

CHARTER TOWNSHIP OF HIGHLAND
OAKLAND COUNTY, MICHIGAN
INVESTMENT POLICY
MARCH 27, 1996
AMENDED DECEMBER 2004

1.0 POLICY:

It is the policy of the Charter Township of Highland to invest public funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state statutes and local ordinances governing the investment of public funds.

2.0 SCOPE:

This investment policy applies to the investment activities of the Charter Township of Highland and applies to all funds held in custody of the government, except for its employee pension funds and its employee deferred compensation funds which are organized and administered separately.

3.0 PRUDENCE:

The standard of prudence to be applied by the investment officer shall be the “prudent person” rule which states; “Investments shall be 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.” The prudent person rule shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported to the chief executive in a timely fashion and appropriate action is taken to control adverse developments.

4.0 OBJECTIVES:

Funds of the Charter Township of Highland will be invested in accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended, and in accordance with the following objectives, procedures and policy.

4.1 Safety of Capital – Safety of principal is the foremost objective of the Charter Township of Highland. Each investment transaction shall seek to first ensure that capital losses are avoided whether they are from defaults or erosion of market value.

- 4.2 Liquidity – The Township’s investment portfolio will remain sufficiently liquid to enable the Township to meet all operating requirements which might be reasonably anticipated.
- 4.3 Return on Investment – The investment portfolio of the Charter Township of Highland shall be designed in a manner to attain a market rate of return throughout budgetary and economic cycles while preserving and protecting capital.
- 4.4 Protection of Purchasing Power - Funds held for water, sewer and capital projects shall be invested so that they can reasonably be expected to produce enough income to offset inflationary construction cost increases. However, such funds shall never be exposed to risks that would jeopardize the assets capital value or be in conflict with state law.
- 4.5 Maintain the Public’s Trust – All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. In addition, the overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust. Investment officials shall also avoid any transaction that might knowingly impair public confidence in the Charter Township of Highland’s ability to govern effectively.

5.0 DELEGATION OF AUTHORITY:

The township treasurer is designated as investment officer of the township and is responsible for investment decisions and activities. The treasurer shall develop and maintain administrative procedures for the operation of the investment program, consistent with the investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in investment transactions except as provided under the terms of this policy and the administrative procedures established by the township treasurer. The township treasurer shall also establish a system of controls to regulate the activities of subordinate officials and shall be responsible for all transactions undertaken.

6.0 ETHICS AND CONFLICT OF INTEREST:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Township Board any material financial interest in financial institutions that conduct business with this township and they shall disclose any large personal financial/investment positions that could be related to the performance of the township’s portfolio. Employees and officers shall subordinate their personal investment transactions to those of the township particularly with regard to the timing of purchases and sales.

7.0 QUALIFIED INSTITUTIONS:

The township shall maintain a listing of financial institutions which are approved for investment purposes. Banks shall provide, at minimum, their quarterly and annual financial statements. The township shall conduct an annual evaluation of each bank's credit worthiness to determine whether it should be on the "Qualified Institution" listing. Securities dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank as primary dealers or be non primary reporting dealers that have net capital equal to or greater than twice the amount required by the securities and exchange commission's net capital rule. At all times, the insurance provided by the broker/dealer and SIPC shall exceed the value of the securities held in each account.

All financial institutions with which the Township conducts business shall certify that they have 1). Received the Township's investment policy, 2). Have read the policy, and 3). Will comply with the policy.

All financial institutions wishing to become qualified bidders for investment transactions must supply the Treasurer with the following documents: audited financial statements, proof of MASD certification, proof of Michigan registration and a signed investment policy certification.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer.

8.0 INSTRUMENT:

In accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended, the surplus funds of the Charter Township of Highland may be invested as follows:

- (a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of Michigan financial institutions.
- (c) In commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. Not more than 100% of any fund may be invested in commercial paper at any time.
- (d) In the United States Government or federal agency obligation repurchase agreements. The PSA Master Repurchase Agreement prototype agreement shall be employed with appropriate supplemental provisions regarding security delivery, security substitutions, and governing law. A signed Repurchase agreement must be on file before entering into a repurchase transaction.
- (e) In bankers' acceptances of United States banks.

- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- (g) Obligations described in subdivisions a through f if purchased through an inter-local agreement under the urban cooperation act of 1967. 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- (h) Investment pools organized under the surplus funds investment pool act, PA 367 of 1982, MCL 129.111 to 129.118.
- (i) Investment pools organized under the local government investment pool act, PA 121 of 1985, MCL 129.41 to 129.50.
- (j) Mutual funds registered under the investment company act of 1940 with authority to only purchase investment vehicles that are legal for direct investment by a Michigan public corporation. Investment is limited to mutual funds that maintain a net asset value of \$1.00 per share.

9.0 INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of each pool shall be required 1). Before investing, and 2) On a continual basis after investing a questionnaire shall be developed to secure responses to a set of due diligence questions. Those questions shall, at minimum, include the following:

- Does the pool have a written statement of investment policy and objectives? How are changes to the policy and objective statement communicated to participants?
- Does the policy describe eligible investment securities?
- A detailed description of interest calculations covering items such as: How are they distributed? What is the frequency of interest payments? How are gains and losses treated?
- How are securities safeguarded? How often are the securities priced to market? What audit steps are employed in this process?
- Who can invest in the pool? How often? Any deposit/withdrawal size limitations? How many deposits or withdrawals can be made in a monthly period? What is the cutoff time for deposits and withdrawals? Does the pool allow for multiple accounts and sub-accounts? Do we get a confirmation after each transaction?
- What is the schedule for receiving account statements and portfolio listings?
- Please attach a fee schedule and describe in great detail how and when these fees are assessed.
- Does the pool retain any reserves? Please describe.
- Will the pool accept bond proceeds subject to arbitrage rebate? Will the pools accounting and record keeping system be suitable for arbitrage rebate? Is the pool's yield calculation acceptable to the IRS or will it need

to be restated? Can a separate account be established for each bond offering?

10.0 SAFEKEEPING:

All securities purchased by the Charter Township of Highland under this section shall be properly designated as an asset of the township and held in safekeeping. No withdrawal of such securities, in whole or in part, shall be made in safekeeping except by the Treasurer as authorized herein, or by their respective designees.

Transactions in negotiable instruments, which have a value exceeding SIPC insurance protection, and other insurance protection, as may be applicable, with any one dealer will be required to be settled on a Deliver-vs-Payment basis. A receipt from the contra-party and proof of the SIPC and other insurance will be required when the transaction is covered by insurance. Non-negotiable, non-collateralized Certificates of Deposit, as is the law in the State of Michigan, shall be evidenced by a safekeeping Receipt from the issuing bank.

11.0 DIVERSIFICATION:

It is the policy of the Charter Township of Highland to diversify its investment portfolios. Assets held in the common cash fund and other investment funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, individual financial institution (s) or a specific class of securities. Diversification strategies shall be determined and revised by the township treasurer from time to time to meet diversification objectives (to reduce overall portfolio risks while attaining market average rates of return).

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 sizeable blocks of anticipated revenue (taxes, state revenue sharing payments).

Risks of market price changes shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

12.0 SHORT-TERM VERSUS LONG-TERM PORTFOLIO:

Limitations on instruments, diversification and maturity scheduling shall depend upon whether the funds being invested are considered short-term or long-term funds. With the exception of debt service funds, capital funds and special assessment funds, all funds shall be considered short-term and shall be invested in instruments whose maturities do not exceed two years at the time of purchase.

13.0 INTERNAL CONTROLS:

The treasurer shall establish a system of internal controls, which shall be reviewed annually by the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.

14.0 PERFORMANCE STANDARDS:

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the Township's investment risk constraints and cash flow needs.

14.1 Market Yield (Benchmark) - The Township's investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the U.S Treasury Bills.

15.0 COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS:

Before the township invests any surplus funds, competitive quotes shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, quotes will be requested for instruments which meet the maturity required. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturity would be most advantageous.

Quotes will be requested from financial institutions for various options with regard to terms and instruments. The township will accept the quote which provides the highest rate of return within the maturity required and within the parameters of the township's investment policy.

Records indicating the quotes offered, the quotes accepted and a brief explanation of the decision, which was made regarding the investment shall be kept for future review.

16.0 REPORTS:

Within 120 days of the end of the fiscal year, the township treasurer shall prepare an annual report on the investment program and investment activity.

This report shall be prepared in such a way that will allow the Township to ascertain whether investment activities during the reporting period have conformed to the investment policy.

17.0 ADOPTION:

The Township's investment policy shall be adopted by a resolution of the Township Board. The policy shall be reviewed annually by the Treasurer. Any revision to the policy shall be brought to the Board for adoption.