TOWN OF PALM BEACH

MINUTES OF THE INVESTMENT ADVISORY COMMITTEE MEETING HELD ON FEBUARY 18, 2010 AT 2:00 P.M. AT SOUTH FIRE-RESCUE STATION 2185 SOUTH OCEAN BOULEVARD

I. CALL TO ORDER AND ROLL CALL

The Investment Advisory Committee Meeting was called to order on February 18, 2010 at 2:00 P.M.

<u>ATTENDEES:</u>

Chairman Michael F. Andrews
William John Mikus
Dr. Heinz L. Gundlach
Benton P. Bohannon
Bernard R. Panfel
David Jang, CTP, PFM
Steven Alexander CTP, CGFO, Managing Director, PFM
Sean Higman, Prime Buchholz
John Prime, Prime Buchholz
Karen Temme, Risk Management, Manager
Karen Neilson, Wells Fargo Bank
Jane Struder, Finance Director
Cheryl Somers, Assistant Finance Director
Melissa Morgan, Recording Secretary

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 Mr. Mikus

Motion seconded by Mr. Bohannon
Motion carried unanimously

IV. COMMUNICATION FROM CITIZENS – 3 MINUTES LIMIT PLEASE

There was none.

V. APPROVAL OF MINUTES

1. MINUTES OF THE INVESMENT ADVISORY COMMITTEE MEETING HELD ON OCTOBER 27, 2009.

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

2. MINUTES OF THE INVESTMENT ADVISORY COMMITTEE MEETING HELD ON DECEMBER 7, 2009.

   Motion by Mr. Chairman Andrews for approval of the Minutes. Motion seconded by Mr. Panfel. Motion carried unanimously.

VI. FIDUCIARY LIBILITY POLICY RENEWAL

Karen Temme and Pam Neilson discussed the handout: The "Town of Palm Beach Fiduciary Policy Renewal for Coverage Period March 5, 2010 – March 5, 2011".

Mrs. Temme recommended that Town's staff renew with RLI Company. The coverage options are listed in the memorandum attached.

Dr. Gundlach asked Mrs. Temme: Have you interviewed other companies?

Mrs. Temme replied to Dr. Gundlach: Yes, RLI had the lowest bid.

Mr. Bohannon asked Mrs. Temme: Are they our current carrier?

Mrs. Temme replied to Mr. Bohannon: No, Federal Insurance Company which is a Chub company which is a little more expensive than the current carrier.

Dr. Gundlach asked Mrs. Temme: Do you think two million is enough coverage for the Town?

Mrs. Temme replied to Dr. Gundlach: Yes I do, this is not for the Town it is for this Fiduciary Board.

Dr. Gundlach asked Mrs. Temme: Is this needed?

Mrs. Temme replied to Dr. Gundlach: Yes, you need insurance coverage. I recommend two million but the amount is up to the Board.

Chairman Andrews asked Mrs. Temme: Does any of the other boards have this coverage? And if yes how much do they have?

Mrs. Temme replied to Chairman Andrews: Yes they do, and the amount is based on the assets and the limits.

Chairman Andrews asked the Board: Do you have any questions for Mrs. Temme?

Mr. Panfel replied: I have faith in our Risk Manager and I have confidence she knows what she is doing and I will accept her recommendation.

Mrs. Temme replied to Mr. Panfel: Thank you.

Chairman Andrews replied Mrs. Temme: I do not have any questions and I would like to express confidence in her decision. We have been working with you for about a year putting this together and I feel we are at a much better position now than last year.

Motion to approve the Risk Manager's recommendation of RLI for coverage of two million of limited liability coverage for $5,731.00.

The motion was made by Mr. Panfel.
Motion seconded by Dr. Gundlach.
The motion was carried unanimously.

VII. PRIME BUCHHOLZ

1. PERFORMANCE UPDATE

Mr. Prime: Discussed handout: "Market Overview"

Chairman Andrews asked Mr. Prime: What is the definition of emerging market stock?

