

Memorandum



CITY OF DALLAS

DATE May 17, 2024

Honorable Members of the Government Performance and Financial Management
 TO Committee: Chad West (Chair), Paula Blackmon (Vice Chair), Cara Mendelsohn,
 Jesse Moreno, Jaime Resendez

SUBJECT **Quarterly Investment Report – 2nd Quarter FY2023-24**

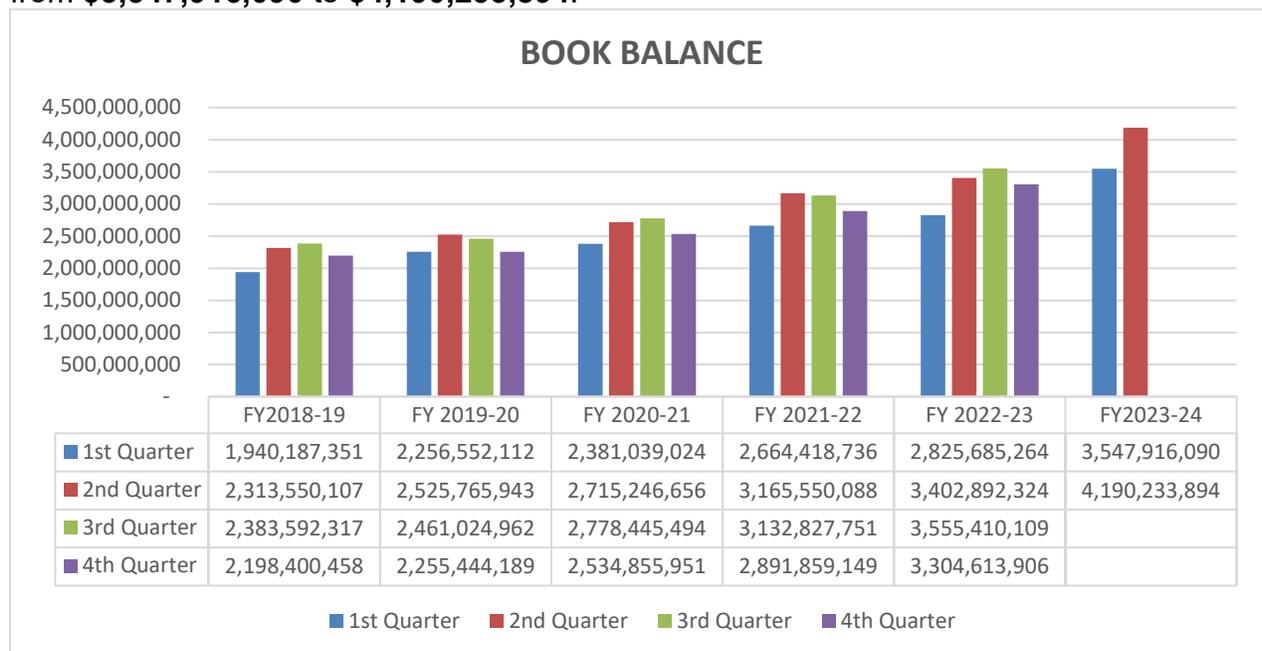
Please find attached the Quarterly Investment Report for the second quarter of FY 2023-24, ending March 2024. The report was prepared by the City’s Investment Advisor, Meeder Public Funds Patterson Group (“Meeder”) and presented to the City’s Investment Committee on May 6, 2024. This report was produced in compliance with the State of Texas Public Funds Investment Act, and the City’s Investment Policy which was approved by City Council on April 10, 2024.

The Quarterly Investment Report provides information on the performance of the City’s Operating portfolio. As of March 31, 2024, the Operating portfolio’s balance was **\$4,190,233,894**, which is the highest balance since FY 2018-19.

The interest earned for the quarter was **\$46,579,920** which is also the highest since FY 2018-19. The Operating portfolio has a weighted average yield of **4.44%** and a weighted average maturity of **2.0** years. (see page 11 of attached report)

Book Balance

The City’s overall balances continue to trend higher over the past five fiscal years. Compared with last quarter, book balance for the 2nd quarter of FY 2023-24 increased from **\$3,547,916,090** to **\$4,190,233,894**.

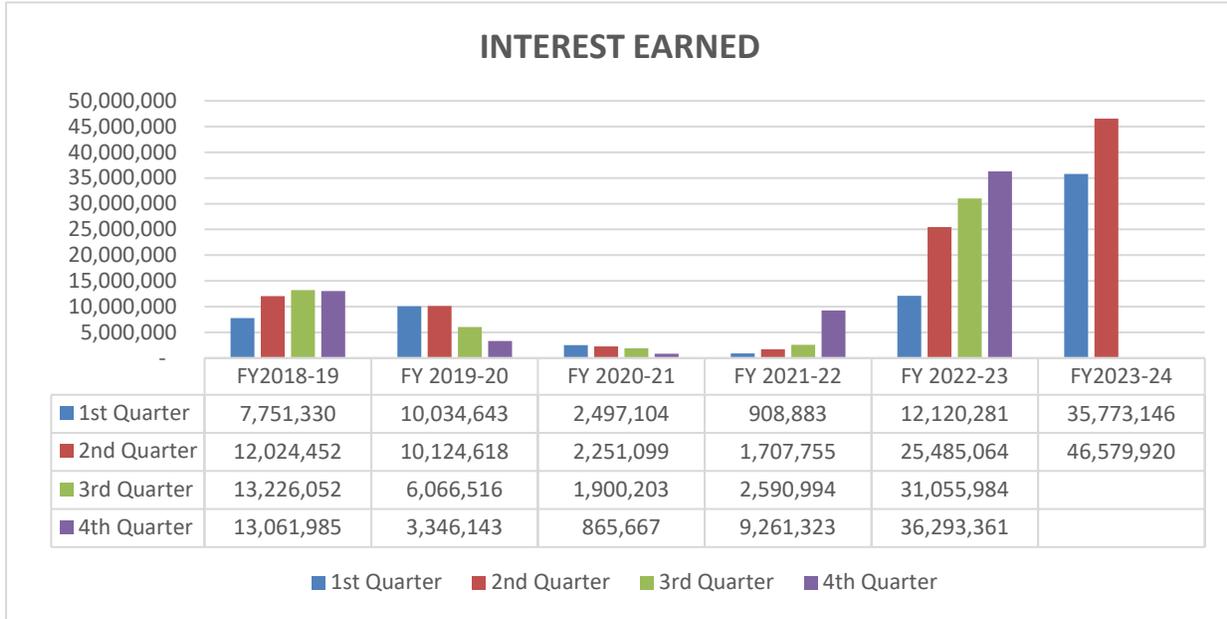


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Interest Earned

Interest earned for the 2nd quarter of FY 2023-24 reached the highest level of the last five fiscal years at **\$46,579,920**. Assuming the portfolio’s book balance remains high, we expect interest earnings to continue trending higher than previous fiscal years.



