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:	October Financial and Investment Report
Date:	November 14, 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 October 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 October, 2016.

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

The following investments matured in October:

- $ 5,040,947.35 Certificate of Deposit One (Capital Projects AFB)
- $ 2,500,000.00 Security One (Capital Project)
- $ 10,000,000.00 Treasury Note One (Operating)

The following investments were purchased in October:

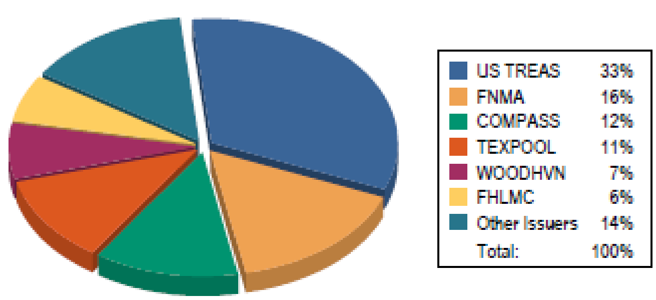
- $ 5,042,238.13 Certificate of Deposit One (Capital Projects AFB)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $168,454,797.98 as of October 31, 2016.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.642%	53,878,705.73
Special Revenue Funds	0.587%	1,165,671.65
Debt Service Funds	0.603%	22,365,485.46
Capital Projects Funds	0.554%	52,367,046.00
Capital Projects Funds - AFB	0.591%	38,677,889.14
Total	0.597%	$168,454,797.98

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."

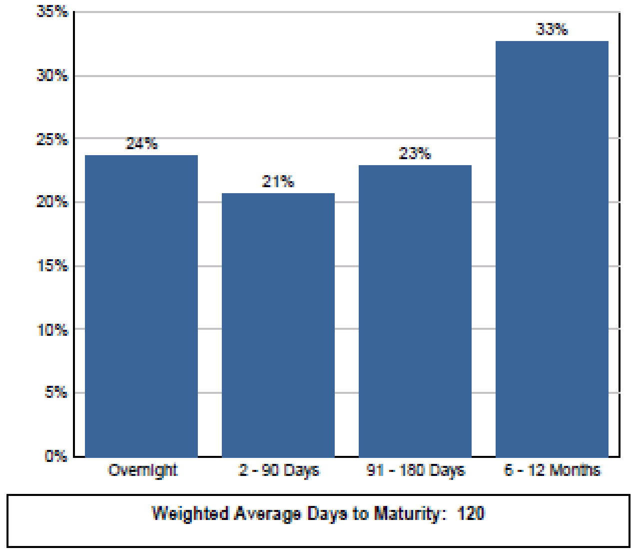
The District portfolio is concentrated in terms of **investment instruments** (Certificates of Deposit). These concerns are addressed by the low risk nature of the certificates of deposit and the maintenance of collateral by the various financial institutions to guarantee the safety of the investments.



Portfolio Composition by Security Type	
Local Government Investment Pool	11%
Certificates of Deposit	16%
Bank Deposit	12%
Agency Bullet	26%
Treasury	33%
AGCY DISCO	1%

Portfolio Composition by Issuer	
Texpool	11%
FHLMC	6%
Compass	12%
FNMA	16%
US Treasury	33%
Other Issuers	14%
Woodhaven	7%

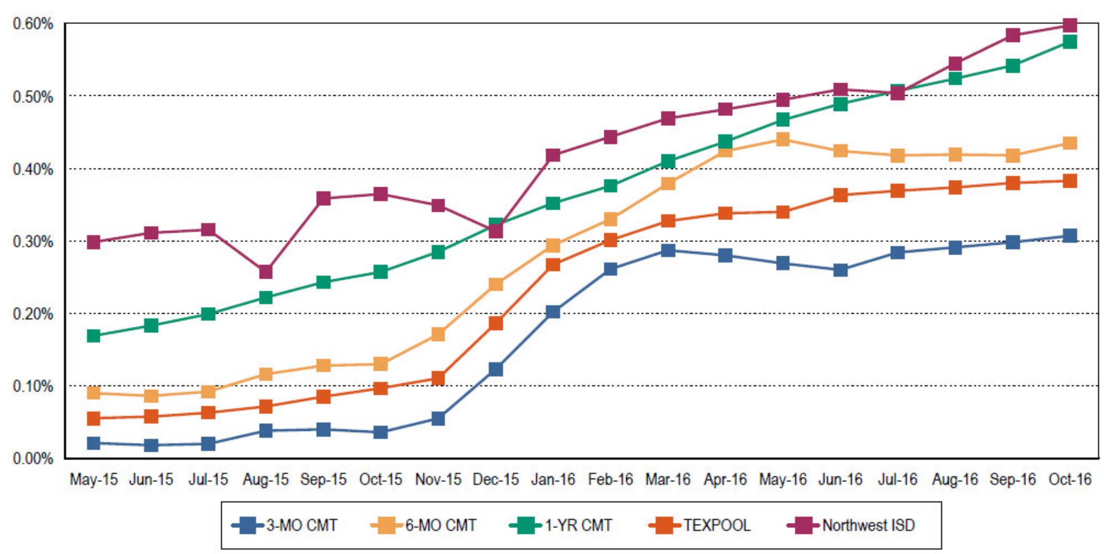
The District portfolio is diversified in terms of **maturity scheduling:**



