



# Escrow Optimization for Refundings & Defeasances

Are you considering a refunding or cash defeasance transaction? For longer-dated transactions, most bond documents require an escrow to be established to prepay all remaining principal and interest payments. These escrows are complex due to strict permitted investments, extensive regulations, significant documentation requirements, and challenging and dynamic market conditions. However, a thoughtful approach to the escrow investment strategy can enhance your savings while carefully managing risk.

## Our Approach Emphasizes Compliance

As an SEC-registered investment advisor, PFM’s asset management business focuses on documentation and compliance with all applicable regulations and IRS guidelines. Our procurement process is:

- Governed by a comprehensive term sheet that is tailored to each individual transaction and reviewed by bond counsel in an effort to protect our clients
- Conducted via Bloomberg, which enables us to provide written, time-stamped records of the bidding process for tax purposes
- Documented by a bidding agent certificate and final report

## How We Reduce Costs for Clients

Our size and trading volume allow us to provide unique escrow services to our clients, including:

- **Careful Review of Permitted Investments**
  - We identify the available universe of permitted investments and utilize optimization software to help develop efficient portfolio structures
  - Our trading desk uses live pricing feeds from Bloomberg, Tradeweb, and MarketAxess for up-to-the-minute market insights regarding secondary market supply and pricing
- **Security-by-Security Procurements**
  - Each individual security is bid competitively, enabling our clients to fully optimize the escrow structure and seek better pricing than an all-or-none approach (illustrated below)
  - We establish fair market value on each security and provide pricing transparency for bond counsel as well as the corresponding certificates

Security	Maturity	Total Cost				
		Broker #1	Broker #2	Broker #3	Broker #4	Broker #5
TSTRIPS-I	11/15/2013	\$5,919,228.04	PASS	\$5,914,781.40	\$5,914,788.22	<b>\$5,910,143.80</b>
RSTRIPS-I	10/15/2018	\$5,376,921.60	PASS	\$5,364,998.40	\$5,375,420.16	<b>\$5,351,485.44</b>
RSTRIPS-I	4/15/2019	PASS	PASS	\$429,125.76	\$431,313.08	<b>\$427,334.80</b>
RSTRIPS-I	10/15/2019	\$5,198,955.00	PASS	<b>\$5,116,736.85</b>	\$5,133,125.85	\$5,135,311.05
RSTRIPS-I	4/15/2020	PASS	PASS	<b>\$274,886.65</b>	\$284,001.90	\$282,668.70
RSTRIPS-I	10/15/2020	\$5,056,662.00	PASS	\$4,970,567.16	<b>\$4,941,712.23</b>	\$5,018,220.09
RSTRIPS-I	4/15/2021	PASS	PASS	<b>\$133,237.00</b>	\$138,426.60	\$136,840.60
RSTRIPS-I	10/15/2021	\$4,906,075.00	PASS	<b>\$4,840,498.75</b>	\$5,056,851.80	\$5,020,906.30
		<b>\$26,457,841.64</b>	-	<b>\$27,044,831.97</b>	<b>\$27,275,639.84</b>	<b>\$27,282,910.78</b>
	<i>Difference:</i>	<i>N/A</i>	<i>N/A</i>	<i>\$(48,796.45)</i>	<i>\$(279,604.32)</i>	<i>\$(286,875.26)</i>
	<b>Total Cost</b>	<b>High/Low Cost Diff.</b>	<b>Avg./Low Cost Diff.</b>	<b>Best Dealer/Act. Cost Diff.</b>		
	<b>\$26,996,035.52</b>	<b>\$466,324</b>	<b>\$230,757</b>	<b>\$48,796</b>		

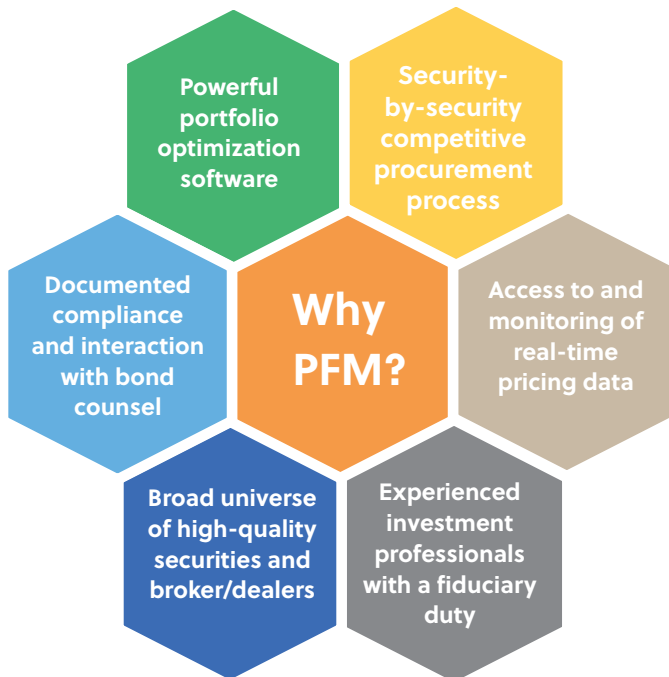


● **Real-Time Market Analysis**

- We constantly monitor the relative value of U.S. Treasury Securities, State and Local Government Series (SLGS) versus the permitted universe of open-market securities
- Our approach is flexible and dynamic so that we can re-optimize the escrow structure throughout the day depending on market conditions

**We Want to Help Optimize Your Escrow Investments**

Since 2006, our dedicated structured products group has structured more than 2,175 defeasance escrows for \$207.6 billion of related assets on behalf of a wide range of issuers. We work closely with clients and their attorneys to develop defeasance escrow strategies that are both cost-effective and compliant with all applicable regulations. We welcome the opportunity to discuss our escrow structuring and procurement services with you in more detail.



**PFM: A Market Leader**

- SEC-registered investment advisor
- Professionals with more than 35 years of experience
- Focus on the public sector and other institutional clients
- \$152.6 billion in total assets
- \$113.4 billion in discretionary assets under management
- \$39.2 billion in non-discretionary assets under advisement
- Sizeable market presence and resources to support investor needs

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All data, unless otherwise indicated, is as of March 31, 2020.