ANNUAL INVESTMENT REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2013

PREPARED BY
BOB INZER
CLERK OF COURTS

LEON COUNTY, FLORIDA

ANNUAL INVESTMENT REPORT

Fiscal Year Ended September 30, 2013
Leon County, Florida

EXECUTIVE SUMMARY

The Commission approved Investment Policy provides for a very conservatively managed portfolio. The County's Investment Portfolio continued to perform as expected. 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 $1,843,498 of interest and realized gains of $143,141 for a total income of $1,986,638 for the fiscal year ended September 30, 2013.** This total income provided an effective rate of return of 1% on an average daily balance of $197,568,730 in fiscal year 2013. For comparison, 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.

The average daily balance of investable cash was about 6% lower due to expenditure of funds for capital construction projects as well as 2.5% reduction in revenues year over year. The low interest rate environment coupled with the smaller portfolio balance resulted in less investment income than the prior year. This was driven by a rise in yields in the Treasury yield curve and bond price decline for maturities beyond 1.5 years, which reduced the income return over the period. Uncertainty surrounding the Federal Reserve's exit strategy from their bond purchase program (QE3) was the market focus during May through September, and the impetus for the rise in Interest rates. The opposite occurred in the prior fiscal year period where interest rates fell across the yield curve, generating a rise in bond prices which increased the income return. 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, 2013.

Table I Portfolio Ending Balance and Total Income Earned

Investment Type	Amortized Book Value	FY 2013 Market Value		Total Income
Cutwater Asset Mgmt.	76,488,496	76,747,406		875,977
FL Municipal Investmt Trust 0-2	49,853	49,853		-44
FL Municipal Investmt Trust 1-3	7,654,997	7,654,997		18,821
FL Local Gov. Investmt Trust	10,567,455	10,567,455		67,801
FL State Treasury SPIA	7,775,823	7,762,612		956,903
FL Prime	50,017,001	50,017,001		17,001
Wells Fargo Cash Pool	18,051,157	18,051,157		50,179
Total	170,604,781	170,850,481		1,986,638

Table II Average Daily Balance and Total Return

Investment Type	FY 2012 Ave Daily Bal	Total Return	FY 2013 Ave Daily Bal	Total Return
Cutwater Asset Mgmt.	75,766,692	1.89%	76,613,180	0.44%
FL Municipal Investmt Trust 0-2	49,803	0.28%	49,853	0.16%
FL Municipal Investmt Trust 1-3	33,736,990	0.92%	16,641,475	0.20%
FL Local Gov. Investmt Trust	24,578,789	2.07%	13,738,766	0.36%
FL State Treasury SPIA	66,365,387	2.20%	65,894,545	1.36%
FL Prime			9,425,544	0.18%
Wells Fargo Cash Pool	9,236,218	0.30%	15,205,367	0.30%
Total Daily Average	209,733,879		197,568,730	

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2013
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 the 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, 2013, the portfolio was managed within the guidelines and limitations of the Investment Oversight Committee recommendations and the Commission approved policy without exception. On July 31, 2013, a review of suggested changes to the Asset-Backed Securities portion of the Investment Policy was offered by the external manager. The IOC endorsed the recommended changes and decided to submit the changes to the Board at a future meeting. In addition, the IOC elected Michael Kramer as Chairman of IOC.

Economy

The global economy in 2014 is expected to achieve 3.6 percent growth according to the International Monetary Fund. The United States estimated growth rate is 2.6 percent for the same period. This outlook is generally constructive for risk-based investments.

Investment Managers

The investment portfolio end of month balances ranged from $170.8 million to $ $229 million during the fiscal 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 Prime, Florida Local Government Investment Trust (FLGIT) and the Florida Municipal Investment Trust (FMIvT). The external manager from Cutwater Asset Management (Cutwater) invested an average of 39% of the portfolio in slightly longer term investments.

Currently, Cutwater manages approximately $76.8 million. Intermediate fixed income portfolios have durations of 1.5-1.8 years. The established benchmark for Cutwater is the Bank of America/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, with Wells Fargo Bank. The current earnings credit earned on balances is 30 basis points.

