ANNUAL INVESTMENT REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2014

PREPARED BY
BOB INZER
CLERK OF CIRCUIT COURT
AND COMPTROLLER

LEON COUNTY, FLORIDA

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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 $1,031,184 of interest and realized gains of $50,480 for a total income of $1,081,664 for the fiscal year ended September 30, 2014.** This total income provided an effective rate of return of 0.58% on an average daily balance of $187,095,655 in fiscal year 2014. For comparison, 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 1.00% on an average daily balance of $197,568,730 in fiscal year 2013.

To avoid the loss that a longer duration portfolio often experiences when interest rates rise, the effective portfolio duration of 2.21 was reduced to 1.72 by July 31, 2013. The IOC maintained this shortened duration throughout fiscal year 2014 due to continued market volatility. As shorter duration investments generally provide less yield, this strategy and a smaller investable balance resulted in lower income year over year.

Section 218.415 (15), Florida Statutes, requires Leon County Clerk of Circuit Court and Comptroller 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 is included below in Table I as of September 30, 2014.

Table I Portfolio Ending Balance and Total Income Earned

Investment Type	Amortized Book Value	Market Value		Total Income Earned
Cutwater Asset Mgmt	77,376,660	77,434,785		730,738
Fl Municipal Investment Trust 0-2	49,938	49,938		85
FL Municipal Investment Trust 1-3	7,699,992	7,699,992		44,996
Fl Local Govt. Investment Trust	10,635,363	10,635,363		67,908
Fl State Treasury SPIA	7,862,028	7,898,193		86,205
FL Prime	19,820,881	19,820,881		90,446
Wells Fargo Cash	28,647,478	28,647,478		57,785
Wells Fargo Broker Account	6,000,608	6,000,608		3,502
Total Cash and Investments	158,092,948	158,187,238		1,081,664

Table II Average Daily Balance and Total Return

Investment Type	FY 2013 Ave Daily Balance	Total Return	FY 2014 Ave Daily Balance	Total Return
Cutwater Asset Mgmt.	76,613,180	0.44%	77,123,930	0.85%
Fl Municipal Investment Trust 0-2	49,853	0.16%	49,897	0.19%
FL Municipal Investment Trust 1-3	16,641,475	0.20%	7,683,331	0.60%
Fl Local Govt. Investment Trust	13,738,766	0.36%	10,612,430	0.64%
Fl State Treasury SPIA	65,894,545	1.36%	7,811,185	1.11%
FL Prime	9,425,544	0.18%	56,660,806	0.16%
Wells Fargo Cash	15,205,367	0.30%	21,338,841	0.30%
Wells Fargo Broker Account			5,815,236	0.06%
Total Daily Average	197,568,730		187,095,655	

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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 Circuit Court and Comptroller 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. David Reid was appointed by the Clerk to replace Marvin Garland whose term ended July 31, 2014.

During the fiscal year ending September 30, 2014, the portfolio was managed within the guidelines and limitations of the Investment Oversight Committee recommendations and the Commission approved policy without exception.

Investment Managers

The investment portfolio end of month balances ranged from $156 million to $216 million during the fiscal year, with higher balances during the winter as taxes are received by 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 42% of the portfolio in slightly longer term investments.

Currently, Cutwater manages approximately $77.4 million. Intermediate fixed income portfolios have durations of 1.5-1.8 years. The established performance benchmark for Cutwater is the Bank of America/Merrill Lynch 1-3 Year Government Index.

On October 6th 2014, Cutwater notified the County that it will become a wholly-owned subsidiary of Bank of New York Mellon. BNY Mellon is owned by The Bank of New York Mellon Corporation, a global investment company dedicated to providing financial services to institutions, corporations and individual investors that utilizes an autonomous, multi-boutique model for its investment offerings. Cutwater will join the BNY Mellon Investment Management platform, and the firm will have a board expected to be comprised of senior executives from Cutwater, BNY Mellon, and Insight Investment (“Insight”). Insight is an affiliate of BNY Mellon and is one of the United Kingdom’s largest investment management companies specializing in liability-driven investment (LDI), fixed income, absolute return and specialist investment strategies, and an important member of BNY Mellon’s Investment Management platform in the U.S.

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.

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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 Court and Comptroler (Clerk) 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 Clerk established the Investment Oversight Committee (IOC) 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. David Reid was appointed by the Clerk to replace Marvin Garland whose term ended July 31, 2014.

