

**Board Report**

File #: 2023-0054, **File Type:** Contract

Agenda Number: 12.

**FINANCE, BUDGET, AND AUDIT COMMITTEE
MARCH 15, 2023**

SUBJECT: INVESTMENT MANAGEMENT SERVICES BENCH

ACTION: AWARD CONTRACTS

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to award ten- (10) year bench Contract Nos. PS45150000 through PS45150007, for investment management services, to the firms listed below, for a total not-to-exceed amount of \$12,393,750 for the initial five-year base term, plus \$12,393,750 for the five-year option term, for a combined not-to-exceed amount of \$24,787,500, effective April 1, 2023, subject to resolution of protest(s), if any:

A. Discipline 1: Intermediate duration fixed income managers

- 1.1 LM Capital Group, LLC
- 1.2 RBC Global Asset Management (U.S.), Inc.
- 1.3 Chandler Asset Management, Inc.
- 1.4 US Bancorp Asset Management, Inc.
- 1.5 Payden & Rygel

B. Discipline 2: Short-term duration fixed income managers

- 2.1 CSM Advisors, LLC dba CS McKee
- 2.2 Longfellow Investment Management Co., LLC
- 2.3 US Bancorp Asset Management, Inc.
- 2.4 Loop Capital Asset Management
- 2.5 Payden & Rygel
- 2.6 RBC Global Asset Management (U.S.), Inc.

ISSUE

The Los Angeles County Metropolitan Transportation Authority's (Metro) Investment Policy requires that temporarily idle funds of the agency be prudently invested to preserve capital and provide necessary liquidity while maximizing earnings. Metro hires external investment managers to obtain full time professional expertise in the field of fixed income at a reasonable cost. The external

managers invest part of the operating portfolio in longer term maturities that increase diversification, improve risk management, and enhance performance.

BACKGROUND

Operating funds are the pool of excess working capital used to fund expenses such as salaries, capital project expenditures, fuel and supplies, contract, and professional services.

The current investment management services contracts with LM Capital, a minority owned business, RBC Global Asset Management, US Bancorp, and Chandler Asset Management, a California certified small business, are due to expire on March 31, 2023. New contracts for investment management services to be in place prior to that expiration date is preferred.

DISCUSSION

Currently, internal staff manages a separate three to six-month short-term cash portfolio to meet daily liquidity requirements. The external intermediate term portfolio managers currently invest a portion of the operating fund balance to take advantage of higher yields typically available on longer maturities. The new external short term portfolio managers will invest a portion of the operating fund balance in short to medium term maturities and provide additional liquidity when needed.

Four investment styles that are used to add value to bond portfolios: duration management, sector weighting, issuer selection and yield curve management, were selected to complement the portfolio and to reduce risk through diversification.

The investment style of duration management is a strategy which balances the trade-offs of the higher income often generated by longer maturities with the volatility/downside risk in a rising interest rate environment. Duration as it pertains to fixed income securities is the weighted average of the time until fixed cash flows are received. Shortening the duration reduces the time to receive cash flows while increasing the duration lengthens the time to receive these cash flows. In general, the shorter the duration, the lesser the portfolio is exposed to interest rate volatility.

The investment style of sector weighting is a strategy of allocating funds to asset categories (i.e., Agencies, Corporate Notes, Treasuries, Commercial Paper, etc.) poised to provide the best risk/reward profile. As market conditions change, the allocations in various sector categories are adjusted to provide the best risk/reward trade-offs.

Issuer selection is an investment style that focuses on the underlying characteristics of the fixed income security (bond issuer). This style takes into consideration the many factors (i.e., credit rating, balance sheet strength, revenue stream, etc.) and price in deciding whether the fixed income investment has potential and should be included in the portfolio.

The investment style of yield curve management strives to maximize portfolio values by utilizing the shape of the yield curve and minimizing adverse impacts to the portfolio when interest rates change.

