



PRINCE WILLIAM

— Finance

Investment

Performance Report

Third Quarter-Fiscal Year 2026
(For the Quarter Ending Mar. 31, 2026)

EXECUTIVE SUMMARY

This report reflects the FY 2026 third quarter performance of the County's investment management program for quarter end March 31, 2026, prepared in accordance with the County's Investment Policy reporting guidelines. Prince William County's *Principles of Sound Financial Management* and Investment Policy adopted by the Board of County Supervisors (BOCS) require that the County's investment program meet four criteria, listed below in order of importance:

Legality - *"Investment instruments shall, at a minimum, be limited to security, issuers and maturities in compliance with the Code of Virginia (1950) as amended"*

Safety - *"The next objective is the preservation of capital and the protection of investment principal. The County will employ mechanisms to control risks and diversify its investments regarding specific security types or individual financial institutions"*

Liquidity - *"The investment portfolio will remain sufficiently liquid to enable the County to meet operating requirements which might be reasonably anticipated"*

Yield - *"The County will maximize yield on the portfolio but will avoid unreasonable investment risk to preserve the purchasing power of the portfolio"*

Federal Reserve officials voted on April 29 to maintain the target range of the Federal Funds rate at 3.50% - 3.75%. The decision was widely anticipated given limited clarity surrounding the outlook for inflation and a labor market that has shown signs of stabilizing. A key revision to the official statement noted inflation as "elevated, in part reflecting the recent increase in global energy prices." The shift in tone signals unease surrounding the potential economic impact from burgeoning price pressures. Treasury Management has attempted to mitigate interest rate risk and grow investment income by leveraging cash/cash equivalent products, while balancing downside risks to economic conditions through select purchases of longer dated securities.

INVESTMENT PORTFOLIO STRUCTURE

The County's general portfolio is comprised of all funds except certain restricted and special funds, i.e., bond proceeds, escrow, pension funds and self-insurance funds. All general fund interest income is earned from securities in the general portfolio. Bond issuance proceeds are invested through the Virginia State Non-Arbitrage Program in accordance with requirements and restrictions outlined in the bond documents. A consolidated statement is provided as an attachment to this report.

INVESTMENT STRATEGY

The current investment strategy addresses the requirements of legality, safety, and liquidity by investing in a diversified portfolio of specific security types and financial institutions while maintaining sufficient liquidity to meet anticipated operating requirements. Furthermore, the County seeks to match its cash flow needs to the maturity structure of the portfolio to enhance yield. The current investment strategy attempts to:

- (1) Avoid the premature sale of investments to meet day-to-day operating requirements.
- (2) Maintain higher balances in short-term investments when longer-term interest rates are not favorable.
- (3) Further diversify short-term investment options to reduce dependency on money market funds.

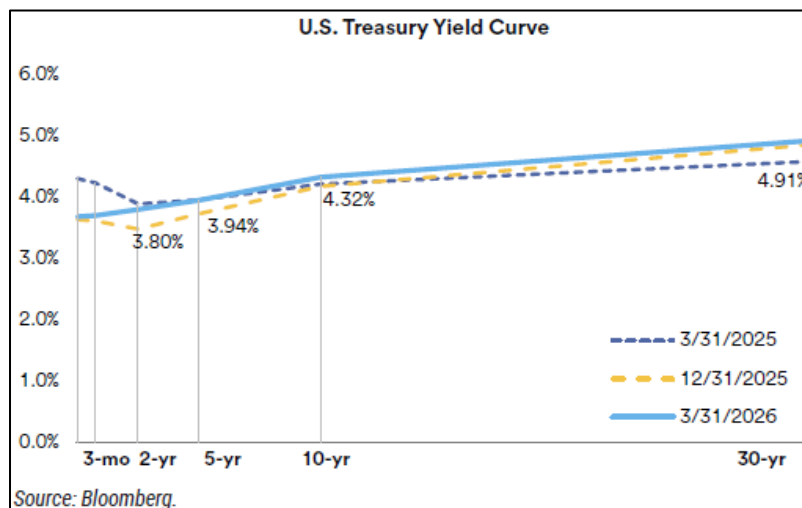
EXCEPTIONS TO INVESTMENT POLICY

In accordance with Section 17 of the Investment Policy, specific exceptions to the policy guidelines are to be included as part of this report. There were no exceptions to the Investment Policy as of quarter end March 31, 2026.

