

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 – SEPTEMBER 30, 2018
DATE: OCTOBER 25, 2018

Attached to this memo is the investment report for the City of Novi as of September 30, 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 September 25-26, 2018, “the information reviewed for the September 25-26 meeting indicated that the labor market conditions continued to strengthen in recent months and that real gross domestic product (GDP) appeared to be rising at a strong rate in the third quarter, similar to its pace in the first half of the year. The flooding and damage from Hurricane Florence, which made landfall on September 14, seemed likely to have a modest, transitory effect on national economic growth in the second half of the year. Consumer price inflation, as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE), remained near 2 percent in July. Survey-based measures of longer-run inflation expectations were little change on balance.”¹

According to the Bureau of Labor Statistics News Release, “The unemployment rate declined by 3.7 percent in September, and total nonfarm payroll employment increased by 134,000, the U.S. Bureau of Labor Statistics reported today. Job gains occurred in professional and business services, in health care, and in transportation and warehousing. The unemployment rate declined by 0.2 percentage point to 3.7 percent in September, and the number of unemployed persons decreased by 270,000 to 6.0 million. Over the year, the unemployment rate and the number of unemployed persons declined by 0.5 percentage point and 795,000, respectively. Among major worker groups, the unemployment rates for adult women (3.3 percent) and Whites (3.3 percent) declined in September. The jobless rates for adult men (3.4 percent), teenagers (12.8 percent), Blacks (6.0 percent), Asians (3.5 percent) and Hispanics (4.5 percent) showed little or no change over the month.”²

¹ https://www.federalreserve.gov/monetarypolicy/files/fomcminutes_20180926.pdf

² <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 September 30, 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 September 30, 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 September 30, 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	0.310%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	1.270%
YTM@Cost	Yield to Maturity @ Cost	2.536%

BENCHMARKS

Treasury 6 Month	2.34%
Treasury 1 Year	2.56%

FISCAL YEAR TO DATE

Investment Income	484,293
TRR-MV	0.31%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	1,982,003.36	1,982,003.36	1,982,003.36	1.33	0.00	1
Certificate Of Deposit	13,164,000.00	13,121,045.88	13,164,000.00	8.81	2.24	495
Corporate	29,090,000.00	28,965,659.89	28,974,085.16	19.46	2.43	57
Local Government Investment Pool	38,063,241.37	38,063,241.37	38,063,241.37	25.47	2.08	1
Money Market	378,619.32	378,619.32	378,619.32	0.25	0.35	1
Municipal	53,790,000.00	52,883,056.10	54,181,076.23	35.99	2.41	1,002
US Agency	13,000,000.00	12,494,640.00	13,000,000.00	8.70	2.13	1,733
Total / Average	149,467,864.05	147,888,265.92	149,743,025.44	100.00	2.25	566