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2013
Leon County, Florida

TABLE OF CONTENTS

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2013
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 three outside members are 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 July 31, 2013, a review of suggested changes to the Asset-Backed Securities portion of the Investment Policy was offered by the external manager. The IOC endorsed the recommended changes and decided to submit the changes to the Board at a future meeting. In addition, the IOC elected Michael Kramer as Chairman of IOC.

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 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), Florida Prime, 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 $1,843,498 of interest and realized gains of $143,141 for a total income of $1,986,638 for the fiscal year ended September 30, 2013. This total income provided an effective rate of return of 1% on an average daily balance of $197,568,730 in fiscal year 2013. For comparison, 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.

The average daily balance of investable cash was about 6% lower due to expenditure of funds for capital construction projects as well as 2.5% reduction in revenues year over year. The low interest rate environment coupled with the smaller portfolio balance resulted in less income than in prior year.

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

Cutwater Fourth Quarter 2013 Review

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, 2013. The external portfolio produced a total return, net of fees, of 0.38% compared to the Index return of 0.37%, which includes no fee charges.

Calendar year 2013 benefited investors who diversified beyond traditional government-related fixed income securities. U.S. equities were the clearest winner among broad asset classes, reflected by a total return of over 32 percent for the S&P 500. U.S. Treasuries and the government-focused Barclays Aggregate index, on the other hand, lost 2.75 percent and 2.02 percent respectively. This was the first negative total return for the Barclays Aggregate index since 1999 and only the third negative calendar year since 1990.

The improving performance of the U.S. and global economies, coupled with active central bank policy, greatly influenced these market returns. Beginning in Asia, China continued its transition from a manufacturing economy to a balanced consumption-driven economy. While its economy has slowed from the lofty 10 percent annual expansions observed as recently as 2010, China's 7.6 percent growth expectation for 2013 has at least stabilized; which is still immensely influential, considering that China is the second largest economy in the world. Japan, now the third largest economy, is emerging from a decades-long deflationary slump. Prime Minister Shinzo Abe's economic reform includes a central bank asset purchase program more than two times the size of

Ben Bernanke's quantitative easing. Japan's economy is accelerating from a 0.2 percent growth rate in 2012 up to 1.4 percent and 1.9 percent growth expectations for 2013 and 2014, respectively.

Traveling west, stability in Europe was of great concern at the outset of 2013. Ten-year bond yields in Spain and Italy indicated market angst, with those countries borrowing at 5.2 percent and 4.4 percent respectively. A comprehensive banking union still needed to be formed among European Monetary Union (EMU) members and Chancellor Angela Merkel's election loomed, causing the fate of Germany's commitment to the EMU to hang in the balance. As 2013 closed, ten-year bond yields for Spain and Italy are below four percent and European growth recovered from a 0.3 percent contraction in 2012 to slightly positive expectations in 2013. In a further boon to confidence, Germany's Chancellor Merkel won reelection. Although comprehensive banking reform remains elusive and there are certainly some risks in 2014, time is healing Europe's wounds.

Growth in the United States exceeded expectations in 2013; although investors appeared more focused on monetary policy than on the real economy. Indeed, the unemployment rate has declined to 7.0 percent, as of November, and even state and local governments are becoming additive to the gross domestic product growth equation. Yet the milestone event for the markets was the May "taper tantrum" where intermediate-term Treasury yields rose by 60 basis points and the S&P 500 lost nearly 2.5% over the six weeks ending June 30.

Market participants seemed to fear not so much tapering itself, but instead feared that rising policy rates or "tightening" will follow close behind the reduction in monthly asset purchases. The Fed embarked on a communications campaign to change this market perception, delayed tapering at the September meeting despite a market consensus expecting its arrival and introduced strong "forward guidance" at the December meeting once tapering had been finally announced. Critical to the December statement was the Fed's insistence that rate hikes would not necessarily follow on the heels of economic indicator improvement:

> •" … it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6.5 percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal."[1]

