

Request for Proposals
For
Investment Advisory Services



**Prepared by the City of Fullerton
Administrative Services Department**

**Julia James, Director
City of Fullerton
303 W. Commonwealth Avenue
Fullerton, CA 92832**

BID INFORMATION

Title: Investment Advisory Services
Contact: Julia James, Director of Administrative Services
Phone: 714.738.6522
Email: juliaj@cityoffullerton.org

TIMELINE FOR SUBMISSION AND EVALUATION

June 23, 2014 Release of Proposals
July 3, 2014 Deadline for Submission of Questions
July 31, 2014 Proposals due by 3:00 p.m.
August 4 - 28, 2014 Evaluation of Proposals*
September 16, 2014 City Council Award of Contract

** Responders may be requested to interview with staff during this period*

SUBMISSION INSTRUCTIONS

Submit Proposals To: Julia James
Director of Administrative Services
City of Fullerton
303 W. Commonwealth Avenue
Fullerton, CA 92832

Format: Submit five (5) printed copies including one (1) signed original
Also submit one (1) electronic (pdf) copy on disc or via email

Deadline: July 31, 2014 at 3:00 p.m.

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I. Introduction and Overview

The City of Fullerton is seeking proposals from qualified investment advisory firms for portfolio management services for approximately \$90 million in cash and investments. The City's primary investment objective is to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default. Although the generation of revenues through interest earnings on investments is an appropriate City goal, the primary consideration in the investment of City funds is capital preservation in the overall portfolio. As such, the City's yield objective is to achieve a reasonable rate of return on City investments rather than the maximum generation of income, which could expose the City to unacceptable levels of risk.

Incorporated in 1923 under the general laws of the State of California, the City operates under a Council/Manager form of government, with Council Members elected at large for four-year terms. Fullerton is a full-service City with a population of 140,000 and a total operating and capital budget of over \$200 million. The Director of Administrative Services serves as the City Treasurer and currently manages the portfolio.

II. Proposer Qualifications

All Proposers must have the following minimum qualifications:

1. Be a registered Investment Advisor as defined and regulated by the Securities and Exchange Commission (SEC). The firm must share the City's Fiduciary Duty and must not act as a broker/dealer.
2. Have a minimum of five years of experience in providing the services requested to public agencies in an investment advisor capacity.
3. Be independent of any financial institution or securities brokerage firm or shall fully disclose any relationships with such financial institution and/or securities brokerage firm relevant to the firm's relationship with the entity.
4. Have a minimum of \$5 million coverage in errors and omissions insurance or investment advisor professional liability insurance along with a minimum of \$1 million in additional coverage through a fidelity bond.
5. Have no record of unsatisfactory performance as evidenced by complaints filed with the SEC or any federal or state agency with jurisdiction over the services provided by the firm.

III. Scope of Services

Specific services, although not all-inclusive, are to be performed as follows:

1. Manage the City's portfolio in a fiduciary capacity with discretionary authority
2. Execute trades in accordance with the City's investment policy
3. Assist the City with maturity analysis
4. Provide credit analysis of investment instruments in portfolio

5. Provide monthly/quarterly/annual reporting on all government entity funds
6. Attend quarterly meetings with City staff and Investment Advisory Committee and occasional City Council meetings
7. Evaluate market risk and develop strategies that minimize the impact on the portfolio
8. Provide assurance of portfolio compliance with applicable policies and laws and the City's Investment Policy
9. Establish an appropriate performance benchmark
10. Indicate full understanding of Investment Policy and recommend changes as appropriate
11. Ensure portfolio structure matches City objectives

Firm shall not have custody or possession of the funds or securities that the City has placed under its management. City shall appoint a custodian to take and have possession of its assets.

IV. Proposal Submission Requirements and Response Format

The Proposer is responsible for preparing an effective, clear, and concise proposal. To be considered for selection, vendors must submit a complete response to this Request for Proposal that includes the following mandatory information and/or requirements in the following format. Responses must be in the same order as the questions presented, stating acceptance of, modifications or additions to, or a statement of the inability to provide, said service. Failure to provide any of the information requested below may be cause for the proposal to be rejected.

1. A Request for Proposal cover letter introducing the firm and the individual who will be the primary contact person.
2. *Firm Background and Organization*
 - a. Describe the organization, date founded, and ownership of the firm. Indicate if it has experienced a material change in organizational structure, ownership or management during the past three years and, if so, please describe.
 - b. Describe any other business affiliations. Describe the firm's policy on soft dollars.
 - c. Describe the firm's sources of revenue, categorized by retail and institutional accounts.
 - d. Describe any SEC, NASD, or regulatory censure or litigation involving the firm or its employees within the past three years.
 - e. Did, or will, the firm pay a finder's fee to any third party for business related to this account? Specify the recipients of any fee.

3. Experience

- a. Describe the firm's experience in managing fixed income portfolios for public funds and governmental entities.
- b. What is the firm's experience in developing policies and portfolio management guidelines for government portfolios?
- c. Does the firm act as a broker or as a primary dealer in securities or receive any other form of additional compensation (including soft dollars) for the client transactions aside from the direct fee paid by clients?
- d. Provide the number and types of accounts, total asset value, and composition of portfolios currently being managed by the firm.

