

**PITT COUNTY BOARD OF COMMISSIONERS
MINUTES FOR JUNE 13, 2000**

The Pitt County Board of Commissioners met in a recessed session on Tuesday, June 13, 2000, at 8:30 a.m. in the Commissioners' Auditorium, Pitt County Office Building, 1717 W. 5th Street, Greenville, North Carolina. The purpose of the meeting is to consider public business as indicated on the following agenda.

Commissioners present:

Charles P. Gaskins, Chairman
David Hammond, Vice Chairman
Glenn Bowen, Commissioner
Ann Huggins, Commissioner
Eugene James, Commissioner
Thomas H. Johnson, Commissioner
Mark W. Owens, Jr., Commissioner
M. Theresa Shank, Commissioner
Beth B. Ward, Commissioner

Others present were:

Thomas B. Robinson, County Manager
JoAnne Burgdorff, County Attorney
Susan J. Banks, Clerk to the Board
Melonie Bryan, Director of Financial Services
Arlen Holt, Public Information Officer

Chairman Gaskins reconvened the meeting from the June 12th meeting.

Approval of Agenda – Chairman Gaskins

UPON MOTION by Vice Chairman Hammond, seconded by Commissioner James, the Board voted unanimously to approve the agenda.

Opening Comments & Introductions – Melonie Bryan, Director of Financial Services

Fixed Investment Manager Presentations & Follow-Up Questions

Tattersall Advisory Group – Craig Truitt and Steve Edelman

Mr. Craig Truitt stated that Tattersall Advisory Group is part of First Capital which is part of First Union out of Charlotte. They have eighteen specialists that work in their expertise. They are a research group on investments. He provided a client reference list and examples of the investments they are involved in. He stated they are a conservative group. They do not use futures and options or high risk investments. They have the disciplines in place to use previous successes for the future. Mr. Edelman explained the tools that they use for evaluating and structuring a portfolio:

- Interest Rate Barometer
- Yield Curve Analysis
- Sector Valuation
- Unique Securities

Their goal is to protect the principal. They evaluate corporate and treasury securities for these types of investments. They believe they can structure a portfolio with bonds and other investments. They also use mortgages and corporates but they believe corporates are good investments and are inexpensive. They look at stock market trends for future earnings prospects of a company which influences the other investment options. The mortgage markets that they use are direct or implied

agencies. He spoke about mortgages and volatility of interest rates. They use closed end bond funds. They are AAA rated and provide about 5.5% yield and trade at a discount. Expected rate of return on these securities is 8% in a two-year period. Characteristics they would use for the Pitt County Portfolio are:

Average Quality	AA+
Average Maturity	7.8 yrs.
Average Duration	4.9 yrs.
Average Coupon	6.7%
Average Yield	7.7%

Mr. Truitt said the process they use has been in place for twenty years and it has proven to be very successful. He said they would be there for their customers. He said he hoped they have expressed how their team could help Pitt County be successful with their fixed investments. He said their compensation comes from taking care of their clients. Stability of staff is one of their assets. Their fee schedule is based on .35 of 1% on all assets under management and there is no commission. They are located in Richmond, Virginia and they answer to their clients. The fee is billed either before or after the quarter based on the customer's request. They would invest 98% of County funds in bonds because they want to capture this yield. They can maintain the principal and they are still getting extra income. He said they are seeing signs that the economy is slowing down and housing market is slowing down. He said they do not see signs of recession. They have intermediate and short term portfolios if needed or requested but the returns would be lower.

U.S. Trust of North Carolina – Glenda Burkett and John Rich

Ms. Burkett said they used to be North Carolina Trust Company and they have become an affiliate office of U.S. Trust located in New York. The employees are owners of their company. They manage over \$90 billion in assets with 175 investment professionals. They are a Premier Wealth Management Organization. Mr. Rich reviewed their investment process. There are investments here in North Carolina and they are in compliance and supply good support and reporting. Seeking opportunity and risk control are the keys for fixed investments. He stated they follow an intermediate investments and diversification plan. He reviewed their three part process for investment. He spoke about bonds and interest rates. They determine their benchmark duration and security analysis. Mr. Rich spoke on their strategy, security selection and trading and execution. He said he can find bonds with dealers and they can negotiate. They follow your policy and do a client-specific portfolio. He emphasized that they will be in compliance on these investments. The fee schedule is as follows:

0.50% on the first \$10,000,000
0.30% on the next \$40,000,000
0.25% thereafter

There are three support people in North Carolina. Doug Ebert assures compliance. Semi-annual reports are suggested but they will accommodate whatever is requested by the County. The Lehman Brothers is the benchmark. He said the expected return could be 70-80 basis points. He said they fit perfectly what the County' mandate is. Intermediate duration is a key on this investment practice. North Carolina clients are confidential and they would need to contact them and ask permission. Large universities and hospitals in North Carolina are some of their customers. The investments would be taxable investments but they yield larger returns. He considered intermediate investments are five years. The principal can be lost in a default situation. The Lehman Brothers is more mortgage related and securities. Ms. Burkett said their company can also help with a spending policy for a smoother amount of income and projections can be implemented. She thanked the Board and said they would like the opportunity to serve Pitt County.

There was a short break at this time.

MDL Capital Management – Mark D. Lay, Dennis McCaskill, Sheryll Myrrell

Mr. McCaskill introduced Mr. Lay and Ms. Myrell. He stated that Ms. Myrell has worked with the State Treasury. Ms. Myrell stated they manage \$2 billion with the primary office in Pittsburgh. They are employee owned. Mr. Lay stated that in the eight years of the firm they have never lost a client. They provided a client list and the clients will tell you that they are their top fixed income manager. He said their existing clients have been giving them additional money. They have consistently outperformed and their customers have rewarded them by adding to their investments. The investment philosophy is that in up markets they want to give 110% back and when bonds are going down they want to have a risk profile similar to the benchmark. They have still outperformed during down markets. He said the bonds give consistent and dependable returns with half the risk of stocks. Investment policy committee is made up of six professionals. They look at growth, employment numbers, monetary policy including the Federal government, what is happening in Washington, and the value of the dollar to incorporate global relationships. Where interest rates are going is very key for them and duration. Mr. Lay said that 80% of their holdings have been in U.S. Treasury bonds, 10% in mortgage securities, and the other is made up of agencies and corporates. He said the capital preservation is a primary goal for them. He said that they will outperform the benchmark that they are provided by their clients and if not they can be fired. They continue to grow and have been targeted as one of the fastest growing money managers in the country. Their typical bond portfolio nets out at .02 of 1% or 20 basis points. They start out at 30 basis points and then scale it on down. The SEC requires by law that you put the highest possible fee that you can charge in your disclaimer. He stated that \$30,000 with 20 basis points will be the fee for a \$15 million investment. Intermediate Index is shorter term bonds and the Lehman Aggregate Index can be used as benchmarks. It is the managers job to be conservative. They would provide quarterly reports. He said that he would work with consultant or Finance Officer to determine what the County needs to use from those funds. He stated that performance is the key for hiring a money manager. He stated that this is a very competitive market and there are structured programs where cash is generated for their budget. He gave examples where they have had to structure the portfolio to meet similar programs. Mr. McCaskill said that he wanted to issue a challenge to the others and they pride themselves for putting things back into the community. Mr. Lay encouraged the Board to call their references. They have never lost an employee on the bond side and each of the key people have seven year contracts and they have a succession plan. Mr. McCaskill said they want the business and they are committed to quality service.

