

MEMORANDUM



TO: HONORABLE MAYOR AND CITY COUNCIL MEMBERS
FROM: CARL A. JOHNSON, JR., CFO
TINA GLENN, ASSISTANT CITY TREASURER
CC: PETE AUGER, CITY MANAGER
CORTNEY HANSON, CITY CLERK
SUBJECT: QUARTERLY INVESTMENT REPORT – SEPTEMBER 30, 2016
DATE: OCTOBER 20, 2016

Attached to this memo is the investment report for the City of Novi as of September 30, 2016. 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 September 20 - 21, 2016, "Domestic financial conditions remained accommodative since the July FOMC meeting. Asset prices moved within a fairly narrow range for much of the intermeeting period, although volatility increased somewhat in the last few days of the period as market participants focused on central bank communications in the United States and abroad. Market expectations for a policy rate increase by the end of this year rose a bit since the July FOMC meeting, reportedly reflecting comments of Federal Reserve officials that were viewed, on balance, as suggesting that the case for policy firming had strengthened over recent months. Nominal Treasury yields across the curve edged up. Anticipation of the impending deadline for compliance with Money Market Fund (MMF) reform measures continued to prompt new outflows from prime MMFs and put upward pressure on some term money market rates".¹

The September jobs report indicated that "Total nonfarm payroll employment increased by 156,000 in September, and the unemployment rate was little changed at 5.0 percent. Employment gains occurred in professional and business services and in health care."²

State

The Southeast Michigan Purchasing Manager's Index (PMI) in September dropped back to 60.2, a still relatively strong reading. The 3 month average is essentially unchanged at 60.6, and has shown stability throughout the summer. The index has maintained a value of more than 50 since June of 2014, an impressive 26-month consecutive streak of economic expansion for Southeast Michigan. In general, an index value above 50 indicates economic expansion, while a PMI index below 50 indicates contraction. Components of

¹ <http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20160921.pdf>

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

the index influencing the strength include the Production index, at 59.4, New Orders Index at 68.8, and Employment Index at 62.5. Commodity prices are down slightly, to 46.9. Both Raw Materials Inventory and Finished Goods Inventory Indexes are down slightly.³

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 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

³ http://www.ism-sem.org/resources/files/Report-on-Business_September-2016.pdf

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 September 30, 2016 (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). The book and market value for the Fifth Third checking account represents the bank balance at September 30, 2016 and does not include any month end reconciling items.

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 September 30, 2016



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, 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 Various Brokerage Accounts: Huntington Bank, UBS, Morgan Stanley/Smith Barney, Comerica and DA Davidson.

PERFORMANCE VALUES

TRR-MV	Total Rate of Return - Market Value	0.18%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	0.74%
YTM@Cost	Yield to Maturity @ Cost	1.804%

BENCHMARKS

Treasury 6 Month	0.47%
Treasury 1 Year	0.59%

FISCAL YEAR TO DATE

Investment Income	290,846.80
TRR-MV	0.18%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	4,966,173.46	4,966,173.46	4,966,173.46	3.46	0.00	1
Certificate Of Deposit	6,000,000.00	6,114,690.00	6,000,000.00	4.18	2.09	1,388
Corporate	7,000,000.00	6,970,490.00	6,968,659.45	4.88	1.65	124
Local Government Investment Pool	50,199,709.28	50,199,709.28	50,199,709.28	34.96	0.92	1
Money Market	1,362,433.49	1,362,433.49	1,362,433.49	0.95	0.25	1
Municipal	51,550,000.00	53,113,666.45	52,535,684.92	35.90	2.61	1,915
US Agency	22,500,000.00	22,561,410.00	22,514,252.76	15.67	2.39	2,794
Total / Average	143,578,316.23	145,288,572.68	144,546,913.36	100.00	1.81	1,195

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

10/20/16

Date



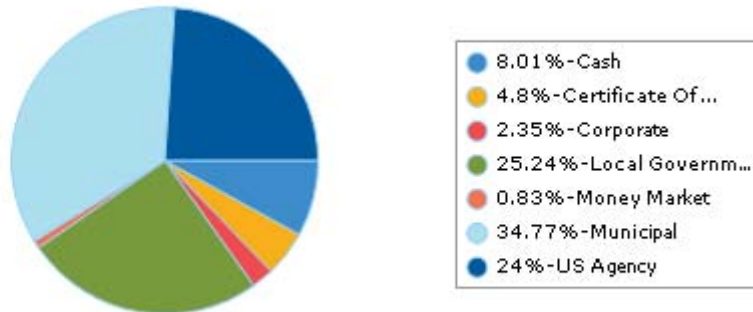
City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 6/30/2016, End Date: 9/30/2016

