

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 – DECEMBER 31, 2013
DATE: JANUARY 14, 2014

1/16/14
To: Mayor & City
Council Members
For their review

Attached to this memo is the investment report for the City of Novi as of December 31, 2013. This memo also outlines the investment factors and trends that are playing a role in our investment decisions for the second quarter of the current fiscal year. Additionally, due to a conversion in the monthly reconciliation process which is not yet complete the Quarterly Investment report is complete through December 2013 and the Quarterly Financial Report does not include final December 2013 adjustments. Therefore the end result will be some inconsistencies between the two reports at this time. We anticipate the new monthly reconciliation process to be solidified in time for the January reconciliation.

Nationally

According to a press release issued after the last meeting of Federal Open Market Committee (FOMC,) economic activity and employment have continued to expand at a moderate rate over the last quarter, however unemployment remains elevated. Both the household spending and the housing sector have shown signs of improvementⁱ.

The December jobs report showed somewhat of an anomaly; the unemployment rate dropped to from 7.0% to 6.7% but the economy added just 74,000 jobs (the lowest amount since January 2011). Experts suggest several possible reasons for the strange employment numbers. The participation rate (that is, the percentage of the population actively working or looking for work) is declining, therefore it takes less jobs added to the economy to lower the unemployment rate. It should also be kept in mind that these numbers are subject to change over the next two monthsⁱⁱ. Employment gains from November and October were adjusted upward this monthⁱⁱⁱ.

State

The Southeast Michigan Purchasing Manager's Index (PMI) went down in December, falling from 58.3 in November to 50.6. The index has averaged 57.3 over that last three months. A PMI over 50 indicates growth.

In December a Federal judge ruled Detroit is eligible to file for Chapter 9 bankruptcy^{iv}. The federal judge also ruled that Detroit can alter pensions as part of the bankruptcy proceedings, a ruling that may have implications across the country; although these

implications are yet to be determined. City of Novi staff are monitoring the Detroit bankruptcy and the impacts they may have on the City of Novi as they proceed.

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 December 31, 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).

ⁱ <http://www.federalreserve.gov/newsevents/press/monetary/20121212a.htm> Retrieved 1/14/2014

ⁱⁱ <http://www.theatlantic.com/business/archive/2014/01/the-3-weirdest-things-about-the-weirdest-jobs-report-ever/282977/> Retrieved 1/14/2014

ⁱⁱⁱ <http://www.craigslist.com/article/20140106/NEWS/140109941/se-michigan-purchasing-managers-index-drops-after-decrease-in-year> Retrieved 1/14/2014

^{iv} <http://live.detroitnews.com/2013/12/03/eligibility-day/> Retrieved 1/14/2014

^v http://www.nytimes.com/2013/12/04/us/detroit-bankruptcy-ruling.html?_r=0 Retrieved 1/14/2014

CITY OF NOVI

Quarterly Investment Report

December 31, 2013



	Beginning 09/30/2013	Ending 12/31/2013
Local Government Investment Pools / Money Market		
Market Value	62,292,949	60,252,828
WAM (1) in Days	1	1
Weighted Average Yield to Maturity	0.34%	0.26%
Fixed Income Assets		
Book Value	76,919,164	73,922,270
Market Value	74,904,256	71,206,187
Change in Market Value	-43,258	-697,923
Realized Gain / Loss	823	-1,858
Unrealized Gain / Loss	-44,080	-696,065
WAM (1) in Days	2,184	2,188
WAM / Callable (1) in Days	695	661
Yield to Maturity @ Cost	2.16%	2.24%
Annualized, Total Rate of Return - Market Value	1.15%	-2.41%

BENCHMARK		
1 Year Treasury	0.12%	0.13%
6 Month Treasury	0.04%	0.10%

Total Portfolio Value		
Book Value	139,212,113	134,175,098
Market Value	137,197,205	131,249,015
Change in Market Value	-43,258	-697,923
Realized Gain / Loss	823	-1,858
Unrealized Gain / Loss	-44,080	-696,065
WAM (1) in Days	1,207	1,206
WAM / Callable (1) in Days	385	365
Yield to Maturity @ Cost	1.35%	1.35%
Annualized, Total Rate of Return - Market Value	0.69%	-1.23%

