Memorandum

MIAMI-DADE COUNTY

Date: January 5, 2015

To: Honorable Chairman Jean Monestime
and Members, Board of County Commissioners

From: Carlos A. Gimenez
Mayor

Subject: Year-End Portfolio Performance Report for Fiscal Year 2013-2014

As required by Resolution R-1074-04, which relates to the County's Investment of Public Funds, the following is the annual report on the performance of the County's investment portfolio for FY 2013-14. I am pleased to report that the County's investment portfolio earned $12.252 million during FY 2013-14, which is an average return of 0.35 percent. The County typically tracks portfolio performance against the returns on primary benchmarks such as the six-month average of the 180-day US Government Treasury Bills and the Florida Prime (formerly the State of Florida Local Government Surplus Fund Trust Funds). For the fiscal year ending September 30, 2014, the County's 0.35 percent return exceeded their 0.06 percent and 0.16 percent, respectively.

Portfolio	Percent Return	
	Fiscal Year 2014	**Fiscal Year 2013**
County Portfolio	0.35	0.40
180-day U.S. Government Treasuries	0.06	0.11
Florida Prime (f/k/a SBA Pool)	0.16	0.22

The adjusted book value of the portfolio as of September 30, 2014 was $3,514,309,000 and its market value was $3,511,128,000. Attached for your review are the *Summary Investment Report for September 30, 2014* and the *Economic Review and Forecast* for the quarter ending September 30, 2014.

As the Summary Investment Report shows, the County's portfolio was comprised of the following:

Holdings	**% of Portfolio**
U.S. Federal Agencies	96.05
Interest Bearing Deposits	1.94
Money Market Funds	2.01
Total	100.00

Fund	**% of Portfolio**
Treasurer's Fund	23.05
Pool II - Bond Proceeds	31.28
Aviation Fund	30.20
Water & Sewer Fund	11.73
Miscellaneous Fund	3.74
Total	100.00

The Treasurer's Fund is dedicated to general County operations, which includes all General Fund supported departments and proprietary departments with the exception of Aviation, Clerk of Courts, Public Housing and Community Development, and Water and Sewer. Pool II – Bond Proceeds consist of longer term capital projects funds. The Aviation, and Water and Sewer Funds are specific to those entities, and the Miscellaneous Fund consists of the Clerk of Courts and Public Housing Agency funds.

Interest Earned

The average number of days to maturity for investments in the portfolio as of September 30, 2014 was 243 days. The liquidity needs of the County and market exposure are constantly reviewed to determine a prudent average maturity to support both short and long term funding requirements.

The policy objectives incorporate three important principles: 1) safety of principal, 2) liquidity of funds, and 3) maximization of investment income. Maximization of investment income is secondary to the requirements for safety and liquidity. The County applies the "prudent person" standard in the managing of the overall investment portfolio. The "prudent person" standard calls for investments to be made in a fashion similar to that of a prudent investor who uses discretion in managing his/her financial affairs, and who does not speculate since the primary concern is for the safety of his/her investments.

Should you have any questions please contact Edward Marquez, Deputy Mayor/ Finance Director, at (305) 375-1451.

c: Honorable Harvey Ruvin, Clerk of the Court
Robert A. Cuevas, Jr., County Attorney
Office of Mayor Senior Staff
Jennifer Moon, Budget Director, Office of Management and Budget
Blanca Padron, Deputy Finance Director, Finance Department
Charles Anderson, Commission Auditor

