

**INVESTMENT POLICY
FOR THE
CITY OF ROCHESTER HILLS**
As Required by Public Act 20 of 1943, as amended

1.0 POLICY

It is the policy of the City of Rochester Hills to invest public funds in a manner, which will ensure the preservation of principal ~~with maximum security, while meeting the daily cash flow demands of the City, and while providing the highest investment return,~~ with maximum security, while meeting the daily cash flow demands of the City 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 of ~~the the~~ City of Rochester Hills ~~short-term~~ operating funds. The funds for which this Investment Policy applies are included in the City's Comprehensive Annual Financial Report (CAFR) and include the following:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Improvement Funds
- Enterprise Funds
- Internal Service Funds
- Component Unit Funds
- Inter-Governmental Service Funds
- All other funds under the control of the Investment Officer for cash management purposes
- Any new fund created by the governing body, unless specifically exempted by the governing body

This investment policy applies to all transactions involving the financial assets and related activity of all the foregoing funds.

Longer-term funds, including investment activities of the City of Rochester Hills employee Pension Plan funds, employee Deferred Compensation Plan and Trust funds, and employee Retiree Health Benefit Plan and Trust funds are organized and administered separately under the Code of Ordinances, Chapter 82, Articles III, V and VI respectively. Also excepted are the Van Hoosen/Jones Stoney Creek Cemetery Perpetual Care Trust Fund ~~and~~ the Green Space Perpetual Care Trust Fund, ~~and the Supplemental Retiree Healthcare Trust Fund.~~

The funds for which this Investment Policy apply are included in the City's Comprehensive Annual Financial Report (CAFR) and include the following:

- ~~General Fund~~
- ~~Special Revenue Funds~~
- ~~Debt Service Funds~~
- ~~Capital Improvement Funds~~
- ~~Enterprise Funds~~
- ~~Internal Service Funds~~
- ~~Component Unit Funds~~
- ~~Inter Governmental Service Funds~~
- ~~All other funds under the control of the Investment Officer for cash management purposes~~
- ~~Any new fund created by the governing body, unless specifically exempted by the governing body~~

~~This investment policy applies to all transactions involving the financial assets and related activity of all the foregoing funds.~~

3.0 PRUDENCE

Investments shall be made with the 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, ~~liquidity, as well as the~~ and probable income to be derived.

3.1 The standard of prudence to be used by the ~~City Treasurer~~ **Investment Officer** will be the “prudent person” and/or “prudent investor” standard, and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures, ~~this the~~ **Investment Policy**, 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 in a timely fashion and appropriate action is taken to control adverse developments.

4.0 OBJECTIVES

The funds of the City of Rochester Hills shall be invested: in accordance with State of Michigan Public Act 20 of 1943, as amended; and the City’s policies and written administrative procedures. The primary objectives, in priority order, of the City’s investment activities shall be:

4.1 **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Rochester Hills shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. ~~To attain this objective, the City will diversify its investments by investing funds among a variety of securities offerin~~

Formatted: Font: (Default) +Body (Calibri)

Formatted: Font: Not Italic

Formatted: Font: (Default) +Body (Calibri)

~~independent returns and financial institutions.~~— The objective shall be to mitigate various risks.

4.1.1 Credit Risk

The risk of loss due to the failure of the security issuer or backer. The City will minimize this risk by:

- Limiting investments to the safest types of securities as specified in Section 8.0.
- Pre-qualifying the financial institutions, broker/dealers, and intermediaries with which the City will do business.
- Diversifying the portfolio so that potential losses on individual securities will be minimized.

4.1.2 Interest Rate Risk

The risk of loss due to the market value of the securities in the portfolio ~~with due~~ to changes in interest rates. The City will minimize this risk by:

- Structuring the maturities of the investment portfolio to meet cash requirements of ongoing operations, thereby avoiding the need to liquidate securities prior to maturity.
- Purchasing securities with the intent to hold until maturity.
- Investing operating funds primarily in shorter-term securities or investment pools.
- ~~Only purchasing securities with the intent to hold until maturity~~

~~4.1.4~~ 4.1.3 Concentration Credit Risk

The risk of loss by placing a large portion of the portfolio with a single security issuer. The City will minimize this risk by:

- Limiting such placement to no more than 10% of the total portfolio defined as securities plus deposits and cash equivalents.

