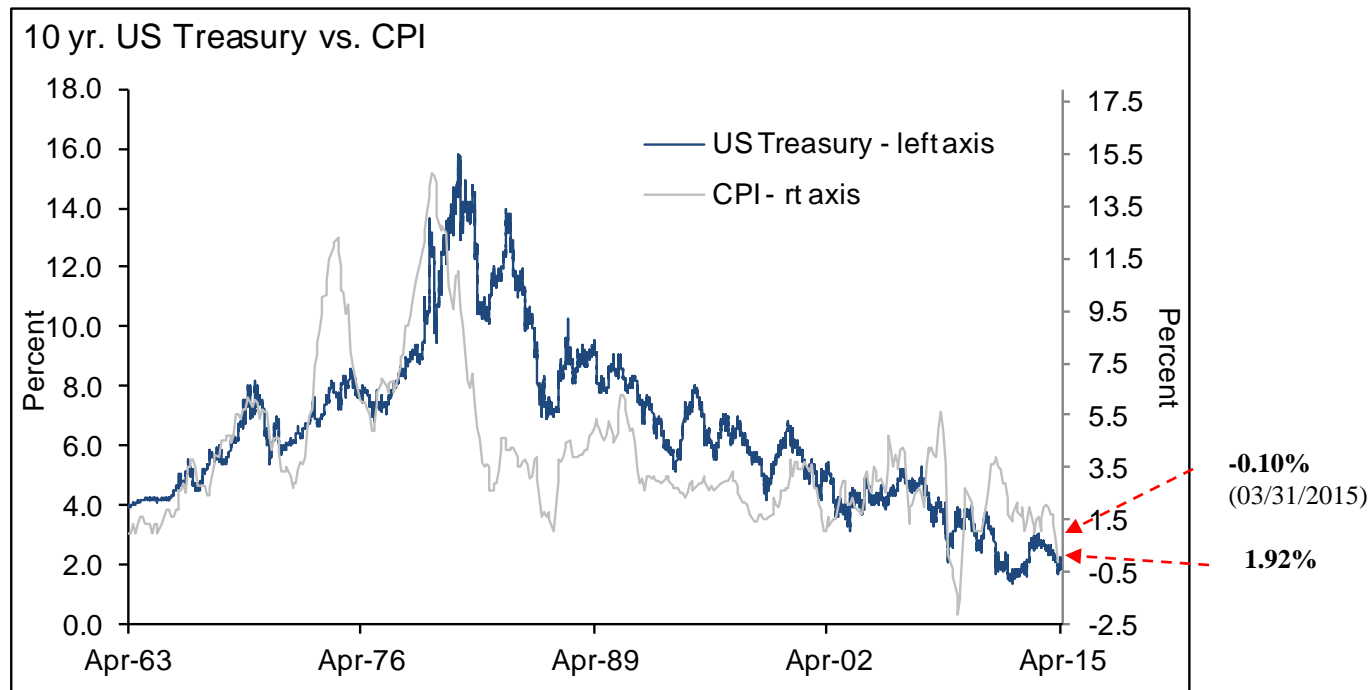
CPI Components



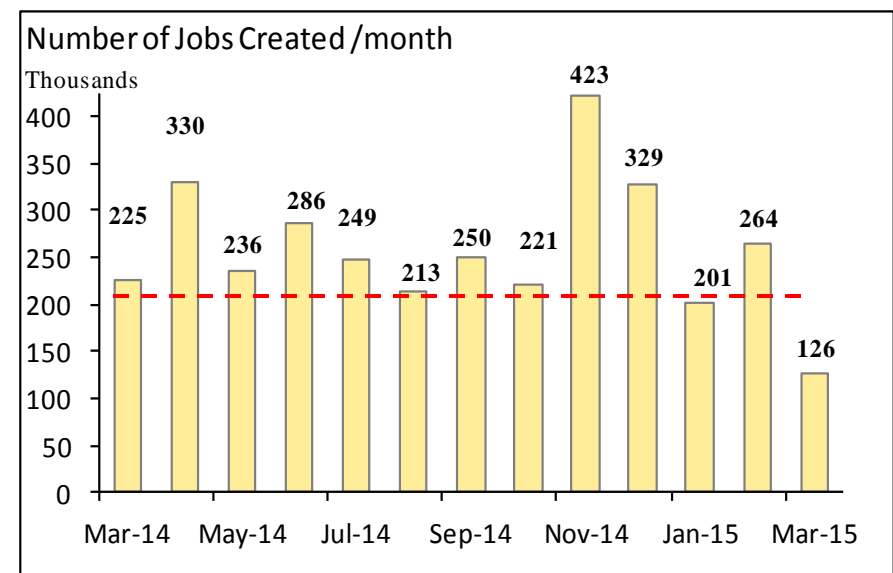
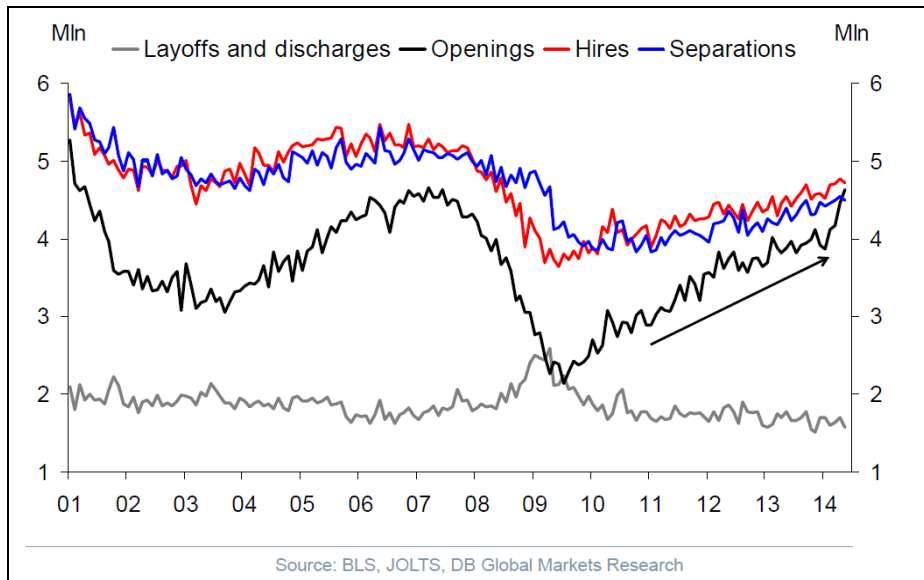
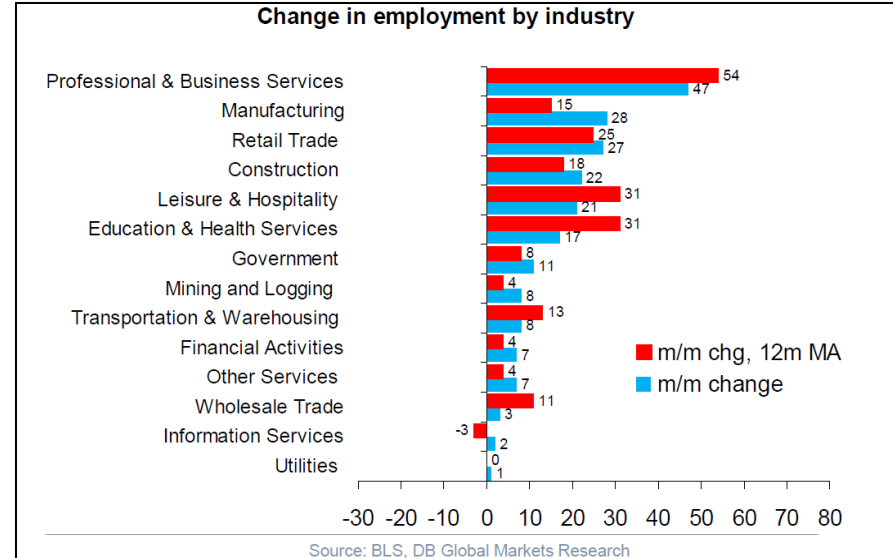
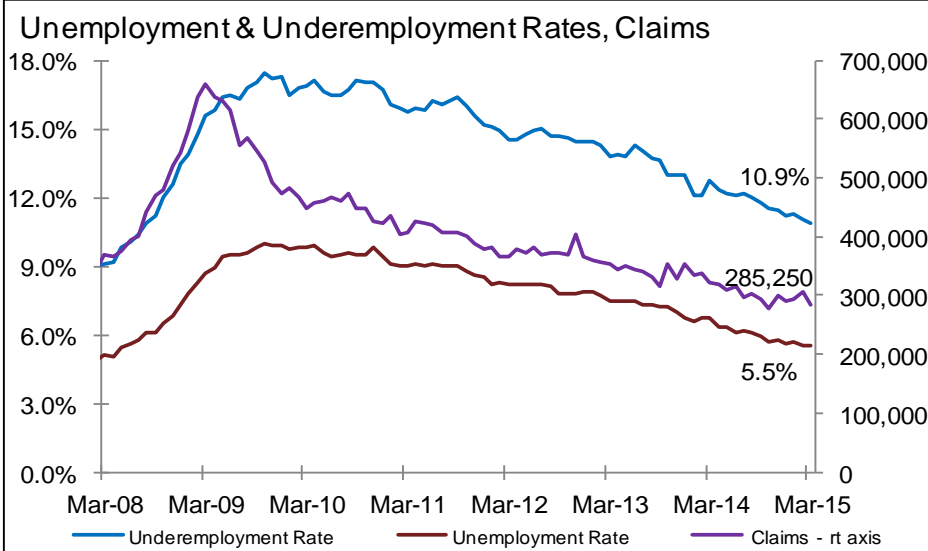
U.S.: Historical Interest Rates & Inflation Data

