MEMORANDUM

AGENDA ITEM NO. 11(B)9

TO: Honorable Chairperson Barbara Carey-Shuler, Ed. D. and Members, Board of County Commissioners

DATE: February 3, 2004

FROM: George M. Burgess, County Manager

SUBJECT: Year-End Portfolio Performance Report

As required by Resolution No. R-1178-95, we respectfully submit the annual report on the performance of Miami-Dade County's portfolio. The adjusted book value of the portfolio at September 30, 2003 was $3,065,060,000 and its market value was $3,069,974,000.

The portfolio contains all of the County's funds which include the Treasurer's Fund (24%); Pool II (18%) consisting of investments for longer term capital funds; the Water & Sewer Authority Department (24%); Miscellaneous funds (34%) which consists of Aviation Department funds, Housing Agency funds and the funds of the Clerk of Courts.

The fund's composition is U.S. Government Treasury (.78%) U.S. Federal Agencies (47.29%); Commercial Paper rated A1 or P1 (17.84%); the State of Florida's SBA Trust Fund (30.82%); AIM, a registered AAA rated money market fund (3.24%); and certificates of deposits with a financial institution which is a State of Florida depository (0.03%).

The average maturity of the portfolio for fiscal year 2003 was 229 days. Shorter maturities consist of investments in Commercial Paper and U.S. Federal Agencies Discount Notes, while longer maturities consist of investments in U.S. Federal Agencies Coupons. A total of 32.14% of the portfolio is in these longer maturities instruments, which have a strong secondary market. The County's policy is to limit long-term investments to no more than three (3) years.

The investment objective for the portfolio incorporates "Safety of Principal" and "Liquidity of Funds" and incorporates the "prudent person" standard. Such standard stipulates that investments shall be made with judgment and care, under circumstances prevailing, which persons of prudence, discretion and intelligence, exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The net earnings on all investments were $59,344,000. The interest rate comparison for the fiscal year compares the County's investment rates to investments rates of the SBA (State of Florida Local Government Surplus Funds Trust Funds) and the 180 days U.S. Government Treasury Bill. The County's average return on investments for fiscal year

2003 was 1.82%; the State of Florida's SBA was 1.51%, and the one year average of 180 days U.S. Government Treasury Bill was 1.30%.

During fiscal year 2003, the Federal Reserve cut the Federal Funds overnight rate on November 6, 2002 and June 25, 2003 bringing the Fed Funds rate to 1%; the lowest level in 45 years. The Federal Funds rate cuts had a direct impact on the County's average return on investments in fiscal year 2003 and will continue to have an impact in fiscal year 2004 since the Federal Reserve official have signaled that short-term rates are expected to remain low for a long time.

We are attaching the Annual Summary Investment Report as of September 30, 2003 and a Public Investor Update for the quarter ending September 30, 2003 prepared by First Southwest Asset Management Inc., our Investment Consultant.

for CORINNE BRODY.
ASSISTANT COUNTY MANAGER.

