



*City of DeSoto*

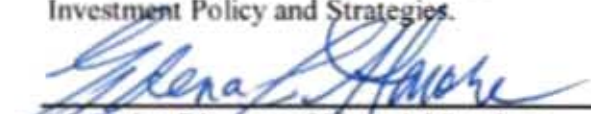
## QUARTERLY INVESTMENT REPORT

**For the Quarter Ended**

**December 31, 2013**

Prepared by  
**Valley View Consulting, L.L.C.**

The investment portfolio of the City of DeSoto is in compliance with the Public Funds Investment Act and the Investment Policy and Strategies.

  
\_\_\_\_\_  
Managing Director of Financial Services

  
\_\_\_\_\_  
Assistant Finance Director

  
\_\_\_\_\_  
City Manager

  
\_\_\_\_\_  
Accounting Manager

These reports were compiled using information provided by the City. No procedures were performed to test the accuracy or completeness of this information. The market values included in these reports were obtained by Valley View Consulting, L.L.C. from sources believed to be accurate and represent proprietary valuation. Due to market fluctuations these levels are not necessarily reflective of current liquidation values. Yield calculations are not determined using standard performance formulas, are not representative of total return yields and do not account for investment advisor fees.

**Strategy Summary:**

The Federal Open Market Committee (FOMC) maintained the Fed Funds target range between 0.00% and 0.25% (actual Fed Funds traded <10 bps). The FOMC continued Quantitative Easing (QE3), but announced the first tapering phase after their December meeting (\$75 billion per month down from \$85 billion). The fixed income market anticipated the change resulting in only modest yield curve adjustments. Domestic employment data remains erratic, with lingering concern over the U-6 and participation rates. Revised third quarter GDP surged to 4.1% - a very positive sign. The US stock markets held strong. Financial institution deposits and laddering targeted cash flows still provide the best interest earnings opportunity.

**Quarter End Results by Investment Category:**

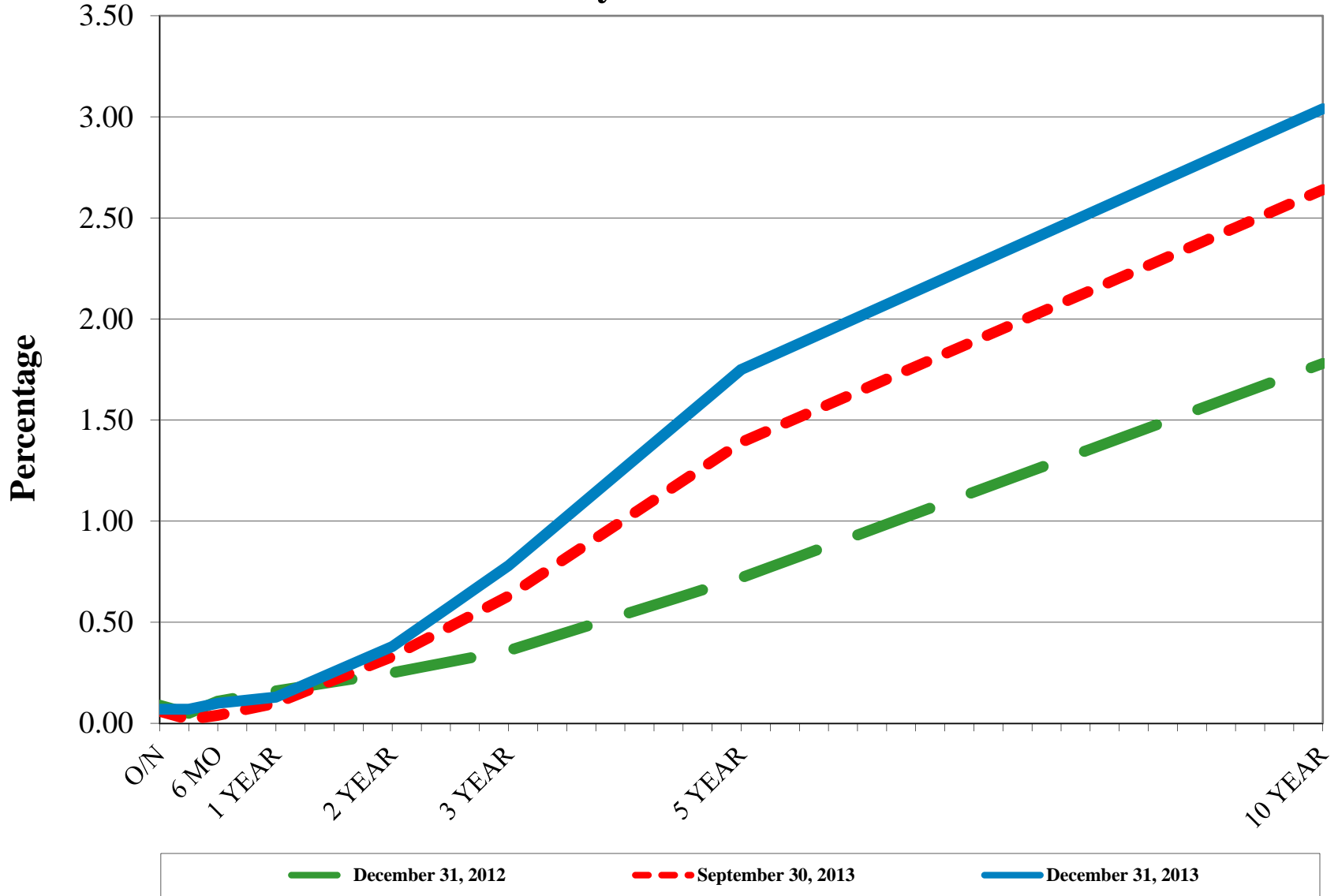
<u>Asset Type</u>	<u>Ave. Yield</u>	<u>December 31, 2013</u>		<u>September 30, 2013</u>	
		<u>Book Value</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Market Value</u>
DDA	0.00%	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
MMA/NOW/Pools	0.18%	31,872,739	31,872,739	28,028,715	28,028,715
CDs/Securities	0.41%	18,052,642	18,052,642	17,038,686	17,038,686
<b>Totals</b>		<b>\$ 50,425,381</b>	<b>\$ 50,425,381</b>	<b>\$ 45,567,401</b>	<b>\$ 45,567,401</b>

