

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 – MARCH 31, 2017
DATE: APRIL 25, 2017

Attached to this memo is the investment report for the City of Novi as of March 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 March 14 - 15, 2017, "the information reviewed for the meeting suggested that the labor market strengthened further in January and February and the real gross domestic product (GDP) was continuing to expand in the fourth quarter, with some of the slowing likely reflecting transitory factors."¹

The March jobs report indicated that "The unemployment rate declined to 4.5 percent in March, and total nonfarm payroll employment edged up by 98,000, the U.S. Bureau of Labor Statistics reported today. Employment increased in professional and business services and in mining, while retail trade lost jobs."²

State

The Southeast Michigan Purchasing Manager's Index (PMI) in January dropped from 61.9 all the way down to 53.3, the lowest reading since February 2016, which was at 52.0. We had a reading of 50.0 in January 2015 and 52.3 in January 2014, so there's definitely a pattern of low numbers in January. If that pattern repeats itself, the reading will increase by February. The 3 month average for the overall index is 57.4, down from December's 62.0.³

¹ <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20170315.pdf>

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

³ http://www.ism-sem.org/resources/files/Report-on-Business_January-2017-KD.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 March 31, 2017 (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, 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 March 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	0.430%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	1.730%
YTM@Cost	Yield to Maturity @ Cost	1.935%

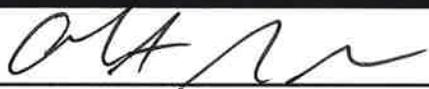
BENCHMARKS

Treasury 6 Month 0.89%
Treasury 1 Year 1.01%

FISCAL YEAR TO DATE

Investment Income 591,207
TRR-MV 0.43%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	1,501,027.56	1,501,027.56	1,501,027.56	1.19	0.00	1
Certificate Of Deposit	6,000,000.00	6,038,060.00	6,000,000.00	4.78	2.09	1,206
Corporate	8,000,000.00	7,974,030.00	7,976,872.40	6.37	1.37	76
Local Government Investment Pool	36,403,610.36	36,403,610.36	36,403,610.36	28.97	0.99	1
Money Market	394,103.72	394,103.72	394,103.72	0.31	0.25	1
Municipal	54,845,000.00	55,067,466.00	55,772,330.88	43.65	2.57	1,716
US Agency	18,500,000.00	18,189,070.00	18,513,449.50	14.72	2.29	2,447
Total / Average	125,643,741.64	125,567,367.64	126,561,394.42	100.00	1.94	1,176



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

4/24/17
Date



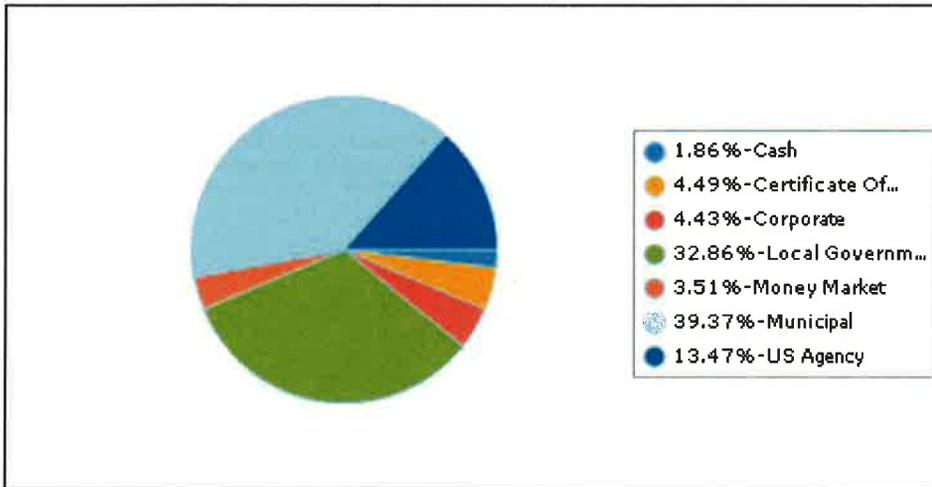
City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 12/31/2016, End Date: 3/31/2017

