



Current Banking Environment and Impact on Local Governments

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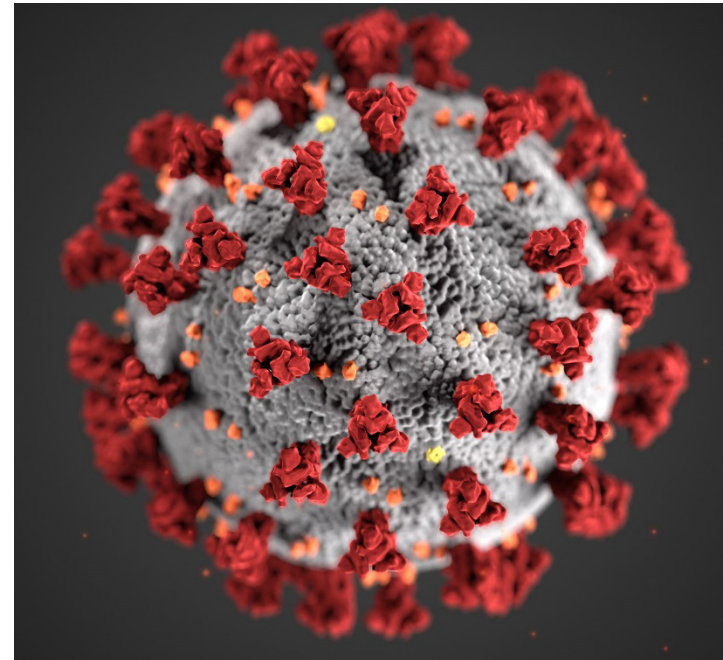
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Harrisburg, PA 17101
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601 South Figueroa
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Banking in an Age of COVID

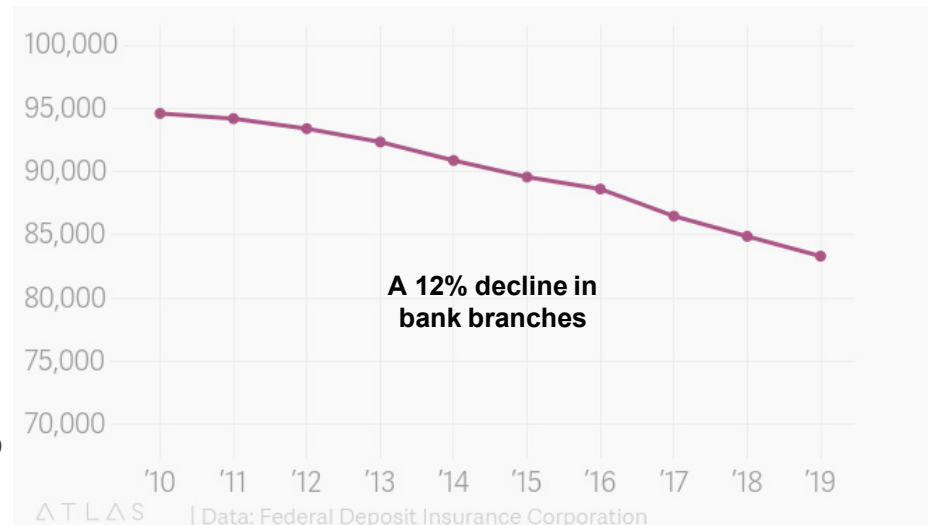




Changing Banking Landscape – Push Towards Electronic

- ◆ Banks are closing physical branches as more personal finance activity moves online.
- ◆ Costs for branch banking increasing. Higher fees for:
 - Branch Deposits
 - Currency & Coin Deposits
 - Increase charges for non-bank customers to cash checks
- ◆ Less branch tellers, longer wait times
- ◆ Bank of America, J.P. Morgan and Wells Fargo have market shares that exceed 10% of deposits and cannot acquire additional branches through acquisition.

Full-Service Bank Branches in the U.S.

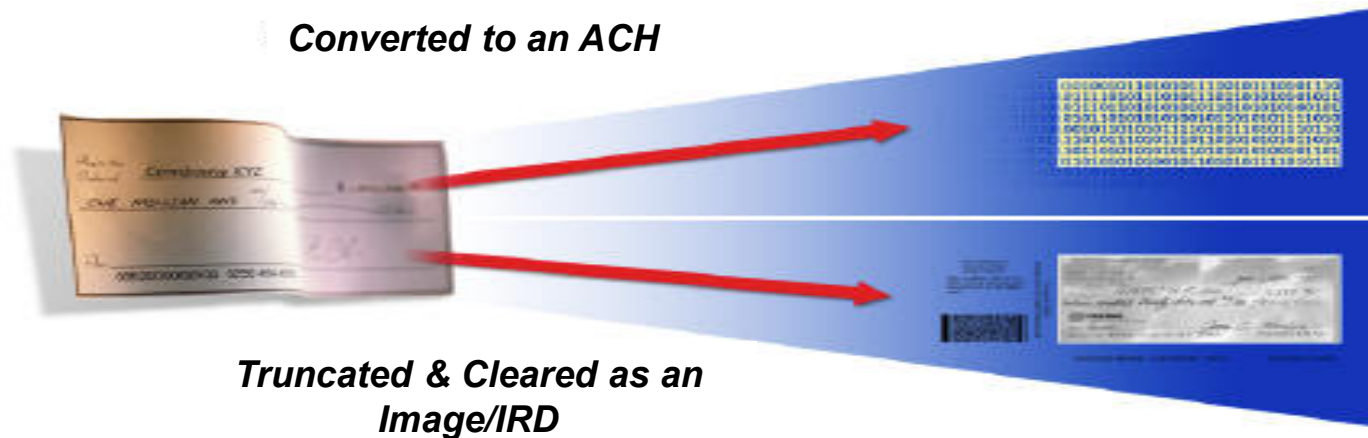


The Riegle-Neal Act of 1994 gave nationally chartered banks the power to branch across interstate lines for the first time since 1927, but limited their ability to acquire another depository institution if their combined deposits would exceed 10% of the nationwide total.



