

CITY OF SANIBEL TREASURY
INVESTMENT PERFORMANCE
PERIOD ENDING
JUNE 30, 2012

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 ©

Why the Federal Reserve is Pushing Stocks

July 2012

Following past recessions, the Federal Reserve stimulated private sector borrowing by lowering interest rates and bank reserve requirements. This in turn encouraged increased economic activity by way of the “multiplier effect” – each dollar borrowed magnified the speed of the recovery, as each economic level benefited from the initial dollar of borrowing. But this economy has been different, as credit expansion has been abnormally slow. Instead of expanding bank borrowing, companies have reduced it by refinancing into longer-term bonds. The results are better balance sheets and higher levels of working capital – the seeds of improving capital investment -- which should ultimately lead to increased hiring.

The Fed has two primary objectives: to manage a monetary policy promoting full employment, and to manage inflationary expectations. By adjusting the cost of borrowing money and influencing bank lending, the Fed heats up or cools down the domestic economy. In past economic cycles, Fed policy has impacted the value of the dollar, increased unemployment by encouraging firms to move operations offshore (Volker), promoted home ownership financing (Greenspan), and now under Ben Bernanke – encouraged investors to buy stocks.

The simplest illustration is appreciating how Bernanke’s current zero interest policy is strengthening the balance sheets of public companies. With borrowing costs so low, these companies have a reduced reliance on cumbersome bank credit facilities because of restructuring to low interest rate corporate bonds. Companies benefit with reduced interest costs and a pushing out well into the future of these obligations. Stronger balance sheets provide public companies with more working capital to grow their businesses, invest in new capital equipment, hire employees, and pay higher dividends.

Dividend yields of large U.S. companies (S&P 500) are higher than 10-year government bonds (2.1% vs. 1.5%). A number of stocks in this index are paying yields above 3.5%. Investors see the attractive comparative dividend, but remain skeptical.

The Fed’s policy in promoting stock ownership is slow going, but it just might do the trick. A prolonged period of zero policy rates, along with the specter of rising interest-rate based bond value declines, is attracting money from bonds and cash. The Fed has clearly moved towards unconventional means to stimulate the domestic economy. Historically, bank lending has been the mechanism driving economic cycles. But with today’s weak credit expansion, the approach by the Fed in pushing stock ownership is novel and experimental. A risk is this policy brings on significantly higher inflation in the future as the rate of money supply growth and credit exceed U.S. and global GDP growth. However, it appears this is a risk the Fed is willing to take.



**City of Sanibel Treasury
Total Fund
Compliance Checklist
June 30, 2012**

	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.	✓	
Operating Account:		
Investments are limited to demand deposits, mm funds and other short term securities of the highest quality.	✓	
Reserves Account:		
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.		✓
Surplus Account:		
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.	✓	
Restricted Account:		
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
June 30, 2012**

Portfolio	Principal Cost Value*	Yield to Maturity on Amortized Cost (Gross of Fees)	Projected Annual Income
Operating (0-1 Yr)	\$6,325,037.44	0.9%	\$56,925
Reserves (0-2 Yr)	\$7,672,953.28	1.1%	\$84,402
Surplus (3-5 Yr)	\$5,268,439.93	1.8%	\$94,832
Restricted (10-15 Yr)	\$1,936,040.38	4.4%	\$85,186
Total	\$21,202,471.03	1.5%	\$321,346
Less Projected Custody and Investment Management Fees @ 0.175% of Market Value			(\$37,715)
Projected Net Relationship Annual Income			\$283,631

*Principal Cost Value is calculated by taking the Total Portfolio Cost Value from the custodial statement and subtracting accrued income.

