INVESTMENT REPORT

McKinney ISD

July 1 to September 30, 2026

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HilltopSecurities

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Market Recap

Treasury yields surged higher in September as low unemployment and stubborn inflation provided the Federal Reserve with enough reason to raise rates for the first time in more than three years. The rate hike, along with hawkish Fed rhetoric and growing concerns about federal deficits and debt, drove yields sharply higher across the Treasury curve.

Economic data released throughout the month pointed to continued expansion. The ISM Manufacturing Index held at 54.6 in August, while the Services Index registered 55.4, both comfortably in expansion territory and consistent with healthy demand across much of the economy. Growth expectations also improved with the Atlanta Fed's GDPNow model projecting third-quarter GDP growth of 5%, driven in part by booming corporate investment in AI (artificial intelligence) infrastructure.

The labor market surprised to the upside as employers added 162k jobs in August, easily exceeding consensus expectations while revisions to June and July payrolls added another 55k jobs to the tally. The unemployment rate held steady at 4.1%, while labor force participation edged up to 61.6%, its first increase in nearly a year. Wage growth was modest, with average hourly earnings rising 3.1% year-over-year.

Overall, labor market activity continues to reflect a "no-hire, no-fire" environment. Job openings fell to 7.1 million in August, their lowest level in five months, as employers have become increasingly selective about adding workers. Meanwhile, layoffs are near their lowest levels in more than a year, suggesting businesses are reluctant to reduce headcount.

Inflation is the primary focus for markets and policymakers and remains a major concern. August core CPI registered an above consensus 0.3% month-over-month gain which kept the annual rate at 2.4%, reinforcing worries that progress toward the Federal Reserve's 2% objective has stalled. Core PCE, the Fed's preferred inflation gauge, increased 0.25% during the month and continues to run near a 3.0% annual pace. While inflation has moderated from earlier highs, the pace of improvement remains painfully slow.

Adding to inflation concerns during September, energy markets experienced more volatility as escalating tensions in the Middle East raised concerns about potential supply disruptions. Oil prices moved higher and diesel fuel reached a record high at $6.52 per gallon, contributing to worries that elevated energy costs would add to inflationary pressures.

The Federal Open Market Committee raised the federal funds target rate by 25 basis points at its September meeting, bringing the overnight target rate to a 3.75% to 4.00% range. Chair Kevin Warsh offered little guidance regarding future meetings, emphasizing instead that policy will be data dependent. Since the meeting, hawkish commentary from several Fed officials indicated that additional tightening may still be necessary if inflation fails to show more convincing improvement.

The economic backdrop entering October appears stronger than it did just a month ago. Unemployment is low, consumer spending has stabilized, and business activity surveys continue pointing toward expansion. Inflation remains above the Federal Reserve's target and recent data suggests the path back to 2% may be slower than policymakers would like. Markets have adjusted accordingly, with futures implying at least one more hike before year end and as much as 100bps of additional tightening over the next twelve months. Longer-term Treasury yields have responded to the combination of stronger growth expectations, persistent inflation, massive federal borrowing needs, and increased Treasury supply by sending yield to multi-decade highs. Until inflation shows more meaningful progress toward the Federal Reserve's 2% target, investors should expect policymakers to maintain a hawkish bias and longer-term yields to remain near recent highs.

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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 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
Senior Director of Finance & Cash Management

Marlene Harbeson
Chief Financial Officer

Dennis Womack
Asst. Super. of Business, Technology and Operations

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Portfolio Overview

Portfolio Summary

	Prior 30 Jun-26	Current 30 Sep-26
Par Value	290,773,568.06	219,435,221.32
Original Cost	290,773,568.06	219,435,221.32
Book Value	290,773,568.06	219,435,221.32
Market Value	290,773,568.06	219,435,221.32
Accrued Interest	0.00	0.00
Book Value Plus Accrued	290,773,568.06	219,435,221.32
Market Value Plus Accrued	290,773,568.06	219,435,221.32
Net Unrealized Gain/(Loss)	0.00	0.00

Income Summary

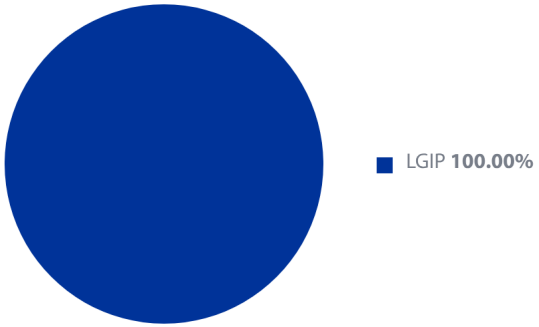
Current Period	1 Jul-26 to 30 Sep-26
Interest Income	2,322,877.93
Net Amortization/Accretion	
Realized Gain/(Loss)	0.00
Net Income	2,322,877.93

