

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, 2016
DATE: APRIL 28, 2016

Attached to this memo is the investment report for the City of Novi as of March 31, 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 March 15 - 16, 2016, "labor market conditions were continuing to improve in the first quarter, and that the pace of expansion in real gross domestic product (GDP) was picking up somewhat from the previous quarter. Consumer price inflation was still running below the Committee's longer-run objective of 2 percent, restrained in part by decreases in both consumer energy prices and the prices of non-energy imports. Survey-based measures of longer-run inflation expectations were little changed, on balance, in recent months, while market-based measures of inflation compensation remained low".¹

The March jobs report indicated that "Total nonfarm payroll employment rose by 215,000 in March, and the unemployment rate was little changed at 5.0 percent. Employment increased in retail trade, construction, and health care. Job losses occurred in manufacturing and mining."²

State

The Southeast Michigan Purchasing Manager's Index (PMI) in March moved up from 52.0 in February (the lowest in six months) to 59.1. The three-year average rose modestly, from 54.6 to 56.1. The index has been above 50 since June of 2014. Index values above 50 indicate an expanding economy. Components of the index that showed this expansionary trend include the production index moving up to 61.9, the new orders index moving up to 59.5 and the employment index moving up to 57.3. Commodity prices moved up from being below 50 for the past five months to 50, indicating that the era of falling prices may have come to an end. Specific commodities that showed upward

¹ <http://www.federalreserve.gov/monetarypolicy/fomcminutes20160316.htm>

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

trend were steel, aluminum, copper and rare earth products, with petroleum, plastics and polyethylene showing some decline.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 concentration risk, the City's investments are diversified amongst a number of highly rated financial institutions.

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

Investment Report

Attached is a summary listing of investments by issuer that the City held at March 31, 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 March 31, 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 March 31, 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	0.98%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	3.99%
YTM@Cost	Yield to Maturity @ Cost	2.326%

BENCHMARKS

Treasury 6 Month	0.47%
Treasury 1 Year	0.66%

FISCAL YEAR TO DATE

Investment Income	1,370,575
TRR-MV	0.98%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	9,678,274.04	9,678,274.04	9,678,274.04	7.39	0.00	1
Certificate Of Deposit	6,000,000.00	6,069,740.00	6,000,000.00	4.58	2.09	1,571
Corporate	3,000,000.00	2,980,160.00	2,977,691.67	2.29	2.08	227
Local Government Investment Pool	27,069,783.30	27,069,783.30	27,069,783.30	20.68	1.14	1
Money Market	576,249.41	576,249.41	576,249.41	0.44	0.25	1
Municipal	33,940,000.00	35,182,064.05	34,626,070.88	25.93	2.59	2,023
US Agency	50,650,000.00	50,668,344.00	50,663,238.05	38.69	3.29	2,725
Total / Average	130,914,306.75	132,224,614.80	131,591,307.35	100.00	2.33	1,659

Carl A. Johnson, Jr. 4/28/16

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



City of Novi

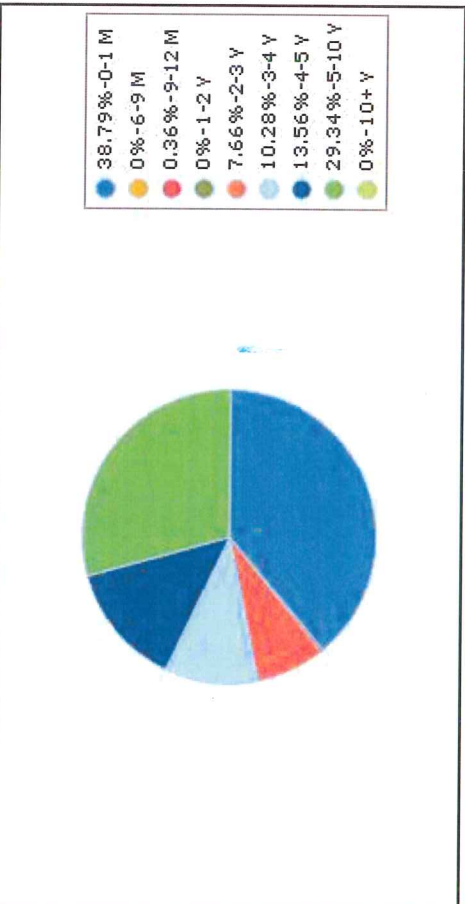
Distribution by Maturity Range - Market Value

