

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

STAFF REPORT

ISSUE: Staff recommends that the Board of Directors (Board) appoint Bond Logistix LLC to act as the I-Bank's investment advisor providing investment management services for a three-year period beginning June 1, 2009 and ending May 31, 2012, and that the Board authorize a contract for investment management services with Bond Logistix LLC for this period in an amount not to exceed \$150,000 and for a further period of two years if approved in the future by the Board.

BACKGROUND: On April 3, 2009, the I-Bank released a Request for Qualifications for Investment Advisor (RFQ). I-Bank staff distributed the RFQ by email to fourteen firms. The list of firms included California advisory firms listed in the The Bond Buyer's Municipal Marketplace directory as well as California investment advisory firms found via an Internet search query. The RFQ was also listed on the I-Bank Website and the California State Contracts Register Website administered by the Department of General Services. The three firms identified below responded to the RFQ via email by the April 29, 2009 due date.

- Bond Logistix, LLC
- MBIA Asset Management
- PFM Asset Management, LLC

I-Bank staff reviewed the three responses received to confirm compliance with the conditions of the RFQ and a committee consisting of the I-Bank's Assistant Executive Director, Bond Finance Unit Manager and two Public Finance Specialists (Review Committee) evaluated each response based upon the firm's qualifications and experience; the competitiveness of the proposed fees; and the overall quality of the written response to the RFQ (collectively, Selection Criteria).

Based upon the Selection Criteria, the Review Committee unanimously selected Bond Logistix LLC (BLX) as the top finalist and recommends the appointment of BLX as investment advisor to the I-Bank.

EXPERTISE OF RECOMMENDED FIRM: BLX is a consulting and SEC registered investment advisory firm serving the public sector and other entities qualified to issue tax-exempt debt. Founded in 1989 as Orrick, Herrington & Sutcliffe Financial Services Group, BLX was spun off in 2000 as a wholly-owned subsidiary of Orrick, Herrington & Sutcliffe LLP (Orrick). In 2001, BLX strengthened its investment advisory services by acquiring Fund Services Advisors (FSA), a broker-dealer based in California. BLX consists of 58 full-time professional consultants in eight offices located throughout the nation. The core team that BLX will assign to the I-Bank engagement consists of five of the firm's most experienced and appropriately skilled professionals with the primary contact of the engagement based in San Francisco.

BLX possesses extensive experience in the placement of structured investments for tax-exempt bond proceeds and related funds. The firm's professionals have developed and placed 1,600 structured products with an aggregate initial invested balance of over \$35 billion. Furthermore, BLX currently provides investment advisory and portfolio management services for over \$1.2 billion in various fixed-income public funds portfolios.

On March 28, 2006, BLX was previously appointed by the Board as the I-Bank's investment advisor and was engaged to provide bidding agent services for structured investment products and discretionary investment management services. Since BLX's appointment, the firm has assisted in the placement of a collateralized guaranteed investment contract (GIC) with MBIA, Inc. in connection with the 2005 Infrastructure State Revolving Fund Program Bonds (ISRF Program Bonds). Additionally, as a consequence of credit rating downgrades to AIG and MBIA in 2008, BLX advised the I-Bank on the timely termination and orderly liquidation of two collateralized GIC transactions in connection with the ISRF Program Bonds. The termination of each collateralized GIC resulted in a make-whole payment or termination payment to the I-Bank and participating I-Bank borrowers. To date, the I-Bank has not utilized BLX for discretionary investment management services (non-directed investment management).

If approved by the Board, BLX will provide the I-Bank with the investment management services listed below as determined necessary by the Executive Director.

- Bidding Agent Services for Structured Investment Products
- Discretionary (Non-Directed) Investment Management Services
- Non-Discretionary (Directed) Investment Management Services
- Other Investment Management Services

It is important to note that BLX also serves as Arbitrage Rebate Consultant to the I-Bank. In addition, Orrick currently serves as Special Counsel for the I-Bank, providing advice in relation to the ISRF Program and as Bond Counsel for the State School Fund Apportionment Lease Revenue Bonds. I-Bank staff does not believe that the appointment of BLX as investment advisor to the I-Bank would create any legal or financial conflict of interest with these existing business relationships.

RECOMMENDATION: Staff recommends approval of Resolution 09-21 appointing Bond Logistix LLC to serve as investment advisor to the I-Bank for a three-year period beginning June 1, 2009 and ending May 31, 2012 and authorizing the Executive Director to execute a contract on behalf of the I-Bank for investment management services with Bond Logistix LLC for this period in an amount not to exceed \$150,000 that is consistent with the terms of this report.