

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

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

**Date: April 15, 2016**

**RE: Investment Report 3rd Quarter of Fiscal Year 2016**

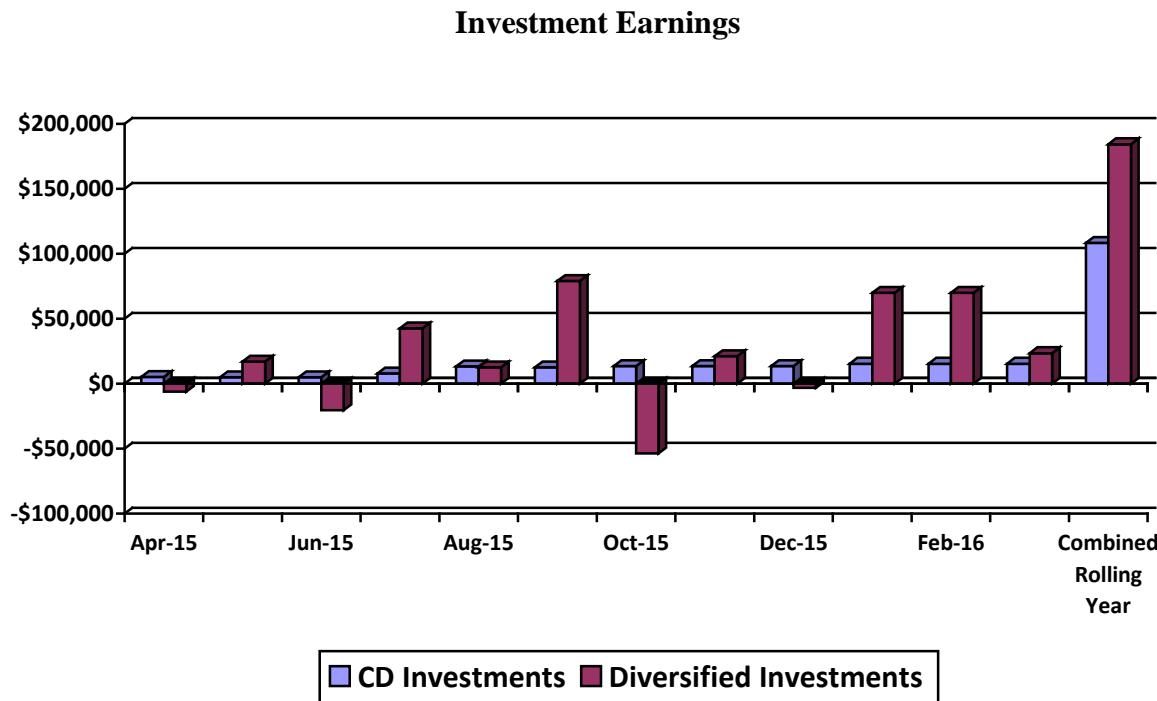
A summary of the investments for the City of Madison Heights as of March 31, 2016 is included in this memo. The requirements of the City of Madison Heights Investment Policy and P.A. 20 of 1943, as amended, govern the investments held by the City.

**Investment Overview:**

At the March meeting of the Federal Open Market Committee (FOMC) it was reported that while financial markets were turbulent over the first month and a half of the year, these concerns appeared to diminish beginning in mid-February, and domestic financial conditions generally eased since the January FOMC meeting: stock prices rose, equity price volatility declined, and credit spreads on corporate bonds narrowed. The dollar depreciated against most foreign currencies, and long-term sovereign bond yields declined amid easing by central banks in advanced foreign economies. Over the period since mid-December, when the Committee raised the target range for the federal funds rate 1/4 percentage point, U.S. financial market conditions had registered relatively small changes, on balance, amid significant volatility. Financial derivatives suggested that market participants had revised down their expected trajectory of the federal funds rate, and yields on medium- and longer-term Treasury securities declined 20 to 30 basis points. Yields on investment- and speculative-grade corporate bonds were down slightly less, leaving spreads over Treasury securities little changed over the period between mid-December and mid-March.