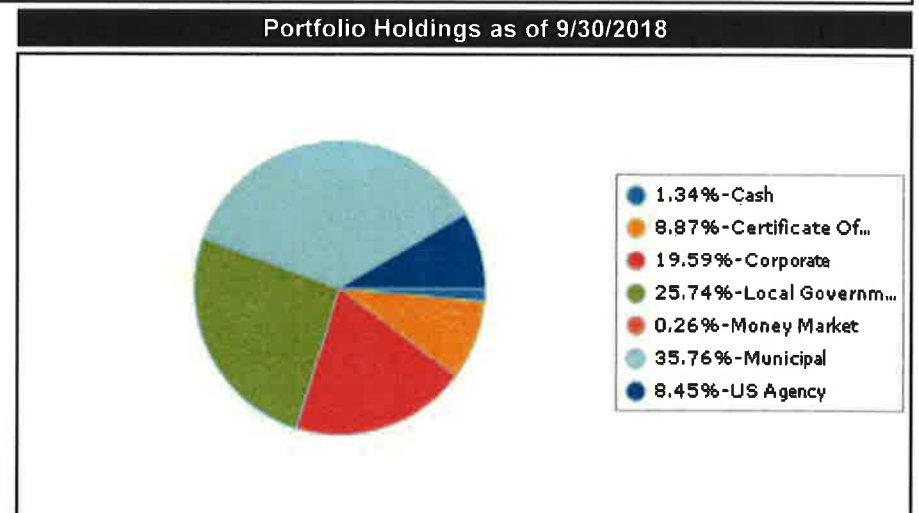
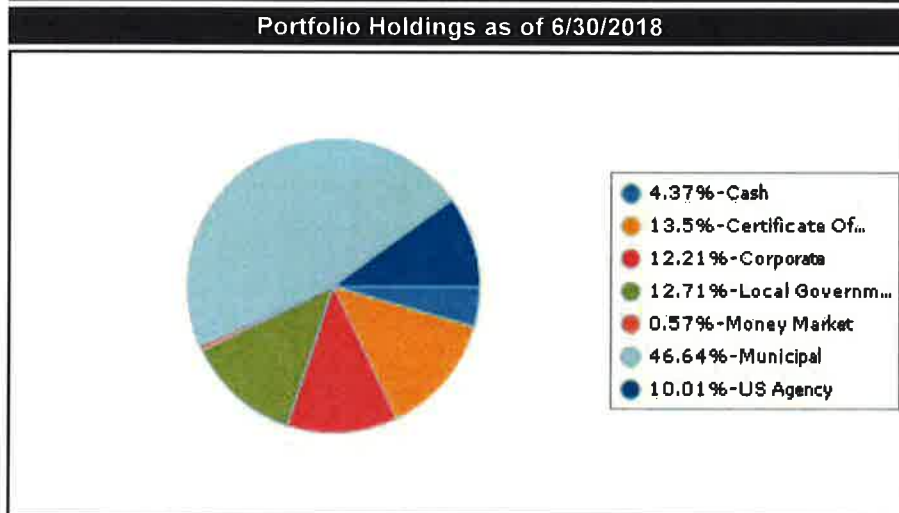

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 Carl A. Johnson, Jr. - Finance Director / Treasurer, CFO Date



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

Begin Date: 6/30/2018, End Date: 9/30/2018

Security Sector Allocation				
Security Sector	Market Value 6/30/2018	% of Portfolio 6/30/2018	Market Value 9/30/2018	% of Portfolio 9/30/2018
Cash	5,481,930.57	4.37	1,982,003.36	1.34
Certificate Of Deposit	16,946,980.00	13.50	13,121,045.88	8.87
Corporate	15,329,158.00	12.21	28,965,659.89	19.59
Local Government Investment Pool	15,960,659.22	12.71	38,063,241.37	25.74
Money Market	718,476.10	0.57	378,619.32	0.26
Municipal	58,557,321.50	46.64	52,883,056.10	35.76
US Agency	12,566,390.00	10.01	12,494,640.00	8.45
Total / Average	125,560,915.39	100.00	147,888,265.92	100.00



