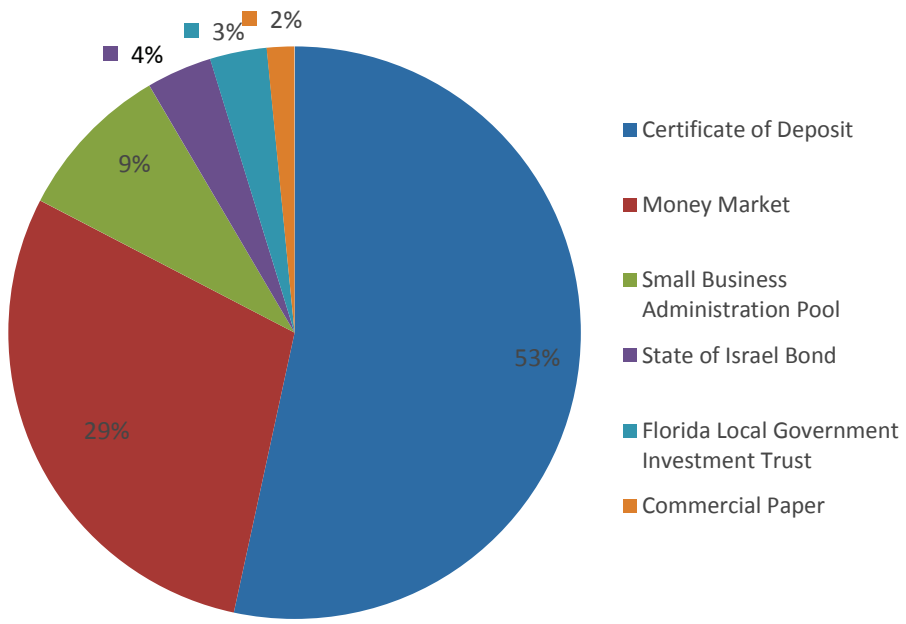
Consolidated Investment Report

May, 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
May 31, 2016



Performance
Total Return

Fiscal Year to Date	0.89%
Prior Month	0.10%
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

	May '16	April '16	March '16	February '16	January '16	December '15
Month-end Market Value	$1,601,321,071.45	$1,708,691,793.53	$1,713,169,857.41	$1,772,937,179.75	$1,747,832,261.62	$2,052,652,752
Book Value	$1,589,729,061.37	$1,696,954,628.61	$1,701,019,168.67	$1,760,820,605.36	$1,736,050,951.75	$2,040,841,376
Unrealized Gain/Loss	$11,592,010.08	$11,737,164.92	$12,150,688.74	$12,116,574.40	$11,781,309.87	$11,811,376
Book Yield	1.568%	1.508%	1.508%	1.462%	1.467%	1.297%
Market Yield	1.466%	1.411%	1.411%	1.367%	1.369%	1.227%
Effective Duration	.40 years	.39 years	.37 years	.37 years	.38 years	.29 years
Convexity	.163	.143	.106	.117	.133	.080
Average Credit Rating	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA+/Aa1/AA+

Portfolio Income						
	May '16	April '16	March '16	February '16	January '16	December '15
Interest Income (FYTD)	$17,678,705.19	$15,437,581.22	$13,231,413.13	$10,918,521.32	$8,760,420.63	$6,290,047
Investment Income (FYTD)	$14,848,078.60	$12,934,856.90	$11,244,825.37	$8,987,290.23	$6,700,930.31	$4,597,562
Interest Income (current month)	$2,243,267.66	$2,208,496.05	$2,278,979.70	$2,126,733.28	$2,369,429.40	$2,352,630

Economic Overview

Market Activity:

Market activity in May proved to be just as inconclusive as April. Bond yields and short-term interest rates edged higher while stocks were little changed. The Fed's April 27 FOMC meeting minutes and Fed speakers made it clear that a rate hike was possible in June despite slower growth in China and a potential vote by the British to leave the Eurozone. Fed talkers seem to be saying that moderate growth, low inflation, and 5.0% unemployment depicts an economy that can survive higher short-term interest rates. At the end of May, the long-term trends were higher short-term interest rates, lower bond yields, and higher stocks. Stocks ended the month with the Dow Jones Industrial average at 17,787 on May 31, 2016 vs. the close at 17,774 on April 29, 2016. The financial markets seem to be forecasting very slow economic growth with a gradual rise in short rates.