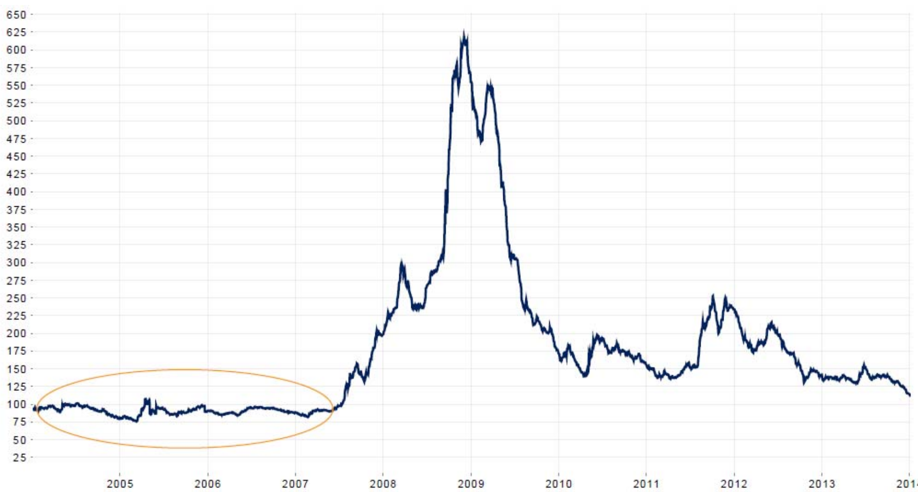
The Fed bolstered this dovish statement by lowering its inflation forecasts for 2014 to a range of 1.3 to1.8 from the original forecast 1.4 to 2.0, which is well below the Fed's long-term target.

Following the December FOMC statement, we believe it is clear that policy rates have now effectively decoupled from tapering, meaning that the Fed will not be compelled to raise rates as quantitative easing winds down. Evidence of this decoupling is seen through performance in equity prices that have risen over 2 percent since the December 18th announcement that asset purchases would be reduced, beginning in January 2014. Over 2013, investment grade and high yield corporate credit achieved 2.26 percent and 9.23 percent in excess returns relative to Treasury securities, with the majority of these excess returns occurring during the fourth quarter. Even the agency residential (+0.57%) and private commercial mortgage backed (+0.85%) index sectors, which are sensitive to rising interest rates, bested their matched duration Treasuries for the quarter. Treasury securities, however, end 2013 at their 52-week peak yields and present a risk to Cutwater's 2014 growth forecast and investment thesis.

2014 and Beyond

Improving indicators suggest that 2014 will be the year that the global economy maintains its growth momentum and the U.S. economy proves that it can grow without extraordinary policy intervention. Corporate balance sheets have benefitted from low rates and many companies have pushed their debt refinancing needs to 2015 and beyond. As such, these fundamentals suggest maintaining overweight allocations to the credit sectors that offer incremental spread over Treasuries. Investment grade corporate yield spreads close 2013 with 1.14 percent additional yield according to Barclays. This spread compensation ranged between only 0.8 percent and 0.9 percent for the two years leading up to the financial crisis, so further spread tightening and price appreciation is possible. Overall portfolio duration relative to benchmark indices should remain underweight as well in our opinion.

Figure 1. Investment Grade Corporate Spreads Can Tighten Further.[2]



[1] Source: Federal Reserve Official Statement, December 18, 2013
[2] Source: Barclays

Two risks to our thesis emerge when considering this 2014 growth-oriented forecast: (1) Will rising Treasury yields and an appreciating dollar stress foreign obligors that have issued in U.S. dollar? (2) Will robust economic growth pull-forward Fed policy tightening? Cutwater expects Treasury yields to migrate higher and the U.S. dollar to appreciate versus other currencies as the economy grows and the Fed slows its accommodation. Most other central banks are expected to remain accommodative with the United Kingdom being a notable exception. As such, countries that have been managing current account deficits, such as Turkey, India and Indonesia, will face the challenge of refinancing debt issued in U.S. dollars. Rising U.S. Treasury yields have also slowed foreign investors who borrowed in U.S. dollar to purchase financial assets denominated in other currencies. It is probable that these countries remain stressed in 2014 and it is unknown what contagion effects will occur if one meaningfully teeters.

The second risk to Cutwater's thesis may surprise you. If the U.S. economy grows faster than current expectations, inflation may show its head and rates could rise more quickly. Central to the Fed's forward guidance is the likelihood that inflation remains contained in 2014. Stronger economic growth introduces the possibility of growing wages, real disposable income, and bank lending—all of which increases the velocity of money. These inflationary signals will possibly pressure the Fed to act sooner than their 2015 and 2016 targets currently suggest. Although it has been quiescent thus far, the market may anticipate these signals sooner than the Federal Reserve can act.

