

**CITY OF SANIBEL TREASURY**

**INVESTMENT PERFORMANCE**  
**PERIOD ENDING**  
**SEPTEMBER 30, 2011**

NOTE: For a free copy of Part II (mailed w/ 5 bus. days from request receipt) of Burgess Chambers and Associates, Inc.'s most recent Form ADV which details pertinent business procedures, please contact:  
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**City of Sanibel Treasury**  
**BCA Market Perspective ©**  
**October 2011**

**Debt Reduction Slows the Recovery**

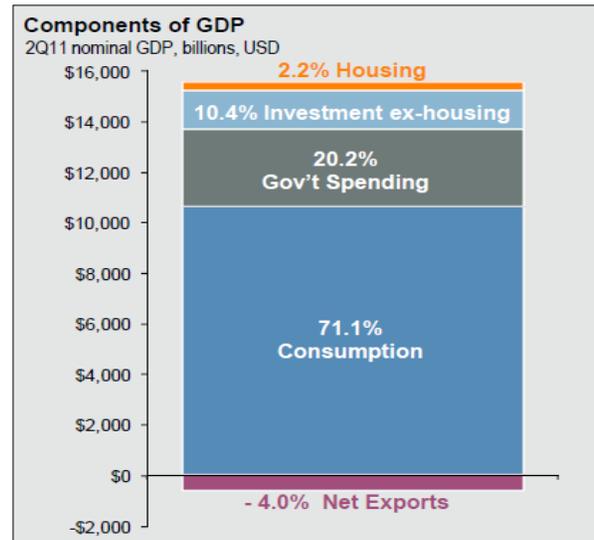
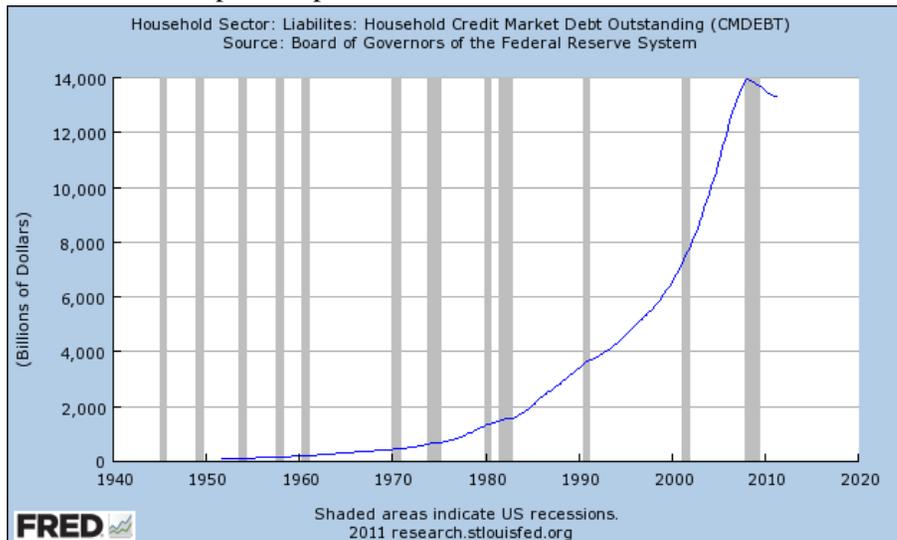
In spite of above normal unemployment, American households are reducing debt; primarily consumer credit. While this may be a good way for individuals to become more responsible, it is reducing aggregate demand for goods and services; thereby limiting the economic recovery. Consumer demand for credit has been falling since January 2008. The graph below illustrates the unsustainable growth in credit since 1940.

Corporations have also reduced debt in recent years, while obtaining more favorable borrowing rates. In fact, corporations are so flush with cash, it is possible to self-finance sales, thereby eliminating tradition bank financing.

Declines in consumer and corporate debt in recent years have been off-set by increased Federal government debt. The Federal Reserve has temporarily managed the cost of this debt with a near zero interest rate policy.

Following typical recessions, demand for credit increases, as the Federal Reserve intervenes with lower interest rate policies. Credit spurs demand, which ultimately creates jobs and increased real income. This recovery has been radically different, as years of accumulated consumer debt have stalled the economy.

As America’s manufacturing base has moved off-shore during the past 30 years, local consumption has grown in importance, representing nearly 70 percent of gross domestic product. In contrast, Germany and China have economies which are more dependent upon manufacturing and the resultant income derived from exports of products.



