Palm Beach County School District

Investment Performance Review
Quarter Ended December 31, 2011

PFM Asset Management LLC

300 S. Orange Avenue, Suite 1170
Orlando, FL 32801
(407) 648-2208
(407) 648-1323 fax

One Keystone Plaza, Suite 300
North Front & Market Streets
Harrisburg, PA 17101-2044
717-232-2723
717-233-6073 fax

Investment Advisors

Steven Alexander, CTP, CGFO, Managing Director
David Jang, CTP, Senior Managing Consultant
Gregg Manjerovic, CFA, Portfolio Manager
Rebecca Dole, CTP, Consultant
Jan Anguel, Consultant

Table of Contents

Summary

- Quarterly returns for fixed income were positive but failed to beat returns on domestic equities.
- For the quarter, short- to intermediate-duration portfolios with diversified fixed-income holdings outpaced money market accounts that avoided European exposure, including Libor-based time deposits.
- PFM strives to maintain the safety of principal while at the same time positioning for growth and searching for tactical opportunities to enhance return.

Economic News

Growth in the U.S. has improved while the uncertainty surrounding Europe continues. Gross domestic product (GDP) in the U.S. has shown steady increases over the first three quarters of 2011, coming in at 0.4%, 1.3% and 1.8%, respectively. Most projections for fourth-quarter GDP growth are near 3%. Although much of the economic expansion can be attributed to the release of pent-up demand for autos and a restocking of inventories by businesses, positive signals have emerged, showing more stabilization and a fundamental strengthening of the domestic economic recovery.

While signs of tentative recovery are now occurring in the housing market, there is still a significant amount of foreclosures in the pipeline, suggesting a higher inventory of unoccupied houses. A massive downward revision to earlier existing-home sales data showed that the housing market suffered a larger loss than many previously thought. Sales from 2007 onward have had significant downward revisions of 14% on average. Recently, though, there have been positive trends in home sales, with the October-November average annual rate of home sales up 20% from the third quarter. In November, existing-home sales rose 4.0%, significantly above the consensus of 2.2%, while new-home sales rose by 1.6% and housing starts increased by 9.3%.

Indicators are showing improvement in labor market conditions, but there is still much that needs to be resolved in this arena as well. The unemployment rate fell to a 2½-year low of 8.5% in December; however, much of this outcome has to do with the fact that the labor force participation rate has reached a two-year low. Market participants continue to wait for the abatement of excess slack in the labor market.

Results for the Conference Board's Consumer Confidence Survey reflected an increase in positive sentiment, with the number of respondents reporting that jobs are currently "hard to get" falling to 41.8%, the lowest level of the recovery. This development, along with other strong economic releases in the fourth quarter, led to robust quarterly performance for U.S. equities. The S&P 500 Index increased 11.8% in the fourth quarter, erasing the losses in the previous two quarters.

U.S. Treasury Yields – Quarter and Year-over-Year Changes

Date	3-month	1-year	2-year	5-year	10-year	30-year
31-Dec-11	0.01%	0.10%	0.24%	0.83%	1.88%	2.89%
30-Sep-11	0.02%	0.10%	0.24%	0.95%	1.92%	2.91%
Change over Quarter	-0.01%	0.00%	0.00%	-0.12%	-0.04%	-0.02%
31-Dec-10	0.12%	0.26%	0.59%	2.01%	3.29%	4.33%
Change over Year	-0.11%	-0.16%	-0.35%	-1.18%	-1.41%	-1.44%

Source data: Bloomberg

Interest Rates

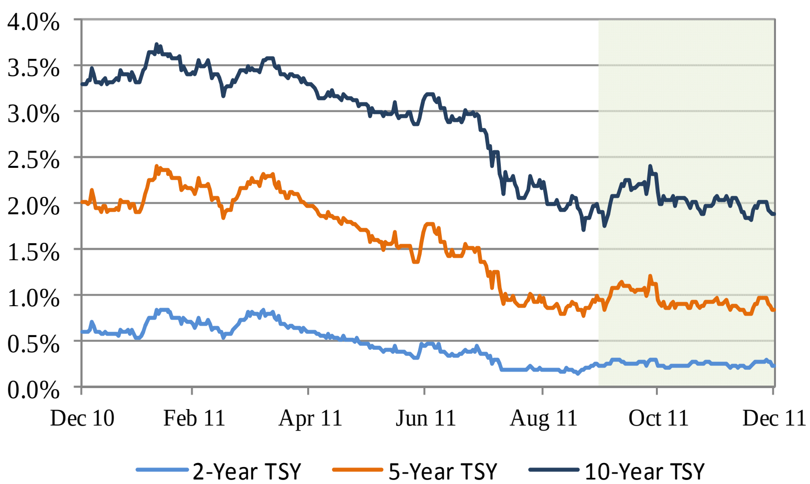
U.S. Treasuries fluctuated within a narrow range, finishing the quarter close to where they began. Short-term rates remained near zero due to the Federal Reserve's (Fed's) continued commitment to keep the target rate between zero and 0.25% until at least mid 2013. Meanwhile, intermediate- and long-term rates have stabilized due to the offsetting forces of positive economic data in the U.S., a flight-to-quality reaction to the European debt crisis and the Fed's Operation Twist program, where the U.S. central bank purchases longer-dated securities while selling shorter-dated securities in an effort to keep longer-term interest rates down.

