

INVESTMENT REPORT

McKinney ISD

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July 1 to September 30, 2022



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Market Recap

The month of September was not a good one for the financial markets. The Dow shed -6.4%, while the Nasdaq lost -10.5%. The 2-year Treasury note, which began the month yielding 3.49%, climbed to a 15-year high of 4.34% in the final week of September, before rallying a bit into quarter end. The 10-year note opened the month at 3.19% and reached 3.94%, the highest since 2008, before finding its footing late in the month.

There are a number of contributing factors to the huge increase in bond yields last month; the most dominant is that Fed officials not only raised the overnight target rate by 75 basis points for the third straight time in September, but also indicated through the updated “dot plot” that they intend to hike rates further and keep them elevated for longer. By increasing the target rate 300 basis points since March, the Fed has tightened monetary policy faster than at any point in forty years. This has contributed to the strongest dollar in more than two decades, which makes U.S. imports cheaper and exports more expensive, and has a profound negative effect on the profits of U.S. multinational companies.

But the more severe damage is happening overseas. With the global commodities markets priced in dollars, nations that import oil and natural gas will lose value in the exchange and effectively pay more. In Europe, where the war in Ukraine has already created a severe natural gas shortage, this is a disaster. The inflation rate in August was +10.1% in the EU and +9.9% in the U.K., and as winter approaches, energy prices are expected to rise further. The ECB hiked by 75 bps in September, the biggest single increase in its history, and signaled another 75 ahead for October. The September hike brought the ECB overnight rate from 0.00% to 0.75%. Clearly, they still have a long way to go, but they’re walking a fine line. Rate increases are designed to slow demand, and in doing so will eventually bring down inflation. However, the EU is already very close to recession. The U.K and China may already be in recession, and the U.S. is expected to enter recession at some point next year.

Foreign nations are hiking rates at an unprecedented pace and thereby ensuring a deeper recession . . . but there’s little choice. They need to keep their currency from weakening further and try to bring inflation down as best they can. Here in the U.S., the headline

consumer price index rose +0.1% in August, above the expected -0.1% decline and following an *unchanged* reading in July. On the surface, it wasn’t a terrible number, but almost all of the moderation was the result of the decline in gas prices. The majority of the CPI basket of goods continues to rise in price. On a year-over-year basis, CPI increased at an +8.3% pace, down from +8.5%, but above the +8.0% forecast. Unfortunately, it was much worse when food and energy prices were excluded. Core CPI was up +0.6% in August, doubling both the median forecast and the July increase. On an annual basis, the rate of core consumer inflation actually rose from +5.9% to +6.3%. If there were a single report to blame for the September spike in yields and the corresponding resolve of Fed officials to drive inflation lower, *this was it*.

On the labor side, the August employment report was still too strong. Nonfarm payrolls climbed by +315k in August and 5.8 million over the previous 12 months, bringing total payrolls back above the pre-pandemic high point, *although leisure and hospitality payrolls remain 1.2 million short of the February 2020 count*. This suggests that wage pressures will continue to mount in the service sector. Average hourly earnings rose +0.3% in August and +5.2% year-over-year. This is down from the cycle high of 5.6% in March, but job openings still outnumber job seekers by almost a 2 to 1 count. Fed officials have indicated they would like to see some of this labor slack disappear. So far, businesses have been reluctant to actually let workers go, but eventually job postings should drop.

Fed officials and central banks around the world are all on the same page, and the likelihood of global recession has ramped up significantly. Demand is expected to slow in the coming months, which will further test the Fed’s resolve. For now, it’s all about bringing inflation down, and that means additional rates hikes are queued-up (and priced-in) for November and December.

Investment Officers' Certification

This report is prepared for the McKinney ISD (the "Entity") in accordance with Chapter 2256 of the Texas Public Funds Investment Act ("PFIA"). Section 2256.023(a) of the PFIA states that: "Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of the investment transactions for all funds covered by this chapter for the preceding reporting period." This report is signed by the Entity's investment officers and includes the disclosures required in the the PFIA.

The investment portfolio complied with the PFIA and the Entity's approved Investment Policy and Strategy throughout the period. All investment transactions made in the portfolio during this period were made on behalf of the Entity and were made in full compliance with the PFIA and the approved Investment Policy.