**City of Sanibel Treasury  
Total Fund  
Compliance Checklist  
September 30, 2011**

|   | YES | NO |
|---|-----|----|
| All investments of the fund are authorized within the Investment Policy Statement dated   | ✓   |    |
| Prime commercial paper of a US corporation, finance company or banking institution is rated at least P-1 by Moody's or at least A-1 by S&P and is stated to mature in not more than 270 days.         | ✓   |    |
| Bonds or other debt securities issued or guaranteed by a corporation organized under the laws of the US or the District of Columbia have an investment grade rating of A or better by S&P or Moody's. | ✓   |    |
| <b>Operating Account:</b>   |     |    |
| Investments are limited to demand deposits, mm funds and other short term securities of the highest quality.  | ✓   |    |
| <b>Reserves Account:</b>  |     |    |
| Investments are limited to securities with maturities not exceeding 24 months.  | ✓   |    |
| The average maturity does not exceed one year.  | ✓   |    |
| No more than 10% is invested in corporate bonds with a minimum rating of A by S&P   | ✓   |    |
| No more than 2% is invested with any one issuer.  | ✓   |    |
| <b>Surplus Account:</b>   |     |    |
| Investments maximum maturities do not exceeding 5 years.  | ✓   |    |
| The average maturity does not exceed 3 years.   | ✓   |    |
| No more than 15% is invested in corporate bonds with a minimum rating of A by S&P.  | ✓   |    |
| No more than 2% is invested with any one user.  | ✓   |    |
| <b>Restricted Account:</b>  |     |    |
| No more than 15% is invested in corporate bonds with a minimum rating of A by S&P or Moody's.   | ✓   |    |
| No more than 2% is invested with any one user.  | ✓   |    |



**City of Sanibel Treasury  
Total Fund  
Asset Maturity Ranges and Projected Income  
September 30, 2011**

| Portfolio   | Principal Cost Value   | Yield to Maturity on Amortized Cost (Gross of Fees) | Projected Annual Income |
|---|------------------------|---|-------------------------|
| Operating (0-1 Yr)  | \$6,293,437.62         | 0.9%  | \$56,640                |
| Reserves (0-2 Yr)   | \$7,593,895.03         | 1.2%  | \$91,127                |
| Surplus (3-5 Yr)  | \$5,160,678.36         | 1.8%  | \$92,892                |
| Restricted (10-15 Yr)   | \$1,885,952.17         | 4.4%  | \$82,982                |
| <b>Total</b>  | <b>\$20,933,963.18</b> | <b>1.6%</b>   | <b>\$323,641</b>        |
| <b>Less Projected Investment Mgmt Fees @ 0.175% of Market Value</b> |                        |   | <b>(\$37,071)</b>       |
| <b>Projected Net Relationship Annual Income</b>                     |                        |   | <b>\$286,570</b>        |

Source: Integrity Fixed Income Management



**City of Sanibel Treasury  
Total Fund  
Investment Summary  
September 30, 2011**

- The decision to establish an active short-term bond program has enhanced earnings, as compared to short-term bank deposits. The recent decision by the Federal Reserve's FOMC to keep rates at near zero until mid-2013 has decimated the cash equivalent yield. In the case of Sanibel, the laddering of maturities has preserved an income and expected return, otherwise not available today.
- For the quarter, the combined accounts earned \$248K (+1.2%). Much of this return came from market value appreciation. This represents the combined returns of four separate investment program accounts, described below.
- Yield to maturity gross of fees:
  - Operating +0.9%
  - Reserve +1.2%
  - Surplus +1.8%
  - Restricted +4.4%
- Projected annual income: \$287K.

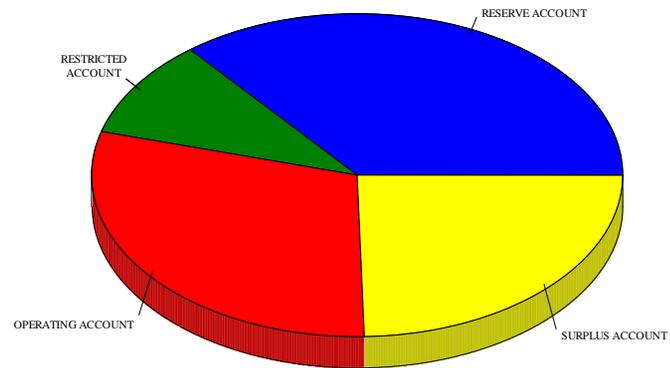


**City of Sanibel Treasury**  
**Total Fund**  
**Gross Opportunity Gains & Loss Report**  
**September 30, 2010 Through September 30, 2011**

|                                   | <u>Quarter To Date</u> | <u>One Year</u>      |
|-----------------------------------|------------------------|----------------------|
| <b>BEGINNING MKT VALUE</b>        | <b>20,935,621.41</b>   | <b>20,787,080.32</b> |
| <b>NET CONTRIBUTIONS</b>          | <b>0.00</b>            | <b>0.00</b>          |
| <b>INVESTMENT EARNINGS</b>        | <b>247,558.63</b>      | <b>396,099.72</b>    |
| <b>ENDING MKT VALUE</b>           | <b>21,183,180.04</b>   | <b>21,183,180.04</b> |
| <br>                              |                        |                      |
| <b>GROSS TIME WEIGHTED RETURN</b> | <b>1.18</b>            | <b>1.91</b>          |

