


Policy Title:	Investment Management		
	OFFICE OF THE CHIEF FINANCIAL OFFICER	Category	Cash & Investment Management
		Administrative Policy #	
		Revision #	
		Review Frequency	As Needed – no less frequently than triennially
Administrative Division	Finance	Reviewed By	Chief Administrative Officer, General Counsel, Human Resources Director
BOWC Approval		Last Reviewed/Update Date	
Implementation Date			

1. AUTHORITY

1.1. The Detroit Water and Sewerage Department (DWSD) is subject to the provisions outlined in Public Act 20 of 1943, as amended from time to time.

2. OBJECTIVE

1.2. The policies and procedures in this document establish the standards that will be utilized by DWSD’s Board of Water Commissioners (BOWC) in monitoring investment performance, as well as serve as a guideline for DWSD’s Finance Division, investment managers retained by DWSD, or financial institutions utilized by DWSD.

2. PURPOSE

2.1. The purpose of this policy is to establish DWSD’s investment philosophy and objectives, as well as outline the roles and responsibilities in management of DWSD’s investments.

3. DEFINITIONS

“Average Life” means an estimate of the number of terms to maturity, taking the possibility of early payments into account.

“Banker’s Acceptance (BA)” means 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.

“Benchmark” means a comparative base for measuring the performance of risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio’s investments.

“Bond” means a debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities.

“Broker” means an individual who brings buyers and sellers together for a commission.

“Collateral” means securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits.

“Collective Investment Fund” means a fund that is operated by a trust company or a bank and handles a pooled group of trust accounts. Collective investment funds combine the

assets of various individuals and organizations to create a larger, well-diversified portfolio.

“Commercial Paper” means an unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities.

“Dealer” means an individual who, as opposed to a broker, acts as a principal in all transactions, buying and selling for their own account.

“Diversification” means dividing investment funds among a variety of securities offering independent returns.

“Delivery versus Payment (DVP)” means a securities industry procedure in which the buyer's payment for securities is due at the time of delivery. Security delivery and payment are simultaneous. Also known as delivery against payment, delivery against cash, or from the sell side.

“Federal Deposit Insurance Corporation (FDIC)” means a federal agency that insure bank deposits, currently up to \$250,000 per deposit account.

“Investment Grade” means a rating that indicates that a municipal or corporate bond has a relatively low risk of default. Bond rating firms, such as Moody's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as "junk bonds".

“Liquidity” means the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets. Also, the ability to convert an asset to cash quickly, also known as, "marketability".

“Market Value” means the price at which a security is trading and could presumably be purchased or sold.

“Master Repurchase Agreement” means a written contract covering all future transactions between the parties to a repurchase – reverse repurchase agreements that establishes each party’s rights in the transactions.

“Maturity” means the date upon which the principal or stated value of an investment becomes due and payable.

“Money Market” means a segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year. Money market securities consist of negotiable certificates of deposit (CDs), bankers acceptances, U.S. Treasury bills, commercial paper, municipal notes, federal funds and repurchase agreements (repos).

“Mutual Fund” means an investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors.

“Portfolio” means a collection of securities held by an investor.

“Rate of Return” means the gain or loss on an investment over a specified period, expressed as a percentage increase over the initial investment cost.

“Repurchase Agreement (Repo)” is a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back the following day.

“Total Return” means when measuring performance, the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realized over a given period of time.

“Treasury Bills” means a non-interest bearing deposit security issued by the U.S. Treasury to finance national debt. Most bills are issued to mature in three months, six months or one-year.

“Yield” means the rate of annual income return on an investment, expressed as a percentage.

4. SCOPE

- 4.1. This policy applies to the financial assets, transactions and investment decisions and practices for which the Chief Financial Officer (CFO) and Treasurer have authority and oversight.

5. RESPONSIBILITIES

5.1. Treasury Manager

- 5.1.1. The day-to-day or routine activities of the investment program lies with the Treasury Manager, under the supervision of the CFO.