Consumers:

Nonfarm payrolls increased 160,000, the smallest jobs gain in seven months vs. a revised increase of 208,000 in March (originally 215,000). The jobless rate stayed at 5.0%. Retailers cut payrolls by the most in two years and construction companies added the fewest positions since June. Average hourly earnings increased 0.3% in April vs. a 0.2% gain in March. The April year-over-year average hourly earnings gain was 2.5% vs. 2.3% in March. This may have been distorted by the fact that the employment survey week included the 15th of the month and might have captured bi-monthly pay increases. Average hourly earnings increases have been around 2% since the expansion began in June 2009, remaining below the annual gains of close to 4% during the prior expansion.

The April Labor Market Conditions Index, a Fed index of 19 already-issued job market indicators, was -0.9 vs. -2.1 in March. This was the third month in a row in negative territory, suggesting a loss of job market momentum. Retail sales in April grew at the fastest pace in more than a year as consumers increased their spending after a slow start in 2016. Retail sales rose 1.3% vs. March's decline of 0.3%. Compared to a year ago, retail sales grew at 3%. That was well above the annual rate of inflation of 1% measured by the Consumer Price Index. The sales gain was led by autos, gasoline stations, and non-store retailers, a segment that includes

online shopping at sites such as Amazon. Spending on the Internet and catalog segment rose 2.1%, the best gain since June 2014, and up 10.2% year-over-year.

The University of Michigan preliminary consumer confidence index for May increased to 95.8 vs. 89.0 in April. It was the strongest reading since June 2015, while April's reading was the lowest since September 2015. The post-recession high for the index was 98.1 in January 2015, but signs of slowing U.S. economic growth, financial market volatility, and global turmoil have curbed consumer enthusiasm. The latest sentiment increase is due to some wage gains, an improving job market, and expectations for lower interest rates. March job openings increased to the second-highest level on record at 5.76 million vs. the upwardly revised February gain of 5.61 million (originally 5.45 million), according to the JOLTS report.

Inflation:

The Producer Price index for final demand increased a seasonally adjusted 0.2% in April from the prior month after a 0.1% decline in March. Excluding food and energy, the index rose 0.1% in April. The headline PPI was unchanged in April from a year ago after a 0.1% annual decline in March. Excluding food and energy, the PPI rose 0.9% on the year. The Consumer Price Index increased by the most since 2013. The April CPI increased 0.4%, the largest increase since February 2013 and well ahead of the 0.1% posted in March. The core CPI, excluding food and energy, increased 0.2% in April. On a year-over-year basis, the CPI was up 1.1% while the core reading was up 2.1%.

Housing:

March construction spending rose less than expected with weakness in public sector spending offset by private sector spending growth for both residential and nonresidential. Total construction spending increased 0.3% in March, falling slightly short of the expected 0.5% gain, vs. February's revised 1.0% increase (originally a 0.5% decline). The National Association of Home Builders Index remained at 58 in May for the third consecutive month. The futures sales index increased to 65 vs. 62 the prior month. The April pending home sales index increased 5.1% after a revised 1.6% gain in March (originally up 1.4%). The index was up 2.9% from a year ago. April existing home sales rose 1.7%, while April new housing starts increased a more-than-expected 6.6%.

Business:

The ISM Manufacturing Index fell to 50.8 in April vs. 51.8 in March. April's reading was above the neutral 50 level but was not high enough to suggest growth within the sector. New orders fell to 55.8 vs. 58.3 in March. Light vehicle sales rose 4.8% in April to 17.3 million annualized units vs. 16.5 in March. Most of the gain was in the light truck category. The ISM Non-manufacturing index rose to 55.7 in April vs. 54.5 in March. This was the second consecutive monthly increase and exceeded the consensus of 54.8. The new orders component increased to the highest level in six months, rising from to 59.9 vs. 56.7 the prior month. Orders for durable

goods rose less than forecast in March as demand for capital equipment remained weak, a sign that a diminished growth outlook was slowing investment. U.S. durable goods orders rose 0.8% after a revised 3.1% decline in February. The NFIB Small Business Optimism Index rose to 93.6 in April, up a full point from 92.6 in March. The increase was mot broad-based with only five of the ten components showing a gain while four were unchanged and one declined. Wholesale inventories rose in March by 0.1% after a 0.6% decline in February. Sales increased by 0.7% during the month, which was higher than expected but the inventory to sales ratio remained at 1.36. March business inventories rose 0.4% vs. a decline of 0.1% in February with the gain caused by the first quarter economic slowdown. The April Leading Economic Indicators Index surged 0.6% vs. March's revised 0.0% change (originally up 0.4%). The only real negative component was consumer confidence which has improved in the latest reading.

