

# MEMORANDUM



**TO:** PETE AUGER, CITY MANAGER  
**FROM:** CARL A. JOHNSON, JR., CFO  
TINA GLENN, ASSISTANT CITY TREASURER  
**CC:** CORTNEY HANSON, CITY CLERK  
**SUBJECT:** QUARTERLY INVESTMENT REPORT – DECEMBER 31, 2020  
**DATE:** FEBRUARY 11, 2021

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Attached to this memo is the investment report for the City of Novi as of December 31, 2020. 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 December 15 - 16, 2020, "The COVID-19 pandemic and the measures undertaken to contain its spread continued to affect economic activity in the United States and abroad. The information available at the time of the December 15 – 16 meeting suggested that U.S. real gross domestic product (GDP) was continuing to recover in the fourth quarter, but at a more moderate pace than its rapid third-quarter rate, and that the level of real GDP remained well below its level at the start of 2020. Labor market conditions improved further over October and November, although employment continued to be well below its level at the beginning of the year. Consumer price inflation through October – as measured by the 12-month percentage change in PCE price index – remained notably below the rates seen in early 2020."<sup>1</sup>

According to the Bureau of Labor Statistics News Release, "Total nonfarm payroll employment declined by 140,000 in December, and the unemployment rate was unchanged at 6.7 percent, the U.S. Bureau of Labor Statistics reported today. The decline in payroll employment reflects the recent increase in coronavirus (COVID-19) cases and efforts to contain the pandemic. In December, job losses in leisure and hospitality and in private education were partially offset by gains in professional and business services, retail trade, and construction."<sup>2</sup>

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.

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<sup>1</sup> <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20201216.pdf>

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

## **Risk**

As required by the Governmental Accounting Standard Board, GASB 40 identifies several 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, considering 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 ensure 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 several highly rated financial institutions.

## **Investment Report**

Attached is a summary listing of investments by issuer that the City held on December 31, 2020 (excluding Retiree Healthcare and Pension Investments that 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 on December 31, 2020 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  
December 31, 2020**

**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, Comerica, Fifth Third Securities and J. P. Morgan .

**PERFORMANCE VALUES**

TRR-MV	Total Rate of Return - Market Value	0.320%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	1.300%
YTM@Cost	Yield to Maturity @ Cost	1.243%

**BENCHMARKS**

Treasury 6 Month 0.09%  
Treasury 1 Year 0.10%

**FISCAL YEAR TO DATE**

Investment Income 396,054  
TRR-MV 0.320%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	7,311,582.82	7,311,582.82	7,311,582.82	5.87	0.00	1
Certificate Of Deposit	7,000,000.00	7,015,230.00	7,000,000.00	5.62	2.31	1,133
Corporate	3,500,000.00	3,498,378.33	3,495,082.25	2.81	0.59	85
Local Government Investment Pool	78,516,580.48	78,516,580.48	78,516,580.48	63.07	0.96	1
Municipal	27,960,000.00	29,035,066.50	28,163,662.69	22.62	2.20	1,025
<b>Total / Average</b>	<b>124,288,163.30</b>	<b>125,376,838.13</b>	<b>124,486,908.24</b>	<b>100.00</b>	<b>1.25</b>	<b>299</b>

  
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 Carl A. Johnson, Jr. Finance Director / Treasurer, CFO      Date 2/11/21



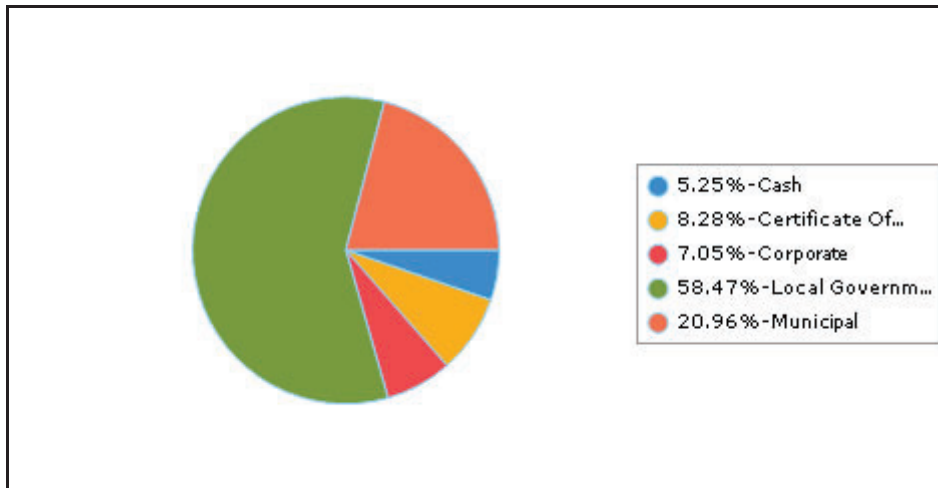
## City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 9/30/2020, End Date: 12/31/2020

