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: December Financial and Investment Report

Date: January 28, 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 December 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 December, 2015.

The Investment Report, prepared by the District's investment advisors, First Southwest Asset Management, Inc., encompasses the month ending December, 2015, 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 December 31, 2015

The following investments matured in December:

- $10,031,215.52 Certificate of Deposit One (General Fund)
- $ 5,015,607.76 Certificate of Deposit One (Capital Projects AFB)

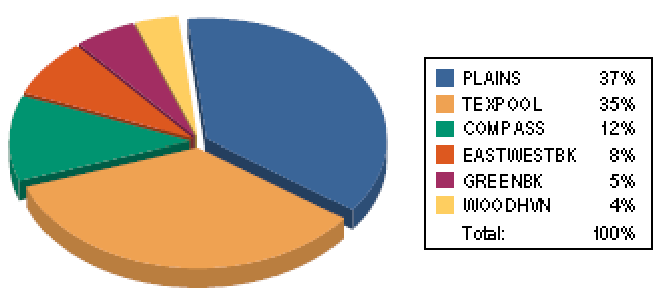
The District did not purchase any investments in December.

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $273,010,862.40 as of December 31, 2015.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.271%	$ 98,141,400.97
Special Revenue Funds	0.322%	1,169,176.01
Debt Service Funds	0.261%	42,448,554.59
Capital Projects Funds	0.363%	93,681,257.81
Capital Projects Funds - AFB	0.358%	37,570,473.02
Total	0.313%	$273,010,862.40

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."

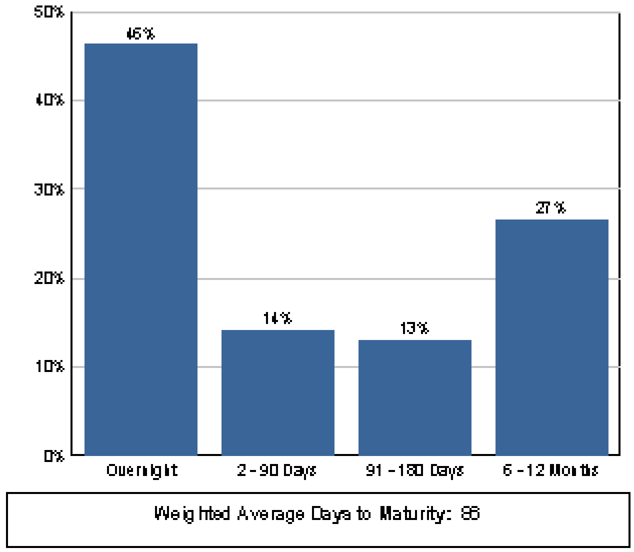
The District portfolio is concentrated in terms of **investment instruments** (Certificates of Deposit). These concerns are addressed by the low risk nature of the certificates of deposit and the maintenance of collateral by the various financial institutions to guarantee the safety of the investments.



Portfolio Composition by Security Type	
Local Government Investment Pool	35%
Certificates of Deposit	54%
Bank Deposit	12%

Portfolio Composition by Issuer	
Texpool	37%
Plains	37%
Compass	12%
EastWest	8%
Greenbank	5%
Woodhaven	4%

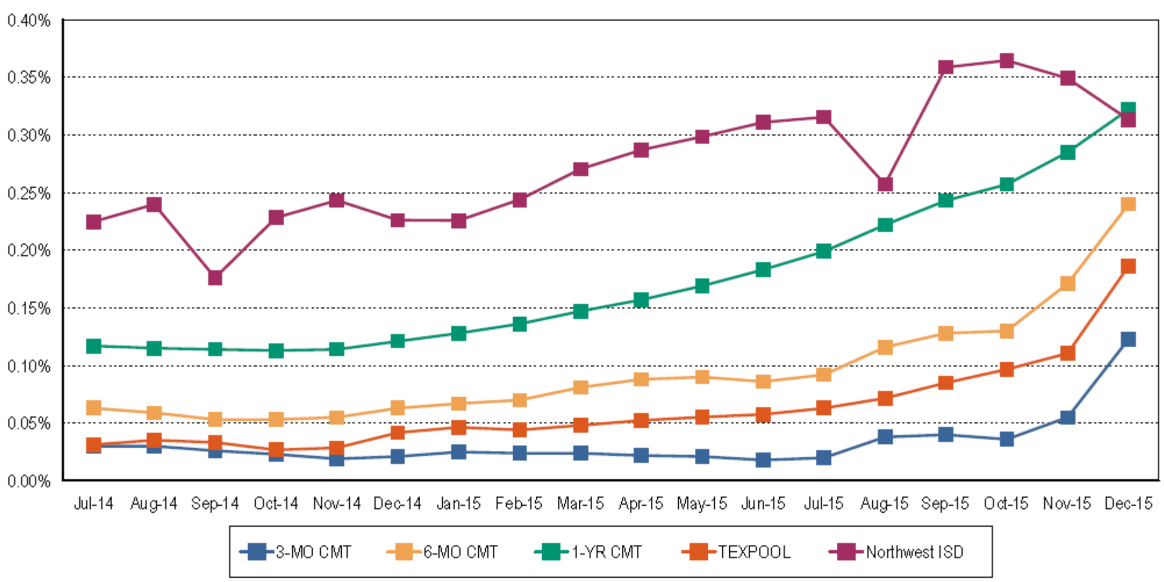
The District portfolio is diversified in terms of **maturity scheduling:**



