



WEST BASIN MUNICIPAL WATER DISTRICT
 17140 S. Avalon Blvd., Suite 210
 Carson, CA 90746

AGENDA NO. 12

MARCH 11, 2009 – Finance Committee
 Gray (Chair), Smith
MARCH 23, 2009 – Board Meeting
 Prepared by: Margaret Moggia
 Submitted by: Margaret Moggia
 Approved by: Rich Nagel

ACTION CALENDAR

INVESTMENT MANAGEMENT SERVICES RECOMMENDATION

SUMMARY:

West Basin Municipal Water District (West Basin) manages its investment portfolio in-house through a “buy and hold” approach on its longer term investments while managing liquidity through its deposits with the state pool, Local Agency Investment Fund (LAIF). In more recent years, staff has benefited from an investment advisor to keep West Basin apprised of current market conditions, review West Basin’s investment policy and procedures, and implement changes to ensure the key objectives of safety, liquidity and yield are being met. Those changes include rebalancing West Basin’s portfolio, developing a cash flow forecast, broadening its broker-dealer pool, and establishing a third-party custodian for West Basin’s investment holdings.

In September 2008, staff received approval from the Board to implement a “total return” strategy. To implement this strategy, staff recommended using the expertise of an external investment manager so that staff can actively invest West Basin’s portfolio to an established benchmark.

West Basin will need to determine an appropriate benchmark based on discussions on short-term and long-term investment strategy, further development of a cash flow forecast, and understanding the risk tolerance West Basin is willing to bear in the market. Understanding West Basin’s philosophy provides the parameters to an investment manager to recommend appropriate investment opportunities to continually rebalance the investment portfolio to achieve the benchmark. West Basin will still manage control of executing the recommendations. A three-year term has been identified to develop and achieve a total return strategy.

The “Request for Proposals” (RFP) was issued January 7, 2009 with a response date of January 29, 2009. It was distributed to over 20 consultants including several within West Basin’s service area, distributed to the local Chambers of Commerce, posted to West Basin’s website and advertised in the local newspapers. West Basin received four proposals and interviewed each firm. The panel consisted of Metropolitan Water District’s treasurer and three staff.

Vendor	Chandler Asset Management	MBIA Asset Management	PFM Asset Management	Wells Capital Management
Location	San Diego	San Diego	San Francisco	Los Angeles
Local Business	0	0	0	0
Proposal Review	52	56	54	44
Interview	33	34	36	24
Total	85	90	90	68

As described above, West Basin is changing to an active management of its investment portfolio and certain key decisions about risk tolerance, establishing benchmarks and enhancing cash flow are critical to managing a successful investment portfolio. Several criteria to determine the selection of an investment manager were considered to ascertain the best fit as West Basin transitions to this new approach. Criteria included firm's qualification and experience, key personnel, investment philosophy and strategy, fee based on assets under management, investment performance, and understanding West Basin's role. For comparative purposes, the firms were compared to a single benchmark over several periods of time. Specifically, when the two firms with the highest proposal scores were compared over the last three years, PFM outperformed MBIA.

Given the economic climate and PFM's performance through this recession, staff believes their knowledge of West Basin's investment portfolio, business practices and policies gives them the ability to focus on managing West Basin's investment opportunities and provide timely recommendations.

Staff believes that MBIA is a qualified firm, but is recommending PFM Asset Management, LLC as they demonstrated consistent performance above the benchmark, a strong credit research team to avoid losses from corporate downgrades, a team approach to answering questions or developing strategy and flexibility to manage the portfolio with the understanding of West Basin's desire to maintain overall fiduciary control.

As the fee for this service is based on "Assets under Management", staff calculated the contract amount based on the overall portfolio size.

STRATEGIC BUSINESS PLAN IMPLEMENTATION:

Goal 8, Finance – Manage finances to optimize the public's investment return and minimize risk.

COMMITMENT STATEMENT:

Sound Financial and Resources Management – West Basin is committed to efficient business operations, financial planning, and asset management.

FISCAL IMPACTS:

Funds for Investment Management Services are included in the Fiscal Year 2008-09 Finance and Support Services Budget. In addition, West Basin should see an increase in investment earnings with a more active management of its investment portfolio.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Finance Committee on March 11, 2009 and recommended for approval at the March 23, 2009 Board meeting.

RECOMMENDED MOTION:

Authorize the General Manager to enter into an agreement with PFM Asset Management, LLC for investment management services for a three-year period for a total not-to-exceed \$195,000.

LIST OF EXHIBITS:

Exhibit "A" - Detailed Proposal Scoring

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