City of Galveston

Finance Department
PO Box 779 | Galveston, TX 77553-0779
| 409-797-3562

March 26, 2020

To: Brian Maxwell, City Manager
Hon. Mayor and City Council Members

From: Michael Loftin, Assist. City Manager Finance

RE: The investment reports for quarter ended December 31, 2019 presented as part of the City Manager's report.

I. Background

As provided by state law and the City's local policy, not less than quarterly, the investment officers prepare and submit to the governing body of the City a written report of investment transactions for all funds covered by Texas Government Code Section 2256.023 for the preceding reporting period.

II. Current Situation

The City approved investment advisory consulting firm, Hilltop Securities Asset Management prepared and submitted the quarter reports at the Finance, Fiscal Affairs and Investment Advisory committee meeting held on February 18, 2020.

The City's investment portfolio market value totaled over $170M at December 31, 2019 up from the previous quarter by $36.5M as a result of proceeds from the Public Improvement Bond issuance that closed on October 30, 2019.

The portfolio included U.S. Treasuries and Federal Agency securities along with balances in money market mutual funds and local government investment pools. The weighted average yield to maturity of the investment portfolio was 1.73% down from 2.215% at September 30, 2019 due to declining yields. Investments in the portfolio that matured this quarter were not replaced with new investments but deposited into overnight liquidity local government investment pools (TexPool and LOGIC).

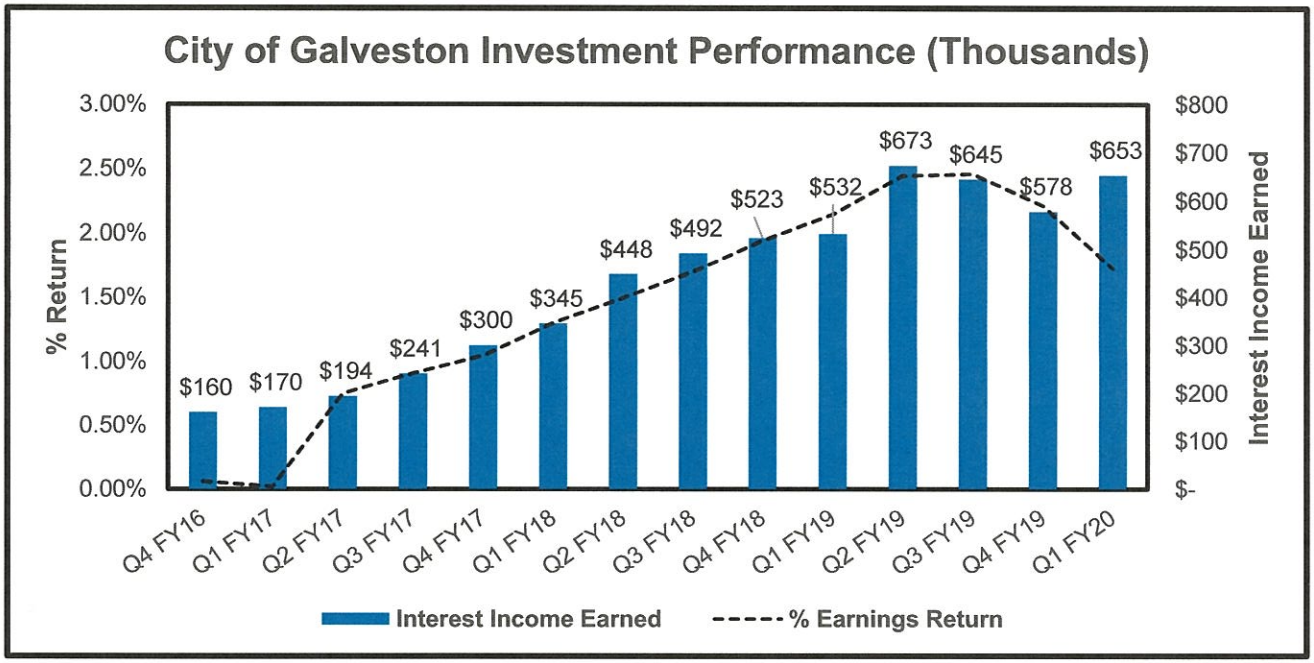
The Galveston Industrial Development Corporation (IDC) accepted its quarter ending December 31, 2019 investment report in the meeting held on February 4, 2020. Investments for the IDC total just over $10.7M. Its portfolio included funds held in overnight liquidity local government investment pools (TexPool and TexPool Prime).

III. Recommendations

Make available the City and IDC quarter ending December 31, 2019 Investment Reports.

IV. Fiscal Impact Report

None.


City of Galveston Investment Performance (Thousands)
% Return
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
Interest Income Earned
$800
$700
$600
$500
$400
$300
$200
$100
$-
$160
$170
$194
$241
$300
$345
$448
$492
$523
$532
$673
$645
$578
$653
Q4 FY16
Q1 FY17
Q2 FY17
Q3 FY17
Q4 FY17
Q1 FY18
Q2 FY18
Q3 FY18
Q4 FY18
Q1 FY19
Q2 FY19
Q3 FY19
Q4 FY19
Q1 FY20
Interest Income Earned
% Earnings Return

HilltopSecurities
Asset Management

Investment Portfolio Summary

City of Galveston

For the Quarter Ended

December 31, 2019

Prepared by
HilltopSecurities Asset Management

HilltopSecurities
Asset Management

Table of Contents / Market Recap

Report Name

Certification Page

Executive Summary

Benchmark Comparison

Detail of Security Holdings

Change in Value

Earned Income

Investment Transactions

Amortization and Accretion

Projected Fixed Income Cash Flows

MARKET RECAP - DECEMBER 2019:

As December began, there were an unusually high number of potential disruptions capable of derailing an already fragile U.S. economy. The December Fed meeting and a U.K. general election, both key events, took a backseat to impending tariff escalation and the possibility of another government shutdown. But one-by-one, all the concerns eased. The December FOMC meeting matched expectations as Fed officials voted to hold monetary policy steady and signaled their intent to maintain the current 1.50% - 1.75% target rate for all of 2020. The U.K. elections produced expected results with Boris Johnson's Conservative party claiming a majority in the British Parliament, which should open the door for the United Kingdom to leave the European Union in 2020. On the U.S. budget front, funding was secured early and with little drama, ensuring the Federal government will continue operating. Recalling the extreme damage caused by last year's 35-day shutdown, both parties were more than willing to kick discussions out into 2021. The December game-changer came on the trade front as the administration announced "Phase 1" of a long anticipated trade deal with China just hours before new tariffs were set to kick in. Investors had apparently expected this painful escalation to be postponed, but the details of the agreement were more upbeat than expected and the announcement of de-escalation was welcomed relief. That relief was bolstered by news that Congress had signed-off on an amended version of the USMCA trade agreement, and representatives from Canada, Mexico and the United States promptly signed the deal.

Turning our attention to the economic data, the ISM manufacturing data retained its crown as the weakest piece of data, slipping from 48.3 to 48.1 in November, a fourth straight month of contraction. ISM's non-manufacturing index fell from 54.7 to 53.9, but remains above 50, indicating continued expansion, albeit at a slower pace. The employment report surprised to the upside as a whopping +266k new jobs were added to payrolls in November, handily beating the +180k median forecast. Upward revisions to the prior two months added another +41k to the tally, taking the monthly average for the last six months to a robust +196k. The unemployment rate dropped from 3.6% to 3.5%, matching a 50-year low. November retail sales rose a slight +0.2%, well shy of the expected +0.5%, however, since Thanksgiving fell so late this year, the tail end of the Black Friday weekend and Cyber Monday both fell into December, suggesting that December sales could get a boost at the expense of November. Inflation remains well contained with CPI running at +2.1% and core PCE well below the Fed's target at +1.5%. Home sales continue to be restrained by lean inventories, but gains in building permits, housing starts, and a 20-year high in the NAHB's builder confidence index all suggest that housing will continue to benefit from a strong labor market and sub-4% mortgage rates. In the year ahead, housing could become an important counter-balance to the recent weakness we have seen in the manufacturing sector.

All in all, December was a positive month with several key risks to the outlook fading, stable economic data, and interest rates holding well within recent ranges. With that backdrop, equity markets extended their rally as all of the major U.S. averages set new highs in the waning days of 2019.

For the Quarter Ended
December 31, 2019

This report is prepared for the **City of Galveston** (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 PFIA. To the extent possible, market prices have been obtained from independent pricing sources.

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.

Officer Names and Titles:

Michael W. Loftin 2/19/20

Name: Michael W. Loftin — Title: Asst. City Manager-Finance

Tammy Y. Jacobs 2/18/20

Name: Tammy Y. Jacobs — Title: Executive Director & City Controller

2-18-20

Name: Debbie Jordan — Title: Accounting Manager

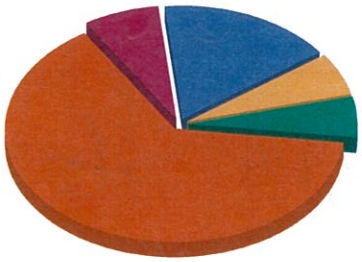
HilltopSecurities
Asset Management

City of Galveston
Executive Summary
As of 12/31/19

Account Summary

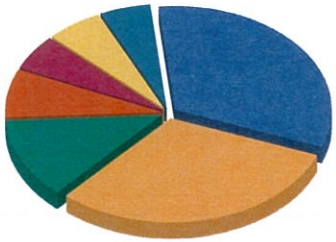
	Beginning Values as of 09/30/19	Ending Values as of 12/31/19
Par Value	134,204,150.05	170,690,672.35
Market Value	134,177,901.54	170,663,173.73
Book Value	134,136,620.40	170,640,410.24
Unrealized Gain /(Loss)	41,281.14	22,763.49
Market Value %	**100.03%**	**100.01%**
Weighted Avg. YTW	2.215%	1.730%
Weighted Avg. YTM	2.215%	1.730%

Allocation by Security Type



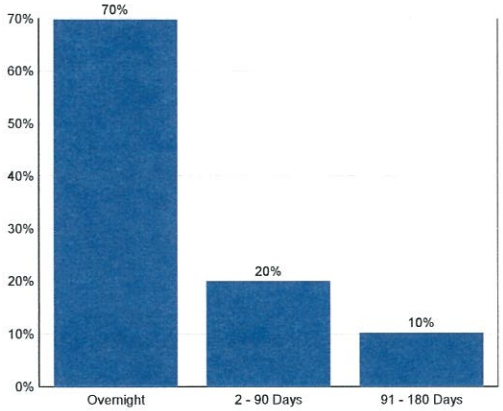
AGCY BULLET	17%
AGCY DISCO	6%
BANK DEP	6%
LGIP	64%
TREASURY	7%
Total:	100%

Allocation by Issuer



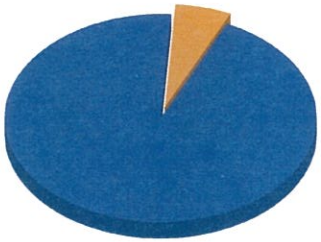
LOGIC	33%
TEXPOOL	31%
FHLB	13%
US TREAS	7%
FROST	6%
FNMA	6%
Other Issuers	5%
Total:	100%

