



AGENDA REPORT

Department: Administrative Services - Finance
Prepared by: Phillip Davis, Financial Analyst
Meeting Date: Tuesday, June 20, 2023
Approved by: Armando Vergara, Interim City Manager

SUBJECT:

Agreement Between City of National City and Chandler Asset Management, Inc.

RECOMMENDATION:

Adopt the Resolution Entitled, "Resolution of the City Council of the City of National City, California, Authorizing the Mayor to Execute the Agreement By and Between the City of National City and Chandler Asset Management, Inc. for Investment Management and Advisory Services."

BOARD/COMMISSION/COMMITTEE PRIOR ACTION:

Not Applicable.

EXPLANATION:**Role of the Investment Official**

Under California law, the governing body of a local agency has primary responsibility for investment of public funds (California Government Code Section 53600 *et seq.*). The authority of the legislative body to invest or reinvest funds of a local agency may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who assumes full responsibility until the delegation is revoked or expires; such a delegation may be renewed on an annual basis. It is common practice for the legislative body to delegate its investment responsibility.

The City Council delegates its investment responsibility and therefore their role as the primary investment officials to the City's Director of Administrative Services and/or Financial Services Manager annually at the time that the City's Investment Policy is adopted. This delegation was authorized most recently by City Council adoption of Resolution 2022-107 on June 21, 2022.

Delegation of investment duties does not relieve the primary investment official of their fiduciary responsibilities under California law. Whether an investment official delegates responsibilities to internal staff or to a third party (such as an investment advisor), the investment official is responsible for ensuring that the investment process is managed prudently, professionally, and in accordance with all legal requirements.

The primary investment official must take an active role in the development of investment policies and strategies, ensure that reporting is timely and complete, monitor compliance, credit quality, and performance, and follow-up on any adjustments in strategy necessitated by changes in agency objectives, cash flows, or economic and market conditions. These responsibilities require a considerable commitment of time and effort that includes on-going education by the primary investment official and internal staff that performs these duties.

Role of the Investment Advisor

Investment advisors are professionals with experience, training, and special expertise in the area of investment management. Investment advisors receive a fee for their service. Public agencies

hire investment advisors that have experience with fixed-income securities (bonds) rather than equities, real estate, or foreign bonds. Public agencies seek advisors that are experienced with the securities authorized by the California Government Code.

Investment advisors with assets under management of \$30 million or more are registered with and regulated by the Securities and Exchange Commission (SEC), under the Investment Advisors Act of 1940 (Act). The Act requires investment advisors to file an initial application, known as the “Uniform Application for Investment Advisor Registration” or “Form ADV,” with the SEC. They also must file an annual updating amendment, as well as an amendment any time a significant change has occurred at the firm. The SEC requires investment advisors to maintain extensive records, and has the authority to sanction advisors who break the law or rules established under the Act.

There are a number of reasons that a public agency will choose to employ the services of an investment advisor. Some of those reasons are:

- Confidence in the investment advisor’s ability to provide the service professionally and appropriately in a manner that will save the public agency time and safeguard the agency’s funds;
- Potential of greater returns available from full-time expert management of the investment program;
- Increased access to broker offerings;
- City’s lack of resources and expertise to devote to corporate credit review;
- City’s lack of market information systems, such as Bloomberg;
- City’s lack of adequate staffing capacity and expertise. It is a lower net cost to use the services of an investment advisor rather than hiring additional internal staff to provide the same function.

In addition to the above reasons, there are several advantages to using an investment advisor. An investment advisor devotes their time almost entirely to investment management activities and monitoring the market, unlike most typical local agency officials who have limited time to devote to investment activities. This allows local agency officials to focus on long-term investment goals and oversight of the investment program. Investment advisors deal with numerous brokers/dealers on a regular basis and have access to real time pricing from multiple broker/dealers at any given time often receiving better pricing of securities transactions. Their special training and expertise in the field of investment management provides the local agency clients with superior investment strategies. An independent advisor, as compared to a broker/dealer, does not have an inventory of securities to sell. Therefore, certain potential conflicts of interest (such as selling a security from the firm’s own inventory at a less favorable price than its fair market value) are avoided.

Selection of the Investment Advisory Firm

The City issued a Request for Proposals (RFP) on February 14, 2023 and closed the RFP on March 13, 2023. The RFP was advertised in *The Star News*, the California Society of Municipal Finance Officers website, and the City’s website. A Selection Committee composed of the City Treasurer, Administrative Director Services, and Financial Analyst formed to evaluate the proposals.