Firms utilizing this style employ strong macro-economic research and focus on determining interest rate trends.

The initial portfolio size, account contributions, and withdrawals will be determined by Metro's liquidity needs, market conditions and the investment manager's performance relative to their benchmark. Staff reviews and discusses performance and compliance matters with the external managers during quarterly meetings, or as necessary.

Four of the five firms recommended for Discipline 1: intermediate duration fixed income managers are Metro's current external managers, who were selected through a competitive process in late 2017 and currently manage \$1.3 billion, or 42% of the total operating fund portfolio as of December 31, 2022. For the contract period, the managers outperformed the benchmark overall and earned \$81 million in interest income during the same period. The portfolios are managed in accordance with the guidelines in the Investment Policy approved by the Board on February 24, 2022.

With this procurement, Metro added Discipline 2 with the intention of creating more opportunities for small, minority owned and women-owned businesses. This short term discipline required different minimum qualifications than Discipline 1 including lower thresholds for assets under management and minimum years of experience with CA Gov't code. Six firms are recommended under this new discipline including three minority owned, women owned or employee-owned businesses.

DETERMINATION OF SAFETY IMPACT

Approval of this item will not have an impact on safety standards for Metro operations.

FINANCIAL IMPACT

Total proposed fees of \$24,787,500 over the ten-year bench contract period are based on a fixed rate applied to estimated average assets under management of \$3.9 billion, assuming growth in the portfolio over time.

Funding of \$1.8 million for this service in FY24 is included in the budget under 50316- Service Professional and Tech Services in cost center 5210 Treasury Department. The funds are divided among three projects: 4% to Project 100002, Task 30.02; 43% to Project 300076, Task 30.02; and 53% to Project 610340, Task 30.02. This multi-year will be managed by the Treasury Department Manager, Finance and DEO, Finance; the Treasurer will be accountable for budgeting the cost in future years.

EQUITY PLATFORM

Discipline 2 was added to the operating portfolio with the intention of creating more opportunities for small minority owned, and women owned businesses. This short-term discipline required different minimum qualifications than Discipline 1 including lower thresholds for assets under management and minimum years of experience with CA Gov't code. Six firms are recommended under this new discipline including three minority owned, women owned or employee-owned firms. Five firms are recommended under Discipline 1 including three small, minority owned, and minority/ woman owned

business.

Treasury staff conducted extensive outreach and thorough research through the State of California's Small Business firm listings, Los Angeles County Local Community banks, Treasury's financial advisors' database, and Metro's own certified small business enterprises (SBE) and compiled a list of 122 firms. The list includes 52 SBE firms, 32 Disadvantaged Business Enterprises (DBE), seven Minority Business Enterprises/Women-Owned Business Enterprises (MBE&WBE), and 27 Los Angeles County local community banks. RFP notifications were sent to all 122 firms.

A total of 31 proposals were received, including one non-Metro certified SBE firm and five MBE&WBE firms.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Metro's Investment Policy supports Metro's Vision 2028 Goal#5: Provide responsive, accountable, and trustworthy governance within the Metro Organization.

ALTERNATIVES CONSIDERED

The Board could elect not to select any external investment managers and rely solely upon staff to invest the operating funds. This alternative is not recommended because the depth of resources of each investment firm enables them to identify and analyze the opportunities and risks associated with a more diversified investment portfolio. The external firms provide broader issuer coverage across permitted asset categories, professional portfolio diversification, duration, and risk management.

NEXT STEPS

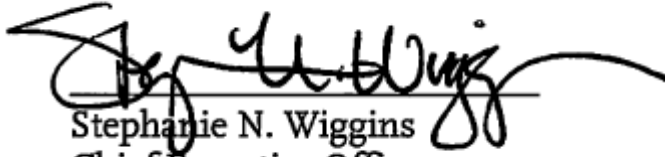
Upon Board approval, staff will execute the bench contracts for investment management services, effective April 1, 2023.

