



PUBLIC FUNDS ADVISORY

City of Killeen

Quarterly Investment Report

PRESENTED BY:

SCOTT GRUBER, CMT - DIRECTOR, ADVISORY SERVICES

SEPTEMBER 30, 2023



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Compliance Certification



The undersigned have acknowledged that they have reviewed this quarterly investment report for the period ending September 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.

Executive Director of Finance

Assistant Director of Executive Finance

Controller

Executive Summary

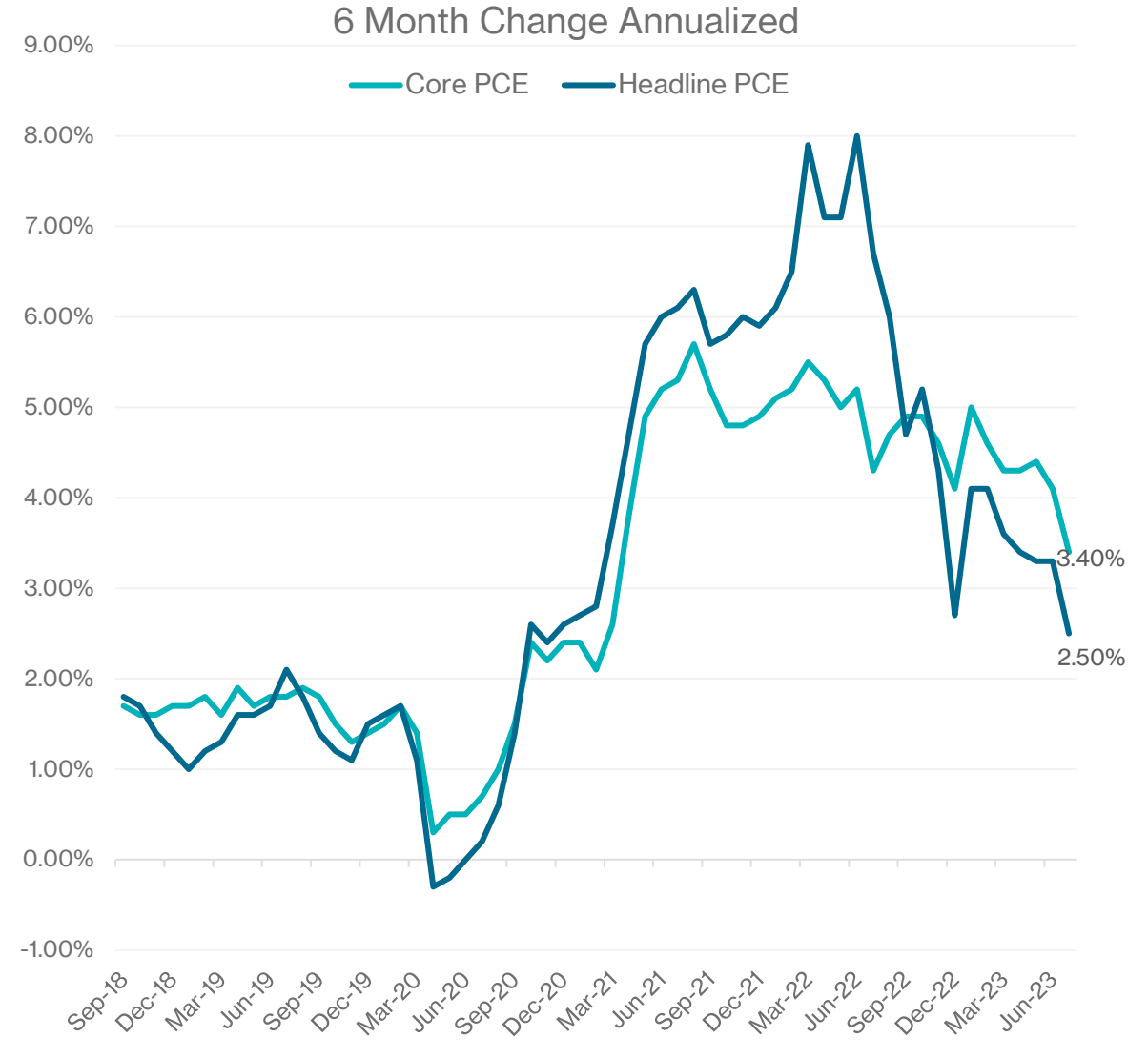
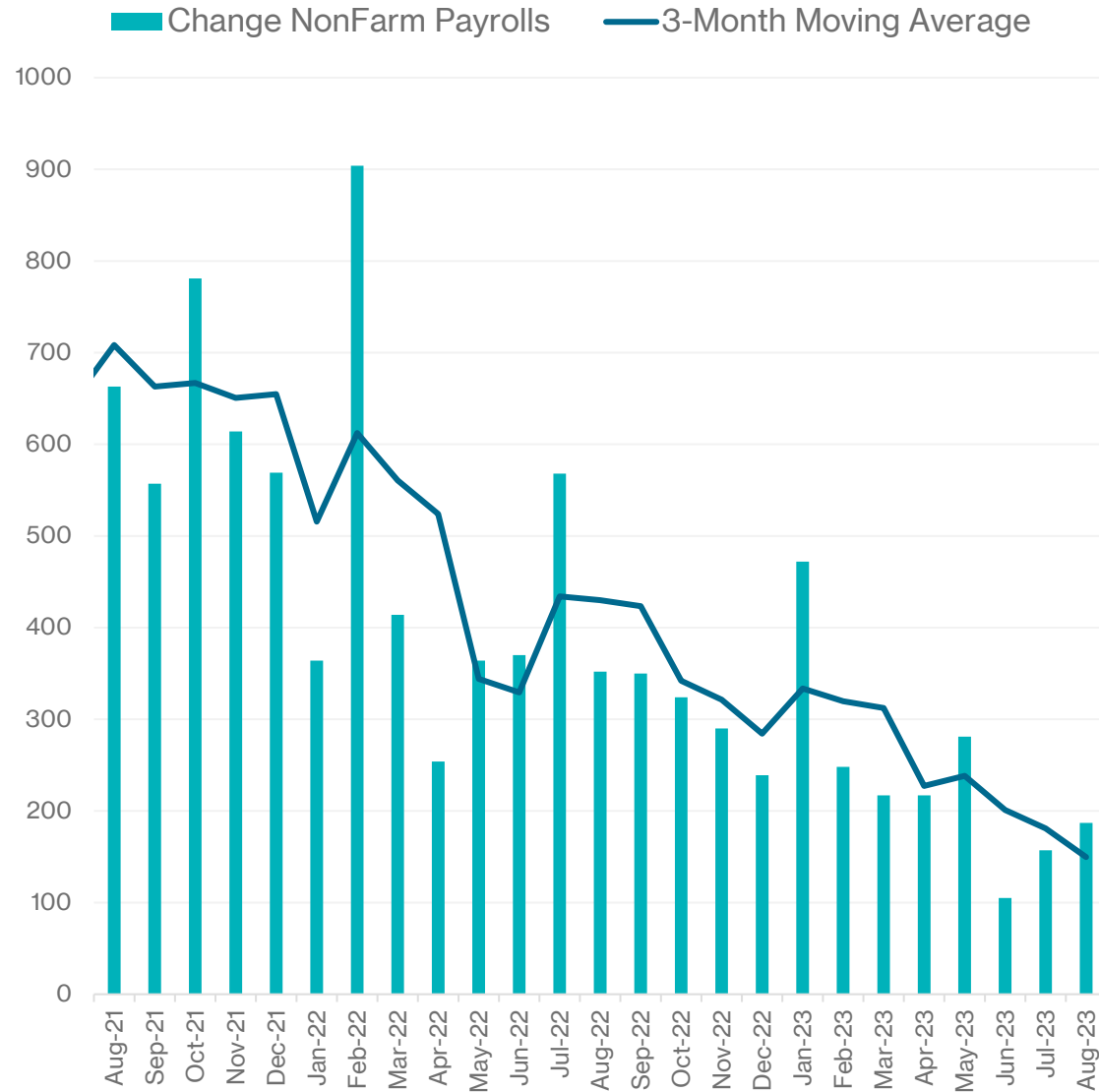
- This past quarter, interest rates continued to move higher as economic data proved resilient, and updated Federal Reserve guidance indicated the Federal Reserve is prepared to raise interest rates again in 2023. The Federal Reserve met twice during the quarter, hiking rates by 0.25% in July but not in September. However, the updated dot plot showed the Federal Reserve is forecasting fewer cuts next year as the median 2024 dot shifted higher by 0.50%. Markets are still pricing in nearly 1.00% of cuts in 2024, as participants expect the Federal Reserve will cut more aggressively.
- During the quarter, we continued moving the portfolio closer to our core targets. Our longer-term focus has driven a combination of high coupon agencies and treasury securities to be locked into the portfolio. Additionally, we worked in some short-term commercial paper allowing the portfolio to build up the 0-1 year area and capture higher yields.
- 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 Operating Core Reserve Funds, 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. 8% of the portfolio turns over during the next quarter, giving us ample opportunity to move the portfolio longer while increasing the book yield.



