Annual Investment Guide
Fiscal Year Ended September 30, 2019
Palm Beach County, Florida

Prepared by the Clerk & Comptroller, Palm Beach County
Message from Clerk Bock

Dear Residents,

As your independently elected Clerk & Comptroller, I serve as the County Treasurer. One of my most important responsibilities as County Treasurer is safeguarding and managing taxpayer dollars, including overseeing the County’s $2.1 billion investment portfolio.

During Fiscal Year 2019, my office achieved a total return of 2.86 percent, continuing to be one of the top performing counties throughout the country. My highly skilled team of Accredited Investment Fiduciary® professionals earned $60 million in investment income.

We safeguard your hard-earned tax dollars by using the same diligent management strategies as industry leaders. These strategies incorporate Bloomberg, a state-of-the-art financial system that allows access to real-time market and economic information, and Clearwater Analytics, an independent source for web-based investment accounting and reporting, including performance measurement and risk analysis.

As a taxpayer, I encourage you to read this guide and become familiar with how your tax dollars are invested. In addition to this Annual Investment Guide, my office also produces the Comprehensive Annual Financial Report, Checks & Balances: Your Guide to County Finances and the Annual Debt Guide. These award-winning publications can be accessed online at mypalmbeachclerk.com/countyfinances.

It is an honor and a privilege to serve as your elected Clerk & Comptroller. I remain dedicated to transparency in how your tax dollars are managed, invested and spent.

Best regards,

Sharon R. Bock, Esq.
Constitutional Clerk & Comptroller, Palm Beach County
ABOUT THIS GUIDE

As Palm Beach County’s Chief Financial Officer, the Clerk & Comptroller is charged with safeguarding all County funds and providing the necessary checks and balances on the County’s budget, revenue and spending. As Treasurer, the Clerk is responsible for investing and earning revenue on your tax dollars until that money is needed to pay County expenses.

The management of public funds is markedly different than that of private funds. The Clerk & Comptroller’s investment management activities are restricted by statute as well as specific investment policy guidelines. A copy of the County Investment Policy adopted by the Board of County Commissioners is available at www.mypalmbeachclerk.com/investments.

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The Clerk & Comptroller, Palm Beach County remains the only county government office in the country to be certified by the Centre for Fiduciary Excellence (CEFEX) for implementing fiduciary best practices in the management of County funds. The Clerk & Comptroller’s office has been certified for ten consecutive years in the areas of recordkeeping, investment policies, investment committees and portfolio management.
The Clerk & Comptroller’s Internal Investment Advisory Committee meets regularly to set strategy and review the portfolio and its performance. The committee includes the Clerk, members of the Treasury team and the Investment Compliance Officer. The committee increases the degree to which investment management decisions are based on a consensus approach to meeting stated goals and objectives. Membership of the FY 2019 committee included the following:

**SHARON R. BOCK, ESQ.**  
Clerk & Comptroller, Palm Beach County

**SHANNON R. CHESSMAN, CPA, CGFO**  
Chief Operating Officer

**DARLENE MALANEY, CIMA**  
Chief Operating Officer of Finance

**OLGA ENRIQUE**  
Director, Finance Services

**FELICIA LANDERMAN, CGIP, AIF, CTP**  
Investment Manager

**JOHN BURFORD**  
Investment Analyst

**STEVE WEISS**  
Investment Compliance Officer

The Board of County Commissioners appoints members of the Investment Policy Committee from both the public as well as the private sectors. The committee works in conjunction with the Clerk & Comptroller to develop and evaluate the County’s investment policies. Membership of the FY 2019 committee included the following:

**HAL R. VALECHE**  
Chair of Investment Policy Committee  
Palm Beach County Commissioner

**SHERRY BROWN**  
Director, Office of Financial Management  
& Budget, Palm Beach County

**GEORGE FORMAN**  
Chief Operating Officer, Palm Beach County Sheriff’s Office

**STEPHEN FREILICH**  
Private Sector Appointee

**NED NASHBAN**  
Private Sector Appointee

**MARK PARKS**  
Private Sector Appointee

**FREDERICK EUCLID WALKER**  
Private Sector Appointee
PORTFOLIO ALLOCATION & PERFORMANCE

During FY 2019, the Clerk-managed investment portfolio averaged $2.13 billion in size and yielded 2.5 percent as of fiscal year-end. The total return for the year was 2.86 percent with $60 million of investment income earned.

