



Agenda Item No. (6)

To: Finance-Auditing Committee/Committee of the Whole  
Meeting of December 17, 2020

From: Alice Ng, Director of Fiscal Resources  
Joseph M. Wire, Auditor-Controller  
Denis J. Mulligan, General Manager

Subject: **AUTHORIZE EXECUTION OF THE SIXTH AMENDMENT TO THE PROFESSIONAL SERVICES AGREEMENT WITH PFM ASSET MANAGEMENT LLC, RELATIVE TO CONTRACT NO. 2007-D-7, TRUST & INVESTMENT MANAGEMENT SERVICES FOR GASB 45 (OPEB) TRUST**

### **Recommendation**

The Finance-Auditing Committee recommends that the Golden Gate Bridge, Highway and Transportation District authorize execution of the Sixth Amendment to the Professional Services Agreement relative to Contract No. 2007-D-7, *Trust and Investment Management Services for GASB 45 (OPEB) Trust*, with PFM Asset Management LLC (“PFM”), for a three-year extension of the term effective March 1, 2021 through February 29, 2024, with options, exercisable by the District, for two additional one-year terms, at an estimated cost of \$1,198,000 for the five-year period.

This matter will be presented to the Board of Directors at its December 18, 2020, meeting for appropriate action.

### **Summary**

At the annual review of performance of the Trust’s services providers during the October 24, 2019, OPEB Trust Board meeting, Staff reported that PFM has performed well since their engagement in 2007, allowing for the most flexibility accompanied by good investment performance at a reasonable cost. PFM has outperformed the California Employers Retiree Benefits Trust (“CERBT”), net of fees over the last ten-year period and since inception. PFM staff has been responsive and receptive to District requests for information and support, and have provided informative and educational briefings for the Trust Board. Accordingly, in advance of the Agreement’s end date of February 28, 2021, the Trust Board directed District staff to provide a recommendation to renegotiate a multi-year contract with PFM at the April 23, 2020, OPEB Trust Board meeting.

For the April 23, 2020, OPEB Trust Board meeting, PFM completed its analysis of basis points (bps) fees charged for when assets managed is in excess of \$100 million and has reduced its pricing as follows:

<b><u>Current Fee Schedule</u></b>	<b><u>New Fee Schedule</u></b>
25 bps on the first \$25 million	30 bps on the first \$25 million
20 bps on the next \$75 million	15 bps on the next \$75 million
15 bps over \$100 million	10 bps on the next \$200 million

The value of assets managed is estimated to range between \$100 million - \$141 million over the proposed additional five-year period contract effective March 1, 2021, through February 28, 2026, (inclusive of the two one-year options). The fee reduction, as a result of the new fee schedule, is estimated to be \$174,000 (or three bps) for this same five-year period.

Although this proposal was originally proposed for an additional five-year period effective March 1, 2021, PFM accepted the District's request to make this change effective with the prior extension of the contract effective April 1, 2020. This equates to an estimated savings of \$22,000 for the remaining 11 months of the current contract ending February 28, 2021.

Based on PFM's proposed competitive lower pricing, good historical investment returns, and responsible customer service, the Trust Board recommends that the District authorize execution of the Sixth Amendment for an additional three-year extension of the term with options, exercisable by the District, for two additional one-year terms.

***Contract History***

<b>CONTRACT INITIAL AWARD AND AMENDMENTS TO-DATE</b>			
<b><u>Type</u></b>	<b><u>Date Approved</u></b>	<b><u>Description</u></b>	<b><u>Amount</u></b>
Contract Award	April 2007	Initial Award	\$189,000
First Amendment	January 2008	Allow investment advisory fee to be billed and paid monthly rather than quarterly.	\$0
Second Amendment	March 2011	Reflect a more favorable unbundled pricing structure for a three-year extension of term with two additional one-year options.	\$598,000
Third Amendment	November 2015	Three-year extension of terms with two additional one-year options.	\$967,000
Fourth Amendment	October 2019	Reflect reduced pricing for first \$25mm from 0.28% to 0.25%.	-\$11,000
Fifth Amendment	April 2020	Reflect a more favorable pricing structure.	-\$22,000
Sixth Amendment	Pending	Three-year extension of terms with two additional one-year options.	\$1,198,000
<b>TOTAL</b>			<b>\$2,919,000</b>

***Compensation Structure***

Under the new proposed three-year extension of the Agreement, the pricing structure will remain unbundled. Under the unbundled compensation structure, PFM's fee for management of the OPEB trust assets, U.S. Bank's trustee, custodial and trading fees, as well as asset manager(s)' fees and expense ratios, are segregated. PFM bills the District directly for the management of OPEB trust assets while U.S. Bank bills the District directly for custodial, trustee, and trading fees. Manager(s)' fees and expense ratios are netted out of the assets directly by the mutual funds. As per its contract with the District, PFM does not receive compensation from any other source relating to the management of the District's assets. The new proposed PFM and U.S. Bank fees are summarized below.

**PFM Fees (Proposed)**

First \$25 million of assets	0.30%
Next \$75mm of assets	0.15%
Next \$200 million of assets	0.10%

**US Bank Fees**

Custody Fees	
First \$100 million of assets	0.025%
Thereafter	0.015%
Transaction Fees per Trade	\$7.50
Annual Trustee Fee	\$1,000

**Fiscal Impact**

The cost for the investment management of the OPEB trust assets is based on the amount of assets managed and is paid by the assets in the Trust. Therefore, there is no fiscal impact on the Operating and Capital budget due to this impacts the post retirement accounts.

The value of assets managed is estimated to range between \$100 million - \$141 million over the proposed new five-year contract period, effective March 1, 2021, through February 28, 2026 (inclusive of the two one-year options). Based on the reduced pricing schedule proposed, PFM's cost for the investment of the OPEB trust assets (inclusive of U.S. Bank's custodial fees) is estimated to be 0.201% of assets managed, or approximately \$1,198,000 for this same five-year period. The breakdown of estimated fees based on the proposed new fee schedule is as follows:

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	<b>Total Fees</b>	<b>% of MV of Assets</b>
• PFM's fee for management of OPEB trust assets	\$1,036,000	0.174%
• U.S. Bank's trustee, custodial and trading fees	162,000	0.027%
<b>Total Fees to PFM/U.S. Bank</b>	<b>\$1,198,000</b>	<b>0.201%</b>

In addition to PFM and U.S. Bank fees, mutual fund and investment management fees are netted out of investment returns. The estimated mutual fund and investment management fees based on FY 18/19's average rate of 0.235%, is approximately \$1,407,000, over the new five-year contract period, effective March 1, 2021, through February 28, 2026 (inclusive of the two one-year options).