

MEMORANDUM



TO: HONORABLE MAYOR AND CITY COUNCIL MEMBERS
FROM: CARL A. JOHNSON, JR., CFO
DEBRA PECK, ASSISTANT CITY TREASURER
CC: PETE AUGER, CITY MANAGER
MARYANNE CORNELIUS, CITY CLERK
SUBJECT: QUARTERLY INVESTMENT REPORT – SEPTEMBER 30, 2014
DATE: DECEMBER 5, 2014

Attached to this memo is the investment report for the City of Novi as of September 30, 2014. This memo also outlines the investment factors and trends that were playing a role in our investment decisions for the first quarter of the current fiscal year.

Nationally

According to the minutes of the Federal Open Market Committee (FOMC) meetings held on September 16-17, 2014, “economic activity was expanding at a moderate pace in the third quarter [calendar 2014]. Labor market conditions improved a little further, although the unemployment rate was essentially unchanged over the intermeeting period. Consumer price inflation was running below the FOMC’s longer-run objective of 2 percent, but measures of longer-run inflation expectations remained stable”.¹

The September jobs report showed job creation was up with 248,000 jobs added in September, and the national unemployment rate declined to 5.9%. In September, job growth occurred in professional and business services, retail trade, and health care.² Even with the reported gains, James Abate, chief investment officer of Centre Asset Management, refers to this as “a mixed report”, pointing to a continued low labor force participation rate and static wages.³

State

The Southeast Michigan Purchasing Manager’s Index (PMI) rose in September, to 59.4 after August’s drop to 54.8. The index has averaged 58.1 over the last three months. A PMI over 50 indicates economic growth. According to the Institute for Supply Management, significant increases in the production portion of the index drove much of the increase, with new orders increasing significantly.⁴

¹ <http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20140917.pdf>

² <http://www.bls.gov/news.release/empsit.nr0.htm>

³ <http://www.forbes.com/sites/samanthasharf/2014/10/03/jobs-report-u-s-economy-added-248000-jobs-in-september-unemployment-down-to-5-9/>

⁴ <http://www.ism-sem.org/resources/files/Report-on-Business-September-2014.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 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. The City prohibits investment of operating funds in securities maturing more than two years from the date of purchase. Capital Improvement and Reserve Funds, Special Assessment Funds, Post-Retirement Health Care Fund, Perpetual Drain Fund, and Water and Sewer Fund are permitted to hold investments with maturities exceeding two years, provided sufficient funds are held in short term or highly liquid investment funds to meet anticipated and unanticipated needs.

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 comprehensive listing of investments the City held at September 30, 2014. The listing includes the market value, type of investment, maturity date, interest rate and amount of investment. The report includes all investment accounts by issuer, pooled fund accounts, as well as the Retiree Health Care Accounts (not subject to Public Act 20 Investment limitations). Please note that all investments, except for the Retiree Health Care Account with MERS, 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 issues of non-compliance with the MERS Retiree Health Care Account are currently being addressed and remedies are being considered.

CITY OF NOVI

Quarterly Investment Report

September 30, 2014



<u>Local Government Investment Pools / Money Market</u>	Beginning 06/30/2014	Ending 09/30/2014
Market Value	50,955,839	74,460,430
WAM (1) in Days	1	1
Weighted Average Yield to Maturity	0.28%	0.35%
Fixed Income Assets		
Book Value	71,177,718	66,177,718
Market Value	70,269,902	65,169,354
Change in Market Value	785,912	-100,549
Unrealized Gain / Loss	530,077	-115,119
Realized Gain / Loss	255,835	14,570
WAM (1) in Days	2,080	2,061
WAM / Callable (1) in Days	791	806
Yield to Maturity @ Cost	2.32%	2.40%
Annualized, Total Rate of Return - Market Value	6.00%	6.19%

BENCHMARK		
1 Year Treasury	0.10%	0.11%
6 Month Treasury	0.06%	0.04%

<u>Total Portfolio Value</u>		
Book Value	122,133,557	140,638,148
Market Value	121,225,741	139,629,784
Change in Market Value	785,912	-100,549
Unrealized Gain / Loss	530,077	-115,119
Realized Gain / Loss	255,835	14,570
WAM (1) in Days	1,206	962
WAM / Callable (1) in Days	461	377
Yield to Maturity @ Cost	1.47%	1.31%
Annualized, Total Rate of Return - Market Value	3.94%	3.25%

