Northwest
INDEPENDENT SCHOOL DISTRICT
Teamwork | Pride | Excellence

To: Board of Trustees

From: Ryder Warren, Ed.D., Superintendent of Schools

Subject: December Financial and Investment Report

Date: January 31, 2019

**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:**

- Students will achieve success through meaningful learning experiences, innovative pathways, and personalized opportunities.
- Northwest ISD will recruit, value, and retain exceptional staff to create a rewarding learning environment.
- Northwest ISD will create and foster an environment where all stakeholders are engaged in the transformational work of the NISD family.

**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 December, 2018.

The Investment Report, prepared by the District's investment advisors, First Southwest Asset Management, Inc., encompasses the month ending December, 2018, and is submitted in accordance with the provisions of the Public Funds Investment Act.

The following investments matured in December:

- $15,000,000.00 Securities One (General Operating)
- $ 7,500,000.00 Securities One (Capital Projects)

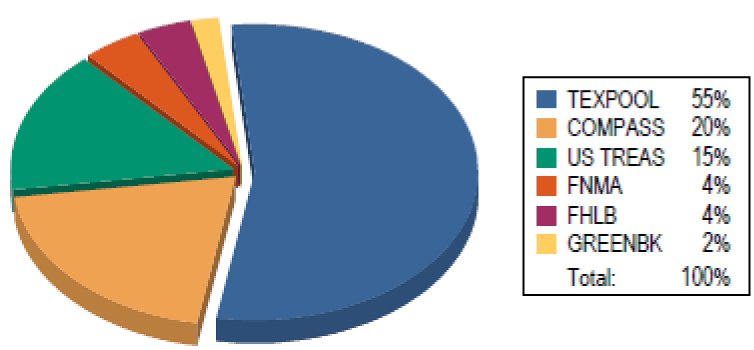
There were no purchases in the month of December.

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $249.179,062.99 as of December 31, 2018.

| Fund | Yield to Maturity | Market Value |
|---|---|---|
| General Fund | 2.297% | $113,074,524.13 |
| Special Revenue Funds | 2.025% | 1,166,874.27 |
| Debt Service Funds | 2.212% | 62,658,960.10 |
| Capital Projects AFB Funds | 2.287% | 41,985.09 |
| Capital Projects Funds | 2.273% | 72,236,719.40 |
| Total | 2.268% | $249,179,062.99 |

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."

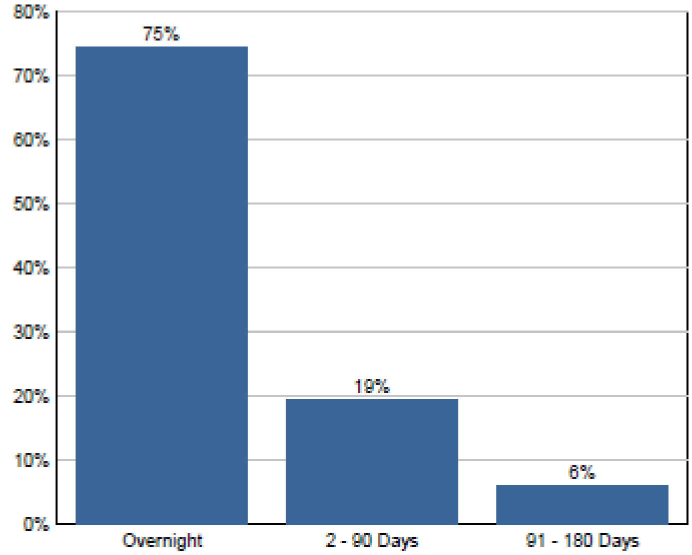
Investment Instruments and Financial Institutions




| Portfolio Composition by Security Type | |
|---|---|
| Treasury | 15% |
| Local Government Investment Pool | 55% |
| Bank Deposit | 20% |
| Agency Bullet | 8% |
| Agency Disco | 0% |
| Certificates of Deposit | 2% |

| Portfolio Composition by Issuer | |
|---|---|
| Treasury | 15% |
| TexPool | 55% |
| Compass | 20% |
| FHLB | 4% |
| FNMA | 4% |
| Greenbank | 2% |

