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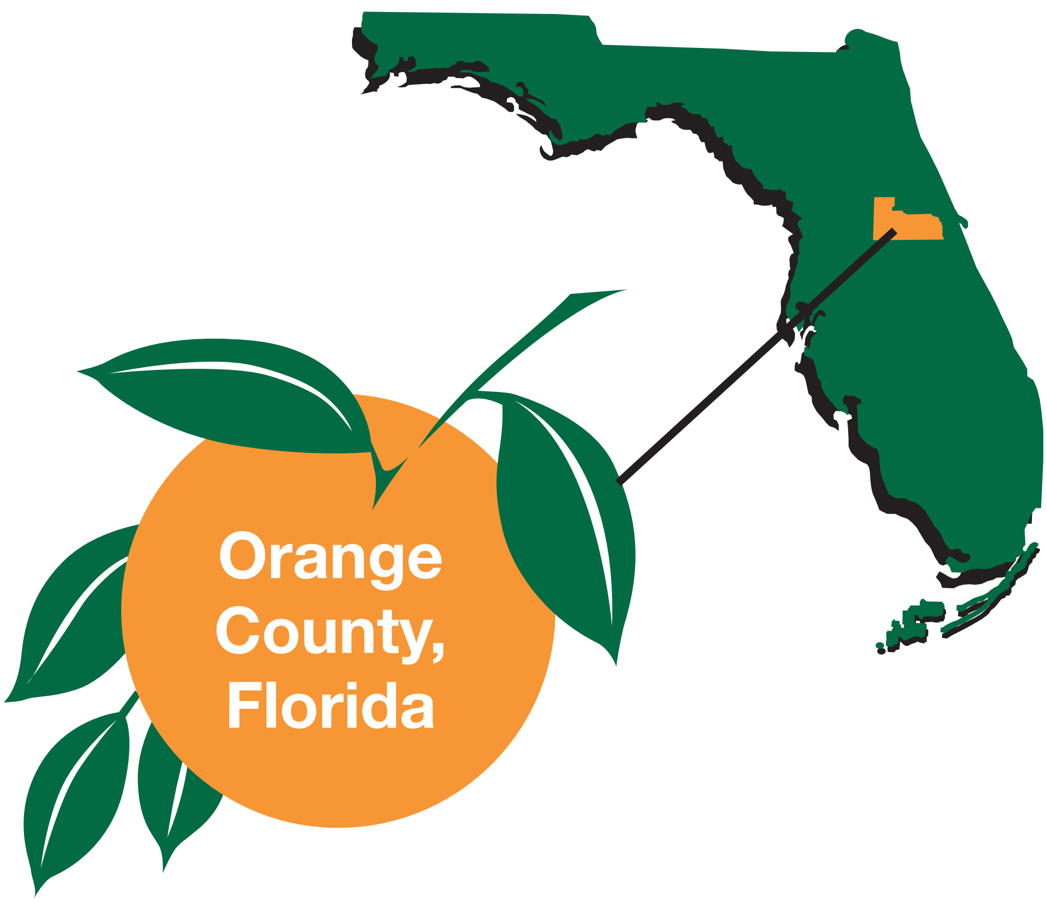
ANNUAL INVESTMENT REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2014



MARTHA O. HAYNIE, CPA
COUNTY COMPTROLLER

ANNUAL INVESTMENT REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2014

MARTHA O. HAYNIE, CPA
ORANGE COUNTY COMPTROLLER

EXECUTIVE SUMMARY

The portfolio earned $9.4 million for an effective rate of return of 0.68% on an average daily balance of $1.40 billion in Fiscal Year 2014. Investments were made in compliance with the Investment Policy's permitted investment types, composition limits and allowable maturities.

The portfolio is affected by domestic monetary policy and national economic activity. The Federal Reserve Board (Fed) began to taper the size of its monthly asset purchase program on improving economic conditions, particularly in the labor market. The Fed reduced asset purchases by $10 billion per meeting beginning in January 2014 and concluded the program of quantitative easing in October. However, tame inflation allowed the Fed to maintain a fed funds target range of 0% to 0.25%.

The overall portfolio is comprised of four sub-portfolios: current operating, noncurrent operating, intermediate term and debt service reserve. The current operating sub-portfolio, which has a maximum maturity of 13 months, represented 46.2% of the County's total portfolio. The noncurrent operating sub-portfolio, 34.3% of the overall portfolio, generated 78.4% of the County's earnings. This five-year laddered portfolio benefited from an upwardly sloping yield curve and capital gains on asset sales from roll down the yield curve trades. The intermediate term sub-portfolio, a three-year ladder, accounted for 14.0% of the total portfolio and the debt service reserve sub-portfolio represented 5.5%.

Actual interest income was $3,680,851 higher than the amount budgeted and $839,466 more than actual interest earnings in Fiscal Year 2013. The increase in interest earnings was primarily attributable to a 12% increase in the assets allocated to the noncurrent operating portfolio. The effective rate of return on the portfolio exceeded all benchmarks.

Section 218.415 (15), Florida Statutes, requires the Orange County 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 presented below as of September 30, 2014.

Summary Table of Portfolio Performance

Investment Type	Book Value September 30, 2014	Market Value September 30, 2014	Interest Earned Fiscal Year 2014
U.S. Treasuries	$1,045,688,175	$1,045,206,433	$9,186,745
Federal Instrumentalities	94,992,962	95,008,150	186,967
Certificates of Deposit	10,000,000	10,000,000	29,438
Fixed Income Money Market Mutual Funds	116,482,716	116,482,716	26,283
Totals	$1,267,163,853	$1,266,697,299	$9,429,433

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ANNUAL INVESTMENT REPORT
for the year ended September 30, 2014
ORANGE COUNTY, FLORIDA

I. INVESTMENT POLICY

Section 218.415, Florida Statutes provides units of local government with the ability to conduct investment activity outside the framework of that Statute that is consistent with a written plan adopted by the local governing body. Orange County's (County) investment activity is authorized by the Investment Policy (Policy) adopted by the Board of County Commissioners (BCC). The Policy applies to all investment activities and financial assets of the BCC excluding funds invested in the Orange County Retiree Health Care Benefit Trust, which was created solely to provide funding and payment of post-retirement benefits to beneficiaries. During Fiscal Year 2014, the Orange County Comptroller's Investment Committee (Committee) reviewed the Policy but did not recommend any revisions.

The County's investment activity was conducted in accordance with written procedures and internal controls.

II. INVESTMENT COMMITTEE

The Committee was established by the Orange County Comptroller (Comptroller) to formulate investment strategies, provide short-range direction, and monitor the performance and structure of the County's portfolio. The Committee consists of Comptroller staff and another qualified individual with financial expertise. The outside member of the Committee is Bob Tessier, Comptroller for the Orange County Library System.

III. INVESTMENT OBJECTIVES

The Policy describes three specific objectives to be applied in managing the County's investments. The primary objective is **safety** of the County's funds. The portfolio is managed in a manner that seeks to ensure the preservation of capital in the overall portfolio. To achieve this objective, investments are diversified across a variety of securities offering independent returns and maturities. On average in Fiscal Year 2014, approximately 91% of portfolio assets were invested in Treasuries and money market mutual funds comprised of Treasuries and Treasury-backed repurchase agreements due to ongoing turmoil in global financial markets. Treasuries are considered to have the lowest default risk of any security type because they are guaranteed by the full faith and credit of the United States Government.

The second objective is to maintain sufficient **liquidity**. The County's funds are invested to match maturities with forecasted expenditures for operating, payroll, and capital needs. Liquidity also encompasses the ability to sell an investment when necessary, with minimal delay and minimal loss of principal.

Maximizing yield on the portfolio is the County's third investment objective. This objective is only sought after the first two investment objectives are met.

IV. 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 include the types of investments permitted, allowable maturities, liquidity requirements, domestic monetary policy, sensitivity of asset values to changes in market conditions, local economic activity (the dollars available to be invested) and the investment operation.

The portfolio earned $9.4 million for an effective rate of return of 0.68% on an average daily balance of $1.40 billion in Fiscal Year 2014. For comparison, the portfolio earned $8.6 million for an effective rate of return of 0.62% on an average daily balance of $1.39 billion in Fiscal Year 2013.

This report discusses in detail each of the factors influencing portfolio performance. The report also discusses the County's depository banking relationship.

V. PERMITTED INVESTMENTS AND ALLOWABLE MATURITIES

Table 1 summarizes the permitted investments, composition limits and maximum allowable maturities. The County's excess funds are invested according to Orange County Code Section 17-5, which authorizes the Comptroller to invest in specific permitted investment types. The permitted investments are restricted by the Policy's composition limits and maximum allowable maturities. The Policy also restricts the investment maturities of current operating funds to not more than 13 months, the investment maturities of noncurrent operating funds to not more than 60 months, and the investments of bond reserves, construction funds and other non-operating funds to a term appropriate to the need for the funds. Following is 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	Maximum Maturity
Florida PRIME (SBA)	40%	NA
Treasuries	100%	10 Years
Instrumentalities	45%	10 Years
CDs & Savings Accounts	30%	One Year
Repurchase Agreements	20%	30 Days
Bankers' Acceptances	15%	270 Days
Commercial Paper	15%	270 Days
Municipal Obligations	10%	Three Years
Money Markets	25%	NA

A. 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, 2014, 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 40% of the portfolio may be invested in Florida PRIME but when combined with money market mutual funds, may not exceed 50% of the portfolio.

