

CITY OF CORVALLIS

Treasury Report

September 2014

CITY OF CORVALLIS, OREGON
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MONTH END COMMENTARY

September 2014

Reversing last month's bond market rally, bond yields rose in September. The sell-off in Treasuries was attributed to more evidence that confirmed the upturn in the U.S. economy, Bill Gross' departure from Pimco and a perceived more hawkish tone from the Fed. Contributing to the change in sentiment about the economy also was the announcement by the Commerce Department that the economy had grown at its fastest pace since the end of 2011. This growth was driven by an increase in stock prices, a bounce-back in exports, rising consumer spending and increased business investment.

U.S. Economy - GDP: Real gross domestic product, the output of goods and services produced by labor and property in the U.S., increased at an annual rate of 4.6% in the second quarter of 2014, according to the "third" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP decreased 2.1%. This upturn in the change in real GDP primarily reflected an increase in exports, accelerations in nonresidential fixed investment and an increase in state and local government spending.

Bill Gross leaves PIMCO: Treasury prices dropped after Bill Gross said he was leaving Pimco, the company he helped found and built into the world's largest bond fund investment manager. "The news that Bill Gross was leaving Pimco hit the tape and you saw an immediate selloff in the market, the idea being that with him leaving, there will be redemptions at Pimco, and it will force Pimco to sell their holdings," said Jason Rogan, managing director of U. S Treasury trading at Guggenheim Securities. Roughly \$10 Billion left the Pimco Total Return Fund on the day of the resignation announcement.

FOMC Statement: The Fed's Summary of Economic Projections showed 2 market moving developments. First, the median expected Fed Funds target at the end of 2015 has risen to 1.38% versus 1.13 % previously. The Fed also provided the first projections of policy rates at the end of 2017, at a median of 3.75% - the same as the unchanged longer-run projection. This indicates that the Fed expects to complete its tightening cycle between mid-2015 and late 2017.

Other economic data:

Non-farm Payrolls/Unemployment: The August employment report was significantly softer than expectations, as total payrolls rose 143,000 vs. 212,000 previously. This was the weakest increase since December of 2013. The unemployment rate decreased slightly from 6.2% to 6.1%.

Housing Data: Contracts to purchase previously owned homes declined in August as tighter credit and limited wage growth weigh on potential buyers. The pending home sales index dropped 1% after a 3.2% increase in July.

Policy Compliance Report (Market Values)

Overall Portfolio Structure

	<u>Investment Strategy Range</u>		Market Value	Neutral Allocation	Actual Allocation	Position
	Low	High				
Liquid Component	\$5,000,000.00	\$20,000,000.00	\$30,764,977.86	60.00%	66.94%	6.94%
Investment Component (Core)	\$15,000,000.00	\$20,000,000.00	\$15,194,922.25	40.00%	33.06%	-6.94%
Total			\$45,959,900.11			

	Policy Requirement	Actual Portfolio	Within Limits
Under 30 Days	> 10%	67%	Yes
Under 1 Year	> 25%	67%	Yes
Under 5 Years	100%	100%	Yes
WAM	< 1.5 Years	0.71	Yes

Asset Allocation Strategy

	Policy Maximum Allocation	Per Issuer Restriction	Current Portfolio Allocation	Market Value	Policy Maximum Maturity	Amount Available to Invest	Within Limits
US Treasuries	100%		4.36%	\$2,005,320.00	5 Years	\$43,954,580.11	Yes
Federal Agency and Agency Sponsored	100%	40%	23.96%	\$11,010,120.00	5 Years	\$34,949,780.11	Yes
CDs/ Bank Deposits/ Savings (OST Qualified Institutions)	25%	15%	6.44%	\$2,959,452.00		\$8,530,523.03	Yes
Bankers Acceptances	10%		0.00%	\$0.00		\$4,595,990.01	Yes
Commercial Paper (A-1/P-1)	10%	5%	0.00%	\$0.00	120 Days	\$4,595,990.01	Yes
Corporate Bonds (Aa3/AA-)	10%	5%	1.48%	\$678,692.25	5 Years	\$3,917,297.76	Yes
Municipal Obligations (OR, WA, AA or better)	10%	5%	1.09%	\$500,790.00	5 Years	\$4,095,200.01	Yes
State Pool (LGIP)	ORS Maximum or 100%		62.68%	\$28,805,525.86	N/A	\$17,558,736.14	Yes
Total			100.00%	\$45,959,900.11			

ORS Maximum as of 9/19/2014 \$46,801,588.00

***Investment Policy Note:** Section 5.03.102 states "Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need to be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained."