Market Performance

Not surprisingly, fixed income prices rallied sharply following the Federal Reserve's decision. Ten-year note yields dipped from 2.85 percent to 2.63 percent between the September meeting and quarter end. Although yields were up slightly over the quarter, the recovery in the other major fixed income sectors such as corporate and agency mortgage-backed bonds enabled the broad market indexes to achieve positive total returns. Investment grade corporate bonds achieved 81 basis points of incremental return versus similar duration Treasuries. Agency mortgage-backed investments similarly returned 95 basis points.[1] In both instances, the Treasury rate-sensitive subsectors led the way. Metals and mining and other corporate sectors tied to emerging markets recovered smartly. Lower coupon agency mortgages that had already extended to maximum anticipated maturities rallied in concert with falling Treasury yields. The Barclay's Aggregate index returned 0.57 percent for the quarter.

Outlook

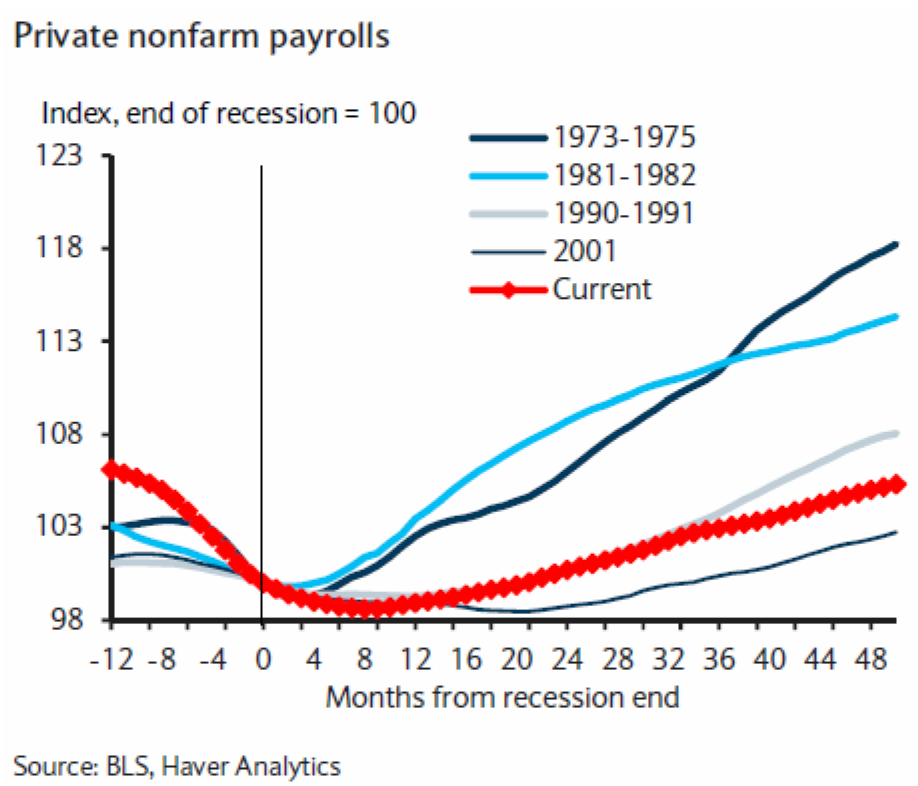
Cutwater's broad thesis remains that the U.S. economy is capable of self-sustaining growth during and after the removal of ultra-accommodative monetary policy. By delaying the decision to taper, the Fed will have caused the market and the economy to similarly delay the productive use of capital. The ultimate confidence generator will be realized economic growth both during and after removal of the extraordinary monetary supports. Incentives for constructive risk-taking behavior under this current monetary policy have been exhausted.

As evidence, compare the trends in initial jobless claims (Figure 1) to new hires (Figure 2). The five-year 30-day average of weekly initial claims has declined to 339,000 and has recently set a new recent low of 294,000 to begin September. Conversely, job additions reported by the nonfarm payroll report has stagnated to less than 200,000 jobs added in each of the last six months through August. Most firms are not firing workers, but they are not hiring either.