Source: Integrity Fixed Income Management



**City of Sanibel Treasury
Total Fund
Investment Summary
June 30, 2012**

- For the quarter, the combined accounts earned \$165K (+0.8%) or +0.7% net.
 - Fiscal year to date, the investment program earned \$367,255 or +1.4% net.
 - Yield to maturity gross of fees:
 - Operating +0.9%
 - Reserve +1.1%
 - Surplus +1.8%
 - Restricted +4.4%
- Projected net annual income: \$283,631

Compliance:

Two corporate bond issues are slightly over the 2% maximum (Philip Morris and JPMorgan) in the Reserves account. Integrity is aware of this and is taking appropriate action.



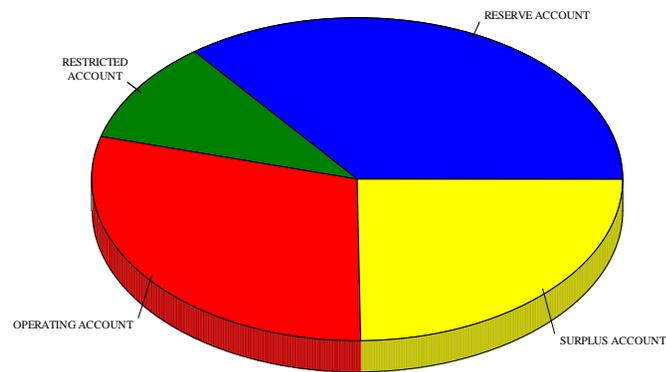
City of Sanibel Treasury
Total Fund
Gross Opportunity Gains & Loss Report
June 30, 2011 Through June 30, 2012

	<u>Quarter To Date</u>	<u>Fiscal Ytd</u>	<u>One Year</u>
BEGINNING MKT VALUE	21,385,829	21,183,180	20,935,621
NET CONTRIBUTIONS	0	0	0
INVESTMENT EARNINGS	164,606	367,255	614,814
ENDING MKT VALUE	21,550,435	21,550,435	21,550,435
GROSS TIME WEIGHTED RETURN	0.77	1.73	2.94



City of Sanibel Treasury Total Fund Asset Allocation

TOTAL MARKET VALUE
AS OF JUNE 30, 2012
\$ 21,550,435



	VALUE	PERCENT
■ RESERVE ACCOUNT	7,650,794	35.50
■ OPERATING ACCOUNT	6,353,405	29.48
■ SURPLUS ACCOUNT	5,340,684	24.78
■ RESTRICTED ACCOUNT	2,205,553	10.24



City of Sanibel Treasury
Total Fund
June 30, 2012
Gross of Fees

Name	Market Values	QTR ROR	FYTD ROR	1 Year ROR	2 Year ROR
TOTAL FUND					
Operating Account	6,353,405	0.2%	0.7%	0.8%	0.8%
ML 0-3M TBil		0.0%	0.0%	0.0%	0.1%
Reserve Account	7,650,794	0.3%	0.8%	1.1%	1.1%
ML US Treas 0-1 Yr		0.0%	0.1%	0.2%	0.3%
Surplus Account	5,340,684	0.7%	2.6%	3.9%	3.2%
ML US Treas 3-5 Yr		1.2%	1.6%	4.4%	3.9%
Restricted Account	2,205,553	4.6%	6.1%	14.7%	9.3%
ML US Treas 10-15 Yr		6.4%	5.3%	19.0%	10.6%
TOTAL:	21,550,435	0.8%	1.7%	2.9%	2.3%