Policy : April 2014

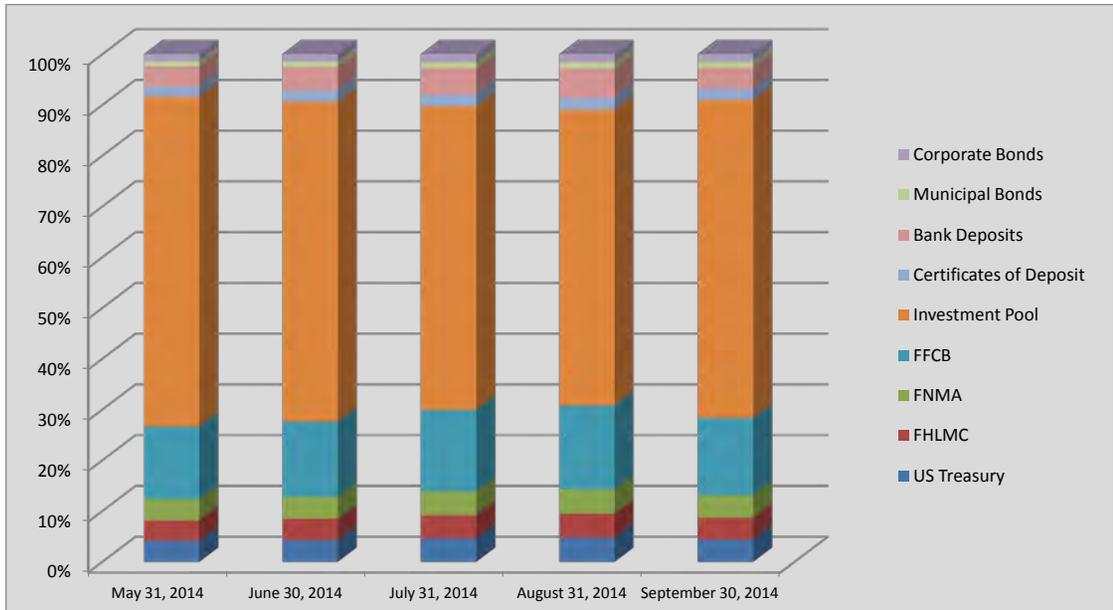
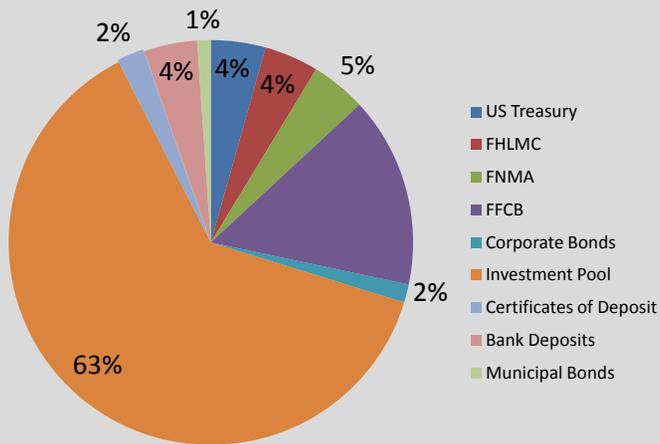
Total Asset Allocation Strategy (Market Values)

Commentary

No purchases or maturities were made in September, however City staff and GPA will be looking at adding another \$5 million in core investments over the next several months, as revenue inflows increase. September saw a net increase in the portfolio due to the receipt of nearly \$5 million in system development charges from OSU. This, plus \$4 million in bond proceeds at the October closing, and property tax turnovers commencing in November should provide significant positive cashflow for investment purposes.

Sector	YTM @ Settlement	May 31, 2014	June 30, 2014	July 31, 2014	August 31, 2014	September 30, 2014	Change From Last Month*
US Treasury	0.67%	\$2,013,280.00	\$2,010,468.00	\$2,005,000.00	\$2,009,060.00	\$2,005,320.00	(\$3,740.00)
FHLMC	1.04%	\$2,001,780.00	\$2,001,228.00	\$1,995,640.00	\$1,998,920.00	\$1,991,780.00	(\$7,140.00)
FNMA	0.81%	\$2,039,140.00	\$2,034,184.00	\$2,033,760.00	\$2,031,640.00	\$2,030,100.00	(\$1,540.00)
FFCB	0.67%	\$7,012,700.00	\$7,008,325.00	\$7,001,610.00	\$7,010,340.00	\$6,988,240.00	(\$22,100.00)
Corporate Bonds	0.70%	\$680,940.00	\$680,188.05	\$680,373.00	\$679,685.00	\$678,692.25	(\$992.75)
Investment Pool	0.54%	\$31,868,589.68	\$29,840,832.39	\$26,113,592.33	\$24,709,309.00	\$28,805,525.86	\$4,096,216.86
Certificates of Deposit	1.00%	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00	-
Bank Deposits	0.20%	1,924,814.62	2,250,151.57	2,281,523.82	2,448,092.00	1,959,452.00	(\$488,640.00)
Municipal Bonds	0.88%	\$503,580.00	\$501,440.00	\$501,050.00	\$501,630.00	\$500,790.00	(\$840.00)
Total	0.60%	\$49,044,824.30	\$47,326,817.01	\$43,612,549.15	\$42,388,676.00	\$45,959,900.11	\$3,571,224.11

