An Introduction to Investment Advisers For State and Local Governments

Second Edition

Sofia Anastopoulos

Government Finance Officers Association

Government Finance Officers Association
of the United States and Canada
203 N. LaSalle Street
Suite 2700
Chicago, IL 60610-1210

ISBN 0-89125-290-8

Library of Congress Control Number: 2007928592

Printed in the United States of America

Contents

Foreword

Governments have a fiduciary responsibility for the funds they manage. Many governments engage investment advisers to assist in managing their investment portfolios in order to enhance returns, manage investment risk, assure continuity of the investment function regardless of staffing changes, and/or to assure appropriate internal control over invested funds. While a government may delegate certain investment activities to an investment adviser, a government investor's fiduciary responsibility can never be delegated.

Investment advisory firms may differ in structure, organization, expertise, approach, and style. There may also be differences in regulatory oversight. Accordingly, this publication provides guidelines to assist government investors in evaluating, selecting, engaging, and monitoring investment advisers and investment advisory firms. In this respect, this publication continues the Government Finance Officers Association (GFOA) commitment to providing a framework for prudent financial management. In addition to offering guidelines for working with investment advisers, this publication includes a sample request for proposal and a sample investment advisory agreement.

The GFOA wishes to thank Sofia Anastopoulos, Senior Manager in the GFOA Research and Consulting Center, for writing this publication. We hope that this booklet, along with other GFOA books on cash management topics, will provide practical guidance to government investors as they manage the funds entrusted to them.

Jeffrey L. Esser
Executive Director/CEO
Government Finance Officers Association

Preface

This publication aims to assist governments in navigating the process of selecting and engaging an investment adviser. The practices and procedures included are intended to enable governments to protect their funds and to fulfill their fiduciary responsibilities, and also to select advisers that are a "good fit" with the government, enhancing the likelihood of a satisfactory investment advisory relationship.

Producing a reference publication is a collaborative effort whose successful completion depends on the input of many individuals who generously share their knowledge and experiences. *An Introduction to Investment Advisers for State and Local Governments*, second edition, owes a special debt of gratitude to M. Corinne Larson, Managing Director, Bear, Stearns Securities Corp., who wrote the first edition for the Government Finance Officers Association (GFOA) in 1996. Her dexterity with the written word and inexhaustible efforts for GFOA members provided a solid foundation on which to build, and have been an inspiration to me.

This publication has been enhanced tremendously by the real world experiences shared by the reviewers: Norman Cummings, Director of Administration, Waukesha County, Wisconsin; Joya De Foor, City Treasurer, City of Los Angeles, California; and Kent Rock, City Treasurer, City of Boise, Idaho. The feedback of Ned Connolly, Vice President of Governmental Relations, Chandler Asset Management and Linda Patterson, President, Patterson & Associates, was thoughtful and led to a richer, more comprehensive publication.

The appendices are the result of the hard work and effort of members of the GFOA Committee on Cash Management. In addition to the committee members listed above, I would like to thank Jan Hawn, Finance Director, City of Bellevue, Washington; Kathryn Hewitt, Cash and Investment Manager, Prince George's County, Maryland; Timothy Johnson, at the time serving as Investment and Debt Manager, Hennepin County, Minnesota; David Olsen, Treasurer, City of Warwick, Rhode Island; Eric Schertzing, Treasurer, Ingham County, Michigan; Michelle Saddler, at the time serving as Executive Director, Illinois Metropolitan Investment Fund; and Robert Scott, Chief Financial Officer, City of Brookfield, Wisconsin, for their contributions to this book's appendices.

I also wish to express my general appreciation to all the members who have served on the GFOA's Committee on Cash Management. These professionals are unwavering in their emphasis on implementing leading processes and procedures for all aspects of cash and investment management.

Sofia Anastopoulos
Senior Manager, Research and Consulting Center
Government Finance Officers Association
June 2007

Introduction

Many governments engage investment advisers for assistance in managing their investment portfolios. Investment advisers perform various portfolio services for governments, ranging from advisory consultations to full discretionary investment portfolio management. In engaging an investment adviser, a government may benefit from professional portfolio management, risk management, potential audit savings, and continuity in the investment function, among other advantages. While most such engagements are positive, it is important for governments to take a careful and informed approach in the selection and use of investment advisers.

Purpose of this Publication

The purpose of this publication is to assist government investors with the evaluation, selection, and monitoring of investment advisers. In addition, this publication aims to provide guidance in the drafting of investment advisory agreements that formalize and enable such engagements.

The following sections describe practices and procedures government officials can use to analyze and evaluate investment advisers, and detail the essential components of a sound agreement. Government officials may find these useful as tools either for selecting investment advisers and developing a comprehensive agreement or for analyzing an existing agreement to ensure that critical components have been included.

No part of this publication is intended as a substitute for proper legal advice. Legal counsel should be involved in the development, execution, and review of all legally binding agreements. The sample agreement in Appendix F, however, can serve as a model for a well-written, comprehensive contract that protects public funds.

Background

The Government Finance Officers Association (GFOA) has established itself as an authoritative source of information and guidance on the use of outside investment advisers, first in 1991 with the publication of *An Introduction to External Money Management for Public Cash Managers*, and then in 1996 with the first edition of this publication, *An Introduction to Investment Advisers for State and Local Governments*. In addition, the GFOA's Committee on Cash Management has drafted Recommended Practices and sample documents that are useful for governments contemplating investment advisory services. Specifically, the four Recommended Practices and two sample documents reproduced as appendices to this book are directly applicable when considering investment advisory services. A summary of these follows:

1) **Selection of Investment Advisers for Non-Pension Assets:** This Recommended Practice, revised by the GFOA Committee on Cash Management in 2007, urges governments to exercise caution and prudence in the selection of investment advisers and to implement an ongoing risk management program. The Recommended Practice further advises governments using or considering use of

investment advisers to establish procedures for the selection process and to review carefully the credentials of firms offering investment advisory services. The Recommended Practice specifies preferred risk control procedures that should be followed when using advisers. Such procedures include: the use of prohibitions against self-dealing; delivery-versus-payment (DVP) procedures; third-party custody arrangements for investment transactions; and timely reconciliations, audits, and other appropriate internal controls.

2) **Use of Various Types of Mutual Funds by Public Cash Managers:** This Recommended Practice, revised by the GFOA Committee on Cash Management in 2007, contains guidance specific to the use of mutual funds for cash management purposes. This Recommended Practice serves as a resource when considering mutual funds, which are prepackaged products, managed by investment advisory firms, for short-term operating funds.

3) **Use of Local Government Investment Pools (LGIPs):** In 2007, the GFOA Committee on Cash Management drafted a new Recommended Practice to provide practical guidance for governments on the use of this pooled investment, which is managed by investment advisory firms.

4) **Use and Application of Voluntary Agreements and Guidelines:** Revised in 2006, this Recommended Practice encourages government investors to implement formal procedures for all aspects of the cash management function, including the investment function. In addition, it reminds practitioners to exercise caution when entering into agreements with boilerplate language when dealing with outside parties. It promotes the use of GFOA sample agreements. In an effort to promote standardized practices, this Recommended Practice refers government finance officers to resources available within the GFOA library of publications available online at www.gfoa.org.

5) **Sample Request for Proposal for Investment Advisory Services:** The GFOA Committee on Cash Management updated its sample Request for Proposal for Investment Advisory Services in 2007. This document provides an outline of factors and criteria governments should consider when seeking to engage an investment adviser.

6) **Sample Investment Advisory Agreement:** This sample was developed by collecting and analyzing government investment adviser agreements. It includes best practices from agreements reviewed and contains important contract language. Government officials will find that it serves as a good starting point for drafting agreements with investment advisers.

Section 1

The Decision to Hire an Investment Adviser

Reasons to Use Investment Advisers

When contemplating the decision to outsource aspects of the investment function, several key questions should be considered. The first question is: why hire an investment adviser?

The most obvious reason a government may decide to hire an investment adviser to manage its investment funds is to enhance investment returns. As full-time professional portfolio managers, investment advisers should be able to earn a higher rate of return than part-time investors could achieve on their own. While the fairly restrictive policies of some public sector entities might limit return by all investors, the expectation is that an investment adviser is more likely to achieve an average market rate of return. This expectation is based on the investment adviser's knowledge of securities as well as the adviser's presumed access to the market.

Equally important, but often overlooked, is the expectation that an investment adviser, as a professional money manager with specialized expertise, will be better able to manage portfolio risk.

Another reason to hire an investment adviser results from the escalating number of duties finance officers face. They may not have in-depth expertise in every area for which they are responsible. Further, volatile markets, together with complex instruments and strategies, can make investment management a daunting responsibility, especially for the generalist. In addition, a need for continuity in the investment function may also be a reason to hire an investment adviser. While a government might not have the resources to ensure back-up support, investment advisory firms typically have a number of staff focused on the investment function.

To fully address the decision to hire an investment adviser, it is beneficial to explore the types of investment advisers, different levels of authority and investment approaches, the types of services advisers commonly provide, and the potential benefits and costs of using investment advisers.

Types of Investment Advisers

Many different types of firms offer investment advice for a fee, among them bank trust departments, national investment managers, specialized boutiques, and small independent consultants. These firms differ in size, range of services or products offered, areas of expertise, and fees charged. Some investment advisory firms offer prepackaged investments, such as mutual funds or investment pools, while other firms offer customized portfolio services that may include consulting activities for the cash management function, such as cash flow forecasting.

Investment advisers may also act as broker-dealers. In such instances, the investment adviser may generate fees not only from the advice offered, but also by trading securities. It is important that government entities exploring the use of investment advisory services determine whether the adviser is acting solely as an adviser or in the role of broker-dealer as well.

Identifying the jurisdiction's needs and considering the following factors may help a government determine the type of investment advisory firm that will best meet its requirements.

Discretionary vs Non-Discretionary Authority

When hiring an investment adviser, the government entity must determine if it wants to grant an adviser discretionary or non-discretionary authority. There are advantages and disadvantages to each.

Discretionary. Discretionary authority refers to granting an investment adviser discretion or authority to execute investment transactions, subject to general constraints set by the specific entity's investment policy or by the contract with the investment adviser. Some states prohibit the granting of discretionary authority to advisers and require approval for all transactions. Governments should verify whether granting discretionary authority is allowed under applicable statutes. Discretionary authority provides the benefits of outside professional portfolio management and quicker response time to market opportunities, but takes the specific decision-making process away from the government entity. Examples of advisers commonly granted discretionary authority include advisers in the management of investment pools, mutual funds, and sometimes separate accounts. Even when a government grants discretionary authority to an investment adviser, ultimate responsibility for the funds remains with the government.

Non-discretionary. In a non-discretionary arrangement, the government maintains control over the portfolio. The investment adviser must obtain approval for individual transactions. This type of arrangement is common where a government hires an adviser to make investment recommendations and to act as an intermediary with the broker-dealer community.

Advantages of this type of arrangement include retention of control by the government over the purchase and sale of securities and active involvement in decision making. A disadvantage of this approach is that staff time may be tied up in making or handling investment transactions. Another disadvantage is that it is more difficult to evaluate the investment adviser's performance because decisions are shared.

Regardless of the level of control, an adviser should never be given custody of a government's funds or securities. Third-party safekeeping is a critical part of any advisory relationship. Under either arrangement, a government maintains control of its investment program by establishing guidelines to which the investment adviser must adhere.

Management Approach

Another consideration is the adviser's investment management approach. There are two basic approaches: passive management and active management. A government must decide whether it will implement a passive or active investment style before it engages an investment adviser.

Passive Management. The goal of passive management is to achieve an average market rate of return, not to beat the market. Given the objective of a typical government investment policy, which is to attain an average market rate of return on a portfolio, passive management may be a sensible choice. The passive approach is based on the efficient market hypothesis, which suggests markets are efficient and information automatically gets dispersed to all market participants. Under this hypothesis, it is difficult to find and exploit any mispricings in the market, especially when considering execution costs.

An investment adviser with a passive management style generally creates a portfolio that strives to achieve a return that is similar to a specified benchmark or index (this approach is also referred to as indexing). In identifying and/or making investments, the advisor strives to match the risk profile of the benchmark or index. The adviser using this approach does not attempt to take a position on the direction of key variables such as interest rate movements, shifts in the shape of the yield curve, or spread movements. In creating a passively managed portfolio, the adviser attempts to replicate a given benchmark's market risk, credit risk, duration, and asset allocation to attain the benchmark's return.

