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: September Financial and Investment Report

Date: October 24, 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 September 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 September, 2016.

The Investment Report, prepared by the District's investment advisors, First Southwest Asset Management, Inc., encompasses the month ending September, 2016, 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 September 30, 2016.

The following investments matured in September:

- $ 5,037,384.05 Certificate of Deposit One (Capital Projects AFB)
- $ 37,661,250.00 Certificate of Deposit One (Capital Project)
- $ 10,000,000.00 Treasury Note One (Operating)

The following investments were purchased in September:

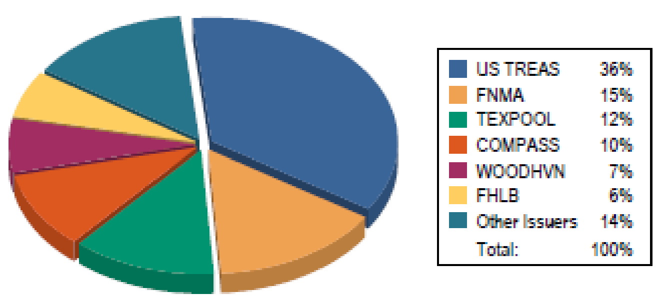
- $ 5,009,738.80 Agency Bullet One (Capital Projects AFB)
- $ 30,125,949.02 Securities Six (Capital Projects)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $181,747,551.88 as of September 30, 2016.

Fund	Yield to Maturity	Market Value
General Fund	0.627%	64,819,337.04
Special Revenue Funds	0.586%	1,165,661.11
Debt Service Funds	0.605%	22,158,154.49
Capital Projects Funds	0.547%	54,917,044.43
Capital Projects Funds - AFB	0.551%	38,687,354.81
Total	0.584%	$181,747,551.88

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.



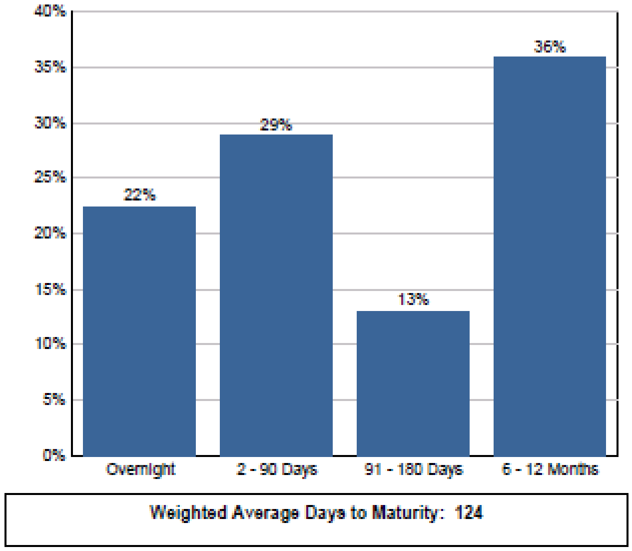
Portfolio Composition by Security Type

Local Government Investment Pool	12%
Certificates of Deposit	15%
Bank Deposit	10%
Agency Bullet	24%
Treasury	36%
AGCY DISCO	3%

Portfolio Composition by Issuer

Texpool	12%
FHLB	6%
Compass	10%
FNMA	15%
US Treasury	36%
Other Issuers	14%
Woodhaven	7%

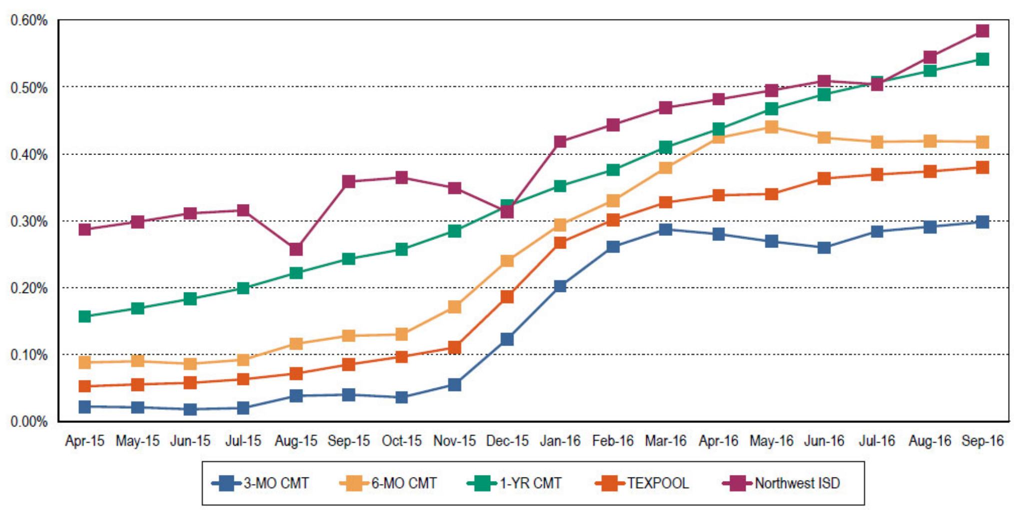
The District portfolio is diversified in terms of **maturity scheduling:**



