I N V E S T M E N T P O L I C Y

CITY OF SOUTHFIELD, MICHIGAN

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The City of Southfield, Michigan (the City) is a home rule municipality which operates under a Council/Administrator form of government. The City is governed by a seven-member City Council and functions under the direction of a City Administrator who is appointed by the Council. The elected City Treasurer is responsible for the City's investment program.

The purpose of this Investment Policy (the Policy) is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, safekeeping and custodial procedures necessary for the prudent management of City funds.

This Policy has been adopted by Resolution of the Council of the City of Southfield and replaces all previous Investment Policies or Resolutions pertaining to the City's cash and investment management program.

I. Policy

The policy of the City of Southfield is to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the cash flow demands of the City and conforming to all State Laws and City Ordinances governing the investment of public funds.

II. Scope

This investment policy applies to all financial assets held by the City of Southfield other than pension fund and deferred compensation fund assets. These assets are accounted for in the City's Comprehensive Annual Financial Report and include: General fund; Special Revenue funds; Internal Service funds; Capital Project funds; Enterprise funds; Trust and Agency funds; Debt Service funds; Fiduciary funds; all new funds created by the City, unless specifically exempted by the City Council.

III. Pooling of Cash and Investments

Except for cash in certain restricted and special accounts, the City Treasurer and/or the City's authorized Investment Advisor may pool the cash of various funds into one investment portfolio to maximize investment earnings. Investment income shall be allocated to the various funds based upon their respective participation.

IV. Investment Objectives

The following investment objectives, in order of priority, shall be applied in the management of the City of Southfield's funds:

Safety

Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio by diversifying holdings and maturities to mitigate both credit risk and interest rate risk.

a. 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 financial institutions with which the City will do business
* Diversifying the portfolio so that potential losses on individual securities would be minimized
* Maintaining credit ratings on all holdings

b. 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 general interest rates by structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate securities at a loss prior to maturity. In addition, investments past three years in maturity will be made to coincide as nearly as practicable with the expected use of the funds.

The primary objective of the City's investment activities is the preservation of capital. To satisfy this criterion, several actions are required including diversification of securities and deposits, except when invested in direct obligations of the United States Government.

Risk shall also be minimized by closely monitoring pertinent financial information and rating agency reports that would disclose a weakening financial condition at any firm or institution associated with City investments. Written notice of any adverse changes in financial condition of these institutions shall be immediately forwarded to the City Council by the City Treasurer for further review and appropriate action.

The objective of the City Treasurer, in conjunction with the City's authorized Investment Advisor, shall be to control risks and diversify investments regarding specific security types or individual financial institutions. Investments shall be limited to those types of securities as set forth in Section IX of this policy statement.

Liquidity

The investment portfolio shall remain sufficiently liquid to enable the City to meet operating requirements which might be reasonably anticipated.

Return on Investment

The investment portfolio shall be designed with the objective of attaining the maximum market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics of the portfolio.

V. Prudence

In managing its investment portfolio, the City Treasurer and/or the City's authorized Investment Advisor shall avoid any transaction that might impair public confidence. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. Due professional diligence shall be exercised in every transaction. This shall be the standard for professional responsibility and shall be applied in the context of managing the overall portfolio.

The City's overall investment program shall be designed and managed in such a fashion to be worthy of the public trust. The City recognizes that no investment is totally free of risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that this Policy has been followed and that the sale of a security prior to maturity is in the best long-term interest of the City.

The City Treasurer and/or the City's authorized Investment Advisor, acting in accordance with State Laws and City Ordinances, this Investment Policy, written procedures as may be established, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely manner to the City Council, and appropriate action is taken to control adverse developments.

VI. Delegation of Authority

Authority to manage the City's investment program is derived from the City Charter, Section 5.8 and City Council Resolutions.

Daily management responsibility for the investment program is vested in the City Treasurer, subject to the guidelines established by the City Council. The Treasurer shall establish procedures for the operation of the Investment Program consistent with this Investment Policy. Such procedures must include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under terms of this Policy and procedures established by the City Treasurer. Such procedures should also include reference to segregation of duties, and custody and accounting controls. 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/or authorized Investment Advisor.