It is a common misperception that a passive management style requires less investment sophistication than an active style. This misunderstanding stems from two common passive strategies implemented by government investors, "buying and holding" and "laddering," which require relatively minimal analysis or ongoing activity. However, this is not the case with benchmarking or indexing.

Active Management. In contrast to passive management, active management does not attempt to mimic a benchmark but to outperform it. An active manager tries to identify opportunities to beat the market by taking positions on key variables such as rates and spreads that the manager feels will help the portfolio do better than the benchmark.

Because of the differences between the two approaches in terms of information and analysis involved, service costs may differ. Typically, passive management requires relatively less research and analysis, and usually less securities trading is involved. Thus, the fees for passive management tend to be lower than for active management.

For the government investor, it is important to ask questions to ensure that the style to be used by an investment adviser is consistent with the investor's policy and goals. Or, a government's investment policy may specify one type of management style over the other.

Issues that influence this decision include the government's investment policy, portfolio size, the investment experience of its staff and the resources available to that staff, the government's risk profile, and the cost of the investment advisory service. Further, a government with a large investment portfolio may segment its portfolio, implementing different approaches in different segments.

Account Type

A government can decide to invest through a pooled fund or through a separate account.

Pooled Funds Options

Commingled funds, mutual funds, and various investment pools combine, or pool, and invest multiple investors' funds. Consequently, they do not address issues unique to specific investors. For passively managed portfolios, such funds may offer a cost-effective way of replicating the benchmark. The entire pool goes towards purchasing a basket of securities that replicates the benchmark. This replication of the market might otherwise prove difficult for smaller portfolios to cost-effectively achieve on a stand-alone basis. Economies of scale can be achieved through pooling many investors' funds. Pooling also allows for diversification among a variety of financial instruments from different issuers and otherwise unavailable instruments, and may provide liquidity, as some pools allow withdrawals with little advance notice.

Commingled Funds. Historically, bank trust departments have offered their customers commingled funds. Commingled funds typically lack the disclosure of mutual funds and may not have the same level of regulatory oversight due to the lack of Securities and Exchange Commission (SEC) jurisdiction.

Mutual Funds. Mutual funds are SEC-regulated investment instruments that pool and jointly invest the funds of multiple investors. There are many types of mutual funds that invest in different assets, including fixed income and equity investments. Government entities may benefit from investing public funds not needed for near-term disbursement in certain mutual funds.

The Government Finance Officers Association (GFOA) has endorsed the use of money market mutual funds by public cash managers through the GFOA's model investment legislation for state and local governments. Money market mutual funds are short-term liquid mutual funds that maintain a weighted average maturity of 90 days or less and strive to maintain investor shares with a constant one dollar ($1) net asset value. Portfolio safety, liquidity, diversification, and professional management are desirable features of these investment vehicles.

Other non-money market fixed income mutual funds generally have a longer-term weighted average maturity and have a fluctuating price or net asset value. The safety of principal, the foremost objective of government investors, may be impaired by market price risks associated with short, intermediate, and long-term bond funds.

In its Recommended Practice "Use of Various Types of Mutual Funds by Public Cash Managers," the GFOA recommends that state and local governments restrict their use of mutual funds for cash management purposes exclusively to money market mutual funds and short-term bond funds. This allows the government to take advantage of the benefits of mutual fund investing while minimizing market risk associated with longer funds.

Public cash managers should check applicable statutes to determine if the use of money market mutual funds and/or short-term bond funds is permitted within their jurisdictions. Further, the GFOA recommends that governments review and understand each fund's prospectus and statement of additional information to determine portfolio composition; risk characteristics; the duration and weighted average maturity of the mutual fund; the reputation and experience of the investment company and its managers; the performance history relative to appropriate benchmarks; total expense ratio; philosophy, strategies, and portfolio policies; whether the fund is rated by a nationally recognized statistical rating agency; and whether the fund can meet the compliance requirements of the government's approved investment policy, including minimum ratings, maximum sector allocations, and specific criteria such as social investing.

For the full text of the GFOA Committee on Cash Management Recommended Practice "Use of Various Types of Mutual Funds by Public Cash Managers," please see Appendix B.

Local Government Investment Pools. Local government investment pools (LGIPs) combine government investors' funds and collectively invest them. Government investors own a pro rata share of the assets, and gains or losses are distributed to participants in proportion to their investment in the LGIP. By pooling funds, LGIPs allow government investors the advantage of professional money management. Further, through the LGIP, a given government investor might enjoy a higher degree of diversification and liquidity than through investing on an individual basis.

Some investment pools operated for local governments are authorized by statutes and permit the state treasurer or a state agency to pool investments and distribute income to the participating local governments on a pro rata basis. In several states, local governments have joined together to sponsor the creation of LGIPs that operate independently of the state government. The GFOA Committee on Cash Management Recommended Practice "Use of Local Government Investment Pools (LGIPs)" can be used as a reference by local governments entering into a LGIP. The full text of this Recommended Practice appears in Appendix C.

Separate Accounts

An alternative to using a pooled fund approach is to have a separately managed account (SMA). Separately managed accounts are segregated investment accounts. Instead of a pro rata portion of the assets in the fund, the government investor has direct ownership of all the securities in the account. SMAs seek to combine the benefits of having a professional money manager with the flexibility and control of owning the individual securities. The investor is kept up-to-date with trading activity through receipt of either confirmations on trades, monthly custodial statements showing all transaction activity, or through proprietary online custody bank systems such as that offered by the Bank of New York (BONY). In addition, these accounts offer the opportunity to customize investment strategies and portfolio holdings. Further, in SMAs the investor is not subject to liquidations and purchases of other investors. Less disclosure and regulation are among the disadvantages of these accounts. For instance, unlike mutual funds, separate accounts are not subject to SEC registration nor are they subject to required audits. However, this is countered by a higher level of customization and client service in the SMA structure.

Services Provided by Investment Advisers

Investment advisers provide a broad range of services. The most common service is to advise or manage the portfolio within the parameters of the entity's investment policy. With mutual funds and LGIPs, the government benefits from an investment adviser's portfolio management expertise. Government investors must ensure, however, that all investment products conform to their own investment policies. The investment adviser does not adjust a mutual fund or LGIP to adhere to specific investor specifications.

Other services investment advisers provide include portfolio reporting and accounting services and performance review services. Governments should ensure that any performance review is done in compliance with the global investment performance standards (GIPS). Any investment adviser who makes the claim of presenting performance in compliance with GIPS standards is pledging that certain steps have been followed. As a result, GIPS compliance ensures comparability. (For more information, see page X in Section 4.)

Issues to consider

Authority: Discretionary or non-discretionary

Management approach: Passive or active

Account type: Pooled or separately managed

Pool type: Commingled, mutual fund, local government investment pool

Some advisers have the experience to review cash management and investment policies, procedures, and documentation. They can assist a government in improving existing policies or implementing new ones. In addition, investment advisers can assist a government with cash flow forecasting and identifying liquidity needs. Such cash flow projections can be used to implement investment strategies.

Investment advisory services can also include assistance in establishing or reviewing financial institution relationships. Some advisory firms may assist in establishing relationships with financial institutions, custodians, and securities dealers. Services may include reviewing and analyzing existing banking services agreements; establishing guidelines and procedures for selecting financial institutions and securities dealers; and monitoring the creditworthiness of financial institutions. For a complete overview of such services and relationships, governments should review the GFOA publication, *Banking Services: A Guide for Governments* (2004).

Consulting services for the cash and investment area may include staff training on investment-related topics.

Potential Benefits

Hiring an investment adviser can be beneficial in many ways. Common benefits are described below:

Enhanced Portfolio Return. While an investment adviser is subject to the same constraints of a government's investment policy as an in-house investment manager, the expectation is that the firm's investment management expertise, market knowledge, and access may better position an investment adviser to achieve the benchmark return or an average market rate of return.

Risk Management. A professional money manager has the tools and expertise to properly manage risk, adhere to an entity's risk profile, and ensure compliance to policies.

Diversification. Turning to the expertise of outside professionals may allow a government to diversify across various investment styles and strategies within those styles. For instance, investing in pooled funds may allow an investor the opportunity for benchmarking, which might not be possible on a stand-alone basis. Further, a pooled-fund approach may allow investing in different instruments from a variety of issuers.

Transaction Cost Savings. Investment advisers with discretionary authority benefit from economies of scale as large investment transactions for a number of clients are generated. This tends to be more cost effective as all parties to the transaction share the expenses. This is also the case for commingled and/or mutual funds. However, this benefit should be weighed against the cost of the investment adviser services.

Complement to Internal Resources. Some governments with limited resources to devote to the investment function use advisers to complement internal resources. In these situations, an investment adviser may manage either the entire portfolio or a designated portion of the portfolio. For example, a government might handle a portion needed for liquidity purposes and hire an investment adviser to manage the longer-term portion of the portfolio. In addition, a government may choose to hire more than one investment adviser, tapping into the expertise of each. Using the services of an investment adviser then frees up staff time to pursue other duties or functions.

Enhanced Internal Controls and Potential Audit Savings. Some governments with limited staff may hire an investment adviser to strengthen internal controls. The use of an independent third party can help the government achieve a segregation of duties for the investment function. In addition, a competent investment adviser can help a government safeguard its funds by providing sound advice on investment strategies and investment instrument selection. A tightly drafted contract with clear provisions might enhance a government's control over the investment process.

Independent Audit of Investment Program. An external adviser can serve as an independent set of "eyes," reviewing agreements, safekeeping arrangements, broker-dealer due diligence, and various accounting and reporting functions.

Continuity. An investment adviser may be able to provide continuity in the investment function and mitigate transition disruptions that typically occur with internal staff changes. This can eliminate the long learning curve that may accompany new employees or those new to the investment area. While a government might not be able to employ back-up staff for a specific function, this is not so with an investment advisory firm, which might have a number of professionals focused on investing.

Personnel Time. Outsourcing allows a government to take advantage of an investment adviser's competitive advantage, freeing up its own employees' time for functions where they can better use their expertise and add more value.

Access to Technology and Outside Data Sources. A government might not have access to state-of-the-art technology for portfolio management. Further, real-time data sources such as Bloomberg might not be cost-effective from a sole government's perspective. However, through an investment adviser, governments can share in the benefits of the investment adviser's technology.

Potential Disadvantages

There can be disadvantages to using an investment adviser as well. The following disadvantages should be considered when making the decision to use an investment adviser:

Cost. One consideration is the overall cost an investment adviser may add to the portfolio management process. In some cases, investment advisers will be unable to produce sufficiently higher returns to offset the cost of the service provided. This potential disadvantage should be weighed against the benefits received.

Oversight and Responsibility. Another consideration is responsibility for the portfolio. While an outside adviser handles the portfolio and shares fiduciary responsibility, the government official continues to be responsible for the government's funds and must monitor the portfolio to make sure the adviser is staying within the parameters of the investment policy while producing adequate returns on a risk-adjusted basis. The most important point to remember is that the government official cannot delegate responsibility for the portfolio to the adviser, and must remain actively involved in the process.

Reputational Risk. Reputational risk is the risk of harm to a government's or a government official's reputation or stature that an external investment adviser may cause. An adviser's investment actions are outside the control of a government official, but can directly affect a government official's reputation. Reputational risk affects the government entity as well as the investment official. The best protection against this risk is a well-managed investment program with well-defined procedures.

Regulation of Investment Advisers

The SEC has broad authority over investment advisers under the Investment Adviser Act of 1940. With certain exceptions, any individual or firm that gives advice, makes recommendations, issues reports on securities, for compensation and as part of its business, must register with the SEC and/or the state securities regulator.

Historically, all firms were required to register with the SEC. A relatively new law, the National Securities Markets Improvement Act (NSMIA) of 1996, altered this requirement. Currently, an investment adviser's assets under management (AUM) determine with which regulatory authority it registers. With some exceptions, advisers with less than $25 million in AUM are not allowed to register with the SEC. These advisers typically register with the state in which they are located. Once an investment adviser's AUM exceeds $25 million but is less than $30 million, it may register with the SEC. Once an adviser's AUM exceeds $30 million, it is required to register with the SEC.

For those investment advisers registered with the SEC, states may still require the adviser to make "notice filings" with them, but this does not constitute registration as an adviser. Firms with AUM less than $25 million generally must register with the state securities agency in the state they have their principal place of business.

In most cases, investment adviser representatives, or the people who actually work with investors, must be licensed with the state securities regulator. Government officials should ask their investment adviser representatives whether they are licensed in their state and should only do business with those advisers who are licensed.

