

Palm Beach County School District

Investment Performance Review
Quarter Ended September 30, 2005



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Tab I. September 30, 2005 PFM Month-End Statement

MARKET REVIEW

Market Summary

Interest rates rose in September as investors shifted their focus from the damage caused by the hurricanes to the possibility of accelerating inflation.

When the Federal Reserve raised the overnight rate by ¼ percent at its meeting on September 20, the market concluded that the Fed’s plan to raise rates at a measured pace would not be deterred by the economic toll of Hurricanes Katrina and Rita. Short-term interest rates rose modestly as the federal funds rate moved to 3.75%, but intermediate and longer term rates increased notably, resulting in the steepening of the yield curve as the spread between the three-month Treasury Bill, and the ten-year Treasury Note widened nearly 28 bps. These changes reflect a growing concern of investors about the prospect of rising inflation in coming months.

U.S. Treasury Market

Maturity	6/30/05	9/30/05	Change over Quarter
3 Month	3.12%	3.54%	0.42%
6 Month	3.33%	3.92%	0.59%
2 Year	3.64%	4.17%	0.53%
3 Year	3.65%	4.17%	0.52%
5 Year	3.70%	4.19%	0.49%
10 Year	3.92%	4.33%	0.41%
30 Year	4.19%	4.57%	0.38%

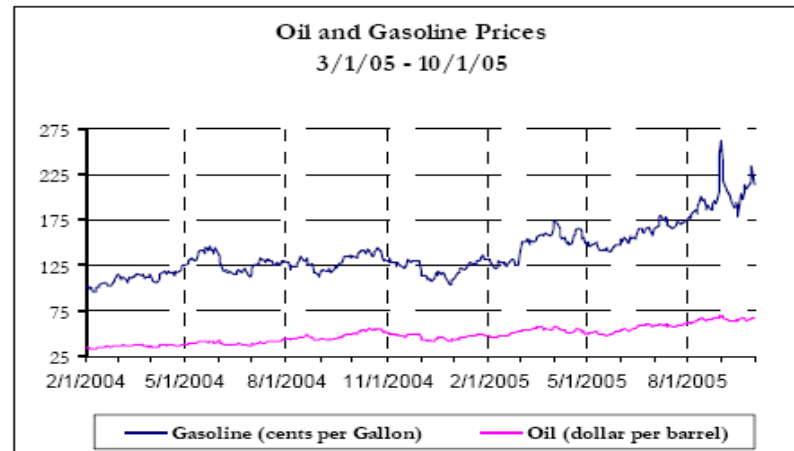
Source: Bloomberg

In the aftermath of Hurricanes Katrina and Rita, the economy displayed signs of both a short-term setback and underlying resiliency. Investors looked for signs that high oil prices would drive up the prices paid for goods and services and divert spending to energy. Fears of significant job losses, a downturn in consumption, or interruptions in the supply chain faded, while talk of a huge Federal government program to rebuild the Gulf region suggested that the economy might benefit from a growth spurt in coming quarters.

Economic Review

The Consumer Price Index rose 3.6% in August from the previous year. This increase was the largest in four years, but was mainly confined to food and energy. Excluding these items, consumer price inflation was only 2.2% from the previous year. The question remains how much high energy prices will affect the prices of other goods and services in coming months.

Producer Prices showed a similar trend with the overall index for August up 5.1% year-over-year, while the core index rose 0.5% or 1.8% on a year-over-year basis.



Source: Bloomberg

Oil and gas prices remain at near record levels. While prices have stayed at these levels it has become more difficult for manufacturers and other companies to absorb the higher costs. Consequently, they are beginning to transfer them to the consumer. Consumer confidence and consumer spending measures are in turn starting to decline.

Regular-grade gasoline reached a record \$3.057 per gallon on September 2, according to AAA, the largest motoring organization in the nation. By September 22, the average price had fallen to \$2.755, still 48% higher than a year ago.

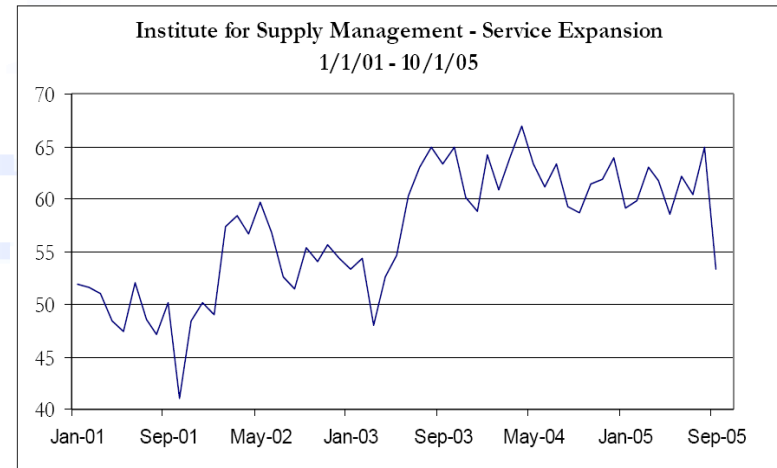
Consumer confidence, as measured by the Conference Board, sank to 86.6 in September, from a brief rebound to 105.5 in August. This drop not only marks the lowest confidence level in 2 years, but the largest drop in 15 years. The recent confidence number is a result of Hurricane Katrina, elevated gasoline prices, and the pessimistic job outlook.

New home sales fell to 1,237,000, over 110,000 lower than estimates, but housing starts remain firm. “It’s the early signs of some cooling in this super-heated market,” said David Resler, chief economist at Nomura Securities.

Personal spending declined 0.5% following a 1.2% gain the previous month. This drop in spending was the largest in over 3 years. A drop in automobile purchases has also propelled the declining personal spending number.

Labor market conditions remained firm despite the hurricanes. Initial jobless claims spurted to 390,000 in the weeks following the devastation, but economists estimated that filings, excluding claims of those displaced by Hurricane Katrina, would have been the lowest since June of 2000. Despite the storms, the economy seems to be on target to grow by more than two million new jobs, as it did last year.

