

MEMORANDUM



TO: HONORABLE MAYOR AND CITY COUNCIL MEMBERS
FROM: CARL A. JOHNSON, JR., CFO
DEBRA PECK, ASSISTANT CITY TREASURER
CC: PETE AUGER, CITY MANAGER
MARYANNE CORNELIUS, CITY CLERK
SUBJECT: QUARTERLY INVESTMENT REPORT – JUNE 30, 2014
DATE: NOVEMBER 12, 2014

Attached to this memo is the investment report for the City of Novi as of June 30, 2014. This memo also outlines the investment factors and trends that were playing a role in our investment decisions for the fourth quarter of the prior fiscal year.

Nationally

According to the minutes of the Federal Open Market Committee (FOMC) meetings held on June 17-18, 2014, information reviewed "indicated that real gross domestic product (GDP) had dropped significantly early in the year but that economic growth had bounced back in recent months. The average pace of employment gains stepped up, and the unemployment rate declined markedly in April and held steady in May, although it was still elevated. Consumer price inflation picked up in recent months, while measures of longer-run inflation expectations remained stable".¹

The June jobs report showed job creation was up with 288,000 jobs added in June, and the national unemployment rate declined to 6.1%. Job gains were widespread, led by employment growth in professional and business services, retail trade, food services and drinking places, and health care.² According to Dan Burrows of InvestorPlace, "The latest jobs report showed that hiring has now topped 200,000 a month for five straight months, a feat the economy hasn't managed to pull off since 1999. More importantly, the decline in the unemployment rate was driven by the right reasons, as an increasing number of people who entered the labor force found work. (Prior decreases in the unemployment rate were due mainly to job seekers giving up the search.)"³

State

The Southeast Michigan Purchasing Manager's Index (PMI) dropped in June, to 47.1, from May's high of 60.0. The index is still averaging 53.6 over the last three months. A PMI over 50

¹ <http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20140618.pdf>

² http://www.bls.gov/news.release/archives/empst_07032014.pdf

³ <http://investorplace.com/2014/07/june-jobs-report/#.VEIwKBHwvcs>

indicates growth. Despite the dip in June, the Institute for Supply Management does not expect a prolonged business decline.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.

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. The City prohibits investment of operating funds in securities maturing more than two years from the date of purchase. Capital Improvement and Reserve Funds, Special Assessment Funds, Post-Retirement Health Care Fund, Perpetual Drain Fund, and Water and Sewer Fund are permitted to hold investments with maturities exceeding two years, provided sufficient funds are held in short term or highly liquid investment funds to meet anticipated and unanticipated needs.

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-2014.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 comprehensive listing of investments the City held at June 30, 2014. 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). Please note that all investments, except for the Retiree Health Care Account with MERS, 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 issues of non-compliance with the MERS Retiree Health Care Account are currently being addressed and remedies are being considered.

CITY OF NOVI

Quarterly Investment Report

June 30, 2014



| <u>Local Government Investment Pools / Money Market</u> | <u>Beginning 03/31/2014</u> | <u>Ending 06/30/2014</u> |
|---|---------------------------------|------------------------------|
| Market Value | 49,244,805 | 50,955,839 |
| WAM (1) in Days | 1 | 1 |
| Weighted Average Yield to Maturity | 0.32% | 0.28% |

| <u>Fixed Income Assets</u> | | |
|--|--------------|--------------|
| Book Value | 73,925,566 | 71,177,718 |
| Market Value | 72,233,580 | 70,269,902 |
| Change in Market Value | 1,026,848 | 785,912 |
| Unrealized Gain / Loss | 1,026,848 | 530,077 |
| Realized Gain / Loss | 0 | 255,835 |
| WAM (1) in Days | 2,098 | 2,080 |
| WAM / Callable (1) in Days | 808 | 791 |
| Yield to Maturity @ Cost | 2.24% | 2.32% |
| Annualized, Total Rate of Return - Market Value | 7.44% | 6.00% |

| <u>BENCHMARK</u> | | |
|------------------|-------|-------|
| 1 Year Treasury | 0.13% | 0.10% |
| 6 Month Treasury | 0.08% | 0.06% |

| <u>Total Portfolio Value</u> | | |
|--|--------------|--------------|
| Book Value | 123,170,371 | 122,133,557 |
| Market Value | 121,478,385 | 121,225,741 |
| Change in Market Value | 1,026,848 | 785,912 |
| Unrealized Gain / Loss | 1,026,848 | 530,077 |
| Realized Gain / Loss | 0 | 255,835 |
| WAM (1) in Days | 1,260 | 1,206 |
| WAM / Callable (1) in Days | 485 | 461 |
| Yield to Maturity @ Cost | 1.47% | 1.47% |
| Annualized, Total Rate of Return - Market Value | 4.16% | 3.94% |

| <u>BENCHMARK</u> | | |
|------------------|-------|-------|
| 1 Year Treasury | 0.13% | 0.10% |
| 6 Month Treasury | 0.10% | 0.06% |

