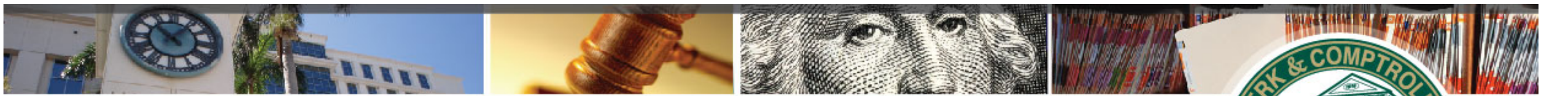


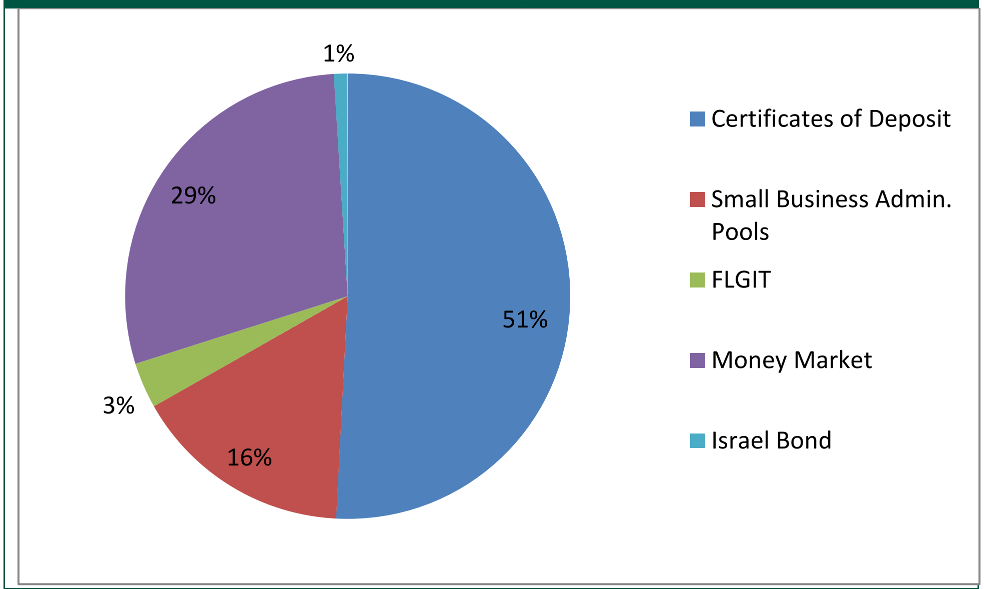
Consolidated Investment Report

March 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
March 31, 2015



Performance
Total Return

Fiscal Year to Date	0.70%
Prior Month	0.11%
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

	March '15	February '15	January '15	December '14	November '14	October '14
Month-end Market Value	$1,448,424,468	$1,517,753,272	$1,526,013,520	$1,877,098,797	$1,302,378,418	$961,135,891
Book Value	$1,437,201,347	$1,507,367,601	$1,515,964,931	$1,867,215,846	$1,293,315,158	$952,080,011
Unrealized Gain/Loss	$11,223,121	$11,090,489	$10,748,924	$10,572,647	$9,854,174	$9,891,600
Book Yield	1.602%	1.543%	1.492%	1.114%	1.661%	2.28%
Market Yield	1.446%	1.394%	1.271%	.984%	1.427%	1.94%
Effective Duration	.44 years	.44 years	.41 years	.29 years	.42 years	.60 years
Convexity	.248	.16	.21	.16	0.14	0.31
Average Credit Rating	AA+/Aa1/AA+	AA+/Aa1/AA+	AAA/Aaa/AAA	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+

Portfolio Income

	March '15	February '15	January '15	December '14	November '14	October '14
Interest Income (FYTD)	$11,881,271	$9,075,314	$7,137,040	$5,170,850	$3,325,483	$1,327,684
Investment Income (FYTD)	$9,877,258	$7,927,532	$6,156,654	$4,327,065	$2,714,296	$1,112,084
Interest Income (current month)	$2,115,957	$1,938,274	$1,966,191	$1,935,366	$1,907,799	$1,327,684

