



CITY COUNCIL AGENDA REPORT

MEETING DATE: MAY 7, 2013

ITEM NUMBER:

CC-7

SUBJECT: AWARD THREE YEAR CONTRACT FOR MANAGED INVESTMENT SERVICES

DATE: APRIL 25, 2013

FROM: FINANCE DEPARTMENT

PRESENTATION BY: BOBBY YOUNG, FINANCE & I.T. DIRECTOR

**FOR FURTHER INFORMATION CONTACT: BOBBY YOUNG, FINANCE & I.T. DIRECTOR (714)
754-5243**

RECOMMENDATION

1. Award three (3) year contract for managed investment services to Chandler Asset Management, Inc. (Chandler) with an option to extend the contract in one-year periods, for a minimum of two fiscal years.
2. Authorize City Chief Executive Officer to sign and execute the investment management agreement (Attachment 1) with Chandler Asset Management, Inc.

BACKGROUND

For many years the City Treasurer/Finance Director has managed the City's investment portfolio. The City does not currently contract for investment advisory or management services. As per Government Code Section 53600.5 and the City's investment policy, the goals while investing City funds are 1.) safety, 2.) liquidity and 3.) yield.

During the last few years, as Finance & I.T. staff have been busier with increased workloads, it has become increasingly clear that the City's portfolio could benefit from full time expert management by a professionally managed investment firm. During the last 5 years of an economic recessionary period, the Federal Government has kept interest rates historically low, making investing the City's money and diversifying the portfolio very difficult. Many investments that could garner the City a higher yield, come with a slight amount of risk. Contracting the management of the City's portfolio will help manage the exposure to riskier investments (safety) while increasing the total return of the portfolio (yield).

ANALYSIS

On January 18, 2013, an RFP was released for managed investment services. In response, the City received seven proposals from potential vendors. A five-person evaluation committee independently evaluated the seven proposals and interviewed the top three firms on March 18, 2013. The committee eliminated four firms due to their low tabulated score based on the submitted proposals.

The top three firms interviewed were Chandler Asset Management Inc., Cutwater Asset Management and PFM Asset Management Group. All three rated very high and each had positive responses from other cities that currently utilize their services. In the end, Chandler Asset Management Inc. was preferred by the raters and staff. Staff communicated the results with the Finance Advisory Committee, and the committee unanimously supported the selection of Chandler as well.

Chandler's investment philosophy for the portfolio will be to maintain a conservative balanced portfolio that is focused on safety and liquidity first, then yield. This philosophy helps manage the portfolio in both increasing and decreasing interest rate environments. Additional benefits of contracting with Chandler include:

- Proprietary software to ensure all transactions meet State Code and the City's Investment Policy guidelines,
- Access to market resources such as Bloomberg, Trade Web and proprietary optimizing models,
- Volume pricing optimization on transactions and other services,
- Monthly online reporting and monitoring tools for all transactions and current balances,
- Continuity of the investment program regardless of changes or fluctuations in staffing levels or City personnel.

Also, Chandler will be assisting staff with the annual update of the City's Investment Policy and possibly recommending changes. As per the current policy, any proposed changes will first be provided to the City Council's Finance Advisory Committee then to the City Council for consideration.

ALTERNATIVES CONSIDERED

At this time, staff is not proposing any alternatives. After interviewing the top three investment management firms the review committee selected Chandler Asset Management Inc. This decision was also unanimously supported by the Finance Advisory Committee.

FISCAL REVIEW

Fees for investment management services are structured into the tier format below:

<u>Assets Under Management</u>	<u>Annual Asset Management Fee</u>
First \$25 million	0.10 of 1% (10 basis points)
Next \$25 million	0.08 of 1% (8 basis points)
Assets in excess of \$50 million	0.07 of 1% (7 basis points)

These fees are very similar to those proposed by the other two top rated firms.

For example only:

If the City had \$50 million of assets under management with Chandler, the fee would average 0.09 of 1% (9 basis points) or approximately \$45,000. Staff expects Chandler to provide a greater portfolio return that will offset the fees to be paid. If Chandler increases the portfolio return by 0.25% or 25 basis points (on \$50 million under management) it would provide \$125,000 more in return. After fees are paid, the City could expect approximately \$75,000 more in return than it would have otherwise earned.