VII. Ethics and Conflicts of Interest

City Officers, employees, and authorized Investment Advisors 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 or create the appearance of impairment of their ability to make impartial investment decisions. The City Treasurer and the City's authorized Investment Advisor shall disclose to the City Council any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any large personal financial investment positions that could be related to the performance of the City's portfolio. The City Treasurer and/or

authorized Investment Advisors shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

VIII. Authorized Financial Institutions and Broker/Dealers

The City Treasurer will maintain a list of financial institutions authorized and approved by resolution by the City Council on an annual basis to provide depository services.

No public deposit shall be made except in a qualified public depository as established by State law. An annual analysis of the financial condition, registration, professional institution/bank rating, and Community Reinvestment Act rating of qualified bidders will be conducted by the City Treasurer and the City's authorized Investment Advisor. Information indicating a material reduction in ratings, standards or a material loss or prospective loss of capital on existing investments must be shared with either the City Council or its delegate, the Finance Committee, in writing immediately.

The Treasurer shall also maintain a list of Broker/Dealers authorized and approved by resolution by the City Council to provide investment services to the City. It shall be the policy of the City Treasurer to conduct security transactions only with authorized institutions and firms. To be eligible a firm must:

a) be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a primary dealer within its holding company structure; OR

b) report voluntarily to the Federal Reserve Bank of New York; OR

c) qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Broker/dealers will be selected by the City Treasurer on the basis of their expertise in public cash management and their ability to provide services for the City's account. Approved broker/dealers and the firms they represent shall be licensed to do business in the State of Michigan and as such are subject to statutes of the State of Michigan as well as the City's Investment Policy.

Each authorized broker/dealer shall be required to submit and annually update a City Treasurer's Broker/Dealer Information Request form which includes the firm's most recent financial statements.

Per Section 129.96 of Michigan's Act 20 of 1943, before executing an investment transaction, approved financial intermediaries, broker/dealers, and investment advisors shall be provided with a copy of the City's investment policy and shall do both of the following:

A. Acknowledge receipt, review and understanding of the investment policy.

B. Agree to comply with the terms of the investment policy regarding buying or selling of securities.

The City may purchase Commercial Paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item e. of the Authorized and Suitable Investments section of this Investment Policy.

IX. Authorized and Suitable Investments

Investments for the City of Southfield shall be made in accordance with Michigan State statutes: 1943 Public Act 20 as amended, M.C.L. 129.91-129.96, Investment of surplus funds, eligible depositories, and M.C.L. 129.14, Eligible Depositories.

The City has further restricted the types of securities and transactions eligible for investment by the City Treasurer or authorized City Investment Advisor as follows:

a. U.S. Treasury Obligations: Treasury Bills, Treasury Notes, and Treasury Bonds with a final maturity not exceeding five years from the date of trade settlement and U.S. Treasury Strips (book-entry U.S. Treasury Securities whose coupon has been removed) with maturities not exceeding five years from the date of trade settlement.

b. Federal Instrumentality Securities: Debentures, discount notes, step-up and callable securities with a final maturity not exceeding five years from the date of trade settlement issued by the following only: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Farm Credit Bank (FFCB).

c. Repurchase Agreements with a termination date of 90 days or less collateralized by U.S. Treasury Obligations and Federal Instrumentality Securities listed in a. and b. above with maturities not exceeding ten years. For the purpose of this section, the term "collateral" shall mean "purchased securities" under the terms of the City's approved Master Repurchase Agreement.

- The collateral shall have an original minimum market value (including accrued interest) of 102 percent of the dollar value of the transaction. If collateralized value drops below 101 percent, it will immediately be restored to 102 percent.
- Collateral shall be held by the City's custodian bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.
- Repurchase agreements shall be entered into only with primary dealers reporting to the Federal Reserve Bank of New York or with firms that have a primary dealer within their holding company structure, that have executed an approved Master Repurchase Agreement with the City. Approved Repurchase Agreement counterparties if rated, shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent. The Treasurer shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of the broker/dealers who have executed a Master Repurchase Agreement with the City.

d. Certificates of Deposit with a maturity not exceeding one year, savings accounts or deposit accounts in financial institutions as defined in M.C.L. 129.16, "Financial institution" defined, that are eligible to be a depository of funds belonging to the State of Michigan. Certificates of Deposit, savings accounts or deposit accounts exceeding the federally insured amount may be acquired only from financial institutions having a Highline Data Rating of 30 or better for the most recent reporting quarter. Not more than 25% of the City's total portfolio may be

invested in certificates of deposit at any one time.

