Charter Township of Comstock
Investment Policy

Section 1: POLICY

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

Section 2: SCOPE

This investment policy applies to all financial assets of the Charter Township of Comstock. The funds used to account for the Township's financial assets are included in the Township's audited annual financial statements and include:

General Fund
Municipal Streets Fund
Police Fund
Fire Operating Fund
Fire Capital Improvement Fund
Building Fund
Library Fund
Water & Sewer Funds
Trust and Agency Funds
Other funds as determined necessary

Section 3: PRUDENCE

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

The standard of prudence to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures 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.

Section 4: OBJECTIVE

The primary objectives of investment activities, in priority order, are safety, liquidity, and return on investments (yield).

A. Safety: Safety of principal is the foremost objective of the investment program. Investments of the Charter Township of Comstock shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the Township will minimize credit risk and interest rate risk.

i. Credit Risk (Custodial Credit Risk and Concentration of Credit Risk) – The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by: limiting investments to the types of securities listed in Section 8 of this Investment Policy and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Township will do business in accordance with Section 7 of this Investment Policy.

The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

ii. Interest Rate Risk - The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Township's cash requirements.

B. Liquidity: The Charter Township of Comstock's investment portfolio will remain sufficiently liquid to enable the Township to meet all operating requirements which might be reasonably anticipated.

C. Return on Investments: The Charter Township of Comstock's investment portfolio shall be designed with the objective of attaining a market average return during budgetary and economic cycles, commensurate with the Township's investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to safety and liquidity objectives.

Section 5: DELEGATION OF AUTHORITY

Authority to manage the Charter Township of Comstock investment program is derived from Public Act 20 of 1943, MCL 129.91. Management responsibility for the investment program is hereby delegated to the Township Finance Director ("the Finance Officer") who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures.

The Finance Officer shall establish written investment procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, banking service contracts, and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Officer.

Section 6: ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Township Superintendent any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Charter Township of Comstock.

Section 7: AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Finance Officer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained for approved or security broker/dealers selected by credit worthiness that are authorized to provide investment services in the State of Michigan. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Officer with the following: audited financial statements, proof of FINRA certification or FDIC insurance, proof of state registration, and certification of having read, understood and agreement to comply with the investment policy of the Charter Township of Comstock. The Finance Officer shall examine the financial condition and registrations of qualified financial institutions on an annual basis. Current audited financial statements are required to be on file or readily available for each financial institution and broker/dealer in which the Township invests.

Section 8: AUTHORIZED & SUITABLE INVESTMENTS

The Finance Officer is authorized by statute and this policy to invest in the following types of securities:

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, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
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 rated as investment grade by not less than one standard rating service.
g) Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 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 either 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's assets for temporary or emergency purposes.
h) Obligations described in subdivisions (a) through (e) if purchased through an inter-local agreement under the Urban Cooperation Act of 1967, Public Act 7 of 1967, (Ex Sess), MCL 124.501, et seq.
i) Investment pools organized under the Surplus Funds Investment Pool Act, Public Act 367 of 1982, MCL 129.111, et seq.
j) Investment pools organized under the Local Government Investment Pool Act, Public Act 121 of 1985, MCL 129.141, et seq.

Investments in Mutual Funds shall be limited to securities whose intention is to maintain a net asset value of $1.00 per share.

A thorough investigation of any investment the pool is required. The following items must be addressed to satisfaction of the Finance Officer prior to investing and on a continual basis:

a) A description of eligible investment securities, and a written statement of investment policy and objectives.
b) A description of interest calculations and how it is distributed, and how gains and losses are treated.
c) A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
d) A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed.
e) A schedule for receiving statements and portfolio listings.
f) Are reserves, retained earnings, etc. utilized by the pool/fund?
g) A fee schedule, and when and how it is assessed.

h) Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the Finance Officer's discretion. The portfolio will be brought back into compliance with investment policy guidelines as soon as practical.

Section 9: SAFEKEEPING AND CUSTODY

All security transactions entered into by the Charter Township of Comstock shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by the counterparties' trust department or a third-party custodian designated by the Finance Officer and evidenced by transaction receipts.

Section 10: DIVERSIFICATION

The Charter Township of Comstock will diversify its investments by security type and institution. With the exception of securities guaranteed by the U.S. Government and deposits covered by FDIC insurance or in authorized pools, no more than 25% of the Charter Township of Comstock's total investment portfolio will be invested in a single security type and no more than 10% with a single financial institution.

Section 11: MAXIMUM MATURITIES

To the extent possible, the Charter Township of Comstock will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Charter Township of Comstock will not directly invest in securities maturing more than 5 years from the date of purchase. Reserve funds may be invested in securities exceeding 5 years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Section 12: INTERNAL CONTROL

The Finance Officer shall establish and monitor a system of internal control for the Township's financial assets that recognizes the cost benefit relationship of any system of internal control. The internal control system shall include an annual independent audit of the Townships financial statements as well as controls deemed necessary.

Section 13: PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a market average rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The Charter Township of Comstock applies a passive investment strategy. Given this strategy, the basis used by the Finance Officer to determine whether market yields is being achieved shall be to identify a comparable benchmark to the portfolio investment duration.

Section 14: REPORTING

The Finance Officer shall provide the Township Board with quarterly investment reports which provide an executive summary of the status of the current investment portfolio. The report should include the following:

a) A listing of investments held at the end of the reporting period.
b) Beginning market value, earnings/losses accrued, deposits/withdrawals/transfers completed, and ending market value for the reporting period by investment.
c) Earnings rate by investment for the reporting period.
d) Percentage of the Portfolio represented by each investment category.
e) A statement regarding compliance with the policy of the current investment portfolio.

Section 15: INVESTMENT POLICY ADOPTION

The Charter Township of Comstock's investment policy shall be adopted by resolution of the Township Board. The policy shall be reviewed annually by the Finance Officer and any modifications made thereto must be approved by the Township Board.

GLOSSARY

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

ASKED: The price at which securities are offered.

BENCHMARK: A comparative base for measuring the performance or 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 Charter Township of Comstock. 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 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. 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 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 a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

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

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit. FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

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 FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

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

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

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA): An independent, non-governmental regulator for all securities firms doing business with the public in the United States.

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 the 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 a substantial loss of value. In the money market, a security is said to be liquid if the spread between 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.

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 which 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.

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: 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, 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 10 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 10 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 rule and 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.