COUNTY DEPARTMENT AGENDA REQUEST

Department:	Finance	Presenter(s):	Mary Holland
Meeting Date:	Thursday, September 10, 2009	Type of Request:	New Business

Wording for the Agenda:

Consideration of the Investment Advisor Selection Committee's recommendation to engage MBIA Asset Management for the County's investment advisor services.

Background/History/Details:

The Purchasing Department released a Request for Proposals for advisory services on March 12, 2009. Seven firms responded to the proposal. Members of a selection committee evaluated the proposals, using the following criteria: (1) overall understanding of the investment program, (2) experience, resources, and qualifications, (3) experience with local government portfolios, (4) approach to portfolio management, and (5) proposed fees. Based on information provided by the candidates, and presentations by the top three, the majority of committee members selected MBIA as the candidate of choice.

What action are you seeking from the Board of Commissioners?

Authorization to engage MBIA Asset Management for investment advisor services. If the Board accept's this recommendation to engage MBIA Asset Management, at a subsequent meeting the County Attorney will present a contract/agreement document for the Board's approval.

If this item requires funding, please describe:

Compensation to vendor will be netted against interest income.

Has this issue come before the Commissioners in the past?	No	If so, when?	
Do you need audio-visual for the presentation?	No	Back-up Material Submitted?	Yes

STAFF USE ONLY

Approved by Finance	Yes	Reviewed by Legal	Yes
Approved by Purchasing	Yes	Approved by County Clerk	Yes
Administrator's Approval	Yes		

Staff Notes:

Fayette County
GEORGIA

Where Quality Is A Lifestyle

To: Jack Krakeel

From: Tim Jones TJ

Date: August 31, 2009

Subject: Investment Advisory Service

Sealed proposals were requested for the subject item. A proposal tally sheet is attached for your review.

In Mary Holland's attached recommendation, the respondent with the best long term price was recommended, MBIA Capital Management Corp., with a fee capped at $50,000.00 for the duration of the contract. I concur with Mary's recommendation.

If this recommendation meets your approval, please place this item on the next available consent agenda. If any additional information is needed, please let me know.

TJ/tcb

Attachments

cc: Mary Holland
Ted Burgess

Fayette County
GEORGIA

Where Quality Is A Lifestyle

To: Tim Jones

From: Mary S. Holland *Mary*

CC: Jack Krakeel
Investment Advisor Selection Committee Members

Date: August 25, 2009

Subject: Selection of Investment Advisor

The Purchasing Department released a Request for Proposals (RFP) for investment advisory services on March 12, 2009. Seven firms responded to the proposal: MBIA Asset Management, PFM Asset Management LLC, StableRiver Capital Management (SunTrust), First Southwest Asset Management, Evergreen Investments, Invesco, and UBS Financial Services.

An Investment Advisor Selection Committee was created to evaluate proposals and select an investment advisor. The committee is composed of Jack Krakeel, Tony Parrott, Toni-Jo Howard, Ted Burgess, and myself. As stipulated in the RFP, evaluation of the proposals was based on (1) overall understanding of the investment program, (2) experience, resources, and qualifications, (3) experience with local government portfolios, (4) approach to portfolio management, and (5) proposed fees. The top three proposals were chosen. They were MBIA, PFM, and StableRiver. On July 21 and 22, 2009 the Investment Advisor Selection Committee heard presentations from the top three candidates.

The Purchasing Department contacted the top three candidates' references. In summary, the results were as follows:

- MBIA – Three references responded. All comments were positive.
- PFM – Four references responded. All comments were positive.
- StableRiver – Three references responded. One said that their earnings are less than Georgia Fund 1 at present, and mentioned a dislike for StableRiver's reports. Another reference reported "a little trouble" balancing accounts initially, but that these issues have been resolved.

After the presentations and reference checks, the majority of the committee selected MBIA as the top candidate, and PFM as the second choice. To assist in the final selection, the top two candidates were asked to provide yield results for five clients they consider most similar to Fayette County. Their information was compared to yields for Georgia Fund 1 (short term cash investments) and the Georgia Extended Asset Pool, or GEAP (for investments of one year or longer). Both state-administered funds were considered because MBIA and PFM propose strategies that would invest short-term liquidity funds and longer-term core funds differently, which parallels the intended use of the two Georgia funds. Comparisons can be seen on the attached chart.

As can be seen from the attached bar chart, MBIA outperformed Georgia Fund 1 and the GEAP in two of the last three completed years. PFM outperformed them in only one of the three years.

The Uniform Application for Investment Adviser Registration (Form ADV) reveals the regulatory background of the three candidates. The county's RFP included a requirement that candidates include Part II of the Form (which is intended to provide information to potential clients). Although it was not requested in the RFP, MBIA voluntarily included Part I, Schedule D which discloses any criminal, regulatory, or civil judicial actions against the company. Finance Department staff reviewed Schedule D reports on the web site of the Securities and Exchange Commission for the other two top candidates. It should be noted that Form ADV is an official document, which states "False statements or omissions may result in denial of your application, revocation of your registration, or criminal prosecution." Information found was as follows.

- MBIA:
    - 1995 – MBIA failed to respond to an SEC deficiency letter requesting information about an application to register as a broker dealer in Alabama. MBIA corrected the administrative oversight, and the company is properly registered in Alabama.

    - 2004 – MBIA was suspended from broker-dealer activities for 24 hours because some bank account signatories were not properly registered with the National Association of Securities Dealers (NASD). MBIA changed policies and procedures, and the suspension was lifted after one day.

- PFM: No criminal, regulatory, or civil judicial actions reported.

- StableRiver: No criminal, regulatory, or civil judicial actions reported.

For additional disclosure, the RFP asked about any SEC, NASD, or regulatory censure or litigation involving the firm or its employees within the past three years. MBIA and PFM reported that there were none. StableRiver said, "At this time, StableRiver is not aware of or involved in any material litigation or administrative actions."

The majority of the committee recommends that the county select MBIA for Investment Advisor. The recommendation is made based on a number of factors, including the following:

1. MBIA demonstrated an excellent overall understanding of the investment program and concepts, as well as the objectives, needs, operational requirements, and constraints specific to the county. The seven-phase implementation they provide is quite comprehensive, and should enhance the county's financial operations.

2. Based on information provided by the two top candidates, MBIA in-house technical, research, and credit review resources appear to be stronger than those of their competitor.

3. In comparing the financial results provided by the top two candidates, the MBIA data indicates that better results have been realized for their clients in recent years.

4. In the interview, MBIA offered to assist in setting up a custody account.

5. Both MBIA and PFM recommend holding quarterly meetings with the county. In addition, MBIA proposes to host periodic conference calls to update county staff on topics like sector spreads, yield curves, portfolio structure, and market conditions.

All three of the top candidates charge for their services using a tiered fee schedule. Assuming an average balance of $100 million, their annual fees as originally submitted would be as follows:

- MBIA: $62,500
- PFM: $60,000 with a cap of $50,000 annually for the first 3 years
- StableRiver: $90,000

During their in-person presentation, MBIA had said that their rates could be negotiable. As they were considered the stronger candidate, the Purchasing Department was asked to follow through and ask if they would be willing to cap their fees at $50,000 per year. MBIA committed to a fee cap of $50,000 per year

for "the full term of the advisory services contract." This gives them the best long-term price, in addition to their strengths in other areas.

Thank you for your assistance in the RFP and selection process. Please let me know if you have questions.

MSH/tlb
Attachment