**City of Sanibel Treasury
Operating Account
Performance Profile
Through June 30, 2012**

	ENDED	RETURN
BEST QUARTER	6/2011	0.25
WORST QUARTER	9/2011	0.10
BEST 4 QUARTERS	6/2011	0.83
WORST 4 QUARTERS	6/2012	0.77

TOTAL # OF PERIODS: 24
 # OF POSITIVE PERIODS: 24
 # OF NEGATIVE PERIODS: 0

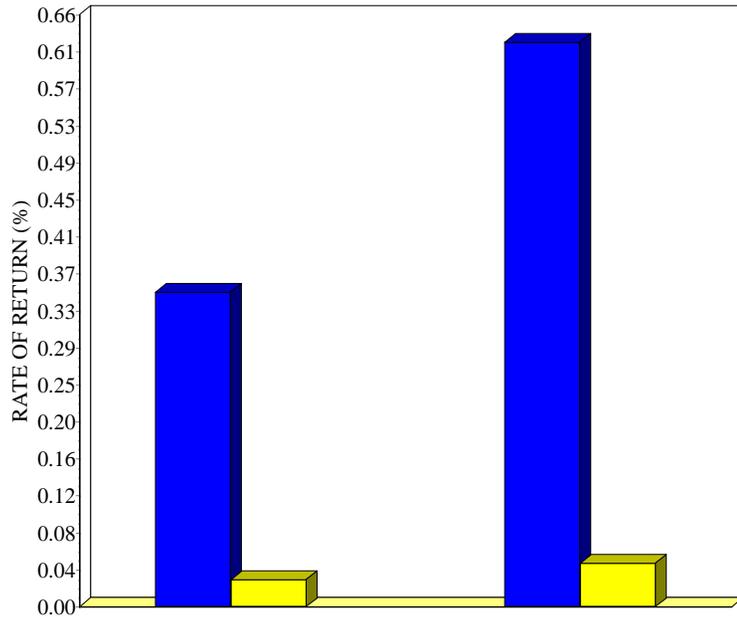
	QUARTER TO DATE	FISCAL YTD	ONE YEAR	TWO YEARS
OPERATING ACCOUNT	0.22	0.66	0.77	0.80
ML 0-3M TBIL	0.02	0.03	0.04	0.09
EXCESS	0.20	0.63	0.73	0.71
RISKLESS INDEX	0.03	0.04	0.06	0.11
REAL ROR	0.12	-0.54	-1.04	-1.85

PERIOD	RETURN	STD DEV	SHARPE RATIO	ALPHA	BETA	R-SQUARED	INFO RATIO
ONE YEAR	0.77	0.11	6.35	0.79	5.91	30.15	6.27
TWO YEARS	0.80	0.11	6.53	0.69	0.37	0.22	6.64

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

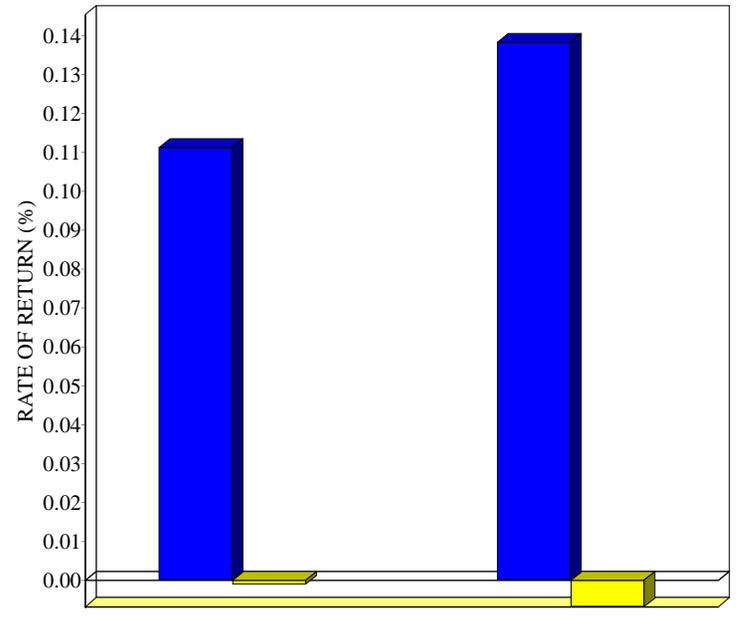
**City of Sanibel Treasury
Operating Account
Performance in Rising and Declining Markets
June 30, 2011 Through June 30, 2012**