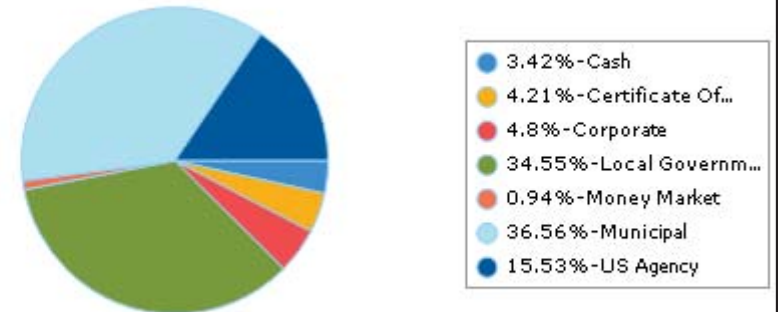
Security Sector Allocation

Security Sector	Market Value 6/30/2016	% of Portfolio 6/30/2016	Market Value 9/30/2016	% of Portfolio 9/30/2016
Cash	10,198,535.24	8.01	4,966,173.46	3.42
Certificate Of Deposit	6,109,870.00	4.80	6,114,690.00	4.21
Corporate	2,987,420.00	2.35	6,970,490.00	4.80
Local Government Investment Pool	32,121,634.45	25.24	50,199,709.28	34.55
Money Market	1,057,935.35	0.83	1,362,433.49	0.94
Municipal	44,253,741.05	34.77	53,113,666.45	36.56
US Agency	30,537,732.00	24.00	22,561,410.00	15.53
Total / Average	127,266,868.09	100.00	145,288,572.68	100.00

Portfolio Holdings as of 6/30/2016



Portfolio Holdings as of 9/30/2016





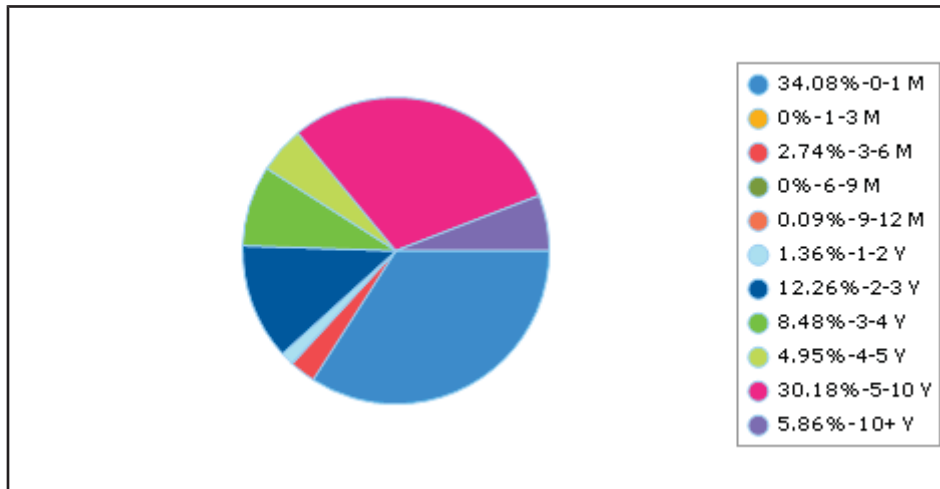
City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 6/30/2016, End Date: 9/30/2016

