

QUARTERLY INVESTMENT REPORT

For the Quarter Ended

December 31, 2019

Prepared by
Valley View Consulting, L.L.C.

The investment portfolio of the City of DeSoto is in compliance with the Public Funds Investment Act and the Investment Policy and Strategies.

Interim City Manager

Deputy City Manager

Managing Director of Financial Services

Assistant Director of Finance

These reports were compiled using information provided by the City. No procedures were performed to test the accuracy or completeness of this information. The market values included in these reports were obtained by Valley View Consulting, L.L.C. from sources believed to be accurate and represent proprietary valuation. Due to market fluctuations these levels are not necessarily reflective of current liquidation values. Yield calculations are not determined using standard performance formulas, are not representative of total return yields and do not account for investment advisor fees.

Summary

Quarter End Results by Investment Category:

<u>Asset Type</u>	<u>September 30, 2019</u>		<u>December 31, 2019</u>		
	<u>Book Value</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Ave. Yield</u>
DDA	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	0.00%
MMA/NOW	36,834,069	36,834,069	49,205,444	49,205,444	1.37%
Pools	22,996,396	22,996,396	19,658,423	19,658,423	1.88%
CDs/Securities	24,591,858	24,591,858	28,977,152	28,977,152	2.57%
Totals	\$ 84,922,323	\$ 84,922,323	\$ 98,341,019	\$ 98,341,019	

Average Yield - Current Quarter (1)

Total Portfolio	1.82%
Rolling Three Month Treasury	1.60%
Rolling Six Month Treasury	1.78%
TexPool	1.62%

Fiscal Year-to-Date Average Yield (2)

Total Portfolio	1.82%
Rolling Three Month Treasury	1.60%
Rolling Six Month Treasury	1.78%
TexPool	1.62%

Interest Earnings

Quarterly Interest Income	\$ 431,116	Approximate
Year-to-date Interest Income	\$ 431,116	Approximate

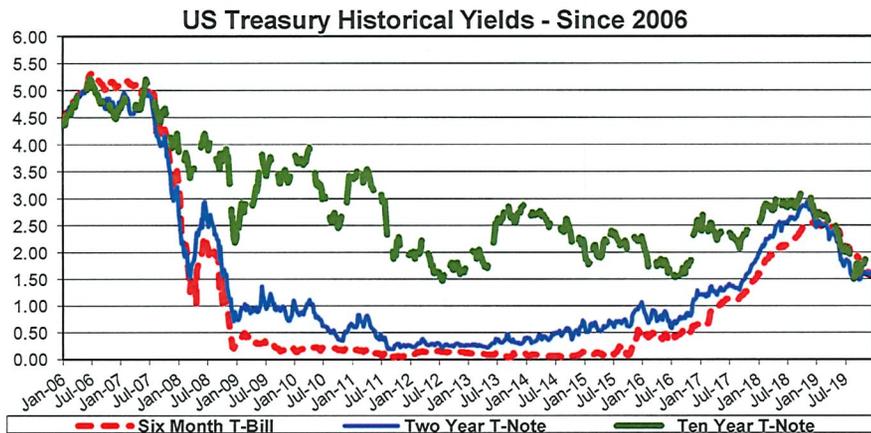
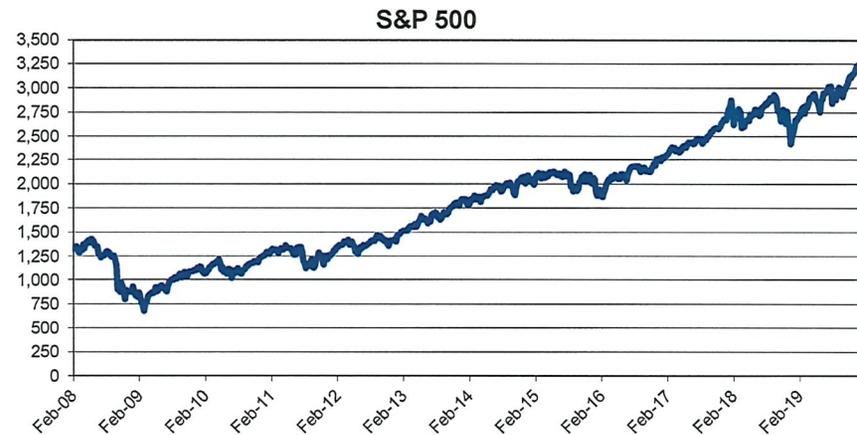
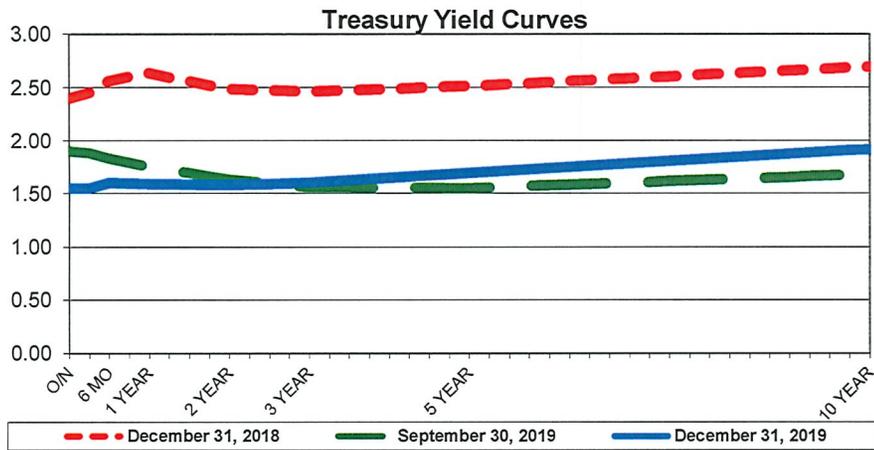
(1) **Current Quarter Average Yield** - based on adjusted book value, realized and unrealized gains/losses and investment advisory fees are not considered. The yield for the reporting month is used for bank, pool, and money market balances.

