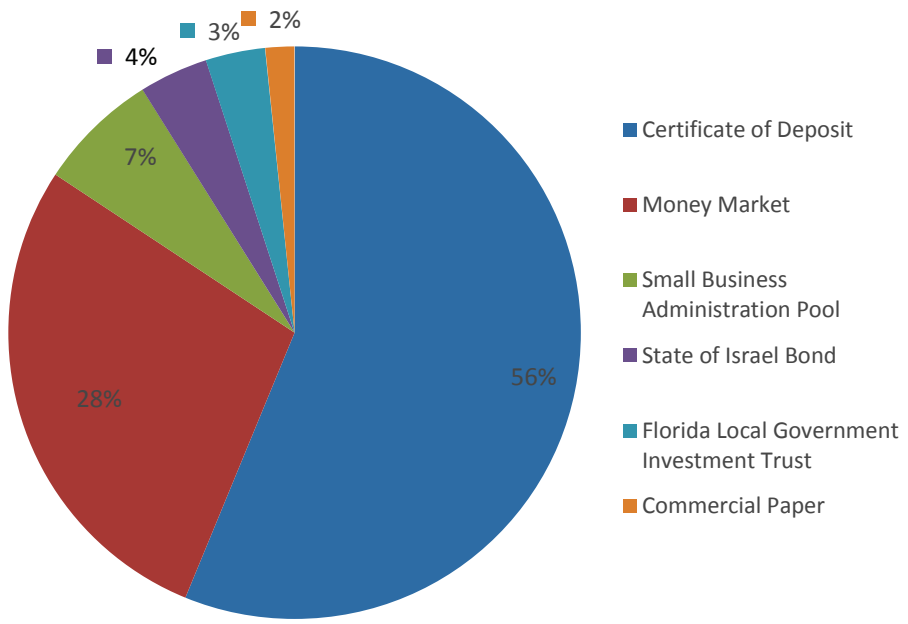
Consolidated Investment Report

June, 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
June 30, 2016



Performance
Total Return

Fiscal Year to Date	1.00%
Prior Month	0.12%
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

	June '16	May '16	April '16	March '16	February '16	January '16
Month-end Market Value	$1,523,458,493.77	$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
Book Value	$1,510,376,786.18	$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
Unrealized Gain/Loss	$13,081,707.59	$11,592,010.08	$11,737,164.92	$12,150,688.74	$12,116,574.40	$11,781,309.87
Book Yield	1.585%	1.568%	1.508%	1.508%	1.462%	1.467%
Market Yield	1.541%	1.466%	1.411%	1.411%	1.367%	1.369%
Effective Duration	.82 years	.40 years	.39 years	.37 years	.37 years	.38 years
Convexity	.157	.163	.143	.106	.117	.133
Average Credit Rating	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA

Portfolio Income

	June '16	May '16	April '16	March '16	February '16	January '16
Interest Income (FYTD)	$19,797,937.55	$17,678,705.19	$15,437,581.22	$13,231,413.13	$10,918,521.32	$8,760,420.63
Investment Income (FYTD)	$16,539,415.31	$14,848,078.60	$12,934,856.90	$11,244,825.37	$8,987,290.23	$6,700,930.31
Interest Income (current month)	$2,120,006.19	$2,243,267.66	$2,208,496.05	$2,278,979.70	$2,126,733.28	$2,369,429.40

Economic Overview

Market Activity:

Both long-term and short-term Treasury yields declined at the end of June compared to the end of May, while stocks gained. The 10-year Treasury note yield declined to 1.47% vs. 1.85% at the end of May while the 2 year note yield fell to 0.59% vs. 0.88% at May's month-end. In the same time period, the Dow Jones Industrial Average increased to 17,929 vs. 17,787 at the end of May. The Federal Reserve did not change short-term rates at its June 14-15, 2016 meeting before the U.K. referendum on staying in the European Union (6/23/16), due to mixed domestic economic data (weak May employment data) and global economic uncertainties. The bond market and stock market trends suggest slow economic growth with contained inflation for the foreseeable future with a low probability for higher interest rates or bond yields. The financial market trends remain: lower short rates, lower bond yields, and higher stocks.

Consumers:

June light vehicle sales fell to 16.61 million annualized, the lowest sales pace in 13 months, vs. May's 17.37 million. The lower car sales increased worries that the auto recovery has peaked. Personal Income rose 0.2% in May vs. a revised 0.5% gain in April (originally a 0.4% increase). Personal Spending increased 0.4% after a revised 1.1% increase in April (originally up 1.0%). Consumers cut spending to match slower income growth. The May savings rate also fell to 5.3% vs. 5.4% in April. The third quarterly revision for U.S. economic growth in the first quarter indicated faster growth on improved performance in trade and business investment and weaker consumer spending.