Average Yield (1)		Fiscal Year-to-Date Average Yield (2)	
Total Portfolio	0.26%	Total Portfolio	0.26%
Rolling Three Mo. Treas. Yield	0.00%	Rolling Three Mo. Treas. Yield	0.06%
Rolling Six Mo. Treas. Yield	0.00%	Rolling Six Mo. Treas. Yield	0.08%
		Quarterly TexPool Yield	0.04%
Quarterly Interest Income	\$ 25,759 Approximate		
Year-to-date Interest Income	\$ 25,759 Approximate		

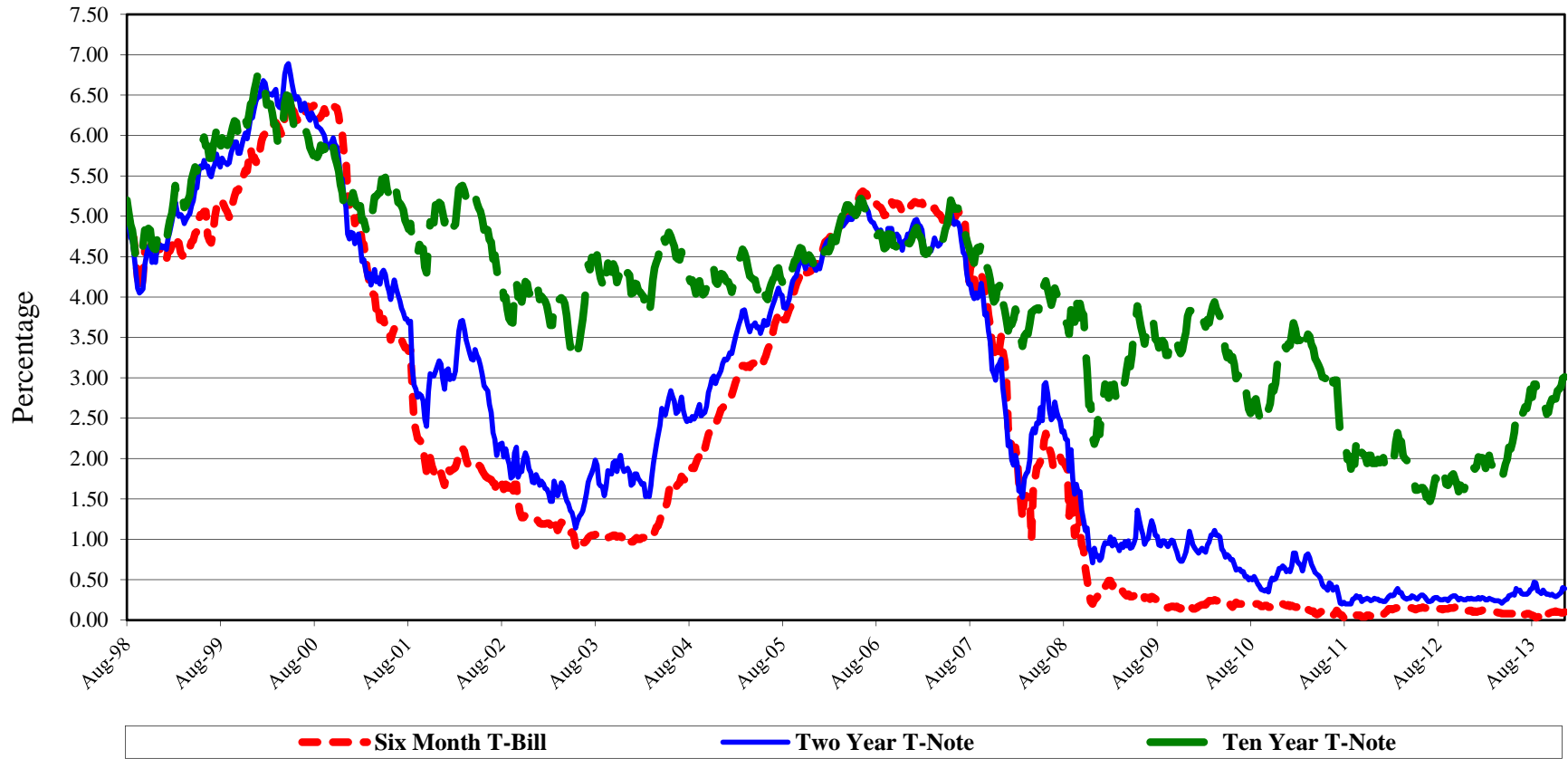
(1) Average Yield calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

(2) Fiscal Year-to-Date Average Yields calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

