



TO: Members of City of Dubuque Investment Oversight Advisory Commission

FROM: Kenneth J. TeKippe, Finance Director *Kenneth J. TeKippe*

RE: Un-approved Minutes of the July 28, 2010 Meeting of the Investment Oversight Advisory Commission

DATE: August 4, 2010

Commission members Stephen Reisdorf, Virgil Blocker, Gary Ruden and Brad Chalmers were present. Ken TeKippe, Finance Director, Jean Nachtman, Assistant Finance Director, Tami Lansing, Accountant and Vicki Kluesner, Finance Department Intern were also present.

1. The meeting began at 3:00 p.m. in Conference Room A in City Hall with Stephen Reisdorf and Gary Ruden taking the Oath of Office as newly reappointed committee members. Ken indicated that Hiram Melendez would not be able to attend the meeting.
2. Finance Director Ken TeKippe, certified that the meeting was in compliance with the Iowa open meetings law.
3. Virgil Blocker nominated Stephen Reisdorf as chairperson of the commission and Gary Ruden seconded. Motion carried unanimously.
4. Virgil Blocker moved that the minutes of the April 28, 2010 meeting be approved. The motion was seconded by Brad Chalmers and approved unanimously.
5. Dale Repass, John Gonner and Ryan Piechocinskin of First Community Trust (FCT) distributed a handout which provided information on performance, economic and interest rate outlook, and five year treasury yield history and recent history of spreads and market commentary.

Dale indicated the firm is in its tenth year and is a federally chartered trust company which continues to grow with \$340 million in assets (900 accounts). FCT continues to receive good exam results and has two outside audits per year. The firm continues to provide trust services to four local financial institutions: East Dubuque Savings Bank, Premier Bank, DuTrac Community Credit Union and

Dupaco Community Credit Union. Dale indicated FCT's appreciation of recent reallocation of funds managed by the firm.

John reviewed their report and provided the following comments: focused on the low risk low volatility investments; index has more volatility than the City portfolio; returns have beat the index overall for positive and negative returns since inception; Since firm began managing City funds, treasuries have outperformed government agency investments; yield curve has been steep for some time. There are additional treasury bonds available due to stimulus plans. Inflation concerns over increased money supply has been offset by a slow down in the velocity of the money supply. Higher unemployment percentage and longer lengths of unemployment along with a national rise in savings will work to keep inflation in check.

The firm goal when they began managing City funds seven years ago was to have higher returns at a lower risk which they have met.

City's portfolio has more months with a positive return than the index and less months with negative returns; continued to buy government agencies, not treasuries; have bought agencies and mortgage backed securities because they are callable; managed fund for total returns; growth has slowed, a subpar economic recovery; possible to have a double dip recession, however not predicting; forecast difficult times in this portfolio; 50% of the past year 5.02; return will be good the next year; the standard deviation for returns has been 5.43% versus the index of 6.666%.

John Gonner confirmed that First Community Trust is in compliance with the City's current investment policy.

6. Nick Zimmerman, Mike Maloney, Chris Johnson and Taylor Harwood of US Bank provided a handout which provided information on performance, maturity distribution and fixed income market outlook. Chris Johnson of Madison, Wisconsin will now be the City's client relations manager replacing Nick Zimmerman. Taylor Harwood of Minneapolis, Minnesota will now be the City's portfolio manager replacing Mike Maloney. Nick and Mike will be moving to other positions with the bank, but will still be available for assistance.

Taylor reviewed the U.S. Bank report. His comments included: don't expect a double dip recession; economy will slow; focusing on callable agencies (10 basis points advantage), do not foresee them being called, but believe enough like product in the market to replace; held considerable cash at year end; did not want to use laddered approach for investments and lock in at lower rates; shortened the duration ladder by acquiring three investments subsequent to year end with maturities in 2012 thru 2014; bank had large cash build up with intentions to invest in Fed Notes, but expected interest rates did not materialize; returns running under

the indexes partly because of assets held to maturity; firm has begun taking fees monthly and implementing new fee rates.

Taylor Harwood confirmed that U.S. Bank is in compliance with the City's current investment policy.

7. Ken distributed investment return and fee information as of June 30, 2010, for the four investment managers: Dubuque Bank and Trust, U.S. Bank, Dana Investment Advisors and First Community Trust.

