

# MEMORANDUM



**TO:** HONORABLE MAYOR AND CITY COUNCIL MEMBERS  
**FROM:** VICTOR CARDENAS, ASSISTANT CITY MANAGER  
**CC:** CLAY PEARSON, CITY MANAGER  
MARYANNE CORNELIUS, CITY CLERK  
**SUBJECT:** QUARTERLY INVESTMENT REPORT – SEPTEMBER 30, 2013  
**DATE:** OCTOBER 24, 2013

10/28/13  
To Mayor & City  
Council Members  
FY13  
*[Signature]*

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Attached to this memo is the investment report for the City of Novi as of 9/30/2013. This memo also outlines the investment factors and trends that are playing a role in our investment decisions for the first quarter of the current fiscal year.

## Nationally

Information received from the September meeting of the Federal Open Market Committee (FOMC)<sup>i</sup> meeting suggests that economic activity and employment continue to expand at a moderate pace. Indicators of the labor market have shown signs of improvement but the unemployment rate remains elevated. Household spending and business fixed investment advanced but fiscal policy, including the recent government shutdown, is restraining economic growth. According to a report released by the National Association of Realtors, existing-home sales slipped by 1.9% in September; an indication that rising mortgage rates are causing the housing market to cool. Sales held flat in August after reaching the highest level since late 2009 in July<sup>ii</sup>. Inflation continues to run below the Committee's longer-run objectives, however longer-term expectations remain stable.

In early October, President Obama nominated Janet Yellen to succeed Ben Bernanke as the Chairperson of the Federal Reserve (Fed). Yellen, the current Vice-Chair of the Federal Reserve, is widely seen as similar, ideologically, to Bernanke and is expected to continue the current, cautious approach to monetary policy as the economy recovers. Yellen will be the first Fed Chair to be appointed by a democrat in 30 years and the first female Fed Chair in history. <sup>iii</sup> The relatively weak September employment numbers, the subsequent fiscal showdown, the lack of available data and the economic distortions created by temporarily closing government offices have all had a negative impact on the national economy and are expected to further delay the Fed's decision to begin scaling back on some of its efforts to stimulate the economy<sup>iv</sup>.

## Locally

The Southeast Michigan Purchasing Manager's Index (PMI) for September dropped slightly to 59.9, from 60.2 in August. The Employment Index dropped from 59.6 to 54.2, although a PMI above 50 is considered a favorable number. Taken together all the components of the PMI show strong growth and portend well for the future<sup>v</sup>.

The long-term impacts of the City of Detroit bankruptcy are yet to be determined, as a bankruptcy of this size and magnitude is unprecedented<sup>vi</sup>. Bankruptcy eligibility proceedings began this week<sup>vii</sup>. City of Novi officials continue to track the proceedings and the impacts they may have on the City of Novi as they progress.

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, certificated of deposit, agencies, and pooled accounts. The primary focus and order of priority is on security, risk, and then yield.

### **Risk**

As required by the latest 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:** Disclosure of interest rate risk addresses the exposures of investments to change 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. The City prohibits investment of operating funds in securities maturing more than two years from the date of purchase. Reserve and Capital improvements may be invested in securities exceeding two years but less than five years. The following schedule shows actual investments at the end of this reporting quarter, institutions, type, rate amount, and duration of investment. Please note that all investments 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.

**Credit Risk:** There is credit risk associated with the financial institutions, brokers and investment instruments that the City does business with. Also the investment officer must 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 or agencies purchased are those rated A2/P2 or better and AAA respectively. Because the State of Michigan does not require collateralization of public funds, the City's policy restricts Certificates of Deposit investments with financial institutions that have a nationally recognized rating in the upper quartile.

**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 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 financial institutions with the highest ratings.

