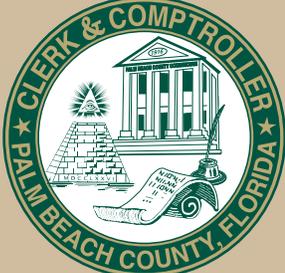


38.2%: 119.29

116.71



Annual Investment Guide

SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

Palm Beach County, Florida
Fiscal Year Ended September 30, 2015

PREPARED BY THE CLERK & COMPTROLLER, PALM BEACH COUNTY



72.48

MESSAGE FROM CLERK BOCK



Sharon R. Bock
Clerk & Comptroller
Palm Beach County

Clerk & Comptroller Sharon R. Bock, Esq., holds a Juris Doctorate, has earned insurance and securities licenses Series 7, 63 and 65 and has been certified as an Accredited Investment Fiduciary®. Elected to office in 2004, one of Clerk Bock's top priorities is to educate the public about how tax dollars are managed and spent.

Dear Residents,

As your elected Clerk & Comptroller, I am the County Treasurer and one of my most important responsibilities is safeguarding and managing taxpayer dollars. This includes overseeing the County's \$1.4 billion investment portfolio (see *Portfolio Allocation*, page 3).

During Fiscal Year 2015, my office achieved a total return of 1.43 percent, continuing to be one of the top performing counties throughout the state of Florida. My highly skilled team of Accredited Investment Fiduciary® professionals earned \$24 million in interest income, saving each property owner approximately \$38 (see *Portfolio Income*, page 5).

We safeguard your hard-earned tax dollars by using the same diligent management strategies as industry leaders (see *Investment Strategy*, page 9). These strategies incorporate Bloomberg, a state-of-the-art financial system that allows access to real-time market and economic information; and Clearwater Analytics, an independent source for web-based investment accounting and reporting, including performance measurement and risk analysis.

As a taxpayer, I encourage you to read this guide and become familiar with how your tax dollars are invested. In addition to this *Investment Guide*, my office also produces the *Comprehensive Annual Financial Report, Checks & Balances: Your Guide to County Finances* and the *Annual Debt Guide*. These award-winning publications can be accessed online at www.mypalmbeachclerk.com/countyfinances.

It is an honor and a privilege to serve as your elected Clerk & Comptroller. I remain dedicated to promoting transparency in how your tax dollars are managed, invested and spent.

Best regards,

A handwritten signature in black ink that reads "Sharon R. Bock".

Sharon R. Bock, Esq.
Constitutional Clerk & Comptroller, Palm Beach County

About This Guide

As Palm Beach County's Chief Financial Officer, the Clerk & Comptroller is charged with safeguarding all county funds and providing the necessary checks and balances on the County's budget, revenue and spending. As Treasurer, the Clerk is responsible for investing and earning revenue on your tax dollars until that money is needed to pay County expenses.

In this *Annual Investment Guide*, you will get an in-depth understanding of the County's investment portfolio and an overview of how the Clerk's office managed the portfolio during the fiscal year that ended on September 30, 2015, and previous fiscal years. This guide outlines portfolio composition and its growth, income, the markets and the economy, risk management strategies and depository banking. The Clerk's management of the portfolio is in accordance with regulations set forth in Palm Beach County's Investment Policy (see *The Market and the Economy*, page 8).

As part of our ongoing commitment to transparency in government, this *Annual Investment Guide* is one of the Clerk's many financial publications made available to the public. It is derived in part from the award-winning *Comprehensive Annual Financial Report* (CAFR) for the fiscal year that ended on September 30, 2015, and other financial reports. All Clerk financial reports including the *Annual Debt Guide*, CAFR and its condensed and simplified version, *Checks & Balances: Your Guide to County Finances*, are available online at www.mypalmbeachclerk.com/countyfinances.

The Clerk maintains an accurate and complete set of financial records in order to produce all required financial statements and reports to comply with state and federal laws and generally accepted accounting principles. The management of public funds is markedly different than that of private funds. The Clerk & Comptroller's investment management activities are restricted by specific investment policy guidelines related to investment types (no equities, only fixed-income), risk diversification, maturity, investment quality, performance measurement, selection of qualified dealers and issuers, safekeeping of securities and reporting requirements. A copy of the County Investment Policy is available at www.mypalmbeachclerk.com/investments.

