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:	November Financial and Investment Report
Date:	January 9, 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 November 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 November, 2016.

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

The following investments matured/sold in November:

- $ 9,735,000.00 Securities Two (Capital Projects AFB)
- $ 17,569,438.26 Securities Four (Capital Project)
- $ 20,000,000.00 Treasury Note Two (Operating)

The following investments were purchased in November:

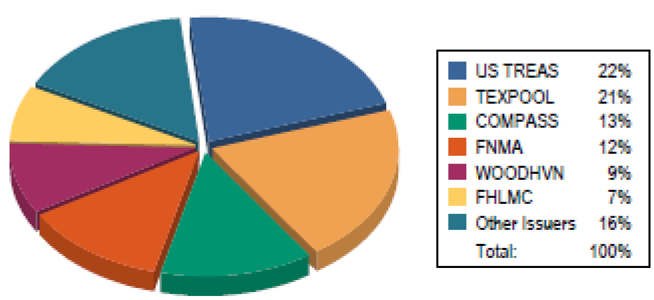
- $ 10,030,542.76 Securities Two (Capital Projects AFB)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $137,807,887.12 as of November 30, 2016.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.630%	37,733,884.29
Special Revenue Funds	0.589%	1,165,423.62
Debt Service Funds	0.592%	23,860,330.92
Capital Projects Funds	0.507%	36,394,110.76
Capital Projects Funds - AFB	0.655%	38,654,137.53
Total	0.598%	$137,807,887.12

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."

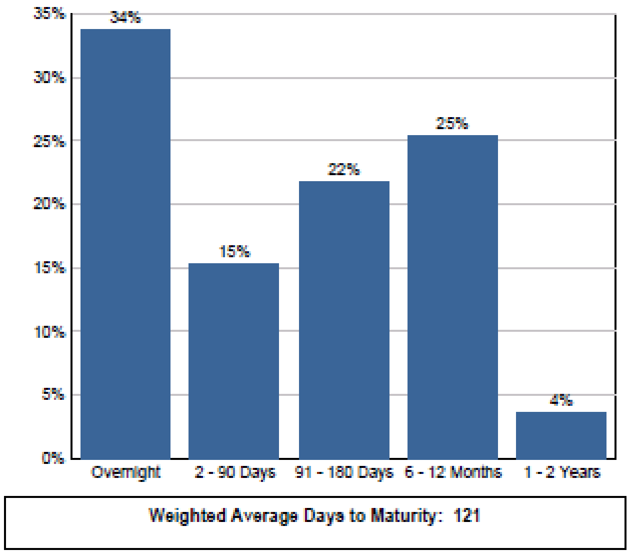
The District portfolio is concentrated in terms of **investment instruments** (Certificates of Deposit). These concerns are addressed by the low risk nature of the certificates of deposit and the maintenance of collateral by the various financial institutions to guarantee the safety of the investments.



Portfolio Composition by Security Type	
Local Government Investment Pool	21%
Certificates of Deposit	20%
Bank Deposit	13%
Agency Bullet	24%
Treasury	22%

Portfolio Composition by Issuer	
Texpool	21%
FHLMC	7%
Compass	13%
FNMA	12%
US Treasury	22%
OtherIssuers	16%
Woodhaven	9%

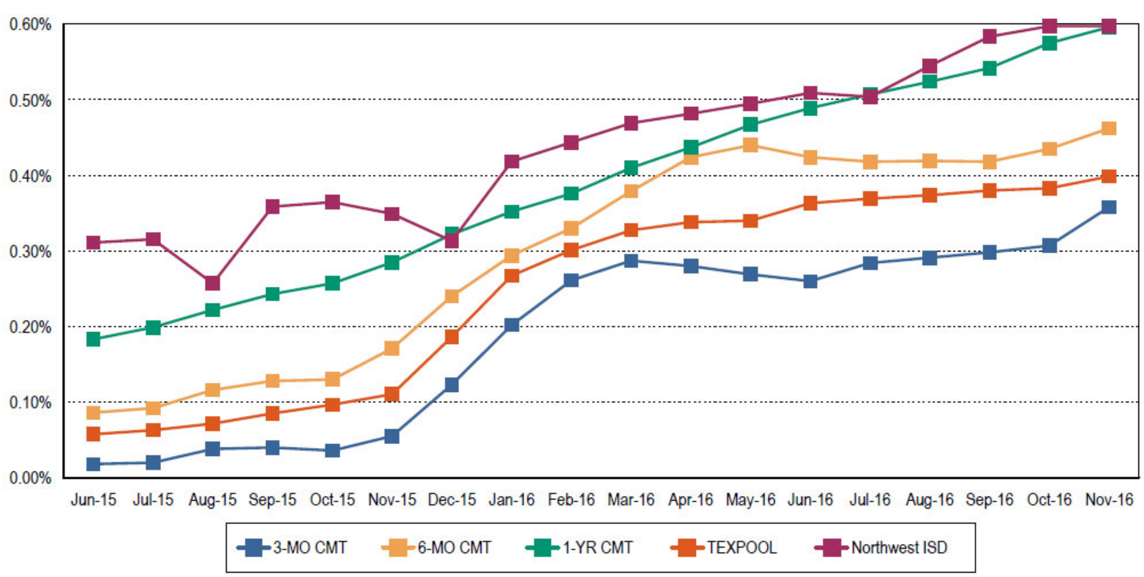
The District portfolio is diversified in terms of **maturity scheduling:**



