CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Michael Olson, Deputy Director

Date: June 17, 2014

Subject: INVESTMENT ADVISORY SERVICES

Recommendation

Council is informed of the City Manager's intent to execute a contract with Government Portfolio Advisors for Investment Advisory services for Kirkland's investment portfolio.

Background

The City's last external investment policy and portfolio review recommended the use of an investment advisor given the limited internal resources dedicated to managing the portfolio and the expectation of rising interest rates, which would result in the need for more active trading in the portfolio to ensure the most advantageous yield. The investment portfolio has consistently performed above the established benchmarks with the current, more passive strategy, however, the portfolio would realize increased returns with a more active strategy as the interest rate environment is rising.

The investment advisor will assist City staff with the management of the City's investment portfolio by providing non-discretionary advisory services for the City's investment portfolio and investment policy. Non-discretionary services means that the City retains control of the portfolio and authorizes all transactions. Government Portfolio Advisors was selected from three proposals submitted and two firms interviewed in an RFP process based on their experience, familiarity with Kirkland's portfolio, total cost, interview and proposal submitted. The proposed cost for services is a flat fee with no commissions for sales or increased fees based on fluctuations in portfolio size. Additional information on the firm is included as Attachment A and the draft scope of work is contained in Attachment B.

Annual costs for the non-discretionary investment advisory services will be $39,000, which is expected to be more than offset by improved interest revenue due to a more active strategy. In addition, the use of an investment advisor will eliminate the need to contract out for an external portfolio review every three years at a cost of $4,500. Interest earned on the

City's common investment fund, less earmarked expenditures and administration costs, are distributed to all of the participating funds per the City's financial policy.

While the cost of this contract is below the threshold requiring Council approval, the Investment Committee (City Manager and Director of Finance & Administration) recommended informing Council of the change as part of the commitment to provide Council with periodic investment policy updates, portfolio reviews and performance data. The selection of Government Portfolio Advisors for investment advisory services will be discussed with the Council Finance and Administration Committee at the June 24th meeting.

Attachment A

CITY OF KIRKLAND

REQUEST FOR PROPOSALS:
JOB NO. 35-14-FA
INVESTMENT ADVISORY SERVICES

Due: May 23rd, 2014

City of Kirkland
Department of Finance and Administration
Attn: Barry Scott, Purchasing Coordinator
123 Fifth Avenue
Kirkland, WA 98033

Provided by:

GPA GOVERNMENT PORTFOLIO ADVISORS
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LETTER OF TRANSMITTAL

City of Kirkland
Finance Department
Barry Scott, Purchasing Coordinator
123 Fifth Avenue
Kirkland, WA 98033

May 23, 2014

Dear Mr. Scott and the Evaluation Committee:

Government Portfolio Advisors, LLC, ("GPA") appreciates this opportunity to submit our proposal to provide investment advisory services to the City of Kirkland ("the City").

Government Portfolio Advisors is an independent, employee-owned firm that offers cost effective, objective investment advice to public entities. The three senior professionals of GPA have been providing investment advice to public entities since 1982 and focuses in Washington and Oregon. GPA is currently the largest non-discretionary investment advisor to public funds in the Pacific Northwest in terms of size and number of public entities being served.

The scope of services requested in this RFP require a high level of investment management experience, as well as the ability to provide fiduciary and oversight guidance to the City. Government Portfolio Advisors has unique experience in this area due to our long history of working with public entities, our understanding of the State of Washington investment regulatory requirements, our understanding of the investment management challenges at the City of Kirkland, our CFA credentials, and our expertise nationally in supporting industry best practices.

GPA will be an added resource to help improve your existing financial management process. Some of the primary resources we offer include strategic portfolio development, access to cutting edge portfolio reporting technologies, competitive transactional pricing platforms, and operational experience which you can leverage to help you achieve the goals of your investment program.

We are confident that the factors listed below, along with additional detail provided within this proposal, will clarify why we strongly believe that GPA is most qualified to partner with the City of Kirkland.

- **Public Entity Focus:** The three senior advisors at GPA have worked together as a team advising and consulting with the investment management departments of public entities for over thirty years and are some of the most experienced in the industry. Advising public entities on all facets of their investment management process is our core business. We have extensive experience advising public entity operating funds, reserve funds and project funds. These resources include experienced advisors, portfolio management systems, portfolio reporting services, broker/dealer relationships, and custodial relationships. Three of the four Advisors who would be working with the City are Chartered Financial Analyst charterholders (CFA) and utilize the structured investment process and ethics valued in the CFA program to guide their service.

