

11.0 INVESTMENT POLICY

I. Overview

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

This Investment Policy has been adopted by resolution of the TOWNSHIP Board of Torch Lake and replaces all previous investment policies or resolutions concerning the cash management or investment of TOWNSHIP funds.

The TOWNSHIP manages a flexible investment portfolio, which includes general operating funds, bond reserve funds, proceeds from bond sales that will be expended on capital projects as well as various other funds. Because these funds may be required at any time, it is essential that the TOWNSHIP maintain strict maturity horizons for the purpose of liquidity control.

II. Policy

It is the policy of the TOWNSHIP 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 statutes and local ordinances governing the investment of public funds.

Scope

This investment policy applies to all financial assets held by the TOWNSHIP. These assets are accounted for in the Township's Annual Financial Report (AFR) and include:

- General Fund
- Special Revenue Funds
- Internal Service Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds
- Any new fund created by the TOWNSHIP, unless specifically exempted by the legislative body.

Except for cash in certain restricted and special funds, the TOWNSHIP shall consolidate cash balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income shall be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

The TOWNSHIP does not invest employee pension funds as these funds are managed by the Municipal Employees' Retirement System (MERS).

III. Investment Objectives

The following investment objectives, in priority order, will be applied in the management of the TOWNSHIP's funds:

Safety

The primary objective of the TOWNSHIP's investment activities is the preservation of capital in the overall portfolio and the protection of investment principal. The Treasurer will employ mechanisms to control risks and diversify investments regarding specific security types or individual financial institutions.

Liquidity

The investment portfolio will remain sufficiently liquid to enable the TOWNSHIP to meet operating requirements which may be reasonably anticipated.

Return on Investment

Subject to the foregoing constraints, the TOWNSHIP will strive to maximize the rate of return on the portfolio and to preserve the purchasing power but will avoid assuming unreasonable investment risk. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

IV. Prudence and Indemnification

In managing its investment portfolio, the Treasurer 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.

The above standard is established as the standard for professional responsibility and shall be applied in the context of managing the overall portfolio. TOWNSHIP staff, as designated by the Treasurer, acting in accordance with State statute, 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 fashion, and appropriate action is taken to control adverse developments.

V. Delegation of Authority and Investment Procedures

Authority to manage the TOWNSHIP's investment program is derived from State statutes. Daily management responsibility for the investment program is the responsibility of the Treasurer, who shall establish written procedures for the operation of the investment program consistent with this investment policy. 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 the procedures established by the Treasurer. Such procedures should also include reference to safekeeping and repurchase agreements, wire transfer agreements, collateral or depository agreements and banking service contracts. The Treasurer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of designated staff.

VI. Ethics and Conflicts of Interest

All elected and appointed Township officials, employee, officer, or agents shall adhere to the Township's Code of Ethics and Conflict of Interest policy.

No employee, officer, or agent of the Township may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract. The officers, employees, and agents of the Township may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts. The Township shall disclose in writing any potential conflict of interest to the Federal awarding agency or pass-through entity in accordance with applicable Federal awarding agency policy.

VII. Authorized Financial Dealers and Institutions

The Treasurer will maintain a list of financial institutions, which are authorized to provide investment and depository services. In addition, a list will also be maintained of approved security broker/dealers selected by credit-worthiness, who maintain an office in the State of Michigan or who are "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 law.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following: audited financial statements for the recent fiscal year; certification of having read the TOWNSHIP's investment policy and the pertinent State statutes; proof of National Association of Security Dealers certification; and proof of State registration, where applicable.

Alternatively, if the TOWNSHIP has engaged the services of an investment advisory firm, the authorized Investment Advisor may utilize the Investment Advisor's list of broker/dealers when executing transactions on behalf of the TOWNSHIP, provided that each broker/dealer meets the minimum criteria listed above in items 1 – 3 of this section. The Investment Advisor's approved list of broker/dealers shall be provided to the TOWNSHIP on an annual basis or upon request. In addition, the authorized Investment Advisor shall provide a written receipt of this Investment Policy and agreement to conduct transactions on behalf

of the TOWNSHIP in accordance with this Investment Policy. The authorized Investment Advisor shall provide such certification on an annual basis or upon any revision to this Investment Policy.

