TOWN OF PALM BEACH

Finance Department

AGENDA

INVESTMENT ADVISORY COMMITTEE MEETING
FRIDAY, APRIL 3, 2009
1:00 P.M.
TOWN OF PALM BEACH
TOWN COUNCIL CHAMBERS

WELCOME!

I. CALL TO ORDER AND ROLL CALL

The Investment Advisory Committee Meeting was called to order on Friday April 3, 2009 at 1:00 P.M..

ATTENDEES:

Chairman Michael F. Andrews
Vice Chair Edwards L. Hennessy, Jr.
Committee Member Stephen L. Brown
Committee Member William J. Mikus
Committee Member Bernard R. Panfel
Steven Alexander, C.P., CFO, Managing Director, PFM
Mel Hamilton, Senior Managing Consultant, PFM
Gregg Manjerovic, CFA, Senior Portfolio Manager, PFM
Anne Brady, Director Evergreen Investments
Travis Meldau, Senior Portfolio Manager, Evergreen Investments
Scoot Stitcher, Senior VP, Client Management, Evergreen Investments
Thomas Tight II, Director, MBIA
Miriam Cleary, Regional Director, MBIA
John F. Grady III, CTP, Regional Director, MBIA
Jane Struder, Finance Director
Melissa Morgan, Recording Secretary

II. PLEDGE OF ALLEGIANCE

Chairman Michael F. Andrews led the pledge of allegiance.

III. APPROVAL OF AGENDA

Motion by Mr. Hennessy for approval of the agenda.
Motion seconded by Mr. Brown

Motion carried unanimously.

IV. COMMUNICATION FROM CITIZENS - 3 MINUTE LIMIT PLEASE

There was none.

V. APPROVAL OF MINUTES FROM THE FEBRUARY 12, 2009 MEETING

Motion by Mr. Brown for approval of the minutes.
Motion seconded by Mr. Hennessy
Motion carried unanimously.

VI. INVESTMENT ADVISOR PRESENTATIONS

1) PFM ASSET MANAGEMENT

Chairman Andrews informed PFM what the town is looking for in a financial partner**.** He gave them an overview of how much money the Town of Palm Beach has in the money market account.

The PFM team introduced themselves to the Investment Advisory Committee and discussed the outline of their presentation. Their presentation included an overview of the PFM approach, why their approach is preferable and the benefits of selecting PFM as a firm.

Mr. Alexander:

Discussed some background facts about PFM:
1) PFM is the largest investment advisory firm to local governments in the country and has managed public funds for 30 years.
2) PFM employees are comprised of several public officials that have worked in the governmental field for numerous years.

What distinguishes PFM?
1) Independently owned by 52 partners. They are set up like a law firm and have not had any of the financial problems that have made the news. All clients were protected from losses.
2) PFM has managed over 53 billion dollars and about 6 billion in Florida.
3) Only invest in local dollars.

PFM Investment Philosophy:
1) Protects the Town from financial problems as much as possible in today's markets.
2) Accomplishes liquidity and safety, then produces the best return for customers.

Benefits of PFM's Credit Analysis:

Discussed all the financial services PFM provides their customers and the ten step investment process that must be done prior to making an investment.

Discussed PFM Investment Committees, all members have years of experience. They review all investments and design investment portfolios with the type of asset the Town is allowed to buy.

Discussed a time line of various events that has affected financial markets and informed the committee what PFM has done to protect their clients from being affected from the bad economy.

Liquidity:

Discussed PFM cash flow analysis:
Their goal is to identify the daily liquidity funds and short term operating funds based on the Town's operating guidelines and investment policies. The goal is to see how much of the Town's money is needed to be kept in daily liquidity funds, thirty to sixty days, to determine what types of rates may be appropriate.

Discussed short term and longer term portfolios.

All of their portfolios are customized and managed on an individual basis. The portfolio is customized based on the Town's investment policies.

