

Memorandum



DATE September 15, 2023

CITY OF DALLAS

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 – 3rd Quarter FY 2022-23**

Please find attached the Quarterly Investment Report for the third quarter of FY 2022-23, ending June 2023. 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 September 19, 2023. This report was produced in compliance with the State of Texas Public Funds Investment Act, and the City's Investment Policy.

The Quarterly Investment Report provides information on the performance of the City's Operating portfolio. As of June 30, 2023, the Operating portfolio's balance was **\$3,502,772,693**, which produced actual earnings of **\$31,055,984** for the third quarter.

The Quarterly Investment Report also provides balance information for the following portfolios, which are managed internally by the Treasury Department.

- Arts Endowment
- DWU Commercial Paper Program
- GO Commercial Paper Program
- Ida Green Library Fund, and
- Water Reserve Fund

All portfolios are managed following the City's Investment Policy objectives of Safety, Liquidity, and Yield.

Portfolio Market Value by Fund	3/31/2023	6/30/2023	Change	Interest Earned
Operating Portfolio	\$3,374,136,553.82	\$3,502,772,692.59	\$128,636,138.77	\$31,055,983.82
Arts Endowment	\$2,235,000.00	\$2,235,000.00	\$0.00	\$27,972.41
DWU Commercial Paper Program	\$13,960.15	\$13,960.15	\$0.00	\$167.88
GO Commercial Paper Program	\$20,688,753.36	\$20,688,753.36	\$0.00	\$250,638.10
Ida Green Library Fund	\$1,000,000.00	\$1,000,000.00	\$0.00	\$9,648.49
Water Reserve	\$90,000,000.00	\$90,000,000.00	\$0.00	\$1,052,980.82
Total	\$3,488,074,267.33	\$3,616,710,406.10	\$128,636,138.77	\$32,397,391.52

Highlights of Quarter Operating Portfolio Performance

- During the third quarter, we moved the portfolio closer to our core targets by executing a mix of new issue high-coupon non-callable agencies as well as treasury bonds.

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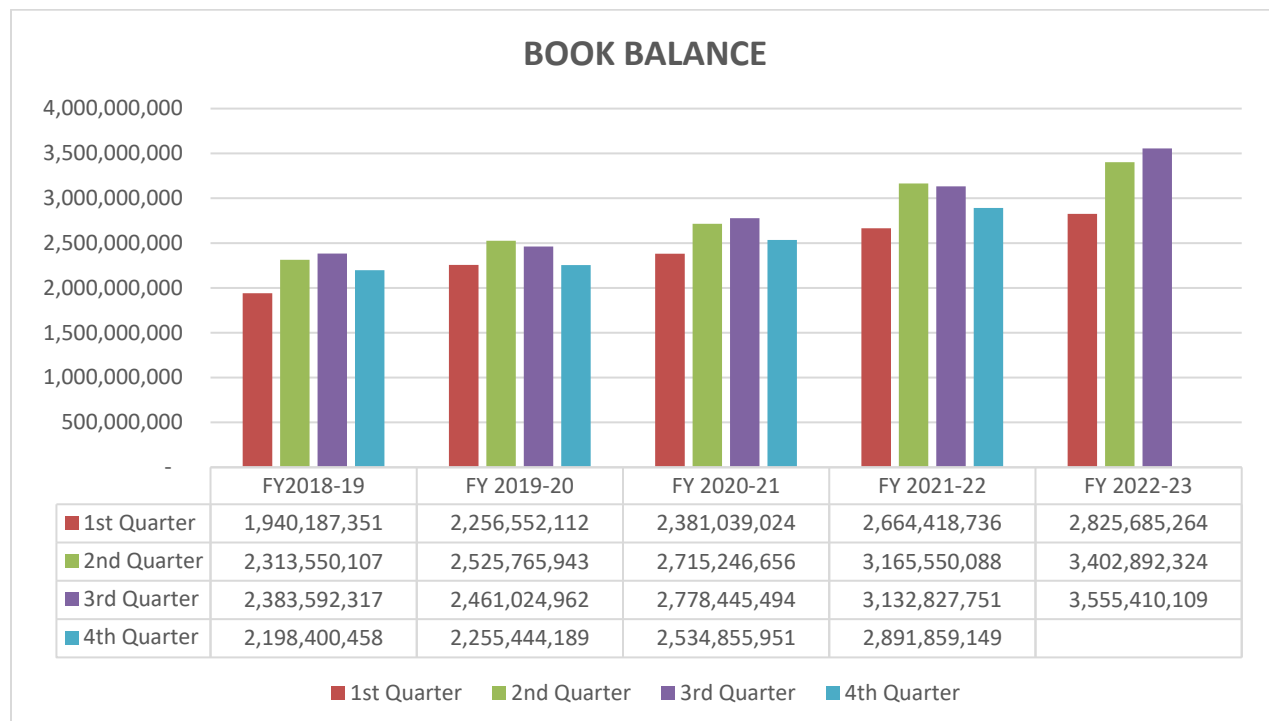
Quarterly Investment Report – 3rd Quarter FY 2022-23

- We also continued to find opportunities to sell short securities and use the proceeds to buy commercial paper. Swaps completed this quarter increased both the yield and expected income of the portfolio.
- Treasury staff will continue to work with our investment advisor in the following areas:
 - to extend the portfolio to our longer-term targets while matching known future debt payments,
 - to continue to improve the cash flow analysis to better identify cash available for investments, and
 - to identify opportunities to rebalance positions in the 0–1- year maturity to take advantage of the higher interest rates.

Highlights of Year-to-Date Operating Portfolio Performance

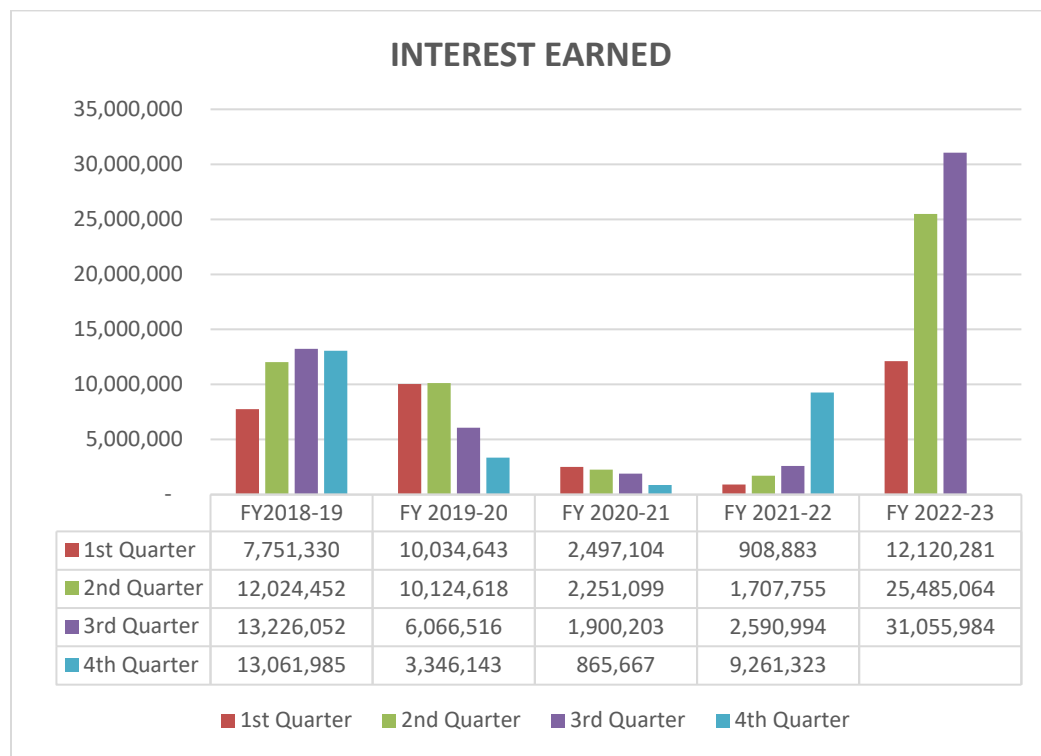
Book Balance

- The City's overall balances continue to trend higher over the past two fiscal years.
- Book balance for the 3rd quarter of FY 2022-23 is the highest of the last four fiscal years.