~~4.1.5~~ 4.1.4 Custodial Credit Risk

The risk of loss associated with the counter-party's failure. The City will minimize this risk by:

- Using only financial institutions and brokers meeting pre-established criteria.
- Holding all securities in the name of the City of Rochester Hills.

~~4.2.0 Foreign Currency Risk~~

~~The risk of loss due to foreign exchange rates. The City will minimize the risk by:~~

- ~~Investing no more than 5% of its portfolio in any foreign currency, if such investments should become allowable by the State of Michigan~~

- Formatted: Strikethrough
- Formatted: Indent: Left: 1", No bullets or numbering
- Formatted: Indent: Left: 1"
- Formatted: Indent: Left: 1", No bullets or numbering

4.54.2 Liquidity:

The City of Rochester Hills investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements that may be reasonably anticipated, this ~~is~~ will be accomplished by:

- Structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.
- Structuring the portfolio to consist largely of securities with active secondary or resale markets, ~~since acknowledging that~~ all possible cash demands cannot be anticipated.
- Placing a portion of the portfolio in qualified money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

4.64.3 Return on Investments:

The investment portfolio of the City of Rochester Hills shall be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the level of risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

5.0 DELEGATION OF AUTHORITY

Authority to manage the City of Rochester Hills investment program is derived ~~from Section~~from Section 8.12 of the City Charter and as required by State Statute. Management responsibility for the investment program is hereby granted to the Chief Financial Officer, ~~hereinafter~~ referred to as Investment Officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this ~~i~~nvestment ~~p~~Policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, in the absence of the Investment Officer.

5.1 Investment Procedures:

The Investment Officer shall establish written investment policy procedures for the operation of the investment program consistent with this policy.

The written Investment Procedures Manual is included as Appendix A of this Investment Policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer.

6.0 ETHICS AND CONFLICT OF INTEREST

All participants in the City's investment process shall seek to act responsibly as custodian of the public trust. Investment ~~officials-Officers~~ shall avoid any transactions that might impair public confidence in the City of Rochester Hills ability to govern effectively.

Investment 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. Investment Officers ~~and employees~~ shall disclose to the Mayor any material financial interests in financial institutions that conduct business with the City within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Investment Officers and employees shall subordinate their personal investment transactions to those of the City, particularly with regard to timing of purchases and sales.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Investment Officer shall maintain a listing of financial institutions authorized to provide investment services. In addition, a list will also be maintained for approved security broker/dealers selected by creditworthiness that are authorized to provide investment services in the State of Michigan. These may include "primary" dealers or regional dealers that qualify under the Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No qualified public deposit shall be made except in a qualified public depository as established by the State of Michigan law.

At minimum, an annual review of the financial condition and registration of qualified bidders will be conducted by the Investment Officer. Current audited financial statement are required to be on file of each financial institution and broker/dealer in which the City invests.

7.1 Financial Institutions

All financial institutions (Commercial Banks, Savings & Loans, and Credit Unions) utilized by the City of Rochester Hills shall maintain an office within the State of Michigan and shall meet the following requirements and financial criteria:

- 7.1.1 Have submitted and continue to submit audited annual financial statements (or have financial statements accessible electronically).
- 7.1.2 Have assets of at least \$50 million.
- 7.1.3 Have an Equity to Asset Ratio of at least 5.5%.
- 7.1.4 Have received and read the City's Investment Policy.
- 7.1.5 Have filed with the City an "Acknowledgement of Receipt of the Investment Policy of the City of Rochester Hills and Agreement to Comply" (Appendix C).