Current Sector Allocation



City of Corvallis
Portfolio Holdings by Asset Class
All Portfolios

Date: 9/30/2014

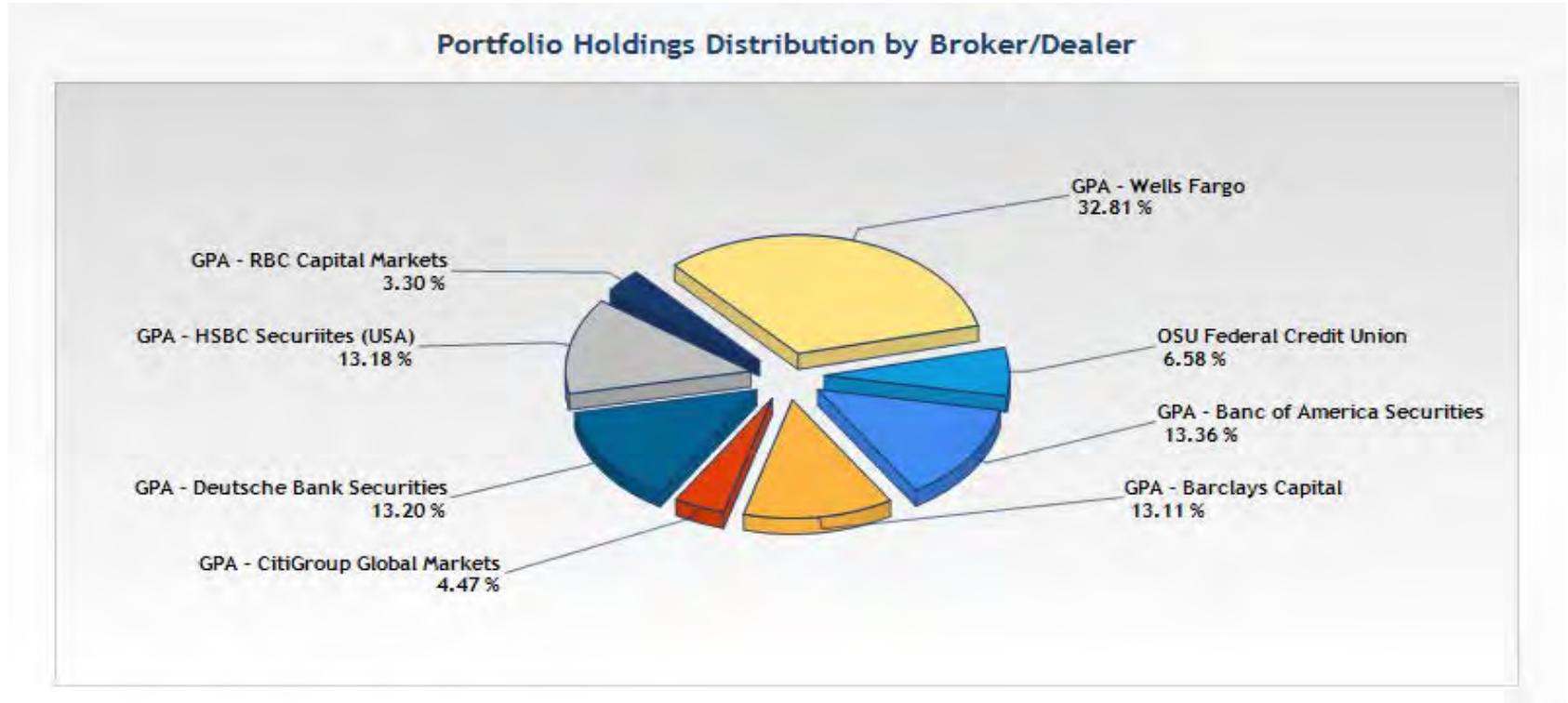
Description CUSIP	Face Amount / Shares	Settlement Date YTM @ Cost	Cost Value Book Value	Market Price YTM @ Market	Market Value Accrued Interest	% Portfolio Unre. Gain/Loss	Credit Rating Credit Rating	Days To Call/Maturity Duration To Maturity
Agency - Bullet								
FFCB 0.75 6/14/2016 3133EAUH9	2,000,000.00	6/29/2012 0.76	1,999,640.00 1,999,844.90	100.14 0.67	2,002,840.00 4,416.67	4.35% 2,995.10	Moody's-Aaa S&P-AA+	623 1.69
FHLMC 1 7/28/2017 3137EADJ5	2,000,000.00	12/12/2013 1.04	1,997,494.00 1,998,046.68	99.59 1.15	1,991,780.00 3,444.44	4.35% -6,266.68	Moody's-Aaa S&P-AA+	1032 2.79
FNMA 1.625 10/26/2015 31398A4M1	2,000,000.00	1/17/2012 0.81	2,060,564.00 2,017,184.71	101.51 0.22	2,030,100.00 13,902.78	4.39% 12,915.29	Moody's-Aaa S&P-AA+	391 1.06
Sub Total Agency - Bullet	6,000,000.00	0.87	6,057,698.00 6,015,076.29	0.68	6,024,720.00 21,763.89	13.09% 9,643.71		681 1.84
Agency - Callable								
FFCB 0.55 8/26/2016-13 3133EC3F9	3,000,000.00	11/26/2012 0.59	2,995,950.00 2,997,940.98	99.60 0.76	2,987,940.00 1,558.33	6.52% -10,000.98	Moody's-Aaa S&P-AA+	696 1.9
FFCB 0.68 9/26/2016-12 3133EA2D9	2,000,000.00	9/26/2012 0.71	1,997,500.00 1,998,755.99	99.87 0.74	1,997,460.00 151.11	4.35% -1,295.99	Moody's-Aaa S&P-AA+	727 1.98
Sub Total Agency - Callable	5,000,000.00	0.64	4,993,450.00 4,996,696.97	0.76	4,985,400.00 1,709.44	10.87% -11,296.97		708 1.93
Cash & Equivalents								
OSU Federal Savings MM MM2461	1,290.28	3/31/2014 0.02	1,290.28 1,290.28	100.00 0.02	1,290.28 0.00	0% 0.00	NR NR	1 0
Petty Cash Cash CASH	9,540.00	3/31/2014 0.00	9,540.00 9,540.00	100.00 0.00	9,540.00 0.00	0.02% 0.00	NR NR	1 0
State of Oregon LGIP LGIP4031	28,805,525.86	3/31/2014 0.54	28,805,525.86 28,805,525.86	100.00 0.54	28,805,525.86 0.00	62.67% 0.00	NR NR	1 0
Wells Fargo Bank MM MM5892	1,948,621.72	3/31/2014 0.20	1,948,621.72 1,948,621.72	100.00 0.20	1,948,621.72 0.00	4.24% 0.00	NR NR	1 0
Sub Total Cash & Equivalents	30,764,977.86	0.52	30,764,977.86	0.52	30,764,977.86	66.93% 0.00		1 0
Certificate of Deposits								

