

**MEETING MINUTES  
TOWN OF LONGBOAT KEY  
JOINT INVESTMENT ADVISORY COMMITTEE AND FINANCE COMMITTEE  
MEETING**

**12/8/16**

At 10:00 AM on Thursday, December 8, 2016, a public meeting of the Investment Advisory/ Finance Committee commenced in the Ante Chamber conference room located in Town Hall, 501 Bay Isles Road, Longboat Key, Florida.

Members attending: Frank Malickson, Lynn Larson and Irwin Pastor.

Members excused: Phill Younger and Armando Linde

Also attending: Finance Director Susan Smith, Town Manager Dave Bullock, Chief Accountant Jeanette Phillips, Utility Billing Analyst Mike Wilkinson and Mel Hamilton and Julie Hughes of Chandler Asset Management.

- 1. PUBLIC COMMENT:** None.
- 2. APPROVAL OF MINUTES – NOVEMBER 11, 2016.** A motion was made and seconded to approve the minutes. The motion passed and Chairman Irwin Pastor signed off on the minutes.
- 3. CHANDLER ASSET MANAGEMENT REPORT.** Discussion was led by Julie Hughes and started with an economic update. The U.S. dollar is gaining in value compared to other world currencies. Irwin Pastor asked what Chandler sees as the largest impact to the pension fund regarding the rising dollar. Julie responded that the biggest changes they are seeing regarding pension funds are the rate of return assumptions. Many plans currently have assets overstated as actual rates of returns are less than the assumptions. We are starting to see adjustments to the assumptions regarding expected rates of return in a downward direction which raises the balances of unfunded pension liability. This may change to some degree with yields on the rise. Julie said the strong dollar is a “good news, bad news” situation. It is good in the sense of helping to strengthen the U.S. economy but hurts manufacturers that rely heavily on exports. Strong dollar is good for portfolio investments, Julie said that with regard to the pension fund it is very important to be cognizant of due diligence with regard to having assumptions that are as accurate as possible. Mel mentioned that fixed income markets(bonds) and equity markets(securities) tend to counter each other. Changes in economic conditions impact assumptions and liability balances. Julie continued and noted that the Fed meets on December 13<sup>th</sup> and 14<sup>th</sup> and is expected to increase the Fed funds rate

by 25 basis points. This is fairly predictable based on economic conditions. It is important to watch economic projections, analysts are predicting one rate hike in 2017, Chandler thinks there is a good chance there will be at least two. Currently there is a strong employment trend and inflation is starting to show signs of reaching 2% which the Fed has indicated is a threshold that is important in future decisions regarding interest rate hikes. Current trend shows the economy approaching full employment with an unemployment rate of 4.6%. Julie noted that the published unemployment rate is somewhat misleading due to low labor force participation. Underemployment is high at 9.3% but is recently showing a downward trend. Growth in wages is very benign but recently somewhat healthier. The Fed keeps a close watch on growth in personal consumption which is currently at 1.7%. The Fed would like to see at least 2%. Consumers are starting to spend more as evidenced by retail numbers. Online retailers such as Amazon are putting price and margin pressure on traditional retailers. Julie told the group the housing market is the driver of economic recovery. Housing starts were strong in October with an increase of about 25.5% after a decline of 9.5% in September. Home prices are up about 5.1% over last September. Julie said multi unit housing market shows more volatility than single family housing and nationwide markets are strongest on the west coast and weaker on the east coast. Manufacturing represents 10-12% of the economy and is in an expansion phase, we may see a dip due to the stronger dollar. GDP growth was at 3.2% in for the third quarter which was higher than expected. This was in part due to an anomaly in soy bean exports due to a weak crop in Brazil. GDP growth for the fourth quarter is expected to be around 2.2% and staying close to that level in 2017. Mel mentioned that the driver of GDP is consumer spending which weakened slightly in the third quarter. Chandler predicts a brighter picture in 2017. Irwin Pastor noted that Macy's has closed 100 stores and invested more in their on-line business as evidence that traditional retailers are feeling the pressure from on-line retailers. Julie directed the group's attention to page 11 of the handout which shows the yield curve for Treasury notes shifting upward. Dave asked a question regarding the economic outlook in the near term. He said as he attends meetings and conferences he hears a lot of talk that the U.S. is due for a recession and asked for Chandler's take on it. Julie responded that Chandler is not in the recession camp. Julie said they have looked at lots of indicators such as production, prices, GDP, interest rates and consumer debt. She said corporate profits are healthy and credit spreads and oil prices are stable. She did mention global constraints from other world economies but overall believes there is reason for optimism for the U.S. economy in the near term. Next the discussion shifted to the Town's investment portfolio. She noted page 14 in the handout and told the group that all investments are in compliance with the investment guidelines. Sue noted that there are two issues that will be going to the commission for approval. The first is the approval to invest short term cash (bank balances) in the Florida Prime fund and the second, based on cash flow, is a recommendation to add 10 million to the investment portfolio. Frank Mallickson asked a question regarding portfolio investments and whether the money all comes from one fund. Dave responded that it comes from several different funds and earnings from