Asset Composition

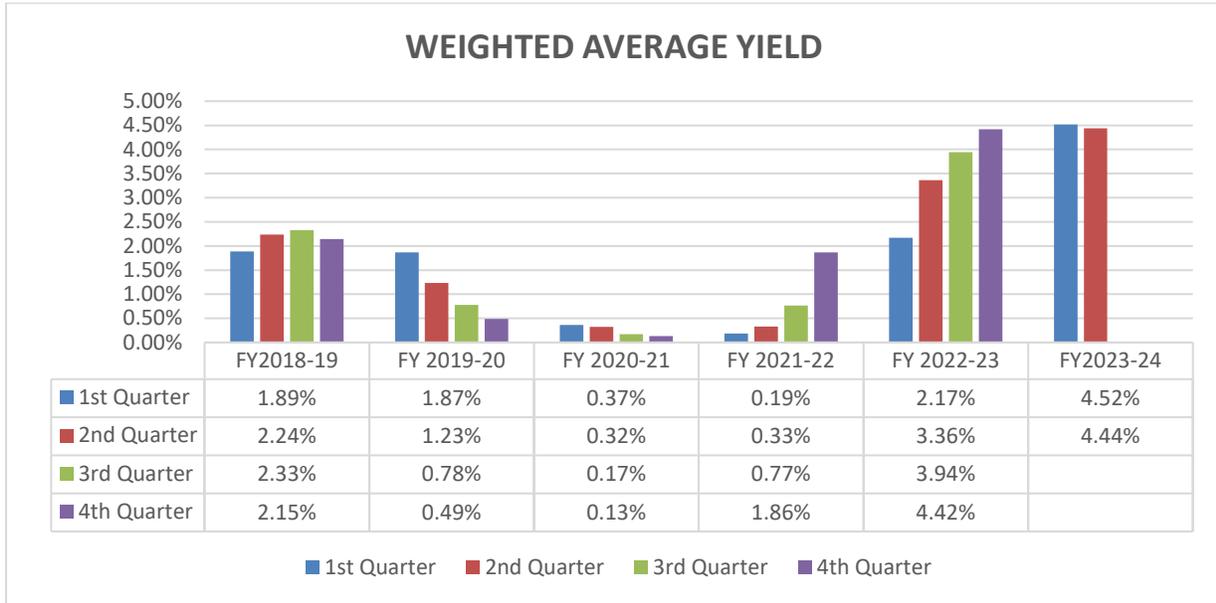
To ensure the ability of the City to meet obligations and to minimize potential liquidation losses, Section 13.0 of the City’s Investment Policy establishes the appropriate diversification of assets and the maximum maturity of each investment category. Safety of principal is the primary objective of the City’s Investment Policy, and adequate diversification of assets helps us mitigate credit risk.

Following this guidance, the asset composition for the 2nd quarter for FY 2023-24 included treasuries, agencies, commercial paper, and municipal obligations which were maintained within approved levels, while reducing our liquid position in the areas of cash, and money market.

Asset Composition - Q2	FY2019-20	FY2020-21	FY2021-22	FY2022-23	FY2023-24
Cash & Equivalents	7.16%	3.51%	0.31%	0.04%	0.00%
Money Market	13.03%	2.68%	1.24%	0.10%	0.08%
LGIPs	44.01%	32.07%	22.13%	11.58%	14.26%
Commercial Paper	0.00%	0.00%	0.00%	7.58%	11.82%
Municipal Obligations	0.00%	0.00%	0.00%	0.29%	0.24%
U.S. Government Agencies	26.31%	53.34%	68.85%	54.57%	44.51%
U.S. Treasury Securities	9.49%	8.40%	7.47%	25.84%	29.09%

Weighted Average Yield

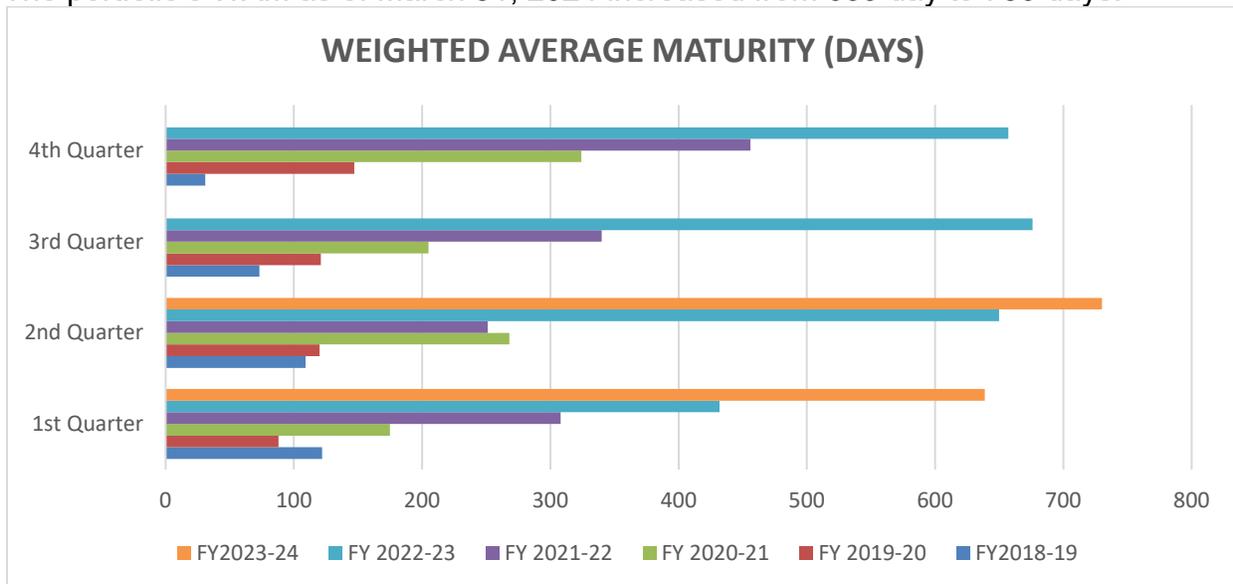
The portfolio’s weighted average yield for the 2nd quarter of FY 2023-24 dropped slightly from 4.52% to 4.44%.



Weighted Average Maturity (“WAM”)

Weighted Average Maturity “(WAM)” is the average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio. The portfolio’s WAM is determined by cash flow demands, interest rate outlook and the overall size of the portfolio.

The portfolio’s WAM as of March 31, 2024 increased from 639 day to 730 days.



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SUBJECT **Quarterly Investment Report – 2nd Quarter FY2023-24**

In addition to the performance of the portfolios, the Quarterly Investment Report includes an Executive Summary, an Economic Update including regional economic information, and Compliance Certification. You may access all published reports on the City's Financial Transparency website.

(<https://dallascityhall.com/departments/budget/financialtransparency/Pages/current-financial-reports.aspx>)

If you have any questions, please contact Jenny Kerzman, Assistant Director of Treasury.