The Palm Beach County Investment Ordinance, adopted in 1987, built flexibility into the County's investment program by establishing a framework for a formalized investment policy that expanded investment alternatives and set standards beyond those as dictated by state statute. The ordinance also provided for the creation of the Palm Beach County Investment Policy Committee (IPC).

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The Clerk & Comptroller of Palm Beach County was the first county government office in the country to become certified by the Centre for Fiduciary Excellence (CEFEX) indicating that fiduciary best practices are used when managing County funds. The Clerk's office has been certified for six consecutive years, reaffirming the office's commitment to fiduciary best practices in the areas of recordkeeping, investment policies, investment committee and portfolio management.

Clerk & Comptroller's Internal Investment Advisory Committee



The Clerk & Comptroller's Internal Investment Advisory Committee meets regularly to review the portfolio, discuss broad issues and consider performance. The committee includes the Clerk, members of the treasury team and the Investment Compliance Officer. The committee increases the degree to which investment management decisions are based on a consensus approach to meeting stated goals and objectives. For FY 2015, membership of the committee was as follows:

Sharon R. Bock, Esq.
Clerk & Comptroller,
Palm Beach County

Shannon Ramsey-Chessman,
CPA, CGFO
Chief Operating Officer of Finance

Darlene Malaney, CIMA
Director of Finance Services

Felicia Landerman, AIF, CTP
Investment Manager

John Burford
Investment Analyst

Steve Weiss
Compliance Officer

Investment Policy Committee

The Board of County Commissioners appoints members of the Investment Policy Committee from the public and private sectors. The committee works in conjunction with the Clerk & Comptroller to develop and evaluate the County's investment policies. For FY 2015, membership of the committee was as follows:

Hal R. Valeche, Chair
Palm Beach County Commissioner

Stephen Freilich, CFA, Vice-Chair
Senior Fixed Income Portfolio
Manager, Suntrust Bank

Liz Bloeser
Director, Office of Financial
Management & Budget,
Palm Beach County

Jim Davis
Director of Administrative Services,
Palm Beach County Sheriff's Office

