

Consolidated Investment Report

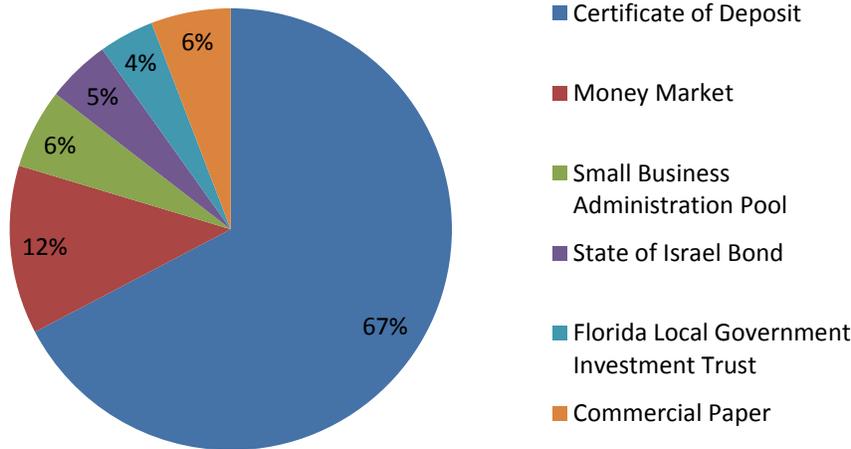
September 2016



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.

SHARON R. BOCK
 Clerk & Comptroller
 Palm Beach County

Portfolio Allocation September 30, 2016



Performance

Total Return

Fiscal Year to Date	1.42%
Prior Month	0.14%
Prior Quarter	0.33%
Prior Year	1.43%*
Prior 3 Years	0.85%*
Prior 5 Years	1.60%*
Prior 8 Years	3.17%*

*figures annualized

Portfolio Statistics

	September '16	August '16	July '16	June '16	May '16	April '16
Month-end Market Value	\$1,279,023,005.35	\$1,279,471,291.20	\$1,413,382,671.70	\$1,523,458,493.77	\$1,601,321,071.45	\$1,708,691,793.53
Book Value	\$1,264,867,240.41	\$1,265,499,927.49	\$1,400,314,928.85	\$1,510,376,786.18	\$1,589,729,061.37	\$1,696,954,628.61
Unrealized Gain/Loss	\$14,155,764.94	\$13,971,363.71	\$13,067,742.85	\$13,081,707.59	\$11,592,010.08	\$11,737,164.92
Book Yield	1.769%	1.737%	1.661%	1.585%	1.568%	1.508%
Market Yield	1.730%	1.697%	1.604%	1.541%	1.466%	1.411%
Effective Duration	.95 years	.80 years	.88 years	.82 years	.40 years	.39 years
Convexity	.514	.377	.290	.157	.163	.143
Average Credit Rating	AA-/Aa3/AA-	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA

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Portfolio Income

	September '16	August '16	July '16	June '16	May '16	April '16
Interest Income (FYTD)	\$25,963,746.50	\$24,058,875.54	\$21,890,519.79	\$19,797,937.55	\$17,678,705.19	\$15,437,581.22
Investment Income (FYTD)	\$22,394,637.82	\$20,467,151.20	\$18,519,121.75	\$16,539,415.31	\$14,848,078.60	\$12,934,856.90
Interest Income (current month)	\$1,885,440.76	\$28,061,792.44	\$2,092,582.24	\$2,120,006.19	\$2,243,267.66	\$2,208,496.05

Economic Overview

During September, financial markets were little changed as they tried to assess the potential for a Fed rate hike in 2016. Most of the month's economic data suggested slowing economic growth and contained inflation.

Consumers:

Personal Income increased 0.2% in August, while personal spending was roughly unchanged. The Conference Board's Leading Economic Indicators Index fell 0.2% in August after a sizable 0.5% gain in July. Most of the weakness was concentrated within manufacturing. Retail sales fell 0.3% in August after a 1.9% jump in July. Sales increased 1.9% from a year ago. Sales for non-store retailers, which include online stores and mail order sales, increased 10.9% from a year ago. However, the sector represents about 7% of total retail sales.

