MINUTES OF THE INVESTMENT ADVISORY COMMITTEE MEETING HELD ON JANUARY 23, 2003

I. CALL TO ORDER AND ROLL CALL

Chair Brown called the Investment Advisory Committee Meeting of January 23, 2003 to order at 1:05 p.m. in the Town Council Chambers. In attendance were Chair Stephen L. Brown, Dr. Michael Andrews, Edward L. Hennessy, Jr., Jane Skittone, Finance Director, Cheryl Somers, Assistant Finance Director, and Betty Cotton, Finance Secretary.

Also present for a portion of the meeting were: Lynn Thompson, Rob Smith, and Robert Copeland (via conference call) from State Board of Administration (SBA); Greg Coleman and Darlene Malaney from Florida League of Cities; Curtis Spears, Andy Paciocco, and Stephen Everitt (via conference call) from Northern Trust; Kim Fonseca and Greg Gelinas from Salomon Smith Barney.

II. PLEDGE OF ALLEGIANCE

Chair Brown led the pledge of allegiance.

III. APPROVAL OF AGENDA

Mr. Hennessy made a motion to approve the agenda, Dr. Andrews seconded, motion carried.

IV. COMMUNICATIONS FROM CITIZENS – 3 MINUTE LIMIT PLEASE

No citizens attended.

V. APPROVAL OF MINUTES FROM DECEMBER 16, 2002 MEETING

Mr. Hennessy made a motion for approval of the December 16, 2002 minutes. The motion was seconded by Dr. Andrews and carried.

VI. REVIEW OF ADDITIONAL INFORMATION

Chair Brown led the discussion on the review of additional information.

Memorandum to the Town Council requesting a deferral of the presentation of the investment plan from February 11 to March 11 - Jane Skittone reported that Town Council approved the deferral. Chair Brown asked the committee to put March 11 on their calendars. If that date cannot be met, another request for deferral will be made.

First Union investment report – Jane reported this report was the last one that would have had a full portfolio with all the securities on it. After that, the Town Council terminated their agreement and they started to sell securities off. The third page, Performance Analysis, shows their investment performance relative to the SBA. The entire time First Union had the investments for the Town, December 95 through January 2001, they underperformed the SBA by cumulatively $28,036. Towards the end, they also could not sell for a loss when interest rates started going up.

Dr. Andrews asked if the agreement was renewed on an annual basis?

Ms. Skittone said a presentation was given annually but there was never any formal vote. When they could not outperform, the Town Council decided that it was necessary to terminate.

Dr. Andrews said he feels that the committee should consider the agreements being renewed on an annual basis.

Capital Improvement Program – Ms. Skittone explained that this was a page out of the Budget that represents the five year Capital Improvement Program. These numbers were used in preparing the cash flow forecast. The capital program budget rolls over into the next year if it's not spent because capital projects have a tendency to take longer than a year to complete. All the monies usually are not spent in the specific year they have been appropriated. Looking at this isn't necessarily a good guide on cash flow. It just shows what's been appropriated to that fund.

Updated cash flow projection including years 2004 and 2005 - Dr. Andrews said it seems to him that the cash flow remains relatively stable during the entire time.

Chair Brown said if anything in December '05, we end up with even a little more than we have now but, of course, trying to project out into the future is tricky and if some new capital projects came along that were not funded by bonds, they would have to be absorbed somewhere in here.

Ms. Skittone said or if they added any more personnel and wanted to use some fund balance to do that or some other kind of project.

Chair Brown said he supposes the personnel would be funded mostly by the annual budget rather than excess cash.

Ms. Skittone said correct. In the past, they had this fund balance to balance the budget but we've gotten away from that in the past three years.

Mr. Hennessy said it's going to change anyhow when they get through with that strategic plan and all the other things that are involved in it.

Chair Brown said that's a good point. That was a very interesting plan.

Updated investment balances by fund – Chair Brown said maybe it would be worthwhile just going through this once more pointing out roughly which amounts of money might be available for longer term investment category.

Ms. Skittone said the numbers are as of December 31, 2002. General Operating fund lists around $31,000,000 at that point and the amount that would be available for investment is $12,167,918. That number represents the minimum that is required to be maintained in fund balance at this point. She said it has to sit there.

Dr. Andrews asked if the $31,000,000 has to sit there short term?

Ms. Skittone replied shorter term. That's our operating fund. Parts of it have to be short term.

Dr. Andrews asked of this amount, about $12,000,000 might be put out there 3 – 5 years but the rest would have to be kept less than three years?

Ms. Skittone said correct. She said we have donation funds which were set up for specific purposes of what they were titled for. She did not commit any of these for longer term investment even the LaSalle Felheim Donation which will be used for the construction of the new Fire-Rescue facility for which ground breaking will probably be sometime this summer.

She said the debt service fund might get paid out on a semi-annual basis.

The Capital Improvement Fund, the $24,000,000, allowed that would be spent in the next few years. She did not commit anything for any longer term than 3 – 5 years other than the $5,000,000 because the Town is involved in a huge drainage program now that's going to use quite a bit of that money in some construction projects although the Town probably will be doing some financing for the fire station. So all this is just somewhat of an estimate but some of the $24,000,000 could probably be invested shorter term.

The Marina Fund has $3,927,777, the $1,015,000 was put aside to establish the dock replacement fund. Since the marina docks won't be replaced for a longer period of time, they were just replaced a few years ago, the $1,000,000 in the dock replacement fund could certainly go out for a longer period of time. The marina fund will probably grow since the marina fund is quite profitable so there may be periods when we can take money from that fund for shorter term.

She did not commit any of the ECR replacement funds, it's a regional program part of a participation agreement.

Of the Self Insurance Funds (Health/Risk), $15,000,000 of that can be invested longer term because that money has been set aside for post employment retirement health insurance benefits.

Chair Brown asked does the Town provide specific health benefit programs for post employment or retirement?

Ms. Skittone said yes, and one thing we haven't put our finger on yet and haven't been required to, like the private sector has, is the actuarial amount required for governments to put a certain amount aside but that still has not been required. We take it upon ourselves to put aside funds and $15,000,000 is that amount.

Chair Brown asked do you know how much you are actually paying out each year currently for post retirement health benefits? If you put all this together, it looks like roughly just under 40% of the total is at least in theory available for somewhat longer term investment.

Dr. Andrews said and possibly an amount of 60% can have a longer term investment.

Chair Brown said longer than SBA but shorter than three - five years. He said that will give the committee some general direction.

Bios – Chair Brown requested bios from the Finance staff.

Guidelines – Information was sent out to the four firms for presentations to the committee, one page plus the investment policy.

Dr. Andrews asked if there were any comments by the presentors on the guidelines or whether they just accepted them?

Ms. Skittone said they did have questions about changing our policy. They have recommendations they want to give us.

Prior to the presentations, Chair Brown suggested that the question should be asked of the presentors, is there anything they would suggest to take account of the dropping interest rates and our need to improve investment income?

Mr. Hennessy said also ask about how to change the investment policy?

Dr. Andrews asked if it would be self serving for them to give us ideas on how to change the investment policy because they are getting all the Town's money now. If they give us suggestions on how to change the investment policy, in effect, we'd be taking money away from them.

Chair Brown said either they will lose some money or they will become creative.

VII. PRESENTATION BY STATE BOARD OF ADMINISTRATION 1:30 – 2:00 (via Conference call)

Chair Brown introduced himself and the committee members to Robert Copeland, and explained the committee has had materials sent to them in advance but they look forward to whatever presentation you would like to make.

Mr. Copeland introduced Lynn Thompson, Director of Short Term Investments and Rob Smith, Senior Investment Officer, Long Term Bond Fund. He stated he is the Senior Operating Officer of Accounting & Financial Operation and his purpose is day to day operations. He stated they do not have a formal presentation or a marketing approach. Basically, they are available to answer any questions.

Mr. Hennessy asked with today's current returns quite low, have you reconsidered what you might be doing to improve the returns?

Lynn Thompson said the guidelines for the pool fund really doesn't allow them to go out much longer than they currently are. The average length for maturity for the pool currently are 88 days and they can only go out 90 days.

Chair Brown asked could you tell us what the fee is for managing the fund?

Mr. Copeland answered 1.75 basis points annualized on the average daily balance.

Chair Brown asked if the Town was able to invest part of its excess funds for a longer maturity than what the local government pool provides for, would you have any alternatives that your organization might recommend?

Mr. Copeland said yes, they do have an alternative for the Town. The economics is you will be moving from essentially a 90 day plus or minus type of investment and that type of investment risk return is something that is more in the order of four or five years. It would be based against the Lehman aggregate index which is in effect all the publicly issued high grade securities. It is a very common index for most bond funds. The point of this is a lot of people are in the same position you are, they've had their excess funds in short term money market funds, because of interest rates they are disappointed in the returns they're getting and justifiably so but there again given the risk, it's not necessarily justified. That's our alternative for the Town. It will be a substantially longer average maturity. The chart might explain it a little bit, the Lehman U.S Aggregate 12-month Total Return. The small (green) line is an average price. This is an index of basically you take all of thousands and thousands of bonds that are public issue, average maturity probably in the 7 or 8 years. What that shows is every month they calculate the total return of this index or they reprice the security and they take the income they get per month and it comes out with a total return on your investments. That small (green) line is a rolling one year price return. So that tells you that if you put a dollar in this fund today, 12 months later, the price of the index is going to change so therefore the price of my investment is going to change. This shows the risk for that. On the right hand side, you can see the variability of price, runs between 108 and 99. I think that gives you some sense of putting a dollar in today and the average yield of the fund may be 4.5% but I don't know a year from now if you will get a dollar back if you need the money.

Chair Brown said the committee does understand that and obviously the longer you go out the more variation in the total return is going to be which is basically what your chart shows but just to pin down the alternative that you do have available, as I understand it, it's a 4 to 5 year average maturity which means that the maximum maturity must be considerably larger than that. Is there some limit on how far out we go in that alternative fund with a specific investment?

Mr. Copeland said the benchmark for the fund is the Lehman Aggregate Index which includes mortgage backed securities, asset-backed securities, government securities, and high grade corporate bonds. Those are the regular 1 year to 30 years.

Chair Brown said so you could go out as long as 30 years in that fund to try to match or exceed the index?

Mr. Copeland answered right, in fact, in this fund that's what we do. It is in effect an index fund, we try to really match the return.