There are certain exemptions from these rules. Bank trust departments and brokerage firms that provide investment advice in conjunction with offering securities are often granted an exemption because their activities are regulated by other federal and state agencies. Some investment advisory activities involving exempt securities, such as U.S. Treasury securities, may also qualify for an exemption. In these cases, it is possible for an independent investment adviser to bypass registering with the SEC.

Any government seeking investment advisory services should determine whether the regulatory structure provides meaningful protection. For example, SEC registration alone may not provide sufficient oversight to protect investors from unsavory investment practices. Further, government investors should be aware that the term *registered investment adviser* is not a credential. Government officials should ask a prospective investment adviser with which regulatory authority the adviser is registered.

In addition to registering with the appropriate authorities, investment advisers must provide information on SEC Form ADV. The form has two parts: Part I has information about the adviser's business and whether the firm has had any actions taken against it regarding relationships with regulators or clients; Part II outlines the adviser's services, fees, and strategies. As part of due diligence, government officials should ask for and read carefully both parts of Form ADV. Investment advisers are required to provide their clients with Part II annually. A government investor should review both parts yearly.

The National Securities Markets Improvement Act streamlined the process of accessing this information through the creation of a Web site where information on SEC-registered investment advisers and advisory firms is housed. The SEC and the states use the same Investment Advisor Registration Depository (IARD) system to register advisers, so SEC advisers who must provide notice filings to a state use the same database to register with the SEC (http://www.adviserinfo.sec.gov/). Presently, the IARD database contains Form ADV Part I; it is expected to add Form ADV Part II in the near future. Further, only investment adviser firms are covered, although it is expected that the site will eventually be expanded to include information on all registered investment adviser representatives.

Finally, because some investment advisers and their representatives are also broker-dealers, an investor should review annually the Central Registration Depository (CRD), the computerized database that contains information on most brokers and their representatives, in addition to the ADV form. The National Association of Securities Dealers maintains the BrokerCheck datasource on its site (www.nasd.com), where investors can access the CRD information.

New SEC Rules

In response to well-publicized conflicts of interest in the investment adviser arena, in 2004 the SEC adopted several new rules. Rule 204A-1 generally requires registered investment advisers to adopt and administer codes of ethics meeting standards set forth in this rule. Such codes should reinforce fiduciary principles and set forth standards of conduct as well as procedures for addressing conflict of interest situations. The SEC has amended Part II of Form ADV to require advisers to describe their codes of ethics. Government investors should confirm that their investment adviser has adopted such a code and request a copy of the adviser's code.

In addition, Rule 206(4)-7 requires investment advisory firms to implement written policies and procedures designed to prevent violation of SEC regulations as well as to designate a "chief compliance officer."

Section 2

Selecting an Investment Adviser

Adhering to a defined due diligence process in selecting an investment adviser will help a government protect its funds, reduce the risk to its reputation, and enhance the likelihood of being satisfied with the investment adviser's service. The Government Finance Officers Association (GFOA) Committee on Cash Management recommends that governments exercise caution and prudence in the selection of investment advisers. Regardless of who makes investment decisions, ultimate responsibility for government funds remains with government officials. It can never be delegated to an external investment adviser. The GFOA further urges government investors to develop policies on the procurement and periodic review of investment advisory services. Appendix A contains the complete text of the GFOA Recommended Practice "Selection of Investment Advisers for Non-Pension Fund Assets."

The Selection Process: A Step-by-Step Approach

To ensure the best outcome, a government should conduct an objective procurement process and use a competitive, merit-based process for selection. As its first step in the process of hiring an investment adviser, a government may consider engaging a consultant and/or appointing a committee to conduct the search process. Some consulting firms specialize in helping clients set their objectives, and select and engage investment or money managers. A consultant can help the government's staff properly interpret the information submitted by potential advisers. A selection committee can take on a similar advisory function. It is important that a consultant, selection committee members, or any involved government official or staff not be affiliated with or have interests in any investment advisory firm under consideration.

Another important element in finding and engaging a competent investment adviser is to establish procedures and to follow a step-by-step process. Often the consultant's or committee's search process begins with identifying the government's investment goals and objectives, as well as its expectations of an adviser. It

Steps to Selecting an Investment Adviser

1. Appoint consultant or committee to lead search
2. Identify government's objectives and investment adviser's responsibilities
3. Establish criteria for selection
4. Identify sources for information
5. Create and send a request for proposal (RFP) to potential candidates
6. Compile and analyze the data
7. Select and interview finalists
8. Select an adviser that most closely meets the government's needs
9. Negotiate a contract

is crucial to define clearly what type of investment advice is being sought and the government's goals in hiring an investment adviser. The services to be provided and responsibilities expected of the investment adviser should be stated plainly:

- Will the adviser provide only portfolio management, or are there additional advisory services sought?
- Will the adviser be given discretionary authority and conduct investment transactions on behalf of the government, or will the adviser be given nondiscretionary authority?
- What area of expertise is the government interested in engaging?
- Will the adviser be directed to manage according to a passive style or an active style?
- Is the adviser being hired to provide investment advice only, or will other consulting services be required? (See page 5 for services provided by investment advisers.)

Governments should identify criteria for the selection process. These key criteria should include the firm's:

- Understanding of the overall investment program, objectives, and its constraints;
- Background, including the experience, resources, and qualifications of the firm and individuals assigned to the government's account;
- Experience in managing state/local government operating funds. In evaluating the firm's experience, past performance data should be reviewed in the context of portfolio objectives and constraints, as well as risks;
- Recommended approach to portfolio management; and
- Fees and fee basis.

This list of criteria is not exhaustive. Identifying relevant criteria upfront promotes transparency in the selection process. Assigning weightings to these criteria creates a workable method to rank or quantify the importance of each. It also attempts to quantify a process open to interpretation.

The sources a government can tap for information are varied and may include consultant databases on investment advisory firms, association databases, industry reports and articles, marketing materials, references from other jurisdictions, and other special research and/or reports.

If a consultant has been retained to help steer the process, he or she should be able to assist in generating a list of potential candidates. Alternatively, a government can take a "word-of-mouth" approach and/or include money managers widely known to meet broad management criteria.

Request for Proposal

A request for proposal (RFP) helps ensure that a fair, competitive process is followed. Additionally, the RFP process can confirm for participants that the government is conducting its business in a fair manner and encourage them to participate in future RFP opportunities. The RFP can serve as a formalized procedure for information collection, as well as an outline for the selection process. A sample RFP appears in Appendix E to give governments an idea of the types of questions to ask and information to request. Not all of the RFP's content will be relevant in every situation, so government officials should review the suggested document carefully and select only that which is appropriate for the type of services being sought.

The RFP process includes the creation and distribution of the RFP, a review of proposals, interviews of finalists, selection of an adviser, and contract negotiation. The document itself includes the following sections:

Scope of Services

The RFP should start with a scope of services section in which the government specifies precisely the investment advisory services it seeks, as well as its investment objectives. In addition, the introduction should briefly describe the government and portfolio size. A copy of the government's investment policy should be referenced in the RFP and attached to it.

Selection Criteria

A section identifying the selection criteria should follow next. This section can list the criteria previously discussed, and may assign a percentage weight illustrating the relative importance of the criteria to aid in the evaluation.

Government Description

The next section of the RFP should include a full description of the government, including the size of its portfolio and its cash flow characteristics. In addition, officials can include information on the jurisdiction's geographic location, form of government, current population, current budget size, current and expected bond issues, portfolio make-up and size by fund, Web site address, and identities of authorized government contacts.

Submission Process

The RFP should itemize steps in the submission process. This will help ensure that all respondents to the RFP clearly understand the process. Submission instructions should include the required proposal format, including required order of responses to each question, acceptable attachments, limits on the length of a response or proposal, and a schedule for the proposal submission and evaluation process. The government should spell out restrictions in communications with government staff and/or officials, consultants, and selection/evaluation committees, and should specify appropriate procedures for proposers to follow when making inquiries about the RFP. Any reservation of rights should be included in this section. As part of the proposal submission instructions, the government should expressly state the date and time that proposals should be received, as well as the form of submission required (paper or electronic).

Investment Adviser Information

This key section of the RFP specifies what background and organizational information the government requires the investment adviser to include in its proposal. Respondents are expected to provide information in the following areas:

- Firm background and organization;

- Manager and firm experience;
- Personnel to be assigned;
- Assets under management (AUM);
- Investment management approach and discipline;
- Reporting practices and capabilities;
- Proposed fee arrangement; and
- Any additional information the government needs.

Evaluation of Responses to the RFP

The next step involves compiling the responses to the RFP, and analyzing and verifying the data provided. The selection committee or consultant may direct this process. After verifying that participating firms meet the minimum requirements, the selection criteria identified in the RFP can be used to develop a list of finalists. Finalists should be interviewed in person. The use of a committee for the interview process is recommended. This approach allows multiple opinions to be expressed and mitigates the chance of favoritism. Formal presentations can be followed by a question-and-answer session. Finally, the government must carefully check references.

After these due diligence steps have been taken, the government should have sufficient information to select the candidate that most closely meets its needs. Alternatively, if the government does not believe any of the firms under consideration are an appropriate match, it may choose to restart the process. The investment adviser selected must meet the government's needs and the government's staff must feel comfortable working with the adviser.

Questions to Ask in the Selection Process

The following questions can help the government team assigned to selecting an investment adviser:

How is the firm organized? Any affiliations, soft dollar, finder's fees, or similar arrangements should be disclosed as part of the response.

What experience does the firm have managing fixed income portfolios for public funds and government entities?

What is the firm's experience in developing policies and portfolio management guidelines for government operating funds and managing such funds?

Who will manage the government's portfolio? What are the backgrounds and qualifications of the individuals to be assigned? It is a good idea to find out if the portfolio manager is a principal or partner in the firm. If other representatives will manage the portfolio, information concerning their backgrounds should also be obtained. Both educational and professional backgrounds should be reviewed. The government should ask about the firm's procedures for keeping its employees current in the investment field.

Identify and understand who the key personnel are and what experience they have with public funds. Determine whether there have been recent personnel changes, and find out how the firm would address any future departure of key staff.

What are the total assets under management (AUM) and how many portfolios are managed? Answers to these questions will help the government understand the types of clients the firm serves. It is important to find a match with an investment adviser managing comparably sized portfolios to ensure that adequate attention is paid to the portfolio. Some government funds may be too small for a particular adviser, for example. It also is important to find out how many accounts the adviser feels can be managed at one time while still retaining a high level of service and quality.

The government should ask the following types of questions:

- Has the firm's experience been mostly with small, retail customers?
- What are the portfolio sizes of the firm's largest and smallest clients?
- Will the government entity be its largest client?
- Alternatively, will the government's portfolio be among the smallest?

Has the firm experienced significant client losses or gains recently? This question attempts to gauge client satisfaction trends. Governments can check current client satisfaction levels by asking about the number of new accounts the firm acquired and the number it lost during the last five years, and requesting an explanation of each addition or loss. Net outflow may mean poor service. It is also important to compare firms with the same approach to see if they have had similar account losses.

What is the firm's investment style and approach? When selecting an investment adviser, it is important to choose one whose investment style is consistent with the parameters of the entity's investment policy and the government's risk tolerance levels. Inquire specifically about the firm's fixed income management style to determine if it is appropriate for the government's investment portfolio. Further, the government's staff should feel comfortable with the firm chosen.

What approach to managing the government's specific portfolio does the firm propose? This is another question aimed at ensuring that the government staff agrees with the proposed approach and how it will address the government's distinct objectives and risk tolerance.

What is the firm's investment decision-making process? The response should provide the government with a sense of the individual portfolio manager's independence within the firm. In addition, the answer also offers a perspective on how the firm approaches its investment decisions and how it handles the oversight of individual portfolio managers.

What is the firm's trading process? Responses can help a government determine the firm's internal trading capabilities as well as its relationships with the investment community. This information will also clarify whether an investment adviser intends to act as a broker-dealer, which would be unacceptable.

How often will the portfolio manager review the account and meet to review and discuss performance? The manager should review the government's account at least weekly, more often for more active accounts. The account's volatility will dictate how often the portfolio needs to be reviewed. Each entity must determine, based on the makeup of its portfolio, what its comfort level is and set the review period accordingly. The investment adviser should hold periodic meetings to ensure the government fully understands the investment adviser's activities and rationale.

What does the manager think is an appropriate benchmark and measurement period? The government should agree with the proposed benchmark and measurement period. Further, the proposed period should be within the normal range for similar portfolios.

How are fees set? Fees may be set in a variety of ways. Generally, fees are charged as a percent of total assets managed and are based on a sliding scale, descending as the account size increases.

