

Consolidated Investment Report

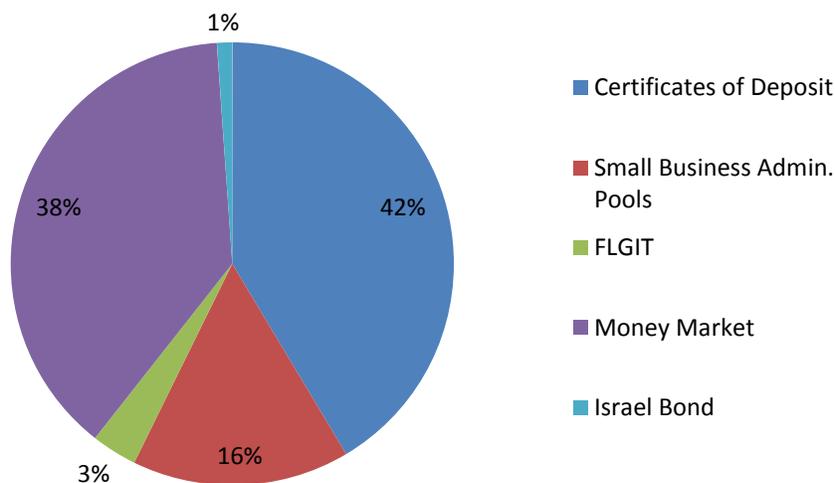
January 2015



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.

SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

Portfolio Allocation January 31, 2015



Performance Total Return

Fiscal Year to Date	0.47%
Prior Month	0.10%
Prior Quarter	0.35%
Prior Year	1.24%*
Prior 3 Years	1.05%*
Prior 5 Years	2.31%*
Prior 8 Years	3.65%*

*figures annualized

Portfolio Statistics

	January '15	December '14	November '14	October '14	September '14	August '14
Month-end Market Value	\$1,526,713,856	\$1,877,788,493	\$1,303,169,332	\$961,971,610	\$1,278,599,856	\$1,381,513,545
Book Value	\$1,515,964,931	\$1,867,215,846	\$1,293,315,158	\$952,080,011	\$1,270,263,723	\$1,372,700,798
Unrealized Gain/Loss	\$10,748,924	\$10,572,647	\$9,854,174	\$9,891,600	\$8,336,134	\$8,812,747
Book Yield	1.492%	1.114%	1.661%	2.28%	2.27%	2.09%
Market Yield	1.271%	0.984%	1.427%	1.94%	1.77%	1.62%
Effective Duration	.41 years	.29 years	.42 years	.60 years	.78 years	.73 years
Convexity	0.21	0.16	0.14	0.31	0.22	0.16
Average Credit Rating	AA+/Aa1/AA+	AAA/Aaa/AAA	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+



Portfolio Income

	January '15	December '14	November '14	October '14	September '14	August '14
Interest Income (FYTD)	\$7,137,040	\$5,170,850	\$3,325,483	\$1,327,684	\$31,079,376	\$28,564,907
Investment Income (FYTD)	\$6,156,654	\$4,327,065	\$2,714,296	\$1,112,084	\$19,061,741	\$18,243,297
Interest Income (current month)	\$1,966,191	\$1,935,366	\$1,907,799	\$1,327,684	\$ 2,514,470	\$2,594,321

The Economy – Moderate Growth, Low Inflation

- **Consumers**

December nonfarm payroll jobs increased 252,000. Upward revisions in for November and October totaled 50,000. More than 860,000 jobs were created in the final quarter of 2014 which made 2014 the strongest year for payroll growth since 1999. The unemployment rate fell to 5.6% vs. 5.8% in November. The labor force participation rate fell in December to 62.7% vs. 62.9% the prior month. Average hourly earnings fell 0.2% in December vs. a revised 0.2% gain in November (originally up 0.4%). Year-over-year December average hourly earnings were up 1.7% vs. 1.9% the month before. December's wage growth rate was the slowest in almost 2 years. December retail sales fell 0.9%, the largest monthly decline since January 2014. November sales were revised to a 0.4% gain vs. the originally reported 0.7% increase. Fourth quarter sales declined at an average pace of 0.1% relative to a 0.3% pace in the third quarter. December vehicle sales fell to a 16.80 million annualized pace vs. November's 17.08 million annual sales rate. Personal income rose 0.4% in November and 4.2% year-over-year. The Conference Board's Consumer Confidence Index increased to 98.1 in January, up substantially from a revised 93.6. The expectations component of the sentiment survey increased to the highest reading in more than 10 years. The Conference Board's January Consumer Confidence Index rose to 102.9, the highest reading in over seven years vs. 93.1 in January.

