



FTN FINANCIAL
MAIN STREET ADVISORS
A Subsidiary of First Tennessee Bank National Association

Original

**City of Carson
Request for Proposal
Investment Advisory Services
Due August 29, 2016**

**FTN Financial
Main Street Advisors**
10655 Park Run Drive, Suite 120
Las Vegas, NV 89144
Rick Phillips, President

EXHIBIT NO. 3

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A. Cover Letter

Ms. Monica Cooper
City Treasurer
City of Carson
701 E. Carson Street
Carson, CA 90745

Dear Ms. Cooper,

On behalf of FTN Financial Main Street Advisors, LLC (herein, "FTN Main Street"), we thank the City of Carson (herein, "City") for the opportunity to submit this proposal for Portfolio Management Services. Our firm is uniquely qualified to provide excellent, customized service, and expertise to assist the City in achieving its investment goals and objectives. FTN Main Street was formed and is structured to be an additional resource for the City's investment program, as we fully understand that prudent investment of taxpayer funds is of paramount importance.

We have a firm understanding of the work to be performed for the City; it is what we have specialized in for many years, and working with municipalities and municipal related entities is our only business. We perform all nine of the Services Requested in the City's RFP for our clients.

FTN Main Street believes itself to be the best qualified to perform the City's services for the following reasons:

FTN Main Street's principals have been managing municipal portfolios since 1989. From the firm's inception, the primary focus has been the prudent management of government portfolios and investment programs. Our principals have been in your shoes as municipal employees and understand the challenges you face, and the opportunities you have in order to serve your community.

FTN Main Street provides investment portfolio advisory and reporting services for approximately \$19 billion in assets to California municipal entities, including the City of Los Angeles and the City of Lynwood, and also directly manages approximately \$7 billion of municipal operating and bond proceeds portfolios.

We recognize the primary importance of the investment program's adherence to the principals of safety, liquidity, and yield – but also realize the income derived from the City's portfolio is substantial to the budgeting process. Government investment portfolios are one of the only places revenue can be generated without charging fees or taxes to its citizens.

Rick Phillips, the President and Chief Investment Officer for FTN Main Street will be the **Management Contact and Project Manager** for the City's account.

A. Cover Letter

Thank you for your consideration. We welcome the opportunity to further present our expertise, and will provide the City with any additional information that may be needed. **This offer is firm and irrevocable for a period of no less than 90 days.** If you have any questions about the enclosed proposal, please feel free to contact us.

Sincerely,



Rick Phillips
President & Chief Investment Officer
10655 Park Run Drive, Suite 120
Las Vegas, NV 89144

B. Firm Background and Organization

1. 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.

Our firm was founded in 2004 by its principals, Rick Phillips (President and Chief Investment Officer) and Tonya Dazzio (Chief Operating and Compliance Officer). The firm was acquired by First Tennessee Bank National Association on February 1, 2012; and the name was changed from Main Street Capital Advisors, LLC to FTN Financial Main Street Advisors, LLC, with Rick Phillips and Tonya Dazzio remaining in their respective positions. FTN Main Street has been providing investment management services for 12 years, and its principals, Rick Phillips and Tonya Dazzio have been providing municipal investment management services for 27 and 26 years, respectively; working for or with local governments.

FTN Main Street is a registered investment advisor with the Securities and Exchange Commission, with its primary business of providing discretionary and non-discretionary investment management/advisory services to municipalities. FTN Main Street directly manages over \$7 billion of municipal operating and bond proceeds portfolios, including the City of Anaheim, the City of San Ramon, the City of Redondo Beach, and the City of Whittier; and also provides investment portfolio advisory and reporting services (non-discretionary management) totaling over \$20 billion in assets to California municipal entities, including the City of West Sacramento, County of Santa Clara, the County of Fresno, the City of Lynwood, and the City of Los Angeles. FTN Main Street's office is located in Las Vegas, Nevada, but we will also draw upon resources from our FTN Financial team members in New York City, Chicago, and Memphis.

FTN Main Street is a wholly owned subsidiary of First Tennessee Bank, N.A, which in turn is wholly owned by First Horizon National Corporation (FHNC), a publicly listed bank holding company.

Our parent company, FHN, has over 4,300 employees and is headquartered in Memphis, Tennessee. Our affiliated company, FTN Financial Group, has approximately 500 employees at twenty-nine locations throughout the United States, including five offices in California—Los Angeles(2), San Diego, Sacramento, and San Francisco. FTN Financial Portfolio Advisors, a division of First Tennessee Bank, N.A, provides investment advisory services to more than 140 banks and credit unions with over \$29 billion under management, and has been providing those services for over fifteen years.

FTN Main Street has not experienced a material change in organizational structure, ownership or management during the past three years.

2. Describe any other business affiliations (e.g., subsidiaries, joint ventures, "soft dollar" arrangements with brokers). Describe the firm's policy on soft dollars.

FTN Main Street is not a broker-dealer. One of the subsidiaries of our parent company (First Horizon National) is a broker/dealer. However, FTN Main Street would not execute any trades for the City's account with FTN Financial Capital Markets.

FTN Main Street does not participate in any soft dollar arrangements or other forms of additional compensation. The only fees our firm receives are those paid to us by our clients.

B. Firm Background and Organization

3. Describe any Securities and Exchange Commission (SEC), National Association of Securities Dealers (NASD), Internal Revenue Service (IRS) or other regulatory censure or litigation involving the firm or its employees within the past three years.

FTN Main Street has had no SEC or regulatory censure or litigation involving our firm at this time or in the past.

4. Identify the types of accounts primarily sought by your firm.

FTN Main Street exclusively seeks municipal operating accounts or municipality related accounts, similar to the City's investment program.

5. Describe the firm's experience in providing non-discretionary investment advisory services.

Approximately fifty-percent of our client relationships are of the non-discretionary category. We provide a supplement to the internal treasury/finance staff of the municipality. Our collective experience obtained by working in municipal government allows us to formulate a practical approach, sensitive to the challenges you face today. The City will benefit from the team's background and professional training in every aspect of treasury and investment management; including portfolio management, trading, compliance, operations, and governmental accounting.