Term	3/31/2015			Historical Govt Annual Real Returns ¹
	U.S. Treasury	TIPs Inflation Expectations	Current Real Returns	
3 yr	0.88%	1.43%	-0.55%	0.5% (T-Bills)
5 yr	1.37%	1.70%	-0.33%	2.3% (Int)
10 yr	1.92%	1.77%	0.15%	2.5% (L.T.)
30 yr	2.54%	1.88%	0.66%	2.5% (L.T.)

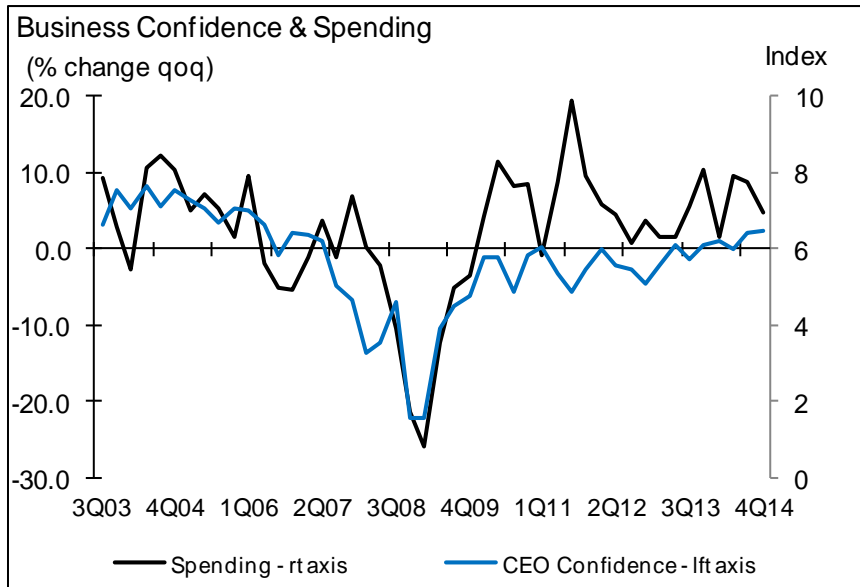
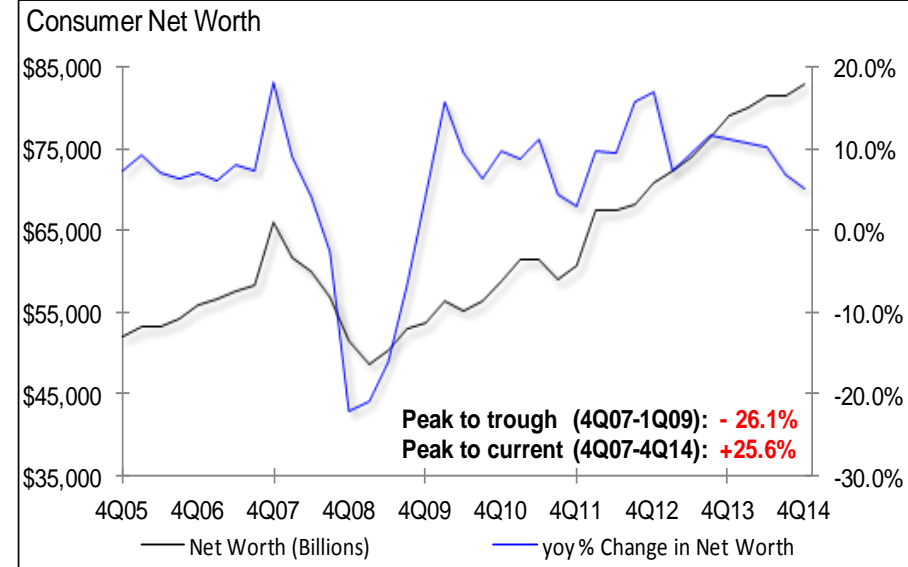
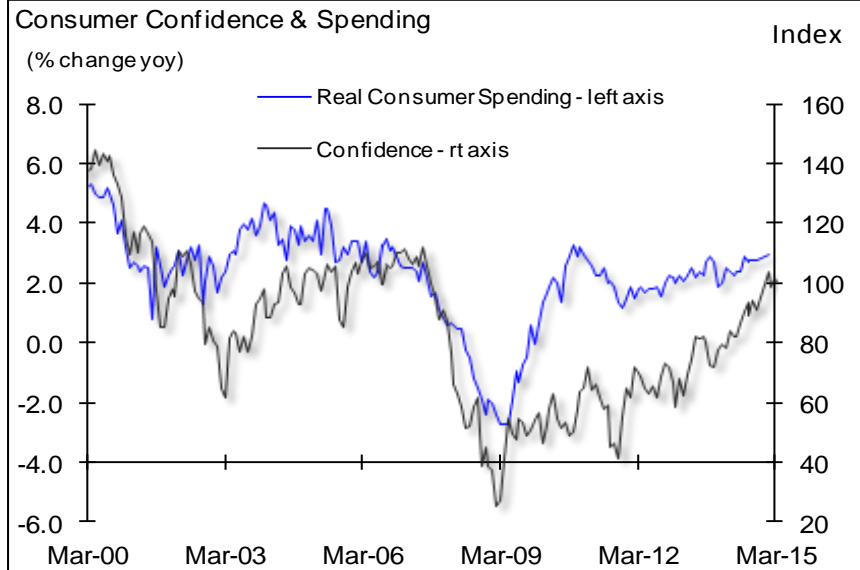
¹ Source: Ibbotson SBBI 1926 - 2013



