

CITY COUNCIL/REDEVELOPMENT AGENCY

TUESDAY, FEBRUARY 16, 2010

AGENDA ITEM No.9

CONSENT CALENDAR

MOTION

Authorize the City Manager to issue a Request for Proposal (RFP) for Investment Management Services (Stephanie Osaze, Director-Finance)



CITY OF EAST PALO ALTO

Office of the City Manager

Finance Department

To: Mayor and City Council Members

Via: Alvin D. James, Interim City Manager

From: Stephanie Osaze, Finance Director

Date: February 16th, 2010

Re: Investment Management Services

RECOMMENDATION:

By motion, authorize the City Manager to issue a Request for Proposal (RFP) for Investment Management Services.

BACKGROUND:

The City has historically managed its own funds using two investments pools, Local Agency Investment Fund (LAIF) since 2001 and San Mateo County Pool (the Pool) since 2003. LAIF is an investment pool operated by the State Treasurer and was yielding 0.06% as of December 2009. It is also completely liquid and the City can access the funds on 24-hour notice. The Pool is also highly liquid although the maturity of the underlying securities is longer than LAIF, which typically results in a higher yield (or earnings) on the amounts invested. The yield on the Pool as of December 2009 was 1.11%. Although the staff has no direct control over the investment of funds, staff monitors the investment objectives of both LAIF and the Pool to ensure the overall investment parameters are in agreement with the City's Adopted Investment Policy. Additionally, each of the two investments pools are managed by the agency's investment staff with oversight by an investment oversight committee or board.

Historically, the City's has been limited to the two investment pools mention above due its historical cash constraints and the need to meet its operating obligations. Over the last few years, the City's investment balance has grown substantially and the City can now seek longer and higher-yielding investments, with the goal of improving overall investment earnings.

OVERVIEW:

Staff is recommending that the City of East Palo Alto seek proposals from qualified firms to provide investment management and advisory services for the City's pooled cash reserves. The value of the reserves, which are currently placed with the Local Agency Investment Fund (LAIF) and the San Mateo County Pool, is approximately \$20 million.

Recently, the City has attained a level of cash reserves whereby the City can seek more direct monitoring and control over investment decisions and transactions than is currently available utilizing the fund pools mentioned above. Therefore staff believes overall investment returns may be improved if the cash reserves are invested in a manner tailored to meet the City's specific risk constraints, time-horizon parameters, and cash-flow requirements. Therefore, staff recommends that the City seek the services of a highly-qualified and ethical investment management firm who can provide the following services:

1. Provide management and advisory services for the City's investment portfolio.
2. Develop and implement sound investment strategies that will maximize the portfolio's performance within the parameters of the adopted investment policy and California government codes.
3. Provide technical and fundamental market research including yield curve analysis.
4. Provide credit analysis of investment instruments in the portfolio.
5. Provide monthly investment reports for the portfolio detailing holdings, composition and sector analysis, return, weighted average maturity and daily transaction activity. This includes the ability and flexibility for City staff to electronically access current investment information on the City's investment account as needed.
6. Provide semi-annual and annual performance reports, as needed.
7. Review safekeeping and custodial procedures and agreements.
8. At a minimum, semi-annual presentation to the City Council of the performance of the City's portfolio will be required.
9. Review the City's Annual Investment policy and make recommendations that are necessary.

FISCAL IMPACT:

At this time there is no direct cost associated with the issuance of this RFP. However, this process would result in specific costs associated with providing such services based on the results of the RFP and whether a firm is selected and approved by the City Council.

ATTACHMENTS:

- 1) Attachment A: Request for Proposal for Investment Management Services



Request for Proposal For Investment Management Services

I. Background and Overview

The City of East Palo Alto is seeking proposals from interested firms in providing Investment Management Services for its investment portfolio. The value of the portfolio is approximately \$20 million, which is currently placed between the Local Agency Investment Fund (LAIF) and the San Mateo County Investment Pool.

The City has historically managed its own funds using these two investments pools due to its historical cash constraints and inability to invest in long-term investment instruments. Over the years, the City's investment balance has grown to a point where the City can now invest in more long term instruments and improve the current performance of its investments. The City is seeking to the services of a highly qualified investment management firm to provide investment management, investment advisory, and related services to the City.

II. Scope of Services

The overall scope of services is to provide investment management services for the investment of the City's designated idle cash reserves in accordance with the parameters and guidance as outlined in the City's adopted Investment Policy. A copy of the City's 2010 Adopted Investment Policy is included as Attachment A to this RFP.

The City is interested in obtaining the following minimum level of services from the advisor:

1. Provide management and advisory services for the City's investment portfolio.
2. Develop and implement sound investment strategies that will maximize the portfolio's performance within the parameters of the adopted investment policy and California government codes.
3. Provide technical and fundamental market research including yield curve analysis.
4. Provide credit analysis of investment instruments in the portfolio.
5. Provide monthly investment reports for the portfolio detailing holdings, composition and sector analysis, return, weighted average maturity and daily transaction activity. This includes the ability and flexibility for City staff to electronically access current investment information on the City's investment account as needed.
6. Provide semi-annual and annual performance reports, as needed.

7. Review safekeeping and custodial procedures and agreements.
8. At a minimum, semi-annual presentation to the City Council of the performance of the City's portfolio will be required.
9. Review the City's Annual Investment policy and make recommendations that are necessary.

