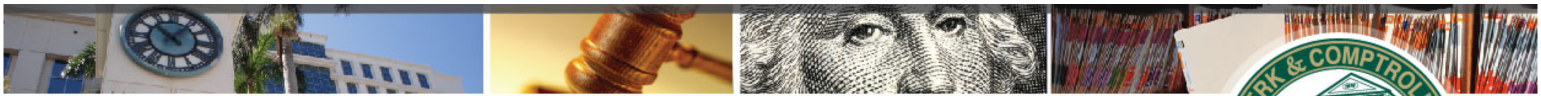


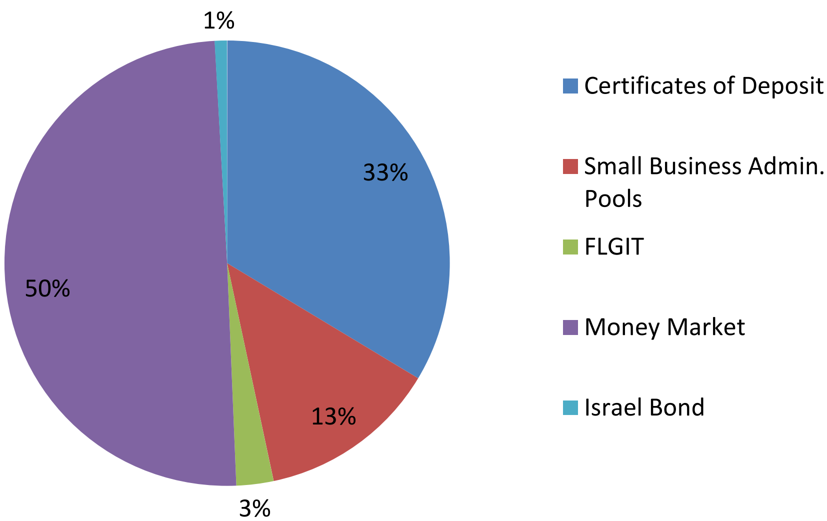
Consolidated Investment Report

December 2014

SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

As Palm Beach County's Chief Financial Officer, the Clerk & Comptroller is charged with safeguarding and investing all County funds. The Clerk's management of the fixed income portfolio is in accordance with regulations set forth in Palm Beach County's Investment Policy. The County Investment Policy is very specific in terms of its stated investment objectives. The primary objective of the policy is to prevent any loss of principal and, secondarily, to meet the County's expenditures. After meeting these two objectives, the Clerk actively seeks opportunities to maximize investment income.

Portfolio Allocation
December 31, 2014



Performance

Total Return

Fiscal Year to Date	0.35%
Prior Month	0.15%
Prior Quarter	0.34%
Prior Year	1.24%*
Prior 3 Years	1.05%*
Prior 5 Years	2.31%*
Prior 8 Years	3.65%*

*figures annualized

Portfolio Statistics

	December '14	November '14	October '14	September '14	August '14	July '14
Month-end Market Value	$1,877,788,493	$1,303,169,332	$961,971,610	$1,278,599,856	$1,381,513,545	$1,448,983,379
Book Value	$1,867,215,846	$1,293,315,158	$952,080,011	$1,270,263,723	$1,372,700,798	$1,440,522,439
Unrealized Gain/Loss	$10,572,647	$9,854,174	$9,891,600	$8,336,134	$8,812,747	$8,460,940
Book Yield	1.114%	1.661%	2.28%	2.27%	2.09%	2.03%
Market Yield	0.984%	1.427%	1.94%	1.77%	1.62%	1.57%
Effective Duration	.29 years	.42 years	.60 years	.78 years	.73 years	.75 years
Convexity	0.16	0.14	0.31	0.22	0.16	0.13
Average Credit Rating	AAA/Aaa/AAA	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+

Portfolio Income

	December '14	November '14	October '14	September '14	August '14	July '14
Interest Income (FYTD)	$5,170,850	$3,325,483	$1,327,684	$31,079376	$28,564,907	$25,970,586
Investment Income (FYTD)	$4,327,065	$2,714,296	$1,112,084	$19,061,741	$18,243,297	$15,937,366
Interest Income (current month)	$1,935,366	$1,907,799	$1,327,684	$ 2,514,470	$2,594,321	$3,009,431

The Economy – Moderate Growth, Low Inflation

- **Consumers**

  November nonfarm payroll jobs increased 321,000, the strongest since January 2012. October payrolls were revised up to 243,000 from 214,000, and September to 271,000 from 256,000, for a net revision gain of 44,000. The unemployment rate was unchanged at 5.8%. The participation rate was also unchanged in November at 62.8%, the lowest rate since 1978. Average hourly earnings rose 0.4% in November for the largest monthly increase since June 2013. Year-over-year average hourly earnings were up 2.1% vs. 2.0% in October. November retail sales unexpectedly rose 0.7%, significantly above expectations and the largest increase in eight months. October sales were also revised higher to a 0.5% gain vs. the originally reported 0.3% rise. Personal income rose 0.4% in November and 4.2% year-over-year. Personal spending rose 0.6% in November following a 0.3% increase in October. The Conference Board's Consumer Confidence Index increased to 92.6 in December, up slightly from a revised 91.0 in November. December's report marked a two-month high for the index. The December University of Michigan Consumer Confidence Sentiment Survey exceeded expectations rising to 93.8, the highest in 8 years vs. 88.8 in November. Early indications suggest Black Friday spending was weak again this year with sales over the entire Thanksgiving weekend down 11%. The National Retail Federation expects a 4.1% rise in holiday sales through the end of the year. November vehicle sales rose to a 17.08 million annualized pace, the highest level since August. October consumer credit increased $13.2 billion, after a $15.4 billion increase in September. October's report was an 11-month low.

