MINUTES OF THE INVESTMENT ADVISORY COMMITTEE
THURSDAY, JANUARY 3, 2008, 10:00 A.M.
TOWN COUNCIL CHAMBERS

I. CALL TO ORDER AND ROLL CALL

The Investment Advisory Committee Meeting was called to order on Thursday, January 3, 2008 at 10:00 A.M.

PRESENT:
Chair Michael F. Andrews
Vice Chair Edward L. Hennessy, Jr.
Stephen L. Brown
William J. Mikus
Bernard R. Panfel
Jane Struder, Finance Director
Cheryl Somers, Assistant Finance Director
Betty Cotton, Recording Secretary

II. PLEDGE OF ALLEGIANCE

Chair Andrews led the pledge of allegiance.

III. APPROVAL OF AGENDA

MOTION BY VICE CHAIR HENNESSY FOR APPROVAL OF AGENDA.
MOTION SECONDED BY BROWN.
MOTION CARRIED UNANIMOUSLY.

IV. COMMUNICATIONS FROM CITIZENS (3 MINUTE LIMIT PLEASE)

No citizens attended.

V. APPROVAL OF MINUTES FROM THE NOVEMBER 26, 2007 AND DECEMBER 5, 2007 MEETINGS

MOTION BY MR. BROWN FOR APPROVAL OF MINUTES.
MOTION SECONDED BY VICE CHAIR HENNESSY.
MOTION CARRIED UNANIMOUSLY.

VI. MONTHLY INVESTMENT REPORT FOR NOVEMBER 2007

Ms. Somers reported the Town did not collect on the interest from SBA for November. In what might be the final comparison with SBA, the Town ended up ahead of the Florida League of Cities by $151,000 life to date. The returns for the Florida League of Cities were very good in November. She said the Wachovia

Money Market Account has been added to the first page of the investment report. After their meeting in December, all monies but $100,000 were transferred from the Wachovia Money Market account into the Wachovia Evergreen Institutional U.S. Government Money Market Fund. The December report will reflect the bulk of the money being with the Evergreen fund.

Ms. Struder reported the Town has $2,000,000 in the treasury that comes due in January. She asked for direction from the committee on what to do with that for the next six months. She said the six month T-bill was at 3.3% yesterday but it will probably be less in January.

Chair Andrews said that would be at least 100 basis points.

Mr. Brown said he thinks the committee should stay with the treasury for diversification.

Chair Andrews agreed. He asked for a motion that the Town continue on with the treasury.

MOTION BY MR. BROWN TO CONTINUE WITH THE TREASURY FOR SIX MONTHS.
MOTION SECONDED BY MR. MIKUS.
MOTION CARRIED UNANIMOUSLY.

Chair Andrews said he would like to give his thoughts on the idea of the SBA as a benchmark. He thought the SBA was what the committee chased from behind for most of his time as Chairman and then the last month or two, they leaped ahead. The SBA has had some issues but still holds a fair amount of money overall, not necessarily the individual Florida municipalities' money, but they have segregated out into two separate funds, the A fund and the B fund. He thinks they have most of the questionable investments out and he still thinks they are a pretty good indicator of what is out there. It still would be something that most of the municipalities would at least check as a benchmark. He does not see anything better unless the committee starts using combinations of other indices that are out there.

Mr. Brown said the SBA was the gold standard. It is clear that they pressed too hard to maintain that standard. What they are going to do in the future in terms of policy, no one knows. The most important consideration is that he thought the committee had concluded that, at least for the time being, they were going to substantially lessen their risk and put the money in government guaranteed securities. If so, it would be very hard to beat a fund that is not in government guaranteed securities primarily. He does not know if that would really work for the Town in the short and intermediate run. There may come a point where the committee feels more comfortable with branching out again into non government guaranteed securities which they have to some extent in the Florida League of Cities portfolio. But he thought that was the committee's aim.

Chair Andrews said there is no requirement that they have the benchmark at this time. They could wait until a lot of things unfold and find one later on that they feel is more representative of what they think a true benchmark might be. Again, he is not pushing that they have the SBA, he just thinks it is out there and it is going to be in the background all the time.

Ms. Struder stated the Investment Policy does use the SBA for one of the benchmarks.

Chair Andrews said so it is still a benchmark until the policy is changed.

Mr. Mikus said it might be more appropriate to use T-bills as a benchmark and then any spread over that would reflect the Town's decision to take on more credit risk or interest rate risk. Then, the value of their judgment could be measured more clearly using the risk free rate of return as the benchmark and any spread over that would be based on their decisions.