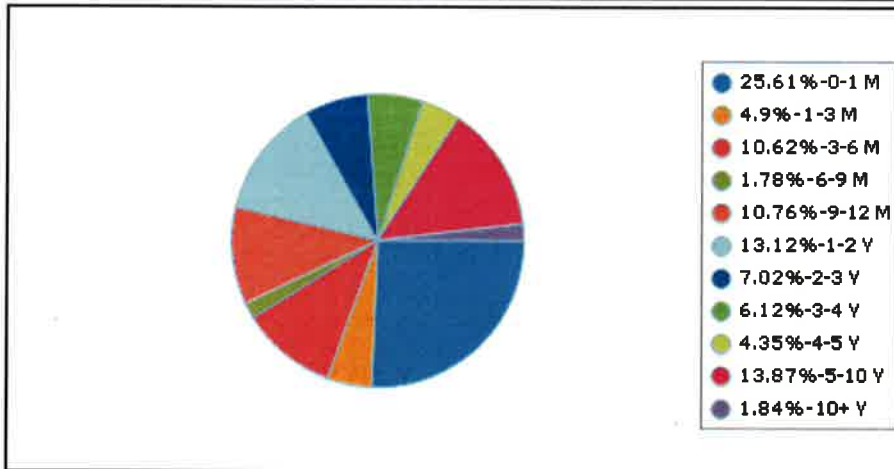


City of Novi Distribution by Maturity Range - Market Value All Portfolios

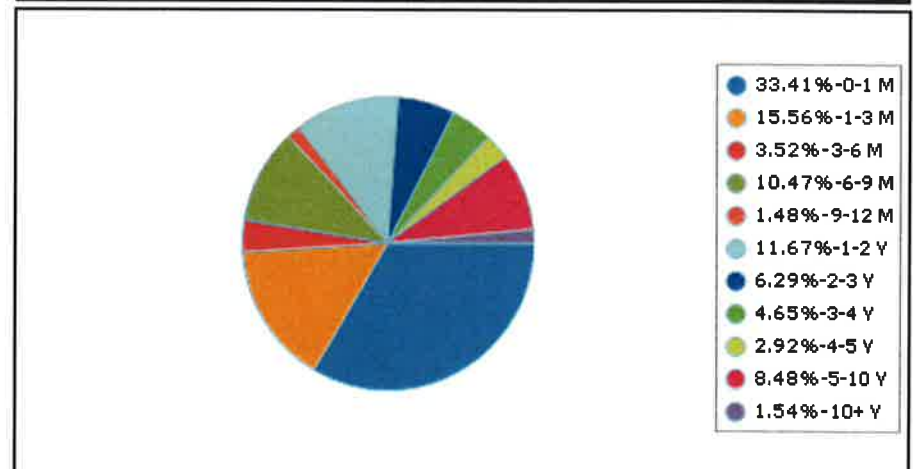
Begin Date: 6/30/2018, End Date: 9/30/2018

Maturity Range Allocation				
Maturity Range	Market Value 6/30/2018	% of Portfolio 6/30/2018	Market Value 9/30/2018	% of Portfolio 9/30/2018
0-1 Month	32,153,965.89	25.61	49,407,229.35	33.41
1-3 Months	6,158,693.50	4.90	23,018,488.09	15.56
3-6 Months	13,329,600.40	10.62	5,204,873.30	3.52
6-9 Months	2,231,888.80	1.78	15,479,215.00	10.47
9-12 Months	13,514,735.90	10.76	2,192,833.55	1.48
1-2 Years	16,475,522.15	13.12	17,263,704.05	11.67
2-3 Years	8,818,617.05	7.02	9,307,382.08	6.29
3-4 Years	7,687,262.80	6.12	6,870,350.10	4.65
4-5 Years	5,461,409.95	4.35	4,317,258.00	2.92
5-10 Years	17,419,269.95	13.87	12,547,706.10	8.48
10+ Years	2,309,949.00	1.84	2,279,226.30	1.54
Total / Average	125,560,915.39	100.00	147,888,265.92	100.00

Portfolio Holdings as of 6/30/2018



Portfolio Holdings as of 9/30/2018



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: 6/30/2018, End Date: 9/30/2018

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	82,687.01	10,065.88	0.00	92,652.89	0.67	2.72
Corporate	0.00	89,248.18	43,696.50	132,944.68	0.58	2.36
Local Government Investment Pool	76,546.36	0.00	0.00	76,546.36	0.23	0.92
Money Market	5,523.63	0.00	0.00	5,523.63	0.20	0.81
Municipal	409,183.19	-184,929.50	-31,752.90	192,500.79	0.34	1.36
US Agency	55,875.00	-71,750.00	0.00	-15,875.00	-0.13	-0.50
Total / Average	629,715.19	-157,365.44	11,943.60	484,293.35	0.31	1.27

City of Novi
Portfolio Holdings
Investment Portfolio - by Issuer, Summary
Portfolio / Report Group: All Portfolios
As of 9/30/2018

