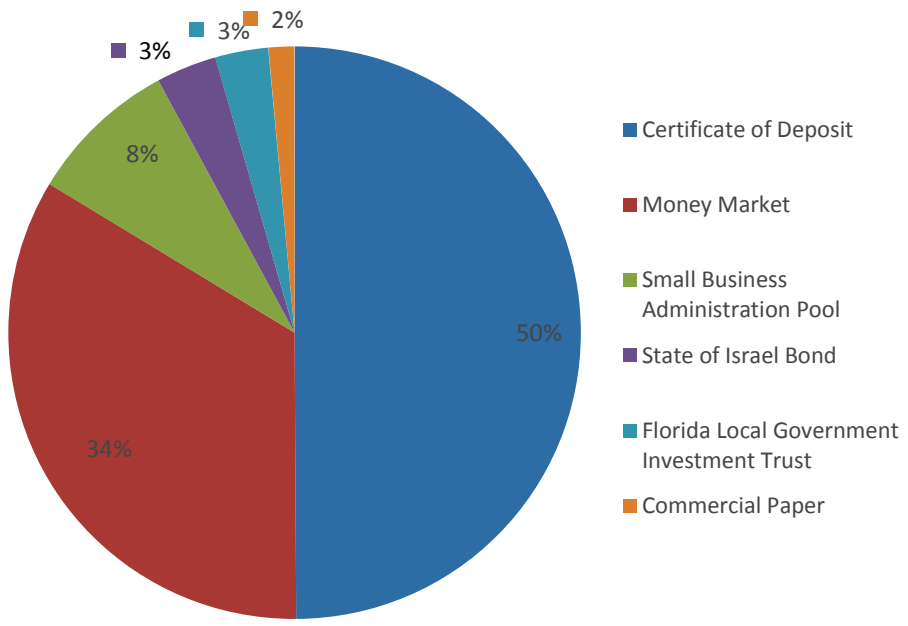
Consolidated Investment Report

April, 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
April 30, 2016



Performance
Total Return

Fiscal Year to Date	0.77%
Prior Month	0.13%
Prior Quarter	0.36%
Prior Year	1.43%*
Prior 3 Years	0.85%*
Prior 5 Years	1.60%*
Prior 8 Years	3.17%*

*figures annualized

Portfolio Statistics

	April '16	March '16	February '16	January '16	December '15	November '15
Month-end Market Value	$1,708,691,793.53	$1,713,169,857.41	$1,772,937,179.75	$1,747,832,261.62	$2,052,652,752	$1,306,295,440
Book Value	$1,696,954,628.61	$1,701,019,168.67	$1,760,820,605.36	$1,736,050,951.75	$2,040,841,376	$1,294,496,641
Unrealized Gain/Loss	$11,737,164.92	$12,150,688.74	$12,116,574.40	$11,781,309.87	$11,811,376	$11,798,799
Book Yield	1.508%	1.508%	1.462%	1.467%	1.297%	1.751%
Market Yield	1.411%	1.411%	1.367%	1.369%	1.227%	1.551%
Effective Duration	.39 years	.37 years	.37 years	.38 years	.29 years	.55 years
Convexity	.143	.106	.117	.133	.080	.258
Average Credit Rating	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA+/Aa1/AA+	AA+/Aa1/AA+

Portfolio Income

	April '16	March '16	February '16	January '16	December '15	November '15
Interest Income (FYTD)	$15,437,581.22	$13,231,413.13	$10,918,521.32	$8,760,420.63	$6,290,047	$3,937,417
Investment Income (FYTD)	$12,934,856.90	$11,244,825.37	$8,987,290.23	$6,700,930.31	$4,597,562	$2,507,287
Interest Income (current month)	$2,208,496.05	$2,278,979.70	$2,126,733.28	$2,369,429.40	$2,352,630	$1,944,207

Economic Overview

Market Activity:

Bond yields rose and short rates increased as stocks gained slightly in April. These markets were actually fairly flat. The 10-year Treasury note rose to 1.83% at the end of April vs. 1.77% at the end of March. The two-year Treasury note yield increased to 0.78% vs. 0.72% while the Dow Jones Industrial Average edged higher to 17,774 vs. 17,685. Other markets were more volatile with gold gaining, the dollar weaker, and commodities increasing. The market moves seemed to be driven by the Fed's message of lower rates for longer and evidence of reduced economic growth momentum. During April, the Dow did close above 18,000 and almost reached a record high.

