

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: October Financial and Investment Report

Date: December 14, 2015

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 October 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 October, 2015.

The Investment Report, prepared by the District's investment advisors, First Southwest Asset Management, Inc., encompasses the month ending October, 2015, and is submitted in accordance with the provisions of the Public Funds Investment Act.

The following investments matured in October:

- \$10,020,468.80 Certificate of Deposit One (General Fund)
- \$ 5,018,648.26 Certificate of Deposit One (Capital Projects Funds)
- \$ 5,018,648.26 Certificate of Deposit One (Capital Projects AFB)

The District purchased the following investment in October:

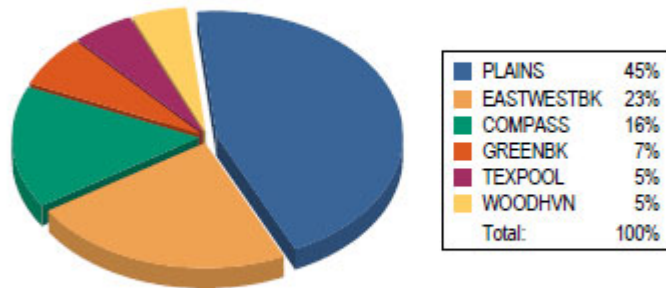
- \$ 5,019,788.92 Certificate of Deposit One (Capital Projects AFB)

Investments for the District’s General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total \$223,746,646.24 as of October 31, 2015.

| <u>Fund</u> | <u>Yield to Maturity</u> | <u>Market Value</u> |
|------------------------------|--------------------------|--------------------------------|
| General Fund | 0.381% | \$ 64,185,539.80 |
| Special Revenue Funds | 0.310% | 1,168,387.91 |
| Debt Service Funds | 0.341% | 20,388,501.96 |
| Capital Projects Funds | 0.343% | 100,444,681.22 |
| Capital Projects Funds - AFB | 0.408% | <u>37,559,535.35</u> |
| Total | 0.365% | <u>\$223,746,646.24</u> |

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.



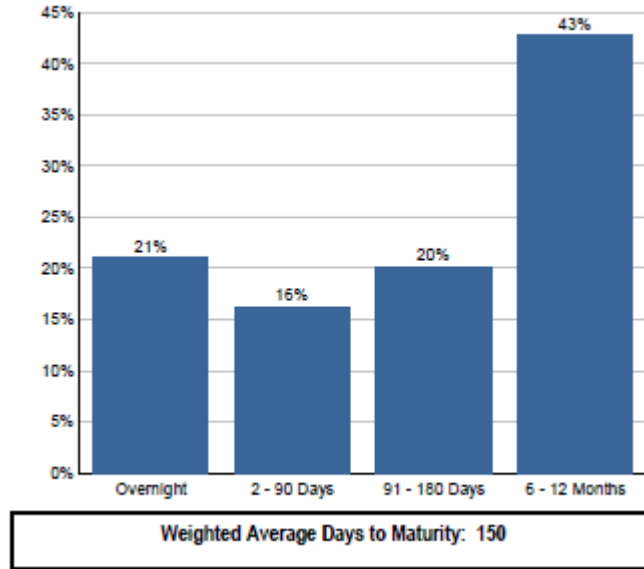
Portfolio Composition by Security Type

| | |
|----------------------------------|-----|
| Local Government Investment Pool | 5% |
| Certificates of Deposit | 79% |
| Bank Deposit | 16% |

Portfolio Composition by Issuer

| | |
|-----------|-----|
| Plains | 45% |
| EastWest | 23% |
| Compass | 16% |
| Greenbank | 7% |
| Texpool | 5% |
| Woodhaven | 5% |

