



**INVESTMENT AND AUDIT COMMITTEE MEETING
OF
SEPTEMBER 14, 2006**

MINUTES

The Investment and Audit Committee of the Board of Trustees of the Rhode Island Interlocal Risk Management Trust, Inc. (The Trust) convened a meeting on Thursday, September 14, 2006 at 12:00 noon at The Trust Offices, 501 Wampanoag Trail, Suite 301, East Providence, Rhode Island.

In attendance were Committee members Alan Lord, Joe Balducci, John Mainville, Ron Tarro, Bob Dooley and Richard Sartor. Committee members absent were: Scott Avedisian and Ralph Mollis.

Also in attendance were Tom Kelleher, Vice-President of Pacific Investment Management Company (PIMCO); Michael Lynch, Joseph Finn and Phil Gorgone from Punter Southall & Co.; Thomas Dwyer, Trust President and Executive Director; and Ron Slovak, Chief Financial and Administrative Services Officer.

1. ADOPTION OF MINUTES

On a motion made by Mr. Mainville and seconded by Mr. Sartor, the minutes of the Committee’s meeting of March 16, 2006 and the notes of the meeting of June 15, 2006 were approved and accepted unanimously.

**Lordyes
Balducci.....yes
Mainvilleyes
Dooley.....yes
Sartor.....yes
Tarroyes**

2. REVIEW OF INVESTMENT PROTFOLIO PERFORMANCE – PIMCO

Tom Kelleher, Vice President Pacific Investment Management Company (PIMCO), distributed a presentation titled “Strategy Review”. He initially reviewed the results of various asset classes for the 2nd quarter of 2006, reporting that for the most part fixed income funds, although modestly negative, had outperformed most other asset classes. He then reviewed the performance of PIMCO’s Moderate Duration Fund against the Policy Index and pointed out that the Fund had a 5.2% return vs. a Policy Index return of 4.6% for last five year period. Further discussion focused on the Fund’s more recent performance in the last one year

period where returns were below it's Index, the Lehman Intermediate Government/Credit Index, including the reasons for the underperformance.

Mr. Kelleher commented specifically on the Fund's heavy concentration (more than 60%) in mortgage backed fixed income instruments. He said Fund managers are expecting a "soft landing" in this investment sector as the housing market cools. To help achieve this soft landing, the managers are purchasing only high quality mortgage instruments which they believe will be less affected by negative factors in the housing market. Among other selection criteria, the managers often purchase mortgages based on the certain demographic trends that they see evident in the various geographic housing markets across the country. Mr. Kelleher supplied a number of examples of these demographics by geographic area, and also offered other statistics about the housing mortgage market.

Mr. Kelleher closed by summarizing the Fund's outlook going forward relative to general economic growth and the impact of the Federal Reserve Bank on future interest rates. He identified specific Fund investment strategies being implemented in response to these expected trends. In brief, he said the Fund expects a slowing economy with no further interest rate hikes and perhaps even a decrease by the Federal Bank in the interest rate level.

At the conclusion of his presentation, Mr. Kelleher indicated he had other appointments and, after receiving thanks from the Committee Chair, left the meeting.

3. REVIEW OF INVESTMENT PORTFOLIO PERFORMANCE - ADVISOR

Prior to the meeting, the Committee had received the Quarterly Investment Report for the period ended June 30, 2006 as prepared by The Trust's investment advisor, Punter Southall & Co, LLC. Mike Lynch began by reviewing the Report's Executive Summary and advised that The Trust portfolio was in compliance with all the Trust's guidelines with respect to quality of investments, durations, and the overall allocation between various funds and fund managers. For the last quarter, he indicated that investors with a higher quality and shorter duration focus to their portfolios fared fairly well.

Mr. Finn and Mr. Gorgone then reviewed more general market data. Some discussion occurred relative to the portfolio allocation related to the benchmarks. Specifically highlighted was the absence of mortgage backed securities in the Index versus the fixed composite profile of The Trust's three bond managers where the mortgage back allocation is 37.9%. This variance from the Index is most pronounced, it was noted, in the PIMCO Fund which had an allocation of 62% in mortgage backed securities as of the June 2006 quarter.

In response to a question from Mr. Dwyer, Mr. Lynch explained that the comparative chart measuring Columbia's fixed income portfolio performance against the universe of similar managers is not representative. Thus, the apparent underperformance of Columbia versus these other managers is misleading. Further discussion followed about whether this comparative chart should continue to be presented in the Quarterly Report, and about Columbia's overall performance. Mr. Lord questioned whether the Committee should seek a new investment manager for this segment of The Trust's Portfolio. It was agreed that this possibility should be re-visited at a subsequent Committee meeting.

Mr. Dwyer also asked whether The Trust's stable of equity funds contained any exposure to the emerging markets sector, where performance has been the best recently. Mr. Lynch said it did not once the Acorn International Fund was sold during the most recent quarter. Given the volatility of the emerging market sector, an equity fund dedicated solely to this sector would not meet The Trust's Investment Policy guidelines, he said, but another international fund containing some limited exposure to the emerging market sector might be a good addition to the Equity Pool funds. He advised that Punter Southall might well recommend such a purchase in the near future.