# City of Sanibel Treasury Total Fund Asset Allocation

TOTAL MARKET VALUE  
AS OF SEPTEMBER 30, 2011  
\$ 21,183,180



|   | VALUE     | PERCENT |
|---|-----------|---------|
| <span style="color: blue;">■</span> RESERVE ACCOUNT     | 7,590,267 | 35.83   |
| <span style="color: red;">■</span> OPERATING ACCOUNT    | 6,311,490 | 29.79   |
| <span style="color: yellow;">■</span> SURPLUS ACCOUNT   | 5,203,570 | 24.56   |
| <span style="color: green;">■</span> RESTRICTED ACCOUNT | 2,077,853 | 9.82    |

**City of Sanibel Treasury**  
**Total Fund**  
**September 30, 2011**  
**Gross of Fees**

| Name                 | Market Values     | QTR<br>ROR  | 1 Year<br>ROR |
|----------------------|-------------------|-------------|---------------|
| <b>TOTAL FUND</b>    |                   |             |               |
| Operating Account    | 6,311,490         | 0.1%        | 0.7%          |
| ML 0-3M TBil         |                   | 0.0%        | 0.1%          |
| Reserve Account      | 7,590,267         | 0.3%        | 1.2%          |
| ML US Treas 0-1 Yr   |                   | 0.1%        | 0.3%          |
| Surplus Account      | 5,203,570         | 1.2%        | 2.3%          |
| ML US Treas 3-5 Yr   |                   | 2.8%        | 3.8%          |
| Restricted Account   | 2,077,853         | 8.0%        | 7.6%          |
| ML US Treas 10-15 Yr |                   | 13.0%       | 10.5%         |
| <b>TOTAL:</b>        | <b>21,183,180</b> | <b>1.2%</b> | <b>1.9%</b>   |

**City of Sanibel Treasury  
Operating Account  
Performance Profile  
Through September 30, 2011**

|                  | ENDED  | RETURN |
|------------------|--------|--------|
| BEST QUARTER     | 6/2011 | 0.25   |
| WORST QUARTER    | 9/2011 | 0.10   |
| BEST 4 QUARTERS  | 9/2011 | 0.72   |
| WORST 4 QUARTERS | 9/2011 | 0.72   |

TOTAL # OF PERIODS: 12  
 # OF POSITIVE PERIODS: 12  
 # OF NEGATIVE PERIODS: 0

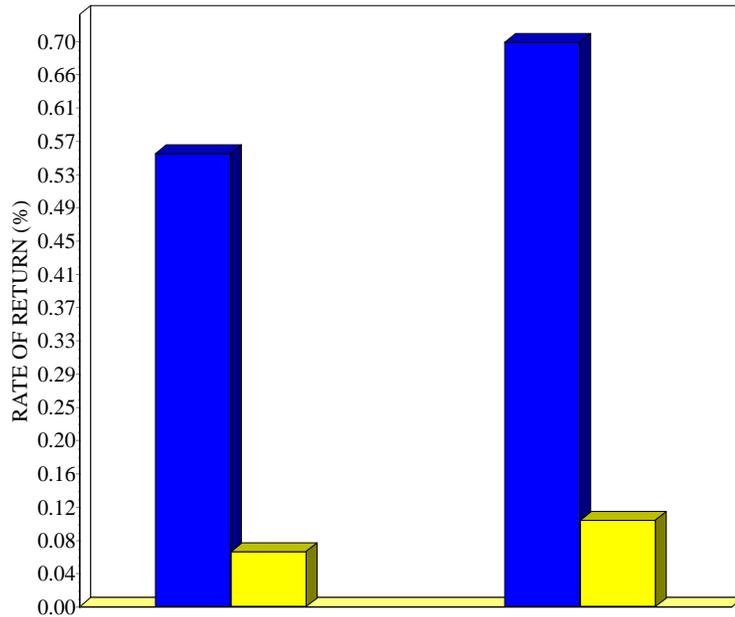
|                   | QUARTER<br>TO<br>DATE | ONE<br>YEAR |
|-------------------|-----------------------|-------------|
| OPERATING ACCOUNT | 0.10                  | 0.72        |
| ML 0-3M TBIL      | 0.01                  | 0.10        |
| EXCESS            | 0.09                  | 0.62        |
| RISKLESS INDEX    | 0.02                  | 0.14        |
| REAL ROR          | 0.00                  | 0.00        |

