
MEMORANDUM

TO: MATTHEW MUELLER, TOWN MANAGER
FROM: KELLY WILSON, CHIEF FINANCIAL OFFICER
SUBJECT: INVESTMENT REPORT FOR QUARTER ENDING DECEMBER 31, 2024
CC: MAYOR AND COUNCIL

Attached is the Quarterly Investment Report for the quarter ending December 31, 2024 Fiscal Year 2024-2025. 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, 2024, the Town's portfolio consisted of the following investments:

Portfolio by Type	Average Yield	Total Invested	Percent of Total
Money Market - Independent Financial	4.90%	\$60,478,036.46	30.22%
TexPool/TexPool Prime/LOGIC Prime/SLGS	4.26%	56,464,419.53	28.21%
Certificate of Deposit	4.84%	20,701,403.82	10.30%
US Treasury Notes	4.77%	2,434,825.00	1.25%
US Agency Bonds	4.51%	58,423,949.00	29.38%
Municipal Bonds	3.95%	1,290,247.35	0.65%
Total Portfolio (Avg)	4.54%	\$199,792,881.16	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 first quarter ending December 31, 2024 was \$1,989,839. This is an increase from FY 2024 first quarter interest earnings by \$287,326 or 16.8%.

Total cash and investments for the period ending December 31, 2024 was \$199,792,881. The variance increases of \$15,563,464 from the last quarterly investment report is primarily due to collections of property tax during this period while spend down for capital projects and operations. 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 The Town's funds are swept to the above accounts and withdrawn as needed for operational cash flow requirements.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 4.54%. While some benchmarks to reference the US Treasury T-bill rates for 3 months is 4.34%; 1 year is 4.21%; and a 2 year is 4.27% as of the date of this report. The

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Town's portfolio yield at the time of this report exceeds the 3-month benchmark. Finance will continue to invest in safe investments outlined in the Town's investment policy.

Economic Summary – Q4 2024

At the start of the fourth quarter, less than two weeks after Fed officials began their easing campaign with a surprisingly bold half point cut, the bond market was pricing in 175 basis points of additional reductions for the upcoming year. The expectation was that labor conditions would continue to soften while inflation moved lower, allowing the Fed to gradually normalize interest rate policy.

As it turned out, neither scenario materialized. The outcome was a counter-intuitive increase in longer bond yields as investors recalibrated a higher path of future inflation and the Fed's likely response.

The November election brought a degree of certainty to the equity markets, but the bond market selloff accelerated further as investors grappled with proposed policies likely to further stoke inflationary pressure. Since high consumer prices were a determining factor in the election of Donald Trump, it's questionable how many of those promises will ultimately be kept if the result would be even higher prices.

Inflation

The U.S. economy is on track to grow at the fastest annual rate of any advanced country for the second consecutive year. This persistent strength has been an underreported factor in keeping inflation above the Fed's target and will ultimately delay efforts to bring the overnight target to neutral.

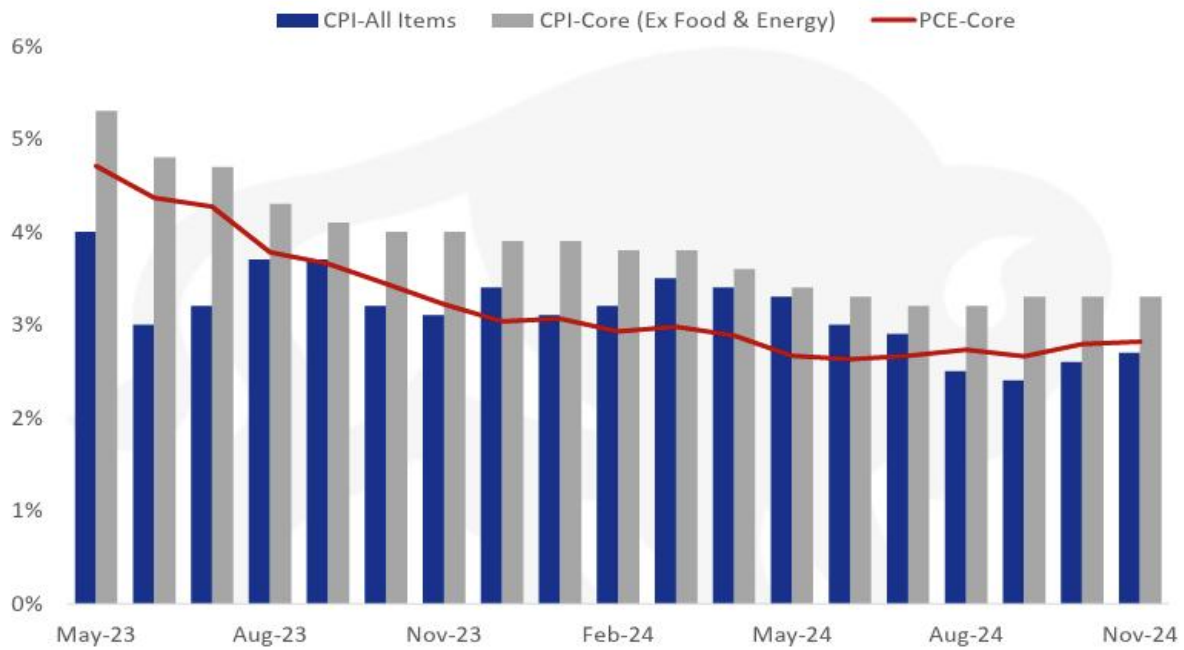
The overall consumer price index (CPI) was up +0.3% in November, the highest monthly increase since April, boosting the annual rate up from +2.6% to +2.7%. Core CPI also rose +0.3% in November while the annual pace held frustratingly steady at +3.3% for a third straight month. There were trend-bucking price increases in new and used vehicles, groceries and gasoline, all combining to halt a string of deflation in the goods sector. However, there was a bright spot on the service side as shelter costs, the most stubborn of the inflationary components, logged the smallest annual gain in nearly four years.

