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:	January Financial and Investment Report
Date:	February 27, 2017

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 January 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 January, 2017.

The Investment Report, prepared by the District's investment advisors, First Southwest Asset Management, Inc., encompasses the month ending January 2017, and is submitted in accordance with the provisions of the Public Funds Investment Act.

The following investments matured/sold in January:

- $ 7,150,000 Securities One (Interest and Sinking)

The District purchased the following investments in January:

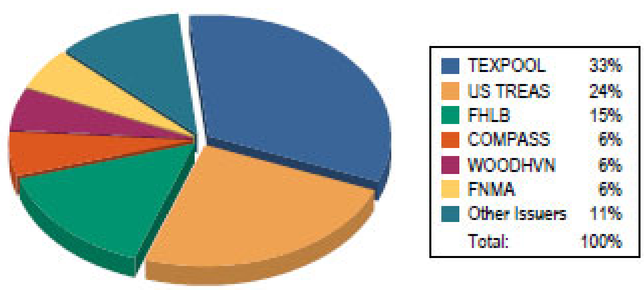
- $ 7,552,036.94 Securities Three (Capital Projects AFB)
- $ 50,099,637.57 Securities Five (General Fund)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $225,830,915.87 as of January 31, 2017.

Fund	Yield to Maturity	Market Value
General Fund	0.640%	101,637,125.19
Special Revenue Funds	0.609%	1,164,794.72
Debt Service Funds	0.560%	50,405,817.02
Capital Projects Funds	0.615%	33,969,016.78
Capital Projects Funds - AFB	0.736%	38,654,162.16
Total	0.634%	$225,830,915.87

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."

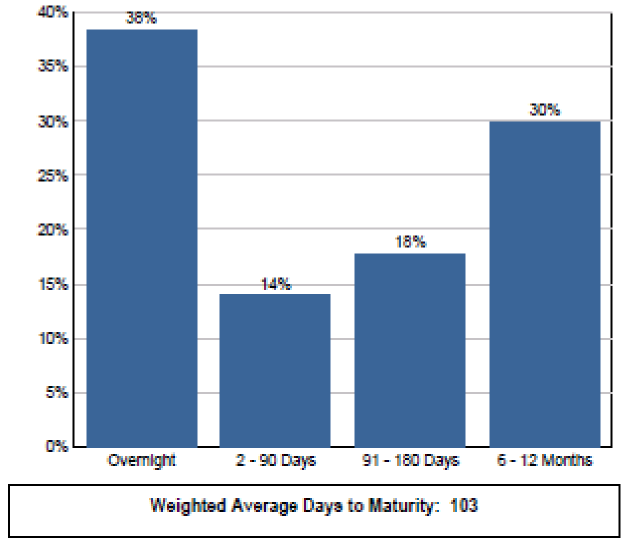
The District portfolio is concentrated in terms of **investment instruments** (Certificates of Deposit). These concerns are addressed by the low risk nature of the certificates of deposit and the maintenance of collateral by the various financial institutions to guarantee the safety of the investments.



Portfolio Composition by Security Type	
Local Government Investment Pool	33%
Certificates of Deposit	12%
Bank Deposit	6%
Agency Bullet	21%
Treasury	24%
Agency Disco	4%

Portfolio Composition by Issuer	
Texpool	33%
FHLMC	15%
Compass	6%
FNMA	6%
US Treasury	24%
Other Issuers	11%
Woodhaven	6%

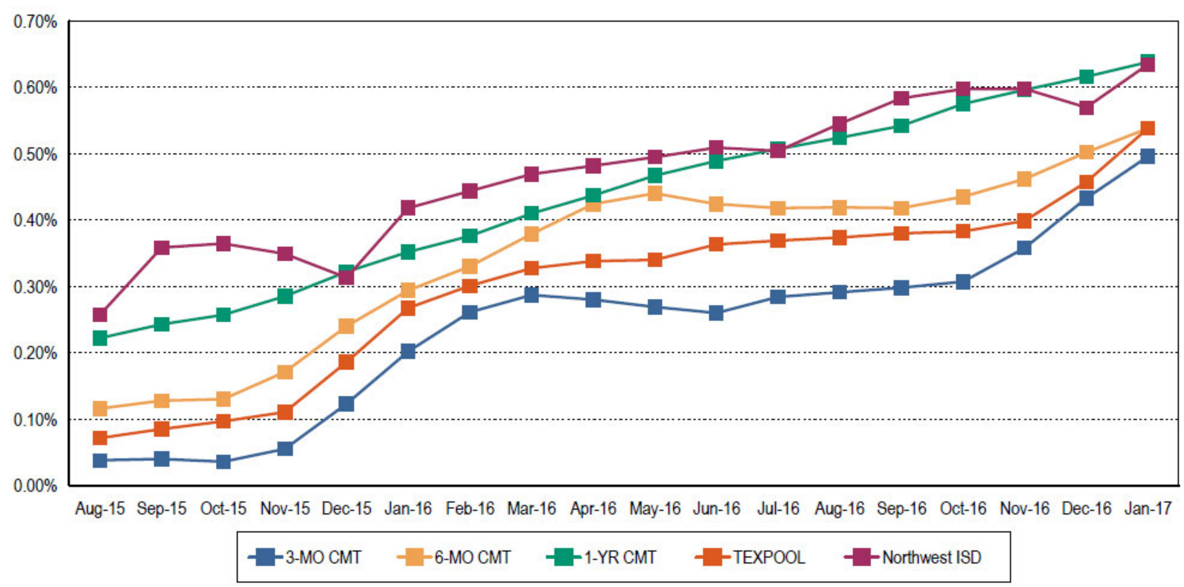
The District portfolio is diversified in terms of **maturity scheduling:**



