Northwest Independent School District

P.O. Box 77070 Fort Worth, TX 76177-0070

To: Board of Trustees

From: Karen G. Rue, Ed.D, Superintendent of Schools

Subject: January Financial and Investment Report

Date: February 22, 2016

Background Information and Rationale:
All investments made by the District shall comply with the Public Funds Investment Act (Texas Government Code Chapter 2256, Subchapter A) and all federal, state, and local statutes, rules or regulations. *Gov't Code 2256.026*

Support of Strategic Goals:
The review of the January Financial and Investment Report supports Strategic Goal V: Northwest ISD will invest resources to ensure that students, parents, and the community receive optimal educational services.

Budget and/or Fund Impact:
The Combined Statement of Revenues, Expenditures and Changes in Fund Equity for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Outlay Funds, and Totals (Memorandum Only) report activity for all funds through January, 2016.

The Investment Report, prepared by the District's investment advisors, First Southwest Asset Management, Inc., encompasses the month ending January, 2016, and is submitted in accordance with the provisions of the Public Funds Investment Act.

The following investments matured in January:

- $ 5,000,000.00 Certificate of Deposit One (General Fund)
- $ 1,003,266.28 Certificate of Deposit One (Activity)

The following investments were purchased in January:

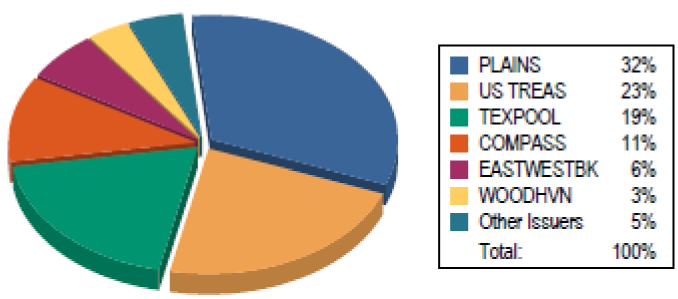
- $ 9,885,181.11 Treasury Note, FNMA Two (Capital Projects AFB)
- $ 65,132,508.64 Treasury Note Seven (General Fund)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $309,002,660.77 as of January 31, 2016.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.482%	119,469,018.05
Special Revenue Funds	0.267%	1,169,456.84
Debt Service Funds	0.295%	56,916,095.59
Capital Projects Funds	0.389%	93,320,471.69
Capital Projects Funds - AFB	0.479%	38,127,618.60
Total	0.418%	$309,002,660.77

Board Policy states that, "The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer."

The District portfolio is concentrated in terms of **investment instruments** (Certificates of Deposit). These concerns are addressed by the low risk nature of the certificates of deposit and the maintenance of collateral by the various financial institutions to guarantee the safety of the investments.



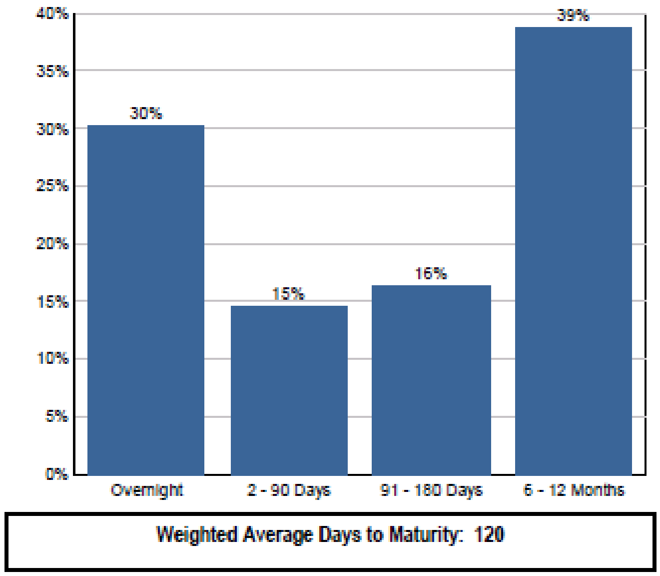
Portfolio Composition by Security Type

Local Government Investment Pool	19%
Certificates of Deposit	46%
Bank Deposit	11%
Agency Bullet	2%
Treasury	23%

