Building Win-Win Relationships

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Building Win-Win Relationships

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Why Should You Care?

- Improve investment results.
- Create a more pleasant working environment.
- Decrease stress.
- Improve your reputation. It is a small world!!
- Increase job security & opportunity for advancement.
- Practicing clear & concise communication saves time.

Specific Ways You Will Benefit

- Your Reputation
  - depends on your ability to manage a trouble free portfolio & effectively communicate results.
  - depends on your ability to manage relationships with vendors & service providers.
- Service providers will put in extra effort for a client that values their input & treats them with respect.
- Clients that treat relationships as partners will often see trade ideas first, which can lead to improved results.
- Because you are ultimately responsible, do not be afraid to terminate relationships that are uncomfortable, even if you cannot pinpoint reason for lack of trust.

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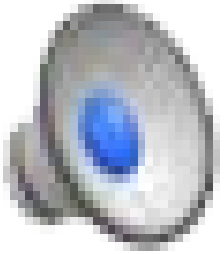
We are going to discuss ways to:

- Establish: Understand Roles
- Evolve: Fiduciary Responsibility
- Connect: Incorporate Best Practices
- Review: Lessons From the Field

Life Lessons:



Cut 1: Overcharging: how much is too much?

Cut 2: What role is your provider playing?

Cut 3: What is betting against clients?

Whose responsibility is it to understand?

Establish: Understand Roles

- Articulate Roles & Financial Goals
- Consider Business Models
- Disclosure Compensation Structures
- Acknowledge Natural Tensions
  - “us” versus “them”
  - “safety” versus “yield”
  - “risk” versus “reward”

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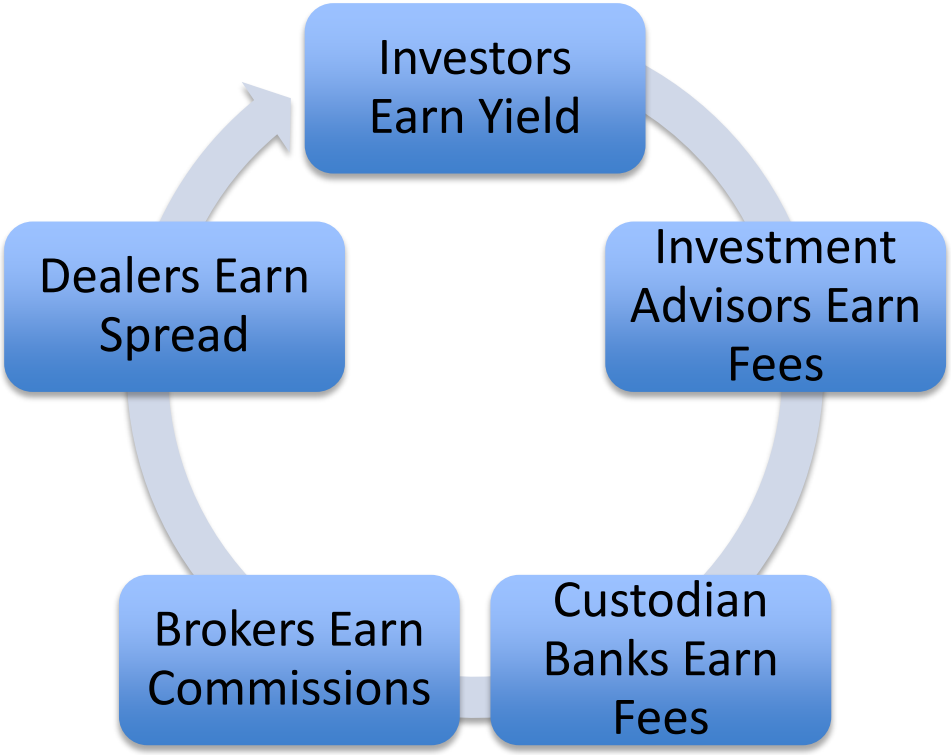
Commonly Used Providers

Underwriters	*Help Issue & Sell Bonds*
Financial Advisors	*Help Issue Debt*
Investment Advisors/and Managers	*Manage Investments*
Investment Consultants	*Advise Investment Strategy*
Bank Custodians	*Safe keep assets*
Bank Trustees	*Hold assets as a Fiduciary*
Broker Dealers	*Buy/Sell securities*

All Parties Need To Make Money



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Why Compensation Structures Matter

- Compensation drives human behavior over time.
  - In the short run, people may provide service with no economic benefit, but doing so is not sustainable.

- Consider both the firm's compensation & the individual's compensation. Some things to consider…
  - Sales people are sometimes compensated more to sell certain products over others. May or may not be in interest of client.
  - Investment managers & advisors are compensated the same whether or not they seek the best price for you. Tracking a benchmark can help.

Why Compensation Structures Matter

Business objectives *must* impact service models.

If a firm does not make money selling a certain product, i.e. commercial paper, it will be difficult to find a firm or individual interested in selling it *or* providing after trade customer support.

Seeking Balance

- What is optimal?
  - Appropriate degrees of safety, liquidity & yield
- Competing forces create a natural tension.
  - Safety vs yield; us vs them; risk vs reward
- Cannot deny impact of human relationships!

Even acknowledging that a natural tension exists will help investors strike a suitable balance.

Evolve: Fiduciary Responsibility

Who is a Fiduciary?