Fiscal Year-to-Date	1 Jul-26 to 30 Sep-26
Net Income	2,322,877.93

Portfolio Characteristics

	Prior 30 Jun-26	Current 30 Sep-26
Yield to Maturity	3.634%	3.750%
Yield to Worst	3.634%	3.750%
Days to Final Maturity	1	1
Days to Effective Maturity	1	1
Duration	--	--

Asset Allocation



Transaction Summary

Transaction Type	Quantity	Principal	Interest	Total Amount	Realized Gain/Loss

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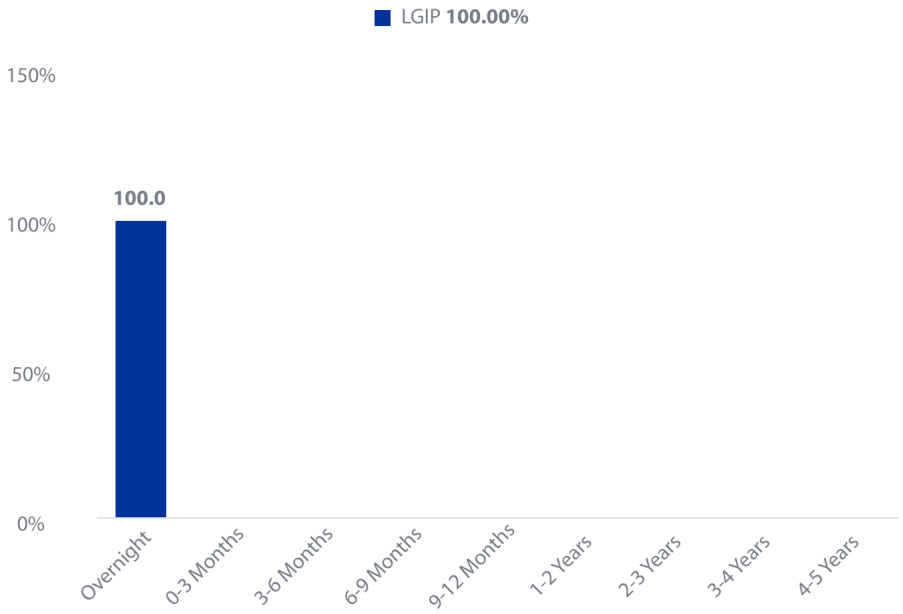
Portfolio Overview

Maturity Distribution by Security Type



Top Ten Holdings

Issuer	Allocation
TEXSTAR	61.11%
TEXPOOL	38.89%

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	219,435,221.32	--	--	--	--	--	--	--	--	**219,435,221.32**
Total	**219,435,221.32**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**219,435,221.32**

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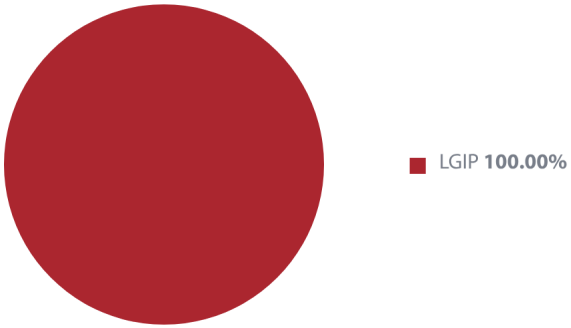
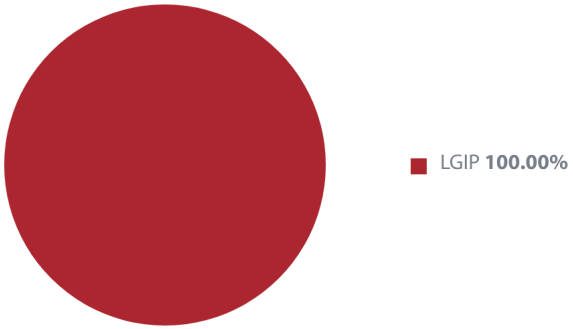
Asset Allocation

Asset Allocation by Security Type as of 30-Jun-2026



Asset Allocation by Security Type as of 30-Sep-2026



Book Value Basis Security Distribution

Security Type	Prior Balance 30-Jun-26	Prior Allocation 30-Jun-26	Change in Allocation	Current Balance 30-Sep-26	Current Allocation 30-Sep-26	Yield to Maturity
LGIP	290,773,568.06	100.00%	0.00%	219,435,221.32	100.00%	3.750%
Portfolio Total	**290,773,568.06**	**100.00%**		**219,435,221.32**	**100.00%**	**3.750%**

