MINUTES OF THE INVESTMENT ADVISORY COMMITTEE
January 6, 2006

I. CALL TO ORDER AND ROLL CALL

Chair Andrews called the Investment Advisory Committee Meeting of January 6, 2006 to order at 2:00 p.m. In attendance were:

Investment Advisory Committee	**Others**
Chair Michael F. Andrews	Darlene Malaney, Florida League of Cities
Stephen L. Brown	Greg Coleman, Atlanta Capital
Edward L. Hennessy, Jr.	**Finance Staff**
Albert D. Hutzler, III	Jane Struder, Finance Director
Bernard R. Panfel	Betty Cotton, Office Assistant

II. PLEDGE OF ALLEGIANCE

Chair Andrews led the pledge of allegiance.

III. APPROVAL OF AGENDA

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

IV. COMMUNICATIONS FROM CITIZENS (3 MINUTE LIMIT PLEASE)

No citizens attended.

V. APPROVAL OF MINUTES FROM THE DECEMBER 7, 2005 MEETING

The following corrections were made to the minutes.

On page 7 of the minutes, "Chair Brown asked is there any more discussion on the Monthly Report" should have stated Chair Andrews.

On page 4, second paragraph, page 6, last paragraph, and page 8, second paragraph, the word "insulary" should be ancillary.

Mr. Hennessy moved for approval, Mr. Brown seconded, motion passed unanimously.

VI. PRESENTATION BY FLORIDA LEAGUE

Darlene Malaney brought a quarterly report from the consultant of the portfolios that the Town is invested in. This can be made a part of the quarterly presentation if preferred. This information is their independent consultant's review of what Atlanta Capital is doing in managing the Town's money along with the other municipalities and will help the Town and the Committee to address some of the comments made at the seminar on December 1. As a member of the Florida League Investment Advisory Committee, Jane Struder will receive this information quarterly.

The first page, Summary of Investment Performance, is good information to get a feel for the consultant's assessment of the managers. Also provided is some information on the enhanced cash portfolio because some interest had been expressed in that in the past. That portfolio is doing very well. It is essentially the same as the SBA. One of the main differences is that it does not provide for daily liquidity but the Florida League is looking at talking with the managers and the custodian bank about providing for daily liquidity and daily pricing in each of their portfolios.

Given Atlanta Capital's mandate for each of the portfolios, the 1 – 3 year and the intermediate portfolios are doing a very good job. The 1 – 3 year is meeting or beating their benchmark. Their benchmark is the Merrill Lynch 1-3 year Government Index. The guidelines are also provided later on in the presentation. It's important to remember the constraints that the League has put on these managers, and in looking at them compared to their benchmark, keep in mind the very conservative nature and the guidelines that they are under. In the intermediate portfolio, the managers are not doing quite as well, in the eyes of the consultants, but are still keeping up with the median managers and doing a good job in meeting their mandate there as well.

Page 14 is a view showing the amount of money that's in the enhanced fund. It's basically just like the SBA. One of the main differences is that it is AAA rated by the League as well as the Manager, Bank of America. They have it rated now by all three rating agencies. The League has had a lot of money coming out of this fund as is the nature of that kind of fund. Most of the money in that fund is bond proceeds from the League's bond program and people are spending the money that they borrowed so that's consistent with where you see the net additions as a negative number.

Page 15 shows how the enhanced cash fund stacks up against other managers out there and what ranking they hold in this universe. The first percentile is where you want to be but the median manager, of course, is in the fiftieth percentile. As you can see, Bank of America is well above the median manager in all the timelines that this portfolio has been in existence for the League which is only a little over two years.

Page 16 is the 1 – 3 year that the Town actually holds assets in. Both of the reports that were handed out are basically the same identical statistics just for each of the portfolios. They are showing what the performance goals/mandate for Atlanta Capital is to outperform the Merrill Lynch 1 – 3. There has also been a negative net additions into this fund. A lot of our members have moved money around in the last year either to shorten their portfolios or just because they need cash. A lot of it has to do with the active hurricane season.

The League pays an asset consulting group not only to look at the portfolios as far as how well they are performing against other managers, but exactly how the managers are structuring the portfolio to tell us where they are adding value, if they are outperforming or underperforming, why that is, and slicing and dicing the portfolio to see how it is structured. They also look for compliance issues. A long list of compliance monitoring needs to be done on a monthly basis.

Chair Andrews asked if the League's gains and losses in the handout are realized gains and losses?

Ms. Malaney said yes.

Mr. Hutzler asked if that includes the income or is that other than just the income?

Ms. Malaney said they are listing the income and also listing the gain or loss there separately.

Page 18, the FMIvT High Quality 1-3 year Bond Fund Characteristics chart, really gives you the best picture of what's going on as far as the risk and reward relationship and why are they underperforming or outperforming to their benchmark. If you drew a cross limit on the square in the top left corner to make it have four squares, you would want to be in the top left corner where the blue diamond is which is exactly where the 1 – 3 year portfolio is. On the left is the rate of return and on the bottom is standard deviation. That shows relative to where the yellow dot is at the bottom on the right, that this portfolio has obtained a higher rate of return with taking on less risk. That is the optimal place to be.

Some other good easy to understand statistics provided in the top right corner is the up capture and down capture. They are capturing 99.4% when the market is up and good. When the market is down, they are only losing 78% of what the overall market is. So that is the way you would want it to be, you want to capture more on the up side and less on the down side.

In the bottom right corner, the return analysis shows against the benchmark how many positive months versus negative months. Our highest monthly return was 1.58%. This is over the last 111 months versus the benchmarks highest was 1.67%, the lowest being -70 basis points, and the lowest in the benchmark being -95 basis points. Overall, the percentage of positive months was slightly higher in the League's portfolio versus the benchmark.