Remote Deposit Capture

- ◆ Check Clearing for the 21st Century Act
- ◆ “Substitute check” authorized
- ◆ Paper reproduction
- ◆ Legal equivalent of the original check

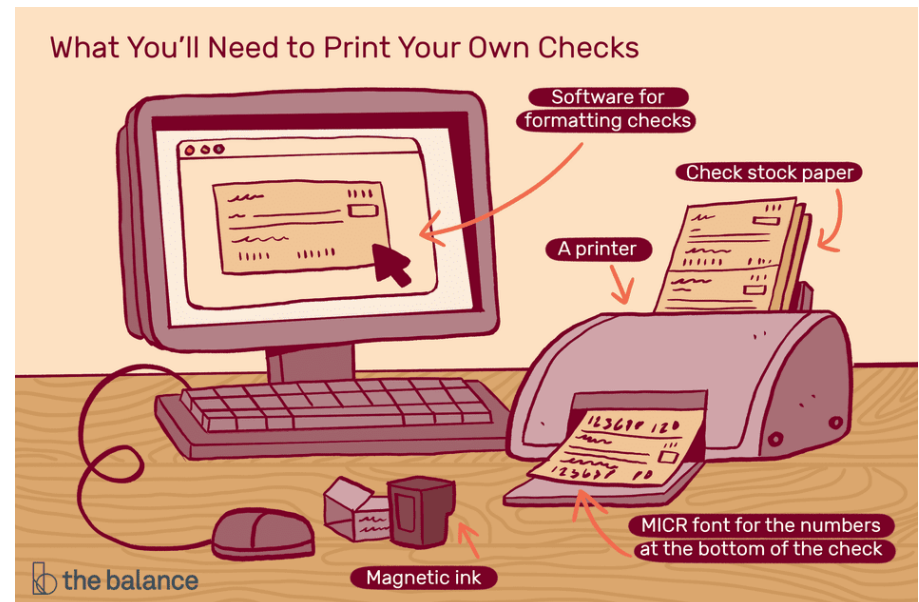


Source: remotedepositcapture.com



Outsourced Check Printing

- ◆ Volume of checks declining
- ◆ Advantages
 - Leveraging the bank's redundancy
 - Lower cost for supplies
 - Postage savings on bulk mailing
 - Focus on core competencies
 - Disaster recovery



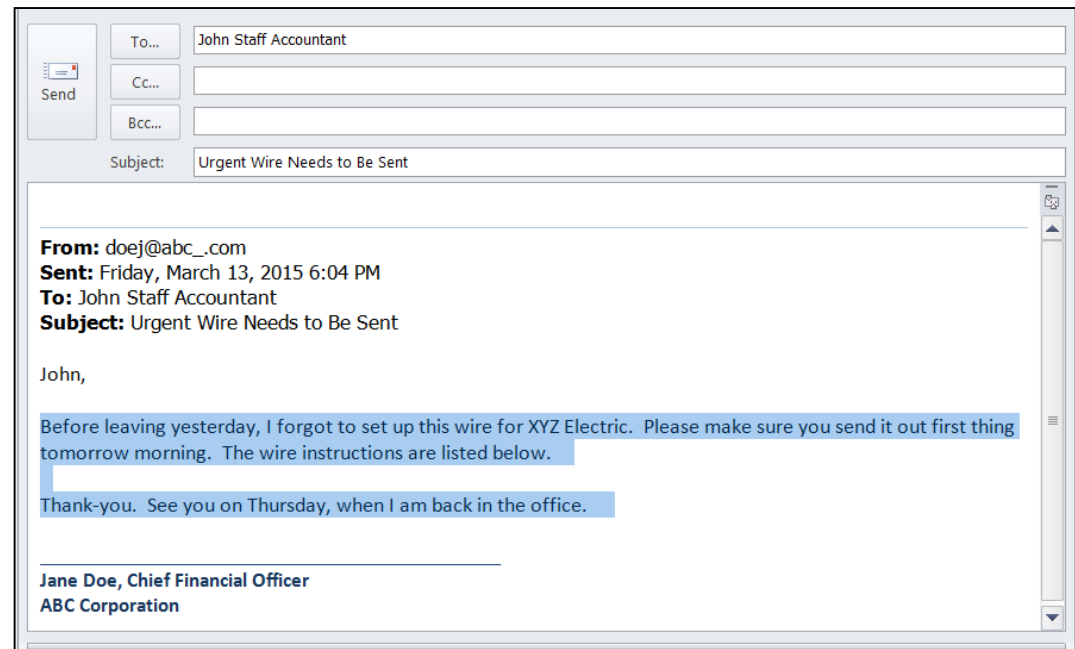


Remote working environment / controls

- ◆ Challenges created by COVID makes “business-as-usual” impossible
- ◆ New / tighter controls may need to be adopted

◆ Impersonator Fraud

- Urgent item needing to be processed
- Immediate transfer of funds (wire)
- Generated from an e-mail account appearing to be legitimate
- Ability to confirm with originator limited (out-of-office, vacation)





ACH Fraud Services

◆ ACH Debit Block

- Blocks all ACH debit activity
- Automatically returns all attempted ACH debits

◆ ACH Control

- Bank provided with list of authorized recurring debits
- Unauthorized debits are blocked & automatically returned

◆ ACH Positive Pay

- Allows individual ACH to be rejected



DETAILS

- ◆ Currently, WEB debit entries are required to use a “commercially responsible fraudulent transaction detection system,” which screen for fraud.
- ◆ New laws will make “account validation” part of this requirement.
 - This entails validating that the correct account number and routing number are entered whenever an account is added or modified.

TECHNICAL

- ◆ This is a modification of the NACHA Operating Rules.
 - Specifically modifying Article Two, Subsection 2.5.17.4.
- ◆ In basic terms, the detection system must at the very least validate the account before debiting it.

IMPACT

- ◆ This is now effective March 19, 2021 instead of January 2020.
- ◆ This can cause a possible re-tooling of ACH Originators’ fraud detection systems.





Account Validation Services

- ◆ Early Warning Services, LLC, is a fintech company owned by seven of the country's largest banks.
- ◆ Account Owner Authentication
 - Ensuring funds are delivered to the right person/entity
- ◆ Matching data of account name, SSN/TIN, date of birth





Polling Question #1

- ◆ Have you been subject to an attempt to change banking instructions by a fraudster?
 - (a) Yes
 - (b) No
 - (c) No, but we heard a colleague has been



Federal Reserve Broadens Tool Kit to Support Markets

● Zero Interest Rates

- Cut rates by 150 bps at two emergency meetings in March

● Asset Purchase Programs

- Unlimited Treasury and agency MBS purchases

● Repurchase Agreements

- Increased amount and term options to primary dealers

● Discount Window

- Decreased rate and extended term of loans

● Bank Regulatory Relief

- Lowered reserve requirement to 0; capital & liquidity flexibility

● Liquidity Support

- Funding for CP, ABS, MMFs, corporate bonds and more

● U.S. Dollar Swap Lines

- Increased access to U.S. dollars to foreign central banks

● Paycheck Protection Program

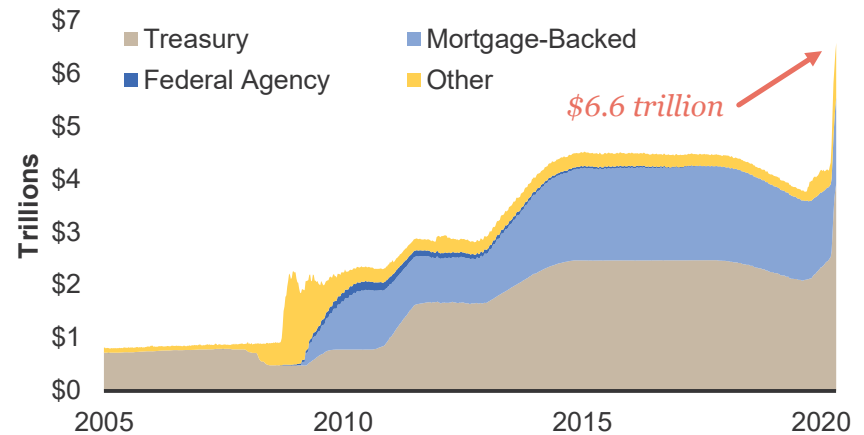
- Support for financial institutions issuing PPP loans

● Main Street Lending Program

- Purchasing loans to small- and mid-size businesses

Source: Federal Reserve, as of 4/23/2020.