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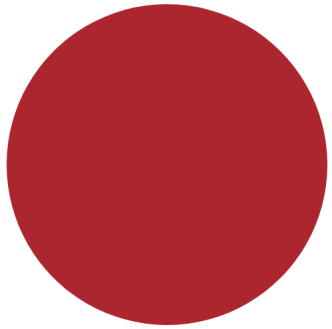
Credit Rating Summary

Rating Distribution

	Book Value	Portfolio Allocation
Local Government Investment Pools & Money Market Funds		
AAA	219,435,221.32	100.00%
Total Local Government Investment Pools & Money Market Funds	**219,435,221.32**	**100.00%**
Portfolio Total	**219,435,221.32**	**100.00%**

Allocation by Rating



AAA **100.00%**

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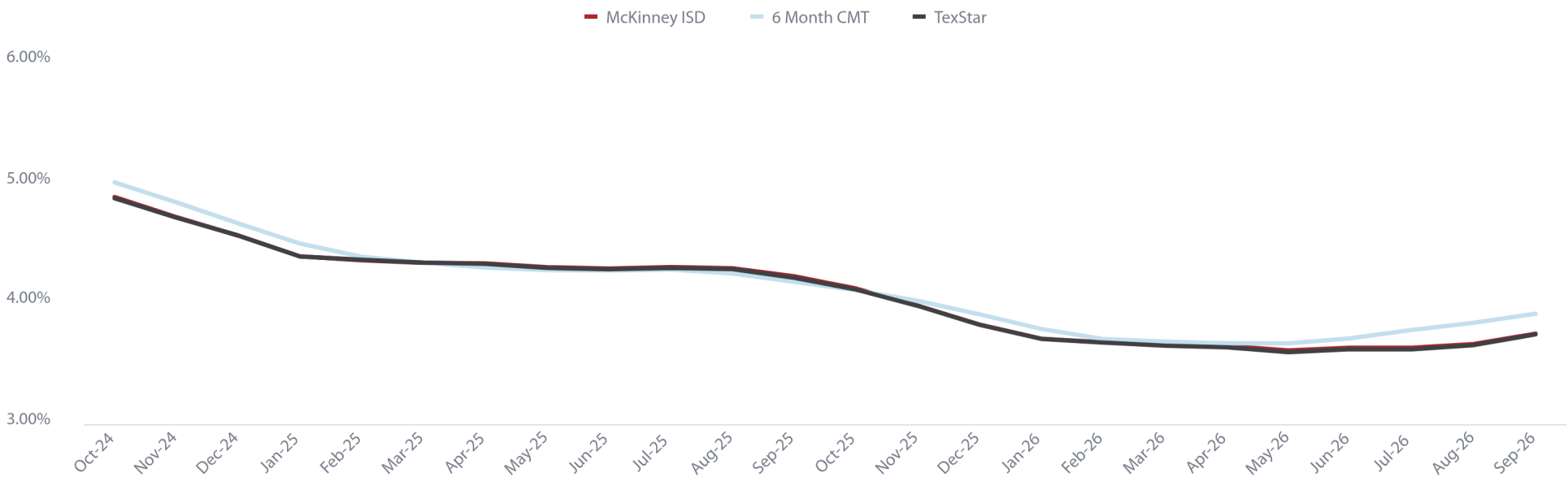
Benchmark Comparison



Yield Overview

	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
McKinney ISD	**4.88**	**4.72**	**4.56**	**4.39**	**4.36**	**4.34**	**4.33**	**4.30**	**4.29**	**4.30**	**4.29**	**4.23**	**4.13**	**3.98**	**3.83**	**3.71**	**3.68**	**3.66**	**3.65**	**3.61**	**3.63**	**3.63**	**3.67**	**3.75**
6 Month CMT	5.00	4.84	4.66	4.50	4.39	4.34	4.30	4.28	4.27	4.28	4.25	4.18	4.11	4.02	3.91	3.79	3.71	3.68	3.67	3.67	3.71	3.78	3.84	3.92
TexStar	4.87	4.71	4.56	4.39	4.36	4.34	4.33	4.30	4.28	4.30	4.29	4.21	4.12	3.98	3.82	3.71	3.68	3.65	3.64	3.60	3.62	3.62	3.66	3.74

