



Legislation Text

File #: 22-0995, Version: 1

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Waive the applicable provisions of the Naperville Procurement Code and approve the award of a 15-month extension to Contract 16-266, Fixed Income Money Management Services, to PFM Asset Management, LLC and Loop Capital Asset Management - TCH LLC (formerly Taplin, Canida & Habacht, LLC) for an amount not to exceed \$289,000 (requires six positive votes)

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

On August 8, 2022, the Financial Advisory Board approved a recommendation to waive the Naperville Procurement Code and award a 15-month contract extension to PFM Asset Management, LLC and Loop Capital Asset Management - TCH LLC.

BACKGROUND:

The City of Naperville maintains a portfolio of cash and fixed income investments totaling \$220.4 million (as of June 30, 2022). Operating funds are held in cash and funds for which the City has no immediate need, i.e. reserve funds, are invested according to the City's Investment & Cash Management Policy. Because staff does not possess the specialized knowledge or resources to oversee these investments, the City utilizes the services of two professional money management firms. The City also utilizes the services of an investment advisor to monitor and report on the activities and performance of the two money managers.

The City's investment portfolio includes monies pooled and invested across multiple funds. Investment practices and procedures must comply with Illinois law and the City's Investment & Cash Management Policy. Historically, the City retains two firms to manage the City's investment portfolio due to the amount of money the City invests and differing investment philosophies between investment firms.

In September 2016, the City Council approved the award of RFP 16-266 to PFM Asset Management, LLC (PFM) and Taplin, Canida & Habacht, LLC (now Loop Capital) for a three-year term from October 1, 2016, through September 30, 2019. The contract included three, one-year options to extend. The City Manager approved the first option to renew on August 12, 2019. The City Council approved the second option year on September 15, 2020, and the third option year on September 7, 2021.

DISCUSSION:

Both money management firms performed satisfactorily during the third option year in what was an extraordinarily challenging investment market. While both portfolios experienced negative returns, both managers performed at or near the benchmarks established for the investments. The Financial Advisory Board (FAB) and the City's investment advisor have closely monitored the investment environment, and all agree that both firms performed as well as could be expected given the historically poor returns in fixed income markets.

Given the uncertainty that has existed over the past year in financial markets, the FAB has recommended the City avoid any significant changes to investment policy or management structure. At its August 8, 2022, meeting, FAB voted to approve a recommendation to the City Council to extend the contract with PFM and Loop Capital for 15 months, which extends the term through the end of 2023.

Marquette Associates regularly monitors fees charged by PFM and Loop Capital against industry averages and recently noted that the City's combined expense ratio is 0.09%, which is far better than the industry average of 0.20%. Marquette also recommended the extension given the favorable fee structure and relative performance.

Staff will work with FAB to evaluate the City's current investment management structure and develop parameters for an RFP to be conducted in 2023.

Both PFM and Loop Capital agreed to extend the contract terms from October 1, 2022, through December 31, 2023. PFM requested a minor change that would apply the fee structure to all funds held with the firm, including uninvested assets. Staff believes the requested change is minor as it would have only resulted in approximately \$500 to \$700 in additional fees over the prior term. Loop Capital only requested that the new name of the firm be reflected in the contract.

Approval of the extension requires a Waiver of Section 1-9B-4 (Methods of Source Selection) of the Naperville Procurement Code because no optional renewal terms remain.

FISCAL IMPACT:

CIP: N/A

Money manager and investment advisory fees are netted against investment returns through a dedicated revenue account within each budgetary fund. Because the money manager fees are based on a percentage of the funds invested, fees have increased proportionately with the growth of the portfolio. The City projected \$163,021 in total money manager fees in 2022. Based on the current dollar value of the funds under management, staff estimates investment fees of \$289,000 over the 15-month term of the extension.