

**GENESEE COUNTY
INVESTMENT POLICY**

**Adopted: 2022-100
Replaces: 2016-318**

I. POLICY

It is the policy of Genesee County to invest its funds in a manner which will provide the highest investment return with the maximum security, while meeting the daily cash flow needs of the organization and comply with all state statutes governing the investment of public funds.

II. SCOPE

This investment policy applies to the financial assets of Genesee County, excluding the Pension Trust Fund, the Pension Fringe Benefit Fund, the County Road Fund and the Debt Service Fund. These financial assets are all accounted for in Genesee County's Comprehensive Annual Financial report and include:

General Fund
Special Revenue Funds
Capital Projects Funds
Internal Service Funds
Enterprise Funds
Fiduciary Funds
Water and Waste Service Funds

Any new fund(s) created by the Board of Commissioners, unless specifically exempted.

III. STANDARD OF CARE

The standard of prudence to be used by investment officials shall be the "prudent person" which states that standard shall be applied in the context of managing an overall portfolio. The investment official acting in accordance with written procedures and this 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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. 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 Genesee County.

IV. OBJECTIVES

Funds of Genesee County will be invested in accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended [MCL 129.91 et seq.], and in accordance with the objectives in priority order of safety, liquidity, yield and maintain public trust:

1: Safety of Capital - 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.

a. Credit Risk

The County will minimize 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 IX of this Investment Policy
- Pre-qualifying financial institutions, broker/dealers, intermediaries, and advisers with which Genesee County will do business with.
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The County 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 on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

2. Liquidity - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

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 secondary importance compared to the safety and liquidity objectives described above.

4. Maintain the Public's Trust - All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. In addition, the overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust. Investment officials shall also avoid any transaction that might knowingly impair public confidence in Genesee County's ability to govern effectively.

V. DELEGATION OF AUTHORITY TO MAKE INVESTMENTS

Authority to manage Genesee County's investment program is derived from Michigan Public Act 20 of the Public Acts of 1943, as amended [MCL 129.91 et seq.]. The County Treasurer is designated as investment officer of the County and is responsible for investment decisions and activities. In the absence of the treasurer, the chief deputy treasurer shall be responsible for investment activities. The treasurer shall develop and maintain written administrative procedures for the daily operation of the investment program consistent with the investment policy. Procedures will include references to: safekeeping, PSA repurchase agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. This includes the list of authorized staff to process investment transactions. No person may engage in investment transactions regarding these funds except as provided under the terms of this policy and the administrative procedures established by the County Treasurer. The County Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and professional investment advisors.

VI. ETHICS AND CONFLICT 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. 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 County.

VII. QUALIFIED INSTITUTIONS

Financial institution means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in the State of Michigan under the laws of Michigan or the United States.

The treasurer or designated investment advisor shall maintain a listing of financial institutions which are approved for investment purposes. The treasurer shall conduct an annual evaluation of each financial institution's credit worthiness to determine whether it should be on the "Qualified Institution" listing.

The security dealers and financial institutions may include primary or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and investment departments of banks, and which have been subject to the following evaluation:

- A. Financial condition, loan exposure, capital adequacy, asset quality, earning, and liquidity.
- B. Regulatory status of the dealer.
- C. Background and expertise of the individual representative.
- D. A stable financially sound rating from a nationally recognized independent bank, savings and loan or independent rating service.

Individuals representing institutions doing business with the County shall receive a copy of this policy, and shall certify that they have read it and understand the provisions therein. A copy of such certification, along with respective financial statements, shall be kept on file by the County Treasurer.

VIII. SAFEKEEPING AND CUSTODY

A. 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 Genesee County safekeeping institution prior to the release of funds.

B. Safekeeping

Securities will be held by a centralized independent third-party custodian selected by the entity as evidenced by safekeeping receipts in Genesee County name.

C. Internal Controls

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County 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.

IX. AUTHORIZED AND SUITABLE INVESTMENT INSTRUMENTS

Investment Types

Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable:

The Treasurer is limited to investments authorized by Public Act 20 of 1943, as amended, and may invest in the following:

A thorough investigation of the pool fund is required prior to investing, and on a continual basis. The following general documents shall be considered:

US Treasury Bills - obligations of the United States Government sold at a discount from par with a specific maturity date up to a maximum maturity of one year. Available in minimum denominations of \$10,000 and increments of \$5,000 thereafter, interest is discounted and calculated using actual number of days on a 360 day year.

US Treasury Notes - obligations of the United States Government bearing interest payable at six month intervals until maturity. Maturities are from one to ten years. Denominations, after a minimum of \$5,000, are in \$1,000 multiples.

US Treasury Bonds - similar to notes except original maturities are ten years and longer. Interest is generally payable on February and August 15 or May and November 15, comparable to US Treasury Notes.

US Treasury STRIPS - Separate Trading of Registered Interest and Principal of Securities

TINTS - Treasury Interest Securities

PRINS or STRIP Ps - Treasury Principal Securities

CUBES - Coupons under Book Entry System.

US Government Agency Obligations

Certificate of Deposit-CD - is 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.

Savings Deposit Receipt - a non-negotiable receipt evidencing a deposit with interest to be paid at a stated rate. Maturity may be fixed, but normally is subject to presentation by the depositor for payment. The amounts may be small or large but Federal Regulations will regulate the interest rate to be paid. This instrument is somewhat outdated due to popularity of regular passbook and statement savings accounts with daily interest.

