

**ITEM: APPROVE A PROFESSIONAL SERVICES AGREEMENT WITH PFM ASSET MANAGEMENT LLC FOR INVESTMENT ADVISORY SERVICES**

**RECOMMENDATION: Adopt Resolution to Approve a Professional Services Agreement with PFM Asset Management LLC for Investment Advisory Services for a Term of Two (2) Years with an Option to Renew Two (2) Additional One-Year Periods**

---

**SUMMARY:**

The City of Lathrop has received Investment Advisory Services from PFM Asset Management LLC (PFMAM) since 1994. PFMAM provides Investment Advisory Services that align with the City's investment objectives of the governing body (in order of priority) which include: Safety – Preservation of the principal of invested funds, Liquidity – Ability to liquidate one or more of the City's investments if unexpected expenditures arise, and Return – Attainment of a market rate of return. In the last Quarterly Treasurer Report presented to Council on January 8, 2024, the City's pooled assets totaled \$288 million through the Quarter that ended on September 30, 2023.

Since late 2021, market conditions have drastically improved for safe investments targeted by the City's investment policy. In an effort to capitalize on changing market conditions, the City has directed additional assets to its PFM Asset Management account. With the increase in the assets under management, the managing fees have reached an amount that exceeds the City Manager's signing authority. Staff is recommending council adopt a resolution approving a professional services agreement with PFM Asset Management LLC for Investment Advisory Services for a term of two (2) years with an option to renew two (2) additional one-year periods.

The City has continually relied upon PFMAM to manage the City's portfolio over the years with assets under management now totaling more than \$150 million. In the last year, the City has earned an estimated \$1.6 million in interest from its PFMAM investments. With the additional assets under management the return is expected to increase from favorable market conditions paired with the increase in invested City assets.

**BACKGROUND:**

PFM Asset Management, LLC (PFMAM) manages over \$166.3 billion for public entities nationwide and has a strong history of providing professionals dedicated to actively managing and supporting the administration of fixed-income operating funds, capital funds and reserves, and bond proceeds. PFMAM takes a client-first approach to

**CITY MANAGER'S REPORT** **PAGE 2**  
**FEBRUARY 12, 2024 CITY COUNCIL REGULAR MEETING**  
**APPROVE A PROFESSIONAL SERVICES AGREEMENT WITH PFM ASSET**  
**MANAGEMENT LLC FOR INVESTMENT ADVISORY SERVICES**

understand the specific challenges the City faces today so that they can build solutions that last into the future.

PFMAM is nationally recognized as one of the leading investment advisory agency, specializing in providing services to the public sector. Some of the services PFM provides are:

- Annual review of the City's Investment Policy
- Cash flow analysis to determine current and future liquidity needs
- Develop and implement investment strategy and benchmarks

PFMAM has helped the City implement safe investment programs that optimized investment returns, provide liquidity, and complies with the requirements of the California Government Code and the City's Investment Policy. Since 2015, the City has earned \$4.8 million in interest, \$1.6 million coming in the last year.

As of January 31, 2024, the City's portfolio with PFMAM has reached more than \$150 million. Since late 2021, market conditions have drastically improved for safe investments targeted by the City's investment policy. In an effort to capitalize on changing market conditions the City has directed additional assets to its PFM Asset Management account. With the increase in the assets under management, the managing fees have reached an amount that exceeds the City Manager's signing authority. Staff is recommending council adopt a resolution approving a professional services agreement with PFM Asset Management LLC for Investment Advisory Services.

**REASON FOR RECOMMENDATION:**

The City's current investment policy provides the Finance Department with direction as to the investment objectives of the City Council: 1) Safety, 2) Liquidity, and 3) Yield/ Return. It also establishes standards by Council concerning the prudent care of City invested funds, the ethics of the investment officer, and internal controls/ reporting procedures. PFMAM's focus is solely on institutional clients, including cities, counties, school districts, pension funds, utilities, insurance pools, higher education, and healthcare institutions.

PMFAM assists the City with implementation of safe investment programs that optimize investment returns, provide liquidity and complies with the requirements of the California Government Code and the City's Investment Policy. Staff is recommending council adopt a resolution approving a professional services agreement with PFM Asset Management LLC for Investment Advisory Services for a term of two (2) years with an option to renew two (2) additional one-year periods.

**CITY MANAGER’S REPORT** **PAGE 3**  
**FEBRUARY 12, 2024 CITY COUNCIL REGULAR MEETING**  
**APPROVE A PROFESSIONAL SERVICES AGREEMENT WITH PFM ASSET**  
**MANAGEMENT LLC FOR INVESTMENT ADVISORY SERVICES**

**FISCAL IMPACTS:**

PFMAM’s fees are asset-based with a minimum annual fee of \$40,000. Table 1 below is the City’s current fee schedule. PFMAM is not proposing any changes to the current schedule.

Table 1:

<b>Assets Under Management</b>	<b>Annual Fee Rate</b>
<b>\$0 to \$50 million</b>	9 basis points (0.09%)
<b>Next \$50 million</b>	7 basis points (0.07%)
<b>Assets greater than \$100 million</b>	6 basis points (0.06%)


With the City’s current assets under management of \$159 million, the annual fee is estimated to be \$115,400. Fees are charged monthly in arrears based on the daily net assets under management on an amortized cost basis, including accrued interest, for the month. The fees are subject to change as the assets under management increases or decreases.

