MINUTES OF THE CITY MANAGEMENT INVESTMENT COMMITTEE

A meeting of the City Management Investment Committee was held in City Hall in the 6th floor conference room starting at 12:33 p.m. on July 9, 2024. In attendance were Committee members Director of Budget and Strategic Planning Peter Buryk, Director of Finance Christine Garczynski, City Debt Manager Alden Hope, Norfolk resident Henry U. (Sandy) Harris, III of Cerity Partners, Deputy City Manager Catheryn Whitesell, and Chief Deputy City Attorney Adam Melita. Also in attendance were City Treasurer Daun Hester, Senior Cash and Investments Analyst Henry Chong, Leslie Weaber of PFM Asset Management, Allison Corbally of PFM Asset Management, and Nelson Bush of PFM Asset Management.

C. Garczynski presented, and the Committee reviewed, the minutes from its February 26, 2024, meeting. A motion was made by P. Buryk to approve the minutes and was seconded by S. Harris. The motion was passed unanimously by acclamation vote.

The Committee considered the appointment of a chairperson for the next year and, by unanimous acclamation vote, selected C. Garczynski.

A. Hope reviewed the June 30, 2024, Flash Report of the City's cash and investments. The report showed that, as of that date, the City had $720M in total funds, with $41M in cash. $7.6M was earned from interest on cash, LGIP funds, and managed funds from Apr. 2024 through June 2024. $375M of the $514M in LGIP funds are unrestricted. A. Hope reported that the City is in compliance with all applicable investment policies. C. Garczynski noted that cash balances are high right now. The City will continue to review opportunity to pursue a 1-3 year maturity strategy for its funds. 83% of its invested funds are still in 0-1 maturity instruments.

A hard-copy packet entitled "Investment Committee Meeting," dated July 9, 2024, prepared by PFM Asset Management, and containing 66 slides, was distributed to all members during the meeting.

L. Weaber provided an update of the U.S. markets, including the following topics:

- Current market themes (packet p. 4).
- Inflation was stickier than anticipated. The Fed might cut rates in Nov.
- GDP was revised downward to 1.4% for Q1 2024.
- Inflation data (packet p. 7) and fed projections (packet p. 8) were reviewed.

N. Bush stated that PFMAM as a firm believes there will be a cut in Sept. L. Weaber reviewed PFMAM economic outlook (packet p. 10). N. Bush explained that some market analysts say that the labor market might not be as good as hiring data suggests. A. Corbally stated that unemployment was 4.1%, which is "decent, but high."

S. Harris asked if there is precedent for a ½ point cut in the Fed interest rate. N. Bush suggested that was unlikely.

L. Weaber provided an update of the City's fixed income portfolios, including the following topics:

- 77% is invested in U.S. Treasuries
- PFMAM is looking to maintain and be selective with introducing credit into the portfolio, since spreads have been tightening.
- Based on data shown on packet p. 14, the City is nowhere near the maximum caps for sector allocation for different investment instruments.

S. Harris asked if PFMAM will be focusing more on the corporate side with new money coming into the portfolio. L. Weaber confirmed that, if the returns look promising, it would.

N. Bush stated that the volume of corporate issuance is slowing down, that the City can only buy AA credit rated instruments, and there is not a lot to pick from in that classification. Thus, from a supply standpoint, it is a challenge to pursue this strategy.

- Data on packet p. 18 indicates that portfolio outperformed the benchmark.

C. Garczynski asked if PFMAM recommends being more aggressive in moving out of LGIP?

N. Bush responded that PFMAM does not see anything in the markets to suggest yields will go up.

A. Corbally reviewed major equity and fixed markets, including the following topics:

- Major equity market data through Mar. 2024 was reviewed (packet p. 29).
- International equity was OK. Strong dollar was a headwind.
- Emerging markets were not as good, mostly due to issues in China.
- Fixed income retreated in Q1 2024
- Magnificent Seven represent 30% of the S&P 500. The other 493 companies are barely positive, "almost a flatline."
- If we are outperforming the benchmark, it is due to the shifts we are making in asset classes.

S. Harris asked if the benchmark was changed when the allocation was adjusted from 70-30 to 50-50. A. Corbally answered that it was. S. Harris suggested, without expressing any criticism, that it might seem "self-serving" to do so because it would not compare performance under what the benchmark looked like pre-reallocation. A. Corbally explained that it is unfair to compare the performance of a 50-50 allocation to a 70-30 benchmark portfolio, since it would not be "apples to apples."

N. Bush stated that PFMAM can compare performance to other blended benchmarks and noted that it would be prudent to do so annually, in order to reassess the allocation. This type of comparison would not be used quarterly.

L. Weaber reviewed proposed changes to the City's Investment Policy. A written summary of the changes, entitled "Investment Policy Review," dated July 9, 2024, prepared by PFMAM, and consisting of 9 pages, was provided to the Committee at the meeting. Pages 7 and 8 of the document contain the "meat and potatoes" of the proposed changes. A redline document was also provided to the Committee, showing each of the proposed changes in relation to the currently existing Investment Policy.

C. Garczynski requested that the Committee members review the draft of the proposed changes and be prepared to discuss and act on them at the next Committee meeting. The next Committee meeting has been scheduled for August 26, 2024 at 12:00 noon.

The Committee adjourned at 1:34 p.m.

Respectfully submitted,

Adam Melita
Acting Secretary