6. Describe the firm's experience in developing policies and portfolio management guidelines for government portfolios.

FTN Main Street's principals have reviewed hundreds of municipal investment policies and have helped all of our clients create and/or modify their investment policies and procedures. We have submitted policies to the Association of Public Treasurers (APT) for certification and can assist the City with that process if desired. The California Municipal Treasurer's Association (CMTA), has a program to certify investment policies. If desired, we would assist the City with this certification process. Our president, Rick Phillips, serves as a reviewer on CMTA's investment policy certification committee.

We continually work with clients to update policies and procedures as laws and circumstances change. FTN Main Street has assisted the City of Lynwood, the City of Los Angeles, and the City of San Ramon, California in updating their current investment policies.

FTN Main Street's team has reviewed the City's current Investment Policies and would assist the City in a complete review and update of the current Investment Policy. Some suggested changes would be to include modifications to issuer limits, performance benchmarks, allowable investments, and working with an investment advisor. As a companion to the Investment Policy, we would create a strategic Investment Plan. The Investment Policy ensures the investments are legal; the Investment Plan ensures the investment portfolio is suitable. As we know from recent and past headlines regarding questionable municipal investment portfolios, such portfolios were legal, but certainly not suitable.

B. Firm Background and Organization

FTN Main Street develops a Compliance Matrix for each client based upon specific Investment Policy and Investment Plan guidelines. We review the portfolios, transactions, and documentation for compliance to the guidelines with real-time proprietary systems. FTN Main Street's Compliance Matrix reports to the client adherence with investment sectors, types, issuer, and etc., specified in State Code and Policy.

FTN Main Street recognizes the important stewardship involved in managing taxpayer funds, and therefore takes a conservative approach, while maintaining a strict adherence to investment guidelines.

Each month, the City's Investment Report would include a detailed statement of compliance with your Investment Policies and State Code.

7. Does the firm act as a broker or 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.

No.

8. Provide a copy of the firm's most recent ADV Parts 1 and 2 as on file with the SEC.

Please see Exhibit 1.

9. Did, or will, the firm pay a finder's fee to any third party for business related to this RFP. If so, specific the recipients of the fee.

FTN Main Street has not and will not pay a finder's fee to any third party for business related to this account.

C. Personnel

1. 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.

Rick Phillips (President and Chief Investment Officer) and Tonya Dazzio (Chief Operating and Chief Compliance Officer) manage the day-to-day operations and administration of the firm. Please see the information provided for question 3 of this section for their background information.

2. 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.

Our firm has over 160 professionals in the areas of portfolio management, analysis, compliance, and operations, who will be used to provide support to the City's investment program.

Classification	Staff
Portfolio Management	12
Analysis/Strategy	131
Economics	3
Accounting/Reporting	16
Compliance/Legal	5

Listed below are the key personnel who would assist with the City's account.

Proposed Project Team For the City's Account

Investment Professional	Area of Responsibility	Yrs in Industry	Yrs at Firm
Rick Phillips <i>President & Chief Investment Officer</i>	Investment Strategy Portfolio Management	27	12
Tonya Dazzio <i>Chief Operating & Compliance Officer</i>	Client Reporting and Compliance	26	12
Greg Balls <i>Portfolio Manager & Investment Analyst</i>	Portfolio Management, Economic, and Credit Strategies	8	2
Jim Vogel, CFA <i>Executive Vice President</i>	Fixed Income Market Strategies	37	34
Daniel Bruzzo, CFA <i>Senior Vice President</i>	Credit Strategies Group	16	15
Steve Twersky, CPA <i>Senior Vice President</i>	Portfolio Strategies Group	34	32
Chris Low <i>Chief Economist</i>	Economics	34	18
Jay Morelock <i>Economist</i>	Economics	7	4
Sophia Kearney-Lederman <i>Economic Analyst</i>	Economics	2	2

C. Personnel

Julie Wiklund, CPA, CFA <i>Senior Vice President</i>	Portfolio Accounting and Analytics	33	23
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Municipal portfolios range in their nature of complexity; therefore, the firm does not put limits on the number of accounts, but assigns portfolios and depending upon complexity. Also, due to the liquidity and depth of the fixed income markets, we feel it isn't necessary to limit assets under management.

3. 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.

Rick Phillips, CCM – President and Chief Investment Officer

Rick Phillips is President, Founder, and Chief Investment Officer of FTN Main Street and has overseen the day-to-day investment program at the firm since its inception in 2004. Prior to starting Main Street, Rick was the Chief Investment Officer for Clark County, Nevada from 1998 to 2004. Rick was also the Investment Officer for the City of Las Vegas from 1989 to 1998.

Rick has 27 years of experience in municipal cash and investment management. He is also the founder of the Government Investment Officers Association (GIOA), a national organization which has more than 1,000 government investment officers and corporate affiliates as members.

Additionally, Rick is recognized as an expert in the public investment field and has spoken at numerous governmental educational conferences, including the California Municipal Treasurer's Association (CMTA), the California Society of Municipal Finance Officers (CSMFO), the California Debt and Investment Advisory Commission (CDIAC), and the National Government Finance Officers Association (GFOA).

Rick received a bachelor's degree in Finance from Brigham Young University, and a MBA from the University of Utah.

Certified Cash Manager (CCM)
FINRA EXAMS: Series 65
Total Years of Experience: 27
Years with the Firm: 12

Tonya Dazzio, CCM - Chief Compliance Officer and Chief Operating Officer

Tonya Dazzio is FTN Main Street's Chief Compliance Officer and Chief Operating Officer and serves as operational manager to clients. She is responsible for coordinating client services, evaluating each client's overall investment program, and monitoring compliance. Prior to joining FTN Main Street, Tonya was the Senior Investment Officer for Clark County, Nevada from 1998 to 2005. She also managed investments, treasury services, accounting and auditing for the Clark County School District from 1990 to 1998.

Tonya has 26 years of experience working in municipal cash and investment management. She is

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also a founder of the Government Investment Officers Association.

Tonya received a bachelor's degree in Business Administration from the University of Nevada, Las Vegas.

Certified Cash Manager (CCM)
FINRA EXAMS: Series 65
Total Years of Experience: 26
Years with the Firm: 12

Greg Balls – Portfolio Manager and Analyst

Greg Balls is a Portfolio Manager and Analyst with FTN Main Street, with over eight years of experience in the industry. He assists with implementing investment strategy and with publishing economic and market updates. Prior to joining the FTN Main Street, Greg was a portfolio manager for the State of Florida, where he managed the Short Duration portfolio with assets of over \$2 billion, and assisted with managing the liquidity portfolio with assets averaging \$9 billion. He also worked for Contango Capital Advisors, a subsidiary of Zion's Bank, where he managed portfolios for municipalities, corporations, trusts, and high net-worth individuals. Greg also worked in the Capital Markets Department at Zions Bank, where he specialized in buying and selling fixed income securities for institutional clients.

