



HISTORIC
FRANKLIN
TENNESSEE

FINANCE 11/29/11
ITEM #8

MEMORANDUM

November 7, 2011

TO: Board of Mayor and Aldermen

FROM: City Administrator Eric S. Stuckey *ES*
Assistant City Administrator Russell Truell
Comptroller Mike Lowe
Purchasing Manager Brian Wilcox

SUBJECT: Consideration of contract award to Davidson Fixed Income Management of Portland, Oregon, to provide non-discretionary investment advisory services for certain non-pension assets of the City at the fee rate of \$25,000 per year for three (3) years, with two (2) options to extend the term of service at the same fee rate per year, each time for up to one (1) additional year, for a maximum possible term of service of five (5) years total, for the Finance Department (Purchasing Office Procurement Solicitation No. 2012-004; outsourcing of services not separately budgeted for fiscal year 2012; Contract No. 2011-0172)

Purpose

The purpose of this procurement is to purchase non-discretionary investment advisory services for certain non-pension assets of the City. These investment advisory services would be used to assist with the management and performance of the non-pension portion of the City's investment portfolio.

Background

Until now, the Finance Department has not sought either non-discretionary investment advisory or discretionary investment management services for the non-pension portion of the City's investment portfolio, choosing instead to utilize staff time to handle this function. Staff now recommends that this function be outsourced. The City therefore published on July 28, 2011 a Notice to Proposers in the *Williamson Herald* for non-discretionary investment advisory or discretionary investment management services for certain non-pension assets of the City. In addition, solicitation documents were sent on or about the same date directly to fourteen (14) potential proposers known or thought to be interested in this solicitation. Proposals from ten (10) vendors were publicly opened at the submittal opening held on August 25, 2011. A tabulation of the proposals received for this solicitation is attached.

The City solicited proposals for either non-discretionary investment advisory or discretionary investment management services, expressing a preference for the former but entertaining proposals for either. After reviewing the proposals, staff concluded that the offered non-discretionary investment advisory services are in fact better suited to meet the current and foreseeable needs of the City, and therefore focused its evaluation on the eight (8) proposals that offered them. Further evaluation eliminated five of these for sundry reasons including in the case of one an offered term of service of two years rather than the required three, in the case of another fee rates that were not competitive with those of the others, and in the case of the three others the judgment that the proposing firms either did not specialize in non-discretionary investment advisory services for local government or had limited experience offering such services. Proposals from the three finalists were then scored according to the evaluation criteria identified in the Request for Proposals, and the three finalist firms were invited to interview with the City on October 17, 2011. The proposal evaluation team consisted of three members of City staff. The interview panel consisted of two Franklin citizens with familiarity with the financial services industry, and two members of City staff.



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Financial Impact

The proposal scored highest by the proposal evaluation team, from Davidson Fixed Income Management of Portland, Oregon, is at the fee rate of \$25,000 per year for three (3) years with two (2) options to extend the term of service at the same fee rate per year, each time for up to one (1) additional year, for a maximum possible term of service of five (5) years total. The firm ranked highest by the interview panel was also Davidson Fixed Income Management. As the outsourcing of investment advisory services was not separately budgeted for fiscal year 2012, any decision to outsource such services would have to be made with the understanding that the General Fund FY 2012 budget does not anticipate the fees to be paid for such services rendered for the remainder of the current fiscal year.

Options

In accordance with the solicitation documents, the City reserves the right to reject any and all proposals.

Recommendation

Both the proposal evaluation team and the interview panel recommend that the City accept the proposal from Davidson Fixed Income Management of Portland, Oregon, at the fee rate of \$25,000 per year for three (3) years with two (2) options to extend the term of service at the same fee rate per year, each time for up to one (1) additional year, for a maximum possible term of service of five (5) years total. Purchasing Manager Brian Wilcox is of the opinion that the prepared solicitation documents as distributed allowed for competition among multiple vendors, and that the recommendation appears to be made in a fair and impartial manner based upon the proposals received.



