



**Metro**

Los Angeles County  
Metropolitan Transportation Authority

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Los Angeles, CA 90012-2952

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**FINANCE AND BUDGET COMMITTEE  
NOVEMBER 14, 2007**

**SUBJECT: OPERATING FUND PORTFOLIOS**

**ACTION: AWARD CONTRACTS FOR INVESTMENT MANAGEMENT SERVICES**

**RECOMMENDATION**

Authorize the Chief Executive Officer to award five year fixed rate contracts to:

- |    |   |               |
|----|---|---------------|
| A. | LM Capital Group, LLC                     | PS0752102028A |
| B. | Pacific Investment Management Company LLC | PS0752102028B |
| C. | Voyageur Asset Management Inc.            | PS0752102028C |
| D. | Wells Capital Management                  | PS0752102028D |

for investment management services in an amount not to exceed \$5,135,000 inclusive of two one year options effective January 1, 2008.

**RATIONALE**

Metro's Investment Policy stipulates that temporarily idle funds of the agency should be prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings. Operating Funds are the pool of excess working capital used to fund expenses such as salaries, fuel and supplies. Metro uses external investment managers to invest a portion of its operating fund portfolio in longer-term securities to take advantage of higher yields typically available on longer maturities. Since the current contracts are due to expire December 31, 2007, staff deemed it prudent to conduct a market review.

The proposed fees are based on a fixed rate applied to estimated average assets under management of \$1.010 billion (as of 12/31/2007), which could increase with portfolio growth and decrease with adverse market conditions. The initial portfolio award is based on the firm's total assets under management. Subsequent account contributions and/or withdrawals (if any), will be determined by the liquidity needs of Metro and the investment manager's performance relative to their benchmark. Staff will review and discuss performance and compliance with the external managers during quarterly meetings.

**Background**

In November 2002, three firms were selected to manage \$598 million from a total of \$878 million of the operating fund portfolios. The remaining balance of the funds is managed internally by staff. The portfolios continue to be managed in accordance with the guidelines

defined in Metro's Investment Policy approved by Metro's Board of Directors on January 25, 2007.

**FINANCIAL IMPACT**

Funding of \$5,135,000 for investment management services will be included in the FY09 budget in G/L account 40711 Interest Income, Funds 1102 - Internal Services Fund and 1111 – Enterprise Funds. The costs are allocated among projects 300003, 300004 and 300011. Since this is a multi-year contract, the cost center manager and Chief Financial Services Officer will be accountable to budget for this cost in future years.

**ALTERNATIVES CONSIDERED**

Metro could elect not to select any external investment managers and rely solely upon staff to invest the operating funds. However, the depth of resources of each investment firm enables them to analyze and monitor the risks associated with a wider range of investment instruments. The external firms thereby contribute to broader diversification of the total investment portfolio that provides safety in addition to improving yield. The firms are also an excellent general resource for Metro staff on investment and economic matters.

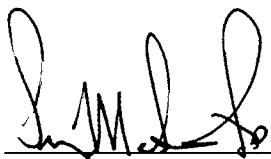
**NEXT STEPS**

Immediately upon Board approval, notify the selected firms of their award and initiate the transition of current account/holdings to each of the firms.

**ATTACHMENTS**

Attachment A: Procurement Summary

Prepared by: Donna R. Mills, Assistant Treasurer  
Marshall M. Liu, Senior Financial Analyst



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Terry Matsumoto  
Chief Financial Services Officer and Treasurer



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Roger Snoble  
Chief Executive Officer

**BOARD REPORT ATTACHMENT A  
PROCUREMENT SUMMARY  
OPERATING FUND PORTFOLIOS**

1.	Contract Number: PS0752102028		
2.	Recommended Vendor: LM Capital Group, LLC; Pacific investment Management Company LLC; Voyageur Asset Management Inc. ; Wells Capital Management		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: \$5,135,000 NTE	Recommended Price: \$ 5,135,000 NTE	
	B. Details of Significant Variances are in Attachment A-1.D		
4.	Contract Type: Annual Percentage of Assets Fee		
5.	Procurement Dates:		
	A. Issued: May 29, 2007		
	B. Advertised: Posted June 30, 2007		
	C. Pre-proposal Conference: June 4, 2007		
	D. Proposals Due: July 13, 2007		
	E. Pre-Qualification Completed:		
	F. Conflict of Interest Form Submitted to Ethics: October 18, 2007		
6.	Small Business Participation:		
	A. Bid/Proposal Goal: 0% Small Business Enterprise	Date Small Business Evaluation Completed: May 25, 2007	
	Small Business Commitment: 0 % Details are in Attachment A-2		
7.	Invitation for Bid/Request for Proposal Data:		
	Notifications Sent: 16	Bids/Proposals Picked up: 42	Bids/Proposals Received: 13
8.	Evaluation Information:		
	A. Bidders/Proposers Names: See Attachment A-3	<u>Bid/Proposal Amount:</u> \$ See Attachment A-3	<u>Best and Final Offer Amount:</u> \$ See Attachment A-3
	B. Evaluation Methodology: RFP Best Value, explicit factors. Details are in Attachment A-1.C		
9.	Protest Information:		
	A. Protest Period End Date: November 19, 2007		
	B. Protest Receipt Date:		
	C. Disposition of Protest Date:		
10.	Contract Administrator Phyllis L. Walker	Telephone Number: 922-1084	
11.	Project Manager: Marshall Liu	Telephone Number: 922-4285	