Greg received a dual bachelor's degree in Finance and Economics from Utah State University.

FINRA EXAMS: Series 7, 63, and 65
Level III Candidate in the CFA Program
Total Years of Experience: 8
Years with the Firm: 2

Jim Vogel, CFA – Executive Vice President: Fixed Income Market Strategies

As executive vice president, Jim Vogel manages interest rate, credit, and municipal market strategies for FTN Financial Capital Markets. He works with investors on total return portfolio management and also closely follows Government Sponsored Entities (GSE—i.e., Fannie Mae, Freddie Mac, etc.) developments. He has over 32 years of capital markets experience. In 1992, he began writing about the agency market, and today has expanded the work into a comprehensive look at the fixed income markets. He has written extensively on the GSE controversy since it began in 2000, and continues to report its impact on investors. His views are widely quoted in the financial press.

Jim received a bachelor's degree from the University of Missouri.

Chartered Financial Analyst (CFA)
Total Years of Experience: 37
Years with the Firm: 34

Daniel Bruzzo, CFA – Senior Vice President: Credit Strategies Group

Dan is the manager of FTN's Credit Strategy Group, focused on providing commentary and insight for the corporate bond trading desk, sales force and institutional customers. He has also served as the primary senior analyst covering the Bank and Finance sectors since 2007. In addition to

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distributing published commentaries on the corporate bond market and individual trade ideas, the Credit Strategy Group works directly with customers to help analyze their portfolios and develop trading strategies to navigate the market. Dan has been a member of FTN Financial since 2001, and has specialized in corporate credit for over twelve years.

Dan is a graduate of Cornell University.

Chartered Financial Analyst (CFA)

Total Years of Experience: 16

Years with the Firm: 15

Steve Twersky, CPA – Executive Vice President: Portfolio Strategies Group

Steve is responsible for managing the portfolio strategies effort in the Capital Markets division of FTN Financial with respect to the depository customer base. His efforts center around assisting customers with managing their investment portfolio and understanding the implications of portfolio decisions on the institution's overall performance and risk profile. Steve also helps customers understand the impact of current and proposed regulatory, accounting and tax issues, as these often play an important role in the management of the portfolio. Steve is a frequent public speaker at banking conferences across the country and regularly author's reports on specific investment structures and strategies. He joined FTN Financial in 1984 after working at a major public accounting firm where he specialized in auditing financial institutions.

Steve received a bachelor's degree from Indiana University.

Certified Public Accountant (CPA)

Total Years of Experience: 34

Years with the Firm: 32

Chris Low – Chief Economist

Chris forecasts the U.S. economy. He follows political and market events to develop long-term rate forecasts. In addition to twenty-seven years' experience tracking U.S. and global economies and central banks, he also has six years' experience with a global bank as a money manager. This gives him a unique ability to distill economic news into insight for investors. He joined FTN Financial in 1998. Chris writes daily economic and market updates, weekly economic commentaries and regular economic forecasts. He is a frequent and popular speaker at national conferences and forums. Chris has been named to the American Bankers Association's Economic Advisory Council and to SIFMA's Economic Committee. His work is widely cited in various financial publications around the world, and Chris is a frequent commentator on economic policy issues. A regular on Bloomberg TV, Reuters and CNBC, Chris also serves as a weekly economic commentator for Marketplace on national public radio stations. Chris was recognized by Bloomberg in 2014 as "the most accurate forecaster of Treasury note yields."

Chris is a graduate of New York University.

Total Years of Experience: 34

Years with the Firm: 18

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Jay Morelock – Economist

Jay concentrates on the analysis of economic releases, Federal Reserve policy, fiscal policy, and geopolitical events with a primary focus on the U.S. His primary objective is to present clear and objective analysis of macroeconomics and its relation to markets through economic projections, written reports, conferences, and public commentary. Prior to joining FTN Financial, he worked as a trader in the U.S. fixed income markets for over three years.

Jay received a bachelor's degree from the University of Chicago in Economics and received his MBA from New York University.

Total Years of Experience: 7

Years with the Firm: 4

Sophia Kearney-Lederman – Economic Analyst

Sophia joined FTN Financial's team in 2014 as an Economic Analyst. She is a native of New York City.

Sophia graduated magna cum laude from Washington and Lee University with a degree in Economics and Spanish.

Total Years of Experience: 2

Years with the Firm: 2

Julie Wiklund, CPA, CFA – Senior Vice President: Portfolio Accounting and Analytics

Julie is the manager of Portfolio Accounting and Analytics. FTN Financial has over 1,500 portfolios on their Portfolio Accounting Service, a proprietary system that has been developed specifically for portfolio accounting. Support is also provided for over 3,000 clients with access to <http://my.ftnfinancial.com>, the secured client website that gives access to sophisticated analytics and market data. Julie joined FTN Financial in 1993 and has worked in the industry since 1983.

Julie received a bachelor's degree from the University of Northern Iowa in Financial Management.

Chartered Financial Analyst (CFA)

Certified Public Accountant (CPA)

Total Years of Experience: 33

Years with the Firm: 23

Number of Accounts Managed and Limits: As mentioned above, municipal portfolios range in their nature of complexity; therefore, the firm does not put limits on the number of accounts, but assigns portfolios depending upon complexity. The firm will continue to add staff as needed to provide effective portfolio management and exceptional client service. The number of municipal operating accounts managed is eleven.

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4. Describe the firm's training and education efforts to keep portfolio managers informed of developments relevant to government investment managers.

Leader in Education: Being a leader in education and staying abreast of fixed income market trends is in our DNA. The team assigned to work with the City has been serving and educating municipal entities, both inside and out of California, for the majority of their careers. Rick Phillips, President and Chief Investment Officer, is frequently asked to speak about investments for organizations such as California Municipal Treasurers Association (CMTA), the California Debt and Investment Advisory Commission (CDIAC), and the California Society of Municipal Finance Officers (CSMFO).