Chair Brown asked if they have anything between the 90 day, the current fund that the Town is in, which is essentially a 60 to 90 day maturity and the alternative which is substantially longer, 4 to 5 year average maturity but with investments that go all the way up to 30 years.

Mr. Copeland said actually the average duration in the price sensitivity is probably around 4 or 5 years and the average maturity is around 7 or 8.

Chair Brown asked if the committee had any additional questions.

Ms. Skittone asked on the longer term fund, how often can you withdraw your money from that fund?

Mr. Copeland said monthly. It only opens at the end of the month. That fund currently only has a 3% return. Basically from an operational standpoint, on trust funds that we managed because they had some similar investments sold, when this created a negative it was still okay. It's just the principal of economies of scale allowing us to go out a little bit further on the yield curve. But there's only a limited number of people in that trust fund. We've had a lot of local governments talk to us about this particular product but usually when they find out there's a significant risk, they run the other way. Again, that's one of the reasons why we made the decision several years ago to switch the characteristics in the local government pool to a 2a7 type fund. The feedback we were getting from local governments was they were very sensitive to the idea of funds having a loop of sheer volume.

Mr. Hennessy asked how much do you manage right now in this co-mingled fund?

Mr. Smith said $200,000,000.

Chair Brown asked what is the management fee on this longer fund?

Mr. Smith said currently around 10 basis points. We don't really have economies of scale but we have a lot of participants. Our expectation would be that if we were to take this product to local government today and say here's a viable product and a participation increase, the fees would come down considerably.

Chair Brown asked if the 10 basis points covers all costs?

Mr. Smith said yes.

Chair Brown asked what about the credit picture on the bonds? How low on the credit chain would you go?

Mr. Smith said they stay with investment grade.

Chair Brown said the committee has gotten their questions answered. He stated the Committee and the Town appreciates the SBA participants being here today and thanked them very much.

Discussion:

Dr. Andrews said he feels they are a typical government fund. They are not a competitive fund. They have a fixed product and we can take of it what we would like depending upon our parameters but I don't think they would have any flexibility for us.

The committee agreed the 10 basis points is very low.

Chair Brown said he is wondering what kind of guidance they are getting for 10 basis points. He thinks their short term product that we are using now is fine for its purpose but their alternative product is just too far out on both the credit spectrum and the maturity spectrum for us to even consider.

Dr. Andrews agreed with that.

Mr. Hennessy said if you were investing $30,000,000, you could almost afford to have your own person investing it.

Chair Brown said it doesn't bother him to use a pool if the pool has the characteristics that we are looking for. He thinks that the Florida League of Cities might come closer to meeting the Town's needs in that it might be more competitive from that point of view.

VIII. PRESENTATION BY FLORIDA LEAGUE OF CITIES 2:15 – 2:45

Darlene Malaney, Associate Director of Financial Services – Ms. Malaney thanked the committee for inviting the Florida League of Cities. She introduced Greg Coleman, Investment Manager for their loan funds. She will give an overview on the structure of their pool and Mr. Coleman will present the more technical side.

The League was founded in 1922 by several cities coming together. Today the League is one of the largest leagues in the country and we currently represent over 11 million Floridians in 406 cities, towns, and villages throughout the state. We are a non profit organization, mainly known for our legislative services, based in Tallahassee, we also have an office in Orlando but it is an insurance division. So we provide legislative, insurance, technology, and financial services. All of the programs created under our department were created by the demand of cities so they are programs that were created by cities for cities. My department has three trusts that we administer, we have Florida Municipal Investment Trust (FMIvT), we also have a pension trust, and a loan counsel that issues debt on a pool basis for cities. This was basically created by cities coming together looking for an investment vehicle to pool their funds together utilizing economies of scale and as an outside investment option to the SBA which is where most local governments are. Our pools go a little bit longer out from that and we do have several different funds. The League of Cities is the administrator and the pool is an authorized investment under Section 163 so according to your investment policy, you are authorized at this time to invest in our pool should you decide to do so. Like all of our trusts, the FMIvT is governed by a Board of Trustees, listed in your handout. The Board of Trustees always consists of elected officials who actively participate in the trust and they govern everything that has to do with the trust and they meet on a quarterly basis.

Chair Brown asked if the Florida League of Cities consists of a number of cities who have come together but it doesn't necessarily consist of all cities.

Ms. Malaney said it's about 99.9% of the cities in Florida.

Chair Brown asked if Palm Beach is part of it.

Ms. Malaney replied yes.

Chair Brown asked if there is a representative from Palm Beach?

She did not have the list with her. The top ten most populous cities automatically get a seat on their Board. There is about fifty Board members and then the other elected officials are voted on by their peers so it could very well be that in the past, Palm Beach had a Board member.

Chair Brown asked if each fund has a Board of Trustees and are they chosen from the bigger board?

She said automatically the President is the Chair but then the other members are made up of cities that participate in the fund. They receive advice from an investment advisory committee who was there at the beginning of the pool. These are prominent Finance Directors from throughout the state and they review all the policies and procedures, they make recommendations to the staff, and to the Board and they really look at the nuts and bolts of the FMIvT and they also meet on a quarterly basis.

Chair Brown asked how these people get selected?

She said they were nominated or chosen by the Executive Director of the League of Cities. They have two year terms on the Board and on the Investment Advisory Committee, once they are on they are there to stay unless for some reason they want to get off. Many of the members were there from the very beginning and they were there to select and help structure the whole pool itself.

Dr. Andrews asked if she can tell them when the last time the Town of Palm Beach participated in the funds?

She said she does not believe the Town has ever participated in their pool.

The League is the administrator but they hire the professionals necessary to manage the day to day aspects of the pools. The investment management for the bond funds she will be talking about today is Atlantic Capital Management, however, we do have equity funds and we have State Street Global Advisors that manages those. We have investment performance managers, they have associates, they actually monitor our investment managers to make sure that they are keeping performance up to speed with other managers under like investments. The pools for the bond funds are rated by Fitch. They have also a compliance manager and they make sure that the fund state stays within its investment guidelines and does a quarterly report. Their auditors are Shorstein & Shorstein out of Jacksonville and we have a full support staff in our office in Tallahassee. They have seven portfolios and she will be talking about three of them today and these are all managed by Atlantic Capital Management. All Bond Funds are AAA rated. Mr. Coleman will give more detail about the importance of that. We are very proud of that. You see the volatility ratings for each of the funds. They have an investment policy that defines the investments they are allowed to invest in, our maturity constraints, investment ratings, liquidity parameters. Compliance monitoring is done on a monthly basis and reported to the board on a quarterly basis. She thinks Mr. Coleman will agree they have one of the most stringent investment policies that he works with. They have to be that way in order to maintain the AAA rating.

The League of Cities is a city organization so they focus on communicating with the cities. We are available by phone to answer any questions, and will also come to any investment committee meetings you wish if you are a member. We will provide you with monthly participant statements and then detailed quarterly statements that show you your holdings, benchmark comparisons, and basically everything we report to our board, the compliance reporting and all of that. And of course they are audited on an annual basis.

As she said earlier, the Town is already authorized to invest with them so there would not be a need to amend the investment policy so basically membership would just be approved by a resolution completing the forms and transferring the funds. It should be a pretty easy process.

Ms. Skittone asked do they also include the intermediate and longer term as our policy only allows us three years?

Ms. Malaney said she saw in the Town's policy that they are allowed to invest in a local government pool under the section of the statute and that's anything in the FMIvT. As far as maturity constraints, that may be limited to our shorter term investment.

Ms. Skittone said unless the investment policy is modified.

Ms. Malaney said she likes to share the short term bonds vs. money market returns especially ones that are considering moving from the SBA for the first time. It basically shows this is actual data from the Merrill Lynch 1– 3 years government index which is the benchmark for their 1-3 year high quality portfolio vs. U.S. Treasury Bills from September 1983 thru September 2002. Over any 12 month rolling period throughout that time, 72% of the time the short term bonds are going to outperform money markets. But 100% of the time, you are going to have positive returns. Taking it out to four years, almost 100% of the time you are going to outperform and you are going to have positive returns so you are going to have a little more variability but you are still going to be rewarded for the small risk that you take.

She stated after looking at the Town's investment policy, they would recommend that the Town invest in the 1 – 3 year high quality bond fund. She will touch on the other ones just so you can see what they have to offer but she thinks the 1 – 3 year would be the most appropriate.

Chair Brown said the committee would be willing to recommend a change in the investment policy. The three year maturity is in the investment policy but he doesn't think it's part of the Florida Statute so we could change the investment policy if we wanted to have something in the intermediate fund. The long term might not be of as much interest but this one and the intermediate could both be of interest.

Ms. Malaney said the bonds are both very similar in make up, but they are AAA rated. The benchmark on the 1 – 3 year is the Merrill-Lynch 1-3 year, the expense ratio on this fund is 22 basis points and that is the annual number, as of 9/30/02. It had a little over $300,000,000 and initial contribution is only $50,000. There is liquidity available in this fund twice a month, the 15th and at the end of the month.

Dr. Andrews asked how do we pay the expense ratio? Is that in arrears or in advance?

Ms. Malaney said it is actually out of your return, you do not actually see it.

Dr. Andrews said so you'll give us a net figure in that.

She said correct, it is paid quarterly.

Chair Brown asked for an explanation on what maturity 1 – 3 years means?

Ms. Malaney deferred to Greg Coleman. He said the average duration portfolio will be about 1.7 years in totals. The average maturity of the instruments will be between 1 – 3 years but any individual security itself could be as far as 10 years. Obviously you are going to have a 1.7 year average, you wouldn't have very many of the longer dated securities, 95% are less than 5 years.

Chair Brown said so when we talk about 1 – 3 years that really means an average maturity will be between 1 – 3 years of the whole portfolio.

Ms. Malaney said on the 1 – 3 year high quality bond fund, the pie charts over to the right show you the make up of the sector allocation and the quality. She does like to point out that on their quality, 97% of the total funds is in government and AAA's with only 5% in AA and the lowest being A, and this is a snapshot as of 9/30/02 but it doesn't differ from this very much throughout the year.

Chair Brown said this also gets to the issue of both our investment policy and the statute because this is an approved government pool whether we would have to change anything because of the quality and the use of corporates or whether we would not have to.

Ms. Skittone said that would be something that Skip Randolph could look at but the SBA invests in virtually the same instruments but in a shorter term pool.

Chair Brown said this gets back to that phenomenon that there's a little more flexibility in investing government pools than there is in investing directly.

Ms. Skittone said correct.