BENCHMARK		
1 Year Treasury	0.10%	0.11%
6 Month Treasury	0.06%	0.04%

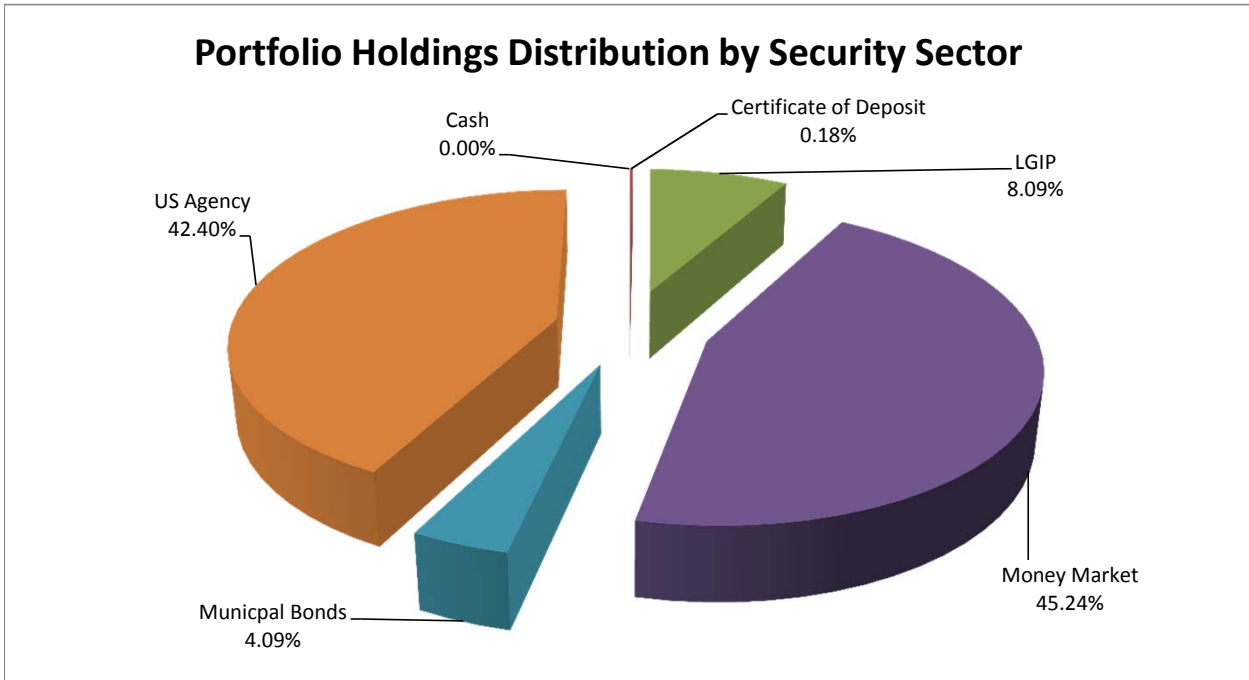
Carl A. Johnson, Jr
Finance Director / Treasurer, Chief Financial Officer