Frederick E. Walker
Citizen-At-Large

William Moore
Citizen-At-Large

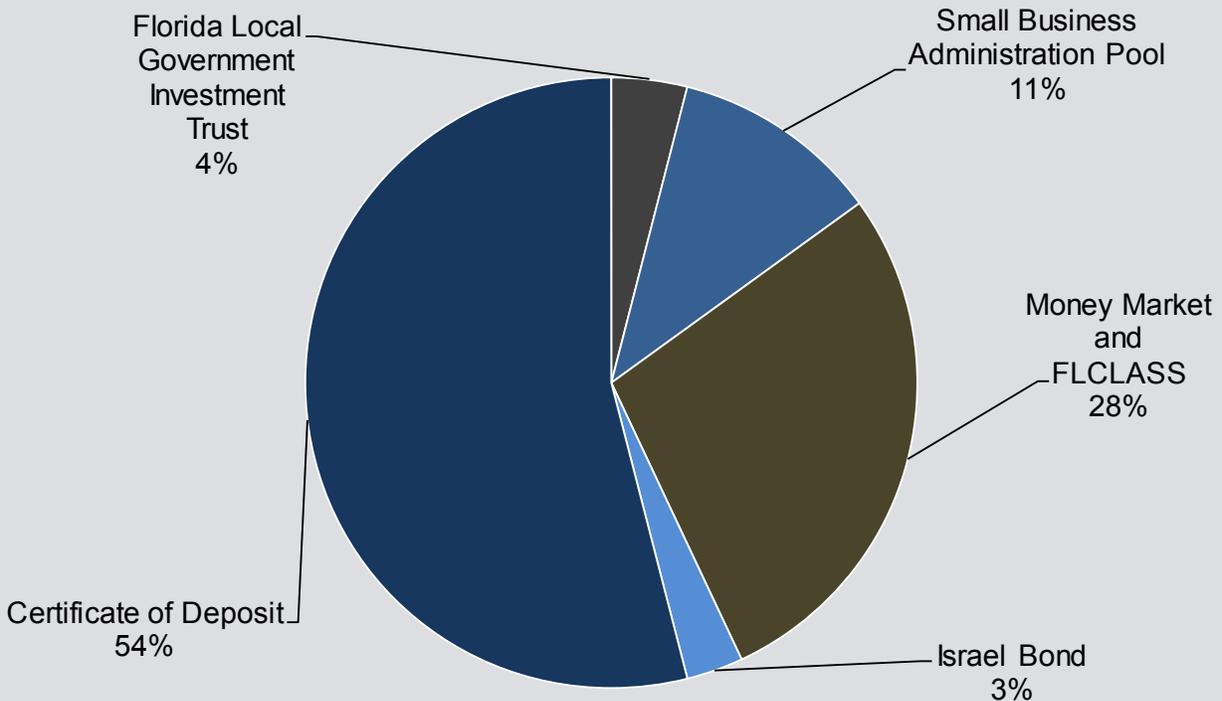
Ned Nashban, Esq.
Partner Glaser Weil



Portfolio Allocation & Performance

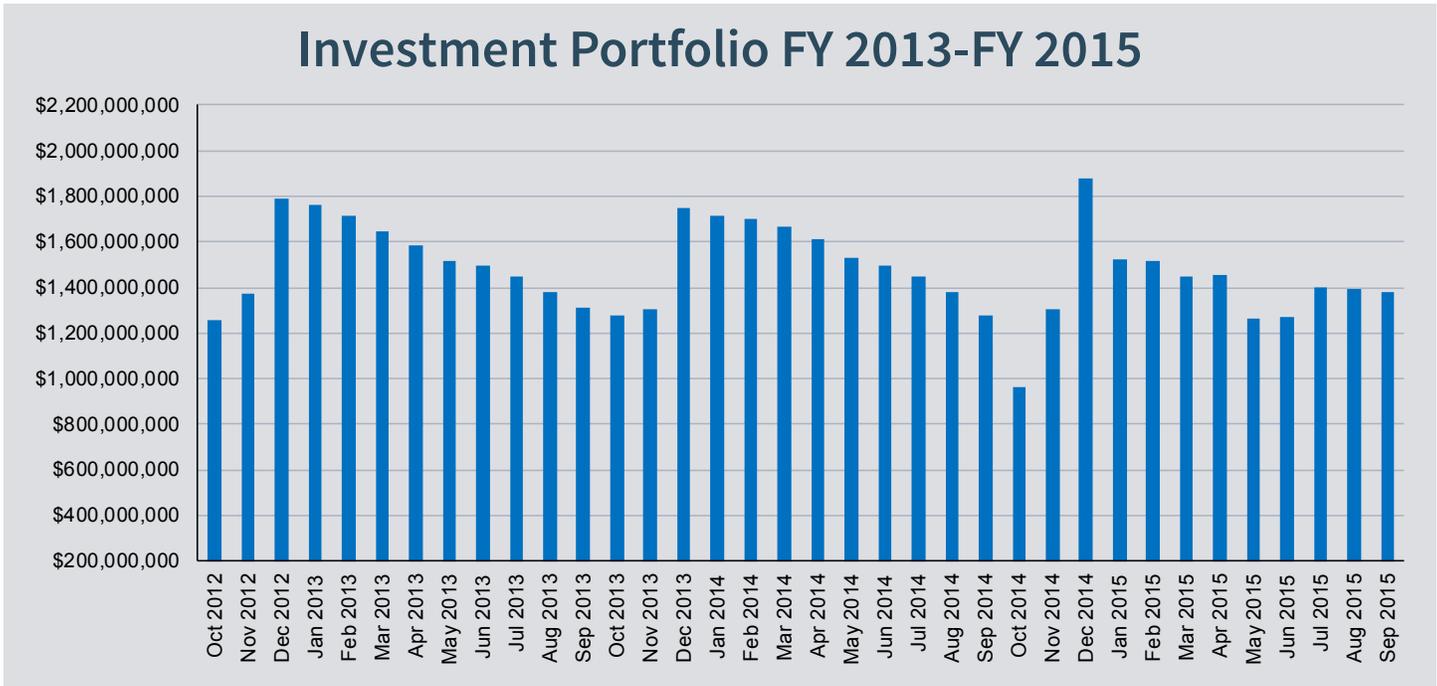
During FY 2015, the Clerk-managed investment portfolio averaged \$1.4 billion and ended the fiscal year totaling \$1.38 billion with a market yield of 1.5 percent and a duration of 0.40 years. The portfolio earned approximately \$24.2 million in interest income during the fiscal year, exclusive of any unrealized gains or losses. The portfolio allocation at fiscal year-end is depicted in the chart below. More details on portfolio holdings are available under the Public Funds section of the Clerk's website at www.mypalmbeachclerk.com/investments.

