

TOWN OF LEESBURG
Town Hall
25 W. Market Street
TOL OPEB Trust Finance Board Meeting Minutes
November 15, 2024
10:00 am
Lower-Level Conference Room 1
Finance Board Members and Others

1. **Call to Order:** by Cole Fazenbaker at 10:00 am.
Board Members in attendance (in-person): Cole Fazenbaker, Josh Didawick, Owen Snyder, Tamara Keesecker. Quorum was present.
Absent: Joe Mason
Other attendees: Octavia Andrew (Virtual)
Ex officio attendees: Allison Corbally, Director, PFM Asset Management. Scott Fleming, Director, PFM Asset Management.
2. **Approval of 8/16/2024 Meeting Minutes:** Motion approve the minutes by Cole Fazenbaker; moved by Josh Didawick; second by Tamara Keesecker. Unanimous 5-0.
3. **Discussion led by PFM Asset Management, LLC (PFMAM):**

Economic Context and Outlook:

Overall, for the third quarter, the market produced strong returns across the board in equities and fixed income. There was a spike in volatility July through August. Investors reacted to weaker than expected job reports with concerns of a potentially shrinking labor force; markets also reacted positively to the cut in Fed rates in September.

For the first quarter and second quarter, the drive in the U.S. equity market space is concentrated in the Magnificent Seven (M7). In the third quarter, we saw rotation out of the large cap growth and areas that had been displaced (i.e. small cap, value, etc.) that really performed well in the third quarter.

International equity markets delivered attractive returns despite concerns of a slowing economic backdrop. Emerging markets index shows a lot of volatility as consumers are slow to stimulate the economy and governments continue to build trust with consumers to rebound the economy post-pandemic.

Fixed income is had strong performance in the third quarter due to easing inflation and federal reserve cut rates.

Portfolio & Performance Review:

The resilience of the U.S. economy continues to trend. Inflation continues to lower closer to the 2% target rate. Labor markets are moderating. Overall, the U.S. Gross Domestic Product (GDP) was a bit lower at a rate of 2.8% in the third quarter, in comparison to 3.0% in the second quarter. Consumers are continuing to spend and spending more than they have in the prior quarters. Federal government spending was up 9.7%, with defense outlays as the biggest contributor.

As it relates to inflation, we continue to make progress. The Consumer Price Index (CPI) released in October was 2.5%, as expected. The Personal Consumption Expenditures (PCE) released in September was 2.1%, near target. With the trajectory, the Federal government is less worried about inflation overall but more focused on the labor market. There is a dual mandate to keep both balanced.

The labor market is not showing weakness, but rather moderation. In October, there were approximately 12,000 new jobs measured for the month considering employment strikes, natural disasters, etc. We continue to grow, but at a decreasing rate. The unemployment rate is in a good place and therefore will start to ease monetary policies. However, we will continue to remain neutral to the market.

Economic activity is going at a solid pace and there is resiliency in the market. However, there will be some changes, considering political risks such as a new U.S. president, and its impact on corporations. The drivers in emerging markets index are China as well as India. In real estate on diversifying assets, there are opportunities because of the rates coming down.

Performance in the third quarter for domestic and international equity is up; YTD we are outperforming 13% versus 12.7%. As it relates to fixed income, we remain active and will be 50/50 active in the portfolio. As it relates to asset allocation, portfolio is 60/40 (exposure benchmark) and is in line. As it relates to fees on fixed income, the approximate annual fee is about 10 basis points.

4. Additions to Future Board Meetings:

- a. PFMAM Workshop on Fiduciary Responsibility. (discussion as follows)
- b. OPEB Trust Contribution. Will need to review latest actuarial report and the Town's actuary consultant will need to be a part of the discussion. (deferred to next meeting)

5. Fiduciary Responsibility led by PFM Asset Management, LLC (PFMAM):

Overview of Responsibilities:

The Town has a trust in place to manage its Other Post Employment Benefits (OPEB). Every single committee member or board member (governing body) has responsibilities in managing its investments. PFMAM is the Outsourced Chief Investment Officer (OCIO) for the Town of Leesburg's OPEB Trust. As the investment consultant, PFMAM supports and makes recommendations to the OPEB Trust Board; however, the overall responsibility lies with the government body (Town). The government still must do their own due diligence in making sound decisions. This empowers the government body to not focus on the day-to-day but to focus on fiduciary oversight and provides the Town with enhanced fiduciary support.

Trends within Public Pension Funds:

Across the world, the trend in the workforce is that there are more retirees and fewer employees working. Currently, the average is 1.24 working employees for every 1.0 employee that is retired. In Virginia, the numbers are slightly better than the national average. For OPEB, the "pay as you go" option is becoming less sustainable for some entities. The trend is to shift some of the responsibilities from the employer to the employees; however, the educational aspect on the Defined Contribution side is a challenge for local governments.

Governance and Oversight:

Fiduciary responsibility is not only applicable to trustees and committee members, but also includes staff and anyone associated with the respective assets. There are three core focus areas: duty of care, duty of loyalty, and duty of obedience. Duty of care refers to the obligation to act with a level of prudence, diligence, and competence. As a trustee, you should become knowledgeable about what you are representing, attend meetings, ask questions, and be engaged. Duty of loyalty refers to the obligation to avoid any self-dealing and to put personal interests aside to act in the best interests of the Trust. Duty of obedience refers to the obligation means to comply with any applicable laws while operating with the mission in mind.

Investment Committee Charter:

The charter outlines the purpose, procedures, roles and responsibilities, and provides clarity and scope to the committee members. The investment policy statement evolves and is the roadmap to the OPEB Trust that is being managed

and is referenced in the charter. The investment policy statement is evergreen in nature and should be reviewed every one to three years (an annual review is best). It is recommended that, as new board members come onboard, that the consultant provides an overview of their approach to the Town's portfolio. The investment committee focus includes strategy, market commentary, tactical shifts, manager oversight, portfolio changes, and portfolio construction. PFMAM is accountable to the Town as a committee member, but ultimately the Board is accountable to its beneficiaries. PFMAM will follow up to make sure that the Town is receiving emails of educational opportunities catered directly to investment managers (quarterly, monthly market calls, power hours, etc.).

6. Members Statements/Comments:

- a. Review the Investment Policy Statement on a quarterly basis.

7. Closed Session: None

- 8. Adjournment:** Motion to adjourn by Cole Fazenbaker; moved by Josh Didawick; second by Tamara Keesecker. Unanimous 5-0. Meeting ended at 11:10 am.