


CITY COMMISSION POLICY

NUMBER: 400-01

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GRAND RAPIDS  MICHIGAN	NUMBER:	400-01	HISTORY	
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SUBJECT: Statement of Investment Policies, Procedures and Objectives

PURPOSE: The purpose of this Investment Policy (the Policy) is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, safekeeping and custodial procedures necessary for the prudent management of City Funds.

POLICY:

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Funds of the City of Grand Rapids shall be invested in accordance with State of Michigan Public Act 20 of 1943, as amended by Act 196 of 1997; being Sections 129.91 through 129.93 of the Michigan Compiled Laws, Act No. 367 of the Public Acts of 1982 and in accordance with the objectives and procedures set forth in the policies and any written administrative procedures. Funds for the perpetual care and maintenance of City Cemeteries shall be invested in accordance with State of Michigan Public Act 422 of 2014; being Sections 128.3 and 128.4 of the Michigan Compiled Laws.

This Statement of Investment Policies, Procedures and Objectives (“Statement”) is issued by the City Commission (Commission) of the City of Grand Rapids, Michigan.

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The purpose of this Investment Policy (the Policy) is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, safekeeping and custodial procedures necessary for the prudent management of City Funds.

This Policy has been adopted by Resolution of the City Commission of the City of Grand Rapids and replaces all previous Investment Policies or Resolutions pertaining to the City's cash and investment management program.

I. Policy

It is the policy of the City of Grand Rapids (the City) to prudently manage its investment portfolio in a manner which will ensure the preservation of principal while providing the best investment return with maximum security while meeting the daily cash flow demands of the City and conforming to all state statutes and local ordinances governing the investment of public funds.

II. Scope

The investment policy applies to all financial assets held by the City of Grand Rapids, except pension funds, deferred compensation funds, and special purpose funds for which investment authority has been explicitly granted elsewhere by the City.

III. Standard of Care

The City Treasurer and external Investment Manager/s have a fiduciary duty to ensure that the City's funds are maintained, invested and accounted for with care, diligence, fidelity and sound business judgment in accordance with this Investment Policy.

A. Delegation of Authority

1. City Commission / Fiscal Committee

Authority to manage the City's investment program is detailed in Title VI section 5 (Compiler's Paragraph 91) of the City Charter, and Section 1.801 et. seq. of the ordinance code, and this City's Statement of Investment Policies, Procedures and Objectives. The City Treasurer and his/her designees, shall manage the investment program according to the provisions of the City's banking agreements and contracts,

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investment authorization statements, and other documents required which have been authorized by the City Commission, Fiscal Committee, and approved as to form by the City Attorney.

2. City Treasurer

The City Treasurer is responsible for the entire program including individual funds managed by contractual Investment Manager/s and the assets not managed by the Investment Manager/s, daily management responsibility for the investment program is vested in the City Treasurer, subject to the guidelines approved by the City Commission. The City Treasurer shall establish procedures for the operation of the Investment Program consistent with this Investment Policy. Such procedures must include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under terms of this Policy and procedures established by the City Treasurer. Such procedures should also include reference to segregation of duties, custody and accounting controls. The City Treasurer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and/or authorized Investment Managers.

3. Vendors

The City may engage providers of various investment services to implement and manage the portfolio:

a. Investment Manager(s)

The City may utilize the services of external authorized Investment Manager(s). The Investment Manager(s) are authorized to manage a portion of the City's assets on a discretionary basis within the Investment Policy guidelines and Michigan State statutes.

b. Investment Advisor

From time to time, the City of Grand Rapids may retain an independent investment consultant to assist the City Treasurer in the implementation of the Investment Policy as conditions warrant. Specific tasks for the investment advisor may include:

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- i. Assisting in development and periodic revisions to the Investment Policy;
 - ii. Preparing and presenting quarterly reports to the Fiscal Committee that evaluate investment performance, including the calculation of investment results and analysis of the performance of each investment manager relative to the agreed performance benchmark(s);
 - iii. Managing compliance with Michigan PA 20 and this investment policy document;
 - iv. Conduct investment manager searches as needed.
- c. Independent Third Party Reviewer(s)

The portfolio shall be reviewed semi-annually by a third party firm independent of the City Treasurer and investment service provider/s for material compliance with this Policy.