- **Washington Experience:** The senior advisors at GPA have a long history of advising public entities in the state of Washington and have previously provided investment portfolio reviews for the City of Kirkland. Their experience in Washington includes a concise understanding of

Washington regulations developed through their work with various cities, counties, and the state treasurer along with an active association with the Washington Municipal Finance Officers Association and WMTA. Our advisory services experience in Washington includes non-discretionary investment management, investment management oversight of internal staff, assistance in the development of investment policies, and the implementation of operating procedures and investment strategies.

- **Continuity of Service:** Our experience with the City of Kirkland since 2008 will prove invaluable in giving us a head start in understanding your specific challenges. Our history of working with the City provides our group with a unique insight to the City's investment objectives, investment policy, regulatory requirements and internal staff resources. An experienced advisor with a thorough understanding of your organization can help communicate how past experiences apply to current challenges.

- **A Collaborative, Customized Approach:** Successful investment management requires a collaborative process where the advisor must have a complete understanding of each client, their investment policy, their expected cash flows, their tolerance for risk and their internal resource capability and capacity. The professionals at GPA have spent years developing and refining a customized approach that has proven successful in levering their experience and resources to help public entities develop an investment process that is focused on best practices.

We would like to continue our commitment to provide the City of Kirkland with the highest quality investment advisory services available. Our goal is to offer our experience, technology and relationships as an additional resource to help you develop a financial management process that is built on best practices, transparency, and high ethical standards. We have committed our careers to providing outstanding fixed income investment services to public entities and feel confident that our experience and capabilities will be an excellent match for your expectations and requirements.

GPA's Form ADV Part 1, Part 2A and Part 2B disclosure statements are included in the proposal and provided to the City of Kirkland on May 23, 2014.

Sincerely,

Deanne Woodring, CFA
President and Senior Portfolio Advisor

Firm Name: Government Portfolio Advisors, LLC
Principal Business Address
2188 SW Park Place, Suite 100
Portland, OR 97205

Contact Person & Authorized Signer: Deanne Woodring, CFA - President
Email: deanne@gpafixedincome.com
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STATEMENT OF UNDERSTANDING

City Goals:
The City has been managing the portfolio internally, utilizing a liquidity and core fund component. Every three years, the City has hired an advisor to provide a one-time overview of the portfolio structure and risk review. The team of professionals of GPA completed that review for the City last year, while employed at our previous firm. Our recommendation at that time was to seek advisory services to assist the City in the improvement in investment decision making and strategic planning. GPA understands the City's current structure and can provide immediate transition to our non-discretionary service platform.

Our Role:
Our role as a non-discretionary manager is to work together with the City's internal staff to provide guidance for investment portfolio strategy, to develop procedural efficiencies and to support all requirements necessary to achieve a best practice investment program. We will lever our extensive experience and market contacts to help you create a customized investment management process. This process will enhance internal communication, define distinct actions, provide for full transparency, establish a complete reporting capability, and help you produce returns consistent with your expectations given your specific levels of risk/return tolerance.

Investment Policy Impact:
We believe that the investment policy has a significant impact on the financial performance for public entities. The State of Washington statutes and the City's current investment policy provide for the capacity to add returns through investing in US Treasury, Agency and Municipal securities and to maintain a maximum weighted average maturity of 3 years. However, with this ability to add earnings, it is important to incorporate the capability to monitor risk. We will assist the City in applying an attribution analysis to evaluate the sources of excess return as well as providing analysis on when to add risk and when to remain more conservative. The policy provides for the structure of a well-balanced investment program. Deanne Woodring works closely with the State Treasurer's office on educational forums at both WMTA and WFOA promoting best practices in investment policies.

Qualifications of the Investment Advisor Firm

- ***Firm's Capabilities and Experience:***

Government Portfolio Advisors, LLC was founded on the belief that public entities have the responsibility and the desire to achieve financial excellence. Our services are designed to partner with the City's finance team to enhance experience, knowledge and strategic planning. We understand the City of Kirkland is committed to excellence in fiscal administration and strives for the highest standards of performance and accountability.

Our experience is in working with clients that seek investment advisory services with a goal of enhancing investment management efficiency at a cost effective price. Our company structure gives us a distinct advantage to meet those objectives. We strive to provide investment advisory services that promote excellent transparency, accountability and portfolio performance that is consistent with expectations.

GPA is focused exclusively on providing investment management to the operating funds, project funds and reserve funds of public entities. We are arguably one of the most experienced groups serving the fixed income needs of public sector entities. Our three senior portfolio managers have over 90 years of collective experience developing and implementing fixed income portfolio strategies for public entities. We have investment management responsibilities for 21 clients with assets under management in excess of $1.9 billion and another $1.6 billion in consulting assets for 4 clients.

