

TO: City Council  
FROM: Mike Compton, City Treasurer  
SUBJECT: Portfolio Management Services  
DATE: July 21, 2015

---

Needs: For the City Council to consider contracting PFM Asset Management LLC for portfolio management services.

Facts:

1. Back in February of this year, City Council had an opportunity to review all city policies including the City's Investment Policy.
2. During the presentation of the City's Investment Policy, I noted that I would looking into the benefits of bringing in an outside portfolio management firm to assist in the management of the City's investment portfolio.
3. While I did not issue a formal "Request for Qualifications", I did solicit proposals from two firms with whom I am familiar and are active participants in various California Municipal Treasurer Association events.
4. Proposals were received from Cutwater Asset Management and PFM Asset Management LLC.

Analysis  
and  
Conclusion:

Both firms have considerable presence managing portfolios of California cities. References for both firms had high praise for the portfolio management services provided. While either firm would provide outstanding services to the City, I lean towards awarding a contract to PFM Asset Management. They currently provide portfolio management services to both the City of San Luis Obispo and City of Santa Maria. Thus, they would potentially have a more frequent presence on site.

While it can not be guaranteed, it is expected that portfolio management services would increase the overall yield of the portfolio without taking on any additional risk. Assuming so, the increased interest income would cover the fee while providing additional income to the City. However, it would not be an immediate measurable impact. It will take some time for either firm to re-structure the portfolio given current and expected market conditions.

Why portfolio management services? While I have over thirty-five (35) years experience in investing/managing idle public funds, I really don't have the analytical tools and/or skills to implement strategies to react to changing market conditions nor to increase yield without taking on additional risk. I am simply a "buy and hold" investor. My interest yield results are considerably better than the Local Agency Investment Fund but that is not a formidable benchmark by which to measure yield results. Developing and following a formal investment strategy and measuring portfolio performance against a industry recognized benchmark (by example only: Bank of America Merrill Lynch 1-3 Year Treasury Index or 3-5 Year Treasury Index) may improve portfolio performance.

Generally, both firms would provide the following services:

1. Review the City's Investment Policy – Confirm it meets the requirements of the California Government Code; incorporates components of the Association of Public Treasurers of the US and Canada's Model Policy.
2. Perform Cash Flow Analysis – This determines the amount of funds required for liquidity needs and the amount which may be actively invested.
3. Develop and Implement City's Investment Strategy – Working with the Treasurer and subsequent review by the City Council development a framework by which all investment transactions are guided.
4. Assist the Treasurer in Selecting an Appropriate Performance Benchmark – Benchmark should reflect the City's tolerance for investment risk.
5. Monitor Investment Opportunities to Improve Performance – Analytical tools would provide an improved analysis of market conditions; yield curve placement; credit analysis; sector weighting; and duration management.
6. Efficient Execution of Investment Purchases and Sales – Direct contact with "Primary Dealers" provides aggressive means to obtain best pricing on both sales and purchases. They do not hold their own inventory of investment instruments eliminating conflicts of interest.
7. Furnish Investment Reports – Comprehensive monthly and quarterly reports are provided to keep staff and City Council informed as to the status of the City's investment portfolio; success of the investment strategy and performance of the investment portfolio against the chosen benchmark.

A critically important point is that any contract authorized for portfolio management services would be a "non-discretionary" relationship. This means that all trades whether buy or sell must be approved by the City Treasurer before any trade is executed.

In conclusion, I would recommend the City Council authorize me in my capacity as City Treasurer to execute a contract with PFM Asset Management LLC subject to review and approval by the City Attorney. Contract would be for one (1) year but would allow for City Treasurer to extend said contract for no more than four (4) additional years.

Impact:

PFM charges a fee of ten (10) basis points for the first \$25 million under management and eight (8) points for the everything above \$25 million. Cutwater charges ten (10) basis points for the first \$20 million and seven (7) basis points for everything above \$20 million.

Thus, in the case of PFM, the annual cost for \$50 million under management would be \$45,000 while the fee charged by Cutwater would be \$41,000.

As noted above, it is expected but not guaranteed that yield enhancement arising out of contracting for portfolio management services would cover the fee for said services. If portfolio performance were only increased by twenty (20) basis points (0.20%), the increase in interest income would be \$100,000 on the \$50 million managed portfolio.

Options:

- a. That the City Council authorize the City Treasurer, subject to review and approval by City Attorney, to execute a portfolio management contract with PFM Asset Management LLC for one (1) year with option for four (4) one year extensions; or
- b. Amend, modify, or reject the above option.

RESOLUTION NO.15-XXX

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES  
AWARDING A CONTRACT TO PFM ASSET MANAGEMENT LLC FOR  
PORTFOLIO MANAGEMENT SERVICES

WHEREAS, the City Council was agreeable to the City Treasurer investigating the possibility of contract investment portfolio management services; and

WHEREAS, the City Treasurer solicited and received proposals from two firms; Cutwater Asset Management and PFM Asset Management; and

WHEREAS, in the opinion of the City Treasurer either firm would provide excellent portfolio management services; and

WHEREAS, the City Treasurer based upon proposal review and reference checks favors PFM Asset Management; and

WHEREAS, while not guaranteed, it is expected that portfolio management services will provide sufficient yield income to cover portfolio management fees and additional income to the City.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of El Paso de Robles as follows:

Section 1. A contract for portfolio management services shall be awarded to PFM Asset Management LLC.

Section 2. That the City Treasurer is authorized to execute a contract with PFM Asset Management LLC subject to review and approval of the City Attorney.

Section 3. The contract shall be for one (1) year with the option for four (4) one year extensions at the discretion of the City Treasurer.

Section 4. A budget appropriation of \$45,000 is hereby approved – budget account 1001402-52240.

APPROVED AND ADOPTED by the City Council of the City of El Paso de Robles this 21<sup>st</sup> day of July, 2015

AYES:  
NOES:  
ABSENT:  
ABSTAIN:

\_\_\_\_\_  
Steve Martin, Mayor

Attest:

\_\_\_\_\_  
Kristen L. Buxkemper, Deputy City Clerk