Texas LGIP Strategy Update

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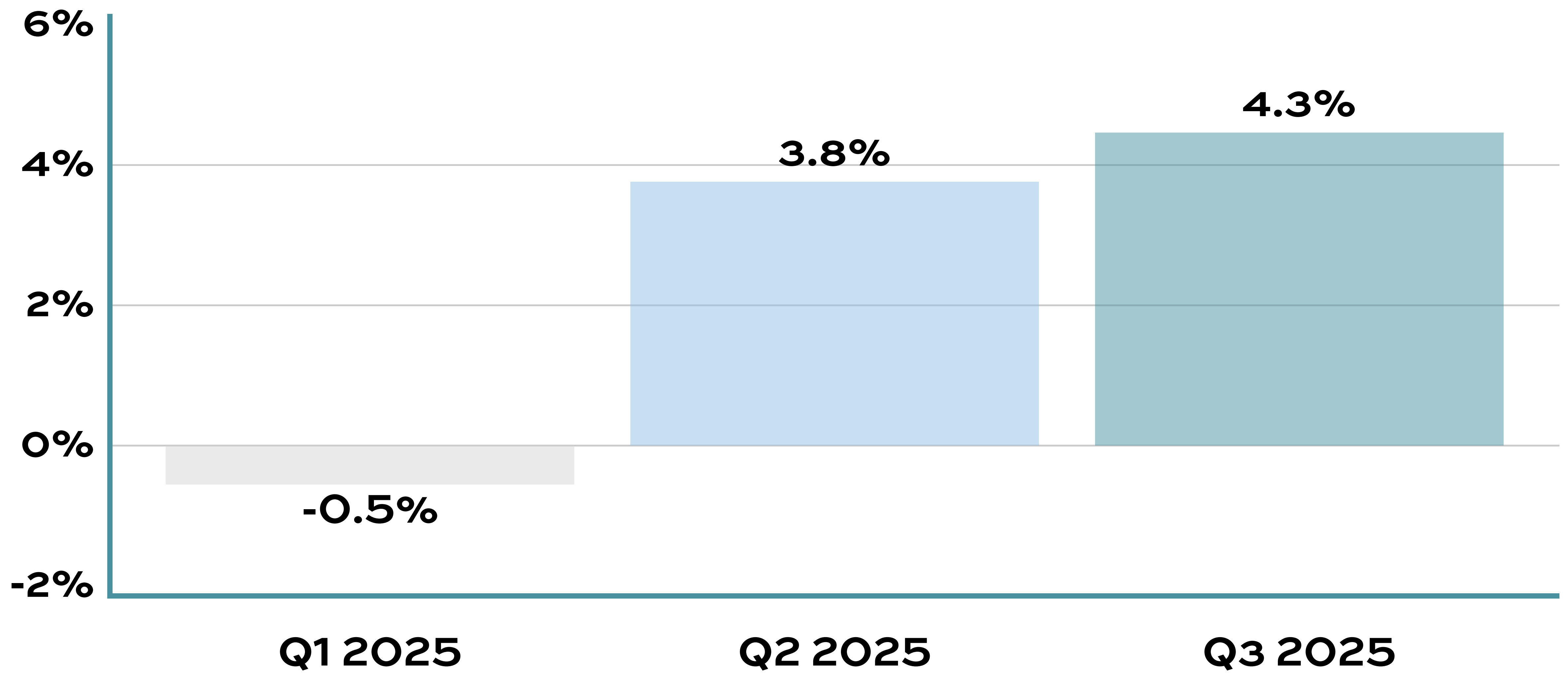
Economic Update

The economy surged in the third quarter, driven by much stronger consumer spending and an upturn in exports. Real GDP grew 4.3%, according to the initial estimate, up from 3.8% in 2Q and above expectations of 3.3%. Consumer spending exceeded expectations, rising 3.5% in 3Q versus 2.5% previously. The strength in demand reflected the economy's "K-shaped" dynamic, with widening divergence between higher- and lower-income households.

November Nonfarm Payrolls rose +64,000, rebounding from October's revised -105,000 drop (largely government shutdown related), with the three-month average improving to +22,000. The unemployment rate ticked up to 4.6% (the highest since September 2021), averaging a monthly increase of around 5 basis points since January – signaling gradual softening without widespread deterioration.

US GDP Growth Rate



The unemployment rate ticked up to 4.6% (the highest since September 2021), averaging a monthly increase of around 5 basis points since January – signaling gradual softening without widespread deterioration.

