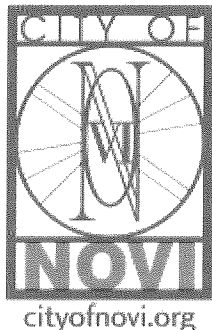


MEMORANDUM



TO: Honorable Mayor and City Council Members

FROM: Kathy Smith-Roy, Finance Director/Treasurer
Bev Valente, Assistant Treasurer

CC: Clay J. Pearson, City Manager
Maryanne Cornelius, City Clerk

SUBJECT: Quarterly Investment Report – December 2011*

DATE: January 16, 2012

1/17/12
To: Mayor & City
Council Members

For your records.

Nationally

Unlike past downturns, which were followed by a mirror recovery period, the market is improving at a slow pace which is predicted to continue. The Federal Reserve kept rates unchanged during the quarter and renewed the pledge to keep rates “exceptionally low” through mid-2013. The greatest unknown moving forward is the European economy.

Locally

The United States Department of Labor indicates increase in labor force, increase in employment growth, and a decline in the unemployment rate through November 2011. The greatest decline in jobs is in the Government and Leisure & Hospitality sectors at -1.7% and -1.3%, respectively. Michigan’s economy continues to improve at a slow but steady pace.

The City is continuing to invest pursuant to the Investment Policy and the Retiree Health Care Investment Policy. The City’s general 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 security, risk and then yield. The City has opted to purchase the FDIC insurance on its primary institution, Fifth Third Bank.

We will continue to monitor investments and maintain confidence in our investment advisors. Our current strategy is to only purchase CD’s from the highest rated firms, which limits our diversification to just a handful of investment institutions. We also have confidence in our money market funds and will continue to hold investments in those vehicles. Our strategy includes purchasing a variety of instruments including treasury notes, structured notes, and step-bonds (interest rate increases over the term). The callable securities continue to be attractive; and we are continuing with this strategy given the short-term rates of less than 0.4%.

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, 2011. The listing includes the purchase date, type of investment, maturity date, interest rate and amount of investment. The lower portion of the list includes short-term investment accounts for liquid funds, pooled fund accounts, as well as the Retiree Health Care Accounts (not subject to Public Act 20 investment limitations).

If you have any questions, or would like any additional information, please do not hesitate to contact us.

CITY OF NOVI - Investment Listing - December 31, 2011

Current or Purchase Date	DESCRIPTION	Maturity Date	Current Interest Rate	Amount
07/26/10	US Treasury (PNC) T-Note	06/30/12	0.5271%	\$ 1,500,000
10/21/10	UBS Financial Services (MI State GO Unlimited Notes)	11/01/16	2.9000%	500,000
06/07/11	GA (Huntington Investment) FNMA 2.0% YTM	12/07/15	2.0000%	1,000,000
06/22/11	GA (Huntington Investment) FNMA Step Bond 2.1782% YTM	06/22/16	1.0000%	2,595,000
07/21/11	CD (Lotus Bank) CDARS	07/19/12	0.8000%	1,000,000
08/18/11	CP (UBS Financial Services) UBS Commercial Paper	02/21/12	0.3500%	999,180
09/16/11	GA (Huntington Investment) FHLMC Step Bond 1.4515% YTM	09/16/16	1.0000%	1,500,000
09/30/11	GA (Morgan Stanley/Smith Barney) FNMA Step Bond 1.0156% YTM	09/29/14	0.5000%	10,000,000
10/03/11	CP (Morgan Stanley/Smith Barney) Prudential PLC	04/03/12	0.6100%	4,984,496
10/03/11	GA (Huntington Investment) FFCB 0.35%	10/03/13	0.3500%	2,000,000
10/03/11	CP (UBS Financial Services) UBS Finance A-1 P-1 0.532115% YTM	06/29/12	0.5300%	4,980,125
10/11/11	GA (UBS Financial Services) FFCB 0.64% YTM	10/11/14	0.6400%	6,500,000
10/13/11	GA (Morgan Stanley/Smith Barney) FHLMC Step Bond 1.5660% YTM	10/13/16	1.2500%	5,000,000
10/19/11	GA (Huntington Investment) FHLMC 1.4%	10/19/16	1.4000%	3,000,000
10/19/11	State of MI bonds (UBS) 2.85% (2.9% YTM bought at discount)	12/01/18	2.8500%	4,983,900
10/19/11	CD (Lotus Bank)	10/18/12	0.8000%	250,000
10/24/11	GA (Morgan Stanley/Smith Barney) FNMA 1.35%	10/24/16	1.3500%	3,000,000
10/24/11	GA (Huntington Investment) FNMA Step Bond 0.6551% YTM	10/24/13	0.3750%	2,000,000
10/26/11	GA (Huntington Investment) FNMA Step Bond 2.1564%	10/26/16	1.0000%	3,000,000
10/27/11	GA (Huntington Investment) FHLB Step Bond 1.6281% YTM	10/27/16	1.0000%	3,500,000
12/27/11	GA (Morgan Stanley/Smith Barney) FHLMC 2.25% YTM	12/27/19	2.2500%	9,000,000
12/28/11	GA (UBS Financial Services) FHLMC Step Bond 3.23% YTM	12/28/21	2.5000%	4,000,000
12/29/11	Flagstar Bank (CDARS)	06/28/12	0.5500%	5,000,000
12/31/11	Ambassador Capital Management			329,775
12/31/11	Bank of America - Tax			1,712
12/31/11	Bank of America - General			25,183
12/31/11	Bank of America - Special Assessment			264,808
12/31/11	Bank of America - Water & Sewer			36,028
12/31/11	CD (Lotus Bank)			23,420
12/31/11	Chase Bank - General			4,914,798
12/31/11	Chase Bank - Library			98,513
12/31/11	Chase Bank - Water & Sewer			3,820,031
12/31/11	Citizens Bank			55,865
12/31/11	Comerica Bank (Lockbox - Water & Sewer)			192,842
12/31/11	Comerica Bank (Lockbox - Water & Sewer Suspense Account)			1,435,925
12/31/11	Comerica Bank (Lockbox - Tax)			749,184
12/31/11	Comerica Bank (Lockbox - Tax Suspense Account)			2,261,982
12/31/11	Federated Government Obligation			484,801
12/31/11	Fifth Third Bank Short Term Investment Account			40,339,595
12/31/11	Flagstar Bank (Premier Checking Accounts)			105,975
12/31/11	MBIA Class Accounts			900,196
12/31/11	MERS of Michigan-Retiree Health Care			3,409,622
12/31/11	Morgan Stanley/Smith Barney - Retiree Health Care			6,098,737
12/31/11	Morgan Stanley/Smith Barney - Government Money Market Accounts			23,579
12/31/11	UBS Financial Services - Retiree Health Care			5,686,195
	Totals			\$ 151,551,466

CD = Certificate of Deposit; T-Bill = Treasury; GA = Government Agency; CP = Commercial Paper