To: **Benjamin I. Myers, City Manager**

From: **Melissa R. Marsh, Deputy City Manager - Administrative Services**

Date: **November 11, 2014**

RE: **Investment Report 1st Quarter of Fiscal Year 2015**

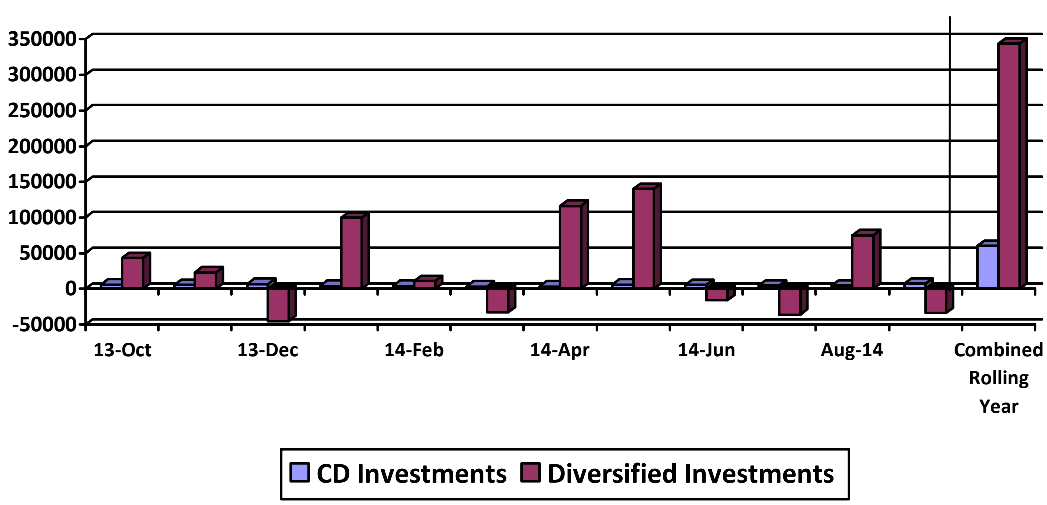
A summary of the investments for the City of Madison Heights as of September 30, 2014 is included in this memo. The requirements of the City of Madison Heights Investment Policy and P.A. 20 of 1943, as amended, govern the investments held by the City.

Interest Rate Overview:

In September 2014, the Federal Open Market Committee (FOMC) directed the Open Market Trading Desk at the Federal Reserve Bank of New York to purchase additional agency mortgage-backed securities at a pace of about $5 billion per month and longer-term Treasury securities at a pace of about $10 billion per month, beginning in October 2014. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodating to investors.

Locally we continue to diversify investments instead of moving to vehicles such as 100% Certificates of Deposit. This is due to the long term nature of our fixed rate investments and the higher rate of return we will realize by holding these fixed rate vehicles such as bonds and treasuries until either the call date or maturity. As explained in previous reports, in any given quarter, the method of marking investments to market value (which refers to accounting for the fair value of an asset or liability based on its current market price) may result in loss; however, holding bonds until maturity would result in total return of investment. I have included a chart below that will compare our current returns with what our returns would be if we were invested 100% in certificates of deposit at the rate of 0.3% July-September (the average rate of return for CDs). Investing completely in CDs for the past rolling calendar year would have yielded approximately $60,442 in investment earnings; instead we earned $344,118 by following our diversified investment plan

Investment Earnings



Risk:

Interest rate risk is the risk that interest rates will change and adversely affect the fair value of the investment of the government's cash flows. The City attempts to limit exposure to a possible decline in fair market value by diversifying maturity dates.

Credit risk is the risk that the investment will not fulfill its promise to pay the investor when required. There is a credit risk associated with all financial institutions, brokers and investment vehicles. The City attempts to limit exposure to credit risk by diversifying the holders of investments, maintaining high credit rating for investments, and restricting Certificates of Deposit investments to those with financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC).

Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

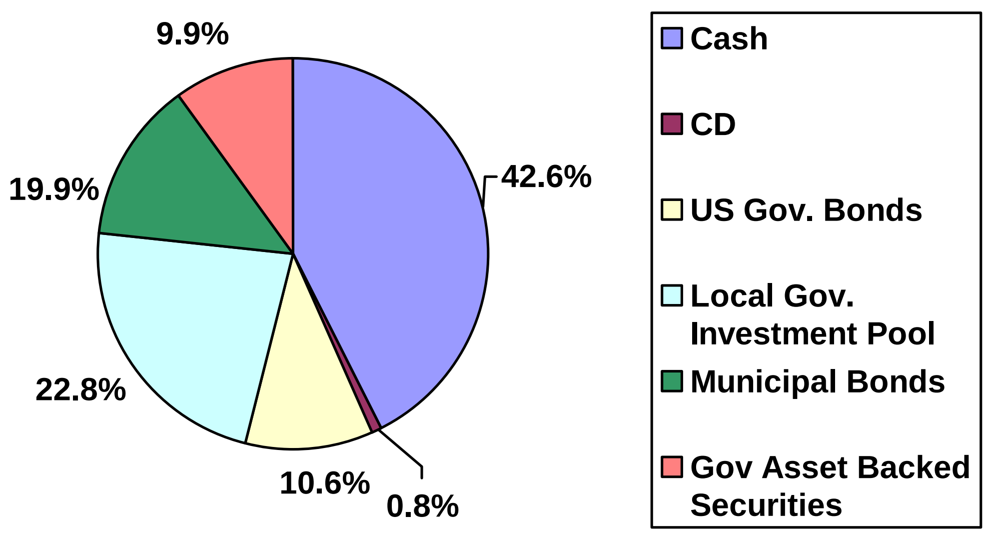
Quarter Investments:

As of September 30, 2014 the City has the following Cash and Investment balances (combination of all funds, excluding pension and health care savings funds).

Total amount in the cash accounts	$13,481,765
Total amount in Investments	18,157,343
	$31,639,108

The chart below details the diversification of the City investments as of September 30, 2014

Diversification – First Quarter of Fiscal Year 2015
Last Day of the Quarter



In accordance with the City's investment policy, the City limits its exposure to possible decline in fair market value by maintaining diversification and controlling maturity dates. The table below details the amounts at September 30, 2014. There is a difference between the coupon rate (i.e. yield at issue date) and the estimated quarterly annual yield. When a bond is issued, it has a coupon rate until it matures. This rate is related to the current interest rates. When a bond is sold or called before maturity, the value of the bond, not the coupon, will be affected by the current market interest rates. If current interest rates are higher than the coupon, the bond will sell below its face value. When interest rates are lower, they are sold at a premium or higher than face value. A bond's estimated annual yield is related to the current prevailing interest rates. A bond's yield is its annual interest (coupon) divided by its current market price.

Investment Listing, by Security Type

Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Annual Yield to Maturity	Accrued Interest	Estimated Annual Income	% of Total Portfolio
Fixed Income Assets								
Government Bonds	$3,404,000	$ 3,351,907	$ 3,354,050	$ 2,143	1.79%	$ 6,563	$ 56,089	18.47%
Securities	3,429,921	3,140,488	3,134,297	(6,191)	3.63%	9,477	113,718	17.26%
Municipal Bonds	4,160,000	4,219,323	4,206,145	(13,178)	2.14%	52,314	124,660	23.16%
Flagstar Certificates of Deposit	255,311	255,311	255,311	0	0.30%	2.10	832	1.41%
Local Government Investment Pool/Money Market	7,200,329	7,200,329	7,207,540	7,211	1.25%	-	43,188	39.69%
Total Investments			$18,157,343					

Cash and Investments by Fund

Fund	Amount at 09/30/14
General Fund	$16,977,756
Major Road	549,382
Local Road	4,341,519
Parks Maintenance (cash only)	6,813
Downtown Development Authority	12,680
Drug Forfeiture	104,246
Community Development Block Grant	(1,456)
Special Assessment	1,091,972
Fire Station Bond	426,024
Water and Sewer	7,837,344
Escrow	292,829
Total Cash and Investments	**$31,639,108**

* Amounts of cash/investments by fund are prior to year end closing and subject to change with necessary month-end adjustments.