B. U.S. Treasury Securities (Treasuries)

The securities comprising Treasuries are direct obligations of the U.S. Government. The securities are designated by maturity. Treasury bills have maturities of one year or less, Treasury notes have maturities of two to 10 years, and Treasury bonds have maturities of more than 10 years. The prices of the longer maturities are more volatile because they are more sensitive to interest rate fluctuations. Treasury yields are typically lower than yields on debt issued by federal agencies sponsored by the U.S. Government.

C. Federal Agency Securities (Instrumentalities)

Instrumentalities are securities issued by federal agencies sponsored by the U.S. Government. The Policy allows purchases of bonds, notes or debentures of the issuing agencies including Federal Farm Credit Banks, Federal Home Loan Bank or its district banks, Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac). Instrumentalities vary in maturities. Yields on Instrumentalities are typically greater than yields of similar Treasuries. The Policy further restricts investments in any one agency to 15% of the portfolio.

D. Certificates of Deposit and Savings Accounts (CDs/Savings)

The Comptroller may invest in nonnegotiable, interest bearing CDs and savings accounts in state or national banks located in Florida, and having their deposits secured by Chapter 280, Florida Statutes, known as the Florida Security for Public Deposits Act. The issuing bank must not be listed with any nationally known credit watch organization. There is some liquidity risk with CDs because they are subject to penalties for early withdrawal. The Policy further restricts CDs/Savings in any one bank to 5% of the portfolio.

E. Repurchase Agreements (Repos)

A Repo is a financial transaction in which the 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 Repos. 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 less than five years and having a market value of 102% during the term. The County will enter into a Repo transaction only with qualified financial institutions, which have executed a Master Repurchase Agreement with the Comptroller. The Policy further restricts transactions with any one financial institution to 5% of the portfolio, except for overnight Repos.

F. Bankers' Acceptances (BAs)

BAs are generally bearer form securities comprised of underlying letters of credit used to finance international trade. A BA 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 a 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 BAs to be inventory-based, issued by a domestic bank that has an uninsured and unguaranteed obligation rating of at least P-1 and A by Moody's Investors Service and A-1 and A by Standard & Poor's, and ranked in the top 50 domestically chartered insured commercial banks that have consolidated assets of $300 million or more as reported by the Federal Reserve Board. The Policy further restricts the investment with any one financial institution to 5% of the portfolio.

G. Commercial Paper (CP)

CP 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. Yields are typically greater than Treasuries and Instrumentalities of similar maturity. The Policy requires the issuer to be rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's and, if backed by a letter of credit, the long-term debt of the credit provider must be rated at least A by two nationally recognized rating agencies. The credit provider must also be ranked in the top 50 domestically chartered insured commercial banks that have consolidated assets of $300 million or more as reported by the Federal Reserve Board. The Policy further restricts the investment with any one financial institution to 2.5% of the portfolio.

H. Municipal Obligations

For situations necessary to comply with arbitrage regulations, the Comptroller may invest in taxable and tax-exempt debt, and general obligation and revenue bonds issued by state and local governments. Long-term debt must be rated at least Aa by Moody's Investors Service and AA by Standard & Poor's. Short-term debt must be rated at least MIG-2 by Moody's Investors Service and SP-2 by Standard & Poor's. The Policy further restricts the investment with any one issuer to 3% of the portfolio.

I. Fixed Income Money Market Mutual Funds (Money Markets)

Money Markets are pools of securities providing income and liquidity. The Policy enables the Comptroller to invest in SEC qualified fixed income Money Markets with underlying investments in Treasuries and Treasury-backed repurchase agreements. The average maturity of the underlying investments may not exceed one year. A maximum of 25% of the portfolio may be invested in Money Markets but when combined with Florida PRIME may not exceed 50% of the portfolio. The Policy further restricts the investment with any one fund to 10% of the portfolio.

VI. LIQUIDITY REQUIREMENTS

The second objective in managing the County's investments is the provision for 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 upon receipt and immediately become part of the portfolio.

The portfolio provides cash for daily payment of operating and capital expenditures, biweekly payment of payroll expenditures, and semiannual debt service payments. Debt service payments are funded through sinking funds held by the County. Compared to Fiscal Year 2013, average daily payment for operating and capital expenditures increased to $4.9 million from $4.6 million, and average biweekly payments for payroll expenditures rose to $13.2 million from $12.6 million. Total debt service payments fell to $105.5 million from $107.0 million in Fiscal Year 2013. The Fiscal Year 2013 debt service payments exclude $21.4 million of debt service funds and other available cash used to refund three series of bonds.

VII. DOMESTIC MONETARY POLICY AND NATIONAL ECONOMIC ACTIVITY

In addition to the types of permitted investments and allowable maturities, and liquidity requirements, portfolio performance is influenced by domestic monetary policy and national economic activity. The Policy provides that the Comptroller will utilize federal funds rates, Treasury yield curves, and major U.S. economic barometers in making investment decisions. Yields usually fall or remain stable when monetary policy and economic indicators point to declines in inflationary pressure. Yields usually rise when the economy shows signs of increasing inflation. Domestic monetary policy and economic activity significantly influence the County's portfolio performance.

The Federal Reserve Board (Fed) conducts domestic monetary policy. The Fed controls monetary policy through open market operations, the discount rate and bank reserve requirements. The Fed's Board of Governors administers the discount rate and bank reserve requirements, and the Federal Open Market Committee (FOMC) conducts open market operations. Open market operations have the most significant impact on the County's portfolio performance. The FOMC reviews economic and financial conditions, assesses risks to the economic outlook and attempts to alter the federal funds rate through monetary policy. The federal funds rate is the interest rate at which banks lend to other banks overnight. Changes in federal funds rates trigger events that affect other short term interest rates and, ultimately, a range of economic variables.

In our report for Fiscal Year 2013, we described the FOMC's program of quantitative easing (QE) where it purchased $40 billion of mortgage-backed securities and $45 billion of longer term Treasury securities each month. The asset purchase program was designed to pressure long term interest rates, support the mortgage market and help stimulate the broader economy. In addition, the Fed left the fed funds target range unchanged at 0% to 0.25% for the entire year. The FOMC maintained an accommodative monetary policy as economic growth was not strong enough to bring down the rate of unemployment. In Fiscal Year 2014, the Fed began to taper the size of its monthly asset purchase program on an improving economy and stronger labor market. The amount purchased was reduced by $10 billion per meeting beginning in January 2014 and the program of quantitative easing was concluded in October 2014, shortly after the end of the fiscal year. The Fed once again left the fed funds target range unchanged at 0% to 0.25% during the year. The FOMC will likely maintain an accommodative monetary policy for a considerable time, especially if the rate of inflation is below 2%.

Yields on Treasury bills and short-term Treasury notes are strongly influenced by the federal funds rate, as well as anticipated changes in this rate. The 2014 average Treasury yields shifted slightly downward in the one-year section of the curve from the 2013 averages, while longer term average yields increased. The average yields on the 3-month and 1-year Treasury each fell by two basis points, while the 6-month Treasury decreased by three basis points. The longer-term yields increased as follows: 2-year, 12 basis points; 5-year, 61 basis points; 10-year, 57 basis points; and 30-year, 33 basis points.

The front end of the yield curve, on average, shifted marginally downward from rates in Fiscal Year 2013. In contrast, the average yield curve increased and steepened between two and thirty years. The spread between the average yields on the 5-year Treasury over the 3-month Treasury was 156 basis points in Fiscal Year 2014 compared with 93 basis points in Fiscal Year 2013. Significant rate increases also occurred in the 10-year and 30-year sectors of the curve. Long-term rates increased in late Fiscal Year 2013 after Federal Reserve Chairman Ben Bernanke first mentioned the idea of tapering asset purchases in the quantitative easing program. The higher interest rates persisted throughout Fiscal Year 2014.

Although on average the yield curve shifted upward and steepened between two and thirty years, the curve flattened as Fiscal Year 2014 progressed. Interest rates in the 2-year and 5-year sectors of the curve trended upward through the end of the year on concerns that the Fed may begin to raise the fed funds target rate. In contrast, interest rates in the 10-year and 30-year sectors of the curve, while on average were higher than in Fiscal Year 2013, trended downward during the year due primarily to plummeting European bond yields.

Approximately 91% of the County's portfolio was invested in Treasuries and Money Markets comprised of Treasuries and Treasury-backed repurchase agreements. Yields on the Money Markets were three basis points or lower, while the average yield on Treasuries with maturities of thirteen months or less was 12 basis points. The overall portfolio benefited from returns on longer-term investments in the noncurrent operating portfolio. The returns on this 5-year laddered portfolio were enhanced by an upwardly sloping yield curve and capital gains on roll down the yield curve trades. These noncurrent operating portfolio investments were the primary reason the rate of return on the portfolio exceeded the fed funds intended and effective rates by an appreciable margin.

Shown below in Chart 1 are the average 30-year Treasury yield curves for fiscal years 2010 through 2014, followed by Chart 2, which compares the monthly portfolio rates of return with the monthly intended and effective federal funds rates for the same period.

