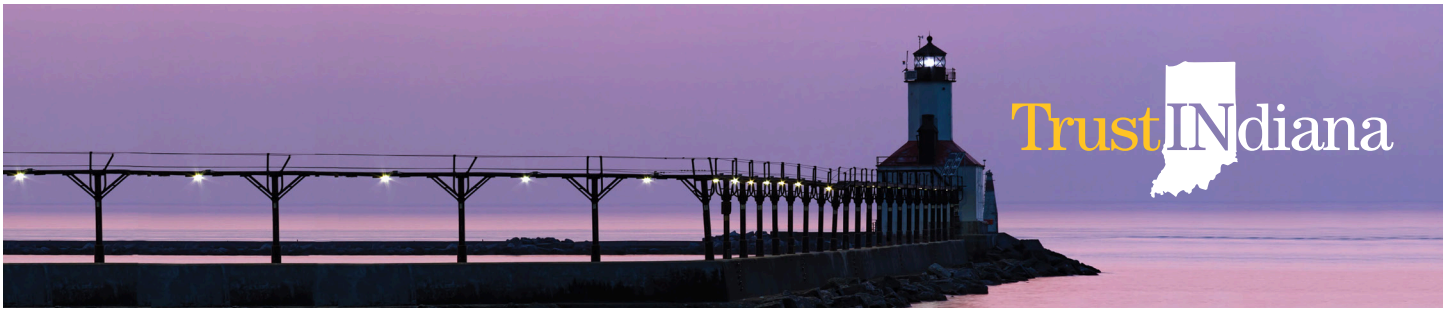
TheINVESTOR

September 2016




Local Government Investment Pool

# What You Need to Know: GASB 72 Fair Value Disclosures for Your TrustINdiana Investment

**What is GASB Statement 72?**

The Government Accounting Standards Board Statement 72, Fair Value Measurement and Application (GASB 72), "addresses the accounting and financial reporting issues related to fair value measurements" and went into effect after June 15, 2015 (see link in this email for reference).

**How does TrustINdiana report its financials?**

TrustINdiana (the "Pool") is a local government investment pool created pursuant to IC §5-13-9-11(b) within the office and custody of the Treasurer of the State of Indiana. TrustINdiana reports its financial statements in accordance with Financial Accounting Standard Boards (FASB) and follows ASC 820 "Fair Value Measurement and Disclosure Requirements" in reporting its investments. For pricing and redeeming shares, TrustINdiana maintains a stable net asset value (NAV) of $1 per share using the fair value method.

**Why is GASB Statement 72 important?**

For local units that invest in TrustINdiana, GASB 72 provides the guidance for the appropriate reporting and disclosures. The TrustINdiana Annual Report, for the period ending June 30, 2016, includes the following disclosure that is helpful in creating your financial statement disclosure for your TrustINdiana investment in accordance with GASB 72.

> In accordance with FASB guidance, TrustINdiana utilizes ASC 820 "Fair Value Measurement and Disclosure" to define fair value, establish a framework for measuring fair value, and expand disclosure requirements regarding fair value measurements. ASC 820 does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Various inputs are used in determining the value of TrustINdiana's portfolio investments defined pursuant to this standard. These inputs are summarized into three broad levels:
>
> • Level 1 – Quoted prices in active markets for identical securities.
>
> • Level 2 – Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with the evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S government agency securities, corporate securities, and commercial paper.

*All comments and discussion presented are purely based on opinion and assumptions, not fact, and these assumptions may or may not be correct based on foreseen and unforeseen events. The information above is not a recommendation to buy, sell, implement or change any securities or investment strategy, function or process. Any financial and/or investment decision should be made only after considerable research, consideration and involvement with an experienced professional engaged for the specific purpose. Of course past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.*

• Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

There have been no significant changes in valuation techniques used in valuing any such positions held by TrustINdiana since the beginning of the fiscal year. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of June 30, 2016 to value TrustINdiana's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" and "Level 3 Valuation Reconciliation of Assets" (if applicable) as noted below.

Valuation Inputs Summary (for the fiscal period ended June 30, 2016)

| | Valuation Inputs | | | |
|---|---|---|---|---|
| **Description** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Commercial Paper | $235,599,371 | $ - | $235,599,371 | $ - |
| Bank Deposits | $336,650,516 | $336,650,516 | $ - | $ - |
| **Total Investments** | $572,249,887 | $336,650,516 | $235,599,371 | $ - |

The Pool did not invest in any level 3 securities during the year ended June 30, 2016. There were no transfers between level 1 and level 2 during the year ended June 30, 2016.

Even though the underlying assets of TrustINdiana fall into both Level 1 and Level 2, your investment in TrustINdiana should be reported in your entities financial report at Level 2, since TrustINdiana is not a publicly traded fund and the underlying assets are directly or indirectly derived.