MARKET COMMENTARY

As the Middle East conflict has evolved, equity and fixed income markets have pursued distinctly different paths when assessing risks to broader economic stability. The S&P 500 has established multiple all-time highs, powered almost exclusively by robust first quarter earnings, with technology firms providing much of the momentum. Earnings reports from 63% of the S&P 500 constituents showed EPS growth topping 25% by early May, more than doubling analysts' pre-season estimates. Once again, the premier technology firms, often dubbed the "Magnificent 7", have done the heavy lifting. After removing the impact from the Magnificent 7, earnings per share growth was tracking at 15.5%. While the equity market has largely shrugged off the potential economic drag from higher energy costs, the bond market has repriced Treasury yields materially higher across intermediate to long duration tenors in anticipation of resurgent inflationary pressure. Despite government bond yields remaining range bound from late March through the first week of May, growing inflation expectations abroad, political instability in the United Kingdom and unresolved disruptions to commodity flows through the Persian Gulf have since contributed to a decisive break higher in Treasury yields. Federal Reserve Governor Michael Barr recently warned that inflation remains the dominant risk facing the economy after producer prices accelerated at the fastest pace since 2022. "Markets are starting to price the Fed having to work harder to tamp down inflation," said Ed Al-Hussainy, portfolio manager at Columbia Threadneedle Investments. He noted that the bond market selloff reflects both a worrisome inflation trajectory and the economy heating up, adding that the market may require "at least two hikes in the price before we can take a breather."

Whether the present energy shock impacting many households constitutes a tipping point toward a downturn in economic activity will rest on the duration of the Middle East conflict and the capacity of the broader economy to withstand prolonged cost pressures. Expectations that the U.S. economy can withstand the ongoing energy market disruption is predicated on the assumption that oil prices do not rise materially higher. Aditya Bhave of Bank of America points out that rising gasoline prices have already diminished nearly half of the income gains generated by tax refunds. Attempting to assess the path forward, Bhave compared current wholesale gasoline futures to their February 27 pre-war levels to estimate the additional pressure on household finances. "We estimate the full-year "gas tax" to be around 0.5% of GDP. That is about equal to the boost we estimate from the One Big Beautiful Bill or AI capex. This drag could be much higher as we only focus on gasoline, and the energy shock should drive up the costs of other goods and services." All told, the energy shock not only presents challenges to the business community but compounds a cost-of-living issue that was already problematic for millions of Americans. In a recent note, Apollo Global Management highlighted that "data on consumer confidence shows sentiment falling for households making less than \$50,000 a year, while households making more than \$100,000 are seeing consumer confidence go up." As Apollo noted, the divergence likely reflects differing concerns, with lower-income households focused on rising gas prices and higher-income households more attuned to gains in equity markets. The widely cited "K-shaped" economy appears poised to become a durable trend.



PORTFOLIO HIGHLIGHTS

➤ Portfolio Performance

Investment performance is presented both on a total return basis, which includes the impact of adjusting investments to market value, and earnings yield basis. Total return is made up of two primary components. The first is the earnings/yield income component which is comprised of coupon interest rates, principal value invested, and the time-period of the investments being measured. That component of total return remains relatively stable and moves slowly as new investments are added to the portfolio, or investments are removed from the portfolio as securities mature. The second component of total return is determined by the change in market value¹ of the securities at the end of the period being measured. This portion of the total return can be volatile given changes in the economic environment, Federal Reserve Board (FRB) rate policies, and significant geopolitical events.

The target federal funds rate is a significant driver behind the average yield and return characteristics of the portfolio. In addition, factors such as prevailing interest rates at the time assets are purchased or sold, market volatility, the portfolio's duration, and cash flow requirements can impact overall portfolio yield and total return performance.

Market pricing of approximately 60 basis points in interest cuts during 2026 were quickly unwound after U.S. and Israeli forces commenced strikes against Iran on February 28. Speculation surrounding the inflationary impact from rising energy prices saw U.S. Treasury rates rise sharply across the 2 - 30-year portion of the yield curve. Despite the selloff in government bonds, portfolio assets generated a positive total return of 2.15%, bolstered by a 3.79% gain on cash holdings. Federal agency bonds, normally the primary driver of cumulative total return, advanced 1.01%. Corporate and municipal positions, which also shape overall portfolio performance, gained 1.07% and 2.06%, respectively. U.S. Treasury notes, an expanding share of total assets, fell 0.07%. As rising energy prices have begun to place upward pressure on producer input costs, which could translate into broader goods and services inflation, near-term monetary policy easing by the Federal Reserve appears remote. Consequently, the prevailing interest rate environment should support a modest rise in the earnings yield on portfolio assets for the remainder of FY 2026 and into early FY 2027.

Quarterly Comparison	FY 2026 Q3	FY 2026 Q2	FY 2025 Q3
Total Return	2.15%	4.34%	6.84%
Earnings Yield	3.27%	3.23%	3.09%

¹ A change in market value will not impact future cash flow.

➤ **Investment Earnings**

On a total return basis, the general portfolio's total earnings rose \$13.5 million following an increase of \$26.4 million the previous quarter. Investment earnings received and allocated to the general fund through March 31, 2026, were \$33.3 million. The projected interest rate climate is expected to support returns on cash/cash equivalent investments - the primary driver of investment income to date - and fixed income securities purchases leading into the end of the fiscal year. The current investment environment supports raising the FY 2026 investment income forecast to \$42.5 million from the revised projection of \$37.0 million.

➤ **Market Value**

The amortized value of the County's portfolio at quarter end was \$2.41 billion and the market value was \$2.37 billion. This represents an unrealized marked-to-market loss of \$40.3 million, a decrease of 1.67%.