There were a number of factors to consider when evaluating proposals. All evaluation criteria were articulated in the RFP. Additionally, the RFP disclosed that the Consultants should note that the lowest cost proposal is not the sole determining factor in the final selection. The Evaluation Criteria follows.

Evaluation Criteria

Proposals will be evaluated using the three (3) sets of criteria below. Consultants which meet the proposal submittal requirements and the mandatory evaluation criteria will be selected for further evaluation by the City. Proposals will be evaluated based upon both understanding of the scope of services to be provided and experience.

1. Mandatory Elements

- a. The Consultant is independent and licensed to practice in California.
- b. The Consultant has no conflict of interest with regards to any of the services to be performed by the Consultant to the City.
- c. The Consultant adheres to the instructions in the RFP on preparing and submitting response.

2. Understanding of Scope of Services to be Provided

- a. Thoroughness of approach to providing investment management and advisory services to the City.
- b. Understanding the City's investment policy requirements and demonstration of investment strategies for carrying out the objectives of the policy.
- c. Variety of investment options and portfolios available to the City.

3. Experience

- a. The quality of the Consultant's professional personnel to be assigned to the engagement.
- b. The Consultant's past and present experience and performance with comparable government agencies.
- c. Demonstrated knowledge of market factors and economic indicators and their relationships to investment practices.
- d. Understanding of regulatory requirements for investment of public funds.

RFP Results

As a result of the RFP, the City received two proposals for investment management and advisory services from the firms Meeder Public Funds, Inc. and Chandler Asset Management, Inc. The Selection Committee reviewed each of the proposals submitted based on the evaluation criteria listed above. After the review was completed, Chandler Asset Management, Inc. submitted the highest rated proposal and staff recommends authorizing an agreement with Chandler Asset Management for investment services.

About Chandler Asset Management, Inc.

Founded in 1988, Chandler Asset Management is an SEC-registered corporation headquartered in San Diego that specializes in the management of fixed-income portfolios for the public sector. As of December 31, 2022, Chandler manages over \$28.6 billion in firm-wide assets for clients in regions across the United States, including \$24.3 billion for 191 public agencies. As a California domiciled firm, Chandler takes enormous pride in the depth and strength of the relationships cultivated in the home state and currently manages over \$8.9 billion for 69 cities in California alone. Chandler's primary focus is public agency fund management and serving clients who are guided by the objectives of preservation of principal, access to cash, and maximization of investment outcome without undue exposure to risk.

Chandler Asset Management has provided investment management and advisory services to the City of National City since 2012. At the May 16, 2023 meeting, the City Council was provided an investment report for the quarter ending December 31, 2022. In that report, Table 2 provides a summary of the City's Investment Portfolio and market yields to maturity.

INVESTMENT PORTFOLIO SUMMARY BY MANAGER
As of December 31, 2022

Manager	Book Value	Total Market Value	Market YTM	% of Portfolio
Chandler Asset Management	37,584,716	35,435,984	4.52%	32.48%
County of San Diego	36,874,604	35,464,634	2.97%	32.51%
Local Agency Investment Fund	38,713,020	38,203,865	2.17%	35.02%
Totals for December 31, 2022	\$113,172,340	\$109,104,483		100.00%

The table shows that Chandler Asset Management has significantly outperformed the County of San Diego pooled cash fund and the State Treasurer's Local Agency Investment Fund as of December 31, 2022. At the current portfolio distribution and yields reflected above (with the portfolio roughly distributed with a third to each investment manager option), Chandler's performance is yielding the City approximately \$580,000 per year more in interest earnings than the earnings generated from the County Pool investments.

FINANCIAL STATEMENT:

There is no additional fiscal impact to the budget because the costs for investment management and advisory services are included in the base budget.

The approximate fees for services are approximately \$27,000 per year based upon the current City assets under management by Chandler Asset Management.

RELATED CITY COUNCIL 2020-2025 STRATEGIC PLAN GOAL:

Balanced Budget and Economic Development

ENVIRONMENTAL REVIEW:

This is not a project under CEQA and is therefore not subject to environmental review. CCR15378; PRC 21065.

PUBLIC NOTIFICATION:

Agenda Report posted within 72 hours of meeting date and time in accordance with Brown Act.

ORDINANCE:

Not Applicable

EXHIBITS:

Exhibit A – Agreement and Scope of Services and Fees

Exhibit B – City Council Policy 203

Exhibit C – Resolution