# Treasury Yield Curves



## US Treasury Historical Yields



# S&P 500



## Detail of Investment Holdings

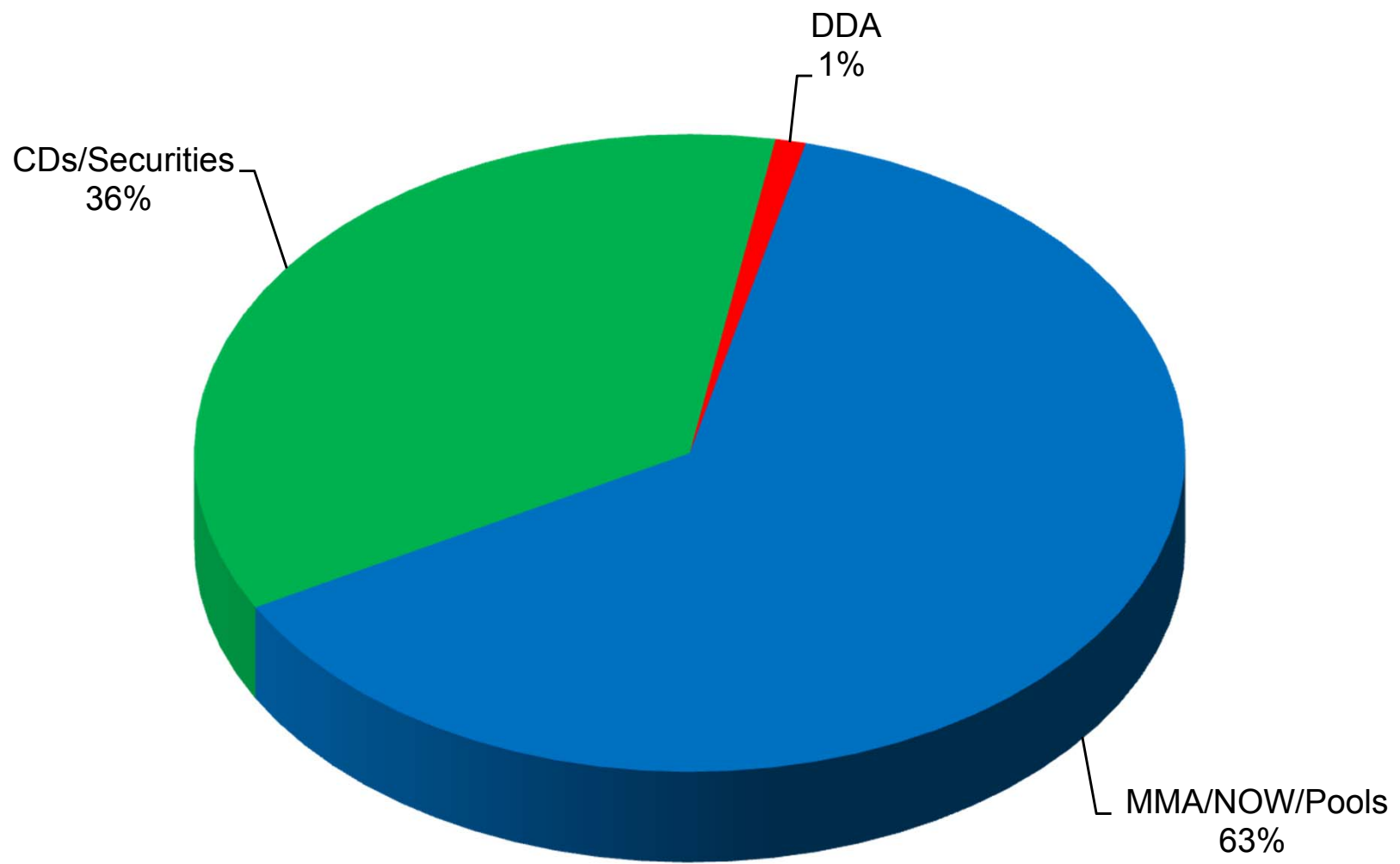
### December 31, 2013

Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
Wells Fargo DDA		0.00%	01/01/14	12/31/13	\$ 500,000	\$ 500,000	1	\$ 500,000	1	0.00%
Wells Fargo MMA		0.25%	01/01/14	12/31/13	15,319,248	15,319,248	1	15,319,248	1	0.25%
Southside Bank MMA		0.19%	01/01/14	12/31/13	2,514,432	2,514,432	1	2,514,432	1	0.19%
Texas Class	AAAm	0.10%	01/01/14	12/31/13	12,122,812	12,122,812	1	12,122,812	1	0.10%
TexPool	AAAm	0.04%	01/01/14	12/31/13	1,916,247	1,916,247	1	1,916,247	1	0.04%
Comerica CD		0.27%	02/06/14	02/06/13	2,004,487	2,004,487	100	2,004,487	37	0.27%
Comerica CD		0.28%	03/07/14	03/07/13	2,004,654	2,004,654	100	2,004,654	66	0.28%
Comerica CD		0.29%	04/07/14	04/07/13	2,004,820	2,004,820	100	2,004,820	97	0.29%
Comerica CD		0.30%	05/07/14	05/07/13	2,004,986	2,004,986	100	2,004,986	127	0.30%
Comerica CD		0.64%	06/02/14	07/02/12	2,018,209	2,018,209	100	2,018,209	153	0.64%
Texas Security Bank CD		0.40%	06/21/14	06/21/13	1,002,006	1,002,006	100	1,002,006	172	0.40%
Texas Security Bank CD		0.48%	12/21/14	06/21/13	1,002,408	1,002,408	100	1,002,408	355	0.48%
Comerica CD		0.43%	03/16/15	06/14/13	3,006,473	3,006,473	100	3,006,473	440	0.43%
Texas Security Bank CD		0.55%	06/21/15	06/21/13	1,002,759	1,002,759	100	1,002,759	537	0.55%
Comerica CD		0.55%	10/22/15	10/22/13	2,001,839	2,001,839	100	2,001,839	660	0.55%
					<b>\$ 50,425,381</b>	<b>\$ 50,425,381</b>		<b>\$ 50,425,381</b>	<b>93</b>	<b>0.26%</b>
									<b>(1)</b>	<b>(2)</b>

