TOWN OF PALM BEACH

MINUTES OF THE INVESTMENT ADVISORY COMMITTEE MEETING HELD ON MAY 28, 2010 AT 2:00 P.M. AT EMERGENCY OPERATION CENTER (EOC) THIRD FLOOR, CENERAL FIRE-RESCUE STATION 355 SOUTH COUNTY ROAD

I. CALL TO ORDER AND ROLL CALL

The Investment Advisory Committee Meeting was called to order on May 28, 2010 at 2:00 P.M.

ATTENDEES:

Chairman Michael F. Andrews
William John Mikus
Dr. Heinz L. Gundlach
Bernard R. Panfel
David Jang, CTP, PFM
Rebecca Dole, Consultant, PFM
Sean Higman, Prime Buchholz
Jane Struder, Finance Director
Cheryl Somers, Assistant Finance Director
Melissa Morgan, Recording Secretary

ABSENT:

Benton P. Bohannon

II. PLEDGE OF ALLEGIANCE

Chairman Michael F. Andrews led the Pledge of Allegiance.

III. APPROVAL OF THE AGENDA

Motion was entertained by Chairman Andrews for approval of the agenda.
Motion by Dr. Gundlach.
Motion seconded by Mr. Panfel.
Motion carried unanimously.

IV. COMMUNICATION FROM CITIZENS – 3 MINUTE LIMIT PLEASE

Council Member Bill Diamond of 200 Wells Road.

V. APPROVAL OF MINUTES OF MEETING HELD ON FEBRUARY 18, 2010

Motion by Mr. Panfel for approval of the minutes.
Motion seconded by Mr. Gundlach.
Motion carried unanimously.

VI. OATH OF OFFICE FOR ALL MEMBERS

Town Clerk Cunningham administered the Oath of Office to the Board Members.

VII. ELECTION OF CHAIRMAN

Motion by Mr. Panfel to nominate Mr. Andrews for re-election as Chairman.
Motion seconded by Dr. Gundlach.
Motion carried unanimously.

VIII. REPORT FROM PFM ASSET MANAGEMENT

Mr. Jang: Discussed the Market Update handout with the Committee.

-Long Term Yields Drop on E.U. and Low Inflation

-Euro Slides Precipitously, Recovers Slightly

- 2-Year U.S Treasuries Rally, Close Below .72%

-Core CPI Flat For Second Straight Month

-Core PPI Rises Slightly

- Yield Curve: Blast from the Past

- Housing Starts Beat Expectation in April

Mr. Jang also discussed Upcoming Economic Releases:

-1st Quarter 2010 GDP Revision Next Week

- Existing Home Sales Expected to Rise Again in April

- Durable Goods Orders Expected to Recover in April

A. INVESTMENT POLICY

Mr. Jang discussed the assets allocation.

Mr. Mikus asked Mr. Jang: Are we over allocated in our governmental investment pools?

Mr. Jang replied to Mr. Mikus: We adopted the policy and need to make an administrative adjustment. In your situation, rather than selling out the existing portfolio composition that you have, you have two strategies with the FMIVT, each of them are below 25%.

We are recommending to the Investment Advisory Committee an administrative adjustment to increase your local government investment pool allocation from 25% to 40%. There will be no change in your existing portfolio structure. I talked to Ms. Struder and rather than reallocating, selling to 25%, or open another fund somewhere else, which would create more work for the staff, we feel it would be prudent just to do the administrative adjustment to increase your local government rates from 25% to 40%. This is well within the guidelines of our best practices of the investment pools that we recommend.

Mr. Mikus asked Mr. Jang: Is there a possibility of us having the same problem again like when we invested with SBA?

