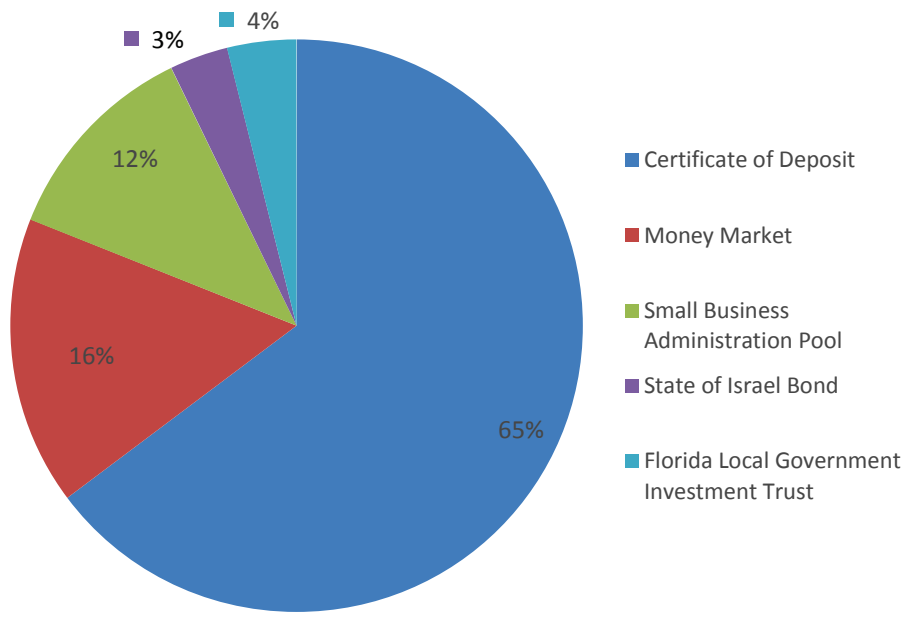
Consolidated Investment Report

November 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
November 30, 2015



Performance
Total Return

Fiscal Year to Date	0.19%
Prior Month	0.11%
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

	November '15	October '15	September '15	August '15	July '15	June '15
Month-end Market Value	$1,306,295,440	$1,312,665,707	$1,381,695,231	$1,390,388,579	$1,401,979,723	$1,270,204,407
Book Value	$1,294,496,641	$1,300,104,818	$1,368,802,182	$1,378,098,505	$1,390,604,872	$1,259,351,800
Unrealized Gain/Loss	$11,798,799	$12,560,889	$12,893,048	$12,290,074	$11,374,850	$10,852,607
Book Yield	1.751%	1.675%	1.627%	1.612%	1.650%	1.801%
Market Yield	1.551%	1.417%	1.489%	1.470%	1.497%	1.596%
Effective Duration	.55 years	.44 years	.40 years	.41 years	.44 years	.47 years
Convexity	.258	.154	.095	.192	.103	0.245
Average Credit Rating	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+

Portfolio Income

	November '15	October '15	September '15	August '15	July '15	June '15
Interest Income (FYTD)	$3,937,417	$1,993,495	$23,502,677	$21,546,383	$19,499,761	$17,397,840
Investment Income (FYTD)	$2,507,287	$1,515,138	$20,191,741	$17,864,436	$15,867,924	$14,489,773
Interest Income (current month)	$1,944,207	$1,993,495	$1,956,294	$2,046,622	$2,101,920	$2,146,738

Economic Overview

Consumers:

The October payrolls report was significantly stronger than expectations. Nonfarm payroll jobs increased 271,000, the unemployment rate fell 0.1% to 5.0%, and average hourly earnings increased 2.5% y/y, the annual high in this expansion.

Retail sales were weaker-than-expected in October with the headline sales up just 0.1% after downward revisions to September sales. Personal income rose 0.4% in October, as expected, while consumption rose just 0.1%, below expectations, starting the fourth quarter consumption on a weaker note. Consumers saved more and spent less. Such restraint could mean a slow holiday sales season.

The third quarter real GDP growth was revised up to 2.1% from the 1.5% originally reported. Early reports observed weak sales on Black Friday and throughout the Thanksgiving weekend despite the surge in online sales. The Conference Board's index of Consumer Confidence decreased to 90.4 in November, the lowest since September 2014, vs. a revised 99.1 in September.

Job openings in the U.S. increased in September to 5.53 million to the second highest on record, a sign the labor market continues to strengthen. The University of Michigan Consumer Sentiment Index for November was 93.1 vs. 90.0 in October. The Labor Market Conditions Index increased to 1.6 vs. September's 1.3 (originally 0.0) due to the strong October jobs report.

Housing:

Existing home sales fell more than expected in October, down 3.4% to a 5.36 million annual rate; housing is likely to remain a weak contributor to growth. October pending home sales rose less than expected after declining in the prior two months. Residential real estate is slowing. The Index of Pending Home sales increased 0.2% in October after a revised 1.6% decline a month ago.

The September S&P/Case-Shiller 20-city index of home prices rose 5.5% year-over-year after a 5.1% rise in August from a year ago. October housing starts declined more than expected led by a drop in apartment

construction. Starts fell 11% to a 1.06 million annualized rate, the slowest since March, from a revised 1.19 million pace (originally 1.21) the prior month. However, permits rose 4.1% to a 1.15 million annualized pace. The November NAHB Housing Market Builder Confidence Index fell to 62 vs. 65 in October, but remained near a 10-year high. The current conditions and expectations components gained.

