



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: NOVEMBER 15, 2022

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: PROFESSIONAL CONSULTANT SERVICES AGREEMENT FROM RFP 2233 FOR INVESTMENT MANAGEMENT SERVICES WITH CHANDLER ASSET MANAGEMENT, INC., OF SAN DIEGO, CALIFORNIA, FOR \$350,000 ANNUALLY FOR A THREE-YEAR TERM WITH TWO OPTIONAL ONE-YEAR EXTENSIONS, FOR A TOTAL CONTRACT AMOUNT OF \$1,750,000.

ISSUES:

Approve a Professional Consultant Services Agreement from Request for Proposal No. 2233 for Investment Management Services with Chandler Asset Management, Inc. of San Diego, California, for \$350,000 annually for a three-year term with two optional one-year extensions, for a total contract amount of \$1,750,000.

RECOMMENDATIONS:

That the City Council:

1. Approve a Professional Consultant Services Agreement from Request for Proposal No. 2233 for Investment Management Services with Chandler Asset Management, Inc., of San Diego, California, for \$350,000 annually for a three-year term with two optional one-year extensions, for a total contract amount of \$1,750,000; and
2. Authorize the City Manager, or designee, to execute the Professional Consultant Services Agreement, including making minor and non-substantive changes and executing the optional contract extensions.

BACKGROUND:

The City began working with an investment advisor in 2002 to assist with maximizing its total return on investments. There are benefits in utilizing the skillsets of a professional investment management team who can aid the City with making prudent investment decisions in accordance with legal guidelines. Taking the City's cash flow needs and risk level into consideration, the investment advisor can actively manage the City's large and complex investment portfolio. While the primary objectives of safety and liquidity remain foremost in directing investment decisions, consistent with the City's investment policy more active and intelligent attention to the investment portfolio can add incremental value. Rather than holding all excess funds in a bank or pooled investment fund, such as LAIF, diversifying the types of securities or purchasing longer-term

investments can sometimes provide a higher rate of return. In a similar way, investment advisors can recognize when it may make sense to sell a shorter-term security back into the market and buy out on the yield curve to capture additional gains. These types of rebalancing transactions also help to keep the overall duration of the portfolio aligned to the plan's specific level of duration.

Having a professional investment advisor that specifically watches the market for these opportunities with our actual investment portfolio in mind is advantageous, as staff does not have the technological resources to conduct this work internally. The contract with the City's current investment advisor, Chandler Asset Management, Inc., will expire on December 2, 2022.

DISCUSSION:

To ensure that the City was receiving the best quality services at a reasonable price, the Purchasing Division issued Request for Proposal (RFP) No. 2233 for investment management services. The qualified firm would be responsible for the City's investment portfolio of approximately \$1 billion. The RFP included a highly desired qualification for a firm to be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940 to act in a fiduciary capacity and present performance numbers in accordance with the Chartered Financial Analyst Institute's Global Performance Standards (GIPS). The investment advisor is required to manage the City funds in accordance with the laws of the State of California, City's Investment Policy, and other investment policies and procedures established by the City.

Through the competitive procurement process, RFP 2233 was issued on August 11, 2022, and the City received responses from three qualified firms. The evaluation committee consisted of five City staff members (four in City Finance and one in RPU Finance). Based on review and evaluation of the proposals, the highest-ranking candidate was Chandler Asset Management, Inc.

Vendor	Location	Score	Rank
Chandler Asset Management, Inc	San Diego, Ca	865.52	1
PFM Asset Management, LLC	Harrisburg, Pa	864	2
Public Trust Advisors, LLC	Denver, Co	759.41	3

The fee structure for Chandler is based on an average of 3.50 basis points (or 0.0350%) of assets under management. As the portfolio balance fluctuates over the course of the year, the quarterly payments to the advisor will fluctuate as well. However, the pricing mechanism remains consistent, as shown in the table below.

		Chandler Asset Management	
	Assets Under Management	FEE	BPS %
1st	\$100,000,000	\$50,000	0.0500
2nd	\$100,000,000	\$100,000	0.0500
3rd	\$100,000,000	\$140,000	0.0400
4th	\$100,000,000	\$170,000	0.0300
5th	\$100,000,000	\$200,000	0.0300
6th	\$100,000,000	\$230,000	0.0300
7th	\$100,000,000	\$260,000	0.0300
8th	\$100,000,000	\$290,000	0.0300
9th	\$100,000,000	\$320,000	0.0300
10th	\$100,000,000	\$350,000	0.0300
Effective Annual Fee for initial 3-year term:		\$350,000	0.03500
Effective Annual Fee for extension periods:		\$350,000	0.03500

The City has been satisfied with the level of services received from Chandler Asset Management, Inc. since 2019, when they became the City's investment advisor. Chandler assisted the City with updating the Investment Policy in 2020, ensuring compliance with California Government Code and strategy objectives to align with best practices for local government investing. By utilizing a pro-active portfolio management approach, Chandler performs daily analysis of market conditions to identify opportunities and risks, conducts ongoing and in-depth credit analysis of investments, and works to obtain the best execution for each transaction. Recognizing the City's cash flow needs, Chandler's approach is designed to address specific investment needs, while focusing on the primary objectives of safety, liquidity, and return. Chandler also holds bi-weekly calls with the City to provide economic and market updates, to discuss the performance of the City's portfolio, and to review investment opportunities in line with the City's objectives.

The Purchasing Manager concurs that this request is in compliance with Purchasing Resolution No. 23914.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 5 - High Performing Government** and **Goal 5.3** – Enhance communication and collaboration with community members, to improve transparency, build public trust, and encourage shared decision-making.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – An investment advisor serves as a City of Riverside fiduciary, providing a specialized level of knowledge and skillset in portfolio management. Chandler works continuously to identify investment opportunities for the City, while adhering to California Government codes and the overall objectives of safety, liquidity, and yield. This aids the City in providing responsible money management of public funds.
2. **Equity** – Competitive procurement was achieved through RFP 2233, issued on August 11, 2022. Of the three qualified firms who submitted proposals, Chandler was ranked the highest.

3. **Fiscal Responsibility** – Utilizing an investment advisor is a great way to ensure that the City is adhering to the laws and best practices for local government investments. Chandler has worked with the City since 2019 in a discretionary role in order to obtain quality investment opportunities for the City, while timing investments appropriately to meet the City's cash flow needs.
4. **Innovation** – Chandler uses a team of professionals who are specialized in investment management, market conditions and economics, and portfolio compliance software from Bloomberg. Utilizing a team with this skillset to manage the City's large and complex portfolio, is an innovative way to aid the City's effort to achieve a targeted rate of return, while always keeping safety and liquidity as the top priorities.
5. **Sustainability & Resiliency** – Having an investment advisor is a logical approach for the City to ensure that sufficient cash is readily available when needed, and that excess funds are held in a safe and longer-term investment to capture earnings until required for a later time.

FISCAL IMPACT:

The annual fiscal impact of this action is \$350,000. Based on an estimated portfolio size of \$1 billion, the annual fee would be 3.50 basis points (or 0.0350%), for an effective dollar fee of approximately \$350,000 per annum. Fees are firm for the entire contract and are based on portfolio size. Funds to cover the costs are budgeted and available in the General Fund, Finance Debt and Treasury, Professional Services account 2302000-421000.

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availability of funds: Edward Enriquez, Interim Assistant City Manager/Chief Financial Officer/City Treasurer
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Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Professional Consultant Services Agreement with Chandler Asset Management, Inc.
2. RFP Award Recommendation