e. Prime Commercial Paper with an original maturity of 180 days or less. Investments in commercial paper are restricted to those which, at the time of purchase, are rated by two nationally recognized ratings agencies as at least A-1 by Standard and Poor's, P-1 by Moody's, or F1 by Fitch. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated by each service that publishes a rating on the issuer of at least A+ by Standard and Poor's, A1 by Moody's or A+ by Fitch. Commercial paper held in the portfolio which subsequently receives a reduced rating shall be closely monitored by the City Treasurer and the City's Investment Advisor, and sold immediately if the principal invested may otherwise by jeopardized. Any such downgrades shall be immediately reported to the City Council Finance Committee. Not more than 25% of the City's total portfolio may be invested in commercial paper at any one time.

f. Eligible Bankers Acceptances with maturities not exceeding 180 days from the date of purchase, rated at least A-1 by Standard & Poor's, P-1 by Moody's, or F1 by Fitch at the time of purchase, issued by a state or nationally chartered bank which has combined capital and surplus of at least $250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated, at the time of purchase A+ by Standard and Poor's, A1 by Moody's, or A+ by Fitch. Not more than 25% of the City's total portfolio may be invested in eligible bankers acceptances at any one time.

g. Money Market Mutual Funds. Investments in money market mutual funds registered under the Investment Company Act of 1940 composed of investment vehicles that are legal for direct investment by local governments in Michigan and which are "no-load" (i.e., no commission or fee shall be charged on purchases or sales of shares); have a constant net asset value per share of $1.00; and have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940. Not more than 25% of the City's total portfolio may be invested in money market mutual funds at any one time.

h. Investment Pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, M.C.L. 129.111 to M.C.L. 129.118 that are "no-load"; have a constant net asset value per share of $1.00; limit assets of the fund to securities authorized in M.C.L. 129.91 as legal investments for municipalities; have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and are rated either AAAm by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch. Not more than 25% of the City's total portfolio may be invested in investment pools at any one time.

i. Joint Interlocal Investment Ventures organized under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA7, M.C.L. 124.501 to 124.512 that are "no-load"; have a constant net asset value per share of $1.00; limit assets of the fund to securities authorized in M.C.L. 129.91 as legal investments for municipalities; have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and are rated either AAAm by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch. Not more than 25% of the City's total portfolio may be invested in investment pools at any one time.

Each investment transaction shall be competitively transacted with authorized broker/dealers. Whenever possible, at least three broker/dealers or issuers shall be contacted for each transaction and

their bid and offering prices shall be recorded. If the City is offered a security for which there is no other readily available offering, then the Treasurer will document quotations for comparable or alternative securities.

X. Diversification and Maturity Limits

To the extent possible, the City Treasurer and/or the City's Investment Advisor will attempt to match investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five years from the date of trade settlement, unless authorized by City Council. If matched to a specific cash flow requirement up to 10% of the City's total investment portfolio may be placed in securities maturing in more than five years without specific authorization of the City Council.

Investments will be diversified by security type and institution. With the exception of U.S. Treasury obligations, Federal Instrumentality securities and Repurchase Agreements authorized in this Investment Policy, no more than 25% of the total investment portfolio will be invested in a single security type or with a single depository financial institution.

XI. Safekeeping and Custody; Third-Party Custodial Agreements

All securities purchased by the City under this section shall be properly designated as an asset of the City and held in safekeeping by a third party custodial bank chartered by the United States Government or the State of Michigan, and 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 his/her respective designees.

The City will execute third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements will include details as to responsibilities of each party, notification and reporting requirements, and safekeeping and transactions costs.

All security transactions, including repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis.

Title to all purchased securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices. All investment securities, except Certificates of Deposit, Money Market Mutual Funds, Investment Pools and Joint Interlocal Investment Ventures purchased by the City will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a City approved custodian bank, its correspondent bank or the Depository Trust Company (DTC). Certificates of Deposit, shall be evidenced by a Safekeeping Receipt or advice from the issuing bank.

All fed wireable book entry securities owned by the City shall be evidenced by a safekeeping receipt or advice issued to the City by the custodian bank stating that the securities are held in the Federal Reserve system for the custodian bank which names the City as “customer.”