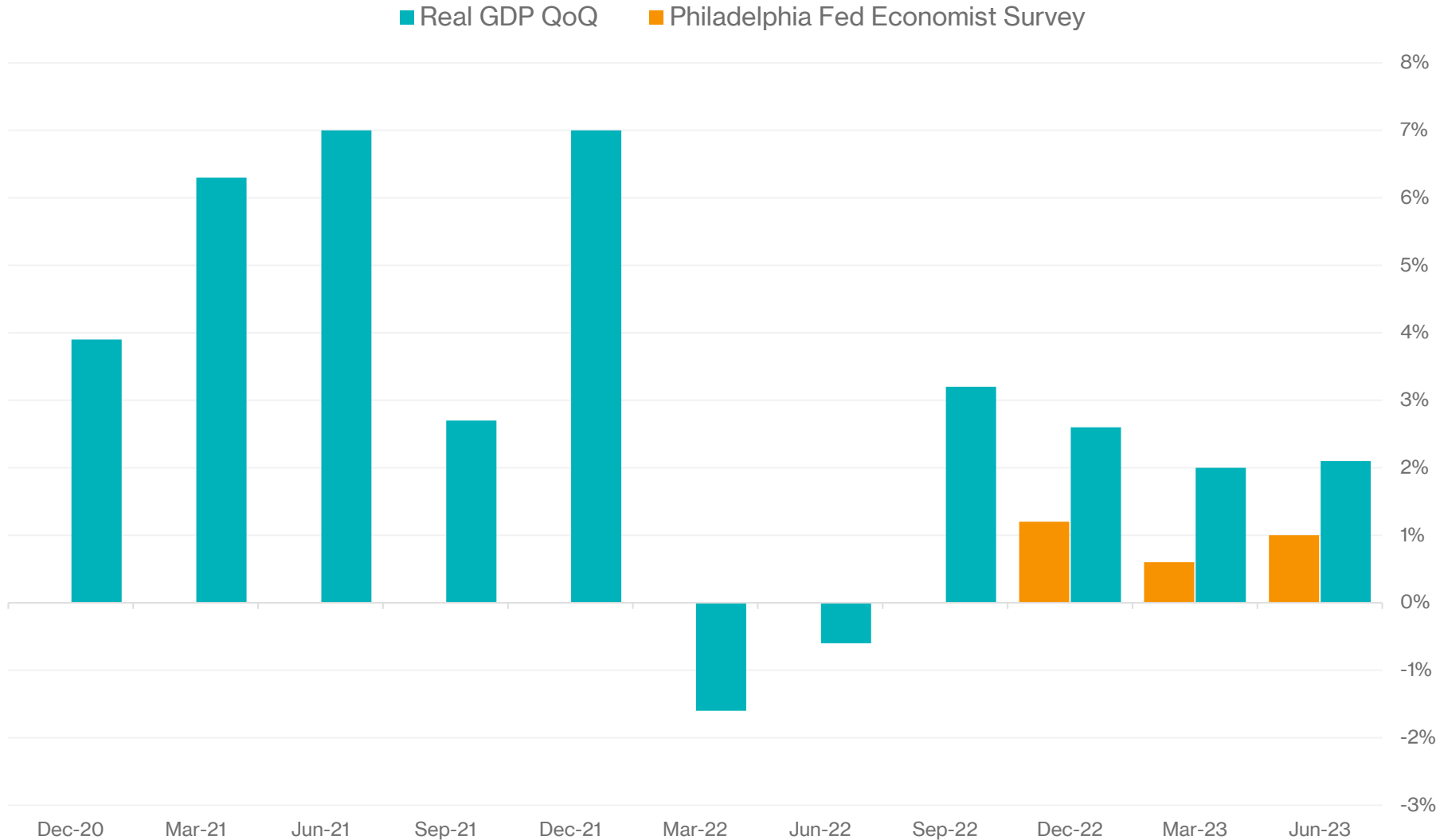
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ECONOMIC UPDATE

Federal Reserve Seeing Success in Loosening Labor Market & Inflation Rate Trending Lower



US Growth Has Exceeded Expectations



- Real GDP Negative Q1 and Q2 of 2022, Expectations For Low Growth in 2023.
- Median Survey of Economists from Philadelphia Fed Expected About Half the Realized Growth
- Business Fixed Investment Higher - Industrial Policy - Subsidies to the EV and Semiconductor Industries
- Taylor Swift & Beyonce Fever Giving Serious Boost to US Economy - 50 US Concerts Estimated To Have Added \$5.4 billion to GDP in Q3.

