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November 25, 2013

Lois Towey
City of Ormond Beach
22 South Beach Street
Ormond Beach, FL 32174

Dear Ms. Towey:

We have enclosed performance for the City of Ormond Beach Police Officers' Pension Trust Fund for the period ending September 30, 2013. Relevant indices have been included for comparison purposes.

On September 18th, Federal Reserve Chairman Ben Bernanke surprised economists and market participants alike by refraining from tapering the bond purchasing program. The FOMC (Federal Open Market Committee) cited worries that the abrupt rise in rates since spring "could slow the pace of improvement in the economy and the labor market," and that persistent low inflation "could pose risks to economic performance." This news sent treasury prices, gold, and the S&P 500 soaring, while the dollar slumped. Meanwhile in Washington D.C., time continued to tick by with no resolution to the budget impasse, setting in motion a partial government shut down.

The 10-year Treasury yield neared the 3.00% mark early in September, but ended at 2.62%, representing a 14 basis point increase for the quarter. The 2-year Treasury yield dropped 3 basis points to 0.32% while the 30-year Treasury yield increased 19 basis points to 3.69%. These moves caused the 2-30 year yield spread to widen to 337 basis points.

The bond market delivered positive performance for the quarter with a return on the Barclays Capital Aggregate Index of 0.57% and a return on the Barclays Capital Intermediate Government Credit Index of 0.62%. Spread product was mixed as three out of four sectors delivered positive excess return. Mortgage-backed securities were the leader with an excess return of 95 basis points, followed by corporate bonds with an excess return of 92 basis points. Agencies provided an excess return of 18 basis points, while asset-backed securities underperformed with a negative excess return of -14 basis points.

We have taken advantage of the recent rate increase to add duration to our portfolios and are now above the benchmark index. We remain overweight in corporate bonds with an emphasis on financials, and we have been extending some of our credits to take advantage of the steep yield curve. Given the recent increase in rates, we believe rates will trade in a range with a bias lower in the short term.

Please do not hesitate to contact us if you have any questions or comments.

Sincerely,



Janna Hamilton
Partner

JH/rj
Enclosures