Miami-Dade County

Yearly Summary Investment Report

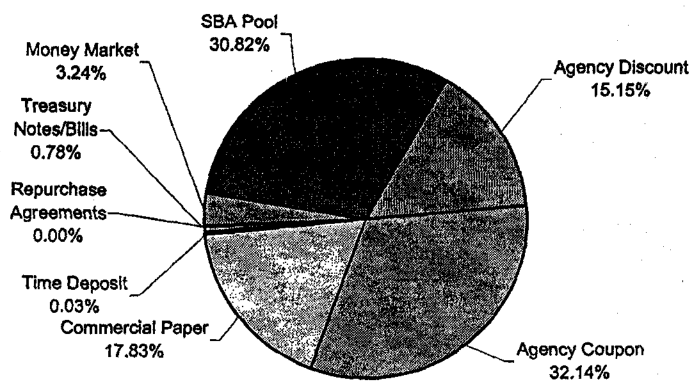
For the Period Ended

September 30, 2003

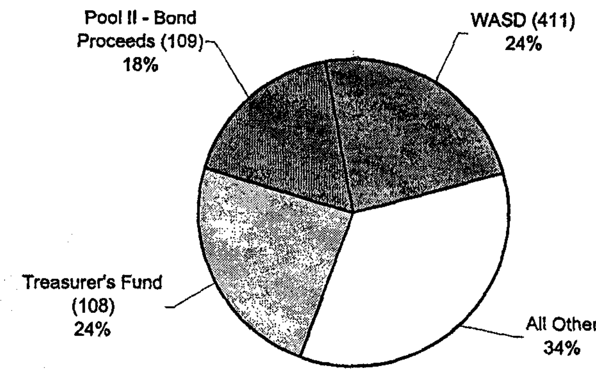
MIAMI - DADE

Miami-Dade County
Total Portfolio Summary
September 30, 2003

Portfolio Composition

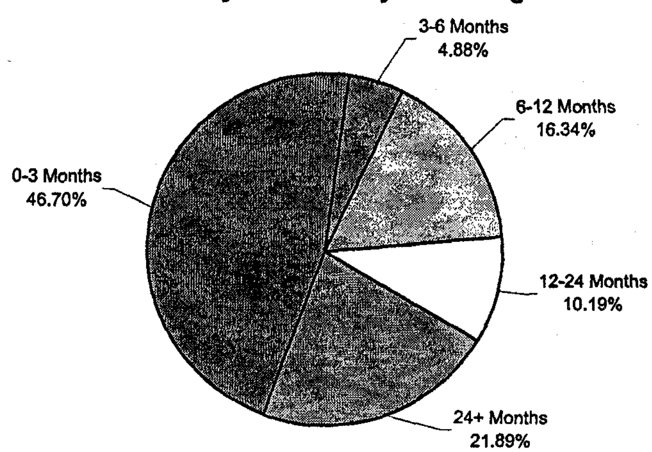


Portfolio Allocation By Fund

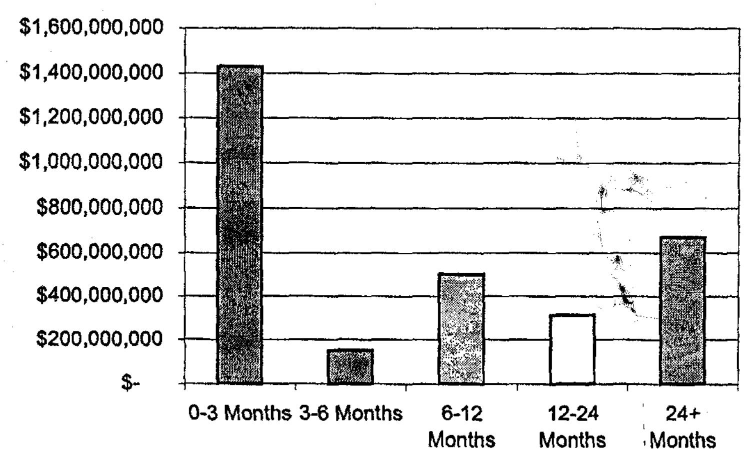


Maturity Summary

Maturity Schedule by Percentage



Maturity Schedule by Amount



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Miami-Dade County
Summary Statement
September 30, 2003

Portfolio Summary

	Current 9/30/2003	Previous Month 8/31/2003	Change from Prior Month	Prior Quarter 6/30/2003	Change from Prior Quarter
Par Value	$ 3,061,242,212.05	$ 3,093,169,680.36	$ (31,927,468.31)	$ 3,259,836,112.80	$ (198,593,900.75)
Book Value	$ 3,065,059,786.73	$ 3,096,819,298.97	$ (31,759,512.24)	$ 3,259,647,168.62	$ (194,587,381.89)
Market Value	$ 3,069,973,973.04	$ 3,097,071,184.36	$ (27,097,211.32)	$ 3,264,296,533.39	$ (194,322,560.35)
Market Value as a % of Book Value	100.16%	100.01%	0.15%	100.14%	0.02%
Accrued Interest	$ 10,571,985.22	$ 11,297,492.05	$ (725,506.83)	$ 12,202,263.79	$ (1,630,278.57)
Total Value (Market Value+ Accrued Interest)	$ 3,080,545,958.26	$ 3,108,368,676.41	$ (27,822,718.15)	$ 3,276,498,797.18	$ (195,952,838.92)
Interest Earned (Current Month)	$ 3,959,044.97	$ 4,106,740.59	$ (147,695.62)	$ 4,747,834.94	$ (788,789.97)
Interest Earned Fiscal YTD (10/1 - 9/30)	$ 59,344,410.59	$ 55,375,403.01	$ 3,969,007.58	$ 47,020,638.14	$ 59,344,410.59
Unrealized Gain (Loss)	$ 4,914,186.31	$ 251,885.39	$ 4,662,300.92	$ 4,649,364.77	$ 264,821.54
Weighted Average Maturity	228.7	223.66	5.04	188.86	39.84
Yield to Maturity	1.58%	1.54%	0.04%	1.64%	-0.06%
Earned Income Yield for Period	1.58%	1.53%	0.05%	1.73%	-0.15%
Earned Income Yield for Year to Date	1.82%	1.83%	-0.02%	1.90%	-0.09%

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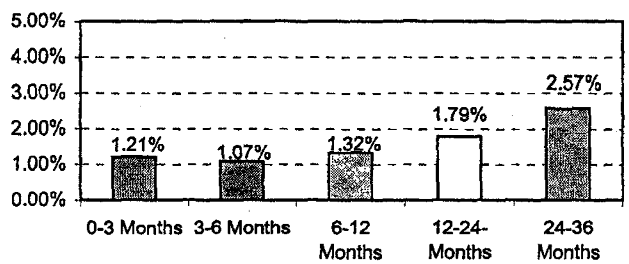
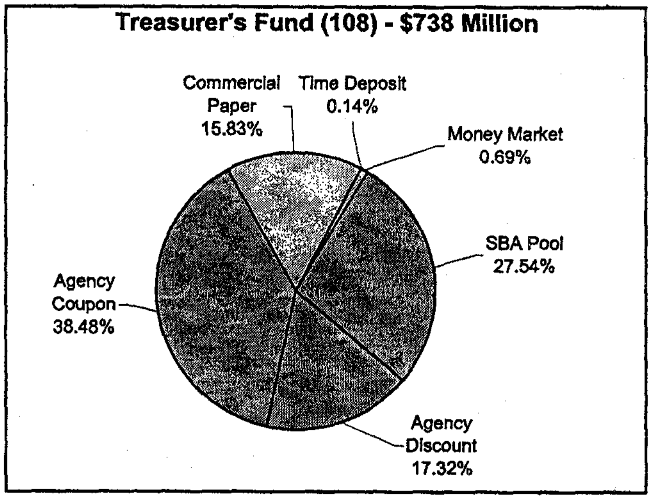
Yield Maturity Breakdown

