

# 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 – MARCH 31, 2018  
**DATE:** APRIL 24, 2018

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Attached to this memo is the investment report for the City of Novi as of March 31, 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 March 20-21, 2018, "the information reviewed for the March 20-21 meeting indicated that labor market conditions continued to strengthen through February and suggested that real gross domestic product (GDP) was rising at a moderate pace in the first quarter. 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 on balance. Gains in total nonfarm payroll employment were strong over the two months ending in February. The labor force participation rate held steady in January and then stepped up markedly in February, with the participation rates for prime-age (defined as ages 25 to 54) women and men moving up on net. The national employment rate remained at 4.1 percent."<sup>1</sup>

According to the Bureau of Labor Statistics News Release, "Total nonfarm payroll employment edged up by 103,000 in March, and the unemployment rate was unchanged at 4.1 percent, the U.S. Bureau of Labor Statistics reported today. Employment increased in manufacturing, health care, and mining. In March, the unemployment rate was 4.1 percent for the sixth consecutive month, and the number of unemployed persons, at 6.6 million, changed little. Among the major worker groups, the unemployment rates for adult men (3.7 percent), adult women (3.7 percent), teenagers (13.5 percent), Whites (3.6 percent), Blacks (6.9 percent), Asians (3.1 percent), and Hispanics (5.1 percent) showed little or no change in March.

At 1.3 million, the number of long-term unemployed (those jobless for 27 weeks or more) was little changed in March and accounted for 20.3 percent of the unemployed. Over

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<sup>1</sup> <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20180321.pdf>

the year, the number of long-term unemployed was down by 338,000. The labor force participation rate, at 62.9 percent, changed little in March, and the employment-population ratio held at 60.4 percent. The number of persons employed part time for economic reasons (sometimes referred to as involuntary part-time workers) was little changed at 5.0 million in March. These individuals, who would have preferred full-time employment, were working part time because their hours had been reduced or because they were unable to find full-time jobs."<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 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

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

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 March 31, 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 March 31, 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 March 31, 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	0.010%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	0.030%
YTM@Cost	Yield to Maturity @ Cost	2.037%

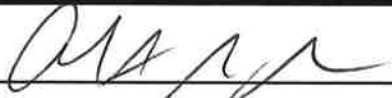
### BENCHMARKS

Treasury 6 Month	1.78%
Treasury 1 Year	1.94%

### FISCAL YEAR TO DATE

Investment Income	767,813
TRR-MV	0.01%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	8,971,277.12	8,971,277.12	8,971,277.12	7.02	0.00	1
Certificate Of Deposit	14,000,000.00	13,969,610.00	14,000,000.00	10.95	1.94	562
Corporate	17,400,000.00	17,288,636.00	17,302,937.54	13.61	2.11	91
Local Government Investment Pool	13,897,422.38	13,897,422.38	13,897,422.38	10.87	1.17	1
Money Market	591,268.90	591,268.90	591,268.90	0.46	0.30	1
Municipal	59,990,000.00	59,349,072.65	60,766,565.34	46.92	2.54	1,385
US Agency	13,000,000.00	12,640,720.00	13,000,000.00	10.17	2.13	1,916
<b>Total / Average</b>	<b>127,849,968.40</b>	<b>126,708,007.05</b>	<b>128,529,471.28</b>	<b>100.00</b>	<b>2.04</b>	<b>919</b>

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

4/25/18  
 Date



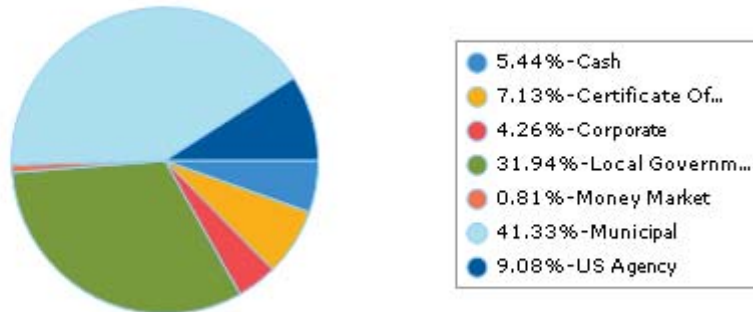
## City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 12/31/2017, End Date: 3/31/2018

