

MEMORANDUM



TO: PETE AUGER, CITY MANAGER
FROM: CARL A. JOHNSON, JR., CFO
TINA GLENN, ASSISTANT CITY TREASURER
CC: PETE AUGER, CITY MANAGER
CORTNEY HANSON, CITY CLERK
SUBJECT: QUARTERLY INVESTMENT REPORT – MARCH 31, 2020
DATE: MAY 13, 2020

Attached to this memo is the investment report for the City of Novi as of March 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 March 15, 2020, “the information available for the March 15, 2020 meeting indicated that the coronavirus outbreak was disrupting economic activity in many countries, including the United States, by the time of the March 15 meeting. There were limited available U.S. economic data, however, that covered the period since the intensification of concerns about the domestic effects of the outbreak. Information that predated that period indicated that labor market conditions had remained strong through February and that real gross domestic product (GDP) appeared to have been increasing at a moderate pace in the first two months of the year. 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 January. Survey-based measures of longer run inflation expectations were little changed. Total nonfarm payroll employment expanded strongly in January and February, and the unemployment rate was at its 50-year low of 3.5 percent in February. Meanwhile, the labor force participation rate and the employment-to-population ratio edged up on net. Initial claims for unemployment insurance benefits – a timely indicator of a deterioration in labor market conditions – remained near historically low levels through early March, which was still before economic shutdowns started to take place in the United States. Nominal wage growth was moderate on balance. Average hourly earnings for all employees increased by 3 percent over the 12 months ending in February.”¹

According to the Bureau of Labor Statistics News Release, “Total nonfarm payroll employment fell by 701,000 in March, and the unemployment rate rose to 4.4 percent, the U.S. Bureau of Labor Statistics reported today. The changes in these measures reflect the effects of the coronavirus (COVID-19) and efforts to contain it. Employment in leisure and

¹ <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20200315.pdf>

hospitality fell by 459,000, mainly in food services and drinking places. Notable declines also occurred in health care and social assistance, professional and business services, retail trade and construction."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:

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

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

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 March 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 at March 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
March 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	0.850%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	3.440%
YTM@Cost	Yield to Maturity @ Cost	2.288%

BENCHMARKS

Treasury 6 Month 0.30%
 Treasury 1 Year 0.33%

FISCAL YEAR TO DATE

Investment Income 1,128,300
 TRR-MV 0.850%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	3,426,744.33	3,426,744.33	3,426,744.33	2.89	0.00	1
Certificate Of Deposit	12,543,857.23	12,563,867.23	12,543,857.23	10.58	2.22	1,028
Corporate	28,450,000.00	28,378,409.38	28,341,899.80	23.90	2.26	60
Local Government Investment Pool	34,857,665.29	34,857,665.29	34,857,665.29	29.40	2.43	1
Money Market	38.18	38.18	38.18	0.00	0.35	1
Municipal	36,205,000.00	37,006,656.90	36,393,001.40	30.70	2.39	784
US Agency	3,000,000.00	3,004,130.00	3,000,000.00	2.53	2.69	2,274
Total / Average	118,483,305.03	119,237,513.31	118,563,206.23	100.00	2.29	422


 Carl A. Johnson, Jr. -Finance Director / Treasurer, CFO Date 5/13/20



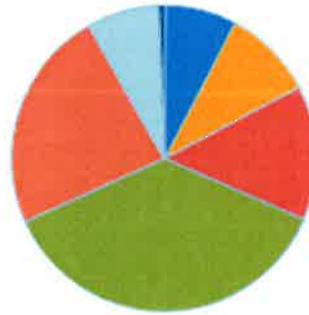
City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 12/31/2019, End Date: 3/31/2020

Security Sector Allocation

Security Sector	Market Value 12/31/2019	% of Portfolio 12/31/2019	Market Value 3/31/2020	% of Portfolio 3/31/2020
Cash	10,692,782.63	7.61	3,426,744.33	2.87
Certificate Of Deposit	13,559,947.23	9.64	12,563,867.23	10.54
Corporate	19,958,920.00	14.20	28,378,409.38	23.80
Local Government Investment Pool	51,599,853.10	36.70	34,857,665.29	29.23
Municipal	33,079,277.15	23.53	37,006,658.90	31.04
US Agency	10,707,546.00	7.62	3,004,130.00	2.52
US Treasury	999,540.00	0.71	0.00	0.00
Money Market	0.00	0.00	38.18	0.00
Total / Average	140,597,866.11	100.00	119,237,513.31	100.00