Business:

ISM manufacturing fell slightly in October to 50.1, the lowest level since May 2013, staying just above the expansionary level of 50 or higher. ISM manufacturing, which looked like it might have stabilized in October, fell below 50 to 48.6 in November, moving into contraction for the first time since 2012. Durable goods orders for non-military capital goods excluding aircraft (a proxy for business spending) rose 1.3% vs. a revised 0.4% September gain (original a 0.3% decline). The orders trend has been flat to lower on a trend basis.

The Conference Board's index of leading economic indicators rose in October by the most in four months as low interest rates, rising stock prices, and an increase in building permits implied the economy will strengthen. The index increased 0.6% after declining 0.1% in September with the gain led by the spread between short-term and long-term interest rates, gains by the S&P 500 Index, and an increase in the number of applications for new construction (building permits). Nine of the ten indicators were positive.

October industrial production fell 0.2% after a 0.2% decline in September. October capacity utilization fell to 77.5% vs. 77.7% in September. Wholesale inventories rose 0.5% in September, up from the 0.3% gain reported in August (revised higher from an originally reported 0.1%). The inventory increase was largely due to an increase in non-durable goods which rose 1.9% and more than offset the 0.4% decline in durable goods. September construction spending rose 0.6% vs. a revised 0.7% increase in August (originally a 0.6% gain). Private construction led the way with a 1.9% gain, the most in five months.

International Trade:

The U.S. trade deficit narrowed by 15% in September to $40.8 billion from $48.0 billion (revised narrower from an originally reported $48.3 billion). Imports fell 1.8% largely due to crude oil and aircraft while exports rose 1.6%. China's manufacturing PMI remained unchanged at a reading of 49.8 in October, the third consecutive month of contraction.

Inflation:

Both headline and core PCE inflation remained far below the Fed's 2.0% target in October, at 0.2% and 1.3% respectively on a year-over-year basis; inflation has been below the Fed's 2.0% target since April 2012. The annual overall Consumer Price Index increased 0.2% in October vs. September's annual gain of 0.0%. The annual Core CPI, excluding food and energy, rose 1.9% matching September's annual gain. Rents and health-

care costs were the main causes for the gain in core prices. Producer and import prices illustrate tame inflation.

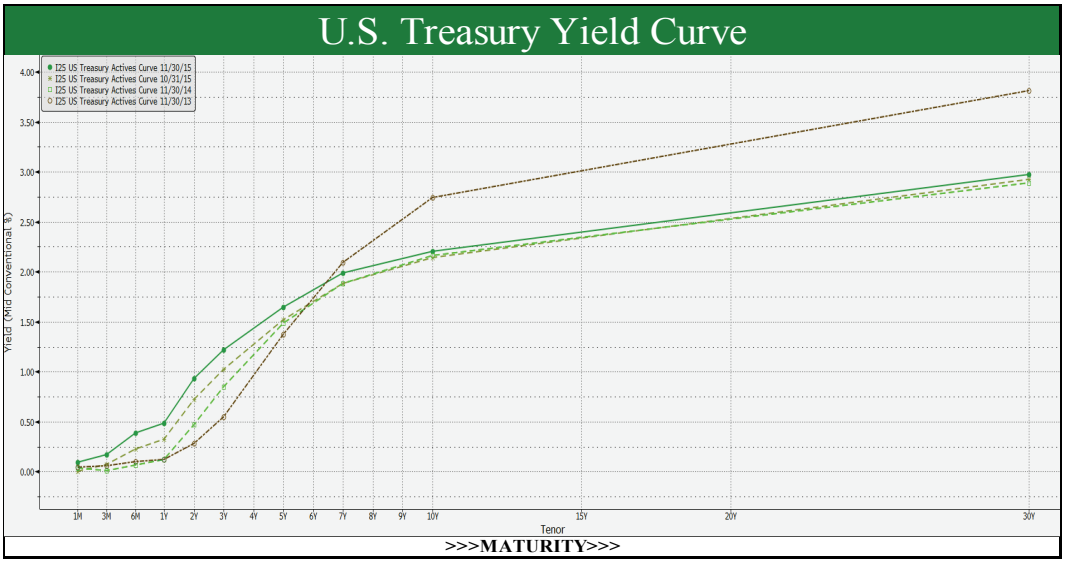
The producer price index, which measures the average changes in prices received by U.S. producers, fell 0.4% in October. Import prices fell 0.5% in October from the previous month due to falling oil prices, a strong dollar, and weak global growth. Productivity increased at 1.6% in the third quarter, down from the 3.5% rate reported in the second quarter (revised higher from the original 3.3%). As a result, unit labor costs rose 1.4% in the third quarter vs. a decline of 1.8% in the second quarter.

Federal Reserve:

Fed Chair Yellen said in a House Financial Services Committee that an improving economy has set the stage for a December interest rate increase if economic reports continue to assure policy makers that inflation will accelerate over time. Signs of growth and firmer prices would make a December 16 rate hike a "live possibility." Fed Chair Yellen told another committee that the risk management processes at large financial institutions was still inadequate.

News:

ISIS terrorists attacked and killed people in restaurants and a theater in Paris on November 13, 2015.

Bottom line:

The U.S. economy continues to grow at a 2% pace, inflation remains well below the Fed's 2% target, and the job market is nearing full employment. Fed speakers have indicated that conditions are almost right for a rate hike in December. Short-term interest rates and bond yields are trending gradually higher in anticipation of Fed rate action on December 16, 2015.