ANNUAL INVESTMENT REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2012

PREPARED BY
BOB INZER
CLERK OF COURTS

LEON COUNTY, FLORIDA

ANNUAL INVESTMENT REPORT

Fiscal Year Ended September 30, 2012
Leon County, Florida

EXECUTIVE SUMMARY

The County's Investment Portfolio continued to perform as expected. The Commission approved Investment Policy provides for a very conservatively managed portfolio. Policy controls related to portfolio duration, credit quality, liquidity and instrument selection are established to reduce volatility with respect to investment returns. The portfolio earned $3,203,367 of interest and realized gains of $237,428 for a total income of $3,440,796 for the fiscal year ended September 30, 2012. This total income provided an effective rate of return of 1.64% on an average daily balance of $209,733,879 in fiscal year 2012. For comparison, the portfolio earned $2,935,001 of interest and realized gains of $371,518 for total income of $3,306,519 for the fiscal year ended September 30, 2011. This total income provided an effective rate of return of 1.56% on an average daily balance of $212,524,114 in fiscal year 2011. Although the average daily balance of investable cash was about 1% lower due to expenditure of funds for capital construction projects, the total income for fiscal year 2012 is higher than that for fiscal year 2011.

The higher returns year over year for the externally managed portion of the portfolio were primarily due to the manager's allocation to corporate credit and to the duration bands between 3 to 5 years. There were also higher returns in the internal portfolio due to reallocation of assets and lengthening duration. The higher returns for Florida Local Government Investment Trust were due to the 69% allocation in non-Treasury sectors including Corporate Bonds, Asset Back Securities, and Sovereign Government Securities, which broadly outperformed year over year. During this fiscal year, the Investment Policy was amended to raise the allocation limit for investments in the longer duration Florida Treasury SPIA. Reallocating assets from the short-term FMIvT 0-2 year pool to the longer term SPIA contributed to higher returns year over year.

Section 218.415(15), Florida Statutes requires Leon County Clerk of Courts to provide an annual report to the Board of County Commissioners of the securities in the portfolio by investment type, book value, market value and income earned. This information included below in Table I is as of September 30, 2012.

Table I Portfolio Ending Balance and Total Income Earned

Investment Type	Amortized Book Value	Market Value		Total Income Earned During FY 2012
Cutwater Asset Mgmt	75,571,661	76,408,431		1,202,266
Fl Municipal Investment Trust 0-2	49,897	49,897		175
FL Municipal Investment Trust 1-3	27,382,710	27,382,710		289,440
Fl Local Govt Investment Trust	14,499,655	14,499,655		454,191
Fl State Treasury SPIA	54,687,746	55,710,407		1,466,910
Wells Cash Pool	11,416,201	11,416,201		27,814
Total Cash and Investments	$ 183,607,870	$185,467,301		3,440,796

Table II Balances (average daily) and Total Return (based on actual monthly activity)

Investment Type	FY 2011 Ave Daily Balance	Total Return	FY 2012 Ave Daily Balance	Total Return
Cutwater Asset Mgmt.	74,414,966	1.63%	75,766,692	1.89%
Fl Municipal Investment Trust 0-2	16,660,955	0.40%	49,803	0.28%
FL Municipal Investment Trust 1-3	32,586,061	0.90%	33,736,990	0.92%
Fl Local Govt Investment Trust	29,353,596	0.79%	24,578,789	2.07%
Fl State Treasury SPIA	54,217,652	2.41%	66,365,387	2.20%
Wells Cash Pool	5,290,883	0.28%	9,236,218	0.30%
Total Daily Average	$212,524,113		$209,733,879	

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2012
Leon County, Florida

Investment Oversight Committee

The Board of County Commissioners in their Investment Policy provides for an Investment Oversight Committee to work with the Clerk of the Court in the investment of the portfolio. The Committee meets quarterly unless interim issues require more frequent meetings. Meetings are noticed; open to the public and minutes of each meeting recorded. The IOC consists of the Clerk; the County Administrator Designee, Deputy County Administrator Alan Rosenzweig; and three qualified individuals with financial or investment expertise who are independent of employment and business relationships with Leon County. They are Stan Barnes, Managing Partner, Allen Mooney & Barnes Investment Advisors, LLC, Marvin M. Garland, EVP and COO of the LSCU Service Corporation, and Michael Kramer, COO of Desloge Home Oxygen.

During the fiscal year ending September 30, 2012, the portfolio was managed within the guidelines and limitations of the Investment Oversight Committee recommendations and the Commission approved policy without exception. There were no recommended changes during this fiscal year to the policy by the Committee which was adopted by the Board on October 11, 2011.