Mr. Brown asked PFM: Are the prime series and governmental money market funds going to be a part of our portfolio?

PFM replied: It is up to you, if you would like them for liquidity purposes. Also what is unique about these two funds, we are the only ones that have these funds.

Chairman Andrews asked PFM: If you are given money to manage for the Town, as I understand you will have your own due diligence process where you would work with the Town, and the Town would give you their cash flow projection. Could you work out something that will be satisfactory to the finance department on deliverables?

PFM replied: Yes we have a ten step treasury management program and we will inform all of your staff. Which includes reviewing the investment policies, making some recommendations on policy to you as a committee, going through your cash flow analysis, and understanding the risk and reward factor of every type of investment. Therefore, before anything is purchased, staff is fully aware and fully in agreement for each investment. Our personal goal is to keep our customers as informed as possible.

PFM: PFM's Composite Return Performance. Returns have been very positive over the last three years and have been in the top percentile.

Chairman Andrews asked: Would we be in a fund to fund and/or would we be in a composite fund? Also would we be in an individually structured portfolio for the Town of Palm Beach?

PFM: Your portfolios will be individually managed and you will own those securities and they will be delivered to your third party, your custodian and they will hold all of your securities, PFM is a firm that does not want to hold any securities or cash.

Mr. Brown asked PFM: Do you have a page on fees?

PFM replied: Page 32, our fees are very aggressive and suitable to you. It shows our return is the highest, and after fees, it shows a high net return in total dollars.

Chairman Andrews asked the committee: Are there any more questions for PFM?

There were none

Chairman Andrews asked Ms. Struder: Do you have any questions from an operational standpoint?

Ms. Struder replied: Not at this time.

Chairman Andrews asked PFM: Do you have any final comments?

PFM replied: It was a pleasure to be here today and I hope you understand what we do from an investment standpoint. We are constantly here in Palm Beach. We work for the Palm Beach County School Board, The City of West Palm Beach and the City of Palm Beach Gardens. We are always here and we would like to protect your assets for you.

Chairman Andrews: Speaking on behalf of the Investment Advisory Committee, thank you for a great presentation, you did an excellent job. We are in the position of reviewing our options we may decide to use all ten million or we may decide to put in even more. It depends on the needs of the finance department.

2) EVERGREEN INVESTMENTS

Chairman Andrews: Informed Evergreen of what the town is looking for in a financial partner**.** He gave them an overview of how much money the Town of

Palm Beach has in their money market account.

Evergreen introduced their staff and described their experience. Anne Brady, Director of Evergreen Investments, Travis Meldau, Senior Portfolio Manager and Scott Stitcher VP, Client Management made the presentation.

Anne Brady: Informed the committee on some background information about Evergreen:

1. Very large asset manager with 175 billion dollars in assets under management.
2. Subsidiary of Wachovia Bank which is a part of the Wells Fargo Corporation.
3. Two thirds of assets are fixed income and they have the most breadth and depth of capability.
4. One of the ten largest asset managers on the short end of the yield curve in the United States.
5. Evergreen is best in execution and we never buy from our own inventory.
6. Tattersall Group is a team within Evergreen that manages all of our institutional fixed income taxable portfolios.
7. Evergreen has eight credit analyst with support, that reviews six hundred credits and a credit buy list that is updated every single day.

Mr. Meldau: Discussed Evergreen Strategy.

Chairman Andrews asked Mr. Meldau: Are you proposing that the Town of Palm Beach put our money into your limited duration fund or are you going to design a portfolio just for the Town?

Mr. Meldau replied: It would be tailored specifically for the Town.

Mr. Meldau: Discussed the Limited Duration Portfolios

Chairman Andrews asked Mr. Meldau: If you where managing twenty plus million dollars for us and you bought a bond would you buy a larger block and allocate part to us?

Mr. Meldau: One of the benefits is economies of scale with a bid that large.