Smaller portfolios may be charged a flat fee. If this is the case, determine what percentage the fee works out to be. For example, a $5,000 fee on a $10 million portfolio is 5 basis points, whereas a $5,000 fee on a $1 million portfolio is 50 basis points.

Fees can range anywhere from a few basis points to full percentage points of assets, depending on the type of management (active versus passive) and type of investments (fixed income versus equities for longer-term funds). Larger portfolios generally have lower fees. Fees often are negotiable.

What is the minimum account fee and what is the expected fee for this account? Governments should consider how fees fit into the total picture of choosing an adviser.

What is the firm's billing frequency? The critical point is that fees should be charged after services are received.

What is the firm's track record, net of fees? Governments should evaluate the firm's past performance based on composite portfolio figures. Performance and variance should be reviewed. The government should compare the data to other firms' track records.

What public sector or other tax-exempt clients does the firm provide as references? This question should offer additional information about the firm's experience with comparable clients and portfolios. Governments should be sure to check the references, even though advisers are likely to offer their best clients as references. As part of the due diligence process, government officials should look for past or present clients that were or are dissatisfied. One way to do so is to network with peers, as bad news tends to travel quickly. Most important, remember that past performance does not indicate future results.

What insurance does the firm carry? Answers to this question can illuminate what protection an investment adviser has. Governments should make sure the insurance is relevant. Consulting with the government's risk management staff or insurance agent may be useful in determining adequate coverage levels.

Is the firm registered with the SEC or appropriate state regulatory bodies?

Common Mistakes

There are several common pitfalls to avoid when hiring an investment adviser:

Past performance is too good to pass up. Impressive numbers probably are the most overrated criterion for selecting an investment adviser. As stated above, past performance is no guarantee of future success.

Government officials should be cautious of composite number presentations. Ensure meaningful comparisons. Investment portfolios should be compared using the same time frames (e.g., long-term portfolios should be compared to those of similar duration). It also is important to obtain performance figures on composites with closely related strategies and objectives.

The firm's client contact is aggressive and persistent. Do not misconstrue marketing savvy for investment expertise. Hire the latter, not the former.

The firm made the best presentation. Do not allow the selection process to become a beauty pageant. Do not get sidetracked by unnecessary details and lose focus.

The firm came highly recommended. Although it is important to network with others, make sure it is an "apples-to-apples" comparison and that the person making the recommendation has a similar portfolio and management style.

The investment adviser already has a relationship with the government. Providing other services to the government (e.g., banking services or custodial services) does not mean that the firm will be able to provide the government with the investment advisory services needed. Follow the same step-by-step approach and treat the firm as a fresh prospect. It is important to make sure that the firm has sufficient expertise to deliver the results needed.

The adviser will manage all of the assets. Governments must always protect their own interests and should not simply hand over the government's assets, trusting that the adviser will perform well. Even if the adviser is managing the total portfolio, government officials must stay involved in the process and monitor the investment adviser's performance and its compliance with the government's investment policy.

The governing body does not consider the benefit of hiring more than one manager. There are advantages and disadvantages to hiring more than one manager. An advantage is that a second manager can be considered a safety valve, and provides the government with the option of diversifying by management style or sectors of expertise. A disadvantage is that dividing the portfolio may eliminate potentially attractive advisers because of the minimum account sizes some firms require. Cutting the portfolio into smaller portions could also result in higher fees and make record keeping more difficult. The government should weigh the advantages against the disadvantages and feel comfortable with the decision it makes.

The firm has the lowest fees. As mentioned earlier, the fee should not be the primary factor in the selection process. There may be a good reason the firm has lower fees. For example, if the investment adviser is investing in a commingled fund, the fee will be lower. Or a new firm might use a lower, introductory fee to attract business. Keep in mind, however, that firms with a record of poor performance may also have lower fees.

Summary

Government officials considering engaging an investment adviser should have a complete understanding of what they wish to accomplish. Exercising due diligence and thorough research during the selection process will pay off in the long run. It is important to remember that once an investment adviser has been hired, the government has formed a new partnership and will need to maintain the relationship over time.

Section 3

Crafting an Investment Advisory Agreement

Along with a written investment policy outlining the parameters of a government's investment program, a signed investment advisory agreement is essential when using investment advisers. A well-constructed agreement that contains specific instructions concerning objectives and risk parameters, allowable investment instruments and strategies, and required reporting procedures is critical to a successful outcome.

The Government Finance Officers Association (GFOA) Recommended Practice "Selection of Investment Advisers" addresses the contract process as well as the importance of implementing relevant risk controls. According to this Recommended Practice, the contract process should address, at a minimum, the issues discussed below.

Further, the GFOA Recommended Practice "Use and Application of Voluntary Agreements and Guidelines for Cash Management," revised in 2006 and reproduced in Appendix D, encourages governments to consider the GFOA resource library of agreements and guidelines. In addition, it suggests that government finance officers exercise caution when entering into standard vendor agreements. This Recommended Practice urges governments to review carefully any agreement or guideline presented for their use by a private interest because it may affect a public entity's rights and responsibilities in a given transaction. An important counsel of this Recommended Practice is that government investors protect their existing statutory and regulatory rights by ensuring that such rights are not inadvertently waived through boilerplate contract language. Rather than using standard agreements provided by a private firm, the Recommended Practice advises governments to use the GFOA-developed library of sample agreements and guidelines that are referenced at the end of the practice.

This chapter presents key provisions frequently found in investment advisory agreements. These provisions are explained in detail and are intended to assist government officials in reviewing new or existing agreements. As with any legally binding contract, legal counsel should review the final document.

The GFOA Sample Investment Advisory Agreement is found in Appendix F.

What to Look For

Although the investment advisory agreement (the "Agreement") may include many provisions, it should specify the service to be provided. Further, the Agreement should be worded so that it can accommodate common situations, such as staff changes, without amendment.

Appointment of Adviser. The adviser must officially accept appointment by the government for the responsibilities over the account as set forth in the Agreement. This section defines the scope of the Agreement and the limits placed on the adviser; for example, the adviser shall not act as custodian for the account. In addition, a description of services the investment advisory firm will perform is included in this section, along with language assuring compliance with applicable laws and with the entity's investment policy. This section also defines the contract's start and end dates. The extent of the adviser's discretionary authority should be documented in this section. Even if an adviser does not have discretion, there might still be a need for a limited power of attorney to enable the adviser to execute trades with a broker-dealer on a non-discretionary basis.

Definition of the Account(s) and Custody of Account Assets. This section details the account's assets and who shall act as account custodian. The definition of the account should conform to the entity's investment policy. This section also outlines the expectations and responsibilities of the third-party custodian. Further, this section should specify that all transactions be done on a delivery-versus-payment (DVP) basis, and may define settlement procedures in detail. The definition of the account and the custody of the assets have implications for disclosures required by Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. Accordingly, the government should pay close attention to this area to ensure compliance with necessary disclosures.

Standard of Care. This section should state that the investment adviser is a professional and should be held to the "prudent expert" standard, which is a higher standard than the prudent person rule. The prudent expert standard requires the adviser

> *...to act with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.*

The prudent expert standard of care should apply to overseeing the performance of broker-dealers. Agreements may provide liability limitations for the advisory firm in this section by holding it harmless from losses incurred through any acts or omissions of any broker, dealer, or custodian of the account.

Investment Objectives and Restrictions. The government may wish to list investment objectives and restrictions as an attachment to the Agreement. The concern here is to provide formal direction with the flexibility needed in case these objectives and restrictions evolve and change. If the Agreement contains too many specifics, then any changes in investment objectives and restrictions will require cumbersome modifications.

The attachment should include the overall objective of the fund; initial characteristics of the portfolio; permissible securities; credit quality restrictions; maximum maturities; portfolio duration restrictions; use or disposition of cash flows; and citation of applicable federal, state, and local laws, ordinances, and resolutions.

Performance benchmarks should also be included in this section.

The restrictions portion of this section should explain how the government will communicate notification of changes to the objectives. It should also specify how investment techniques, strategies, and instruments not explicitly covered in the Agreement will be handled. (All changes to the entity's investment policy and guidelines to be communicated to the investment adviser should be in writing for the protection of both parties.) This section should state that investment instruments not specifically permitted in the entity's investment guidelines are precluded. (New investment instruments should not be permitted until the entity has had the opportunity to fully understand the risks and rewards these present.)

Transaction Procedures. While operational procedures may be listed directly in the Agreement, they may be more clearly presented as an attachment. These procedures should address the following: specification of delivery-versus-payment transactions; definition of the adviser's relationship with the custodian and the adviser's ability to issue defined types of instructions to the custodian and brokerage firms; and how such instructions may be made. For example, most Agreements require written instructions for all transactions, but may specify that verbal instructions will be followed by written instructions.

This section also specifies how confirmations and monthly statements will be handled. Further, this section should address how irregularities such as failed trades are to be reported to the government.

Services to Other Clients. Typically, the adviser will perform investment advisory services for clients whose investment objectives may be the same as or similar to those of the government entity. The advisory firm includes this section to acknowledge that it may give advice or take actions that vary from client to client, despite similar investment objectives.

Allocation of Brokerage. This section allows the investment adviser to allocate transactions to brokers and dealers in the best interest of the account and prohibits "soft dollar" benefits for any transaction placed on behalf of the government. The Securities and Exchange Commission (SEC) allows soft dollar arrangements under certain circumstances when fully disclosed.

Fees. This section will clearly state the basis of compensation. It should contain a schedule of fees and define fee levels. Pay-for-performance arrangements are not recommended. In addition, this section should contain any provisions for fee increases during the contract term, methods of notification and implementation of changes to these fees, terms of invoicing and payment, and any other allowable costs that have been agreed to.

Termination: Assignment. The provisions for termination of the agreement must be detailed. This section usually specifies that written notice is required and that either party may terminate the agreement. Such written notice may take effect immediately or within some specified time frame, such as thirty days, to allow for a smooth transition.

Provisions for the government entity to be able to terminate the agreement immediately without cause are not uncommon. At a minimum, immediate termination should be permitted under adverse conditions such as the adviser's breach of the agreement, departures in key personnel, material changes in financial condition, censure by regulatory agencies or indictment, or conviction or criminal investigation involving breach of trust, fiduciary duty, or fraud. More commonly, the investment adviser's termination provision is 30 to 180 days, depending on the entity's ability to assume responsibility for the portfolio or the time frame necessary for selecting and engaging a replacement investment adviser. The treatment and disposition of fees paid in advance should be presented in this section as well.

Also, this section should state, "No assignment, as that term is defined in the Investment Advisers Act of 1940, of this Agreement shall be made by adviser without the written consent of client (government entity)." This precludes the adviser from assigning any of its responsibilities or obligations under the Agreement without the government's full consent.

Notices. This section requires that all notices and instructions regarding security transactions or other matters in the Agreement be acknowledged when received in writing by either party. This section also may include a sentence stating the adviser may rely on any notice (written or oral) from any authorized person representing the government entity. In addition, this section may require written notice of any changes in investment strategy by either party.

Representations by Client. The client must represent and confirm that it is authorized to employ the adviser and that such employment does not violate any laws or obligations. The client also will be required to provide evidence of authority that the adviser may reasonably require.

Representations by Adviser. The adviser must confirm that it is registered as an investment adviser under the Investment Advisers Act of 1940. The adviser should represent that it is free of conflicts of interest or fully disclose such conflicts.

The Agreement may require that the adviser and any of its personnel be free of any convictions of any crime involving breach of trust or fiduciary duty or securities law violations within a specified time frame (e.g., three years).

Construction and Severability. This section keeps the Agreement (or remaining parts of it) in force in the event that any part of it is rendered invalid or unenforceable. The section should state that if any part of the Agreement is held to be invalid or unenforceable, the validity or enforceability of other parts of the Agreement will not be affected as long as the remainder of the Agreement can be reasonably completed.

Applicable Law. A section must be included stating that the Agreement will be governed by the laws of the government entity's state and the laws, rules, and regulations of the government entity itself.

Record Retention and Inspection. This section specifies what records the adviser must maintain and the time period that those records must be maintained after contract termination. This section also gives the government entity the right to inspect those records.

Prior Agreements. This section specifies that the Agreement supersedes all prior agreements and typically states that full payment for services rendered by the adviser prior to this Agreement shall be due and owing by the government entity.

Reports. The reporting relationship should be formalized, and the types and timing of reports to be provided to the government should be specified.

Confidential Relationship. This section specifies the information that will be treated as confidential. This section should make clear any statutory provisions to which the government is subject.

