



## Staff Report

**Date:** July 26, 2016

**To:** City Council

**From:** Valerie J. Barone, City Manager

**Reviewed by:** Karan Reid, Director of Finance

**Prepared by:** Deborah Yamamoto, Senior Financial Analyst  
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(925) 671-3183

**Subject:** **Considering Approval of a Three-Year Professional Services Agreement with Public Financial Management Asset Management LLC (PFM) for the management of the City of Concord's investments.**

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### Report in Brief

Staff is recommending that the City Council approve an Agreement for Professional Services with Public Financial Management Asset Management LLC (PFM) for investment management services. The contract term is August 1, 2016 to June 30, 2019, with the possibility of five, one-year extensions.

The City first contracted with PFM Asset Management LLC for a three-year period to assume the management of the City's investment portfolio in 2013. The contract expires on July 31, 2016.

In January 2016, staff conducted a Request for Proposals (RFP) process and received six (6) proposals. Three (3) firms were invited for interviews. The City Treasurer, Director of Finance, and the Senior Financial Analyst were on the interview panel. At the end of May 2016, the incumbent firm, PFM Asset Management LLC was selected to continue providing investment management services to the City.

### Recommended Action

Staff recommends approving a Three-Year Agreement for Professional Services with PFM Asset Management LLC to continue management of the City's investment portfolio, subject to approval of the City Attorney.

## **Background**

Historically, the City managed its investment portfolio with an in-house Treasury Manager using a passive approach (i.e. buy and hold investments until the investments mature). The reason for this passive approach is the minimal staff time available to devote to the investment management function. Managing the City's portfolio using an active approach requires careful monitoring of the fixed-income market allowing trades to be made within a short time period to capture the best rates. By actively managing the portfolio, the City is able to maximize earnings while maintaining the fundamental safety and degree of liquidity that the City's Investment Policy requires. In addition, the City can benefit from specialized professional expertise, risk management, and continuity in the investment function. With today's volatile market and complex investment instruments, a professional investment manager is best suited to achieve the City's investment goals while minimizing portfolio risk.

Upon the retirement of the Treasury Manager, the City contracted with Public Financial Management Asset Management LLC (PFM), Inc. to manage the City of Concord's investment portfolio. PFM serves in a fiduciary role for the City and receives a management fee for the services provided. PFM has maintained adherence to the primary goals of safety and liquidity and yield during a low-interest-rate economy. PFM is an SEC-registered investment advisor and is independent of any financial institution or securities brokerage firm. PFM's current contract expires July 31, 2016.

## **Discussion**

On January 15, 2016, the City issued a Request for Proposals (RFP) for professional services to provide investment management services to the City of Concord. Six proposals were received from firms headquartered both in and outside of California.

The proposals were reviewed by a committee consisting of the City Treasurer, Tim McGallian; Director of Finance, Karan Reid; and Senior Financial Analyst, Debbie Yamamoto. After a thorough evaluation of the proposals and interviews with the top three submitters, the Committee agreed that PFM Asset Management offers the best value to the City for the following reasons:

- PFM has safely produced returns in excess of the City's performance benchmark which is the Bank of America-Merrill Lynch (BAML) 0 – 5 Year U.S. Treasury Index;
- PFM has expanded the City's Investment Policy to broaden its opportunity set;
- PFM has improved the diversification in the City's investment portfolio;
- PFM continues to assist in the quarterly Treasurer's Report;
- PFM retains a San Francisco office, allowing for PFM consultants to attend Council meetings when necessary;

- PFM offers portfolio management expertise that is in-depth and is equipped to continually monitor market adjustments and opportunities;

PFM's investment practices and procedures must comply with State law and the City's Investment Policy.

The term of the contract is for three years but the contract incorporates the opportunity for five, one-year extensions if mutually agreed to by the City and PFM.

### **Financial Impact**

Funds are available in the current operating budget for this service. The contract specifies a fixed fee calculated as a percentage of the total amount of the funds under management. The fee quoted in the RFP is the same as was negotiated for the original contract, 8 basis points (.08%). The initial contract is for three years, with an option for 5 one-year extensions. The proposal provides for a CPI adjustment to be negotiated at the end of the initial three year term, should the contract be extended. The current portfolio to be invested is approximately \$55.9 million, which would result in annual fees of about \$44,700 each year.

### **Public Contact**

The City Council Agenda was posted.

### **Attachments**

1. Contract

## AGREEMENT FOR PROFESSIONAL SERVICES

1           THIS AGREEMENT ("Agreement") is entered into on August 1, 2016 between the City of  
2           Concord ("CITY") and **PFM Asset Management LLC**, 50 California Street, Suite 2300, San  
3           Francisco California 94111 ("CONSULTANT").

4           THE PARTIES ENTER THIS AGREEMENT based upon the following facts, understandings  
5           and intentions:

6           The CITY desires to contract with CONSULTANT to provide the professional services  
7           described in Section 2 of this Agreement, upon the terms and conditions hereinafter set forth.

8           NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and promises of the  
9           parties herein contained, the parties hereto agree as follows:

10          **1.     TERM.** This Agreement shall commence on **August 1, 2016** and expire on **July 31,**  
11          **2019.**

12          **A.     Extension of Term.** Upon mutual written agreement by the parties, the term of this  
13          Agreement may be extended for five (5) additional period(s) of one year each commencing upon the  
14          expiration of the initial or extended term, subject to the same terms and conditions of this Agreement.  
15          CONSULTANT shall give written notice of its request for extension of the term of the Agreement to  
16          the City's Authorized Representative, as identified in Section 4 below, at least thirty (30) days prior to  
17          expiration of the initial or extended term.

18          The extension(s) of the term of this Agreement shall be subject to a review of  
19          CONSULTANT'S performance in accordance with the terms and conditions of this Agreement and  
20          shall be subject to City approval. Such extension of time shall be in writing by a duly executed  
21          Amendment to this Agreement.

22          **2.     SCOPE OF SERVICES.** Subject to such policy direction and approvals provided by  
23          the CITY's Authorized Representative, CONSULTANT shall perform the services described in detail  
24          below and in Exhibit A, Scope of Services, extracted from and pursuant to Request for Proposal  
25          (RFP)#2344, and incorporated by reference as though fully restated herein. CITY retains all rights of  
26          approval and discretion with respect to the projects and undertakings contemplated by this Agreement.

1 CITY hereby engages the CONSULTANT to serve as investment advisor under the terms of this  
2 Agreement with respect to the initial funds and such other funds as CITY may from time to time  
3 assign by written notice to CONSULTANT (collectively the "Managed Funds"), and CONSULTANT  
4 accepts such engagement. In connection therewith, CONSULTANT will provide investment research  
5 and supervision of the CITY's Managed Funds investments and conduct a continuous program of  
6 investment, evaluation and, when appropriate, sale and reinvestment of the CITY's Managed Funds  
7 assets. CONSULTANT shall continuously monitor investment opportunities and evaluate  
8 investments of CITY's Managed Funds. CONSULTANT shall furnish CITY with statistical  
9 information and reports with respect to investments of the Managed Funds. CONSULTANT shall  
10 place all orders for the purchase, sale, loan or exchange of portfolio securities for CITY's account  
11 with brokers or dealers recommended by the CONSULTANT and/or CITY, and to that end  
12 CONSULTANT is authorized as agent of CITY to give instructions to the depository designated by  
13 CITY as its custodian as to deliveries of securities and payments of cash for the account of CITY. In  
14 connection with the selection of such brokers and dealers and the placing of such orders,  
15 CONSULTANT is directed to seek for CITY the most favorable execution and price, the  
16 determination of which may take into account, subject to any applicable laws, rules and regulations,  
17 whether statistical, research and other information or services have been or will be furnished to  
18 CONSULTANT by such brokers and dealers. The depository designated by CITY (the "Custodian")  
19 shall have custody of cash, assets and securities of CITY. CONSULTANT shall not take possession  
20 of or act as custodian for the cash, securities or other assets in the Managed Funds and shall have no  
21 responsibility in connection therewith. Authorized investments shall include only those investments  
22 which are currently authorized by the state investment statutes and the bond covenants and as  
23 supplemented by such other written instructions as may from time to time be provided by CITY to  
24 CONSULTANT. CONSULTANT shall be entitled to rely upon CITY's written advice with respect  
25 to anticipated drawdowns of Managed Funds. CONSULTANT will observe the instructions of CITY  
26 with respect to broker/dealers who are approved to execute transactions involving CITY's Managed  
27 Funds and in the absence of such instructions will engage broker/dealers which CONSULTANT  
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1 reasonably believes to be reputable, qualified and financially sound.

2  
3 **3. PAYMENT.** The compensation to be paid to CONSULTANT including payment for  
4 professional services and reimbursable expenses, shall be at the rate and schedules in detail in Exhibit  
5 B, Cost Proposal by PFM Asset Management LLC as a result of RFP#2344. The minimum annual  
6 cost to the CITY hereunder is expected to be Forty Four Thousand and 00/100 dollars (\$44,000.00), as  
7 the annual fee is eight (8) basis points (0.08%) on assets managed by CONSULTANT. Any  
8 Amendment to this Agreement that includes an increase to this compensation amount shall be made in  
9 accordance with Section 5 below. Assets invested by CONSULTANT under the terms of this  
10 Agreement may from time to time be invested in (i) a money market mutual fund managed by  
11 CONSULTANT or (ii) a local government investment pool managed by CONSULTANT (either, a  
12 “Pool”) or in individual securities. Average daily net assets subject to the fees described in this  
13 Agreement shall not take into account any funds invested in the Pool. Expenses of the Pool, including  
14 compensation for CONSULTANT and the Pool custodian, are described in the relevant prospectus or  
15 information statement and are paid from the Pool.

16 CONSULTANT may submit monthly statements for services rendered; all statements  
17 shall include adequate documentation demonstrating the basis for the fee calculation for the billing  
18 period. It is intended that CITY review such statement and pay CONSULTANT for services rendered  
19 within 30 days of receipt of a statement that meets all requirements of this Agreement. Payment by  
20 CITY shall not be deemed a waiver of unsatisfactory work, even if such defects were known to the  
21 CITY at the time of payment.

22 CONSULTANT shall furnish at its own expense all necessary administrative services, office space,  
23 equipment, clerical personnel, telephone and other communication facilities, investment advisory  
24 facilities, and executive and supervisory personnel for managing the Managed Funds. Except as  
25 expressly provided otherwise herein, the CITY shall pay all of its own expenses including, without  
26 limitation, taxes, commissions, fees and expenses of the CITY's independent auditors and legal  
27 counsel, if any, brokerage and other expenses connected with the execution of portfolio security  
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1 transactions, insurance premiums, and fees and expenses of the Custodian.4. **AUTHORIZED**  
2 **REPRESENTATIVES.** Authorized representatives shall represent CITY and CONSULTANT in all  
3 matters pertaining to the services to be ordered by CITY or rendered by CONSULTANT under this  
4 Agreement except where approval for the CITY is specifically required by the City Council. The  
5 CITY's authorized representative is Karan Reid, Director of Finance of the Finance Department. The  
6 CONSULTANT's authorized representatives include Nancy Jones, Engagement Oversight, and  
7 Monique Spyke or Sarah Meacham as Co-Engagement Managers.

8 **5. AMENDMENT TO AGREEMENT.** This Agreement may be amended in writing,  
9 subject to approval by both parties. If additional services are requested by CITY other than as  
10 described in the above Scope of Services, this Agreement may be amended, modified, or changed by  
11 the parties subject to mutual consent and in accordance with the CITY's Municipal Code by execution  
12 of an Amendment by authorized representatives of both parties setting forth the additional scope of  
13 services to be performed, the performance time schedule, and the compensation for such services.

14 **A. Amendment for Additional Compensation.** CITY's Authorized  
15 Representative is authorized to execute amendments to the Agreement on behalf of CITY, including  
16 amendments providing for additional compensation to CONSULTANT not to exceed \$50,000 during  
17 the fiscal year, including the base contract amount, throughout the term of this Agreement. Any  
18 additional compensation to CONSULTANT that is \$50,000 or more for the fiscal year, including the  
19 base contract amount, must be approved by City Council.

20 Consultant's failure to secure CITY's written authorization for additional compensation or  
21 changes to the Scope of Work shall constitute a waiver of any and all right to adjustment in the price  
22 or time due, whether by way of compensation, restitution, quantum merit, or similar relief.

23 **6. INDEPENDENT CONTRACTOR.** Both parties understand and acknowledge that  
24 CONSULTANT, its agents, employers and subcontractors are and shall at all times remain as to the  
25 CITY wholly independent contractors. Neither the CITY nor any of its officers or employees shall  
26 have any control over the manner by which the CONSULTANT performs this Agreement and shall  
27 only dictate the results of the performance. Except with respect to the purchase and sale of securities  
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1 in the CITY's investment portfolio, CONSULTANT shall not represent that CONSULTANT or its  
2 agents, employees or subcontractors are agents or employees of the CITY, and CONSULTANT shall  
3 have no authority, express or implied, to act on behalf of the CITY in any capacity whatsoever as an  
4 agent, and shall have no authority, express or implied, to bind the CITY to any obligation whatsoever,  
5 unless otherwise provided in this Agreement.

6 As an independent contractor, CONSULTANT shall not be eligible for any benefits, which the  
7 City may provide to its employees and all persons, if any, hired by CONSULTANT shall be  
8 employees or subcontractors of CONSULTANT and shall not be construed as employees or agents of  
9 the CITY in any respect (except with respect to the purchase and sale of securities in the investment  
10 portfolio). CONSULTANT shall receive no premium or enhanced pay for work normally understood  
11 as overtime, i.e., hours that exceed forty (40) hours per work week, or work performed during non-  
12 standard business hours, such as in the evenings or on weekends. CONSULTANT shall not receive a  
13 premium or enhanced pay for work performed on a recognized holiday. CONSULTANT shall not  
14 receive paid time off for days not worked, whether it be in the form of sick leave, administrative  
15 leave, or for any other form of absence. CONSULTANT shall pay all taxes, assessments and  
16 premiums under the federal Social Security Act, any applicable unemployment insurance  
17 contributions, Workers Compensation insurance premiums, sales taxes, use taxes, personal property  
18 taxes, or other taxes or assessments now or hereafter in effect and payable by reason of or in  
19 connection with the services to be performed by CONSULTANT.

20 7. **STANDARD OF PERFORMANCE.** CONSULTANT represents and warrants to  
21 CITY that CONSULTANT is skilled and able to provide such services described in the Scope of  
22 Work and that such services shall be performed in an expeditious manner, and with the degree of skill  
23 and care that is required by current, good, and sound procedures and practices. CONSULTANT  
24 further agrees that the services shall be in conformance with generally accepted professional standards  
25 prevailing at the time work is performed.