Government:

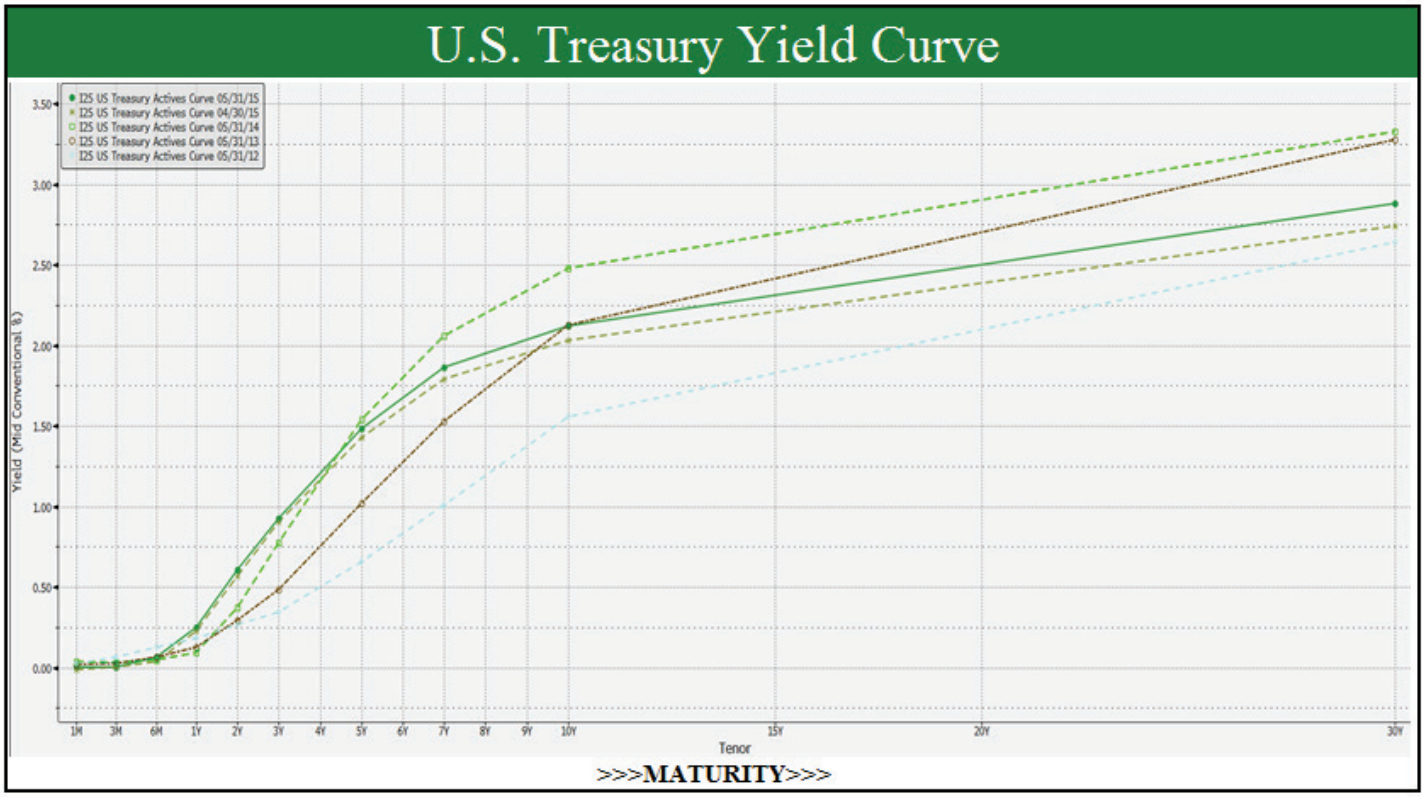
Federal fiscal policy is still running deficits which should stimulate growth.

International Trade:

Despite the Brexit vote and slowing growth in China, some modest dollar weakness could stimulate U.S. exports in the future. However, the world wide slowdown in economic growth still persists.

Federal Reserve:

The Fed's FOMC April 27 meeting minutes showed that a June rate increase is possible. Most participants agreed that a June rate increase would be warranted if the incoming data showed strengthening of the economy and the labor market along with a pickup in inflation. Recent economic data has indicated that the U.S. economy is improving. The next FOMC meeting is June 14-15, 2016.


U.S. Treasury Yield Curve
I25 US Treasury Actives Curve 05/31/15
I25 US Treasury Actives Curve 04/30/15
I25 US Treasury Actives Curve 05/31/14
I25 US Treasury Actives Curve 05/31/13
I25 US Treasury Actives Curve 05/31/12
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>>>