



CITY COUNCIL AGENDA REPORT

MEETING DATE: APRIL 19, 2016

ITEM NUMBER: CC-4

SUBJECT: RENEW ONE YEAR CONTRACT FOR MANAGED INVESTMENT SERVICES

DATE: MARCH 23, 2016

FROM: FINANCE DEPARTMENT

PRESENTATION BY: COLLEEN O'DONOGHUE, ASSISTANT FINANCE DIRECTOR

FOR FURTHER INFORMATION CONTACT: COLLEEN O'DONOGHUE (714) 754-5219

RECOMMENDATION

1. Renew one (1) year term of the Professional Services Agreement (PSA) with Chandler Asset Management, Inc. (Chandler) for investment management services in an amount up to \$50,000.
2. Authorize City Chief Executive Officer to execute the Amendment Number One to the Professional Services Agreement with Chandler Asset Management, Inc.

BACKGROUND

On July 12, 2013, the City entered into a Professional Services Agreement with Chandler Asset Management, Inc. to provide investment management services for a period of three (3) years with the option to renew the contract in one (1) year period, for a minimum of two (2) periods. The initial contract period of three years will end July 11, 2016. Staff recommends the renewal of the contract year to period ending on July 12, 2017.

ANALYSIS

Since July, 2013, Chandler Asset Management, Inc. has been working with City staff to diversify the City's investment portfolio and improve the portfolio's duration while staying in line with the City's investment policy. Prior to Chandler's involvement, the City's portfolio comprised primarily of Local Agency Investment Fund (LAIF) and Federal Agency securities, majority of which were callable notes. Chandler works with City staff over time to broaden the portfolio's overall asset allocation and maturity distribution, which includes allocation to US Treasury notes and corporate bonds with less focus on Federal Agency securities. The table below summarizes how the City's portfolio has transitioned under Chandler's management.

Asset Allocation	As of 07/31/2013	As of 02/29/2016
US Treasury Notes	0.00%	16.55%
Federal Agency Securities	50.85%	35.25%
LAIF	43.20%	34.84%
Corporate Notes	0.00%	13.31%
Commercial Paper	5.90%	0.00%
Money Market	0.05%	0.04%

Maturity Distribution	As of 07/31/2013	As of 02/29/2016
0.00 – 1.00 year	49.1%	49.1%
1.00 – 2.00 years	2.4%	14.0%
2.00 – 3.00 years	7.1%	11.9%
3.00 – 4.00 years	4.9%	10.6%
4.00 – 5.00 years	36.0%	14.4%

Additionally, Chandler assists City staff with the annual review of the City’s investment policy and updates staff regularly on economic conditions. Staff are pleased with their performance.

ALTERNATIVES CONSIDERED

At this time, there are no alternatives proposed. To change the contractor for investment management services, the City would need to issue a Request for Proposal (RFP). However, given the timeline on issuing an RFP, evaluating the proposals and bringing a professional service contract to City Council for approval, staff does not believe there would be enough time before the current contract ends in July 2016.

FISCAL REVIEW

Fees for investment management services remain the same as the original contract and 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)

Over the past few years, the City has increased its investment holdings gradually. Currently, the City has approximately \$54 million in assets under Chandler’s management. Chandler’s fees range around \$4,000 per month. Staff anticipates Chandler’s annual fees to total about \$50,000 in the 1st renewal year.

LEGAL REVIEW

The Amendment Number One to the 2013 Professional Services Agreement has been reviewed and approved as to form. Public Contract Code, Section 22175 et seq., does not apply to this agreement because the contract value is below the threshold set forth in Public Contract Code, Section 22178(a).

RECOMMENDATION

Staff is recommending the execution of this Amendment Number One to the Professional Services Agreement with Chandler Asset Management Inc., renewing the existing PSA for one year in an amount up to \$50,000 annually. 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.

STEPHEN DUNIVENT
Interim Finance Director

THOMAS DUARTE
City Attorney

Attachments:

1. [Professional Services Agreement \(July 12, 2013\)](#)
2. [Amendment Number One to the Professional Services Agreement with Chandler Asset Management, Inc. \(July 12, 2016\)](#)