Ms. Malaney referred to the handout page with four graphs that shows actual performance of their 1 – 3 year portfolio against the SBA so obviously by going a little further out on the yield curve, you are compensated. This shows the growth of $10,000,000 over 12 months taking it all the way up to our funds inception of 72 months.

Chair Brown said it does show though there are periods of time when this fund would be below the SBA in total return. He is surprised that there are those periods of time, maybe rates were going up in the late 90's. I'm looking at the 48 month chart where for about 2 years, the SBA outperforms and the reason for that was?

Mr. Coleman said 1999 was a terrible year for the bond market so while bond… the average yields and all those other measures was obviously a lot higher than it was in money markets. Appropriately so total returns can *mute* your price return as well.

Ms. Malaney gave a handout to the committee showing at the bottom of this page by year what the funds actual returns were so you can see there never was a negative full year.

Chair Brown asked if they also show somewhere what the average yield is on the portfolio vs. the SBA on an absolute basis as opposed to total return? Yield is 2.5% on the sheet just passed out.

Mr. Coleman said they computed daily and there would not be much change since 9/30/02.

Ms. Malaney gave information on the intermediate fund and basically it's the same make up with the exception of the maturity going out longer with the average maturity being between 3 – 5 years.

Chair Brown asked how far out do some of the investments go?

Mr. Coleman said on the intermediate, if it's a state and federal maturity like a ten year treasury it's 11.5 years and if it's an instrument like a mortgage security, can't exceed 11.5 years on average. So we would not go 30 years, although if you bought a mortgage security and the instrument on it was a 30 year mortgage, the average life might be 6 years. We could purchase those but we couldn't buy instruments such that it was 18 years. Nor could we buy 12 year corporates or 12 year governments or 12 year agencies. That is the maximum for any individual purchase. There's an infinite amount of maturity combinations and durations in the 3 – 5 but we could be as long in any one instrument as long as 11.5 years.

Chair Brown asked if they are required by the investment policy to stay within the 1 – 3 on the previous funds and 3 – 5 on this fund?

Mr. Coleman said yes. We are limited to extensively about 25% longer than what the benchmark is so if we thought the rates are going to go way down and we wanted to be a little big longer than we normally are we couldn't go 5, 4, or 3 years in this portfolio. It would be about 2.25 years. It is the same with intermediate and the longer pension fund as well. Presumably the reason an account is in the 1 – 3 is because they don't want to be out on the moon no matter what we think so we are limited to that and we get audited by two different firms Dahab, like a Callan, as well as Fitch in order to get the AAA and the B ratings.

Ms. Malaney said the difference is the maturity and the only other difference is this intermediate fund only has liquidity on a monthly basis. But again, the quality is 95% in government and AAA's and the sector allocation is similar as well.

Dr. Andrews asked what the current interest rate is on this particular fund?

Ms. Malaney pointed out in the packet true returns that show what they have done as of 12/31/02 so really in comparing it to what your are looking at, an annualized number typically with the SBA, she likes to show people their 1 year return, our trailing 12 month return and the 1 – 3 year was 5.78% if you had actually been in that fund for 1 year, from 12/31/01 to 12/31/02. The actual return in the month of December was 88 basis points.

Chair Brown asked if that was total return?

She replied, yes sir.

Chair Brown asked if we are looking for that or are we looking for the yield?

Mr. Coleman said the Town is actually looking for the yield, runs about between 2.5 and 3.

Ms. Malaney is showing the intermediate product against the SBA and you are going to see more volatility but with a larger spread as compared to the 1 – 3 year. The next chart shows all three: short term, intermediate, and the SBA so you can see them all together showing you the advantages of diversification to hit all three areas on the yield curve. She included a broad market instrument just for your information for pension type assets. Obviously, this is not appropriate for surplus dollars but again like our other funds similar in credit quality and the sector allocation with the maturity going 5 – 7 years and again monthly. Contributions or redemptions are allowed in this fund. The return shows our fund against the respective benchmarks and the FMIvT Enhanced Cash Portfolio is a brand new portfolio that is not open to cities yet. We are only investing our bond proceeds in it at this time but it should be opening probably in the spring. It's similar to the SBA, however, it goes out to 120 days, it is AAA rated product and it's averaging over time about 20 basis points over the SBA. The manager on that is Bank of America, it's the NationsBank Strategic Cash Portfolio and so you will be hearing more about that in the future.

She included the membership list in the packet. You can see that our fund is approaching $650,000,000. Feel free to call any of these cities. They are our best references. Some of them are very close to you. Our FMIT is the Florida Municipal Investment Insurance Trust and that's our investment company out of Orlando. The fund was originally started to invest our insurance monies. FMLC is our loan program and FMPTF is our pension trust. The league invests other trust monies in our investment trust as well. The acronyms that begin with F are League of Cities trusts that invest within the trust just so you know what those are when you see them. She is turning over the presentation to Mr. Coleman now so he can elaborate on Atlanta Capital Management.

Chair Brown thanked Ms. Malaney.

Dr. Andrews asked on the summary sheet you consistently lag against the index, any particular reason why?

Mr. Coleman replied in general because we run the portfolio, it's a higher quality portfolio than virtually any other portfolio we have. We are only allowed to own 5% corporate bonds in order to maintain AAA ratings, so in general we tend to yield a little bit less than some of the agencies that we go against and in times when corporates get hammered, it helps us like the fourth quarter of this year, for example, when corporates had a good run, we tend to run lukewarm.

Ms. Malaney said she is going to give them detailed information that outlines our investment policy.

Dr. Andrews asked when the cities invest with your funds, do they generally come up with another benchmark?

Mr. Coleman said they are currently using SBA because most of our funds are in SBA. What have the cities done in your universe in the past?

Ms Malaney said that really is the main benchmark out there. The majority of cities have sort of been default fund and honestly we are just beginning to get out and market the investment trust. It's an education process, obviously they look at our benchmarks to use them once they get in but the SBA really is what everybody knows and uses.

Mr. Coleman thanked the committee for allowing them to speak today. He said Atlanta Capital has 106 clients in 26 states. By far, the largest number of clients is in the State of Florida. Atlanta Capital has been around since 1969. He has been on board since 1990 and in addition to the league in Florida, they manage bond money for the City of Hialeah, manage money for PGA America, are very familiar with some of the issues we were talking about before in terms of policy and considerations. Many of the municipalities they manage money for because they are all so very sensitive to price performances tend to be in the shorter 1 – 3 products. Atlanta Capital manages bond money for cities and counties where it's just their auditors and Atlanta Capital. We have their investment policy and we check it and of course they check it as well. We have many accounts also that where we have Atlanta Capital, we have the account and we have a consultant. Callan & Associates is one of your consultants and Callan would know us very well. We're on many cases where they are checking it as well, Dahab's looking at it, Florida League of Cities is looking at it, Atlanta Capital is looking at it. They only have one account where in addition to that we have funds that's rated just like municipal bonds are rated by Fitch, they are also looking at it so we have 4 levels. To my knowledge the only fund, not a money market fund now, that's rated in this format two years or intermediate or longer where they get a rating for volatility and core quality is the Florida League of Cities. As far as liability and due diligence are concerned, he thinks it's a truly big advantage. It is a pain for them because they have a lot of people looking over their shoulders checking to make sure they are in compliance so they assure the questions you have adhered to are asked. That's probably the biggest difference of anyone they manage money for. In order to maintain the AAA rating, Fitch will only let us have 5% of non AAA rated. Since corporate America isn't AAA rating anymore, it effectively limits our corporate holdings to 5%. At the bottom of incorporating the firm, we had 42 employees. About 15 months ago, Eaton Vance purchased 70% of Atlanta Capital so that's our parent. We are run independently, our own research staff, our own trading operations, we've added 3 or 4 employees since that time and we are pretty proud of the fact that almost all our investment professionals are CFA or are working toward their CFA. He has a bio on page 2 of himself and Jim Womack who is the key portfolio manager. But he borrows very heavily from our corporate and equity people as well, they are bright people and we do invest in corporates. In a year like 2002, we had so many downgrades and so many falls that becomes very important, we take that responsibility very seriously. So our approach not only in this program but as a firm, and we are very high quality managers, we use AAA rated securities extensively, asset backed, and CMO's.

Chair Brown had a couple of questions on what he had already said. 1) You said Eaton Vance purchased 70% of the firm? 2) is the other 30% owned by the employees?

Mr. Coleman answered yes to both questions.

Chair Brown asked how long you've actually been managing this particular pool of funds, is it 6 years?

Mr. Coleman said yes, just over 6. We've managed money for the Florida League of Cities longer than that. This compilation where they came up with 1 – 3, then intermediate, the first one was Atlanta's and we've been on board since inception.

Dr. Andrews asked where they are located?

Mr. Coleman replied Atlanta, Georgia. He stated their goal is to outperform the client's benchmark with less credit risk. Over full cycles, that has been the case really in all our products. Briefly, on mortgage back securities or asset back securities, that's where we differ from a lot, that's where we get our quality. We like them because given the maturity, they yield more than common grade corporates. They are AAA and extensively you're substituting actuary risk for credit risk. We'd rather have 10,000 homeowners around the country, we like those securities and they almost never get downgraded let alone default.