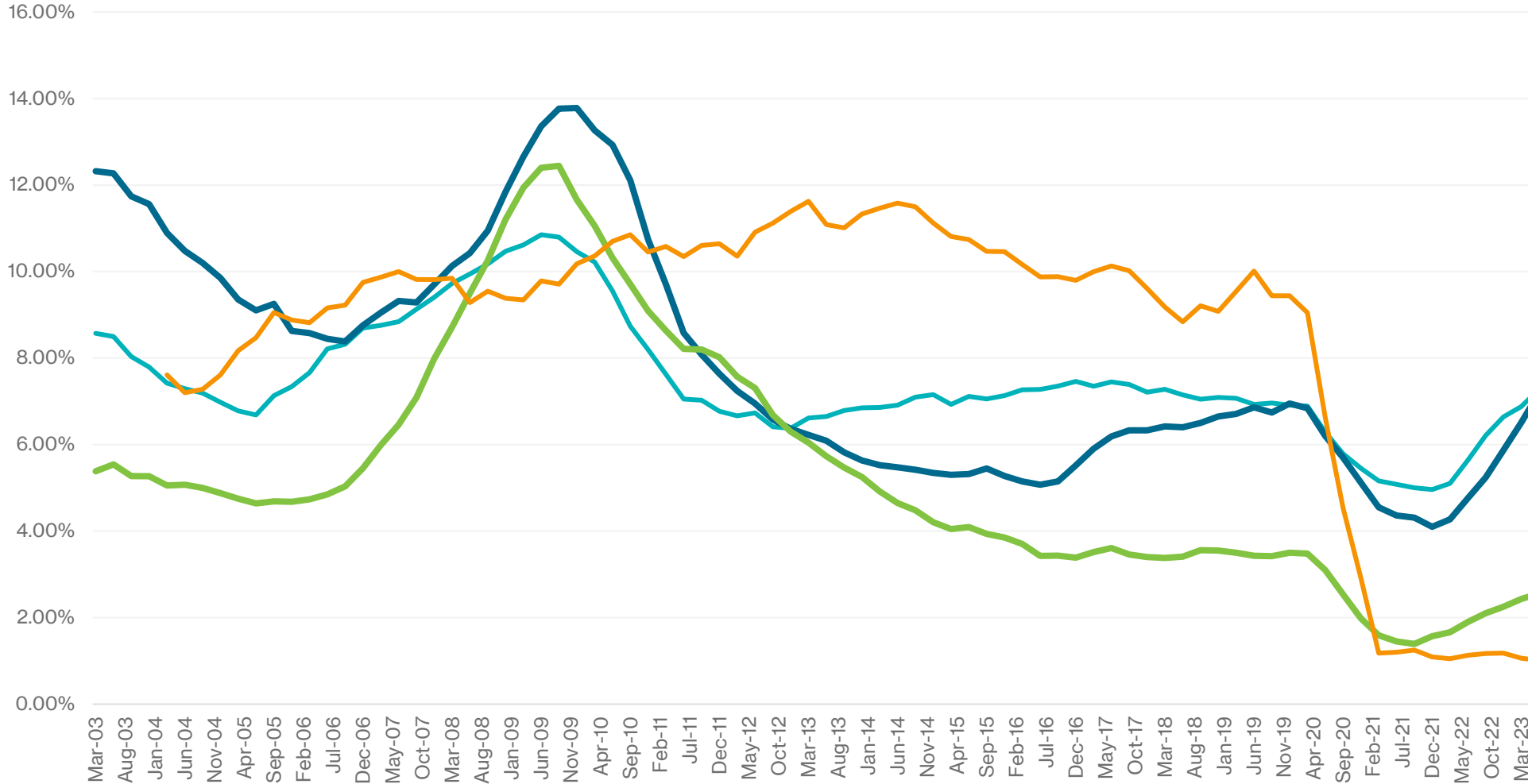
SOURCE: U.S. BUREAU OF ECONOMIC ANALYSIS, PHILADELPHIA FED SURVEY OF PROFESSIONAL FORECASTERS