4. Personnel

- a. Identify and provide background information on the key person or personnel who take the most active role(s) in the administration and management of the firm.
- b. Identify the investment professionals (portfolio managers, analysts, and researchers) employed by the firm, by classification, and specify the average number of accounts handled by portfolio managers. Are there any established limits on accounts or assets under management?
- c. Provide resumes and biographical information on key investment professionals that will be directly involved in the decision-making process for the portfolio. Include the number of years at the firm, total years of experience, and professional licenses and designations. Include the number of accounts managed and any limits on this.
- d. Describe the firm's training and education efforts to keep portfolio managers informed of developments relevant to government investment managers.
- e. What has been the rate of turnover of professional staff in the firm in the last three years who were assigned to public sector clients?

5. Assets Under Management

	Governmental	Non-Governmental
Operating/Bond Funds	\$	\$
Pension Funds	\$	\$
Foundations	\$	\$
Equity Funds	\$	\$
Total	\$	\$

- a. Summarize the firm's institutional investment assets under management by category as shown below for the latest reporting period:
- b. Summarize the firm's assets under management (institutional only) over the past five years and average assets per client.
- c. Provide relevant performance statistics on comparably-sized portfolios and compare with industry averages or benchmarks for the last one, three, five, ten year periods and/or since inception. Note whether these performance statistics are reported based on GIPS (Global Investment Performance Standards).
- d. How many accounts has the firm gained in the last 12 months? How many accounts have been lost in the last 12 months and why?

6. *Investment Management Approach and Discipline*

- a. Briefly describe the firm's investment management philosophy, including its approach to managing governmental portfolios.
- b. How frequently does the firm formulate and review fixed income strategy? How is that carried out and who is involved?
- c. What are the primary strategies for adding value to portfolios (e.g., market timing, credit research, trading)?
- d. How are portfolios managed (e.g. by team, individual manager)? What is the back-up when the manager is away?
- e. What oversight is provided to portfolio managers?
- f. Describe the firm's in-house technical and research capabilities. Are outside sources used on a regular basis? Describe the firm's credit review process. Does it assign credit research to specialists?
- g. What percentage of the firm's research is conducted in-house? Describe the research capability.
- h. What technical analysis (if any) does the firm use?
- i. What role does interest rate forecasting play in the firm's portfolio management strategy?
- j. How will the firm position a portfolio in a rising interest rate environment?
- k. Describe the ongoing daily investment procedures proposed for the City of Fullerton, including procedures for trades, security choice, controls, etc., and how the firm will provide liquidity.

7. *Reporting*

- a. Describe the investment accounting and reporting system used by the firm.
- b. Describe the frequency and format of reports that would be provided to the City of Fullerton. Attach sample reports the City will expect to receive. Will these reports be made available to the City through online capability? What will be the frequency of availability?
- c. What performance benchmarks would be recommended for this portfolio? Provide examples for a portfolio similar to that of the City of Fullerton. What experience has the firm had in developing benchmarks for public operating portfolios?

8. *Fees*

- a. Provide the complete fee schedule that would apply to this account. Are fees charged in arrears? Indicate if the proposed fees are all in.
- b. What additional expenses not covered through the fee structure will be expected in order to implement the firm's investment advisory services?

9. *Additional Information*

- a. Briefly describe any additional features, attributes, or conditions which the City of Fullerton should consider in the selection process. Describe any other services the firm can provide.
- b. Submit a completed Reference Form as provided in Attachment A of this RFP as well as a complete list of municipal clients and contacts.
- c. Provide a copy of the firm's most recent ADV Parts 1 and 2 as on file with the SEC.
- d. The signature of an authorized individual to bind the firm. The proposal must be a firm offer good for a 120 calendar-day period beginning on Due Date.

V. **Selection Process**

In accordance with the goals of the City of Fullerton, the following criteria will be used as the basis for evaluation of the proposals and the award recommendation:

1. Understanding of the City's overall investment program, investment objectives and unique constraints
2. Experience, resources, and qualifications of the firm and individuals assigned to this account

3. Experience of the firm in managing state/local government portfolios. In evaluating the firm's experience, past performance data will be evaluated in the context of portfolio objectives and constraints, as well as risks
4. Recommended approach to management of the portfolio
5. Fees

The firm's understanding of the scope of services required includes demonstrated abilities to coordinate delivery of the services and understanding of the needs and operational requirements of the City of Fullerton.

Award may not be made to the firm submitting the lowest price proposal. The City of Fullerton will choose the firm submitting the best and most responsive overall proposal to satisfy its needs.

VI. General Terms and Conditions

The City of Fullerton reserves the right to reject any or all proposals and will not be liable for any costs incurred by responding firms relating to the preparation and submittal of proposals, making of initial presentation to the City, negotiating a contract for services, or any other expense incurred by the bidder prior to the date of an executed contract. In addition, no bidder shall include any such expenses as part of the price proposed to conduct the scope of work for this project.