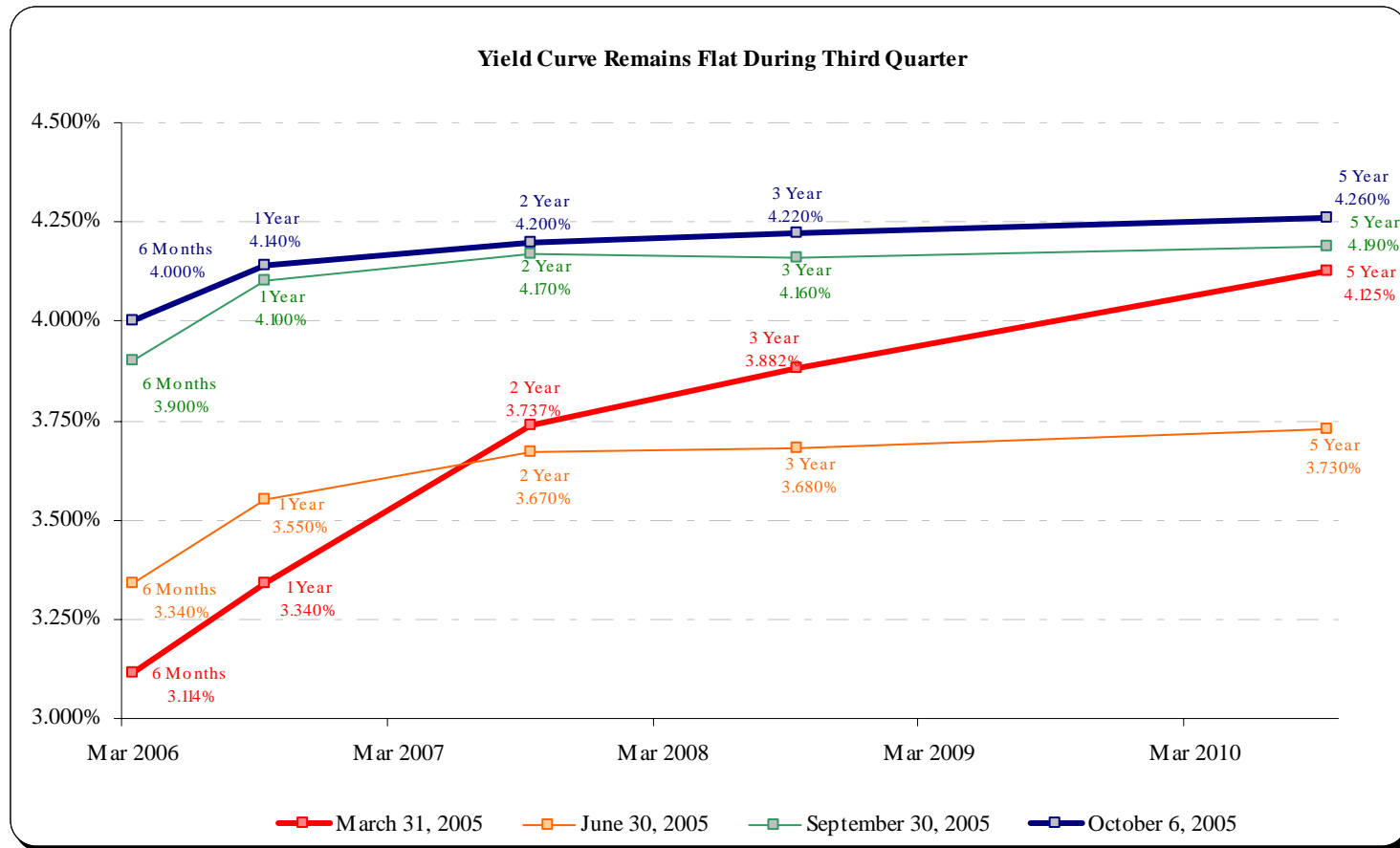
Durable goods orders rose 3.3% in August, rebounding from a fall of 5.3% the month before. Orders for expensive items rose to \$210.9 billion, marking the fourth increase in five months. All categories showed growth with the exception of defense equipment. Because of the rise in durable goods orders, inventories dropped 0.2% as companies struggled to keep pace with demand after a 0.8% gain the previous month. Unfilled orders jumped 1.7%. The services industry expanded at the slowest pace in over two years. The Institute for Supply Management’s measure of services, trade, and other non-manufacturing businesses reported the biggest decline since its inception in 1997. The index, which covers roughly 87% of the economy, fell from 65 in August to 53.3 in September.



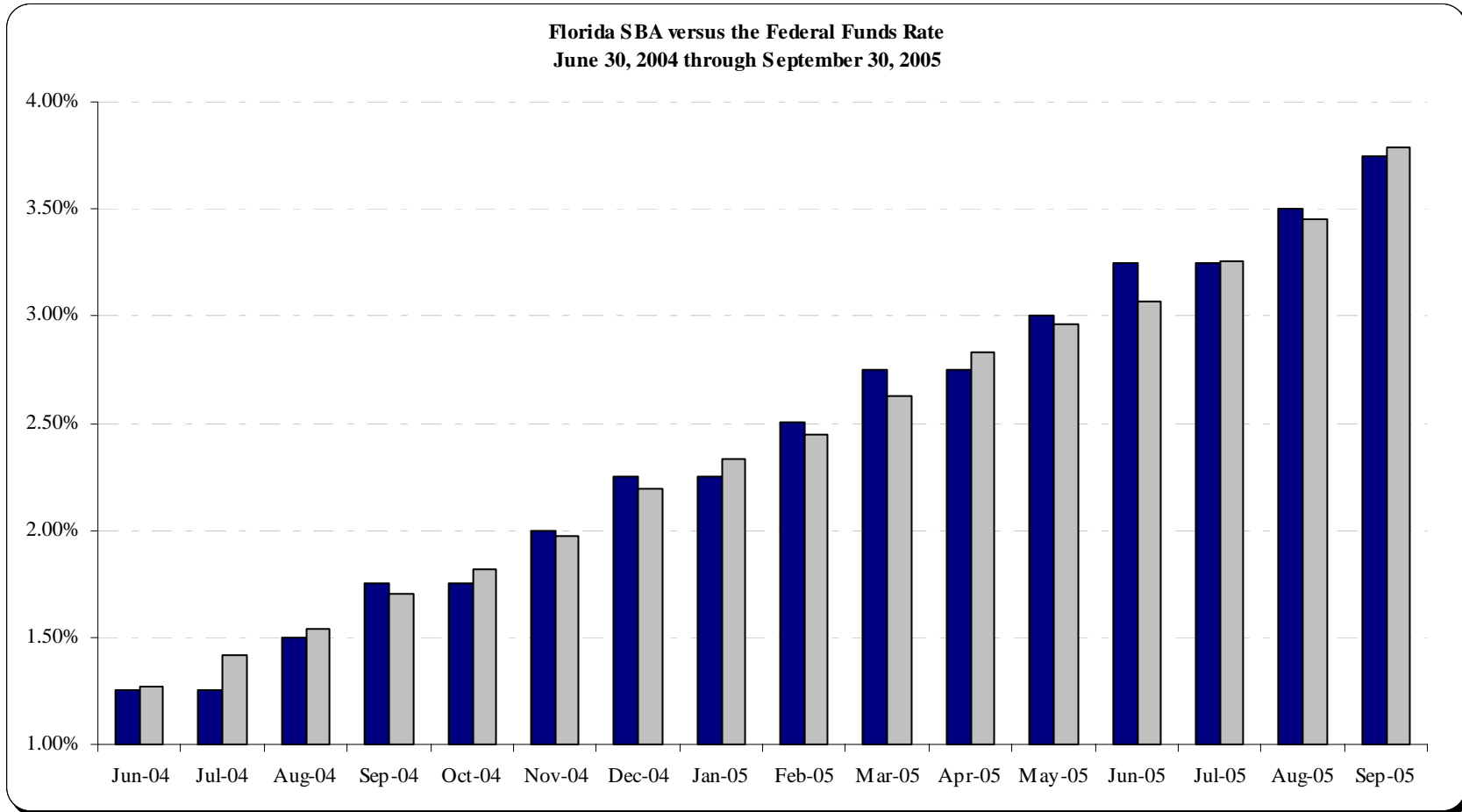
Source: Bloomberg

Outlook

Three key factors that market participants will be evaluating over the coming months are high-energy costs, inflation, and consumer confidence. Moving into the winter months, energy costs at these levels will likely become an increased factor in personal spending, as consumers struggle to pay sharply higher heating and gasoline costs. As we’ve already begun to see, these increased energy costs may be making their way into the price of other goods and services and pushing down real spending. If inflationary pressures continue to rise, the Federal Reserve may have to speed up the pace of its rate increases and intermediate and long term rates may rise further in anticipation.



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Investment Portfolio Summary¹

Total Portfolio Value ²	September 30, 2005	June 30, 2005
Market Value	\$86,753,774.90	\$87,831,286.47
Amortized Cost	\$87,852,984.23	\$88,514,115.28

PORTFOLIO RECAP

- The Federal Open Market Committee continued to increase the Federal Fed rate during the August and September meetings, stating robust underlying growth in productivity and monetary policy accommodation will continue to support the economy while containing inflation.
- Strong economic data during the third quarter resulted in a steepening of the yield curve in July and August, but the devastation brought by Hurricane Katrina and fears of further increases in oil prices reversed this increasing trend as rates fell more than 20 basis points along the curve during September. The chart on page A-3 illustrates the increasing, yet flattening, of the yield curve since March 31st.
- GDP increased at an annual rate of 3.3% for the second quarter of 2005 and many economists believe this trend will continue. Job growth remained strong in July and August with increases of 277,000 and 211,000 respectively and a much lower than expected decrease of 35,000 for September, mainly due to Hurricane Katrina
- The District's investment portfolio out-performed the benchmark by 15 basis points with a quarterly return of 0.24% versus the Merrill Lynch 1-3 Year U.S. Treasury Index return of 0.09%. PFM's strategy of maintaining a portfolio duration of approximately 90% of the benchmark for the past 12 months has resulted in the portfolio return outperforming the benchmark by 40 basis points.
- PFM purchased agency notes during the quarter earning additional yield of 40 basis points. As the yield curve flattened during September, PFM purchased short term securities in anticipation of a steeper yield curve. As the marketplace prices in the increase of the Federal Funds rate, PFM will selectively execute extension trades along the yield curve.
- PFM maintained a diverse mix of securities in the portfolio by executing sector specific transactions based on spreads between U.S. Treasuries, Federal Agencies and Corporate Notes.