Chart 1 – Average U.S. Treasury Yield Curves

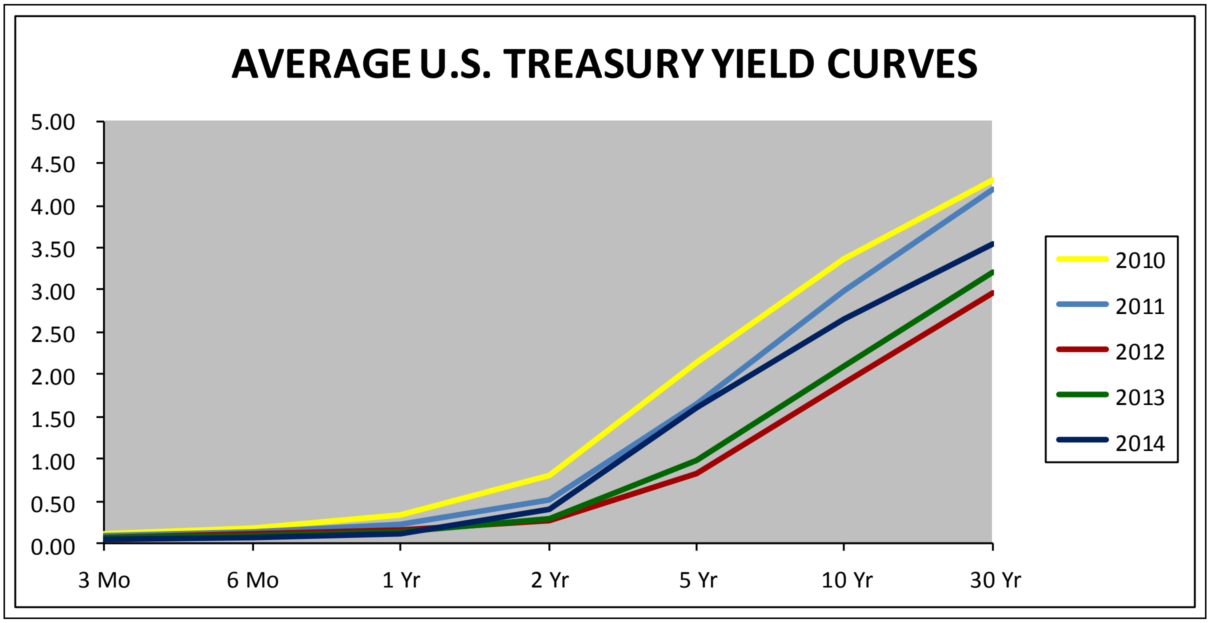
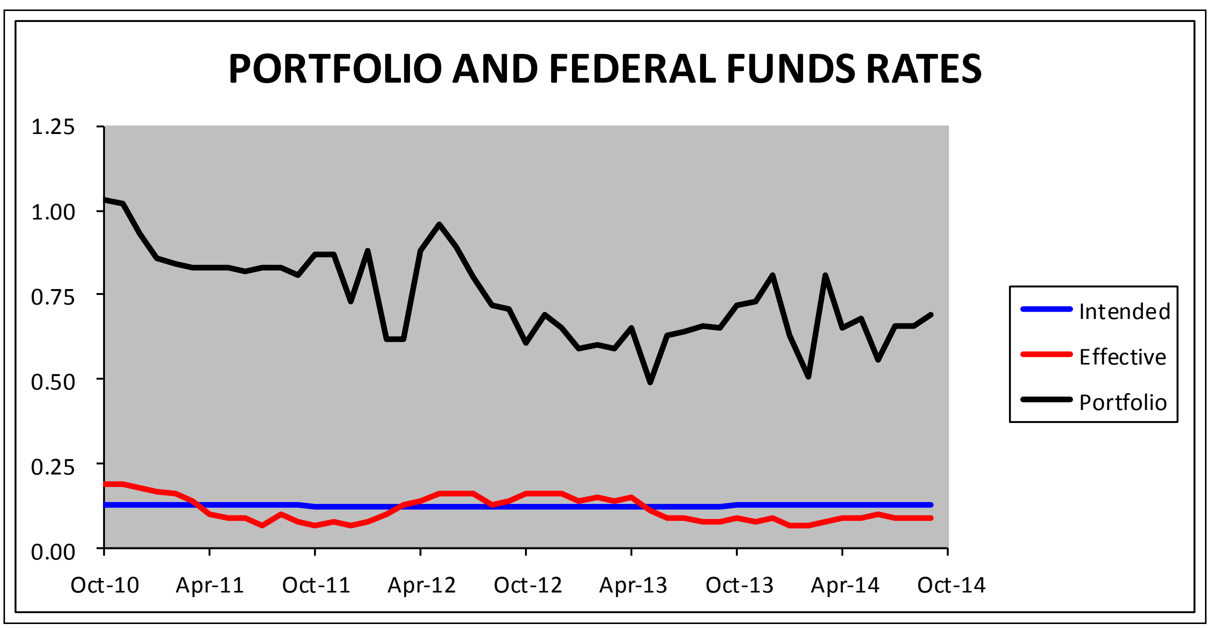
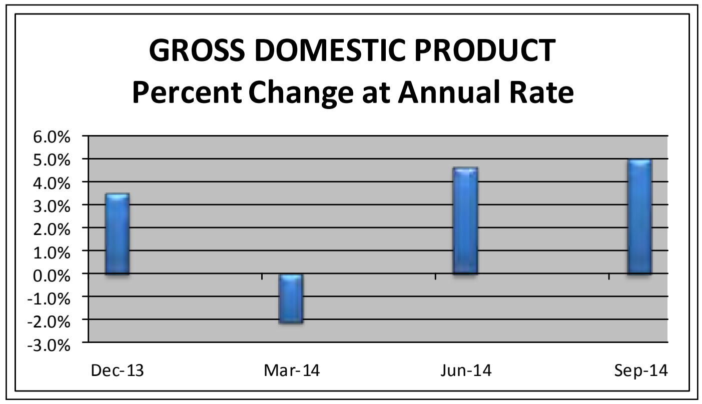


Chart 2 – Portfolio and Federal Funds Rates



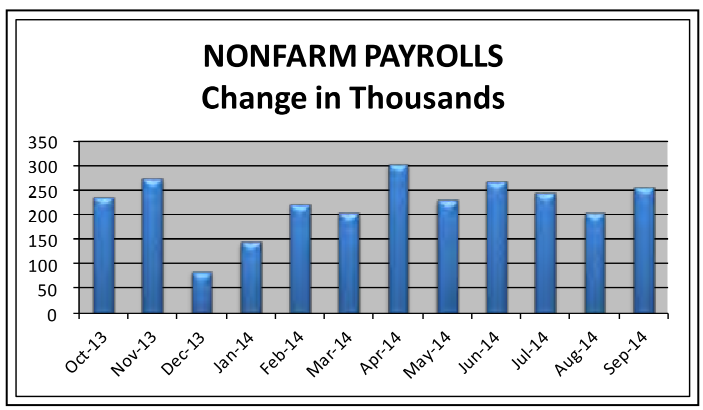
Barometers measure national economic activity by various economic variables. Those variables significantly influence interest rates on most government and corporate securities nationwide. Shown below in Charts 3 through 13 are the barometers followed by the Comptroller in developing investment strategy during the fiscal year, together with a brief explanation of each.

Chart 3 – Gross Domestic Product



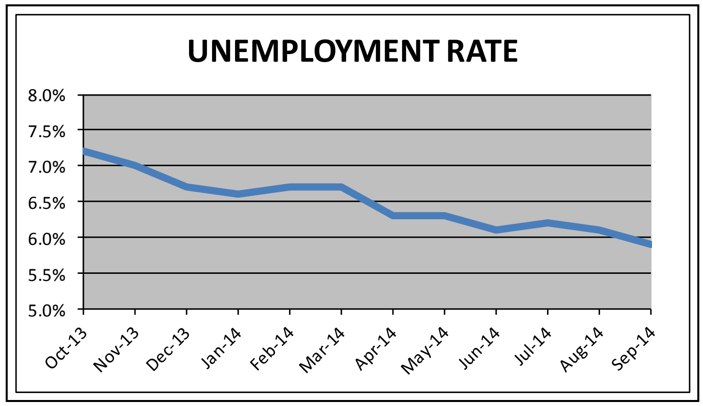
Gross domestic product (GDP) is a measure of the total value of goods and services produced in the United States for a given time period. Quarterly percent changes in the chain price index provide a broad-based estimate of GDP at constant, or inflation adjusted, dollar prices. GDP is the most comprehensive economic scorecard because it is the broadest measure of aggregate economic activity including personal consumption expenditures, investment, net exports, and government expenditures. Changes in the GDP chain price index are a widely followed, market-moving indicator. GDP is published by the U.S. Department of Commerce.

Chart 4 – Nonfarm Payrolls



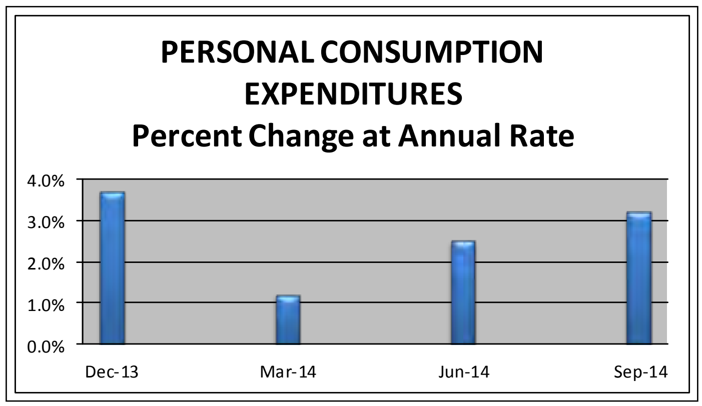
Nonfarm payrolls (NFP) measure the number of jobs in the nonagricultural economy. Monthly changes reflect the changes in actual numbers of paid employees in business and government establishments. NFP is a coincident indicator of the level of economic activity. Changes are closely watched because they are representative of the state of the economy. NFP is published by the U.S. Department of Labor.

