

# CONSENT AGENDA ACTION ITEM

**Governing Board Agenda**

**Meeting Date:** July 28, 2009

<u>Item Number</u>	<u>Item Title</u>	<u>Responsible Agents</u>
V.E.1	Award for Investment Advisory Services	Debra Thompson

**Recommendation**

It is recommended that the Governing Board approve the award of RFP 2883-5 to Voyager Asset Management, Inc., a subsidiary of Royal Bank of Canada, to provide investment advisory services to the District for fiscal year 09-10, with options for annual renewals for up to 4 additional years.

**Justification**

The District's investments are regularly reviewed at quarterly Audit and Finance Committee meetings. The instruments we are able to invest in are limited by State law and by the district's investment policy. Most of our investments have been held in the Local Government Investment Pool (LGIP) which is managed by the State Treasurer. There are two pools, one exclusively invested in federal government securities and the other in a combination of instruments with a higher yield but more risk. For the past year, we have been invested in the federal securities fund, a completely safe investment, but one with extremely low returns (not even 1% of late).

The Audit and Finance Committee has urged the District for some time to secure the services of an investment advisor to provide professional investment advice as the Treasurer's office does not advise us, they only invest the funds we entrust. The Audit and Finance Committee has noted that as a very large organization with a large resource base, we should have an investment advisor to provide guidance that best safeguards our assets, maximizes liquidity, and achieves a fair return relative to risk (our investment principles). Additionally, the Committee has requested that we seek to diversify our investments to a greater extent. As the district does not employ staff with these highly specialized skills, this is a prime and natural function to outsource. Hence, a Request for Proposal was issued for this service and also possible financial management of some of our resources in other investment opportunities in an effort to diversify, all within the limits of the law and our own conservative investment policy and practices.

Attached is further information about the proposal, the Districts Investment Principles that were approved by the Audit and Finance Committee at its August 2008 meeting, and the latest Investment Report (as of 3/31/09) for the District that was submitted to the Committee for its review in June 2009.

<b>Funding</b>	<b>Approvals/Certifications</b>
<p><u>Source:</u></p> <p><u>Account Identification:</u></p>	<p>Chancellor _____</p> <p>Academic &amp; Student Affairs _____</p> <p>Business Services _____</p> <p>Human Resources _____ ITS_ _____</p> <p>Res Dev &amp; Cmty Relations _____</p> <p>College President _____</p>

## **Investment Advisor RFP (Request for Proposal)**

In the past, the District has been requested by community members of its Audit and Finance Committee to pursue investments that are outside of the LGIP (Local Government Investment Pool, or the investment of public funds by the State Treasurer) in order to diversify and strengthen its investment portfolio and potential returns. As this is a highly specialized area of expertise, the District does not employ its own staff investors but has used the Treasurer's Office to invest district funds. The Treasurer provides only this investment service; it does not provide advisory services.

To investigate the possibility of accessing an advisor and potentially to access investment vehicles in addition to the Treasurer's Office, a RFP process was initiated earlier this spring. At the Governing Board meeting on July 28, 2009, the Board is being asked to approve a contract to Voyageur Asset Management, Inc., a subsidiary of Royal Bank of Canada (RBC), to provide investment advisory services to the district for fiscal year 2009-10, with options for annual renewals for up to 4 additional years. Voyageur also may invest funds for us, within the confines of State law and the district's investment policy, in an effort to diversify and increase returns while maintaining the safety of our funds.

The District currently has the majority of its investments in the Local Government Investment Pool (LGIP) with the State Treasurer. The return on these investments is very low. Prior to September 2008, a portion of our funds were in a slightly less conservative pool within the LGIP that provided a slightly higher return, but unfortunately, this particular pool held Lehman Brothers investments for which we have had to record a loss of approximately \$2 million this fiscal year resulting from their bankruptcy. As a result, the District moved all its funds out of this less-conservative pool and placed it in the government pool with the rest of its investments. As a result of this shift and due to volatile economical conditions, the amount of investment income received in the current fiscal has been far below 1%.

Currently, the State Treasurer charges the District 6 basis points (or .06%) for administering the LGIP and Voyageur will charge the District a maximum of 7 basis points (or .07%) for providing investment and advisory services. Although the fees are slightly higher with Voyageur than with the State Treasurer, the expectation is that the returns will be higher, thus offsetting the higher fees. We also will get investment advice, a service not provided by the Treasurer. This fee is not currently and will not in the future be an expense to the District; rather it is a reduction of investment income that should be offset by expected higher returns. By maintaining funds in both LGIP and with Voyageur, the District accomplishes an industry standard desire for more diversified investments; thereby attempting to protect the District from wild market swings. Of course, no investments are 100% safe. We are still exposed to market risk which we certainly have always been with the LGIP.

