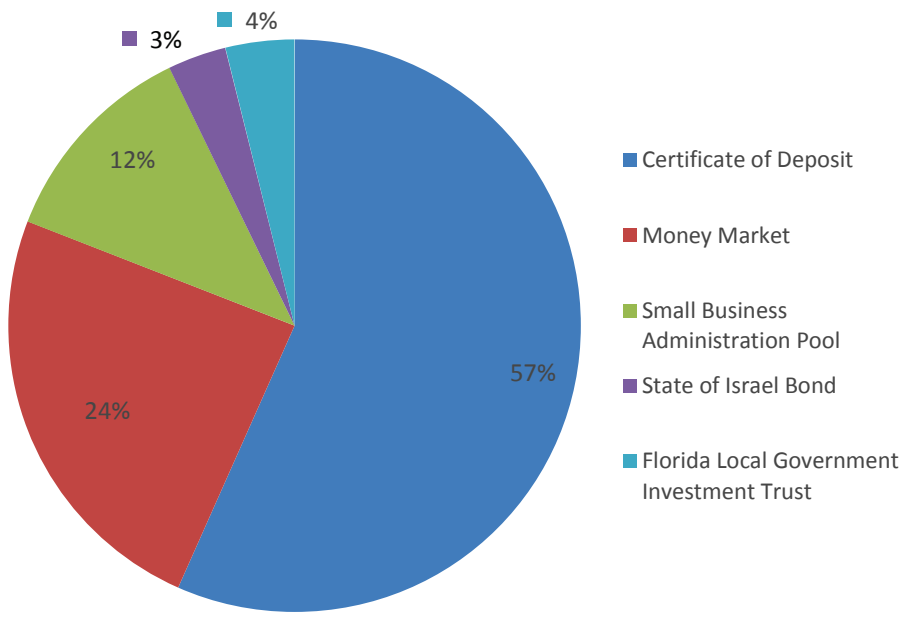
Consolidated Investment Report

October 2015

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
October 31, 2015



Performance
Total Return

Fiscal Year to Date	0.11%
Prior Month	0.16%
Prior Quarter	0.40%
Prior Year	1.43%*
Prior 3 Years	0.85%*
Prior 5 Years	1.60%*
Prior 8 Years	3.17%*

*figures annualized

Portfolio Statistics

	October '15	September '15	August '15	July '15	June '15	May '15
Month-end Market Value	$1,312,665,707	$1,381,695,231	$1,390,388,579	$1,401,979,723	$1,270,204,407	$1,264,390,651
Book Value	$1,300,104,818	$1,368,802,182	$1,378,098,505	$1,390,604,872	$1,259,351,800	$1,252,990,552
Unrealized Gain/Loss	$12,560,889	$12,893,048	$12,290,074	$11,374,850	$10,852,607	$11,400,099
Book Yield	1.675%	1.627%	1.612%	1.650%	1.801%	1.798%
Market Yield	1.417%	1.489%	1.470%	1.497%	1.596%	1.588%
Effective Duration	.44 years	.40 years	.41 years	.44 years	.47 years	.47 years
Convexity	.154	.095	.192	.103	0.245	0.296
Average Credit Rating	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+

Portfolio Income

	October '15	September '15	August '15	July '15	June '15	May '15
Interest Income (FYTD)	$1,993,495	$23,502,677	$21,546,383	$19,499,761	$17,397,840	$15,251,102
Investment Income (FYTD)	$1,515,138	$20,191,741	$17,864,436	$15,867,924	$14,489,773	$13,189,725
Interest Income (current month)	$1,993,495	$1,956,294	$2,046,622	$2,101,920	$2,146,738	$2,061,434

Economic Overview

Consumers:

The U.S. economy generated 142,000 nonfarm payroll jobs in September, well off the 201,000 pace that had been expected. The prior month's number was revised significantly lower to 136,000 from an originally reported 173,000, a level that was already disappointing. The private sector added only 118,000 jobs and again August's number was revised lower to 100,000 from 140,000. The unemployment rate held steady at 5.1%. There was no meaningful wage growth as hourly earnings were unchanged during the month and up only 2.2% over the past year.

The Employment Cost Index, a broad measure of workers' wages and benefits, rose a seasonally adjusted 0.6% in the third quarter, matching expectations and vs. a 0.2% increase in the second quarter. Wages and salaries rose 0.6% and benefits increased 0.5%. On an annual basis, the ECI was up 2.1%.