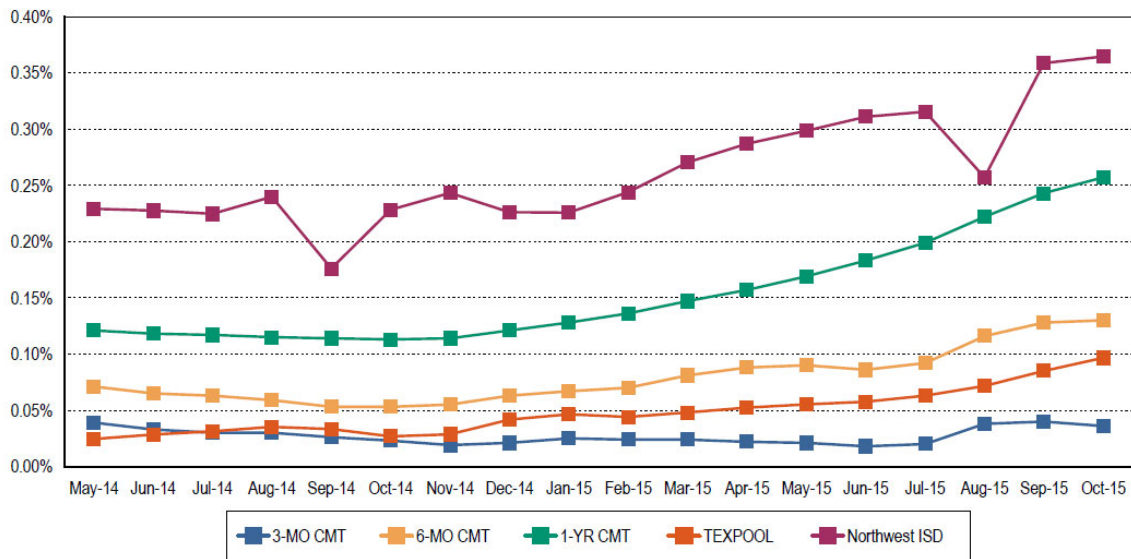
The District portfolio is diversified in terms of **maturity scheduling**:



Maturity Schedule

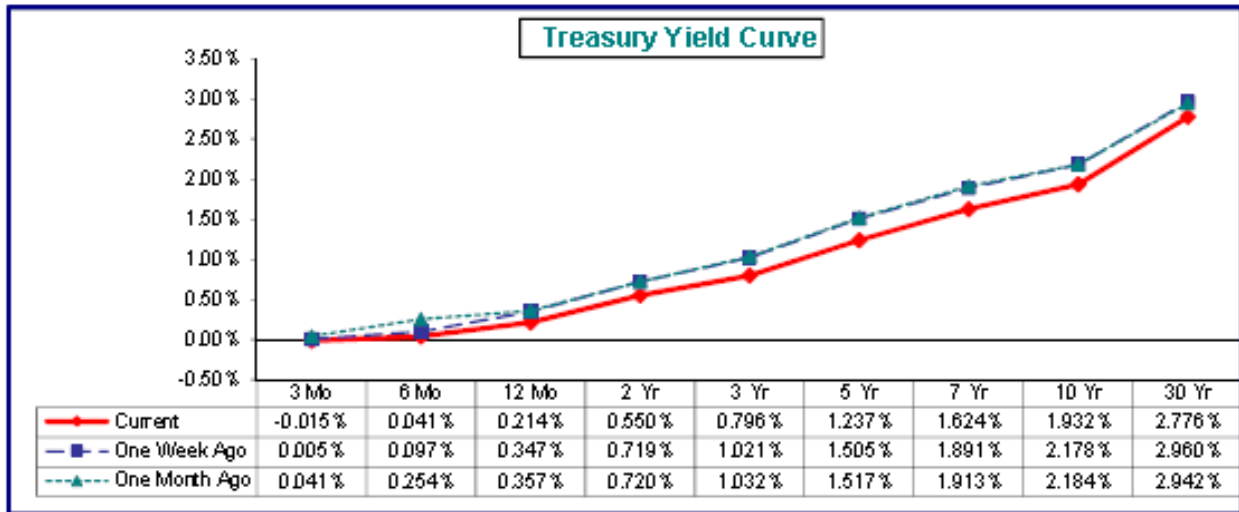
| | | |
|---------------|-----|-----------------|
| Overnight | 21% | \$47,002,456.90 |
| 0 – 3 Months | 16% | 36,100,437.96 |
| 3 –6 Months | 20% | 45,081,351.62 |
| 6 – 12 Months | 43% | 95,562,399.76 |

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 CMTs are the daily averages for the previous 12-months.

