

To the Mayor and Members of the City Council**March 29, 2016****Page 1 of 4****SUBJECT: CITY PORTFOLIO – INVESTMENT ADVISORY SERVICES RFP AND INVESTMENT POLICY PROPOSED AMENDMENTS**

This Informal Report is intended to provide an update on the Financial Management Services (FMS) Department's recent activities related to the City's Investment Portfolio, specifically an upcoming Request for Proposals (RFP) for Investment Advisory Services and proposed amendments to the City's Investment Policy and Strategy, which will be brought forward for City Council review and action in the coming weeks.

INVESTMENT ADVISORY SERVICES RFP

FMS staff is currently in the process of finalizing an RFP for investment advisory services. The selected vendor will provide the following primary services:

- Provide advisory services for the City's general investment portfolio.
- Be available for routine consultation or advice and provide information to management as needed to review and refine the portfolio strategy to ensure optimal performance.
- Prepare and deliver presentations to management and elected officials on investment topics, including the performance and strategy of the City's investment portfolio, as needed and required.
- Comply with all Federal and State laws, and the ordinances, resolutions and policies of the City of Fort Worth.
- Provide assistance in developing and implementing investment strategies that will maintain or enhance portfolio quality and performance within the parameters of the City's established investment policies and projected cash flow needs.
- Work with City staff to ensure completion of investment trades, delivery of the securities and availability of funds, assist with trade settlements when needed, obtain and document competitive prices for securities transactions.
- Provide technical and fundamental market research, including yield curve analysis and projections of future interest rate movements.
- Provide investment advice, including breakeven analysis on recommendations made to sell low yield securities and replace them with higher yielding securities.

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- Assist in the review and updating of the City's Investment Policy, investment management procedures and portfolio documentation, and safekeeping and custodial procedures.
- Perform due diligence reviews of current and proposed broker/dealers and financial institutions, including monitoring the creditworthiness of financial institutions and issuers with which the City does business, assisting in keeping the authorized financial institution list updated, and monitoring the creditworthiness of the City's depository and custodian bank and of investments in the portfolio.
- Provide detailed reports at least monthly that follow Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) fair-value reporting that (i) report investment portfolio activity and performance; (ii) identify relevant benchmarks, earnings and accounting methodology; and (iii) demonstrate the benefit on the portfolio's return of using an investment advisor; and provide separate quarterly and fiscal year end portfolio performance reports based on the City's fiscal year.
- Attend the quarterly investment committee meetings and report on portfolio performance and the positioning of investments within the portfolio to meet or exceed the performance of the City's benchmarks.
- Provide to City staff a weekly statement of upcoming cash flows within the portfolio that includes maturities, coupons, called securities and potential callables for a period of 45 days and have the ability to provide a statement of upcoming cash flows for a longer duration on request.
- Provide itemized monthly invoices of charges and provide periodic status reports on the services provided by the firm.
- Annual review of investment related notes and other pertinent sections in the City's Comprehensive Annual Financial Report (CAFR)

This is the first RFP process the City has conducted for investment advisory services. Our current provider for this service is Patterson & Associates. Their contract began in May 2012 and expires June 30, 2016. The existing contract has the option for an additional one-year renewal which the department is recommending not be exercised. Costs associated with our existing contract are in an amount up to \$60,000.00 annually.

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The performance of the Investment Advisor is planned to be reviewed annually based upon performance of the portfolios in comparison to the benchmarks established within the investment policy. In the current economic climate, the expectation of the City is that the portfolio will outperform the established benchmarks by at least 10 basis points. The Public Funds Investment Act (PFIA) limits the number of years any local government can contract for investment management services to 2 years with the initial and any renewals beyond the 2 year period subject to approval of the governing body. The City is keeping with past practice and only seeking an investment advisor who will provide research and guidance to City staff who will be assigned management responsibilities and execute trades. However, staff is recommending using the PFIA's investment management restrictions as guidelines in structuring the City's investment advisor contract in order to allow for more frequent performance review.

PROPOSED AMENDMENTS TO INVESTMENT POLICY AND STRATEGY

In addition to preparing the RFP, FMS staff has been working with the City's current investment advisor and the members of the investment advisory committee to review the Investment Policy and Strategy (IPS) for the City's general portfolio and recommend changes. The general portfolio IPS governs cash and investments that are in the immediate custody of the City and managed directly by the City. The policy does not apply to funds held in trust such as the City's Permanent Fund, which includes certain mineral revenues, OPEB funds, and Pension funds.

The goal of the review and proposed changes is to enhance revenue generating opportunities within the strictures of the PFIA and also to improve reporting and provide a more comprehensive picture of portfolio performance by taking into account the impact of alternative yield generators such as the City's securities lending program and of cost avoidance measures such as earned credited return (ECR), which reflects fee-avoidance that occurs as a result of maintaining certain balance threshold in the City's depository bank accounts.

Proposed changes to the IPS reflect a recommendation that the City's investments be separated and managed in two portfolios: Short-Term and Long-Term. The Short-Term Portfolio will be used to manage the portion of the City's assets that, based on analysis of historic cash flow patterns and current projections, are projected to be needed within a five year planning and forecast horizon. The Long-Term Portfolio will be used to manage that portion of the City's assets that, based on analysis of historic cash flow patterns and current projections, are not needed to meet the City's cash flow needs within the next five years and are therefore available and suitable for longer term investment.

In keeping with the split-portfolio approach, the revised IPS would require the Short Term Portfolio to maintain a cash buffer of approximately 10% in liquid investments to meet daily liquidity requirements, have a Weighted Average Maturity (WAM) that does not exceed 2.5 years,

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and contain securities that have a maximum stated maturity of no more than 5 years. Under the proposed IPS, the Long-Term Portfolio would have a WAM of no more than 7.5 years and include only securities that have a maximum stated maturity of no more than 10 years.

Authorized investments include the following: Direct Obligations of the U.S. Treasury, Obligations of U.S. Government Agencies, FDIC Insured and/or Collateralized Depository Certificates of Deposit, Commercial Paper Rated A1/P1 or Equivalent, AAA, Constant Dollar, Texas Local Government Investment Pools, and AAA-Rated Money Market Mutual Funds.

CALENDAR FOR RFP

The timeframe for this RFP process is as follows:

- Development: March 14, 2016 – April 6, 2016
- Advertising: April 6, 2016 – May 5, 2016
- Selection: May 5, 2016 – May 30, 2016
- Negotiations and Council Approval: May 30, 2016 – June 21, 2016
- Advisor start date – July 1, 2016

The standard communication process for advertising RFPs is as follows:

- Advertise in local newspaper for a minimum of 28 days
- Place the RFP information on the City's website
- Send out electronic communication to the vendors that are registered with the City

The review panel to assist in selecting the recommended investment consultant will include representatives of both the Financial Management Services and the Internal Audit Departments, as well as representatives from the Investment Committee. The review panel is responsible for reviewing all responses received, conducting on-site interviews, reviewing the internal control environments of the entities responding, checking references, and reviewing performance of similar engagements.

If you have any questions, please call Aaron Bovos, Chief Financial Officer, at 817-392-8517.

David Cooke
City Manager