In a survey of nearly 30 of the largest counties (by population) in the country, Palm Beach County has been the highest yielding on investments as of fiscal year-end for the past six fiscal years.

The portfolio allocation at fiscal year-end is shown in the chart below. More details on portfolio holdings are available under the Public Funds section of the Clerk’s website at mypalmbeachclerk.com/investments.

PORTFOLIO ALLOCATION
Total Portfolio as of September 30, 2019 $1,975,577,638

- Certificates of Deposit, 72%
- Small Business Administration Pools, 13%
- Money Market, 12%
- Israel Bond, 2%
- Florida Local Government Investment Trust (FLGIT), 1%

FY 2019 HIGHLIGHTS
In FY 2019, the Clerk-managed investment portfolio:

- $2.13 BILLION: Averaged $2.13 billion in size as of fiscal year-end
- 2.5% YIELD: Yielded 2.5 percent as of fiscal year-end
- $60 MILLION: Earned $60 million in investment income
PORTFOLIO GROWTH

The graph below reflects the size of the County’s investment portfolio over the past three fiscal years. The trend of high portfolio balances in January of each year is a result of the timing of the receipt of the majority of property taxes. Portfolio balances decline throughout the year as the County pays its financial obligations.

INVESTMENT PORTFOLIO FY 2016-FY 2019

PORTFOLIO INCOME

Income generated by County investments is dependent upon many factors such as the interest rate environment, the economy and size of the portfolio. The graph below illustrates the amount of interest and investment income (including realized and unrealized gains/losses) generated over the past six fiscal years.
Palm Beach County’s investment portfolio contains funds that come from a variety of sources. During FY 2019, 54 percent of the County’s total revenue came from property taxes, also known as ad valorem taxes.

**GOVERNMENTAL ACTIVITIES REVENUES**

FY 2019 - $2,229,966,850

- **Property Taxes, 54%**
  - $1,215,729,274
- **Charges for Services, 18%**
  - $401,108,463
- **State Shared Revenues, 11%**
  - $244,629,101
- **Other Local Taxes, 7%**
  - $151,660,050
- **Investment Income, 2%**
  - $52,161,067
- **Franchise Fees, 2%**
  - $37,485,726
- **Grants and Other, 6%**
  - $127,193,169
- **Property Taxes, 54%**
  - $1,215,729,274

Funds are fiscal and accounting units that record cash and other financial resources as well as related liabilities. When revenues come in, they are recorded into individual funds that are classified according to their purpose. The investment portfolio is comprised of numerous fund types, including governmental funds, enterprise funds, agency funds and internal service funds.

Governmental funds have the largest share of the investment portfolio and include the general fund (County’s main operating fund), debt service funds, special revenue funds, and capital project funds. Enterprise funds include the Department of Airports and the Water Utilities Department. Agency funds represent the Sheriff, a constitutional officer, and internal service funds include risk management insurance funds.
INVESTMENT POLICY

The County’s investment policy is very specific in terms of its stated investment objectives. The primary objective is to prevent any loss of principal and, secondarily, to meet the County’s needs to pay budgeted expenses as they are due throughout the year. After meeting these two objectives, the Clerk and Comptroller consistently and actively seeks opportunities to maximize investment income in order to reduce the financial burden on Palm Beach County taxpayers. This formal document, approved by the Board of County Commissioners, addresses issues such as authorized instruments, risk diversification methods, internal controls, program monitoring, performance measurement, qualified dealers and competitive bidding.