Investment Officers

Stacey Stanfield

Director of Finance & Cash Management

Jason Bird

Deputy Superintendent

Marlene Harbeson

Chief Financial Officer

Portfolio Overview

Portfolio Summary

	Prior 30 Jun-22	Current 30 Sep-22
Par Value	292,578,859.05	294,026,957.39
Original Cost	292,578,859.05	294,026,957.39
Book Value	292,578,859.05	294,026,957.39
Market Value	292,578,859.05	294,026,957.39
Accrued Interest	0.00	0.00
Book Value Plus Accrued	292,578,859.05	294,026,957.39
Market Value Plus Accrued	292,578,859.05	294,026,957.39
Net Unrealized Gain/Loss	0.00	0.00

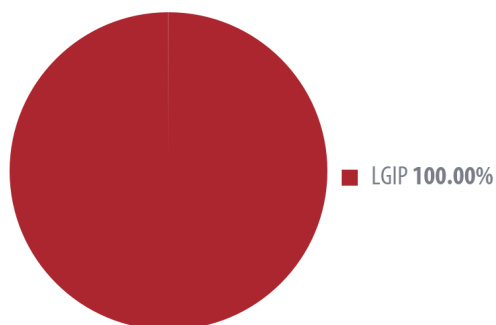
Income Summary

	1 Jul-22 to 30 Sep-22
Interest Income	\$1,416,271.39
Net Amortization/Accretion	
Realized Gain/Loss	\$0.00
Net Income	\$1,416,271.39

Portfolio Characteristics

	Prior 30 Jun-22	Current 30 Sep-22
Yield to Maturity	0.993%	2.330%
Yield to Worst	0.993%	2.330%
Years to Final Maturity	0.00	0.00
Years to Effective Maturity	0.00	0.00
Duration	--	--

Asset Allocation

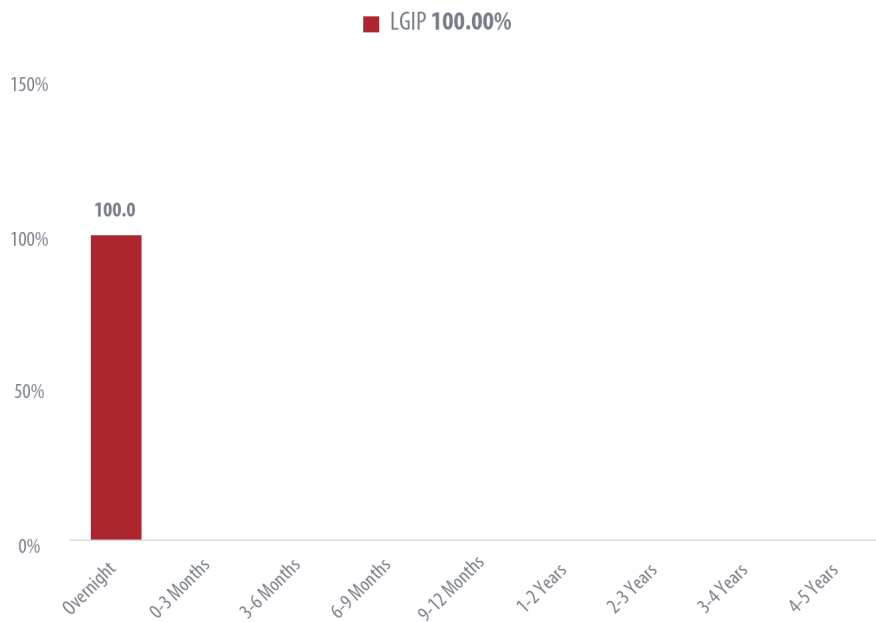


Transaction Summary

Transaction Type	Quantity	Principal	Interest	Total Amount	Realized Gain/Loss
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Portfolio Overview

Maturity Distribution by Security Type



Top Ten Holdings

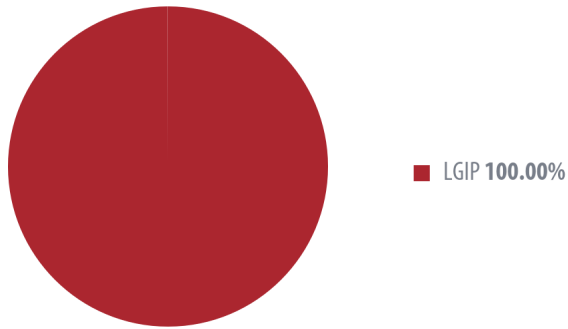
Issuer	Allocation
TEXSTAR	69.48%
TEXPOOL	30.52%