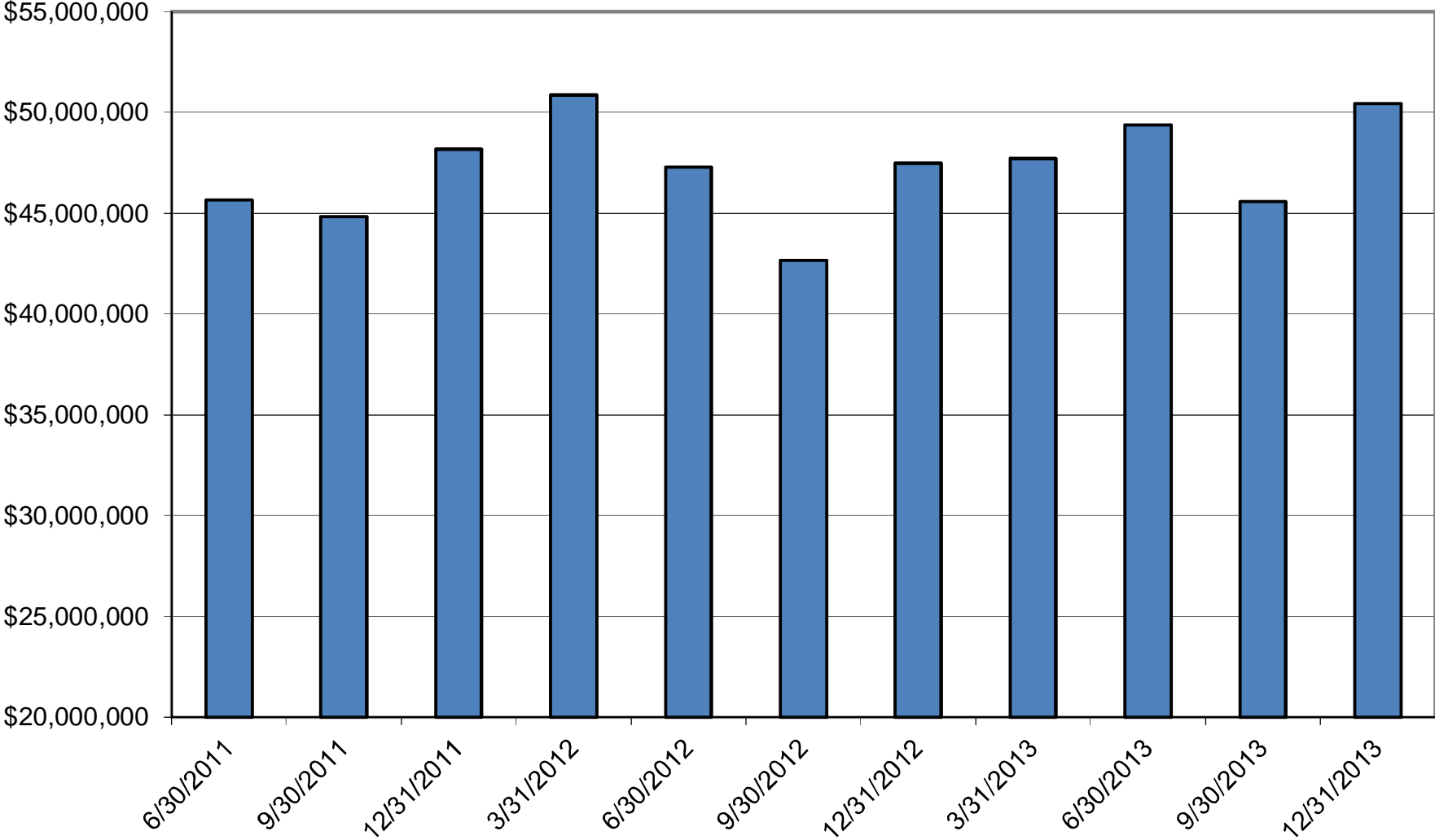
(1) **Weighted average life** - For purposes of calculating weighted average life, bank accounts, pools and money market funds are assumed to have an one day maturity.

(2) **Weighted average yield to maturity** - The weighted average yield to maturity is based on adjusted book value, realized and unrealized gains/losses and investment advisory fees are not considered. The yield for the reporting month is used for bank accounts, pools and money market funds.

