

MEMORANDUM



TO: PETE AUGER, CITY MANAGER
FROM: CARL A. JOHNSON, JR., CFO
TINA GLENN, ASSISTANT CITY TREASURER
CC: CORTNEY HANSON, CITY CLERK
SUBJECT: QUARTERLY INVESTMENT REPORT – JUNE 30, 2020
DATE: JULY 29, 2020

Attached to this memo is the investment report for the City of Novi as of June 30, 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 June 9, 2020, “the coronavirus outbreak and the measures undertaken to contain its spread were severely disrupting economic activity in the United States and abroad. The available information for the June 9-10 meeting suggested that U.S. real gross domestic product (GDP) would likely post a historically large decline in the second quarter. Labor market conditions improved in May, but these improvements were modest relative to the substantial deterioration seen over the previous two months. Consumer price inflation, as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE), slowed notably through April, reflecting the effects of both weak aggregate demand and low energy prices”¹

According to the Bureau of Labor Statistics News Release, “Total nonfarm payroll employment rose by 4.8 million in June, and the unemployment rate declined to 11.1 percent, the U.S. Bureau of Labor Statistics reported today. These improvements in the labor market reflected the continued resumption of economic activity that had been curtailed in March and April due to the coronavirus (COVID-19) pandemic and efforts to contain it. In June, employment in leisure and hospitality rose sharply. Notable job gains also occurred in retail trade, education and health services, other services, manufacturing, and professional and business services.”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.

¹ <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20200610.pdf>

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

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 June 30, 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 June 30, 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
June 30, 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	0.600%
Annualized TRR-MV	Annualized Total Rate of Return - Market Value	2.430%
YTM@Cost	Yield to Maturity @ Cost	1.635%

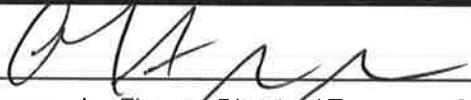
BENCHMARKS

Treasury 6 Month	0.18%
Treasury 1 Year	0.18%

FISCAL YEAR TO DATE

Investment Income	665,687
TRR-MV	0.600%

Security Sector	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Cash	6,576,665.36	6,576,665.36	6,576,665.36	6.53	0.00	1
Certificate Of Deposit	11,543,857.23	11,575,397.23	11,543,857.23	11.45	2.15	878
Corporate	16,850,000.00	16,844,118.51	16,810,424.93	16.68	1.82	49
Local Government Investment Pool	37,051,570.29	37,051,570.29	37,051,570.29	36.76	1.03	1
Money Market	27.31	27.31	27.31	0.00	0.35	1
Municipal	28,620,000.00	29,466,278.70	28,797,109.59	28.57	2.48	932
Total / Average	100,642,120.19	101,514,057.40	100,779,654.71	100.00	1.64	376


 Carl A. Johnson, Jr. -Finance Director / Treasurer, CFO 8/4/20
 Date



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

Begin Date: 3/31/2020, End Date: 6/30/2020

Maturity Range Allocation

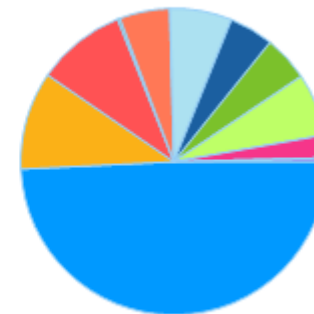
Maturity Range	Market Value 3/31/2020	% of Portfolio 3/31/2020	Market Value 6/30/2020	% of Portfolio 6/30/2020
0-1 Month	50,229,044.09	42.13	49,978,124.81	49.23
1-3 Months	16,274,777.77	13.65	10,514,860.00	10.36
3-6 Months	10,476,025.58	8.79	9,558,511.89	9.42
6-9 Months	7,057,094.12	5.92	270,475.20	0.27
9-12 Months	271,449.90	0.23	5,371,840.35	5.29
1-2 Years	8,751,233.50	7.34	6,660,764.95	6.56
2-3 Years	6,144,980.25	5.15	4,738,965.45	4.67
3-4 Years	3,726,026.65	3.12	4,861,567.90	4.79
4-5 Years	8,295,485.35	6.96	6,709,676.55	6.61
5-10 Years	7,802,956.10	6.54	2,427,693.30	2.39
10+ Years	208,440.00	0.17	421,577.00	0.42
Total / Average	119,237,513.31	100.00	101,514,057.40	100.00

Portfolio Holdings as of 3/31/2020



- 42.13%-0-1 M
- 13.65%-1-3 M
- 8.79%-3-6 M
- 5.92%-6-9 M
- 0.23%-9-12 M
- 7.34%-1-2 Y
- 5.15%-2-3 Y
- 3.12%-3-4 Y
- 6.96%-4-5 Y
- 6.54%-5-10 Y
- 0.17%-10+ Y

