

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 – DECEMBER 31, 2015
DATE: JANUARY 27, 2016

Attached to this memo is the investment report for the City of Novi as of December 31, 2015. 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 December 15 - 16, 2015, "real gross domestic product (GDP) was increasing at a moderate pace and that labor market conditions had improved further. Consumer price inflation continued to run below the FOMC's longer-run objectives of 2 percent, restrained in part by declines in both energy prices and the prices of non-energy imported goods. Some survey-based measures of longer-run inflation expectations edged down, while market-based measures of inflation compensation were still low".¹

The December jobs report indicated that "Total nonfarm payroll employment rose by 292,000 in December, and the unemployment rate was unchanged at 5.0 percent. Employment gains occurred in several industries, led by professional and business services, construction, health care, and food services and drinking places. Mining employment continued to decline."² Even with the reported gains, Chad Stone, Chief Economist with the Center on Budget and Policy Priorities, believes that "while many labor market indicators have improved during the recovery, wage growth has been disappointing. Average hourly earnings – the wage measure reported in the monthly job reports – have grown at about 2 percent a year for several years. Lately, that has exceeded inflation, which has been temporarily low due to falling oil prices. But if the Fed is right that inflation will return to its target of 2 percent, wages will have to grow substantially faster than 2 percent to achieve satisfactory real (inflation-adjusted) wage growth."³

State

¹ <http://www.federalreserve.gov/monetarypolicy/fomcminutes20151216.htm>

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

³ http://www.huffingtonpost.com/chad-stone/previewing-the-december-j_b_8940342.html

The Southeast Michigan Purchasing Manager's Index (PMI) in December fell by just over two points, from 57.1 to 54.8. The three month average slipped nearly a point, from 57.7 to 56.8. The December survey shows that the Southeast Michigan economy continues to expand moderately, even though the Index fell slightly. A PMI over 50 indicates economic growth. According to the Institute for Supply Management, while Production and New Orders indices both fell in December, their values remained above 50. The Employment and Finished Goods both improved in December.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_December-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 December 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). The book and market value for the Fifth Third checking account represents the bank balance at December 31, 2015 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 December 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, Morgan Stanley / Smith Barney, Comerica and DA Davidson.

PERFORMANCE VALUES

TRR-MV	Total Rate of Return - Market Value	-0.02 %
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	-0.08 %
YTM@Cost	Yield to Maturity @ Cost	1.52 %

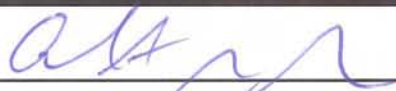
BENCHMARKS

Treasury 6 Month	0.50 %
Treasury 1 Year	0.65 %

FISCAL YEAR TO DATE

Investment Income	-30,003.77
TRR-MV	-0.02%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	6,068,210.52	6,068,210.52	6,068,210.52	4.29	0.00	1
Certificate Of Deposit	5,000,000.00	4,972,480.00	5,000,000.00	3.53	2.00	1,478
Local Government Investment Pool	43,983,282.36	43,983,282.36	43,983,282.36	31.09	0.43	1
Money Market	4,796,497.11	4,796,497.11	4,796,497.11	3.39	0.25	1
Municipal	15,830,000.00	16,102,962.90	16,012,512.85	11.19	2.23	1,285
US Agency	65,800,000.00	65,480,009.00	65,795,872.62	46.51	2.28	2,266
Total / Average	141,477,989.99	141,403,441.89	141,656,375.46	100.00	1.52	1,250

