MINUTES OF THE QUARTERLY MEETING OF THE COUNTY INVESTMENT ADVISORY COMMITTEE HELD APRIL 29, 2011
M. C. BLANCHARD JUDICIAL BUILDING EXECUTIVE ADMINISTRATION CONFERENCE ROOM, SECOND FLOOR 190 GOVERNMENTAL CENTER, PENSACOLA, FLORIDA (9:24 a.m. – 10:28 a.m.)

Present: Robert A. Beargie, Vice Chairman, Board of County Commissioners’ Appointee
Lisa N. Bernau, Chief Deputy Clerk, Clerk and Comptroller’s Designee
Amy Lovoy, County Administrator’s Designee

Others
Present: Patricia L. Sheldon, Clerk and Comptroller’s Administrator of Financial Services
Steven Alexander, PFM Asset Management, LLC
Brenda Chestnutt, Tax Collector’s Office
Doris Harris, Clerk to the Board’s Office
David Jang, PFM Asset Management, LLC

Absent: M. Blaise Adams, Chairman, Board of County Commissioners’ Appointee
Bob Alft, Clerk of the Circuit Court and Comptroller’s Appointee
Gene M. Valentino, BCC Oversight Representative

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1-2. Call to Order/Roll Call

Mr. Beargie called the County Investment Advisory Committee (CIAC) Quarterly Meeting to order at 9:24 a.m., with a quorum present.

3. Invocation

Mrs. Bernau delivered the Invocation.

4. Legal Advertisement

The CIAC was advised by Mrs. Harris that the Meeting was advertised in the Pensacola News Journal on April 23, 2011, in the Board of County Commissioners – Escambia County, Florida, Meeting Schedule April 25, 2011 – April 29, 2011.
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5. Approval of Minutes

Motion made by Mrs. Bernau, seconded by Ms. Lovoy, and carried, approving the Minutes of the Quarterly Meeting of the CIAC held January 28, 2011, as prepared by Doris Harris, Clerk to the Board's Office.


Mrs. Sheldon reviewed the Investment Report for March 31, 2011, and advised that the total short-term portfolio equaled $123,719,653, with a yield of .34%, as compared to Standard & Poor's (S&P) Government Investment Pool (GIP) 30-Day Index of .08%, and year-to-date earnings of $119,711.

7. Portfolio Review and Market Update

The CIAC:

A. Reviewed the PFM Asset Management, LLC, Weekly Market Update – April 25, 2011, authored by David Jang, CTP, analyzed by Jonathan Spero, and edited by Melissa Lindman, PFM Asset Management, LLC, and was advised by Steven L. Alexander that PFM published a white paper, which is available on PFM’s website (www.pfm.com), regarding the proposed privatization (by the Department of the Treasury and the Department of Housing and Urban Development) of the Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) mortgage finance organizations; and

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MINUTES OF THE CIAC MEETING – Continued

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B. Reviewed the Escambia County Clerk of Court, Florida, Investment Performance Review – Quarter Ended March 31, 2011, as prepared by PFM Asset Management, LLC, which reflects:

1. The After-Effects of the S&P Outlook Downgrade, as follows:

   - Early Monday morning (April 25, 2011) Standard & Poor’s (S&P), one of the top global ratings agencies, downgraded the outlook on U. S. debt to negative from its previous outlook of stable

   - While the news originally rattled markets globally, foreign governments publically said that U. S. government debt is still an attractive and safe investment

   - Washington is still in conflict about government spending and whether or not to raise the debt ceiling. Although the S&P downgrade served as a warning to politicians, negotiations in Washington have not improved

   - The U. S. dollar depreciated significantly throughout the week as the Euro rose to a 16-month high against the dollar. Gold and silver again hit all-time highs during the week as investors searched for alternative investments to Treasury debt

   - Equities markets seemed to forget about the downgrade after Monday as markets rebounded and ended the week higher