Chart 5 – Unemployment Rate



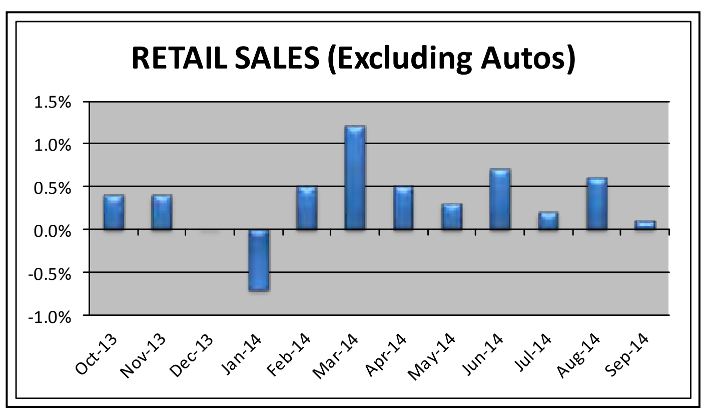
The unemployment rate is the ratio of the total number of unemployed to the total labor force. The labor force consists of those working and those seeking employment. Monthly changes in this rate and NFP are widely regarded together as the primary monthly economic indicator because the combined data helps forecast other important economic barometers. The unemployment rate is published by the U.S. Department of Labor.

Chart 6 – Personal Consumption Expenditures



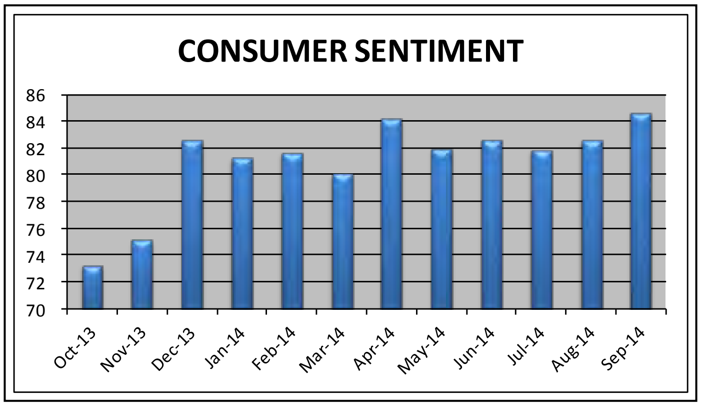
Personal consumption expenditures (PCE) is a measure of goods and services purchased by persons in the United States. PCE is the most important and typically the most stable of the four components that comprise GDP. PCE normally represents more than two-thirds of GDP. The three sectors of PCE are durable goods (expected to last three years or more), nondurable goods (less than three years) and services. Services account for approximately 66% of PCE. The U.S. Department of Commerce publishes PCE.

Chart 7 – Retail Sales (Excluding Autos)



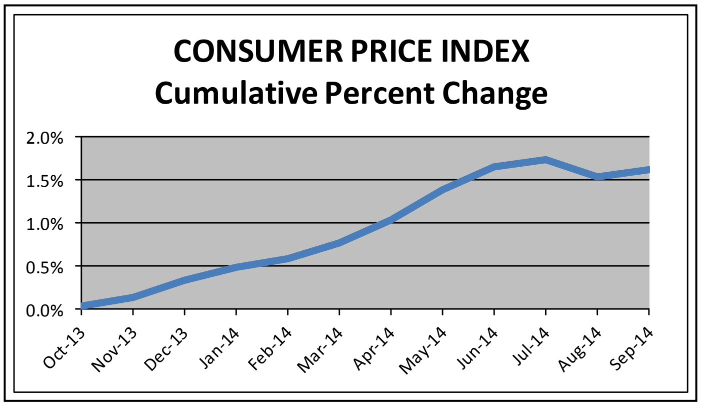
Retail sales is a measure of consumer spending for a given month. This reading is used to help forecast PCE and GDP. The Department of Commerce uses the control component, retail sales excluding autos, to measure the growth rate in the non-service component of PCE. This indicator is hard to forecast and the market is often sensitive to large, unexpected readings. The U.S. Census Bureau of the Department of Commerce publishes retail sales.

Chart 8 – Consumer Sentiment



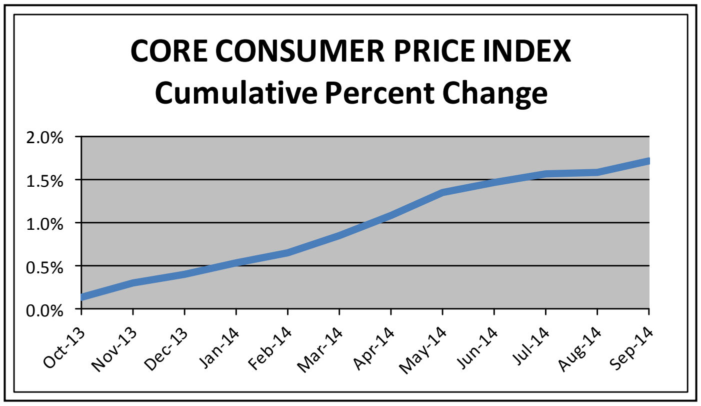
Consumer sentiment is a measure of how consumers view prospects for their own financial condition, how they view prospects for the general economy in the near term, and their view of the economy over the long term. Monthly levels of consumer sentiment are included in the Conference Board's Index of Leading Economic Indicators and are associated with consumer spending. The University of Michigan and Thomson Reuters publish the report on consumer sentiment.

Chart 9 – Consumer Price Index



The consumer price index (CPI) is a measure of the average price of a fixed basket of goods and services that consumers in the U.S. buy on a regular basis. Monthly percent changes in the index reflect the average change in consumer prices. The CPI is widely followed and regarded by many as the measure of inflation. CPI is published by the U.S. Department of Labor.

Chart 10 – Core Consumer Price Index



Core CPI excludes food and energy costs from the CPI. The core CPI rate is believed by many to be a better approximation of underlying inflation than the CPI because it removes items that are subject to large, temporary price changes. Economists and market analysts monitor core CPI for its greater monthly stability. Core CPI is also published by the U.S. Department of Labor.

Chart 11 – Producer Price Index

The producer price index (PPI) is a measure of the average level of prices of a fixed basket of goods and services received by domestic producers. Monthly percent changes reflect the rate of change in such prices. Changes in the PPI are widely followed as a significant indicator of inflation trends. PPI is published by the U.S. Department of Labor.

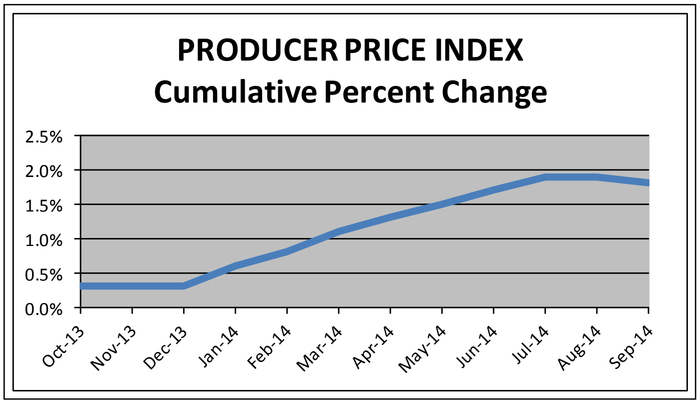


Chart 12 – Housing Starts

Housing starts is a measure of the number of residential units on which construction has begun each month. The level of housing starts is widely followed as a significant indicator of residential construction trends and demand for furniture, home furnishings, and appliances. Housing starts is published by the U.S. Department of Commerce.

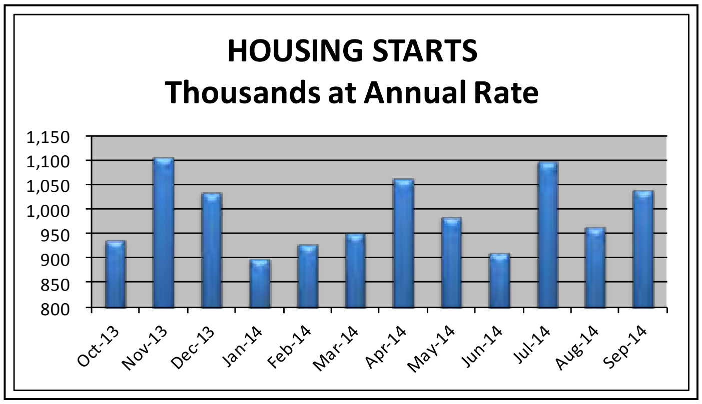
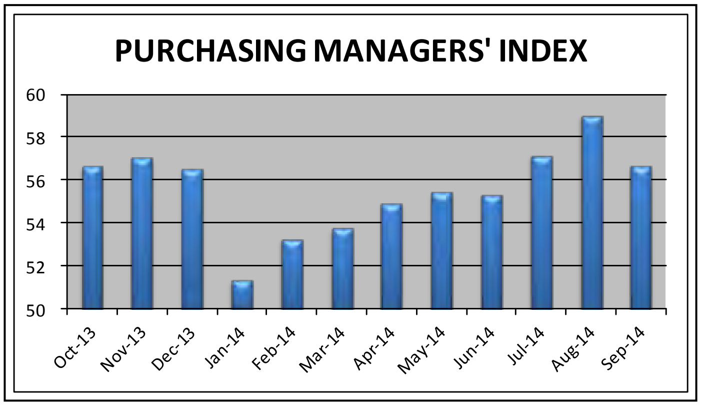


Chart 13 – Purchasing Managers' Index

The purchasing managers' index (PMI) is derived from surveys of purchasing managers about the general direction of production, orders, inventories, employment, vendor deliveries and prices. The levels indicate overall factory sector trends. Historically, readings above 50 are associated with generally expanding manufacturing activity; readings over 42.7 indicate that the overall economy is expanding. Readings below 50 are typically associated with contractions in manufacturing and readings below 42.7 indicate that the overall economy is contracting. PMI is widely followed because it gauges momentum in manufacturing and corporate earnings. The Institute for Supply Management publishes PMI.