Consumers:

Nonfarm payrolls increased 215,000 in March vs. a revised 245,000 gain in February (originally a 242,000 increase). March average hourly earnings rose 0.3% vs. a 0.1% decline in February. That produced a March year-over-year wage increase of 2.3%. The March unemployment rate rose to 5.0% vs. 4.9% in February. The labor force participation rate rose to 63%, the highest since March 2014 and the average workweek was unchanged at 34.4 hours. March total vehicle sales sagged to a 16.46 million annualized sales rate vs. February's 17.43 rate. The University of Michigan final consumer sentiment index for March was 91 vs. 91.7 in February due to higher gasoline prices and modest wage gains. March retail sales unexpectedly fell 0.3% vs. no change in February (originally a 0.1% decline). The decrease was led by the largest drop in demand for autos in a year and cutbacks at clothing stores, internet merchants, and restaurants. Weak wage growth and limited access to credit curbed retail sales. The April preliminary University of Michigan Consumer Confidence Index fell to the weakest level in seven months at 89.7 vs. 91.0 in March. Weak job growth and the presidential election have consumers unsettled. Consumer confidence fell more than expected in April as optimism on the economy and the job market fell. Expectations for the future hit a two-year low.

The U.S. economy expanded in the first quarter at the slowest pace (0.5%) in two years. Shaky global markets and oil's price decline caused the largest business-investment slump in almost seven years (down 5.9%), and household spending increased at the slowest pace since early 2015.

March personal income rose 0.4% but spending grew just 0.1% and the saving rate rose to 5.4%. The March Core, ex-food & energy, Personal Consumption Expenditures Deflator, the Fed's preferred inflation gauge, remained below the Fed's 2.00% target at 1.6%.

Inflation:

The March Consumer Price Index increased 0.1% vs. the 0.2% decline in February. Food prices fell while energy prices rose. The Core CPI, ex-food and energy, rose 0.1% vs. the 0.3% gain in February. The monthly Core CPI increase followed two months of 0.3% increases. Both the March inflation numbers were less than expected. On a year-over-year basis, the March CPI rose 0.9% vs. February's 1.0% gain while the March Core CPI was 2.2% higher vs. the 2.3% annual increase reported in February. The March Producer Price Index dropped 0.1% vs. a 0.2% decline in February. Over the last 12 months, the PPI fell 0.1%.

Housing:

Home prices in 20 U.S. cities rose less than expected in February from a year ago. The S&P Case/Shiller Home Price Index of property values in the U.S. increased 5.4% annually in February, the smallest since October, after increasing 5.7% in January y/y. The March pending home sales index rose a higher than expected 1.4% vs. 3.4% in February. The year-over-year increase showed little improvement at 1.4%. Construction spending decreased 0.5% in February due to a 15% decline in communication-related structures. Still, overall construction spending increased 10.3% from a year ago. Housing starts decreased 8.8% to a 1.09 million annualized rate, the lowest level since October 2015 and below expectations for a slight decline. The February annualized pace was revised slightly higher to 1.194 million (originally 1.179 million). Housing starts have see-sawed in a narrow range over the past year suggesting the residential real estate recovery has lost momentum. Faster wage growth and easier credit could accelerate sales. Existing home sales were higher than expected in March. Sales rose 5.1% to a 5.330 annualized rate after a 4.3% decline to a 5.070 million pace in February. The March sales rate was up 1.5% from a year ago. New home sales in March fell for the third straight month, a sign the housing market is still struggling. New single-family home purchases fell 1.5% from a month ago to a seasonally adjusted annual rate of 511,000 vs. a revise 519,000 in February (originally 512,000). The longer-term trend suggests that new home sales are having a tough time finding upward momentum in the first quarter. However, March's sales pace is on track to beat the pace for 2015 which was 501,000, the highest annual level since the 2007 boom year.

Business:

March industrial production fell 0.6% vs. a revised 0.6% decline in February (originally a 0.5% fall). January was revised to a decline of 0.5%. March U.S. leading economic indicators rose 0.2% vs. 0.4% in February indicating slower growth over the next six months. Growth in U.S. service industries accelerated in March for the first time in five months rising to 54.5 vs. 53.4 in February according to the Institute for Supply

Management's Non-manufacturing Index. Readings above 50 indicate expansion. March durable goods orders rose 0.8% vs. a 3.1% decline in February. The March number was much weaker than expected. For the quarter as a whole, orders fell at a 3.8% annualized rate and were unchanged relative to a year ago levels.

