

MINUTES OF THE CITY'S INVESTMENT MANAGEMENT COMMITTEE

A meeting of the City's Investment Management Committee was held in the 6th floor conference room of Norfolk City Hall starting at 12:02 p.m. on April 23, 2025. In attendance, in person, were Committee members: Deputy City Manager Doug Beaver, City Treasurer Daun Hester, Norfolk resident Henry U. (Sandy) Harris, III of Cerity Partners, Director of Finance Christine Garczynski, Acting Director of Budget and Strategic Planning, Pamela Marino and Chief Deputy City Attorney Adam Melita. Also present in person were Senior Cash and Investments Analyst Henry Chong, Scott Fleming, Allison Corbally, and Jack Schnorbus of PFM Asset Management, and remotely via meeting service, Nelson Bush of PFM Asset Management (PFMAM).

C. Garczynski presented the minutes from the March 20, 2025, meeting, which were reviewed by the Committee. A motion to approve the minutes was made by C. Garczynski and seconded by D. Hester. The motion was passed unanimously by acclamation vote.

C. Garczynski reviewed the March 31, 2025, Flash Report of the City's cash and investments, which showed total funds of \$613M, including \$33M in cash. The report indicated that \$5.6M was earned from interest on cash, LGIP funds, and managed funds from January through March 2025. Higher tax revenues are expected to be received by the City during the next quarter, which historically peaks towards the end of the fiscal year. LGIP earnings were strong. The City's investments are well diversified.

On April 22, 2025, \$15M was moved out of LGIP to PFMAM for the purpose of investing in certain mortgage-backed securities.

S. Fleming stated that the slide packet was prepared on April 9, 2025, but things are moving fast, with the President's "liberation day" tariff date of April 2nd. While there is a 90-day pause on tariffs in effect, there are 76 days left. "Reciprocal" tariffs of 10% are already in effect now.

The materials at tab I of the slide packet mostly reflect Q1 conditions. The labor market looks good. Some inflation is showing, and there is talk about the uncertainty of tariffs. The Fed dot plot expects two (2) rate cuts this year. The market expects three (3) cuts. Significant policy changes are generating considerable uncertainty. There is no hard data on tariff effects yet, but we are seeing a flight to quality and safety.

P. 5 of the packet presents information about consumer sentiment decreasing (lowest since 1978). Inflation in April is expected to be 6.7%. It is recalled that 2/3 of GDP is driven by consumer spending, indicating the Fed has its work cut out for it still.

S. Harris asked about the negative effect of the current tariffs in other countries.

A. Melita asked about the expiration timeline for “Trump” tax cuts [Tax Cuts and Jobs Act], and S. Fleming stated that the issue of extending those cuts will likely not be resolved for 6-9 months as they are scheduled to sunset at the end of 2025. N. Bush noted that current rhetoric from the U.S. President is a desire for more tax cuts, without saying where or how that would be done.

S. Fleming reviewed p. 7 of the packet and the U.S. trade imbalance, which shows a huge, sudden surge in imports to try to beat the tariffs. Exports and GDP are expected to drop. The International Monetary Fund (IMF) recently stated that there is a 37% chance of a recession over the next year, revised upward from 25% initially. However, PFMAM does not see that coming to pass right now. It is looking at a forecast of 0% or negative GDP for a few quarters, down from a 2% per year forecast previously.

Review of p. 8 of the packet shows goods inflation at 2%, which is rarely seen. March inflation was at 2.8%. Unemployment at 4.2% for March is still below average. PFMAM is now getting questions about the effect of DOGE (Department of Government Efficiency), and is expressing an opinion that it might cause localities volatility, but not a massive effect on the labor force.

S. Harris asked about Norfolk’s unemployment. It is 3.8%. J. Schnorbus stated that total U.S. federal workforce layoffs are 4,000 as of right now. Virginia has actually added jobs since the last labor report. He asked if Norfolk has any intel about federal workers. D. Beaver pointed out that the manager of the City’s CSRM (Coastal Storm Risk Management) project took an early buyout and left. C. Garczynski pointed out that some buyouts do not go into effect until fall 2025, which is when we may see the true impact on unemployment.