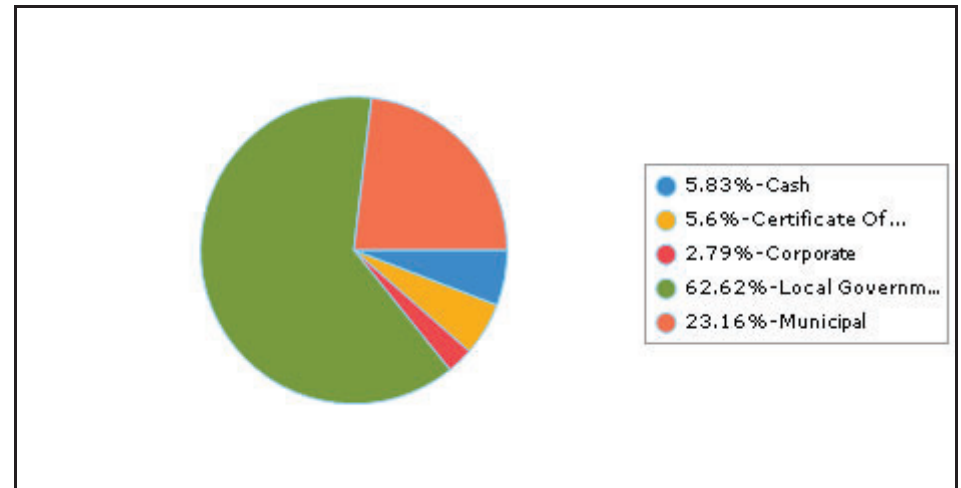
### Security Sector Allocation

Security Sector	Market Value 9/30/2020	% of Portfolio 9/30/2020	Market Value 12/31/2020	% of Portfolio 12/31/2020
Cash	6,705,406.09	5.25	7,311,582.82	5.83
Certificate Of Deposit	10,565,947.23	8.28	7,015,230.00	5.60
Corporate	8,995,756.09	7.05	3,498,378.33	2.79
Local Government Investment Pool	74,657,450.85	58.47	78,516,580.48	62.62
Municipal	26,760,088.05	20.96	29,035,066.50	23.16
<b>Total / Average</b>	<b>127,684,648.31</b>	<b>100.00</b>	<b>125,376,838.13</b>	<b>100.00</b>

### Portfolio Holdings as of 9/30/2020



### Portfolio Holdings as of 12/31/2020





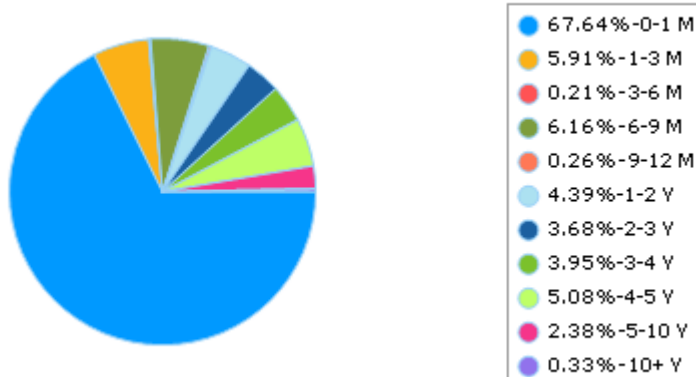
## City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 9/30/2020, End Date: 12/31/2020

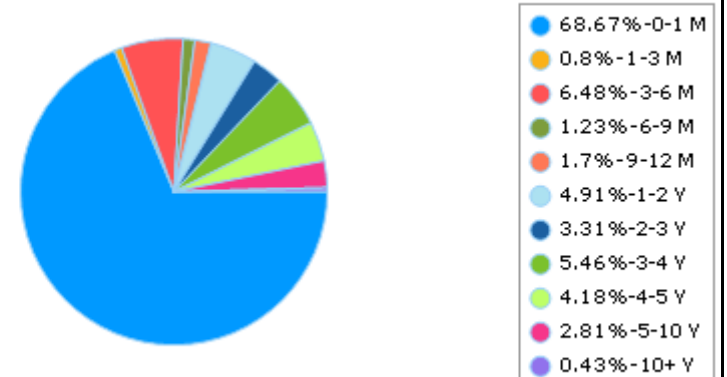
### Maturity Range Allocation

Maturity Range	Market Value 9/30/2020	% of Portfolio 9/30/2020	Market Value 12/31/2020	% of Portfolio 12/31/2020
0-1 Month	86,363,092.49	67.64	86,098,163.30	68.67
1-3 Months	7,547,576.22	5.91	999,770.00	0.80
3-6 Months	270,318.60	0.21	8,127,896.18	6.48
6-9 Months	7,871,445.45	6.16	1,548,176.00	1.23
9-12 Months	336,366.80	0.26	2,136,856.95	1.70
1-2 Years	5,601,283.90	4.39	6,162,128.30	4.91
2-3 Years	4,700,181.45	3.68	4,155,183.50	3.31
3-4 Years	5,049,353.10	3.95	6,846,108.00	5.46
4-5 Years	6,480,672.25	5.08	5,236,371.65	4.18
5-10 Years	3,038,347.25	2.38	3,521,390.05	2.81
10+ Years	426,010.80	0.33	544,794.20	0.43
<b>Total / Average</b>	<b>127,684,648.31</b>	<b>100.00</b>	<b>125,376,838.13</b>	<b>100.00</b>

