

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 – DECEMBER 31, 2017
DATE: JANUARY 24, 2018

Attached to this memo is the investment report for the City of Novi as of December 31, 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 December 12-13, 2017, “the information reviewed for the December 12-13 meeting indicated that labor market conditions continued to strengthen through November and suggested that real gross domestic product (GDP) was rising at a solid pace in the second half of 2017. Total consumer price inflation, as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE), remained below 2 percent in October and was lower than early in the year. Survey-based measures of longer-run inflation expectations were little changed on balance.”¹

According to the Bureau of Labor Statistics News Release, “Total nonfarm payroll employment increased by 148,000 in December, and the unemployment rate was unchanged at 4.1 percent. Employment gains occurred in health care, construction, and manufacturing. In December, the unemployment rate was 4.1 percent for the third consecutive month. The number of unemployed persons, at 6.6 million, was essentially unchanged over the month. Over the year, the unemployment rate and the number of unemployed persons were down by 0.6 percentage point and 926,000, respectively. Among the major worker groups, the unemployment rate for teenagers declined to 13.6 percent in December, offsetting an increase in November. In December, unemployment rates for adult men (3.8 percent), adult women (3.7 percent), Whites (3.7 percent), Blacks (6.8 percent), Asians (2.5 percent), and Hispanics (4.9 percent) showed little or no change. Among the unemployed, the number of new entrants decreased by 116,000 in December. New entrants are unemployed persons who never previously worked. The number of long-term employed (those jobless for 27 weeks or more) was little changed at

¹ <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20171213.pdf>

1.5 million in December and accounted for 22.9 percent of the unemployed. Over the year, the number of long-term unemployed declined by 354,000."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 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.

² <https://www.bls.gov/news.release/pdf/empisit.pdf>

Investment Report

Attached is a summary listing of investments by issuer that the City held at December 31, 2017 (excluding Retiree Healthcare and Pension Investments that 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, 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
December 31, 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	0.240%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	0.980%
YTM@Cost	Yield to Maturity @ Cost	1.839%

BENCHMARKS

Treasury 6 Month 1.50%
Treasury 1 Year 1.70%

FISCAL YEAR TO DATE

Investment Income 435,151
TRR-MV 0.24%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	7,624,839.78	7,624,839.78	7,624,839.78	5.42	0.00	1
Certificate Of Deposit	10,000,000.00	10,005,300.00	10,000,000.00	7.11	2.01	638
Corporate	6,000,000.00	5,980,280.00	5,982,694.90	4.27	1.64	62
Local Government Investment Pool	44,796,316.63	44,796,316.63	44,796,316.63	31.86	1.15	1
Money Market	1,136,219.31	1,136,219.31	1,136,219.31	0.81	0.25	1
Municipal	58,050,000.00	57,962,097.70	58,877,641.16	41.29	2.57	1,433
US Agency	13,000,000.00	12,739,050.00	13,000,000.00	9.25	2.13	2,006
Total / Average	140,607,375.72	140,244,103.42	141,417,711.78	100.00	1.84	825

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

1/24/18
Date



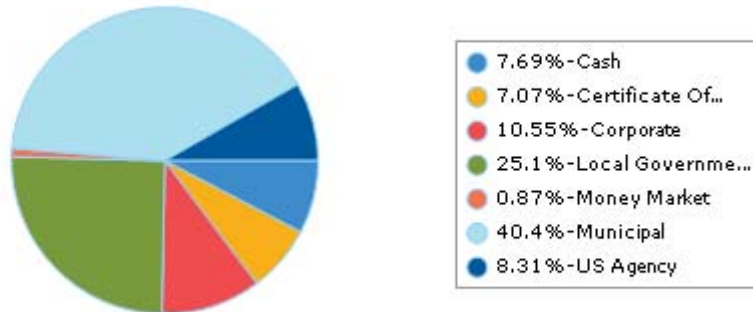
City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 9/30/2017, End Date: 12/31/2017

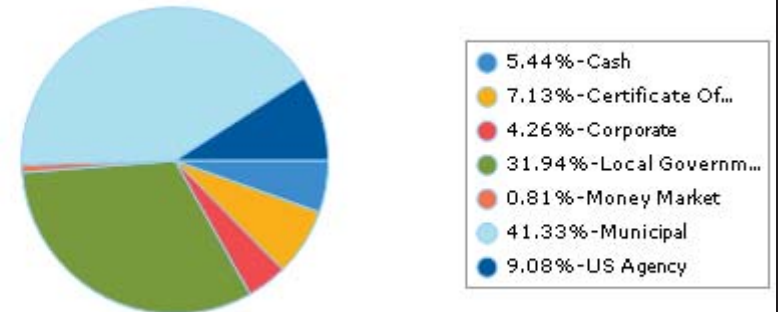
Security Sector Allocation

Security Sector	Market Value 9/30/2017	% of Portfolio 9/30/2017	Market Value 12/31/2017	% of Portfolio 12/31/2017
Cash	10,911,781.36	7.69	7,624,839.78	5.44
Certificate Of Deposit	10,031,980.00	7.07	10,005,300.00	7.13
Corporate	14,962,330.00	10.55	5,980,280.00	4.26
Local Government Investment Pool	35,612,287.72	25.10	44,796,316.63	31.94
Money Market	1,237,791.92	0.87	1,136,219.31	0.81
Municipal	57,305,893.90	40.40	57,962,097.70	41.33
US Agency	11,791,420.00	8.31	12,739,050.00	9.08
Total / Average	141,853,484.90	100.00	140,244,103.42	100.00

Portfolio Holdings as of 9/30/2017



Portfolio Holdings as of 12/31/2017





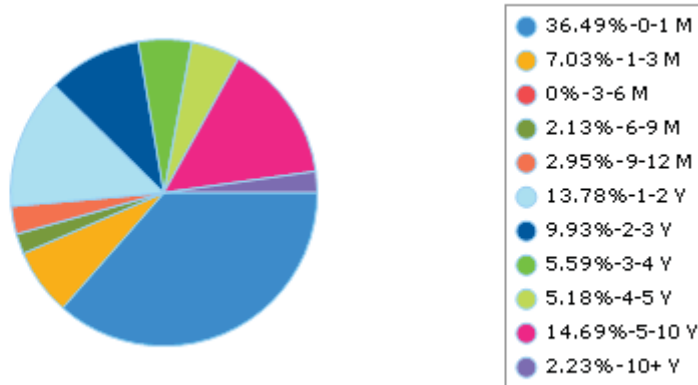
City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 9/30/2017, End Date: 12/31/2017

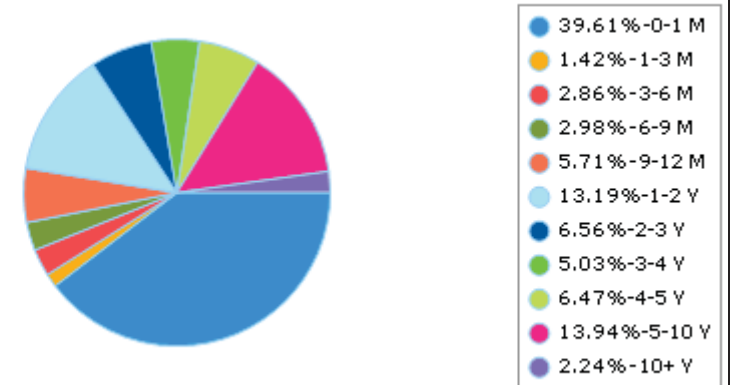
Maturity Range Allocation

Maturity Range	Market Value 9/30/2017	% of Portfolio 9/30/2017	Market Value 12/31/2017	% of Portfolio 12/31/2017
0-1 Month	51,759,261.00	36.49	55,555,345.72	39.61
1-3 Months	9,974,360.00	7.03	1,996,010.00	1.42
3-6 Months	0.00	0.00	4,011,839.10	2.86
6-9 Months	3,014,806.80	2.13	4,182,100.25	2.98
9-12 Months	4,190,633.00	2.95	8,004,722.80	5.71
1-2 Years	19,542,581.30	13.78	18,493,929.35	13.19
2-3 Years	14,092,055.65	9.93	9,194,844.70	6.56
3-4 Years	7,931,076.40	5.59	7,050,724.65	5.03
4-5 Years	7,344,989.75	5.18	9,067,716.80	6.47
5-10 Years	20,835,678.85	14.69	19,552,141.20	13.94
10+ Years	3,168,042.15	2.23	3,134,728.85	2.24
Total / Average	141,853,484.90	100.00	140,244,103.42	100.00

Portfolio Holdings as of 9/30/2017



Portfolio Holdings as of 12/31/2017



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: 9/30/2017, End Date: 12/31/2017

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	47,008.22	-26,680.00	0.00	20,328.22	0.20	0.81
Corporate	0.00	9,466.12	30,118.33	39,584.45	0.38	1.52
Local Government Investment Pool	113,387.14	0.00	0.00	113,387.14	0.28	1.11
Money Market	0.00	0.00	0.00	0.00	0.00	0.00
Municipal	413,522.25	-243,796.20	0.00	169,726.05	0.29	1.18
US Agency	53,024.98	-52,370.00	0.00	654.98	0.01	0.02
Total / Average	626,942.59	-313,380.08	30,118.33	343,680.84	0.24	0.98

City of Novi
Investment Portfolio - by Issuer, Summary
As of 12/31/2017

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Agrium Inc	1.515	999,630.00	999,480.00	9	0.00	0.71
Allen Park	3.198	445,883.29	429,627.50	2,132	2,399.92	0.32
Allendale MI PSD	2.249	1,007,100.82	1,009,850.00	852	4,288.33	0.71
Ally Bank UT	1.700	1,000,000.00	999,250.00	351	652.05	0.71
American Express Centurion	1.967	3,000,000.00	2,994,290.00	682	7,920.55	2.13
Avangrid Inc.	1.618	998,727.22	998,490.00	29	0.00	0.71
Belding Area Schools	2.041	1,146,288.71	1,140,598.45	646	4,025.00	0.81
Bellevue Mich Cmnty Schs	2.130	508,661.27	491,945.00	1,582	2,130.00	0.36
Catholic Health	1.722	997,993.33	998,070.00	43	0.00	0.71
Center Line Public Schools	3.589	255,565.45	251,535.00	2,313	1,666.67	0.18
Charter Township of Commerce	2.397	870,000.00	847,310.40	1,979	5,212.75	0.62
Comstock Park Schs-B	2.417	1,500,000.00	1,503,265.00	1,339	10,270.83	1.07
Delhi TWP MI	1.980	140,000.00	135,130.80	1,766	462.00	0.10
Eastern MI Univ	6.053	761,152.82	720,028.80	5,890	18,533.40	0.49
FHLB	2.495	5,000,000.00	4,822,980.00	2,768	21,765.27	3.56
Fifth Third	0.032	8,761,059.04	8,761,059.04	1	0.00	6.23
Flat Rock Community Schools	2.441	1,059,572.70	1,020,354.75	2,313	4,926.60	0.74
FNMA	1.901	8,000,000.00	7,916,070.00	1,530	29,931.94	5.69
Ford Motor Credit Co	1.721	1,988,011.02	1,986,300.00	127	0.00	1.42
Harper Creek MI	2.000	504,589.26	500,420.00	852	2,011.67	0.36
Holland Mich Taxable Go Ltd Tax Bds Ser	2.230	350,000.00	348,045.25	1,126	3,252.09	0.25
Holly Mich Area School Dist	2.503	2,260,000.00	2,240,935.40	2,184	9,426.66	1.61
Houghton-Portage	1.515	945,000.00	936,755.60	502	2,386.17	0.67
JP Morgan Chase OH	2.405	1,000,000.00	1,000,580.00	1,339	5,682.19	0.71
Lansing MI Bldg Auth	2.575	65,516.56	62,122.50	1,978	0.00	0.05
LCRSCD	2.410	1,025,000.00	1,028,718.00	1,172	4,117.20	0.73
Lincoln MI Consol Sch Dist	2.020	427,177.49	426,088.00	852	1,593.75	0.30
Macomb County MI	1.233	732,961.89	728,729.80	305	2,106.05	0.52
Madison Heights	1.864	1,616,901.85	1,594,180.80	865	14,302.00	1.15
Michigan St Rev Bds Ser 2009B	5.887	3,297,140.40	3,057,629.40	3,545	66,007.08	2.09

Michigan St Strategic Fund LTD	1.579	1,000,783.33	992,170.00	470	3,464.33	0.71
Michigan State GO Bond	2.813	5,411,152.61	5,457,624.00	389	13,000.00	3.84
MIS FIN MI Fin Auth	2.301	1,096,839.52	1,072,544.20	1,766	4,600.40	0.77
Monroe	1.395	550,000.00	544,263.50	420	1,278.33	0.39
Morgan Stanley Smith Barney	0.000	0.05	0.05	1	0.00	0.00
MS Bank CD Salt Lake City UT CD	1.900	2,000,000.00	2,003,880.00	198	14,158.90	1.42
MS Private BK CD Purchase NY CD	1.900	2,000,000.00	2,003,880.00	198	14,783.56	1.42
Muskegon Heights PUB	2.325	2,205,000.00	2,201,189.00	1,072	8,543.08	1.57
New Haven Community School	2.291	278,088.24	276,586.75	1,217	1,214.58	0.20
North Muskegon Public Schools	2.081	200,769.89	199,448.00	852	751.33	0.14
Oakland County	1.152	44,796,316.63	44,796,316.63	1	0.00	31.86
Ottawa CountyMI	2.250	395,545.34	391,450.80	1,401	1,722.50	0.28
Parchment SD	2.282	2,520,000.00	2,478,172.50	1,420	9,582.92	1.79
Perry MI PS	2.440	1,353,870.00	1,341,589.50	1,582	5,652.00	0.96
Ravenna Schools	1.923	2,055,000.00	2,049,461.90	732	6,586.41	1.46
RMLSCD	2.256	900,000.00	894,577.00	1,014	1,409.89	0.64
Royal Oak MI	2.333	1,545,000.00	1,540,058.00	1,101	9,010.53	1.10
Saranac MI ISD	1.819	628,920.29	627,518.75	486	2,406.25	0.44
State of Michigan	1.350	508,335.27	504,120.00	500	1,661.11	0.36
U of MI	4.842	1,742,680.32	1,637,500.80	4,474	24,070.80	1.11
University of Michigan - REV	3.277	1,094,696.90	1,045,440.00	1,552	14,387.50	0.71
Wells Fargo Bank	2.531	1,000,000.00	1,003,420.00	1,851	7,623.29	0.71
Whitmore Lake Public Schools	1.650	2,556,512.88	2,545,105.40	486	9,122.83	1.81
Williamston Community School	1.549	1,010,934.06	998,520.00	486	3,995.00	0.71
WPP CP Finance Plc	1.542	998,333.33	997,940.00	40	0.00	0.71
Ypsilanti MI	2.639	7,305,000.00	7,159,633.15	2,076	32,128.58	5.20
Ypsilanti School Dist	2.028	5,600,000.00	5,531,854.00	878	18,926.66	3.98
Total / Average	1.839	141,417,711.78	140,244,103.42	825	435,150.95	100