One other advantage in the 1 – 3 year product, sometimes it's a disadvantage in the long run where you don't want money coming back at you all the time. When you make house payments or car payments monthly, you are getting principal and interest back every month so you can imagine all the cities including participants. We have people giving us money, taking money out. We have large cities in there with 30 or 40 million dollars. Most of it is self-funding on liquidations. You can get in and out twice a month. You can decide whether you want to alter your asset mix and you don't have to go out and pay any transaction costs to get that because that is being repaid to you in the structure of the transactions. We particularly like the 1 – 3 product. We welcome the cash flow that comes in as one of the benefits. Roughly 40% of the funds made up of a blend of those AAA securities. The next page is on credit quality and why we think we are happy that the League has just 5% corporate most of the time particularly in years like we've just had. When he started in the business, it was pretty simple, if companies do good, they get upgraded, If poorly, they get downgraded. It got a little more complicated with the advent of junk bonds and stock buy backs, if a company did poorly, the got downgraded, and if they did well, they still might be downgraded if they levered too much to buy somebody. So we used to say in years like 97 and 98 which were terrific kind of the sweet spot of the recovery corporate earning were terrific. Double digit corporate earnings growth. No end on the horizon to the business cycle, downgrades still outnumbered upgrades, this is on investment grades now 2 to 1. We used to have to speculate, we could only infer if we go into a recession, the downgrades will increase. We don't speculate anymore even in 2002, it was almost 6 – 1 downgrades to upgrades. We view corporate bonds as a loser's game, that is, you don't win. If you pick a great bond, it may go up a couple of points not counting interest rate movements, then it gets upgraded but its not going to double or triple like a stock will. Our strategy is the corporates that we buy we want to make sure we know about them and we avoid the losers. Just to take you through our screening, it's pretty simple, it's worked very well for us and I leverage off my bright CFA stock people that we have in the shop. You might ask which corporate bonds doyou own given that we showed you the chart where they had all those downgrades but we invest in Atlantic Capital in high quality stocks. (On the pg. Corporate Bonds screening process) In portfolios where we do have more than 5% in corporates, this is the same discipline we follow. S&P rates stocks as well, which I didn't know. The highest is A+. The top four grades for S&P in stock rating would be B+, A-, A and A+. Of the 3,000 or so companies that they rate this way, 1,000 are rated B+ or higher. That's the universe that our stock pickers at Atlanta Capital cannot own it unless it meets that test as a stock. That's my starting universe. Then say the company's got to have at least a billion dollars in market capitalization. That drops it down about 500 and then of course it would be nice if they issued some long term debt that we could purchase, for example, Microsoft would meet the first two criteria but they don't have really any debt outstanding so there's nothing to buy. That cuts it to 285 and then we put another layer on there, we say the company must also be rated A or higher not BBB or higher, when they match an index fund or structure themselves like an index fund, about a third of the corporates in an index fund would be BBB. There's nothing wrong with that, that's the way things have fallen out over the last four or five years. We don't buy BBB bonds even though most of our clients would let us because it's still investment grade. Our view is the same thing as the loser's game. If it gets upgraded to A, it may be worth a couple of points, if it gets downgraded to junk status, one notch down, it's a whole different universe that may drop a lot more points than that. There's fewer buyers to have those. So that gets to a universe of only about 150 bonds that we chose from. For example, Ford Motor Credit, would probably be fine over time but since Ford is not rated B+ or higher because the earnings are too volatile, that doesn't even make our screen. Even though they are among the largest issuers.

Chair Brown said he thought he heard Mr. Coleman say earlier you only buy AAA bonds.

Mr. Coleman replied they only buy AAA mortgage and asset back securities and we can only own in any one of these funds whether the longer term or short term fund, the most non AAA securities we can own is 5%. We do own some corporates. I don't believe any of the corporates are AAA since there's only about two in the country. And the sum of those can only equal 5% otherwise, Fitch, when they review our quarterly, they will say you fail on this test.

Dr. Andrews asked what happens if a bond classification changes while you are holding it?

He replied if it was an asset back security and for some reason it went from AAA to AA, we probably wouldn't do anything unless we thought there was something fundamentally unusual. If it happened, we would look at it and see do we think it's going to A and/or do we think the market is already reflected in that. If we are uncomfortable with it, we'll sell it. If it goes from A to BBB which would be more likely and has happened, we liquidate the security. Sometimes it may be split rated, the market might already be discounting it, then we could sell it as soon as the next day. We may wait but we will not hold BBB. Perish the thought that either Fannie Mae or the United States Treasury ever got downgraded a notch. That concludes my formal remarks. These are good questions you have asked and we appreciate you sharing your thoughts with us.

Dr. Andrews said you mentioned a split rating, Fitch is your primary rating agent?

He replied Fitch is the primary rating agency that rates funds. The primary agencies that we look to in corporate bonds are Moody's and S&P. He believes the way it reads in legalease is Moody's, S&P or another nationally recognized statistically rating organization. The third largest is Fitch. They happen to also rate portfolios so the league has used Fitch to do that but the corporate bonds and mortgage securities that we own would be in almost cases AAA by S&P and Moody's or when I say A rated Colgate or AA Wal-Mart, I'm speaking generally of Moody's and S&P.

Chair Brown said you were going to explain the B rated.

He replied you may recall Orange County, California back in the early 90's where they got into trouble among other things, they did not violate any investment policy, but best of all, they said if you buy something that's guaranteed by the Treasury or an agency of the Federal Government, that meets the investment criteria. They left it at that, didn't comment on maturity or price fluctuation or whether the indice was tied to six times the movement of swiss libor and I'm only exaggerating slightly there are some things that your interest rate is determined by the relative movement or the opposite or the inverse of the movement of six time, these were so called structured securities, they weren't very liquid and they might on day 1 might have had a thought maturity proceed to be 2 years and on day 2 because of movements and markets 3 years and they would swing all over the place. But the cash flows were still guaranteed by Fannie and Freddie. In any event, there was obviously some other municipalities, some small ones in Ohio, some hospitals, got into trouble owning these kinds of derivative securities. Fitch decided they would go in and they would rate the volatility of the security. The Federal Government got into the act with what's called the FFEIC, Federal Financial Education Institution Council, they had various tests to measure the volatility and try to put it into terms that you can use in one syllable so V2 has a price movement for given change in interest rates, it will move roughly like a two year treasury. A V3 will move like a five year treasury and a V4 will move like a ten year treasury.

Said differently, for a 100 basis point change in interest rates, if rates go up the price of your bond goes down. It's not intuitively obvious how some of these things would move and Fitch went in and did that. It's really not that hard to come out of it anymore with rates where we are today but it was for a while. They still will rate the overall portfolio on that basis so another reason we couldn't own very many long bonds in a 1 – 3 pool, we will lose the V2 rating plus we'll be in violation of a couple of other things. It's a measure of price sensitivity. We also manage money also. The Lehman Aggregate would be a V4. Our longer term product is a V4, AAA but if you have a five year average life, the price swing is going to be a little bit more.

Chair Brown said that's very helpful. Now, going back to the AAA rating, what does that mean exactly?

He said that means that 95% of every security in there is rated AAA or higher, government being AAA+.

Chair Brown said this was a good presentation and thanked them.

Discussion:

Chair Brown said he thought they did a nice job like night and day compared from what we heard from the first presentation.

Dr. Andrews agreed and said he thinks they would like our money.

Chair Brown asked the committee and finance staff what they thought about the two different funds? Would be interested in using just one of them or both of them?

Mr. Hennessy said both of them.

Dr. Andrews said he feels there is applications for both. We have to kind of watch it but if we look at the current interest rates, I think he said the intermediate is 2.5 to 3.

Chair Brown said shorter term was 2.5 yield. One of the things we might consider is if we decide to have 60% of the fund stay with the SBA then the other 40% was going to be invested longer, you could have something like 25% of the fund in the 1 – 3 year, 15% in the 3 – 5 year so that you don't have too much exposed to the longer term but you have some. That might be one approach.

Dr. Andrews said that makes sense but I want to ask a question of Jane. How much of a problem would determine your capital needs on a bi-weekly or a 15 day basis cause you? I can't see any major problem that you would have. That would allow us to put a lot more than 30 or 40%. I don't think we would have to keep 60% in SBA. I think we could put a smaller amount in there. I think the key to the SBA is you need the capital.

Ms. Skittone said correct.

He said in the Florida League of Cities, if you can get your money every 15 days, does it cause you any imposition to forecast your cash flow on a 15 day basis.

Ms. Skittone said she wouldn't think so.

Chair Brown said what the difference would be though is even in the 1 – 3 year fund, if they needed money from that fund, they might have to realize a loss. I don't know how important that is but if you leave these things to maturity, there is not going to be any loss.

Dr. Andrews said you could get that out of the SBA technically, too.

Chair Brown said you could. I don't know how much that fluctuates but it's not much. 60 – 90 days isn't going to fluctuate very much.

Ms. Skittone said no we do not realize any losses when we do that.

Chair Brown said the longer term portfolios do have fluctuations. If you need the money, you could be at a time when the price is less than what you put in.

Dr Andrews asked Jane say we had the SBA the short term and the intermediate, would it be feasible for you to take money out of the intermediate and move it to the SBA? Does something like that move your money up and down the scale so that you could always have your cash flow position covered plus the certain amount of safety within the SBA.

Ms. Skittone said probably yes. Right now, we only do withdrawals from the SBA a couple of times a month max. We don't go in every day.

Dr. Andrews asked if the intermediate fund was monthly or twice a month?

Ms. Skittone said once a month. She said it would be helpful to have a target like a percentage that we should try to maintain in each so if I or a successor don't go against the grain and put everything in a 3 – 5. Because of the changing interest rates, there should be some guidelines.

Chair Brown said it occurs to him that it would be helpful for the staff to check with check a couple of the Finance Directors in the cities that are using these funds and just see how they feel about it. Just get some references that yes, they feel that they are administratively good and also find out what kind of benchmarks they are using to test whether they are happy with the returns they are getting.

Dr. Andrews said he would suggest that this committee stay with the SBA because that is the benchmark.

Chair Brown asked even though it's a much shorter term than these others?

Mr. Hennessy said he feels there should be a couple of benchmarks.

Chair Brown said one of them would be the SBA because that's where we've been and I think at least for a while the staff and the council would want to see how the changes would work out. Over time, it is probably not the perfect benchmark from a maturity point of view. Let's get some input from some of the other towns as to what they are doing and evaluate their performance. Also see if they are happy with the administration and service.

Ms. Skittone said we can do that. We know most of the local ones.

Mr. Hennessy said I'd be interested in what the others are doing outside of this scope. They might have some other alternatives.

Chair Brown said that's a good thought whether they are doing other things. Good point.

Dr. Andrews said also the Florida League of Cities, the yields that they mentioned were gross yields. You would have to take 22 basis points off of that but that's still a substantial difference from the SBA.

Chair Brown said you are probably talking about .75 of a percent. So in the reporting, one of the things we might consider is reporting both the total return and the yield on each fund.

Dr. Andrews said that would be very helpful.

Chair Brown asked Jane and Cheryl if there is anything they want to bring up from this presentation?

Ms. Skittone said she thought the presentation was good.

Chair Brown said he was impressed.

IX. PRESENTATION BY NORTHERN TRUST 3:00 – 3:30

Mr. Paciocco explained to Mr. Everitt (via conference call) that the three gentlemen representing the Investment Advisory Committee are in attendance, you have their names available, along with Jane Skittone and several members of her staff. He thanked the committee and staff for their time. He said he serves as Managing Director of the Palm Beach office of Northern Trust here in Palm Beach. I am joined here by a couple of my colleagues: Steven Everitt, Northern Trust Global Investments which operates out of Chicago who we have on conference call and Curtis Spears who is with me here locally.