### **Investment Report**

Attached is a comprehensive listing of investments the City held at September 30, 2013. The listing includes the market value, type of investment, maturity date, interest rate and amount of investment. The report includes all investment accounts by issuer, pooled fund accounts, as well as the Retiree Health Care Accounts (not subject to Public Act 20 Investment limitations).

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i <http://www.federalreserve.gov> retrieved 10/21/2013

ii <http://www.wsj.com>, *Home Sales Fell 1.9% in September*, retrieved on 10/21/2013

iii <http://online.barrons.com>, *At the Open: Stocks Inch Higher as Yellen Nomination Trumps Debt Ceiling...For Now*, retrieved on 10/21/2013

iv <http://nytimes.com>, *Weak Job Gains May Cause Delay in Action by Fed*, retrieved 10/23/2013

v Institute for Supply Management, *September 2013 Southeast Michigan Purchasing Managers Index Report*

vi <http://reuters.com>, *Detroit bankruptcy could change municipal market, Chicago Fed says*, retrieved on 10/21/2013

vii <http://freep.com>, *How Detroit's bankruptcy eligibility trial will unfold*, retrieved on 10/21/2013

**Quarterly Investment Report**

September 30, 2013

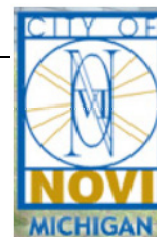
10/27/2013  
 To: Mayor and City Council members  
 Quarterly investment report, FYI. Clay



	<b>Beginning 06/30/2013</b>	<b>Ending 09/30/2013</b>
<b>Local Government Investment Pools / Money Market</b>		
Market Value	37,907,310	62,292,949
WAM (1) in Days	1	1
Weighted Average Yield to Maturity	0.38%	0.34%
<b>Fixed Income Assets</b>		
Book Value	77,927,639	76,919,164
Market Value	75,958,563	74,904,256
Change in Market Value	-2,251,864	-43,258
Unrealized Gain / Loss	-2,229,070	-44,080
WAM (1) in Days	2,143	2,184
WAM / Callable (1) in Days	280	695
Yield to Maturity @ Cost	2.06%	2.16%
<b>Annualized, Total Rate of Return - Market Value</b>	<b>-10.03%</b>	<b>1.15%</b>
<b>BENCHMARK</b>		
1 Year Treasury	0.14%	0.12%
6 Month Treasury	0.09%	0.04%
<b>Total Portfolio Value</b>		
Book Value	115,834,949	139,212,113
Market Value	113,865,873	137,197,205
Change in Market Value	-2,251,864	-43,258
Unrealized Gain / Loss	-2,229,070	-44,080
WAM (1) in Days	1,442	1,207
WAM / Callable (1) in Days	188	385
Yield to Maturity @ Cost	1.51%	1.35%
<b>Annualized, Total Rate of Return - Market Value</b>	<b>-6.56%</b>	<b>0.69%</b>
<b>BENCHMARK</b>		
1 Year Treasury	0.14%	0.12%
6 Month Treasury	0.09%	0.04%