City of Corvallis
Portfolio Holdings by Asset Class
All Portfolios

Date: 9/30/2014

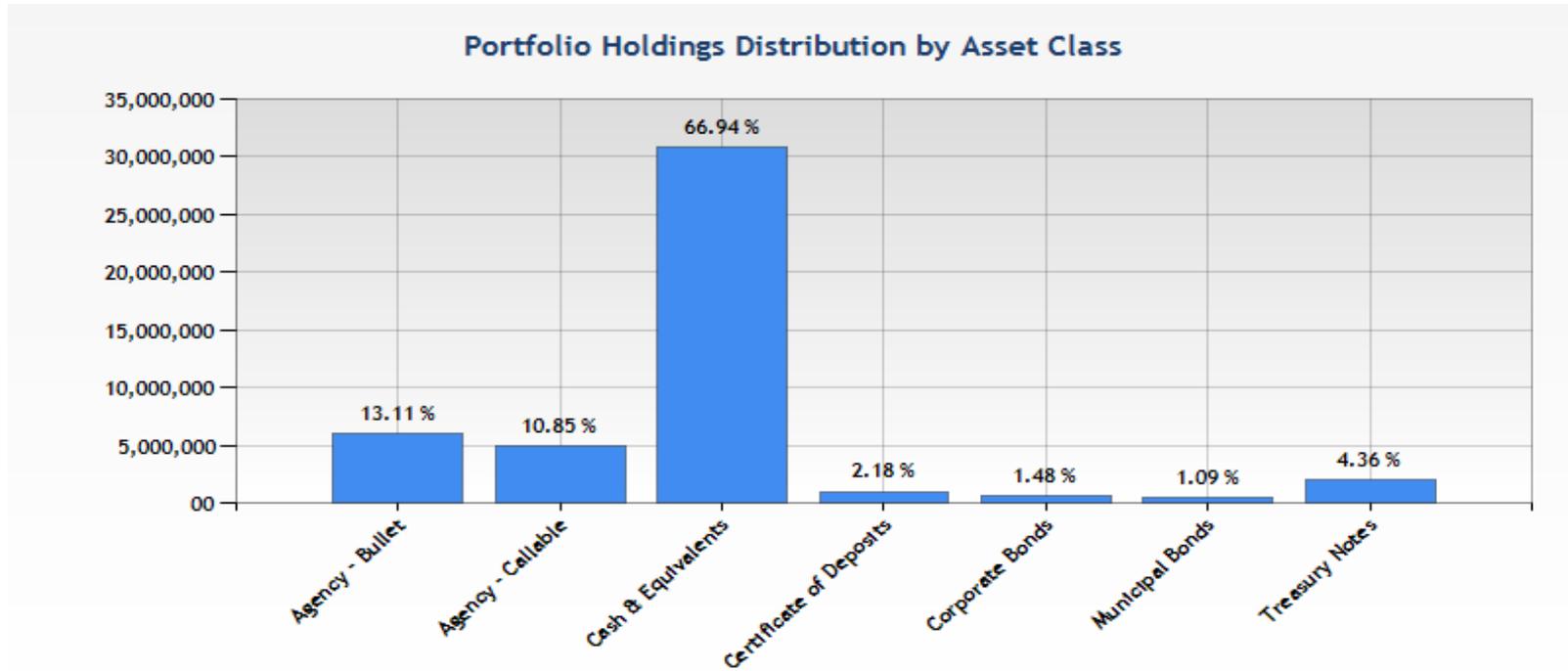
Description CUSIP	Face Amount / Shares	Settlement Date YTM @ Cost	Cost Value Book Value	Market Price YTM @ Market	Market Value Accrued Interest	% Portfolio Unre. Gain/Loss	Credit Rating Credit Rating	Days To Call/Maturity Duration To Maturity
OSU Federal 0.995 4/19/2016		4/19/2013	1,000,000.00	100.00	1,000,000.00	2.18%	NR	567
CDOSU	1,000,000.00	1.00	1,000,000.00	1.00	0.00	0.00	NR	1.54
			1,000,000.00		1,000,000.00	2.18%		567
Sub Total Certificate of Deposits	1,000,000.00	1.00	1,000,000.00	1.00	0.00	0.00		1.54
Corporate Bonds								
General Electric 1 12/11/2015-13		11/19/2013	679,137.75	100.55	678,692.25	1.47%	Moody's-Aa3	437
36962G6M1	675,000.00	0.70	677,404.52	0.54	2,043.75	1,287.73	S&P-AA+	1.19
			679,137.75		678,692.25	1.47%		437
Sub Total Corporate Bonds	675,000.00	0.70	677,404.52	0.54	2,043.75	1,287.73		1.19
Municipal Bonds								
Polk Marion & Benton Countys 0.881 6/15/2016		2/13/2013	500,075.00	100.16	500,790.00	1.09%	NR	624
731418KU2	500,000.00	0.88	500,038.42	0.79	1,284.79	751.58	S&P-AA+	1.7
			500,075.00		500,790.00	1.09%		624
Sub Total Municipal Bonds	500,000.00	0.88	500,038.42	0.79	1,284.79	751.58		1.7
Treasury Notes								
T-Note 0.875 12/31/2016		12/12/2013	2,012,265.62	100.27	2,005,320.00	4.37%	Moody's-Aaa	823
912828RX0	2,000,000.00	0.67	2,009,053.46	0.76	4,375.00	-3,733.46	S&P-AA+	2.23
			2,012,265.62		2,005,320.00	4.37%		823
Sub Total Treasury Notes	2,000,000.00	0.67	2,009,053.46	0.76	4,375.00	-3,733.46		2.23
			46,007,604.23		45,959,900.11	100.00%		228
TOTAL PORTFOLIO	45,939,977.86	0.60	45,963,247.52	0.59	31,176.87	-3,347.41		0.62

