

To: Benjamin I. Myers, City Manager

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

Date: October 28, 2013

RE: Investment Report 3rd Quarter 2013

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. Using these guidelines, I have researched appropriate benchmarks to compare the City's returns. Based on the types of investment allowed, the benchmark is being shown as the Bank of America Merrill Lynch 3 month US Treasury Bill, Barclays US Government Bond Index, and the Bank of America Merrill Lynch 1-3 year Treasury.

Local Interest Rate Overview:

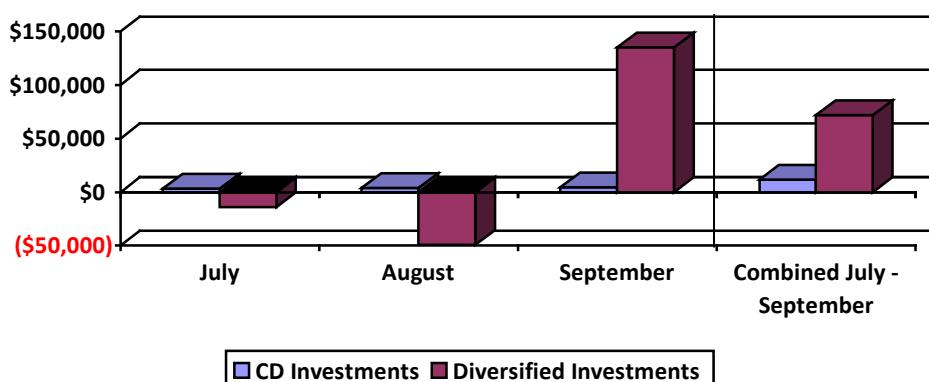
As of June 30, 2013 I included the following statement:

"The total fiscal year interested earned is \$376,520; however, unrealized losses are \$348,777, bringing the total recorded as earned to \$27,743 across all funds.

In the past, having a diversified portfolio over-weighted in fixed rate municipal bonds has proven advantageous; however, during the second quarter, intermediate and longer-term interest rates on U.S. treasury securities started to rise from their extremely low levels. This spike in interest rates left investors of fixed rate income with negative total returns for the quarter, as rising yield results in falling bond prices. Given the City's low tolerance for negative returns, I am researching transitioning to traditional municipal investments such as certificates of deposit in the coming quarters, as investments mature."

Over the last two months I have researched other options and have decided to continue to pursue our current diversified asset classes 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. 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 current rate of 0.2%.

Investment Earnings



Investing with fixed rate returns continues to be challenging due to the economy and continued low interest rates. The investment earnings of the City funds are increasing but continue to be low.

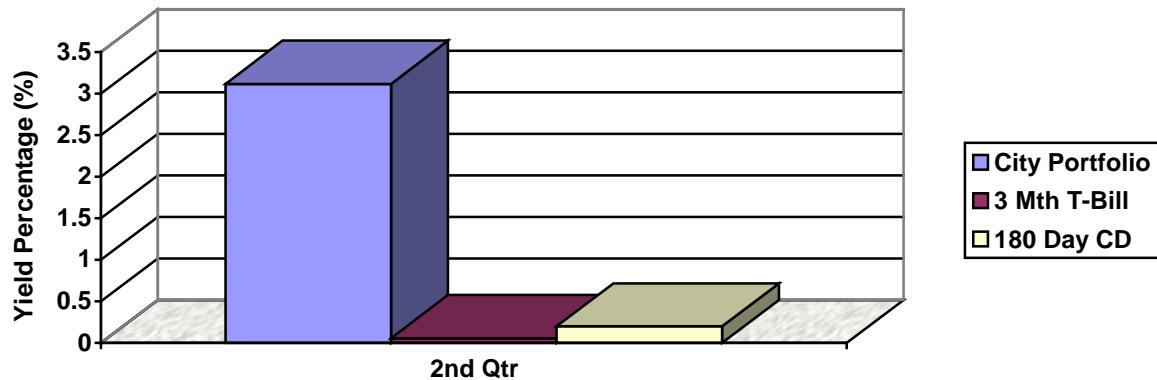
As of September 30, 2013 the City has the following Cash and Investment balances (combination of all funds, excluding pension and health care savings funds).