Labor Market Trends



Spending & Confidence: Consumer and Business



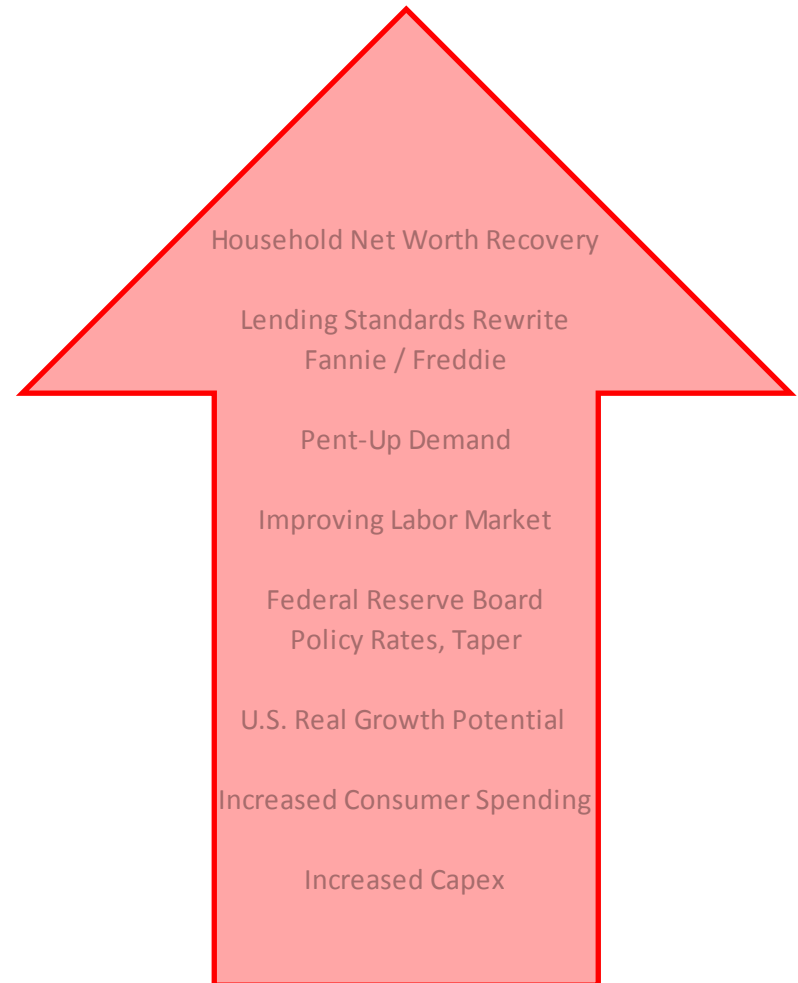
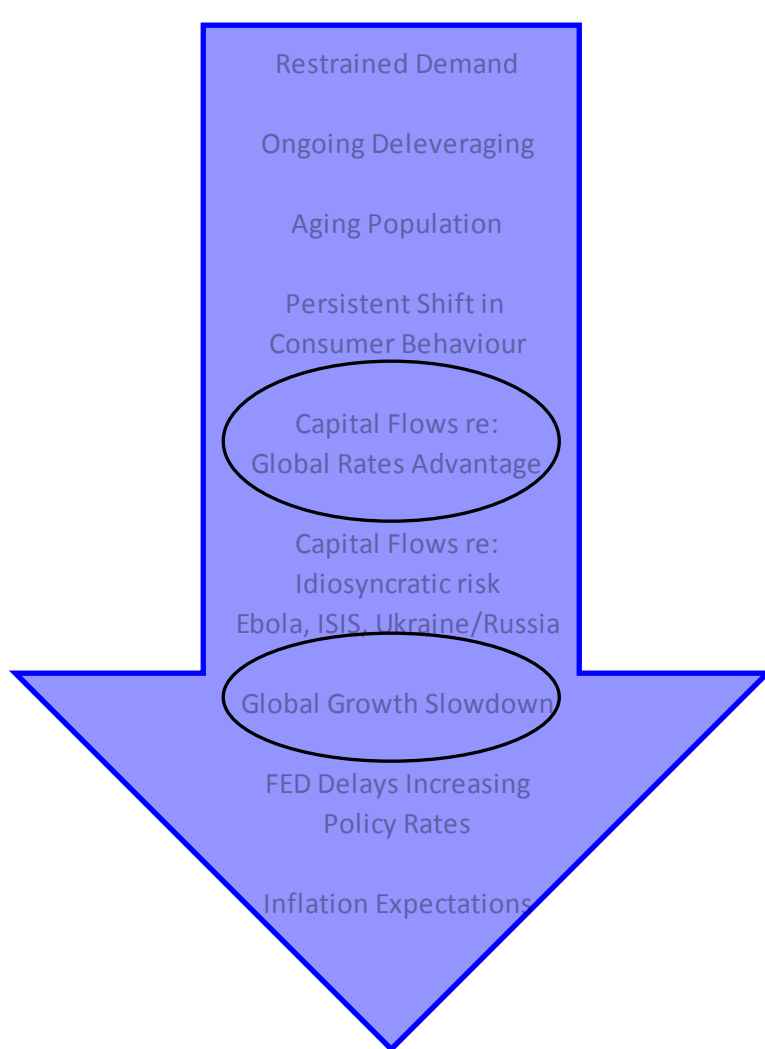
2015 U.S. Macroeconomic Summary

	2013	Q1	Q2	Q3	Q4	2014	3/31/15
Fed Funds (at qtr end)	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
5 yr U.S. Treasury Yield (at qtr end)	1.74%	1.72%	1.63%	1.76%	1.65%	1.65%	1.37%
10 yr U.S. Treasury Yield (at qtr end)	3.03%	2.72%	2.53%	2.49%	2.17%	2.17%	1.92%
Benchmark "A" Intermediate Spread (10yr) (at qtr end)	0.90%	0.86%	0.82%	0.90%	1.04%	1.04%	1.03%
S&P 500 (at qtr end)	1,848.36	1,872.34	1,960.23	1,972.29	2,058.90	2,058.90	2,067.89
Operating EPS (at qtr end)	\$113.1	\$113.1	\$113.1	\$113.1	\$113.1	\$113.1	\$118.55 (2015)
P/E (at qtr end)	16.35	16.56	17.34	17.45	18.21	18.21	17.44E
Real GDP (annual)	2.20%					2.40%	
Real GDP (qtr over previous qtr annualized)		-2.10%	4.60%	5.00%	2.20%		
Real Consumer Spending (yoy)	2.70%					2.80%	
Real Consumer Spending (qtr over previous qtr annualized)		1.20%	2.50%	3.20%	4.30%		
Payroll Employment (ytd)	2,388,000					3,116,000	
Unemployment Rate (at qtr end)	6.70%	6.60%	6.10%	5.90%	5.60%		
Business Fixed Investment (yoy)	3.00%					6.30%	
Business Fixed Investment (qtr over previous qtr annualized)		1.60%	9.70%	8.90%	4.80%		
Wage Inflation (ECI yoy)	2.00%					2.20%	
Wage Inflation (ECI qtr over previous qtr annualized)		1.61%	2.83%	2.83%	1.61%		
CPI (yoy)	1.50%					0.80%	
CPI (qtr over previous qtr annualized)		1.90%	2.40%	1.20%	-0.90%		
Core CPI (yoy)	1.70%					1.60%	
Core CPI (qtr over previous qtr annualized)		1.60%	2.20%	1.40%	1.50%		
Core PCE Deflator (yoy)	1.34%					1.34%	
Core PCE Deflator (qtr over previous qtr annualized)		1.20%	2.00%	1.40%	1.10%		
EUR/USD (at qtr end)	1.374	1.377	1.369	1.263	1.210	1.210	1.073
CAD/USD (at qtr end)	0.941	0.905	0.937	0.893	0.861	0.861	0.788
Oil (per barrel) (at qtr end)	\$98.42	\$101.58	\$105.37	\$91.16	\$53.27	\$53.27	\$47.60
Gold (per ounce) (at qtr end)	\$1,205.65	\$1,284.00	\$1,327.32	\$1,208.16	\$1,184.86	\$1,184.86	\$1,183.68