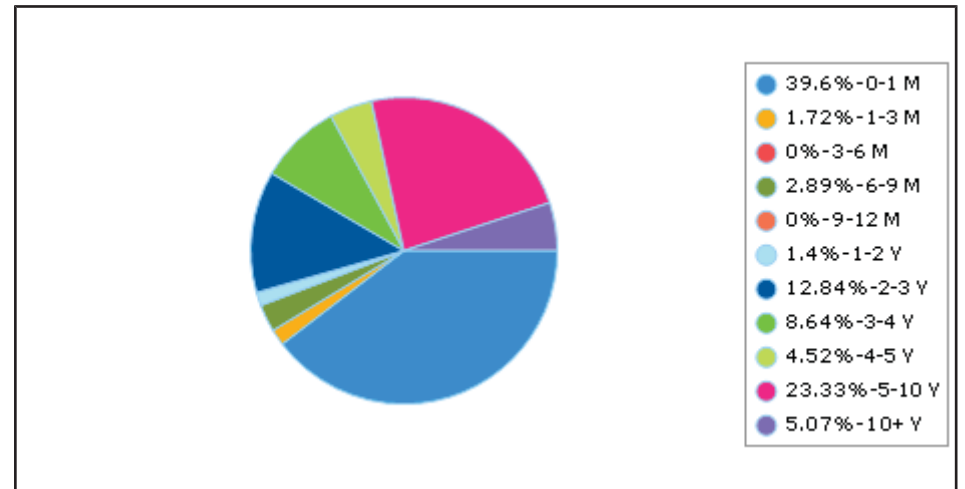
Maturity Range Allocation

Maturity Range	Market Value 6/30/2016	% of Portfolio 6/30/2016	Market Value 9/30/2016	% of Portfolio 9/30/2016
0-1 Month	43,378,105.04	34.08	57,528,246.23	39.60
1-3 Months	0.00	0.00	2,497,925.00	1.72
3-6 Months	3,491,980.00	2.74	0.00	0.00
6-9 Months	0.00	0.00	4,193,903.00	2.89
9-12 Months	120,538.80	0.09	0.00	0.00
1-2 Years	1,731,951.60	1.36	2,037,670.10	1.40
2-3 Years	15,599,028.60	12.26	18,655,208.65	12.84
3-4 Years	10,788,973.90	8.48	12,546,294.60	8.64
4-5 Years	6,295,895.00	4.95	6,562,623.95	4.52
5-10 Years	38,407,860.90	30.18	33,895,604.40	23.33
10+ Years	7,452,534.25	5.86	7,371,096.75	5.07
Total / Average	127,266,868.09	100.00	145,288,572.68	100.00

Portfolio Holdings as of 6/30/2016



Portfolio Holdings as of 9/30/2016



City of Novi

Investment Income - Market Value

Report Format: By Totals

Group By: Security Sector

Portfolio / Report Group: All Portfolios

Begin Date: 6/30/2016, End Date: 9/30/2016

Description	Interest Earned During Period-MV	Unrealized Gain/Loss-MV	Realized Gain/Loss-MV	Investment Income-MV	TRR-MV	Annualized TRR-MV
Cash	0.00	0.00	0.00	0.00	0.00	0.00
Certificate Of Deposit	27,852.05	4,820.00	0.00	32,672.05	0.53	2.15
Corporate	6,590.00	18,892.22	0.00	25,482.22	0.44	1.78
Local Government Investment Pool	78,074.83	0.00	0.00	78,074.83	0.16	0.64
Money Market	1,475.14	0.00	0.00	1,475.14	0.03	0.10
Municipal	339,243.91	-245,286.30	0.00	93,957.61	0.20	0.81
US Agency	135,506.95	-72,135.00	-4,187.00	59,184.95	0.23	0.92
Total / Average	588,742.88	-293,709.08	-4,187.00	290,846.80	0.18	0.74

