

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, 2017
DATE: NOVEMBER 14, 2017

Attached to this memo is the investment report for the City of Novi as of September 30, 2017. 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 19-20, 2017, “the information reviewed for the September 19-20 meeting showed that labor market conditions continued to strengthen in July and August and that real gross domestic product (GDP) appeared to be rising at a moderate pace in the third quarter before the landfall of Hurricanes Harvey and Irma. Only limited data pertaining to the economic effects of these hurricanes were available at the time of the meeting, but it appeared likely that the negative effects would restrain national economic activity only in the near term. Total consumer price inflation, as measured by the 12-month change in the price index for personal consumption expenditures (PCE), continued to run below 2 percent in July and was lower than at the start of the year. Survey-based measures of longer-run inflation expectations were little changed on balance.”¹

The unemployment rate declined to 4.2 percent in September, and total nonfarm payroll employment changed little (-33,000), the U.S. Bureau of Labor Statistics reported today. A sharp employment decline in food services and drinking places and below-trend growth in some other industries likely reflected the impact of Hurricanes Irma and Harvey. Hurricane Irma made landfall in Florida on September 10—during the reference period for both the establishment and household surveys—causing severe damage in Florida and other parts of the Southeast. Hurricane Harvey made landfall in Texas on August 25—prior to the September reference periods—resulting in severe damage in Texas and other areas of the Gulf Coast. Our analysis suggests that the net effect of these hurricanes was to reduce the estimate of total nonfarm payroll employment for September. There was no discernible effect on the national unemployment rate. No changes were made to either the establishment or household survey estimation procedures for the September figures. For both surveys, collection rates generally were within normal ranges, both nationally and

¹ <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20170920.pdf>

in the affected states. In the establishment survey, employees who are not paid for the pay period that includes the 12th of the month are not counted as employed. In the household survey, persons with a job are counted as employed even if they miss work for the entire survey reference week (the week including the 12th of the month), regardless of whether or not they are paid. For both surveys, national estimates do not include Puerto Rico or the U.S. Virgin Islands. ."²

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 commercial paper, 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

² <https://www.bls.gov/news.release/pdf/empisit.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 September 30, 2017 (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, 2017 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, 2017

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	0.380%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	1.510%
YTM@Cost	Yield to Maturity @ Cost	1.936%

BENCHMARKS

Treasury 6 Month	1.17%
Treasury 1 Year	1.28%

FISCAL YEAR TO DATE

Investment Income	568,324
TRR-MV	0.38%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	10,911,781.36	10,911,781.36	10,911,781.36	7.69	0.00	1
Certificate Of Deposit	10,000,000.00	10,031,980.00	10,000,000.00	7.05	2.01	730
Corporate	15,000,000.00	14,962,330.00	14,963,123.51	10.57	1.53	58
Local Government Investment Pool	35,612,287.72	35,612,287.72	35,612,287.72	25.09	1.66	1
Money Market	1,237,791.92	1,237,791.92	1,237,791.92	0.87	0.25	1
Municipal	57,150,000.00	57,305,893.90	58,010,991.90	40.27	2.57	1,532
US Agency	12,000,000.00	11,791,420.00	12,000,000.00	8.46	2.12	2,119
Total / Average	141,911,861.00	141,853,484.90	142,735,976.41	100.00	1.94	854

11/8/17

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

Date



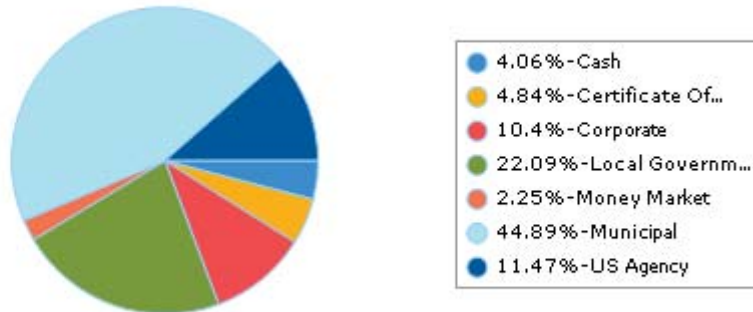
City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 6/30/2017, End Date: 9/30/2017