- **Housing**

December housing starts rose 4.4% to 1.089 million annualized vs, 1.043 million in November, a two-month high. Year-over-year, starts were up 5.3% with the strength concentrated in single-family homes, the largest segment, which rose 7.2% annually vs. an annual decline of almost 1.0% for multi-family starts. December permits for future homes fell 1.9%, after a 3.7% decline the prior month, cutting the annualized rate to 1.032 million from 1.052 million. Over the past year, permits are up just 1.0%. December existing home sales rose 2.4%, slightly less than the 3% gain expected. The annualized sales rate was 5.04 million vs. 4.92 million in November. December new home sales rose a large 11.6% following a 6.7% decline in the prior month. The annualized sales pace rose to 481,000 vs. 431,000 the month before. The S&P/Case/Shiller 20 City Home Price Index rose 4.31% annually in November, down from 4.47% annual gain in October.

- **Inflation**

The Personal Consumption Expenditures Deflator, a measure of inflation that adjusts for the mix of consumer spending, declined to a 0.7% annual rate in December vs. November's 1.2% year-over-year gain. Excluding food and energy, the core PCE increased 1.3% annually vs. a 1.4% yearly gain in November. The December Consumer Price Index (CPI) fell 0.4% from the month before, the largest decline 6 years, producing a December year-over-year 0.8% inflation rate vs. November's 1.3% rise. December energy prices fell 4.7% for the sixth consecutive monthly decline. Excluding food and energy, the core CPI was unchanged in the month of December and rose 1.6% year-on-year vs. November's 1.7% annual increase.



- **Business**

The December U.S. ISM Manufacturing Index fell to 55.5 vs. 58.7 in November, the weakest reading since June. Production slowed, the order backlog fell, while employment rose to a four month high. The ISM Non-Manufacturing Index slipped to 56.2 in December, a six month low. The December weakness was widespread as business activity fell, new orders slumped, and employment declined. December construction spending rose 0.4% after a 0.2% decline in November. The U.S. third quarter real GDP growth rose 2.6% in the preliminary fourth quarter report, below the 3% expected and a significant reduction in the third quarter 5.0% growth rate. Personal consumption rose 4.3% in the fourth quarter, stronger than the 3.2% rate in the third quarter, supported by lower gasoline and energy prices. Investment rose 7.4% in the quarter vs. 7.2% in the prior quarter as inventories increased. December industrial production declined 0.1% vs. a 1.3% gain in November. December durable goods orders fell 3.4% following a 2.1% drop in November. December's drop was the fourth month of declines over the past five months. The NFIB Small Business Optimism Index increased to 100.4 in December vs. 98.1 in November, the first reading over 100 since 2006.

- **News**

The Federal Open Market Committee, the Federal Reserve's rate setting committee, met on January 28 and left rates unchanged. Its meeting statement eliminated the "considerable time" phrase to define when rates might rise and replaced it with "be patient" which means no rate change for two FOMC meetings. It noted that the strong U.S. dollar, lower oil prices, and slowing international growth would be considered in the decision to increase rates. The Fed still seemed committed to increasing the Fed Funds Target Rate by mid-2015. The European Central Bank announced an aggressive bond-buying program to start in March. European CPI fell at a 0.2% annual rate in December, the first annual decline since 2009. Syriza, Greece's left wing anti EU party won control of the government.

- **Bottom Line**

The moderate overall economic growth and inflation numbers, despite the news flow, suggest no change in Fed monetary policy for the foreseeable future. The Fed's January 28, 2015 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. The more things change, the more they stay the same.



U.S. Treasury Yield Curve

