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: May Financial and Investment Report

Date: June 26, 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 May 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 May, 2017.

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

The following investments matured/sold in May:

- $5,043,564.82 Certificate of Deposit One (General Fund)
- $5,000,000.00 Securities One (Capital Projects)

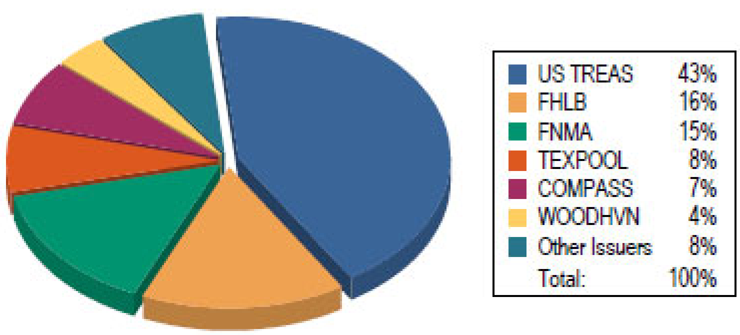
The District did not purchase any investment in May.

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $192,903,646.85 as of May 31, 2017.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.761%	$ 95,848,940.35
Special Revenue Funds	0.824%	1,662,841.64
Debt Service Funds	0.784%	42,675,569.75
Capital Projects Funds	0.931%	14,122,150.99
Capital Projects Funds - AFB	0.742%	38,594,144.12
Total	0.775%	$192,903,646.85

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."

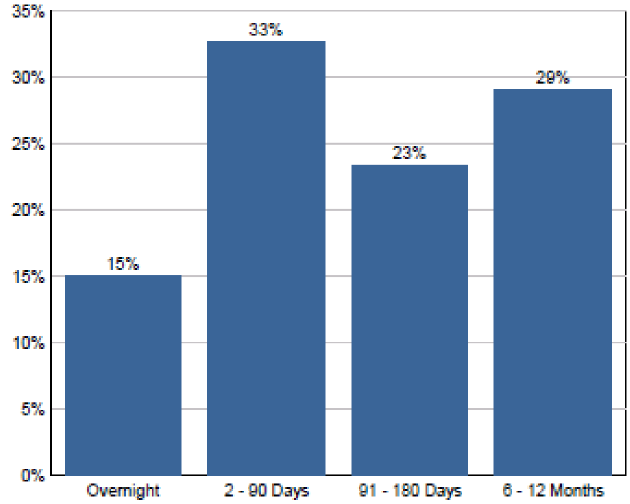
The District portfolio is diversified in terms of **investment instruments**.



Portfolio Composition by Security Type	
Local Government Investment Pool	8%
Certificates of Deposit	9%
Bank Deposit	7%
Treasury	43%
Agency Bullet	28%
Agency Disco	5%

Portfolio Composition by Issuer	
Treasury	43%
FHLB	16%
FNMA	15%
Compass	7%
TexPool	8%
Woodhaven	4%
Other Issuers	8%

