ANNUAL INVESTMENT REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2016

BOB INZER
CLERK OF CIRCUIT COURT
AND COMPTROLLER

LEON COUNTY, FLORIDA

ANNUAL INVESTMENT REPORT
Fiscal Year Ended September 30, 2016
Leon County, Florida

EXECUTIVE SUMMARY

The Commission approved Investment Policy provides for a conservatively managed portfolio that performed as expected during fiscal 2016. Policy controls related to portfolio duration, credit quality, liquidity and instrument selection have been established to reduce volatility with respect to investment returns. **The portfolio earned $2,153,602 of interest and realized gains of $192,938 for a total income of $2,346,541 during the fiscal year ending September 30, 2016. This total income provided an effective rate of return of 1.34% on an average daily balance of $175,731,432.** For comparison, the portfolio earned $1,813,692 of interest and realized gains of $27,016 for a total income of $1,840,708 during the fiscal year ending September 30, 2015. This total income provided an effective rate of return of 1.02% on an average daily balance of $180,253,953.

Throughout the most recent fiscal year, staff continued to invest large balances in the State of Florida Special Purpose Investment Account (SPIA). During the most recent fiscal year, staff increased the average daily balances in the State of Florida SPIA from about $56 million to $64 million. Although overall portfolio investable balances were lower and the average duration remained approximately 2 years, the allocation of more funds to SPIA with it's longer average duration of 2.60 years provided higher 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 in Table I below and the chart on page 9 as of September 30, 2016.

Table I Ending Balances Fiscal Year Ended September 30, 2016

Portfolio	**Book Value**	**Market Value**
Insight Investment	79,237,504	79,401,235
Fl Local Govt Investment Trust	583,227	583,227
Fl State Treasury SPIA	45,144,848	45,690,395
FL Prime	510,251	510,251
Wells Fargo Cash	17,156,289	17,156,289
Total Cash and Investments	142,632,119	143,341,397

Table II Average Daily Balance and Income

Portfolio	**FY 2015 Ave**	**FY 2016 Ave**	**Income FY 2016**
Insight Investment	77,947,276	78,831,746	1,102,982
FL Municipal Investment Trust 1-3	2,010,210		
Fl Local Govt Investment Trust	15,969,499	10,447,425	147,662
Fl State Treasury SPIA	56,539,101	64,762,094	1,021,510
Florida Prime	6,260,280	1,159,153	7,879
Wells Fargo Cash	21,034,387	20,531,013	66,508
Wells Fargo Broker Account	493,201		
Total Daily Average	180,253,953	175,731,432	
Total Income			2,346,541
Income / Ave. Bal			1.34%

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Investment Oversight Committee

The Investment Policy of the Board of County Commissioners 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, Director of Financial Stewardship, Scott Ross; and three qualified individuals with financial or investment expertise who are independent of employment and business relationships with Leon County. They are David Reid, CPA, Michael Kramer, managing partner, K3 Investments, and J. Ben Watkins III, State of Florida Director of the Division of Bond Finance.

During the fiscal year ending September 30, 2016, 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 quarterly ending balances ranged from $143,341,397 to $217,985,551 during the fiscal year, with higher balances during the winter as tax collections are distributed by the Leon County Tax Collector. The internal portfolio was generally allocated to the Florida Treasury Special Purpose Investment Account (SPIA) during the year due to the higher returns.

Insight Investment, the external manager invested an average of 44% of the Leon County portfolio. Currently, Insight Investment manages approximately a $79 million fixed income assets that results in a portfolio duration ranging between 1.5 and 2.0 years. The established performance benchmark for Insight is the Bank of America/Merrill Lynch 1-3 Year Government Index. Insight Investment, formerly known as Cutwater Asset Management, has managed the County's external portfolio since June 1, 2010.

The Clerk completed bidding out its banking relationships pursuant to a competitive selection process and entered into a new contract on April 1, 2012, with Wells Fargo Bank. During the most recent fiscal year, the contract was renewed for an additional two years starting April 1, 2017. The current earnings credit earned on cash balances is 75 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. During Fiscal Year 2016, the IOC reviewed the Policy and recommended revisions. The recommendations will be finalized at a future IOC meeting and submitted to the Board for approval.

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 was 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, to provide short-range direction, and to monitor the performance and structure of the County's portfolio. The IOC consists of the Clerk; the County Administrator Designee, Director of Financial Stewardship, Scott Ross 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 David Reid, CPA, Michael Kramer, managing partner, K3 Investments, and J. Ben Watkins III, State of Florida Director of the Division of Bond Finance.

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 maintain the average annual effective duration for the portfolio of about two years. Given the potential for an increasing Fed funds rate the IOC will continue to carefully monitor the portfolio duration and allocation of assets.

