# ANNUAL INVESTMENT REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2015

BOB INZER
CLERK OF CIRCUIT COURT
AND COMPTROLLER

LEON COUNTY, FLORIDA

# ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2015
Leon County, Florida

## EXECUTIVE SUMMARY

The Commission approved Investment Policy provides for a very conservatively managed portfolio which performed as expected during the fiscal year 2015. 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 $1,813,692 of interest and realized gains of $27,016 for a total income of $1,840,708 for the fiscal year ended September 30, 2015. This total income provided an effective rate of return of 1.02% on an average daily balance of $180,253,953 in fiscal year 2015.** For comparison, 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.

In December 2014, due to the stable performance during continued market volatility, $60 million was transferred from the State of Florida Prime short-term portfolio to the State SPIA account. As a result, the duration of the portfolio increased from the prior year average of 1.63 years to a current year average of 2 years. As longer duration investments generally provide more yield, this resulted in higher income year over year in spite of lower investable balances.

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 in Table I below and the chart on page 10 as of September 30, 2015.

### *Table I Ending Balances Fiscal Year Ended September 30, 2015*

| ***Portfolio*** | **Book Value** | **Market Value** |
|---|---|---|
| *Insight Investment* | 78,145,650 | 78,306,142 |
| *FL Municipal Investment Trust 1-3* | 55,706 | 55,706 |
| *Fl Local Govt Investment Trust* | 10,021,740 | 10,021,740 |
| *Fl State Treasury SPIA* | 38,884,728 | 39,012,912 |
| *FL Prime* | 502,372 | 502,372 |
| *Wells Fargo Cash* | 17,038,305 | 17,038,305 |
| | | |
| *Total Cash and Investments* | 144,648,501 | 144,937,177 |

### *Table II Average Daily Balance and Income*

| ***Portfolio*** | **FY 2014 Ave** | **FY 2015 Ave** | **Income FY 2015** |
|---|---|---|---|
| *Insight Investment* | 77,123,930 | 77,947,276 | 794,623 |
| *FL Municipal Investment Trust 1-2* | 49,897 | | |
| *FL Municipal Investment Trust 1-3* | 7,683,330 | 2,010,210 | 5,776 |
| *Fl Local Govt Investment Trust* | 10,612,430 | 15,969,499 | 129,557 |
| *Fl State Treasury SPIA* | 7,811,185 | 56,539,101 | 844,704 |
| *Florida Prime* | 56,660,806 | 6,260,280 | 11,065 |
| *Wells Fargo Broker* | 5,815,236 | 493,201 | 291 |
| *Wells Fargo Cash* | 21,338,841 | 21,034,387 | 54,983 |
| *Total Daily Average* | 187,095,655 | 180,253,953 | |
| *Total Income* | | | 1,840,708 |
| *Income / Ave. Bal* | | | 1.02% |

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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 Director, Barnes Capital Group, David Reid, CPA, and Michael Kramer, COO of Desloge Home Oxygen.

Throughout the fiscal year, investments were made in compliance with the Investment Policy"s permitted investment types, composition limits and allowable maturities except for several purchases discussed below.

Florida statutes 218.415(16) authorizes local governments to adopt their own investment policies which may include Federal Agencies, among others, as permitted investments. Federal agencies include investments in 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.

Currently, the Leon County policy permits up to 100% of the portfolio to be invested in such securities. However, the policy limits authorized government agencies to the list on page 5 of this report. Several securities purchased during the fiscal year although backed by the full faith and credit of the US Government (US Government credit rating of AAA/AA+/AAA by Moody"s/S&P/Fitch) were not included in the list of agencies specified in the policy.

In response to an October 2015 staff request, the external manager investigated these purchases and determined that there was incorrect coding of several policy guidelines within the Cutwater compliance system. The external manager liquidated these purchases from the portfolio due to technical noncompliance and reimbursed the county for the $5,193 loss. As part of the acquisition of Cutwater by BNY Mellon, in August 2015, the investment management reporting was migrated to a new system. In November 2015, Insight staff completed an update of the compliance rules in the new system for the permitted agencies. This was followed by a full reconciliation of the guidelines included in the County"s Investment Policy with the new Insight system.

