

TOWN OF LEESBURG
Town Hall
25 W. Market Street
OPEB Finance Board Meeting Minutes
TOL OPEB Trust Finance Board
August 19, 2022
10:00 am
Lower-Level Conference Room 1
Finance Board Members and Others

1. Call to Order by Clark Case 10:05 AM

Board Members Attending in-person: Clark Case, Lisa Haley, Diane Starkey, and Nelson Bush. Quorum was present.

Board Members Attending virtually: Joe Mason under health care exception unanimously approved by in-person voting board members.

Ex officio attendees: Nelson Bush, Managing Director, PFMAM, Investment Consultant to Finance Board and general presenter in the meeting.

2. Approval of Agenda of 08-19-2022 meeting

First order of business is the approval of the agenda. On a motion by Lisa Haley and seconded by Diane Starkey. Unanimous approval.

3. Approval of Minutes of 03-11-2022 meeting

Approval of March 11, 2022, minutes moved by Diane Starkey, Seconded by Lisa Haley. Unanimously approved.

4. Items for Discussion

- a. Economic context and outlook
- b. Quarterly investment report
- c. Discussion of market results since quarter-end
- d. Discussion of any other changes to investment managers or asset allocations since last meeting or pending changes

Nelson Bush of PFM presentation:

All markets were down significantly for quarter and YTD.

Economy is technically in recession, but jobs and employment are still robust and a good news story, so the recession may be more technical than disruptive and there continues to be job growth and many unfilled openings. Jobs report for June/July was unexpectedly high. More people are working than pre-covid. 10 million job openings in the economy and 5.7 million people looking. Lots more job openings than people looking for jobs. Participation has been stable.

Shortage of workers is still affecting travel and hospitality industries. Still very challenged for hotels and restaurants. Appears to be a positive in the economy. The jobs situation leads many people to believe we are not in a recession. Retailers went from having insufficient inventory during covid to having inventory over stocks and trying to move inventory as spending shifted from goods to services and travel/hospitality.

The good news on inflation is that last CPI reports indicated some moderation of inflation. Retail sales continued to grow due to higher prices, but consumer confidence rates fell below early Covid and less than 2008 -2009. Consumers have become very pessimistic. They are pessimistic because interest rates are rising rapidly. Fed has been raising rates from .25% to 2.5%. Expect to be at 3.25 to 3.5% by EOY.

Fed is overtly trying to slow the demand in the economy and slow the economy overall. The market thinks the Fed has moved too far too fast and investment returns/prices have fallen as a result. Housing market has really dropped off as mortgage rates have risen to 5.2% which has increased the monthly payment 25%. This has slowed in new permits and home sales both new and existing. Yield curve is slightly inverted,

In July, fed raised by 76 bps, and then the market started forecasting that the Fed may not raise rates as much as they originally indicated. This created a rally partly because inflation fell from 9% to 8%. Gasoline declining to under \$4.00 a gallon which has improved consumer confidence. PFM is still a bit cautious and think there is more pain to come, and inflation will decrease more slowly than projected and rates will go higher and stay higher than many market participants think. Maintaining a conservative position. Less convinced that equities will outperform. Not willing to bet against the Fed. Think consumers are still feeling inflation pain

Returns for the portfolio were not good. Domestic Equity return was -16.7%. Active managers were negative but less than the indexes. International equity was also negative and more so. Fixed Incomes were all negative due to rising interest rates driving down market prices. Asset managers were more affected. PFM had raised the cash allocations to cash and cash performed .14% which was a relative bright spot. Active managers hurt performance significantly in the international equity sector due to over allocations to technology which has been disproportionately affected by market moves. Fixed income underperformance was negatively impacted due to higher exposure to credit risk (corporate debt lower rated). Higher default risks in car loans, subprime loans, etc.

Flash report for the end of July shows the returns for equity 9.4% up and Fixed Income are up 2.98% due to interest rates moderating and cash was a drag in third quarter. The Fed is very data driven right now and PFM doesn't think the Fed is seeing numbers that will let them slow the pace of interest rate increases. Think +50 or 75 bps in Sept and then perhaps pause until after the mid-term elections. Don't think economy is back to normal growth and inflation yet. Cost of rents and utilities (shelter) is a lagging indicator and tends to be sticky. This will take time to moderate and is one third of the inflation index.

Put some of the cash, 2%, back into more conserved fixed incomes.

PFM thinks until inflation starts moving down consistently for at least six more months of volatility before we will start seeing a more positive move to more normal returns. If the winter in Europe is severe, it could very much hurt European production, spending, etc. due to natural gas shortages. The US will get there sooner than Britain and Europe or even China. More optimistic about small business in US than the large companies since they are based upon US economics and less on Europe and China.

Obstacles to a return to more normal are geopolitical risks, like China and Taiwan conflicts. The lack of microchips was disruptive, so a blockade or other events could be very bad. US chip production being boosted could be a stabilizing influence. Geopolitical risk is the biggest concern.

Joe Mason expressed concerns over more US Government spending being very inflationary. Nelson Bush thinks it depends upon whether the spending encourages corporate production vs. consumer spending. Inflation may also be affected by people increasing wages to competing for people. Low skill wages are being competed for aggressively, so the minimum wage is the cost people must pay to get employees and that is a big driver of inflation. The inflation may be on the wage side.

5. Additions to Future Board Meetings

a. None

6. Information Memorandums

a. None

7. Members Statements/Comments

a. None

8. Closed Session

a. None

9. Adjournment

Mr. Case made a motion to adjourn at 11:13 am. And seconded by Ms. Starkey.
Approval was unanimous.