1. The term of the contract will be a period of three (3) years with the option to renew up to two (2) additional years.
2. Proposals must be valid for 120 calendar days from due date.
3. The firm must agree to the terms of the City's Professional Service Agreement as provided in Attachment C of this RFP, including all insurance requirements.
4. The City reserves the right to expand or diminish the scope of the work subject to negotiation with the successful bidder.
5. The City is not required to select the proposal that may indicate the lowest price or costs. The City expressly reserves the right to reject all proposals at its sole discretion and opinion, without indicating any reason(s) for such rejection. If all proposals are rejected, the City may or may not request additional proposals. The City may withdraw this RFP at any time without advance notice.
6. Proposals must not be marked as confidential or proprietary. The City may refuse to consider a Proposal so marked. Information in Proposals shall become public property and subject to disclosure laws. All Proposals shall become the property of the City. The City reserves the right to make use of any information or ideas in the Proposals.
7. Costs for developing proposals are entirely the responsibility of the Proposer and shall not be chargeable to the City.

8. In the event the event the City deems it necessary to clarify or make any changes to this RFP, these changes shall be made in the form of a written addendum authorized and issued only by the Director of Administrative Services or authorized designee.
9. Responses to this RFP are due no later than 3:00 p.m. on July 31st according to the instructions found in the front of this document.
10. Should a Proposer require clarification of this RFP, the City must be notified in writing no later than July 3, 2014. Questions are to be sent to juliaj@cityoffullerton.com. Responses will be communicated to all known recipients of this RFP by July 10, 2014.

To ensure that your firm receives responses to any inquiries, please send an email to Julia James confirming receipt of the RFP and providing the contact information for the individual(s) responsible for responding to the RFP.

11. The scope of work under this proposal includes performing services within the City of Fullerton. The successful Proposer must obtain a City of Fullerton Business Registration Certificate prior to performance of the services.

ATTACHMENT A

REFERENCES

Describe fully the last three contracts performed by the firm that demonstrate the ability to provide the services included with the scope of the specifications. Attach additional pages if required. The City reserves the right to contact each of the references listed for additional information regarding the firm's qualifications.

Reference No. 1

Customer Name	
Contact Individual	
Telephone & FAX number	
Street Address	
City, State, Zip Code	
Description of services provided including contract amount, when provided and project outcome	

Reference No. 2

Customer Name	
Contact Individual	
Telephone & FAX number	
Street Address	
City, State, Zip Code	
Description of services provided including contract amount, when provided and project outcome	

Reference No. 3

Customer Name	
Contact Individual	
Telephone & FAX number	
Street Address	
City, State, Zip Code	
Description of services provided including contract amount, when provided and project outcome	

ATTACHMENT B
CITY OF FULLERTON
AND
FULLERTON SUCCESSOR AGENCY
STATEMENT OF INVESTMENT POLICY
FISCAL YEAR 2013-14

SECTION 1. PURPOSE

This Investment Policy is intended to provide guidelines for the prudent investment of the City of Fullerton and the Fullerton Successor Agency's temporarily idle cash. Throughout this policy the term City or City of Fullerton shall refer to both the City of Fullerton and the Fullerton Successor Agency, unless otherwise indicated. Also outlined are the policies for maximizing the effectiveness of the City's cash management system. Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in the bond documents. Bond proceeds and other funds or assets that are not part of the general pool shall not be subject to this Investment Policy. This Policy conforms to all existing requirements of State law governing the investment of public funds.

SECTION 2. POLICY

The investment practices and policies of the City of Fullerton are based upon state law and prudent money management. The primary goals of these practices are:

- A. To assure compliance with all federal, state, and local laws governing the investment of public funds under the control of the City Treasurer.
- B. To protect the principal monies entrusted to this office.
- C. To achieve a reasonable rate of return within the parameters of prudent risk management while minimizing the potential for capital losses arising from market changes or issuer default.

SECTION 3. SCOPE

This policy shall apply to all funds that are under the City Treasurer's control including but not limited to the general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, and trust and successor agency funds. These funds are accounted for in the City's Comprehensive Annual Financial Report. The City's Deferred Compensation Plan shall be excluded from the scope of this policy.

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

SECTION 4. OBJECTIVE

The cash management system of the City is designed to monitor and forecast expenditures and revenues, thus enabling the investment of funds to the fullest extent possible. It shall be the policy of the City to obtain a market rate of interest without assuming undue risk to principal, in accordance with State law (Government Code Section 53600.3 and 53600.5 - see Attachment 1). The primary objectives of the City Treasurer, in priority order, shall be:

- A. **Safety** - To avoid potential loss of principal, interest, or combination thereof, safety shall be the highest priority for City investments. It shall be the responsibility of the City Treasurer to see that this Investment Policy is followed to ensure the safety of the City's portfolio. The City Treasurer shall certify in a quarterly report that all funds in the City's portfolio are being invested in accordance with this Investment Policy.
- B. **Liquidity** - Shall be the second priority for City investments to assure provision of cash for City operations as needed, with a negligible chance of any loss. Liquidity remains an essential investment consideration in view of the possible need for unexpected or emergency City expenditures.
- C. **Yield** - Only after safety and liquidity needs for investments are met will the yield be considered. Sometimes yield is described as the rate of return. The objective of Fullerton's portfolio shall be to attain a market-average rate of return through economic cycles. The market-average rate of return is defined as the average return on a six-month U.S. Treasury Bill.

SECTION 5. PRUDENCE

Investments made by the City Treasurer in the name of the City of Fullerton shall be made with judgment and care which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by the City Treasurer shall be the prudent investor standard, as defined in Government Code Section 53600.3 (see Attachment 1), and shall be applied in managing the overall investment portfolio. The City Treasurer, acting in accordance with this Investment Policy and exercising due diligence, shall have a duty to report in a timely manner to the City Manager and City Council in the event of adverse developments affecting the City's investments.

