

MEMORANDUM



TO: HONORABLE MAYOR AND CITY COUNCIL MEMBERS
FROM: CARL A. JOHNSON, JR., CFO
TINA GLENN, ASSISTANT CITY TREASURER
CC: PETE AUGER, CITY MANAGER
MARYANNE CORNELIUS, CITY CLERK
SUBJECT: QUARTERLY INVESTMENT REPORT – JUNE 30, 2015
DATE: AUGUST 27, 2015

Attached to this memo is the investment report for the City of Novi as of June 30, 2015. This memo outlines the investment factors and trends that were playing a role in our investment decisions for the last quarter of the fiscal year.

Nationally

According to the minutes of the Federal Open Market Committee (FOMC) meetings held on June 16 - 17, 2015, "real gross domestic product (GDP) was increasing moderately in the second quarter after edging down in the first quarter. Labor market conditions improved somewhat further in recent months. Consumer price inflation continued to run below the FOMC's longer-run objective of 2 percent and was restrained significantly by earlier declines in energy prices and decreases in prices of non-energy imports".¹

The June jobs report showed job creation was up with 223,000 jobs, and the national unemployment rate declined to 5.3%. In June, employment continued to trend up in professional and business services, health care, retail trade, financial activities and in transportation and warehousing.² Even with the reported gains, Chad Stone, Chief Economist with the Center on Budget and Policy Priorities, believes that "the Federal Reserve should not rush to raise interest rates. By testing whether it can push unemployment lower – rather than play it safe to avoid any risk of inflation – the Fed could bring more workers back into the labor force, help more long-term unemployed find work, and begin to generate solid wage gains for most workers."³

State

The Southeast Michigan Purchasing Manager's Index (PMI) rose in June, to 66.1, falling negligibly from May. The index averaged 66.3 over the last three months. A PMI over 50 indicates economic growth. According to the Institute for Supply Management, key component indexes driving the overall PMI are Production, which fell from 75.0 to 64.3, indicating that production is expanding, but not at the same pace as in May; New Orders,

¹ <http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20150617.pdf>

² <http://www.bls.gov/news.release/pdf/cewbd.pdf>

³ http://www.huffingtonpost.com/chad-stone/mays-jobs-report-in-pictu_b_7521206.html

which increased from 68.8 to 74.1 from the previous month; and Finished Goods Inventory, which decreased from 62.5 to 57.1.⁴

The City is continuing to invest pursuant to the Investment Policy and the Retirement Health Care Investment Policy. The City's funds are invested in a variety of instruments including money market accounts, certificates of deposit, agencies, and pooled accounts. The primary focus and order of priority is on safety of capital, liquidity, and lastly return on investment. We continue to maintain an investment strategy that includes purchasing a variety of instruments including certificate of deposits, treasury notes, and step-bonds (interest rate increases over the term). With the uncertainty of interest rates, we have maintained a strategy of purchasing shorter maturity options when available or step-bonds with call options. While we generally hold investments to maturity, we continually monitor investments based on market conditions.

Risk

As required by the Governmental Accounting Standard Board, GASB 40 identifies a number of reporting and disclosure requirements for public funds that are designed to manage and limit risk in deposits and investments. These disclosures are only required as part of the year-end financial statements, the applicable risks are as follows:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment or the government's cash flows. Disclosure of interest rate risk addresses the exposures of investments to changes in market value as interest rates increase or decrease from current levels. In accordance with the City investment policy, the City limits its exposure to possible decline in fair market value by controlling duration or maturities. Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (payroll, debt service), as well as considering sizable blocks of anticipated revenue (taxes, state revenue sharing payments).

Credit Risk: Credit risk is the risk that the investment counterparty will not fulfill its promise to pay the government when required. There is credit risk associated with the financial institutions, brokers and investment instruments the City does business with. The City's investment officer must also be held to the highest standards. The City's investment policy utilizes the prudent person rule: "Investments are made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." Any commercial paper purchased must be those rated within the highest classification established by at least two standard rating services. Obligations of the State or its subdivisions must be rated of investment grade by at least one rating service. Because the State of Michigan does not require collateralization of public funds, the City's policy restricts Certificates of Deposit investments to those with financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration.

Concentration of Risk: Governments must disclose any single issuer that comprises more than 5% of the investment value in the portfolio. This disclosure is to insure that there is

⁴ <http://www.ism-sem.org/resources/files/Report-on-Business-June-2015.pdf>

proper diversification and not a concentration of public funds with any one issuer. While CD's and commercial paper are being used only occasionally for diversification, the City's funds are primarily invested in guaranteed accounts and treasuries. To reduce concentration risk, the City's investments are diversified amongst a number of highly rated financial institutions.