The Fiscal Year 2013 report described predictions of modest economic growth in Fiscal Year 2014. According to a Bloomberg survey, GDP was forecasted to average roughly 2.5% in Fiscal Year 2014, slightly below the long-term growth trend. The economy was expected to benefit from a reduction in household deleveraging, easing credit conditions and higher equity values. Labor market conditions were forecast to improve at a moderate pace but there did not appear to be a catalyst to accelerate the rate of job growth. The Fed was expected to maintain a highly accommodative monetary policy and low fed funds target rate due to modest payroll growth and inflation.

Indicated in Charts 3 through 13, the barometers reflect varying economic conditions throughout the fiscal year. According to GDP, the economy was growing at an annual rate of 3.5% in the first quarter of the fiscal year following a final reading of 4.5% in the fourth quarter of the previous fiscal year. Economic growth was driven by the largest increase in consumer spending in three years. PCE, which represents more than two-thirds of the economy, increased 3.7% on higher spending for services. Consumer spending for health care services was particularly strong. The outlook at the end of the first fiscal quarter was favorable due to rising consumer confidence and growth in housing starts. However, higher fuel prices and increased rents for housing were contributing to an uptick in the cost of living in the United States, as evidenced by a 0.2% increase in CPI for December 2013.

GDP declined 2.1% in the quarter ended March 31, 2014, the first negative reading in three years. GDP reflected sluggish growth in consumer spending, reduced business investment in equipment and declines in residential fixed investments. The U.S. economy was adversely affected by severe weather during much of the quarter. Weather conditions hampered production at factories, which had trouble procuring materials in a timely manner. The employment situation showed signs of improvement with nonfarm payrolls increasing by more than 200,000 jobs in February and March, respectively. Inflation at the consumer level continued to trend upward during the quarter and the pace of growth in wholesale prices reached annual highs. The PPI increased at 0.3% pace in March on rising costs for services and food.

GDP regained its upward momentum in the quarter ended June 30, 2014, increasing to an annual growth rate of 4.6%. The economy was propelled by consumer spending, residential fixed investment, and business investment in structures and equipment. The labor market also appeared to be gaining momentum. Nonfarm payrolls expanded at an average rate of 267,000 jobs per month during the quarter and the unemployment rate fell to 6.1% at the end of the quarter, compared with 6.7% at the end of the March quarter. Inflation remained subdued despite the increase in consumer spending and an improving labor market. Core CPI (excludes food and energy) only rose 0.1% in June. Total CPI rose 0.3% due to higher prices for gasoline but these increases did not filter through to other consumer goods.

For the quarter ended September 30, 2014, GDP surged to an annual growth rate of 5.0%. The GDP reading reflected broad based gains spread across consumer spending, business fixed investment, government spending and residential fixed investment. PCE climbed 3.2% on increased spending for durable and non-durable goods. Employment conditions continued to improve with non-farm payrolls growing by more than 200,000 jobs for the eighth consecutive month in September, and the unemployment rate fell to 5.9%. The labor market, however, continued to have a considerable amount of slack. The labor force participation rate dropped to 62.7% in September, the lowest rate since 1978. Nevertheless, improving economic and labor conditions had a positive impact on the consumer and housing market. In September, the Thomson Reuters/University of Michigan Consumer Sentiment Index climbed to a 14-month high of 84.6 and housing starts increased 7.8% to a 1.04 million pace in September.

Going into Fiscal Year 2015, economists continue to project moderate economic expansion. According to a Bloomberg survey, GDP is expected to average roughly 2.8% in 2015. The economy is benefiting from an improving job market, falling oil prices and a modest rate of inflation. However, deteriorating economic conditions in foreign markets and a strengthening U.S. dollar will likely have a negative impact on U.S. exports. The Fed has been able to maintain an accommodative monetary policy with the rate of inflation running below 2% and a historically low labor participation rate. A Reuters poll of Wall Street's largest banks suggested that the Fed could raise rates as early as June 2015 if the underutilization of labor resources fades.

VIII. LOCAL ECONOMIC ACTIVITY

In addition to the types of permitted investments and allowable maturities, liquidity requirements, and domestic monetary policy and national economic activity, the portfolio's effective rate of return is influenced by the local economy. The County derived approximately 78% of its Fiscal Year 2014 revenues from 12 revenue sources including several taxes, user fees and charges, state-shared revenues and investment income. Shown in Table 2 are the County's 12 major revenues received in Fiscal Years 2014 and 2013.

Table 2 – Orange County's 12 Major Revenue Sources

Revenue	FY 2014	FY 2013
Ad Valorem Tax	$545,740,901	$527,857,645
Tourist Development Tax	201,400,252	186,962,039
Water Utilities System Operations	160,805,610	157,578,827
Half-Cent Sales Tax	150,154,118	140,650,246
Public Service Tax	94,124,772	90,562,850
Convention Center Operations	48,510,367	55,148,144
Mandatory Refuse Fees	46,467,766	45,712,359
Impact Fees (excl. School Impact Fees)	44,162,354	43,235,882
Fuel Taxes	42,124,750	40,831,207
State Revenue Sharing	34,508,789	32,046,097
Solid Waste Tipping Fees	28,786,001	27,000,108
Interest Earnings	**9,429,433**	**8,589,967**
Totals	$1,406,215,113	$1,356,175,371

IX. INVESTMENT OPERATIONS

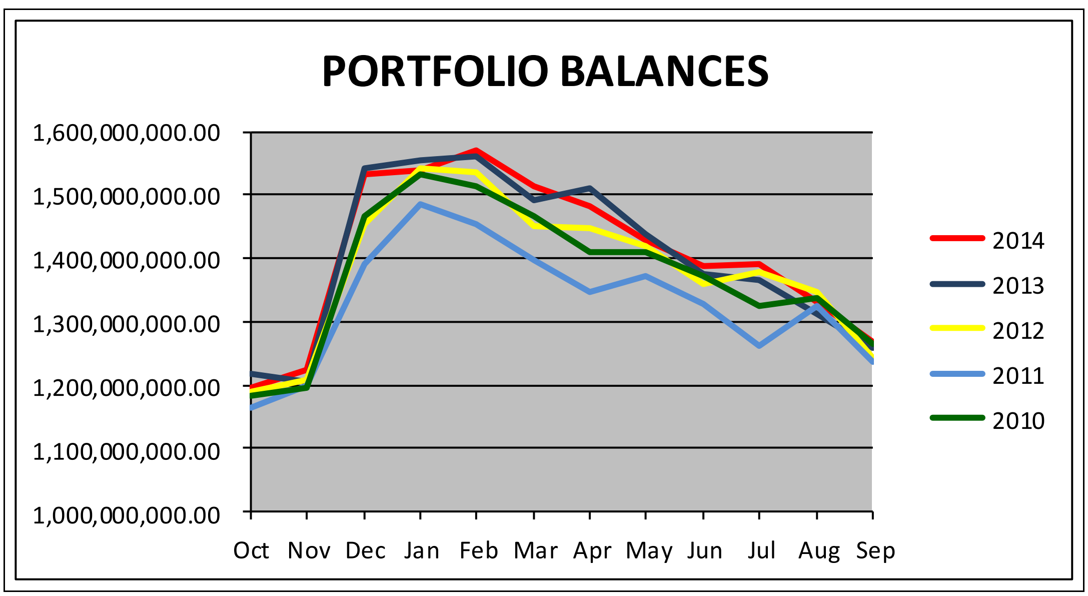
Qualified professionals in the Comptroller's Office conduct investing activities in accordance with Florida Statutes, County Ordinances, and written policies and procedures. Monthly reports of investment activity and positions are prepared and distributed to Comptroller management, management of the BCC, and the Investment Committee. Regular meetings of the Committee are held to monitor the portfolio, evaluate investment performance and discuss investment strategies.

The Comptroller uses sophisticated techniques in carrying out its investment activities including the use of electronic bank and trust account systems; electronic funds transfer; on-line, real-time monitoring of U.S. securities markets; and electronic trading. Bank account balances, cash requirements, investment positions and trust account activity are determined daily. Current conditions and evaluations of domestic monetary policy and national economic activity are considered in purchasing investments.

A. Portfolio Balances

The portfolio's opening balance for Fiscal Year 2014 was $1.26 billion, up $15.2 million from the opening balance of Fiscal Year 2013. The portfolio's average daily balance was $1.40 billion, up $4.6 million from the prior year. The portfolio's ending balance for Fiscal Year 2014 was $1.27 billion, up $9.6 million from the opening balance. Expenditures from the portfolio increased to $1.66 billion from $1.61 billion in 2013. This increase was primarily attributable to operating and capital expenditures. Shown in Chart 14 are the portfolio balances as of the end of each month in fiscal years 2010 through 2014.

Chart 14 – Portfolio Balances



B. Portfolio Composition

As of September 30, 2014, the portfolio was fully invested in permitted investments within allowable composition limits. As shown in Chart 15 below, the portfolio contained Treasuries, Instrumentalities, CDs and Money Markets comprised of Treasuries and Treasury-backed repurchase agreements. Chart 16, September 30, 2013 Portfolio Composition by Investment Type, is presented for comparative purposes.