The District's Investment Principles (see attached) are governed by state law (see ARS §35 Chapter 2 at [Arizona Revised Statutes](#)) and comply with Governing Board Policy – Executive Duties and Responsibilities – Asset Protection (see attached). The Investment Principles are reviewed and approved by the Audit and Finance Committee annually. Any investments made by Voyageur on behalf of the District are required to be in compliance with the District's Investment Principles.

## **Investment Advisor RFP (Request for Proposal) (concl'd)**

We anticipate to first work with Voyager to review our investment principles and update as appropriate and slowly work to diversify investments. We anticipate that we will continue to maintain some investments with the Treasurer's Office.

Voyageur's performance as of April 30, 2009, outperformed industry-standard benchmarks, Citigroup 3-month T-Bill Index and Merrill Lynch 1-3 Year Government Index, year-to-date by 0.24% and 1.07%, respectively.

### Request for Proposal Process

A Request for Proposal (RFP) was issued on January 21, 2009. 15 proposals were received with one determined as non-responsive. The committee reviewed and scored the remaining 14 proposals. Based on these scores, 5 respondents were brought in for interviews including a best and final offer. Based on the combined scores from the proposal and interview, the top two companies had fairly close scores. Therefore, the committee decided to move forward with step three and posed three additional questions with the agreement that the top scoring company from these questions alone would receive the award (pending Governing Board approval). Voyager Asset Management, Inc., was the top scoring respondent in step three of the process.



# Maricopa Community Colleges Investment Principles

## I. Scope

These principles apply to all investment activity of the District, including investing of operational monies and proceeds from the issuance of bonded debt.

These principles are established by the Audit and Finance Committee and shall remain in effect until amended or cancelled by such Committee or its successor. These principles shall be reviewed on an annual basis.

## II. General Objectives

The primary objectives, in priority order, of investment activities shall be: safeguard the invested principal, meet the liquidity needs of the District and achieve a fair return relative to the risk assumed.

- **Safeguard the invested principal.** The preservation and protection of investment principal is the foremost objective of the District's investment program, as indicated in Board Policies under Asset Protection, which states:

*7. Avoid investment of moneys received by the District in any investment instruments or securities not permitted by applicable statutes or legal documents or other established guidelines or in a manner **that jeopardizes the safety of invested principal.***

In order to ensure the safety of the principal invested, the District will seek to mitigate credit risk and interest rate risk.

- **Meet the liquidity needs of the District.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Policy is given in the Board Policies under Financial Control, which states:

*5. Avoid cash management practices that prevent the settlement in a timely manner of payroll and other debts or obligations of the District.*

In order to meet liquidity needs, the District will seek to understand and predict cash needs through an analysis of cash flow patterns. Furthermore, the District shall invest operating funds primarily in investment pools, shorter-term securities, or money market mutual funds to ensure adequate liquidity to meet operating requirements.

## Investment Principles (cont'd)

- **Achieve a fair return relative to the risk assumed.** The investment portfolio shall be managed with the objective of attaining a competitive rate of return given the constraints of the aforementioned safety and liquidity objectives. The investment portfolio shall be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

### III. Standards of Care

- The District will strive to invest with the judgment and care, under circumstances then prevailing, which persons of prudence would be expected to act, not for speculation, but for investment, considering the probable safety of their invested principal as well as the probable return to be derived.
- The District will refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Committee members and employees of the District shall adhere to the conflict of interest laws as set forth in A.R.S. § 38-501 through 38-511.
- The authority to manage the investment program is granted to the Vice Chancellor of Business Services, or its designee.

### IV. Safekeeping and Custody

- **Authorized Financial Dealers and Institutions.** The District will only conduct investment transactions with financial institutions that are licensed as may be required by law to do business in Arizona. A list will be maintained of such financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers who meet both credit and capital requirements established by the Arizona State Treasurer. The security broker/dealers shall be registered in compliance with section 15 or 15C of the Securities Exchange Act of 1934 and registered pursuant to A.R.S. §44-3101, as amended.
- **Internal Controls.** The District shall establish and maintain a system of internal controls designed to ensure that the assets are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.
- **Delivery versus Payment.** All security transactions shall be conducted on a delivery versus payment basis to ensure the securities are deposited in an eligible financial institution prior to the release of funds. A third-party custodian as evidenced by safekeeping receipts will hold securities.

