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: March Financial and Investment Report

Date: April 25, 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 March 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 March, 2016.

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

Also included with the investment information this month is the First Southwest Asset Management, Inc. Public Investor Update which recaps the Quarter Ending March 31, 2016.

The following investments matured in March:

- $ 5,000,000.00 Certificate of Deposit One (General Fund)

The following investments were purchased in March:

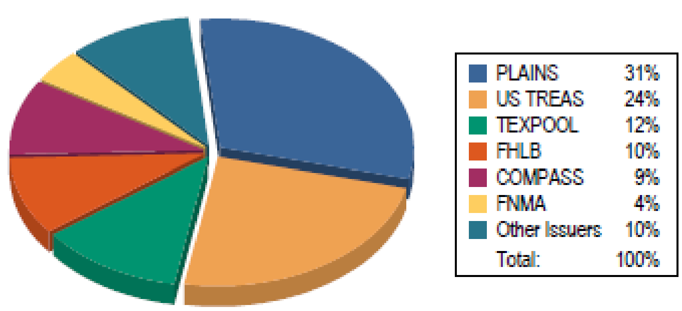
- $ 5,000,000.00 Certificate of Deposit One (General Fund)
- $ 24,948,250.0 Agency DISCO One (Debt Services Fund)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $294,656,531.18 as of March 31, 2016.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.505%	129,783,148.15
Special Revenue Funds	0.581%	1,165,785.62
Debt Service Funds	0.501%	37,020,390.48
Capital Projects Funds	0.401%	88,557,460.69
Capital Projects Funds - AFB	0.485%	38,129,746.24
Total	0.471%	$294,656,531.18

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.



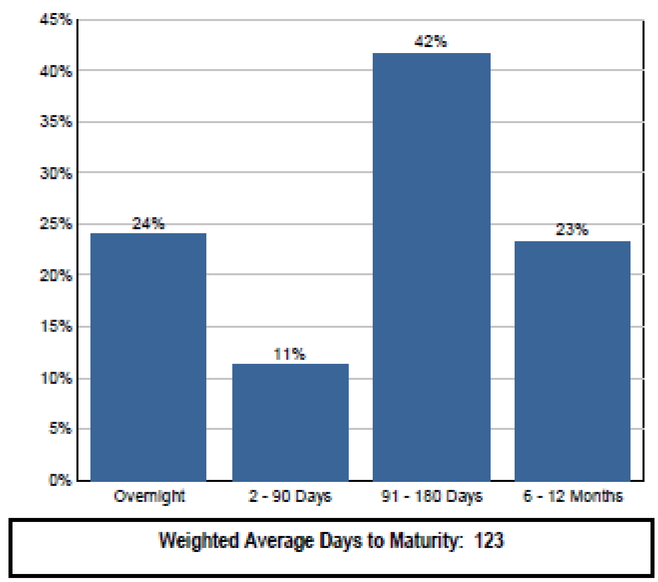
Portfolio Composition by Security Type

Local Government Investment Pool	12%
Certificates of Deposit	41%
Bank Deposit	9%
Agency Bullet	5%
Treasury	24%
AGCY DISCO	8%

Portfolio Composition by Issuer

Texpool	12%
Plains	31%
Compass	9%
FHLB	10%
US Treasury	24%
Other Issuers	10%
FNMA	4%

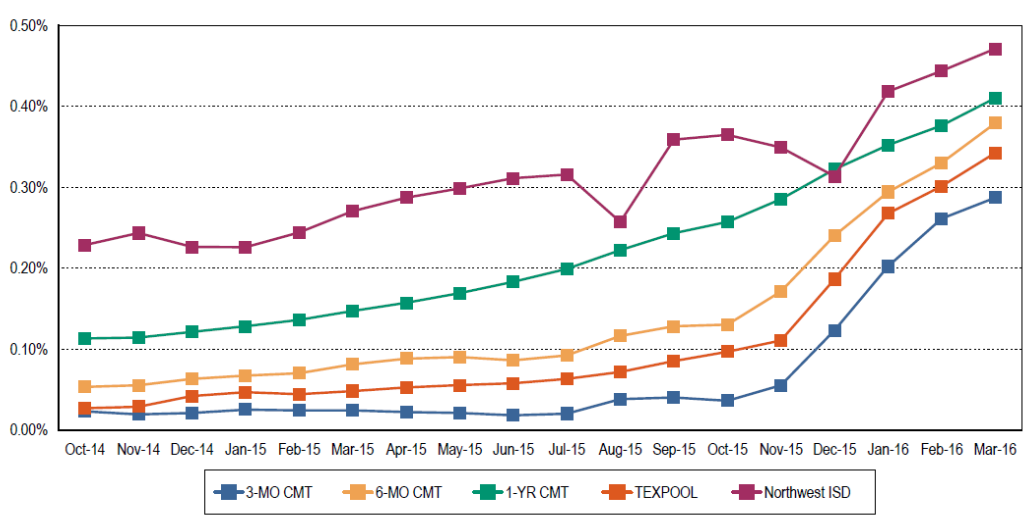
The District portfolio is diversified in terms of **maturity scheduling:**



