



CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER

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CFO DIRECTIVE No. 2018-101-008

SUBJECT: Investments and Investment Management

ISSUANCE DATE: May 1, 2018

EFFECTIVE DATE: Upon City Council Approval

1. AUTHORITY

- 1.1. State of Michigan Public Act 279 of 1909, Section 117.4s(2), as amended by Public Act 182 of 2014, states the chief financial officer shall supervise all financial and budget activities of the city and coordinate the city's activities relating to budgets, financial plans, financial management, financial reporting, financial analysis, and compliance with the budget and financial plan of the city.
- 1.2. State of Michigan Public Act 20 of 1943, as amended, states permitted investments and additional requirements that must be followed.

2. OBJECTIVES

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield.

- 2.1. Safety. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
- 2.2. Liquidity. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- 2.3. Yield. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of lesser importance compared to the safety and liquidity objectives described above.

3. PURPOSE

- 3.1. To establish the City's policy governing investments and investment management.
- 3.2. The City, by and through its Chief Financial Officer (CFO), shall invest the City's funds in a prudent and responsible manner with the goal of obtaining the highest investment return consistent with the stated Objectives and the preservation of principal and provision of liquidity as deemed necessary to support the daily cash flow needs and / or requirements of the City.

4. SCOPE

- 4.1. This Directive applies to all financial assets of the City. These assets are accounted for in the various funds of the City and include the general fund (including risk management), special revenue funds, debt service funds, capital project funds, enterprise funds, internal service funds, agency funds and any new fund established by the City.

5. RESPONSIBILITIES

- 5.1. Management responsibility for this Directive is hereby delegated to the Deputy CFO-Treasurer (Treasurer). The Treasurer shall be responsible for the administration and oversight of this Directive.
- 5.2. The Treasurer shall be responsible for all investment transactions and activities undertaken by the City. The Treasurer shall establish written procedures and develop a system of internal controls to regulate the activities of subordinate officials. The Treasurer shall establish written procedures for the operation of the City's investment program consistent with this Directive, which shall include explicit delegation of authority to those employees engaged in investment transactions. No person shall engage in an investment transaction except as provided under the terms of this Directive and the procedures established by the Treasurer.

6. POLICY

6.1. Safekeeping and Custody

- 6.1.1. *Delivery vs. Payment.* All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.
- 6.1.2. *Safekeeping.* Security will be held by a centralized independent third-party custodian selected by the City.

6.2. Standards of Care

- 6.2.1. *Prudence.* The standard of prudence to be used by investment officials shall be the "prudent person" rule and shall be applied in the context of managing an overall portfolio. The Treasurer, acting in accordance with written procedures, this Directive 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.
 - 6.2.2. *Ethics and Conflicts of Interest.* Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. In the interest of avoiding the appearance of any conflict, employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial / 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 City.
- 6.3. *Authorized Investments.* The Treasurer is authorized to invest in any instruments in which the City is authorized to invest public funds by State law, subject to the limitations hereinafter provided as to maturity and diversity. These investments include the following, as authorized by Public Act 20 of 1943, as amended:

- 6.3.1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- 6.3.2. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2) of Public Act 20 of 1943, as amended.
- 6.3.3. Commercial paper rated at the time of purchase within the two highest classifications established by no less than two (2) nationally recognized credit rating agencies and that matures no more than 270 days after the date of purchase.
- 6.3.4. Repurchase agreements consisting of instruments listed in Section 1(a) of Public Act 20 of 1943, as amended.
- 6.3.5. Bankers' acceptances of United States banks.
- 6.3.6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase whose long-term credit ratings are rated as investment grade (within the top two (2) highest categories) by at least two (2) nationally recognized credit rating agencies.
- 6.3.7. Mutual funds registered under the investment company act of 1940, 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: (a) purchase of securities on a when-issued or delayed delivery basis; (b) 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; (c) the limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- 6.3.8. Obligations described in section 1, subdivisions (a) through (g) of Public Act 20 of 1943, as amended, 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.
- 6.3.9. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.
- 6.3.10. Investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- 6.4. Diversification of Investments
 - 6.4.1. *Institution / Issuer.* The City will diversify its investments by security type and institution / issuer. With the exception of United States Treasury and Agency securities, no more than fifty percent (50%) of the total investment portfolio will be invested in a single security type.
 - 6.4.2. *Maximum Maturities.* To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities with maturities more than three (3) years from the date of purchase.
- 6.5. Performance Standards. The investment portfolio will be managed in accordance with the parameters specified within this Directive. The portfolio should obtain a market

average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased, the risks undertaken and the benchmarks shall have a similar weighted average maturity as the portfolio.

