MINUTES OF THE INVESTMENT ADVISORY COMMITTEE
March 1, 2006

I. CALL TO ORDER AND ROLL CALL

Chair Andrews called the Investment Advisory Committee Meeting of March 1, 2006 to order at 2:00 p.m. In attendance were:

Investment Advisory Committee	**Finance Staff**
Chair Michael F. Andrews	Jane Struder, Finance Director
Stephen L. Brown	Cheryl Somers, Assistant Finance Director
Edward L. Hennessy, Jr.	Betty Cotton, Office Assistant
Albert D. Hutzler, III	
Bernard R. Panfel	

II. PLEDGE OF ALLEGIANCE

Chair Andrews led the pledge of allegiance.

III. APPROVAL OF AGENDA

Chair Andrews called for approval of the agenda. Mr. Brown moved for approval, Mr. Hutzler seconded, motion passed unanimously.

IV. COMMUNICATIONS FROM CITIZENS (3 MINUTE LIMIT PLEASE)

No citizens attended.

V. APPROVAL OF MINUTES FROM THE JANUARY 6, 2006 MEETING

Mr. Brown moved for approval, Mr. Hutzler seconded, Motion passed unanimously.

VI. MONTHLY INVESTMENT REPORT

Cheryl Somers reported this is the Town's Monthly Investment Report for January 2006. The Town's investment balance is approximately $115,000,000. Fiscal year interest income is $1,318,000. The comparison between the Florida League of Cities and SBA returns was reconciled since the last meeting. In her calculation, she had included an additional deposit on the front end into the calculation so it was throwing off the difference probably by a $200,000. When the difference was presented in November, it was approximately a negative $280,000. By the end of December after recalculating after the reconciliation, there was a negative return of $52,000. Now, on this report through the end of January in comparing the Florida League returns with the SBA returns, if the money had been invested with SBA that is currently in the Florida League, we would have earned an additional $93,446. So that's all been reconciled and Darlene Malaney is submitting on a monthly basis the calculation of that so her numbers will be used for that.

Ms. Struder said a little more detail was also included in the report.

Mr. Brown said he wants to make sure he understood what Ms. Somers said. Previously, Ms. Somers was doing the calculation and had Ms. Malaney check it this time because of the committee concerns and now he thinks he heard Ms. Somers say that in the future, Ms. Malaney is going to be doing the calculations. He asked if the Town staff is going to be checking the calculations?

Ms. Somers said Ms. Malaney will be doing her calculations and those calculations must reconcile with the Finance staff's report.

Mr. Brown said he just wanted to be sure it isn't a situation where one person is doing the calculation and a check and balance is done between the two groups.

Chair Andrews said the Committee is considering the Town's numbers in the report.

Ms. Struder said a section has been added to the report that outlines where the difference comes from and it shows each year and how much difference occurred in each of the years. The Finance staff felt the breakdown of how that number was derived would be helpful to the committee to show what the FMIvT returns have been versus SBA.

Mr. Hutzler said the SBA return in 2005 was as high as 3.23%. That number seems a little high.

Chair Andrews asked what is it currently?

Ms. Struder said today it was 4.46.

Mr. Hutzler asked is that an average? Projected on what period of time, a 12 month period?

Ms. Somers said that's projected annualized. She said the 3.27 should be the average for the 12 months in the calendar year.

Mr. Hutzler said that's why it's so high. So you apply that number and come up with 1.9 million.

Ms. Somers said the FMIvT December balance numbers in that first column are estimates because the balances fluctuate during the year. If those numbers are multiplied by the percentages in the second columns, you will not come up with the SBA interest earnings. She had to come up with an average balance as it existed for the year.

Ms. Struder said there's a very detailed spreadsheet that Ms. Malaney has prepared that lists every month the differences and instead of including the whole spreadsheet which would make it more confusing, it is summarized here. It doesn't calculate across but the numbers were taken from the spreadsheet and averages used.

Ms. Somers said the SBA return percentage numbers are actual numbers. The average for each of the calendar years and the SBA interest earnings numbers are the numbers used to come up with the calculation $93,446.

Chair Andrews asked in the Town's opinion if they keep going as in the last quarter of 2005 and the first quarter of 2006, will the investments continue to have negative returns?

Ms. Struder said if the yields are as they have been, it's quite possible.

Mr. Brown asked the Chairman if he means if the short rates keep going up will we keep having negative returns?

Chair Andrews said yes if nothing changes…

Mr. Brown asked if he means if there is a continual increase in short term rates or if the short rates stay stabilized?

Chair Andrews said if the short rate would stabilize, he thinks the numbers would look much better.