Attachments

MIAMI-DADE COUNTY

Monthly Summary Investment Report

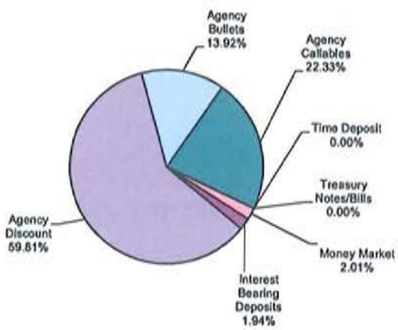
For the Period Ended

September 30, 2014

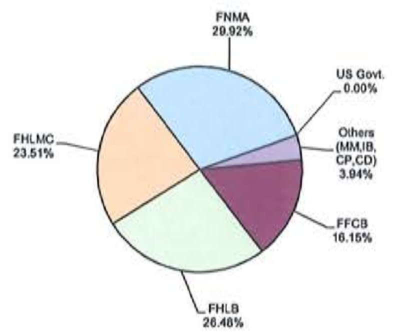
FirstSouthwest

Miami-Dade County
Total Portfolio Summary
September 30, 2014

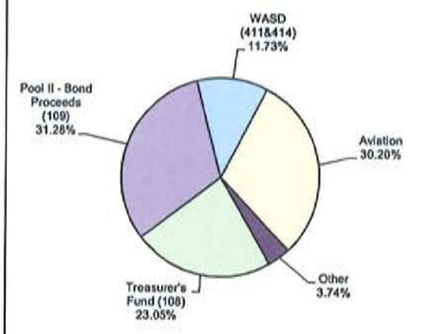
Portfolio Composition



Portfolio Diversification

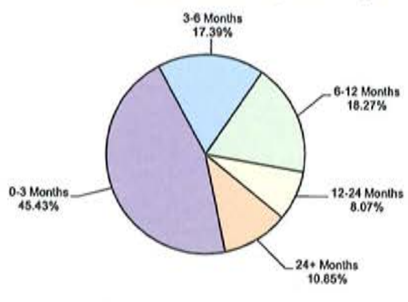


Portfolio Allocation By Fund

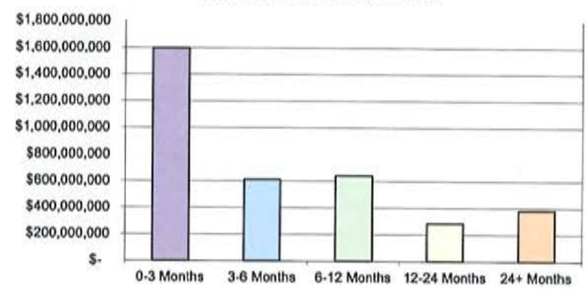


Maturity Summary

Maturity Schedule by Percentage



Maturity Schedule by Amount

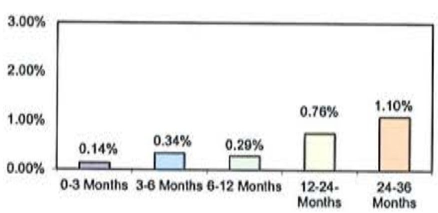


Miami-Dade County
Summary Statement
September 30, 2014

Portfolio Summary

	Current 9/30/2014	Previous Month 8/31/2014	Change from Prior Month	Prior Quarter 6/30/2014	Change from Prior Quarter
Par Value	$ 3,515,555,712.22	$ 3,562,384,595.36	$ (46,828,883.14)	$ 3,620,998,319.72	$ (105,442,607.50)
Book Value	$ 3,514,309,404.96	$ 3,561,123,507.57	$ (46,814,102.61)	$ 3,619,773,885.06	$ (105,464,480.10)
Market Value	$ 3,511,128,121.03	$ 3,560,202,386.71	$ (49,074,265.68)	$ 3,618,788,050.25	$ (107,659,929.22)
Market Value as a % of Book Value	99.91%	99.97%	-0.06%	99.97%	-0.06%
Accrued Interest	$ 2,951,716.50	$ 3,121,065.06	$ (169,348.56)	$ 3,090,562.77	$ (138,846.27)
Total Value (Market Value+ Accrued Interest)	$ 3,514,079,837.53	$ 3,563,323,451.77	$ (49,243,614.24)	$ 3,621,878,613.02	$ (107,798,775.49)
Interest Earned (Current Month)	$ 1,026,533.83	$ 1,015,853.51	$ 10,680.32	$ 1,020,919.69	$ 5,614.14
Interest Earned Fiscal YTD (10/1 - 9/30)	$ 12,252,520.32	$ 11,230,652.11	$ 1,021,868.21	$ 9,193,419.56	$ 3,059,100.76
Unrealized Gain (Loss)	$ (3,181,283.93)	$ (921,120.86)	$ (2,260,163.07)	$ (985,834.81)	$ (2,195,449.12)
Weighted Average Days to Maturity	242.5	240.8	1.7	242.3	0.2
Weighted Average Days to Call	129.2	130.5	-1.2	127.0	2.2
Yield to Maturity	0.35%	0.34%	0.01%	0.34%	0.01%
Earned Income Yield for Period	0.35%	0.34%	0.01%	0.35%	0.01%
Earned Income Yield for Year to Date	0.35%	0.35%	0.00%	0.35%	0.00%

Yield Maturity Breakdown

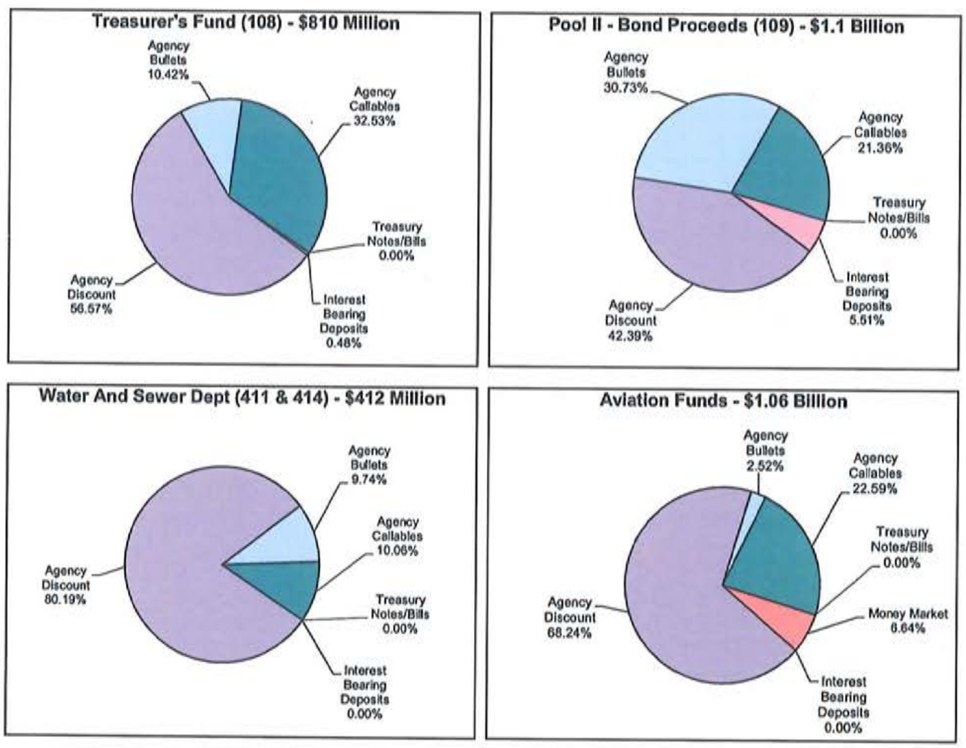


Policy Compliance

Security Type	% Limit	Current %	Result
Treasuries	100%	0.00%	PASS
Agencies	100%	73.73%	PASS
Agency Callables	25%	22.33%	PASS
Commercial Paper	50%	0.00%	PASS
-CP Single Issuer Max	*5%*	*0.00%*	*PASS*
Banker's Acceptance	25%	0.00%	PASS
Time Deposits	20%	0.00%	PASS
SBA/Investment Pools	50%	0.00%	PASS
Money Market Funds	30%	2.01%	PASS
Interest Bearing Deposit	20%	1.94%	PASS
Open/Closed End Funds	5%	0.00%	PASS

Note: The County currently holds $956 million in cash deposits with Wells Fargo Bank due to a high earnings credit rate of 0.30%. These balances offset the cost of banking services. They are not included in the investment portfolio data presented here.

Miami-Dade County
Portfolio Composition
September 30, 2014

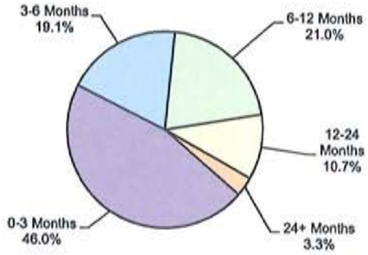


Note: Graphs above do not include miscellaneous funds totaling $131 million and representing 3.7% of the portfolio.