(2) **Fiscal Year-to-Date Average Yields** calculated using quarter end report yields.

Economic Overview

12/31/2019

The Federal Open Market Committee (FOMC) held the Fed Funds target range at 1.50% - 1.75% (Effective Fed Funds are trading +/-1.55%). The Futures Market has reduced the probability of additional decreases until late summer/early fall 2020. Middle East turmoil had bumped crude oil over \$60, but it has retreated back below. December Non Farm Payroll rose 145,000 resulting in a three month moving average of 185,000. The Unemployed level remained at 3.5%. The Stock Markets remain at or near historic highs. Consumer spending has improved. Housing shows signs of growth. Overall economic activity remains positive, 3rd Quarter GDP was confirmed at 2.1%. The British are moving forward with Brexit. Several trade agreements are also progressing (China, North America, Japan). The Yield Curve shifted to slightly positive.



Investment Holdings

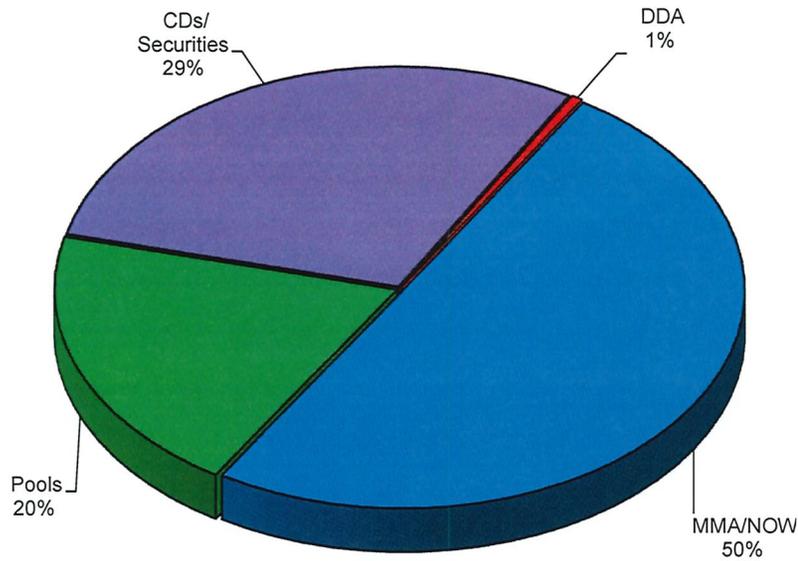
December 31, 2019

Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
Wells Fargo DDA		0.00%	01/01/20	12/31/19	\$ 500,000	\$ 500,000	1	\$ 500,000	1	0.00%
Wells Fargo MMA		1.11%	01/01/20	12/31/19	30,379,294	30,379,294	1	30,379,294	1	1.11%
BTH Bank MMA		1.68%	01/01/20	12/31/19	245,347	245,347	1	245,347	1	1.68%
BTH Bank ICS		1.78%	01/01/20	12/31/19	851,672	851,672	1	851,672	1	1.78%
Southside Bank MMA		1.74%	01/01/20	12/31/19	3,193,896	3,193,896	1	3,193,896	1	1.74%
NexBank MMA		1.82%	01/01/20	12/31/19	31,007	31,007	1	31,007	1	1.82%
NexBank MMA/ICS		1.80%	01/01/20	12/31/19	8,844,478	8,844,478	1	8,844,478	1	1.80%
Veritex Community Bank MMA		1.77%	01/01/20	12/31/19	5,659,750	5,659,750	1	5,659,750	1	1.77%