Mr. Prime replied to Chairman Andrews: Per capita GPD growth of about seventy five hundred and eight thousand per capita is the definition.

Chairman Andrews asked Mr. Prime: Has the foreign markets gotten better with coming up with a standardization of accounting practices for taxes or for profit and loss?

Mr. Prime: Well before Enron, the argument used to be that the United States accounting standards were better than the international.

Mr. Higman discussed “Quarterly Investment Report”

Chairman Andrews asked Mr. Higman: Are the Guggenheim investments open for redemptions?

Mr. Higman replied: No, they are not open and they are doing better. From our standpoint it is OK. They want to make sure before opening the gate that the people staying in are not at a disadvantage.

Chairman Andrews asked Mr. Higman: If Guggenheim continues to improve and we want to revaluate our options to get out, are you going to revaluate or are we out?

Mr. Higman replied to Chairman Andrews: We are going to continually monitor them.

Mr. Mikus asked Mr. Higman: Regarding real estate, RIETS you have fresh money and you wanted to increase your allocation to real estate, this is clearly not the one you would want for us because they are overvalued. Would you pick Guggenheim again?

Mr. Higman replied to Mr. Mikus: We are torn internally with the structure of the product. The next one would be REITS, but we are going to try a more global market. Therefore, we would want to allocate to a more global real estate firm.

Mr. Prime replied to Mr. Mikus: We would probably balance public reeds on a global basis with private. The thing about Guggenheim it was supposed to be more liquid, but the way the market is, it’s not liquid which was the big problem.

Chairman Andrews asked Mr. Higman: Just looking at the overall market value of the portfolio as of December, how much money went into the fund? I am just trying to figure out how much we have to go?

Mr. Higman replied to Chairman Andrews: It is about $16 Million so we are down about $ 2 Million from are original. As of June 2007 we were down 5.5%.

Mr. Prime replied to Chairman Andrews: We should put in a cash flow table.

Chairman Andrews replied to Mr. Prime: Yes, that would be helpful because I can see where we are to the eight percent bogie and how much more would we need until we get to the flat line.

Dr. Gundlach asked Mr. Higman: I am totally against these blind investments. You were asked to do it this way a few years ago, but can't you make a proposal where you invest with complete transparency, like Goldsman Sachs and Northern Trust?

Mr. Higman replied to Dr. Gundlach: First we would not agree that there is not complete transparency. The answer is no, we do not manage money we manage managers and we believe with John's (who started the firm) 21 year investment history I based on the premise that asset allocation drives returns and volatility over time.

Mr. Prime replied to Dr. Gundlach: Let's discuss the positive and negative. The positive is that there is transparency here, you might not agree. You can look into any one of these portfolios and you will see it.

Dr. Gundlach replied to Mr. Prime: I would like to see it for myself because if I am going to be responsible for something I would like to see it.

Mr. Prime replied to Dr. Gundlach: I can show it to you. Now for the disadvantages if we go with Goldman Sachs or a firm like them. They are going to manage it all in one style. When you do that you are trading risks, managers and diversification for managers on specific risk. It does not matter if they are the best in the world, you do not want to have all of your assets in one company.

Mr. Panfel replied to Dr. Gundlach: I accept the concern you have, but in 2007 we signed a contract with these fellows and we accepted what they have done, the economy stinks so we are in bad shape no question about it. I think they did they best they could with what they had. Your question is academic and I do not think we can change now.

Chairman Andrews replied to Mr. Panfel: As a commission, and Investment standpoint we are not investment managers we are Fiduciaries. There is a big difference between the investment manager and a Fiduciary. I do not want the Committee put too much in a single bond or a single investment. I like the whole picture. As a Committee I would like us to focus on the investment side and leave the Fiduciary side for another time.

Dr. Gundlach asked Mr. Higman and Mr. Prime: Being that we have a contract with you why can we not see the separate managed funds?

Mr. Prime replied to Dr. Gundlach: You do not have enough money, I am not trying to be discouraging but your 16 million dollars is not that much money.