7.2 Brokers & Dealers

All broker/dealers utilized by the City of Rochester Hills shall meet the following requirements and financial criteria:

- 7.2.1 Have submitted and continue to submit audited annual financial statements (or have financial statements accessible electronically).
- 7.2.2 Proof of National Association of Securities Dealers (NASD) certification.
- 7.2.3 Qualify under Securities and Exchange Commission Rule 15C3-1.
- 7.2.4 Have a minimum capital of \$100 million.
- 7.2.5 Have been in operation at least five (5) years.
- 7.2.6 Have received and read the City's Investment Policy.
- 7.2.7 Have filed with the City an "Acknowledgement of Receipt of the Investment Policy of the City of Rochester Hills and Agreement to Comply" (Appendix C).

The City will conduct at minimum an annual evaluation of each financial institution and broker/dealer for credit worthiness to determine whether it should continue to be included on the "Qualified Institution" listing. The authorized listing of institutions approved as depositories and/or broker/dealers shall be approved annually by a resolution of the City of Rochester Hills City Council.

8.0 **AUTHORIZED & SUITABLE INVESTMENTS**

The Investment ~~Official Officer~~ is authorized to invest in the following types of securities authorized by State of Michigan Public Act 20 of 1943, as amended:

- 8.1 United States (U.S.) government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with readily determinable market value (does not include collateralized mortgage obligations).
- 8.2 Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution with offices in the State of Michigan.
 - 8.2.1 Also, includes the Certificate of Deposit Account Registry Service (CDARS) where the funds are initially invested through a financial institution that is eligible to be a depository of surplus City funds.
- 8.3 Commercial paper rated at the time of purchase within the two (2) highest classifications (e.g. A-1, P-1, F-1, ~~or D-1~~ or higher) by not less than two (2) nationally recognized rating agencies and which mature not more than 270 days after the date of purchase.
- 8.4 Repurchase agreements, consisting of instruments in subdivision 8.1, if a Master Repurchase Agreement has been signed with the bank or broker/dealer.
- 8.5 Banker's acceptances of U.S. banks.
- 8.6 Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than two (2) standard rating services.
- 8.7 Obligations described in subdivisions 8.1 through 8.6 if purchased through an interlocal agreement under the urban cooperation act of 1967. 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- 8.8 Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- 8.9 Investment pools organized under the local government investment pool act, 1984 PA 121, MCL 129.141 to 129.150.

8.10 Mutual Funds registered under the investment company act of 1940, Title 1 of Chapter 686, 54 Stat. 789, 15 U.S. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation (limited to securities whose intention is to maintain a net asset value of \$1.00 per share).

9.0 INVESTMENT POOLS / MUTUAL FUNDS

A list shall be maintained of authorized investment pools. A thorough investigation of each pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire completed by each pool/fund utilized in the investment program. The questionnaire shall encompass:

- 9.1 ~~The investment policy and objectives of the pool/fund~~ A written statement of investment policy and objectives.
- 9.2 A description of eligible investment securities.
- 9.3 A description of interest calculation, ~~and~~ distribution, and how gains and losses are treated.
- 9.4 A description of how funds are safeguarded and how often the securities are priced.
- 9.5 A description of how ~~How~~ often the pool/fund is audited and by whom.
- 9.6 A description of who may invest in the program, how often, and any limitations on the size ~~or frequency~~ of deposits or withdrawals.
- 9.7 A schedule for receiving statements and portfolio listings.
- 9.8 A description of the use of reserves or retained earnings if applicable.
- ~~9.7.9~~ A fee schedule, including when and how assessed.
- ~~9.8.1~~ A schedule for receiving statements and portfolio listings
- ~~9.9.1~~ A description of the use of reserves or retained earnings if applicable
- 9.10 Disclosure as to whether the pool/fund is eligible to receive and/or will it accept bond proceeds.

10.0 COLLATERALIZATION

Collateralization may be required, at the discretion of the Investment Officer, on certificates of deposit. ~~Collateralization will be required on authorized and~~ repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be 102% of the market value of principal and accrued interest.

Collateral will always be held by an independent third party with whom the City of Rochester Hills has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The right of collateral substitution is granted.

