

San Geronio Pass Water Agency

DATE: May 3, 2021
TO: Board of Directors
FROM: Lance Eckhart, General Manager
BY: Tom Todd, Jr., Finance Manager
SUBJECT: Investment Management

RECOMMENDATION

Staff recommends that the Board authorize the General Manager to enter into an agreement with PFM Asset Management for investment management, advice and education.

PREVIOUS CONSIDERATION

The Board reviewed a presentation by PFM and discussed this at the February Finance & Budget Workshop, and at the March 15, 2021 Board meeting. Recommendations were made that have been addressed.

BACKGROUND

The Agency has planned ahead for anticipated and continued investment in the State Water Project as well as local projects/programs. As a result, the Agency has increased its reserves anticipating these future costs. Many public agencies utilize the services of a professional investment firm to manage assets in order to maximize the use of reserves and leverage a wider range of financial management tools available via a professionally managed account. The Agency may consider contracting with a professional investment management service to help maximize returns, utilize a more robust approach to reserve management and provide depth to the Agency's fiscal administration (currently managed by one employee).

ANALYSIS

As previously described, Staff have interviewed and evaluated three investment firms. The Agency auditor, Eden Casareno of Eadie and Payne, was consulted for recommendations for firms to consider and to sit in on firm interviews. Additionally, the Treasurer of the Agency, Mickey Valdivia, has interviewed references for further input.

In all investigations, PFM Asset Management has ranked the highest in each category of consideration. Not only is their depth of staff who concentrate on each investment types superior, their services and interaction with their clients was reported to be excellent.

FISCAL IMPACT

PFM has a tiered rate structure. For portfolios up to \$25 million, it charges 10 basis points annually. For \$25 million to \$50 million, it charges 8 basis points. For our estimated portfolio of around \$45 million, the charge would average around \$40,000 annually.

ACTION

Authorize the General Manager to enter into an agreement with PFM Asset Management for investment advice, education and management.

ATTACHMENTS

Updated agreement with PFM

Letter Agreement

This Letter Agreement, entered into as of May __, 2021 (the “Agreement”), sets forth our agreement for the investment of certain funds (the “Initial Funds”) by the San Geronio Pass Water Agency (the “Participant”) in Individual Portfolios (as the term is herein defined) of the California Asset Management Program (the “Program”).

The Program consists of the California Asset Management Trust (the “Trust”) designed to provide Participants with a convenient method of pooling operating funds and proceeds of bonds, notes, and certificates of participation for temporary investment pending their disbursement. The Program also offers Participants the option of establishing individual, professionally-managed investment accounts (“Individual Portfolios”) by separate agreement with the Trust’s Investment Adviser to meet specific investment objectives. Collectively the Trust and the Individual Portfolios are referred to as the Program. All securities in the Trust are held by the Program’s Custodian, U.S. Bank National Association, Minneapolis, Minnesota (the “Custodian”), in the name of the Trust, and all assets in each Individual Portfolio are held by the Custodian in the name of the appropriate Participant. Such custodial arrangements are subject to and governed by the terms and provisions of a Custody Agreement, dated as of January 10, 2013 (as the same may be amended from time to time, the “Custody Agreement”), which is incorporated herein by reference. A copy of the Custody Agreement is available at www.camponline.com. A complete description of the Program is provided in the Information Statement dated June 4, 2013, as amended from time to time, and the Declaration of Trust dated February 28, 2005, as amended from time to time, to which reference should be made for details.

Certain of the Initial Funds and such other funds as the Participant may from time to time assign to the Trust’s Investment Adviser, PFM Asset Management LLC (“PFMAM”) for management under this Agreement (collectively the “Managed Funds”) will be invested by PFMAM in one or more Individual Portfolios while other funds will be invested in the Trust. The Participant hereby engages PFMAM to serve as investment advisor to the Participant under the terms of this Agreement with respect to the Participant’s Managed Funds in its Individual Portfolios. PFMAM will only invest in instruments as authorized by the Board of Directors of the Participant as found in the current Investment Policy available online at <https://www.sgpwa.com/public-documents/investment-policy/>. The Board of Directors of the Participant covenants to provide written notification to PFMAM of any changes to, or amendments or other modifications of, the Investment Policy.

PFMAM will provide investment research and supervision and conduct a continuous program of investment, evaluation, and when appropriate, sale and reinvestment of the Participant’s funds invested in Individual Portfolios. PFMAM shall place all orders for the purchase, sale, loan, or exchange of portfolio securities for the Participant’s account with brokers or dealers, and to that end PFMAM is authorized as agent of the Participant to give instructions to the Custodian as to deliveries of securities and payments of cash for the account of the Participant. PFMAM shall ensure that orders are placed with reputable, qualified, and financially sound brokers/dealers. PFMAM shall, in a manner consistent with ensuring safety of principal, exercise due diligence in establishing and maintaining brokers/dealer qualifications and in conducting credit reviews and reviews on broker/dealer execution capabilities. In connection with the selection of such brokers and dealers and the placing of such orders, PFMAM is directed to seek for the Participant the most favorable execution and price, the determination of which may take into account, subject to any applicable laws, rules and regulations, whether statistical, research and other information or services have been or will be furnished to PFMAM by such brokers and dealers. Annually, PFMAM will assist the Participant in reviewing the Participant’s Investment Policy, and updating the Policy as necessary. At the same time, the Participant will review its relationship with PFMAM.

