



- **Board of Directors**
Finance and Asset Management Committee

12/10/2024 Board Meeting

7-4

Subject

Authorize a professional services agreement with Public Financial Management Asset Management LLC, a subsidiary of US Bancorp Asset Management Inc., to provide investment management services; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

In September 2024, Metropolitan issued a Request for Proposals (RFP) to firms to provide investment management services for Metropolitan's short-term liquidity, long-term core, and endowment portfolios. Three firms responded to the RFP. In coordination with the Professional Contracting Services Team, Finance staff and a representative from Engineering Services reviewed and scored the proposals. Based on evaluations of responses, Public Financial Management Asset Management LLC, a subsidiary of US Bancorp Asset Management Inc. (USBAM), was selected to provide investment management services for Metropolitan's short-term liquidity, long-term core, and endowment portfolios for a five-year period.

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #1

Option #1

Authorize a professional services agreement with Public Financial Management Asset Management LLC, a subsidiary of US Bancorp Asset Management Inc., to provide investment management services.

Fiscal Impact: The fees under the agreement will be calculated on the average balance in the liquidity, core, and endowment portfolio but will not exceed \$500,000 annually. Fees under the agreement may be offset by returns realized by external management.

Business Analysis: Cost-effective management of the liquidity, core, and endowment portfolio is realized through economies of scale by an external manager.

Option #2

Do not authorize a professional services agreement.

Fiscal Impact: Additional staffing, technical training and resources, and information systems are required to manage the liquidity, core and endowment portfolios internally.

Business Analysis: This option would forego an opportunity to improve the management of the liquidity portfolio.

Alternatives Considered

Not applicable

Applicable Policy

Metropolitan Water District Administrative Code Section 5101: Investment of Surplus Funds

Metropolitan Water District Administrative Code Section 5114: Reporting Requirements of the Treasurer

Metropolitan Water District Administrative Code Section 8121: General Authority of the General Manager to Enter Contracts

Metropolitan Water District Administrative Code Section 8140: Competitive Procurement

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Related Board Action(s)/Future Action(s)

Not applicable

Summary of Outreach Completed

Not applicable

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it will not result in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. (State CEQA Guidelines Section 15378(a)).

CEQA determination for Option #2:

None required

Details and Background

Background

In 2002, Metropolitan's Board directed staff to, among other actions, bifurcate the investment portfolio into a liquidity, or short-term, portfolio and a core, or long-term, portfolio. Since 2002, the core portfolio has been managed by outside managers. The liquidity portfolio was managed internally until December 2018, when its management was taken over by PFM Asset Management LLC (PFMAM). In May 2019, the Board awarded an agreement to PFMAM to manage the liquidity portfolio for a five-year term effective July 1, 2019. In February 2021, the agreement with PFMAM was amended to include the core portfolio management. In July 2021, PFMAM was acquired by USBAM. In July 2024, the Board approved a six-month extension with USBAM.

Request for Proposals


In September 2024, Metropolitan issued an RFP to firms to provide investment management services for Metropolitan's short-term liquidity, long-term core, and endowment portfolios. Three firms responded to the RFP. In coordination with the Professional Contracting Services Team, Finance staff and a representative from Engineering Services reviewed and scored the proposals. Based on the evaluations, USBAM was selected to provide investment management services for the short-term liquidity, long-term core, and endowment portfolios for a five-year period.

USBAM would manage investments to the current Investment Policy Benchmark. The short-term liquidity portfolio benchmark is the ICE BofAML 3-Month Treasury Bill Index. The long-term core portfolio benchmark comprises 20% of the ICE BofAML 0-1 YEAR US Treasury Index and 80% of the ICE BofAML 1-5 Years AAA-A US Corporate & Government Index.

It is expected that USBAM would exceed the benchmark after accounting for fees. The fees under the agreement will depend on the average balance in the liquidity, core, and endowment portfolios but will not exceed \$500,000 annually. All securities would continue to be held by Metropolitan's custodial bank, the Bank of New York.

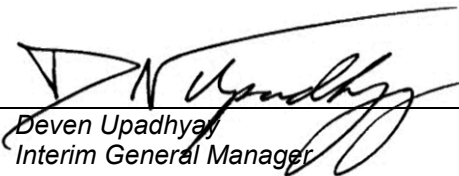
Metropolitan uses treasury management software to monitor and report information by the portfolio as well as on a consolidated basis for management and the Board.

Treasury staff would work with the investment manager to ensure that investments comply with Metropolitan's investment policy, as that policy is amended from time to time. The Treasurer would continue to provide monthly reports and quarterly performance reviews to the Finance and Asset Management Committee.



Katano Kasaine
Assistant General Manager/
Chief Financial Officer

12/5/2024
Date



Deven Upadhyay
Interim General Manager

12/5/2024
Date