Mr. Meldau: Discussed a Model Portfolio (tab 4). The portfolio was designed for the Town of the Palm Beach.

Chairman Andrews asked Evergreen: What are your fees?

Anne Brady replied: Fees for the limited duration strategy are a little bit more expensive than enhanced cash and depending where you end up we might have some wiggle room there. We discounted our fees by 30% on limited duration but the more assets we have under management, the lower the basis points are per million.

Chairman Andrews asked Ms. Brady: Does that include the money market and lets say something in the middle, some additional investments? What would that do to the rate?

Ms. Brady replied: That is a great question and I will have to run it buy our fee committee.

Chairman Andrews replied: Can you show us in your booklet where your fees are located?

Mr. Panfel replied: Your fees are more expensive than the others.

Ms. Brady: Yes our fees are usually not the lowest fees. That is a business decision we have made because we think that the yield net of fees is more important. Our philosophy is that we offer a very customized service, we have a very deep credit research group, we know what we are doing and we have a proven track record with alpha. We retain clients over time and we have excelled over the bench mark and it is kind of ”you get what you pay for.” You also get a dedicated client manager and we are here for you and we try to be proactive.

Chairman Andrews asked Ms. Brady : Would our twenty million dollars get lost in your 158 billion dollars?

Ms. Brady replied: Absolutely not. That would not happen because of the low ratio of portfolio managers to clients.

Mr. Panfel asked Ms. Brady: Wasn’t there talk about a merger of Evergreen with Wells Fargo?

Ms. Brady replied: We are now a Wells Fargo Corporation and the money market funds in November will be merged.

Chairman Andrews asked the committee: Does anyone have any questions for Evergreen?

Ms. Struder replied: On the governmental money market fund that we are in, do you have any idea where you expect the interest rates to go for that fund? Have we reached bottom do you think?

Ms. Brady: Well, when the interest rates are between one and a quarter you can not go much lower. I can not predict where the interest rates are going to go.

Chairman Andrews: On behalf of the committee thank you for coming and we think you did an excellent presentation.

Ms. Brady: Thank you and we look forward to continue working with you and we have our fingers crossed. Thank you and good luck with the rest of your day.

Chairman Andrews replied: Thank you.

3) MBIA ASSET MANAGEMENT

Chairman Andrews informed MBIA of what the town is looking for in an financial partner**.** He gave them an overview of how much money the Town of Palm Beach has in the money market account.

MBIA introduced their staff and their experience. Thomas N. Tight, Director, Miriam Cleary, Regional Director and John F. Grady III, CTP Regional Director were in attendance.

Ms. Cleary: Gave some background information on MBIA.

1. All of our employees have been in the field for several years.
2. MBIA was established as an asset manager in 1990.
3. We currently manage 43 billion dollars of funds.
4. We have 122 professionals assigned to strictly the asset management business.
5. We are one of the largest public fund managers which is truly a niche.
6. We do customized portfolio funds and manage them to AAA ratings.
7. We manage 17 local government investment pools, in which we manage 20 billion dollars for over 600 participants.

Mr. Tight discussed MBIA Philosophy:

1. Safety of principal.
2. Liquidity of assets.
3. Return on assets.
4.. Active portfolio management.
5. Long term view on security selection and asset allocation

Mr. Tight discussed the MBIA Risk Management focus on:

1. Low risk asset allocation and duration strategies.
2. Option analysis for prepayment and call risk.
3. Review and analysis of individual credit risk.

Chairman Andrews asked Mr. Tight: Will the Town have an individual portfolio or will it be in a composite pool?

Mr. Tight replied: It is going to be in a separately managed portfolio We view our self as an extension of your staff, therefore we will be in constant communication with your staff, because we feel that communication is key. We will build a customized portfolio to fit your risk tolerances, needs, cash flows and policies.

Mr. Grady: Discussed how MBIA would design a customized portfolio for the

Town.

