

**MINUTES OF THE MEETING OF
THE CITY OF FORT LAUDERDALE INVESTMENT COMMITTEE
OCTOBER 31, 2007 – 10:30 A.M.**

Present:

Betty Burrell, Director of Finance
Allyson Love, Director of Office of Management & Budget
Kirk Buffington, Director of Procurement Services
Bob Mays, City Treasurer

Via Telephone Conference:

Steven Alexander, PFM Asset Management

The meeting of the City of Fort Lauderdale Investment Committee was called to order at approximately 10:42 a.m. by Bob Mays, City Treasurer.

Approval of Minutes

Motion made by Ms. Burrell and seconded by Mr. Buffington to approve the minutes of the Investment Committee meetings of February 1, 2007; June 29, 2007; and September 19, 2007. The minutes were approved unanimously.

Treasurer's Report – Quarter Ending September 30, 2007

Bob Mays, City Treasurer, presented the Treasurer's Report for the quarter ending September 30, 2007. He advised that this was a preliminary and unaudited report, and that there could be a slight adjustment made as the year closes. The audited report would be presented to this Committee once it becomes available. The summary of investments shows that as of September 30, 2007 the fair value of the City's investments was \$393,423,697.41. Also provided was a detail of the investments by category, and at the bottom of the third page of the report the water and sewer investments had been included. He explained that those were the bond proceeds from the 2006 water and sewer revenue bonds.

Mr. Mays further stated that approximately 63% of the investments were held with the State pool (SBA).

Mr. Mays called everyone's attention to the SBA's report of interest earnings, and advised that for the month of September, 2007 the interest earned was 5.77% which was the highest rate since September, 2006. He proceeded to explain the graph provided showing the month-end General Fund balances which goes back to October, 1999. Over the last three fiscal years, the balances have been increasing. At the end of this fiscal year, the General Fund cash position was healthier than it had been in recent history.

Mr. Mays stated that the daily cash and investment report shows that the City has approximately \$360 Million, and of that the General Fund balance was approximately \$47 Million. In late September, there was a sharp drop in the cash that was due to the City's annual pension payment which totaled approximately \$23.4 Million.

Mr. Mays explained the graph showing similar information regarding the General Fund and total cash investment balances but in a different format. The red lines on the graph indicate the City's position as of September 30, 2007.

PFM Quarterly Report – Quarter Ending September 30, 2007

Mr. Mayes explained that copies of the Quarterly Investment Report from PFM, along with the market update, have been provided. He further stated that Tom Tight, MBA Asset Management, was unable to attend this meeting due to being stuck in the Atlanta Airport due to inclement weather. Therefore, the MBA Quarterly Report would be deferred to a later date.

Steven Alexander, PFM Asset Management, joined the meeting via telephone conference.

Mr. Buffington asked when the FED meeting would be held. Mr. Alexander stated that it was scheduled for today and they were expecting they would reduce by about another 25 basis points, and the GDP came out at 3.9% for the quarter. Mr. Buffington asked about the country-wide quarterly earnings report of last week. Mr. Alexander stated it was interesting and he thinks it did not quite reflect what the picture would bring in because there appeared to be more trouble on the horizon for the organization. He added that the whole sub-prime market in general was also heading for some ups and downs.

Mr. Alexander stated that this was actually a continuation of their last quarterly discussion that included the credit crunch which continues to unfold throughout the economy. He further stated that there had been a number of downgrades occurring for many companies and organizations involved in the sub-prime markets, and Merrill Lynch had taken a write-down of their portfolio holdings. In fact the Chairman of the Board would probably be terminated due to his "blind eye" to the risk associates of the sub-prime market. He stated that this was probably the largest loss Merrill Lynch has ever had in their history.

Mr. Alexander further stated that the performance page of his report shows that because of the credit crunch and the extreme flight quality the indexes for treasury would be quite high. The returns on August 22nd were around 14%, and the return for the benchmark is 11.02 with the City's returns at 9.02 for the quarter. The disparity is there because the index is 100% treasury, and the City's portfolio is diversified and currently has only 13% treasury. The flight to quality pushed up the returns for this past quarter. The other sectors performed less than treasuries. He further stated that as of August 22nd, the return was predicted at 14.5%, and they were now down to 11%. Over time, the rates would come back some and the treasuries would not be performing as well as the other sectors. Despite the large spread, there was still some affect on the last 12 months of this quarter.