Assets of the Federal Reserve

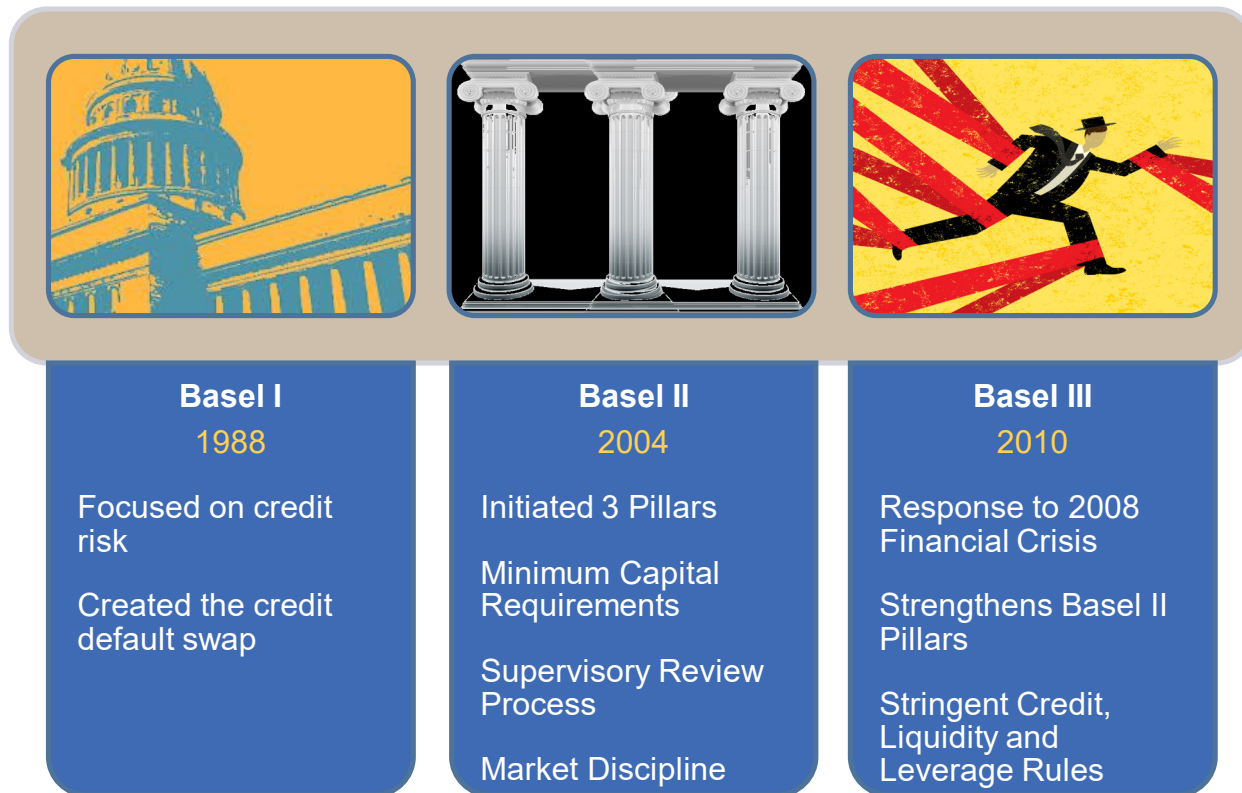


Amount Allocated to Fed's Liquidity Programs	
Facility	Holdings (billions)
Discount Window	\$36.3
PDCF	\$33.4
MMLF	\$50.7
CPFF	\$1.0
PPPLF	\$8.0
Swap Lines	\$409.7
Repurchase Agreements	\$157.5



New International Requirements - Basel III

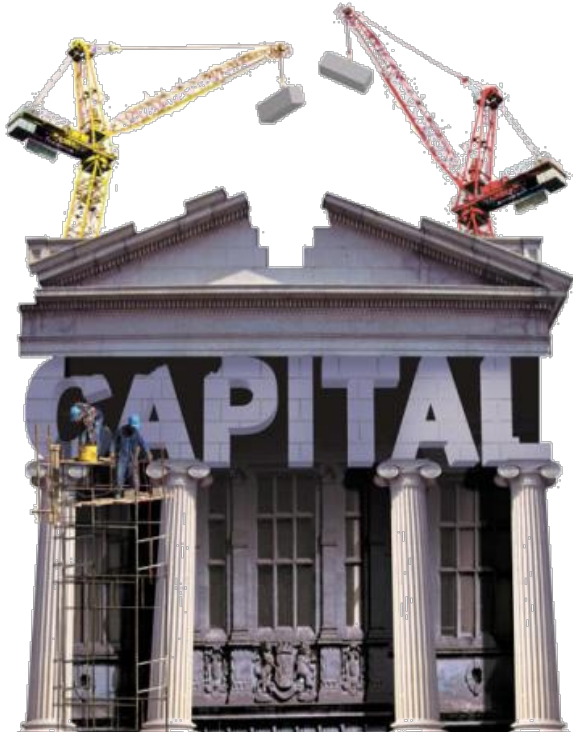
- ◆ Produced by Bank for International Settlements
- ◆ Implemented independently by each nation's banking regulators



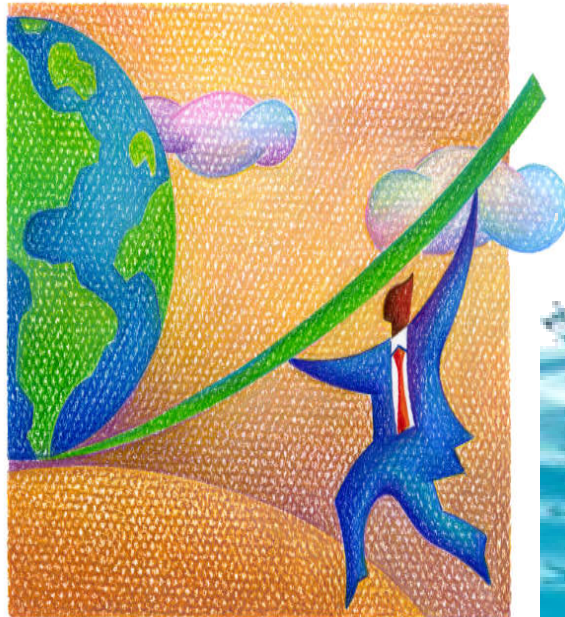


Three Primary Categories

Capital



Leverage



Liquidity





Bank Earnings During the First Quarter

Bank of America

First Quarter 2020
Earnings: \$4.0 billion

First Quarter 2019
Earnings: \$7.3 billion

“In total, we saw a \$67 billion increase in commercial loans due to draws from the commercial clients in the month of March¹.”

