

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 12:00 noon on October 20, 2025. In attendance, in person, were Committee members: Deputy City Manager Doug Beaver, Norfolk resident Henry U. (Sandy) Harris, III of Cerity Partners, Director of Finance Christine Garczynski, and Chief Deputy City Attorney Adam Melita. Also present in person was Senior Cash and Investments Analyst Henry Chong. Representing PFM Asset Management (PFMAM) in person, were Scott Fleming, Allison Corbally, Jack Schnorbus, and Nelson Bush (remote).

C. Garczynski presented the minutes from the August 25, 2025, meeting, which were reviewed by the Committee. A motion to approve the minutes was made by S. Harris and was seconded by D. Beaver. The motion was passed unanimously by acclamation vote.

C. Garczynski reviewed the September 30, 2025, Flash Report regarding the City's cash and investments, which shows total funds of \$579M, including \$123M in cash. The report indicates that \$5.8M was earned from interest on cash, LGIP funds, and managed funds from July 1 through September 30. On October 1, the PFMAM SWIFT account was collapsed into the City's PFMAM Operating portfolio and the SWIFT account was closed. She stated that the City was in a healthy financial position. End of month balances for PFMAM funds, LGIP funds, and cash are shown at the bottom of the Flash Report. Funds are somewhat higher given quarterly tax receipts due September 30 and an LOC draw of \$110 million used to reimburse the City for capital expenditures that were being cash fronted in advance of the October 15, 2025, bond issuance. The City is also continuing to utilize the line to take advantage of arbitrage opportunities, as the rate we pay on the line remains below the reinvestment rate.

J. Schnorbus reviewed current market themes in the packet prepared by PFMAM, dated October 20, 2025 (85 pages), which was distributed to all Committee members at the meeting. The comments on P. 4 of the packet do not cover the government shutdown period. As of the day of this meeting, the government shutdown is on day 20 and is ongoing. He reported that 200K federal workers had been furloughed and reported that the Congressional Budget Office had estimated the impact of the shutdown on the GDP to be \$7-\$15 billion per week. Typically, 70%-80% of losses during a shutdown are recovered later.

J. Schnorbus stated that the labor market is showing signs of cooling. A review of tariff revenues shows them approaching \$30B per month. Those funds go into the U.S. Treasury

and are fungible. Over 10 years, this could result in \$2-\$3 trillion. The effective tariff rate is 17.4%. Tariff pass-through rates appear to be minimal. P. 7 of the packet shows core inflation statistics. It is hovering around the 2% target rate. If the government remains closed, CPI (Consumer Price Index) data might be used to track inflation since PCE (Personal Consumption Expenditures) will not be available.

P. 8 of the packet shows that job growth is almost stagnant, with unemployment at 4.3%. Two major factors influencing this trend are artificial Intelligence and immigration. There are job gains in health care services, due to increased demand from an aging population. By 2030, the U.S. will have more people over 65 years old than under 18, a demographic shift unprecedented in the nation's history. Private data show low hiring and low firing activity, indicating a lack of growth. P. 9 shows a GDP projection that is good but not fantastic. Much of this growth depends heavily on consumer spending habits, underscoring the importance of household confidence and disposable income in sustaining economic momentum.

S. Fleming discussed the Fed. The first rate cut in 2025 was in September. The Fed is currently flying blind and in limbo, since data is limited and changes in membership. P. 11 shows members classified as "hawks" who are focused on inflation and favor a restrictive approach, and "doves" who focus on employment and favor lower rates. The middle row of the table on P. 11 has no label but should be labeled "Voting Districts". Right now, the Fed is projecting two additional cuts in October and December. PFMAM thinks the market is pricing in an October cut. The projection for 2027-2028 is just one rate cut.

P. 16 shows volatility in the 2-Year Treasury yield, with rates trending downward as the Fed signals further cuts. P. 17 shows current 2-Year Treasury rates compared to historical averages. Rates are still above historical levels. P. 18 shows the U.S. Treasury Yield Curve. D. Beaver asked whether the Fed would proceed with a December cut if government data remains unavailable. S. Fleming responded that while the Beige Book and anecdotal data would still be accessible, decision-making would be more challenging. N. Bush added that CPI reporting continues because it supports Social Security, which is exempt from furloughs. Additionally, large companies provide substantial anecdotal data.

S. Fleming reviewed P. 21 and noted economic headwinds impacting the Fed's dual mandate, including abysmal non-farm payroll numbers. One positive is the resilient consumer, and their growing spending habits from the start of 2025, though year-over year figures are down.

