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: May Financial and Investment Report

Date: June 27, 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 May 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 May, 2016.

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

The following investments matured in May:

- $ 7,516,500.00 Certificate of Deposit One (Capital Projects)
- $ 3,011,397.97 Certificate of Deposit One (General Fund)

The following investments were purchased in May:

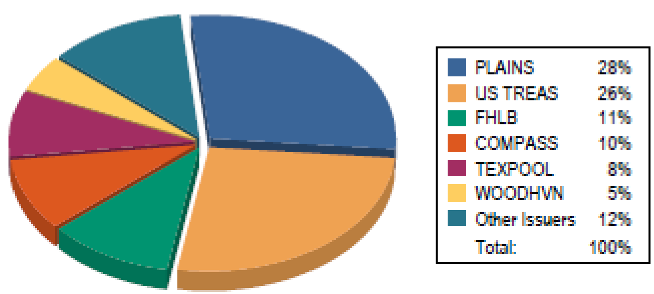
- $ 5,015,069.40 Certificate of Deposit One (General Fund)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $266,721,140.24 as of May 31, 2016.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.558%	108,291,643.49
Special Revenue Funds	0.581%	1,165,518.99
Debt Service Funds	0.497%	38,085,974.99
Capital Projects Funds	0.412%	81,080,867.81
Capital Projects Funds - AFB	0.485%	38,097,134.96
Total	0.495%	$266,721,140.24

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.



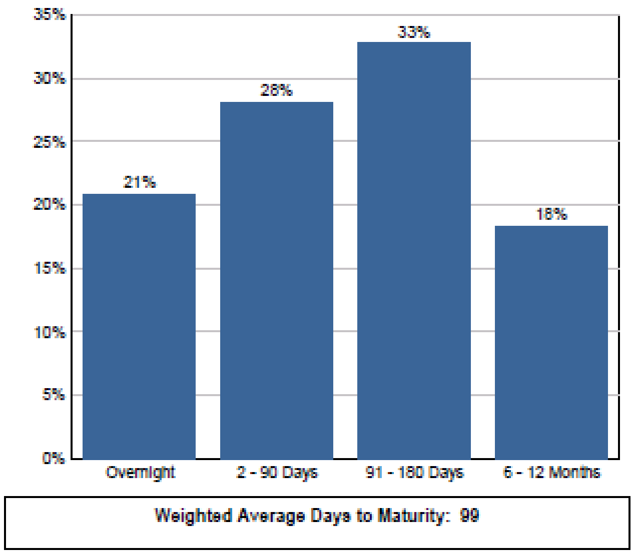
Portfolio Composition by Security Type

Local Government Investment Pool	8%
Certificates of Deposit	40%
Bank Deposit	10%
Agency Bullet	6%
Treasury	26%
AGCY DISCO	9%

Portfolio Composition by Issuer

Texpool	8%
Plains	28%
Compass	10%
FHLB	11%
US Treasury	26%
Other Issuers	12%
Woodhaven	5%

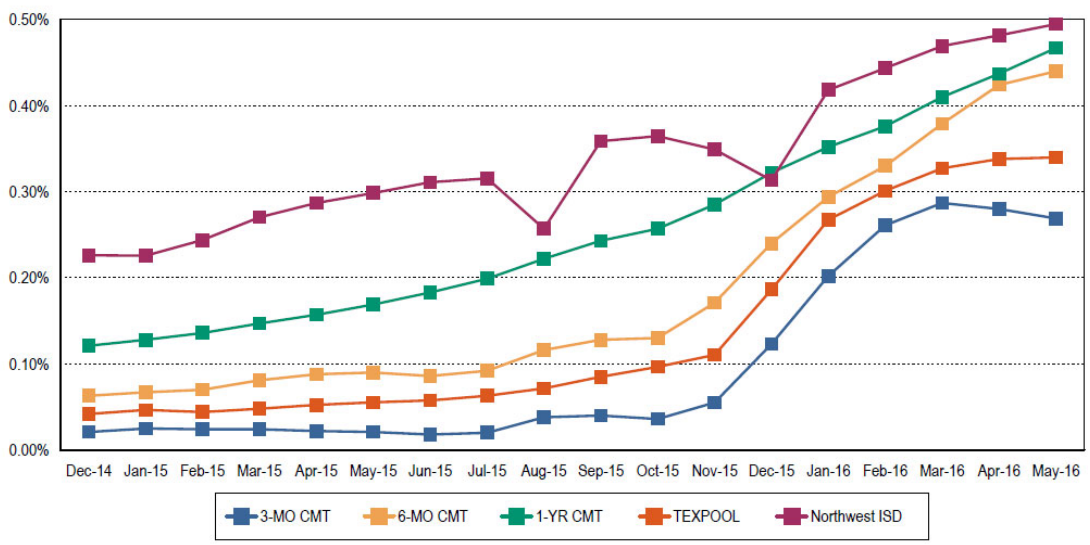
The District portfolio is diversified in terms of **maturity scheduling:**