12/10/14

Date



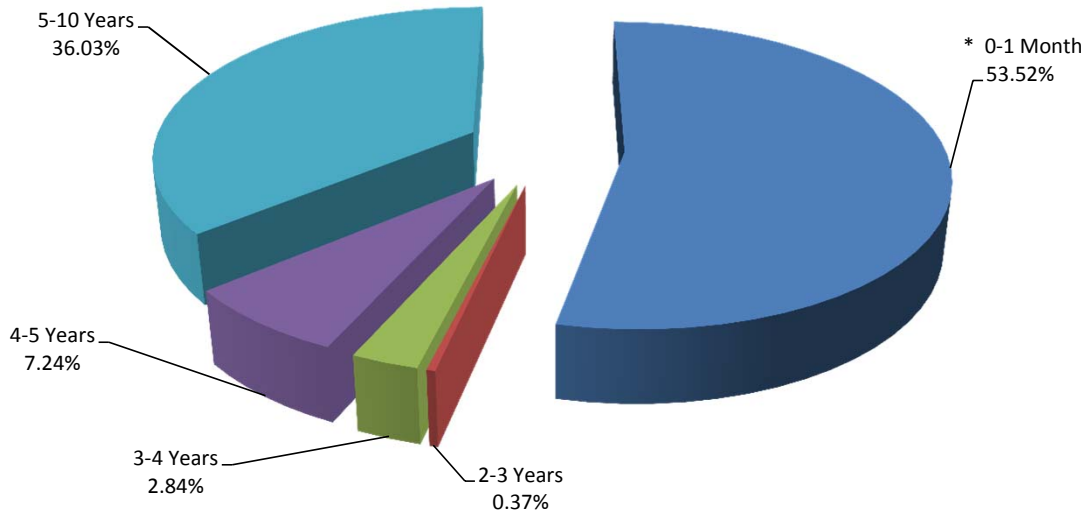
Description	YTM @ Cost	Amount	Cost Value	Book Value	Market Value	Average Days To Maturity	% of Portfolio
Fixed Income Assets							
FAMC	1.00	3,000,000	3,000,000	3,000,000	2,918,040	1490	4.48
FFCB	2.14	18,025,000	18,025,000	18,025,000	17,659,644	2382	27.10
FHLB	3.03	28,400,000	28,400,000	28,400,000	27,804,892	2259	42.66
FHLMC	2.00	2,000,000	2,000,000	2,000,000	2,001,760	1542	3.07
FNMA	1.22	9,000,000	9,000,000	9,000,000	8,815,110	1550	13.53
Lotus Bank - Certificate of Deposit	0.66	252,718	252,718	252,718	252,718	18	0.39
Michigan Go Bonds Ser 2010 B	2.90	500,000	503,505	500,000	522,690	763	0.80
Michigan State GO Bond	2.90	5,000,000	4,983,900	5,000,000	5,194,500	1523	7.97
Weighted Average Yield	2.40	66,177,718	66,165,123	66,177,718	65,169,354	2061	100.00%
Local Government Investment Pools / Money Market							
Bank of America	0.20	2,107,996	2,107,996	2,107,996	2,107,996	1	2.83
Chase Bank	0.03	98,908	98,908	98,908	98,908	1	0.13
Comerica - Lockbox	0.10	1,520,789	1,520,789	1,520,789	1,520,789	1	2.04
Comerica - Suspense	0.10	3,288	3,288	3,288	3,288	1	0.00
Fifth Third	0.20	59,348,504	59,348,504	59,348,504	59,348,504	1	79.71
Flagstar Bank	0.25	80,527	80,527	80,527	80,527	1	0.11
MBIA Class	0.10	534,129	534,129	534,129	534,129	1	0.72
Oakland County	1.26	10,766,289	10,766,289	10,766,289	10,766,289	1	14.46
Weighted Average Yield	0.35	74,460,430	74,460,430	74,460,430	74,460,430	1	100.00%
Total / Average	1.31	140,638,148	140,625,553	140,638,148	139,629,784	962	100%



Description	YTM @ Cost	09/30/2014 Market Value	Investment Income - Market Value	% of Portfolio
Cash	0.00	0	0	0.00%
Certificate of Deposit	0.66	252,718	411	0.18%
LGIP	1.20	11,300,418	20,988	8.09%
Money Market	0.20	63,160,012	11,260	45.24%
Municipal Bonds	2.90	5,717,190	-18,414	4.09%
US Agency	2.36	59,199,446	172,847	42.40%
Total / Average	1.31	139,629,784	187,092	100.00%



Portfolio Holdings Distribution by Maturity Range



Description	YTM @ Cost	09/30/2014 Market Value	Average Days to Maturity	Investment Income - Market Value	% of Portfolio
* 0-1 Month	0.35	74,713,148	1	32,248	53.52%
2-3 Years	2.90	522,690	763	3,172	0.37%
3-4 Years	1.08	3,971,360	1185	2,493	2.84%
4-5 Years	2.17	10,114,300	1517	-13,815	7.24%
5-10 Years	2.56	50,308,286	2263	162,994	36.03%
Total / Average	1.31	139,629,784	962	187,092	100.00%

* Includes Cash, Money Market & Local Government Investment Pools