City of Corvallis - Core Portfolio of Investments through GPA



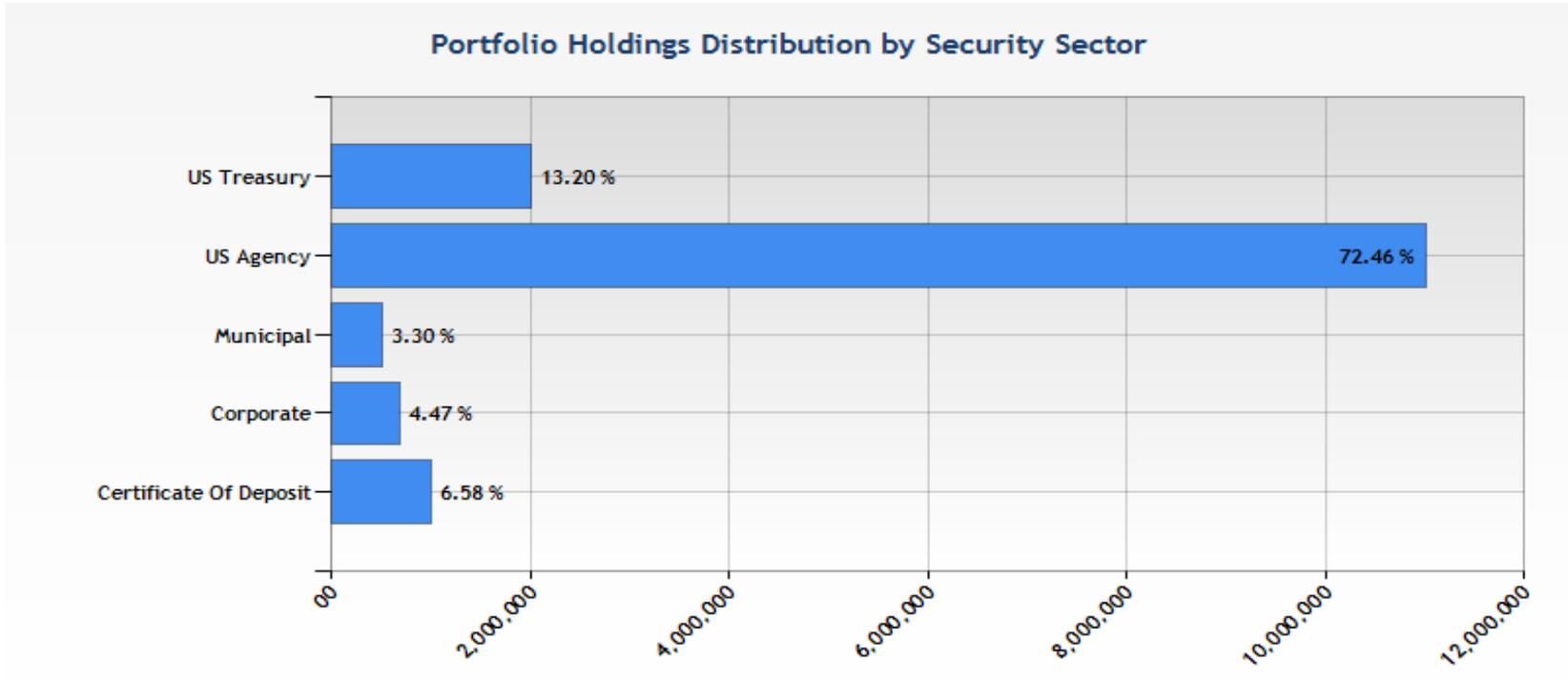
Broker/Dealer	Face Amount/Shares	YTM @ Cost	Days To Maturity	% of Portfolio	Market Value	Duration To Maturity
GPA - Banc of America Securities	2,000,000	0.809	391	13.36	2,030,100	1.06
GPA - Barclays Capital	2,000,000	1.035	1032	13.11	1,991,780	2.79
GPA - CitiGroup Global Markets	675,000	0.700	437	4.47	678,692	1.19
GPA - Deutsche Bank Securities	2,000,000	0.672	823	13.2	2,005,320	2.23
GPA - HSBC Securities (USA)	2,000,000	0.755	623	13.18	2,002,840	1.69
GPA - RBC Capital Markets	500,000	0.877	624	3.3	500,790	1.7
GPA - Wells Fargo	5,000,000	0.637	708	32.81	4,985,400	1.93
OSU Federal Credit Union	1,000,000	0.995	567	6.58	1,000,000	1.54
Total / Average	15,175,000	0.766	688	100.00	15,194,922	1.87

City of Corvallis - Total Portfolio of Cash & Investments



Asset Class	Face Amount/Shares	YTM @ Cost	Days To Maturity	% of Portfolio	Market Value	Duration To Maturity
Agency - Bullet	6,000,000	0.866	680	13.11	6,024,720	1.84
Agency - Callable	5,000,000	0.637	708	10.85	4,985,400	1.93
Cash & Equivalents	30,764,978	0.518	1	66.94	30,764,978	0
Certificate of Deposits	1,000,000	0.995	567	2.18	1,000,000	1.54
Corporate Bonds	675,000	0.700	437	1.48	678,692	1.19
Municipal Bonds	500,000	0.877	624	1.09	500,790	1.70
Treasury Notes	2,000,000	0.672	823	4.36	2,005,320	2.23
Total / Average	45,939,978	0.60	228	100.00	45,959,900	0.62

City of Corvallis - Core Portfolio of Investments through GPA



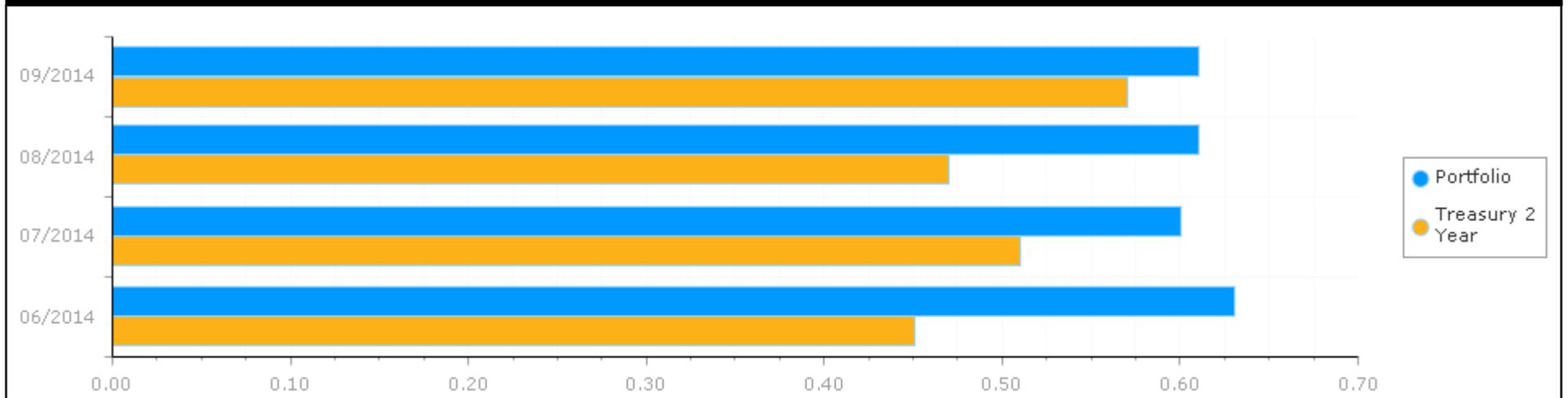
Security Sector	Face Amount/Shares	YTM @ Cost	Days To Maturity	% of Portfolio	Market Value	Duration To Maturity
Certificate Of Deposit	1,000,000	0.995	567	6.58	1,000,000	1.54
Corporate	675,000	0.700	437	4.47	678,692	1.19
Municipal	500,000	0.877	624	3.3	500,790	1.7
US Agency	11,000,000	0.762	693	72.46	11,010,120	1.88
US Treasury	2,000,000	0.672	823	13.2	2,005,320	2.23
Total / Average	15,175,000	0.766	688	100.00	15,194,922	1.87

