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: June Investment Report

Date: August, 14, 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 June 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 June, 2017.

The Investment Report, prepared by the District's investment advisors, First Southwest Asset Management, Inc., encompasses the month ending June 2017, 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 June 30, 2017.

The following investments matured/sold in June:

- $10,000,000.00 Securities One (General Fund)
- $ 5,000,000.00 Securities One (Capital Projects AFB)

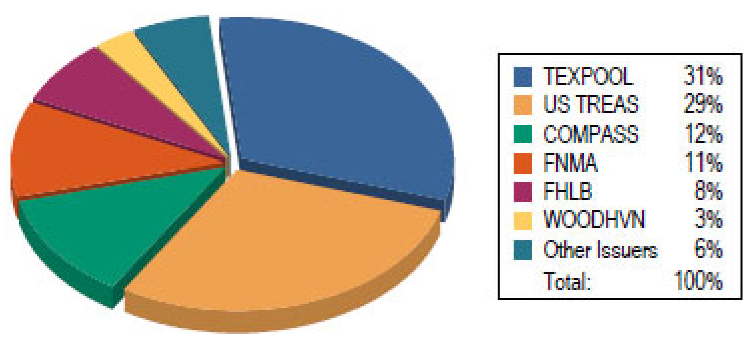
The District did not purchase any investment in June.

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $264,201,618.41 as of June 30, 2017.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.769%	$ 78,254,187.02
Special Revenue Funds	0.835%	1,662,925.57
Debt Service Funds	0.789%	38,765,458.98
Capital Projects Funds	0.914%	111,915,561.94
Capital Projects Funds - AFB	0.769%	33,603,484.90
Total	0.834%	$264,201,618.41

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."

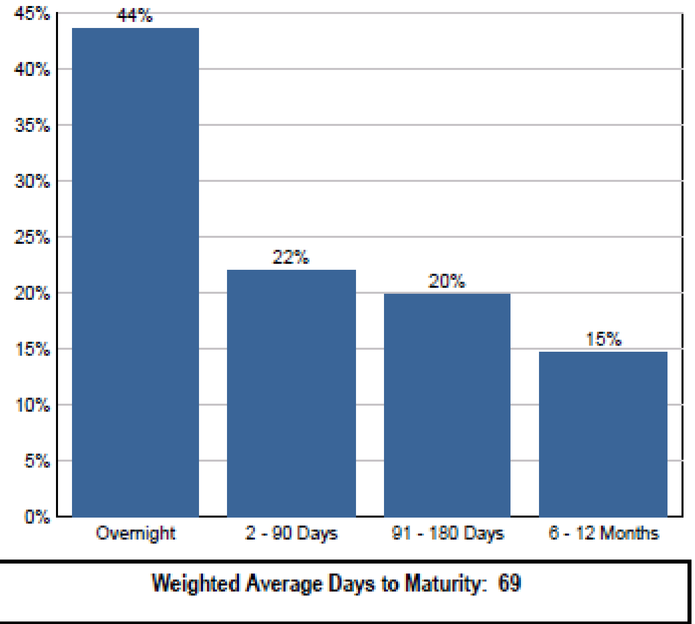
The District portfolio is diversified in terms of **investment instruments**.



Portfolio Composition by Security Type	
Local Government Investment Pool	31%
Certificates of Deposit	7%
Bank Deposit	12%
Treasury	29%
Agency Bullet	17%
Agency Disco	4%

Portfolio Composition by Issuer	
Treasury	29%
FHLB	8%
FNMA	11%
Compass	12%
TexPool	31%
Woodhaven	3%
Other Issuers	6%

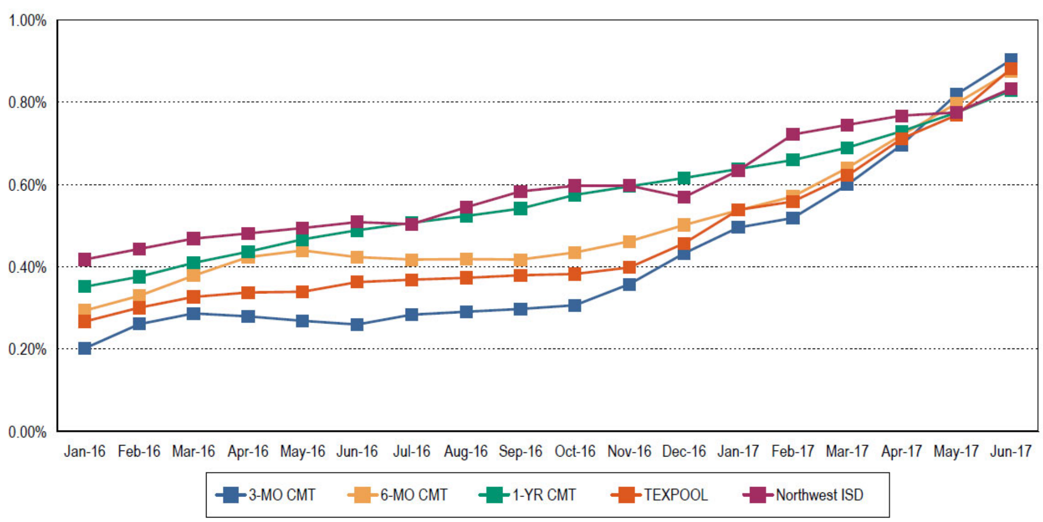
The District portfolio is diversified in terms of **maturity scheduling:**