- **Housing**

  November housing starts unexpectedly fell 1.6% to a 1.028 million annualized pace vs. October's 1.045 million rate. Year-over-year, starts are down 7%. November permits for future homes fell 5.2%, a larger decline than expected. Over the past year, permits are almost flat, down 0.2%. November existing home sales fell 6.1% for a much larger decline than expected, to a 4.93 million annual rate vs. 5.25 million in October. It was the first decline below 5 million since May.

- **Inflation**

  The Personal Consumption Expenditures Deflator, a measure that adjusts for the mix of consumer spending, fell 0.2% in November. The November year-over-year rate of inflation fell to 1.2% from 1.4% in October making the November annual rate the lowest since March. Excluding food and energy, the core PCE was unchanged for the month and rose 1.4% over the past year vs. the 1.5% annual rate in October. The November Consumer Price Index (CPI) fell 0.3%, the largest decline 6 years, producing a November year-over-year 1.3% gain vs. October's 1.7% rise. November energy prices fell 3.8% for the fifth consecutive monthly decline. Excluding food and energy, the core CPI rose 0.1% in November and 1.7% year-on-year vs. October's 1.8% annual increase. Gasoline prices continued to drop throughout December with the average monthly price per gallon down to $2.54 vs. November's $2.91. This was the lowest cost per gallon since July 2009.

- **Business**

  The November U.S. ISM manufacturing index fell to 58.7 vs. 59.0 in October, a two-month low. Production slowed, inventories fell, and employment slipped while new orders rose. The ISM Non-Manufacturing Index rose more than expected to 59.3, a three-month high, vs. 57.1 in October. New orders rose but employment fell. Construction spending fell 0.3% after a 1.2% gain in October and a 0.6% rise in September. The U.S. third quarter real GDP growth was unexpectedly revised to 5.0% from the 3.9% for the fastest rate of growth in more than a decade. Personal Consumption was revised up a full percentage point to 3.2% from 2.2% in the third quarter due to a 4.7% rise in goods consumption caused by a 9% gain in durable goods spending. Services, investment spending, and inventories were revised higher while exports were revised down. Industrial production rose 1.3% in November, the largest monthly gain in more than four years. November durable goods orders fell 0.7%, a two-month low, following a minimal 0.3% increase the prior month. Excluding transportation, durable goods orders fell 0.4%, and capital goods orders, excluding aircraft and defense, remained unchanged in November. The NFIB Small Business Optimism Index increased to 98.1 in November vs. 96.1 in October for the highest reading in more than 8 years.

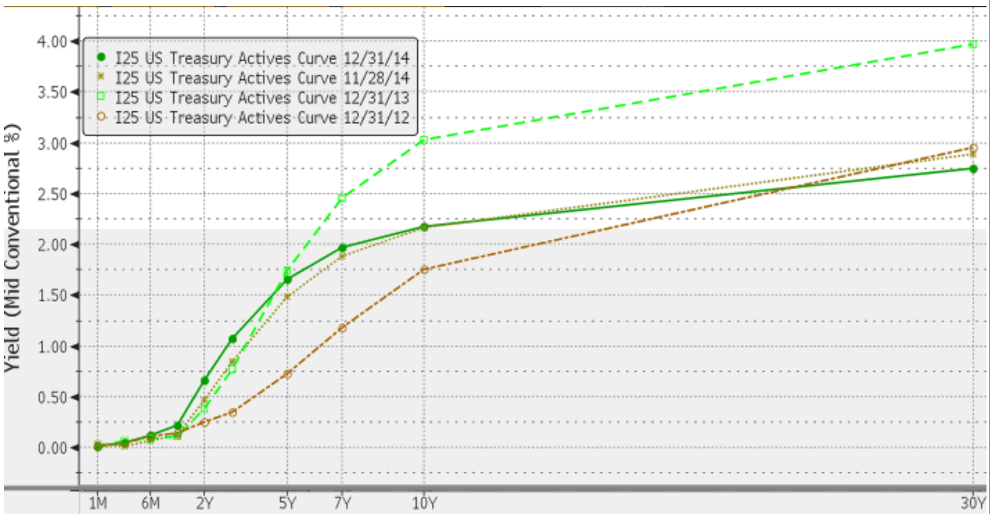
- **News**

  The October Fed minutes said concerns over falling oil prices, weak global growth and a strengthening dollar are temporary factors. The Fed seemed committed to increasing the Fed Funds Target Rate next year. The European Central Bank left rates unchanged at a record low 0.05%. The press conference offered little insight into the ECB's next move. Japan's third-quarter GDP growth was revised to a -1.9% vs. -1.6% after a -6.7% rate in the second quarter. Japan is now in a recession. The Russian ruble fell more than 10% despite a rate increase to 17% from 10.5% to stop its slide.

- **Bottom Line**

  The moderate overall economic growth and inflation numbers, despite the news backdrop, suggest no change in Fed monetary policy for the foreseeable future. The Fed's December 17, 2014 FOMC meeting statement replaced the "considerable time" language to describe when short rates would be increased with the statement that the Fed would "be patient" and increase the Fed Funds Target Rate from near 0% depending on the evolving economic data. With restrained consumer spending (high debt and low income growth), moderate business investment spending and hiring due to unreliable sales growth visibility, uneven government spending trends, and slowing global growth along with mounting deflation risks, there is little chance that a booming economy and rising inflation will force the Fed to increase short rates any time soon.

U.S. Treasury Yield Curve



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