PORTFOLIO STRATEGY

- The market expects further tightening by the FOMC with current Federal Funds rate targets of 4.25% with additional 25 basis point increases in November and December and possibly in January 2006.
- Many expect the impact of the hurricanes to be short term disruptions in the economy and that the rebuilding of the affected communities will actually result in additional spending and growth in the economy in the longer term.
- PFM will continue the short-of-the-benchmark duration investment strategy to protect the market value of the portfolio.
- Treasury yields versus Agency yields began to widen just after quarter end and PFM will evaluate sector spreads for portfolio composition strategies.
- Callable securities have provided attractive yields in recent weeks and PFM will look to utilize this sector in the portfolio at appropriate levels to take advantage of the additional yield while limiting the portfolio's interest rate risk.
- PFM will continue to execute swaps for the portfolio as shifts in the yield curve and increases in security sector spreads provide opportunities to provide additional earnings for the portfolio.

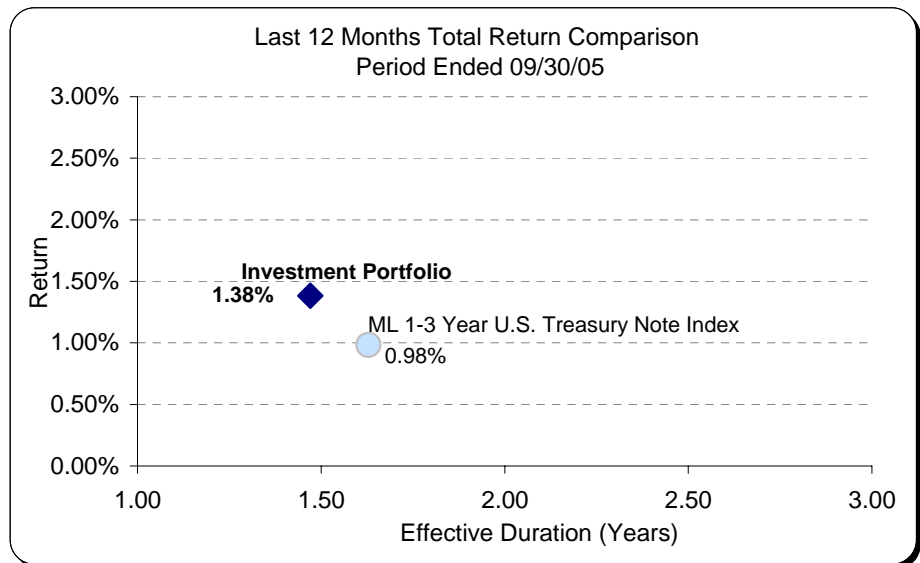
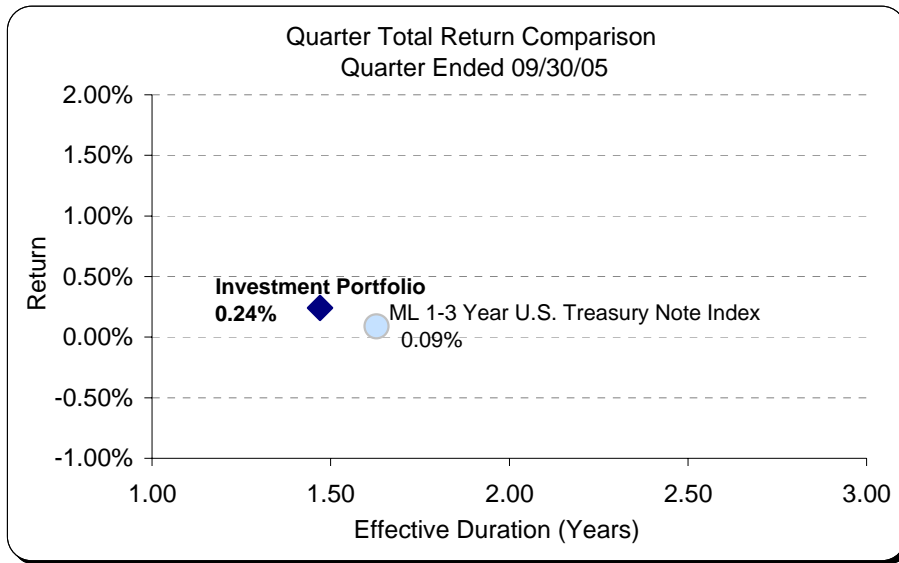
Notes:

1. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balance.
2. End of quarter trade-date market values of portfolio holdings, including accrued interest.

Investment Portfolio Performance

Total Return ^{1,2,3,4,5}	Quarterly Return September 30, 2005	Annualized Quarter	Last 12 Months	Last 24 Months	Since Inception on 12/31/98
Investment	0.24%	0.96%	1.38%	1.33%	4.38%
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.09%	0.35%	0.98%	1.01%	4.24%

<u>Effective Duration (Years)</u> ⁴	<u>September 30, 2005</u>	<u>June 30, 2005</u>	<u>Yields</u>	<u>September 30, 2005</u>	<u>June 30, 2005</u>
Investment	1.47	1.55	Yield at Market	4.38%	3.85%
ML 1-3 Year U.S. Treasury Note Index	1.63	1.67	Yield at Cost	3.38%	3.23%

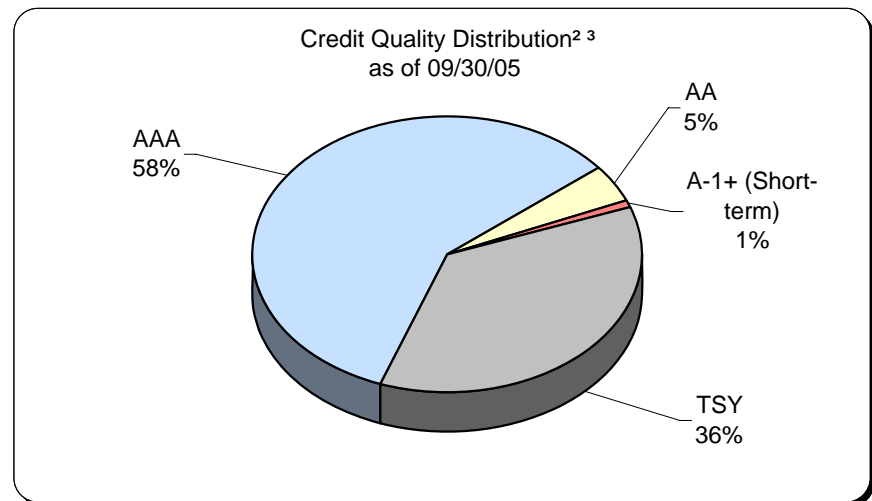
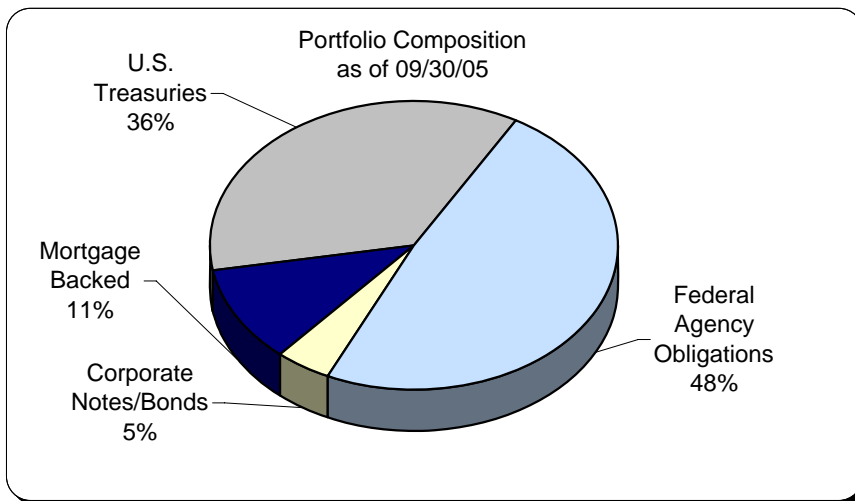