Maturity Schedule

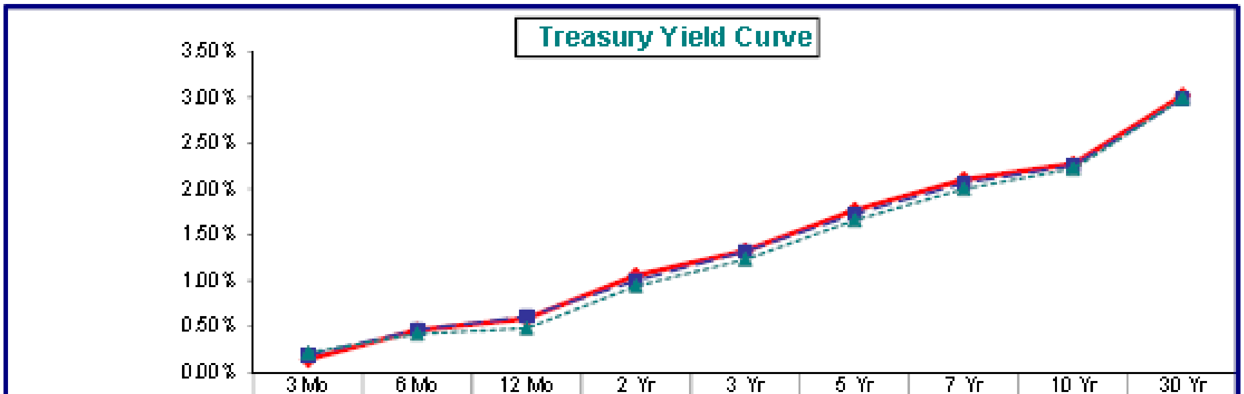
Overnight	46%	$126,333,740.55
0 – 3 Months	14%	38,604,506.35
3 –6 Months	13%	35,507,607.56
6 – 12 Months	27%	72,565,007.94

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	0.142%	0.459%	0.587%	1.056%	1.326%	1.770%	2.101%	2.273%	3.019%
One Week Ago	0.188%	0.464%	0.608%	0.998%	1.320%	1.725%	2.063%	2.252%	2.978%
One Month Ago	0.214%	0.418%	0.479%	0.938%	1.231%	1.658%	2.000%	2.218%	2.987%

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

Now Things Get Interesting

When the Federal Reserve finally hiked rates last month after seven years at near zero, cash managers breathed a sigh of relief. But our next breath was just as deep as we got ready for what's next. The frustrating certainty of postponed action has been replaced by the uncertainty of a rising-rate environment. I'll take the uncertainty any time, but 2016 is going to be intriguing.

Perhaps a better word is "shifting." Coinciding with moving the target range to 0.25-0.50%, the Fed implied in its economic projections that it would raise that by 25 basis points four times in 2016 to reach 1.375% at year's end. But let's face it, this could change at any one of its Federal Open Market Committee (FOMC) meetings. Chair Janet Yellen made clear again that the Fed still will move in a measured and gradual manner, remaining data dependent.

Unforeseen events could impact rate levels on either side of the macro equation. Hikes might come slower if the U.S. economic situation disappoints, but if inflation heats up, or the industrial side of the economy kicks into gear, then they might come faster. We think the U.S. economy will gather strength in 2016, hopefully enough to keep the world economy moving forward. For instance, the U.K. might raise rates sometime in 2016.

Every month could bring a different wrinkle, such as the price of oil or how our international trading partners fare, and cash managers shouldn't take anything for granted. We are likely going to see the market pricing in each of the hikes in 2016—probably in every other FOMC meeting— just as Libor rates acted ahead of December's liftoff . That is, unless the Fed breaks that pattern, which would push the curve steeper or flatter. Basically, the market is going to trust the Fed until they can't.

On a deeper, more technical level, I think the rate picture next year is also going to be determined by cash flows. When we started talking about money market reform in 2014, there was a high expectation that more than half of the $1.5 trillion in Prime money funds would go into governments. However, recent surveys and client discussions lead us to surmise that a larger portion likely will stay in Prime funds. One reason is that history has shown that bank deposit rates are sticky going up. They don't tend to move in conjunction with the Fed, reducing their competitive edge. Add to this the new regulatory requirements for more capital held and banks aren't as attracted to the deposits as they used to be. It may be a portion of deposits move to the money fund market where a competitive yield would have the added benefit of liquidity. And if that is the case, after taking a hit to assets under management, Prime funds as an industry may grab some of that back in 2017 if the outflows create a wider spread that will attract money back to them. That especially could be the case as investors become more comfortable with the implementation of the floating NAV.

So is there uncertainty? Yes, but we are prepared, not the least of which is a continued focus on shorter Weighted Average Maturity (WAM), in the mid to high 30s, and elevated percentages of floating-rate securities and liquidity.

Earnings from Temporary Deposits and Investments are $43,729.50 for December and $282,458.08 year-to-date for all funds.

Fund	Month	Year-To-Date
General Fund	$ 16,153.22	$ 124,973.24
Special Revenue Funds	898.26	1,828.75
Debt Service Funds	11,777.81	46,074.09
Capital Projects Funds	2,660.02	38,181.92
Capital Projects Funds – AFB	12,240.19	71,400.08
Total	$ 43,729.50	$ 282,458.08

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