Commissioner Brad Chalmers expressed an opinion over the simple ladder approach used by the managers and the fees charged. Perhaps other investment strategies are available.

The recent switch in software by custodian American Trust and Savings Bank has resulted in issues relative to reconciling the accounts, categorizing the assets and reflecting the amortization of premiums and discounts. The custodian will change future reports to discontinue amortization which is consistent with reports prior to the conversion to new software.

8. The Commission reviewed the June 2010 revised quarterly investment reports prepared by Tami Lansing which were distributed at the meeting. Ken indicated that the City will be receiving considerable bond proceeds in the next couple months (approximately \$14 million) for a variety of projects and a refunding of 2002 bonds outstanding. At this point it appears a number of local banks will be bidding on investing the bond proceeds. The City will also be borrowing \$65 million in State Revolving Fund Loan from the Iowa Finance Authority for the Water Pollution Control Plant project. The City's bond rating is Aa1 which is a very strong rating.
9. There was no communication from the public, commission or staff to report according to Ken.
10. The next meeting of the Commission is scheduled for Wednesday, October 27, 2010, at 3:00 p.m. in City Hall. A representative from Dana will be invited to the meeting.
11. Gary Ruden moved that the meeting adjourn. The motion was seconded by Virgil Blocker and approved unanimously. The meeting adjourned at 4:40 p.m.

From: City of Dubuque, Investment Oversight Advisory Commission
To: MEMBERS of the CITY COUNCIL of DUBUQUE
Regarding: Quarterly Report

In Accordance with Ordinance No. 50-92 (3), Sec.2-231, City code, the City of Dubuque Investment Oversight Advisory Commission (IOC) respectfully submits the 69th quarterly report.

The IOC members met on July 28,2010. The transactions reviewed through June 30, 2010 appear to be in compliance with the Articles in the Investment Policy as further noted below. Representatives from First Community Trust (FCT) came before the IOC for their report on funds managed for the City. Mr. Dale Repass, CEO thanked the IOC for letting additional funds for management by the FCT. As of August 1, the only remaining transfer is to be made from Dana in the latter part of 2010. John Gonner, CFA, Senior Vice President presented the performance review through June 30, 2010. Mr. Gonner stated that, in the eight year period FCT managed funds the City portfolio out Performed benchmarks 88% of the months in which the index had a negative return and 50% of the months in which the index had a positive return. These results were due primarily to the FCT practice of purchasing “agencies” over the eight years. These had what is called “step-up” interest rates and non-callable features which result in a very conservative portfolio. Currently, however, these type of instruments are very difficult to find.

Mr. Gonner observed that inflation is very low and returns will continue to be low as the economy is expanding but only very slowly. Mr. Gonner concluded by stating that FCT practices are in compliance with IOC policies.

Representatives from U.S. Bank followed with their report on funds managed for the City. U.S. Bank representative Nick Zimmerman stated that funds for FCT will be transferred on or about July 29, 2010 from the U.S. Bank share of managed funds. Messrs. Chris Johnson and Taylord Harwood presented the performance review through June 30, 2010. Mr. Harwood stated that corporate and high yield instruments were better than agencies, but for safety, the focus has been on callable agency notes. They continue to look for shorter terms to ladder in order to keep durations in 3.5 to 4 years. U.S. Bank focuses on Barclay Capital 1-3 years governments for comparative purposes. Increasing returns will be a challenge. Mr. Harwood stated that U.S. Bank practices are in compliance with IOC policies.

Mr. TeKippe reviewed manager returns and fees. All manager fees are now standardized and paid monthly. Mr. TeKippe noted further that D.B.&T. had transferred its share of funds for management to FCT, U.S. Bank will by July 29, 2010 and Dana will be the last to do so.

Members Gary Ruden and Stephen Reisdorf were reappointed for three year terms. As is the practice at the beginning of new fiscal periods, a chairman of the IOC was elected. Stephen Reisdorf was elected Chairman for the ensuing fiscal period.

The IOC next meeting date was set for October 27, 2010 and presenter will be Dana.

Respectfully submitted,

Stephen V. Reisdorf
Chairman
Investment Oversight Advisory Commission