Total amount in the cash accounts	\$ 1,808,432
Total amount in Investments	<u>27,504.281</u>
	\$29,312,713

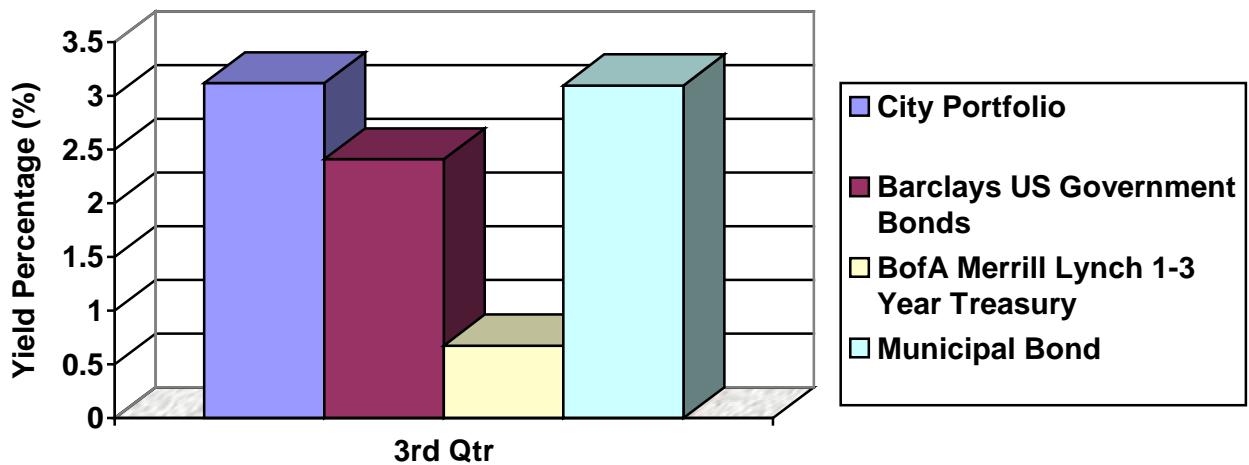
The following charts detail the short term and long term investments for the City:

- 1) The City's Short Term Investments yield percentage compared to the benchmark (Bank of America Merrill Lynch 3 month US Treasury Bill and the average 180 Day Certificate of Deposit)
- 2) The City's Long Term Investment yield percentage compared to the benchmarks of Barclays US Government Bond Index, and the Bank of America Merrill Lynch 1-3 year Treasury and Municipal Bonds.
- 3) Pie Chart of Diversification of Investments
- 4) Investment Ratings from Standard and Poor's

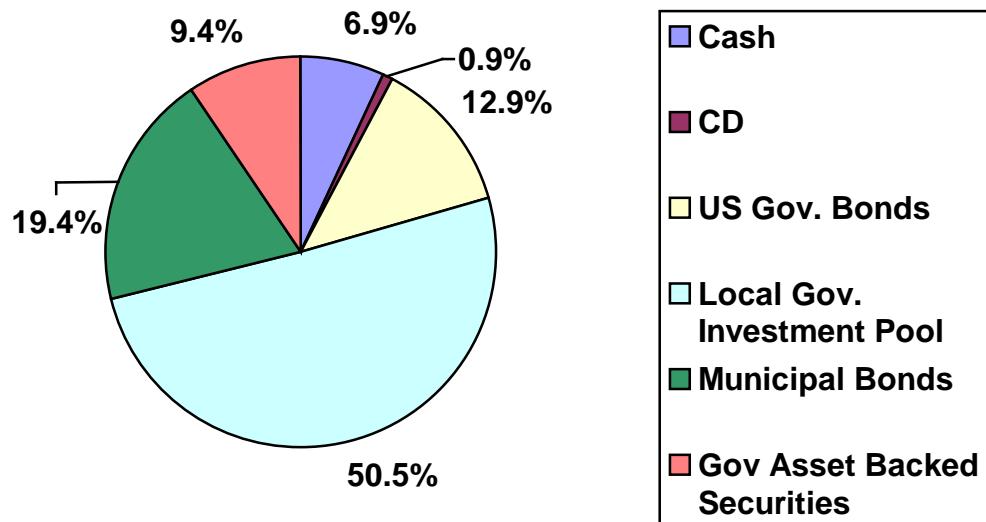
Short Term Investments – 2013 Third Quarter Last Day of the Quarter