# Portfolio Composition



# Total Portfolio



■ Quarter End Book Value



## Book Value Comparison

Description	Coupon/ Discount	Maturity Date	September 30, 2013		Purchases/ Adjustments	Sales/Adjust/ Call/Maturity	December 31, 2013	
			Par Value	Book Value			Par Value	Book Value
Wells Fargo DDA	0.00%	01/01/14	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.25%	01/01/14	10,217,710	10,217,710	5,101,538		15,319,248	15,319,248
Southside Bank MMA	0.19%	01/01/14	4,013,132	4,013,132	-	(1,498,700)	2,514,432	2,514,432
Texas Class	0.10%	01/01/14	12,119,921	12,119,921	2,891		12,122,812	12,122,812
TexPool	0.04%	01/01/14	1,677,951	1,677,951	238,296		1,916,247	1,916,247
Comerica CD	0.39%	10/22/13	1,003,585	1,003,585		(1,003,585)	-	-
Comerica CD	0.27%	02/06/14	2,003,139	2,003,139	1,349		2,004,487	2,004,487
Comerica CD	0.28%	03/07/14	2,003,255	2,003,255	1,399		2,004,654	2,004,654
Comerica CD	0.29%	04/07/14	2,003,371	2,003,371	1,449		2,004,820	2,004,820
Comerica CD	0.30%	05/07/14	2,003,488	2,003,488	1,499		2,004,986	2,004,986
Comerica CD	0.64%	06/02/14	2,014,992	2,014,992	3,217		2,018,209	2,018,209
Texas Security Bank CD	0.40%	06/21/14	1,001,008	1,001,008	998		1,002,006	1,002,006
Texas Security Bank CD	0.48%	12/21/14	1,001,210	1,001,210	1,198		1,002,408	1,002,408
Comerica CD	0.43%	03/16/15	3,003,253	3,003,253	3,221		3,006,473	3,006,473
Texas Security Bank CD	0.55%	06/21/15	1,001,386	1,001,386	1,373		1,002,759	1,002,759
Comerica CD	0.55%	10/22/15			2,001,839		2,001,839	2,001,839
<b>TOTAL</b>			<b>\$ 45,567,401</b>	<b>\$ 45,567,401</b>	<b>\$ 7,360,266</b>	<b>\$ (2,502,285)</b>	<b>\$ 50,425,381</b>	<b>\$ 50,425,381</b>

## Market Value Comparison

Description	Coupon/ Discount	Maturity Date	September 30, 2013		Qtr to Qtr Change	December 31, 2013	
			Par Value	Market Value		Par Value	Market Value
Wells Fargo DDA	0.00%	01/01/14	\$ 500,000	\$ 500,000	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.25%	01/01/14	10,217,710	10,217,710	5,101,538	15,319,248	15,319,248
Southside Bank MMA	0.19%	01/01/14	4,013,132	4,013,132	(1,498,700)	2,514,432	2,514,432
Texas Class	0.10%	01/01/14	12,119,921	12,119,921	2,891	12,122,812	12,122,812
TexPool	0.04%	01/01/14	1,677,951	1,677,951	238,296	1,916,247	1,916,247
Comerica CD	0.39%	10/22/13	1,003,585	1,003,585	(1,003,585)	-	-
Comerica CD	0.27%	02/06/14	2,003,139	2,003,139	1,349	2,004,487	2,004,487
Comerica CD	0.28%	03/07/14	2,003,255	2,003,255	1,399	2,004,654	2,004,654
Comerica CD	0.29%	04/07/14	2,003,371	2,003,371	1,449	2,004,820	2,004,820
Comerica CD	0.30%	05/07/14	2,003,488	2,003,488	1,499	2,004,986	2,004,986
Comerica CD	0.64%	06/02/14	2,014,992	2,014,992	3,217	2,018,209	2,018,209
Texas Security Bank CC	0.40%	06/21/14	1,001,008	1,001,008	998	1,002,006	1,002,006
Texas Security Bank CC	0.48%	12/21/14	1,001,210	1,001,210	1,198	1,002,408	1,002,408
Comerica CD	0.43%	03/16/15	3,003,253	3,003,253	3,221	3,006,473	3,006,473
Texas Security Bank CC	0.55%	06/21/15	1,001,386	1,001,386	1,373	1,002,759	1,002,759
Comerica CD	0.55%	10/22/15			2,001,839	2,001,839	2,001,839
<b>TOTAL</b>			<b>\$ 45,567,401</b>	<b>\$ 45,567,401</b>	<b>\$ 4,857,981</b>	<b>\$ 50,425,381</b>	<b>\$ 50,425,381</b>

**Allocation**  
**December 31, 2013**

<b>Book and Market Value</b>	<b>Totals</b>	<b>Wells Fargo DDA</b>	<b>Wells Fargo MMA</b>	<b>Southside Bank MMA</b>	<b>Texas Class</b>	<b>TexPool</b>	<b>Comerica CD 2/6/14</b>	<b>Comerica CD 3/7/14</b>
Concentration Fund	\$ 39,669,865	\$ 500,000	\$ 15,319,248	\$ 1,511,511	\$ 5,419,871	\$ 1,873,768	\$ 2,004,487	\$ 2,004,654
2006 Drainage Improvements	50,386				50,386			
2007 Street Improvements	369,532				369,532			
2008 Street Improvements	305,382				305,382			
2009 Street Improvements	3,316,859				3,316,859			
2009 Water CIP CO	1,650,574			1,002,921	647,653			
2011A Heliport CO	50,274				50,274			
2011B CO - Water CIP	1,011,293				1,011,293			
2013 Water-Sewer CIP	3,807,641				800,467			
Corner Theatre - 2011	151,096				151,096			
DPDC Bonds	8,033					8,033		
Health Facilities Corporation	13,081					13,081		
Industrial Development Board	21,365					21,365		
<b>Investment Total</b>	<b>\$ 50,425,381</b>	<b>\$ 500,000</b>	<b>\$ 15,319,248</b>	<b>\$ 2,514,432</b>	<b>\$ 12,122,812</b>	<b>\$ 1,916,247</b>	<b>\$ 2,004,487</b>	<b>\$ 2,004,654</b>