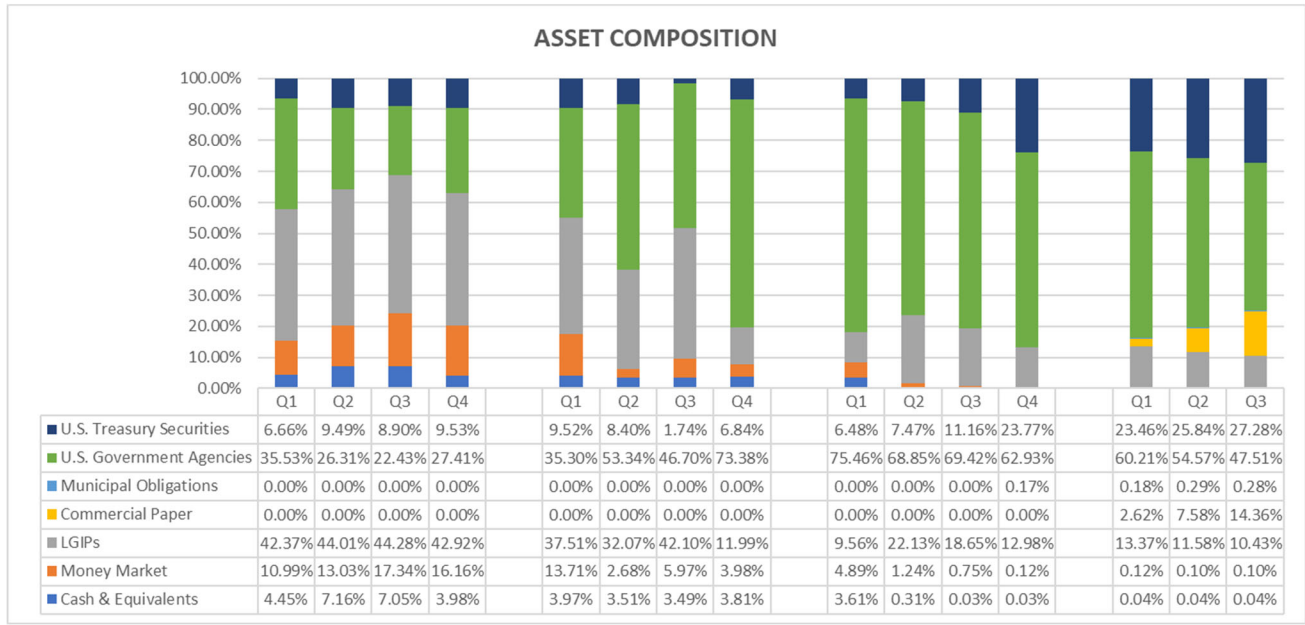
Interest Earned

- Interest earned for the 3rd quarter of FY 2022-23 is the highest of the last four fiscal years.
- This past quarter interest earnings were reported as \$31.1 million as compared to \$25.5 million the quarter before.
- We expect interest earnings to trend higher through the remainder of FY 2022-23 and into early FY 2023-24.



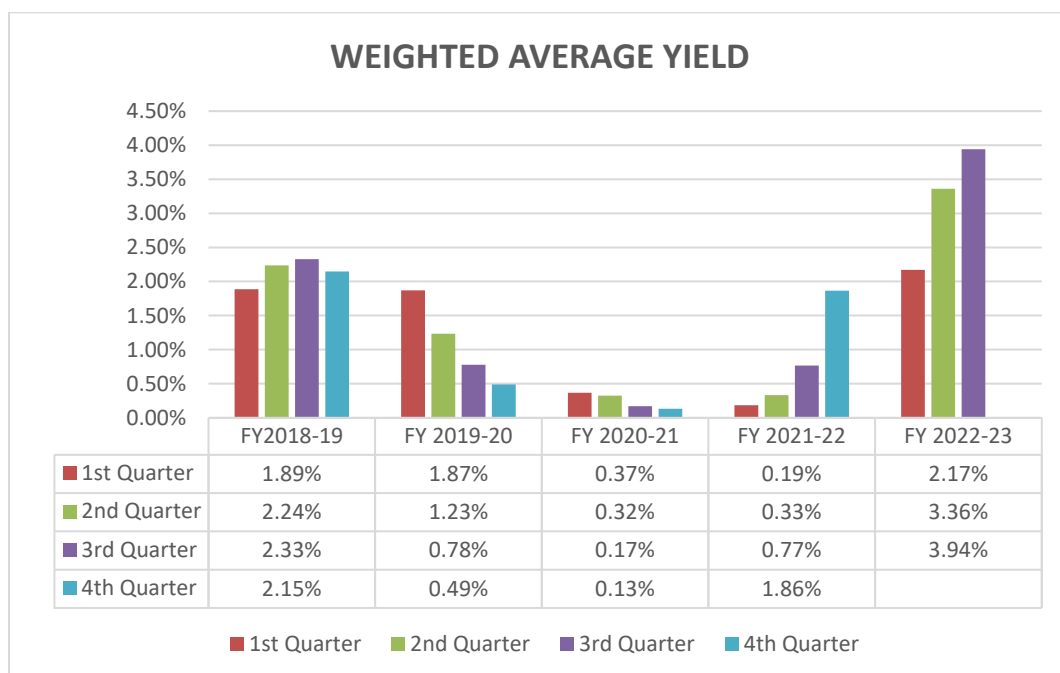
Asset Composition

- The portfolio will shift across various asset classes dependent on the value in the marketplace and areas of focus.
- During this quarter, we increased our commercial paper holdings from 7.58% to 14.36%. US Treasury and Government Agencies continue to perform stronger in the longer dated maturity ranges.
- Our top priority continues to be keeping enough liquidity on hand to meet debt payments and expenditures.



Weighted Average Yield

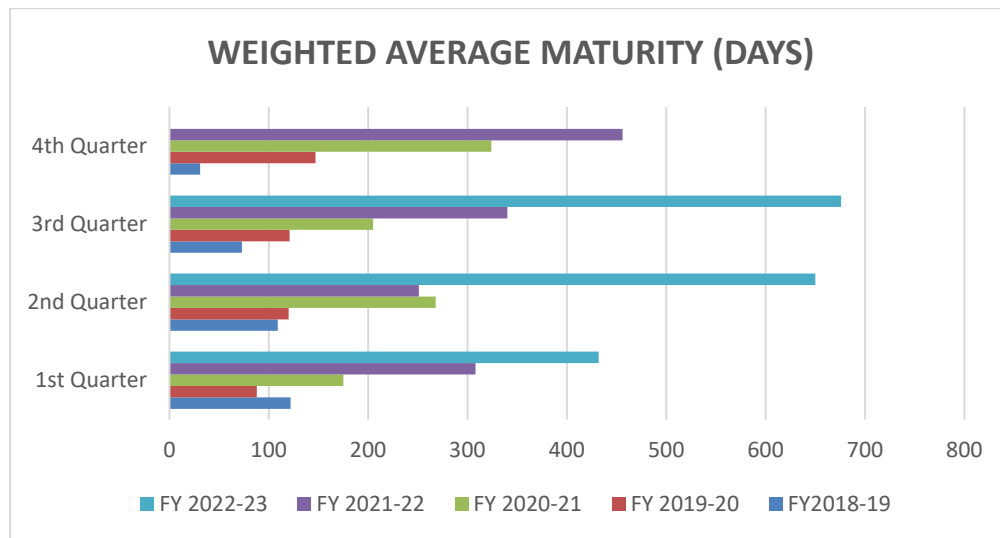
- The portfolio's weighted average yield has increased from 2.17% in the first quarter to 3.94% at the close of the third quarter.
- As the Federal Reserve continues to monitor inflation, our investment strategy will remain to lock longer term rates to allow the portfolio yield to remain elevated over a longer period of time.



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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 Weighted Average Maturity is determined by cash flow demands, interest rate outlook and the overall size of the portfolio.
- The portfolio’s WAM as of June 30, 2023 was 676 days as compared to 652 days a quarter prior.



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 [here](#).