Victor Cardenas, Interim Finance Director

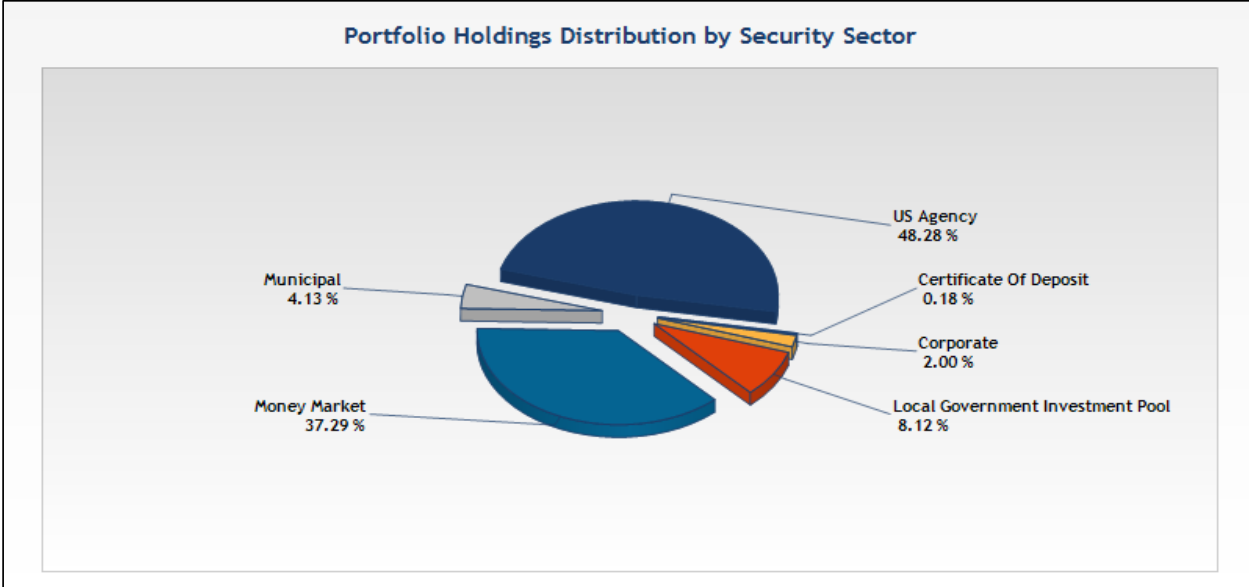
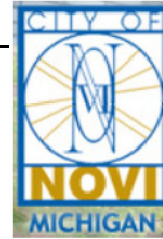
Date



Description	YTM @ Cost	Amount	Cost Value	Book Value	Market Value	Days To Maturity	% of Portfolio
<b>Fixed Income Assets</b>							
Corporate - Abbey National	0.41	2,750,000	2,741,750	2,742,697	2,743,703	239	1.98
FAMC	1.00	3,000,000	3,000,000	3,000,000	2,885,340	1855	2.15
FFCB	1.84	25,025,000	25,025,000	25,025,000	24,236,416	2261	17.98
FHLB	3.01	28,400,000	28,400,000	28,400,000	27,381,906	2625	20.40
FNMA	1.22	12,000,000	12,000,000	12,000,000	11,735,020	1720	8.62
Lotus Bank - Certificate of Deposit	0.65	251,466	251,466	251,466	251,466	18	0.18
Michigan Go Bonds Ser 2010 B	2.90	500,000	503,505	500,000	522,555	1128	0.36
Michigan State GO Bond	2.90	5,000,000	4,983,900	5,000,000	5,147,850	1888	3.59
<b>Weighted Average Yield</b>	<b>2.16</b>	<b>76,926,466</b>	<b>76,905,621</b>	<b>76,919,164</b>	<b>74,904,256</b>		
<b>Local Government Investment Pools / Money Market</b>							
Bank of America	0.20	2,103,791	2,103,791	2,103,791	2,103,791	1	1.51
Chase Bank	0.20	98,852	98,852	98,852	98,852	1	0.07
Comerica - Lockbox	0.15	1,030,239	1,030,239	1,030,239	1,030,239	1	0.74
Comerica - Suspense	0.10	3,285	3,285	3,285	3,285	1	0.00
Fifth Third	0.20	47,837,685	47,837,685	47,837,685	47,837,685	1	34.36
Flagstar Bank	0.10	80,368	80,368	80,368	80,368	1	0.06
MBIA Class	0.03	533,767	533,767	533,767	533,767	1	0.38
Oakland County	1.03	10,604,963	10,604,963	10,604,963	10,604,963	1	7.62
<b>Weighted Average Yield</b>	<b>0.34</b>						
<b>Total / Average</b>	<b>1.35</b>	<b>139,219,416</b>	<b>139,198,571</b>	<b>139,212,113</b>	<b>137,197,205</b>	<b>1207</b>	<b>100%</b>