GPA offers four areas of significant value to the City:

1) *Investment policy and procedure development updates:* Over the past 30 years, our team has worked with public funds in writing and updating investment policies. In recent years, we have supported the incorporation of procedure development to improve communication, strategies and operational programs.
2) *Benchmarking strategies:* We have developed and implemented portfolio benchmark techniques as the base of our advisory service which has provided value to public funds of all sizes. We assist clients in the development of internal benchmarks that match the goals and objectives of each specific fund.
3) *Broker/Dealer experience:* Our relationships with the top tier broker/dealers are very valuable to our clients. The competitive pricing platform of GPA is an important advantages we have among our peers. We employ a significant effort in finding the lowest price offering in the market for each and every new investment purchase. This competitive trading platform provides for transparency and competitive pricing documents for all trades.
4) *Education and development:* The team has played an instrumental role in providing educational platforms in many capacities to public funds. We welcome the opportunity to provide an educational session to staff, investment committee and Board members who are interested in learning more about the markets and strategies for the City's investment program.

Assets Under Management

GPA manages client assets in both non-discretionary and discretionary accounts on a continuous and regular basis. As of April 30, 2014, the total amount of assets under our management was:

AUM Non-Discretionary by Type
As of 4/30/14

	# of Clients	Totals
Cities	8	$385,047,217
Counties	4	$576,898,174
Special Districts	7	$958,004,938
Universities	2	$70,739,398
Total		*$1,990,689,728*

AUM Non-Discretionary by Service
As of 4/30/14

	# of Clients	Totals
Non-Discretionary	20	$ 1,976,448,995
Discretionary	1	$ 14,240,733
Total AUM	*21*	*$ 1,990,689,728*
Consulting	4	$1,621,620,536
Washington AUM	6	$971,644,510

- ***List firm experience working with similar organizations.***

The professionals of GPA have dedicated their careers to providing investment advisory services to cities, counties and other public entities that have similar investment requirements as the City of Kirkland. Our team of professionals have worked to develop the advisory services in the State of Washington and we currently serve the City of Bremerton, City of Snoqualmie, Sound Transit Authority, Washington State Convention Center, Washington Schools Risk Management Pool and Western Washington University. Our focus with these accounts is to provide an investment management process that is designed to meet the objectives of liquidity, safety and return. Our firm is unique compared to our competitors and this design is intentional as we believe that this allows us to focus on a personalized service that is customized to fit your needs. Our business model does not force us to offer a "one size fits all" service.

The City of Kirkland's portfolio size is optimal for our firm. We are experienced with creating clear lines of communication in regard to the investment portfolio. We understand that the finance team has many roles and utilizing our services allows the City to retain full control while outsourcing the time-consuming tasks of managing the portfolio.

- ***The firm is legally qualified in the State of Washington***

GPA is registered and regulated by the SEC under the Investment Advisors Act of 1940. Our assets are in excess of $100MM. Our SEC registration allows us to provide services to clients in all 50 states, however, GPA's focus is in Washington and Oregon. We have our Washington Business Licenses UBI: 603362487 and we report to the State's taxation division quarterly.

In addition, upon award of this contract we will complete the City of Kirkland's Business License Registration.

QUALIFICATIONS OF THE FIRM'S ADVISORY TEAM

- ***The lead portfolio manager***

Deanne Woodring has been dedicated to serving public entity funds for her entire career. She began working in the industry in 1982, after graduating from the University of Oregon. Her focus has been on creating effective and clearly defined investment programs within public funds. Providing investment advice in partnership with cities and finance directors throughout the country is the key to her success. She understands that every entity she serves is unique in experience, oversight and knowledge. The goal is to customize the investment process to the specific requirements of her clients. She has been instrumental in educating public funds regarding benchmarks and best practices in an ever-changing interest rate environment. Deanne's local presence and experience will provide the City with the confidence that the investments are being managed with diligence, transparency and compliance.

- *Key Personnel*

Deanne Woodring, Dave Westcott and Sally Walton have operated as a team providing investment advice to public funds since 1982 and Luke Schneider joined them in 2009. Our office is located in Portland, Oregon making them easily accessible to the City. We have delivered our services in the investment advisory capacity since 1995. Prior to 1995, we provided investment advisory services to public funds on a brokerage basis. Ms. Woodring and Mr. Westcott became CFA charter holders (Chartered Financial Analysts) in 1989 and Luke Schneider completed his CFA courses in 2012. The firm utilizes the techniques and ethics supported by the CFA program to guide their advice.