26 8. **PERFORMANCE BY CONSULTANT.** CONSULTANT shall not employ other  
27 consultants, subconsultants, experts, or contractors without the prior written approval of the CITY.  
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1 Notwithstanding the foregoing, CITY shall not be obligated or liable for payment hereunder to any  
2 party other than the CONSULTANT. CONSULTANT hereby designates the CONSULTANT'S  
3 representative as the person primarily responsible for the day-to-day performance of  
4 CONSULTANT'S work under this Agreement. CONSULTANT shall not change the  
5 CONSULTANT'S representative without (i) prior written notice to the CITY, (ii) introduction of the  
6 individual serving as the replacement to the CONSULTANT's representative, and (iii) provision to  
7 the CITY's authorized representative of a résumé and any other information regarding the individual  
8 that may be reasonably requested by the City. Unless otherwise expressly agreed by the CITY,  
9 CONSULTANT'S representative shall remain responsible for the quality and timeliness of  
10 performance of the services, notwithstanding any permitted or approved delegation hereunder.

11 **9. OWNERSHIP AND MAINTENANCE OF DOCUMENTS.** All documents  
12 furnished by CONSULTANT pursuant to this Agreement are instruments of CONSULTANT's  
13 services in respect to this project. They are not intended nor are represented to be suitable for reuse by  
14 others except CITY on extensions of this project or on any other project. Any reuse without specific  
15 written verification and adoption by CONSULTANT for the specific purposes intended will be at  
16 user's sole risk and without liability or legal exposure and expenses to CONSULTANT, including  
17 attorney's fees arising out of such unauthorized reuse.

18 Title to all estimates, reports, descriptions and other final work products compiled by the  
19 CONSULTANT under the Agreement shall be vested in the CITY, none of which shall be used in any  
20 manner whatsoever, by any person, firm, corporation, or agency without the expressed written consent  
21 of the CITY. Basic survey notes and sketches, charts, computations, and other data prepared or  
22 obtained under the Agreement shall be made available, upon request, to the CITY without restriction  
23 or limitations on their use. CONSULTANT may retain copies of the above-described information but  
24 agrees not to disclose or discuss any information gathered, discussed or generated in any way through  
25 this Agreement without the written permission of CITY during the term of this Agreement, unless  
26 required by law or by regulatory or judicial process.

27 **10. INDEMNIFICATION.** CONSULTANT agrees to defend, indemnify and hold  
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1 harmless the CITY, its officers, officials, employees, agents and volunteers from and against any and  
2 all claims, demands, actions, losses, damages, injuries, and liability (including all attorney's fees and  
3 other litigation expenses) arising out of the CONSULTANT's wrongful performance, whether  
4 negligent or intentional, under the terms of this Agreement. This indemnification obligation on  
5 CONSULTANT'S part shall not apply to demands, actions, losses, damages, injuries, and liability  
6 arising out of sole negligence or willful misconduct on the part of CITY.

7 **11. INSURANCE.** CONSULTANT shall, at its own expense, procure and maintain in  
8 full force at all times during the term of this Agreement the following insurance:

9 **A. Commercial General Liability Coverage.** CONSULTANT shall maintain  
10 commercial general liability insurance with limits of no less than one million dollars (\$1,000,000)  
11 combined single limit per occurrence or two million dollars (\$2,000,000) aggregate limit for bodily  
12 injury, personal injury, and property damage.

13 **B. Automobile Liability Coverage.** CONSULTANT shall maintain automobile  
14 liability insurance covering all vehicles used in the performance of this Agreement providing a one  
15 million dollar (\$1,000,000) combined single limit per occurrence for bodily injury, personal injury,  
16 and property damage.

17 **C. Professional Liability Coverage (Errors and Omissions).** CONSULTANT  
18 shall maintain professional liability insurance with coverage for all negligent errors, acts or omissions  
19 committed by CONSULTANT, its agents and employees in the performance of this Agreement. The  
20 amount of this insurance shall be not less than one million dollars (\$1,000,000) on a claims made  
21 annual aggregate basis or a combined single limit per occurrence basis.

22 **D. Compliance with State Workers' Compensation Requirements.**  
23 CONSULTANT covenants that it will insure itself against liability for Workers' Compensation  
24 pursuant to the provisions of California Labor Code §3700, et seq. CONSULTANT shall, at all  
25 times, upon demand of the City, furnish proof that Workers' Compensation Insurance is being  
26 maintained by it in force and effect in accordance with the California Labor Code. The insurer shall  
27 also agree to waive all rights of subrogation against the CITY, its officers, officials, employees and  
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1 volunteers for losses arising from work performed by CONSULTANT for CITY. This provision  
2 shall not apply upon written verification by CONSULTANT that CONSULTANT has no employees.

3 **E. Other Insurance Provisions.** The policies are to contain, or be endorsed to  
4 contain the following provisions:

5 **(1) Additional Insured.** CITY, its officers, agents, employees, and  
6 volunteers are to be covered as an additional insured as respects: Liability arising out of activities  
7 performed by or on behalf of CONSULTANT and operations of CONSULTANT, premises owned,  
8 occupied, or used by CONSULTANT. The coverage shall contain no special limitations on the scope  
9 or protection afforded to CITY, its officers, officials, employees, or volunteers.

10 Except for worker's compensation and professional liability insurance, the policies mentioned  
11 in this subsection shall name CITY as an additional insured and provide for notice of cancellation to  
12 CITY. CONSULTANT shall also provide timely and prompt notice to CITY if CONSULTANT  
13 receives any notice of cancellation or nonrenewal from its insurer.

14 **(2) Primary Coverage.** CONSULTANT'S insurance coverage shall be  
15 primary insurance with respect to CITY, its officers, officials, employees, and volunteers. Any  
16 insurance, risk pooling arrangement, or self-insurance maintained by CITY, its officers, officials,  
17 employees, or volunteers shall be in excess of CONSULTANT'S insurance and shall not contribute  
18 with it.

19 **(3) Reporting Provisions.** Any failure to comply with the reporting  
20 provisions of the policy shall not affect the coverage provided to the CITY, its officers, officials,  
21 employees, or volunteers.

22 **(4) Verification of Coverage.** CONSULTANT shall furnish CITY with  
23 certificates of insurance and the original endorsements effecting coverage required by this Agreement.  
24 The certificates and endorsements for each insurance policy are to be signed by a person authorized by  
25 that insurer to bind coverage on its behalf. The aforementioned policies shall be issued by an  
26 insurance carrier having a rating of Best A-7 or better which is satisfactory to the City Attorney and  
27 shall be delivered to CITY at the time of the execution of this Agreement or before work commences.  
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1 Such policies and certificates shall be in a form approved by the City Attorney. CITY reserves the  
2 right to require complete certified copies of all required insurance policies at any time.

3 **12. TIME OF PERFORMANCE.** The time of performance of the services under this  
4 Agreement is of the essence, and all time deadlines identified in this Agreement or Scope of Services  
5 shall be strictly construed.

6 **13. SUSPENSION OF WORK.** CITY may, at any time, by ten (10) days' written notice,  
7 suspend further performance by CONSULTANT. All suspensions shall extend the time schedule for  
8 performance in a mutually satisfactory manner, and CONSULTANT shall be paid for services  
9 performed and reimbursable expenses incurred prior to the suspension date. During the period of  
10 suspension, CONSULTANT shall not receive any payment for services, or expenses, except for  
11 reasonable administration expenses, incurred by CONSULTANT by reason of such suspension.

12 **14. TERMINATION.** Either party may terminate this Agreement for any reason upon ten  
13 (10) days written notice to the other party. Either party may terminate the Agreement upon five (5)  
14 days written notice if the other party breaches this Agreement. In the event of any termination,  
15 CONSULTANT shall promptly deliver to the CITY any and all finished and unfinished reports or  
16 other written, recorded, photographic, or visual materials, documents, data, and other deliverables  
17 ("Work Materials") prepared for the CITY prior to the effective date of such termination, all of which  
18 shall become CITY's sole property. After receipt of the Work Materials, CITY will pay  
19 CONSULTANT for the services performed as of the effective date of the termination.

20 **15. COMPLIANCE WITH CIVIL RIGHTS.** During the performance of this contract,  
21 CONSULTANT agrees as follows:

22 **A. Equal Employment Opportunity.** In connection with the execution of this  
23 Agreement, CONSULTANT shall not discriminate against any employee or applicant for employment  
24 because of race, religion, color, sex, or national origin. Such actions shall include, but not be limited  
25 to, the following: employment, promotion, upgrading, demotion, or transfer; recruitment or  
26 recruitment advertising; layoff or termination; rate of pay or other forms of compensation; and  
27 selection for training including apprenticeship.

1           **B. Nondiscrimination Civil Rights Act of 1964.** CONSULTANT will comply  
2 with all federal regulations relative to nondiscrimination in federally assisted programs.

3           **C. Solicitations for Subcontractors including Procurement of Materials and**  
4 **Equipment.** In all solicitation, either by competitive bidding or negotiations, made by  
5 CONSULTANT for work to be performed under a subcontract including procurement of materials or  
6 leases of equipment, each potential subcontractor, supplier or lessor shall be notified by  
7 CONSULTANT of CONSULTANT’S obligation under this Agreement and the regulations relative to  
8 nondiscrimination on the grounds of race, religion, color, sex, or national origin..

9           **16. CONFLICT OF INTEREST.**

10           A. CONSULTANT covenants and represents that neither it, nor any officer or  
11 principal of its firm, has, or shall acquire any interest, directly or indirectly, which would conflict in  
12 any manner with the interests of CITY or which would in any way hinder CONSULTANT’S  
13 performance of services under this Agreement. CONSULTANT further covenants that in the  
14 performance of the Agreement, no person having any such interest shall be employed by it as an  
15 officer, employee, agent or subcontractor without the express written consent of the CITY.  
16 CONSULTANT agrees to at all times avoid conflicts of interest, or the appearance of any conflicts of  
17 interest, with the interests of the CITY in the performance of this Agreement.

18           B. CONSULTANT is not a designated employee within the meaning of the  
19 Political Reform Act because CONSULTANT:

20                   (1) Will conduct research and arrive at conclusions with respect to its rendition  
21 of information, advice, recommendation or counsel independent of the control and direction of the  
22 CITY or of any CITY official, other than normal contract monitoring; and

23                   (2) Possesses no authority with respect to any CITY decision beyond the  
24 rendition of information, advice, recommendation or counsel. (2 Cal. Code Regs. § 18700(a)(2).)

25           **17. COMPLIANCE WITH LAWS.** CONSULTANT shall comply with all applicable  
26 Federal, State of California, and local laws, rules, and regulations and shall obtain all applicable  
27 licenses, including a business license with the City of Concord, and permits for the conduct of its  
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1 business and the performance of the services.

2 **18. CHOICE OF LAW.** This Agreement shall be construed and interpreted in accordance  
3 with the laws of the State of California, excluding any choice of law rules which may direct the  
4 application of the laws of another jurisdiction. In the event that suit shall be brought by either party  
5 hereunder, the parties agree that trial of such action shall be held exclusively in a state court in the  
6 County of Contra Costa, California.

7 **19. NON-WAIVER.** The waiver by either party of any breach of any term, covenant, or  
8 condition contained in the Agreement, or any default in their performance of any obligations under the  
9 Agreement shall not be deemed to be a waiver of any other breach or default of the same or any other  
10 term, covenant, condition, or obligation, nor shall any waiver of any incident of breach of default  
11 constitute a continuing waiver of same.

12 **20. ENFORCEABILITY; INTERPRETATION.** In the event that any of the provisions  
13 or portions of application of any of the provisions of the Agreement are held to be illegal or invalid by  
14 a court of competent jurisdiction, CITY and CONSULTANT shall negotiate an equitable adjustment  
15 in the provisions of the Agreement with a view toward affecting the purpose of the Agreement. The  
16 illegality or invalidity of any of the provisions or portions of application of any of the provisions of  
17 the Agreement shall not affect the legality or enforceability of the remaining provisions or portions of  
18 application of any of the provisions of the Agreement. This Agreement shall be interpreted as though  
19 it was a product of a joint drafting effort and no provisions shall be interpreted against a party on the  
20 ground that said party was solely or primarily responsible for drafting the language to be interpreted.

21 **21. INTEGRATION.** All exhibits identified in this Agreement are attached hereto and  
22 incorporated herein by reference. The Agreement contains the entire agreement and understanding  
23 between the parties as to the subject matter of this Agreement. It merges and supersedes all prior or  
24 contemporaneous agreements, commitments, representation, writings, and discussions between  
25 CONSULTANT and CITY, whether oral or written.

26 **22. SUCCESSORS AND ASSIGNS; NO THIRD PARTY BENEFICIARIES; NO**  
27 **JOINT VENTURE.** CITY and CONSULTANT respectively, bind themselves, their successors,  
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1 assigns, and legal representatives to the terms and obligations of this Agreement. CONSULTANT  
2 shall not assign or transfer any interest in the Agreement without the CITY's prior written consent,  
3 which consent shall be in the CITY's sole discretion. Any attempted assignment or transfer in breach  
4 of this provision shall be void. This Agreement is not intended and shall not be construed to create  
5 any third party benefit. This Agreement is not intended and shall not be construed to create a joint  
6 venture or partnership between the parties. Except with respect to the purchase and sale of securities  
7 in the investment portfolio, CONSULTANT, its officers, employees and agents shall not have any  
8 power to bind or commit the CITY to any decision.

9 **23. FINANCIAL RECORDS.** Records of CONSULTANT's direct labor costs, payroll  
10 costs, and reimbursable expenses pertaining to this project covered by this Agreement will be kept on  
11 a generally recognized accounting basis and made available to CITY if and when required.

12 **24. NOTICES.** All notices required hereunder shall be in writing and mailed postage  
13 prepaid by certified or registered mail, return receipt requested, or by personal delivery to the CITY's  
14 address as shown below, or such other places as CITY or CONSULTANT may, from time to time,  
15 respectively, designate in a written notice given to the other. Notice shall be deemed received three  
16 (3) days after the date of the mailing thereof or upon personal delivery.