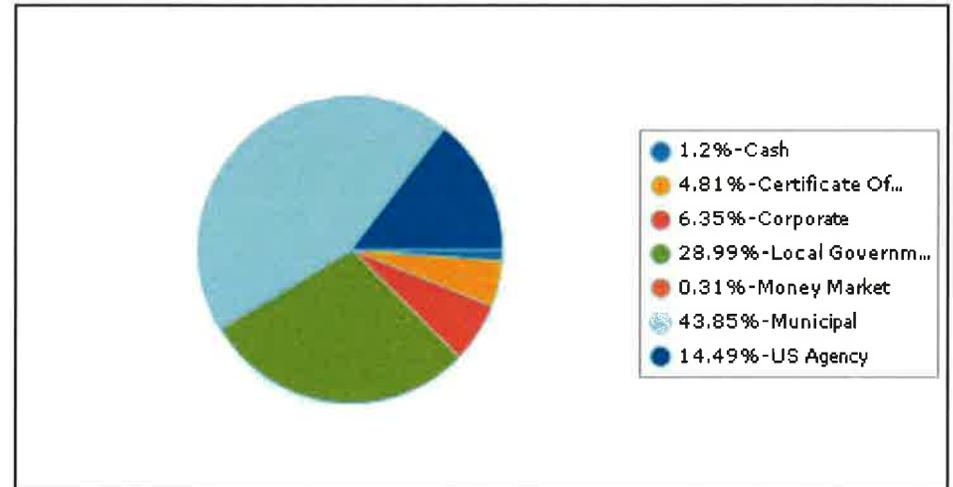
Security Sector Allocation

Security Sector	Market Value 12/31/2016	% of Portfolio 12/31/2016	Market Value 3/31/2017	% of Portfolio 3/31/2017
Cash	2,506,340.12	1.86	1,501,027.56	1.20
Certificate Of Deposit	6,054,760.00	4.49	6,038,060.00	4.81
Corporate	5,979,070.00	4.43	7,974,030.00	6.35
Local Government Investment Pool	44,328,774.97	32.86	36,403,610.36	28.99
Money Market	4,740,437.25	3.51	394,103.72	0.31
Municipal	53,108,856.45	39.37	55,067,466.00	43.85
US Agency	18,168,080.00	13.47	18,189,070.00	14.49
Total / Average	134,886,318.79	100.00	125,567,367.64	100.00

Portfolio Holdings as of 12/31/2016



Portfolio Holdings as of 3/31/2017





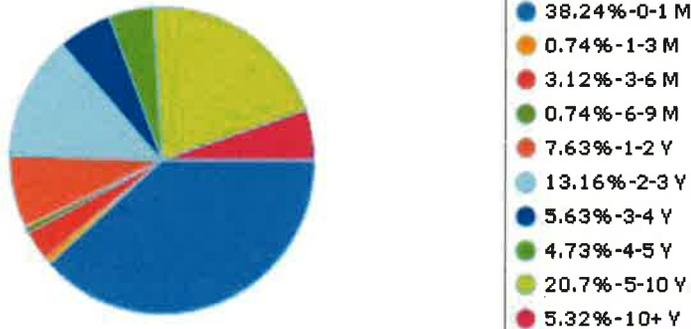
City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 12/31/2016, End Date: 3/31/2017

