

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 12:01 p.m. on August 25, 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, Director of Budget and Strategic Planning Charles Meek, and Chief Deputy City Attorney Adam Melita. Also present in person were Assistant Director of Budget and Strategic Planning Pamela Marino, and Senior Cash and Investments Analyst Henry Chong. Representing PFM Asset Management (PFMAM) were Scott Fleming, Allison Corbally, Jack Schnorbus, and Nelson Bush.

C. Garczynski presented the minutes from the April 23, 2025, meeting, which were reviewed by the Committee. A motion to approve the minutes was made by D. Hester and was seconded by S. Harris. The motion was passed unanimously by acclamation vote.

C. Garczynski reviewed the June 30, 2025, Flash Report on the City's cash and investments, which showed total funds of \$652M, including \$64M in cash. The report indicated that \$6.7M was earned from interest on cash, LGIP funds, and managed funds from April through June 2025. The City has adequate liquidity with revenues coming in at \$39M higher than last quarter-ending March 31, 2025. This difference is primarily due to increased tax revenues and additional drawdowns of bond proceeds. However, this balance is expected to decline in October as the City addresses its debt service needs and meets operational expenses.

S. Harris inquired about any anticipated unusual expenses, and C. Garczynski confirmed there have been none. However, she cited examples of unbudgeted unexpected expenses, such as weather events like a hurricane or large leave payouts from a significant number of employees leaving the City.

Of the \$361M in LGIP funds, 27% are restricted and 73% are unrestricted. Page 2 of the Flash Report shows all investments are within state code and adopted City policies.

J. Schnorbus reviewed current market themes in the packet prepared by PFMAM, dated August 25, 2025 (73 pages), and distributed to all Committee members at the meeting. J. Schnorbus stated that a major theme is high volatility, with tariffs playing a big part. Packet p. 5 indicates effective tariff rates are about 18% right now. There is not an agreement with China at this time, with the stated deadline pushed back to November.

Tariff revenue is an element of fiscal policy. U.S. is looking at a \$3.3T increase to its fiscal deficit over the next 10 years. It is possible that, over time, increased GDP and increased tariff revenues will reduce this deficit. Packet p. 6 shows the relationship between the deficit to GDP. It was noted that the National Debt hit \$37T just last week.

Moody's recently downgraded the credit rating of the U.S., along with several banks and insurance companies tied to the U.S. government, with more information on Packet p. 7. N. Bush stated that the market largely ignored the downgrade. However, N. Bush reminded the committee that downgrades for some businesses could result in increased borrowing costs for those businesses going forward. The rate for the 30-year treasury note is only 25 basis points below its high, and the rate for the 10-year note is only 75 basis points below its high.

J. Schnorbus reviewed inflation data on Packet p. 8, including CPI reports. CPI is cooler than the last report, but still above the Fed's target of 2%. Inflation in shelter and transportation are still high. On unemployment, the revisions made for May and June were the big story, showing that job growth may be slowing, and people are more stagnant in their jobs. Packet p. 10 shows technical aspects of the downward revisions to payrolls.

N. Bush stated that the market is somewhat alarmed that, perhaps, the Bureau of Labor Statistics (BLS) data might not be trustworthy. If one does not trust this data, how does a market participant adjust. He agreed that it is a challenge, and that one solution might be to simply wait longer, with the hope that, when the statistics come in, they will be more trustworthy. The poor response rate to the initial BLS surveys that are sent may explain the need for such significant revisions, after later information comes in from surveys with a better response rate.

J. Schnorbus discussed GDP, showing a strong Q2 report, particularly in personal consumption. For example, Walmart reported an increase in spending and Amazon Prime doubled.

S. Fleming addressed monetary policy. Packet p. 13 information about the Fed's Updated Summary of Economic Projections was reviewed, and there were no fireworks at its 2nd Q2 meeting. The Fed may be stuck between a rock and a hard place to decide which mandate to protect, either the inflation target or the health of the labor market. There were two dissenters to the rate cut, which was the first instance of that occurrence in 32 years. Economic growth in Q1 and Q2 was "tepid," according to the Fed minutes. The meeting in Jackson Hole, WY on August 22nd was understood by the market to mean a cut is coming in September. N. Bush stated that one could take the statement to mean different things. What kind of inflation is the Fed worried about? Goods? Service pricing (which are all non-retail purchases)? When will the economy feel the impact of tariffs? There was a big drop in GDP in Q1 that was due to a spike in imports ahead of tariffs, but that has since tapered off. Increased prices are coming.

C. Garczynski asked if N. Bush sees shelter costs coming down. N. Bush stated that it depended on the marketplace. Yes, for example, in Austin, Texas, where there is quite a lot of building going on. However, prices are not dropping in areas where there is no building going on. Perhaps if mortgage rates drop, there might be a change. C. Garczynski asked if PFMAM is thinking that a 0.25% cut or a 0.50% cut as some in the market anticipate. N. Bush answered, they believe the cut will be 0.25%.