ATTACHMENTS

Attachment A - Procurement Summary
Attachment B - List of Recommended Contractors
Attachment C - DEOD Summary

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Stephanie N. Wiggins
Chief Executive Officer

PROCUREMENT SUMMARY

INVESTMENT MANAGEMENT SERVICES BENCH/PS45150000 - PS45150007

1.	Contract Number: PS45150000 through PS45150007	
2.	Recommended Vendors: See Attachment B	
3.	Type of Procurement (check one): <input type="checkbox"/> IFB <input checked="" type="checkbox"/> RFP <input type="checkbox"/> RFP-A&E <input type="checkbox"/> Non-Competitive <input type="checkbox"/> Modification <input type="checkbox"/> Task Order	
4.	Procurement Dates:	
	A. Issued: October 27, 2022	
	B. Advertised/Publicized: October 26, 2022 and October 27, 2022	
	C. Pre-Proposal Conference: November 9, 2022	
	D. Proposals Due: December 7, 2022	
	E. Pre-Qualification Completed: February 7, 2023	
	F. Conflict of Interest Forms Submitted to Ethics: December 16, 2022	
	G. Protest Period End Date: March 20, 2023	
5.	Solicitations Picked up/Downloaded: 69	Bids/Proposals Received: 31
6.	Contract Administrator: Shannon Thoene	Telephone Number: (213) 922-2790
7.	Project Manager: Jin Yan	Telephone Number: (213) 922-2127

A. Procurement Background

This Board Action is to establish multiple-award investment management services bench contracts for a ten-year term inclusive of a five-year base term and a five-year option term. Investment cycles are generally five (5) years which is needed for the managers to ride the waves of market fluctuations. The contracts shall be effective April 1, 2023, with a cumulative total amount not-to-exceed \$24,787,500. The Bench is intended to provide investment management services to ensure that the temporarily idle funds of the agency are prudently invested to preserve capital and provide liquidity, while maximizing earnings. Board approval of contract award is subject to the resolution of any properly submitted protest.

Work under the bench contracts shall be ordered through the issuance of task orders. Contractors will be assigned an investment portfolio according to the discipline types they are authorized to manage. The two disciplines are: Intermediate Duration Fixed Income Managers and Short-term Duration Fixed Income Managers. Metro, at its sole discretion, will determine, on a fair and reasonable basis, the distribution of funds to invest.

On October 27, 2022, Request for Proposals (RFP) No. PS45150 was issued as a competitive procurement in accordance with Metro's Acquisition Policy and the contract type is indefinite-delivery/indefinite-quantity.

A virtual pre-proposal conference was held on November 9, 2022. Seventy-six (76) questions were received, and Metro provided responses prior to the proposal due date.

Two amendments were issued during the solicitation phase of this RFP:

- Amendment No. 1, issued on November 28, 2022, extended the proposal due date; revised the submittal requirements; updated the Investment Manager Data spreadsheet and schedule of quantities and prices; and clarified the inclusion of the investment manager data spreadsheet into Volume I, Technical Proposal.
- Amendment No. 2, issued on November 30, 2022, revised Article V. Compensation and Payment and updated LOI-01 Notice and Invitation.

A total of 69 firms downloaded the RFP and were included on Metro's planholders' list. A total of 31 proposals were received from 19 firms by the due date of December 7, 2022, and are listed below in alphabetical order:

Discipline 1: Intermediate Duration Fixed Income Managers

1. Allspring Global Investments, LLC
2. Chandler Asset Management, Inc.
3. Earnest Partners, LLC
4. Galliard Capital Management, LLC
5. LM Capital Group LLC
6. Longfellow Investment Management Co., LLC
7. Loop Capital Asset Management
8. Income Research + Management
9. MetLife Investment Management, LLC
10. Nuveen, LLC
11. Payden & Rygel
12. Pacific Investment Management Company, LLC
13. RBC Global Asset Management (U.S.), Inc.
14. TCW Asset Management Company, LLC
15. US Bancorp Asset Management, Inc.
16. Wellington Management, LLP
17. Western Asset Management Company, LLC