**How does GASB 72 improve Financial Reporting?**

The implementation of GASB 72 will enhance the comparability of financial statements among governmental entities. This will be achieved by stipulating that certain assets and liabilities are reported at fair value in a more consistent matter based on a more detailed definition of fair value and accepted valuation methodology. GASB 72 should also enhance fair value application guidance and related disclosures to provide financial statement users the impact on the governmental entities financial position.

**Recap**

TrustINdiana is a local government investment pool program that is reported at fair value and should be classified on the governmental entities financials at Level 2.

*The information presented is for informational purposes only. All information is assumed to be correct but the accuracy has not been confirmed and therefore is not guaranteed to be correct. The information provided does not constitute audit advice and should be further vetted by an auditing professional.*

# TheECONOMY

## Job Hiring Volatility

Payrolls in August increased by 151,000, this compares to market expectations of 180,000 new jobs. In a repeat of last month, the July number was revised higher to 275,000 from the previously reported 255,000. The unemployment rate held steady at 4.9%, and the participation rate remained static at 62.8%. The July numbers were a slight disappointment. They do follow the better than expected June report which countered the May anemic job creation of 24,000. These numbers continue to create schizophrenia in the markets. Will the Fed raise rates in September? We will find out next week.

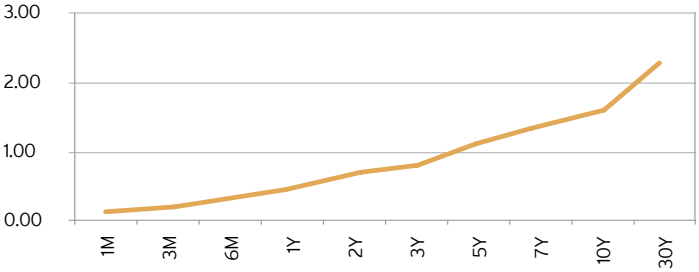
Current Fed fund futures indicate a 22% chance of an increase in September and a 54% chance of an increase in December 2016.

The Institute of Supply Management indices of the manufacturing and service sectors in the U.S. economy are also showing signs of weakness. The manufacturing report for August came in at 49.4, a number below 50 signals contraction in the industry. The expectations were for a reading of 52.0. The non-manufacturing index was reported at 51.4 for the same period, well below the 54.9 forecast. These weaker than anticipated numbers create doubt as to whether we will get the above-trend growth the Federal Reserve expects in order to resume raising rates.

## Portfolio Strategy

The Fed has been in a holding pattern for the past five meetings after raising rates late last year. The potential for further rate hikes in addition to October's pending money-market reform may provide higher yielding investment opportunities for the remainder of the year.

## US Treasury Curve




*Source: Bloomberg*

## Treasury Yields

| MATURITY | 9/12/16 | 8/12/16 | CHANGE |
|---|---|---|---|
| 3 Month | 0.363% | 0.275% | 0.088% |
| 6 Month | 0.518% | 0.427% | 0.091% |
| 1 -Year | 0.548% | 0.534% | 0.013% |

*Source: Bloomberg*

## Agency Yields

| MATURITY | 9/12/16 | 8/12/16 | CHANGE |
|---|---|---|---|
| 3 Month | 0.387% | 0.338% | 0.049% |
| 6 Month | 0.443% | 0.401% | 0.042% |
| 1 -Year | 0.555% | 0.535% | 0.020% |

*Source: Bloomberg*

## Commercial Paper Yields (A-1/P-1)

| MATURITY | 9/12/16 | 8/12/16 | CHANGE |
|---|---|---|---|
| 1 Month | 0.530% | 0.490% | 0.040% |
| 3 Month | 0.840% | 0.800% | 0.040% |
| 6 Month | 1.200% | 1.150% | 0.050% |
| 9 Month | 1.330% | 1.200% | 0.130% |

*Source: Bloomberg*

## Current Economic Releases

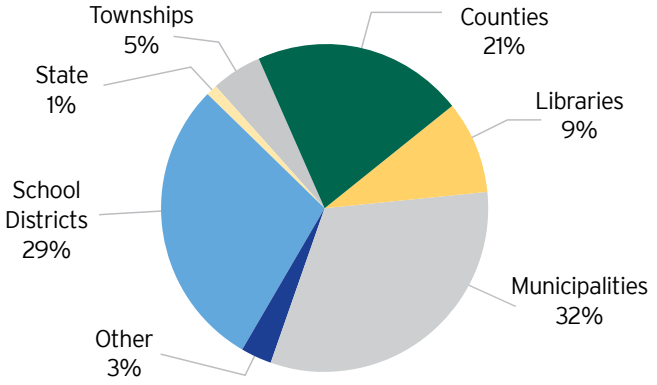
| DATA | PERIOD | VALUE |
|---|---|---|
| GDP QoQ | Q2 '16 | 1.10% |
| US Unemployment | Aug '16 | 4.90% |
| ISM Manufacturing | Aug '16 | 49.40 |
| PPI YoY | Jul '16 | -2.20% |
| CPI YoY | Jul '16 | 0.80% |
| Fed Funds Target | Sep 13 '16 | 0.25% - 0.50% |