Portfolio Holdings as of 12/31/2019



Portfolio Holdings as of 3/31/2020





City of Novi

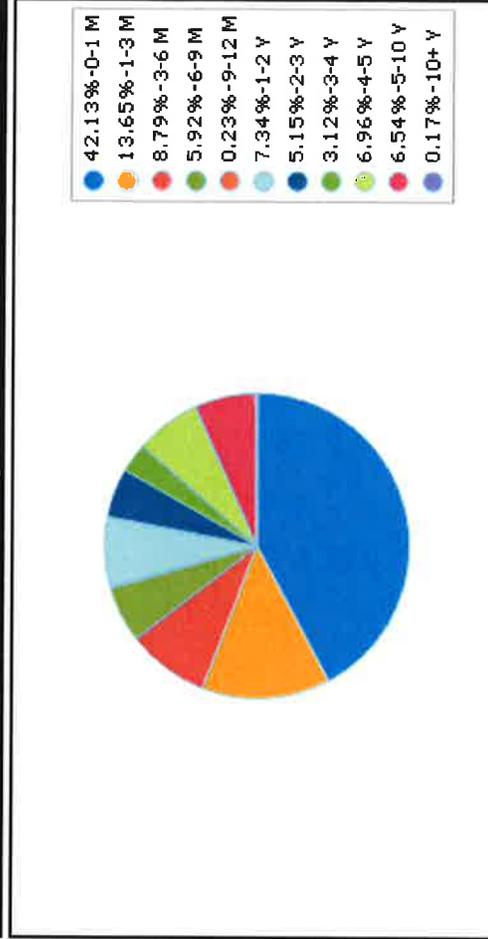
Distribution by Maturity Range - Market Value

All Portfolios

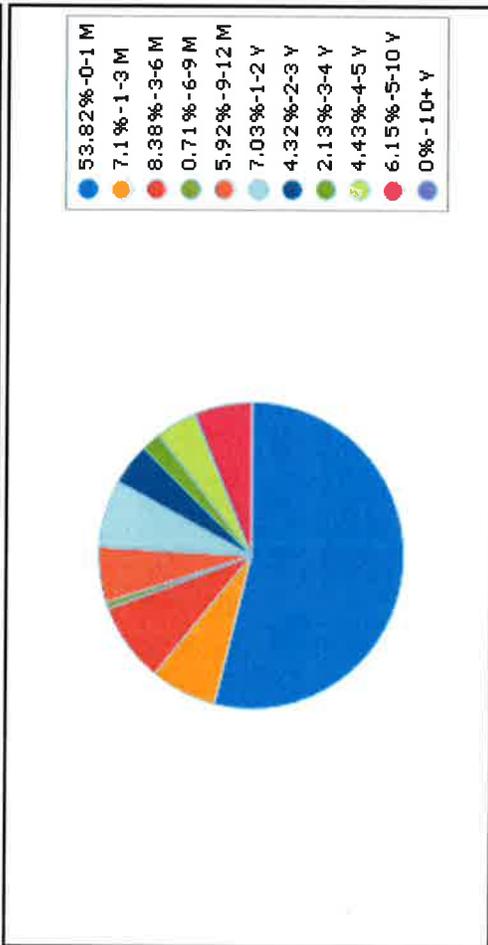
Begin Date: 12/31/2019, End Date: 3/31/2020

Maturity Range Allocation			
Maturity Range	Market Value 12/31/2019	% of Portfolio 12/31/2019	Market Value 3/31/2020
0-1 Month	75,670,497.73	53.82	50,229,044.09
1-3 Months	9,988,610.00	7.10	16,274,777.77
3-6 Months	11,776,064.35	8.38	10,476,025.58
6-9 Months	999,910.00	0.71	7,057,094.12
9-12 Months	8,328,594.13	5.92	271,449.90
1-2 Years	9,881,331.75	7.03	8,751,233.50
2-3 Years	6,079,922.80	4.32	6,144,980.25
3-4 Years	2,998,828.15	2.13	3,726,026.65
4-5 Years	6,221,662.60	4.43	8,295,485.35
5-10 Years	8,652,444.60	6.15	7,802,956.10
10+ Years	0.00	0.00	208,440.00
Total / Average	140,597,866.11	100.00	119,237,513.31

