

MEMORANDUM



TO: PETE AUGER, CITY MANAGER
FROM: CARL A. JOHNSON, JR., CFO
TINA GLENN, ASSISTANT CITY TREASURER
SUBJECT: QUARTERLY INVESTMENT REPORT – DECEMBER 31, 2019
DATE: MARCH 24, 2020

Attached to this memo is the investment report for the City of Novi as of December 31, 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 December 10-11 2019, "the information available for the December 10-11 meeting indicated that labor market conditions remained strong and that real gross domestic product (GDP) was increasing at a moderate rate in the second half of 2019. Consumer price inflation, as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE), remained below 2 percent in October. Survey-based measures of longer-run inflation expectations were little changed."¹

According to the Bureau of Labor Statistics News Release, "Total nonfarm payroll employment rose by 145,000 in December, and the unemployment rate was unchanged at 3.5 percent. Notable job gains occurred in retail trade and health care, while mining lost jobs."²

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:

¹ <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20191211.pdf>

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

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 December 31, 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 December 31, 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 December 31, 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	0.600%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	2.440%
YTM@Cost	Yield to Maturity @ Cost	1.964%

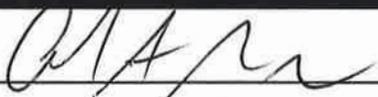
BENCHMARKS

Treasury 6 Month	1.58%
Treasury 1 Year	1.55%

FISCAL YEAR TO DATE

Investment Income	826,909
TRR-MV	0.60%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	5,283,385.06	5,283,385.06	5,283,385.06	4.16	0.00	1
Certificate Of Deposit	9,543,857.23	9,559,947.23	9,543,857.23	7.52	2.16	451
Corporate	20,000,000.00	19,958,920.00	19,957,913.47	15.76	2.10	36
Local Government Investment Pool	47,599,853.10	47,599,853.10	47,599,853.10	37.51	1.68	1
Municipal	32,760,000.00	33,079,277.15	32,858,249.46	25.81	2.31	851
US Agency	10,725,000.00	10,707,546.00	10,705,561.97	8.45	2.54	1,008
US Treasury	1,000,000.00	999,540.00	998,248.49	0.79	3.56	60
Total / Average	126,912,095.39	127,188,468.54	126,947,068.78	100.00	1.96	345