Notes:

1. Performance on trade-date basis, gross (i.e., before fees) in accordance with standards of the Association for Investment Management and Research.
2. Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Quarterly returns are presented on both an unannualized and annualized basis. The annualized return assumes the quarterly return is compounded at the same rate for four quarters and is presented for reference only. The actual annual return will be the result of chaining the most recent four quarterly returns.
4. Excludes money market fund/cash in performance and duration computations.
5. Returns presented for 12 months or longer are presented on an annual basis.

Investment Portfolio Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>September 30, 2005</u>	<u>% of Portfolio</u>	<u>June 30, 2005</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$31,315,974.28	36.1%	\$28,691,527.91	32.7%
Federal Agencies	42,143,066.74	48.6%	44,587,593.92	50.8%
Commercial Paper	0.00	0.0%	0.00	0.0%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers Acceptances	0.00	0.0%	0.00	0.0%
Repurchase Agreements	0.00	0.0%	0.00	0.0%
Municipal Obligations	0.00	0.0%	0.00	0.0%
Corporate Notes/Bonds	3,972,977.00	4.6%	4,054,733.33	4.6%
Mortgage Backed	9,321,756.88	10.7%	10,497,431.31	12.0%
Money Market Fund/Cash	0.00	0.0%	0.00	0.0%
Totals	\$86,753,774.90	100.0%	\$87,831,286.47	100.0%

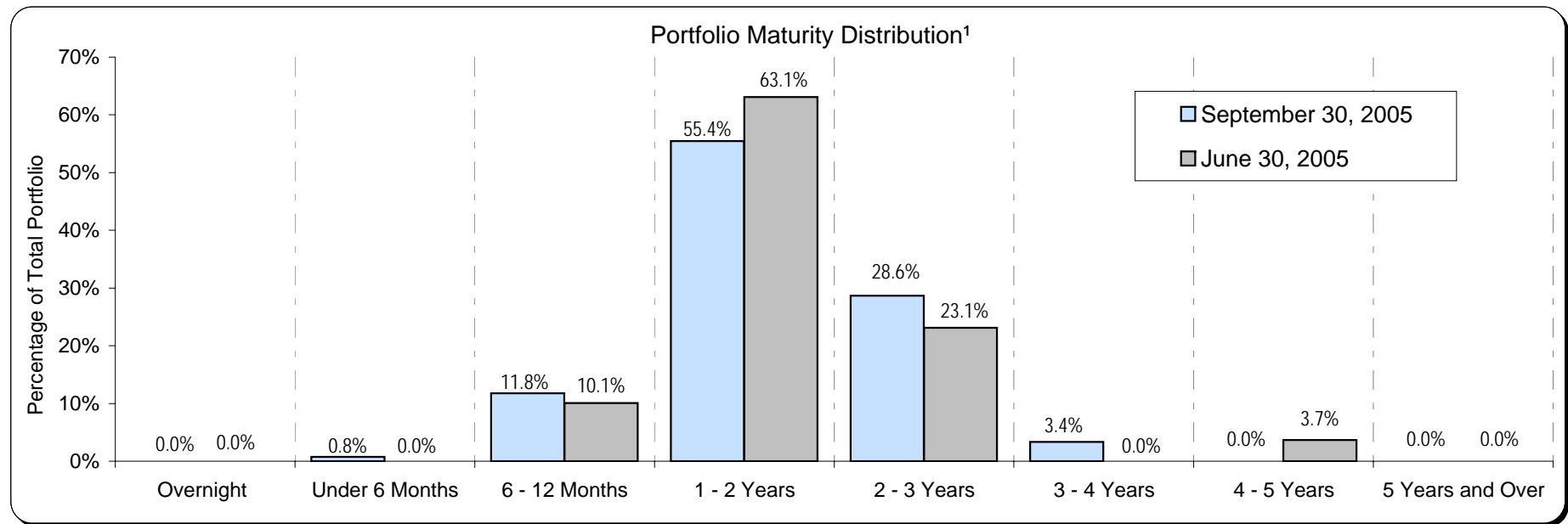


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP.
3. A rating of "TSY" indicates the security is an obligation of, or explicitly guaranteed by the U. S. Government.

Investment Portfolio Maturity Distribution

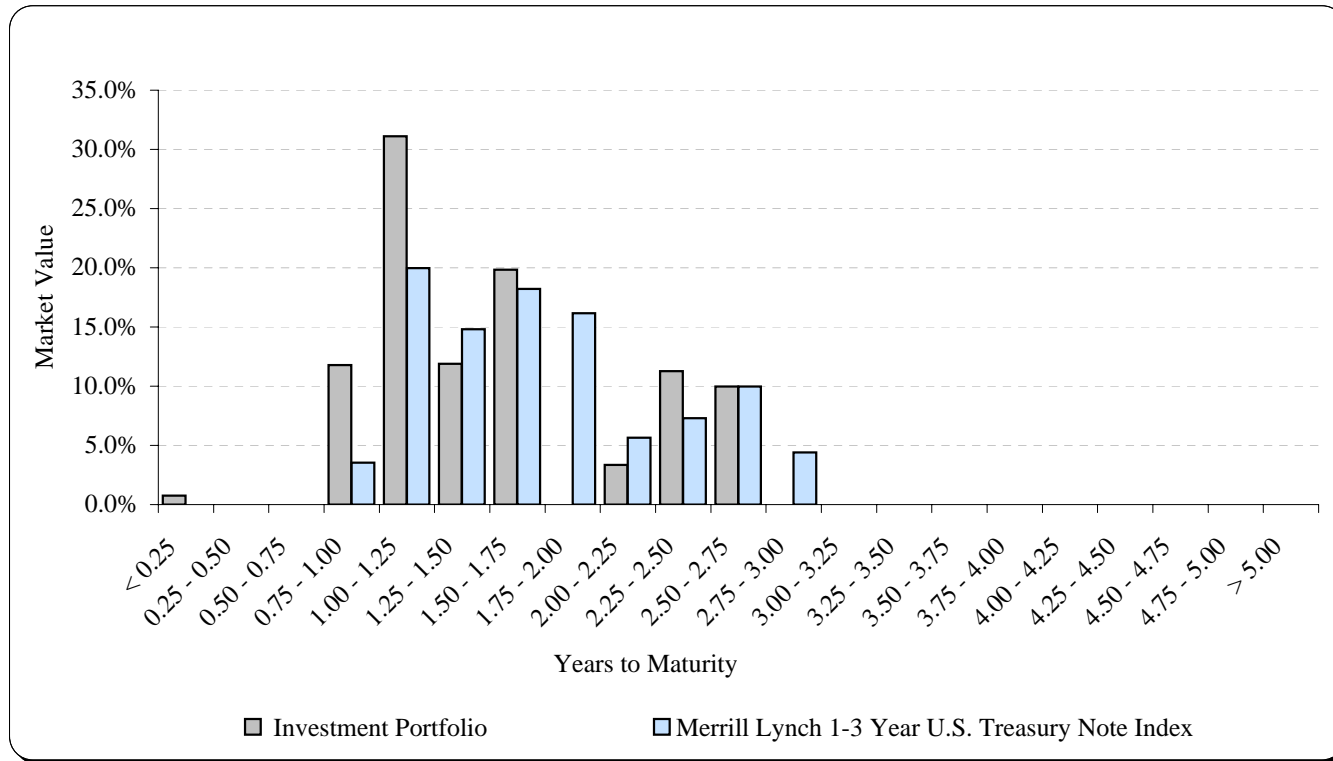
<u>Maturity Distribution¹</u>	<u>September 30, 2005</u>	<u>June 30, 2005</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	664,255.69	0.00
6 - 12 Months	10,222,865.48	8,841,437.59
1 - 2 Years	48,094,714.80	55,424,614.41
2 - 3 Years	24,854,900.47	20,320,949.84
3 - 4 Years	2,917,038.46	0.00
4 - 5 Years	0.00	3,244,284.63
5 Years and Over	0.00	0.00
Totals	\$86,753,774.90	\$87,831,286.47