Maturity Distribution %



Weighted Average Days to Maturity: 20

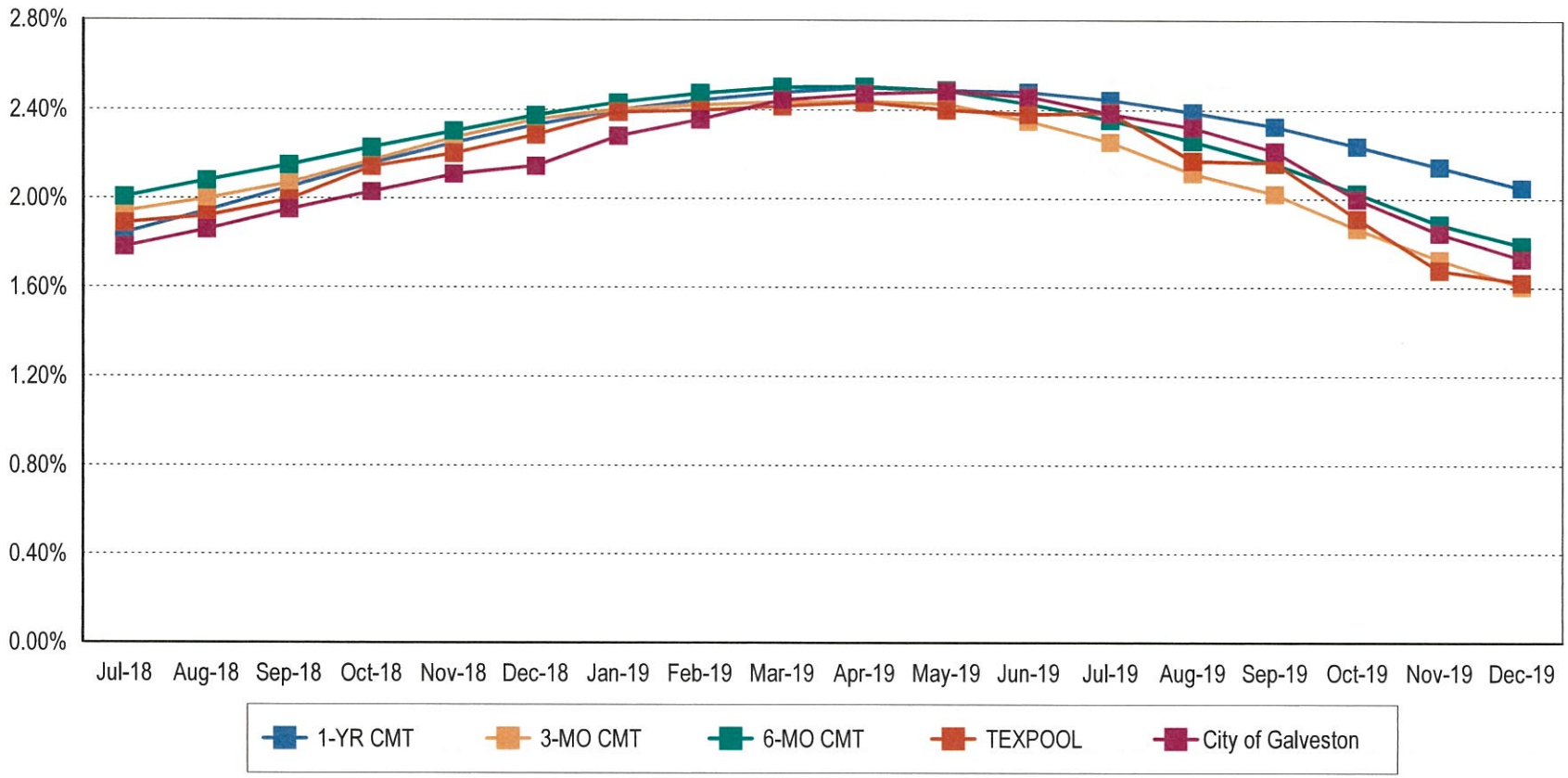
Credit Quality



AAA	94%
Collateralized	6%
Total:	100%

HilltopSecurities
Asset Management

City of Galveston
Benchmark Comparison
As of 12/31/2019



Note 1: CMT stands for Constant Maturity Treasury. This data is published in Federal Reserve Statistical Release H.15 and represents an average of all actively traded Treasury securities having that time remaining until maturity. This is a standard industry benchmark for Treasury securities. The CMT benchmarks are moving averages. The 3-month CMT is the daily average for the previous 3 months, the 6-month CMT is the daily average for the previous 6 months, and the 1-year and 2-year CMT's are the daily averages for the previous 12-months.

Note 2: Benchmark data for TexPool is the monthly average yield.

HilltopSecurities
Asset Management

City of Galveston
Detail of Security Holdings
As of 12/31/2019

CUSIP	Settle Date	Sec. Type	Sec. Description	CPN	Mty Date	Next Call	Call Type	Par Value	Purch Price	Orig Cost	Book Value	Mkt Price	Market Value	Days to Mty	Days to Call	YTM	YTW
Operating Fund																	
FROSTGLVS		BANK DEP	Frost Bk Sweep - Repo					9,887,000.00	100.000	9,887,000.00	9,887,000.00	100.000	9,887,000.00	1		0.800	0.800
LOGIC		LGIP	LOGIC					55,545,068.39	100.000	55,545,068.39	55,545,068.39	100.000	55,545,068.39	1		1.817	1.817
TEXPOOL		LGIP	TexPool					52,531,028.98	100.000	52,531,028.98	52,531,028.98	100.000	52,531,028.98	1		1.623	1.623
TXDAILY		LGIP	TexasDAILY					1,137,574.98	100.000	1,137,574.98	1,137,574.98	100.000	1,137,574.98	1		1.660	1.660
3137EAEE5	06/20/19	AGCY BULET	FHLMC	1.500	01/17/20			8,000,000.00	99.625	7,970,000.00	7,997,682.48	99.990	7,999,212.80	17		2.159	2.159
3135G0A78	06/17/19	AGCY BULET	FNMA	1.625	01/21/20			5,000,000.00	99.706	4,985,300.00	4,998,627.90	100.003	5,000,135.50	21		2.124	2.124
912828MP2	07/19/19	TREAS NOTE	U.S. Treasury	3.625	02/15/20			3,000,000.00	100.891	3,026,718.75	3,005,698.11	100.232	3,006,952.50	46		2.056	2.056
912828MP2	07/24/19	TREAS NOTE	U.S. Treasury	3.625	02/15/20			1,600,000.00	100.855	1,613,687.50	1,602,990.08	100.232	1,603,708.00	46		2.081	2.081
912828W22	08/01/19	TREAS NOTE	U.S. Treasury	1.375	02/15/20			1,850,000.00	99.621	1,842,990.23	1,848,409.17	99.965	1,849,351.76	46		2.086	2.086
3130AFX77	08/01/19	AGCY BULET	FHLB	2.500	02/25/20			1,150,000.00	100.213	1,152,449.50	1,150,651.18	100.105	1,151,212.79	56		2.119	2.119
3135G0T29	07/15/19	AGCY BULET	FNMA	1.500	02/28/20			4,590,000.00	99.648	4,573,843.20	4,585,873.41	99.981	4,589,112.75	59		2.074	2.074
313378J77	09/06/19	AGCY BULET	FHLB	1.875	03/13/20			5,900,000.00	100.003	5,900,177.00	5,900,071.86	100.042	5,902,467.38	73		1.869	1.869
912828W63	09/12/19	TREAS NOTE	U.S. Treasury	1.625	03/15/20			3,000,000.00	99.871	2,996,132.81	2,998,453.47	99.992	2,999,765.70	75		1.881	1.881
9128284C1	09/26/19	TREAS NOTE	U.S. Treasury	2.250	03/31/20			3,000,000.00	100.168	3,005,039.06	3,002,427.12	100.141	3,004,218.90	91		1.918	1.918
3130AHHQ9	11/04/19	AGCY BULET	FHLB	1.600	04/01/20			4,000,000.00	100.000	4,000,000.00	4,000,000.00	100.131	4,005,229.20	92		1.600	1.600
313384VN6	10/16/19	AGCY DISCO	FHLB		04/13/20			5,000,000.00	99.180	4,959,000.00	4,976,538.90	99.555	4,977,758.50	104		1.654	1.654
313384VX4	10/25/19	AGCY DISCO	FHLB		04/22/20			5,500,000.00	99.191	5,455,505.00	5,472,314.21	99.516	5,473,375.60	113		1.631	1.631
Total for Operating Fund								**170,690,672.35**	**99.936**	**170,581,515.40**	**170,640,410.24**	**99.984**	**170,663,173.73**	**20**		**1.730**	**1.730**
Total for City of Galveston								**170,690,672.35**	**99.936**	**170,581,515.40**	**170,640,410.24**	**99.984**	**170,663,173.73**	**20**		**1.730**	**1.730**

HilltopSecurities
Asset Management

City of Galveston
Change in Value
From 09/30/2019 to 12/31/2019

CUSIP	Security Type	Security Description	09/30/19 Book Value	Cost of Purchases	Maturities / Calls / Sales	Amortization / Accretion	Realized Gain/(Loss)	12/31/19 Book Value	09/30/19 Market Value	12/31/19 Market Value	Change in Mkt Value
Operating Fund											
FROSTGLVS	BANK DEP	Frost Bk Sweep - Repo	4,838,000.00	8,489,000.00	(3,440,000.00)	0.00	0.00	9,887,000.00	4,838,000.00	9,887,000.00	5,049,000.00
LOGIC	LGIP	LOGIC	52,583,471.96	11,081,282.37	(8,119,685.94)	0.00	0.00	55,545,068.39	52,583,471.96	55,545,068.39	2,961,596.43
TEXPOOL	LGIP	TexPool	402,801.95	52,128,227.03	0.00	0.00	0.00	52,531,028.98	402,801.95	52,531,028.98	52,128,227.03
TXDAILY	LGIP	TexasDAILY	1,128,876.14	8,698.84	0.00	0.00	0.00	1,137,574.98	1,128,876.14	1,137,574.98	8,698.84
912828T59	TREAS NOTE	U.S. Treasury 1.000 10/15/19	4,997,100.25	0.00	(5,000,000.00)	2,899.75	0.00	0.00	4,997,898.50	0.00	(4,997,898.50)
3135G0R39	AGCY BULET	FNMA 1.000 10/24/19	3,482,546.66	0.00	(3,486,000.00)	3,453.34	0.00	0.00	3,483,893.06	0.00	(3,483,893.06)
3136G0T68	AGCY BULET	FNMA 1.330 10/24/19	1,973,489.09	0.00	(1,975,000.00)	1,510.91	0.00	0.00	1,974,154.90	0.00	(1,974,154.90)
912828F62	TREAS NOTE	U.S. Treasury 1.500 10/31/19	3,996,647.00	0.00	(4,000,000.00)	3,353.00	0.00	0.00	3,998,040.00	0.00	(3,998,040.00)
912828U32	TREAS NOTE	U.S. Treasury 1.000 11/15/19	6,987,156.02	0.00	(7,000,000.00)	12,843.98	0.00	0.00	6,990,968.60	0.00	(6,990,968.60)
9128283H1	TREAS NOTE	U.S. Treasury 1.750 11/30/19	4,994,423.65	0.00	(5,000,000.00)	5,576.35	0.00	0.00	4,997,451.00	0.00	(4,997,451.00)
912828U73	TREAS NOTE	U.S. Treasury 1.375 12/15/19	3,692,524.67	0.00	(3,700,000.00)	7,475.33	0.00	0.00	3,696,097.61	0.00	(3,696,097.61)
9128283N8	TREAS NOTE	U.S. Treasury 1.875 12/31/19	1,997,385.74	0.00	(2,000,000.00)	2,614.26	0.00	0.00	1,999,765.60	0.00	(1,999,765.60)
912828UF5	TREAS NOTE	U.S. Treasury 1.125 12/31/19	5,980,795.08	0.00	(6,000,000.00)	19,204.92	0.00	0.00	5,988,046.80	0.00	(5,988,046.80)
3137EAEE5	AGCY BULET	FHLMC 1.500 01/17/20	7,984,646.40	0.00	0.00	13,036.08	0.00	7,997,682.48	7,990,284.80	7,999,212.80	8,928.00
3135G0A78	AGCY BULET	FNMA 1.625 01/21/20	4,992,453.35	0.00	0.00	6,174.55	0.00	4,998,627.90	4,995,667.00	5,000,135.50	4,468.50
912828MP2	TREAS NOTE	U.S. Treasury 3.625 02/15/20	4,626,450.73	0.00	0.00	(17,762.54)	0.00	4,608,688.19	4,628,390.74	4,610,660.50	(17,730.24)
912828W22	TREAS NOTE	U.S. Treasury 1.375 02/15/20	1,845,156.81	0.00	0.00	3,252.36	0.00	1,848,409.17	1,846,097.61	1,849,351.76	3,254.15
3130AFX77	AGCY BULET	FHLB 2.500 02/25/20	1,151,736.47	0.00	0.00	(1,085.29)	0.00	1,150,651.18	1,152,333.24	1,151,212.79	(1,120.45)
3135G0T29	AGCY BULET	FNMA 1.500 02/28/20	4,579,357.76	0.00	0.00	6,515.65	0.00	4,585,873.41	4,583,294.01	4,589,112.75	5,818.74
313378J77	AGCY BULET	FHLB 1.875 03/13/20	5,900,161.72	0.00	0.00	(89.86)	0.00	5,900,071.86	5,900,258.42	5,902,467.38	2,208.96
912828W63	TREAS NOTE	U.S. Treasury 1.625 03/15/20	2,996,530.74	0.00	0.00	1,922.73	0.00	2,998,453.47	2,996,718.90	2,999,765.70	3,046.80
9128284C1	TREAS NOTE	U.S. Treasury 2.250 03/31/20	3,004,908.21	0.00	0.00	(2,481.09)	0.00	3,002,427.12	3,005,390.70	3,004,218.90	(1,171.80)
3130AHHQ9	AGCY BULET	FHLB 1.600 04/01/20	0.00	4,000,000.00	0.00	0.00	0.00	4,000,000.00	0.00	4,005,229.20	4,005,229.20
313384VN6	AGCY DISCO	FHLB 0.000 04/13/20	0.00	4,959,000.00	0.00	17,538.90	0.00	4,976,538.90	0.00	4,977,758.50	4,977,758.50
313384VX4	AGCY DISCO	FHLB 0.000 04/22/20	0.00	5,455,505.00	0.00	16,809.21	0.00	5,472,314.21	0.00	5,473,375.60	5,473,375.60
Total for Operating Fund			**134,136,620.40**	**86,121,713.24**	**(49,720,685.94)**	**102,762.54**	**0.00**	**170,640,410.24**	**134,177,901.54**	**170,663,173.73**	**36,485,272.19**
Total for City of Galveston			**134,136,620.40**	**86,121,713.24**	**(49,720,685.94)**	**102,762.54**	**0.00**	**170,640,410.24**	**134,177,901.54**	**170,663,173.73**	**36,485,272.19**