Macroeconomic issues were reviewed on P. 22. Inflation and labor markets trends over the next 6-12 months are tilting to negative. C. Garczynski asked if PFMAM has ever assessed the accuracy of the data plots from a historic perspective. S. Harris asked if we need to make changes to the duration of Norfolk's portfolios. He inquired, if rates go down, what do we need to prepare for in the portfolio? J. Schnorbus referred to P. 25 and noted that there has been a slight increase in duration (up by 20 days).

As shown on P. 27, all asset sectors are within investment policy. As shown on P. 31, the City's Operating portfolio is \$108M with a duration of 1.42 years. That is 1 month more than the benchmark. Portfolio performance is reviewed on P. 32, noting an increase of 1.18% for the last 3 months. Net of fees, this portfolio exceeds the benchmark by 0.03% for 3 months, 0.11% for 1 year, and 0.15% for 3 years. For the second straight quarter, interest earnings have exceeded \$1M. Statistics are similar for the SWIFT account (see P. 35), with \$167K in interest earnings for this account over the last quarter.

The City's Long-Term investment portfolio shows an increase in duration of about 15 days and has grown, net of fees, at 1.15% for 3 months, 4.04% for 1 year, and 4.43% for 3 years. C. Garczynski suggested moving the SWIFT/Operating portfolio to a longer duration. N. Bush wants to talk to the City about making the Long-Term portfolio longer. He is looking at taking a 0-5 year strategy and moving to a 2.3-2.4 year range. The challenge with a longer term is that, when rates are rising, it is not fun to see maturities in the 3- and 5-year ranges. He is not enthusiastic about a super long-term strategy. He suggested having a conversation soon about what long-term strategy is right. He noted that yields on agency pass through securities are not looking any better now than treasuries. Thus, they are still not in the portfolio.

C. Garczynski asked whether a certain "block size" is necessary for this strategy. N. Bush said "no," provided blocks are \$500K or higher range to avoid wider bid/ask spreads and suggested that about 10% of the portfolio could be moved. S. Harris raised concerns about gold, silver, and Bitcoin amid a possible supply crisis in a declining rate environment. He is more comfortable with a 3-4-year term but not longer. N. Bush offered a "random" thought on mortgage-backed securities, asking what happens if the Fed sells some of its interests leading to potential privatization of Fannie Mae and Freddie Mac. What happens to their securities? He stated that he doesn't know the implications, if anything, since we don't have any idea what the purpose of a partial privatization of Fannie Mae and Freddie Mac would be.

A. Corbally reviewed the Multi-Asset Class portfolio (P. 43). There were positive, impressive gains in Q3. 90% of S&P companies reported earnings at or above expectations. The

"Magnificent 7" are projecting positive earnings growth over the next three years. While some money managers are concerned about overvaluation, they are still investing in equities. Emerging markets and fixed income also performed well in Q3. P. 44 shows PFMAM's investment strategy report. PFMAM has unwound from a defensive stance back to strategic weights. Consumer spending is showing some cracks, with the top 10% of earners surpassing the spending habits of the remaining 90% of earners.

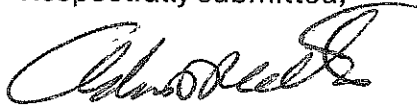
S. Harris emphasized the importance of maintaining credit quality in the City's investments. He cited a need to focus on the objective of the Pension portfolio, which is not to chase yields. P. 48 of the packet shows that the Pension portfolio is slightly overweight in U.S. and non-U.S. equities due to portfolio drift, with a total fund value of \$28.2M as of October 17, 2025. Information about the ladder portfolio (Asset Liability portfolio) starts on P. 53. Returns there are expectedly high.

P. 79 shows a model Multi-Asset portfolio with a 50/50 allocation. Under this model we see higher returns with a 60/40 allocation, but also noticeably more risk. The middle scenario is to add REITs, which offer marginal returns at the expense of higher costs and fees. After discussion with Floyd Simpson of PFMAM, A. Corbally recommended maintaining the current 50/50 approach. The Committee considered this and indicated it is comfortable with maintaining the 50/50 approach (no change).

For 2026, we expect meetings of the Committee to be held about 1 week later (4th Monday of the month) than in 2025. C. Garczynski agreed to circulate a draft calendar for review.

The Committee adjourned at 1:16 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam Melita", written in a cursive style.

Adam Melita
Acting Secretary