| PERIOD   | RETURN | STD<br>DEV | SHARPE<br>RATIO | ALPHA | BETA  | R-SQUARED | INFO<br>RATIO |
|----------|--------|------------|-----------------|-------|-------|-----------|---------------|
| ONE YEAR | 0.72   | 0.11       | 5.09            | 0.57  | -0.14 | 0.03      | 5.47          |

*The risk benchmark for this analysis is the ML 0-3M TBil.*

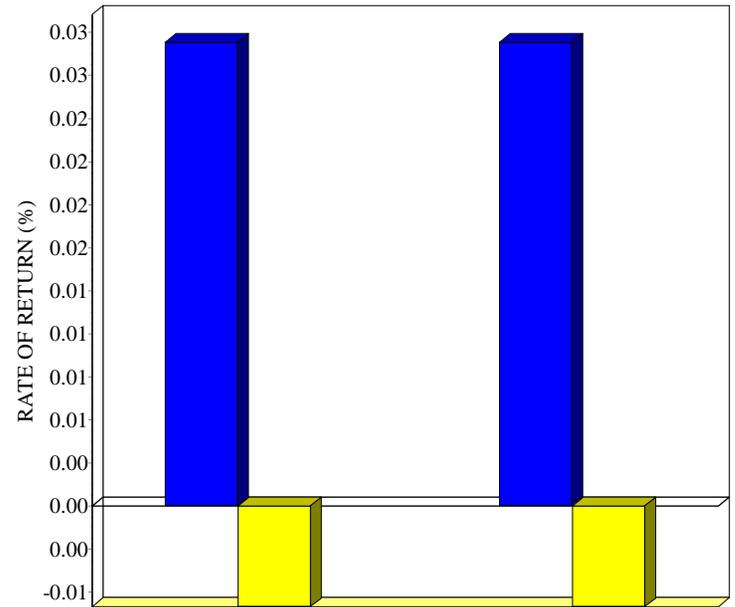
**City of Sanibel Treasury  
Operating Account  
Performance in Rising and Declining Markets  
September 30, 2010 Through September 30, 2011**

UP MARKET PERFORMANCE



|              | YTD  | ONE YEAR |
|--------------|------|----------|
| TOTAL FUND   | 0.56 | 0.69     |
| ML 0-3M TBIL | 0.07 | 0.11     |
| DIFFERENCE   | 0.49 | 0.59     |
| RATIO        | 8.20 | 6.49     |
| UP PERIODS   | 8    | 11       |

DOWN MARKET PERFORMANCE



|              | YTD   | ONE YEAR |
|--------------|-------|----------|
| TOTAL FUND   | 0.03  | 0.03     |
| ML 0-3M TBIL | -0.01 | -0.01    |
| DIFFERENCE   | 0.03  | 0.03     |
| RATIO        | -4.59 | -4.59    |
| DOWN PERIODS | 1     | 1        |

**City of Sanibel Treasury  
Reserve Account  
Performance Profile  
Through September 30, 2011**

|                  | ENDED   | RETURN |
|------------------|---------|--------|
| BEST QUARTER     | 6/2011  | 0.43   |
| WORST QUARTER    | 12/2010 | 0.13   |
| BEST 4 QUARTERS  | 9/2011  | 1.20   |
| WORST 4 QUARTERS | 9/2011  | 1.20   |