After review of other Florida government investment policies and holdings, the external manager developed suggested policy updates for discussion at a future IOC meeting. Since new agencies or investment options are always evolving, the IOC will review the entire policy to consider any necessary updates to the policy at that time.

## Investment Managers

The investment portfolio quarterly ending balances ranged from $144.8 million to $211.9 million during the fiscal year, with higher balances during the winter as taxes are distributed by the Leon County Tax Collector. The portfolio was allocated among the following government pools: Florida Treasury Special Purpose Investment Account (SPIA), Florida Prime, the Florida Local Government Investment Trust (FLGIT) and the Florida Municipal Investment Trust (FMIvT).

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Insight, the external manager invested an average of 42% of the portfolio in slightly longer-term investments.

Currently, Insight manages approximately $78 million. Intermediate fixed income portfolios have durations of 1.5-1.8 years. The established performance benchmark for Insight is the Bank of America/Merrill Lynch 1-3 Year Government Index.

Cutwater Asset Management managed the County‟s external portfolio since June 1, 2010. On January 2, 2015, Cutwater under the brand Insight became 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. Insight joined the BNY Mellon Investment Management platform, and the firm will have a board expected to be comprised of senior executives from Insight, 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. During the current fiscal year, the contract was renewed for an additional two years effective April 1, 2015. The current earnings credit earned on cash 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. One requirement is to present an annual report to the Board of County Commissioners. On October 11, 2011 and again on February 25, 2014, 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 Comptroller (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 Director, Barnes Capital Group, David Reid, CPA, 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. During the current year, the IOC lengthened the weighted average annual effective duration for the portfolio from 1.63 for 2014 to 2 years for 2015. The shift was made in December 2014 by transferring assets from the Florida Prime short-term pool into the Florida SPIA account with longer duration. This reallocation to the Florida SPIA account was monitored during several IOC meetings due to the SPIA program changes limiting the withdrawals by participants and due to potential changes in the Federal funds rate. In August of 2015, the IOC examined sensitivity forecasts for expected increases in the Fed funds rate from the external manager and SPIA. As a result of that analysis, no changes were recommended to be made for the portfolio duration and allocation of assets at that time.

## 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.

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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.

## 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 $1,813,692 of interest and realized gains of $27,016 for a total income of $1,840,708 for the fiscal year ended September 30, 2015. This total income provided an effective rate of return of 1.02% on an average daily balance of $180,253,953 in fiscal year 2015. For comparison, 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

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

Insight (formerly Cutwater) Fourth Quarter 2015 Review & Outlook

Leon County's investment portfolio managed by Insight underperformed its comparative benchmark, the Merrill Lynch 1-3 Year Government Index, for the fiscal year ending September 30, 2015. The external portfolio produced a total return, net of fees, of 1.08% compared to the Index return of 1.17%, which includes no fee charges.

The portfolio began the fiscal year positioned for changing Federal Reserve interest rate policy and tighter credit spreads. This expectation resulted in a portfolio that was, relative to the index, modestly short duration and overweight corporate bonds at the expense of Treasury securities. As the fiscal year progressed through 2015, it became increasingly evident that the decline in energy prices and the market volatility in China threatened to slow global growth and alter plans to raise interest rates. The Federal Reserve in fact had not raised rates and corporate securities underperformed Treasuries by the September 30, 2015 fiscal year end. The modest underperformance versus the benchmark index reflects these broad themes.

The market correction witnessed this past quarter was arguably long overdue. Over the last eight years of zero interest rate policy from the Federal Reserve we observed longer periods of relative

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stability than uncertainty. With the exceptions of the European debt crisis in 2011 and the „taper tantrum‟ in 2013, market prices have been reasonably stable if not predictable.

