



Agenda Item No. (8)

To: OPEB Retirement Investment Trust Board
Meeting of October 24, 2024

From: Alice Ng, Director of Fiscal Resources
Joseph M. Wire, Auditor-Controller

Subject: **CONDUCT AN ANNUAL REVIEW OF THE OPEB INVESTMENT POLICY, TRUST BOARD SERVICE PROVIDERS, AND THE TRUST BOARD CHARTER; AND AUTHORIZE SUBMISSION OF THE TRUST BOARD'S ANNUAL REPORT TO THE DISTRICT BOARD OF DIRECTORS**

Recommendation

Staff recommends the Other Post-Employment Benefits ("OPEB") Retirement Investment Trust Board ("Trust Board"):

1. Conduct an Annual Review of the OPEB Investment Policy, Trust Board Service Providers, and the Trust Board Charter; and
2. Authorize submission of the Trust Board's Annual Report to the Golden Gate Bridge, Highway and Transportation District ("District") Board of Directors ("Board").

Summary

The Charter of the OPEB Retirement Investment Trust Board ("Trust Board") requires that the Trust Board, on at least an annual basis, monitor compliance with the OPEB Trust Investment Policy, review and assess the performance of any Trust Board service providers, and review the adequacy of the Charter. The results of this annual review are then reported to the District Board of Directors. To facilitate the Trust Board's review of these matters, the attached draft report has been prepared. The Trust Board is invited to discuss, edit and approve the draft report for submission to the District Board at the District's Finance-Auditing Committee Meeting of November 14, 2024.

The Trust's asset value at June 30, 2024 was **\$128.8 million**.¹ The chart below provides a summary of the Trust activities by fiscal year since its inception in November 2007. Since inception through FY 23/24, the District has made \$208 million in contributions into the Trust and

¹ June 30, 2024 Trust asset value of \$128.8 million is preliminary, awaiting updated market values of private investments.

has paid out \$158.8 million in retiree benefits and administrative expenses. Cumulative return on investments has added \$79.6 million into the Trust assets.

	Beginning Balance	Annual Contribution	Annual Payments	Investment Return	Ending Balance
Partial FY 07/08*	\$ -	\$ 10,209,037	\$ (4,255,509)	\$ 281,945	\$ 6,235,474
FY 08/09	\$ 6,235,474	\$ 13,993,687	\$ (8,975,702)	\$ (1,434,092)	\$ 9,819,367
FY 09/10	\$ 9,819,367	\$ 14,356,768	\$ (9,554,010)	\$ 1,529,365	\$ 16,151,490
FY 10/11	\$ 16,151,490	\$ 14,850,545	\$ (9,584,054)	\$ 3,799,163	\$ 25,217,143
FY 11/12	\$ 25,217,143	\$ 15,133,177	\$ (9,491,712)	\$ 255,634	\$ 31,114,242
FY 12/13	\$ 31,114,242	\$ 14,519,520	\$ (8,278,072)	\$ 3,975,759	\$ 41,331,449
FY 13/14	\$ 41,331,449	\$ 11,332,344	\$ (8,478,331)	\$ 7,565,266	\$ 51,750,728
FY 14/15	\$ 51,750,728	\$ 11,724,682	\$ (8,101,045)	\$ 1,800,781	\$ 57,175,145
FY 15/16	\$ 57,175,145	\$ 12,132,624	\$ (8,480,853)	\$ 1,146,494	\$ 61,973,410
FY 16/17	\$ 61,973,410	\$ 11,649,415	\$ (10,320,873)	\$ 7,287,638	\$ 70,589,590
FY 17/18	\$ 70,589,590	\$ 12,293,865	\$ (10,516,715)	\$ 6,274,272	\$ 78,641,012
FY 18/19	\$ 78,641,012	\$ 12,701,935	\$ (10,608,573)	\$ 6,229,598	\$ 86,963,973
FY 19/20	\$ 86,963,973	\$ 13,125,165	\$ (10,507,493)	\$ 4,955,497	\$ 94,537,142
FY 20/21	\$ 94,537,142	\$ 11,681,681	\$ (10,392,279)	\$ 25,906,727	\$ 121,733,271
FY 21/22	\$ 121,733,271	\$ 12,032,777	\$ (10,478,412)	\$ (14,938,891)	\$ 108,348,745
FY 22/23	\$ 108,348,745	\$ 8,130,243	\$ (10,028,078)	\$ 9,833,578	\$ 116,284,488
FY 23/24	\$ 116,284,488	\$ 8,109,235	\$ (10,795,114)	\$ 15,179,910	\$ 128,778,520
Cumulative from Trust Inception		\$ 207,976,700	\$ (158,846,825)	\$ 79,648,645	
*Inception Trust - 11/6/2007					

Annual Review of the OPEB Investment Policy

As discussed in the attached draft report, staff has reviewed the Investment Advisor’s Compliance Certificate, certifying that the investment portfolio is in full compliance with the District’s OPEB Investment Policy and Trust Agreement.

