MINUTES OF THE INVESTMENT ADVISORY COMMITTEE
January 31, 2005

I. CALL TO ORDER AND ROLL CALL

Chair Andrews called the Investment Advisory Committee Meeting of January 31, 2005 to order at 1:30 p.m. In attendance were:

<u>**Investment Advisory Committee**</u>	<u>**Others**</u>
Chair Michael F. Andrews	Jane Skittone, Finance Director
Stephen L. Brown	Cheryl Somers, Asst. 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

Mr. Hennessy made a motion to approve the agenda, Mr. Brown seconded, motion passed unanimously.

IV. COMMUNICATIONS FROM CITIZENS (3 MINUTE LIMIT PLEASE)

No citizens attended

V. APPROVAL OF MINUTES FROM THE DECEMBER 8, 2004 MEETING

Mr. Hennessy made a motion to approve the minutes, Mr. Hutzler seconded, motion passed unanimously.

VI. REVIEW OF CURRENT INVESTMENT STRATEGY

Chair Andrews stated for the review of the investment strategy, the committee and staff will look at the survey and discuss ideas for the future. He asked Mr. Brown to give a review on past investment strategy.

Mr. Brown said basically what he did at the previous meeting was to summarize each of the major paragraphs of the report the committee gave to the Town Council on March 11, 2003.

The Town at the time had substantial excess cash balances, interest rates were extremely low and all of the investments were invested very short term in the SBA pool with an average maturity of 90 days or less. Basically, the committee was asked to see if they could improve the rate of return within the constraints of the Florida State Statute which explicitly states that the objectives have to be safety of capital, liquidity and investment income in that order. Of course, in making this report to the Town Council, the committee stressed that there was no free lunch and that invariably if they were going to try to improve the rate of return to the Town, they had to take some kind of additional risk. In looking at the various risks, they didn't particularly want to take significantly more credit risk nor significantly more liquidity risk but were willing to take some interest rate risk by extending maturities.

After reviewing a number of presentations by outside groups, they eventually came to the recommendation that a proportion of reserves would remain with the SBA pool and a proportion would go the Florida League of Cities funds with part of that being invested in their 1 – 3 year bond fund and part of it in their intermediate bond fund. The decision was made that these SBA pools should remain in the range of 40 to 60% of the total and that with the 60% being the starting point and of the remaining 40% that they should start with 75% in the short term fund and 25% in the longer term fund of the Florida League with flexibility in that range. Those were the main issues the committee covered.

The committee recognized that recommendations were being made with respect to the situation at the time, that the situation could change, and that there were other things that the committee might want to look into at some point. Therefore, there should be a continuing review of this situation. He thinks the reconstitution of this committee was done for that purpose.

Chair Andrews thanked Mr. Brown and asked if the committee had any questions.

VII. PRESENTATION OF FIRST FISCAL QUARTER INVESTMENT REPORT

Chair Andrews asked the Town staff to do this presentation.

Ms. Somers said in the Investment Report for December 2004, she reflected the monthly fiscal year and 12 month rolling average yields for each of the three investments. In the paragraph below the table, she indicated some total blended yields. At the end of the first quarter, 65% of the Town's funds are invested with SBA, and the remaining 35% are with the Florida League of Cities. The funds are split out in the Florida League of Cities 75% and 25% as the committee had recommended last year to the Town Council. The average of the yields since investing with the Florida League of Cities has a net positive return in dollars of a little over $200,000. So that's good news. She stated the Finance staff is open for suggestions if the committee wants any change to the format of the monthly presentation or the staff could possibly do a quarterly update.

Ms. Skittone said after reviewing the survey results, each municipality that sent information used a different reporting format and all their investments were different. She said the Finance staff is looking for suggestions from the committee members after they review the surveys on what the staff could do differently.

Chair Andrews asked Ms. Somers to tell the committee again how the investments got to that $200,000.

Ms. Somers said she has basically been tracking what the Town would have earned if all the money had been invested with SBA since March of 2003. She compared that total interest earnings to the total now with a portion with SBA and a portion with the Florida League of Cities. The Town is a little over $200,000 ahead by having invested with the Florida League of Cities.

Chair Andrews asked how much were the investments up at the end of last fiscal year? He's sure it was positive and if it was, then this year the investments are roughly ahead $150,000, correct?

Ms. Somers said she does not have that number available but she agreed it was positive. She can get that information for the committee.

