



December 13, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Subject: Agreements for Investment Management Services

Overview

Consultant services are needed to provide investment management services of the Orange County Transportation Authority's \$1.3 billion of operating monies in the short-term portfolio. Proposals were received in accordance with the Orange County Transportation Authority's procurement procedures for professional and technical services. Board of Directors' approval is requested to select firms to provide investment management services.

Recommendations

- A. Approve the selection of Chandler Asset Management, Inc.; Logan Circle Partners, L.P.; Payden & Rygel; and PFM Asset Management LLC, as the firms to provide investment management services in the aggregate amount of \$8,995,608.
- B. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-7-1813 between the Orange County Transportation Authority and Chandler Asset Management, Inc., to provide investment management services for a five-year initial term effective through December 31, 2022, with two, two-year option terms.
- C. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-7-2062 between the Orange County Transportation Authority and Logan Circle Partners, L.P., to provide investment management services for a five-year initial term effective through December 31, 2022, with two, two-year option terms.

- D. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-7-2063 between the Orange County Transportation Authority and Payden & Rygel, to provide investment management services for a five-year initial term effective through December 31, 2022, with two, two-year option terms.
- E. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-7-2064 between the Orange County Transportation Authority and PFM Asset Management LLC, to provide investment management services for a five-year initial term effective through December 31, 2022, with two, two-year option terms.
- F. Approve the selection of US Bancorp Asset Management, Inc.; State Street Global Advisors; and Western Asset Management Company, as the firms to be placed on a secondary list of on-call firms to provide investment management services.

Discussion

The Orange County Transportation Authority's (OCTA) portfolio totals \$1.4 billion as of September 30, 2017. The portfolio currently is divided into two actively managed portfolios: the liquid portfolio for immediate cash needs and the short-term portfolio, approximately \$1.3 billion for future budgeted expenditures. OCTA's Board of Directors (Board) has approved the use of an extended portfolio; however, the Board has not allocated OCTA funds. Additionally, OCTA may issue debt resulting in a bond proceeds portfolio that may require active portfolio management.

There are currently four investment management firms (Manager) that actively invest OCTA's \$1.3 billion of operating monies in the short-term portfolio within the parameters of the OCTA Investment Policy. Each Manager invests approximately \$325 million measured against the Bank of America Merrill Lynch, one-three year Treasury Index and the Bank of America Merrill Lynch, one-three year AAA-A United States Corporate and Government Index benchmarks. The Bank of America Merrill Lynch, one-five year Treasury Index and the Bank of America Merrill Lynch, one-five year AAA-A U.S. Corporate and Government Index are used for the extended portfolio.

Each Manager provides a broad range of services and resources in addition to the daily management of OCTA funds. Each Manager is expected to provide a highly skilled investment team along with a compliance and trading system that monitors all OCTA trading activity to ensure compliance with the OCTA Investment Policy and California Government Code Sections 53601. All securities and subsequent transactions are held in OCTA custody accounts at Union Bank.

Within OCTA's four custody accounts with Union Bank, each Manager settles all trades through its respective account. Managers do not have the ability to execute cash transactions from the accounts. In addition to each Manager monitoring their own compliance, OCTA uses a web-based portfolio management system provided by Clearwater Analytics, Inc. to track all activity, monitor compliance and create investment reports.

Procurement Approach

This procurement was handled in accordance with OCTA's Board-approved procedures for professional and technical services. In addition to cost, many other factors are considered in an award for professional and technical services. Award is recommended to the firm (or firms) offering the most comprehensive proposals considering such factors as qualifications of the firm, staffing and project organization, prior experience with similar projects, technical expertise in the field, approach to the work plan, as well as cost and price.

On July 24, 2017, Request for Proposals (RFP) 7-1813 was issued electronically on CAMM NET. The procurement was advertised on July 24 and 31, 2017, in a newspaper of general circulation. A pre-proposal conference took place on August 8, 2017, with 11 attendees representing 11 firms. Two addenda were issued to make available the pre-proposal conference registration sheets and presentation, as well as to provide responses to questions received.

On August 23, 2017, 24 proposals were received. Prior to the evaluation committee meeting, all contractual exceptions and/or deviations submitted by the proposers were reviewed. Standish Mellon Asset Management Company (Standish) submitted several contractual exceptions and/or deviations, two of which were deemed non-negotiable, and the firm was provided with the opportunity to retract the items. Standish did not retract one of the two exceptions/deviations; therefore, the firm's proposal was not included as part of the evaluation process.

The procurement sought to establish a primary list of firms for contract award, as well as a secondary list of on-call firms to perform investment management services. Establishing a secondary list of on-call firms is needed to provide assurance that OCTA will have a professional and qualified pool of investment managers to choose from in case one or more firms on the primary list were to be terminated for reasons such as compliance violations or conflict of interest. Should the need arise to utilize a firm from the secondary list of on-call firms, a competitive procurement process would be initiated among the firms on the secondary list of on-call firms in order to select one firm for contract award to be placed on the primary list.

An evaluation committee composed of staff from Contracts Administration and Materials Management, Treasury/Toll Roads, Accounting and Financial Reporting, and Financial Planning and Analysis departments, as well as a representative from the Riverside County Transportation Commission met to review the remaining 23 proposals. The proposals were evaluated based on the following Board-approved evaluation criteria and weights:

- Qualifications of the Firm 30 percent
- Staffing and Project Organization 30 percent
- Work Plan 20 percent
- Fees 20 percent

Several factors were considered in developing the criteria weights. Qualifications of the firm, as well as staffing and project organization were both weighted highest at 30 percent to ensure the firms have relevant experience managing similar investment portfolios and qualified staff that have in-depth knowledge of investment management and global economics. Work plan and fees were both weighted 20 percent to ensure the firm demonstrated understanding of OCTA's investment policy and clearly described their approach towards investment management, as well as to ensure the proposed fees are competitive and reasonable for the services provided.

