

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, 2018
DATE: AUGUST 8, 2018

Attached to this memo is the investment report for the City of Novi as of June 30, 2018. 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 12-13, 2018, “the information reviewed for the June 12-13 meeting indicated that the labor market conditions continued to strengthen in recent months, and that real gross domestic product (GDP) appeared to be rising at a solid rate in the first half of the year. Consumer price inflation, as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE), was 2 percent in April. Survey-based measures of longer-run inflation expectations were little changed on balance.”¹

According to the Bureau of Labor Statistics News Release, “Total nonfarm payroll employment increased by 213,000 in June, and the unemployment rate rose to 4.0 percent, the U.S. Bureau of Labor Statistics reported today. Job growth occurred in professional and business services, manufacturing, and health care, while retail trade lost jobs.

The unemployment rate rose by 0.2 percentage point to 4.0 percent in June, and the number of unemployed persons increased by 499,000 to 6.6 million. A year earlier, the jobless rate was 4.3 percent, and the number of unemployed persons was 7.0 million.

Among the major work groups, the unemployment rates for adult men (3.7 percent), adult women (3.7 percent), and Asians (3.2 percent) increased in June. The jobless rate for teenagers (12.6 percent), Whites (3.5 percent), Blacks (6.5 percent) and Hispanics (4.6 percent) showed little or no change over the month.”²

¹ https://www.federalreserve.gov/monetarypolicy/files/fomcminutes_20180613.pdf

² <https://www.bls.gov/news.release/pdf/empst.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 June 30, 2018 (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 at June 30, 2018 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, 2018

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	0.360%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	1.460%
YTM@Cost	Yield to Maturity @ Cost	2.243%

BENCHMARKS

Treasury 6 Month 2.11%
Treasury 1 Year 2.33%

FISCAL YEAR TO DATE

Investment Income 466,394
TRR-MV 0.36%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	5,481,930.57	5,481,930.57	5,481,930.57	4.32	0.00	1
Certificate Of Deposit	17,000,000.00	16,946,980.00	17,000,000.00	13.39	1.91	408
Corporate	15,400,000.00	15,329,158.00	15,331,363.90	12.13	2.42	67
Local Government Investment Pool	15,960,659.22	15,960,659.22	15,960,659.22	12.58	2.16	1
Money Market	718,476.10	718,476.10	718,476.10	0.57	0.30	1
Municipal	59,360,000.00	58,557,321.50	60,115,545.85	46.77	2.57	1,251
US Agency	13,000,000.00	12,566,390.00	13,000,000.00	10.24	2.13	1,825
Total / Average	126,921,065.89	125,560,915.39	127,607,975.64	100.00	2.24	835


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

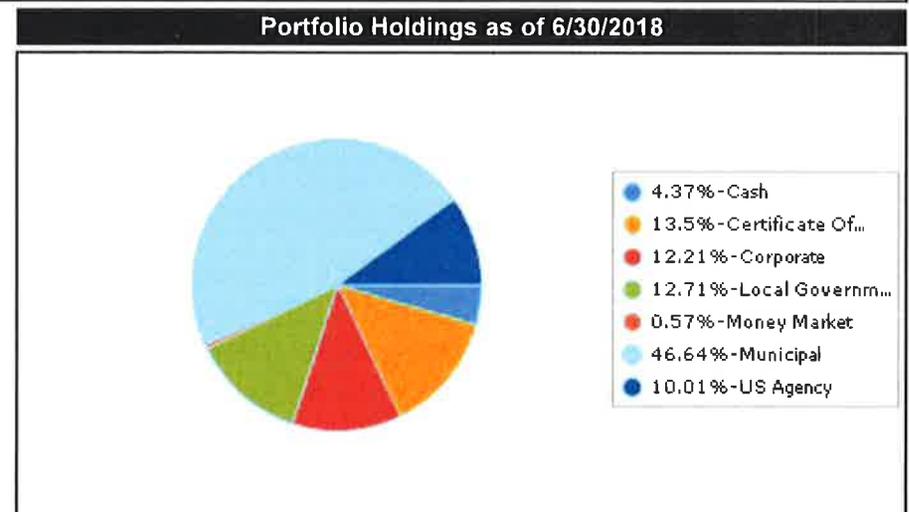
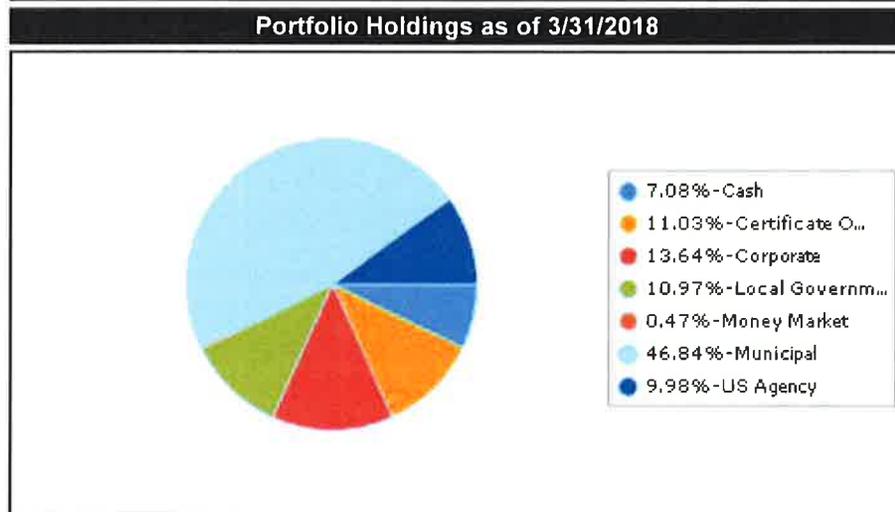
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City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 3/31/2018, End Date: 6/30/2018

