

MINUTES - APPROVED
Investment Management RFP Subcommittee
January 25, 2022
Remote by Zoom

Present: Rordan Hart, Steve Thayer, Peter Salton (excused at 4:07 p.m.)
Staff: Elin Dowd, Executive Director; Michelle Cocco, Clerk of the Board; Teri Apalovich, Finance Manager; Paul Pelton, Rob Spenard, Locey and Cahill; Rick Snyder, Treasurer; Judy Drake, Board Chair

Call to Order

Mr. Hart, Chair, called the meeting to order at 3:21 p.m.

Committee Organization

Ms. Dowd said this is a subcommittee of the Audit and Finance Committee that will be Chaired by that Committee's Vice Chair, Rordan Hart, with primary staff support provided by Ms. Apalovich.

Changes to the Agenda

There were no changes to the agenda.

Expectations of Investment Manager

Mr. Hart said the purpose of the meeting is to identify what the expectations are of an Investment Manager and to establish the content of the Request for Proposals (RFP). He called attention to the Investment Policy that was included in the agenda packet and noted the current Investment Manager has been operating within specific parameters with respect to how they are investing the Consortium's funds. He said they are primarily using short-term treasuries that don't produce a lot of returns; however, there is some flexibility as to how much risk the Consortium can take on, while still adhering to General Municipal Law (GML) that dictates what the Consortium can invest in. Mr. Hart asked members to consider what expectations they would like to set for an Investment Manager aside from performance.

Ms. Dowd said the biggest concern from members is whether the Consortium is taking advantage of the market that is available to the Consortium. She commented that Wilmington Trust, the current Investment Manager, has established quarterly meetings to review reports that are subsequently shared with the Audit and Finance Committee. She said staff would like an Investment Manager to provide communication that includes written materials and updates on funds as week as when funds are available for change.

Mr. Snyder said it appears over the last couple of years there have been great losses because the Consortium's securities are treasury bills and bonds that are mark to market at the end of every month. While it appears as losses those have to be offset against the previous gains that have been made. He said the goal is to make sure the Consortium never loses any principal. He noted the current advisory only deals with bonds and notes and holds them to maturity and the Consortium is never part of any pool. He said even though it looks like the Consortium has lost money over the last couple of years as the bond market has deteriorated, however, it has never lost any money. Mr. Snyder stressed the importance of knowing the difference between market gains and losses versus real gains and losses. He said if the Consortium is going to have an investment strategy the primary goal should be to never lose principal. The Consortium has been asked but cannot join a number of funds as it is not allowed to lose principal under General

Municipal Law (GML). Mr. Snyder said the Consortium has stayed away from any mutual funds or bond funds to avoid risking principal. When treasuries are bought they are held until maturity and the Consortium receives the stated interest rate; however, this doesn't mean that it could not buy and sell bonds on a more active basis. Mr. Snyder said the Consortium is greatly limited by not going into things such as stocks and bond funds.

Mr. Hart asked if it is a requirement for the Jurat the Consortium's bonds to be mark to market. Mr. Snyder said the Jurat is set up with a comprehensive schedule and DFS advised on how to fill out the forms and what information was necessary. Mr. Hart said General Municipal Law Section 10 allows municipalities to invest in specific types of bonds and securities that do carry the risk of loss of principal and suggested a topic to be discussed is how much risk the Consortium is willing to take with at least some of the Consortium's money.

Mr. Hart said a decision could be made to never lose principal but this will mean using only government treasuries. If there is a will to allow for the possibility of any of the investments allowed by GML Section 10, the Consortium would be accepting some level of risk. He recalled conversations that took place at the time the current Investment Manager was selected and said he doesn't think the question of whether there is a willingness to accept any risk was answered. He asked others to provide feedback on whether there is interest in accepting any risk and if so, how much, noting the RFP would reflect what risk the Consortium is willing to assume.

Ms. Dowd said she would like to check Article 47 to see if there is any reference to investments. Mr. Snyder called attention to the Investment Policy provided in the agenda packet and said Articles 4 and 5 includes a list of the allowed investments; these are the sections of the Policy that would need to be changed if a decision was made to allow for more investments.

Mr. Snyder said he is not opposed to amending the Policy but believes that this question should be answered and a final Policy be in place before proceeding with the Request for Proposals. Mr. Hart said he is not necessarily recommending that the scope of what the Consortium can invest in be expanded but if the Board is looking for better yield and is willing to take on more scope of risk within the guidelines of GML that decision should be made now.

Mr. Thayer said he thinks a little risk is good as it allows for finding other investments that could provide a larger return; however, it needs to be limited as much as possible. He agreed that any adjustment to the Policy should be made prior to issuing an RFP. Ms. Dowd stated that any proposed Policy revisions would be presented to the Audit and Finance Committee, followed by the Executive Committee for approval.

In response to Mr. Salton, Mr. Hart said GML allows for a layer of risk to be added and although it is not a great risk it is more than is available at this time under the current Policy. Mr. Salton said he could support a reasonable increase in risk. Ms. Drake indicated she is could support assuming some, but very limited risk.

Ms. Dowd referenced notes on pages five and six of the agenda packet regarding securing deposits and investments. Mr. Pelton said the Consortium's Policy says 100 percent up to the aggregate amount of deposit. He said in Controller rulings they are looking for an amount in excess of 100 percent of deposits (101-105%). He recommended when looking at the Policy to consider when getting collateral agreements to consider 102% of the value of investments.

Mr. Salton was excused at this time.

Ms. Drake asked if what other entities similar to the Consortium are doing and how much risk they are assuming. Mr. Hart said it would need to be confirmed but he believes NYMIR (New York Municipal Insurance Reciprocal) and MEGA (Municipal Electric and Gas Alliance) both invest in funds on advice from their counsel that even though their members are municipalities that they are stand-alone entities and not subject to GML Section 10. He said a separate question is whether the Consortium would like to investigate or get a ruling from DFS (Department of Financial Services) as to whether GML Section 10 applies to the Consortium. Ms. Dowd said she has been looking into what the differences are between the Consortium and those entities but has not concluded anything at this time. Mr. Hart recalled an opinion was received on this a few years ago from John Powers, the Consortium's legal counsel.

There was consensus to refer the Investment Policy, specifically Articles 4 and 5, to the Audit and Finance Committee for consideration of whether investment parameters should be amended. If there is support to change those parameters the Committee should consider how much of what General Municipal Law allows the Consortium will allow.

Review Draft Request for Proposals:

At this time the Committee reviewed the draft RFP that was included in the agenda packet.

Mr. Snyder said the current fee schedule is based on the size of the portfolio and asked if there are any alternative fee arrangements, such as being based on the returns. Mr. Hart said there are generally no other fee arrangements for the Consortium's type of structure. There can be a flat investment advisor fee that is regardless of performance or assets, however, because the goal is to attract more assets under management most firms lean towards the percentage of total assets fee. He said the Investment Company Act of 1940 prohibits charging incentive-based fees except for specific classifications of funds such as hedge funds. Mr. Hart said if a decision is made to take the safest investment course possible there needs to be more emphasis on fees. If there is an expansion on what the Consortium can do from an investment standpoint, he thinks areas that should be looked at include how the Advisor manages, what their experience is within those confines, what their track record looks like, and how often are they looking to trade out of a bond issue that has appreciated in value versus holding it for its income.

Ms. Dowd suggested adding in the vendor selection a rubric that includes criteria that would present how information received will be weighed. This would inform responders of what is important to the Consortium when going out to bid.

There were no changes made to the draft RFP.

Set Next Meeting

The next meeting will be scheduled following discussion of the Investment Policy at the next Audit and Finance Committee meeting.

Adjournment

The meeting adjourned at 4:30 p.m.