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## MEMORANDUM

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**TO:** MATTHEW MUELLER, TOWN MANAGER  
**FROM:** KELLY WILSON, CHIEF FINANCIAL OFFICER  
**SUBJECT:** INVESTMENT REPORT FOR QUARTER ENDING DECEMBER 31, 2023  
**CC:** MAYOR AND COUNCIL

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Attached is the Quarterly Investment Report for the quarter ending December 31, 2023 Fiscal Year 2023-2024. 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 December 31, 2023, the Town's portfolio consisted of the following investments:

Portfolio by Type	Average Yield	Total Invested	Percent of Total
Money Market - Independent Financial	5.65%	\$93,184,577.44	54.30%
TexPool/TexPool Prime/LOGIC Prime	5.52%	34,950,677.78	20.37%
Certificate of Deposit	5.09%	16,289,745.07	9.48%
US Treasury Notes	4.43%	9,809,950.00	5.83%
US Agency Bonds	4.35%	17,068,012.00	10.03%
<b>Total Portfolio (Avg)</b>	<b>5.01%</b>	<b>\$171,302,962.29</b>	<b>100.00%</b>

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 first quarter ending December 31, 2023 was \$1,702,514.

Total cash and investments for the period ending December 31, 2023 was \$171,302,962.29. The variance increase of \$19,520,601.74 from the last quarterly investment report is primarily due to Town's collections of property tax that is received in this quarter. 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 5.01%. While some benchmarks to reference the US Treasury T-bill rates for 3 months is 5.20%; 1 year is 4.55%; and a 2 year is 4.05% as of the date of this report. The 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.

FINANCE DEPARTMENT  
QUARTERLY INVESTMENT REPORT

2024 Economic Federal Reserve Rate Outlook

The Federal Reserve held interest rates steady for the fourth straight meeting and signaled their openness to cutting them, though not necessarily right away. In a statement issued after their two-day meeting, Fed officials dropped their previous assertion that a rate hike was possible and instead adopted a more even-handed assessment of the future policy path.

“The Committee judges that the risks to achieving its employment and inflation goals are moving into better balance,” the central bank’s policy-making Federal Open Market Committee said Wednesday. “In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.”

But in a sign that officials are not in a rush to reduce rates, the FOMC also said it “does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%.”

The decision to leave the target range for the benchmark federal funds rate unchanged at a 22-year-high of 5.25% to 5.5% was unanimous. The central bank also reiterated its intention to continue reducing its balance sheet by as much as \$95 billion per month.

In their post-meeting statement, policymakers tweaked their description of economic activity. Following stronger-than-expected economic growth in the fourth quarter, the committee described activity as “expanding at a solid pace.”

Among other changes to the statement, the committee omitted language that had been included in some form since last March, calling the banking system “sound and resilient” and warning that tighter credit conditions were likely to weigh on the economy.

As usual at the start of the year, the January meeting brought a rotation of new voters to the FOMC, including the presidents of the Fed’s regional banks in Atlanta, Cleveland, Richmond and San Francisco.

The FOMC also used its first meeting of the year to reaffirm its long-term goals and monetary policy strategy, including its commitment to a 2% average inflation target.

The committee also updated its policies governing investments and trading by Fed staff and policymakers. It expanded the number of Fed staff who are subject to the most stringent restrictions and tightened restrictions on all staff with access to confidential FOMC information.

Across the board, the economy performed better than policymakers expected last year.

Inflation fell more steeply, with the Fed’s favored measure ending the year at 2.6%. The economy expanded more quickly, with gross domestic product climbing 2.5%. And the jobs market was stronger, with the unemployment rate in December clocking in at 3.7%, generally in line with where it was when Fed officials began raising rates in March 2022.

The Bureau of Labor Statistics will release data Friday on the job market in January, the first key reading on how the economy is performing so far in 2024. Economists are anticipating a generally solid report, with payroll growth slowing a bit and unemployment ticking up just slightly.

In the run-up to Wednesday’s meeting, policymakers suggested they’re willing to begin contemplating rate cuts while pushing back against investors’ hopes for imminent and deep reductions.