1. We use a six phase program based on the Town's risk factors:
    - A. Investment Strategy
    - B. Investment Committee
    - C. Investment Policy
    - D. Market Conditions
    - E. Risk Tolerance
    - F. Cash Flow Analysis

Chairman Andrews asked Mr. Grady: Does MBIA have a problem using the current custodial arrangement that we have in place?

Mr. Grady replied: No absolutely not. We have no problem with your current arrangement.

Chairman Andrews: As long as it is a legitimate third party?

Mr. Grady: All of our portfolios are managed with assets that are held by a third party custodian.

Mr. Grady: Discussed MBIA cash flow analysis.

Chairman Andrew asked Mr. Grady: What are your fees?

Mr. Grady: We would propose eight basis points on the first ten million, then seven on any assets above 10 million. Also MBIA would not charge the Town for any assets that are in money market funds and we would assist in the selection of those money market accounts that would be needed for liquidity.

Chairman Andrews asked the committee: Are there any more questions for MBIA?

The committee replied: We have none.

Chairman Andrews asked the MBIA: Do you have any additional information you would like to tell us?

Mr. Grady: We did not have enough time to discuss the entire handout so please look through the entire handout. We look forward to working with you and hopefully we can start an investment program for the Town.

Chairman Andrews: Speaking for the committee and the Town of Palm Beach Finance Department we thank you for the professional presentation you have given us. We will give you the utmost due diligence and we are looking for the best fit and again you have done a nice presentation showing us how MBIA will be the proper fit at this particular time. Thank you again.

Chairman Andrew took a break at 2:44 and continued at 2:49.

VII. DISCUSSION REGARDING PRESENTATIONS

Chairman Andrews asked the committee: Rank each presentation in order from favorite to least favorite. Then we will take a vote. We will start with the members with the least amount of seniority. Is that Ok?

Committee replied: Yes

1. Mr. Mikus
   First of all, I would like say that all three presentations where great. But the most obvious difference was the fees. PFM had the lowest fees and the best presentation. If I had to rank them I would rank them PFM , MBIA then Evergreen. I feel the fees were critical in my decision because they all offered similar services.

2. Mr. Panfel
   I was impressed by PFM, I thought they did a good job. And I was impressed with MBIA even more, I was not impressed with Evergreen at all therefore, I would rank them PFM, MBIA and Evergreen.

3. Mr. Brown:
   I agree that MBIA and PFM impressed me the most. I think it was close between the two of them. I was not impressed with Evergreen mostly because of their fees and partly due to the corporate upset within the company that could impact them as time goes on. Also I am not sure what is going on with MBIA and their other business? They clearly have some challenges outside this particular element of their business. PFM seems to be a dedicated to this kind of management in particular, therefore, I would put PFM first but I also like MBIA in a very close second and Evergreen third.

4. Mr. Hennessy
   Well listening to all of you, I would agree to put PFM first, MBIA second and Evergreen third. Also if I was going to make a choice I would choose two of them and have a horse race for the first 18 months and see which one would live up to doing what they said they would do.

Chairman Andrews: That is a good point. That is why I informed all of them that we could use one or none of them.
I agreed with everybody also I like PFM and MBIA but Evergreen fees were kind of high. We are currently in their money market account right now and they are not sure where we are going to fit but they will work with us. I do not think they where as in tune with us as the others and in my opinion Evergreen has more of a retail orientation and that is why they have the higher fees.

Chairman Andrews asked each committee member: Can you give me your first, second and third presentation please

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Mr. Mikus: PFM, MBIA, Evergreen
Mr. Panfel: PFM, MBIA, Evergreen
Mr. Brown: PFM, MBIA, Evergreen
Mr. Hennessy: PFM, MBIA, Evergreen
Chairman Andrews: PFM, MBIA, Evergreen, I feel we would be comfortable with either one, MBIA or PFM.