General Qualifications, Licenses, Certifications and Experience:

Team Member	*Title, Roles and Responsibilities*	*Education*	*Credentials*	*Related Experience*
Deanne Woodring, CFA	President/Senior Portfolio Advisor ***Role: Lead Client Relationship and Portfolio Management***	University of Oregon, Business Finance University of Washington, EMBA 2001	CFA - 1989 Investment Advisory License 1995 FINRA Licenses: 3,7,24.63 & 65	Serving public funds since 1982
Dave Westcott, CFA	Chief Investment Officer/COO - Senior Portfolio Advisor ***Role: Investment Strategy and Portfolio Management***	Lewis & Clark College-Business	CFA - 1989 Investment Advisor License 1995 FINRA Licenses 3,7,8,63 & 65	Serving public funds since 1982
Sally Walton	Managing Director Senior Portfolio Manager ***Role: Client Relationship and Portfolio Management***	Willamette University-Public Policy & Political Science	Investment Advisor License 1999 FINRA Licenses 3,7,63 & 65	Serving public funds since 1983
Luke Schneider, CFA	Managing Director Portfolio Manager ***Role: Investment Strategy and Portfolio Management***	University of Arizona-Business Finance, Masters in Accounting 2010	CFA- 2012 Investment Advisor License 2012, FINRA Licenses 7 & 65	Serving public funds since 2009
Whitney Maher	Client Relationship Manager ***Role: Client Support and Reporting***	Portland State University	FINRA License 7 & 66	Serving public funds since 2005
Kim Wright	Office Manager and Administrative Assistant ***Role: Client Support***	Willamette University Sociology PSU – Masters in Public Administration		Serving public funds since 2014

- *Experience of the portfolio manager*

GPA has a total of 15 managed funds that are similar to the City's expected risk profile; 11 are managed to the 0-3 Year Treasury index (1.5 years) and 4 are managed to the 0-5 Year Treasury index (2.25 years). All remaining funds have a customized benchmark and are not listed as they have different objectives. In addition, each of our clients have a separate liquidity component that is typically held in the State Pool which we monitor as part of our service.

The portfolio managers are involved daily on managing these accounts and the overall performance is similar to the established benchmarks. GPA's team of portfolio managers would be responsible for the City's portfolio.

GPA is in the process of calculating historical performance back to 2004, under the GIPS portability standards utilizing performance from our clients at our previous firm. We are not allowed to show

Investment Advisory Services - Scope of Services

The Investment Advisor will assist City staff with the management of the City's investment portfolio by providing the following services:

1) Provide full-time, non-discretionary advisory services for the City's investment portfolio. Presently, it is estimated that the advisory services covers managing a balance of $100 million or more.

2) Be available in a timely manner, in person, by telephone or e-mail, for consultation or advice. Meet with and provide information to city staff, Council and Finance & Administration Committee members as needed. Meet periodically with staff to review and refine portfolio strategy and performance (both on and off-site, daytime and evening meetings are possible).

3) Comply with all federal laws and state of Washington laws and the ordinances, resolutions and policies of the City of Kirkland.

4) 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 the objectives listed in the City's Investment Policy.

5) Work with the City's cash management staff to assure completion of investment trades, delivery of the securities and availability of funds, assist with trade settlements when needed, obtain and document competitive prices for securities transactions. Provide technical and fundamental market research including yield curve analysis and future interest rate movements.

6) Providing investment advice including breakeven analysis on recommendations made to sell low yield securities and replace them with higher yielding securities.

7) 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.

8) Perform due diligence reviews of current and proposed broker/dealers and financial institutions as described in the City of Kirkland 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.

9) Provide detailed reports of investment portfolio activity and performance at least monthly, including a report that demonstrates the benefit on the portfolio's return of using an investment advisor. Reports should include relevant benchmarks, earnings and accounting methodology. Reports shall follow Generally Accepted Accounting Principles (GAAP) and Governmental Accounting

Standards Board (GASB) fair-value reporting. Provide separate semi-annual and annual portfolio performance reports based on the City's fiscal year.

10) Provide weekly, to City staff, statement of upcoming cash flows that includes maturities, coupons, called securities and potential callables for a period of 45 days. Upon request, have the ability to provide a statement of upcoming cash flows for a six-month period.

11) Provide City staff with ongoing training and technical advice as needed.

12) Provide itemized monthly invoices of charges and provide periodic status reports on the services provided by the firm.