Davidson
Fixed Income Management
REGISTERED INVESTMENT ADVISER

**DAVIDSON FIXED INCOME MANAGEMENT
ADVISORY AGREEMENT
COF Contract #2011-0172**

This Agreement is entered into on the chronologically last date indicated below as the "AGREED TO AND ACCEPTED" date between Davidson Fixed Income Management, Inc. (hereinafter referred to as "ADVISOR") and the City of Franklin, Tennessee (hereinafter referred to as "THE CITY"). Services will be provided to THE CITY by the ADVISOR's portfolio managers located at 5550 SW Macadam Ave, Suite 110, Portland, OR 97239. In consideration of the mutual promises, covenants and undertakings set forth herein, the parties hereby agree as follows:

APPOINTMENT OF ADVISOR: THE CITY hereby appoints the ADVISOR and the ADVISOR hereby agrees to provide investment advisory services for THE CITY's investment portfolio (hereinafter referred to as the "ACCOUNT"), including such sub-accounts as core and variable/cyclical.

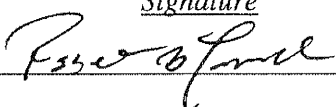
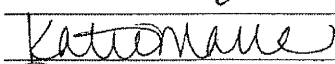
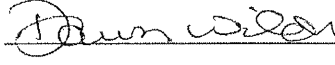

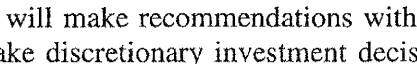
SCOPE OF SERVICES – NON-DISCRETIONARY PORTFOLIO MANAGEMENT:

- a. Provide full-time, non-discretionary investment advisory services for the non-pension portion of THE CITY's investment portfolio.
- b. Comply with all federal laws and state of Tennessee laws and the ordinances, resolutions and policies of THE CITY.
- c. Provide assistance in developing and implementing investment strategies that will maintain or enhance portfolio quality and performance within the parameters of THE CITY's established investment policies and cash flow needs, taking into consideration our primary objective "the preservation of principal."
- d. Work with THE CITY to assure coordination of investment trades, delivery of the securities and availability of funds. Assist with trade settlements. Obtain and document competitive prices for securities transactions. Provide technical and fundamental market research including yield curve analysis and swap analysis.
- e. Assist in the annual review and update of THE CITY's Investment Policy. Assist in the review of investment management procedures and portfolio documentation, as well as, safekeeping and custodial procedures.
- f. Perform due diligence reviews of current and proposed broker/dealers and financial institutions as described in the Investment Policy. Monitor the creditworthiness of the financial institutions with which THE CITY does business. Assist in keeping the authorized financial institution list updated. Monitor the creditworthiness of THE CITY's depository and custodian bank and investments in the portfolio.

- g. Monitor repurchase agreement documentation to maintain the necessary paperwork.
- h. Provide detailed reports of investment portfolio activity and performance at least monthly. Include earnings and accounting methodology. Reports shall follow Generally Accepted Accounting Principles (GAAP) for governmental entities and Governmental Accounting Standards Board (GASB) true-value reporting. Provide separate quarterly and annual portfolio performance reports based on THE CITY's fiscal year.
- i. Provide monthly to THE CITY a statement of upcoming cash flows for a period of 1 year.
- j. Provide specific strategy recommendations on maturing or called securities as they occur.
- k. Provide itemized quarterly invoices of charges and provide periodic status reports on the services provided by the firm.
- l. Provide THE CITY with ongoing training and technical advice as needed.

THE CITY, by entering into this Agreement, does not surrender ownership of the cash or securities comprising the ACCOUNT. The ADVISOR will not act as a custodian of assets in the ACCOUNT or have possession of any such assets.

DESIGNATED AUTHORIZED PERSON(S): This Agreement provides for the trading authorization for THE CITY. The persons authorized to affirm transactions recommended by the ADVISOR are:

<u>Name & Title</u>	<u>Signature</u>
<u>Russell B. Truell, Assistant City Administrator / CFO</u>	<u></u>
<u>Mike Lowe, Comptroller</u>	<u></u>
<u>Katie Marra, Financial Manager</u>	<u></u>
<u>Dawn Wildrick, Financial Analyst</u>	<u></u>
<u>Stacey Woodard, Financial Analyst</u>	<u></u>

NON-DISCRETIONARY SERVICES: The ADVISOR will make recommendations with respect to the investments of the ACCOUNT but will not make discretionary investment decisions. The ADVISOR's recommendations will be given in writing, by telephone or by email to the designated authorized person at THE CITY and must receive affirmation to proceed with the transaction from a designated authorized person prior to executing the purchase or sale of any securities.

