PRINCE WILLIAM
Finance

Investment Performance Report

Fourth Quarter - Fiscal Year 2026
(For the Quarter Ending June 30, 2026)

EXECUTIVE SUMMARY

This report reflects the FY 2026 fourth quarter performance of the County's investment management program for quarter end June 30, 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 July 29 to maintain the target range of the Federal Funds rate at 3.50% - 3.75%. The decision was widely anticipated but tension has begun to emerge among officials about the necessary policy response to restore price stability. While newly confirmed Federal Reserve Chair Kevin Warsh has firmly voiced commitment to the central bank's 2% inflation target, markets have grown increasingly skeptical given the absence of details about how that objective will be achieved. 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.

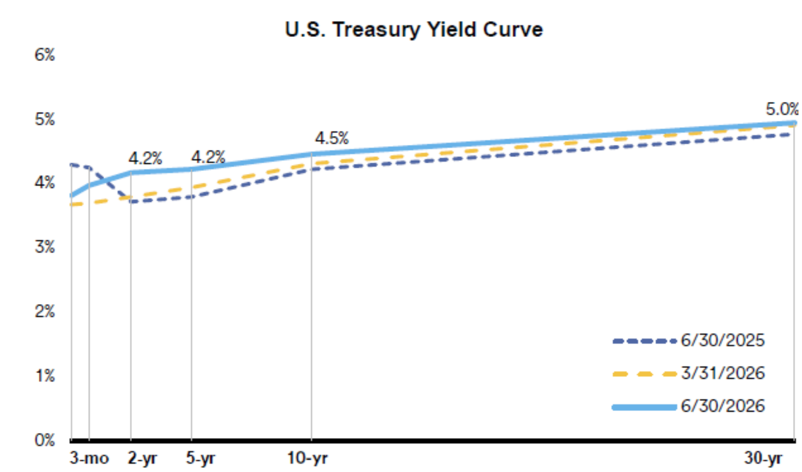
EXCEPTIONS TO INVESTMENT POLICY

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 June 30, 2026.

MARKET COMMENTARY

U.S. equities staged a powerful rally in the second quarter, despite continued geopolitical uncertainty surrounding the war between the United States and Iran. The quarter was characterized by a reversal in energy prices, changing expectations for monetary policy and renewed investor appetite for risk assets. Investors appeared increasingly unfazed by the Middle East conflict as measures of economic health pointed to a resilient U.S. economy. The S&P 500 gained nearly 15% during the quarter, while the Nasdaq Composite rose more than 21%. Both indices recorded their best quarterly performance since the second quarter of 2020. Stronger than projected second quarter earnings have provided fresh momentum for the market. With 89% of S&P 500 companies having reported, earnings per share growth stands at 32% versus a projected 23%. The results have helped propel the index to several all-time highs in the first six weeks of the third quarter. According to Bloomberg all sectors have eclipsed expectations, led by energy, technology and materials, with earnings growth of 150%, 70% and 42%, respectively. In contrast, the bond market experienced considerably greater volatility. The initial oil price shock intensified concerns over the persistence of inflation, placing upward pressure on Treasury yields and prompting markets to scale back expectations for Federal Reserve rate reductions. The subsequent moderation in energy prices contributed to a reduction in price pressures, yet overall inflation, as reflected by the Consumer Price Index and Personal Consumption Expenditures, remains elevated relative to pre-war levels.

As traders debate the possibility and timing of the Federal Reserve raising the Federal Funds rate, market expectations are growing that central banks around the globe are poised to tighten monetary policy. Market implied policy rates suggest borrowing costs will increase by varying amounts over the next twelve months in Japan, Canada, the United Kingdom and the Euro zone. According to Bloomberg, of the thirty-two swap markets tracked by the company two-thirds are priced for interest rate increases, led by South Korea with roughly 100 basis points of tightening. While domestic factors have a role in each market, there are structural challenges afoot that are placing upward pressure on government bond yields in the U.S. and abroad. Prolonged geopolitical uncertainty raises the risk that economies will become more susceptible to supply-side disruptions and inflationary pressures. Meanwhile, concerns over fiscal discipline are mounting as bondholders question governments' capacity to restrain spending and safeguard fiscal sustainability. Higher interest rates are adding to the difficult fiscal environment facing the world's major economies. In the US, the cost of servicing government debt has become an increasingly significant contributor to the expanding budget deficit. Fiscal-year-to-date interest payments have climbed to $1.17 trillion, a 15% increase driven in part by higher Treasury yields. The Federal Reserve's June meeting minutes revealed policymakers were informed by the manager of Open Market Operations that the "ownership composition of Treasury securities has shifted somewhat over the past several years from relatively price-insensitive official-sector holders to more price-sensitive private investors, which could have implications for the term premium component of yields." In other words, price sensitive investors will likely demand additional yield to hold Treasury securities. While the national debt is on the cusp of exceeding the $40 trillion mark, strategists at Yardeni Research recently noted they were not prepared to push the "panic button." "However, we are closely monitoring whether the bond vigilantes might do so."



Source: Bloomberg.