**ATTACHMENTS:**

- A. Resolution to Approve a Professional Services Agreement with PFM Asset Management LLC for Investment Advisory Services
- B. PFM Asset Management LLC Professional Services Agreement

**CITY MANAGER'S REPORT** **PAGE 4**  
**FEBRUARY 12, 2024 CITY COUNCIL REGULAR MEETING**  
**APPROVE A PROFESSIONAL SERVICES AGREEMENT WITH PFM ASSET**  
**MANAGEMENT LLC FOR INVESTMENT ADVISORY SERVICES**

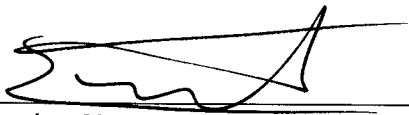
**APPROVALS:**

  
\_\_\_\_\_  
Cari James  
Director of Finance

2/5/2024  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Thomas Hedegard  
Deputy City Manager

1/30/2024  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Salvador Navarrete  
City Attorney

2-1-2024  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Stephen J. Salvatore  
City Manager

2/6/24  
\_\_\_\_\_  
Date

**RESOLUTION NO. 24-\_\_\_\_\_**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LATHROP  
APPROVING A PROFESSIONAL SERVICES AGREEMENT WITH PFM  
ASSET MANAGEMENT LLC FOR INVESTMENT ADVISORY SERVICES**

**WHEREAS**, the City of Lathrop has received Investment Advisory Services from PFM Asset Management LLC (PFMAM) since 1994; and

**WHEREAS**, PFMAM assists the City with implementation of safe investment programs that optimize investment returns, provide liquidity and complies with the requirements of the California Government Code and the City’s Investment Policy; and

**WHEREAS**, the City’s current investment policy provides the Finance Department with direction as to the investment objectives of the City Council (in order of priority):

1. Safety – Preservation of the principal of invested funds
2. Liquidity – Ability to liquidate one or more of the City’s investments if unexpected expenditures arise
3. Yield/Return – Attainment of a market rate of return; and

**WHEREAS**, the City has continually relied upon PFMAM to manage the City’s portfolio over the years with assets under management now totaling more than \$150 million; and

**WHEREAS**, with the City’s current assets under management of \$159 million, the annual fee is estimated to be \$115,400; and

**WHEREAS**, PFMAM’s fees are asset-based with a minimum annual fee of \$40,000. Table 1 below is the City’s current fee schedule and fees are charged monthly in arrears based on the daily net assets under management on an amortized cost basis, including accrued interest, for the month;

Table 1:

<b>Assets Under Management</b>	<b>Annual Fee Rate</b>
<b>\$0 to \$50 million</b>	9 basis points (0.09%)
<b>Next \$50 million</b>	7 basis points (0.07%)
<b>Assets greater than \$100 million</b>	6 basis points (0.06%)

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of Lathrop, does hereby approve a Professional Services Agreement with PFM Asset Management LLC for Investment Advisory Services.

The foregoing resolution was passed and adopted this 12<sup>th</sup> day of February, 2024, by the following vote of the City Council, to wit:

AYES:

NOES:

ABSTAIN:

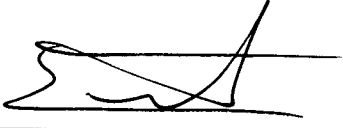
ABSENT:

\_\_\_\_\_  
Sonny Dhaliwal, Mayor

ATTEST:

APPROVED AS TO FORM:

\_\_\_\_\_  
Teresa Vargas, City Clerk

  
\_\_\_\_\_  
Salvador Navarrete, City Attorney

## AGREEMENT FOR INVESTMENT ADVISORY SERVICES BETWEEN THE CITY OF LATHROP AND PFM ASSET MANAGEMENT, LLC

THIS AGREEMENT, dated for convenience this 12<sup>th</sup> day of February 2024, is by and between **PFM ASSET MANAGEMENT, LLC** ("ADVISOR") and the **CITY OF LATHROP**, a California municipal corporation ("CITY");

### RECITALS:

**WHEREAS**, ADVISOR is specially trained, experienced, and competent to perform investment advisory services, which are required by this Agreement; and

**WHEREAS**, CITY selected the ADVISOR pursuant to said qualifications; and

**WHEREAS**, ADVISOR is willing to render such investment advisory services, as hereinafter defined, on the following terms and conditions;

**NOW, THEREFORE**, ADVISOR and the CITY agree as follows:

### AGREEMENT

(1) **Scope of Service.**

ADVISOR agrees to perform investment advisory services in accordance with the scope of work and fee proposal provided by ADVISOR, attached hereto as Exhibit "A" and incorporated herein by reference. ADVISOR agrees to diligently perform these services in accordance with the upmost standards of the industry.

