

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 – MARCH 31, 2015
DATE: JULY 29, 2015

Attached to this memo is the investment report for the City of Novi as of March 31, 2015. The Treasurer's office changed the process for tracking and reporting investments and is currently fully utilizing specialized software for the quarterly reporting (new format attached). The process change and numerous revisions to the report format resulted in the delay of this issuance of this report. This memo also outlines the investment factors and trends that were playing a role in our investment decisions for the third quarter of the current fiscal year.

Nationally

According to the minutes of the Federal Open Market Committee (FOMC) meetings held on March 17 – 18, 2015, "real gross domestic product (GDP) growth moderated in the first quarter and that labor market conditions improved further. Consumer price inflation was restrained significantly by declines in energy prices and continued to run below the FOMC's longer-run objective of 2 percent. Market-based measures of inflation compensation were still low, while survey measures of longer-run inflation expectations remained stable".¹

The March jobs report showed job creation was up with 126,000 jobs added in March, and the national unemployment rate was unchanged at 5.5%. In March, employment continued to trend up in professional and business services, health care, and retail trade, while mining lost jobs.² Even with the reported gains, Chad Stone, Chief Economist with the Center on Budget and Policy Priorities, believes that "despite substantial job market improvements over the last year or so, the Federal Reserve should not yet start raising interest rates to prevent the economy from overheating and producing unacceptable inflation. There's still too much labor market "slack" (too many people who want to work, or who want to work more hours) for the Fed to shift its chief concern to the risk of too much inflation."³

¹ <http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20150318.pdf>

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

³ http://www.huffingtonpost.com/chad-stone/the-march-jobs-report-in_b_6999982.html

State

The Southeast Michigan Purchasing Manager's Index (PMI) rose in March, to 64.5 continuing February's climb to 56.0. The index has averaged 56.8 over the last three months, reflecting the slowdown in January. A PMI over 50 indicates economic growth. According to the Institute for Supply Management, significant increases in the production portion of the index, along with new orders, and employment drove much of the increase.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. 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-March-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 March 31, 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 March 31, 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 and Morgan Stanley / Smith Barney.

PERFORMANCE VALUES

TRR-MV	Total Rate of Return - Market Value	0.79
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	3.20
YTM@Cost	Yield to Maturity @ Cost	1.27

BENCHMARKS

Treasury 6 Month	0.11 %
Treasury 1 Year	0.25 %

Investment Income / Fiscal Year to Date: 2,041,579.63.

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	54,750.25	54,750.25	54,750.25	0.04	0.00	1
Certificate Of Deposit	253,869.54	253,869.54	253,869.54	0.20	0.55	201
Local Government Investment Pool	10,807,390.69	10,807,390.69	10,807,390.69	8.58	1.15	1
Money Market	46,954,039.80	46,954,039.80	46,954,039.80	37.30	0.20	1
Municipal	5,900,000.00	6,181,305.00	5,914,297.98	4.69	2.86	1,326
US Agency	61,925,000.00	61,886,509.75	61,925,000.00	49.19	1.95	1,976
Total / Average	125,895,050.28	126,137,865.03	125,909,348.26	100.00	1.27	1,035



