

Mayor and Council Communication

DATE: 04/13/21

M&C FILE NUMBER: M&C 21-0269

LOG NAME: 13INVESTMENT_ADVISOR_SERVICES

SUBJECT

(ALL) Authorize Execution of a Professional Service Agreement with Public Trust Advisors, LLC, for Investment Advisory Services for the Financial Management Services Department in an Amount Not to Exceed \$200,000.00 Per Year for a Three-Year Initial Term with Two One-Year Renewal Options

RECOMMENDATION:

It is recommended that the City Council authorize the execution of a professional services agreement with Public Trust Advisors, LLC, to provide investment advisory services for the Financial Management Services Department with a contract amount not to exceed \$200,000.00 per year for an initial three-year term with two optional one-year renewals.

DISCUSSION:

The purpose of this Mayor and Council Communication (M&C) is to authorize a professional services agreement with Public Trust Advisors, LLC (PTA) to provide non-discretionary (i.e. the City retains the responsibility for approving all investment trades) advisory services in connection with the City's general investment portfolio. The non-discretionary investment advisory services include (but are not limited to) the following:

- Being available in a timely manner, in person, by telephone, in virtual collaboration, or e-mail, for consultation or advice. Advisor will meet with and provide information to Council and the Financial Management Services (FMS) Department staff members as required. Advisor will meet periodically with staff to review and refine portfolio strategy and performance and shall attend and present at the City's quarterly Investment Committee. Both on and off-site, daytime and evening meetings are possible;
- Comply with all applicable federal and State of Texas laws and the ordinances, resolutions, and the policies of the City of Fort Worth;
- Provide assistance with developing and implementing investment strategies that will maintain or enhance portfolio quality and performance within the parameters of the City's established investment policy, relevant Federal, State, and Local laws, regulations, and ordinances;
- Work with the City's Treasury management staff to assure completion of investment trades, delivery of the securities and availability of funds, assist with trade settlements when needed, and obtain and document competitive prices for securities transactions. Provide technical and fundamental market research including yield curve analysis and future interest rate movements, etc.;
- Provide investment advice including breakeven analysis on recommendations made to sell low yield securities and replace them with higher yielding securities; and
- Periodically (at least annually) review and provide input on the City's Investment Policy. The City maintains an Investment Policy that is compliant with the Public Funds Investment Act and the requirements of the Investment Policy Certification Program through the Government Treasurers' Organization of Texas.

The City sought the services of a highly skilled firm with the following minimum qualifications:

- Registered as an Investment Advisor with the Securities and Exchange Commission (SEC) and registered and able to do business in the State of Texas
- Demonstrated familiarity with all applicable Texas statutes with regard to qualified investments for public entities (specifically chapters 2256 and 2257 of the Texas Government Code)
- Complete independence from any financial institution or securities brokerage firm
- A minimum of ten years of experience in managing the investment of government operating and bonded debt funds
- Meet the City's insurance requirements for a professional services engagement

On February 3, 2021, a request for qualifications (RFQ) for investment advisory services was issued by the FMS Department with a proposal deadline of March 3, 2021. In addition to publishing the RFQ on the City's website, the RFQ was published on the message board of the Municipal Advisory Council of Texas to further enhance exposure. Proposals were received from the following firms:

- AndCo Consulting, LLC
- Chandler Asset Management, Inc.
- Government Portfolio Advisors, LLC
- Hilltop Securities Asset Management, LLC
- Meeder Investment Management, Inc.
- Public Trust Advisors, LLC

The proposals were evaluated by the City's Investment Committee (the Committee), which consists of key staff from the FMS, Law, and Water Departments. The proposals were evaluated based on the following criteria:

- Qualifications and experience (50%);
- Understanding the needs of the City (20%);

- Commitment to business equity (15%);
- Reasonableness of cost (10%); and
- Soundness of approach (5%)

Staff from the Diversity and Inclusion office scored the commitment to business equity component of the evaluation criteria.

Business Equity Division: Public Trust Advisors, LLC addressed the Business Equity requirement and is compliant to the Business Equity Program and Ordinance.

