

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area

Draft



Finance Committee Special Teleconference Meeting Summary Minutes

August 12, 2004
ABAG Conference Room A
101 Eighth Street, Oakland, CA

Presiding:

Jim Steele, Chairman

Jurisdiction:

So. San Francisco

Committee Members Present:

Emma Karlen, Vice Chair
Jim O'Leary
Jesus Nava
Debra Ryan

Milpitas
San Bruno
Burlingame
Half Moon Bay

Staff Present – ABAG PLAN Corporation:

Marcus Beverly, Risk Manager
Henry Gardner, Deputy Executive Director
Joseph Chan, Chief Financial Officer
Carol, Johnson, Recording Secretary

Consultants Present – PEM Group:

Richard Babbe

1. Call To Order:

Meeting was called to order at 10:50 a.m. and quorum was established by roll call.

2. Public Comments:

There were no public comments.

3. Approval of Minutes - July 19, 2004 Meeting:

Motion was made by O'Leary/S/Steele/C/ to approve the July 19, 2004 Finance Committee meeting minutes as presented.

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4. Investment Policy and Strategy Review:

Joseph Chan presented his report of August 5, 2004, containing follow-up recommendations regarding the PFM Asset Management report of June 9, 2004, based on discussion of the report during the committee's July 19, 2004 meeting. The Committee requested recommendations relating to corporate notes and callable securities to be discussed at a follow-up meeting.

Corporate Notes:

PFM recommended lowering the rating requirement for corporate notes to AA from AAA in order to increase the opportunity of securing corporate notes that would enhance portfolio performance. PFM also pointed out that investing in corporate notes calls for ongoing monitoring. If PLAN does not have adequate internal resources to monitor corporate notes, we should consider eliminating corporate notes altogether from PLAN's Investment Policy.

Chan recommended adopting the sample investment policy presented by PFM that reflects the AA minimum rating requirement and the 10% of portfolio limit for corporate notes. He recommended securing corporate notes with good spreads and an ongoing monitoring process be treated as investment strategies in this sector.

The committee and staff further discussed with Chan and Richard Babbe of PFM regarding defining a good spread and methods used to monitor corporate notes. Chan stated that a spread of 0.5% over comparable federal agency securities would be a good rule of thumb to warrant consideration of corporate notes as an investment. Members commented they review ratings of corporate notes in their portfolio every month, though a drop to an A rating wouldn't automatically mean they would sell. Other factors, including maturity, would also be considered. Nava commented his city's policy does not allow corporate notes and he believes they are more of a diversification tool for the pool.

/M/Nava/S/Steele/C/ to recommend to the Board of Directors to include AA corporate notes not to exceed 10% percent as outlined in the sample policy that PFM previously provided. Finding corporate notes with good spreads and ongoing monitoring are also adopted as strategies of investing in this type of security.

Callable Securities:

Chan outlined points in his report stating PFM usually recommends a 20% to 25% portfolio limitation on callable securities but recognized that PLAN's current 30% limitation may be acceptable with adequate safeguards. The PFM reports states while PFM "typically recommends a portfolio limit of 20% to 25%....(and) while the Corporation's limit 30% limit is above (PFM's) typical recommendation, it is not an unreasonable limit....if the portfolio overall call exposure is managed effectively. " PFM also suggested securing good call protection, good spreads over comparable bullet securities, and spreading out call dates over time as appropriate strategies to follow when selecting callable securities for investment. Babbe stated they typically recommend 25% maximum but a 30% limit would not be unreasonable if it includes the guidelines as outlined above.

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Babbe also pointed out that it is important not to count on call dates in cash flow planning, and reminded the group that callable securities make it more difficult to manage the duration of the portfolio, because they are subject to calls. Chan responded by pointing out that holding securities to maturity has always been PLAN's intention, and the impact of calls on the duration of PLAN's investment portfolio is limited by the 30% of portfolio limit on callable securities.

The committee members and staff discussed the recommendation and the need to set some guidelines on callable securities to augment the 30% limit. /M/Steele/S/O'Leary/C/ to reaffirm the 30% limit on callable securities in PLAN's Investment Policy and adopt the strategies relating to callable securities as recommended by PFM and Staff, with one added amendment--a limit of 5% of total portfolio is callable within a six-month period.

Other PFM Recommendations

Chan also presented the last portion of his report dealing with other PFM recommendations. He recommended using the Merrill Lynch 12-month rolling average yield index of 2-Year Treasuries as our investment performance benchmark. Staff recommends using yield instead of total rate of return for investment performance evaluation. Committee was in agreement that these recommendations should be adopted as investment strategies and they need not be incorporated in the Investment Policy. Staff will include in quarterly investment reports benchmark tracking, as well as other monitoring measures as outlined in the sample investment policy.

/M/Karlen/S/Steele/C/ to accept the PFM report as presented with the modifications to the investment policy reflected in the motions regarding corporate notes and callable securities.

5. Other Business:

None

6. Adjournment:

Jim Steele adjourned the meeting at 11:50 a.m.

Respectfully Submitted,



Marcus Beverly,
Risk Manager & Secretary
ABAG PLAN Corporation

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