 Carl A. Johnson, Jr. - Finance Director / Treasurer, CFO

2/28/15

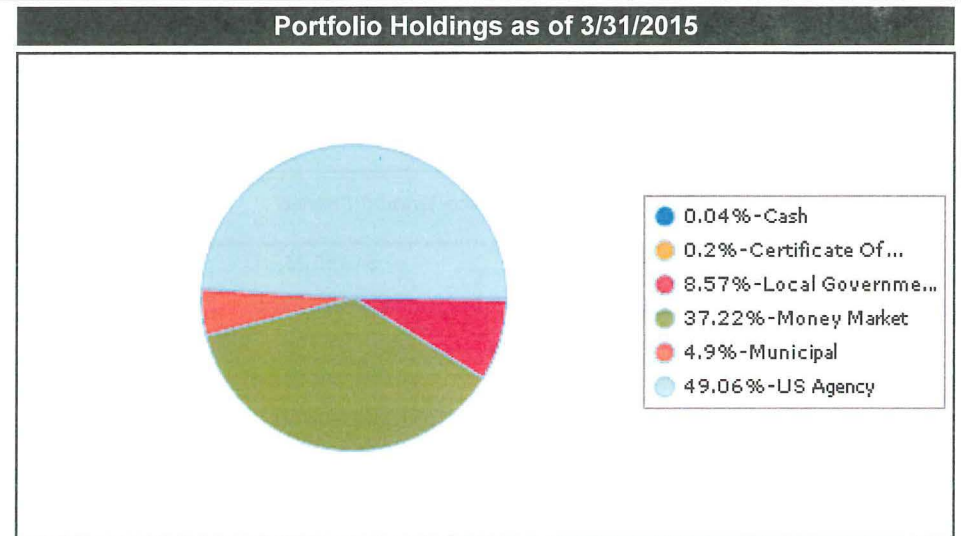
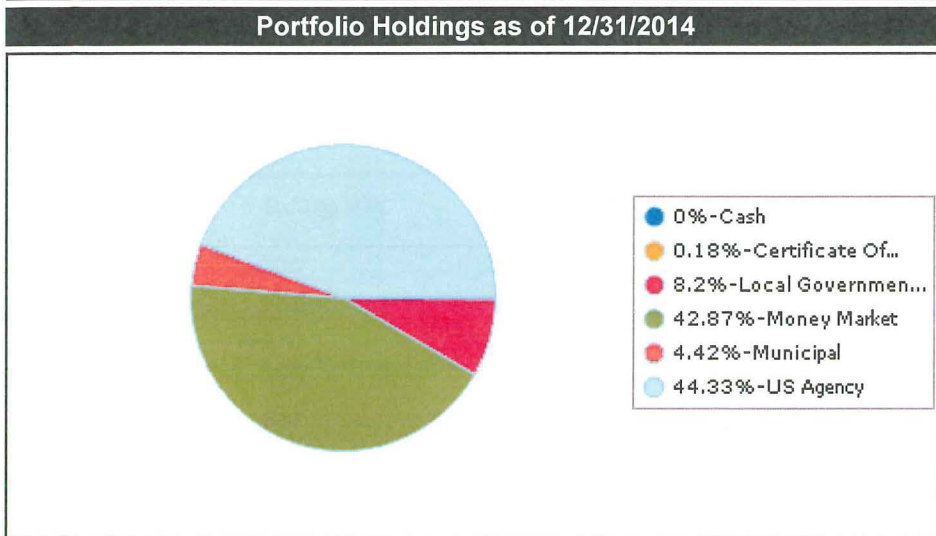
 Date



City of Novi Distribution by Security Sector - Market Value Report Group: City of Novi - Quarterly Report

Begin Date: 12/31/2014, End Date: 3/31/2015

Security Sector Allocation				
Security Sector	Market Value 12/31/2014	% of Portfolio 12/31/2014	Market Value 3/31/2015	% of Portfolio 3/31/2015
Cash	0.17	0.00	54,750.25	0.04
Certificate Of Deposit	253,520.79	0.18	253,869.54	0.20
Local Government Investment Pool	11,321,442.13	8.20	10,807,390.69	8.57
Money Market	59,209,168.02	42.87	46,954,039.80	37.22
Municipal	6,103,769.00	4.42	6,181,305.00	4.90
US Agency	61,213,515.25	44.33	61,886,509.75	49.06
Total / Average	138,101,415.36	100.00	126,137,865.03	100.00





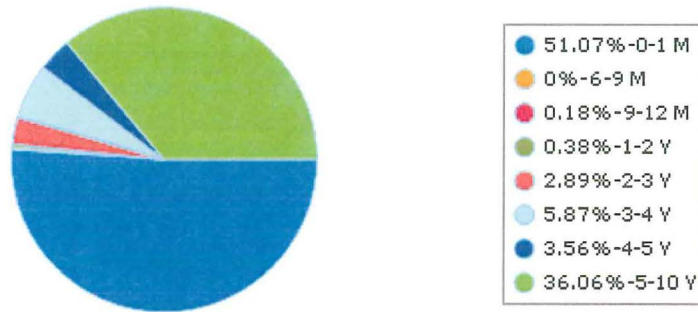
City of Novi Distribution by Maturity Range - Market Value Report Group: City of Novi - Quarterly Report