Mr. Alexander continued stating that the duration would still probably remain at its present mark of 157 to 160 which was about 96% of the benchmark. If the FED cuts rates again today, then they would continue to push this a little further out.

Mr. Alexander stated that the big news for this quarter in the last few weeks was what was happening to the asset bank commercial paper and structured investment vehicles that were backed by various assets. This was the major focus of the investment world. Investors have decided to pull away from such investments, and some finance companies were having trouble remarketing their corporate notes and securities. There have been some investment pools, such as Connecticut which was the marriage of the SBA. They've been put on a negative credit watch because of their exposure to sub-prime asset backed securities. King County, Washington, was a county investment pool was also facing some downgrades due to their exposure to the sub-prime market. Both pools have a very low percentage exposure for the sub-prime market in the area of 9% to 10%. The positions in the City's portfolio were clean securities, and they have stayed away from asset backed securities.

Mr. Alexander continued stating that page 6 shows the trades made during the last quarter. Generally speaking, the yield curve duration position usually equates to about 65% or 70% of the rate of return, but in the past quarter most of the return was generated from having treasuries. He further stated that the investments of the bond proceeds were high-quality securities, and there would be no exposure to the credit situations discussed earlier today.

Mr. Alexander further stated that on page 5 of the Market Update it showed what was occurring in the market. Wide spreads show that investors want to be paid a higher yield in order to hold the securities. He explained that on the graph the bottom line represented two-year treasuries, and the top line represented a two-year AA corporate note.

Mr. Buffington asked if there was a previous time when the margins and the spreads had been this wide. Mr. Alexander stated that occurred in 1998. He stated that the table on page 6 put all this into perspective. He pointed out that the "A-rated" notes which normally had the highest rate of return were the lowest. He continued stating that on page 7 the news continues to be bad regarding housing, mortgage delinquencies, and bankruptcies which were on the rise. The expectation was that this would not get better for some time. He stated further that on page 15, it showed the yield curve as it currently existed. The dotted line represents the June 29, 2007 yield curve, and the straight line represents 10/22/07. Once the FED cuts rates again, the yield curve would come down again.

Mr. Mays asked for further information regarding the SBA investments.

Mr. Alexander stated that the SBA in the summer was higher and generally most market funds at that time were 50 basis points less than that. The money market fund was defined at 287 which was an FEC code that stipulated what a money market fund had to be in order to qualify as a 287 money market fund. They were able to obtain the actual portfolio holdings of the SBA and were quite surprised because the size of the portfolio was about \$27 Billion, and out of that about 99% of the securities were in corporate instruments. There was only one agency holding at about \$220 Million. About 45% of the portfolio was asset-backed commercial paper. There were a number of finance

companies that had some connection to having sub-prime investments, and they are presently reviewing those. Many of the corporate credits were not common ones, and they were no longer comfortable in recommending the use of the SBA going forward because of the great amount of corporate exposure they have. Until the market settles, they are not comfortable with all of the SBA positions. A number of the majority of securities were LIBOR which got as high as 580 which have reset dates. This return should come down shortly because they would reset at a lower rate.

Mr. Alexander stated that he feels some further discussion may be necessary regarding moving some of the money into some money market funds in order to diversify the existing exposure to the SBA.

Ms. Burrell asked how they could go about doing this without upsetting the "apple cart." Mr. Alexander stated that some AAA money market funds could be selected and the monies could be moved out slowly meaning within the next 2-3 weeks.

Mr. Buffington asked why SBA had not made the news in regard to their exposure to sub-prime asset backed securities. Mr. Alexander stated that the other groups that made the news actually had a credit rating from S&P, and S&P or Moody's did not rate the SBA. Mr. Buffington further asked given the monies SBA manages why were they not rated on a regular basis. Mr. Alexander stated that Moody's analyst had met with the SBA trying to get them to buy their rating services, but they had always been turned down. Mr. Buffington asked if the California Fund was rated since it was the largest in the Country. Mr. Alexander stated he did not believe they were rated.