Mr. Lynch then reviewed various charts relative to the performance of fixed income composite and of individual funds. With respect to the chart on the performance of The Trust assets managed by Galliard/Loomis, Mr. Lord asked that the results shown in future Reports reflect Galliard only data so as to preclude those results from being skewed by the underperformance of Loomis when it managed the assets.

Mr. Lord also asked management to follow-up on two open questions regarding the Bank of America's services to The Trust – 1) whether there were other short-term investment instruments which might generate higher returns for the Liquidity Pool, and 2) more information and clarity about fees being charged.

Lastly, Mr. Lynch distributed two supplementary charts; one showed interim Portfolio results though August 2006 and the other provided comparative analysis on a risk/return basis for The Trust's portfolio measured against various indices.

On a motion made by Mr. Dooley and seconded by Mr. Mainville, the Committee voted to accept the Quarterly Investment Report of Punter Southall.

Lord yes
Balducci..... yes
Mainville yes
Dooley.....yes
Sartor.....yes
Tarro yes

At the point Mr. Lynch, Mr. Gorgone and Mr. Finn left for another appointment.

4. DISCUSSION OF COMMITTEE REPORT TO BOARD OF TRUSTEES AT OCTOBER MEETING

The Committee discussed the content of the Report it wished to make to the Board at the upcoming October 18th meeting, and decided that the following matters should be presented at a minimum:

- ❖ A summary Annual Report of Portfolio results and investment activity
- ❖ A report on the change in one fixed income investment manager that occurred during the year and the results of that change to date

- ❖ A report on the change in the composition of The Trust’s Equity Pool mutual funds

Chair Lord indicated he would not be able to present for the October 18th meeting, so another Committee member would need to offer the introductory, summary comments to the Board about the Committee’s activity. Punter Southall and Trust management would be available to present the details.

5. REVIEW OF PORTFOLIO TRENDS

Mr. Slovak reviewed two charts – (1) Year to Date Net Investment Income and Realized Gains, and (2) Year to Date Unrealized Gains and Losses. Both charts were included in the package distributed to the Committee prior to the meeting.

The Year to Date Net Investment Income and Realized Gain chart showed net investment income for the year at \$1.7M which was \$306,000 higher than budgeted. Realized Gains were reported at \$136,000 for Fiscal 2006.

The Year to Date Unrealized Gains and Losses chart showed \$1M in YTD losses. Significant within the category, Mr. Slovak noted, was a drop in the unrealized value of the equity portion of the portfolio of \$426,000 during the most recent quarter. It was pointed out to the Committee that as of August (Period 2 of Fiscal 2007), YTD unrealized gains were favorable by \$530,000, thus gaining back most of the prior quarter unrealized losses. Some discussion followed on the impact of unrealized losses on Fiscal 2006 results. Due to the unpredictability of market movement, it was noted that unrealized gains or losses are an unbudgeted item and therefore must be interpreted in that light when comparing final Fiscal Year investment results against the Budget.

No Committee action was taken on this item which was informational in nature.

6. SECOND ACTUARIAL OPINION FOR 2005-2006 LOSS ACTIVITY

As a follow-up to the discussion at the June meeting, Mr. Dwyer provided the Committee prior to the meeting with a supplementary memo dated September 7, 2006 responding to various questions the Committee had asked regarding the need for a second actuarial review of The Trust’s expected ultimate losses. Among points address in the memo and reviewed during the Committee’s deliberations were: the process of the peer review engaged in by The Trust’s primary actuary, a recap of the cost of the second review, and the results from the second actuarial review from last year.

Mr. Dooley then moved, seconded by Mr. Mainville, to recommend that the second actuarial review be eliminated unless there is a change in The Trust’s designated independent auditor or significant changes appear to be occurring in reserve trends and development which warrant further independent review. It was so voted unanimously.

Lord yes
Balducci yes

Mainvilleyes
Dooley.....yes
Sartor.....yes
Tarroyes

7. REVIEW OF INVESTMENT ADVISOR

Prior to the meeting, Mr. Slovak had provided the Committee with a memo dated September 8, 2006 commenting upon the performance of investment advisor Punter Southall for the past year. Mr. Slovak summarized that memo, and recommended to the Committee that The Trust's relationship with Punter Southall be continued for another year.

A brief discussion ensued about fee levels, not only for the Investment Advisor but also for the managers of The Trust's fixed income portfolio.

The Committee indicated its unanimous concurrence with management's recommendation that the relationship with Punter Southall continue. Accordingly, no formal Committee action was needed.

8. ADJOURNMENT

There being no further business, the Meeting stood adjourned about 2:00 P. M.

Respectfully submitted,

RONALD F. SLOVAK
Chief Financial and Administrative Services Officer