City of Novi
Investment Portfolio - by Issuer, Summary
As of 9/30/2016

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Abbey National	0.920	999,825.00	999,930.00	7	0.00	0.70
Allen Park	3.198	446,073.75	449,446.85	2,589	3,639.87	0.31
Allendale MI PSD	2.249	1,010,909.60	1,040,290.00	1,309	10,649.36	0.70
Ally Bank UT	1.700	1,000,000.00	1,014,040.00	808	4,890.41	0.70
American Express Centurion	1.967	3,000,000.00	3,074,750.00	1,139	22,791.78	2.09
Belding Area Schools	2.041	1,147,233.81	1,170,222.50	1,103	9,995.42	0.80
Center Line Public Schools	3.589	256,665.06	256,542.50	2,770	4,138.89	0.17
Charter Township of Commerce	2.397	870,000.00	883,580.70	2,436	8,861.68	0.61
DA DAVIDSON	0.000	26,210.04	26,210.04	1	0.00	0.02
Delhi TWP MI	1.980	140,000.00	139,965.00	2,223	269.50	0.10
Eastern MI Univ	6.053	766,673.51	759,834.90	6,347	6,132.38	0.48
FFCB	2.732	9,014,252.76	9,027,310.00	3,229	26,408.88	6.27
FHLB	2.559	5,500,000.00	5,488,200.00	3,257	24,566.67	3.83
Fifth Third	0.054	6,302,396.02	6,302,396.02	1	0.00	4.39
Flat Rock Community Schools	2.441	1,064,427.75	1,079,256.60	2,770	12,234.39	0.72
FNMA	1.901	8,000,000.00	8,045,900.00	1,987	33,733.34	5.57
Ford Motor Credit Co	1.771	5,968,834.45	5,970,560.00	144	14,205.11	4.18
Harper Creek MI	2.000	507,050.87	517,375.00	1,309	4,995.64	0.35
Holly Mich Area School Dist	2.392	1,560,000.00	1,572,869.80	2,419	14,302.17	1.09
Holly Mich Area School District	2.750	700,000.00	717,234.00	3,136	7,379.17	0.49
Houghton-Portage	1.472	1,045,000.00	1,045,525.80	887	3,248.37	0.73
JP Morgan Chase OH	2.405	1,000,000.00	1,001,920.00	1,796	1,397.26	0.70
Lansing MI Bldg Auth	2.575	63,325.49	60,331.50	2,435	0.00	0.05
Lincoln MI Consol Sch Dist	2.020	428,345.47	431,859.50	1,309	4,462.50	0.30
Macomb County MI	1.233	737,399.87	738,205.20	762	5,230.02	0.51
Madison Heights	1.787	1,220,000.00	1,224,297.05	1,366	60.57	0.85
Michigan State	5.887	3,343,180.78	3,296,769.00	4,002	9,340.63	2.05
Michigan State GO Bond	2.820	5,915,984.70	6,104,713.00	777	57,835.02	4.11
MIS FIN MI Fin Auth	2.301	1,099,903.31	1,100,689.10	2,223	3,450.30	0.76
Monroe	1.395	550,000.00	548,614.00	877	1,960.11	0.38
Morgan Stanley Smith Barney	0.000	0.89	0.89	1	0.00	0.00
Muskegon Heights PUB	2.291	1,635,000.00	1,657,378.55	1,478	18,836.32	1.14
Muskegon Hts PuB	2.420	570,000.00	574,953.30	1,674	6,935.32	0.40
New Haven Community School	2.291	279,247.92	285,004.50	1,674	3,016.22	0.19

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
North Muskegon Public Schools	2.081	201,182.85	205,836.00	1,309	1,865.81	0.14
Oakland County	0.916	50,199,709.28	50,199,709.28	1	0.00	34.96
Ottawa CountyMI	2.250	397,354.21	407,581.20	1,858	4,277.54	0.27
Parchment SD	2.282	2,520,000.00	2,565,857.95	1,877	25,554.45	1.76
Perry MI PS	2.440	1,354,987.94	1,383,723.00	2,039	17,050.20	0.94
Ravenna Schools	1.923	2,055,000.00	2,076,843.15	1,189	19,759.25	1.43
Saranac MI ISD	1.819	632,606.65	641,006.25	943	5,975.52	0.44
State of Michigan	1.350	515,953.71	516,600.00	957	4,875.00	0.35
U of MI	4.842	1,761,340.33	1,742,644.80	4,931	47,874.15	1.09
University of Michigan - REV	3.277	1,122,581.23	1,110,940.00	2,009	28,615.14	0.70
Wells Fargo Bank	2.531	1,000,000.00	1,023,980.00	2,308	3,212.33	0.70
Whitmore Lake Public Schools	1.650	2,572,040.43	2,592,451.00	943	22,655.04	1.77
Williamston Community School	1.549	1,021,215.68	1,026,780.00	943	9,920.92	0.70
Ypsilanti MI	2.619	7,425,000.00	7,551,198.75	2,495	97,759.85	5.17
Ypsilanti School Dist	2.028	5,600,000.00	5,637,246.00	1,335	946.34	3.90
Total / Average	1.804	144,546,913.36	145,288,572.68	1,190	615,308.84	100