Portfolio Holdings as of 12/31/2019



Portfolio Holdings as of 3/31/2020



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: 12/31/2019, End Date: 3/31/2020

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	68,883.80	6,000.00	-2,080.00	72,803.80	0.57	2.29
Corporate	0.00	87,001.49	38,113.33	125,114.82	0.70	2.84
Local Government Investment Pool	262,452.70	0.00	0.00	262,452.70	0.52	2.08
Money Market	114.55	0.00	0.00	114.55	0.01	0.03
Municipal	220,217.79	384,335.55	0.00	604,553.34	1.84	7.55
US Agency	38,950.55	19,560.00	2,024.00	60,534.55	0.77	3.10
US Treasury	2,266.48	0.00	460.00	2,726.48	0.42	1.69
Total / Average	592,885.87	496,897.04	38,517.33	1,128,300.24	0.85	3.44

City of Novi
Portfolio Holdings
As of 3/31/2020

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allen Park	3.198	445,541.16	467,107.25	1,311	5,999.80	0.38
Allendale MI PSD	2.249	1,000,258.36	1,001,050.00	31	10,720.83	0.84
American Express Centurion	2.250	1,000,000.00	1,006,890.00	226	8,630.14	0.84
AON Cor	3.250	998,018.72	999,260.55	22	0.00	0.84
Banco Credito Invers M	1.840	999,694.72	999,798.34	6	0.00	0.84
Bank of China/Hong Kong	1.850	999,897.67	999,932.78	2	0.00	0.84
Belding Area Schools	2.191	500,024.02	500,575.00	31	4,687.50	0.42
Bellevue Mich Cmnty Schs	2.130	504,166.39	511,945.00	761	5,325.00	0.42
Boeing Company	1.887	4,977,773.39	4,983,852.79	81	0.00	4.22
BP Capital Markets PI	2.400	2,974,605.23	2,983,446.67	129	0.00	2.53
Caterp Fin Serv	1.754	998,541.67	998,830.00	30	0.00	0.84
Catholic Health	2.791	1,988,770.84	1,992,670.00	89	0.00	1.69
Center Line Public Schools	3.589	253,589.99	257,315.00	1,492	4,166.67	0.21
Charter Township of Commerce	2.630	290,000.00	302,855.70	1,645	3,813.50	0.24
Chemical Bank a div of TCF National Bank	1.787	2,543,857.23	2,543,857.23	213	18,657.60	2.15
Chippewa Valley Mich Schs	2.237	1,000,000.00	1,021,900.00	2,587	9,880.08	0.84
CNPC Finance HK LT	2.050	949,623.06	949,696.00	7	0.00	0.80
Comstock Park Schs-B	2.417	1,500,000.00	1,525,410.00	518	15,104.17	1.27
Delhi TWP MI	1.980	140,000.00	141,565.20	945	1,155.00	0.12
ENGIE S	2.750	990,391.82	994,426.12	127	0.00	0.84
FHLB	2.691	3,000,000.00	3,004,130.00	2,274	16,131.94	2.53
Fifth Third	0.000	3,426,777.43	3,426,777.43	1	0.00	2.89
Harper Creek MI	2.000	500,166.98	500,650.00	31	5,029.17	0.42
Hartland Mich Cons Sch	1.811	950,000.00	962,756.00	1,203	6,976.77	0.80
Holland Mich Taxable Go Ltd Tax Bds Ser	2.910	175,000.00	181,707.75	1,218	848.75	0.15
Holly Mich Area School Dist	2.503	2,260,000.00	2,348,366.80	1,363	23,566.66	1.91
Homer Cmnty SD	2.400	866,052.15	891,783.55	2,587	10,902.78	0.66
Houghton-Portage	1.700	350,000.00	350,220.50	31	2,479.17	0.30
Intesa Sanpaolo	1.966	1,496,409.72	1,496,800.00	45	0.00	1.27
JP Morgan Chase	1.900	1,000,000.00	1,000,420.00	564	3,904.11	0.84
Lansing Mich Bldg Autho Go Ref Bds	5.516	67,411.22	71,101.80	1,157	20,201.27	0.06
LCRSCD	2.410	1,025,000.00	1,038,138.75	351	10,293.02	0.87
Lincoln MI Consol Sch Dist	2.020	425,079.23	425,433.50	31	3,984.38	0.36
LVMH Moet Hennessy Lou	2.000	999,167.96	999,495.84	15	0.00	0.84
Madison Heights	1.987	550,000.00	555,325.10	462	2,732.75	0.46
MI Strategic Fund - REF	2.600	996,777.73	1,004,750.00	198	9,134.61	0.84
Michigan St Fin Auth	2.487	4,294,299.09	4,299,020.35	242	93,770.90	3.61
Michigan State GO Bond	2.346	402,563.22	406,268.00	245	4,500.00	0.34
Michigan State University Federal Credit Union	2.365	6,000,000.00	6,000,000.00	1,548	37,669.86	5.06
MIS FIN MI Fin Auth	2.301	1,091,335.41	1,115,716.35	945	11,501.00	0.92
Mondelez International	3.125	1,993,600.52	1,997,512.78	37	0.00	1.69
Monroe	1.610	100,000.00	100,058.00	31	670.83	0.08
MSUFCU	0.000	5.00	5.00	1	0.00	0.00