<u>Maturity Schedule</u>

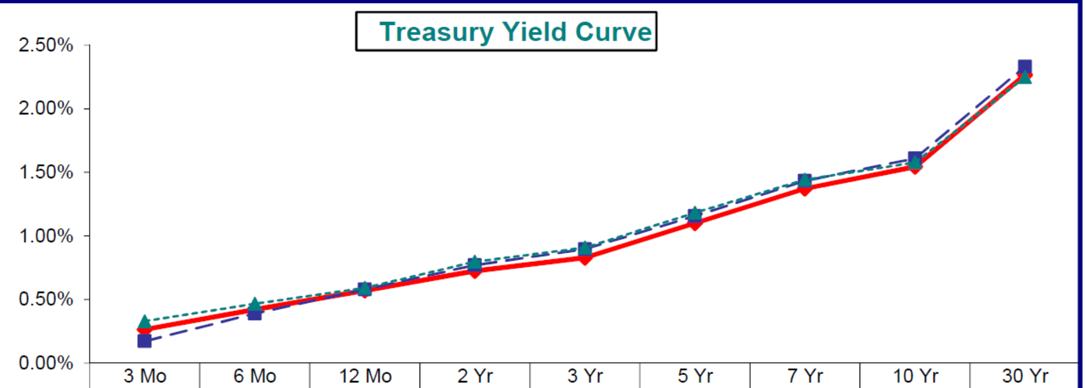
Overnight	22%	40,693,830.48
0 – 3 Months	29%	52,317,925.52
3 –6 Months	13%	23,622,585.94
6 – 12 Months	36%	65,113,209.94

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	0.264%	0.422%	0.570%	0.726%	0.829%	1.101%	1.373%	1.543%	2.267%
One Week Ago	0.172%	0.391%	0.580%	0.770%	0.896%	1.158%	1.434%	1.610%	2.332%
One Month Ago	0.330%	0.467%	0.591%	0.797%	0.908%	1.182%	1.443%	1.577%	2.248%

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

The lion's share of investor and media focus this month is on the SEC money fund reforms. But for cash managers and institutional investors, October's also the month in which institutional prime and municipal funds can finally get back to acting like themselves as the industry serves notice it is just as robust as before the reforms.

After weeks of shortening the maturity dates of securities we buy to ensure ample liquidity for the prime clients moving assets to government funds due to the floating net asset value (NAV) requirement, portfolio managers can now reacquaint themselves with attractive spreads and the good ol' London interbank offered rate (Libor). We can go back to making purchasing decisions based on relative value and not just liquidity. At Federated, this means that instead of having weighted average maturities (WAM) of, say, nine days, we will go back to targeting 40-50 days. Yields should follow, potentially jumping from the single digits to a 40-50 basis-point spread. This is all possible because the Libor curve is far above the Treasury curve.

During the run up to the reforms, institutional prime investors and managers have watched in envy as all sorts of non-2a-7 investors—local government investment pools (LGIPs), private accounts, collective accounts, offshore accounts, separately managed accounts and more—capture these spreads. But now they will finally get to take advantage of what is an extremely attractive prime money market yield curve. It is not going to happen overnight, of course, because of the need to be diversified. But over some short period of time, the expectation is that prime 2a-7 funds will start to emulate prime non-2a-7 funds.

What about Libor itself? We think it will remain at current elevated levels through at least the end of this year, and most likely much of 2017.The peak of the curve has probably passed us already, but it is not going to trend down quickly because the assets that have shifted to the government space can't fund around that curve. It is going to take issuers offering robust yields and returns to entice some of those assets back, and that is going to happen in a slow manner. Also, there are clients legally able to use a floating NAV fund that has the potential for gates and fees, but none of them want to be the guinea pig. I think they will watch how much the fourth digit in the floating NAV moves (i.e., the last digit in the $1.0000 reporting requirement) before acting. Does it move daily, or just once in a while? What are the reasons for a move?

Speaking of moves, the Fed again did not do so at its latest policy-setting meeting in September, but it edged closer to one. That's not just because of the hawkish language of its statement, but that there were three dissenters, which is unusual in a voting group of just 10. We think the elections will be kept in mind and look to the December meeting for a hike.

Looking at the money market industry as a whole, it is important to point out that far from demolishing money funds as many experts thought, at the end of the day the industry and Federated's total assets under management in this class of securities is basically identical to what it was before the reforms. What has changed is the components. Government funds grew; municipal and prime funds shrunk. Assets will shift back between these sectors, but not to the sizes they once totaled. But all told, the industry is healthy and continues to provide a diverse set of desired offerings to investors. We at Federated are certainly thrilled to go back to tending our own complete offering of money market products and to continue being a leader in cash management.

Earnings from Temporary Deposits and Investments are $222,699.90 for September and $473,550.72 year-to-date for all funds.

Fund	**Month**	**Year-To-Date**
General Fund	$ 56,308.60	$ 149,531.26
Special Revenue Funds	-56.23	3,582.76
Debt Service Funds	-3,298.04	58,867.64
Capital Projects Funds	170,974.61	235,643.39
Capital Projects Funds – AFB	-1,229.04	25,925.67
Total	$ 222,699.90	$ 473,550.72

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Ryder Warren, Ed.D., Superintendent

Jon Graswich, CPA, Associate Superintendent for Business and Operations