

## EXHIBIT-A

**To Amendment No. 2 to Agreement by and between the County of Monterey  
(Monterey County Treasurer Tax Collector), hereinafter jointly referred to as “COUNTY”  
AND  
PFM Management LLC, hereinafter referred to as “CONTRACTOR”  
Additional Scope of Services / Payment Provisions  
[Additional to and not supplanting the Original Scope of Work contained in  
Section 2 of the Original Agreement]**

### A. SCOPE OF SERVICES

**A.1** CONTRACTOR shall provide services and staff, and otherwise do all things necessary for or incidental to the performance of work, as set forth below:

**1. Perform Services Currently Provided.** PFM Asset Management LLC (PFMAM) will continue to perform services related to the existing Investment Advisory contract, which includes conducting cash flow analyses (as described in item 1 below), providing monthly compliance reports, preparing annual reports for the County’s Treasury Oversight Committee and presenting the information once a year, reviewing the County’s Investment Policy each year, as well as providing ad hoc advice, education, and market updates. Services described in items 2 through 9 below would be performed in addition to services provided under the current agreement between the County and PFMAM.

**2. Perform Cash Flow Analysis to Determine Current and Future Liquidity Needs.** The County will continue to manage short-term liquid investments to meet the County’s liquidity needs, and have PFMAM manage the portion of the portfolio that is not necessary for immediate liquidity. We will periodically model the County’s historical cash flow patterns to determine the necessary level of liquidity needed each month—with a 15-20% cushion for unexpected expenditures.

**3. Develop and Implement an Investment Strategy.** We will work with the Treasurer to draft an acceptable long-term investment strategy that will provide the framework for all investment decisions. The strategy will incorporate the County’s Investment Policy, expected cash flow requirements, and risk tolerance, and provide enough flexibility to allow the County to meet realistic performance objectives. We will implement the investment strategy and execute transactions on behalf of the County.

**4. Assist the County in Selecting Appropriate Performance Benchmark.**

PFMAM will work with the County to refine benchmarks that most appropriately reflect the portfolio composition.

**5. Monitor Portfolio for Opportunities to Improve Performance of the Portfolio.**

PFMAM's portfolio manager will assess the performance of the securities in the County's portfolio on a daily basis and in light of current market conditions. Our portfolio managers and our proprietary investment analysis tools enable us to identify investment opportunities with excellent return potential while limiting risk and volatility. PFMAM's investment approach can be summarized as a prudent but active management approach based on identification of relative value and management of the following factors that add value:

**Duration Management.** We will work collaboratively with the Treasurer to establish a target portfolio duration (based on the County's cash flow expectations, risk tolerance, and Investment Policy limitations). Consistent with the portfolio's target duration, we will position the portfolio's actual duration with a shorter bias when rates are rising and a longer bias when rates are falling. Value will be added by re-balancing the portfolio's duration every month to take advantage of interest rate trends. This disciplined approach to duration management helps to enhance a portfolio's long-term performance and reduce the portfolio's volatility.

**Sector Weighting.** We regularly monitor the yield relationships between all permitted investment sectors and authorized investments working to identify the investments that we believe offer the best relative value. This does not mean we will always buy the highest yielding investment, but rather the investment whose yield best compensates for the inherent risks of the investment. PFMAM-managed portfolios emphasize different investment choices at different times, capitalizing on the opportunities that exist at that time. We select individual investments so that the overall portfolio has the most desirable characteristics for each market environment.

**Yield Curve Placement.** Through a series of analytical models, we identify those maturities that offer the greatest value—that is the most amount of yield or return potential for a given amount of interest rate risk. Our assessment will take into account the steepness of the yield curve, as well as any fundamental, technical, or macro-economic factors that may influence future yield trends.

**Issue Selection and Credit Analysis.** Yields can vary significantly among issuers or, within the same issuer, among securities with similar maturities. While this is sometimes due to quality differences which need to be carefully analyzed, often it is due to supply differences, pricing inefficiencies, or other market anomalies. PFMAM seeks to select securities that are both safe and offer high return potential. Our internal trading tools allow us to quickly identify and capitalize on pricing inefficiencies, resulting in

higher portfolio yields for our clients. For credit instruments, we employ a rigorous analysis, approval, and ongoing monitoring process to ensure the safety of client portfolios entrusted to us.