B. Prudence

In managing its investment portfolio, the City Treasurer, and or the City's authorized Investment Managers shall avoid any transaction that might impair public confidence. The standard of prudence to be used by any persons performing the investment functions shall be the "prudent person" standard, which states:

"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."

Note: This would exclude investments such as gold and other commodities that do not guarantee cash flow, but rather only the hope of making a return on an investment if another person were willing to pay more for the asset.

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Professional due diligence shall be exercised in every transaction. This shall be the standard for professional responsibility and shall be applied in the context of managing the overall portfolio.

The City's overall investment program shall be designed and managed in such a fashion to be worthy of the public trust. The City recognizes that no investment is totally free of risk and that the investment activities of the City are a matter of public record. Accordingly, the City Commission, City Manager, City Treasurer, and other city staff recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that this Investment Policy has been followed and that the sale of a security prior to maturity is in the best long-term interest of the City.

The City Treasurer, Investment Advisor, and/or the City's authorized Investment Manager(s), acting in accordance with State Laws and local ordinances, this 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 manner to the City Fiscal Committee, and appropriate action is taken to control adverse developments.

C. Ethics and Conflict of Interest

City Officers, employees, and authorized Investment Managers 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 or create the appearance of impairment of their ability to make impartial investment decisions. The Treasurer, Investment Officer and/or authorized Investment Managers shall disclose to the Commission, Fiscal Committee, any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any large personal financial investment positions that could be related to the performance of the City's portfolio. The Treasurer, Investment Officer and/or authorized Investment Manager shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

IV. Objectives

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The policy of the City is to invest the public funds in a manner, which will provide maximum security while meeting the cash flow demands of the City and that will provide the highest investment return while being in full compliance with all State laws and local ordinances governing the investment of public funds. The following investment objectives, in order of priority, shall be applied in the management of the City's funds:

A. Safety

Safety of principal is the foremost objective of the City of Grand Rapids investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital 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). The objective will be to mitigate risk.

Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio by diversifying holdings and maturities to mitigate both credit risk and interest rate risk as follows:

1. Credit Risk

The City shall minimize credit risk, the risk of loss due to the default of the security issuer or backer, by:

- a. Limiting investments to the safest types of securities;
- b. Using only financial institutions and brokers meeting pre-established criteria;
- c. Diversifying the portfolio so that potential losses on individual securities will be minimized;
- d. Maintaining current credit ratings on each rated investment;
- e. Holding all securities in the name of the City of Grand Rapids.

2. Default Risk

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The event in which agencies, municipalities, companies or individuals will be unable to make the required payments on their debt obligations. Lenders and investors are exposed to default risk in virtually all forms of credit extensions. To mitigate the impact of default risk, lenders often charge rates of return that correspond the debtor's level of default risk. The higher the risk, the higher the required return, and vice versa. The City seeks to mitigate default risk by following Public Act 20 and focusing on our primary investment objective of safety.

3. Interest Rate Risk

The City shall minimize the risk that the market value of the securities in the portfolio will fall due to changes in general interest rates by investing operating funds primarily in short-term securities or investment pools and structuring the maturities of the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate securities at a loss prior to maturity.

The objective of the Treasurer, in conjunction with the City's authorized Investment Manager(s), shall be to control risks and diversify investments regarding specific security types or individual financial institutions. Investments shall be limited to those types of securities as set forth in Section VII of this policy statement.

B. Liquidity

The investment portfolio of the City will remain sufficiently liquid to enable the City to meet all operating requirements that may be reasonably anticipated. The City Treasurer along with the Comptroller and Fiscal Services will develop and maintain financial reports that project the City's cash surpluses and shortages. These reports will aid the City Treasurer to maintain sufficient liquidity while investing surplus funds to earn investment returns.

Investments will not be purchased with a due date that exceeds the date when funds are estimated to be required. Investments with maturity dates exceeding one year will be noted in a Fiscal Committee report to the City Commission with the details as to why funds have been invested to the maturity chosen. Monies invested in "pooled" arrangements allowed under MCLA 129.114 must be placed in funds with an average maturity of under 90 days or have the ability to liquidate "pooled" investments as an "on

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demand” withdrawal. The Treasurer shall insure the investment portfolio will remain sufficiently liquid to enable the City to meet operating requirements that might be reasonably anticipated.

