

Audubon Area Community Services, Inc.
Investment/Oversight Committee
MINUTES
March 30, 2009

The Investment/Oversight Committee for the AACS, Inc. met at 9:30 a.m. in the agency's Board Room in Owensboro.

Members Present:

Ms. Daisy James

Mr. Ronald Logsdon
Mr. Byron Mayes *

Rev. Jerry Manning *

*Ex-officio Members

Other Board Members Present (All or part of meeting):

Rev. David Combs
Mr. Frank Craig *

Hon. Reid Haire
Mr. Jesse T. Mountjoy, *Board Counsel*

Mr. M. Douglas Smith

Other Person(s) Present:

Mr. Reuben Hayden, Client manager, BB&T Asset Management, Inc.
Mr. Dan Lanham, Transportation Director, GRITS Transit System, AACS, Inc.
Mr. Randy Spaw, Vice President, BB&T
Mr. Rick Wilson, Senior Vice President, BB&T Portfolio Manager, BB&T Asset Management, Inc.

COMMITTEE BUSINESS

GRITS Parking Garage and the American Recovery and Reinvestment Act of 2009. The meeting opened with the Mr. Lanham's brief review of the agency's Office of Transportation Delivery (OTD)/Kentucky Transportation Cabinet award of \$3.4 million to complete Phase II of the downtown parking garage — three levels, 290 parking spaces, plus GRITS' administrative offices — at 222 St. Elizabeth Street, Owensboro. The American Recovery and Reinvestment Act (ARRA) funding will be available to AACS as of April 1, 2009, he said. Phase II construction will commence immediately and should be completed before the end of the calendar year. As to how the ARRA Phase II funding will dovetail with the conclusion of Phase I and its payment commitments to the general contractor, Mr. Lanham said he remained uncertain at this time.

Mr. Mayes said that his projection of parking garage cash-flow needs over the next month indicated that the agency may well need to dip into the \$500,000 reserve from the January sale of WellPoint shares. Mr. Logsdon noted that given the Phase II funding, GRITS' need to remain at least for the balance of 2009 at its present 1416 Ninth Street offices, and the agency now not being able to sell that property for an expected \$250,000, the agency Board still needed to approve the \$250,000 contingency to borrow against its insurance premium fund in case it had to come forward with short-term cash.

Mr. Logsdon also provided the Committee a packet of information to support its work at this meeting:

February 12, 2009 Meeting Minutes. The minutes of the previous Committee meeting were circulated and received without alteration.

WellPoint Stock Snapshot. Mr. Logsdon provided a March 27, 2009 AOL chart of "WLP" stock valuation for AACS' 26,958 shares (later corrected by BB&T to **27,058 shares**), along with a valuation chart of where the WellPoint stock has closed on a per share basis for the past three months,

one-year and two-year periods. The packet also included several March 2009 articles with favorable reports on the WellPoint stock and its prospects.

BB&T's Asset Management. Mr. Spaw introduced the BB&T Asset Management team, Messrs. Wilson and Hayden. He then briefly reviewed his work and that of his associate Steve Pierce's work with the Investment/Oversight Committee, concluding that he felt the Committee now needed a higher level of advice and assistance, which Mr. Wilson would be much better qualified to provide. He stated his belief and concern that the agency's portfolio needed to be diversified as soon as practicable. He said that he saw the agency's greatest investment risk being that it was solely invested in one stock, WellPoint.

Mr. Wilson then began a review of an investment support proposal he had prepared for the Committee's consideration. He said that he had reviewed all the prior materials Mr. Spaw had at his disposal concerning AACCS' portfolio, investment situation and the Committee's prior work following the sharp decline in the WellPoint portfolio's value over recent months. He said that his expertise and focus was asset management and risk management.

His overarching role, approach and purpose with the Committee, he said, would be to set appropriate investment goals and to then help provide investment discipline. Once front-end-loaded, articulated goals were in place, a strategic plan would be developed/selected and implemented and a disciplined, "stick-to-it" approach would be employed. While the plan would include long-term goals it would also allow for "tactical" short-term tweaks based on circumspect monitoring and on-going reporting so that changes that were subsequently made to the plan would be well advised.

Rev. Manning asked how soon the agency's portfolio might be diversified. He said that his prime concern at this juncture was the preservation of portfolio value.

WellPoint Portfolio. Mr. Wilson then spoke to research he had done on WellPoint. He said that BB&T Asset Management utilized what it considered the five leading equity analysts — JPMorgan, Barclays, Citibank, Goldman Sachs, and UBS. He reviewed each one's summary analysis of WellPoint's earning growth for 2008 and 2009:

Analyst	2008	2009	Recommendation	Target
JPMorgan	18.8	8.8	Neutral	50
Barclays	17.6	8.0	Buy	56
Citibank	8.2	10.7	Hold/Buy	46
Goldman Sachs	15.5	2.7	Neutral	41
UBS	18.7	10.6	Buy	53

Three of the five analysts rate the stock a "buy," two are neutral. Three of the five also target the stock to rise to a price range of \$50-\$56 per share. Mr. Wilson also shared charts on WellPoint's Growth versus Value Returns since the Anthem demutualization and an October 2001-March 2009 50- and 200-D Moving Averages chart.