In addition, references were surveyed from the top three ranked firms by the FMS Treasury management staff.

At the conclusion of the evaluation process, the Committee unanimously recommended PTA as the firm that best meets the City's non-discretionary investment advisory requirements.

PTA has proposed a fee of 2.4 basis points based on the City's general investment portfolio market value plus accrued interest with a fee cap of \$200,000.00 per year. As a point of reference, the City currently pays a fee of 2.5 basis points with a fee cap of \$250,000.00 per year. Based on the average quarterly balance of the market value plus accrued interest of City's general investment portfolio from calendar year 2020, the proposed fee will translate into savings of approximately \$53,430.00 over the initial three year term. The City's practice is to initially expense the fee upon payment; however, the fee is ultimately netted against investment earnings and recorded as a reduction of investment earnings in each fund participating in the City's internal investment pool.

Agreement Terms

Upon City Council's approval, the initial three-year term will begin on May 1, 2021 and end on April 30, 2024.

Renewal Options

This agreement may be renewed for up to two successive one-year terms at the City's option. This action does not require specific City Council approval provided that the City Council has appropriated sufficient funds to satisfy the City's obligations during the renewal term.

About Public Trust Advisors, LLC

PTA has served as the City's investment advisor since January 1, 2017. From day one, PTA has been responsive to the City's needs and was instrumental in assisting the City with restructuring the general investment portfolio to maximize investment earnings within the parameters of the City's Investment Policy and the requirements of the Texas Public Funds Investment Act (PFIA).

Highlights of PTA's experience, qualifications, and service offering include (but are not limited to):

- PTA is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC) under the Investment Adviser's Act of 1940, as amended. PTA is registered to do business in the State of Texas.
- PTA is an independent investment advisor with no conflicts of interest unlike firms that are compensated from serving multiple roles within the public sector such as underwriters, banking institutions, insurance companies, and financial advisory consultants. In addition, PTA does not transfer revenues or profits from their asset management firm to other joint ventures, subsidiaries, or companies affiliated under a parent company structure unlike other firms within the industry. PTA prohibits the use of third-party soft dollar arrangements and has never entered into a soft dollar arrangement, so PTA's customers are never charged for any soft dollar research.
- The PTA team has a lengthy experience in Texas dating back to 2001, which gives them a frontline view of the history of certain developments in the PFIA.
- PTA provides investment management services for the public sector including the management of local government investment pools (LGIPs) and separately managed accounts (SMAs). As of December 31, 2020, PTA provides investment advisory and management services for over 233 SMA and LGIP portfolios representing approximately \$49 billion in assets under management.
- Large staff of professionals at the City's disposal – ten investment advisory professionals, seven portfolio management professionals, and a credit research team.
- Highly customized investment solutions utilizing industry leading strategies, to potentially include revisions to the investment policy to take advantage of cutting-edge liquidity management techniques (i.e. a customized local government investment pool or the possible creation of a single participant investment pool to maximize earnings).
- Customized reporting: Authorized City staff will have 24/7 access to customizable dashboard and reporting capability on the PTA web portal.
- Credit research: PTA has its own proprietary credit research and credit team. Every credit counter party is continually reviewed as deemed necessary.
- PTA has vast experience at creating customized investment solutions that conform to the requirements of the PFIA. The investment solution(s) will be based on the City's cash flows, risk tolerances, and investment guidelines.
- PTA provides two PFIA qualified trainings per year in Texas that satisfy the training hours required by statute and allow participants to earn CPE credits at no additional cost (except for staff travel costs, if necessary) to the City.
- PTA will attend formal monthly and quarterly Investment Committee meetings to review the portfolio and to recommend changes to the City's positions as appropriate.
- PTA will conduct regularly scheduled compliance reviews of the portfolio.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that funds are available in the current operating budget, as previously appropriated, in the General Fund to support the approval of the above recommendation and execution of the agreement. Prior to any expenditure being incurred, the Financial Management Services Department has the responsibility to validate the availability of funds.

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