

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 – JUNE 30, 2016
DATE: JULY 22, 2016

Attached to this memo is the investment report for the City of Novi as of June 30, 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 June 14 - 15, 2016, "the pace of improvement in labor market conditions slowed in April and May but that real gross domestic product (GDP) appeared to be rising faster than in the first quarter. Consumer price inflation continued to run below the Committee's longer-run objective of 2 percent, restrained in part by earlier decreases in energy prices and in prices of non-energy imports. Survey-based measures of longer-run inflation expectations were missed in recent months, while market-based measures of inflation compensation declined from levels that were already low".¹

The June jobs report indicated that "Total nonfarm payroll employment rose by 287,000 in June, and the unemployment rate rose to 4.9 percent. Job growth occurred in leisure and hospitality, health care and social assistance, and financial activities. Employment also increased in information, mostly reflecting the return of workers from a strike."²

State

The Southeast Michigan Purchasing Manager's Index (PMI) in June fell slightly, but remains strong at 58.8, and the three-month average remained at 60.5 – a very strong index value. A PMI greater than 50.0 generally indicates an expanding economy, while an index less than 50 signifies a retracting economy. The individual indices driving the strong PMI include New Orders, with an index value of 69.2; Production, with an index value of 61.5; and Employment, with an index value of 57.7 – though Employment fell from 75.0 in May. The Finished Goods Inventory index dropped markedly in June from 52.2 to 42.3. Raw Materials Index, in contrast, remained virtually constant, falling only slightly from 56.5 in May to 53.8 in June. Commodity Prices dropped in June, from 60.9 to 53.8, with

¹ <http://www.federalreserve.gov/monetarypolicy/fomcminutes20160615.htm>

² http://www.bls.gov/news.release/archives/empisit_07082016.pdf

respondents reporting gasoline, diesel fuel, plastics, and paper up in price. Comments from respondents reflect minimal worries over the U.K.'s "Brexit", yet the opposite is true for the presidential election, with a respondent stating, "November Election will impact economic outlook." The vast majority of respondents (92.8%) report that the economy will remain about the same over the next 6 months, with the remaining 7.7% anticipating even more stability.³

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. We continue to maintain an investment strategy that includes purchasing a variety of instruments including certificate of deposits, treasury notes, and bonds. With the uncertainty of interest rates, we have maintained a strategy of purchasing shorter maturity options when available, higher yielding longer maturity options, or step-bonds (interest rate increases over the term) with call options. While we generally hold investments to maturity, we continually monitor investments based on market conditions.

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

³ http://www.ism-sem.org/resources/files/Report-on-Business_June-2016.pdf

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 June 30, 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 June 30, 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 June 30, 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	0.77%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	3.12%
YTM@Cost	Yield to Maturity @ Cost	.902%

BENCHMARKS

Treasury 6 Month	0.40%
Treasury 1 Year	0.55%

FISCAL YEAR TO DATE

Investment Income	991,063
TRR-MV	0.77%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	10,198,535.24	10,198,535.24	10,198,535.24	8.14	0.00	1
Certificate Of Deposit	6,000,000.00	6,109,870.00	6,000,000.00	4.79	2.09	1,480
Corporate	3,000,000.00	2,987,420.00	2,986,488.34	2.40	2.08	136
Local Government Investment Pool	32,121,634.45	32,121,634.45	32,121,634.45	25.65	0.85	1
Money Market	1,057,935.35	1,057,935.35	1,057,935.35	0.84	0.25	1
Municipal	42,460,000.00	44,253,741.05	43,463,394.84	33.90	2.75	2,115
US Agency	30,400,000.00	30,537,732.00	30,413,946.32	24.27	2.47	2,780
Total / Average	125,238,105.04	127,266,868.09	126,241,934.54	100.00	1.91	1,472



**City of Novi
Quarterly Investment Report
June 30, 2016**



Carl A. Johnson, Jr.

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

7/28/16

Date



City of Novi

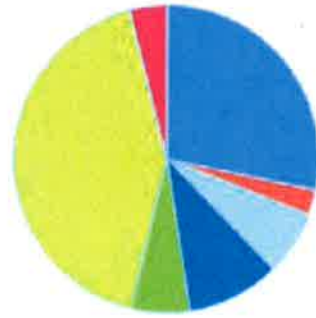
Distribution by Maturity Range - Market Value

All Portfolios

Begin Date: 3/31/2016, End Date: 6/30/2016

Maturity Range	Maturity Range Allocation		Market Value 6/30/2016	% of Portfolio 6/30/2016
	Market Value 3/31/2016	% of Portfolio 3/31/2016		
0-1 Month	37,324,306.75	28.23	43,378,105.04	34.08
3-6 Months	0.00	0.00	3,491,980.00	2.74
6-9 Months	3,487,955.00	2.64	0.00	0.00
9-12 Months	0.00	0.00	120,538.80	0.09
1-2 Years	120,688.80	0.09	1,731,951.60	1.36
2-3 Years	8,915,220.50	6.74	15,599,028.60	12.26
3-4 Years	13,025,706.25	9.85	10,788,973.90	8.48
4-5 Years	8,173,533.80	6.18	6,295,895.00	4.95
5-10 Years	55,847,139.45	42.24	38,407,860.90	30.18
10+ Years	5,330,064.25	4.03	7,452,534.25	5.86
Total / Average	132,224,614.80	100.00	127,266,868.09	100.00

