

# What Outsourcing Has to Offer: Part II

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California Municipal Treasurers Association

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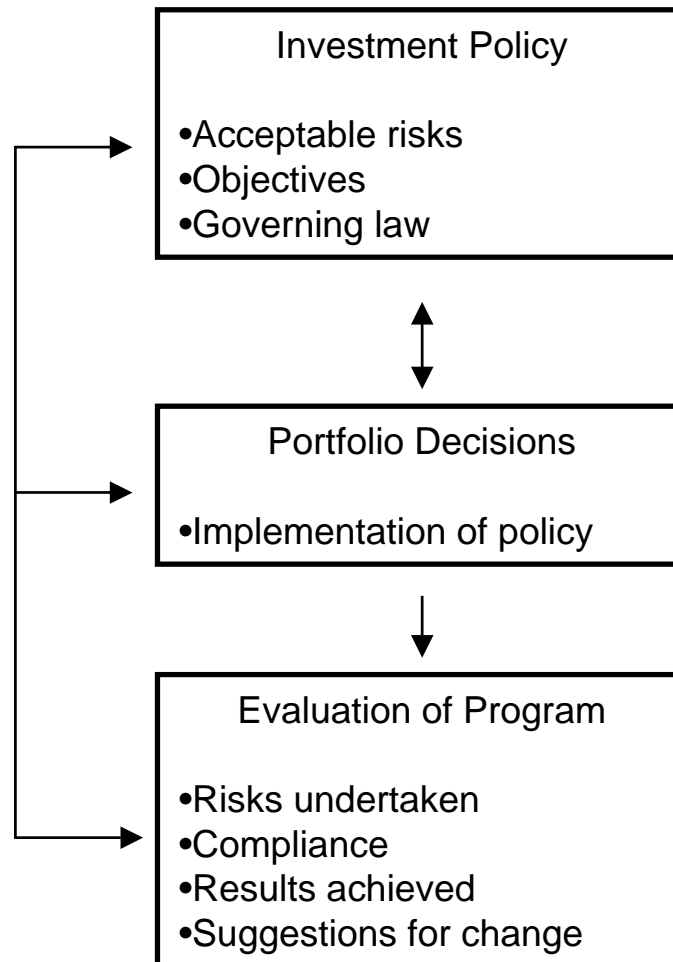
# What is an Investment Adviser?

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- An investment firm with demonstrated expertise in the management of investment portfolios
- Acts as a fiduciary for client assets
- Registered with and regulated by the SEC under the Investment Advisers Act of 1940
- Compensated on the basis of assets under management, not transactions

# Emphasis on the Whole Portfolio

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# Are There Any Risks?

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- Third party custodian is essential—an outside adviser should never have custody of assets
  
- The client can't delegate fiduciary duty
  - Compliance with Government Code
  - Compliance with Policy
  - Performance relative to appropriate benchmarks

# What To Look For in an Adviser

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## ■ Capabilities

- Tenure/qualifications of the investment team
- Investment process
- Longevity of the firm
- Consistent performance history for similar accounts reported in accordance with industry standards

# What To Look For in an Adviser

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## ■ Service

- Quality of reports
- Willingness to tailor services and reports to agency's needs and preferences
- Experience with like agencies
- Compatibility working with the adviser's staff
- References from current clients

# What To Look For in an Adviser

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## ■ Professionalism

### ■ Designation as Chartered Financial Analyst

- Graduate-level program specific to investment professionals
- Comprehensive knowledge base in investment analysis and portfolio management
- Code of Ethics and Standards of Professional Conduct
- Performance presentation standards

# AIMR Standard Performance Reporting

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## ■ The Industry Standard

- Time-weighted total rate of return, including realized and unrealized gains and losses
- Compared to appropriate benchmark
- Including measures of risk
- Extensive footnotes regarding the calculations and the firm

# Discretionary vs. Non-Discretionary

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## ■ Discretionary

- Decisions based on Policy and Guidelines
- Better accountability of manager
- Less day-to-day staff involvement
- Greater benefit from manager's process

## ■ Non-Discretionary

- Permission needed prior to trading
- More direct control over manager
- More day-to-day staff involvement
- May miss some benefit if timely permission not received

# One Adviser or More?

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## ■ One Adviser

- Consolidated Reporting
- Lower fee
- Less staff time for monitoring

## ■ Multiple Advisers

- Diversified styles
- Competition between advisers
- More interaction required

# Investment Advisory Fees

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- Should be no more than 0.15 of 1% (15 basis points), or \$15,000 for every \$10 million under management
- Enhanced earnings should more than offset the fees
- Third party custodian costs are in addition to adviser's fees

# Why Have An Investment Adviser?

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- Expertise
- Experience
- Information
- Analytic Tools
- Defined, Disciplined Process
- Collaboration with Staff to Maximize Internal Resources

# Request for Proposals

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## ■ Firm organization

- Ownership & history
- Client and asset base
- Assets under management
- Types of clients
- Retention of clients
- Account losses

## ■ Personnel

- Team approach or individual PMs
- Detailed biographies of key people

# Request for Proposals

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## Investment philosophy and process

- Philosophy of achieving “safety, liquidity, yield”
- Investment decision-making process
- Methods of adding value
- Risk management
- Frequency of contact

# Request for Proposals

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- Documented AIMR-compliant returns
- Additional services provided
  - Reporting
  - Policy & procedures
  - Training, etc.
- Cost for services
- Registration with SEC—Request Form ADV, Part 2
- References

# Getting Started

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- Negotiate & finalize agreement
- Obtain governing body approval
- Bring advisor on board
- Develop investment strategy
- Implement program
- Monitor and report
- Re-evaluate over time

# The Adviser Intermediates Between the Client and The Market