5.2. Chief Financial Officer (CFO)

- 5.2.1. The Chief Financial Officer (CFO) has the primary responsibility for recommending investment policies and strategies, trustees, investment managers and/or advisors, and other fiduciaries, and monitoring the performance of the Finance Division, including but not limited to the Treasury Manager, advisors, and other fiduciaries of DWSD.
- 5.2.2. The CFO shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.
- 5.2.3. The CFO or delegate shall maintain a system of internal controls and practices which shall be designed, in addition to conforming to generally accepted accounting principles, to minimize losses of funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of DWSD.

5.3. Board of Water Commissioners (BOWC)

- 5.3.1. The BOWC may, at its discretion, set policy and practices for periodic reporting of the results of investment performance, review of market conditions and other such information as it may require.
- 5.3.2. The BOWC has the ultimate authority and responsibility for the financial assets of DWSD.

6. POLICY

6.1. General Policy

- 6.1.1. This policy requires the continuous evaluation of changing investment environments, judgment regarding the allocation of DWSD's assets among different investment opportunities, identification of appropriate investment vehicles, and the making of specific investment decisions.
- 6.1.2. The objective of the investments will be to provide for DWSD's continued operations and to achieve income and growth of principal in line with current market rates without undue exposure to risk.
- 6.1.3. The primary focus will be preservation of principal followed by income generation and capital appreciation.

6.2. Investment Objectives

Investments will be managed in accordance with the following objectives, in the following priority order:

- 6.2.1. Preservation of principal is the foremost objective of DWSD's 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 the following risks:
 - 6.2.1.1. Credit risk – DWSD will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the safest types of securities.
 - Pre-qualifying the financial institutions, broker/dealers, and intermediaries with which DWSD will do business.
 - Diversifying the portfolio so that the potential losses on individual securities will be minimized.
 - 6.2.1.2. Interest rate risk – DWSD will minimize the risk that market value of the securities in the portfolio will fall due to changes in the general interest rates, by:
 - Structuring maturities of the portfolio to meet cash requirements of ongoing operations, thereby minimizing the need to liquidate securities prior to maturity.
 - Investing operating funds primarily in short-term securities or investment pools.
 - Purchasing securities with the intent to hold until maturity and matched to mature with consideration for capital improvement plans.
 - 6.2.1.3. Custodial credit risk – DWSD will minimize custodial risk by:
 - Using only financial institutions and brokers meeting pre-established criteria.
 - Holding all securities in DWSD's name.
 - 6.2.1.4. Liquidity – The investment portfolio of DWSD will remain sufficiently liquid to enable DWSD to meet all operating requirements that may be reasonably anticipated. The objective will be to meet the following time frames:

- Time horizon for operating cash investments average life shall not exceed 270-days.
- Time horizon for long-term capital investments average life shall not exceed 36-months.
- Time horizon for long-term debt service reserves average life shall not exceed 60-months.

6.2.1.5. Return on Investment – The investment portfolio of DWSD shall be designed and managed with the objective of attaining a benchmark rate of return throughout the budgetary and economic cycles commensurate with DWSD’s investment risk constraints, operating cash flow, and long-term capital needs. The predominant investment strategy of DWSD is passive. Performance standards for:

- Short-term assets: yields of the portfolio will be the average of U.S. Treasury Bills most closely commensurate with the average life of the portfolio.
- Long-term assets: yields of the portfolio will be the average of U.S. Treasury Bills and Notes most closely commensurate with the average life of the portfolio.

6.2.2. Diversification – It is the policy of DWSD to maintain a diversified investment portfolio. Assets held in a common fund or concentration account and other investment funds will be diversified to reduce the risk of loss resulting from over concentration of assets in a specific maturity, individual financial institution(s) or a specific class of securities.

6.2.2.1. Diversification strategies will be determined and revised by the CFO or delegate, from time to time to meet diversification objectives while seeking to attain market rates of return or the benchmark index standards, set out herein.