Consumer Strength Resilient in 2023, Signs Of Challenges Ahead

Delinquency Rates Increasing – Transitions into 30+ Days Delinquent



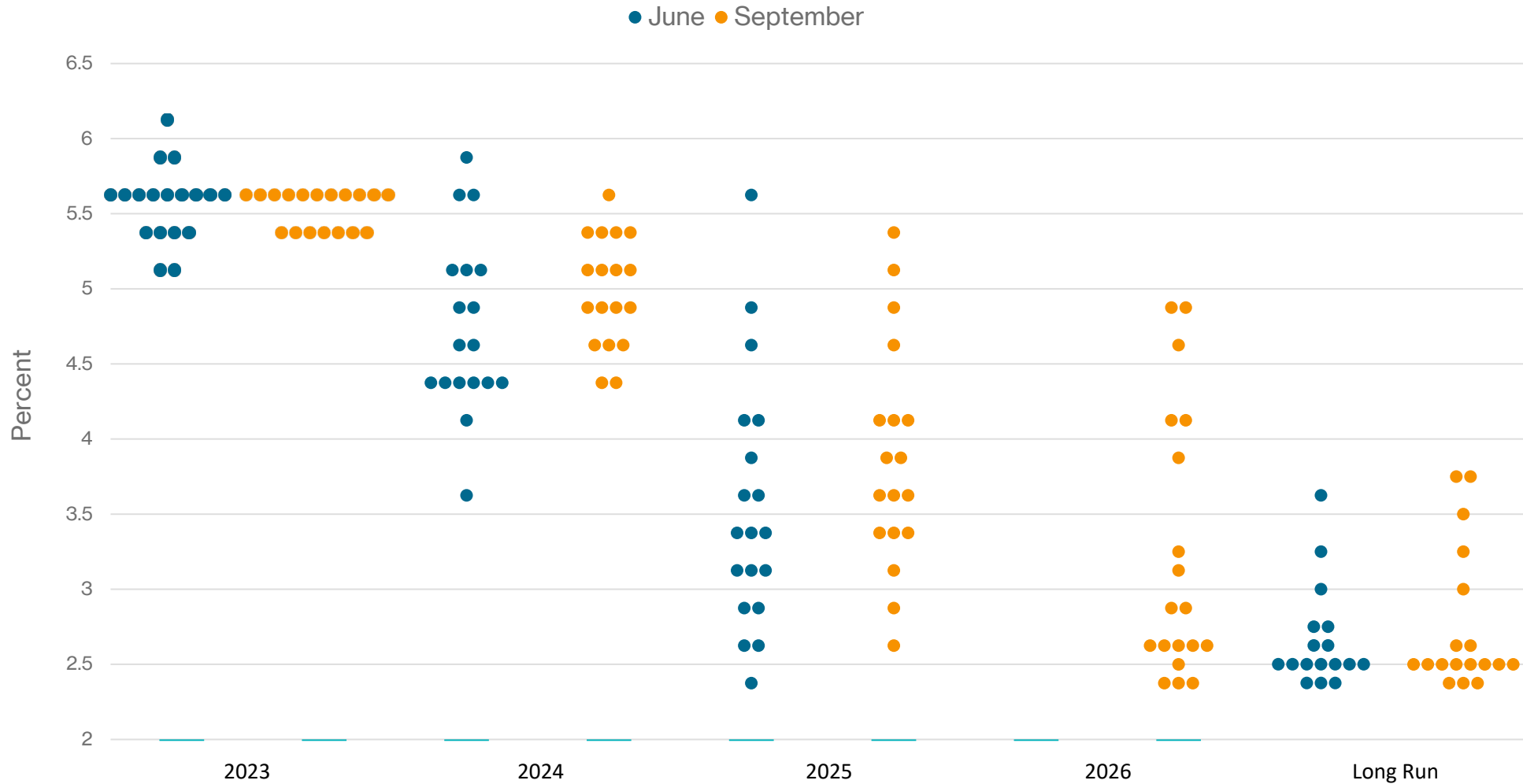
Auto Credit Cards Mortgages Student Loan



- Per San Francisco Fed, Consumers Had \$2.1 Trillion in Accumulated Excess Savings As Of March 2023 & Expect Entire Excess Savings From Pandemic to Have Been Depleted During Q3.
- Slowing Payroll Growth, Higher Debt Service Costs From Higher Interest Rates Impacting Consumers Discretionary Spending.
- Transitions into delinquency are increasing, with transition rates for both auto and credit card loans above pre-pandemic levels