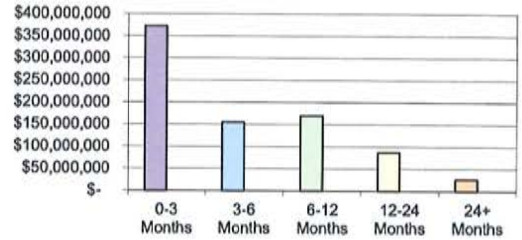
Miami-Dade County
Maturity Breakdown
September 30, 2014

Treasurer's Fund (108) - $810 Million

Maturity Schedule by Percentage

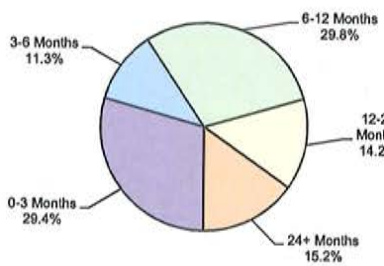


Maturity Schedule by Amount

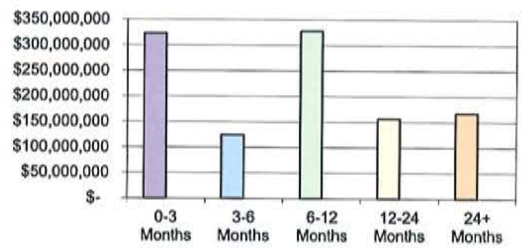


Pool II - Bond Proceeds (109) - $1.1 Billion

Maturity Schedule by Percentage



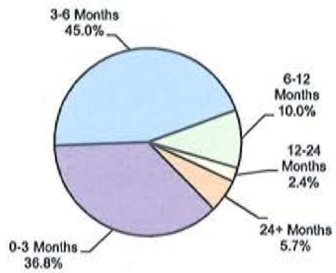
Maturity Schedule by Amount



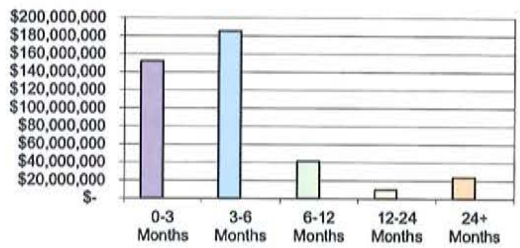
Miami-Dade County
Maturity Breakdown
September 30, 2014

Water and Sewer Department (411 & 414) - $412 Million

Maturity Schedule by Percentage

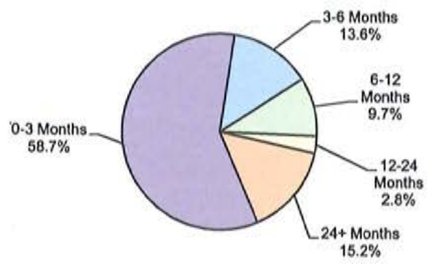


Maturity Schedule by Amount

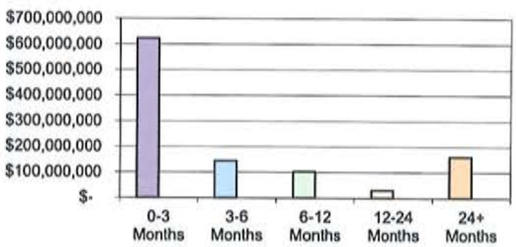


Aviation Department - $1.06 Billion

Maturity Schedule by Percentage



Maturity Schedule by Amount



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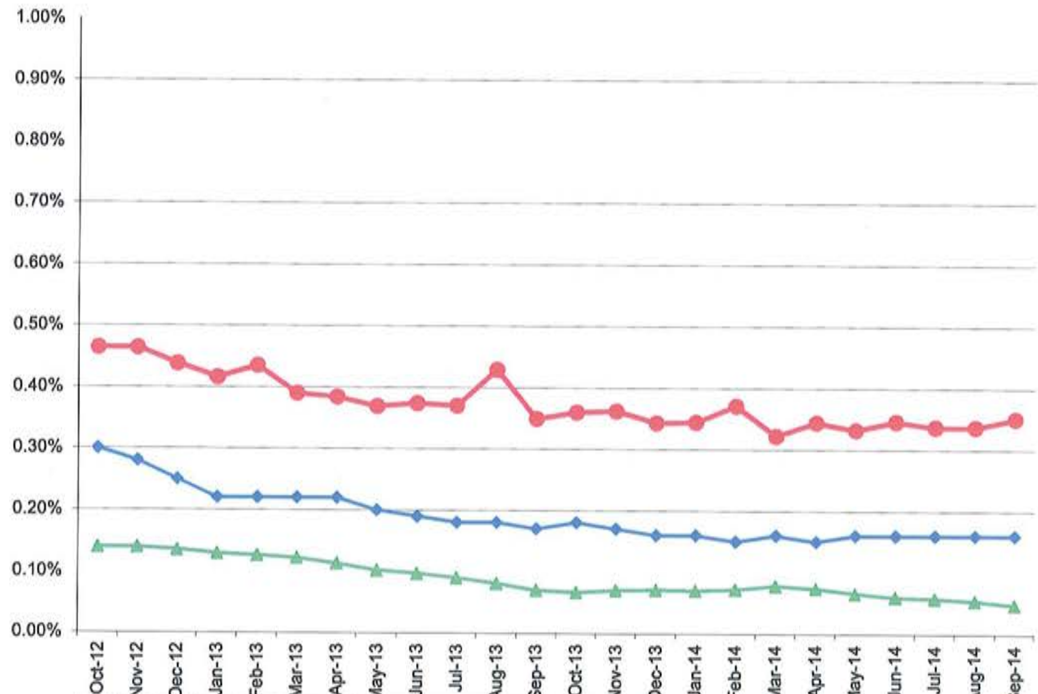
Miami-Dade County
Benchmark Comparisons
September 30, 2014