Security Sector Allocation				
Security Sector	Market Value 3/31/2018	% of Portfolio 3/31/2018	Market Value 6/30/2018	% of Portfolio 6/30/2018
Cash	8,971,277.12	7.08	5,481,930.57	4.37
Certificate Of Deposit	13,969,610.00	11.03	16,946,980.00	13.50
Corporate	17,288,636.00	13.64	15,329,158.00	12.21
Local Government Investment Pool	13,897,422.38	10.97	15,960,659.22	12.71
Money Market	591,268.90	0.47	718,476.10	0.57
Municipal	59,349,072.65	46.84	58,557,321.50	46.64
US Agency	12,640,720.00	9.98	12,566,390.00	10.01
Total / Average	126,708,007.05	100.00	125,560,915.39	100.00



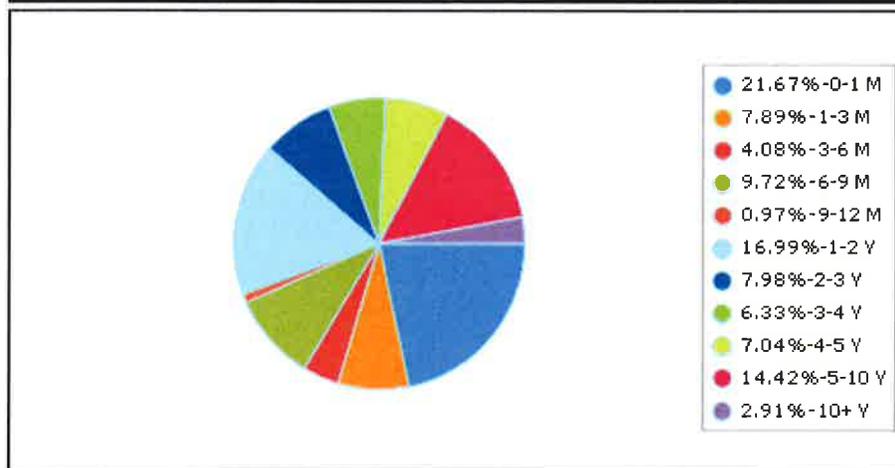


City of Novi Distribution by Maturity Range - Market Value All Portfolios

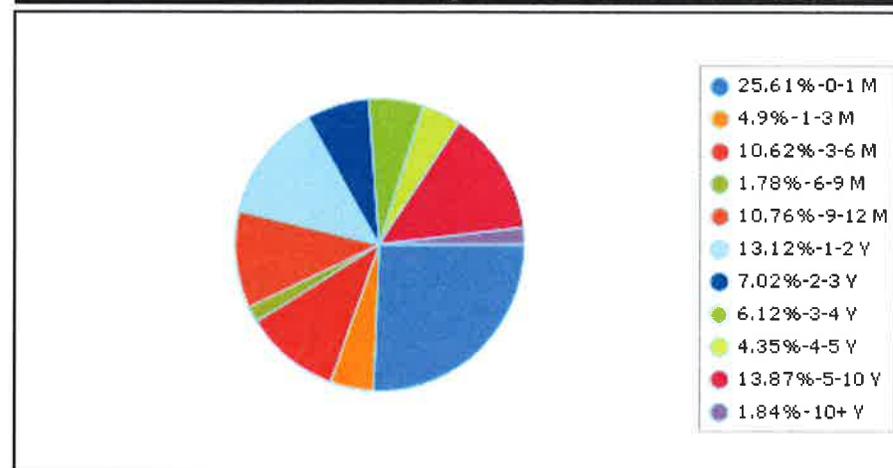
Begin Date: 3/31/2018, End Date: 6/30/2018

