TOWN OF PALM BEACH

Finance Department

MINUTES OF THE INVESTMENT ADVISORY COMMITTEE MEETING
HELD ON THURSDAY FEBUARY 12, 2009, 1:30 P.M.
TOWN COUNCIL CHAMBERS

I. CALL TO ORDER AND ROLL CALL

The Investment Advisory Committee Meeting was called to order on Thursday February 12, 2009 at 1:30 P.M.

ATTENDEES:

Chairman Michael F. Andrews
Vice Chair Edward L. Hennessy, Jr.
Committee Member William J. Mikus
Committee Member Bernard R. Panfel
Jane Struder, Finance Director
Cheryl Somers, Assistant Finance Director
Sean Higman, Prime Buchholz
Melissa Morgan, Recording Secretary

ABSENT

Committee Member Stephen L. Brown

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. Mikus
Motion carried unanimously.

IV. COMMUNICATION FROM CITIZENS - 3 MINUTE LIMIT PLEASE

There was none.

V. APPROVAL OF MINUTES FROM THE JANUARY 31, 2009 MEETING.

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

VI. PRESENTATION OF QUARTERLY RESULTS – PRIME BUCHHOLZ

Discussed a handout regarding Long Leaf investment and the current status of Hedge Funds.

Discussed the disappointing news regarding the under performance for the past year of Western Asset Management, the fixed income portfolio. This was due to the over weight of mortgages, agencies and non agencies.

Discussed Guggenheim, which is a Limited Partnership with a combination of 30% of their assets that are publicly traded in REITS (Real Estates Investment Trust Securities) and the other 70% is a combination of large open end private fund to fund investments.

Chairman Andrews asked Mr. Higman: When you have a fund to fund, do the expenses get to be pretty high?

Mr. Higman replied to Chairman Andrews: They gave us a break at 60 basis points and they also gave us the Guggenheim at 60 basis points because ordinarily to get this we would have to invest in a $5 million dollar investment.

Mr. Higman asked the committee: Are their any questions on Guggenheim?

Chairman Andrews replied: I assume there is no cash or reinvestment on Guggenheim and no dividends?

Mr. Higman replied to Chairman Andrews: No it is a fund.

Chairman Andrews asked Mr. Higman: What is your comfort level with this investment?

Mr. Higman replied to Chairman Andrews: My comfort level is high, as high as the real estate market.

Mr. Mikus asked Mr. Higman: It is only an estimate that we are down about 20%?

Mr. Higman replied: No they are pretty confident, but the real question is what does our future look like.

Mr. Mikus asked Mr. Higman: Given that we have real assets in our portfolio for the possibility of an inflationary environment in the future, should we be rebalancing and adding more to this to bring it back up to or start thinking about increasing exposure to increase real assets while we have the opportunity to buy them at a significant discount?

Mr. Higman replied: Yes, we should but not exposing our interest in our real estate at the moment and use the other real assets tools we have available to us. We have TIPS, we bought them at a good time.

Chairman Andrews asked Ms. Struder: What is the possibility of getting another allocation from the Town at this time, basically getting more money?

Ms. Struder replied: There might be some funds available because the Town contributes to the OPEB Fund and the last report reflected about 2 million in assets. We do need some of that money to pay the retiree health care expenses and the Town is contributing an additional 1.6 million this year. Therefore, there is a possibility of the Town contributing some money to the fund.

Chairman Andrews asked Ms Struder: Is that going to be in a lump sum? Or is it going to

be phased in?

Ms. Struder replied to Chairman Andrews: It could be either way. The money is in the fund itself it is just not invested in these investments.

Mr. Higman stated: If we do have some money we would be dollar averaging over some period of time.

Ms. Struder: By the next meeting I could provide to you how much money you think you are going to need and how much money we have available to invest if you would like.

Chairman Andrews replied: No that is fine I think it would be nice to do what Mr. Mikus said. I don't want to peg bottom, we are dollar averaging down. Hopefully we are not decreasing down.

Chairman Andrews asked Mr. Higman: If you happen to get new money are you going to allocate to fill in the holes in the portfolio or are you going to give everybody the same?