Mr. Brown said his recollection is that at times the investments have been ahead more than that and then went actually negative maybe August or September or somewhere around there.

Ms. Somers said at the end of the fiscal year, the investments were ahead more than the $205,000 because November and December were a wash and were ahead in October.

Mr. Brown said he doesn't really understand the definition of the first page monthly and fiscal year to date numbers. They don't seem to match up with later figures in the package so he doesn't know how they were calculated. For example, the Florida League of Cities monthly yield shows .25%. He thinks they had a higher monthly yield of .25%, maybe there's a definitional issue. Just explain how is that .25%, for example, calculated?

Ms. Somers said those are numbers that are calculated and provided by the Florida League of Cities so that last schedule that's attached to the memo is provided from the Florida League of Cities.

Chair Andrews asked if that is an annualized .25%?

Ms. Somers said that is a monthly just for the month of December.

Mr. Brown asked but then fiscal year to date it is .29%?

Ms. Somers said correct and that's from their first quarter report also which is our first quarter.

Mr. Brown said their report says September 30th, fiscal year to date. The Town's report is December?

Ms. Somers said the Town's is December. The second column on their report says quarter.

The committee discussed the use of the word yield in the report. Maybe, it should be called total return so the committee knows it includes everything and not just interest yield. Or it could be credited yield, distributed yield or net total return. The committee agreed any of those would be all right to use instead of the word yield.

Ms. Somers said she will change that.

Chair Andrews asked if there are any other questions of the Town staff on their presentation of the first fiscal quarter number?

VIII. RESULTS OF INVESTMENT SURVEY

Chair Andrews asked if the Town staff would like to give the committee a brief overview of what they have surmised out of the investment survey.

Ms. Skittone said an email was sent out to quite a number of municipalities and counties. The list was taken from the Florida League of Cities list of members as well as some other local municipalities to get a wide variety of results. The results seen in the report are the ones that actually responded.

She said what she learned from this is that everyone has something different going on with their portfolio. There is no similarity between any. Orlando and the larger communities definitely have a lot more going on with their investment portfolio than some of the smaller ones. Delray Beach has everything with the SBA. Some of the Board members on the Florida League of Cities fund would be Juno, Boca, Wellington, Orlando and maybe Tallahassee. Notice the Florida League of Cities investment as part of their total fund is quite low actually. Juno would probably have the highest at about 20% of their fund in the Florida League of Cities investments but they don't have a lot of money invested anyway, they only have about $3,000,000. Boca has about 9%, Wellington has about 20% and then Orlando has a very small 2%. Everyone used a different terminology for their return.

Chair Andrews said on page 2 of the report one of the questions he had was Palm Beach and the Florida League of Cities short term and long term at 1.35 and 2.69 do not match up with the yields with either Wellington or Boca. He's just trying to figure out why theirs is higher.

Ms. Skittone said she is not sure. She took her numbers off the Florida League of Cities report.

Chair Andrews said the Town has been with the League for over a year now so the yield should be the same. He thinks in looking at the numbers, the main difference was some of the cities with the larger investment pools went out and did some individual investing. He sees treasuries and some mortgage backs and things like that and as he remembers in the past one of the things that the Committee did not want to do was give instructions to the Town Finance Department where they would be in kind of an active trading area. It was to be passive from what he understands.

Ms. Skittone said Jupiter's Finance Director does a lot of his own investing and Wellington has a lot of other investments but they use a manager.

Mr. Hennessy asked why the committee and Town steered away from US treasuries?

Ms. Skittone said the decision was made that it would be easier to go with the Florida League of Cities at the time.

Mr. Brown said the committee decided at least for the time being that they should not ask the staff who is already up to their ears in lots of other stuff with not a lot of resources to manage any investments directly.

Ms. Skittone said if it was a buy and hold, that wouldn't be too difficult.

Mr. Brown and Mr. Hennessy agreed they would like to revisit that. Mr. Hennessy said he was surprised to see that Tallahassee has $50,000,000 in treasuries that they are obviously buying direct themselves. He can't tell from the report what the yield is.

Chair Andrews said overall it seems the investment return that the Town of Palm Beach is receiving is below the others. It's hard to match it up and as Mr. Hennessy said the reason was they went out and did some individual investing that they thought would be beneficial to their investment performance. He said the committee can do that, again, they just don't want to have anything that's a burden to the Town staff.