Maturity Range Allocation				
Maturity Range	Market Value 3/31/2018	% of Portfolio 3/31/2018	Market Value 6/30/2018	% of Portfolio 6/30/2018
0-1 Month	27,456,248.40	21.67	32,153,965.89	25.61
1-3 Months	9,995,164.50	7.89	6,158,693.50	4.90
3-6 Months	5,170,008.25	4.08	13,329,600.40	10.62
6-9 Months	12,319,790.20	9.72	2,231,888.80	1.78
9-12 Months	1,232,899.50	0.97	13,514,735.90	10.76
1-2 Years	21,524,175.75	16.99	16,475,522.15	13.12
2-3 Years	10,106,296.95	7.98	8,818,617.05	7.02
3-4 Years	8,018,267.65	6.33	7,687,262.80	6.12
4-5 Years	8,920,835.85	7.04	5,461,409.95	4.35
5-10 Years	18,274,729.50	14.42	17,419,269.95	13.87
10+ Years	3,689,590.50	2.91	2,309,949.00	1.84
Total / Average	126,708,007.05	100.00	125,560,915.39	100.00

Portfolio Holdings as of 3/31/2018



Portfolio Holdings as of 6/30/2018



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: 3/31/2018, End Date: 6/30/2018

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	77,062.37	-22,630.00	0.00	54,432.37	0.32	1.28
Corporate	0.00	71,232.83	47,764.73	118,997.56	0.64	2.59
Local Government Investment Pool	48,636.85	0.00	0.00	48,636.85	0.33	1.33
Money Market	0.00	0.00	0.00	0.00	0.00	0.00
Municipal	437,221.53	-175,526.65	1,708.38	263,403.26	0.45	1.80
US Agency	55,254.18	-74,330.00	0.00	-19,075.82	-0.15	-0.60
Total / Average	618,174.93	-201,253.82	49,473.11	466,394.22	0.36	1.46

City of Novi
Portfolio Holdings
Investment Portfolio - by Issuer, Summary
As of 6/30/2018

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allen Park	3.198	445,807.87	420,953.85	1,951	2,359.92	0.35
Allendale MI PSD	2.249	1,005,592.32	997,650.00	671	4,216.86	0.79
Ally Bank UT	1.700	1,000,000.00	997,830.00	170	605.48	0.79
American Express Centurion	1.967	3,000,000.00	2,971,180.00	501	7,920.55	2.36
AT&T INC	2.407	1,992,885.56	1,992,470.00	53	0.00	1.58
Belding Area Schools	2.041	1,145,914.39	1,134,161.60	465	3,957.92	0.90
Bellevue Mich Cmnty Schs	2.130	507,670.32	483,310.00	1,401	2,094.50	0.39
Catholic Health	2.582	2,995,591.66	2,996,390.00	21	0.00	2.36
Center Line Public Schools	3.589	255,129.93	246,595.00	2,132	1,638.89	0.20
Charter Township of Commerce	2.397	870,000.00	830,264.20	1,798	5,154.83	0.69
City of Holland	2.053	340,000.00	338,945.80	261	562.28	0.27
Comstock Park Schs-B	2.417	1,500,000.00	1,477,020.00	1,158	5,940.97	1.18
Cred Suis NY	2.346	2,974,590.00	2,973,390.00	132	0.00	2.36
Delhi TWP MI	1.980	140,000.00	133,155.40	1,585	454.30	0.11
Eastern MI Univ	6.053	758,966.29	709,389.00	5,709	18,397.12	0.54
FHLB	2.495	5,000,000.00	4,727,920.00	2,587	21,488.89	3.94
Fifth Third	0.035	6,200,406.67	6,200,406.67	1	0.00	4.89
Flat Rock Community Schools	2.441	1,057,649.81	996,166.80	2,132	4,844.49	0.82
FNMA	1.901	8,000,000.00	7,838,470.00	1,349	32,191.67	6.30
Ford Motor Credit Co	2.491	1,985,253.34	1,985,310.00	106	0.00	1.58
Goldman Sachs Bk	2.300	1,000,000.00	995,520.00	580	9,452.05	0.79
Harper Creek MI	2.000	503,614.31	497,595.00	671	1,978.14	0.39
Holland Mich Taxable Go Ltd Tax Bds Ser	2.230	350,000.00	348,078.50	945	3,230.40	0.28
Holly Mich Area School Dist	2.503	2,260,000.00	2,188,773.80	2,003	9,269.56	1.78
Houghton-Portage	1.610	635,000.00	624,624.20	507	1,675.76	0.50
Huntington National Bank	0.000	1,000,000.00	998,280.00	269	0.00	0.79
JP Morgan Chase OH	2.405	1,000,000.00	999,480.00	1,158	5,682.19	0.79
Kent Co	1.605	2,010,327.22	2,009,980.00	275	6,516.67	1.58
Lansing Mich Bldg Autho Go Ref Bds	5.516	63,213.44	62,528.85	1,797	16,822.80	0.06
LCRSCD	2.410	1,025,000.00	1,014,114.50	991	4,048.60	0.81