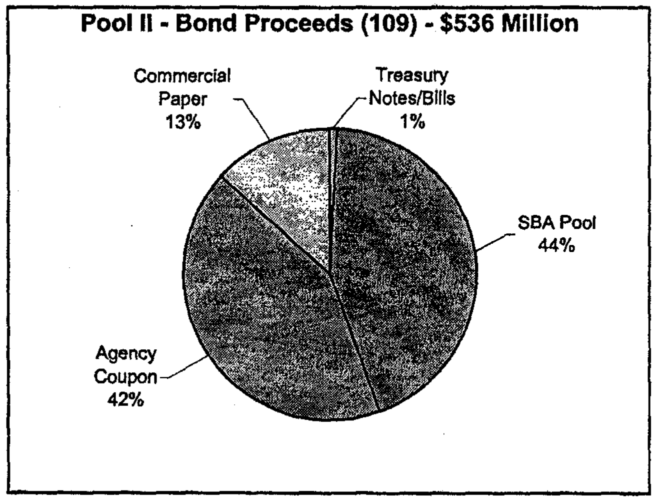


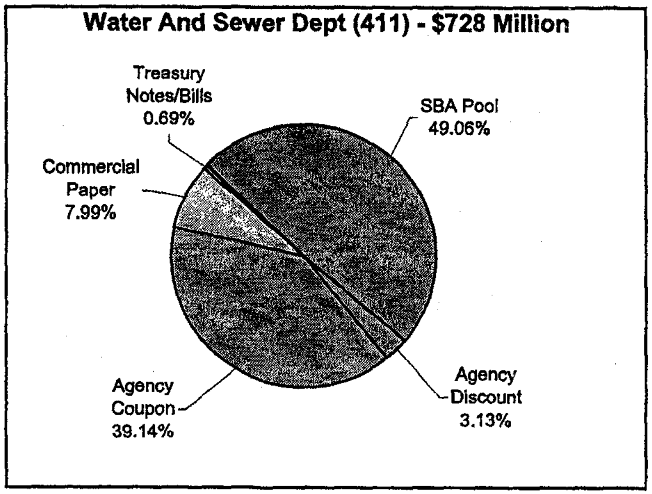
Policy Compliance

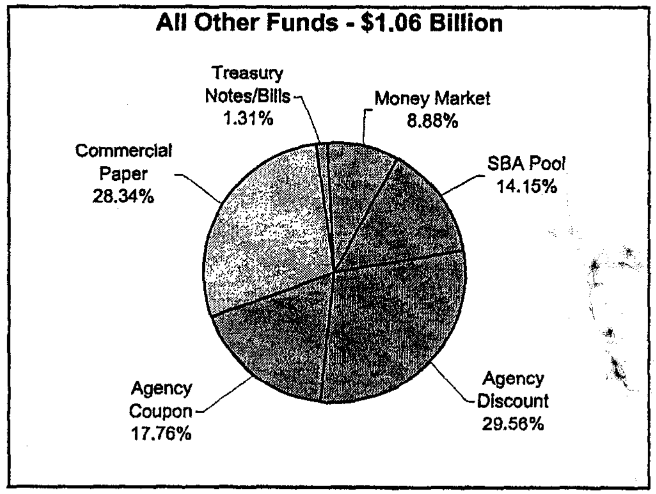
Security Type	% Limit	Current %	Result
Treasuries	100%	0.78%	PASS
Agencies	60%	47.29%	PASS
Commercial Paper	60%	17.83%	PASS
-CP Single Issuer Max	*5%*	*3.80%*	*PASS*
Banker's Acceptance	25%	0.00%	PASS
Time Deposits	20%	0.03%	PASS
SBA/Investment Pools	50%	30.82%	PASS
Money Market Funds	30%	3.24%	PASS
Repurchase Agreement	20%	0.00%	PASS
Open/Closed End Funds	5%	0.00%	PASS

Miami-Dade County
Portfolio Composition
September 30, 2003









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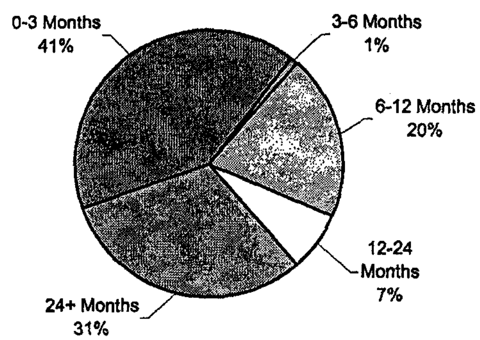
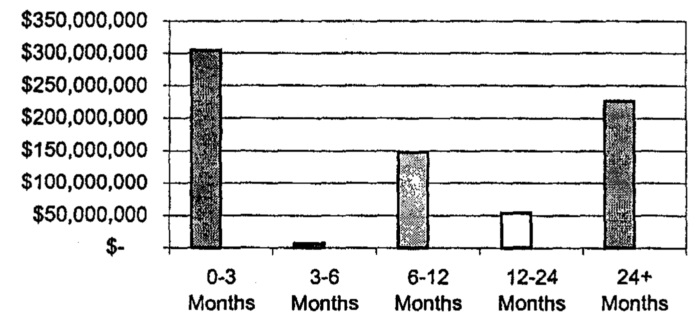
Miami-Dade County
Maturity Breakdown
September 30, 2003

Treasurer's Fund (108) - $738 Million

Maturity Schedule by Percentage

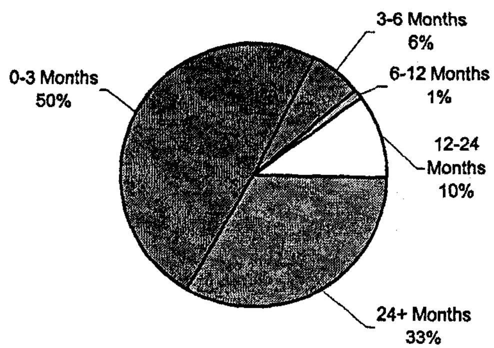


Maturity Schedule by Amount

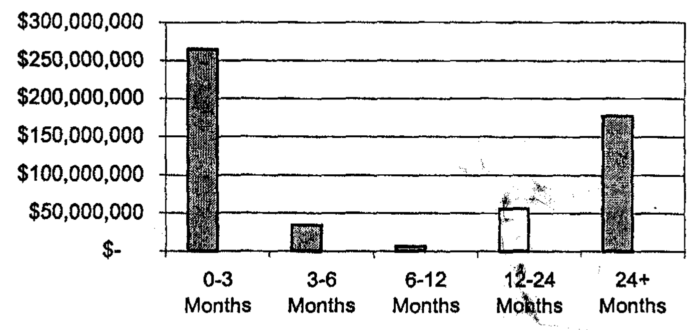


Pool II - Bond Proceeds (109) - $536 Million

Maturity Schedule by Percentage



Maturity Schedule by Amount



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Miami-Dade County
Maturity Breakdown
September 30, 2003