GIOA: FTN Main Street's collective commitment to actively encourage excellence in this area is evident. Twelve years ago, Rick and Tonya formed the Government Investment Officers Association (GIOA), a non-profit association with over 1,000 members, whose mission is to educate government investment officers nationwide. Continued involvement with all of these organizations provides FTN Main Street principals, and through them, our clients, the opportunity to collaborate with industry leaders who have a shared commitment in advancing the quality of education and training to public agencies.

Participation in Governmental Conferences: Our employees regularly attend governmental conferences to stay abreast of legislative and other industry specific changes.

In-House Training: FTN Financial conducts regularly in-house training for portfolio managers to enhance professional skills.

Educational Pursuits: FTN Financial encourages continued pursuit of higher education and reimburses employees for those expenses.

Regulatory Compliance: Our employees frequently participate in regulatory training regarding the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), Government Accounting Standards Board (GASB), and other regulatory bodies.

5. 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.

Two professionals left our firm and three were added.

D. Investment Management Approach and Discipline

1. Briefly describe the firm's investment management philosophy, including its approach to managing governmental portfolios.

FTN Main Street specializes in managing short-term fixed income operating portfolios for municipal entities. FTN Main Street's principals have worked a combined 50 plus years for and with municipalities, and they understand the unique aspects of managing funds for local governments. FTN Main Street's main investment philosophy for government operating portfolios is founded on the following five principals:

- **Safety of Principal**: Return of principal is more important than return on principal. Taxpayers' funds are not for speculation or frequent trading.
- **Maintenance of Liquidity**: Sufficient liquidity should be maintained so that expected cash flow needs are covered by the "liquidity" portion of the portfolio. This generally makes up approximately 20% to 30% of most operating portfolios.
- **Prudent diversification**: The majority of municipal operating portfolios should be comprised of treasuries, federal agencies, high quality money market instruments, and corporate securities. These securities should be diversified by maturity as well as structure (non-callable, callable, and floating rate notes).
- **Attainment of a Market Rate of Return**: Municipal investment portfolios are one of the only areas in government where revenue can be generated without assessing taxes or fees to its citizenry. As mentioned above, taxpayers' funds are not for speculation. Prudent management can generate a substantial amount of incremental revenue for a municipality.
- **Strict Compliance of Governing Codes**: Portfolio investments and procedures must comply with the letter of the law. There is no grey area.

FTN Main Street has a philosophy of **proactive portfolio management** versus a frequent trading or a pure buy-and-hold strategy. With proactive management, some securities may occasionally be sold before maturity to take advantage of market conditions and to enhance the long-term return on the portfolio. This is done through constant communication with FTN Main Street's clients and after careful analysis.

FTN Main Street believes that most municipalities should have two components to their operating portfolios – a liquidity portion, to meet daily operating needs, and a core portion, to enhance return. The liquidity portfolio is matched to a specific cash flow model. The core portion is generally laddered out the yield curve, with a decreasing concentration of securities from one to five years.

D. Investment Management Approach and Discipline

2. How frequently does the firm formulate and review fixed income strategy. How is that carried out and who is involved.

FTN Main Street's investment team monitors the markets on a daily basis to keep abreast of the ever changing investment landscape. FTN Main Street's team discusses market events daily and meets weekly to talk about client cash flow needs, portfolios, and market conditions to formulate strategies. Rick Phillips (Chief Investment Officer), Greg Balls (Portfolio Manager/Investment Analyst), and Tonya Dazzio (Chief Compliance/Operating Officer) participate in the "whiteboard" discussion. We also utilize the resources from FTN Financial's professional team of economists and portfolio strategists mentioned above, to assist in the management of client portfolios.

3. What are the primary strategies for adding value to portfolios (e.g., market timing, credit research, trading).

The primary ways FTN Main Street adds values to portfolios include the following:

Fixed income investors have two key factors/risks in managing investments which generate the returns for municipal operating portfolios—interest rate risk and credit risk. Our strategy and philosophy encompasses these risks as follows:

Duration/Interest Rate Risk: Many academic and private sector studies have shown that it is essentially impossible to market-time interest rates over the long run. Therefore, we employ a relative value approach described below.

Generally, the largest component of investment return for a municipal operating portfolio is its duration or interest rate risk. These risks are analyzed by studying macro and micro economic reports, term structure of interest rates, and statistical trends to adjust a portfolio's duration/maturity within risk parameters. In analyzing the history of the yield curve, FTN Main Street concludes that for public fund operating portfolios, the 1.5 year to 2.5 year part of the interest rate curve has generally produced the highest return for the commensurate risk taken (i.e., risk adjusted return). As shown in the table on the next page, the 2 year T-note (utilizing the past 26 years of data, which includes upwardly-sloping, flat, and inverted yield curves) has captured 67% of the 30 year T-bond's yield with only 12% of the interest rate risk.

FTN Main Street believes that most public fund operating portfolios should have an average duration of between 1.5 and 2.5, after liquidity needs are met. FTN Main Street will generally ladder portfolios to take advantage of a normal upward-sloping yield curve.

The optionality risk of callable securities is a subset of interest rate risk. Our research has shown that non-callable (bullet) securities have generally outperformed callable securities. This outperformance has been almost one percent annually since 2008. Therefore, we our strategic approach is to purchase more non-callable securities than callable securities.

D. Investment Management Approach and Discipline

Benchmark Treasury Modified Sharp Ratio Analysis
1/31/1990 to 12/31/2015

	Maturity	Avg Yield	Avg Duration	Modified Sharp Ratio	% Return of 30Yr / % 30Yr Risk
	3 Mon T-Bill	3.00	0.24		56% / 2%
	6 Mon T-Bill	3.13	0.48	0.283	58% / 3%
	1 Yr T-Bill	3.27	0.97	0.279	61% / 6%
Sweet Spot	2 Yr T-Note	3.60	1.90	0.316	67% / 12%
	3 Yr T-Note	3.84	2.85	0.294	72% / 19%
	5 Yr T-Note	4.27	4.45	0.285	80% / 29%
	10 Yr T-Note	4.85	7.96	0.233	90% / 52%
	30 Yr T-Bond	5.36	15.35	0.154	100% / 100%