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

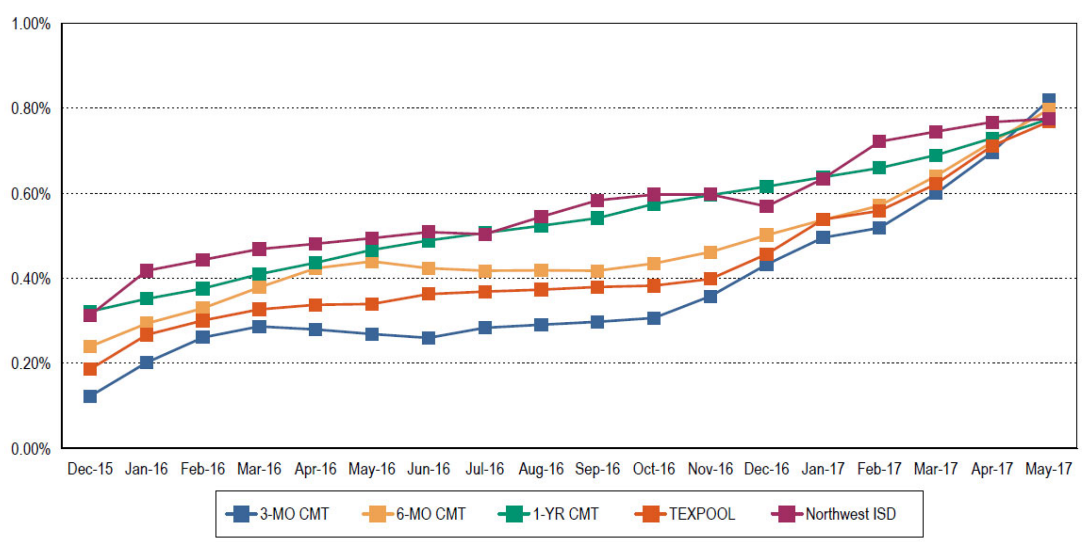


Weighted Average Days to Maturity: 119

Maturity Schedule

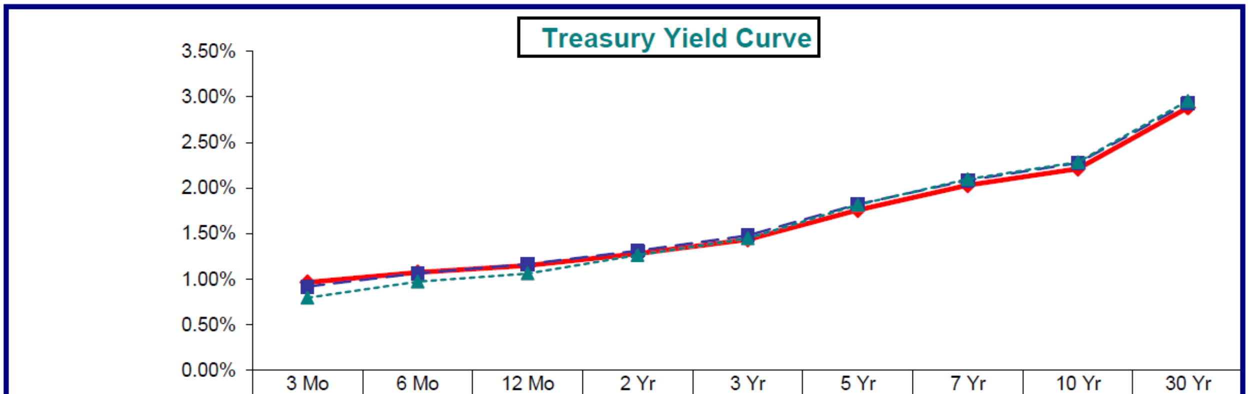
Overnight	15%	$ 28,858,632.53
0 – 3 Months	33%	$ 62,979,642.00
3 –6 Months	23%	$ 45,034,917.37
6 – 12 Months	29%	$ 56,030,454.95

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	0.966%	1.075%	1.150%	1.282%	1.435%	1.760%	2.031%	2.213%	2.883%
One Week Ago	0.920%	1.065%	1.166%	1.312%	1.481%	1.823%	2.087%	2.275%	2.931%
One Month Ago	0.797%	0.973%	1.063%	1.266%	1.448%	1.817%	2.099%	2.284%	2.958%

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

When $1 ≠ $1

As money market reform neared last year, many investors voiced concern about the possibility that the fl oating net asset value (FNAV) of institutional prime and tax-free money funds could slip below $1, or more specifi cally below the new $1.0000 reporting standard. Unlike stable NAV products, these institutional fund shares could lose actual value.

It was a legitimate worry, of course. But it turns out that since the recent reforms, FNAVs across the money market fund industry largely have been fractionally above $1 (most coming in the fourth decimal place). That has led to a common question: Are we required to manage our funds to pull these FNAVs down to $1.0000? The answer is simply no.

The confusion is understandable. For decades the tenet of money funds has been that shares remain at a dollar, with managers permitted to round by the penny to stay there. There is no such restriction for institutional prime and municipal money funds. Their FNAVs can end each trading day higher or lower than $1.0000, increasing or decreasing total return.

So, we don't set out to exceed a dollar; it is just a function of how we manage. We make decisions based on our fundamental research about the credit of the issuers, our economic outlook and our predictions for Federal Reserve policy. That can result in FNAV appreciation or depreciation. But we don't consider the former a positive or the latter a negative—just the result of what value the market is providing at that time. That being said, it would take a major market moving event to pull the currently elevated FNAVs down significantly. Movement either way likely will be gradual.

Why have FNAVs risen in the first place? Usually when interest rates rise, prices go down. We think it's been due to a combination of the dramatic appreciation of floating-rate securities in late 2016 and early 2017, and enlarged spreads between government and prime securities—both a result of the reforms.

The spread contraction that followed was exacerbated by a mismatch between supply and demand in the money markets. Balancing that, yields on fixed-rate securities increased as the Fed has tightened in recent months, but not as much as we have seen historically. It will be intriguing to see if this continues as policymakers appear set to raise the target rate again in June to a range of 1% to 1.25%.

The Fed also is expected to discuss at its June meeting how and when it will pare its huge balance sheet. Most likely the route will be letting a small amount of securities mature without reinvesting the principal. The markets have been calm about this because policymakers are really jawboning to get people's expectations to where they want them to be before they actually set a schedule.

For the time being, the short end of the yield curve has flattened to the point that it is not worth the maturity risk to invest out any distance. We pulled in the target weighted average maturity (WAM) of our government money funds by five days, bringing it in line with our municipal funds' WAM of 30-40 days, and kept the target WAM of 35-45 days for our prime products.

Earnings from Temporary Deposits and Investments are $132,614.94 for May and $1,284,205.51 year-to-date for all funds.

Fund	Month	Year-To-Date
General Fund	$ 60,447.08	$ 515,333.04
Special Revenue Funds	- .50	7,089.27
Debt Service Funds	4,201.42	167,388.93
Capital Projects Funds	45,805.44	404,931.55
Capital Projects Funds – AFB	22,161.50	189,462.72
Total	$ 132,614.94	$ 1,284,205.51

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Ryder Warren, Ed.D., Superintendent

Jon Graswich, CPA, Associate Superintendent for Business and Operations