The evaluation committee reviewed and discussed the remaining 23 proposals based on the evaluation criteria. Twelve firms were short-listed and invited to interview to establish the primary and secondary list of firms. The 12 firms are listed below in alphabetical order:

Firm and Location

BlackRock, Inc.
New York, New York

Chandler Asset Management, Inc. (Chandler)
San Diego, California

JP Morgan Asset Management
San Francisco, California

Logan Circle Partners (Logan)
Philadelphia, Pennsylvania

Miles Capital
West Des Moines, Iowa

Morgan Stanley Investment Management
New York, New York

Payden & Rygel (P&R)
Los Angeles, California

PFM Asset Management LLC (PFM)
Los Angeles, California

State Street Global Advisors (State Street)
San Francisco, California

US Bancorp Asset Management, Inc. (US Bancorp)
Minneapolis, Minnesota

Wells Capital Management, Inc.
San Francisco, California

Western Asset Management Company (Western Asset)
Pasadena, California

The evaluation committee interviewed the 12 firms on October 11 and 12, 2017. The interviews consisted of a presentation to discuss the firms' qualifications and proposed team. The firms' key team members had an opportunity to present qualifications and respond to the evaluation committee's questions. Questions were asked relative to the firms' experience performing similar services, procedures for maintaining compliance, and approach to investment management. Finally, each team was asked specific clarification questions related to their proposal. After considering the responses to the questions asked during the interviews, the evaluation committee adjusted the preliminary scores for the 12 short-listed firms resulting in a change to the ranking.

Based on the evaluation of the written proposals and interviews, the evaluation committee recommends Chandler, Logan, P&R, and PFM for consideration to be placed on the primary list of firms for contract award. The evaluation committee also recommends US Bancorp, State Street, and Western Asset to be placed on the secondary list of on-call firms in case one or more firms on the primary list were to be terminated. The following is a brief summary of the evaluation results.

Qualifications of the Firm

All firms recommended to participate in either the primary or secondary list of firms are qualified to provide investment management services.

Each of the four firms recommended for the primary list demonstrated prior experience investing California short-term portfolio funds for local public agencies, including the Los Angeles County Metropolitan Transportation Authority, Transportation Corridor Agencies, San Diego County Regional Transportation Commission, and OCTA. Each firm demonstrated its capabilities to provide back-up systems, disaster recovery, and a business continuity plan to ensure all critical investment and compliance functions continue in the event of a disruption in normal operations.

Staffing and Project Organization

All firms recommended to participate in either the primary or secondary list of firms proposed qualified staff with relevant expertise to provide the services described in the scope of work.

The four firms recommended for the primary list proposed experienced investment management teams with extensive expertise in actively managing fixed income assets in discretionary accounts for public agencies. The project organization structure proposed by the four recommended firms included a dedicated account manager and a highly-experienced team of portfolio managers assigned to OCTA's investment portfolio. In addition, each firm's staffing proposal included an appropriate average number of accounts per portfolio manager and a detailed process for how portfolio managers are informed of the developments relevant to the management of local government funds.

Work Plan

All firms recommended to participate in either the primary or secondary list of firms met the requirements of the RFP, and each firm discussed its approach to managing OCTA's portfolio.

The work plan proposed by each of the four recommended firms for the primary list provided a detailed approach to performing the investment management services, including research and origination of investment ideas, investment philosophy for public agency clients and OCTA's short duration fixed-income portfolio, and management of interest rate risk. The firms also demonstrated an

in-depth and thorough process in reviewing portfolios to ensure compliance with OCTA's Investment Policy.

Fees

Pricing scores were based on a formula, which assigned the highest score to the firm with the lowest total projected fee and scored the other proposals' total projected fees based on their relation to the lowest total projected fee. The total projected fee proposed by the four firms on the primary list are competitive as compared to the total projected fee for all proposing firms.

Procurement Summary

Based on the evaluation of the written proposals and the information obtained during the interviews, the evaluation committee recommends selection and award of Chandler, Logan, P&R, and PFM as the primary firms to provide investment management services. These teams included staff that are highly-qualified and have prior experience performing relevant investment management services for public agencies. The four firms delivered comprehensive proposals and presented interviews that were responsive to all the requirements of the RFP.

Additionally, the evaluation committee recommends US Bancorp, State Street, and Western Asset to be placed on the secondary list of on-call firms should one or more firms on the primary list be terminated.

Fiscal Impact

The project was approved in OCTA's Fiscal Year 2017-18 Budget, Finance and Administration, Account 1230-A5400-27515.

Summary

Staff recommends the Board authorize the Chief Executive Officer to negotiate and execute agreements with Chandler Asset Management, Inc.; Logan Circle Partners, L.P.; Payden & Rygel; and PFM Asset Management LLC, as the firms to provide investment management services, in the aggregate amount of \$8,995,608 for a five-year initial term, with two, two-year option terms.

Additionally, staff recommends the Board approve the selection of US Bancorp Asset Management, Inc.; State Street Global Advisors; and Western Asset Management Company, as the firms to be placed on a secondary list of on-call firms to provide investment management services.

Attachments

- A. Review of Proposals – RFP 7-1813 Investment Management Services
- B. Proposal Evaluation Criteria Matrix (Short-Listed Firms) – RFP 7-1813 Investment Management Services
- C. Contract History for the Past Two Years – RFP 7-1813, Investment Management Services

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