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Lincoln MI Consol Sch Dist	2.020	426,714.90	421,349.25	671	1,567.19	0.33
Macomb County MI	1.233	731,204.18	728,773.60	124	2,070.95	0.58
Madison Heights	1.864	1,617,668.97	1,583,565.35	684	14,222.54	1.28
MI Strategic Fund - REF	2.600	986,362.31	981,500.00	838	4,127.08	0.79
Michigan St Rev Bds Ser 2009B	5.887	3,278,905.58	2,972,134.20	3,364	65,384.38	2.32
Michigan St Strategic Fund LTD	1.579	1,000,481.67	992,130.00	289	3,418.75	0.79
Michigan State GO Bond	2.813	5,409,258.96	5,417,170.00	208	12,566.67	4.25
MIS FIN MI Fin Auth	2.301	1,095,626.07	1,051,679.65	1,585	4,523.73	0.85
Mondelez Int Inc	2.118	999,475.00	999,370.00	9	0.00	0.79
Monroe	1.489	350,000.00	344,513.00	410	853.86	0.28
Morgan Stanley B	2.300	1,000,000.00	994,710.00	583	9,389.04	0.79
MS Bank CD Salt Lake City UT CD	1.900	2,000,000.00	2,000,000.00	17	33,002.74	1.58
MS Private BK CD Purchase NY CD	1.900	2,000,000.00	2,000,000.00	17	33,002.74	1.58
Muskegon Heights PUB	2.325	2,205,000.00	2,173,004.80	891	8,400.69	1.74
New Haven Community School	2.291	277,628.94	271,922.75	1,036	1,194.34	0.22
North Muskegon Public Schools	2.081	200,606.34	197,452.00	671	738.81	0.16
Oakland County	2.160	15,960,659.22	15,960,659.22	1	0.00	12.58
Ottawa CountyMI	2.250	394,828.92	384,282.60	1,220	1,693.79	0.31
Parchment SD	2.495	1,920,000.00	1,846,686.25	1,644	7,849.88	1.51
Perry MI PS	2.440	1,353,427.22	1,316,547.00	1,401	5,557.80	1.06
Ravenna Schools	2.002	1,695,000.00	1,673,888.75	680	5,562.14	1.34
RMLSCD	2.256	900,000.00	889,263.50	833	3,327.36	0.71
Royal Oak MI	2.333	1,545,000.00	1,519,971.65	920	8,910.40	1.22
Saranac MI ISD	1.819	627,460.26	624,193.75	305	2,366.15	0.49
State of Michigan	1.350	505,317.90	500,420.00	319	1,625.00	0.39
Suncor Energy	2.546	997,891.67	997,970.00	30	0.00	0.79
TCF Bank	1.770	3,000,000.00	3,000,000.00	115	31,310.96	2.36
U of MI	4.842	1,735,289.81	1,600,560.00	4,293	23,803.35	1.23
University of Michigan - REV	3.277	1,083,652.99	1,023,140.00	1,371	14,227.64	0.79
Vodafone GR PLC	2.281	1,391,600.00	1,390,298.00	96	0.00	1.10
VW Credit Inc.	2.385	1,994,076.67	1,993,960.00	43	0.00	1.58
Wells Fargo Bank	2.441	2,000,000.00	1,989,980.00	1,132	8,523.89	1.58
Whitmore Lake Public Schools	1.650	2,550,363.02	2,533,523.00	305	8,970.79	2.00
Williamston Community School	1.549	1,006,861.91	995,270.00	305	3,928.42	0.79

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Ypsilanti MI	2.728	6,745,000.00	6,510,525.90	2,057	30,161.40	5.31
Ypsilanti School Dist	2.028	5,600,000.00	5,490,548.00	697	18,611.22	4.41
Total / Average	2.243	127,607,975.64	125,560,915.39	835	541,398.54	100