BENCHMARK		
1 Year Treasury	0.12%	0.13%
6 Month Treasury	0.04%	0.10%


 Victor Cardenas, Interim Finance Director

1-16-14
 Date

CITY OF NOVI

Quarterly Investment Report - Investment Listing, by Security Type

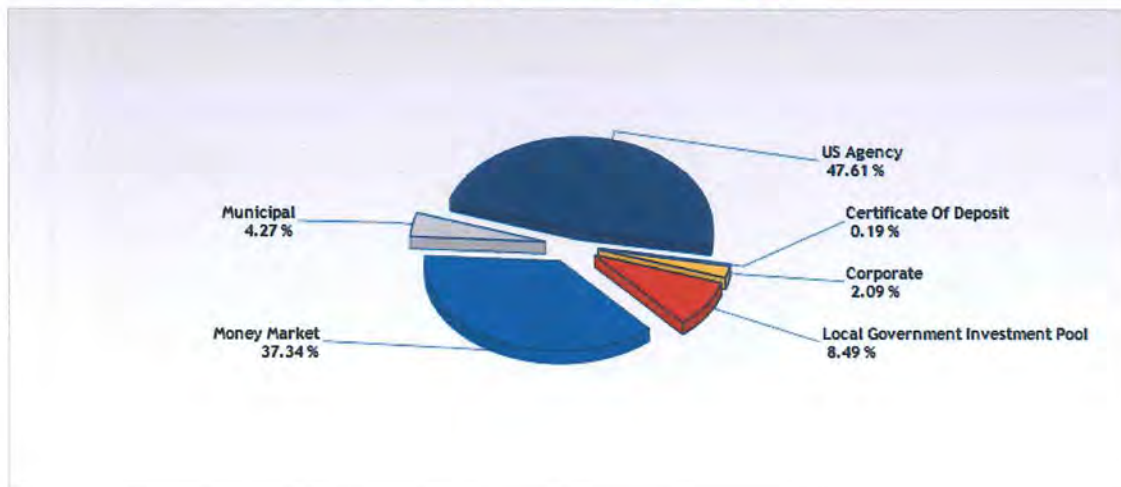
December 31, 2013



Description	YTM @ Cost	Amount	Cost Value	Book Value	Market Value	Days To Maturity	% of Portfolio
Fixed Income Assets							
Corporate - Abbey National	0.41	2,750,000	2,741,750	2,745,508	2,747,663	147	3.72
FAMC	1.00	3,000,000	3,000,000	3,000,000	2,871,570	1763	4.06
FFCB	1.97	23,025,000	23,025,000	23,025,000	21,973,192	2366	31.15
FHLB	3.01	28,400,000	28,400,000	28,400,000	27,082,596	2533	38.42
FHLMC	2.00	2,000,000	2,000,000	2,000,000	1,979,300	1815	2.71
FNMA	1.17	9,000,000	9,000,000	9,000,000	8,681,520	1827	12.17
Lotus Bank - Certificate of Deposit	0.66	251,762	251,762	251,762	251,762	291	0.34
Michigan Go Bonds Ser 2010 B	2.90	500,000	503,505	500,000	520,035	1036	0.68
Michigan State GO Bond	2.90	5,000,000	4,983,900	5,000,000	5,098,550	1796	6.76
Weighted Average Yield	2.24	73,926,762	73,905,917	73,922,270	71,206,187	2188	
Local Government Investment Pools / Money Market							
Bank of America	0.20	2,104,852	2,104,852	2,104,852	2,104,852	1	1.77
Chase Bank	0.05	98,880	98,880	98,880	98,880	1	0.16
Comerica - Lockbox	0.15	5,845,180	5,845,180	5,845,180	5,845,180	1	9.70
Comerica - Suspense	0.10	3,286	3,286	3,286	3,286	1	0.01
Fifth Third	0.20	40,960,046	40,960,046	40,960,046	40,960,046	1	67.98
Flagstar Bank	0.10	80,388	80,388	80,388	80,388	1	0.13
MBIA Class	0.03	533,796	533,796	533,796	533,796	1	0.89
Oakland County	0.59	10,626,401	10,626,401	10,626,401	10,626,401	1	17.64
Weighted Average Yield	0.26	60,252,828	60,252,828	60,252,828	60,252,828		
Total / Average	1.35	134,179,590	134,158,745	134,175,098	131,459,015	1206	100%