Mr. Brown said he agrees with that but the trouble is they haven't stabilized.

Chair Andrews said he is not sure from the latest information he has heard whether they are going to go up or down in the foreseeable future. He doesn't want to be an economist but he hears pressure on some of the indicators that we are going to have a tougher time but he hasn't heard anyone say that the next take is down.

Ms. Somers said that FLC SBA difference, the reconciled December number was a negative $52,479 and the January difference is a negative $93,446 so it became $40,000 more negative but did receive a total positive return from the Florida League of Cities of $64,000 for January. So even receiving the positive $64,000, the returns became $40,000 more negative in the comparison because the SBA is doing so well.

VII. CONSIDERATION OF OTHER INVESTMENT OPTIONS

Chair Andrews opened this up for discussion. He said the committee has decided on a certain approach and have tapped to that discipline that was stated a number of months ago. He asked for discussion or thoughts from the committee on whether they would like to make any changes to the current Investment Advisory Committee position?

Mr. Panfel asked does it behoove the committee to change the position at this point? He feels that the rates will continue to climb with the new Chairman.

Mr. Hutzler said in the short rates, the word is that they probably will continue to climb. However, there are some analysts at some of the investment houses who have lowered their estimates on the long end and feel that long end rates will probably stay stable or maybe go up less than originally projected a year ago. That probably means that there still is an excess of capital being earned, received, whatever, overseas that has been reinvested in the United States which is basically they are reinvesting it in the long end of the treasury market, and as a result of that, have kept rates down. That's what he read and it seems that is what's happening since the 30 year bond currently which is 4.51 is lower than the 10 year which is 4.55. So there's a big question whether the rates are going to up precipitously in the short run. There still is the concern about inflation, there still is the concern about what the Federal Reserve may do to fight inflation, and there still is tremendous concern about our trade balance of payments which has gone from a surplus several years ago to a big deficit. The government may be forced to deal with that at some point. At this point, based on what was discussed at the last meeting, this is still a pretty good direction to go but he would not like to close down the longer investments if they are going to remain pretty stable.

Mr. Brown said at a point a year ago the committee was pretty sure of the direction short rates were going because the Fed had signaled where they were going. In looking at the next year, it's pretty hard to predict where short rates are going. He doesn't think we have the guidance that we used to have or the confidence that the economy a year from now is going to be stronger or weaker than it is today. So there is uncertainty about the future of interest rates. With 75% of the assets in short term, he feels pretty comfortable with that. The Town may lose some more money in the short run if the Fed continues to ratchet up. He's not sure that's going to be true over the full year. There's a good chance that rates will stabilize and it will be hard to get out and get in again at just the right time.

Chair Andrews stated he agrees with what the learned members of this committee have said. Mr. Hutzler mentioned that he does not think rates will go up precipitously**.** He thinks the committee has been well prepared and has done a good job in diversifying the assets. Sometimes when you diversify, you get the advantages of diversification and sometimes you don't but the Town is pretty well positioned overall unless the committee has a strong reason to change anything and it would be a major change and cause some issues that we would have to revisit. He suggested that the investments remain where they are, continuously monitor the situation, and be prepared to act accordingly if situations arise that would make it necessary for this Board to offer suggestions other than what would be contrary to the policy which has already been established.

Mr. Hutzler asked in looking at the 1 – 3 year high quality FMIvT bond fund, it seems that there's an unrealized loss of $3,000,000. His guess is that when taking into account the income, there probably is not a loss at all. Is that correct? Is the actual total investment value declining or increasing? Is that included in these numbers?

Mr. Brown said it should be included in those total return numbers.

Mr. Hutzler said he thinks that's right, he just wanted to make sure.

Mr. Brown said there are months where they have had negative returns in total but not in January.

Chair Andrews asked when do the February figures come in, around the 20^{th}?

Ms. Struder said yes. She reported she will also be attending a Florida League of Cities Investment Advisory Committee meeting next Friday so if the committee would like her to ask them any specific questions, please let her know.

Mr. Brown said one question he would have for them is whether there has been any change in the interest rate outlook for 2006 or the economy or anything else compared to what they said when they were here at the last meeting?

Chair Andrews said he has actually noticed that they have done fairly well against the benchmarks especially over the short term so if there is any change at all in the economy, the Town is pretty well positioned to take advantage. He can't see anything out there that says the economy is going to heat up.

Mr. Brown said he agrees but he thinks the Fed may have another couple of increases left and that's going to cause some pain in the short term because they do have such an impact on short term rates. Again, it's awfully hard to time these things perfectly but he agrees with the Chairman on feeling comfortable for the intermediate and the longer term. He asked Ms. Struder how long the T bill has yet to mature?