C. Return on Investment

The investment portfolio shall be designed with the objective of attaining an appropriate rate of return relative to the City’s investment risk constraints and cash flow requirements.

The City’s investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout the budgetary and economic cycles, commensurate with the City’s investment risk constraints and cash flow characteristics of the portfolio. The Treasurer’s Office will strive to maximize the yield the City receives on its investment while maintaining the two higher priority objectives of protection of principal and liquidity. Investments will be made by selecting the security/securities that offers the City the greatest return while meeting the overall policy objectives and adhering to Public Act 20.

Bond proceeds and other funds subject to federal arbitrage rebate requirements may be invested with the objective to maximize the protection of principal while attempting to obtain a return greater or equal to the debt’s bond yield. Alternatively, funds may be invested in tax exempt securities to avoid the rebate requirements and associated costs thereof.

D. Maintain Public Trust

All City participants in the investment process shall seek to act responsibly as custodians of the public trust. The City’s Investment Officers (City Treasurer, Deputy City Treasurer, and Investment Analyst) shall recognize 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 public trust. The City’s Investment Officers shall avoid any transaction that might knowingly impair public confidence in the City of Grand Rapids’ ability to govern effectively.

E. Encourage Community Lending, Banking, and Employment Practices

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Excluding the contracted Investment Manager/s, depository investment options will be evaluated with regard to the efforts made by each financial institution in meeting certain community needs as defined by a four tier bonus basis points system. The criteria and distribution whereby bonus basis points are awarded shall be as follows:

1. Community Reinvestment Act (CRA) rating of “outstanding” will provide for 40% of the total basis points to be awarded.
2. Financial institutions that show their commitment to the City Commission’s Sustainability Plan by employing Grand Rapids residents and/or residents of the General Target Area (GTA) shall be eligible for up to 20% of the total bonus basis points awarded based on criteria outlined in the Administrative Guidelines for the Investment Policy.
3. Financial institutions shall be eligible for up to 20% of the total bonus basis points awarded for engaging in the following practices:
 - a. Participating in activities to discourage predatory lending;
 - b. Making residential and commercial loans within the GTA;
 - c. Establishing a physical presence within the GTA.
 - d. Other innovative programs undertaken within the City of Grand Rapids may be eligible for up to 20% bonus basis points if they involve community education, community partnerships, or community investments with community-based agencies or non-profit organizations that serve low- or moderate-income households.

V. Pooling of Cash and Investments

Except for cash in certain restricted and special accounts, the Treasurer and/or the City’s authorized Investment Manager(s) may pool the cash of various funds into one investment portfolio to maximize investment earnings. Investment income, gains, and losses shall be allocated to the various funds based upon their respective participation and in accordance with generally accepted accounting principles. Investment income is allocated on an average daily balance method by fund over the life of the investment.

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VI. Authorized Financial Institutions and Broker/Dealers

The City Treasurer shall maintain a listing of financial institutions, investment managers and broker/dealers authorized to provide investment services. No public deposit shall be made except in a qualified public depository as established by approved City Commission resolution. The authorized listing of institutions, managers, approved depositories and/or broker/dealers shall be reviewed annually.

In addition, each authorized Investment Manager shall prepare a list of authorized financial institutions that shall be approved by resolution of the City of Grand Rapids City Commission on an annual basis to provide depository services.

Investment Manager(s) will be selected and presented to the Fiscal Committee for approval to enter into a contract for services. The Investment Consultant will provide an analytical review of potential candidates based on a search of qualified candidates. The Investment Manager/s will be authorized to provide services based on their expertise in public cash management. Approved Investment Manager/s and the firms they represent shall be licensed to do business in the State of Michigan and as such are subject to statutes of the State of Michigan as well as the City's Investment Policy.

Third party investment reviewer shall be selected based upon their knowledge, skill, training, and experience to determine material compliance with this Investment Policy. Reviewers may include, but are not limited to: an Investment Adviser registered with either the State of Michigan or the Securities and Exchange Commission under the Investment Advisers Act of 1940, a certified public accountant, a holder of the Chartered Financial Analyst (CFA) or Certified Investment Management Analyst (CIMA) designations.