City of Corvallis
Total Rate of Return - Book Value by Month
All Portfolios

Begin Date: 6/30/2014, End Date: 9/30/2014

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Average Capital Base-BV	TRR-BV	Annualized TRR-BV	Treasury 2 Year
6/30/2014	49,034,505.35	25,482.74	0.00	25,482.74	48,940,943.00	0.05	0.63	0.45
7/31/2014	47,318,857.49	23,641.04	0.00	23,641.04	47,174,533.43	0.05	0.60	0.51
8/31/2014	43,622,164.06	22,173.02	0.00	22,173.02	43,555,559.49	0.05	0.61	0.47
9/30/2014	42,385,071.83	21,585.34	0.00	21,585.34	42,476,381.92	0.05	0.61	0.57

Annualized TRR-BV



City of Corvallis
Projected Cash Flow by Month
All Portfolios

Begin Date: 10-2014, End Date: 03-2015

Date	CUSIP	Face Amount/Shares	Description	Principal Amount	Interest/Dividends	Total
10/26/2014	31398A4M1	0.00	FNMA 1.625 10/26/2015	0.00	16,250.00	16,250.00
10/31/2014	CDOSU	0.00	OSU Federal 0.995 4/19/2016	0.00	845.40	845.40
October, 2014				0.00	17,095.40	17,095.40
11/30/2014	CDOSU	0.00	OSU Federal 0.995 4/19/2016	0.00	818.12	818.12
November, 2014				0.00	818.12	818.12
12/11/2014	36962G6M1	0.00	General Electric 1 12/11/2015-13	0.00	3,375.00	3,375.00
12/14/2014	3133EAUH9	0.00	FFCB 0.75 6/14/2016	0.00	7,500.00	7,500.00
12/15/2014	731418KU2	0.00	Polk Marion & Benton Countys 0.881 6/15/2016	0.00	2,202.50	2,202.50
12/31/2014	CDOSU	0.00	OSU Federal 0.995 4/19/2016	0.00	845.40	845.40
12/31/2014	912828RX0	0.00	T-Note 0.875 12/31/2016	0.00	8,750.00	8,750.00
December, 2014				0.00	22,672.90	22,672.90
1/28/2015	3137EADJ5	0.00	FHLMC 1 7/28/2017	0.00	10,000.00	10,000.00
1/31/2015	CDOSU	0.00	OSU Federal 0.995 4/19/2016	0.00	845.40	845.40
January, 2015				0.00	10,845.40	10,845.40
2/26/2015	3133EC3F9	0.00	FFCB 0.55 8/26/2016-13	0.00	8,250.00	8,250.00
2/28/2015	CDOSU	0.00	OSU Federal 0.995 4/19/2016	0.00	763.56	763.56
February, 2015				0.00	9,013.56	9,013.56
3/26/2015	3133EA2D9	0.00	FFCB 0.68 9/26/2016-12	0.00	6,800.00	6,800.00
3/31/2015	CDOSU	0.00	OSU Federal 0.995 4/19/2016	0.00	845.40	845.40
March, 2015				0.00	7,645.40	7,645.40
TOTAL				0.00	68,090.78	68,090.78

City of Corvallis Glossary of Acronyms and Terms

Investment/Issuer Types			Other		
BA	Banker's Acceptance	FHLB	Federal Home Loan Bank	CPI	Consumer Price Index
CD	Certificates of Deposit	FHLMC	Federal Home Loan Mortgage Corporation	FOMC	Federal Open Market Committee
CP	Commercial Paper	FNMA	Federal National Mortgage Association	GDP	Gross Domestic Product
FFCB	Federal Farm Credit Bureau	LGIP	Local Government Investment Pool	OSTFB	Oregon Short Term Fund Board
FFCR	Federal Farm Credit Bank	PETTYCASH	Petty Cash	YTM	Yield to Maturity

* All agency securities are held with US Bank, the City's third-party safekeeper and OSU Federal Credit Union.

Asset Allocation Strategy: a strategy that incorporates evaluating spread relationships between the investment alternatives. Treasury securities are the baseline yields to which all other issues are compared.

Benchmark: a benchmark is a target or market level comparator using a set of securities that appropriately matches the portfolio's risk and return characteristics through interest rate cycles.

Book Value: the cost of the principal at the time of the security purchase.

Buy long: reporting program terminology meaning a security has been placed in the portfolio.

Days to Maturity: (weighted average) number of days from the report date to the maturity date of a security (or group of securities).

Duration Strategy: a strategy that provides discipline for making investment decisions based on balancing risk and return. The duration of the portfolio will be adjusted relative to the benchmark as interest rates vary. The portfolio duration will be longer than the benchmark when rates are historically high and shorter when rates are historically low. The portfolio manager will typically manage the duration in a range of +/-25% to the benchmark duration.

Investment Component (Core): portion of the portfolio that is not expected to be needed for daily needs of participants. This portion is invested in maturities between 1 month and 3 years with an average maturity target of 9 months.

