

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 – SEPTEMBER 30, 2015
DATE: OCTOBER 20, 2015

Attached to this memo is the investment report for the City of Novi as of September 30, 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 September 16 - 17, 2015, "real gross domestic product (GDP) was expanding at a moderate pace in the third quarter. Labor market conditions continued to improve, but labor compensation gains were modest. Consumer price inflation remained below the Committee's longer-run objective of 2 percent and was restrained by further declines in energy prices and non-energy import prices. Survey measures of longer-run inflation expectations remained stable, while market-based measures of inflation compensation moved lower".¹

The September jobs report showed job creation was up with 142,000 jobs, and the national unemployment rate was unchanged at 5.1%. In September, employment gains occurred in health care and information, while mining employment fell.² Even with the reported gains, Chad Stone, Chief Economist with the Center on Budget and Policy Priorities, believes that "with low inflation and a still incomplete labor market recovery, an important consideration is whether it's a better policy to test if current estimates of the sustainable long-run employment rate might still be too high rather than to start raising interest rates anytime soon."³

State

The Southeast Michigan Purchasing Manager's Index (PMI) in September rose back up a point from 56.6 to 57.6. The index averaged 57.3 over the last three months. With a nearly identical score 3 months in a row, this index reflects relative stability in the economy from a procurement perspective. A PMI over 50 indicates economic growth. According to the

¹ <http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20150917.pdf>

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

³ http://www.huffingtonpost.com/chad-stone/what-to-watch-for-in-the_b_8229400.html

Institute for Supply Management, key component indexes driving the overall PMI are production, which grew from 50 to 55.9, new orders which grew from 58.3 to 58.8 and employment, which grew strongly from 59.1 to 67.6.⁴

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 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

⁴ http://www.ism-sem.org/resources/files/Report-on-Business_September-2015.pdf

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 September 30, 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 September 30, 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 September 30, 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	.71 %
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	2.87 %
YTM@Cost	Yield to Maturity @ Cost	1.682 %

BENCHMARKS

Treasury 6 Month	0.18 %
Treasury 1 Year	0.37 %

FISCAL YEAR TO DATE

Investment Income - 1,063,695.94

TRR-MV .71 %

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	7,788,371.29	7,788,371.29	7,788,371.29	5.46	0.00	1
Certificate Of Deposit	1,254,580.43	1,255,830.43	1,254,580.43	0.88	2.03	1,727
Local Government Investment Pool	43,863,798.64	43,863,798.64	43,863,798.64	30.77	1.21	1
Money Market	6,842,952.94	6,842,952.94	6,842,952.94	4.80	0.20	1
Municipal	9,195,000.00	9,511,280.10	9,267,350.06	6.45	2.51	1,289
US Agency	73,625,000.00	73,693,718.75	73,622,233.63	51.64	2.17	2,103
Total / Average	142,569,703.30	142,955,952.15	142,639,286.99	100.00	1.68	1,185

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

10/20/15

Date



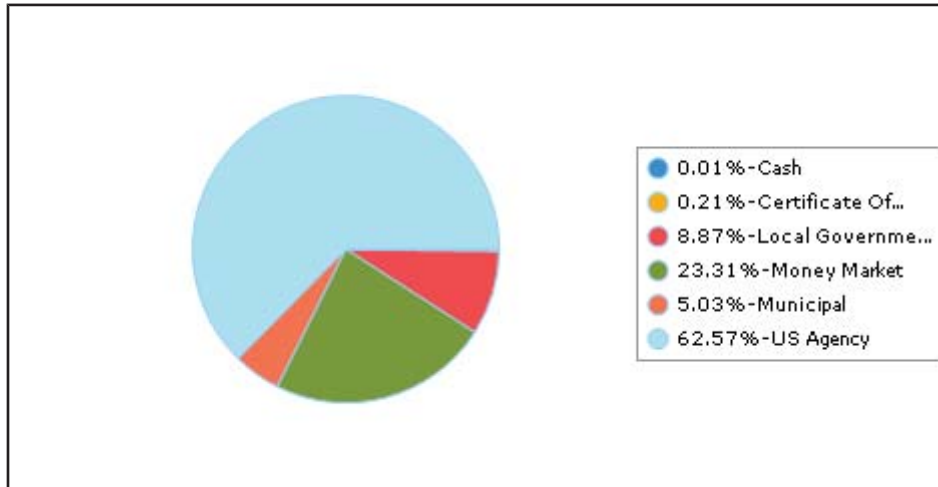
City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 6/30/2015, End Date: 9/30/2015