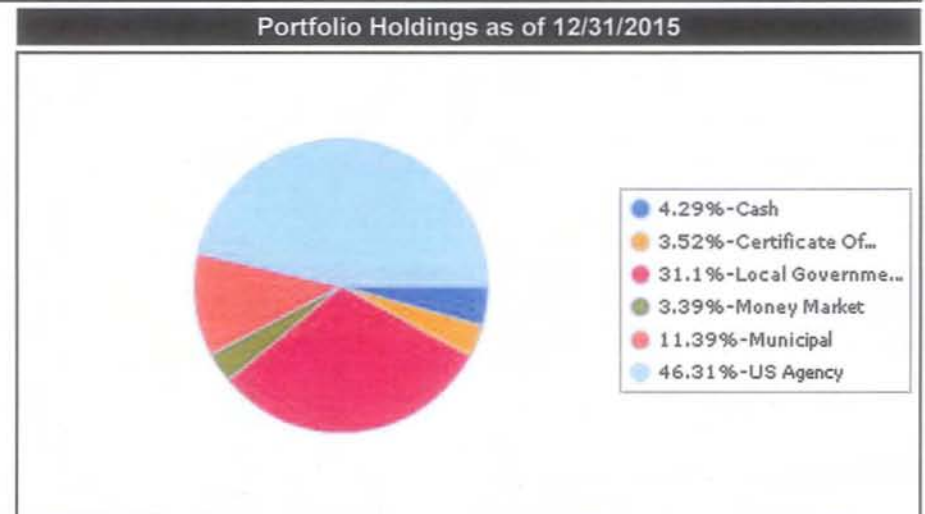
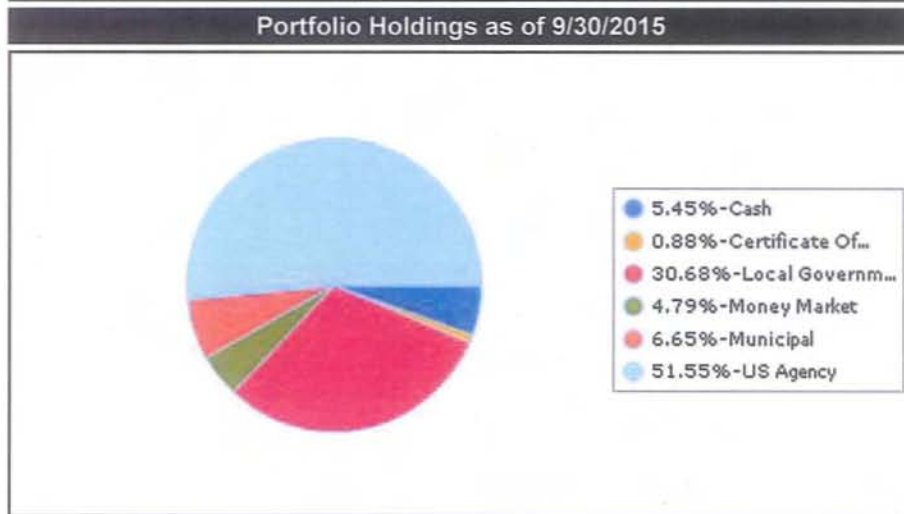

 Carl A. Johnson, Jr. - Finance Director / Treasurer, CFO Date 1/27/16



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

Begin Date: 9/30/2015, End Date: 12/31/2015

Security Sector Allocation				
Security Sector	Market Value 9/30/2015	% of Portfolio 9/30/2015	Market Value 12/31/2015	% of Portfolio 12/31/2015
Cash	7,788,371.29	5.45	6,068,210.52	4.29
Certificate Of Deposit	1,255,830.43	0.88	4,972,480.00	3.52
Local Government Investment Pool	43,863,798.64	30.68	43,983,282.36	31.10
Money Market	6,842,952.94	4.79	4,796,497.11	3.39
Municipal	9,511,280.10	6.65	16,102,962.90	11.39
US Agency	73,693,718.75	51.55	65,480,009.00	46.31
Total / Average	142,955,952.15	100.00	141,403,441.89	100.00



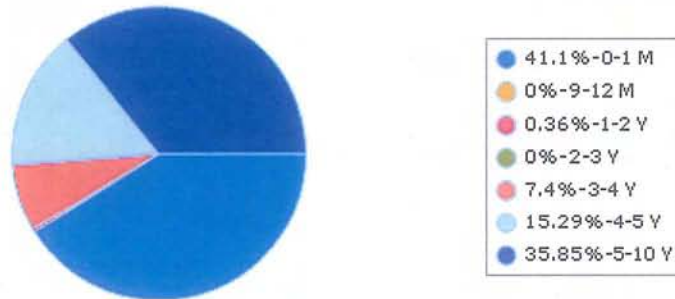


City of Novi Distribution by Maturity Range - Market Value All Portfolios

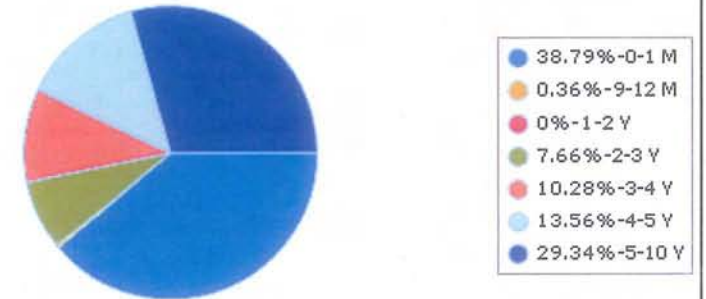
Begin Date: 9/30/2015, End Date: 12/31/2015

