

SAN MATEO COUNTY
INVESTMENT ADVISORY COMMITTEE

MINUTES

January 24, 2011

MEMBERS IN ATTENDANCE

Larry J. Shaw (Vice President UBS/PaineWebber) **Chairman**
Reyna Farrales (Deputy County Manager- Alternate)
David Glasser (Finance Manager, Bay Area Air Quality Management District)
Margie Gustafson (Administrator, County Office of Education)
Jim Saco (Assistant Budget Director, County Manager's Office)
Anthony J. Zidich (Treasurer, City of Daly City)

MEMBERS ABSENT

John Marty (Treasurer, City of San Bruno)
Linda Serdahl (Finance Manager, Bay Area Air Management District - Alternate)
Vacant (San Mateo County Transit District)
Vacant (Representative of School Board Presidents)

OTHERS IN ATTENDANCE

Charles M. Tovstein (Assistant Treasurer)
Sandie Arnott (Treasurer-Tax Collector)
Denise Porterfield (Deputy Superintendent Fiscal & Operational Services Division)
Lori Snow (Treasury Finance Manager, SMC Transit District)
Esther Garibay (Investment Specialist)
Lawrence Pon (Certified Public Accountant)
Nilita Meitz (Executive Assistant, Treasurer's Office)

Mr. Shaw opened the meeting at 12:04 p.m. and welcomed newly elected Treasurer-Tax Collector, Sandie Arnott, and newly sworn-in member, David Glasser, to the Treasury Oversight Committee. Members and guests were asked to introduce themselves. Mr. Shaw invited Ms. Arnott to address the committee as the new Treasurer-Tax Collector. Ms. Arnott thanked Mr. Shaw and welcomed those present to the meeting. She handed-out the committee's mission statement and charter, and expressed the importance of communication and transparency. Ms. Arnott touched upon reaching out to department heads, Board of Supervisors, superintendent of schools and school boards, if needed, to introduce an investment report class for all pool participants. She feels it is important for the Board of Supervisors, as well as all pool participants, to understand and know what questions to ask when reviewing the monthly investment report. Ms. Arnott encouraged the committee members to view the department's website for charts and information, and again noted the transparency of the department. She stated the department is considering hiring an investment consultant, which will be paid from the Treasurer's commissions. The Treasurer's commissions also pay for the annual rating of the investment pool. Ms. Arnott plans on sending out a draft investment policy, within the next 30 days, for the committee's review. Any and all comments will be welcomed on or before the next meeting in April. She plans to submit the final policy to the full Board of Supervisors

sometime in May. Finally, Ms. Arnott is looking to nominate a member of the public, who is a registered voter, to join the Treasury Oversight Committee. She will be accepting letters and resumes stating the reason and interest to serve on this committee.

MINUTES

Minutes for the April 19, 2010 meeting were approved as submitted.

REPORT BY CHARLES TOVSTEIN

Mr. Tovstein stated that the department has recently begun to send out an RFP for custodial services. Currently, the department has a custodial agreement with the Bank of New York. The other banks Mr. Tovstein is looking into are: Wells Fargo, State Street, Northern Trust, Chase, J.P. Morgan, and the Bank of New York. Although pricing is important, Mr. Tovstein will be looking at delivery, reputation, custodial, and securities lending. He mentioned closing securities lending temporarily to invest in treasury repurchase agreements exclusively. Mr. Tovstein believes security lending should be kept alive to be used at a later date. He spoke of the current 25% to 75% split with the Bank of New York; the County getting 75% and the Bank of New York, 25%.