Maturity Distribution by Security Type

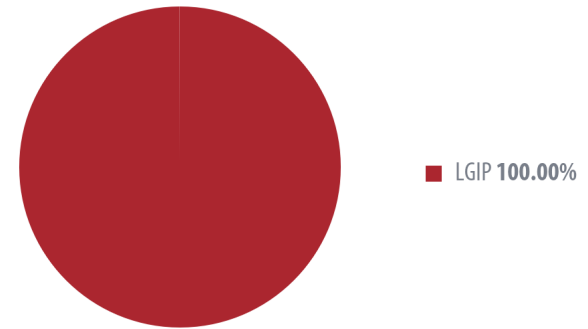
Security Type	Overnight	0-3 Months	3-6 Months	6-9 Months	9-12 Months	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Portfolio Total
LGIP	294,026,957.39	--	--	--	--	--	--	--	--	294,026,957.39
Total	294,026,957.39	--	--	--	--	--	--	--	--	294,026,957.39

Asset Allocation

Asset Allocation by Security Type as of 30-Jun-2022



Asset Allocation by Security Type as of 30-Sep-2022



Book Value Basis Security Distribution

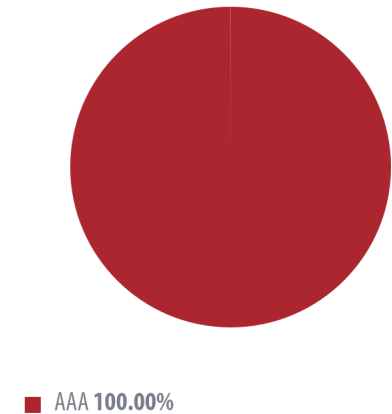
Security Type	Prior Balance 30-Jun-22	Prior Allocation 30-Jun-22	Change in Allocation	Current Balance 30-Sep-22	Current Allocation 30-Sep-22	Yield to Maturity
LGIP	292,578,859.05	100.00%	0.00%	294,026,957.39	100.00%	2.330%
Portfolio Total	292,578,859.05	100.00%		294,026,957.39	100.00%	2.330%

Credit Rating Summary

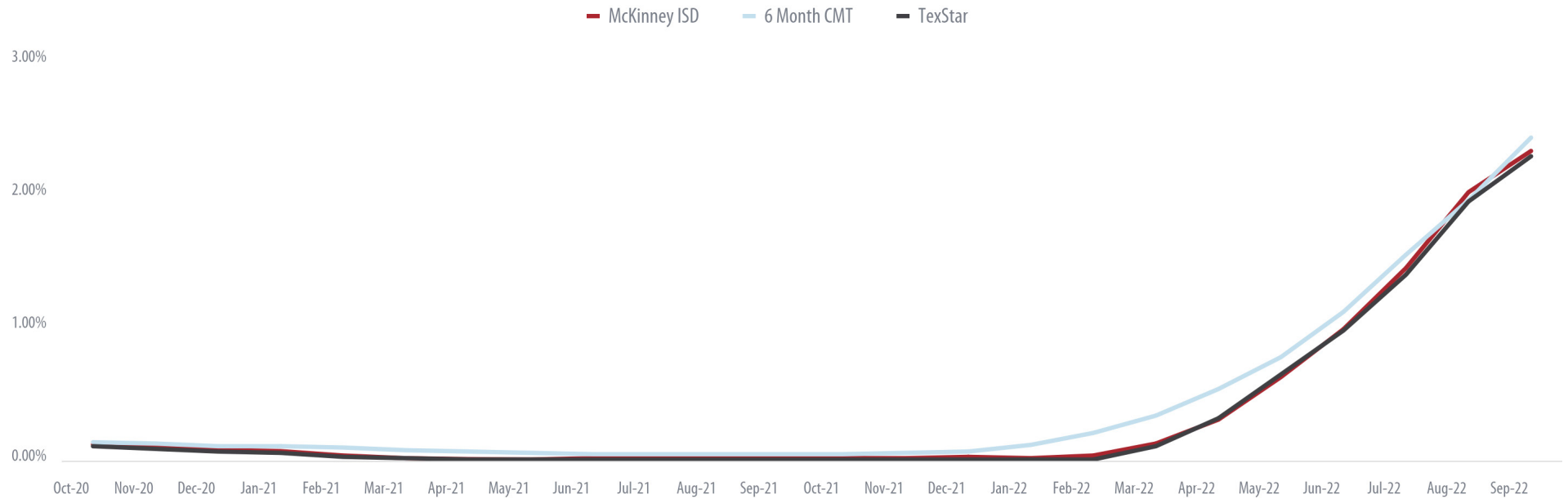
Rating Distribution

	Book Value	Portfolio Allocation
Local Government Investment Pools & Money Market Funds		
AAA	294,026,957.39	100.00%
Total Local Government Investment Pools & Money Market Funds	294,026,957.39	100.00%
Portfolio Total	294,026,957.39	100.00%