J.P. Morgan

First Quarter 2020
Earnings: \$2.9 billion

First Quarter 2019
Earnings: \$9.2 billion

“Since the coronavirus hit the economy hard in March, JPMorgan has facilitated the flow of hundreds of billions of dollars to help its customers bear the blow².”

U.S. Bank

First Quarter 2020
Earnings: \$1.2 billion

First Quarter 2019
Earnings: \$1.7 billion

“Within our corporate payments business, commercial sales volumes declined between 30% and 40% in late March, due to the worldwide impact of the economic slowdown on business spend activity³.”

Wells Fargo

First Quarter 2020
Earnings: \$653 million

First Quarter 2019
Earnings: \$5.9 billion

“Wells Fargo reported a profit of just \$0.01 per share . . . The main reason for the subdued profit . . . is a \$3.1 billion addition to the company’s reserves for loan losses and a \$950 million impairment of securities ‘driven by economic and market conditions’⁴.”

(1) <https://www.fool.com/earnings/call-transcripts/2020/04/15/us-bancorp-usb-q1-2020-earnings-call-transcript.aspx>
(2) <https://www.fool.com/earnings/call-transcripts/2020/04/15/bank-of-america-corp-bac-q1-2020-earnings-call-tra.aspx>
(3) <https://www.fool.com/investing/2020/04/17/5-key-takeaways-from-jpmorgan-chases-q1-earnings-r.aspx>
(4) <https://www.fool.com/investing/2020/04/14/wells-fargo-reports-only-001-per-share-in-q1.aspx>



Paycheck Protection Program

- On March 27, 2020, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a \$2 trillion stimulus package that provides aid to individuals, small and large businesses, state and local governments, and the health care industry.
- The CARES Act allocated \$349 billion to the Paycheck Protection Program (“PPP”) which supports small businesses through the current COVID-19 pandemic by helping them meet payroll, rent and utility expenses. This \$349 billion lasted only 13 days.
- The second round of the Payment Protection Program launched April 27, 2020, and added \$310 billion to help small businesses during the current pandemic.
- As of May 3, 2020, the second round of the program has so far provided over 2.2 million loans worth more than \$175 billion out of the total \$310 billion Congress authorized.
- Bank industry groups say the majority of the \$310 billion is likely already used up given the high volume of applications in the queue.



Reserve Requirement Lowered to 0%

- ◆ Reserve requirement is a monetary policy tool used by the Federal Reserve to increase or decrease the money supply in the economy
 - A decrease in the reserve requirement helps stimulates the economy
 - Promotes the expansion of bank credit
- ◆ The reserve requirement is an amount set aside and cannot be lent
- ◆ The Financial Services Regulatory Relief Act of 2006 gave the Federal Reserve the right to pay interest on excess reserves. Banks started getting paid interest on October 1, 2008.
- ◆ Reserve requirements have been at 10% since 1992 (when they were previously 12%)

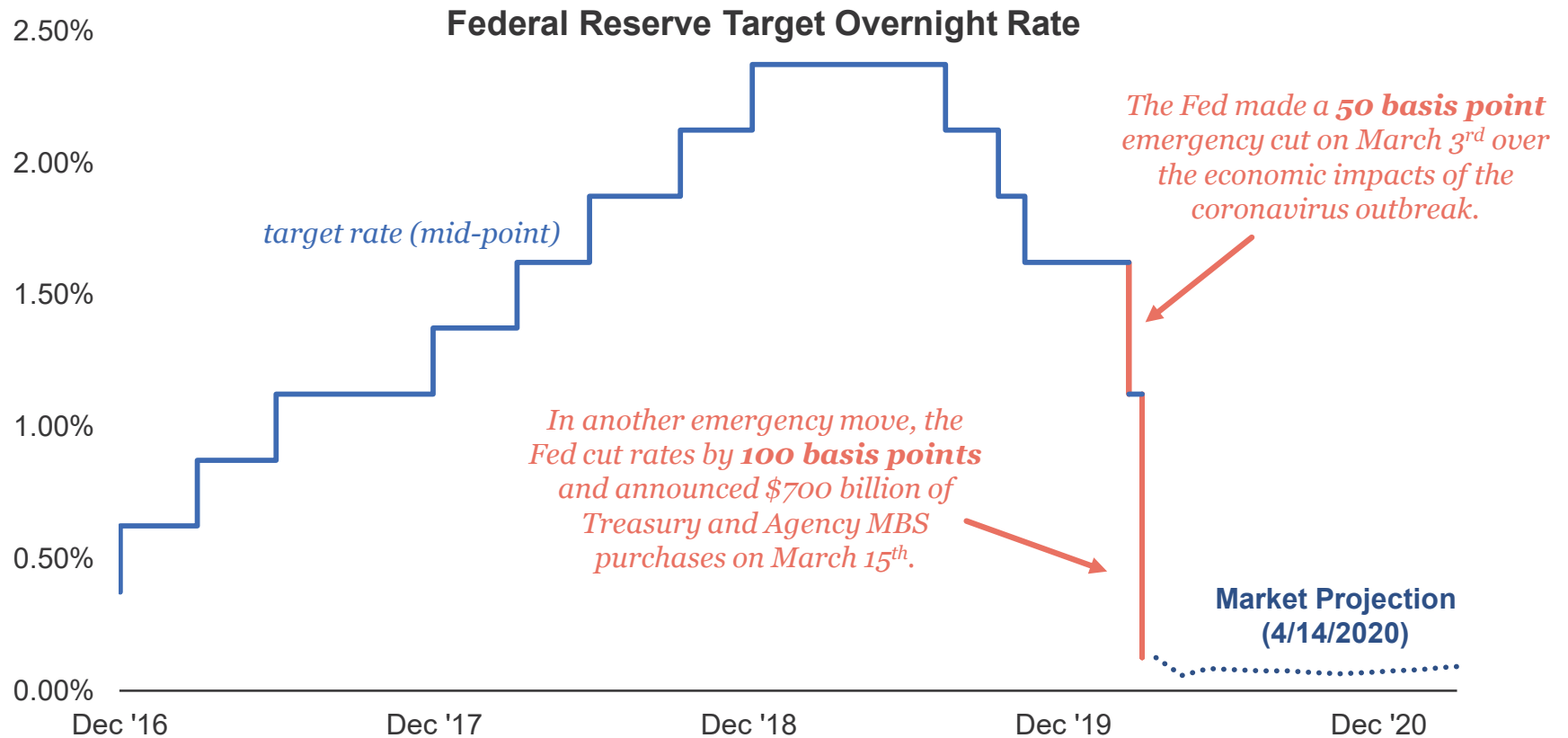




Fed Delivers Two Emergency Rate Cuts in Early March

“A rate cut will not reduce the rate of infection. It won’t fix a broken supply chain... But we do believe that our action will provide a meaningful boost to the economy.”