*Source: Bloomberg*

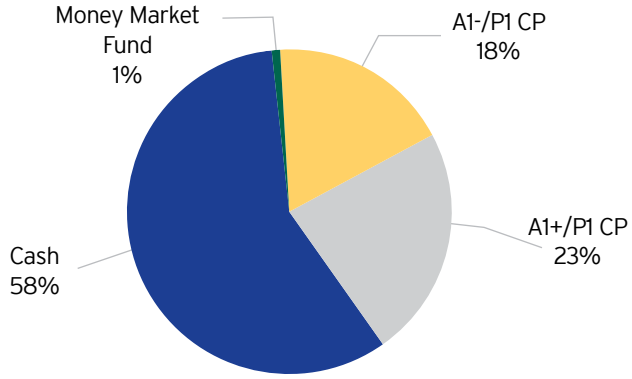
# TheFUND

## Fund Highlights as of August 31, 2016 (Unaudited)

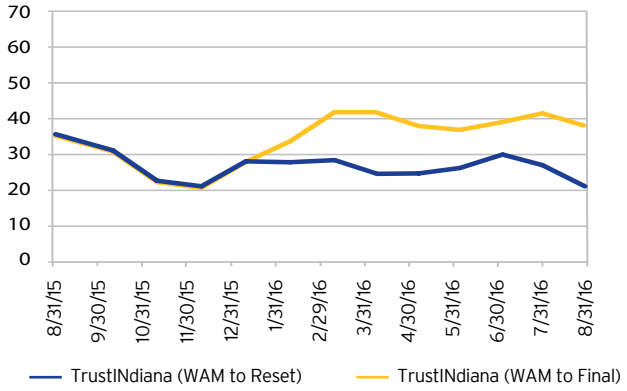
### Participant Breakdown




### Portfolio Distribution

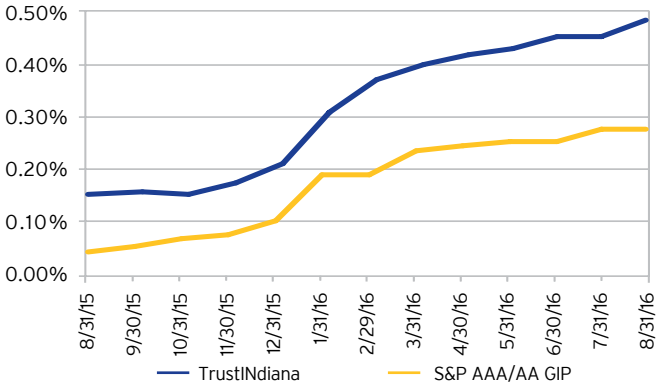



### Weighted Average Maturity




### TrustINdiana vs S&P AAA/AA GIP*

(30 Day Avg Yields)




| Month | Avg Daily Yields** | WAM (to Reset)*** | NAV | Month Ending Net Assets |
|---|---|---|---|---|
| Jun-16 | 0.46% | 30 | 1.00 | $559,090,117.94 |
| Jul-16 | 0.46% | 27 | 1.00 | $577,058,297.21 |
| Aug-16 | 0.48% | 22 | 1.00 | $579,765,839.89 |

*** 30 day yield as of the last day of the month* **** As of the end of the last day of the month*

Public Trust Advisors, LLC took over the management and advisory services effective May 1, 2015. All data prior to this date is from the previous Investment Advisor. As both Investment Advisors adhered to the investment policy there may be variances in yield, weighted average maturities and portfolio composition due to differing investment style.

Data Unaudited. All comments and discussion presented are purely based on opinion and assumptions, not fact, and these assumptions may or may not be correct based on foreseen and unforeseen events. The information above is not a recommendation to buy, sell, implement or change any securities or investment strategy, function or process. Any financial and/or investment decision should be made only after considerable research, consideration and involvement with an experienced professional engaged for the specific purpose. Additionally, past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.

*The benchmark, the S&P US AAA & AA Rated GIP All 30 Day Net Yield (LGIP30D) is a performance indicator of rated GIPs that maintain a stable net asset value of $1.00 per share and is an unmanaged market index representative of the LGIP universe. The S&P benchmark utilized in this comparison is a composite of all rated stable net asset value pools. GIPs in the index include only those rated based on Standard & Poor's money market criteria. Pools rated 'AAAm' provide excellent safety and a superior capacity to maintain principal value while those rated 'AAm' offer very good safety and a strong capacity to maintain principal value (Source: Standard & Poor's website.) The comparison between this index and the portfolio may differ in holdings, duration and percentage composition of each holding. Such differences may account for variances in yield.