



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL**      **DATE: DECEMBER 3, 2019**

**FROM: FINANCE DEPARTMENT**      **WARDS: ALL**

**SUBJECT: PROFESSIONAL CONSULTANT SERVICES AGREEMENT FOR RFP 1943 FOR INVESTMENT MANAGEMENT SERVICES WITH CHANDLER ASSET MANAGEMENT, INC. FOR A THREE-YEAR TERM WITH THE OPTION TO EXTEND FOR ONE ADDITIONAL TWO-YEAR PERIOD**

## **ISSUE:**

Approve a Professional Consultant Services Agreement for Request for Proposal 1943 for Investment Management Services with Chandler Asset Management, Inc., of San Diego, California, for a three-year term with the option to extend for one additional two-year period.

## **RECOMMENDATIONS:**

That the City Council:

1. Approve a Professional Consultant Services Agreement for Request for Proposal 1943 for Investment Management Services with Chandler Asset Management, Inc., of San Diego, California, for a three-year term with the option to extend for one additional two-year period; and
2. Authorize the City Manager, or designee, to execute the Professional Consultant Services Agreement with Chandler Asset Management, Inc. including making minor and non-substantive changes and execute the optional contract extension.

## **BACKGROUND:**

The City began using an investment advisor in 2002 to assist with maximizing its total return on investment versus using the more passive, strict “buy and hold” strategy previously employed. With the initial engagement of a professional investment advisor to improve total return, opportunities to enhance overall earnings beyond a strict “buy and hold” strategy yield have proven to be financially beneficial.

While the primary objectives of safety and liquidity remain foremost in directing our investment decisions, consistent with the City’s investment policy, more active and intelligent attention to the investment portfolio adds significant incremental value. Rather than simply letting investments mature, this close oversight of investments enables periodic trades to be made when there is sufficient “gain” within a security before it matures. Thus, selling it back into the market before maturity and buying out longer on the yield curve captures additional gains while adding no

additional risk to the portfolio. These “rebalancing” transactions also help keep the plan’s overall duration aligned to the plan’s specified level of duration.

Having a professional investment advisor that specifically watches the market for these opportunities with our actual investment portfolio in mind is an advantage that staff doesn’t have either the market expertise or the technological resources to perform internally.

The City’s current investment advisor, Public Trust Advisors, has been with the City in one form or another since 2002.

## **DISCUSSION:**

In order to ensure that the City was receiving the best quality services at a reasonable price, the Finance Department issued Request for Proposal (RFP) 1943 for investment management services seeking proposals from qualified firms. The firm would be responsible for the City’s investment portfolio of approximately \$600 million. The RFP included a highly desired qualification for a firm to be registered with the Securities and Exchange Commission (SEC) under the Investment Adviser’s Act of 1940 to act in a fiduciary capacity and present performance numbers in accordance with the Chartered Financial Analyst (CFA) Institute’s Global Investment Performance Standards “GIPS.” The Investment advisor will be required to manage the 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.

The City received RFP responses from five (5) qualified firms including the incumbent, Public Trust Advisors. The firms were Chandler Asset Management, PFM Asset Management LLC, Garcia Hamilton, Public Trust Advisor and Bank of America. Based on a review and evaluation of proposals, the top scoring candidates were Chandler Asset Management and PFM Asset Management LLC. A cost comparison of the two (2) highest qualified firms is presented below.

### **Fee Percentage Breakdown**

	<b>Assets Under Management</b>	<b>Chandler Asset Management</b>	<b>PFM Asset Management</b>
1 <sup>st</sup>	\$100,000,000	0.05%	0.08%
2 <sup>nd</sup>	100,000,000	0.05%	0.06%
3 <sup>rd</sup>	100,000,000	0.04%	0.05%
4 <sup>th</sup>	100,000,000	0.03%	0.05%
5 <sup>th</sup>	100,000,000	0.03%	0.05%
6 <sup>th</sup>	100,000,000	0.03%	0.05%
Annual Fee		-	-
Annual Cost		0.0383%	0.0608%

### **Hard Dollar Breakdown**

	<b>Assets Under Management</b>	<b>Chandler Asset Management</b>	<b>PFM Asset Management</b>
1 <sup>st</sup>	\$100,000,000	\$50,000	\$80,000
2 <sup>nd</sup>	100,000,000	50,000	60,000
3 <sup>rd</sup>	100,000,000	40,000	50,000
4 <sup>th</sup>	100,000,000	30,000	50,000
5 <sup>th</sup>	100,000,000	30,000	50,000
6 <sup>th</sup>	100,000,000	30,000	50,000
Annual Fee		-	25,000
Annual Cost		\$230,000	\$365,000

Given that both firms are capable of performing the work and manage other municipal portfolios, the cost was the deciding factor in the final evaluation process. Chandler Asset Management submitted the most competitive pricing of 3.83 basis points, which translates to a fee of .0383% of the average daily cash balance on the actively managed portion of the portfolio. As the portfolio balance fluctuates over the course of the year, the quarterly payments to the advisor will fluctuate; however, the pricing mechanism remains constant. Based on the proposal evaluations and this fee analysis, Chandler Asset Management was selected as the most qualified for the contract for the City's investment management services.

The Purchasing Manager concurs that the recommendations comply with purchasing Resolution No. 23256

### **FISCAL IMPACT:**

Based on an estimated portfolio size of \$600 million, the annual fee would be 3.83 basis points (0.0383 of 1%), for an effective dollar fee of \$230,000 per annum. Fees are firm for the entire five-year contract and are based on portfolio size. The City will not be subject to arbitrary increases during this period. Sufficient funds for amounts due under this contract for Fiscal Year 2019/20 are within the Finance Department's budget. Similar amounts will be budgeted in subsequent fiscal years for the remainder of the contract.

Prepared by:	Edward Enriquez, Chief Financial Officer/ Treasurer
Certified as to availability of funds:	Marie Ricci, Assistant Chief Financial Officer
Approved by:	Carlie Myers, Deputy City Manager
Approved as to form:	Gary Geuss, City Attorney

### **Attachments:**

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