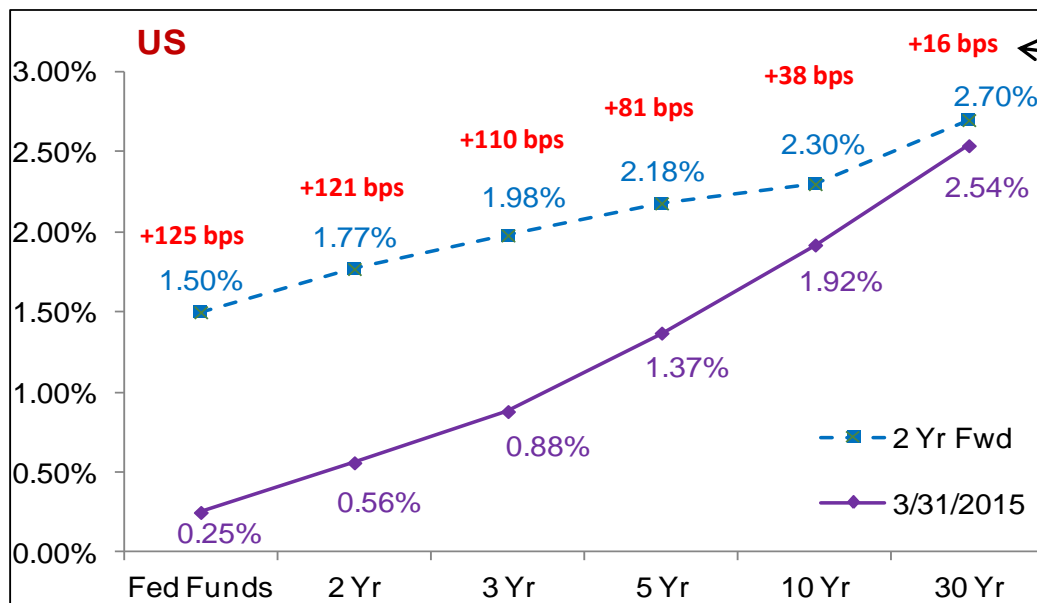
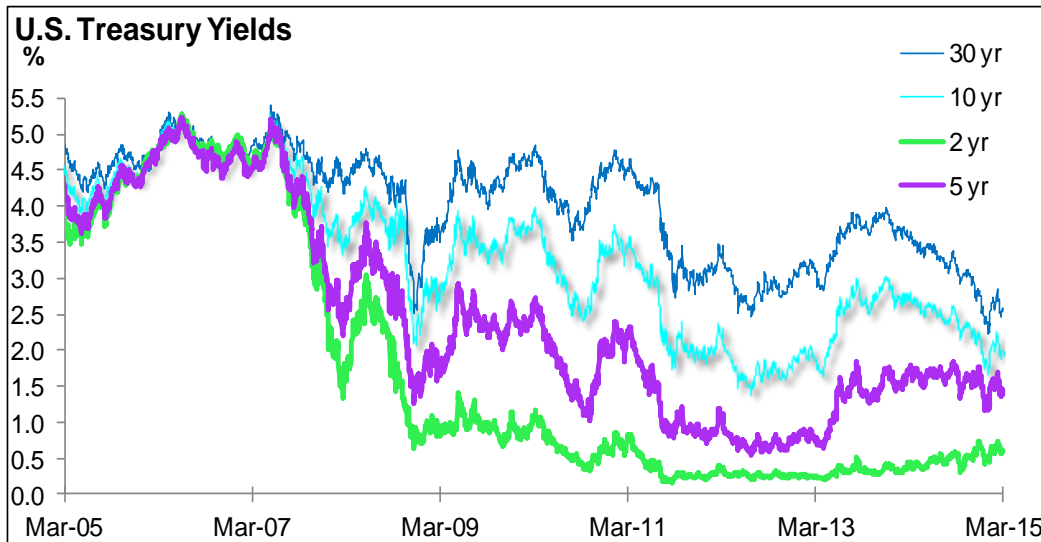
Capital Markets Trends

1Q 2015

What's Driving Interest Rates?



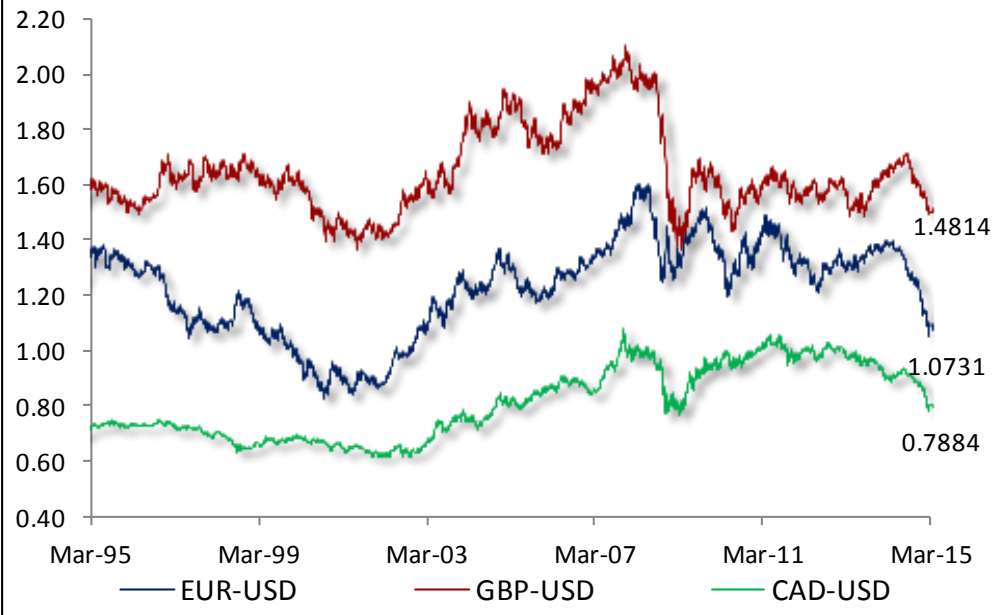
Current and Forward Rates (as of 03/31/2015)



Projected changes in bps from current to 2 years forward

Foreign Currency Exchange Rates

Global Currency Exchange Rates (as of 03/31/2015)



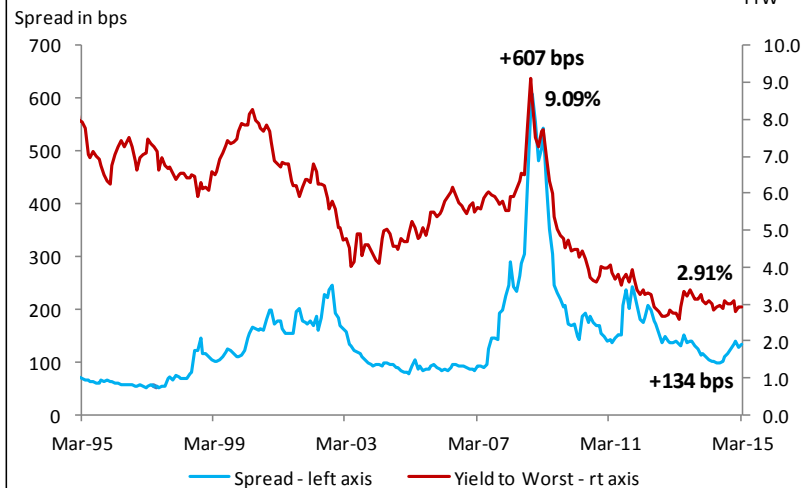
EUR-USD yoy: -22.1%

U.S.\$ strength:

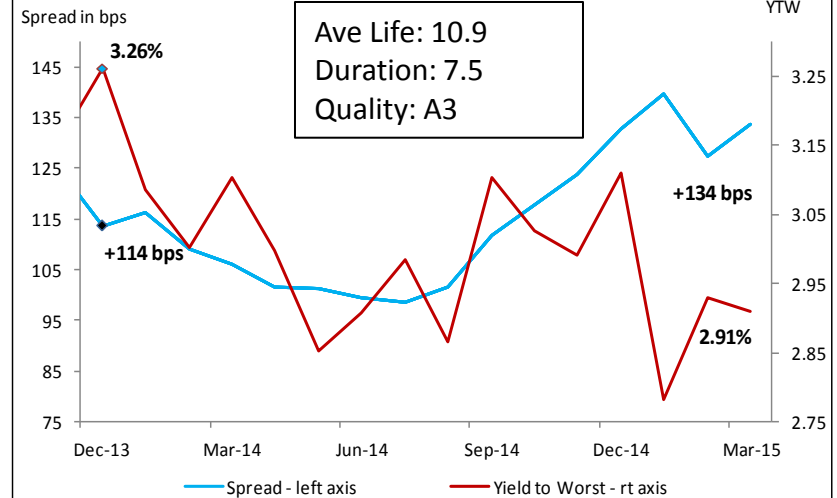
- 1) stronger domestic (U.S.) economy
 - 2) ECB QE and additional policy rate cuts globally → capital flows into the U.S. , effectively capping U.S. Treasury yields
- expect the U.S.\$ to stay strong on a relative basis; opportunity to invest in weaker currencies with long-term growth potential
 - extended period of U.S. dollar strength can become negative for domestic earnings growth and the U.S. economy

