

# 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, 2019  
**DATE:** MAY 6, 2019

---

---

Attached to this memo is the investment report for the City of Novi as of March 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 March 19-20, 2019, “the information available for the March 19-20 meeting indicated that labor market conditions remained strong, although growth in real gross domestic product (GDP) appeared to have slowed markedly in the first quarter of this year from its solid fourth-quarter pace. Consumer price inflation, as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE), was somewhat below 2 percent in December, held down in part by recent declines in consumer energy prices, while PCE price inflation for items other than food and energy was close to 2 percent; more recent readings on PCE price inflation were delayed by the earlier federal government shutdown. Survey-based measures of longer-run inflation expectations were little changes on balance.”<sup>1</sup>

According to the Bureau of Labor Statistics News Release, “Total nonfarm payroll employment increased by 196,000 in March, and the unemployment rate was unchanged at 3.8 percent, the U.S. Bureau of Labor Statistics reported today. Notable job gains occurred in health care and in professional and technical services. The unemployment rate remained at 3.8 percent in March, and the number of unemployed persons was essentially unchanged at 6.2 million. Among the major worker groups, the unemployment rates for adult men (3.6 percent), adult women (3.3 percent), teenagers (12.8 percent), Whites (3.4 percent), Blacks (6.7 percent) Asians (3.1 percent), and Hispanics (4.7 percent) showed little or no change in March. In March, the number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 1.3 million and accounted for 21.1 percent of the unemployed.”<sup>2</sup>

---

<sup>1</sup> <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20190320.pdf>

<sup>2</sup> <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 March 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 March 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 March 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, Morgan Stanley/Smith Barney, Comerica, Fifth Third Securities and J. P. Morgan .

### PERFORMANCE VALUES

TRR-MV	Total Rate of Return - Market Value	0.800%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	3.220%
YTM@Cost	Yield to Maturity @ Cost	2.199%

### BENCHMARKS

Treasury 6 Month 2.51%  
Treasury 1 Year 2.49%

### FISCAL YEAR TO DATE

Investment Income 1,168,781  
TRR-MV 0.80%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	8,568,866.25	8,568,866.25	8,568,866.25	6.28	0.00	1
Certificate Of Deposit	14,664,000.00	14,663,405.08	14,664,000.00	10.75	2.59	479
Corporate	23,528,000.00	23,472,695.84	23,472,156.24	17.25	2.73	30
Local Government Investment Pool	24,423,650.79	24,423,650.79	24,423,650.79	17.91	1.84	1
Municipal	42,690,000.00	42,527,186.25	42,943,134.68	31.30	2.30	774
US Agency	21,500,000.00	21,262,230.00	21,447,945.39	15.77	2.37	1,153
US Treasury	1,000,000.00	990,470.00	990,220.73	0.73	3.56	335
<b>Total / Average</b>	<b>136,374,517.04</b>	<b>135,908,504.21</b>	<b>136,509,974.08</b>	<b>100.00</b>	<b>2.20</b>	<b>483</b>

  
 \_\_\_\_\_ 5/7/19  
 Carl A. Johnson, Jr. - Finance Director / Treasurer, CFO      Date



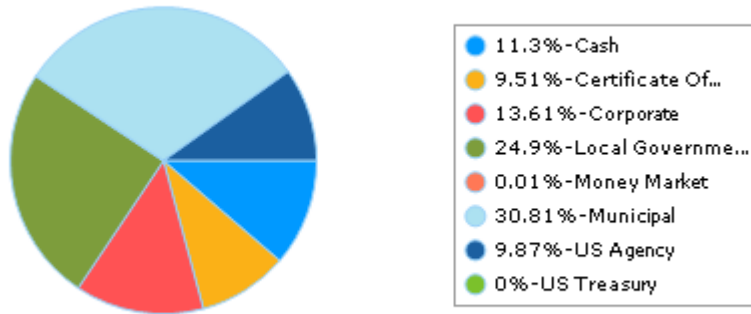
## City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 12/31/2018, End Date: 3/31/2019