VIII. Authorized and Suitable Investments

The TOWNSHIP is empowered by State statute (1988 Public Act 239, M.C.L. 129.91) to invest in the following types of securities:

- a. Treasury Bills, Treasury Bonds, Treasury Notes, Treasury STRIPS, and other securities or 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 bank which is a member of the federal deposit insurance corporation or a savings and loan which is a member of the federal savings and loan insurance corporation or a credit union which is insured by the national credit union administration, but only if the bank, savings and loan, or credit union is eligible to be a depository of surplus funds belonging to the state under section 5 or 6 of Act No.105 of the Public Acts of 1855, as amended;
- c. In United States government or federal agency obligation repurchase agreements with a termination date of 90 days or less collateralized by U.S. Treasury Obligations or Federal Instrumentality Securities listed in (a.) above with maturities not exceeding ten years.

Collateralization: For the purpose of this section, the term “collateral” shall mean “purchased securities” under the terms of a TOWNSHIP approved Master Repurchase Agreement. The collateral shall have an original minimum market value (including accrued interest) of 102% of the dollar value of the transaction and the collateral maintenance level shall be 101%. If collateralized value drops below 101 percent, it will immediately be restored to 102%. Collateral shall be held by the TOWNSHIP’s custodial bank as safekeeping agent, and the market value of the collateral securities shall be marked to the market daily based on that day’s bid price. The right of collateral substitution is granted.

Master Repurchase Agreement: 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 or with approved depository banks that have executed an approved Master Repurchase Agreement with the TOWNSHIP. The Treasurer shall maintain a copy of the TOWNSHIP’s approved Master Repurchase Agreement along with a list of the counterparties who have executed a Master Repurchase Agreement with the TOWNSHIP.

There is no limit on the percentage of the portfolio that may be invested in repurchase agreements.

- d. Obligations of the State of Michigan or any of its political subdivisions with a final maturity not exceeding ten years from the date of trade settlement, that

are rated at least A- or the equivalent with a stable or positive rating outlook by at least one nationally recognized statistical rating organization (NRSRO). Investments in such obligations shall not exceed 10% of the TOWNSHIP's investment portfolio and no more than 5% of the TOWNSHIP's investment portfolio may be invested in any one issuer. Diversification and credit criteria described for obligations of the State of Michigan are not applicable to issues of the TOWNSHIP.

- e. In Banker's Acceptances (BA's) of United States banks;
- f. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase;
- g. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan;
- h. Investments purchased through an inter-local agreement under the Urban Co-operations Act of 1967, (Ex Sess) PA 7, MCL 124.501 to 124.512;
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 Public Act 367, MCL 129.111 to 129.118; and
- j. The investment pools organized under the Local Investment Pool Act, 1985 Public Act 121, MCL 129.141 to 129.150; and
- k. The Township invests certain excess funds in external pooled investment funds which include money market funds. Michigan CLASS (MC) is considered a local government investment pool of "qualified" investments for Michigan municipalities. MC is not regulated nor is it registered with the SEC. MC reports as of March 31, 2020, the fair value of the Township's investments is the same as the value of the pooled shares. MC is recorded at fair value and is subject to fair value disclosures.

The Treasurer is restricted to investments which meet the statutory restrictions above and limitations on security issues and issuers as detailed below:

- a. Investments in Commercial Paper are restricted to those which have, at the time of purchase, the top investment rating provided by any two nationally recognized rating agencies. Commercial paper held in the portfolio which subsequently receives a reduced rating shall be closely monitored and sold immediately if the principal invested may otherwise be jeopardized.
- b. Certificates of deposits shall be purchased only from financial institutions which qualify under Michigan law and are consistent with Opinion No. 6168, Opinions of the Attorney General (1982).

IX. Diversification

The TOWNSHIP will diversify its instruments and investments by security type and institution. With the exception of U.S. Treasury securities and authorized

investment pools, no more than fifty percent (50%) of the total investment portfolio will be invested in a single security type OR with a single financial institution.

X. Maximum Maturities

To the extent possible, the TOWNSHIP will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the TOWNSHIP will not directly invest in securities maturing more than three (3) years from the date of purchase. Reserve funds may be invested in securities exceeding three (3) years, but no more than ten (10) years, if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

XI. Competitive Transactions

Each investment shall be competitively transacted with authorized broker/dealers. Whenever possible, at least three broker/dealers shall be contacted and their bid and offering prices shall be recorded. If the TOWNSHIP is offered a security for which there is no other readily available competitive offering, then quotations for comparable or alternative securities shall be documented. Transactions executed by the TOWNSHIP's investment advisor shall be conducted on a competitive basis as described in this section.

