TOWN OF PALM BEACH

Office of The Town Clerk

REPORT OF THE INVESTMENT ADVISORY COMMITTEE MEETING HELD ON FRIDAY, NOVEMBER 12, 2010

I. CALL TO ORDER AND ROLL CALL

The Investment Advisory Committee was called to order on Friday, November 12, 2010, at 2:04 p.m., in the Town Council Chambers, Palm Beach. On roll call, all members were found to be present, with the exception of Committee Member Heinz L. Gundlach, who had an unexcused absence.

II. PLEDGE OF ALLEGIANCE

Chairman Michael F. Andrews led the Pledge of Allegiance.

III. APPROVAL OF AGENDA

The Agenda was approved as printed.

IV. COMMUNICATION FROM CITIZENS

There was none.

V. APPROVAL OF MINUTES

Motion made by Committee Member Bernard R. Panfel, seconded by Committee Member Benton Bohannon, to approve the Minutes. On voice vote, the motion carried 4-0, with Committee Member Heinz L. Gundlach absent.

VI. REPORT FROM FLORIDA LEAGUE OF CITIES AND ATLANTA CAPITAL

Dustin Heintz, Investment Services Manager, Florida League of Cities, and Greg Coleman, Partner, Atlanta Capital provided presentations, which were submitted into the record.

Responding to Dr. Andrews, Mr. Heintz noted that the upside from the securities that were due from the $500,000 hit in September of 2008 was over, and would not be seen again. He noted that over the last two years, the net of fees was out performing the gross performance including the expenses because the markup on the securities lending was adding more than what the

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expenses were subtracting out of the portfolio. He said that half of what was lost was gained back.

Dr. Andrews indicated that the performance benchmarks for the SBA were irrelevant as to what the Committee was doing at this time and suggested that it not be in the chart in the future.

Mr. Coleman provided several of the following responses to questions and comments by the Committee:

- The SBA was good as far as money markets were concerned, but now there was an LGIP for Triple A rated state governments across the country that would mirror it closely.

- On the chart on page 6 of the Stable and Substantial Cash Flow for Liquidity or Reinvestment, MBS was a collection of mortgage backed securities and ABS was asset backed securities, which were credit card receivables or auto receivables.

- He provided an explanation of a Triple A bond, which was an S&P, Fitch and Moody's rating.

- Currently inflation is running at 1%, if over the next year, it averages a half of 1% that would be disinflation. Deflation is a general decline in the general level of prices that become negative.

Responding to Dr. Andrews, Finance Director Jane Struder indicated that one of the reasons that the Florida League of Cities proportion of the Town's Investments are so high was that the property tax distributions had not started yet and will start this month. The balance will increase the shorter term investments and the percentage of the Florida League of Cities in the portfolio will decrease.

Responding to Dr. Andrews, Mr. Coleman noted that there was an under performance in the last year, which affected the relative performance on the 1-3 year benchmark.

Dr. Andrews indicated that the Committee would be consistently evaluating the managers relative to a benchmark.

Dr. Andrews thanked Mr. Heintz and Mr. Coleman for their presentations.

V. QUARTERLY REPORT - PFM ASSET MANAGEMENT

David Jang, PFM Asset Management, LLC, provided PFM's Quarterly Report, which was submitted into the record.

Mr. Jang made several of the following comments in response to questions and comments by the Committee:

- Ending September 30, 2010, the cash basis earnings were $21,983.21, which is located on page 1 of the Summary Account Statement, behind tab 3.
- He would provide the formula of how the Total Cash Basis Earnings is calculated.

VI. QUARTERLY PERFORMANCE UPDATE - PRIME BUCHHOLZ

A. VANGUARD ENERGY FUND REPLACEMENT

B. INVESTMENT POLICY AND ASSET ALLOCATION REVIEW

Sean Higman, Prime Buchholz, provided an update of their quarterly performance, which was submitted for the record.

During the discussion regarding the Inflation Hedging Composite Index, Committee Member Bohannon asked if it was not specifically the allocation to inflation hedging or hard assets, but was the actual vehicle that was chosen that caused the decrease.

