DUBLIN CITY COUNCIL
FINANCE COMMITTEE
Tuesday, April 11, 2023 – 4:00 p.m.
5555 Perimeter Drive
Council Chamber

Meeting Minutes

Ms. Alutto called the Finance Committee meeting of April 11, 2023 to order at 4:00 p.m.

Committee members present: Ms. Alutto (Chair), Ms. Amorose Groomes, Mr. Keeler.

Staff members present: Mr. Stiffler, Ms. Hoffman, Ms. Murray

Also present: Ryan Nelson and Joe Violand, Redtree Investment Group; Bob Conrad and Marc Bushallow, Manning & Napier; and Jim McCourt and Jason Szabo, Meeder Investment Management

APPROVAL OF MINUTES

Ms. Alutto moved to approve the minutes of the March 14, 2023 Finance Committee meeting. Mr. Keeler seconded the motion.
The motion passed by the following vote: Ms. Alutto, yes; Mr. Keeler, yes; Ms. Amorose Groomes, yes.

DISCUSSION ITEMS

Investment Consultant Report

Mr. Stiffler introduced the topic as well as the speakers. He explained that the investment policy was discussed for almost two years, and out of that policy revision [Ordinance 63-22], it was agreed that there would be a meeting at least once a year to review Dublin's investment portfolio and advisors [Code Section 35.101(A) and (B)]. The City contracted with Redtree Investment Group to provide investment consultant review services.

Mr. Nelson provided the inaugural investment consultant review. He noted that as the inaugural report, there may be more questions than answers. A glossary of terms has been provided at the end of the presentation. Mr. Nelson provided an introduction of the Redtree Investment Group. They are a firm focused on investing public funds who assist with over $8 million in assets in Ohio and work with over 300 clients. Mr. Nelson reviewed the City of Dublin's current service providers and their roles as follows: the City of Dublin is the client; U.S. Bank is the custodian of the investments purchased from Meeder and Manning & Napier; Redtree Investment Group is the investment consultant; Meeder and Manning & Napier are the investment advisors; three+one is a liquidity consultant. The objectives of investing the City's funds are Safety of Principal, Risk Management (market and credit), Liquidity and Market Rate of Return. The City's investment policy was recently modified in November 2022 by Ordinance 63-22, effective January 1, 2023. It is based on Ohio Revised Code (ORC) 135.14. Investments will typically mature in 5 years. The investment policy must be filed with the Auditor of State, and both advisors must sign. Both of those requirements have been met. Mr. Nelson then reviewed the safety of funds. Collateral is for banking accounts and deposits. That follows ORC 135.18. The City uses pooled collateral through the Ohio Pooled Collateral System. FDIC insurance is up to $250,000 per banking institution and can come in different areas like an actual CD or different type of investment product The City holds a diversified portfolio all held by a third-party custodian and registered in the City's name. Star Ohio is the state administered money market for public funds. It has over $20 billion in assets and daily liquidity and must follow very strict guidelines.

Mr. Violand provided a high-level overview of where the funds of the City are. Dublin works with three+one, whose job is to collaborate with Finance staff to ensure they are maximizing the value of dollars. Dublin's main repository is U.S. Bank, but they are not a part of today's discussion. Liquidity is held with U.S. Bank and Star Ohio. Meeder holds over $137 million and Manning & Napier is next with over $30 million. Today's financial information was provided to the City by the advisors. Some was provided by U.S. Bank. The advisors have discretionary portfolio management on the account. Mr. Stiffler is in control of how much funds are with each advisor. This information is as of the end of February.

Mr. Violand reviewed the Meeder Portfolio. Meeder manages $137,426,096 with an Average Yield at Cost of 1.37%. There are many different yield measures; Redtree uses Yield at Cost. That comes from the investment policy and is a required reporting statistic. The weighted average maturity on the portfolio was just under two years. A chart was shared showing the asset allocation of the portfolio. It is a good diversified portfolio with the majority being U.S. government agencies. The Maturity Distribution shows that over $45 million comes due this year. In this portfolio, Meeder does serve as an additional source of liquidity. After U.S. Bank and Star Ohio, liquidity could be drawn from the Meeder portfolio.
Mr. Stiffler stated that since January of 2021, staff has requested one million dollars from Manning & Napier, which has been repaid, and $34.5 million from Meeder, of which $27 million has been paid back. The difference is due to holding $9 million in a cash reserve for the purchase of the Cloverleaf property, as approved by Council.
Mr. Nelson shared a chart listing categories of investments and their parameters. All are in compliance as of February 28, 2023.
Mr. Violand offered a summary review of Meeder. The City's relationship with Meeder came about in 2018 after its purchase of the previous firm, UACC. Meeder manages the majority of investible assets and are an additional source of liquidity.
Mr. Nelson stated Meeder charges a flat fee of $3500/month. The City pays custody fees of approximately one basis point to U.S. Bank annually. The City has worked with Meeder recently to conduct sales of securities prior to maturity for liquidity needs and due to the change in interest rates. Meeder has provided information showing that they are following parameters within the investment policy.
Mr. Stiffler stated that after receiving guidance from this committee, staff decided to take an active approach to managing aging bonds. As they come into the 207th day window, they can be moved from the treasury to corporate paper. We are able to take advantage of yields to increase money overall. The parameters ensure that we are not moving anything that is greater than interest earned and are not taking a loss on any investments. We have been doing that for several months.