We want to get directly to the meat of the matter which is what you are asking us to do in terms of looking at your cash and investment management needs but just briefly for the benefit of the group who may not be familiar with Northern Trust, we have been in existence since 1889, we are based out of Chicago although we have a presence in 12 states throughout the United States and globally. We are one of the country's largest money managers. We are primarily an investment manager. We manage over $300,000,000 in assets which includes institutional money and money for pension funds and municipalities such as the Town of Palm Beach. It's a core part of what we do. We have over 1.5 trillion dollars in assets under administration which dictates to the group the extent of our size. Although we do offer banking services, over 70% of our revenue is driven from investment management and trust estate planning services. This is a very critical part of what we do. I'm going to turn the presentation over to Curtis Spears who will give an overview of Northern Trust Global Investments and then Steven Everitt is going to share with you our recommendations and suggestions for your group.

Mr. Spears thanked Mr. Paciocco. He said they manage money for individuals and institutions for 115 years now. On page three in your presentation booklet, our clients represent corporates, public retirement plans, not for profit organizations, foundations, endowments, health organizations, Taft Hartley plans, and insurance companies. Some of the clients we have in Florida are Miami Police and Fire, Coral Gables, City of Orlando, City of Jacksonville as well as Florida Prepay.

Look at the charts on the bottom of page 3, we do manage active growth equities and fixed income out of Chicago. We have an active value shop right across the waterway in West Palm Beach. We do have an Index & Enhanced Capability out of Chicago and soon to be in Chicago and New York. We also have a Manager of Managers program based out of Connecticut. Look at the pie chart on the right hand side, you see just under 300 billion dollars under management as of 9/30/02. Once again, we cover a full spectrum of investment options. In Active Fixed Income, we have just under 100 billion dollars. In Securities Lending we have about 77 billion. We have about 150 billion in Cash or Short Duration assets which makes us the fifth largest short duration manager in the country. Also, we are a top tier custodian with 1.5 trillion assets under administration which makes it a core business force as well.

On page 5 you have about 85 million dollars in your SBA fund right now. I am going to focus on the 33 million dollars which is what we feel we can give you more return on by taking it further out on the risk curve. So, Steve, could you take over?

Mr. Everitt said for a portion of your funds, the SBA product is actually a very good one and probably the most optimal for you because they can run efficiently during a money market fund environment in support of your operating needs and at the same time you are only paying expenses of the state versus investment managers as they have active management fees on those types of funds. In terms of the 33 million, we identified with Jane, how that seems to be a more core portion of your pool and you can take a little bit longer time line for investment with that portion of your monies. However there is still some discussion we would like to have with you today to find your risk tolerance and objectives there. Before in finality we can recommend a strategy, it suffices to say there are a variety of enhanced cash and short intermediate fixed income types of strategies you could consider but depending upon your time line for investing and return.

Page 5 just gives you a little snapshot of our role in this area. We are the fifth largest short duration manager in the country. We define short duration from 0 to 3 years fixed income investments. We take our investment capabilities and combine with our custody capabilities to deliver turnkey solutions for our clients. When we manage monies in this context we always have to be sensitive to meeting some principle and liquidity needs of the organizations we work with because we recognize these funds ultimately probably are ordained for some project or operations at some point along the way. You manage income portfolios in this context a little differently from the way you might have further out on the yield curve in pension or public funds type of environment. We are skipping over simply some reference information on our money market funds that we see that as a benchmark relative to the SBA. You can see why we are recommending the SBA to you because we charge a management fee that'll take away some of that yield so that's not as comparable as the SBA product. The section under tab 2 watches our investment process. I think more importantly based on our discussions of your expectations today, we want to talk about market opportunities and what might be needed from an investment policy standpoint to be able to daily manage those opportunities.

On page 18, we have a taxable yield curve around five years. Your investment policy allows up to three years single investments so you can see what that world is offering today. It's not that thrilling with rates at four year lows however usually the yield curve will allow some level of opportunity as you extend out past money fund investment. Right now the yield curve is relatively flat as you go until you get out past two years of investment and so when you are thinking about your investment policy if you are really looking to add material value above and beyond your SBA product, you'll need to probably think about that interest rate exposure you are willing to take and also should define if you go higher what the portfolio weight might be so you have an absolute single maturity maximum but not a portfolio duration or weighted average maturity target. For us with an enhanced cash portfolio, we might start at 180 days as a neutral starting point when a money fund can only invest 60 to 90 days maximum. However, you can take various means of the marketplace and extend out past the 180 days say a year if you wanted to do a blend that had a portion in 1 – 3, and a portion that was marked cash like or you can continue the yield curve to 1 – 3 year, or 1 – 5 year investments which have our standard market benchmarks. But suffices to say that if we bought a 2 year high quality asset backed security, we're only going to pay 2% right now and I don't know where your SBA fund is right now but last month it was around 1.55%. It's probably come down a little bit so you can see, we are not getting that much compensation just yet that far out on the yield curve. However, if the market anticipates economic recovery, we will probably start to see some steepening here. That time is when the market may be a little riper for you to wash in with your 33 million. You clearly don't want to go on buying at very low levels recognizing that rates probably will rise at some point over the next couple of years unless you're going to hold a security. That's why it's very important to be comfortable with the investment horizon time line that you set. Hopefully, this gives you some framework that we are working with today. But even out at 5 years, we are not getting that much additional compensation. I believe your policy focuses more on government securities and clearly there is some value as you go into corporate securities and asset backed securities. Those would be some considerations you would have to take in if you were willing to consider more actively managed strategy that's seeking to add total return value. If you stay in agencies and treasuries, clearly you are not getting that much of a boost. Is there any questions on the current market structure before we talk about more specifically investment policy considerations?

Chair Brown answered no, why don't you continue?

In terms of your investment policy, a couple of tools we would use in these sorts of strategies would include commercial paper, corporate notes and bonds, auction rate securities, and asset backed securities. The quality of these securities in these kind of strategies and the performance we see in here for a base line enhanced cash strategy sets a floor of A or better for the quality level. So clearly we are trying to stay up the spectrum recognizing gains of principal and liquidity priorities in the context of investment performance. But those tools are needed as part of the other tools you have already specified and the manager will move in between sectors when opportunities present themselves. So if you are sorting some of those sectors out, that obviously will dilute the investment performance that you see herein. We also noted that the policy has a short term credit rating criteria but not a long term standard that would need to be defined. In our strategy, we are typically looking for A category or better. That's very important because if you set a AA standard, there is just not hardly anybody around that is AA outright as an issuer so you have a lot of split paper that's been that's between AA and A in the long term ratings. So if you are going to permit corporate issues, you really need to have an A category 4. We talked a little bit about target portfolio duration. If you allow a maximum maturity of three years, you might want to have anywhere from 180 days to 1.5 years depending on which phase that you select but that is worth defining in addition to single instrument maturities so there isn't expectations that on the aggregate interest rate risk you are willing to accept. Then separately from that if you think to extend to five years then maybe that pushes your portfolio maximum to 2.5 years possibly. If that's too long based upon your needs for these monies within the scope of the town, then by all means don't go there but that just gives you some idea of range of areas to consider. Then in terms of benchmark, typically when we run an enhanced cash strategy, the real tradeoff in the broader marketplace is typically the universe of taxable money market funds not a single fund like the SBA fund. At the same time for us, competitively speaking, we are normally competing with other firms that are going to be charging active management fees. That's why the iMoneyNet taxable universe of money market funds which represents 1500 funds nationwide is sort of a barometer that you are comparing yourself against because most folks will only invest in that where they leave that to go the next strategy that's try and get value. In your case, clearly you have the Florida SBA option that most investors don't have and it's a a higher performing option but not necessarily representative of a broader marketplace in which we compete so we would suggest taking a broader market barometer that also helps you yield apples to apples in terms of comparing your investment managers across the marketplace. Those are some quick comments about policy. Some or all or none of those may be areas of comfort for you but fundamentally the minute we start researching those elements, that will impact investment performance. It will bring the value at potential closer and closer to what you are currently in. If you are going to add that structure in, that might mean simply that SBA fund is where it should be. I suspect there's probably some medium middle ground that you would be comfortable with the 33 million to allow whomever you would consider for this type of assignment to achieve the goals you are looking for. For us, the baseline enhanced cash assignment relative to the iMoneyNet is not necessarily for the SBA fund. We're talking probably 15 to 100 basis points over the money market alternative. Right now, that is probably on the low side because of the flatness of the yield curves and the payment that we're getting for the interest rate risk that strategy relative to a money fund. But it does move around. Last year at this time we could have purchased a 2 year asset backed AAA security for 4.2% so you see how the market does have some measures for reshaping and that's a part of what you are asking your manager to do is take advantage of those opportunities as they present themselves in an active manner. I hope that gives some framework to the policy thought process for you.

On page 23, investment performance for the baseline enhanced cash, 180 day weight average maturity type of portfolio strategy. That gives you a sense of performance expectations for that kind of strategy historically although we always have to say past performance is no guarantee of future returns and you can see the characteristics, quality, and profile. That gives you a little sense of some of those types of alternatives.

I think another area that you asked us to cover was fees. There is a fee schedule on page 24 and that fee schedule applies regardless of whatever you were thinking of a standard, an enhanced cash strategy or if we did say a 50 – 50 blend of 1 – 3 year asset backed securities as a benchmark and say a 91 day T-bills benchmark.

Are there any questions at this point regarding investment policy or do you have any further thoughts based on that information that we've shared on your goals and objectives and tolerance or desire for modification?

Dr. Andrews said you mentioned the first 25 million dollars would be 25 basis points but there is a minimum annual fee of $50,000.

Mr. Everitt replied right.

Dr. Andrews asked what if we were talking in the terms of $10,000,000, would the $50,000 still apply?

Mr. Everitt replied yes. To be frank, probably with this kind of strategy, if you only set aside $10,000,000 into it, you are down at the minimum separate account level and the value proposition is just not there because you can't get the fees down to a level to offset the value that you are creating. So you need a little scale to get there. Now in cap environments, the pickup was greater so therefore that minimum fee was not as much a competitor. I understand that you actually can dedicate around $30,000,000 to this strategy so that's a little down the tier prices here although we still have our minimum price

Dr. Andrews said he was actually looking to find a reference point . $10,000,000 was something we thought we could put out there and use as our benchmark when trying to get information from investment managers. That wasn't necessarily a number we had stuck in our mind as to how much we would invest at this particular point in time.

