

INVESTMENT POLICY FOR COUNTY OF OAKLAND, MICHIGAN

April, 2001

1.0 PURPOSE

In conformance with Michigan Public Act 20 of 1943, as amended, it is the policy of Oakland County to invest public funds in a manner which will ensure the preservation of principal while providing the highest investment return with maximum security, meeting the daily cash flow requirements of the county and conforming to all state statutes governing the investment of public funds.

2.0 SCOPE

This investment policy applies to all financial assets of the County, except for retirement and pension funds, under the control of the County Treasurer. These funds are accounted for in the County Treasurer's Annual Financial Report.

3.0 STANDARDS OF CARE

3.1 Prudence: Investments shall be made with judgement and care, under prevailing circumstances, 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 principal and probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officials acting in accordance with written procedures, this investment policy, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price change provided deviations from expectations are reported in a timely fashion and appropriate action is taken.

3.2 Ethics and Conflicts of Interest: Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interest in financial institutions that conduct business within the county, and they shall further disclose any large personal financial or investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the county.

4.0 OBJECTIVE

The primary objectives, in priority order, of the County Treasurer's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective in the investment of County funds. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. 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.

4.2 Liquidity: The investment portfolio shall remain sufficiently liquid to enable the County Treasurer to meet all operating requirements that might be reasonably anticipated.

4.3 Return on investments: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of the portfolio. Return on investment shall be of secondary importance compared to the safety and liquidity objectives above.

5.0 DELEGATION OF AUTHORITY

Authority and management responsibility for the investment program is hereby delegated to the County Treasurer as required by state statute (MCL 48.40). The County Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

5.1 Investment Procedures: The County Treasurer shall establish written investment procedures for the operation of the investment program consistent with this policy. Procedures should include references to: safekeeping, delivery vs. payment, depository agreements, repurchase agreements, wire transfer agreements, and banking service agreements. Said procedures shall include explicit delegation of authority to those engaged in the investment transactions. No person shall engage in an investment transaction except as provided under the terms of this policy and the procedures established by the County Treasurer.

6.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list shall also be maintained of approved broker/dealers who have been selected based on credit worthiness and authorization to conduct business in the State of Michigan. These may include "primary" dealers or regional dealers that qualify under the Security & Exchange Commission Rule 15c3-1 (uniform net capital rule). Regional dealers must meet two times the uniform capital rule to be authorized for County business.

All financial institutions with which the County conducts business with shall certify that they have 1). Received the County's investment policy, 2). Have read the policy, and 3). Will comply with said terms of the policy.

All financial institutions wishing to become qualified bidders for investment transactions must supply the County Treasurer with the following documents: audited financial statements, proof of NASD certification, proof of Michigan registration and a signed investment policy certification.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the County Treasurer.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the County invests with.

7.0 AUTHORIZED INVESTMENTS

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

7.1 Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

7.2 Certificates of deposit, savings accounts, deposit accounts, or depository receipts of Michigan financial institutions.

7.3 Commercial paper rated at the time of purchase at the highest classification established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

7.4 Repurchase agreements consisting of instruments in subdivision 7.1. The PSA Master Repurchase Agreement prototype agreement shall be employed with appropriate supplemental provisions regarding security delivery, security substitutions, and governing law. A signed Repurchase agreement must be on file before entering into a repurchase transaction.

7.5 Bankers' acceptances of United States banks.

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

7.7 Obligations described in subdivisions 7.1 through 7.6 if purchased through an inter-local agreement under the urban cooperation act of 1967. 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

7.8 Investment pools organized under the surplus funds investment pool act, PA 367 of 1982, MCL 129.111 to 129.118.

7.9 Investment pools organized under the local government investment pool act, PA 121 of 1985, MCL 129.141 to 129.150.

7.10 Mutual funds registered under the investment company act of 1940 with authority to only purchase investment vehicles that are legal for direct investment by a Michigan public corporation. Investment is limited to mutual funds that maintain a net asset value of \$1.00 per share.

8.0 INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of each pool shall be required 1). Before investing, and 2). On a continual basis after investing. A questionnaire shall be developed to secure responses to a set of due diligence questions. Those questions shall, at minimum, include the following:

1. Does the pool have a written statement of investment policy and objectives? How are changes to the policy and objective statement communicated to participants?
2. Does the policy describe eligible investment securities?
3. A detailed description of interest calculations covering items such as: How are they distributed? What is the frequency of interest payments? How are gains and losses treated?
4. How are securities safeguarded? How often are the securities priced to market? What audit steps are employed in this process?
5. Who can invest in the pool? How often? Any deposit/withdrawal size limitations? How many deposits or withdrawals can be made in a monthly period? What is the cutoff time for deposits and withdrawals? Does the pool allow for multiple accounts and sub-accounts? Do we get a confirmation after each transaction?
6. What is the schedule for receiving account statements and portfolio listings?
7. Please attach a fee schedule and describe in great detail how and when these fees are assessed.
8. Does the pool retain any reserves? Please describe
9. Will the pool accept bond proceeds subject to arbitrage rebate? Will the pools accounting and record keeping system be suitable for arbitrage rebate? Is the pool's yield calculation acceptable to the IRS or will it need to be restated? Can a separate account be established for each bond offering?

9.0 SAFEKEEPING AND CUSTODY

All securities transactions (including collateral for repurchase agreements), except certificates of deposits as described below, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian, as designated by the County Treasurer, and shall be evidenced by a safekeeping receipt.

Non-collateral, non-negotiable certificates of deposits, as is allowed under State of Michigan law, shall be evidenced by a safekeeping receipt from the issuing bank.

10.0 DIVERSIFICATION

The County Treasurer shall diversify investments by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than 60% of the total investment portfolio will be invested in a single security type and no more than 15% with a single financial institution.

11.0 MAXIMUM MATURITIES

To the extent possible, the County shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a particular cash flow need, the County will not directly invest in securities that mature more than 3 years from the date of purchase.

Funds with longer-term horizons may be invested in securities exceeding the 3-year

limitation provided that maturity dates coincide, as near as possible, with the expected use of the funds.

12.0 INTERNAL CONTROL

The investment officer is responsible for establishing a system of internal control that will ensure that the investment assets, of the County, are protected from loss, theft or misuse. The internal control structure shall be designed in such away to provide reasonable assurance that these objectives are being met. The cost of control should not away the benefits received.

The internal control system shall be reviewed annually by an external audit group to ensure compliance with policies and procedures.

13.0 PERFORMANCE STANDARD

The investment portfolio will be managed in accordance with the standards established within this policy and should obtain a market rate of return during an economic and budgetary environment of stable rates. According the benchmark used to measure portfolio performance shall be the 30 and 90 day US Treasury bill. Performance measurement shall occur at least every quarter.

14.0 REPORTING

The County Treasurer shall provide at least an annual report to the Board of Commissioners, which provides a clear picture of the status and types of investments of the current investment portfolio. This report shall be prepared in such a way that will allow the County to ascertain whether investment activities during the reporting period have conformed to the investment policy.

15.0 Adoption

The County's investment policy shall be adopted by a resolution of the Board of Commissioners. The policy shall be reviewed annually by the County Treasurer. Any revision to the policy shall be brought to the Board of Commissioners for adoption.