LEGAL REVIEW

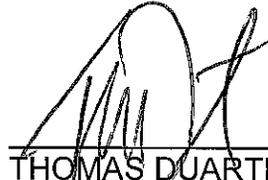
The investment management agreement (Attachment 1) has been reviewed and approved as to form.

RECOMMENDATION

Staff is recommending executing a three-year contract with Chandler Asset Management Inc. The firm has excellent qualifications, reputation and experience. In addition, the firm has a solid understanding of the scope of the project; and has extensive investment management experience with other municipal governments.



BOBBY YOUNG
Finance & I.T. Director



THOMAS DUARTE
City Attorney

Attachments:

1. Investment Management Agreement

INVESTMENT MANAGEMENT AGREEMENT
(Institutional Client, Non-ERISA)

The City of Costa Mesa (Client) hereby retains Chandler Asset Management, Inc. (Chandler) as Investment Adviser on the terms and conditions set forth herein.

1. Term. The term of this Agreement shall commence upon the execution of this Agreement and shall continue until this Agreement is terminated effective upon receipt of notice of termination in writing delivered by the terminating party.
2. Fees. Client shall compensate Chandler monthly an amount calculated on the average market value of Client's portfolio, including accrued interest, in accordance with the following schedule:

Assets Under Management	Annual Investment Management Fee
First \$25 million	10 bps (or 0.10 of 1%)
Next \$25 million	8 bps (or 0.08 of 1%)
Assets in excess of \$50 million	7 bps (or 0.07 of 1%)

The fees expressed above do not include any custody fees that may be charged by Client's bank or other third party custodian.

Fees shall be prorated to the effective date of termination on the basis of actual days elapsed, and any unearned portion of prepaid fees shall be refunded. Client is not required to pay any start-up or closing fees; there are no penalty fees.

Fees shall be deducted monthly in arrears from Client's custody account.

3. Client Representative. In its capacity as investment manager, Chandler shall receive all instructions, directions and other communications on Client's behalf respecting Client's account from Bobby Young, City Treasurer. Chandler is hereby authorized to rely and act upon all such instructions, directions and communications from such Representative or any agent of such Representative.
4. Investment Policy. In investing and reinvesting Client's assets, Chandler shall comply with Client's Investment Policy, which is attached hereto as Exhibit A.
5. Authority of Chandler. Chandler is hereby granted full discretion to invest and reinvest all assets under its management in any type of security it deems appropriate, subject to the instructions given or guidelines set by Representative.



6. Notices. All reports and other communications required hereunder to be in writing shall be delivered in person, or sent by first-class mail postage prepaid, by overnight courier, by confirmed facsimile with original to follow or by confirmed electronic mail with proof of receipt to the addresses set forth below. Either party to this Agreement may, by written notice given at any time, designate a different address for the receipt of reports and other communications due hereunder.

Chandler Asset Management
Attn: Nicole Drago
6225 Lusk Boulevard
San Diego, CA 92121

Client Representative
Bobby Young, Treasurer, City of Costa Mesa
P.O. Box 1200
Costa Mesa, CA 92628-1200

7. Electronic Delivery. From time to time, Chandler may be required to deliver certain documents to Client such as account information, notices and required disclosures. Client hereby consents to Chandler's use of electronic means, such as email, to make such delivery. This delivery may include notification of the availability of such document(s) on a website, and Client agrees that such notification will constitute "delivery". Client further agrees to provide Chandler with Client's email address(s) and to keep this information current at all times by promptly notifying Chandler of any change in email address(s).

Client email address(s): Bobby.Young@costamesaca.gov, Colleen.O'Donoghue@costamesaca.gov

8. Proxy Voting. Chandler will vote proxies on behalf of Client unless otherwise instructed. Chandler has adopted and implemented written policies and procedures and will provide Client with a description of the proxy voting procedures upon request. Chandler will provide information regarding how Clients' proxies were voted upon request. To request proxy policies or other information, please contact us by mail at the address provided, by calling 800-317-4747 or by emailing your request to info@chandlerasset.com.