Texas CLASS	AAAm	1.88%	01/01/20	12/31/19	19,543,813	19,543,813	1	19,543,813	1	1.88%
TexPool	AAAm	1.62%	01/01/20	12/31/19	114,610	114,610	1	114,610	1	1.62%
BTH Bank CD		2.77%	02/15/20	08/15/18	2,075,212	2,075,212	100.00	2,075,212	46	2.81%
Southside Bank CD		2.68%	02/26/20	02/26/19	2,295,403	2,295,403	100.00	2,295,403	57	2.71%
Landmark Bank CD		2.89%	03/24/20	09/24/18	1,036,630	1,036,630	100.00	1,036,630	84	2.92%
Allegiance Bank CD		2.25%	03/26/20	06/26/19	750,000	750,000	100.00	750,000	86	2.26%
LegacyTexas Bank CD		2.86%	05/15/20	08/15/18	1,038,850	1,038,850	100.00	1,038,850	136	2.90%
LegacyTexas Bank CD		2.95%	06/05/20	12/05/18	2,317,280	2,317,280	100.00	2,317,280	157	2.99%
East West Bank CD		1.72%	06/17/20	12/17/19	4,002,828	4,002,828	100.00	4,002,828	169	1.73%
LegacyTexas Bank CD		2.92%	06/22/20	06/22/18	1,253,711	1,253,711	100.00	1,253,711	174	2.96%
Allegiance Bank CD		2.25%	06/26/20	06/26/19	1,011,313	1,011,313	100.00	1,011,313	178	2.27%
LegacyTexas Bank CD		2.95%	08/14/20	08/15/18	2,080,190	2,080,190	100.00	2,080,190	227	2.99%
Texas Security Bank CD		3.10%	09/25/20	09/25/18	2,500,000	2,500,000	100.00	2,500,000	269	3.10%
LegacyTexas Bank CD		3.05%	12/04/20	12/05/18	2,061,860	2,061,860	100.00	2,061,860	339	3.09%
American Nat'l Bank of TX CD		1.80%	12/18/20	12/18/19	4,000,000	4,000,000	100.00	4,000,000	353	1.81%
Allegiance Bank CD		2.84%	02/28/21	02/28/19	2,553,876	2,553,876	100.00	2,553,876	425	2.87%
\$ 98,341,019						\$ 98,341,019		\$ 98,341,019	65	1.82%
									(1)	(2)

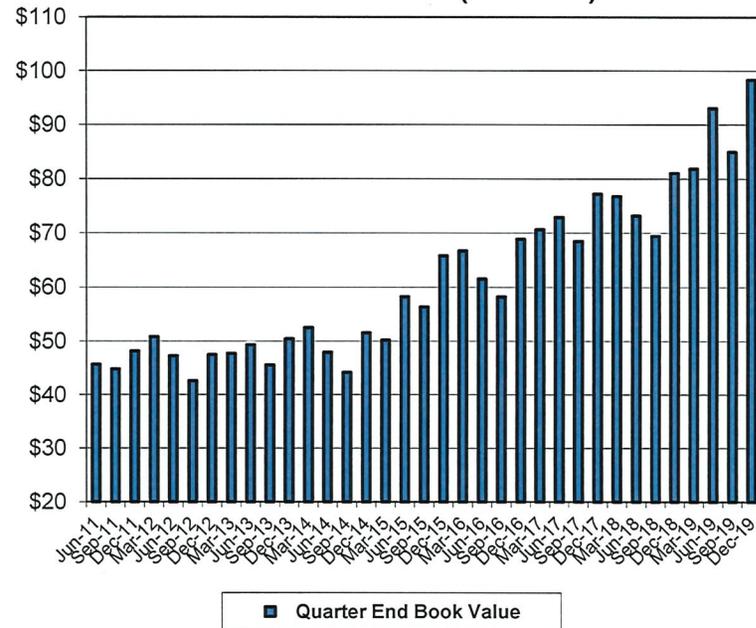
(1) **Weighted average life** - For purposes of calculating weighted average life, bank accounts, pools and money market funds are assumed to have an one day maturity.