– Fed Chair Jerome Powell; March 3, 2020



Source: Bloomberg.



Global Negative Yielding Debt Expands to \$12 Trillion



Source: Bloomberg, as of 4/30/20.



Earnings Credit Rates vs. Investment Sweeps

- ◆ Earnings Credit Rates (ECRs) are credits offered by a bank to offset service charges.
 - Credits can typically be only good for paying bank fees and
 - Unused credits expire eventually
- ◆ A DDA balance used to offset fees is a Compensating Balance
 - Also known as “soft dollars”
- ◆ Historically, the rate paid was often pegged to the U.S. Treasury bill rate.
 - The 3-month Treasury bill rate is 0.12% as of May 1st
- ◆ During the financial crisis, banks moved from pegs to managed rates.
- ◆ Most governments pay by a combination of fees and balances





Time for Some Detective Work





How Banks Invoice Fees? Account Analysis Statements

ANALYSIS STATEMENT
 Member FEIC 0162447

GROUP SUMMARY ANALYSIS
 BANK AND COST CENTER NUMBER 495 006040
 DATE PREPARED 09-07-12
 MONTH ENDING 09-30-12
 ANNUAL SETTLEMENT 12-31-12
 SETTLEMENT & ACCOUNT TYPE DEBIT 500
 OFFICER NUMBER 6009
 PAGE 1 OF 42
 OUTSIDE SERVICE: 1.888.490.9009

INVESTMENT SUMMARY

INVESTMENT LEADER BALANCE	0	6,946,325.42
INVESTMENT COLLECTED BAL.		6,946,660.87
LESS SERVICE ENCUMBRMENT		.00
AVAILABLE INVESTMENT BALANCE		6,946,660.86

BALANCE SUMMARY

AVG POSITIVE LEADER BALANCE	0	69,743,979.79
AVG LEADER BALANCE		69,743,979.79
AVG NEGATIVE COLL. BALANCE		3,361,042.87
AVG COLLECTED BALANCE		81,402,437.07
AVG POSITIVE COLL. BALANCE		.00
LESS RESERVES		.00
AVAIL. BAL. FOR EARNING CREDIT		81,402,437.07
AVAILABLE BALANCE REQUIRED		121,419,856.77
NET AVAILABLE BALANCE		49,217,197.70
RES. RESERVE ON NET AVAIL. BAL.		.00
DEFICIT COLLECTED BALANCE		49,217,199.70

EARNING CREDIT SUMMARY

AVAIL. BAL. FOR EARNING CREDIT	0	81,402,437.07
EARNINGS ON AVAILABLE BALANCE		17,326.88
LESS TOTAL SERVICE CHARGES		25,283.39
DEFICIT		8,499.81
PERIOD TO DATE DEFICIT		46,899.29
CURRENT PERIOD SERVICE CHARGE	0	.00

ANALYSIS STATEMENT
 FEIC 0162669

SUMMARY ANALYSIS
 BANK AND COST CENTER NUMBER 495 006040
 DATE PREPARED 09-07-12
 MONTH ENDING 09-30-12
 ANNUAL SETTLEMENT 12-31-12
 SETTLEMENT & ACCOUNT TYPE DEBIT 500
 OFFICER NUMBER 6009
 PAGE 3 OF 42

DATE	SERVICE CHARGE	BALANCE REMOVED
09-07-12	0.00	0.00
09-30-12	66.40	494,964.83
12-31-12	1.40	1,088.08
09-07-12	5.81	27,355.22
09-30-12	100.00	470,992.74
12-31-12	75.00	352,252.01
09-07-12	0.40	114,714.13
09-30-12	78.12	347,910.00
12-31-12	104.78	502,758.04
09-07-12	31.00	144,006.00
09-30-12	178.00	824,193.55
12-31-12	27.79	107,333.58
09-07-12	14.10	79,489.81
09-30-12	18.00	84,776.19
12-31-12	84.13	498,444.52
09-07-12	82.14	384,943.09
09-30-12	31.86	180,205.22
12-31-12	12.00	47,094.78
09-07-12	48.00	234,304.52
09-30-12	1.00	4,000.00
12-31-12	2.00	9,419.35
09-07-12	2.00	9,419.34
09-30-12	38.00	161,290.32
12-31-12	84.50	511,176.58
09-07-12	186.00	494,414.13
09-30-12	300.00	1,460.74
12-31-12	190.00	894,408.71
09-07-12	1.80	8,437.41
09-30-12	12.50	42,360.48
12-31-12	22.50	105,947.74
09-07-12	32.00	141,290.32
09-30-12	84.50	511,176.58
12-31-12	78.00	382,252.01
09-07-12	30.00	141,290.32
09-30-12	40.74	204,041.19
12-31-12	120.00	612,076.78
09-07-12	88.00	373,143.19
09-30-12	44.00	201,419.35
12-31-12	52.00	423,290.32
09-07-12	200.00	943,748.44
09-30-12	72.00	423,290.32
12-31-12	474.14	2,450,798.81
09-07-12	862.48	2,743,271.90

ANALYSIS STATEMENT
 FEIC 0162471

SUMMARY ANALYSIS
 BANK AND COST CENTER NUMBER 495 006040
 DATE PREPARED 09-07-12
 MONTH ENDING 09-30-12
 ANNUAL SETTLEMENT 12-31-12
 SETTLEMENT & ACCOUNT TYPE DEBIT 500
 OFFICER NUMBER 6009
 PAGE 8 OF 42

DATE	SERVICE CHARGE	BALANCE REMOVED
09-07-12	33.00	141,190.32
09-30-12	29.00	120,860.68
12-31-12	892.00	491,754.96
09-07-12	154.00	734,767.08
09-30-12	14,004.00	7,634,714.93
12-31-12	447.50	2,107,890.44
09-07-12	.00	.00
09-30-12	68.00	440,212.88
12-31-12	120.00	47,291.77
09-07-12	30.00	141,290.32
09-30-12	60.00	282,480.64
12-31-12	100.00	423,716.78
09-07-12	78.00	382,252.01
09-30-12	140.74	706,098.68
12-31-12	30.00	141,290.32
09-07-12	40.48	204,041.19
09-30-12	120.00	612,076.78
12-31-12	88.00	373,143.19
09-07-12	44.00	201,419.35
09-30-12	52.00	423,290.32
12-31-12	200.00	943,748.44
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12-31-12	474.14	2,450,798.81
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FDIC Announcement

Caution Regarding Passing Deposit Insurance Assessment Fees on to Customers

FIL-33-2012
July 9, 2012

Printable Format:

[FIL-33-2012 - PDF](#) ([PDF Help](#))

Summary:

The FDIC has become aware that certain insured depository institutions (IDIs) are charging customers an "FDIC fee" or similarly described fee, apparently to compensate the IDI for some or all of its FDIC deposit insurance assessment costs. This Financial Institution Letter (FIL) communicates the FDIC's concerns and expectations when IDIs assess these types of fees.