Page 19 shows you how they are performing against other managers in the 1 – 3 year portfolios. They are performing pretty much in line with the median managers. Again, it's important to remember here the constraints that are put on the League's managers, and the fact that most of the portfolios that they are being looked at against are not AAA rated nor do they have the constraints that the League has. But even given those constraints, the League's managers are doing a pretty good job of staying above the median manager as well as the benchmark.

Page 20, Investment Guidelines, actually lists what those constraints are. This is what Atlanta Capital has to deal with every month. These are the things that Asset Consulting Group looks at every month to make sure that the League is in Compliance with what our Board of Directors has governed the policy to be. Atlanta Capital is in compliance on everything.

Mr. Brown asked how to interpret the last set of restrictions, MBS, CMOs, and ABS, and the final payment window and the volatility. He is not sure that these are very strict guidelines or easy guidelines. How does the committee know that it shouldn't be substantially different?

Ms. Malaney said the recommendation for all these guidelines has been provided by the League's consultant and actually since the Town has been a member, Asset Consulting Group has come on board with the League. They have done a thorough review of the guidelines of each of the League's portfolios and there have been some minor changes made based on what they think is in the best interest of the League's membership.

The next few pages following in the report are identical types of information to this but in the intermediate fund. She pointed out they have had some money leave this fund over the last twelve months. Some cities have been shortening their portfolios in the current interest rate environment.

Page 22 is the same story as far as the sector allocation and everything else the consulting group is looking at. How the managers are adding value to the portfolio or if they are underperforming, why that may be based on how they are structuring it versus the benchmark.

Page 23, in the top left corner, the dots are reversed here. This is showing the portfolio performed slightly lower than the benchmark but took on a little bit more risk. One of the things that support it is the scale from the top to the bottom is only 1 basis point difference versus the previous square on the 1 – 3 year portfolio where the difference between the two dots was 20 basis points. Yes, they did achieve a little bit lower return with a little bit more risk but the spread is really, really tight here against the benchmark. All of this information on this page is over the whole nine years.

Chair Andrews asked why don't you have the same scales?

Ms. Malaney said that's a good question, she will ask the consulting group.

Chair Andrews said because you are talking about one is in the 6% range, one is in the 5% range. It would seem that it would look better for the League.

Ms. Malaney said in the intermediate portfolio, again capturing almost all the up capture, and the down capture is slightly less but it's a lot closer in this particular portfolio. That resulted in, on the bottom right over the nine years, about 72% of the time, the number of positive months versus 75% of the time in the benchmark. The difference in the volatility is shown here with the highest return and lowest return when comparing the two. Their lowest return was quite a bit in relative terms better than the lowest return on the benchmark portfolio.

On page 24 looking at the intermediate against the median managers, this has been a topic at the League's Advisory Committee meetings. The consultant is saying it is in line with the constraints that they have and they are comfortable with these rankings. In looking at universes, the League has had endless discussions on universes at Advisory Committee meetings. It's very tough to find a pool of other managers out there that are managing funds just like what the League has mandated Atlanta Capital to do. So in the best universe that the League can come up with, this is what their rankings are, much better in the most recent periods than the other periods. The 3 year and the 5 year that look a little worse, have been discussed at those meetings. Asset Consulting Group is telling the League that they are comfortable with where they are. Again, very tight spreads in all of these between the benchmark, the median manager and the League's manager.

Page 25, Investment Guidelines, is very similar to the 1 – 3 with a little bit longer duration, obviously, but they are in compliance with everything.

At the end of the report, she provided a summary of the most recent performance returns she had at the time she prepared this report which was November. In addressing some of the concerns that were brought up at the workshop, Atlanta Capital is doing a great job in meeting their mandate, but the mandate of most cities is to beat the SBA. That has been a concern from cities and especially given the market conditions over the last few years. No new members have been brought into the investment trust because cash has been the place to be. Their cash fund has been created since then as an alternative for members to utilize. But the majority of cities don't have a sophisticated committee like the Town of Palm Beach. They have a Finance Director who is an Accountant who doesn't know a lot about investments and even if they did, they do not have time to deal with it.

The League took that to their consultant stating that cities just want to beat the SBA by a little bit and they do not like volatility, what can the League do? Asset Consulting Group has done a very complete study which was shared at the seminar. They are saying what the League brings as an advantage to cities is the economies of scale. In order to provide a product that's going to have a fee advantage to our members, the best thing they are proposing is to take a mix of our current portfolios and create a new portfolio which would basically be like a fund of funds that would hold for securities, and that would be the enhanced, 1 – 3 year bond fund, intermediate bond fund, and long bond fund. They ran scenarios through all their complicated computer models.

The mix their computer came up with is about 60% cash on the conservative side, to beat the SBA by about 50 basis points consistently, and a slight mixture of the League's other three portfolios on top of that. Over the last ten years, there might have been a couple of negative months, a little bit over the SBA but very little volatility. The League is in the process of trying to make that happen. Actually, the Town is already kind of doing that through your cumulative portfolio with most of your money in the SBA and then utilizing a couple of the League's portfolios. The League is listening to the concerns of membership and trying to create a product that meets the needs of cities out there.

Chair Andrews asked on the Summary of Performance Returns sheet that shows on a one year basis, the League is up 2.21%, is that right?

Ms. Malaney said yes.

Chair Andrews said on page 16 looking at the gains and losses, it looks like there is a net loss over the last 12 months.

Ms. Malaney said there is a two month lag in there because this is quarterly report versus monthly report.