Mr. Jang replied to Mr. Mikus: When you had SBA, the problem was that most of your money was with SBA but, with a local restriction to local governmental pools, this will allow you to maintain a well diversified strategy. We like the buckets the Town has so we are not changing anything. Therefore, because everything is so expensive in the market, we feel it would be prudent to do an administrative adjustment. The 40% is well within the guidelines you have seen. Municipalities range from 15% to 50% in terms of what they allocate in the investment pools therefore, this is something we would like to recommend to the Investment Advisory Committee pool for consideration.

Chairman Andrews asked Ms. Struder: Do you have any comments on this?

Ms. Struder replied to Chairman Andrews: When we calculated the allocation we realized we were over the policy limit. We did not add money to the FMIVT Fund, the overage was just based on the policy and it was higher than the policy permitted. We can go back to Council and ask them to change the limit to 40%. Like David said, I do not think it is prudent to sell those funds and go into something else.

Chairman Andrews replied to Ms. Struder: I agree and is an administrative adjustment enough?

Ms. Struder replied to the Chairman: Yes, It will and I will talk to the Town's Attorney and then take it to Council as a consent agenda item for the change.

Chairman Andrews asked Ms. Struder: Do you feel comfortable going forward?

Mrs. Somers and Mr. Panfel asked Mr. Jang a question.

Mr. Jang satisfied all board member questions and concerns.

Council Member Bill Diamond asked Mr. Jang: What do you think the drag on the economy will be from the possible increase in tax rates, personal, corporate and business. What do you think that will do?

Mr. Jang replied to Mr. Diamond: I believe that an increase in taxes does not necessarily mean an increase in revenues. There will be fewer incentives for people to come to the U.S. and people will move to other countries.

Chairman Andrews entertained a motion to make an administrative adjustment to the investment policy to cover up to 40% of local governmental investment pools.
Motion by Mr. Panfel.
Motion seconded by Dr. Gundlach.
Motion carried unanimously.

Chairman Andrews asked the Committee: Are there any more questions for PFM? Hearing none, he thanked PFM for coming.

Break 3:00- 3:10.

IX. QUARTERLY PERFORMANCE – PRIME BUCHHOLZ

Mr. Higman discussed the Monthly Market Review for April 2010 with the Committee:
The Fund is up to $14.4 million dollars and calendar year to date we are up 3.9%, which exceeds the target and actual index and for the one year basis we are up 23% which is over our target. This is also 250 basis points better than the actual measurement of the individual manager performance. He also discussed the Total

Equity accounts, Total Alternative Strategies, Total Fixed Income, Total Real Assets and cash.

Chairman Andrews asked Ms. Struder: Have we added to the portfolio other than the initial investment?

Ms. Struder replied to Chairman Andrews: We transferred $1.5 Million to State Street based on action at the last meeting. Mr. Higman was going to bring back options to this meeting to invest that $1.5 Million.

Chairman Andrews replied: Ok, so roughly the $14.4 million market value on the front of the page goes back to the initial 16 million? Ok, just wanted to make sure we did not add anything.

Mr. Higman: Discusses his recommendation for new allocation with the Committee:

Mr. Higman recommended the PIMCO Commodity Real Return Fund and the Vanguard Energy Admiral Fund.

Mr. Mikus made the motion to invest in the two new funds.
Mr. Panfel seconded the motion.
The motion passed with Dr. Gundlach dissenting.

Mr. Higman discussed issues with Forester Capital.

Forester Capital is changing their liquidity structure. We invested in July 1, 2007. At that time we elected to have class B-1 with only a one year lock up and a 1% management fee and no incentive fee. The alternative was to have a two year lock up then go quarterly after that and then give up a 3% incentive fee. They have changed the terms for the A share class. Rather than give the quarterly shares, they are going to essentially a rolling one year. The main difference is that it is on the anniversary date, not on December 1st therefore, you will never be longer than a year away from your money if you pick that one. If you pick B-3 you would only have access to your money every three years. We need to make an election now because the three year lock up deadline is July 1, 2010. The actions required are to select another three years or pick A-2 which would give annual liquidity, or finally, you can seek and redeem another fund with quarterly liquidity but, there is a limited amount with quarterly funds.