Liquidity Component: portion of the portfolio that is held in short maturity investments to meet immediate liquidity needs of the Funds. Investments designated to this component are LGIP Funds and Bank deposits.

Market Value: par value time the price at which the security could theoretically have been sold at month end per Interactive Data Corp. (IDC) an independent third-party security pricing firm.

Par Value: the face value of a security. This is the value to which the coupon rate is applied for interest payments.

Purchased Accrued Interest: number of days interest between last coupon date and purchase date that is paid for at time of investment purchase.

Return: the return of the total funds will be calculated on an accrual yield basis, which is the amount paid out to participants. This return will be compared to the OST Pool rate. Additionally, a total return calculation will be calculated and tracked internally to assist management in being accountable to the risk and return of the core investment portfolio on a market value basis.

Risk: the risks associated with investing are credit risk, mark to market risk and reinvestment rate risk.

Security Types: the portfolio's call exposure will be managed through balancing callable or variable rate exposure to fixed rate maturity securities.

Sell long: reporting program terminology meaning a security in the portfolio is available to sell; typically a liquid/cash account, since the City generally holds to maturity.

Term: (weighted average) number of days from the purchase date to the maturity date of a security (or group of securities).

Yield Curve Strategy: the portfolio will be generally laddered, but the manager will implement a yield curve strategy when value is present in particular maturity sectors.

**City of Corvallis
Cash Flow Summary
September 2014**

	Receipts (1)	Disbursements (2)	Net
Actual Activity	10,350,341	7,614,410	2,735,931
Average of Prior Three Years	4,482,001	6,848,905	(2,366,904)
Difference	5,868,340	765,505	5,102,835

(1) Receipts represent all revenues recorded for the month, including any property taxes, fees, charges for service, interest earnings, grants, etc. The increase in receipts this month compared to the three-year average is due primarily to a one-time payment of over \$4.55 million from Oregon State University for system development charges. Additionally, OSU reimbursed \$588,570 toward its costs for the 15th and Washington St. CIP project in September. Higher water and wastewater metered revenues and the associated franchise fees account for the remainder of the increased receipts.

(2) Disbursements include vendor payments, payroll costs, and all other operating expenditures made by check and wire or electronic transfer. This September's disbursements were higher than the historical average due to the solar array capital purchases for the Wastewater Reclamation Plant project. Also, contract payments for services totaling over \$650,000 were made in respect of the 15th & Washington St. CIP project in September.

Note: Intrafund and interfund transfers, and investment purchases and maturities are movements between cash in different accounting funds or investment securities. The net effect on cash is zero, therefore they are not included in either receipts or disbursements.

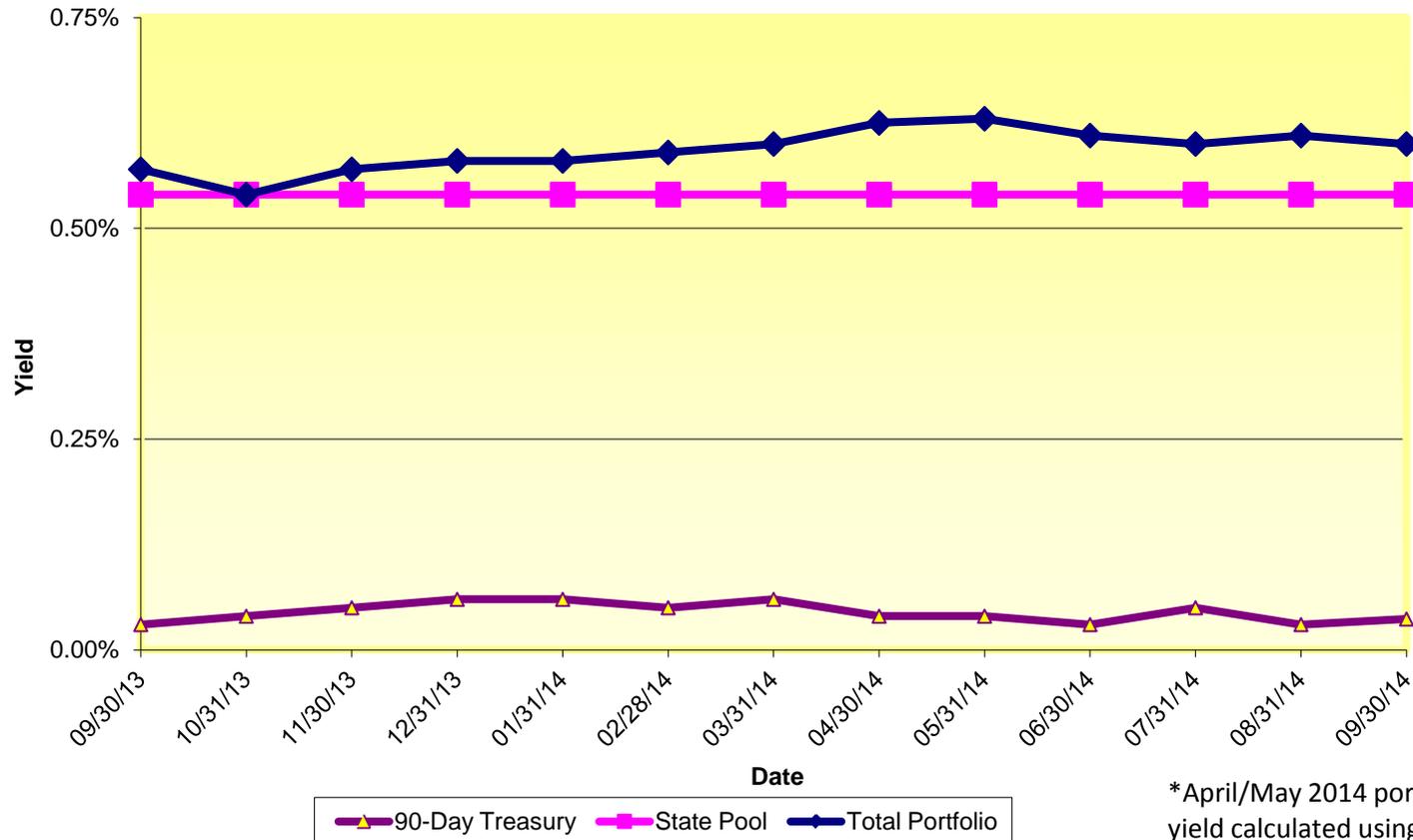
City of Corvallis
Monthly Revenue Allocations
Distributed in September 2014