U.S. job openings rose to 5.87 million in July from 5.62 million, the largest monthly jump in six months. The number of voluntary job quitters remained stable at 2.98 million, or about 2.1% of the workforce. Nonfarm payrolls added 151,000 workers in August, missing expectations and lowering the 12-month average to 201,000. Major sector surprises were manufacturing down 14,000, while government rose 25,000. Average hourly earnings rose 2.4% year-over-year. The unemployment rate remained at 4.9%. Vehicle sales slipped to 16.9 million annualized units in August from an eight-month high in July.

Inflation:

The August Core Personal Consumption Expenditures Deflator, excluding food and energy, the Fed's favorite inflation measure was 1.7% year-over-year vs. 1.6% in July. It has been over three years since this indicator, which automatically adjusts to changing consumer spending trends, hit the Fed's 2% target. The Producer Price Index (PPI), which measures wholesale prices, was unchanged in August. Excluding food & energy, the PPI increased 0.3% and 1.3% year-over-year, the largest increase since December 2014. The Consumer Price Index rose 0.2% in August. Excluding food & energy, prices increased 0.3%, the fastest pace in six months. Overall prices rose 1.1% year-over-year and 2.3% excluding food & energy.



Housing:

New home sales fell 7.6% in August to an annualized rate of 609,000 units. Similarly, pending home sales decreased 2.4% in August to a seven-month low, but increased 4.0% on a year-over-year basis. Existing home sales fell 0.9% in August to 5.33 million annualized units. It was the second straight monthly decline. Still, sales increased 0.6% from a year ago, while the median sales price rose 5.3%. Housing starts fell 5.8% in August to 1.14 million annualized units, but are still near a nine-year high. New building permits also fell 0.4% in August to 1.14 million units. The National Association of Home Builders' Confidence Index rose to 65 in September, the highest since October.

Macro-Economic Data:

Second-quarter gross domestic product (GDP) growth was revised to a 1.4% annualized growth pace. The largest upward revisions were in business investment, inventories, and net exports. The consumer sector is the primary growth driver.

Business:

Wholesale inventories slipped 0.1% in August; however they were flat on a year-over-year basis. New durable goods orders were flat in August. However, there were big swings in opposite directions for military aircraft orders, which jumped 24.2%, while orders for commercial aircraft fell 21.9%. Industrial Production fell 0.4% in August, for the first decline in three months. Capacity Utilization slipped to 75.5% in August after a sizable jump in July. It has averaged 75.4% in 2016. The ISM services index fell sharply to 51.4 in August, the weakest reading in six years, vs. 55.5 the prior month. Services are 90% of the U.S. economy. Second quarter nonfarm productivity was revised lower, to a -0.6% vs. -0.5%, after adjustments. Construction spending was unexpectedly flat for July, as government-funded building fell 3.1%. The ISM Manufacturing Index slipped to 49.4 in August, breaking a six-month streak of expansion.

Government:

The U.S. Congress overrode President Obama's veto to allow 9/11-families to sue Saudi Arabia.

International: OPEC announced a possible deal to cut crude oil production by 500,000 barrels per day. The Bank of Japan shifted its asset purchase program with a focus on controlling the shape of the yield curve. Second quarter gross domestic product (GDP) for the Eurozone was unchanged at 0.3% after revisions, missing expectations. Exports gained, but private and government investment sagged.



Federal Reserve:

Banks might need to hold more capital under proposed changes to the Fed's annual stress tests. The Fed left rates unchanged at its September meeting; there were three dissenting votes. The Fed did say a rate hike in 2016 was still possible, while it lowered its economic outlook again for 2016 and 2017. The Fed proposed strict rules for the capital required to invest in commodities. The Federal Reserve Beige Book, which reports economic conditions in each Fed district, said areas continue to have modest economic growth within pockets of slowing activity.

Bottom Line:

The data on economic growth, job market strength, and inflation provide mixed evidence on whether a Fed rate increase this year is warranted. Given slowing global economic growth especially in China and Europe, the Brexit negotiations in the U.K., the U.S. elections, the corporate profits recession for the last five quarters, and the fragile state of financial markets, a Fed rate increase now seems to run the risk of another financial market selloff similar to the one following the December 16, 2015 hike. The risks are asymmetrically in favor of waiting.