IV. INVESTMENT OBJECTIVES

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

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

The second objective is the provision of sufficient liquidity. A portion of the County's overall portfolio should be maintained very liquid in order to meet operating, payroll, and ongoing capital requirements. Maintaining a core level of assets with the government pools, such as the Treasury Special Purpose Investment Account (SPIA) or other short-term entities, is viewed as the best way of maintaining secure asset values with sound investment practices. The remainder of the overall

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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

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 $2,153,602 of interest and realized gains of $192,938 for a total income of $2,346,541 during the fiscal year ending September 30, 2016. This total income provided an effective rate of return of 1.34% on an average daily balance of $175,731,432. For comparison, the portfolio earned $1,813,692 of interest and realized gains of $27,016 for a total income of $1,840,708 during the fiscal year ending September 30, 2015. This total income provided an effective rate of return of 1.02% on an average daily balance of $180,253,953.

The Following is an overall market and portfolio specific commentary provided by the County's investment advisor, Insight Asset Management, Inc.

Insight Investment Fourth Quarter 2016 Review & Outlook

On November 8th, Donald Trump was elected as the next president, suggesting significant changes to global trade arrangements, tax policies and industrial policy over the next four years. Going into 2017, the timing and details of these policies and the response from important trading partners will be a determining factor for the global economic outlook. Many initial appointments to president-elect Trump's cabinet have come from the business community and are likely to support tax cuts, which should boost investor confidence. With domestic economic data remaining robust, the market had fully priced in the rate hike of 25bp to the Federal funds target rate, to a range of 0.50% to 0.75%, at the time of the Federal Open Market Committee meeting on December 13-14, 2016. In Europe, the focus is likely to be on upcoming elections in France, the Netherlands, and Germany as well as the Brexit negotiations. The outlook for emerging markets is likely to be heavily influenced by potential Trump policies as well as their implications for the US dollar. Fundamentally, we continue to see some further improvements in the Asian exporting countries that should further support global growth. Unique economic circumstances in several developing economies like India and Venezuela might detract from this growth expectation and are worth monitoring.

From a domestic inflation perspective, oil prices and broader commodities have remained volatile, but are firmly in positive territory year-to-date. With West Texas crude prices above $50, year-over-year declines washed out at the beginning of December. Personal consumption expenditure releases are likely to move into focus next year, although the latest core consumption reading was weaker than expected at 1.6% for November. Similarly, core inflation in the US should continue to face upward pressure from the rental component next year, after a fall from 2.3% to 2.1% since August. Producer price inflation has continued on its upward trajectory at 1.3% for November.

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One result from this improving economic and inflation landscape was a significant rise in US Treasury yields. Yields on 10-year US Treasuries steadily climbed from the 1.35% summer low to 1.80% partly in response to improving growth fundamentals, but also due to growing concern that extraordinarily accommodative global monetary policy may be nearing an end. Then abruptly, following the one-two punch of the election and the December Federal Reserve rate hike, 10-year notes finished the year ending December 2016 at 2.45%.

The credit sectors within the fixed income market finished the fourth quarter and 2016 with positive momentum. The performance turnaround from the beginning of the year was supported generally by accommodative global central bank policy, rebounding commodity markets and improving economic data. After all, both the European Central Bank and the Bank of England introduced corporate bond purchase programs as part of their mandates that eventually took risk premiums tighter. The final potential negative catalyst for the year took the form of the US election, which resulted in further risk premium compression on optimism for growth-oriented fiscal policy in 2017. The net result for US investment grade and below investment grade corporate securities was outperformance versus US Treasuries of 4.9% and 15.7% respectively, during 2016. The worst performing sector of significance within fixed income proved to be agency mortgage-backed securities as this sector remains prone to interest rate volatility.

During the past three years, market direction was primarily dictated by central bank policy. In thinking about 2017, a more balanced approach to managing macro risks is likely required. Namely, central bank policy, government policy and realized economic growth will likely have equal contributions to market direction. As such, we anticipate evaluating fiscal policies and economic fundamentals more substantially in 2017 as potential catalysts for market change. Perhaps this will lead to healthier investment markets that are not distorted by central bank policy. Maybe true market diversification will be the result, as returns from duration positioning, sector and sub sector allocation will potentially be less correlated.

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 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 FDIC)	30%	*2-Year, 1-Year Avg*
Federal Agencies	100%, 20% any one issuer	*5-Year*
Federal 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*

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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)

Investments may be made in negotiable direct obligations or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to, the following: Treasury and Cash Management Bills, State and Local Government Series (SLGS), Notes, Bonds Treasury Strips, and Treasury Inflation Protected Securities (TIPS)The securities comprising Treasuries are direct obligations of the U.S. Government. 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

For funds that are initially deposited in a qualified public depository, the selected depository may arrange for depositing funds in financial deposit instruments insured by the Federal Deposit Insurance Corporation in one or more federally insured banks or savings and loan associations

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wherever located for the account of Leon County Board of County Commissioners. 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

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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 effective during the fiscal year 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 VI, Permitted Investments, 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, 2016, 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

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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.

