

## MINUTES OF THE CITY MANAGEMENT INVESTMENT COMMITTEE

A meeting of the City Management Investment Committee was held in Norfolk City Hall in the 6<sup>th</sup> floor conference room starting at 12:03 p.m. on September 23, 2024. In attendance, in person, were Committee members, Director of Finance Christine Garczynski, City Debt Manager Alden Hope, Norfolk resident Henry U. (Sandy) Harris, III of Cerity Partners, and Chief Deputy City Attorney Adam Melita. In attendance, via remote meeting service, was Committee member Deputy City Manager Catheryn Whitesell. Committee member Pete Buryk, Director of Budget and Strategic Planning was absent. Also in attendance, in person, 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 Scott Fleming of PFM Asset Management. Also in attendance, via remote meeting service, were Nelson Bush of PFM Asset Management and Floyd Simpson of PFM Asset Management.

C. Garczynski presented, and the Committee reviewed, the minutes from its July 9, 2024, meeting. A motion was made by S. Harris to approve the minutes and was seconded by C. Whitesell. The motion was passed unanimously by acclamation vote.

A. Hope reviewed the August 31, 2024, Flash Report of the City's cash and investments. The report showed that, as of that date, the City had \$526M in total funds, with \$30M in cash. \$4.7M was earned from interest on cash, LGIP funds, and managed funds from July and Aug. 2024. About \$37.5M was moved out of LGIP funds and into the managed operating fund. The reduction in total balances was noted as being typical at this time of year because of spending down of certain federal funds, making an annual payment into the retirement fund, significant September and October debt service payments and other budgeted expenditures in advance of the next tax due date. Average maturity of investments increased since the last report, moving to 32% for investments having 1-2 and 2-3 year terms. 68% of invested funds remain in 0-1 maturity instruments. This is part of the City's strategy to move a total of \$100M into longer term investments, with another \$37.5M still to go.

A hard-copy packet entitled "Investment Committee Meeting," dated September 23, 2024, prepared by PFM Asset Management, and containing 68 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 trends (packet p. 4).
- Inflation is coming down. Labor market is still strong.
- The 0.5% rate cut by the Fed was the first in 4 years, which lowers the federal funds rate into a range of 4.75% to 5%, down from its prior range of 5.25% to 5.5%. The half-point move signals that the Fed is acting aggressively to keep the U.S. economy from stalling. The Fed also released its economic projections that suggests there could be another cut this year, with a meeting in both November and December.
- U.S. Treasury yield curve is still inverted (packet p. 8).

N. Bush commented that inflation might tick up from 2.6% to 2.7%. The reason inflation is not lower is likely due to the shelter component, which accounts for almost 74% of the recent inflationary effect. Rents are keeping inflation stubbornly high.

The Fed also released its economic projections for the coming years, which shows that its members are pegging the federal funds rate will decline to 3.4% at the end of 2025.

The Fed appears to be planning to reduce the lending rate 1% over the next year and another 0.5% in 2026. Based on Fed member's dot plot predictions, inflation equilibrium rate may be around 2.8%, which is higher than it has been historically.

L. Weaber:

- Reviewed portfolio performance information (packet p. 10). Noted that the City has \$166.5M under management.
- Reviewed summary (packet p. 11).
- Reviewed compliance with City's allocation policies (packet p. 12).
- Reviewed diversification of portfolio (packet p. 13).
- Performance is still ahead of the benchmark (packet p. 16). Depending on the availability of funds, PFMAM is recommending investing more in longer term yields when opportunities arise.

A. Corbally reviewed the Norfolk Pension Trust portfolio. The S&P 500 index is still being affected strongly by the performance of the Magnificent Seven. There is a large deviation right now between small cap and large cap performance. See p. 28 of packet regarding S&P 500 performance. Without the Magnificent 7, return for S&P 500 index is about 5% (versus 15.3 % with them).

Packet p. 29 shows analysts' anticipated earnings/share for the S&P 500. Broadening of U.S. equity market space beyond tech is expected.

The City's funds are still allocated about 50/50 between equity and fixed income. Investments will not be adjusted to go underweight or overweight on that allocation unless PFMAM sees opportunities. Performance is still suffering a drag on 3-year returns from having previously gone overweight on small caps.

Packet p. 34 shows compliance with allocation requirements of City's investment policy.

A. Corbally provided an update to the July portfolio performance that is shown on packet p. 36: Total as of September 23, 2024, was \$25.5M (up from \$24.7M at end of July).

A. Corbally asked F. Simpson for a review of market conditions. F. Simpson had a poor remote connection that cut out on several occasions. However, the Committee did hear from him that the first

two quarters of the year were dominated by artificial intelligence and information technology. Now, markets are starting to broaden out, which he regards as a good sign of health, with some caveats. The market appears headed to becoming more bifurcated, between tech driven economic components and everything else.

H. Chong reviewed a redline of draft amendments to the City's Investment Policy. S. Harris suggested that the safety principal in Section III (1) of the Policy be revised to state that the protection of principal should be qualified by making it "respective of inflation," to recognize the importance of pursuing returns in an economy where inflation is expected and normal. A. Melita suggesting adding language to ensure that all citations to the Code of Virginia (the Code) sections should also incorporate any amendment to such sections that may occur from time to time. During the presentation, S. Harris asked whether the prohibition against investing in precious metals, whether directly or indirectly through Exchange Traded Funds, should be reviewed. N. Bush addressed the question of whether there might be a statutory provision behind the prohibition. He reported that the Code lists certain securities that are permitted, and that precious metals would not seem to qualify under any of the permissions.

C. Garczynski noted that staff would make additional edits to the document based on the comments made by Committee members during the meeting. A. Melita made a motion to approve the recommended amendments, subject to the staff adding additional language to address the comments made by Committee members during the meeting and then distributing the final draft via email, and to allow approval of the final document by email response following such distribution. C. Whitesell seconded the motion, and the motion was passed unanimously by acclamation vote.

C. Garczynski stated that staff would engage the Committee members and other regular attendees regarding availability for the purpose of establishing a regular, standing meeting schedule for Calendar Year 2025.

The next Committee meeting has not yet been scheduled.

The Committee adjourned at 1:14 p.m.

Respectfully submitted,

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

Adam Melita  
Acting Secretary