HilltopSecurities
Asset Management

City of Galveston
Earned Income
From 09/30/2019 to 12/31/2019

CUSIP	Security Type	Security Description	Beg. Accrued	Interest Earned	Interest Rec'd / Sold / Matured	Interest Purchased	Ending Accrued	Disc Accr / Prem Amort	Net Income
Operating Fund									
FROSTGLVS	BANK DEP	Frost Bk Sweep - Repo	0.00	9,971.39	9,971.39	0.00	0.00	0.00	9,971.39
LOGIC	LGIP	LOGIC	0.00	261,596.43	261,596.43	0.00	0.00	0.00	261,596.43
TEXPOOL	LGIP	TexPool	0.00	116,252.74	116,252.74	0.00	0.00	0.00	116,252.74
TXDAILY	LGIP	TexasDAILY	0.00	5,105.84	5,105.84	0.00	0.00	0.00	5,105.84
912828T59	TREAS NOTE	U.S. Treasury 1.000 10/15/19	23,087.43	1,912.57	25,000.00	0.00	0.00	2,899.75	4,812.32
3135G0R39	AGCY BULET	FNMA 1.000 10/24/19	15,202.83	2,227.17	17,430.00	0.00	0.00	3,453.34	5,680.51
3136G0T68	AGCY BULET	FNMA 1.330 10/24/19	11,455.55	1,678.20	13,133.75	0.00	0.00	1,510.91	3,189.11
912828F62	TREAS NOTE	U.S. Treasury 1.500 10/31/19	25,108.70	4,891.30	30,000.00	0.00	0.00	3,353.00	8,244.30
912828U32	TREAS NOTE	U.S. Treasury 1.000 11/15/19	26,440.22	8,559.78	35,000.00	0.00	0.00	12,843.98	21,403.76
9128283H1	TREAS NOTE	U.S. Treasury 1.750 11/30/19	29,405.74	14,344.26	43,750.00	0.00	0.00	5,576.35	19,920.61
912828U73	TREAS NOTE	U.S. Treasury 1.375 12/15/19	15,012.30	10,425.20	25,437.50	0.00	0.00	7,475.33	17,900.53
9128283N8	TREAS NOTE	U.S. Treasury 1.875 12/31/19	9,476.90	9,273.10	18,750.00	0.00	0.00	2,614.26	11,887.36
912828UF5	TREAS NOTE	U.S. Treasury 1.125 12/31/19	17,058.42	16,691.58	33,750.00	0.00	0.00	19,204.92	35,896.50
3137EAEE5	AGCY BULET	FHLMC 1.500 01/17/20	24,666.67	30,000.00	0.00	0.00	54,666.67	13,036.08	43,036.08
3135G0A78	AGCY BULET	FNMA 1.625 01/21/20	15,798.61	20,312.50	0.00	0.00	36,111.11	6,174.55	26,487.05
912828MP2	TREAS NOTE	U.S. Treasury 3.625 02/15/20	21,296.88	41,687.50	0.00	0.00	62,984.38	(17,762.54)	23,924.96
912828W22	TREAS NOTE	U.S. Treasury 1.375 02/15/20	3,248.81	6,359.38	0.00	0.00	9,608.19	3,252.36	9,611.74
3130AFX77	AGCY BULET	FHLB 2.500 02/25/20	2,875.00	7,187.50	0.00	0.00	10,062.50	(1,085.29)	6,102.21
3135G0T29	AGCY BULET	FNMA 1.500 02/28/20	6,311.25	17,212.50	0.00	0.00	23,523.75	6,515.65	23,728.15
313378J77	AGCY BULET	FHLB 1.875 03/13/20	5,531.25	27,656.25	0.00	0.00	33,187.50	(89.86)	27,566.39
912828W63	TREAS NOTE	U.S. Treasury 1.625 03/15/20	2,142.86	12,321.43	0.00	0.00	14,464.29	1,922.73	14,244.16
9128284C1	TREAS NOTE	U.S. Treasury 2.250 03/31/20	184.43	16,967.21	0.00	0.00	17,151.64	(2,481.09)	14,486.12
3130AHHQ9	AGCY BULET	FHLB 1.600 04/01/20	0.00	10,133.33	0.00	0.00	10,133.33	0.00	10,133.33
313384VN6	AGCY DISCO	FHLB 0.000 04/13/20	0.00	0.00	0.00	0.00	0.00	17,538.90	17,538.90
313384VX4	AGCY DISCO	FHLB 0.000 04/22/20	0.00	0.00	0.00	0.00	0.00	16,809.21	16,809.21
Total for Operating Fund			**254,303.85**	**652,767.16**	**635,177.65**	**0.00**	**271,893.36**	**102,762.54**	**755,529.70**
Total for City of Galveston			**254,303.85**	**652,767.16**	**635,177.65**	**0.00**	**271,893.36**	**102,762.54**	**755,529.70**

HilltopSecurities
Asset Management

City of Galveston
Investment Transactions
From 10/01/2019 to 12/31/2019

Trade Date	Settle Date	CUSIP	Security Type	Security Description	Coupon	Mty Date	Call Date	Par Value	Price	Principal Amount	Int Purchased / Received	Total Amount	Realized Gain / Loss	YTM	YTW
Operating Fund															
Maturities															
10/15/19	10/15/19	912828T59	TREAS NOTE	U.S. Treasury	1.000	10/15/19		5,000,000.00	100.000	5,000,000.00	0.00	5,000,000.00		2.535	
10/24/19	10/24/19	3135G0R39	AGCY BULET	FNMA	1.000	10/24/19		3,486,000.00	100.000	3,486,000.00	0.00	3,486,000.00		2.570	
10/24/19	10/24/19	3136G0T68	AGCY BULET	FNMA	1.330	10/24/19		1,975,000.00	100.000	1,975,000.00	0.00	1,975,000.00		2.543	
10/31/19	10/31/19	912828F62	TREAS NOTE	U.S. Treasury	1.500	10/31/19		4,000,000.00	100.000	4,000,000.00	0.00	4,000,000.00		2.541	
11/15/19	11/15/19	912828U32	TREAS NOTE	U.S. Treasury	1.000	11/15/19		5,000,000.00	100.000	5,000,000.00	0.00	5,000,000.00		2.516	
11/15/19	11/15/19	912828U32	TREAS NOTE	U.S. Treasury	1.000	11/15/19		2,000,000.00	100.000	2,000,000.00	0.00	2,000,000.00		2.529	
11/30/19	11/30/19	9128283H1	TREAS NOTE	U.S. Treasury	1.750	11/30/19		5,000,000.00	100.000	5,000,000.00	0.00	5,000,000.00		2.439	
12/15/19	12/15/19	912828U73	TREAS NOTE	U.S. Treasury	1.375	12/15/19		3,700,000.00	100.000	3,700,000.00	0.00	3,700,000.00		2.373	
12/31/19	12/31/19	9128283N8	TREAS NOTE	U.S. Treasury	1.875	12/31/19		2,000,000.00	100.000	2,000,000.00	0.00	2,000,000.00		2.410	
12/31/19	12/31/19	912828UF5	TREAS NOTE	U.S. Treasury	1.125	12/31/19		6,000,000.00	100.000	6,000,000.00	0.00	6,000,000.00		2.435	
Total for: Maturities								**38,161,000.00**		**38,161,000.00**	**0.00**	**38,161,000.00**		**2.486**	
Purchases															
10/15/19	10/16/19	313384VN6	AGCY DISCO	FHLB		04/13/20		5,000,000.00	99.180	4,959,000.00	0.00	4,959,000.00		1.654	1.654
10/24/19	10/25/19	313384VX4	AGCY DISCO	FHLB		04/22/20		5,500,000.00	99.191	5,455,505.00	0.00	5,455,505.00		1.631	1.631
10/31/19	11/04/19	3130AHHQ9	AGCY BULET	FHLB	1.600	04/01/20		4,000,000.00	100.000	4,000,000.00	0.00	4,000,000.00		1.600	1.600
Total for: Purchases								**14,500,000.00**		**14,414,505.00**	**0.00**	**14,414,505.00**		**1.630**	**1.630**
Income Payments															
10/15/19	10/15/19	912828T59	TREAS NOTE	U.S. Treasury	1.000	10/15/19				0.00	25,000.00	25,000.00			
10/24/19	10/24/19	3135G0R39	AGCY BULET	FNMA	1.000	10/24/19				0.00	17,430.00	17,430.00			
10/24/19	10/24/19	3136G0T68	AGCY BULET	FNMA	1.330	10/24/19				0.00	13,133.75	13,133.75			
10/31/19	10/31/19	912828F62	TREAS NOTE	U.S. Treasury	1.500	10/31/19				0.00	30,000.00	30,000.00			
11/15/19	11/15/19	912828U32	TREAS NOTE	U.S. Treasury	1.000	11/15/19				0.00	25,000.00	25,000.00			
11/15/19	11/15/19	912828U32	TREAS NOTE	U.S. Treasury	1.000	11/15/19				0.00	10,000.00	10,000.00			
12/02/19	11/30/19	9128283H1	TREAS NOTE	U.S. Treasury	1.750	11/30/19				0.00	43,750.00	43,750.00			
12/16/19	12/15/19	912828U73	TREAS NOTE	U.S. Treasury	1.375	12/15/19				0.00	25,437.50	25,437.50			
12/31/19	12/31/19	9128283N8	TREAS NOTE	U.S. Treasury	1.875	12/31/19				0.00	18,750.00	18,750.00			
12/31/19	12/31/19	912828UF5	TREAS NOTE	U.S. Treasury	1.125	12/31/19				0.00	33,750.00	33,750.00			

HilltopSecurities
Asset Management

City of Galveston
Investment Transactions
From 10/01/2019 to 12/31/2019

Trade Date	Settle Date	CUSIP	Security Type	Security Description	Coupon	Mty Date	Call Date	Par Value	Price	Principal Amount	Int Purchased / Received	Total Amount	Realized Gain / Loss	YTM	YTW
Operating Fund															
Total for: Income Payments										0.00	242,251.25	242,251.25			

HilltopSecurities
Asset Management

City of Galveston
Investment Transactions
From 10/01/2019 to 12/31/2019

Trade Date	Settle Date	CUSIP	Security Type	Security Description	Coupon	Mty Date	Call Date	Par Value	Price	Principal Amount	Int Purchased / Received	Total Amount	Realized Gain / Loss	YTM	YTW

Total for All Portfolios

Transaction Type	Quantity	Total Amount	Realized G/L	YTM	YTW
Total Maturities	38,161,000.00	38,161,000.00		2.486	
Total Purchases	14,500,000.00	14,414,505.00		1.630	1.630
Total Income Payments	0.00	242,251.25			