Discipline 2: Short-Term Duration Fixed Income Managers

1. Allspring Global Investments, LLC
2. CSM Advisors, LLC dba CS McKee
3. Earnest Partners, LLC
4. Garcia Hamilton and Associates, L.P.
5. Income Research + Management
6. Longfellow Investment Management Co., LLC
7. Loop Capital Asset Management

8. MetLife Investment Management, LLC
9. Payden & Rygel
10. Pacific Investment Management Company, LLC
11. RBC Global Asset Management (U.S.), Inc.
12. US Bancorp Asset Management, Inc.
13. Wellington Management, LLP
14. Western Asset Management Company, LLC

B. Evaluation of Proposals

A Proposal Evaluation Team (PET) consisting of staff from Treasury and Grants Management and Oversight Departments was convened and conducted a comprehensive technical evaluation of proposals received for both disciplines.

On December 13, 2022, the PET met to review the evaluation criteria package, process confidentiality and conflict of interest forms, and take receipt of the 31 proposals to initiate the evaluation phase. Evaluations were conducted from December 13, 2022, through January 25, 2022.

The proposals were evaluated based on the following evaluation criteria stated in the RFP:

Phase I Evaluation – Minimum Qualification Review: This is a pass/fail criteria. The criteria focused on the proposer’s registration with the Securities and Exchange Commission, track record in managing domestic fixed income assets in compliance with Global Investment Performance Standards (GIPS) and experience in managing fixed income securities for clients subject to California Government Code.

On December 19, 2022, the PET reconvened and determined that of the 31 proposals received, the proposals submitted by Earnest Partners LLC (Earnest Partners) for Disciplines 1 and 2 did not meet the minimum qualification requirements. Hence, Earnest Partners was excluded from further consideration. The remaining 29 proposals were further evaluated in accordance with the following evaluation criteria and weights:

- | | |
|--|-----------|
| • Prime Contractor’s Qualifications and Experience | 25 Points |
| • Qualifications and Experience of Key Personnel | 25 Points |
| • Investment Effectiveness and Execution Plan | 50 Points |

The evaluation criteria are appropriate and consistent with criteria developed for similar investment management services. Several factors were considered in developing these weights, giving the greatest importance to the investment effectiveness and execution plan.

After evaluation of proposals, the PET determined the following:

Discipline 1 – Intermediate Duration Fixed Income Managers

Of the proposals evaluated, 10 firms were outside of the competitive range and were not included for further consideration. The seven firms within the competitive range are listed below in alphabetical order:

1. Chandler Asset Management, Inc.
2. LM Capital Group, LLC
3. MetLife Investment Management, LLC
4. Pacific Investment Management Company, LLC
5. Payden & Rygel
6. RBC Global Asset Management (U.S.) Inc.
7. US Bancorp Asset Management, Inc.

Discipline 2 – Short Duration Fixed Income Managers

Of the proposals received, six firms were outside of the competitive range and were not included for further consideration. The eight firms within the competitive range are listed below in alphabetical order:

1. CSM Advisors, LLC dba CS McKee
2. Longfellow Investment Management Co., LLC
3. Loop Capital Asset Management
4. MetLife Investment Management, LLC
5. Pacific Investment Management Company, LLC
6. Payden & Rygel
7. RBC Global Asset Management (U.S.) Inc.
8. US Bancorp Asset Management, Inc.

C. Cost/Price Analysis

For each discipline, proposers submitted an annual tiered fee structure for investment management services. Fee payments are determined based on a fixed rate applied to the calendar quarter's average portfolio market value. The negotiated fees have been determined to be fair and reasonable based on price analysis, cost analysis, technical evaluation, fact-finding, and negotiations.

MetLife Investment Management, LLC and Pacific Investment Management Company, LLC, withdrew their proposals for both Disciplines 1 and 2 because negotiations failed to reach a mutually acceptable fixed rate.