Chairman Andrews asked Mr. Higman: Can you review these funds on a monthly and quarterly basis?

Mr. Higman replied to Chairman Andrews: Yes, we get all the information and they are audited.

Chairman Andrews asked Ms. Struder: Do you need any money out of this fund?

Ms. Struder replied to Chairman Andrews: No, I shouldn't need any money out of this fund. The money put in the cash fund covers the Town's operating expenses.

Hr. Higman stated a draft motion for the Committee: Roll over approximately $1.6 million dollars to class B-2 shares, with a three year rolling lock up which are with only the management fee and no profit participation.

Chairman Andrews asked the Committee: Do you have any questions with that motion?

Mr. Mikus: I put a huge premium on liquidity and with 3% the upside. I am more comfortable putting it in a one year. I would hate for somebody to ask us what we were thinking locking anything up for three years. Even things you don't think are going to get locked up, gets locked up. I would hate to put ourselves in that position again because this is public money.

Mr. Panfel: I was thinking the same thing but I hesitated to articulate, but I have the same view as Mr. Mikus.

Dr. Gundlach: I am making reference to that last discussion I had with your boss. I am not accusing anybody; I am just accusing the business model, the business model of managing other funds. There are enormous costs involved with managing other funds. Second, the liquidity in a market today, or as it has been in last four years beginning in 2006. It is absolutely critical I know what I am invested in, what assets I have, how quickly I can sell them if I wanted to, where to add on to, and how to manage them. We cannot manage them because there are managers for big banks and trust companies. Such a manager might invest in a fund from time to time but, I have asked Mr. Higman to please send me the asset runs and all I have received are three funds.

Mr. Higman replied to Dr. Gundlach: I told you specifically which funds would be available at that meeting.

Dr. Gundlach replied to Mr. Higman: I told you I wanted to see the asset runs for what we are investing in. You gave me three or four.

Mr. Higman replied to Dr. Gundlach: It was five.

Dr. Gundlach replied to Mr. Higman: I have the following comments

1. Do we have profit and losses?
2. The Sound Shore Fund, the quality is good but what is the value of the profit and losses?
3. The Brandywine Fund has a lower quality and there is no information on their profit and losses.
4. International Funds are good, some I would buy and some I will not buy.

I feel very comfortable with PFM, I would not know anything better and I consider what PFM does as well managed accounts. What Prime Buchholz does they tell me it is a business model, and they are not changing it, and I am against that. I do not see the liquidity and I do not see what is in our markets today. I want to know how I can get out, how much I have and it will not allow me to do that which I am against.

Chairman Andrews replied to the Committee: We have three options B-2, A-2, or redeem and seek an alternative. I understand that Mr. Mikus and Mr. Panfel are leaning towards A-2.

Mr. Mikus and Mr. Panfel replied: Yes that is correct

Chairman Andrews asked Dr. Gundlach: What do you think of these three?

Dr. Gundlach replied to Chairman Andrews: Well, as I said earlier, I have summarized my points. I want to know:

1. Where my assets are?
2. How quickly I can get out?
3. What is the liquidity?
4. Profit and losses?

In these times nobody knows what is going to happen. I must have the ability to get out.

Chairman Andrews replied to Dr. Gundlach: Which of the three do you believe will be the best?

Dr. Gundlach replied to Chairman Andrews: I do not like any of them.

Chairman Andrews replied to Dr. Gundlach: Ok, you do not have to like any of them. Ok, Lets make a motion.

Mr. Mikus made a motion to select A-2 so we can have annual liquidity.

Mr. Panfel seconded the motion.
The motion was passed with Dr. Gundlach dissenting

X. DISCUSSION OF MR. GUNDLACH'S COMMENTS REGARDING PRIME BUCHHOLZ.

Chairman Andrews asked Dr. Gundlach to comment. I have already said most everything. I am not criticizing you but the business model. This business model could have been ok five or six years ago but it is not accurate today. I would like us to interview various high grade bankers invested in trusts to manage this account on a managed basis, where I have the asset runs once a month. Then we can make intelligent decisions on what to do and ultimately it is up to us what should be done. That is my motion.