Chair Andrews said his thought is leave as is and discuss on a meeting by meeting basis if they want to change it to something. He thinks the decision has to be made on what to change it to or else it would stay as the SBA, and the committee will not put much credence or creditability behind that. Maybe it does not make sense in the first paragraph of the monthly investment report to put the SBA in there. He said he will leave that up to the Finance Department.

Mr. Brown said he does not know what they are going to report in the near future. They have already said they are not going to pay the interest for the month of November. So they can yield whatever they want, if they are not going to pay the interest, it does not really interest him too much. Which fund is the committee going to look at? If they hive off the bad investments, which they have, then the comparison would be only against the good investments. That does not seem fair either.

Chair Andrews said that is the only one where they are accepting money at this time. He suggested just leaving things as they are at this point until someone wants to make a decision.

Vice Chair Hennessy agreed.

Mr. Brown asked if that includes continuing to report the comparisons with some portion of the SBA fund?

Chair Andrews said he did not think it was necessary to have that first paragraph in the monthly investment cover letter.

Mr. Brown said if the first paragraph was removed, he would support what the Chairman said.

Mr. Mikus asked if they have to leave that in as part of the Investment Policy statement to have some benchmark since the benchmark currently is defined as the SBA?

Ms. Struder said yes, the Investment Policy does say that the SBA is the benchmark. The rate of return for that month could be reported on the SBA without doing the calculation because the Town does not have the funds in there.

Chair Andrews asked if Ms. Struder is going to talk to Mr. Elwell and get direction on which way he would like to go. He does not think the decision is critical at this time but he agrees with Mr. Brown that the SBA should be taken out of that first paragraph.

Mr. Brown said since it is part of the policy, as Mr. Mikus points out, the decision has to be made either to continue it or eliminate it. If eliminated, is an alternative needed? If that decision is not made today, it will have to be done at a future meeting.

Mr. Panfel asked if they are going to continue to put in the report that the Town has not received the November 2007 interest from the SBA?

Ms. Struder said probably not unless something happens where it needs to be reported.

Mr. Panfel asked if anything constructive has been done to collect that interest?

Ms. Struder said she forwarded the information on to the Town Attorney and he has not responded yet.

Mr. Mikus asked what is the dollar amount lost in accrued interest?

Ms. Struder said she thinks it was around $230,000.

Mr. Mikus said that is a significant amount. Legal fees will not come close to that.

Ms. Struder said no one received interest, not just the people that pulled the money out.

Mr. Hennessy asked if the SBA said anything about this?

Ms. Struder replied they said they don't have to pay the interest and they are not going to.

Mr. Brown said he cannot imagine that new money is going to go into the SBA after the actions that were taken.

Vice Chair Hennessy said he read that someone has put new money in.

Mr. Panfel said Port St. Lucie put in $134,000,000 the day before they closed it off.

Chair Andrews said there has been some money after they closed it off because there was some discussion that the people who were stuck in it wanted to support the SBA. The last thing he heard was there was $5,000,000 that went in but he has not really followed it. There are a number of towns that are just not going to come anywhere close to that and are never going to get their money. They are going through these same issues.

VII. INVESTMENT OPTIONS FOR SBOA FUNDS

Ms. Struder said she handed out another sheet that summarized all of the various funds and she added a current performance which was a seven day yield on there. She also added one that came in at the last minute, a Fifth Third account, the one the Town has the treasury with, and they sent the information on their money market fund.

Chair Andrews said for the edification of the committee, yesterday he pulled off this yield for the Federated, Goldman Sachs, J. P. Morgan, and Blackrock. The Federated was 2.95, the Goldman Sachs was 2.92, the J. P. Morgan was 3.32, and the Blackrock was 3.06. He thinks these are much shorter duration. Some of them were five day paper. There may be a difference between the ones in blue at the bottom of the page.

Ms. Struder said the FMIvT has restructured their Enhanced Cash fund to eliminate any exposure to investments that were risky, any sub prime, so they are going to be pretty much all U.S. Treasuries and government agencies. She does not have any return information on their investment yet because it is a brand new fund. They established it mid December. She does not even know if they have everything set up yet.

Mr. Brown said he found this information very helpful but also a little bit confusing because he was not sure that everybody had the same maturity composition and he also was not sure whether some of these included non government securities or not. It is just a little hard to tell. He thought that the rates differed enough so that there had to be a quality difference or a maturity difference. Nobody was going to outsmart somebody else by a 100 basis points in government securities so it is a little hard to grasp some of this.

Ms. Struder said she does have all the prospectuses. She hesitated to send all of it out because it would have been another stack of paper.