The Fed's preferred inflation measure turned out to be more favorable than CPI. The personal consumption expenditures (PCE) index edged just +0.1% higher in November after two months of +0.2% gains. On a year-over-year basis, headline PCE came in slightly below forecast at +2.4%. More importantly, core PCE rose just +0.1% in November, the coolest since May, and +2.8% year-over-year (slightly below forecast.) This was an encouraging report, but the price trend established over the next several months will determine Fed policy going forward.

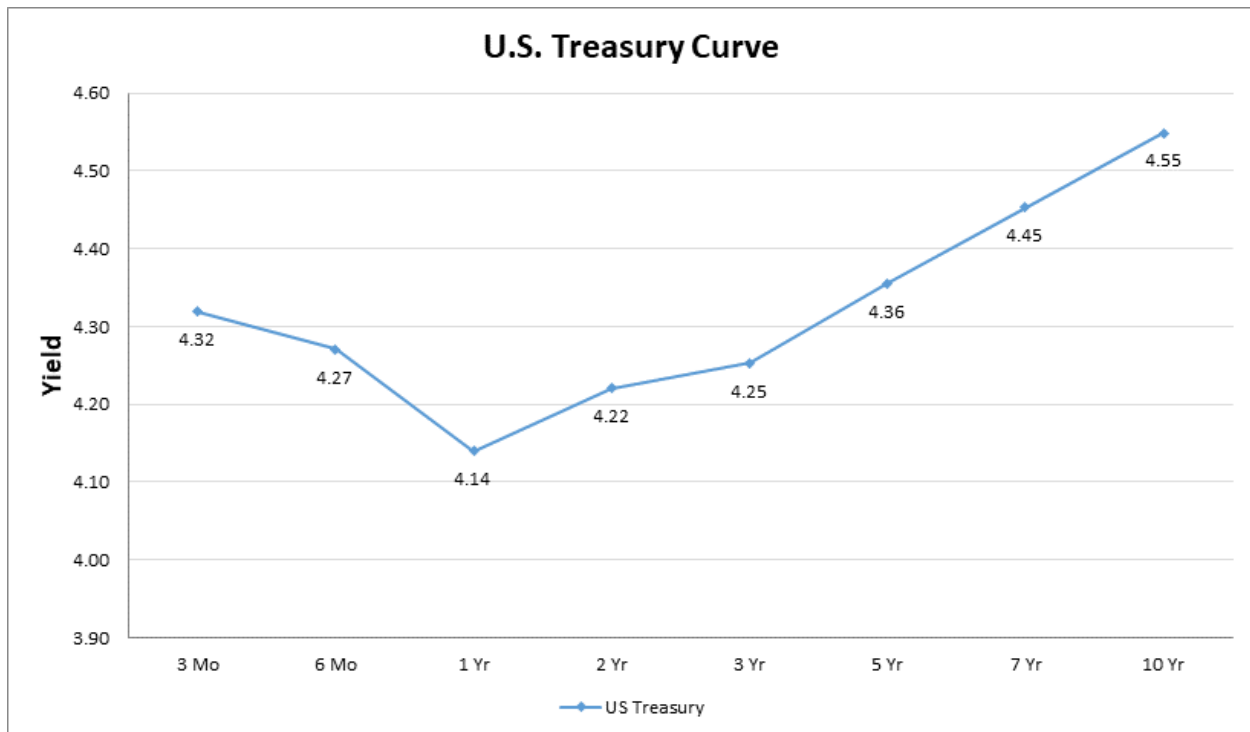
Tariffs could push prices higher in 2025, but if shelter costs continue to fall (as CPI had indicated), core inflation should eventually recede. There is quite a bit of evidence that the inventory of new homes has moved sharply higher in recent months, while the increased number of apartments on the market is creating advantages for renters. Many U.S. cities are seeing significant incentives to rent for the first time in years.

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Inflation Indicators (year-over-year percent change)



Source: Bureau of Labor Statistics, Bureau of Economic Analysis



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Quarterly Investment Report

For the Quarter Ended

December 31, 2024

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: \$199,792,881**
 - 30.22% in depository bank
 - 28.21% invested in Pools
 - 10.30% invested in CDs
 - 1.25% invested in US Treasury Notes
 - 29.38% invested in US Agency Bonds
 - 0.65% invested in Municipal Bonds
- **Interest Earnings**
 - \$1,989,839 YTD
 - \$1,989,839 October-December 2024
- **Average Yield on Portfolio**
 - 4.54% YTD
 - 4.73% at end of 4th Quarter – FY 2023-2024
- **Average Yield Benchmarks**
 - 4.34% Three Month Rolling Treasury Yield
 - 4.21% One Year Rolling Treasury Yield
 - 4.79% TexPool/Logic Average Yield
- **Certification of Investment Policy (Government Treasurers' Organization of Texas)**
 - Awarded for 2-year period ending April 30, 2026

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