Allocation by Rating



Benchmark Comparison



Yield Overview

	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
McKinney ISD	0.12	0.11	0.08	0.07	0.04	0.02	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.02	0.04	0.13	0.31	0.63	0.99	1.45	2.02	2.33
6 Month CMT	0.14	0.13	0.11	0.11	0.10	0.08	0.07	0.06	0.05	0.05	0.05	0.05	0.05	0.06	0.07	0.12	0.21	0.34	0.54	0.78	1.12	1.55	1.96	2.43
TexStar	0.11	0.09	0.07	0.06	0.03	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.11	0.32	0.65	0.98	1.40	1.95	2.29

Fund Overview

Fund Name	Prior Book Value	Prior Market Value	Changes to Market Value	Current Book Value	Current Market Value	Net Income	Days to Final Mty	YTM	YTW
	0.00	0.00	72,163,806.53	72,163,806.53	72,163,806.53	163,806.53	1	2.294%	2.294%
2018 Series Bonds	4,219,841.56	4,219,841.56	(3,573,258.87)	646,582.69	646,582.69	5,216.85	1	2.294%	2.294%
2019 Series Bonds	3,545,060.86	3,545,060.86	(943,374.41)	2,601,686.45	2,601,686.45	14,634.77	1	2.294%	2.294%
2020 Series Bonds	3,507,843.96	3,507,843.96	16,614.40	3,524,458.36	3,524,458.36	16,614.40	1	2.294%	2.294%
2021 Series Bonds	90,322,811.66	90,322,811.66	(14,468,814.30)	75,853,997.36	75,853,997.36	392,532.27	1	2.294%	2.294%
General Operating	160,946,996.75	160,946,996.75	(42,365,337.74)	118,581,659.01	118,581,659.01	701,602.35	1	2.365%	2.365%
Interest & Bonded Debt	30,036,304.26	30,036,304.26	(9,381,537.27)	20,654,766.99	20,654,766.99	121,864.22	1	2.401%	2.401%
Total	292,578,859.05	292,578,859.05	1,448,098.34	294,026,957.39	294,026,957.39	1,416,271.39	1	2.330%	2.330%

Detail of Security Holdings

CUSIP	Settle Date	Security Type	Security Description	CPN	Maturity Date	Next Call Date	Call Type	Par Value	Purch Price	Original Cost	Book Value	Mkt Price	Market Value	Days to Mty	Days to Call	YTM	YTW	Rating	
2018 Series Bonds																			
TEXSTAR		LGIP	TexSTAR		09/30/22			646,582.69	100.000	646,582.69	646,582.69	100.000	646,582.69	1		2.294	2.294	AAA	
Total 2018 Series Bonds								646,582.69		646,582.69	646,582.69		646,582.69	1		2.294	2.294		
2019 Series Bonds																			
TEXSTAR		LGIP	TexSTAR		09/30/22			2,601,686.45	100.000	2,601,686.45	2,601,686.45	100.000	2,601,686.45	1		2.294	2.294	AAA	
Total 2019 Series Bonds								2,601,686.45		2,601,686.45	2,601,686.45		2,601,686.45	1		2.294	2.294		
2020 Series Bonds																			
TEXSTAR		LGIP	TexSTAR		09/30/22			3,524,458.36	100.000	3,524,458.36	3,524,458.36	100.000	3,524,458.36	1		2.294	2.294	AAA	
Total 2020 Series Bonds								3,524,458.36		3,524,458.36	3,524,458.36		3,524,458.36	1		2.294	2.294		
2021 Series Bonds																			
TEXSTAR		LGIP	TexSTAR		09/30/22			75,853,997.36	100.000	75,853,997.36	75,853,997.36	100.000	75,853,997.36	1		2.294	2.294	AAA	
Total 2021 Series Bonds								75,853,997.36		75,853,997.36	75,853,997.36		75,853,997.36	1		2.294	2.294		
2022 Series Bonds																			
TEXSTAR		LGIP	TexSTAR		09/30/22			72,163,806.53	100.000	72,163,806.53	72,163,806.53	100.000	72,163,806.53	1		2.294	2.294	AAA	
Total 2022 Series Bonds								72,163,806.53		72,163,806.53	72,163,806.53		72,163,806.53	1		2.294	2.294		
General Operating																			
TEXPOOL		LGIP	TexPool		09/30/22			71,124,924.61	100.000	71,124,924.61	71,124,924.61	100.000	71,124,924.61	1		2.413	2.413	AAA	
TEXSTAR		LGIP	TexSTAR		09/30/22			47,456,734.40	100.000	47,456,734.40	47,456,734.40	100.000	47,456,734.40	1		2.294	2.294	AAA	
Total General Operating								118,581,659.01		118,581,659.01	118,581,659.01		118,581,659.01	1		2.365	2.365		
Interest & Bonded Debt																			
TEXPOOL		LGIP	TexPool		09/30/22			18,615,648.35	100.000	18,615,648.35	18,615,648.35	100.000	18,615,648.35	1		2.413	2.413	AAA	
TEXSTAR		LGIP	TexSTAR		09/30/22			2,039,118.64	100.000	2,039,118.64	2,039,118.64	100.000	2,039,118.64	1		2.294	2.294	AAA	