Chair Andrews said he thinks some of this difference is that he has seen money markets that would go out 60 – 90 days and he has seen 30, 60, and 90 days. He thinks there is enough difference that the committee should look at that.

Ms. Struder said if they pick out a few of them and want her to get more detailed information on them, she can do that.

Mr.Mikus said the Vanguard, the first one, has 22.8% in other, U.S. Government and Agency and the other is probably what is enhancing the yield. That is interesting when compared to the second one. The Admiral Treasury Money Market Fund has a significantly lower expense ratio but significantly lower return and that reflects that 22.8% in other. All of them are going to be extraordinarily sensitive to credit issues. At this point, he cannot imagine anybody taking on more credit exposure and risk.

Mr. Brown said if they are not going to take on any risk, what is the advantage with going with somebody with investments in non government securities?

Mr. Mikus said he is just saying that those non government securities are probably very, very high quality.

Chair Andrews asked if there is any reason why they would not keep their universe around the ones that pay the 4% or above? He thinks that gives them enough of a market to look at. His suggestion is that they should not pick out a specific fund necessarily. He thinks the committee should pick out a number of funds and give the Finance Department the ability to decide which of these particular funds they feel is best suited to their current cash needs and cash position. He asked Ms. Struder if that is something that they would like to see?

Ms. Struder said if they are close enough in return, it would be a lot easier for the Finance Department to keep it in one fund.

Chair Andrews said he does not think it makes sense to jump for 10 or 20 basis points.

Ms. Struder said the money is currently in the Wachovia Evergreen Institutional Fund. There is $71,000,000 in there now because a large tax distribution was received in December.

Mr. Brown asked Ms. Struder if all Wachovia investments are in government guaranteed securities?

Ms. Struder said they said 29% agency and 71% repurchase agreements.

Mr. Brown said but they do not say what the underlying securities are for those repurchase agreements.

Mr. Mikus said he thought Wachovia discussed that at the last meeting.

Mr. Panfel said he thought it was all government securities.

Mr. Brown said if that is the case, they are doing awful well. They probably go out in maturity more than some of these others.

Chair Andrews asked if the funds were switched from where they originally were with Wachovia to this U.S. Government Money Market Fund?

Ms. Somers said initially they were in Wachovia's Money Market Account for a few days until switched to the Evergreen Fund. $100,000 was left in the money market account just to leave it open.

Mr. Brown said maybe the thing to do right now is to stay with the Wachovia Evergreen Fund. It has a very good rate but he would like to, in the meantime for all the funds, understand what they invest in and particularly whether they are all governments or not and if they are not, what are they allowed to invest in that are not government securities? He would also like to know what their maturity guidelines are. That is not in here at all.

Ms. Struder asked if the committee wants to see the prospectuses or summaries?

Chair Andrews said there are usually free summary sheets that could probably be pulled off the internet on most of them.

Mr. Brown said he agrees. The summaries are usually on the website.

Mr. Mikus said there would be a weighted average maturity or duration number.

Mr. Brown said not only what they are but what their ability is to invest in different things. Whatever they are invested in today, if they have the ability to invest in other things, the committee should know about that.

Mr. Panfel stated fidelity states that the repurchase agreement offered the 80% U.S. Government Securities.

Mr. Brown said correct but they have a 3.41% return and somehow Wachovia has a 4.34% return. He would suggest to the committee that there is a reason for that. The committee does not know what it is.

Mr. Panfel said he is referring to the one below the 3.41% which is 4.48%.

Chair Andrews asked if someone knows what the WAM is?

Mr. Mikus replied weighted average maturity. He said on page 7 of the minutes of the last meeting, Anne Brady, Sr. Vice President of Wachovia, spoke about Evergreen. There is a discussion and it looks like it is mostly U.S. Government money markets, U.S. Treasuries, agencies and instruments issued by the U.S. Government repurchase agreements that are collateralized with agencies and instrumentalities issued by the U.S. Government. There was 102 to 105% collateral which is 1 to 1 or better. Evergreen is giving a high performance and high quality.

Chair Andrews said on the Vanguard, Federal Money Market Fund, the investment minimum is only $3,000 so he assumes that is open to everybody. Is there generally any advantage in being in institutional money market funds over a money market fund that is available for everybody?

Mr. Brown said there is a higher minimum.

Chair Andrews asked but is it typically a higher yield on institutional funds?

Mr. Brown said yes because they have higher minimums, they have lower expense ratios.