UP MARKET PERFORMANCE



	YTD	ONE YEAR
TOTAL FUND	0.35	0.62
ML 0-3M TBIL	0.03	0.05
DIFFERENCE	0.32	0.58
RATIO	11.62	13.02
UP PERIODS	5	10

DOWN MARKET PERFORMANCE



	YTD	ONE YEAR
TOTAL FUND	0.11	0.14
ML 0-3M TBIL	0.00	-0.01
DIFFERENCE	0.11	0.15
RATIO	-113.98	-20.22
DOWN PERIODS	1	2

**City of Sanibel Treasury
Reserve Account
Performance Profile
Through June 30, 2012**

	ENDED	RETURN
BEST QUARTER	6/2011	0.43
WORST QUARTER	12/2010	0.13
BEST 4 QUARTERS	6/2011	1.14
WORST 4 QUARTERS	6/2012	1.12

TOTAL # OF PERIODS: 24
OF POSITIVE PERIODS: 20
OF NEGATIVE PERIODS: 4

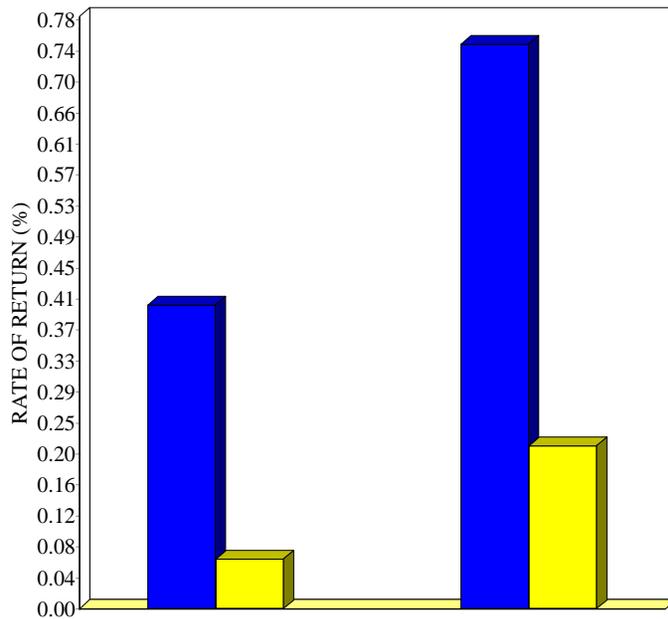
	QUARTER TO DATE	FISCAL YTD	ONE YEAR	TWO YEARS
RESERVE ACCOUNT	0.25	0.80	1.12	1.13
ML US TREAS 0-1 YR	0.04	0.11	0.17	0.26
EXCESS	0.21	0.69	0.96	0.87
RISKLESS INDEX	0.03	0.04	0.06	0.11
REAL ROR	0.15	-0.41	-0.68	-1.52

PERIOD	RETURN	STD DEV	SHARPE RATIO	ALPHA	BETA	R-SQUARED	INFO RATIO
ONE YEAR	1.12	0.16	6.63	1.10	-0.36	2.57	4.56
TWO YEARS	1.13	0.26	3.93	0.95	0.44	1.24	3.28

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

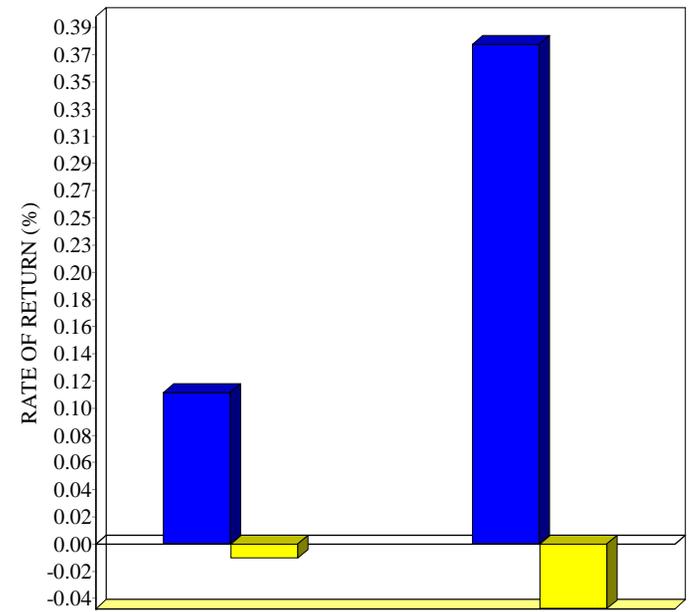
**City of Sanibel Treasury
Reserve Account
Performance in Rising and Declining Markets
June 30, 2011 Through June 30, 2012**