11.0 SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City of Rochester Hills will be conducted on a delivery-versus-payment (DVP) basis to ensure that securities are deposited in an eligible financial institution prior to the release of funds. A third-party custodian designated by the Investment Officer and evidenced by safekeeping receipts will hold securities.

All securities purchased by the City of Rochester Hills shall be properly designated as an asset of the City, and secured through third-party custody and safekeeping procedures. For purposes of this ~~policy~~Policy, third-party shall be defined as a separate financial institution or a separate and distinct division/department of the same institution whose function is safekeeping and/or trust activities. No withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the Investment Officer as authorized herein, or by his/her designee. Investment Officers shall be bonded in a minimum amount of \$1,000,000 to protect the public against possible embezzlement and malfeasance.

The City of Rochester Hills will execute third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements will include letters of authority from the City; details as to responsibilities of each party; notification of security purchases, sales, delivery, repurchase agreements, wire transfers, safekeeping, and transaction costs; and procedures in case of wire failure or other unforeseen mishaps including the liability of each party.

12.0 DIVERSIFICATION

It is the policy of the City of Rochester Hills to maintain a diversified investment portfolio. Assets held ~~in the common cash fund and other investment funds~~ will be diversified to eliminate the risk of loss resulting from an over concentration of assets in a specific maturity, individual financial institution(s), or a specific class of securities. Diversification strategies shall be determined by the Investment Officer to meet diversification objectives (to reduce overall portfolio risks while attaining market average rates of return).

The investments shall be diversified by:

- Limiting investments to avoid overconcentration in securities from a specific issuer of business sector (excluding U.S. Treasury securities).
- Limiting investment in securities that have higher credit risks.
- Investing in securities with varying maturities.
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

12.1 Diversification by Instrument

<u>Instrument</u>	<u>Maximum % of Account/Funds</u>
U.S. Treasury Obligations	100%
U.S. Gov't. Agency Securities & Instruments	75%
State Investment Pool	50%
Government Short-term Investment Trust Funds	50%
Certificates of Deposit	50%
Money Market Funds	50%
Mutual Funds	50%
Commercial Paper	50%
Banker's Acceptance	50%

Formatted: Indent: Left: 0"

12.2 Diversification by Security Issuer

<u>Instrument</u>	<u>Maximum % of Account/Funds</u>
Commercial Paper Issuer	5%
Banks, Credit Unions, and Savings & Loan CD	5%
U.S. Gov't. Agency	20%
Individual Pool Accounts	25%
U.S. Treasury Obligations	100%

13.0 MAXIMUM MATURITIES

To the extent possible, the City of Rochester Hills shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than two (2) years from the date of purchase.

Reserve funds ~~and other funds~~ with longer-term investment horizons may be invested in ~~securities—U.S. Treasury Obligations and U.S. Government Agency Securities & Instruments maturing in up to exceeding twofive (25) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.~~ The Investment Officer shall ~~disclose in writing the intent to investment~~ in securities with ~~longer~~ maturities ~~longer than two (2) years shall be disclosed in writing~~ to the ~~legislative body~~ City Council.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LGIPs, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

14.0 INTERNAL CONTROLS

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Rochester Hills are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgements by management.

~~Accordingly, the~~The Investment Officer shall establish a process for an independent review by an external auditor to provide internal control by ~~assur~~ing compliance with policies and procedures. The internal control process shall address the following points:

- 14.1 Control of collusion.
- 14.2 Separation of transaction authority ~~from~~ from accounting and recordkeeping.
- 14.3 Custodial safekeeping.
- 14.4 Avoidance of ~~the~~ physical delivery securities.
- 14.5 Clear designation of authority to subordinate staff members.
- 14.6 Written confirmation of transactions for investments and wire transfers.
- 14.7 Development of a wire transfer agreement with the lead bank and third-party custodian.

The Investment Officer shall establish written Investment Policy Procedures for the operation of the Investment Program consistent with this Policy. The written Investment Procedures Manual is included as Appendix A of this Investment Policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer.