Portfolio Composition by Issuer

Texpool	19%
Plains	32%
Compass	11%
EastWest	6%
US Treasury	23%
Woodhaven	3%
Other Issuers	5%

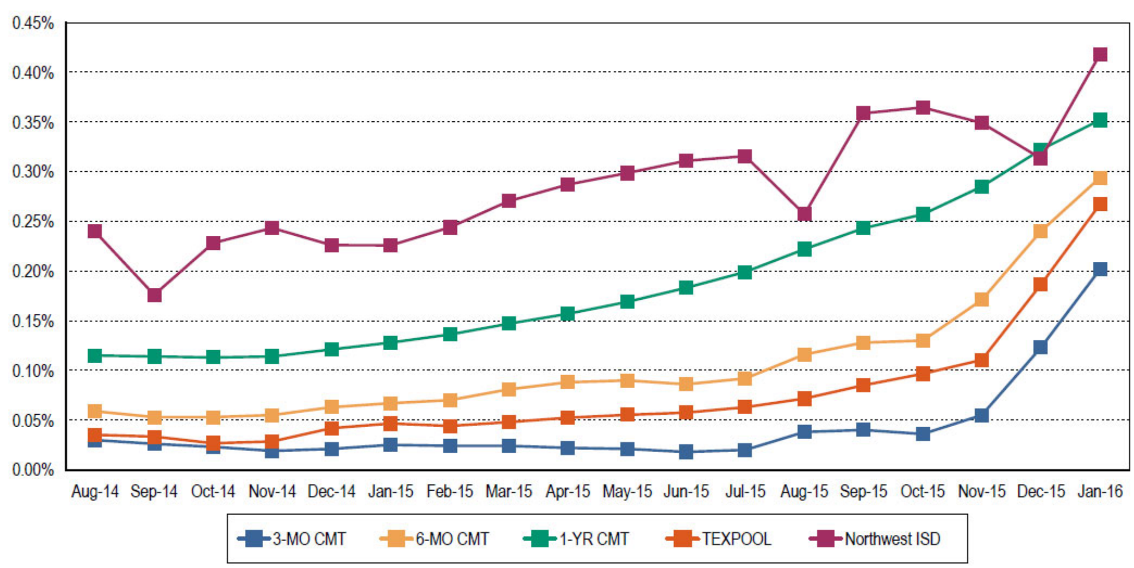
The District portfolio is diversified in terms of **maturity scheduling:**



Maturity Schedule

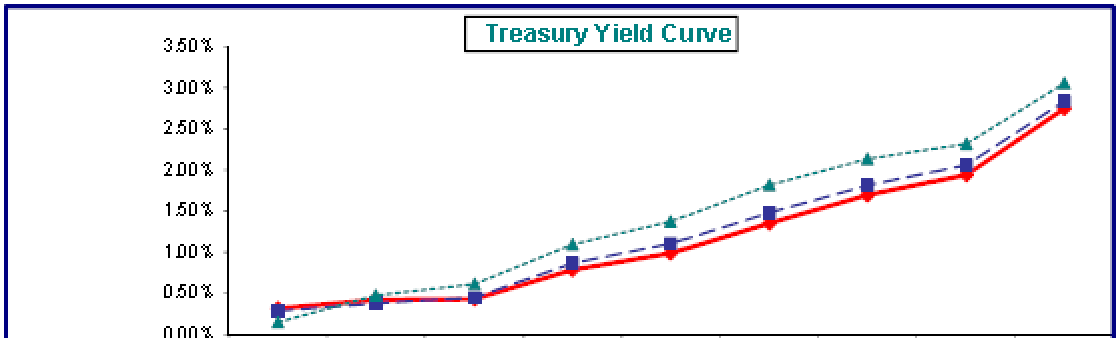
Overnight	30%	$ 93,455,051.28
0 – 3 Months	15%	45,101,240.07
3 –6 Months	16%	50,514,732.56
6 – 12 Months	39%	119,931,636.86

The District portfolio currently outperforms all the **benchmark comparisons**.