Mr. Higman replied: If we never change the asset allocation the goal will be to bring everybody back to target because the discipline is as hard as it is, but we would want to sell the bond and sell the alternative because they where the best recent performer by equities, they are the gut check for rebalancing especially in this environment.

Mr. Higman discussed the handout.

Mr. Higman asked the committee: If there are no more questions we can move on to the other topics?

Chairman Andrews asked Mr. Higman: This is an out of the ordinary question

(just a scenario). If the president of the Town Council calls me in and says to me you know, you have an 8% bogey and you are down 26%, how long is it going to take to turn it around? How could I answer that question a little better?

Mr. Higman replied: Behavioral finance tells us that we overweight our recent experience in making assumptions. We just went through a process of evaluating our long term assumptions and we believe that it is valid to assume that over a ten year rolling period of time that 8% is a reasonable rate of return. However, over a ten year rolling period of time there has been a lot of rolling periods of time in which you are under that 8%. There was an almost equal amount of time when you where equal or well over 8%. That is how we come to the conclusion and say that over a longer ten year period time the 8% is still a valid assumption.

Mr. Higman discussed the handout with Committee.

Chairman Andrews asked the Committee: Are there any more questions regarding the portfolio?

VII. DISCUSSION OF COMMODITY FUND FOR HEALTH INSURANCE TRUST.

Mr. Higman discussed Commodity Fund with the Committee: If you recall from our last meeting Mr. Brown was most interested in this. We have taken the money out of the U.S. Western Commodity Fund very fortunately well a head of the real collapse of commodities. However we held it in cash and the real question is would we put the money back into commodities or would we do what I wanted to do and get our real assets up so we put 2% into TIPS. Mr. Brown wanted to continue the conversation at this meeting.

Chairman Andrews said to Mr. Higman: It is a good thing that we did not listen to you the last time you where here because TIPS went down right?

Mr. Higman replied: No we got it working, but based on the last quarter TIPS would have gone down but based on when we were doing it everything was ok. What happed was TIPS went down because the inflation expectation collapsed to deflation. Now the applied inflation rate by comparing a ten year treasury and a ten year TIPS has come back. Now people do not think with the all infusion of stimulus, inflation is going to come back in ten years or even two years. But deflation is not going to hang around ten years based on the amount of stimulus being shoved into the economy.

Mr. Chairman Andrews said to Mr. Higman: I don't hear you making any recommendation.

Mr. Higman replied: I know I would like to but this was driven by Mr. Brown's urgency and I am open to options. But I do not feel compelled to do so this quarter.

Chairman Andrews asked the Committee: Are there any more questions.

Mr. Mikus replied: I think this should be discussed at the next meeting.

Chairman Andrews said: Absolutely.

Chairman Andrews asked the Committee. Are there any motions to change anything in the portfolio at this time?

No motions or second, (no changes in the portfolio).

Chairman Andrews asked the Committee: Are there any more questions for Mr. Higman?

Mr. Higman discussed a handout about Long Leaf partners.

Chairman Andrews asked the Committee: Does anybody want to make a motion to have further discussion on Long Leaf?
Mr. Mikus replied: I will make a motion to make the switch to Long Leaf
Mr. Panfel: Seconded the motion
Motion passed unanimously

Mr. Higman said to the Committee: My comments are complete but I am always at your service.

Chairman Andrews replied to Mr. Higman: On behalf of the Committee thanks for coming in on a consistent basis. It is more fun coming when things are doing well.

Mr. Chairman asked the Committee: Are there any more questions for Mr. Higman? Hearing none. We will have a short break.

Break 2:45 – 2:51

VIII REVIEW OF REQUEST FOR PROPOSAL FOR MONEY MANAGER FOR SURPLUS FUNDS.

Chairman Andrews asked the committee: For a motion to approve the RFP.
Mr. Hennessy: Seconded the motion.
The motion was moved unanimously.

Chairman Andrews asked Ms Struder: Which one do you think we should review first?

