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: November Financial and Investment Report

Date: January 11, 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 November 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 November, 2015.

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

The following investments matured in November:

- $10,034,146.97 Certificate of Deposit One (General Fund)
- $ 5,017,073.48 Certificate of Deposit One (Capital Projects AFB)

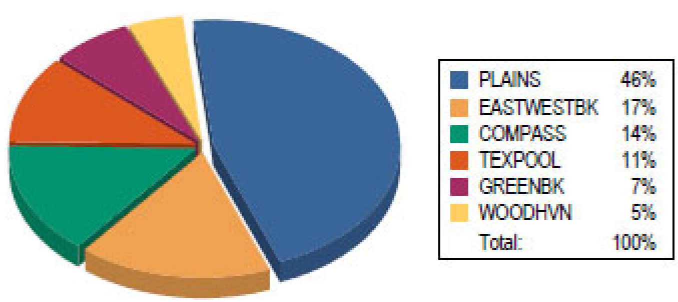
The District did not purchase any investments in November.

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $217,963,705.06 as of November 30, 2015.

Fund	Yield to Maturity	Market Value
General Fund	0.337%	$ 61,216,129.72
Special Revenue Funds	0.312%	1,168,277.75
Debt Service Funds	0.319%	22,535,356.19
Capital Projects Funds	0.355%	95,485,708.57
Capital Projects Funds - AFB	0.371%	37,558,232.83
Total	0.349%	$217,963,705.06

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."

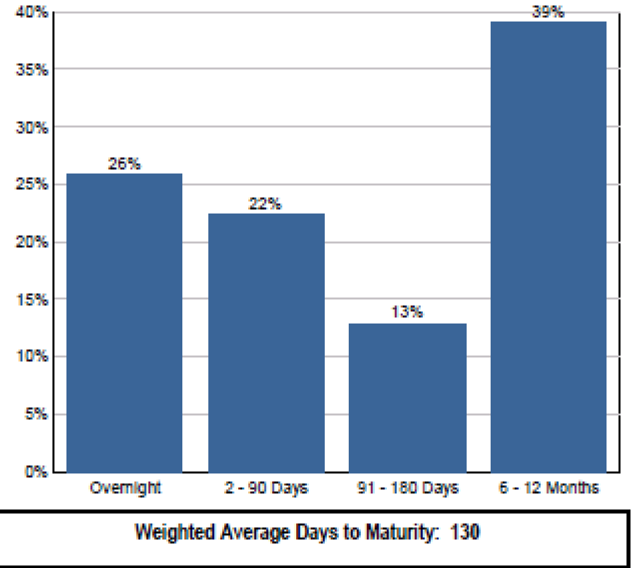
The District portfolio is concentrated in terms of **investment instruments** (Certificates of Deposit). These concerns are addressed by the low risk nature of the certificates of deposit and the maintenance of collateral by the various financial institutions to guarantee the safety of the investments.



Portfolio Composition by Security Type	
Local Government Investment Pool	11%
Certificates of Deposit	74%
Bank Deposit	14%

Portfolio Composition by Issuer	
Plains	46%
EastWest	17%
Compass	14%
Texpool	11%
Greenbank	7%
Woodhaven	5%

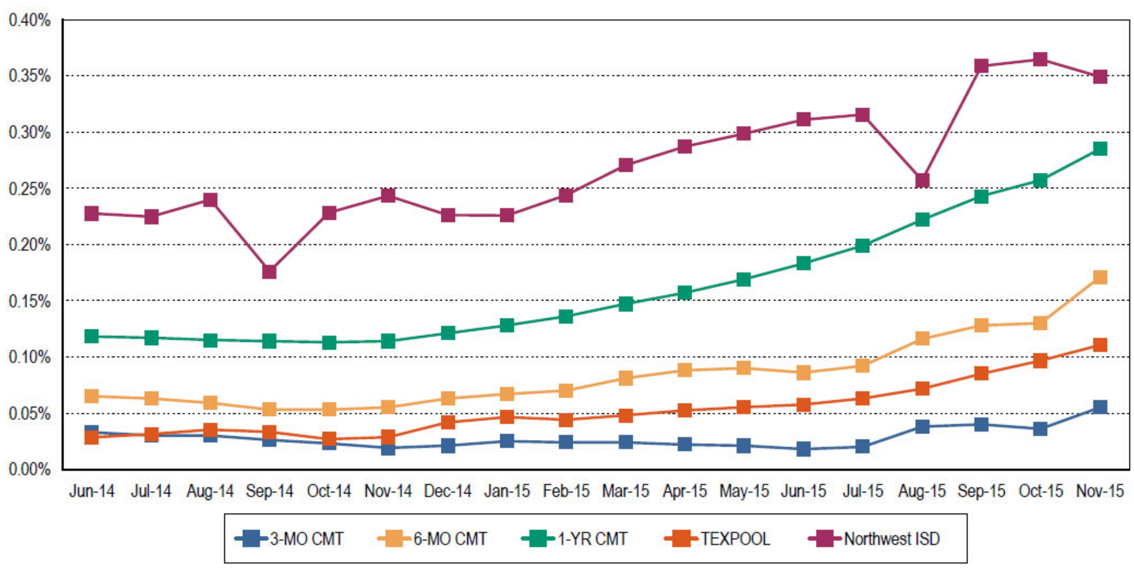
The District portfolio is diversified in terms of **maturity scheduling:**



