

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 – DECEMBER 31, 2014
DATE: JULY 9, 2015

Attached to this memo is the investment report for the City of Novi as of December 31, 2014. The Treasurer's office changed the process for tracking and reporting investments and is currently fully utilizing specialized software for the quarterly reporting (new format attached). The process change and numerous revisions to the report format resulted in the delay of this issuance of this report. The quarter ended March 31, 2015 will be issued in about a week or so with the year ended June 30, 2015 report being issued in early August. This memo also outlines the investment factors and trends that were playing a role in our investment decisions for the second quarter of the current fiscal year.

Nationally

According to the minutes of the Federal Open Market Committee (FOMC) meetings held on December 16-17, 2014, "economic activity was increasing at a moderate pace in the fourth quarter and that labor market conditions had improved further. Consumer price inflation continued to run below the FOMC's longer-run objective of 2 percent, partly restrained by declining energy prices. Market-based measures of inflation compensation moved lower, but survey measures of longer-run inflation expectations remained stable".¹

The December jobs report showed job creation was up with 252,000 jobs added in December, and the national unemployment rate declined to 5.6%. In December, job growth occurred in professional and business services, construction, food services and drinking places, health care, and manufacturing.² Even with the reported gains, Chad Stone, Chief Economist with the Center on Budget and Policy Priorities, believes the December jobs report shows "a labor market that strengthened significantly in 2014, but one that still bears scars from the Great Recession and subsequent federal budget cuts and other austerity policies that perpetuated a severe jobs slump even as the economy and business profits began to recover".³

¹ <http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20141217.pdf>

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

³ http://www.huffingtonpost.com/chad-stone/the-december-jobs-report_b_6444180.html

For fixed income markets, rates continue to be low. Many strategists indicate that rates will rise gradually as stated by the strategist team at Bank of America Merrill Lynch, "We expect the Fed to keep short-term rates near zero through September, and to move gradually beyond then. We favor intermediate-term maturities to capture some of the remaining steepness in the yield curve."⁴

State

The Southeast Michigan Purchasing Manager's Index (PMI) rose in December, to 64.2 continuing November's climb to 56.8. The index has averaged 58.5 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, along with new orders, employment, and finished goods drove much of the increase. However, commodity prices fell, with "the decrease likely due to a year end push for sales from suppliers".⁵

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 (changed effective January 26, 2015). 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,

⁴ <http://247wallst.com/investing/2015/01/13/merrill-lynch-2015-outlook-for-stocks-bonds-energy-income-themes-and-more/>

⁵ <http://www.ism-sem.org/resources/files/Report-on-Business-December-2014.pdf>

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 December 31, 2014 (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, maturity date, interest rate and amount of investment. 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, 2014



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 and Morgan Stanley / Smith Barney.

PERFORMANCE VALUES

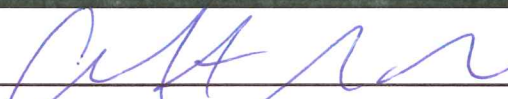
TRR-MV	Total Rate of Return - Market Value	0.58
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	2.33
YTM@Cost	Yield to Maturity @ Cost	1.14

BENCHMARKS

Treasury 6 Month	0.11 %
Treasury 1 Year	0.21 %

Interest Income / Fiscal Year to Date: 961,983.95

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	0.17	0.17	0.17	0.00	0.00	1
Certificate Of Deposit	253,520.79	253,520.79	253,520.79	0.18	0.55	291
Local Government Investment Pool	11,321,442.13	11,321,442.13	11,321,442.13	8.17	0.80	1
Money Market	59,209,168.02	59,209,168.02	59,209,168.02	42.72	0.20	1
Municipal	5,900,000.00	6,103,769.00	5,914,825.45	4.26	2.86	1,416
US Agency	61,925,000.00	61,213,515.25	61,925,000.00	44.68	1.95	2,066
Total / Average	138,609,131.11	138,101,415.36	138,623,956.56	100.00	1.14	984