Therefore, insisting on a separate account would not be the way to go because you do not have enough money to justify a separate account.

Dr. Gundlach replied to Mr. Prime: All I ask for the next meeting, can you look into that. I do not understand why you want to have these mutual funds. There are so many alternatives out there that you could still supervise.

Mr. Higman replied to Dr. Gundlach: We do not use mutual funds exclusively.

Mr. Mikus replied to Dr. Gundlach: A lot of other companies and large firms are changing to this kind of model. They are looking at asset classes and managers and allowing their individual managers to handle the selection. That is their expertise.

2. ASSET ALLOCATION

Mr. Bohannon asked Mr. Higman: Has anyone in our position thought to do a total return swap, a dollar based swap against the areas you want to get exposure to?

Mr. Higman replied to Mr. Bohannon: They would not meet the requirements of 257.

3. ADDITIONAL ALLOCATION TO OPEB INVESTMENT FROM CASH RESERVES

Mr. Higman: We think the Town of Palm Beach has the most progressive portfolios relative to what is allowable as we know of. These funds are only government funds. Also we think your current portfolio as of today is very contemporary. As our handout shows there are marginal modest changes to increase the efficiency in the portfolio. We can look at how much hedge funds you like and how you want it characterized. Right now we have the real estate portfolio. Other than modest changes we do not see the need to change your asset allocation in any of your portfolios.

Mr. Bohannon asked Ms. Struder: Don’t we have about $2.7 Million in this fund?

Ms. Struder replied to Mr. Bohannon: Yes we do, we are holding it in our cash accounts. We should add about $1.5 million to this fund.

Chairman Andrews commented: That is not a part of the $16 million we started out with?

Ms. Struder replied to Mr. Bohannon: Yes, we are holding on to about $1.5 million that we want to add to this fund.

Mr. Bohannon asked Ms. Struder: Why not the entire $2.7 million?

Ms. Struder replied to Mr. Bohannon: We need the rest for operating.

Mr. Higman: Our recommendation is model four.

Chairman Andrews asked Mr. Higman and Mr. Prime: Do you need anything else from us?

Ms. Struder asked Mr. Higman: Would that affect the investment policy?

Mr. Higman replied: Yes, we would have to adjust the table a little.

Chairman Andrews asked the Committee: Are there any more questions for Prime Buchholz?

Mr. Higman replied: Yes we need a motion to adopt Prime Buchholz recommendation of model four with the modification of moving the non U.S government allocation to 5% to core bonds having a total of 20% in the core bonds.

Chairman Andrews entertained a motion to accept Prime Buchholz offer.
Motion was moved by Mr. Panfel. Motion seconded by Dr. Gundlach
The motion was carried unanimously

Break 3:50- 4:00.

2 OPEB INVESTMENTS POLICY STATEMENTS

There was no discussion

3 DISSCUSSON OF LETTER FROM MR. GUNDLACH

Chairman Andrews asked Dr. Gundlach to summarize his concerns.

Dr. Gundlach replied to Chairman Andrews: The transparency is not there, that for me is an absolute no no. I asked them to change and they said that is not in their business model. I am very pleased with PFM because they give you all the information. I question all these money managers because they are gambling and we do not know what is going on. I get so nervous I can't take it.

Chairman Andrews asked the Committee: Does anybody have any comments?

Mr. Bohannon replied: Regarding your letter and your concerns.

Your issue on transparency, your lack of your comfort level and your inability to observe specific IC return drivers even though we have gotten assurances from Prime Buchholz that they can in fact can observe those drivers.

You request a reduction in fees due to poor performance.

You want to know how we can cooperate with other boards.

Chairman Andrews: Regarding the third concern Mr. Bohannon made. There is nothing we can do at this meeting about this today. I do not have any problem brining this forward to another meeting.

Mr. Bohannon asked Dr. Gundlach: Regarding your second concern I just mentioned. Is this for Guggenheim because in your letter you had no criticism for Prime Buchholz? Is this for their general job or for a specific investment decision that you think is improper?