WellPoint is, he said, preparing to sell its Prescription benefit management component, and analysts project that sale will bring between \$1 billion and \$5 billion. WellPoint also has some Medicare issues, although its fortunate to have only an 8.9% exposure in its Medicare share of business. Too, WellPoint is "overweighted" in corporate bonds, but that could be a plus.

Assumptions Regarding AACCS' Investment Situation and Needs. From his research of AACCS' position and needs Mr. Wilson said that he had made certain assumptions:

- Risk reduction is a priority.
- Diversification of WellPoint holdings would reduce the agency's specific risk.

- \$1,000,000 will remain available in the Daviess County Improvement Corporation bond issue for AACS principal payments over the next four to five years toward the bond repayment requirements.
- The agency will generate some \$230,000 in annual rental income on the Fifth and Foust office building.
- There is a time horizon of five years before the agency will need to begin stock sales for cash flow requirements of \$250,000 per year.

These factors determine certain courses of action with regard to the agency's remaining 27,058 shares of WellPoint stock, he said.

Proposed Plan of Action. Mr. Wilson outlined in his proposal a plan of action over the next six months to position the agency where it needed to be in order to improve its position five years out with its equity portfolio. The plan called for an immediate sale of 5,411 WellPoint shares (approximately 20% of the portfolio) at \$37 per share. With the proceeds the agency would buy shares in Eaton Vance and Neuberger Berman large cap funds. Two months hence the plan calls for another sale of 5,411 WellPoint shares. With the proceeds the agency would buy shares in the Kayne Anderson small cap fund and a fixed income instrument. Four months hence the agency would sell another 5,411 WellPoint shares and invest 60% in equities and 40% in fixed income instruments. Six months hence the agency would sell another 5,411 WellPoint shares and invest 60% in equities and 40% in fixed income instruments. The remaining 5,414 shares of WellPoint, again representing some twenty percent of the agency's current position, would remain as is. He said that he normally recommends no more than fifteen percent in a single equity, but that he would be comfortable with the 20% stake in WellPoint.

Rev. Manning again stated his preference that there be no further decline in the AACS portfolio's value. Mr. Wilson said that WellPoint's current share price was approximately \$35 per share and that it had declined slightly in the morning's trading.

BB&T Asset Management, Inc. Fees. Mr. Logsdon inquired as to BB&T's fees for the recommended asset management services. Mr. Hayden said that his firm charged .99% of the equity per year to manage the assets. (At the portfolio's current value that would be some \$9,900 per year.) The fee would be charged at a rate of one-twelfth per month, he said. But he indicated that AACS would mostly be looking at six months out, i.e., once the asset management plan was implemented, for the charges to commence.

Mr. Spaw said that all of the investment management matter was "fluid" at this point in time. He reiterated that his main concern was for helping the agency develop a sound strategy to mitigate its investments risks. Mr. Wilson emphasized that he and BB&T Asset management, Inc. would help better manage the agency portfolio and that he would meet regularly with the Investment/Oversight Committee to review and redirect his action in behalf of the agency.

Agency Asset Management Policy. One way that must be done is in accordance with a sound AACS Asset Management Policy, he said. The agency's current Investment Policy is wide open, he said. Much work yet needs to be done to specifically ascertain and state the agency's "risk tolerance."

Rev. Manning said that retaining only twenty percent of the agency's portfolio in WellPoint and diversifying the rest seemed like a wise strategy. Mr. Smith said that he agreed that the agency needed a "consistent, coherent guide" for the Committee to follow. Board Chairman Haire said that his concerns were twofold: 1) What was AACS' Board Counsel's advice on legally managing the agency's investment assets? 2) He wanted to be sure that the agency was "very deliberate" in whatever it did with regard to asset management. He also said that the county governments were required to operate in an extremely conservative manner, so much so that their potential investment losses with virtually "non-existent."

Mr. Spaw said that an in-depth review of the agency's risk tolerance would help determine the appropriate courses of action with the agency's investment portfolio. Mr. Wilson noted references in the current AACS Investment Policy to both utilizing "government agencies" and avoiding "alternative" strategies such as hedge funds, short selling and the like. Included in the policy are CDs, but not included is any specific reference to corporate bonds.

Judge Haire said that the Commonwealth is quite specific with respect to the county governments as to what they can and cannot invest in. He noted that some U.S. cities and counties have lost millions of dollars in "speculative" investments. He urged that AACS be extremely conservative in its investment strategy. Mr. Spaw suggested that the Committee and the AACS Board of Directors should come up with an investment strategy rather soon.

Rev. Manning urged that the Committee move forward immediately with the Board Counsel's review of the current agency Investment Policy. Mr. Mountjoy said that he could likely accomplish that review within a two-week period of time.

Without objection, Mr. Mountjoy was authorized to study the agency's Investment Policy and, within the context of applicable laws, regulations and standards, provide the Committee a report on the efficacy of its current policy and/or recommended changes.

Next Committee Meeting. It was suggested that as Mr. Mountjoy felt he could complete his review of the agency Investment Policy within a two-week time frame that he should bring the results of his review and any recommended changes back to the Investment/Oversight Committee prior to the April 21, 2009, Board of Directors meeting. Thus, the next Committee meeting will be scheduled at a yet unspecified date that last week prior to the April 2009 Board meeting. Mr. Spaw said that he would be unavailable either April 16th or 17th.

ADJOURNMENT

There being no further business,

the Investment/Oversight Committee meeting adjourned at 10:45 a.m.

The Investment/Oversight Committee