Maturity Schedule

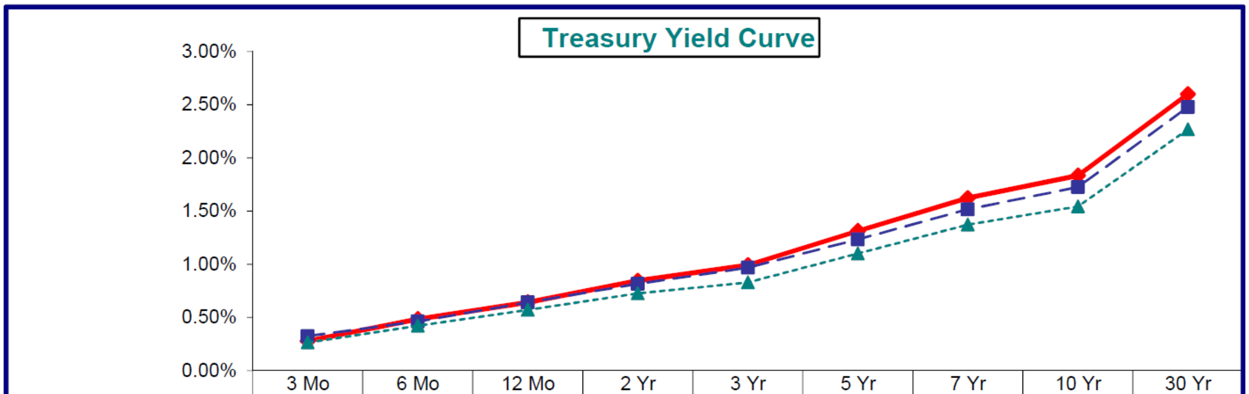
Overnight	24%	39,930,144.34
0 – 3 Months	21%	34,754,182.18
3 –6 Months	23%	38,625,138.39
6 – 12 Months	33%	55,145,333.07

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	0.279%	0.483%	0.642%	0.845%	0.992%	1.312%	1.623%	1.834%	2.599%
One Week Ago	0.325%	0.462%	0.642%	0.815%	0.968%	1.233%	1.516%	1.726%	2.478%
One Month Ago	0.264%	0.422%	0.570%	0.726%	0.829%	1.101%	1.373%	1.543%	2.267%

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

Moving forward with gusto

The money market sector just had its Y2K event.

Turns out nothing in the financial sphere shut down, malfunctioned or blew up the morning of Oct. 14, the date by which institutional prime and tax-free funds had to adopt a floating NAV. There wasn't a need for a flurry of media calls or panicked client calls or systematic disruption. Actually, Oct. 14 was also similar to Y2K in that preparation paid off. We at Federated worked very hard to make the transition smooth. It also helped that some firms went to the floating NAV ahead of the deadline, alleviating the pressure.

Bottom line is that the cash-management industry is still here and going strong despite the SEC reforms. We are thrilled to finally get back to what we do best: preserving client assets while pursuing the best return. It is important to realize that, while the industry underwent a seismic change in which $1.1 trillion moved from prime and muni funds into government funds, nearly all of that money remained in the money market space. It still has $2.6-$2.7 trillion in total assets under management. Our floating NAV funds have not deviated from the new four-decimal point reporting mandate, meaning shares have retained their value of $1.0000. A few other companies' funds did, but it was due to late asset flows, not to any market-wide movement.

So it wasn't a sigh you heard from Federated offices on Oct. 14, it was a collective inhale as we jump into the new world with enthusiasm. And there are plenty of good reasons for it.

One is that we are now able to push our prime funds' weighted average maturity (WAM) back out to where we have traditionally had it: in the 40-50 day range. This is good news in itself because it means our assets have stabilized. The main reason we had to shorten it to single digits was to make sure we had ample liquidity to handle redemptions.

Second, it means we can again work toward trading for our prime institutional and prime retail funds on the basis of value from offerings in the marketplace, not just to tread water with ready assets. Extending WAM—that is buying paper and instruments with longer maturities based on the London interbank offered rate (Libor)—typically leads to better yields.

Third, Libor is greatly elevated over its recent past, actually in large part because of the reform. Libor's steepness reflects the drastic cash-flow out of institutional prime products. Less demand for prime paper means issuers have to offer more enticing rates and leads to a higher spread between prime and government funds (around 45 basis points at present). Of course, the spread is also large because the Treasury curve is so low due to the heightened demand for Treasuries and government agencies. However, we feel the spread in the marketplace will be too great for people to ignore, and that a good portion of money sitting in govie products that legally can be invested in floating NAV products eventually will return to the prime space. That will take some time, meaning there likely will be an extended period of elevated spreads for prime products, as investors and managers see how the floating NAV funds operate.

Finally, the Federal Reserve seems ready to raise rates, especially with the recent rebound in U.S. GDP in the third quarter. That would lift the yield on government funds, which would be a boon to everyone, especially our clients that moved into govies. A hike probably won't happen at this week's policymaking meeting because of its proximity to the presidential election. But we think it will take place in December, moving up 25 basis points to a 00.50-00.75% range.

There is no denying adapting to the reforms was a long and rough road for both clients and managers. But it didn't lead to calamity, and the future looks bright.

Earnings from Temporary Deposits and Investments are $36,979.09 for October and $510,529.81 year-to-date for all funds.

Fund	**Month**	**Year-To-Date**
General Fund	$ 46,737.49	$ 196,268.75
Special Revenue Funds	-54.08	3,528.68
Debt Service Funds	-3,226.46	55,641.18
Capital Projects Funds	4,218.33	239,861.72
Capital Projects Funds – AFB	-10,696.19	15,229.48
Total	$ 36,979.09	$ 510,529.81

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Ryder Warren, Ed.D., Superintendent

Jon Graswich, CPA, Associate Superintendent for Business and Operations