Chart 15 – September 30, 2014 Portfolio Composition by Investment Type

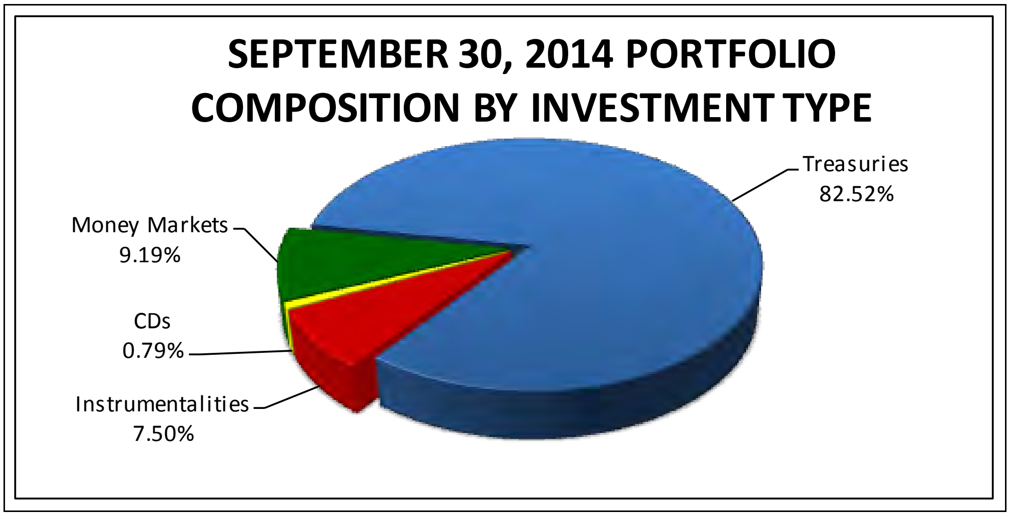
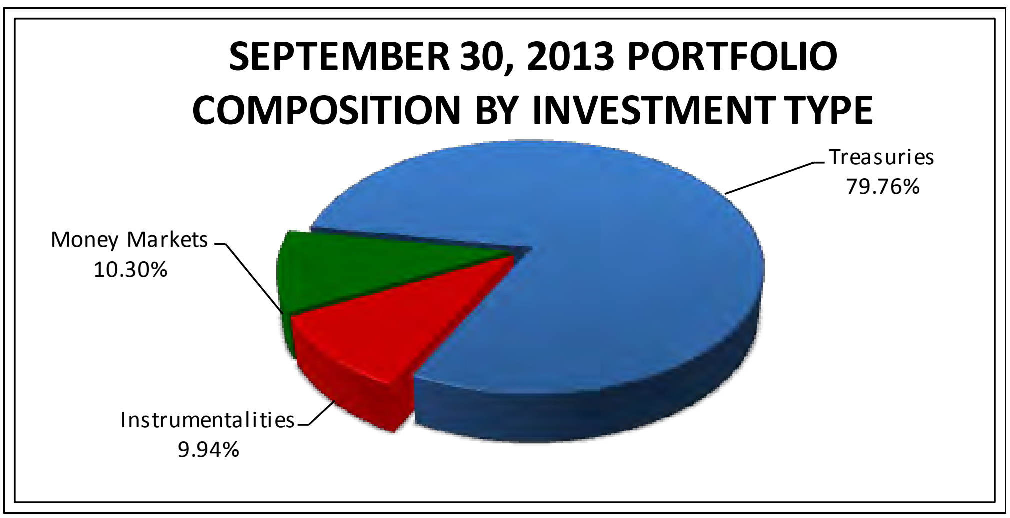


Chart 16 – September 30, 2013 Portfolio Composition by Investment Type



The portfolio was managed in compliance with the Policy, which requires the portfolio to be diversified by investment type. However, Treasuries may represent 100% of the portfolio because they are backed by the full faith and credit of the United States Government. During Fiscal Year 2014, the average composition of the portfolio shifted modestly to Instrumentalities and CDs from Treasuries and Money Markets. Changes in the average portfolio composition can be seen in Charts 17 and 18.

Chart 17 – FY 2014 Average Portfolio Composition by Investment Type

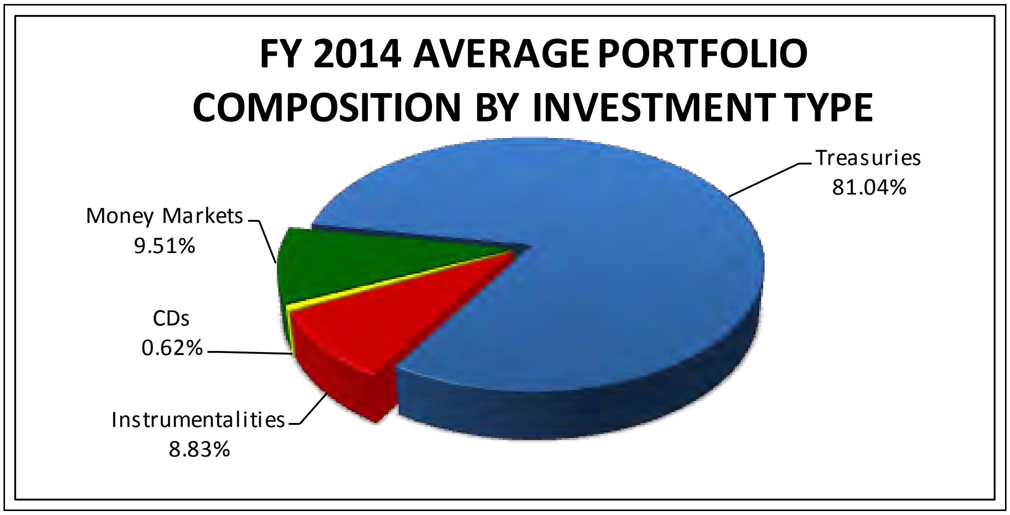
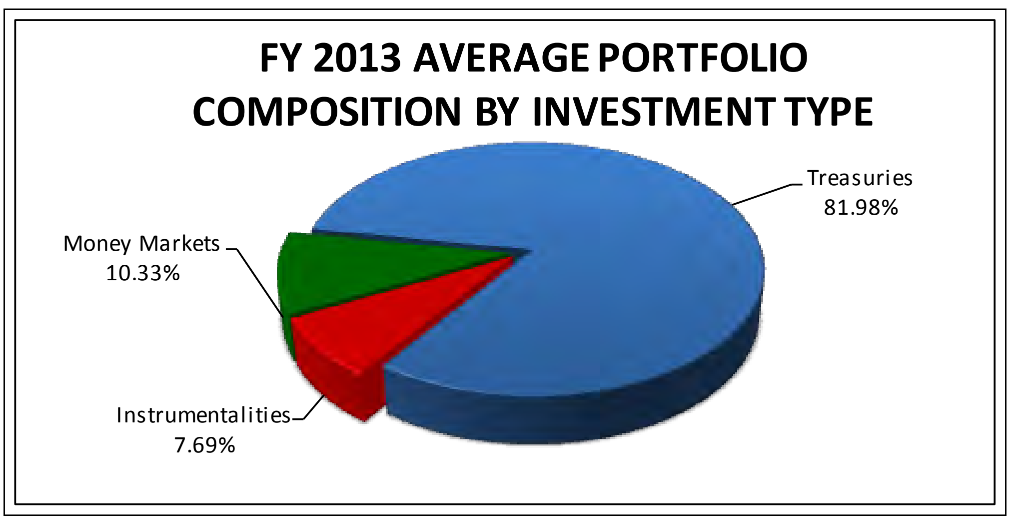


Chart 18 – FY 2013 Average Portfolio Composition by Investment Type



The portfolio is comprised of four sub-portfolios: current operating, intermediate term, noncurrent operating and debt service reserve. The current operating portfolio has a maximum maturity of 13 months and is managed to meet operating, payroll and debt service requirements. The intermediate term portfolio has a maximum maturity of 36 months and was established to increase returns on excess liquidity and diversify investment maturities across the yield curve. The noncurrent portfolio is comprised of a 5-year ladder designed to meet longer term funding requirements. Investments in the debt service reserve portfolio are governed by the County's bond covenants. The overall portfolio will have a project construction sub-portfolio when the County raises funds through the issuance of debt for large projects such as building construction and real estate acquisitions. The portfolio did not contain any projection construction funds over the last two years. The Policy requires debt service reserve and project construction investments to have terms that coincide with the expected use of the funds and in accordance with debt covenants, but not to exceed 10 years. The September 30, 2014 Portfolio Composition by Sub-portfolio is presented below. Chart 20, September 30, 2013 Portfolio Composition by Sub-portfolio, is presented for comparative purposes.