Gross Domestic Product, the value of all goods and services produced, rose at a 1.1% annualized rate, compared with the previously reported 0.8% increase and the 1.4% pace in the fourth quarter of 2015. That was much slower than the 4.0% second quarter 2015 growth rate. The June Conference Board Consumer Confidence Index rose after declining for the last three months. The Index rose to 98, the highest since October, from a revised 92.4 reading in May. The University of Michigan's final index of consumer sentiment fell to 93.5, down from a preliminary reading of 94.3 and compared with 94.7 in May.

While households remained positive about their current financial situation, they expected slower employment gains in the year ahead and a higher jobless rate as the economy decelerates. The Brexit vote has hurt financial markets and may weigh on consumer sentiment next month. Historically, declining consumer confidence has slowed consumer spending. Retail sales increased more than expected in May, showing consumer spending will help boost economic growth in the second quarter. The 0.5% increase in purchases followed a 1.3% jump in the previous month that was the largest gain in a year. Nonfarm payrolls rose 38,000 in May. Together with a 37,000 downward revision to April and a 22,000 downward revision to March, hiring was both unexpectedly weak and statistically more consistent with a sharp first quarter slowdown in the economy than it looked when April employment was published a month ago.

The 35,000 Verizon strikers lowered the nonfarm payroll number. The three-month average of payroll growth through May employment was 116,000. Average hourly earnings rose 0.2%, keeping the year-on-year rate of AHE growth at 2.5%, as expected. The average workweek was unchanged at 34.4 hours. The May unemployment rate fell to 4.7% vs. 5.0% in April.

Inflation:

The inflation measure tied to spending patterns (PCE Deflator) rose 0.9% year-over-year in May compared to a 1.0% annual rate in April. The Core PCE Deflator, excluding food and energy, (the Fed's favorite) was up 1.6% y/y, the same annual gain reported in April. The Fed has not achieved its 2.0% target in four years. The headline Consumer Price Index for May was slightly below expectations, rising 0.2% vs. 0.4% in April. The y/y May CPI increase was 1.0% vs. April's gain of 1.1%. The core CPI, excluding food and energy, rose 0.2% vs. April's 0.2% increase which caused the May core CPI y/y to rise to 2.2% vs. 2.1% in April. Service sector inflation is increasing while goods' prices are deflating. The Producer Price Index increased 0.4%, more than expected, after a 0.2% April increase. The May year-over-year decline of 0.1% in the PPI compared with no change in the index annually in April. Excluding food and energy, the Core PPI rose 0.3% in May vs. April's 0.1% gain. Year-over-year, the Core PPI rose 1.2% in May vs. an annual gain of 0.9% in April.

Housing:

May construction spending unexpectedly fell 0.8% in May and April was revised down 2.0% (originally a 1.8% decline). Spending on construction fell in May and April indicating a broad slowdown in the sector after a firmer tone in the first three months of the year. The National Association of Realtors Pending Home Sales Index fell 3.7% in May vs. a revised 3.9% increase in April. On an annual basis, the index was up 2.4%. Rising home prices, limited inventory, and tough credit standards for first time home buyers have curbed sales despite solid demand. The April S&P Case-Shiller 20 city property values index increased 5.4% y/y vs. the 5.5% y/y gain in March. New home sales fell a modest 6.0% in May, following an outsized 16.6% increase in April. The annualized pace of new home sales fell to 551,000 vs. 586,000 the prior month but remained near

the fastest sales rate in almost eight years. The median sales price fell to $290,000 vs. $320,000 the month before and was up 1% from a year ago. The upward sales trend of the last several years continued in May. May existing home sales rose to the highest level in more than nine years. Demand for residential real estate remained strong according to the National Association of Realtors. Contract closings increased 1.8% to a 5.53 million annual rate, the fastest pace since February 2007. Sales were up 6.3% from a year ago before seasonal adjustment. The median sales price rose 4.7% y/y while inventory decreased 5.7% y/y. Housing has improved vs. 2015 when 5.25 million were sold, the best year since before the recession. May housing starts were little changed as U.S. construction plateaued. May housing starts fell less than expected to a seasonally adjusted annual rate of 1.164 million units vs. a revised April pace of 1.167 million (originally 1.172 million). Housing data continue to follow a choppy trend gradually higher. Homebuilder confidence increased to a 5-year high in June. The June National Association of Home Builders Index rose to 60 vs. 58 in May. Low borrowing costs and an improving job market have enhanced the ability of consumers to buy homes.