XII. Collateralization, Safekeeping and Custody

The State of Michigan does not require collateralization of Public Funds. Non-negotiable, non-collateralized Certificates of Deposit, as is the law in the State of Michigan, shall be evidenced by a Safekeeping Receipt from the issuing bank.

XIII. Accounting

The TOWNSHIP maintains its records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the TOWNSHIP in accordance with generally accepted accounting principles as promulgated by the Government Accounting Standards Board. Accounting treatment will include:

- Investments will be carried at cost or amortized cost which approximates market.
- Premium or discount will be amortized over the life of the investment.
- Gains or losses of investments in all funds will be recognized at the time of disposition of the security.
- Market price shall be disclosed annually in the financial statements and periodically in the performance reports.

XIV. Investment Performance and Reporting

The Treasurer shall submit a quarterly investment report that provides:

- Principal and type of investment by fund
- Annualized yield
- Ratio of cash to investments
- Earnings for the current quarter and year-to-date
- Market price and a summary report of cash and investments maintained in each financial institution.

- Investment performance to available benchmark.

Performance of the portfolio shall be reported to the TOWNSHIP Supervisor and Torch TOWNSHIP Board quarterly. Reports shall include details of the characteristics of the portfolio as well as its performance for that period. Material deviations from projected investment strategies shall be reported immediately to the TOWNSHIP Supervisor.

XV. Internal Controls

The Treasurer shall establish a system of internal controls which is 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 designated employees of the Finance Office. Required elements of the system of internal controls shall include: 1) The timely reconciliation of all bank accounts (i.e., monthly reconciliations within 30 days of the end of the monthly cycle), 2) details of delivery versus payment procedures and trust receipt documentation, and 3) a third party audit to be conducted annually. Internal controls will also encompass at a minimum the additional issues of:

- transfers of all funds (purchases, sales, etc.);
- separation of functions including transaction authority and accounting and record-keeping;
- custodial safekeeping;
- avoidance of delivery of bearer or non-wireable securities to the TOWNSHIP;
- delegation of authority to staff members;
- written confirmation of telephone transactions;
- supervisory control of employee actions;
- specific guidelines regarding securities losses and remedial action;
- identification and minimization of the number of authorized investment officials

XVI. Investment Policy Adoption

The TOWNSHIP's investment policy shall be adopted by resolution of the Torch Lake TOWNSHIP Board. The policy shall be reviewed as necessary by the Board.

XVII. Performance

The benchmark yield shall be equal to the average yield on the U.S. Treasury Security that most closely corresponds to the portfolio's actual weighted average maturity. When comparing the performance of the TOWNSHIP's portfolio, the reported rate of return shall include both average weighted yield and rate of return net of fees.

GLOSSARY

Bankers' Acceptance (BA): A draft or bill of exchange accepted by 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.

Commercial Paper: Short-term unsecured debt obligation issued by a bank holding company, finance company, utility or industrial company to raise short term cash.

Certificate of Deposit (CD): A receipt of funds deposited in a financial institution for a specified period at a specified rate of interest. A negotiable receipt may be in bearer or registered form and can be traded in the secondary market. A non-negotiable receipt is always registered and has no secondary market. Denominations can be any agreed amount, and interest is normally calculated using actual number of days on a 360 day year. However, each financial institution's calculations vary, and the investor should ask to avoid misunderstanding.

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.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

Federal Savings and Loan Insurance Corporation (FSLIC): A federal institution that insures deposits of federally chartered savings and loan associations.

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.

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

National Credit Union Administration: A federal institution that insures deposits of federal and state chartered credit unions.

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.

Portfolio: Collection of securities held by an investor.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. (see Yield)

Repurchase Agreement: A contractual arrangement, not a security, between a financial institution or dealer and an investor. The agreement normally can run for one to thirty days, but some can go longer. The investor puts up his funds for a certain number of days at a stated yield. In return he takes title to a given block of securities as collateral. At maturity the securities are returned and the funds repaid plus interest.

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 vault for protection.

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

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SIPC: Securities Investor Protection Corporation created as a non-profit member corporation by Congress in 1970 for the purpose of protection of cash and securities held by member SEC registered broker/dealers that protects customer accounts in the event of the financial failure of a member.

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 security 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 bearing interest payable at six month intervals and having initial maturities from one to 10 years.

Treasury STRIPS: Separate Trading of Registered Interest and Principal of Securities issued by the U.S. Government

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.

Adopted _____
Torch Lake Township
Board of Trustees