Chair Andrews said on the federated, the expenses are the highest of all but they also have a fairly attractive yield. He agrees with Mr. Brown in saying usually the institutional funds with the higher minimum have less of an expense ratio.

Ms. Struder said she is sure Vanguard has a lot of money in those funds but she would be also concerned that the Town would be one of the larger fish in that pond because that is open to small investors. She did call Vanguard and asked them if they had institutional accounts and they did not so those are open to anybody.

Mr. Brown said he is really surprised that they say they do not have institutional funds because he knows some of them that are in there. The other thing to be sure of is what the liquidity guarantees are of these funds. Are they all daily liquidity? He assumes they are but he thinks it is something the Town should be sure of.

Chair Andrews asked if anyone has anything specific they would like to address because from a consensus standpoint, he hears the committee saying, "let's keep the majority in the Evergreen Fund and let's take a look at some of the other ones, and get more clarification along some of the lines that Mr. Brown asked for". He thinks those are readily available.

Ms. Struder asked if they are just looking at the ones that are yielding in the high 3% or 4% right now rather than the 100% treasury ones?

Chair Andrews said he does not think they need to look at anything in the bottom 4 in the blue. The yields are that low. The yields may change considerably in the next couple of weeks. He said it would be nice if Ms. Struder could send one of these sheets with that information sometime before the next meeting. Then the committee members can call back on an individual basis if there are any changes they would like to see to the report. He asked Ms. Struder if there is anything that she needs clarification on?

Ms. Struder said the committee wants her to get additional information on the ones that are in the high 3% and the 4% as far as maturity, what their ability is to invest in, whether they have daily liquidity and what their holdings are.

Mr. Brown said there are two things on each category. One is what they are actually doing now and the other one is what do they have the ability to do according to the prospectus? They might be all in 30 day paper now but the prospectus may say they can invest in up to a year, the committee should know that.

Chair Andrews said they could say it is 90 day paper and if it's a 90 day average, a lot of them will go up to a year and still maintain the 90 day. Just a little information on how they get that number on there. Send it to the committee before the next meeting, they will look over it and maybe offer some suggestions.

Ms. Struder said okay. She said if a meeting is held in February, Sean Higman will probably be attending that meeting because he will be here anyway for the pension funds to give his quarterly reports. So she can get him in to give the quarterly report for the OPEB fund. She suggested they may wish to talk to him about options going forward as well.

Chair Andrews said they should ask him to give his suggestions at the meeting because he has to look at this all the time.

Ms. Struder said she can send him a copy of the investment policy and see what he can suggest at the next meeting.

VIII. NEXT MEETING DATE

Ms. Sruder said Sean Higman will be here February 13 and 14 for the Police and Fire pension meetings. She said the afternoon of those two days or the15th would be good for the next meeting if the committee is available.

Chair Andrews suggested that she send an email to the committee with some dates and they will pick one. He said if most of the committee members are going to be here for the next three or four months, if there is a situation where a meeting is needed on short notice, they will all try to be available.

IX. ANY OTHER MATTERS

Mr. Brown said there were some interesting articles on the run on the bank. One of things that is a mystery still is that there are a number of other funds that had some similar investments. The SBA was not the only municipal fund that had investments in CDO's and SIV's and none of the other funds have had a run on the bank. He just does not understand what it is. There was something psychological that happened here whether it was the Bloomberg reports or whatever but the other ones have not had a run. It is kind of interesting.

Chair Andrews said Florida was leading, they were up at the top and a lot of people were wondering how they do that?

Ms. Struder said and they were secretive about that.

Chair Andrews said they were not forthcoming and they were not transparent on what they had. He also thinks from a news standpoint, as Mr. Brown pointed out, that there may be some additional write downs by some of the major firms that are still out there. It seems like every month, they are coming up with another 5 or 10 billion dollars.

Ms. Struder said isn't Merrill Lynch supposed to have another write down?

Vice Chair Hennessy said CitiBank is another one.

Vice Chair Hennessy referred to the memo from Prime Buchholz and asked Ms. Struder what Prime Buchholz saw suddenly that they had to move so quickly?

Ms. Struder said he was just trying to be more conservative. He can explain more at the next meeting. He said there was not really anything alarming, he just felt the Town needed to be more conservative.

Vice Chair Hennessy said the memo said "let's do it immediately". What did he see that none of us saw?

Ms. Struder said he changed the OPEB Trust Fund from one State Street fund to another.

X. ADJOURNMENT

MOTION BY VICE CHAIR HENNESSY TO ADJOURN THE MEETING.
MOTION SECONDED BY MR. BROWN.
MOTION PASSED UNANIMOUSLY.