HilltopSecurities
Asset Management

City of Galveston
Amortization and Accretion
From 09/30/2019 to 12/31/2019

CUSIP	Settle Date	Security Type	Security Description	Next Call Date	Purchase Qty	Orig Price	Original Cost	Amrt/Accr for Period	Total Amrt/Accr Since Purch	Remaining Disc / Prem	Book Value
Operating Fund											
912828T59	02/26/19	TREAS NOTE	U.S. Treasury 1.000 10/15/19		0.00	99.043	0.00	2,899.75	0.00	0.00	0.00
3135G0R39	01/28/19	AGCY BULET	FNMA 1.000 10/24/19		0.00	98.857	0.00	3,453.34	0.00	0.00	0.00
3136G0T68	02/07/19	AGCY BULET	FNMA 1.330 10/24/19		0.00	99.146	0.00	1,510.91	0.00	0.00	0.00
912828F62	02/07/19	TREAS NOTE	U.S. Treasury 1.500 10/31/19		0.00	99.254	0.00	3,353.00	0.00	0.00	0.00
912828U32	03/11/19	TREAS NOTE	U.S. Treasury 1.000 11/15/19		0.00	98.992	0.00	12,843.98	0.00	0.00	0.00
9128283H1	04/30/19	TREAS NOTE	U.S. Treasury 1.750 11/30/19		0.00	99.602	0.00	5,576.35	0.00	0.00	0.00
912828U73	05/29/19	TREAS NOTE	U.S. Treasury 1.375 12/15/19		0.00	99.461	0.00	7,475.33	0.00	0.00	0.00
9128283N8	05/15/19	TREAS NOTE	U.S. Treasury 1.875 12/31/19		0.00	99.668	0.00	2,614.26	0.00	0.00	0.00
912828UF5	05/08/19	TREAS NOTE	U.S. Treasury 1.125 12/31/19		0.00	99.164	0.00	19,204.92	0.00	0.00	0.00
3137EAEE5	06/20/19	AGCY BULET	FHLMC 1.500 01/17/20		8,000,000.00	99.625	7,970,000.00	13,036.08	27,682.48	2,317.52	7,997,682.48
3135G0A78	06/17/19	AGCY BULET	FNMA 1.625 01/21/20		5,000,000.00	99.706	4,985,300.00	6,174.55	13,327.90	1,372.10	4,998,627.90
912828MP2	07/19/19	TREAS NOTE	U.S. Treasury 3.625 02/15/20		4,600,000.00	100.855	4,640,406.25	(17,762.54)	(31,718.06)	(8,688.19)	4,608,688.19
912828W22	08/01/19	TREAS NOTE	U.S. Treasury 1.375 02/15/20		1,850,000.00	99.621	1,842,990.23	3,252.36	5,418.94	1,590.83	1,848,409.17
3130AFX77	08/01/19	AGCY BULET	FHLB 2.500 02/25/20		1,150,000.00	100.213	1,152,449.50	(1,085.29)	(1,798.32)	(651.18)	1,150,651.18
3135G0T29	07/15/19	AGCY BULET	FNMA 1.500 02/28/20		4,590,000.00	99.648	4,573,843.20	6,515.65	12,030.21	4,126.59	4,585,873.41
313378J77	09/06/19	AGCY BULET	FHLB 1.875 03/13/20		5,900,000.00	100.003	5,900,177.00	(89.86)	(105.14)	(71.86)	5,900,071.86
912828W63	09/12/19	TREAS NOTE	U.S. Treasury 1.625 03/15/20		3,000,000.00	99.871	2,996,132.81	1,922.73	2,320.66	1,546.53	2,998,453.47
9128284C1	09/26/19	TREAS NOTE	U.S. Treasury 2.250 03/31/20		3,000,000.00	100.168	3,005,039.06	(2,481.09)	(2,611.94)	(2,427.12)	3,002,427.12
3130AHHQ9	11/04/19	AGCY BULET	FHLB 1.600 04/01/20		4,000,000.00	100.000	4,000,000.00	0.00	0.00	0.00	4,000,000.00
313384VN6	10/16/19	AGCY DISCO	FHLB 0.000 04/13/20		5,000,000.00	99.180	4,959,000.00	17,538.90	17,538.90	23,461.10	4,976,538.90
313384VX4	10/25/19	AGCY DISCO	FHLB 0.000 04/22/20		5,500,000.00	99.191	5,455,505.00	16,809.21	16,809.21	27,685.79	5,472,314.21
Total for Operating Fund					**51,590,000.00**		**51,480,843.05**	**102,762.54**	**58,894.84**	**50,262.11**	**51,539,737.89**
Total for City of Galveston					**51,590,000.00**		**51,480,843.05**	**102,762.54**	**58,894.84**	**50,262.11**	**51,539,737.89**

HilltopSecurities
Asset Management

City of Galveston

Projected Cash Flows

Cash Flows for next 180 days from 12/31/2019

CUSIP	Security Type	Security Description	Pay Date	Interest	Principal	Total Amount
Operating Fund						
3137EAEE5	AGCY BULET	FHLMC 1.500 01/17/20	01/17/20	60,000.00	8,000,000.00	8,060,000.00
3135G0A78	AGCY BULET	FNMA 1.625 01/21/20	01/21/20	40,625.00	5,000,000.00	5,040,625.00
912828MP2	TREAS NOTE	U.S. Treasury 3.625 02/15/20	02/15/20	83,375.00	4,600,000.00	4,683,375.00
912828W22	TREAS NOTE	U.S. Treasury 1.375 02/15/20	02/15/20	12,718.75	1,850,000.00	1,862,718.75
3130AFX77	AGCY BULET	FHLB 2.500 02/25/20	02/25/20	14,375.00	1,150,000.00	1,164,375.00
3135G0T29	AGCY BULET	FNMA 1.500 02/28/20	02/28/20	34,425.00	4,590,000.00	4,624,425.00
313378J77	AGCY BULET	FHLB 1.875 03/13/20	03/13/20	55,312.50	5,900,000.00	5,955,312.50
912828W63	TREAS NOTE	U.S. Treasury 1.625 03/15/20	03/15/20	24,375.00	3,000,000.00	3,024,375.00
9128284C1	TREAS NOTE	U.S. Treasury 2.250 03/31/20	03/31/20	33,750.00	3,000,000.00	3,033,750.00
3130AHHQ9	AGCY BULET	FHLB 1.600 04/01/20	04/01/20	26,133.33	4,000,000.00	4,026,133.33
313384VN6	AGCY DISCO	FHLB 0.000 04/13/20	04/13/20	0.00	5,000,000.00	5,000,000.00
313384VX4	AGCY DISCO	FHLB 0.000 04/22/20	04/22/20	0.00	5,500,000.00	5,500,000.00
912828X96	TREAS NOTE	U.S. Treasury 1.500 05/15/20	05/15/20	30,000.00	4,000,000.00	4,030,000.00
Total for Operating Fund				**415,089.58**	**55,590,000.00**	**56,005,089.58**

HilltopSecurities
Asset Management

City of Galveston

Projected Cash Flows

Cash Flows for next 180 days from 12/31/2019

CUSIP	Security Type	Security Description	Pay Date	Interest	Principal	Total Amount
Total for All Portfolios						
			January 2020	100,625.00	13,000,000.00	13,100,625.00
			February 2020	144,893.75	12,190,000.00	12,334,893.75
			March 2020	113,437.50	11,900,000.00	12,013,437.50
			April 2020	26,133.33	14,500,000.00	14,526,133.33
			May 2020	30,000.00	4,000,000.00	4,030,000.00
		Total Projected Cash Flows for City of Galveston		**415,089.58**	**55,590,000.00**	**56,005,089.58**

HilltopSecurities
Asset Management

Investment Portfolio Summary

Galveston Industrial Development Corp

For the Quarter Ended

December 31, 2019

Prepared by
HilltopSecurities Asset Management

HilltopSecurities
Asset Management.

Table of Contents / Market Recap

Report Name

Certification Page

Executive Summary

Benchmark Comparison

Detail of Security Holdings

Change in Value

Earned Income

Investment Transactions

Amortization and Accretion

Projected Fixed Income Cash Flows

MARKET RECAP - DECEMBER 2019:

As December began, there were an unusually high number of potential disruptions capable of derailing an already fragile U.S. economy. The December Fed meeting and a U.K. general election, both key events, took a backseat to impending tariff escalation and the possibility of another government shutdown. But one-by-one, all the concerns eased. The December FOMC meeting matched expectations as Fed officials voted to hold monetary policy steady and signaled their intent to maintain the current 1.50% - 1.75% target rate for all of 2020. The U.K. elections produced expected results with Boris Johnson's Conservative party claiming a majority in the British Parliament, which should open the door for the United Kingdom to leave the European Union in 2020. On the U.S. budget front, funding was secured early and with little drama, ensuring the Federal government will continue operating. Recalling the extreme damage caused by last year's 35-day shutdown, both parties were more than willing to kick discussions out into 2021. The December game-changer came on the trade front as the administration announced "Phase 1" of a long anticipated trade deal with China just hours before new tariffs were set to kick in. Investors had apparently expected this painful escalation to be postponed, but the details of the agreement were more upbeat than expected and the announcement of de-escalation was welcomed relief. That relief was bolstered by news that Congress had signed-off on an amended version of the USMCA trade agreement, and representatives from Canada, Mexico and the United States promptly signed the deal.

Turning our attention to the economic data, the ISM manufacturing data retained its crown as the weakest piece of data, slipping from 48.3 to 48.1 in November, a fourth straight month of contraction. ISM's non-manufacturing index fell from 54.7 to 53.9, but remains above 50, indicating continued expansion, albeit at a slower pace. The employment report surprised to the upside as a whopping +266k new jobs were added to payrolls in November, handily beating the +180k median forecast. Upward revisions to the prior two months added another +41k to the tally, taking the monthly average for the last six months to a robust +196k. The unemployment rate dropped from 3.6% to 3.5%, matching a 50-year low. November retail sales rose a slight +0.2%, well shy of the expected +0.5%, however, since Thanksgiving fell so late this year, the tail end of the Black Friday weekend and Cyber Monday both fell into December, suggesting that December sales could get a boost at the expense of November. Inflation remains well contained with CPI running at +2.1% and core PCE well below the Fed's target at +1.5%. Home sales continue to be restrained by lean inventories, but gains in building permits, housing starts, and a 20-year high in the NAHB's builder confidence index all suggest that housing will continue to benefit from a strong labor market and sub-4% mortgage rates. In the year ahead, housing could become an important counter-balance to the recent weakness we have seen in the manufacturing sector.

All in all, December was a positive month with several key risks to the outlook fading, stable economic data, and interest rates holding well within recent ranges. With that backdrop, equity markets extended their rally as all of the major U.S. averages set new highs in the waning days of 2019.

For the Quarter Ended
December 31, 2019

This report is prepared for the **Galveston Industrial Development Corp** (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 PFIA. To the extent possible, market prices have been obtained from independent pricing sources.

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.

Officer Names and Titles:

Michael W. Loftin 2/19/20

Name: Michael W. Loftin — Title: Asst. City Manager-Finance

Tammy Y. Jacobs 2/18/20

Name: Tammy Y. Jacobs — Title: Executive Director & City Controller

2-18-20

Name: Debbie Jordan — Title: Accounting Manager

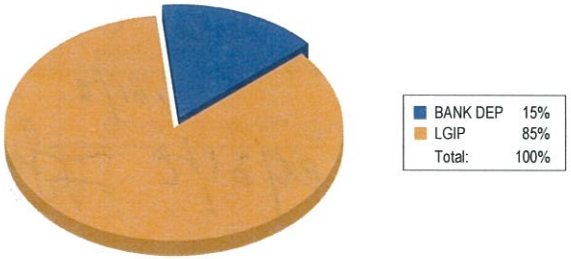
HilltopSecurities
Asset Management

Galveston Industrial Development Corp
Executive Summary
As of 12/31/19

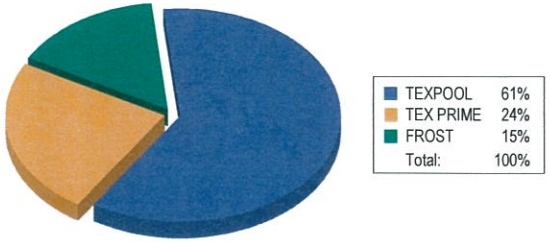
Account Summary

	Beginning Values as of 09/30/19	Ending Values as of 12/31/19
Par Value	12,134,496.93	12,721,135.97
Market Value	12,134,496.93	12,721,135.97
Book Value	12,134,496.93	12,721,135.97
Unrealized Gain /(Loss)	0.00	0.00
Market Value %	**100.00%**	**100.00%**
Weighted Avg. YTW	1.809%	1.428%
Weighted Avg. YTM	1.809%	1.428%