Corporate Yield and Spread History (as of 03/31/2015)

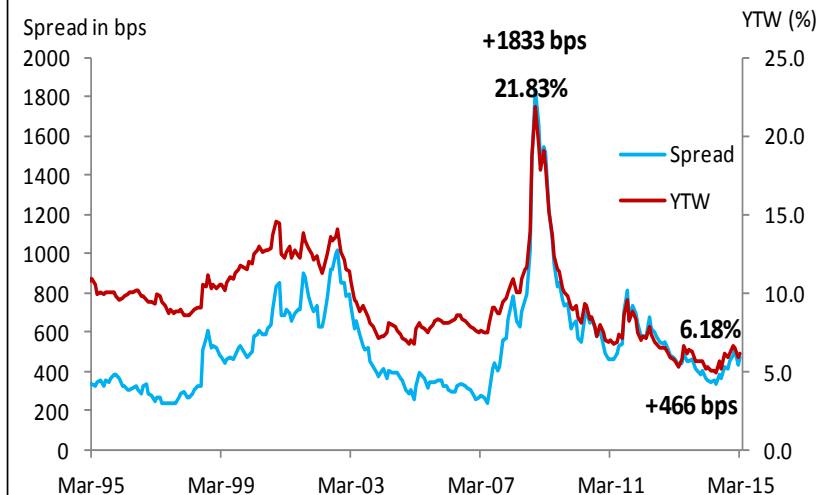
US Corporates



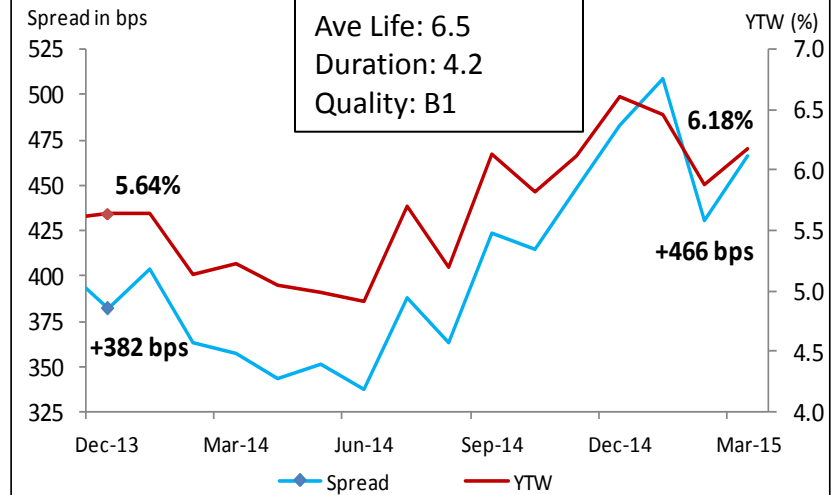
US Corporates: Investment Grade



US Corporates: High Yield



US Corporates: High Yield

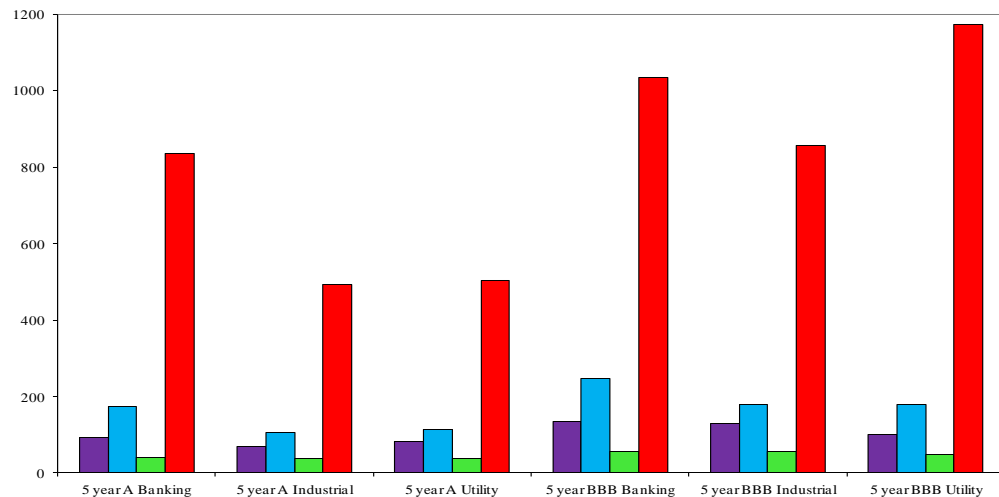


Barclays Investment Grade Corporate Spread History

(5/31/1994 – 3/31/2015)