Mr. Hennessy said Tallahassee is using Credit Suisse but their internally managed portfolio is almost $280,000,000. Of course, the Town doesn't have that capability.

Ms. Skittone said also when the Investment Advisory Committee was originally established, there wasn't necessarily the intent of having a full time committee. Now that there's a full time committee that will meet at least 4 times a year, the Town staff will have some back up to advise what to buy and sell and some assistance to go it alone. She doesn't think they were comfortable with doing that before.

IX. INVESTMENT STRATEGY FOR THE FUTURE

Chair Andrews moved to the next item on the agenda, investment strategy for the future.

Mr. Brown said that he wanted to mention that on the rates of return reported by the various towns, he found it very confusing and it's very unlikely that everyone is reporting exactly the same way. He's not sure that other towns are really doing better or whether they are reporting better. He thinks there's a difference and some of the towns are reporting only current yields on some of their investments rather than total returns.

Chair Andrews said the committee doesn't have the right numbers to judge.

Mr. Hutzler said he's not sure what is reported here is really apples and apples. In US Treasuries, it isn't clear whether they are buying short treasuries or long treasuries or what they are buying. The same thing with mortgage backed, whether they're buying Ginnie Mae's or Fannie Mae's or whatever. His concern is the same as maybe others that he would be very reluctant as a committee member to recommend that the Town staff manage this with other duties that they have. It seems that in the past this committee was very astute and hired appropriate people to manage the portfolio. He'd be reluctant to see that change whether the decision is made to invest in treasuries or not. He thinks it's good to have good full time managers.

Mr. Hennessy said he was thinking if you have 2 or 3 years of stale money, money that is not going to be used, you should look at treasuries because if they are 2 year or 3 year treasuries, they are yielding 3%. That's a lot better than what the Town is getting right now.

Chair Andrews said he'd just like to reiterate that when the original committee was formed, the thought process behind it was to go fairly slowly and not jump into anything. He said it would be his suggestion to take the information and review it at this meeting and come back possibly at the next meeting and make recommendations if someone would like to change something or propose some type of a revision. He thinks there's too much information and it's not clear for the committee to make a proposal at this time but he stands at the option of the committee here if anyone would like to make a recommendation or a proposal.

Mr. Brown said he does agree that they should go slow and should be careful about jumping ship here. He thinks that there is some benefits to individual investments as opposed to a fund in that individual investments are going to mature and there would be a little less concern about the fluctuations that take place but he still has concerns as others have expressed about the time allotment of a very small staff that has a lot to do. The one thing he is concerned about that he has not been until he reviewed in more detail was when he looked at the actual holdings which are at the end of the materials, there's a whole table of what is actually being held in the funds invested in the Florida League, and he did not see any floating rate investments which they told us about at the last meeting. Maybe they are there but they are not indicated. Secondly, there were a number of very long maturity dates in those individual investments and maybe they are not really accurate because on mortgage securities, the actual maturities often turn out to be less than the stated maturities because of early repayments, etc. He isn't sure that the committee understands as fully as they should the makeup of the portfolio itself that is being invested on our behalf. It would be nice to understand it. Maybe, there's a way to have further off line discussions with the manager of the fund to better understand what the Town is really investing in through this fund.

Mr. Hutzler said his thinking was even though they were here at the last meeting is it certainly would not hurt to have them come to the next meeting if that is a possibility maybe to explain some of this and also to further discuss market conditions which the committee and staff has concerns about because they don't necessarily seem to be going the way some of the analysts think they should go. It certainly would be helpful to this committee.

Chair Andrews said he thinks that's a good idea. He asked the Town staff if they could set up to have them here. If they could not be here, he'd like to at least have them here by telephone in some type of a conference call because in reading this he doesn't know what their average holding maturity is but they've got some very long bonds in excess of 20 years.

He's trying to figure out how they get their averages and he also noticed that they have some substantial losses in some of these portfolios but you have to look at their track record and have to give them the same leeway that the committee is trying to give itself that they'll be up and down but over a period of time it will work out to the Town's benefit. But he'd still like to follow what Mr. Brown said and get additional information. He said the sheet on the actual holdings that was recommended by someone on the committee last time is very helpful and he would like to continue that.