No public deposit shall be made except in a qualified public depository as established by State law. An annual analysis of the financial condition, registration, professional institution/bank rating and Community Reinvestment Act rating of qualified bidders will be conducted by the City's authorized Investment Manager/s. Information indicating a material reduction in ratings, standards or a material loss or prospective loss of capital on existing investments must be shared with the City Commission, in writing immediately.

It shall be the policy of the Investment Officers to conduct security transactions only with authorized institutions and firms.

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A. Depository Institutions

1. All depository institutions (Commercial Banks, Savings & Loans and Credit Unions), utilized by the City of Grand Rapids shall maintain an office within the State of Michigan and meet the following requirements and financial criteria:
2. Must be federally regulated and insured
3. Must show a net profit on three of their last four annual financial statements and an aggregate profit over the four-year period. In the event that the City Treasurer deems that sufficient capital exists, the profitability standard may be waived and amounts may be invested up to 1/10th of the capital (excluding borrowing, loan losses, and goodwill) of the financial institution.
4. Must have capital (excluding borrowing, loan losses, and goodwill) and/or insurance that exceeds by at least two times the amount the City has invested with the financial institution.
5. Have received and read the City's Investment Policy.
6. Have filed with the City an "Acknowledgement of Receipt of the Statement of Investment Policies, Procedures and Objectives of the City of Grand Rapids and Agreement to Comply" (Appendix A).
7. Have submitted and continue to submit audited annual financial statements (or have financial statements accessible electronically).

B. Broker / Dealers

Each authorized Investment Manager shall utilize the Investment Manager's list of broker/dealers when executing transactions on behalf of the City. Each Investment Manager's approved list of broker/dealers shall be provided to the City on an annual basis. If any changes are made to an Investment Manager's approved list of broker/dealers, the Investment Manager shall notify the City of such changes. Changes shall be reflected in the subsequent report submitted to the City Commission.

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Broker/Dealers must be licensed in the State of Michigan and meet at least one (1) of the following criteria:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a primary dealer within its holding company structure; or
2. Report voluntarily to the Federal Reserve Bank of New York; or
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).
4. Broker/Dealers are disqualified if found in violation of SEC, FINRA, or MSRB rules or regulations that:
 - a. Involve fraudulent, misleading, or grossly negligent statements of material facts,
 - b. Which resulted in actual harm to investors,
 - c. Occurred within the last 10 years, and
 - d. Were not self-disclosed under the SEC's "Municipalities Continuing Disclosure Cooperation Initiative" or other similar program.

C. Investment Manager(s)

Pursuant to MCL 129.96, PA 20 of 1943, the City Treasurer shall provide each authorized Investment Manager with a copy of the City's Investment Policy and the Investment Manager shall provide written certification of both of the following:

1. Acknowledgment that the Investment Manager has received the Investment Policy;
2. Agreement that the Investment Manager shall conduct investment transactions in accordance with the Investment Policy guidelines.

VII. Authorized and Suitable Investments

A. Authorized Investments

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Investments for the City shall be made in accordance with Michigan State statutes: 1943 Public Act 20 as amended, MCL 129.91 et seq, the Surplus Funds Investment Pool Act, P. A. 367 of 1982, MCL 129.111 et seq.

The City has further restricted the types of securities and transactions eligible for investment by the Investment Officers or authorized City Investment Manager(s) as follows:

1. U.S. Treasury Obligations.

Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States, which may include Treasury Bills, Treasury Notes, and Treasury Bonds (does not include collateralized mortgage obligations)

2. Federal Instrumentality Securities

Debentures, discount notes, step-up and callable securities, mortgage pass-throughs, Collateralized Mortgage Obligations (CMO's), Real Estate Mortgage Investment Conduits, and other obligations which are explicitly guaranteed as to timely repayment of principal by the United States. Such instrumentalities include, but are not limited to, Ginnie Mae (GNMA), Small Business Administration (SBA), and Private Export Funding Corporation (PEFCO).