Broad market performance.

| | S&P 500 Return (incl div)[1] | Barclays US Agg Return[2] | US GDP[1] |
|---|---|---|---|
| 2009 | 26.4% | 5.9% | -0.2% |
| 2010 | 15.1% | 6.5% | 2.7% |
| 2011 | 2.1% | 7.8% | 1.7% |
| 2012 | 16.0% | 4.2% | 1.3% |
| 2013 | 32.4% | -2.0% | 2.5% |
| 2014 | 13.7% | 6.0% | 2.5% |

Perhaps this predictability has led to complacency in 2015. Maybe the market failed to recognize the likely impact of something other than a zero interest rate policy. The reality is that in addition to the potential for Federal Reserve policy normalization, corrections and crises are occurring at once and on a global scale. The one thousand point drop in the Dow Jones Industrial index on the morning of August 24th was initiated by changes in Chinese currency policy, but was preceded by months of declining industrial activity from the world‟s largest emerging economy. This had implications for global commodity prices and their producers in Brazil, Australia and the like. Brazil‟s sovereign rating was unceremoniously downgraded to below investment grade. Oil prices have been under pressure for most of the year due to oversupply and plunged another 30 percent during the quarter. Meanwhile, Europe‟s fragile economic recovery narrowly avoided a Greek sovereign default but is now faced with a migrant crisis that once again threatens the cohesiveness of this economic bloc. The economic and political impact of this human tragedy is still unknown.

So given these events, it should be of no surprise to a casual market observer that the Fed decided against raising policy rates at the September meeting. What was surprising was the acknowledgement of these global events as being a primary catalyst for the decision. The Fed will „wait and see‟ if these external global events will have an effect on the US economy. Risk assets did not react favorably to this decision as it leaves us wondering if conditions will improve enough to make good on their implied promise of initiating policy normalization sometime in 2015. By linking policy action to market performance, the Fed has actually increased the uncertainty around the start of the normalization cycle and set a dangerous precedent in the process. Further complicating matters for the Fed were the September payroll results, which proved to be one of the most disappointing reports in several years. Hours worked, wages paid and payrolls added all missed consensus and were below trend. There is no seasonal adjustment or „polar vortex‟ reason available to rationalize this latest report.

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2015 returns indicate an unfamiliar environment.

| | S&P 500 Return (incl div)[1] | Barclays IG Corp Excess Returns[2] | 2yr Tsy Yield[1] | 10yr Tsy Yield[1] |
|---|---|---|---|---|
| 1Q 2015 | 1.0% | 0.3% | 0.6% | 1.9% |
| 2Q 2015 | 0.3% | -0.9% | 0.6% | 2.4% |
| 3Q 2015 | -6.4% | -1.5% | 0.6% | 2.0% |

[1] Source: Bloomberg Finance LP, 9/30/2015.
[2] Source: Barclays, 9/30/2015.

Our 2015 investment thesis posited that the US economy is strong enough to warrant increases in the Federal Funds rate. Under these conditions, Treasury yields should rise and opportunities for additional return in the risk sectors such as corporate bonds are available. The events realized during the third quarter now present the first serious challenge to this thesis. Firstly, is the US economy strong enough to withstand policy normalization? We still say „yes‟ as we evidenced in the second quarter commentary by the housing, energy and financial strength tailwinds benefitting the US consumer. While the September employment report was downbeat, one bad sample in a broader trend does not provide proof of a new trend.

Secondly, will the Federal Reserve initiate rate normalization that results in our expected higher Treasury yield and credit opportunity investment calculus? We say, „maybe but it might not matter.‟ The reality of the global macro events outlined above and the low liquidity/high volatility environment we also discussed last quarter now present a higher hurdle to achieve a prolonged period of positive sentiment in the market. Put differently, risk premium is now higher to account for these current conditions. This high hurdle now probably includes evidence of and progress towards global policy normalization. Europe will need to become comfortable with ending its easing program as indicated in 2016 or possibly early 2017 so long as inflation is on an upward trajectory. Energy and commodity prices will have to settle down and overcapacity will need to be wrung from the system. Perhaps most importantly, confidence in China and Brazil will need to be rebuilt.

So the Federal Reserve raising interest rates is possibly only one step in a longer journey to gain confidence in a prolonged „risk on‟ environment. Assuming that the US is not about to tip into recession, then holding investment grade corporate credit at +169 basis points in risk premium compensates us appropriately in the new environment. The difference is that portfolio positioning will likely adjust more readily to rallies that are likely to be short-lived. Differently from what we said earlier in the year, we are no longer „comfortable‟ holding credit based solely on a constructive US economic outlook, but we can „get comfortable‟ when we believe there is adequate premium to compensate us for the current global risks.

## 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 Policy permits maturities of the operating portfolio establishing a range of 60 days to 10 years. Table 1 gives a brief description of each investment type. It is generally

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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, 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%.