Chart 19 – September 30, 2014 Portfolio Composition by Sub-portfolio

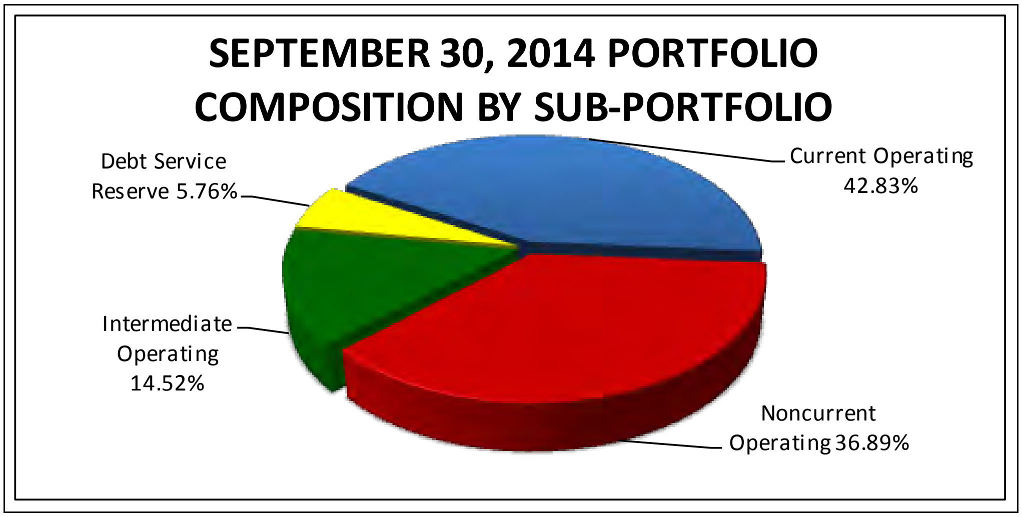
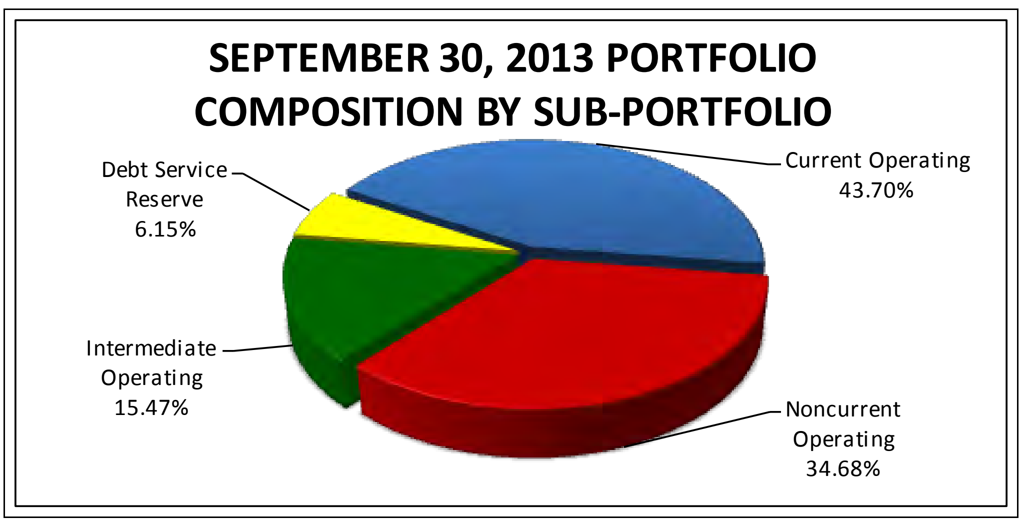


Chart 20 – September 30, 2013 Portfolio Composition by Sub-portfolio



The average composition of the portfolio shifted to intermediate operating and noncurrent operating funds. This change resulted from efforts to extend investment maturities out of low yielding short term investments in the current operating portfolio into higher yielding long-term securities. The change in average composition by sub-portfolio is presented below in Charts 21 and 22.

Chart 21 – FY 2014 Average Portfolio Composition by Sub-portfolio

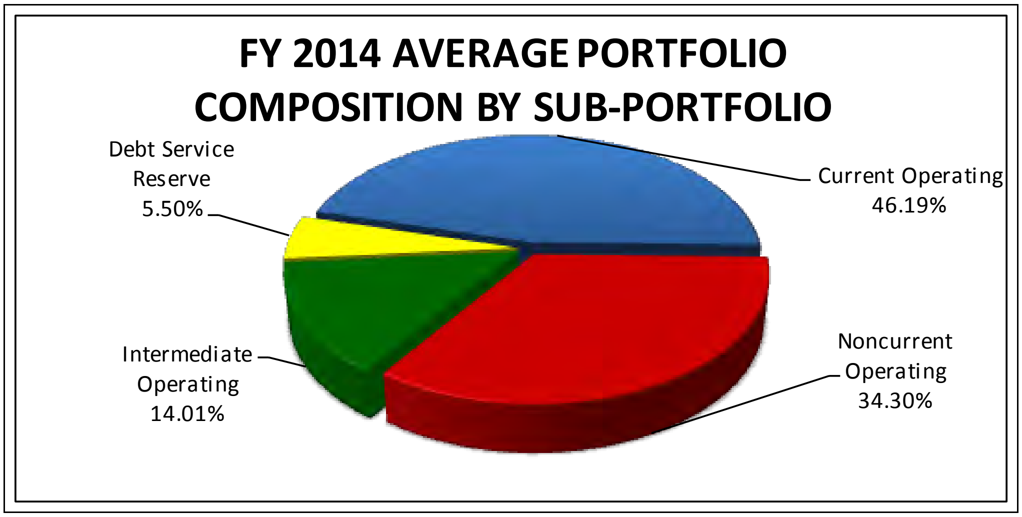
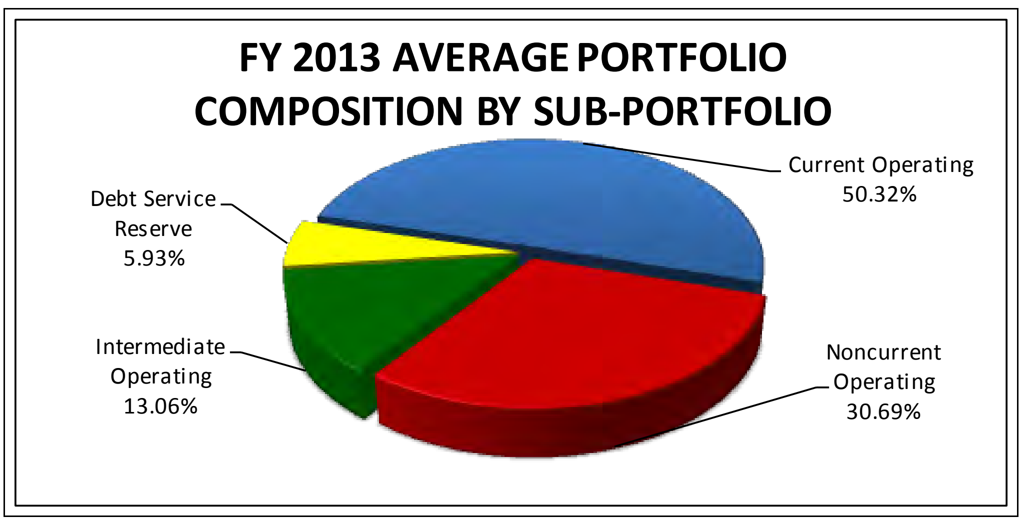


Chart 22 – FY 2013 Average Portfolio Composition by Sub-portfolio



C. Portfolio Maturities

The Policy requires sufficient liquidity and diversity in maturities. Shown in Table 3 are the average terms of each investment type at September 30, 2014 and 2013. Average term is the weighted average number of days from purchase to maturity of the investment. Average terms extend past 13 months in some cases due to the long-term investment of noncurrent operating funds, intermediate term funds, project construction funds and debt service reserve funds. The longer term of Treasury investments reflects efforts to extend maturities in a normal, or upward sloping, yield curve environment during the year.

Table 3 – Year-end Average Term by Investment Type

Investment Type	FY 2014	FY 2013
Money Market Funds	1	1
Instrumentalities	339	298
Certificates of Deposit	365	NA
Treasuries	1,172	1,087

Available balances were invested for an average term of 893 days in Fiscal Year 2014 compared with an average term of 800 days in Fiscal Year 2013. Table 4 below reports the average term of the portfolio for each month in Fiscal Years 2014 and 2013. The portfolio's average days to maturity was 566 days in Fiscal Year 2014 compared with 508 days in 2013. Average days to maturity is the average number of days remaining to maturity for the portfolio. Table 5 below reports the average days to maturity for each month in Fiscal Years 2014 and 2013. Both the average term and the average days to maturity increased as a result of efforts to move funds out of low yielding short-term investments into higher yielding long-term investments.

Table 4 – Average Term

Period	FY 2014	FY 2013
October	954	834
November	932	855
December	800	725
January	812	745
February	796	751
March	836	774
April	881	757
May	909	788
June	929	809
July	921	810
August	947	850
September	996	897
Average	893	800

Table 5 – Average Days to Maturity

Period	FY 2014	FY 2013
October	580	553
November	576	565
December	528	494
January	541	501
February	517	495
March	555	501
April	580	479
May	587	483
June	581	486
July	562	486
August	574	508
September	613	542
Average	566	508

D. Interest Earnings and Yields

The dollar amount of interest earnings is used in historical and budgetary comparisons, and in cash flow analysis. The portfolio earned $9,429,433 on an average daily balance of $1,395,059,858 in Fiscal Year 2014. For comparison, the portfolio earned $8,589,967 on an average daily balance of $1,390,495,017 in Fiscal Year 2013. Actual interest income was $3,680,851 more than the budgeted amount in Fiscal Year 2014. For comparison, actual interest income was $17,095 less than the budgeted amount in Fiscal Year 2013. Budgeted and actual interest earnings for both fiscal years are shown in Table 6 below.

Table 6 – Budget and Actual Interest Earnings

	FY 2014	FY 2013
Actual	$9,429,433	$8,589,967
Budget	5,748,582	8,607,062
Variance	$3,680,851	$(17,095)

Interest earnings and the effective rate of return on each sub-portfolio are shown below in Table 7. The Fiscal Year 2013 interest earnings and effective rate of return by sub-portfolio are provided in Table 8 for comparison.