Notes:

1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

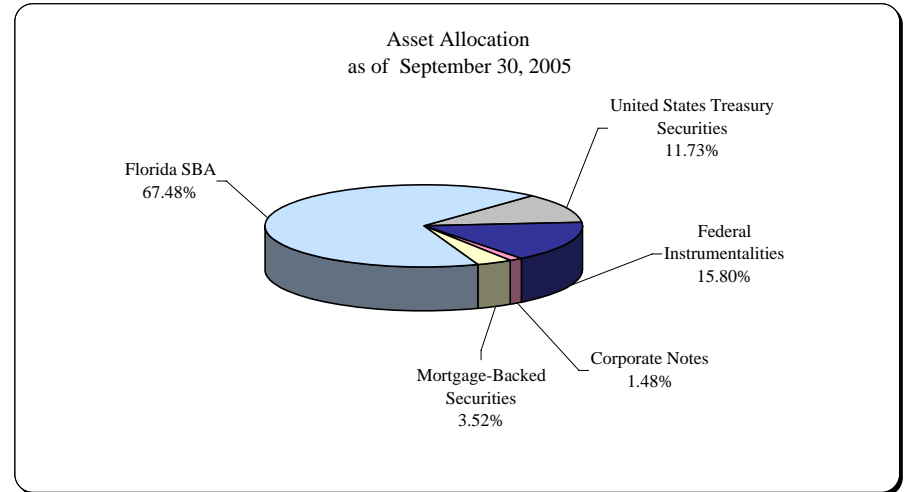
Investment Portfolio Maturity Distribution versus the Benchmark¹



Notes:

1. Due to the nature of the security, Mortgage-Backed Securities are represented based on their average life maturity rather than their final maturity.

Security Type	September 30, 2005	Notes	Permitted by Policy
Florida SBA	67.48%		100%
United States Treasury Securities	11.73%		100%
United States Government Agency Securities	0.00%		50%
Federal Instrumentalities	15.80%	1	80%
Certificates of Deposit	0.00%		25%
Repurchase Agreements	0.00%		50%
Commercial Paper	0.00%		35%
Corporate Notes	1.48%		15%
Mortgage-Backed Securities	3.52%	1	25%
Bankers' Acceptances	0.00%		35%
State and/or Local Government Debt	0.00%		20%
Fixed Income Money Market Mutual Funds	0.00%		50%
Intergovernmental Investment Pool	0.00%		0%



Individual Issuer Breakdown	September 30, 2005	Notes	Permitted by Policy
General National Mortgage Association (GNMA)	0.00%		25%
US Export-Import Bank (Ex-Im)	0.00%		25%
Farmer Home Administration (FHDA)	0.00%		25%
Federal Financing Bank	0.00%		25%
Federal Housing Administration (FHA)	0.00%		25%
General Services Administration	0.00%		25%
New Communities Act Debentures	0.00%		25%
US Public Housing Notes & Bonds	0.00%		25%
US Dept. of Housing and Urban Development	0.00%		25%
Federal Farm Credit Bank (FFCB)	0.00%		50%
Federal Home Loan Bank (FHLB)	6.33%		50%
Federal National Mortgage Association (FNMA)	4.39%		50%
Federal Home Loan Mortgage Corporation (FHLMC)	8.60%		50%
Student Loan Marketing Association (SLMA)	0.00%		50%

Individual Issuer Breakdown	September 30, 2005	Notes	Permitted by Policy
CD - Bank A	0.00%		15%
CD - Bank B	0.00%		15%
Fully collateralized Repo - A	0.00%		25%
Fully collateralized Repo - B	0.00%		25%
CP A	0.00%		10%
CP B	0.00%		10%
WELLS FARGO & CO	1.48%		5%
Corporate Notes B	0.00%		5%
Corporate Notes C	0.00%		5%
BA Bank A	0.00%		10%
BA Bank B	0.00%		10%
Municipal Notes/Bonds	0.00%		20%
Money Market Fund A	0.00%		25%
Money Market Fund B	0.00%		25%

Notes:

1. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 80%. The combined total as of September 30, 2005 is 19.32%.
 * No Bond Proceeds.

Portfolio Summary (All COPS Accounts)**PORTFOLIO RECAP**

- The SBA continues to trend upward in-line with the Federal Funds rate which has risen to 3.75%, a 275 basis point increase as a result of 11 consecutive 25 basis point increases by the FOMC since June 30, 2004. The SBA increased 72 basis points during the quarter ending at 3.79%. This is a 160 basis point increase since January and 260 basis points higher than the low of 1.19% in March 2004.
- Recent increases in the Federal Funds rates have resulted in an upward shift of the yield curve, but a lack of inflationary concerns contributed to flat yield curve.
- PFM structured the 2003A, 2003B and 2004A COPS portfolios to meet project expenditures. The balance within each of the COPS portfolios continues to decline as the District projects funded with COPS proceeds continue to progress through the construction phase.
- The chart on page C-3 illustrates the cumulative PFM earnings and cumulative earnings versus the SBA for the 2003A, 2003B and 2004A COPS portfolio earnings since inception. The District's portfolios have earned \$2,711,959 since inception; this is an additional \$160, 672 than if invested in the Florida SBA.

PORTFOLIO STRATEGY

- PFM expects the SBA to increase as the FOMC continues with the "measured pace" of Federal Funds rate increases.
- More than 64% of the 2004A COPS portfolio and 50% of the 2003A and 2003B COPS portfolios will mature during the quarter.
- PFM will continue to work with the District and provide reinvestment recommendations for maturities within the COPS portfolios based on project expenditure needs and re-investment analysis based on sector spreads and the shape of the yield curve.
- The District's COPS portfolios are invested in "AAA" rated Federal Agency securities.

Portfolio Statistics (All COPS Accounts)

<u>Account Name</u>	Amortized Cost^{1,2,3} September 30, 2005	Amortized Cost ^{1,2,3} <u>June 30, 2005</u>	Market Value^{1,2,3} September 30, 2005	Market Value ^{1,2,3} <u>June 30, 2005</u>	Durations (Years) September 30, 2005
2003A COPS	\$2,032,918.28	\$4,560,502.74	\$2,027,465.27	\$4,543,819.44	0.16
2003B COPS	\$4,065,836.58	\$8,618,481.13	\$4,054,930.56	\$8,586,055.56	0.16
2004A COPS	\$6,357,092.41	\$7,352,187.29	\$6,329,204.77	\$7,315,127.16	0.31