SECTION 6. INVESTMENT PROCEDURES

The City Treasurer will prepare written investment procedures consistent with this policy. The procedures will include: safekeeping, wire transfer instructions and agreements, permitted and prohibited instrument features, banking service contracts, authorized dealers/brokers, collateral/depository agreements, internal controls and delegation of authority to persons responsible for investment transactions.

SECTION 7. ETHICS AND CONFLICTS OF INTEREST

In addition to state and local statutes relating to conflicts of interest, all persons involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. Employees and investment officers are required to file annual disclosure statements as required for "public officials who manage public investments" (as defined and

required by the Political Reform Act and related regulations, being Government Code Sections 81000 and the Fair Political Practices Commission [FPPC]).

SECTION 8. AUTHORIZED INVESTMENTS

The City's investments are governed by the California Government Code (see Attachment 1). Investments may be made in the following types of securities and permitted percentages within an investment type:

- A. **United States Treasury Securities:** Highly liquid and guaranteed as to principal and interest by the United States government. There is no percentage limit for this category.
- B. **Federal Agencies:** Obligations issued by a Federal Agency or U.S. government sponsored enterprise. Purchases of this category shall not exceed sixty percent (60%) of the portfolio at the time of purchase.
- C. **Bankers Acceptances:** Negotiable time drafts which are drawn on foreign or domestic banks to finance the export, import, shipment, and storage of goods. The drafts are sold at a discount and redeemed by the accepting bank at maturity for full face value. Maturities range from 1 to 180 days. Bankers Acceptances can only be purchased if the issuing bank is rated P-1 (Moody's), A-1 (Standard & Poor's). Purchases may not exceed forty percent (40%) of the City of Fullerton and Fullerton Successor Agency's combined portfolio, and no more than thirty percent (30%) of the combined portfolio may be invested in the Bankers Acceptances of any one commercial bank.
- D. **Commercial Paper:** Issued by corporations and financial institutions. Commercial paper must be rated P-1 by Moody's Investors Service or A-1 by Standard and Poor's. Purchases of this category shall not exceed 270 days to maturity or twenty-five percent (25%) of the City of Fullerton and Fullerton Successor Agency's combined portfolio and no more than ten percent (10%) of the combined portfolio may be invested in the outstanding commercial paper of any single issuer.
- E. **Certificates of Deposit:**
 - 1. Negotiable Certificates of Deposit (NCD's) are money market instruments issued by a bank. They specify that a sum of money has been deposited, payable with interest to the bearer of the certificates on a certain date. NCD's are issued by a nationally or state chartered bank or a state or federal savings and loan association. All purchases must be from institutions rated by a nationally recognized rating organization, as designated by the Security and Exchange Commission. The maturity of NCD's shall not exceed five years, and purchases of NCD's shall not exceed fifteen percent (15%) of the portfolio. Negotiable Certificates of Deposit shall be evaluated in terms of the credit worthiness of the issue, as these deposits are uninsured and uncollateralized promissory notes.
 - 2. Certificates of Deposit (CD's) are unsecured direct obligations of a U.S. bank or a savings and loan association. CD's are secured by collateral such as U.S. government securities or mortgages and allow selection of the exact amount and date of maturity, as well as the exact depository. Federal Deposit Insurance Corporation (FDIC) coverage is provided for government deposits, but limited to the first \$250,000 on deposit on behalf of a given entity at a single financial institution. However, California law requires that deposits of public funds shall be

collateralized if not insured. Therefore, all City deposits in excess of FDIC insurance shall be collateralized. Purchases of this category shall not exceed five years and shall not exceed fifteen percent (15%) of the portfolio.

- F. **Repurchase Agreements (Repos):** A Repurchase Agreement consists of two simultaneous transactions. One is the purchase of securities by an investor from a bank, the other is the commitment by the bank to repurchase the securities at the same price at a mutually agreed upon future date. The investor receives an agreed upon rate of interest, generally at money market rates. Repos are written against U.S. government securities which provide the underlying collateral. Purchases in this category shall not exceed thirty (30) days to maturity, or ten percent (10%) of the portfolio.

- G. **State of California Local Agency Investment Fund (LAIF):** Provides high liquidity allowing deposits to be credited to the City's checking account within twenty-four (24) hours. State Pool funds are operated directly by the Office of the State Treasurer, who commingles state and local funds. No more than sixty percent (60%), or \$50 million, whichever is less, of each of the City's and Successor Agency's monies shall be invested with the State of California Local Agency Investment Fund. The City shall utilize guidelines established by the California Municipal Treasurers Association and the California Society of Municipal Finance Officers to ensure the safety of investment pools (see Attachment 1 and Attachment 2).

- H. **Orange County Investment Pool (OCIP):** The OCIP may be considered as a future investment option once the Pool is restructured and the Orange County Treasurer offers cities the opportunity to participate again. However, prior to such investment, that option shall be re-evaluated by the Treasurer and Investment Advisory Committee (see Section 15), and returned to Council for approval.