S. Fleming reviewed data on Packet p. 15, indicating the market thinks there is a 70%-90% (call it 85%) chance of a 0.25% cut. The chance of two cuts this year is "a coin flip." Packet p. 16 shows large swings in the treasury market. Packet p. 17 shows the latest U.S. Treasury yield curve.

S. Harris observed that the market reaction has been dramatic and that it has been very hard to make a long-term decision. It is hard to say that the Committee should change anything at this point, since there is fear out there. He is concerned that, in 20-30 years, the dollar may not be as important as it is now. N. Bush noted that the rise of Bitcoin and crypto is extraordinary. There is no movement in Virginia to allow investing in these currencies, but Texas recently allowed governmental entities to invest in it. D. Hester responded to a question about who pays swipe fees and confirmed that the expense most often is passed on to the taxpayer/customer.

A. Melita asked if crypto transactions are costless or is it just the case that those accepting crypto are not imposing a fee right now. N. Bush says it depends. Different coins and retailers are doing it differently right now.

C. Garczynski asked if any government in Texas is investing in crypto. N. Bush reported that, to date, he has received one inquiry. S. Harris mentioned that the Committee should investigate, as information, which major corporations are embracing crypto. H. Chong stated that Tesla is holding large reserves on its balance sheet in the form of crypto. S. Harris asserted that we need to talk about crypto now, so that when the time comes to be able to invest, we are prudent in our contingency plans.

S. Fleming reviewed the outlook for Q3. Analysts are still seeing value in the credit sector (commercial paper) but not seeing yield in Federal Agency investments. The supply-demand dynamics for municipal bonds are currently off-kilter and not looking favorable. However, corporates have strong fundamentals, and PFMAM is still buying them. N. Bush brought up mortgage-backed securities, noting that agency pass-throughs do not have attractive yields right now. With ongoing talk in the news about privatizing Fannie Mae and Freddie Mac, the suggestion is that they will still be "implicitly" backed by the Federal government.

N. Bush discussed the performance of the City's portfolios. All investments are within City policy. Packet p. 30-31 shows data on the operating portfolio, which is in line with the benchmark. Performance over the past month and year was "decent." The SWIFT fund portfolio is similar to the Operating fund, and both have a fair amount of commercial paper.

C. Garczynski informed the Committee that the SWIFT funds would be collapsed into the Operating fund within the next two months.

Packet p. 38 shows a snapshot of the City's Long -Term investment portfolio. 80% of the portfolio are invested in U.S. Treasuries with 90% of that allocation in a 1-3 year strategy. The average duration is

1.75-1.85 years. The portfolio returns beat the benchmark on both the gross and the net. Packet p. 40 shows growth that is great to see. S. Fleming noted, on Packet p. 40, that this is the first time the Long-Term portfolio earned over \$1M in a single quarter.

A. Corbally reviewed the Pension Trust Fund portfolio. For new Committee members, she recapped what PFMAM (formerly PFM) was asked to do in 2021 for this fund. The goal was to get 5% growth per annum for this portfolio, while minimizing volatility and increasing resilience. Packet p. 42 covers the equity markets for Q2. The markets crossed into bear territory in Q2 due to equities quickly dropping after the tariff "Liberation Day" and then quickly rebounding after the imposition of tariffs was paused. PFMAM sees corporate fundamentals as strong. 85% of the S&P companies are at or above their earnings targets.

The concern for U.S. equities is valuation: they might be too rich. Non-U.S. equities did well, in part due to weakening dollar. We expect values in July to go up. In the passive portfolio, PFMAM is taking a defensive approach, using the 50-50 exposure strategy. Information shown on Packet p. 52 is for the Norfolk Pension Trust Asset Liability portfolio that is drawn upon for pension payments. Those withdrawals will occur through 2031.

S. Harris asked if the Committee should be looking at private equity/debt. N. Bush answered, probably not, due to lock-up periods that decrease the liquidity in those assets. A. Corbally reminded the Committee that the conversation in 2023 was to move to a conservative approach to eliminate problems caused by volatility whiplash. She noted that PFMAM could do a model portfolio to see what it would look like with some of these other asset classes, using more liquid versions such as REITs.

C. Garczynski expressed a more conservative stance, highlighting that the liquidity issue is a significant hurdle. She also noted that the Norfolk Retirement Board was considering it, but that they had a longer term mandate. S. Harris emphasized the obligation to act if we see an opportunity arise. A. Corbally suggested including a Q3 table in the materials prepared for the next Committee meeting.

C. Garczynski asked if PFMAM would consider shifting funds between the two pension fund accounts. A. Corbally answered that that is a question that would be forwarded to Floyd Simpson.

The next meeting of the Committee is scheduled for October 20, 2025.

The Committee adjourned at 1:19 p.m.

Respectfully submitted,



Adam Melita
Acting Secretary