Mr. Brown said it's an income of 10.6 million and a gain/loss of -5 so it would be a net of 5. He said in looking at the three year column, which is the closest on this sheet to what the Town has done, and according to the three year column, the 1 – 3 year bond fund beats the enhanced cash which is similar to the SBA, and so does the intermediate fund, 2.19 versus 1.97 and 3.12 versus 1.97. And yet, internal calculations show that the Town is substantially behind. He is not quite sure if it's timing or what but there's something strange going on.

Mr. Hutzler said those are gross of fees.

Ms. Malaney said the last page in the booklet is the net of fees and so the three year number is 20 basis points difference.

Chair Andrews said but it's still positive.

Ms. Malaney said yes.

Chair Andrews said that's one of the issues in trying to compare numbers. When the League has a number that's positive and the Town has a number that's negative, it's important for the committee to have standards or benchmarks to look at that are correlated.

Mr. Brown said he agrees. This sheet shows the Town is ahead but when they do their internal calculations, they are behind.

Ms. Malaney said because it's only ten basis points, it may be that those few months made that difference. The Town has a substantial amount of money in there so she doesn't know without looking up the numbers. Asset Consultant Group does prepare the League's performance as well so it is done by an independent third party.

Chair Andrews asked Ms. Struder if she has a thought on why the numbers would be negative and their numbers would be positive for relatively the same time period?

Ms. Struder said there's a four month difference. The Town started in March 03 and this is through November 05. She doesn't have the data with her on those first four months.

Chair Andrews asked would it be possible for the League to give numbers that are in line with the Town's numbers?

Mr. Brown said this should be looked into because it does seem different. It may be just the timing but if it isn't then it may be the calculation. Who knows what it is but the Town and the Committee ought to know what it is.

Ms. Malaney said okay she will get that updated and she will ask the consultant. If the committee and Town would like her to schedule a meeting when he is here, maybe the schedules can be worked out where it's convenient for both, she would be pleased to have him come and speak and address any of these concerns.

Chair Andrews asked does he have any control on how the numbers are prepared? That's the issue. If he comes in and numbers still cannot be correlated….

Ms. Malaney said no because the League does everything on a pooled basis. The other thing is he's basing it on the overall pool cash flows. He's not looking at your independent portfolios return so if you provide the League the numbers, they can take a look at that. If it's not that big of a deal, she doesn't see why that couldn't be done on an ongoing basis but the performance calculations are not done in house so she doesn't want to promise something before she speaks with them.

Chair Andrews said, “well, Ms. Malaney, it’s a real big deal for us because you have a positive number and we have a negative number”.

Ms. Malaney said that can definitely be reconciled to get an answer. She will personally work with Ms. Struder to find out what that is and will report back to her so she can report back to the Committee as soon as possible.

She turned the meeting over to Greg Coleman to discuss how the portfolios have done over the last year and to also address some of the concerns that were brought up at the workshop. She did relay some of those comments on to him so he could be prepared to answer those.

Greg Coleman said he was at the workshop two days prior to when Ms. Struder and the Investment Advisory Committee attended. In addition to answering the continuing questions, he would like to review the performance. The numbers included here are the monthly returns that Cheryl Somers sent that they calculated. He had just used those as the numbers so it’ll print a lesser number because those are the numbers that the Town had calculated. The point he is going to try to make is it’s not going to make any difference whether it’s plus or minus ten basis points but they are numbers provided by the Town.

Mr. Brown asked if they don’t see the words net of fees, does that mean it’s gross?

Mr. Coleman said this is net of fees.

Mr. Brown said it would be good if that is always specified.

Mr. Coleman said the standard is always gross of fees but the Town’s return is net of fees. This is one of the two times he has presented it that way and he forgot to note that it was net of fees. He’d like to review some of the material that his colleague presented at the meeting in terms of the product as a useful portfolio diversifier in a pool of cash. Then if time allows, he can give their outlook and how they are structuring the portfolio today based on that outlook.

In the performance review, he has three asterisks at the bottom left of page 2, he should have had four, the fourth one being net of fees. These are preliminary numbers because he wanted to give as up to date as possible. This is through the fourth quarter. For the fourth quarter, the 1 – 3 year was .67 basis points and .49 basis points in the intermediate as rates generally rose during that period. December was a good month. So they outperformed the benchmark net of fees by about 50 basis points yet still trailed. That’s not a very good year for the risk taken against other managers going against that same benchmark. The Merrill-Lynch 1 - 3 is a very good proxy for the SBA. It generally runs about 10 basis points less than the SBA. He thinks they returned about 2.03 for the period 3/31/03 to 12/31/05. It’s very easy for them to show this as a benchmark. Many of their other accounts look to that and it is easy to get this published daily.

On the longer term, that 1.76 should be pretty close to the numbers that the Finance staff calculated. Again, that is net of fees and adding the fees back in, it would have been very close to tying the SBA and beating the T-bills. Again, largely because rates were generally rising over this period, the numbers surprisingly are a little better in the intermediate. That is surprising because generally with the FED tightening meeting after meeting, all interest rates would rise and that would have a negative impact on bond values and that did not happen this time. The ten year and out maturities actually did pretty well so consequently, the intermediate had a substantially better return over this entire period.

On page 3, he thought what might be useful is to take a step back and look at what's happened if you put a hundred dollars into the fund in March 03. A couple of things are instructive about this, the intermediate is in green and the SBA is in blue and the 1 - 3 is in red. Of course, the SBA, as a stable asset value fund, never ever has a down month. That's one of the good things about it. Obviously, the intermediate is the most volatile in terms of monthly returns, lots of fluctuations up and down but at the end of the day, it was the higher return. You would expect it to, in most cases over a meaningful period of time, because you are taking more risk, and going for a higher yield curve. With the 1 – 3, you can see the same kind of pattern although less severe than the intermediate, and the net of fees a little short of the SBA so far. That's one way to look at it. This takes into account interest income earned, interest income from the cash received as well as realized and unrealized security gains and losses. All components of return and that's the market value at the end of the day. Taking those losses into account, this is where you would be in both.