Annual Review of Trust Board Service Providers

To assist the Trust Board in the assessment of PFM Asset Management (“PFMAM”) as the Investment Advisor and Trust Administrator, and U.S. Bank National Association (“U.S. Bank”) as the Trustee and Custodian, staff provides the following information on three performance criteria: investment performance, pricing, and customer service.

Investment Performance

The Trust’s asset value at June 30, 2024 was **\$128.8 million**, as compared to \$116.3 million at June 30, 2023. Please refer to pages 2.3 through 2.11 of PFMAM’s Annual Investment Report for the fiscal year ended June 30, 2024 (attached in Agenda Item No. 5) for a summary of the Trust’s investment performance as of June 30, 2024.

Investment Performance on Combined Assets (Liquid Account and Investment Account)

For FY 23/24, the Trust’s combined assets’ gross investment return (net of asset managers’ fees but before PFMAM advisory and U.S. Bank trustee and custodial fees) was **13.09%** and was 1.11% above its relative blended benchmark of 11.79%. From inception, the gross return was **6.86%** and was 0.65%, above its relative blended benchmark of 5.97%.

For FY 23/24, the Trust’s combined assets’ investment return net of all fees was **12.9%** (13.09% less approximately 0.19% for PFMAM advisory and U.S. Bank trustee and custodial fees). From inception, the Trust’s investment return net of all fees was **6.62%** (6.86% less approximately 0.24% for PFMAM advisory and U.S. Bank trustee and custodial fees).

Investment Performance on Investment Assets (Investment Account)

Based on the Peer Group Analysis² on pages 2.9 and 2.10 in PFMAM’s Annual Investment Report for the fiscal year ended June 30, 2024, the Trust Fund (Investment Assets only) was ranked in the **26th percentile** out of 51 public plans with assets between \$75 million and \$150 million as of June 30, 2024 (as compared to 56th percentile for the California Employers Retiree Benefits Trust (“CERBT”). From inception (December 2007), the Trust Fund (Investment Assets) was ranked in the **22nd percentile** out of 27 public plans with assets between \$75 million and \$150 million as of June 30, 2024.

Below is a summary of the Trust’s Investment Funds, on a net basis (after asset managers’ fees, PFMAM advisory and U.S. Bank trustee and custodial fees) compared to the CERBT.

As of June 30, 2024		1 year	3 year	5 year	10 year	Since Inception**	
PFMAM - Investment Funds							
	Gross Return*	13.08	2.63	7.98	7.22	6.85	(12/1/07)
	Est. PFM Advisory and U.S. Bank Trustee & Custodial Fees	0.19	0.20	0.21	0.23	0.24	
	Net Return	12.89	2.43	7.77	6.99	6.61	(12/1/07)
CERBT							
	Net Return	10.93	0.71	6.14	5.56	5.23	(6/1/07)
*	Gross Return is investment return net of investment manager fees but before PFMAM Advisory & US Bank trustee & custodial fees						
**	"Since Inception" performance is presented for information purposes only - not for comparative purposes as the inception dates differ						

Pricing

Under an unbundled compensation structure, PFMAM’s fee for management of the OPEB trust assets, U.S. Bank’s trustee, custodial and trading fees, as well as asset managers’ fees and expense ratios, are segregated. PFMAM bills the District directly for the management of OPEB trust assets while U.S. Bank bills the District directly for custodial, trustee, and trading fees. Managers’ fees and expense ratios are netted out of the assets directly by the mutual funds. As per its contract with the District, PFMAM does not receive compensation from any other source relating to the management of the District’s assets. Additionally, effective December 7, 2021, as a result of the

² The Peer Group Analysis is generated using the third-party software, Investment Metrics. Investment Metrics’ Portfolio Analytics and Reporting (PARis) platform is a performance analysis and information reporting system. The sponsor peer groups are a consolidation of all plans across all the investment consulting firms using the PARis platform.

acquisition of PFMAM by U.S. Bancorp Asset Management, Inc. (“USBAM”), a subsidiary of U.S. Bank, PFMAM will not charge any fee on assets invested in an investment fund with respect to which any compensation is received, directly or indirectly, by USBAM.

PFMAM’s fee for management of the OPEB trust assets is based on the amount of assets managed and is currently as follows:

- 0.30% annum for the first \$25 million
- 0.15% annum for the next \$75 million
- 0.10% annum for the next \$200 million

U.S. Bank’s custodial administrative fee is 0.025% annum for the first \$100 million of assets; 0.015% annum over \$100 million. Portfolio transaction fees are \$7.50/transaction and there is an annual trustee fee of \$1,000.

