

# 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 – DECEMBER 31, 2018  
**DATE:** FEBRUARY 1, 2019

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Attached to this memo is the investment report for the City of Novi as of December 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 December 18-19, 2018, “the information reviewed for the December 18-19 meeting indicated that labor market conditions continued to strengthen in recent months and that real gross domestic product (GDP) was strong. Consumer price inflation, as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE), was 2 percent in October. Survey-based measures of longer-run inflation expectations were little changed on balance.

Total nonfarm payroll employment expanded further in November, and job gains were strong, on average, over recent months. The national unemployment rate remained at a very low level of 3.7 percent, and both the labor force participation rate and the employment-to-population ratio also stayed flat in November.”<sup>1</sup>

According to the Bureau of Labor Statistics News Release, “The unemployment rate rose by 0.2 percentage point to 3.9 percent in December, and the number of unemployed persons increased by 276,000 to 6.3 million. A year earlier, the jobless rate was 4.1 percent, and the number of unemployed persons was 6.6 million.

Among the major worker groups, the unemployment rates for adult men (3.6 percent) and Blacks (6.6 percent) increased in December. The jobless rates for adult women (3.5 percent), teenagers (12.5 percent), Whites (3.4 percent), Asians (3.3 percent), and Hispanics (4.4 percent) showed little or no change over the month.”<sup>2</sup>

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<sup>1</sup> <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20181219.pdf>

<sup>2</sup> <https://www.bls.gov/news.release/pdf/empsit.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 December 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 December 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 December 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, Fifth Third Securities and J. P. Morgan .

### PERFORMANCE VALUES

TRR-MV	Total Rate of Return - Market Value	1.080%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	4.400%
YTM@Cost	Yield to Maturity @ Cost	1.939%

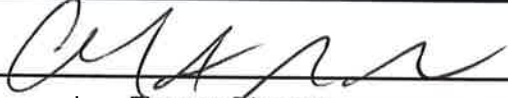
### BENCHMARKS

Treasury 6 Month 2.54%  
Treasury 1 Year 2.66%

### FISCAL YEAR TO DATE

Investment Income 1,528,209  
TRR-MV 1.08%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	17,364,430.19	17,364,430.19	17,364,430.19	11.23	0.00	1
Certificate Of Deposit	14,664,000.00	14,622,531.80	14,664,000.00	9.48	2.48	481
Corporate	21,000,000.00	20,920,620.82	20,925,731.73	13.58	2.76	46
Local Government Investment Pool	38,285,826.36	38,285,826.36	38,285,826.36	24.76	1.46	1
Money Market	12,323.10	12,323.10	12,323.10	0.01	0.20	1
Municipal	47,820,000.00	47,358,863.95	48,185,754.32	30.92	2.38	1,028
US Agency	15,500,000.00	15,169,945.00	15,496,820.03	10.02	2.31	1,518
<b>Total / Average</b>	<b>154,646,579.65</b>	<b>153,734,541.22</b>	<b>154,934,885.73</b>	<b>100.00</b>	<b>1.94</b>	<b>522</b>

  
 Carl A. Johnson, Jr. - Finance Director / Treasurer, CFO      Date 1/30/19



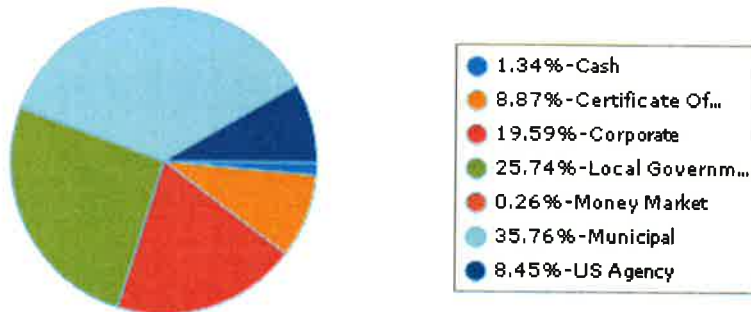
## City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 9/30/2018, End Date: 12/31/2018