Mr. Tovstein mentioned looking for an investment consultant as an extra set of eyes for the County portfolio. Previously, the County manager's office paid PFM for an analysis of the portfolio. Mr. Tovstein will discuss with PFM the cost to review the portfolio and the investment policy. Both Mr. Tovstein and Ms. Arnott are in total agreement with having a consultant and noted once again, the cost for the service will be paid from the Treasurer's commissions. Mr. Shaw asked how that would effect the operation of the office. Mr. Tovstein said he would be the one responding to PFM's questions and concerns. Mr. Tovstein would like a report from PFM monthly or quarterly, like an audit, where he can then bring the concerns to the oversight committee. He does not expect a drastic increase for custodial service, and estimates the outside advisor's cost to be around \$50 - \$70 thousand annually. The cost for Standard & Poor's rating services is \$20,000 annually, and the Treasurer's office has already ear-marked funds for the investment consultant. Ms. Porterfield asked about the RFP selection process when choosing a custodial bank. Mr. Tovstein said the banks that can provide the services will be sent the same RFP forms, and it will come down to price items and reputation. He mentioned State Street, Bank of New York, and Northern Trust as good candidates; they are primary dealers with the best reputation. Union Bank is the County's bank and Mr. Tovstein strongly believes the safekeeping of the funds should be kept outside California, and that is one reason why Mr. Tovstein prefers Bank of New York. He also noted having \$30 million in an earnings credit plus account with the Bank of New York to offset the custodial fees, and to have available money in case of a disaster. Mr. Tovstein recapped for Ms. Farrales, the request for a consultant for the County portfolio and a RFP for custodial services, now being provided by the Bank of New York. He also noted that an economist will hopefully be scheduled annually for the Treasury Oversight Committee meetings.

Mr. Tovstein reported the gross earnings for the month ending December 31, 2010, were 1.04%, and for the quarter ending December 31, 2010, 1.17%. He described the quarter as pretty good with a lot of volatility, considering the average life of the pool, 1.3 yrs with the quarter at 1.17%; the first few months were close to 1.25%. He said one of the main reasons for a little of the earnings drag was twofold: lack of volatility, less opportunity to take advantage of market movement, and in addition, December is tax season resulting in an influx of \$200 to \$300 million causing an earnings drag.

Mr. Tovstein drew the committee's attention to the newly designed portfolio charts available on the Treasurer's website. He invited the members to follow along as he reviewed pages in the monthly investment report. He addressed the diversification report on page 12, showing non-government guaranteed holdings that operate under the 5% maximum rule of the proposed 2010 investment policy. He mentioned General Electric as being the pool's largest corporate position,

\$65 million in securities, 2.49% of the portfolio. Mr. Tovstein used an example of how having a consultant would be beneficial. He would hope that if for some reason the position of a fund exceeds 5%, some type of notice would be brought to his attention. A short discussion ensued regarding monitoring securities, credit watch and downgrades. Ms. Snow asked if Mr. Tovstein had any credit alert on corporates, he said he had brokers who report to him daily as well as an extensive brokerage community. If there was so much of a whisper, he would get a call. He stated all corporate positions are monitored extensively and Bloomberg has alert as well. He continued to review the rest of the portfolio touching upon the 15 month cash flow and mentioning the maturing securities and possible calls. He continues to exclude State funding, due to the uncertainty with the new State budget, and said the fund needs to retain some liquidity in case the schools or the cities are in need of funds. In response to Mr. Glasser, if the Governor was to take away all redevelopment funds, the cities could request a withdrawal to exceed the 20% rule. This triggered an announcement regarding the withdrawal requests for voluntary participants. A letter from Ms. Arnott was sent out to all voluntary participants on January 11, 2011, regarding wires. In essence, each participant is allowed one wire a month, each additional wire out will cost \$50.00 to cover the department's cost. If a balance of \$5 million is maintained in the pool, all wire fees are waived. The letter also reiterated the 20% withdrawal rule which has been in existence for over 15 years. All property tax apportionments for December and April are exempt from the 20% rule as long as they are wired out the same month they are received. Mr. Tovstein continued his review by mentioning the monthly cash flow report, not included in the monthly packet, and how important cash flow is to the portfolio; he praised his staff for a job well done. He completed his outline with the historical yield curve, bond index, and finally, the performance of LAIF (Local Agency Investment Fund) vs. the County Investment Pool. Mr. Tovstein did remind the committee that all reports are on the Treasurer's website, and hard copies are available upon request. In comparison to other county websites, Mr. Tovstein believes the Treasurer's website is one of the most updated and transparent in the State. In response to Mr. Shaw, there are 1100 pool participants in the County pool. Mr. Tovstein then handed-out an article he found interesting entitled, "For Vallejo, Bankruptcy Isn't Exactly a Fresh Start."