- I. **Medium-Term Corporate Notes:** Issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Such securities must be rated in a rating category of "AA" or better by a nationally recognized rating service at the time of purchase. In the event the corporation falls below an "AA" credit rating, an evaluation shall be conducted to determine its credit risk. The decision to sell the investment or hold till maturity will be assessed depending upon its credit risk. The maturity of medium-term corporate notes shall not exceed five years, and purchases shall not exceed 20 percent (20%) of the portfolio.

SECTION 9. PROHIBITED INVESTMENTS

It shall be the policy of the City to not invest any funds in inverse floaters, range notes, or mortgage-derived interest only strips, or any security that could result in zero interest accrual if held to maturity, and other similar derivative products. No investment prohibited by California Government Section 53601.6 shall be permitted herein.

It shall be the policy of the City of Fullerton to not invest directly in Reverse Repurchase Agreements. Further, the City shall not be permitted to invest in any pool which has more than ten percent (10%) of its total portfolio in Reverse Repurchase Agreements.

In the event of a ratings downgrade of a security in the City's portfolio by any of the nationally recognized statistical rating organizations (NRSRO) to a rating category below the minimum required for purchase, the City Treasurer will document such downgrade in writing. The City Treasurer will also communicate to the Director of Administrative Services a recommended

course of action for said security.

However, callable securities, which otherwise meet the quality, maturity, and percent limitations assigned to their respective security category, are considered to be an acceptable investment.

SECTION 10. SAFEKEEPING AND CUSTODY

All security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held in third-party safekeeping of the City's bank or other designated third-party trust, in the City's name and evidenced by purchase confirmation and safekeeping receipts.

SECTION 11. DIVERSIFICATION

The portfolio shall consist of a mix of securities purchased through various issuers, with varying maturities. The primary purpose for diversifying a portfolio is to reduce risk in terms of maturity, instrument types and issuer, while attaining an average market rate of return.

SECTION 12. AUTHORIZED FINANCIAL BROKERS AND INSTITUTIONS

The City Treasurer shall maintain a listing of financial institutions and broker/dealers authorized to provide investment and depository services and who maintain an office in the State of California. All financial institutions and brokers/dealers who desire to become bidders for investment transactions must supply the City with the following: audited financial statements, proof of National Association of Security Dealers' certification, completed authorization to trade agreement, proof of California registration, and shall acknowledge by written receipt of having read this Investment Policy. The City shall annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the City.

SECTION 13. DEPOSITORY SERVICES

Public deposits shall only be made in qualified public depositories as established by California law. In selecting depositories pursuant to the Code, Section 53600, et seq., the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and interest rates offered shall be considered. No funds will be deposited in an institution unless that institution has been evaluated by a nationally recognized independent rating service as satisfactory or better.

Under the provisions of the California Government Code, banks and savings and loan associations must secure public funds deposits with eligible securities having a market value of 110% of the total amount of the deposits. State law also allows as an eligible security, first trust deeds having a value of one hundred fifty percent (150%) of the total amount of the deposits. A third class of collateral is letters of credit drawn on the Federal Home Loan Bank (FHLB).

Deposits of \$250,000 or less which are insured pursuant to federal law by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the independent rating service evaluation requirement.

The City Treasurer may waive, at her discretion, security for that portion of a deposit which is insured pursuant to federal law. Currently, the first two-hundred, fifty-thousand dollars (\$250,000) of a deposit is federally insured. It is to the City's advantage to waive this collateral requirement for the first \$250,000 because we receive a higher interest rate.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City of Fullerton invests.

SECTION 14. INVESTMENT MATURITY

State law (Government Code Section 53601) provides that city treasurers may not invest funds in securities which have a term remaining to maturity in excess of five years from the date of investment, unless the City Council "...grants express authority to make that investment either specifically or as a part of an investment program approved by City Council), no less than three months prior to the investment."

It shall be the duty of the City Treasurer, to the extent possible; to match the investments with anticipated cash flow requirements. The prescribed method of the City of Fullerton shall be referred to as "layering" the investments. Monies not needed to cover immediate operating costs may be invested up to a five-year maturity. However, the average number of days to maturity of the total portfolio shall never exceed 720.

SECTION 15. PORTFOLIO ADJUSTMENTS

Should any investment listed in Section 8 exceed a percentage-of-portfolio limitation due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses.

When no loss is indicated, the Treasurer shall consider rebalancing the portfolio after evaluating the expected length of time that it will be imbalanced.

Portfolio percentage limits are in place in order to ensure diversification of the City investment portfolio; a small temporary imbalance will not significantly impair that strategy.

SECTION 16. PERFORMANCE STANDARD

The City of Fullerton's investment strategy is conservative and is reflected in its "hold to maturity" philosophy. Given this strategy, the benchmark for investment considerations shall be six-month U.S. Treasury Bills or the average of the monthly LAIF rate. However, since return on investments is the least important objective of the investment portfolio, the benchmark will be used only as a reference tool. A benchmark does not imply that the City Treasurer will add additional risk to the portfolio in order to attain or exceed the benchmark.