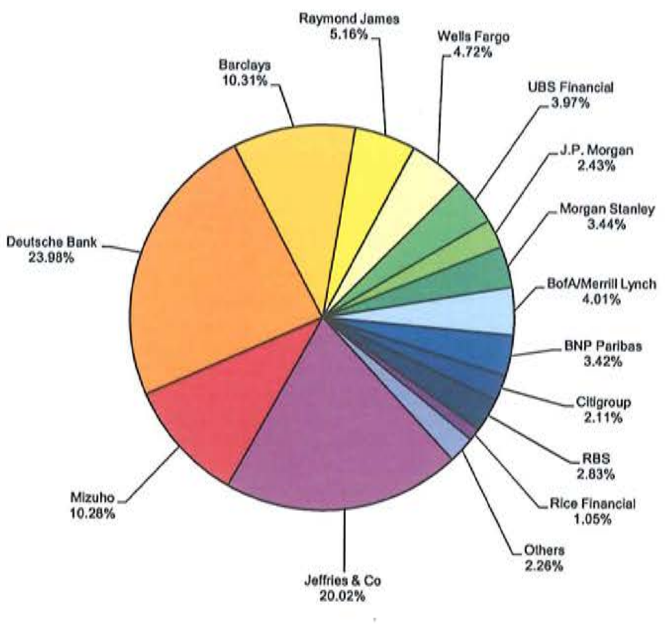


	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13
Miami-Dade - Earned Income Yield	0.46%	0.46%	0.44%	0.42%	0.44%	0.39%	0.38%	0.37%	0.37%	0.37%	0.43%
Monthly Avg - Florida SBA Pool	0.30%	0.28%	0.25%	0.22%	0.22%	0.22%	0.22%	0.20%	0.19%	0.18%	0.18%
6-Month Avg of 180-day T-Bill	0.14%	0.14%	0.14%	0.13%	0.13%	0.12%	0.11%	0.10%	0.10%	0.09%	0.08%

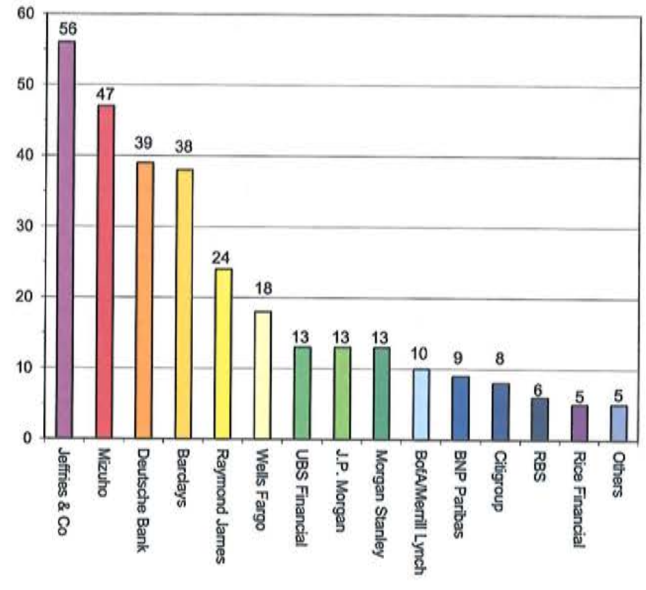
	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Miami-Dade - Earned Income Yield	0.35%	0.36%	0.36%	0.34%	0.34%	0.37%	0.32%	0.34%	0.33%	0.35%	0.34%	0.34%	0.35%
Monthly Avg - Florida SBA Pool	0.17%	0.18%	0.17%	0.16%	0.16%	0.15%	0.16%	0.15%	0.16%	0.16%	0.16%	0.16%	0.16%
6-Month Avg of 180-day T-Bill	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.08%	0.07%	0.07%	0.06%	0.06%	0.05%	0.05%

Miami-Dade County
Broker Purchase Distribution
September 30, 2014

Purchase Cost Breakdown



Transaction Breakdown



Investment Advisory Committee Meeting

Economic Review and Forecast

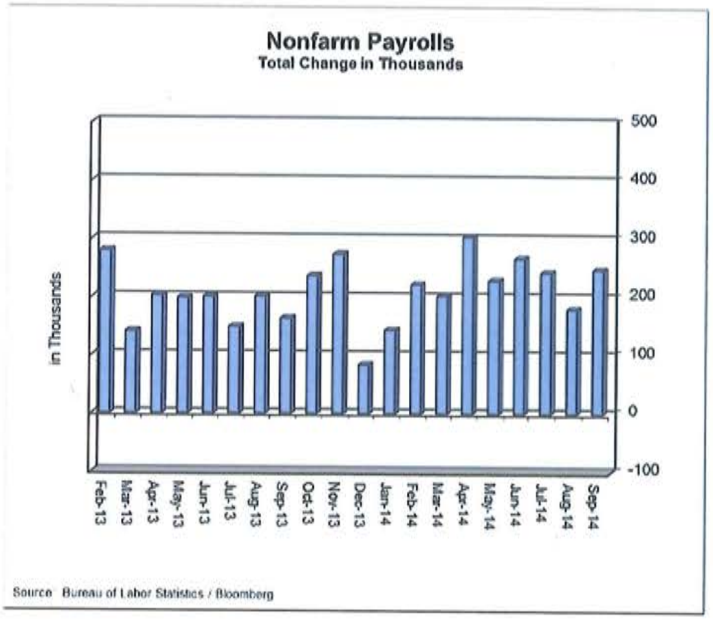
October 22, 2014

Significant Q3 2014 Events

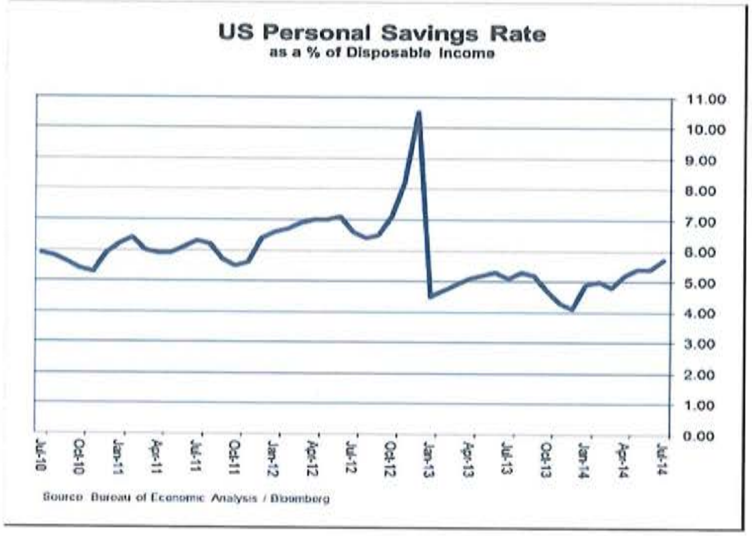
- The U.S. economy picks up steam as employment conditions improve further.
- The Fed taper continues; asset purchases down to $15 billion per month. Tightening is on the horizon.
- Deflation has become a major concern in Europe as it flirts with broad recession. Japan seems to have drifted back into recession.
- Ongoing geopolitical problems in Ukraine and Iraq ...although little apparent effect on markets.