All Portfolios

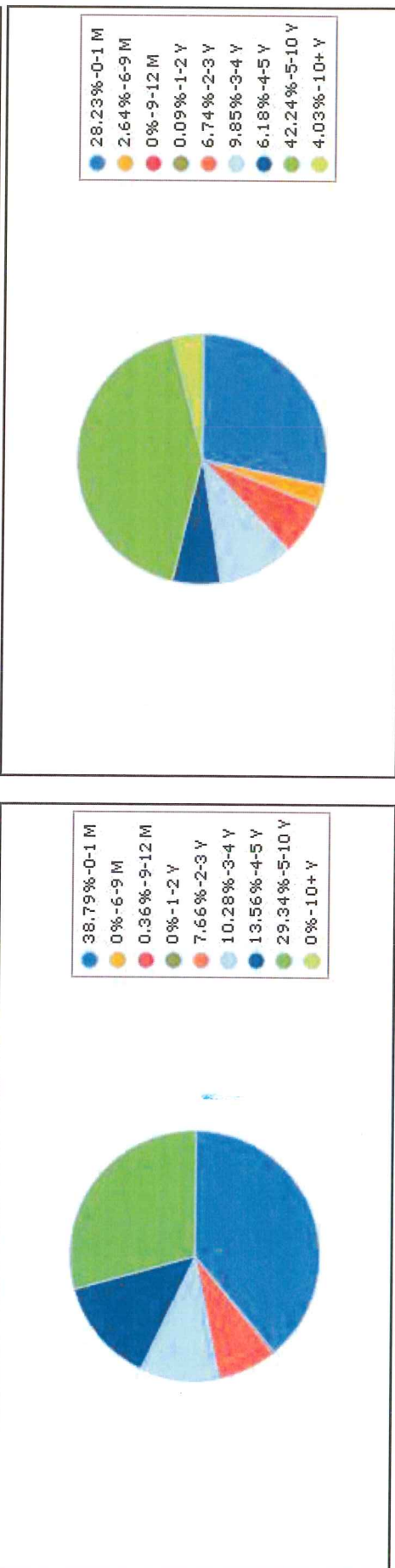
Begin Date: 12/31/2015, End Date: 3/31/2016

Maturity Range	Maturity Range Allocation		% of Portfolio 3/31/2016
	Market Value 12/31/2015	Market Value 3/31/2016	
0-1 Month	54,847,989.99	37,324,306.75	28.23
6-9 Months	0.00	3,487,955.00	2.64
9-12 Months	509,135.00	0.00	0.00
1-2 Years	0.00	120,688.80	0.09
2-3 Years	10,838,246.90	8,915,220.50	6.74
3-4 Years	14,538,528.10	13,025,706.25	9.85
4-5 Years	19,174,705.50	8,173,533.80	6.18
5-10 Years	41,494,836.40	55,847,139.45	42.24
10+ Years	0.00	5,330,064.25	4.03
Total / Average	141,403,441.89	132,224,614.80	100.00

