WASHOE COUNTY INVESTMENT COMMITTEE

MINUTES OF MEETING

WEDNESDAY, APRIL 23, 2025, 9:00 AM

PRESENT: Clara Andriola, Commissioner
Justin Taylor, Treasurer
Eric P. Brown, County Manager
Abbe Yacoben, Chief Financial Officer

STAFF: Trenton Ross, Deputy District Attorney, Washoe County District Attorney's Office
Brenda Mathers, Chief Deputy Treasurer, Washoe County Treasurer's Office
Marissa Kuckhoff, Administrative Assistant I, Washoe County Treasurer's Office

BUCKHEAD: Matt Boden, Fixed Income Portfolio Manager, Buckhead Capital Management, LLC
Tara Hagan, Director of Fixed Income Operations, Buckhead Capital Management, LLC
Kathy Stratton, Portfolio Manager, Buckhead Capital Management, LLC

OTHERS: George Robison, Executive Director, Truckee River Flood Management Authority (via Zoom)
Robert Andrews, Accounting Manager, Washoe County Comptroller's Department (via Zoom)
Debra Crowley, Chief Financial Officer, Truckee River Flood Management Authority (via Zoom)
Susan Dees, Fiscal Manager, Washoe County Community Services Department (via Zoom)
John Mendoza, S & P Global
Satyanarayana Choulapally, S & P Global

ABSENT: Alexis Hill, Chair
Cathy Hill, Comptroller

The Washoe County Investment Committee met in the Comptroller's Conference Room of the Washoe County Administration Complex, located at 1001 East Ninth Street, Reno, Nevada. Treasurer Justin Taylor called the meeting to order and Marissa Kuckhoff, Administrative Assistant I, called roll. It was established that quorum was present, and the Committee conducted the following business.

<u>AGENDA ITEM 2</u> – PUBLIC COMMENTS [NON-ACTION ITEM]
Agenda Subject: "Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee's agenda."

Treasurer Taylor called for any public comment and there was none.

<u>AGENDA ITEM 3</u> – MINUTES [FOR POSSIBLE ACTION]
Agenda Subject: "Possible approval of minutes for the Washoe County Investment Committee's January 22, 2025, meeting. Board members may identify any additions or corrections to the draft minutes as transcribed."

Treasurer Taylor introduced this agenda item and called for any corrections and for public comment. There were none. Commissioner Clara Andriola moved to approve the minutes and County Manager Eric P. Brown seconded. The motion passed unanimously.

AGENDA ITEM 4 – UPDATE AND DISCUSSION REGARDING WASHOE COUNTY'S INVESTMENT PORTFOLIO [NON-ACTION ITEM]
Agenda Subject: "The January-March 2025 quarterly report will be provided, and Committee Members may discuss the report. Presentation by Buckhead Capital Management on the following: Washoe County's Investment Portfolio Strategy discussion and Economic Update."

The quarterly report was provided to the Committee and placed on file for the record. Treasurer Taylor introduced Matt Boden, Fixed Income Portfolio Manager, Buckhead Capital Management, and Boden gave the following presentation.

Tug of War: The Stagflation Scenario and Competing Macro Forces

Several macro and policy forces are pushing in opposing directions, creating an environment of heightened uncertainty. Some factors, such as immigration and fiscal policy, contribute both to inflationary pressures and to long term growth constraints—appearing on both sides of the ledger. These competing dynamics underscore the rising risk of stagflation as markets weigh faster inflation against slowing real growth.

Higher Rates / Faster Growth
Tariffs (inflationary pressures), deregulation, immigration (higher wage inflation), GSE reform, supply and demand for government debt, easing of bank capital requirements, tax cuts.

Lower Rates / Slower Growth
Global trade frictions, business and consumer confidence, immigration (lower GDP growth); don't fight the Fed Treasury, increased domestic oil production (lower energy costs), consumer credit fundamentals, flight to quality, data reliability, DOGE / Deficit reduction.

Trump Tariffs in Historical Context

Tariffs implemented during the first Trump administration impacted approximately 16% of imports and increased the effective tariff rate, or the average tariff rate across all imported goods, from 1.4% to 2.8%. If made permanent, the tariffs announced in early April 2025 will affect all imports, and bring the US' effective tariff rate to approximately 25.5%.

On April 9, 2025, the White House announced a 90 day pause to most reciprocal tariffs implemented earlier in the month, while maintaining the 10% baseline tariff on most countries (with the notable exception of China). Estimates vary, but if the pause were made permanent, the effective tariff rate would most likely be in the range of 10-15%. Most estimates assume a significant decline in imports from China due to the 125%-145% tariff currently in place.

Yield Curve Changes

Yields in the front end of the curve dropped during the second half of 2024, as the Fed cut rates three times over that period. Stronger than expected economic growth and persistent inflation drove rates up on the long end of the curve during the same period.

Rates in the long end of the curve declined dramatically between January 1, 2025, and April 1, 2025, due to growing recession fears and uncertainty surrounding tariffs, which resulted in a flight to quality.

However, rates climbed during the first several weeks of the second quarter due to multiple factors, most specifically concerns about the longer- term impacts of inflation.

Stagflation

Stagflation is an economic environment characterized by the simultaneous occurrence of slow economic growth, high unemployment, and high inflation.

Stagflation is problematic because the usual economic tools available to the Fed to combat inflation (like raising interest rates) can worsen unemployment, while measures to reduce unemployment (like lowering interest rates) can increase inflation. This effectively puts the Fed's dual mandate in tension, making it very difficult to effectively implement policy.