UP MARKET PERFORMANCE



	YTD	ONE YEAR
TOTAL FUND	0.40	0.75
ML US TREAS 0-1 YR	0.07	0.22
DIFFERENCE	0.34	0.53
RATIO	6.07	3.47
UP PERIODS	5	9

DOWN MARKET PERFORMANCE



	YTD	ONE YEAR
TOTAL FUND	0.11	0.38
ML US TREAS 0-1 YR	-0.01	-0.05
DIFFERENCE	0.12	0.43
RATIO	-10.35	-7.68
DOWN PERIODS	1	3

**City of Sanibel Treasury
Surplus Account
Performance Profile
Through June 30, 2012**

	ENDED	RETURN
BEST QUARTER	9/2010	1.44
WORST QUARTER	12/2010	-0.67
BEST 4 QUARTERS	6/2012	3.87
WORST 4 QUARTERS	6/2011	2.51

TOTAL # OF PERIODS: 24
OF POSITIVE PERIODS: 20
OF NEGATIVE PERIODS: 4

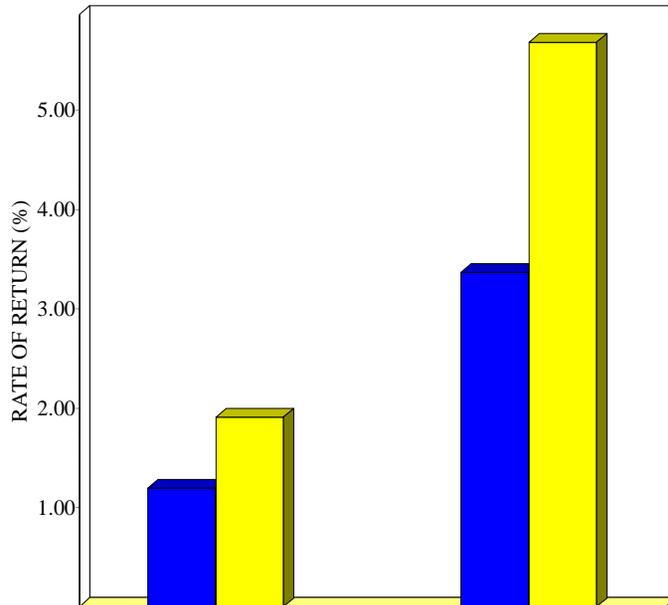
	QUARTER TO DATE	FISCAL YTD	ONE YEAR	TWO YEARS
SURPLUS ACCOUNT	0.65	2.63	3.87	3.19
ML US TREAS 3-5 YR	1.16	1.55	4.38	3.93
EXCESS	-0.50	1.08	-0.51	-0.74
RISKLESS INDEX	0.03	0.04	0.06	0.11
REAL ROR	0.55	1.41	2.02	0.49

PERIOD	RETURN	STD DEV	SHARPE RATIO	ALPHA	BETA	R-SQUARED	INFO RATIO
ONE YEAR	3.87	0.71	5.40	2.69	0.25	58.23	-0.31
TWO YEARS	3.19	1.19	2.59	1.45	0.42	79.23	-0.48