FINANCE DEPARTMENT  
QUARTERLY INVESTMENT REPORT

“With economic activity and labor markets in good shape and inflation coming down gradually to 2%, I see no reason to move as quickly or cut as rapidly as in the past,” Fed Governor Christopher Waller said at a Brookings Institution event on Jan.16.

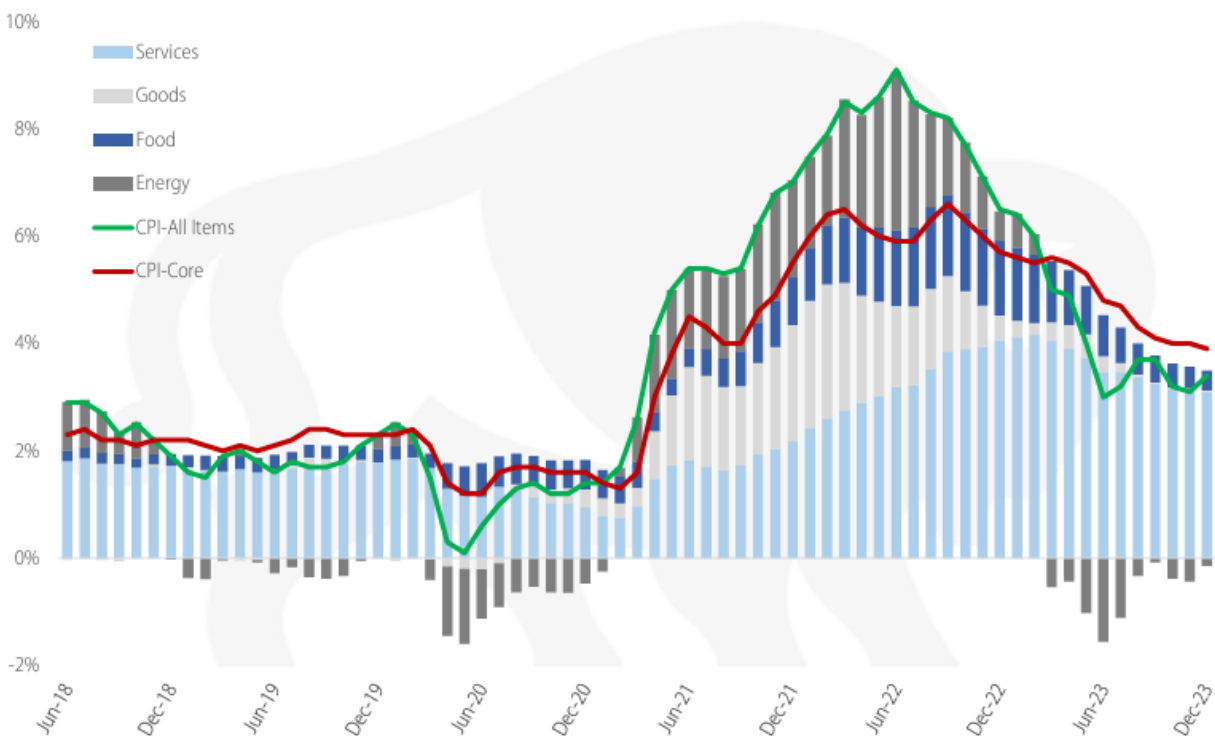
In December, policymakers projected a cumulative 75 basis points of cuts this year, according to their median forecast. They’ll next update those forecasts in March.

The Fed is trying to accomplish something it’s arguably only pulled off once in its more than its 100-year history: corral inflation through tighter credit without crashing the US into a recession.

What’s more, it’s trying to complete that task during a presidential election year and in a country that’s deeply divided politically.