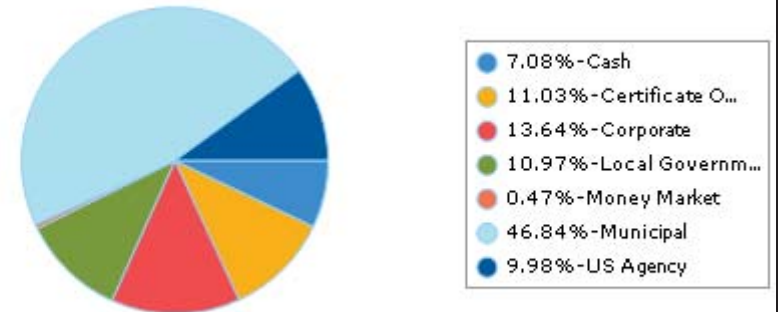
### Security Sector Allocation

Security Sector	Market Value 12/31/2017	% of Portfolio 12/31/2017	Market Value 3/31/2018	% of Portfolio 3/31/2018
Cash	7,624,839.78	5.44	8,971,277.12	7.08
Certificate Of Deposit	10,005,300.00	7.13	13,969,610.00	11.03
Corporate	5,980,280.00	4.26	17,288,636.00	13.64
Local Government Investment Pool	44,796,316.63	31.94	13,897,422.38	10.97
Money Market	1,136,219.31	0.81	591,268.90	0.47
Municipal	57,962,097.70	41.33	59,349,072.65	46.84
US Agency	12,739,050.00	9.08	12,640,720.00	9.98
<b>Total / Average</b>	<b>140,244,103.42</b>	<b>100.00</b>	<b>126,708,007.05</b>	<b>100.00</b>

**Portfolio Holdings as of 12/31/2017**



**Portfolio Holdings as of 3/31/2018**





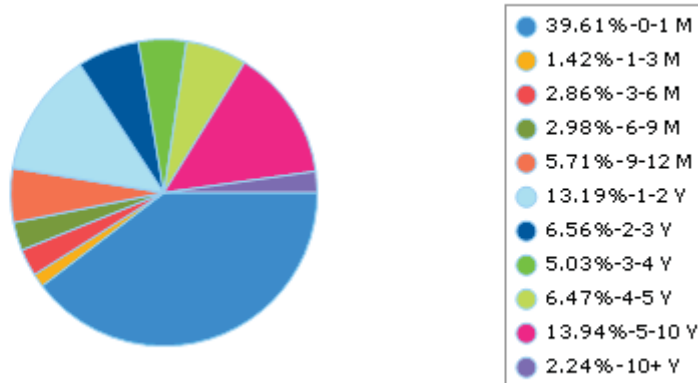
## City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 12/31/2017, End Date: 3/31/2018

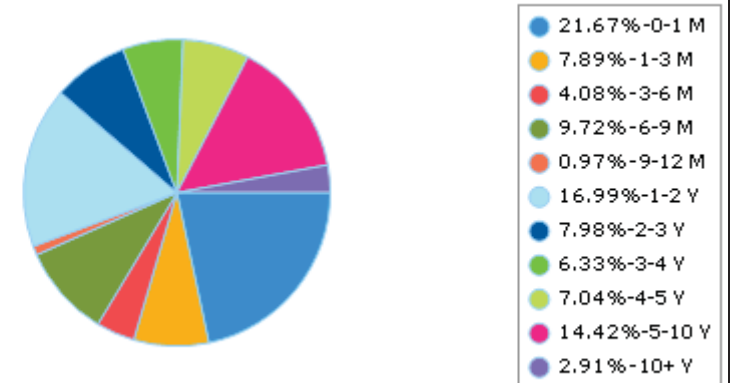
### Maturity Range Allocation

Maturity Range	Market Value 12/31/2017	% of Portfolio 12/31/2017	Market Value 3/31/2018	% of Portfolio 3/31/2018
0-1 Month	55,555,345.72	39.61	27,456,248.40	21.67
1-3 Months	1,996,010.00	1.42	9,995,164.50	7.89
3-6 Months	4,011,839.10	2.86	5,170,008.25	4.08
6-9 Months	4,182,100.25	2.98	12,319,790.20	9.72
9-12 Months	8,004,722.80	5.71	1,232,899.50	0.97
1-2 Years	18,493,929.35	13.19	21,524,175.75	16.99
2-3 Years	9,194,844.70	6.56	10,106,296.95	7.98
3-4 Years	7,050,724.65	5.03	8,018,267.65	6.33
4-5 Years	9,067,716.80	6.47	8,920,835.85	7.04
5-10 Years	19,552,141.20	13.94	18,274,729.50	14.42
10+ Years	3,134,728.85	2.24	3,689,590.50	2.91
<b>Total / Average</b>	<b>140,244,103.42</b>	<b>100.00</b>	<b>126,708,007.05</b>	<b>100.00</b>