III. Requirements for Selection

1. Advisor shall be a registered Investment Advisor as defined and regulated by the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, and be registered in the State of California.
2. Advisor must provide a copy of the Form ADV, Parts I and II.
3. Advisor shall be either completely independent of any financial institution or securities brokerage firm or shall fully and continuously disclose any such relationships with such financial institution and/or securities brokerage firm relevant to the firm's relationship with the City.
4. Advisor shall have a minimum of ten years of experience in managing state/local government operating and bond funds.
5. Advisor shall demonstrate understanding of the scope of assignment.
6. Advisor shall be familiar with State investments and reporting requirements.
7. Advisor shall have a minimum of \$10 million coverage in errors and omissions insurance or investment advisor professional liability insurance along with any other additional coverage through a fidelity bond and umbrella insurance.

IV. Criteria for Evaluation and Selection

Proposal will be evaluated using three (3) sets of criteria. Firms meeting the mandatory criteria will have their proposal evaluated and scored for both understanding of the scope of services to be provided, and experience. The following represents the principal selection criteria, which will be considered during the evaluation process.

1. Mandatory Elements

- a. A firm is independent and licensed to practice in California.
- b. The firm has no conflict of interest with regards to any of the services to be performed by the firm to the City.
- c. The firm 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 firm's professional personnel to be assigned to the engagement.
- b. The firm'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.

V. Time Frame for Selection and Implementation

- 1. Qualifications and experience will be reviewed together with the proposed fee structure to determine which firm will provide the best value to the City. A recommendation will be made to the City Council based on the above criteria for their approval.
- 2. It is the intent of the City to contract for the services presented herein for a term of three (3) years. The City reserves the right to extend the term of this contract for two (2) additional years subject to the satisfactory negotiation terms, including a price acceptable to both the City and the selected firm.
- 3. Please mail 7 copies of your responses to:
Stephanie Osaze, Finance Director
City of East Palo Alto
2415 University Avenue, 2nd Floor
East Palo Alto, CA 94303

The written proposals are due by no later than 5:00 p.m., on Friday, April 9, 2010. Proposals postmarked or hand-delivered after the due date will be automatically disqualified. If you have any questions regarding this RFP, please contact Peter Yee, Sr. Financial Services Manager at 650-853-3115 or pyee@cityofepa.org

Proposals due to City	April 9, 2010
Interview of Finalists	Tentative - Week of May 3rd, 2010
Recommendation to City Council and award contract	Tentative-Month of June 2010

VI. Format for Proposal

Please format your response to this request in the following order to facilitate comparisons between respondents:

A. Organization

1. Describe the brief history of your organization, including date founded, ownership, and any subsidiary relationships or relationships with other financial institutions.
2. Describe experience of the firm in providing investment management services to the public sector.
3. Describe any SEC regulatory censure or litigation related to services the firm provides.
4. State the dollar value of the assets and the number of portfolios the firm has under direct and continuous management, categorized between public sector and other clients.

	Public Sector	Other Clients
# of Portfolio		
Asset Value (\$M)		

5. Provide the approximate client turnover using the format below:

	2008	2009	YTD 2010
# of accounts gained			
Asset value (\$M)			
# of accounts lost			
Asset value (\$M)			

6. Provide a list of relevant client references (preferably public sector), including contact persons and telephone numbers. Relevant list would include clients with similar types of jurisdictions, portfolio size, and investment objectives.
7. Describe the type and amount of insurance coverage the firm maintains with respect to investment management activities.

8. Provide a copy of the firm's most recent audited financial statement.

B. Personnel

1. Identify the key personnel who would be directly involved in providing services under the engagement. Describe their relationship with the firm, the role they would play in this engagement, their experience in the investment business, specifically with public sector cash management and investments, their professional certification, and their years of service to the firm.
2. Describe actions taken by the firm to keep its investment professionals informed of developments relevant to government investment managers and investments in general.
3. State whether there has been any turnover of key personnel in the firm or additions to staff in the past year.

C. Investment Management Approach and Discipline

1. Describe the firm's overall investment philosophy and approach to this engagement.
2. Describe the primary strategies for adding value to a portfolio.
3. Describe the types of investment research the firm utilizes and the methodology used to recommend investment decisions.
4. Describe the firm's procedure for due diligence review, portfolio review, investment management and client contact.
5. Discuss your assessment of the current market outlook and how your firm plans to provide superior performance for clients in the years ahead.
6. Describe procedures used to ensure that the portfolio is in compliance with the client's objectives and policies.

D. Reporting Capabilities

1. Submit samples of reports which would be provided and describe their frequency. Reports must be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and in compliance with Government Accounting Standards Board (GASB) pronouncements.
2. Describe the frequency and format of the performance reports that would be provided.
3. Describe the types of benchmarks, which would be included with the performance reports.

E. Fees

1. Provide the fee schedule that would apply to this account.
2. Identify any expenses that would not be covered through this fee structure and would be required in order to implement the firm's program.
3. Is there a minimum annual fee?

F. Other Considerations

1. Describe any assistance the firm would provide in reviewing custodial and safekeeping arrangements.
2. Describe the type and frequency of credit analysis that would be provided on security issuers and financial institutions.
3. Describe the nature and frequency of meetings the firm would recommend to keep staff informed.
4. Describe expertise and service capability that distinguishes your firm from others.

Rights and Responsibilities

The City reserves the right to accept or reject any or all proposals received in response to this request, to negotiate with any qualified source, or to cancel in whole or in part this RFP if it is in the best interest of the City to do so. ***There is no expressed or implied obligation for the City to reimburse responding firms for any expenses incurred in preparing submittals in response to the RFP.***

If terms and conditions of the negotiated contract with the successful firm are breached, the firm may be subject to a financial penalty and/or payment withholding. The breach of contract may serve as a basis for termination of the contract.