Mr. Violand reviewed the Manning & Napier portfolio. Manning & Napier manages just under $32 million with an Average Yield at Cost of 2.4%. The weighted average maturity is just over two years. A chart was shared showing the asset allocation of the portfolio. It is a diversified portfolio with the majority being U.S. treasuries. The Maturity Distribution shows just $5 million maturing this year. Manning & Napier is longer in the average maturity than Meeder.
Mr. Nelson stated that they performed the same analysis on compliance as with Meeder. They discovered a violation of one corporate note. The investment policy was recently changed, and derivatives are now allowed. Under the previous policy that was not allowed. This is not a note of concern about the holding, but a violation of the structure of the security. It was purchased in January of 2022 before the policy was modified. The new policy allows this but does not grandfather it. The security was called in March of 2023 so it is no longer in the portfolio.
Mr. Keeler asked if this is something that would be monitored and reported on quarterly or monthly, letting the City know. Mr. Nelson stated that they can certainly work through how often reviews are needed. They are open to monthly, quarterly, etc.
Mr. Violand offered summary review of Manning & Napier. They were hired in 2017 to serve as additional investment advisors. There are very few liquidity requirements placed upon this portfolio. There are a number of reports provided to the City by Manning & Napier. Some efficiencies could be added in reporting. Mr. Nelson stated that the investment management fee to Manning & Napier is an assets under management arrangement and not a flat fee. It is 20 basis points of the market value and is prepaid every 6 months. The City pays U.S. Bank costs.
Ms. Amorose Groomes clarified that the management fee is $30,000 every 6 months.

Mr. Nelson provided additional overall considerations. There is language in the Investment Policy on choosing a benchmark for performance standards. This is a big discussion, not an easy decision. The suggestion is for all to collaborate on finding an appropriate benchmark. Ensuring proper reporting is being provided to the City, as required by the Investment Policy, will allow for better understanding of investments by staff, Committee and Council. With regard to management fees, Manning & Napier's fee is higher than average for public fund investment management in Ohio and nationwide. The City does own some mortgage-backed pass-through securities in the Manning & Napier portfolio, but the language reads inconsistently throughout the Policy. Clarity is needed on percentage calculations for policy restrictions. The City needs some type of mechanism in place for advisors to remain in compliance with policy restrictions.
Mr. Nelson offered the following suggestions on future items: Establishing clear expectations for reporting from advisors, performance benchmarks, and policy modifications. Items for ongoing consideration are reviews by investment consultants and compliance monitoring.

Mr. Keeler referenced the security that was not permitted at the time of purchase, based on the IPS language, and asked if the custodians or managers have the ability to rectify a trade error. In his experience, it would be fixed within 24 to 48 hours and they would cover the loss. Mr. Conrad answered affirmatively and stated that they felt the purchase met the ORC language. They can and do rectify errors of that nature and would cover any losses. Mr. Keeler stated that we want to avoid that happening. Mr. Nelson stated that with quarterly reviews, the investment has already been made. A review would need to be done every day for that to be effective. The City is relying on investors for that. Redtree feels that a quarterly review is sufficient. The trading activity is at a minimum. Outside of having daily reviews, the onus is on the investment

advisors. Mr. Violand stated that Redtree has asked staff to have read-only access to both accounts at U.S. Bank and they did start monitoring those accounts.
Mr. Keeler stated that they found the Manning & Napier fee to be high. He asked what that finding was based upon. Mr. Nelson stated that there is no reference book on that. Nationwide, there are approximately 7 to 10 firms that focus on the management of public funds. Typically, the fee starts around 10 basis points for public funds unless it is a small type of account. Mr. Keeler asked if that fee is negotiable. Mr. Conrad stated that with any fee, they try to provide the value that the fee justifies. He can bring up that discussion with the corporate team. Their normal fee is 25 basis points.