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. During the current year, the IOC continued to focus on positioning the portfolio defensively against rising rates, moving the effective duration from 1.73 as of September 2013 to 1.65 as of September 2014, for the portfolio.

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

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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.

V. 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 $1,031,184 of interest and realized gains of $50,480 for a total income of $1,081,664 for the fiscal year ended September 30, 2014. This total income provided an effective rate of return of 0.58% on an average daily balance of $187,095,655 in fiscal year 2014. For comparison, 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.
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To avoid the price loss that a longer duration portfolio would experience when interest rates began rising in June 2013, the effective duration of 2.21 was reduced to 1.72 by July 31, 2013. The IOC maintained this shortened duration throughout fiscal year 2014 due to continued market volatility. As longer duration investments generally offer more yield, this strategy and a smaller investable balance resulted in lower income year over year.

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

Cutwater Fourth Quarter 2014 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, 2014. **The external portfolio produced a total return, net of fees, of 0.85% compared to the Index return of 0.52%, which includes no fee charges**.

Third Quarter 2014 Review & Outlook

Consider when thinking about the Federal Funds rate and the probable path of rate rises that the concept of "lower for longer" does not mean "lower forever." The Federal Reserve meeting on September 17th highlighted this concept in its summary of economic projections, which for the first time included each participant's projections for the Federal Funds rate through 2017. Fifteen of the seventeen participants project that the overnight borrowing rate should be at least 3 percent by 2017, and all members project that the long-run "terminal" rate should be 3.25 percent or higher. Of immediate importance to the market is the timing of this first rate hike with most prognosticators predicting a mid-2015 event.

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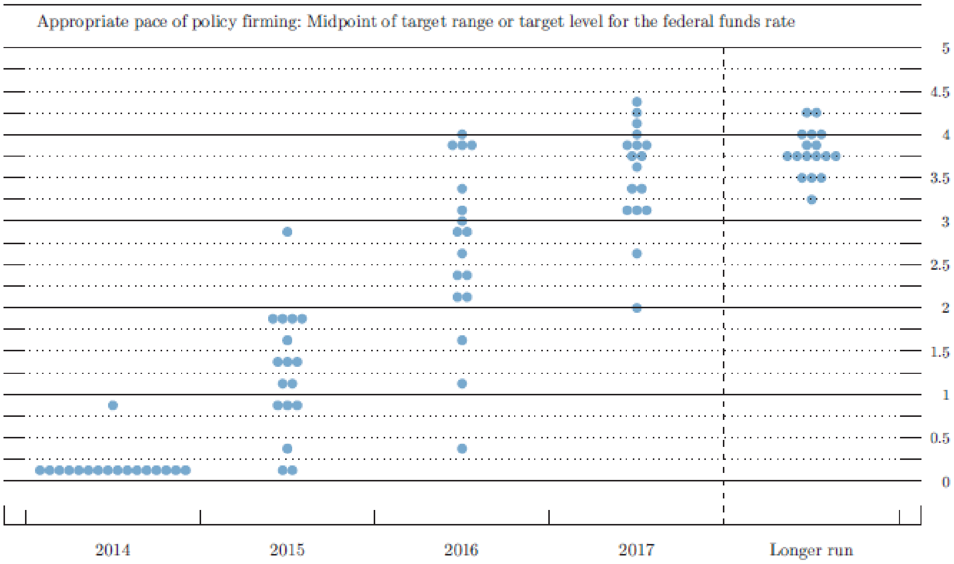
Figure 1. Federal Funds Rate Projections.



Source: Federal Reserve Open Market Committee

Most curious to this particular meeting among the nuances of the statement, projections, and ensuing news conference was that the Fed revised GDP projections for 2015. In this particular table, the Fed governors revised downward and widened the GDP range to "2.6 to 3.0" from "3.0 to 3.2." This revision is conceptually contradictory to the expectations of higher Federal Funds rates, especially when one considers that several of the "dots" in Figure 1 raised their 2015 projections from the previous quarter. Despite expecting lower growth, FOMC participants now prefer raising rates a bit higher.

Figure 2. Fed Governors Lower and Widen 2015 GDP Forecasts.