Chair Andrews said he would love to present this graph on page 3 to the Town but again the Town and the committee can't correlate that with their numbers. Just a rough guess on the latest numbers to the end of November, the Town's investments are down about $250,000 to $285,000. So $285,000 roughly on 28 million, that's somewhere around 90 basis points down. That's a hugh difference. Something's wrong.

Mr. Coleman said it is not 90 basis points. He stated he will get to the bottom of this.

Chair Andrews said that would be really helpful to know why there is such a difference.

Mr. Coleman asked if that is cumulative for the period?

Chair Andrews said that's cumulative.

Mr. Brown said the same period you have, from the beginning.

Chair Andrews said that's what makes us nervous.

Mr. Coleman said he understands. It would make me nervous also. He knows these returns are correct so…

Chair Andrews said he hopes Mr. Coleman is right.

Ms. Struder said the Town investments are heavily weighted in the 1 – 3 year which isn't performing as well as the intermediate. 20% of the funds are in the 1 – 3 and only about 7% are in the intermediate, and the rest of the portfolio is in the SBA.

Mr. Brown said that still doesn't feel like $285,000 difference. Something doesn't feel right.

Mr. Hutzler said in looking at this chart, it seems that the red line, which is the 1 – 3 year, seems to be mirroring the SBA. If you look at the line and how it coordinates with this, it seems to be tracking the SBA line during that period of time. That's a concern because first of all, if we have a loss and 75% of the 8 million dollars is in the 1 – 3 year, why is it there if it's just going to correlate with the SBA line? He's not sure what the fee structure is but maybe that issue can be addressed.

Mr. Coleman said the closer in average maturity that any given portfolio is to money market instruments like the SBA, the more tightly correlated they are going to be. The longest term bond fund would still be correlated. It's not insensitive to short term interest rates but it wouldn't be nearly so as is the SBA. In the intermediate portfolio, the green line, they are still correlated. If you ran a correlation, they'd be in the eighties. But it looks quite a bit more dissimiliar because it is farther out the yield curve. The 1 – 3 year is going to track more closely to the SBA, however, it's not completely immune to rises in interest rates. He would expect them to not be dissimiliar to this and what would happen when rates roll over and start to go back down, is the red line would likely be above the blue line although still reasonably correlated because it is a bond account. They are all driven by Federal Reserve policy and the closer you get to the short end of the curve, the more correlated they are going to be.

Mr. Brown said in the last couple of years, the longer dated securities have performed, as you mentioned, quite well. The intermediate is somewhat affected by that phenomena whereas the short term rates have done nothing but go straight up. Both the SBA and the 1 – 3 year are impacted mostly by short term considerations. So even with the leveling off of interest rates, once that's achieved, the 1 – 3 year would gradually move above the SBA. And, of course, it has much less fluctuations than the intermediate portfolio.

Mr. Coleman remarked that is extremely well put. That is my best guess as well because the yield on your portfolio is now substantially above the current level of rates. So if nothing happened, you would accrue that extra coupon, let alone if rates started to come down.

Mr. Brown said he thinks the big surprise is that long dated securities have done so well in this period and he would be interested in Mr. Coleman's prognostications about the future on that one.

Mr. Coleman said they have done remarkably well principally because inflation has stayed much lower than anybody ever would have thought. Since it never went up as much, they are not going to rally materially. The short answer is that they will do okay. Inflation is lower than before, 2 to 2.5 as opposed to 3% or higher. That's pretty much factoring the curve today.

Ms. Struder said December must have been a very good month because these numbers have changed dramatically from the year to date numbers through November.

Mr. Coleman said yes, 40 basis points in monthly returns, that's not compounded. If compounded, it would be about 5% so the short term was up about 40 basis points, the intermediate was up 67 basis points. Those are preliminary but it should only be off a couple of basis points one way or the other. They are only a small bond rally away from crossing back over that line. Part of the yield curve in the 1 – 3 is a terrific place to be for operating reserves whether it's city funds, hospital, excess corporate cash, health and welfare funds of unions, all of which they manage, it is a very good trade off historically in terms of risk and return and yield and volatility. He would like to refresh that and hopefully give some comfort as a strategy and then give his prognostication. He hears what the committee is saying in resolving the issue, is it 10 basis points or is it 90 basis points? Just to compare over the long run how 3 month T-bills, and if you want to use that again, that's a good proxy for the SBA, the Merrill-Lynch 1 – 3, which is our benchmark, and then going out a little bit further, the Merrill-Lynch 1 – 5, just to show that's only about a half a year extra in duration when you go to the 1 – 5, but it can show what it does to returns and the volatility.

On page 5, December 1990 to September 2005, there's 59 quarters. In good times, the highest quarterly return in the 1 – 5 is over 4%, and only 3.68% in the 1 – 3, and the T-bill highest quarterly return was 1.67%. Notice, of course, 59 positive quarters, no negative quarters because it's a T-bill and of course it matures and you've had some negative in the Merrill Lynch 1 – 3 and you've had 12 in the 1 – 5. So that's that relationship between going out the yield curve but at the end of the day, the returns were quite a bit heftier, almost 1.5% higher in the case of the 1 – 3. Now realize these numbers are a little higher than you might expect today just because of the period of the nineties, the starting rates are high. But the principle still holds.