SOURCE: NEW YORK FED CONSUMER CREDIT PANEL/EQUIFAX

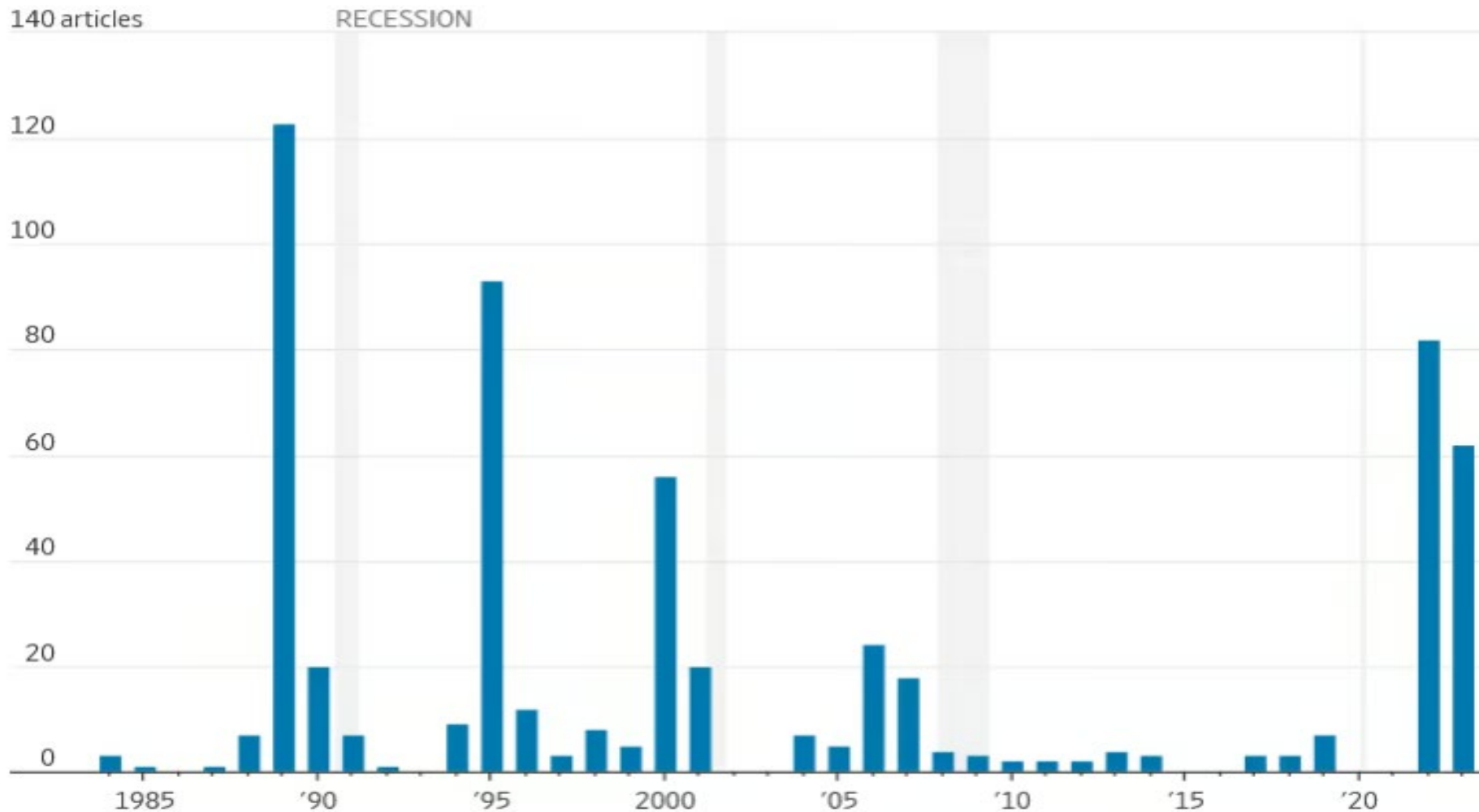
Federal Reserve Dot Plot Comparison



- Each Dot Represents Projected Year End Rate By Each Member Of The FOMC
- FOMC Expecting to Raise Rates Only 1 More Time In This Cycle.
- Median Dot Indicates From June to September FOMC See's Interest Rates Falling by 0.50% in 2024 instead of 1.00%.