Review of p. 10 of the packet showed not much change in reporting on the Fed since the release of the minutes on April 9, from the last Federal Open Market Committee (FOMC) press conference of March 19, 2025. The Fed is saying there will be 2 rate cuts this year. Next Fed meeting is May 6.

P. 12 of the packet summarizes the Fed’s economic projections. GDP has been revised down from 2.0% growth to 1.7% for 2025. S. Fleming pointed out the continuing slowing in growth while inflation is increasing, raises the question of stagflation.

P. 13 of the packet shows that the flight to safety and quality cause a decrease in the U.S. Treasury yield curve. The 10-year is at 4.21%; 30-year is at 4.57%. P. 14 shows volatility. P. 15 shows corporate bond ratings (just according to Moody’s, not other rating agencies). 14 states are AAA rated, including Virginia.

N. Bush reviewed p. 18 of the packet. PFMAM’s outlooks have generally gotten better, particularly for corporate securities. It is looking to add mortgage-backed securities. However, that would happen slowly and only as the spreads widen adding sufficient yield, since they are sensitive to interest rate

changes and the outlook has slightly decreased. P. 20 of the packet shows U.S. waning economic growth and financial conditions.

S. Fleming reviewed the investment portfolio. P. 22 shows \$212M in market value with a nice maturity distribution: 46% in the 1-2 year maturity range, and the bulk of the remaining in 2-3 yr (32.5%) and 0-6 months (21%) maturities. P. 24-25 shows the City is following policies that prioritizes diversification across various investment classes and issuers. P. 27 provides an overview of the Operating Fund portfolio and p. 28 provides return information for the portfolio, which is on the benchmark (above since inception with and without fees). P. 31 reviews the SWIFT account. S. Fleming stated that it makes sense to stay diversified on duration since we don't know where the markets are going in the future, or when. P. 35 shows long-term investments with a 4.25% yield, and p. 36 shows that returns are off for the 1 Year, running at 5.20%, which is below the benchmark of 5.43%.

A. Corbally reviewed tab IV of the packet, stating that the operative term for investment strategy and performance generally is "incertitude." P. 40 provides a market summary showing that, at the close of the quarter, all U.S. equity markets were in the red. The S&P in 2023 and 2024 were in the double-digits, largely thanks to the Magnificent 7. For 2025 Q1, the Magnificent 7 are down 15%. Nine of 11 S&P sectors were flat or positive. We are now seeing increasing returns in international equity. The market liked the German strategy to invest in infrastructure. There has been some success in Japan and Q1 in China was better. Investors are staying in international equity for the diversification.

A. Corbally reviewed fixed income returns, looking at p. 41 of the packet. The top 10% of earners account for 50% of consumer spending. Recently there have been some signs of increasing defaults in mortgages and loans.

D. Beaver asked why inflation is not showing as a negative projection on p. 41. Market summary shows inflation as "neutral." A. Corbally answered that that forecast is being reviewed right now, and that this projection was done back in March.

P. 42 of the packet shows no change in the current investment strategy outlook over the last quarter. Not recommending any trades in U.S. or international equities. With the incertitude right now, PFMAM does not want to move. No rebalances and no major trades are being considered other than to take the REITs out.

S. Harris stated that he thinks it is wrong to be overly bearish, saying it is important to acknowledge how well-run U.S. corporations generally are, particularly because of developments in artificial intelligence.

A. Corbally reviewed performance of the pension funding trust (on p. 43 of the packet), noting a return of 2.36% since inception, which is well below the benchmark. As shown on packet p. 46, asset

allocation is spot on the City's policy. Investments in REITs were transitioned into emerging markets. As shown on packet p. 52, the Pension Trust Fund is doing well.

S. Harris stated that this is a good report card. H. Chong stated that the dollar's value is dropping and asked about carry trades. He has seen information showing that corporate credit spreads are widening. A. Corbally stated that she has no information on carry trades and that no changes are planned to adjust strategies related to corporate credit investments.

The next meeting of the Committee is scheduled for July 21, 2025. S. Harris said that he will attend that meeting remotely.

The Committee adjourned at 1:22 p.m.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Adam Melita', with a stylized flourish at the end.

Adam Melita
Acting Secretary