TOTAL # OF PERIODS: 12  
 # OF POSITIVE PERIODS: 10  
 # OF NEGATIVE PERIODS: 2

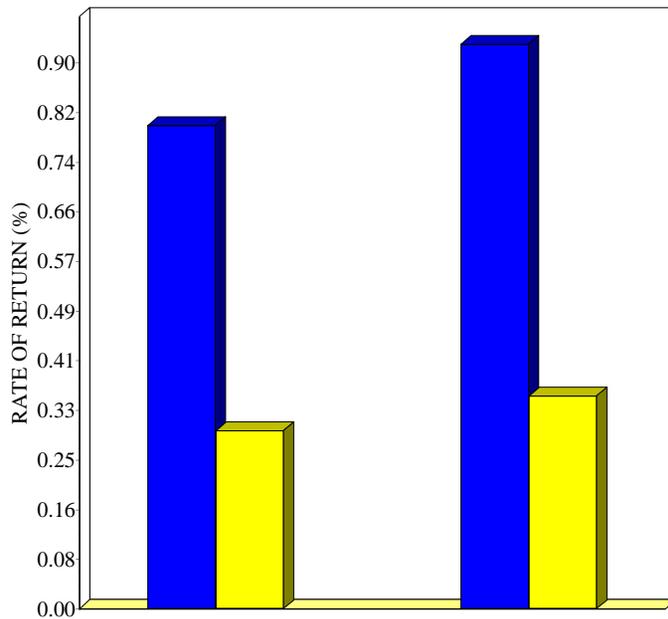
|                    | QUARTER<br>TO<br>DATE | ONE<br>YEAR |
|--------------------|-----------------------|-------------|
| RESERVE ACCOUNT    | 0.32                  | 1.20        |
| ML US TREAS 0-1 YR | 0.05                  | 0.31        |
| EXCESS             | 0.27                  | 0.88        |
| RISKLESS INDEX     | 0.02                  | 0.14        |
| REAL ROR           | 0.00                  | 0.00        |

| PERIOD   | RETURN | STD<br>DEV | SHARPE<br>RATIO | ALPHA | BETA | R-SQUARED | INFO<br>RATIO |
|----------|--------|------------|-----------------|-------|------|-----------|---------------|
| ONE YEAR | 1.20   | 0.31       | 3.38            | 0.98  | 0.40 | 1.13      | 2.79          |

*The risk benchmark for this analysis is the ML US Treas 0-1 Yr.*

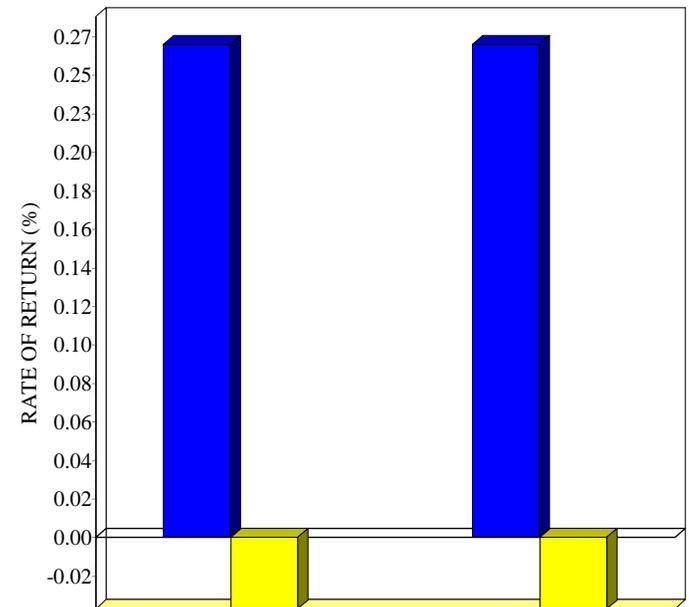
**City of Sanibel Treasury  
Reserve Account  
Performance in Rising and Declining Markets  
September 30, 2010 Through September 30, 2011**

UP MARKET PERFORMANCE



|                    | YTD  | ONE YEAR |
|--------------------|------|----------|
| TOTAL FUND         | 0.80 | 0.93     |
| ML US TREAS 0-1 YR | 0.29 | 0.35     |
| DIFFERENCE         | 0.50 | 0.58     |
| RATIO              | 2.71 | 2.65     |
| UP PERIODS         | 7    | 10       |

DOWN MARKET PERFORMANCE



|                    | YTD   | ONE YEAR |
|--------------------|-------|----------|
| TOTAL FUND         | 0.26  | 0.26     |
| ML US TREAS 0-1 YR | -0.04 | -0.04    |
| DIFFERENCE         | 0.30  | 0.30     |
| RATIO              | -6.90 | -6.90    |
| DOWN PERIODS       | 2     | 2        |

**City of Sanibel Treasury  
Surplus Account  
Performance Profile  
Through September 30, 2011**

|                  | ENDED   | RETURN |
|------------------|---------|--------|
| BEST QUARTER     | 6/2011  | 1.34   |
| WORST QUARTER    | 12/2010 | -0.67  |
| BEST 4 QUARTERS  | 9/2011  | 2.26   |
| WORST 4 QUARTERS | 9/2011  | 2.26   |