The October Conference Board's Consumer Confidence Index fell to 97.6 from a revised 102.6 in September. Consumer credit rose by $16.0 billion in August, down from the $18.9 billion increase in July. Term loans were up $11.9 billion while revolving credit increased $4.0 billon. September retail sales increased 0.1% vs. a revised 0.0% change in August, originally reported as a 0.2% gain. Gas station sales weakened due to lower gasoline prices, which were offset by September's record vehicle sales which rose 1.7% to an 18.1 million annualized sales pace. Gross Domestic Product grew at 1.5% in the third quarter of 2015, in line with expectations and vs. the 3.9% growth rate in the second quarter. Inventories were reduced dramatically while consumer spending rose a solid 3.2% vs. the 3.6% gain in the second quarter.

The final University of Michigan Consumer Sentiment Index rose to 90.0 for October, up from 87.2 in September due to the current conditions and expectations components. The reading was below the 96.1 in June. Personal, which measures how much consumers paid for everything from sofas to taxi rides, rose 0.1% vs. a month ago, the slowest pace of spending since January. Consumption was up 0.4% in August and 0.3% in July. Personal income, pretax earnings from salaries and investments, increased 0.1% in September for the smallest increase since March.

Housing:

The October NAHB Housing Market Index rose to a 10-year high at 64 vs. 61 in September, a sign that demand for housing may remain solid in the months ahead. Readings above 50 indicate that more homebuilders said that conditions were good. September new housing starts rose 6.5% from a month ago to an annualized pace of 1.21 million, a larger gain than expected. However, permits declined 5%, more than expected, suggesting weakness ahead. The increase in starts was driven by multifamily construction due to increasing rental demand.

The U.S. FHFA Home Price Index for August rose 0.3% on a monthly basis and was higher by 5.5% on an annual basis, which was down slightly from its annual July gain of 5.8%. September existing home sales rose 4.7% to a 5.5 million annualized sales pace vs. 5.3 million in August. September new home sales sank to a 10-month low, interrupting the trend of steady improvement in the housing sector. Sales dropped 11.5% to a 468,000 annualized pace and the prior two months were revised lower.

A limited inventory of affordable homes and viable lots on which to build may be holding back sales. The August S&P Case/Shiller 20 City Home Price index rose 5.1% year-over-year vs. 4.9% in July. The gain was the largest for 2015 and indicated rising demand. The index averaged 96.9 during the last expansion and 53.7 during the recession that ended June 2009. Pending sales of existing homes fell 2.3% in September instead of rising as expected vs. August's 1.4% decline. Residential real estate sales are slowing

Business:

Factory orders fell 1.7% in August, slightly worse than the 1.2% expected. Excluding volatile transportation orders, the data dropped 0.8%. It was the fifth monthly decline during the first eight months of the year. The NFIB Small Business Optimism Index rose to a four-month high of 96.1 in September from 95.9 in August. The gauge remained below its 42-year average of 98. September U.S. industrial production, a broad measure of output by factories, mines, and utilities, declined 0.2% after falling 0.1% in August due to a strong dollar and weak overseas economies which cut demand for American-made goods. The U.S. leading economic indicators index for September fell 0.2% vs. no change in the prior month suggesting slowing growth over the next six months. September durable goods orders fell 1.2% vs. a revised 3% decline in August (originally a 2.0% fall). Capital goods excluding defense and aircraft fell 0.3% vs. a revised decline of 1.6% (originally a 0.2% fall)

International Trade:

The August trade deficit rose 15.6% to $48.33 billion vs. $41.8 billion in July. Imports rose 1.2% while exports fell 2%. The September Advance Goods Trade Deficit was -$58.63 billion vs. $ 66.60 billion in August. The narrower deficit was due to weaker imports rather than stronger exports.

Inflation:

September monthly import prices fell 0.1%, a smaller than expected decline, but were down 10.7% y/y due to the strong dollar and declining commodity prices. September wholesale prices (Producer Price Index) declined by the most since the start of 2015. The 0.5% monthly decline followed no change in August. Energy prices fell 5.9%, the largest decline since January, after falling 3.3% in the prior month. Food prices dropped 0.8% after a 0.3% gain in August. Ex-food and energy, core PPI declined 0.3% in September. On a year-over-year basis overall PPI fell 1.1% and core prices were up 0.8% vs. August's core year-over-year price gain of 0.9%.

The September consumer price index fell 0.2% m/m vs. a 0.1% decline in August. The Core CPI which excludes food and energy rose 0.2% in September vs. a 0.1% increase in August. On an annual basis, the overall CPI was unchanged vs. a 0.2% y/y rise in August. That means no cost of living adjustment for Social Security recipients for the third time in the last decade. The Core CPI increased 1.9% year-over-year vs. a 1.8% gain in August.