Mr. Brown said these are indexes of course and they don't have fees. He asked Mr. Coleman what the fees are and basis points for the 1 – 3 and the intermediate.

Mr. Coleman thinks they are a combined fee. Their management fee and the league's administrative fee, custodial fee and audit fees, etc., is about 22 basis points.

Ms. Malaney confirmed the fees are 22 basis points.

Mr. Coleman said on page 6, going back 20 years, over a full market cycle, they looked at rolling 12 month periods to see how the 1 – 3 compared to money market returns. In a 12 month time frame, about 3 times out of 4, the 1 - 3 beat money markets but 1 in 4, it didn't. In fact, there was one period where there was a negative return for the entire year over these past 20 years. In a one year time frame, it outperformed money markets 96% of the time and 100% of the time it had positive returns. Interestingly, in the 11 quarters that Atlanta Capital has had it, they've only outperformed 40% of the time on those periods. So you can look at that either way, the glass could be half full or half empty.

Mr. Brown said the fees could play a part in this too. Page 6, for example, shows indexes only but if we actually put in fee based management, that 96% may go down.

Mr. Coleman said he thinks this index is only treasuries and agencies. With active management, they are able to invest in investments that yield more and that should more than offset the fees as it has in the last year. Page 7 shows some other index indices that have about the same maturity as the 1 – 3 shown here. The Merrill Lynch 1 – 3 year Treasury Index was 5.54%, but maybe yields more. For example, the second one, the Merrill Lynch 1 – 3 year, A or Better Corporate Index, if you only invested in A rated corporates with roughly the same maturity over this period, you would have earned 6.45%. In asset backed, our corporate rating is less than 5% because the League's mandate to Atlanta Capital is the fund must be AAA rated. There are not many AAA rated companies in America anymore. That's really outside the universe of this portfolio but asset backed securities are AAA rated. Atlanta Capital does invest in those and usually they have a very high return over the same period with roughly the same average maturity. It's only about a tenth of a year longer.

On page 9, in rising rate environments or slowly rising rate environments, the short end, the 1 – 3 has a chance to break even to the money market return. They've not quite done that but almost and maybe with another quarter will be pretty close even in net of fees. When rates are stable, or the Fed is in the using cycle, this can result in very outsized returns. In 1997, this portfolio returned 11% in the period of rapidly declining rates. In looking at all the cycles when the Fed ended its tightening cycle, and if invested in just an index, not with anything other than treasuries and agencies, how would you have done in absolute returns and how would you have done versus money markets and what that difference would be. They are fairly outsized numbers. Of course, we are picking our spots, but the Fed may not be through tightening. They are a lot closer when the Fed funds rate is 4.25% than when it was 1%.

Mr. Brown said he agrees that the peaks trough is a good period for short term bonds generally but his guess would be that in previous periods that are covered by this comparison, interest rates on an absolute basis and an historical basis, were considerably higher than they are today. If we are starting a peak, we are starting the 10 year bonds with less than 4.5% so there is not a lot of upside compared to previous periods when you had 7, 8, 10, 12% bonds.

Mr. Coleman said that's correct in absolute numbers. He tried to show that earlier in some of those, just the returns of the indices themselves where they returned 6.42% versus only 4%. Those numbers were higher because the absolute level was so high. You can see in the lowest period, May 2000 to June 2003, where rates were least in the 3.46% to 6% range, it wasn't the average, it was less than the average, 3.46%, in terms of the outperformance, and it would be muted again since we are starting at this level. The relative spread, to the extent that the Fed funds rate goes from 4.5 back to 2, might not be that different. It would be less than the 4 but it still could be meaningful, north of 2%. On page 10, if rates are stable to declining and you have a 1 – 3 portfolio versus a money market portfolio, you are going to do very well. But even if rates are rising slightly, there have been periods in time, the number highlighted at the circle, where T Bills returned about 5%, and 1 – 3 year returned about 5.60. Over long periods of time with gently rising interest rates, you can still outperform even when the Fed is mildly tightening. It's when they have the dramatic tightening quarter after quarter that it's tough to beat although we can come close. We feel that is what we've done in this period since March 31, 2005, in all our portfolios, both the intermediate and 1 -3, money we manage for you and money we manage for others.

He said further out the curve, there is probably one more Fed tightening, and then they are done for a while. That's an environment that's very good for short term bonds. It's okay for intermediate bonds. It's a point Mr. Brown mentioned that the 10 year treasury never really rose up in yield very much as you would have thought with all this tightening. If and when the Federal Reserve stops tightening, the 1 – 3 is a pretty good environment to be in. The shortest portfolios they manage are portfolios that have maturities in the 1 – 3 range. As opposed to when most people think of short term, they think of money markets or the SBA.

Chair Andrews asked if Mr. Coleman thinks that the Town's investments have had a positive rate of return since March of 03.

Mr. Coleman said absolutely.

Chair Andrews said he hopes that is correct.

Mr. Brown asked relative to the SBA?

Chair Andrews said no, net.

Mr. Coleman said yes absolutely. The bar chart using your line shows that's the cumulative numbers for the 5%.

Ms. Struder said she did find some old reports. July 03 was a horrendous month. There was $150,000 in losses so the first few months of performance with the League, there was about a $70,000 loss up to that point which would skew these numbers that they have for their 3 years versus what the Town has for that period.

Chair Andrews said but after that, the returns were positive for about a year anyway. But that's the big discrepancy that needs to be clarified. Atlanta Capital says the returns are positive, we say they are negative.

Mr. Coleman said he thinks the net of fees on the 1 – 3 might be a little negative but it's not 90 basis points. That's the point he is having trouble with.