Statement of Applicability to Institutions Under \$1 Billion in Total Assets:

This FIL applies to all insured financial institutions, including those with under \$1 billion in assets.

Highlights:

- The FDIC has received a number of complaints from depositors stating that IDIs are charging them an "FDIC Fee," "FDIC Assessment," "FDIC Insurance Premium," "FDIC Insurance Charge," or similarly described fee for deposit insurance.
- While IDIs are not prohibited from passing the costs of deposit insurance on to customers, the FDIC discourages institutions from specifically designating that a customer fee is for deposit insurance or from stating or implying that the FDIC is charging such a fee.
- Institutions that characterize fees in this manner may (1) reveal information that could be used to determine an institution's confidential supervisory ratings, (2) mislead customers into believing that the FDIC charges IDI customers or requires IDIs to charge customers for deposit insurance, or both.
- Institutions should review their designation and identification of fees and ensure that those fees do not reveal confidential supervisory information or mislead customers.

Complete Financial Institution Letter:

<http://www.fdic.gov/news/news/financial/2012/fil12033.html>



It is Time to Consider Your Options

	<u>April 2020 Statement</u>	<u>Investment Scenarios</u>	
		<u>Scenario 1 (\$15MM investment)</u>	<u>Scenario 2 (\$20MM investment)</u>
Ledger Balance	\$25,000,000	\$10,000,000	\$5,000,000
Less Average Float	\$0	\$0	\$0
Investment Portfolio Balance	\$0	\$15,000,000	\$20,000,000
Bank Account Collected Balance	\$25,000,000	\$10,000,000	\$5,000,000
Less Reserve Requirement = 0%	\$0	\$0	\$0
Available Balance Eligible for Earnings Credit	\$25,000,000	\$10,000,000	\$5,000,000
<u>Earnings</u>			
Earnings Credit (ECR of 0.25%)	\$5,137	\$2,055	\$1,027
<u>Fees</u>			
FDIC fees @ 0.15% annually	\$3,082	\$1,233	\$616
Net Earnings Credit to Pay Service Charges	\$2,055	\$822	\$411
Net ECR on Collected Balance	0.10%	0.10%	0.10%
Monthly Bank Service Charges (excludes FDIC fee)	\$6,358	\$6,358	\$6,358
Net Balance (Direct Fee Payment)	(\$4,303)	(\$5,536)	(\$5,947)
Estimated Monthly Earnings @0.82%		\$10,110	\$13,479
Investment Earnings Less Bank Fees (monthly)	(\$4,303)	\$4,574	\$7,532
Net Benefit - annualized		\$106,521	\$142,027



Review Your Account Analysis Statement for Unnecessary Services

- ◆ Too many accounts
- ◆ Underutilized services
 - Lockbox processing
 - Controlled disbursement
 - Check cashing fees
 - E-mail notification fees
- ◆ High fees
 - Check processing fees for RDC greater than branch/vault deposits
 - Online reporting



Banking Fees are Elsewhere

Other Banking Services
Merchant Card Processing (i.e. Credit Cards)
Purchasing Cards
Electronic / Integrated Payables
Payroll Card
Institutional Custody
Check Printing
Credit Facilities

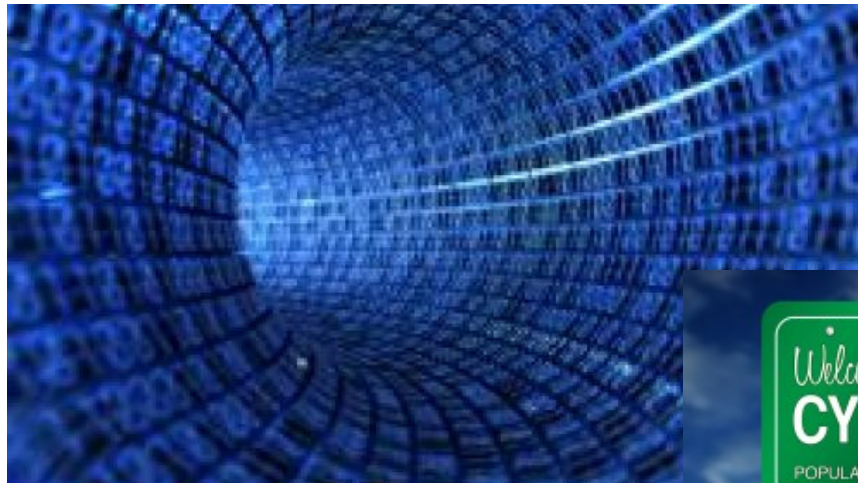


Polling Question #2

- ◆ True / False: It is impossible to generate negative earnings on balances?
 - (a) True
 - (b) False



Expedited Payment Processing

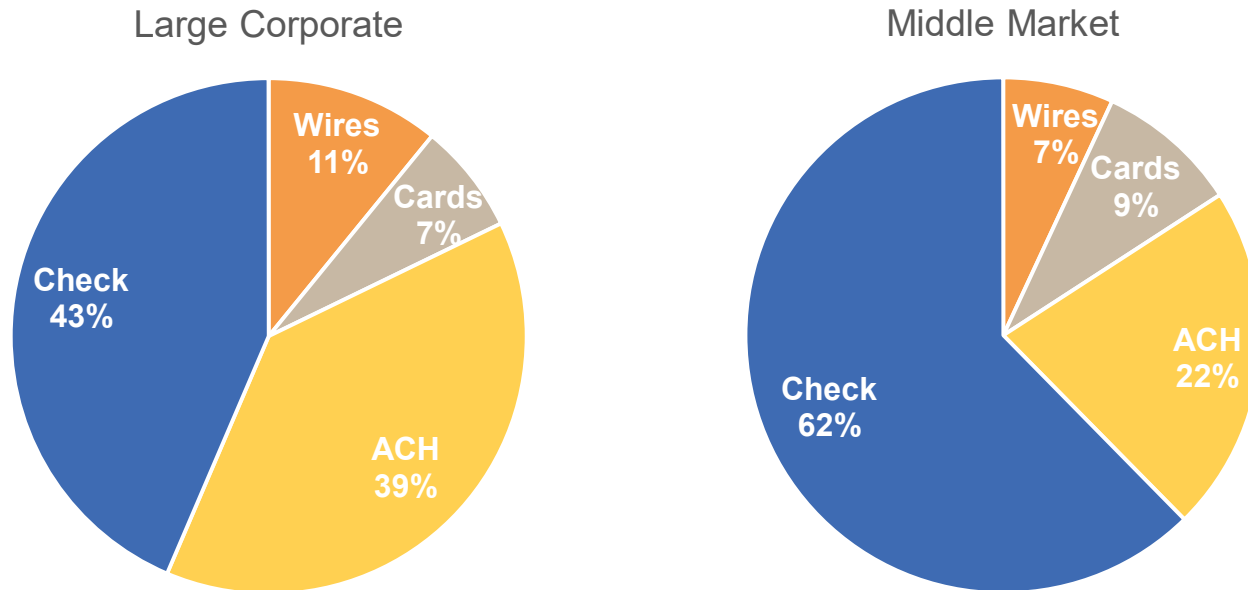




Paper Still Dominates, but Electronic Transactions on the Rise

- Checks continue to dominate the payment industry, however ACH transactions for large corporate institutions have increased from 32% to 39% over the last 5 years.