TOTAL # OF PERIODS: 12  
# OF POSITIVE PERIODS: 8  
# OF NEGATIVE PERIODS: 4

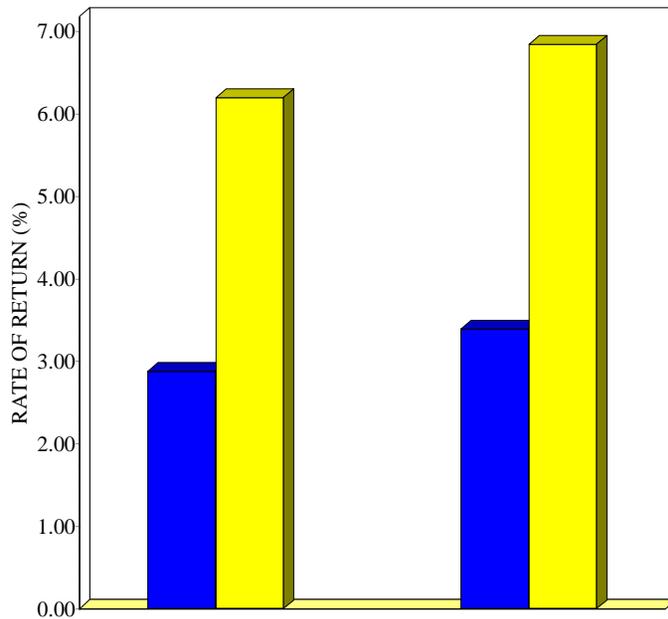
|                    | QUARTER<br>TO<br>DATE | ONE<br>YEAR |
|--------------------|-----------------------|-------------|
| SURPLUS ACCOUNT    | 1.21                  | 2.26        |
| ML US TREAS 3-5 YR | 2.78                  | 3.80        |
| EXCESS             | -1.58                 | -1.54       |
| RISKLESS INDEX     | 0.02                  | 0.14        |
| REAL ROR           | 0.00                  | 0.00        |

| PERIOD   | RETURN | STD<br>DEV | SHARPE<br>RATIO | ALPHA | BETA | R-SQUARED | INFO<br>RATIO |
|----------|--------|------------|-----------------|-------|------|-----------|---------------|
| ONE YEAR | 2.26   | 1.53       | 1.38            | 0.39  | 0.47 | 92.69     | -0.90         |

*The risk benchmark for this analysis is the ML US Treas 3-5 Yr.*

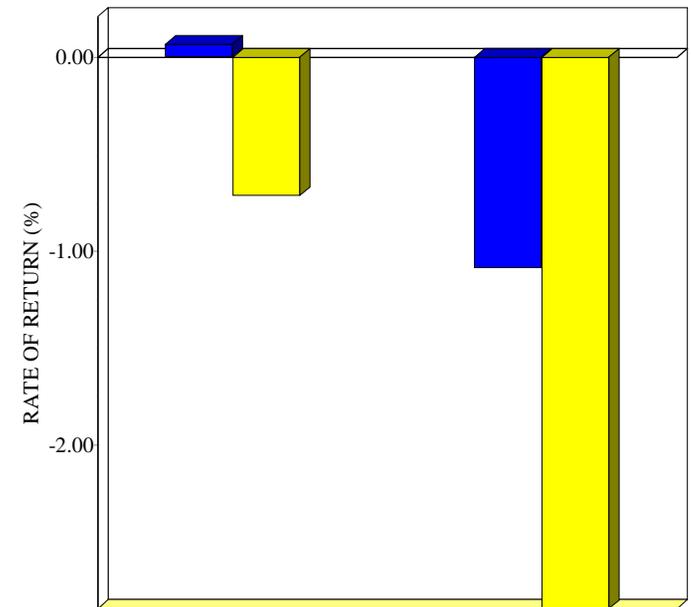
**City of Sanibel Treasury  
Surplus Account  
Performance in Rising and Declining Markets  
September 30, 2010 Through September 30, 2011**

UP MARKET PERFORMANCE



|                    | YTD   | ONE YEAR |
|--------------------|-------|----------|
| TOTAL FUND         | 2.88  | 3.39     |
| ML US TREAS 3-5 YR | 6.20  | 6.84     |
| DIFFERENCE         | -3.31 | -3.45    |
| RATIO              | 0.47  | 0.50     |
| UP PERIODS         | 6     | 7        |

DOWN MARKET PERFORMANCE



|                    | YTD   | ONE YEAR |
|--------------------|-------|----------|
| TOTAL FUND         | 0.06  | -1.09    |
| ML US TREAS 3-5 YR | -0.71 | -2.84    |
| DIFFERENCE         | 0.78  | 1.75     |
| RATIO              | -0.09 | 0.38     |
| DOWN PERIODS       | 3     | 5        |