Table 7 – FY 2014 Interest Earnings and Effective Rate of Return by Sub-portfolio

FY 2014		
Sub-portfolio	Interest Earnings	Effective Rate of Return
Noncurrent Operating	$7,397,179	1.55%
Intermediate Term	1,210,914	0.62%
Current Operating	722,181	0.11%
Debt Service Reserve	99,159	0.13%
Total	$9,429,433	0.68%

Table 8 – FY 2013 Interest Earnings and Effective Rate of Return by Sub-portfolio

FY 2013		
Sub-portfolio	Interest Earnings	Effective Rate of Return
Noncurrent Operating	$6,880,627	1.61%
Intermediate Term	644,838	0.36%
Current Operating	930,531	0.13%
Debt Service Reserve	133,971	0.16%
Total	$8,589,967	0.62%

New investments in the noncurrent operating portfolio were made at lower rates than those securities that matured or were sold during the year, which is the primary reason the return on the noncurrent portfolio fell by six basis points. The average yield on the 5-year Treasury climbed to 1.60% in 2014 from 0.99% in 2013. The average yield on the 5-year Treasury was 2.16% in 2009, when most of the maturing or sold noncurrent investments were purchased. Nevertheless, the noncurrent operating portfolio was the best performing sub-portfolio. The return on the 5-year Treasury exceeded the return on shorter maturities throughout the year, and the average yield spread of the 5-year Treasury over the 3-month Treasury was 156 basis points. The return on the intermediate term portfolio surged 26 basis points higher to 0.62% due primarily to an increase in the average return on the 3-year Treasury to 0.81% from 0.48% in 2013. The returns on the current operating portfolio and debt service reserve portfolio declined on lower short term interest rates.

The dollar amount of earnings by itself has little meaning as a measurement of portfolio performance. A better gauge of portfolio performance is the effective rate of return, which is measured in percent and can be compared to rates in prior years and to comparable investments. For Fiscal Year 2014, the portfolio's effective rate of return was 0.68%. In Fiscal Year 2013, the portfolio's effective rate of return was 0.62%. Shown below in Table 9 are the effective rates of return for the permitted investment types during Fiscal Years 2014 and 2013.

Table 9 – Average Portfolio Effective Rate of Return by Investment Type

Investment Type	FY 2014	FY 2013
Treasuries	0.81%	0.72%
Certificates of Deposit	0.35%	NA
Instrumentalities	0.15%	0.20%
Money Markets	0.02%	0.02%

The modest rates of return reflect very low market interest rates, particularly on short-term securities. Returns on Money Markets were miniscule due to strong demand for safe liquid assets. The increase in Treasury returns reflects the allocation of a larger proportion of assets to the higher yielding noncurrent operating and intermediate term portfolios. The average maturity of the portfolio increased to approximately 18.9 months in Fiscal Year 2014 from 16.9 months in the prior year.

Investments staff is authorized to sell securities that fall within 13 months of maturity if a capital gain can be realized. The proceeds are immediately reinvested in a Treasury note at the end of the noncurrent operating portfolio's 5-year ladder or the intermediate term portfolio's 3-year ladder. Roll down the yield curve sales generated $1.8 million in capital gains in Fiscal Year 2014, adding 13 basis points to the overall portfolio's 0.68% return.

E. Benchmark Comparisons

Portfolio performance is best measured when compared with rates of return on comparable investments. The Investment Committee has established benchmarks as a means to monitor portfolio performance. A benchmark is a passive portfolio rate of return that represents expected returns with given levels of risk. In establishing benchmarks for the portfolio, the Committee evaluated investments with maturities and credit, market and liquidity risks comparable to the permitted investments. The Committee continued using certain Treasuries, the Merrill Lynch 0-1 Year Treasury Index and the effective federal funds rate as benchmarks for Fiscal Year 2014. The Comptroller also continued to use an internally calculated benchmark named the Committee Benchmark. This customized benchmark is computed using the yields on the effective federal funds rate, the 6-month constant maturity Treasury, the 2-year constant maturity Treasury and the 3-year constant maturity Treasury. Treasuries are defined in Section V above, and the effective federal funds rate is described in Section VII above. The Merrill Lynch Index is the average yield of approximately 20 Treasuries with maturities of one year or less.

The County's portfolio outperformed all benchmarks for the seventh consecutive year. The portfolio's strong performance relative to the benchmarks was primarily attributable to the stability provided by the noncurrent operating portfolio. Yields in the noncurrent portfolio are locked in over a long period of time with each monthly investment added to the end of the 5-year ladder. Investment yields in the current operating portfolio are more reflective of current market rates due to their short maturities. The only investment types purchased in 2014 with yields typically higher than Treasuries were Instrumentalities and certificates of deposit, which provided some yield pickup over Treasuries in the current operating portfolio. The suspension of new investments in CP, BAs, and Florida PRIME continued through the year. Florida PRIME has not been utilized since it temporarily froze in November 2007.

Table 10 – Benchmark Comparisons

Benchmark	FY 2014	Variance	FY 2013	Variance
Portfolio	0.68%		0.62%	
3-Month Treasury	0.04%	0.64%	0.06%	0.56%
6-Month Treasury	0.07%	0.61%	0.10%	0.52%
ML 0-1 Year Treasury	0.11%	0.57%	0.13%	0.49%
1-Year Treasury	0.11%	0.57%	0.14%	0.48%
2-Year Treasury	0.40%	0.28%	0.29%	0.33%
Effective Fed Funds	0.09%	0.59%	0.13%	0.49%
Committee Benchmark	0.30%	0.38%	0.21%	0.41%

F. Brokers, Dealers and Direct Issuers

Management of the portfolio was also accomplished in compliance with the Policy, which requires the portfolio to be diversified by financial institution. The Policy indicates that the Comptroller shall purchase securities only from financial institutions which are qualified as public depositories by the Chief Financial Officer of the State of Florida, from primary securities dealers as designated by the Federal Reserve Bank of New York, from securities dealers certified by the County's Business Development Division as Minority/Women Business Enterprises and having offices in Florida, or from direct issuers of CP and BAs. In addition, the Policy also requires a minimum of three competitive offers.

The Comptroller records the number and amount of purchases and sales by financial institutions and dealers. Shown below in Table 11 are the primary and qualified minority dealers, direct issuers and qualified public depositories (QPD) ranked by Fiscal Year 2014 percentage of total County purchases and compared with percentage of purchases in Fiscal Year 2013.

Table 11 – QPD, Dealers and Direct Issuers

Broker/Dealer	Status	FY2014 % of Total	FY2013 % of Total
Bank of Montreal	Primary	43.23%	34.94%
Barclays Capital Inc.	Primary	20.36%	22.48%
Morgan Stanley (formerly Citigroup)	Primary	16.24%	22.20%
Jeffries & Company, Inc.	Primary	13.84%	14.01%
Cantor Fitzgerald & Co.	Primary	5.61%	6.37%
American Momentum Bank	QPD	0.36%	–
Seacoast National Bank	QPD	0.36%	–

X. DEPOSITORY BANKING

General banking and cash management services are provided by an Agreement for Banking Services with Wells Fargo Bank, N.A., for the period July 1, 2013 through June 30, 2016. Wells Fargo was selected as the County's banking institution in a competitive procurement process. The Agreement provides for three one-year extensions upon mutual consent of the parties. If all three one-year options are exercised, the contract would run through June 30, 2019. Wells Fargo is a member of the Federal Reserve System and the National Automated Clearing House Association. Wells Fargo is also a QPD as defined by the Florida Security for Public Deposits Act.

Services provided by Wells Fargo under the Agreement include general banking, noninterest-bearing transaction accounts, retail and wholesale lockbox, and electronic funds transfers (EFT). Discussed below is a brief description of each service.

A. General Banking

General banking services include deposits, check writing, credit card processing, stop payments, return item processing, money changing, account analysis, bank statements, full check reconciliation, electronic information reporting and positive payment. Positive payment is an electronic process involving the County's checking accounts that reduces the risk of check fraud and allows unauthorized checks to be automatically returned to the payee.

B. Non-Interest Bearing Checking Accounts

Non-interest bearing checking accounts are full-service demand deposit accounts that generate interest income on available funds. The County maintains 24 accounts including collection and deposit, and disbursement accounts. Seven of the 24 accounts are checking accounts. Available balances are compensated at an earnings credit rate (ECR) of 42 basis points to offset services charges; however, the County does not earn interest on balances in excess of those needed to offset service fees. The bank accounts are demand deposit accounts, not investments. Therefore, they are covered by the Federal Deposit Insurance Corporation (FDIC) up to a total of $250,000 and collateralized by the Florida Security for Public Deposits Act.

If market interest rates were to rise, the County is contractually permitted to convert its bank accounts to Government Advantage Interest Checking (GAIC) accounts. The ECR on the GAIC would be the target federal funds rate less 10 basis points, and interest earnings in excess of service fees would be paid at the same rate.

C. Lockbox

Wells Fargo provides wholesale lockbox services to the Fire Rescue Department and the Solid Waste System. Wells Fargo also provides wholetail lockbox services to the Water Utility System and the County's Red Light Running Program. A wholetail lockbox is a hybrid of a retail lockbox and a wholesale lockbox. A lockbox is a method of collecting regular, recurring payments from customers of the County. The County's lockboxes provide faster deposit of payments, reduce handling and processing time, and strengthen internal controls by separating the cash handling responsibilities from invoicing and billing responsibilities.

D. Electronic Funds Transfers (EFT)

EFT are electronic communications of financial transactions between banks and bank customers. Wells Fargo provides the County with the capability to receive and disburse funds through the Federal Reserve Wire System, immediately and overnight. Automated clearinghouse transfers (ACH) include the ability to directly draw from customer (Water Utilities) and taxpayer (Tourist Development and Public Service Tax) accounts for immediate credit to the County's accounts. ACH transfers also provide for direct deposit of employee payroll earnings for immediate credit to their accounts, and for the County's payment of various state and federal tax liabilities. The Comptroller utilizes comprehensive ACH debit blocking to prevent unauthorized disbursements.