Mr. Everitt said right but I think for your purposes in trying to get a benchmark, your real value out here is more effective than fees as you get north of that $10,000,000 figure. $10,000,000 would be a baseline. To a degree if that was all you were going to commit, I'd probably encourage you to stay where you are. But if you were willing to commit more in order for us to knockdown your fee proposition then you combine that with the value added potential, it starts to become more material for you.

Chair Brown said I guess the dividing line is $20,000,000 at 25 basis points meets the million dollar limit.

Mr. Everitt said that's right.

Chair Brown said he just wants to be sure he understands the kind of portfolios you manage. If we were to put out 20 or 30 million dollars and the portfolio would be managed separately for the Town of Palm Beach, it would not be co-mingled with any other funds?

Mr. Everitt said correct. You also know that this fee includes custody work that we do. That's probably a little different from other managers you may talk to because they are not necessarily custodians as a core part of their business. I have access to the accounting if you want to query it. It's the standard monthly reporting.

Chair Brown asked do you currently manage any Florida towns excess funds of this type now?

Mr. Everitt said Mr. Spears stated would be the better judge to answer our broader public funds business in the State of Florida but we do have clients in the operating assets phase.

Mr. Spears said in public funds they only manage retirement plans right now in the State of Florida.

Chair Brown asked so this would be kind of a new area for you right now for a separate account?

Mr. Everitt replied yes. It would be considered a new area in the sense of perhaps the public funds sector in the State of Florida but in terms of managing these types of funds, we have corporate and public retirement plans and not for profit organizations. We do that in all of those phases so it is not a new business for us. It's just like a new segment for us in the State of Florida.

Dr Andrews said he is trying to remember the recommendations to us. I heard one was the possibility of extending out to five years. Were there any other specific ones that you might ask us to consider as an investment committee?

Mr. Everitt said the recommendations are as follows:

1) We think the SBA product is the best solution for your operating monies that are not core. You keep using that for anywhere from 60 down to 50 million, and
2) use your 20 to 30 million for an actively managed strategy that would seek to outperform in a broader money fund universe.

Now to go into that active strategy, I think we have laid out some choices for you. Those choices will define your return objectives and your risk tolerance. Those choices are enhanced cash, blended fixed income cash portfolio or a short intermediate fixed income portfolio. If you were willing to get into a longer parameter than your current policy which is a three year max then you do have some opportunity for greater returns if going out to five years but if your were asking me what I would do with my money, I probably would stay more into the 1 – 3 blended category because of the low interest rate levels right now. So the more extended you get in the portfolio, obviously there's varied interest rate risk and we expect rates to rise at some point. If you are comfortable in investing in the five year horizon, then you could consider that and have those basis points. But if you are not comfortable in that, I wouldn't go to a five year horizon and then need to be cashing that portfolio maybe in year two. Because we could have some interest rate increases and where is that portfolio positioned at that point in time. It really is going to tie to your comfort level on the investment horizon. Try to stay reasonably matched to your needs. It doesn't mean that you don't permit reshaping of the portfolio by an investment manager later but you don't want to get awry of your spending requirement. That is an important factor that needs to be determined. But now knowing that you could extend it out to five years because of your spending pattern, I'd say stay a little shorter with a little less interest rate sensitive but a little bit more interest rate risk than your money market funds. That can be done either in enhanced cash at 180 day portfolio weight or maybe a one year weight with a 1 – 3, 91 day T-Bill blended benchmark.

Dr Andrews said you mentioned in your presentation 50 to 100 basis points, was that for the five year or was that for a 1 – 3 year investment?

Mr. Everitt said the 50 – 100 basis points is the baseline enhanced cash portfolio strategy but that is relative to the 91 day T-Bill or the universe of money market funds that is out there and is tracked by iMoneyNet. That's different from the Florida SBA fund and right now we're probably at the low end of that because you can see how flat the yield curve is but over time that will be our performance expectation before fees. That's for phase 1, we expect to do a little bit more if we start extending out the yield curve. The one caveat to that is obviously in the short run. Rates are likely to go up so when they do that obviously marks your extended portfolio relative to your money fund unless your are willing to hold to maturity to recognize you are not realizing a loss on that portfolio. You're just clipping a higher coupon.

Chair Brown thanked him and asked Mr. Paciocco and Mr. Spears if they had anything to add at this point?

Mr. Paciocco said we appreciate your time to the commitee and Jane and staff. As a proud corporate citizen of the community of Palm Beach, I would like to extend Northern Trust's expertise and experience. Please mark us as a resource if you require additional information. We appreciate your time.

Mr. Everitt thanked the committee and staff for their time.

Dr. Andrews asked what part would the Palm Beach office of Northern Trust play in our relationship.

Mr. Paciocco said the part they would play is purely as a conduit to our partners in Chicago but Jane is well aware in prior dealings that we have had with the Town that your contact would primarily be in Chicago.

Chair Brown asked if the committee or staff has any other questions at this point?

Ms. Skittone answered not at this time.

Chair Brown thanked Northern Trust very much for the presentation .

Discussion on the previous presentation was deferred until after the next presentation.

X. PRESENTATION BY SALOMON SMITH BARNEY – CITIGROUP

Mr. Fonesca introduced his associate, Greg Gelenes from Citigroup Asset Management. His office is here with mine. We're a wholly owned subsidiary of Citigroup. He said Jane I know you had asked us to be general in our presentation and talk about investment policy. It's a very difficult thing to do because I just heard you ask some very specific questions. We've prepared some specifics in our presentation but we'd like to keep it as general as possible but feel free to ask questions as we go in.

Right now looking at your investment policy and looking at the Florida Statutes, there was some questions about whether the Town could invest in corporate bonds or not and the answer is yes as long as there it is a written policy and it's approved by the Town Council. We are not suggesting that you do that but it is a viable strategy to the Town. In looking at the SBA and your comments about possibly taking 10 million dollars and putting it to work with your current investment policy, our presentation or discussion is based on using your current policy. So we'd like to start there with that as our foundation. We offer lots of different investment options. We're a very large financial institution as you are well aware. All the accounts are managed separately, the custody is separately, there is no additional fees and charges for those services. So there is no additional custody fees, the fee is the fee and that includes investment management and the custody.

Chair Brown asked and what is that fee?

Mr. Fonseca replied we haven't got there yet. It depends on the size but it's between 30 and 40 basis points and there's no minimum. We don't have a minimum floor per se. Our firm is rated AA1 by Moody's, AA by S&P. That should be an important consideration when choosing not only a custodian but an investment advisor. We are the largest financial services firm in the world. So it should give you a good feeling that we can stand behind all of our commitments. In our managed portfolios, we have about 58 billion dollars under management. We do manage money for other municipalities and other states and local governments both pension and public funds and have for many, many years, page 4 of the discussion. The other thing that we a little differently is a lot of municipalities and corporations use a third party consultant and as part of our services, we use an outside company called Evaluation Associates, Inc. which is a consultant that basically looks over the portfolio making sure that are adhering to your investment objectives and following the disciplines. They put out a written quarterly report based on our firm and the objectives that we follow for you. So it's a systematic review externally and then we have internal controls that review to insure that the account is being managed properly. Any questions so far on that?

Page 6 is really what we are here to talk about today. These are our objectives and using your guidelines of a maximum maturity of 3 years which we are currently looking at, we take that approach that we will apply your investment policy to these disciplines and we'll take position in the marketplace based to outperform, in this case the SBA, and I'll get to those numbers toward the end of the discussion here. We analyze interest rate environment, we determine portfolio position, what types of securities that are going to be government agencies, or are they going to be money market funds. Then we'll the position of whether we are neutral on the yield curve, defensive or we're very positive given a rising rate or a declining rate environment. We'll select securities and put the portfolio together in what we think is the greatest relative value for outperformance over the SBA with the idea of maximizing total return and minimizing the risk to the portfolio. We will monitor it, we will reposition it and with that in mind with that comes a separate quarterly statement that shows how well we are doing based against our benchmark and depending on of course the amount of money that we have to manage.

On page 7, you had asked me about performance and how we do. Based on your investment policy of a 3 year maximum maturity, the first line GSM 3, you can see how well we've done so far as far as total return over the last ten year. Those are annualized figures on a total return basis. So last year we did about 8.2% which we think is pretty darn good.

Chair Brown asked so what portfolios are there? If you are managing separate account portfolios, what is this the performance of?

Mr. Fonseca replied he has a little handout which will summarize that. These are all government and agency securities based on your current objectives in your investment policy.

Chair Brown said but where you say for example in 2001, the GSM 3-Year.

He replied right, that means Government Securities Management. That's the name of our separate account to manage a product for government and agency securities from 0 – 3 years.

Chair Brown so this is a pool product?

Mr. Fonseca said no, it is a separate account.

Mr. Gelenes said we've just labeled it Government Securities Management for internal reasons so we know when we are pitching for example what we are talking about. It's a combination of AAA U.S. Treasuries and U.S. Agencies with a maximum of 3 years. It is an actual separate portfolio. The difference will be if we're going into a firm to buy a block of treasuries for example, let's say we are buying a 100 million treasuries, then we are going to put a million into your portfolio that day, we are buying a block of a 100 million and putting it into your specific portfolio.

Chair Brown said he is still having a problem understanding. You manage a lot of different portfolios? Does this represent the aggregate of all the portfolios that are being managed by this particular approach?

Mr. Fonseca said yes this would based on the 1 – 3 year time frame that's absolutely correct.

Chair Brown said so you have a group of accounts that are being managed like the GSM-3 Year account that you outlined?

He replied there's a lot of municipalities like yourself who have a 3 year maximum maturity.

Chair Brown said and this kind of the aggregate of all those accounts?

He said this is and it's audited by Evaluation Associates, Inc.

Chair Brown and the fee in here was 30 to 40 basis points?

Dr. Andrews asked for some numbers for 2002?

Mr. Fonseca said frankly, it's not a good answer that I have to give you but the numbers will be coming out tomorrow. It's a situation where not only does Evaluation Associates have to have it audited but so does the SEC. I can tell you we pretty much fall in line with what you see in 2001 and we can certainly get that updated to you tomorrow. We were hoping to have them for you this morning. This is firm-wide, country wide but in general it's probably falling in line with what you see in 2001 if not better.

Dr. Andrews asked in excess of 8%?