**BOARD REPORT ATTACHMENT A-1  
PROCUREMENT HISTORY**

**OPERATING FUND PORTFOLIOS**

**A. Background on Contractors**

FIRM	OFFICE LOCATION	BACKGROUND
LM Capital Group LLC	San Diego, CA	The firm was established in 1989 under the name of LM Capital Management Inc. April 1, 2002, they formed a strategic alliance with Strategic Investment Group Ventures, LLC (State of California Public Employee Retirement System), with LM Capital retaining 65% interest. They currently provide services to Metro and their performance has been satisfactory.
Pacific Investment Management Company LLC (PIMCO)	Newport Beach, CA	The firm was established in 1971 as a subsidiary of Pacific Life. May 5, 2000, Allianz AG of Munich, Germany purchased 70% interest and PIMCO became the global fixed income management leader for Allianz operating as a separate, autonomous subsidiary. They currently provide services to Metro and their performance has been satisfactory.
Voyageur Asset Management Inc	Minneapolis, MN	The firm was established in 1983. In 2000, Voyageur was acquired by RBC Dain Rauscher Corp. – merging Voyageur and its existing investment adviser, Insight Investment Management. In 2001, Royal Bank of Canada (RBC) acquired RBC Dain Rauscher Corp. Within

		RBC, Voyager is the principal, U.S.- based institutional investment manager.
Wells Capital Management	Los Angeles & San Francisco	The firm was established in 1996 from existing investment management teams that have been in place since the early 1980s. WellsCap is a wholly owned subsidiary of Wells Fargo Bank, N.A. which is owned by Wells Fargo & Company, a publicly traded corporation.

**B. Procurement Background**

This is a competitive solicitation for investment management firms to invest Metro’s operating funds, preserve capital, provide liquidity and maximize returns. Contracts are recommended for award to the firms who met the minimum requirements and were ranked highest based on the evaluation criteria: 1) firm qualifications and experience; 2) investment approach; 3) key personnel, experience and related policies and procedures; 4) systems, technology and controls; and 5) fee structure.

The contract type is a fixed rate based on an average quarterly market value including interest.

The Diversity & Economic Opportunity (DEOD) did not recommend a Small Business Enterprise (SBE) Participation Goal for this procurement.

**C. Evaluation of Proposals**

The Source Selection Committee reviewed proposals received from the thirteen firms in accordance with Metro Procurement Policies and Procedures and the evaluation criteria established in the Request for Proposal.

Interviews and clarifications were conducted with seven firms that were within the competitive range and a Best and Final Offer fee proposal was requested. Four firms that ranked highest overall were recommended for award.

**D. Cost/Price Analysis Explanation of Variances**

The recommended price has been determined to be fair and reasonable based upon adequate price competition.

BOARD REPORT ATTACHMENT A-2  
LIST OF SUBCONTRACTORS

OPERATING FUND PORTFOLIOS

PRIME CONTRACTOR – LM Capital Group, LLC

Small Business Commitment

Other Subcontractors

None

None

Total Commitment 0%

PRIME CONTRACTOR – Pacific Investment Management Company LLC

Small Business Commitment

Other Subcontractors

None

None

Total Commitment 0%

PRIME CONTRACTOR – Voyageur Asset Management Inc

Small Business Commitment

Other Subcontractors

None

None

Total Commitment 0%

PRIME CONTRACTOR – Wells Capital Management

Small Business Commitment

Other Subcontractors

None

None

Total Commitment 0%

**BOARD REPORT ATTACHMENT A-3  
LIST OF PROPOSERS**

**OPERATING FUND PORTFOLIOS**

A listing of all firms that submitted a proposal in response to the Request for Proposal is identified below:

- |  |  |
|--|--|
| 1. BlackRock Financial Management<br>40 East 52 <sup>nd</sup> Street<br>New York, NY 10022                                   | 10. Voyager Asset Management, Inc.<br>100 South Fifth Street, Suite 2300<br>Minneapolis, MN          |
| 2. Columbia Management Advisors, LLC<br>100 Federal Street<br>Boston, MA 02110   | 11. Wellington Management Company, LLP<br>75 State Street<br>Boston, MA 02109                        |
| 3. Delaware Investments<br>2005 Market Street<br>Philadelphia, PA 19103-7094   | 12. Wells Capital Management<br>525 Market Street, 10 <sup>th</sup> Floor<br>San Francisco, CA 94117 |
| 4. J. P. Morgan Investment Management, Inc.<br>245 Park Avenue<br>New York, NY 10167   | 13. Western Asset Management Company<br>385 E. Colorado Blvd.<br>Pasadena, CA 91101                  |
| 5. LM Capital, LLC<br>401 B Street, Suite 920<br>San Diego, CA 92101   |  |
| 6. Lehman Brothers Asset Management LLC<br>555 California Street, 41 <sup>st</sup> Floor<br>San Francisco, CA 94104          |  |
| 7. Pacific Investment Management Company LLC<br>840 Newport Center Drive<br>Newport Beach, CA 92660                          |  |
| 8. Standish Mellon Asset Management Company LLC<br>One Boston Place, Suite 2900<br>201 Washington Street<br>Boston, MA 02108 |  |
| 9. T. Rowe Price Associates, Inc.<br>100 East Pratt Street<br>Baltimore, MD 21202  |  |