Common To Expect “Soft Landing” Prior To Recession

Number of Wall Street Journal articles that reference a 'soft landing'



Source: WSJ archives

- As Fed Transitions From Hiking To Pausing, Optimism On Avoiding Recession Increases.
- “The Most Likely Outcome Is That The Economy Will Move Forward Toward a Soft Landing – Former Fed Chair Janet Yellen in October 2007, Two Months Before the Great Recession Began.



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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 Killeen and the Public Funds Investment Act (Chapter 2256, Texas Government Code).

Portfolio as of June 30, 2023		Portfolio as of September 30, 2023	
Beginning Book Value	\$236,365,821	Ending Book Value	\$232,630,345
Beginning Market Value	\$235,080,980	Ending Market Value	\$230,914,909
Unrealized Gain/(Loss)	(\$1,284,841)	Unrealized Gain/(Loss)	(\$1,715,436)
		Change in Unrealized Gain/(Loss)	(\$430,595)
Weighted Average Maturity	386 days	Weighted Average Maturity	582 days
Weighted Average Yield	3.79%	Weighted Average Yield	4.24%

Portfolio Market Value by Fund	6/30/2023	9/30/2023	Change
Pooled Investments	\$234,231,155.12	\$230,076,100.30	(\$4,155,054.82)
Internal Services Fund	\$107,286.71	\$209,516.37	\$102,229.66
Employee Benefits Trust Fund	\$157,439.18	\$154,445.62	(\$2,993.56)
Enterprise Funds	\$4,040.07	\$48.07	(\$3,992.00)
General Fund	\$201,550.87	\$95,290.10	(\$106,260.77)
Special Revenue Fund	\$379,508.31	\$379,508.31	\$0.00
Total	\$235,080,980.26	\$230,914,908.77	(\$4,166,071.49)

Portfolio Summary – Investment Pool

As of 9/30/2023

Your Portfolio

Cash/LGIPs	\$48,870,360
Securities Book Value	\$182,921,177
Total Portfolio Book Value	\$231,791,536

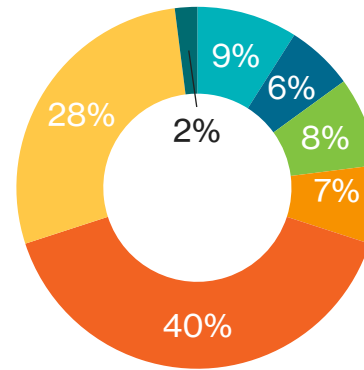
Your Securities

Weighted Average Maturity	1.60 years
Weighted Average Yield	4.25%

Interest Earnings:

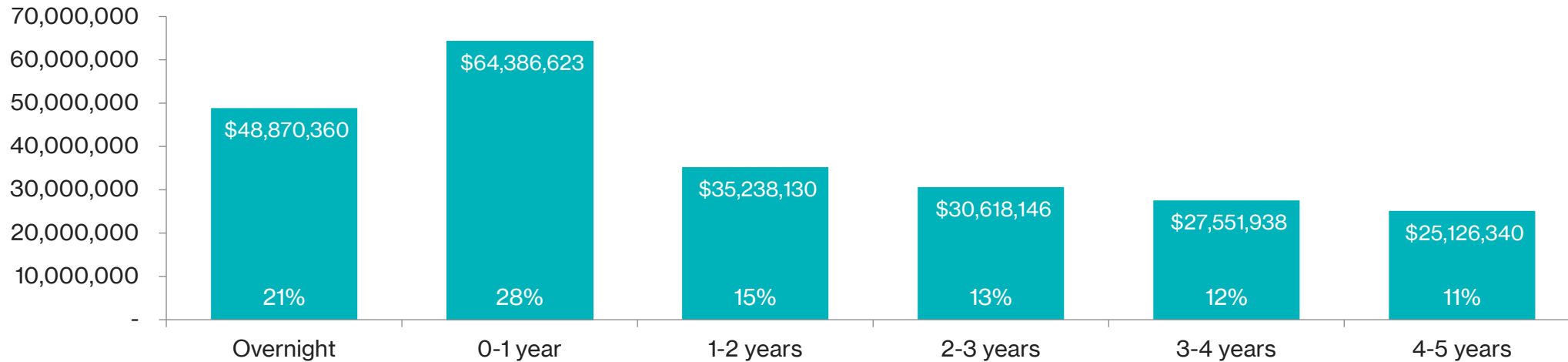
Quarterly Interest Earned	\$2,407,115
Year-to-date Interest Earned	\$7,879,147

