



TO: Board of Contracts and Awards

FROM: Andy Cherullo, Finance Director 
Teresa Sedmak, City Treasurer, Finance

COPY: City Council, City Manager, City Clerk, SBE Coordinator, LEAP Coordinator, and
Richelle Krienke, Finance/Purchasing

SUBJECT: Investment Advisory Services
Request for Proposals, Specification No. FI15-0289F, – City Council August 18, 2015

DATE: August 3, 2015

SUMMARY:

The Finance Division/City Treasurer's Office recommends a contract be awarded to **Chandler Asset Management, Seattle, WA**, in the amount of \$700,000, sales tax not applicable, for investment advisory services related to the approximately \$500 million of assets in Core Tier of the City's investment portfolio, for an initial three-year contract term, with the option to renew for two additional one-year terms.

STRATEGIC POLICY PRIORITY:

- Strengthen and maintain a strong fiscal management position.

The contract will provide the City with enhanced potential for increased returns on its investable funds.

BACKGROUND:

The City's Investment Policy (the Policy) has three primary objectives: safety, liquidity, and yield, in that order. In order to meet those objectives, eligible investments are limited as to sector and credit quality. The Policy also provides limitations on maturities and diversification and dictates benchmarks against which performance is evaluated over time.

The Policy divides the portfolio into two component segments:

- Liquidity Tier: Investments structured to meet expected liabilities that may occur over the immediate 12-month period; and
- Core Tier: Investments of longer maturities, up to a maximum maturity limit of five years, which will provide for a longer investment horizon to capture the higher returns that are normally associated with longer maturities.

The Liquidity Tier and the Core Tier have different performance benchmarks, with the Liquidity Tier measured in terms of current return and compared against the return on the Local Government Investment Pool (LGIP). The performance of the Core Tier (securities maturing in more than one year but less than five years) is measured on a total return basis and utilizes the B of A Merrill Lynch 0-5 year U.S. Treasury index (ticker GVQA) as its performance benchmark.

ISSUE: Staff believes that the use of an investment advisor will provide the City with an enhanced potential for higher returns on the Core Tier of the portfolio while maintaining the primary objectives of safety, liquidity and yield. In addition to the delivery of investment advice, the advisor will provide the City with support related to policy review, compliance checks, operations, accounting and reporting. The City will retain full portfolio management responsibility for the Liquidity Tier, which consists of shorter-term investment securities structured to meet expected liabilities that may occur over the immediate 12-month period.



As stipulated in the contract, the advisor will make investment recommendations relative to the City's investment objectives and in compliance with the City's Policy. The advisor will not have custody of the City's funds or investments nor will it have discretion to make investment decisions without the City's approval.

This funding request assumes that the advisor will be providing guidance on approximately \$500 million of the City's funds, charging 0.06 of 1% (6 basis points) on the first \$100 million and 0.04 of 1% (4 basis points) on the remainder, for the initial three year period. It is staff's intention to come back before council at the end of that three year term with a recommendation related to the exercise of the two optional extension years, along with the performance data utilized in making that recommendation. It is anticipated that fees paid will be more than offset by increased performance through the improved trade execution, narrower bid-ask spreads and economies of scale provided by the advisor.

In addition to those advantages, contracting with an outside investment advisor may provide the following advantages which may result in enhanced portfolio returns:

- Superior Trading Access. Larger investors (including funds management and advisory firms) often have access to large securities positions prior to them being offered to smaller accounts, allowing them to purchase attractive positions which may not be offered by smaller accounts. Because of their considerable trading volume, advisors receive optimal prices and improved trading efficiencies.
- Quicker Reaction Time. Because institutional advisors are constantly watching the markets, they have the ability to take advantage of significant market moves as they occur.
- Active Management Advantages. Professional advisors may deliver stronger performance through the active trading of securities. Typically, the City employs a "buy and hold" or more passive investment management approach. Active managers may capture value as markets move, providing relative value benefits of one security versus another, allowing them to provide optimal transaction selections.

Another benefit of utilizing an outside advisor for a portion of the portfolio is the detailed reporting and analysis that the advisor can provide. Sophisticated investment performance and reporting software is expensive to purchase and maintain and, especially in times of fiscal challenges, often not prioritized in the budgeting process. Having access to this reporting is a benefit which, while difficult to quantify, provides advantages in terms of communication and timeliness of information flow.

ALTERNATIVES: Council could choose not to approve staff's recommendation to award a contract to Chandler Asset Management to provide investment advisory services to the City. As outlined earlier in this memorandum, it is believed that the addition of an investment advisor to the City's financial consulting team will result in efficiencies which will ultimately result in increased investment income to the City and its various business units.

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FINANCE PURCHASING



COMPETITIVE SOLICITATION: Request for Proposals FII5-0289F was opened June 16, 2015. Three companies were invited to bid in addition to normal advertising of the project. Five proposals were received. The Selection Advisory Committee, made up of four City staff members, evaluated the proposals and deemed Chandler Asset Management to be the most capable and qualified to provide the advisory services to the City

<u>Respondent</u>	<u>Location (city and state)</u>	<u>Rank or Score</u>
Chandler Asset Management	Seattle, WA	86
PFM Asset Management, LLC	San Francisco, CA	80
Government Portfolio Advisors, LLC	Portland, OR	73
Western Asset Management Company	Pasadena, CA	53
Pension Consulting Alliance, Inc.	Portland, OR	51

CONTRACT HISTORY: This is a new contract.

SUSTAINABILITY: In addition to a focus on recycling and decreased energy consumption, the primary contact on the City’s account lives locally in the Seattle area. The firm's local presence minimizes the environmental impacts of travel to the City for meetings, as required.

SBE/LEAP COMPLIANCE: Not applicable.

DISADVANTAGED BUSINESS ENTERPRISE (DBE): Not applicable.

RECOMMENDATION:

The Finance Department recommends a contract be awarded to Chandler Asset Management to provide investment advisory services to the City.

FISCAL IMPACT:

Approximately 81 percent of the costs of the investment advisory services will be allocated to other funds. The expectation is that the increase in investment income will offset and exceed the fees.

EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
0010-General Fund	104100- Treasury	5310100	\$700,000.00
TOTAL			\$700,000.00

* General Fund: Include Department



REVENUES:

Assessments are received as an offset to the expense, but are reported below as the revenue that will help cover the cost of the agreement.

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
0010-General Fund	104100- Treasury	5950075- 5950078	\$565,950.00
TOTAL			\$565,950.00

POTENTIAL POSITION IMPACT:

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
N/A			
TOTAL			

This section should only be completed if a subsequent request will be made to increase or decrease the current position count.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: Expectation that investment income will increase.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? No.

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED.

The expectation is that the increase in investment income will offset and exceed the fees.