Errors and Omission Insurance. The Agreement will require the adviser to provide proof of and maintain errors and omission insurance, also known as professional liability insurance, during the term of the contract and will specify a minimum coverage amount. The insurance agent should provide the insurance certificate directly to the government. A fidelity bond provides protection only in custody instances.

Waiver. This section states that a waiver of a breach of contract of any of the Agreement's provisions shall not constitute a waiver of any other breach of the Agreement. Any waiver must be in writing and signed by the party granting the waiver.

Changes and Amendments. Any changes to the Agreement must be in writing.

Changes to Key Personnel and Successor to Adviser. This section requires immediate notification, in writing, of any changes in key personnel within the investment advisory firm.

Assurance of Compliance with Appropriate Laws and Regulations at Local, State, and Federal Levels. The investment adviser must agree and represent that it is in compliance with all local, state, and federal laws.

Assurance of Compliance with Ethics Rules. Verify that the adviser has implemented the newly adopted SEC rules. Specifically, confirm that SEC Rule 204A-1, Adoption of a Code of Ethics, and SEC Rule 206(4)-7, relating to adoption of internal policies and creation of a Chief Compliance Officer role, have been implemented.

Rescission. This section outlines the terms and conditions of rescinding the Agreement without penalty, and specifies the amount of notice that must be given.

Certification That Adviser Has Read and Understands the Government's Investment Policy.

Signatory Must Certify He has Authority to Enter Into Agreement.

A properly drafted and executed investment advisory agreement will help protect the government's interests and safeguard its cash and assets.

Controls

Finally, the government should develop and implement an ongoing risk management program that includes regular compliance reviews. Communication with the investment adviser should be frequent, with full explanations of investments and strategies. A sound control program should encompass control of funds and assets with the following requirements:

- Analysis of counterparties;
- Competitive trade execution;
- Prohibitions against self-dealing for trade execution;
- Trade confirmations;
- Utilization of delivery-versus-payment trade settlement;
- Implementation of third-party safekeeping, with securities registered in the government's name;
- Timely reconciliations of trade confirmations and custodian statements;

- Monthly reporting that complies with industry standards;
- Allowance for independent audits; and
- Maintenance of documentation.

Section 4

Evaluating the Investment Adviser's Performance

The successful engagement of an investment adviser extends beyond the initial selection process. After the decision has been made to hire an investment adviser and the government entity has entered into a signed agreement, the next step is to monitor and evaluate the investment adviser's services. The ongoing review, monitoring, and evaluation of an investment adviser or money manager are just as important as the due diligence undertaken during the selection process prior to engagement. Governments should consider many factors in evaluating the investment advisory services.

First, a government should establish the frequency of its reviews (this information should be contained in the Agreement) and the information that will be assessed. Generally, a government will want to verify whether:

- The investment adviser has acted within the constraints of the entity's investment policy;
- The investment adviser has added value to the portfolio, in terms of structure and/or performance; and
- The benefits of the service outweigh the costs.

Open communication between the government and the investment manager is important. Frequent and candid communication will help to ensure that the government is aware of important aspects of its investment management process and is not subject to unexpected events.

Qualitative Analysis

Qualitative judgment plays a key role in performance evaluation, along with quantitative analyses and review. Qualitative criteria that are useful in evaluating a money manager's performance include determining whether:

- The government's objectives have been met;
- A consistent investment approach has been followed;
- Expected reporting and/or other services have been supplied;
- Staff turnover has occurred that significantly alters the investment advisory firm's capabilities; and
- The investment adviser has maintained an appropriate level of client contact and communication.

Quantitative Measurements

Investment performance lends itself to quantitative measurement, such as return or yield, that can provide an objective overview of an investment adviser's performance.

Performance Benchmarks

One way to gauge how well an investment advisory firm has performed is to compare its performance against a benchmark. At the beginning of the investment advisory relationship, a government and its adviser work together to select an appropriate benchmark. This benchmark should reflect the government's risk tolerance as well as its performance expectations.

Standard benchmarks for short- to intermediate-term investment portfolios include yields of three-month Treasury bills, local government investment pools, money market fund indexes, or composite indexes that are similar in composition to the government entity's portfolio and investment strategy. It is important to compare short-term money to a short-term index and longer-term funds to a longer-term index. As part of the performance review, the investment adviser should be asked to explain any deviation from the benchmark, regardless of whether performance is better than or inferior to that of the benchmark. The adviser should explain what was done differently from the benchmark so that the government understands the investment adviser's results. The government needs to be satisfied that no unnecessary risks were taken and that maturity, credit, or other restrictions were not violated.

Peer Group Comparison

Comparing an investment adviser's performance to the performance of a group of comparable managers for a given period is another way to evaluate the adviser's performance. However, it is difficult to identify closely comparable managers. Performance is often dependent on the government's unique circumstances and investment policy. Such comparisons are especially difficult for evaluating performance in separately managed accounts.

Reporting Requirements

Governments can monitor the investment adviser's performance by requiring the following reports:

Summary of Portfolio Holdings. Governments should require a listing of all securities held at the end of the month. This information can be categorized by type of security, by maturity, and by institution. These reports help to insure that the investment adviser has conformed to portfolio diversification requirements and other investment policy constraints.

Investment Performance Report. At a minimum, the performance report should show total returns for the period compared to a total return benchmark. The total return calculation should include income received and accrued and changes in market value during the period.

Maturity/Duration Indicators. Portfolio duration and average maturity statistics help in monitoring interest-rate risk. A portfolio with a longer duration is at greater risk and may experience more price fluctuation than a portfolio with a shorter duration in changing interest-rate environments. For example, a portfolio with a duration of three would be expected to suffer a 3 percent market price loss if interest rates rose one percentage point. Alternatively, with a 1 percent decrease in interest rates, the same portfolio would be expected to experience a 3 percent market price gain.

Transaction Summary. Investment advisers will provide investors or the custodian bank with transaction trade tickets. At a minimum, investors should receive a monthly summary of completed transactions. This information will allow the government entity to reconcile portfolio balances with accounting records and verify that the investment adviser acted within the investment policy's guidelines. The government can compare the internal transaction report generated by the investment adviser with the transaction confirmations it receives from brokers.

Mark-to-Market Report. This report should show the cost and market value for the securities in the portfolio.

Global Investment Performance Standards Reporting

When reporting on investment performance, many calculations can be used to measure return. It is important that the firm calculating performance numbers uses a consistent formula and that the government entity understands how the numbers were calculated and whether those numbers are presented net of fees.

The CFA Institute, formerly known as the Association for Investment Management and Research (AIMR), has developed standards for uniform performance presentations, known as the global investment performance standards (GIPS). The GIPS standards are the paradigm for performance measurement in the industry, having replaced AIMR's performance presentation standards in January 2006. Any investment advisory firm that makes the claim of presenting performance in compliance with GIPS standards is pledging that certain steps have been followed. Adherence to the GIPS standards' detailed process validates measurement and comparison. If performance is not compliant with the GIPS standards, it is not a valid performance measurement that can be relied on for comparisons. Government investors can learn more about these standards online at http://www.cfainstitute.org/.

Additional Benefits

Besides looking at discrete quantitative data, government officials should consider other factors into their cost/benefit analysis. This analysis can be difficult, as it cannot be quantified. Improved performance or enhanced controls may offset costs. Officials should factor in staff reductions, other uses of staff time, and elimination of direct costs of investing.

Look for Red Flags

As part of the analysis, government officials can look for certain red flags that may signal trouble. These indicators may include:

The Primary Manager Has Left. If the primary manager has left the firm, who will take over? What will this mean for the portfolio? Will the new manager employ the same or a similar investment strategy? The departure of other key figures within the firm would almost certainly necessitate further questions. If these questions cannot be answered to the government's satisfaction, the government may wish to consider terminating the existing contract and finding a new investment advisory firm.

The Investment Strategy Has Changed. If the investment strategy has changed, the government should find out why and determine if the new strategy is appropriate for its investment objectives and constraints.

The Adviser is Not Doing What Was Promised. This red flag can be particularly important if the investment advisory firm is not following the guidelines set forth in the Agreement. Insist on an independent custodian and on delivery-versus-payment transactions. Also, the lack of regular and timely reporting should be a signal to end the Agreement. It is crucial that the government know what securities are in its portfolio, the market value of those securities, and who holds custody.

The Firm is Outperforming the Market or the Established Benchmark. The government should understand how the firm is able to outperform the market and confirm that the adviser is following the government's investment policy.

The Firm is Underperforming its Relevant Benchmark. It is critical to find out why performance lags an appropriate benchmark.

Summary

An ongoing evaluation process can help ensure the government's goals in hiring an investment adviser are being met, its assets protected, and a positive relationship with the adviser maintained.

Appendix A

Government Finance Officers Association

Recommended Practice

Selection of Investment Advisers for Non-Pension Fund Assets (2003 and 2007)

Background. Many governments engage investment advisers for assistance in managing their investment portfolios. State and local government cash managers augment their investment programs by retaining investment advisers to perform various portfolio services, ranging from advice-only consultation to full discretionary management. In engaging an investment adviser, a government may benefit from professional portfolio management, risk management, potential audit savings, and continuity in the investment function, among other benefits. Most of these engagements have been positive. However, there have been some instances of inappropriate investment activities. The problems and reported losses have often resulted from governments hiring an adviser without clearly defining their initial needs, performing sufficient due diligence, and establishing proper controls and ongoing oversight. It is important for governments to take a careful and informed approach in the selection and use of investment advisers.

When hiring an investment adviser, the government must determine the level of authority to grant the adviser. Advisory services will differ in the level of authority granted the adviser and in the level of involvement the government maintains in the investment process.

Under a **non-discretionary** agreement, the adviser must obtain approval before executing any trade. All activity must comply with the guidelines of a government's investment policy, investment objectives, governing laws, and written or oral instructions. With a non-discretionary agreement the government is directly involved in investment transactions, whether to establish a comfort level with external management or the adviser, to learn from the adviser, or for some other reason. Under a **discretionary** agreement, the adviser can execute trades for the government without prior approval on each transaction. The adviser follows the same guidelines and restrictions as a non-discretionary adviser. With a discretionary agreement the government is less involved in the investment transactions, thus enabling staff resources to be directed to other duties, giving the adviser the ability to execute investment strategies more quickly, and allowing the government to hold the adviser totally responsible for the performance in the portfolio. Under either agreement type, the government maintains control of its investment program by establishing the guidelines and policies to which the adviser must adhere.

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local governments exercise caution and prudence in their selection of investment advisers. It is important to remember that fiduciary responsibility for the safety and liquidity of government funds cannot be delegated to an investment adviser. The implementation of a safe and effective investment program must be carefully coordinated with the adviser.

The GFOA urges state and local governments that are considering retaining an investment adviser to define and control the procurement process and assure periodic reviews of ongoing investment advisory services. Adhering to a defined due diligence in selecting a qualified investment adviser and establishing proper controls will help a government achieve its objectives for hiring an adviser while protecting its funds and reducing risk to its reputation.

Within the scope of Securities and Exchange Commission (SEC) regulations, state and local law, and any other requirements, the selection process and continuing relationship with advisers should address the following:

1. **Objective procurement**: The responsible government official or the governing board should appoint a consultant and/or internal review committee to conduct the search process. Such staff, consultant, and/or review committee members should be independent of any interest in or relationship with any investment advisory firm and objectives must be clearly delineated.

2. **Competitive analysis**: A competitive, merit-based procurement process for selection should be employed.

3. **Goal definition**: Responsibilities of the investment adviser and/or investment manager should be identified before the selection process. During the process these should be clearly defined and communicated. The responsible government official or the governing board and/or review committee should determine the criteria to be used in the selection.

Criteria

Identifying relevant criteria upfront promotes transparency in the selection process. Assigning weightings to these criteria can create a workable method to rank or quantify the importance of each. Criteria should include:

- the adviser's understanding of the government's investment program, objectives and constraints
- the investment adviser's background: the experience, resources, and qualifications of the firm in general as well as that of the individuals assigned to handle the government's account are especially important criteria along with the firm's experience in managing state and local government operating funds
- the prospective investment adviser's recommended approach to management of the portfolio: Is this approach appropriate for the government?
- fees and fee basis.

Risk Control

As part of the procurement process and prior to a final decision on the investment adviser, the government entity must have developed an ongoing risk control program, including:

- level of discretion afforded the adviser
- prohibitions against self-dealing for trade execution
- competitive trade execution
- trade confirmations
- delivery versus payment trade settlement
- independent third-party custody of securities (no adviser custody)
- timely reconciliations of trade confirmations and custodial statements
- monthly reporting that complies with industry standards and local requirements
- ongoing compliance reviews and
- allowance for independent audits.