The Economy – Moderate Growth, Low Inflation

- **Consumers**

  February nonfarm payroll jobs increased 295,000, above estimates for a 235,000 gain, vs. a revised 257,000 rise in January (originally 239,000). The February unemployment rate fell to 5.5% (the lowest rate in 7 years) vs. the 5.7% rate in January. Average hourly earnings rose 0.1% in February vs. the 0.5% gain in January. The annual rate of average hourly earnings increase fell to 2.0% in February vs. the 2.2% rise the month before. February was the 12th consecutive month in which payrolls increased by at least 200,000 jobs. The broad-based February gain was led by hiring in business services, leisure, and hospitality (including restaurants). The labor force participation rate, which indicates the share of working-age people working or looking for a job, decreased to 62.8% vs. 62.9% in January. February retail sales fell 0.6%, the third straight decline and a larger decrease than expected. Auto sales rose in February despite poor weather. GM sales were up 4.2%, Chrysler sales rose 5.6% while Ford sales dropped 1.9% due to inventory problems with its new F-150 truck. February personal income rose 0.4% vs. an upwardly revised 0.4% gain in January (originally a 0.3% rise and February personal spending increased 0.1%vs. a decline in January. The income gain was due, in part, to an increase in stock dividends. The modest spending gain was due to harsh winter weather. The February rate of saving rose to 5.8% vs. 5.5% in January. March consumer sentiment fell from February levels according to the Reuters/University of Michigan survey. The reading of 93.0 was off from the 95.4 reading the previous month, but was above a preliminary March reading of 91.2 and expectations of 92.0. However, consumer confidence rose in March according to the Conference Board whose data are affected more by the job market. The index reading of 101.3 was above the 93.8 in February and expectations of a 96.8 reading.

- **Housing**

  Housing starts fell 1.7% in February from January levels to a seasonally adjusted annual rate of 897,000. The consensus had expected a rate of 1.04 million starts. The numbers may have been impacted by poor weather in the month. Permits were up 3%. New home sales rose 7.8% in February to a seasonally adjusted annual rate of 539,000 vs, expectations for a sales drop to 460,000 rate in the month. Sales are now at the highest level since February 2008. Home price growth remained restrained according to the Case-Shiller home price index. Nationwide, prices were up 4.5% from the previous year compared to the 4.6% year-over-year in December. Existing home sales were up 1.2% in February from January to a seasonally adjusted annual rate of 4.88 million vs. expectations for 4.94 million. Pending home sales were up 3.1% in February to the highest level in 20 months.

- **Inflation**

  The December Core Personal Consumption Expenditures (PCE) Deflator, excluding food and energy, a measure of inflation that adjusts for the mix of consumer spending, was up just 1.4% year-over-year compared to a 1.3% annual pace in January. This is the Fed's favorite inflation gauge and has been below the central bank's 2% target for over three years. The February Consumer Price Index (CPI) fell 0.2% from the month

before, the first increase since October 2014. Core CPI inflation was also up 0.2% in the month. Year-over-year, headline inflation was flat while core inflation was up 1.7%. The February producer price index fell 0.5% providing another sign that inflation is subdued.

- **<u>Business</u>**

  The U.S. ISM Manufacturing Index fell again in February to 52.9 vs. 53.5 in January but slightly above expectations. Above 50 indicates expansion. Industrial production was up 0.1% in February from the previous month. The reading was well below the expected gain of 0.3%. January's data was revised down to a 0.3% decline from an initially reported 0.2% gain. Capacity utilization fell to 78.9% vs. 79.9% in January. The February ISM Non-Manufacturing Index edged up to 56.9, a two-month high, vs. 56.7 in January. However employment and business activity weakened. January construction spending fell 1.1% vs. a revised gain of 0.8% in December. The nonresidential sector was the main contributor to the decline while residential spending continued to rise. The U.S. fourth quarter real GDP growth rose 2.2%, the same as the prior revision, in the final revised fourth quarter report because the revised increases consumer spending and exports were offset by a smaller increase in inventories. February durable goods orders fell 1.4% from January levels. A drop in jet and auto parts orders were the major causes of the decline, but even excluding transportation orders were down 0.4%.

- **<u>News</u>**

  The Fed removed "patient" from the March FOMC statement, making a rate hike in June a possibility, though Fed Chair Yellen stressed the statement change does not mean that the Fed is impatient. The new Fed "dot plot" suggested a slower pace of tightening. The ECB began purchases of government bonds, buying German, French, Italian, and Belgian bonds. China's central bank chief said that growth has fallen too fast, suggesting there is more room for government to support growth with monetary policy.

- **<u>Bottom Line</u>**

  The moderate overall economic growth and inflation numbers continue to suggest no change in Fed monetary policy for the foreseeable future. The Fed is likely find reasons to continue meeting and delay short rate increases. With restrained consumer spending (high debt and low income growth), moderate business investment spending, an improving job market with diminishing slack, uncertain government spending trends (sequester and the debt ceiling), an uneven growth pattern in housing, 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. Never forget that to forecast is to err and to forgive is divine!

U.S. Treasury Yield Curve