For FY 23/24, total fees were \$616,563 comprised of the following:

	Total Fees	% of MV of Assets
• PFMAM’s fee for management of OPEB trust assets	\$ 207,968	0.17%
• U.S. Bank’s trustee, custodial and trading fees	<u>29,613</u>	<u>0.02%</u>
Total Fees to PFMAM/U.S. Bank	\$ 237,581	0.19%
• Estimated Asset manager(s)’ fees and expense ratios (netted out of investment returns)	<u>378,982</u>	<u>0.31%</u>
Total Fees	\$ 616,563	0.50%

Total fees of \$616,563 are approximately 50 basis points (0.50%) based on an average Trust asset market value during FY 23/24 of \$122.4 million. The total of 50 basis points is comprised of 19 basis points (0.19%) for “hard fees” paid to PFMAM/U.S. Bank and approximately 31 basis points (0.31%) for asset managers’ fees and expense ratios that are netted out of investment returns. According to Morningstar’s 2023 Fee Study, the average weighted expense ratio across all funds was 0.36% (with asset-weighted average fee for Active Funds at 0.59% and Passive Funds at 0.11%).

Other administrative costs (not covered under the District’s contract with PFMAM) paid from the Trust assets during FY 23/24 include fees for HRA administration services (\$60,550 paid to Navia), actuarial services (\$25,600 paid to Foster & Foster), and fiduciary liability insurance premium (\$15,105 paid to USI Insurance Services). These were encumbered and approved by the District in full compliance with the District’s procurement policy.

Customer Service

As of March 31, 2024, the combined OPEB Plan assets of PFMAM and USBAM is \$11.8 billion, servicing 149 public agencies (which is in a significant increase of previous PFMAM OPEB assets alone at June 30, 2023 of \$4.1 billion, servicing 75 public agencies). PFMAM’s OPEB clients include transportation agencies, including the Los Angeles County Metro Transit Authority, Metropolitan Transportation Commission, the Port Authority of New York and New Jersey, and SunLine Transit Agency. Additional California OPEB clients include Sonoma County, Napa

County, Yolo County, and the Cities of Roseville, Livermore, Santa Rosa, Sunnyvale, and Bakersfield.

Both PFMAM and U.S. Bank provide timely reporting and are very responsive to District staff's requests and inquiries. PFMAM has also continued to provide informative and educational briefings to the Board members at each meeting. Further, since the acquisition of PFMAM by USBAM in December 2021, the transition has been seamless to District staff. Additionally, the October 2024 consolidation of PFMAM and USBAM as one Registered Investment Advisor under USBAM will add additional synergy to better serve clients, such as the District.

Contract with PFMAM

In 2020, as recommended by the Trust Board, the District Board authorized the execution of the sixth amendment to PFMAM's contract for a three-year base term effective March 1, 2021, through February 29, 2024, with two additional one-year option terms, exercisable by the District, at an estimated total cost of \$1,198,000 for the five year period. Subsequently, in March 2024, as further recommended by the Trust Board, the District exercised the options to extend the contract for two additional one-year terms through February 28, 2026.

Since the Trust Board meets only semi-annually, it would be timely to begin discussing options in advance of the contract end date. As detailed above, PFMAM's historical investment performance is very good; pricing is reasonable and competitive, and both PFMAM and U.S. Bank's customer service has been very responsive to District's requests. It is based on these three performance criteria that should the Trust Board find PFMAM and U.S. Bank's performance satisfactory today, District staff will come back at the next Trust Board meeting in March 2025 with a recommendation to renegotiate a new multi-year contract with PFMAM. PFMAM has continued to perform well since its engagement by the District, allowing for the most flexibility accompanied by good investment performance at a reasonable cost. Alternatively, should the Trust Board conclude that PFMAM may not be the best option for the District, the Trust Board may request staff to either issue a new Request for Proposals ("RFP") or consider other OPEB single or multi-employer investment programs available. Staff does not anticipate that it will require more than 2-3 months to renegotiate new contract with PFMAM. A RFP solicitation, however, will require at least a year to process, beginning right after the March 2025 Trust Board meeting. Should a change to the Trust Administrator and Investment Advisor be made, it is likely that the trust documents will need to be amended or replaced, and District Trust assets be liquidated and transferred to a new custodian of the selected trust.

Annual Review of the Trust Board Charter

Staff does not recommend any changes to the Trust Board Charter at this time.

Fiscal Impact

There is no fiscal impact.