**Market Analysis.** We monitor the markets on an ongoing basis, looking for opportunities to re-balance the portfolio among sectors and/or maturities that could safely add value and enhance investment performance. PFMAM's portfolio managers and traders are assigned to specific market sectors in order to monitor products and opportunities; these responsibilities run across all portfolios. PFMAM has developed analytic resources and software to structure portfolios, identify trading opportunities, and respond to changes in market sentiment. This enables us to trade among sectors or maturity ranges to capture incremental value in the market without exposing the portfolio to unnecessary risks.

**6. Perform Efficient Execution of Purchases and Sales of Securities with Approved Brokers or Dealers.** As a registered investment advisor with the SEC, we do not carry an inventory of securities, and, therefore, we contact multiple brokers and dealers to obtain the best price for every purchase and sale of securities. We “shop” directly from the nation’s largest dealers— particularly those that have been designated “Primary Dealers” by the Federal Reserve—and major regional banks and financial institutions. We do this because no one broker/dealer offers the best price all the time. Even small savings per trade can add up to significant additional earnings over time. To protect our clients, PFMAM only transacts business with firms whose financial conditions we have assessed and are on our list of approved firms. We will send a trade ticket to the County’s custodian and settle the trades for the County. We will also send a copy of each trade ticket to the County.

**7. Monitor the Creditworthiness of All Investments.** PFMAM will continuously monitor the creditworthiness of all investments held in the County’s portfolio. We have a proven credit review process that relies on our own proprietary credit research as well as on the research of Nationally Recognized Statistical Rating Organizations (NRSROs).

PFMAM’s internal credit approval process includes an in-depth financial analysis of issuers, a formal written review, and approval by PFMAM’s Credit Committee. Once approved, an issuer is subject to regular review and updates, although market developments could trigger an immediate review. We will generally seek to reduce risk by diversifying sectors and limiting exposure to each issuer in the portfolio.

**8. Furnish the County with Investment Reports.** PFMAM will provide the County with comprehensive monthly and quarterly reports to keep staff and policy makers

informed of the status of the County’s investments and strategy. Our reports detail holdings, transactions, market and amortized values, interest earnings, and performance. The reports are designed to help our clients easily book earnings and track portfolio activity. Additionally, the County will have online access to month-to-date transactions and a daily listing of portfolio holdings.

**9. Excellent Client Service through Our Dedicated Client Service Team.** Nancy Jones, Managing Director, will continue to be the County’s relationship manager, and Sarah Meacham, Director, will continue to manage the day-to-day work and report preparation. PFMAM will meet with the Treasurer as often as necessary during the start-up period and quarterly thereafter to present in person investment results, updates on market trends, and to discuss any upcoming cash needs or changes to operating instructions. We will meet with the Treasury Oversight Committee and Board of Supervisors as requested by the Treasurer.

**B. PAYMENT PROVISIONS**

**B.1 COMPENSATION/ PAYMENT**

County shall pay an amount not to exceed \$300,000 for the performance of all things necessary for or incidental to the performance of work as set forth in the Scope of Work. CONTRACTOR'S compensation for services rendered shall be based on the following rates or in accordance with the following terms:

CONTRACTOR will provide the above listed services based on the following fee schedule, with an annual fee cap of \$300,000. CONTRACTOR will discontinue the \$60,000 annual fee for the services provided in the current contract because they will be providing those services under the new arrangement.

Assets Under Management	Annual Fee Rate
Initial \$100 million	8 basis points (0.08%)
\$100-200 million	6 basis points (0.06%)
\$200-600 million	5 basis points (0.05%)
Above \$600 million	3 basis points (0.03%)

There shall be no travel reimbursement allowed during this Agreement.

CONTRACTOR warrants that the cost charged for services under the terms of this contract are not in excess of those charged any other client for the same services performed by the same individuals.

## **B.2 CONTRACTORS BILLING PROCEDURES**

County may, in its sole discretion, terminate the contract or withhold payments claimed by CONTRACTOR for services rendered if CONTRACTOR fails to satisfactorily comply with any term or condition of this Agreement.

No payments in advance or in anticipation of services or supplies to be provided under this Agreement shall be made by County.

County shall not pay any claims for payment for services submitted more than twelve (12) months after the calendar month in which the services were completed.

**DISALLOWED COSTS:** CONTRACTOR is responsible for any audit exceptions or disallowed costs incurred by its own organization or that of its subcontractors.