Locally we continue to diversify investments and balance maturity dates with cash flow needs. 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 the total return of investment. I have included a chart on the next page that compares our current returns with what our returns would be if we were invested 100% in Certificates of Deposit at the rate of 0.70% for 12 month investment during the January – March period (the average rate of return for CDs). Investing completely in CDs for the fiscal year to date would have yielded approximately \$124,195 in investment earnings; instead we earned \$300,195 through March by following our diversified investment plan.

The chart on the next pages shows the differential between investments 100% in certificates of deposit vs. the City's diversified investment strategy:



### **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 a 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.

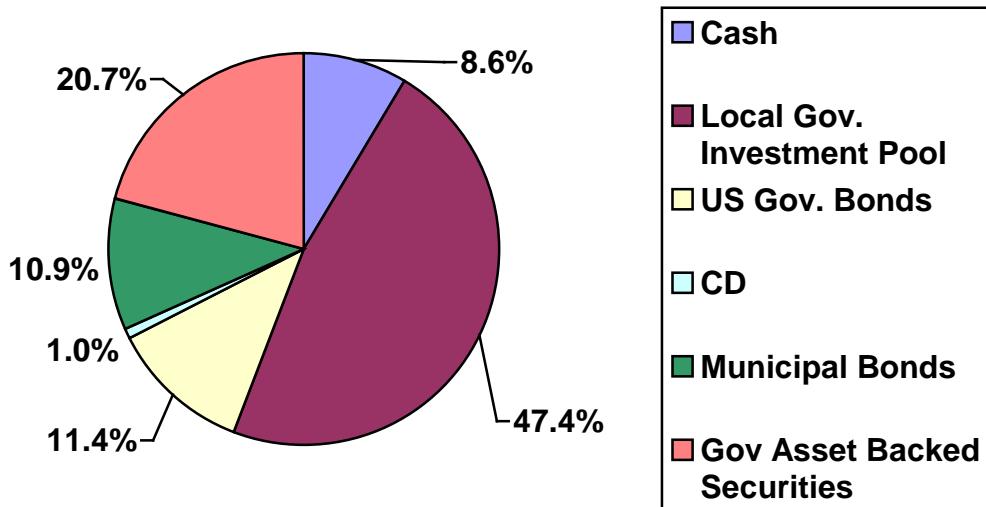
### **Quarter Investments:**

As of March 31, 2016, 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	\$ 2,206,961
Total amount in Investments	<u>23,506.192</u>
	\$25,713,153

The chart on the following page details the diversification of the City investments as of March 31, 2016.

## Diversification – Third Quarter of Fiscal Year 2016 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 March 31, 2016. 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)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	3/31/2016 Annual Yield to Maturity	3/31/2015 Annual Yield to Maturity
<b>Fixed Income Assets</b>									
Government Bonds	\$2,923,952	\$ 2,939,053	\$ 2,938,006	\$ (1,047)	\$ 13,890	\$ 42,625	11.4%	1.46%	1.95%
Securities	5,327,207	5,323,182	5,327,207	4,025	17,471	166,244	20.7%	3.12%	3.64%
Municipal Bonds	2,801,653	2,788,648	2,801,653	13,005	40,538	103,799	10.9%	3.70%	2.20%
Certificates of Deposit	257,104	257,104	257,104	-	289.24	1,157	1.0%	0.45%	0.50%
<b>Local Government Investment Pool/Money Market</b>									
	12,182,222	12,182,222	12,182,222	-	23,968	85,951	47.4%	1.44%	1.15%
<b>Total Investments</b>			\$23,506,192				<b>100.0%</b>		

**Cash and Investments by Fund**

<b>Fund</b>	<b>Amount at 03/31/15</b>	<b>Amount at 03/31/16</b>
General Fund	\$8,210,577	\$11,839,366
Major Road	319,872	(347,183)
Local Road	3,750,920	2,799,512
Downtown Development Authority	(19,217)	46,808
Drug Forfeiture	114,662	114,401
Community Development Block Grant	(7,974)	(12,740)
Special Assessment	1,263,197	1,239,140
Fire Station Bond	399,388	420,513
Water and Sewer	8,407,967	9,404,169
Escrow	499,153	209,167
<b>Total Cash and Investments</b>	<b>\$22,938,545</b>	<b>\$25,713,153</b>

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