

Everett School Employee Benefit Trust
Executive Session
April 20, 2009

Investment Consultant Report

- **Investment Manager**

Betsy called the executive session to order at 5:12 p.m.

Jayson wanted to follow up on Curt's comment regarding an institutional account and discretionary authority. He is in agreement with Curt that the account should be structured as an institutional account with discretionary authority for the manager.

Molly reviewed the investment guidelines (Policy 220) with the trustees. Mike felt comfortable that Curt had been given authority but thought that Curt might not have been. Betsy asked if there was another form from Curt's company that needed to be signed. Jayson said the portfolio management discretionary agreement that Darla had received from Curt was being held until after this meeting but ultimately he thought the Trust should move in the direction of having an institutional account managed by someone that has discretion whether its Curt or another manager.

Jayson stated that the RFP was sent to seven investment management firms. Halbert Hargrove declined because they provide service similar to what the Trust currently receives and Citi/Smith Barney did not respond. This wasn't a problem for Jayson since he had suggested to Curt that it wasn't necessary if Curt was comfortable with what he was currently doing and didn't plan any dramatic changes. Although Curt isn't proposing, there is a new offer on the table for his firm that relates to discretion. The five firms that responded included Becker Capital Management, Northwest Investment Counselors, Sterling Capital Management, US Bank Corporation, and Seattle Northwest Asset Management. Jayson felt there was a broad enough representation of potential investment managers to provide an opinion as to what direction the Trust should go. He then reviewed some key statistics on the five firms. Sterling is the largest at \$9.2 billion with Northwest being the smallest at \$151 million. A couple other key statistics included information on the number of employees (349 at US Bank to five at Northwest). There were two independent RIA bids, one broker-owned and two bank-owned and all of these firms have dedicated assets management teams, i.e. fixed income analysts, people responsible for trading and selling the bonds and an overall manager, etc. This is the difference between an institutional run portfolio and a non-institutional portfolio. Jayson also thinks you get a little more resources as it relates to the analysis that goes into selecting these securities. When you sign with one of these managers or in the discretionary scenario they would follow your investment policy and not go outside the policy.

Fee offers are asset based fees on the entirety of the accounts or the entirety of the assets under management. There is no longer per transaction per trade type fees which is the way the Trust pays Curt. For Curt, Jayson had to come up with an estimate of what the costs were under the new proposal and the costs under the current portfolio. The other providers are bidding a straight fee. The Trust has \$6M in CDs and Jayson estimated that the cost to the Trust from Curt would be 45 to 50 basis points. This includes custody and banking services. Some of the other bids did not include custody and banking services. US Bank did and the other firms said they have custodians that they work with but the reality is the Trust can pick any custodian it wants. Costs for custody range from 2 to 5 basis points so the Trust would be looking at anywhere from 27 to 40 basis points with a complete change in relationship.

Betsy thinks Darla's convenience should be considered. She feels that before finalizing any decisions the trustees should know how it might be different in the day-to-day operations. Jayson said that moving money in and out will be very similar to the current practice. The big difference would be that when you ask to put money in or take it out you won't have to ask what to sell or buy.

Jayson's conclusion was that he was comfortable that any of the companies could provide the services the Trust was asking for but several stood out. Becker and Sterling are very capable and are highly regarded in the industry. Sterling has more resources and is a national firm and Becker is a regional firm. Jayson thinks the smaller firm might be a better fit and doesn't think we'd have any issues with their service. Sterling had the best bid with Becker being 10 points higher however Jayson thinks Becker could be talked into coming down to 25 or lower basis points. Either way Sterling or Becker would be good firms.

Jayson said there are three choices for the Trust to consider, (1) leave the investment management the same, which Jayson thinks is not the most appropriate; (2) move to discretionary with Curt; or (3) move to some other manager. Jayson thinks the Trust would be better served in a discretionary capacity but would be OK under any of these scenarios.

Molly asked if the manager would attend trust meetings and work with Darla. Jayson said the investment manager would attend a meeting once a year to present an analysis. By moving to discretionary it makes more sense than going over the individual trades that were made during the course of any given month. The manager would submit a report every quarter that Jayson would evaluate and provide to the trustees as well as an annual report presented by the manager. Darla's contact would not be with the portfolio manager directly. She would be communicating with the

operational and custodial staff and they would interact with the manager in dealing with the trades and the amount of money going in and out.

Molly asked about references. Jayson said they didn't ask for references in the RFP. He can do a formal reference check of the two finalist and arrange interviews if that was the desire of the group. He said the interviews would not be necessary for him to make a recommendation but it may be helpful to the Trust. Jayson will also provide the Trust with Becker's client list within a couple of weeks. He also mentioned that the information from a reporting standpoint and the disclosures will be much cleaner with the new institutional relationship regardless of whether it is Sterling or Becker. Jayson would also recommend that the money move from City Bank to another bank if the Trust doesn't go with Curt. If the Trust has certain banks they'd like to use, Jayson can inquire as to their capabilities or he can look at the bank the manager is proposing (Union Bank). Molly would like Jayson to look at Cascade and Frontier Banks.

The trustees agreed that they would interview Becker at the May 18th meeting if possible and use Sterling as a backup. If that date wasn't possible June 15th would be the next option.

Jayson recommended that Curt not be notified nor would he have the trustees sign the discretionary agreement until a decision has been made on who will be the manager. Jayson will contact Curt about the discretionary agreement.

Executive session was concluded.

Sincerely,

Molly Ringo
Secretary