Employment

- Company payrolls rose by 248k in September, topping the median forecast of 215k. August payroll gains, originally reported at +142k, were revised to +180k, while July's payrolls were raised from 212k to 243k. So far in 2014, job growth has averaged 227k per month, well above the 194k average in 2013.
- The unemployment rate slipped from 6.1% to 5.9% in September, but another 97k Americans exited the labor force during the month, pulling the participation rate down a notch to 62.7%, the lowest since February 1978.
- The U6, or "underemployment rate," declined from 12% to 11.8%.
- *...but wages are stagnant.*

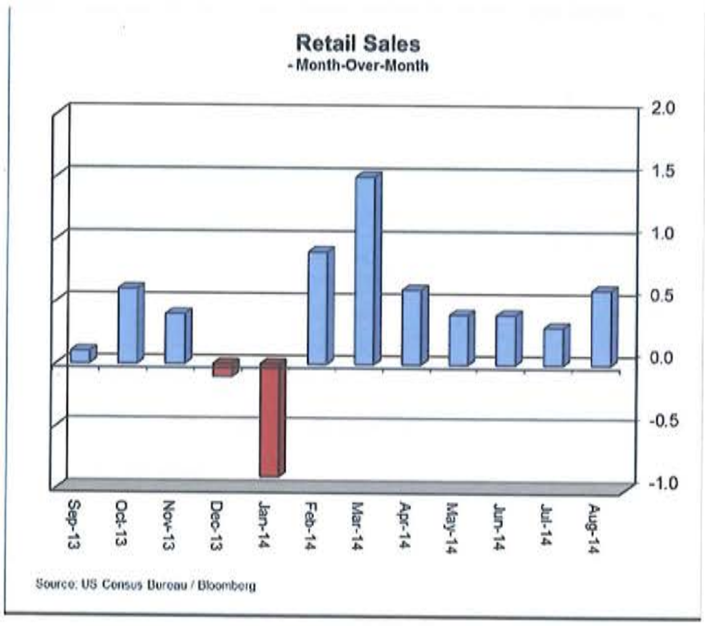


Savings Rate is Historically Low



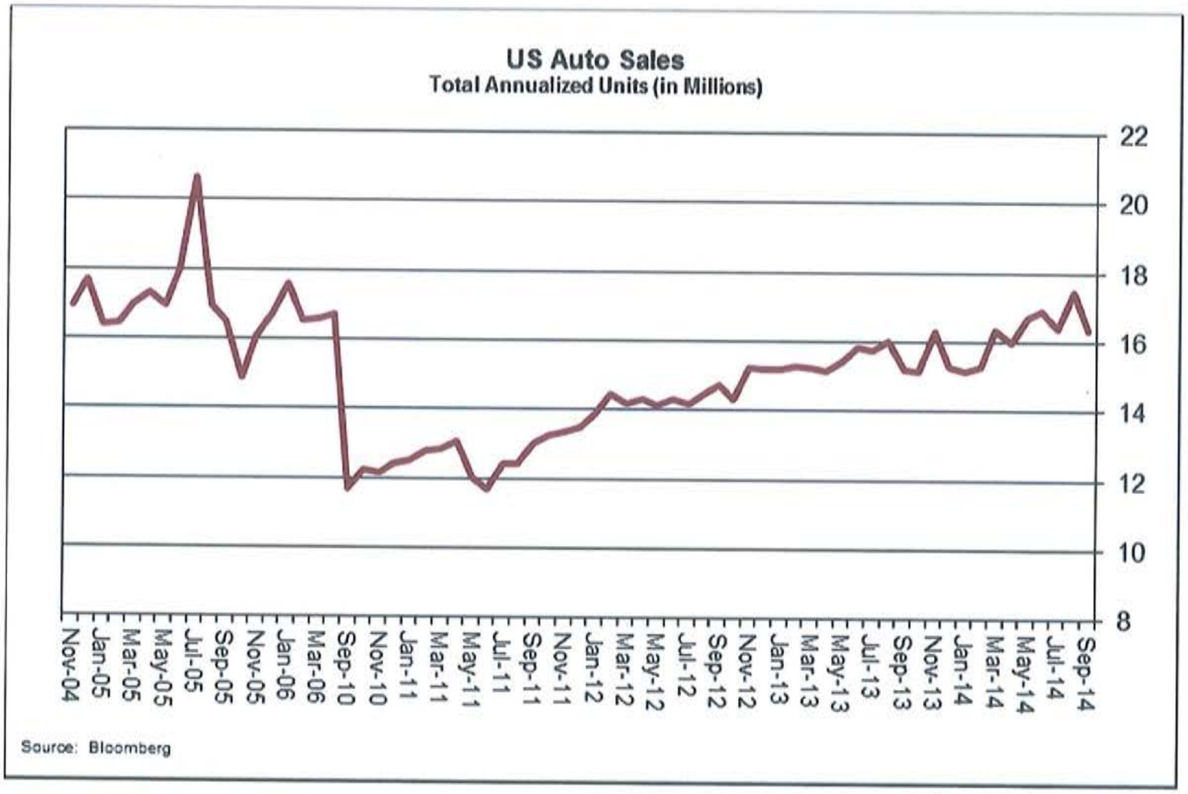
Americans saved about 4.5% of after-tax personal income in 2013. By contrast, Americans saved 5.5% percent in the 1990's, 8.6% in the 1980's and 9.6% in the 1970s. In the short run, a high savings rate reduces personal consumption and slows economic growth, but in the long run higher savings can lead to stronger, more sustainable growth.