Jerome Powell on stagflation pressures - "the impulses we're seeing and feeling are for higher unemployment and higher inflation, and you know our tool only does one of those two things at the same time. So, it's a difficult place for central banks to be in in terms of what to do" (Economic Club of Chicago Interview April 16, 2025)

Stagflation was a defining feature of the 1970s, during which two oil price shocks led to sharp increases in energy prices, coupled with declines in industrial production.

Fixed Income Process: Strategy Overview

Duration
Neutral to Long: We believe the Federal Reserve will ultimately be more sensitive to a weakening labor market than to lingering inflation pressures. While inflation may remain somewhat elevated, we expect the Fed to be willing to look through it—particularly if unemployment begins to rise meaningfully. In light of this, we are positioned modestly longer than neutral in duration.

Curve Position
Bullet – We view the most probable curve outcomes as either (1) a re-steepening driven by persistent inflation and structurally higher long-term rates, or (2) a front-end rally if the Fed cuts rates in response to slower growth. By maintaining a bulleted structure, the portfolios will benefit from a steepening of the curve.

Sector Rotation
Overweight: Governments, Municipals, ABS, Agency-CMBS
Underweight: Class B and C Office, Corporates, Callables

Security Selection
Amid the current volatile rate environment, we prioritize securities with robust and predictable cash flows while minimizing exposure to optionality. Given tight credit spreads, we are emphasizing a move up in quality to ensure resilience and stability in portfolios.

Portfolio Characteristics

Boden reviewed the Washoe County portfolio characteristics and noted that the effective duration is 1.91, short of the benchmark of 2.26, and reminded the committee that the effective duration was 1.4 when Buckhead took over the portfolio.

They have been working on bringing it up to benchmark while balancing liquidity needs.

At the July meeting, Buckhead may bring a suggestion to revise the investment policy regarding effective duration to the committee for discussion.

Portfolio Duration vs. 5 Year US Treasury Yield

Boden compared the 5-Year Treasury Yield to the portfolio duration from September 2024 through March 2025 and noted that the blended benchmark duration is at 2.26.

Reshaping the Portfolio

Over the past six months, we've reallocated away from Treasuries and Agency debentures and into higher-yielding structured sectors—primarily Agency CMBS and ABS—while maintaining strong liquidity and credit quality.

Income Growth and Budget Impact

Our active management approach has generated significantly more income than the previous strategy—resulting in a positive budget impact relative to projections. Boden noted that for 2025 the projected income under the previous investment services manager was around $21 million in investment income; the 2026 projection is around $33-34 million in investment income, and with the realized gains, that number is closer to $50 million.
Boden noted that in February there was the Realized Gain/ (Loss) number of ($175,479), and explained that that is not a result of action on a security, it is a function of how it is accounted for and amortization and accretion.

Realized Gains & Losses at Maturity

Kathy Stratton, Portfolio Manager, Buckhead Capital Management, walked the committee through an example using an Adobe bond. A premium bond is when the coupon rate is higher than the prevailing market rate, so you will pay more for that bond, whereas a discount bond is the inverse. When it matures is when you will realize the difference between what you paid for it and what you are actually getting at maturity. The previous manager had bought the Adobe bond at a cost that was higher than par, $2.98 million, and it matured at $2.85, and because it is not amortized over the life of the bond, it shows up as a realized loss.

Premiums and Discounts

Bonds sell at a premium when the coupon rate of the bond is higher than the current market rate. You pay more (premium) because you will receive more coupon interest over the life of the bond than for a new bond selling at par. Conversely, bonds sell at a discount when the coupon rate of the bond is lower than the current market rate. You pay less (discount) than par because you will receive less coupon interest over the life of the bond than for a new bond selling at par.

In an efficient market, a premium and discount bond purchased at the same time will have the same yield. Abbe Yacoben, Chief Financial Officer, asked Buckhead if they would be bringing education to the July meeting regarding dividing by the number of months associated with that security instead of seeing it all at once, and Boden clarified that the education would be related to amortization and accretion and how Buckhead manages the portfolio based on that.

Performance Summary

Boden reviewed annualized performance since October 1st, the portfolio has generated 1.95% total return versus the assigned index of 1.36%.

Compliance Report

Washoe County Total Portfolio
Tara Hagan, Director of Fixed Income Operations, Buckhead Capital Management showed the Compliance matrix and noted that the changes to the Investment Management Plan approved at the January 2025 meeting were reflected and said that there would be education related to the effective versus final maturity at the July meeting.

Chief Financial Officer Yacoben asked if Buckhead thinks the Trump tax cuts will be reinstated and Boden answered that they do. Chief Financial Officer Yacoben said that the Fed controls interest rates and money supply and asked why money supply isn't discussed more often. Boden answered that supply is a big cause of inflation, and that it should be a piece of the conversation.

Treasurer Taylor thanked Buckhead for their presentation and moved to the next agenda item.

<u>AGENDA ITEM 5</u> – COMMITTEE MEMBER COMMENTS [NON-ACTION ITEM]
Agenda Subject: "This item is limited to announcements or issues proposed for future agendas and/or workshops."

Treasurer Taylor called for any committee member's comments and there were none.

<u>AGENDA ITEM 6</u> – PUBLIC COMMENTS [NON-ACTION ITEM]
Agenda Subject: "Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee's agenda."

Treasurer Taylor called for public comment and there was none.

<u>AGENDA ITEM 7</u> – ADJOURNMENT [NON-ACTION ITEM]

Treasurer Taylor adjourned the meeting.

<u>Attachments to Minutes</u>

PDF
Agenda Item #3 -
2025-1-22 Minutes p

PDF
Agenda Item #4 -
Washoe County Qua