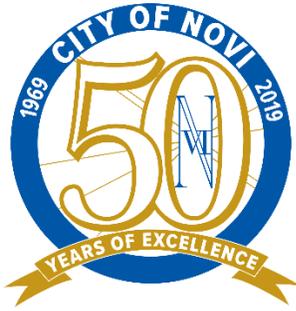


# MEMORANDUM



**TO:** PETE AUGER, CITY MANAGER  
**FROM:** CARL A. JOHNSON, JR., CFO  
TINA GLENN, ASSISTANT CITY TREASURER  
**SUBJECT:** QUARTERLY INVESTMENT REPORT – SEPTEMBER 30, 2019  
**DATE:** NOVEMBER 1, 2019

---

Attached to this memo is the investment report for the City of Novi as of September 30, 2019. 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 September 17-18 2019, "the information available for the September 17-18 meeting indicated that labor market conditions remained strong and that real gross domestic product (GDP) appeared to be increasing at a moderate rate in the third quarter. Consumer price inflation, as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE), was below 2 percent in July. Survey-based measures of longer-run inflation expectations were little changed."<sup>1</sup>

According to the Bureau of Labor Statistics News Release, "The unemployment rate declined to 3.5 percent in September, and total nonfarm payroll employment rose by 136,000, the U.S. Bureau of Labor Statistics reported today. Employment in health care and in professional and business services continued to trend up."<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.

## **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

---

<sup>1</sup> <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20190918.pdf>

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

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 September 30, 2019 (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 September 30, 2019 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 September 30, 2019

**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	0.670%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	2.700%
YTM@Cost	Yield to Maturity @ Cost	2.656%

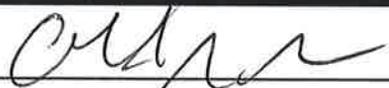
### BENCHMARKS

Treasury 6 Month	1.90%
Treasury 1 Year	1.80%

### FISCAL YEAR TO DATE

Investment Income	973,531
TRR-MV	0.67%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	3,593,191.84	3,593,191.84	3,593,191.84	2.49	0.00	1
Certificate Of Deposit	11,538,775.00	11,554,325.00	11,538,775.00	8.00	2.53	313
Corporate	33,505,000.00	33,428,878.00	33,427,073.38	23.22	2.29	36
Local Government Investment Pool	40,717,167.13	40,717,167.13	40,717,167.13	28.21	3.66	1
Municipal	31,435,000.00	31,736,923.50	31,449,678.40	21.78	2.38	784
US Agency	21,525,000.00	21,504,325.25	21,488,370.10	14.92	2.21	840
US Treasury	2,000,000.00	1,996,890.00	1,994,104.95	1.39	2.97	106
<b>Total / Average</b>	<b>144,314,133.97</b>	<b>144,531,700.72</b>	<b>144,208,360.80</b>	<b>100.00</b>	<b>2.66</b>	<b>331</b>

  
 \_\_\_\_\_ 11/6/19  
 Carl A. Johnson, Jr. - Finance Director / Treasurer, CFO      Date

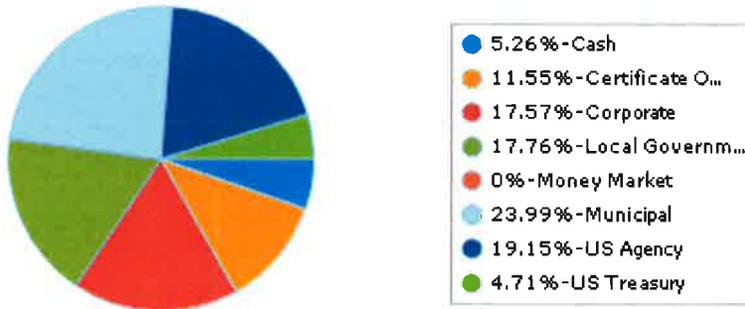


## City of Novi Distribution by Security Sector - Market Value All Portfolios

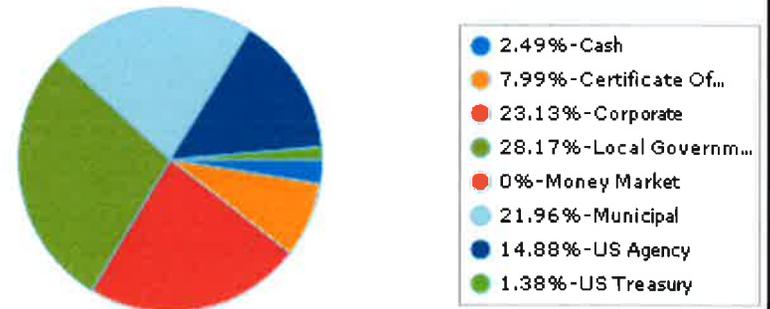
Begin Date: 6/30/2019, End Date: 9/30/2019

