

TOWN OF LEESBURG
Town Hall
25 W. Market Street
TOL OPEB Trust Finance Board Meeting Minutes
November 17, 2023
10:00 am
Lower-Level Conference Room 1
Finance Board Members and Others

1. **Call to Order** by Lisa Haley at 10:02am.
Board Members in attendance (in-person): Clark Case, Diane Starkey, Kate Trask, Cole Fazenbaker, Lisa Haley, Joe Mason. Quorum was present.
Ex officio attendees: Nelson Bush (virtual), Managing Director PFMAM, Investment Consultant to Finance Board and regular presenter in the meeting. Due to illness, Allison Corbally, Director PFMAM Asset Management. Scott Fleming, PFMAM Director, took the lead roles in presenting. Long-term they will become the lead presenters as roles change at PFMAM.
2. **Approval of Agenda 11.17.23 meeting:** motion by Lisa Haley, 2nd by Cole Fazenbaker; unanimous 5-0.
3. **Approval of Minutes of 8.15.2023 Finance Board meeting:** motion by Clark Case, 2nd by Cole Fazenbaker, unanimous 5-0.
4. **Items for Discussion – led by PFM**
 - a. Economic context and outlook
 - b. Quarterly investment report for the quarter ended September 30, 2023
 - c. Discussion of market results since quarter-end
 - d. Investment fees

Financial overview by Allison Corbally: first half positive market performance, Q3 experienced more volatility; Fed hawkish tone was reflected in the market performance; commodities outperformed; energy was strong - US equities, double digit returns for magnificent 7, NVIDIA up over 200%; S&P 500 up 13% vs S&P 500 market cap flat for the year to date. Non-US equities are feeling the same headwinds due to increasing yields and economy slowing. 30-year treasury up, 10-year up 4.6%.

Lisa Haley asked about Magnificent 7 dominance smoothing out and any possible negative adjustment. Alison Corbally: The magnificent 7 comprise 30% of the S&P 500 Index. They underperformed last year and corrected this year with growth stocks favored along with their dominance in megatrends such as AI and cloud-computing. Albeit they are trading at high multiples, which does raise caution. We remain in line with strategic weight to US equities.

Economic overview by Scott Fleming: GDP is up 4.9% consumer spending remains high, while overall savings are decreasing, and personal debt is increasing. CPI was 3.2% in October down from 3.7% the prior month; core CPE (which excludes food and energy) was 4% still above Fed target of 2%; October added 150K jobs, while September was revised to 297K jobs; No Fed increases from either the September or November meetings; Fed's mandate is price stability, anticipate "higher for longer" approach as inflation has steadied; items to watch include the Federal Government shutdown which is in a laddered approach with January and February inflection points; Moody's has lowered US debt outlook citing lack of fiscal constraints and governance concerns. Markets think rate cuts will come down sooner than the Fed is saying based on where the markets are setting rates. Markets are saying 0 chance in December of a rate increase. Higher rates tend to come with additional perceived risk. Rates are near the highest in the last 15 years. This has continued to hurt bonds given the inverse relationship between price and yield. Volatility across the markets will continue as the markets pivot from adjustments for rate tightening to rate easing and whether the economy experiences a "soft landing" or more dramatic effects.

Portfolio review by Allison Corbally: The investment strategy is defensive. Allocation strategy is neutral almost across the board, so they are not overweighting any area. Areas of concern are banks' lending going down and tighter lending standards. Inflation is coming down, but in the past few months it levelled off some and is coming down slowly. Areas of note include consumer spending which is the offset to lagging manufacturing performance. Unemployment is still strong with 1.5 openings for every 1 person looking for a job. Inflation is coming down but getting from 3 to 2 is harder than the move from 8-5. Valuations continue to be attractive for equities. Keeping an eye on geopolitical issues including the war in the Ukraine along with the war in Gaza. Overall PFM noted valuations remain attractive, but political risks of Ukraine and Israel are of concern.

Portfolio performance as of 9.30.23, was below the benchmark at 3.37% overall trailing markets which were down 3.2%. Fixed income outperformed the benchmark but was down overall. Portfolios did not reflect weighting to energy sector which had strong performance. Still had active managers in the international portfolio for the period ending September 30th, which was transitioned to a passive position in October. Added passive Emerg Mkts Ex China ETF This is due to economic structural issues in the economy. China is off 8% and other EM stocks were up 8% but one cannot avoid China entirely. Have taken a passive position in international small caps. PFM believes positive risk/return conditions exist, along with low volatility, and low correlation to developed international equities.

The Town made changes to their investment policy which was approved by Council and the positions in the portfolio were adjusted in October 2023. One goal of the changes was reducing investment management fees. QTD the performance is up 3.1% at \$16M in holdings. A discussion of fees for the holdings as of October by Nelson Bush and Allison Corbally noted: domestic equity 3 basis points (BP or .01%) for the Vanguard Total Stock Market ETF (which is the largest holding in the portfolio);

International Equity 7BP (Vanguard Total Intl Stock Index), 7BP (Vanguard FTSE World), and 25BP (Emerging Markets EX China ETF); this compares with active fees ranging from 98 BP – 106 BP under the prior portfolio structure. Fixed income will retain active managers. PFMAM will provide information on the fees for the portfolio, including weighted average fee as of October 31, 2023, when it becomes available.

After a discussion the board agreed on a verbal unanimous vote to annually review the asset allocation strategy and Investment Policy at the end of each Calendar year at the quarterly review in February.

5. Discussion of status of Investment Policy changes. Portfolio was transitioned to passive holdings for equities in October 2023. Accomplished within discussion section of the meeting.

6. Additions to Future Board Meetings

- a. Annual review of investment policy and portfolio allocations during the February meetings beginning 2025.

7. Information Memorandums

- a. None

8. Members Statements/Comments

9. Closed Session - none.

10. Adjournment Motion to adjourn by Clark Case, 2nd by Joe Mason. Unanimous 6-0; meeting ended at 10:42am.