KEY TAKEAWAY

Consumer spending exceeded expectations, rising 3.5% in 3Q versus 2.5% previously.

*Bureau of Economic Analysis | https://www.bea.gov/data/gdp/gross-domestic-product

Economic Update (cont.)

Decembers FOMC meeting on December 9th – 10th delivered the expected 25 basis point rate cut, lowering the federal funds target range to 3.50% - 3.75% — marking the third consecutive reduction since September – but the committee made it clear that the phase of "precautionary" easing is essentially over. Fed Chair Powell stressed that any additional cuts would depend on more pronounced labor market weakness. The Summary of Economic Projections was provided – largely unchanged from September's. The median participant still projects one cut in 2026 and one in 2027 before pausing slightly above a 3.0% neutral rate.

November headline CPI came in much lower than expected at 2.7% YoY (vs 3.1% expected). Core CPI (excluding food and energy) came in at 2.6% YoY (vs 3.0% expected) – markets largely shrugged off the softness, attributing much of it to government shutdown disruptions and late data collection methods with many expecting a rebound in the yet to be released December numbers as normal methodology resumes.

> **The Fed cut rates by 25 bps in December to a 3.50%–3.75% target range, its third straight reduction**, but indicated the precautionary easing phase is ending and future cuts will hinge on labor market deterioration.

US Treasury Yields

Date & Yield

Tenor	12/31/25	10/31/25	11/30/25	12/31/25
1M	3.74	4.06	4.05	3.74
3M	3.67	3.89	3.88	3.67
6M	3.59	3.79	3.74	3.59
1Y	3.48	3.70	3.61	3.48
2Y	3.47	3.60	3.47	3.47
3Y	3.55	3.60	3.49	3.55
5Y	3.73	3.71	3.59	3.73

Source: Treasury.gov, DBIA

LGIP Investment Strategy

TEXAS FIT FIXED INCOME TRUST

Federal Reserve activity is always heavily scrutinzed as its overnight (Fed Funds rate) aligns closely with interest rate movements in the treasury bill markets (0 – 12 month duration), of where our target duration lies in between.

We have been in a rate-cutting cycle for over a year, and the "average" Fed rate-cutting cycle lasts a little over 2 years. As the Federal Reserve cuts its overnight (Fed Funds) rate, the treasury bill yields will drop as well, usually ahead of Federal Reserve cuts themselves. In a falling rate environment, increasing duration allows the portfolio management team to lock in interest rates and slightly reduce reinvestment risk at a time when it is high.

Our portfolios will always be highly liquid, as same day/next day money market funds, along with bank deposits, anchor any given portfolio. In a falling rate environment, tactical positions in securities such as callable agencies provide opportunities to lock in rates above treasury yields to the short-term call dates. Agencies are constantly calling these securities and reissuing them as yields slide lower. Investors are paid a premium to take on the call feature.

Working off the anchors of our portfolio that provide liquidity and safety, adding tactical positions in securities such as callable agencies add relative value to the portfolios through the duration of the Federal Reserve's rate-cutting cycle. Another attractive feature of agencies is that they carry the same ratings as US treasury securities.

KEY TAKEAWAY

In a falling rate environment, tactical positions in securities such as callable agencies provide opportunities to lock in rates above treasury yields to the short-term call dates.

STRATEGY

Federal Reserve actions are closely watched, as the Fed Funds rate strongly influences short-term Treasury yields where our target duration sits.

TX LGIP Comments

TX-FIT Government Pool:

The performance remains anchored by FDIC Insured overnight deposits, alongside laddered securities in US Treasuries and Agencies, both fixed and floating-rate. We continue to allocate to agency MBS with final maturities within one year, capitalizing on their yield pickup relative to comparable treasuries and non-callable agencies. We expect this pool to continue to track the S&P LGIPG 30-day index.

December 2025 YTD net return: 4.28%.

End of quarter net yield: 3.76%.

TX-FIT Cash Pool:

The Cash Pool is composed of a diversified mix of high quality, short duration securities with a strong emphasis on liquidity sources. This high liquidity enables us to strategically allocate to longer duration opportunities such as short-dated agency MBS, floating rate MBS, callable agencies, and asset-backed commercial paper, that should continue to benefit the pool in a falling rate environment.
We expect the pool to track the S&P 30-day LGIP Index over time.

December 2025 YTD net return: 4.55%.

End of quarter net yield: 4.18%.

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