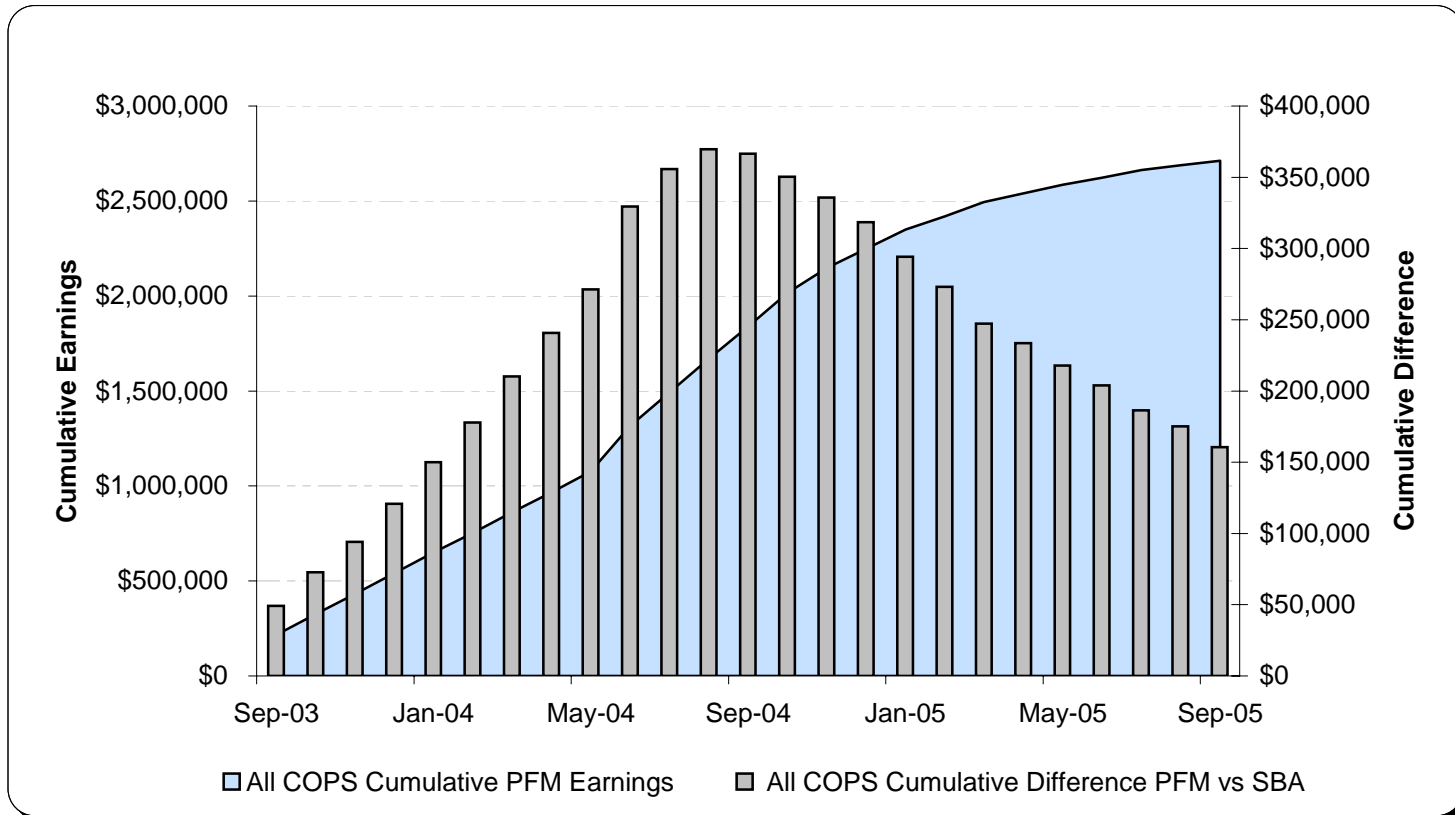
<u>Account Name</u>	YTM on Cost September 30, 2005	YTM on Cost <u>June 30, 2005</u>	YTM at Market September 30, 2005	YTM at Market <u>June 30, 2005</u>	Durations (Years) <u>June 30, 2005</u>
2003A COPS	2.23%	2.11%	3.80%	3.57%	0.25
2003B COPS	2.23%	2.12%	3.80%	3.57%	0.26
2004A COPS	2.53%	2.49%	3.94%	3.58%	0.49

<u>Benchmarks</u>	September 30, 2005	<u>June 30, 2005</u>
Florida SBA Quarterly Return [†]	3.50%	2.95%

Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Excludes any money market fund/cash balances held in custodian account.
3. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balance.
4. Quarterly pool returns presented on an annualized basis.

All COPS Cumulative Earning Versus the SBA Since Inception^{1,2}

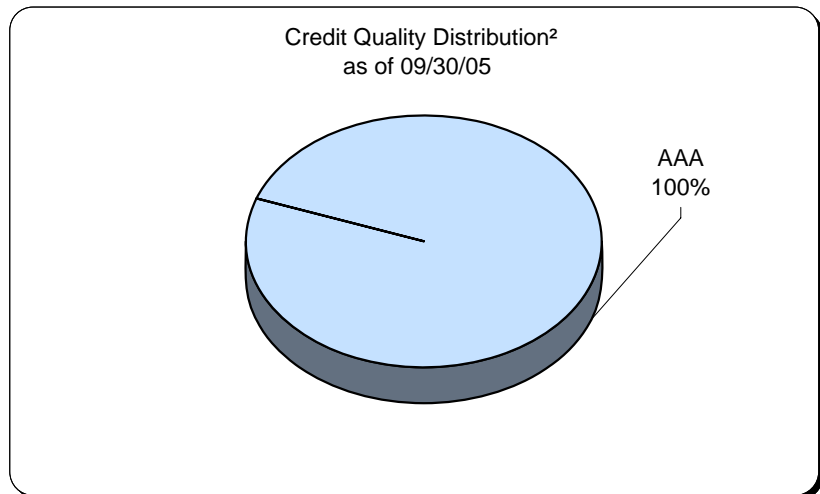
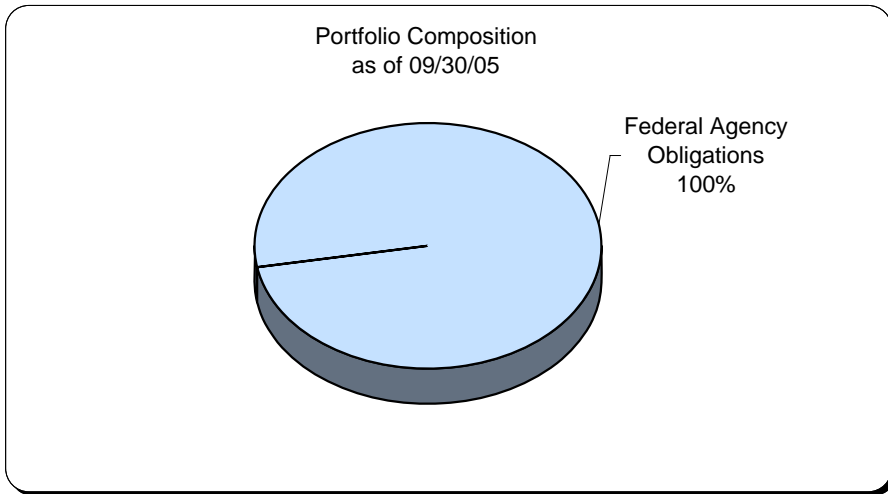


Notes:

1. Includes COPS 2003A, 2003B, 2004A
2. Since Inception is September 30, 2003 to September 30, 2005..

2003A COPS Portfolio Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>September 30, 2005</u>	<u>% of Portfolio</u>	<u>June 30, 2005</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$0.00	0.0%	\$0.00	0.0%
Federal Agencies	2,027,465.27	100.0%	4,543,819.44	100.0%
Commercial Paper	0.00	0.0%	0.00	0.0%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers Acceptances	0.00	0.0%	0.00	0.0%
Repurchase Agreements	0.00	0.0%	0.00	0.0%
Municipal Obligations	0.00	0.0%	0.00	0.0%
Corporate Notes/Bonds	0.00	0.0%	0.00	0.0%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	0.00	0.0%	0.00	0.0%
Totals	\$2,027,465.27	100.0%	\$4,543,819.44	100.0%