Consumer Spending



- Key: *Historically*, the consumer accounts for 2/3rds of U.S. GDP growth, and retail sales constitute *half* of all consumer spending.
- Severe winter weather had a substantially negative impact on December and January spending, but with the exception of March, the expected spring/summer snapback has proven weaker than suspected.
- Retail sales rose by just +0.6% in August after a +0.3% increase in July.
- In contrast to lackluster overall retail sales, U.S. auto sales have been robust. Annualized sales rose at a 17.5 million unit seasonally-adjusted pace in August, the highest in nearly 8½ years, and nearly double the recessionary trough of 9 million.

Auto Sales



US Auto Sales
Total Annualized Units (in Millions)
22
20
18
16
14
12
10
8
Nov-04
Jan-05
Mar-05
May-05
Jul-05
Sep-05
Nov-05
Jan-06
Mar-06
Sep-10
Nov-10
Jan-11
Mar-11
May-11
Jul-11
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Nov-12
Jan-13
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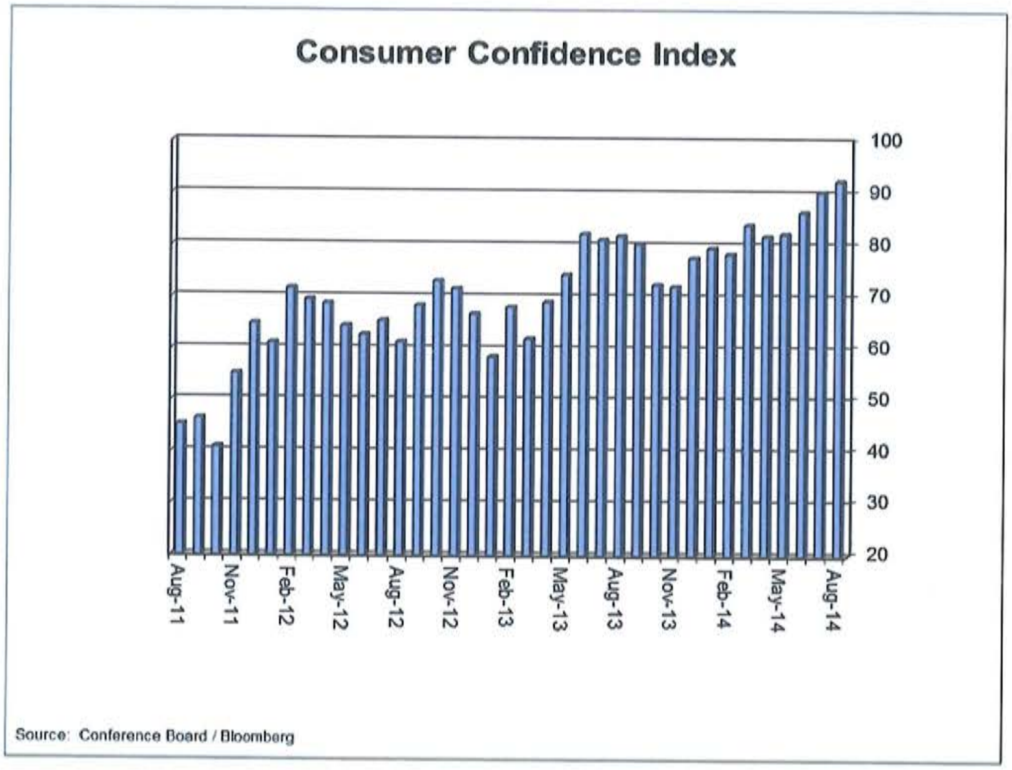
Jul-14
Sep-14
Source: Bloomberg

Consumer Confidence



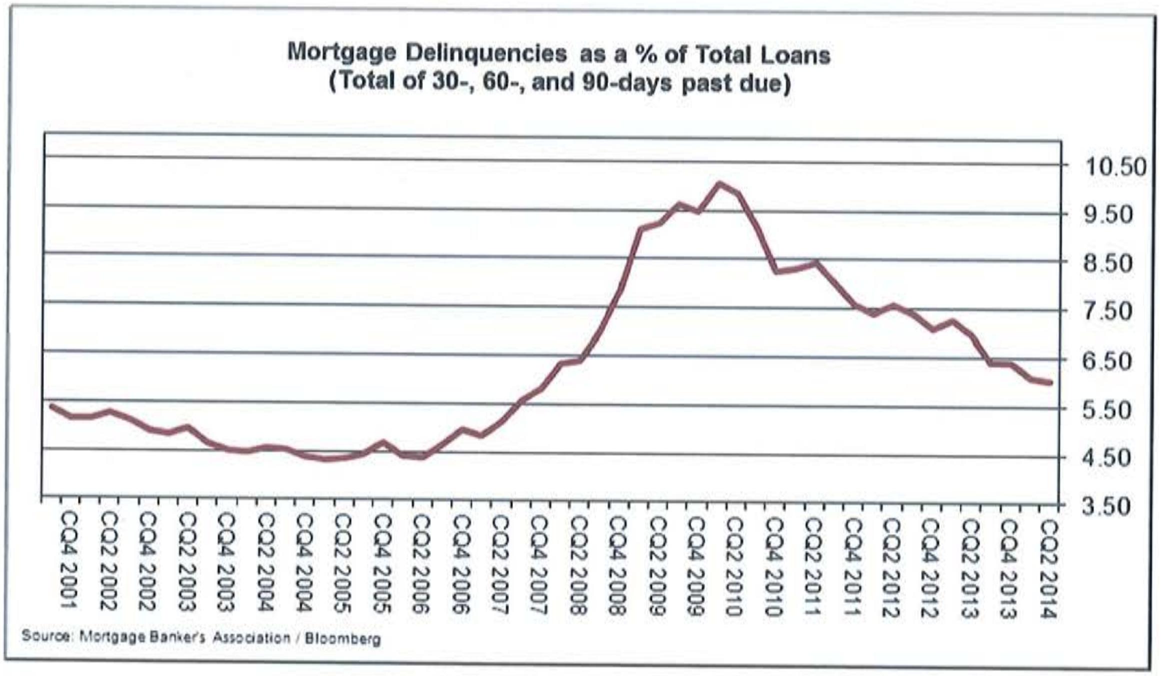
Home Sales

- Existing home sales unexpectedly fell by 1.8% in August to a 5.05 million unit annual pace. On a year-over-year basis, existing home sales have now declined in each of the past 10 months.

