

**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 while providing the highest 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 activities of the City of Rochester Hills except for its employee pension funds and its employee deferred compensation funds that are organized and administered separately under the Code of Ordinances, Chapter 82, Article III and Chapter 82, Article V respectively. The funds are accounted for in the City's Comprehensive Annual Financial Report and include the following:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Water and Sewer Funds
- Inter-Governmental Service Funds
- Trust and Agency Funds
- All other funds under the control of the City Treasurer for cash management purposes and 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 as well as the probable income to be derived.

The standard of prudence to be used by the City Treasurer will be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with written procedures and 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, these 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 City of Rochester Hills investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate risk.

4.1.1 Credit Risk

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

- * Limiting investments to the safest types of securities
- * 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 City will minimize the risk that the market value of the securities in the portfolio will fall due to changes in the general interest rates, by: Structuring the maturities of the portfolio to meet cash requirements of ongoing operations, thereby avoiding the need to liquidate securities prior to maturity.

- * Investing operating funds primarily in short-term securities or investment pools.
- * Only purchasing securities with the intent to hold until maturity.

4.1.3 Concentration Credit Risk

The City will minimize the risk inherent in placing a large portion of the portfolio with a single security issuer by limiting such placement to 10% of the total portfolio defined as securities plus deposits and cash equivalents.

4.1.4 Custodial Credit Risk

The City will minimize custodial risk by:

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

4.1.5 Foreign Currency Risk

The City will minimize foreign currency 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.

4.2 **Liquidity:**

The investment portfolio of the City of Rochester Hills will remain sufficiently liquid to enable the City to meet all operating requirements that may be reasonably anticipated.

4.3 **Return on Investments:**

The investment portfolio of the City of Rochester Hills shall be designed with the objective of attaining a benchmark rate of return throughout the budgetary and economic cycles, commensurate with the City's investment risk constraints and cash flow characteristics of the portfolio.

5.0 DELEGATION OF AUTHORITY

Management responsibility for the investment program is hereby delegated to the City Treasurer in conformance with Section 8.12 of the City Charter and as required by state statute. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the City Treasurer.

5.1 **Investment Procedures:**

The City Treasurer shall establish written investment policy procedures for the operation 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 City Treasurer.

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 shall avoid any transactions that might impair public confidence in the City of Rochester Hills ability to govern effectively. 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 chief executive officer any material financial interests in financial institutions that conduct business with this City and they shall further disclose any large personal financial/investment positions that could be related to the performance of this jurisdiction's portfolio. Employees and officers shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to timing of purchases and sales.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City Treasurer shall maintain a listing of financial institutions and broker/dealers authorized to provide investment services. The City will conduct an annual evaluation of each financial institution and broker/dealer for credit worthiness to determine whether it should be on the "Qualified Institution" listing. The authorized listing of institutions

approved depositories and/or broker/dealers shall be approved annually by a resolution of the City of Rochester Hills City Council.

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 meet the following requirements and financial criteria:

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

7.2 Brokers & Dealers

- 7.2.1 Have a minimum capital of \$100 million.
- 7.2.2 Have been in operation at least five years.
- 7.2.3 Qualify under Securities and Exchange Commission Rule 15C3-1.
- 7.2.4 Are certified by the National Association of Securities Dealers.
- 7.2.5 Have received and read the City's Investment Policy.
- 7.2.6 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).
- 7.2.7 Have submitted and continue to submit audited annual financial statements (or have financial statements accessible electronically).

8.0 AUTHORIZED INVESTMENTS

The City Treasurer is authorized to invest in the following types of securities authorized by Public Act 20 of 1943, as amended:

- 8.1 Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States (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.
- 8.3 Commercial paper rated at the time of purchase within the two highest classifications by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- 8.4 Repurchase agreements, consisting of instruments in subdivision 6.1, if a Master Repurchase Agreement has been signed with the bank or broker/dealer.
- 8.5 Banker's acceptances of United States banks.
- 8.6 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 2 standard rating services.
- 8.7 Obligations described in subdivisions 6.1 through 6.6 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. This is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

9.0 INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing. There shall be a questionnaire completed by each pool/fund utilized in the investment program. The questionnaire shall encompass:

- 9.01 The investment policy and objectives of the pool/fund.
- 9.02 A description of eligible investment securities.
- 9.03 A description of interest calculation and distribution.
- 9.04 A description of how funds are safeguarded and securities priced.
- 9.05 How often the pool/fund is audited and by who.
- 9.06 A description of any limitations on the size or frequency of deposits or withdrawals.
- 9.07 A fee schedule, including when and how assessed.
- 9.08 A schedule for receiving statements and portfolio listings.
- 9.09 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 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 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. The collateral shall be subject to the custody and safekeeping provisions of this investment policy.

