

# CITY OF SAN CLEMENTE

## Investment Advisory Committee Minutes

### Regular Meeting – January 28, 2013

A Regular Meeting of the City of San Clemente Investment Advisory Committee was called to order by City Treasurer, Pall Gudgeirsson, on January 28, 2013 at 5:10 p.m. in the Oceanview Conference Room at City Hall, 100 Avenida Presidio, San Clemente, California.

(1) **ROLL CALL**

**PRESENT:** Investment Advisory Committee Members:

Pall Gudgeirsson, Bob Baker, Art Carter, Mark Taylor, Les Wells

**Staff:**

Jake Rahn, Judi Vincent

**ABSENT:** None

(2) **APPROVAL OF MINUTES**

Minutes of the Nov 26, 2012 meeting were approved. Motion was made to approve by Les Wells, seconded by Art Carter. Approved 5-0.

(3) **INVESTMENT REPORT 2<sup>nd</sup> QUARTER 2012-13**

The second quarter investment report was presented by City Treasurer Pall Gudgeirsson. Les Wells to review benchmarks and will report at next meeting. Mark Taylor moved to approve the 2<sup>nd</sup> Quarter Investment Report, seconded by Les Wells. Approved 5-0.

(4) **BRIEFING ON OUTSIDE MANAGEMENT OF CITY FUNDS**

Gay Eichoff, Cutwater Management, made a presentation on "Using an External Investment Advisor" (attached) Discussion ensued regarding potential use of an outside advisor and the possibility of perhaps putting 25-50% of the City's portfolio out to an external advisor was also discussed. Item will be tabled for further discussion after a new City Treasurer is appointed by the City Council.

(5) **PUBLIC INPUT**

None

(6) **ADJOURNMENT**

Motion was made by Les Wells , seconded by Bob Baker, carried 5-0 to adjourn to an Adjourned Regular Meeting to be held at 5pm on April 22, 2013 in the Ocean View Conference Room at City Hall,100 Avenida Presidio, San Clemente, California.



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Pall Gudgeirsson  
Chair-Investment Advisory Committee

Future Meeting Dates:

April 22, 2013

July 22, 2013

October 28, 2013

The logo for CUTWATER ASSET MANAGEMENT features the word "CUTWATER" in a bold, sans-serif font on the left, followed by "ASSET MANAGEMENT" in a smaller, all-caps sans-serif font on the right. A series of brown dots of varying sizes forms a curved arrow shape pointing from the left towards the text.

**CUTWATER** ASSET MANAGEMENT



**City of  
San Clemente  
California**

Presentation to  
**City of San Clemente**

**Using an External  
Investment Advisor**

January 28, 2013

**Gay Eichhoff, MBA  
Regional Director**

# What is an Investment Advisor?



## An Investment Advisor is:

- Registered with the Securities and Exchange Commission (SEC) under the Investment Advisors Act of 1940
- Experienced in actively managing public assets to improve performance and reduce risk
- An independent source of information and analysis on both individual securities and markets in general
- Fee based, not transaction based, to avoid any conflicts of interest



# What is the Basic Relationship?

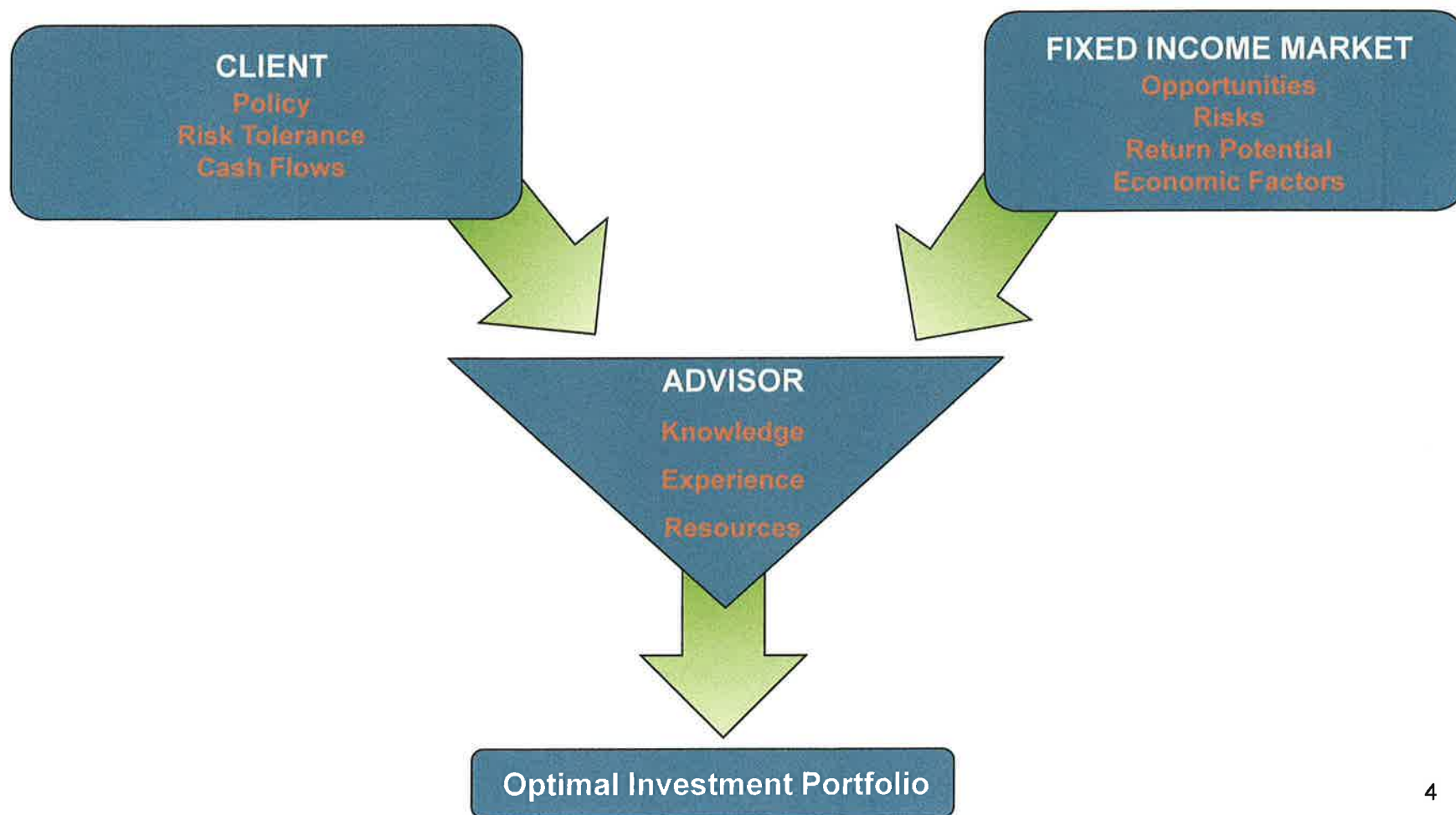


- **Non-discretionary Relationship**
  - All trades approved prior to completion
  - Finance staff fully involved in strategy and investment process
  - Requires more staff time
  - Can affect performance if staff is unavailable
  
- **Discretionary Relationship**
  - Uses Investment Policy as basis for portfolio investing
  - Finance staff must rely more on advisor, less informed
  - Requires less staff time
  - Can have better performance



# What is the Process?

A customized investment strategy is designed based on each client's input and current market conditions.



## Do Advisors Add Value or Cost?

- **Every advisor will add cost**
  - Usually less than 10 basis points on assets under management (10/100 of a percent)
  
- **Separate third-party custodians used**
  - Cost is usually less than 1 basis point of assets under management
  - Provides safekeeping of assets, independent pricing
  
- **Value – based on a financial decision**
  - Does the additional cost add enough value to pay for the service?



# How do Investment Advisors Add Value?



- **Access to Markets**
  - Help in negotiations
  - Provide market information and buying power
  - Affords greater access to inventory
  
- **Competitive Bidding**
  - Broker is the counterparty to the negotiation
  
- **Analytic Tools**
  - Historic spread analysis measures relative value
  - Option adjusted spread analysis used for callable securities
  - Breakeven forward curve analysis helps determine which part of the yield curve has the most value





# How do Investment Advisors Add Value?



- **Credit Analysis**
  - Fundamental internal credit analysis provided by credit analysts
  - Extensive risk monitor system continually evaluates credits
  
- **Experienced Portfolio Managers**
  - Utilize professional credentials (Chartered Financial Analysts (CFA))
  - Years of fixed income and public investing knowledge drawn upon
  
- **Portfolio Compliance**
  - Monitor and report on compliance with policy
  - Comply with State Code
  - Comply with prudent investor guidelines



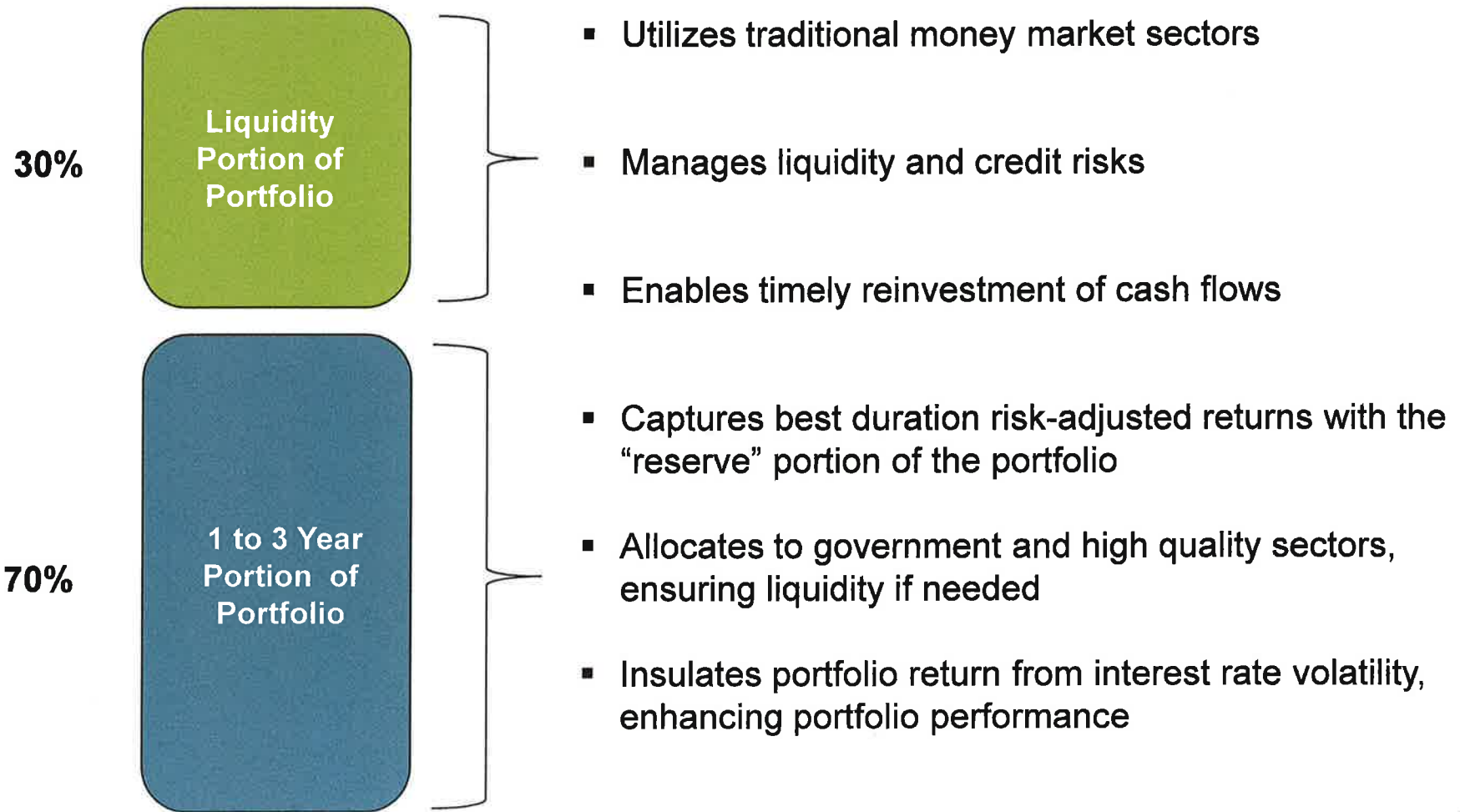
# How do Investment Advisors Add Value?