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

Jack Ireland
Chief Financial Officer

[Attachment]

c: Honorable Mayor and Members of the City Council
T.C. Broadnax, City Manager
Tammy L. Palomino, Interim City Attorney
Mark Swann, City Auditor
Billerae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizzor Tolbert, Deputy City Manager

Jon Fortune, Deputy City Manager
Majed A. Al-Ghafry, Assistant City Manager
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Robert Perez, Assistant City Manager
Carl Simpson, Assistant City Manager
Genesis D. Gavino, Chief of Staff to the City Manager
Directors and Assistant Directors



City of Dallas

Quarterly Investment Report

PRESENTED BY:

SCOTT GRUBER, CMT – DIRECTOR, ADVISORY SERVICES

JUNE 30, 2023

Executive Summary

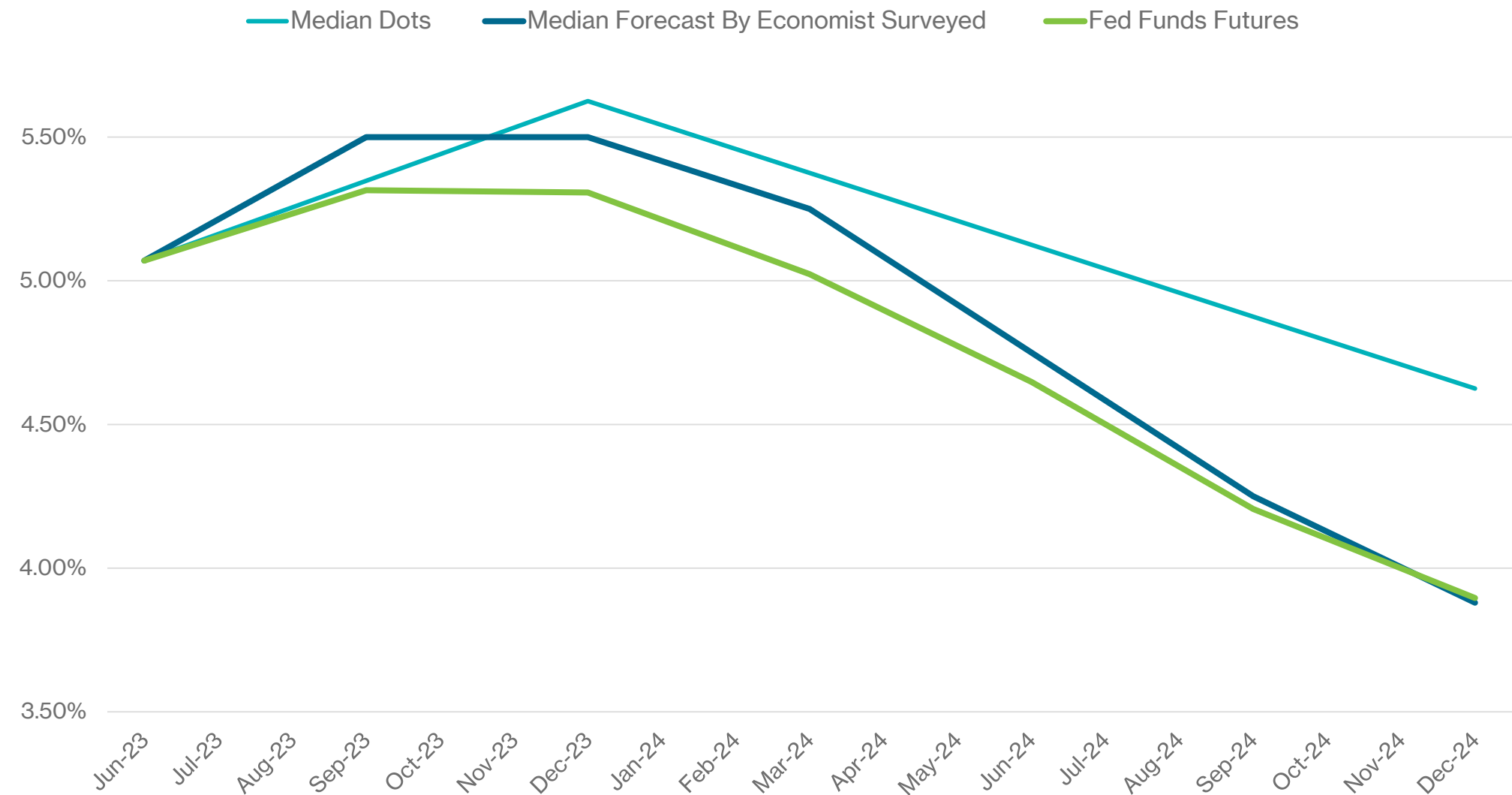
- The second quarter of 2023 saw interest rates move higher as solid economic data led markets to believe the Federal Reserve would not cut rates until 2024. The Federal Reserve met twice during the quarter, where they hiked rates by 0.25% in May but chose to not change rates in June. However, verbal guidance from Chairman Jerome Powell indicated that the June decision was not a pause and that more monetary tightening was needed to get inflation under control.
- During the second quarter, we continued moving the portfolio closer to our core targets. We continued to target a mix of new issue high-coupon non-callable agencies as well as treasury bonds. We also worked with our dealer network to create new agency bonds specifically for your portfolio that picked up yield over comparable securities and helped us match known debt payments in the future. We also continued to find opportunities to sell short securities and use the proceeds to buy commercial paper. The eight swaps we completed this quarter increased both the yield and expected income of the portfolio.
- In the coming quarter, the City should expect the same areas of focus: continued cash flow analysis to identify the amount to be invested in the City's core portfolio, evaluating opportunities to rebalance positions in the 0–1 year maturity range with security swaps to take advantage of the higher-yielding bonds, and extending the portfolio to our targets while matching known future debt payments.



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Economic Update

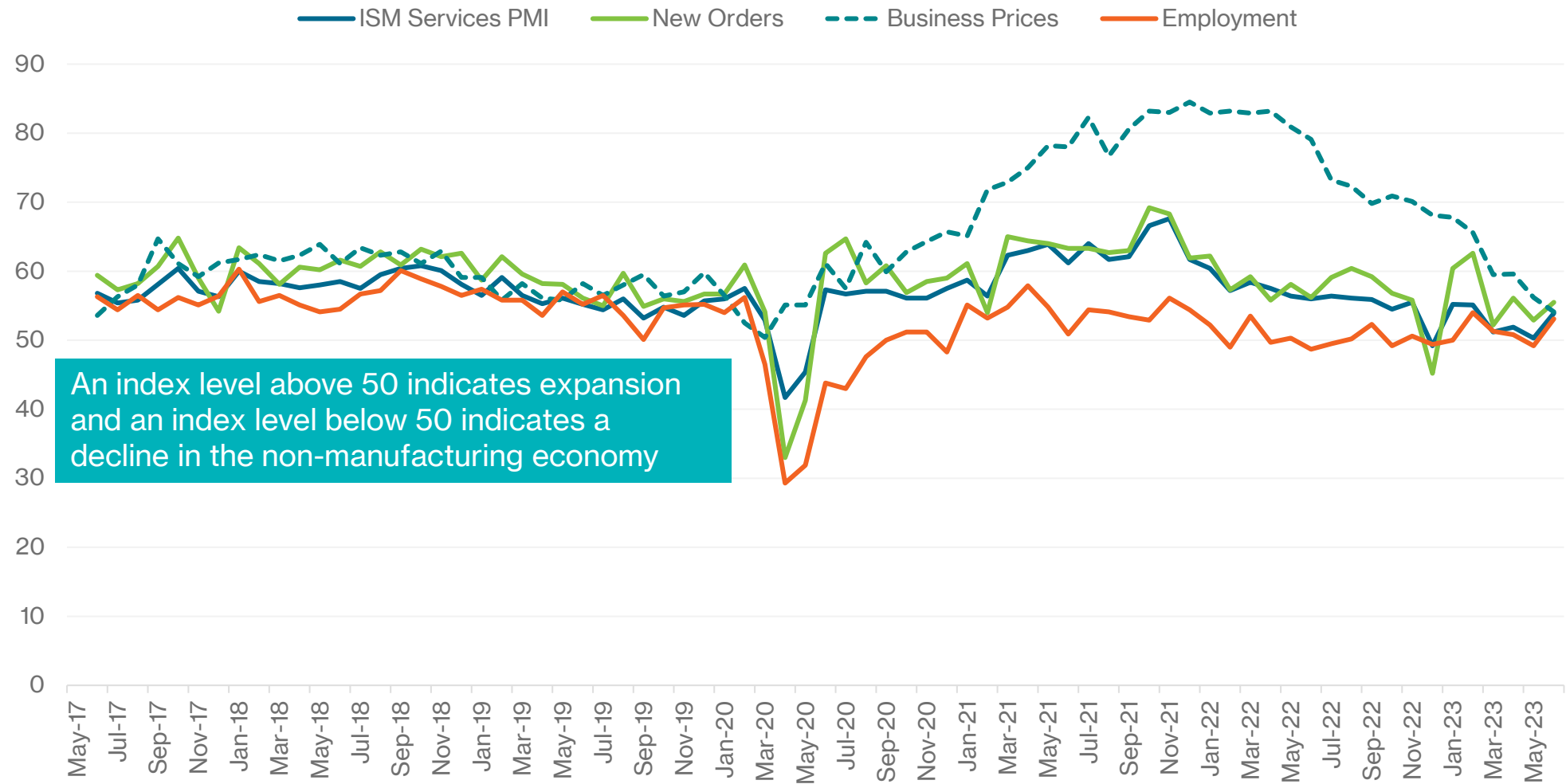
Federal Reserve, Markets, and Economists Expecting Lower Federal Funds Rate in 2024



- Federal Reserve: Median Dots project 2 additional hikes.
- Market implied probabilities price in 1 additional hike.
- FOMC, Market pricing, and Economist expectations for rate cuts in 2024 and beyond.