Percent					
Variable	Central tendency[1]				
	2014	2015	2016	2017	Longer run
Change in real GDP	2.0 to 2.2	2.6 to 3.0	2.6 to 2.9	2.3 to 2.5	2.0 to 2.3
June projection	2.1 to 2.3	3.0 to 3.2	2.5 to 3.0	n.a.	2.1 to 2.3
Unemployment rate	5.9 to 6.0	5.4 to 5.6	5.1 to 5.4	4.9 to 5.3	5.2 to 5.5
June projection	6.0 to 6.1	5.4 to 5.7	5.1 to 5.5	n.a.	5.2 to 5.5
PCE inflation	1.5 to 1.7	1.6 to 1.9	1.7 to 2.0	1.9 to 2.0	2.0
June projection	1.5 to 1.7	1.5 to 2.0	1.6 to 2.0	n.a.	2.0
Core PCE inflation[3]	1.5 to 1.6	1.6 to 1.9	1.8 to 2.0	1.9 to 2.0	
June projection	1.5 to 1.6	1.6 to 2.0	1.7 to 2.0	n.a.	

Source: Federal Reserve Open Market Committee

Our view of this curious change is that no matter how dovish Janet Yellen and the Fed majority wishes to be, they must elevate the near-zero Fed Funds rate next year. Economic data on the whole is on trend to support this plan, but GDP has experienced periods of brief disappointment as recently as the first quarter, polar vortex-driven, 2.1 percent contraction. Lowering and widening GDP expectations provides a greater window of opportunity for the Fed to raise rates even if the economy pauses. In fact and in part due to the compounding effect of the quarterly estimates, a 2.6 percent annual growth rate in 2015 is attainable even with only one 2015 quarter of 3.0 percent growth and the remaining quarters averaging 2.5 percent growth. This is indeed a wide berth for the Federal Reserve.

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With the exception of last May's "taper tantrum", the Fed's communication strategy has been one of gradual preparation for the inevitable first rate increase. Nobody should be surprised by the time it actually occurs next year, although there is bound to be some short-term volatility associated with that day. Rather, the biggest risk to the investment community is if the Fed does not raise rates sometime in 2015. Consider the circumstances should this occur. Either the U.S. economy suffers a meaningful economic slowdown or the Fed is so complacent that they are willing to risk another major financial asset and consumer price bubble sometime in the near future. This latter stagflation scenario would be particularly bad for bond investors as the only safe haven would be cash investments with long-term bonds then poised to underperform.

Our base economic scenario for 2015 is still aligned with a stable and broadening U.S. economy capable of growing 3 percent per annum or possibly more. Aside from the Fed risk previously discussed, Europe and China slowdowns may pose headwinds for U.S. growth, but are not expected to curtail what has been a resilient domestic economy. This fundamental economic strength and relatively low market volatility, thanks in part to Fed over-communication, is the basis for our general overweight allocation to the credit sectors at the expense of Treasury securities. Note, however, that we expect a gradual moderation of this credit sector overweight as current pricing implies fair valuations at best. Short-term Treasury yields remain vulnerable to a more active Federal Reserve, but long-term rates appear anchored by a confluence of forces including low inflation, an aging population, a strong dollar, and global yield differentials. Assuming our Federal Reserve and economic growth thesis holds true, we expect a significantly flatter yield curve where intermediate duration Treasuries underperform the combination of short maturity notes and long maturity bonds.

VI. 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

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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, Farmers 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, and 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

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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. 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.

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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 V, Portfolio Composition, provided that such funds do not allow derivatives. A maximum of 100% of the portfolio may be invested in money markets.

J. 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, 2014, 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 fixed rate and floating rate 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 major holdings included Treasury Notes, Corporates, 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,

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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 $24,996,938 in September 2014. For the month of September, these earnings resulted in a gross effective interest rate (annualized) of 1.4324 %. The Pool's fair value factor was 1.0046 for September. A factor more than 1.0000 provides that the market value of the Pool's investments is more than the funds invested in the Pool. For more information relating to the Treasury Investment Pool, please visit the website at www.fltreasury.org.