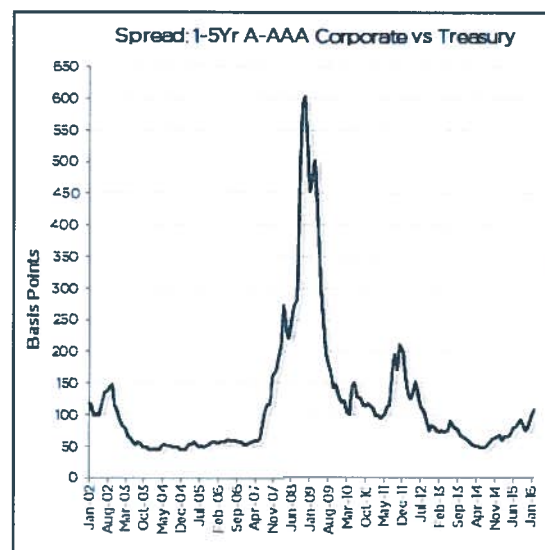
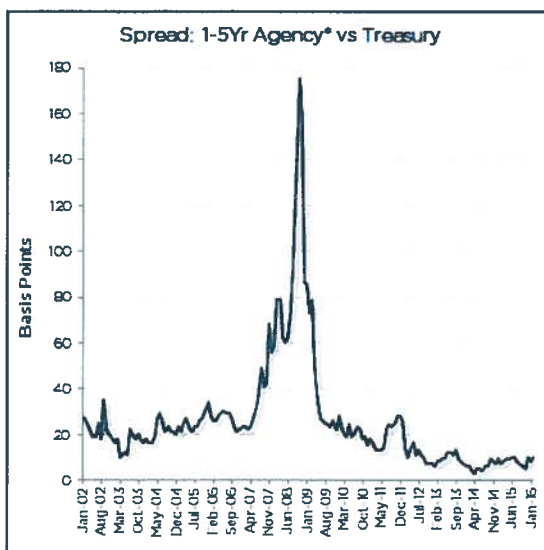
Data Source: Bloomberg

FTN Main Street's Modified Sharp Ratio is calculated as follows:

(Yield – Risk Free Rate) / Duration = Modified Sharp Ratio

Credit Risk: Credit risk is analyzed to study an issuer's ability to provide timely payments of principal and interest. FTN Main Street teams with FTN Financial's credit analysts in our New York office to conduct credit research by monitoring and analyzing financial statements, credit default spreads, specific industry fundamentals, and macroeconomic trends. FTN Main Street also uses credit research from independent firms such as Credit Sights, Morningstar, Standard and Poor's, and Moody's. FTN Main Street will continue to monitor the City's approved issuer list and issuer allocations.

Sector Allocation: As shown on the graphs below, spreads between sectors are dynamic. We don't necessarily look for the highest yielding bonds, rather we continually monitor spread differentials to position portfolios to increase returns.



D. Investment Management Approach and Discipline

Proactive Portfolio Management: Additionally, FTN Main Street has a philosophy of proactive portfolio management versus a frequent trading (high transaction costs) or a pure buy-and-hold strategy (not taking advantage of material market changes). With proactive management, some securities may be sold before maturity to take advantage of market conditions, increase earnings, adjust portfolio duration, improve liquidity, and/or enhance the long-term return on the portfolio.

Competitive Trading: FTN Main Street utilizes electronic trading platforms to contact many broker/dealers effectively and efficiently. The methodology, couple with over the phone trading, helps us attain competitive execution for our clients; thus, improving their returns. Since we manage a large amount of funds, we have great buying power with our broker/dealers. This also translates to enhanced returns for our clients.

4. **How are portfolios managed (e.g. by team, individual manager). What is the back-up plan when the manager is away.**

FTN Main Street's manages portfolios in a team approach. Each team consists of a:

- **Lead Portfolio Manager:** Implements the investment strategies and makes duration and sector decisions.
- **Backup Portfolio Manager:** Regularly discusses the investment strategies and sector allocations with the Lead Portfolio Manager and backs them up when they are away.
- **Fixed Income Strategist:** Provides portfolio managers macro-level investment information and strategy.
- **Credit Analyst:** Provides portfolio managers with strategic information regarding credit risks.

5. **Describe the oversight provided to portfolio managers.**

FTN Main Street has strict oversight in our portfolio management process. The following outlines our procedures:

- **Real-Time Portfolio Monitoring:** Utilizing Bloomberg Analytics, we have developed portfolio monitoring systems to measure various compliance portfolio parameters, such as duration/maturity limits, issuer limits, and rating guidelines. Before a transaction is executed, the portfolio management team checks compliance to ensure a transaction will not be out of compliance.
- **Reconciliation with Clients' Custodians:** Our Chief Compliance Officer, Tonya Dazzio, ensures portfolio transactions are matched to custodial records.
- **Trade Blotters:** Trade blotters are sent to FTN Financial's risk management area weekly to ensure compliance with guidelines.
- **Portfolio Management Team Strategy Meetings:** Weekly portfolio management team meetings with the Chief Compliance Officer are held to discuss portfolio management and compliance.

D. Investment Management Approach and Discipline

- **Portfolio Performance Reviews:** All clients' portfolio performances are reviewed to monitor if performance targets are being achieved.
6. **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.**

FTN Main Street has extensive in-house technical and research capabilities. Additionally, outside research sources are used to provide other points of view. The following four areas are analyzed/utilized:

Economic and Market Analysis: Our firm uses Bloomberg Analytics to provide financial market and economic data. We have developed proprietary economic, statistical, and financial models to monitor hundreds of economic/market indicators to analyze trends and market developments. Our economics team, headed by our Chief Economist Chris Low, sends our portfolio team daily, weekly, and monthly updates. Clients are invited to participate on monthly economic conference calls/webinars.

FTN's Fixed Income Strategies Group, headed by Jim Vogel, produces weekly strategy information regarding the federal agencies, treasury, and other fixed income areas which are extremely valuable to formulate portfolio strategies.

FTN Financial Capital Markets (broker/dealer) provides helpful information from the trading floor to provide our investment team market flow and trend data from the over 2,000 municipal accounts covered by the Capital Markets group. Additionally, FTN Main Street will not transact with FTN Capital Markets on behalf of the City's portfolio.

Credit Analysis: As mentioned above, FTN Financial's Credit Strategies Group of specialists in New York has developed an in-house credit strategy report for approved issuers (see sample in **Exhibit 1**). FTN Financial's Credit Strategies Group also provides the FTN Main Street investment team with valuable information regarding corporate issuers. Companies are evaluated individually, then within their industry sector, and then at the macroeconomic level to assess creditworthiness.