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

3/10/20

 Date

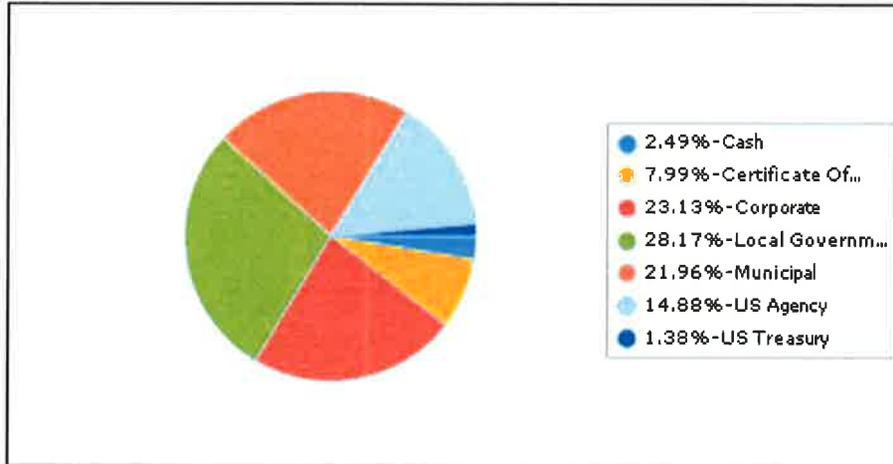


City of Novi Distribution by Security Sector - Market Value All Portfolios

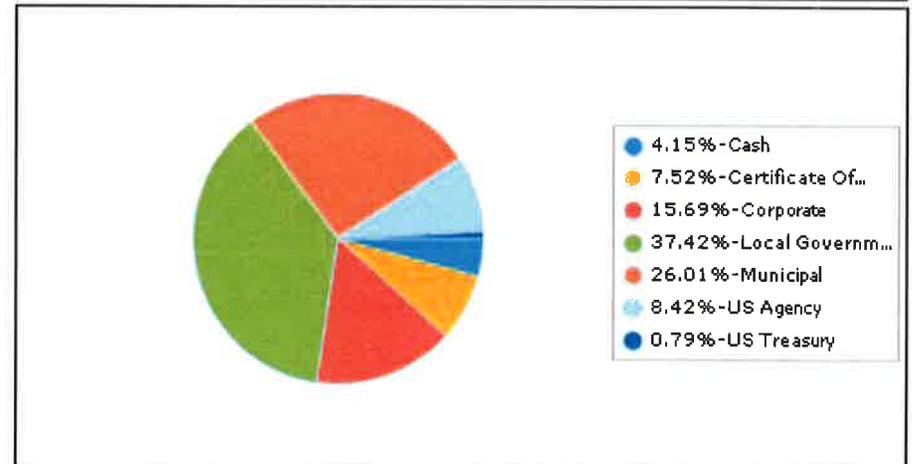
Begin Date: 9/30/2019, End Date: 12/31/2019

Security Sector Allocation				
Security Sector	Market Value 9/30/2019	% of Portfolio 9/30/2019	Market Value 12/31/2019	% of Portfolio 12/31/2019
Cash	3,593,191.84	2.49	5,283,385.06	4.15
Certificate Of Deposit	11,554,325.00	7.99	9,559,947.23	7.52
Corporate	33,428,878.00	23.13	19,958,920.00	15.69
Local Government Investment Pool	40,717,167.13	28.17	47,599,853.10	37.42
Municipal	31,736,923.50	21.96	33,079,277.15	26.01
US Agency	21,504,325.25	14.88	10,707,546.00	8.42
US Treasury	1,996,890.00	1.38	999,540.00	0.79
Total / Average	144,531,700.72	100.00	127,188,468.54	100.00

Portfolio Holdings as of 9/30/2019



Portfolio Holdings as of 12/31/2019

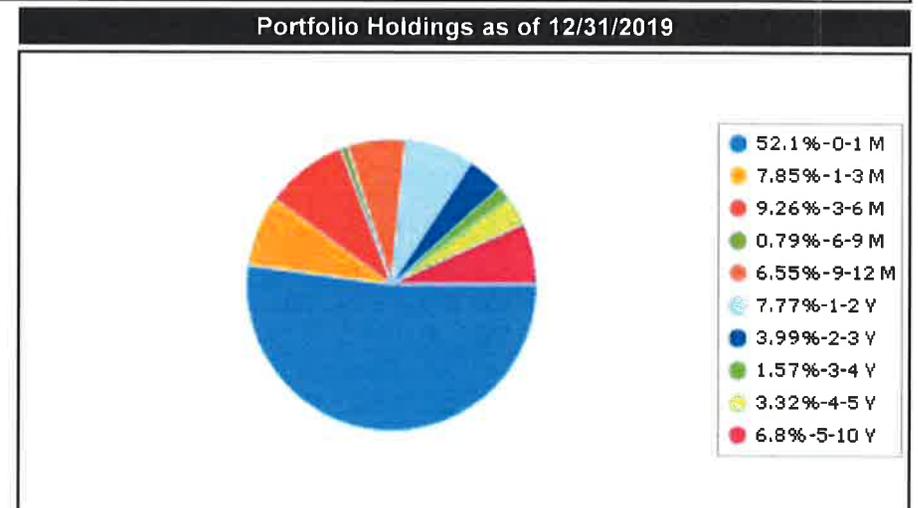
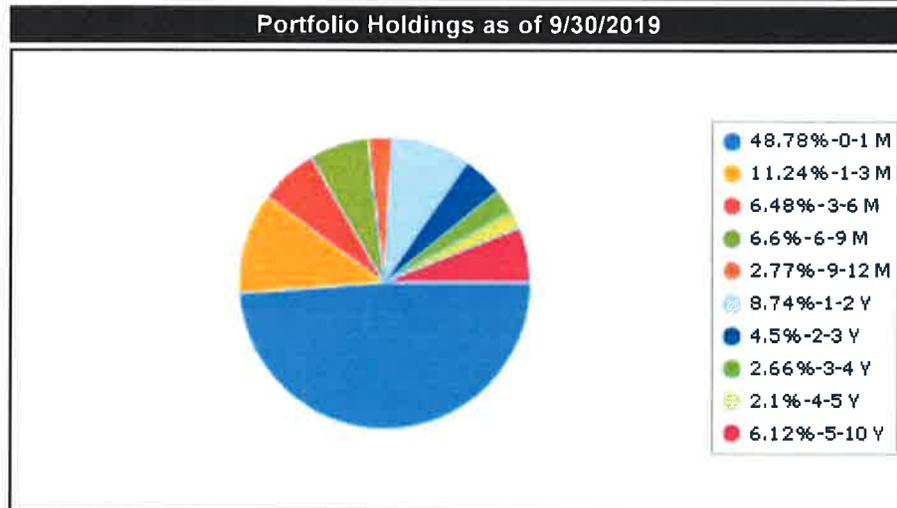