### Portfolio Holdings as of 9/30/2020



### Portfolio Holdings as of 12/31/2020



City of Novi

Investment Income - Market Value

Begin Date: 9/30/2020, End Date: 12/31/2020

Description	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	47,075.07	-4,300.00	-2,560.00	40,215.07	0.48	1.93
Corporate	0.00	2,260.84	1,487.63	3,748.47	0.06	0.24
Local Government Investment Pool	266,991.34	0.00	0.00	266,991.34	0.35	1.40
Money Market	0.00	0.00	0.00	0.00		
Municipal	163,473.60	-75,900.55	-2,474.00	85,099.05	0.33	1.31
Total / Average	477,540.01	-77,939.71	-3,546.37	396,053.93	0.32	1.30

City of Novi  
Portfolio Holdings  
As of 12/31/2020

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allen Park	3.198	445,426.55	477,295.90	1,036	2,399.92	0.36
Bellevue Mich Cmnty Schs	2.130	502,660.80	513,730.00	486	2,130.00	0.40
Center Line Public Schools	3.589	252,928.30	255,797.50	1,217	1,666.67	0.20
Charter Township of Commerce	2.630	290,000.00	313,835.10	1,370	1,906.75	0.23
Chippewa Valley Mich Schs	2.237	1,000,000.00	1,070,340.00	2,312	3,728.33	0.80
Comstock Park Schs-B	2.417	1,500,000.00	1,520,850.00	243	6,041.67	1.21
Delhi TWP MI	1.980	140,000.00	141,582.00	670	462.00	0.11
Detroit MI City Sch Dist	3.460	536,884.48	529,890.00	1,947	4,166.67	0.40
Fifth Third	0.000	7,311,577.82	7,311,577.82	1	0.00	5.88
Harley-Davidson Finl S	0.600	1,996,814.29	1,999,040.00	96	0.00	1.61
Hartland Mich Cons Sch	1.811	950,000.00	980,378.50	928	2,867.17	0.76
Holland Mich Taxable Go Ltd Tax Bds Ser	2.910	175,000.00	186,618.25	943	2,121.88	0.14
Holly Mich Area School Dist	2.503	2,260,000.00	2,395,027.00	1,088	9,426.66	1.82
Homer Cmnty SD	2.400	857,436.25	925,091.10	2,312	5,233.33	0.63
Lansing Mich Bldg Autho Go Ref Bds	5.516	69,214.95	72,654.90	882	21,646.90	0.06
LCRSCD	2.555	650,000.00	660,342.50	261	2,767.83	0.52
Livonia MI Public Sch	0.549	975,000.00	978,376.00	786	1,040.28	0.78
Macomb Cnty-Ref	0.592	185,000.00	185,258.10	1,233	194.60	0.15
Madison Heights	1.987	550,000.00	552,242.80	187	5,465.50	0.44
Marathon Petroleum	0.550	999,495.83	999,770.00	33	0.00	0.80
Michigan Fin Auth	1.310	5,554,154.21	5,632,486.45	1,089	8,958.00	4.46
Michigan State University Federal Credit Union	2.365	6,000,005.00	6,000,005.00	1,273	144,580.83	4.83
Muskegon Heights PUB	2.515	1,135,000.00	1,155,373.10	303	4,756.75	0.91
New Haven Community School	2.459	2,025,307.05	2,151,523.00	1,203	8,464.58	1.63
Oakland County	0.956	78,516,580.48	78,516,580.48	1	0.00	63.17
Oakland Univ Muni Bond	4.192	202,681.97	204,964.20	9,556	3,000.00	0.14
Ottawa CountyMI	2.250	391,207.23	397,144.80	305	1,722.50	0.31
Parchment SD	2.669	1,535,000.00	1,628,130.20	1,065	6,827.92	1.24
Ravenna Schools	2.200	590,000.00	593,658.00	121	2,163.33	0.47
RMLSCD	2.483	400,000.00	404,687.50	349	1,655.00	0.32
Royal Oak Hosp Fin	3.984	113,246.14	112,304.00	6,818	1,666.67	0.08
Royal Oak MI	2.777	350,000.00	362,092.50	535	2,430.13	0.28
Sinopec Century Bright	0.600	498,772.13	499,568.33	148	0.00	0.40
Tuscola County	2.900	230,071.70	233,123.40	244	2,261.67	0.19
Wells Fargo Bank Natl Assn	1.950	1,000,000.00	1,015,230.00	291	747.95	0.80
Western Michigan University	2.410	642,443.06	670,098.00	1,049	3,833.33	0.48
Ypsilanti MI	2.712	1,655,000.00	1,708,531.70	1,060	7,479.25	1.33
Ypsilanti School Dist	2.310	2,000,000.00	2,021,640.00	304	7,700.00	1.61
Total / Average	1.243	124,486,908.24	125,376,838.13	294	281,514.07	100