Savings Account - a deposit evidenced by a passbook or monthly statement. Entries are made for each deposit and withdrawal and interest is paid in accordance with the policy of the financial institution. It is often used to accumulate small amounts of funds until a larger, higher yielding investment can be made.

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

Repurchase Agreement - is not a security but a contractual arrangement 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. Usual amounts are \$500,000 or more, but some repurchase agreements can be smaller. Interest is calculated the same as certificates of deposit.

Extreme caution should be exercised to obtain an undivided interest in the securities under repurchase agreement. Furthermore, if the securities are held for you in safekeeping, they should be held in a customer-segregated safekeeping account, preferably by a third party.

The securities under repurchase agreement should also be "Marked-to-Market," meaning that the value of the securities should be maintained during the entire life of the agreement at levels equal to or greater than the amount advanced for the agreement.

Bankers' Acceptance - a negotiable time draft or bill of exchange drawn on and accepted by a commercial bank. Acceptance of the draft irrevocably obligates the bank to pay the bearer the face amount of the draft at maturity. Bankers' acceptances are usually created to finance the import and export of goods, the shipment of goods within the United States and the storage of readily marketable staple commodities. Bankers' acceptances are sold at a discount from par similar to US Treasury Bills, and, since an acceptance is tied to a specific loan transaction, the amount and maturity of the acceptance are fixed.

Investment Pools - Those investment pools organized under the authority of the Urban Cooperation Act, PA 7 of 1967 (Excess) (MCL 124.501 to 124.512), the surplus funds investment pool act, PA 367 of 1982 (129.111 to 129.118) and the local government investment pool act, PA 121 of 1985, (MCL 129.141 to 129.150). Those pools are managed by contractual agreement contained in the inter-local agreement, banks and a county treasurer, respectively.

Qualified Institutions - A qualified institution must meet all the criteria laid down in the county investment policy. Such institution must signed receiving and acknowledging such policy before any transaction occurred.

X. COLLATERALIZATION

The State of Michigan does not require collateralization.

XI. SAFEKEEPING AND CUSTODY

All securities purchased by Genesee County under this section shall be properly designated as an asset of the County and held in safekeeping. No withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the Treasurer or authorized staff.

Negotiable instruments transactions having a value greater than SIPC or other applicable insurance, will be settled on a Delivery-vs-Payment basis. A Trust (Safekeeping) Receipt and proof of the applicable insurance will be required. 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.

XII. DIVERSIFICATION

It is the policy of Genesee County to diversify its investment portfolio. Assets held in the common cash fund and other investment funds shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, individual financial institution(s), or a specific class of securities. Diversification strategies shall be determined and revised by the County Treasurer or his designee, from time to time, to meet diversification objectives (to reduce overall portfolio risks while attaining market average rates of return).

At no time shall the deposits and investments in any one institution or security type exceed the following percentages:

Non-FDIC insure Certificate of Deposit	10%
Commercial Paper	50%
United States Agency Securities	50%
United States Treasury Securities	100%

XIII. MAXIMUM MATURITY

To the extent possible, the County shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the County will not directly invest in securities maturing more than five (5) years from the date of purchase. The County shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as money market funds, or to ensure that appropriate liquidity is maintained to meet ongoing obligations Investments shall be limited to instruments maturing within three years from date of purchase unless funds are designated long-term and special approval is received from the Treasurer.

XIV. INTERNAL CONTROLS

The County Treasurer shall establish an annual process of independent review by the County's designated auditor. This review will provide internal control by assuring compliance with policies and procedures and will prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions.

XV. PERFORMANCE STANDARDS

The investment portfolio will be designed to obtain market average rate of return during budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow needs.

1. Market Yield (Benchmark)

The County's investment strategy shall be passive. Given this strategy, the basis used by the investment officer to determine whether market yields are being achieved shall be the average federal funds (or 3-month Treasury Bill, 6-month Treasury Bill, or 3-month Treasury Bill and 1 year Treasury Note blended) rate.

XVI. REPORTING


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

The investment portfolio will be managed in accordance with the parameters specified within this policy. 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 and risks undertaken and the benchmarks shall have a similar weighted average maturity as the portfolio.

XVII. INVESTMENT POLICY ADOPTION

Genesee County's investment policy shall be adopted by resolution of the Board of Commissioners. The policy shall be reviewed annually by the County Treasurer and any modifications made thereto must be approved by the Board of Commissioners.

This policy shall be effective the day following adoption by the Genesee County Board of Commissioners.



D. Clemons, Chair
Genesee County Board of Commissioners



Deborah L. Cherry
Genesee County Treasurer

Adopted: _____

DEFINITIONS

AGENCIES: Federal agency securities.

BANKERS' 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.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERALIZATION: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMMERCIAL PAPER: An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

DELIVERY VERSUS PAYMENT (DVP): A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

DIVERSIFICATION: A process of investing assets among a range of security types by sector, maturity, and quality rating.

INVESTMENT POLICY: A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

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 amount can be invested at those quotes.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase or reverse repurchase agreements that establishes each party's rights 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.

MUTUAL FUND: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.

4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC - registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

"PRUDENT PERSON" RULE: A broad authority for the investment of funds whereby a trustee may make investments which would be selected by a person of prudence, diligence and intelligence in the management of his own affairs, giving due consideration to safety of principal and income.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these 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 for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

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.

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 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.

YIELDS: 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.