Detail of Security Holdings

CUSIP	Settle Date	Security Type	Security Description	CPN	Maturity Date	Next Call Date	Call Type	Par Value	Purch Price	Original Cost	Book Value	Mkt Price	Market Value	Days to Mty	Days to Call	YTM	YTW	Rating
Total Interest & Bonded Debt								20,654,766.99		20,654,766.99	20,654,766.99		20,654,766.99	1		2.401	2.401	
Grand Total								294,026,957.39		294,026,957.39	294,026,957.39		294,026,957.39	1		2.330	2.330	

Earned Income

CUSIP	Security Type	Security Description	Beginning Accrued	Interest Earned	Interest Rec'd/ Sold/Matured	Interest Purchased	Ending Accrued	Disc Accr/Prem Amort	Net Realized Gain/Loss	Net Income
2018 Series Bonds										
TEXSTAR	LGIP	TexSTAR 0.0 09/30/2022	0.00	5,216.85	5,216.85	0.00	0.00	0.00	0.00	5,216.85
Total 2018 Series Bonds			0.00	5,216.85	5,216.85	0.00	0.00	0.00	0.00	5,216.85
2019 Series Bonds										
TEXSTAR	LGIP	TexSTAR 0.0 09/30/2022	0.00	14,634.77	14,634.77	0.00	0.00	0.00	0.00	14,634.77
Total 2019 Series Bonds			0.00	14,634.77	14,634.77	0.00	0.00	0.00	0.00	14,634.77
2020 Series Bonds										
TEXSTAR	LGIP	TexSTAR 0.0 09/30/2022	0.00	16,614.40	16,614.40	0.00	0.00	0.00	0.00	16,614.40
Total 2020 Series Bonds			0.00	16,614.40	16,614.40	0.00	0.00	0.00	0.00	16,614.40
2021 Series Bonds										
TEXSTAR	LGIP	TexSTAR 0.0 09/30/2022	0.00	392,532.27	392,532.27	0.00	0.00	0.00	0.00	392,532.27
Total 2021 Series Bonds			0.00	392,532.27	392,532.27	0.00	0.00	0.00	0.00	392,532.27
2022 Series Bonds										
TEXSTAR	LGIP	TexSTAR 0.0 09/30/2022	0.00	163,806.53	163,806.53	0.00	0.00	0.00	0.00	163,806.53
Total 2022 Series Bonds			0.00	163,806.53	163,806.53	0.00	0.00	0.00	0.00	163,806.53
General Operating										
TEXPOOL	LGIP	TexPool 0.0 09/30/2022	0.00	477,890.34	477,890.34	0.00	0.00	0.00	0.00	477,890.34
TEXSTAR	LGIP	TexSTAR 0.0 09/30/2022	0.00	223,712.01	223,712.01	0.00	0.00	0.00	0.00	223,712.01
Total General Operating			0.00	701,602.35	701,602.35	0.00	0.00	0.00	0.00	701,602.35
Interest & Bonded Debt										
TEXPOOL	LGIP	TexPool 0.0 09/30/2022	0.00	104,111.44	104,111.44	0.00	0.00	0.00	0.00	104,111.44
TEXSTAR	LGIP	TexSTAR 0.0 09/30/2022	0.00	17,752.78	17,752.78	0.00	0.00	0.00	0.00	17,752.78

Earned Income

CUSIP	Security Type	Security Description	Beginning Accrued	Interest Earned	Interest Rec'd/ Sold/Matured	Interest Purchased	Ending Accrued	Disc Accr/Prem Amort	Net Realized Gain/Loss	Net Income
Total Interest & Bonded Debt			0.00	121,864.22	121,864.22	0.00	0.00	0.00	0.00	121,864.22
Grand Total			0.00	1,416,271.39	1,416,271.39	0.00	0.00	0.00	0.00	1,416,271.39

Disclosures & Disclaimers

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