



# *CITY COUNCIL AGENDA REPORT*

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MEETING DATE: JUNE 18, 2013

ITEM NUMBER: OB-1

**SUBJECT: AWARD THREE YEAR CONTRACT FOR MANAGED INVESTMENT SERVICES**

**DATE: JUNE 11, 2013**

**FROM: FINANCE DEPARTMENT**

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

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

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BOBBY YOUNG  
Finance & I.T. Director

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THOMAS DUARTE  
City Attorney

### Attachments:

1. [Investment Management Agreement with Chandler Asset Management](#)
2. [Chandler Asset Management response to Request For Proposal No 1149](#)
3. [Chandler Asset Management response to Interview Questions](#)
4. [Chandler Asset Management Interview Presentation](#)