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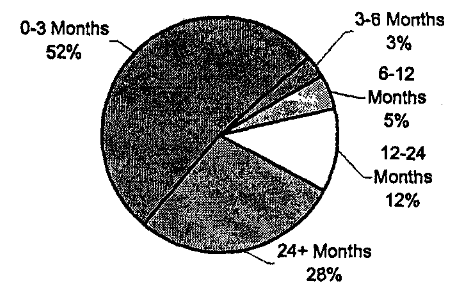
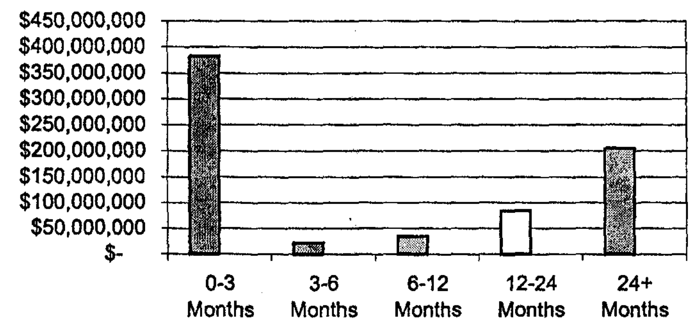
Water and Sewer Department (411) - $728 Million