Bond Markets

Although signs point towards a stronger economy in the U.S., continued uncertainty in the global economic outlook has resulted in investors becoming more cautious and gravitating towards securities that are perceived to be less risky. Assets have flowed out of prime money market funds into government funds on concerns of the funds' potential exposure to the sovereign debt of struggling European nations. Treasuries have benefitted from this need for safety, posting positive performance for the quarter. Treasury yields are still hovering around their record lows. Agency spreads widened during the fourth quarter, while corporate spreads tightened. Both sectors offered value for investors.

2-Year, 5-Year, and 10-Year U.S. Treasury Note Yields

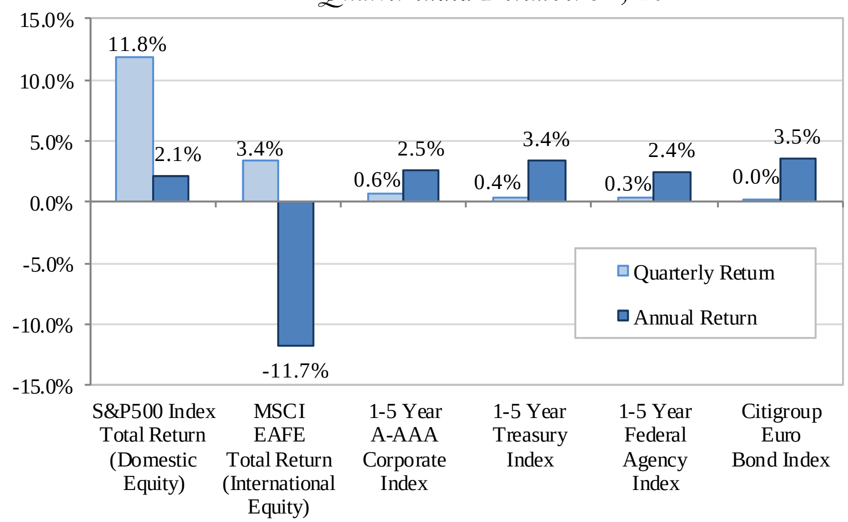
December 31, 2010 through December 31, 2011