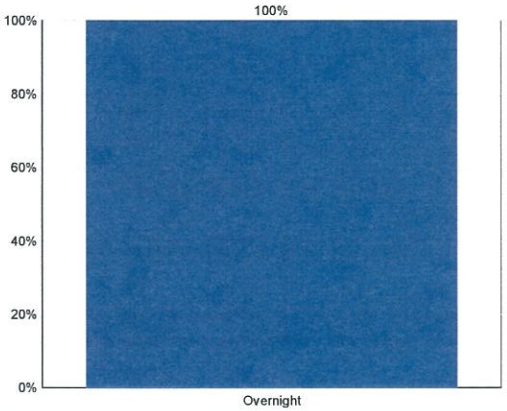
Allocation by Security Type



Allocation by Issuer

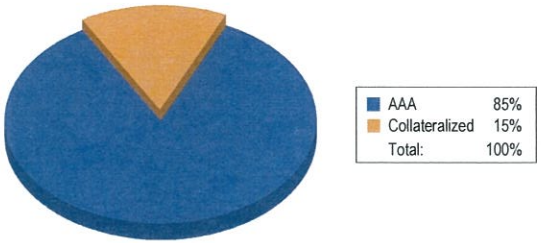


Maturity Distribution %



Weighted Average Days to Maturity: 1

Credit Quality

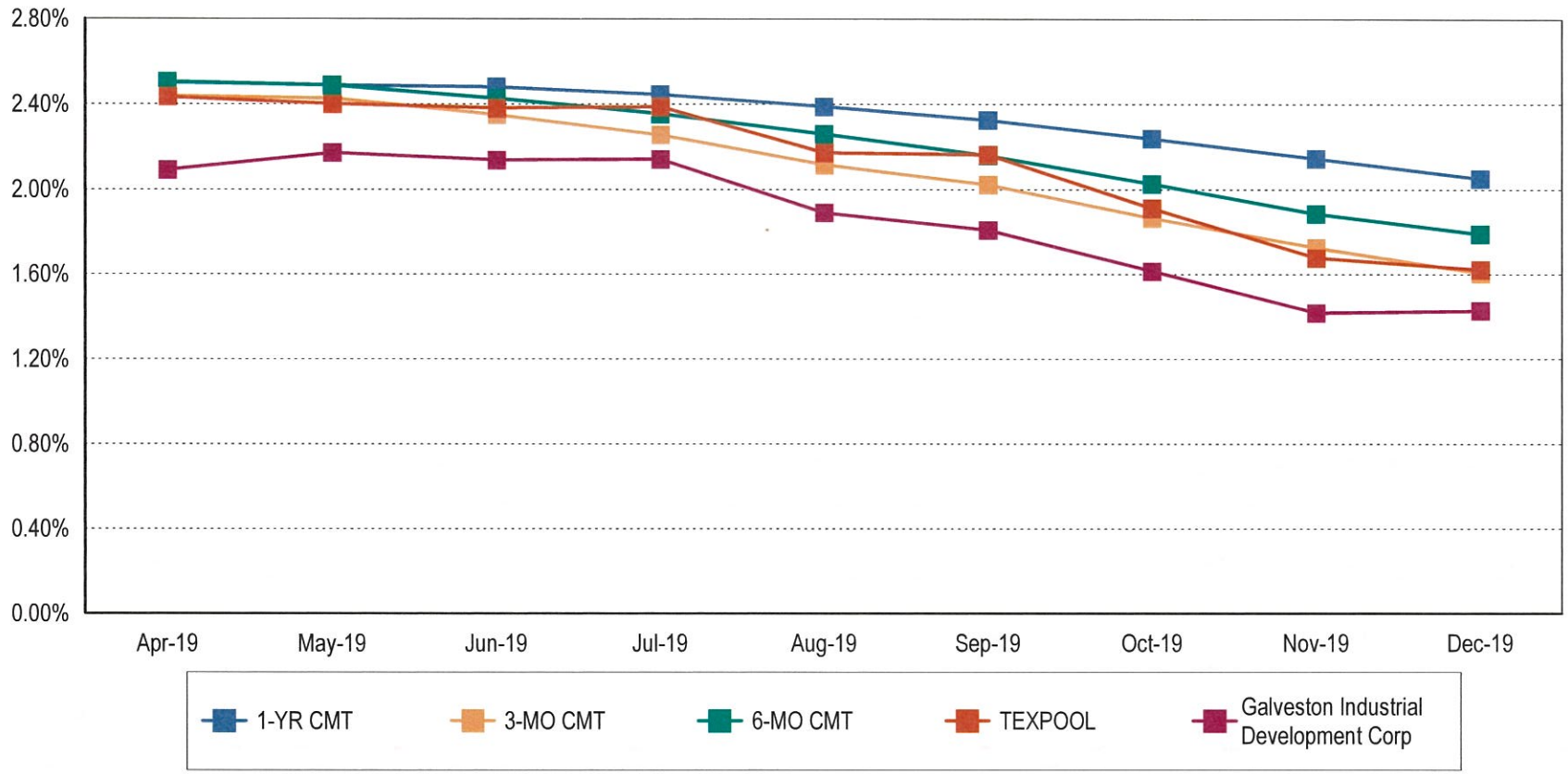


HilltopSecurities
Asset Management

Galveston Industrial Development Corp

Benchmark Comparison

As of 12/31/2019



Note 1: CMT stands for Constant Maturity Treasury. This data is published in Federal Reserve Statistical Release H.15 and represents an average of all actively traded Treasury securities having that time remaining until maturity. This is a standard industry benchmark for Treasury securities. The CMT benchmarks are moving averages. The 3-month CMT is the daily average for the previous 3 months, the 6-month CMT is the daily average for the previous 6 months, and the 1-year and 2-year CMT's are the daily averages for the previous 12-months.

Note 2: Benchmark data for TexPool is the monthly average yield.

HilltopSecurities
Asset Management

Galveston Industrial Development Corp

Detail of Security Holdings

As of 12/31/2019

CUSIP	Settle Date	Sec. Type	Sec. Description	CPN	Mty Date	Next Call	Call Type	Par Value	Purch Price	Orig Cost	Book Value	Mkt Price	Market Value	Days to Mty	Days to Call	YTM	YTW
Galveston Industrial Development Corp																	
FROSTGIDC		BANK DEP	Frost Bk					1,952,436.04	100.000	1,952,436.04	1,952,436.04	100.000	1,952,436.04	1		0.030	0.030
TEXPOOL		LGIP	TexPool					7,754,311.79	100.000	7,754,311.79	7,754,311.79	100.000	7,754,311.79	1		1.623	1.623
TEXPRIME		LGIP	TexPool Prime					3,014,388.14	100.000	3,014,388.14	3,014,388.14	100.000	3,014,388.14	1		1.832	1.832
Total for Galveston Industrial Development Corp								**12,721,135.97**	**100.000**	**12,721,135.97**	**12,721,135.97**	**100.000**	**12,721,135.97**	**1**		**1.428**	**1.428**
Total for Galveston Industrial Development Corp								**12,721,135.97**	**100.000**	**12,721,135.97**	**12,721,135.97**	**100.000**	**12,721,135.97**	**1**		**1.428**	**1.428**

HilltopSecurities
Asset Management

Galveston Industrial Development Corp
Change in Value
From 09/30/2019 to 12/31/2019

CUSIP	Security Type	Security Description	09/30/19 Book Value	Cost of Purchases	Maturities / Calls / Sales	Amortization / Accretion	Realized Gain/(Loss)	12/31/19 Book Value	09/30/19 Market Value	12/31/19 Market Value	Change in Mkt Value
Galveston Industrial Development Corp											
FROSTGIDC	BANK DEP	Frost Bk	2,016,126.51	237,981.03	(301,671.50)	0.00	0.00	1,952,436.04	2,016,126.51	1,952,436.04	(63,690.47)
TEXPOOL	LGIP	TexPool	10,118,370.42	633,890.41	(2,997,949.04)	0.00	0.00	7,754,311.79	10,118,370.42	7,754,311.79	(2,364,058.63)
TEXPRIME	LGIP	TexPool Prime	0.00	3,014,388.16	0.00	0.00	0.00	3,014,388.14	0.00	3,014,388.14	3,014,388.14
Total for Galveston Industrial Development Corp			**12,134,496.93**	**3,886,259.60**	**(3,299,620.54)**	**0.00**	**0.00**	**12,721,135.97**	**12,134,496.93**	**12,721,135.97**	**586,639.04**
Total for Galveston Industrial Development Corp			**12,134,496.93**	**3,886,259.60**	**(3,299,620.54)**	**0.00**	**0.00**	**12,721,135.97**	**12,134,496.93**	**12,721,135.97**	**586,639.04**

HilltopSecurities
Asset Management

Galveston Industrial Development Corp

Earned Income

From 09/30/2019 to 12/31/2019

CUSIP	Security Type	Security Description	Beg. Accrued	Interest Earned	Interest Rec'd / Sold / Matured	Interest Purchased	Ending Accrued	Disc Accr / Prem Amort	Net Income
Galveston Industrial Development Corp									
FROSTGIDC	BANK DEP	Frost Bk	0.00	141.30	141.30	0.00	0.00	0.00	141.30
TEXPOOL	LGIP	TexPool	0.00	35,941.37	35,941.37	0.00	0.00	0.00	35,941.37
TEXPRIME	LGIP	TexPool Prime	0.00	14,388.14	14,388.14	0.00	0.00	0.00	14,388.14
Total for Galveston Industrial Development Corp			**0.00**	**50,470.81**	**50,470.81**	**0.00**	**0.00**	**0.00**	**50,470.81**
Total for Galveston Industrial Development Corp			**0.00**	**50,470.81**	**50,470.81**	**0.00**	**0.00**	**0.00**	**50,470.81**

HilltopSecurities
Asset Management

Contacts

Scott McIntyre
Managing Director
2700 Via Fortuna, Suite 410
Austin, Texas 78746
512.481.2009 Tel
scott.mcintyre@hilltopsecurities.com

Greg Warner
Director
2700 Via Fortuna, Suite 410
Austin, Texas 78746
512.481.2012 Tel
greg.warner@hilltopsecurities.com

February 18, 2020

City of Galveston, Texas

Economic Review and Investment Strategy

Events Driving the Market

- CORONAVIRUS: Dominating the news and market movement is the deadly coronavirus out of Wuhan, China. The number of cases reported has topped 68,000 with over 1,600 deaths. As health officials try to find ways to contain the virus, investors and economists are trying to assess the global impact and the level of risk exposure. The U.S. bond market has seen a dramatic flight to quality with yields dropping more than 10 basis points, inverting the front end of the yield curve.

- THE FED MEETING: The FOMC met January 29th and unanimously elected to hold the overnight rate steady at 1.50%-1.75%. They did however raise the interest paid on excess reserves (IOER) up from 1.55% to 1.60%. Expectations are for the Fed to remain on hold, *however the lack of inflation pressure as well as the impact from the coronavirus could prompt an additional rate cut later in the year*.

- ECONOMIC GROWTH: The first estimate of fourth quarter GDP growth was released January 30th, rising at a moderate +2.1%, as expected. Underlying details, however, were much weaker, including household consumption and business investment.

- STOCK MARKETS: US equity markets plunged on the coronavirus news the last week of January, but recovered fairly quickly, reaching all time highs the following week on February 6th and continue to climb.

- BREXIT: As of January 31st, the United Kingdom has officially left the European Union. There will be an 11 month transition period.

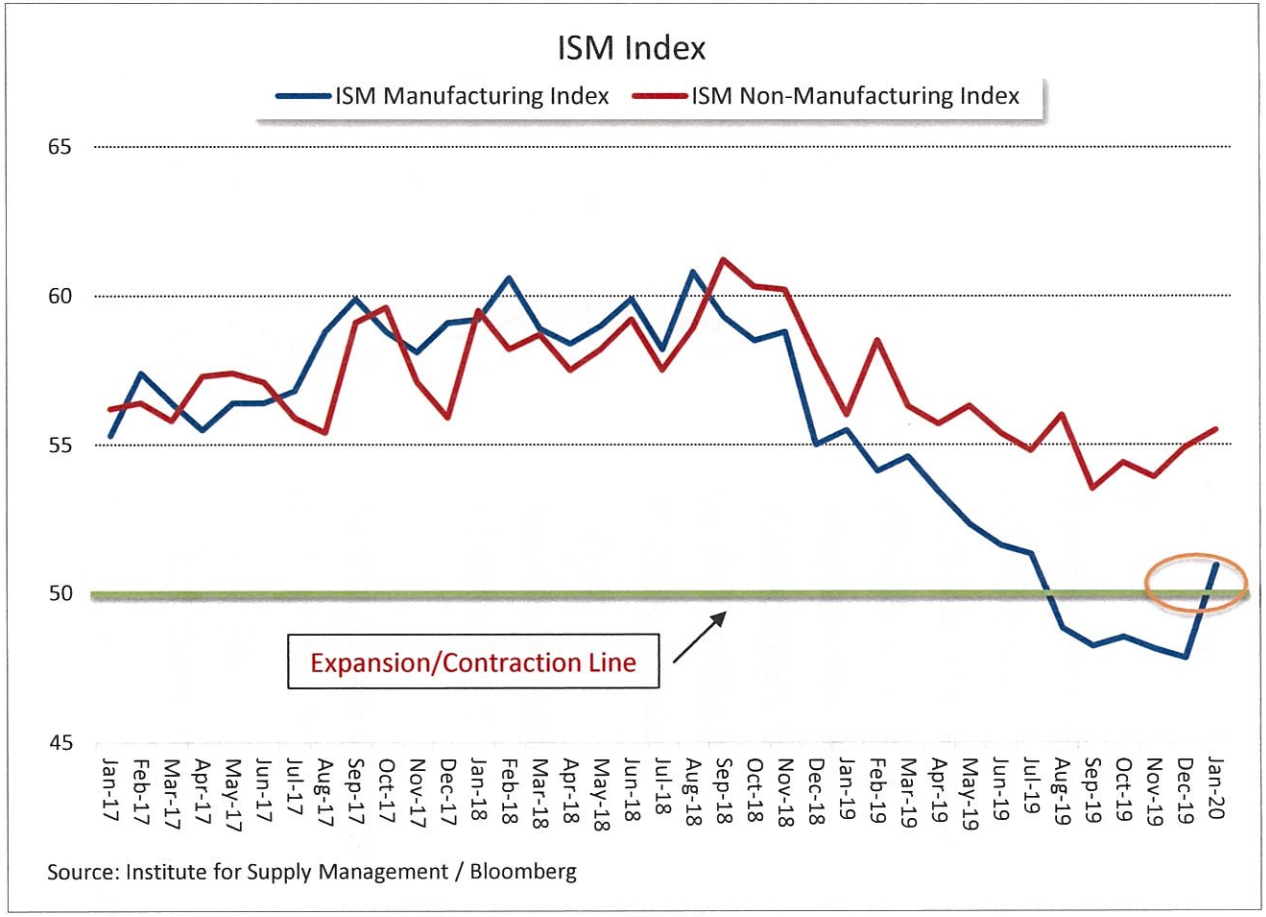
© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

The Institute for Supply Management (ISM) Surveys

- The January ISM manufacturing index rose from a 10 ½ year low of 47.8 to 51.2. After five consecutive months below 50 and indicating contraction, the index managed to unexpectedly get back into expansionary territory.