The recommended proposers for the Investment Management Services Bench are listed below in alphabetical order:

Discipline 1 – Intermediate Duration Fixed Income Managers

1. Chandler Asset Management, Inc.

2. LM Capital Group, LLC
3. Payden & Rygel
4. RBC Global Asset Management (U.S.) Inc.
5. US Bancorp Asset Management, Inc.

Discipline 2 – Short Duration Fixed Income Managers

1. CSM Advisors, LLC dba CS McKee
2. Longfellow Investment Management Co., LLC
3. Loop Capital Asset Management
4. Payden & Rygel
5. RBC Global Asset Management (U.S.), Inc.
6. US Bancorp Asset Management, Inc.

D. Background on Recommended Contractors

Chandler Asset Management, Inc.

Chandler Asset Management, Inc. (Chandler Asset), is an independent and 100% employee-owned corporation. It is headquartered in San Diego, California, and has been in business for over 34 years. Chandler Asset's focus is on the management of fixed-income portfolios for institutional clients, including public agencies, healthcare providers, foundations, endowments, and corporations. Chandler Asset's clients include Transportation Corridor Agencies (Orange County Toll Roads), Orange County Transportation Authority, and San Diego Regional Airport Authority.

As of September 30, 2022, Chandler has 187 public agency clients with \$22.9 billion in Assets Under Management (AUM) and 32 private clients with \$4.2 billion in AUM.

Chandler Asset has been providing investment management services to Metro since 2013 and performance has been satisfactory.

CSM Advisors, LLC dba CS McKee

CSM Advisors, LLC (CS McKee), located in Pittsburgh, Pennsylvania, was established in 1972. It is an employee-owned institutional investment advisor. CS McKee's focus is on the management of investment portfolios for public funds. State retirement systems, cities, counties, and public funds comprise the majority of the firm's client base. CS McKee's clients include East Bay Municipal Utility District, and Oakland County Employees Retirement System.

As of September 30, 2022, CS McKee has managed funds of 100 public agency clients with \$3.69 billion in AUM and 169 private clients with \$4 billion in AUM. CS McKee has been providing investment management services for non-operating funds under the Other Post-Employment Benefits (OPEB) Trust for Metro for the past 14 years and performance has been satisfactory.

LM Capital Group, LLC

LM Capital Group, LLC (LM Capital), headquartered in San Diego, California, was established in 1989. It is an employee-owned minority business. LM Capital's clients include the California State Teachers' Retirement System, Los Angeles Fire and Police Pension Fund, and Illinois Municipal Retirement Fund.

As of September 30, 2022, LM Capital managed 27 public agency clients with \$4.3 billion in AUM and 9 private clients with \$250 million in AUM.

LM Capital has been providing investment management services to Metro for the last 32 years and performance has been satisfactory.

Longfellow Investment Management Co., LLC

Longfellow Investment Management Co., LLC (Longfellow Investment), headquartered in Boston, Massachusetts, was established in 1986. It is an independent, 100% employee-owned investment management firm and a certified Women's Business Enterprise. It offers domestic fixed-income and alternative investment strategies to diverse institutional clients. Longfellow Investment's clients include the Orange County Employees Retirement System, Illinois Municipal Retirement Fund, and Massachusetts Pension Reserves Investment Management Board.

In 2021, Longfellow had 20 public agency clients with \$4.3 billion in AUM and 145 private clients with \$13.9 billion in AUM.

Loop Capital Asset Management

Loop Capital Asset Management (Loop Capital), headquartered in Chicago, Illinois, was established in 1985. It is an employee and minority owned (MBE) registered investment advisor. Loop Capital has been managing institutional fixed income accounts for public funds and government entities for over 30 years. Public sector clients comprise the largest segment of its business by client type and has been the key focus of its business historically. Loop Capital's clients include California Earthquake Authority, California Wildfire Fund, and Teachers' Retirement System of the State of Illinois.