REPORTS: In order that THE CITY may be kept informed of the status and activities in the ACCOUNT, the ADVISOR shall furnish monthly statements relating to the ACCOUNT. The statements the ADVISOR agrees to furnish to THE CITY will provide details of all transactions involving the ACCOUNT, a month end listing of investments held in the ACCOUNT, and a reporting on the performance of the ACCOUNT. Such statements will be furnished to THE CITY within fifteen (15) days time after the close of each month.

INVESTMENT OBJECTIVES AND RESTRICTIONS: ADVISOR's investment decisions or recommendations for the ACCOUNT will be in accordance with such investment policies and restrictions as THE CITY may establish for the ACCOUNT per the Investment Policy of THE CITY as it may be revised from time to time. All questions regarding any policies and restrictions will be addressed to the address and telephone number set forth in this Agreement. It will be the responsibility of THE CITY to inform the ADVISOR in writing of such policies and restrictions and of any changes therein, and to give the ADVISOR prompt written notice if THE CITY deems any investment decisions or recommendations made for the ACCOUNT to be in violation of such policies or restrictions.

BEST JUDGMENT; NO GUARANTEE: The ADVISOR will at all times render the services called for in this Agreement in accordance with its best judgment. However, the ADVISOR does not imply or guarantee profits or freedom from loss in connection with its recommendations.

FEES: In consideration of the services performed by the ADVISOR, THE CITY agrees to pay the ADVISOR an annual investment advisory fee of \$25,000.00. The corresponding quarterly fee is \$6,250.00 and shall become due and payable upon presentation to THE CITY of an itemized invoice upon the conclusion of each quarter.

SERVICES FOR OTHER CLIENTS: It is understood that the ADVISOR provides investment advisory services for other clients. It is further understood that the ADVISOR may take investment action on behalf of such other clients, which differs from the investment action taken on behalf of the ACCOUNT. If the purchase or sale of securities for the ACCOUNT and one or more such other clients is affected at or about the same time, such purchase or sale shall be allocated among the other clients in a manner deemed equitable by the ADVISOR.

ADVISOR REPRESENTATION: The ADVISOR warrants that it is registered as an Investment Advisor under the Investment Advisors Act of 1940, and that the activities contemplated herein are to the best of its knowledge, in compliance with all laws and regulations applicable to it and governing investments, and that all necessary actions required to authorize such activities have, to the best of its knowledge, been taken.

SAFEKEEPING: THE CITY acknowledges that it has assigned or will assign a third party custodial bank to provide for the holding and delivery of all securities. THE CITY will control all fund transfers in and out of the ACCOUNT in a manner consistent with instructions and/or directions issued by THE CITY pertaining to the mechanics of trading.

TERM; EXTENSION; TERMINATION; ASSIGNMENT; ENTIRE AGREEMENT; MODIFICATION: The term of this Agreement shall be for three (3) years from the date hereof. At any time after commencement but prior to or immediately upon the expiration of this term of service, THE CITY and the ADVISOR may exercise an option to extend the term of service twice, each time for up to one (1) additional year, for a maximum possible term of service of five (5) years total, provided: (a) that both parties consent to such an extension at that time; (b) that the decision to exercise such an extension is memorialized in writing and is executed by authorized representatives of each party; (c) that the same terms and conditions that apply to the initial term of service shall also apply to such an extension, including pricing; and (d) that if the ADVISOR chooses not to consent to an extension to the term of service, then it shall notify THE CITY of