Portfolio Analysis: Our firm utilizes Bloomberg Analytics and Yield Book to "stress test" and provide "what-if" scenarios to portfolios in regard to changes of interest rates, yield curve shifts, and credit events to analyze potential impacts on portfolios. Yield Book provides portfolio wide and individual security performance data and compares performance to benchmarks. These types of analysis help us optimize portfolios to prudently enhance returns.

FTN's PASPort Portfolio accounting system has over 1,300 actual portfolios loaded from financial institutions and municipalities throughout the United States. PASPort produces aggregate portfolio analysis for our investment team to observe other portfolio manager's trends of duration, sector selection, convexity, and other important measures.

SymPro will continue to be our investment accounting system used for the City's account, as the City's staff is used to this reporting methodology and we feel the system provides the needed information for reporting and analysis.

D. Investment Management Approach and Discipline

External Sources: We utilize research provided by many of the broker/dealers with whom we work, as well as other research firms, to provide another perspective on the markets.

Our in-house research teams, coupled with external research, provide a powerful combination for our clients.

In regard to our credit review process, FTN Financial's Credit Strategies Group in New York also provides the investment team with valuable information regarding corporate issuers. Our credit review process includes analyzing the following:

- General Current and Forecasted Economic Conditions
- Specific Industry Trends
- Current and Forecasted Earnings Reports
- Financial Statements
- Price and Volatility Trends of Issuer's Fixed Income and Equity Securities
- Credit Default Swaps (debt insurance)
- News Alerts, Stories, and Releases
- Rating Agency Actions and Outlooks

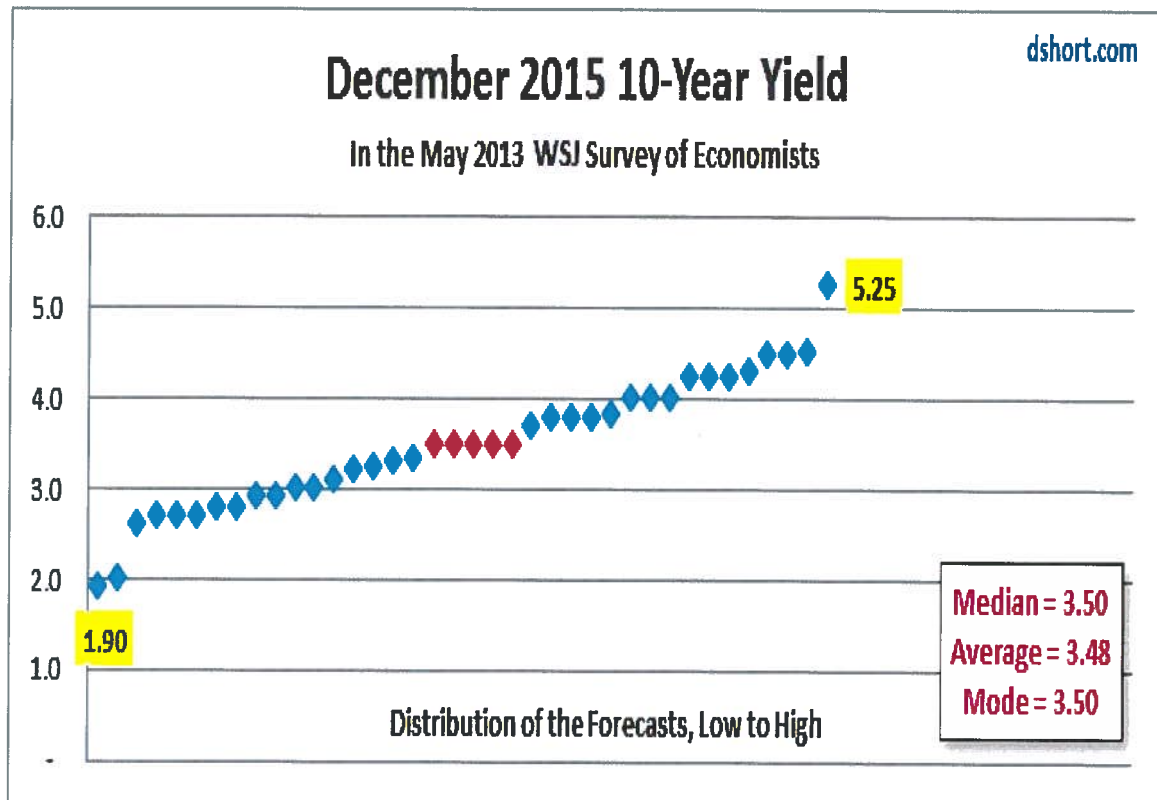
Yes, FTN Financial's Credit Strategies Group assigns credit research to specialists, which are assigned by the following major industry sectors:

- Financial/Insurance
- Energy
- Technology/Media/Telecom
- Industrial/Basic Materials

7. What role does interest rate forecasting play in the firm's portfolio management strategy.

Many academic studies have shown that correctly forecasting interest rates consistently over the long term is essentially impossible. The Wall Street Journal and Federal Reserve conduct frequent surveys of "blue-chip" economists/strategists to forecast interest rates and economic indicators such as Gross Domestic Product (GDP). For example, on the next page is a chart that displays a survey taken in May 2013 for the 10 year t-note rate in December 2015. As you can see, there was a huge dispersion of rates, from 1.90% out to 5.25%. The 10 year t-note yield finished 2015 at 2.27%. Obviously, the vast majority of the interest rate forecast from many of the country's "best" economists/strategists were wrong, and even more important than interest-rate forecasting, is the term structure of interest rates analysis we discussed above in our response to question D 3.

D. Investment Management Approach and Discipline



After the critical step of cash flow analysis is complete, FTN Main Street assists clients in choosing an appropriate duration/maturity target for the portfolio, based on their cash flow needs and risk tolerances. Once the target duration/maturity is established, we generally do not deviate materially from a client's target.

8. How will the firm advise positioning a portfolio in a rising interest rate environment.

We shorten the duration of a portfolio within a target duration range by purchasing securities with shorter maturities and purchase floating rate securities; each decreases price volatility. However, we anticipate the Fed keeping interest rates lower than normal over the next few years, so we plan to keep portfolios near their target durations.