Begin Date: 12/31/2014, End Date: 3/31/2015

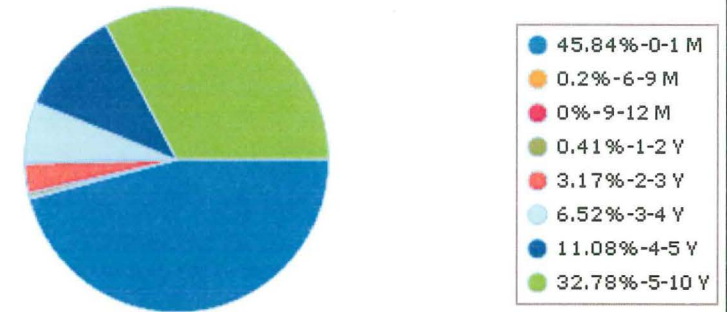
Maturity Range Allocation

Maturity Range	Market Value 12/31/2014	% of Portfolio 12/31/2014	Market Value 3/31/2015	% of Portfolio 3/31/2015
0-1 Month	70,530,610.32	51.07	57,816,180.74	45.84
6-9 Months	0.00	0.00	253,869.54	0.20
9-12 Months	253,520.79	0.18	0.00	0.00
1-2 Years	518,005.00	0.38	517,975.00	0.41
2-3 Years	3,987,880.00	2.89	4,002,560.00	3.17
3-4 Years	8,107,730.00	5.87	8,220,160.00	6.52
4-5 Years	4,910,650.00	3.56	13,981,120.00	11.08
5-10 Years	49,793,019.25	36.06	41,345,999.75	32.78
Total / Average	138,101,415.36	100.00	126,137,865.03	100.00

Portfolio Holdings as of 12/31/2014



Portfolio Holdings as of 3/31/2015



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: 12/31/2014, End Activity Date: 3/31/2015, Carrying Value Date: 12/31/2014

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		0.08	0.00	0.00	0.08	0.00	0.00
Certificate Of Deposit		348.81	0.00	0.00	348.81	0.14	0.55
Local Government Investment Pool		20,256.03	0.00	0.00	20,256.03	0.18	0.73
Money Market		34,028.71	0.00	0.00	34,028.71	0.06	0.24
Municipal		42,786.25	77,536.00	0.00	120,322.25	1.97	8.10
US Agency		231,645.30	672,994.50	0.00	904,639.80	1.48	6.03
Total / Average		329,065.18	750,530.50	0.00	1,079,595.68	0.79	3.20

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 3/31/2015

Description	CUSIP/Ticker	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Comerica		0.150	4,693,106.48	4,693,106.48	1	0.00	3.73
FAMC		1.000	3,000,000.00	2,984,910.00	1308	12,666.67	2.38
FFCB		2.180	21,525,000.00	21,539,389.75	2185	118,452.23	17.10
FHLB		2.127	28,400,000.00	28,386,000.00	2078	85,291.67	22.56
Fifth Third		0.200	42,260,933.32	42,260,933.32	1	0.00	33.57
FNMA		1.173	9,000,000.00	8,976,210.00	1372	36,234.72	7.15
Huntington		0.000	54,750.00	54,750.00	1	0.00	0.04
Lotus Bank		0.550	253,869.54	253,869.54	201	49.72	0.20
Michigan State GO Bond		2.863	5,914,297.98	6,181,305.00	1326	58,310.42	4.69
Morgan Stanley Smith Barney		0.010	0.25	0.25	1	0.00	0.00
Oakland County		1.151	10,807,390.69	10,807,390.69	1	0.00	8.58
Total / Average		1.267	125,909,348.26	126,137,865.03	1035	311,005.43	100