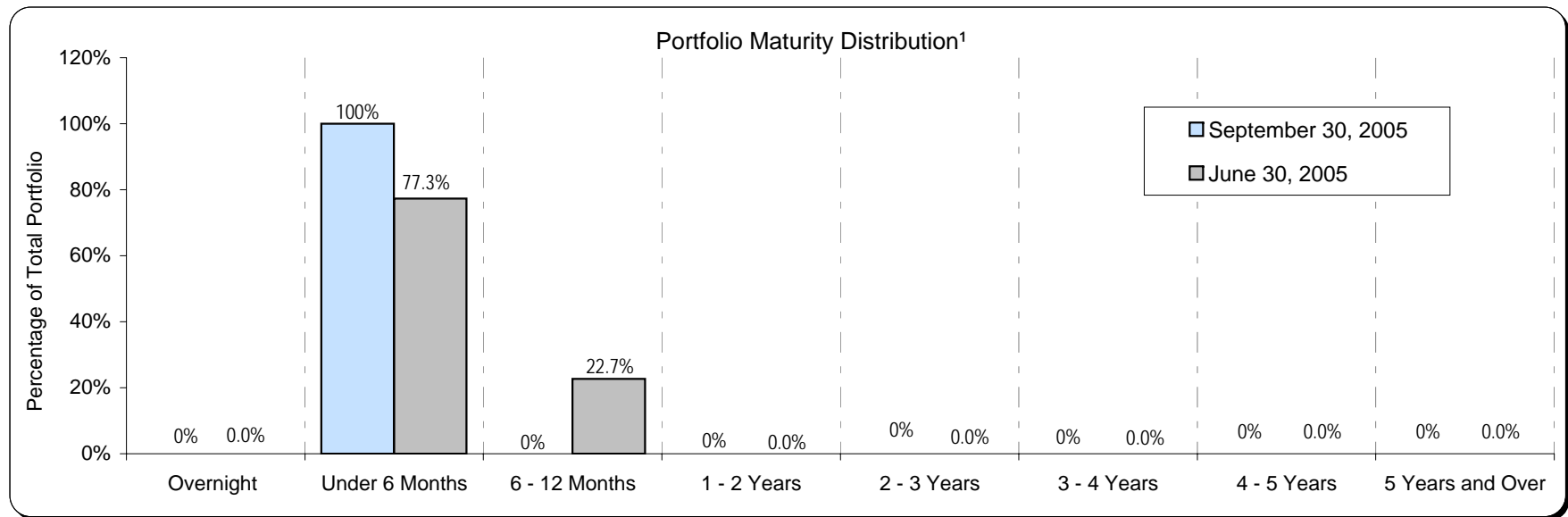


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP.

2003A COPS Portfolio Maturity Distribution

<u>Maturity Distribution¹</u>	<u>September 30, 2005</u>	<u>June 30, 2005</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	2,027,465.27	3,512,111.11
6 - 12 Months	0.00	1,031,708.33
1 - 2 Years	0.00	0.00
2 - 3 Years	0.00	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$2,027,465.27	\$4,543,819.44

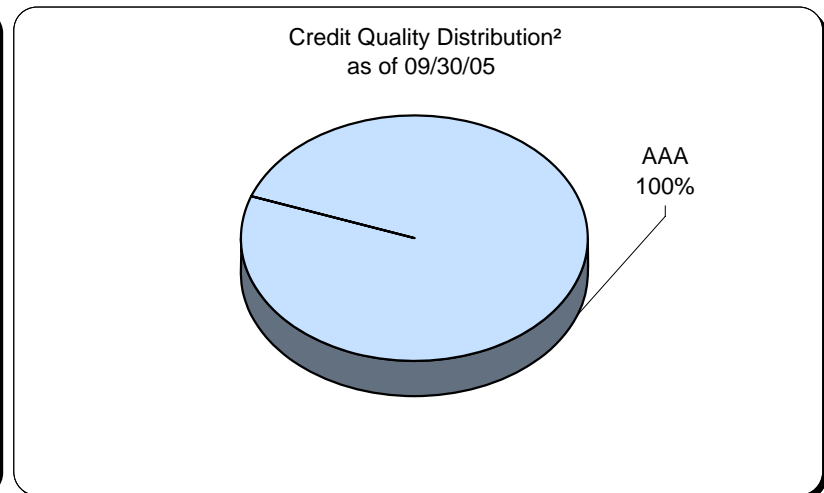
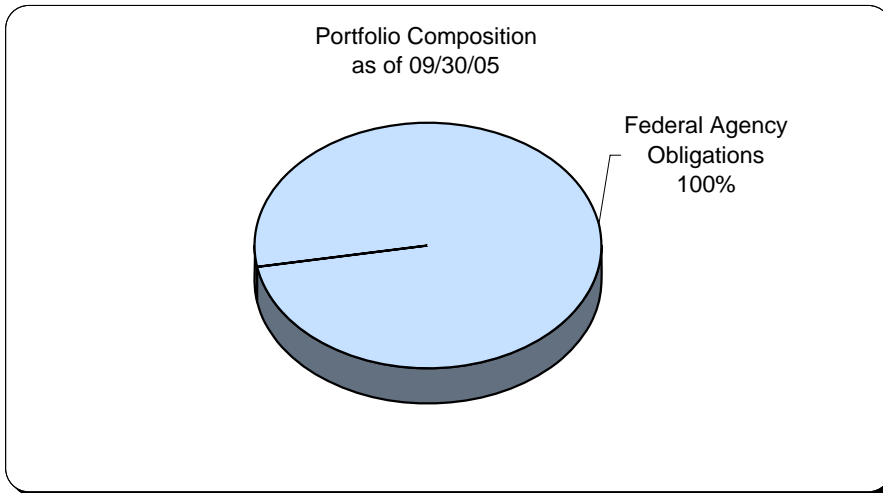


Notes:

1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

2003B COPS Portfolio Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>September 30, 2005</u>	<u>% of Portfolio</u>	<u>June 30, 2005</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$0.00	0.0%	\$0.00	0.0%
Federal Agencies	4,054,930.56	100.0%	8,586,055.56	100.0%
Commercial Paper	0.00	0.0%	0.00	0.0%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers Acceptances	0.00	0.0%	0.00	0.0%
Repurchase Agreements	0.00	0.0%	0.00	0.0%
Municipal Obligations	0.00	0.0%	0.00	0.0%
Corporate Notes/Bonds	0.00	0.0%	0.00	0.0%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	0.00	0.0%	0.00	0.0%
Totals	\$4,054,930.56	100.0%	\$8,586,055.56	100.0%

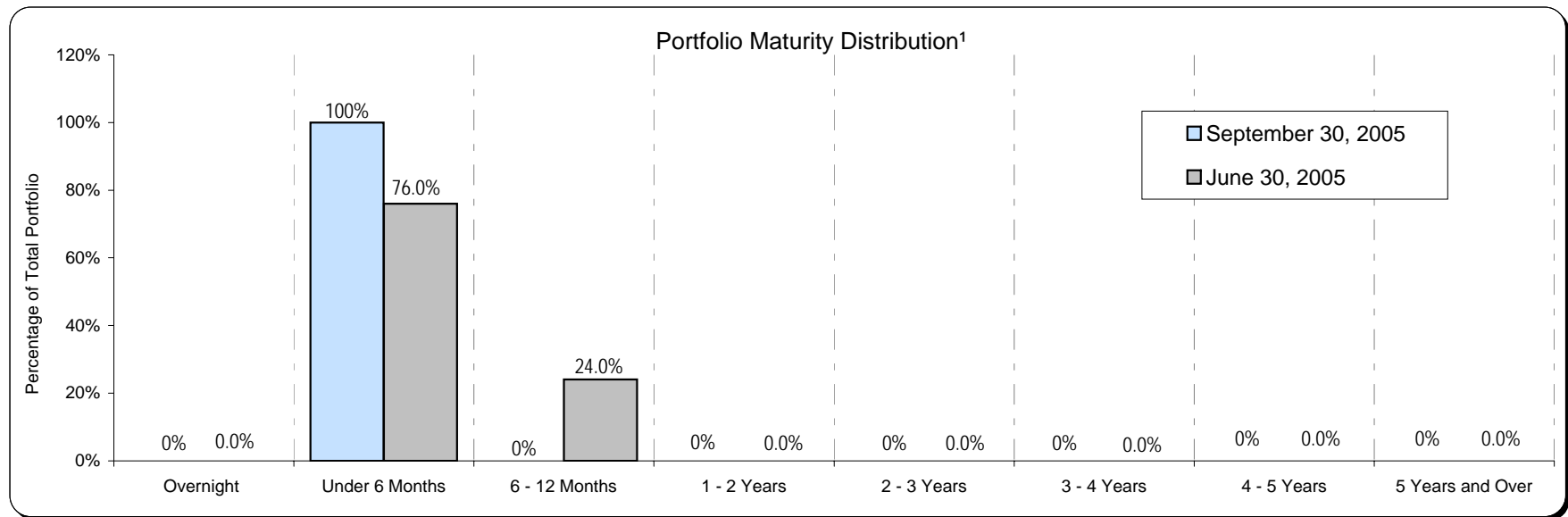


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP.