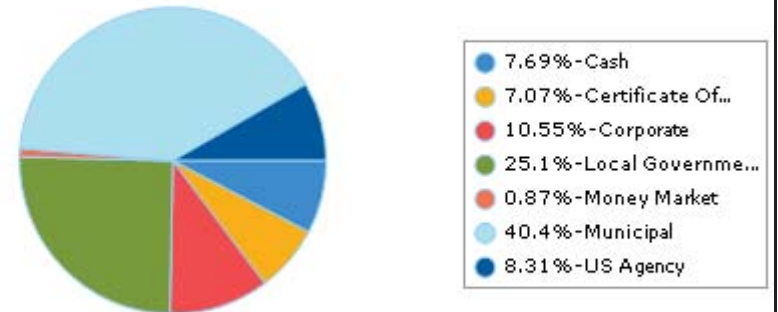
Security Sector Allocation

Security Sector	Market Value 6/30/2017	% of Portfolio 6/30/2017	Market Value 9/30/2017	% of Portfolio 9/30/2017
Cash	5,049,847.63	4.06	10,911,781.36	7.69
Certificate Of Deposit	6,029,880.00	4.84	10,031,980.00	7.07
Corporate	12,952,570.00	10.40	14,962,330.00	10.55
Local Government Investment Pool	27,504,091.99	22.09	35,612,287.72	25.10
Money Market	2,795,921.14	2.25	1,237,791.92	0.87
Municipal	55,884,389.95	44.89	57,305,893.90	40.40
US Agency	14,286,135.00	11.47	11,791,420.00	8.31
Total / Average	124,502,835.71	100.00	141,853,484.90	100.00

Portfolio Holdings as of 6/30/2017



Portfolio Holdings as of 9/30/2017





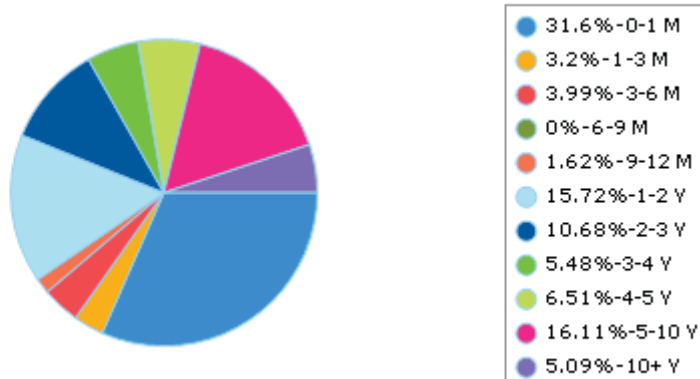
City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 6/30/2017, End Date: 9/30/2017