17  
18 To CITY:

**Karan Reid, Deborah Yamamoto**  
**City of Concord**  
**1950 Parkside Drive**  
**Concord, CA 94519-2578**  
**Phone: (925) 671-3192/ Fax: (925) 671-3353**  
[Karan.reid@cityofconcord.org/](mailto:Karan.reid@cityofconcord.org/)  
[Deborah.yamamoto@cityofconcord.org](mailto:Deborah.yamamoto@cityofconcord.org)

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21  
22 To CONSULTANT:

**PFM Asset Management LLC**  
**Monique Spyke, Sarah Meacham**  
**50 California Street, Suite 2300**  
**San Francisco, CA 94111**  
**Phone: (415) 982-5544**  
**Fax:(415) 982-4513**  
[spykem@pfm.com](mailto:spykem@pfm.com)  
[meachams@pfm.com](mailto:meachams@pfm.com)

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27 **25. NON-LIABILITY.** No member of the CITY and no other officer, employee or agent  
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1 of the CITY shall be personally liable to CONSULTANT or otherwise in the event of any default or  
2 breach of the CITY, or for any amount which may become due to CONSULTANT or any successor in  
3 interest, or for any obligations directly or indirectly incurred under the terms of this Agreement.

4       **26.    EXECUTION.** Each individual or entity executing this Agreement on behalf of  
5 Applicant represents and warrants that he or she or it is duly authorized to execute and deliver this  
6 Agreement on behalf of Applicant and that such execution is binding upon Applicant.

7       **27.    BROCHURE AND BROCHURE SUPPLEMENT.** CONSULTANT warrants that it  
8 has delivered to the CITY prior to the execution of this Agreement CONSULTANT’S current  
9 Securities and Exchange Commission (“SEC”) Form ADV, Part 2A (brochure) and Part 2B (brochure  
10 supplement). The CITY acknowledges receipt of such brochure and brochure supplement prior to the  
11 execution of this Agreement. *(See Exhibit C)*

12       **28.    DISCIPLINARY ACTIONS.** CONSULTANT shall promptly give notice to the  
13 CITY if CONSULTANT shall have been found to have violated any state or federal securities law or  
14 regulation in any final and unappealable judgment in any criminal action or civil suit in any state or  
15 federal court or in any disciplinary proceeding before the SEC or any other agency or department of  
16 the United States, any registered securities exchange, FINRA, or any regulatory authority of any State  
17 based upon the performance of services as an investment advisor.

18       **29.    REGISTERED ADVISOR; DUTY OF CARE.** CONSULTANT hereby represents it  
19 is a registered investment advisor under the Investment Advisers Act of 1940. CONSULTANT shall  
20 immediately notify the CITY if at any time during the term of this Agreement it is not so registered or  
21 if its registration is suspended. The federal securities laws impose liabilities under certain  
22 circumstances on persons who act in good faith. Nothing herein shall in any way constitute a waiver  
23 or limitation of any rights which the CITY may have under any federal securities laws. The CITY  
24 hereby authorizes CONSULTANT to sign I.R.S. Form W-9 on behalf of the CITY and to deliver such  
25 form to broker-dealers or others from time to time as required in connection with securities  
26 transactions pursuant to this Agreement.

27       **30.    CONSULTANT’S OTHER CLIENTS.** The CITY understands that CONSULTANT  
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1 performs investment advisory services for various other clients which may include investment  
2 companies, commingled trust funds and/or individual portfolios. The CITY agrees that  
3 CONSULTANT, in the exercise of its professional judgment, may give advice or take action with  
4 respect to any of its other clients which may differ from advice given or the timing or nature of action  
5 taken with respect to the Managed Funds. CONSULTANT shall not have any obligation to purchase,  
6 sell or exchange any security for the Managed Funds solely by reason of the fact that  
7 CONSULTANT, its principals, affiliates, or employees may purchase, sell or exchange such security  
8 for the account of any other client or for itself or its own accounts.

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

15 This Agreement may be executed in several counterparts, each of which shall constitute one  
16 and the same instrument and shall become binding upon the parties when at least one copy hereof  
17 shall have been signed by both parties hereto. In approving this Agreement, it shall not be necessary  
18 to produce or account for more than one such counterpart.

19 **IN WITNESS WHEREOF**, the parties have executed this Agreement in one (1) or more  
20 copies as of the date and year first written above.

21 **CONSULTANT**

22 **CITY OF CONCORD, a Municipal Corporation**

23  
24 By: \_\_\_\_\_  
25 Name: Nancy Jones  
26 Title: Managing Director  
27 Address: 50 California Street, Suite 2300  
28 San Francisco CA 94111  
Telephone: (415) 982-5544/ [jonesn@pfm.com](mailto:jonesn@pfm.com)

By: \_\_\_\_\_  
Name: Valerie J. Barone  
Title: City Manager  
Address: 1950 Parkside Drive  
Concord, CA 94519  
Telephone: (925) 671-3150

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APPROVED AS TO FORM:

ATTEST:

\_\_\_\_\_  
City Attorney

\_\_\_\_\_  
City Clerk

FINANCE DIRECTOR'S CERTIFICATION:

Concord, California

Date: \_\_\_\_\_, 2016

I HEREBY CERTIFY THAT ADEQUATE FUNDS EXIST OR WILL BE RECEIVED  
DURING THE CURRENT FISCAL YEAR 2017 TO PAY THE ANTICIPATED  
EXPENSES TO BE INCURRED PURSUANT TO THIS CONTRACT.  
THE SUM OF \$\_\_\_\_\_. Account Code 10036001Z01063800.

\_\_\_\_\_  
Finance Director's Signature

**EXHIBIT A (Page 1 of 1)**  
**SCOPE OF SERVICES**

The City of Concord seeks proposals for full or partial portfolio management services for approximately \$54 million in operating and capital funds (non-pension funds).

The Investment Advisor shall be a registered Investment Advisor as defined and regulated by the Securities and Exchange Commission (SEC) and shall be registered in the state of California (State). The Investment Advisor shall be either independent of any financial institution or securities brokerage firm or shall fully disclose any relationships with such financial institution and/or securities brokerage firm and shall describe the length and extent of such relationship. The Investment Advisor shall also file a “conflict of interest” statement and disclose any and all relationships with elected City Officials or City staff, including any campaign contributions made on behalf of any past or present Concord City Council Member.

Specific services, although not all-inclusive, to be performed are as follows:

1. Manage the City’s portfolio with discretionary authority.
2. Assist the City with cash flow/maturity analysis.
3. Provide credit analysis of investment instruments in portfolio.
4. Provide monthly/quarterly/annual reporting of City funds you manage and any other information required in the City’s Investment Policy.
5. Attend meetings with City staff and Treasurer as needed and at least two per year.
6. Evaluate market risk and develop strategies that minimize the impact on the portfolio.
7. Provide assurance of portfolio compliance with applicable policies and laws.
8. Establish an appropriate performance benchmark.
9. Ensure that the portfolio structure matches the City’s objectives.
  - a. Annually, review the City’s Investment Policy and make recommendations for change as appropriate.

Investment practices and procedures must comply with state law and the City’s Investment Policy. The investment advisory firm will be expected to perform to the Prudent Expert Standard.

The City's primary investment objective is to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default. Although the generation of revenues through interest earnings on investments is an appropriate City goal, the primary consideration in the investment of City funds is capital preservation in the overall portfolio. As such, the City's yield objective is to achieve a reasonable rate of return on City investments rather than the maximum generation of income, which could expose the City to unacceptable levels of risk.

In determining individual investment placements, the following factors shall be considered in priority order: safety, liquidity and yield.

Currently, the Bank of New York Mellon is the custodian of the investments management by PFM.

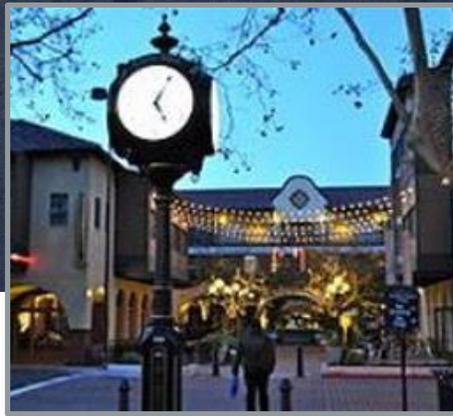
**AGREEMENT FOR PROFESSIONAL SERVICES**

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**EXHIBIT B**  
*(8 Pages)*

**COST PROPOSAL**  
**BY PFM ASSET MANAGEMENT LLC**





## City of Concord

### Request for Proposal For Asset Management Services #2344 (Total Cost Proposal)

*March 31, 2016*



**PFM Asset Management LLC**

# Table of Contents

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Exhibit B - Total Cost Proposal Form

Exhibit B1 – Exceptions to Specifications/Requirements

Exhibit B2 – W-9 Form

Exhibit B3 – Debarment and Suspension Certification



**EXHIBIT B (Page 1 of 2)**  
**TOTAL COST PROPOSAL FORM**

*(This serves as the 'Cover Page' to your Total Cost Proposal)*

**TO THE CITY OF CONCORD:** In compliance with the notice inviting sealed proposals, the undersigned hereby proposes to furnish all necessary tools and equipment, materials, labor, and supervision (including cost of Workers' Compensation Insurance and all payroll taxes on such labor) to complete services above, in accordance with this RFP therefor, and further agrees to enter into a Contract therefor, at the prices listed in the accompanying proposal. Prices are F.O.B. Destination, California.

**1. TOTAL COST PROPOSAL:** Please indicate the total cost here and attach any cost breakdown and applicable, required documents to follow.

**TOTAL COST:** \$44,000 depending on average assets under management  
*(Inclusive of all costs – See Cost Breakdown to follow if applicable)*

We propose an annual fee of 8 basis points (0.08%) on assets under management. We \_\_\_\_\_ (written amount)

currently manage around \$55 million for the City, which equates to forty four thousand annually. \_\_\_\_\_ (written amount)

This bid will be awarded based upon the total bid amount as written in words. Where there is a discrepancy between words and figures, WORDS WILL GOVERN.

**Submitted by:**

**PROPOSER/COMPANY NAME:** PFM Asset Management LLC

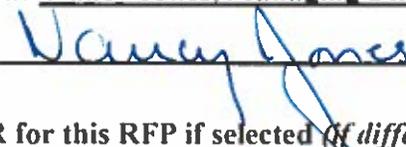
**ADDRESS (Not a P.O. Box):** 50 California Street, Suite 2300

**CITY:** San Francisco **STATE, ZIP CODE:** CA 94111

**PHONE NO.:** 415-982-5544 **FAX NO.:** 415-982-4513

**EMAIL ADDRESS:** jonesn@pfm.com

**YOUR NAME & TITLE:** Nancy Jones, Managing Director

**YOUR SIGNATURE:**  **DATE:** March 9, 2016

**PROJECT MANAGER for this RFP if selected (if different from above):**

**YOUR NAME & TITLE:** Sarah Meacham, Director

**ADDRESS (Not a P.O. Box):** 50 California Street, Suite 2300, San Francisco, CA 94111

**PHONE NO.:** 415-982-5544 **FAX NO.:** 415-982-4513

**EMAIL ADDRESS:** meachams@pfm.com

Please note that the above information will be the Contact Information used to for this RFP process and project if selected, unless stated otherwise: \_\_\_\_\_

**EXHIBIT B (Page 2 of 2)**  
**TOTAL COST PROPOSAL FORM**

**2. COST BREAKDOWN**

The proposer is to submit a detailed cost proposal for all services and materials including the firm's direct and indirect rate (with overhead). Personnel hours and extended billing rates per classification of personnel shall be indicated for each task and/or sub task defined therein. The consultant shall determine a not-to-exceed allowance for reimbursements included within the cost proposal.

*Attach the above breakdown to this Exhibit B in your 'Total Cost Proposal'*

Please be sure to also include responses to the following in your Cost proposal:

**FEES**

1. Provide the complete tiered-asset fee schedule that would apply to this account. Are fees charged in arrears?
2. What additional expenses not covered through the fee structure will be expected in order to implement your investment Advisor services?

Please see responses on the following page.

# Fees

---

**1. Provide the complete tiered-asset fee schedule that would apply to this account. Are fees charged in arrears?**

We propose the following annual fee of 8 basis points (0.08%) on assets under management based on the scope of services outlined in the City's request for proposal.

PFMAM proposes to bill the City monthly in arrears based on the average amortized cost value of assets under management for the month. The actual annual fees will depend on the average amount of assets under PFMAM's management. No fee will be charged for assets invested in LAIF/pools.

PFMAM will fix the proposed fee schedule for three years. We would like to retain the option to negotiate a fee adjustment, in line with CPI, after the third year.

**2. What additional expenses not covered through the fee structure will be expected in order to implement your investment advisory services?**

Our proposed fee schedule covers all of our normal costs. There will be no additional expenses for PFMAM's normal service.

The City will incur the cost of custody and safekeeping with a third-party custodial bank. PFMAM does not provide safekeeping services because it is our firm belief that to protect an agency's investments, each public agency should have a separate custodial arrangement with a third-party bank.

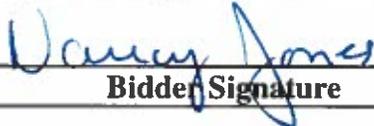
## EXHIBIT B1 EXCEPTIONS TO SPECIFICATIONS/REQUIREMENTS

PLEASE CHECK THIS BOX IF YOU HAVE NO EXCEPTIONS TO OUR REQUIREMENTS

List below requests for clarifications, exceptions and amendments, if any, to the RFP and its exhibits, and submit with your Bid response.

The City is under no obligation to accept any exceptions and such exceptions may be a basis for Bid disqualification.

Item No.	Reference To:		Description
	Page No.	Paragraph No.	
1	n/a	n/a	While we can work with the contract provided in the RFP, if we are fortunate enough to be rehired by the City, we would request to just amend the current agreement in place between the City and PFAM.
2	Page 23 of 36	11. Indemnification	Contractor agrees to defend, indemnify and hold harmless the City, its officers, officials, employees, agents and volunteers from and against any and all claims, demands, actions, losses, damages, injuries, and liability (including all attorney's fees and other litigation expenses) arising out of the Contractor's <b>negligent or intentionally wrongful</b> performance under the terms of this Purchase Order...  PFMAM respectfully requests the opportunity to negotiate the indemnification language in any resulting agreement so that PFMAM's obligation to indemnify is limited to circumstances in which its performance has been wrongful, which would include negligent or intentionally wrongful acts.
3	Page 29 of 36	10. Indemnification	CONSULTANT agrees to defend, indemnify and hold harmless the CITY, its officers, officials, employees, agents and volunteers from and against any and all claims, demands, actions, losses, damages, injuries, and liability (including all attorney's fees and other litigation expenses) arising out of the CONSULTANT's <b>negligent or intentionally wrongful</b> performance under the terms of this Agreement...  PFMAM respectfully requests the opportunity to negotiate the indemnification language in any resulting agreement so that PFMAM's obligation to indemnify is limited to circumstances in which its performance has been wrongful, which would include negligent or intentionally wrongful acts.
4	n/a	n/a	If PFAM is awarded the engagement, we respectfully request the inclusion of certain provisions in the resulting contract that are driven by our status as an investment advisor registered under the Investment Advisers Act of 1940 (e.g., registered advisor description; conflict of interest provision; our maintenance of books and records; and our disclosure statement [Form ADV, Parts 2A and 2B]).
5.	Page 3 of 9	Insurance Requirements document from website	A policy covering the full liability of the contract, to any and all persons employed by him/her directly <del>or indirectly in or upon said work, or their dependents,</del> in accordance with the provisions of the Labor Code of the State of California relating to Worker's Compensation and Insurance.  PFMAM's policies allow no coverage for independent and/or sub-contractors. ICs or Subs (if utilized) must provide separate proof of coverage.

