APO Number: 15-2021
Resolution Number: 2021-08
Effective Date: February 24, 2021
Modified Date(s):

Title: Investment and Depository Designation Policy
Adoption Date: February 23, 2021 by Board of Trustees

General Purpose:

To establish parameters to invest Township funds in a manner, which will provide maximum security with the highest investment return while meeting daily cash flow demands of the Township and comply with state statutes and/or local ordinances governing the investment of funds.

Summary Statement of Policy:

It is the purpose of this Investment Policy to provide the objectives for investment of Township funds, provide any necessary safeguards, provide for delegations of authority, and provide guidelines concerning investment partners and type of investments.

Actual Policy as Written

1. Purpose: It is the policy of Chesterfield Charter Township ("the Township") to invest funds in a manner which will provide preservation of capital, meet the daily liquidity needs of the Township, diversify the Township's investments, conform to all local and state statutes governing the investment of public funds. This Investment Policy addresses the methods, procedures and practices which must be exercised to ensure effective and judicious fiscal and investment management of the Township's funds.

2. Scope: This investment policy applies to all financial assets and related activity of the Township. These assets are accounted for in the Township's Annual Financial Audit Report and include:

2.1 FUNDS

- General Fund
- Public Safety Funds
- Brandenburg Funds
- Park and Recreation Funds
- Special Assessment Funds
- Internal Service Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Fund

- Debt Service Funds
- Component Units

Any new fund created by the Township, unless specifically exempted by the Township Board.

Note: This policy does not apply to pension, deferred compensation, and retiree healthcare trust fund assets which are administered externally, and not subject to Act 20, P.A. of 1943; as amended. Pension, deferred compensation, and retiree healthcare are not held or invested by the Township Treasurer. The Charter Township of Chesterfield does not have any responsibility for the individual returns on these accounts.

2.2 Pooling of Funds

Cash may be pooled for investment purposes. The investment income derived from the pooled investment accounts shall be allocated to the contributing funds based upon the proportion of the respective average daily balances relative to the total pooled balance in the investment portfolio.

3. Investment Objectives

The Township's principal investment objectives are:

- **Safety** – Safety of principal is the foremost objective of the investment program. Investments of the Township shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

- **Liquidity** - The investment portfolio will remain sufficiently liquid to enable Chesterfield Township to meet operating requirements that might be reasonably anticipated.

- **Diversification** - The investments shall be diversified or restricted by specific maturity dates, individual financial institutions or a specific class of securities as may be set forth by Board amendment to this policy and in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. With the exception of United States Treasury securities, certificates of deposit, and authorized investment pools, no more than 50% of the Township's total investment portfolio will be invested in a single financial institution.

- **Return on Investment** – Chesterfield Township will strive to maximize the return on the investment portfolio. The portfolio shall be designed with the objective of obtaining a rate of return appropriate to existing budgetary and economic cycles, taking into account the investment risk constraints and cash flow characteristics of the portfolio. The portfolio shall conform with all applicable Township policies, State statutes, and Federal regulations.

4. Delegation of Authority

Authority to manage the investment program related to implementation of the Township Investment Policy is derived from MCL 41.76, as amended. Management responsibility for the investment program is hereby delegated to the Township Treasurer (Investment Officer). As such, the Treasurer is vested with the responsibility of managing the Township's investment program and for implementing this Investment Policy. The Treasurer (Investment Officer) may delegate the authority to conduct investment transactions and manage the operation of the investment portfolio to other specifically authorized staff members. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy and the procedures established by the Investment Officer.

The Township Treasurer (Investment Officer) shall establish written procedures and internal controls to regulate the activities of subordinate officials and for the operation of the Township's investment program, designed to prevent loss of public funds due to fraud, error, misrepresentation, and imprudent actions.

An Investment Committee may meet on an as-needed basis, whose sole purpose shall be to advise the Treasurer on overall Banking, Depository and Investment strategy, Primary banking structure and relationship, specific investment selection, and evaluation of the Township's Investment portfolio. The committee may consist of the Treasurer and three of the following: Finance Director, Investment Coordinator, Deputy Treasurer and one member of the Township's Board of Trustees.

The Township may engage the support services of outside professionals in regard to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the Township's financial resources. Such services may include engagement of financial advisors in conjunction with debt issuance, portfolio management, special legal representation, third party custodial services and appraisals by independent rating services.

