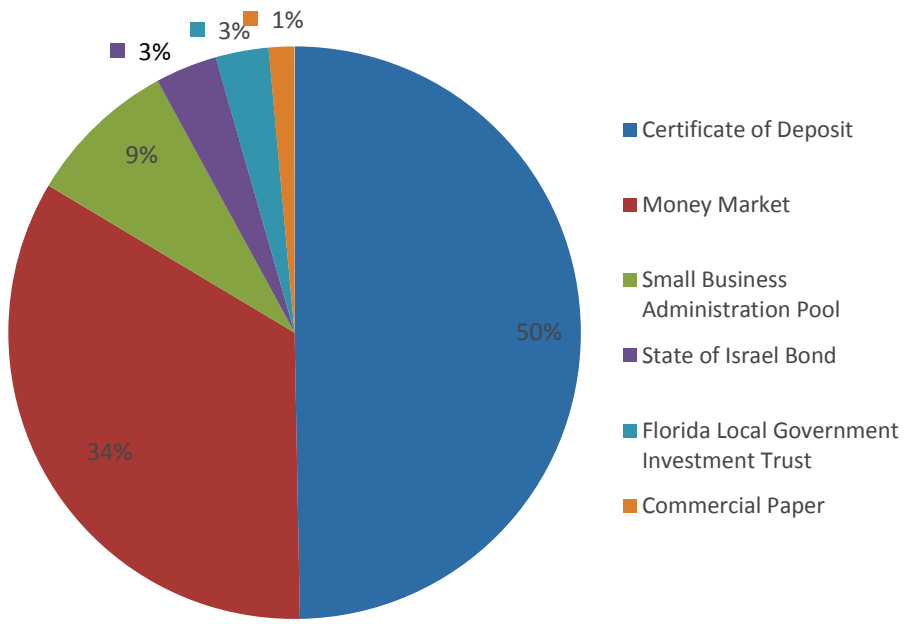
Consolidated Investment Report

March, 2016

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, 2016



Performance
Total Return

Fiscal Year to Date	0.67%
Prior Month	0.12%
Prior Quarter	0.31%
Prior Year	1.43%*
Prior 3 Years	0.85%*
Prior 5 Years	1.60%*
Prior 8 Years	3.17%*

*figures annualized

Portfolio Statistics

	March '16	February '16	January '16	December '15	November '15	October '15
Month-end Market Value	$1,713,169,857.41	$1,772,937,179.75	$1,747,832,261.62	$2,052,652,752	$1,306,295,440	$1,312,665,707
Book Value	$1,701,019,168.67	$1,760,820,605.36	$1,736,050,951.75	$2,040,841,376	$1,294,496,641	$1,300,104,818
Unrealized Gain/Loss	$12,150,688.74	$12,116,574.40	$11,781,309.87	$11,811,376	$11,798,799	$12,560,889
Book Yield	1.508%	1.462%	1.467%	1.297%	1.751%	1.675%
Market Yield	1.411%	1.367%	1.369%	1.227%	1.551%	1.417%
Effective Duration	.37 years	.37 years	.38 years	.29 years	.55 years	.44 years
Convexity	.106	.117	.133	.080	.258	.154
Average Credit Rating	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+

Portfolio Income

	March '16	February '16	January '16	December '15	November '15	October '15
Interest Income (FYTD)	$13,231,413.13	$10,918,521.32	$8,760,420.63	$6,290,047	$3,937,417	$1,993,495
Investment Income (FYTD)	$11,244,825.37	$8,987,290.23	$6,700,930.31	$4,597,562	$2,507,287	$1,515,138
Interest Income (current month)	$2,278,979.70	$2,126,733.28	$2,369,429.40	$2,352,630	$1,944,207	$1,993,495

Economic Overview

Market Activity:

Stocks recovered in March with the Dow Jones Industrial Average rising from 16,517 to 17,685 (up 7.1%) and the S&P 500 rising from 1,932 to 2,060 (up 6.6%). The 10-year Treasury note yield increased to 1.77% vs. 1.74% at the end of February while the 2- year Treasury note yield fell to 0.72% vs. 0.78% in the same period. Financial market trends are lower short-term interest rates, lower bond yields, and higher stock prices. The financial market message suggests that the economy will continue its slow growth with low inflation.

