
MEMORANDUM

TO: MATTHEW MUELLER, TOWN MANAGER
FROM: KELLY WILSON, CHIEF FINANCIAL OFFICER
SUBJECT: INVESTMENT REPORT FOR QUARTER ENDING JUNE 30, 2023
CC: MAYOR AND COUNCIL

Attached is the Quarterly Investment Report for the first quarter ending June 30, 2023 Fiscal Year 2022-2023. This report complies with the requirements of the Town's Investment Policy and the Public Fund's Investment Act as amended. For the period ending June 30, 2023, the Town's portfolio consisted of the following investments:

Portfolio by Type	Average Yield	Total Invested	Percent of Total
Money Market - Independent Financial	5.37%	\$77,743,695.76	47.09%
TexPool/TexPool Prime/LOGIC Prime	5.12%	47,174,229.79	28.57%
Certificate of Deposit	4.80%	12,119,055.72	7.38%
US Treasury Notes	3.41%	4,839,350.00	3.03%
US Agency Bonds	3.60%	22,616,925.00	13.93%
Total Portfolio (Avg)	4.46%	\$164,493,256.27	100.00%

The Town has been actively diversifying the investment portfolio in order to minimize risk of over 50% of funds in one portfolio type as well as capturing a better yield. As interest rates are following the federal government increasing rates, the Town is actively participating in other higher yield investments. All Funds on deposit with Independent Financial are fully secured and safeguarded as well as collateralized. Total interest earned for the third quarter ending June 30, 2023 was \$1,890,757. The Town's year-to-date interest earnings for Fiscal Year 2022-2023 reflects \$4,599,112.

Total cash and investments for the period ending June 30, 2023 was \$164,493,256.27. The variance decrease of \$6,856,819.43 from the last quarterly investment report is primarily due to Town's operating and capital expenditures. The cash flow is important for Finance to monitor in order to provide cash availability for expenditures while minimizing risk, preventing early redemptions of investments, and maximizing interest earnings.

The Town's current portfolio has significant resources available for same day access in order to cover normal and seasonal operational costs. The Town's investment and cash management strategy will be to maintain operational and capital needs in money market accounts and liquid asset pools but investing in other instruments in order to capitalize on interest earnings while keeping risk to a minimum. The Town's funds are swept to the above accounts and withdrawn as needed for operational cash flow requirements.

The total portfolio yield fiscal year-to-date is 4.46%. While some benchmarks to reference the US Treasury T-bill rates for 3 months is 5.17%; 1 year is 5.13%; and a 2 year is 5.10% as of the date of this report. The

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Town's portfolio yield at the time of this report does not exceed the 3-month benchmark but will continue to improve as we continue to invest in safe investments outlined in the Town's investment policy.

2023 Q3 Economic Recap and Rate Outlook

The Federal Reserve raised interest rates to the highest level in 22 years and left the door open to additional increases as officials fine-tune their effort to further quell inflation. The quarter percentage-point hike, a unanimous decision, lifted the target range for the Fed's benchmark federal funds rate to 5.25% to 5.5%, the highest level since 2001. It marked the 11th increase since March 2022, when the rate was near zero.

"The committee will continue to assess additional information and its implications for monetary policy," the central bank's Federal Open Market Committee said in a statement published in Washington, which overall was almost identical to its previous statement in June.

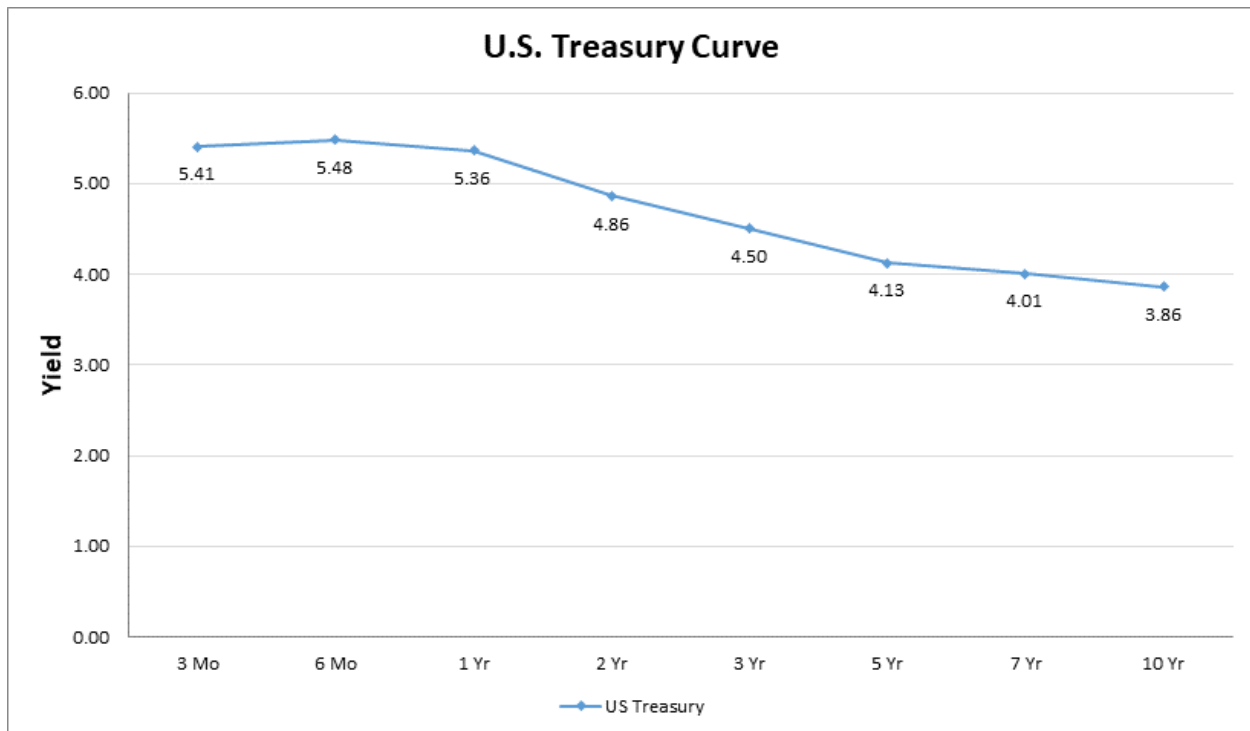
"In determining the extent of additional policy firming that may be appropriate to return inflation to 2% over time, the committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments."