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
AGC Capital Inc	2.280	999,304.57	999,120.00	11	0.00	0.67
Allen Park	3.198	445,769.52	418,154.15	1,859	5,959.80	0.30
Allendale MI PSD	2.249	1,004,825.56	995,210.00	579	10,649.36	0.67
Ally Bank UT	1.700	1,000,000.00	999,050.00	78	4,890.41	0.67
American Express Centurion	1.967	3,000,000.00	2,975,010.00	409	22,791.78	2.01
Arabella Finance LLC	2.270	999,937.04	999,800.00	1	0.00	0.67
Astrazeneca PLC	2.364	999,020.83	998,850.00	15	0.00	0.67
AT&T Inc	2.575	1,952,810.16	1,951,044.00	155	0.00	1.32
BCI Miami	2.583	992,491.67	992,760.00	106	0.00	0.67
Belding Area Schools	2.041	1,145,724.13	1,133,890.80	373	9,995.42	0.77
Bellevue Mich Cmnty Schs	2.130	507,166.63	480,670.00	1,309	5,289.50	0.33
BK of China/HK	2.525	993,888.89	993,760.00	88	0.00	0.67
Campbell Soup Co	2.413	589,882.00	589,805.30	3	0.00	0.39
Catholic Health	2.470	996,523.73	996,710.00	51	0.00	0.67
Catholic Health Initia	2.590	997,715.56	997,900.00	32	0.00	0.67
Center Line Public Schools	3.589	254,908.57	244,812.50	2,040	4,138.89	0.17
Charter Township of Commerce	2.397	870,000.00	824,832.50	1,706	10,367.58	0.58
City of Holland	2.053	340,000.00	338,977.40	169	2,307.28	0.23
CNPC Finance HK Ltd	2.375	1,997,457.27	1,997,040.00	19	0.00	1.34
Comstock Park Schs-B	2.417	1,500,000.00	1,468,780.00	1,066	15,003.47	1.00
Cred Suis NY	2.346	2,992,300.00	2,992,260.00	40	0.00	2.01
Delhi TWP MI	1.980	140,000.00	132,609.40	1,493	1,147.30	0.09
Eastern MI Univ	6.053	757,854.91	701,364.30	5,617	6,132.38	0.46
FHLB	2.495	5,000,000.00	4,666,980.00	2,495	27,113.89	3.35
Fifth Third	0.097	1,360,588.57	1,360,588.57	1	0.00	0.91
Flat Rock Community Schools	2.441	1,056,672.42	987,979.95	2,040	12,234.39	0.69
FNMA	1.901	8,000,000.00	7,827,660.00	1,257	34,441.67	5.35
Ford Motor Credit Co	2.646	1,986,112.75	1,984,540.00	95	0.00	1.34
Gen Motors Fin	2.536	1,993,700.00	1,993,968.34	45	0.00	1.34