Selection Process

Once the definition of the services to be obtained is complete, a Request for Proposal is most often used to obtain investment advisory services.

The sources for potential candidates may include:

- consultants' database(s) on investment advisory firms
- association databases
- industry reports and articles
- marketing materials and
- references from other governments.

The due diligence on candidates should include:

- SEC licenses
- quantitative information (e.g., financial stability and performance review)
- organizational structure of firm including any business affiliations
- experience and depth of personnel in firm, including turnover and single versus team management
- reporting standards (Global Investment Performance Standards or GIPS)
- firm-specific investment philosophy and portfolio management strategies
- trading process
- interviews with finalists and
- understanding of current or historic regulatory censure or litigation.

Final decisions will require an objective compilation and analysis of the results of the RFP. Most importantly, the investment adviser and the services offered must match the needs of the particular government entity.

Advisory Agreement

A well-constructed agreement containing specific instructions concerning objectives and risk parameters, allowable investment instruments and strategies, and required reporting procedures is critical to a successful outcome. After a recommendation regarding the selection of an investment adviser has been made, the contractual agreement should include:

- scope of services
- appointment of the adviser and fiduciary responsibilities
- establishment of account responsibilities
- definition of accounts and custody
- definition of discretionary or non-discretionary services with appropriate limitations
- definition of standards (Prudent Expert)
- establishment of objectives, restrictions and benchmarks
- definition and processing of transaction procedures in accordance with policy including brokerage limitations
- representations by entity and adviser
- determination of reasonable liability insurance for errors and omissions
- establishment of invoicing and payment
- procedure for termination by either party
- specifications related to nondiscrimination in contracting and ethics rules
- certification of the government's policy by the adviser and
- all provisions of the RFP as part of the contract.

The ongoing review, monitoring, and evaluation of the investment adviser are as important as the due diligence undertaken during the selection process. This is accomplished by following the steps outlined in the Risk Control section above.

References

- GFOA Sample Request for Proposal for Investment Advisory Services, GFOA, 2007
- *An Elected Official's Guide to Investing*, M. Corinne Larson, GFOA, 1996

- *An Introduction to Investment Advisers for State and Local Governments,* second edition, Sofia Anastopoulos, GFOA, 2007. This publication includes a sample investment agreement.
- *Investing Public Funds*, second edition, Girard Miller with M. Corrine Larson and W. Paul Zorn, GFOA, 1998

Approved by the GFOA's Executive Board, March 2, 2007.

Government Finance Officers Association

Recommended Practice

Use of Various Types of Mutual Funds by Public Cash Managers (2003 and 2006)

Background. State and local government cash managers may benefit from investing public funds through mutual funds. Mutual funds are SEC-regulated investment instruments that pool and jointly invest the funds of multiple investors. Mutual funds are available for both fixed income and equity investments. Short-term liquid mutual funds that maintain a weighted average maturity of 90 days or less and maintain investor shares with a constant one dollar ($1) Net Asset Value are called money market mutual funds. Other non-money market fixed income mutual funds generally have a longer-term weighted average maturity and have a fluctuating price or Net Asset Value.

The Government Finance Officers Association (GFOA) has endorsed the use of money market mutual funds by public cash managers through the GFOA's model investment legislation for state and local governments. Portfolio safety, liquidity, diversification, and professional management are desirable features of these investment vehicles. The safety of assets, which is the foremost objective of public cash managers, may be impaired by market price risks associated with short-, intermediate-, and long-term bond funds.

Recommendation. The GFOA recommends that state and local governments restrict their use of mutual funds for cash management purposes exclusively to money market mutual funds and short-term bond funds.

Public cash managers should check applicable statutes to determine if the use of money market mutual funds and/or short-term bond funds is permitted within their jurisdictions. Further, GFOA recommends that governments review and understand the fund's prospectus and statement of additional information to determine:

- portfolio composition
- risk characteristics
- the duration and weighted average maturity of the mutual fund
- the reputation and experience of the investment company
- the performance history relative to appropriate benchmarks
- total expense ratio
- philosophy, strategies, and portfolio policies
- if the fund is rated by a nationally recognized rating agency and

- whether the fund can meet the compliance requirements of the government's approved investment policy, for example, minimum ratings, maximum sector allocations, or specific criteria such as social investing.

GFOA recommends that governments consider money market mutual funds that are in the federal Treasury, government, or first tier categories and receive the highest ratings available from at least one nationally recognized rating agency. Short-term bond funds should receive the highest credit quality ratings and the lowest risk ratings available. State and local government cash managers should exercise prudence and caution when investing in short-term bond funds. Short-term bond funds (if used) investing in short- and intermediate-term instruments may be appropriate investments in some jurisdictions for funds that are not needed for near-term disbursement. However, mutual funds of an intermediate or long-term duration should be avoided by investors of short-term funds needed for liquidity purposes.

References

- *An Introduction to External Money Management for Public Cash Managers*, GFOA, 1991
- *A Public Investor's Guide to Money Market Instruments*, second edition, edited by M. Corinne Larson, GFOA, 1994
- *Investing Public Funds*, second edition, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998
- GFOA Recommended Practice, "Maturities of Investments in a Portfolio" (1997, 2002)

Approved by the GFOA's Executive Board, October 6, 2006.

Appendix C

Government Finance Officers Association

Recommended Practice

Use of Local Government Investment Pools (LGIPs) (2007)

Background. In many states, the state treasurer or an authorized governing board (a local government such as a county) oversees a pooled investment fund that operates like a mutual fund for the exclusive benefit of governments within that state. These state pools typically combine the cash of participating jurisdictions and invest the cash in securities allowed under the state's laws regarding government investments. By pooling funds, participating governments benefit from economies of scale, full-time portfolio management, diversification, and liquidity (especially in the case of pools that seek a constant net asset value of $1.00). Interest is normally apportioned to the participants on a daily basis, proportionate to the size of the investment. Most pools offer a check-writing or wire transfer feature that adds value as a cash management tool.

Government Sponsored versus Joint Powers Agreement Pools: Local government investment pools (LGIPs) may be authorized under state statutes and sponsored by the state or local governments or may be set up through intergovernmental agreements known as "joint powers" agreements. Government investment pools operated for local governments generally are authorized by statutes and permit the state or local treasurer or appropriate agency to pool investments and distribute income to the participating local governments. In some cases, state funds are commingled with local government funds; in other cases, the pools consist only of local government funds. Generally, the pool's portfolio manager may purchase only the same investment instruments permitted for state and local governments in that state. A few states permit a broader list of allowable instruments.

Joint-powers agreement pools have been established in several states by local governments joining together to sponsor the creation of LGIPs that operate independent of the state government. The investment authorization to pool funds is generally derived from state statutes that allow governments to perform collectively any service or administrative function that they may undertake individually. A board of trustees, normally made up of public officials, oversees these pools and typically selects a financial services firm to provide services such as the following: investment management, custodial services, participant record keeping, independent audits, and legal services. These pools may invest only in securities otherwise allowed to individual governments.

Not All Pools Are the Same: Although there are many similarities between the various LGIPs, there are also many differences. One such significant difference among pools that must be understood before placing money in them are their investment objectives. When LGIPs were first created, most emulated money market mutual funds with the objectives of maintaining a "constant" Net Asset Value (NAV) of $1.00 and providing excellent liquidity for the investor. Such LGIPs invest in short-term securities with average maturities sufficiently short to avoid market price risk. The "constant" NAV pools are appropriate investments for funds that must be liquid and have virtually no price volatility.

By comparison, there are also government investment pools with the investment objective of maximizing return. These pools invest in longer-term securities, subjecting their portfolios and their participants to greater market price volatility. These pools are variable Net Asset Value (NAV) pools and introduce market risk to the investor through a fluctuating NAV. The principal invested in the pool may not be the same principal returned to the investor depending on the movement of interest rates. These pools ***would not*** be appropriate for funds that must be liquid and stable. They may be appropriate for longer-term strategies.

Some other differences among pools include their legal structure, authorized investments, procedures for depositing and withdrawing money, and their services. Each pool has a process that a participant must complete, including documents to be signed and banking information to be provided, in order to establish an account. Sources of information for evaluating pools may include a pool offering statement, investment policy or audited financial statements.

Ratings for LGIPs: Investors should remember that LGIPs are not registered with the Securities and Exchange Commission (SEC) and are exempt from SEC regulatory requirements because they fall under a governmental exclusion clause. While this exemption allows pools greater flexibility, it also reduces investor protection. Investments in these pools are not insured or guaranteed and substantial losses have occurred in the past. Some rating agencies rate LGIPs using the same criteria as money market mutual funds. These ratings are based on safety of principal and ability to maintain a NAV of $1. Pool ratings can provide an additional method of due diligence.

Recommendation. The Government Finance Officers Association (GFOA) makes the following recommendations to government investors when using Local Government Investment Pools (LGIPs):

1. Government investors should confirm LGIPs are eligible investments under governing law and the government's investment policy.
2. Government investors should fully understand the investment objectives, legal structure and operating procedures of the investment pool before they place any money in the pool. When evaluating an LGIP, investors should read the pool's offering statement, investment policy, audited financial statements carefully.
3. Particular attention must be paid to the investment objectives of a pool to determine whether a pool seeks to maintain a constant NAV of $1.00 or could have a fluctuating NAV. This information is essential in order to determine which pools are appropriate for liquidity strategies (constant NAV) and which ones are only appropriate for longer-term strategies (fluctuating NAV).
4. The pool's list of eligible securities should be reviewed to determine compliance with the participating government's investment policy. Portfolio maturity restrictions and diversification policies should be evaluated to determine potential market and credit risks.
5. Portfolio pricing practices should be evaluated.
6. Custodial policies (e.g., delivery versus payment) should be reviewed.
7. The qualifications and experience of the portfolio manager, management team and/or investment adviser should be evaluated.
8. The earnings performance history should be studied and reviewed relative to other investment alternatives. On constant NAV LGIP funds, the current yield of the portfolio can be compared with competitive institutional money market funds, or overnight repurchase agreement rates. Standard & Poor's releases an index of LGIPs on a weekly basis that reports the average 7- and 30-day yields and average maturities of LGIPs holding its highest ratings (AAAm and AAm). Any pool with above-average yields or longer maturities should be further evaluated for risk.
9. Variable NAV LGIPs should be evaluated in relation to appropriate benchmarks.

10. Although ratings are not mandatory at this time, governments should seek LGIPs with the highest ratings, where possible.
11. Procedures for establishing an account, making deposits and withdrawals, and allocating interest earnings should be fully understood. There may be limits to the number of deposits and withdrawals in a month. There may also be dollar limits to deposits, withdrawals and balances. Deposits or withdrawals may require advanced notification, especially if they are large. If so, investors should be aware of the deadlines.
12. Any additional services offered by an LGIP should be considered. For example: checking, wire transfers, issuing paying agent services, setting up multiple accounts for an entity, and arbitrage accounting for bond funds.
13. Government investors should confirm that an LGIP provides regular, detailed reporting to pool participants and follows generally accepted reporting standards.

References

- *Investing Public Funds*, second edition, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998
- *An Elected Official's Guide to Investing*, M. Corinne Larson, GFOA, 1996
- *Standard & Poor's Guide to LGIPs*

Approved by the GFOA's Executive Board on March 2, 2007.

Appendix D

Government Finance Officers Association

Recommended Practice

Use and Application of Voluntary Agreements and Guidelines for Cash Management (2003 and 2006)

Background. Governments finance officials have a fiduciary responsibility over the funds that they manage. It is therefore imperative that government finance officers exercise due diligence and that they have established written policies and procedures in place for their investment programs.

In the conduct of an investment program, it is important that all written investment documents are comprehensive and that they protect the interest of government investors. To provide guidelines and set basic standards of practice, GFOA has developed voluntary agreements and guidelines to assist governments in developing agreements that are tailored to each government's specific needs.

Often standard legal language is included in boilerplate agreements presented by banks and other counterparties. Such boilerplate agreements may contain provisions and assumptions that may conflict with state law, or with local policies and preferences.

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local governments consider carefully any agreement or guideline presented for their use because many of these documents could affect a public entity's rights and responsibilities in a given transaction. Furthermore, GFOA recommends that:

- Government investors develop written investment policies and procedures using the GFOA-developed Sample Investment Policy and GFOA's *Investment Procedures and Internal Controls Guidelines*.
- Government investors be aware of the federal, state, and local laws that govern investment contracts and agreements, as well as statutes and regulations affecting suitability obligations of broker-dealers, which require that a broker-dealer should only recommend a product after that broker-dealer has taken steps to determine that it is suitable and legally permissible for the government.
- Government investors protect their existing statutory and regulatory rights by ensuring that such rights are not inadvertently waived through the use of "boilerplate" language in contracts with counterparties.
- Government investors should use the GFOA-developed library of sample documents, including the policies, agreements, RFPs, questionnaires, and guidelines, as listed below.