investments are allocated based on a fund's percentage of the total portfolio. He clarified that the pension fund investments are totally separate from the Town's portfolio. Frank asked if the Town oversees the pension fund. Dave replied that oversight of the fund is the responsibility of the pension board. There are nine board members, 5 are appointed by the commission, one by the Town Manager and 3 are pension fund members (employees or retirees). The pension board reports to the commission. The discussion shifted back to the Town portfolio and Julie noted the average maturity is 1.63 years compared to the benchmark of 1.85 years. The average maturity will get closer to the benchmark after the Fed raises the interest rate. The portfolio balance at the end of November was 25.5 million. Asset allocation has shifted a little with an increase in Agencies and a decrease in Treasuries. She noted that Chandler will continue to add Agencies and that Corporates are near the maximum allowed by the investment guidelines. Chandler expects minor tweaks to the portfolio in the near term with modest additions of Agencies and Commercial Paper. Julie noted that the portfolio is well diversified. The top few categories with high percentages of the total portfolio are very stable and the rest are kept under 3% to mitigate risk. Julie directed the group to page 18 of the handout regarding the quality of investments in terms of rating agencies. Most of the Town's investments are AA rated. Regarding the maturity duration distribution, Chandler plans to extend the overall duration slightly to approach the benchmark. This will shift gradually over the upcoming quarter. Investments maturing at the short end of the distribution will be moved to longer terms. Julie also mentioned that with some maturities at the shortest part of the duration that Chandler is moving those investments to commercial paper to take advantage of high interest rates associated with money market reform. Page 20 illustrates that the last 2 quarters have resulted in a slight negative return on investments. Julie said this was expected due to the political environment associated with the recent presidential election. Chandler sees this as a short term situation and feels the portfolio is well positioned for the near future. Frank Malickson asked a question regarding the graph on page 20. The question addressed the Town's rate of return (green bars on graph) relative to the benchmark rate of return (beige bars on graph). Julie pointed out that for the time period the graph is depicting it is good that the green bars are less as the overall rate of return on both is negative. Frank asked if Chandler expected the Town's return to be equal to or greater than the benchmark return in 2017. The answer was yes. Frank asked if Chandler knows how much money is coming into the economy from foreign investors. Julie responded that she did not know the number off the top of her head but there has been a tremendous influx of foreign money due to better yields in the U.S. bond market. Julie said this will likely continue in the near term and could impact inflation in an upward direction. Frank asked Dave how many new housing units will be coming available on the island in the near future. Dave responded that there are 300 units at Longboat Key Club and 185 at the old Hilton, 100 new units and 85 remodeled units. Dave pointed out that any new increases in terms of density have to be approved through a referendum. The new units that will come on line will be a significant bump to property tax revenues. Frank noted that there is nothing

being added to the current infrastructure to accommodate more housing units. Dave said there is transportation analysis associated with the new units but is likely to only result in minor changes such as additional turn lanes, and possibly a couple more traffic signals but no major infrastructure changes.

**4. 2017 CALENDAR OF MEETINGS.** Sue passed out the meeting schedule for 2017.

The proposed September meeting was changed to October and November's meeting moved to December. Lynn Larsen asked about scheduling a meeting for a pension fund update. Irwin Pastor said we can schedule that for February and move the proposed meeting regarding the beach fund to May. Frank mentioned that he would like to see the regular Finance Committee meetings scheduled so that we have final performance data for the preceding quarter. Mel mentioned that would be the standard procedure for Chandler to update portfolio performance. Irwin Pastor requested that in scheduling meetings we stay away from Fridays and days near holidays as many people travel around those times. Ms Smith will bring the Calendar back for a vote at the next meeting after she checks room availability.

**5. OLD BUSINESS:** Frank asked when the Town next expected to need funds for beach re-nourishment. Sue answered that the next anticipated re-nourishment is in 2021. Lynn Larsen mentioned that it used to be scheduled every 8 years and that commissioner Younger was instrumental in having it be based more on need than on predetermined intervals. While there is one school of thought that having reserves for beach nourishment helps to keep bond debt more predictable, Irwin pointed out that we need 15-18M each time and the reality is that due to nature it cannot be anticipated with a high degree of certainty and will continue to be financed by issuing debt.

**6. NEW BUSINESS:** None.

**ADJOURNMENT.** The meeting was adjourned at 11:20 AM.

Minutes Approved \_\_\_\_\_

\_\_\_\_\_  
Mike Wilkinson

\_\_\_\_\_  
Irwin Pastor, Chairman