Fund	Fund Name	Month's Avg Cash Balance *	Interest Distributed	Fund	Fund Name	Month's Avg Cash Balance *	Interest Distributed
101	General	\$3,966,217	\$5,249	460	Davidson Library	5,544	3
201	Street	1,022,958	253	501	Water	2,431,113	567
208	Street SDC	2,873,377	1,741	502	Water Timber	344,781	88
218	Parks SDC	3,453,115	1,648	508	Water SDC	6,655,968	3,294
220	911	568,538	123	520	Wastewater	2,741,811	677
230	Development Services	3,035,890	751	528	Wastewater SDC	12,042,545	5,923
250	Comm Dev Revolving	(575,236)	(245)	540	Storm Water	1,215,564	305
260	Parking	886,035	225	548	Storm Water SDC	147,121	70
270	Transit	1,931,824	486	560	Airport	537,152	271
301	Capital Improvement	807,390	32	630	Risk Management	750,839	191
401	General Obligation Debt Service	29,893	8				
Total						44,866,897	21,655

* Monthly interest earnings accrued/acreted and market adjusted are allocated based on the average cash balance for the period in which interest is earned. Most investments earn interest over a 3 or 6 month period, so even if the most recent monthly average is positive, if prior months' cash balances in a given fund were negative, this could result in net negative earnings for that fund in the month interest is paid.



City of Corvallis Total Portfolio vs. Benchmark September 2013 - September 2014*



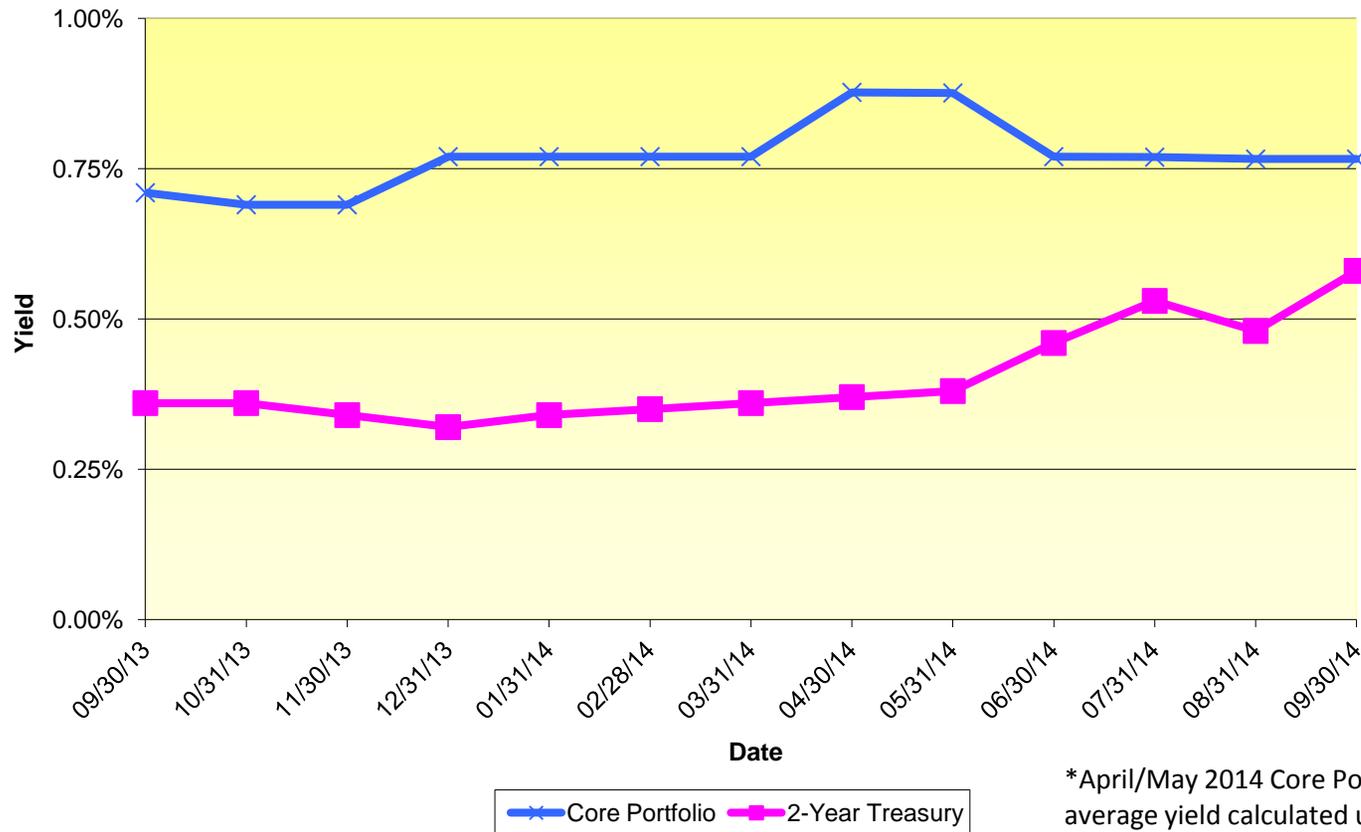
*April/May 2014 portfolio weighted-average yield calculated using US Bank data.



City of Corvallis

Core Portfolio vs. Benchmark

September 2013 - September 2014*



*April/May 2014 Core Portfolio weighted-average yield calculated using US Bank data.



City of Corvallis Cash & Investments