15.0 **PERFORMANCE STANDARDS**

The investment portfolio shall be managed in accordance with the parameters specified within this ~~policy~~Policy. The investment portfolio shall be designed ~~and managed~~with the objective to obtain a market ~~average~~rate of return ~~during throughout budget and~~ market/economic cycles, ~~taking into account~~commensurate with the City's investment risk constraints and cash flow needs.

The City's investment strategy is passive. Given this strategy, the basis used by the Investment Officer to determine whether market ~~yields~~ rates of return are being achieved shall be the average U.S. Treasury ~~Bill~~rate most closely approximating the average maturity of the portfolio.

16.0 **REPORTING**

The Investment Officer shall provide the Mayor and City Council a quarterly ~~investment~~ Investment report-Report, that which provides a clear picture of the status of the current investment portfolio. The ~~Investment report-Report~~ is to include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in portfolio structure going forward, ~~and~~ thoughts on investment strategies.

The report shall include schedules detailing:

- ~~— Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks~~
- ~~— Listing of investments by maturity date~~
- ~~• Listing of individual securities held at the end of the reporting period~~
- ~~• Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one year duration that are not intended to be held until maturity~~
- ~~• Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks~~
- ~~• Listing of investments by maturity date~~
- ~~• Percentage of the total portfolio which each type of investment represents~~
- ~~• A summary of available funds and percentage invested~~Analysis of market activity.
- ~~• Report of Average City Weighted Investment Yield as compared to applicable benchmark yield.~~
- ~~• Report of Average City Weighted Days to Maturity.~~
- ~~• Report of Portfolio Investment Concentration.~~
- ~~• Report of Investment Holdings by Security Type.~~
 - ~~o Further analysis of average weighted yield and average weighted days to maturity by investment type.~~
- ~~• Report of Investments by Type per Month.~~
- ~~• Report of Available and Invested Balances by Month.~~
- ~~• Report of Interest Income and Average Invested Balances by Fund.~~
- ~~• Report of Investments by Maturity Date Range.~~

Formatted: Body Text Indent, Indent: Left: 0.5", Right: 0"

Formatted: Font: (Default) +Body (Calibri)

Within ~~in~~ 120 days of the end of the fiscal year, the Investment Officer shall prepare ~~comprehensive~~ Comprehensive annual ~~Annual report~~ Report on the investment program and investment activity. The ~~annual~~ Annual report ~~Report~~ will include both a 12-month comparison of returns and shall suggest improvements to the ~~investment~~ Investment policy ~~Policy~~ if needed. The annual report shall include, in addition to the information provided in the quarterly reports, ~~a concentration risk report and a marked~~ Marked-to-market ~~Market~~ analysis of the investments in the portfolio at year-end.

17.0 INVESTMENT POLICY ADOPTION

The City of Rochester Hills Investment Policy shall be adopted by resolution of the City of Rochester Hills City Council. The policy shall be reviewed annually by the Investment Officer ~~or~~ ~~authorized designee.~~ And any modifications made to the City's Investment Policy must be approved by City Council.

18.0 COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

Before the City of Rochester Hills invests surplus funds, competitive bids shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids shall be requested for instruments ~~that~~which meet the maturity requirements. If no specific maturity is required, a market trend (yield curve) analysis shall be conducted to determine which maturities would be most advantageous.

In keeping with the City's concentration risk and diversification objectives, bids shall be requested from financial institutions for various options with regard to terms and instruments. The City shall accept the bid that provides the highest rate of return within the maturity range required and within the parameters of the City's Investment Policy. Records indicating the bids offered, ~~the~~ bids accepted, and a brief explanation of the decision that was made regarding the investment will be kept for future review.

19.0 COMBINING FUNDS

The Investment Officer, or his/her designee, may combine money from two (2) or more funds for the purpose of making a combined investment. In the event of a combination of funds, the earnings of said investment shall be prorated between the funds based upon the initial level of principal contributed.

