



Request for City Council Committee Action from the Department of

Date: July 27, 2009

To: Honorable Paul Ostrow, Chair, Ways & Means/Budget Committee
Referral to: City Council

Subject: Agreements for Investment Management Services

Recommendation: Authorize appropriate City officials to enter into agreements with the following investment management firms under terms described below:

Galliard Capital Management, Inc.
Harris Investment Management, Inc.
Vaughan Nelson Investment Management, LP
T. Rose & Associates, Inc.

FAF Advisors, Inc.
RiverSource Investments, LLC
NorthShore Advisors, LLC

Previous Directives: Council authorized Finance to release RFP for Investment Management Services – March 27, 2009

Department Information

Prepared by: LeaAnn Stagg, Director, Treasury Division

Approved by: Patrick Born, City Finance Officer

Steven Bosacker, City Coordinator

Presenters in Committee: LeaAnn Stagg, Director, Treasury Division

Reviews

- Permanent Review Committee (PRC): Approval Date April 3, 2009
- Civil Rights Approval: Approval Date February 4, 2009

Financial Impact

- No financial impact

Community Impact

N/A

Supporting Information

Selection Process

On April 6, 2009, the City released a request for proposals for investment management services. Contracts with current investment managers will expire in the fall of 2009 with no option to renew.

The City received 46 proposals from investment management firms. Finance's Treasury Division engaged Ellwood and Associates, an investment consulting firm, to assist the City in evaluation and recommending investment managers.

Finalist Determination

The following criteria were applied in narrowing the list of candidates: the organization's personnel, depth and capabilities of the organization, the firm's investment process and its understanding of the City's Investment program and objectives, the firm's experience in managing state/local government operating funds, litigation concerns, the organization's historical investment performance with similar portfolios, fees, and approach to managing the City's investment portfolio. With the assistance of Ellwood, Treasury narrowed the list of candidates to eight firms. All current investment managers were finalists. Each finalist additionally made a presentation to the City's Investment Committee the second week of June.

The finalist list was as follows (a star denotes a current City investment manager):

- Galliard Capital Management, Inc.*
- Pacific Investment Management Company (PIMCO)*
- RiverSource Investments, LLC*
- T. Rose & Associates, Inc.*
- NorthShore Advisors, LLC*
- Vaughan Nelson Investment Management, LP
- FAF Advisors, Inc.
- Harris Investment Management, Inc.

Contract Terms

1. Fee. Current fees for investment management services are comprised of a base fee of 10 basis points (0.01%) plus up to an additional 20 basis points (0.02%) for investment performance when performance exceeds the established benchmark. Historically, fees paid for these services have averaged approximately 20 basis points (0.02%) annually.

Based on the majority of finalist proposals and negotiations with finalists the fee for each investment manager will be 10 basis points or 0.01% of the average annual funds managed. This fee is 50% of the current fee, which will save the City approximately \$300,000 annually.

2. Insurance requirements. In addition to the City's standard contract insurance requirements for workers compensation, commercial general liability and commercial automobile liability insurances, the City is requiring all investment managers except two - T. Rose and NorthShore - to have proof of Professional Liability Insurance or Errors & Omissions insurance coverage of at least \$10,000,000. Due to the nature of the investments and size of the assets managed by these two smaller organizations - T. Rose and NorthShore - the City will require proof of \$1,000,000 in Professional Liability Insurance or Errors & Omissions insurance coverage.
3. Contract term. Contracts will be for three years with two, one year options to renew at the City's option.

Recommendation

Investment Committee recommends that after verifying City insurance requirements are met, Finance be authorized to contract with the following investment managers at an annual fee of 10 bps (0.01%) of the average asset balance assigned to the manager for a term up to 5 years:

**Galliard Capital Management, Inc.
FAF Advisors, Inc.
Harris Investment Management, Inc.
RiverSource Investments, LLC
Vaughan Nelson Investment Management, LP
T. Rose & Associates, Inc.
NorthShore Advisors, LLC**