Jack Ireland
Chief Financial Officer

[Attachment]

c: Kimberly Bizer Tolbert, City Manager (I)
Tammy L. Palomino, City Attorney
Mark Swann, City Auditor
Biliera Johnson, City Secretary
Preston Robinson, Administrative Judge
Jon Fortune, Deputy City Manager

Majed A. Al-Ghafry, Assistant City Manager
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Dr. Robert Perez, Assistant City Manager
Donzell Gipson, Assistant City Manager (I)
Robin Bentley, Assistant City Manager (I)
Genesis D. Gavino, Chief of Staff to the City Manager
Directors and Assistant Directors



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City of Dallas

Quarterly Investment Report

PRESENTED BY:

SCOTT GRUBER, CMT – DIRECTOR, ADVISORY SERVICES

MARCH 31, 2024

Executive Summary

- This past quarter, interest rates moved higher as strong economic data led to market participants reducing their expectations for rate cuts in 2024. The updated dot plot from the March FOMC meeting showed the Federal Reserve still expects three rate cuts in 2024, and markets now agree as they are pricing in approximately three rate cuts. Although still above 2% core PCE is moderating and slowed to an annual pace of 2.8% in March, well below the peak of 5.6% in February 2022. The Federal Reserve does not need to be as restrictive as it has been and can begin easing off the brakes later this year.
- Throughout the quarter, we continued to find opportunities to sell short securities and use the proceeds to buy commercial paper. These opportunities allow for increased yield on the portfolio and earnings on the swapped positions. We also took advantage of favorable yields and purchased several bonds to match known debt service payments, as well as extended the portfolio into new issue agency securities.
- With interest rates still above long-term averages, portfolios will benefit from buying bonds today as rates should continue to fall once rate cuts begin. We'll continue looking for opportunities to extend the portfolio based on the current long term rate outlook, while also matching upcoming debt payments along with expected capital outlays. While the commercial paper market has softened slightly, the ability to rebalance existing holdings into current rates will allow for additional income generation on those positions.