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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 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.

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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.

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, 2015, 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

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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).

In March 2015, the Florida Treasury implemented procedures to provide better cash forecasting and an increase in funds available for longer term investments which should increase the interest earnings of the pool as a whole. These enhancements include (1) closing the pool to new noncomponent unit entities, (2) requiring new withdrawal notices and minimum balance requirements and (3) setting a cap on investment amounts. Instead of 100% liquidity with 3 days‟ notice, the Florida Treasury now requires 5 days‟ notice for liquidations between $20 and $75 million and 20 days‟ notice for liquidations over $75 million. In addition, 6 months‟ notice is required for liquidations planned below a floor calculated as 60% of the previous 3 months average balance. The changes by the Florida Treasury will reduce the possibility of large unplanned liquidations from the pool. The IOC evaluated these changes and determined that the associated risks would be monitored and dollars reallocated between asset classes (including SPIA) based on periodic analysis of the market risk.

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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 $26,532,533 in September 2015. For the month of September, these earnings resulted in a gross effective interest rate (annualized) of 1.40%. The Pool‟s fair value factor was 1.0033 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, 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 2015 was $144,937,177 while the ending balance for 2014 was $158,187,238 a decrease of $13,250,061.

### B. Portfolio Composition

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 diversification requirements for investment types as shown in the following Table 2.

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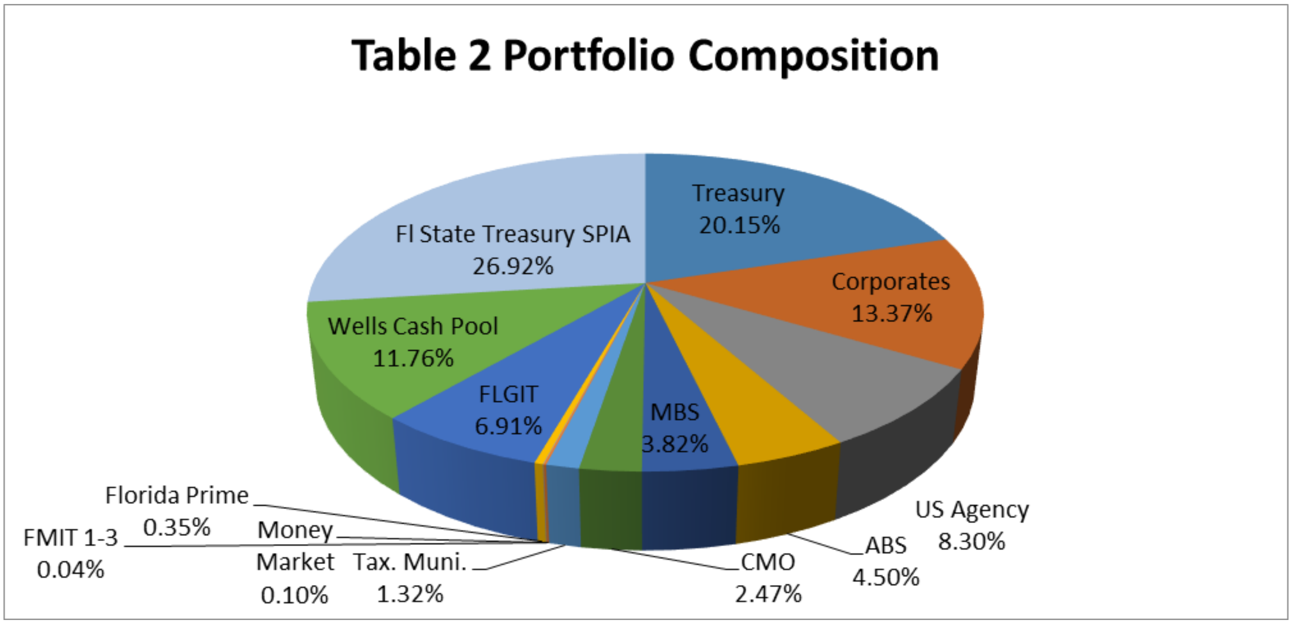


C. Portfolio Maturities

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 2015 and 2014. Average term is the weighted 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 1,210 days in fiscal year 2015, as compared with a weighted average term of 1,405 days in fiscal year 2014.