➤ **Investment Activity**

Funds available to invest were predominantly allocated to federal agency, corporate and U.S. Treasury securities. Combined, purchases during the quarter generated a weighted yield-to-maturity of 4.18%, an increase of 9 basis points versus the prior quarter.

Transactions	Par Value (millions)	Yield
Purchase	\$144.7	4.18%
Mature/Call	\$108.2	2.36%

➤ **Maturity**

The weighted average maturity (WAM) of assets as of March 31, 2026, was 2.5 years, while the WAM on a callable life basis was 466 days. The portfolio's duration at quarter end was 2.2 years.

➤ **Portfolio Composition and Maturity Distribution**

Investments held by the County are diversified to control the risk of loss resulting from over-concentration of assets in a specific security or class of securities. The first table presented on the next page outlines the County's investment policy limits for each asset category, along with the percentage of assets held by investment type as of March 31, 2026. The second table displays the maturity distribution of holdings across investment categories.

Portfolio Composition

Investment Type	Policy Limit	Allocation As of 3/31/2026
Federal Agency	100%	33.1%
Corporate Bond	35%	12.4%
Virginia Municipal Bond	100%	6.2%
Non-Virginia Municipal Bond	35%	10.0%
Treasury Bond	100%	6.1%
Commercial Paper	35%	0.4%
Local Government Investment Pool	50%	27.6%
Money Market Fund	60%	1.8%
Cash	100%	2.4%

Maturity Distribution As of 3/31/2026 (Millions)

Investment Type	Daily Liquidity	1 - 360 Days	13 - 24 Months	25 - 48 Months	49 - 60 Months	Over 60 Months
Local Government Investment Pool	670.0	0.0	0.0	0.0	0.0	0.0
Cash	58.0	0.0	0.0	0.0	0.0	0.0
Money Market Fund	44.1	0.0	0.0	0.0	0.0	0.0
Commercial Paper	0.0	10.0	0.0	0.0	0.0	0.0
Federal Agency Bond	0.0	152.4	97.5	158.1	171.0	220.0
Corporate Bond	0.0	60.0	25.0	98.0	151.1	0.0
Municipal Bond	0.0	40.2	58.5	171.1	59.0	63.6
Treasury Bond	0.0	0.0	0.0	30.0	74.0	35.0
Totals	772.1	252.6	181.0	457.2	455.1	318.6

➤ **Performance Benchmarks (QTR)**

As of March 31, 2026, total return on non-money market holdings of 1.22% outperformed the ICE BofA 1-5-year Treasury index by 42 basis points, while the earnings yield of 2.97% for the same group of assets trailed the benchmark by 10 basis points. The County's cash/cash equivalents yield of 3.79% slightly lagged the Virginia Local Government Investment Pool's (LGIP) yield on assets of 3.80%. With limited clarity surrounding the inflationary impact on the consumption of goods and services and company profit margins in the coming months, both equity and fixed-income markets are likely to encounter bouts of near-term volatility. As conditions evolve, the return profile on the County's portfolio of assets will likely fluctuate as markets reposition to reflect shifting economic dynamics. Provided funds available to invest are disbursed within the current interest rate environment, the yield earned on non-money market instruments should continue to increase modestly as lower yielding bonds mature over the next several quarters.

Total Return

Date	ICE BofA 1-5 Year Treasury Index	Prince William County Non-Money Market
3/31/2024	-0.07%	1.25%
3/31/2025	8.38%	7.90%
3/31/2026	0.80%	1.22%

Earnings Yield

Date	ICE BofA 1-5 Year Treasury Index	Prince William County Non-Money Market
3/31/2024	2.44%	2.08%
3/31/2025	3.11%	2.49%
3/31/2026	3.07%	2.97%

➤ **Performance Benchmarks (FYTD)**

Against a backdrop of persistent market volatility, the County has maintained a positioning strategy designed to help mitigate interest rate risk, while recognizing possible downside risks to the U.S. economy. With little progress toward resolving the Middle East conflict, markets have shifted from anticipating additional interest rate cuts in 2026 to pricing in a broader reacceleration of inflation. As a result, investment earnings are expected to benefit from higher yields on noncash-based investments over the near term. On a fiscal year-to-date basis, the County’s total return on general portfolio assets was 3.85% versus 5.71% for the same period one year prior. The table below provides year-over-year average returns for the County’s general portfolio, the ICE BofA Treasury Index, Virginia LGIP, and select government securities.

Performance Benchmarks (FYTD)	Jul-2025 to Mar-2026	Jul-2024 to Mar-2025
PWC General Portfolio		
Total Return	3.85%	5.71%
Earnings Yield	3.23%	3.05%
ICE BofA Index		
Total Return 1-5 Yr. Treasury	3.51%	6.49%
Earnings Yield 1-5 Yr. Treasury	3.11%	2.95%
Virginia LGIP	3.84%	4.93%
90 Day U.S. Treasury Bill	3.94%	4.72%
2 Year U.S. Treasury Note	3.61%	4.11%