As of November 2022, Loop Capital has 31 public agency clients with \$4.7 billion in AUM and 61 private clients with \$3.7 billion in AUM.

Payden & Rygel

Payden & Rygel (Payden), established in 1983, is headquartered in Los Angeles, California. It is a majority women-owned corporation and its core competency is the active management of short-term/intermediate fixed income assets. It has 24 years of experience working with California public agencies on a variety of mandates, including short and intermediate duration funds. Payden's clients include California Earthquake Authority, Santa Clara Valley Transportation Authority, and CalOptima.

As of September 30, 2022, Payden has 60 public agency clients with \$28.8 billion in AUM and 332 private clients with \$108.6 billion in AUM.

RBC Global Asset Management (U.S.) Inc.

RBC Global Asset Management (U.S.) Inc. (RBC Global), established in 1983, is headquartered in Minneapolis, Minnesota. It manages operating funds, bond proceeds, investment pools, insurance funds, reserve assets, and retirement funds. RBC Global manages portfolios for public clients in numerous different investment styles across both fixed income and equities. It provides investment management services for colleges, universities, school districts, special districts, utilities, cities, counties, and state agencies. RBC Global's clients include California Earthquake Authority, Ohio Water Development Authority, and South Dakota Housing Development Authority.

As of September 30, 2022, RBC Global has 28 public agency clients with \$6.8 billion in AUM and 54 private clients with \$25 billion in AUM.

RBC Global has been providing investment management services to Metro since 2008 and performance has been satisfactory.

U.S. Bancorp Asset Management, Inc.

U.S. Bancorp Asset Management, Inc. (U.S. Bancorp), headquartered in Minneapolis, Minnesota, has been providing investment-grade fixed income solutions since 1982. Its core strength and focus are managing multiple types of investment grade fixed income mandates, including debt proceeds and other investment pools for institutional clients, including state, local, and public agency operating funds. U.S. Bancorp's clients include the University of Kansas Hospital Authority, the Office of the Arizona State Treasurer, and the Metropolitan St. Louis Sewer District.

As of September 30, 2022, U.S. Bancorp has 13 public agency clients with \$1.8 billion in AUM and 76 private clients with \$152.9 billion in AUM.

U.S. Bancorp has been providing investment management services to Metro since 2013 and performance has been satisfactory.

ATTACHMENT B

LIST OF RECOMMENDED CONTRACTORS

INVESTMENT MANAGEMENT SERVICES BENCH/PS45150000 - PS45150007

NO.	CONTRACT NUMBER	FIRM
1	PS45150000	Chandler Asset Management, Inc.
2	PS45150001	CSM Advisors, LLC dba CS McKee
3	PS45150002	LM Capital Group, LLC
4	PS45150003	Longfellow Investment Management Co., LLC
5	PS45150004	Loop Capital Asset Management
6	PS45150005	Payden & Rygel
7	PS45150006	RBC Global Asset Management (U.S.) Inc.
8	PS45150007	U.S. Bancorp Asset Management, Inc.

DEOD SUMMARY

INVESTMENT MANAGEMENT SERVICES BENCH/PS45150000 - PS45150007

A. Small Business Participation

The Diversity and Economic Opportunity Department (DEOD) did not establish a Small/Disabled Veteran Business Enterprise (SBE/DVBE) participation goal for this procurement due to lack of subcontracting opportunities. It is expected that each Contractor will be performing the services with their own workforce.

B. Living Wage and Service Contract Worker Retention Policy Applicability

The Living Wage and Service Contract Worker Retention Policy is not applicable to this contract.

C. Prevailing Wage Applicability

Prevailing wage is not applicable to this modification/contract.

D. Project Labor Agreement/Construction Careers Policy

Project Labor Agreement/Construction Careers Policy is not applicable to this Contract. PLA/CCP is applicable only to construction contracts that have a construction related value in excess of \$2.5 million.