City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 9/30/2019, End Date: 12/31/2019

Maturity Range Allocation				
Maturity Range	Market Value 9/30/2019	% of Portfolio 9/30/2019	Market Value 12/31/2019	% of Portfolio 12/31/2019
0-1 Month	70,503,965.27	48.78	66,261,100.16	52.10
1-3 Months	16,248,052.20	11.24	9,988,610.00	7.85
3-6 Months	9,370,592.00	6.48	11,776,064.35	9.26
6-9 Months	9,542,770.55	6.60	999,910.00	0.79
9-12 Months	3,997,950.00	2.77	8,328,594.13	6.55
1-2 Years	12,634,392.45	8.74	9,881,331.75	7.77
2-3 Years	6,510,352.40	4.50	5,079,922.80	3.99
3-4 Years	3,838,229.65	2.66	1,998,828.15	1.57
4-5 Years	3,037,346.90	2.10	4,221,662.60	3.32
5-10 Years	8,848,049.30	6.12	8,652,444.60	6.80
Total / Average	144,531,700.72	100.00	127,188,468.54	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: 9/30/2019, End Date: 12/31/2019

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	62,933.16	1,210.00	-670.00	63,473.16	0.61	2.46
Corporate	0.00	68,256.94	71,063.78	139,320.72	0.55	2.23
Local Government Investment Pool	387,019.59	0.00	0.00	387,019.59	0.87	3.53
Money Market	0.00	0.00	0.00	0.00		
Municipal	196,167.02	-69,115.15	-1,045.50	126,006.37	0.38	1.54
US Agency	96,394.79	-6,089.25	9,410.00	99,715.54	0.64	2.58
US Treasury	8,723.40	1,730.00	920.00	11,373.40	0.69	2.78
Total / Average	751,237.96	-4,007.46	79,678.28	826,908.78	0.60	2.44

City of Novi
Portfolio Holdings
As of 12/31/2019

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allen Park	3.198	445,579.08	445,267.95	1,402	2,399.92	0.35
Allendale MI PSD	2.249	1,001,016.78	1,001,360.00	122	4,288.33	0.79
American Express Centurion	2.250	1,000,000.00	1,004,680.00	317	3,020.55	0.79
Arabella Finance LLC	1.955	3,999,019.21	3,999,020.00	4	0.00	3.15
Bank of China/Hong Kong	2.092	1,993,189.28	1,993,280.00	59	0.00	1.58
Belding Area Schools	2.191	500,094.54	500,895.00	122	1,875.00	0.39
Bellevue Mich Cmnty Schs	2.130	504,664.60	506,520.00	852	2,130.00	0.39
BK of China/HK	2.192	995,821.67	996,010.00	69	0.00	0.79
Catholic Health	2.116	996,733.33	997,040.00	56	0.00	0.79
Center Line Public Schools	3.589	253,808.95	254,740.00	1,583	1,666.67	0.20
Charter Township of Commerce	2.630	290,000.00	295,721.70	1,736	1,906.75	0.23
Chemical Bank a div of TCF National Bank	1.787	2,543,857.23	2,543,857.23	304	7,325.16	2.00
China Cons Bank Corp N	1.980	999,561.64	999,580.00	8	0.00	0.79
Chippewa Valley Mich Schs	2.237	1,000,000.00	988,440.00	2,678	4,287.58	0.79
Comstock Park Schs-B	2.417	1,500,000.00	1,515,100.00	609	6,041.67	1.18
Delhi TWP MI	1.980	140,000.00	139,851.60	1,036	462.00	0.11
Enel Finance America L	2.130	998,705.76	998,780.00	22	0.00	0.79
FFCB	2.514	1,550,044.23	1,552,992.00	62	10,335.56	1.22
FHLB	2.543	4,000,000.00	3,981,550.00	2,289	18,031.94	3.15
FHLMC	2.470	2,985,172.28	2,999,910.00	247	17,322.22	2.36
Fifth Third	0.000	5,276,635.03	5,276,635.03	1	0.00	4.16
FMC Technologies In	1.977	1,998,626.47	1,998,670.00	12	0.00	1.58
FNMA	2.645	2,170,345.46	2,173,094.00	376	10,910.00	1.71
Goldman Sachs Bk	2.300	1,000,000.00	1,000,570.00	31	9,641.10	0.79
Great Bridge Cap Co LL	1.900	997,376.34	997,580.00	50	0.00	0.79
Harper Creek MI	2.000	500,657.15	501,175.00	122	2,011.67	0.39
Hartland Mich Cons Sch	1.819	950,000.00	940,830.00	1,294	2,688.00	0.75
Holland Mich Taxable Go Ltd Tax Bds Ser	2.910	175,000.00	178,556.00	1,309	2,121.88	0.14
Holly Mich Area School Dist	2.503	2,260,000.00	2,305,434.20	1,454	9,426.66	1.78
Homer Cmnty SD	0.891	868,903.23	865,595.95	2,678	1,831.67	0.62
Houghton-Portage	1.700	350,000.00	349,884.50	122	991.67	0.28
Ind & Comm Bk China/n	2.050	999,150.53	999,220.00	15	0.00	0.79
Intesa Sanpaolo	2.017	993,666.67	992,980.00	114	0.00	0.79