Maturity Schedule

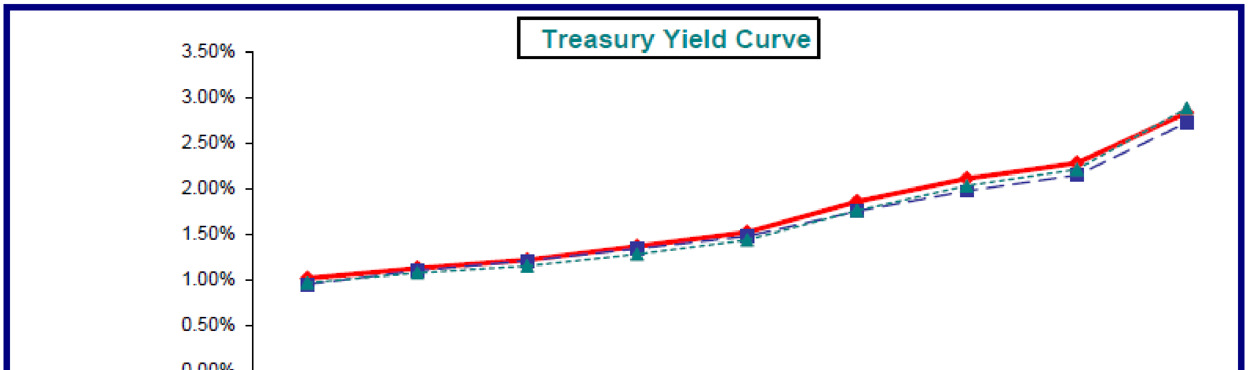
Overnight	44%	$115,127,334.67
0 – 3 Months	22%	$ 57,983,505.00
3 –6 Months	20%	$ 52,542,899.79
6 – 12 Months	15%	$ 38,547,878.95

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	1.016%	1.127%	1.217%	1.366%	1.522%	1.857%	2.111%	2.282%	2.834%
One Week Ago	0.950%	1.101%	1.207%	1.340%	1.476%	1.753%	1.976%	2.149%	2.724%
One Month Ago	0.966%	1.075%	1.150%	1.282%	1.435%	1.760%	2.031%	2.213%	2.883%

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

The quickening pace of rate hikes

After years of the same ultra-low rate of zero to 25 basis points, the three hikes the Federal Reserve (Fed) has made in the last six months seems like a stock car race. The conversation about monetary policy isn't whether more rate increases are coming, but how many and how fast.

We see the Fed continuing down the rate normalization track. June's 25 basis-point increase of the target fed funds rate range to 1-1.25%—the third such increase since mid-December 2016 had been priced into the markets. What was a bit of surprise was the specificity of the balance sheet reduction plan the Fed announced with the policy statement after the June Federal Open Market Committee meeting, which likely was done to appease the bond market and avoid a repeat of 2013's taper tantrum. The Fed said it will start removing $6 billion of Treasury bills and $4 billion of mortgage-backed securities (MBS) off its balance sheet each month, gradually raising the amount to $30 billion of Treasuries and $20 billion of MBS—$50 billion total—over a six-month period. It didn't say when it will initiate the plan, but we wouldn't be surprised to see it come in the third quarter of this year, before the likely additional rate increase.

One point the Fed has made clear in the last few weeks is that, despite headline and core inflation gauges that have rolled over and economic data that has reflected some softening, it is moving ahead with policy normalization. New York Fed President William Dudley, vice chair of the policy-setting Federal Open Market Committee, last week said he sees no signs the Fed's actions have harmed the economy. The reality is a 2% target funds rate is considered neutral and we are nowhere near that. Actually, in our opinion, describing the Fed's actions as "tightening'' when rates are still historically very low is a misnomer. It is better characterized as the central bank being less accommodative.

One plus to the balance sheet reduction plan is the bulk of reissuance in the marketplace likely will come in the form of Treasury bills. That's the path of least resistance for the Fed, in part because there is so much government supply—capacity, if you will. This should have a favorable, i.e., upward impact, on short-term yields, which is where we are focused.

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

Fund	Month	Year-To-Date
General Fund	$ 35,164.84	$ 550,497.88
Special Revenue Funds	0.00	7,089.27
Debt Service Funds	0.00	167,388.93
Capital Projects Funds	0.00	404,931.55
Capital Projects Funds – AFB	57,039.84	246,502.56
Total	$ 92,204.68	$ 1,376,410.19

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Ryder Warren, Ed.D., Superintendent

Jon Graswich, CPA, Deputy Superintendent
for Business and Operations