He stated just by thought process when the committee was formed, the Town was fully invested in the SBA and wanted to go a little bit farther than the SBA in terms of opportunities and opportunity entails slightly more risk so the decision was made to go with the Florida League of Cities. He thinks it's always appropriate to review the amount of reward to the risk because standard deviation on the Florida League of Cities is three times what the SBA is as far as returns. Another thing to consider the next time is taking a portion of longer term investments that are not going to be used and putting them in some other type of investments. The original committee and present committee have done a good job in following the investments but he thinks they would be remiss if they start going in too many directions. He also thinks it's good to have as much information as possible on the current investments in order to make intelligent financial decisions going forward.

He asked does anybody have any recommendations at this time for possible changes to the investment strategy in the future of this committee and committee recommendations to the Town?

Mr. Brown said he thinks one thing that maybe the staff could think about is within the ongoing structure whether there is any tolerance or a feeling that the committee and the Town staff could manage some portion of the investments directly in very limited types of investments.

Ms. Skittone said if the Town buys and sells investments or even trades them, they'd have to be held by a banking institution or some sort of financial institution.

Mr. Brown said that's true.

Mr. Hennessy said buy the treasuries through a bank and they'll hold them.

Mr. Brown said yes, just like an individual.

Mr. Hennessy said he was wondering if at the next meeting, the staff could have a cash projection of what is going to be needed out of the reserves? He really would suggest looking at US Treasuries. They are about as safe as anything available. 2 or 3 year investments are yielding a lot better than these other funds.

Chair Andrews said he thinks it would make sense to make investment decisions and any changes over our current philosophy at the next meeting. Since, by the sunshine laws, committee members are not allowed to talk among themselves, he suggests that any ideas should be discussed with Ms. Skittone or Ms. Somers.

Ms. Skittone said or submit via email or mail to her.

Mr. Brown said, "Mr. Hennessy while it's true that treasuries are earning what you say they are, if you look at the interest rates, many of them are far above 3%. There are some 8, 9, 10% interest rates and what you may be comparing to is the total return which has been impacted by price depreciation and so treasuries would probably have the lowest rate of return."

Mr. Hennessy said they would be more safe than some of these others that he is looking at right now.

Mr. Hutzler said he thinks this report really is a little misleading because this says 1 – 3 year quality bonds. Many of these bonds were bought at a premium and will show a loss as they come closer and closer to maturity. He thinks that you have to understand that even though it shows a big loss, for example, there's a home loan bank that actually came due in January and showed a very large loss but it had a very large coupon and if you took the total return on that, it probably was a positive return. So he thinks that looking at the loss column here is really misleading so in looking at this and working with these things, many of these investments are very good investments and do fit into 1 – 3 category which some of them may have a preset short maturity.

Mr. Hennessy said but some of these are way out here and they still have large losses.

Chair Andrews said he thinks that's what Mr. Hutzler is saying even though it does show a loss, there may be some other factor unkown about total return having as a premium. That would be one of the things for the Town staff to convey to the portfolio manager before the next meeting to have this in some form that the committee and staff may understand. He'd like to ask the committee if they want them in total return. It's probably total annualized return, he doesn't know if this is return per investment, he doesn't know what the period is.

Ms. Skittone said per holding.

Mr. Brown said it's clear that there's a lot more to be learned about these investments than appears on this sheet because it wouldn't make sense if these maturities were really 15 to 20 year maturities for 1 – 3 year bond funds so the committee and Town staff needs to understand it better.

Mr. Hutzler said he thinks there is a number missing here that is very important and that is the yield to maturity versus just interest rate yield. By that you will have a better clue on this as to how they're doing in including the total portfolio.

Mr. Brown asked do you think there is also on some of these investments with an expectant maturity date that is a lot less than what appears on the sheet?

Mr. Hutzler said yes because 2033 on a mortgage backed means that it is a mortgage back that is paying like a mortgage and may have an average life of a lot less than 2033. Many of these things do have only anywhere from 1.5 to 3.5 year average life and the problem is Fannie Mae's could be either pools of mortgages or they could be actually Fannie Mae bonds and the difference isn't shown here and we don't know the call dates. There is some more information that could be available.

Mr. Brown said he thinks the Chairman has made a very good suggestion that each committee member email to Ms. Skittone these questions about the portfolio and definitions, etc., that in the aggregate we think we can get a much clearer picture of what the investment policy is.

Chair Andrews said he thinks those are good ideas that all the members of the committee have stated so far. Again, those questions and ideas should be directed to the Town staff. The committee again asks the Town staff to have a representative of the Florida League of Cities here or the investment manager of our portfolio to answer these particular questions. It might be good if the staff after they get these ideas could send the ideas to the committee for review then send them back to the staff to refine the ideas a little better before the next meeting.