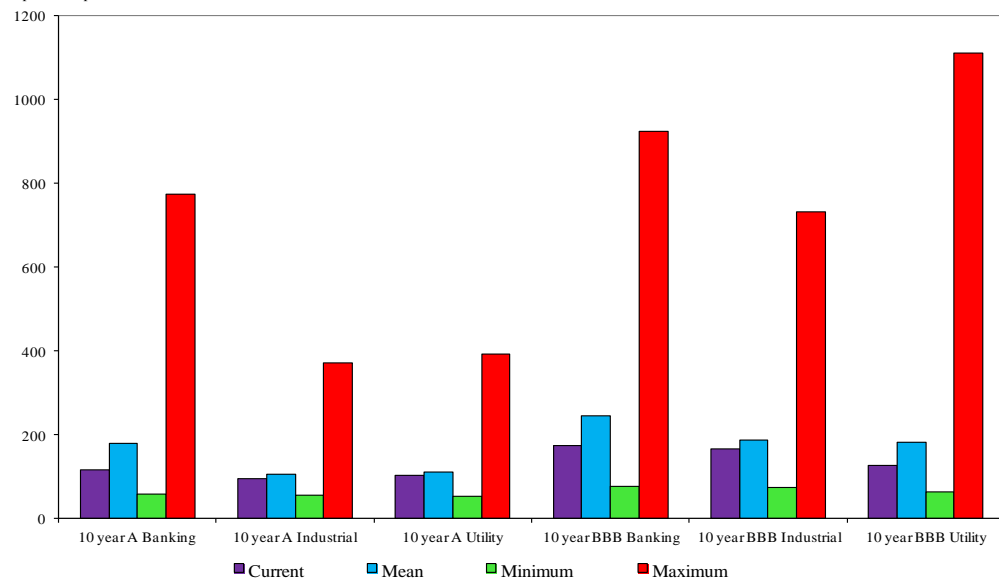
5 Year Corporate Sector Spreads

Spread in bps



10 Year Corporate

Spread in bps

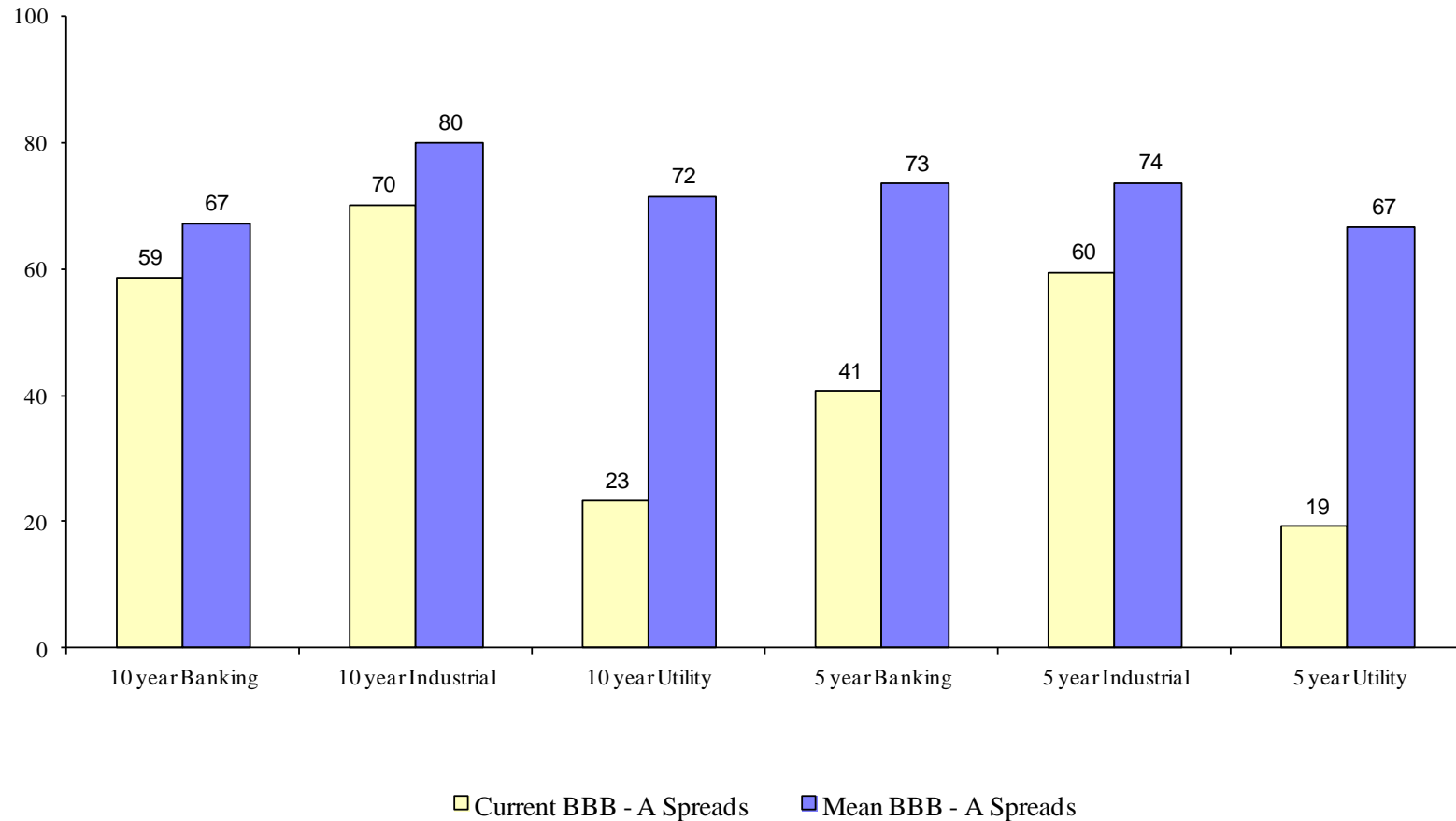


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Barclays Investment Grade Corporate Spreads: BBB vs. A Rated Sector Trends

BARCLAYS SECTOR RELATIVE VALUE: BBB VS A SPREADS
MAY 31, 1994 - March 31, 2015

Spread in bps



U.S. Public and Private Placement Bond Issuance

	<u>YTD</u>								
Public Bond Issuance (in billions of USD)	<u>03/31/2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
U.S. Investment Grade Corporates	\$381	\$1,206	\$1,147	\$1,114	\$874	\$846	\$1,074	\$806	\$1,018
CMBS	16	139	166	103	78	50	24	16	191
Credit Card ABS	3	39	38	33	11	8	47	58	91
Auto ABS	21	98	92	95	66	66	66	48	78
Agency MBS	311	981	1,611	1,734	1,221	1,405	1,754	1,075	1,128
Non-Agency MBS	18	46	36	13	7.8	6.2	43.6	31.3	740.8

	<u>YTD</u>								
Private Bond Issuance (in billions of USD)	<u>03/31/2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Private Placements	\$13.3	\$55.7	\$51.9	\$54.9	\$48.3	\$41.0	\$26.0	\$28.1	\$40.3

Source: Bank of America/Merrill Lynch

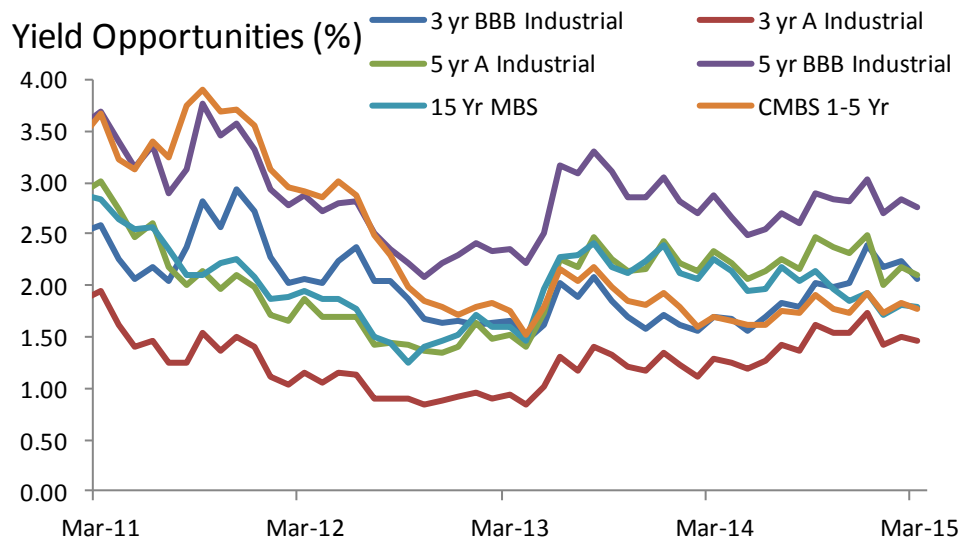
Index Returns – Fixed Income

As of 03/31/15

U.S. Barclays Fixed Income Indices Total Rate of Return	YTD	1 year	3 year (ann.)	5 year (ann.)	10 year (ann.)
U.S. Aggregate	1.61%	5.72%	3.11%	4.41%	4.93%
U.S. Treasury	1.64%	5.36%	2.57%	4.13%	4.65%
U.S. Agency	1.17%	3.73%	1.84%	2.70%	4.00%
CMBS	1.77%	4.35%	3.94%	6.33%	5.56%
U.S. Mortgage Backed Securities	1.06%	5.53%	2.54%	3.63%	4.87%
U.S. Corporate Investment Grade	2.32%	6.81%	5.21%	6.50%	5.90%
Aaa Corporate	2.18%	8.46%	3.86%	5.83%	4.79%
Aa Corporate	2.03%	6.19%	3.53%	4.89%	4.93%
A Corporate	2.21%	6.89%	4.92%	6.25%	5.36%
Baa Corporate	2.49%	6.82%	5.91%	7.25%	6.65%
Industrial	2.47%	6.76%	4.65%	6.33%	6.14%
Utility	2.50%	10.05%	5.97%	7.58%	6.95%
Finance	1.98%	6.08%	6.04%	6.58%	5.52%
Credit 1-3	0.70%	1.35%	1.79%	2.27%	3.72%
High Yield Corporate	2.52%	2.00%	7.46%	8.59%	8.18%

Pan European Barclays Fixed Income Indices Total Rate of Return	YTD	1 year	3 year (ann.)	5 year (ann.)	10 year (ann.)
Pan European Corporate	3.90%	12.52%	8.41%	7.33%	4.74%
Aaa Corporate	6.54%	22.02%	9.92%	8.28%	4.99%
Aa Corporate	3.46%	11.29%	6.48%	6.18%	4.19%
A Corporate	3.89%	12.87%	7.70%	6.77%	4.00%
Baa Corporate	4.01%	12.39%	9.77%	8.17%	5.89%
Industrial	3.60%	12.24%	7.20%	6.98%	5.44%
Utility	5.39%	17.62%	10.11%	8.80%	6.08%
Finance	3.81%	11.56%	9.10%	7.40%	4.30%
High Yield Corporate	4.69%	8.47%	12.05%	10.48%	9.57%