Carl A. Johnson, Jr
Finance Director / Treasurer, Chief Financial Officer

11/12/14

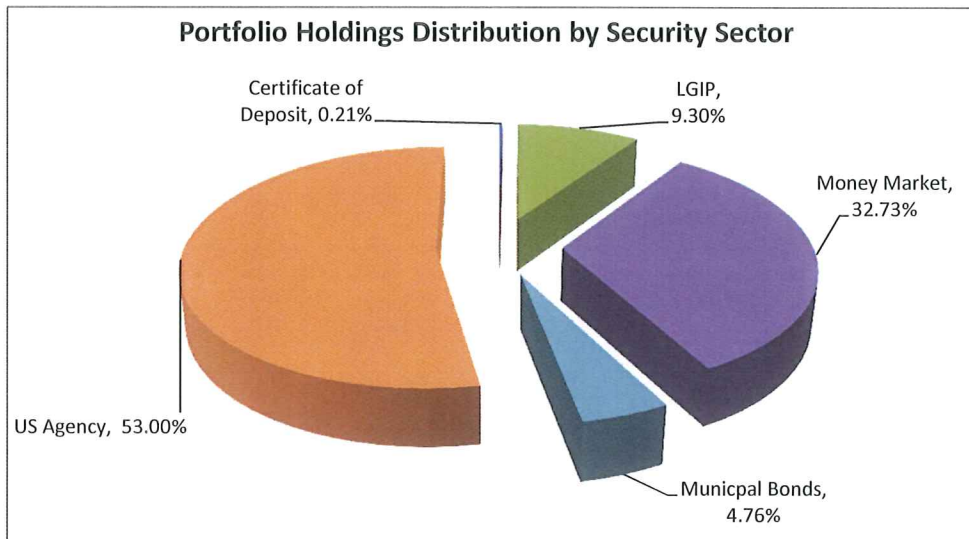
Date

Quarterly Investment Report - Investment Listing, by Security Type

June 30, 2014



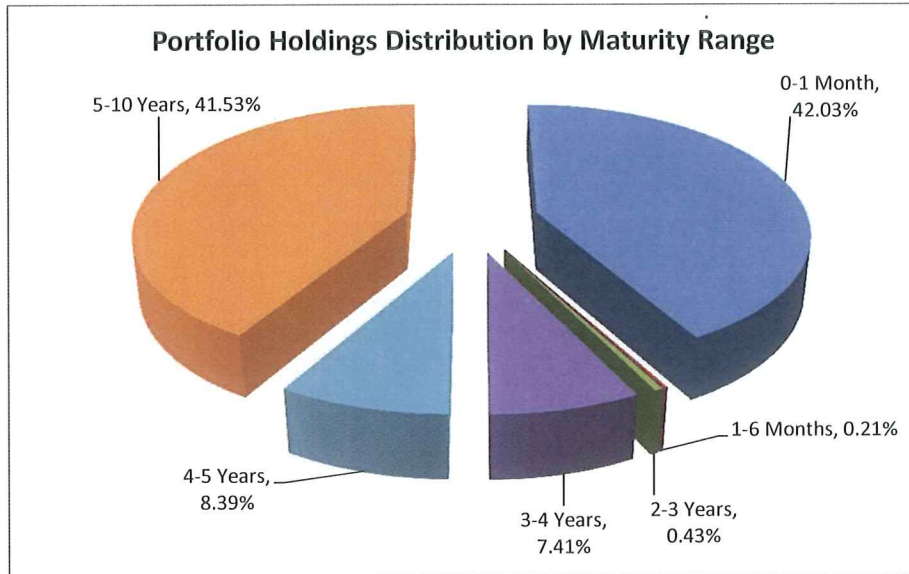
| Description | YTM @ Cost | Amount | Cost Value | Book Value | Market Value | Days To Maturity | % of Portfolio |
|---|-------------|--------------------|--------------------|--------------------|--------------------|------------------|----------------|
| Fixed Income Assets | | | | | | | |
| FAMC | 1.00 | 3,000,000 | 3,000,000 | 3,000,000 | 2,922,540 | 1582 | 4.21 |
| FFCB | 1.97 | 23,025,000 | 23,025,000 | 23,025,000 | 22,672,277 | 2178 | 32.35 |
| FHLB | 3.03 | 28,400,000 | 28,400,000 | 28,400,000 | 27,846,422 | 2351 | 39.90 |
| FHLMC | 2.00 | 2,000,000 | 2,000,000 | 2,000,000 | 2,002,400 | 1634 | 2.81 |
| FNMA | 1.22 | 9,000,000 | 9,000,000 | 9,000,000 | 8,798,530 | 1641 | 12.65 |
| Lotus Bank - Certificate of Deposit | 0.66 | 252,718 | 252,718 | 252,718 | 252,718 | 110 | 0.36 |
| Michigan Go Bonds Ser 2010 B | 2.90 | 500,000 | 503,505 | 500,000 | 523,715 | 855 | 0.70 |
| Michigan State GO Bond | 2.90 | 5,000,000 | 4,983,900 | 5,000,000 | 5,251,300 | 1615 | 7.02 |
| Weighted Average Yield | 2.32 | 71,177,718 | 71,165,123 | 71,177,718 | 70,269,902 | 2080 | 100.00% |
| Local Government Investment Pools / Money Market | | | | | | | |
| Bank of America | 0.20 | 2,106,940 | 2,106,940 | 2,106,940 | 2,106,940 | 1 | 4.13 |
| Chase Bank | 0.03 | 98,900 | 98,900 | 98,900 | 98,900 | 1 | 0.19 |
| Comerica - Lockbox | 0.10 | 1,607,822 | 1,607,822 | 1,607,822 | 1,607,822 | 1 | 3.16 |
| Comerica - Suspense | 0.10 | 3,287 | 3,287 | 3,287 | 3,287 | 1 | 0.01 |
| Fifth Third | 0.20 | 35,778,984 | 35,778,984 | 35,778,984 | 35,778,984 | 1 | 70.22 |
| Flagstar Bank | 0.25 | 80,476 | 80,476 | 80,476 | 80,476 | 1 | 0.16 |