Source: Bloomberg

Total Returns of Various Asset Classes

Quarter ended December 31, 2011



Sources: Bank of America Merrill Lynch, Citigroup, Bloomberg

Executive Summary

PORTFOLIO STRATEGY

- The District's Investment Portfolio is of high credit quality and invested in U.S. Treasury, Federal Agency, high quality corporate and municipal securities.
- For the third quarter in a row, Treasuries outperformed Agencies, while Corporates out-performed both Treasuries and Agencies for the quarter, reversing a portion of the large sell-off in Third Quarter. In the corporate sector, non-financials (average rating A-) out-performed financials (average rating A+) for the quarter and the year by a wide margin.
- The near-zero net change in yields belies the volatility seen intra-quarter. We used this movement in spreads to take profits agency holdings, and to reset those positions on sell-offs in risky assets. On several occasions, agencies spreads tightened on expectations of a possible solution to the European debt crisis, only to widen again when various proposals disappointed.
- Relative-value trading provided another way for PFM to enhance returns in the portfolio. We identified several opportunities this quarter to add yield by selling relatively rich agency issues and buying similar maturity issues trading relatively cheaper. This can occur for a variety of reasons including supply/demand factors, the need for dealers to adjust their inventory, or new issue concessions. The portfolio realized over $129,000 in gains on sales, as a result of active management during the quarter.
- With interest rates falling to historic lows, we maintained a slightly conservative duration posture at around 97% of the benchmark's duration to retain flexibility. Even though short-term rates have remained near 0% for over three years, the portfolio earned a total return of 1.63% over the past year.
- In an environment of range bound yields, performance can be enhanced by holding longer maturities, which have higher initial yields and benefit from "roll down. PFM employed this strategy, rolling treasury and agencies with shorter maturities into higher yielding 2-3 year maturities.
- The Fed could well seek to provide further support for the U.S. economy by communicating the intention to maintain its extraordinarily accommodative monetary policy far into the future, or by establishing specific employment and inflation hurdles that would have to be breached before it changes its current policy stance. This supports the view that rates will remain low longer than the market current anticipates.
- The yield curve is likely to remain positively sloped, anchored for the foreseeable future by the near-zero federal funds rate. In this environment, lengthening duration should provide value, although longer duration investments have greater price risk if interest rates should rise.
- Europe remains a highly fluid and problematic situation, as Italy and Spain appear headed for recession. Sovereign credit ratings are under pressure, and large European banks are being forced to shed assets and raise large amounts of capital. A clear solution appears elusive. We continue to avoid sensitive issuers and geographical regions.
- As always, we strive to maintain the safety of principal while at the same time positioning the portfolio for growth and searching for tactical opportunities to enhance return. In these changing times, our strategy will remain flexible and may change in response to changes in interest rates, economic data, market outlook or specific opportunities that arise.

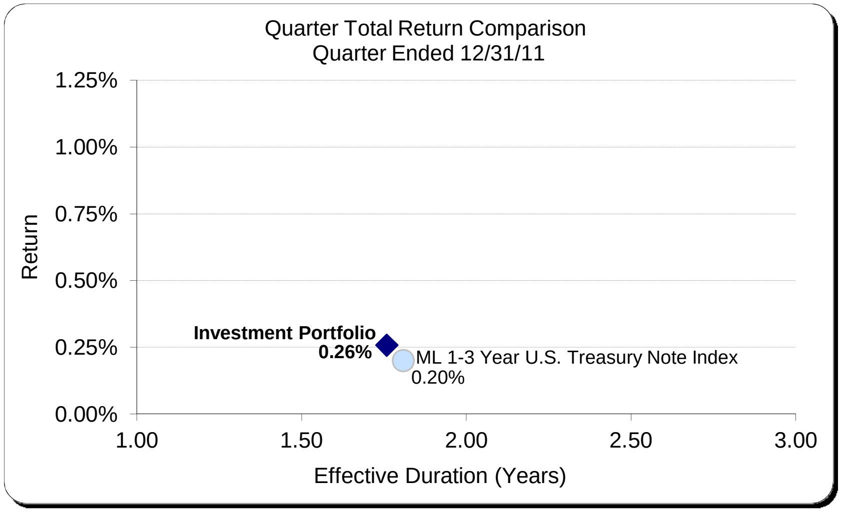
Investment Portfolio Performance

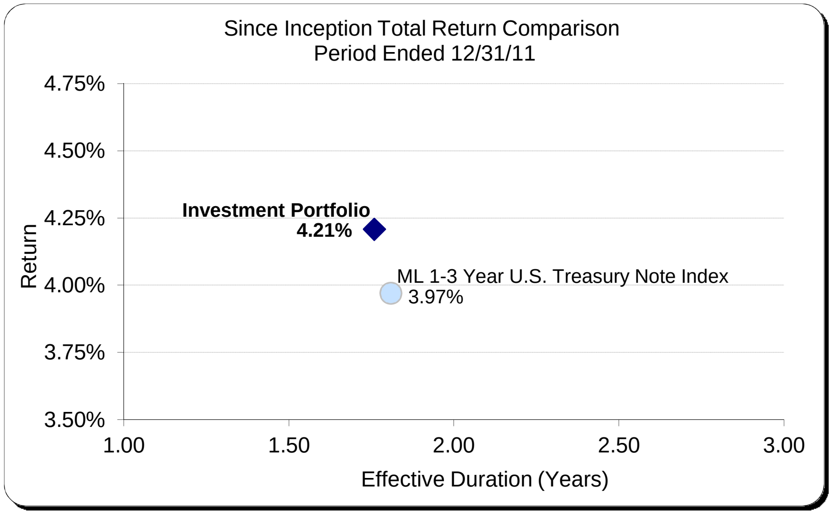
Total Portfolio Value[1,2]	December 31, 2011	September 30, 2011
Market Value	**$83,545,505.30**	$83,663,059.15
Amortized Cost	**$82,985,053.02**	$83,003,006.18