Ms. Struder replied: The insurance part on page six which is our standard language. But I did add an errors and admission section that I had seen on another RFP from another municipality. Also I think that a lot of the insurance information is probably not relevant for financial advisors.

Chairman Andrews replied: A lot of these firms have their own insurance.

Ms. Struder replied: We require them to have the fiduciary liability insurance and some liability insurance as well.

Chairman Andrews replied: Most of the RFP's that I seen had some kind of information about insurance and workman's comp and employee's liability insurance in them. What is your suggestion?

Ms. Struder replied: We can tell the Risk Manager what this is for and ask her to give us her opinion on what needs to be in it for this purpose.

Chairman Andrews replied: That is a good idea, because we have a Risk Manager here. Is there anything specific that you need from us?

Ms. Struder discussed various points on the RFP that needs to be revised.

Chairman Andrew asked Ms Struder: Short term bonds are we talking about the average or are we saying no bonds?

Mr. Mikus replied: No duration should be greater than 18 months.

Chairman Andrews: That lets them go out a long way. We need to stop them from going because we will have one to three year bonds. I do not want this investment to compete with the Florida League of Cities.

Ms. Struder replied: If you want to review this line by line and e-mail us your comments you are free to do that as well.

Chairman Andrews replied: Well if we get the information from the Risk Manager that will be fine. Let's talk about no maturities should be greater than 18 months. We are talking about short term maturities.

Chairman Andrews asked the Committee: What is your take on the maturities or should we put anything in them at all?

Mr. Hennessey replied: I think it should be 12 months.

Chairman Andrews: Agreed. He asked Ms. Struder is the time line ok?

Ms. Struder replied: There is no time line here but we where thinking to put it out early next week and get it back mid March and then have the Committee review it.

Chairman Andrews replied: I would like to review what we could, then have a selection process and possibly getting some people in here. I am not sure how many meetings that is going to actually take to do that. Also what about the points? We are not a contractor; do we have to have the points in here as a part of the evaluation criteria?

Ms. Struder replied: If you assign points it would make it easier because you can have your cut off limit of who you can include for interviews. Otherwise if you exclude certain bids you will have documentation. It is a protection for the Town.

Chairman Andrews replied: Good idea and I think we can work within those guide lines. Basically we need to decide how much time we are going to give them to make a proposal. They need to tell us three things why we should pick them, what they are going to do and some type of an executive summation.

Committee agreed.

Chairman Andrews asked Ms. Struder: What else do you need from me at this point time?

Ms Struder replied: How many do you want to have on the selection process?

Chairman Andrews replied: I think there should be three. Have the Chairman, you and we should get another person form some place.

Ms. Struder: Agreed

Chairman Andrew: Discussed a conversation that he had with a citizen. This man advised him not to go after money managers and we should buy CDs at about 2.21% which are guaranteed. We can still look at this as a committee because there is about 60 million available to invest. There is the opportunity to have more that just one outside money manager, which can be decided by the Committee at any time.

Mr. Mikus: You are saying we should self direct?

Chairman Andrews said to Mrs. Somers: Yes we should self direct but I don't want to get into a situation where the finance department is making investment decisions on a routine basis. That is not going to work for you guys. This is something we can discuss at an additional meeting. But at this particular point in time I would like to go ahead with what we have online. Also if you have any questions form anybody on the board or outside to get some facts together that will be fine.

Mrs. Somers: Ok great.

Chairman Andrews asked Mrs. Somers: Is there anything else to discuses regarding the RFP's?

Mrs. Somers replied: Nothing I need to point out unless you would like to change something.

IX. NEXT MEETING DATE

Ms. Struder: The next meeting will be depending on when I get the RFP's back, which will be around mid March.

Chairman Andrews replied: We will stay in contact regarding the RFP's. Therefore the next meeting date is flexible.

X. ANY OTHER MATTERS

Chairman Andrews: Asked if there where any other matter to discuss. There was none.

XI. ADJOURNMENT

Chairman Andrews entertained a motion to adjourn the meeting.
Mr. Hennessey made the motion.
Mr. Panfel seconded the motion.
The motion was carried unanimously and the meeting was adjourned at 3:30 P.M.