**Allocation**  
**December 31, 2013**

<b>Book and Market Value</b>	<b>Comerica CD 4/7/14</b>	<b>Comerica CD 5/7/14</b>	<b>Comerica CD 6/2/14</b>	<b>Texas Security Bank CD 6/21/14</b>	<b>Texas Security Bank CD 12/21/14</b>	<b>Comerica CD 3/16/15</b>	<b>Texas Security Bank CD 6/21/15</b>	<b>Comerica CD 10/22/15</b>
Concentration Fund	\$ 2,004,820	\$ 2,004,986	\$ 2,018,209	\$ -	\$ -	\$ 3,006,473	\$ -	\$ 2,001,839
2006 Drainage Improvements								
2007 Street Improvements								
2008 Street Improvements								
2009 Street Improvements								
2009 Water CIP CO								
2011A Heliport CO								
2011B CO - Water CIP								
2013 Water-Sewer CIP				1,002,006.49	1,002,408.02		1,002,759.43	
Corner Theatre - 2011								
DPDC Bonds								
Health Facilities Corporation								
Industrial Development Board								
<b>Investment Total</b>	<b>\$ 2,004,820</b>	<b>\$ 2,004,986</b>	<b>\$ 2,018,209</b>	<b>\$ 1,002,006</b>	<b>\$ 1,002,408</b>	<b>\$ 3,006,473</b>	<b>\$ 1,002,759</b>	<b>\$ 2,001,839</b>