Portfolio Holdings as of 3/31/2016



Portfolio Holdings as of 6/30/2016





City of Novi

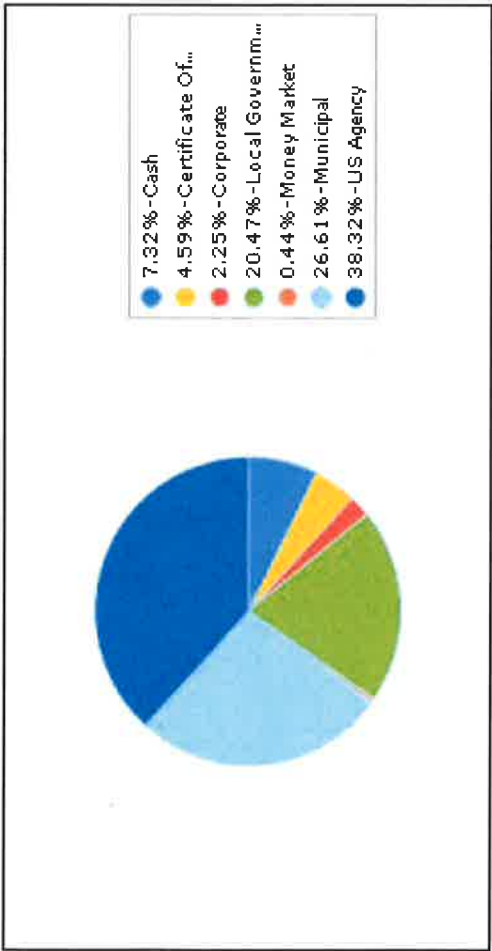
Distribution by Security Sector - Market Value

All Portfolios

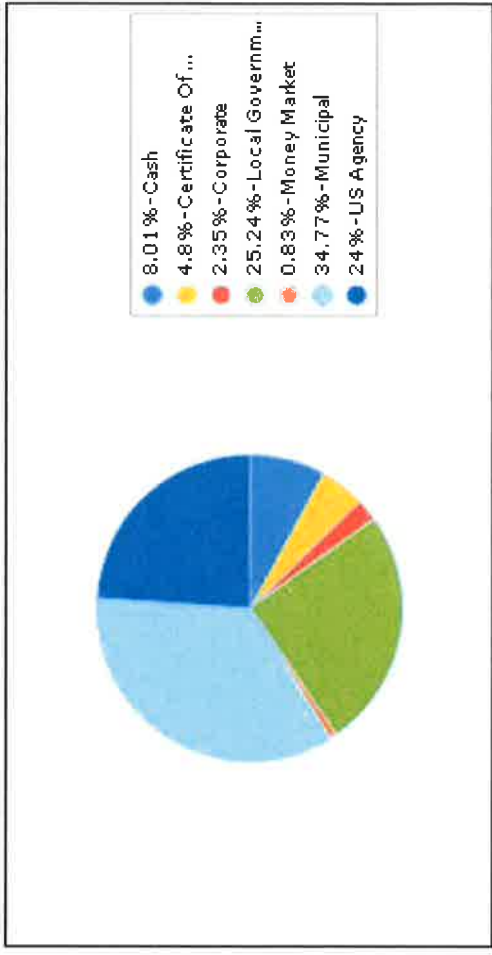
Begin Date: 3/31/2016, End Date: 6/30/2016

Security Sector Allocation			
Security Sector	Market Value 3/31/2016	% of Portfolio 3/31/2016	Market Value 6/30/2016
Cash	9,678,274.04	7.32	10,198,535.24
Certificate Of Deposit	6,069,740.00	4.59	6,109,870.00
Corporate	2,980,160.00	2.25	2,987,420.00
Local Government Investment Pool	27,069,783.30	20.47	32,121,634.45
Money Market	576,249.41	0.44	1,057,935.35
Municipal	35,182,064.05	26.61	44,253,741.05
US Agency	50,668,344.00	38.32	30,537,732.00
Total / Average	132,224,614.80	100.00	127,266,868.09

Portfolio Holdings as of 3/31/2016



Portfolio Holdings as of 6/30/2016



City of Novi
Investment Portfolio - by Issuer, Summary
 Report Format: By Totals
 Group By: Issuer
 Average By: Face Amount / Shares
Portfolio / Report Group: All Portfolios
As of 6/30/2016