DEPOSITORY BANKING

When the County’s revenues are collected, they are temporarily deposited into a main bank account until they are needed to pay County expenses. These bank balances earn “credits” that offset the County’s banking fees. Any balances in excess of those required to pay these fees are temporarily invested to earn investment income for the County.

In order for the County to pay its expenses, such as payroll or vendor payments, the Clerk & Comptroller’s office ensures there are funds available to pay all Palm Beach County bills and financial obligations.

Wells Fargo Bank, N.A. serves as Palm Beach County’s main depository bank. In addition, a large portion of the County’s portfolio is invested in certificates of deposit and money market accounts at other financial institutions. These types of investments have been extremely competitive over the past several years, and have the advantage of no mark-to-market volatility.

In accordance with Florida Statute 280, all public deposits must be fully secured in Qualified Public Depositories (QPD) insuring that all of the County’s funds are protected against loss. Deposits in QPDs are collateralized pursuant to state law. The collateral requirement for QPDs is determined by the Chief Financial Officer of the State of Florida.

DID YOU KNOW?

The Clerk & Comptroller created the Investment Council of the Palm Beaches in 2012. This is a group of government finance professionals who share ideas and best practices. The council meetings are held periodically and hosted by the Clerk & Comptroller’s office. The meetings are open forums to discuss techniques to help manage investment portfolios as well as other relevant topics.
THE MARKETS AND THE ECONOMY

The economy expanded throughout the fiscal year at a decelerating pace as the 2017 tax cut stimulus diminished. Real Gross Domestic Product fell from 3 percent to 2 percent by the end of the fiscal year, while inflation remained near 2 percent. The unemployment rate continued to fall and ended the year at a 50-year low of 3.5 percent.

After the Federal Reserve (Fed) increased the Fed Funds target range to 2.25 percent - 2.50 percent on December 19, 2018, the economy began to slow, the decline in stocks intensified, and the Central Bank became concerned about the decelerating economic growth outlook. By early 2019, the Fed expressed more concern for the economy and said that it was pausing its rate hike program. By the end of the fiscal year, the Fed had cut rates twice for a new Fed Funds target range of 1.75 percent - 2.00 percent. And, further cuts seemed likely. The Fed's rate pivot was well underway.

All sectors of the economy began to feel the effects of the Fed’s earlier rate hike program. Consumer spending was uneven and slowing by the end of the fiscal year. After a surge early in the year, business investment began to weaken on the prospect for slowing sales growth. Government spending began to slide, while trade growth was hurt by the ongoing trade war with China.

Financial market performance followed the Fed’s change in the economic outlook, the incoming data suggesting an economic growth slowdown and the Fed’s own rate cuts. The Fed called its interest rate policy change a “mid-cycle” correction. The ten-year Treasury note ended the fiscal year at 1.67 percent, down from the prior fiscal year close of 3.06 percent. The two-year Treasury note plunged to 1.62 percent at fiscal year-end, as compared to the prior fiscal year-end close of 2.82 percent. The long-term financial market trends suggested lower bond yields, lower short-term interest rates, and higher stock prices. These trends were consistent with moderate economic performance and contained inflation.

As the Fed’s monetary policy changed, the Clerk’s portfolio management strategy reflected a shift away from purchasing floating-rate securities to buying bonds with fixed rates. In addition, the very flat yield curve offered little incentive to invest in longer-dated maturities, resulting in the overall portfolio’s duration remaining very short.

FY 2019 HIGHLIGHTS

2% DOWN from 3%

Gross Domestic Product

1.67% DOWN from 3.06%

10-Year Treasury Note

1.62% DOWN from 2.82%

2-Year Treasury Note
INVESTMENT STRATEGY

With the Federal Reserve’s (FED) monetary policy interest rate pivot during the fiscal year, the Clerk & Comptroller’s investment strategy switched from defense to offense. Purchases included slightly longer fixed income investments in order to curb the interest income decline from the new trend of falling short-term interest rates. Specifically, maturities were targeted in the one- to two-year maturity buckets, with a decrease in allocation to floating rate investments. Purchases included bank certificates of deposit, bank accounts tied to Fed Funds, and a small allocation to floating rate securities. All floating rate securities purchased are tied to either the Fed Funds Target Rate or the Bank Prime Rate which changes in lockstep with the Fed Funds Target Rate Upper Bound. In a declining rate environment, the Fed Funds Target Rate tends to lag behind the reduction of almost all other market rates.