Energy costs fell 4.7% in September and owners' equivalent rents rose 0.4% for the month producing the flat overall annual CPI and the increase in Core CPI. The Personal Consumption Expenditures Deflator Index, the Fed's favorite inflation measure, fell 0.1% in August, the largest drop since January when it fell 0.5%. The index rose 0.2% from a year ago and has been below the Fed's 2.0% target for the past 41 months. The Core PCE Deflator, ex-food and energy rose 0.1% in August and increased 1.3% from a year earlier. Inflation has stayed contained.

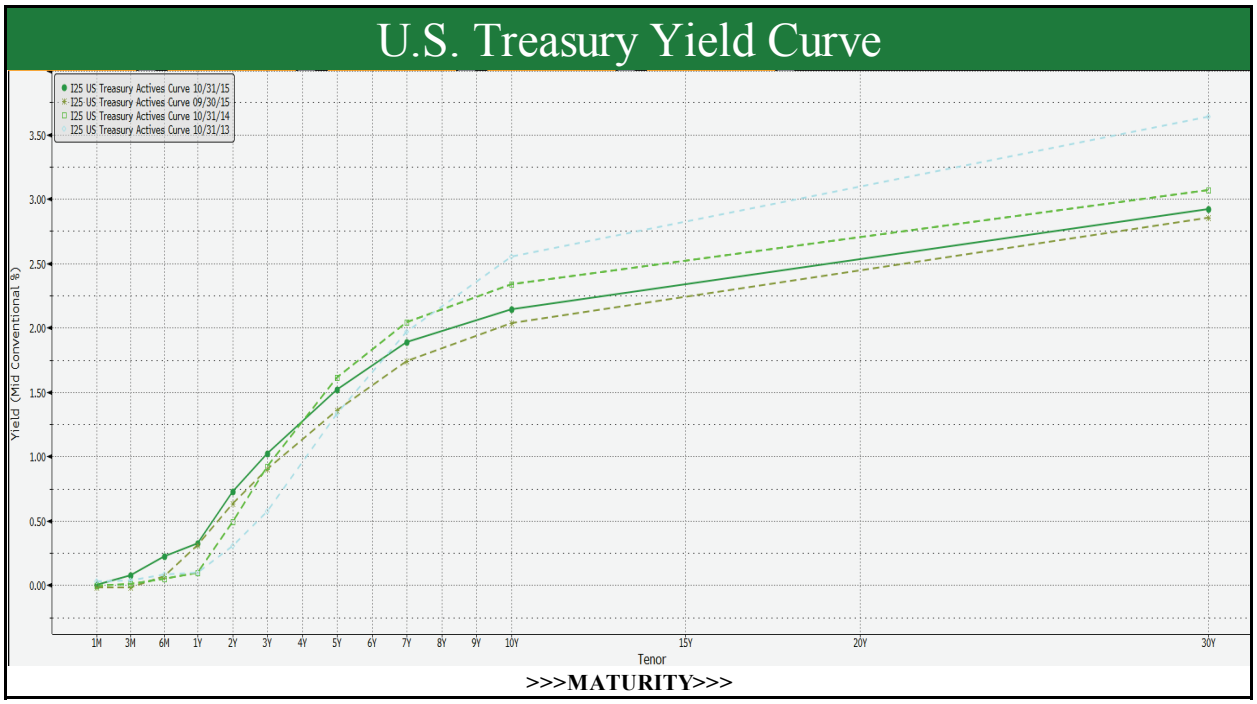
News:

China said that its economy grew 6.9% in the third quarter. Fidelity's $115 billion Cash Reserves Fund, the world's largest money fund, said it plans to convert its entire portfolio to U.S. government debt by December 1, 2015, becoming one of the first to get ahead of new SEC rules to take effect in October 2016. The change will allow the fund to maintain a constant $1.00 net asset value under the new rules. ECB President Draghi said that the bank may introduce additional monetary stimulus later this year. The Congress passed a budget deal that will extend the debt ceiling to avoid a possible default and fund the government.

Federal Reserve:

The minutes of the Fed's FOMC September 16-17th meeting on interest rates and the economy confirmed that the committee was fairly comfortable with current and prospective economic growth but preferred to wait for more data due to the turmoil in other countries, especially China. The Fed's rate setting FOMC announced, as expected, that the target Fed Funds rate would remain in the zero to 0.25% range but indicated that a rate hike was possible in December if the job market had some further improvement and inflation seemed likely to reach its 2.00% target. The Fed lowered its weighting of global economic and financial turmoil from concern to

monitoring status. The FOMC said that household and fixed investment have increased at "solid rates" and recognized that the "pace of job gains slowed" and that exports have been "soft."

Bottom Line:

It seems that the weight of the economic evidence and Fed actions/rhetoric suggest that bond yields and interest rates will remain low for longer.