6.2.2.2. The following financial instruments and maximum percentages are:

- United States Treasury Obligations 100%
- United States Government Agency Securities & Instruments 100%
- United States Government Short term or intermediate term mutual funds 100%
- Obligations of the State of Michigan or any Michigan political subdivision 50%
- Certificates of Deposits 100%
- Certificates of Deposit Account Registry Service 100%
- Money market funds 100%
- Mutual funds 100%
- Commercial paper 50%
- Banker’s Acceptance 50%

6.3. Authorized Financial Dealers and Institutions

6.3.1. The CFO or delegate shall maintain a listing of financial institutions and brokers/dealers authorized to provide investment services.

6.3.2. The CFO or delegate will actively monitor and will conduct an annual evaluation of each financial institution and broker/dealer for credit worthiness to determine whether it should be on the authorized listing of institutions.

- 6.3.3. The authorized listing of institutions, approved depositories, and/or brokers/dealers shall be approved periodically by the BOWC Finance Committee or may be amended, as needed.

6.4. Authorized Investments

In accordance with the Michigan Public Act 20 of 1943 as amended from time to time and consistent with DWSD's bond indentures, State authorizing bond statutes and ordinances, the surplus funds of DWSD will be invested as follows:

- 6.4.1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- 6.4.2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or a savings and loan association that is a member of the FDIC or a credit union that is insured by the National Credit Union Administration. The bank, savings and loan association or credit union must be eligible to be a depository of surplus funds belonging to the State.
- 6.4.3. Commercial paper rated at the time of purchase within the highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- 6.4.4. United States government or federal agency obligation repurchase agreements. Repurchase agreements shall be negotiated only with dealers or financial institutions with which DWSD has negotiated a Master Repurchase Agreement.
 - 6.4.4.1. Repurchase agreements must be signed with the bank or dealer and must contain provisions similar to those outlined in the Public Security Association's model Master Repurchase Agreement.
- 6.4.5. Bankers' acceptances of United States banks.
- 6.4.6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated no lower than an A rating category and by not less than one (1) rating agency. See Exhibit 1.
- 6.4.7. Mutual funds registered under the Investment Company Act of 1940, Title I of Michigan chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. A mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - 6.4.7.1. The purchase of securities on a when-issued or delayed delivery basis.
 - 6.4.7.2. 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.
 - 6.4.7.3. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
 - 6.4.7.4. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- 6.4.8. In the event that the investments mentioned above are purchased through an inter-local agreement under the Urban Cooperation Act of 1967, 1967(Ex Sess) P.A. 7,

MCL 124.501 to 124.512, then the investment objectives listed in Section 6.2, shall be altered in the following way. The return on investments shall be of primary concern, followed by safety and liquidity. Although permitted under state law, collateralization will not be required on all investments with the exception of repurchase or reverse repurchase agreements.

- 6.4.8.1. Repurchase and reverse repurchase agreements must be collateralized at not less than 102% of the market value of principal and accrued interest.
- 6.4.8.2. All other investments will be looked at on a case-by-case basis taking into account liquidity, safety and yield.
- 6.4.9. Investment Pools – Any investment into a pooled type account can only be made after the CFO or delegate has completed a thorough investigation. After the initial investment has been approved, the CFO or delegate must continue to monitor the account, reviewing the account’s suitability as an investment vehicle. When reviewing the pooled account, the CFO or delegate will take into account the following items:
 - Detailed description of eligible investments made by the pool or fund.
 - A written statement of the investment policy and the pool or fund objectives.
 - A description of interest calculations and how interest is distributed.
 - An explanation on how the fund will handle gains and losses within the fund.
 - A description on how the funds will be safeguarded, and how often the underlying securities will be marked-to-market.
 - Who will audit the fund or pool and how often?
 - An explanation of who will be able to invest in the fund, how often investments can be made, and what size limitations, if any, will be in effect for the fund.
 - A schedule for receiving statements and portfolio listings.
 - A fee schedule, explaining how and when the fees will be assessed.
 - Whether the fund will be able to receive bond proceeds, and whether they will accept bond proceeds.
 - Does the pool or fund utilize any type of reserves or a retained earnings account? If so, how does this affect the interest earnings of the participants?