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

7/9/15

 Date

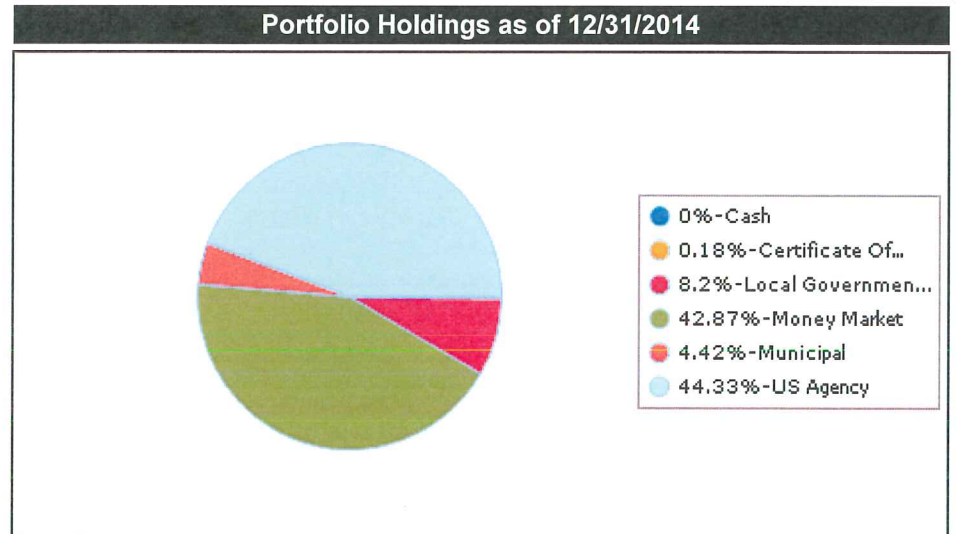
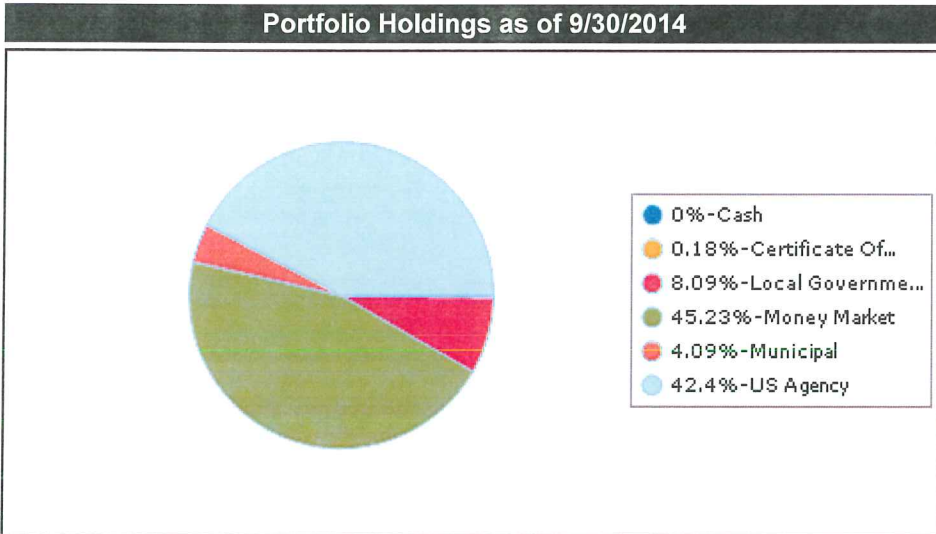


City of Novi Distribution by Security Sector - Market Value

Report Group: City of Novi - Quarterly Reports

Begin Date: 9/30/2014, End Date: 12/31/2014

Security Sector Allocation				
Security Sector	Market Value 9/30/2014	% of Portfolio 9/30/2014	Market Value 12/31/2014	% of Portfolio 12/31/2014
Cash	0.18	0.00	0.17	0.00
Certificate Of Deposit	253,128.84	0.18	253,520.79	0.18
Local Government Investment Pool	11,300,417.98	8.09	11,321,442.13	8.20
Money Market	63,160,012.35	45.23	59,209,168.02	42.87
Municipal	5,717,190.00	4.09	6,103,769.00	4.42
US Agency	59,199,445.50	42.40	61,213,515.25	44.33
Total / Average	139,630,194.85	100.00	138,101,415.36	100.00





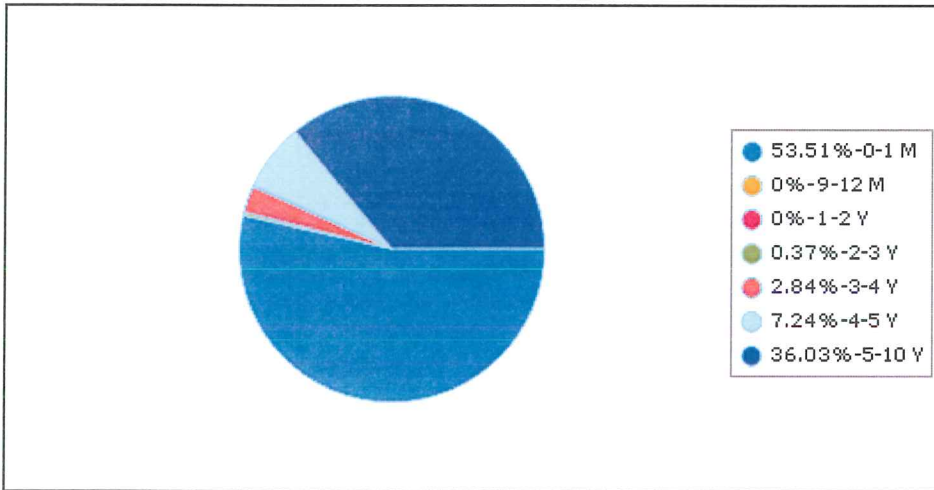
City of Novi Distribution by Maturity Range - Market Value