The Clerk & Comptroller actively monitors the financial markets and the global economy to identify value in the market consistent with the investment policy’s foremost objective of safety, followed by liquidity and earning a market rate of return. All tactical measures employed are in accordance with the risk parameters as set out in the investment policy. Asset allocation decisions are fluid and change with evolving market conditions.

To assist in implementing the industry’s best practices, the Clerk & Comptroller’s office subscribes to Bloomberg, a state-of the-art financial system that allows access to real-time market and economic information, as well as serves as a tool to analyze investment securities of all asset classes. As an independent source for web-based investment accounting and reporting, including performance measurement and risk analysis, the office contracts with Clearwater Analytics.

INVESTMENT POLICY’S FOREMOST OBJECTIVES

Safety  Liquidity  Earning a Market Rate of Return

The Palm Beach County Investment Ordinance, adopted in 1987, built flexibility into the County’s investment program by establishing a framework for a formalized investment policy that expanded investment alternatives and set standards beyond those as dictated by state statute. The ordinance also provided for the creation of the Palm Beach County Investment Policy Committee (IPC).
STRATEGIC RISK MANAGEMENT

The Clerk & Comptroller’s office achieves a balance between certain types of risk and portfolio return. These different risks fall into four basic categories:

Credit risk is the possibility that the security issuer defaults and does not return principal. The Clerk & Comptroller addresses credit risk by primarily focusing on either explicitly guaranteed U.S. government debt or highly rated Government Sponsored Enterprise (GSE) debt. The portfolio may contain minimum exposure to corporate or sovereign debt that is likewise highly rated. All government deposits in banking institutions are fully collateralized by state law, thus removing the credit risk on these deposits.

Diversification risk is the potential for loss resulting from over-weighting investments in a specific maturity, issuer, instrument or a class of instruments. The Clerk & Comptroller's office spreads issuer exposure among the U.S. government and its agencies, AAA-rated money market accounts and local government investment pool providers, corporate issuers and Qualified Public Depositories. Asset classes, security structures and maturities are likewise diversified.

Interest rate risk refers to the market price volatility that fixed-income investments experience due to changing market interest rates. The Clerk & Comptroller structures the County’s investment portfolio to maintain an average effective duration appropriate for market conditions, relative investment yields and the economic outlook.

Liquidity risk is the risk associated with converting an investment to cash. The Clerk & Comptroller works with the County’s Office of Financial Management and Budget to lower this risk by effectively forecasting cash flow needs and ensuring a steady flow of cash into the portfolio as needed, from maturing and amortizing assets. In addition, a predetermined level of cash is invested in money market accounts to address any unanticipated liquidity needs that may arise during the fiscal year.

INVESTMENT COMPLIANCE

In order to maintain an internal control structure that allows for the segregation of duties and authority, the Clerk has an internal Investment Compliance Officer independent from the investment management process. The role of the compliance officer is to review each and every trade from the bottom up to ensure compliance with the County Investment Policy. Additional responsibilities include reviewing performance, risk analysis and monitoring authorized broker/dealers. The compliance officer ensures independent oversight, fiduciary responsibility, transparency, disclosure, and prudent checks and balances.

The Clerk & Comptroller’s office is committed to providing clear and transparent information about Palm Beach County’s investments. Monthly investment reports detailing the County’s portfolio allocation and performance are available at mypalmbeachclerk.com/investments.
INVESTMENT SECTOR DESCRIPTIONS

Money Market Accounts
Money Market Accounts includes both bank deposit accounts and mutual funds. These accounts are fully liquid and pay interest based on current interest rates in the short-term financial markets.