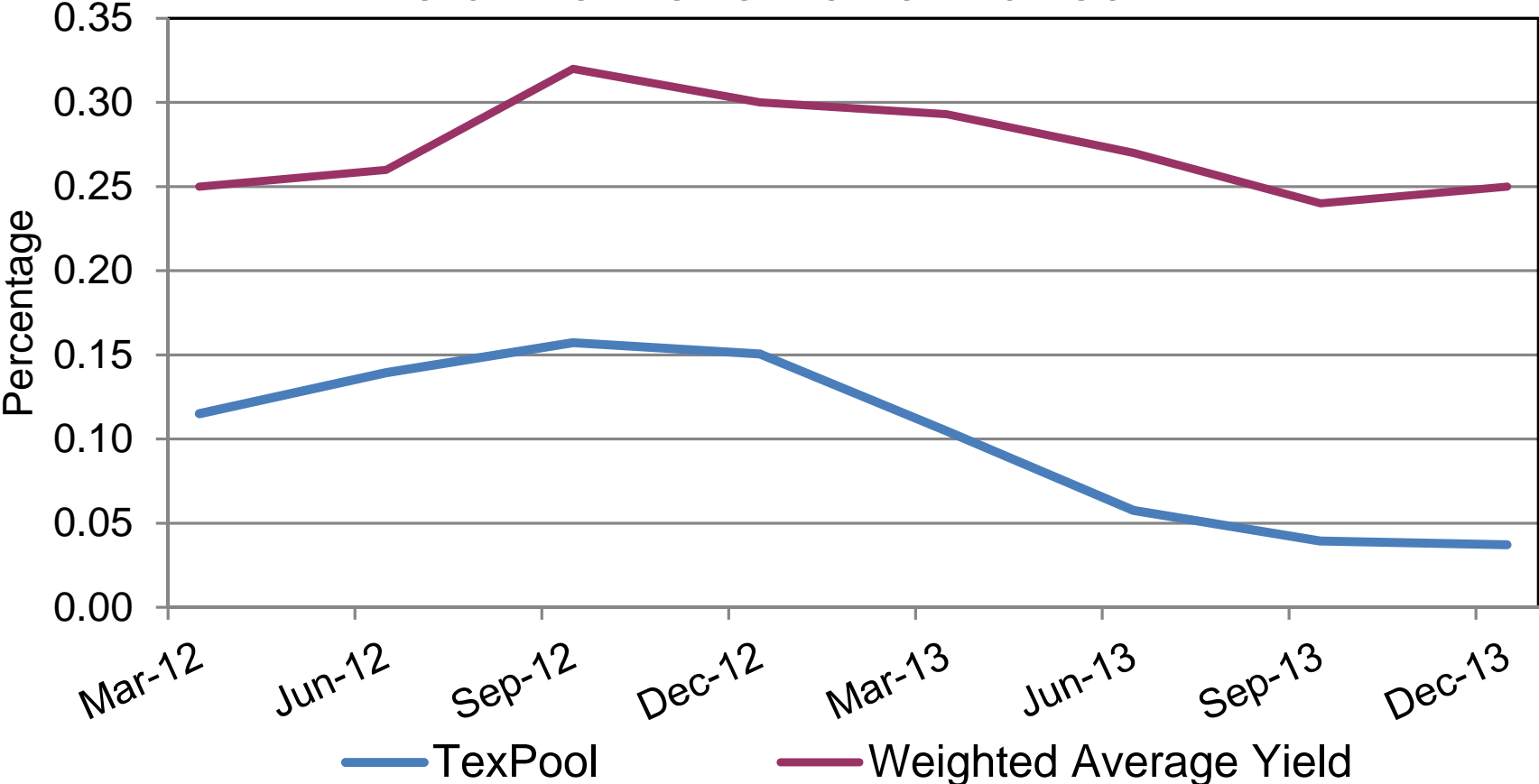
**Allocation**  
**September 30, 2013**

<b>Book and Market Value</b>	<b>Totals</b>	<b>Wells Fargo DDA</b>	<b>Wells Fargo MMA</b>	<b>Southside Bank MMA</b>	<b>Texas Class</b>	<b>TexPool</b>	<b>Comerica CD 10/22/13</b>	<b>Comerica CD 2/6/14</b>
Concentration Fund	\$ 34,817,549	\$ 500,000	\$ 10,217,710	\$ 3,010,702	\$ 5,418,578	\$ 1,635,477	\$ 1,003,585	\$ 2,003,139
2006 Drainage Improvements	50,374				50,374			
2007 Street Improvements	369,444				369,444			
2008 Street Improvements	305,309				305,309			
2009 Street Improvements	3,316,068				3,316,068			
2009 Water CIP CO	1,649,928			1,002,430	647,498			
2011A Heliport CO	50,262				50,262			
2011B CO - Water CIP	1,011,052				1,011,052			
2013 Water-Sewer CIP	3,803,881				800,276			
Corner Theatre - 2011	151,060				151,060			
DPDC Bonds	8,032					8,032		
Health Facilities Corporation	13,080					13,080		
Industrial Development Board	21,363					21,363		
<b>Investment Total</b>	<b>\$ 45,567,401</b>	<b>\$ 500,000</b>	<b>\$ 10,217,710</b>	<b>\$ 4,013,132</b>	<b>\$ 12,119,921</b>	<b>\$ 1,677,951</b>	<b>\$ 1,003,585</b>	<b>\$ 2,003,139</b>

**Allocation**  
**September 30, 2013**

<b>Book and Market Value</b>	<b>Comerica CD 3/7/14</b>	<b>Comerica CD 4/7/14</b>	<b>Comerica CD 5/7/14</b>	<b>Comerica CD 6/2/14</b>	<b>Texas Security Bank CD 6/21/14</b>	<b>Texas Security Bank CD 12/21/14</b>	<b>Comerica CD 3/16/15</b>	<b>Texas Security Bank CD 6/21/15</b>
Concentration Fund	\$ 2,003,255	\$ 2,003,371	\$ 2,003,488	\$ 2,014,992	\$ -	\$ -	\$ 3,003,253	\$ -
2006 Drainage Improvements								
2007 Street Improvements								
2008 Street Improvements								
2009 Street Improvements								
2009 Water CIP CO								
2011A Heliport CO								
2011B CO - Water CIP								
2013 Water-Sewer CIP					1,001,008.22	1,001,209.86		1,001,386.30
Corner Theatre - 2011								
DPDC Bonds								
Health Facilities Corporation								
Industrial Development Board								
<b>Investment Total</b>	<b>\$ 2,003,255</b>	<b>\$ 2,003,371</b>	<b>\$ 2,003,488</b>	<b>\$ 2,014,992</b>	<b>\$ 1,001,008</b>	<b>\$ 1,001,210</b>	<b>\$ 3,003,253</b>	<b>\$ 1,001,386</b>

# Total Portfolio Performance



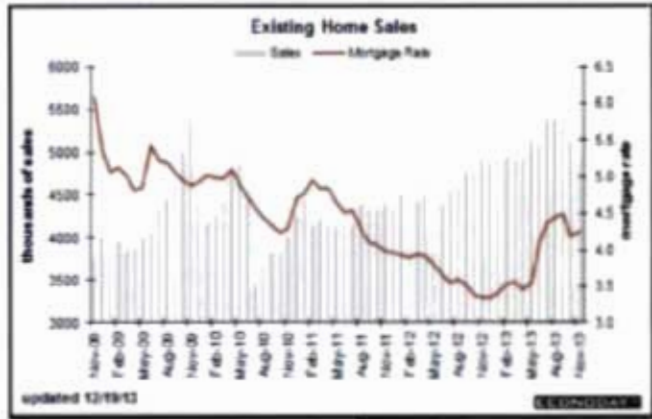


## Market Outlook January 10, 2014

The markets appear to be improving and boding for a much better 2014. Many of the uncertainties surrounding the Federal budget, the unwinding of the Federal Open Markets Committee's (FOMC) stimulus programs and the health care debate have been subsiding to allow the markets to focus more on the core strength underlying this recovery. Consumers appear to be in much better fiscal shape than they have been for several years and are more confident in their future. In the best-case scenario, consumers will soon begin to invest and spend, which will make the market recovery much more robust. The one glitch in an otherwise promising year-end was a weak Employment number for December.

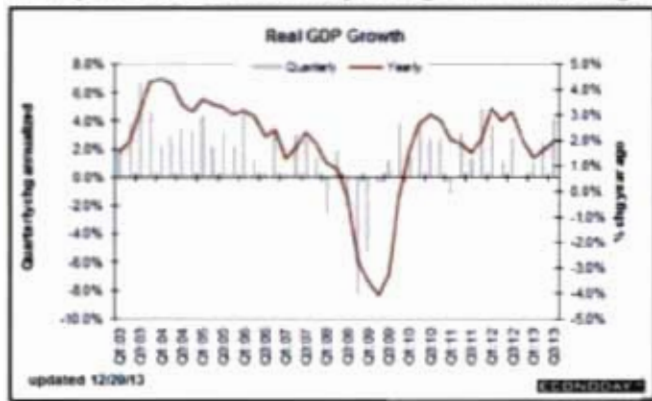
All of the housing market indicators, except Existing Homes, showed improvement in the number of sales

during November. Existing Home sales dropped 4.3% in November following a drop of 3.2% in October, but there are probably three reasons for the decline. 1) With the threat of rising mortgage rates, many prospective homebuyers that were looking to purchase a home in the near future chose to do so during the summer/fall of 2013 before rates increased; 2) home prices are increasing and may be pricing some buyers out of the market; 3) mortgages are still challenging to obtain (all cash buyers made up 32% of the Existing Home buyers in November). The other housing indicators improved late in 2013. The New Home Sales report was more of a correction to their October release (impacted by the spotty reports during the Federal government shutdown) and indicated that the October/November period surged more than 28% from levels during the late Summer. Housing Starts jumped 22.7% in November and the prices of new homes continue to rise. Homebuilders were much more confident at the end of the year, marking the end of a series of negative readings in the Housing Market Index (HMI). The December HMI matched the best reading since the housing recovery began. The S&P Case-Shiller Report (measuring the home prices for the 20 major metropolitan areas in the U.S.) reported the third month in a row where all 20 cities had price gains. Once mortgage rates begin to rise to a more normal range, it is likely that banks will re-enter the mortgage-underwriting arena to address the needs of homebuyers.