Maturity Schedule by Percentage

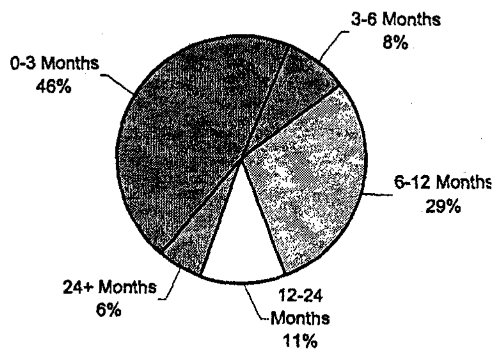


Maturity Schedule by Amount

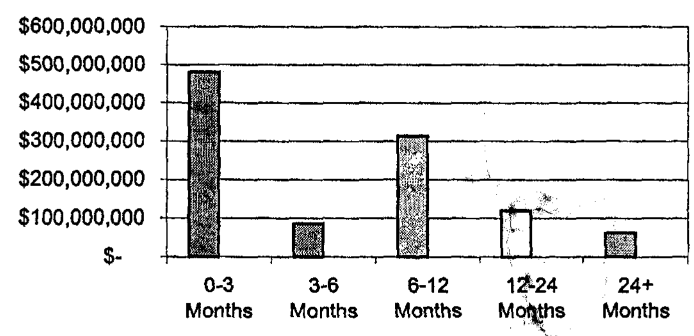


All Others - $1.06 Billion

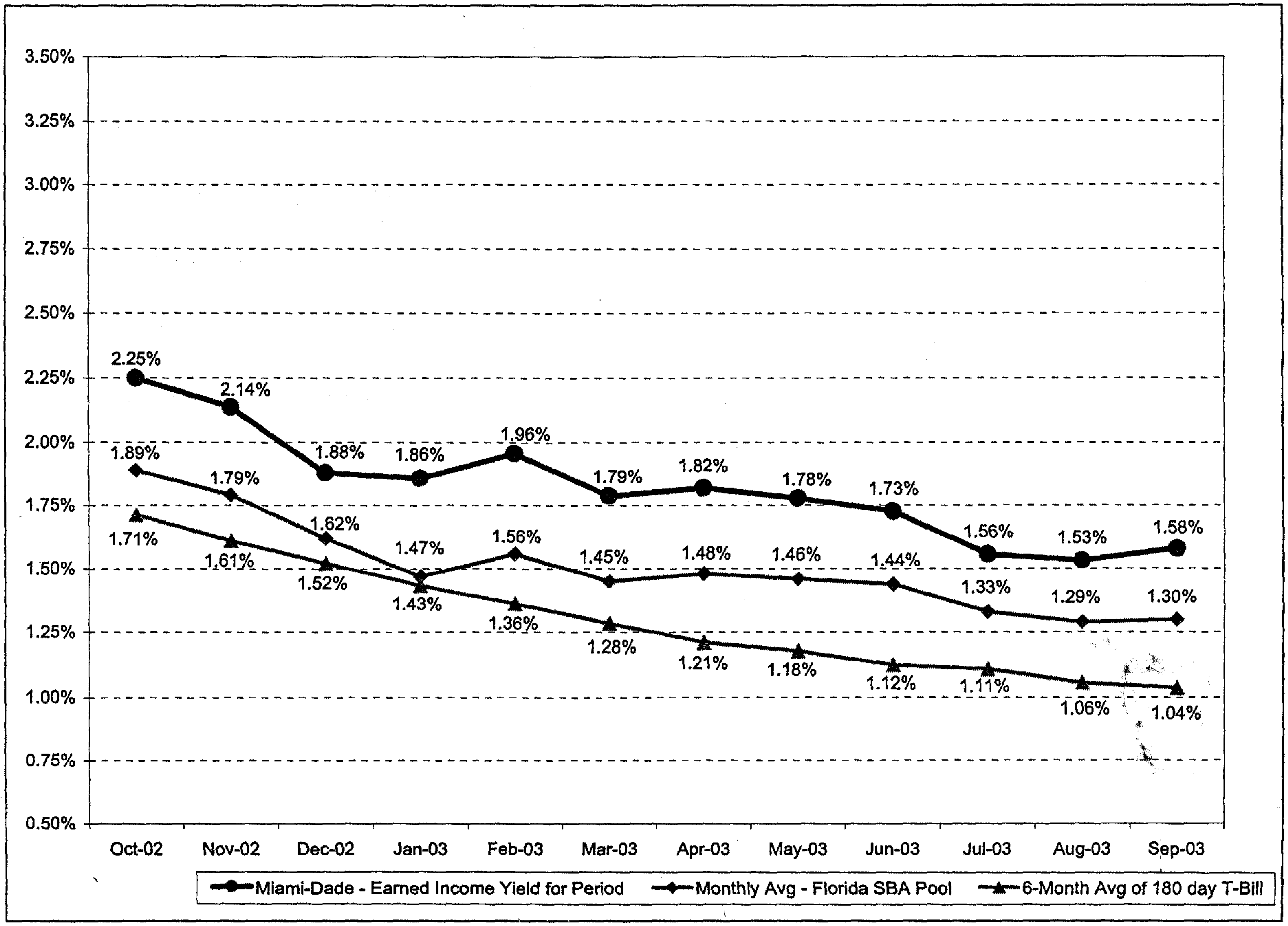
Maturity Schedule by Percentage



Maturity Schedule by Amount

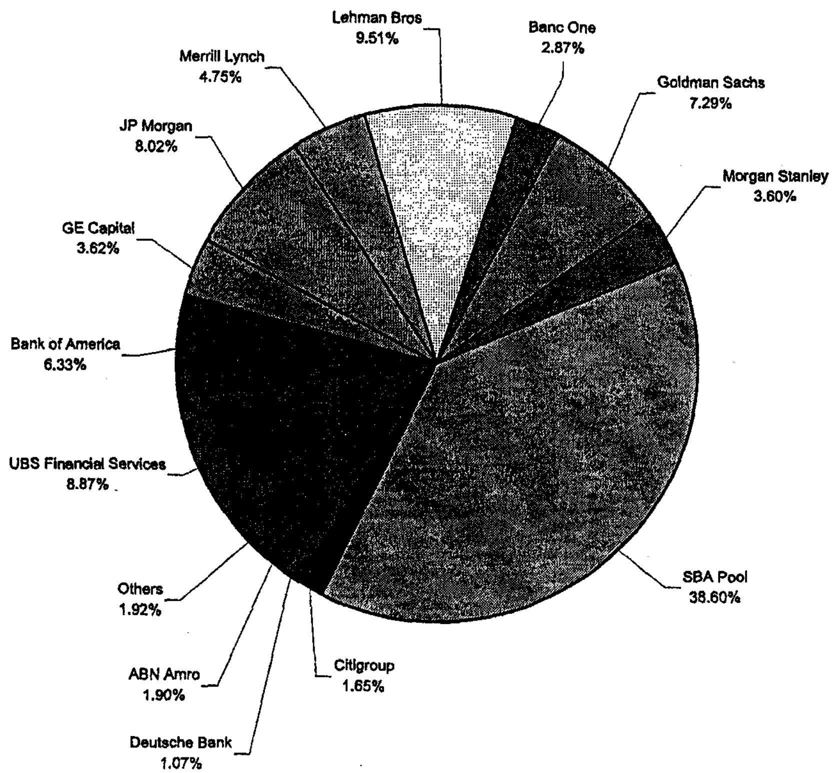


Miami-Dade County
Benchmark Comparisons
September 30, 2003

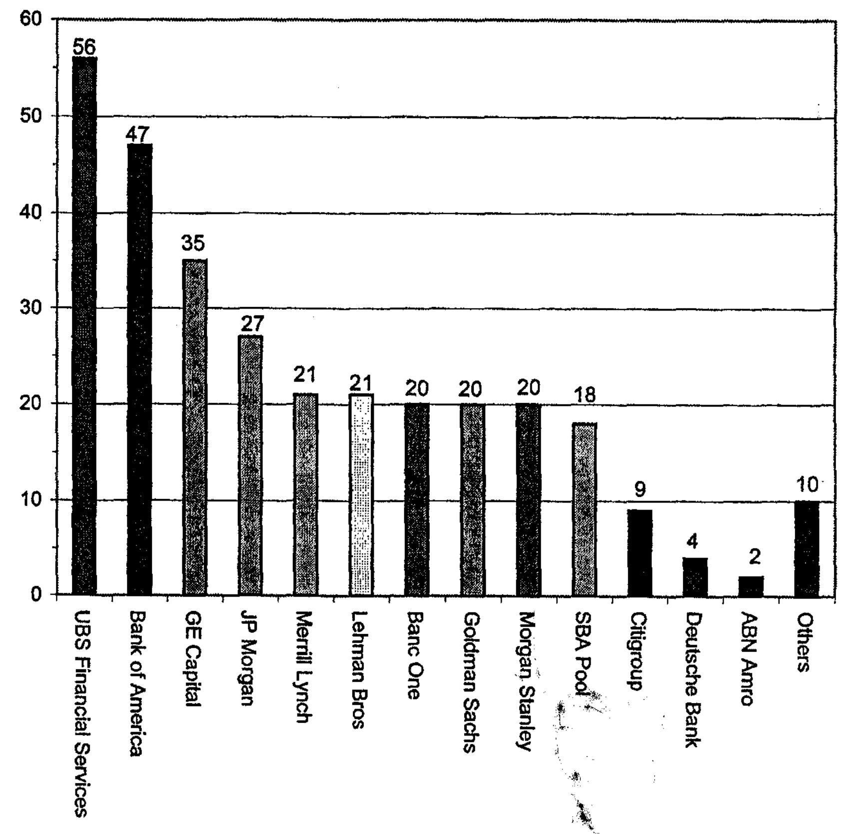


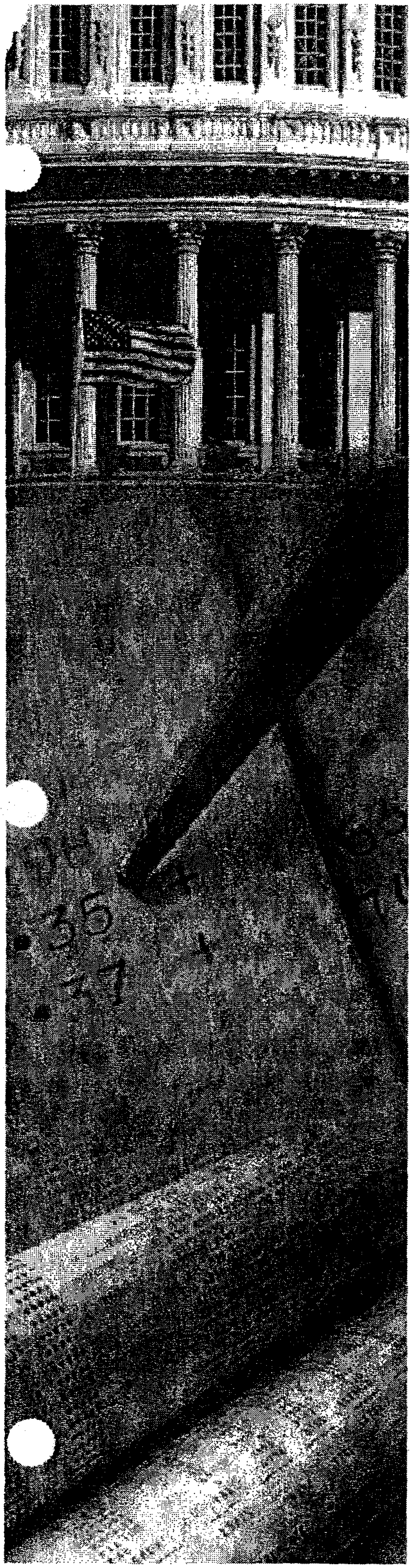
Miami-Dade County
Broker Purchase Distribution
September 30, 2003