- Investor purchases dropped from 16% to 12% of the total sales, while distressed sales represented just 8% of total purchases, the fewest since the recovery began. Available supply remained at a relatively lean 5.5 months.

- New home sales (which represent less than 10% of all home sales) surged +18.0% in August to a 504k annual pace. *It was the biggest single month percentage gain since January 1992 and the highest level of the recovery cycle.* The median price for a new home declined for the third straight month, tumbling from $280k to $276k in August, while the available supply dropped to 4.8 months, *the lowest in more than a year.*

Loan Quality Improves



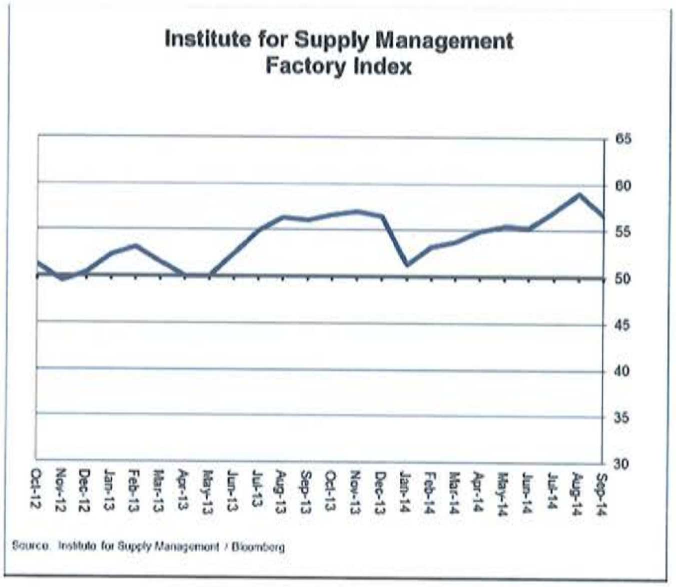
The ISM Surveys

- The Institute for Supply Management (ISM) provides the index results of monthly purchasing manager surveys for both the factory and service sectors of the economy.

- The ISM Factory Index has been a reliable leading indicator. A number above 50 signals expansion, while a number below 50 signals contraction.

- The factory index rose to 59.0 in August, the *second highest level since 2004*, before falling to 56.6 in September.

- The ISM nonmanufacturing (service sector) index for August increased to 59.6, the highest level in nine years, as the key business activity index reached its highest point since 2004 ....falling to 58.6 in September.



Inflation

- To maintain accommodative monetary policy, the Fed targets +2.0% inflation, although they stress this "is not a ceiling."
- Prices pressures rose in the spring, but seem to be retreating in recent months.
- The Fed's preferred inflation gauge, core **PCE**, was rising at a <u>+1.5%</u> annual pace as of August.
- Both **CPI** and core CPI were increasing at a <u>+1.7%</u> year-over-year pace in August.
- Both **PPI** and core PPI were increasing at a <u>+1.8%</u> pace in August.

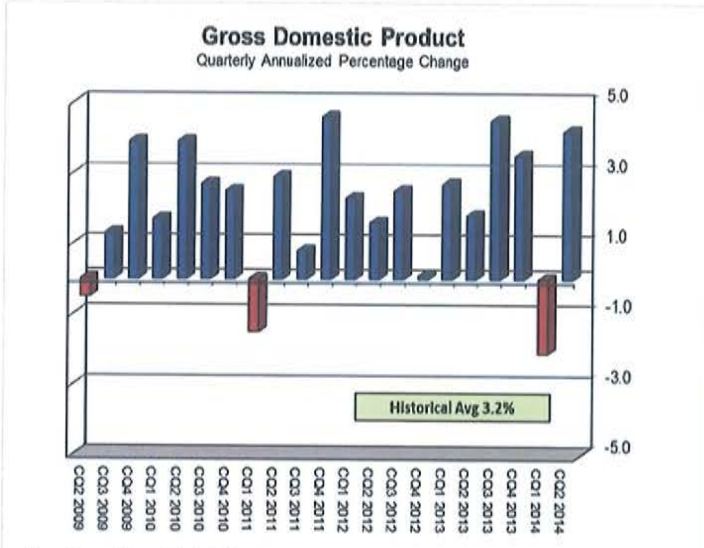
- <u>Core</u> CPI History
  - rose 2.2% in 2011
  - rose 1.9% in 2012
  - rose 1.7% in 2013

Gasoline Prices

Gasoline prices rose throughout the spring months and peaked in early summer. Since then, the average pump price has declined by $0.30/gallon. *Recall that a general rule of thumb among economists is that every $0.01 increase in gasoline price extracts a billion dollars from consumer wallets on an annual basis.*

Economic Growth

- GDP is the most common measure of economic growth. This measure averaged **+3.2%** from 1947 to 20132.
- The -5.1% *contraction rate* during "the Great Recession" was the worst in seven decades.
- Since then, GDP has grown at a sub-par rate *despite massive stimulus*.
- In 2012, GDP grew by +1.6%(r).
- In 2013, GDP grew at an annualized rate of +3.1%(r).
- **Q1 2014 GDP was <u>-2.1%(r)</u>**
- Q2 2014 GDP rose by <u>+4.6%</u>(r) ...although 1.3 percentage points were attributed to inventory accumulation.



Source: Bureau of Economic Analysis / Bloomberg

Demographics

- 75 million "baby boomers" will reach the traditional retirement age over the next 20 years. An average of 10,000 Americans will turn 65 years old every day. Just over 13% of Americans are currently 65 or older, but this percentage will increase to 18% over the next 15 years.

- ...But, retiring may not be a possibility for many. The Wall Street Journal reported that the percentage of workers 65 and older rose from 11.4% in 1992 to 18.5% in 2012. With 25% of workers 55 and older reporting total savings of less than $1,000, the percentage of post-retiree age workers is expected to reach 23% by 2022. This is particularly upsetting to younger workers, as a recent Adecco survey of hiring managers found they were three times more inclined to hire an older worker over a millennial as the seasoned workers were considered to be more professional and reliable.