GFOA Library of Sample Agreements in Cash Management

1. Sample Investment Policy
2. Security Agreement (long)
3. Security Agreement (short)
4. Sample Custodial Trust Agreement
5. Mutual Fund Request for Information
6. Sample Request for Proposal for Investment Advisory Firms
7. Sample Investment Advisory Agreement
8. Investment Policy and Procedure Self-Assessment Questionnaire (not developed by Cash Committee)
9. Broker-Dealer Request for Information
10. Sample Agreement for Securities Service
11. Statement of Work
12. Considerations for Government in Developing a Master Repurchase Agreement

Guidance from *An Introduction to Treasury Agreements for State and Local Governments*

1. Banking Services Agreements
2. Wire Transfer Agreements
3. Lockbox Agreements
4. Trust Account Agreements
5. Escrow Account Agreements

References

- *An Introduction to Treasury Agreements for State and Local Governments*, Linda Sheimo, GFOA, 1993
- *An Introduction to Broker-Dealer Relations for State and Local Governments*, M. Corinne Larson, GFOA, 1994
- *Investment Procedures and Internal Controls Guidelines*, GFOA Committee on Cash Management, GFOA, 2004

Appendix E

GFOA SAMPLE REQUEST FOR PROPOSAL for INVESTMENT ADVISORY SERVICES

***Note**: The suggested language used in the following sample Request for Proposal should be reviewed carefully and modified to address your entity's specific needs and requirements.*

I. SCOPE OF SERVICES

The [..government entity..] is soliciting proposals from investment advisory firms for portfolio management services for approximately $______ million in operating and capital funds (non-pension funds). The contract will be for a period of _______ years with service to begin ___________ and extend through _______.

Specific services, although not all-inclusive, are to be performed as follows:

- Assist the government entity with cash flow/maturity analysis
- Provide credit analysis of investment instruments in portfolio
- Provide monthly/quarterly/annually reporting on all government entity funds
- Attend monthly/quarterly meetings with government entity staff/officials
- Evaluate market risk and develop strategies that minimize the impact on the portfolio
- Provide assurance of portfolio compliance with applicable policies and laws
- Establish an appropriate performance benchmark
- Review investment policy – recommend appropriate amendments
- Ensure portfolio structure matches government entity's objectives

Investment practices and procedures must comply with state law and the [..government entity's..] written investment policy. The investment advisory firm will be expected to perform to the Prudent Expert Standard.

Under this contract the [..government entity..] objectives are (some examples of objectives may include the following):

- Maximize incremental income from its portfolio
- Provide for operational efficiency and information flow on the portfolio
- Improve its investment capabilities

II. SELECTION CRITERIA

In accordance with the goals of the [..government entity..], the following criteria will be used as the weighting basis for evaluation of the proposals and the award recommendation:

- Understanding of the overall investment program and the investment objectives and its unique constraints
- Experience, resources, and qualifications of the firm and individuals assigned to this account
- Experience of the firm in managing state/local government portfolios. In evaluating the firm's experience, past performance data will be evaluated in the context of portfolio objectives and constraints, as well as risks.
- Recommended approach to management of the portfolio
- Fees

The respondent's understanding of the scope of services required includes demonstrated abilities to coordinate delivery of the services and an understanding of the needs and operational requirements of the [..government entity..].

Award may not be made to the respondent submitting the lowest price proposal. The [..government entity..] will choose the firm submitting the best and most responsive overall proposal to satisfy its needs.

Note*: Criteria may be assigned a percentage weight to succinctly emphasize the relative importance of the criteria and aid in the evaluation process. In addition, if additional services are desired or required, identify each in this selection list and weigh the criteria consistent with other services.*

III. DESCRIPTION OF ORGANIZATION

A copy of the [..government entity's..] current Investment Policy and portfolio(s) is attached.

Note*: This section should contain a brief description of your entity, including such items as location, form of government, current population, current budget size, current and expected bond issues, portfolio make-up by fund, Web site, and line of authority in reference to this contract.*

IV. SUBMISSION INSTRUCTIONS

1. Proposal Format

In order to equitably evaluate each respondent's ability, a standard format for all proposals is required. A response must be given to each item in Section V of this RFP. Responses must be in the same order as the questions presented, stating acceptance of, modifications or additions to, or a statement of the inability to provide, said service. Only proposals submitted in the prescribed format will be considered and evaluated for contract. Additional explanatory information may be included as part of a proposal.

An electronic copy of this RFP is available upon request. Submission of the proposal, however, must be in written form (***note:*** *or electronic, if applicable)*.

2. Schedule for Proposal Submission and Evaluation

Every effort will be made to adhere to the following schedule.

xx/xx/xx	Release of Request for Proposal
xx/xx/xx	Questions due regarding RFP from any respondent
xx/xx/xx	Written responses to all questions submitted will be provided to all known respondents
xx/xx/xx	Deadline for proposal submission
xx/xx/xx	Finalists interviews, if needed

xx/xx/xx Award of contract
xx/xx/xx Contract commencement

3. Proposal Submission

______ original and ____ complete copies of each proposal shall be submitted by ______ pm on ______ to the address below. **Proposals received after that time will not be opened, accepted, or considered. The proposal must be submitted in a sealed envelope or packet marked "Proposal for Investment Advisory Services."**

As part of your submission, an accompanying cover letter must be signed by an individual authorized to bind the firm, certify that all information is accurate, state that the proposal is valid for 90 days from the submission date, and give full contact information regarding the proposal.

Proposals must be delivered by mail, express mail, or in person to:

______________________	tel.________________
______________________	fax________________
______________________	email______________
______________________	

All proposals become the property of the [..government entity..] and will not be returned. All costs associated with preparation and submission of proposals are the sole responsibility of the proposer.

4. Restrictions on Communications with Staff

All questions, prior to award, must be in writing and directed as detailed below to the named contact at the address above. From the issue date of this RFP until contract award is made, respondents are not permitted to communicate with any employee about the subject or contents of this RFP. Violation of this provision may result in rejection of the respondent's submission. No information provided verbally, or by other personnel, will be considered binding.

5. No Pre-Proposal Conference

There will be no pre-proposal conference. Questions regarding this RFP, or the services requested in it, will be accepted in written (or e-mail) form only, at the above address, on or before ________ pm, ____________. Responses to all questions submitted will be communicated in writing to all known respondents by ______ pm, _____________.

6. Reservation of Rights

The [..government entity..] reserves the right to:

- Waive any defect, irregularity or informality in the proposal or proposal procedures
- Accept or reject any proposal or portion thereof in whole or in part
- Request additional information or require a meeting with firm representatives for clarification
- Cancel, revise, and/or reissue this request for proposal
- Negotiate with respondents and
- Modify deadlines

V. REQUEST FOR PROPOSAL

Format your responses to each question in Sections A through H below in the order given to facilitate comparisons between respondents.

A. FIRM BACKGROUND AND ORGANIZATION

1. Describe the organization, date founded, and ownership of your firm. Has your firm experienced a material change in organizational structure, ownership or management during the past three years and, if so, please describe.
2. Describe any other business affiliations (e.g., subsidiaries, joint ventures, "soft dollar" arrangements with brokers). Describe your firm's policy on soft dollars.
3. Describe the firm's sources of revenue, categorized by retail and institutional accounts.
4. Is your firm a registered investment advisor under the Investment Advisor's Act of 1940, as amended?
5. Describe any SEC, NASD, or regulatory censure or litigation involving your firm or its employees within the past three years.
6. Did you, or will you, pay a finder's fee to any third party for business related to this account? Specify the recipients of any fee.
7. Outline the errors and omissions (professional liability) and fidelity bond coverage your firm carries. Provide a valid, current Certificate of Insurance.
8. Identify the types of accounts primarily sought by your firm.

B. EXPERIENCE

1. Describe your firm's experience in managing fixed income portfolios for public funds and governmental entities.
2. What is your firm's experience in developing policies and portfolio management guidelines for government portfolios?
3. Does your firm act as a broker or as a primary dealer in securities or receive any other form of additional compensation (including soft dollars) for the client transactions aside from the direct fee paid by clients?
4. Provide the number and types of accounts, total asset value, and composition of portfolios currently being managed by your firm.

C. PERSONNEL

1. Identify and provide background information on the key person or personnel who take the most active role(s) in the administration and management of the firm.
2. Identify the investment professionals (portfolio managers, analysts, and researchers) employed by your firm, by classification, and specify the average number of accounts handled by portfolio managers. Are there any established limits on accounts or assets under management?
3. Provide resumes and biographical information on key investment professionals that will be directly involved in the decision-making process for the portfolio. Include the number of years at your firm, total years of experience, and professional licenses and designations. Include the number of accounts managed and any limits on this.
4. Describe your firm's training and education efforts to keep portfolio managers informed of developments relevant to government investment managers.
5. Has there been any turnover of professional staff in the firm in the last three years assigned to public sector clients?

D. ASSETS UNDER MANAGEMENT

1. Summarize your institutional investment assets under management by category as shown below for your latest reporting period.

	Governmental	Non-Governmental
Operating/Bond Funds	$	$
Pension Funds		
Foundations		
Equity Funds		
	$	$

2. Summarize your assets under management (institutional only) over the past five years and average assets per client.
3. Provide relevant performance statistics on a comparable portfolio and compare with industry averages or benchmarks for the last one, three, five, ten year periods and/or since inception. Note whether these performance statistics are reported based on GIPS (Global Investment Performance Standards) formerly known as AIMR (Association for Investment Management and Research).
4. List five comparable or most representative governmental clients. Identify the nature of the funds and provide a contact name and number for each.
5. How many accounts have you gained in the last 12 months? How many accounts have been lost in the last 12 months and why?

E. INVESTMENT MANAGEMENT APPROACH AND DISCIPLINE

1. Briefly describe your firm's investment management philosophy, including your approach to managing governmental portfolios.
2. How frequently do you formulate and review fixed income strategy? How is that carried out and who is involved?
3. What are the primary strategies for adding value to portfolios (e.g., market timing, credit research, trading)?
4. How are portfolios managed (e.g, by team, individual manager)? What is the back-up when the manager is away?
5. What oversight is provided to portfolio managers?
6. Describe your firm's in-house technical and research capabilities. Are outside sources used by the firm on a regular basis? Describe your credit review process. Does your firm assign credit research to specialists?
7. What percentage of your research is conducted in-house? Describe your research capability.
8. What technical analysis (if any) do you use?
9. What role does interest-rate forecasting play in your portfolio management strategy?
10. How will you handle fluctuating cash flows and the cash forecasting process?
11. Describe the ongoing daily investment procedures proposed for the [..government entity..], including procedures for trades, security choice, controls, etc., and how you will provide liquidity.

12. How frequently would you suggest your staff meet with the government entity's staff or [..government entity..]? Who will attend these meetings?

F. REPORTING

1. Describe the investment accounting and reporting system used by your firm.
2. Describe the frequency and format of reports that you would provide to the government entity's staff. Attach a sample.
3. What performance benchmarks would you suggest for this portfolio? Provide recommendations regarding performance benchmarks for a portfolio similar to that of the government entity. What experience has the firm had in developing benchmarks for public operating portfolios?

G. FEES

1. Provide the complete fee schedule that would apply to this account. Are fees charged in arrears?
2. What additional expenses not covered through the fee structure will be expected in order to implement your investment advisory services?

H. ADDITIONAL INFORMATION

1. Briefly describe any additional feature, attributes, or conditions which the [..government entity..] should consider in selecting your firm. Describe any other services your firm can provide.
2. Provide a copy of your firm's most recent ADV Part II as on file with the SEC.
3. Provide any contract language your firm requests or requires to be included in a contract for this service.
4. Describe firm's business continuity plan, how often it is updated, and what assistance would be available to the government.

Appendix F

GFOA Sample Investment Advisory Agreement

The GFOA Committee on Cash Management developed the following agreement to serve as a sample for governments engaging the services of an investment advisory firm. This agreement covers the essential components of a sound investment advisory contract and is presented as a sample only. As with any legally binding contract, government entities should seek legal counsel before entering into a written agreement.

