

**Audubon Area Community Services, Inc.**  
**Investment/Oversight Committee**  
**MINUTES**

December 19, 2008

The Investment/Oversight Committee for the AACS, Inc. met at 9:00 a.m. in the agency's Board Room in Owensboro.

**Members Present:**

Ms. Daisy James  
Mr. Ronald Logsdon

Rev. Jerry Manning \*  
Mr. Byron Mayes \*

Hon. Larry Whitaker

\*Ex-officio Member

**Other Person(s) Present:**

Mr. Steve Pierce, Investment Broker, BB&T

Mr. Randy Spaw, Corporate Representative, BB&T

The Committee convened for business at 9:00 a.m. to follow up on its December 4<sup>th</sup> meeting to review the agency's stock portfolio and to discuss BB&T's recommendations for the short-range and long-term management and diversification of the portfolio.

**COMMITTEE BUSINESS**

**General Discussions.** The meeting opened with several brief discussions on pertinent AACS financial commitments and issues:

***Fifth and Foust Office Building.*** The Daviess County Public Improvement Corporation's \$5.5 million bond issue to build the office complex at Fifth and Foust, Owensboro, which will be occupied by AACS' administration and Head Start central operations. AACS' 20½ year lease on the building will cover the Improvement Corporation's indebtedness. Mr. Spaw noted that he and CFO Mayes had a conversation with the bond agent, Stan Kramer, who advised that the after-construction unspent balance of the bond issue could be applied toward the bond's principal ... or be used for other projects, which might include the downtown parking garage.

***President-elect Obama's Proposed Recovery and Reinvestment Program.*** Mr. Logsdon advised that the downtown parking garage had also been submitted through the city-county Downtown Development group and the Kentucky Department for Local Projects as a "shovel ready" project for funding under President-elect Obama's proposed \$850 billion "economic stimulus" and jobs recovery program.

***Presidents Place Receives Tax Credits.*** Mr. Logsdon advised that Kentucky Housing Corporation had approved AACS' proposed Presidents Place for \$9.4 million in tax credits. AACS and Wabuck Development Company are now seeking investors. Logsdon asked Mr. Spaw to inquire with BB&T's Investments arm as a potential Presidents Place tax-credit investor.

***Anthem Contingent-Premium Reserve Fund.*** Mr. Logsdon then advised that AACS had \$356,705 in a reserve fund accumulated through a contingent-premium arrangement with Anthem two or three years back. While he considered those funds as ultimately tied to ERISA requirements, he felt that it could be possible for AACS to "borrow" those dollars for a short-term parking-garage-payment

“bridge loan,” while leaving the WellPoint portfolio intact during its ongoing stock price upsurge then repaying the reserve fund when the minimum required shares could be sold at a higher price.

**The AACS Portfolio.** Mr. Pierce said that the WellPoint (WLP) share price was presently close to \$41 per share, up some \$5 per share since the previous Committee meeting.

He recommended that the agency ultimate may want to retain perhaps one-half its portfolio in WellPoint, but diversification of the portfolio was a must. WellPoint was a good stock, he said, but its recent decline had been caused by both the general market decline and “some issues” pertaining to WellPoint and other healthcare stocks.

Mr. Pierce also proposed setting aside a sufficient portion of the portfolio, perhaps 10-15%, with “moving stops,” which would entail automatic sale of those shares, at designated prices to 1) protect the agency’s recent gains in share prices and 2) assure the best possible scenario to come up with the committed \$500,000 payment toward the downtown parking garage. That payment could come as early as March, he said, so the agency needs to prepare for that certain eventuality. Mr. Pierce cautioned, though, that the agency’s Board and management should understand that “when you sell it, it’ll bounce back up.” But the stops will prevent possible major losses on the down side. “AACS just needs ‘protection’ and ‘pull backs’ in a volatile market.”

“Stops,” he said, work off target prices. For example, a \$35 “stop” on the low end would mean that if or when the stock price reached that \$35 level it would trigger an automatic sale. But the sale may not be at the \$35 figure. But perhaps 20,000 shares would be offered for sale and the market would then buy them at whatever rate the buyer would offer. That’s always a concern.