SOURCE: BLOOMBERG SURVEY OF ECONOMISTS, FEDERAL RESERVE, DATA AS OF 6/28/2023

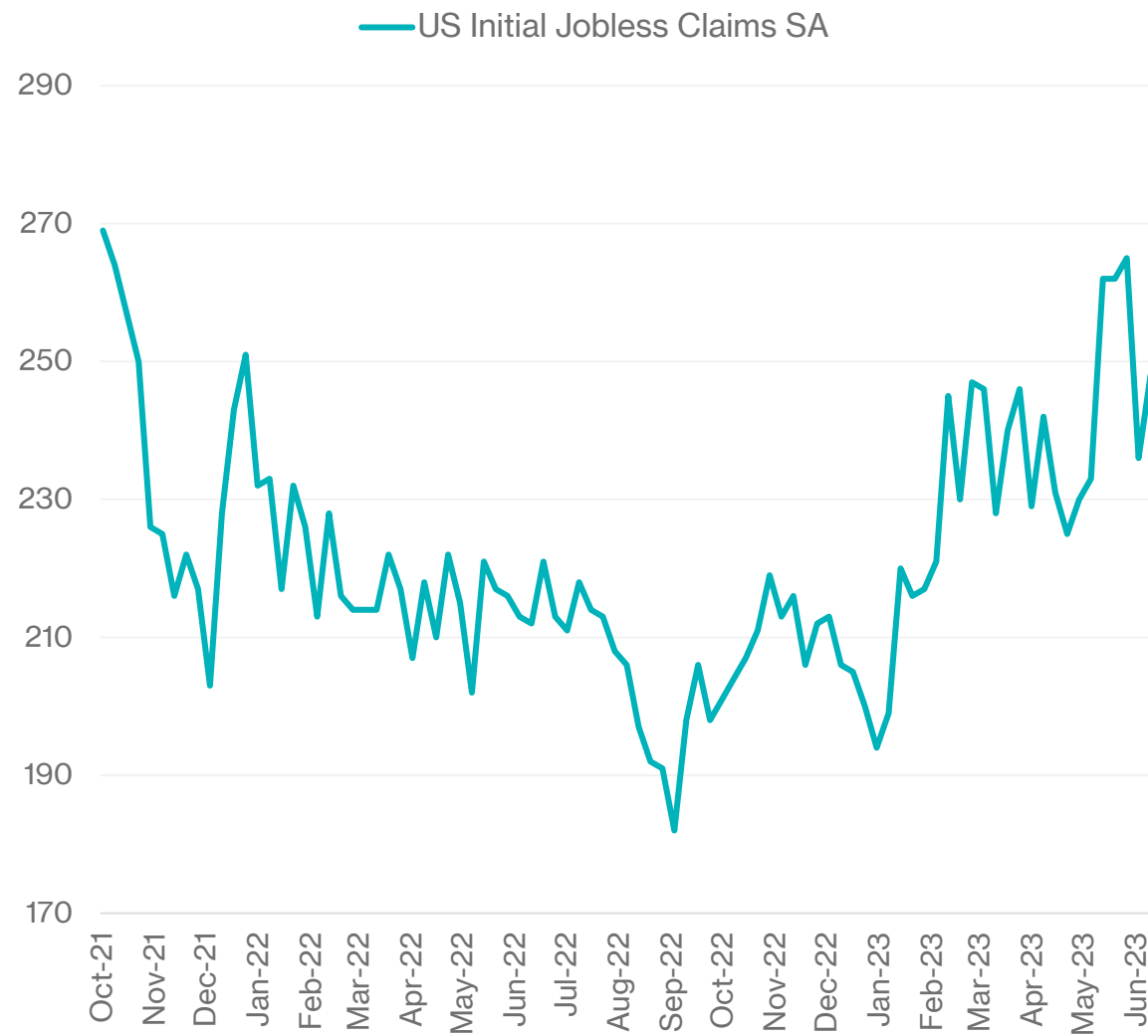
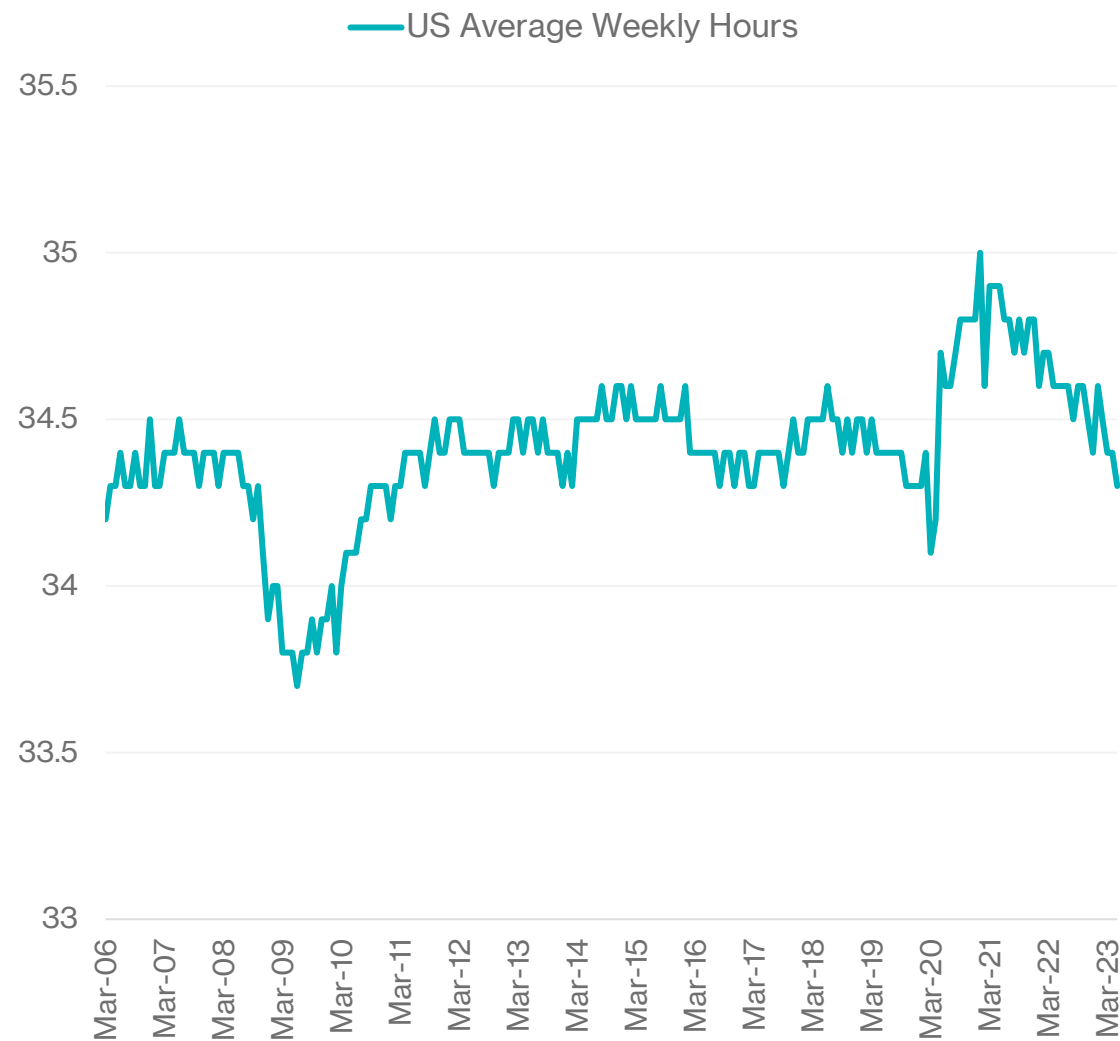
The ISM Services Report Indicates Growth in Nearly Every Segment of the Sector is Slowing.