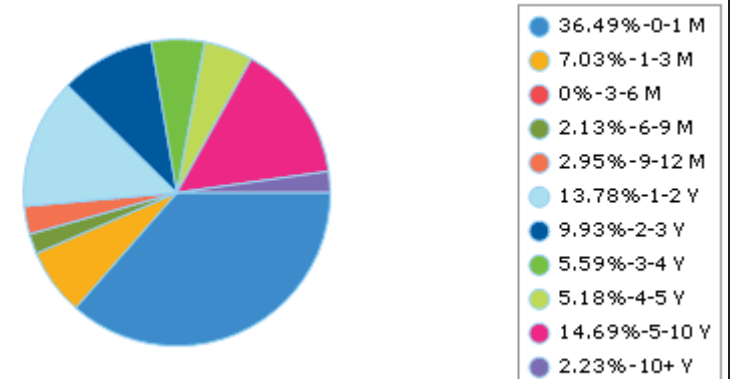
Maturity Range Allocation

Maturity Range	Market Value 6/30/2017	% of Portfolio 6/30/2017	Market Value 9/30/2017	% of Portfolio 9/30/2017
0-1 Month	39,347,520.76	31.60	51,759,261.00	36.49
1-3 Months	3,989,490.00	3.20	9,974,360.00	7.03
3-6 Months	4,965,420.00	3.99	0.00	0.00
6-9 Months	0.00	0.00	3,014,806.80	2.13
9-12 Months	2,022,789.10	1.62	4,190,633.00	2.95
1-2 Years	19,566,841.20	15.72	19,542,581.30	13.78
2-3 Years	13,295,122.05	10.68	14,092,055.65	9.93
3-4 Years	6,820,474.30	5.48	7,931,076.40	5.59
4-5 Years	8,103,434.35	6.51	7,344,989.75	5.18
5-10 Years	20,056,698.85	16.11	20,835,678.85	14.69
10+ Years	6,335,045.10	5.09	3,168,042.15	2.23
Total / Average	124,502,835.71	100.00	141,853,484.90	100.00

Portfolio Holdings as of 6/30/2017



Portfolio Holdings as of 9/30/2017



City of Novi
 Date To Date
 Investment Income - Market Value
 Report Format: By Totals
 Group By: Security Sector
 Portfolio / Report Group: All Portfolios
 Begin Date: 6/30/2017, End Date: 9/30/2017

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	37,638.35	2,100.00	0.00	39,738.35	0.50	2.00
Corporate	0.00	28,663.32	7,525.00	36,188.32	0.20	0.81
Local Government Investment Pool	110,373.00	0.00	0.00	110,373.00	0.24	0.97
Money Market	0.48	0.00	0.00	0.48	0.00	0.00
Municipal	399,628.85	-78,496.05	0.00	321,132.80	0.57	2.30
US Agency	55,605.56	-9,800.00	15,085.00	60,890.56	0.44	1.78
Total / Average	603,246.24	-57,532.73	22,610.00	568,323.51	0.38	1.51

City of Novi
Investment Portfolio - by Issuer, Summary
As of 9/30/2017

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allen Park	3.198	445,921.64	433,145.70	2,224	5,959.80	0.31
Allendale MI PSD	2.249	1,007,867.58	1,015,990.00	944	10,649.36	0.70
Ally Bank UT	1.700	1,000,000.00	1,001,070.00	443	4,890.41	0.70
American Express Centurion	1.967	3,000,000.00	3,006,820.00	774	22,791.78	2.11
Belding Area Schools	2.041	1,146,478.97	1,147,172.65	738	9,995.42	0.81
Bellevue Mich Cmnty Schs	2.130	509,164.96	495,135.00	1,674	5,289.50	0.35
Catholic Health	1.475	1,995,920.00	1,996,480.00	51	0.00	1.41
Center Line Public Schools	3.589	255,786.81	253,555.00	2,405	4,138.89	0.18
Charter Township of Commerce	2.397	870,000.00	851,727.10	2,071	10,367.58	0.61
Comstock Park Schs-B	2.417	1,500,000.00	1,517,425.00	1,431	1,107.64	1.06
Delhi TWP MI	1.980	140,000.00	136,127.60	1,858	1,147.30	0.10
Eastern MI Univ	6.053	762,264.21	725,817.90	5,982	6,132.38	0.49
FHLB	2.543	4,000,000.00	3,846,540.00	3,111	18,188.89	2.82
Fifth Third	0.025	12,149,573.28	12,149,573.28	1	0.00	8.56
Flat Rock Community Schools	2.441	1,060,550.09	1,035,776.25	2,405	12,234.39	0.73
FNMA	1.901	8,000,000.00	7,944,880.00	1,622	33,733.34	5.64
Ford Motor Credit Co	1.601	6,974,566.84	6,973,670.00	82	0.00	4.93
Harper Creek MI	2.000	505,084.82	504,060.00	944	4,995.64	0.35
Holland Mich Taxable Go Ltd Tax Bds Ser	2.230	350,000.00	349,910.75	1,218	1,279.15	0.25
Holly Mich Area School Dist	2.503	2,260,000.00	2,200,913.80	2,276	23,409.56	1.59
Houghton-Portage	1.515	945,000.00	933,780.80	594	5,925.64	0.67
Hyundai Capital	1.364	999,069.45	998,990.00	25	0.00	0.70
JP Morgan Chase OH	2.405	1,000,000.00	1,001,200.00	1,431	1,397.26	0.70
Lansing MI Bldg Auth	2.575	65,075.47	59,829.00	2,070	0.00	0.05
LCRSCD	2.410	1,025,000.00	1,037,496.00	1,264	10,155.78	0.72
Lincoln MI Consol Sch Dist	2.020	427,412.62	421,787.00	944	3,957.81	0.30
Macomb County MI	1.233	733,855.31	730,175.20	397	5,230.02	0.51
Madison Heights	1.864	1,616,511.93	1,602,878.05	957	7,071.54	1.14
Michigan St Rev Bds Ser 2009B	5.887	3,306,408.92	3,104,816.40	3,637	9,340.63	2.07
Michigan St Strategic Fund LTD	1.579	1,000,936.67	993,120.00	562	7,521.25	0.70

