Northwest Independent School District

P.O. Box 77070 Fort Worth, TX 76177-0070

To: Board of Trustees

From: Ryder Warren, Ed.D., Superintendent of Schools

Subject: June Investment Report

Date: August 8, 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 June 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 June, 2016 will be presented in November after the annual audit is concluded.

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

The following investments matured in June:

- $ 5,022,438.52 Certificate of Deposit One (Capital Projects AFB)
- $ 5,000,000.00 Treasury Note One (General Fund)
- $7,520,213.11 Certificate of Deposit One (Capital Project)

The following investments were purchased in June:

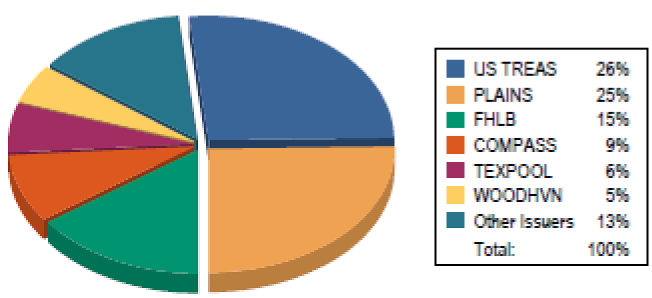
- $ 7,520,471.18 Security-FHLB Three (Capital Project)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $246,423,392.60 as of June 30, 2016.

Fund	Yield to Maturity	Market Value
General Fund	0.579%	94,132,609.40
Special Revenue Funds	0.584%	1,166,438.08
Debt Service Funds	0.497%	38,391,885.72
Capital Projects Funds	0.444%	74,605,617.78
Capital Projects Funds - AFB	0.475%	38,126,841.62
Total	0.509%	$246,423,392.60

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."

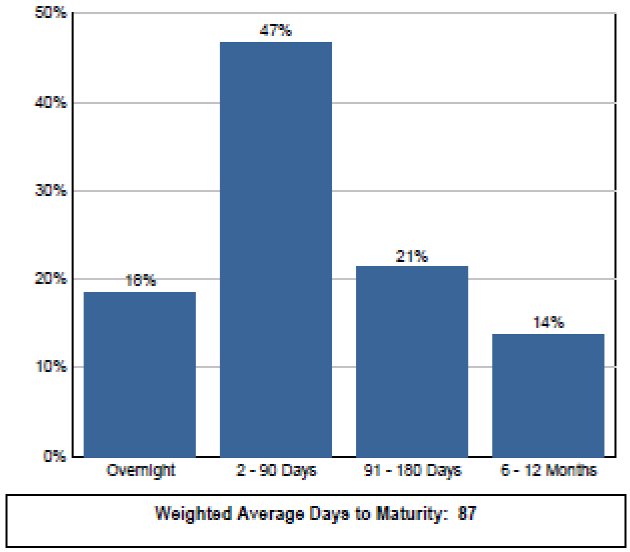
The District portfolio is concentrated in terms of **investment instruments** (Certificates of Deposit). These concerns are addressed by the low risk nature of the certificates of deposit and the maintenance of collateral by the various financial institutions to guarantee the safety of the investments.



Portfolio Composition by Security Type	
Local Government Investment Pool	6%
Certificates of Deposit	39%
Bank Deposit	9%
Agency Bullet	7%
Treasury	26%
AGCY DISCO	12%

Portfolio Composition by Issuer	
Texpool	6%
Plains	25%
Compass	9%
FHLB	15%
US Treasury	26%
Other Issuers	13%
Woodhaven	5%

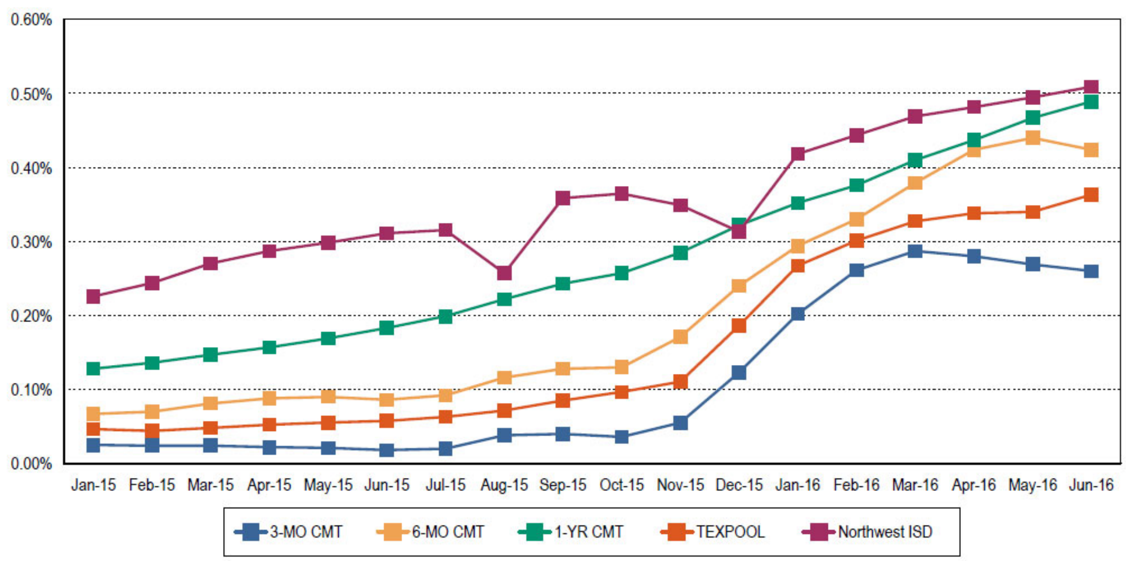
The District portfolio is diversified in terms of **maturity scheduling:**