Ms. Struder said the six months T bills were purchased on December 21^{st} so they will mature in June.

Chair Andrews said so the investments are still ahead of the SBA, what's the SBA rate mentioned?

Ms. Struder said 4.46.

Mr. Hennessy said he thought in the minutes of the last meeting more T bills were going to be purchased.

Ms. Struder said the motion was to purchase more Florida League of Cities investments, \$3,000,000 in the Intermediate and \$2,000,000 in the 1 – 3 year.

VIII. TERM EXPIRATION MAY 2006 OF TWO BOARD MEMBERS (HUTZLER, PANFEL)

Chair Andrews said there needs to be some discussion because there has been an indication from the members unofficially. Have applications been submitted or has the Town received information as to the disposition of the two current Board members?

Ms. Struder stated she received a letter of resignation from Mr. Hutzler from this Board and Mr. Panfel's retirement….

Mr. Panfel said he plans on reapplying.

Ms. Struder stated a notice will be put in the paper for these positions in the next few days and it will go to Council in May to pick two new members

Mr. Brown asked Mr. Hutzler if he felt comfortable telling his reasons for his resignation?

Mr. Hutzler said he pretty well spelled it out in the letter but he will briefly give his reasons for this. He has great concerns about the constraints that he has on his voting ability on this committee and feels that the Town and committee need a full time participant versus one who has constraints because of so called perceived conflicts of interest. As a result of that, he thinks it would be best to get a full time member who will be able to participate fully. He's certainly available for consultation or anything and would serve as a non voting member if the Town so chooses.

Chair Andrews said in the past Mr. Hutzler has participated fully in the discussions. He has just declined to vote on the issues. As an individual, not acting as the Chairman, he would be happy to see Mr. Hutzler maintain that same position on the Board and he can abstain from voting if he would like to but the committee appreciates his input and his dealings as an investment advisory committee member.

Mr. Brown agreed with that. Based on what Mr. Hutzler said, it's the voting that concerns him and whether he stays on the Board or not, he has a background that is very valuable to this Board. It would be a shame to lose that if there is a way to satisfy his concerns at the same time.

Ms. Struder said at one time adding alternate members was an option. She will request that the Council amend the ordinance if the committee wishes.

Mr. Hennessy said he thought we voted that down.

Ms. Struder said that is correct.

Mr. Brown asked if someone can sit in on the Board meetings in a consultative role? Is there anything wrong with that?

Mr. Hutzler said yes.

Chair Andrews replied no, it's public. He said he would ask Mr. Hutzler to withdraw his resignation and leave it to the Town Council to vote on the candidates with the consideration that Mr. Hutzler may have some constraints on his ability to cast votes. He asked Mr. Hutzler if he would consider something like that?

Mr. Hutzler replied he would.

Chair Andrews asked if he could rephrase or rescind the letter received.

Mr. Hutzler said he will fill out the application if the Board wishes but he thinks it's up to the Town Council as to how it is to be handled.

Chair Andrews said he thinks that's perfectly fair.

Mr. Hutzler said the Town Council has to consider what would be best for the Town. That's not a decision that he should be making. The Town is well aware of what the constraints are on his membership on this committee because of certain communication and he thinks that would be the best way to handle it.

Mr. Brown said he's not sure that's the best solution. He's a little concerned when there's five members and one generally doesn't vote. That doesn't feel as good as he would like. He thinks all the members should be able to vote most of the time. If there is an occasional situation when someone can't vote, that's understandable, but if it's most of the time, that's a different situation. That kind of puts us in a little bit of a bind as a committee. So maybe the alternate is the solution but he would like both the committee and Mr. Hutzler to think about whether the committee could get a new member who could vote but still be able to have Mr. Hutzler here in an advisory capacity for all of his input.

Chair Andrews said one of the conditions of having an advisory person is the committee has already decided not to have alternates but having an advisory person that does not vote…

Ms. Struder said she would have to check with the Town Attorney.

Mr. Hutzler said he has always been a believer that if you are going to participate, you have to spend 100% of your effort. This may not be what everybody wants to hear but he agrees with Mr. Brown's position that there should be someone who is full time and able to vote on the committee. That was the reason for the letter of resignation. This committee is too important to the Town of Palm Beach and being a resident of the Town of Palm Beach, he would feel the need to have a full time committee who is capable of voting on some very important issues which is the management of the assets of the Town. That doesn't mean he couldn't serve on other committees that are not considered conflicts. As much as he would like to stay a member of this committee, he feels that the Town has the responsibility to get somebody who can properly fulfill the definitions of a member of this committee. Therefore, as much as he would like to rescind the letter or put in an application, he feels much more comfortable in his own mind for the Town of Palm Beach to submit that letter to the Town Council. If the Council has other thoughts on this, he is certainly open to acting in an advisory position and attend meetings.