Business:

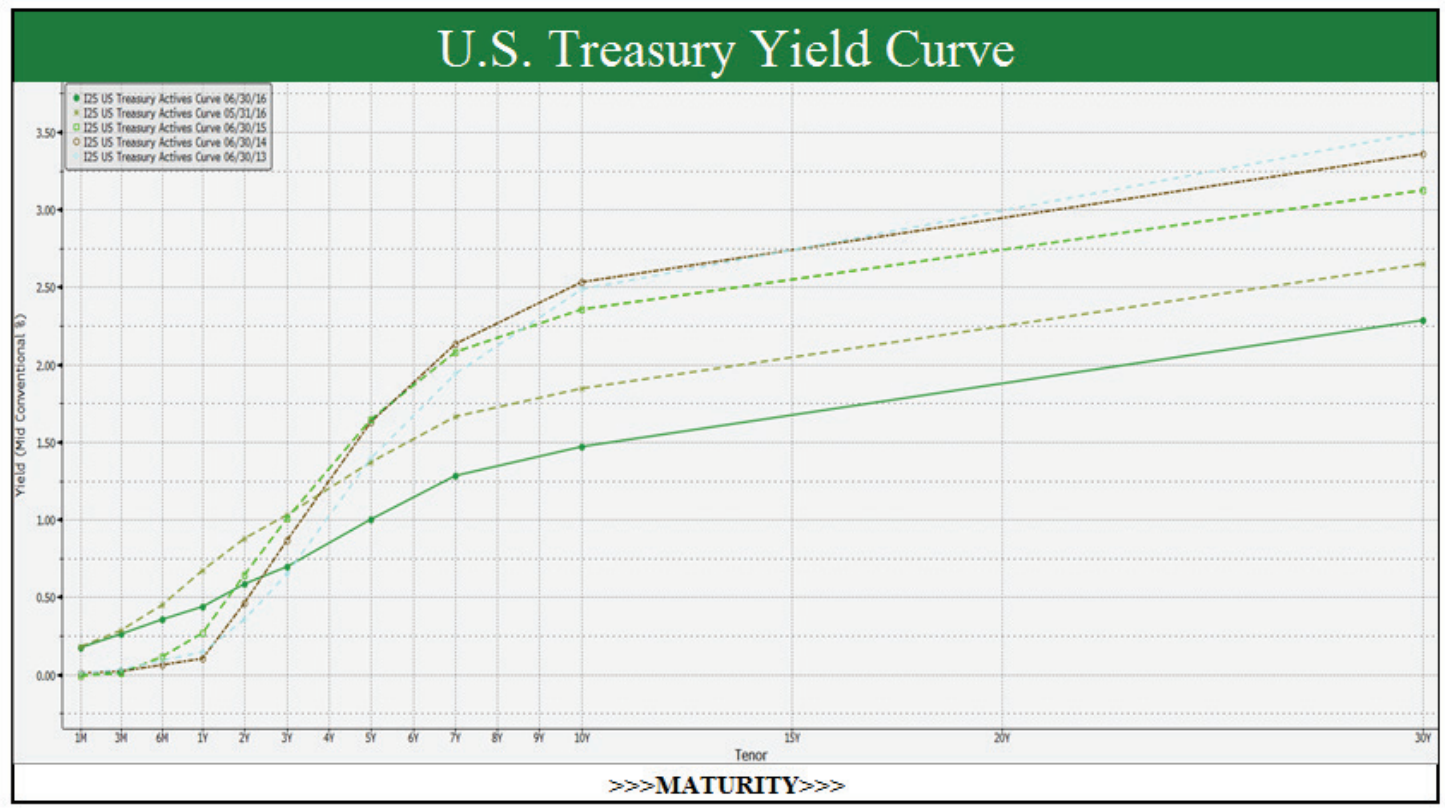
The ISM Manufacturing Index increased to 53.2 in June vs. 51.3 in May. That was the strongest reading for the index since February 2015 and indicated that the manufacturing sector has started to expand again. Durable goods orders unexpectedly dropped in May. Orders for non-military goods excluding aircraft, a proxy for future business investment in items like computers, engines, and communications gear, declined 0.7% after falling 0.4% in April. Shipments of such business equipment, used in calculating the gross domestic product, fell 0.5% vs. a gain of 0.6% in April. Total orders for durable goods, those meant to last at least three years, fell a more-than-expected 2.2% vs. a 3.3% gain in April. The Conference Board's May Leading Economic Indicators Index fell 0.2% vs. April's 0.6% gain and the 0.1% March increase suggesting slowing economic momentum. May industrial production fell 0.4% after a revised 0.6% gain in April (originally a 0.7% increase). May Capacity Utilization declined to 74.9% vs. 75.3% in April. The production decline was caused by slowing automobile production due to the weaker recent vehicle sales pace.

Government:

The April federal government surplus reached $106 billion due to tax payments. The trend toward lower deficits means that the government is providing less stimulus to the economy.

International:

Bank of England Governor Carney said lower rates will probably be necessary to offset the U.K.'s likely slower economic growth after the Brexit vote to leave the EU. The U.K. decision to leave the Eurozone is likely to slow growth in Europe and could produce a recession in the U.K. Brazil and Japan could already be in recession.

Federal Reserve:

After the FOMC rate setting committee in mid-June, the Fed held short term rates steady and lowered projections on how much they will increase rates in the coming years. Fed commentary continued to emphasize that rate increase decisions are driven by the economic numbers and U.S. and global financial market stability. The Fed wants to increase rates but will wait for compelling evidence that solid economic growth is sustainable, the 2.00% inflation target is achievable, and the job market is strong with solid wage gains.