

POSSIBLE MOTION

I MOVE TO authorize the Municipal Administrator to enter into an Investment Management Contract with Alaska Permanent Capital Management for Operating Investments.

Memo

Thru: Mark Gorman, Municipal Administrator

To: City and Borough of Sitka Assembly

From: Jay Sweeney, Chief Finance and Administrative Officer

Date: April 19, 2017

Re: Assembly Approval to authorize the Municipal Administrator to enter into an Investment Management Contract with Alaska Permanent Capital Management for Operating Investments.

Mayor Hunter and Assembly Members,

Historically, the Finance Director has served as the institutional investor for the Municipality, personally placing all trade orders to purchase and sell investments of reserve City funds.

In May, 2015, the Assembly approved awarding a contract to Alaska Permanent Capital Management (APCM) for management of the assets of the Permanent Fund (attached). The rationale behind the decision to contract for such services was that the institutional investment climate had grown complex over the years, and, that professional management of Sitka's investments would both reduce risk of loss from a poor investment decision, increase overall return on investment over what the Finance Director had achieved, and provide a much more robust performance reporting and benchmarking capability than currently existed.

Since May, 2015, Administration and the Investment Advisory Committee have been very pleased with the investment performance and service delivered by APCM in its management of the Permanent Fund. The Investment Advisory has noted that APCM has produced returns in line with, and at times exceeding, comparable industry benchmarks.

Given the notable performance of APCM in managing the Permanent Fund, the Investment Advisory Committee has explored broadening the professional management of Sitka's reserve City Funds to include its pooled operating investments, which total approximately \$53,000,000. The Investment Advisory Committee has discussed professional management in its 11/29,2016, 12/19,2016, and 2/27/2017 meetings (see attached minutes).

Within the Investment Advisory Committee, discussions ensued as to whether or not APCM's contractual engagement could be extended to include management of reserve operating funds. APCM has indicated a willingness to manage these funds and has quoted a price to do so – 10 basis points, or 0.1%, of the

assets under management. This would equate to an annual fee of approximately \$53,000.

A question was raised in the Investment Advisory Committee as to whether or not solicitation of new RFPs for managing operating funds was required under Municipal procurement guidelines. In answer to that question, a RFP is not required per SGC 3.16.060, Procurement of Consultant and Technical Services. Assembly approval would be required, however, due to the size and nature of the contract. The Municipal Attorney has reviewed the applicable code and has spoken with the Finance Director regarding SGC 3.16.060. The conclusion is that the procurement of technical investment services is not dissimilar to the procurement of technical architectural or engineering services which have traditionally been contracted for without formal RFPs.

Administration thus recommends that the Assembly authorize the Administrator to enter into a professional services contract with APCM, per SGC 3.16.060, to include investment management of reserve operating investments. The reasons for doing so are six-fold:

- 1) The Finance Director is not equipped to efficiently manage the investment of the Municipality. Investment management is one of many equivalent duties the Finance Director must attend to, and, on occasion, idle cash remains un-invested until such a time as the Finance Director can attend to the requirement.
- 2) The Finance Director has no access to market pricing data (i.e., a Bloomberg terminal), hence all purchases made by the Finance Director are through brokers, at full retail cost. A professional investment manager is able to purchase at lower cost, achieving higher yield. The estimate is that a 20 basis point pick-up in yield would be achieved through professional management.
- 3) The cost for professional management, 10 basis points, or 0.1%, is extremely reasonable. If professional management could achieve a 20 basis point pick-up in yield at a 10 basis point cost, the result would be additional interest revenue to the Municipality of \$53,000, revenue sorely needed in a time of diminishing revenue streams from other sources.
- 4) APCM is a highly regarded, Alaska-based investment management firm who has performed well to date in its management of the Permanent Fund. APCM is one of the investment management firms that manages and invests the proceeds of the Alaska Permanent Fund.
- 5) The Investment Advisory Committee of the Assembly has extensively discussed and considered this recommendation.
- 6) Municipalities of the same size of Sitka, or larger, employ professional management of all investments. Juneau used to have a portion of its investments managed internally by its Treasurer, but upon retirement of the individual in the position switched all investment management to external professional managers.