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 $34,482,903 in September 2016. For the month of September, these earnings resulted in a gross effective interest rate (annualized) of 1.70%. The Pool's fair value factor was 1.0121 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 http://www.myfloridacfo.com/Division/Treasury/.

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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.

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 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 2016 was 143,341,397 while the ending balance for 2015 was $144,937,177, a decrease of $1,595,780.

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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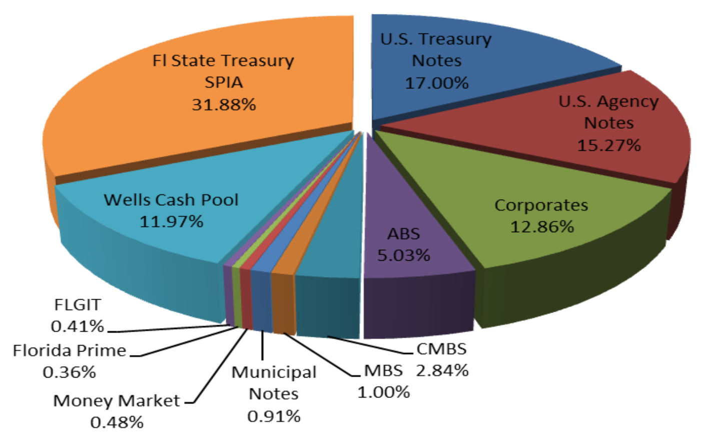
Table 2 Portfolio Composition



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 2016 and 2015. 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 1,191 days in fiscal year 2016, as compared with a weighted average term of 1,210 days in fiscal year 2015.

Table 3- External Manager Average Term by Investment Type

	FY 2016	FY 2015
US Treasury Notes	1,044	1,030
US Agency Notes	928	1035
Commercial Mortgage Backed Securities	2,364	1,229
Asset Backed Securities	1,709	1,692
Mortgage Backed Securities	2519	21141
Municipal Notes	1,803	1,723
Corporate Notes	1,134	1,264

D. Earnings and Yields

The portfolio earned $2,153,602 of interest and realized gains of $192,938 for a total income of $2,346,541 for the fiscal year ended September 30, 2016. This total income provided an effective rate of return of 1.34% on an average daily balance of $175,731,432 fiscal year 2016. For comparison, 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

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provided an effective rate of return of 1.02% on an average daily balance of $180,253,953 in fiscal year 2015.

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 duration of the portfolio continued to be an annual average of 2.00 years.

Table 4- Quarter Wt. Average Yields

	09.30.15	12.31.15	03.31.16	06.30.16	09.30.16
Insight	1.03%	1.32%	1.02%	0.87%	1.05%
Fl Local Govt Investment Trust	0.74%	0.97%	0.93%	0.84%	1.11%
Fl State Treasury SPIA	1.29%	1.10%	1.66%	1.83%	1.58%
Florida Prime	0.25%	0.35%	0.57%	0.62%	0.78%
Wells Fargo Cash Pool	0.30%	0.30%	0.30%	0.30%	0.50%
	0.99%	1.01%	1.29%	1.17%	1.15%

The dollar amount of interest earnings is used in historical and budgetary comparisons, and in cash flow analysis. Actual interest earnings totaled $2,153,692 in fiscal year 2016 and $1,813,692 in fiscal year 2015. Actual interest earnings were $1,055, 776 more than the budget in fiscal year 2016 and $858, 617 more than the budget in fiscal year 2015.

Table 5- Budget and Actual Income

	FY 2016	FY 2015
Actual	2,153,692	1,813,692
Budget	1,097,916	955,075
Variance	$1,055,776	$858,617

IX. CONCLUSION

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

- Although average available cash to investment decreased year over year, total income was higher due to increasing the average daily investments in the higher earning portfolios of the Florida State Treasury SPIA by $8 million and the externally managed Insight portfolio by $885,000.

- The Investment Portfolio activity was in full compliance with the Investment Policy.

- The economic environment continued to be highly volatile. The external manager advised that Insight would tactically manage the duration as changes in the market occurred.

Investment Oversight Committee

The IOC met quarterly to oversee the performance of the external manager. The investment policy requires staff to notify the IOC any time that any holdings drop below the minimum credit ratings

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required under the policy. The IOC will consider the then current market environment and make recommendations to either hold and monitor the investments or to liquidate the investments.

On February 23, 2017 the IOC met to review and approve this annual report summarizing the performance of the internal portfolio and the external manager.

Presented by:

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David Reid, Chairman
Investment Oversight Committee

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Gwendolyn Marshall, Clerk of the Court
and Comptroller, Leon County, Florida