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Michigan State GO Bond	2.813	5,412,115.12	5,476,632.00	481	51,566.67	3.81
MIS FIN MI Fin Auth	2.301	1,097,456.30	1,070,265.70	1,858	11,424.33	0.76
Monroe	1.395	550,000.00	545,272.00	512	3,174.53	0.39
MS Bank CD Salt Lake City UT CD	1.900	2,000,000.00	2,008,100.00	290	4,580.82	1.41
MS Private BK CD Purchase NY CD	1.900	2,000,000.00	2,008,100.00	290	5,205.48	1.41
Muskegon Heights PUB	2.325	2,205,000.00	2,178,783.40	1,164	21,215.31	1.55
New Haven Community School	2.291	278,321.70	276,094.50	1,309	3,016.22	0.19
North Muskegon Public Schools	2.081	200,853.03	200,822.00	944	1,865.81	0.14
Oakland County	1.660	35,612,287.72	35,612,287.72	1	0.00	25.09
Oglethorpe Power	1.454	998,540.56	998,460.00	37	0.00	0.70
Ottawa CountyMI	2.250	395,909.49	394,656.60	1,493	4,277.54	0.27
Parchment SD	2.282	2,520,000.00	2,491,466.25	1,512	23,797.58	1.78
Perry MI PS	2.440	1,354,095.05	1,356,331.50	1,674	14,035.80	0.95
Ravenna Schools	1.923	2,055,000.00	2,036,882.90	824	16,356.27	1.45
Royal Oak MI	2.333	1,545,000.00	1,549,548.00	1,193	21,925.62	1.09
Saranac MI ISD	1.819	629,662.40	629,118.75	578	5,975.52	0.44
State of Michigan	1.350	509,868.96	505,625.00	592	4,875.00	0.35
Suncor Energy	1.510	999,342.22	999,340.00	16	0.00	0.70
U of MI	4.842	1,746,436.82	1,652,352.00	4,566	47,874.15	1.10
University of Michigan - REV	3.277	1,100,310.37	1,057,890.00	1,644	28,615.14	0.70
Vodafone Group PLC	1.451	1,000,000.00	999,840.00	3	0.00	0.70
Volgrp	1.427	999,261.11	999,230.00	19	0.00	0.70
VW Credit Inc	1.510	996,423.33	996,320.00	87	0.00	0.70
Wells Fargo Bank	2.531	1,000,000.00	1,006,690.00	1,943	3,212.33	0.70
Whitmore Lake Public Schools	1.650	2,559,638.78	2,547,848.60	578	22,655.04	1.79
Williamston Community School	1.549	1,013,003.88	1,006,850.00	578	9,920.92	0.70
Ypsilanti MI	2.639	7,305,000.00	7,213,529.50	2,168	79,785.99	5.15
Ypsilanti School Dist	2.028	5,600,000.00	5,565,286.00	970	47,001.22	3.95
Total / Average	1.936	142,735,976.41	141,853,484.90	854	659,268.25	100