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
MUFG Bank Ltd	2.367	993,472.22	995,890.00	100	0.00	0.84
Muskegon Heights PUB	2.402	1,835,000.00	1,855,333.80	369	18,366.88	1.55
New Haven Community School	2.459	2,026,004.88	2,098,404.50	1,478	21,161.46	1.71
Nissan Motor Acceptanc	3.000	997,673.64	999,058.89	28	0.00	0.84
North Muskegon Public Schools	2.081	200,028.01	200,186.00	31	1,878.33	0.17
Oakland County	2.426	34,857,665.29	34,857,665.29	1	0.00	29.42
Oakland Univ Muni Bond	4.192	203,334.71	208,440.00	9,831	750.00	0.15
Ottawa CountyMI	2.250	392,295.72	399,044.10	580	4,306.25	0.33
Parchment SD	2.669	1,535,000.00	1,602,081.40	1,340	17,069.80	1.30
Portland MI Pub Schs	0.318	235,434.94	235,582.80	32	908.25	0.20
Ravenna Schools	2.112	1,150,000.00	1,156,292.20	218	10,121.66	0.97
RMLS CD	2.374	650,000.00	656,866.00	396	6,429.17	0.55
Royal Oak MI	2.397	1,350,000.00	1,366,005.50	346	16,180.25	1.14
Sinopec Century Bright	1.750	999,903.01	999,932.78	2	0.00	0.84
Telstra Corp LT	2.750	993,548.83	995,750.00	85	0.00	0.84
Tuscola County	2.900	230,152.50	236,005.30	519	565.42	0.19
UBS Financial	0.000	0.08	0.08	1	0.00	0.00
VW Credit Inc	2.300	999,936.88	999,966.39	1	0.00	0.84
Walgreens Boot	1.912	1,991,192.12	1,992,219.45	84	0.00	1.69
Wash Gas Light	1.452	999,677.78	999,870.00	8	0.00	0.84
Washtenaw Cnty	2.451	999,915.99	1,002,610.00	62	8,000.00	0.84
Wells Fargo Bank	3.006	1,000,000.00	1,002,810.00	1,705	9,191.78	0.84
Wells Fargo Bank Natl Assn	1.950	1,000,000.00	1,009,890.00	566	747.95	0.84
Western Michigan University	2.410	653,569.70	678,462.00	1,324	11,333.33	0.51
Ypsilanti MI	2.530	2,245,000.00	2,296,565.70	992	23,663.96	1.89
Ypsilanti School Dist	2.217	3,000,000.00	3,033,760.00	396	27,708.33	2.53
Total / Average	2.288	118,563,206.23	119,237,513.31	418	530,821.08	100