All physical delivery securities shall be held by the custodian bank’s correspondent bank and all DTC eligible securities shall be held in the bank’s account with the Depository Trust Company (DTC). The custodian bank shall issue a safekeeping receipt to the City evidencing that the securities are held by

the correspondent bank or the DTC for the City.

XII. Internal Controls and Accounting

The City Treasurer shall establish a system of internal controls, designed to prevent 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.

The City maintains its records on the basis of funds, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the City in accordance with Generally Accepted Accounting Principles as promulgated by the Governmental Accounting Standards Board.

The City Council in accordance with State Law shall establish a process for an annual review by an independent external auditor. This review will examine the system of internal controls to assure that the established policies and procedures are being complied with and may result in recommendations to change operating procedures to improve internal control.

XIII. Reporting

The City Treasurer and/or the City's authorized Investment Advisor shall submit a quarterly investment report to the City Council or its delegate, the Finance Committee, in accordance with the provisions of the City Charter that provides the description, a listing of original cost, carrying value and market value of each security held in the portfolio, earnings for the period and annualized yield.

XIV. Investment Performance

Performance of the portfolio shall be reported quarterly and submitted to the City Council or its delegate, the Finance Committee. The City's investment portfolio shall be designed to obtain a market average yield/rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs.

The basis for measurement used to determine whether market yields/rate of return are being achieved shall be the three-month U.S. Treasury Bill and the average Fed Funds rates.

Material deviations from projected budgetary investment results shall be reported no less frequently than quarterly to the City Council or its delegate, the Finance Committee.

XV. Investment Policy Adoption

The City of Southfield's Investment Policy is adopted by resolution of the City Council. The policy should be reviewed on an annual basis by the City Council or its delegate, the Finance Committee. Modifications made at that time or when necessitated by statutory revision must be approved by the appropriate action of the City Council.

Originally Adopted: **April 13, 1992**

Amended:	**October 25, 1993**
Amended:	**July 22, 1996**
Amended:	**July 21, 1997**
Amended:	**May 26, 1998**
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Amended:	**August 28, 2006**
Amended:	**May 29, 2007**
Reviewed and Approved:	**September 19, 2008**
Amended:	**October 7, 2008**

Deleted:

GLOSSARY

Banker's 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.

Broker: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

Callable Bond: A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Certificate of Deposit: A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

Collateral: Securities or property pledged by a borrower to secure payment.

Commercial Paper: An unsecured promissory note with a fixed maturity of no more than 270 days. Commercial paper is normally sold at a discount from face value.

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: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called "free"). 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.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value.

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

Federal Deposit Insurance Corporation (FDIC): A federal institution that insures bank and savings and loan deposits, currently up to $100,000.

Federal Funds Rate: The rate of interest at which fed funds are traded. This rate is currently pegged by the Federal Reserve through open market operations.

Fed Wire: A computer system linking member banks and other financial institutions to the Fed, used for making inter-bank payments of Fed funds and for making deliveries of and payments for Treasury, agency and book-entry mortgage backed securities.

Investment Advisor's Act: Legislation passed by Congress in 1940 that requires all investment advisers to register with the Securities and Exchange Commission. The Act is designed to protect the public from fraud or misrepresentation by investment advisors.

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: The aggregate of all funds from political subdivisions that are placed in custody of pools authorized under the laws of the State.

Mark-to-market: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Value: Current market price of a security.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase or reverse repurchase agreements that establish each party's right 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 Mutual Fund: A mutual fund that limits its investments to some or all types of money market instruments.

Net Asset Value: The market value of one share of an investment company, such as a mutual fund.

No Load Fund: A mutual fund which does not levy a sales charge on the purchase of its shares.

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: Investments shall be made with judgment and care, under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

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 or the current income return.

Ratings: An evaluation of an issuer of securities by Moody's, Standard & Poor's, Fitch, or other rating services of a security's credit worthiness.

Repurchase Agreements: A holder of securities sells 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. Dealers use repurchase agreements extensively to finance their positions.

Rule 2a-7 of the Investment Company Act: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

Safekeeping: Holding of assets (e.g. securities) by a financial institution.

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 one month, three months, or six months.

Treasury Bonds: Long-term U.S. Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

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