Yield Opportunities



3 yr BBB Industrial	3 yr A Industrial	5 yr A Industrial	5 yr BBB Industrial	15 Yr MBS	CMBS 1-5 Yr
2.06%	1.46%	2.10%	2.76%	1.79%	1.78%

Index Returns – Equity

As of 03/31/15

Equity Indices Total Rate of Return	YTD	1 year	3 year (ann.)	5 year (ann.)	10 year (ann.)
S&P 500 - large cap	0.95%	12.72%	16.11%	14.46%	8.01%
S&P 400 - mid cap	5.31%	12.17%	16.99%	15.69%	10.30%
S&P 600 - small cap	3.95%	8.70%	17.29%	16.24%	9.66%
NASDAQ	3.86%	18.28%	18.27%	16.85%	10.60%
TSX	2.58%	6.92%	9.57%	7.40%	7.39%
EAFE (USD)	5.04%	-0.30%	9.74%	6.87%	5.69%
MSCI Emerging Markets (USD)	2.22%	0.75%	0.65%	2.09%	8.87%

As of 03/31/15

Equity Indices Price Return	YTD	1 year	3 year (ann.)	5 year (ann.)	10 year (ann.)
EAFE (Local Currency)	10.12%	14.71%	13.37%	5.97%	3.19%
MSCI Emerging Markets (Local Currency)	4.56%	8.21%	3.79%	3.01%	7.51%

Price Returns as of 03/31/2015	YTD	1 year	3 year (ann.)	5 year (ann.)	10 year (ann.)
S&P 500	0.44%	10.44%	13.66%	12.08%	5.77%
Energy	-3.55%	-13.35%	1.66%	5.63%	5.29%
Materials	0.40%	2.74%	9.39%	8.42%	5.15%
Industrials	-1.40%	6.43%	14.03%	11.91%	5.39%
Cons Disc	4.38%	16.46%	18.80%	18.24%	8.58%
Cons Staples	0.35%	13.44%	12.56%	11.71%	7.76%
Health Care	6.16%	24.18%	24.49%	17.67%	9.26%
Financials	-2.51%	7.93%	15.15%	8.64%	-1.62%
Info Tech	0.17%	16.22%	11.76%	12.96%	8.56%
Telecom Svc	0.25%	-0.94%	5.39%	7.17%	2.63%
Utilities	-6.02%	7.14%	8.22%	8.41%	4.32%

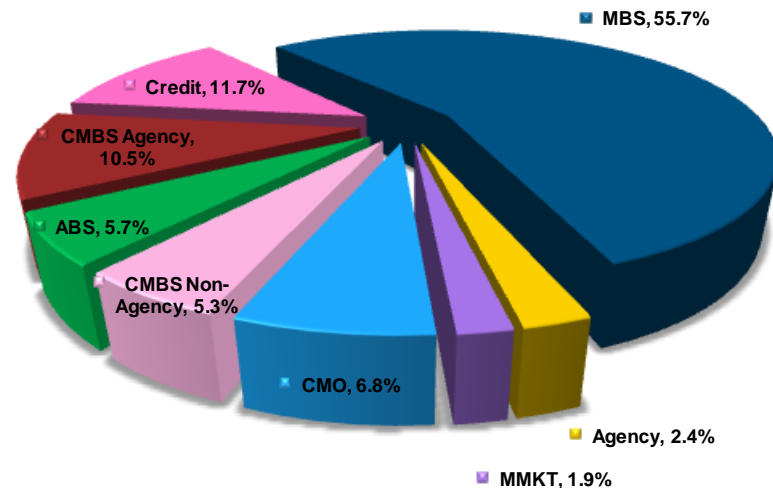
Performance & Composition



1Q 2015

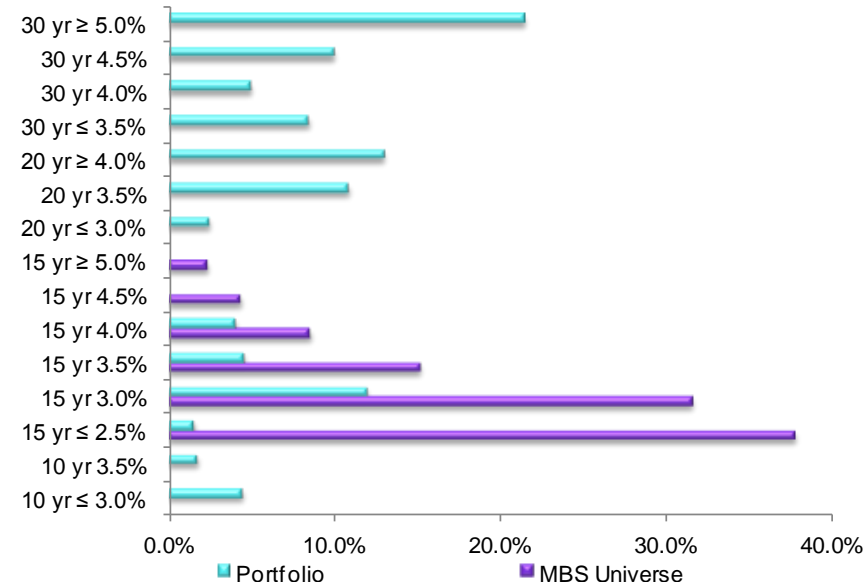
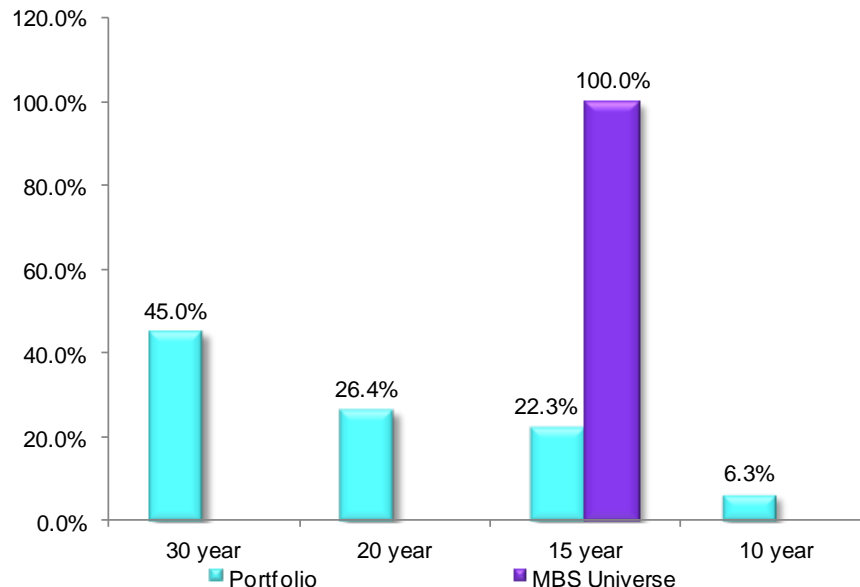
Portfolio Composition

3/31/15	County of Fresno	County of Fresno Duration	Benchmark Benchmark	Benchmark Duration
Sector Weightings:				
Agency	2.4%	4.5	0.0%	0.0
MBS	55.7%	2.9	55.0%	3.4
CMO	6.8%	2.8	0.0%	0.0
Credit	11.7%	3.0	35.0%	2.9
AAA Credit	0.5%	3.9	0.7%	3.2
AA Credit	3.5%	3.8	6.3%	2.8
A Credit	6.5%	2.6	28.0%	2.9
BBB Credit	1.2%	3.0	0.0%	0.0
CMBS	15.8%	3.2	10.0%	4.6
CMBS Agency	10.5%	3.5	3.1%	5.4
CMBS Non-Agency	5.3%	2.8	6.9%	4.3
ABS	5.7%	2.0	0.0%	0.0
MMKT	1.9%	0.0	0.0%	0.0
Credit Quality	AA+		AA+	
Weighted Average Life	4.3		3.9	
Effective Duration	2.9		3.3	
Effective Convexity	-1.2		-0.4	
Yield To Maturity	1.9		1.8	
Total AUM	\$ 61,544,553			