SECTION 17. USE OF CITY FUNDS FOR DRUG ENFORCEMENT OPERATIONS

City funds in currency form not to exceed \$300,000 may be made available to the Fullerton Police Department for use in undercover drug enforcement operations upon written request from the Chief of Police or his designee as acting Police Chief with approval by the City Treasurer, Director of Administrative Services, and City Manager or their designees. Said withdrawals may be for those drug enforcement operations conducted solely by the Fullerton Police. Loss of interest earnings to the City General Fund shall be reimbursed through adjustment of the allocation of interest to the Asset Seizure Fund. Loss of cash shall be reimbursed from available or future Asset Seizure funds not required for existing obligations. If this source of funding is not available to cover the full loss, a temporary advance from the City General Fund reserves may be made with later repayment from Asset Seizure funds.

As directed by the City Council at its meeting of October 17, 1989, funds exceeding \$300,000 for drug enforcement operations may be granted if requested by the Police Chief and approved

by the City Manager subject to ratification by the City Council at its next meeting.

SECTION 18. REPORTING

The Treasurer shall submit on at least a quarterly basis a report to the City Council showing the type of investment, issuer, date of maturity, amount of deposit, current market value for all securities, rate of interest, interest earned, and such other information as may be required by the City Council.

SECTION 19. DELEGATION OF AUTHORITY

The City Council, consistent with Section 53607 of the Government Code, delegates the authority to make investments on the City's behalf to the City Treasurer. This authority shall be reviewed and renewed at least annually. The City Treasurer shall assume full responsibility for all investment transactions made under this delegation of authority, and report these transactions at least quarterly to the City Council.

In the absence of the City Treasurer, the authority to execute investment transactions shall be restricted to the Administrative Services Director or his/her designee who shall then act as Treasurer.

SECTION 20. INVESTMENT ADVISORY COMMITTEE

To strengthen sound investment strategies and provide control over the City's investments, an Investment Advisory Committee has been established to review and make recommendations on investment policy and strategy of the City of Fullerton and the Fullerton Successor Agency. The Committee is comprised of seven members as follows:

1. One City Council member (appointed by Council).
- 2-4. Three Fullerton citizens, appointed by the City Council, with professional financial management experience in either financial planning, commercial banking, investment banking, or a related field. The citizens chosen by City Council to serve on the Investment Advisory Committee shall serve four-year terms, and shall be removable from the Committee at the will of the Council.
5. City Manager.
6. Director of Administrative Services.
7. City Treasurer.

The functions of the Committee shall be as follows:

Meet quarterly to:

- a. Review the City's investments which are currently held.
- b. Recommend modifications of this Investment Policy to the City Council.
- c. Develop and carry out the ongoing investment strategy in accordance with this Investment Policy.

During the meetings, action minutes will be taken and available for City Council review.

The Committee shall not inhibit the daily operations performed by the City Treasurer, but rather provide guidelines for the investment of the City's portfolio. Individual trades need not be approved by the Committee provided they fall within the scope of this Investment Policy.

SECTION 21. INVESTMENT POLICY ADOPTION

The City of Fullerton's Investment Policy shall be submitted to the City Council annually for review and approval of any modifications to the Policy. The basic premise underlying this Investment Policy is to ensure that idle funds are safe, available when needed, and invested at the highest yield possible after safety and liquidity standards are met.

ATTACHMENT C

AGREEMENT FOR PROFESSIONAL SERVICES

This Agreement for professional services ("Agreement") is made and entered into by and between the City of Fullerton (hereinafter referred to as "City"), and _____ (hereinafter referred to as "Investment Advisor").

The City and the Investment Advisor agree as follows:

RECITALS

- A. The City desires to contract out for Investment Advisory Services.
- B. The Investment Advisor warrants to the City that it has the qualifications, experience and facilities to perform properly and timely the services under this Agreement.
- C. The City desires to contract with the Investment Advisor to perform the services described in Exhibit A of this Agreement.

NOW, THEREFORE, the City and Investment Advisor agree as follows:

1.0 SCOPE OF THE INVESTMENT ADVISOR'S SERVICES. The Investment Advisor agrees to provide the services and perform the tasks set forth in the Proposal attached to as Exhibit A and made part of this agreement. The Scope of Work may be amended from time to time by way of a written directive from the City.

2.0 TERM OF AGREEMENT. This Agreement will become effective on _____ 201_ and will remain in effect for a period of three years from said date, with the option to renew annually for up to two additional years unless otherwise expressly extended and agreed to by both parties or terminated by either party as provided herein.

3.0 CITY AGENT. The _____, for the purposes of this Agreement, is the agent for the City. Whenever approval or authorization is required, Investment Advisor understands that the _____ has the authority to provide that approval or authorization.

4.0 COMPENSATION FOR SERVICES. The City shall pay the Investment Advisor for its professional services rendered and costs incurred pursuant to this Agreement in accordance with the Investment Advisor's fee and cost schedule included in the Proposal. The cost of services shall not exceed _____. No additional compensation shall be paid for any other expenses incurred unless first approved by the _____.

4.1 The Investment Advisor shall submit to the City a bill for services according to the provisions stated in the Proposal. The City shall pay the Investment Advisor upon thirty (30) days of receipt of the invoice.

4.2 No payment made hereunder by City to Investment Advisor, other than the final payment, shall be construed as an acceptance by City of any work or materials, or as evidence of satisfactory performance by Investment Advisor of its obligations under this Agreement.

5.0 CONFLICT OF INTEREST. The Investment Advisor represents that it presently has no interest and shall not acquire any interest, direct or indirect, in any real property located in the City which may be affected by the services to be performed by the Investment Advisor under this Agreement. The Investment Advisor further represents that in performance of this Agreement, no person having such interest shall be employed by it.