Economy

During the October 2012 Federal Open Market Committee (FOMC) meeting, members discussed issues including that economic growth might not be strong enough to generate sustained improvement in labor market, strains in the global financial markets hold risks for the economy, and inflation should continue at or below its 2 percent objective. The members concluded that they would keep the target range for the federal funds rate at 0 to ¼ percent and they would continue programs to improve bank balance sheets and liquidity. Furthermore, they considered the inflationary pressures were not enough to warrant any monetary tightening. The FOMC basically determined they would continue existing policies and monitor any changes in energy prices and other factors in the coming months. Then on December 12, 2012, there was an FOMC announcement of a shift from an estimated target date to achieving a 6.5 percent unemployment rate as the trigger to consider beginning to tighten and that they would continue the bond purchase part of operation twist and discontinue the sales part.

Investment Managers

The investment portfolio end of month balances ranged from $181.3 million to $245.9 million during the year, with higher balances during the winter as taxes are received from the Leon County Tax Collector. The portfolio was allocated among the following government pools: Florida Treasury Special Purpose Investment Account, Florida Local Government Investment Trust (FLGIT) and the Florida Municipal Investment Trust (FMIvT). The external manager from Cutwater Asset Management invested an average of 36% of the portfolio in slightly longer term investments.

Currently, the dollars under management by Cutwater are approximately $76.4 million. Intermediate fixed income portfolios have durations of 1.5-1.8 years. The established benchmark for Cutwater is the Merrill Lynch 1-3 year Government Index.

The Clerk completed bidding out its banking relationships pursuant to a competitive selection process and entered into a new contract April 1, 2012. The current earnings credit earned on balances is 30 basis points.

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2012
Leon County, Florida

TABLE OF CONTENTS

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2012
Leon County, Florida

I. INVESTMENT POLICY

Section 218.415, Florida Statutes provides units of local government the ability to adopt a written investment plan to govern the investment of their investment portfolio. The Leon County Board of County Commissioners on September 17, 2002 adopted an investment policy. It provides for among other things, an annual report to be presented to the Board of County Commissioners. The portfolio has been managed within the guidelines and limitations of the Investment Oversight Committee recommendations and Commission approved policy without exception. On October 11, 2011, the Board adopted revisions to the Policy to provide the flexibility to manage the portfolio in the volatile market environment.

The Florida Constitution provides that the Clerk of the Court will be responsible for the investment of County funds and this report is being submitted by the Clerk as provided by the Board's Investment Policy. All investment activity is conducted in accordance with written procedures and internal controls.

II. INVESTMENT OVERSIGHT COMMITTEE

The Leon County Clerk of Courts (Clerk) to formulate investment strategies, provide short-range direction, and monitor the performance and structure of the County's portfolio, established the Investment Oversight Committee (IOC). The IOC consists of the Clerk; the County Administrator Designee, Deputy County Administrator Alan Rosenzweig; and three qualified individuals with financial or investment expertise who are independent of employment and business relationships with Leon County. The IOC was comprised of Stan Barnes, Managing Partner, Allen Mooney & Barnes Investment Advisors, LLC, Marvin M. Garland, EVP and COO Leverage, the LSCU Service Corporation, and Michael Kramer, COO of Desloge Home Oxygen.

III. ACTIVITIES OF THE INVESTMENT OVERSIGHT COMMITTEE

The Investment Oversight Committee (IOC) scheduled periodic meetings to discuss issues relating to the investments of the County. On September 22, 2011, the Board approved amendments to the Investment Policy and no further changes have been recommended since that date. In addition to quarterly meetings to oversee investments, during the Fall of 2011 the members of the IOC served as the Evaluation Committee for the Banking Services RFP.

IV. INVESTMENT OBJECTIVES

The Policy states that the primary objectives of all investment activities for the County should be safety of principal, maintenance of adequate liquidity and finally, return maximization.

Safety of principal is the foremost investment objective. Investment transactions should seek to keep capital losses to a minimum, whether the result of security defaults, or erosion of market value. This is best insured by establishing minimum acceptable credit ratings, limiting the portfolio's overall duration, setting maximum exposures by sector, defining appropriate levels of diversification and authorized transactions and limiting exceptions.