Portfolio Holdings as of 12/31/2015



Portfolio Holdings as of 3/31/2016





City of Novi

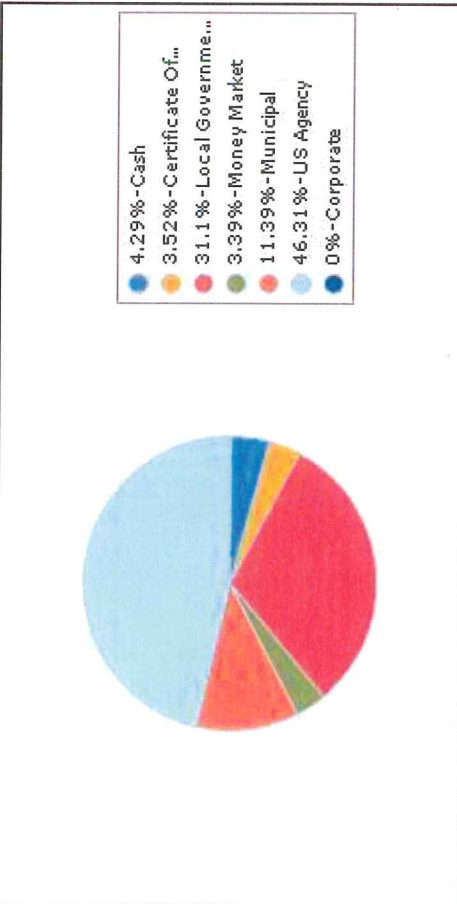
Distribution by Security Sector - Market Value

All Portfolios

Begin Date: 12/31/2015, End Date: 3/31/2016

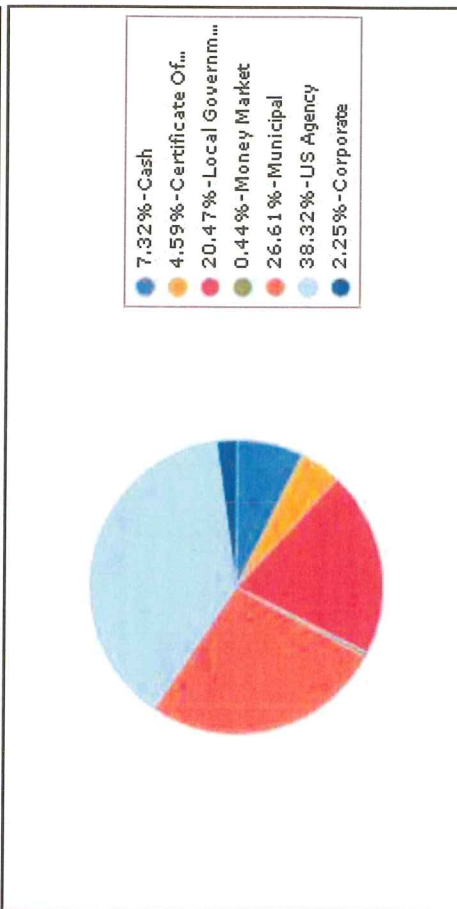
Security Sector	Security Sector Allocation	
	Market Value 12/31/2015	% of Portfolio 12/31/2015
Cash	6,068,210.52	4.29
Certificate Of Deposit	4,972,480.00	3.52
Local Government Investment Pool	43,983,282.36	31.10
Money Market	4,796,497.11	3.39
Municipal	16,102,962.90	11.39
US Agency	65,480,009.00	46.31
Corporate	0.00	0.00
Total / Average	141,403,441.89	100.00

Portfolio Holdings as of 12/31/2015



Security Sector	Security Sector Allocation	
	Market Value 3/31/2016	% of Portfolio 3/31/2016
Cash	9,678,274.04	7.32
Certificate Of Deposit	6,069,740.00	4.59
Local Government Investment Pool	27,069,783.30	20.47
Money Market	576,249.41	0.44
Municipal	35,182,064.05	26.61
US Agency	50,668,344.00	38.32
Corporate	2,980,160.00	2.25
Total / Average	132,224,614.80	100.00

Portfolio Holdings as of 3/31/2016



City of Novi
Investment Portfolio - by Issuer, Summary
Report Format: By Totals
Group By: Issuer
Portfolio/Report Group: All Portfolios
As of 3/31/2016