Wachovia Asset Management – Chuck Mahaffey, Rick Nelson, Mark Forbes and others

Mr. Chuck Mahaffey introduced the others with him for the presentation. He stated they manage \$41.6 billion in assets under management. The process is a multi-disciplined process. They have 108 people on staff with 14 portfolio staff. Most managers have been with Wachovia over ten years and their performance is tied to their compensation. Mr. Rick Nelson was elected as fixed asset officer for PCMH when the County owned the Hospital. He stated that he is in charge of the taxable income group and they have a research group. They have total return objectives. He reviewed the maturity dates. Mr. Nelson said they look at the client's objectives. He said they outperformed their benchmarks with the Hospital. The risk tolerance has not been completely defined and you should not take unnecessary risks in your portfolio. He said they do not move things in the portfolio in small increments. They can use mortgage backed securities under G.S. 147-69.2. He stated that they are at a 92% targeted benchmark duration. They would have a shorter profile and said the economy is starting to slow so you may want to move your benchmark. They want to perform in line with benchmark index. The manager should perform within the index. He said bonds are closing at historically wide amounts. They think this is a real buying opportunity. He said they have the research staff to do independent research. The manager should work very closely with the County. They use a maximum of 50% corporates; 20% closed-end funds; 15% single industry; and 10% foreign securities. This is a multi-disciplined approach. They presented a copy of the returns for Pitt County Memorial Hospital. He reviewed their returns and they outperformed at three and five years. He said they are cautious and see signs of a slow down in economy. He provided a list of fixed income clients. The Fee Schedule is approximately 30 basis points on \$15 million or \$44,500.

They run an average for a quarter and put together a bill which can be paid through the account or however the County would prefer to take care of it. The fees apply to the actively managed portfolio. As for compliance they can monitor with a software package. They would report on the last business day of the month by mail or fax. They will set up a performance reporting system based on a quarterly basis. They have a Wilshire system which also has a compliance module. Fees have been going down but they would be willing to sign a two year agreement. There is a fee on the earnings as long as they are managing the funds but they do not charge on them if they are put into a money market account. They require an investment advisory agreement and it can be terminated at any time. He was supportive of quarterly meetings to make sure they are doing what is wanted by the Board.

Mark Forbes is responsible for the Pitt County market for Wachovia. He said that they have a sales team approach that is responsible for delivery products to the County; relationship continuity with an extensive information system that can be accessed on the County's account and that they deliver the right solution. They go way back with Pitt County. He said there are over 600-700 employees in Pitt County and they have been a great corporate citizen in the past.

Chairman called for a short break.

Brown Brothers Harriman & Company – John Norman and Michael Carbery

Mr. Norman, Investment Management, introduced Mr. Carbery, Institutional Investment Management. He stated that they can turn investments around quickly. They have an excess of \$36 billion in investments. They understand the compliance and guidelines. They look at fixed income from a fundamental approach and from a qualitative and quantitative approach. Their principles are preservation of capital, long term view of markets, custom tailored service, proprietary credit research and active management. They do their own research. They hit singles and doubles in the securities market. He spoke about the intermediate performance and package which is what they would put together for Pitt County.

Mr. Carbery said their investment policy is key to what they can do for Pitt County. Independent research and quantitative management tools are what they offer. They identify the units of risk so they can create their own model portfolio that is customized to Pitt County. The Chairman of the committee is responsible for the decision making process. The Wilshire Axiom Risk Management give them the information to measure them by. Compliance is a goal and they have an in-house system to assure compliance. There is a multi-tier decision making process. They have data and they use a fundamental analysis of an individual security. They are looking to provide consistent and repeatable performance with an average of 50 basis points over the benchmark for years. On competitive advantages they offer a customized approach. They independently select investments for the clients. The team approach is used and they work as a unit and they provide an upfront person that works with the County. Mr. Carbery provided a sample portfolio that looks like what Pitt County's would be. The yield in today's market would be 7.35% and duration 3.4 year. Distribution would be evenly spread out. He said Brown Brothers takes their community very seriously and they work with the community. The fee schedule was put forth but there has been a changed fee schedule submitted. The fee would be as follows:

0.40% on the first \$15 million
0.30% on the next \$10 million

They are willing to discuss a performance based fee. Mr. Carbery said it would be reduced the first year and then an incremental sharing following the first year for an increase over the benchmark. They have not seen the investment guidelines. They use a five year treasury for their benchmark. They would share in the percentage of returns. They will be operating a short term investment for the City of Raleigh. Mr. Carbery said that Brown Brothers supports the liquidity of the funds and would be able to get funds to Pitt County in quick turn around if necessary.

Mr. Robinson said they discussed using two equity managers and one fixed manager. He said they would make recommendations at the Board meeting at the June 19th meeting. Commissioner Owens said he wanted a recommendation from the consultant.

UPON MOTION by Commissioner Owens, seconded by Commissioner Ward, the Board voted to adjourn the meeting at 12:00 p.m.

Respectfully submitted,

Susan J. Banks, CMC
Clerk to the Board