- (a) **Additional Work.** If changes in the work seem merited by ADVISOR or the CITY, and informal consultations with the other party indicate that a change is warranted, it shall be processed in the following manner: ADVISOR shall forward a letter outlining the changes to the CITY with a statement of estimated changes in fee or time schedule. An amendment to this Agreement shall be prepared by the CITY and executed by both Parties before performance of such services, or the CITY will not be required to pay for the changes in the scope of work. Such amendment shall not render ineffective or invalidate unaffected portions of this Agreement.

(2) **Compensation.**

Subject to Section 14 below, CITY hereby agrees to pay ADVISOR an annual fee, in monthly installments, based on the daily net assets under management as set forth in Exhibit "A" for investment advisory services and incorporated herein by

**CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC**

reference. “Daily net assets” is defined to include the amortized value of securities, accrued interest and the market value of cash or any money market fund balance.

ADVISOR shall be paid any uncontested sum due and payable within thirty (30) days of receipt of billings containing all information pursuant to Section 5 below. In no event shall ADVISOR be entitled to compensation for work not included in Exhibit “A”, unless a written change order or authorization describing the extra work and payment terms has been executed by CITY’s authorized representative prior to the commencement of the work.

**(3) Effective Date and Term.**

The effective date of this Agreement is February 12, 2024, and it shall terminate no later than June 30, 2025 (which includes fiscal years ending June 30, 2024 and 2025), provided that the CITY may renew this agreement for an additional two (2) fiscal year periods, commencing on July 1 of 2025 and 2026. Each such renewal shall be automatic unless ADVISOR is given thirty (30) days written notice of CITY’s intention not to renew this agreement.

**(4) Independent Contractor Status.**

It is expressly understood and agreed by both parties that ADVISOR, while engaged in carrying out and complying with any of the terms and conditions of this Agreement, is an independent contractor and not an employee of the CITY. As an independent contractor, ADVISOR is responsible for controlling the means and methods to complete the scope of work described in Exhibit “A” to City’s satisfaction. ADVISOR expressly warrants not to represent, at any time or in any manner, that ADVISOR is an employee of the CITY.

**(5) Billings.**

Except as specifically authorized by CITY, ADVISOR shall not bill CITY for duplicate services performed by more than one person. In no event shall ADVISOR submit any billing for an amount in excess of the rates or the maximum amount of compensation provided in Section 2 for either task or for the entire Agreement, unless modified by a properly executed change order.

**(6) Advice and Status Reporting.**

ADVISOR shall provide the CITY with timely reports, orally or in writing, of all significant developments arising during performance of its services hereunder, and shall furnish to CITY such information as is necessary to enable CITY to monitor the performance of this Agreement.



**CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC**

**(7) Assignment of Personnel.**

ADVISOR shall assign only competent personnel to perform services pursuant to this Agreement. If CITY asks ADVISOR to remove a person assigned to the work called for under this Agreement, ADVISOR agrees to do so promptly, without requiring the CITY to process a reason or explanation for its request.

**(8) Assignment and Subcontracting.**

It is recognized by the parties hereto that a substantial inducement to CITY for entering into this Agreement was, and is, the professional reputation and competence of ADVISOR. Neither this Agreement nor any interest therein may be assigned by ADVISOR without the prior written approval of CITY'S authorized representative except if the rights and obligations of the Advisor are assigned to the Advisor's parent company, U.S. Bancorp Asset Management, Inc., or any other U.S. Bancorp affiliated registered investment adviser, provided, however, that the CITY be provided seven (7) days' prior written notice of such assignment. ADVISOR shall not subcontract any portion of the performance contemplated and provided for herein, other than the subcontractors noted in the proposal, without prior written approval of the CITY'S authorized representative.

**(9) Insurance.**

On or before beginning any of the services or work called for by any term of this Agreement, ADVISOR, at its own cost and expense, shall carry, maintain for the duration of the Agreement, and provide proof thereof that is acceptable to the CITY the insurance specified in subsections (a) through (c) below with insurers and under forms of insurance satisfactory in all respects to the CITY. ADVISOR shall not allow any subcontractor to commence work on any subcontract until all insurance required of the ADVISOR has also been obtained for the subcontractor. Verification of this insurance shall be submitted and made part of this Agreement prior to execution.

- (a) Workers' Compensation. ADVISOR shall, at ADVISOR'S sole cost and expense, maintain Statutory Workers' Compensation Insurance and Employer's Liability Insurance for any and all persons employed directly or indirectly by ADVISOR. Said Statutory Workers' Compensation Insurance and Employer's Liability Insurance shall be provided with limits of not less than one million dollars. In the alternative, ADVISOR may rely on a self-insurance program to meet these requirements provided that the program of self-insurance complies fully with the provisions of the California Labor Code. The insurer, if insurance is provided, or the ADVISOR, if a program of self-insurance is provided, shall waive all rights of subrogation

**CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC**

against the CITY for loss arising from work performed under this Agreement.

- (b) Commercial General and Automobile Liability Insurance. ADVISOR, at ADVISOR'S own cost and expense, shall maintain commercial general and automobile liability insurance for the period covered by this Agreement in an amount not less than one million dollars per occurrence, combined single limit coverage for risks associated with the work contemplated by this Agreement. If Commercial General Liability Insurance or an Automobile Liability form or other form with a general aggregate limit is used, either the general aggregate limit shall apply separately to the work to be performed under this Agreement or the general aggregate limit shall be at least twice the required occurrence limit. Such coverage shall include but shall not be limited to, protection against claims arising from bodily and personal injury, including death resulting therefrom, and damage to property resulting from activities contemplated under this Agreement, including the use of non-owned automobiles.