Description	CUSIP/Ticker	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Abbey National		0.920	995,250.00	995,600.00	190	0.00	0.76
Allendale MI PSD		2.249	1,569,273.90	1,621,703.00	1492	25,258.28	1.18
Aily Bank UT		1.700	1,000,000.00	1,008,610.00	991	4,890.41	0.76
American Express Centurion		1.967	3,000,000.00	3,039,300.00	1322	22,630.14	2.29
Belding Area Schools		2.041	1,147,612.26	1,169,910.15	1286	8,050.00	0.87
Center Line Public Schools		3.589	257,105.39	255,825.00	2953	4,166.67	0.19
Eastern MI Univ		6.053	768,884.20	768,390.90	6530	6,268.65	0.53
FFCB		2.466	24,514,690.60	24,521,730.00	2651	93,853.61	18.71
FHLB		5.859	12,649,281.27	12,633,079.00	2866	39,713.90	9.66
FHLMC		3.134	5,000,000.00	5,000,580.00	3579	20,388.89	3.82
Fifth Third		0.014	10,254,522.56	10,254,522.56	1	0.00	7.83
Flat Rock Community Schools		2.441	1,066,371.89	1,074,909.60	2953	3,120.18	0.79
FNMA		1.941	8,499,266.18	8,512,955.00	2227	39,617.36	6.49
Ford Motor Credit Co		2.658	1,982,441.67	1,984,560.00	245	1,098.33	1.53
Harper Creek MI		2.000	508,036.60	518,980.00	1492	5,867.36	0.38
Hartland Consolidated Schools		2.250	505,420.51	518,965.00	1857	4,852.75	0.38
JP Morgan Chase OH		2.405	1,000,000.00	1,005,340.00	1979	1,443.84	0.76
Lansing MI Bldg Auth		2.575	62,448.10	58,488.00	2618	0.00	0.06
Macomb County MI		1.233	739,177.01	742,066.90	945	5,265.12	0.56

Description	CUSIP/Ticker	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Michigan State		5.843	504,737.95	500,649.60	4185	1,491.11	0.34
Michigan State GO Bond		2.820	5,918,190.42	6,166,523.00	960	58,310.42	4.51
Morgan Stanley Smith Barney		0.000	0.89	0.89	1	0.00	0.00
Muskegon Heights PUB		2.291	1,635,000.00	1,657,072.25	1661	208.13	1.25
Muskegon Hts PuB		2.420	570,000.00	574,463.10	1857	76.63	0.44
New Haven Community School		2.291	279,712.29	285,139.25	1857	1,821.88	0.21
North Muskegon Public Schools		2.081	201,348.22	206,328.00	1492	1,314.83	0.15
Oakland County		1.144	27,069,783.30	27,069,783.30	1	0.00	20.68
Ottawa CountyMI		2.250	398,078.55	407,277.00	2041	4,306.25	0.30
Perry MI PS		2.440	1,355,435.61	1,378,282.50	2222	188.40	1.03
Ravenna Schools		1.923	2,055,000.00	2,065,474.55	1372	0.00	1.57
Saranac MI ISD		1.819	634,082.81	645,431.25	1126	9,504.69	0.48
State of Michigan		1.350	519,004.42	520,850.00	1140	4,911.11	0.38
U of MI		4.842	1,768,812.51	1,764,126.00	5114	48,141.60	1.19
University of Michigan - REV		3.277	1,133,747.17	1,120,090.00	2192	28,775.00	0.76
Wells Fargo Bank		2.531	1,000,000.00	1,016,490.00	2491	3,164.38	0.76
Whitmore Lake Public Schools		1.650	2,578,258.25	2,611,145.40	1126	28,736.92	1.94
Williamston Community School		1.549	1,025,332.82	1,034,080.00	1126	12,118.17	0.76
Ypsilanti MI		2.619	7,425,000.00	7,515,893.60	2678	1,080.22	5.67
Total / Average		2.326	131,591,307.35	132,224,614.80	1656	490,635.23	100