20.0 SAVINGS CLAUSE

In the event the State of Michigan or Federal legislation and/or regulation should further restrict instruments or institutions authorized by this policy, such restrictions shall be deemed to be immediately incorporated in the City's Investment Policy. If new legislation and/or regulation should liberalize the permitted instruments or institutions, such changes shall be available and included in the Investment Policy only after ~~written notification to~~approval by the City Council.

21.0 GLOSSARY

In order to facilitate a thorough understanding of this investment policy, a glossary of related investment terminology has been incorporated in Appendix B, attached hereto.

22.0 EFFECTIVE DATE

This policy will become effective on _____.

de: 7/88

rev: 2/15/89, 7/24/90, 5/27/98, 2/24/06, 2/1/17, 12/13/21

Formatted: Not Highlight

Appendix A

INVESTMENT PROCEDURES MANUAL

1. Purpose

The purpose of these guidelines is to help create a Procedures Manual to assist Treasury Division staff with day-to-day investment operations, consistent with the City of Rochester Hills Investment Policy.

2. Cash Review

- 1.0 Policy
- 2.0 Scope
- 5.0 Delegation of Authority

The Investment Officer or his/her designee must review the City's cash balances daily and investment portfolio ~~daily, or~~ as needed. Resources to be referenced and reviewed include:

1. Cash Summary Report.
2. Listing of balances, by fund:
 - a. Checking, savings, approved investment pools, CD Investments, CP Investments, ~~and U.S. Treasury/Agency investments~~ investments, or others.
3. Investment Calendar.
4. Listing investment maturities by date, fund, amount, and security type.
5. Debt Payment Schedule.
6. Estimated debt payments and transfers by fund.
7. Payroll and payables schedules.
8. Annual ~~Calendar~~ calendar of sizable receipts and payments by fund, type, and amount.
9. Historical Cash Fund Summary Reports.
10. Average monthly balances for the year by fund.
11. Current year and proposed budget documents, as needed.
12. Sources of current rates of return and economic trends.

3. Investment Selection

- 3.0 Prudence
- 4.0 Objectives
- 8.0 Authorized & Suitable Investments
- 12.0 Diversification
- 13.0 Maximum Maturities

The Investment Officer or authorized designee shall determine how much of the cash balance is available for investment ~~and selects the area of the yield curve that most closely matches the possible maturity date(s).~~ In determining the maturity date(s), the Investment Officer ~~should~~ shall consider safety, liquidity, cash flow, and expected investment expenditures ~~yield~~. A review of ~~some of~~ the following financial information sources shall be made to determine whether the investments should be placed to match projected expenditures, or to take advantage of current and expected interest rate environments:

- Wall Street Journal or similar daily business publication.
- Input from approved brokers/dealers.
- Input from depository banks.
- Publications on general trends of economic statistics.
- Input from data services (Bloomberg, Reuters, ~~Teletype~~, etc...).

The investment selection shall be accomplished by reviewing:

- The current diversification of the portfolio.
- Authorized investment instruments that meet the diversification criteria.
- Authorized security issuers that meet the diversification criteria.

4. Purchasing an Investment

7.0 Authorized Financial Dealers and Institutions

8.0 Authorized & Suitable Investments

9.0 Investment Pools/Mutual Funds

10.0 Collateralization

11.0 Safekeeping and Custody

12.0 Diversification

13.0 Maximum Maturities

18.0 Competitive Selection of Investment Instruments

19.0 Combining Funds

Establish with whom the City of Rochester Hills is going to transact the investment. This shall be accomplished by reviewing the current authorized and qualified financial dealers and institutions that can provide the financial service required, within the constraints of the portfolio diversification requirements. Based upon the economic conditions of the time, the Investment Officer, as a matter of practice, may employ more restrictive diversification requirements than the norm. ~~A selection of a minimum of two-three (3) brokers/dealers shall be selected for competitive quotes for all U.S. Treasury, Certificates of Deposits, and/or commercial Commercial paper-Paper investments. A selection of a minimum of three qualified institutions shall be selected for competitive quotes for certificates of deposits.~~

The following must be determined prior to contacting the providers:

1. Type of security(s).
2. Targeted maturity or maturity range.

3. Amount – either par value or total dollars to be invested.
4. Settlement – rollover or cash, same day or a date certain.