*Table 3- External Manager Average Term by Investment Type*

| | FY 2015 | FY 2014 |
|---|---|---|
| *US Treasury Notes* | 1,030 | 998 |
| *US Agency Notes* | 1,024 | 1,490 |
| *Mortgage Backed Securities* | 1,229 | 2,727 |
| *Asset Backed Securities* | 1,692 | 1,787 |
| *Collateralized Mortgage Obligations* | 1,871 | 3,164 |
| *Municipal Notes* | 1,723 | 1,573 |
| *Corporate Notes* | 1,264 | 1,435 |

D. Earnings and Yields

**The portfolio earned interest of $1,813,692 and realized gains of $27,016 for a total income of $1,840,708 for the fiscal year ended September 30, 2015. This total income provided an effective rate of return of 1.02% on an average daily balance of $180,253,953 in fiscal year 2015.** For comparison, 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.

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The range of duration of the County‟s overall portfolio is defined as 0.5 years to 2.5 years. Unusual market or economic conditions may mandate moving the portfolio outside of this range. The Investment Oversight Committee will be convened and will approve any portfolio duration outside of the range specified above. The expanded duration of the portfolio from an annual average of 1.63 in 2014 to 2.00 years in 2015 resulted in more investment income than in the prior year.

*Table 4- Quarter Wt. Average Yields*

| | 9.30.14 | 12.31.14 | 03.31.15 | 06.30.15 | 09.30.15 |
|---|---|---|---|---|---|
| *Insight* | 0.95% | 0.97% | 0.88% | 0.97% | 1.03% |
| *FL Muni Investment Trust - 1-2 year* | 0.37% | | | | |
| *Fl Muni Investment Trust - 1-3 year* | 0.72% | 0.77% | | | |
| *Fl Local Govt Investment Trust* | 0.57% | 0.64% | 0.62% | 0.66% | 0.74% |
| *Fl State Treasury SPIA* | 1.31% | 1.81% | 1.56% | 1.03% | 1.29% |
| *Florida Prime* | 0.16% | 0.16% | 0.18% | 0.22% | 0.25% |
| *Wells Fargo Cash Pool* | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% |
| *Wells Fargo Money Market Fund* | 0.06% | | | | |
| | 0.68% | 1.23% | 1.10% | 0.86% | 0.99% |

The dollar amount of earnings is used in historical and budgetary comparisons, and in cash flow analysis. Actual interest earnings totaled $1,813,692 in fiscal year 2015 and $1,031,184 in fiscal year 2014. Actual earnings were $858,617 more than the budget in fiscal year 2015 and $1,937,896 less than the budget in fiscal year 2014.

*Table 5- Budget and Actual Income*

| | FY 2015 | FY 2014 |
|---|---|---|
| *Actual* | 1,813,692 | 1,031,184 |
| *Budget* | 955,075 | 2,969,080 |
| | | |
| *Variance* | 858,617 | (1,937,896) |

## IX. CONCLUSION

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

- Total income was above that of the prior fiscal year due to increasing the duration of the portfolio by transferring assets from the Florida Prime short term pool to the longer duration Florida Treasury SPIA account.

- The Investment Portfolio activity was in compliance with the Investment Policy components of objectives, composition, and allowable maturities. However, as discussed on page __the compliance review of permitted investments identified several government agency purchases, although permitted by Florida Statutes and guaranteed by the full faith and credit of the US Government, were not included in the eligible agencies listed in the IOC policy. These purchases were liquidated and policy changes were drafted for consideration at a future meeting.

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- The economic environment continued to be highly volatile. In addition, a determination of how much cash to invest in SPIA given new cap limitations and the notice required to withdraw cash. Accordingly, the IOC requested interest rate sensitivity analyses performed by the fund managers for SPIA and Insight Investments. The Insight forecast showed lower returns as compared to SPIA. This is expected because the impact of rising rates on Insight performance was greater since the magnitude of such changes is more material for short term investments managed by Insight. There was concurrence that no change in investment strategy would be made at that time; however, staff and the IOC would continue to monitor the market and make adjustments in investment strategy as warranted.

**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 February 2, 2016 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 | Bob Inzer, Clerk of the Circuit Court and Comptroller |
| Investment Oversight Committee | Leon County, Florida |