**Portfolio Holdings as of 12/31/2017**



**Portfolio Holdings as of 3/31/2018**



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: 12/31/2017, End Date: 3/31/2018

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	56,274.39	-35,690.00	0.00	20,584.39	0.17	0.69
Corporate	0.00	22,474.19	2,030.00	24,504.19	0.23	0.91
Local Government Investment Pool	104,901.48	0.00	0.00	104,901.48	0.29	1.16
Money Market	0.00	0.00	0.00	0.00	0.00	0.00
Municipal	430,429.61	-537,978.05	12,877.50	-94,670.94	-0.16	-0.65
US Agency	54,729.17	-98,330.00	0.00	-43,600.83	-0.34	-1.36
Total / Average	646,334.65	-649,523.86	14,907.50	11,718.29	0.01	0.03

City of Novi  
Portfolio Holdings  
Investment Portfolio - by Issuer, Summary  
As of 3/31/2018

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allen Park	3.198	445,845.79	422,992.60	2,042	5,999.80	0.35
Allendale MI PSD	2.249	1,006,350.74	1,001,050.00	762	10,720.83	0.78
Ally Bank UT	1.700	1,000,000.00	998,100.00	261	4,843.84	0.78
American Express Centurion	1.967	3,000,000.00	2,977,020.00	592	22,468.49	2.35
Belding Area Schools	2.041	1,146,102.58	1,135,355.15	556	10,062.50	0.90
Bell Canada	2.233	1,991,613.34	1,990,980.00	68	0.00	1.56
Bellevue Mich Cmnty Schs	2.130	508,168.53	485,745.00	1,492	5,325.00	0.39
Catholic Health	2.350	997,981.66	998,220.00	31	0.00	0.78
Center Line Public Schools	3.589	255,348.89	247,945.00	2,223	4,166.67	0.20
Charter Township of Commerce	2.397	870,000.00	834,535.90	1,889	10,425.50	0.68
City of Holland	2.052	340,000.00	339,211.60	352	1,162.77	0.27
Comstock Park Schs-B	2.417	1,500,000.00	1,485,020.00	1,249	19,333.33	1.17
Cred Suis NY	2.346	2,957,072.50	2,952,450.00	223	0.00	2.35
Delhi TWP MI	1.980	140,000.00	133,611.80	1,676	1,155.00	0.11
Eastern MI Univ	6.053	760,065.60	716,765.10	5,800	6,268.65	0.54
Entergy Corp	1.836	999,135.83	998,800.00	17	0.00	0.78
FHLB	2.495	5,000,000.00	4,771,080.00	2,678	27,390.27	3.91
Fifth Third	0.019	9,562,545.97	9,562,545.97	1	0.00	7.48
Flat Rock Community Schools	2.441	1,058,616.57	1,002,045.60	2,223	12,316.50	0.81
FNMA	1.901	8,000,000.00	7,869,640.00	1,440	34,786.11	6.26
Ford Motor Credit Co	1.812	3,994,760.59	3,993,370.00	26	0.00	3.13
Goldman Sachs Bk	2.300	1,000,000.00	996,970.00	671	3,717.81	0.78
Harper Creek MI	2.000	504,104.48	497,520.00	762	5,029.17	0.39
Holland Mich Taxable Go Ltd Tax Bds Ser	2.230	350,000.00	345,436.00	1,036	1,300.83	0.27
Holly Mich Area School Dist	2.503	2,260,000.00	2,201,646.40	2,094	23,566.66	1.77
Houghton-Portage	1.515	945,000.00	934,582.50	412	5,965.42	0.74
Huntington National Bank	0.000	1,000,000.00	999,850.00	360	0.00	0.78
JP Morgan Chase OH	2.405	1,000,000.00	999,720.00	1,249	1,443.84	0.78
Lansing Mich Bldg Autho Go Ref Bds	5.516	62,616.57	61,606.50	1,888	16,346.27	0.06



Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
LCRSCD	2.410	1,025,000.00	1,019,167.00	1,082	10,293.02	0.80
Lincoln MI Consol Sch Dist	2.020	426,947.48	422,683.75	762	3,984.38	0.33
Macomb County MI	1.233	732,087.89	727,970.60	215	5,265.12	0.57
Madison Heights	1.864	1,617,283.29	1,585,082.30	775	7,151.00	1.27
MI HGR ED VAR-REF-DET	0.050	600,000.00	600,000.00	6,790	485.17	0.47
MI Strategic Fund - REF	2.600	984,881.37	985,560.00	929	9,134.61	0.78
Michigan St Rev Bds Ser 2009B	5.887	3,288,073.37	3,014,470.20	3,455	9,963.33	2.30
Michigan St Strategic Fund LTD	1.579	1,000,633.33	991,260.00	380	7,566.83	0.78
Michigan State GO Bond	2.813	5,410,211.02	5,431,130.00	299	52,000.00	4.22
MIS FIN MI Fin Auth	2.301	1,096,236.14	1,057,527.80	1,676	11,501.00	0.85
Mondelez Int Inc	2.118	994,166.67	992,860.00	100	0.00	0.78
Monroe	1.395	550,000.00	543,959.00	330	3,195.83	0.43
Morgan Stanley B	2.300	1,000,000.00	996,890.00	674	3,654.79	0.78
Morgan Stanley Smith Barney	0.000	0.05	0.05	1	0.00	0.00
MS Bank CD Salt Lake City UT CD	1.900	2,000,000.00	2,001,320.00	108	23,528.77	1.56
MS Private BK CD Purchase NY CD	1.900	2,000,000.00	2,001,320.00	108	24,153.42	1.56
Muskegon Heights PUB	2.325	2,205,000.00	2,180,962.90	982	21,357.71	1.72
New Haven Community School	2.291	277,859.86	273,377.50	1,127	3,036.46	0.22
North Muskegon Public Schools	2.081	200,688.57	197,966.00	762	1,878.33	0.16
Oakland County	1.173	13,897,422.38	13,897,422.38	1	0.00	10.87
Ottawa CountyMI	2.250	395,189.11	386,505.60	1,311	4,306.25	0.31
Parchment SD	2.282	2,520,000.00	2,453,606.60	1,330	23,957.30	1.97
Perry MI PS	2.440	1,353,649.83	1,323,918.00	1,492	14,130.00	1.06
Public Svc Enterprise GP	2.534	995,450.00	995,540.00	65	0.00	0.78
Ravenna Schools	1.923	2,055,000.00	2,037,862.05	642	16,466.04	1.61
RMLSCD	2.256	900,000.00	887,619.50	924	6,485.51	0.70
Royal Oak MI	2.333	1,545,000.00	1,525,509.00	1,011	18,021.05	1.21
Saranac MI ISD	1.819	628,194.31	625,056.25	396	6,015.62	0.49
State of Michigan	1.350	506,834.92	501,700.00	410	4,911.11	0.39
Thomson Reuters	1.909	997,677.78	997,150.00	44	0.00	0.78
U of MI	4.842	1,739,005.48	1,616,316.00	4,384	48,141.60	1.22
University of Michigan - REV	3.277	1,089,205.45	1,032,860.00	1,462	28,775.00	0.78
Vodafone GR PLC	2.281	1,383,637.50	1,380,386.00	187	0.00	1.10

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Walgreens Boots	1.965	1,991,441.67	1,988,880.00	79	0.00	1.56
Wells Fargo Bank	2.441	2,000,000.00	1,998,420.00	1,223	4,226.16	1.56
Whitmore Lake Public Schools	1.650	2,553,454.94	2,536,063.00	396	22,807.08	1.99
Williamston Community School	1.549	1,008,909.23	995,630.00	396	9,987.50	0.78
Ypsilanti MI	2.639	7,305,000.00	7,051,606.45	1,986	80,321.44	5.71
Ypsilanti School Dist	2.028	5,600,000.00	5,498,634.00	788	47,316.66	4.38
<b>Total / Average</b>	<b>2.037</b>	<b>128,529,471.28</b>	<b>126,708,007.05</b>	<b>919</b>	<b>767,813.35</b>	<b>100</b>