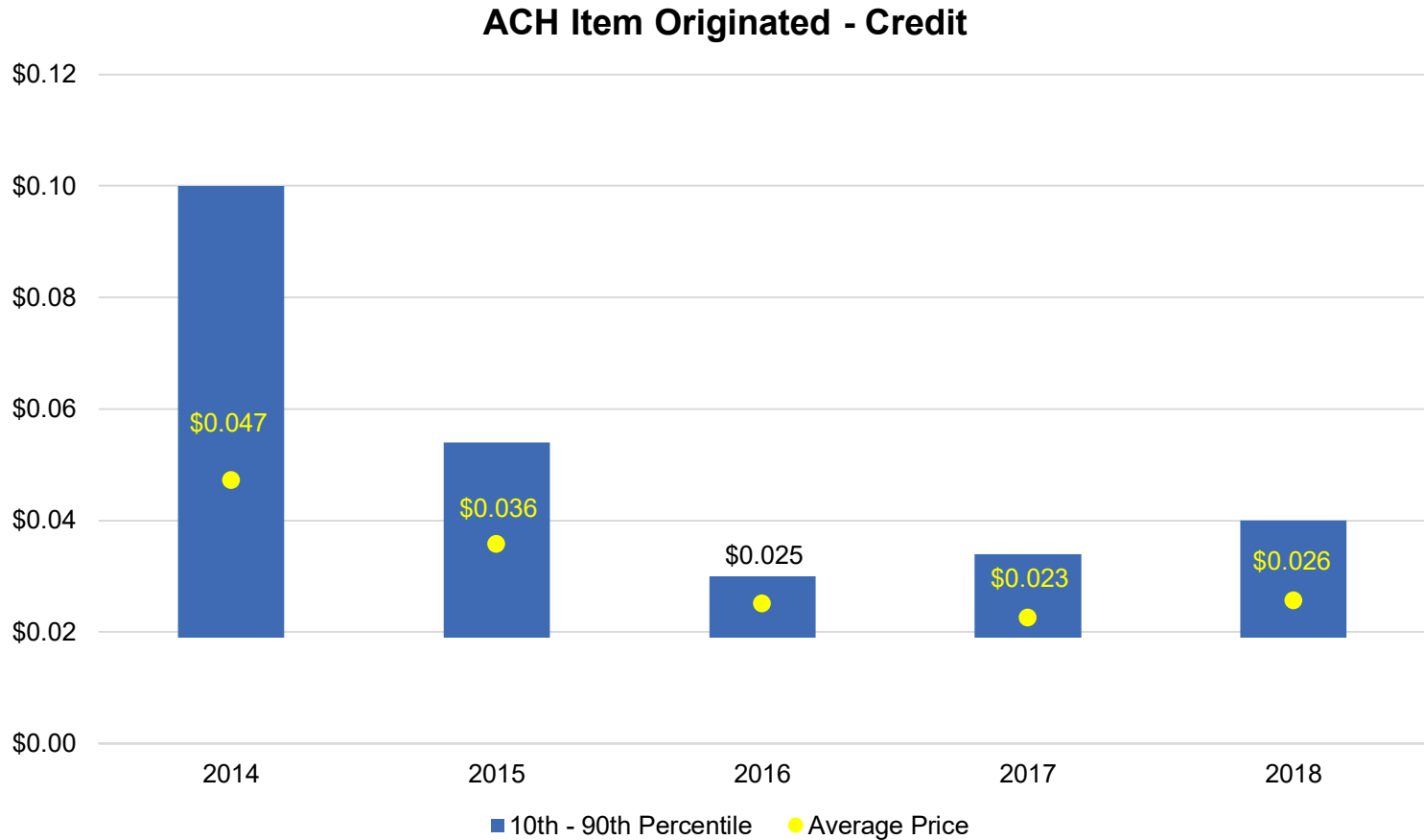
Percentage of Transactions Made by Corporations



Source: Phoenix-Hecht



Costs for Electronic Transactions Declining



Source: PFM Pricing Database. Blue bars represent the 10th to 90th percentile range of bank proposed pricing for competitive procurements up to \$250,000 in annual banking costs.



Same Day ACH

◆ Effective March 20, 2020

- Per-transaction dollar limit for Same Day ACH transactions increased from \$25,000 to \$100,000

Transmission	Deadline	Settlement
Morning	10:30 AM ET	1:00 PM ET
Afternoon	2:45 PM ET	5:00 PM ET

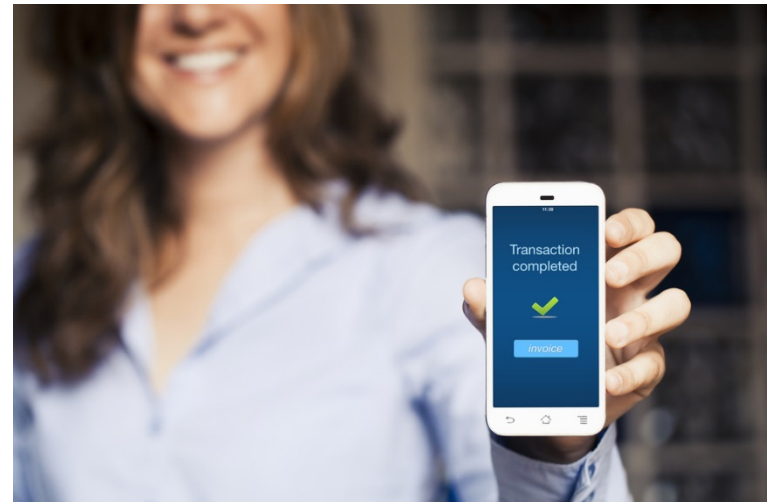
◆ Future Changes

- Effective March 19, 2021: Window for FIs to submit transactions will be extended by 2 hours to 4:45 PM ET, with settlement occurring at 6:00 PM



Digital Disbursements Using E-mails or Mobile Phone #'s

- ◆ Replace business-to-consumer check payments with electronic payment
- ◆ Business-to-person electronic payment using payee's email or mobile phone number
- ◆ Consumers who register with Zelle network can receive electronic payments
- ◆ Benefits
 - Reduce need to store bank account data
 - Less expensive to issue vs. check
 - Faster payments to payee
 - Reduced need to account for outstanding checks