The biggest worry, though, that he had with the AACS portfolio was its concentrated position, both in the fact that it’s all in equities and the fact that it’s all one single stock. He suggested diversification in a stock-bond mix and spreading the equities investment over multiple stocks. “A concentrated position is one stock is risky.” Too, AACS should consider being more active with its investments. An investor could perhaps achieve a 10-15% growth in value simply with “active” buying and selling, he said.

Mr. Pierce emphasized that WellPoint was, in his mind, a good stock. And the healthcare industry should “do decent next year.” He spoke about Harry S. Denton, Jr.’s book, *The Roaring 2000s*, which gave three areas where Baby Boomers would spend lots of money: 1) Healthcare, 2) Financials, and 3) Technology. So WellPoint is well positioned for growth and value in that scenario, he said. “Healthcare companies are going to be very strong.”

Still, although WellPoint is a good company, companies are not always rewarded with higher stock prices, he cautioned. He offered the example of Wal-Mart, which he described as a “buy and hold” stock, but even it had declined recently while continuing to do booming business.

**AACS Obligations and Near-Future Portfolio Transactions.** Mr. Spaw noted that AACS may well need as much as \$850,000 to cover the parking garage bills as early as March and April 2009. In all probability, he said, AACS would need four to five years in a good market to regain the portfolio value it once had, some \$3.6 million, even without having to sell some of the shares to garner needed resources. Mr. Logsdon again noted the Anthem premium-reserve funds as a possible “bridge” to allow the stock portfolio to remain intact longer. He also noted that the agency owned the current GRITS office property at 1416 West Ninth Street. Property appraisals were being secured with a view toward selling that property to obtain cash to apply toward the parking garage/GRITS office complex. He estimated that the current GRITS property might garner as much as \$250,000, especially in view of the fact that a neighboring business, Schwartz Heating and Cooling, Inc., appeared to really want the property.

**Portfolio Advice and Assistance.** Judge Whitaker asked Mr. Pierce how many stocks/companies he recommended ought to be included in the AACS portfolio. What's the recommended dollar range? What's the number of stocks AACS should be looking at? Three? Five? What about looking beyond equities, say to municipal bonds or long-term certificates of deposit? He asked Mr. Pierce to help the Committee understand what "diversification" really means. Too, he asked if Mr. Pierce could help the Committee better understand the agency's long-term obligations and some ways to bolster its cash position, even perhaps refinance or pay off some of its debt. What's the "next threshold," say three to five years out? Rev. Manning also asked whether twenty to twenty-five percent (20-25%) in one single stock ought to be the limit.

Mr. Pierce said that AACS was fortunate in that it did not have to consider capital gains tax consequences from the sale of its stock. As the "right mix," well, that depended on the "risk tolerance of the organization." One stock? No, we're not comfortable with that! *But* ... which stocks and how many? That depends on how much risk we're willing to take. Every percentage you diversify may help lower the risk.

Rev. Manning said that municipals were recently delivering a 7-8% return. These are apparently now more attractive than "Treasuries," he said, and demand for them is high. In addition, he advised that with the tax code, dividend income is now more attractive than interest income for private investors.

**Public Funding Cautions.** Judge Whitaker cautioned against AACS putting too much hope in "political" windfalls. The Governor's budget is "dead on day-one," he said. It will never even come out of committee. The political environment, both federal and state, is so volatile right now. So it's just "shooting in the dark" to count on government funding.

**AACS Investment Policy.** Mr. Pierce suggested that when building an investment fund that one should strongly consider developing an Investment Policy. Get a strategy in place! It then makes it easier for him to make investment recommendations. Judge Whitaker said that AACS may need to rethink its strategy: Invest here. Don't invest there. He noted that AACS did have an Investment Policy, one that was developed during his tenure as chairman. Mr. Logsdon said that he would forward a copy of that policy to Mr. Pierce and Mr. Spaw.