Before concluding the transaction, the Investment Officer ~~should~~ shall validate the following:

1. The security selected for purchase meets all criteria.
 - a. Including portfolio diversification, collateralization (if appropriate) and maturity.
 - b. If the security has any imbedded options such as call provisions or coupon adjustments, these should ~~also~~ be reviewed.
2. Yield calculations should be verified.
3. Total purchase cost (including accrued interest) does not exceed funds available for investment.
4. Inform the successful provider that their offering has been selected for purchase and confirm the particulars of the security purchased.
 - a. Type, identification number, maturity date, price, yield, cost, par value, etc...
5. After confirmation of the purchase, the best price may be disclosed to the other ~~soliciting~~ broker/dealers.

After consummation of the transaction, and prior to settlement, the Investment Officer and the provider should exchange and review the following information to ensure prompt and uninterrupted settlement.

1. Name of third-party safekeeping agent.
2. ABA number for safekeeping agent.
3. Safekeeping account number(s).
4. Reconfirm amount of transaction.
5. Reconfirm settlement date.
6. Acquire CUSIP/CD number of security/deposit.

5. Settlement and Follow-through

5.0 Delegation of Authority

14.0 Internal Controls

It is the Investment Officer's responsibility to forward ~~to~~ and confirm the receipt of all wire instructions (incoming or outgoing wire transfers) with the City's primary bank. Should the transaction fail to take place for any reason, the City's primary bank will notify the City's Investment Officer immediately after it has been notified. The written "safekeeping receipt", once received, shall be verified with the City's Investment Report.

Once the security transaction has ~~been~~ consummated, the Investment Officer shall complete the following:

1. Create an investment record for the security.
2. Update the City's electronic investment ~~program~~ model and investment calendar.

3. Input the investment transaction record electronically into the City's General Ledger for processing.
4. Provide hardcopy copies of the Investment record and with signed General Ledger record entry to the Deputy City Treasurer and the City's Accounting Division for verification and final processing.
5. Place-File the original hardcopy investment record in the Treasury Division's secured vault and General Ledger's hardcopy of the investment record and General Ledger entry in the Fiscal Division's Current to the Investments Binder.
 - a. For investment redemptions, place the hardcopy records shall be filed in the the Redeemed Investments Binder.
- ~~6. Manually update the investment calendar~~
- ~~7-6. File the competitive call record sheet in the Call Sheet Binder for future reference.~~

6. Reporting

15.0 Performance Standards

16.0 Reporting

On a monthly basis, the City's electronic investment report shall be reviewed by the Investment Officer for accuracy, ~~printed~~ and then saved in as a separate file. ~~The Each~~ monthly Investment Report file shall include the following:

- Investment Maturity Calendar.
- Report of Long Term Investments by Fund.
- Report of Balance by Fund/Type/Amount report.
- Report of Investments by Banks/Brokers/Dealers.
- Report of Investments by Fund.
- Report of Concentration Risk.
- Report of Accrued Interest.
- Investment Calendar.
- ~~Accrued Interest report~~
- ~~Long Term Investments by Fund report~~
- ~~Balance by Fund/Type/Amount report~~
- ~~Report of accrued interest transferred to the General Ledger~~
- ~~Report of Investments by Fund~~
- ~~Report of Investments by Banks/Brokers/Dealers~~

The monthly electronic investment rhardcopy of the reportsing shall be made distributed to the Treasurer's file and available in an easily accessible location to the City's Deputy Treasurer and Accounting Manager. The Accounting ~~Department~~ Division shall receive a signed hardcopy copy of the monthly Accrued Interest ReportGeneral Ledger entry, Long Term Investments by Fund Report, Balance Report by Fund/Type/Amount Monthly Accrued Interest Report, and Total Accrued Interest Report.and the Report of Accrued Interest transferred to the General Ledger.