Mr. Higman responded that all were down at that period of time, and that although Guggenheim PLUS II, L.P., contributed to the 13, what is not seen was Western Asset Commodity Plus Investment, which damaged the portfolio. He said that the commodities went down and as it was also a credit oriented bond portfolio, there was a double hit; if there was courage to hang on to it during the crisis, it would have been the number one performing asset in the portfolio.

Responding to Dr. Andrews, Mr. Higman said that 20% of the assets were available annually, and the Guggenheim PLUS II, L.P., if it would return to normal, was quarterly. He added that he did not see a liquidity issue as a problem.

Dr. Andrews expressed concern about lockups, and Mr. Higman stated that the Town's OPEB fund could take more illiquidity than any other pool, because the other pools were becoming cash flow negative, and their benefits were exceeding contributions made by the Town, which was modest.

Dr. Andrews commented that compared to the other employee's retirement boards, the Committee's investments were consistently on the backside. Mr. Higman noted that they should be getting closer to the Fire and Police Retirement Boards; he indicated that there was an asset allocation philosophical difference between Callan and General Employees versus the Investment Committee and he explained the difference.

Committee Member Bohannon said that regarding the allocation policies Prime Bucholz recommended, the proposal was to make a positive contribution to stocks that place the Town greater than the target and by going slow on the inflation assets would result in 1% under the target. On the basis of those particular markets, the asset funds were a little pricey, and he asked why not just wait and hold off on the allocations?

Responding to Committee Member Bohannon, Mr. Higman indicated that the group Real Assets was an insurance policy and they did not think that there was a case for near term inflation right around the corner. He said that the overweight to equities was where to put the assets as opposed to the underweight; in looking at the hedge funds together with equities, roughly being neutral; it would have to be done three ways, as Real Assets was also an equity-like group. They were not overweight to equities and aggregate, but were just put in different buckets. He did not want to place the money in hedge funds and there was not a big danger of inflation any time soon, so if he was overweight something, it would be long on the equities. It was not about pricing, as they had no idea what the market would do in the next three months.

Motion made by Committee Member Panfel to approve the rebalancing schedule. On a voice vote the motion carried 4-0, with Committee Member Gundlach absent.

Mr. Higman stated, for the record, which could be found on page 13 of Prime Buchholz's Monthly Market Review, that having 20% of the assets in alternative investments (hedge funds) was valid and legal, per the Town Council.

VII. EVALUATION OF MANAGERS

Mr. Jang provided information regarding the best way to evaluate a manager. He distributed a bound copy entitled Percentile Performance and a sample sheet entitled Plan Sponsor Peer Group Analysis. He explained how the comparisons were compiled.

Additionally, Sean Higman, Prime Buchholz, provided his comments on peer groups.

Dr. Andrews stated that the Committee wanted to move away from the idea that they were investment managers, but that they were fiduciary managers.

Mr. Jang indicated that the samples were just the first phase and was what PFM used for their clients that needed a third party assessment of how their managers were doing. He said that as the project moves forward, it would be further refined after receiving the feedback.

VIII. ANNUAL REPORT TO THE TOWN COUNCIL - FEBRUARY 8, 2011 TOWN COUNCIL MEETING

Ms. Struder indicated that she and Dr. Andrews would prepare the Annual Report. After a brief discussion among the Committee Members, it was determined that the Committee would review the Report via email, prior to the February meeting and provide their input.

IX. NEXT MEETING DATE

Finance Director Struder indicated that the next meeting date would be sometime in mid-February.

X. ANY OTHER MATTERS

Mr. Bohannon asked if the Committee would be short one member regularly or not, as Mr. Gundlach had two unexcused absences. Town Clerk Cunningham advised that it was passed by Ordinance that if a member had two unexcused absences, he/she would no longer be eligible to continue to serve on that Board/Committee. Dr. Andrews requested that an opening be advertised to fill the vacancy.

Clerk's Note: After the meeting, further review of the Ordinance specified that three unexcused absences determined eligibility of serving on a board/committee.

Dr. Andrews mentioned that it was Town Clerk Cunningham's last meeting and that he personally appreciated her service to the Committee.

XI. ADJOURNMENT

There being no further business, the November 12, 2010, Investment Advisory Committee Meeting was adjourned at 4:40 p.m.

APPROVED:

M. Andrews

Michael Andrews
Chairman