[1] Barclays Plc.

Figure 1. Continued Decline in Initial Claims Indicates Stability.

Figure 2. Stagnation in New Employment Indicates Unwillingness to Innovate.



Our long-term fixed income conclusions, therefore, still emphasize allocations to the credit sectors with defensiveness to rising interest rates. With the change in Fed policy, however, near-term portfolio positioning should prepare for likely volatility. In our view, Fed policy will likely remain unchanged at the October and December meetings. Interest rates and credit spreads should retrace to lower yields, possibly as low as 2.0 percent on 10-year notes by the end of this year.

Complacency will have set in by the time tapering actually begins because so many now believe that the Federal Reserve is on hold for the foreseeable future. By the time the taper decision comes, new underweights to duration and trimming of credit positions should be set. As outlined above, the exact timing of the next taper announcement will ultimately surprise the market and the correlation between Treasury yields and credit spreads may be similar to the May and June negative return experience. Following the eventual shock, as the market corrects, we expect our long-term thesis to be vindicated: corporate credit should outperform in a self-sustaining economy.

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%	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%.

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.

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. A. Florida Local Government Surplus Funds Trust Fund, also known as Florida PRIME

Florida PRIME is administered by the Florida State Board of Administration (SBA) for the purpose of pooling investment funds of local governments in an investment portfolio of money market instruments that provide liquidity while preserving capital. On February 13, 2008, the Trustees of the SBA hired Federated Investors to manage Florida PRIME, effective on March 1, 2008. As of October 1, 1997, the SBA had converted Florida PRIME to a "2a-7 like" investment pool (SEC Rule 2a-7 of the Investment Company Act of 1940). The SBA generally intends to maintain a weighted average maturity of 60 days or less, to invest at least 50% of the pooled assets in securities rated A-1+ or deemed of comparable quality, and to have no more than 25% of assets in a single industry sector, except the financial services industry. On September 30, 2013, Florida PRIME was invested in fixed rate and floating rate bank instruments, repurchase agreements, fixed rate and floating rate corporate commercial paper, floating rate corporate notes, money market mutual funds and asset backed commercial paper. A maximum of 50% of the portfolio may be invested in Florida PRIME.

K. 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.

L. 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.

M. 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.

N. 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 $14,893,824.58 in September 2013. For the month of September, these earnings resulted in a gross effective interest rate (annualized) of 0.8893 %. The Pool's fair value factor was .9983 for September. A factor less than 1.0000 provides that the market value of the Pool's investments is less than the funds invested in the Pool. For more information relating to the Treasury Investment Pool, please visit the website at www.fltreasury.org.

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.