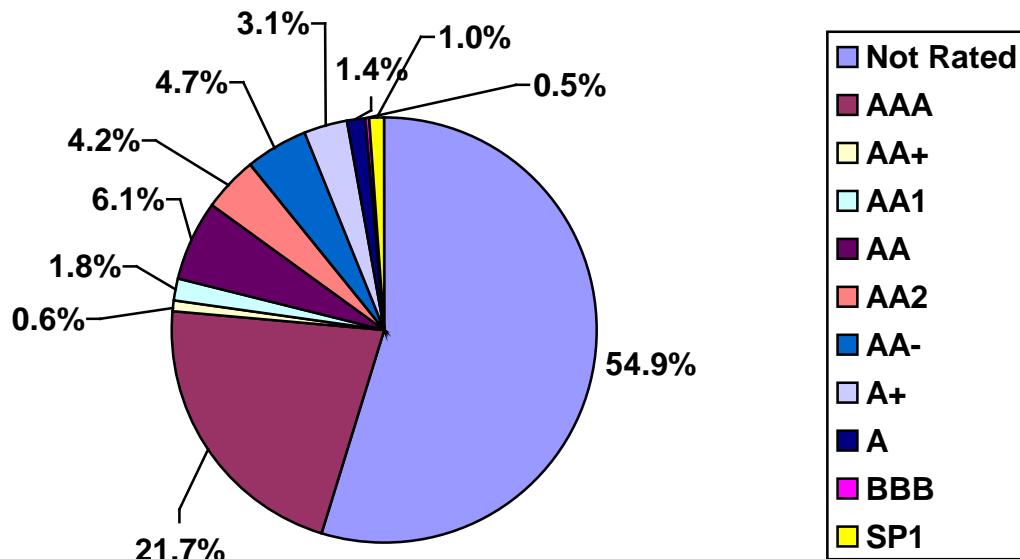
Long-Term Investments – 2013 Third Quarter Last Day of the Quarter



Diversification – 2013 Third Quarter Last Day of the Quarter



Credit Review of Investments – 2013 Second Quarter



Not Rated includes the Local Government Investment Pool held by Oakland County and the City's Cash Account at Chase

This chart below details the amount at September 30, 2013 that was in each investment and the estimated Annual Yield. For the bonds included below, there is a difference between the coupon rate and the estimated 2nd quarter 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.

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 following schedule shows actual investments during this reporting quarter, institutions, and type.

City Specific Rates and Investments

Investments	Amount at 9/30/13	Annual Yield
MI Class	\$127	0.08%
US Treasury Notes - 06/30/16	\$1,023	1.46%
US Treasury Notes - 06/30/16	\$1,026	1.46%
US Treasury Notes - 9/30/16	\$3,032	0.98%
Comerica Money Market	\$3,253	0.00%
US Treasury Notes - 12/15/15	\$9,972	0.25%