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

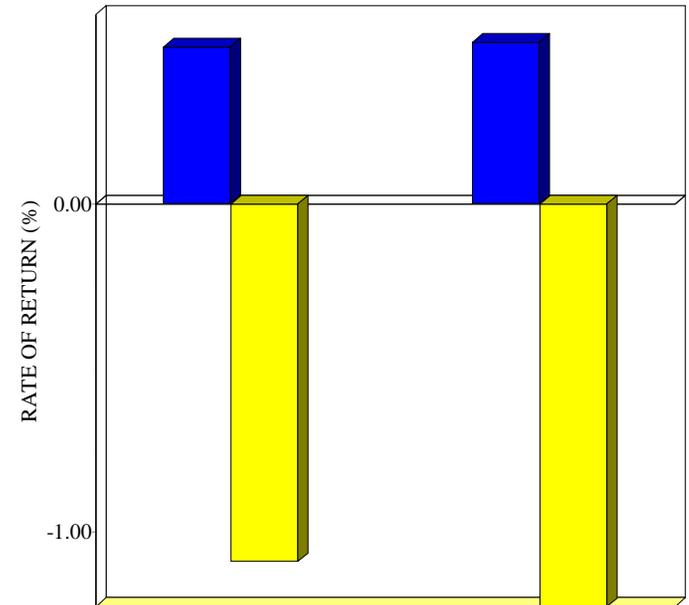
**City of Sanibel Treasury
Surplus Account
Performance in Rising and Declining Markets
June 30, 2011 Through June 30, 2012**

UP MARKET PERFORMANCE



	YTD	ONE YEAR
TOTAL FUND	1.20	3.36
ML US TREAS 3-5 YR	1.91	5.68
DIFFERENCE	-0.71	-2.32
RATIO	0.63	0.59
UP PERIODS	3	8

DOWN MARKET PERFORMANCE



	YTD	ONE YEAR
TOTAL FUND	0.48	0.49
ML US TREAS 3-5 YR	-1.09	-1.23
DIFFERENCE	1.57	1.72
RATIO	-0.44	-0.40
DOWN PERIODS	3	4

**City of Sanibel Treasury
Restricted Account
Performance Profile
Through June 30, 2012**

	ENDED	RETURN
BEST QUARTER	9/2011	8.03
WORST QUARTER	12/2010	-4.53
BEST 4 QUARTERS	6/2012	14.67
WORST 4 QUARTERS	6/2011	4.16

TOTAL # OF PERIODS: 24
OF POSITIVE PERIODS: 14
OF NEGATIVE PERIODS: 10

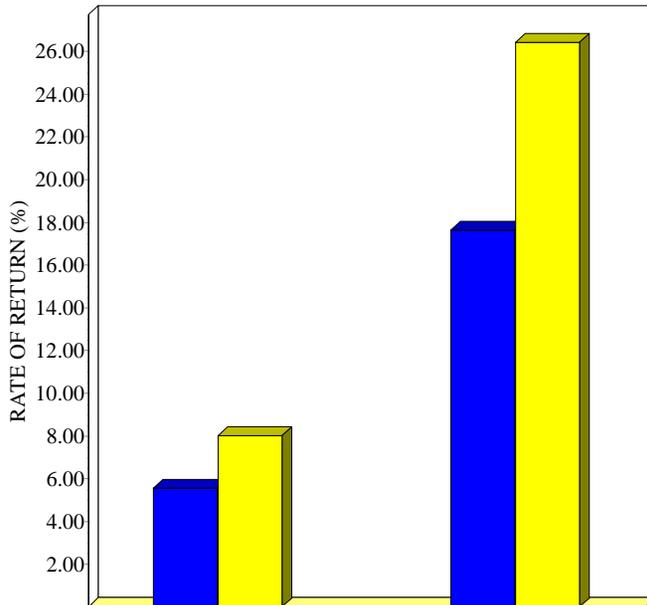
	QUARTER TO DATE	FISCAL YTD	ONE YEAR	TWO YEARS
RESTRICTED ACCOUNT	4.59	6.15	14.67	9.29
ML US TREAS 10-15 YR	6.39	5.35	19.01	10.57
EXCESS	-1.80	0.80	-4.34	-1.28
RISKLESS INDEX	0.03	0.04	0.06	0.11
REAL ROR	4.49	4.87	12.63	6.44