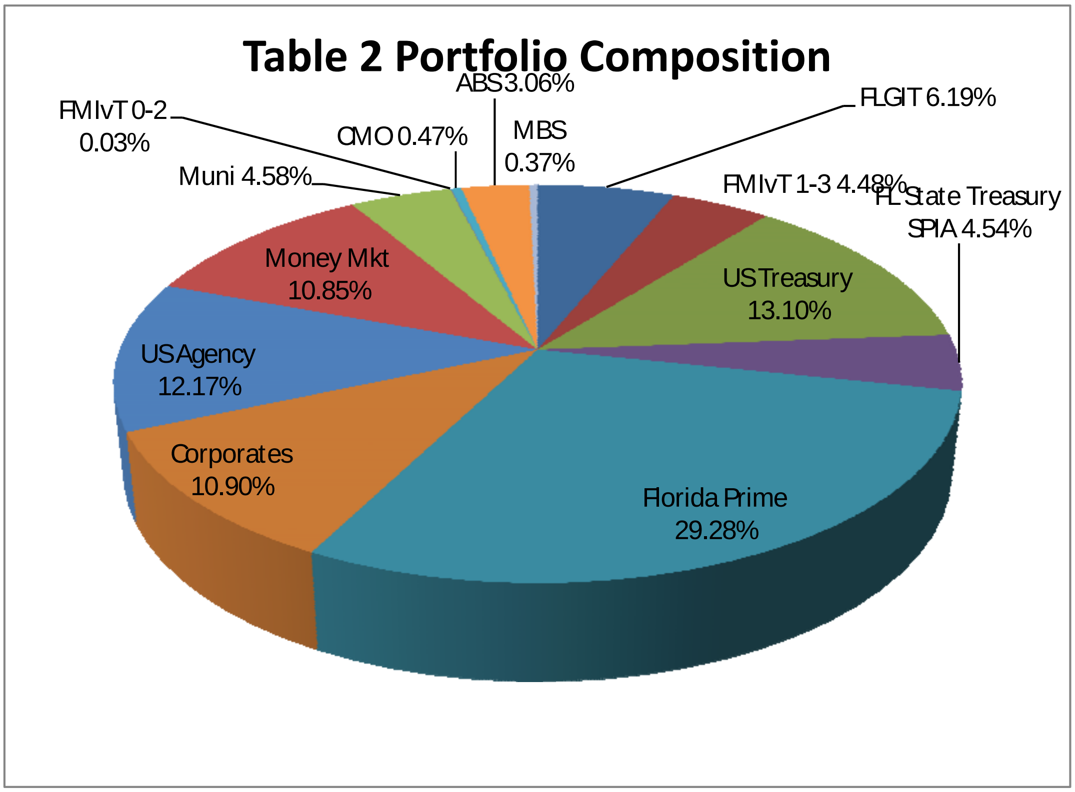
The investment advisor and Clerk staff use sophisticated techniques in carrying out its investment activities including the use of electronic bank and trust account systems; electronic funds transfer; on-line, real-time monitoring of U.S. securities markets; and electronic trading. Bank account balances, 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 2013 was $170,850,481 while the ending balance for 2012 was $185,467,301 a decrease of $14,616,820. The decrease in year-end balances from fiscal year 2013 to 2012 is attributable primarily to the expenditure of funds for capital construction projects and a 2.5% reduction in revenues.

B. Portfolio Composition

During the fiscal year ending September 30, 2013, 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.



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 2013 and 2012. 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 854 days in fiscal year 2013, as compared with a weighted average term of 770 days in fiscal year 2012.

Table 3 – Average Term by Investment Type

Investment Type	FY 2013	FY 2012
Mortgages	2,845	523 days
Treasuries	747	770 days
Cml/Multi	538	290 days
Corporates	1138	779 days
ABS	772	575 days
Financial Deposit Instrument (CDs)	N/A	90 days
Agencies	771	810 days
Taxable Munis	722	845 days
Florida Municipal Inv. Trust	NA	NA
Fl Local Govt. Inv. Trust	NA	NA
Fl. Special Purpose Inv. Acct	NA	NA
Florida Prime	NA	NA
Money Markets	NA	NA

D. Earnings and Yields

The portfolio earned $1,843,498 of interest and realized gains of $143,141 for a total income of $1,986,638 for the fiscal year ended September 30, 2013. This total income provided an effective rate of return of 1% on an average daily balance of $197,568,730 in fiscal year 2013. For comparison, 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.

The average daily balance of investable cash was about 6% lower due to expenditure of funds for capital construction projects and a 2.5% reduction in revenues. The low interest rate environment coupled with the smaller portfolio balance resulted in less investment income than in prior year.

The dollar amount of earnings is used in historical and budgetary comparisons, and in cash flow analysis. Actual interest earnings totaled $1,843,498 in fiscal year 2013 and $3,203,367 in fiscal year 2012. Actual earnings were less than the budget in fiscal year 2013 by $441,263 and in fiscal year 2012 exceeded the budget by $933,349 as shown in Table 4.

Table 4 - Budget and Actual Income

	FY 2013	FY 2012
Actual	1,843,498	3,203,367
Budget	2,284,761	2,270,018
Variance	($441,263)	$933,349

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 below that of the prior fiscal year due to the low interest rate environment coupled with the smaller portfolio balance..
- The economic environment continued to be highly volatile.

Investment Oversight Committee

The IOC met quarterly to oversee the performance of the external manager. The 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 consider the market environment and make recommendations to hold and continue to monitor the investments or liquidate the investments.

On January 22, 2013, the IOC met to review and approve this annual report summarizing the performance of the internal portfolio and the external manager.

Presented by:

Michael Kramer, Chairman Investment Oversight Committee	Bob Inzer, Clerk of the Circuit Court and Comptroller Leon County, Florida