Portfolio Allocation as of September 30, 2015



Portfolio Growth

The graph below illustrates the County investment portfolio's size during the past three fiscal years. Changes from month to month reflect net cash flow as well as growth due to investment income. The trend of high portfolio balances in December of each year is a result of the timing of citizen property tax receipts. Portfolio balances decline throughout the year as the County pays its financial obligations.



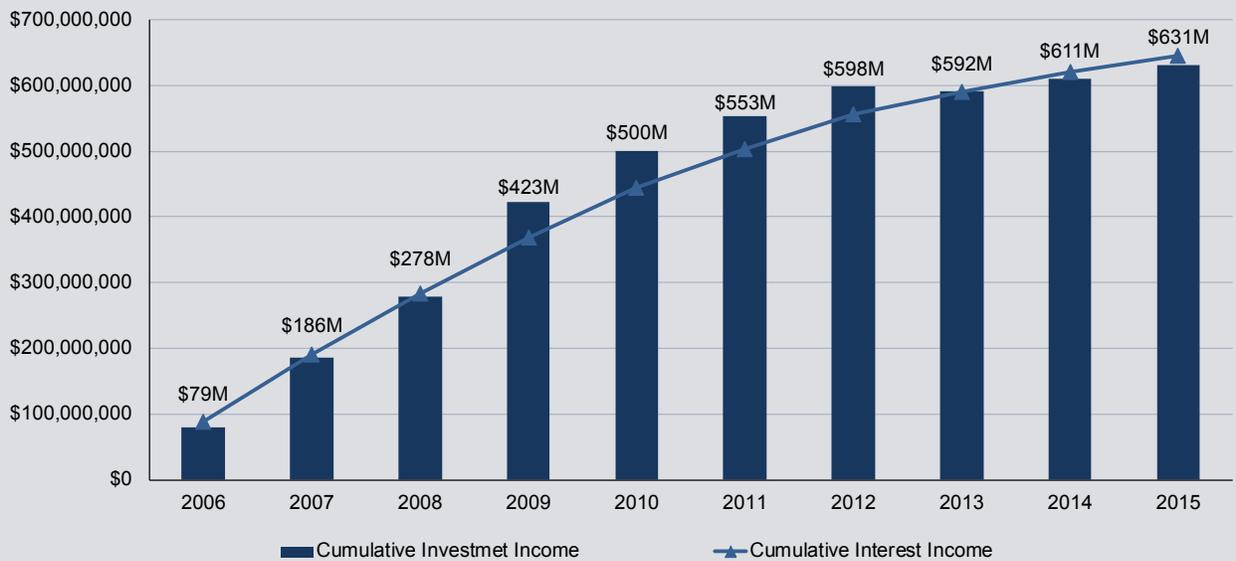
Portfolio Income

The Clerk's office invests idle County funds that are not currently being used to earn investment income and decrease the burden on taxpayers. Despite a weak economy and persistently low interest rates during FY 2015, the Clerk-managed portfolio earned \$24 million in interest income, which is \$38 per property owner*.

Income generated by County investments is dependent upon many factors such as the interest rate environment, the economy and size of the portfolio. The graph below illustrates the amount of interest and investment income (including realized and unrealized gains/losses) generated over the past seven fiscal years. Performance over this period is measured on a total return basis.

*Based upon 630,701 parcels on which taxes were paid in Palm Beach County.

Cumulative Investment Income By Fiscal Year



Sources of County Funds

Palm Beach County's overall investment portfolio contains funds that come from a variety of sources. During FY 2015, 53 percent of the County's total revenue came from property taxes, also known as ad valorem taxes. Other major sources included charges for services (21 percent), grants and other (8 percent), state-shared revenue (8 percent), other local taxes (8 percent) and franchise fees (2 percent).

Funds are fiscal and accounting units that record cash and other financial resources as well as related liabilities. When revenues come in, they are recorded into individual funds, which are classified according to their purpose. The investment portfolio is comprised of numerous fund types, including Governmental Funds, Enterprise Funds, Agency Funds and Internal Service Funds.

Governmental Funds have the largest share of the investment portfolio and include the General Fund (County's main operating fund), Debt Service Funds, Special Revenue Funds, and Capital Project Funds. Enterprise Funds participating in the investment pool include the Department of Airports and the Water Utilities department. Agency Funds represent the Sheriff, a constitutional officer, and Internal Service Funds include risk management insurance funds.