2003B COPS Portfolio Maturity Distribution

<u>Maturity Distribution¹</u>	<u>September 30, 2005</u>	<u>June 30, 2005</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	4,054,930.56	6,522,638.89
6 - 12 Months	0.00	2,063,416.67
1 - 2 Years	0.00	0.00
2 - 3 Years	0.00	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$4,054,930.56	\$8,586,055.56

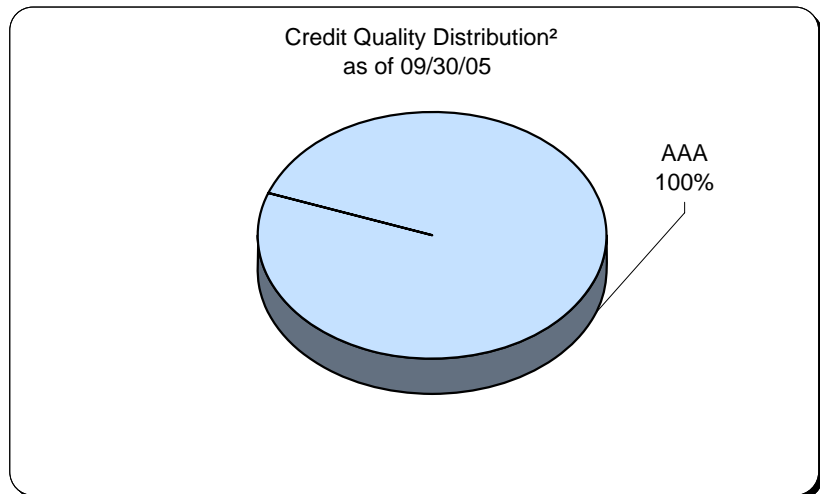
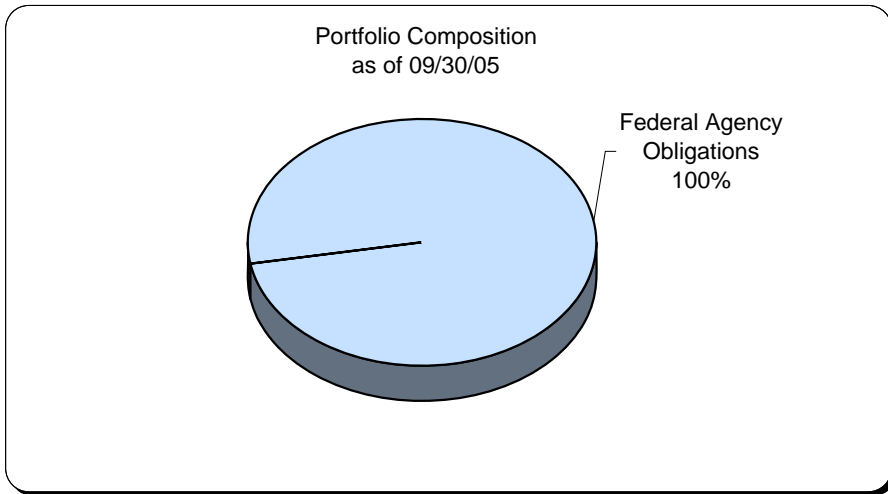


Notes:

1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

2004A COPS Portfolio Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>September 30, 2005</u>	<u>% of Portfolio</u>	<u>June 30, 2005</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$0.00	0.0%	\$0.00	0.0%
Federal Agencies	6,329,204.77	100.0%	7,315,127.16	100.0%
Commercial Paper	0.00	0.0%	0.00	0.0%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers Acceptances	0.00	0.0%	0.00	0.0%
Repurchase Agreements	0.00	0.0%	0.00	0.0%
Municipal Obligations	0.00	0.0%	0.00	0.0%
Corporate Notes/Bonds	0.00	0.0%	0.00	0.0%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	0.00	0.0%	0.00	0.0%
Totals	\$6,329,204.77	100.0%	\$7,315,127.16	100.0%

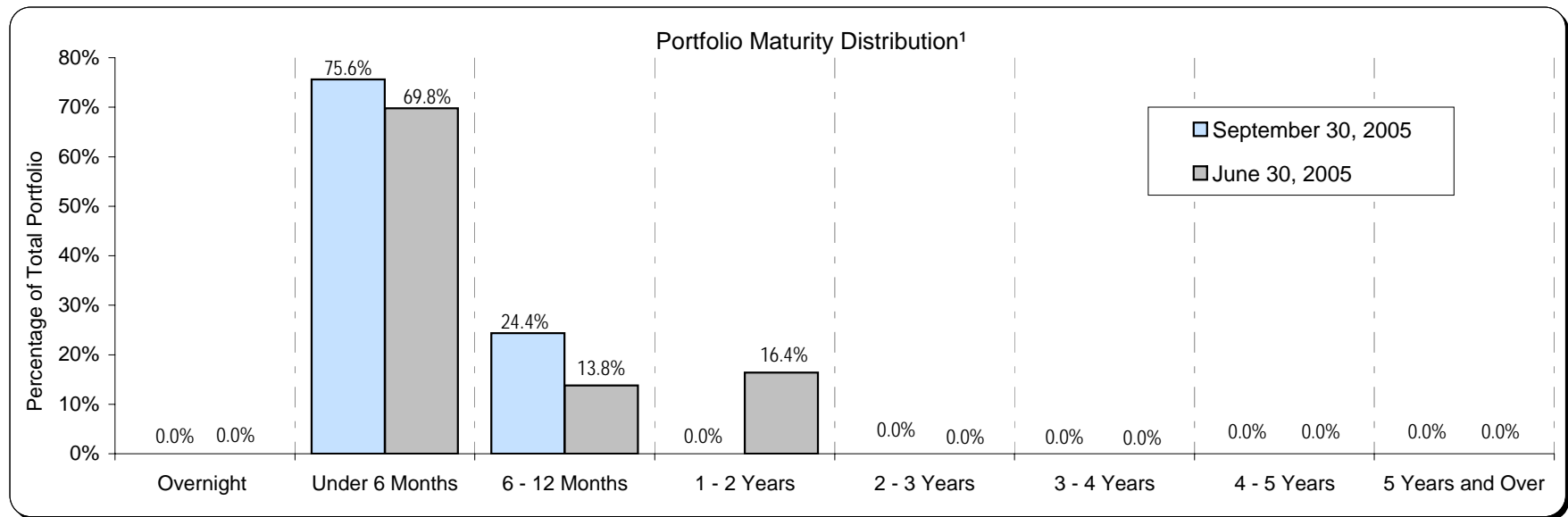


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP.

2004A COPS Portfolio Maturity Distribution

<u>Maturity Distribution¹</u>	<u>September 30, 2005</u>	<u>June 30, 2005</u>
Overnight (Money Market Fund)	\$0.00	\$0.00
Under 6 Months	4,785,775.36	5,106,108.68
6 - 12 Months	1,543,429.41	1,010,051.81
1 - 2 Years	0.00	1,198,966.67
2 - 3 Years	0.00	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$6,329,204.77	\$7,315,127.16



Notes:

1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.