9. Describe the ongoing daily investment procedures proposed for the City, including procedures for trades, security choice, controls, etc., and how the firm will ensure liquidity.

Frequent communication with the City's staff will be of paramount importance to a successful investment program. Our daily investment procedures are outlined below:

FTN Main Street Daily Investment Procedures

- Send Weekly Portfolio Update to the City (see Exhibit 2 for a sample)
- Discuss Cash Flow/Budget with the City
- Determine Investment Horizon

D. Investment Management Approach and Discipline

- Check Portfolio Duration versus Target Duration
- Analyze Yield Curve, Credit Sectors, Optionality Choices (callable bonds, etc.)
- Select Best Security
- Check Compliance with All Guidelines/Policy/Plan
- Contact Broker/Dealers
- Select Best Bid/Offer
- Settle Trade with Custodian/Broker
- Report Trade to the City
- City Receives Trade Confirmation from Custodian
- Review Portfolio/Security Performance with City

Competitive Bidding: FTN Main Street utilizes a competitive bidding and offering process on all trade transactions, most frequently using electronic trading platforms to enhance the competitiveness of the trades. Trades would be communicated to the City and the City's custodian as soon as trades are completed. Additionally, interaction with the City's staff to discuss cash flow needs and investment objectives would be done regularly.

Providing Liquidity: Pursuant to the answers provided by the City regarding questions asked by proposed bidders, FTN Main Street will work with the City as described in the RFP questions and answers item A.4. Our firm has done extensive cash flow analysis for our clients and can provide this for the City if desired.

E. Reporting

1. Submit samples of reports that would be provided and describe their frequency. Reports must be prepared in accordance with generally accepted accounting principles (GAAP) and in compliance with Governmental Accounting Standards Board (GASB) pronouncements, including GASB Statements 31, 40 and 72.

The table below summarizes our specific reports that have been and will be provided to the City. Sample reports are included with our response in Exhibit 2.

Report	Frequency	Format
Daily Chart/Market Commentary	Daily	PDF/Emailed
Weekly Portfolio Update	Weekly	PDF/Emailed
Economic Weekly	Weekly	PDF/Emailed
Weekly Market Dashboard	Weekly	PDF/Emailed
Monthly Investment Report	Monthly	PDF/Emailed
Monthly Economic/Market Update	Monthly	PDF/Emailed
LAIF Analysis	Monthly	PDF/Emailed
GASB and CAFR Information	Annually	Excel/Emailed

As requested, the City's reports will be prepared in accordance with generally accepted accounting principles (GAAP) and in compliance with Governmental Accounting Standards Board (GASB) pronouncements, including GASB Statements 31, 40, and 72.

2. Describe the benchmarks that would be used for the City's portfolio and why those benchmarks are applicable.

Benchmarking Experience

Our president, Rick Phillips, gave a presentation at this year's GIOA conference on benchmarking portfolios, and our firm has a great deal of experience developing custom benchmarks which meet the City's Investment Policy objective to "attain a market rate of return" in an apples-to-apples way. Please find Rick's presentation at the following link:

<http://gioa.us/presentations/2016/10.Phillips.GIOAPresentation.pdf>

Performance Information and Statistics

Since municipal operating portfolios are not the same, it is sometimes challenging to provide comparable performance statistics and we caution comparing returns because most municipalities have different investment policies, operating parameters, cash flow needs, and risk profiles.

Performance Calculation Methodologies: There are two primary methods used to calculate return on portfolios: Book Return and Total Return.

Book Return: Book Return for fixed income portfolios is calculated by summing interest received, accrued interest, amortization of premium and discounts, and realized gains and losses, then dividing the sum by the average balance.

E. Reporting

$$\text{Book Return} = \frac{\begin{aligned} &+ \text{Accrued/Received Interest} \\ &+/- \text{Amortization/Accretion or Premiums/Discounts} \\ &+/- \text{Realized Gains/Losses} \end{aligned}}{\text{Average Daily Book Balance for the Period}}$$

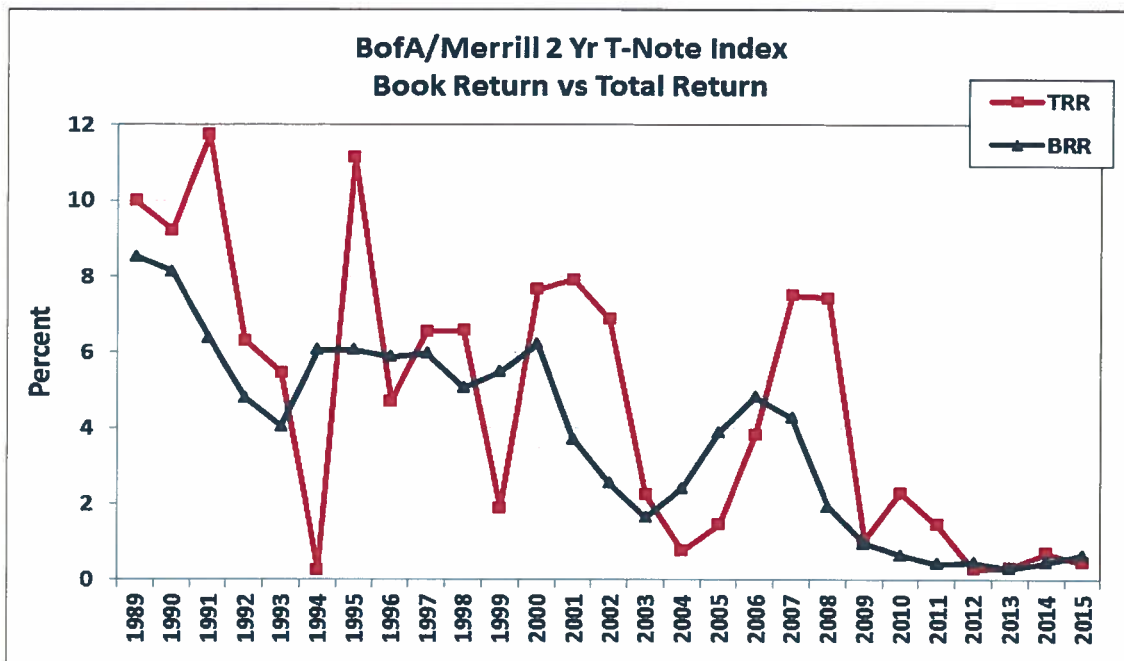
Total Return: Total Return includes summing the similar components of book return, but also includes adding unrealized gains and losses. For an investor to use Total Return as their primary benchmark, they need to have the ability to sell securities at a loss because a Total Return index does this theoretically each month as it rebalances (if interest rates have risen). If the investor does not have the ability to sell securities at a loss (sometimes at a substantial loss), caused by a large upward movement in interest rates, then the returns of the portfolio and the Total Return benchmark may be apples-to-oranges.