The second objective is the provision of sufficient liquidity. A portion of the County's overall portfolio should be maintained very liquid in order to meet operating, payroll and ongoing capital requirements. Maintaining a core level of assets with the government pools such as the Treasury Special Purpose Investment Account (SPIA) or other short-term entities is viewed as the best way of maintaining secure asset values with sound investment practices. The remainder of the overall portfolio should be managed in such a manner that funds can be liquidated in a reasonable amount of time, recognizing that there are other sources for day-to-day liquidity and that this portfolio is primarily available for income generation within the constraints of this policy.

Maximizing yield on the portfolio is of least importance compared to the safety and liquidity objectives above. Return maximization is guided by the predefined and acceptable levels of risk as defined in this policy.

IV. PORTFOLIO PERFORMANCE

Acceptable portfolio performance is the result of balancing the rewards of investing, or the income earned, with the risks associated with those investments. Factors influencing the portfolio's performance are the types of permitted investments and allowable maturities, liquidity requirements, overall interest rate environment, cash flows, and the investment manager's performance.

The portfolio earned $3,203,367 of interest and realized gains of $237,428 for a total income of $3,440,796 for the fiscal year ended September 30, 2012. This total income provided an effective rate of return of 1.64% on an average daily balance of $209,733,879 in fiscal year 2012. For comparison, the portfolio earned $2,935,001 of interest and realized gains of $371,518 for total income of $3,306,519 for the fiscal year ended September 30, 2011. This total income provided an effective rate of return of 1.56% on an average daily balance of $212,524,114 in fiscal year 2011. The total income for fiscal year 2012 is higher than that for fiscal year 2011 due to several factors among which was reallocation of assets to longer-term investments. The average daily balance of investable cash is about 1% lower due to expenditure of funds for capital construction projects.

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2012
Leon County, Florida

The Following is an Overall Market and Portfolio Specific Commentary Provided by the County's Investment Advisor **Cutwater Asset Management, Inc**.

Leon County's investment portfolio managed by Cutwater outperformed its comparative benchmark, the Merrill Lynch 1-3 Year Government Index, for the fiscal year ending September 30, 2012. The external portfolio produced a total return, net of fees, of 1.89% compared to the Index return of 1.25%, which includes no fee charges.

Third Quarter 2012 Review

September's payroll employment report was very disappointing. The market expected 130,000 new jobs but only 96,000 were actually created. Making it worse, the labor force participation rate declined by another 0.2 percent, August's payroll number was revised downward by 20,000 jobs, and the average workweek fell by 0.1 hours. The seemingly insignificant change in hours worked, when compounded by a labor force of more than 140 million, results in a loss of over 14 million wage-producing hours each week. Predictably, second quarter GDP was revised downward from 1.7 percent to 1.3 percent, with the critical Personal Consumption and Gross Private Investment components being revised downward.

Despite all this, corporate spreads and risk-based financial assets enjoyed remarkable performance. Investment grade credits outperformed like-duration Treasury securities by 3.0 percent for the quarter and are now up 5.7 percent more than Treasuries for the year. In nominal terms, US Treasuries are returning 2.1 percent for the year, versus year-to-date high yield, commercial mortgage-backed and asset-backed returns of 12.1, 8.4, and 2.8 percent, respectively. Even the equity market posted solid quarter and year-to-date results of 6.4 percent 16.4 percent for the S&P 500 index. When viewed in light of lingering economic weakness, financial asset performance seems to have diverged from economic fundamentals and leading indicators.

This resilience of the market in the face of a slowing global economy was born from the unprecedented global monetary policy and crisis response actions now underway. European Central Bank chairperson Mario Draghi first exceeded expectations by pledging "unlimited" resources to purchase the short-term debt of its EU member nations. That September 6th announcement also introduced the ECB's commitment to share creditor status for all bailout fund obligations (ESM and EFSF) with private creditors. The combined actions assure the near-term solvency of Spain and Italy, provided that they formally request participation in the bailout programs. Spanish ten-year notes closed the quarter at 5.9 percent, nearly 100 basis points lower since Draghi's announcement and 170 basis points lower than the 7.6 percent peak yield observed in July.

This ECB announcement occurred one day prior to the pessimistic employment report detailed above and only one week before Chairman Bernanke exceeded expectations for US monetary policy at the September 13th FOMC meeting. Investors had anticipated another form of quantitative easing, but were surprised by its form and unprecedented magnitude. Specifically, the Federal Reserve pledged to purchase another $40 billion in agency mortgage-backed investments per month until the labor market improves "substantially." These open market operations are now expected to absorb over half of the monthly agency mortgage-backed origination. This open-ended and employment-targeted monetary twist also represents a meaningful departure from prior policy initiatives.

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2012
Leon County, Florida

It is worth noting that asset appreciation and inflation expectations are central to Chairman Bernanke's unconventional policy measures. In retrospect, his Jackson Hole speech penned in late August provided the first meaningful clues for the unprecedented change that came in September. Specifically, in his speech he estimated that the Fed's unconventionally accommodative policy has created more than 2 million jobs and added 3 percent to GDP since 2009. More importantly, his remarks infer that the greatest benefit of his actions has been the removal of deflationary expectations that would, if they came to fruition, cripple the prolonged US recovery. Indeed, headline inflation has marched steadily lower from 3.9 percent to 1.7 percent over the past year. The Jackson Hole speech was intended to justify quantitative easing with employment and GDP statistics, but it has done more than that: The remarks revealed to the world that Mr. Bernanke's intentions are to do whatever it takes to prevent deflation, whatever the cost to near-term inflation.

Market Performance & Outlook

For better or worse, economic fundamentals will not matter for the remainder of 2012. The Federal Reserve's willingness to suppress government-related yields has seemingly converted the last few bond skeptics into raging bulls. Investors have also discounted deteriorating economic fundamentals as a consequence of the election cycle and uncertainty concerning the fiscal cliff. Judging by asset prices, consensus predicts that a solution to the fiscal cliff will occur and business investment and private consumption will respond positively in 2013. The European sovereign crisis is also expected to grind closer to a permanent structural solution. Cutwater's expectation for 2013 GDP is becoming increasingly constructive given these views.

Our resulting investment strategy introduces greater emphasis on non-Treasury investments for the balance of 2012. The unprecedented "low for long" policy by the Federal Reserve anticipates further compression of spreads and yields for investments maturing in less than five years. Beyond five years, our ongoing credit-barbell thesis leads us to prefer assets with meaningful spreads versus Treasuries. This additional yield compensation for corporations with well-fortified balance sheets cushions us against potential rising Treasury yields. We also see value in current coupon agency mortgage-backed investments, given the Fed's commitment to own the sector. While most spread sectors indicate historically fair valuations, it is probable that investors will respond favorably to political and fiscal cliff clarity.

Perversely, one risk to our overweight credit thesis is an economy that recovers too fast. How will the Federal Reserve respond if payroll growth and wage inflation accelerates? Would agency mortgage-backed investors anticipate less Fed buying? Do traditional bond investors flee fixed income for growth-oriented asset classes like equities? We think these would be likely outcomes given this fast recovery scenario, but we take comfort in our belief that potential acceleration in growth is unlikely to occur until late in 2013.

V. PERMITTED INVESTMENTS AND ALLOWABLE MATURITIES

Table 1 summarizes the permitted investments, composition limits and maximum allowable maturities. The County's available funds are invested according to Leon County Investment Policy Section XIV, which authorizes the County to invest in specific permitted investment types. The permitted investments are restricted by the Policy in their composition limits and maximum allowable maturities. The portfolio was in compliance with all policy guidelines. The Policy permits maturities of the operating portfolio establishing a range of 60 days to 10 years. The actual portfolio will have a range of 0.5 years to 2.5 years, with an average duration of 1.5 years. Table 1 gives a brief description of each investment type. It is generally regarded that the following investment types are safe investments and meet the Policy's first objective: safety.

Table 1 – Permitted Investments

Investment Type	Composition Limit	Max Maturity/ WAL Limit
Repurchase Agreements	15%, 5% any one issuer	60 Days
Bankers' Acceptances	15%, 5% any one issuer	270 Days
Commercial Paper	20%, 5% any one issuer	270 Days
CDs (Financial Deposit Instruments insured by FDIC)	30%, 10% any one issuer	2-Year, 1-Year Avg
Agencies	100%, 20% any one issuer	5-Year
Instrumentalities	45%, 15% any one issuer	5-Year
Corporate Debt	25%, 3% any one issuer	5-Year
Municipal Bonds	35%, 3% any one issuer	5-Year
Mortgage Backed Securities	35%, 5% any one issuer	5-Year WAL
Asset Backed Securities	10%, 1.5% any one issuer	5-Year WAL
Commercial Mortgage Backed Securities	8% , 3% any one issuer	5-Year WAL
Treasuries	100%	10-Year
FLGIT, FMIT 0-2, and FMIT 1-3	15% each	NA
SBA. SPIA	50%	NA
Money Markets	100%	NA

A. U.S. Government Securities (Treasuries)

The securities comprising Treasuries are direct obligations of the U.S. Government. The securities are designated by maturity. Treasury bills have maturities of one year or less, Treasury notes have maturities of two to ten years, and Treasury bonds have maturities of more than ten years. The longer maturities share some market risk in that their prices may be more volatile due to interest rate fluctuations. Treasury yields are typically lower than yields of other U.S. Government securities. The investment policy allows the County to invest up to 100% of the portfolio in these investments.

B. Federal Agency Securities (Agencies)

Agencies are securities issued by agencies of, and are guaranteed directly by, the U.S. Government. The Policy limits Agency investments to bonds, debentures or notes issued or guaranteed by United States Government agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities are limited to the following: Small Business Administration, United States Department of Agriculture, United States Export-Import Bank, direct obligations or fully guaranteed certificates of beneficial ownership, Farms Home Administration, Federal Financing Bank, Federal Housing Administration Debentures, General Services Administration Participation Certificates, United States Maritime Administration Guaranteed, Title XI Financing, New Communities Debentures, United States Government guaranteed debentures, U. S. Public Housing Notes and Bonds, U.S. Government guaranteed public housing notes and bonds, U. S. Department of Housing and Urban Development Project notes and local authority bonds. Agencies are typically longer term and not frequently traded, creating some liquidity risk. Agency yields are generally greater than Treasury yields of similar maturities. A maximum of 20% of the portfolio may be invested in any one agency and an aggregate of up to 100%.

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2012
Leon County, Florida

C. Federal Agency Securities (Instrumentalities)

Instrumentalities are also securities issued by agencies, which are sponsored by the U.S. Government. The Policy allows purchases of bonds, debentures or notes issued or guaranteed by United States Government sponsored agencies (Federal Instrumentalities) which are non-full faith and credit agencies limited to the following: Federal Farm Credit Bank (FFCB), Federal Home Loan Bank or its district banks (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) including participation certificates, Tennessee Valley Authority (TVA). Yields on Instrumentalities are typically greater than Treasury yields of similar maturities. The Policy further restricts investments in any one agency to 15% of the portfolio and an aggregate of 45% of the portfolio.

D. Financial Deposit Instruments Insured by FDIC (Certificates of Deposit)

Investments may be made in Financial Deposit Instruments Insured by FDIC in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and doing business and situated in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes and provided that the bank is not listed with any recognized credit watch information service. A maximum of 30% of the portfolio may be invested in Financial Deposit Instruments insured by FDIC.

E. Repurchase Agreements (Repos)

A repurchase agreement is a financial transaction in which Leon County exchanges cash for ownership of specific securities with a simultaneous agreement to sell back the securities. Overnight repos mature in one day. Other repos are written to mature in specific multi-day periods and are known as term repurchase agreements. Other repos are written as open transactions with indefinite terms subject to liquidation by either party. Yields tend to run close to the federal funds rate. The Policy calls for the specific securities to be only those Treasuries or Instrumentalities allowed by the Policy with maturities. The collateral held pursuant to a repurchase agreement shall have a maturity under five years and having a market value of 102% during the term. Leon County will enter into a repo transaction only with qualified financial institutions, which have executed a Master Repurchase Agreement with the Clerk’s Office. The Policy further restricts transactions with any one financial institution to 5% of the portfolio, except for one-business day repos, with total repos to a maximum investment of 15%.

F. Bankers’ Acceptances (BAs)

Bankers’ Acceptances are generally bearer form securities comprised of underlying letters of credit used to finance international trade. A bankers’ acceptance is created from a letter of credit issued by an importer’s bank to pay a foreign exporter for goods expected to be received. The exporter will normally present this letter of credit to its bank for a discounted payment. The exporter’s bank then presents the letter of credit to an U.S. correspondent bank for payment at which time it is marked “Accepted”. Upon acceptance, the BA becomes an irrevocable and unconditional obligation of the accepting bank and it is also an obligation of the importer and any endorser thereof. BAs typically have maturities of 180 days or less. Yields are generally greater than Treasuries and Instrumentalities of similar maturity. The Policy requires bankers' acceptances which are inventory based and issued by a bank, which has at the time of purchase, an unsecured, uninsured and un-guaranteed obligation rating of at least "Prime-1" and "A" by Moody's and "A-1" and "A" by Standard & Poor’s. The Policy further restricts the investment with any one financial institution to 5% of the portfolio and an aggregate of 15% of the portfolio.

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2012
Leon County, Florida

G. Commercial Paper (CP)

Commercial paper is unsecured short-term debt issued primarily by corporations to finance receivables and other short-term needs. CP has a maximum maturity of 270 days or less. Yields are typically greater than Treasuries and Instrumentalities of similar maturity. The Policy requires the issuer to be rated Prime-1 by Moody's Investor's Service and A-1 by Standard & Poor's, and, if backed by a letter of credit, the credit provider must be ranked in the top fifty U.S. banks by the American Banker's yearly report. The Policy further restricts the investment with any one financial institution to 5% of the portfolio and an aggregate of 20% of the portfolio.

H. Municipal Obligations (Munis)

Investments may be made in notes or bonds issued by governmental entities or territorial boundaries of the United States, provided that such instrument is rated A or better by at least one NRSRO. The Policy further restricts the investment with any one issuer to 3% and an aggregate of 35% of the portfolio.

I. Constant Net Asset Value Money Market Mutual Funds

Money markets are pools of securities providing income and liquidity. The Policy enables the Clerk to invest in SEC qualified constant net asset value fixed income money market mutual funds rated AAAm or AAAg comprised of only those investment instruments as authorized in this Section XIV, Portfolio Composition, provided that such funds do not allow derivatives. The average maturity of the underlying investments may not exceed one year. A maximum of 100% of the portfolio may be invested in money markets.

J. The Florida Local Government Investment Trust Government Fund (FLGIT)

The FLGIT is a local government investment pool created by the Florida Association of Court Clerks and Controller, and the Florida Association of Counties for the purpose of providing public entities with an investment program that focuses on longer term securities with the highest credit ratings. The effective maturity of the underlying investments is five years or less. At year end, the FLGIT was invested in money markets, Treasury Notes, asset-backed securities, and Federal agency obligations. This investment type is subject to some market risk due to fluctuating prices and liquidity risk due to advance redemption notification requirements. However, it has a professional investment advisor and an investment advisory board, and provides diversity in the Fund's portfolio. The FLGIT maintains a credit rating of AAA by Standard & Poor's. Investments in this pool are limited to a maximum of 15% of the portfolio.

K. First Municipal Investment Trust (FMIT) 1- 3 Year High Quality Bond Fund.

The FMIT is a similar investment pool operated by the Florida League of Cities. Its rating, investment parameters and liquidity generally mirror those of the FLGIT. The 1 to 3 Year High Quality Bond Fund is designed to provide an investment pool alternative to those Members that have excess funds and that have an investment horizon greater than that of money market instruments. The investment objective is: 1) to preserve capital; 2) achieve a total rate of return that exceeds the return of T-Bills by 1% per year over rolling three-year periods; and 3) exceed the return of the Merrill Lynch One-to Three-year Government Index over three-year periods. The Portfolio will generally invest in securities with greater potential returns and risk than those offered by money market type instruments. Due to the fact that the Portfolio will be investing in securities with an average maturity of approximately two years, increases in interest rates will cause declines in the net asset value of the Portfolio. Therefore, the Portfolio may be an inappropriate investment for funds required to meet short-term needs. Investments in this government pool are limited to a maximum of 15% of the portfolio.

L. First Municipal Investment Trust (FMIT) 0 - 2 Year High Quality Bond Fund

The County allocates a portion of investments in this Bond Fund also operated by the Florida League of Cities. This Fund which was established in April 2009 invests in Government and high quality securities while maintaining an average maturity of approximately one year. The performance of the portfolio is measured against the Merrill Lynch 1 Year Treasury Note Index. The portfolio is managed by Atlanta Capital Management. Investments in this government pool are limited to a maximum of 15% of the portfolio.

M. Special Purpose Investment Trust (SPIA)

Effective July 1, 2004, Section 17.61(1), Florida Statutes was amended to permit organizations created by the Florida Constitution to participate in the existing State Treasury Investment Pool "Special Purpose Investment Account (SPIA)." Historically, SPIA participants have received higher earnings reflecting the higher risk associated with the longer maturities and lower credit quality. The Board of County Commissioners approved revisions to the County's Investment Policy effective October 11, 2011, to permit up to 50% of the County portfolio to be invested with the Treasury Special Purpose Investment Account (SPIA). The financial details and disclosures for the Treasury Investment Pool are made in Note 2 to the State of Florida Comprehensive Annual Financial Report (CAFR).

The Treasury Investment Pool (Pool) earned $35,902,673.03 in September 2012. For the month of September, these earnings resulted in a gross effective interest rate (annualized) of 2.3646 %. The Pool's fair value factor was 1.0187 for September. A factor greater than 1.0000 provides that the market value of the Pool's investments is greater than the funds invested in the Pool. For more information relating to the Treasury Investment Pool, please visit the website at www.fltreasury.org.