Report Group: City of Novi - Quarterly Reports

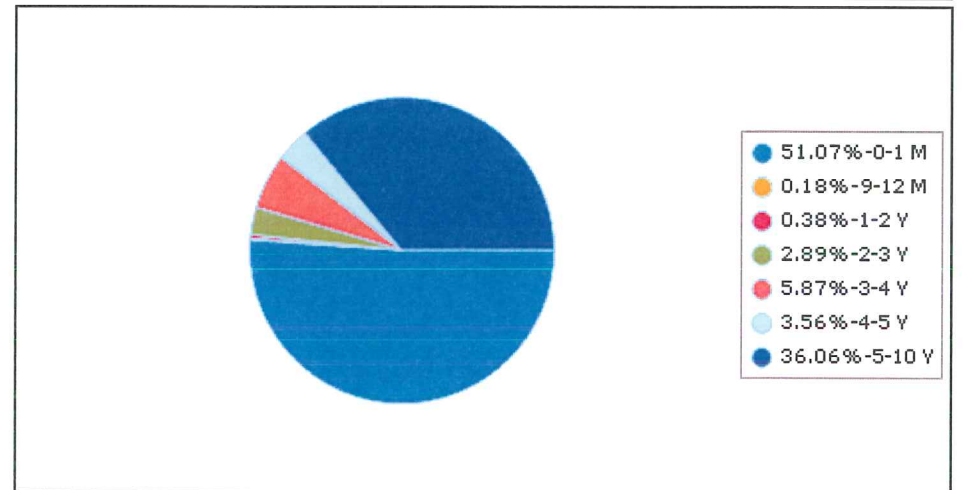
Begin Date: 9/30/2014, End Date: 12/31/2014

Maturity Range Allocation				
Maturity Range	Market Value 9/30/2014	% of Portfolio 9/30/2014	Market Value 12/31/2014	% of Portfolio 12/31/2014
0-1 Month	74,713,559.35	53.51	70,530,610.32	51.07
9-12 Months	0.00	0.00	253,520.79	0.18
1-2 Years	0.00	0.00	518,005.00	0.38
2-3 Years	522,690.00	0.37	3,987,880.00	2.89
3-4 Years	3,971,360.00	2.84	8,107,730.00	5.87
4-5 Years	10,114,300.00	7.24	4,910,650.00	3.56
5-10 Years	50,308,285.50	36.03	49,793,019.25	36.06
Total / Average	139,630,194.85	100.00	138,101,415.36	100.00

Portfolio Holdings as of 9/30/2014



Portfolio Holdings as of 12/31/2014



City of Novi

Investment Income - Market Value

Report Format: By Totals

Group By: Security Sector

Portfolio/Report Group: Report Group: City of Novi - Quarterly Reports

Begin Activity Date: 9/30/2014, End Activity Date: 12/31/2014, Carrying Value Date: 9/30/2014

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		386.98	0.00	0.00	386.98	0.15	0.61
Local Government Investment Pool		21,024.15	0.00	0.00	21,024.15	0.19	0.75
Money Market		41,841.22	0.00	0.00	41,841.22	0.07	0.28
Municipal		39,924.16	-36,061.00	0.00	3,863.16	0.07	0.27
US Agency		210,480.55	515,829.75	-1,760.00	724,550.30	1.22	4.99
Total / Average		313,657.06	479,768.75	-1,760.00	791,665.81	0.58	2.33

City of Novi

Investment Portfolio - by Issuer, Summary

Report Format: By Totals

Group By: Issuer

Portfolio/Report Group: Report Group: City of Novi - Quarterly Reports

As of 12/31/2014

Description	CUSIP/Ticker	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Bank of America		0.200	2,109,059.33	2,109,059.33	1	0.00	1.52
Chase Bank		0.030	98,914.96	98,914.96	1	0.00	0.07
Comerica		0.150	3,293,464.54	3,293,464.54	1	0.00	2.38
FAMC		1.000	3,000,000.00	2,943,030.00	1398	5,166.67	2.16
FFCB		2.180	21,525,000.00	21,320,823.25	2275	55,894.43	15.53
FHLB		2.127	28,400,000.00	28,051,132.00	2168	68,204.17	20.49
Fifth Third		0.200	53,627,151.85	53,627,151.85	1	0.00	38.69
Flagstar Bank		0.250	80,577.34	80,577.34	1	0.00	0.06
FNMA		1.173	9,000,000.00	8,898,530.00	1462	12,609.72	6.49
Lotus Bank		0.550	253,520.79	253,520.79	291	49.66	0.18
MBIA Class		0.100	534,257.21	534,257.21	1	0.00	0.39
Michigan State GO Bond		2.863	5,914,825.45	6,103,769.00	1416	15,524.17	4.26
Morgan Stanley Smith Barney		0.000	0.17	0.17	1	0.00	0.00
Oakland County		0.834	10,787,184.92	10,787,184.92	1	0.00	7.78
Total / Average		1.145	138,623,956.56	138,101,415.36	984	157,448.82	100