3. Government Sponsored Entity ("Agency") Securities

Debentures, discount notes, step-up and callable securities, mortgage pass-throughs, Collateralized Mortgage Obligations (CMO's), Real Estate Mortgage Investment Conduits, and other obligations issued by entities chartered by the United States such as Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Home Loan Banks (FHLB). Agency obligations are not explicitly guaranteed as to repayment of principal by the United States.

4. Repurchase Agreements

Agreements with a termination date of 90 days or less collateralized by U.S. Treasury Obligations and Federal Instrumentality Securities listed in A, and B, and C above with maturities not exceeding ten years. For the

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purpose of this section, the term “collateral” shall mean “purchased securities” under the terms of the City’s approved Master Repurchase Agreement.

- a. The collateral shall have an original minimum market value (including accrued interest) of 102 percent of the dollar value of the transaction. If collateralized value drops below 101 percent, it will immediately be restored to 102 percent.
- b. Collateral shall be held by the City’s custodian bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.
- c. 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, that have executed an approved Master Repurchase Agreement with the City.

5. Deposits and Certificates of Deposit

Savings accounts or deposit accounts in financial institutions as defined in MCL 129.16, “Depositories for Public Money,” that are eligible to be a depository of funds for the State of Michigan, and depository accounts that comply with MCL 129.91 subsections (2), (5), or (6) as amended. Certificates of deposit must have a maturity date not exceeding three years from the date of settlement. Certificates of Deposit, savings accounts or other deposit accounts exceeding the federally insured amount may be acquired only from financial institutions having a rating of 3 stars or better by Bauer Financial.

6. Michigan Municipal Securities

Obligations of the State of Michigan or any of its subdivisions that are rated at least A or the equivalent at the time of purchase by at least one nationally recognized statistics rating organization. A political subdivision would include State of Michigan agencies, counties, cities, villages, and townships. The City has invested in municipal bonds from various school districts and county bond issues. Not more than 50% of the portfolio may be invested in municipal securities, with no more than

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5% held in any one issuer other than the State of Michigan at the time of purchase.

7. Prime Commercial Paper

Commercial paper with an original maturity of 270 days or less from the date of trade settlement. Not more than 25% of the City's total portfolio may be invested in commercial paper with no more than 5% held in any one issuer at the time of purchase.

Investments in commercial paper must mature not more than 270 days after the date of purchase and are restricted to those which, at the time of purchase:

- a. Are rated within the highest classification established by not less than two nationally recognized statistical rating organizations, or
- b. Are rated within the highest classification established by at least one nationally recognized statistical rating organization, and
 - i. Are rated within the two highest classifications established by at least one other nationally recognized statistical rating organization, and
 - ii. Long-term debt by issued by the same issuer is rated by at least one nationally recognized statistical rating organization A1 (Moody's), A+ (Standard & Poors), or A+ (Fitch) or better by two nationally recognized ratings agencies as at least A-1 by Standard and Poor's, P-1 by Moody's, or F1 by Fitch.

8. Eligible Bankers Acceptances

Maturities must not exceed 180 days from the date of trade settlement, rated at least A-1 by Standard & Poor's, P-1 by Moody's, or F1 by Fitch at the time of purchase, issued by a state or nationally chartered bank which has combined capital and surplus of at least \$250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated, at the time of purchase, A+ by Standard and Poor's, A1 by Moody's, or A+ by Fitch. Not more than 25% of the City's total portfolio may be invested in eligible bankers acceptances with no more than 5% held in any one issuer at the time of purchase.

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9. Mutual Funds

Investment companies registered under the Investment Company Act of 1940 which carry are “no-load” sales (carry no sales commissions on either purchase or redemption of shares or 12b-1 marketing and distribution fees.

a. Money Market Funds

Investments in money market mutual funds composed of investment vehicles that are legal for direct investment by local governments in Michigan; have a constant net asset value per share of \$1.00; and have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940. Not more than 25% of the City’s total portfolio may be invested in money market mutual funds at any one time.

b. This section applies to funds for the perpetual care and maintenance of City cemeteries only.