Purchase Cost Breakdown



Transaction Breakdown





FIRST SOUTHWEST ASSET MANAGEMENT, INC.

Public Investor Update

Quarter Ending September 30, 2003

Second Quarter 2003 Review

The ground war in Iraq appeared to wrap up within a three-week period sending energy prices lower and consumer confidence sharply higher. The S&P 500, encouraged by the rising corporate profits of lean, budget conscious companies, reversed first quarter losses to surge 15% in the second quarter, the biggest gain since the final three months of 1998. However, Fed talk dominated the market news in the spring months and deflationary fears were the topic of choice. As a result, scattered signs of economic improvement were largely dismissed. Buying opportunities for money market investors were dreadful for much of the quarter, as the Fed "jawboned" short security yields well below the prevailing funds rate.

As expected, the FOMC voted to keep the overnight funds rate at 1.25% in May, but much speculation and debate surrounded the June meeting. When market participants speculated that the Fed couldn't possibly cut rates lower than 1%, Fed officials responded that they had other tools at their disposal even if interest rates were to fall to zero. As the possibility of this puzzling scenario sunk in, investors snapped up bonds, driving short-term yields well below 1% in anticipation of still lower yields to come. Just when economic numbers began to paint a brighter picture, columnist John Berry threw out a bold prediction of aggressive Fed action which kept yields clinging to historical lows. As it turned out, the Fed opted for a less aggressive quarter point ease on June 25th, prompting an about face in bond yields.

By the end of the second quarter all the pieces seemed to be in place for a substantial rebound. Interest rates were at the lowest levels in half a century, and mortgage refinancing reached historical highs by the end of June. Bush's $350 billion tax cut package provided an immediate $16 billion in rebate checks to families with children. The weak U.S. dollar was expected to aid exports while creating a bit of beneficial inflation on imported goods. New home sales were skyrocketing, driving home inventories downward and sparking new construction. Consumer confidence was on the rise, productivity and corporate profits were healthy, equity markets were booming, the labor market was stabilizing and even the factory sector seemed to have inched around the corner. Unfortunately, there were several obstacles in the path of recovery. Current U.S. policy promised more military conflict ahead, while fires still smoldered in Iraq and Afghanistan. Terrorist threats lingered in the U.S. and abroad, and the global economy looked increasingly fragile. Excess business capacity would have to be burned off before businesses employ additional labor and purchase new machines. With capacity utilization running at a 22-year low, sustained above-average GDP growth would be necessary to spark significant essential hiring and business spending. Until then, the lowest interest rates in decades were expected to be around a while.

Third Quarter 2003 Recap

July:

The semi-annual Wall Street Journal forecasting survey revealed a median economist prediction of 3.7% GDP for the next twelve months. Those investors eager for upbeat economic news to support this growth would have to wait, as the initial reports released in July were disappointing. On the first day of July, the June purchasing managers index was expected to hit 51.0, but instead fell short at 49.8, thereby signaling contraction for the fourth straight month. On July 3rd, the June employment report was released. Few had predicted that it would show such severe weakness. The unemployment rate unexpectedly rose to 6.4%, the highest since April 1994, as another 30k jobs slipped off the nation's payrolls. Manufacturing continued to be hardest hit as factory payrolls shrunk for the 35th consecutive month. The only bright spot was a 38k increase in temporary jobs - historically, increases in temporary hiring proceed overall labor market improvement. The market didn't have much time to rally, as later the same day the June ISM non-manufacturing survey surprised market participants by surging 6.1 points to 60.6. Since service-oriented businesses make up 85% of the economy, the rapid expansion in the index gave the market pause going into the Independence Day holiday.

On July 15th, June retail sales were reported slightly higher than expected, rising 0.5%. When auto sales were excluded, sales rose a solid 0.7%. These numbers became an afterthought later that morning when Fed Chairman Greenspan testified before the House Financial Services Committee. In his prepared speech, Greenspan made several references to improved economic conditions and was optimistic that growth would improve significantly in the second half of the year. Perhaps more important were his reiterations that "the FOMC stands prepared to maintain an accommodative stance of policy for as long as needed... and that substantial further easing could be implemented." Greenspan also warned his audience yet again of the much feared "corrosive deflationary spiral". But the statement that the market really keyed on was Greenspan's apparent dismissal of non-traditional policy action, which signaled to traders that the Fed would not, as had been suspected, purchase long term Treasuries in efforts to drive down yields. This prompted the biggest one day bond market sell-off since 1996. Less than a week later, the 10-year T-note yield hit 4.21%, 110 basis points higher than the record low reached on June 13th. During the same period, the two-year T-note backed up 54 basis points to 1.62%. And PIMCO's Bill Gross, manager of the world's largest bond fund, proclaimed that the long bull market for bonds was finally over.