Attachment: Draft of the Trust Board's Annual Report to the Bridge District

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ATTACHMENT



Agenda Item No. x

To: Finance-Auditing Committee/Committee of the Whole
Meeting of November 15, 2024

From: Other Post-Employment Benefits ("OPEB") Retirement Investment Trust Board

Subject: **RECEIVE THE ANNUAL REPORT OF THE OPEB RETIREMENT
INVESTMENT TRUST BOARD**

Recommendation

The Finance-Auditing Committee recommends that the Golden Gate Bridge, Highway and Transportation District ("District") receive the Annual Report of the OPEB Retirement Investment Trust Board. This report summarizes the OPEB Retirement Investment Trust Board's annual review of its investment policy, service personnel and Charter.

Summary

The OPEB Retirement Investment Trust was established by the Golden Gate Bridge, Highway and Transportation District ("District") in 2007 to provide for the funding of retiree health benefits and other post-employment benefits for the District's eligible retirees. In creating the OPEB Trust, the District also established the OPEB Retirement Investment Trust Board ("Trust Board") to oversee the investment of trust assets, with specific duties and responsibilities that are spelled out in the Trust Board's Charter and Bylaws. As required in the Charter and Bylaws, the Trust Board must review, on at least an annual basis, the OPEB Trust investment policy, the performance of the Trust Board's service providers, and the adequacy of the Trust Board Charter. The results of this annual review must be reported to the District Board of Directors. The purpose of this report is to cover these points.

1. **Monitor Compliance with the Investment Policy Statement for the OPEB Trust**

The Investment Policy Statement ("Investment Policy") reflects the investment policy, objectives, and constraints of the Trust. The Trust Board monitors compliance with the Investment Policy for the OPEB Trust through review of periodic reports of the Trust as presented by PFM Asset Management ("PFMAM") as the Trust's Investment Advisor and Trust Administrator. These reports lay out the Trust's investment strategy, performance results, compliance with the Investment Policy Statement and the Trust Agreement, and track the progress of the Trust's funding per its actuarially determined target.

Attached is the Investment Advisor's Compliance Certificate as of June 30, 2024. The investment portfolio is in full compliance with the District's OPEB Investment Policy and Trust Agreement.

2. Review and Assess the Performance of Service Providers Appointed by the Trust Board or the District to Perform Services Related to the OPEB Trust

There are two service providers responsible for the administration of the OPEB Trust and implementation of the Trust investment policy, as designated under the Trust Agreement approved by the District: (1) PFMAM as the Investment Advisor and Trust Administrator, and (2) U.S. Bank National Association (“U.S. Bank”) as the Trustee and Custodian.

In December 2021, PFMAM was acquired by U.S. Bancorp Asset Management, Inc (“USBAM”), a subsidiary of U.S. Bank. As a wholly-owned subsidiary of USBAM, PFMAM has been operating as a separate entity and registered investment advisor (“RIA”) as PFM Asset Management LLC. Effective October 2024, PFMAM’s investment advisory client accounts will be consolidated under USBAM. Upon consolidation, PFMAM will be de-registered as a RIA and dissolved as a legal entity. The PFMAM brand will continue as a division of USBAM. As guided by District Counsel, the District executed amendments to PFMAM’s Contract and the OPEB Trust Agreement to transfer both of these agreements to USBAM, as the successor to PFMAM.

PFMAM’s responsibilities include managing the assets in accordance with the Investment Policy, coordinating investment and funding planning activities with Actuary and Benefits Administrator, recommending policy and asset allocation changes to the Trust Board and Staff, reporting investment performance regularly and providing a variety of other OPEB and market related educational services.

U.S. Bank is responsible for asset safekeeping, contribution and distribution processing, investment transaction processing, monthly reporting of asset holdings and transactions, and providing reporting support for the annual audit.

The Trust’s asset value at June 30, 2024 was **\$128.8 million**.¹ The chart below provides a summary of Trust activities by fiscal year since its inception in November 2007. Since inception through FY 23/24, the District has made \$208 million in contributions into the Trust and has paid out \$158.8 million in retiree benefits and administrative expenses. Cumulative return on investments has added \$79.6 million into the Trust assets.

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At its October 24, 2024 meeting, the Trust Board conducted its performance review of both PFMAM and U.S. Bank....[TBD - to be drafted following Trust Board discussion; previous wording is drafted below for the Trust Board consideration:

The Trust Board conducted its performance review of both PFMAM and U.S. Bank and has determined that both have continued to consistently perform well since their engagement by the District, allowing for the most flexibility accompanied by good investment performance at a reasonable cost.]

3. Review and Reassess the Adequacy of the Trust Board Charter and Recommend Proposed Changes, if any, to the District Board for its Approval

The Trust Board has reviewed its Charter. No changes are recommended at this time.

Fiscal Impact

There is no fiscal impact associated with receiving this report.

Attachment

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