Investment Report

Attached is a summary listing of investments by issuer that the City held at June 30, 2015 (excluding Retiree Healthcare and Pension Investments which are not subject to Public Act 20 Investment Limitations). The listing includes the market value, type of investment, days to maturity, interest rate (yield) and amount of investment (book value). A comprehensive detailed listing of each investments details and maturity date is maintained in the Treasurer's office. The report includes all investment accounts by issuer including all pooled fund accounts. Please note that all investments included in this report are in accordance with the City's Investment Policy and State statutes and meet the City's investment objectives including: Safety of Capital, Liquidity, and lastly Return on Investment. The issue of non-compliance with the MERS Retiree Health Care Account is currently being addressed and remedies are being considered.



City of Novi Quarterly Investment Report June 30, 2015



Investment Officer's Certification

This report is prepared for the City of Novi in accordance with Chapter 2256 of the 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 Finance Director and includes the disclosures required in the PFIA. Market prices were obtained from the various Brokerage Accounts: Huntington Bank, UBS, Morgan Stanley / Smith Barney and DA Davidson.

PERFORMANCE VALUES

TRR-MV	Total Rate of Return - Market Value	- 0.16
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	- 0.62
YTM@Cost	Yield to Maturity @ Cost	1.59

BENCHMARKS

Treasury 6 Month	0.09 %
Treasury 1 Year	0.28 %

FISCAL YEAR TO DATE

Investment Income -	1,848,459.97
TRR-MV	1.50 %

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	14,000.29	14,000.29	14,000.29	0.01	0.01	1
Certificate Of Deposit	254,227.76	254,227.76	254,227.76	0.21	0.55	110
Local Government Investment Pool	10,840,149.55	10,840,149.55	10,840,149.55	8.85	1.55	1
Money Market	28,498,048.78	28,498,048.78	28,498,048.78	23.26	0.20	1
Municipal	5,900,000.00	6,143,906.00	5,913,764.65	4.82	2.86	1,235
US Agency	77,025,000.00	76,485,928.50	77,023,884.58	62.86	2.02	2,029
Total / Average	122,531,426.38	122,236,260.88	122,544,075.61	100.00	1.59	1,335



 Carl A. Johnson, Jr. - Finance Director / Treasurer, CFO Date 8/27/15



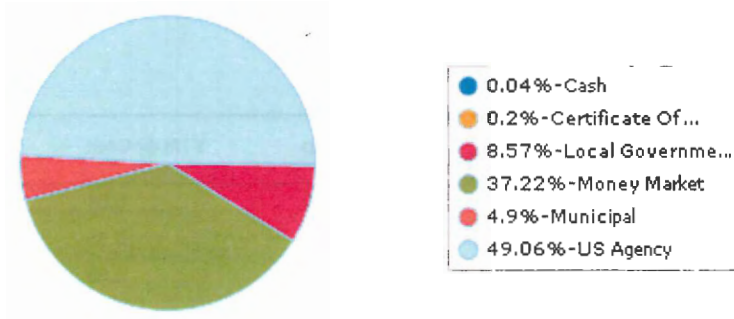
City of Novi Distribution by Security Sector - Market Value

Report Group: City of Novi - Quarterly Report

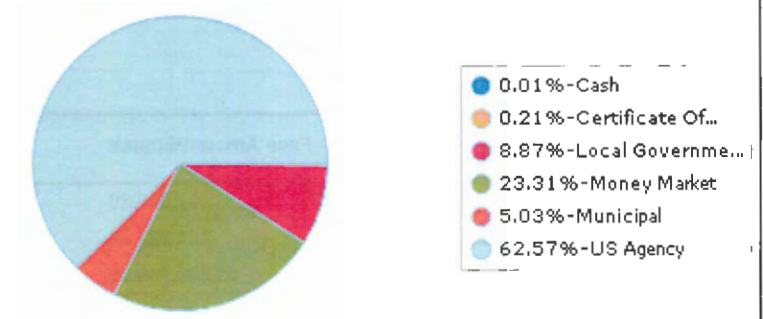
Begin Date: 3/31/2015, End Date: 6/30/2015

Security Sector Allocation				
Security Sector	Market Value 3/31/2015	% of Portfolio 3/31/2015	Market Value 6/30/2015	% of Portfolio 6/30/2015
Cash	54,750.25	0.04	14,000.29	0.01
Certificate Of Deposit	253,869.54	0.20	254,227.76	0.21
Local Government Investment Pool	10,807,390.69	8.57	10,840,149.55	8.87
Money Market	46,954,039.80	37.22	28,498,048.78	23.31
Municipal	6,181,305.00	4.90	6,143,906.00	5.03
US Agency	61,886,509.75	49.06	76,485,928.50	62.57
Total / Average	126,137,865.03	100.00	122,236,260.88	100.00