Coverage shall be at least as broad as Insurance Services Office Commercial General Liability occurrence form CG 0001 (ed. 11/88) and Insurance Services Office Automobile Liability form CA 0001 (ed. 12/90) Code 1 (any auto).

Each of the following shall be included in the insurance coverage or added as an endorsement to the policy:

- (i) CITY, its officers, employees, agents, and volunteers are to be covered as insured with respect to each of the following: liability arising out of activities performed by or on behalf of ADVISOR, including the insured's general supervision of ADVISOR; products and completed operations of ADVISOR; premises owned, occupied or used by ADVISOR. The coverage shall contain no special limitations on the scope of protection afforded to CITY, its officers, employees, agents, or volunteers.
- (ii) The insurance shall cover on an occurrence or an accident basis, and not on a claim made basis.
- (iii) An endorsement must state that coverage is primary insurance and that no other insurance affected by the CITY will be called upon to contribute to a loss under the coverage.
- (iv) Any failure of ADVISOR to comply with reporting provisions of

CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
**PFM ASSET MANAGEMENT LLC**

the policy shall not affect indemnification provided to CITY and its officers, employees, agents, and volunteers.

- (v) Insurance is to be placed with California-admitted insurers with a Best's rating of no less than A-: VII.
- (vi) Notice of cancellation or non-renewal must be received by CITY at least thirty days prior to such change.
- (c) Professional Liability. ADVISOR, at ADVISOR'S own cost and expense, shall maintain for the period covered by this Agreement professional liability insurance for professionals performing work pursuant to this Agreement in an amount not less than One Million Dollars (\$1,000,000) per claim made and per policy aggregate covering the licensed professionals' errors and omissions, as follows:
  - (i) Any deductible or self-insured retention shall be the sole responsibility of the ADVISOR.
  - (ii) Notice of cancellation or non-renewal must be received by the CITY at least thirty days prior to such change.
  - (iii) The following provisions shall apply if the professional liability coverages are written on a claims made form:
    1. The retroactive date of the policy must be before the date of the Agreement.
    2. Insurance must be maintained and evidence of insurance must be provided for at least five years after completion of the Agreement or the work, so long as commercially available at reasonable rates.
    3. If coverage is canceled or not renewed and it is not replaced with another claims made policy form with a retroactive date that precedes the date of this Agreement, ADVISOR must provide extended reporting coverage for a minimum of five years after completion of the Agreement or the work. The CITY shall have the right to exercise at the ADVISOR'S cost, any extended reporting provisions of the policy should the ADVISOR cancel or not renew the coverage.

CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC

- (d) Deductibles and Self-Insured Retentions. Self-insured retentions and deductibles are the sole responsibility of the ADVISOR.
- (e) Notice of Reduction in Coverage. In the event that any coverage required under subsections (a), (b), or (c) of this section of the Agreement is cancelled and non-renewed, ADVISOR shall provide written notice to CITY at ADVISOR'S earliest possible opportunity and in no case later than five days after ADVISOR is notified of the change in coverage.

In addition to any other remedies CITY may have if ADVISOR fails to provide or maintain any insurance policies or policy endorsements to the extent and within the time herein required, CITY may, at its sole option:

- (i) Order ADVISOR to stop work under this Agreement or withhold any payment which becomes due to ADVISOR hereunder, or both stop work and withhold any payment, until ADVISOR demonstrates compliance with the requirements hereof;
- (ii) Terminate this Agreement.

Exercise of any of the above remedies, however, is an alternative to other remedies CITY may have and is not the exclusive remedy for ADVISOR'S breach.

**(10) Indemnification - ADVISOR'S Responsibility.**

As to the ADVISOR'S work hereunder, it is understood and agreed that (a) ADVISOR has the professional skills necessary to perform the work, (b) CITY relies upon the professional skills of ADVISOR to perform the work in a skillful and professional manner, and (c) ADVISOR thus agrees to so perform.

Acceptance by CITY of the work performed under this Agreement does not operate as a release of said ADVISOR from such professional responsibility for the work performed. It is further understood and agreed that ADVISOR is apprised of the scope of the work to be performed under this Agreement and ADVISOR agrees that said work can and shall be performed in a fully competent manner in accordance with the standard of care applicable to ADVISOR'S profession.

ADVISOR shall indemnify, defend, and hold CITY, its officers, employees, agents, and volunteers harmless from and against any and all liability, claims, suits, actions, damages, and causes of action arising out of any personal injury, bodily

**CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC**

injury, loss of life, or damage to property, or any violation of any federal, state, or municipal law or ordinance, to the extent caused by the willful misconduct or negligent acts or omissions of ADVISOR, its employees, subcontractors, or agents, or on account of the performance or character of this work, except for any such claim arising out of the negligence or willful misconduct of the CITY, its officers, employees, agents, or volunteers. It is understood that the duty of ADVISOR to indemnify and hold harmless includes the duty to defend as set forth in Section 2778 of the California Civil Code. Acceptance of insurance certificates and endorsements required under this Agreement does not relieve ADVISOR from liability under this indemnification and hold harmless clause. This indemnification and hold harmless clause shall apply whether or not such insurance policies shall have been determined to be applicable to any of such damages or claims for damages.