Ms. Skittone said so in addition to questions for Atlanta Capital, the committee is also going to send potential investment alternatives?

Chair Andrews said correct or things to look into and again it would be appropriate for this committee to rethink and actually put down on paper some of the things that they would like to see in the final report so that information can be given to the Florida League of Cities and have it in an understandable format. If those things are sent to the committee in composite before hand, they would get a chance to look at them and say well wait a minute they really want yield to maturity or yield to the call, etc. That would be good if the committee had at least one look at them before the next meeting.

Mr. Hutzler asked if he could add one thing to that, how the market value is determined because the market value could be either based on price to the call or based on a price to maturity? There are various ways that these investments could be valued so that's important particularly since some have very long maturities. It really doesn't state on here exactly what the price is and how they determine the value.

Chair Andrews said he agrees with what Mr. Hutzler said but he would ask again that each one of the committee members email their ideas to the Town staff so that they can collate them and the committee could have a look at them before the next meeting. And if anyone has any ideas or suggestions on that information, they could be sent back again so it would be in an easier to read format for the next meeting.

Ms. Skittone said so after the staff has done the collating and received your final information, that would be sent on to Atlanta Capital so they can give their report?

Chair Andrews said no he was actually thinking that each committee member take their ideas and email those to Ms. Skittone who would take that information, collate and send back to the committee members. He asked the committee members to send their recommendations in the foreseeable future for the next month within the next 30 days so that the Town staff has a chance to collate them and send the ideas back. The committee would then be able to email the staff with any changes, modifications or recommendations for the next meeting.

Chair Andrews asked are there any other questions or issues that need to be brought up now about the investment strategy of the future that have not been discussed?

Mr. Brown said he'd like to bring up one and it doesn't need to be discussed in detail at this meeting, it's something to think about for the future, and that is whether there are circumstances in the financial markets that might cause the committee and the Town to change the general policy that was adopted, recommended and has been approved by the Town Council. For example a period where short term rates are very close or even higher than long term rates does happen from time to time historically. A shrinkage in the difference between short term rates and longer term rates has occurred in the last year and quite possibly could occur again. Another example might be what if the change in the social security approach does happen whereby the government has to borrow another 1 or 2 trillion dollars over the next ten years and what that might do to interest rates, etc. He just thinks there are these circumstances to at least keep in mind for the future that might impact policy.

Chair Andrews said he believes the committee had the option to change and modify investment objectives within the guidelines but it's an excellent idea to have that as an agenda item to see what their thought processes might lead them to do under certain circumstances. The committee understands that the spreads are changing but the short term spread obviously is going to move faster than the 1 – 3 and the 3 – 5 and sometimes it inverts itself. He's not sure for how long a time but again he wants to make sure that the committee has a philosophy that they can take, that they don't have to change on a consistent basis, that everyone feels comfortable with, take a conservative approach on where they're going and everything they do has to function well within the dictates that the Town staff has been given in their directions to handle the monies going forward.

X. ESTABLISH FUTURE MEETING DATES

Chair Andrews asked Ms. Skittone to give the committee her thoughts on establishing future meeting dates.

Ms. Skittone said the committee is to meet at least four times a year. This is the second meeting and there will be one meeting in December so the committee has two more opportunities for meetings between now and December. Three of the five committee members live in Town so as long as there's a quorum, two committee members could participate via phone in the summer if needed.

Chair Andrews said he'd like to meet once before the end of the season if possible.

Ms. Skittone said more than one meeting may be needed based on ideas received. The committee may have to do some research on those ideas and bring people in.

The committee decided to have a meeting the end of February or the beginning of March and one in mid April.

Chair Andrews asked Ms. Skittone to email the committee with several dates so they can respond. Since there's such a gap during the summer between April and

December, the committee might want to consider having a meeting sometime during the summer with a quorum with the other members on conference call. That can be confirmed later on at the next meetings and they can also start to look at the meeting dates to consider for the second half of the year. He asked if there are there any other thoughts on future meeting dates?

XI. ANY OTHER MATTERS

Chair Andrews asked are there any other matters that any of the committee members would like to bring to the attention of this committee?

XII. ADJOURNMENT

Mr. Hennessy made the motion to adjourn. Mr. Brown seconded. Motion passed unanimously.