5. Prudence and Indemnification

The standard of prudence to be used for managing the Township's assets is the Michigan Prudent Investor Rule, found in Section 700.1502 of Act 386 of 1998. It states, "A fiduciary shall invest and manage assets held in a fiduciary capacity as a prudent investor would, taking into account the purposes, terms, distribution requirements expressed in the governing instrument, and other circumstances of the fiduciary estate. To satisfy this standard, the fiduciary must exercise reasonable care, skill, and caution."

The Township's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Township recognizes that no investment is totally riskless and that the investment activities of the Township are a matter of public record. Accordingly, the Township recognizes that occasional measured losses may be desirable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the Township.

Authorized persons acting in accordance with written procedures and the investment policy whom have exercised 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 to the Township Board and appropriate action is taken to control adverse developments.

6. Ethics and Conflicts of Interest

Township officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the Township's investment program, or impair their ability to make impartial investment decisions. Employees shall disclose to the Township Treasurer any material financial interests in financial institutions that conduct business with the Township.

7. Authorized Financial Institutions and Broker/Dealers

The Township shall maintain a list of authorized financial institutions and broker/dealers approved for investment purposes by the Township Board and it shall be the policy of the Township to purchase securities only from those authorized firms. Financial institutions on this list shall be reviewed by the Treasurer periodically based on rating agency reports but no less than annually.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Township Investment Officer with the following: audited financial statements for the most recent fiscal year; certification of having read the Township's investment policy,-written procedures referenced in the investment policy and the pertinent state statutes; proof of National Association of Security Dealers certification; and proof of State registration, where applicable

8. Authorized Securities and Transactions

Investments for the Township shall be made in accordance with Act 20 of 1943 as amended, MCL 129.91-129.96, Investment of Surplus Funds of Political Subdivisions, and Act 40 of 1932, as amended, MCL 129.12-129.14, Depositories for Public Moneys. Any revisions or extensions of these statutes will be assumed to be part of this Investment Policy immediately upon being enacted.

It is the intent of the Township that the foregoing list of authorized securities be strictly interpreted. Any deviation from this list must be pre-approved by the Township Board.

(a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
(b) Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with MCL 129.91(2); certificates of deposit obtained through a financial institution as provided in MCL 129.91(5); or deposit accounts of a financial institution as provided in MCL 129.91(6).

(c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

(d) Repurchase agreements consisting of instruments listed in subdivision (a).

(e) Bankers' acceptances of United States banks.

(f) Obligations of this state or any of its political subdivisions that at the time of purchase are rates as investment grade by not less than 1 standard rating service.

(g) Mutual funds registered under the investment company act of 1904, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:

(*i*) The purchase of securities on a when-issued or delayed delivery basis.

(*ii*) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.

(*iii*) The limited ability to borrow and pledge a like portion of the portfolio assets for temporary or emergency purposes.

(h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

(i) Investment pools organized under the surplus funds investment pool act, 1982 Pal 367, MCL 129.111 to 129.118.

(j) The investment pools organized under the local government investment pool at, 1985 PA 121, MCL 129.141 to 129.150.

It is the intent of the Township to diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should be flexible depending upon the outlook for the economy, the securities markets and the Township's anticipated cash flow needs.

9. Investment Maturity, Liquidity, and Cash Management

The portfolio shall remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. To the extent possible, investments shall be matched with anticipated cash flows and known future liabilities. Investments shall be limited to maturities not exceeding ten years from the date of trade settlement, unless specifically authorized by the Township Treasurer.

10. Safekeeping and Custody

The Township Board shall approve one or more banks to provide safekeeping and custodial services for the Township. A Township approved safekeeping agreement shall be executed with each custodian bank. To be eligible, a bank must be eligible to be a depository of funds belonging to the State of Michigan.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. Ownership of all securities shall be perfected in the name of the Township. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except non-negotiable Certificates of Deposit, Investment Pools, Joint Interlocal Investment Ventures and Money Market Mutual Funds, purchased by the Township will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by the Township approved custodian bank, its correspondent bank or the Depository Trust Company (DTC).

All Fed wireable book entry securities shall be evidenced by a safekeeping receipt or a customer confirmation issued to the Township by the custodian bank stating that the securities are held in the Federal Reserve system in a Customer Account for the custodian bank which will name the Township as "customer."

All non-book entry (physical delivery) securities shall be held by the custodian bank or its correspondent bank and the custodian bank shall provide evidence that the securities are held for the Township as "customer."