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
JP Morgan Chase	1.900	1,000,000.00	1,000,730.00	655	3,956.16	0.79
Lansing Mich Bldg Autho Go Ref Bds	5.516	66,814.35	68,905.50	1,248	19,719.40	0.06
LCRSCD	2.410	1,025,000.00	1,033,753.50	442	4,117.20	0.81
Lincoln MI Consol Sch Dist	2.020	425,311.80	425,535.50	122	1,593.75	0.33
Madison Heights	1.930	1,384,995.76	1,386,211.70	220	12,563.00	1.09
MI Strategic Fund - REF	2.600	995,296.79	1,000,720.00	289	4,182.11	0.79
Michigan St Fin Auth	2.424	775,000.00	777,297.55	785	3,130.58	0.61
Michigan State GO Bond	2.346	403,515.27	405,816.00	336	1,125.00	0.32
MIS FIN MI Fin Auth	2.301	1,091,945.49	1,096,457.60	1,036	4,600.40	0.85
Monroe	1.610	100,000.00	99,945.00	122	268.33	0.08
Morgan Stanley Bank	2.300	1,000,000.00	1,000,630.00	34	9,578.08	0.79
Muskegon Heights PUB	2.402	1,835,000.00	1,846,057.90	460	7,346.75	1.45
Natixis NY	2.547	1,997,916.67	1,998,600.00	15	0.00	1.58
New Haven Community School	2.459	2,026,235.80	2,055,538.25	1,569	8,464.58	1.60
North Muskegon Public Schools	2.081	200,110.24	200,176.00	122	751.33	0.16
Oakland County	1.683	47,599,853.10	47,599,853.10	1	0.00	37.51
Ottawa CountyMI	2.250	392,655.91	396,435.00	671	1,722.50	0.31
Parchment SD	2.669	1,535,000.00	1,570,799.35	1,431	6,827.92	1.21
Portland MI Pub Schs	0.318	236,671.80	236,694.35	123	363.30	0.19
Ravenna Schools	2.112	1,150,000.00	1,152,787.10	309	4,048.66	0.91
RMLSCD	2.374	650,000.00	653,197.00	487	2,571.67	0.51
Royal Oak MI	2.397	1,350,000.00	1,360,368.50	437	8,090.13	1.06
Treasury	3.559	998,248.49	999,540.00	60	8,252.77	0.79
Tuscola County	2.900	230,179.24	234,772.50	610	2,261.67	0.18
UBS Financial	0.000	6,750.03	6,750.03	1	0.00	0.01
VW Credit Inc	2.250	1,993,161.33	1,993,590.00	54	0.00	1.58
Walgreens Boots Allian	2.000	994,984.57	994,570.00	91	0.00	0.79
Washtenaw Cnty	2.451	999,792.68	1,002,940.00	153	2,000.00	0.79
Wells Fargo Bank	2.678	2,000,000.00	2,005,070.00	920	3,445.34	1.58
Wells Fargo Bank Natl Assn	1.950	1,000,000.00	1,004,410.00	657	747.95	0.79
Ypsilanti MI	2.530	2,245,000.00	2,268,696.95	1,083	9,465.59	1.77
Ypsilanti School Dist	2.217	3,000,000.00	3,016,800.00	487	11,083.33	2.36
Total / Average	1.964	126,947,068.78	127,188,468.54	345	262,993.50	100