Total Return[1,2,3,4,5,6,7,8]	Quarterly Return December 31, 2011	Calendar Year to Date	Last 12 Months	Last 24 Months	Since Inception on 12/31/98
Investment Portfolio	**0.26%**	**1.63%**	**1.63%**	**2.08%**	**4.21%**
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.20%	1.55%	1.55%	1.95%	3.97%

Effective Duration (Years)[4]	December 31, 2011	September 30, 2011
Investment Portfolio	**1.76**	1.73
Merrill Lynch 1-3 Year U.S. Treasury Note Index	1.81	1.81
Portfolio Duration % of Benchmark Duration	97%	96%

Yields	December 31, 2011	September 30, 2011
Yield at Market	**0.43%**	0.46%
Yield at Cost	**0.86%**	0.97%



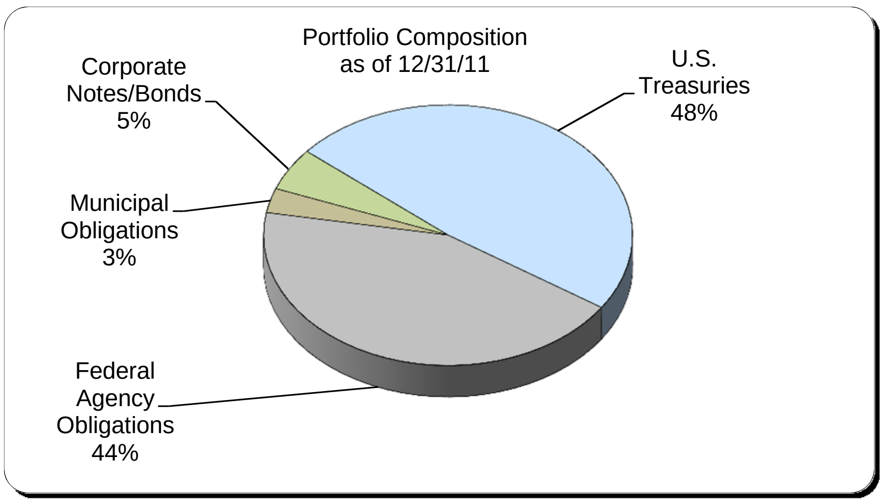


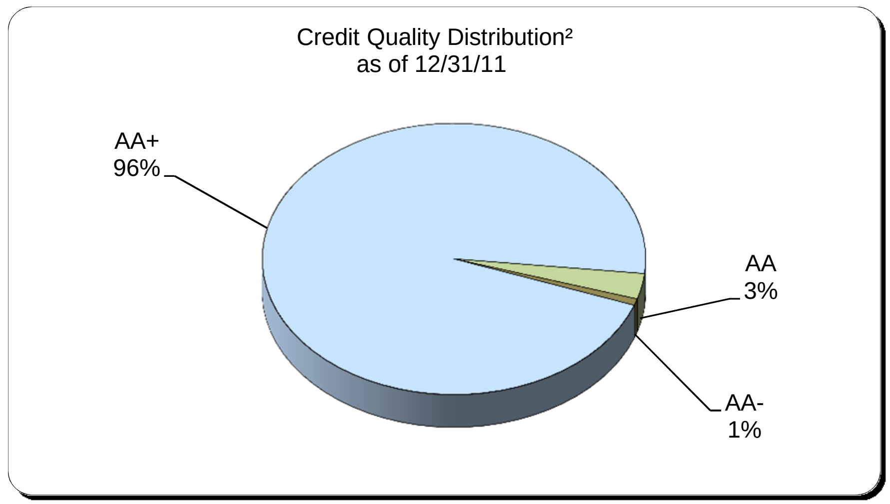
Notes:

1. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
2. End of quarter trade-date market values of portfolio holdings, including accrued interest.
3. Performance on trade date basis, gross (i.e., before fees), is in accordance with The CFA Institute's Global Investment Performance Standards (GIPS).
4. Merrill Lynch Indices provided by Bloomberg Financial Markets.
5. Quarterly returns are presented on an unannualized basis.
6. Excludes money market fund/cash in performance and duration computations.
7. Returns presented for 12 months or longer are presented on an annual basis.
8. Past performance is not indicative of future results.