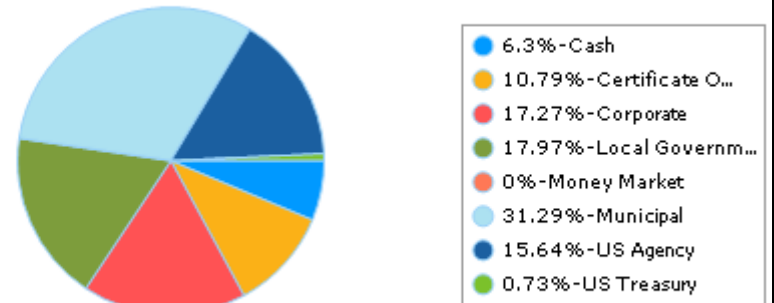
### Security Sector Allocation

Security Sector	Market Value 12/31/2018	% of Portfolio 12/31/2018	Market Value 3/31/2019	% of Portfolio 3/31/2019
Cash	17,364,429.91	11.30	8,568,866.25	6.30
Certificate Of Deposit	14,622,531.80	9.51	14,663,405.08	10.79
Corporate	20,920,620.82	13.61	23,472,695.84	17.27
Local Government Investment Pool	38,285,826.36	24.90	24,423,650.79	17.97
Money Market	12,323.10	0.01	0.00	0.00
Municipal	47,358,863.95	30.81	42,527,186.25	31.29
US Agency	15,169,945.00	9.87	21,262,230.00	15.64
US Treasury	0.00	0.00	990,470.00	0.73
<b>Total / Average</b>	<b>153,734,540.94</b>	<b>100.00</b>	<b>135,908,504.21</b>	<b>100.00</b>

### Portfolio Holdings as of 12/31/2018



### Portfolio Holdings as of 3/31/2019





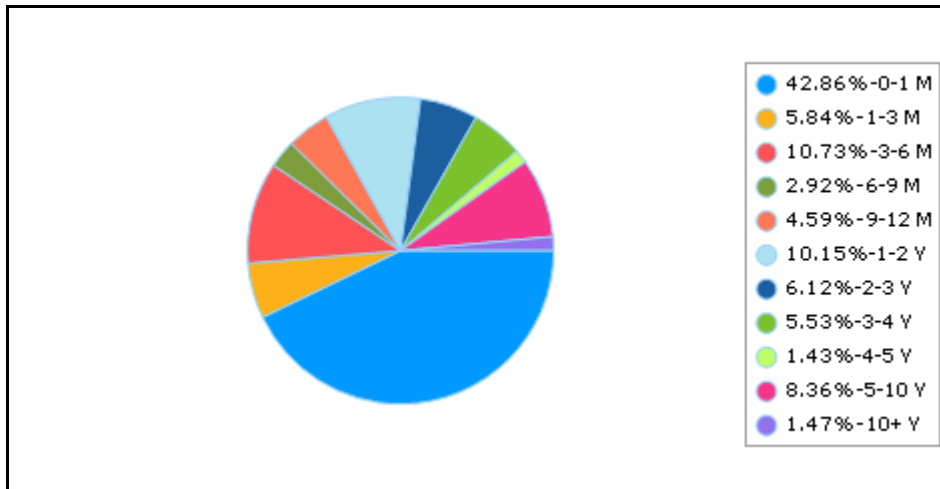
## City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 12/31/2018, End Date: 3/31/2019