Portfolio Holdings as of 6/30/2020



- 49.23%-0-1 M
- 10.36%-1-3 M
- 9.42%-3-6 M
- 0.27%-6-9 M
- 5.29%-9-12 M
- 6.56%-1-2 Y
- 4.67%-2-3 Y
- 4.79%-3-4 Y
- 6.61%-4-5 Y
- 2.39%-5-10 Y
- 0.42%-10+ Y



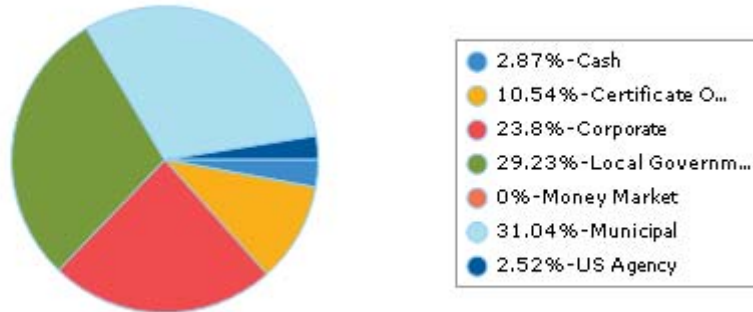
City of Novi Distribution by Security Sector - Market Value All Portfolios

Begin Date: 3/31/2020, End Date: 6/30/2020

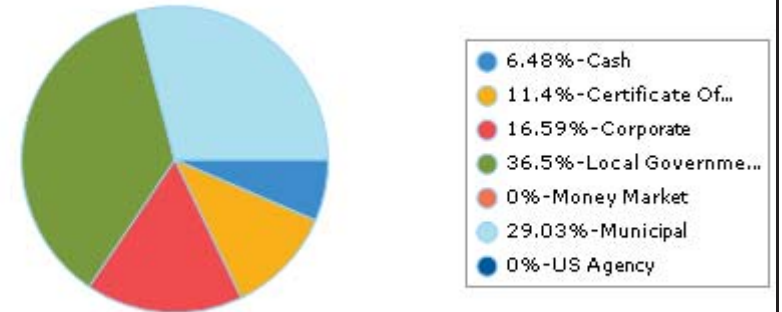
Security Sector Allocation

Security Sector	Market Value 3/31/2020	% of Portfolio 3/31/2020	Market Value 6/30/2020	% of Portfolio 6/30/2020
Cash	3,426,744.33	2.87	6,576,665.36	6.48
Certificate Of Deposit	12,563,867.23	10.54	11,575,397.23	11.40
Corporate	28,378,409.38	23.80	16,844,118.51	16.59
Local Government Investment Pool	34,857,665.29	29.23	37,051,570.29	36.50
Money Market	38.18	0.00	27.31	0.00
Municipal	37,006,658.90	31.04	29,466,278.70	29.03
US Agency	3,004,130.00	2.52	0.00	0.00
Total / Average	119,237,513.31	100.00	101,514,057.40	100.00

Portfolio Holdings as of 3/31/2020



Portfolio Holdings as of 6/30/2020



City of Novi

Investment Income - Market Value

Begin Date: 3/31/2020, End Date: 6/30/2020

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	66,439.03	14,340.00	-2,810.00	77,969.03	0.63	2.56
Corporate	0.00	68,190.26	67,644.53	135,834.79	0.58	2.35
Local Government Investment Pool	197,494.63	0.00	0.00	197,494.63	0.55	2.21
Money Market	0.00	0.00	0.00	0.00	0.00	0.00
Municipal	215,740.06	43,964.95	-9,429.15	250,275.86	0.77	3.12
US Agency	8,243.06	0.00	-4,130.00	4,113.06	0.24	0.96
Total / Average	487,916.78	126,495.21	51,275.38	665,687.37	0.60	2.43