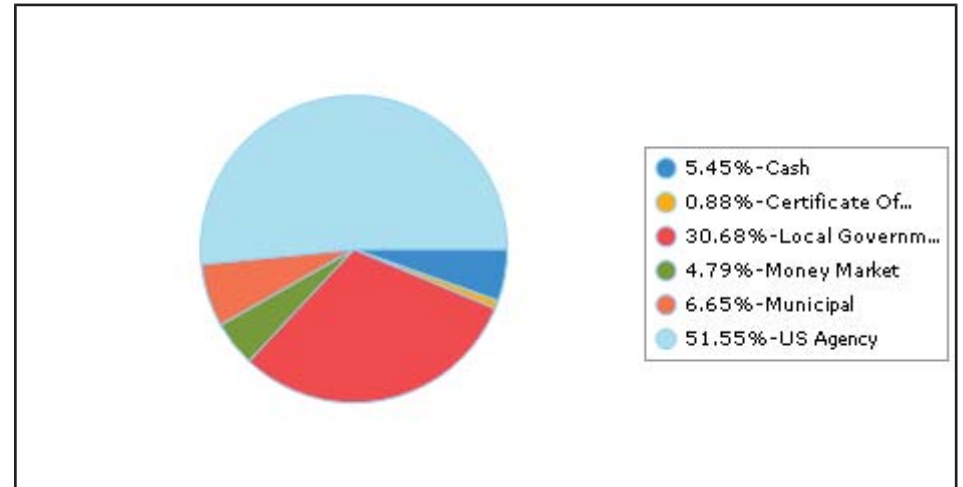
Security Sector Allocation

Security Sector	Market Value 6/30/2015	% of Portfolio 6/30/2015	Market Value 9/30/2015	% of Portfolio 9/30/2015
Cash	14,000.29	0.01	7,788,371.29	5.45
Certificate Of Deposit	254,227.76	0.21	1,255,830.43	0.88
Local Government Investment Pool	10,840,149.55	8.87	43,863,798.64	30.68
Money Market	28,498,048.78	23.31	6,842,952.94	4.79
Municipal	6,143,906.00	5.03	9,511,280.10	6.65
US Agency	76,485,928.50	62.57	73,693,718.75	51.55
Total / Average	122,236,260.88	100.00	142,955,952.15	100.00

Portfolio Holdings as of 6/30/2015



Portfolio Holdings as of 9/30/2015





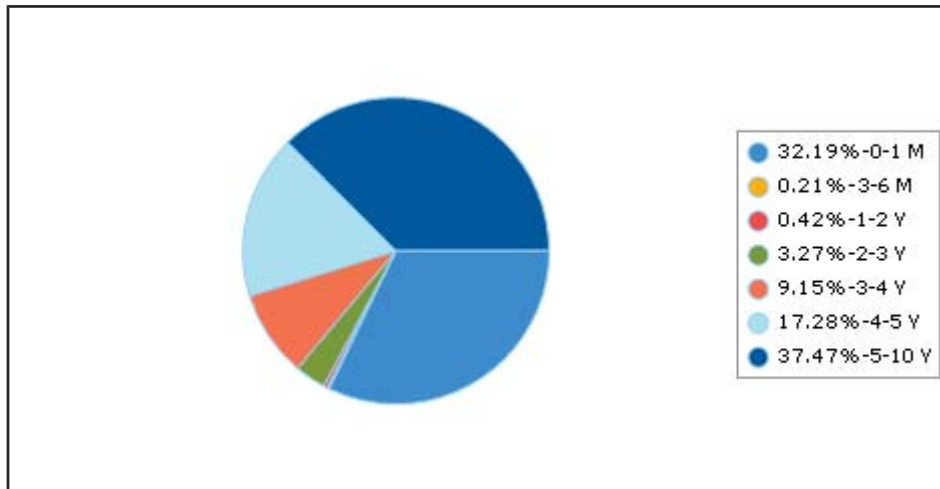
City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 6/30/2015, End Date: 9/30/2015