11.0 MAXIMUM MATURITIES

It is the objective of the City's investment policy to schedule maturities to coincide with projected cash flow needs, taking into consideration large routine expenditures (payroll, payables, bond payments) and sizable amounts of anticipated revenues (property taxes, state shared revenues). Unless matched to a specific cash flow, the City of Rochester Hills will not directly invest in securities maturing more than two years from the date of purchase. Debt funds may be invested in securities exceeding two years if the maturity of the investments are made to coincide as nearly as practicable with the expected use of the funds.

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 will be determined and revised by the City Treasurer from time to time to meet diversification objectives (to reduce overall portfolio risks while attaining market average rates of return).

12.1 **Diversification by Instrument**

<u>Instrument</u>	<u>Maximum % of Accounts/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%

12.2 **Diversification by Security Issuer**

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

13.0 SAFEKEEPING AND CUSTODY

All securities purchased by the City of Rochester Hills under this section will be properly designated as an asset of the city and be secured through third party custody and safekeeping procedures. For purposes of this policy, third party shall be defined as a separate financial institution or a separate and distinct division or 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 City Treasurer as authorized herein, or by its designee. Investment officials shall be bonded 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, procedures in case of wire failure or other unforeseen mishaps including the liability of each party.

All security transactions, including collateral for repurchase agreements, entered into by the city will be conducted on a delivery-versus-payment (DVP) basis. A third party

custodian designated by the City Treasurer and evidenced by safekeeping receipts will hold securities.

14.0 INTERNAL CONTROLS

The City Treasurer shall maintain a system of internal controls which shall be designed, in addition to conforming to generally accepted accounting principles, to minimize losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Rochester Hills. The Treasurer shall establish an annual process of independent review by an external auditor.

15.0 PERFORMANCE STANDARDS

The investment portfolio will be designed and managed to obtain a market average rate of return during budgetary and economic cycles, taking into account 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 City Treasurer to determine whether market yields are being achieved shall be the average U.S. Treasury Bill rate most closely approximating the average maturity of the portfolio.

16.0 COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

Before the city 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 will be requested for instruments that 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 will accept the bid that provides the highest rate of return within the maturity 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.

17.0 COMBINING FUNDS

The City Treasurer, or his/her designee, may combine money from two or more funds for the purpose of making an investment. In the event of a combination of funds, the earnings of said investment shall be prorated between the funds involved based on principal contributed.

18.0 REPORTING

The City Treasurer shall generate a quarterly investment report that summarizes recent market conditions, economic developments and anticipated investment conditions. Each quarterly report will indicate any areas of policy concern and suggested or planned revision(s) of investment strategies. The report shall include:

- * A summary of investments by type.
- * A summary of available funds and percentage invested.
- * A summary of interest income and average invested balances by fund.
- * An analysis of investments by maturity dates.
- * A list of all open investments by type, including fund, investment amount, rate, purchase date and maturity date.

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

19.0 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 City Treasurer or authorized designee. Any modifications made to the investment policy must be approved by City Council.

20.0 SAVINGS CLAUSE

In the event any state or federal legislation or regulation should further restrict instruments or institutions authorized by this policy, such restrictions shall be deemed to be immediately incorporated in this policy. If new legislation or regulation should liberalize the permitted instruments or institutions, such changes shall be available and included in this policy only after written notification to 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 March 16, 2006.

de: 7/88

rev: 2/15/89, 7/24/90, 5/27/98, 2/24/06

Appendix A

INVESTMENT PROCEDURES MANUAL

1. Purpose

The purpose of these guidelines is to help create a Procedures Manual to assist Treasury 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 City Treasurer or his/her designee must review the cash balances and investment portfolio daily, or as needed. Resources to be referenced and reviewed include:

- a.) Cash Summary Report – Listing of balances, by fund, in: checking; savings; MBIA Class Pool; Federated Government Pool; CD Investments; CP Investments; and, Treasury/Agency Investments.
- b.) Investment Calendar – Listing investment maturities by date, fund, amount and security type.
- c.) Debt Payment Schedule – Estimated debt payments and transfers by fund.
- d.) Payroll and payables schedules
- e.) Annual Calendar of sizable receipts and payments by fund, type and amount.
- f.) Historical Cash Fund Summary Reports – Average monthly balances for the year, by fund.
- g.) Current year and proposed budget documents, as needed.
- h.) Sources of current rates of return and economic trends.