Mr. Keeler stated that he hopes to touch on the benchmark conversation. Manning & Napier have two benchmarks and outperform on both. They outperform the best fit benchmark and they are more constrained than that benchmark. Value is relative so it is helpful to see the performance. He likes the benchmarks used.

Ms. Amorose Groomes asked what was the average portfolio value of Manning & Napier. Mr. Conrad stated that their average portfolio is probably $25 million.

Ms. Alutto thanked Redtree for the information. She asked if there are other cities that have done benchmarking. Mr. Nelson stated that, unfortunately, there is not consistency across Ohio nor nationwide with benchmarks. Many cities use a similar type of benchmark that Manning & Napier use. Some use a money market account. Working with other advisors can offer other perspectives. For Council, the challenge is determining what items to benchmark.
Ms. Alutto stated that what we decide we want to use as a benchmark depends on the goals. We have some work to do to make those clearer. She asked for more information regarding reporting efficiencies. Mr. Nelson stated that if there are ten things the City needs, they should consider what the ten reports are instead of a bunch of reports. Consider what is most useful and when do you need it. Staff needs to do bookkeeping so they may need it sooner than a report to Council.
Ms. Alutto stated that she is supportive of compliance reporting quarterly. She asked if there is language about grandfathering or language requiring advisors to become compliant. Mr. Nelson stated that it could protect the City and advisors. He clarified that it was not a matter of quality with the non-compliant investment; it was a matter of structure and language as it relates to the ORC.
Ms. Alutto asked when was the last time Dublin issued a Request for Proposals (RFP) for investment advisors. Mr. Stiffler stated that he is not sure they have ever done one. The City was with UACC since the City began to invest funds, and they were bought by Meeder. We have added advisors.
Ms. Alutto asked if it would be a best practice to do so. Mr. Stiffler stated that it is generally best practice to do an RFP for professional services every three to five years. There are exceptions to that. That should be discussed and the process vetted. He stated that he is not sure staff has the expertise to issue an RFP for services like this. Ms. Alutto stated that for an RFP of this gravity, having a third party look at it makes sense. She asked about how to get the Policy language clarified and procedural issues cleaned up. We can have conversations regarding language changes. Reporting needs will come from staff and Council. Mr. Stiffler stated that staff will schedule additional Finance Committee meetings later in the year regarding

Investment Policy modifications and benchmarking. Staff can bring forward ideas if the Committee could offer some criteria.
Ms. Alutto stated that there is always a balance of how risk adverse/risk tolerant we are. We can fold in a conversation around an RFP in that.
Mr. Keeler stated that benchmarking is a big discussion. He thinks Manning & Napier took a fair stab at it. With respect to Mr. Stiffler's comment, benchmarking is relative. We are not going to compare these advisors to the S&P500. It will be a custom benchmark based on the constituents that the City of Dublin is investing in within each portfolio. The RFP is a fantastic and prudent idea as a steward of taxpayer dollars. It would seem that, based on benchmarks, Manning & Napier is outperforming within the risk range. Meeder is more conservative. Standardizing reports is good. We need to decide what we want to see and what we are using to measure the outcome. His only caveat or concern is that if one of these advisors is underperforming their best fit benchmark by 3%, that is $4.1 million. That could be a land acquisition.
Ms. Alutto stated that for an RFP we have to define less tangible items as well.
Ms. Amorose Groomes agreed about the benchmarking piece. Everyone has a risk score that can be ascertained from their portfolio. Those people fit into a category. They have the same exposure to risk. It is our duty to the people who put their hard-earned money into these funds to manage it that way. It is incumbent upon us to make sure it is managed well. If we had a benchmarking that was established on those parameters, she would be comfortable saying this is the most like us, and we are going to compare ourselves to that.

Ms. Alutto asked if staff has what they need for direction.
Mr. Stiffler asked the consultants if they had sufficient direction. Mr. Nelson stated that they can come up with a very acceptable benchmark for the City for today, tomorrow and next year.

Ms. Alutto suggested four items for further discussion: benchmarking, policy amendments, reporting strategy and reporting process, and RFP process. Mr. Stiffler responded affirmatively.