Depository Banking



When the County's revenues are collected, such as property taxes or parks and recreation fees, they are temporarily deposited into a main bank account. Just as individuals earn interest on savings accounts, the County earns interest on funds reserved for current and future expenses. When the funds are not being used for a particular service, the Clerk's office invests them to earn interest income from higher yielding assets. In order for the County to pay its expenses, such as payroll or vendor payments, the Clerk's office ensures that the portfolio is adequately liquid to meet all payment obligations. In order to maximize interest earnings on very short-term cash, the Clerk either invests overnight funds in a competitive money market account, or keeps them in the bank depending on the earnings credit rate offered.

A large percentage of local governments that lack the professional staff, skill and sophistication to implement an effective investment program will invest most, if not all, of their funds in their local depository or a Local Government Investment Pool. Unfortunately, these local governments do not maximize the earnings potential on idle funds.

Wells Fargo Bank, N.A. serves as Palm Beach County's main depository bank. A portion of the County's portfolio is invested in certificates of deposit and money market accounts at other financial institutions. In accordance with Florida Statute 280, all public deposits must be secured in Qualified Public Depositories (QPD). Wells Fargo Bank, N.A. is a QPD and all deposits are collateralized pursuant to state law. The collateral requirement for QPDs is determined by the chief financial officer of the State of Florida.

The Clerk & Comptroller created the Investment Council of the Palm Beaches in 2012. This is a group of government finance professionals who wish to share ideas and learn best practices. The council meetings are held semi-annually and hosted by the Clerk & Comptroller's office. The meetings are open forums to discuss techniques to help manage investment portfolios.



Investment Policy

The County Investment Policy is very specific in terms of its stated investment objectives. The primary objective is to prevent any loss of principal and, secondarily, to meet the County's needs to pay budgeted expenses as they are due throughout the year. After meeting these two objectives, the Clerk consistently and actively seeks opportunities to maximize investment income in order to reduce the financial burden on Palm Beach County taxpayers. This formal document, approved by the Board of County Commissioners, addresses issues such as authorized instruments, risk diversification methods, internal controls, program monitoring, performance measurement, qualified dealers and competitive bidding.

The Markets and the Economy

The U.S. economy continued to expand throughout the year. Real Gross Domestic Product (GDP) increased at a 2.1 percent annual average pace in the four quarters ending September 2015, down from 2.9 percent in FY 2014, but up from 1.5 percent in FY 2013. The uneven pattern of growth was supported by all sectors: consumers, business, exports and government spending.

The Federal Reserve (Fed) is forecasting normal real GDP growth of 2.3 percent over the next year, a medium-term return to 2 percent inflation by 2018 and full employment in 2017. The Fed defines full employment as an unemployment rate in the range of 4.5 percent to 4.9 percent accompanied by rising wages near the 3 percent level annually. The Fed has hinted of rising rates and a 1.375 percent Fed Funds rate by the end of 2016.

However, consumer spending remains restrained and uneven, not strong in all areas simultaneously. Tighter credit criteria and high legacy debt levels from the recent 2005-2006 boom continue to restrain spending. Corporate profit margins hit a record high of over 10 percent, but now have begun to decline. Business investment remains confined to technology with quick payback intervals and not long-term capacity-increasing projects or innovations research with uncertain long-term payoffs. Lack of sales visibility and pricing power diminish the drive to increase capital spending to expand capacity. Most investment is aimed at reducing the need for labor to enhance productivity.

Federal government spending restraint from the caps imposed by the budget compromise of 2011 have reduced fiscal stimulus to the economy. State and local spending has increased as finances have improved, allowing the government sector to stimulate growth. The strong dollar as well as slowing global growth suggest that U.S. exports may continue to weaken.

Overall, a persistent 2.5 percent trend growth in real GDP, low inflation (below 2 percent) and labor market slack (limited wage gains) imply low interest rates for an extended period before they tilt slightly higher. This is likely to mean limited fixed-income investment returns for the next fiscal year.