The Global Landscape

- The Japanese economy, the third largest in the world, contracted 1.8% in Q2.
- The German economy, the fourth largest in the world, contracted 0.6% in Q2.
- Economic growth for the 18-member Eurozone was *flat* in the second quarter.
- Interest rates in German are *negative* inside of 3 years.
- 10-yr bond yields: Japan(0.56%), Germany(0.99%), Finland(1.14%), France (1.39%), Spain(2.20%), U.S. (2.60%)
- The broad European economy is struggling mightily and deflation is a big concern. As a result, the European Central Bank (ECB) recently announced a 10 bps cut in its key interest rates in efforts to sidestep recession and stave off the growing threat of deflation.
- The ECB also announced some details of a QE-like asset-purchase plan, although complete details are still being developed by Blackrock, the hired consultant.
- *The significance of the latest ECB accommodation is likely downward pressure on U.S. bond rates, as global investors seek higher yields in the safe haven of U.S. markets.*

The FED

- The overnight fed funds target has been at 0.00% to 0.25% since Dec-2008
- The minutes from the latest FOMC meeting still *suggest* overnight rates could increase in mid-to-late 2015, although Fed officials agreed the economy (specifically employment) was improving faster than expected and the timing of any rate hike would be data-dependent and not tied to any date.
- Yellen has frequently stated that it will be a considerable time between when tapering ends and tightening begins.
- The "considerable time" language remained in the Official Statement for the September meeting.
- QE3 to end following the October 29th FOMC meeting

Fed Funds Projections

	2014	2015	2016	Long Run
Timing of Policy Firming	1	14	2	
Median	0.13%	1.38%	2.88%	3.75%
Average	0.17%	1.27%	2.68%	3.79%
High	0.88%	2.88%	4.00%	4.25%
Low	0.13%	0.13%	0.38%	3.25%
Mode (most frequent)	0.13%	1.88%	3.88%	3.75%
Range (basis points)	75	275	363	100

Target Fed funds at Year-end	2014	2015	2016	Long Run
Participant-1	0.13%	0.13%	0.38%	3.25%
Participant-2	0.13%	0.13%	1.13%	3.50%
Participant-3	0.13%	0.38%	1.63%	3.50%
Participant-4	0.13%	0.88%	2.13%	3.50%
Participant-5	0.13%	0.88%	2.13%	3.75%
Participant-6	0.13%	0.88%	2.38%	3.75%
Participant-7	0.13%	1.13%	2.38%	3.75%
Participant-8	0.13%	1.13%	2.63%	3.75%
Participant-9	0.13%	1.38%	2.88%	3.75%
Participant-10	0.13%	1.38%	2.88%	3.75%
Participant-11	0.13%	1.38%	3.00%	3.88%
Participant-12	0.13%	1.63%	3.13%	3.88%
Participant-13	0.13%	1.88%	3.38%	4.00%
Participant-14	0.13%	1.88%	3.88%	4.00%
Participant-15	0.13%	1.88%	3.88%	4.00%
Participant-16	0.13%	1.88%	3.88%	4.25%
Participant-17	0.88%	2.88%	4.00%	4.25%

Source: Board of Governors of the Federal Reserve System / Sept. 18, 2014
FOMC Statement and Summary of Economic Projections-Overview of FOMC participants assessments of appropriate monetary policy.

Bond Market Movement

- The curve steepened during the quarter as short yields remained anchored, while expectations for future Fed tightening pushed longer yields higher.

- In Q3, the 3-month Treasury-bill yield has ranged from a high of 0.03% on July 30th to a low of 0.00% on September 23rd. The average yield for Q3 2014 was 0.02%, down from 0.03% in Q2.

- The 2-year Treasury-note yield moved from a low of 0.41% on August 15th, to a high of 0.57% on September 17th. The average yield for Q3 2014 was 0.50%, up from 0.41% in Q2.

- The 10-year Treasury note yield moved from a high of 2.64% on July 3rd to a low of 2.34% on August 28th. The average yield for Q3 2014 was 2.49%, down from 2.61% in Q2.

Economic Forecast (September 30, 2014)

- With the recovery entering its fifth year, forecasts for Q3 GDP range from 3.0% to 3.5%, while overall 2014 GDP growth is now around 2.5%.

- Most surveys suggest that business payrolls will continue to show solid gains, paving the way for a shift in Fed policy.

- Core inflation in the U.S. has dissipated in recent months, and a significant absence of global price pressures should help keep a lid on inflation for the foreseeable future.

- Consumer confidence rose to 92.4 in August, the highest since 2007, and well above the 25.3 low point during the worst of the recession.

- **The big question is whether the economy will be able to sustain acceptable growth without Fed assistance.**

- The recovery, although tepid by historical standards, is already entering it's sixth year. The weight of domestic and global demographics, historically low savings rates and high debt burdens are likely to impede acceleration.

Interest Rate Forecast (September 30, 2014)

- Yields are expected to gradually move higher over the next year. The magnitude and timing is debatable.

- The Fed is expected to totally wind up its much-maligned QE3 program at the end of October. *In a vacuum*, this action would be expected to gradually push long yields higher.

- However, interest rates in other LARGE countries are *much lower*, so investment dollars are flowing into the U.S., exerting downward pressure on yields.

- The big question remains "...*when will the Fed begin raising short rates*?" At the moment, this point appears to be ...June 2015.

- And once the Fed begins tightening, the pace is likely to be quite gradual.

The Most Recent *Bloomberg* Economist Survey

80 respondents surveyed October 3 - 8, 2014

- The median fed funds forecast for the next five quarters are 0.25%, 0.25%, 0.25%, 0.75% and 1.00%. Currently 0.00% to 0.25%.
- The average 2-year T-note yield forecast for the next five quarters are 0.69%, 0.91%, 1.14%, 1.41% and 1.66%. Currently 0.45%.
- The average 10-year T-note yield forecast for the next five quarters are 2.71%, 2.91%, 3.09%, 3.25% and 3.40%. Currently 2.34%.