- i. Mutual funds must be registered under the Investment Company Act of 1940 and which are "no-load" (i.e., no commission or fee shall be charged on purchases or sales of shares).
- ii. Not more than 60% of perpetual care and maintenance fund balance may be invested in equities. Not more than 40% of the equity position may be invested in any one sub-asset class (determined by market capitalization and industry).
- iii. Mutual Funds must be rated in the top two tiers by a nationally recognized mutual fund rating agency, (i.e. Morningstar, Lipper, or similar)

10. Investment Pools

Organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118 that are “no-load”; have a constant net asset value per share of \$1.00; limit assets of the fund to securities authorized in MCL 129.91 as legal investments for municipalities; and are rated either AAA by Standard and Poor’s, AAA by Moody’s or AAA/V1+ by

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Fitch. Not more than 25% of the City's total portfolio may be invested in investment pools at any one time.

11. Joint Inter-local Investment Ventures

Organized under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA7, MCL 124.501 to 124.512 that are "no-load"; have a constant net asset value per share of \$1.00; limit assets of the fund to securities authorized in MCL 129.91 as legal investments for municipalities and are rated either AAA by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch. Not more than 25% of the City's total portfolio may be invested in investment pools at any one time.

12. Local Government Investment Pools

Organized under Section 4 of Public Act 121 of 1985, the Local Government Investment Pool Act. Not more than 25% of the City's total portfolio may be invested in these pools at any one time.

13. Open End Investment Companies ("Mutual Funds")

This section applies to funds for the perpetual care and maintenance of City cemeteries only.

- a. Mutual funds must be registered under the Investment Company Act of 1940 and which are "no-load" (i.e., no commission or fee shall be charged on purchases or sales of shares).
- b. Not more than 60% of perpetual care and maintenance fund balance may be invested in equities. Not more than 40% of the equity position may be invested in any one sub-asset class (determined by market capitalization and industry).
- c. Mutual Funds must be rated in the top two tiers by a nationally recognized mutual fund rating agency, (i.e. Morningstar, Lipper, or similar)

B. Investments and Transactions Not Authorized

In accordance with the position of the Michigan Department of Treasury issued as 1998-3, certain types of investments are determined by the City

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Commissioners to not be suitable investments for the surplus funds of the City. At all times the Prudent Investor Rule shall apply. The following list of expressly prohibited investments is not intended to be exhaustive:

1. CATS - Certificates of Accrual on Treasury Securities;
2. COUGRs - Certificates on Government Receipts;
3. ETRs - Easy Growth Treasury Receipts;
4. TBRs - Treasury Bond Receipts;
5. TIGRs - Treasury Investment Growth Receipts;
6. TRs – Treasury Receipts, the generic form of zero coupons issued by a group of dealers, including Propriety/Government-Guaranteed Receipts;
7. ZCTOs - Zero Coupon Treasury Obligations;
8. CMOs and REMICs - Collateralized Mortgage Obligations and Real Estate Mortgage Investment Conduits not issued by federal instrumentalities or government-sponsored enterprises.
9. Raw Commodities or commodity futures;
10. Collectibles;
11. Foreign currencies or currency futures;
12. Debt instruments issued by any foreign countries or political subdivisions thereof;
13. Cryptocurrency, digital currencies, alternative currencies and virtual currencies;
14. Derivatives;
15. Direct investment in real or personal property;

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16. Securities wholly or partially exempt from income or other taxes levied by the United States made at yields not otherwise comparable securities without such exemption at the time the investment decision is made.

17. Any security or obligation issued, guaranteed, or backed by the faith and credit of the City of Grand Rapids or any component unit thereof.

C. Certain transactions are expressly prohibited. This list is not intended to be exhaustive:

1. Cross trading, a practice wherein buy and sell orders for the same security are executed from one client directly to another client without recording the transaction via an industry-recognized exchange.

2. Purchase of any security on margin.

3. Short selling.

4. Investment manager fee or compensation structures which provide additional incentives for investment performance, whether in absolute terms or relative to some designated benchmark.

D. Ratings Downgrade

Securities that have been downgraded to a level that is below the minimum ratings described herein shall be immediately reported to the City's Fiscal Committee. Such securities may be held to maturity or sold at the City Treasurer's discretion.

E. Competitive Transactions

Each investment transaction outside of the Investment Manager/s scope of work shall be competitively transacted with authorized financial institutions, brokers, and dealers.