   - The only previous downgrade of the outlook for U. S. debt by a major rating agency was in 1996 when Moody’s briefly downgraded the outlook to negative before reassigning a stable outlook several weeks later

   - Many analysts think that the downgrade could have an effect on next week’s consumer sentiment reading; as, U. S. citizens are becoming more aware of persistent long-term unemployment, rising gas prices, rising grocery bills and underwater mortgages

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B. Continued…

(2) The Executive Summary Portfolio Strategy, as follows:

- The County’s Long Term portfolio is of high credit quality and maintains adequate liquidity. The portfolio is invested entirely in Federal Agency, U.S. Treasury, municipal bond, corporate note and commercial paper securities. The securities are allocated among high quality issuers rated AAA, AA, A-1 and A-1+.

- The U.S. economy continued to show signs of modest improvement in the first quarter of 2011. Fourth quarter 2010 GDP (Gross Domestic Product) was released at $13.38 trillion, surpassing the previous peak of $13.36 trillion in the second quarter of 2008.

- Over the quarter, interest rates were volatile across the yield curve due to positive economic releases, such as the manufacturing and employment reports, and significant developments abroad, such as the political turmoil in the Middle East and the earthquake in Japan. Despite the volatility, intermediate-term yields finished the quarter 20 basis points higher than the previous quarter on signs of better growth prospects and higher inflation expectation in the U.S.

- Commercial paper remains an attractive investment when compared to comparable maturity U.S. Treasury and federal agency securities while limiting the overall duration contribution to the portfolio. Corporates continue to add value and given the outlook for the economy and credit we (PFM) are comfortable continuing to add corporates. We (PFM) prefer non-financials, when available, in order to increase diversification.

- Over the course of the quarter, we (PFM) are able to use active management strategies to take advantage of the volatility in yields. In the Long Term portfolio we (PFM) made several sector swaps in addition to extension trades which resulted in the portfolio realizing over $16,000.00 in gains on sales.

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The County’s Long Term portfolio performed well for the first quarter, especially in an environment of low yields and increased volatility. Strategically adjusting the portfolio’s duration over the quarter between the range of 90% and 100% of the benchmark’s duration contributed positively to returns. Further, the portfolio’s allocation to the federal agency and corporate sectors added additional value as credit spreads narrowed. The portfolio’s return of 0.09% outperformed the benchmark’s return of 0.02% by 7 basis points (0.07%). In an interest rate environment where yields remain at or near record lows, we (PFM) will continue to position the portfolio’s duration short of the benchmark’s duration to reduce interest rate risk and the market value erosion that will occur if rates rise.

PFM will continue to follow the prudent investment strategies that have safely provided the County with favorable long-term performance during this period of historic low interest rates.

Although interest rates have rebounded from all time lows, we (PFM) believe the Federal Reserve is highly unlikely to change its policy in the short term. Economists expect the second round of quantitative easing will run its course through June. However, an internal debate over monetary policy among the Fed Governors has been at the forefront of the conversation in Washington throughout the first quarter. Such heated debate may be a sign that monetary policy change is on the horizon, although not in the near term. As long as the economy continues to stay on course, we (PFM) expect the first interest rate tightening to occur sometime after the first quarter of 2012.

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While near-time events (Japan earthquake, continued Middle East uncertainty) could slow the pace of economic growth, the economy appears to be on track for continued modest growth over the next several quarters. Many positive economic forces, such as strength in manufacturing, improving job market, strong corporate earnings supporting continued rising stock prices, and solid retail sales indicate the economy is in the growth phase. In anticipation of better opportunities in the near term, we (PFM) plan to maintain a diversified portfolio with a duration slightly shorter than the benchmark in order to position the portfolio to take advantage of yield increases in the future.

For Information: The CIAC heard Mrs. Sheldon disclose, for the record, that Bob Beargie and Bob Alft are now employed by the same firm (Raymond James Financial Services) and work in the same office.

8. Adjourn

Mr. Beargie adjourned the CIAC Meeting at 10:28 a.m.