- 6.6. Authorized Financial Institutions and Broker / Dealers. A list, approved by the CFO, will be maintained of financial institutions and broker / dealers that are approved to provide investment services ("Qualified Institutions"). All Qualified Institutions that desire to provide investment services to the City will be provided with a copy of this Directive. Before an entity can provide investment services to the City, it must confirm in writing that it has received and reviewed this Directive. (Appendix A)

6.6.1. *Depositories.* Section 129.91(2) of the Michigan Compiled Laws disallows deposits and investments in a financial institution that is not eligible to be a depository of funds in Michigan under a law or rule of the State of Michigan or the United States.

6.6.2. Qualified Institutions will supply the City with information sufficient to adequately evaluate their financial capacity and creditworthiness. The following information, as applicable, shall be provided: (i) audited financial statements, (ii) regulatory reports on financial condition, (iii) proof of National Association of Security Dealers certification and State of Michigan registration, and (iv) any additional information requested by the Treasurer in evaluating the creditworthiness of the institution.

6.6.3. The Treasurer shall conduct an annual review of the financial condition and registrations of Qualified Institutions, and shall produce an updated list of Qualified Institutions on no less than an annual basis. Updates to the list shall be subject to the CFO's approval.

- 6.7. Internal Controls. The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

- 6.8. Reporting. The Treasurer shall prepare a position report at least quarterly that, at a minimum, shows the current value of all investments held and, through the CFO, shall provide the report to the legislative body consistent with State law.

- 6.9. Social Responsibility. The City will make its best efforts, with the resources available, to ensure that it does not participate in an ownership or capital-providing capacity with entities that: (1) Directly or indirectly participate in or support activities that do not have respect for human rights around the world; or (2) are conducting business with a terrorist-sponsoring State.

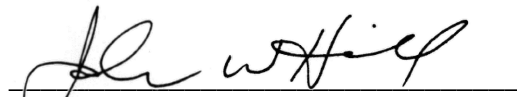
7. DEFINITIONS

- 7.1. *Bankers' Acceptances:* a draft or bill of exchange created as a result of an international trade transaction accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. A Bankers' Acceptance is an

irrevocable primary obligation of the accepting bank and a contingent obligation of the drawer and of any endorser whose names appear upon it.

- 7.2. *Benchmark*: a comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.
- 7.3. *Certificate of Deposit (CD)*: a time deposit with a specific maturity evidenced by a certificate issued by a bank.
- 7.4. *Interest Rate Risk*: the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.
- 7.5. *Commercial Paper*: a short-term, unsecured promissory note issued by corporations for a maturity specified by the purchaser, from 1 to 366 days and sold primarily on a discount basis. Issues are marketed either through dealers or directly by the issuer. Direct issuers and dealers will generally provide a bid to repurchase these securities on the secondary market.
- 7.6. *Maturity*: the date upon which the principal or stated value of an investment becomes due and payable.
- 7.7. *Prudent Person*: the investment standard requiring trustees and portfolio managers to make financial decisions in the manner of a prudent investor, e.g. with intelligence and discretion. The prudent investor standard requires care in the selection of investments but does not limit investment alternatives.

APPROVED



John W. Hill
Chief Financial Officer, City of Detroit

Appendix A

Financial Institution Acknowledgement of Receipt of an Agreement to the City of Detroit's policy governing Investments and Investment Management

Financial institutions holding City funds and investments shall receive, sign and return the following acknowledgement and agreement:

[To be placed on bank/institution's letterhead]

ACKNOWLEDGEMENT OF RECEIPT OF CITY OF DETROIT'S POLICY GOVERNING INVESTMENTS AND INVESTMENT MANAGEMENT AND AGREEMENT TO COMPLY

I have received a copy of the City's policy governing Investments and Investment Management.

I have read and fully understand, and will comply with Public Act 20 of 1943, as amended, and the City's policy governing Investments and Investment Management.

Any investment advice or recommendation on investments for the City of Detroit, given by **[name of representative]** representing **[name of organization]** shall comply with the requirements of Public Act 20 of 1943, as amended, and the City's policy governing Investments and Investment Management. Any existing investment not conforming to the statute of the policy will be disclosed promptly to the Deputy CFO-Treasurer of the City of Detroit.

Name

Signature

Title

Date