The Township's custodian will be required to furnish the Township monthly reports of holdings of securities as well as a report of monthly safekeeping activity.

11. Performance Benchmarks

The Township's investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the portfolio shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's weighted average effective maturity.

12. Reporting

The Treasurer shall submit to the Township Board, a quarterly investment report summarizing the investments held by the Township and the current market value of those investments. The report shall include a summary of investment earnings and performance results during the period, illustrate the portfolio's adherence to appropriate risk levels utilizing appropriate metrics like maturity or duration depending on the investment strategy of the portfolio, and compare the portfolio's total return versus established investment objectives and goals including performance relative to established benchmark yields.

A Comprehensive Financial Condition Report shall be developed cooperatively by the Treasurer, Finance Director, and Assessor and presented to the Board of Trustees annually. The report will address the following: Revenue & Expenditure Report; Cash Flow Analysis; Debt Payment schedule; 10 -year tax collection comparison; Bank and Investment Report; Approved Financial Institutions List.

The Township's investment operations will be reviewed as part of the annual audit.

13. Financial Institutions as depositories

The Treasurer shall maintain a list of banks and savings banks authorized to provide depository and other banking services and from which the Township may purchase Time Certificates of Deposit. To be authorized, a bank must be eligible to be a depository of funds belonging to the State of Michigan and maintain a principal office or branch office in Michigan. Banks that fail to meet this criteria or in the judgment of the Treasurer no longer offer adequate safety to the Township, will be removed from the following list of approved financial institutions.

Huntington Bank
Comerica Bank
JP Morgan Chase
First State Bank
PNC Bank
Michigan Schools and Government Credit Union
Bank of America
Flagstar Bank
Fifth Third Bank
RBS Citizens N.A. DBA Charter One Bank
Michigan Class
The Bank of New York Mellon
US Bank
TCF Bank

14. Investment Policy Adoption

The Investment Policy shall be adopted by resolution of the Township Board. It shall be reviewed annually by the Investment Committee, under the direction of the Treasurer, and may be amended by the Township Board as conditions warrant.

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy until maturity or liquidation, such monies shall be reinvested only as provided by this policy.

Broker/Dealer Certification

I certify that I have received a copy of the Investment Policy of Chesterfield Township which was adopted (date), and I understand the objectives and constraints outlined in the Investment Policy as they relate to the firm's status as a broker/dealer or investment institution.

Signed	Title
Firm Name	Date

GLOSSARY

ACT 20 OF 1943: Michigan Laws, regulating municipal investments, as amended.

ACT 196 OF 1997: which amended Public Act 20 of 1943.

AGENCIES: Federal agency securities.

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

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 depositions of public monies.

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 own account.

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

DELIVERY VERSUS PAYMENT or RECEIPT: There are two methods of delivery of securities, delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an 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 leverage factor, or (2) financial contracts based upon <u>estimated</u> 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 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 and Saving deposits .

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

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulates and lend to saving and loan associations. The Federal Home Loan Banks plays a role similar to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

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 principle 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 5,700 commercial banks are members of the system.

FINANCIAL INSTITUTION: A state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United State government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

FUNDS: The money of a public corporation, the investment of which is not otherwise subject to a public act of this state or bond authorizing ordinance or resolution of a public corporation that permits investment in fewer than all of the investment options listed in subsection (1) or imposes one or more conditions upon an investment in an option listed in subsection (1) of Section 1 of Act 196 of 1997, amending Act 20 of 1943.

GOVERNING BODY: The legislative body, council, commission, board, or other body having legislative powers of a public corporation.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

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 security is trading and could presumably be purchased or sold.

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, banker's acceptances, etc.) are issued and traded.

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 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 state, the trustee may invest in a security if it one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PUBLIC CORPORATION: A county, city, village, township, port district, drainage district, special assessment district, or metropolitan district of this state, or a board, commission, or another authority or agency created by or under an act of the legislature of this state.

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 obtained on a security based on its purchase price or its current market price.

REPURCHASE AGREEMENT (RP OR REPO): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase.

SAFEKEEPING: A federal reserve bank or other institution, which is qualified to hold securities for safekeeping.

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

SECURITIES & EXCHANGE COMMISSION: 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 BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate U.S. government debt securities with maturities of one to ten years.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

Adoption Certification by

Daniel J. Acciavatti, Supervisor

Cindy Berry, Clerk