**Investment Portfolio - Diversification, by Sector**

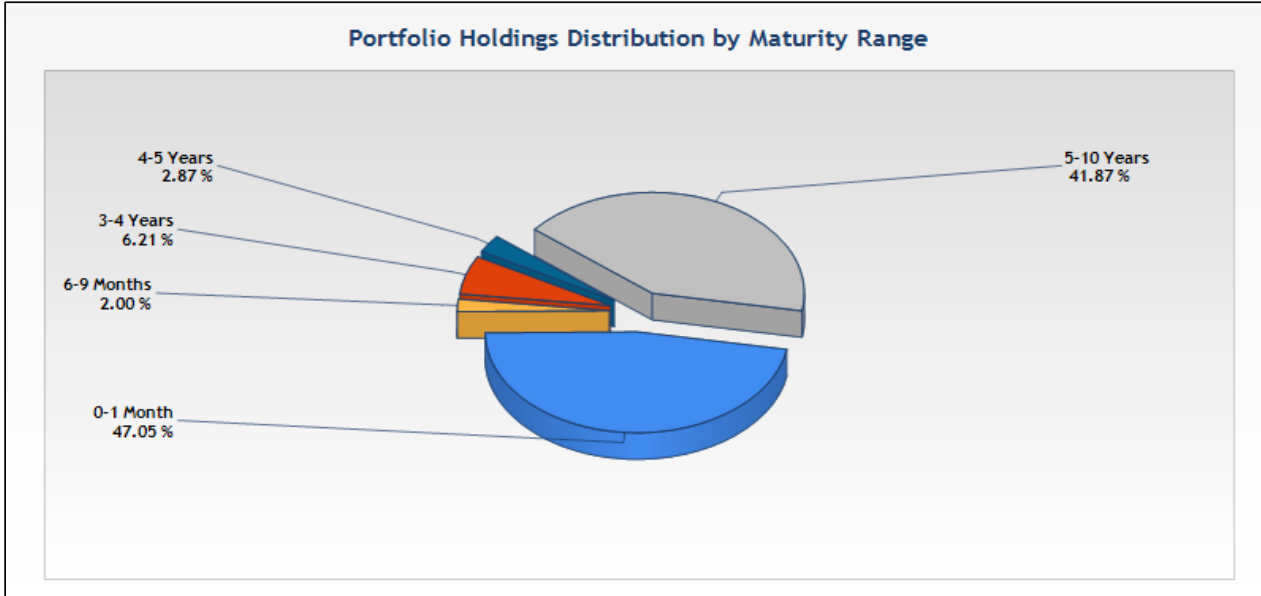
September 30, 2013



Description	YTM @ Cost	09/30/2013 Market Value	Investment Income - Market Value	% of Portfolio
Certificate of Deposit	0.65	251,466	889	0.18%
Corporate Bonds	0.41	2,743,703	2,775	2.00%
LGIP	0.98	11,138,729	20,265	8.12%
Money Market	0.20	51,154,220	4,788	37.29%
Municipal Bonds	2.90	5,670,405	20,011	4.13%
US Agency	2.17	66,238,682	189,290	48.28%
<b>Total / Average</b>	<b>1.33</b>	<b>137,197,205</b>	<b>238,019</b>	<b>100.00%</b>

**Investment Portfolio - Diversification, by Maturity Range**

September 30, 2013



Description	YTM @ Cost	09/30/2013 Market Value	Days to Maturity	Investment Income - Market Value	% of Portfolio
* 0-1 Month	0.34	64,544,436	1	25,535	47.05%
3-6 Months	0.41	2,743,703	239	3,873	2.00%
3-4 Years	1.43	8,525,535	1289	14,302	6.21%
4-5 Years	0.98	3,939,840	1550	35,720	2.87%
5-10 Years	2.50	57,443,692	2521	158,590	41.87%
<b>Total / Average</b>	<b>1.33</b>	<b>137,197,205</b>	<b>1185</b>	<b>238,019</b>	<b>100.00%</b>

