



COUNTY OF MENDOCINO

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*Shari L. Schapmire
Treasurer-Tax Collector*

DATE: APRIL 11, 2012
TO: HONORABLE BOARD OF SUPERVISORS
FROM: SHARI L. SCHAPMIRE, TREASURER-TAX COLLECTOR
RE: INVESTMENT ADVISORY & ASSET MANAGEMENT SERVICES AGREEMENT

Introduction

For approximately the past 20 years, Craig Ehlenberger of Abalone Cove Advisors has served as investment advisor to the Mendocino County Treasurer. Mr. Ehlenberger was instrumental in crafting the legislation regarding permissible investments included in the Government Code after the Orange County Bankruptcy in 1994. He used his knowledge and trusted long-time broker connections to advise the Treasurer in managing the investments in the Treasury Pool. That being said, in this increasingly complicated world of financial investing, Mr. Ehlenberger's one-man operation is no longer the best solution for the county. Due to recent retirements, Mr. Ehlenberger now has access to only one of his long-time broker connections and he himself is contemplating retirement within the next few years.

The investment advisory services provided by Abalone Cove Advisors included providing the county with recommended selections for investment purchases, development of the investment policy, and educating staff on investment-related issues. For services provided, Abalone Cove Advisors received compensation in the amount of \$21,600 per year. Due to the incredibly low costs associated with receiving investment advisory services from Abalone Cove Advisors, a Request for Proposal has never taken place.

Current Status

On February 27, 2012, a Request for Proposal for Investment Advisory Services was issued; the submission deadline was March 26, 2012. Through the Request for Proposal process, we received five extremely proficient proposals from the following advisory firms: Chandler Asset Management, Cutwater Asset Management, R.V.Kuhns & Associates, PFM Asset Management, and Wells Capital Management. Abalone Cove Advisors chose not to submit a proposal for consideration.

After consideration of all proposals, Chandler Asset Management (Chandler) was chosen to provide investment advisory services to the county. Interconnected with the comprehensive advisory services are also an asset management component where the investment advisor actually executes trades on behalf of the county as well as provides reporting and performance information. As with Abalone Cove Advisors, at no time will Chandler actually take possession of county dollars; funds are wired by the treasurer to a third-party safekeeping bank where security purchases are settled.

Chandler Asset Management is an independent, employee-owned California Corporation founded by Kay Chandler in 1988. Ms. Chandler served 10 years as an investment officer in the public sector, primarily in the San Diego County Treasurer's Office as well as for the City of San Diego. Her vision was to serve those public agencies in California that had neither the technical resources nor sufficient dedicated staff to manage

their investment portfolios in-house. As of December 31, 2011, Chandler manages \$5.9 billion in assets for more than 100 clients; approximately 75% of assets under management are for public agencies.

At this time, the amount of authorized funds to be managed by Chandler has not been determined; as indicated in the agreement, there is no annual minimum required. As a point of comparison, if Chandler manages \$40 million, the annual fee would be \$40,000; if Chandler manages \$150 million, the annual fee would be \$111,000. Regardless of the assets under management, services such as investment portfolio review, asset allocation development, determination of risk tolerance, establishment of portfolio benchmark, and cash flow forecasting are included under the terms of the agreement.

One clear advantage of utilizing Chandler for asset management of new investment purchases is access to greater buying power; as of March 20, 2012, Chandler has a network of 34 broker/dealers with whom they execute transactions with on a regular basis. With our previously limited access to broker/dealers, we have not had access to the best pricing. All assets under management will also continually be monitored for risk.

Fitch Report

The recent Fitch Rating Report issued annually for the Pension Obligation Bonds included the following statement “The county’s treasury practices also appear somewhat unusual, with longer maturities and lower credit standards than typical for cash management pools.” While “unusual” does not necessarily mean “wrong,” the indication of lower credit standards did trigger an assessment of weak financial oversight noted in the report. This situation will be resolved with the addition of Chandler Asset Management as our investment advisor.

Recommended Motion

Approve Agreement Between the County of Mendocino and Chandler Asset Management, Inc. to Provide Investment Advisory and Asset Management Services Related to the Treasury Pool.