Consumers:

Nonfarm payroll jobs increased 242,000 in February, roughly 50,000 more than expected, and revisions added 30,000 more than previously reported. The unemployment rate was unchanged at 4.9% while average hourly earnings slipped to a 2.2% annual gain. Fourth quarter 2015 nonfarm productivity was revised to -2.2% from -3.0% previously reported. Total February light vehicle sales were 17.43 million annualized vs. 17.46 million in January and near a record high annualized sales pace. February retail sales dipped 0.1%, but January's number was revised lower to a decline of 0.4% due to a 15.6% drop in gasoline sales. However, total retail sales increased a decent 3.1% year-over-year. The March Conference Board's Consumer Confidence Index rose to 96.0 vs. 94 in February. Since its peak at 103.8 in January 2015, the index has been in a range below 100 and well below the 101 average for most of 2016. Consumer confidence, however measured, tends to increase as stocks rise and gasoline prices decline.

February personal spending, which measures outlays on everything from washing machines to haircuts, increased a seasonally adjusted 0.1% for the month vs. January's revised 0.1% gain (originally a 0.5% increase). Personal income rose 0.2% in February after January's unrevised 0.5% growth. The February increase was the smallest income gain since September. The personal savings rate in February was 5.4% vs. the 5.3% rate in January and the 5.0% in December. The saving rate has been near 5.0% since February 2015. However, since 1960, the saving rate has averaged 8.3%.

Fourth-quarter U.S. gross domestic product (GDP) was revised higher, to a 1.4% annualized rate vs. 1.0% previously reported. For all of 2015, GDP growth was 2.4%, which matched the 2014 growth rate.

Business:

The February ISM Manufacturing Index reached 49.5, the highest level since September but still indicated a modest manufacturing contraction. The February ISM Services Index was 53.4, down slightly from 53.5 in January. January construction spending rose 1.5%, the largest gain in eight months. It was primarily driven by commercial building, which increased 2.5% for the month and was 12.3% above year ago levels. The February NFIB Small Business Optimism Index fell to 92.9 vs. 93.9, citing the toxic political environment. Wholesale inventories surprised to the upside, rising 0.3% in January compared to expectations for a 0.2% decline. January business inventories rose 0.1%, the first monthly increase in four months. Industrial production fell 0.5% in February, while capacity utilization dipped to 76.7% vs. 76.9% in January. New durable goods orders fell 2.8% in February. Excluding transportation, new orders fell 1%. The index of leading economic indicators increased 0.1% in February after declines of 0.2% and 0.3% in the prior two months. The February gain was the first increase in three months and was largely due to a steepening of the yield curve and fewer jobless claims. The number has been weak recently and suggests moderate economic growth over the next six months.

International Trade:

February U.S. import prices decreased 0.3% caused primarily by a 3.9% drop in fuel import prices and a 20% decline in vegetable prices. Excluding food and energy, imported goods prices were up 0.1%. The U.S. trade deficit widened to $45.7 billion from $44.7 billion in December. The stronger dollar and slowing global growth are hurting U.S. exports and dragging down U.S. economic growth. Exports fell 2.1% while imports fell 1.3% in January.

Housing:

Housing starts jumped 5.2% in February to a 1.175 million annualized pace, due to milder weather across most of the U.S., and rose 30.9% vs. a year ago. However, new building permits fell 3.1% to a 1.167 million annualized pace. February existing home sales decreased 7.1% to a 5.08 million unit annualized pace. New home sales in February increased 2.0% to 512,000 single-family homes annualized. The January S&P/Case-Shiller 20 City Home Price Index increased 5.7% year-over-year vs. the 5.6% annual gain in December. Home prices are rising faster than wage gains in some areas and that could affect housing affordability especially if mortgage rates increase. The NAR's Pending Homes Sales Index rose 3.5%, the largest monthly gain in a year, vs. the 3.0% decline in January (originally a 3.0% decline).

Inflation:

The February Producer Price Index, which measures wholesale prices, fell 0.2% and was flat from a year ago. The February Consumer Price Index fell 0.2%, as gasoline prices decreased 13%. Excluding food and energy, the core CPI rose 0.3%. Overall the CPI increased 1.0% year-over-year, impacted by the 21% decline in gasoline prices. Inflation remained low with the personal consumption expenditures price index, the Federal Reserve's preferred inflation measure, falling 0.1% in February and rising 1.0% from a year ago. Excluding food and energy, the core PCE Deflator increased 1.7% year-over-year, the same annual increase reported in January. For the 46th consecutive month, the inflation measure stayed below the Fed's state target of 2%.

