

Local Government Investment Pool Best Practices Review

Florida State Board of Administration

June 2009

Introduction

- Under Senate Bill 2422, an annual review of the LGIP is required to determine whether the management of the Fund is in keeping with best practices.
- EnnisKnupp completed a comprehensive review of the various aspects of the LGIP to determine if the management and operations are in line with best practices.
- The review included discussions with SBA staff involved in the administration of the LGIP, the investment adviser (Federated), and the custodian (BNY Mellon), an on-site visit to Federated's offices, and information from the Money Market Working Group report.
- We also compared the LGIP's practices to those of peer funds, other "2a-7 like" funds, and 2a-7 registered funds.
- We conclude that the LGIP is managed and operated according to best practices and is in line with, or compares favorably to its peers, in virtually all areas.

Recommendations

- Maintain current “2a-7 like” nature of the fund. We believe that given the strict risk controls attendant in the current management practices of the LGIP, SEC registration (rare practice among LGIP’s peers) would add (yield-reducing) cost and complexity without corresponding significant gains to participants.
- Amend the LGIP’s Investment Policy Guidelines based on EnnisKnupp’s December 2008 recommendations and to be in compliance with the Investment Company Institute Money Market Working Group’s recommendations. The guidelines are currently in compliance as a matter of practice and this would bring them in compliance as a matter of policy.
- Change the primary benchmark from the S&P AAA/AA GIP Gross Index to the net of management fees version of the same index.
- BNY Mellon, custodian and book of record, should calculate the yield on the LGIP based on the SEC’s yield calculation rules.

Recommendations

- Consider adding a second pool option that is restricted to government securities for those participants that wish to avoid credit risk.
- Consider extending the daily transaction deadline for participants from 11 am EST to 1 pm EST.
- Formalize the process of monitoring communication (i.e., conference attendance, meetings, and calls) between Federated and LGIP participants.
- Longer term, explore using a third-party web interface for participant transactions including Federated as a candidate. SBA currently utilizes a proprietary interface.
- Improve the look and feel of the LGIP's website, which is currently part of a rebranding initiative for the LGIP.