Nancy Jones, Managing Director <b>Bidder Name</b>	 <b>Bidder Signature</b>	3/28/2016 <b>Date</b>
--	---	--------------------------

## Request for Taxpayer Identification Number and Certification

Give Form to the  
requester. Do not  
send to the IRS.

Print or type See Specific instructions on page 2.	1 Name (as shown on your income tax return). Name is required on this line; do not leave this line blank. <b>PFM Asset Management LLC</b>	
	2 Business name/disregarded entity name, if different from above	
	3 Check appropriate box for federal tax classification; check only one of the following seven boxes: <input type="checkbox"/> Individual/sole proprietor or single-member LLC <input checked="" type="checkbox"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=partnership) ▶ <b>P</b> <small>Note. For a single-member LLC that is disregarded, do not check LLC; check the appropriate box in the line above for the tax classification of the single-member owner.</small> <input type="checkbox"/> Other (see instructions) ▶	
	4 Exemptions (codes apply only to certain entities; not individuals; see instructions on page 3): Exempt payee code (if any) _____ Exemption from FATCA reporting code (if any) _____ <small>(Applies to accounts maintained outside the U.S.)</small>	
	5 Address (number, street, and apt. or suite no.) <b>Two Logan Square, Suite 1600</b>	Requester's name and address (optional)
	6 City, state, and ZIP code <b>Philadelphia, PA 19103</b>	
	7 List account number(s) here (optional)	

### Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN* on page 3.

Social security number	
[ ] [ ] [ ] [ ]	- [ ] [ ] - [ ] [ ] [ ] [ ]
or	
Employer identification number	
[ 2 ] [ 3 ]	- [ 3 ] [ 0 ] [ 8 ] [ 7 ] [ 0 ] [ 6 ] [ 4 ]

**Note.** If the account is in more than one name, see the instructions for line 1 and the chart on page 4 for guidelines on whose number to enter.

### Part II Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me); and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding; and
3. I am a U.S. citizen or other U.S. person (defined below); and
4. The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

**Certification instructions.** You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions on page 3.

Sign Here	Signature of U.S. person ▶	Date ▶ <b>01/01/2016</b>
-----------	----------------------------	--------------------------

### General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.  
**Future developments.** Information about developments affecting Form W-9 (such as legislation enacted after we release it) is at [www.irs.gov/fw9](http://www.irs.gov/fw9).

### Purpose of Form

An individual or entity (Form W-9 requester) who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) which may be your social security number (SSN), individual taxpayer identification number (ITIN), adoption taxpayer identification number (ATIN), or employer identification number (EIN), to report on an information return the amount paid to you, or other amount reportable on an information return. Examples of information returns include, but are not limited to, the following:

- Form 1099-INT (interest earned or paid)
- Form 1099-DIV (dividends, including those from stocks or mutual funds)
- Form 1099-MISC (various types of income, prizes, awards, or gross proceeds)
- Form 1099-B (stock or mutual fund sales and certain other transactions by brokers)
- Form 1099-S (proceeds from real estate transactions)
- Form 1099-K (merchant card and third party network transactions)

- Form 1098 (home mortgage interest), 1098-E (student loan interest), 1098-T (tuition)
- Form 1099-C (canceled debt)
- Form 1099-A (acquisition or abandonment of secured property)

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN.

*If you do not return Form W-9 to the requester with a TIN, you might be subject to backup withholding. See What is backup withholding? on page 2.*

By signing the filled-out form, you:

1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued).
2. Certify that you are not subject to backup withholding, or
3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income, and
4. Certify that FATCA code(s) entered on this form (if any) indicating that you are exempt from the FATCA reporting, is correct. See *What is FATCA reporting?* on page 2 for further information.

**EXHIBIT B3**

(Page 1 of 1)

**Debarment and Suspension Certification\***  
**TITLE 49, CODE OF FEDERAL REGULATIONS, PART 29**

The bidder, under penalty of perjury, certifies that, except as noted below, he/she or any other person associated therewith in the capacity of owner, partner, director, officer, manager:

- is not currently under suspension, debarment, voluntary exclusion, or determination of ineligibility by any Federal department or agency;
- has not been suspended, debarred, voluntarily excluded or declared ineligible by any Federal agency within the past 3 years;
- does not presently have a proposed debarment pending; and
- has not been indicted or convicted, or had a civil judgment rendered against it by a court of competent jurisdiction in any matter involving fraud or official misconduct within the past 3 years;

If there are any exceptions to this certification, insert the exceptions in the following space.

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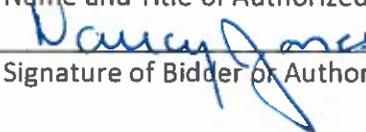
Exceptions will not necessarily result in denial of award, but will be considered in determining bidder responsibility. For any exception noted above, indicate below to whom it applies, initiating agency, and dates of action.

*Note: The above certification is part of the Bid. Signing the bid on the signature portion thereof shall also constitute signature of this Certification. Providing false information may result in criminal prosecution or administrative sanctions.*

PFM Asset Management LLC

Name of Firm  
Nancy Jones, Managing Director

Name and Title of Authorized Representative

  
 Signature of Bidder or Authorized Representative

March 28, 2016  
 Date

\*Fulfills requirements of Title 49, CFR, Part 29 (applicable to all subcontracts, purchase orders, and other lower tier transactions of \$25,000 or more)<sup>1</sup>

<sup>1</sup> Reference: Local Assistance Procedures Manual (DLA-08 13-06, Exhibit 12-G Required Federal-aid Contract Language, Page 15 Of 22, August 12, 2013)

**AGREEMENT FOR PROFESSIONAL SERVICES**

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**EXHIBIT C**  
**(33 Pages)**

**BROCHURE AND BROCHURE SUPPLEMENT**  
*(As Referenced in Section 27 of Contract)*





# PFM Asset Management LLC

**One Keystone Plaza, Suite 300  
N. Front & Market Streets  
Harrisburg, PA 17101-2044**

**717-231-6200 phone  
717-233-6073 fax**

**[www.pfm.com](http://www.pfm.com)**

**3/30/2015**

## **FORM ADV PART 2 BROCHURE**

**This brochure provides information about the qualifications and business practices of PFM Asset Management LLC. If you have any questions about the contents of this brochure, please contact us at [pfmamrequest@pfm.com](mailto:pfmamrequest@pfm.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about PFM Asset Management LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for PFM Asset Management LLC is 122141.**

**PFM Asset Management LLC is a Registered Investment Adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.**

**Notice of Material Changes**

*There are no “material changes” to the Brochure since our last amendment. We may, at any time, update this Brochure and if we do, we will either send you a copy or offer to send you a copy (either by electronic means (email) or in hard copy form). If you would like another copy of this Brochure, please download it from the SEC website as indicated above or you may contact our Chief Compliance Officer, Leo Karwejna, at 717-231-6200 or at [pfmamrequest@pfm.com](mailto:pfmamrequest@pfm.com).*

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## **Item 4 -Advisory Business**

Public Financial Management, Inc. (“PFM, Inc.”) was founded in 1975 to provide independent financial advisory services to the public sector. PFM, Inc. began providing investment advisory services to public entities in 1980. In 2001, PFM Asset Management LLC (“PFMAM”) was created as the entity through which investment advisory services are provided. Collectively, both PFM, Inc. and PFMAM are referred to as the PFM Group of companies (“the PFM Group”).

PFM, Inc., PFMAM and other related businesses within the PFM Group are organized in a holding company structure, and are indirect, wholly owned subsidiaries of the holding company, named PFM I, LLC. On June 30, 2014, PFM Inc., PFMAM and the other operating companies within the PFM Group closed on a transaction which resulted in the PFM Group’s senior employees (“Managing Directors”) acquiring the equity interests of outside investors in PFM I, LLC, so that all equity interests in PFM I, LLC are now owned by the Managing Directors.

PFMAM is a Delaware limited liability company.

As of December 31, 2014, the amount of client assets we managed on a discretionary basis was \$52,977,622,772 and the amount we managed on a nondiscretionary basis was \$1,911,028,716. In addition, as of December 31, 2014, we provided investment consulting services with respect to assets in the amount of \$48,483,478,869.

We offer the following types of investment advice:

### **1. Discretionary Advice.**

We offer discretionary advisory services for government, nonprofit and other institutional investors who invest in fixed income and multi-asset class strategies. When a client gives us investment discretion, we have the authority to determine, without obtaining specific approval, (1) overall asset allocation, (2) the manager or sub-adviser to be utilized for the portfolio, (3) the specific securities to be bought and sold, (4) the amount of securities to be bought and sold and (5) the broker or dealer through which the securities are bought or sold, These decisions are subject to limitations of state law and any other restrictions in the contract with our client and limitations in our client’s written investment policies. Under these types of engagements, we assume day-to-day management responsibility for the assets covered by the investment advisory agreement. Examples of the securities we may recommend include U.S. Treasury securities, Federal Agency securities, high-grade corporate obligations, mortgage and asset backed securities, institutional mutual funds, and money market instruments. We arrange for the purchase and sale of these securities to meet the investment objectives and cash flow requirements of each client.

We manage fixed-income portfolios, often on a total return basis. We also implement liability-driven strategies that seek to generate cash flows from a portfolio of fixed-income securities to match specific liabilities such as bond-funded construction draws or insurance liabilities.

For some of our clients, including trusts, pension plans, endowments, foundations, other post-employment benefits (OPEB) plans or other similar asset pools, we serve as a discretionary manager to invest a client’s assets in multiple types of investments. Generally these accounts include a variety of asset classes, which may include domestic equity, international equity, fixed-income, and other alternative asset classes.

We provide multi-asset class investment services in two forms. One form is a wrap fee program known as the Managed Accounts Program (MAP), where we charge a single fee to include investment advisory, third-party custody and administrative services. We are no longer marketing MAP to new clients. The other is a general discretionary form where we unbundle some of the service fees, which allows the client to separately negotiate these fees (for example, custody fees). This form of multi-asset class management is referred to as a fund of funds approach. It may also be described as outsourced CIO, implemented consulting and a variety of other generic terms. In each of these two general forms of management, we work with the client to determine a target asset allocation based on a variety of risk and return characteristics. We then implement the asset allocation, either by buying shares of mutual funds (including ETF's) and/or pooled funds or other investment vehicles (collectively, "Funds"), or by selecting separate account managers who will manage separate accounts of specific asset classes and/or strategies ("Investment Sub-Advisers").

Under the fund of funds approach, we have discretion to make the initial selection of the Funds or Investment Sub-Advisers. We also provide ongoing periodic monitoring services by evaluating the Fund's or the Investment Sub-Adviser's portfolio management philosophy, policies, processes, controls, personnel and investment performance. Clients who hire us give us authority to change, drop or add Funds or Investment Sub-Advisers. The client generally gives the Investment Sub-Advisers both investment and brokerage discretion in managing its portion of the portfolio. We give these clients periodic reports on the investment performance of the various Funds, Investment Sub-Advisers and the portfolio as a whole.

We assist clients in establishing the basis for asset allocation by preparing a written investment strategy. These clients give us authority to re-allocate assets and to change, eliminate or add managers or investments within the scope of the investment strategy.

## **2. Services to Registered Investment Companies and Local Government Investment Pools**

PFMAM currently provides investment advisory and/or administrative services to 14 pooled investment programs across 13 states, as well as to one registered investment company whose series or classes are registered in multiple states. We generally provide administration and transfer agency services and an affiliate generally provides distribution services as described in this document.

## **3. Nondiscretionary Advice**

We also may provide advice on a nondiscretionary basis where we offer clients investment recommendations, subject to their specific approval and further execution instructions. In this case our client makes trades directly or specifically approves our purchase or sale of specific securities, including certificates of deposit and other fixed-rate investments.

## **4. Consulting Services**

We also provide nondiscretionary investment consulting services to:

- public, Taft-Hartley and corporate pension funds;
- hospital endowments and foundations;
- trusts;
- OPEB plans; and
- other similar institutional investors.

These consulting services consist of overseeing a client's portfolio where we have not been given authority to buy or sell securities in the portfolio. We typically begin these services by assessing the client's investment objectives, time horizon and risk tolerance. Using this information, we then propose asset allocation models within the investment guidelines which the client gives us. We may also assist in writing an investment policy which provides details about the objectives, diversification, quality and performance measurement of the portfolio. We also make recommendations on the selection of money managers, pooled trusts or mutual funds to carry out the client's investment strategy. Once our client puts the investment policy into place, we report quarterly to the client on the investment performance. We also report on whether an investment manager chosen follows its particular style, and whether our client's portfolio complies with its investment policy.

We also provide consulting services to OPEB plans and pension plans. These services involve financial reporting, analyzing cash flow implications of different funding strategies, and other matters relating to the OPEB benefits or pension benefits and funding arrangements. Often we perform these services by cooperating with our client's other professional advisors, such as the client's accountant or actuary.

## **5. Structured Products**

We also provide analytical services for designing and procuring portfolios in connection with the current or advance refunding of municipal bonds and the investment of bond proceeds. For these engagements we arrange for purchases of specific securities that are generally government obligations or for structured investments such as forward delivery agreements. On our client's behalf, we arrange these purchases by obtaining bids on a competitive basis or in rare instances by negotiating on behalf of our client.

## **6. Treasury Consulting Services**

We also provide clients with services to assist with the structure and design of third-party banking and custody services, evaluate the services offered by banks, and re-bid banking services. For each client, we conduct a detailed assessment of current banking arrangements. We evaluate the client's needs, analyze existing banking relationships, review how bank services fit into cash management and investment systems, and make specific recommendations to improve certain systems.

## **7. General Approach to Advisory Services**

We tailor our advisory services taking into account following factors:

- the services that the client has requested;
- the client's investment objective;
- the client's investment policy;
- the client's time horizon; and
- risk tolerance.