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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
2024 Series Bonds	58,844,003.11	58,844,003.11	(10,812,800.22)	48,031,202.89	48,031,202.89	494,599.42	1	3.745%	3.745%
2025 Series Bonds	35,145,888.79	35,145,888.79	326,375.02	35,472,263.81	35,472,263.81	326,375.02	1	3.745%	3.745%
General Operating	144,784,825.90	144,784,825.90	(54,144,327.67)	90,640,498.23	90,640,498.23	1,052,696.76	1	3.752%	3.752%
Interest & Bonded Debt	51,998,850.26	51,998,850.26	(6,707,593.87)	45,291,256.39	45,291,256.39	449,206.73	1	3.758%	3.758%
Total	**290,773,568.06**	**290,773,568.06**	**(71,338,346.74)**	**219,435,221.32**	**219,435,221.32**	**2,322,877.93**	**1**	**3.750%**	**3.750%**

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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
2024 Series Bonds																		
TEXSTAR		LGIP	TexSTAR	3.745	09/30/26			48,031,202.89	100.000	48,031,202.89	48,031,202.89	100.000	48,031,202.89	1		3.745	3.745	AAA
Total 2024 Series Bonds								**48,031,202.89**		**48,031,202.89**	**48,031,202.89**		**48,031,202.89**	**1**		**3.745**	**3.745**	
2025 Series Bonds																		
TEXSTAR		LGIP	TexSTAR	3.745	09/30/26			35,472,263.81	100.000	35,472,263.81	35,472,263.81	100.000	35,472,263.81	1		3.745	3.745	AAA
Total 2025 Series Bonds								**35,472,263.81**		**35,472,263.81**	**35,472,263.81**		**35,472,263.81**	**1**		**3.745**	**3.745**	
General Operating																		
TEXPOOL		LGIP	TexPool	3.759	09/30/26			42,667,083.18	100.000	42,667,083.18	42,667,083.18	100.000	42,667,083.18	1		3.759	3.759	AAA
TEXSTAR		LGIP	TexSTAR	3.745	09/30/26			47,973,415.05	100.000	47,973,415.05	47,973,415.05	100.000	47,973,415.05	1		3.745	3.745	AAA
Total General Operating								**90,640,498.23**		**90,640,498.23**	**90,640,498.23**		**90,640,498.23**	**1**		**3.752**	**3.752**	
Interest & Bonded Debt																		
TEXPOOL		LGIP	TexPool	3.759	09/30/26			42,679,424.88	100.000	42,679,424.88	42,679,424.88	100.000	42,679,424.88	1		3.759	3.759	AAA
TEXSTAR		LGIP	TexSTAR	3.745	09/30/26			2,611,831.51	100.000	2,611,831.51	2,611,831.51	100.000	2,611,831.51	1		3.745	3.745	AAA
Total Interest & Bonded Debt								**45,291,256.39**		**45,291,256.39**	**45,291,256.39**		**45,291,256.39**	**1**		**3.758**	**3.758**	
Grand Total								**219,435,221.32**		**219,435,221.32**	**219,435,221.32**		**219,435,221.32**	**1**		**3.750**	**3.750**	

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Earned Income

CUSIP	Security Type	Detailed 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
2024 Series Bonds										
TEXSTAR	LGIP	TexSTAR	0.00	494,599.42	494,599.42	0.00	0.00	0.00	0.00	494,599.42
Total 2024 Series Bonds			**0.00**	**494,599.42**	**494,599.42**	**0.00**	**0.00**	**0.00**	**0.00**	**494,599.42**
2025 Series Bonds										
TEXSTAR	LGIP	TexSTAR	0.00	326,375.02	326,375.02	0.00	0.00	0.00	0.00	326,375.02
Total 2025 Series Bonds			**0.00**	**326,375.02**	**326,375.02**	**0.00**	**0.00**	**0.00**	**0.00**	**326,375.02**
General Operating										
TEXPOOL	LGIP	TexPool	0.00	611,300.50	611,300.50	0.00	0.00	0.00	0.00	611,300.50
TEXSTAR	LGIP	TexSTAR	0.00	441,396.26	441,396.26	0.00	0.00	0.00	0.00	441,396.26
Total General Operating			**0.00**	**1,052,696.76**	**1,052,696.76**	**0.00**	**0.00**	**0.00**	**0.00**	**1,052,696.76**
Interest & Bonded Debt										
TEXPOOL	LGIP	TexPool	0.00	417,823.79	417,823.79	0.00	0.00	0.00	0.00	417,823.79
TEXSTAR	LGIP	TexSTAR	0.00	31,382.94	31,382.94	0.00	0.00	0.00	0.00	31,382.94
Total Interest & Bonded Debt			**0.00**	**449,206.73**	**449,206.73**	**0.00**	**0.00**	**0.00**	**0.00**	**449,206.73**
Grand Total			**0.00**	**2,322,877.93**	**2,322,877.93**	**0.00**	**0.00**	**0.00**	**0.00**	**2,322,877.93**

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