The negative momentum for bonds was fueled further as a number of important economic series were released that showed abrupt strengthening. Initial unemployment claims for the week ending July 19th dropped below 400k for the first time since February. Building permits, housing starts and new home sales, each already near record levels, far exceeded expectations in June, with sales reaching an all-time high of 1.16 million annualized units. Durable goods orders jumped 2.1% in June, almost doubling predictions for a 1.1% increase. Oddly enough, consumer confidence plummeted from 83.5 to 76.6 in July which temporarily stopped the bleeding, but the announcement that second quarter GDP had posted a fine 2.4% rate of growth, instead of the anemic 1.4% predicted, put the bond market right back on its negative track. In the last week of July, mortgage refinancing fell 32.9% from the previous week and 58% from the refinancing peak at the end of May, forcing mortgage investors into a mad scramble to adjust their duration imbalances. It was an unexpectedly horrid period for bonds as July proved the worst month for the ten-year note since 1984, certainly a nightmare for Fed officials, to whom no one seemed to be listening anymore.

August:
On August 1st, the market witnessed the release of the July employment report and the July ISM survey. Both were disappointments. Non-farm payrolls shed another 44k jobs in July, while a June revision saw another 42k jobs lost. The unemployment rate managed to fall from 6.4% to 6.2%, but this was quickly attributed to a shrinking labor force. The ISM manufacturing index finally climbed above 50 for the first time since February, but the 51.8 reading fell short of more optimistic expectations. All-in-all, weak data, but the markets shrugged it all off and concentrated instead on the huge Treasury supply that was on the horizon. Amazingly, the two-year Treasury note yield skidded back to 1.86%, before finding its feet and closing at a more rational 1.77%. Less than a week later, the economic news began to support the higher yields. The ISM non-manufacturing index, representing 85% of the economy, jumped to 65.1 in July, its highest level since the survey began six years ago, while worker productivity soared by 5.7% (later revised to 6.8%) in the second quarter. By comparison, worker productivity averaged 1.4% from 1980-1995 and 2.6% from 1996-2002. The productivity report was of particular interest as it explained how the US economy managed to shed jobs while at the same time generating relatively solid output and growth.

The FOMC met on August 12th with virtually no perceived possibility of cutting rates. The big question centered more on what Fed officials would *say*. As expected, the Fed left the overnight rate unchanged at 1.0%, and trotted out all the old standby language in hopes of calming the runaway markets. In its official statement, the FOMC said that the risks to sustainable economic growth for the next several quarters were roughly equal, but again cited deflation as the predominant concern and said that the current accommodative policy could be maintained *for a considerable period.* Investors apparently chose to believe that the considerable period would be much less than 12 months as one-year agency security yields rose above 1.30% for the first time in almost four months. The next day, retail sales revealed another positive surprise as July sales surged by 1.4%, the largest increase since March and well above analyst's expectations for a 1.0% increase.

On August 19th, July housing starts rose by 1.5% to a 1.87 million unit annualized pace, the highest level in 17 years. That same morning, the Mortgage Bankers Association reported that mortgage applications had dropped 10.7% in the prior week to their lowest level in more than a year as the average 30-year mortgage rate rose to 6.22%, 123 basis points above the 4.99% record low of June 13th. The announcement that the Federal deficit would reach $450 billion in the next fiscal year forced investors to focus on the mountain of upcoming supply. Bond prices continued to fall, continuing the worst two-month skid in 20 years. The two-year Treasury yield reached 1.98%, the highest level in over eight months, while the 10-year note yield rose to 4.53%, an incredible 142 basis point increase since June 11th.

A week later, existing home sales rose by a greater-than-expected 5% to a record 6.12 million annualized units in July. This was the first time that sales had exceeded the 6 million-unit mark. The next day, July durable goods continued the string of better-than-expected third quarter economic numbers as orders for big ticket items built to last three years or more rose 1.0% to $174 billion, following a revised jump of 2.6% in June. Amazingly, it was the first time in almost 2 ½ years that the durables series had strung together two consecutive months of gains. The good news kept on coming as second quarter economic growth was revised from an annual rate of 2.4% to a vigorous 3.1%. Personal consumption expenditures, Greenspan's favorite inflation measure was revised downward from a 0.9% annual rate to a quite disinflationary 0.7% annual rate. Thus, as the month of August drew to a close, the economic picture was essentially strong growth with no inflation, but the financial markets had little faith that the low inflation outlook could possibly continue in the face of the sudden rapid growth.

September:
The final month of the quarter began with the most optimistic purchasing manager's report all year. On September 1st, overall manufacturing activity continued to expand as the August ISM factory index rose by 2.9 pts to 54.7, exceeding analyst predictions and reaching the highest level since last December. The only index that signaled a less robust future was employment. Unfortunately, the employment index is critical and fell from 46.1 to 45.9, implying that factory layoffs would continue for a while. The following day, the two-year T-note closed at 2.04%, the highest point during all of 2003, while one-year agencies topped 1.40%.

Other data also appeared unexpectedly strong as August vehicle sales recorded the third highest sales rate ever, reaching a 19 million annualized unit pace, almost a 10% increase from July. The ISM non-manufacturing index reached 65.1 in August, as the service sector equaled its record high set in the prior month. With economic growth consistently beating expectations, investors felt certain that labor growth would follow, but Fed officials continued to throw up caution flags in hopes of ratcheting long yields down to more simulative levels. San Francisco Fed President Robert Parry and Fed Governor Bernanke parroted the latest FOMC statement, both claiming the current 1% Funds rate could be maintained *for a considerable period of time.* Bernanke went so far as to say that if the deflation threat were to intensify, the Fed would react "forcefully", implying further rate cuts even as the bond market priced in rate increases as earlier as January.

On September 5th, a dreadful employment report shocked the financial markets and put an abrupt end to rising yields. August non-farm payrolls, expected to rise by 20k, actually fell by a huge 93k. Prior month downward revisions resulted in the seventh consecutive month of job losses. Factories shed another 44k jobs, the 37th straight month of manufacturing layoffs, while the usually resilient service sector reduced payrolls by 64k. This report was particularly revealing in that it seemed to drive home the notion that an essentially jobless recovery probably wasn't sustainable. A week later, still reeling from the surprisingly negative labor report, economists missed the mark on retail sales as well. The median forecast was for a 1.5% increase. Instead, overall sales rose by a much less robust 0.6%. If expectations hadn't been so high, the number would have looked great. As it was, investor sentiment had shifted from overly optimistic to realistic and yields reflected this with the two-year dropping to 1.52%, a 50 bp free fall in only seven days time.