A client may impose additional restrictions on the types of securities in which we can invest, or on the maturity of securities. We adhere to any investment restrictions provided by the client.

## **Item 5 - Fees and Compensation**

The fees we charge to our advisory clients vary depending upon a number of factors including the types of investments permitted, the personnel providing the advisory services, the particular strategy, the size of portfolio being managed, the relationship with the client, and service requirements associated with the account.

Fees may also differ based on account type (e.g., a commingled, pooled account or a separate individual portfolio account).

Fees are negotiable so one client may be paying a higher fee than another client with similar investment objectives or goals.

### **1. Discretionary Advice**

We generally receive compensation for fixed income separate account management based on a percentage of assets we manage. We receive this compensation after a service is provided, and we bill in arrears on a monthly basis. As a general guideline, we charge the following fees for investment advisory services for fixed income accounts:

<b><u>Assets Under Management</u></b>	<b><u>Annual Rate</u></b>
First \$25,000,000	0.25%
Assets in Excess of \$25,000,000	0.15%

Some clients may receive lower fees than this, based on the nature of the mandate or the size of the accounts.

As a general guideline for the multi-asset class management discretionary form, we charge the following fees for investment advisory services:

<b><u>Assets Under Management</u></b>	<b><u>Annual Rate</u></b>
First \$10,000,000	0.45%
Next \$10,000,000	0.35%
Next \$30,000,000	0.25%
Next \$50,000,000	0.20%
Assets in Excess of \$100,000,000	0.15%

For multi-asset class discretionary management accounts using index investments only, a 10 basis point discount may be applied to all fee levels below 45 basis points.

For certain accounts, we may charge a minimum fee. However, when a fee for an account, as calculated above, exceeds the minimum fee, the calculated fee applies, rather than the minimum fee.

We use the following fee structure as a general guideline for MAP, which is no longer open to new clients:

<b><u>Assets Under Management</u></b>	<b><u>Annual Rate</u></b>
First \$5,000,000	1.00%
Next \$5,000,000	0.85%

Next \$10,000,000	0.75%
Assets in Excess of \$20,000,000	0.60%

These MAP fees include the following services: asset management, investment advisory and custody. However, the MAP fee does not include front or back-end fees for the mutual or pooled funds we select, any taxes or fees of attorneys, accountants, auditors or other professionals advising the client. A portion of the fee for MAP may be used to compensate the Investment Sub-Advisers.

## **2. Registered Investment Company and Pools**

The fees we charge for the investment services we provide to the registered investment company and local government investment pools vary by program. Typically the fee schedule includes various breakpoints depending on asset levels, and may include fee caps or waivers which can be triggered by the overall expense ratio of the pool. We may also receive compensation for providing marketing, administrative and transfer agent services to the registered investment company shareholders and to investors in the local government investment pools.

We generally provide these administrative, transfer agent and marketing services as an integral part of our investment advisory services, and the fees we receive for these services usually may be included as a component of the investment advisory fees we charge.

## **3. Nondiscretionary Advice**

We generally charge fixed fees for these services, depending upon the services that the client requests, and the complexity of the services. We also offer nondiscretionary advice on certificate of deposit investment programs, which are designed to provide clients with a fixed rate to a targeted maturity. Fees typically range up to 0.25% per annum of the cost of the investment purchased by our clients. Under the certificate of deposit programs, we provide clients with the option to set aside moneys in client accounts to be paid to us after we have performed the service.

## **4. Consulting Services**

For full-service investment consulting services where we have not been given authority to buy or sell securities in the portfolio, we generally charge clients either a fixed fee or a fee that is based on a percentage of assets. The fixed fee is based on the size of the portfolio, complexity, and scope of services which our client wants us to perform. As a general guideline, we charge asset-based fees in a range from 0.05% to 0.30% annually, based on the characteristics listed above. From time to time, we charge hourly fees for these types of services.

For consulting services and reports we provide to OPEB plans, we charge a fixed fee generally in the range of \$10,000 to \$150,000, depending on the specifics of the services we agree to provide.

## **5. Structured Products**

In these types of engagements, we usually charge a fixed fee. The client may pay the fee, or it may instruct the investment contract counterparty or underwriter in writing to pay our fee on the client's behalf. We and our clients agree upon a fee for each one of these engagements and the fee is a function of the size and complexity of the engagement. As a general guideline, the typical fee for investment of municipal bond proceeds in a structured investment, or in a refunding bond escrow structuring and procurement engagement, is less than or equal to .2% of the cost of the portfolio or the sum of the total deposits under the agreement. In limited circumstances, the fee will be higher, often because the portfolio is very small in size.

## 6. Other Important Information about Our Compensation

Because we tailor our services to the individual needs of a client, we may offer clients more than one of the services mentioned above. In addition, we may also provide services not mentioned above, such as assisting our clients with a one-time purchase or sale of securities. The fees we charge are negotiable and vary depending upon the particular services we perform and the complexity and extent of the work we provide.

We may charge a minimum fee for small accounts, as explained in Item 5 above. Certain of the portfolios of the local government investment pools and short term certificate of deposit purchase programs for which we serve as administrator and/or investment advisor have minimum investment requirements of between approximately \$50,000 and \$1,000,000. Other than these minimum fee requirements, there are no other requirements for opening or maintaining the account.

All fees are payable to us only after we perform the services; we do not require our clients to pay our fees in advance. Under the majority of our investment advisory engagements, clients authorize us to deduct fees from their investment accounts after they are notified. Under some engagements, we bill the client for our fees. The method of payment of our fees is subject to negotiation, and clients have the ability to choose the method of payment, depending on the type of service. For most of our accounts, we bill monthly in arrears. Under some client contracts, we bill the client quarterly. For some services, we bill the client on a one-time basis only when we complete the service.

For services we provide, other than those under our Managed Accounts Program (MAP), clients are responsible for their own custody and legal fees and taxes, if any. For the services we provide under our MAP, we charge clients a wrap fee. The wrap fee covers fees payable to the portfolio managers of the funds we choose for our MAP and the fee we pay to the custodian for MAP for custodial and administrative services. The portion of the wrap fee paid to portfolio managers of mutual funds generally is in the form of the expense ratios and is deducted automatically by the mutual fund company from the assets invested in the funds. We receive the remainder of the wrap fee, and apply a portion of the fee to pay the custodian pursuant to agreements between the custodian and us. We no longer offer MAP to new clients; a copy of the MAP wrap fee program brochure is available upon request.

We have a wholly-owned subsidiary, PFM Fund Distributors, Inc., which is a broker-dealer under the Securities Exchange Act of 1934. PFM Fund Distributors, Inc. typically serves as exclusive distributor of shares of a registered investment company and local government investment pools (Pooled Funds) for which we serve as investment adviser and/or administrator and we receive fees from this arrangement, as more fully described in Item 10, below.

No supervised person of our affiliated broker-dealer is compensated for the sale of securities.

PFMAM employees are paid a base salary plus a year-end bonus. The annual bonus is dependent upon the profitability of the firm, each group's contribution to the overall profitability of the firm, and each individual's contribution to the group's success. PFMAM personnel may also receive a portion of their bonus based on marketing success. The firm's compensation plan is intended to recognize and reward excellent performance on the part of individuals; however, no PFMAM employee is compensated on a commission or investment transaction-related basis. Managing Directors also have the obligation to buy stock in the PFM Group as part of the bonus process.

## **Item 6 - Performance-Based Fees and Side-By-Side Management**

In rare instances, we enter into advisory agreements under which the client pays us a fee, part of which is performance based. For example, we have entered into agreements where the client pays us all or part of our fee to the extent that the performance of the portfolio we manage exceeds a predetermined benchmark, measured over a designated period of time. We manage both accounts that are charged a performance-based fee and accounts which are charged other fees, typically a percentage of the value of assets managed. To address any concern that we may have an incentive to favor certain investment opportunities for a performance-based account, we follow written procedures designed to allocate trades on an equitable basis considering the investment objectives of the account and without regard to whether an account has a performance-based fee. Accounts with the common objectives and permitted investments should receive a fair allocation of trades over time.

## **Item 7 - Types of Clients**

PFMAM provides investment advisory services to state and local governments and their agencies, local government investment pools, non-profit organizations, pension and OPEB funds, corporations and other institutional clients. For information concerning minimum fee requirements, please see Item 5 above.

## **Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss**

### **Fixed-Income Portfolios – Analysis and Strategy**

Overall strategies are developed by the Fixed-Income Investment Committee which considers the macroeconomic and interest rate conditions described below. We use a variety of analyses as well as internal and external data sources and market research. External sources include various news and information sources, books, governmental bulletins, data bases, research prepared by others and publications from rating agencies, unaffiliated broker-dealers and third-party information providers. We also collect information from clients to determine their liquidity requirements, risk tolerances and any other policies or procedures that guide the investment of the client's assets.

Within the investment objectives and other requirements of the particular client, for clients whose objectives are measured by total return or income, our investment approach emphasizes the use of active management strategies that seek to add value while limiting market and credit risk. For liability-driven investment portfolios, such as those funded with bond proceeds and used to pay project costs, we identify securities whose cash flows are expected to meet a draw schedule and we modify the portfolio as the draw schedule changes or as investment opportunities present themselves, although in the latter case the draw schedule is considered when making modifications.

### **Our Fixed-Income Active Management Process**

The following describes our fixed-income investment strategy:

- Disciplined decision making process;
- Duration positioning to manage risk: generally slightly short of relevant benchmarks, policy of no more than +/- 25%, which protects the market value of the portfolio;
- Seeks out relative value through spread analysis, yield curve positioning, sector weightings and duration management; and
- Does not employ market timing or make significant duration bets.

We use top-down analysis to assess macroeconomic conditions including interest rates, the shape of the yield curve, Federal Reserve monetary policy, and current and historical yield spreads between sectors. Top-down analysis is a key element of our duration and sector allocation decision-making process. We believe identifying macro-level trends in these areas is important for adding value, controlling risk, and lowering volatility.

We use a careful bottom-up approach to security selection that seeks to identify those industries and issuers with fundamental characteristics and financial strength that enhances their potential to perform well. We seek to combine fundamentally sound investments into a portfolio that optimizes return potential in consideration of investment guidelines or restrictions.

Lastly, we incorporate low-risk active management techniques designed to enhance our relative value approach. We believe active management can capture market inefficiencies that create opportunities for return enhancement. While we expect that every security we buy will be suitable to hold to maturity, we frequently identify opportunities to swap one investment for another to increase earnings, adjust portfolio duration, improve liquidity, or restructure the portfolio to better meet future needs.

We specialize in managing short and intermediate-term fixed-income assets of governmental entities, so we have tailored our research capabilities and resources to this area of the market. Our portfolio managers and analytical team have access to three major on-line market trading systems, Bloomberg, MarketAxess, and TradeWeb. These systems provide active market quotes, including real-time Bloomberg and TradeWeb securities pricing services. We also have access to news from Dow Jones, the Associated Press, Bloomberg News, and several specialized news services. In addition, we communicate daily with approximately 30 major government securities dealers and receive market information from them that assists us in identifying specific market opportunities. We supplement these external systems and data sources with proprietary trading tools, which we have developed.

After factoring in a conservative posture which ensures that cash flow requirements are met, we will position a portfolio's duration to take advantage of expected interest rate movements: positioning with a shorter bias when we expect rates to rise and longer when we expect rates to fall. We establish a duration (or average maturity) target for the portfolio based on our macro view of the economy and the financial markets, the type of funds, cash-flow analysis and benchmark chosen by our clients. We add value by re-balancing the portfolio to take advantage of market opportunities and in anticipation of interest rate movements. Duration limits are established by our Fixed-Income Investment Committee and may be provided to and evaluated with our clients' staff on a regular basis as a management and oversight tool.

While maintaining the target duration range for a portfolio, we add value through asset allocation strategies which involve sector selection (security type), curve placement (maturity), spread analysis and issue selection (individual issuer). Our overall view of the economy provides the context for selecting maturities which represent the best relative value along the yield curve and the highest potential for enhanced return by "rolling down the curve" and for selecting specific securities within a sector. We think there is a significant opportunity to enhance earnings with a strategy that focuses on the selection of securities based on relative value. Sectors are selected which represent the best relative value based on our sector outlook and historical sector spreads. Investments other than Treasuries are purchased when spreads are wide and avoided or swapped out when spreads are narrow. Our portfolio managers and traders are assigned to specific market sectors in order to monitor products and opportunities and these responsibilities run across all portfolios.

Individual issues are selected based on our assessment of issuer quality and rating, interest rate spread, credit trends, issue structure and liquidity. Portfolios are generally diversified by security type and maturity to avoid a significant investment in a single issuer and to accommodate varying cash flow needs to provide periodic

liquidity. We perform extensive proprietary analysis on the yield curve to identify “cheap” areas of the curve, and to evaluate a variety of portfolio structures. Using the results of this analysis, our portfolios are frequently over-weighted in certain maturities, and are structured in either a “bullet”, “barbell” or “laddered” construct to provide optimal performance.

### **Fixed-Income Portfolios – Risk**

Our fixed-income strategies, like all investment strategies, involve certain risks. For portfolios whose investments are limited to obligations of the U.S government we believe the risk of default is minimal; for those invested in obligations of Federal agencies, we believe the risk is nearly as low as it is for direct obligations of the U.S. government. Portfolios whose investments include corporate and municipal obligations are subject to the risk that an issuer will fail to pay principal or interest on a timely basis, while those containing mortgage-backed securities are subject to the risk of uncertain timing of principal payments. In order to manage risks we seek to diversify portfolio holdings and we limit our investments in corporate and municipal obligations and in mortgage-backed securities to those that are high grade.

Portfolios are also subject to interest rate risk. This is because the market value of securities changes as interest rates change, with a rise in rates reducing market values and a decline in rates increasing market values. Changes in interest rates affect longer maturity securities more than they affect shorter maturity securities. We manage this risk by varying the duration of portfolios other than those that are liability-driven in accordance with our outlook for interest rates and by managing these portfolios within duration ranges. Nonetheless, investors should expect to experience interest rate volatility in short-term fixed income portfolios and total return volatility which can include unrealized losses in excess of periodic income in intermediate and longer-term portfolios. Although the investment strategies we employ do not involve significant or unusual risk beyond that of the general domestic fixed-income markets, investors need to recognize that investing in securities involves a risk of loss that the investor should be prepared to bear. Past performance is not a guarantee of future returns.

The risk of our top-down strategy is that our macro view of the economy and financial markets is wrong and we position a portfolio’s duration or sector allocation in a manner that is not optimal. We seek to manage this risk by limiting variations from duration or maturity targets other than those that are liability-driven and by diversifying holdings among security types. For liability-driven investment portfolios, we seek to minimize market risk by approximately matching portfolio cash flows with expected liabilities.