CITY shall indemnify, defend, and hold ADVISOR, its officers, employees and agents harmless from and against any and all liability, claims, suits, actions, damages, and causes of action arising out of any personal injury, bodily injury, loss of life, or damage to property, or any violation of any federal, state, or municipal law or ordinance, to the extent caused by the willful misconduct or negligent acts or omissions of CITY, its employees, subcontractors, or agents, or volunteers in connection with this Agreement, except for any such claim arising out of the negligence or willful misconduct of the ADVISOR, its officers, employees or agents. It is understood that the duty of CITY to indemnify and hold harmless includes the duty to defend as set forth in Section 2778 of the California Civil Code.

**(11) Licenses.**

If a license of any kind, which term is intended to include evidence of registration, is required of ADVISOR, its employees, agents, or subcontractors by federal or state law, ADVISOR warrants that such license has been obtained, is valid and in good standing, and ADVISOR shall keep it in effect at all times during the term of this Agreement, and that any applicable bond has been posted in accordance with all applicable laws and regulations.

**(12) Business Licenses.**

ADVISOR shall obtain and maintain a CITY of Lathrop Business License until all Agreement services are rendered and accepted by the CITY.

**(13) Termination.**

Either CITY or ADVISOR may cancel this Agreement upon 30 days written notification to the other party. In the event of termination, the ADVISOR shall be entitled to compensation for services performed to the effective date of termination; provided, however, that the CITY may condition payment of such compensation

**CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC**

upon ADVISOR'S delivery to the CITY of any or all documents, photographs, computer software, video and audio tapes, and other materials provided to ADVISOR or prepared by or for ADVISOR or the CITY in connection with this Agreement.

**(14) Funding.**

ADVISOR agrees and understands that funding of this agreement beyond the current fiscal year is contingent upon action by the City Council consistent with the appropriations limits of Article XIII (B) of the California Constitution and that the Council may determine not to fund this agreement in subsequent years. CITY agrees to provide ADVISOR with prompt written notice of any event of nonappropriation.

**(15) Notices.**

All contracts, appointments, approvals, authorizations, claims, demands, change orders, consents, designations, notices, offers, requests and statements given by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if (1) personally served, (2) sent by the United States mail, postage prepaid, (3) sent by private express delivery service, or (4) in the case of a facsimile transmission, if sent to the telephone fax number set forth below during regular business hours of the receiving party and followed with two (2) days by delivery of a hard copy of the material sent by facsimile transmission. Personal service shall include, without limitation, service by delivery and service by facsimile transmission.

To CITY:  
City of Lathrop  
City Clerk  
390 Towne Centre Drive  
Lathrop, CA 95330

Copy to:  
City of Lathrop  
Finance Department  
390 Towne Centre Drive  
Lathrop, CA 95330  
Phone: (209) 941-7320  
Fax: (209) 941-7339

To ADVISOR:  
PFM Asset Management LLC  
1 California Street  
Suite 1000  
San Francisco, CA 94111  
Attn: Monique Spyke

Copy to:  
PFM Asset Management LLC  
1735 Market Street  
43<sup>rd</sup> Floor  
Philadelphia, PA 19103  
Attn: Legal

CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC

(16) **Miscellaneous.**

- (a) **Consent.** Whenever in this Agreement the approval or consent of a party is required, such approval or consent shall be in writing and shall be executed by a person having the express authority to grant such approval or consent.
- (b) **Controlling Law.** The parties agree that this Agreement shall be governed and construed by and in accordance with the Laws of the State of California.
- (c) **Definitions.** The definitions and terms are as defined in these specifications.
- (d) **Force Majeure.** Neither party shall be deemed to be in default on account of any delay or failure to perform its obligations under this Agreement, which directly results from an Act of God or an act of a superior governmental authority.
- (e) **Headings.** The paragraph headings are not a part of this Agreement and shall have no effect upon the construction or interpretation of any part of this Agreement.
- (f) **Incorporation of Documents.** All documents constituting the Agreement documents described in Section 1 hereof and all documents which may, from time to time, be referred to in any duly executed amendment hereto are by such reference incorporated in the Agreement and shall be deemed to be part of this Agreement.
- (g) **Integration.** This Agreement and any amendments hereto between the parties constitute the entire Agreement between the parties concerning the Project and Work, and there are no other prior oral or written agreements between the parties that are not incorporated in this Agreement.
- (h) **Modification of Agreement.** This Agreement shall not be modified or be binding upon the parties unless such modification is agreed to in writing and signed by the parties.
- (i) **Provision.** Any agreement, covenant, condition, clause, qualification, restriction, reservation, term or other stipulation in the Agreement shall define or otherwise control, establish or limit the performance required or permitted or to be required of or permitted by either party. All provisions, whether covenants or conditions, shall be deemed to be both covenants and conditions.

CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC

- (j) Severability. If a court of competent jurisdiction finds or rules that any provision of this Agreement is void or unenforceable, the provisions of this Agreement not so affected shall remain in full force and effect.
- (k) Status of ADVISOR. In the exercise of rights and obligations under this Agreement, ADVISOR acts as an independent contractor and not as an agent (except with respect to the purchase and sale of securities in the Managed Funds, as such term is hereinafter defined) or employee of CITY. ADVISOR shall not be entitled to any rights and benefits accorded or accruing to the City Council members, officers or employees of CITY, and ADVISOR expressly waives any and all claims to such right and benefits.
- (l) Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and shall apply to and bind, the successors and assigns of the parties.
- (m) Time. Time is of the essence of this Agreement and each of its provisions. In the calculation of time hereunder, the time in which an act is to be performed shall be computed by excluding the first Day and including the last. If the time in which an act is to be performed falls on a Saturday, Sunday or any Day observed as a legal holiday by CITY, the time for performance shall be extended to the following Business Day.
- (n) Venue. In the event that suit is brought by either party hereunder, the parties agree that trial of such action shall be vested exclusively in the state courts of California in the County of San Joaquin or in the United States District Court for the Eastern District of California.
- (o) Recovery of Costs. The prevailing party in any action brought to enforce the terms of this Agreement or arising out of this Agreement may recover its reasonable costs, including reasonable attorney's fees, incurred or expended in connection with such action against the non-prevailing party.

**(17) Notice to Proceed**

Prior to commencing work under this agreement, ADVISOR shall receive a written "Notice to Proceed" from CITY. A Notice to Proceed shall not be issued until all necessary bonds and insurances have been received. CITY shall not be obligated to pay ADVISOR for any services prior to issuance of the Notice to Proceed.



CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC

(18) **Investment Advisor Provisions.**

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

(b) **Pool Compensation.** Assets invested by ADVISOR under the terms of this Agreement may from time to time be invested in a money

**CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC**

market mutual fund managed by ADVISOR, or an affiliate of ADVISOR or local government investment pool managed by ADVISOR (either, a "Pool") or in individual securities. Average daily net assets subject to the fees described in this Agreement shall not take into account any funds invested in the Pool. Expenses of the Pool, including compensation for ADVISOR and the Pool custodian, are described in the relevant prospectus or information statement and are paid from the Pool.

- (c) Other Compensation. If and to the extent that CITY shall request ADVISOR to render services other than those to be rendered by ADVISOR under this Agreement, such additional services shall be compensated separately on terms to be agreed upon between ADVISOR and CITY.
- (d) Expenses. ADVISOR shall furnish at its own expense all necessary administrative services, office space, equipment, clerical personnel, telephone and other communication facilities, investment advisory facilities, and executive and supervisory personnel for managing the Managed Funds. Except as expressly provided otherwise herein, CITY shall pay all of its own expenses including, without limitation, taxes, commissions, fees and expenses of CITY's independent auditors and legal counsel, if any, brokerage and other expenses connected with the execution of portfolio security transactions, insurance premiums, and fees and expenses of the Custodian.
- (e) Registered Advisor; Duty of Care. ADVISOR hereby represents it is a registered investment advisor under the Investment Advisers Act of 1940. ADVISOR shall immediately notify CITY if at any time during the term of this Agreement it is not so registered or if its registration is suspended. ADVISOR agrees to perform its duties and responsibilities under this Agreement with reasonable care. The federal securities laws impose liabilities under certain circumstances on persons who act in good faith. Nothing herein shall in any way constitute a waiver or limitation of any rights which CITY may have under any federal securities laws. CITY hereby authorizes ADVISOR to sign I.R.S. Form W-9 on behalf of CITY and to deliver such form to broker-dealers or others from time to time as required in connection with securities transactions pursuant to this Agreement.
- (f) ADVISOR's Other Clients. CITY understands that ADVISOR performs investment advisory services for various other clients which may include investment companies, commingled trust funds and/or individual portfolios. CITY agrees that ADVISOR, in the exercise of its professional judgment, may give advice or take action with respect

**CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC**

to any of its other clients which may differ from advice given or the timing or nature of action taken with respect to the Managed Funds. ADVISOR shall not have any obligation to purchase, sell or exchange any security for the Managed Funds solely by reason of the fact that ADVISOR, its principals, affiliates, or employees may purchase, sell or exchange such security for the account of any other client or for itself or its own accounts.

- (g) Disciplinary Actions. ADVISOR shall promptly give notice to CITY if ADVISOR shall have been found to have violated any state or federal securities law or regulation in any final and unappealable judgment in any criminal action or civil suit in any state or federal court or in any disciplinary proceeding before the Securities and Exchange Commission or any other agency or department of the United States, any registered securities exchange, FINRA, or any regulatory authority of any State based upon the performance of services as an investment advisor.
- (h) Books. ADVISOR shall maintain records of all transactions in the Managed Funds for a period of time as required by the Investment Advisers Act of 1940. ADVISOR shall provide CITY with a monthly statement showing deposits, withdrawals, purchases and sales (or maturities) of investments, earnings received, and the value of assets held on the last business day of the month. The statement shall be in the format and manner that is mutually agreed upon by ADVISOR and CITY.
- (i) Brochure and Brochure Supplement. ADVISOR warrants that it has delivered to CITY prior to the execution of this Agreement ADVISOR's current Securities and Exchange Commission Form ADV, Part 2A (brochure) and Part 2B (brochure supplement). CITY acknowledges receipt of such brochure and brochure supplement prior to the execution of this Agreement.