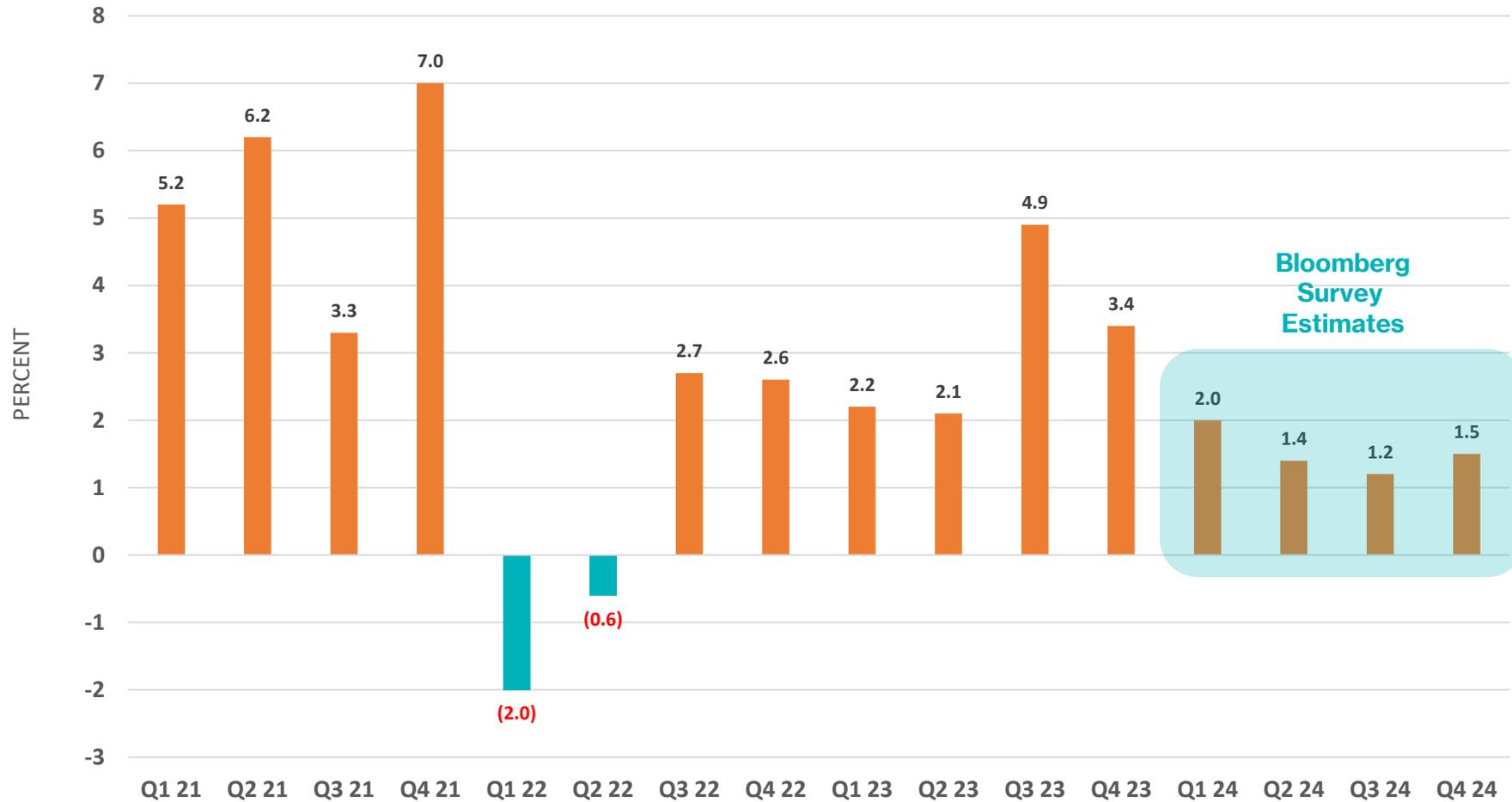


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Economic Update

Economic Growth

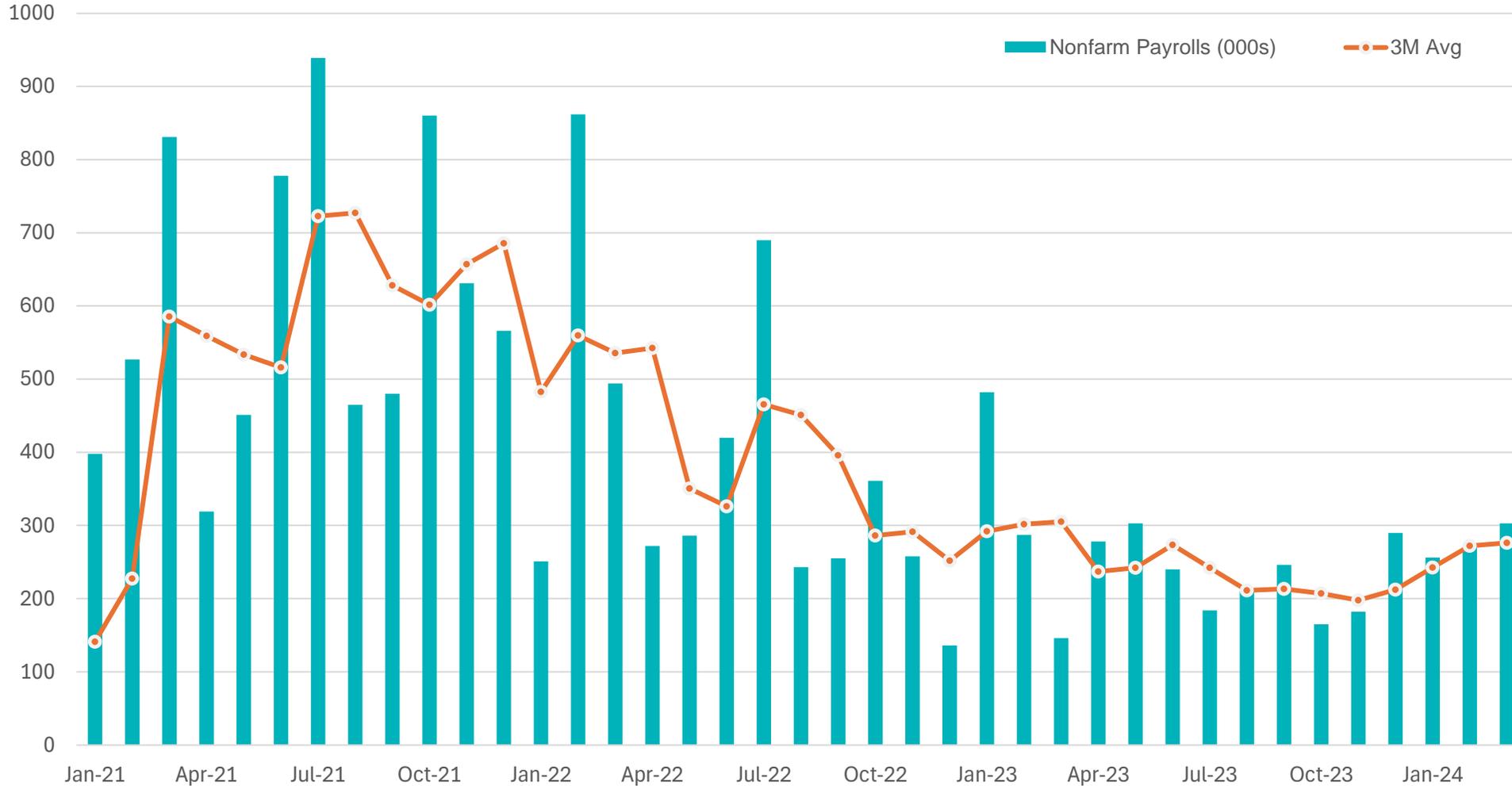
US QUARTERLY GDP CHANGE



SOURCE: BLOOMBERG

- The U.S. economy grew much faster than expected in the third and fourth quarters of 2023.
- Economists and strategists surveyed by Bloomberg expect GDP to slow below trend during 2024.
- This slowing growth is due to a few factors; one primary one is less stimulus from the federal government as compared to the previous few years.
- The estimates for the decline in GDP has been one of the contributors to lower intermediate-term interest rates since last October.

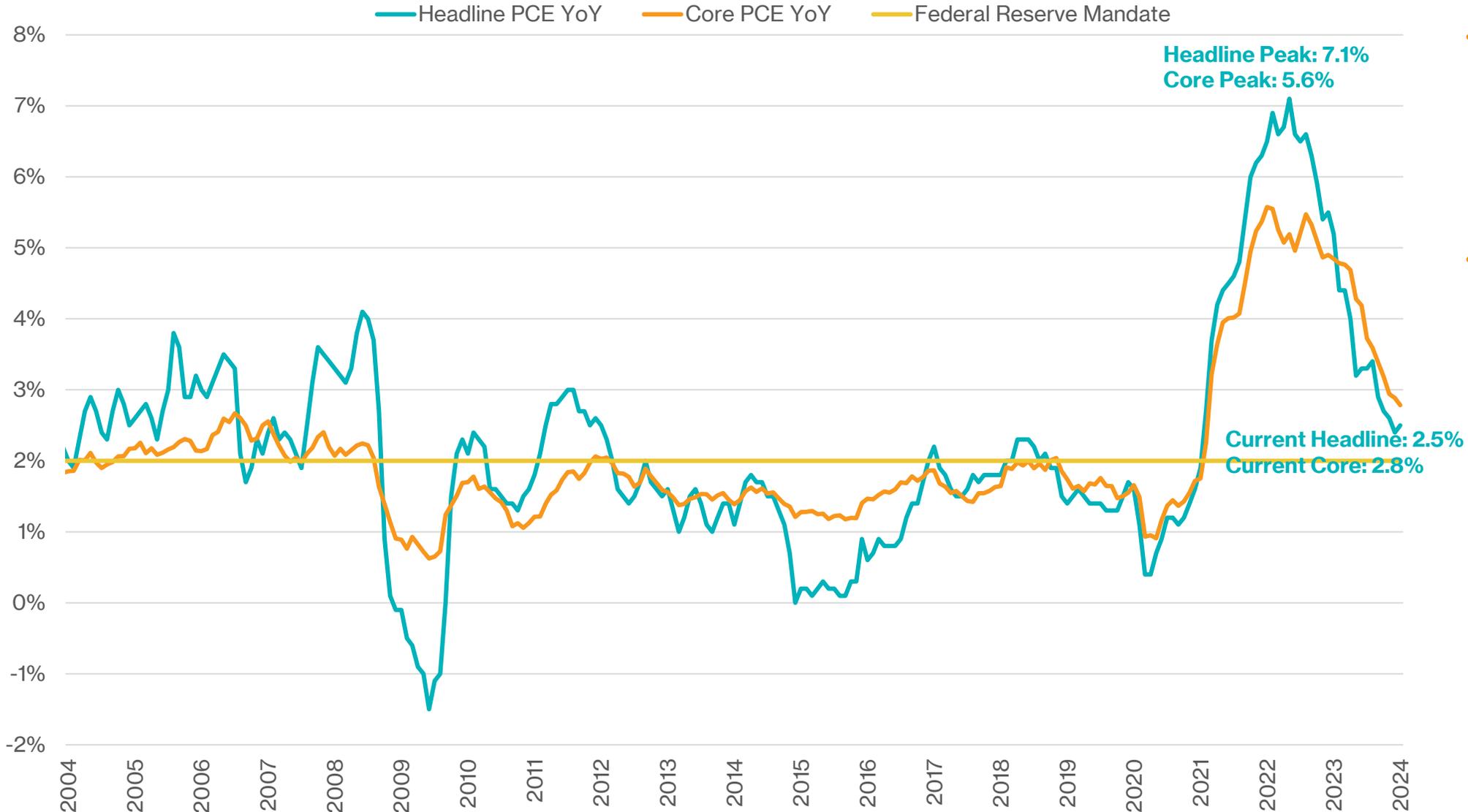
Nonfarm Payrolls



- The U.S. employment sector remains robust.
- The U.S. economy has experienced 38 consecutive months of job growth.
- The 3-month average job growth has accelerated since the later part of last year.
- Job openings have declined but remain well above pre-pandemic levels.
- The healthy job market has helped keep consumer spending at a high level.