Your Asset Allocation



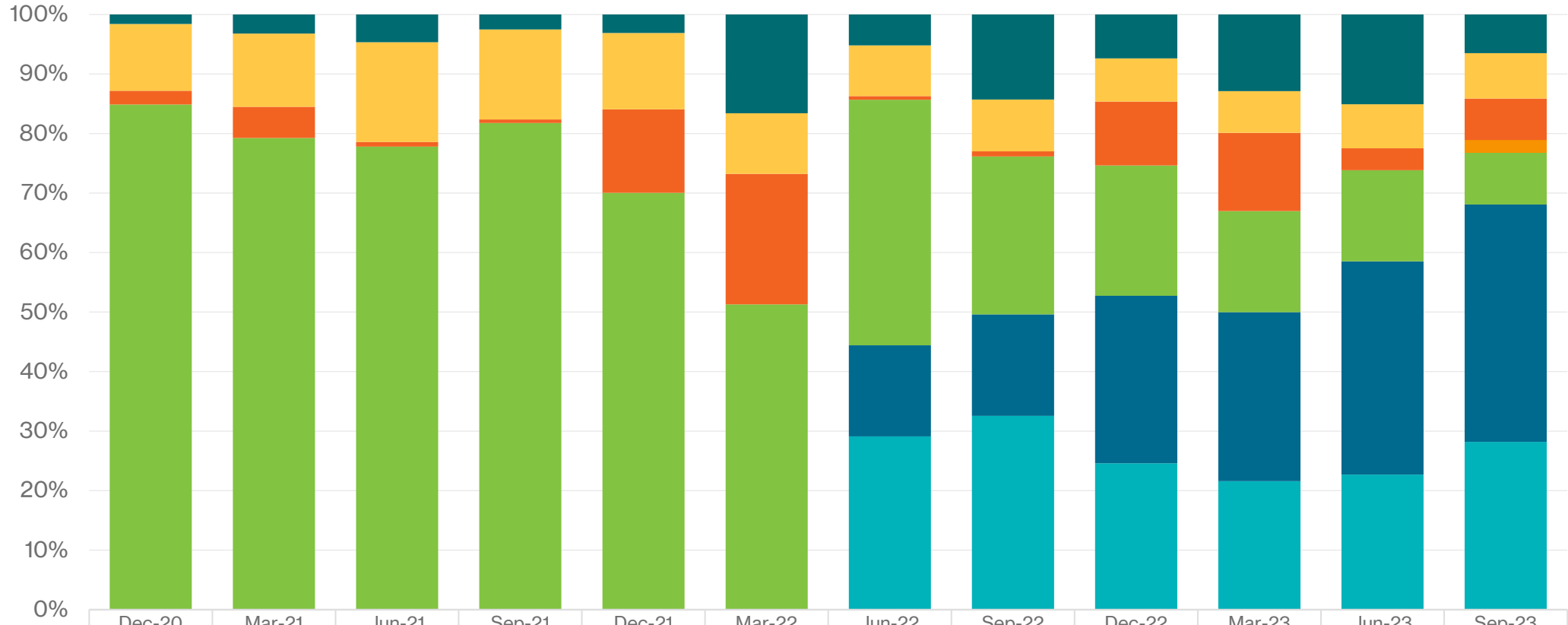
- Certificates of Deposit
- Cash & Equivalents
- Money market
- Local Government Investment Pools
- US Government Agencies
- US Treasuries
- Commercial Paper

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



	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
■ Cash	1.58%	3.20%	4.66%	2.51%	3.11%	16.59%	5.19%	14.28%	7.38%	12.88%	15.07%	6.49%
■ Money Market	11.23%	12.32%	16.75%	15.13%	12.83%	10.18%	8.52%	8.71%	7.25%	7.01%	7.40%	7.63%
■ LGIPs	2.31%	5.23%	0.79%	0.59%	14.02%	21.93%	0.61%	0.87%	10.73%	13.14%	3.69%	6.97%
■ Commercial Paper	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.08%
■ Certificates of Deposit	84.88%	79.26%	77.80%	81.76%	70.03%	51.29%	41.26%	26.53%	21.89%	17.00%	15.30%	8.76%
■ U.S. Government Agencies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	15.31%	17.04%	28.15%	28.39%	35.83%	39.88%
■ U.S. Treasury Securities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	29.11%	32.57%	24.59%	21.59%	22.70%	28.20%

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