5.1 The Investment Advisor represents that no City employee or official has a material financial interest in the Investment Advisor's business. During the term of this Agreement and/or as a result of being rewarded this contract, Investment Advisor shall not offer, encourage or accept any financial interest in the Investment Advisor's business by any City employee or official.

6.0 GENERAL TERMS AND CONDITIONS.

6.1 Termination. Either the City or Investment Advisor may terminate this Agreement, without cause, by giving the other party ten (10) days written notice of such termination and the effective date thereof.

6.1.1 In the event of such termination, all finished or unfinished documents, reports, photographs, films, charts, data, studies, surveys, drawings, models, maps, or other documentation prepared by or in the possession of the Investment Advisor under this Agreement shall be returned to the City. If the City terminates this Agreement without cause, the Investment Advisor shall prepare and shall be entitled to receive compensation pursuant to a close-out bill for services rendered and fees incurred pursuant to this Agreement through the notice of termination. If the Investment Advisor terminates this Agreement without cause, the Investment Advisor shall be paid only for those services completed in a manner satisfactory to the City, which shall not be unreasonably determined.

6.1.2 If the Investment Advisor or the City fail to fulfill in a timely and proper manner its obligations under this Agreement, or if the Investment Advisor or the City violate any of the covenants, agreements, or stipulations of this Agreement, the Investment Advisor or the City shall have the right to terminate this Agreement by giving written notice to the other party of such termination and specifying the effective date of such termination. The Investment Advisor shall be entitled to receive compensation in accordance with the terms of this Agreement for any work satisfactorily completed hereunder. Notwithstanding the foregoing, the Investment Advisors shall not be relieved of liability for damage sustained by virtue of any breach of this Agreement and any payments due under this Agreement may be withheld to offset anticipated damages.

6.2 Non-Assignability. The Investment Advisor shall not assign or transfer any interest in this Agreement without the express prior written consent of the City.

6.3 Non-Discrimination. The Investment Advisor shall not discriminate as to race, creed, gender, color, national origin or sexual orientation in the performance of its services and duties pursuant to this Agreement and will comply with all applicable laws, ordinances and codes of the Federal, State, County and City governments.

6.4 Insurance. The Investment Advisor shall submit to the City certificates indicating compliance with the following minimum insurance requirements no less than one (1) day prior to beginning of performance under this Agreement:

(a) Workers' Compensation Insurance as required by the State of California and employers' liability insurance with limits of not less than \$1,000,000 each

accident. Insurer shall waive their right of subrogation against the City, its officers and employees for work done on behalf of the City.

(b) Commercial general liability insurance in a form at least as broad as ISO Form #CG 0001 ED. 11/88, with a limit of not less than \$1,000,000 each occurrence. If such insurance contains a general aggregate limit, it shall apply separately to the Agreement or shall be twice the required occurrence limit.

(c) Business automobile liability insurance coverage in a form at least as broad as ISO Form # CA 0001 T ED. 6/92, with a limit of not less than \$1,000,000 each accident. Such insurance shall include coverage for owned, hired and non-owned automobiles.

(d) Professional liability insurance appropriate to Investment Advisor's profession with a limit of not less than \$5,000,000 coverage with an additional \$1 million in additional coverage through a fidelity bond.

(e) Each such policy of insurance shall:

1) Be issued by a financially responsible insurance company or companies admitted or authorized to do business in the State of California or which is approved in writing by the City.

2) Name and list as additional insured the City, its officers and employees.

3) Specify its acts as primary insurance.

4) Contain a clause substantially in the following words: "It is hereby understood and agreed that this policy shall not be canceled except upon thirty (30) days prior written notice to the City of such cancellation or material change."

5) Cover the operations of the Investment Advisor pursuant to the terms of this Agreement.

6.5 Indemnification. Investment Advisor agrees to indemnify, defend and hold harmless the City and/or any other City agency, for/from any and all claims or actions of any kind asserted against the City and/or any other City agency arising out of Investment Advisor's (including Investment Advisor's employees, representatives, products and subcontractors) negligent performance under this agreement, excepting only such claims or actions which may arise out of sole or active negligence of the City and/or any other City agency, or any third parties not acting on behalf of, at the direction of, or under the control of the Investment Advisor.

6.6 Compliance With Applicable Law. The Investment Advisor and the City shall comply with all applicable laws, ordinances and codes of the Federal, State, County and City governments.

6.7 Independent Contractor. This Agreement is by and between the City and the Investment Advisor and is not intended, nor shall it be construed, to create the relationship of agency, servant, employee, partnership, joint venture or association, as between the City and the Investment Advisor.

6.7.1. The Investment Advisor shall be an independent contractor and

shall have no power to incur any debt or obligation for or on behalf of the City. Neither the City nor any of its officers or employees shall have any control over the conduct of the Investment Advisor, or any of the Investment Advisor's employees, except as herein set forth, and the Investment Advisor expressly warrants not to, at any time or in any manner represent that it, or any of its agents, servants or employees are in any manner employees of the City, it being distinctly understood that the Investment Advisor is and shall at all times remain to the City a wholly independent contractor and the Investment Advisor's obligations to the City are solely such as are prescribed by this Agreement.