- Performance Reporting
  - Comply with GASB
  - Comply with state code
  - Calculate amortized cost performance
  - Calculate total return performance
  
- Customized Portfolio Strategy
  - Unique cash flows developed
  - Unique risk tolerances analyzed
  - Unique policies used for guidance
  
- Active Portfolio Management
  - Duration and yield curve management used
  - Sectors analyzed
  - Securities evaluated

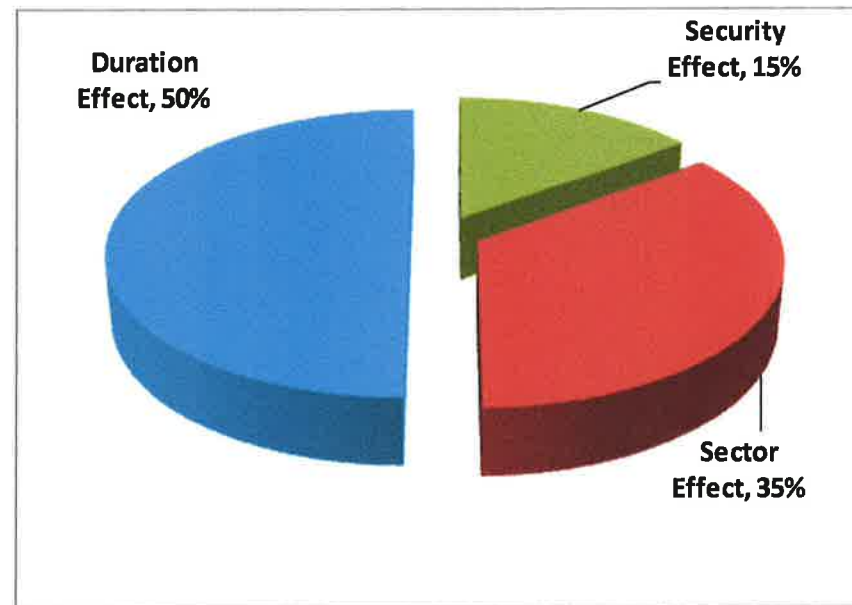


# Traditional Portfolio Structure



There are three main drivers of investment performance for high quality short-term fixed income portfolios:

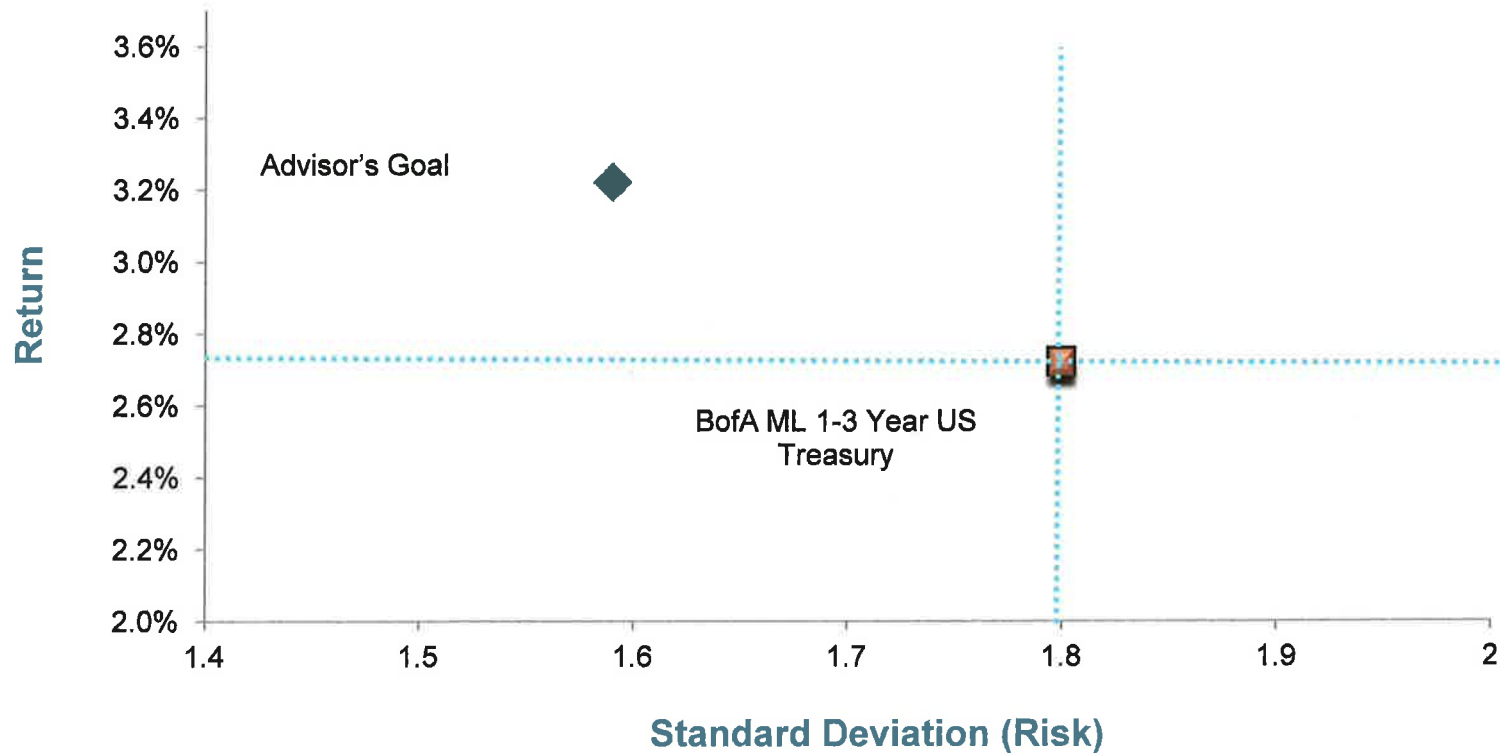
- Duration management
- Sector allocation
- Security selection
  - Structure
  - Credit analysis



Managing just these items will produce a well managed portfolio. Easier to do when interest rates are static, but as we all know, they are in constant motion.



## Risk/Return Tradeoff 10-Years Ending December 31, 2012



Source: eASE Analytics.

Standard deviation is annualized based on quarterly returns. Performance is gross of fees. Additional disclosures offered on the last slide of this presentation .



- **Total Portfolio** – analyze the portfolio as a whole, not just individual transactions
- **Best Execution** - obtain the best securities for the portfolio at the best price through competitive bidding and increased market access
- **Resources** - provide the public clients with the technical analysis and credit research required to effectively manage the portfolio
- **Manage Risk/Return Tradeoff** - balance the portfolios return and the client's risk tolerance
- **Cost Effective** - superior risk-adjusted performance offsets the cost of the services





## Additional Disclosures



1. The investment adviser providing these advisory services is Cutwater Investor Services Corp. (the "Firm"), an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended. Registration with the SEC does not imply a certain level of skill or training.
2. All performance numbers used in the analysis are gross returns. The performance reflects the reinvestment of all dividends and income. The Firm charges management fees on all portfolios that it manages and these fees will reduce the returns on the portfolios. For example, assume that \$30 million is invested in an account with the Firm, and this account achieves a 5.0% annual return compounded monthly, gross of fees, for a period of five years. At the end of five years that account would have grown to \$38,500,760 before the deduction of management fees. Assuming management fees of 0.25% per year are deducted monthly from the account, the value at the end of the five year period would be \$38,022,447. Actual fees for new accounts are dependent on size and subject to negotiation. The Firm's investment advisory fees are discussed in Part 2A of the Firm's Form ADV.
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