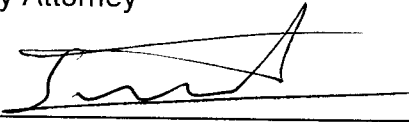
**(19) Signature.**

The individuals executing this Agreement represent and warrant that they have the right, power, legal capacity, and authority to enter into and to execute this Agreement on behalf of the respective legal entities of the ADVISOR and the CITY. This agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

**CITY OF LATHROP – INVESTMENT ADVISORY SERVICES  
PFM ASSET MANAGEMENT LLC**

Approved as to Form:

City of Lathrop  
City Attorney

  
\_\_\_\_\_  
Salvador Navarrete 2. 5. 2024  
Date

Recommended for Approval:

City of Lathrop  
Director of Finance

  
\_\_\_\_\_  
Cari James 2/5/2024  
Date

Approved By:

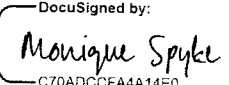
City of Lathrop  
390 Towne Centre Drive  
Lathrop, CA 95330

\_\_\_\_\_  
Stephen J. Salvatore Date  
City Manager

ADVISOR:

PFM Asset Management LLC  
Monique Spyke  
1 California Street  
Suite 1000  
San Francisco, CA 94111

Fed ID #: 41-2003732  
Business License #20953

DocuSigned by:  
  
C70ADCCFA4A14E0... 2/5/2024  
\_\_\_\_\_  
Signature Date  
Monique Spyke Managing Director  
\_\_\_\_\_  
Print Name / Title



## PFMAM Proposed Scope of Work

### **1. Review City's Investment Policy.**

PFMAM will continue to review the City's investment policy on an annual basis to confirm that it meets the requirements of the California Government Code and is consistent with the City's tolerances for risk. As we do now, we will also continue to keep the City apprised of any legislative changes that might impact the City's investment policy.

### **2. Manage City's investment portfolio in a fiduciary capacity and efficiently execute purchases and sales with approved brokers or dealers in accordance with the governing laws and City's investment policy.**

Our portfolio management team will continue to review the City's portfolio on a daily basis. As part of daily practices, portfolio managers and traders discuss how market developments, product offerings, new issues, and the potential impact of pending economic announcements may affect each portfolio. The team also reviews portfolio holdings, upcoming maturities, cash flows, and other City-specific needs. If an opportunity for a trade is identified, our trade process starts with a review of market conditions and relative value relationships. In strict compliance with the City's Investment Policy, we will then decide what sector and maturity to purchase—the one with the best combination of return and risk characteristics and one that fulfills a need within the portfolio. Security selection is heavily dependent on the current make-up of the portfolio, the client's investment policy, and the long-term investment strategy.

Once executed, full details of all trades, including competitive bids and offers, are provided to the City on the same day as execution. The City has access to all trading activity through our internet reporting site, Connect, the day after the trade and receives a complete reconciled report of transactions and holdings on a monthly basis. In addition, Allison reviews trade activity at meetings and is available anytime to answer the City's questions as needed.

### **3. Perform credit analysis of investment instruments in the portfolio and monitor the creditworthiness of all investments.**

While the City does not currently allow credit instruments in its portfolio, if the City were to change that policy sometime in the future, the City can feel confident in PFMAM's credit review and monitoring process.

We employ a market-driven approach to credit based upon a proprietary methodology incorporating quantitative and qualitative analysis of issuers and industries. This approach includes leveraging research from our credit analysts and sector specialists from our trading desk. Credit analysts and portfolio managers work in tandem so that our views on credit conditions are integrated seamlessly with trading processes. While important to our fundamental assessment of an issuer, an overreliance on quantitative analysis has proven to be insufficient to effectively assess credit risk.

PFMAM monitors all approved issuers on a daily basis. Once an issuer is approved, it is added to a database that notifies investment personnel of significant news events or rating changes involving that issuer. Because our credit process is fully integrated into the investment process, portfolio managers can respond quickly to significant news events to reduce exposure or capture an opportunity for our clients. If








there is sufficient cause, the Credit Committee may remove an issuer from the approved list, suspend purchases of an issuer, or recommend a sale of holdings. The extent of the action would be dependent on the individual circumstances surrounding an issuer.



For instance, due to the coronavirus pandemic, we temporarily halted all credit purchases until we could re-assess issuers' ability to withstand the volatility and consequences of prolonged lockdowns and an unforeseen economic downturn. We erred on the side of caution on behalf of our governmental clients and held nearly daily Credit Committee meetings to discuss the evolving credit and market conditions. As the situation improved, we reapproved most credit names for purchase, but some issuers were taken off of our approved list permanently as we concluded their financial risk exceeded our clients' risk tolerance. We believe this proactive focus on credit monitoring is essential in our role as fiduciary to our clients.