6.5. Mutual/Collective Investment Funds

- 6.5.1. The CFO or delegate is authorized to invest in mutual/collective investment funds after investigation of the prospectus and the following:
 - 6.5.1.1. The investment policy and objectives of the fund.
 - 6.5.1.2. A description of Authorized Investment securities.
 - 6.5.1.3. A description of interest calculation and distribution of income or dividends.
 - 6.5.1.4. A description of how funds are safeguarded and securities priced.
 - 6.5.1.5. How often the fund is audited and by whom.
 - 6.5.1.6. A description of any limitations on the size and frequency of deposits or withdrawals.

6.5.1.7. A fee schedule, break points, including assessments of such.

6.5.1.8. Frequency and delivery of statements and portfolio of securities in the fund.

6.6. Safekeeping and Custody

6.6.1. All securities purchased by DWSD will be properly designated as an asset of DWSD and shall be conducted on a delivery versus payment (DVP) basis.

6.6.2. Certificates of deposit purchased from financial institutions or brokers shall be kept in a safekeeping account and evidenced by a safekeeping receipt.

6.6.3. Securities purchased from brokers/dealers will be held by a third party custodian in a safe keeping account, designated by the CFO or delegate and evidenced by a safekeeping receipt.

6.6.3.1. For purposes of this Policy, third party custodians shall be defined as a separate financial institution or a separate and distinct division or department of the same institution whose function is safe keeping and/or trust services.

6.6.3.2. No withdrawal of such securities, in whole or in part, shall be made from safe keeping except by the CFO as authorized herein, or by the designee.

6.6.3.3. DWSD will execute third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements will include letters of authority from DWSD, details as to responsibilities of each party, notification of securities purchases, sales, delivery, repurchase agreements, wire transfers, safe keeping and transaction costs, procedures in case of wire failure or other unforeseen mishaps including the liability of each party.

6.7. Reporting

6.7.1. The CFO or delegate shall generate a quarterly investment report that provides a clear picture of the status of the current investment portfolio. Each quarterly report will indicate any areas of policy concern and suggested or planned revisions of investment strategies. The report shall include:

6.7.1.1. A summary of investments by type.

6.7.1.2. A summary of available funds and percentage invested.

6.7.1.3. A summary of interest income and average invested balances by financial asset classifications.

6.7.1.4. An analysis of investments by maturity dates.

6.7.1.5. A detailed report of all investments by type including fund, investment amount, rate, purchase date and maturity date and market price.

Exhibit 1 - Investment Grade Classifications

Long-Term Ratings

Standard & Poor's	Moody's	Fitch	<u>Capacity to repay debt</u>
	Investors <u>Service</u>	Investors <u>Service</u>	
AAA	Aaa	AAA	Extremely strong capacity
AA+	Aa1	AA+	Very strong capacity
AA	Aa2	AA	
AA-	Aa3	AA-	
Investment A+ Grade A Debt	A+	A1	Strong capacity; some susceptibility to adverse economic circumstances or effects
	A	A2	
	A-	A3	
	BBB+	Baa1	Adequate capacity; however <i>more likely</i> to be weakened due to adverse economic circumstances or effects
	BBB	Baa2	
	BBB-	Baa3	

Non-Investment Grade or Speculative	BB+	Ba1	Vulnerable to default; faces <i>major</i> ongoing uncertainties or exposure
	BB	Ba2	
	BB-	Ba3	

Short Term Note Ratings

<u>S&P</u>	<u>Moody's</u> (Moody's investment grade)
SP-1+	MIG-1
SP-1	-
SP-2	MIG-2
SP-3	MIG-3

Commercial Paper Ratings

An Issuer's ability to honor its' short term obligations

<u>S&P</u>	<u>Moody's</u> (Prime)
A1	P1
A2	P2
A3	P3