SOURCE: BLOOMBERG

Inflation

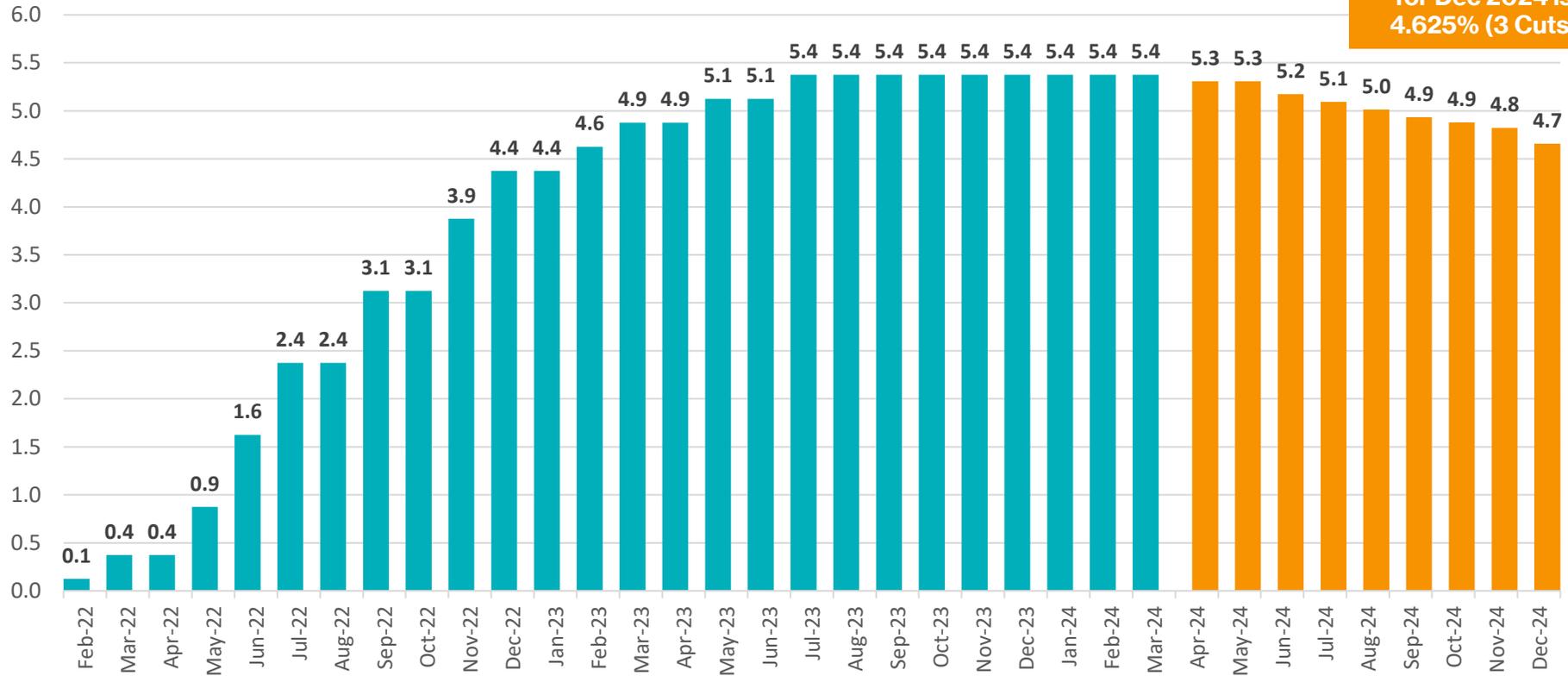


- The Consumer Price Index (CPI), has shown signs of stickiness the past six months, averaging about 3.2% since last September.
- The Fed's preferred inflation metric, Core Personal Consumption Expenditure (excluding food and energy prices), continues decelerating, but is still above the Fed's 2% target level.

Fed Funds

Fed Funds Mid-Rate Actual History and Fed Funds Futures

**Fed's Projection
for Dec 2024 is
4.625% (3 Cuts)**



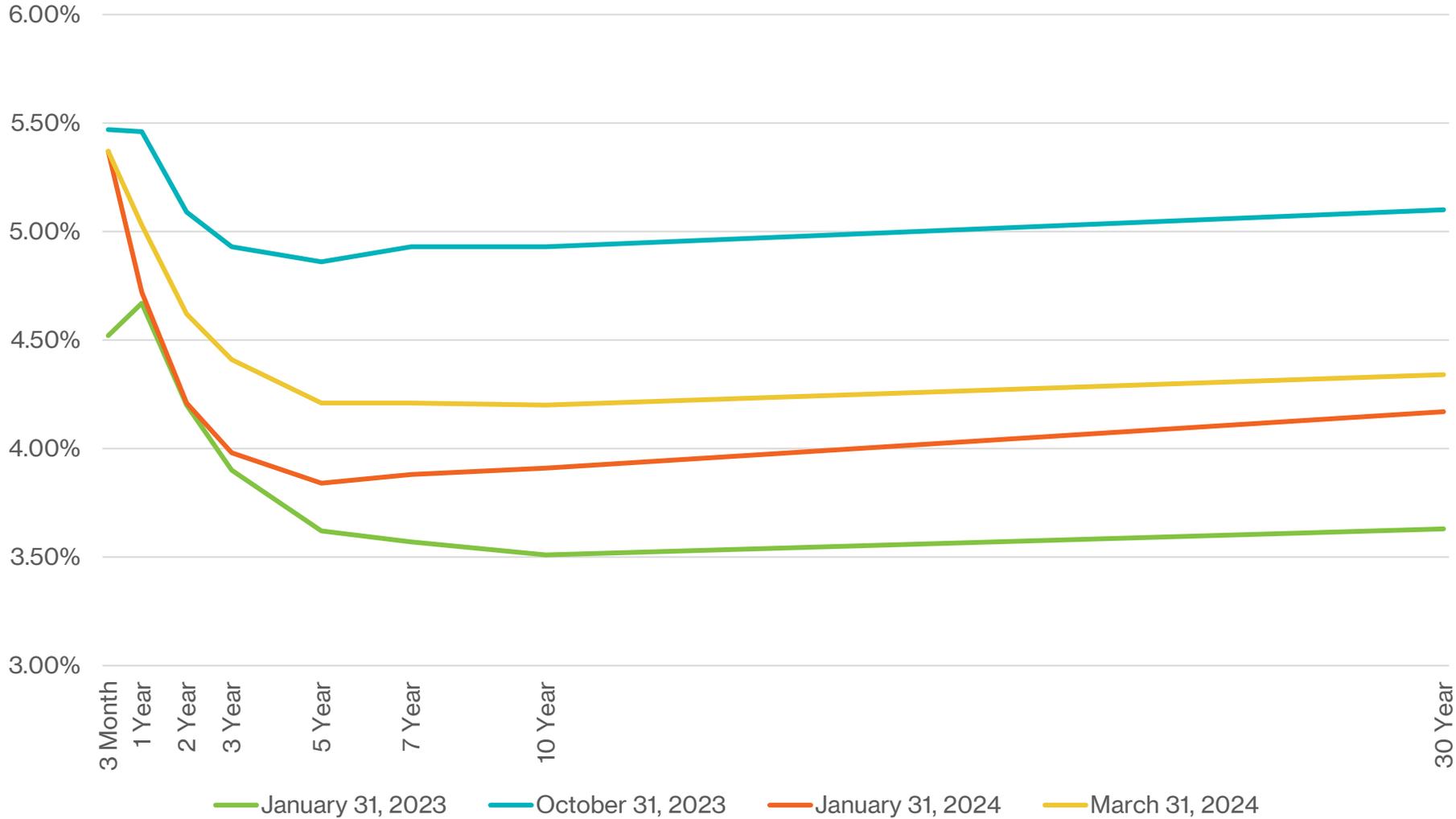
- The Fed Funds futures market is also expecting about 3 cuts this year. However, the futures market was projecting about 7 cuts back in January 2024.
- The futures market is currently expecting the first cut to occur at the July 31, 2024 meeting.