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2012
Leon County, Florida

VI. LIQUIDITY REQUIREMENTS

The second objective in managing the County's investments is the provision of sufficient liquidity. On a regular basis, the County's receipts and disbursements are analyzed to determine trends in cash inflow and outflow. Cash inflows are invested immediately upon receipt and become part of the portfolio. The portfolio provides cash for weekly payment of operating and capital expenditures, biweekly payment of payroll expenditures, and semiannual debt service payments. Debt service payments are funded through sinking funds held by the County.

VII. INVESTMENT OPERATIONS

Investing activities are conducted by the investment advisor and qualified professionals in the Clerk's Office in accordance with Florida Statutes, County Ordinances, and written policies and procedures. Periodic reports of investment activity and positions are prepared and distributed to management of the Clerk's Office, management of the BCC and the Investment Oversight Committee. Regular meetings of the IOC are held to monitor the portfolio, evaluate investment performance and discuss investment strategies.

The investment advisor and Clerk staff use sophisticated techniques in carrying out its investment activities including the use of electronic bank and trust account systems; electronic funds transfer; on-line, real-time monitoring of U.S. securities markets; and electronic trading. Bank account balances, cash requirements, investment positions and trust account activity are determined daily. Current conditions and evaluations of national economic activity are considered in making asset allocation decisions.

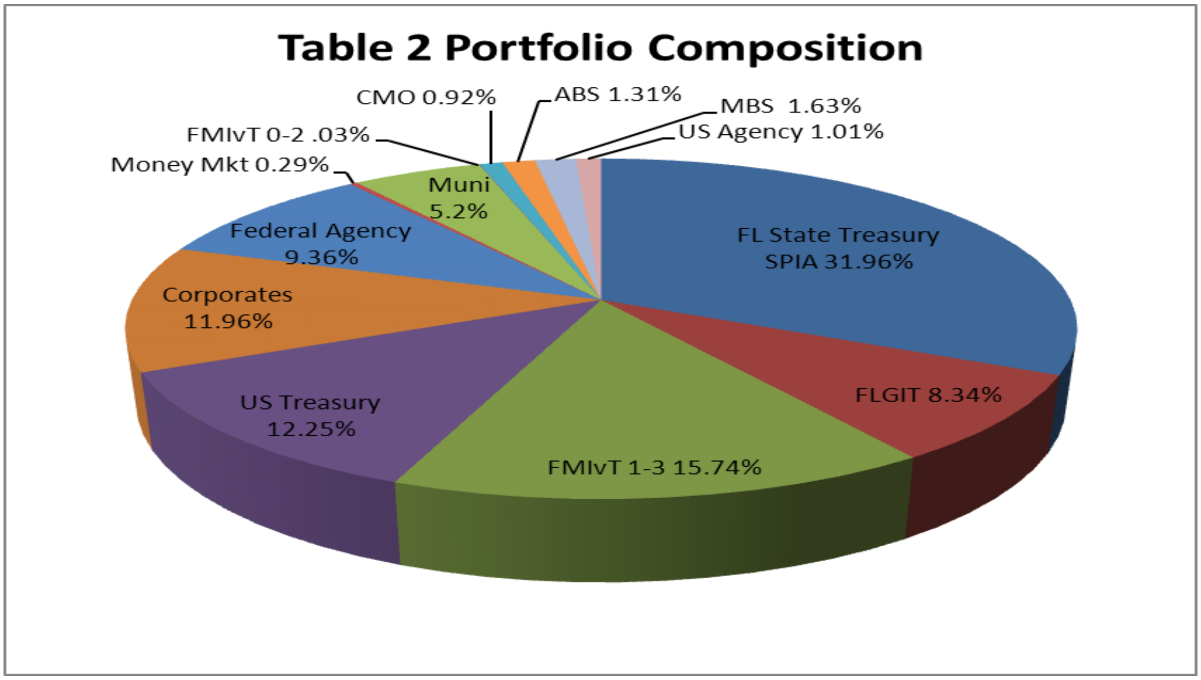
A. Portfolio Balances

The portfolio's ending balance for fiscal year 2012 was $185,269,431 while the ending balance for 2011 was $194,991,314, a decrease of $9,721,883 The decrease in year-end balances from fiscal year 2012 to 2011 is attributable primarily to the expenditure of funds for capital construction projects.