The production side of the economy was moving ahead, in fact the Gross Domestic Product (GDP) for the third quarter came in at a very strong +4.1%, following a reading of +2.5% in quarter two. Durable Goods Orders and Factory Orders both saw impressive increases during November and Business Inventories reports indicated that businesses were stocking their shelves. On the consumption front, however the news for retail was not quite as good as many had hoped. Although the final results of the Holiday sales season are not yet in, preliminary reports were not that impressive. Online sales were up 10% from 2012, but in-store sales were only up 3.9%. In-store traffic was down 21.2% this year, showing that many consumers are shifting to using their computers to find Holiday deals. There was heavy discounting across the board and

it is not yet known whether stock was depleted to the optimal levels. The markets will be closely watching



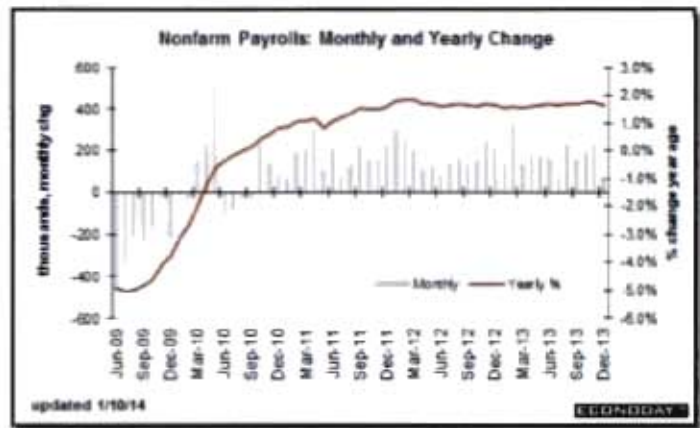
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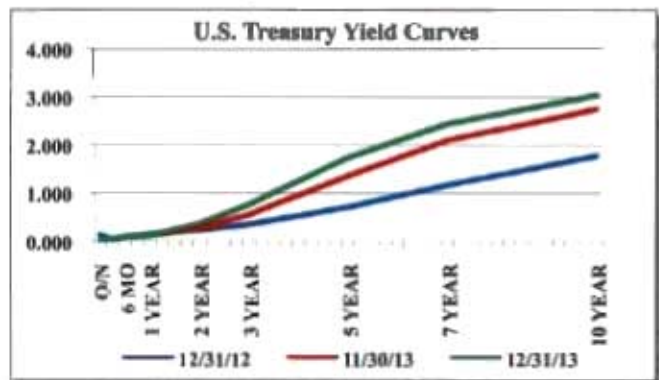
the final Retail Sales numbers when they are reported during January for the Holiday season. Consumer Sentiment and Consumer Confidence reports surged during December, showing that consumers are becoming more comfortable with their financial condition and are more likely to spend. Purchasing Managers in both the Manufacturing and Service sectors were slightly more pessimistic in December. The Producer Price Index slipped 0.1% in November following a decline of 0.2% in October.

The Federal Open Markets Committee (FOMC) surprised the markets following their meeting in December and reported that they will begin the "tapering" of their quantitative easing program (QE3) in January. They are taking small steps to unwind the program and the markets seemed to accept the action positively. The FOMC has been telegraphing their intention to taper for many months, but most of the markets were expecting it to begin sometime in 2014 and that the taper would be more significant. The Committee reported that they would reduce their monthly purchases of Treasury and Agency securities from \$85 billion per month down to \$75 billion per month. This move showed the market that the FOMC intends to slowly let up on the gas pedal to curtail their stimuli rather than hitting the brakes. The FOMC also stated that they do not intend to raise the short-term rate (Fed Funds rate) until the unemployment rate falls "substantially below 6.5%" and the markets are interpreting this to mean that they will hold this rate steady until 2015 or 2016. Raising the Fed Funds rate will be the last step that the FOMC will take to exit their stimulus programs.

The Employment reports for December were disappointing and a bit contradictory. December jobs showed an increase of only 74,000 jobs, falling very short of the market expectations for an additional 200,000 jobs. The November report, that was already strong, was adjusted upwards by 38,000 jobs (+241,000 from +203,000). October's report remained the same as previously reported at +200,000. The private sector only added 87,000 jobs after rising by 226,000 jobs in November. The government sector lost 13,000 jobs after adding 15,000 jobs in November. Due to a sharp drop in the labor force, the Unemployment Rate fell to 6.7% from November's rate of 7.0%. Overall the report has market forecasters scratching their heads and questioning the validity of the data. Many of the other employment related indices pointed to a very strong December. If the forecasters are correct, there may be another adjustment for the December report when January results are reported.



Current Government Security Investment Pool rates fell back during December to +/- 0.032% as new property tax monies began filling the pools. These large inflows of deposits have a dilutive effect on rates that will likely continue for the next month or so. Certificate of Deposit rates have also fallen as banks are saturated with deposits and have dwindling collateral positions to pledge. The one-year CD fell to a range of 0.14% to 0.16%, or about 5 basis points lower than November with fewer banks responding back with offers for active solicitations. The yield curve continues to steepen for maturities beyond the 2-year maturity range, which could provide opportunities for higher Agency rates in the future. Strategy for public funds should continue to favor CDs or other collateralized bank products such as money market accounts.



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