(2) **Weighted average yield to maturity** - The weighted average yield to maturity is based on adjusted book value, realized and unrealized gains/losses and investment advisory fees are not considered. The yield for the reporting month is used for bank accounts, pools and money market funds.

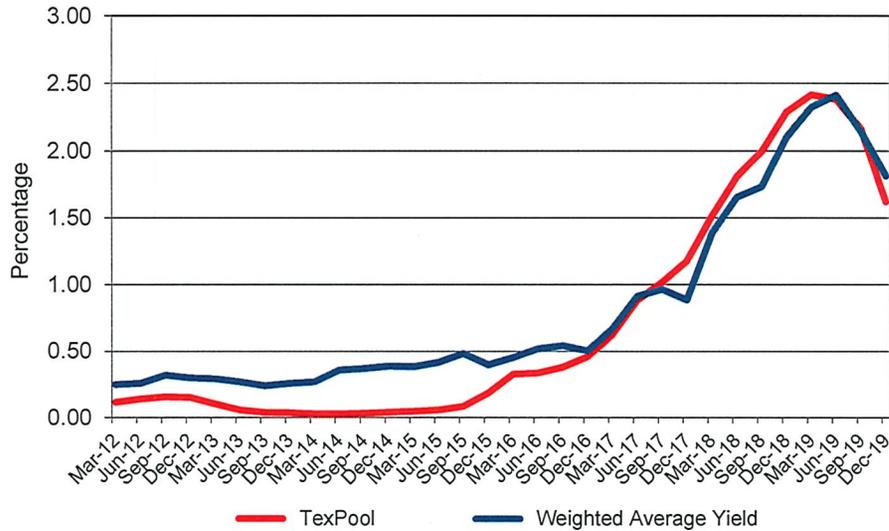
Portfolio Composition



Total Portfolio (Millions)