The Fed met on September 16th, and few expected anything new to emerge from the sixth FOMC meeting of 2003. *Nothing did.* The Fed left the funds rate unchanged at 1.00% and delivered the message yet again that upside and downside risks were equal, disinflation was still the predominant concern and policy accommodation could be maintained for a *considerable* period. Earlier in the day, consumer inflation remained docile as overall CPI increased by a mere 0.2% and the core rate rose 0.1%. The year-over-year increase of 1.3% was the lowest since February 1966 – hard to ignore, although investors did for much of the summer.

The remaining data releases in September were on the weak side, with the exception of anything related to the housing market. August durable goods orders, expected to rise for the third straight month, actually tumbled by 0.9%, indicating that manufacturers were still waving caution flags. Existing home sales shook off rising mortgage rates climbing 5.5% to a record 6.47 million unit annualized pace in August while new home sales rose by 3.4% to enjoy the second strongest month in history. The Conference Board's consumer confidence index sank from 81.7 to 76.8 in September as discouraged consumers weighed the prospects for continued labor market deterioration. And finally, the Chicago purchasing manager's index plummeted from 58.9 in August to 51.2 in September. When the volatile third quarter drew to a close, two-year Treasuries and one-year agencies were yielding 1.46% and 1.15% respectively.

Third Quarter Summary

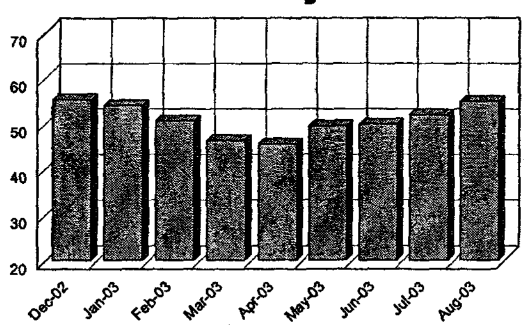
It was a classic example of the financial markets getting ahead of themselves as a brief surge in the economy created the impression that the Fed would step up their tightening schedule. No doubt, the third quarter was surprisingly strong with projected GDP in the 4.5% range. There was no impending war, no earth-shaking corporate scandals and no major terror attacks to temper investor sentiment. The equity markets enjoyed fine quarters as corporate profits generally exceeded expectations. Business spending, which many considered essential to economic rebound, finally picked up. The housing market went through the rafters, new car sales boomed and declining initial unemployment claims hinted that job growth was on the way. Surely, investors rationalized, deflation couldn't be a problem if demand was rapidly accelerating. The Fed bypassed opportunities to ease overnight rates in August and September and inadvertently conveyed the message that a rate hike was right around the corner. Fed officials then spent much of September trying to convince investors otherwise. Mortgage cash-out refinancing and Federal tax refunds fueled consumer spending for much of July, a spark of optimism ignited August before reality, in the form of continued unemployment grounded September. Yields skyrocketed in July and August before embarking on a month long September slide.

Market and Interest Rate Forecast

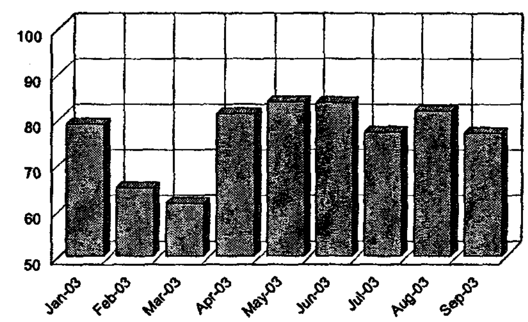
The US economy will enter the fourth quarter of 2003 with the hard fought third quarter momentum fading fast. It is hard to imagine a scenario in which inflation suddenly accelerates, excess capacity evaporates, business spending explodes and U.S. employers start hiring by the millions. And that's exactly what needs to happen before the Fed reverses course and begins to raise interest rates. Judging strictly by the comments of Fed officials, it could be well into the third quarter of next year before the initial tightening begins. If the labor hemorrhaging continues and disinflation asserts itself, Fed officials have even threatened to cut further. As far fetched as that sounds, there is a far better chance of a rate cut in the next several months than a rate hike.

Scott McIntyre, CFA
Senior Portfolio Manager
October 1, 2003

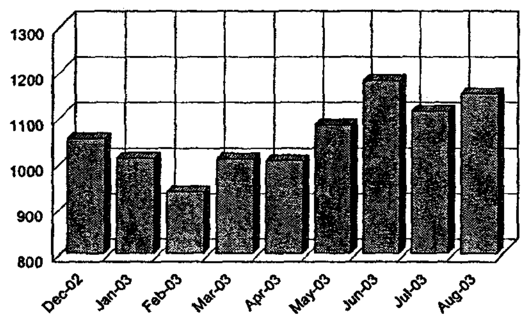
ISM Factory Index



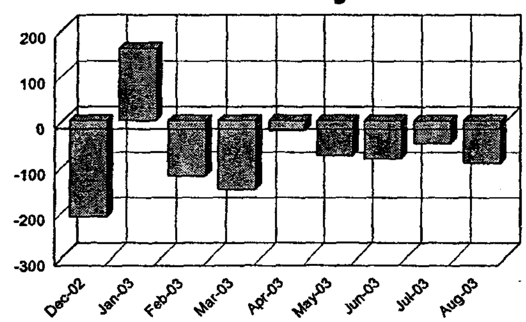
Consumer Confidence



New Home Sales



Non-Farm Payrolls



U.S. Treasury Yields

		Fed Funds	3 mo. Bill	6 mo. Bill	1 yr. Note	2 yr. Note	3 yr. Note
Last	6/30/03	1.00%	0.85%	0.97%	1.09%	1.30%	1.60%
High			0.99%	1.00%	1.39%	2.04%	2.60%
Low			0.85%	0.93%	1.06%	1.27%	1.58%
End	9/30/03	1.00%	0.94%	1.01%	1.15%	1.46%	1.87%

The data used in the above graphs and chart are obtained from Bloomberg Financial Markets.