Maturity Schedule

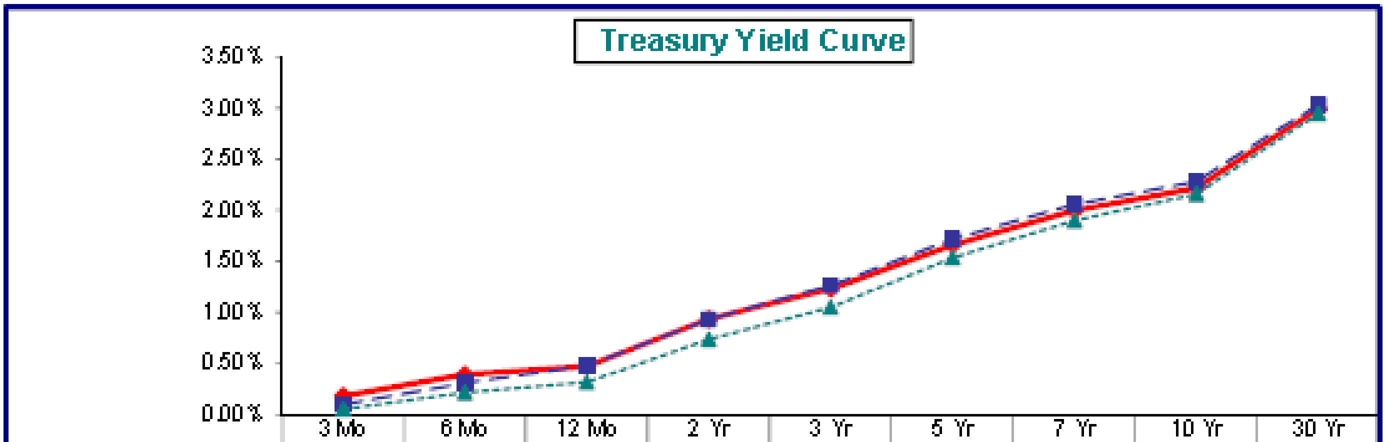
Overnight	26%	$56,257,427.56
0 – 3 Months	22%	48,032,688.19
3 –6 Months	13%	28,615,011.47
6 – 12 Months	39%	85,058,577.84

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	0.178 %	0.392 %	0.474 %	0.934 %	1.231 %	1.658 %	1.993 %	2.220 %	2.990 %
One Week Ago	0.097 %	0.305 %	0.479 %	0.930 %	1.261 %	1.715 %	2.057 %	2.282 %	3.033 %
One Month Ago	0.051 %	0.214 %	0.316 %	0.736 %	1.045 %	1.533 %	1.894 %	2.158 %	2.945 %

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

Finally time to kick rates off the ground

Federal Reserve policymakers met a few days ahead of Halloween last month, but that didn't his year marks the 50th anniversary of the beloved TV special, "A Charlie Brown Christmas." But for cash managers, the more apt Peanuts reference is Lucy pulling that football at the last second when Charlie Brown runs to kick it. Federal Reserve Chair Janet Yellen has played her best Lucy impression by postponing an expected liftoff several times already this year.

We—and the majority of the market—think the Fed will raise rates in its December policy-making meeting. A data-dependent Fed will likely find current economic numbers acceptable when it meets Dec. 15-16 even if inflation continues to be low. The labor market has been strong and even the softening in the residential housing has been off set somewhat by corporate sales. Of course, geopolitical violence could derail a hike if everyone responds to it by staying home to watch CNN instead of shopping or eating out. The Fed is concerned about negative externalities and is assessing all avenues, but most lead to a hike.

If that does occur, some have raised concerns about whether rates on money market securities will follow suit given the extreme demand for these types of securities. We believe the Fed's monetary policy tool of the overnight reverse repo facility will not only continue to be effective at establishing a floor under short-term interest rates but also provide adequate supply for those with which it trades. The New York Fed holds over $2.5 trillion of Treasury securities on its balance sheet that it can make available for reverse-repo transactions with approved counterparties, of which we are one. This gives eligible participants a place to invest if traditional markets appear too expensive.

We have already seen an increase in the London interbank offered rate (Libor) over the course of November in anticipation of the Fed move. But the flip side is you won't see the whole curve shift up by 25 basis points if the Fed moves to a 25-50 basis-point target range because it is already 75% of the way there. Over November, 1-month Libor increased from 19 basis points to 24, 6-month from 55 to 65 and 1-year from 86 to 97. So the curve might shift less than 10 basis points.

It's important to realize that different money funds in the marketplace have different composition and so may adjust to the rate hikes at different speeds. The higher overnight positions in government funds may mean that these funds adjust more quickly. Municipals would be next because of their use of 7-day variable rate demand notes (VRDNs)—within a week they should catch up to the direct market. Prime funds would be third, lagging around one-to-two months because they don't have as much in the overnight or 7-day spaces. In preparation, we continue to have shorter Weighted Average Maturity (WAM), down in the mid to high 30s for the most part, high percentages of floating rate securities and an ample amount of liquidity.

Earnings from Temporary Deposits and Investments are $29,729.99 for November and $238,728.58 year-to-date for all funds.

Fund	**Month**	**Year-To-Date**
General Fund	$ 20,300.06	$ 108,820.02
Special Revenue Funds	15.07	930.49
Debt Service Funds	123.09	34,296.28
Capital Projects Funds	6,210.42	35,521.90
Capital Projects Funds – AFB	3,081.35	59,159.89
Total	$ 29,729.99	$ 238,728.58

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