Total Portfolio Performance



Book Value Comparison

Description	Coupon/ Discount	Maturity Date	September 30, 2019				December 31, 2019	
			Par Value	Book Value	Purchases/ Adjustments	Sales/Adjust/ Call/Maturity	Par Value	Book Value
Wells Fargo DDA	0.00%	01/01/20	\$ 500,000	\$ 500,000	\$ —	\$ —	\$ 500,000	\$ 500,000
Wells Fargo MMA	1.11%	01/01/20	18,086,205	18,086,205	12,293,090	—	30,379,294	30,379,294
BTH Bank MMA	1.68%	01/01/20	245,459	245,459	—	(112)	245,347	245,347
BTH Bank ICS	1.78%	01/01/20	846,152	846,152	5,519	—	851,672	851,672
Southside Bank MMA	1.74%	01/01/20	3,179,000	3,179,000	14,896	—	3,193,896	3,193,896
NexBank MMA	1.82%	01/01/20	30,859	30,859	149	—	31,007	31,007
NexBank MMA/ICS	1.80%	01/01/20	11,299,310	11,299,310	—	(2,454,832)	8,844,478	8,844,478
Veritex Community Bank MMA	1.77%	01/01/20	3,147,084	3,147,084	2,512,666	—	5,659,750	5,659,750
Texas CLASS	1.88%	01/01/20	22,882,287	22,882,287	—	(3,338,474)	19,543,813	19,543,813
TexPool	1.62%	01/01/20	114,109	114,109	501	—	114,610	114,610
East West Bank CD	2.85%	12/06/19	2,500,000	2,500,000	—	(2,500,000)	—	—
LegacyTexas Bank CD	2.78%	12/23/19	1,242,454	1,242,454	—	(1,242,454)	—	—
BTH Bank CD	2.77%	02/15/20	2,060,946	2,060,946	14,266	—	2,075,212	2,075,212
Southside Bank CD	2.68%	02/26/20	2,280,002	2,280,002	15,402	—	2,295,403	2,295,403
Landmark Bank CD	2.89%	03/24/20	1,029,215	1,029,215	7,416	—	1,036,630	1,036,630
Allegiance Bank CD	2.25%	03/26/20	750,000	750,000	—	—	750,000	750,000
LegacyTexas Bank CD	2.86%	05/15/20	1,031,477	1,031,477	7,372	—	1,038,850	1,038,850
LegacyTexas Bank CD	2.95%	06/05/20	2,300,320	2,300,320	16,960	—	2,317,280	2,317,280
East West Bank CD	1.72%	06/17/20	—	—	4,002,828	—	4,002,828	4,002,828
LegacyTexas Bank CD	2.92%	06/22/20	1,244,628	1,244,628	9,083	—	1,253,711	1,253,711
Allegiance Bank CD	2.25%	06/26/20	1,005,671	1,005,671	5,641	—	1,011,313	1,011,313
LegacyTexas Bank CD	2.95%	08/14/20	2,064,965	2,064,965	15,225	—	2,080,190	2,080,190
Texas Security Bank CD	3.10%	09/25/20	2,500,000	2,500,000	—	—	2,500,000	2,500,000
LegacyTexas Bank CD	3.05%	12/04/20	2,046,260	2,046,260	15,599	—	2,061,860	2,061,860
American Nat'l Bank of TX CD	1.80%	12/18/20	—	—	4,000,000	—	4,000,000	4,000,000
Allegiance Bank CD	2.84%	02/28/21	2,535,920	2,535,920	17,956	—	2,553,876	2,553,876
TOTAL			\$ 84,922,323	84,922,323	22,954,568	(9,535,872)	98,341,019	98,341,019

Market Value Comparison

Description	Coupon/ Discount	Maturity Date	September 30, 2019		Qtr to Qtr Change	December 31, 2019	
			Par Value	Market Value		Par Value	Market Value
Wells Fargo DDA	0.00%	01/01/20	\$ 500,000	\$ 500,000	\$ —	\$ 500,000	\$ 500,000
Wells Fargo MMA	1.11%	01/01/20	18,086,205	18,086,205	12,293,090	30,379,294	30,379,294
BTH Bank MMA	1.68%	01/01/20	245,459	245,459	(112)	245,347	245,347
BTH Bank ICS	1.78%	01/01/20	846,152	846,152	5,519	851,672	851,672
Southside Bank MMA	1.74%	01/01/20	3,179,000	3,179,000	14,896	3,193,896	3,193,896
NexBank MMA	1.82%	01/01/20	30,859	30,859	149	31,007	31,007
NexBank MMA/ICS	1.80%	01/01/20	11,299,310	11,299,310	(2,454,832)	8,844,478	8,844,478
Veritex Community Bank MMA	1.77%	01/01/20	3,147,084	3,147,084	2,512,666	5,659,750	5,659,750
Texas CLASS	1.88%	01/01/20	22,882,287	22,882,287	(3,338,474)	19,543,813	19,543,813
TexPool	1.62%	01/01/20	114,109	114,109	501	114,610	114,610
East West Bank CD	2.85%	12/06/19	2,500,000	2,500,000	(2,500,000)	—	—
LegacyTexas Bank CD	2.78%	12/23/19	1,242,454	1,242,454	(1,242,454)	—	—
BTH Bank CD	2.77%	02/15/20	2,060,946	2,060,946	14,266	2,075,212	2,075,212
Southside Bank CD	2.68%	02/26/20	2,280,002	2,280,002	15,402	2,295,403	2,295,403
Landmark Bank CD	2.89%	03/24/20	1,029,215	1,029,215	7,416	1,036,630	1,036,630
Allegiance Bank CD	2.25%	03/26/20	750,000	750,000		750,000	750,000
LegacyTexas Bank CD	2.86%	05/15/20	1,031,477	1,031,477	7,372	1,038,850	1,038,850
LegacyTexas Bank CD	2.95%	06/05/20	2,300,320	2,300,320	16,960	2,317,280	2,317,280
East West Bank CD	1.72%	06/17/20	—	—	4,002,828	4,002,828	4,002,828
LegacyTexas Bank CD	2.92%	06/22/20	1,244,628	1,244,628	9,083	1,253,711	1,253,711
Allegiance Bank CD	2.25%	06/26/20	1,005,671	1,005,671	5,641	1,011,313	1,011,313
LegacyTexas Bank CD	2.95%	08/14/20	2,064,965	2,064,965	15,225	2,080,190	2,080,190
Texas Security Bank CD	3.10%	09/25/20	2,500,000	2,500,000		2,500,000	2,500,000
LegacyTexas Bank CD	3.05%	12/04/20	2,046,260	2,046,260	15,599	2,061,860	2,061,860
American Nat'l Bank of TX CD	1.80%	12/18/20	—	—	4,000,000	4,000,000	4,000,000
Allegiance Bank CD	2.84%	02/28/21	2,535,920	2,535,920	17,956	2,553,876	2,553,876
TOTAL			\$ 84,922,323	\$ 84,922,323	\$ 13,418,696	\$ 98,341,019	\$ 98,341,019