Investment Portfolio Composition and Credit Quality Characteristics

Security Type[1]	December 31, 2011	% of Portfolio	September 30, 2011	% of Portfolio
U.S. Treasuries	**$40,322,763.20**	**48.3%**	$34,035,972.83	40.7%
Federal Agencies	**36,252,907.75**	**43.4%**	40,701,161.72	48.6%
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	**2,543,425.00**	**3.0%**	2,551,900.00	3.1%
Corporate Notes/Bonds	**4,426,409.35**	**5.3%**	4,416,853.20	5.3%
Corporate Notes/Bonds - FDIC Insured	**0.00**	**0.0%**	1,957,171.40	2.3%
Mortgage Backed	**0.00**	**0.0%**	0.00	0.0%
Money Market Fund/Cash	**0.00**	**0.0%**	0.00	0.0%
Totals	**$83,545,505.30**	**100.0%**	$83,663,059.15	100.0%



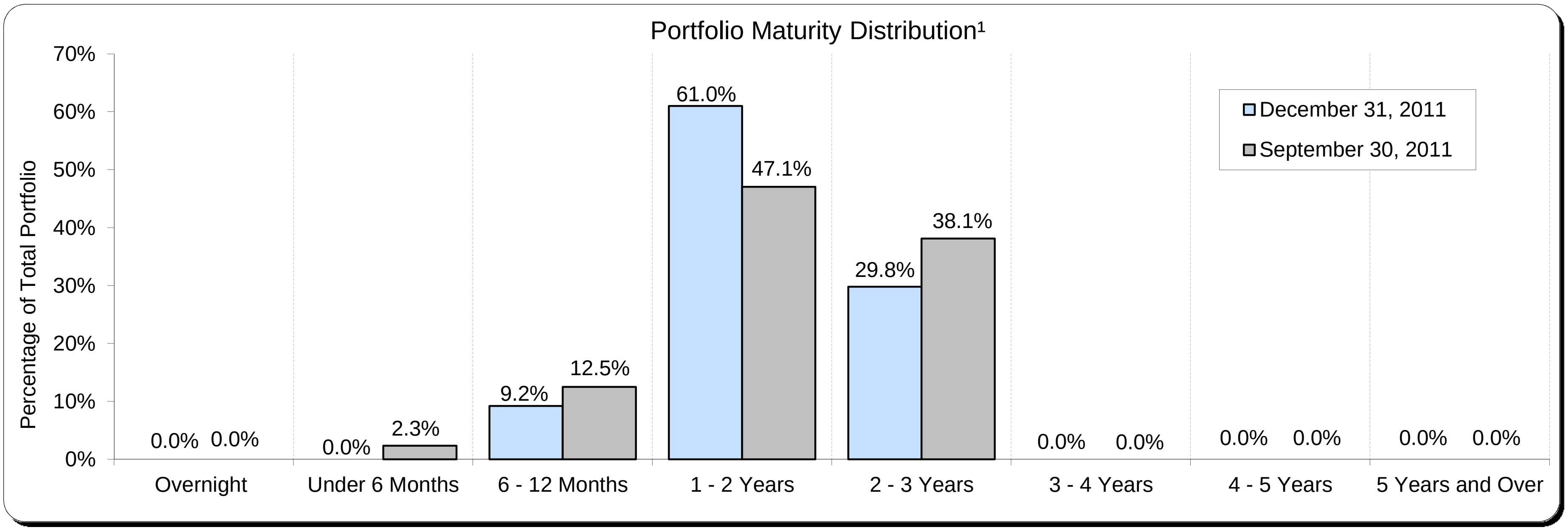


Notes:

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. Standard & Poor's is the source of the credit ratings.

