TOWN OF PALM BEACH

Office of The Town Clerk

REPORT OF THE INVESTMENT ADVISORY COMMITTEE
HELD ON FRIDAY, AUGUST 20, 2010

I. CALL TO ORDER AND ROLL CALL

The Investment Advisory Committee was called to order on Friday, August 20, 2010, at 2:00 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 OF MAY 28, 2010

Chairman Andrews noted that on page 9, in the middle of the page, the word "generally" should be changed to "genuinely" as follows: "Chairman Andrews replied to the Committee: I have just a few general comments, I feel the members on this board are ~~generally~~ genuinely interested in what happens to the Town..."

Committee Member Bernard R. Panfel moved to approve with revisions, the Minutes of May 28, 2010. On voice vote, the motion carried 4-0, with Committee Member Gundlach absent.

VI. REPORT FROM PFM ASSET MANAGEMENT

Managing Director Steven Alexander and Managing Consultant David Jang, PFM Asset Management, LLC, provided an update of what was happening in the Market. The Report was submitted into the record.

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Discussion occurred among the Committee Members and Mr. Jang. Several of the following items were discussed:

- The economic environment has completely changed from a recession or slow down to something much more dramatic.

- There is a significant amount of different operating procedures or tactics that have shifted this market to a different level that had never been seen before.

- The federal government thinks that by replacing maturing mortgage backed securities, people will start buying U.S. Treasuries.

- The unemployment benefits have been extended to 99 weeks. The question is how businesses can be encouraged to expand and hire workers. Sixty five percent of all new jobs are created by companies that have fewer than five employees.

- The business owners do not have confidence in the direction of the tax policies that can give them comfort relative to investing into businesses.

- The Feds futures indicate that there will not be a rise in rates until August of 2011. People are looking to borrow; IBM borrowed for three years at 1%, for $1.5 billion.

Mr. Jang provided an update of the June 30, 2010, Quarterly Investment Performance Review and a copy was submitted into the record.

Discussion occurred among the Committee Members and Mr. Jang. Several of the following items were discussed:

- In the Actively Managed Maturity Distribution (under tab 2, on page B-4), the mortgage duration allowed the yield of 0.60% over the benchmark of 0.26% (on page B-2) to be obtained, as it went longer than the benchmark duration.

- For the duration of the portfolio, it is not expected for rates to rise dramatically, or for the Feds to move rates up on the short end until August 2011.

- The Town's duration in the market would lengthen out, and 67% of Fed agency obligations were all very liquid securities; there were no mortgaged back securities in it.

Chairman Andrews complimented Mr. Jang and Mr. Alexander on the PFM Asset Management Report.

Note: Item IX. Investment Reports was addressed following this item.

VII. QUARTERLY PERFORMANCE UPDATE - PRIME BUCHHOLZ

Sean T. Higman, representative of Prime Buchholz, provided a quarterly performance update.

Responding to the Committee Members questions and comments, Mr. Higman provided several of the following comments:

- Regarding Prime Buchholz diverging from PFM Management, Prime Buchholz does not have a short term forecast, but was trying to put a context on what is going on in the Town's portfolio on a shorter term basis. His advice to clients is to stay with their long term strategy because that is the best over this period of time.

- Not only is the retail investor causing the volatility in the market, it's also the quantitative model driven managers, such as: Hedge Fund and Algorithm traders; the closer to historical, statistical full value performance, the more likely those funds will trade.

Mr. Higman continued his update on the quarterly performance and once again provided several of the following responses:

- Brandywine Fund had not underperformed but the magnitude of their more recent performance swamps their long term performance. There were periods of time where their out performance was exceptional such that it is not unreasonable to believe that they could overcome their short term under performance.

- The largest macroeconomic influence today is that Brandywine Fund buys stocks that have the characteristic of not just profit growth, which has been strong, but in top line growth (double digit) and have not performed well over the short period of time.

- Brandywine Fund has displayed the ability to come back and this Fund's personality is not to find underperforming stocks in an environment where underperforming stocks charge ahead. Prime Buchholz does not recommend that their clients find value managers.