# Maturity Scheduling

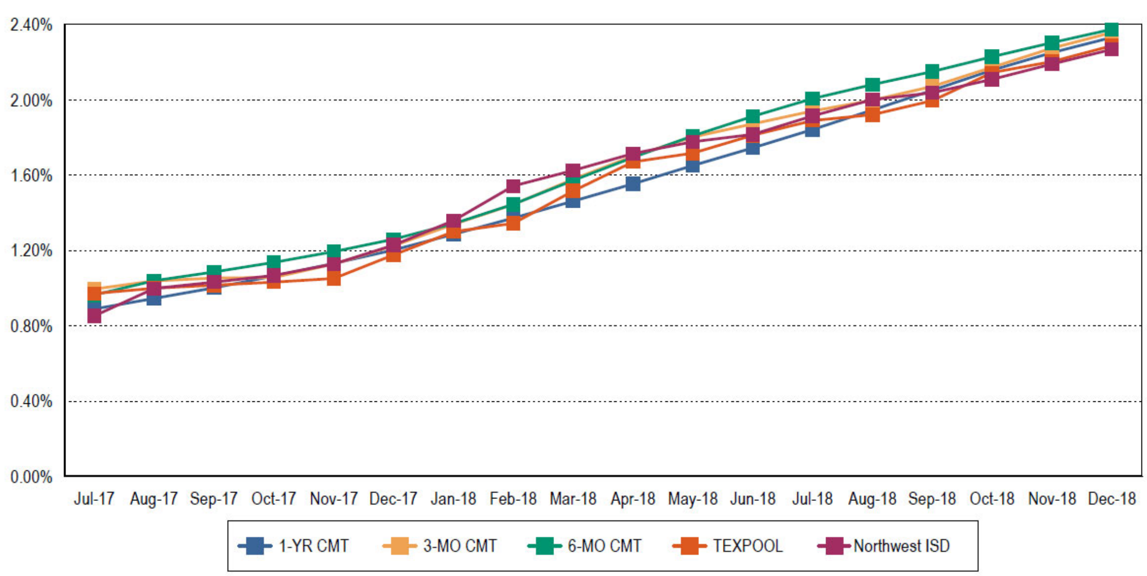



**Weighted Average Days to Maturity: 17**

# Maturity Schedule

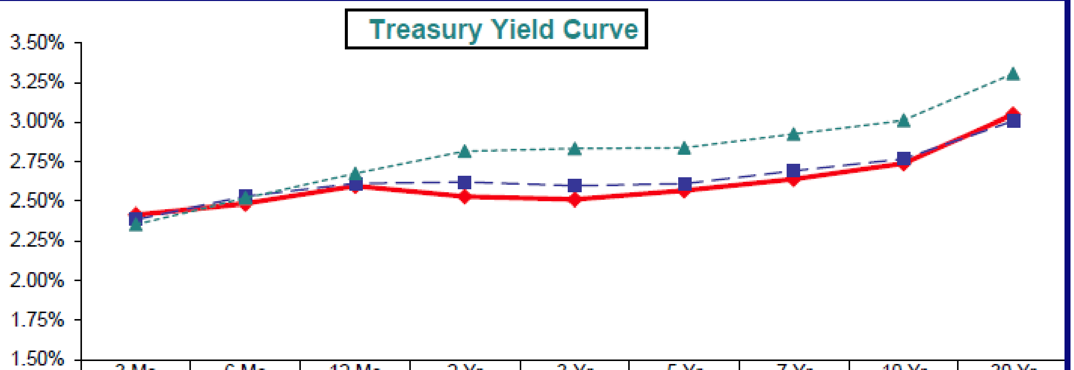
| | | |
|---|---|---|
| Overnight | 75% | $ 185,811,437.99 |
| 0 – 3 Months | 19% | $ 48,444,800.00 |
| 3 –6 Months | 6% | $ 14,922,825.00 |
| 6 – 12 Months | % | $ |

# Benchmark Comparison




**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 | 2.416% | 2.486% | 2.596% | 2.528% | 2.511% | 2.566% | 2.640% | 2.739% | 3.047% |
| One Week Ago | 2.386% | 2.530% | 2.613% | 2.622% | 2.597% | 2.610% | 2.691% | 2.767% | 3.008% |
| One Month Ago | 2.355% | 2.520% | 2.675% | 2.817% | 2.833% | 2.839% | 2.925% | 3.011% | 3.305% |

A TexPool Monthly Newsletter: January 2019

## Economic and Market Commentary:
## No more normal?
## January 1, 2019

The Federal Reserve acted correctly at its December meeting when it raised rates 25 basis points to a target range of 2.25%-2.50% and pulled back its 2019 projections to two hikes from three. These moves fit with how the economy is performing now and how it might moderate in the near future. Further, the unanimous statement and Chair Powell's no-nonsense press conference suggest policymakers want to simplify their message. Look for them to constantly reiterate that their decisions are based on keeping inflation stable and maintaining strong employment—their mandate. They also likely will remind us that their policy tool is the federal funds rate, not the runoff of the balance sheet, and that they disregard market volatility and politics. Keep in mind that every meeting will have a press conference and the potential for policy action.

Inflows to liquidity products likely will continue, spurred by equity market volatility. The question is that, when the markets eventually settle down, how much of the influx will remain due to the high level of return cash is now offering compared to the recent past and the expectation that the return will grow if rates continue to rise. Indeed, we expect a rate hike to come in the first half of this year with one more arriving in the second half before a potential pause, with the $50 billion-a-month flood of securities from quantitative tapering putting additional upward pressure on rates.

We think "steady" will be the watchword in 2019: steady corporate-earnings, economic performance and Fed communication. A recession may be coming, but has not yet appeared above the horizon. The Fed likely will be more watchful and data dependent about policy. This bodes well for liquidity products such as TexPool and TexPool Prime. Rare are cash managers and investors who don't like to earn a return above inflation in less-risky products. We think that in 2019, cash will be key, if not king.

In December, the short end of the London interbank offered rate (Libor) steepened ahead of the policy move. One-month Libor rose from 2.35% to 2.50% and 3-month from 2.74% to 2.81%. However, 6-month Libor slipped from 2.89% to 2.88%. The average weighted average maturity (WAM) of TexPool in December was 27 days, while that of TexPool Prime was 30.

Earnings from Temporary Deposits and Investments are $444,189.75 December and $2,266,058.23 year-to-date for all funds.

| Fund | Month | Year-To-Date |
|---|---|---|
| General Fund | $ 245,969.31 | $ 968,674.47 |
| Special Revenue Funds | 935.41 | 13,055.59 |
| Debt Service Funds | 51,544.11 | 356,534.44 |
| Capital Projects Funds | 145,658.20 | 918,519.18 |
| Capital Project Funds AFB | 82.72 | 9,274.55 |
| Total | $ 444,189.75 | $ 2,266,058.23 |

**Recommendation:** Review the enclosed Financial and Investment Report.

**Respectfully submitted,**

| | | |
|---|---|---|
| Ryder Warren, Ed.D.<br>Superintendent | Jon Graswich, CPA<br>Deputy Superintendent for Business & Operations | Brian Carter<br>Chief Financial Officer |