Chair Andrews said again, Atlanta Capital manages about $28 million dollars and we are down $280,000.

Mr. Coleman said that would be not quite 30 basis points per year.

Ms. Malaney asked are you saying negative to the SBA?

Chair Andrews replied yes.

Mr. Coleman said it's really not that far off because on page 3, that red line with the numbers that the League and Finance had given us, the SBA compounded at 2.03 for this whole period and compounded net of fees at 1.76 so that would be 25 basis points. For almost 3 years, it is close to 75.

Mr. Brown said then there is the little bit of positive from the Intermediate.

Mr. Coleman said that's right so now it gets you to…when it's $250,000 and it's over 3 years, it's a third.

Chair Andrews said well no matter the numbers are, the committee doesn't know what they are in comparison and he would really hope that the League and Atlanta Capital could work with the Finance Staff so that by the next meeting the numbers can be correlated.

Mr. Coleman said for performance, Atlanta Capital's outlook is their view of the world. In many ways, it's not that much different than the consensus. This is what they are looking at in 2006 and he'd be happy to go through that quickly or it can be viewed at your leisure.

Chair Andrews asked if there are any comments from the committee about having the economic overview?

Mr. Brown said his bottom line question would be given the economic viewpoint that's spelled out here for the next year, assuming it turns out to be right which is a big assumption, do you believe that your portfolios can exceed the SBA during this period?

Mr. Coleman said that's an excellent question and the short answer is yes. On page 18, look at the bottom line. The preceding pages basically just showed the consumer, housing, and economy is going to slow down, and the Fed will probably stop tightening. That's our rationale. The current Fed funds rate is 4.25. We think it will go to 4.5 and then probably back to 4.25 and that 2 year treasuries that are currently 4.30 will end the year at 4.10 and the 10 year treasuries that are currently 4.37 will end the year at 4.30 or less. We threw in a couple of the S&P and the S&P earnings and as mentioned, we think inflation peaks around 2.5 and goes the other way. There's no recession and the Fed stops tightening after one more round. Given that, with this slight rally in the bond market, which would happen if the Fed stopped tightening, we would in fact outperform all money markets.

Ms. Struder said if that happens since the SBA follows the Fed funds rate, then it will outperform between 2 and 10 year treasuries.

Mr. Coleman said realize that's just the yield on the instrument. This is where if the 2 year treasury goes from 4.30 to 4.10, you get some price appreciation. So this 4.10 is not the return, that's just the ending yield. Then realize that the instruments in your portfolio yield about 50 or 60 basis points more than treasuries do. So we just use these as the benchmarks. Your portfolio is yielding about 4.80 right now today. And 4.80 plus price appreciation gets you a number that's greater than the 4.25 or the 4.50.

Mr. Brown asked what is SBA today roughly?

Ms. Struder said just a little over 4.

Mr. Hennessy asked what was the S&P this year?

Mr. Hutzler said around 3.5.

Ms. Malaney said on Tuesday, the SBA and the League's enhanced cash was at 4.27.

Mr. Coleman said that should track the Fed funds rate very closely.

Mr. Hutzler said he has in front of him a chart which is the last 3 years, that he pulled off before coming to this meeting, that shows the yield curve, and as you know, from six months out to 30 years is pretty flat right now. The six month bills at the end of the year were in the 4.25 range, why at this point should this committee not consider going to a very short ladder type portfolio particularly if you are looking at the 2 year treasury at 4.10 at the end of this year. If we consider that and net of fees, if you are charging 22 basis points, why should we not seriously consider converting all this back into short term treasuries now that we can get a full 4.25% yield in the going market?

Mr. Coleman said that's a fair question. As a portfolio, you've got the lion's share of your assets in something that tracks very closely to the instrument just mentioned. Does it make sense as a portfolio diversifier to have other assets that are a little further out the curve that if, in fact, the Fed rates do stop and then they ease, then you won't be able to replicate that 4.25 T bill? It'll be 4.25, then 4 and then 3.75 and then 3.50. If it stays at that level, the bulk of your assets, the 75% that you have in the SBA, would be earning that and the other parts of your portfolio in the intermediate and the 1 – 3 will get the price appreciation because it's a longer dated portfolio so it doesn't reprice at the lower levels nearly as quickly and you would get the price pop. If you are at the end of the cycle, that 4.25 that is there, typically, whenever the last tightening is, the average amount of months that they stay at that level is three months.

Mr. Hutzler said if you look at the yield curve again and compare December 31 of this year versus 2004, 2003, and look at the 10 year bond, there was virtually no change. But if you look at the 30 year bond, except this year is lower in the 30 year bond, 12.5 versus 5% in 2003, and then you look at the 1 year, it's gone from 1.29 to 4.4, and also the 2 year bond which is very important, 1.8 versus 3 versus 4.39 which is where it is today. My concern is had it been the Federal Reserve because they have expressed that concern publicly, at least the Chairman has, is the concern about longer waits, longer being over 3 years. Once the tightening does stop, and it's a question in my mind, where are the lower rates going to go? Historically, do they normally trail up a little bit after the tightening cycle is over? We are looking at a yield curve that's virtually flat and the big question mark, is the tail end of the yield curve going to go up or is the front end going to go down? That's a lot of issues.