The Treasurer's Office will attempt to competitively bid all investments outside of the Investment Manager/s scope of work. Winning bids will be awarded to the institutions in a timely manner with the best interest rate quote as adjusted for any bonus basis points awarded pursuant to the provision of Section IV.E of the policy objectives. Tie bids will be awarded to the financial institution having the greatest number of bonus basis points

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if said award is not prevented by other considerations. The Treasurer's Office may establish other risk-return parameters to break tie bids and award bids to other than the high bid in recognition of the desire to ensure portfolio diversification and protection of principal.

Broker/dealer firms may offer securities for purchase via negotiated primary offerings. Occasionally, multiple authorized firms are members of the same underwriting syndicate for such offerings. The Treasurer's office shall endeavor to equitably distribute trading activity between such broker/dealer firms. Placing trade orders in proportion to the firms' percentage of participation in the offering is one such method. Other methods of equitable order distribution may be employed, depending on the details of the securities and the nature of the markets in which they trade.

VIII. Maximum Maturities

To the extent possible, the City Treasurer shall match expected cash flow from investments with anticipated cash flow needs. In accord with the primary portfolio objectives of safety and liquidity, the weighted average life of the total portfolio shall not exceed seven years.

IX. Diversification

It is the policy of the City of Grand Rapids to maintain a diversified investment portfolio.

Investments shall be diversified by security type and institution. Assets held in the common cash fund and other investment funds will be diversified to eliminate the risk of loss resulting from an over concentration of assets in a specific maturity, individual financial institution(s) or a specific class of securities. Diversification strategies will be determined and revised by the City Treasurer and/or the City's authorized Investment Manager(s) from time to time to meet diversification objectives (to reduce overall portfolio risks while attaining market average rates of return).

Instrument	Maximum % by Instrument	Maximum % by Issuer
U.S. Treasury Obligations	100%	100%
Federal Instrumentality Securities	100%	100%
Government Sponsored Entity ("Agency") Securities	50%	30%

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Repurchase Agreements	25%	5%
Certificates of Deposit in excess of NCUA or FDIC coverage limits	25%	5%
Certificate of Deposit within NCUA or FDIC coverage limits	100%	100%
Michigan Municipal Securities	50%	50% / 5%*
* Securities issued by the State of Michigan are limited to a maximum of 50%; securities issued by political subdivisions are limited to a maximum of 5%.		
Prime Commercial Paper	25%	5%
Eligible Bankers Acceptances	25%	5%
Money Market Mutual Funds	25%	25%
Investment Pools	25%	25%
Joint Inter-local Investment Ventures	25%	25%
Local Government Investment Pools	25%	25%

X. Safekeeping and Custody; Third-Party Custodial Agreements

All securities purchased by the City under this section shall be properly designated as an asset of the City and held in safekeeping by a third party custodial bank chartered by the United States Government or the State of Michigan.

The City shall execute third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements will include details as to responsibilities of each party, notification and reporting requirements, and safekeeping and transactions costs.

All security transactions, including repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis.

Title to all purchased securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices. All deliverable investments purchased by the City shall be delivered by book entry and shall be held in third-party safekeeping by a City approved custodian bank or the Depository Trust Company (DTC).

XI. Internal Controls and Accounting

The City Treasurer shall establish a system of internal controls, designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

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The City maintains its records on the basis of funds, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the City in accordance with Generally Accepted Accounting Principles as promulgated by the Governmental Accounting Standards Board.

The City in accordance with State Law shall establish a process for an annual review by an independent external auditor as part of the City's yearly audit and ACFR reporting. This review shall examine the system of internal controls to assure that the established policies and procedures are being complied with and may result in recommendations to change operating procedures to improve internal control.

XII. Reporting

The City Treasurer shall submit a quarterly report to the Fiscal Committee that provides the description, a listing of original cost, carrying value and market value of each security held in the portfolio, earnings for the period and annualized yield.

Investment Manager(s) shall submit a quarterly performance report that provides the description, listing of original cost, carrying value and market value of each security held in the portfolio, performance results, including earnings, yield, and maturity of each security and the average maturity of the total portfolio.

Independent Third Party Reviewer shall submit a semi-annual report attesting to the material portfolio compliance with this Policy.