\* Includes Cash, Money Market & Local Government Investment Pools

CITY OF NOVI  
INVESTMENT LISTING  
SEPTEMBER 30, 2013

CURRENT OR PURCHASE DATE	DESCRIPTION	Maturity Date	Int. Rate	AMOUNT
10/21/10	UBS Financial Services (MI State GO Unlimited Notes)	11/01/16	2.9000%	\$ 522,555.00
10/03/11	GA (Huntington Inv) FFCB 0.35%	10/03/13	0.3500%	2,000,020.00
10/19/11	State of MI bonds (UBS) 2.85%(2.9% YTM bought at discount)	12/01/18	2.8500%	5,147,850.00
10/24/11	GA (Morgan Stanley/SB) FNMA 1.35%	10/24/16	1.3500%	3,002,280.00
06/04/12	GA (Huntington Inv) FHLB Step 2.5716% YTM	12/04/20	1.0000%	10,906,896.00
10/25/12	GA (Morgan Stanley/SB) FNMA 1.33%	10/24/19	1.3300%	4,792,900.00
10/24/12	CD (Lotus Bank)	10/18/13	0.6500%	251,466.38
10/29/12	GA (Huntington Inv) FHLB Step 1.00% YTM	10/29/18	1.0000%	2,885,340.00
10/30/12	GA (Huntington Inv) FHLB Step 1.00% YTM	10/30/14	1.0000%	2,874,120.00
12/28/13	GA (Huntington Inv) FHLB Step 1.00% YTM	12/28/17	0.5000%	3,939,840.00
01/29/13	GA (UBS Financial Services) FHLB Step 2.0% YTM	01/29/21	0.2000%	1,729,800.00
01/30/13	GA (Huntington Inv) FHLB Step 2.549% YTM	01/30/23	1.3750%	3,182,400.00
02/21/13	GA (Morgan Stanley/Smith Barney) FHLB 1.48% YTM	02/21/20	1.4800%	8,688,690.00
03/27/13	GA (Huntington Inv) FFCB 2.19% YTM	03/07/22	2.1899%	4,629,450.00
06/10/13	GA (UBS Financial Services) Fed. Farm Credit Bank 2.124974% YTM	12/04/20	2.1242%	12,606,246.25
08/07/13	GA (Morgan Stanley) Fed. Farm Credit Bank 1.33% YTM	08/07/17	1.3300%	5,000,700.00
08/30/13	CP (UBS Financial) Abbey Capital A-1 P-1 0.40% YTM	05/27/14	0.4000%	2,743,702.49
05/31/13	MBIA Class Accounts			533,766.65
09/30/13	Fifth Third Bank Short Term Investment Account			47,898,773.28
09/30/13	Flagstar Bank (Drain)			35,705.47
09/30/13	Flagstar Bank (General)			44,662.56
09/30/13	Smith Barney/Morgan Stanley - Retiree Health Care			8,452,231.95
09/30/13	MERS of Michigan-Retiree Health Savings Plan			3,960,954.64
09/30/13	UBS FINANCIAL SERVICES - Retiree Health			7,564,986.41
09/30/13	Chase Bank - Library			98,851.76
09/30/13	Bank of America - W & S			1,037,153.03
09/30/13	Bank of America - Special Assessment			1,066,649.37
09/30/13	Comerica - Lockbox - Tax			782.07
09/30/13	Comerica - Suspense Account			770.95
09/30/13	Comerica - Suspense Account			2,513.84
09/30/13	Comerica - Lockbox - Water/Sewer			1,029,456.77
09/30/13	Oakland County - LGIP			10,604,962.69
	Totals			\$ 157,236,477.56

CD = Certificate of Deposit; GA = Government Agency; CP = Commercial Paper; GO = General Obligation