- Service sector has proven more resilient, but pace of growth is easing as ISM index hovers around 50.
- Employment component of survey has been bouncing between contractionary and non-contractionary levels.
- Continued success with inflation battle as the price component continues to fall significantly from peak in 2022.

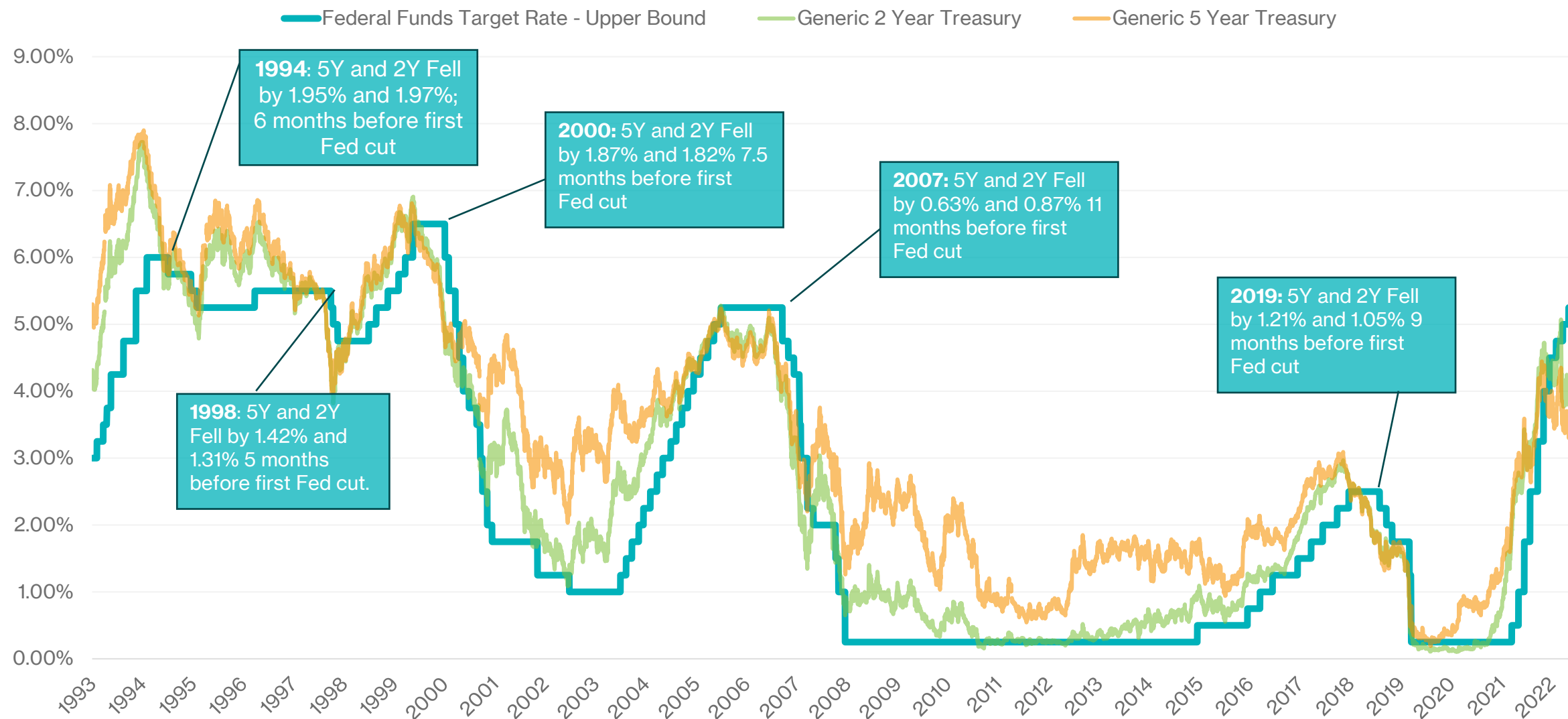
SOURCE: BLOOMBERG, INSTITUTE OF SUPPLY CHAIN MANAGEMENT AS OF 06/30/2023

US Labor Market Continuing to Show Signs of Cooling



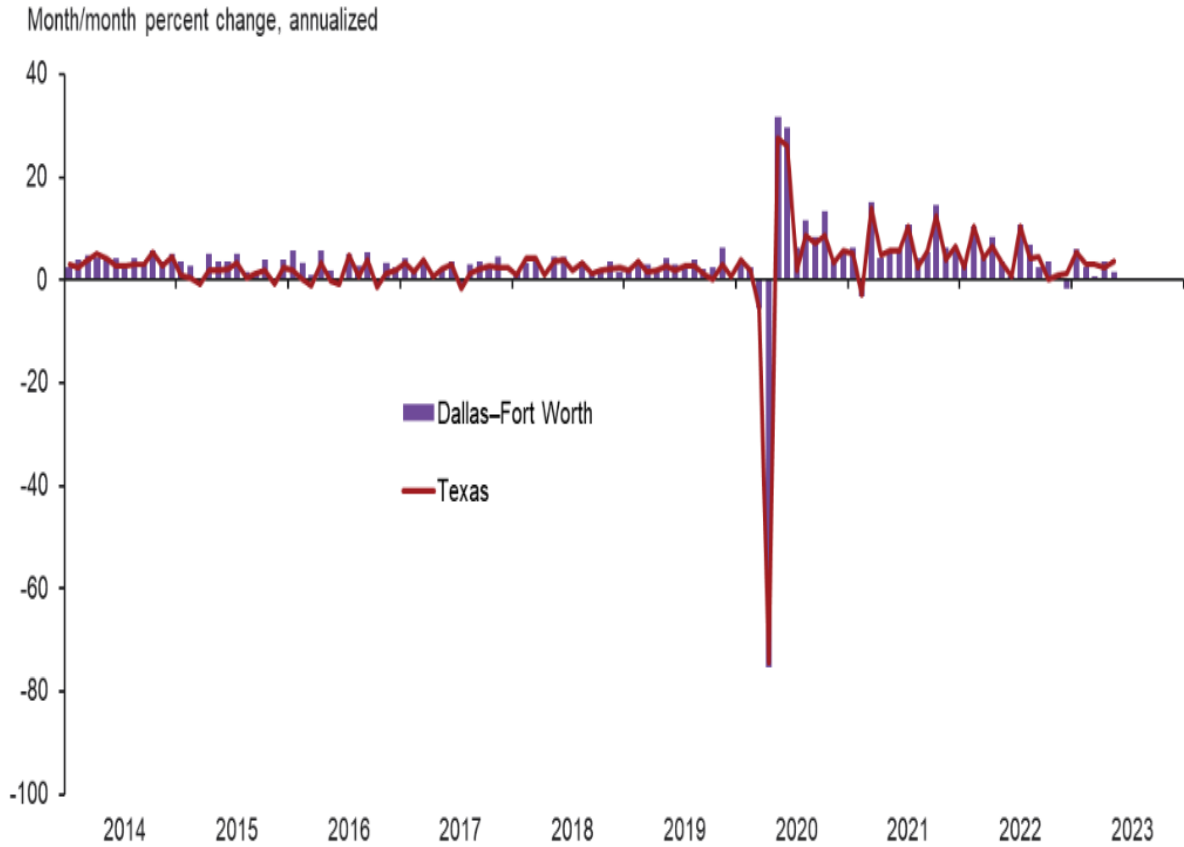
SOURCE: BLOOMBERG AS OF 06/30/2023

Market Interest Rates Stop Rising and Fall Before Federal Rate Cuts Begin