Chairman Andrews replied to Dr. Gundlach: That is too long, please summarize your motion for us.

Dr. Gundlach replied to Chairman Andrews: I would like to entertain a motion for the Finance department to get bids from highly regarded banks and trust companies to manage this account on a managed basis. Then once we have that we should discuss what we should do next. This is my motion.

Chairman Andrews replied to Dr. Gundlach: I kind of see where you are going with this. I would like to open this for discussion. Mr. Mikus.

Mr. Mikus replied: I understand what you are saying, but I fundamentally disagree with your conclusion. I think we have the most effective and efficient model for investing, especially with such a small dollar amount. This is the only model we can use with $15 million. Most managers will not accept $15 million. There is a fundamental difference between data and information. What you are asking for is a lot of data and, as an investment committee, that is not our purview to be making judgment on certain security decision selections. That really is a portfolio manager's decision, and then it is Prime Buchholz decision, then above them, it is our decision. Therefore, we are an executive function and we are not a function of doing things. The decision makers are on a much higher level. Therefore, I say we continue to use the model that Prime Buchholz uses to manage the managers for us.

Mr. Panfel replied to chairman Andrews: The realistic approach is to use the approach we have. We are a Committee that meets four times a year, we are volunteers, and our responsibility is very limited in response to how much work we are supposed to do and you are introducing a factor that I do not want to be responsible for. We spent a lot of time meeting with different people besides Prime Buchholz before we made the decision to hire them. I was satisfied at that time and I'm still satisfied. We invested at a very bad time and it was not their fault.

Dr. Gundlach replied to the Committee: It is not too small and yes, I agree with you we do not have to meet more than four times a year but, we get these reports monthly. Well we can read these reports, and if we see something concerning us, we can do a conference call. We are responsible for this Town and you cannot say just because we have Prime Buchholz we are not responsible any more. We have to use our best judgment and anybody on this Committee should know something about finance and investments or they should not be on this Committee. If we want to do the best for the Town and our reputations, I cannot stand for something like this. It would drive me nuts. Forgive me for being so rough but, I disagree with two of your comments. One, Prime Buchholz business model is the most efficient and two, we would not get the finest money managers for the $15 million. This is fine, but at least I am doing what my heart tells me to do. I am so upset that if this continues I will have to resign from this board.

Chairman Andrews replied to Committee: I have just a few general comments, I feel the members on this board are genuinely interested in what happens to the Town and feel a responsibility that the Town has the best investment vehicles that it can. I think we have done that, and I feel comfortable with that. I also think that we are fiduciaries and we should not be making individual decisions on securities. That decision has to come from the Finance Department at the Town of Palm Beach. Our job is to make the Finance Department of the Town of Palm Beach easier to operate and, if we are making individual decisions this will not be helping. I also do not think we will have people lined up. You have to have a history and specialty in dealing with products and I do not think any bank or trust company can walk in here and manage the Town's finances. I believe that Prime Buchholz had the disadvantage of entering the market when it tanked for a while. They have been forthright in my opinion with the information that they have provided us. Therefore, I would support Prime Buchholz but, I would like to say one other thing. If there are decisions going forward, Dr. Gundlach has written notes on some of the information, then he has distributed that. I do not feel that is an effective way of handling this. He should show it to the Board and then the Board makes the decision on what we want to do, then we inform Prime Buchholz. Aside from that, members on this Board can call anybody at Prime Buchholz and can get individual information to the level and the detail that they want. If they do not get that, they have every right to come to the Committee and say I am not getting what this Committee deserves.

Dr. Gundlach replied to Chairman Andrews: This is what I got.