<u>Maturity Schedule</u>

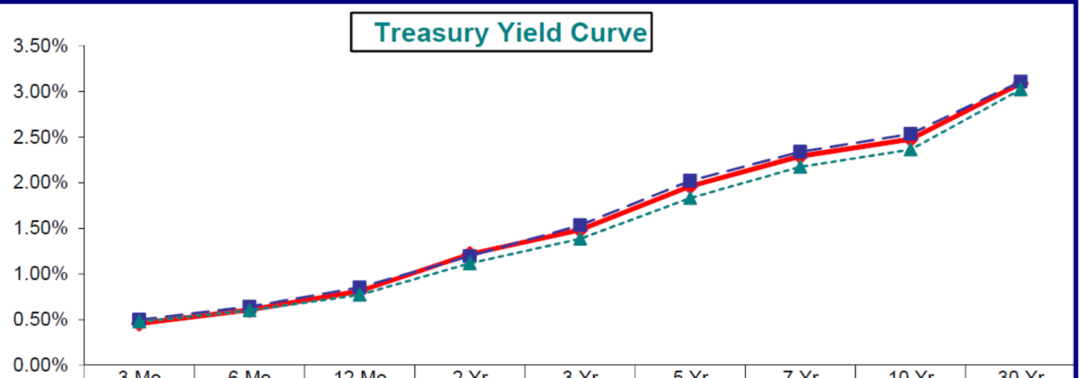
Overnight	38%	86,705,624.91
0 – 3 Months	14%	31,464,987.09
3 –6 Months	18%	40,042,048.40
6 – 12 Months	30%	67,618,255.47

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	0.457%	0.605%	0.811%	1.218%	1.484%	1.962%	2.291%	2.479%	3.089%
One Week Ago	0.497%	0.641%	0.852%	1.197%	1.534%	2.023%	2.339%	2.535%	3.110%
One Month Ago	0.477%	0.600%	0.770%	1.115%	1.384%	1.832%	2.173%	2.363%	3.022%

The **TexPool Economic & Market Commentary for February, 2017**, notes that,

2017 Outlook

The dots may have just run into reality. That's our take on the Federal Reserve's economic projections released at December 2016's Federal Open Market Committee meeting. The dot plot implied the Fed could be compelled to hike the target federal funds rate three times this year. We have taken a more conservative stance, still expecting only two moves, in March and September, with a third only as a possibility in December.

It's all well and good that the dots showed policymakers optimistic about how the U.S. economy will fare this year. Chair Janet Yellen and other officials' rhetoric also points in that direction. Cash managers such as us would certainly love for the positive momentum to translate into wage gains and increased prices that could push inflation to the Fed's 2% inflation target, and provide a bump in yield in the process. But we see enough uncertainty in the economic and political spheres to question that this will happen.

Simply put, economic statistics have not been bad but they have not been great, either. In January the housing market had some regional pockets of strength and regional pockets of slowdown. That makes sense because with an increase in rates, there are fewer new home sales and not as many housing starts. Retail sales were OK, but not anything to write home about. That's especially troubling considering the holiday-driven consumer activity expected every December and January. On the other hand, inflation does appear to be TexPool Participant Services Managed and picking up a bit. The consumer price index (CPI) is squarely above 2% at this point, the producer price index (PPI) is approaching 2% and the personal consumption expenditures index (PCE)—data Yellen is said to pay particular attention to—now hovers near that mark. Increasing inflation isn't bad, as long as it is orderly and is accompanied by measured gross domestic product (GDP) growth. But we are not convinced we are going to see enough to trigger a third move, and, again, economic data has been mixed lately.

Then you have the political wild cards. While these may not have a huge impact economically, the more that people and business leaders get caught up in expecting the unexpected, the less likely they are going to reach in terms of investing or planning for the future. You can see that easily enough in the stock market, which hit great heights last week but has tanked given the past weekend's crisis around President Trump's executive order on immigration. In fact, what happened has clarified to us that the next four years are not going to be 100% rosy. Since the election, the markets have tended to focus on the positive economic implications of Trump's potential policies. But now there is more of a realization that not all of these necessarily will be positive. In fact, some of his actions could lead to global fallout that could be detrimental to the U.S., especially if a trade war ensues. It is more of a balanced picture now, which solidifies our conviction that the Fed will undertake only two moves and not necessarily three in 2017. The short end of the London interbank offered rate (Libor) curve remained elevated during January, with 3- and 6-month Libor bumping up around 4 basis points to 1.04% and 1.35%, respectively.

Earnings from Temporary Deposits and Investments are $145,119.99 for January and $929,478.47 year-to-date for all funds.

Fund	Month	Year-To-Date
General Fund	$ 46,270.37	$ 339,052.46
Special Revenue Funds	-32.35	3,398.98
Debt Service Funds	80,924.72	133,959.00
Capital Projects Funds	4,527.32	308,340.23
Capital Projects Funds – AFB	13,429.93	141,727.80
Total	$ 145,119.99	$ 926,478.47

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Ryder Warren, Ed.D., Superintendent

Jon Graswich, CPA, Associate Superintendent for Business and Operations