Ms. Burrell asked if this Committee wants to make some decisions with ratcheting down the degree of investment they have with the SBA. She feels it would make sense to do so since they are now aware of the risk associated with SBA, and that they take a large chunk from SBA and move it to treasury. There was a consensus to do so, and Mr. Alexander advised that about 50% should be moved. He stated they could buy straight-out investments, and have some money market funds. Ms. Burrell asked if they could go 100% treasury. Mr. Alexander confirmed.

Mr. Mays asked if the SBA holdings were safe on an on-going basis to leave about \$120 Million in such funds. Mr. Alexander stated that was a hard question, and the best of the worlds would be to have little or no exposure to the SBA.

Ms. Burrell asked why 3 weeks would be a comfortable pace. Mr. Alexander stated that given the logistics of moving monies around, he believed the SBA had a limit as to what could be pulled out daily. Ms. Burrell stated they believed the sub-prime would scrape rock bottom early next spring. Mr. Alexander confirmed, but stated that things could pop up that no one could have knowledge of until they were publicized. He just felt the sooner they moved the monies the better.

Ms. Burrell continued stating that they would start with the recommendation that they withdraw increments of \$50 Million until such time that there would be a small residual amount, if any, in the SBA. Mr. Alexander concurred.

Ms. Love asked if Mr. Alexander would confirm that this would be the threshold and it would be feasible to proceed in that fashion. Mr. Alexander stated that they would have to check the daily limits permitted. He added further that such precautions could be

taken and maybe nothing would happen, but given the economy and the situation he believed it would be prudent to spread the monies around.

Motion made by Ms. Burrell and seconded by Mr. Buffington that they take out increments of \$50 Million weekly from the SBA of the City's holdings upon confirmation of the information Mr. Alexander is willing to provide pointing out the risk associated in investing in the SBA, and upon conference with the other money manager to make sure they are moving forward cautiously. Motion carried unanimously.

Investment Policy

Mr. Mays stated that they had discussed at previous meetings the possibility of changing the Investment Policy to allow them to include a portion of their investments to be benchmarked to a 1-5 year benchmark, rather than the 1-3 year benchmark. In the policy paragraph C on page 15 included language that Mr. Alexander presented as an addition.

Motion made by Mr. Buffington and seconded by Ms. Burrell that the addition of paragraph C to Section XIV – Performance Measurements of the Investment Policy of the City of Fort Lauderdale be adopted by this Committee and taken to the City Commission for approval. Motion carried unanimously.

Mr. Mays explained that this Committee had the charge of reviewing the policy annually, but they were not limited to an annual review. He suggested that this be brought to the City Commission at the next possible meeting.

Ms. Burrell asked if the matter could be put on the Commission's December agenda.

Mr. Mays stated that they had previously discussed the amount of money currently being invested by the money managers. The Commission had limited the amount to \$75 Million. PFM had done a cash flow study showing that the City had about \$130 Million. Previously, this Committee had discussed having the Commission increase that amount.

Mr. Buffington asked what was the total percentage of the total dollars being invested. Mr. Mays advised that it would be about 30%, and as of September 30, 2007 they had \$393 Million, and \$130 Million would be one-third of that amount. Mr. Buffington stated he would be comfortable recommending a change to increase the amount to \$100 Million to \$110 Million. Ms. Burrell agreed, and stated she would not want to reach a \$130 Million limit. Ms. Love agreed.

Motion made by Ms. Burrell and seconded by Mr. Buffington requesting the City Commission to increase the amount that could be invested by outside money managers to \$110 Million in aggregate. Motion carried unanimously.

Ms. Burrell suggested that they advise the City Commission of what was occurring even if there was to be no action taken at this time.

There being no other business to come before this Committee, the meeting was adjourned at approximately 10:42 .m.

Respectfully submitted,

Margaret A. Muhl