Mr. Mikus asked Ms. Struder: Would it be difficult to work with two advisors? I think it is a good idea to hire two and have a horse race for a couple of months. Would it be worth it?

Ms. Struder replied: It is hard to tell. For their investment services they could compete in the horse race like Mr. Hennssy recommended, one would do the cash flow analysis and the other would do something else.

Chairman Andrews: I think we should start with one then add another.

Mr. Panfel asked Ms. Studer: Do you need help with investments and how they relate to GASB?

Ms. Struder replied: Currently I do not but when they start investing in other types of funds I might.

Chairman Andrews asked Ms. Struder: How about we put a proposal on the table that we allocate 10 million dollars? Is that what you are talking about Ms. Struder because you have some room before you reach sixty million?

Ms. Struder replied: I think you should start with ten million and see what the cash flow analysis is going to produce before you make your final decision on which manager you put the money with. You can start with ten million, but based on all of their proposals, there would be a lot of work up until you decide how much to invest. They would meet with us and go through the investment policy and cash flow before we put any of the Town's money with them. And that process would take about a month or a month and a half to complete.

Ms Struder asked Chairman Andrews: Would you want them to come back to the Committee and show their results?

Chairman Andrews replied: I think you have a good idea of what our thoughts are and we would be happy with any combination of the two top firms and your work load.

Chairman Andrews asked Ms. Struder: How would you like us to proceed because we are interested in two?

Ms. Struder replied: I would prefer you make a motion to approve one to start with.

Mr. Panfel: I move to start with PFM.
Mr. Hennessy seconded the motion.

The motion was carried unanimously.

Chairman Andrews asked the Committee: Is there any more discussion on the presentations?
Hearing none.

VIII. INVESTMENT REPORT.

Chairman Andrews: Since the beginning of the year we have gotten about a million dollars from Florida League of Cities and two hundred and fifty from Evergreen. This is the first time in a couple of months where our diversification has helped the town make some money above money market rates, which is good.

Chairman Andrews: Any other thoughts on the investment report?

IX. OPEB TRUST CASH FLOW AND INVESTMENT OF SURPLUS FUNDS

There was no discussion on the cash flow and investment of surplus fund.

X. COMMODITY FUND FOR OPEB TRUST

Ms Struder: At the last meeting you wanted to know how much money was in the OPEB fund. Right now there is about one million that can be invested of the 2.3 million in the Evergreen account, these funds could be transferred to the Prime Buchholz funds to invest in commodities or a new fund.

Chairman Andrews replied: I do not think we wanted to invest any more in the commodities. I think Mr. Higman had something laid out and we where going to follow that. What does the committee feel?

Mr. Mikus: I think we are all concerned about the inflation impact on governmental funds. I think we should follow up with Prime Buchholz.

Chairman Andrews replied: That is a good idea

IX. EXPIRING TERMS OF COMMITTEE MEMBERS

Chairman Andrews: We have two committee members that are leaving us to go onto better and bigger glories. I have gone out to ask if any body is interested. And I have received no response.

Ms. Struder replied: Today is the deadline to put in an application.

Mr. Brown: I recommend Harold Carrigen, he has 30 years experience with Meryl Lynch. He applied last term.

Ms. Struder replied: I will have to extend the application deadline.

Mr. Mikus: You can try Michael Boykin, he lives on the north end of the island, very nice gentleman.

Mr. Hennessy: It has been nice working with all of you.

Chairman Andrews replied: On behalf of the committee I would like to say thank you for all of your efforts and because of you, the Town of Palm Beach is a better place to raise our families.

XII. NEXT MEETING DATE

The next meeting date was not decided.

XIII. ANY OTHER MATTERS

There are no other matter to discuss at this time.

XIV. ADJOURNMENT

Mr. Brown made the motion to adjourn the meting
Mr. Hennessy seconded the motion
The motion was carried unanimously and the meeting was adjourned at 3:30 p.m.