<u>Maturity Schedule</u>

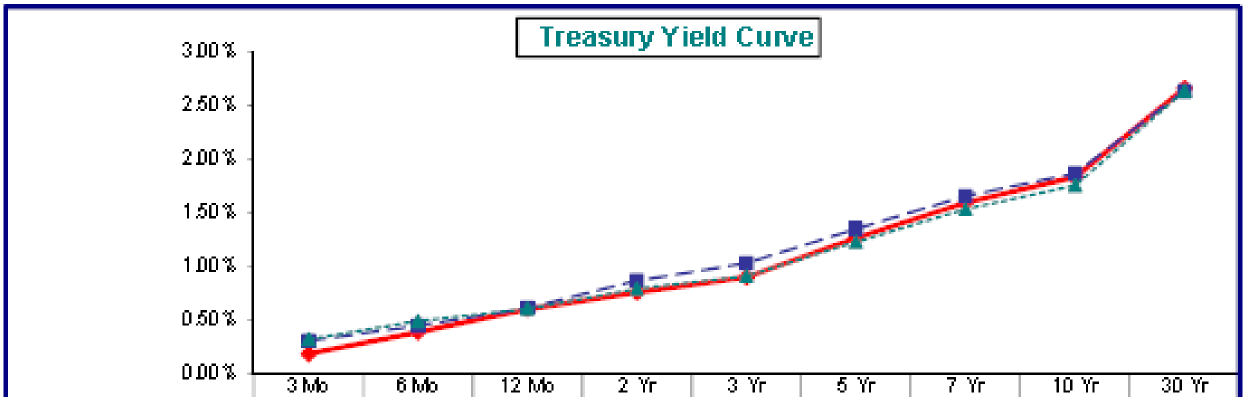
Overnight	24%	$ 70,599,973.10
0 – 3 Months	11%	33,013,352.97
3 –6 Months	42%	122,551,018.44
6 – 12 Months	23%	68,492,186.67

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%	0.381%	0.596%	0.753%	0.895%	1.260%	1.590%	1.828%	2.656%
One Week Ago	0.300%	0.442%	0.606%	0.861%	1.024%	1.345%	1.651%	1.860%	2.633%
One Month Ago	0.315%	0.483%	0.597%	0.786%	0.906%	1.224%	1.531%	1.749%	2.632%

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

Yellen cages the hawks

The first quarter of this year saw plenty of ups and downs. Certainly the markets were volatile, but so was economic data, amid overall softening. March in particular saw individual reports and surveys volleying positive and negative news, causing investors and cash managers the sort of neck pain you get watching a tennis match from midcourt. Employment and auto sales remained robust, manufacturing was still poor; consumer inflation picked up, but personal consumption expenditure data came in low. And so on. We keep track of what we think are the most important statistics released every month and have seen the same number of surprises to the upside as to the downside. It was no surprise that the Federal Open Market Committee (FOMC) did not raise rates at its mid-month meeting, in the process dialing back the projections for hikes this year to two from the four it had envisioned in December.

Why then did several Fed officials start emitting hawkish screeches not long after the meeting concluded? A string of speeches suggesting the economy is looking good enough for policy action was enough to build in at least the probability of a move at the April meeting from a federal funds futures perspective, and definitely put June in play. That turned out to be fleeting as Chair Janet Yellen dismissed the hawkish tone in her own dovish speech at the end of the month at the Economic Club of New York. Her words quickly pushed market expectations out at least until September, which is unfortunate because our portfolio management thinks we are on track and the target of June for the next hike is realistic. So far, Yellen has been a consensus builder behind the scenes, but here seemed to be a public rebuke to some members, including St. Louis Fed's James Bullard.

Perhaps the bigger question is why Yellen would be against a hike when she herself has referred to them at this point as normalization, not tightening? In a sense, the offsetting domestic data makes the case for continued normalizing—especially because many headwinds are from external issues such as low oil prices, the strong dollar and slowing in China. Yellen has tried to be a shepherd of the economy so far in her tenure, but this month she turned more to herding.

While the clock is paused on rate hikes, it is ticking loudly toward the implementation of the SEC money market reforms in fall. We've seen action by some fund families to convert prime money market funds into government funds. But direct investors seem to be taking their time to make a decision, choosing to stay where they are and not move to different products despite the impending regulations. Spreads have widened between prime and government instruments, and that may yet prove to convince institutional investors to stay in the prime space in spite of floating NAVs and gates and fees. We will obviously not know until closer to October.

The Fed drama and the plateauing of the London interbank offered rate (Libor) has led us to keep our weighted average maturities short, with WAM for prime portfolios in a 30-40 day range and government portfolios in a range five days further out. We have been buying more in the 3-6 month area for institutional products, not wanting to take the risk with longer dated securities.

Earnings from Temporary Deposits and Investments are $45,985.26 for March and $418,607.84 year-to-date for all funds.

Fund	Month	Year-To-Date
General Fund	$ 30,381.96	$ 216,753.41
Special Revenue Funds	-61.55	2,147.09
Debt Service Funds	6,470.35	82,756.77
Capital Projects Funds	4,583.41	53,466.20
Capital Projects Funds – AFB	4,611.09	63,484.37
Total	$ 45,985.26	$ 418,607.84

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Karen G. Rue

Karen G. Rue, Ed.D., Superintendent

Jon Graswich

Jon Graswich, CPA, Associate Superintendent for Business and Operations