Utilizing External Investment Managers

California Debt and Investment Advisory Commission

October 22, 2009

Rick Phillips
President & Chief Investment Officer
702-932-5330 rphillips@mainstreetcap.us

Public Fund Investment Managers
www.MainStreetCap.us

Disclaimer

Main Street Capital Advisors ("Main Street") is an investment adviser registered with the Securities and Exchange Commission.

This presentation contains the opinions of the author but not necessarily the opinions of Main Street. The opinion of the author is subject to change without notice. All materials presented are compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This presentation is distributed for educational purposes, and it is not to be construed as an offer, solicitation, recommendations, or endorsement of any particular security, products, or services.

Why Hire An Investment Manager?

- Complement Internal Resources
- Access to Capital Markets
- Economies of Scale
- Expertise

Why Hire An Investment Manager?

Complement Internal Resources- **The governmental entity may be unable to devote full-time staff to managing the portfolio. Using an investment manager or advisor to manage a portion of (or the entire) portfolio can enable the government to pick up some "added value" and direct internal staff to other duties or functions.**

Access to Capital Markets- **An investment adviser can provide a way to participate in markets or sectors that otherwise may be beyond the government entity's scope of expertise. For example, investing in corporate notes and bonds requires sophisticated credit analysis. Governments may not have in-house capabilities to do this type of analysis but an investment advisery firm does.**

Source: GFOA

Why Hire An Investment Manager?

Economies of Scale- **Larger trades, achieved by combining purchases for several portfolios, will generally result in better yields and lower transaction costs.**

Expertise- **The investment adviser may add a stronger investing discipline and investment expertise.**

Source: GFOA

Choosing An Investment Manager

- **Set Goals and Objectives**
- **Type of Manager: Discretionary or Non-Discretionary**
- **Develop a Request for Proposal**
- **Evaluate Responses and Select Manager**
- **Use GFOA's Introduction to Investment Advisers**

Regulatory Oversight of Investment Advisers

Securities and Exchange Commission: Form ADV

ADV Part 1: Has information about the adviser's business and whether they've had problems with regulators or clients.

ADV Part 2: Outlines the adviser's services, fees, and strategies.

Before you hire an investment adviser, always ask for and carefully read both parts of the ADV.

Role of the Non-Discretionary Manager

A non-discretionary manager is typically selected when the asset owner wants to remain actively involved with the investment process. The investment manager must obtain approval for individual transactions, and the government entity is involved in the decision-making process. All transactions may be handled by the government entity with advice and assistance of the investment adviser. One note to consider is that there are fewer non-discretionary managers than discretionary managers. (GFOA)

Role of the Discretionary Manager

A discretionary manager manages funds without consulting the government entity for each trade. This type of management is done using the investment policy as the basis for all investment decisions and transactions. Typically, the cost of management is negotiable but will be more expensive than non-discretionary management. The government entity might consider using commingled funds rather than separate account management if the fund's investment constraints comply with the government entity's investment policy or if the government entity has a portfolio of less than $10 million. (GFOA)

Safekeeping of Assets

Regardless of what type of investment manager is selected, the government entity should always use its own safekeeping agent to hold all securities purchased.

Specific Insurance for Investment Managers

Professional Liability or Errors and Omissions– Provides protection against losses due to any actual or alleged negligent act, error or omission committed in the scope of their investment managers duties. GFOA recommends $1 million coverage.

Fidelity Bond- Form of protection that covers policyholders for losses that they incur as a result of fraudulent acts by specified individuals. It usually insures a business for losses caused by the dishonest acts of its employees. No recommendation by GFOA.

Both add costs to investment management services.

Investment Manager Fees

- **Hourly**
- **Flat Rate**
- **Percentage of Assets Under Management**

Use Fee Only Advisers