RTP: Real Time Payments

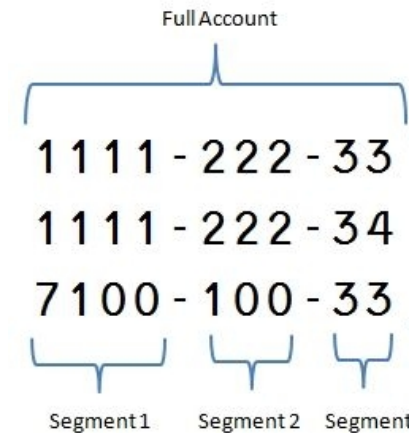
- ◆ First new core payments infrastructure in the U.S. in 40+ years
 - Immediate and irrevocable funds availability, 24/7
 - “Push” payments only; no ability to initiate a debit
 - Intended for B2B as well as B2C payments
 - Includes 2-way messaging functionality (i.e. request a payment and receive a response)
 - Transaction must be less than \$25,000
- ◆ FedNow under development to Compete with RTP
 - Promoting wider availability through Federal Reserve’s existing relationships with 10,000+ FIs
 - \$25,000 transaction limit also applies



Purchasing Cards

◆ Expense Reporting Modules

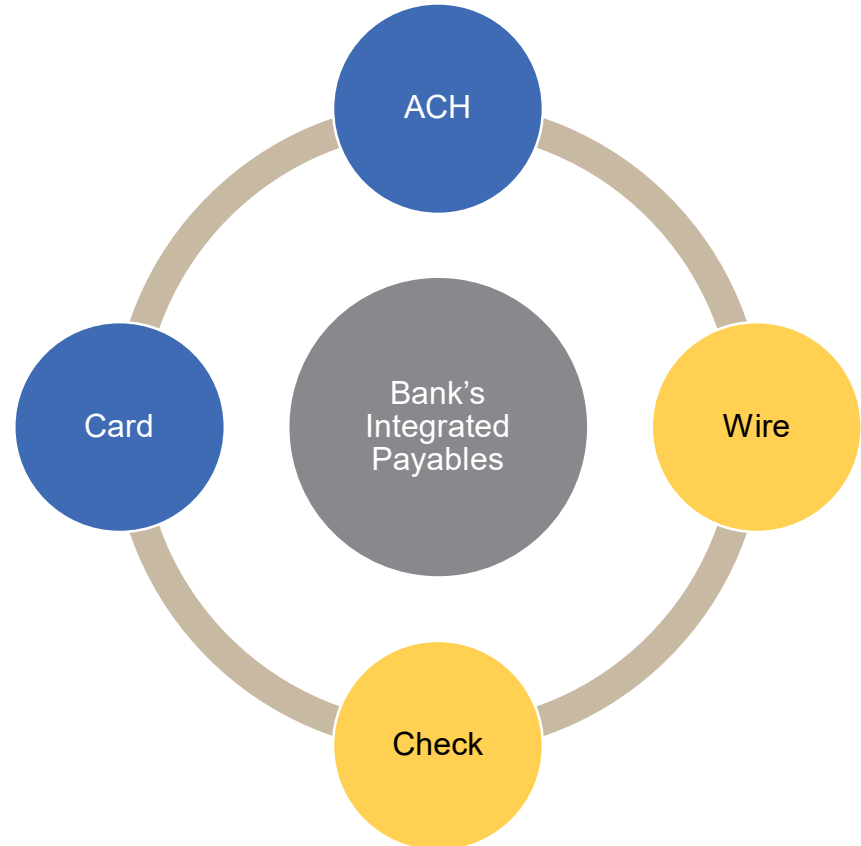
- Reporting customized to your chart of accounts
- Approval process by statement, expense or report level
- Receipt imaging
- *Mobile Applications or mobile friendly websites*





Integrated Payables

- ◆ A bank's Integrated Payables Platform may allow you to pay vendors electronically
 - ACH
 - Purchasing Cards
- ◆ **32.6% of Large Corporate Institutions reported using Integrated Payables, while only 11.3% of Middle Market Institutions reporting using Integrated Payables***
- ◆ Program Differences
 - Ghost cards vs. Single Use Cards
 - Vendor outreach initiatives
 - Vendor acceptance
 - Integration with your ERP system



* Source: Phoenix-Hecht



Vendor Analysis

- ◆ Name of Vendor
- ◆ Vendor address
- ◆ Taxpayer Identification Number (TIN)
- ◆ # of check payments
- ◆ \$ of check payments
- ◆ # of ACH payments
- ◆ \$ of check payments



Mobile Banking

- New mobile features and applications have provided access to essential banking functions such as:
 - Initiation of a repetitive wire
 - Secondary approval of wire transfers
 - Decisioning of Positive Pay items
 - Resetting of a user's password
 - Balance reporting
 - **Replacement of physical token**





Remote Cash Safe

- ◆ Eliminates going to the bank
- ◆ Substitute multiple trips with reduced armored car pickups
- ◆ Improved cash flow
- ◆ Direct communication with your bank
- ◆ Counterfeit detection
- ◆ Cost is \$450 - \$600 per month / per safe, includes armored car pickup costs





How Do I Keep Up With the Constant Changes?

- ◆ Regular meetings with your bankers are key – even when things are going smoothly
 - Make time to engage with your relationship team at least annually
 - Potential Agenda Items:
 - Potential new services/enhancements
 - Training on systems for staff
 - Review of Analysis Charges
 - Interest rate review – don't be surprised by a rate decrease after its too late



Relationship Management

- ◆ Pressure on Relationship Managers to support a growing portfolio of clients
 - Squeaky wheel gets the grease
- ◆ Maintaining a good relationship requires work
- ◆ Best Practices
 - Frequent meetings with your bank
 - Quarterly check-ins; Annual relationship reviews
 - Make sure to review analysis statement
 - Incorporate staff for training opportunities





End of Session Questions

- ◆ Where can a client locate the fees it is being charged for banking services?
 - (a) Monthly Bank Statement
 - (b) Compensating Balance
 - (c) FDIC Call Report
 - (d) Account Analysis Statement

- ◆ What is the primary reason a municipality would be interested in paying its accounts payable vendors by purchasing card?
 - (a) Vendors prefer payments to be received
 - (b) Purchasing cards are easier to administer
 - (c) A rebate is generated
 - (d) All of the work is done by the bank and frees up staff

- ◆ True / False: Banks are in a better financial condition today than during the 2007 – 2008 Financial Crisis.
 - (a) True
 - (b) False



About the Speaker



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David Calvert has been with PFM for over 18 years, specializing in providing treasury consulting services for clients across the country. As a leader of PFM's Treasury Consulting practice, David helps clients identify their banking needs and assists in the time-consuming process of competitively procuring banking services. These engagements typically result in his clients receiving significant cost savings, new and improved services, and greater customer service from their banking partner.



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David Walters has been with PFM for over 12 years, specializing in providing treasury consulting services for clients across the country. As a project manager in PFM's Treasury Consulting practice, David provides clients with an independent analysis of their banking relationships, recommendations for process improvements, and assistance with the competitive procurement of banking services. These engagements typically result in significant cost savings, new and improved services, and greater customer service for his clients.



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