The BB&T representatives offered to take a look at the AACS policy and bring the Committee recommendations for its modification for providing them more guidance as they assist AACS with its portfolio management. Mr. Spaw said that the Investment Policy should include statements relative to "risk tolerance" and AACS' long-term investment objectives. It should probably include AACS' stated purpose for its investment portfolio and AACS' expected needs, if any, to ultimately be borne by or supplemented with the investment corpus and/or accumulated proceeds.

AACS needed to put an investment plan in place and follow it! Its strategy may or may not include bonds. At this time and into the foreseeable future interest rates are expected to continue at low levels. Mr. Pierce advised keeping a close eye on the fundamentals of the economy. The market, he said, moves on mood swings and more on people's emotions than anything else.

**"Stop Order."** Mr. Pierce again spoke to the recommendation that AACS institute a "stop order." It would be the agency's "good 'til cancel" order for him to sell a portion of the WellPoint stock sufficient to garner approximately \$500,000, the amount expected to be needed in the Spring of 2009 to cover the agency's pledge toward the construction of the downtown parking garage. When there such known obligations in place, AACS must make sure that the money will be there to meet them, he said.

He suggested a "stop" be entered at the \$36 or \$37 range, and that would mean that the stated portion of the stock required to obtain the approximate \$500,000 soon to be needed would immediately be sold when or if the stock price should dip to that level. This action would serve as a "trigger" in place to

protect AACS' fiduciary interest. The strategy with the recommended "stop" is to 1) set a floor to protect AACS' equity assets and 2) to set the stage for diversification of the portfolio later on. Mr. Pierce said that AACS could also impose "stop limits," but that may not work for the agency. Mr. Spaw noted that even if the stock should sell that the agency could buy it back again if it wished to do so.

Mr. Pierce also suggested that the Investment/Oversight Committee meet often to review AACS' current status in this uncertain market. He said that the Committee might also wish later on to let the "margins" on the "stop order" grow larger and allow more volatility, but that he thought something in the \$37 range was right for this point in time.

Once again, Mr. Pierce said that having such a specific strategy in place made it easier for him to help AACS safeguard its assets. The good news, though, is that WellPoint has probably bottomed out, he said. This action would help mitigate AACS' risk in the market and assure the needed return for the upcoming parking garage obligation. If approved, the "stop" would be valid for ninety (90) days.

*Judge Whitaker moved to authorize the "stop" at \$37. The motion was agreed to unanimously.*

Mr. Pierce said that if new information emerged and AACS didn't need the \$500,000 as now expected that the "stop" could be moved around. "It's a pretty tight 'stop,'" he said. But it protects against a catastrophic drop in the stock price. Should the stock sell based on hitting the stated target, the cash would be placed in a cash account within the portfolio. If the stock price moves up substantially, Mr. Pierce asked that he be called and asked to enter a new and higher "stop" target. He said that he could always be reached via his cellphone number: 270-302-2298.

He said that he hopes the "stop" does *not* execute. The stock appears to be moving up, so it may not. If the share price continues to go up, the next time the Committee meets it may want to consider moving the "stop order" upward, he said.

**Online Trading.** AACS might consider signing up for online trading, said Mr. Pierce. Although he will give AACS BB&T's best pricing should the stock sell, online trading rates are lower. A \$500,000 trade done through him might cost the agency \$1,500, but that same trade could be done online for \$450.

**BB&T Foundation.** Mr. Logsdon asked about the BB&T Foundation and how AACS might request consideration for a grant from the foundation. Mr. Spaw said that all requests for BB&T Foundation assistance should be addressed to BB&T's Regional President Hoyt Almond.

**Next Committee Meeting.** The Committee and the BB&T representatives agreed to meet again at 9:00 a.m., Thursday, January 15, 2009.

At that time, Mr. Pierce and Mr. Spaw will bring portfolio advice and Investment Policy recommendations to the Committee.

## ***ADJOURNMENT***

There being no further business, the Investment/Oversight Committee meeting adjourned at 11:15 a.m.

Rev. Jerry Manning  
Acting Committee Chair