Mr. Coleman said historically when the Fed is done tightening, all areas of the yields would tend to fall. It's a little different this time, since typically the Federal Reserve is tightening on the upside, those rates rise. The biggest reason that hasn't happened this time is because typically when the Federal Reserve is tightening, it's because inflation has been rising quite dramatically and that has hurt the long end of the yield curve. Because the Fed was so transparent and announced we are going to move accommodation ahead meeting after meeting, the markets got comfort that they had inflation under control. It appears they have and so it didn't take off. When the Federal Reserve has stopped tightening, typically, long rates come down also buy not as much as short ones. The reason is in the 1 year and the 2 year part of the curve, again, the closer you get into when the Federal Reserve went from 1% to 4.25%, any security within the year is going to track no matter what it is very closely to. The further out you go, the more it's driven by other forces, and it's linked but not nearly as strongly. My best guess would be if the Fed stops at 4.5% or so, the markets will start to anticipate that the next move is down not up and you might even see the yield curve invert. The yield curve is inverted sometimes from 2's to 10's but from T-bills out to 30 years, it's still positive.

Chair Andrews asked if there are any more questions of Atlanta Capital Management or the Florida League of Cities. He thanked them for coming and giving this information and said the committee is encouraged that they are going to be working with the Finance staff in order to have the same set of numbers.

VII. MONTHLY INVESTMENT REPORT

Chair Andrews asked Ms. Struder if she thinks reconciling the numbers is going to be a problem?

Ms. Struder said she does think their 3 year is 4 or 5 months different than ours and they had that one bad month during that time period. So she thinks that's what causes the difference in the 3 year yields. It will be different until we can get through a 3 year time frame.

Chair Andrews asked but do you see any reason why we can't reconcile the numbers?

Ms. Struder said probably not.

Chair Andrews said he likes their numbers much better.

Ms. Struder said it sounds like December was a good month and may pull us out of the negative if they recovered that much. The intermediate had a negative return fiscal year to date and he had it as a positive so it took quite a turn.

Mr. Brown said one of the things he would take a close look at is exactly how we are calculating what we would have obtained if we had the money in the SBA. There was several ways of doing that. With rates moving up quickly, it could make a difference how that's done.

Chair Andrews asked if there are any more questions about the Monthly Investment Report?

VIII. UPDATE ON PURCHASE OF SIX MONTHS T-BILLS

Ms. Struder reported the Town purchased $2,000,000 worth of six month T-bills with a yield to maturity of 4.305.

Mr. Brown asked if she has a methodology for valuing this security each month?

Ms. Struder said on our financial statements, unrealized gains do not have to be valued and posted until the end of the fiscal year. So if there are any unrealized gains and losses, they won't necessarily have to be posted.

Mr. Brown said but to start comparing apples and apples between the SBA, Florida League, and treasury portfolio, shouldn't this all be done the same way?

Ms. Struder said, no entries will be made on our books, but for the committee's investment report, the entries will be made.

Chair Andrews said he would assume that information is available from Fifth Third. He agrees with what Mr. Brown said. Since all this time has been spent, we need to be consistent on our side. He doesn't understand this last paragraph where it says "For future investment purposes". He's just not familiar with some of the terms used.

Ms. Struder said the Treasury Direct is an account set up with the US Treasury to be able to purchase treasury securities directly from them if necessary. The GFOA, (Government Finance Officers Association), has a web based auction platform where you can put out what you are looking for and dealers around the country will bid on it. We have signed up to participate in that also if you want to do further purchases as another option to get more bids.

Mr. Brown stated if we buy the treasury securities direct in the future, we may have to find a different way to value them for the purposes of comparison because they won't be purchased from a financial institution.

Chair Andrews said maybe we could use a straight line appreciation or depreciation.

Mr. Hutzler said if the institution is holding them, they may value them based on the month end so it depends on who is really holding the securities. …you now have a mechanism by which you can carry monthly determinations. He asked what the current yield is on each of these funds right now and stated he should have asked while our guests were here.

Ms. Struder said through November, Ms. Malaney had those sheets in the back of her presentation.

Mr. Hutzler said okay.

Chair Andrews asked if there are any other questions from the committee or observations for the Town? They have purchased $2,000,000. He asked if that is the amount decided on at the last meeting?

Mr. Hennessy said it was $2,000,000, 20%.

IX. CONSIDERATION OF OTHER INVESTMENT OPTIONS

Mr. Hennessy asked might we consider an additional investment in US Treasuries?

Mr. Hutzler said while considering this, since he has been a relatively short term member on the committee, what is the liquidity of the funds that are with the SBA, is that daily liquidity?

Ms. Struder said yes.

Mr. Hutzler asked and the current yield according to this is 4.15?

Ms. Struder said yes that was as of the end of November but it's gone up to 4.27.

Mr. Panfel said that's net of fees.

Mr. Hutzler asked what is the SBA charging fee wise?

Ms. Struder said she doesn't remember but it's minimal.

Mr. Panfel asked wouldn't that be the same as government fees? Mr. Coleman didn't answer the real question in his presentation.

Chair Andrews said he thinks he said we are not losing money.

Ms. Struder said we are not losing money. We're just not performing as well as the SBA over the time period.

Mr. Panfel said realized losses is like losing money.

Mr. Hutzler said realized losses is like losing money? He doesn't agree.

Mr. Panfel said unrealized losses are book losses not necessarily losses at all but realized losses is losing money.

Ms. Struder but if you net that against the interest income ..

Mr. Brown said the reason they had realized losses is because they think that they are going to gain in the long run from the reinvestment of the proceeds. They are taking a loss in order to reinvest in that security with a higher return than present value which will more than make up for the loss. That's the theory.

Mr. Panfel asked how long do they foresee that, in what time frame?

Mr. Brown said that varies from transaction to transaction. He doesn't care whether a small amount goes for additional treasuries or not but the one thing that bothers him is the same thing that bothers the Chairman. He doesn't feel that the committee and the Town has their hands around what's really happened already between the SBA and the Florida League investments during this period of time that the money has been invested in the Florida League. He would like to make sure that there's an agreement on both sides as to what actually happened, so there is a basis for comparison that makes sense.