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Goldman Sachs Bk	2.300	1,000,000.00	995,380.00	488	15,249.32	0.67
Harper Creek MI	2.000	503,118.76	496,080.00	579	4,995.64	0.33
Holland Mich Taxable Go Ltd Tax Bds Ser	2.910	175,000.00	171,759.00	1,766	834.60	0.12
Holly Mich Area School Dist	2.503	2,260,000.00	2,171,245.60	1,911	23,409.56	1.51
Houghton-Portage	1.610	635,000.00	624,935.60	415	4,232.01	0.42
Huntington National Bank	1.025	2,000,000.00	1,999,170.00	89	10,558.90	1.34
JP Morgan Chase Bank NA	2.496	1,164,000.00	1,165,785.88	1,064	3,109.84	0.78
JP Morgan Securities L	2.510	984,327.56	982,840.00	229	0.00	0.67
Kent Co	2.301	2,006,872.29	2,005,500.00	183	23,500.00	1.34
Lansing Mich Bldg Autho Go Ref Bds	5.516	63,816.87	62,524.35	1,705	17,304.67	0.05
LCRSCD	2.410	1,025,000.00	1,009,192.75	899	10,224.41	0.69
Lincoln MI Consol Sch Dist	2.020	426,479.78	420,278.25	579	3,957.81	0.28
Macomb County MI	1.233	730,310.76	729,613.10	32	5,230.02	0.49
Madison Heights	1.864	1,618,058.89	1,582,746.25	592	7,071.54	1.08
MI Strategic Fund - REF	2.600	987,859.53	978,410.00	746	9,079.58	0.67
Michigan St Strategic Fund LTD	1.579	1,000,328.33	993,910.00	197	7,521.25	0.67
Michigan State GO Bond	2.813	5,408,296.45	5,405,104.00	116	51,566.67	3.61
MIS FIN MI Fin Auth	2.301	1,095,009.29	1,044,930.95	1,493	11,424.33	0.73
Mondelez Int Inc	2.414	1,518,658.64	1,518,134.25	62	0.00	1.02
Monroe	1.489	350,000.00	345,158.50	318	2,156.36	0.23
Morgan Stanley Bank	2.300	1,000,000.00	995,310.00	491	3,780.82	0.67
Morgan Stanley Smith Barney	0.000	33.44	33.44	1	0.00	0.00
Muskegon Heights PUB	2.325	2,205,000.00	2,165,590.50	799	21,215.31	1.48
New Haven Community School	2.291	277,395.48	269,794.25	944	3,016.22	0.18
North Muskegon Public Schools	2.081	200,523.20	197,060.00	579	1,865.81	0.13
Nutrien Ltd	2.320	1,997,156.12	1,996,400.00	22	0.00	1.34
Oakland County	2.080	38,063,241.37	38,063,241.37	1	0.00	25.47
Ottawa CountyMI	2.250	394,464.77	381,997.20	1,128	4,277.54	0.26
Parchment SD	2.495	1,920,000.00	1,836,795.85	1,552	19,824.25	1.28
Perry MI PS	2.440	1,353,202.16	1,308,609.00	1,309	14,035.80	0.90
Ravenna Schools	2.002	1,695,000.00	1,670,508.95	588	14,046.77	1.13
RMLSCD	2.256	900,000.00	886,572.50	741	8,402.98	0.60
Royal Oak MI	2.333	1,546,000.00	1,514,729.05	828	17,920.93	1.03
Saranac MI ISD	1.819	626,718.15	622,618.75	213	5,975.52	0.42

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Silver Tower US Funding	2.320	998,587.23	998,360.00	22	0.00	0.67
State of Michigan	1.350	503,784.21	500,035.00	227	4,875.00	0.33
Suncor Energy	2.362	598,746.67	598,608.00	32	0.00	0.40
TCF Bank	2.477	3,000,000.00	3,000,000.00	244	16,860.54	2.01
Tuscola County	2.900	230,313.52	228,967.30	1,067	546.57	0.15
U of MI	4.842	1,731,533.31	1,577,862.00	4,201	47,874.15	1.04
UBS Financial	0.000	0.67	0.67	1	0.00	0.00
University of Michigan - REV	3.277	1,078,039.52	1,011,530.00	1,279	28,615.14	0.67
Vodafone GR PLC	2.281	1,399,650.00	1,399,440.00	4	0.00	0.94
VW Credit Inc	2.400	1,988,734.76	1,987,490.00	82	0.00	1.34
Wells Fargo Bank	2.441	2,000,000.00	1,991,340.00	1,040	4,256.77	1.34
WGL Holdings Inc	2.400	997,079.71	996,830.00	44	0.00	0.67
Whitmore Lake Public Schools	1.650	2,547,237.13	2,528,062.00	213	22,655.04	1.70
Williamston Community School	1.549	1,004,792.09	995,890.00	213	9,920.92	0.67
Ypsilanti MI	2.671	4,060,000.00	3,932,702.40	1,897	44,875.08	2.72
Ypsilanti School Dist	2.028	5,600,000.00	5,485,062.00	605	47,001.22	3.75
Total / Average	2.253	149,743,025.44	147,888,265.92	566	725,732.01	100