

SAN MATEO COUNTY
TREASURY OVERSIGHT COMMITTEE

MINUTES

January 23, 2012

2.1 MEMBERS IN ATTENDANCE

Larry J. Shaw (Senior Vice President, Morgan Stanley/Smith Barney) **Chairman**
Margie Gustafson (Administrator, County Office of Education)
Denise Porterfield (Deputy Superintendent Fiscal & Operational Services Division)
Jim Saco (Budget Director, County Manager's Office)
Anthony J. Zidich (Treasurer, City of Daly City)

MEMBERS ABSENT

David Glasser (Finance Manager, Bay Area Air Quality Management District)
John Marty (Treasurer, City of San Bruno)
Rosalie O'Mahony (Public Member)
Lori Snow (Treasury Finance Manager, SMC Transit District)
Vacant (Representative of School Board Presidents)

STAFF IN ATTENDANCE

Sandie Arnott (Treasurer-Tax Collector)
Charles M. Tovstein (Assistant Treasurer)

MEMBERS OF THE PUBLIC IN ATTENDANCE

Jonathan Carlisle, V.P., Union Bank
Tarrell V. Gamble, V.P., Blaylock RV
David J. Goerz, Sr. V.P., HighMark Capital Management
Marc Hughes, Exec. Director, Mitsubishi UFJ Securities
Fred P. Hurst, V.P., HighMark Capital Management
Lawrence Pon (Certified Public Accountant)

The meeting was called to order at 12:00 Noon. Chairman Larry J. Shaw welcomed all in attendance. Members and guests were asked to introduce themselves.

3.1 MINUTES

Chairman Shaw asked for a motion to approve the minutes of the October 24, 2011 meeting.

Correction by Saco: Remove Assistant from title for Jim Saco. Correct title is: Budget Director

Denise Porterfield moved to approve minutes with the amendment noted, seconded by Jim Saco. The minutes were approved unanimously.

4. ASSISTANT TREASURER'S REPORT – Charles M. Tovstein

4.1 – Investment Report

Mr. Tovstein indicated the gross earnings rate for the month were 1.19% and 1.10% for quarter ending December 31, 2011. These remain “above market” rates especially when compared to the 5yr note which is currently yielding .91% or LAIF which is currently paying in the .30’s. The average life of the fund is currently at 1.5 years. He announced that Esther Garibay recently resigned from the County which has caused him to focus less on the markets and more on operational issues such as reporting, diversification, compliance, etc. He stated interviews will begin shortly but cautioned it takes years for a new person to learn all that is involved in the investment department.

Mr. Tovstein stated earnings for the month of January are expected to be 1-1.02% and despite a tough market, we should remain “above market” in the near term. The market is currently trading in a narrow range affording little opportunity to add value. We have numerous high coupon securities being called that cannot be replaced at similar levels. Overnight Repo is up to 10-14 cents, but barely covers the cost of fees and will more than likely drop soon. Economic data remains positive while the Europeans Sovereign Debt crisis continues to exert downward pressure on US rates. It is anticipated that on 2/1/12, the Fed will indicate they will remain on hold until 2014. Earnings number projected for the remainder of the year should be in the range of 5/8-1%.

Mr. Tovstein continued his investment report by asking if there were any questions regarding the most recent investment packet, dated January 11, 2012. No questions were posed.

The committee was advised, by Mr. Tovstein, that audit results had been received and distributed reports from MGO Certified Public Accountants, to all members. Only one finding was noted: The City of Burlingame did not submit their signed acknowledgement of receipt of the 2011 Investment Policy by June 30, 2011. The form remains outstanding despite noted email requests. The audit report was accepted with no questions or concerns expressed.

Mr. Tovstein went on to say the US economy continues to indicate small but positive growth. The European problem will not be easily solved as it revolves around various countries borrowing and they’re already deep in debt with little room to add on.

The 4-5 year sector is trading in the 2-3 tick range. \$400M was placed in Repurchase Agreements this morning. The Pool balance remains high as participants are leaving their money in the pool due to high earnings and excellent customer service.

Mr. Tovstein stated Lehman securities are currently trading around 26-5/8. The first distribution of funds will occur towards the end of the first quarter and accounts will be credited based on the average daily balance of the account for the quarter ending 7/1/08 to 9/30/08. Proceeds will more than likely be paid on a semi-annual basis, .05 at a time. It is anticipated that it will take 2-3 years for bankruptcy distributions to run its course.

5. ECONOMIC REPORT – David J. Goerz, Highmark Capital

Jonathan Carlisle, V.P. Union Bank introduced David Goerz, Sr. V.P., Highmark Capital who presented his report *Shaken, But Still Standing*, an economic and capital market outlook. The presentation discussed global growth wherein Mr. Goerz opined that strong earnings growth, global equity declines and low interest rates have reinforced equity valuations at attractive levels. He stated that emerging market growth is more cyclical now and discussed positive global economic trends such as strong earnings growth, compelling valuations and an anticipated *Era of Exceptional Productivity*. It was stated that inflation is the most likely of concerns that could derail the expansion and robust profit margins in the foreseeable future. Additionally, a forced hike of interest rates could result from potential growth and increasing inflation.

Mr. Goerz concluded his presentation by offering all interested committee members his economic updates via email.

6. TREASURER’S REPORT – Sandie Arnott

6.1 Update on 2012 Investment Policy

Sandie Arnott provided members with a final copy of the proposed changes to the 2012 Investment Policy and requested that any questions or concerns be discussed. Ms. Arnott reiterated the proposed changes stating the 2012 Investment Policy adds municipal debt as a potential investment option and sets forth the rating, fund percentage limit, issuer limit, and maturity limit for such investments. The policy further clarifies that the Treasurer may annually request a rating of the pool from one of the three leading nationally recognized credit rating organizations (S&P, Moody’s, or Fitch) but is not mandated to do so. Additionally, minor cosmetic changes were made. As there were no questions or concerns posed, the policy was approved to present to the Finance and Oversight Committee accordingly.

6.2 Unfinished Business

Sandie Arnott briefly touched on the anticipated Lehman distribution acknowledging Mr. Tovstein’s prior comments.

7. ORAL COMMUNICATIONS AND PUBLIC COMMENT

None

8. OTHER BUSINESS

None

9. DATE OF NEXT MEETING

The next meeting of the Treasury Oversight Committee will be held on Monday, April 23, 2012, at 12:00 noon.

10. ADJOURNMENT

There being no additional business and no further questions, motion to adjourn was made by Jim Saco and seconded by Denise Porterfield. The meeting was adjourned at 12.59 p.m.

(Chairman)

Sandie Arnott (Treasurer-Tax Collector)