Mr. Hennessy said he agrees with Mr. Hutzler 100% because if he was in that position, he would feel exactly as Mr. Hutzler does.

Mr. Brown said it is a difficult situation in terms of committee membership in general, in that, the people that are most involved on a day to day basis, on an active basis, in the daily investment world here in Palm Beach are likely to have conflicts. Those who do not have conflicts aren't involved on a day to day basis in the investment world which is most helpful to our deliberations. He is sure we will get some good new members but he doubts that they will have the day to day interaction with the investment world that Mr. Hutzler has. That's why he would like at least the consideration given to the possibility of an advisory role.

Mr. Hutzler said he thinks also this committee is relatively new and is still going through some growing pains and understanding what the constraints are in our world today particularly after the events of September 11 and more importantly the accounting and research scandals that followed that within a couple of months. Even though he agrees with Mr. Brown, there are people who live here and work here in Palm Beach who are in the investment world who may not have the conflicts that he has. He gave that some consideration just for the reasons that Mr. Brown mentioned. He thinks this is an important issue for the committee itself. The committee has to consider this because of the nature of the type of investment that is being done by this committee. He gave that a lot of thought before he wrote the letter. He really feels the way he felt before that it's very important to have somebody that can devote full time and have full voting authority.

Mr. Hennessy asked Mr. Hutzler what are the conflicts that he has?

Mr. Hutzler said his firm is Wachovia Securities. Wachovia Securities is not a subsidiary of Wachovia Bank. Wachovia Securities is a separate corporation owned 62% by Wachovia Bank and 38% by Prudential Financial, an outgrowth of the old Prudential Securities which merged with Wachovia Centers. However, within the whole context of this, there is still a perceived conflict with regard to the compliance people who feel that there is a conflict as far as the bank is concerned with the bank being a player in the treasury market, there can be a perceived conflict. At this stage, he wants to eliminate that perceived conflict particularly. He noticed on the report there are some Wachovia ownerships within here. He thinks that, particularly in this Town, it's important to be kept very much above board.

Chair Andrews said he thinks it's safe to say that the committee would be pleased if Mr. Hutzler would have some association with the committee on an ongoing basis if possible but the committee certainly understands the things that he has to do because of the conflicts of interest with his employer and he also understands that it's an issue that the Town Council will discuss and the committee really does not have any input into it.

Ms. Struder said she will talk to the Town Attorney and ask about the advisory member idea and see what he has to say and how to go about implementing something like that.

Chair Andrews asked if there is any more discussion on Item VII which is the expiration of Mr. Hutzler's and Mr. Panfel's term for the Investment Advisory Committee?

Mr. Brown said in the meantime, advertising will have to start for one new voting member.

Ms. Struder said correct but the applications will come in and the Council will vote on both positions even if Mr. Panfel puts his hat back into the ring, they vote for both positions.

Mr. Brown said he is saying that public advertising will have to be done now.

Mr. Hutzler said the Council could reject somebody even though you are a member.

Ms. Struder said next year, the other three positions are up.

IX. NEXT MEETING DATE

Chair Andrews asked Ms. Struder for her thoughts.

Ms. Struder said the committee has met in January and March. The requirement is to have four meetings per year. She asked if the committee wished to meet one more time before some members go back up north?

Mr. Brown said yes and maybe have a meeting next fall.

Chair Andrews said he would feel more comfortable if another meeting was held. An additional meeting can be held anytime. He suggested mid April for the next meeting?

Ms. Struder said it depends on when the members go home.

Mr. Panfel said last year a meeting was held in July.

Chair Andrews said that was a telephonic meeting.

Ms. Struder said we still can have one in the summer.

Mr. Hutzler said he is still a member of the committee until May so he will be here in April. He will not be here in the summer.

Chair Andrews asked if it's possible in the first two weeks of April.

Ms. Struder said she will send some dates based on the availability of the room.

Mr. Brown said if this is going to be the last meeting possibly until next fall and maybe one in the summer, should the Investment Manager attend? Maybe it will depend upon what Ms. Struder hears at the next Florida League of Cities meeting. If he thinks things have changed significantly since his last presentation, maybe the committee would want to hear about that.

Ms. Struder said she will get back to the committee after that meeting.

X. ANY OTHER MATTERS

There were no other matters for discussion.

XI. ADJOURNMENT

Mr. Hennessy made the motion for adjournment, Mr. Brown seconded, motion passed unanimously.