- The ISM non-manufacturing index rose from 54.9 to 55.5 in January, the third consecutive up tick, after trending downward most of 2019.

- Global manufacturing PMI improved as well. The J.P. Morgan / IHS Markit Global Purchasing Managers Index for January clawed its way up to 50.4, the highest level since last April.



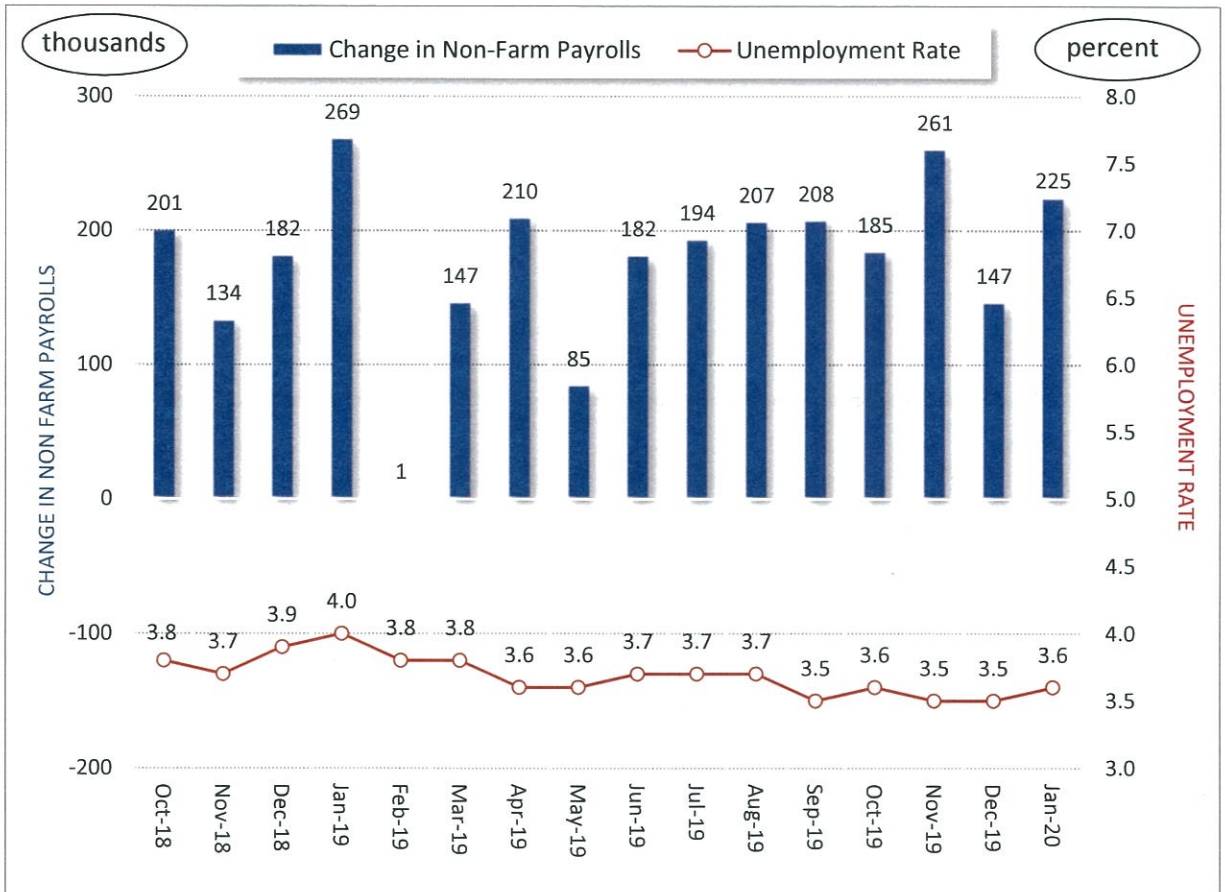
Source: Institute for Supply Management / Bloomberg

© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

Employment

Unseasonably warm weather fueled January job gains.

- Nonfarm payrolls rose by +225k in January, topping the +165k median forecast. Upward revisions to the previous two months added another +7k jobs to the overall tally, boosting the 6-month average up to a strong +206k
- The headline unemployment rate rose from a five-decade low of 3.5% to 3.6% due to the labor force participation rate rising from 63.2 to 63.4, the highest since 2013.
- The downside to an otherwise strong report was a significant -453k downward revision to the overall payroll count in January 2019, which effectively chopped 2018 job growth by nearly half a million.



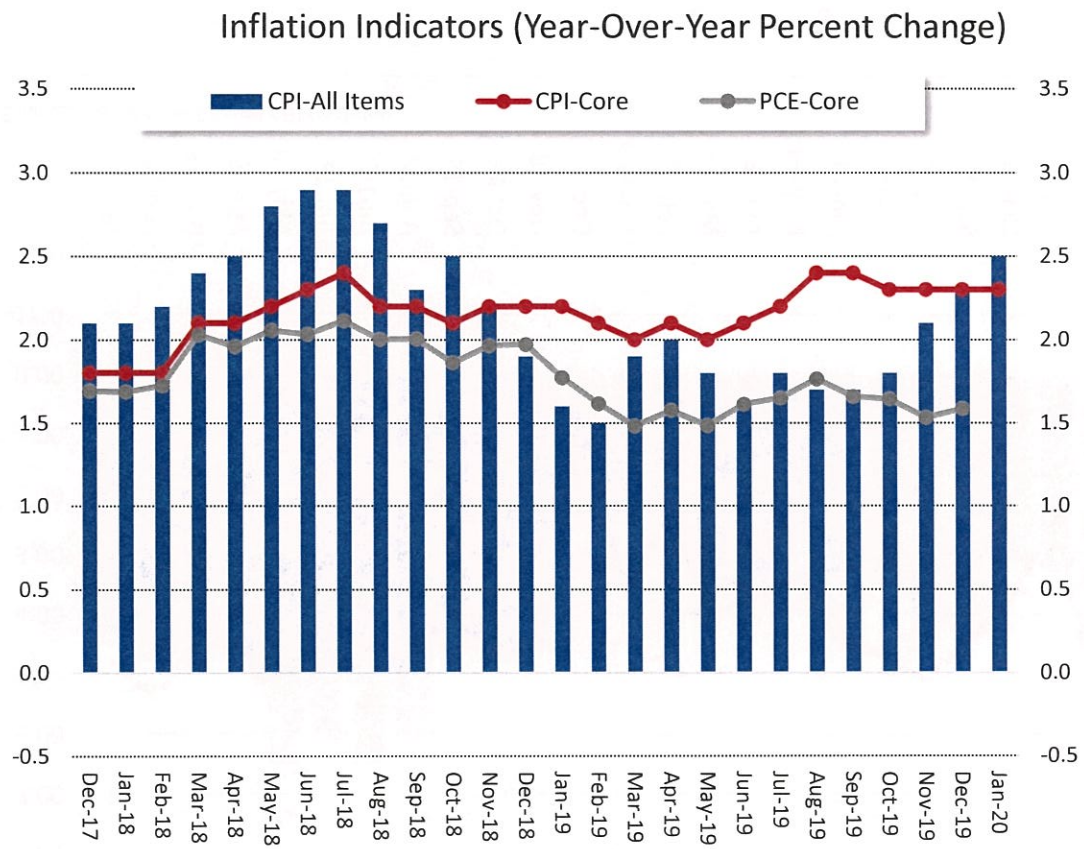
Source: Bureau of Labor Statistics / Bloomberg

© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

Inflation

Price pressure is still low.

- The January consumer price index (CPI) signaled benign price pressure with a +0.1% advance in overall CPI and a +0.2% core increase. On a year-over-year basis, headline CPI climbed from +2.3% to +2.5%.
- The increase was largely due to an energy related increase and Is likely to reverse itself in February.
- Core CPI, which excludes food and energy prices, rose just +0.2% in January following a +0.1% gain in December. The year-over-year core rate held stable at +2.3% for the fourth consecutive month.
- The Fed favorite Core Personal Consumption Expenditures (PCE) rose at a sluggish +1.3% annualized pace during Q4, well below the Fed's +2.0% target.



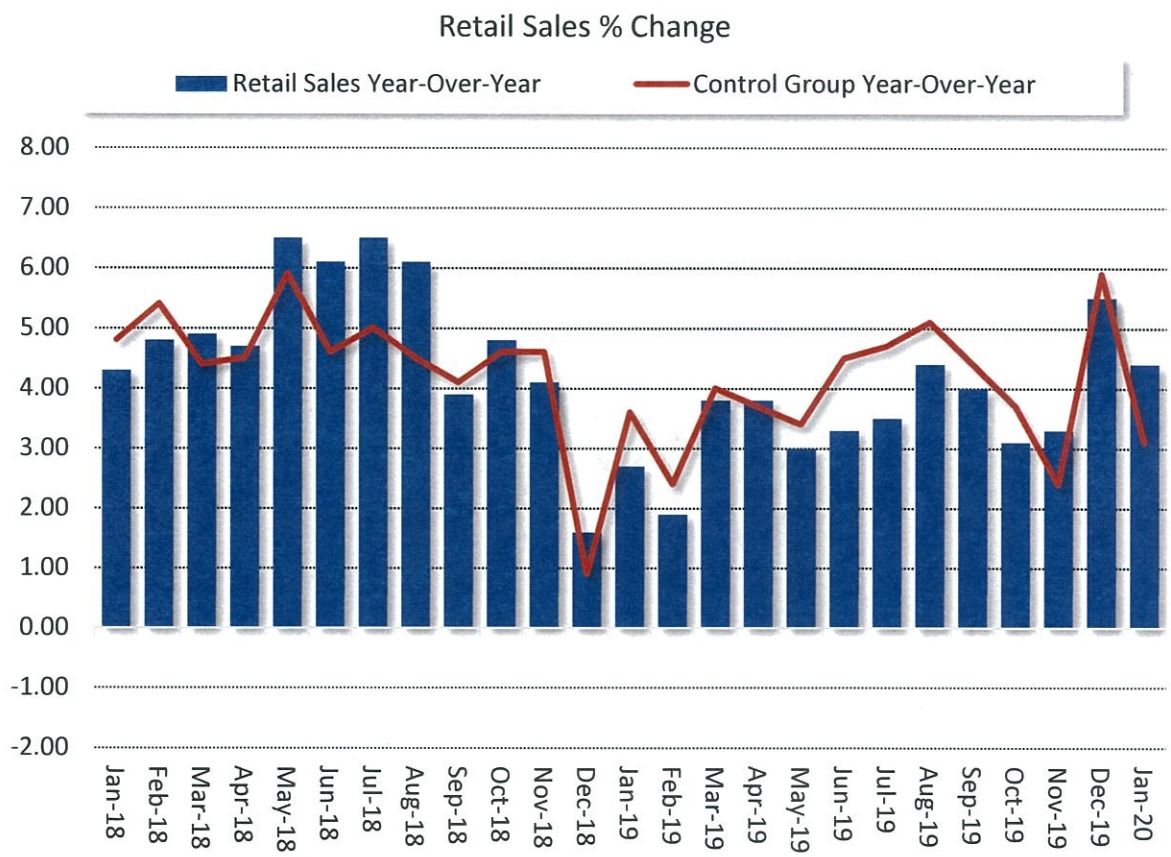
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Bloomberg

© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

Retail Sales

Lackluster retail sales indicates slower GDP growth.