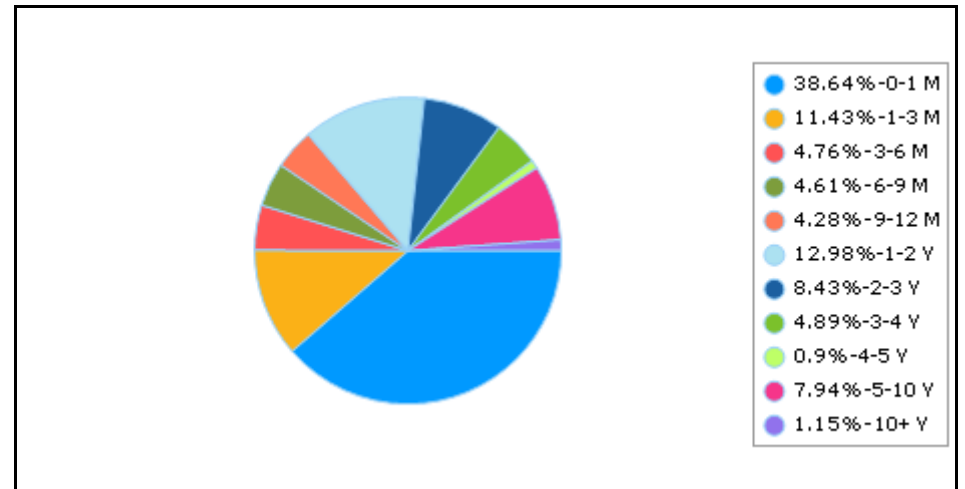
### Maturity Range Allocation

Maturity Range	Market Value 12/31/2018	% of Portfolio 12/31/2018	Market Value 3/31/2019	% of Portfolio 3/31/2019
0-1 Month	65,888,069.37	42.86	52,509,228.96	38.64
1-3 Months	8,978,565.02	5.84	15,538,803.62	11.43
3-6 Months	16,501,974.40	10.73	6,473,547.25	4.76
6-9 Months	4,482,575.80	2.92	6,259,223.05	4.61
9-12 Months	7,058,381.95	4.59	5,817,639.60	4.28
1-2 Years	15,600,045.95	10.15	17,637,177.25	12.98
2-3 Years	9,412,733.30	6.12	11,455,111.98	8.43
3-4 Years	8,494,424.20	5.53	6,651,874.35	4.89
4-5 Years	2,197,894.30	1.43	1,218,038.45	0.90
5-10 Years	12,854,511.85	8.36	10,787,859.70	7.94
10+ Years	2,265,364.80	1.47	1,560,000.00	1.15
<b>Total / Average</b>	<b>153,734,540.94</b>	<b>100.00</b>	<b>135,908,504.21</b>	<b>100.00</b>

**Portfolio Holdings as of 12/31/2018**



**Portfolio Holdings as of 3/31/2019**



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: 12/31/2018, End Date: 3/31/2019

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	97,935.97	39,883.28	990.00	138,809.25	0.89	3.61
Corporate	0.00	82,428.87	88,266.24	170,695.11	0.71	2.86
Local Government Investment Pool	141,240.82	0.00	0.00	141,240.82	0.42	1.68
Money Market	4.48	0.00	0.00	4.48	0.06	0.23
Municipal	279,990.45	229,134.10	-31,166.50	477,958.05	1.10	4.48
US Agency	88,179.44	148,262.78	0.00	236,442.22	1.27	5.19
US Treasury	2,302.12	1,329.37	0.00	3,631.49	0.87	3.52
Total / Average	609,653.28	501,038.40	58,089.74	1,168,781.42	0.80	3.22

City of Novi  
Portfolio Holdings  
Investment Portfolio - by Issuer, Summary  
Portfolio / Report Group: All Portfolios  
As of 3/31/2019

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allen Park	3.198	445,693.68	434,420.05	1,677	5,999.80	0.33
Allendale MI PSD	2.249	1,003,308.72	997,780.00	397	10,720.83	0.73
Amer Crystal Sug	2.502	999,861.11	999,700.00	2	0.00	0.73
Ameren Corp	2.606	999,711.11	999,550.00	4	0.00	0.73
American Express Centurion	2.125	2,000,000.00	1,991,640.00	409	16,184.93	1.47
AT&T Inc	2.730	995,689.91	995,250.00	58	0.00	0.73
Bayer Lndbk NY	2.405	399,520.00	399,436.00	18	0.00	0.29
Belding Area Schools	2.041	1,145,347.75	1,141,319.95	191	10,062.50	0.84
Bell Canada	2.899	989,813.72	990,755.55	128	0.00	0.73
Bellevue Mich Cmnty Schs	2.130	506,170.20	499,710.00	1,127	5,325.00	0.37
BK of China/HK	2.456	998,704.72	998,550.00	19	0.00	0.73
Catholic Health	3.042	1,988,733.58	1,990,176.67	68	0.00	1.47
Center Line Public Schools	3.589	254,470.64	251,950.00	1,858	4,166.67	0.18
Charter Township of Commerce	2.630	290,000.00	287,987.40	2,011	3,813.50	0.21
City of Holland	2.300	100,000.00	99,674.00	245	766.67	0.07
CNPC Finance HK Ltd	2.767	2,998,856.92	2,998,480.00	5	0.00	2.20
Comstock Park Schs-B	2.417	1,500,000.00	1,497,725.00	884	15,104.17	1.10
CSLB Holdings Inc	2.700	998,802.96	998,650.00	16	0.00	0.73
Delhi TWP MI	1.980	140,000.00	136,647.00	1,311	1,155.00	0.10
Enbridge US Inc	2.700	999,401.26	999,260.00	8	0.00	0.73
FFCB	2.536	1,991,175.97	1,995,520.00	520	3,257.22	1.47
FHLB	2.612	7,994,553.72	7,847,900.00	1,669	53,084.71	5.87
FHLMC	2.828	2,472,123.11	2,478,940.00	546	577.78	1.83
Fifth Third	0.000	8,568,866.18	8,568,866.18	1	0.00	6.28
FNMA	1.999	8,990,092.59	8,939,870.00	1,003	36,662.78	6.60
Glencove Funding LLC	2.530	998,879.81	998,770.00	16	0.00	0.73
Goldman Sachs Bk	2.300	1,000,000.00	998,660.00	306	3,717.81	0.73
Harper Creek MI	2.000	502,138.42	499,530.00	397	5,029.17	0.37
Holland Mich Taxable Go Ltd Tax Bds Ser	2.910	175,000.00	175,038.50	1,584	848.75	0.13