that decision a minimum of six (6) months in advance of the scheduled expiration of the term of service. Note that THE CITY and the ADVISOR each specifically retain the right, with or without cause, not to extend the term of service. This Agreement may be terminated for any reason by either party with or without cause, by giving the other party at least 30 days written notice. This Agreement may not be assigned by either of the parties without the prior written consent of the other. This Agreement, together with THE CITY's Solicitation No. 2012-004, issued July 30, 2011, a solicitation for non-discretionary investment advisory or discretionary investment management services for certain non-pension assets of the City (which Solicitation includes, among other documents, THE CITY's Standard Procurement Terms and Conditions), ADVISOR's proposal dated August 25, 2011 (the Proposal Submittal Form for which was dated August 18, 2011), and THE CITY's Procurement Agreement, constitutes the entire Agreement of the parties with respect to the matters contained herein and no modification of this Agreement shall be effective unless such modification is in writing and signed by the parties hereto.

DISCLOSURE STATEMENT: The ADVISOR represents that it has delivered to THE CITY, at least two business days prior to the execution of this Agreement, ADVISOR's current Form ADV, Part II. By signing this Agreement below, THE CITY hereby acknowledges its receipt of said document at least two business days prior to its execution of this Agreement.

KEY PERSONNEL: The ADVISOR acknowledges that THE CITY hired the ADVISOR because of the special qualifications of the ADVISOR's key personnel. In particular, through this Agreement, THE CITY is engaging the expertise, experience, judgment, and personal attention of Deanne Woodring, CFA, Dave Westcott, CFA and Sally Walton ("key personnel"). In the event the ADVISOR requests that THE CITY approve a reassignment or transfer of the key personnel, THE CITY shall have the right to approve or disapprove the proposed replacement(s).

GOVERNING LAW; NOTICES: This Agreement shall be governed by the laws of the State of Tennessee, and furthermore by the Investment Advisors Act of 1940 and the rules and regulations promulgated by the Securities and Exchange Commission under said act.

Notices and reports as called for herein shall be mailed, in the care of:

ACCOUNT:

City of Franklin, Tennessee
109 3rd Avenue South
Franklin, TN 37064
Phone: (615) 550-6614

Purchasing Manager

ADVISOR:

Davidson Fixed Income Management, Inc.
5550 SW Macadam Ave. Suite 110
Portland, OR 97239
Phone: (866) 999-2374

Deanne Woodring, CFA
Managing Director

AGREED TO AND ACCEPTED:
CITY OF FRANKLIN, TENNESSEE

Signature

Dr. Ken Moore

Printed or Typed Name

Mayor

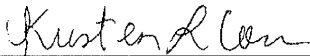
Title

Date

ATTEST:

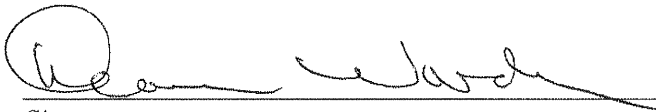
Eric S. Stuckey, City Administrator

Approved as to form:



Kristen L. Corn, Staff Attorney

AGREED TO AND ACCEPTED:
DAVIDSON FIXED INCOME MANAGEMENT, INC.