The monthly electronic investment reports shall be reviewed against the following documents as they are received:

- End-of-Month Cash Summary Report.
- ~~City's End-of-Month~~ Trial Balance Report.
- ~~End-of-Month~~ Broker/Dealers ~~monthly reporting s~~ Statements.

On a quarterly basis, the ~~i~~Investment ~~e~~Officer shall provide the Mayor and City Council an Investment Report containing the following information.

- ~~Analysis of the prior periods economic and~~ market activity.
- ~~Report of Average City Weighted Investment Yield as compared to applicable benchmark yield.~~
- ~~Report of Average City Weighted Days to Maturity.~~
- ~~Report of Portfolio Investment Concentration.~~
- ~~Report of Investment Holdings by report by s~~Security ~~t~~Type.
 - ~~with a f~~Further analysis of average weighted yield and average weighted days to maturity by investment type.
- ~~Analysis Report of i~~Investments by ~~type~~Type per Month ~~and by month~~
- ~~Report of Analysis of a~~Available and ~~invested~~Invested ~~balances~~Balances by ~~fund~~Month.
- ~~Report of Interest i~~Income and ~~a~~Average ~~invested~~Invested ~~balances~~Balances by ~~fund~~Fund.
- ~~Analysis Report of i~~Investments by ~~maturity~~Maturity ~~date~~ Date ~~(w/o pooled funds)~~Range.
- ~~Investment holding report by security type, with a further analysis of average weighted yield and average weighted days to maturity by investment type~~

Formatted

Annually, ~~T~~the ~~4th~~ Quarter Investment ~~r~~Report shall also include a ~~Concentration Risk Report and a Year-End~~ Marked to Market Analysis by investment type.

Formatted: Superscript

All investment related documents and reports shall be retained on-site for a minimum of one (1) full year after ~~the close of the City's Fiscal Year or~~ the completion of the applicable Annual City Audit, ~~whichever occurs later~~. All investment records shall be retained in accordance with applicable State and City record retention schedules.

The Investment Officer shall cooperate fully with the City's auditors with regard to all aspects of the City's investment program. The ~~City's~~Investment Officer shall incorporate into the investment process and procedures, suggestions made by the City's ~~A~~auditor, when they are required by statute, ordinance, or recommended best practices for investment programs. Changes to the City's Investment Policy and/or procedures require a resolution of approval by the City of Rochester Hills City Council.

Appendix B

GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

BANKER'S ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance of risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SERVICE (CDARS): A registered service mark of Promontory Interfinancial Network, LLC. The CDARS involves the placement of funds with a member institution that in turn places funds in the form of a Certificate of Deposit (CD), with other member institution(s), in the amount not to exceed the maximum FDIC insured amount of \$250,000.00. One rate of interest is earned on the entire investment. The initial member institution provides one regular account statement listing all of the CD's, along with their issuing banks, maturity dates, interest earned, and other details.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT ~~(CAFR)~~: The official annual report for the governmental entity. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It ~~also~~ includes supporting schedules necessary to demonstrate compliance with finance related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT (DVP): There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with the exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed Funds are traded. The Federal Reserve through open-market operations currently pegs this rate.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB's is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 75,5700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. The security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without substantial loss of value. In the money market, a security is said to be liquid if the spread between the bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and BID.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) – registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond, the current income return.

REPURCHASE AGREEMENT (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him/her for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year [increments](#).

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than ten years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Glossary Source: APT US&C

Appendix C

**ACKNOWLEDGEMENT OF RECEIPT OF THE INVESTMENT POLICY
OF THE CITY OF ROCHESTER HILLS
AND AGREEMENT TO COMPLY**

I have fully read and fully understand Act 20 of PA 1943, as amended, and the Investment Policy of the City of Rochester Hills.

Any investment advice or recommendation on investments given by

_____, representing _____,
to the City of Rochester Hills shall comply with the requirements of Act 20 PA 1943, as amended, and the Investment Policy of the City of Rochester Hills. Any existing investment not conforming to State statute or the City's Investment Policy shall be disclosed promptly to the Rochester Hills Investment Officer.

By: _____

Title: _____

Date: _____