The risk of our bottom-up strategy is that securities that we include in a portfolio because they are perceived to have relative value may later lose value when compared with other securities. We seek to manage this risk by careful and systematic analysis of relative values by performing credit analysis on issuers of securities we recommend and by diversifying holdings.

Frequent trading of securities can create higher overall transaction costs and these will reduce portfolio income. We do manage portfolios actively and we seek to minimize trading costs by recommending liquid issues that are actively traded in the markets and by utilizing competitive bidding wherever feasible.

### **Multi-Asset Class Asset Management – Analysis and Strategy**

The Multi-Asset Class Investment Committee plays a key role in the investment services delivered to clients by establishing asset allocation targets and approving managers/funds for all discretionary multi-asset class accounts. The Multi-Asset Class Investment Committee provides investment and portfolio risk oversight for investment decisions, and convenes regularly to discuss any changes necessary.

We use a consistent approach to multi-asset class accounts that involves portfolio planning, risk assessment, asset allocation determination, manager selection, and performance reporting. The primary difference between discretionary and nondiscretionary types of accounts relates to who provides direction relating to the allocation of assets to separate account managers and the execution of mutual fund buy and sell transactions. For discretionary accounts, we are authorized to instruct the custodian to rebalance the portfolio, move assets among separate account managers and/or to arrange for the purchase or sale of mutual fund holdings.

We believe that the asset allocation decision is the most important factor in determining the expected investment return between two different portfolios. Therefore, rigorous adherence to a disciplined process is critical in determining the amounts that will ultimately be allocated to equities, fixed income and other investments.

#### *Compiling Capital Market Assumptions*

Our Capital Market Assumptions are determined by the Multi-Asset Class Investment Committee through a comprehensive and ongoing process developed by our investment professionals. Our assumptions are for intermediate- and long-term returns in a wide range of asset classes.

- For the intermediate term (five years), our Capital Market Assumptions are derived from our assessment of current economic conditions, including corporate profits, balance sheets, and current valuations for various asset classes.
- Our long-term assumptions (thirty years) are derived using an economic building block approach that projects economic and corporate profit growth, and that takes into consideration the fundamental factors driving long-term real economic growth, and our expectation for inflation, productivity and labor force growth.

The next steps would be completed in collaboration with prospective clients:

#### *Engaging in a Portfolio Planning Survey*

We would begin the asset allocation process by reviewing a detailed portfolio planning survey with the prospective client. The survey is designed to facilitate a discussion of all of the asset classes to determine which should be permitted in the final overall allocation.

In addition, through a series of questions, the survey would bring to light information about goals, objectives, cash flow projections, risk tolerance, ability to withstand losses, as well as the view of the economy and the markets. In summary, the portfolio planning survey documents the level of expectations so that everyone understands the goals that have been set for the investment of the assets.

The survey results are updated periodically during an ongoing engagement as client circumstances change.

#### *Determining Asset Allocation Structure*

The information from the portfolio planning survey and the Capital Market Assumptions is used to design and keep current an asset allocation plan for the client. We use a modeling program from Ibbotson Associates, along with an internally-built modeling program, which allows us to conduct a more detailed asset/liability modeling study. Each model uses the latest historical data on asset class investment returns, volatility, and correlation with other asset classes along with our Capital Market Assumptions to determine an "optimal" portfolio.

### *Selecting an Appropriate Asset Mix*

A series of tests is run on each model to determine the probability of achieving the desired investment objective under different market scenarios. Existing funding requirements may override the more subjective “tolerance for loss.” We use this process, to help inform our clients of the range of possibilities associated with each asset allocation plan, and to identify a plan that best meets the expectations set forth in the portfolio planning survey.

### *Investment Manager Selection*

Our research team is focused on monitoring the investment products included in our client portfolios. The research analysts are assigned to a specific asset class for which they are responsible. Both the research analysts and our Director of Research correspond with investment managers on a regular basis and meet with investment managers routinely to maintain an understanding of each manager’s investment process and strategy. As part of the ongoing manager due diligence, the research analysts run a series of risk/return statistics, peer universe analysis, portfolio attribution and style analysis on all of the investment products in our clients’ portfolios to ensure they continue to be an appropriate component of the overall portfolio. As a result, our research team is able to provide the clients with valuable information about potential investment managers.

### *Rebalancing*

We evaluate a client’s portfolio regularly to determine the need for rebalancing the portfolio based on factors including current allocation targets, perceived assessment of relative value, and changes in Capital Market Assumptions. For multi-asset class portfolios where we have discretion we establish target levels for each asset class in the planning stages along with a minimum /maximum range and may update these as our Capital Markets Assumptions and market conditions change. These parameters are input into the client’s investment policy statement and are illustrated in the quarterly reports. We have invested in software that allows our staff to monitor compliance of a client’s portfolios.

### *Ongoing Monitoring*

We will monitor a client’s asset allocation, as well as the portfolio’s money managers/mutual funds on an ongoing basis through detailed analysis and our proprietary manager ranking system. For our discretionary accounts, we place a manager or fund on the watch list as a result of lagging performance, poor risk metrics and/or qualitative issues, among other things. Removal from the watch list is typically based on several quarters of improved performance against peers and an appropriate benchmark or remediation of other issues. If problems endure, probation is a subsequent step in the process of reviewing managers. Ultimately, if the problem persists, our Multi-Asset Class Investment Committee approves a termination recommendation.

We continually evaluate the economy, financial markets, and correlation of asset classes to assess whether a client’s asset allocations are appropriate, as well as rebalance the portfolio if necessary. We regularly interview managers and visit their operations to ensure that they remain the most appropriate vehicle for our client’s investments. Strategic allocation decisions, rebalancing, and re-evaluating managers are all part of the ongoing monitoring process.

### *Performance Reporting*

We provide performance reporting on a quarterly basis. Each client will receive a report containing its own performance measures allowing the client to review its plan and its investment managers’ performance versus the established benchmark, while monitoring cash flows and other financial indicators. The report includes a review of the economy, financial markets, and our investment strategy. We also organize quarterly conference calls/meetings to give a client a better understanding by hearing from the people who are making the asset allocation and investment manager decisions.

## **Multi-Asset Class Asset Management – Risk**

Although the investment strategies we employ do not involve significant or unusual risk beyond that of the general markets for international and domestic equities, fixed income, publicly traded real estate, and other investments we recommend, investors need to recognize that investing in securities involves a risk of loss that an investor should be prepared to bear. In order to manage the risks inherent in these markets, we employ a diversified approach, blending equity, fixed income, and cash based securities, in a manner that is designed to meet the client's risk tolerance, with the objective of reducing the risk of long term losses. Past performance is not a guarantee of future returns.

Investing in cash, fixed income, and equity funds through separate account managers, mutual funds or ETFs involves risk. Each asset class has its own idiosyncratic risk and return characteristics. In modeling portfolios for our clients, we assess the individual characteristics of asset classes, from a historic and forward looking point of view, to optimize the best blend given the client's investment objectives and tolerance for risk. The range of probabilities examines extreme conditions (worst loss, maximum drawdown) over rolling one, five and ten year periods from a historic standpoint (losses for portfolios with heavy allocations of equities can be large in extreme market conditions as evidenced by the global financial crisis of 2008. Portfolios with heavy concentration of equities experienced losses of up to 30% or more during the worst period of peak to trough returns). The analysis also provides a 90% probability analysis of future geometric returns and minimum and maximum investment returns for one, five and ten year periods. Because our clients' investment time horizons typically exceed five years, this form of analysis gives them a context for the range of possibilities of investment returns at the total fund level and the individual asset class level.

A higher overall equity allocation will result in the assumption of a greater degree of risk. The annual standard deviation of returns for equities falls in the 17 – 22% range, and for fixed income in the 5 - 10% range, so clients should expect wide potential volatility of returns from each individual asset class in any one given year.

## **Consulting Engagements – Analysis Strategy and Risk**

For multi-asset class consulting engagements where we do not have discretion, the methods and analysis generally are similar to those for discretionary accounts as described above. However, determining asset allocation, setting an appropriate asset mix and manager selection are the responsibilities of the client, and not us. We generally make recommendations and report the results of reviews at quarterly client meetings and follow client direction with regard to the selection of managers and re-balancing accounts. As directed by the client, managers may include those that are not approved for our discretionary accounts. In cases where a client directs assets to a manager that is not approved, the level of ongoing diligence we perform may be limited and clients acknowledge this in writing. Risk for these accounts is similar to risk for discretionary multi-asset class accounts.

## **Item 9 - Disciplinary Information**

An investment advisor must disclose material facts about any legal or disciplinary event that is material to a client's evaluation of our advisory business or the integrity of our management. We do not have any disclosure items of this nature.

## **Item 10 - Other Financial Industry Activities and Affiliations**

Our wholly-owned subsidiary, PFM Fund Distributors, Inc. (PFMFD), is registered as a broker-dealer under the Securities Exchange Act of 1934. Its sole activities are to serve as exclusive distributor to the registered investment company and local government investment pools (Pooled Funds) for which we serve as investment

adviser and/or administrator. One of the managers of our company, Martin Margolis, is a registered principal of PFMFD.

If our client invests in a Pooled Fund, we disclose this relationship to the client, through the Form ADV Part 2A and the offering statement for the Pooled Fund. In addition, our investment advisory agreement with the client provides that if we invest client assets in a Pooled Fund, we will not take these assets into account for purposes of calculating our fees under the client's investment advisory agreement.

We serve as administrator and investment adviser to PFM Funds, a diversified, open-end management registered investment company offering money market funds to governmental entities and other institutional investors. We may enter into arrangements with a third party to compensate it for service it provides to us in our role as administrator to PFM Funds, or in PFMFD's role as distributor to PFM Funds. Such compensation payable to the third party is paid out of the fee we receive from the client. We also serve as administrator and/or investment adviser to the following local government investment pools:

- California Asset Management Trust (CAMP);
- Florida Education Investment Trust Fund (FEITF) (adviser and distributor only)\*;
- Illinois Trust;
- Massachusetts Finance Development Agency Short-Term Asset Reserve Fund (Mass STAR);
- Michigan Liquid Asset Fund Plus (MILAF+);
- Minnesota Association of Governments Investing for Counties (MAGIC);
- Minnesota School District Liquid Asset Fund Plus (MSDLAF+);
- Missouri Securities Investment Program (MOSIP);
- Nebraska Liquid Asset Fund (NLAF);
- New Jersey Asset & Rebate Management Program (NJ/ARM);
- Pennsylvania Local Government Investment Trust (PLGIT);
- Pennsylvania OPEB Trust (adviser and distributor only);
- TexasTERM Local Government Investment Pool (TexasTERM); and
- Wyoming Government Investment Fund (WGIF).

\* As of February 23, 2015, we assumed duties as administrator to FEITF.

PFMFD serves as distributor to all of these pools except for WGIF.

We have no arrangements for direct or indirect compensation with other investment advisers. As a matter of policy and practice, we do not accept any fees, commissions or other forms of compensation from any underlying money managers or other professionals affiliated with our client's account.

### **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Under Rule 204A-1 of the Investment Advisers Act of 1940, our employees are subject to our Code of Ethics (Code). Compliance with the Code is a condition of employment for all of our employees.

This Code sets out general ethical standards applicable to our employees. Employees are expected to maintain the highest ethical standards, embody a business culture that supports actions based on what is right rather than expediency, deal fairly with clients and one another, protect confidential information and seek guidance about ethical questions. More specifically with respect to advisory activities, the Code requires that whenever our personnel act in a fiduciary capacity, we will endeavor to put the client's interest ahead of the

firm's. We will disclose actual and potential meaningful conflicts of interest. We will manage actual conflicts in accordance with applicable regulatory and legal standards. If applicable regulatory and legal standards do not permit management of a conflict, we will seek to avoid the conflict. We will not engage in fraudulent, deceptive or manipulative conduct with respect to clients. We will act with appropriate care, skill and diligence.

Our employees are required to know when we are acting as a fiduciary with respect to the work they are doing. If we are acting as a fiduciary, they are expected to comply with all fiduciary standards which apply to us in performing their duties. In addition, they must also put the client's interest ahead of their own personal interest. An employee's fiduciary duty is a personal obligation. While advisory personnel may rely upon subordinates to perform many tasks that are part of their responsibilities, they are personally responsible for fiduciary obligations even if carried out through subordinates.

In general, the Code expresses our recognition of our responsibilities to the public, clients and professional associates. Our Code also contains various reporting, disclosure and approval requirements regarding employees' personal securities transactions. The Code requires that our employees whom we deem to be "Access Persons" must report all personal securities transactions, including transactions in mutual funds advised by us, to our Chief Compliance Officer, or to the person he designates. We prohibit our Access Persons from participating in initial public offerings unless our Chief Compliance Officer gives his approval. We also prohibit our employees from purchasing any municipal securities within 60 days of their issue date, if our affiliate, Public Financial Management, Inc., served as municipal advisor for the bond issue.

You can receive a copy of our Code by contacting us at One Keystone Plaza, Suite 300, North Front & Market Streets, Harrisburg, PA 17101, by calling 717-231-6200 or by emailing [pfmamrequest@pfm.com](mailto:pfmamrequest@pfm.com).

On infrequent occasions, our employees may invest in securities that coincidentally we also recommend for purchase or sale in our client accounts. The securities we recommend for purchase and sale within our fixed-income and multi-asset class portfolios are of the type which the Securities and Exchange Commission has expressly recognized as presenting little opportunity for the type of improper trading which compliance with the Code of Ethics reporting requirements is designed to uncover. Further, our employees are subject to our Code of Ethics described above, and because our personnel are acting in a fiduciary capacity, we require our employees to put the client's interests ahead of their individual interests or that of the firm with respect to the purchase and sale of securities.

## **Item 12 - Brokerage Practices**

We generally exercise brokerage discretion as follows: typically, our clients allow us to choose the broker or dealer to execute the trades. In these situations, we deal with brokers and dealers whom we determine to be major market makers for the types of securities purchased or sold. As a matter of policy, we do not recommend, request or require a client to direct us to execute transactions through a specified broker-dealer. If a client provides us with an approved list of brokers and dealers, we place all orders for the purchase or sale of securities for the client's account with those brokers or dealers and this may limit our ability to achieve the most favorable price or execution. Under these circumstances, the client and the broker or dealer determine the commission rates.