9. Custody of Securities and Funds. Chandler shall not have custody or possession of the funds or securities that Client has placed under its management. Client shall appoint a custodian to take and have possession of its assets. Client recognizes the importance of comparing statements received from the appointed custodian to statements received from Chandler. Client recognizes that the fees expressed above do not include fees Client will incur for custodial services.

10. Valuation. Chandler will value securities held in portfolios managed by Chandler no less than monthly. Securities or investments in the portfolio will be valued in a manner determined in good faith by Chandler to reflect fair market value.

11. Investment Advice. Client recognizes that the opinions, recommendations and actions of Chandler will be based on information deemed by it to be reliable, but not guaranteed to or by it. Provided that Chandler acts in good faith, Client agrees that Chandler will not in any way be liable for any error in judgment or for any act or omission, except as may otherwise be provided for under the Federal Securities laws or other applicable laws.

12. Payment of Commissions. Chandler may place buy and sell orders with or through such brokers or dealers as it may select. It is the policy and practice of Chandler to strive for the best price and execution and for commission and discounts which are competitive in relation to the value of the transaction and which comply with Section 28(e) of the Securities and Exchange Act. Nevertheless, it is understood that Chandler may pay a commission on transactions in excess of the amount another broker or dealer may charge, and that Chandler makes no warranty or representation regarding commissions paid on transactions hereunder.
13. Other Clients. It is further understood that Chandler may be acting in a similar capacity for other institutional and individual clients, and that investments and reinvestments for Client's portfolio may differ from those made or recommended with respect to other accounts and clients even though the investment objectives may be the same or similar. Accordingly, it is agreed that Chandler will have no obligation to purchase or sell for Client's account any securities which it may purchase or sell for other clients.
14. Confidential Relationship. The terms and conditions of this Agreement, and all information and advice furnished by either party to the other shall be treated as confidential and shall not be disclosed to third parties except (i) as required by law, rule, or regulation, (ii) as requested by a regulatory authority, (iii) for disclosures by either party of information that has become public by means other than wrongful conduct by such party or its officers, employees, or other personnel, (iv) for disclosures by either party to its legal counsel, accountants, or other professional advisers, (v) as necessary for Chandler to carry out its responsibilities hereunder, or (vi) as otherwise expressly agreed by the parties.
15. No Assignment & Amendments. Neither party may assign, directly or indirectly, all or part of its rights or obligations under this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed. This Agreement may be amended at any time by mutual agreement in writing.
16. Governing Law. It is understood that this Agreement shall be governed by and construed under and in accordance with the laws of the State of California.
17. Severability. Any provision of this Agreement which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.
18. Receipt of Brochure and Privacy Policy. Client has received the disclosure statement or "brochure" and "brochure supplement" also known as Part 2A and Part 2B of Form ADV, required to be delivered pursuant to Rule 204-3 of the Investment Advisers Act of 1940 (Brochure). Client has received a copy of Chandler's Privacy Policy.



19. Arbitration. It is agreed that any controversy between Chandler and the Client arising out of Chandler business or this Agreement, shall be submitted to arbitration conducted under the provisions of the commercial arbitration rules of the American Arbitration Association. Arbitration must be commenced by service upon the other party of a written demand for arbitration or a written notice of intention to arbitrate, therein electing the arbitration tribunal. In the event the Client does not make such election within five (5) days of such demand or notice, then the Client authorizes Chandler to do so on the Client's behalf. Judgment upon any award rendered by the arbitrators shall be final and may be entered in any court having jurisdiction thereof. This clause does not constitute a waiver of any right including the right to choose the forum, whether arbitration or adjudication, in which to seek resolution of disputes.

Client:

By: _____
Date

Name & Title: _____

Project Manager:

By: _____
Date

Name & Title: _____

Chandler Asset Management, Inc.,
a California Corporation

By: _____
Date

Name & Title: _____