Chairman Andrews replied to Dr. Gundlach: I am not going to ask the Board at this time what they think, but Dr. Gundlach you seem the most vocal at this time. Can you give the Board just those specific things?

Dr. Gundlach replied to Chairman Andrews: I repeat the two most critical questions are:

1. I do not have an asset run and I do not know what is involved.
2. Liquidity problem, the assets are locked up for too long.

This is unacceptable to me, especially in these volatile times we are facing. It has nothing to do with Prime Buchholz, or Mr. Higman, it is the business model.

Chairman Andrews asked Mr. Higman: Can you please respond to that as a representative of Prime Buchholz.

Mr. Higman replied to the Board: It is more than the business model it is a premise on which I agree with Mr. Mikus. It is too small to get the diversification of your portfolio. To take $15 million dollars and the diversification that is in your portfolio would be impossible because the way we invest in your funds. Just on the equity side we have exposure to two stocks. We know that the exposure to the asset class is the most important attribute to long term success not with stocks. Therefore, going to a managed account which would allow you to see each individual investment on a real time basis and addition to it would reduce the amount of individual securities you can hold, then the diversification would prevent you from entering into certain asset classes which are the best, which are the hedge funds. They are literally the best asset class you had since we have been involved here. Therefore it would prevent that. Finally I know of no managers which manage funds in the way you are proposing. In an ERISA roll I know of none in which the funds are put in to a single investment manager which are motivated by making judgments about decisions about individual asset classes and securities. It is not our best practice.

Chairman Andrews asked Ms. Struder: Please repeat the Dr. Gundlach's motion.

Ms. Struder replied to Chairman Andrews: **For the Finance Department to elicit bids from an investment professional to manage the OPEB trust funds as a managed account.**

Chairman Andrews asked the Committee: **Is there any further discussion? Hearing none, I will entertain a second. Motion made by Dr. Gundlach died for lack of a second.**

XI. INVESTMENT REPORT

Mrs. Somers: The bond funds are totally invested either in money markets or individual investments. Our investment portfolio balance was about $146 million at the end of April. We had a net positive gain between March and April of about $112 thousand in total return. I have been talking with PFM and I do not know if there is a way we could incorporate what I do in their monthly report? Or consolidate this information. It is getting a little bit more complicated and I just want to streamline the information for the committee to review the quarterly reports.

Ms. Struder asked the Committee: Are there things on the report that you would like to see that you are not seeing? It has become more complex and we want to make sure it is understandable and readable, also that you are getting what you need out of it. We are not exactly sure how to structure it anymore due to all the accounts we have.

Chairman Andrews replied to Ms. Somers: Well, PFM said they could come up with something, and you said you could come up with something without it being a burden. Correct?

Mrs. Somers replied to Chairman Andrews: Correct. For the PFM funds, for the FMIVT funds, it is a little more difficult for them to come up with numbers. They have given us percentages.

Chairman Andrews replied to Mrs. Somers: I would not have a problem with them giving us percentages as long as they can back up to numbers they give us. We will have an idea either with market action or distribution. I would ask Cheryl to talk to people at PFM then I would be glad to sit down and discuss this with Cheryl or anybody else to see if we are getting close to what we would like. You can call me before the next meeting and go over that before the next meeting.

Chairman Andrews asked the Committee: Are there any more question? Hearing none, let’s move on.

XII. NEXT MEETING DATE

August 18, 2010 or August 20, 2010.

Chairman Andrews asked Ms. Struder: Can you e-mail me the times again?

Mr. Higman said he is available on August 19 and 20.

Mr. Mikus replied: The later the better for me, 2:00 p.m. or 3:00 p.m.

Ms. Struder replied: The next meeting should be in the Town Council Chambers

XIII. ANY OTHER MATTERS

None was discussed

VI. ADJOURNMENT

Chairman Andrews entertained a motion for adjournment at 4:19 p.m.
Mr. Panfel made the motion
Mr. Mikus seconded
The motion was passed unanimously