<u>Maturity Schedule</u>

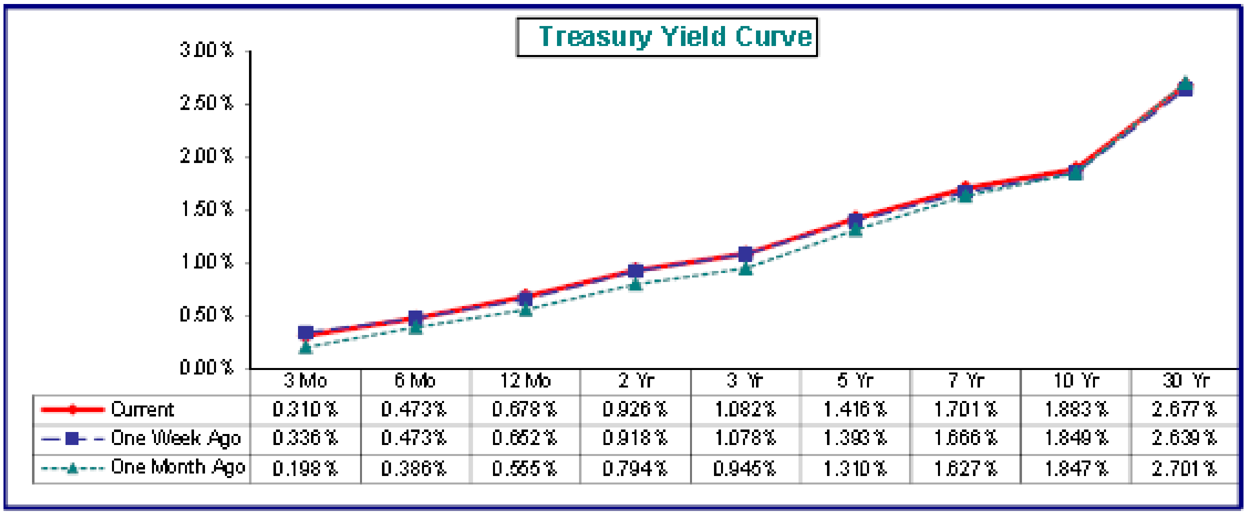
Overnight	21%	$ 55,691,365.26
0 – 3 Months	28%	74,991,115.00
3 –6 Months	33%	84,353,984.72
6 – 12 Months	18%	48,684,675.26

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	0.310%	0.473%	0.678%	0.926%	1.082%	1.416%	1.701%	1.883%	2.677%
One Week Ago	0.336%	0.473%	0.652%	0.918%	1.078%	1.393%	1.666%	1.849%	2.639%
One Month Ago	0.198%	0.386%	0.555%	0.794%	0.945%	1.310%	1.627%	1.847%	2.701%

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

Fed stays close to the vest; money funds show their cards

Mind the Federal Reserve. The market is finally doing so with Brexit, remembering that it is the D.C. Metro that leads to what's important, not the London tube. Those obsessed with the possibility Britain will leave the European Union are realizing the Fed may not be. It's led to a remarkable swing in sentiment, with the market moving from as low as a 5% probability that the Fed will raise rates in June to now around about five times that, and more than 50% probability for a move in July. The shift started midmonth with the release of the April 27 Federal Open Market Committee (FOMC) minutes. These revealed more discussion about a hike than did the original, vague statement. A parade of Fed officials followed, seeming to prepare the market for action, even though the next meeting brushes up against the Brexit vote. The last was Chair Janet Yellen's pre-Memorial Day weekend remarks that a hike could be "appropriate in the coming months."

A hike in summer is a position we have taken for some time, primarily because we take the Fed at its word that it looks at the long development of data and not daily or weekly volatility. Domestic economic statistics have been good: not anything wonderful, but not anything terrible. The Fed likes steady, if slight, improvement. Although inflation at the producer level is still low, core Consumer Price Index came in around 2%, personal consumption expenditures and retail sales are robust, the labor and housing markets remain strong and even manufacturing has been healing. We don't think Brexit matters to policymakers as much as the improving statistics, and a "leave" vote wouldn't be that big of an influence anyway because it will take years to implement all the changes that would entail.

As for the volatility in early 2016 that many (far fewer now) saw as spawned by the Fed's lifting rates off zero, it wasn't the end of the world. The market lived through it. I think policymakers have good cover at this point for a hike. The data released in the next few weeks ahead of the June 15 FOMC meeting would have to be bad to push it later.

In the meantime, we continue to see good returns for prime portfolios. The spread between prime and government portfolios is about 22 basis points across the industry versus a historic average of about 12-13 basis points. This performance has caused some cash managers to hold off moving investments from prime products to govies and it might keep them from ever transferring a substantial portion of their cash. In addition, the London interbank offered rate is still ticking up, if slowly. Investors in prime portfolios are enjoying the yield spread for now. As to their feelings nearer to the Oct. 14 implementation of the new SEC money fund rules, no one knows for sure. But even as the industry endures many operational changes, much money spent and general stress, it might just be that cash managers keep calm and carry on.

Earnings from Temporary Deposits and Investments are $158,481.63 for May and $622,050.65 year-to-date for all funds.

Fund	Month	Year-To-Date
General Fund	$ 53,742.75	$ 300,538.96
Special Revenue Funds	-59.81	2,025.67
Debt Service Funds	6,829.12	95,888.59
Capital Projects Funds	27,068.44	99,814.72
Capital Projects Funds – AFB	70,901.13	123,782.71
Total	$ 158,481.63	$ 622,050.65

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