Investment Portfolio Maturity Distribution

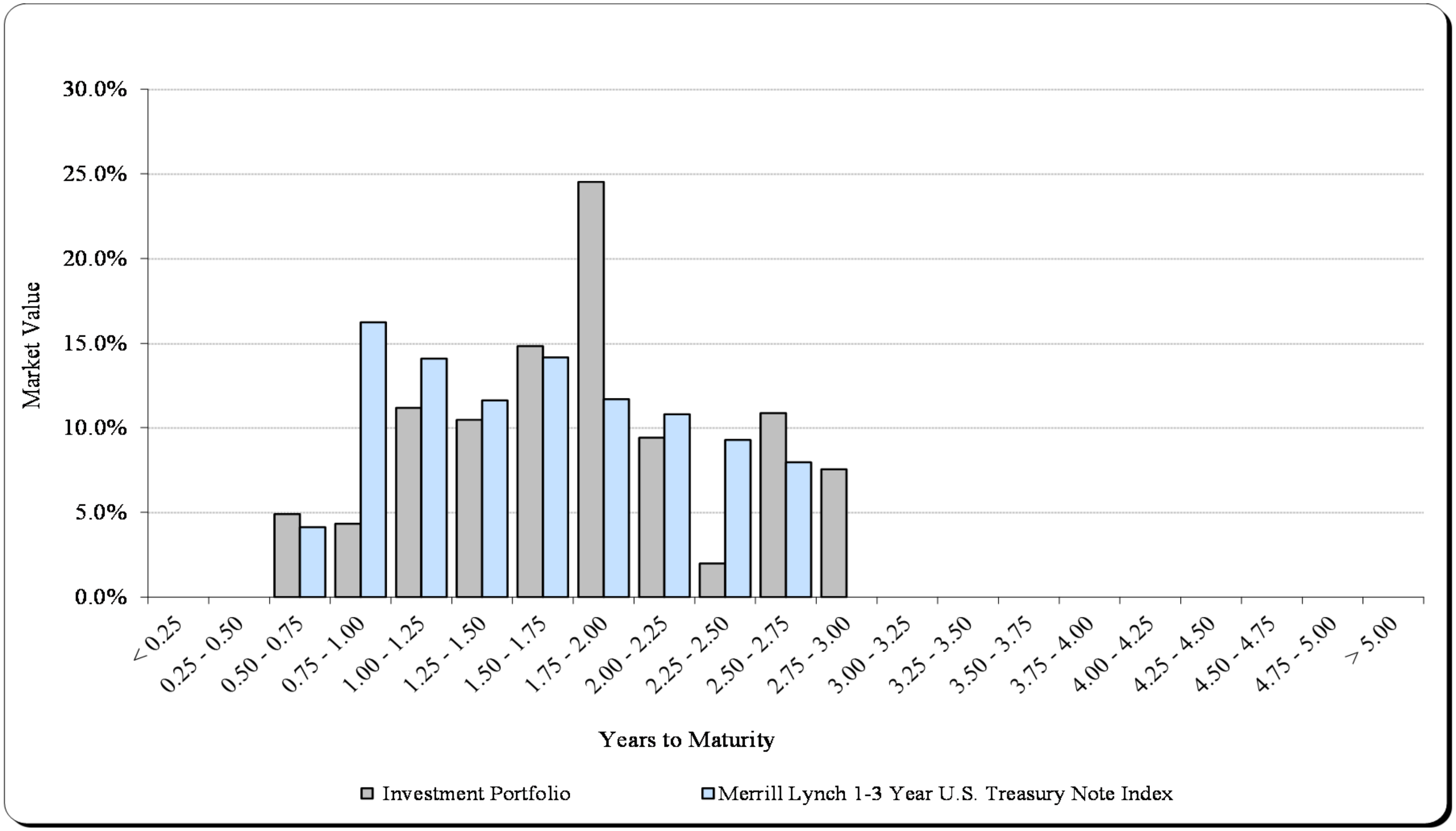
Maturity Distribution[1]	December 31, 2011	September 30, 2011
Overnight (Money Market Fund)	**$0.00**	$0.00
Under 6 Months	**0.00**	1,957,171.40
6 - 12 Months	**7,696,870.19**	10,471,527.00
1 - 2 Years	**50,954,207.85**	39,365,561.67
2 - 3 Years	**24,894,427.26**	31,868,799.08
3 - 4 Years	**0.00**	0.00
4 - 5 Years	**0.00**	0.00
5 Years and Over	**0.00**	0.00
Totals	**$83,545,505.30**	$83,663,059.15



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 Benchmark[1]



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.

Trade Analysis for October 21, 2011

Transaction Date: October 21, 2011

Transaction	Security	Maturity Date	Par Value	Price	Yield at Market	Benefit	Gain/Loss	Additional Earnings
Sold	FHLMC NOTES	10/28/2013	$5,080,000.00	$100.83	0.461%		$45,586.40	
Purchased	FREDDIE MAC GLOBAL NOTES	10/15/2013	$5,080,000.00	$99.97	0.517%	0.056%		5,739.34
Total Estimated Benefit from Transaction to Original Maturity								$5,739.34

Total Estimated Benefit from Transactions	**$5,739.34**

Transaction Commentary:
In accordance with Section III. Investment Objectives, of the District's Investment Policy, from time to time, securities may be traded for other similar securities to improve yield, maturity, or credit risk. For these transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security: 1) The yield has been increased, 2) the maturity has been reduced, or lengthened, 3)or the quality of the investment has been improved.

