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: July Financial and Investment Report

Date: August, 28, 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 July 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 July, 2017.

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

The following investments matured/sold in July:

- $10,000,000.00 Securities One (General Fund)
- $ 5,000,000.00 Securities One (Capital Projects AFB)
- $ 500,000.00 Securities One (Activity)
- $17,500,000.00 Securities Two (Interest and Sinking)

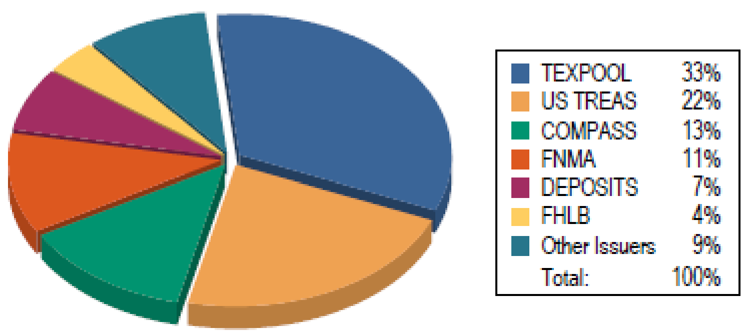
The District did not purchase any investments in July.

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $247,810,392.87 as of July 31, 2017.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.790%	$ 67,610,124.13
Special Revenue Funds	0.927%	1,163,273.14
Debt Service Funds	0.508%	38,998,939.06
Capital Projects Funds	1.026%	106,407,436.34
Capital Projects Funds - AFB	0.825%	33,630,620.20
Total	0.852%	$247,810,392.87

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."

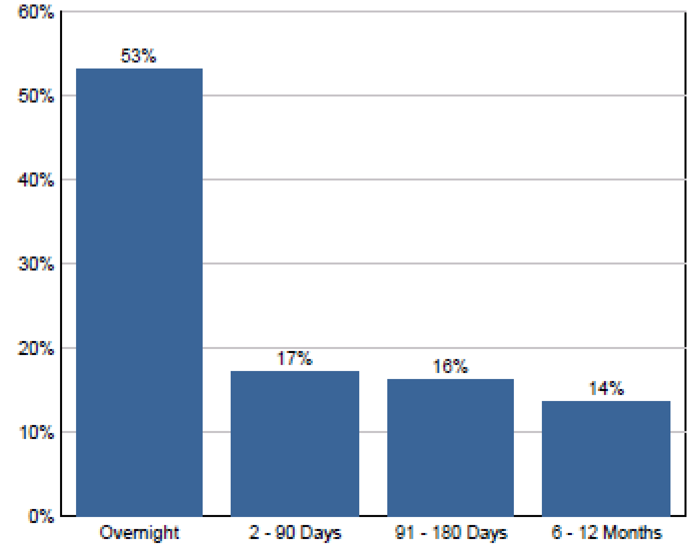
The District portfolio is diversified in terms of **investment instruments**.



Portfolio Composition by Security Type	
Local Government Investment Pool	33%
Certificates of Deposit	7%
Bank Deposit	20%
Treasury	22%
Agency Bullet	18%

Portfolio Composition by Issuer	
Treasury	22%
FHLB	4%
FNMA	11%
Compass	13%
TexPool	33%
Other Issuers	9%
Deposits	7%