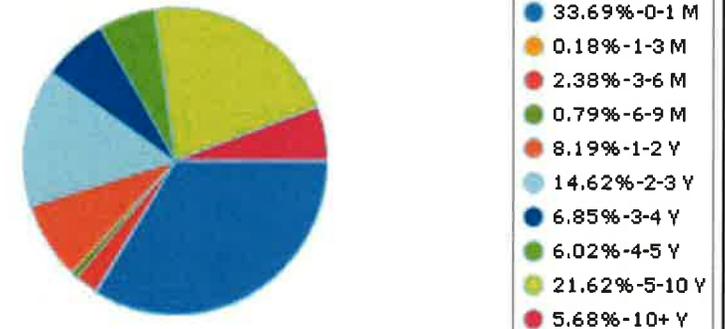
Maturity Range Allocation

Maturity Range	Market Value 12/31/2016	% of Portfolio 12/31/2016	Market Value 3/31/2017	% of Portfolio 3/31/2017
0-1 Month	51,575,552.34	38.24	42,298,381.64	33.69
1-3 Months	998,810.00	0.74	219,989.60	0.18
3-6 Months	4,206,835.80	3.12	2,982,530.00	2.38
6-9 Months	993,300.00	0.74	991,860.00	0.79
1-2 Years	10,293,343.25	7.63	10,280,758.50	8.19
2-3 Years	17,754,175.90	13.16	18,357,564.15	14.62
3-4 Years	7,590,227.75	5.63	8,598,332.95	6.85
4-5 Years	6,374,096.75	4.73	7,558,627.20	6.02
5-10 Years	27,927,453.85	20.70	27,152,879.25	21.62
10+ Years	7,172,523.15	5.32	7,126,444.35	5.68
Total / Average	134,886,318.79	100.00	125,567,367.64	100.00

Portfolio Holdings as of 12/31/2016



Portfolio Holdings as of 3/31/2017



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: 12/31/2016, End Date: 3/31/2017

Description	Interest Earned During Period-MV	Unrealized Gain/Loss-MV	Realized Gain/Loss-MV	Investment Income-MV	TRR-MV	Annualized TRR-MV
Certificate Of Deposit	27,246.59	-16,700.00	0.00	10,546.59	0.17	0.70
Corporate	0.00	19,568.89	1,190.00	20,758.89	0.29	1.15
Local Government Investment Pool	51,367.03	0.00	0.00	51,367.03	0.13	0.50
Money Market	0.00	0.00	0.00	0.00	0.00	0.00
Municipal	387,022.94	18,021.55	0.00	405,044.49	0.75	3.02
US Agency	82,500.00	20,990.00	0.00	103,490.00	0.57	2.29
Total / Average	548,136.56	41,880.44	1,190.00	591,207.00	0.43	1.73

City of Novi
Investment Portfolio - by Issuer, Summary
As of 3/31/2017

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allen Park	3.198	445,997.90	429,961.55	2,407	5,999.80	0.35
Allendale MI PSD	2.249	1,009,392.76	1,008,870.00	1,127	10,720.83	0.80
Ally Bank UT	1.700	1,000,000.00	1,003,350.00	626	4,843.84	0.80
American Express Centurion	1.967	3,000,000.00	3,022,920.00	957	22,468.49	2.39
Belding Area Schools	2.041	1,146,857.42	1,150,069.25	921	10,062.50	0.91
Bellevue Mich Cmnty Schs	2.130	510,166.87	494,650.00	1,857	5,999.50	0.40
Center Line Public Schools	3.589	256,227.14	246,805.00	2,588	4,166.67	0.20
Charter Township of Commerce	2.397	870,000.00	847,774.40	2,254	10,425.50	0.69
Delhi TWP MI	1.980	140,000.00	135,199.40	2,041	1,155.00	0.11
Eastern MI Univ	6.053	764,474.90	737,223.60	6,165	6,268.65	0.55
FFCB	2.754	4,013,449.50	3,960,580.00	3,048	18,098.89	3.18
FHLB	2.559	5,500,000.00	5,303,320.00	3,075	25,448.61	4.38
FHLMC	2.000	1,000,000.00	987,480.00	1,718	6,000.00	0.80
Fifth Third	0.052	1,895,131.28	1,895,131.28	1	0.00	1.51
Flat Rock Community Schools	2.441	1,062,494.23	1,028,169.00	2,588	12,316.50	0.82
FNMA	1.901	8,000,000.00	7,937,690.00	1,805	34,056.94	6.37
Ford Motor Credit Co	1.328	3,999,566.67	3,999,640.00	3	0.00	3.18
Ford Motor Credit Co.	1.466	1,987,722.77	1,986,040.00	154	0.00	1.59
Harper Creek MI	2.000	506,070.54	505,510.00	1,127	5,029.17	0.40
Holland Mich Taxable Go Ltd Tax Bds Ser	2.230	350,000.00	349,111.00	1,401	2,168.05	0.28
Holly Mich Area School Dist	2.392	1,560,000.00	1,508,226.20	2,237	15,545.83	1.24
Holly Mich Area School District	2.750	700,000.00	677,208.00	2,954	8,020.83	0.56
Houghton-Portage	1.472	1,045,000.00	1,032,239.80	705	6,411.25	0.83
JP Morgan Chase OH	2.405	1,000,000.00	1,001,550.00	1,614	1,443.84	0.80
Lansing MI Bldg Auth	2.575	64,198.08	58,748.25	2,253	0.00	0.06
Lincoln MI Consol Sch Dist	2.020	427,880.32	422,530.75	1,127	3,984.38	0.34
Macomb County MI	1.233	735,632.45	732,584.20	580	5,265.12	0.58
Madison Heights	1.864	1,615,736.34	1,593,213.35	1,140	7,151.00	1.29
Michigan St Strategic Fund LTD	1.579	1,001,241.67	993,530.00	745	7,019.83	0.80
Michigan State	5.887	3,324,845.23	3,182,991.00	3,820	9,963.33	2.34