Dr. Gundlach replied to Mr. Bohannon: Their performance is not great but I would like to leave it up to you to decide. I would leave it up to Prime Buchholz to make a suggestion to accommodate my request reading fees.

Mr. Mikus replied to Dr. Gundlach: I am not clear that Prime Buchholz should reduce or discount their fees because ultimately the market decided returns. Prime Buchholz is our consultant and they analyzed it to the best of their ability, and it is hard to place the blame on the consultant when you have an event that occurs about every one hundred years. I am personally satisfied with the managers they have selected and they have filled their capacity as consultant. My problem is, I do not think Prime Buchholz is the place to place the blame. They are entitled to get paid for the work they provided us with.

Mr. Panfel responded: I was in business for 50 years; I have had very unhappy clients when they had to pay their income taxes but they still had to pay me for my services. These guys did the job they were retained to do. Therefore, they should be paid every penny they deserve, we signed a contract and we have to pay them and it had nothing to do with the Police and Fire Board just this Committee today.

Dr. Gundlach responded to Mr. Panfel: How long is the contract?

Ms. Struder responded: It is an open contract.

Prime Buchholz commented: Can be terminated on a thirty day notice.

Chairman Andrews commented to Dr. Gundlach: We had a contract with these gentlemen and they did the best they could and there is no reason why they would want to mislead us, and there is no reason why they would want to see a reduction in our assets. They are not happy with the performance either. I do not think it is right to place the blame on them. I also checked with Ms. Struder and others and their fees are in line with the other two Boards. The only way to resolve your second concern is to have a motion to reduce or eliminate the fees.

Dr. Gundlach responded: If you feel that way I will drop item number two.

Chairman Andrews responded to Dr. Gundlach: We have taken care of your other two concerns. Now tell me about the two items you would like on your transparency.

Dr. Gundlach responded to Chairman Andrews: It is for me essential to know what instruments the Town's money is invested in, this I do not know. I have asked Mr. Higman several times and he said we do not have that.

Prime Buchholz replied: No, you said can we run a separate account like Goldman Sachs? I said no that is not what we do. That had nothing to do with transparency.

Dr. Gundlach replied: I have met with Mr. Higman and asked him for assets runs and he said no.

Mr. Higman replied to Dr. Gundlach: There are no asset runs on a real time basis. There is a lag between mutual funds or any comingled vehicle according to 1940 SEC Act that requires filing their holdings for 45 - 60 days after a period end. The lag is for the protection of the shareholders so people cannot sell against them. Therefore, the only time you are going to get a real time on stocks and bonds on a specific instrument is if you have a separate account. If you have a separate account you will have small dollars, which is one entity. With one entity account you would not be able to invest in all the diversified vehicles this board invests in which was decided earlier in the meeting.

Chairman Andrews replied to Dr. Gundlach: I personally do not want to see the asset runs and if I need anything from Prime Buchholz they give it me. Also it is not breaking any sunshine laws to meet Mr. Higman and get any information you need. Therefore, my recommendation is any member of this committee that needs any information call or meets with Prime Buchholz.

Chairman Andrews asked Prime Buchholz: Can you do this for Dr. Gundlach?

Prime Buchholz replied to Chairman Andrews: Yes we can.

Chairman Andrews asked each member of the Committee: Do you want any information from Prime Buchholz?

Mr. Mikus replied: I have no request.

Mr. Bohannon: No, I think they did an excellent job.

Ms. Panfel: No

Chairman Andrews asked the Committee are there more questions for Prime Buchholz? Hearing none, I would like to thank you for coming and, thank you for addressing the problem head on and coming up with a solution. I think we have the frame work and we are working on a solution.

Ms. Struder replied: We need to discuss the $1.5 Million dollars.

Chairman Andrews asked the Committee: We need to decide what to do with the $1.5 Million dollars.

Motion to give Prime Buchholz the currently held $1.5 Million dollars using model four as described.