**Fund Allocation - Book & Market Value
December 31, 2019**

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Industrial Development Authority
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -
Wells Fargo MMA		30,379,294	30,379,294	-	-	-
BTH Bank MMA		245,347	245,347	-	-	-
BTH Bank ICS		851,672	851,672	-	-	-
Southside Bank MMA		3,193,896	2,644,691	549,205	-	-
NexBank MMA		31,007	31,007	-	-	-
NexBank MMA/ICS		8,844,478	8,844,478	-	-	-
Veritex Community Bank MMA		5,659,750	5,659,750	-	-	-
Texas CLASS		19,543,813	199,160	19,344,652	-	-
TexPool		114,610	69,800	8,474	13,798	22,537
BTH Bank CD	02/15/20	2,075,212	2,075,212	-	-	-
Southside Bank CD	02/26/20	2,295,403	2,295,403	-	-	-
Landmark Bank CD	03/24/20	1,036,630	1,036,630	-	-	-
Allegiance Bank CD	03/24/20	750,000	750,000	-	-	-
LegacyTexas Bank CD	05/15/20	1,038,850	1,038,850	-	-	-
LegacyTexas Bank CD	06/05/20	2,317,280	2,317,280	-	-	-
East West Bank CD	06/17/20	4,002,828	4,002,828	-	-	-
LegacyTexas Bank CD	06/22/20	1,253,711	1,253,711	-	-	-
Allegiance Bank CD	06/22/20	1,011,313	1,011,313	-	-	-
LegacyTexas Bank CD	08/14/20	2,080,190	2,080,190	-	-	-
Texas Security Bank CD	09/25/20	2,500,000	2,500,000	-	-	-
LegacyTexas Bank CD	12/04/20	2,061,860	2,061,860	-	-	-
American Nat'l Bank of TX CD	12/18/20	4,000,000	4,000,000	-	-	-
Allegiance Bank CD	02/28/21	2,553,876	2,553,876	-	-	-
Total		\$ 98,341,019	\$ 78,402,351	\$ 19,902,332	\$ 13,798	\$ 22,537

**Fund Allocation - Book & Market Value
September 30, 2019**

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Industrial Development Authority
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -
Wells Fargo MMA		18,086,205	18,086,205	-	-	-
BTH Bank MMA		245,459	245,459	-	-	-
BTH Bank ICS		846,152	846,152	-	-	-
Southside Bank MMA		3,179,000	2,632,356	546,644	-	-
NexBank MMA		30,859	30,859	-	-	-
NexBank MMA/ICS		11,299,310	11,299,310	-	-	-
Veritex Community Bank MMA		3,147,084	3,147,084	-	-	-
Texas CLASS		22,882,287	198,174	22,684,112	-	-
TexPool		114,109	69,495	8,437	13,738	22,439
East West Bank CD	12/06/19	2,500,000	2,500,000	-	-	-
LegacyTexas Bank CD	12/23/19	1,242,454	1,242,454	-	-	-
BTH Bank CD	02/15/20	2,060,946	2,060,946	-	-	-
Southside Bank CD	02/26/20	2,280,002	2,280,002	-	-	-
Landmark Bank CD	03/24/20	1,029,215	1,029,215	-	-	-
Allegiance Bank CD	03/24/20	750,000	750,000	-	-	-
LegacyTexas Bank CD	05/15/20	1,031,477	1,031,477	-	-	-
LegacyTexas Bank CD	06/05/20	2,300,320	2,300,320	-	-	-
LegacyTexas Bank CD	06/22/20	1,244,628	1,244,628	-	-	-
Allegiance Bank CD	06/22/20	1,005,671	1,005,671	-	-	-
LegacyTexas Bank CD	08/14/20	2,064,965	2,064,965	-	-	-
Texas Security Bank CD	09/25/20	2,500,000	2,500,000	-	-	-
LegacyTexas Bank CD	12/04/20	2,046,260	2,046,260	-	-	-
Allegiance Bank CD	02/28/21	2,535,920	2,535,920	-	-	-
Total		\$ 84,922,323	\$ 61,646,953	\$ 23,239,193	\$ 13,738	\$ 22,439