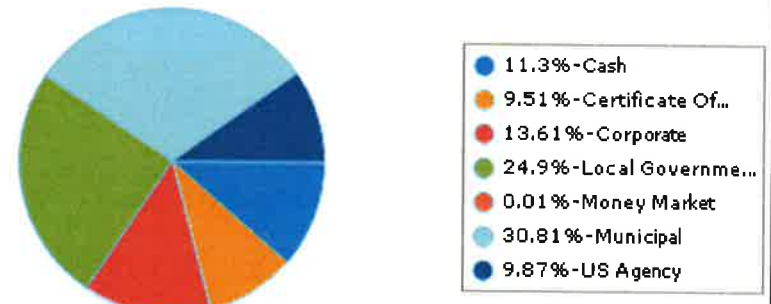
### Security Sector Allocation

Security Sector	Market Value 9/30/2018	% of Portfolio 9/30/2018	Market Value 12/31/2018	% of Portfolio 12/31/2018
Cash	1,982,003.36	1.34	17,364,430.19	11.30
Certificate Of Deposit	13,121,045.88	8.87	14,622,531.80	9.51
Corporate	28,965,659.89	19.59	20,920,620.82	13.61
Local Government Investment Pool	38,063,241.37	25.74	38,285,826.36	24.90
Money Market	378,619.32	0.26	12,323.10	0.01
Municipal	52,883,056.10	35.76	47,358,863.95	30.81
US Agency	12,494,640.00	8.45	15,169,945.00	9.87
<b>Total / Average</b>	<b>147,888,265.92</b>	<b>100.00</b>	<b>153,734,541.22</b>	<b>100.00</b>

**Portfolio Holdings as of 9/30/2018**



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





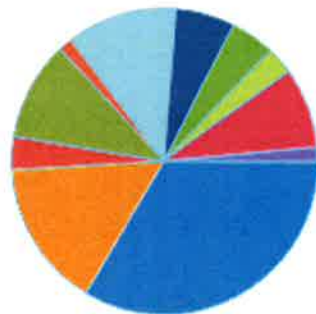
## City of Novi Distribution by Maturity Range - Market Value All Portfolios

Begin Date: 9/30/2018, End Date: 12/31/2018

### Maturity Range Allocation

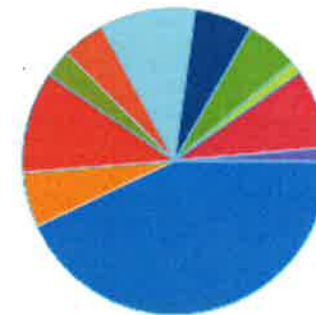
Maturity Range	Market Value 9/30/2018	% of Portfolio 9/30/2018	Market Value 12/31/2018	% of Portfolio 12/31/2018
0-1 Month	49,407,229.35	33.41	65,888,069.65	42.86
1-3 Months	23,018,488.09	15.56	8,978,565.02	5.84
3-6 Months	5,204,873.30	3.52	16,501,974.40	10.73
6-9 Months	15,479,215.00	10.47	4,482,575.80	2.92
9-12 Months	2,192,833.55	1.48	7,058,381.95	4.59
1-2 Years	17,263,704.05	11.67	15,600,045.95	10.15
2-3 Years	9,307,382.08	6.29	9,412,733.30	6.12
3-4 Years	6,870,350.10	4.65	8,494,424.20	5.53
4-5 Years	4,317,258.00	2.92	2,197,894.30	1.43
5-10 Years	12,547,706.10	8.48	12,854,511.85	8.36
10+ Years	2,279,226.30	1.54	2,265,364.80	1.47
<b>Total / Average</b>	<b>147,888,265.92</b>	<b>100.00</b>	<b>153,734,541.22</b>	<b>100.00</b>

Portfolio Holdings as of 9/30/2018



- 33.41%-0-1 M
- 15.56%-1-3 M
- 3.52%-3-6 M
- 10.47%-6-9 M
- 1.48%-9-12 M
- 11.67%-1-2 Y
- 6.29%-2-3 Y
- 4.65%-3-4 Y
- 2.92%-4-5 Y
- 8.48%-5-10 Y
- 1.54%-10+ Y