International Trade:

The February trade deficit widened to a six-month high as an increase in imports exceeded a modest pickup in exports. The gap increased 2.6% to $47.1 billion from a revised $45.9 billion in January (originally $45.7 billion). The export gain was the first in five months and highlighted the drag on American exports from the strong dollar and weaker global growth. Imports rose 1.3% (up 0.3% y/y) while exports rose 1% (down 4.2% y/y). February wholesale inventories declined 0.5% vs. January's revised decline of 0.2% (originally an increase of 0.3%). The 0.5% decline was the largest since May 2013.

Federal Reserve:

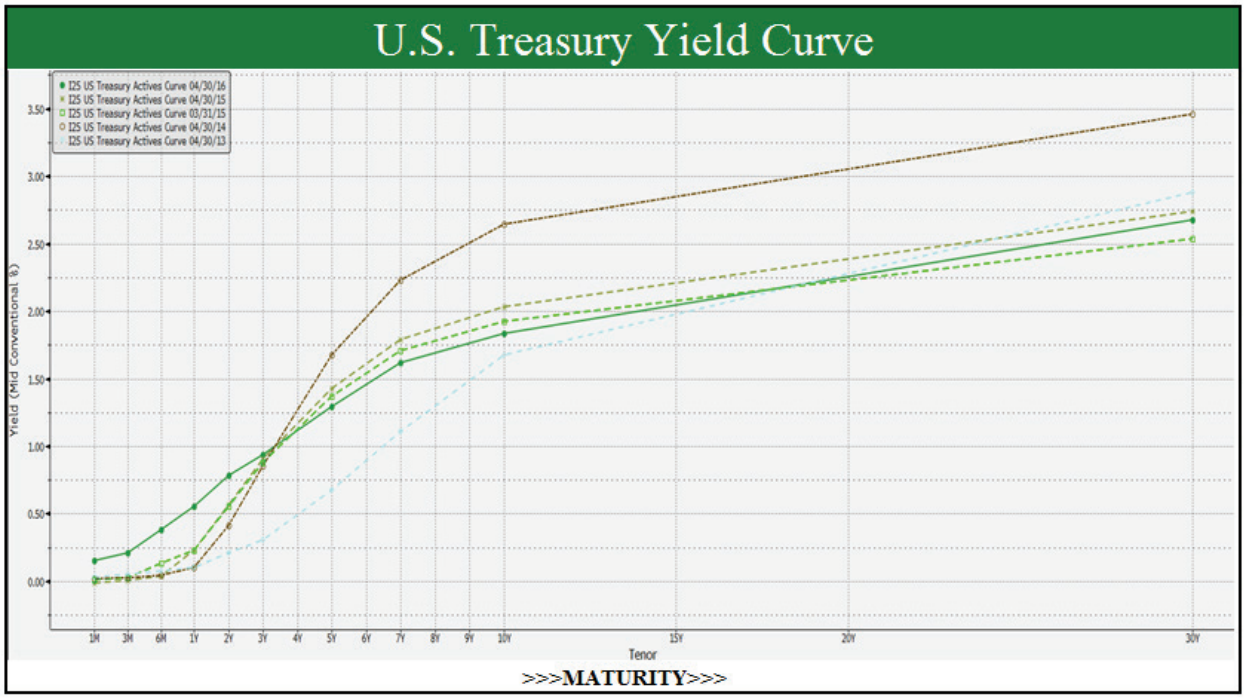
On April 27, the Federal Reserve's Federal Open Market Committee (FOMC), the rate setting committee, retained the current target range for the overnight Fed Fund rate of 0.25% to 0.50% with one member voting to increase rates. The FOMC statement removed comments on the risks like "global economic and financial" developments, noted that inflation remained below its 2.00% target, and said that household spending had moderated although consumer confidence was still high. The March FOMC minutes indicated that the Fed had decided to leave rates unchanged in April, stressing the data, not the calendar. The Fed will remain patient.

News:

The IMF's President Lagarde said the agency's forecast for global economic growth had declined. The U.S. budget deficit rose during the first half of the fiscal year, reversing a six-year trend of improvement. The ECB kept interest rates unchanged after cutting to a record low in March. S&P lowered Exxon's AAA rating which it had maintained for 60 years. Only Microsoft and Johnson & Johnson have AAA ratings now.

Bottom Line:

The trends of lower short rates, lower bond yields, and higher stocks struggling to move higher suggest low inflation, restrained economic growth and no Fed rate changes until after the elections in November.


U.S. Treasury Yield Curve
I25 US Treasury Actives Curve 04/30/16
I25 US Treasury Actives Curve 04/30/15
I25 US Treasury Actives Curve 03/31/15
I25 US Treasury Actives Curve 04/30/14
I25 US Treasury Actives Curve 04/30/13
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>>>