"Person legally appointed and authorized to hold assets in trust for another person. The fiduciary manages the assets for the benefit of *another person rather than for his or her own profit.*"

Compliments of Investopedia

Dodd-Frank Sparked a Debate

"Studies have shown that few investors realize that the standard of care they receive depends on the type of investment professional they use. And often investors do not know which type of financial professional they are relying on," **said SEC Chairman Elisse B. Walter**. "This request for information will help us in our ongoing consideration of alternative standards of conduct for certain broker-dealers and investment advisers, as well as potential harmonization of other aspects of regulation in this area."

To view SEC Request dated 03/01/2013
http://www.sec.gov/news/press/2013/2013-32.htm

Brief History of Discussion

- As required by Dodd-Frank, SEC released a 200 page "Study on Investment Advisers and Broker Dealers" in January 2011.
- Despite staff recommendations, little has been implemented.
- Various regulatory bodies are stuck on definitions. For example, we await definition for the terms Financial or Municipal Advisor.
- Appear to be moving in the direction of "harmonizing" a standard and using the current standard for investment advisers for broker dealers.
- Request for comment closed June 2013.
- Definition of Municipal Advisor released 9/18/13.

Dealing Fairly versus Fiduciary Duty

Providers, such as Broker-Dealers, are highly regulated & required to deal fairly with clients under a "duty of loyalty" even if they are not considered fiduciaries. Some elements include:

- Must eliminate and/or disclose potential conflicts
- Must make suitable recommendations

Dealing Fairly versus Fiduciary Duty

Courts have ruled in some cases that broker-dealers acted as fiduciaries.

The ongoing debate about who is or is not a fiduciary is causing many providers to rethink their business and service models.

Stay tuned!

Investors as Fiduciaries

- At minimum, you are the moral equivalent of a fiduciary.
- The fiduciary responsibility of optimizing returns is often overlooked, especially by newer financial officers.
- Pay thoughtful consideration to earning a reasonable yield without sacrificing safety or liquidity, of course!
- Often, *appropriate* duration management can improve yield without increasing credit risk. Asset/Liability Mgmt Key!

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Connect: Incorporate Best Practices

- Institute a culture of “Trust & Verify”
- Develop balanced disclosure practices
- Communication begins with trust
- Promote Collaboration
- Utilize new communication tools

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Institute A Culture of "Trust & Verify"

- All relationships are based on **mutual trust**
- Wise investors are most influenced by **trust**
- Do not go by feelings alone
- Ask peers for suggestions
- Ask for references and check them
- Require Broker-Dealer Questionnaire or RFI (Request for Information)

Do Your Own Checking

- Google "FINRA Broker Check" or visit http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/

- Check ADV for advisors at http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx

Plus ask the question…
Does your firm now have, or ever had, adverse information reported in SEC form ADV?

Do Your Own Research

To learn about the quality of financial institutions…

- PMA Financial Network
http://www.pmanetwork.com/splash.aspx

- Thomson Reuters (formerly Highline Banking Data)
http://www.highlinefi.com/site/products/index.html

And lastly…
Always obtain, match and retain written trade confirmations from bank custodian or trustee

Develop Balanced Disclosure Practices

- There are currently a wide range of disclosure practices among municipal entities.

- Society has moved to demanding full disclosure.

- Consider all constituents:
  - Elected Officials
  - Employers
  - Public or Shareholders
  - People with whom you do business
  - Remember, even though you may be dealing with an institution, you are really dealing with **people**

Balanced Disclosure Practices

- Financial information is public, but still consider the amount that is readily available versus on a inquiry basis.

- Too much information could cause confusion by the casual reader, if not presented appropriately.

- Provide summaries & with a note that detailed information is available upon request.

- When requested, respond to questions personally, by phone if possible as opposed to email. It's more personal.

Tools Help Tell Your Story

- For public investors, CAFRs are a good way to disclose to public.
  - Use the notes section to provide detail.

- Robust reporting software will likely save time & money & help develop engaging, useful reports.

- Websites are a good way to put out information.

  - Make sure you are able to dedicate resources to keep up!

Communication Practices

- Know your audience
  - Be sensitive to time constraints of other party
  - Best way to find out…ask!

- Relay a consistent message to all parties
  - Will ultimately save you time
  - Best way to ensure quality service

- Meet face to face with vendors periodically
  - Always varies but once a year works well for many
  - Conferences are a great place for face time

- Caution against keeping everything too "close to the vest"

New Communication Tools

- The incoming generation of professionals is comfortable with new methods of communication.

- Deciding how your organization is going to use social and networking tools will help attract quality staff.

- Technology can help maximize efficiencies.

- SEC is among regulators offering guidance regarding use of social media and networks. Software is coming online to assist with the added challenges in highly regulated industries.

Promote Collaboration

- Tell vendors *how* to do business with you

- Create and implement purchasing rules to give all a fair shot
  - Best way to treat everyone fairly
  - Improve the quality of proposals you receive

- Promote a "partnership" mentality
  - Collaborative approach will improve results

We do not have to be adversaries!!

What would you do?

Hey, I gotta buddy!

Hey, Jim. It's Bob.

Have I got a deal for you!

Hey, Jim. Mitch here.

Thank You!

Enjoy the rest of the conference!

If you have any questions,
do not hesitate to ask.

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