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

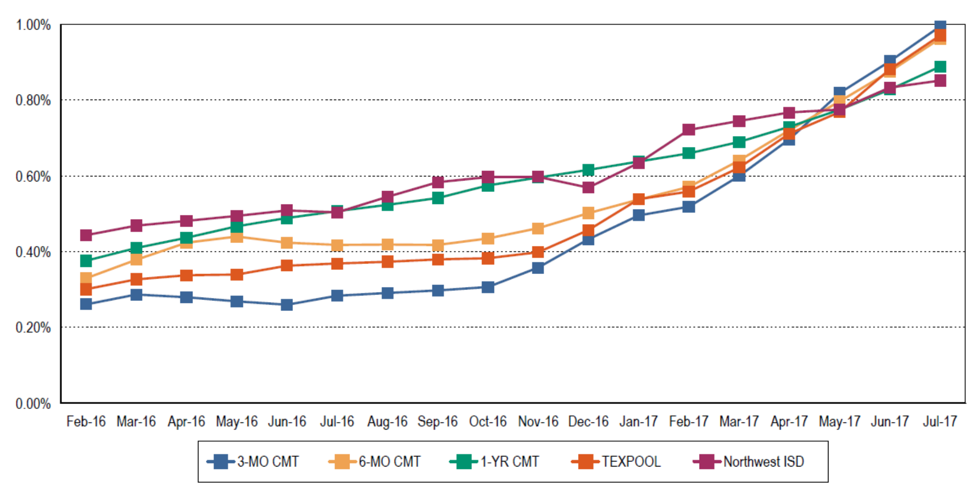


Weighted Average Days to Maturity: 56

Maturity Schedule

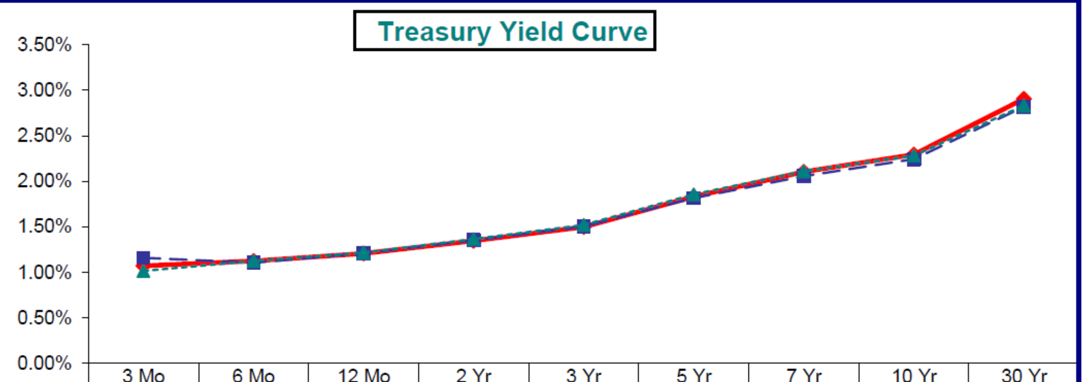
Overnight	53%	$131,711,177.63
0 – 3 Months	17%	$ 42,565,924.79
3 –6 Months	16%	$ 39,971,312.50
6 – 12 Months	14%	$ 33,561,977.95

The District portfolio currently under performs 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	1.072%	1.126%	1.207%	1.347%	1.500%	1.832%	2.106%	2.294%	2.906%
One Week Ago	1.159%	1.106%	1.212%	1.353%	1.505%	1.815%	2.058%	2.245%	2.819%
One Month Ago	1.016%	1.127%	1.217%	1.366%	1.522%	1.857%	2.111%	2.282%	2.834%

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

Libor's long goodbye

If any field operates better under a deadline, it's the financial industry. That may be the reasoning behind the Financial Conduct Authority's announcement late in July of a time frame for phasing out the London interbank offered rate (Libor). The catch is that the date is so far out (year-end 2021) to be much of an immediate incentive. It points to that other near given when it comes to the financial sphere: change takes a long time to implement.

Libor is the benchmark for short-term interest rates of most prime cash-management instruments, including many of those held in investment pools such as TexPool Prime (in contrast, the benchmark for TexPool's holdings is the U.S. Treasury yield curve). We have known Libor's time was numbered for some time now. The long time frame until its termination reflects the ongoing debate about what the replacement should be. We expect the solution will come from the same regulator, but others have been pushing for a rate based off Treasury repo and other options. It is now time to cease arguing about pluses and minuses of various replacements and put forth eff ort to decide on one and work to fi ne-tune it. As far as cash managers are concerned, the issue mostly concerns floating-rate securities, which use Libor for price or on the spread between Libors of differing maturities.

We think the ultimate solution for a replacement will vary according to what will work best for each portion of the market and the types of securities used. The replacements don't all have to be the same. We would caution against using Treasuries as a benchmark, however, because they are flight-to-quality securities often moving due to global developments. You want to use a measure that is mostly dependent on market conditions. Bottom line for us is that our cash products are not immediately affected by the announcement and any adjustment down the line won't be disruptive.

Libor wasn't the only rate making news last month. U.S. policymakers have been telegraphing the imminent wind down of its massive balance sheet, and we think that will start to take place in September, likely pushing the final fed funds hike of 2017 until December. Some market participants at this point actually see 2018 as more probable. It's all a reflection of an economy that has definitely not caught on fire from an economic growth standpoint, yet is performing OK. Also, there appears to be a re-evaluation of inflation goals. Should 2% be the actual neutral rate that the Fed needs to hit, and does it need to get to that level in the next year? Or should that target be lower, with two years to hit it? At the core, changes in the yield curve reflect a market trying to size up how to process expectations from both an inflationary and an economic standpoint.

Earnings from Temporary Deposits and Investments are $149,765.46 for July and $149,765.46 year-to-date for all funds.

Fund	**Month**	**Year-To-Date**
General Fund	$ -654.30	$ -654.30
Special Revenue Funds	2,292.51	2,292.51
Debt Service Funds	54,629.56	54,629.56
Capital Projects Funds	74,391.51	74,391.51
Capital Projects Funds – AFB	19,106.18	19,106.18
Total	$ 149,765.46	$ 149,765.46

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Ryder Warren, Ed.D., Superintendent

Jon Graswich, CPA, Deputy Superintendent for Business and Operations