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



The **TexPool Economic & Market Commentary for November, 2015**, notes that,

Trick and treat

Federal Reserve policymakers met a few days ahead of Halloween last month, but that didn't stop them from getting in the spirit. Halloween used to consist of costumed kids threatening to prank you if you did not give them a treat, but the October Fed statement turned the tables on that by giving us both.

The trick? Not raising rates when economic conditions merited one. Well, it wasn't a great trick. After all, few thought the Fed would move at this meeting. But it was disappointing nonetheless.

The treat? Specifically singling out its "next meeting" in December when addressing what they need to see in employment and inflation numbers in order to feel comfortable raising rates. For cash managers, this isn't just candy—it's the equivalent of the full-size candy bars that one beloved neighbor hands out each year. It appears the Fed is conveying to the markets that a hike is still on the table. Moreover, the wording was probably included to let the markets know there was serious debate about it in the meeting, something the final 9-1 vote would not have indicated (Richmond Fed's Jeffrey Lacker dissented).

Sweetening things further, the Fed considerably downsized its language about how global developments and foreign events would be an impetus to move or not move, insinuating that a slowdown in China's economy may not have as much impact on the U.S. as the Fed once thought.

All of this begs the question: Did the Fed put its credibility on the line with such a strong statement about being so close to a decision? Despite doubts we have concerning the Fed's trustworthiness, the Fed really hasn't painted itself into a corner. If we get disappointing unemployment and housing numbers, which policymakers have pointed to as areas of strength and lending forward-looking optimism, they have an easy out to not raise rates. They are still data dependent.

If you wonder why it matters that investors, banks and financial professionals must have confidence in the Fed, it is because the tools it uses to implement monetary policy are not perfect. They can name a fed funds level, but trading happens in markets that are influenced, not set, by that. The Fed needs the market to implement its decision-making. Furthermore, when Yellen and company enact the first hike, it will convey to the markets that it is confident in the U.S. economy. If the Fed continues to sit on the sidelines, it will have a negative psychic effect, creating worry about what the Fed sees in its data that causes it to keep rates low.

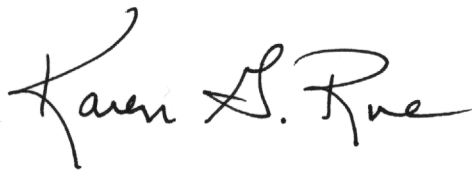
Perhaps the only fortunate part of the Fed’s misses has been that the market has largely ignored them and has continued to tack a fairly steep-sloped money market yield curve for prime and government agency type securities. Treasuries are a little different because they were impacted by the budget debate in Washington. Now that we have that behind us, we will be fine from a Treasury perspective, too. Our strategy now is to hold steady. We remain heavy in variable notes and shorter fixed paper with weighted average maturity (WAM) for prime portfolios in the low 40s and in the mid-to-high 30s for government portfolios. Libor hasn’t really changed since last month.

Earnings from Temporary Deposits and Investments are \$17,517.38 for October and \$208,998.59 year-to-date for all funds.

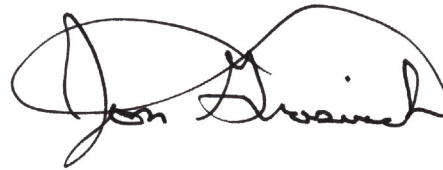
| <u>Fund</u> | <u>Month</u> | <u>Year-To-Date</u> |
|------------------------------|---------------------|----------------------|
| General Fund | \$ 11,948.01 | \$ 88,519.96 |
| Special Revenue Funds | 13.60 | 915.42 |
| Debt Service Funds | 25.04 | 34,173.19 |
| Capital Projects Funds | 4,187.57 | 29,311.48 |
| Capital Projects Funds – AFB | <u>1,343.16</u> | <u>56,078.54</u> |
| Total | \$ 17,517.38 | \$ 208,998.59 |

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