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.



	3 Mo	6 Mo	12 Mo	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	30 Yr
Current	0.315%	0.418%	0.428%	0.782%	0.985%	1.352%	1.693%	1.940%	2.745%
One Week Ago	0.285%	0.377%	0.449%	0.865%	1.104%	1.481%	1.809%	2.061%	2.834%
One Month Ago	0.147%	0.474%	0.613%	1.095%	1.372%	1.817%	2.134%	2.317%	3.055%

The **TexPool Economic & Market Commentary for February, 2016**, notes that,

Can't blame the Fed this time

In December, the Federal Reserve took its customary two days to deliberate before releasing its decision to lift rates off near zero for the first time in seven years. But for the market, the verdict is still out. With the recent volatility, some are questioning if the hike was the correct move. We think it was and that the market turbulence has more to do with significant overseas economic issues and oil prices than a small, 25 basis-point increase in rates.

The reverse may be true, however: These external factors may very well have an impact on the Federal Open Market Committee (FOMC) going forward, delaying its plan to increase rates. Or, and this is just speculation, the Fed might be using the global worries as a scapegoat, as it is more concerned with the health of the U.S. economy than it would like to admit. Of course, that is its mandate, but the Fed would not be keen to communicate that the same economy it had enough faith in to hike rates, is now stalling only a month later. The statement from the most recent FOMC meeting in late January stated it can't ignore what is happening on a global basis. But it is easy for policymakers to say that rather than pointing to the domestic economy having taken a step back, especially as they likely still think it is on the right track in the medium to long term.

This is not to suggest the policymakers are second guessing themselves at this point, but we do think they would like to make fewer hikes this year without looking like they are second guessing themselves. The January statement did say they see strength in the economy despite the few pockets of weakness and low inflation in the near term. But they might delay or slow the hike schedule, possibly raising rates every third FOMC meeting rather than every other, waiting till the second quarter to hike and then enacting the every-other-meeting schedule. It will depend upon the domestic statistics; the global markets will have much less of an impact on the decisions. We think the more likely year-end federal funds level will be 1% rather than 1.75%. The London interbank offered rate (Libor) is certainly not pricing in a big move, staying steady over January at around 43, 61 and 85 basis points for 1-, 3- and 6-month, respectively.

Don't let all this attention paid to future actions make it seem like we are not appreciating liftoff. Like cash managers everywhere, it has been marvelous. Across the industry, there's been lots of cash flows into money market funds and plenty of rising yields. That's even the case for the Treasury sector, which had been held so low for so long. We have kept our Weighted Average Maturity (WAM) in the mid-thirties by shortening the long end of our barbell. We went from purchasing fixed-rate securities with 9-12 month maturities to buying ones with maturities closer to six months.

The benefits of the Fed hike have also shown up in our overnight operations. For nearly the entire time that the U.S. Treasury has been offering a select list of money market managers a guaranteed rate for buying of Treasuries—typically a floor of about five basis points. But since the hike, we have been able to trade with other counterparties and have not done much with the Fed, except at quarter-end. Throughout January, the market has been trading at about five basis points higher than the Fed's 25 basis points.

Things are starting to work like they are supposed to. For us, the verdict is definitely in favor of the Fed's hike.

Earnings from Temporary Deposits and Investments are $-87,399.44 for January and $195,058.64 year-to-date for all funds.

Fund	**Month**	**Year-To-Date**
General Fund	$ -67,937.84	$ 57,035.40
Special Revenue Funds	280.83	2,109.58
Debt Service Funds	6,837.05	52,911.14
Capital Projects Funds	2,861.05	41,042.97
Capital Projects Funds – AFB	-29,440.53	41,959.55
Total	$ -87,399.44	$ 195,058.64

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Karen G. Rue, Ed.D., Superintendent

Jon Graswich, CPA, Associate Superintendent for Business and Operations