



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Award of Contract for Investment Management Services (F18-028)

REPORT IN BRIEF

Approval is requested to award a three-year contract in an amount not to exceed \$850,000 to Chandler Asset Management, Inc. (Chandler) to provide investment management services and authorize the City Manager to extend the contract up to two years, if pricing and service remain acceptable to the City.

EXISTING POLICY

Consistent with the provisions of Sunnyvale Municipal Code Section 2.08.040, contracts for the procurement of services are awarded pursuant to a Request for Proposals (RFP) process, unless otherwise exempt from competitive bidding. Further, City Council approval is required for contracts exceeding \$100,000 in any one transaction.

ENVIRONMENTAL REVIEW

The proposed actions are exempt from environmental review under the California Environmental Quality Act (CEQA) pursuant to Section 15378(b)(4) of the CEQA Guidelines (fiscal activities that do not involve commitment to any specific project that may result in a significant impact on the environment).

BACKGROUND

City funds needed for immediate disbursement are maintained in a liquid checking account and funds that are temporarily idle or not needed for disbursement are held in the City's pooled investment portfolio. Currently, staff passively manages the investment of the City's pooled portfolio in accordance with the City's Investment Policy. The City's Deferred Compensation Plan, the City's Retirement Plan, Other Post-Employment Benefits (OPEB) Trust, and debt issuance proceeds are not invested by City staff.

The City Council first adopted a policy governing the investment of City funds on July 30, 1985. The key provisions of the City's Investment Policy are: 1) safety of principal - being the foremost objective of the investment program; 2) liquidity - retaining sufficient short-term cash or investments to meet all operating requirements; and, 3) rate of return - obtaining a reasonable market rate of return based on consideration of the City's investment risk approach and cash flow needs. The City Council reviews and adopts the Investment Policy annually within 120 days of the end of the fiscal year to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends. Also, the Investment Policy follows the Government Code and includes additional restrictions on some investments such as a lower allowable percentage per investment type or issuer than State law.

California Government Code Section 53600 et seq., strictly governs which investments public agencies can hold. In some cases, State law also governs what percentage of the portfolio can be invested in certain security types, maximum maturities, and minimum credit ratings by the major rating agencies (Standard & Poor's and Moody's Investors Service). Public agencies can only invest in fixed income securities. The purchase of stock is prohibited. Therefore, the City primarily invests in highly rated securities such as U.S. Treasury, Federal agencies, and government sponsored enterprise debt.

Although yields are gradually increasing for the last two years, they had been on a declining trend for almost a decade, reaching historically low levels in that duration. The City's investment strategy has been focused on making short-term investments in anticipation of rising interest rates and holding investments until maturity dates to avoid incurrence of losses that result from disposition of investments at market value lower than cost. For the past three years, the City's investment portfolio statistics are as follows:

<u>Fiscal Year</u>	<u>Investment Balance</u>	<u>Yield</u>	<u>Years-to-maturity</u>
2016/17	\$419,547,977	1.18%	1.08
2015/16	\$358,280,710	0.91%	1.15
2014/15	\$314,198,929	0.89%	1.38

On June 20, 2017, the City Council amended the 2017 Priority Advocacy Issues to support legislation to limit or eliminate direct or indirect investment of public funds to support the production of drilling of fossil fuels. Consequently, the Investment Policy now encourages investments that support sound environmental, social and governance (ESG) investing. While the portfolio may not be classified as an ESG portfolio, investments in entities that support community well-being through safe and environmentally sound practices and fair labor practices and equality of rights regardless of sex, race, age, disability, or sexual orientation is encouraged. Investments are discouraged in entities that manufacture tobacco products, firearms, or nuclear weapons and are direct or indirect investments to support the production or drilling of fossil fuels.

For compliance with these amendments to the Investment Policy, researching and selecting investments that meet the criteria of being socially responsible and environmentally conscious requires expertise that staff does not have. Additionally, the City's Investment portfolio balance reached \$419 million on June 30, 2017, an increase \$105 million (33.4%) during the last three fiscal years. Meeting the City's investment objectives, along with ESG investing goals and maximizing rate of return were factored in when staff started evaluating options for outsourcing the management of the investment portfolio. Generally, investment advisory and portfolio management firms have the specialized expertise, technology skills, and research tools necessary to achieve a higher rate of return and they can design and manage an investment portfolio that meet individual needs and preferences of public agencies and comply with applicable federal laws and California Government Codes.

DISCUSSION

Request for Proposals No. F18-128 was issued on October 13, 2017 and was posted on the City's website. A total of nine firms submitted proposals. The proposals were reviewed by an evaluation

team consisting of staff from the Finance Department. The proposals were evaluated on proposer qualifications and experience, portfolio management experience, investment management approach, familiarity with reporting and proposal quality and content. Following the written evaluation process, Chandler Asset Management Inc., PFM Asset Management Group, and FTN Financial Main Street Advisors were invited for interviews on December 15, 2017. Throughout the evaluation process, Chandler demonstrated a high level of expertise, public sector experience, and research resources available to customize the portfolio in accordance with the City's investment objectives and ESG investing goals. 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, while meeting ESG goals and preferences. This philosophy helps manage the portfolio in both increasing and decreasing interest rate environments. Other benefits of contracting with Chandler include:

- Proprietary software to ensure all transactions meet Government Code and the City's Investment Policy guidelines,
- Analysis of the City's cash flow needs,
- More active management of the City's investments,
- 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, and
- Continuity of the investment program regardless of changes or fluctuations in staffing levels or City personnel.

Chandler will provide monthly reporting, hold quarterly meetings to discuss quarterly results, and be available to present to Council as needed. Also, Chandler will be assisting staff with the annual update of the Investment Policy, which ultimately will be submitted for Council approval.

City staff further clarified the scope of work, expectations and pricing with Chandler and now recommends award based on their ability to provide the best value services.

FISCAL IMPACT

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

<u>Assets Under Management</u>	<u>Annual Asset Management Fee</u>	<u>Estimated Fee</u>
First \$100 million	0.08 of 1% (8 basis points)	\$80,000
Next \$100 million	0.06 of 1% (6 basis points)	\$60,000
Next \$ 50 million	0.04 of 1% (4 basis points)	\$20,000
Assets in-excess of \$250 million	0.04 of 1% (4 basis points)	

For example, if the City had \$450 million of assets under management with Chandler (approximate current balance), the total annual fees would be approximately \$240,000 of approximately 0.05% (five basis points). Staff expects Chandler to provide a greater portfolio return than the City currently earns, which will offset the fees to be paid. If Chandler increases the portfolio return by 0.20% or 20 basis points (on \$450 million under management) it would provide \$900,000 more in return. After fees are paid, the City could expect approximately \$660,000 more in return than it would have otherwise earned. The total contract spans three years at an estimated \$240,000 per year. Staff is requesting a not to exceed total of \$850,000 to account for

continued potential growth in the City's investment pool.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

STAFF RECOMMENDATION

1) Award a three (3) year contract in the amount not to exceed \$850,000 to Chandler Asset Management, Inc. in substantially the same form as Attachment 1 to the report, and authorize the City Manager to execute the contract when all necessary conditions have been met; 2) authorize the City Manager to award a contract for two additional one-year periods, provided pricing and service remain acceptable to the City.

Prepared by: Inderdeep Dhillon, Finance Manager

Reviewed by: Gregory Gard, Purchasing Officer

Reviewed by: Timothy J. Kirby, Director, Department of Finance

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. Draft Investment Management Agreement