Bonds – Rochester Hills Bldg. Authority 4/1/15	\$20,974	3.81%
Bonds - Macomb Cnty MI Bldg. Auth - 10/1/12	\$25,030	1.96%
Bonds – Macomb Cnty Bldg. Auth	\$25,384	1.96%
Bonds – Marshall LTD Tax	\$25,410	1.96%
Bonds – Allegan MI Public Schools	\$26,663	4.68%
Bonds – Lamphere Schools	\$41,021	4.87%
US Treasury Notes 09/30/15	\$48,885	1.23%
Bonds – Ypsilanti MI Community Utility Authority	\$50,887	3.68%
Bonds – Utica Community Schools	\$53,466	4.67%
Bonds – Hamburg LTD Tax	\$65,836	1.97%
Bonds - Wayne County MI	\$77,051	4.86%
Federal Home Loan Banks 11/20/24	\$88,538	2.46%
US Treasury Note - 5/31/14	\$94,330	2.22%
Bonds – Dowagiac MI Water System - 12/01/13	\$95,361	2.98%
FNMA Pass Thru Pool	\$110,808	3.28%
Parks Fund - Government Bonds	\$100,060	3.87%
Bonds – Lansing MI Community College	\$101,803	3.63%
Bonds – Canton Charter Twp.	\$102,073	4.89%
US Treasury Note - 11/30/13	\$104,333	1.99%
Federal Home Loan Mortgage – 05/13/16	\$104,783	0.50%
US Treasury Notes - 10/31/15	\$104,923	1.23%
Federal Home Ln Mtg Corp Notes – 05/13/16	\$105,137	0.50%
Bonds – Carman Community School	\$107,685	4.87%
US Treasury Notes -5/15/21	\$107,967	2.92%
Bonds - MI Fin Auth Rev RFDG-Loc Gov	\$111,430	2.96%
FNMA Pass thru Pool	\$115,892	3.29%
Bonds – Bangor Public Schools	\$126,663	2.96%
Bonds – Redford Michigan School District	\$154,535	5.33%
US Treasury Notes - 8/15/23	\$160,430	2.52%
FNMA Pass Thru Pool	\$151,255	4.21%
Bonds – Northville MI Public Schools	\$165,715	2.89%
Bonds – Portage MI	\$169,142	1.95%
FNMA Pass thru Pool Backed Asset	\$176,968	2.89%
FNMA Pass Thru Pool 5/21/18	\$177,006	0.90%
Bonds - New Buffalo MI BLDG Auth. 11/01/22	\$192,929	3.72%
Bonds - Hamburg Twp	\$203,508	4.05%
Bonds – Grand Traverse Cnty MI	\$212,163	1.23%
US Treasury Notes - 9/30/18	\$213,899	1.38%

US Treasury Notes - 6/30/15	\$219,385	0.37%
Wells Fargo Advantage Money Market	\$224,925	0.01%
Federal Farm Credit Banks - 2/9/15	\$250,010	0.45%
US Treasury Note - 3/15/15	\$253,612	0.37%
CD – Flagstar, Maturity 11/21/13	\$254,483	0.25%
Federal home Ln Bks Step-Up - 5/23/13	\$255,937	1.61%
Bonds - Big Rapids MI Public Schools -5/01/15	\$206,724	3.14%
Bonds – Michigan Fin Auth – Local Gov. Loans	\$263,323	1.97%
Bonds – Michigan Fin Auth – Local Gov. Loans	\$357,737	2.93%
FNMA Pass thru Pool Backed Asset	\$136,861	2.90%
Federal Home Ln Bks Step Up - 3/28/13	\$286,350	1.30%
US Treasury Notes - 3/31/15	\$317,174	0.25%
US Treasury Notes - 06/15/16	\$317,942	0.50%
US Treasury Notes - 6/15/16	\$318,751	0.50%
Bonds - Oak Park Refinancing 5/1/28	\$341,844	3.33%
Bonds – Chippewa Michigan School District	\$351,447	4.69%
Bonds – Bath MI Community Schools	\$351,921	1.96%
Bonds - Lapeer County - 04/01/14	\$404,220	2.96%
Parks Fund - Stocks and ETFs	\$515,398	2.47%
Bonds – Grandville MI Public Schools	\$533,265	4.68%
Federal Home Loan Mtg Corp 02/24/15	\$580,626	0.49%
FNMA Pass Thru Pool - 7/1/28	\$119,420	3.31%
FNMA Pass Thru Pool	\$628,137	2.48%
FNMA Pass Thru Pool	\$444,715	2.48%
FNMA Pass Thru Pool	\$616,158	3.80%
Chase – Cash Checking	\$1,808,432	0.00%
Local Government Investment Pool –Oakland Co.	\$14,815,540	1.03%
Total Cash and Investments	\$29,312,713	1.98%

Cash and Investment by Fund

Fund	Amount at 9/30/2013
General Fund	\$15,458,950
Major Road	174,228
Local Road	4,137,469
Parks Fund	638,983
Downtown Development Authority	40,446
Drug Forfeiture	42,788
Housing	437,485
Community Development Block Grant	(21,831)
Special Assessment	1,560,560
Fire Station Bond	375,048
Water and Sewer	5,983,330
Motorpool	(14,285)
Tax Receiving Fund	164,924
Escrow	334,617
Total Cash and Investments	\$29,312,713

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