Portfolio Holdings as of 12/31/2018



- 42.86%-0-1 M
- 5.84%-1-3 M
- 10.73%-3-6 M
- 2.92%-6-9 M
- 4.59%-9-12 M
- 10.15%-1-2 Y
- 6.12%-2-3 Y
- 5.53%-3-4 Y
- 1.43%-4-5 Y
- 8.36%-5-10 Y
- 1.47%-10+ Y

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: 9/30/2018, End Date: 12/31/2018

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	91,788.83	135.92	1,350.00	93,274.75	0.61	2.45
Corporate	0.00	97,125.43	75,656.20	172,781.63	0.68	2.75
Local Government Investment Pool	226,110.59	0.00	0.00	226,110.59	0.71	2.87
Money Market	191.51	0.00	0.00	191.51	0.05	0.21
Municipal	342,853.04	448,531.35	-2,723.50	788,660.89	1.55	6.36
US Agency	68,384.71	178,805.00	0.00	247,189.71	1.74	7.13
Total / Average	729,328.68	724,597.70	74,282.70	1,528,209.08	1.08	4.40

City of Novi  
Portfolio Holdings  
Investment Portfolio - by Issuer, Summary  
Portfolio / Report Group: All Portfolios  
As of 12/31/2018

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allen Park	3.198	445,731.19	428,104.30	1,767	2,399.92	0.29
Allendale MI PSD	2.249	1,004,058.80	998,380.00	487	4,288.33	0.65
American Express Centurion	2.125	2,000,000.00	1,977,120.00	499	5,705.48	1.29
Arabella Finance LLC	2.670	999,852.19	999,850.00	2	0.00	0.65
AT&T Inc	2.730	989,001.85	987,010.00	148	0.00	0.65
BCI Miami	2.583	999,008.33	999,030.00	14	0.00	0.65
Belding Area Schools	2.041	1,145,533.87	1,137,628.70	281	4,025.00	0.74
Bell Canada	2.476	999,728.67	999,700.00	4	0.00	0.65
Bellevue Mich Cmnty Schs	2.130	506,662.94	495,320.00	1,217	2,130.00	0.32
Catholic Health	2.907	1,997,001.13	1,997,450.00	18	0.00	1.29
Center Line Public Schools	3.589	254,687.20	249,660.00	1,948	1,666.67	0.16
Charter Township of Commerce	2.397	870,000.00	843,331.60	1,614	5,212.75	0.56
City of Holland	2.300	100,000.00	99,384.00	335	191.67	0.06
Comstock Park Schs-B	2.417	1,500,000.00	1,488,160.00	974	6,041.67	0.97
Delhi TWP MI	1.980	140,000.00	135,115.40	1,401	462.00	0.09
Eastern MI Univ	6.053	756,743.52	693,477.60	5,525	18,533.40	0.45
FHLB	2.657	7,000,000.00	6,775,460.00	1,985	32,147.21	4.53
FHLMC	3.897	496,820.03	497,595.00	626	2,527.78	0.32
Fifth Thrd	0.000	17,376,752.94	17,376,752.94	1	0.00	11.24
Flat Rock Community Schools	2.441	1,055,695.04	1,013,016.60	1,948	4,926.60	0.67
FNMA	1.901	8,000,000.00	7,896,890.00	1,165	32,536.11	5.17
Ford Motor Credit Co	2.700	997,622.64	997,190.00	32	0.00	0.65
Gen Electric Co	2.624	997,757.42	997,743.89	31	0.00	0.65
Goldman Sachs Bk	2.300	1,000,000.00	995,160.00	396	21,046.58	0.65
Harper Creek MI	2.000	502,623.21	497,900.00	487	2,011.67	0.32
Holland Mich Taxable Go Ltd Tax Bds Ser	2.910	175,000.00	172,784.50	1,674	2,121.88	0.11
Holly Mich Area School Dist	2.503	2,260,000.00	2,222,572.80	1,819	9,426.66	1.46
Houghton-Portage	1.610	635,000.00	627,879.45	323	1,704.17	0.41
Huntington National Bank	2.050	1,000,000.00	999,010.00	85	15,726.03	0.65
Hyundai Capital	2.661	999,411.11	999,390.00	8	0.00	0.65
Intesa Sanpaolo	3.147	997,228.18	997,671.13	32	0.00	0.65



Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
JP Morgan Chase Bank NA	2.815	3,164,000.00	3,164,371.80	773	23,932.27	2.05
JP Morgan Sec LL	2.789	1,973,123.91	1,971,685.80	174	0.00	1.29
Kent Co	2.301	2,003,417.37	1,999,820.00	91	15,000.00	1.29
Lansing Mich Bldg Autho Go Ref Bds	5.516	64,420.30	64,399.50	1,613	17,791.90	0.05
LCRSCD	2.410	1,025,000.00	1,019,557.50	807	4,117.20	0.66
Lincoln MI Consol Sch Dist	2.020	426,244.65	421,383.25	487	1,593.75	0.27
Madison Heights	1.864	1,618,448.81	1,598,796.40	500	14,302.00	1.05
MI Strategic Fund - REF	2.600	989,356.75	985,050.00	654	4,182.11	0.65
Michigan St Strategic Fund LTD	1.579	1,000,175.00	996,290.00	105	3,464.33	0.65
Michigan State GO Bond	2.346	407,333.94	404,276.00	701	1,125.00	0.26
MIS FIN MI Fin Auth	2.301	1,094,392.50	1,065,242.15	1,401	4,600.40	0.70
Monroe	1.489	350,000.00	346,744.00	226	868.33	0.23
Morgan Stanley Bank	2.300	1,000,000.00	995,090.00	399	9,578.08	0.65
Morgan Stanley Smith Barney	0.000	0.28	0.28	1	0.00	0.00
Muskegon Heights PUB	2.325	2,205,000.00	2,185,151.05	707	8,543.08	1.43
New Haven Community School	2.291	277,162.02	272,877.00	852	1,214.58	0.18
North Muskegon Public Schools	2.081	200,440.07	198,000.00	487	751.33	0.13
Oakland County	1.458	38,285,826.36	38,285,826.36	1	0.00	24.76
Oglethorpe Power Corp	2.950	1,997,711.93	1,997,900.00	14	0.00	1.29
Ottawa CountyMI	2.250	394,100.63	387,402.60	1,036	1,722.50	0.25
Parchment SD	2.495	1,920,000.00	1,872,714.40	1,460	7,982.92	1.24
Perry MI PS	2.440	1,352,977.11	1,330,857.00	1,217	5,652.00	0.87
Ravenna Schools	2.002	1,695,000.00	1,681,071.30	496	5,656.41	1.10
RMLSCD	2.256	900,000.00	889,904.00	649	3,383.75	0.58
Royal Oak MI	2.333	1,545,000.00	1,533,852.45	736	9,010.53	1.00
Saranac MI ISD	1.819	625,976.04	623,562.50	121	2,406.25	0.40
State of Michigan	1.350	502,250.52	499,965.00	135	1,661.11	0.32
TCF Bank	2.591	4,500,000.00	4,500,000.00	186	44,395.89	2.91
Tuscola County	2.900	230,286.49	231,720.40	975	2,261.67	0.15
U of MI	4.842	1,727,776.81	1,571,887.20	4,109	24,070.80	1.01
UBS Financial	0.000	0.07	0.07	1	0.00	0.00
University of Michigan - REV	3.277	1,072,426.04	1,006,900.00	1,187	14,387.50	0.65
VW Credit Inc	2.618	2,986,373.44	2,984,020.00	63	0.00	1.94
Waste Management Inc	2.700	999,402.15	999,400.00	8	0.00	0.65
Wells Fargo Bank	2.441	2,000,000.00	1,991,780.00	948	8,733.01	1.29
WGL Holdings Inc	2.850	2,992,510.78	2,992,580.00	32	0.00	1.94

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Whitmore Lake Public Schools	1.650	2,544,111.23	2,532,888.00	121	9,122.83	1.64
Williamston Community School	1.549	1,002,722.27	997,530.00	121	3,995.00	0.65
Ypsilanti MI	2.671	4,060,000.00	4,011,039.30	1,805	18,070.50	2.63
Ypsilanti School Dist	2.028	5,600,000.00	5,527,268.00	513	18,926.66	3.62
Total / Average	1.939	154,934,885.73	153,734,541.22	522	467,335.27	100