XIII. Investment Performance

The cash management portfolio shall be designed with the objective of regularly meeting or exceeding a selected performance benchmark, which may include the average return on one-year U.S. Treasuries, a bank investment pool, or the average rate of Fed funds. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return.

XIV. Investment Policy Adoption

The City of Grand Rapids investment policy shall be adopted by resolution of the City Commission. The policy shall be reviewed annually by the City

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Treasurer and Finance Director or authorized designee(s). Any modifications made to the investment policy must be approved by City Commission.

XV. Savings Clause

In the event any state or federal legislation or regulation should further restrict instruments or institutions authorized by this policy, such restrictions shall be deemed to be immediately incorporated in this policy. If new legislation or regulation should liberalize the permitted instruments or institutions, such changes shall be available and included in this policy only after written notification to the City Commission.

XVI. Glossary

In order to facilitate a thorough understanding of this investment policy, a glossary of related investment terminology has been incorporated herein.

GLOSSARY

In order to facilitate a thorough understanding of this investment policy, a glossary of related investment terminology has been incorporated as part of this policy.

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

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual report for the governmental entity. It is prepared in conformance with the principles and standards for financial reporting as set forth by the Governmental Accounting Standards Board (GSAB). It contains three sections: Introductory, Financial and Statistical. It discusses the financial results for the year, provides information on budgetary performance, and includes information on the financial condition of the City.

ASKED: The price at which securities are offered.

BANKER'S ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close

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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.

COMMERCIAL PAPER: Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash.

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/her own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT (DVP): There are two methods of delivery of securities: Delivery Versus Payment and delivery Versus Receipt. Delivery Versus Payment is delivery of securities with the 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).

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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 at 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 temporarily set at up to \$250,000 (scheduled to expire and return to \$100,000 per deposit after December 31, 2013).

FEDERAL FUNDS RATE: The rate of interest at which Fed Funds are traded. The Federal Reserve through open-market operations currently pegs this rate.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB's is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, 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 corporations purchased 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 Commission and five of the twelve Federal Reserve Bank

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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 Commission of Governors in Washington, D.C., 12 regional banks and about 7,500 commercial banks that are members of the system.

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 FHA, VA or FmHA mortgages. The term "passthrough" is often used to describe Ginnie Maes.

INVESTMENT: Investments shall be defined as debt obligations and shall not include Certificate of Deposits which should be considered deposits. This is the same definition as used by GASB in their Pronouncement Number 40 for disclosure purposes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without substantial loss of value. In the money market, a security is said to be liquid if the spread between the 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.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreement 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.

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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.

MUTUAL FUNDS: A fund operated by an Investment Company that raises money from shareholders and invests it in stocks, bonds, options, futures, currencies, or money market securities. These funds offer investors the advantages of diversification and professional management.

NATIONAL ASSOCIATION OF SECURITY DEALERS: Nonprofit organization formed under the joint sponsorship of the Investment Bankers Conference and the Securities and Exchange Commission with the basic purpose to (1) standardize practices in the field, (2) establish high moral and ethical standards in securities trading, (3) provide a representative body to consult with the government and investors on matters of common interest, and (4) establish a disciplinary body capable of enforcing the above provisions.

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

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may invest in a security if it is one that 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.

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. (Usually U.S. Government securities) 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/her 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.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION (SEC): 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, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and 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.

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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 ten 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 ten 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 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.

Glossary Source: APT US&C

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Appendix A

Acknowledgement Of Receipt Of The Statement of Investment Policies, Procedures and Objectives Of The City Of Grand Rapids And Agreement To Comply

Per Section 129.96 of Michigan's Act 20 of 1943, before executing an investment transaction on behalf of the City of Grand Rapids, a financial intermediary, broker, or dealer shall be provided with a copy of the City's investment policy and shall do both of the following:

- A. Acknowledge receipt of the investment policy.
- B. Agree to comply with the terms of the investment policy regarding the buying or selling of securities.

Per Section 129.96 of Michigan's Act 20 of 1943, I certify that I have received the investment policy of the City dated October 22, 2024, as amended. Furthermore, I agree to comply with the terms of the investment policy regarding the buying and selling of securities.

By: _____

Title: _____

Date: _____