City of Novi
Investment Portfolio - by Issuer, Summary
As of 3/31/2017

Michigan State GO Bond	2.813	5,414,029.69	5,523,654.00	664	52,000.00	4.30
MIS FIN MI Fin Auth	2.301	1,098,683.16	1,064,374.15	2,041	11,501.00	0.86
Monroe	1.395	550,000.00	544,649.00	695	3,195.83	0.44
Muskegon Heights PUB	2.291	1,635,000.00	1,619,027.70	1,296	15,610.21	1.30
Muskegon Hts PuB	2.420	570,000.00	559,113.00	1,492	5,747.50	0.45
NATIXIS NY Branch	1.287	996,570.00	996,490.00	98	0.00	0.80
New Haven Community School	2.291	278,786.08	276,383.25	1,492	3,036.46	0.22
North Muskegon Public Schools	2.081	201,018.39	201,252.00	1,127	1,878.33	0.16
Oakland County	0.992	36,403,610.36	36,403,610.36	1	0.00	28.97
Ottawa CountyMI	2.250	396,633.83	395,019.30	1,676	4,306.25	0.31
Parchment SD	2.282	2,520,000.00	2,482,171.35	1,695	23,957.30	2.01
Perry MI PS	2.440	1,354,542.72	1,335,703.50	1,857	14,130.00	1.07
Ravenna Schools	1.923	2,055,000.00	2,035,370.10	1,007	16,466.04	1.64
Royal Oak MI	2.333	1,545,000.00	1,550,980.00	1,376	4,004.68	1.23
Saranac MI ISD	1.819	631,138.56	632,943.75	761	6,015.62	0.50
State of Michigan	1.350	512,919.67	509,420.00	775	4,911.11	0.40
U of MI	4.842	1,753,908.99	1,686,625.20	4,749	48,141.60	1.24
University of Michigan - REV	3.277	1,111,476.31	1,077,600.00	1,827	28,775.00	0.80
Vodafone Group PLC	1.451	993,012.96	991,860.00	186	0.00	0.80
Wells Fargo Bank	2.531	1,000,000.00	1,010,240.00	2,126	3,116.44	0.80
Whitmore Lake Public Schools	1.650	2,565,856.60	2,560,447.00	761	22,807.08	2.02
Williamston Community School	1.549	1,017,121.03	1,012,980.00	761	9,987.50	0.80
Ypsilanti MI	2.619	7,425,000.00	7,301,479.95	2,313	81,016.44	5.91
Ypsilanti School Dist	2.028	5,600,000.00	5,563,658.00	1,153	58,041.78	4.46
Total / Average	1.935	126,561,394.42	125,567,367.64	1,172	668,680.52	100