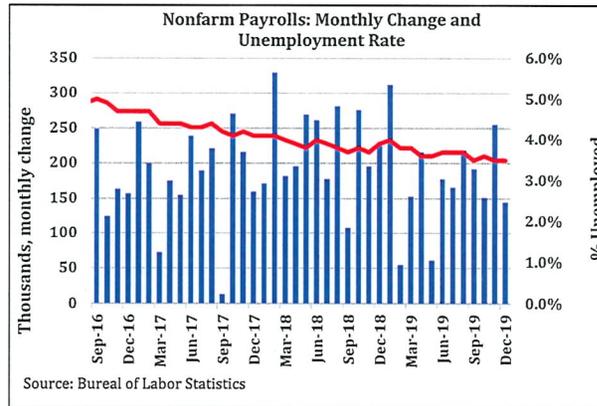


Market Outlook January 10, 2020

The reports in December showed more moderate results but not enough to discourage the markets. Spending during the Holiday season appears to have shifted from the normal November uptick and may have more positively impacted December results (that have not yet been reported). The calendar condensed the shopping period and may have shifted the surge into December. The White House has telegraphed that a major trade agreement between the U.S. and China is scheduled to occur when they meet on January 15th, but no details have been shared. As the trade war enters its 19-month anniversary, the market is ready for a resolution and to get back to some measure of normalcy. It is extremely difficult for businesses and producers to set their business plans when there are concerns about markets for their products. Things to keep an eye on over the next several weeks are the anticipated Brexit deadline date of January 31 and the current turmoil in the Middle East. Both situations could impact domestic markets depending upon how they play out.

The December Employment report added 145,000 jobs (the market was expecting +160,000). The report also lowered the previous two months by a net of 14,000 jobs. November was revised to +256,000 jobs

from the previously reported +266,000 and October was revised to +152,000 from the previous report of +156,000 jobs. The three-month average came in at +184,000 per month (the previous three-month average was +205,000 per month). The sectors with significant gains were Retail (+41,000), Health Care (+28,000), Professional/Business (+10,000), Leisure/Hospitality (+40,000), and Construction (+20,000). The Retail sector additions likely included temporary positions which may reverse in January. Manufacturing shed 12,000 jobs and Transportation dropped 10,000 jobs. Government



added 6,000 jobs after rising 12,000 last month. The private sector gained 139,000 jobs compared with +243,000 jobs in November. The current Labor Participation Rate, a measure of the percentage of eligible workers that hold jobs, remained at 63.2%. The Unemployment Rate also remained at 3.5%. The U6 rate (or the under-employed rate – those that are either over-qualified for their job or working fewer hours than they desire) fell to 6.7% from the previous 6.9% in November. This is a record low for the U6. Average Hourly Earnings (AHE) rose 0.1% in December after a rise of 0.2% in November. Year-over-year AHE dropped to 2.9% (lowest level since July 2018) from November's 3.1% dropping below the 3.0% level where inflationary forces generally begin to increase.