Compensation

For services provided by PFMAM for the management of funds in an Individual Portfolio, the Participant shall pay PFMAM an annual fee, in monthly installments, based on the average daily net assets

of the funds in the Individual Portfolios, equal to 0.10% of the first \$25 million of such assets, 0.08% of the next \$25 million, 0.07% of the next \$50 million, and 0.06% of amounts in excess of \$100 million. For purposes of calculating the fee payable to PFMAM, funds in all of the Participant's Individual Portfolios shall be aggregated. The minimum annual fee is \$25,000. For custodial services provided by Custodian, the Participant shall pay the Custodian the applicable asset-based or transaction fees.

PFMAM shall prepare a bill for the investment management fee monthly and forward it and the monthly Custodian invoice to the Participant for approval. Unless instructed otherwise within 15 calendar days of the postmark on that invoice, PFMAM is herein authorized to charge the Participant's associated Trust account and instruct the Custodian to disburse funds from that account. If sufficient funds are not available, the Participant agrees to compensate PFMAM from other sources within 30 calendar days of the postmark date. If either PFMAM or the Custodian shall serve for less than the whole month, the compensation shall be pro-rated.

Although expenses associated with the management of an Individual Portfolio may be paid directly from the Participant's Trust account, where proceeds of tax-exempt debt are invested in an Individual Portfolio these expenses may not be deducted from investment income for purposes of calculating arbitrage rebate.

Other Expenses

Except as expressly provided otherwise herein or in the Declaration of Trust or Information Statement, the Participant shall pay all of its own expenses, if any, with regard to the investment of funds in an Individual Portfolio including, without limitation, taxes, commissions, brokerage and other expenses connected with the execution of portfolio security transactions, insurance premiums, and fees and expenses of the Custodian.

Registered Advisor; Duty of Care; Brochure and Brochure Supplement

PFMAM hereby represents it is a registered investment adviser under the Investment Advisers Act of 1940. PFMAM shall immediately notify the Participant if at any time during the term of the Agreement it is not so registered or if its registration is suspended. PFMAM agrees to perform its duties and responsibilities under the Agreement with reasonable care. The federal securities laws impose liabilities under certain circumstances on persons who act in good faith. Nothing herein shall in any way constitute a waiver or limitation of any rights which the Participant may have under any federal securities laws. The Participant hereby authorizes the Advisor to sign I.R.S. Form W-9 on behalf of the Participant and to deliver such form to broker-dealers or others from time to time as required in connection with securities transactions pursuant to this Agreement.

PFMAM warrants that it has delivered to the Participant PFMAM's current Securities and Exchange Commission Form ADV, Part 2A (brochure) and Part 2B (brochure supplement). The Participant acknowledges receipt of such brochure and brochure supplement prior to the execution of the letter agreement.

PFMAM's Other Clients

The Participant understands that PFMAM performs investment advisory services for various other clients which may include investment companies, commingled trust funds and/or individual portfolios. The Participant agrees that PFMAM, in the exercise of its professional judgment, may give advice or take action with respect to any of its other clients which may differ from advice given or the timing or nature of action taken with respect to the Managed Funds accounts, so long as it is the policy of PFMAM, to the extent practical, to allocate investment opportunities to this account over a period of time on a fair and equitable basis relative to other clients. PFMAM shall not have any obligation to purchase, sell or exchange any security for the Managed Funds solely by reason of the fact that PFMAM, its principals, affiliates, or employees may purchase, sell or exchange such security for the account of any other client or for itself or its own accounts.

Force Majeure

PFMAM shall have no liability for any losses arising out of the delays in performing or inability to perform the services which it renders under this Agreement which result from events beyond its control, including interruption of the business activities of PFMAM or other financial institutions due to acts of God, acts of governmental authority, acts of war, terrorism, civil insurrection, riots, labor difficulties, or any action or inaction of any carrier or utility, or mechanical or other malfunction.

Assignment

PFMAM’s obligations and responsibilities as described in this Agreement are not assignable without the consent of the Participant.

Maintenance of Records

PFMAM shall provide the Participant with a monthly statement showing deposits, withdrawals, purchases and sales (or maturities) of investments, earnings received and the value of assets held on the last business day of the month for assets held in the Individual Portfolios. For proceeds of tax-exempt debt issues invested under this Agreement, PFMAM shall maintain appropriate records of all of its activities hereunder as may be required by the Internal Revenue Code of 1986, as amended, and related U.S. Treasury Regulations, and shall provide to the Program Rebate Calculation Agent all of those records of investment activity as may be necessary to prepare calculations of a Participant’s rebate liability.

Term

This Agreement shall remain in effect so long as PFMAM is the Investment Advisor to the Trust, unless terminated by the Participant upon no less than thirty (30) days’ prior written notice to PFMAM. This Agreement may be terminated by the Participant in the event of any material breach of its terms immediately upon notice by certified mail, return receipt requested.

Sincerely,

PFM ASSET MANAGEMENT LLC

By _____
Sarah Meacham
Managing Director

Accepted:

San Gorgonio Pass Water Agency

By _____
(Signature)

(Name)

(Title)