The transactions presented were executed in accordance with Section III Investment Objectives of the District's Investment Policy to 1) the yield of the portfolio has been increased as part of PFM's overall active management strategy for the District's investment portfolio, which should also increase the portfolio's total return. The performance of this portfolio should be evaluated based on the total return versus the District's 1-3 Year U.S. Treasury Index benchmark. PFM calculates the total return of the District's investment portfolio in a manner consistent with the CFA Institute's Global Investment Performance Standards.

Notes:
1. The total estimated benefit from the transaction is based on the net of the benefit in yield and the gain or loss on the transaction. The benefit is calculated on a 30/360 day basis until the earlier of: 1) original maturity of the sold security, or 2) new maturity of the purchased security. Total purchase may not equal to proceeds from sold securities as a result of additional income included in purchase or from a portion of maturity not reinvested. Calculations based on lesser of amount sold or reinvested.

Trade Analysis for October 31, 2011

Transaction Date: October 31, 2011

Transaction	Security	Maturity Date	Par Value	Price	Yield at Market	Benefit	Gain/Loss	Additional Earnings
Sold	FHLB GLOBAL BONDS	11/21/2012	$4,000,000.00	$101.4800	0.220%		$62,199.88	
Purchased	US TREASURY NOTES	10/15/2014	$4,000,000.00	$100.0430	0.485%	0.265%		11,390.70
Total Estimated Benefit from Transaction to Original Maturity								$11,390.70

Transaction	Security	Maturity Date	Par Value	Price	Yield at Market	Benefit	Gain/Loss	Additional Earnings
Sold	FNMA GLOBAL NOTES	7/30/2012	$2,165,000.00	$100.7160	0.169%		15,694.39	
Purchased	US TREASURY NOTES	10/15/2014	$2,260,000.00	$100.0430	0.485%	0.316%		5,189.70
Total Estimated Benefit from Transaction to Original Maturity								$5,189.70

Total Estimated Benefit from Transactions	**$16,580.40**

Transaction Commentary:

In accordance with Section III. Investment Objectives, of the District's Investment Policy, from time to time, securities may be traded for other similar securities to improve yield, maturity, or credit risk. For these transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security: 1) The yield has been increased, 2) the maturity has been reduced, or lengthened, 3)or the quality of the investment has been improved.

The transactions presented were executed in accordance with Section III Investment Objectives of the District's Investment Policy to 2) the duration of the portfolio has been extended as part of PFM's overall active management strategy for the District's investment portfolio, which should also increase the portfolio's total return. The performance of this portfolio should be evaluated based on the total return versus the District's 1-3 Year U.S. Treasury Index benchmark. PFM calculates the total return of the District's investment portfolio in a manner consistent with the CFA Institute's Global Investment Performance Standards.

Notes:

1. The total estimated benefit from the transaction is based on the net of the benefit in yield and the gain or loss on the transaction. The benefit is calculated on a 30/360 day basis until the earlier of: 1) original maturity of the sold security, or 2) new maturity of the purchased security. Total purchase may not equal to proceeds from sold securities as a result of additional income included in purchase or from a portion of maturity not reinvested. Calculations based on lesser of amount sold or reinvested.

Trade Analysis for November 30, 2011

Transaction Date: November 30, 2011

Transaction	Security	Maturity Date	Par Value	Price	Yield at Market	Benefit	Gain/Loss	Additional Earnings
Sold	FFCB NOTES (FLOAT)	5/23/2012	$3,130,000.00	$100.0377	0.128%		$2,179.33	
Purchased	FNMA GLOBAL NOTES	2/27/2014	$3,130,000.00	$101.4490	0.598%	0.471%		7,161.83
Total Estimated Benefit from Transaction to Original Maturity								$7,161.83

Transaction	Security	Maturity Date	Par Value	Price	Yield at Market	Benefit	Gain/Loss	Additional Earnings
Sold	FHLMC GLOBAL REFERENCE NOTES	7/15/2012	$1,023,000.00	$103.0980	0.163%		3,438.75	
Purchased	FNMA GLOBAL NOTES	2/27/2014	$960,000.00	$101.4490	0.598%	0.435%		2,644.19
Total Estimated Benefit from Transaction to Original Maturity								$2,644.19