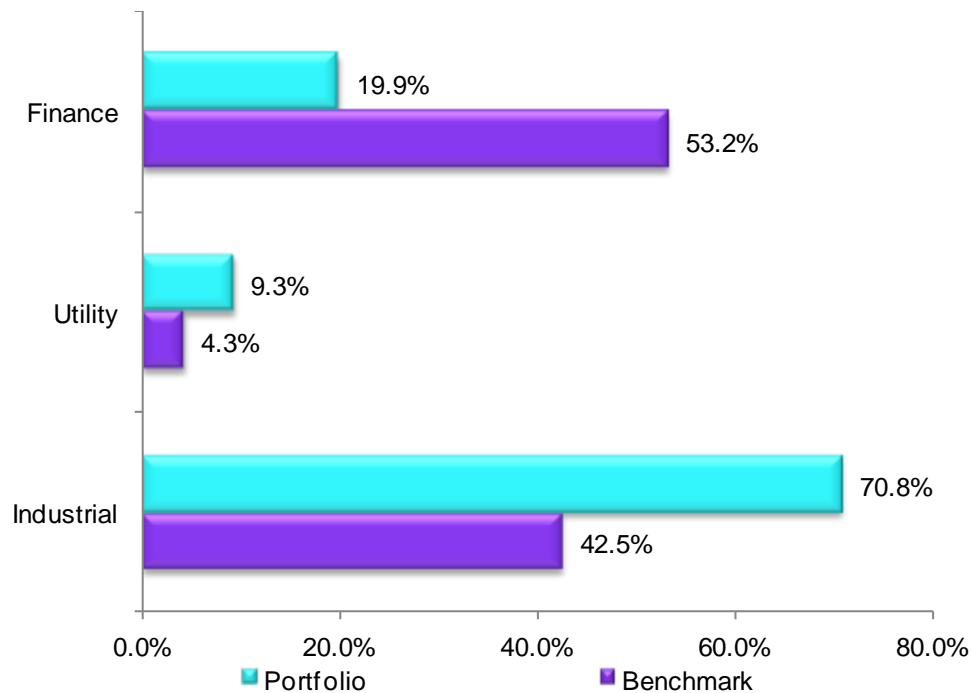
- ❑ Portfolio strategy through 2014: decrease allocation to Credit, MMKT & MBS vs. an increase to ABS & CMBS securities
- ❑ Portfolio strategy through 2015 Q1: decrease allocation to Credit, ABS, MMKT & MBS vs. an increase to CMBS securities
 - ✓ Increased allocation to CMBS is based on relative value opportunities vs. comparable bullet securities (Credit & ABS)

MBS Pass-Through: Term & Coupon



- ❑ Overweight to 10, 20 and 30 year vs. 15 year amortizing mortgages
- ❑ Underweight to production coupons
- ❑ Across pass-through holdings, the Portfolio is concentrated in specified pools across amortization terms and coupons, targeting characteristics that have exhibited significantly less interest rate sensitivity and, therefore, average life variability over market cycles

Credit Sectors

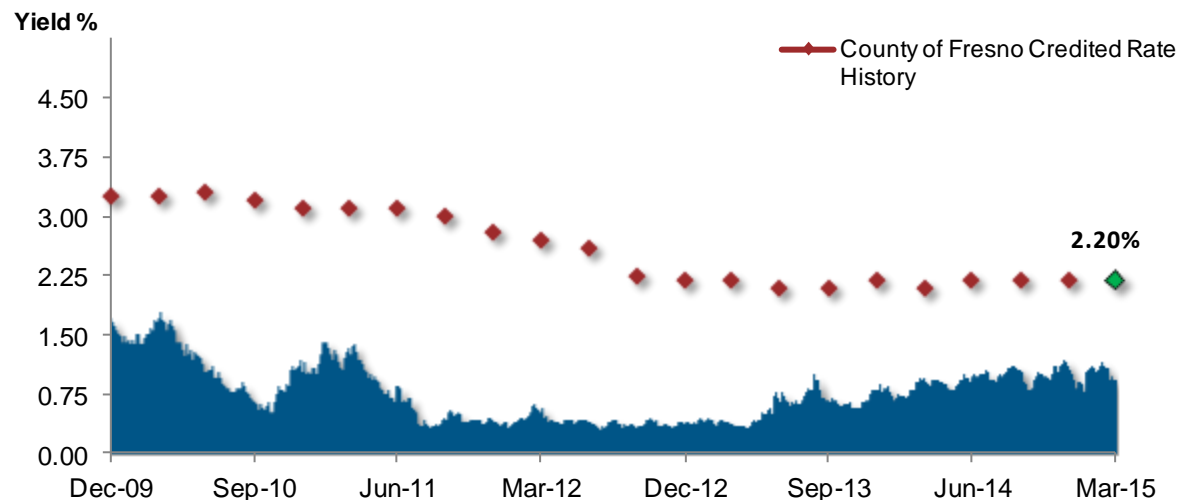


- ❑ Continue holding an overweight to cyclical industries; re: should outperform on a spread basis in improving economy
- ❑ Overweight to Industrial and Utility sectors vs. an underweight to Finance sector; re: headline risk

Credited Rate History

County of Fresno Credited Rate History	
2009 4Q	3.25%
2010 1Q	3.25%
2010 2Q	3.25%
2010 3Q	3.30%
2010 4Q	3.20%
2011 1Q	3.10%
2011 2Q	3.10%
2011 3Q	3.10%
2011 4Q	3.00%
2012 1Q	2.80%
2012 2Q	2.70%
2012 3Q	2.60%
2012 4Q	2.25%
2013 1Q	2.20%
2013 2Q	2.20%
2013 3Q	2.10%
2013 4Q	2.10%
2014 1Q	2.20%
2014 2Q	2.10%
2014 3Q	2.20%
2014 4Q	2.20%
2015 1Q	2.20%
2015 2Q	2.20%

3 yr CMT vs. Credited Rates



Inception Date: 03/2013

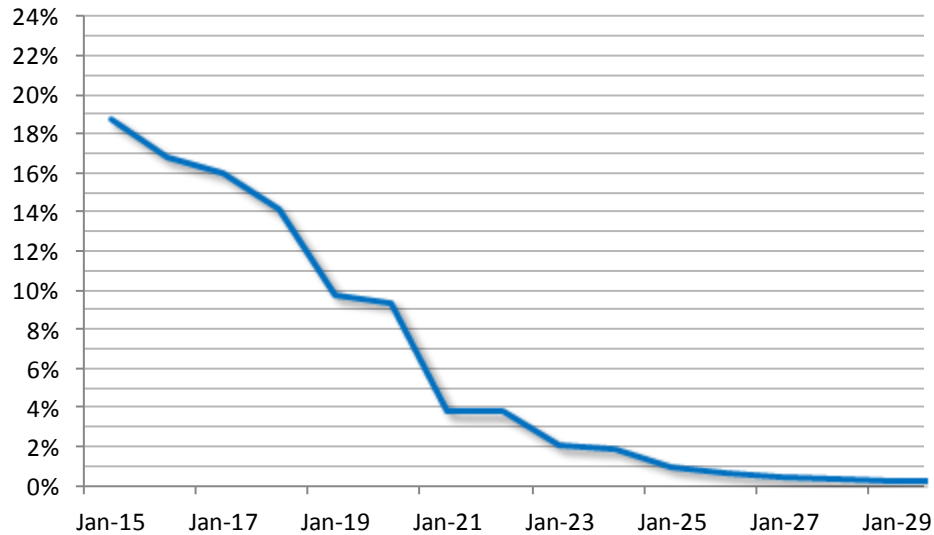
Total AUM: \$61.54 MM

Book Yield: 2.56%

Mkt to Book (12/31): 102.3%

Portfolio Projected Cash Flow

County of Fresno Portfolio Run-Off



**Composition at 03/31/2015*

Disclosure

The principal underwriter is GWFS Equities, Inc., and securities, when offered, are offered through GWFS Equities, Inc., and/or other broker dealers.

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