Security Sector Allocation				
Security Sector	Market Value 6/30/2019	% of Portfolio 6/30/2019	Market Value 9/30/2019	% of Portfolio 9/30/2019
Cash	6,683,038.97	5.26	3,593,191.84	2.49
Certificate Of Deposit	14,675,860.88	11.55	11,554,325.00	7.99
Corporate	22,312,288.64	17.57	33,428,878.00	23.13
Local Government Investment Pool	22,562,927.95	17.76	40,717,167.13	28.17
Money Market	86.17	0.00	0.00	0.00
Municipal	30,478,134.70	23.99	31,736,923.50	21.96
US Agency	24,325,383.20	19.15	21,504,325.25	14.88
US Treasury	5,987,290.00	4.71	1,996,890.00	1.38
Total / Average	127,025,010.51	100.00	144,531,700.72	100.00

**Portfolio Holdings as of 6/30/2019**



**Portfolio Holdings as of 9/30/2019**

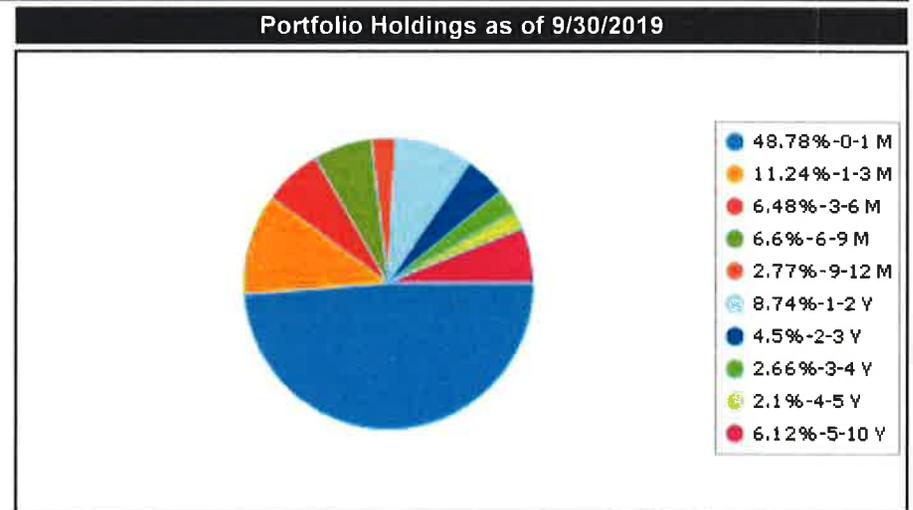
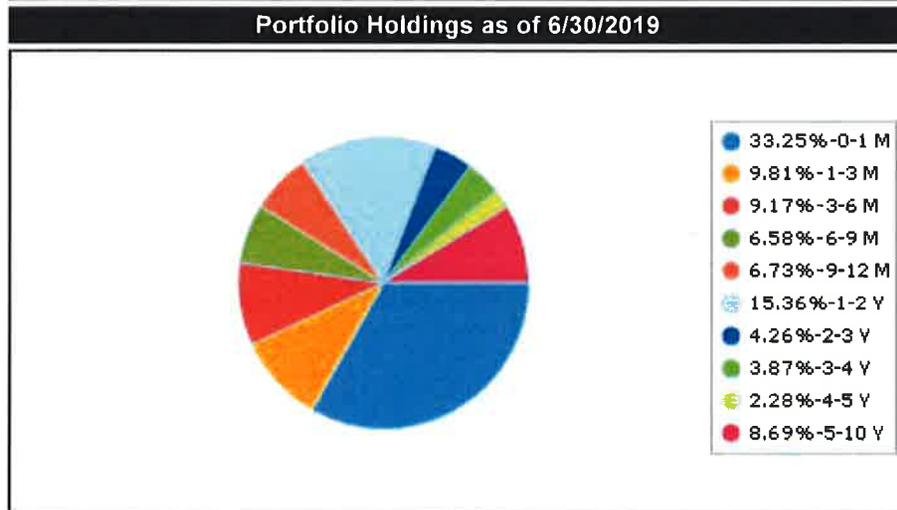