Mr. McCourt wanted to speak while on the topic of benchmarking. He was with UACC and has been involved with the City's portfolio since he started there in 2008. The City's relationship with UACC goes back to 1999. Upon purchase by Meeder, they transferred the same investing principles. They are very focused in Ohio and Central Ohio. They manage over 30 entities in Franklin County. He went back to 1999 and looked at the City's portfolio. A yield to maturity basis is how most public entities measure their security. This portfolio has a longer-term objective and is meant to smooth the yield over time. He charted the yield to maturity and it averaged 2.53% per month compared to Star Ohio's average over the same period of 1.82%. Given that reference point, Dublin's portfolio with Meeder has performed very well. The City was very flush with cash at the onset of Covid. At that point, Star Ohio was at about 8 basis points. The prognosis at that time was that market yields would stay relatively low for a while. Dublin put more funds into the portfolio in a very low interest rate. So just looking at interest maturity, the yield to maturity comes down but was still out-earning the alternatives at that time. Fast-forwarding into 2021, there were funds coming out of the portfolio in a higher interest rate environment. We were able to accommodate that liquidity in an difficult bond market. All of that goes into their strategy of protecting principle, maintaining liquidity and yielding a return. Any comparison to these reference points needs to be done over a long-term period. If the Committee determines they want to go to a pure return benchmark, Meeder will adjust their portfolio to whatever investment direction they are given.

Ms. Alutto stated that Council needs to decide what we want to look at. It can be defined and redefined if necessary.

Investment Advisor Report

Meeder
Mr. McCourt stated that Meeder has added significant investments in technology. They use a leading provider of compliance portfolio management. The City's Investment Policy is built into their system. Both pre-trade and post-trade compliance of every trade is reviewed. The system will alert staff prior to the trade. If staff decides to override that, it then goes to full-time compliance staff for review. Meeder has insurance which far exceeds standards of public fund managers. They also have their own self-insured pool. There are many backstops in place to prevent violations and remedies to make the City whole.
Mr. Szabo stated as a large organization, we have a lot of other resources and folks within the organization independently overseeing staff. Transparency is not just with the system but compliance and legal teams independent of their internal structure looking after clients.
Mr. McCourt stated that we are dealing with a sudden rise in interest rates over the last year as opposed to prior to the pandemic. Yield to maturity lags in this type of environment. The market is starting to price in some of the incoming change. It still makes sense to have diversification and maintain or extend duration. He shared a slide illustrating the drastic change in forward expectations for federal funds. There has been a lot of volatility in the markets. Meeder's objective is to maintain a consistent approach that will weather market movements. Mr. McCourt shared a chart detailing the City's portfolio. The current yield to maturity is 1.56%. The Meeder-managed portfolio totals $133,931,882. Even with liquidity provided to the City, almost 30% of the portfolio is maturing within the next year. That $38 million matures and gets reinvested which means future higher income. This is a semi-active portfolio. Because of the revised Investment Policy, Meeder has taken some allowable investments and incorporated them into the City's portfolio . This has opened up the asset allocation a little more. Cash basis realized income in 2022 was $663,943 and projected in 2023 is $1,511,115.

Mr. Keeler stated that by the dot plot, 2025 is maybe when we would want to issue more debt. All of the numbers seem to be in an expected range. The question is how is that performance relative to a benchmark.

Manning & Napier
Mr. Conrad introduced Manning & Napier. They were hired in 2017 by the City of Dublin and manage about $20 billion. They are based in Rochester, New York with offices here in Dublin and St. Petersburg, Florida. Their equity analysts and fixed income analysists do talk to one another. They see that as an advantage. He shared some highlights and accolades for the firm.
Mr. Bushallow stated that they are team-based, process-oriented and have a risk-based philosophy. We set the market and economic environment that they are going to manage portfolios on. All high level decisions on duration are made at a team level. Once decisions are

made, investments are then picked by analysts. Understanding how all markets play together is very important. The risk-based philosophy is the backbone of what they do. They don't buy or reach for yields, but consider what risks you are being compensated for. Dublin's portfolio is held within a conservatively position. They have increased duration over the past six months as interest rates have risen. They have limited credit risk.

Mr. Bushallow addressed the security that was out of compliance. It had a maturity of two years or less. They have the same pre-trade and post-trade review technology as well as a compliance team to oversee these things. They do have a system set up to run and manage those things. Regarding benchmarks, they have one they think is appropriate. It is about opportunities given. If a different benchmark is chosen tomorrow, they would not change their portfolio. It is about your objectives and needs and how to best meet those needs. They are happy to participate in full discussion about benchmarks, but they will still build a portfolio according to the City's needs.

Mr. Conrad added that if they need to be more efficient in terms of reporting, they can do that.

There being no further business to come before the Committee, the meeting adjourned at 5:27 p.m.

Chair, Finance Committee

Deputy Clerk of Council