Maturity Schedule

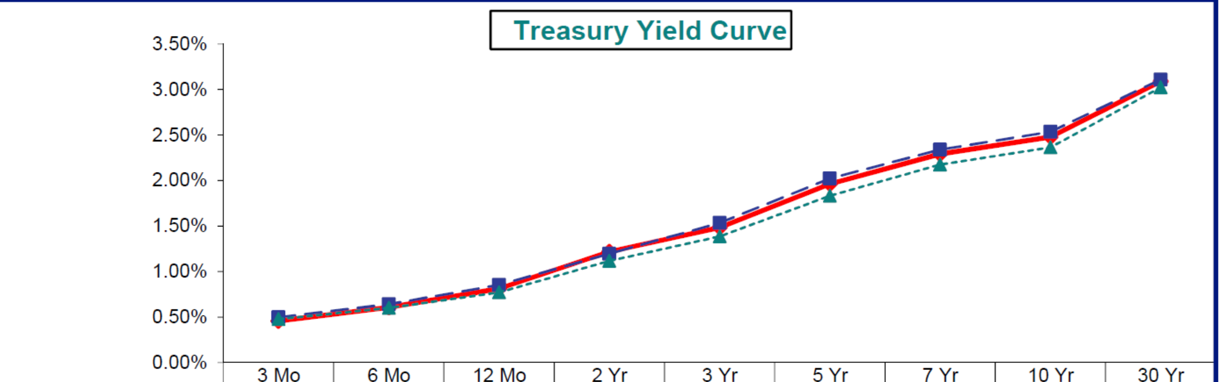
Overnight	34%	46,583,068.25
0 – 3 Months	15%	21,125,232.34
3 –6 Months	22%	30,048,078.40
6 – 12 Months	29%	40,051,508.13

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 December, 2016**, notes that,

Hiking expectations for hikes

November brought more than a few uncertainties to the fore following the election of Donald Trump, but we were surprised that many included a rate hike as one of them. At the time, we said that after Thanksgiving, cooler heads would prevail and that the market eventually would again start building in a December Federal Reserve move, one we remained quite bullish on. Turns out, it didn't even take that long. The implied probability of the Fed raising rates jumped back even before the holiday. Fed futures are now nearly unanimous in expecting a 25 basis point increase in the target fed funds range at this point. There would have to be a calamity in the world for this not to happen. Every Fed governor who has spoken publically, including Chair Yellen recently in front of Congress, has essentially said this.

We also expect the Dec. 14 Federal Open Market Committee (FOMC) meeting to raise expectations of future action. As you know, on several occasions in 2016 policymakers reduced their projections for the number of times they would raise rates this year and next. We think the improving U.S. economy and the likelihood for fiscal stimulus from the Trump administration, in whatever form it takes, will lead to higher growth, inflation and rates. This scenario won't play out until at least mid-2017, but expectations are growing for three hikes instead of two. If the latter, it would probably be one in March and September. Cash managers' main instruments, including Treasuries, agencies and commercial paper, already are beginning to price that in.

TexPool Participant Services Managed and All of this, of course, is good news from a return perspective for money market funds. And it is important to keep in mind that total return is now the gauge of performance for institutional prime money market funds rather than just yield, which has the potential to change slightly because prime funds now float their shares' net asset value (NAV).

On this subject, hardly a day goes by that someone doesn't ask us if the Trump administration's pledge to reduce regulation would apply to the reforms of Rule 2a-7 that forced a floating NAV. We don't see it. The focus likely will be on changes that have not yet occurred, such as the recently announced Department of Labor fiduciary rule or some Dodd-Frank requirements not yet enacted.

What about the Fed? We doubt the leadership makeup will change midstream. Janet Yellen will be chair until her term ends in early 2018, although she probably won't be re-elected. However, new FOMC voting members will come into play in 2017 who should turn what is a currently dovish membership to one more balanced with some definite hawks in it. This would continue the theme of higher rates and a pro-growth, normalized inflation environment.

We continue to keep our target weighted average maturity (WAM) at 40-50 days. This may seem a little long of a position in a rising-rate environment, but the yield curve is steep and offering such value. The London interbank offered rate (Libor) curve rose over the month of November: one-month Libor increased from 0.53% to 0.62%, three month from 0.89% to 0.93% and six-month from 1.26% to 1.64%.

Earnings from Temporary Deposits and Investments are $210,962.03 for November and $721,491.84 year-to-date for all funds.

Fund	**Month**	**Year-To-Date**
General Fund	$ 82,264.78	$ 278,533.53
Special Revenue Funds	-53.64	3,475.04
Debt Service Funds	-2,920.85	52,720.33
Capital Projects Funds	40,355,57	280,217.29
Capital Projects Funds – AFB	91,316.17	106,545.65
Total	$ 210,962.03	$ 721,491.84

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Ryder Warren, Ed.D., Superintendent

Jon Graswich, CPA, Associate Superintendent for Business and Operations