Together, those sentences suggest that officials are holding their options open to either hike again at their next meeting in September, or pause or skip an increase depending on incoming data.

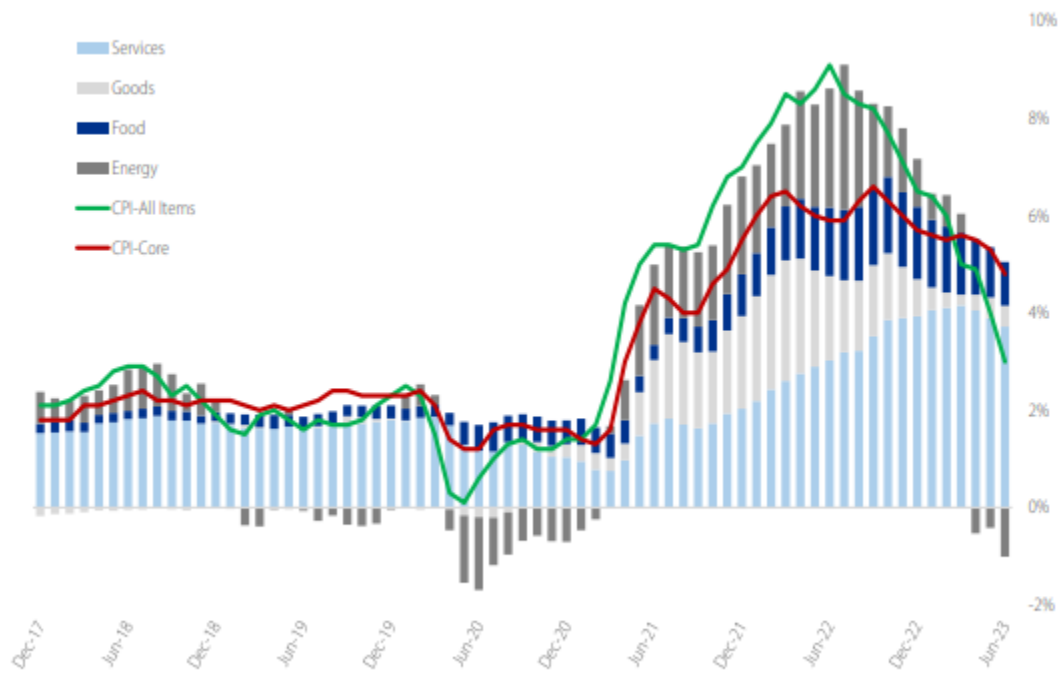
The Fed has since early last year engaged in the most aggressive tightening campaign since the 1980s in an effort to curb inflation, which in 2022 hit a 40-year high. While policy makers paused rate hikes last month to assess the impact of previous moves, they also signaled at the time that two more increases would probably be appropriate by the end of the year.

The latest hike was widely anticipated after recent reports showed a resilient economy that has largely withstood higher interest rates so far. However, ahead of this decision, investors saw a second increase as less certain, in part because of data on consumer prices showing inflation receded sharply.

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Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

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Quarterly Investment Report

For the Quarter Ended

June 30, 2023

Prepared by the Town of Little Elm Finance Department

Overview of the Quarterly Investment Report

Funds on deposit with depository bank are fully collateralized.

- **YTD Cash and Investments on hand: \$164,493,256.27**
 - 47.09% in depository bank
 - 28.57% invested in Pools
 - 7.38% invested in CDs
 - 3.03% invested in US Treasury Notes
 - 13.93% invested in US Agency Bonds
- **Interest Earnings**
 - \$4,599,112 YTD
 - \$1,890,757 April-June 2023
- **Average Yield on Portfolio**
 - 4.46% YTD
 - 3.92% at end of 2nd Quarter – FY 2022-2023
- **Average Yield Benchmarks**
 - 5.17% Three Month Rolling Treasury Yield
 - 5.13% One Year Rolling Treasury Yield
 - 5.116% TexPool/Logic Average Yield
- **Certification of Investment Policy (Government Treasurers' Organization of Texas)**
 - Awarded for 2-year period ending March 31, 2024
 - Town has obtained re-certification

The investment portfolio of the Town of Little Elm is in compliance with the Public Funds Investment Act and the investment Policy and Strategies.

Kelly Wilson

Kelly Wilson, Chief Financial Officer

Betty Pamplin

Betty Pamplin, Assistant Director of Finance