Discussion occurred among the Committee Members and Mr. Higman regarding the performance and benchmarks of the Funds. Dr. Andrews noted that the long term performance of the Town's Retirement Boards, this trust is the least of all four of them. His concern was that about nine percent of the total portfolio is taken out with Brandywine and Sound Shore that basically drag against everything else. Mr. Higman responded that he was confident that the Funds were doing all the things that they have always done to generate a superior result over time. He added that institutional portfolios relative to pensions are criticized for losing patience at the wrong time.

Mr. Higman continued his overview of the Monthly Market Update. He stated that the role of the portfolio was to have an equity exposure but be less correlated to the market. He noted that per the Committee's approval, at the last meeting, PIMCO Commodity Real Ret Str Instl Fund and the Vanguard Energy Admiral Fund strategy, has been added. All historic numbers are influenced by Guggenheim investment, which made a 25% distribution of assets during July. He noted that in November he will bring a potential alternative to the Vanguard Energy Fund, which has recently been approved for use by their clients and is more diversified.

Mr. Higman responded to the question about asset allocation. He noted that asset allocation should be reviewed in the fourth quarter of each year with the Investment Policy.

Finance Director Jane Struder mentioned that at the September Town Council meeting, all the pension boards will present their annual reports, and that the eight percent return will come up during the meeting.

Chairman Andrews thanked Mr. Higman of Prime Buchholz for his presentation.

VIII. INTERNAL AUDIT REPORT - POOLED CASH AND INVESTMENTS

Finance Director Struder provided the internal audit report by Crowe Horwath of the pooled cash and investments of the Finance Department. She noted that there were no findings and one "Best Practice" comment, which was to ensure that all the bond proceeds were required to be spent in the three years allowed.

Chairman Andrews commended the Finance Department on their successful audit.

IX. INVESTMENT REPORTS

Assistant Finance Director Cheryl Somers provided an update on the June Monthly Investment Report.

Responding to Finance Director Struder, Dr. Andrews indicated that regarding the new format to the Report, the Committee Members could review it and discuss their comments with Ms. Struder or Ms. Somers after the meeting, rather than from the dais. He noted that there was an improvement to the layout of the information and that there was more information provided.

Dr. Andrews thanked Ms. Somers for the new Report.

Finance Director Struder commented that Florida Municipal Investment Trust (FMIvT) is trailing their benchmark slightly for both of their funds. She noted that she attended a meeting yesterday of the Investment Committee for the Florida League of Cities; their reasoning was that they are a Triple A rated pool, which prevents them from investing in Triple B Securities, which is hampering their returns.

Ms. Struder indicated that FMIvT will be at the next meeting, as they were not in attendance today due to a conflict with today's meeting.

Dr. Andrews thanked the Finance Department for making the Town and the Committee more accountable and more user-friendly.

X. NEXT MEETING DATE

Ms. Struder noted that the next meeting date would be either November 12, 2010, or November 15, 2010, and mentioned that it coincided with the Police and Fire pension boards, in order that Mr. Higman could attend.

Chairman Andrews requested that the date of the meeting be confirmed electronically.

XI. ANY OTHER MATTERS

Chairman Andrews commented that he would like to address the way in which the managers were evaluated. In effect, once the manager was in the position of actually managing, it was almost a management in perpetuity. He noted that there was no real reason or way that is established allowing the Committee to set a particular date to review the managers. He requested that this item be placed on the next Agenda to discuss a method of tying in performance into the manager's contracts.

Mr. Higman indicated that Prime Buchholz's contract is 30 days notice. Their policy with many clients on this process includes a qualitative and quantitative benchmark. Prime Buchholz provides a form, which offers some characteristics for rating purposes; the managers rate themselves independently and then the ratings are shared with each other.

Chairman Andrews commented that a process was needed that everyone agreed.

Discussion occurred among the Committee Members and Mr. Higman. Dr. Andrews noted that everyone should try to find the best efforts and discuss it at the next meeting.

XII. ADJOURNMENT

There being no further business, the Investment Advisory Committee of August 20, 2010, was adjourned at 4:00 p.m.

APPROVED:

Michael Andrews

Michael F. Andrews
Investment Advisory Committee Chairman