$$\text{Total Return} = \frac{\begin{aligned} &+ \text{Accrued/Received Interest} \\ &+/- \text{Realized Gains/Losses} \\ &+/- \text{Unrealized Gains/Losses} \end{aligned}}{\text{Time Weighted Invested Market Value for the Period}}$$

FTN Main Street uses and calculates Total Return, but feels that for municipal operating portfolios, Book Return is most optimal and should be the primary method used to calculate returns. Because of the volatile nature of interest rates, Total Return can produce highly variable returns (see graph on the next page). **FTN Main Street has found that the vast majority of municipalities use Book Return because it matches their budgeting process.** Trying to budget Total Returns (paper gains and losses) is nearly impossible because it involves accurately predicting future interest rates.

FTN Main Street establishes custom benchmarks that closely match portfolios' composition for Book Return and Total Return. Municipal operating portfolios may be similar in nature, but vary from one entity to the next due to local economies, investment policies, cash flow cycles, and politics. Due to these differences, standard Total Return benchmarks usually do not capture the risk characteristics of a unique municipal portfolio.

E. Reporting



The chart above compares the differences of fairly smooth Book Returns (blue) and sometimes volatile Total Returns (red).

Also, we've provided a sample Monthly Investment Report (please see Exhibit 2) and our Economic Weekly Report (please see Exhibit 2) to show some of the types of information we present to clients as it relates to investment performance, and the other information the City requested in the RFP. Additionally, we can customize a report for the City if additional information is requested.

Suggested Performance Benchmark: In our first meeting with the City, we would discuss creating a custom benchmark which would compare performance using the Book Return methodology mentioned above. It is difficult at this time to suggest a benchmark with only the one month of data provided in the RFP. We look forward to discussing this important aspect of the City's investment program.

F. References

1. Provide a listing of current California clients for which similar services are provided.

City of Anaheim
City of Los Angeles
City of Lynwood
City of Redondo Beach
City of San Ramon
City of West Sacramento
City of Whittier
County of Fresno
County of Santa Clara

2. Provide between 3 and 5 public sector references, preferable for non-discretionary investment advisor services. Provide the agency name, contact name, address, phone and email. Describe the services provided for the agency and how long the agency has been a client of the firm.

Agency Name:	City of Los Angeles, CA
Contact Name:	Tom Juarez
Address:	200 N. Spring Los Angeles, CA 90012
Phone:	(213) 978-4039
Email:	tom.juarez@lacity.org
Services Provided:	Non-discretionary investment advisory services—investment program review, reporting, compliance, investment policy review, performance analysis, benchmarking, credit analysis.
Length of Service:	May 2011 to present

Agency Name:	County of Fresno, CA
Contact Name:	Mark Bray
Address:	2281 Tulare, Room 105 Fresno, CA 93715
Phone:	(559) 600-1336
Email:	mabray@co.fresno.ca.us
Services Provided:	Non-discretionary investment advisory services—investment program review, reporting, compliance, investment policy review, performance analysis, benchmarking, credit analysis.
Length of Service:	December 2015 to present

F. References

Agency Name: City of Redondo Beach, CA
Contact Name: Steve Diels
Address: 415 Diamond Street
Redondo Beach, CA 90277
Phone: (310) 318-0657
Email: steven.diels@redondo.org
Services Provided: Non-discretionary investment advisory services—investment program review, reporting, compliance, investment policy review, performance analysis, benchmarking, credit analysis.
Length of Service: February 2013 to present

Agency Name: City of Lynwood, CA
Contact Name: Sheila Harding
Address: 11330 Bullis Road
Lynwood, CA 90262
Phone: (310) 603-0220 ext. 615
Email: sharding@lynwood.ca.us
Services Provided: Non-discretionary investment advisory services and management—investment program review, reporting, compliance, investment policy review, performance analysis, benchmarking, credit analysis.
Length of Service: February 2011 to present

Agency Name: Benton County, WA
Contact Name: Jessica Robinson
Address: 620 Market Street
Prosser, WA 99350
Phone: (509) 786-2255
Email: jessica.robinson@co.benton.wa.us
Services Provided: Non-discretionary investment advisory services—investment program review, reporting, compliance, investment policy review, performance analysis, benchmarking, credit analysis.
Length of Service: September 2015 to present

G. Exceptions/Deviations

State any technical and/or contractual exceptions and/or deviations from the requirements of this RFP, including the City's technical requirements and contractual terms and conditions set forth in the Section II, Services Requested, and Attachment E, Proposed Contract Services Agreement. All exceptions and/or deviations must be included in the original proposal. If no technical and or contractual exceptions and/or deviations are submitted as part of the original proposal, then the firm is deemed to have accepted the City's technical requirements and contractual terms and conditions set forth in Section II, Services Requested, and Attachment E, Proposed Contract Services Agreement. Proposers will not be allowed to submit exceptions and/or deviations after the proposal submittal date.

FTN Main Street does not have any technical and/or contractual exceptions and/or deviations from the requirements of this RFP, including the City's technical requirements and contractual terms and conditions set forth in the Section II, Services Requested, and Attachment E, Proposed Contract Services Agreement.

H. Fees

Provide the complete fee schedule for providing investment advisory services to the City on a non-discretionary basis. Indicate if the fees are based on percentage of assets, cost per transaction or some other method and the frequency of billing. The fees are not to be netted out of investment earnings but rather billed separately for purposes of full disclosure.

For the requested Scope of Services, we propose the following all in fee schedules:

Fixed: \$4,000 per month or \$48,000 annually.

Or

Variable: 5 basis points (0.05%) per year on the total investment assets of the City (month-end market value provided by the City's custodian, including accrued interest).

We propose the City has the option to select the fee structure which would be most advantageous for the City.

Fees are billed quarterly, in arrears.