



HISTORIC
FRANKLIN
TENNESSEE

ITEM #3
FINANCE
06-12-14

MEMORANDUM

June 6, 2014

TO: Board of Mayor & Aldermen
FROM: Eric S. Stuckey, City Administrator
Russ Truell, Assistant City Administrator
SUBJECT: Consideration of Adoption Agreement with Longfellow Investment Company LLC (COF Contract 2014-0137)

Purpose

The purpose of this agenda item is to consider approval of an agreement with Longfellow Investment Company for investment management services for the City of Franklin Pension Plan.

Background

The Pension Committee, at its June meeting, approved a motion to select Longfellow Investment Company LLC to manage a portion of the fixed income investment allocation for the Employees' Pension Plan. Longfellow Investment Company would be a replacement for State Street Global Investments, our current fixed income manager. The Committee believes that it is in the best interest of the Pension Plan to move from an indexed approach to an actively-managed approach.

During the June meeting, three finalists were interviewed and the research on their historical performance was reviewed at length with our financial advisor. Longfellow was selected by a unanimous vote of the committee members.

By engaging Longfellow Investment Company, the Committee will not be increasing the total allocation to this investment category, only changing the asset manager. As with all contracts with pension managers, our City Attorney and our Pension Plan's legal advisor will need to review this agreement and other documentation regarding the structure of the investment fund. Approval of this agreement should be subject to final approval of, and any amendments recommended by, the City Administrator, the City Attorney, and pension counsel.

Financial Impact

No impact to General Fund.

Options

Approve or disapprove the adoption agreement as recommended by the Pension Committee, subject to the review of the City Attorney, our Pension Attorney, and the City Administrator.

Recommendation

Staff recommends approval.

Contract 2014-0137
Longfellow Investment Management Co. LLC
ADVISORY AGREEMENT FOR FIXED INCOME

AGREEMENT dated June 24, 2014, between City of Franklin Employees' Pension Plan (the "Client"), and Longfellow Investment Management Co. LLC, a Massachusetts Limited Liability Company (the "Advisor").

In consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. Appointment of Advisor. Effective on this Agreement date above and until this appointment is terminated as provided in Section 9 hereof, the Client hereby appoints the Advisor as agent and attorney-in-fact with full power and authority to act on behalf of the Account (as hereinafter defined) with respect to managing the investment and reinvestment of all or any portion of the assets which are from time to time held in the Account together with all other assets which may be exchanged or substituted therefor or added thereto. The Advisor hereby acknowledges and agrees to accept such appointment pursuant to the terms and conditions of this Agreement.

2. The Account. (a) The Client will be responsible for the establishment and maintenance of proper arrangements regarding the custody of the Securities (as hereinafter defined), cash and other assets to be managed by the Advisor (such Securities, cash and other assets collectively referred to herein as the "Account") and the delivery and receipt of such Securities and other assets. The Advisor shall have no responsibility or liability of any type or kind with respect to such custody arrangements or the acts, conducts or omissions of the holder of the Account (the "Custodian").

(b) The Client hereby authorizes the Advisor, as its agent and attorney-in-fact, to instruct, from time to time, the Custodian with respect to the Account to deliver or receive any

cash, property, Securities or other assets sold, exchanged or otherwise dealt with or disposed of, from time to time, and to pay or receive cash for any and all Securities or other assets delivered to or by the Custodian.

(c) The Client agrees to furnish the Custodian such authorizations as it and the Advisor may request to implement the provisions of this Agreement.

3. Advisor's General Authority. (a) Subject to the restrictions, if any, set forth on Annex A hereto, as amended from time to time, the Advisor shall have full discretionary authority to make determinations as to:

(i) the purchase, sale, exchange or conversion of, or other transactions in any and all stocks, bonds, notes, certificates of deposit, interests of participation, options, futures, evidences of indebtedness, or rights to subscribe to or purchase any of the foregoing or any other security or asset, including cash held for investment (any one of the foregoing referred to herein as a "Security" or collectively as the "Securities");

(ii) which Securities or other assets are to be bought or sold;

(iii) where Securities or other assets are to be bought or sold and the total amount of Securities or other assets to be bought or sold for the Account; all without obtaining the prior consent of the Client or consulting with the Client prior to effecting any of the foregoing.

(b) The Advisor will use its best efforts to select investments on the basis of the Advisor's judgment of their possibilities for achieving the investment objectives as set forth on Annex A. In selecting investments, the Advisor will consider factors it deems relevant, including, but not limited to the investment objectives as set forth on Annex A, and the nature and character of the Securities to be purchased or sold. The Advisor warrants that all actions taken in the exercise of the power herein granted shall be taken with the care, skill, prudence and

diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in like situations.