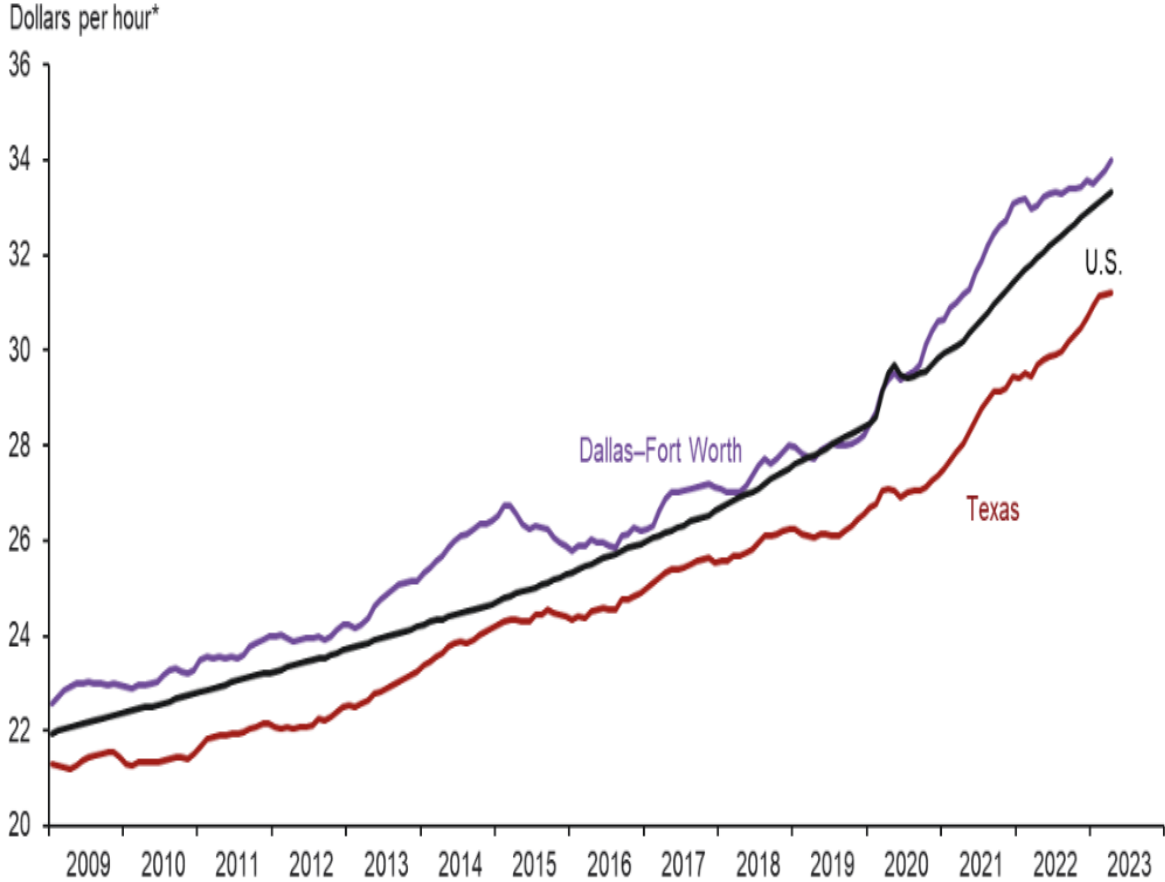
Regional Economic Information

Employment growth



SOURCE: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Dallas Fed.

Hourly wages dip

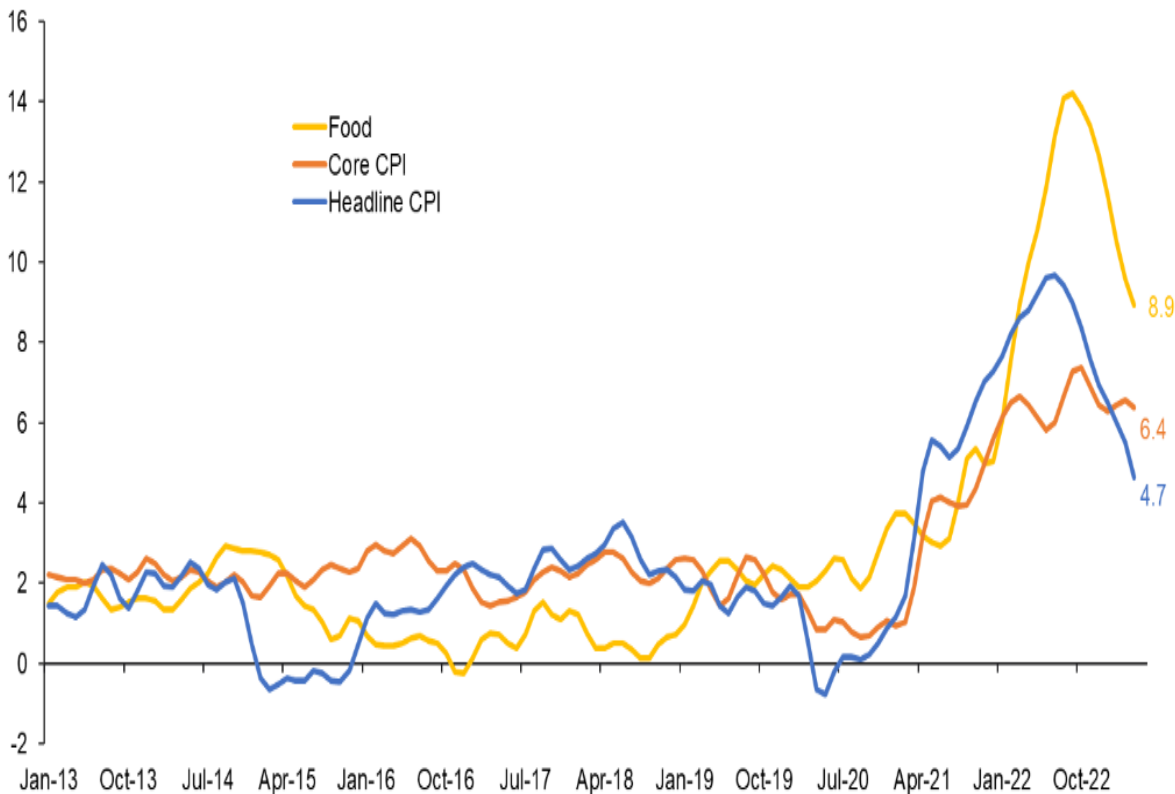


*Seasonally adjusted, three-month centered moving average.
SOURCE: Bureau of Labor Statistics; Texas Workforce Commission; adjustments by the Dallas Fed.

Regional Economic Information

Texas Consumer Price Index

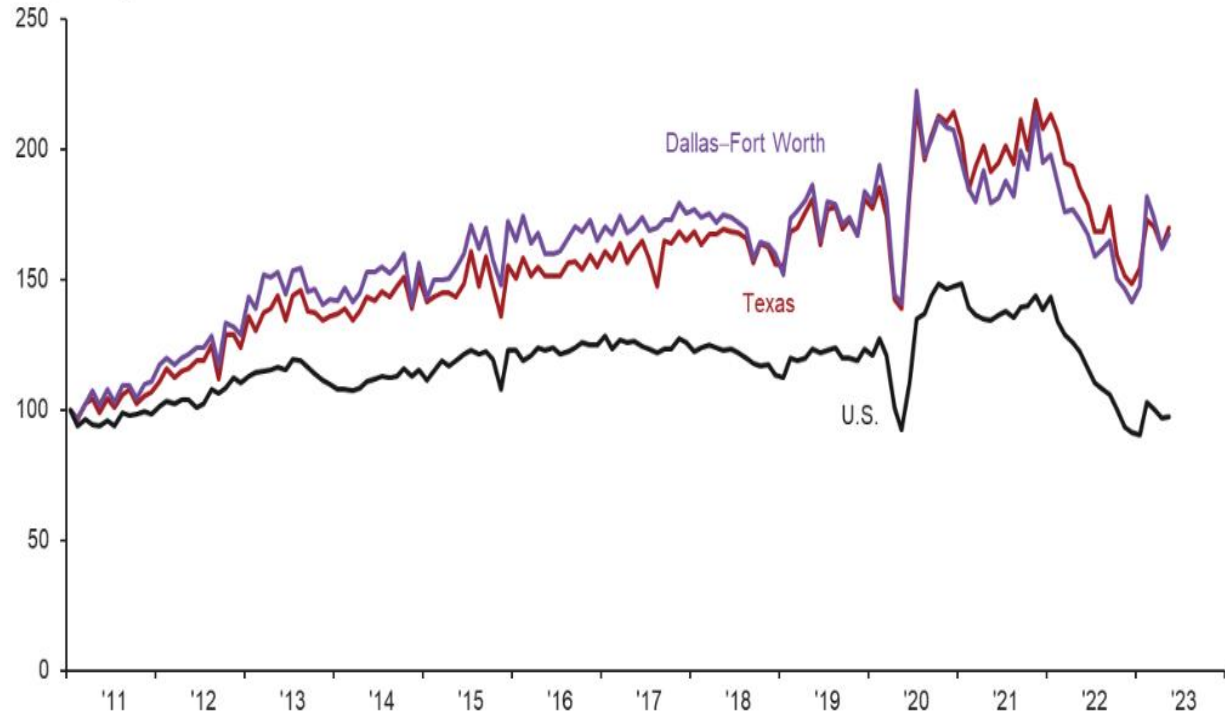
Year-over-year percent change



NOTE: Texas Consumer Price Index (CPI) data are through April 2023.
SOURCE: Bureau of Labor Statistics.