Strategic Risk Management

The Clerk & Comptroller's office achieves a balance between certain types of risk and portfolio return. These different risks fall into four basic categories:

CREDIT RISK is the possibility that the security issuer defaults and does not return the investor's principal. The Clerk addresses credit risk by primarily focusing on either explicitly guaranteed U.S. government debt or highly rated Government Sponsored Enterprise (GSE) debt. The portfolio may contain minimum exposure to corporations that are also highly rated. All government deposits in banking institutions are collateralized by state law thus removing the credit risk on these deposits.

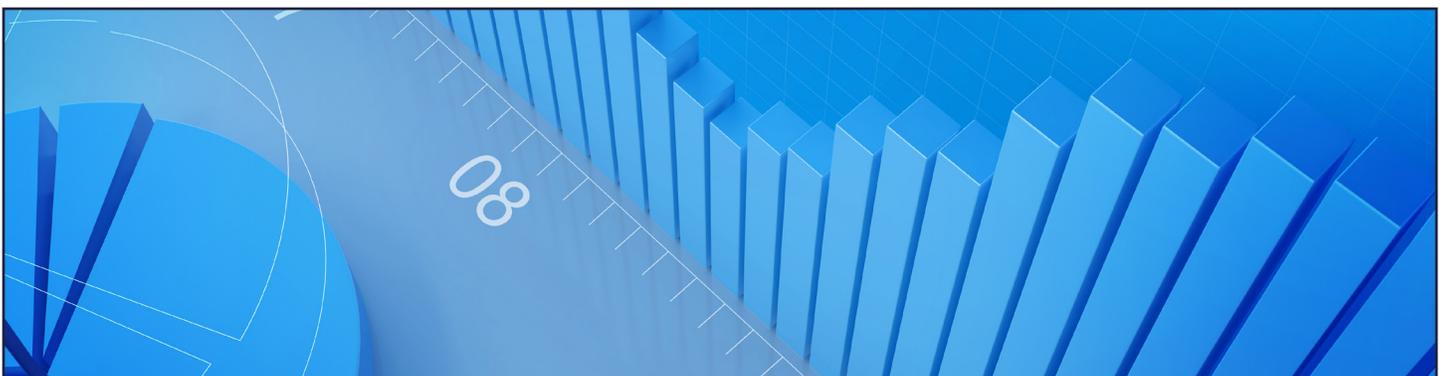
DIVERSIFICATION RISK is the potential for loss resulting from over-weighting investments in a specific maturity, issuer, instrument or a class of instruments. The Clerk spreads exposures broadly among many of the U.S. government agencies, Government Sponsored Enterprises (GSEs), AAA-rated money market accounts and Qualified Public Depositories. Diversification exists within the issuing entities by varying the maturity and other characteristics of the investment structures, such as the underlying collateral.

INTEREST RATE RISK comes from the market price volatility that fixed-income investments experience due to changing market interest rates. The Clerk structures the County's portfolio to maintain an average effective duration appropriate to market conditions, relative investment yields and the economic outlook in order to manage this uncertainty. The effective duration is a measurement of the price sensitivity of the principal value of investments due to changes in interest rates. With rates continuing to remain at historic lows, the focus has been to dramatically reduce interest rate risk to mitigate portfolio volatility by emphasizing shorter duration fixed income investments.

LIQUIDITY RISK is the cost associated with converting any investments to cash. The Clerk works with the County's Office of Financial Management and Budget to lower this risk by effectively forecasting cash flow needs and ensuring a steady flow of cash into the portfolio as needed, from maturing and amortizing assets. In addition, a predetermined level of cash is invested in money market accounts to address any unanticipated liquidity needs that may arise during the fiscal year.

Investment Compliance

In order to maintain an internal control structure that allows for the segregation of duties and authority, the Clerk has an internal investment compliance officer that is independent from the investment management process. The role of the compliance officer is to review each and every trade from the bottom-up to ensure compliance with the County Investment Policy. Additional responsibilities include reviewing performance, risk analysis and monitoring authorized broker/dealers. The compliance officer ensures independent oversight, fiduciary responsibility, transparency, disclosure and prudent checks and balances.



Investment Sector Descriptions

MONEY MARKET ACCOUNTS include both bank deposit accounts as well as mutual funds. These accounts are fully liquid and pay interest based on current interest rates in the short-term financial markets.

SMALL BUSINESS ADMINISTRATION (SBA) POOLS represent ownership interests in assembled pools of small business loans guaranteed by the SBA. The U.S. government guaranteed portion is bought and sold on the secondary market to form these pools. The yields on the pools adjust either monthly or quarterly to the prime rate, providing excellent interest rate sensitivity.