INVESTMENT ADVISORY AGREEMENT

RE:

The undersigned ("Client") hereby employs ______________ ("Adviser") as investment Adviser for the Account referred to above (the "Account") on the following terms and conditions:

1. **Appointment of Adviser.** By execution of this Agreement and effective as of the effective date set forth in this Agreement, the Adviser accepts appointment as investment Adviser for the Account and will supervise and direct investments of the Account subject to such limitations as the Client may communicate in writing to the Adviser from time to time. The Adviser, as agent and attorney in fact with respect to the Account, unless otherwise instructed in writing by the Client and consistent with the investment objectives of the Client as specified in Schedule A, when it deems appropriate, without prior consultation with the Client, may, (i) buy, sell, exchange, convert and otherwise trade in any stocks, bonds and other securities of every kind and description, and (ii) place orders for the execution of such securities transactions with or through such brokers, dealers or issuers as the Adviser may select.

2. **Definition of Account and Custody of Account Assets.** The account shall consist of all cash, securities and other commingled assets of the Account which are held in a separately designated management account by ______ or its successors (the "Custodian") at the effective date of this Agreement, plus any proceeds therefrom or additions thereto, and less any losses thereon or withdrawals therefrom. The Adviser shall not act as Custodian for the Account or any portion thereof. All transactions will be consummated by payment to, or delivery by, the Custodian of all cash, securities and other assets due to or from the Account. The Custodian, and not the Adviser, shall be responsible for investing any daily cash balances in the account. The Adviser shall notify the Custodian in writing as to those persons authorized to act on behalf of the Adviser and may issue such instructions to the Custodian as may be appropri-

ate in connection with the settlement of the transactions initiated by the Adviser pursuant to Paragraph 1 hereby and the Custody Agreement, dated __________, a copy of said agreement to be attached hereto as Schedule B.

3. **Standard of Care.** It is agreed that the sole standard of care imposed upon Adviser by this Agreement is to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent ***investment expert*** acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however that this standard of care shall in no case be, or be interpreted to be, less stringent or less restrictive than any investment standard or standards, now in effect or included by amendment effective in the future, prescribed for investments by (State) law. While the Adviser will make a good faith effort to require brokers and dealers selected to effect Account transactions to perform their obligations, the Adviser shall not be responsible for any loss incurred by reason of any act or omission of any broker, dealer or custodian for the Account.[1] The Adviser shall not act as a principal in sales and/or purchases of assets, unless the Adviser shall have received prior written approval from an Authorized Person for each such transaction. In maintaining its records, the Adviser does not assume responsibility for the accuracy of information furnished to Client by any other party. However, the Adviser shall cooperate with (entity) and the Custodian to reconcile the Account each month.

4. **Investment Objectives and Restrictions.** Client has specified in Schedule A the investment objectives and any specific investment restrictions and limitations which govern the Account. It will be the Client's responsibility to inform the Adviser in writing of any changes or modifications in the investment objectives of the Account as well as any additional investment restrictions and limitations applicable thereto and to give the Adviser prompt written notice if Client deems any investment made for the Account to be in violation of such objectives or restrictions and limitations. The Adviser agrees to communicate its investment strategy for the Account and any changes thereto, in writing, to the Client, and, if necessary, to meet with the Client to review the Account's investment activity or to advise of changes in the Adviser's investment strategy.

5. **Transaction Procedures.** Instructions of the Adviser to the Custodian shall be made in writing or, at the option of the Adviser, shall be made orally and confirmed in writing as soon as practical thereafter; provided, that all such instructions, written or oral, shall be issued only by persons designated from time to time by the Adviser in a written instrument delivered to the Custodian pursuant to the Custody Agreement. Alternatively, the Custodian is authorized to act in accordance with, and shall be entitled to rely on those deliver and/or receive instructions from the Eligible Trade Report through the DTC ID system that contain the client bank account number in the defined "custodian/client account number" field, to the same extent, as if the information contained in such instructions was given in written form, signed by the Adviser. The Adviser shall instruct all brokers and dealers executing orders on behalf of the Account to forward to the Custodian and the Client copies of all confirmations promptly after execution of transactions, and that all transactions must be completed using delivery vs. payment (DVP). The Client will provide, or instruct the Custodian to provide the Adviser with such periodic reports concerning the status of the Account as the Adviser may reasonably request.

6. **Services to Other Clients.** It is understood that the Adviser performs investment management services for other clients. The Client agrees that the Adviser may direct and take action with respect to any activity of its other clients which may differ from the direction or the timing or nature of action taken with respect to the Account so long as it is the Adviser's policy, to the extent practical, to allocate investment opportunities to the Account over a reason-

---

1. This sentence may be substituted with the following language: The Adviser shall have complete authority and discretion to establish accounts with one or more duly registered broker-dealers. Consistent with ensuring the safety of assets, the Adviser shall engage in a prudent and diligent broker-dealer selection process. The Adviser shall ensure that all orders are placed with only reputable, qualified, and financially sound broker-dealers. The Adviser's primary objective shall be to select broker-dealers who will provide the most favorable net price and execution for the account, but this requirement shall not obligate the Adviser to recommend any broker-dealer solely on the basis of obtaining the lowest commission rate if the other standards set forth herein are satisfied.

able period of time on a fair and equitable basis relative to other clients. It is understood that the Adviser shall not have any obligations to purchase or sell for the Account any security which the Adviser, its principals, affiliates or employees may purchase or sell for its or their own account or for the account of any other client, if in the Adviser's good faith opinion such transaction or investment appears unsuitable, impractical or undesirable for the Account.

7. **Allocation of Brokerage.** Where the Adviser places orders for the execution of portfolio transactions for the Account, the Adviser may allocate such transactions to such brokers and dealers for execution on such markets, at such prices and at such commission rates as in the good faith judgment of the Adviser will be in the best interest of the Account. The Adviser shall receive no soft dollar benefit for any transaction placed on behalf of the client.

8. **Fees.** The compensation of the Adviser shall be calculated and paid in accordance with the Schedule of Fees, attached hereto as Schedule C. For the purposes of determining the Adviser's fees, the Account's assets shall be valued as computed by the Custodian bank in accordance with normal and customary industry standards. Certain securities or assets may need to be valued in a manner determined in good faith by the Custodian, the Adviser, or other appropriate pricing sources to reflect its market value or as may be prescribed by applicable law.

9. **Termination: Assignment.** Client reserves the right to terminate this Agreement without cause at any time by giving Adviser written notice, by registered mail, at least thirty (30) calendar days prior to the date on which termination is to become effective.

Adviser reserves the right to terminate this Agreement without cause at any time by giving Client written notice, by registered mail, at least one hundred twenty (120) calendar days prior to the date on which termination is to become effective.

If there is just cause, the client can terminate the agreement immediately.

Client shall honor any trades agreed to, but not settled before the date on which termination is to become effective.

The Adviser's fees will be pro-rated to the date of termination as specified in the notice of termination.

No Assignment, as that term is defined in the Investment Advisers Act of 1940, of the Agreement shall be made by Adviser without the written consent of Client. This Agreement shall automatically terminate in the event the Adviser's registration as an investment adviser under the Investment Adviser's Act of 1940 is suspended or revoked, said termination to be effective with the date of such suspension or revocation.

10. **Notices.** Unless otherwise specified herein, all notices and instructions with respect to security transactions or any other matters contemplated by this Agreement shall be deemed duly given when received in writing by either party at the address set forth opposite its name on the signature page hereof or to such other addresses as such parties shall notify the other in writing and to the Custodian at such address as it may specify to the adviser in writing, or at such other address or addresses as shall be specified. The Adviser may rely upon any notice (written or faxed) that is signed by an authorized representative of the client.

11. **Representations by Clients.** The Client represents and confirms that the employment of the Adviser is authorized by the governing documents relating to the Account and that the terms hereof do not violate any obligation by which Client is bound, whether arising by contract, operation of law or otherwise, and, if the Client is a corporation or trust, that (a) this Agreement has been duly authorized by appropriate action and when executed and delivered will be binding upon Client in accordance with its terms, and (b) the Client will deliver to Adviser such evidence of such authority as Adviser may reasonably require, whether by way of a certified resolution or otherwise.

12. **Representation by Adviser.** By execution of this Agreement, Adviser represents and confirms that it is registered as an investment adviser under the Investment Advisers Act of 1940.

The personnel of the Adviser who will be responsible for carrying out this Agreement are individuals experienced in the performance of the various functions contemplated by the Agreement and have not, within the last two years, been convicted of any crime or pleaded nolo contendere or agreed to any consent decree with respect to any matter involving breach of trust or fiduciary duty or securities law violations.

13. **Construction and Severability.** The provisions of this Agreement are severable. If any part of this Agreement is held to be invalid or unenforceable, such holding will not affect the validity or enforceability of any other part of this Agreement so long as the remainder of the Agreement is reasonably capable of completion.

14. **Applicable Law.** This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of ____________, and the laws, rules and regulations of the _____________ (municipality).

15. **Record Retention and Inspection.** The Adviser is required to maintain all records and documents relating to the purchase, sale or exchange of the assets in the Account, or any payment made or received thereto for twenty-four months after the termination of the agreement. The Client or its designated representative has the right to inspect the records of the Adviser during normal business hours.

16. **Prior Agreements.** This Agreement supersedes all prior understandings and agreements between the Client and the Adviser relating to the subject matter of this Agreement. Such prior understandings and agreements are canceled, and full payment by the Client to the adviser for services rendered by the Adviser to the date of this Agreement shall be due and owing to the Adviser.

17. **Reports from Adviser.** Adviser will provide reports to the client as outlined in Schedule D. The Adviser shall also provide a written reconciliation to the custodian's records on a monthly basis.

18. **Confidential Relationship.** All information and advice furnished by either party to the other hereunder, including their respective agents and employees, shall be treated as confidential and shall not be disclosed to third parties except as required by law.

19. **Errors and Omissions Insurance.** The Adviser shall provide and maintain at its own expense during the term of this agreement Errors and Omissions Insurance or Professional Liability Insurance covering the negligent acts, errors or omissions in the performance of professional services, in an amount of not less than $_________.

Failure on the part of the Adviser to produce or maintain the required insurance shall constitute a material breach of contract upon which _____________ (municipality) may immediately terminate this Agreement.

20. **Waiver.** No waiver of a breach of any provision of this Agreement by either party shall constitute a waiver of any other breach of said provision or any other provision of this Agreement. Failure of either party to enforce at any time, or from time-to-time, any provision of this Agreement shall not be construed as a waiver thereof. The remedies herein reserved shall be cumulative and additional to any other remedies in law or equity. No waiver shall be enforceable unless set forth in writing and signed by the party granting the waiver.

21. **Changes and Amendments.** No provision of this Agreement may be changed, altered, amended, or waived except by written instrument executed by the parties.

22. **Changes to Adviser Key Personnel and Successor to Adviser.** The Adviser shall immediately notify Client, in writing, of any changes in key personnel within its organization. If Adviser is a partnership, Adviser shall promptly notify Client of changes in Adviser's partners. If Adviser is a corporation, Adviser shall promptly notify Client of all material changes in ownership.

23. **Assurance of Compliance with Civil Rights Laws.** Adviser hereby agrees and represents that it is an equal opportunity employer and will comply with sub-chapter VI of the Civil Rights Act of 1964, 42 USC Section 2000(e) et. seq.

24. **Assurance of Compliance with Appropriate Laws and Regulations at the Federal, State and Local levels.**

25. **Assurance of Compliance with Ethics Rules**

26. **Rescission.** The Client acknowledges receipt of Form ADV Part II which accompanies this Agreement. The Adviser acknowledges that, notwithstanding the foregoing Paragraphs hereof, the Client shall have a unilateral right to rescind this Agreement without penalty by giving written notice of rescission to the Adviser in accordance with this Agreement in such a manner that the notice shall have been received by the Adviser within five (5) business days next following the execution of this Agreement. For purposes of this Paragraph, the term "business days" shall mean Monday through Friday, excluding holidays. In the event the Client rescinds this Agreement in accordance with this Paragraph neither party shall have any obligation or liability to the other.

27. **Certification Adviser has Read and Understands the Government's Investment Policy**

28. **Certification Signator Authorized to Enter Into Agreement.**

28. **Effective Date.** The effective date of this Agreement is ___.

________________________	Agreed and Accepted this ________
(Client)	day of _________________ , 200X
By: _____________________	(Adviser): _____________________________
(Signature)	(Address):_____________________________
	(City, State, Zip Code):___________________
________________________	
(Printed Name)	By: __________________________________
	(Signature)
________________________	
(Title)	____________________________________
	(Printed Name)
________________________	
(Client's Address)	____________________________________
	(Title)
________________________	
(City, State, Zip Code)	
Date:____________________	