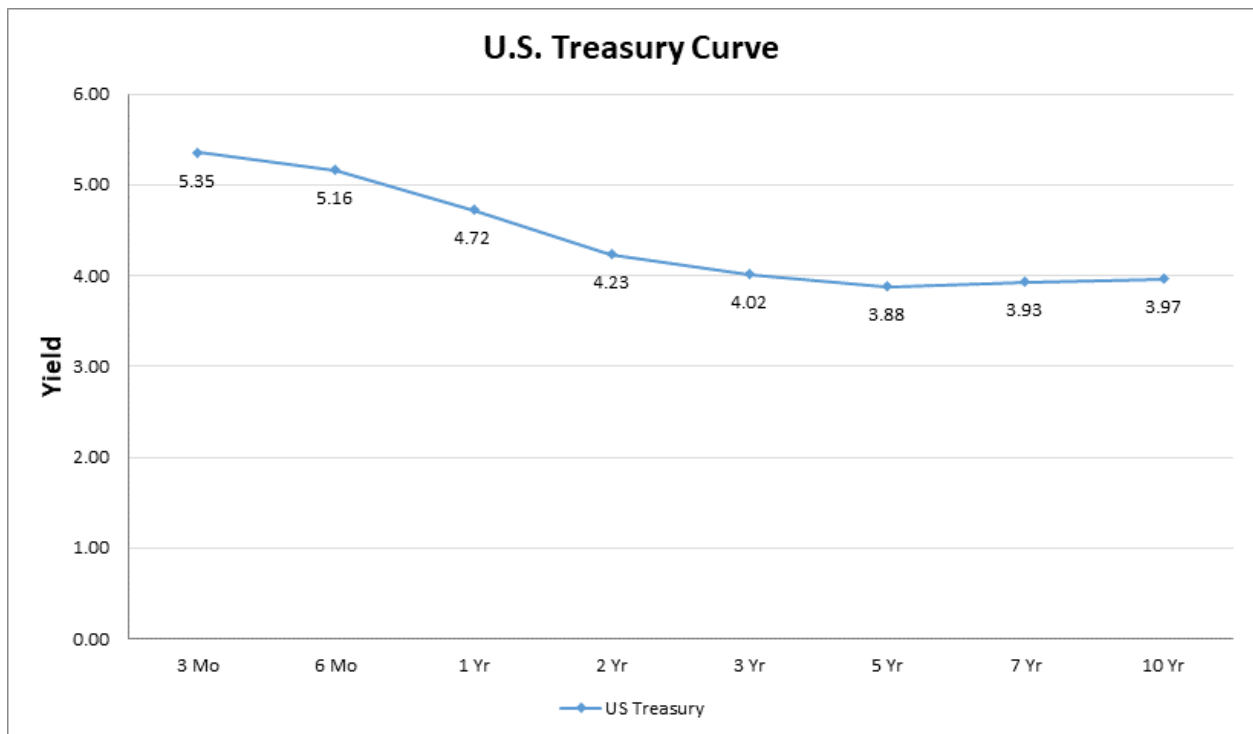
Several Democratic Party lawmakers - including Senate Banking Committee Chair Sherrod Brown, and Massachusetts Senator and former presidential candidate Elizabeth Warren - wrote to Powell this week urging him to lower interest rates.

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



Source: Bureau of Labor Statistics

FINANCE DEPARTMENT  
QUARTERLY INVESTMENT REPORT



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QUARTERLY INVESTMENT REPORT



**Quarterly Investment Report**

For the Quarter Ended

**September 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: \$171,302,962.29**
  - 54.30% in depository bank
  - 20.37% invested in Pools
  - 9.48% invested in CDs
  - 5.83% invested in US Treasury Notes
  - 10.03% invested in US Agency Bonds
- **Interest Earnings**
  - \$1,702,514 YTD
  - \$1,702,514 October-December 2023
- **Average Yield on Portfolio**
  - 5.01% YTD
  - 4.82% at end of 4th Quarter – FY 2022-2023
- **Average Yield Benchmarks**
  - 5.20% Three Month Rolling Treasury Yield
  - 4.55 % One Year Rolling Treasury Yield
  - 5.515% TexPool/Logic Average Yield
- **Certification of Investment Policy (Government Treasurers' Organization of Texas)**
  - Awarded for 2-year period ending March 31, 2024
  - Town has submitted for re-certification

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*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