Portfolio Holdings as of 3/31/2015



Portfolio Holdings as of 6/30/2015



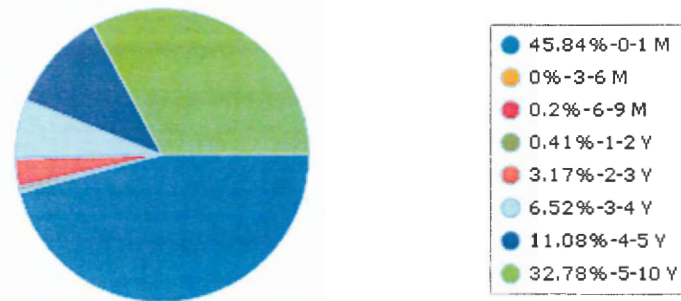


City of Novi
Distribution by Maturity Range - Market Value
Report Group: City of Novi - Quarterly Report

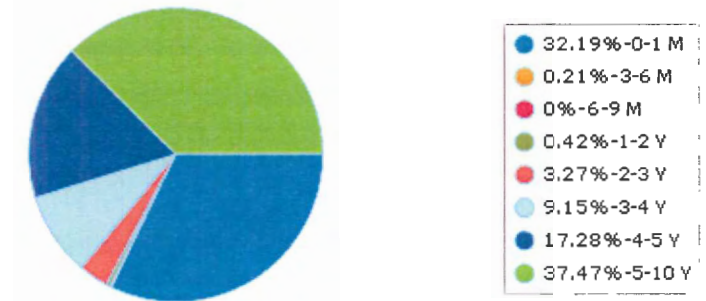
Begin Date: 3/31/2015, End Date: 6/30/2015

Maturity Range Allocation				
Maturity Range	Market Value 3/31/2015	% of Portfolio 3/31/2015	Market Value 6/30/2015	% of Portfolio 6/30/2015
0-1 Month	57,816,180.74	45.84	39,352,198.62	32.19
3-6 Months	0.00	0.00	254,227.76	0.21
6-9 Months	253,869.54	0.20	0.00	0.00
1-2 Years	517,975.00	0.41	514,710.00	0.42
2-3 Years	4,002,560.00	3.17	4,002,360.00	3.27
3-4 Years	8,220,160.00	6.52	11,187,020.00	9.15
4-5 Years	13,981,120.00	11.08	21,120,262.50	17.28
5-10 Years	41,345,999.75	32.78	45,805,482.00	37.47
Total / Average	126,137,865.03	100.00	122,236,260.88	100.00

Portfolio Holdings as of 3/31/2015



Portfolio Holdings as of 6/30/2015



City of Novi
Investment Income - Market Value
 Report Format: By Totals
 Group By: Security Sector
Portfolio/Report Group: Report Group: City of Novi - Quarterly Report
Begin Activity Date: 3/31/2015, End Activity Date: 6/30/2015, Carrying Value Date: 3/31/2015

Description	CUSIP/Ticker	Interest Earned During Period-MV	Unrealized Gain/Loss-MV	Realized Gain/Loss-MV	Investment Income-MV	TRR-MV	Annualized TRR-MV
Cash		0.04	0.00	0.00	0.04	0.00	0.00
Certificate Of Deposit		354.44	0.00	0.00	354.44	0.14	0.56
Local Government Investment Pool		32,758.86	0.00	0.00	32,758.86	0.30	1.22
Money Market		27,413.93	0.00	0.00	27,413.93	0.06	0.25
Municipal		42,310.84	-37,399.00	0.00	4,911.84	0.08	0.32
US Agency		240,897.46	-492,848.25	-6,608.00	-258,558.79	-0.41	-1.65
Total / Average		343,735.57	-530,247.25	-6,608.00	-193,119.68	-0.16	-0.62

City of Novi
Investment Portfolio - by Issuer, Summary
Report Format: By Totals
Group By: Issuer
Portfolio/Report Group: Report Group: City of Novi - Quarterly Report
As of 6/30/2015

Description	CUSIP/Ticker	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Comerica		0.010	7,895.26	7,895.26	1	0.00	0.01
FAMC		1.000	3,000,000.00	2,978,970.00	1217	5,083.33	2.45
FFCB		2.212	26,525,000.00	26,343,461.00	2110	59,160.45	21.65
FHLB		2.235	33,250,000.00	32,996,355.00	2318	83,877.78	27.14
FHLMC		1.684	5,248,884.58	5,249,182.50	1531	2,208.33	4.28
Fifth Third		0.200	28,490,153.52	28,490,153.52	1	0.00	23.25
FNMA		1.173	9,000,000.00	8,917,960.00	1281	12,347.23	7.35
Huntington		0.010	14,000.00	14,000.00	1	0.00	0.01
Lotus Bank		0.550	254,227.76	254,227.76	110	45.96	0.21
Michigan State GO Bond		2.863	5,913,764.65	6,143,906.00	1235	15,048.76	4.82
Morgan Stanley Smith Barney		0.010	0.29	0.29	1	0.00	0.00
Oakland County		1.548	10,840,149.55	10,840,149.55	1	0.00	8.85
Total / Average		1.591	122,544,075.61	122,236,260.88	1335	177,771.84	100