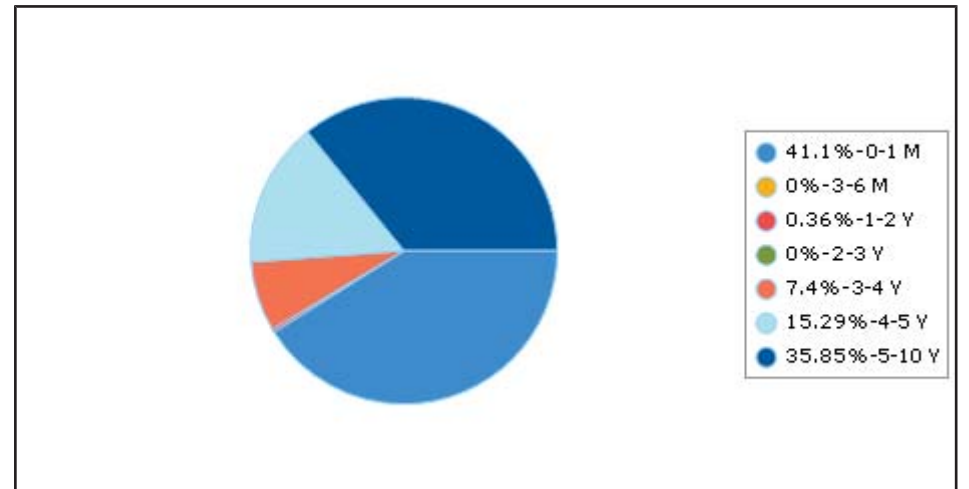
Maturity Range Allocation

Maturity Range	Market Value 6/30/2015	% of Portfolio 6/30/2015	Market Value 9/30/2015	% of Portfolio 9/30/2015
0-1 Month	39,352,198.62	32.19	58,749,703.30	41.10
3-6 Months	254,227.76	0.21	0.00	0.00
1-2 Years	514,710.00	0.42	513,310.00	0.36
2-3 Years	4,002,360.00	3.27	0.00	0.00
3-4 Years	11,187,020.00	9.15	10,582,616.30	7.40
4-5 Years	21,120,262.50	17.28	21,863,588.00	15.29
5-10 Years	45,805,482.00	37.47	51,246,734.55	35.85
Total / Average	122,236,260.88	100.00	142,955,952.15	100.00

Portfolio Holdings as of 6/30/2015



Portfolio Holdings as of 9/30/2015



City of Novi**Investment Income - Market Value**

Report Format: By Totals

Group By: Security Sector

Portfolio/Report Group: All Portfolios**Begin Activity Date: 6/30/2015, End Activity Date: 9/30/2015, Carrying Value Date: 6/30/2015**

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		0.00	0.00	0.00	0.00	0.00	0.00
Certificate Of Deposit		1,749.99	1,250.00	0.00	2,999.99	0.51	2.05
Local Government Investment Pool		23,649.09	0.00	0.00	23,649.09	0.08	0.34
Money Market		15,752.29	0.00	0.00	15,752.29	0.06	0.24
Municipal		54,479.05	18,366.95	0.00	72,846.00	0.88	3.56
US Agency		338,907.82	602,790.75	6,750.00	948,448.57	1.21	4.91
Total / Average		434,538.24	622,407.70	6,750.00	1,063,695.94	0.71	2.87

City of Novi
Investment Portfolio - by Issuer, Summary
 Report Format: By Totals
 Group By: Issuer
Portfolio/Report Group: All Portfolios
As of 9/30/2015

Description	CUSIP/Ticker	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allendale MI PSD		2.249	1,571,637.93	1,591,943.00	1675	5,206.75	1.09
Comerica		0.100	277,637.41	277,637.41	1	0.00	0.19
FAMC		1.000	3,000,000.00	3,000,960.00	1125	12,583.33	2.10
FFCB		2.212	26,525,000.00	26,576,164.75	2018	151,093.26	18.60
FHLB		2.252	29,250,000.00	29,263,343.00	2255	103,940.28	20.52
FHLMC		2.599	9,847,233.63	9,850,201.00	2494	27,811.12	6.91
Fifth Third		0.091	14,353,686.53	14,353,686.53	1	0.00	10.07
FNMA		1.330	5,000,000.00	5,003,050.00	1485	28,816.67	3.51
JP Morgan Chase OH		2.405	1,000,000.00	1,001,250.00	2162	1,397.26	0.70
Lotus Bank		0.550	254,580.43	254,580.43	18	46.02	0.18
Macomb County MI		1.233	740,954.14	736,066.30	1128	6,318.15	0.51
Michigan State GO Bond		2.820	5,920,396.14	6,149,052.00	1143	57,835.02	4.14
Morgan Stanley Smith Barney		0.000	0.29	0.29	1	0.00	0.00
Oakland County		1.210	43,863,798.64	43,863,798.64	1	0.00	30.77
Ottawa CountyMI		2.250	398,802.89	399,718.80	2224	4,277.54	0.27
Saranac MI ISD		1.819	635,558.96	634,500.00	1309	2,245.83	0.44
Total / Average		1.682	142,639,286.99	142,955,952.15	1185	401,571.23	100