(c) The Client hereby authorizes the Advisor, as its agent and attorney-in-fact, to issue broker instructions, to purchase, sell and otherwise trade in and deal with, any Security, cash or other asset in the Account for the account of and risk of the Client and generally to perform the services described in this Agreement. The Advisor is authorized so to act for the Client, in its sole discretion, with respect to any transaction without prior consultation with the Client.

(d) The Advisor shall have full and complete discretion to establish and execute portfolio transaction orders with one or more securities broker/dealer firms, including those which may have, from time to time, furnished the Advisor directly or indirectly, statistical and investment research information and other services.

(e) The Client agrees to furnish the brokers such authorizations as they, the Advisor, or such brokers may request to implement the provisions of this Agreement.

(f) The Advisor shall not be responsible for any action or inaction taken by any broker or dealer or any loss incurred by reason of any action or inaction of any broker or dealer.

(g) The Client hereby agrees that the Advisor's authority shall not be impaired, nor shall the Advisor be liable to the Client, because of the fact that the Advisor may effect transactions with respect to the Client's Account which are similar to or different from transactions effected for any other account which the Advisor manages, whether or not such transactions are effected at the same or different times.

4. Reports. The Advisor will provide the Client as soon as practicable after the end of each calendar month with a report of the Account as of the last day of such calendar month on which the New York Stock Exchange is open for trading (the "Report Date"). Such report shall

include a written schedule of assets held in the Account on the Report Date and a report of all transactions effected for the Account by the Advisor during the preceding calendar month.

5. Compensation to Advisor. The Client will pay to the Advisor, as full compensation for services rendered hereunder, a quarterly fee. The amount of the fee shall be computed as provided in a separate letter agreement between the Client and the Advisor, which letter agreement may be amended from time to time by written agreement of the Client and the Advisor and which letter agreement, as amended, shall be part of this Agreement for all purposes as if included herein.

6. Representation by Advisor. The Advisor represents that it is duly registered as an investment adviser with the Securities and Exchange Commission pursuant to the Investment Advisers Act of 1940, as amended and that it will notify the Client of any change in its status as such.

7. Representations by Client. The Client represents and agrees that the terms hereof do not violate any obligation by which the 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 so executed and delivered will be binding upon the Client in accordance with its terms; and

(b) the Client will deliver to the Advisor such evidence of such authority as the Advisor may reasonably require, whether by way of a certified resolution or otherwise.

8. Assignment. No assignment (as that term is defined in the Investment Advisers Act of 1940, as amended) of this Agreement shall be made by the Advisor without the consent of the Client.

9. Termination. This Agreement may be terminated on not less than 30 days' written notice given by either party to the other by a nationally recognized next day courier service, registered or certified mail, return receipt requested. Such termination shall be without the payment of any penalty and without liability of either party to the other, except that the Client shall remain liable for any accrued but unpaid compensation due to the Advisor.

10. Other Agreements and Obligations. (a) It is understood that the Advisor, and its members may have:

(i) advisory or other contracts with other individuals, corporations, charitable institutions, trust accounts, pension and profit sharing plans, partnerships and other organizations, and

(ii) perform investment advisory or supervisory services for such individuals, corporations, charitable institutions, trust accounts, pension and profit sharing plans, partnerships and other organizations.

(b) The Client agrees that the Advisor and its members may give advice and take action in the performance of their respective duties with respect to any of their other clients which may differ from or may be similar to (in timing or nature or otherwise) advice given or action taken with respect to the Account. It is understood that, in some instances, this practice could result in a detrimental effect on the price or volume at which a transaction in a Security may be effected for the Client's Account.

(c) Nothing in this Agreement shall be deemed to confer upon the Advisor any obligation to purchase or sell or to recommend for purchase or sale, or not to purchase or sell, or not to recommend for purchase or sale, for the Account a position in any Security or other asset which the Advisor or any of its members may purchase or sell for its or their own accounts or for the accounts of other clients.

11. Notices. Any notices, instructions or other communications required or contemplated by this Agreement, except notices of termination which must be communicated as provided in Section 9 hereof, shall be deemed to have been properly given if sent (i) by a nationally recognized next day courier service, (ii) by first class, registered or certified mail, postage prepaid, (iii) by facsimile or (iv) by electronic mail to the address of the party specified in this Agreement or such other address as either party may specify in writing.

All such communications to the Client shall be addressed as follows:

Eric Stuckey, City Administrator
City of Franklin
109 Third Avenue South
Franklin, TN 37064

All such communications to the Advisor shall be addressed as follows:

Michelle Martin
Longfellow Investment Management Co.
20 Winthrop Square, 3rd Floor
Boston, MA 02110
MM@LongfellowInvestment.com

Either party hereto may by written notice designate a different address.