Description	CUSIP/Ticker	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Abbey National		0.920	997,525.00	998,200.00	99	0.00	0.80
Allen Park		3.198	446,112.08	454,332.95	2,681	40.00	0.36
Allendale MI PSD		2.249	1,011,676.36	1,044,930.00	1,401	4,216.86	0.80
Ally Bank UT		1.700	1,000,000.00	1,013,180.00	900	605.48	0.80
American Express Centurion		1.967	3,000,000.00	3,070,490.00	1,231	7,920.55	2.40
Belding Area Schools		2.041	1,147,424.07	1,179,000.90	1,195	3,957.92	0.91
Center Line Public Schools		3.589	256,886.43	257,737.50	2,862	1,638.89	0.20
Charter Township of Commerce		2.397	870,000.00	884,453.60	2,528	3,648.92	0.69
Comerica Securities		0.000	1,601,718.50	1,601,718.50	1	0.00	1.28
DA DAVIDSON		0.000	9.13	9.13	1	0.00	0.00
Eastern MI Univ		6.053	767,784.89	769,087.80	6,439	18,397.12	0.55
FFCB		2.732	9,014,658.80	9,060,060.00	3,321	88,333.88	7.19
FHLB		2.403	8,900,000.00	8,907,247.00	2,527	56,073.61	7.11
FHLMC		3.116	4,000,000.00	4,002,860.00	3,494	14,666.67	3.19
Fifth Third		0.027	9,654,742.07	9,654,742.07	1	0.00	7.71
Flat Rock Community Schools		2.441	1,065,405.13	1,088,209.35	2,862	4,844.49	0.83
FNMA		1.941	8,499,287.52	8,567,565.00	2,136	31,945.84	6.79
Ford Motor Credit Co		2.658	1,988,963.34	1,989,220.00	154	7,615.11	1.60
Harper Creek MI		2.000	507,546.43	519,505.00	1,401	1,978.14	0.40
Holly Mich Area School Dist		2.392	1,560,000.00	1,587,767.60	2,511	4,974.67	1.25
Holly Mich Area School District		2.750	700,000.00	722,736.00	3,228	2,566.67	0.56
JP Morgan Chase OH		2.405	1,000,000.00	1,002,060.00	1,888	5,682.19	0.80
Lansing MI Bldg Auth		2.575	62,884.40	60,004.50	2,527	0.00	0.06
Lincoln MI Consol Sch Dist		2.020	428,580.60	433,117.50	1,401	2,071.88	0.34
Macomb County MI		1.233	738,293.30	741,205.50	854	2,070.95	0.58
Michigan State		5.887	3,352,449.31	3,337,693.80	4,094	65,384.38	2.35
Michigan State GO Bond		2.820	5,917,093.59	6,144,806.00	869	15,048.77	4.71
Monroe		1.395	550,000.00	550,740.50	969	42.61	0.44
Morgan Stanley Smith Barney		0.000	0.89	0.89	1	0.00	0.00
Muskegon Heights PUB		2.291	1,635,000.00	1,663,195.40	1,570	9,470.20	1.31
Muskegon Hts PuB		2.420	570,000.00	577,831.80	1,766	3,486.82	0.46
New Haven Community School		2.291	279,481.37	286,434.50	1,766	1,194.34	0.22
North Muskegon Public Schools		2.081	201,265.98	206,610.00	1,401	738.81	0.16

Description	CUSIP/Ticker	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Oakland County		0.852	32,121,634.45	32,121,634.45	1	0.00	25.65
Ottawa CountyMI		2.250	397,718.36	409,831.50	1,950	1,693.79	0.31
Parchment SD		2.282	2,520,000.00	2,582,962.85	1,969	11,180.07	2.01
Perry MI PS		2.440	1,355,213.00	1,387,435.50	2,131	8,572.20	1.08
Ravenna Schools		1.923	2,055,000.00	2,085,036.65	1,281	9,879.62	1.64
Saranac MI ISD		1.819	633,348.76	645,000.00	1,035	2,366.15	0.50
State of Michigan		1.350	517,487.40	520,170.00	1,049	1,625.00	0.40
U of MI		4.842	1,765,096.84	1,766,044.80	5,023	23,803.35	1.25
University of Michigan - REV		3.277	1,128,194.71	1,123,670.00	2,101	14,227.64	0.80
Wells Fargo Bank		2.531	1,000,000.00	1,024,140.00	2,400	7,527.40	0.80
Whitmore Lake Public Schools		1.650	2,575,166.33	2,607,462.40	1,035	8,970.79	2.03
Williamston Community School		1.549	1,023,285.50	1,033,280.00	1,035	3,928.42	0.80
Ypsilanti MI		2.619	7,425,000.00	7,583,447.15	2,587	49,149.99	5.93
Total / Average		1.902	126,241,934.54	127,266,868.09	1,466	501,540.19	100