## City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 6/30/2019, End Date: 9/30/2019

Maturity Range Allocation				
Maturity Range	Market Value 6/30/2019	% of Portfolio 6/30/2019	Market Value 9/30/2019	% of Portfolio 9/30/2019
0-1 Month	42,238,250.89	33.25	70,503,965.27	48.78
1-3 Months	12,466,970.84	9.81	16,248,052.20	11.24
3-6 Months	11,648,870.80	9.17	9,370,592.00	6.48
6-9 Months	8,359,098.85	6.58	9,542,770.55	6.60
9-12 Months	8,545,495.45	6.73	3,997,950.00	2.77
1-2 Years	19,505,416.20	15.36	12,634,392.45	8.74
2-3 Years	5,410,677.63	4.26	6,510,352.40	4.50
3-4 Years	4,913,183.35	3.87	3,838,229.65	2.66
4-5 Years	2,895,998.75	2.28	3,037,346.90	2.10
5-10 Years	11,041,047.75	8.69	8,848,049.30	6.12
Total / Average	127,025,010.51	100.00	144,531,700.72	100.00



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: 6/30/2019, End Date: 9/30/2019

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	104,734.38	4,790.00	-1,100.88	108,423.50	0.90	3.66
Corporate	0.00	67,091.56	97,433.46	164,525.02	0.61	2.45
Local Government Investment Pool	157,024.87	0.00	0.00	157,024.87	0.39	1.56
Money Market	0.00	0.00	0.00	0.00	0.00	0.00
Municipal	185,999.24	133,788.80	0.00	319,788.04	1.01	4.11
US Agency	132,740.30	62,487.00	3,803.80	199,031.10	0.86	3.48
US Treasury	13,943.18	3,920.00	6,875.31	24,738.49	0.51	2.05
Total / Average	594,441.97	272,077.36	107,011.69	973,531.02	0.67	2.70

City of Novi  
Portfolio Holdings  
As of 9/30/2019

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
AGC Capital IN	2.400	414,752.35	414,759.30	9	0.00	0.29
Agricultural BK China	2.120	997,709.94	997,680.00	39	0.00	0.69
Allen Park	3.198	445,617.42	446,734.00	1,494	5,959.80	0.31
Allendale MI PSD	2.249	1,001,783.54	1,002,090.00	214	10,649.36	0.69
Ameren Illinois	2.354	1,997,911.11	1,997,980.00	16	0.00	1.39
American Express Centurion	2.125	2,000,000.00	2,004,280.00	226	16,417.81	1.39
Arabella Finance LLC	2.207	2,999,632.62	2,999,610.00	2	0.00	2.08
Banco Credito Invers	2.157	2,283,019.45	2,282,641.70	51	0.00	1.59
Belding Area Schools	2.191	500,165.84	500,895.00	214	4,656.25	0.35
Bellevue Mich Cmnty Schs	2.130	505,168.29	507,050.00	944	5,289.50	0.35
BK of China/HK	2.180	996,085.22	995,950.00	65	0.00	0.69
Cedar Springs Capital	2.100	999,359.12	999,340.00	11	0.00	0.69
Center Line Public Schools	3.589	254,030.32	255,895.00	1,675	4,138.89	0.17
Charter Township of Commerce	2.630	290,000.00	297,676.30	1,828	3,792.31	0.20
City of Holland	2.300	100,000.00	100,015.00	62	760.28	0.07
COFCO Capital Cor	2.100	999,475.46	999,490.00	9	0.00	0.69
Comerica Securities	0.000	17,000.00	17,000.00	1	0.00	0.01
Comstock Park Schs-B	2.417	1,500,000.00	1,515,400.00	701	15,003.47	1.04
Delhi TWP MI	1.980	140,000.00	139,374.20	1,128	1,147.30	0.10
DTE Electric Co	2.406	1,697,506.66	1,697,535.00	22	0.00	1.18
Dupont De Nemours In	2.100	999,533.69	999,480.00	8	0.00	0.69
Enel Finance America L	2.275	1,995,299.65	1,995,240.00	38	0.00	1.39
ENI Finance USA In	2.260	1,993,917.74	1,993,720.00	48	0.00	1.39
FFCB	2.417	3,340,867.16	3,350,667.50	223	8,651.43	2.32
FHLB	2.398	6,999,602.19	6,990,550.00	1,833	27,591.67	4.85
FHLMC	2.470	2,979,865.81	2,995,150.00	339	4,051.38	2.08
Fifth Third	0.000	3,576,191.45	3,576,191.45	1	0.00	2.48
FNMA	1.856	8,168,034.94	8,167,957.75	426	35,855.56	5.66
Fortive Corporation	2.200	1,998,117.58	1,998,030.00	16	0.00	1.39
Gen Electric Co	2.228	699,870.50	699,860.00	3	0.00	0.49
Goldman Sachs Bk	2.300	1,000,000.00	1,001,430.00	123	3,843.84	0.69
Harper Creek MI	2.000	501,152.70	501,395.00	214	4,995.64	0.35
Holland Mich Taxable Go Ltd Tax Bds Ser	2.910	175,000.00	179,270.00	1,401	834.60	0.12