Prime Buchholz replied to Chairman Andrews**: Just for clarification, we will hold it in cash until such that and we will bring it forward to you with the newly identified managers.**

Motion moved my Mr. Panfel.
Motion seconded by Mr. Bohannon.
The motion was carried unanimously.

VIII. PFM ASSET MANAGEMENT

1. PERFORMANCE UPDATE

Mr. Jang discussed handout " Market Update"

Chairman Andrews asked Mr. Jang: Do you see any changes in unemployment for a while?

Mr. Jang replied to Chairman Andrews: No, I do not because the most optimistic forecast calls for unemployment dropping to 9.3%. The graph on page 3 shows the increase and decrease in unemployment.

Mr. Alexander discussed handout: Quarterly Performance Report

Chairman Andrew asked Mr. Alexander: What is the total cost?

Mr. Alexander replied to Chairman Andrews: The amortized cost is $24 Million

2. INVESTMENT POLICY - DEFINE BENCHMARKS

Ms. Struder asked PFM: Are the Standard and Poor's ratings easily attainable or is that something we have to go through you to get?

PFM replied to Ms. Struder: It is on their website and we can send you the link.

Chairman Andrews asked PFM: If I were to ask you to choose, would you lean more to S&P or the Treasury, which one would you pick?

Mr. Alexander replied to Chairman Andrews: I would more lean to the S&P because your short term assets are more heavily weighted as to just plain old treasuries as well as to CD's and commercial paper. It would be more of a blend of what is in your portfolio and it would be more in line with your benchmark.

Chairman Andrew replied to Mr. Alexander: The benchmark is more for or us on the committee, but if someone wants to know we need to know what it is. Do we need a motion to accept your benchmark?

Chairman asked PFM: I am concerned with bringing the benchmark going out until one year. My thoughts are six months. I am concerned with having to report the benchmark and we did not make the benchmark.

Chairman Andrews asked Ms. Struder: How much are we talking about to have a benchmark for the entire portfolio?

Ms. Struder replied: The benchmark for the entire fund is about $100 Million.

Chairman Andrews asked Ms. Struder: Is that is including the trust?

Ms. Struder replied to Chairman Andrews: No, that is not we calculated in the blended yield.

Mr. Bohannon asked Ms. Struder: I was listening to the Finance and Tax meeting today. Are there any issues that came up in that meeting that we need to be addressing?

Ms. Struder replied to Mr. Bohannon: Mr. Rosow's concern was to make sure all of our policies and procedures are correct and we give the project to the internal auditors to review.

Chairman Andrews asked the Committee: Are there any more questions for PFM? Hearing none the Committee appreciates you coming here. What you did was easy to understand and we appreciated that.

PFM replied to the Committee: Thank you.

IX. MONTHLY INVESTMENT REPORT

Mrs. Somers discussed the November and December reports. The months zeroed each other out. On the November report the monthly earnings was $337,000 which was very good and the December monthly earnings was $(326,000). The numbers for January Florida League of Cities are a positive $370,000.

Chairman Andrews replied to Mrs. Somers: I had a lengthy conversation with Dustin Heinz from Florida League of Cities; I asked him if he could give us two numbers on a monthly basis so we know the actual income coming into the fund and we know the current market action. This way we would be able to follow it and we know what is going on. This information will be on the next report.

Mr. Bohannon replied to Chairman Andrews: This is a very good idea.

Chairman Andrews asked the Committee: Are there more questions regarding the Monthly Investment Report? Hearing none, let's move on.

X. NEXT MEETING DATE

Ms. Struder: Once Town Hall is completed we can schedule meeting a lot easier and I can be more flexible with the dates and times. Town Hall will be completed around June and then we will have the Town Hall and the EOC for meetings. For the next meeting the suggested dates are:

May 17, morning

May 20, morning

May 28, afternoon

XI. ANY OTHERS MATTERS

XII. ADJORMENT

The meeting was adjourned at 5:30 p.m.
Chairman Andrews made a motion to adjourn the meeting.
Dr. Gundlach seconded the motion.
The motion was carried unanimously.