Mr. Gelenes said yes sir. If you look at the professionals on the little handout, we attract some of the best and brightest people in the investment community and Ellen Cammer is the Investment Managing Director for government securities management. It's a well defined discipline, it's a very narrow and specialized focus and we think we have some of the best people on Wall Street to do this and clearly our numbers bear that out.

Chair Brown said the Merrill Lynch 1 – 3 year treasury was also in excess of 8% so it's similar to your benchmark for a guideline.

Mr. Gelenes said yes sir, that's correct.

Chair Brown said and going back to the previous page, one of the things I had trouble with when I read this last night was that on the one hand, the second bullet under investment philosophy talks about not using market timing or attempting to forecast interest rates but then in the investment process section, it sure looks like what you are trying to do what you are trying to do is to mark a time and forecast interest rates.

Mr. Gelenes said that's a very good point and we thought you might bring that up. What we are talking about here is vs passive approaches. If you read that statement, it's the potential to outperform passive approaches because we are actively managing and monitoring the portfolio in a response to changing market trends or economics in general. We are not trying to time the markets or attempt to forecast interest rates but as you know it's changing the world and the economy and we give us some kind of a guideline on whether we need to be defensive or neutral if we may feel that right now with interest rates being at a 60 year low, we are somewhat defensive right now because we don't think rates are going to drop too much further here. So we'll take the position meaning our duration right now is 1.3 years in the portfolio which is shorter than normal because the index that we are matched against is the Merrill 1 to 3, the treasury index is 1.7. So we are a lot shorter than our bogie so to speak because we just feel that rates don't have anywhere to go but up probably.

Dr. Andrews said tell me if this is not the right time to ask this question but hypothetically would these numbers if we were to give you 10 million dollars to manage under this GSM-3 year approach, do you feel reasonably certain that it would be in the 8% range?

Mr. Fonseca said if you go to page 8, we have year to date as of September 30 as my associate here said. The fourth quarter numbers we could not provide because they were not audited as of this morning so we didn't feel it was appropriate but if you look at our 1, 3, 5, 7 and 10 year record, you can see what we've done on on an annualized basis.

Chair Brown said so the first nine months was 3.5%?

He replied that's correct and then we had a very good fourth quarter. You can see consistently we've provided superior returns over a long periods of time. I think that is what this is about. We are not trying to micromanage the portfolio on a quarterly basis. We look out 1 2 3 5 7 10 years.

Chair Brown said if I look at that table on page 8 and I look at the GSM-3 year vs the Merrill Lynch, it looks to me like we have fallen short in the 9 months, also the 1 year, also the 3 years, also the 5, also the 7 and also the 10 years.

Mr. Gelenes said that's correct.

Chair Brown asked so how is it that you've outperformed?

Well, we have outperformed the SBA in cash strategies in general. The reason we put that in there is because at Evaluation Associates which is our outside consultant, we have to have a corresponding index to manage to and that's a passive index. That's a group of securities from 1 – 3 years so as I said previously we get somewhat defensive on interest rates, we will underperform because we'd rather provide a little less return with safety of principle in mind, keeping in mind these are public funds.

Now on that same page going back to investment policies about the possibilities of changing the investment policy, we also provide some returns using a dominant and agency security with a 5 year maximum maturity. That's on the third line GSM 5-Year. That's exactly what we just discussed in the government securities portfolio for 3 years only it's a 5 year maturity and we provide some returns there as well by taking the maximum maturity out 2 more years. On that portfolio, the GSM 5 is to give you some relative benchmark. The duration on our portfolio is currently 3.0 3 years exact. The index again is 3.7. So roughly we're half a year shorter than the index for the same reasons why we are in the shorter security portfolio. The average maturity we have is 3.1 years, the index is 3.8 so again showing our defensive stance on what's happening in the environment similar to the shorter portfolio.

Mr. Fonseca said clearly governments and agencies can provide superior returns if managed properly. We've also provided a little bit of discussion about our active core bond management if the investment policy could change. If you'll look on the little white handout on the third page using investment grade corporate bonds and in that type of management we look to provide again maximum total return because I think that's what the Town cares about and current income being secondary but most importantly reducing risk and we would work with you a little bit more closely with that depending on your horizon if you have any liabilities you have to match or you had needs for the cash. It's a value oriented approach meaning we try to buy under value securities, limit the risk and provide a superior total return. So with that in mind we take a duration position as Greg just said based on the economic and market cycles and based on how we view interest rates. Again, we think there's not much downside here for rates, we think there's a lot of upside coming later in the year. We look and analyze the yield curve, the sectors of the corporates that we're managing and then do our security selection whether it be corporates, mortgages, or asset backs. If you go the following page, you can see our returns vs a longer term index which is a Lehman government credit index which is an intermediate term index. You can see we have had very good performance vs our benchmark. Again, that's a passive index.

So that's just a suggestion and if you did decide to change your investment policy, that would be another suggestion. But with the investment policy the way it is, you can still get superior returns without taking credit risks and that was the main point I would like to drive home. I think you can sleep much better at night with a government or government agency in a portfolio that than you can in a corporate bond in light of all the situations that have gone on in corporate America. You never know, you wake up one morning and the CEO is in jail, and the investors are bailing out and then the bonds down 20 to 30% in value for no other reason, not because the business is bad. Back to our main book on page 9, what we did was put together a risk return analysis. A picture is worth a thousand words. I think this kind of gives you a better overview of our annualized standard deviation and what that is in plain English is the fluctuation or the risk tolerance of the portfolio vs other indexes and 90 day T-Bills which I think would be appropriate vs the SBA. So you can see that our 3 year government securities program has an annual deviation of about 1.5% with an annualized return of 5.9%. It's a lower risk profile than the Merrill Lynch 1 – 3 index. If you need me to stop or if you have questions, feel free.

Dr. Andrews: "I'm trying to figure out the correlation between the GSM 3-year on page 7 and the GSM 3-year on page 8. Are they basically the same numbers on that top line just stated differently?"

Mr. Fonesca said yes, they're done over a longer period of time. One was as of 12/31/01 which are annualized on the next page as of quarter ended 9/30/02. We just extrapolated those out.

Dr. Andrews said let me restate the question if you were in the GSM 3-year and you had 10 million dollars of the Town of Palm Beach's money, what do you feel comfortable in this environment today saying the rate of return would be?

Mr. Fonesca replied candidly that's a very difficult to answer because rates are probably going to head up somewhat in the third or fourth quarter we feel. Based on what we've done year to date, I would say in the defensive posture that we're in something north of 3 – 3.5% and that would be just an educated guess here at this point because we don't know what rates are going to do. Looking back at our performance and the team of professionals that we have, we've done extremely well year in and year out. We have a long history of providing goods rates of return and good service and I don't see any reason why we shouldn't continue to do so.

Dr. Andrews asked is there anything that you would recommend to us as an investment review board of the Town that we consider as far as adjusting our investment policy?

He replied understanding we are sensitive to where you sit. We do a lot of business with municipalities both in the separate account area and with individual treasurers of municipalities and I know that you are scrutinized and everything is out on the table and everyone is always looking to criticize certain situations. I would say that the only thing I can see that I would that I would maybe recommend changing in your investment policy is extending your maturities to 5 years from 3. And if you feel comfortable as an investment policy committee and are going to be extremely diligent, then I would add Corporate Bonds in. I don't see the need for any other major changes having read this and in looking the Florida State Statutes, I think it leans more to the conservative side than the aggressive side. In my world, sometimes less is more. We want to be able to come back here quarter after quarter, year in and year out, and say hey we're doing a great job with just treasuries and agencies and not have to tell you why it was another Enron or another Dynergy or there was another corporate blowup or why we lost money. We don't seem to have that problem with government and government sponsored enterprises.

Dr. Andrews asked if we would request it, could you give us references in Florida?

Yes, unfortunately we were going to provide those but as you know, our building went down at the World Trade Center and we are reconstructing our records and we have to get written permission again from all the municipalities to disclose that. All of our records and back up files got lost when the World Trade Center went down but I can tell you that one of our largest clients is the State of New York. We manage over a billion dollars for them.

Dr. Andrews if they manage anyone in Florida?

Mr. Gelenes said there are municipalities, again, it's a matter of getting signed off.

Mr. Fonseca said just like we would come to you if a prospective client said what are the towns or the cities in Florida that you manage, we couldn't disclose that without your written permission. And unfortunately, we lost a lot of records.

Mr. Gelenes said their headquarters just opened again in New York in November so that's a project that I initiated about 10 days ago. We are trying to get that list to have available for all of you. It will take some time but I can get that for you.

Mr. Fonseca said he can probably get a general short list but there are lots of municipalities that we do manage money for.

Mr. Gelenes said he will comment quickly on the corporate situation if that's a position that you may want to change your policy with. Just to understand what kind of bonds we actually put on the corporate side into that portfolio to maybe hopefully have you rest at ease. I'll just list the ones that are in it right now. A lot of our competitors and a lot of financial companies we see valued there, Merrill Lynch, Morgan Stanley, Chase Manhattan Bank, Wal-Mart, Proctor & Gamble, GE and Bristol Myers. So AA or better for the most part rated securities, sometimes we dip down to A+ but it's all quality corporates. We are not making a bet to take on excessive risk in this corporate environment. That's the last thing we want to do. If we fault in any area, it's being more conservative than being more aggressive in taking a risky bet especially in the corporate side right now.

Dr. Andrews asked A or better bonds?

He replied yes in general A or better bonds. Again, it's going to be an individual portfolio so if you're clarification needed to be AA or better, that's all we would put in that portfolio. It's not as you mentioned a pool of funds, it's going to be your own securities so if that was disclaimer within your right, we could do that for you just AA or better, whatever parameters you need we can customize.

Mr. Fonesca said there is a limited scope of AAA and AA corporates. There's only a handful of AAA companies left. I think there's four or five and AA really are not that many so you are kind of limited from A, it narrows the scope. And if those companies get downgraded and your investment policy says you have to have A or AA or better, we are immediately forced to sell those bonds at a lower price. So what I said to you earlier about the strategy of using governments and government securities, we don't every have to worry about a downgrade. I don't think the U.S. Government is going to get downgraded from AAA. So that's some food for thought and when thinking abut changing your policy and depending on whether your are trying to match the liabilities with this money or this is just excess Town funds, then it might be somewhat different. If you said you know we have to meet a bond redemption in five years or we have a capital construction project that we are doing in five years, we might take a little longer term view in the marketplace.

Chair Brown said he does not think most of it is that specific.