- Headline retail sales increased in January by +0.3%, matching the median Bloomberg forecast.
- The more important "control group" sales were unchanged in January while the December reading was revised down by three-tenths in December. The control group data is used to calculate GDP.
- Retail sales are roughly half of personal consumption, which in turn makes up around 70% of GDP. *Thus, a slowdown in spending has a direct negative effect on economic growth.*



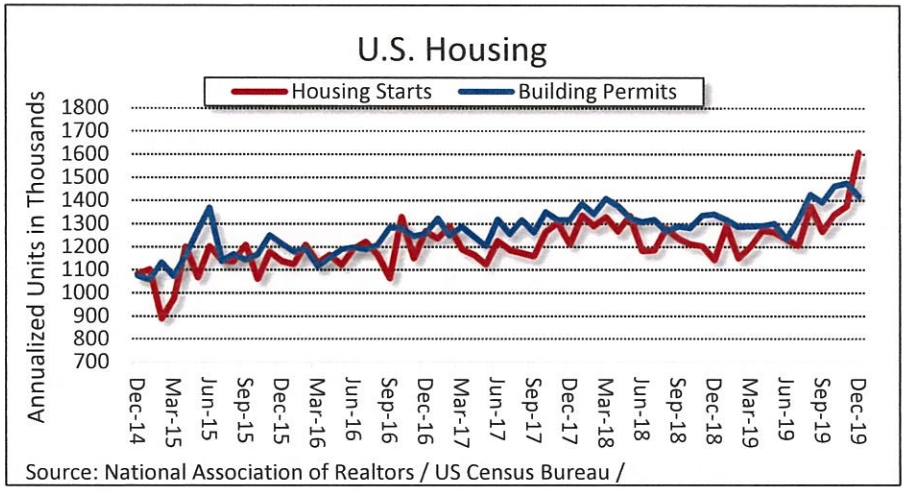
Source: US Census Bureau / Bloomberg

© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

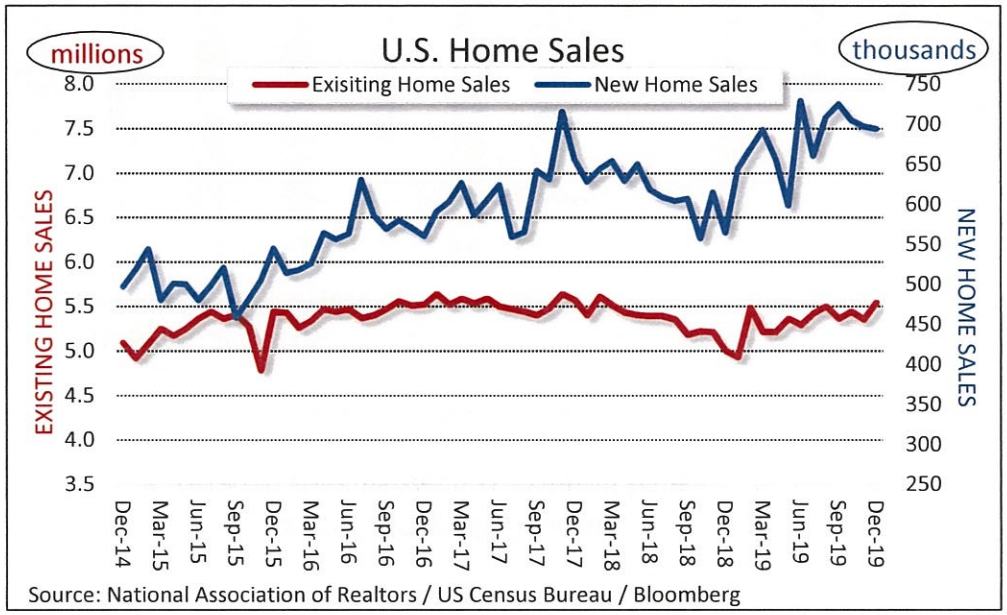
Housing

Housing wrapped up 2019 on a mostly positive note.

- Housing starts followed up November's revised +2.6% increase by surging +16.9% in December to a 13-year high at an annualized rate of 1.61 million units.
- Building permits, a leading indicator of future starts, retreated from November's 12-year high, slipping -3.9% to a 1.42 million unit rate.
- Mild winter weather boosted the seasonally adjusted data.



- New home sales declined slightly in December by -0.4%, from a downwardly revised annualized rate of 697k in November to 694k in December. Despite the cool down, new home sales had the best year since 2007.
- Existing home sales jumped +3.6% to a 5.54 million unit annualized pace, the best since early 2018.

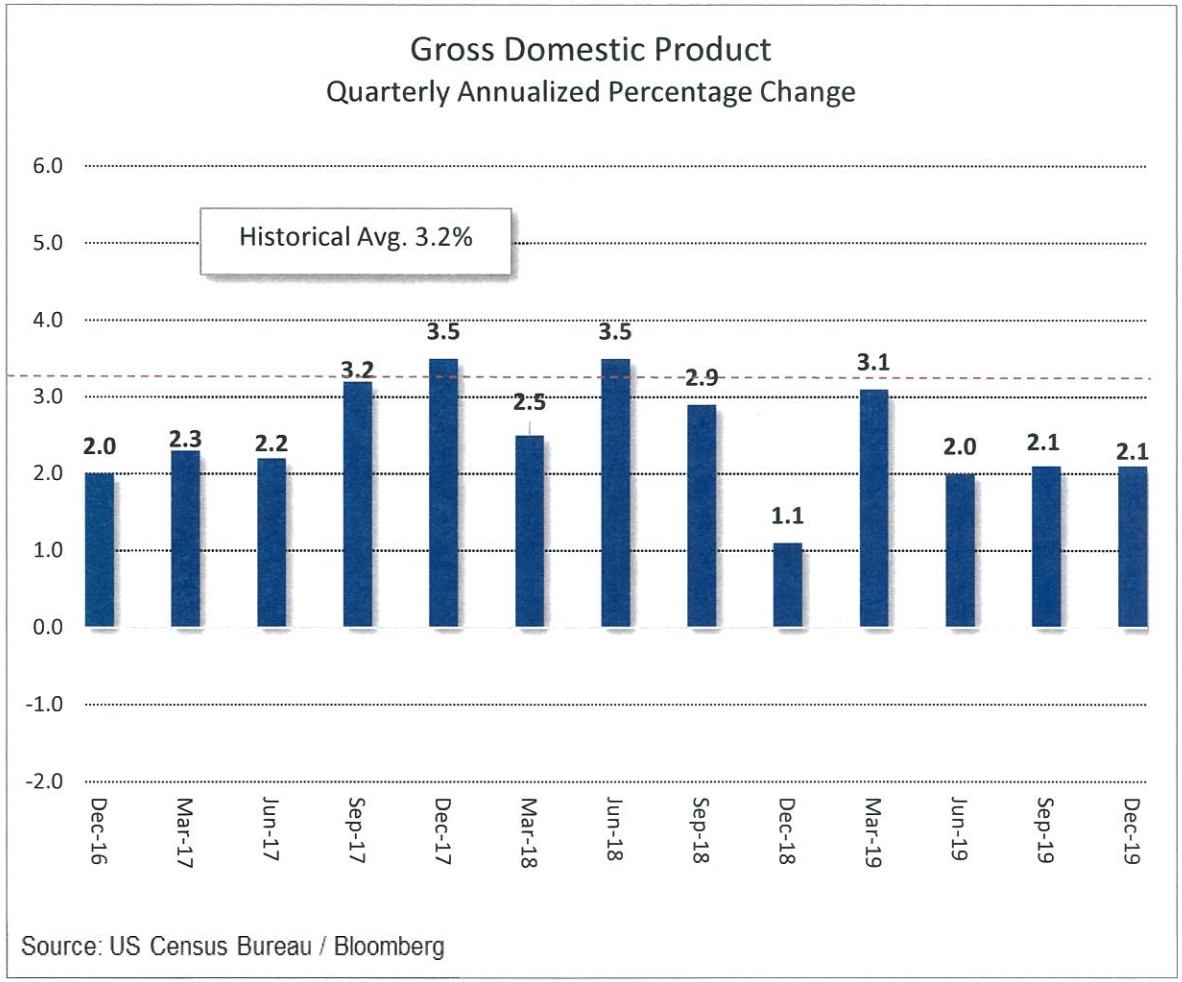


© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

Economic Growth

Q4 growth rose as expected, but the underlying details were weak.

- The first estimate of fourth quarter GDP matched both the median forecast and third quarter growth at +2.1%, but underlying details were much weaker…
- Household consumption grew at just a +1.8% annualized rate, after growing +4.6% in Q2 and +3.2% in Q3.
- Business investment declined for the third straight quarter.
- Real final sales rose by just +1.4%.



© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

Market Movement

EQUITY INDEXES			
	DOW	S&P 500	NASDAQ
12/31/2019	28,538	3,231	8,973
2/14/2020	29,398	3,380	9,731
YTD % Change	3.0%	4.6%	8.5%

2/14/2019	25,439	2,746	7,427
2/14/2020	29,398	3,380	9,731
Y-o-Y % Change	15.6%	23.1%	31.0%

11/15/2019	28,005	3,120	8,541
2/14/2020	29,398	3,380	9,731
% Change	5.0%	8.3%	13.9%

Bond yields have taken a hit to the coronavirus concerns. Stocks have managed to shake of the news and continue to reach higher highs.

INTEREST RATES							
	Date	Fed Funds	6 mo. T-bill	12 mo. T-bill	2 yr. T-note	5 yr. T-note	10 yr. T-note
Last	11/15/2019	1.50%-1.75%	1.58%	1.54%	1.61%	1.65%	1.83%
High			1.62%	1.59%	1.66%	1.75%	1.93%
Low			1.53%	1.44%	1.32%	1.31%	1.51%
End	2/14/2020	1.50%-1.75%	1.55%	1.48%	1.43%	1.42%	1.59%

© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

Market Highlights

- The two-year T-note was falling lower and lower throughout mid January from the low 1.50s to 1.40s, but plummeted to 1.316% on January 31st on news concerning the coronavirus. Yields are recovering somewhat with the two-year closing at 1.43% on Friday.

- The five-year T-note was in the low 1.60s in mid January and quickly fell to the 1.40s in late January, trading *below* the two-year. On January 31st the five-year hit 1.31% but now is back up to 1.42% as of Friday, still below the two-year.

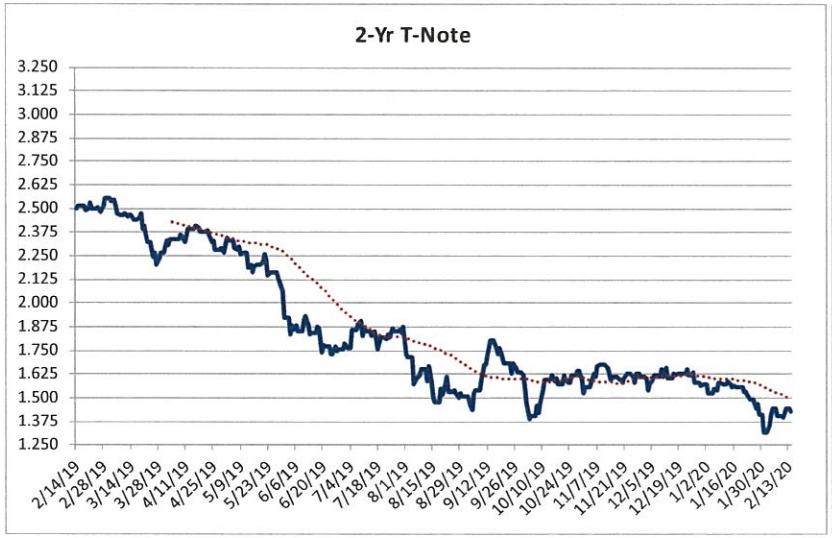
- In late January, the 10-year was trading in the low 1.70s and high 1.60s, but fell to 1.51% on January 31st. It returned to the 1.60s after a few days and is bouncing around the high 1.50s and low 1.60s now, closing at 1.59% on Friday.

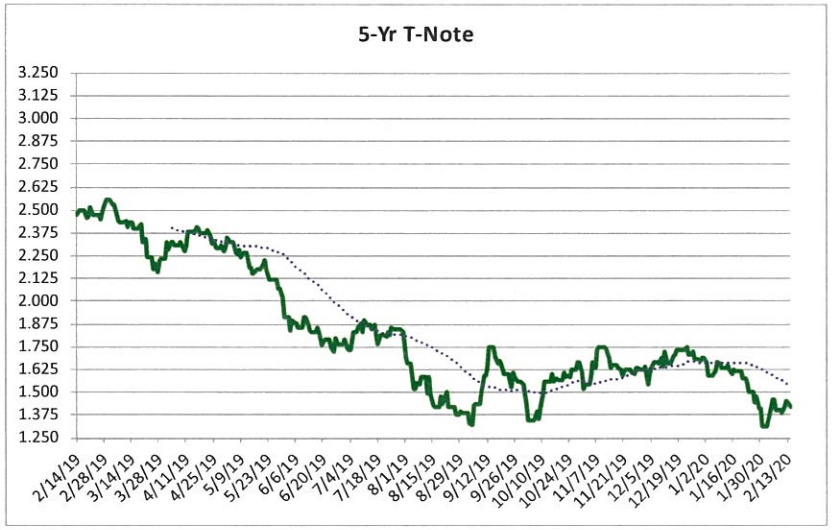
- The front end of the yield curve is inverted; the one-month is around 1.59% and then yields bottom out at the three-year spot at 1.40%. The 30-year treasury dropped below 2.00% on January 31st and is now trading at 2.04% as of Friday, nearly 30 basis points lower compared to a month ago.

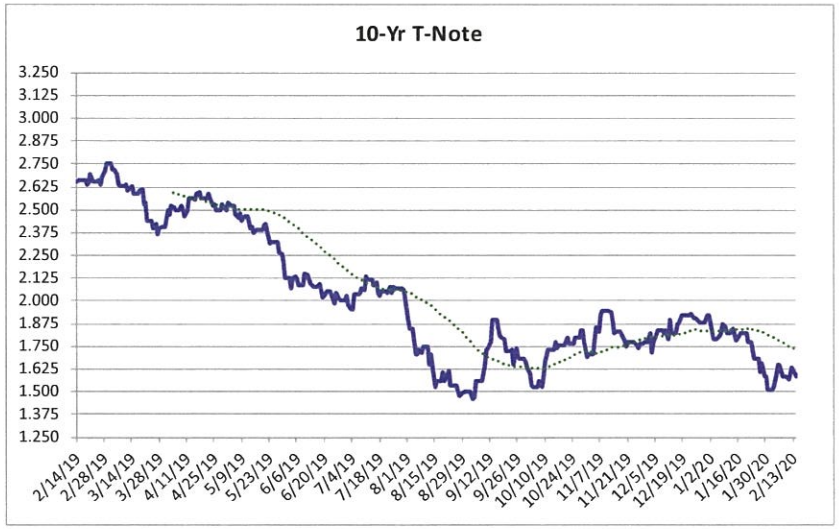
- Agency curve remains very flat and is trading below treasuries in several spots:
  1-year agency bullet = 1.52% (+5 to T-notes)
  2-year agency bullet = 1.47% (+5.5 to T-note and *-5 bps versus 1-year*)
  3-year agency bullet = 1.44% (+5.5 to T-note and *-3 bps versus 2-year*)

© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

Selected U.S. Treasury Yield History (2/14/20)







Note: Dotted lines represent a 50-day moving average (trend line).

© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

Bloomberg Yield Forecasts

Survey release date – **2/14/20**

	2/14/20 Most Current	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 22	Q3 22
Median Fed Funds (Upper Bound)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Median Fed Funds (Lower Bound)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Average US 2-Year	1.43	1.54	1.59	1.63	1.66	1.69	1.74	1.76
Average US 10-Year	1.59	1.75	1.71	1.88	1.93	1.97	2.05	2.09

Survey release date – **11/18/19**

	11/8/19 Most Current	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
Median Fed Funds (Upper Bound)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Median Fed Funds (Lower Bound)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Average US 2-Year	1.66	1.57	1.59	1.63	1.65	1.66	1.72	1.72
Average US 10-Year	1.91	1.71	1.78	1.86	1.92	1.95	2.03	2.07

© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

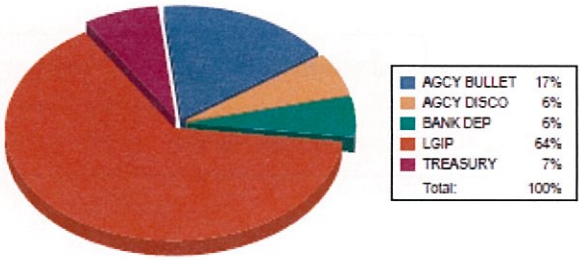
Current Portfolio Characteristics

As of 12/31/2019

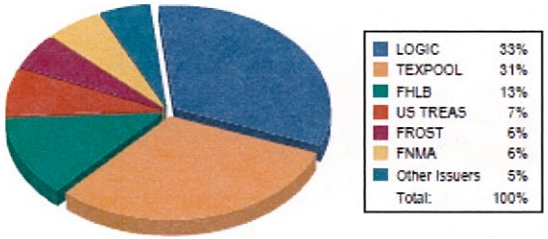
Account Summary

	Beginning Values as of 09/30/19	Ending Values as of 12/31/19
Par Value	134,204,150.05	170,690,672.35
Market Value	134,177,901.54	170,663,173.73
Book Value	134,136,620.40	170,640,410.24
Unrealized Gain /(Loss)	41,281.14	22,763.49
Market Value %	**100.03%**	**100.01%**
Weighted Avg. YTW	2.215%	1.730%
Weighted Avg. YTM	2.215%	1.730%

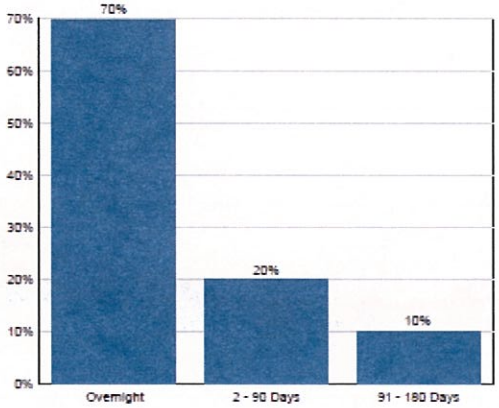
Allocation by Security Type



Allocation by Issuer

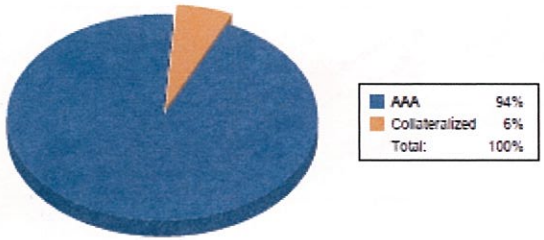


Maturity Distribution %



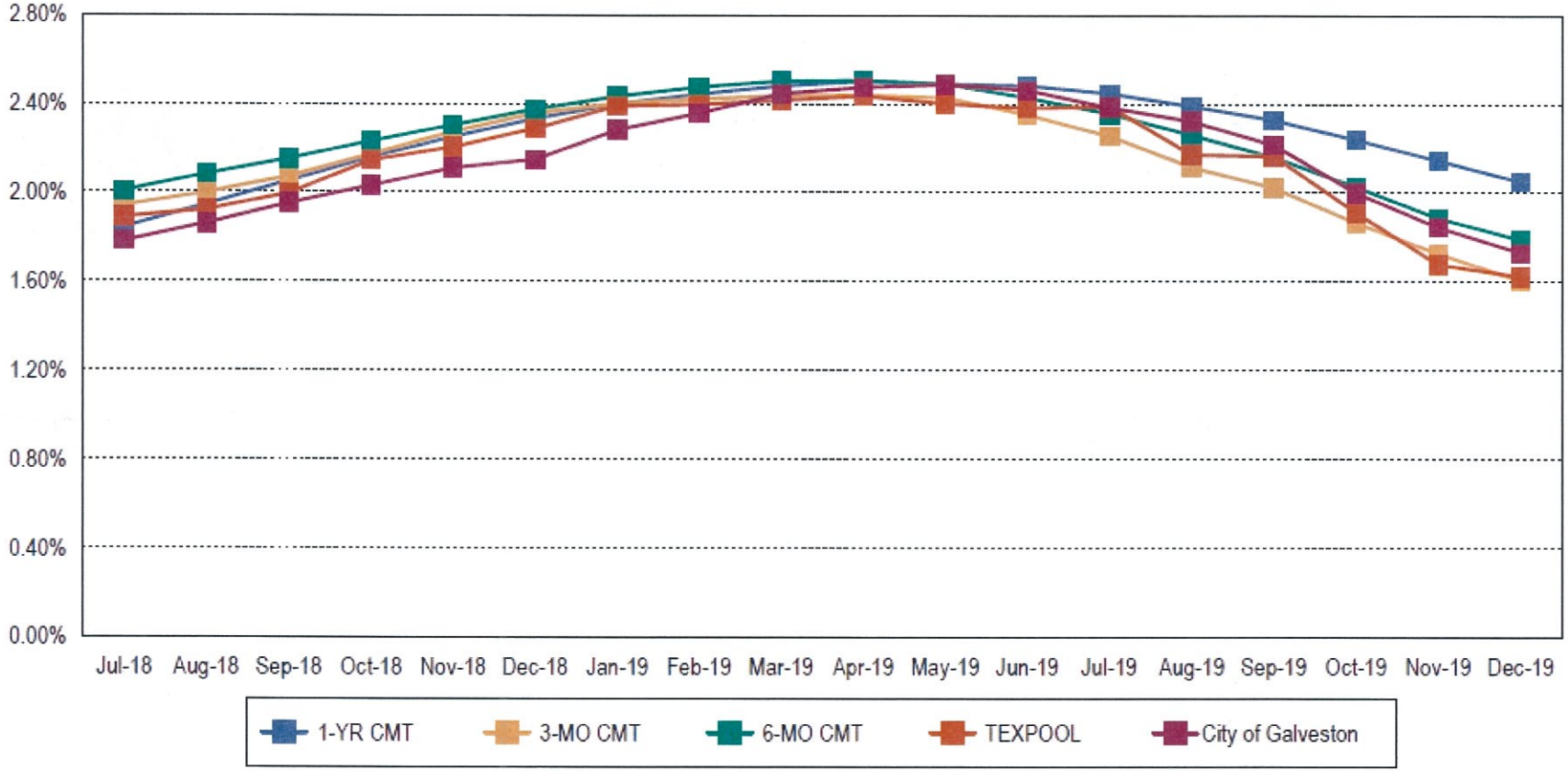
Weighted Average Days to Maturity: 20

Credit Quality



© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

Benchmark Comparison



Note 1: CMT stands for Constant Maturity Treasury. This data is published in Federal Reserve Statistical Release H.15 and represents an average of all actively traded Treasury securities having that time remaining until maturity. This is a standard industry benchmark for Treasury securities. The CMT benchmarks are moving averages. The 3-month CMT is the daily average for the previous 3 months, the 6-month CMT is the daily average for the previous 6 months, and the 1-year and 2-year CMT's are the daily averages for the previous 12-months.

Note 2: Benchmark data for TexPool is the monthly average yield.

© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

Portfolio / Strategy Highlights

- Fourth Quarter 2019 Activity:
  - 10 maturities totaling $38.2 million with an average yield of 2.49%
  - 3 purchases totaling $14.5 million with an average yield of 1.63% and an average maturity 171 days

- The weighted average maturity decreased from 54 days to 20 days at 12/31/19.

- Overall portfolio yield declined from 2.22% to 1.73% during the quarter.

- Portfolio earned $755,530 during the quarter ending 12/31/19, a decline from the $780,848 earned in the prior quarter.

© 2020 HilltopSecurities Asset Management, LLC
All Rights Reserved

Relative Value Report

HilltopSecurities
Asset Management.

MATURITY DATE	SECURITY TYPE	DISCOUNT/ SPREAD	YIELD
Agency Discount Notes			
25-Mar-20	FHLB	1.555%	1.557%
13-Apr-20	FHLB	1.565%	1.569%
15-May-20	FHLB	1.560%	1.566%
17-Jun-20	FHLMC	1.525%	1.533%
17-Jul-20	FHLMC	1.525%	1.535%
14-Aug-20	FHLB	1.530%	1.542%
31-Aug-20	FHLMC	1.500%	1.512%
11-Oct-20	FHLMC	1.470%	1.484%
25-Nov-20	FFCB	1.520%	1.538%
14-Dec-20	NQ	NQ	NQ
14-Jan-21	NQ	NQ	NQ
14-Feb-21	NQ	NQ	NQ
Commercial Paper			
19-Mar-20	Natixis NY	1.590%	1.592%
18-Apr-20	Natixis NY	1.590%	1.594%
19-May-20	MUFG Bank NY	1.600%	1.606%
17-Jun-20	Exxon Mobil	1.600%	1.609%
17-Jul-20	NQ	NQ	NQ
15-Aug-20	NQ	NQ	NQ
14-Nov-20	Royal Bank of Canada	1.560%	1.578%
Agency Bullets (Non-Callable)			
10-Feb-21	FHLB 1.500	+10.0	1.516%
16-Apr-21	FHLMC 1.8525	+6.5	1.481%
29-Jul-21	FHLB 3.500	+7.0	1.486%
10-Dec-21	FHLB 2.625	+5.5	1.471%
21-Jan-22	FFCB 1.600	+5.5	1.471%
9-Sep-22	FHLB 2.000	+4.5	1.461%
21-Feb-23	FFCB 1.450***	+5.5	1.441%

*** Spread versus 3-Year Treasury (All others vs 2-Year)

Relative Value Report

Today's Date: 14-Feb-20
Settlement Date: **18-Feb-20**

DISCLAIMER: Securities listed here represent the best market offers as of early morning on this date. All information is subject to change at any time without notice. This report is intended for informational purposes only, and is in no way a solicitation or offer to sell any securities or services. This information has been obtained from sources believed to be reliable, but we do not warrant or guarantee the accuracy or timeliness of this information. There are no warranties, expressed or implied, as to accuracy, completeness, or results obtained from this information.

Investment Pool Yields:	TexPool	TexSTAR
Previous Day:	1.589%	1.560%
7 Day Moving Avg:	1.592%	1.565%

Agency Discount Note Yields	Current	Week Ago	Month Ago
1 Mo	1.557%	1.542%	1.512%
2 Mo	1.569%	1.559%	1.539%
3 Mo	1.566%	1.576%	1.551%
6 Mo	1.542%	1.521%	1.567%
9 Mo	1.538%	1.471%	1.517%
12 Mo	NQ	1.513%	1.523%

Commercial Paper Yields	Current	Week Ago	Month Ago
1 Mo	1.592%	1.592%	1.642%
2 Mo	1.594%	1.614%	1.745%
3 Mo	1.606%	1.647%	1.758%
4 Mo	1.609%	1.619%	1.619%
5 Mo	NQ	NQ	1.641%
6 Mo	NQ	NQ	1.643%
9 Mo	1.578%	1.609%	1.742%

Agency Bullet Yields	Current	Week Ago	Month Ago
1 Yr	1.516%	1.524%	1.568%
1.5 Yr	1.486%	1.456%	1.578%
2 Yr	1.471%	1.466%	1.593%
2.5 Yr	1.461%	1.456%	1.593%
3 Yr	1.441%	1.450%	1.592%

© 2019 HilltopSecurities Asset Management, LLC
All Rights Reserved