12. Limitation of Liability, Actions. (a) In no event shall the Advisor be liable for any action performed or omitted to be performed or for any errors of judgment in connection with the management of the Account or the transactions contemplated by this Agreement, except that the Advisor may be held liable to the extent such liability arises as a result of gross negligence or malfeasance or violation of applicable law by the Advisor.

(b) The Client hereby further agrees that, in connection with the management of the Account or otherwise in connection with the transactions contemplated by this Agreement,

(i) no partner, officer, director, employee or agent of the Advisor shall be subject to any personal liability whatsoever to the client, except only liability arising from gross negligence or malfeasance or violation of applicable law; and

(ii) no share holder in a partner, limited partner, or other affiliate of the Advisor shall be subject to any liability whatsoever to the Client. Except as expressly provided in clause (i) of the foregoing sentence, the Client shall look solely to the Advisor for satisfaction of claims or judgments of any nature arising in connection with the management of the Account or the transactions contemplated by this Agreement.

(c) Nothing in this Agreement shall in any way constitute a waiver or limitation of any rights which the Client may have under the federal securities laws, to the extent such rights may not be effectively waived or limited.

13. Execution Counterparts. This Agreement may be executed in duplicate counterparts, each of which shall be considered as an original.

14. Receipt by Client of the Advisor's Brochure. The Client acknowledges receipt of the written disclosure statement of the Advisor (Part II of the Advisor's Form ADV) required by Rule 204-3 under the Investment Advisers Act not later than 48 hours prior to the time at which this Agreement was entered into.

15. Proxies. The Advisor shall vote all proxies related to the securities in the Account.

16. Advisor may periodically use the name City of Franklin Employees' Pension Plan on a list of representative clients made available to existing clients, investment consultants/advisors and institutional prospects. The listing would be disclosed as follows and would include no additional information: City of Franklin Employees' Pension Plan, 109 Third Avenue South, Franklin, TN. The following disclaimer shall also be included with representative client lists: *"It is not known whether the listed clients approve or disapprove of*

Longfellow Investment Management Co. or the advisory services provided.” Client hereby consents to such use of their name in Advisor’s marketing materials.

17. Amendment. This Agreement may not be amended or modified in any respect except by an instrument in writing signed by the Advisor and Client or the duly authorized representatives of both such parties.

18. Ownership Changes. The Advisor will notify the Client of any changes in the Members of the Advisor within a reasonable time after such change occurs.

19. Governing Law. This Agreement shall be construed and the rights and obligations of the parties hereunder enforced in accordance with the laws of the Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the parties hereto set their hands as of the date first above written.

Longfellow Investment Management Co. LLC

By: _____
Barbara J. McKenna, President

Client: City of Franklin Employees’ Pension Plan

By: _____
Dr. Ken Moore, Mayor

ANNEX A
INVESTMENT OBJECTIVES & GUIDELINES FOR
THE CITY OF FRANKLIN EMPLOYEES' PENSION PLAN
Account Managed by Longfellow Investment Co. LLC

The Client has appointed the Advisor to invest the assets of the Account utilizing the Advisor's Fixed Income investment approach. The applicable investment objectives, guidelines and restrictions are as outlined in the Client's STATEMENT OF INVESTMENT POLICY AND GUIDELINES For The City of Franklin Employees' Pension Plan. The Client shall provide written notice to Advisor in the event Client changes its investment objectives, guidelines and/or restrictions from those set forth in the document.

The Client understands and is willing to accept the risks involved in seeking to achieve the stated investment objectives and further understands that there can be no assurance as to what extent these investment objectives will be achieved.

Longfellow Investment Management Co. LLC

ADVISORY FEE AGREEMENT

As provided for in article 5 Compensation to Advisor of the Advisory Agreement dated June 24, 2014, between Longfellow Investment Management Co. LLC, (the "Advisor") and City of Franklin Employees' Pension Plan (the "Client"), the Client will pay to the Advisor a quarterly fee based upon the asset value of the Account at the end of the quarter.

- The fee will be at the annual rate of 0.25% of the first \$50 million of market value; plus 0.15% on the next \$50 million of market value; plus 0.125% on any remaining market value thereafter of the Account determined as of the last day of the calendar quarter on which the national securities markets conduct business.
- The fee is calculated and payable, quarterly in arrears.
- If the Advisor shall serve for less than the whole of any quarterly period, its compensation determined as provided above shall be calculated and payable on a pro rata basis for the period of the calendar quarter for which it has served as Advisor.

Longfellow Investment Management Co. LLC

By: _____
Barbara J. McKenna, President

Client: City of Franklin Employees' Pension Plan

By: _____
Dr. Ken Moore, Mayor