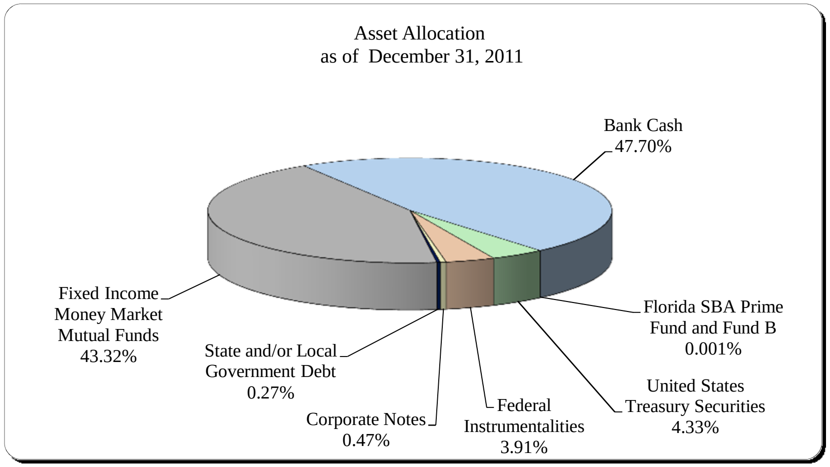
Total Estimated Benefit from Transactions	**$9,806.02**

Transaction Commentary:
In accordance with Section III. Investment Objectives, of the District's Investment Policy, from time to time, securities may be traded for other similar securities to improve yield, maturity, or credit risk. For these transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security: 1) The yield has been increased, 2) the maturity has been reduced, or lengthened, 3)or the quality of the investment has been improved.

The transactions presented were executed in accordance with Section III Investment Objectives of the District's Investment Policy to 2) the duration of the portfolio has been extended as part of PFM's overall active management strategy for the District's investment portfolio, which should also increase the portfolio's total return. The performance of this portfolio should be evaluated based on the total return versus the District's 1-3 Year U.S. Treasury Index benchmark. PFM calculates the total return of the District's investment portfolio in a manner consistent with the CFA Institute's Global Investment Performance Standards.

Notes:
1. The total estimated benefit from the transaction is based on the net of the benefit in yield and the gain or loss on the transaction. The benefit is calculated on a 30/360 day basis until the earlier of: 1) original maturity of the sold security, or 2) new maturity of the purchased security. Total purchase may not equal to proceeds from sold securities as a result of additional income included in purchase or from a portion of maturity not reinvested. Calculations based on lesser of amount sold or reinvested.

Security Type[3]	December 31, 2011	Notes	Permitted by Policy
Florida SBA Prime Fund and Fund B	0.001%	2	**100%**
United States Treasury Securities	4.33%		**100%**
United States Government Agency Securities	0.00%		**50%**
Federal Instrumentalities	3.91%	1	**80%**
Certificates of Deposit	0.00%		**25%**
Repurchase Agreements	0.00%		**50%**
Commercial Paper	0.00%		**35%**
Corporate Notes	0.47%		**15%**
Mortgage-Backed Securities	0.00%	1	**25%**
Bankers' Acceptances	0.00%		**35%**
State and/or Local Government Debt	0.27%		**20%**
Fixed Income Money Market Mutual Funds	43.32%	2	**50%**
Bank Cash	47.70%	2	**100%**



Individual Issuer Breakdown	December 31, 2011	Notes	Permitted by Policy
Government National Mortgage Association (GNMA)	0.00%		**25%**
US Export-Import Bank (Ex-Im)	0.00%		**25%**
Farmers Home Administration (FMHA)	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)	0.45%		**50%**
Federal National Mortgage Association (FNMA)	1.99%		**50%**
Federal Home Loan Mortgage Corporation (FHLMC)	1.46%		**50%**
Student Loan Marketing Association (SLMA)	0.00%		**50%**

Individual Issuer Breakdown	December 31, 2011	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%**
CP C	0.00%		**10%**
General Electric Corporate Notes	0.40%		**5%**
Procter & Gamble Corporate Notes	0.07%		**5%**
Corporate Notes C	0.00%		**5%**
Corporate Notes D	0.00%		**5%**
BA Bank A	0.00%		**10%**
BA Bank B	0.00%		**10%**
New York City Municipal Bond	0.27%		**20%**
Columbia Money Market Fund	0.00%	2	**25%**
Dreyfus Money Market Fund	21.66%	2	**25%**
Dreyfus Sales Tax Money Market Fund	0.00%	2	**25%**
JP Morgan Money Market Fund	21.66%	2	**25%**
Florida PRIME	0.001%	2	**100%**
Florida SBA Fund B	0.00%	2	**N/A**

Notes:

1. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 80%. The combined total as of December 31, 2011 is 3.91%.
2. Managed by the School District.
3. End of month trade-date amortized cost of portfolio holdings, including accrued interest.

* No Bond Proceeds.