Maturity Range Allocation				
Maturity Range	Market Value 9/30/2015	% of Portfolio 9/30/2015	Market Value 12/31/2015	% of Portfolio 12/31/2015
0-1 Month	58,749,703.30	41.10	54,847,989.99	38.79
9-12 Months	0.00	0.00	509,135.00	0.36
1-2 Years	513,310.00	0.36	0.00	0.00
2-3 Years	0.00	0.00	10,838,246.90	7.66
3-4 Years	10,582,616.30	7.40	14,538,528.10	10.28
4-5 Years	21,863,588.00	15.29	19,174,705.50	13.56
5-10 Years	51,246,734.55	35.85	41,494,836.40	29.34
Total / Average	142,955,952.15	100.00	141,403,441.89	100.00

Portfolio Holdings as of 9/30/2015



Portfolio Holdings as of 12/31/2015



City of Novi
Investment Portfolio - by Issuer, Summary
Report Format: By Totals
Group By: Issuer
Portfolio/Report Group: All Portfolios
As of 12/31/2015

Description	CUSIP/Ticker	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allendale MI PSD		2.249	1,570,449.46	1,576,117.50	1583	15,287.91	1.10
Ally Bank UT		1.700	1,000,000.00	993,020.00	1082	652.05	0.71
American Express Centurion		1.967	3,000,000.00	2,979,750.00	1413	7,920.55	2.12
Belding Area Schools		2.054	1,147,240.37	1,149,908.80	1377	2,012.50	0.81
Center Line Public Schools		3.589	257,324.35	249,287.50	3044	1,666.67	0.18
Comerica Securities		0.000	10,167.53	10,167.53	1	0.00	0.01
DA DAVIDSON		0.000	0.57	0.57	1	0.00	0.00
FAMC		1.000	3,000,000.00	2,969,760.00	1033	5,166.67	2.12
FFCB		2.270	14,000,000.00	13,859,460.00	2200	59,244.16	9.90
FHLB		2.371	30,948,521.89	30,903,308.50	2382	126,591.51	21.88
FHLMC		2.743	12,847,350.73	12,822,830.50	2688	37,207.30	9.08
Fifth Third		0.163	7,313,064.22	7,313,064.22	1	0.00	5.17
FNMA		1.330	5,000,000.00	4,924,650.00	1393	12,376.39	3.53
Harper Creek MI		2.000	508,526.76	505,155.00	1583	2,849.86	0.35
Hartland Consolidated Schools		2.250	505,686.13	499,940.00	1948	1,755.25	0.35
JP Morgan Chase OH		2.405	1,000,000.00	999,710.00	2070	5,682.19	0.71
Macomb County MI		1.233	740,060.72	729,656.90	1036	2,106.05	0.52
Michigan State GO Bond		2.820	5,919,287.26	6,078,977.00	1051	15,524.17	4.17
Morgan Stanley Smith Barney		0.000	0.31	0.31	1	0.00	0.00

Description	CUSIP/Ticker	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
North Muskegon Public Schools		2.081	201,430.45	200,746.00	1583	187.83	0.14
Oakland County		0.428	43,983,282.36	43,983,282.36	1	0.00	31.09
Ottawa CountyMI		2.250	398,438.74	393,572.40	2132	1,722.50	0.28
Saranac MI ISD		1.819	634,816.85	633,375.00	1217	5,895.31	0.44
State of Michigan		1.350	520,521.44	511,350.00	1231	1,661.11	0.35
UBS Financial		0.000	3,541,475.00	3,541,475.00	1	0.00	2.50
Whitmore Lake Public Schools		1.650	2,581,350.17	2,561,386.80	1217	15,052.68	1.80
Williamston Community School		1.549	1,027,380.15	1,013,490.00	1217	6,125.67	0.71
Total / Average		1.522	141,656,375.46	141,403,441.89	1251	326,688.33	100

City of Novi

Investment Income - Market Value

Report Format: By Totals

Group By: Security Sector

Portfolio/Report Group: All Portfolios

Begin Activity Date: 9/30/2015, End Activity Date: 12/31/2015, Carrying Value Date: 9/30/2015

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		0.59	0.00	0.00	0.59	0.00	0.00
Certificate Of Deposit		12,930.46	-28,770.00	0.00	-15,839.54	-0.56	-2.21
Local Government Investment Pool		119,483.72	0.00	0.00	119,483.72	0.25	1.02
Money Market		4,376.78	0.00	0.00	4,376.78	0.08	0.33
Municipal		91,652.69	-164,243.40	0.00	-72,590.71	-0.50	-1.97
US Agency		321,775.14	-366,189.00	-21,020.75	-65,434.61	-0.10	-0.39
Total / Average		550,219.38	-559,202.40	-21,020.75	-30,003.77	-0.02	-0.08