Mr. Tovstein announced the creation of a new 2011 investment policy. The plan is to tighten-up the 2010 policy to be submitted, within thirty days, to the committee members and the Board of Supervisors. He noted that a cheat-sheet will accompany the proposed policy referencing the changes. Some of the changes will include the limit of A rated paper, and shortening the maximum maturity of the pool. Feedback to Ms. Arnott or Mr. Tovstein is encouraged by phone either before or at the next Treasury Oversight meeting in April.

Regarding Lehman:

Mr. Tovstein reported a new Lehman Bankruptcy plan, to be filed on the 25th of January that includes San Mateo County, Calpers, Pimco and others. He spoke of the original bankruptcy plan as unfair for groups like the County, and noted that the County was asked to join an Ad Hoc Creditors Group, who hired a New York law firm of White and Case, at no cost to the County. This was previously discussed at the October, 2010 meeting.

The Lehman Bonds are trading between 23-25 cents on the dollar. It is Mr. Tovstein's opinion that he does not foresee the bonds trading much lower, and there is an upside potential. If the bonds were to increase, he is interested in getting a consensus from all pool participants and their represented groups on whether they would consider selling the bonds. He is looking for a group decision on how this can be done equitably and the best approach. If he sells the bonds, he believes the bankruptcy claim is gone. He will have more information regarding the bankruptcy after the 25th of January. Mr. Tovstein does not believe the bankruptcy will be coming to an end anytime soon. A long discussion ensued regarding the Lehman Bankruptcy and thoughts on whether or not to liquidate the Lehman Bonds. Mr. Shaw suggested this topic be continued and placed on the April 25th, Treasury Oversight Committee Agenda.

PUBLIC COMMENT

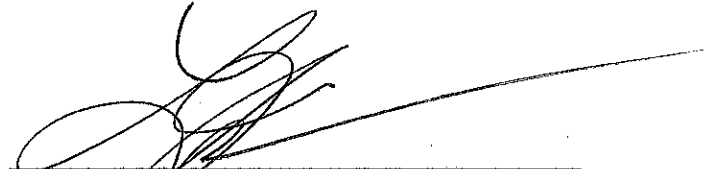
Mr. Lawrence Pon requested meetings that need to be rescheduled be done after the scheduled meeting date. Mr. Tovstein apologized for Mr. Pon's inconvenience, but due to a lack of a quorum, a decision was made to reschedule sooner and the notice was placed on the Treasurer's website. Mr. Pon also asked for the details on the Realized Gains & Losses report. Mr. Tovstein did remind Mr. Pon that he had discussed this issue with him in the past and tried to reach him with the information a few months back. The detailed report is about 28 pages a month and he will be happy to provide Mr. Pon with that information. The last question was regarding the Lehman recovery. Does bond money go back toward the payout of the bond? Mr. Tovstein said the bond issuer would need to look at that.

DATE OF NEXT MEETING

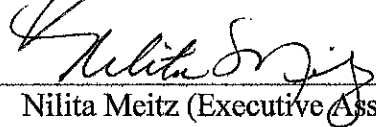
The next meeting of the Treasury Oversight Committee will be held on Monday, April 25, 2011, at 12:00 noon.

ADJOURNMENT

There being no additional business and no further questions, the meeting was adjourned at 1:10 p.m.



Larry J. Shaw (Chairman)



Nilita Meitz (Executive Assistant)