## **V. Suitable and Authorized Investments**

The investment program of the District is governed by the Arizona Revised Statutes as applicable to local political subdivisions located in Title 35, Chapter 2. Only those securities permitted by this applicable statute are authorized under this policy. Additionally, the District will comply with all new or modified Arizona Revised Statutes that are relevant to the District. Furthermore, permitted investment securities for bond and note proceeds, should be those securities permitted by the applicable Board Resolution governing the issuance of the bonds or notes.

## **VI. Reporting**

Evaluation and monitoring of investment performance is the responsibility of the Vice Chancellor of Business Services. The Vice Chancellor is required to submit a quarterly investment report to the Audit and Finance Committee within a reasonable time period following the end of the quarter covered by the report. The report shall include the following:

- Listing of individual securities held at the end of the reporting period and their market value
- Realized and unrealized gains or losses
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks
- Listing of investments by maturity date
- Investment income received during the quarter
- Statement indicating the ability to meet the cash flow needs for six months
- Statement indicating compliance with this investment policy

## **VII. List of Attachments**

- Relevant investment statutes
- Sample listing of authorized broker/dealers and financial institutions
- Sample investment report
- Glossary of terms

**Attachment 1. Relevant Investment Statutes**

Conflict of Interest: [A.R.S. Section 38-501 through 38-511](#)  
Safekeeping and Custody: [A.R.S. Section 44-3101](#)  
Authorized Investments: [A.R.S. Title 35, Chapter 2, as applicable](#)

**Attachment 2. Sample Listing of Authorized Financial Dealers and Institutions**  
*(This is NOT the actual State Treasurer's listing, but a representation of what the listing would look like)*

**Authorized Financial Institutions**

Bank of America  
Bank One  
Wells Fargo Bank

**Approved Security Broker/Dealers**

BA Securities, Inc.  
Bear Stearns & Co  
Citigroup  
Deutsche Banc  
Goldman Sachs  
J.P. Morgan  
Lehman Brothers  
Merrill Lynch  
Morgan Stanley  
UBS Paine Webber  
Wachovia Securities

### Attachment 3. Sample Investment Report

#### Maricopa County Community College District Investment Report As of March 31, 2009

Investments Held At	Amount Invested	Maturity	Year-to-date Income Received	Estimated Annual Income	Yield
<b>Local Government Investment Pool</b>	<b>\$ 412,440,345</b>	<b>Various</b>	<b>\$ 2,128,452</b>	<b>\$ 2,400,000</b>	
<b>Listing of Investments:</b>					
		<u>% of Total Pools</u>			
Commercial Pool 5	-	0.0%		Paid monthly	0.6110%
Government Pool 7	412,440,345	15.1%		Paid monthly	0.2679%
<b>Asset Mix for LGIP Pools</b>					
	<b>Pool 5</b>	<b>Pool 7</b>			
U. S. Treasury Bills and Notes	\$ 100,000,000	\$ 860,000,000			
Tri-Party Repo	210,000,000	1,638,000,000			
Agency Notes	1,383,607,000	5,498,000			
Asset-backed Commercial Paper					
Corporate Notes/Paper	384,540,000	220,000,000			
Certificates of Deposit	5,000,000				
Govt Trust Certificates Zeroes/Strips					
Bank Notes					
<b>Total of LGIP Pools</b>	<b>\$ 2,083,147,000</b>	<b>\$ 2,723,498,000</b>			
<b>Bank of New York</b>	<b>31,968,727</b>		<b>2,469,011</b>	<b>\$ 2,480,000</b>	
<b>Listing of Investments:</b>					
	<b>Book Value:</b>	<b>Maturity Date:</b>			
JP Morgan Federal Money Market	31,968,727	Various	Paid monthly		0.07%
<b>American Funds</b>					
Mutual Fund	<b>69,899</b>		-		
<b>Total</b>	<b>\$ 444,478,971</b>		<b>\$ 4,597,463</b>		

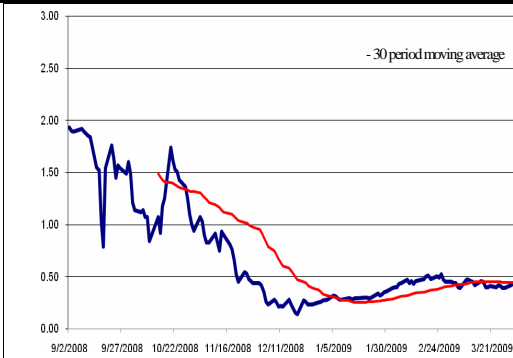
(a) Estimated annual income assumes amount is invested for 12 months at the yield. Actual annual income is based on amount invested, which would be dependent on draws against bond proceeds. This would result in a lower amount actually invested and thus lower annual income.