Meeting Date	1/31/24	3/20/24	5/1/24	6/12/24	7/31/24	9/18/24	11/7/24	12/18/24
Hike/Pause/Cut	Pause	Pause	Pause	Pause	Cut	Pause	Cut	Cut
Basis Point Change	0	0	0	0	(25)	0	(25)	(25)
Fed Funds Mid Rate	5.375	5.375	5.375	5.375	5.125	5.125	4.875	4.625

SOURCE: BLOOMBERG AS OF 4/1/24

Interest Rates

US Treasury Yield Curves



- With growth (GDP) estimates slowing this year and inflation declining materially from the summer 2022 highs, intermediate and longer-term rates have dropped from last fall's peaks.
- Intermediate and longer-term rates are generally much more correlated to growth and inflation expectations.
- Short-term rates, such as the 3-month treasury, generally have a high correlation to the Fed Funds rate.

SOURCE: BLOOMBERG



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Portfolio Review

Quarterly Portfolio Summary – All Funds



This quarterly report is prepared in compliance with the Investment Policy and Strategy of the City of Dallas and the Public Funds Investment Act (Chapter 2256, Texas Government Code).

Portfolio as of December 31, 2023		Portfolio as of March 31, 2024	
Beginning Book Value	\$3,695,839,843	Ending Book Value	\$4,338,157,647
Beginning Market Value	\$3,684,265,558	Ending Market Value	\$4,301,185,275
		Investment Income for the period	\$46,812,765
Unrealized Gain/(Loss)	(\$11,574,284)	Unrealized Gain/(Loss)	(\$36,972,372)
		Change in Unrealized Gain/(Loss)	(\$25,398,088)
Weighted Average Maturity	620 days	Weighted Average Maturity	707 days
Weighted Average Yield	4.56%	Weighted Average Yield	4.48%

Portfolio Summary – Investment Pool

As of 3/31/2024

Your Portfolio

Cash	\$385,934,073
Securities Book Value	\$3,804,299,821
Total Portfolio Book Value	\$4,190,233,894

Your Securities

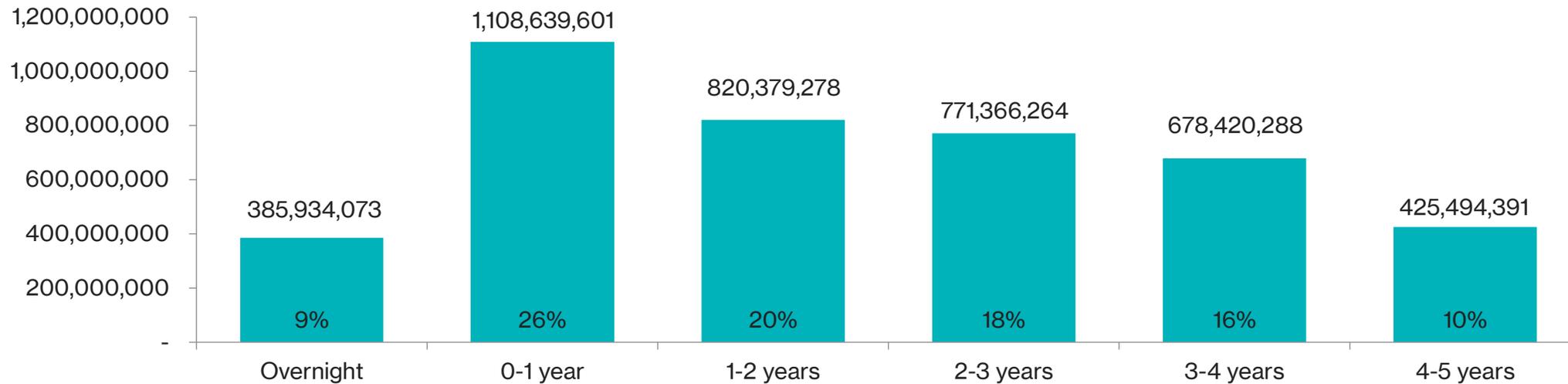
Weighted Average Maturity	2.00 years
Weighted Average Yield	4.44%
Quarterly Interest Earnings	\$46,579,920

Your Asset Allocation



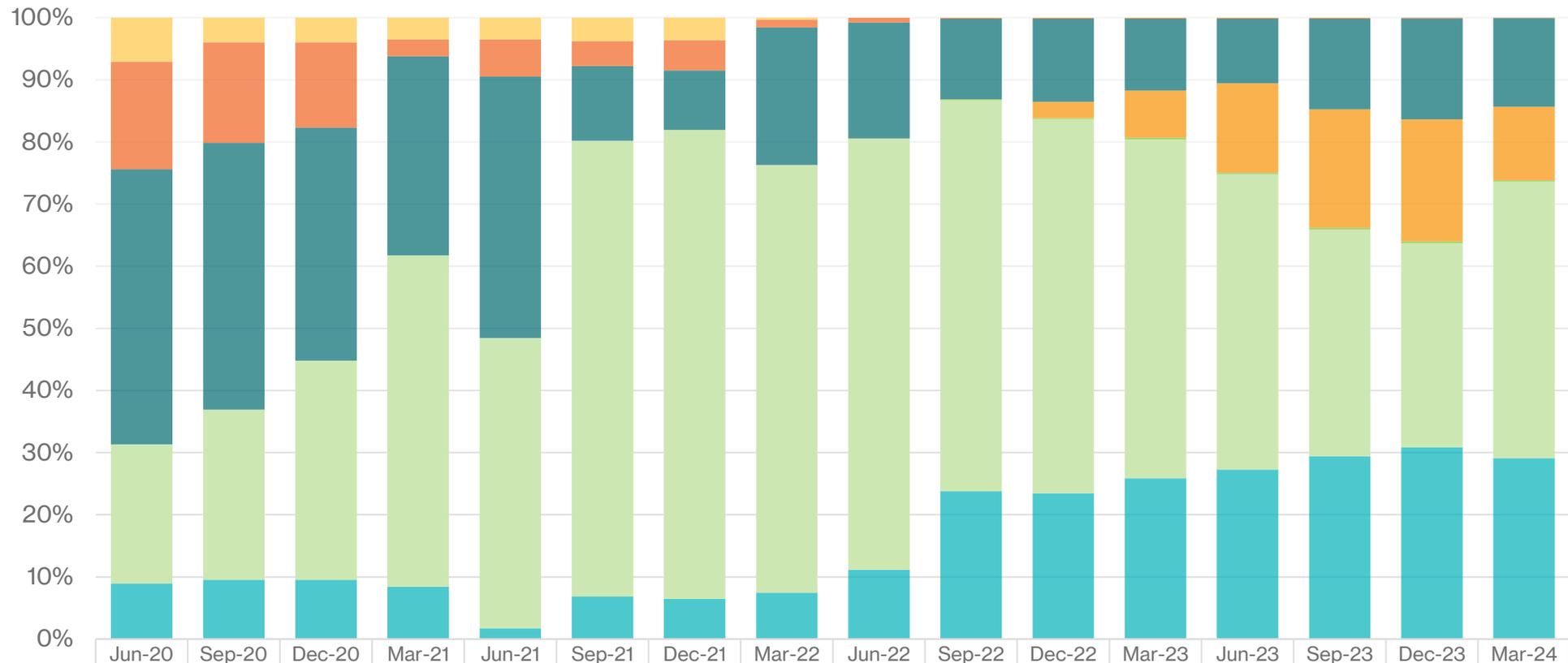
- US Government Agencies
- US Treasuries
- Municipal Obligations
- Local Government Investment Pools
- Money Market
- Commercial Paper
- TexasTERM