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 value[1] 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.

U.S. government bond yields increased during the quarter as market expectations grew the Federal Reserve could increase interest rates in response to persistent inflationary pressure. Despite the upward move in Treasury yields, portfolio assets posted a positive total return of 2.18%, bolstered by a 3.74% gain on cash holdings. Federal agency bonds, normally the primary driver of cumulative total return, advanced 1.72%. Corporate and municipal positions, which also shape overall portfolio performance, gained 2.62% and 1.33%, respectively. U.S. Treasury notes, an expanding share of total assets, rose 0.19%. The underlying factors influencing the current interest rate environment should continue to support gradual growth in the earnings yield on portfolio assets through early FY 2027.

Quarterly Comparison	FY 2026 Q4	FY 2026 Q3	FY 2025 Q4
Total Return	2.18%	2.15%	5.42%
Earnings Yield	3.28%	3.27%	3.02%

[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 $12.2 million following an increase of $13.5 million the previous quarter. Investment earnings received and allocated to the general fund through May 31, 2026, were $40.2 million. Treasury Management estimates investment income for June will be $3.1 million, raising total FY 2026 investment earnings to a projected $43.3 million, a $13.9 million surplus versus the adopted forecast of $29.4 million.

➢ Market Value

The amortized value of the County's portfolio at quarter end was $2.18 billion and the market value was $2.13 billion. This represents an unrealized marked-to-market loss of $46.4 million, a decrease of 2.1%.

➢ 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 4.21%, an increase of 3 basis points versus the prior quarter.

Transactions	Par Value (millions)	Yield
Purchase	$124.3	4.21%
Mature/Call	$41.1	4.27%

➢ Maturity

The weighted average maturity (WAM) of assets as of June 30, 2026, was 2.8 years, while the WAM on a callable life basis was 535 days. The portfolio's duration at quarter end was 2.5 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 June 30, 2026. The second table displays the maturity distribution of holdings across investment categories.

Portfolio Composition

Investment Type	Policy Limit	Allocation As of 6/30/2026
Federal Agency	100%	37.1%
Corporate Bond	35%	14.8%
Virginia Municipal Bond	100%	6.7%
Non-Virginia Municipal Bond	35%	11.3%
Treasury Bond	100%	8.6%
Commercial Paper	35%	0.4%
Local Government Investment Pool	50%	15.8%
Money Market Fund	60%	2.6%
Cash	100%	2.7%

Maturity Distribution
As of 6/30/2026 (Millions)

Investment Type	Daily Liquidity	1 – 360 Days	13 – 24 Months	25 - 48 Months	49 – 60 Months	Over 60 Months
Local Government Investment Pool	344.7	0.0	0.0	0.0	0.0	0.0
Cash	58.5	0.0	0.0	0.0	0.0	0.0
Money Market Fund	56.6	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	166.1	83.8	186.1	142.7	229.6
Corporate Bond	0.0	64.9	35.0	118.0	105.1	0.0
Municipal Bond	0.0	39.2	76.4	153.8	53.4	69.1
Treasury Bond	0.0	0.0	0.0	78.0	75.0	35.0
Totals	**459.8**	**280.2**	**195.2**	**535.9**	**376.2**	**333.7**

➢ Performance Benchmarks (QTR)

As of June 30, 2026, total return on non-money market holdings of 1.66% outperformed the ICE BofA 1-5-year Treasury index by 60 basis points, while the earnings yield of 3.13% for the same group of assets equaled the benchmark. The County's cash/cash equivalents yield of 3.74% slightly lagged the Virginia Local Government Investment Pool's (LGIP) yield on assets of 3.76%. With limited clarity surrounding the outlook for inflation and interest rates, as well as their potential impact on the consumption of goods and services 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
6/30/2024	4.39%	3.25%
6/30/2025	5.35%	5.73%
6/30/2026	1.06%	1.66%

Earnings Yield

Date	ICE BofA 1-5 Year Treasury Index	Prince William County Non-Money Market
6/30/2024	2.71%	2.19%
6/30/2025	3.08%	2.59%
6/30/2026	3.13%	3.13%

➢ 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 and Federal Reserve Chair Kevin Warsh's implied commitment to achieving the Federal Reserve's 2% inflation target, markets have begun to position for a possible interest rate hike later this year. As a result, investment earnings are expected to benefit from higher yields on noncash-based investments over the near term. Amid continued domestic and geopolitical challenges throughout FY 2026, the County's total return on general portfolio assets was 3.46% on a fiscal year-to-date basis versus 5.64% 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 Jun-2026**	**Jul-2024 to Jun-2025**
PWC General Portfolio		
Total Return	3.46%	5.64%
Earnings Yield	3.25%	3.04%
ICE BofA Index		
Total Return 1-5 Yr. Treasury	2.86%	6.26%
Earnings Yield 1-5 Yr. Treasury	3.11%	2.98%
Virginia LGIP	4.13%	4.77%
90 Day U.S. Treasury Bill	3.89%	4.63%
2 Year U.S. Treasury Note	3.70%	4.05%