# MCCCD-MARCH 2009 Key Investment Rates

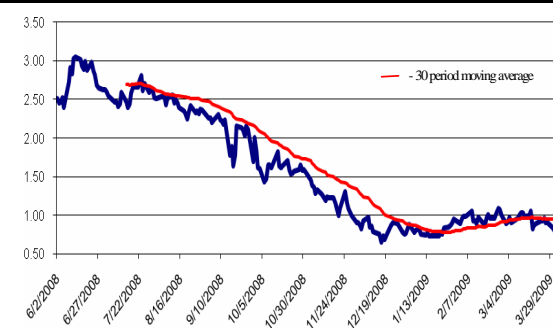
## Cash Markets

Description	As of 3/27/09	One Year Ago
Federal Funds Rate	0.16	2.38
Three Month Jumbo CD Rate - National Average	0.90	2.67
Six Month Jumbo CD Rate - National Average	1.48	2.65
Three Month US Treasury Bill Yield	0.23	1.20
Six Month US Treasury Bill Yield	0.43	1.51
Two Year US Treasury Note Yield	0.81	1.62
Bond Buyer's 20 Bond Municipal Index	5.00	4.96
	<b>As of 4/1/09</b>	<b>As of 1/1/08</b>
Money Market Fund Index	.29	1.96

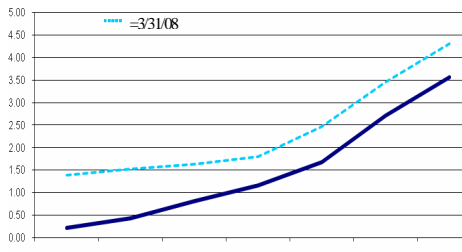
Six Month US Treasury Bill Yield



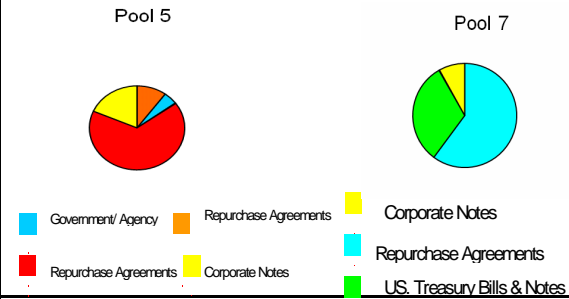
Two Year US Treasury Note Yield



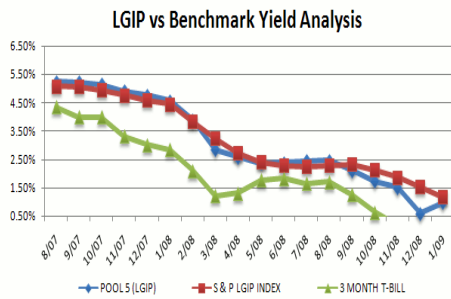
US Treasuries Yield Curve as of 3/31/09



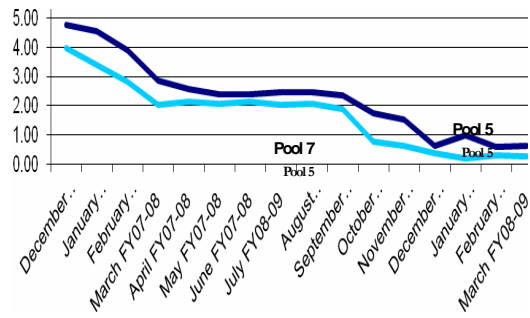
LGIP Composition by Pool



LGIP vs. S&P Yield Analysis (JAN-2009 data)



FY07-08 to 08-09 LGIP Monthly Interest Rate Yield



***Attachment 4. Glossary of Terms***

**Credit Risk** – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**Delivery Versus Payment (DVP)** – A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

**Interest Rate Risk** – The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

**Liquidity** – An asset that can be converted easily and quickly into cash.

**Local Government Investment Pool (LGIP)** – An investment by local governments in which their money is pooled as a method for managing local funds.

**Market Risk** – The risk that the value of a security will rise or decline as a result of changes in market conditions.

**Market Value** – Current market price of a security

**Money Market Mutual Fund** – Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

**Prudent Person Rule** – An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

**Weighted Average Maturity (WAM)** – The average maturity of all the securities that comprise a portfolio.