The housing sector continues to benefit from lower mortgage rates. Existing Home Sales dropped 1.7% in November after rising 1.9% in October. This is a normal occurrence each year as Existing Home Sales generally wane during the Holiday season. Year-over-year, Existing Sales are up 2.7%. The number of units for sale fell slightly to 3.7 months from 3.9 months' supply in October, still well below the normal balance point of 6-months. The median home price for Existing Homes is up 5.4% from November 2018. New Home Sales had a strong report and rose 1.3% in November after falling 2.7% in October and is up 16.9% from November 2018. Supply remained at 5.4 months. Median prices are 5.4% higher than prices in November 2018. The S&P Case Shiller report of home prices in the 20 metropolitan areas, reported a 0.4% increase in home values during October, and the Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, reported a rise of 0.2%. Housing Starts rose 3.2% in November

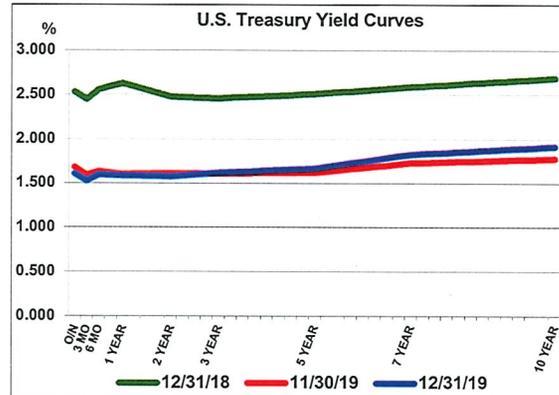
and Permits rose 1.4% in November. Construction Spending rose 0.6% in November after rising 0.1% in October. Builders remain optimistic and reported their best outlook since June 1999.

The production and manufacturing sectors were mixed once again. The final report for Gross Domestic Product (GDP) for the third quarter 2019 rose to 2.1% versus the second quarter result of +2.0%. Business inventories rose 0.2% in October after falling 0.1% in September. Industrial Production rose 1.1% in November after falling 0.9% in October. The main driver of this improved report is the resolution of the General Motors strike that brought automobile production back online. Durable Goods Orders dropped 2.0% in November after rising 0.2% in October. Factory Orders fell 0.7% in November after rising 0.2% in October. Purchasing managers' expectations rose slightly in the service sector but declined in the manufacturing sector as the struggles in manufacturing continue. The Producer Price Index (PPI) was flat in November after rising 0.4% in October. It is up 1.1% year-over-year which is unchanged from October. The Consumer Price Index (CPI) rose 0.3% in November after rising 0.4% in October. Year-over-year CPI rose to +2.1% from +1.8% in October. Core CPI year-over-year, or the results after food and energy numbers are excluded (due to price volatility), remained at 2.3%.

On the consumption front, Retail Sales posted a gain of +0.2% in November after posting a rise of 0.4% in October. This report was a disappointment to the market that had expected a rise of 0.6%, particularly since it included Black Friday results. The report indicated significant declines in spending on clothing, restaurants, gasoline and vehicles. The Retail Sales report for December could demonstrate a more positive outcome. Consumers' attitudes as measured by the Consumer Confidence and Consumer Sentiment indices remained strong during December. Core Personal Consumption Expenditure Index (PCE), one of the inflation indicators that the Federal Open Market Committee (FOMC) pays close attention to, remained at 1.6% in November and is below the FOMC's target rate of 2.0%.

The Federal Open Market Committee (FOMC) met on December 10th and 11th. Upon adjournment, the Committee announced no change in the Fed Funds rate which remains in the range of 1.50% to 1.75%. Furthermore, the Committee currently expects that it is likely to remain at that range until late 2020. They perceive economic growth to be in the moderate range with a strong labor market continuing. They will remain vigilant to monitor global developments and muted domestic inflation. The current probabilities set a rate cut probability of 54.1% in September 2020 which has slipped from a similar expectation of 50% in July 2020 that was projected one month ago.

Government Security Investment Pool rates dropped in December, starting the month at a rate of 1.68% and ranged between 1.68% and 1.59% during the month with month-end rates at 1.60% to 1.63%. Overall, the Treasury yield curve remained flat over the month. After closing November at 1.60%, the 1-year Treasury closed slightly lower in December at 1.59%. The 2-year Treasury closed December at 1.58%; three basis-points lower than November's 1.61% close. The current 2-year yield is 1.57%. CD rates were slightly higher in November with the 2-year ranging between +/-1.67% to +/-1.70%. The 1-year CD rates ranged between +/-1.70% to +/-1.73% during the month. We are encouraging our clients to seek investment opportunities for tax revenues and other funds as they become available. As we have begun investing in 2020, we have seen more bank appetite for deposits, but with public funds receiving significant revenues and placing positions at banks, this appetite may not remain robust.



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