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	2,253,415.40	1,729	23,566.66	1.66
Houghton-Portage	1.610	635,000.00	630,743.15	233	4,260.42	0.47
Intesa Sanpaolo	2.655	999,926.39	999,760.00	1	0.00	0.73
JP Morgan Chase Bank NA	2.881	5,164,000.00	5,174,845.08	659	39,615.18	3.79
JP Morgan Sec LL	2.789	1,986,783.38	1,987,501.70	84	0.00	1.47
Kent Co	2.301	2,000,037.55	2,000,000.00	1	30,000.00	1.47
Lansing Mich Bldg Autho Go Ref Bds	5.516	65,010.61	65,761.05	1,523	18,273.77	0.05
LCRSCD	2.410	1,025,000.00	1,025,079.00	717	10,293.02	0.75
Lincoln MI Consol Sch Dist	2.020	426,014.63	423,100.25	397	3,984.38	0.31
Lowes Companies	2.585	999,426.67	999,260.00	8	0.00	0.73
Madison Heights	1.930	1,383,830.25	1,371,569.60	495	6,281.50	1.02
MI Strategic Fund - REF	2.600	990,821.41	990,370.00	564	9,134.61	0.73
Michigan St Strategic Fund LTD	1.579	1,000,025.00	999,540.00	15	7,566.83	0.73
Michigan State GO Bond	2.346	406,392.35	405,532.00	611	4,500.00	0.29
MIS FIN MI Fin Auth	2.301	1,093,789.13	1,077,177.15	1,311	11,501.00	0.80
Monroe	1.489	350,000.00	348,341.00	136	2,170.83	0.26
Morgan Stanley Bank	2.300	1,000,000.00	998,640.00	309	3,654.79	0.73
Mufg Bank LTD/NY	2.405	127,846.40	127,825.92	18	0.00	0.09
Muskegon Heights PUB	2.325	2,205,000.00	2,196,882.80	617	21,357.71	1.62
National Grid USA	3.000	999,255.58	999,180.00	9	0.00	0.73
New Haven Community School	2.291	276,933.64	274,296.00	762	3,036.46	0.20
NISOURCE INC	2.600	999,855.83	999,700.00	2	0.00	0.73
Nissan Motor Acceptanc	2.540	999,929.68	999,790.00	1	0.00	0.73
North Muskegon Public Schools	2.081	200,358.74	198,862.00	397	1,878.33	0.15
Oakland County	1.840	24,423,650.79	24,423,650.79	1	0.00	17.91
Ottawa CountyMI	2.250	393,744.39	390,011.70	946	4,306.25	0.29
Parchment SD	2.495	1,920,000.00	1,895,359.95	1,370	19,957.30	1.41
Puget Sound Ener	2.605	999,783.33	999,630.00	3	0.00	0.73
Ravenna Schools	2.002	1,695,000.00	1,687,947.80	406	14,141.04	1.24
RMLSCD	2.256	900,000.00	894,910.50	559	8,459.38	0.66
Royal Oak MI	2.333	1,545,000.00	1,542,053.55	646	18,021.05	1.13
Saranac MI ISD	1.819	625,250.06	624,668.75	31	6,015.62	0.46
State of Michigan	1.350	500,750.17	500,025.00	45	4,911.11	0.37
TCF Bank	2.683	3,500,000.00	3,500,000.00	135	50,197.81	2.57

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Treasury	3.559	990,220.73	990,470.00	335	2,074.22	0.73
Tuscola County	2.900	230,260.04	232,838.20	885	565.42	0.17
U of MI	4.842	1,724,101.97	1,560,000.00	4,019	48,141.60	1.14
UBS Financial	0.000	0.07	0.07	1	0.00	0.00
University of Michigan - REV	3.277	1,066,934.60	1,000,000.00	1,097	28,775.00	0.73
VW Credit Inc	2.720	999,776.26	999,630.00	3	0.00	0.73
Walgreens Boots Allian	3.070	991,597.62	991,840.00	100	0.00	0.73
Wells Fargo Bank	2.441	2,000,000.00	1,999,620.00	858	6,006.98	1.47
Whitmore Lake Public Schools	1.650	2,541,053.29	2,538,323.60	31	22,807.08	1.86
Williamston Community School	1.549	1,000,697.44	999,420.00	31	9,987.50	0.73
Ypsilanti MI	2.373	2,820,000.00	2,807,637.90	1,088	27,880.62	2.07
Ypsilanti School Dist	2.028	5,600,000.00	5,571,538.00	423	47,316.66	4.11
Total / Average	2.199	136,509,974.08	135,908,504.21	483	697,117.42	100