| MBIA Class | 0.10 | 534,000 | 534,000 | 534,000 | 534,000 | 1 | 1.05 |
| Oakland County | 0.60 | 10,745,430 | 10,745,430 | 10,745,430 | 10,745,430 | 1 | 21.08 |
| Weighted Average Yield | 0.28 | 50,955,839 | 50,955,839 | 50,955,839 | 50,955,839 | 1 | 100.00% |
| Total / Average | 1.47 | 122,133,557 | 122,120,962 | 122,133,557 | 121,225,741 | 1206 | 100% |



| Description | YTM @ Cost | 06/30/2014 Market Value | Investment Income - Market Value | % of Portfolio |
|------------------------|-------------|-------------------------|----------------------------------|----------------|
| Cash | 0.00 | 0 | 0 | 0.00% |
| Certificate of Deposit | 0.66 | 252,718 | 406 | 0.21% |
| Corporate Bond | 0.00 | 0 | 605 | 0.00% |
| LGIP | 0.57 | 11,279,430 | 103,983 | 9.30% |
| Money Market | 0.20 | 39,676,409 | 24,981 | 32.73% |
| Municipal Bonds | 2.90 | 5,775,015 | 100,403 | 4.76% |
| US Agency | 2.28 | 64,242,169 | 945,485 | 53.00% |
| Total / Average | 1.46 | 121,225,741 | 1,175,864 | 100.00% |

Investment Portfolio - Diversification, by Maturity Range

June 30, 2014



| Description | YTM @ Cost | 06/30/2014 Market Value | Days to Maturity | Investment Income - Market Value | % of Portfolio |
|------------------------|-------------|-------------------------|------------------|----------------------------------|----------------|
| * 0-1 Month | 0.29 | 50,955,839 | 1 | 128,964 | 42.03% |
| 1-6 Months | 0.66 | 252,718 | 110 | 1,011 | 0.21% |
| 2-3 Years | 2.90 | 523,715 | 855 | 2,574 | 0.43% |
| 3-4 Years | 1.22 | 8,983,180 | 1197 | 38,364 | 7.41% |
| 4-5 Years | 2.18 | 10,176,240 | 1609 | 137,150 | 8.39% |
| 5-10 Years | 2.55 | 50,334,049 | 2355 | 867,800 | 41.53% |
| Total / Average | 1.52 | 121,225,741 | 1206 | 1,175,864 | 100.00% |

* Includes Cash, Money Market & Local Government Investment Pools