Your Maturity Distribution



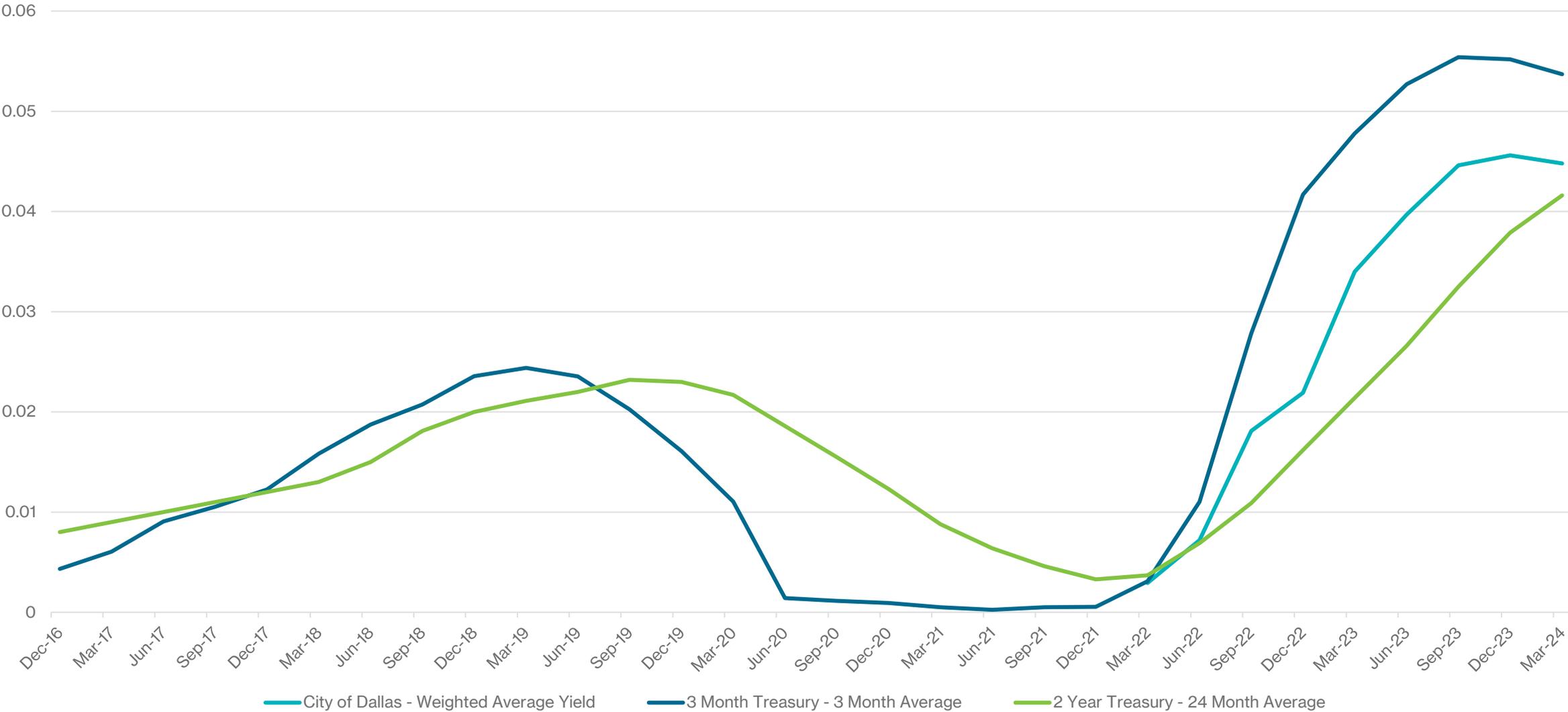
YIELD AND INTEREST INCOME INFORMATION IS ANNUALIZED. ALL YIELD INFORMATION IS SHOWN GROSS OF ANY ADVISORY AND CUSTODY FEES AND IS BASED ON YIELD TO MATURITY AT COST. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

