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# February Investment Report

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April 9, 2018

**FirstSouthwest**  
**AssetManagement**  
A Hilltop Holdings Company.



## Investment Portfolio Summary

**Northwest ISD**



**For the Month Ended**

**February 28, 2018**

Prepared by  
FirstSouthwest Asset Management

### Report Name

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Certification Page
Executive Summary
Benchmark Comparison
Detail of Security Holdings
Change in Value
Earned Income
Investment Transactions
Amortization and Accretion
Projected Fixed Income Cash Flows

#### MARKET RECAP - FEBRUARY 2018:

On the last Friday of January, all three of the major U.S. stock market indices set record highs. The first Friday of February kicked off a correction that would take all three averages down by 10% within a week's time. The initial spark that set off the stock market fire was found in the January employment report. Markets didn't care that +200k new jobs were added to payrolls or that the unemployment rate held steady at 4.1%. Instead, the focus was on average hourly earnings which rose +0.3% in January, while the previously reported December gain of +0.3% was boosted up to +0.4%. As a result, the year-over-year wage gain rose to +2.9%, the highest since 2009. The Fed has been concerned that the tight labor market will eventually spark wage inflation and this report appeared to show exactly that. The Fed responds to inflationary pressure by raising rates to slow the economy, and stock markets responded negatively to that. While the apparent rise in wage pressures was a concern for markets, the fear snowballed as investors contemplated the likelihood that increased Treasury supply would continue driving market yields higher after Congress ended a very brief government shutdown by passing a budget resolution that allows for a \$300 billion increase in spending over a two year period and suspends the debt ceiling until March 2019. Although it made for some exciting headlines early in the month, the reality is that even at its worst point the Dow had only given back gains made in December and January. Markets quickly regained their footing and by the end of February the Dow and the S&P were essentially unchanged for the year.

In other key news, the ISM manufacturing index slipped from 59.3 to 59.1 in January. It's important to note that the reading was still the fifth strongest since 2004. Within the composite, the forward-looking new orders index was the second best in 13 years. The ISM service sector index surged ahead to 59.9 with its new orders component climbing to 64.8, the highest since 2005. Inflation measures continued to heat up. The headline CPI rose +0.5% in January, while core CPI climbed +0.3%; both topped forecasts. The year-over-year pace held steady at +2.1% and +1.9% respectively, but the three-month annualized core pace is advancing much quicker at +2.9%, the most since 2011. Producer prices and import prices also rose by more than expected. The retail sales data, released the same day as CPI, was largely ignored by markets, but the numbers were oddly disappointing. Headline retail sales fell -0.3% in January, well short of the expected +0.2% gain. Making matters worse, December's initially reported +0.4% gain was cut to unchanged (+0.0%). Sales of motor vehicles and parts were a major detractor, falling -1.3%, but weakness was widespread. Between dismal January figures and downward revisions for December, retail sales essentially fell short of expectations by a full percentage point.

Market yields continued their ascent as the combination of anticipated rate hikes, Fed balance sheet reduction, and increased Treasury supply weigh on bond markets. The two-year Treasury note reached a 9½ year high of 2.27% following release of the hawkishly interpreted January FOMC minutes. At its peak, the two-year yield had risen a full percentage point since early September. The 10-year Treasury-note touched 2.95%, up over 50 bps for the year and more than doubling the July 2016 closing yield of 1.36%.

**For the Month Ended  
February 28, 2018**

This report is prepared for the Northwest ISD (the "Entity") in accordance with Chapter 2256 of the Texas Public Funds Investment Act ("PFIA"). Section 2256.023(a) of the PFIA states that: "Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of the investment transactions for all funds covered by this chapter for the preceding reporting period." This report is signed by the Entity's investment officers and includes the disclosures required in the PFIA. To the extent possible, market prices have been obtained from independent pricing sources.

The investment portfolio complied with the PFIA and the Entity's approved Investment Policy and Strategy throughout the period. All investment transactions made in the portfolio during this period were made on behalf of the Entity and were made in full compliance with the PFIA and the approved Investment Policy.

**Officer Names and Titles:**

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Name: Jon Graswich, CPA                      Title: Chief Financial Officer

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Name: DeAnne Hatfield, RTSBA              Title: Executive Director of Business Services