6.8 Copyright. No reports, maps or other documents produced in whole or in part under this Agreement shall be the subject of an application for copyright by or on behalf of the Investment Advisor.

6.9 Legal Construction.

a) This Agreement is made and entered into in the State of California and shall in all respects be interpreted, enforced and governed under the laws of the State of California.

b) This Agreement shall be construed without regard to the identity of the persons who drafted its various provisions. Each and every provision of this Agreement shall be construed as though each of the parties participated equally in the drafting of the same, and any rule of construction that a document is to be construed against the drafting party shall not be applicable to this Agreement.

c) The article and section, captions and headings herein have been inserted for convenience only and shall not be considered or referred to in resolving questions of interpretation or construction.

d) Whenever in this Agreement the context may so require, the masculine gender shall be deemed to refer to and include the feminine and neuter, and the singular shall refer to and include the plural.

6.10 Counterparts. This Agreement may be executed in counterparts and as so executed shall constitute an Agreement which shall be binding upon all parties herein.

6.11 Final Payment Acceptance Constitutes Release. The acceptance by the Investment Advisor of the final payment made under this Agreement shall operate as and be a release of the City from all claims and liabilities for compensation to the Investment Advisor for anything done, furnished or relating to the Investment Advisor's work or services. Acceptance of payment shall be any negotiation of the City's check or the failure to make a written extra compensation claim within ten (10) calendar days of the receipt of that check. However, approval or payment by the City shall not constitute, nor be deemed, a release of the responsibility and liability of the Investment Advisor, its employees, sub-Investment Advisors and agents for the accuracy and competency of the information provided and/or work performed; nor shall such approval or payment be deemed to be an assumption of such responsibility or liability by the City for any defect or error in the work prepared by the Investment Advisor, its employees, sub-Investment Advisors and agents.

6.12 Corrections. In addition to the above indemnification obligations, the Investment Advisor shall correct, at its expense, all errors in the work which may be disclosed during the City's review of the Investment Advisor's report or plans. Should the Investment Advisor fail to make such correction in a reasonably timely manner, such correction shall be

made by the City, and the cost thereof shall be charged to the Investment Advisor.

6.13 Files. All files of the Investment Advisor pertaining to the City shall be and remain the property of the City. The Investment Advisor will control the physical location of such files during the term of this Agreement and shall be entitled to retain copies of such files upon termination of this Agreement.

6.14 Waiver; Remedies Cumulative. Failure by a party to insist upon the performance of any of the provisions of this Agreement by the other party, irrespective of the length of time for which such failure continues, shall not constitute a waiver of such party's right to demand compliance by such other party in the future. No waiver by a party of a default or breach of the other party shall be effective or binding upon such a party unless made in writing by such party, and no such waiver shall be implied from any omissions by a party to take any action with respect to such default or breach. No express written waiver of a specified default or breach shall affect any other default or breach, or cover any other period of time, other than any default or breach and/or period of time specified. All of the remedies permitted or available to a party under this Agreement, or at law or in equity, shall be cumulative and alternative, and invocation of any such right or remedy shall not constitute a waiver or election of remedies with respect to any other permitted or available right of remedy.

6.15 Mitigation of Damages. In all such situations arising out of this Agreement, the parties shall attempt to avoid and minimize the damages resulting from the conduct of the other party.

6.16 Partial Invalidity. If any provision in this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions will nevertheless continue in full force without being impaired or invalidated in any way.

6.17 Attorney's Fees. The parties hereto acknowledge and agree that each will bear his or its own costs, expenses and attorney's fees arising out of and/or connected with the negotiation, drafting and execution of the Agreement, and all matters arising out of or connected therewith except that, in the event any action is brought by any party hereto to enforce this Agreement, the prevailing party in such action shall be entitled to reasonable attorney's fees and costs in addition to all other relief to which that party or those parties may be entitled.

6.18 Entire Agreement. This Agreement constitutes the whole agreement between the City and the Investment Advisor, and neither party has made any representations to the other except as expressly contained herein. Neither party, in executing or performing this Agreement, is relying upon any statement or information not contained in this Agreement. Any changes or modifications to this Agreement must be made in writing appropriately executed by both the City and the Investment Advisor.

6.19 Notices. Any notice required to be given hereunder shall be deemed to have been given by depositing said notice in the United States mail, postage prepaid, and addressed as follows:

TO CITY:

City of Fullerton
303 W. Commonwealth Avenue
Fullerton, CA 92832
(714) _____

TO INVESTMENT ADVISOR:

6.20 Warranty of Authorized Signatories. Each of the signatories hereto warrants and represents that he or she is competent and authorized to enter into this Agreement on behalf of the party for whom he or she purports to sign.

6.21 Consultation With Attorney. CONTRACTOR warrants and represents that it has consulted with an attorney or knowingly and voluntarily decided to forgo such a consultation.

6.22 Interpretation Against Drafting Party. CITY and CONTRACTOR agree that they have cooperated in the review and drafting of this agreement. Accordingly, in the event of any ambiguity, neither side may claim that the interpretation of the agreement shall be construed against either party solely because that party drafted all or a portion of the agreement, or the clause at issue.

This Agreement is executed this ____ day of _____, 20__, at Fullerton, California.

CITY OF FULLERTON:

INVESTMENT ADVISOR:
