

# 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, 2016  
**DATE:** JANUARY 27, 2016

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Attached to this memo is the investment report for the City of Novi as of December 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 December 13 - 14, 2016, "real gross domestic product (GDP) was expanding at a moderate pace over the second half of the year and that labor market conditions had continued to strengthen in recent months. Consumer price inflation increased further above its pace early in the year but was still running below the Committee's longer-run objective of 2 percent, restrained in part by earlier declines in energy prices and in prices of non-energy imports." <sup>1</sup>

The December jobs report indicated that "Total nonfarm payroll employment rose by 156,000 in December, and the unemployment rate was little changed at 4.7 percent, the U.S. Bureau of Labor Statistics reported today. Job growth occurred in health care and social assistance." <sup>2</sup>

## **State**

The Southeast Michigan Purchasing Manager's Index (PMI) in December moved back up from 57.0 to 61.9, or about where it was in July. The trend over the last six months has seen-sawed between the mid 50s and 60s, and the three-month average is at 62.0. These are both indicators of a strong and robust Southeast Michigan economy as we head into 2017 and the transition in Washington. <sup>3</sup>

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<sup>1</sup> <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20161214.pdf>

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

<sup>3</sup> [http://www.ism-sem.org/resources/files/Report-on-Business\\_December-2016.pdf](http://www.ism-sem.org/resources/files/Report-on-Business_December-2016.pdf)

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.

### **Investment Report**

Attached is a summary listing of investments by issuer that the City held at December 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 December 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

### December 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	-0.86%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	-3.41%
YTM@Cost	Yield to Maturity @ Cost	1.703%

**BENCHMARKS**

Treasury 6 Month	0.64%
Treasury 1 Year	0.87%

**FISCAL YEAR TO DATE**

Investment Income	-1,223,365.81
TRR-MV	-0.86%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	2,506,340.12	2,506,340.12	2,506,340.12	1.86	0.00	1
Certificate Of Deposit	6,000,000.00	6,054,760.00	6,000,000.00	4.45	2.09	1,296
Corporate	6,000,000.00	5,979,070.00	5,978,280.00	4.45	1.32	101
Local Government Investment Pool	44,328,774.97	44,328,774.97	44,328,774.97	32.84	0.66	1
Money Market	4,740,437.25	4,740,437.25	4,740,437.25	3.51	0.25	1
Municipal	52,900,000.00	53,108,856.45	53,864,601.67	39.19	2.58	1,821
US Agency	18,500,000.00	18,168,080.00	18,513,846.72	13.71	2.29	2,537
<b>Total / Average</b>	<b>134,975,552.34</b>	<b>134,886,318.79</b>	<b>135,932,280.73</b>	<b>100.00</b>	<b>1.71</b>	<b>1,129</b>

  
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 Carl A. Johnson, Jr. - Finance Director / Treasurer, CFO      Date 1/21/17



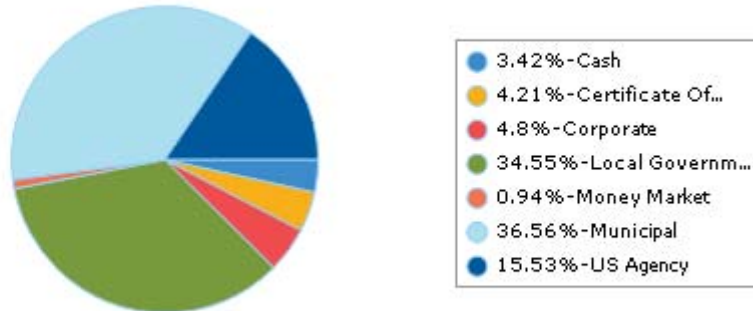
## City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 9/30/2016, End Date: 12/31/2016

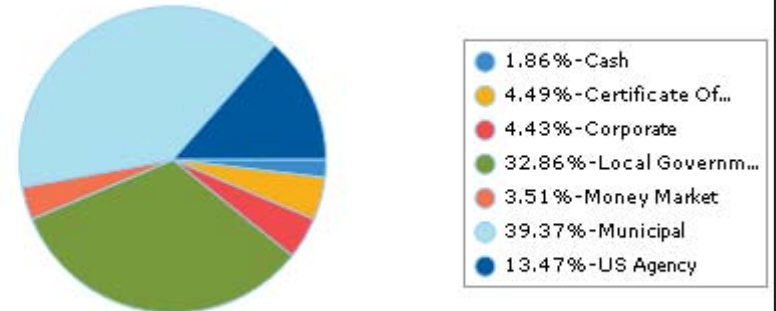
### Security Sector Allocation

Security Sector	Market Value 9/30/2016	% of Portfolio 9/30/2016	Market Value 12/31/2016	% of Portfolio 12/31/2016
Cash	4,966,173.46	3.42	2,506,340.12	1.86
Certificate Of Deposit	6,114,690.00	4.21	6,054,760.00	4.49
Corporate	6,970,490.00	4.80	5,979,070.00	4.43
Local Government Investment Pool	50,199,709.28	34.55	44,328,774.97	32.86
Money Market	1,362,433.49	0.94	4,740,437.25	3.51
Municipal	53,113,666.45	36.56	53,108,856.45	39.37
US Agency	22,561,410.00	15.53	18,168,080.00	13.47
<b>Total / Average</b>	<b>145,288,572.68</b>	<b>100.00</b>	<b>134,886,318.79</b>	<b>100.00</b>

**Portfolio Holdings as of 9/30/2016**



**Portfolio Holdings as of 12/31/2016**





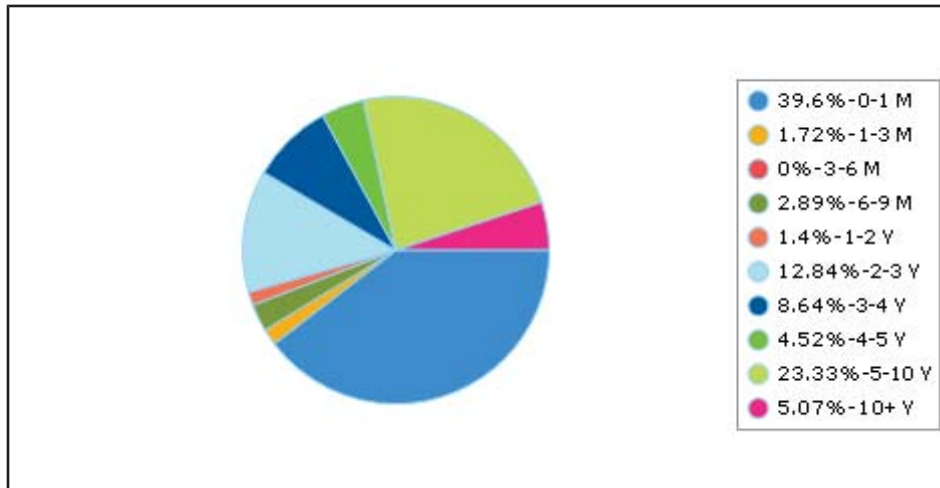
## City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 9/30/2016, End Date: 12/31/2016

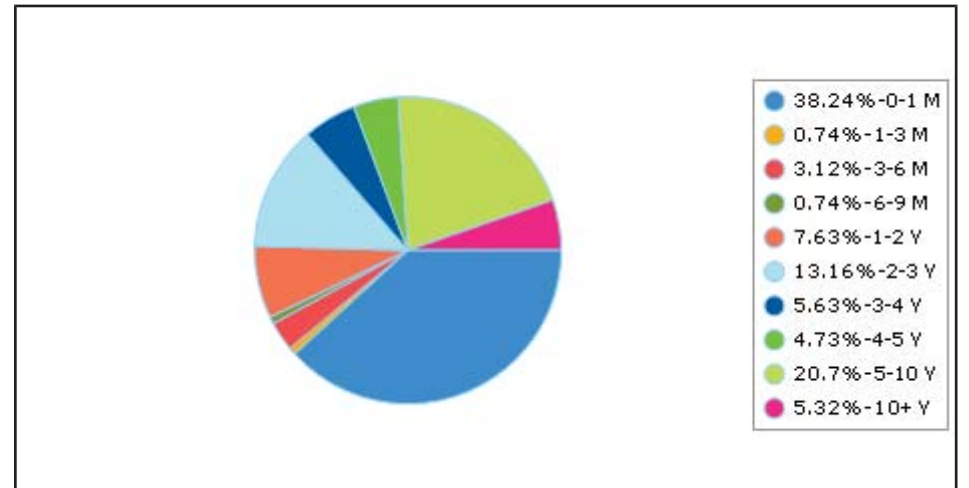
### Maturity Range Allocation

Maturity Range	Market Value 9/30/2016	% of Portfolio 9/30/2016	Market Value 12/31/2016	% of Portfolio 12/31/2016
0-1 Month	57,528,246.23	39.60	51,575,552.34	38.24
1-3 Months	2,497,925.00	1.72	998,810.00	0.74
3-6 Months	0.00	0.00	4,206,835.80	3.12
6-9 Months	4,193,903.00	2.89	993,300.00	0.74
1-2 Years	2,037,670.10	1.40	10,293,343.25	7.63
2-3 Years	18,655,208.65	12.84	17,754,175.90	13.16
3-4 Years	12,546,294.60	8.64	7,590,227.75	5.63
4-5 Years	6,562,623.95	4.52	6,374,096.75	4.73
5-10 Years	33,895,604.40	23.33	27,927,453.85	20.70
10+ Years	7,371,096.75	5.07	7,172,523.15	5.32
<b>Total / Average</b>	<b>145,288,572.68</b>	<b>100.00</b>	<b>134,886,318.79</b>	<b>100.00</b>

**Portfolio Holdings as of 9/30/2016**



**Portfolio Holdings as of 12/31/2016**



City of Novi

Investment Income - Market Value

Report Format: By Totals

Group By: Security Sector

Portfolio / Report Group: All Portfolios

Begin Date: 9/30/2016, End Date: 12/31/2016

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	-1,890.41	-59,930.00	0.00	-61,820.41	-1.01	-3.96
Corporate	0.00	19,321.11	3,190.00	22,511.11	0.32	1.27
Local Government Investment Pool	129,065.69	0.00	0.00	129,065.69	0.28	1.13
Money Market	681.62	0.00	0.00	681.62	0.03	0.13
Municipal	354,117.57	-1,366,275.00	-1,045.00	-1,013,202.43	-1.88	-7.29
US Agency	79,328.61	-383,420.00	3,490.00	-300,601.39	-1.56	-6.10
Total / Average	561,303.08	-1,790,303.89	5,635.00	-1,223,365.81	-0.86	-3.41

City of Novi  
Investment Portfolio - by Issuer, Summary  
As of 12/31/2016

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allen Park	3.198	446,035.40	428,937.80	2,497	2,399.92	0.33
Allendale MI PSD	2.249	1,010,142.84	1,007,640.00	1,217	4,288.33	0.74
Ally Bank UT	1.700	1,000,000.00	1,005,670.00	716	652.05	0.74
American Express Centurion	1.967	3,000,000.00	3,033,320.00	1,047	7,920.55	2.22
Belding Area Schools	2.041	1,147,043.55	1,151,594.15	1,011	4,025.00	0.85
Bellevue Mich Cmnty Schs	2.130	510,659.61	493,665.00	1,947	2,804.50	0.37
Center Line Public Schools	3.589	256,443.70	245,930.00	2,678	1,666.67	0.19
Charter Township of Commerce	2.397	870,000.00	844,543.80	2,344	5,212.75	0.64
Delhi TWP MI	1.980	140,000.00	135,200.80	2,131	462.00	0.10
Eastern MI Univ	6.053	765,562.12	741,784.50	6,255	18,533.40	0.51
ENI Finance USA INC	1.304	998,293.33	998,810.00	48	0.00	0.74
FFCB	2.754	4,013,846.72	3,972,220.00	3,138	46,098.89	2.96
FHLB	2.559	5,500,000.00	5,285,290.00	3,165	34,823.61	4.07
FHLMC	2.000	1,000,000.00	986,750.00	1,808	1,000.00	0.74
Fifth Third	0.163	7,246,777.37	7,246,777.37	1	0.00	5.37
Flat Rock Community Schools	2.441	1,063,450.37	1,022,559.30	2,678	4,926.60	0.77
FNMA	1.901	8,000,000.00	7,923,820.00	1,895	29,931.94	5.93
Ford Motor Credit Co	1.328	3,986,566.67	3,986,960.00	93	0.00	2.96
Harper Creek MI	2.000	506,555.32	504,330.00	1,217	2,011.67	0.37
Holland Mich Taxable Go Ltd Tax Bds Ser	2.230	350,000.00	349,300.00	1,491	216.81	0.26
Holly Mich Area School Dist	2.392	1,560,000.00	1,505,455.00	2,327	6,218.33	1.16
Holly Mich Area School District	2.750	700,000.00	676,627.00	3,044	3,208.33	0.52
Houghton-Portage	1.472	1,045,000.00	1,032,759.80	795	2,564.50	0.77
JP Morgan Chase OH	2.405	1,000,000.00	1,001,640.00	1,704	5,682.19	0.74
Lansing MI Bldg Auth	2.575	63,766.58	57,870.75	2,343	0.00	0.06
Lincoln MI Consol Sch Dist	2.020	428,110.34	421,527.75	1,217	1,593.75	0.31
Macomb County MI	1.233	736,506.45	731,671.70	670	2,106.05	0.54
Madison Heights	1.787	1,220,000.00	1,196,779.50	1,274	5,572.13	0.90
Michigan St Strategic Fund LTD	1.579	1,001,391.67	993,580.00	835	2,917.33	0.74
Michigan State	5.887	3,333,912.26	3,225,091.80	3,910	66,007.08	2.18



City of Novi  
Investment Portfolio - by Issuer, Summary  
As of 12/31/2016

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Michigan State GO Bond	2.813	5,414,971.28	5,530,520.00	754	13,000.00	4.00
MIS FIN MI Fin Auth	2.301	1,099,286.53	1,061,195.10	2,131	4,600.40	0.80
Monroe	1.395	550,000.00	543,997.50	785	1,278.33	0.41
Muskegon Heights PUB	2.291	1,635,000.00	1,615,110.05	1,386	6,244.08	1.21
Muskegon Hts PuB	2.420	570,000.00	557,790.60	1,582	2,299.00	0.42
NATIXIS NY Branch	1.287	993,420.00	993,300.00	188	0.00	0.74
New Haven Community School	2.291	279,014.46	276,124.75	1,582	1,214.58	0.20
North Muskegon Public Schools	2.081	201,099.72	200,708.00	1,217	751.33	0.15
Oakland County	0.660	44,328,774.97	44,328,774.97	1	0.00	32.84
Ottawa CountyMI	2.250	396,990.06	394,028.70	1,766	1,722.50	0.29
Parchment SD	2.282	2,520,000.00	2,482,281.80	1,785	9,582.92	1.87
Perry MI PS	2.440	1,354,762.88	1,333,044.00	1,947	5,652.00	1.00
Ravenna Schools	1.923	2,055,000.00	2,037,257.45	1,097	6,586.41	1.52
Saranac MI ISD	1.819	631,864.54	631,831.25	851	2,406.25	0.46
State of Michigan	1.350	514,420.02	508,800.00	865	1,661.11	0.37
U of MI	4.842	1,757,583.83	1,697,654.40	4,839	24,070.80	1.16
University of Michigan - REV	3.277	1,116,967.75	1,085,120.00	1,917	14,387.50	0.74
Wells Fargo Bank	2.531	1,000,000.00	1,014,130.00	2,216	7,623.29	0.74
Whitmore Lake Public Schools	1.650	2,568,914.54	2,556,459.20	851	9,122.83	1.88
Williamston Community School	1.549	1,019,145.85	1,011,990.00	851	3,995.00	0.74
Ypsilanti MI	2.619	7,425,000.00	7,265,203.00	2,403	32,406.58	5.50
Ypsilanti School Dist	2.028	5,600,000.00	5,552,892.00	1,243	29,651.78	4.15
Total / Average	1.703	135,932,280.73	134,886,318.79	1,124	441,101.07	100