Mr. Fonesca said we want to just give you a broad outline of what we do and who we are. We live in the community. I've been with one firm for 21 years. I've lived in Palm Beach for many years. My wife is a Palm Beach native if that helps. If you can believe it, I think there is probably five people who were born in the Town. So we live and work here and we interface with the community and elected officials in the County on a fairly regular basis. We understand our obligations to the Town and the community very well.

Ms. Skittone asked are there many municipalities in Florida that use your active core bond?

He said only a handful. I think in the case of Orange County, they use corporates. The larger municipalities tend to do it because they have more discretionary funds to do it. I don't think in this environment that you're really getting paid to take credit risk. That's my own personal view. I just don't see why you should. I'm sure you'll get other folks to come in here and present say corporate bonds are the best value and to those accounts that understand credit risk and they are going to look at them from a very focused basis, yes, there is value. But how long does the investment advisory committee meet?

Chair Brown said we are a special advisory committee. We have come into existence and we are going to go out of existence.

Mr. Fonseca said so Jane will be responsible going forward. I think Jane has other duties as well besides worrying about whether her bonds are going to pay but worry about the default. So I think from that perspective Jane managing the portfolio a portfolio of government agencies which everyone understands, are very simple. Our adage is the simpler it is the better it is and a layman should be able to understand it. Any layman will be able to understand a government or a government agency. We would feel more comfortable as well. It would give us a chance to get to know each other and if in the future you decided to do something else, certainly we would love to entertain that.

He asked for any other questions or comments.

Chair Brown thanked them for the presentation and stated it was very helpful.

Mr. Fonseca said thank you, we appreciate the opportunity. If I may add, if there is anything else that is not clear here or that you may wish to get from us, feel free to call us and as soon as we get the audited figures, we will send those over. Thank you again.

XI. COMMITTEE DISCUSSION ON THE LAST TWO PRESENTATIONS
(Northern Trust and CitiGroup)

Chair Brown stated we have had two presentations by active money managers, any comments?

Dr. Andrews said he thought they both did a good job. It's hard for me to see the value at this particular time with these rates over something like Florida League of Cities which has lower fees, might be easier cash withdrawals, and not as much active management. I don't really see the benefits of active management at this time. Now as we go in and rates change, I could see it. I also would like to bring up that I thought two good points were made about the corporates and I am still confused. Can we put corporates in there or not at this particular time?

Ms. Skittone said just commercial paper.

Mr. Hennessy said we would have to change the policy.

Dr. Andrews said he thought that was a good idea to change the policy and then the possibility of going out to five years. We don't have to do it but it would be nice.

Chair Brown said the other thing I think is important about your question and again correct me if I'm wrong Jane, but I believe that the government pools are already able to invest in some things that are not part of our current policy.

Ms. Skittone said correct.

He said so they actually have more flexibility without a change in the investment policy and without having to get an ordinance because corporate bonds are not listed, I don't believe in the State Statute at all. But because they are government pools, they go by a different Florida statute and they are able to do some investing that we would not be able to do on our own without changing policy and maybe even having to get a Town ordinance in some cases. So that's another reason it's a little easier to go toward the government pools if they meet our needs. The other thing that occurs to me is that there is a greater diversification in the pools although if it's mostly government that probably doesn't matter. Then finally, one of the things that bothered me a little about this last presentation in addition to the fees that you mentioned, Michael, is that they claim they don't anticipate interest rates but in fact that's their whole management style seems to me is to try to anticipate interest rates. We really have to decide as a committee do we want this kind of fund to be managed in a way that people are trying to figure out what's going to happen to interest rates which is a perfectly legitimate approach or do we want to have something that once we go back to whatever we were doing before we came here that people don't have to worry about that particular aspect of what's happening, which direction interest rates are going. I think that's a very basic question. Do we want to have someone trying to out guess interest rates or not?

Mr. Hennessy said that's the risk side of it.

Chair Brown said that's the risk side of it and the reward side of it.

Dr Andrews said at this point in time on the interest rate cycle, both people have said that their reward is not commensurate with their risk. So it's tough especially when they throw the fees in. I have a question for Jane. Is there any difference to you on working with an active manager or some type of a pool. I know the SBA is daily but does one cause you more administrative considerations than the other?

Ms. Skittone said I would presume at least reporting wise that the league would be similar to the SBA reporting interest we earn that month. I would think that the active manager would be more like the First Union reporting where you would have a list of all the securities that they are holding.

Dr. Andrews asked how about for cash flow considerations? Can you work with both styles?

Ms. Skittone said this is money supposedly, at least the 30 million, that we would think we could go out further. It really wouldn't matter. If you are starting to talk about that area between the longer term and the immediate needs, I'm sure I would just have to give him advance notice to sell securities when I would need the cash.

Dr. Andrews said if that happens, he would have to have shorter term securities available which would kind of mess up his yield. I think it would be very tough for him to meet those standards which are gross without any cash in there.

Ms. Skittone said when we had our money with First Union, I think we only took money out once and that was for something special. That was never an issue until the end, getting money from them and having to sell securities to raise the capital funds.

Chair Brown asked would the committee feel that subject to getting further information that we've asked for that we've done enough to listen to the various alternatives to come to a conclusion at the next meeting as to what we'd like to do?

Mr. Hennessy and Dr. Andrews both agreed.

Dr. Andrews asked Jane again, we've seen pool investment accounts, we've seen active management, is there any other type of money manager, are we missing anything?

Chair Brown said he personally feels that the Florida League of Cities gives us a really good alternative to put some of the money out and I think the only question in my mind would be just exactly how to do it, what proportions, and whether we worry about whether this is the bottom of the interest rate cycle and therefore don't want to put too much out right now. Maybe trade it in over a period of a year or two or something like that. I think as the vehicle that Jane and her staff would be more comfortable with something that you are kind of used to dealing with. Whereas the active money manager is just a totally different animal and I think it would be more difficult to supervise and I don't think we would get a lot more return particularly in the difference of fees. So to me one of the things I have already started working on with Jane, I couldn't work with you folks because of the sunshine law, is a draft report which doesn't have any conclusions in it yet. What I'd like to propose to the committee is that I work with Jane between now and the next meeting to come up with a draft report and have that report sent out hopefully before the next meeting and then discuss it at the next meeting and make whatever changes you folks thing appropriate to that report. And then we also should be able to get additional information by then, what some of the other towns are doing and how they feel about the Florida League of Cities.

Mr. Hennessy said he would be very interested in whether other towns do have investment managers or do they pool their funds. He said he would not to be alone as a town using investment managers.

Chair Brown said we clearly wouldn't be alone with the Florida League of Cities. So the only cautionary thing would be that we sent the report out in advance. We can't discuss it in advance until we get to this meeting.

Dr. Andrews would the report include recommendations that we have to make?

Chair Brown said some kind of recommendation for some kind of ranges of maybe two or three possibilities. Based on further input we get and your opinions, we could make whatever changes we wanted to the report at that point.

XII. DISCUSSION ON INVESTMENT OBJECTIVES AND BENCHMARKS

Mr. Hennessy said going back to your comment about forecasting interest rates, there isn't anyone that isn't doing that even in the Florida League of Cities.

Chair Brown said you could well be right. These guys are really making their living doing exactly that.

Mr. Hennessy said that's right, if they don't make it, they lose.

Chair Brown said sure, especially with the fees. They have to make up a lot of fees with 30 – 40 basis points.

Mr. Hennessy said he would like to see at least some of the funds go to some investment manager. He would not want to put it all with the Florida League of Cities.

Dr. Andrews said at this point in our history, with two meetings, I prefer to keep it all with the SBA and the Florida League of Cities, see how that goes, because we are going to pick up some basis points. We are going to look good because we have done something that has increased the income parameters to the Town. I think the Town's going to say hey maybe this committee ought to be a standing committee. At some point in time, you are going to look at it and say we have a financial environment which could become completely different than the present environment say six to nine month from now.

Mr. Hennessy said we could put that in the suggestions for change that should be considered maybe sometime in the future.

Chair Brown said he thinks that's a better way to handle it. One of the other considerations is that if we are talking about 30+ million dollars and we are talking about splitting it up among one or two of the Florida League funds and an active manager, I don't think there is enough money there for the active manager to really be able to manage.

Dr. Andrews said if 10 million came up to 50 basis points.

Chair Brown said and then you lose 50 basis points in fees and then you lose diversification so I think you really need 20 to 25 million.

Dr. Andrews said and Northern Trust had not done it before so we would be their first barbecue so to speak.

Chair Brown said he would think from a money manager point of view anything less than 20 to 25 million, you are not going to get the diversification you wantor the low fee you want. He doesn't think 10 million would do it. Plus, we could put in depending upon future conditions, this should be reviewed again in another year or two or something like that.

Mr. Hennessy agreed.

Chair Brown asked what else do we have to discuss? Jane, anything else on your line?

Ms. Skittone asked you're saying the agenda items for the next meeting are to discuss the draft report and then probably before that get all the references and other information?

Chair Brown said let's get all the references first and any information you have about what other cities and towns are doing.

Ms. Skittone said she had copies made of the information that Darlene handed out.

XIII. AGENDA ITEMS FOR NEXT MEETING – FUTURE PLANNING

Dr. Andrews said he had one other question as far as agendas are concerned, next week we will look at making some decisions, then we would need one more meeting to sign off on the decisions? Is there anything that we would have to do between the next meeting and the Board presentation if we sign off?

Chair Brown said if we sign off even if we don't see the report in final form, if you know what it's going to say, I think it's probably okay. What do you think?

Ms. Skittone said probably.

Chair Brown said then we can probably meet the March 11 Town Council meeting. Actually we have to come back next fall and see how thing are working.

Dr. Andrews said if we come back to see how things are working, at that point we could make decisions based upon current information.

XIV. ESTABLISHMENT OF NEXT MEETING DATE – FEBRUARY 4, 2003 – 1:30 P.M.

Chair Brown said the next meeting will be Tuesday, February 4, 2003 at 1:30 p.m. When we make a presentation to the Town Council, does the committee come?

Ms. Skittone said yes.

Chair Brown asked and then we send them something in writing in advance.

Ms. Skittone said probably two weeks in advance of the meeting and that goes to the Town Manager and he distributes to the Town Council.

Chair Brown said he and Jane will have to work hard because he will be in Boston for most of February.

XV. ANY OTHER MATTERS

XVI. ADJOURNMENT

Dr. Andrews moved to adjourn. Mr. Hennessy seconded. Motion carried.