VII. 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.

VIII. 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,

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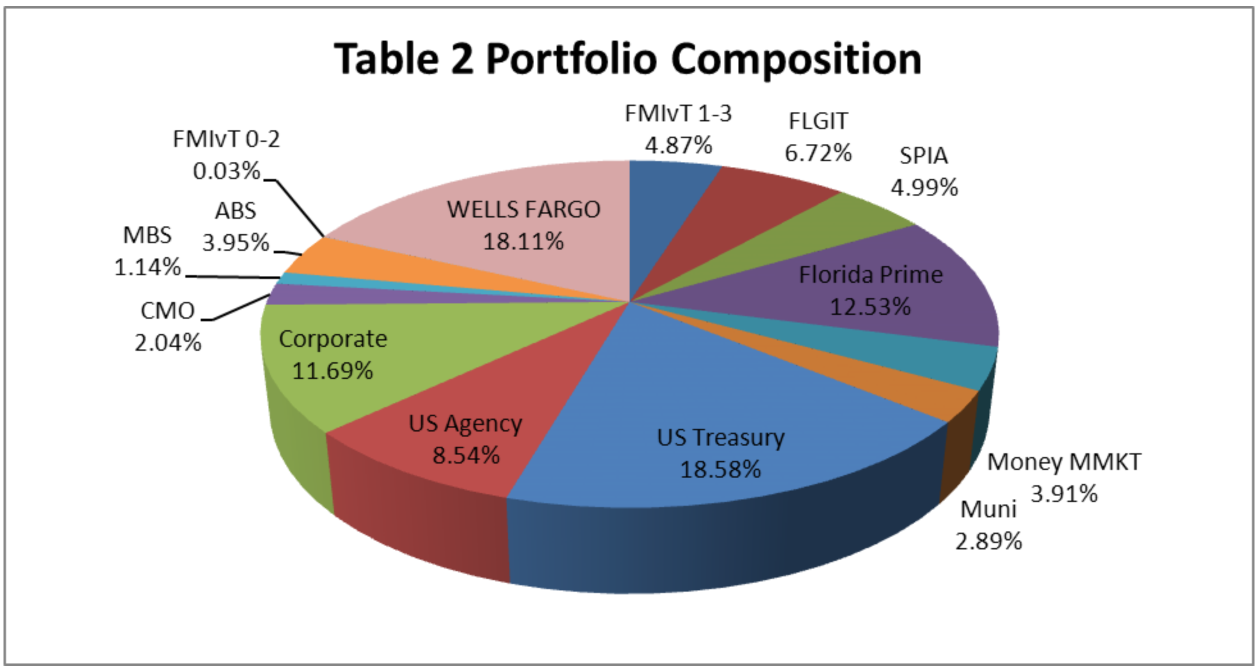
cash requirements, investment positions and trust account activity are determined daily. Current conditions and evaluations of national economic activity are considered in making asset allocation decisions.

A. Portfolio Balances

The portfolio's ending balance for fiscal year 2014 was $158,187,238 while the ending balance for 2013 was $170,850,481 a decrease of $12,663,243.

B. Portfolio Composition

During the fiscal year ending September 30, 2014, 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 2014 and 2013. 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

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a weighted average term of approximately 764 days in fiscal year 2014, as compared with a weighted average term of 911 days in fiscal year 2013.

Table 3 – Days to Average Term by Investment Type

Investment Type	FY 2014	FY 2013
Treasury	716	747
Agency	601	1030
MBS Pass Through	1713	945
CMO	521	563
ABS	725	703
CMBS	1070	1272
Municipal	719	721
Corporate	996	1137
Financial Deposit Instrument (CDs)	NA	NA
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 $1,031,184 of interest and realized gains of $50,480 for a total income of $1,081,664 for the fiscal year ended September 30, 2014. This total income provided an effective rate of return of 0.58% on an average daily balance of $187,095,655 in fiscal year 2014. For comparison, 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 1.00% on an average daily balance of $197,568,730 in fiscal year 2013.

The low interest earnings on the shortened duration portfolio coupled with the smaller portfolio balance resulted in less investment income than in the prior year.

The dollar amount of earnings is used in historical and budgetary comparisons, and in cash flow analysis. Actual interest earnings totaled $1,031,184, in fiscal year 2014 and $1,843,498 in fiscal year 2013. Actual earnings were less than the budget in fiscal year 2014 by $1,937,896 and in fiscal year 2013 by $441,263 as shown in Table 4.

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Table 4 - Budget and Actual Income

	FY 2014	FY 2013
Actual	1,031,184	1,843,498
Budget	2,969,080	2,284,761
Variance	(1,937,896)	($441,263)

IX. CONCLUSION

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

- Total income was below that of the prior fiscal year due to the smaller portfolio balance, the low interest rate environment, and the reduction of the duration of the portfolio.
- The Investment Portfolio is in full compliance with the Investment Policy.
- 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 November 5, 2014, 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