The factors that we may consider in selecting or recommending a particular broker or dealer include: the execution, clearance and settlement capabilities of the firm; our knowledge of negotiated commission rates currently available and other current transaction costs; the nature of the portfolio transaction; the size of the transaction; the desired timing of the trade; the activity existing and expected in the market for the particular transaction; confidentiality; the availability of research and research related services provided through such firms (as discussed below); our knowledge of the financial stability of the firm; and our knowledge of actual or apparent

operational problems of the firm. Given these factors, our clients may pay transaction costs in excess of that which another firm might have charged for effecting the same transaction.

When we select or recommend a firm that executes orders or is a party to portfolio transactions, relevant factors taken into consideration may also include whether that firm has furnished research and research related products and/or services. We receive a broad range of research services, including information on the economy, industries, groups of securities and individual companies, statistical information, market data, accounting and tax law interpretations, political developments, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and other information which may affect the economy and/or security prices. Research services may be received in the form of written reports, periodicals, investment seminars, software, and electronic access to, and telephone contacts and personal meeting with, security analysts, economists, government representatives, and corporate and industry spokespersons. They also may consist of computer databases. Currently, as a matter of policy, we do not enter into any third party or proprietary soft dollar arrangements where a broker-dealer provides research services in exchange for an expectation of receiving a certain dollar amount of commissions.

From time to time some of these brokers offer us market commentary and data and statistical research reports as to factors which may influence market price movements. We believe that this information improves the quality of our investment and trading decisions for the benefit of all of our clients. We obtain express authorization from our client to consider direct brokerage factors (efficiency of execution and commission) in selecting a broker or dealer, and to consider the furnishing of statistical research and other information services by the broker or dealer. It is possible that the use of any these particular brokerage firms may result from time to time in a less favorable price for a particular transaction than if we canvassed a broader range of brokers. However, we believe that the practice of taking into account the furnishing of market information is reasonable. For fixed-income securities, we seek to minimize the effect, if any, of research on the transaction costs by using competitive bids and offers and involving major market makers wherever feasible, and use electronic trading platforms for a majority of trades to facilitate market access and in an effort to minimize transaction costs.

We have no agreement, understanding or other arrangement, either internal or with brokers and/or dealers, which would influence the allocation of securities transactions among brokers and/or dealers, and we do not utilize soft dollar arrangements other than those activities explicitly authorized under Section 28(e) of the Securities Exchange Act of 1934.

In the fixed-income markets, we may cause securities transactions to be executed for a client's account concurrently with authorizations to purchase or sell the same securities for other accounts we manage. It is our policy to aggregate the purchase or sale of securities for various client accounts in order to achieve efficiency of execution and better pricing. Each client participating in an aggregate transaction will participate at the same price. Where we receive an allocation that is less than our order we normally allocate the securities to the participating client accounts on a pro rata basis in proportion to the size of the orders placed for each account, to the extent that we can. We may increase or decrease the amount of securities allocated to a client if necessary due to factors including avoiding odd lots in a particular security.

### **Item 13 - Review of Accounts**

For our fixed-income accounts, our Fixed-Income Investment Committee meets generally on a monthly basis, or more frequently as necessary to review the overall strategic direction. This investment committee consists of portfolio managers, senior research staff and our chief investment officer.

Shorter-term tactical approaches are presented routinely through a report and analysis prepared and distributed by a sector specialist and may be discussed at a meeting. These reports, normally provided on a weekly basis, highlight interest rate trends and the relative value of different sectors and maturity structures in the market. Ad-hoc strategy discussions take place regularly, or after any significant market moving event, such as sudden changes in financial market conditions, general economic conditions, credit ratings downgrades, and/or the movement of a particular portfolio security through a price support or resistance level.

Our fixed-income portfolio managers and traders also review client portfolios on a daily basis. As part of daily practices, portfolio managers and traders discuss market developments, overall strategies, and the potential impact of pending economic announcements. During these sessions, portfolio managers review portfolios, upcoming maturities, and any expected large transactions.

For our multi-asset class accounts, our Multi-Asset Class Investment Committee meets generally on a monthly basis, or more frequently as necessary to review the overall strategic direction. This investment committee consists of portfolio managers, senior research staff and our chief investment officer.

We monitor the performance of multi-asset class accounts, including our Managed Accounts Program (MAP), on at least a quarterly basis to determine whether the underlying investments selected are performing in line with expectations and are meeting the needs of the individual client. We provide our multi-asset class clients a quarterly analysis of the performance of the underlying funds in which the client's assets are invested and of any reallocation of assets among these underlying funds. At least annually, we will consult with the client to determine whether there are reasons to revise the client's target investment strategy.

Changes in our Capital Market Assumptions, our outlook for asset class valuation, sudden changes in financial market conditions, and general economic conditions may trigger a review of our multi-asset class accounts. Accounts are reviewed by a principal or a portfolio manager in consultation with one of our principals. Normally, we sequence account reviews in a manner that provides for first review of the accounts that have the greatest potential exposure to the effects of the event which triggers the review.

We furnish monthly account summaries to each fixed-income portfolio client with assets under continuous management. The summaries include details of all transactions and holdings at the end of the period. We also provide account summaries on a daily basis on the Internet. We may also provide an investment advice memorandum upon advising and/or completing an order for a buy or sell of securities. Pursuant to our investment advisory agreements, we may also provide quarterly performance and economic reviews for some clients.

The custodian of our multi-asset class portfolio clients, including our MAP clients, provides each client with a monthly statement of account detailing the client's month-end balances and any transactions which occurred during the month. We review such statements monthly to determine whether transactions executed by the custodian are in agreement with any instructions which we or the client provided. In addition, we provide monthly written statements and quarterly performance reports.

#### **Item 14 - Client Referrals and Other Compensation**

From time to time, we may enter into arrangements under which we agree to engage a third party to solicit or refer to us potential new investment advisory clients. Under these arrangements, we enter into a written agreement with the third party, describing the third party's activities on our behalf and the amount we agree to pay the third party. The agreement also contains the third party's undertaking to act in manner consistent with our instructions and with the provisions of the Investment Advisers Act of 1940, and to provide the referral with a copy of our Form ADV, Part 2A and Part 2B. If the referral subsequently enters into an investment advisory

agreement with us, we pay the solicitor a percentage of our investment advisory fee, which fee arrangement is disclosed to the prospect by the solicitor prior to any contact or meeting with the prospect.

### **Item 15 - Custody**

We do not have custody of client funds or securities.

### **Item 16 - Investment Discretion**

We offer discretionary advisory services with respect to a client's investable assets. When a client gives us investment discretion, we then have the authority to determine, without obtaining their specific approval, (1) overall asset allocation, (2) the manager or sub-adviser to be utilized for the portfolio, (3) the specific securities to be bought and sold, (4) the amount of securities to be bought and sold including overall asset allocation and (5) the broker or dealer through which the securities are bought or sold. These decisions are subject to limitations of state law and any other restrictions in the contract with our client, or in our client's investment policies. Many of our clients have their own investment policies, which usually contain restrictions on the types and credit quality of investments. We agree contractually to follow those guidelines. In addition, many of our clients are subject to state investment statutes, which we comply with as well. Our clients typically grant us discretionary authority in the investment advisory agreement which we enter into with them.

### **Item 17 - Voting Client Securities**

We provide to certain of our clients discretionary investment advice on securities which are mutual funds. These mutual funds send us proxies, which we vote on behalf of these discretionary clients if they have given us the authorization to vote them. We also occasionally receive consent requests. Generally, we arrange for the portfolio manager overseeing the client's investments to be responsible for making all proxy-voting decisions. We seek to vote proxy proposals, consents or resolutions in a manner that serves the best interests of our clients. When reviewing whether a proposed action would be in our client's best interests, we take into account the following factors:

- The impact on the valuation of securities;
- The anticipated costs and benefits associated with the proposal;
- An increase or decrease in costs, particularly management fees, of investment in the securities;
- The effect on liquidity; and
- Customary industry and business practices.

In reviewing proxy issues of the type described below, we will apply the following general principles:

- With respect to an election of directors, we will typically vote in favor of the management-proposed slate of directors, unless there is a proxy contest for seats on the board of a portfolio fund or other important reasons for withholding votes for directors. We may abstain if there is insufficient information about the nominees disclosed in the proxy statement.
- Similarly, we will also generally support management's recommendation for the appointment of auditors, unless there are reasons for us to question the independence or performance of the nominees.

- We will vote in accordance with management's recommendations on issues that are technical and administrative in nature, such as changes to increase the number of directors or to adopt term limits. However, we review and vote on a case-by-case basis any non-routine proposals which are likely to affect the structure and operation of the portfolio company. Examples of these types of proposals include any limitations on shareholder rights, or those which have a material economic effect on the company.
- We will generally vote in favor of proposals that give shareholders a greater vote in the affairs of the company and oppose any measure that seeks to limit those rights.
- We also support proposals promoting transparency and accountability within a company to ensure that the directors fulfill their obligations to shareholders.
- We review proposals that result in an increase of compensation to investment advisors and other service providers of portfolio mutual funds on a case-by-case basis, with particular emphasis on the relative performance of the fund.
- We also review proposals relating to executive compensation plans to ensure that the long-term interests of management and shareholders are properly aligned.
- We generally oppose proposals to give shareholders the right to vote on executive compensation.

These policies are not exhaustive due to the variety of proxy voting issues that we may be required to consider.

With the exception of a client's shareholdings in a registered investment company and certain local government investment pools for which we provide services, a conflict of interest between us, and a client whose investments are managed by us, is unlikely. We are the investment advisor to a registered money market investment company (RIC) and to several local government investment pools (LGIPs). We receive no investment advisory fee from a client for managing client assets which we invest in the RIC or LGIPs. In regard to the voting of securities in the RIC or LGIPs for which we are the investment advisor (or where it would appear that we have an interest), we apply the following principles:

- If the proposal relates to the matters in which the outcome does not directly affect us, we will follow our general voting policies.
- If the proxy proposal relates to a transaction which directly affects us, or otherwise requires a case-by-case determination by us under our voting policies, we will seek the advice either of the managers of the client or of a qualified, independent third party, and we will submit the proxy statement to them. We will then follow the decision of our client's management or the recommendation of the third party in voting the proxy.

We maintain records relating to all proxy voting for five years. We will provide information to any client about how we voted proxies for securities in the client's account. Our Proxy Voting Policy is available upon request by contacting us at One Keystone Plaza, Suite 300, North Front & Market Streets, Harrisburg, PA 17101, by calling 717-231-6200 or by emailing [pfirmrequest@pfm.com](mailto:pfirmrequest@pfm.com).

Under certain of our engagements, we do not assume the responsibility for voting proxies on client securities. The clients make arrangements to receive proxies from their custodian. In the event that we receive a

proxy and we do not have authority to vote on it, we forward it to our client. Clients may contact the portfolio manager for their account if they have questions about a particular solicitation.

**Item 18 - Financial Information**

We are not aware of any financial condition that is reasonably likely to impair our ability to carry out our commitments and responsibilities under our client contracts.



**FORM ADV PART 2B  
BROCHURE SUPPLEMENT**

**PFM ASSET MANAGEMENT LLC**

One Keystone Plaza, Suite 300  
N. Front & Market Streets  
Harrisburg, PA 17101-2044  
717-231-6200 (phone)  
www.pfm.com

SEC File No. 801-60449

August 7, 2015

Marc D. Ammaturo\*  
Robert H. Cheddar, CFA  
Joseph W. Creason  
Michael P. Downs, CFA  
Matthew R. Eisel, CFA  
Christopher Harris, CFA  
Biagio Manieri, CFA\*  
Martin P. Margolis  
Jeffrey H. Rowe, CFA  
Kenneth R. Schiebel, CFA  
John S. Spagnola\*  
Kerri L. Staub  
Michael R. Varano  
Mark Yasenchak, CFA

This Brochure Supplement provides information about our personnel listed above and supplements the PFM Asset Management LLC brochure. You should have received a copy of that brochure. Please contact our Compliance Department at 717.231.6200, or contact us by emailing [pfmamrequest@pfm.com](mailto:pfmamrequest@pfm.com) if you did not receive our Firm's brochure or if you have any questions about the contents of this supplement.

*\* Messrs. Ammaturo, Manieri and Spagnola are based in the Firm's Philadelphia, Pennsylvania Office, which is located at: Two Logan Square, 18th & Arch Streets, Suite 1600, Philadelphia, PA 19103; 215.567.6100 (telephone).*

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## Educational Background and Business Experience

### Item 2

*Item 2 of Form ADV, Part 2B asks us to disclose background in education and business for our supervised persons who formulate the various types of investment advice we offer. Most types of our investment advice are provided to you by a team of more than five individuals. We have prepared background information for the team members who have the most responsibility for the advice the team prepares. We have provided the person's name, year of birth, formal education after high school, and business background (including an identification of the specific positions held) for the preceding five years of our supervised persons. Also listed are certain professional designations held by the supervised person. An explanation of the minimum qualifications required for each designation is included so you may better understand the value of the designation.*

## FIXED INCOME PORTFOLIOS

### Robert H. Cheddar, CFA

Year of Birth: 1966

- Formal Education after High School
  - Susquehanna University, Selinsgrove, PA, Bachelor of Science, Business, Graduated 1988
  - Pennsylvania State University, Malvern, PA, MBA, Graduated 2003
- Business Background for the Previous Five Years
  - PFM Asset Management LLC, Harrisburg, PA, Senior Portfolio Manager, 01/2004 – 01/2011; Managing Director, 01/2011 – Present
- Certifications
  - Chartered Financial Analyst. An explanation of the minimum qualifications required for this designation is provided at the conclusion of this Item.

### Joseph W. Creason

Year of Birth: 1976

- Formal Education after High School
  - Shippensburg University, Shippensburg, PA, Bachelor of Science, Finance, and Bachelor of Science, Economics, Graduated 2000
- Business Background for the Previous Five Years
  - PFM Asset Management LLC / Public Financial Management Inc., Harrisburg, PA, Portfolio Trader, 07/2000 – 07/2009; Portfolio Manager, 07/2009 – Present

### Michael P. Downs, CFA

Year of Birth: 1964

- Formal Education after High School
  - The Ohio State University, Columbus, OH, Bachelor of Science, Finance and Accounting, Graduated 1987
  - The Ohio State University, Columbus, OH, Master of Business Administration, Finance, Graduated 1991
- Business Background for the Previous Five Years
  - Hughes Capital Management, Inc., Alexandria, VA, Portfolio Manager, 06/2005 – 02/2014, PFM Asset Management LLC, Harrisburg, PA, Portfolio Manager, 04/2014 – Present
- Certifications
  - Chartered Financial Analyst. An explanation of the minimum qualifications required for this designation is provided at the conclusion of this Item.