City of Novi
Portfolio Holdings
As of 6/30/2020

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Allen Park	3.198	445,503.23	467,677.10	1,220	2,359.92	0.44
Amer Honda Fin	1.860	996,659.72	998,990.00	65	0.00	0.99
American Express Centurion	2.250	1,000,000.00	1,007,780.00	135	3,020.55	0.99
Astrazeneca PL	1.850	993,890.16	999,233.33	120	0.00	0.99
Bellevue Mich Cmnty Schs	2.130	503,668.18	511,670.00	670	2,094.50	0.50
Boeing Company	2.157	991,684.79	998,981.66	141	0.00	0.99
BP Capital Markets PI	2.400	2,992,639.43	2,999,436.66	38	0.00	2.98
Catholic Health	1.814	997,800.00	999,650.00	44	0.00	0.99
Center Line Public Schools	3.589	253,371.03	257,057.50	1,401	1,638.89	0.25
Charter Township of Commerce	2.630	290,000.00	303,853.30	1,554	1,885.56	0.29
Chemical Bank a div of TCF National Bank	1.787	2,543,857.23	2,543,857.23	122	29,990.05	2.53
Chippewa Valley Mich Schs	2.237	1,000,000.00	1,034,770.00	2,496	3,666.19	0.99
Comstock Park Schs-B	2.417	1,500,000.00	1,522,685.00	427	5,940.97	1.49
Delhi TWP MI	1.980	140,000.00	141,740.20	854	454.30	0.14
ENGIE S	2.750	997,276.42	999,850.00	36	0.00	0.99
ENI Finance USA In	1.018	996,957.85	999,310.00	108	0.00	0.99
Fifth Third	0.000	6,576,687.67	6,576,687.67	1	0.00	6.53
FMC Technologies In	1.573	5,346,938.65	5,349,685.19	12	0.00	5.32
Hartland Mich Cons Sch	1.811	950,000.00	973,835.00	1,112	2,819.39	0.94
Holland Mich Taxable Go Ltd Tax Bds Ser	2.910	175,000.00	181,956.25	1,127	2,107.73	0.17
Holly Mich Area School Dist	2.503	2,260,000.00	2,354,026.40	1,272	9,269.56	2.25
Homer Cmnty SD	2.400	863,201.07	899,555.05	2,496	5,146.11	0.78
Hyundai Capital Americ	0.750	998,980.44	999,755.00	49	0.00	0.99
Intesa Sanpaolo Fdg LL	0.820	498,184.97	499,266.67	160	0.00	0.50
JP Morgan Chase	1.900	1,000,000.00	1,000,740.00	473	3,904.11	0.99
Lansing Mich Bldg Autho Go Ref Bds	5.516	68,008.08	71,586.30	1,066	20,677.80	0.07
LCRSCD	2.555	650,000.00	663,082.50	445	2,721.71	0.65
Madison Heights	1.987	550,000.00	553,118.40	371	5,435.13	0.55
MI Strategic Fund - REF	2.600	998,258.67	1,002,610.00	107	4,127.08	0.99
Michigan St Fin Auth	2.536	4,491,921.08	4,522,339.40	395	124,633.97	4.45
Michigan State GO Bond	2.346	401,611.16	404,552.00	154	1,087.50	0.40
Michigan State University Federal Credit Union	2.365	6,000,000.00	6,000,000.00	1,457	73,047.68	5.96
MIS FIN MI Fin Auth	2.301	1,090,725.34	1,116,345.65	854	4,523.73	1.08
MSUFCU	0.000	5.00	5.00	1	0.00	0.00
MUFG Bank Ltd	2.367	999,412.50	999,960.00	9	0.00	0.99

Description	YTM @ Cost	Book Value	Market Value	Days To Maturity	Accrued Interest	% of Portfolio
Muskegon Heights PUB	2.515	1,135,000.00	1,153,165.65	487	4,677.47	1.13
New Haven Community School	2.459	2,025,773.96	2,104,432.00	1,387	8,323.51	2.01
Oakland County	1.031	37,051,570.29	37,051,570.29	1	0.00	36.82
Oakland Univ Muni Bond	4.192	203,118.71	203,445.00	9,740	2,975.00	0.18
Ottawa CountyMI	2.250	391,935.53	398,213.40	489	1,693.79	0.39
Parchment SD	2.669	1,535,000.00	1,605,503.05	1,249	6,714.13	1.53
Ravenna Schools	2.200	590,000.00	594,761.30	305	2,127.28	0.59
RMLSCD	2.483	400,000.00	406,352.50	533	1,627.42	0.40
Royal Oak MI	2.397	1,350,000.00	1,363,257.50	255	8,000.23	1.34
Tuscola County	2.900	230,125.76	235,214.10	428	2,242.82	0.23
Wells Fargo Bank Natl Assn	1.950	1,000,000.00	1,023,020.00	475	694.52	0.99
Western Michigan University	2.410	649,887.79	678,996.00	1,233	3,750.00	0.60
Ypsilanti MI	2.712	1,655,000.00	1,709,788.15	1,244	7,354.60	1.64
Ypsilanti School Dist	2.310	2,000,000.00	2,030,690.00	488	7,571.67	1.99
Total / Average	1.635	100,779,654.71	101,514,057.40	371	368,304.87	100