PERIOD	RETURN	STD DEV	SHARPE RATIO	ALPHA	BETA	R-SQUARED	INFO RATIO
ONE YEAR	14.67	5.15	2.84	3.49	0.58	90.72	-1.03
TWO YEARS	9.29	6.07	1.51	1.56	0.72	89.73	-0.45

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

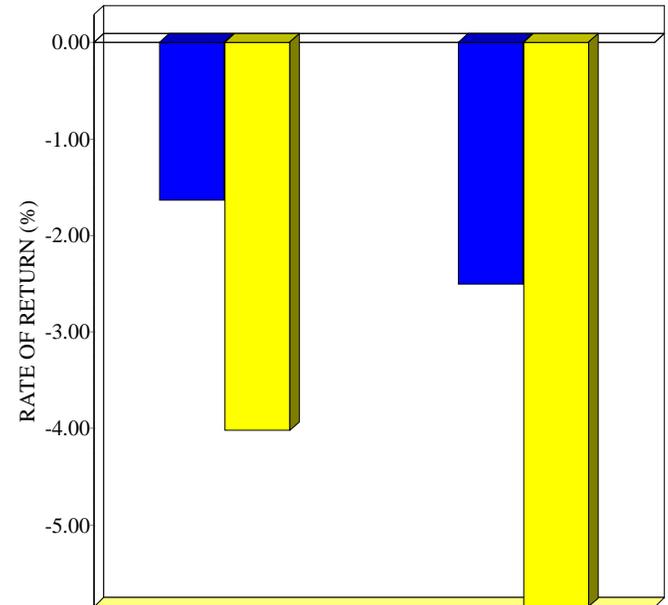
**City of Sanibel Treasury
Restricted Account
Performance in Rising and Declining Markets
June 30, 2011 Through June 30, 2012**

UP MARKET PERFORMANCE



	YTD	ONE YEAR
TOTAL FUND	5.57	17.63
ML US TREAS 10-15 YR	8.03	26.41
DIFFERENCE	-2.46	-8.78
RATIO	0.69	0.67
UP PERIODS	3	8

DOWN MARKET PERFORMANCE



	YTD	ONE YEAR
TOTAL FUND	-1.64	-2.51
ML US TREAS 10-15 YR	-4.03	-5.85
DIFFERENCE	2.39	3.34
RATIO	0.41	0.43
DOWN PERIODS	3	4

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 expected return independent of Beta.
- ASSET ALLOCATION- The division of portfolio asset classes in order to achieve an expected investment objective.
- BALANCED UNIVERSES - BNY Mellon Public Funds, Endowments & Foundations, Corporate peer groups, and PSN peer groups.
- 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.
- CONVERTIBLE BONDS - Hybrid securities' that offer equity returns during rising equity markets and improved down-market protection.
- CORE- An equal weighting in both growth and value stocks.
- CORRELATION COEFFICIENT- A 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.
- 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.
- INDEXES- Indexes are used as "independent representations of markets" (e.g., S&P 500).
- INFORMATION RATIO- Annualized excess return above the benchmark relative to the annualized tracking error.
- LARGE CAP- Generally, the term refers to a company that has a market capitalization that exceeds \$10 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 \$2 and \$10 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

-NET- Investment return accounts only for manager fees.

-PROTECTING FLORIDA INVESTMENT ACT (PFIA) - SBA publishes a list of prohibited investments (scrutinized companies).

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

-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.

-SMALL CAP- Generally refers to a company with a market capitalization \$300 million to \$2 billion.

-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) returns are the same and vice versa.

-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 AND DOWN-MARKET CAPTURE RATIO- Ratio that illustrates how a manager performed relative to the market during rising and declining market periods.

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