STATE OF ISRAEL BONDS are backed by the full faith and credit of the State of Israel, which is rated A by the S & P ratings service. Maturities on these investments are limited to a maximum of 3 years. No more than 3 percent of the total portfolio at market value at the time of purchase may be invested in these securities.

FLCLASS stands for Florida Cooperative Liquid Assets Securities System which is an independent local government investment pool designed to provide a safe and competitive investment alternative to Florida governmental entities. The pool is fully liquid and pays interest comparable to money market instruments.

FLORIDA LOCAL GOVERNMENT INVESTMENT TRUST A local government investment pool organized in 1991 through the joint efforts of the Florida Association of Court Clerk and Comptrollers (FACC) and the Florida Association of Counties (FAC). This short-term bond fund seeks to maintain safety of principal and maximize yield through a balance of quality and diversification. The fund has a fluctuating net asset value (NAV) and provides returns generally in excess of money-markets instruments. The fund is professionally managed by the investment management firm Payden & Rygel.

CERTIFICATE OF DEPOSIT A certificate of deposit (CD) is similar to a savings account in that the investor is paid interest on money deposited in a financial institution. However, greater interest is earned on CDs in exchange for agreeing to leave the money on deposit for a set period of time. Funds may be withdrawn early, although there is usually a penalty associated with this action. CDs are a safe investment and are made in Florida Qualified Public Depositories. All deposits are fully collateralized pursuant to Florida law.



About the Clerk & Comptroller's Office

As the third largest of the 67 Clerk's offices in Florida, the Clerk & Comptroller of Palm Beach County serves a local population of nearly 1.4 million residents. The office performs more than 1,000 different functions and provides services from several locations throughout Palm Beach County and online at www.mypalmbeachclerk.com.

More than 170 years ago, the Florida Constitution established the Clerk & Comptroller as an independent public trustee, directly elected by the public to serve these major functions:

AS CHIEF FINANCIAL OFFICER, TREASURER, CLERK OF THE BOARD OF COUNTY COMMISSIONERS:

- Serves as an independent check and balance on Palm Beach County's revenue, debt and spending.
- Invests and earns interest income on County funds, reducing the tax burden on the residents.
- Maintains financial records and produces financial statements and reports.
- Documents and maintains the minutes, records and activities of government meetings, including Palm Beach County Commission meetings, and is Clerk to the County's Value Adjustment Board.

AS CLERK OF THE CIRCUIT COURT:

- Protects the integrity of public records and public funds as an independent impartial third party, directly accountable to the citizens.
- Electronically receives, processes and files all civil and criminal court documents; protects evidence; disburses all court fees, fines and costs; and provides the public with access to court records in paper and online.
- Manages the County's jury system, issues marriage licenses and provides a state-of-the-art Self Service Center for residents representing themselves in court.



About the Clerk & Comptroller's Office

AS COUNTY RECORDER:

- Maintains the Official Records of the County dating back to 1909.
- Electronically records documents such as mortgages, deeds, liens, judgments and marriage licenses and makes images available online.

AS INSPECTOR GENERAL/AUDITOR:

- Provides independent and objective auditing and investigative services ensuring the efficiency of operations and uncovering waste, fraud and abuse.
- Audits court-appointed guardianships and operates the Guardianship Fraud Hotline to detect and deter financial abuse and mismanagement.
- Audits all County funds ensuring expenses are lawful, serve a public purpose and have a sufficient budget.

The Clerk & Comptroller's website at www.mypalmbeachclerk.com makes many services available online, including court case record searches, Official Record searches, Value Adjustment Board petitions, foreclosure sales, County financial information and County Commission meeting minutes and video.





SHARON R. BOCK
 Clerk & Comptroller
 Palm Beach County

www.mypalmbeachclerk.com

The independent Clerk & Comptroller serves a local population of nearly 1.4 million residents from several locations throughout Palm Beach County and online at www.mypalmbeachclerk.com

ONLINE SERVICES:

- County Financial Information
- Court & Official Records Searches
- Traffic Ticket Payments
- Online Foreclosure & Tax Deed Auctions
- myMinutes
- myVAB
- Self Service Court Forms
- Guardianship Fraud Hotline
- Marriage License Information
- Passport Applications
- Domestic Partnership Information
- eRecording & E-Filing of Documents