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Holly Mich Area School Dist	2.503	2,260,000.00	2,317,158.60	1,546	23,409.56	1.57
Houghton-Portage	1.700	350,000.00	349,321.00	214	2,462.64	0.24
IBM Cor	2.480	998,434.32	998,680.00	23	0.00	0.69
Ind & Comm Bk China/n	2.170	1,996,274.46	1,996,100.00	31	0.00	1.39
Intesa Sanpaolo	2.334	3,995,071.77	3,995,400.00	16	0.00	2.77
JP Morgan Chase Bank NA	3.000	2,000,000.00	2,000,600.00	385	26,958.90	1.39
Lansing Mich Bldg Autho Go Ref Bds	5.516	66,210.91	68,634.75	1,340	19,232.17	0.05
LCRSCD	2.410	1,025,000.00	1,034,476.50	534	10,224.41	0.71
Lincoln MI Consol Sch Dist	2.020	425,546.93	425,369.75	214	3,957.81	0.29
Madison Heights	1.930	1,384,605.84	1,384,544.10	312	6,211.70	0.96
MI Strategic Fund - REF	2.600	993,799.57	999,360.00	381	9,079.58	0.69
Michigan St Fin Auth	2.404	1,125,000.00	1,127,396.40	614	6,084.79	0.78
Michigan State GO Bond	2.346	404,477.78	406,732.00	428	4,462.50	0.28
MIS FIN MI Fin Auth	2.301	1,092,562.27	1,098,356.35	1,128	11,424.33	0.75
Monroe	1.610	100,000.00	99,765.00	214	666.36	0.07
Morgan Stanley Bank	2.300	1,000,000.00	1,001,480.00	126	3,780.82	0.69
Muskegon Heights PUB	2.402	1,835,000.00	1,845,922.20	552	18,244.42	1.27
Natixis NY	2.547	1,985,138.89	1,987,580.00	107	0.00	1.39
New Haven Community School	2.459	2,026,469.26	2,067,100.50	1,661	14,374.55	1.40
North Muskegon Public Schools	2.081	200,193.38	200,040.00	214	1,865.81	0.14
Oakland County	3.662	40,717,167.13	40,717,167.13	1	0.00	28.21
Ottawa CountyMI	2.250	393,020.06	394,836.00	763	4,277.54	0.27
Parchment SD	2.669	1,535,000.00	1,578,743.25	1,523	16,956.00	1.06
Ravenna Schools	2.112	1,150,000.00	1,152,872.00	401	10,054.19	0.80
RMLSCD	2.374	650,000.00	652,560.50	579	6,386.31	0.45
Royal Oak MI	2.333	1,545,000.00	1,555,628.50	463	17,920.93	1.07
TCF Bank	2.549	3,538,775.00	3,538,775.00	32	71,460.03	2.45
Treasury	2.972	1,994,104.95	1,996,890.00	106	7,029.37	1.39
Tuscola County	2.900	230,206.27	234,717.30	702	546.57	0.16
UBS Financial	0.000	0.39	0.39	1	0.00	0.00
VW Credit Inc	2.465	3,379,962.85	3,379,802.00	93	0.00	2.36
Washtenaw Cnty	2.450	1,999,668.02	2,004,230.00	154	12,195.50	1.39
Wells Fargo Bank	2.678	2,000,000.00	2,007,760.00	1,012	10,311.56	1.39
Ypsilanti MI	2.530	2,245,000.00	2,281,214.30	1,175	23,506.20	1.56
Ypsilanti School Dist	2.217	3,000,000.00	3,012,150.00	579	27,523.61	2.08
Total / Average	2.656	144,208,360.80	144,531,700.72	331	524,247.25	100