



## Request for City Council Committee Action From the Finance Department

Date: May 24, 2004  
To: Ways and Means Committee  
Referral to: City Council

**Subject: Approval to Negotiate Contracts with Investment Management Firms**

### Recommendation

Authorize the Director, Treasury Division to enter into contract negotiations with selected investment management firms.

### Previous Directives

Council authorized Finance to release RFP for Investment Management Services – January 30, 2004

Prepared or Submitted by: Michael Nguyen, Director, Treasury Division

Approved by: Patrick Born, City Finance Officer \_\_\_\_\_

John Moir, City Coordinator \_\_\_\_\_

Presenters in Committee (name, title)

#### Financial Impact (Check those that apply)

No financial impact - or - Action is within current department budget.  
(If checked, go directly to Background/Supporting Information)

Action requires an appropriation increase to the Capital Budget

Action requires an appropriation increase to the Operating Budget

Action provides increased revenue for appropriation increase

Action requires use of contingency or reserves

Other financial impact (Explain):

Request provided to the Budget Office when provided to the Committee Coordinator

#### Community Impact (use any categories that apply)

Neighborhood Notification

City Goals

Comprehensive Plan

Zoning Code

Other

## Background/Supporting Information Attached

On January 30, 2004, the City's Finance Department released an RFP for investment management services. Contracts with current managers are due to expire at the end of 2004 with no further option to renew.

### Historical Performance

Since 1999, the City has retained the services of five local area firms to assist with the management of the City's investment portfolio. The firms currently under contract are Galliard Capital, Northshore Advisors, U.S. Bancorp Asset Management, T. Rose and Associates, and Voyageur Asset Management. These firms manage approximately \$157 million of the City's liquid assets, or 35% of the total portfolio with the remaining amount managed by Finance staff. Performance by the incumbent firms has varied since inception with some outperforming their benchmarks, while others have underperformed. Current fees paid to these firms reflect both a fixed fee and performance based component charged on market value of assets under management. In general, the City spends \$250,000 annually or 0.15% management fee.

	Performance Against Assigned Benchmark		
	1 year	3 year	5 year
Galliard	0.43%	0.51%	0.45%
Northshore	0.05%	-0.37%	-0.21%
US Bancorp	0.05%	0.00%	0.08%
T. Rose	0.11%	-2.04%	
Voyageur	0.20%	-0.04%	0.17%

### Selection Process and Recommendation

With respect to the RFP, the City received a total of 17 responses from firms interested providing investment management services. Of the 17 firms, 10 were invited to interviews with a selection committee comprised of City Finance staff, and representatives from City of St. Paul, Minneapolis Employee Retirement Fund, and the State Board of Investments. The firms were evaluated based in the following criteria stated in the RFP:

- Understanding of the City of Minneapolis's investment program and objectives;
- Experience, resources, qualifications of the firm and individuals assigned to the account;
- Experience of firm in managing state/local government operating funds. In evaluating the firm's experience, past performance data were considered in the context of portfolio objectives and constraints, as well as risks;
- Experience and qualifications of the proposer, as it relates to financial services, demonstration of consistency of services regardless of merges, name changes and future business changes, and implementation strategy;

- Approach to managing the City of Minneapolis investment portfolio and trust account; and,
- Cost of services.

Based on these criteria, the firms below are being recommended to the City Council for approval. Staff is requesting that City Council authorize appropriate City personnel to enter into contract and fee negotiations with these firms. Pending outcome, final contracts will be brought back to Council.

- American Express
- Galliard Capital
- Northshore Advisors (WBE)
- Pacific Investment Management Company
- Peregrine Capital
- Western Asset

In an effort to further improve investment management, Finance, through a competitive selection process in the Fall of 2003, engaged the services of two bidding agent firms to invest bond proceeds. The firms are Gardner, Bacon, Underwood LLC and PackerKiss Securities. In general, bond proceeds account for \$100 million of the City's annual portfolio, or 25% of cash position. The decision to engage bidding agents for bond proceeds was two fold – to avoid arbitrage rebate due to higher interest allocation within the City's investment pool, and to isolate debt proceeds from operating funds. The Finance Department executed standard agreements with the two firms earlier this year and will solicit their services during bond sales forthcoming and in future years.

Pending successful contract negotiations, the Finance Department anticipates retaining the services of those firms previously mentioned. Furthermore, the City expects total annual fees to be as follow:

	Portfolio Size	Annual Fees	% of Total
Fixed Income Managers	\$225,000,000 (Operating Fd)	\$225,000	64%
(MBE)	\$100,000,000 (Debt Proceeds)	\$50,000	14%
(WBE)	\$100,000,000 (Debt Proceeds)	\$50,000	21%
	\$25,000,000 (Operating Fd)	\$25,000	
<b>TOTAL FEES</b>		<b>\$350,000</b>	<b>100%</b>

Based on the annual management services fees to be established under these contracts, the Finance Department has exceeded the Small & Underutilized Business Enterprise Program goals of 6% WBE and 9% MBE established by the Civil Rights Department. PackerKiss Securities and Northshore Advisors have certified their WBE status and Gardner, Bacon, Underwood LLC their MBE status.