Asset Composition

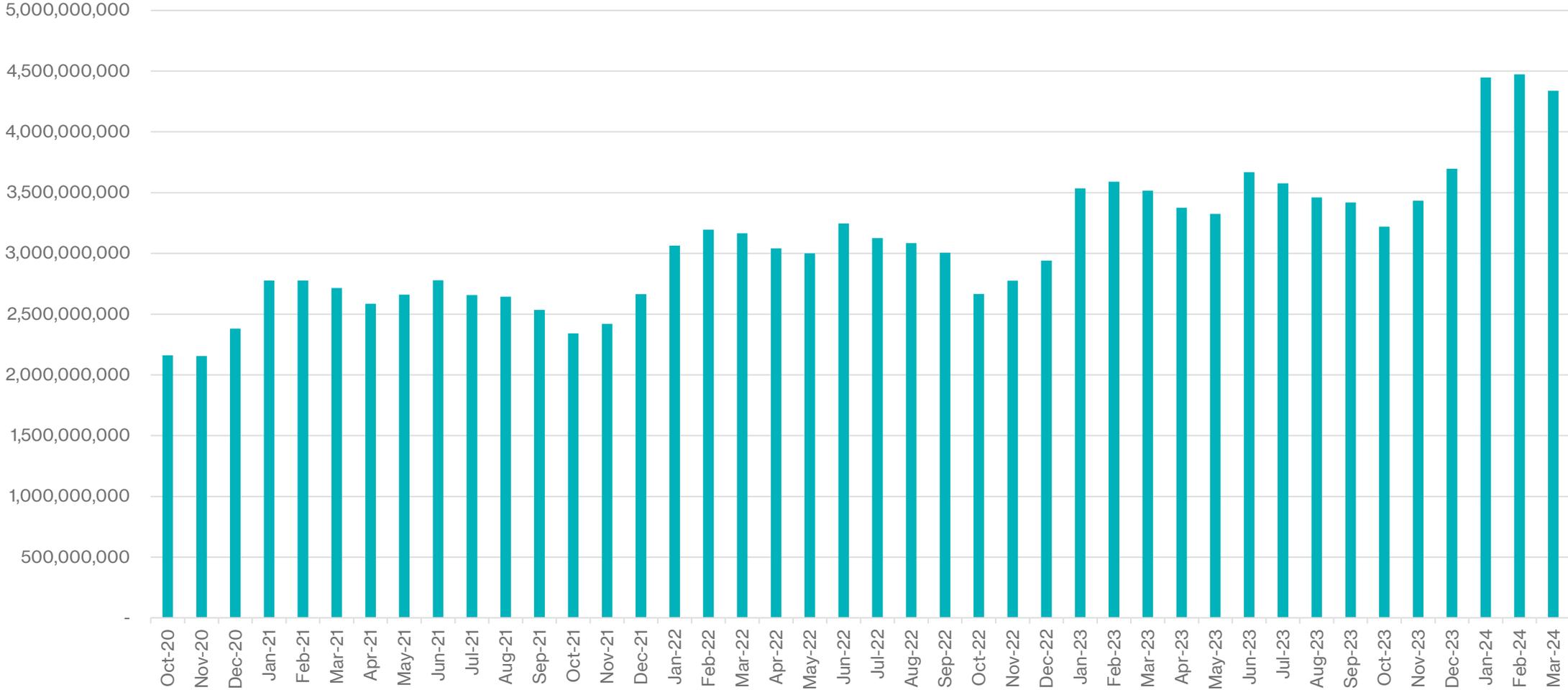


	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Cash & Equivalents	7.05%	3.98%	3.97%	3.51%	3.49%	3.81%	3.61%	0.31%	0.03%	0.03%	0.04%	0.03%	0.03%	0.03%	0.00%	0.00%
Money Market	17.34%	16.16%	13.71%	2.68%	5.97%	3.98%	4.89%	1.24%	0.75%	0.12%	0.12%	0.10%	0.10%	0.11%	0.10%	0.08%
LGIPs	44.28%	42.92%	37.51%	32.07%	42.10%	11.99%	9.56%	22.13%	18.65%	12.98%	13.37%	11.58%	10.43%	14.59%	16.24%	14.26%
Commercial Paper	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.62%	7.58%	14.36%	19.08%	19.66%	11.82%
Municipal Obligations	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.17%	0.18%	0.29%	0.28%	0.30%	0.28%	0.24%
U.S. Government Agencies	22.43%	27.41%	35.30%	53.34%	46.70%	73.38%	75.46%	68.85%	69.42%	62.93%	60.21%	54.57%	47.51%	36.47%	32.86%	44.51%
U.S. Treasury Securities	8.90%	9.53%	9.52%	8.40%	1.74%	6.84%	6.48%	7.47%	11.16%	23.77%	23.46%	25.84%	27.28%	29.43%	30.86%	29.09%

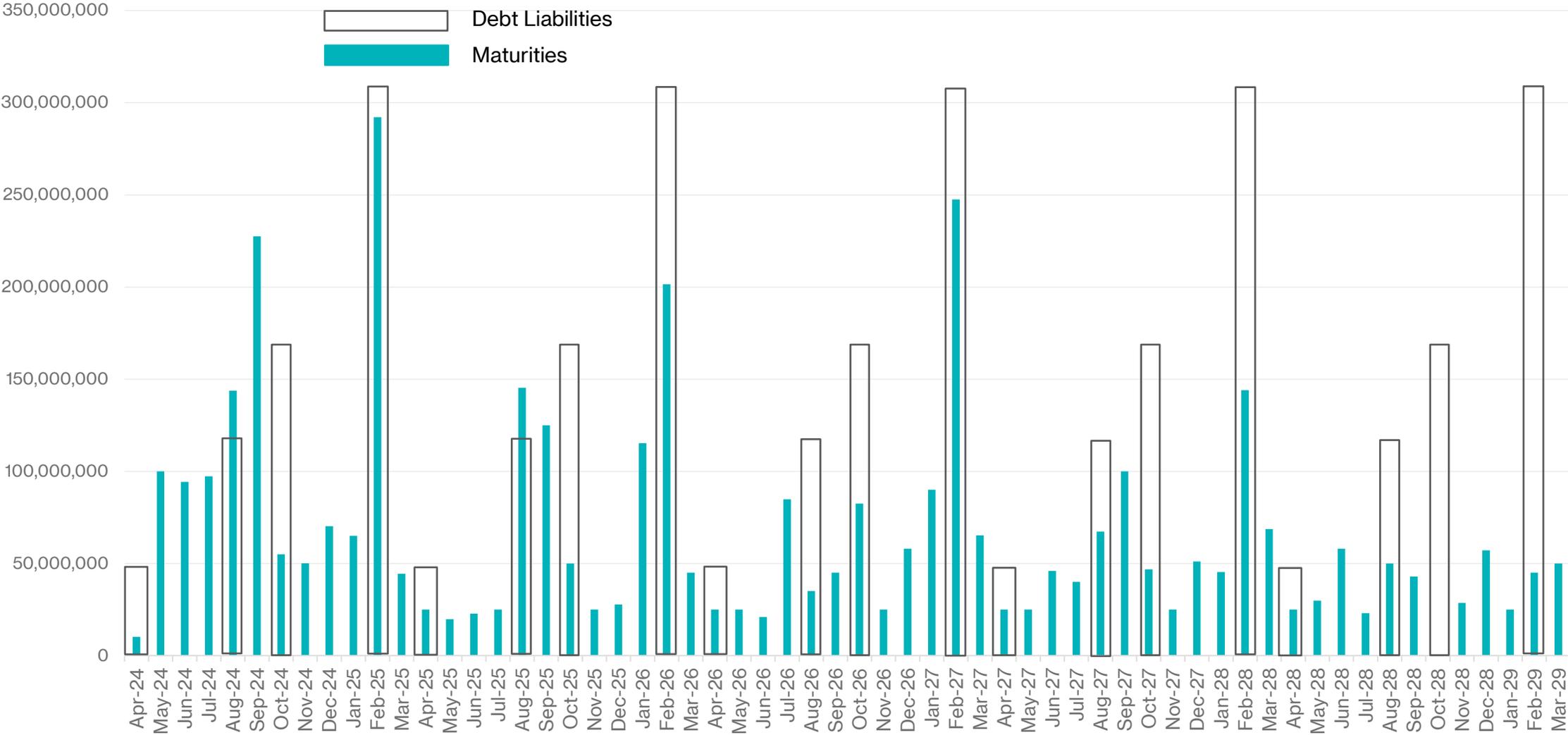
Investment Portfolio Statistics— All Funds



Historical Balances – Book Value



Maturity Distributions



Compliance Certification



The undersigned have acknowledged that they have reviewed this quarterly investment report for the period ending March 31, 2024. The City officials designated as investment officers by the City's Investment Policy attest that all investments are in compliance with the Texas Public Funds Investment Act and the City's Investment Policy as adopted in Sec. 17.0 of the City's Investment Policy.

Jack Ireland
Chief Financial Officer

Sheri Kowalski
City Controller

Jenny Kerzman
Treasury Manager

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Opinions and forecasts regarding markets, securities, products, portfolios or holdings are given as of the date provided and are subject to change at any time. No offer to sell, solicitation, or recommendation of any security or investment product is intended. Certain information and data has been supplied by unaffiliated third-parties as indicated. Although Meeder believes the information is reliable, it cannot warrant the accuracy, timeliness or suitability of the information or materials offered by third-parties.

Estimates and illustrations of expected yield for illustrated portfolios is hypothetical in nature, does not reflect actual investment results, and does not guarantee future returns. Hypothetical illustrations are offered to illustrate the yield expected from classes of securities and do not reflect actual securities available for investment. Estimates of current yield are generated from indexes and other information deemed by the adviser to provide a reliable estimate of the current yield available from investments in that asset class. Securities indices are unmanaged and investments cannot be made directly in an index. Yield assumptions were developed with the benefit of hindsight and the securities purchased for such an account may generate more or less than the illustrated yield.

Investment advisory services provided by Meeder Public Funds, Inc.

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