Existing-home sales

Index, January 2011 = 100



SOURCE: Multiple Listing Service; Real Estate Center at Texas A&M University.



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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 March 31, 2023		Portfolio as of June 30, 2023	
Beginning Book Value	\$3,516,830,038	Ending Book Value	\$3,669,347,823
Beginning Market Value	\$3,488,074,267	Ending Market Value	\$3,616,710,406
		Investment Income for the period	\$32,397,392
Unrealized Gain/(Loss)	(\$28,755,770)	Unrealized Gain/(Loss)	(\$52,637,417)
		Change in Unrealized Gain/(Loss)	(\$23,881,646)
Weighted Average Maturity	634 days	Weighted Average Maturity	657 days
Weighted Average Yield	3.40%	Weighted Average Yield	3.97%

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Portfolio Summary – Investment Pool

As of 6/30/2023

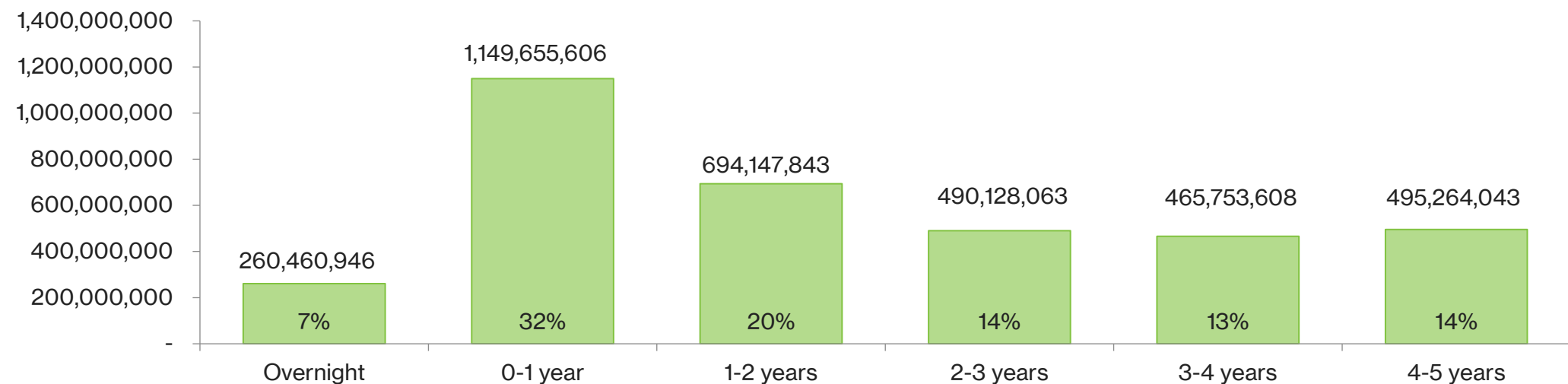
Your Portfolio

Cash	\$260,460,946
Securities Book Value	\$3,294,949,163
Total Portfolio Book Value	\$3,555,410,109