Federal Reserve:

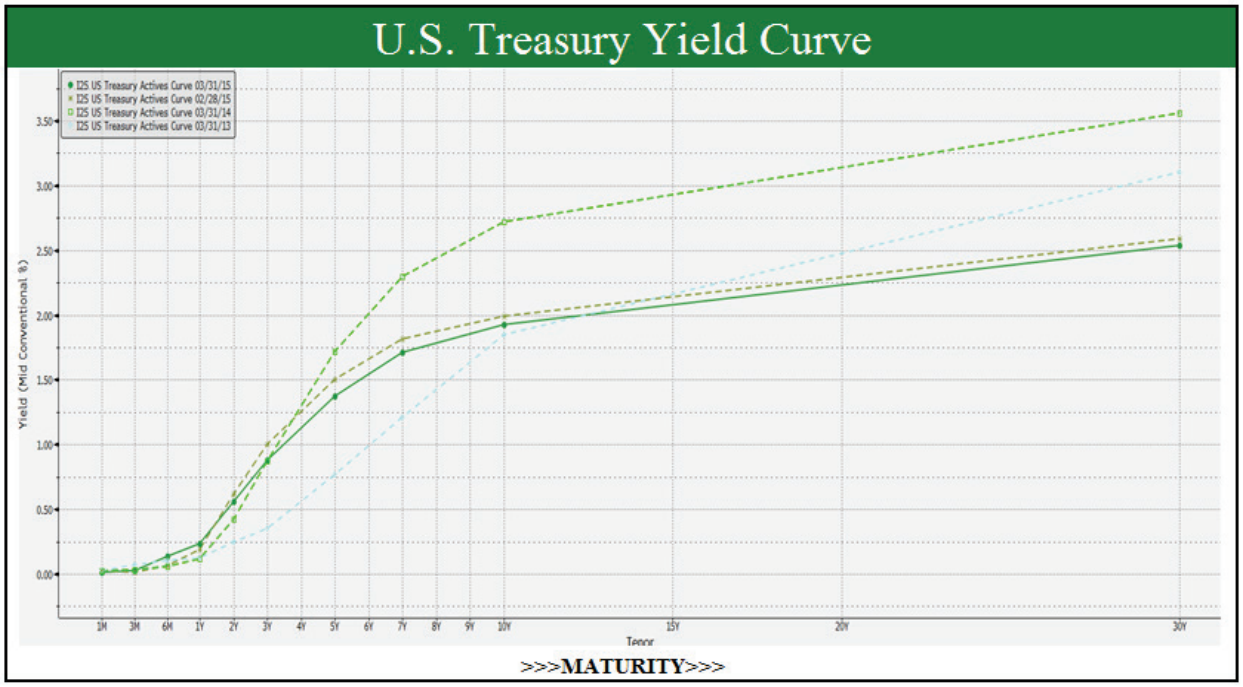
In a speech to the Economic Club of New York on March 29, 2016, and in a press conference after the March 16, 2016, Federal Open Market Committee meeting, Fed Chair Janet Yellen provided clues about the future path of short- term interest rates in the U.S. She said that global economic growth and financial uncertainties, due to the slowdown in China and the collapse in oil prices, have increased the risks to the U.S. economy justifying a lower path for future interest-rate increases. In other words, additional rate hikes will come very gradually, on no preset schedule. Early 2016 financial market volatility created uncertainty about U.S. economic growth, she noted. In her view, the job market, consumer spending, housing, and fiscal policy are adding to U.S. growth while manufacturing and exports are drags on growth. The Fed now expects to increase rates by 0.50% in 2016 but that will depend on how the economy performs.

News:

Fourth-quarter Eurozone gross domestic product (GDP) growth was revised to 1.6% year-over-year from 1.5%. Japan's fourth-quarter GDP was revised upward to -1.1% in an annualized basis vs. -1.5% originally reported.

Bottom Line:

Financial market trends now suggest no more rate increases from the Fed until after the election in November. The U.S. economy is decelerating, inflation is tame, profit growth is slowing, and oil prices are weak. The environment for a sustained rate rise in shor- term interest rates is absent without leave (AWOL)!


U.S. Treasury Yield Curve
I25 US Treasury Actives Curve 03/31/15
I25 US Treasury Actives Curve 02/28/15
I25 US Treasury Actives Curve 03/31/14
I25 US Treasury Actives Curve 03/31/13
Yield (Mid Conventional %)
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
1M
3M
6M
1Y
2Y
3Y
4Y
5Y
6Y
7Y
8Y
9Y
10Y
15Y
20Y
30Y
Tenor
>>>MATURITY>>>