**City of Sanibel Treasury  
Restricted Account  
Performance Profile  
Through September 30, 2011**

|                  | ENDED   | RETURN |
|------------------|---------|--------|
| BEST QUARTER     | 9/2011  | 8.03   |
| WORST QUARTER    | 12/2010 | -4.53  |
| BEST 4 QUARTERS  | 9/2011  | 7.55   |
| WORST 4 QUARTERS | 9/2011  | 7.55   |

TOTAL # OF PERIODS: 12  
 # OF POSITIVE PERIODS: 7  
 # OF NEGATIVE PERIODS: 5

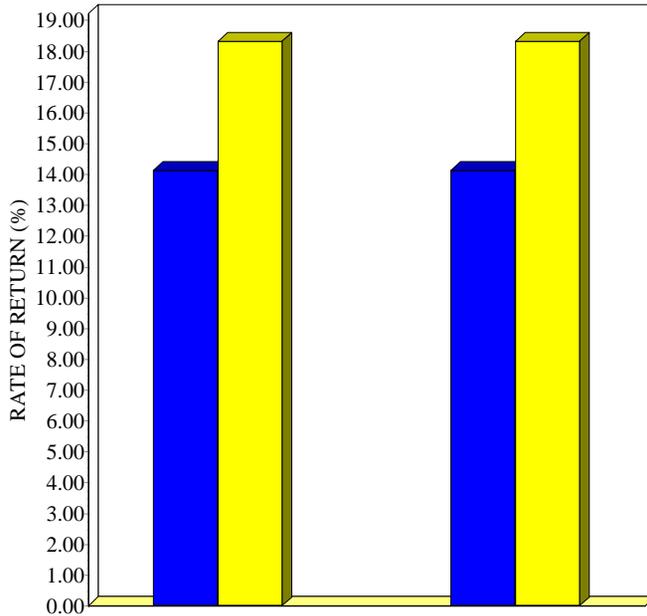
|                      | QUARTER<br>TO<br>DATE | ONE<br>YEAR |
|----------------------|-----------------------|-------------|
| RESTRICTED ACCOUNT   | 8.03                  | 7.55        |
| ML US TREAS 10-15 YR | 12.97                 | 10.45       |
| EXCESS               | -4.94                 | -2.90       |
| RISKLESS INDEX       | 0.02                  | 0.14        |
| REAL ROR             | 0.00                  | 0.00        |

| PERIOD   | RETURN | STD<br>DEV | SHARPE<br>RATIO | ALPHA | BETA | R-SQUARED | INFO<br>RATIO |
|----------|--------|------------|-----------------|-------|------|-----------|---------------|
| ONE YEAR | 7.55   | 6.88       | 1.08            | -0.27 | 0.75 | 86.72     | -0.86         |

*The risk benchmark for this analysis is the ML US Treas 10-15 Yr.*

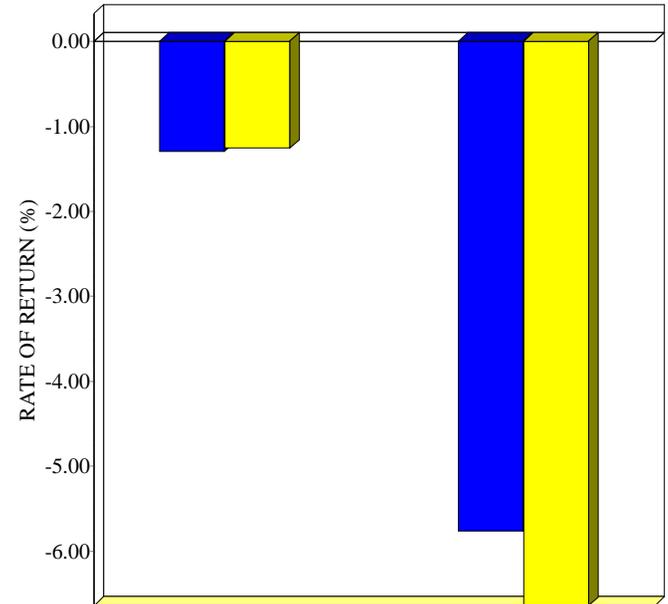
**City of Sanibel Treasury  
Restricted Account  
Performance in Rising and Declining Markets  
September 30, 2010 Through September 30, 2011**

UP MARKET PERFORMANCE



|                      | YTD   | ONE YEAR |
|----------------------|-------|----------|
| TOTAL FUND           | 14.13 | 14.13    |
| ML US TREAS 10-15 YR | 18.32 | 18.32    |
| DIFFERENCE           | -4.18 | -4.18    |
| RATIO                | 0.77  | 0.77     |
| UP PERIODS           | 6     | 6        |