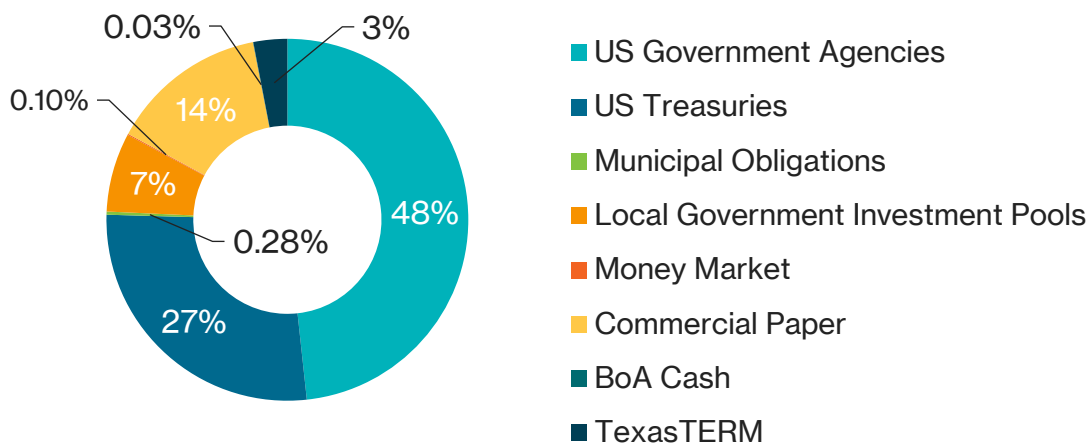
Your Securities

Weighted Average Maturity	1.85 years
Weighted Average Yield	3.94%

Your Maturity Distribution

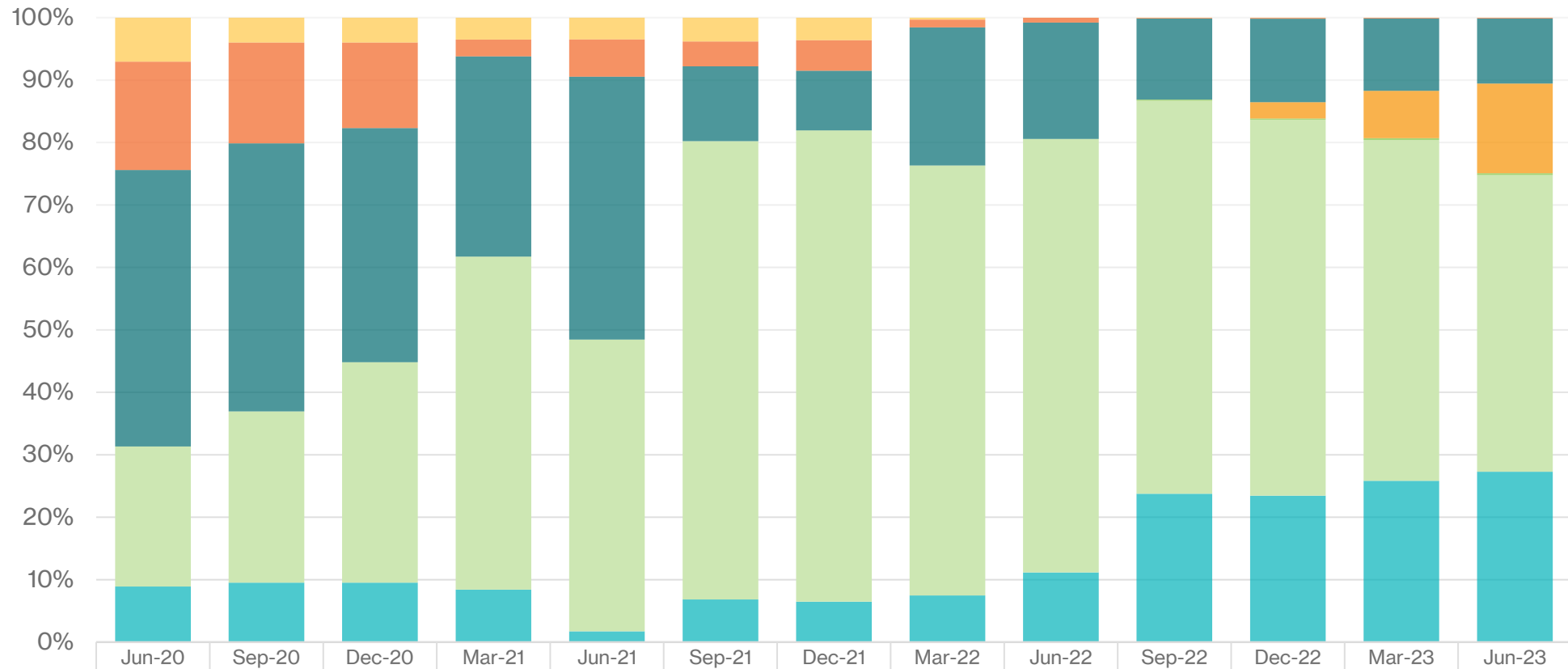


Your Asset Allocation

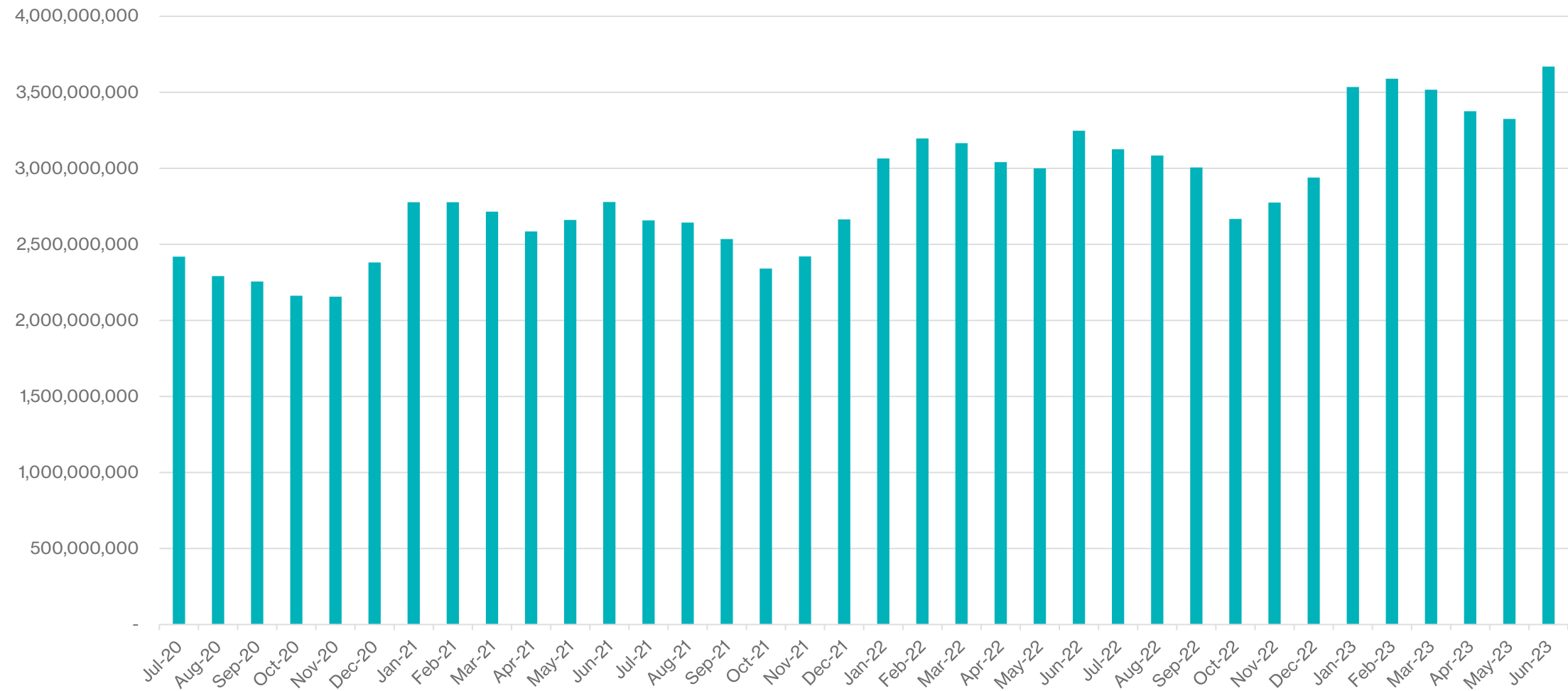


YIELD AND INTEREST INCOME INFORMATION IS ANNUALIZED. ALL YIELD INFORMATION IS SHOWN GROSS OF ANY ADVISORY AND CUSTODY FEES AND IS BASED ON YIELD TO MATURITY AT COST.
PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

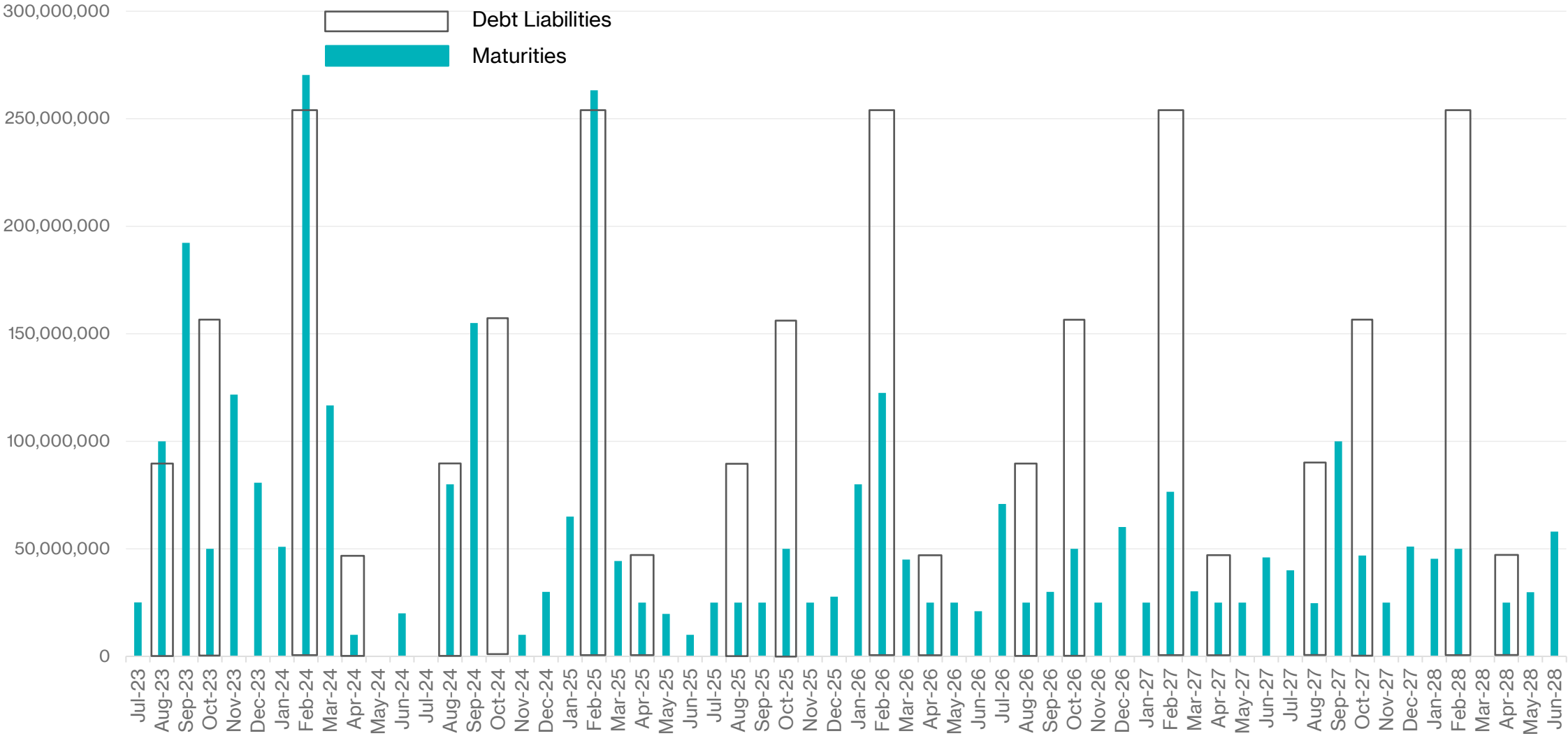
Asset Composition



Historical Balances – Book Value



Maturity Distributions



Compliance Certification



The undersigned have acknowledged that they have reviewed this quarterly investment report for the period ending June 30, 2023. 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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