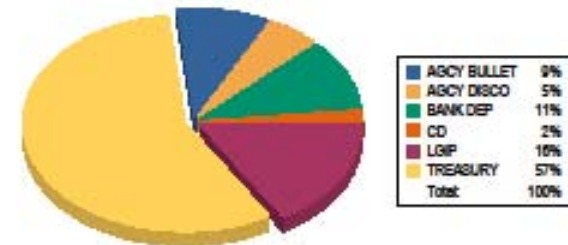
**Account Summary**

**Allocation by Security Type**

Beginning Values as of 01/31/18

Ending Values as of 02/28/18

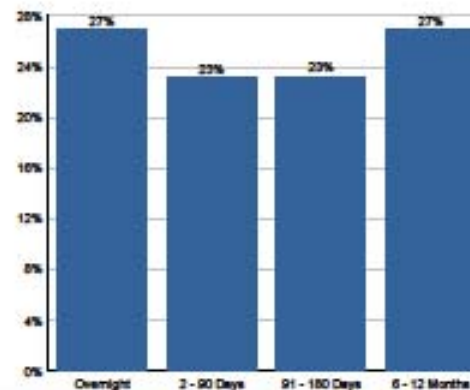
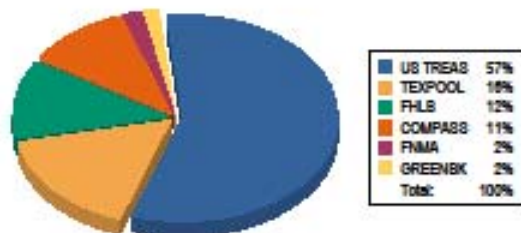
Par Value	294,906,618.79	281,975,139.30
Market Value	294,360,098.79	281,190,520.80
Book Value	294,452,182.93	281,368,005.42
Unrealized Gain /(Loss)	(92,084.14)	(177,484.62)
<b>Market Value %</b>	<b>99.97%</b>	<b>99.94%</b>
Weighted Avg. YTW	1.357%	1.542%
Weighted Avg. YTM	1.357%	1.542%



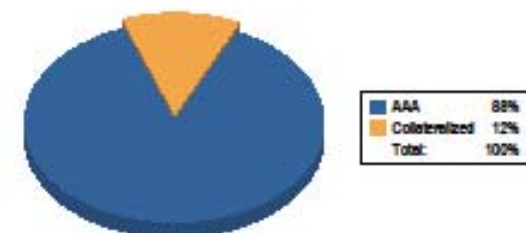
**Allocation by Issuer**

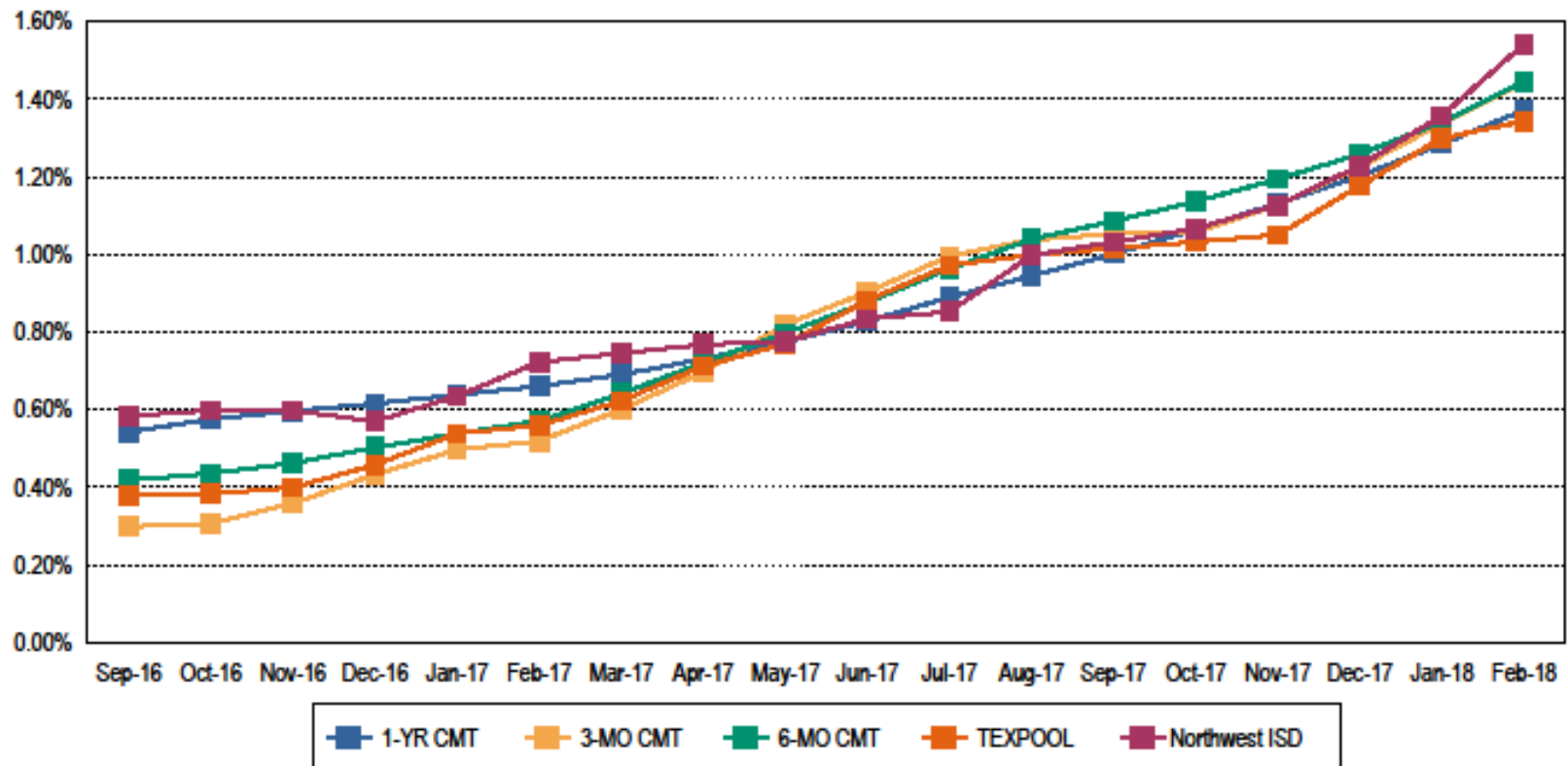
**Maturity Distribution %**

**Credit Quality**



Weighted Average Days to Maturity: 117





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.