B. Portfolio Composition

During the fiscal year ending September 30, 2012, the portfolio was managed within the guidelines and limitations of the Investment Oversight Committee recommendations and the Commission approved policy without exception. The Clerk or the Clerk's designee (Finance Director shall have the option to further restrict or increase investment percentages from time to time based on market conditions. Any changes to the portfolio composition guidelines or limits must be in writing from the Finance Director directed to the appropriate parties and discussed at each quarterly Investment Oversight Committee meeting. The portfolio was managed in compliance with the Policy which requires the portfolio to be diversified by investment type as shown in the following Table 2.

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2012
Leon County, Florida



C. Portfolio Maturities

Portfolio management was also accomplished in compliance with the Policy that requires ensuring sufficient liquidity as well as diversity in maturities. Shown in Table 3 are the average terms of each investment type acquired in fiscal years 2012 and 2011. Average term is the average number of days from purchase to maturity of the investment. Average terms greater than one year represent investments of non-current funds, including the non-current operating portfolio, and investments of bond proceeds and debt service reserve funds. The externally managed portfolio was invested for a weighted average term of approximately 770 days in fiscal year 2012, as compared with a weighted average term of 773 days in fiscal year 2011.

Table 3 – Average Term by Investment Type

Investment Type	FY 2012	FY 2011
Mortgages	523 days	776 days
Treasuries	770 days	1,030 days
Cml/Multi	290 days	475 days
Corporates	779 days	757 days
ABS	575 days	1,203 days
Financial Deposit Instrument (CDs)	90 days	90 days
Agencies	810 days	704 days
Taxable Munis	845 days	1,051 days
Florida Municipal Inv. Trust	NA	NA
Fl Local Govt. Inv. Trust	NA	NA
Fl. Special Purpose Inv. Acct	NA	NA
Money Markets	NA	NA

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2012
Leon County, Florida

D. Earnings and Yields

The portfolio earned $3,203,367 of interest and realized gains of $237,428 for a total income of $3,440,796 for the fiscal year ended September 30, 2012. This total income provided an effective rate of return of 1.64% on an average daily balance of $209,733,879 in fiscal year 2012. For comparison, the portfolio earned $2,935,001 of interest and realized gains of $371,518 for total income of $3,306,519 for the fiscal year ended September 30, 2011. This total income provided an effective rate of return of 1.56% on an average daily balance of $212,524,114 in fiscal year 2011. The total income for fiscal year 2012 is higher than that for fiscal year 2011 due to several factors among which was reallocation of assets to longer term investments.

The dollar amount of earnings is used in historical and budgetary comparisons, and in cash flow analysis. Actual interest earnings totaled $3,203,367 in fiscal year 2012 and $2,935,001 in fiscal year 2012. Actual earnings were more than the budget in fiscal year 2012 by $933,349 and in fiscal year 2011 by $52,901 as shown in Table 4.

Table 4 - Budget and Actual Income

	FY 2012	FY 2011
Actual	3,203,367	2,935,001
Budget	2,270,018	2,882,100
Variance	$933,349	$ 52,901

IX. CONCLUSION

In conclusion, the results outlined in the Annual Investment Report are as follows:

- The Investment Portfolio is in full compliance with the Investment Policy.
- Total income was above that of the prior fiscal year due to reallocation of assets sectors with higher returns and extending duration.
- The economic environment continued to be highly volatile.

Investment Oversight Committee

The IOC met quarterly to oversee the performance of the external manager. Pursuant to investment policy requires staff to notify the IOC at any time holdings drop below the minimum credit ratings required by the policy. The IOC will then consider the market environment and make recommendations to hold and continue to monitor the investments or liquidate the investments. Accordingly, throughout the fiscal year the IOC continued to monitor closely the performance of four asset-backed securities and was provided detailed reports from the external manager.

As reported in the past several annual reports, there was a collective decision to hold these asset backed bonds until there could be a meaningful recovery for the benefit of the portfolio. Specifically, $365,000 in principal payments have been received since May 2010. This reduced

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2012
Leon County, Florida

the original principal exposure by 30%. Also, the price recovery and coupon earned on these four investments resulted in about 7.5% annualized total return since May 2010.

Given strengthening market conditions and the announcement of another Quantitative Easing Program (QE3), the external manager found opportunities to liquidate these four remaining securities on September 21, 2012.The difference between original cost totaling $837,519 and sales price of $612,540 was about $225,000, which represents 0.3% of the $77 million dollar externally managed portfolio.

On December 19, 2012, the IOC met to review and approve this annual report recapping the performance of the portfolio and the external manager.

Presented by:

Stan Barnes, Chairman
Investment Oversight Committee

Bob Inzer, Clerk of the Circuit Courts
Leon County, Florida