<u>Maturity Schedule</u>

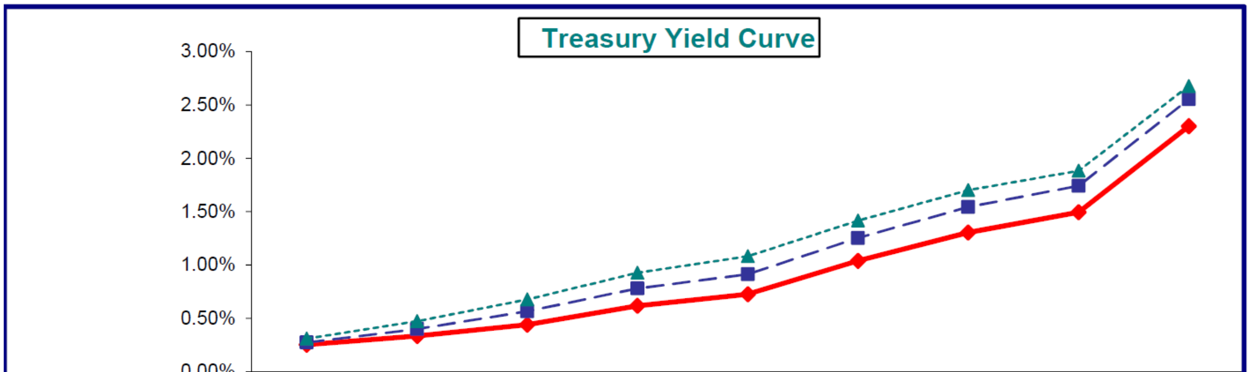
Overnight	18%	$ 45,350,694.60
0 – 3 Months	45%	110,029,910.00
3 –6 Months	23%	57,401,144.79
6 – 12 Months	14%	33,641,673.21

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	0.254%	0.335%	0.442%	0.617%	0.725%	1.037%	1.305%	1.495%	2.300%
One Week Ago	0.274%	0.401%	0.565%	0.779%	0.912%	1.253%	1.543%	1.742%	2.554%
One Month Ago	0.310%	0.473%	0.678%	0.926%	1.082%	1.416%	1.701%	1.883%	2.677%

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

Money funds anchored during Brexit

Of all the nautical slang that has stuck around from the days when Britain ruled the high seas, “Keeping an even keel” most describes how money markets reacted to the shock of Brexit. The Leave vote caused tremendous volatility in the equity markets—plenty of investors abandoning ship—but didn’t produce unusual flows or activity for cash managers. Our dollar and sterling products have behaved normally. It is, of course, often the case that volatility drives investors and brokers to take money out of equities and into money funds, but that didn’t happen in any meaningful way after the unexpected outcome of the referendum. In fact, one way of judging the severity of a financial upheaval is the volume of flows into money funds. The greater the amount, the more serious the panic. So it was no surprise to us that equities rallied only a few days after they plunged in the immediate aftermath of the announcement that the U.K will leave the European Union.

Actually, much of the activity since that announcement can be attributed to the run-up to quarter-end, with its typical reduced supply and higher rates. To be sure, overnight rates were elevated on Friday in part because banks were willing to make repo transactions early in the process due to Brexit. Everyone wanted to make sure they were funded rather than shopping around for a few more basis points. For banks, the winning path for liquidity has traditionally been not to hesitate in obtaining repo capital when there is turmoil and uncertainty, and that was the track most banks took.

But liquidity was never an issue—even participation in the reverse repo facility was not out of the norm. After the shock of the referendum began to dissipate, typical quarter-end pressures clearly became the dominating factor for rates. The Independence Day holiday weekend is a complication, but operations will likely return to business-as-usual July 5. Also, it is important to keep in mind that the U.K.’s extrication from the EU will be a drawn-out process, probably over two years. Nothing is going to happen quickly.

There are several long-term implications of Brexit. Money market funds registered in the U.K. will have to review the situation, but the vast majority are not domiciled there. As is the case with most firms, we will closely monitor and frequently assess the credit of U.K. banks, which we use and will continue to use. If it looks like the world is renegotiating in a way that's problematic for them, we will take that into account as we update our credit views. Then there's the Federal Reserve. Cash managers would love this to be a medium-term and not a long-term issue. The outlook before the British vote was for a September move, and the London interbank offered rate (Libor) reflected that. But the shock of the Leave vote sunk that chance and pushed Libor down.

We have not changed our Weighted Average Maturity (WAM) target ranges and have found value in some longer-dated fixed pieces. However, we think a rate hike is not off the table for 2016, just that the bar has been raised considerably. If the U.S. labor market returns to its recent strength and other economic data impresses, the Fed could well navigate through the headwinds.

Earnings from Temporary Deposits and Investments are $79,167.50 for June and $701,218.15 year-to-date for all funds.

Fund	**Month**	**Year-To-Date**
General Fund	$ 22,393.67	$ 322,932.63
Special Revenue Funds	-58.19	1,967.48
Debt Service Funds	6,639.47	102,528.06
Capital Projects Funds	26,018.12	125,832.84
Capital Projects Funds – AFB	24,174.43	147,957.14
Total	$ 79,167.50	$ 701,218.15

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Ryder Warren, Ed.D., Superintendent

Jon Graswich, CPA, Associate Superintendent for Business and Operations