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### Martin P. Margolis

Year of Birth: 1944

- Formal Education after High School
  - University of Pennsylvania, Philadelphia, PA, Bachelor of Arts, History, Graduated 1966
  - University of Pennsylvania, Philadelphia, PA, Graduate School, History 1967-1972
- Business Background for the Previous Five Years

- Public Financial Management, Inc., Harrisburg, PA, Managing Director, 01/1987 – 01/2003; PFM Asset Management LLC, Harrisburg, PA, Managing Director, President, 01/2003 – Present

### **Jeffrey H. Rowe, CFA**

Year of Birth: 1982

- Formal Education after High School
  - Pennsylvania State University, University Park, PA, Bachelor of Science, Finance, and a Minor in Supply Chain and Information Systems Technology, Graduated 2005
- Business Background for the Previous Five Years
  - PFM Asset Management LLC, Harrisburg, PA, Portfolio Trader, 05/2005 – 05/2010; Portfolio Manager, 05/2010 – Present
- Certifications
  - Chartered Financial Analyst. An explanation of the minimum qualifications required for this designation is provided at the conclusion of this Item.

### **Kenneth R. Schiebel, CFA**

Year of Birth: 1959

- Formal Education after High School
  - University of Michigan, Ann Arbor, MI, Bachelor of Arts, Mathematics & Computer Science, Graduated 1981
- Business Background for the Previous Five Years
  - PFM Asset Management LLC / Public Financial Management, Inc., Harrisburg, PA, Managing Director, 01/1994 – Present
- Certifications
  - Chartered Financial Analyst. An explanation of the minimum qualifications required for this designation is provided at the conclusion of this Item.

### **Kerri L. Staub**

Year of Birth: 1983

- Formal Education after High School
  - Pennsylvania State University, Harrisburg, PA, Bachelor of Science, Business Management, Graduated 2006
- Business Background for the Previous Five Years
  - PFM Asset Management LLC, Harrisburg, PA, Portfolio Trader, 06/2007 – 07/2012; Portfolio Manager, 07/2012 – Present

### **Michael R. Varano**

Year of Birth: 1952

- Formal Education after High School
  - Bloomsburg University, Bloomsburg, PA, Bachelor of Science, Business Management & Accounting, Graduated 1974
- Business Background for the Previous Five Years
  - PFM Asset Management LLC / Public Financial Management, Inc., Harrisburg, PA, Managing Director, 01/1987– Present

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## **MULTI-ASSET CLASS MANAGEMENT**

### **Marc D. Ammaturo**

Year of Birth: 1974

- Formal Education after High School
  - The Pennsylvania State University, State College, PA, Bachelor of Science, Accounting, Graduated 1996
  - Maryland University, College Park, MD, Masters of Business Administration, Finance, Graduated 2004
- Business Background for the Previous Five Years
  - PFM Asset Management LLC, Harrisburg, PA, Research Analyst, 01/2005 - 01/2007; Senior Managing Consultant, 01/2007 - 01/2012; Managing Director, 01/2012 – Present

### **Biagio Manieri, Ph.D., CFA**

Year of Birth: 1960

- Formal Education after High School
  - City College of the City University of New York, New York, NY, Bachelor of Science, Electrical Engineering, Graduated 1983
  - Columbia University, New York, NY, Doctor of Philosophy, International Relations, Graduated 1995
- Business Background for the Previous Five Years
  - PFM Asset Management LLC, Philadelphia, PA, Director of Research, 01/2012 – Present; Federal Reserve System, Investment Officer, 03/2005-01/2012
- Certifications
  - Chartered Financial Analyst. An explanation of the minimum qualifications required for this designation is provided at the conclusion of this Item.

### **Martin P. Margolis**

Year of Birth: 1944

- Formal Education after High School
  - University of Pennsylvania, Philadelphia, PA, Bachelor of Arts, History, Graduated 1966
  - University of Pennsylvania, Philadelphia, PA, Graduate School, History 1967-1972
- Business Background for the Previous Five Years
  - Public Financial Management, Inc., Harrisburg, PA, Managing Director, 01/1987 – 01/2003; PFM Asset Management LLC, Harrisburg, PA, Managing Director, President, 01/2003 – Present

### **Kenneth R. Schiebel, CFA**

Year of Birth: 1959

- Formal Education after High School
  - University of Michigan, Ann Arbor, MI, Bachelor of Arts, Mathematics & Computer Science, Graduated 1981
- Business Background for the Previous Five Years
  - PFM Asset Management LLC / Public Financial Management, Inc., Harrisburg, PA, Managing Director, 01/1994– Present
- Certifications
  - Chartered Financial Analyst. An explanation of the minimum qualifications required for this designation is provided at the conclusion of this Item.

### **John S. Spagnola**

Year of Birth: 1957

- Formal Education after High School
  - Yale University, New Haven, CT, Bachelor of Arts, Political Science, Graduated 1980
- Business Background for the Previous Five Years
  - PFM Asset Management LLC, Philadelphia, PA, Managing Director, 01/2003 – Present

### **Mark Yasenchak, CFA**

Year of Birth: 1978

- Formal Education after High School
  - West Chester University, West Chester, PA, Bachelor of Science, Finance and Economics, Graduated 2001
- Business Background for the Previous Five Years
  - PFM Asset Management LLC, Philadelphia, PA, Senior Managing Consultant, 10/2003 – Present
- Certifications
  - Chartered Financial Analyst. An explanation of the minimum qualifications required for this designation is provided at the conclusion of this Item.

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## **STRUCTURED PRODUCTS**

### **Matthew R. Eisel, CFA**

Year of Birth: 1983

- Formal Education after High School
  - University of South Carolina, Bachelor of Science, Entrepreneurial Management, Finance, and Risk Management & Insurance, Graduated 2005
- Business Background for the Previous Five Years
  - PFM Asset Management LLC, Harrisburg, PA, Consultant, 07/2005-07/2009; Senior Managing Consultant, 07/2009-10/2012; Director, 10/2012-01/2015; Managing Director, 02/2015 – Present
- Certifications
  - Chartered Financial Analyst. An explanation of the minimum qualifications required for this designation is provided at the conclusion of this Item.

### **Christopher M. Harris, CFA**

Year of Birth: 1986

- Formal Education after High School
  - Dickinson College, Carlisle, PA, Bachelor of Arts, Economics, Graduated 2008
- Business Background for the Previous Five Years
  - PFM Asset Management LLC, Harrisburg, PA, , Senior Managing Consultant, 06/2008 – Present
- Certifications
  - Chartered Financial Analyst. An explanation of the minimum qualifications required for this designation is provided at the conclusion of this Item.

### **Martin P. Margolis**

Year of Birth: 1944

- Formal Education after High School
  - University of Pennsylvania, Philadelphia, PA, Bachelor of Arts, History, Graduated 1966
  - University of Pennsylvania, Philadelphia, PA, Graduate School, History 1967-1972
- Business Background for the Previous Five Years
  - Public Financial Management, Inc., Harrisburg, PA, Managing Director, 01/1987 – 01/2003; PFM Asset Management LLC, Harrisburg, PA, Managing Director, President, 01/2003 – Present

### **Kenneth R. Schiebel, CFA**

Year of Birth: 1959

- Formal Education after High School
  - University of Michigan, Ann Arbor, MI, Bachelor of Arts, Mathematics & Computer Science, Graduated 1981
- Business Background for the Previous Five Years
  - PFM Asset Management LLC / Public Financial Management, Inc., Harrisburg, PA, Managing Director, 01/1994 – Present
- Certifications
  - Chartered Financial Analyst. An explanation of the minimum qualifications required for this designation is provided at the conclusion of this Item.

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## CERTIFICATES OF DEPOSIT/FIXED TERM INVESTMENTS

### **Robert H. Cheddar, CFA**

Year of Birth: 1966

- Formal Education after High School
  - Susquehanna University, Selinsgrove, PA, Bachelor of Science, Business, Graduated 1988
  - Pennsylvania State University, Malvern, PA, MBA, Graduated 2003
- Business Background for the Previous Five Years
  - PFM Asset Management LLC, Harrisburg, PA, Senior Portfolio Manager, 01/2004 – 01/2011; Managing Director, 01/2011 – Present
- Certifications
  - Chartered Financial Analyst. An explanation of the minimum qualifications required for this designation is provided at the conclusion of this Item.

### **Michael R. Varano**

Year of Birth: 1952

- Formal Education after High School
  - Bloomsburg University, Bloomsburg, PA, Bachelor of Science, Business Management & Accounting, Graduated 1974
- Business Background for the Previous Five Years
  - PFM Asset Management LLC / Public Financial Management, Inc., Harrisburg, PA, Managing Director, 01/1987– Present

## SUMMARY OF PROFESSIONAL DESIGNATIONS

This Summary should assist you with evaluating the professional designations and the minimum requirements that an individual must meet in order to hold this designation.

### **CFA – Chartered Financial Analyst**

This designation is issued by the CFA Institute ([www.cfainstitute.org](http://www.cfainstitute.org)). A candidate must meet one of the following prerequisites in order to participate in the CFA program: 1) Have obtained an undergraduate degree and have 4 years of professional experience involving investment decision-making; or 2) Have 4 years of full-time qualified work experience. The educational requirements that must be completed involve 250 hours of study for each of the 3 levels, and there are 3 course exams. There are no continuing education requirements.

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## Disciplinary Information

### Item 3

*If there are legal or disciplinary events material to your evaluation of the supervised person, Item 3 requires us to disclose all material facts regarding those events.*

**A. A criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which the supervised person**

1. *was convicted of, or pled guilty or nolo contendere (“no contest”) to (a) any felony; (b) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses;*
2. *is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;*
3. *was found to have been involved in a violation of an investment-related statute or regulation; or*
4. *was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, the supervised person from engaging in any investment-related activity, or from violating any investment-related statute, rule, or order.*

Not applicable. None of the personnel listed in Item 2 above has ever been subject to any such criminal or civil action.

**B. An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which the supervised person**

1. *was found to have caused an investment-related business to lose its authorization to do business; or*
2. *was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority*
  - (a) *denying, suspending, or revoking the authorization of the supervised person to act in an investment-related business;*
  - (b) *barring or suspending the supervised person's association with an investment-related business;*
  - (c) *otherwise significantly limiting the supervised person's investment-related activities; or*
  - (d) *imposing a civil money penalty of more than \$2,500 on the supervised person.*

Not applicable. None of the personnel listed in Item 2 above has ever been subject to any such administrative proceeding.

**C. A self-regulatory organization (SRO) proceeding in which the supervised person**

1. *was found to have caused an investment-related business to lose its authorization to do business; or*
2. *was found to have been involved in a violation of the SRO's rules and was: (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500.*

Not applicable. None of the personnel listed in Item 2 above has ever been subject to any such proceeding by an SRO.

**D. Any other proceeding in which a professional attainment, designation, or license of the supervised person was revoked or suspended because of a violation of rules relating to professional conduct. If the supervised person resigned (or otherwise relinquished his attainment, designation, or license) in anticipation of such a proceeding (and the adviser knows, or should have known, of such resignation or relinquishment), disclose the event.**

Not applicable. None of the personnel listed in Item 2 above has ever been subject to any such suspension or revocation.

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## Other Business Activities

### Item 4

***A. If the supervised person is actively engaged in any investment-related business or occupation, including if the supervised person is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (“FCM”), commodity pool operator (“CPO”), commodity trading advisor (“CTA”), or an associated person of an FCM, CPO, or CTA, we are required to disclose this fact and describe the business relationship, if any, between the advisory business and the other business.***

We have a wholly owned subsidiary, PFM Fund Distributors, Inc. (“PFMFD”), which is a broker-dealer under the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority (“FINRA”). PFMFD serves as exclusive distributor of shares of a registered investment company and local government investment pools (Pooled Funds) for which we serve as investment adviser and/or administrator and we receive fees from this arrangement. Messrs. Eisel, Harris, Margolis, Schiebel, and Varano are registered representatives of PFMFD.

- If a relationship between the advisory business and the supervised person’s other financial industry activities creates a material conflict of interest with clients, describe the nature of the conflict and generally how you address it.*

If our client invests in a Pooled Fund, we disclose this relationship to the client, through our firm brochure (the Form ADV, Part 2A) and the offering statement for the Pooled Fund. In addition, if we have an investment advisory arrangement with a client to manage a separate account, our investment advisory agreement with the client provides that if we invest client assets in a Pooled Fund, we will not take these assets into account for purposes of calculating our fees for managing the separate account.

- If the supervised person receives commissions, bonuses or other compensation based on the sale of securities or other investment products, including as a broker-dealer or registered representative, and including distribution or service (“trail”) fees from the sale of mutual funds, disclose this fact. If this compensation is not cash, explain what type of compensation the supervised person receives. Explain that this practice gives the supervised person an incentive to recommend investment products based on the compensation received, rather than on the client’s needs.*

Our PFMFD registered representatives listed in this Brochure Supplement do not receive commissions, bonuses or other compensation directly based on the sale of shares in the Pooled Funds.

***B. If the supervised person is actively engaged in any business or occupation for compensation not discussed in response to Item 4.A, above, and the other business activity or activities provide a substantial source of the supervised person’s income or involve a substantial amount of the supervised person’s time, disclose this fact and describe the nature of that business. If the other business activities represent less than 10 percent of the supervised person’s time and income, you may presume that they are not substantial.***

None of our supervised persons described in this Brochure Supplement engages in any other business or occupation which provides a substantial source of income or involves a substantial amount of time.

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## Additional Compensation

### Item 5

*If someone who is not a client provides an economic benefit to the supervised person for providing advisory services, generally describe the arrangement. For purposes of this Item, economic benefits include sales awards and other prizes, but do not include the supervised person's regular salary. Any bonus that is based, at least in part, on the number or amount of sales, client referrals, or new accounts should be considered an economic benefit, but other regular bonuses should not.*

We do not have any arrangements in which someone other than a client provides any economic benefit to our supervised persons for providing advisory services.

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## Supervision

### Item 6

*Explain how you supervise the supervised person, including how you monitor the advice the supervised person provides to clients. Provide the name, title and telephone number of the person responsible for supervising the supervised person's advisory activities on behalf of your firm.*

Marty Margolis as Chief Investment Officer and President of PFM Asset Management LLC oversees or participates in meetings of the committees which develop investment strategies for the various types of investment advice we offer to our clients. The strategies and advice developed by these committees are then marketed to our clients and prospects by the managing directors of our firm and our additional personnel. As the Chief Investment Officer of the firm, Mr. Margolis does not fall under the supervision of any individual, although he meets regularly with the other managing directors, the Firm's Chief Compliance Officer, and the Board of Directors and officers of the Firm's parent holding company. Mr. Margolis may be reached at 717.231.6200.