3. Investment Selection

3.0 Prudence

4.0 Objectives

8.0 Authorized Investments

11.0 Maximum Maturities

12.0 Diversification

The City Treasurer or authorized designee determines 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 consider liquidity, cash flow and expected expenditures. A review of some of the following financial information sources should be made to determine whether the investments should be placed to match projected expenditures or shorter, or take advantage of current and expected interest rate environments:

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

The investment selection should be accomplished by reviewing: the current diversification of the portfolio; authorized investment instruments that meet the diversification criteria; and, the authorized security issuers that meet the diversification criteria.

4. Purchasing an Investment

7.0 Authorized Financial Dealers and Institutions

8.0 Authorized Investments

9.0 Investment Pools/Mutual Funds

10.0 Collateralization

11.0 Maximum Maturities

12.0 Diversification

13.0 Safekeeping and Custody

16.0 Competitive Selection of Investment Instruments

17.0 Combining Funds

Establish with whom the City of Rochester Hills is going to transact business. This should be accomplished by reviewing: the current authorized 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 brokers/dealers shall be selected for competitive quotes for treasury and/or commercial 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:

- a) Type of security(s) to be quoted.
- b) Targeted maturity or maturity range.
- c) Amount – either par value or total dollars to be invested.
- d) Settlement – rollover or cash, same day or a date certain.

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

- a) The security selected for purchase meets all criteria, including portfolio diversification, collateralization (if appropriate) and maturity. If the security has any imbedded options such as call provisions or coupon adjustments, these should also be reviewed.
- b) Yield calculations should be verified.

- c) Total purchase cost (including accrued interest) does not exceed funds available for investment.
- d) Advise the successful provider that their offering has been selected for purchase and confirm the particulars of the security purchased (type, identification number, maturity date, price, yield, cost, par value, etc.).
- e) After confirmation of the purchase, the best price may be disclosed to the other broker/dealers, if you so choose.

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.

- a) Name of third-party safekeeping agent.
- b) ABA number for safekeeping agent.
- c) Safekeeping account number(s).
- d) Reconfirm amount of transaction.
- e) Reconfirm settlement date.
- f) Acquire CUSIP/CD number of security/deposit.

5. Settlement and Follow-through

6.0 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:

- a) Create an investment record for the security.
- b) Update the City's electronic investment program.
- c) Input the investment transaction electronically into the City's General Ledger.
- d) Provide copies of the Investment record and General Ledger record to the Deputy City Treasurer and the City's Accounting Division.
- e) Place the original investment record and General Ledger record into the Investment Binder. For investment redemptions, place the records in the Redeemed Investments Binder.
- f) Manually update the investment calendar.
- g) File the competitive call record sheet in the Call Sheet Binder for future reference.

6. Reporting

15.0 Performance Standards

18.0 Reporting

On a monthly basis, the City's electronic investment report shall be reviewed for accuracy, printed and saved in a separate file. The monthly report shall include the following:

- Investment Maturity 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 hardcopy of the reporting shall be distributed to the Treasurer's file and the Deputy Treasurer. The accounting department shall receive a copy of the Accrued Interest Report, Long Term Investments by Fund Report, Balance Report by Fund/Type/Amount and the Report of Accrued Interest transferred to the General Ledger.

The monthly electronic investment report shall be proofed against the following documents as they are received: End-of-Month Cash Summary Report; City's Monthly Trial Balance Report; and, the Broker/Dealers monthly reporting statements.

On a quarterly basis, the investment officer shall provide the Mayor and City Council an Investment Report containing the following information.

- Analysis of the prior periods economic and market activity.
- Analysis of investments by type and by month.
- Analysis of available and invested balances by fund.
- Interest income and average invested balances by fund.
- Analysis of investments by maturity date (w/o pooled funds).
- Investment holding report by security type, with a further analysis of average weighted yield and average weighted days to maturity by investment type.

Annually, the report shall also include a Concentration Risk Report and a Marked to Market Analysis by investment type.

All investment related documents and reports shall be retained for a minimum of one 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 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 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.

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 \$100,000 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): FNMA, 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 7,500 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. 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.

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 investment policy will be disclosed promptly to the Rochester Hills City Treasurer.

By: _____

Title: _____

Date: _____