#### 4. Back office support and investment reports.

Summarized in the following table are the reports the City currently receives and will continue to receive. Our comprehensive reports are designed to support the City's needs and therefore contain all information needed for state reporting standards. **Our reports follow GAAP and comply with GASB requirements.** At any time, authorized personnel from the City can log in through PFMAM's portfolio reporting website, connect.pfmam.com, to view past monthly portfolio statements, holdings as of the prior trading day, and the current month's transactions through the prior trading day.

Report	Frequency/ Delivery	Content/Features
Daily Holdings	Daily 	Holdings report showing securities, par, cost, duration, purchase yields and discounts as of the prior business day.
Month-to-Date Transactions	Daily 	Description of any security transactions month-to-date as of the prior business day.
Portfolio Holdings and Activity Report	Monthly  	This report includes a detailed description of all securities in the portfolio; a summary of realized and unrealized earnings for the month; a report of all purchases, sales, maturities, interest deposits, and withdrawals for each separate account; and all the information required by <b>GASB 31</b> , and provides the month-end credit quality ratings to comply with the Credit Risk Disclosure requirement and duration by investment type to facilitate compliance with the Interest Rate Disclosure requirement of <b>GASB 40</b> .
Market Update	Monthly 	Summary of recent market events and the outlook for investment opportunities moving forward.

# pfm asset management

Report	Frequency/ Delivery	Content/Features
Performance Reports	Quarterly  	Quarterly reports typically include an aggregate portfolio sector, maturity, and credit-quality distribution; an aggregate view of performance portfolios by investment strategy; a portfolio strategy recap and market outlook, including recommended changes to strategy; individual portfolio sector, maturity, and credit quality distribution; performance statistics compared to a market benchmark; and a high level economic and investment-sector performance synopsis. .

Key:  Online access,  mailed,  emailed

## 5. Perform cash flow analysis, as needed.

At the start of our engagement with the City, we analyzed historical balances in order to help determine the optimal allocation between the City's funds that should be kept liquid to fund operational needs and those funds that could be invested out longer to increase opportunities to grow the portfolio over time. We will continue to work with the City to monitor the allocations and can provide additional analysis as needed.

## 6. Review strategy and benchmark.

PFMAM's overall fixed income strategy is formally reviewed on a monthly basis by PFMAM's Fixed Income Investment Committee, which is supported by data and analysis produced by our Portfolio Strategies Group. The Committee reviews our overall strategy, sector allocation decisions, duration positioning, yield curve placement, and individual security assessment. Market and account performance attribution is also discussed in detail. Formal targets are established for each of the key strategy elements, documented in written minutes, and portfolio manager teams implement any changes for their accounts within individual client guidelines and investment policies. The process includes PFMAM's CIO, portfolio managers, traders, strategy and research staff, and a representative from PFMAM's Compliance Group.

Strategies are then implemented by each client's portfolio manager, with adjustments made to address each client's investment policy, cash flow needs, risk tolerances, and investment objectives. Allison has kept the City informed about its portfolio through quarterly reports and meetings: reviewing current asset allocation and strategy, current economic and market conditions, and the City's investment goals and policies.

Since the start of our engagement with the City, at the City's direction, we have maintained a conservative investment portfolio. The portfolio is managed according to a 1-3 year strategy and, at the start of our engagement, allowed investment in U.S. Treasuries and Federal Agencies only. At past meetings, we have discussed the benefits and risks of expanding the investment opportunities of the portfolio and, in early 2019, with PFMAM's recommendation, the City decided to allow for investment in



highly rated supranationals. We will continue to bring ideas to the City, providing information on ways the City can continue to safely enhance its investment program.

#### 7. Client service through our dedicated client service team.

The engagement team, led by Allison Kaune, will continue to be supported by over 200 professionals dedicated to supporting the investment needs of our public sector clients. The City will continue to receive the full breadth of our investment management resources, including:

- Sector specialists on PFAM's trading desk.
- In-house credit analysis and support.
- Research from our Portfolios Strategies Group.
- GASB-compliant reporting from our Accounting Group and dedicated analyst team.
- Responsive service from our Client Services Group.
- Coordinated trade execution, settlement, and compliance systems maintained by separate teams (Trading Desk, Investment Services Group, Compliance Group).

## Fees

For the services described in this scope of work, PFAM proposes we maintain the current fee schedule:

Assets Under Management	Annual Fee Rate
\$0 to \$50 million	9 basis points (0.09%)
Next \$50 million	7 basis points (0.07%)
Assets greater than \$100 million	6 basis points (0.06%)

The actual annual fees will depend on the average amount of assets under management. *For a \$124 million portfolio,<sup>1</sup> PFAM's annual fee would be \$94,400.*

Fees are charged monthly in arrears based on the daily net assets under management on an amortized cost basis, including accrued interest and the market value of any money market fund balance, for the month. The fee schedule does not apply to assets held in any LGIP that PFAM administers. Our minimum annual fee is \$40,000, payable in equal monthly installments, if applicable. No fees would be charged for funds invested in the Local Agency Investment Fund ("LAIF").

---

<sup>1</sup> Source: Estimated total par amount of the securities in the City's PFAM-managed portfolio in February 2024.