Small Business Administration (SBA) Pools
SBA pools represent ownership interests in assembled pools of small business loans guaranteed by the SBA. The U.S. government guaranteed portion is bought and sold on the secondary market to form these pools. The yields on the pools adjust either monthly or quarterly to the prime rate, providing excellent interest rate sensitivity. No more than 20 percent of the total portfolio at market value at the time of purchase may be invested in SBA pools.

State of Israel Bonds
State of Israel Bonds are backed by the full faith and credit of the State of Israel, which is highly rated. Maturities on these investments are limited to a maximum of three years. No more than 5 percent of the total portfolio at market value at the time of purchase may be invested in these securities.

Florida Cooperative Liquid Assets Securities system (FLCLASS)
FLCLASS is an independent local government investment pool designed to provide a safe and competitive short-term investment alternative to Florida governmental entities. The pool is fully liquid and pays interest comparable to money market instruments.

Florida Local Government Investment Trust
The Florida Local Government Investment Trust is a local government investment pool organized in 1991 through the joint efforts of the Florida Court Clerks and Comptrollers (FCCC) and the Florida Association of Counties (FAC). This short-term bond fund seeks to maintain safety of principal and maximize yield through a balance of quality and diversification. The fund has a fluctuating net asset value (NAV), and provides returns generally in excess of money-markets instruments. The fund is professionally managed by the investment management firm Payden & Rygel. No more than 20 percent of the total portfolio at market value at the time of purchase may be invested in local government investment pools.

Certificate of Deposits (CD)
Certificates of Deposits are similar to savings accounts, but earn greater interest for the investor in exchange for agreeing to leave the money on deposit for a set period of time. The interest rate earned may be fixed or floating. Funds may be withdrawn early, although there is usually a minimal interest penalty associated with this action. CDs are a safe investment and are made only in Florida Qualified Public Depositories. All deposits are fully collateralized pursuant to Florida law.
ABOUT THE CLERK & COMPTROLLER’S OFFICE

As the third largest of the 67 Clerk’s offices in Florida, the Clerk & Comptroller, Palm Beach County, serves a local population of nearly 1.4 million residents. The office performs more than 1,000 different functions and provides services from locations throughout Palm Beach County and online at mypalmbeachclerk.com.

More than 170 years ago, the Florida Constitution established the Clerk & Comptroller as an independent public trustee, directly elected by the public to serve these major functions:

As Chief Financial Officer, Treasurer, Clerk of the Board of County Commissioners:

• Serves as an independent check and balance on Palm Beach County’s revenue, debt and spending.
• Invests and earns interest income on County funds, reducing the tax burden on the residents.
• Maintains financial records and produces financial statements and reports.
• Documents and maintains the minutes, records and activities of government meetings, including Palm Beach County Commission meetings, and is Clerk to the County’s Value Adjustment Board.

As Clerk of the Circuit Court:

• Protects the integrity of public records and public funds as an independent impartial third party, directly accountable to the citizens.
• Electronically receives, processes and files all civil and criminal court documents; protects evidence; disburses all court fees, fines and costs; and provides the public with access to court records in paper and online.
• Manages the County’s jury system, issues marriage licenses and provides a state-of-the-art Self-Service Center for residents representing themselves in court.

As County Recorder:

• Maintains the Official Records of the County dating back to 1909.
• Electronically records documents such as mortgages, deeds, liens, judgments and marriage licenses and makes images available online.

As Inspector General/Auditor:

• Provides independent and objective auditing and investigative services ensuring the efficiency of operations and uncovering waste, fraud and abuse.
• Audits court-appointed guardianships and operates the Guardianship Fraud Hotline to detect and deter financial abuse and mismanagement.
• Audits all County funds ensuring expenses are lawful, serve a public purpose and have a sufficient budget.

The Clerk & Comptroller’s website at mypalmbeachclerk.com makes many services available online, including court record searches, Official Records searches, Value Adjustment Board petitions, foreclosure sales and County financial information.