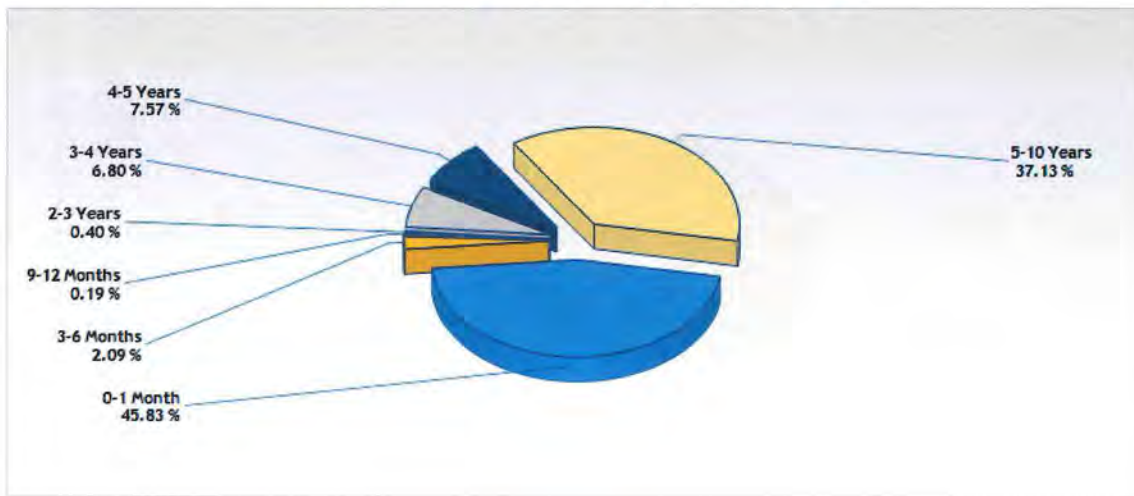
Portfolio Holdings Distribution by Security Sector



Description	YTM @ Cost	12/31/2013 Market Value	Investment Income - Market Value	% of Portfolio
Certificate of Deposit	0.66	251,762	433	0.19%
Corporate Bonds	0.41	2,747,663	4,402	2.09%
LGIP	0.56	11,160,197	21,467	8.49%
Money Market	0.19	49,092,632	7,911	37.34%
Municipal Bonds	2.90	5,618,585	-11,971	4.27%
US Agency	2.26	62,588,178	-431,989	47.61%
Total / Average	1.33	131,459,015	-409,748	100.00%



Portfolio Holdings Distribution by Maturity Range



Description	YTM @ Cost	12/31/2013 Market Value	Days to Maturity	Investment Income - Market Value	% of Portfolio
* 0-1 Month	0.26	60,252,828	1	29,959	45.83%
3-6 Months	0.41	2,747,663	147	3,960	2.09%
9-12 Months	0.66	251,762	291	332	0.19%
2-3 Years	2.90	520,035	1036	1308.32	0.40%
3-4 Years	1.18	8,932,970	1378	18,980	6.80%
4-5 Years	2.17	9,949,420	1790	-24,320	7.57%
5-10 Years	2.54	48,804,338	2533	-439,966	37.13%
Total / Average	1.33	131,459,015	1178	-409,748	100.00%

* Includes Cash, Money Market & Local Government Investment Pools