Signature

Deanne Woodring

Printed or Typed Name

Managing Director

Title

Date

11/10/11

City of Franklin, Tennessee
Tabulation of Proposals *

Purchasing Office Solicitation No.:	2012-004 (non-discretionary investment advisory services for certain non-pension assets of the City for three (3) years with two (2) one-year options to extend)									
Notice to Proposers published in the <i>Williamson Herald</i> on:	7/28/11									
Number of vendors that were notified of / that responded to this request for proposals:	14 / 10									
Date and time proposals due and publicly opened:	8/25/11 2:00 PM									
Present at opening of proposals:	Tiffany Wilkins and Brian Wilcox of the City of Franklin Purchasing Office									
Target meeting of BOMA at which recommendation will be considered:	11/22/11									
Proposals received from:	Proposal No.:	Service level:	Does the proposer take any exceptions to the CoF RFP?	Proposer submit required components?	Total estimated annual fees for \$28M portfolio calculated only for finalists based on quoted pricing:	Proposal Evaluators' Composite Score of Finalists (out of a total of 100 points possible):	Interview Evaluators' Composite Ranking of Finalists (1 = top choice):	Payment terms:	Estimated time of completion of conversion / transition after notice of award:	Proposal is valid through:
Burgess Chambers & Associates, Inc. 601 N. New York Ave., Suite 200 Winter Park, FL 32789 Frank Wan, Vice President 407/644-0111	1 of 1	Investment Advisory Services	Proposer takes no exceptions	Not entirely		n/a		net 30 days	15 days	12/31/2011
Chandler Asset Management 6225 Lusk Blvd. San Diego, CA 92121 Kay Chandler, President 858/546-3737	1 of 2 2 of 2	Investment Advisory Services Investment Management Services	Proposer takes no exceptions	Yes		n/a		net 30 days	30 days	6/30/2012
Cutwater Investment Services Corp. 113 King Street Armonk, NY 10504 Matthew Tight, Regional Director 904/394-2585	1 of 2 2 of 2	Investment Advisory Services Investment Management Services	Proposer takes listed exceptions	Yes	\$27,100.00 n/a	89.58 n/a	3 n/a	net 30 days	90 days	12/31/2011
Dahab Associates, Inc. 423 South Country Rd. Bay Shore, NY 11706 Richard Dahab, President 631/665-6181	1 of 1	Investment Advisory Services	Proposer takes listed exceptions	Yes		n/a		net 30 days	30 days	6/30/2012
Davidson Fixed Income Management 5550 Macadam Ave., Suite 110 Portland, OR 97239 Deanne Woodring, Managing Director 866/999-2374	1 of 1	Investment Advisory Services	Proposer takes no exceptions	Yes	\$25,000.00	93.08	1	net 30 days	30 days	1/31/2012
Fifth Third Asset Management, Inc. 38 Fountain Square Plaza Cincinnati, OH 45263 Michael Feldaus, Director, Institutional Sales 513/317-6829	1 of 1	Investment Management Services	Proposer takes listed exceptions	Yes		n/a		net 30 days	1-2 days	2/24/2012
First Tennessee Wealth Management 530 Oak Court Dr., Suite 200 Memphis, TN 38117 Cecil Godman, SVP, Business Development 901/818-6268	1 of 2 2 of 2	Investment Advisory Services Investment Management Services	Proposer takes no exceptions	Not entirely		n/a		net 30 days	not indicated	12/31/2011
Patterson & Associates 301 Congress Ave., Suite 570 Austin, TX 78701 Linda T. Patterson, President 512/320-5042	1 of 1	Investment Advisory Services	Proposer takes no exceptions	Yes	\$32,000.00 n/a	92.92 n/a	2 n/a	net 30 days	1 month	3/1/2012

City of Franklin, Tennessee
Tabulation of Proposals*

Purchasing Office Solicitation No.:	2012-004 (non-discretionary investment advisory services for certain non-pension assets of the City for three (3) years with two (2) one-year options to extend)									
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Target meeting of BOMA at which recommendation will be considered:	11/22/11									
Proposals received from:	Proposal No.:	Service level:	Does the proposer take any exceptions to the CoF RFP?	Proposer submit required components?	Total estimated annual fees for \$28M portfolio calculated only for finalists based on quoted pricing:	Proposal Evaluators' Composite Score of Finalists (out of a total of 100 points possible):	Interview Evaluators' Composite Ranking of Finalists (1 = top choice):	Payment terms:	Estimated time of completion of conversion / transition after notice of award:	Proposal is valid through:
PFM Asset Management, LLC One Keystone Plaza, Suite 300 North Front & Market Streets Harrisburg, PA 17101 Barbara Fava, Managing Director 717/232-2723	1 of 2	Investment Advisory Services	Proposer takes listed exceptions	Yes		n/a		net 30 days	7 days	12/31/2011
	2 of 2	Investment Management Services								
U.S. Bancorp Asset Management, Inc. 800 Nicollet Mall, 4th Floor BC-MN-H04M Minneapolis, MN 55402 Louis G. Martine, Sr. Managing Director 612/303-3277			Proposer takes listed exceptions	Yes		n/a		net 30 days	2-5 business days to set up; 4-6 weeks to invest	12/31/2012
	1 of 1	Investment Management Services								