Chair Andrews agreed. He asked is there a motion?

Mr. Hennessy said he thinks consideration of an investment should be discussed before an amount can be determined.

Chair Andrews said this is open for discussion.

Mr. Hutzler said he agrees with the Chairman and Mr. Brown, he is concerned about what the correct numbers are. However, based on the discussion today and the potential of discontinuation of the tightening cycle by the Federal Reserve, it seems that in looking at this chart, there is potential for a decrease in yields over the next year. He doesn't know whether he totally agrees with that. But, if that's the case, contrary to the current direction, investments probably ought to be going in the opposite direction and looking toward the intermediate portfolio with the highest yield, where now he's talking about the fact that the rates may come down somewhat. If that's the case, the total return could possibly go up as a result of that.

Mr. Hennessy said that was discussed in July wondering what was going to happen and what the Fed was going to do. Procrastination lost a few basis points in returns. Now the coin is going the other way, who knows what the Fed is going to do.

Chair Andrews said he doesn't see any problem if some money is added to Treasury bills but he also agrees that this is probably the best time to stay with the Florida League of Cities if there's going to be a relatively flat environment.

Mr. Brown said going back to Mr. Hutzler's point about the yield to maturities, they were 4.75 for the 1 – 3 year and 4.9 for the intermediate. Those are rates that treasuries can't get right now. So if the projections are anywhere near right, that rates are finally going to top out, sticking with the League is a good choice right now. If you believed enough in the projection, you might even add to it. He said Mr. Hutzler's point is well taken.

Mr. Hutzler said there's also a lot of discussion about inflation, which has been hanging around 3 ½ years. Based on what they are saying, there are very serious factors that could affect that. If it stays that way, certainly getting 5% in intermediate is 150 basis points better than the 3.5 so he agrees with Mr. Brown that it has to stay and that would be something worth considering maybe even putting additional money into the intermediate or the 1 – 3 year which has not outperformed the SBA but may outperform in a flat downward interest rate environment.

Chair Andrews asked how much money was taken out of the Florida League of Cities?

Ms. Struder said it was $2,000,000 and prior to that, she's not sure, but it was a sizable number.

Mr. Brown said wasn't that 20%?

Ms. Struder said it could have been.

Mr. Brown said $7,000,000 sounds about right.

Chair Andrews asked if there is any more discussion? He hears the committee saying two different things but he hears no one strongly advocating a position.

Mr. Brown asked Mr. Hutzler, who he thinks is closer to this on a day to day basis, whether he feels strongly enough in this prognostication to put money back in the League that was taken out earlier?

Mr. Hutzler said he would think it would not be a bad idea. It doesn't have to be a major amount but he is not sure it will be something worth doing. It might be worth doing on a small scale, maybe even to the point of $5,000,000. It's up to the committee.

Chair Andrews said well $2,000,000 was taken out for the treasury bills. Are you saying put the roughly $5,000,000 amount back in or put a lesser amount back in?

Mr. Hutzler said put a lesser amount back in mainly because no one knows totally what the thinking is of the potential new Chairman of the Federal Reserve.

Chair Andrews said if $2,000,000 is put back in, it would kind of be at the same amount that was put in treasury bills and would still leave roughly $3,000,000 that could possibly be addressed at the next committee meeting.

Ms. Struder said it is $9,000,000 total.

Chair Andrews said he is going to entertain a motion.

Mr. Brown made a motion that $5,000,000 be taken out of the SBA and $3,000,000 of it be invested in the intermediate term and $2,000,000 in the 1 – 3 year term. He is open to lots of adjustments to that but that's kind of what he would pick out of the air as a reasonable proportion.

Chair Andrews asked can you give just a little more information on why the 3 and 2 between the two funds?

Mr. Brown said he is not strong on that. He thinks that the intermediate term as Mr. Hutzler pointed out, in a flat or downward environment, has a better chance for a better total return, as Mr. Coleman himself has illustrated in the material. On the other hand, the 1 – 3 year has less volatility so it should probably be parceled out that way. That's pretty arbitrary, though.

Chair Andrews asked so more money is going to the longer end?

Mr. Brown said yes because of the change in the outlook which is the direction discussed.

Mr. Hutzler said he would agree. That certainly would be not a major move but would be a step in the right direction that may lead to total return increasing. He particularly likes the close to 5% yield to maturity which a year ago was not anywhere near that. So now the Town is in a position where the long rates are really going to go up. Many of the analysts on the street have guided lower on long term yields. As a result of that, he thinks this is the right move.

Chair Andrews asked is there any other discussion? He asked for a second on Mr. Brown's motion.

Mr. Hennessy seconded. Motion passed unanimously. Mr. Hutzler respectfully abstained.

Chair Andrews asked are there any other investment options that the committee would like to consider at this time? Hearing none, he moved to the next agenda item.

X. NEXT MEETING DATE

Chair Andrews said he doesn't think a meeting date should be set unless comparable numbers are available that everyone agrees on. If those numbers are available, when would the next meeting be?

Mr. Hennessy said he would like to see the meeting later on in the month so there's not such a big spread. The numbers today are dated November 30, almost 20 days later. That allows change in those 20 days. He suggested late in February when the numbers are reconciled.

It was suggested that Ms. Struder email the committee when she has the numbers reconciled. The committee agreed on late February.

Mr. Brown said it would be great if the Town staff can put their heads together with Atlanta Capital and make sure they understand what the Town is doing and the Town and committee understands what they are doing.

XI. ANY OTHER MATTERS

There were no other matters for discussion.

XII. ADJOURNMENT

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