DOWN MARKET PERFORMANCE



|                      | YTD   | ONE YEAR |
|----------------------|-------|----------|
| TOTAL FUND           | -1.30 | -5.77    |
| ML US TREAS 10-15 YR | -1.26 | -6.65    |
| DIFFERENCE           | -0.04 | 0.88     |
| RATIO                | 1.04  | 0.87     |
| DOWN PERIODS         | 3     | 6        |

## **City of Sanibel Treasury Glossary of Terms**

- ACCRUED INTEREST- Bond interest earned since the last interest payment, but not yet received.
- ALPHA- A linear regressive constant that measures the manager's expected return independent of Beta.
- ASSET ALLOCATION- The optimal division of portfolio asset classes in order to achieve an expected investment objective.
- BETA- A measure of portfolio sensitivity (volatility) in relation to the market, based upon past experience.
- BOND DURATION- A measure of portfolio sensitivity to interest rate risk.
- COMMINGLED FUND- An investment fund which is similar to a mutual fund in that investors are permitted to purchase and redeem units that represent ownership in a pool of securities.
- CORE- A type of investment strategy that has approximately an equal weighting in both growth and value stocks in order to achieve a return that is comparable to the broad market performance (i.e., the S&P 500).
- CORRELATION COEFFICIENT- A statistical measure of how two assets move together. The measure is bounded by +1 and -1; +1 means that the two assets move together positively, while a measure of -1 means that the assets are perfectly negatively correlated.
- INDEXES- Indexes are used as "independent representations of markets" (e.g., S&P 500 and LBGC).
- INFORMATION RATIO- Annualized excess return above the benchmark relative to the annualized tracking error.
- GROWTH MANAGER- A growth manager generally invests in companies that have either experienced above-average growth rates and/or are expected to experience above-average growth rates in the future. Growth portfolios tend to have high price/earnings ratios and generally pay little to no dividends.
- LARGE CAP- Generally, the term refers to a company that has a market capitalization that exceeds \$5 billion.
- MANAGER UNIVERSE- A collection of quarterly investment returns from various investment management firms that may be subdivided by style (e.g. growth, value, core).
- MID CAP- Generally, the term refers to a company that has a market capitalization between \$1 and \$5 billion.
- NCREIF - A quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.
- NCREIF ODCE - Open End Diversified Core Equity index which consists of historical and current returns from 26 open-end commingled funds pursuing core strategy. This index is capitalization weighted, time weighted and gross of fees.

## **City of Sanibel Treasury Glossary of Terms**

-BALANCED UNIVERSES - BNY Mellon Public Funds, Endowments & Foundations, Corporate peer groups, and PSN peer groups.

-RATE OF RETURN- The percentage change in the value of an investment in a portfolio over a specified time period.

-RISK MEASURES- Measures of the investment risk level, including beta, credit, duration, standard deviation, and others that are based on current and historical data.

-R-SQUARED- Measures how closely portfolio returns and those of the market are correlated, or how much variation in the portfolio returns may be explained by the market. An R2 of 40 means that 40% of the variation in a fund's price changes could be attributed to changes in the market index over the time period.

-SHARPE RATIO- The ratio of the rate of return earned above the risk-free rate to the standard deviation of the portfolio. It measures the number of units of return per unit of risk.

-STANDARD DEVIATION- Measure of the variability (dispersion) of historical returns around the mean. It measures how much exposure to volatility was experienced by the implementation of an investment strategy.

-SYSTEMATIC RISK- Measured by beta, it is the risk that cannot be diversified away (market risk).

- TIME WEIGHTED (TW) RETURN - A measure of the investments versus the investor. When there are no flows the TW & DOLLAR weighted (DW) return are the same and vice versa. CFA Institute recommends using the TW return. AIMR reasons that the investment mgr can not control when an investor has flows & thus should not be measured by that. BCA uses TW method.

-TRACKING ERROR- A measure of how closely a manager's performance tracks an index; it is the annualized standard deviation of the differences between the quarterly returns for the manager and the benchmark.

-TREYNOR RATIO- A measure of reward per unit of risk. (excess return divided by beta)

-UP-MARKET CAPTURE RATIO- Ratio that illustrates how a manager performed relative to the market during rising market periods; the higher the ratio, the better the manager performed (i.e., a ratio of 110 implies the manager performed 10% better than the market).

-VALUE MANAGER- A value manager generally invests in companies that have low price-to-earnings and price-to-book ratios and/or above-average dividend yields.