

Thanks for the call today. I reached out to our legal counsel, and the \$30,000 minimum to have Morgan Stanley / Graystone as a signed fiduciary is a firm, unwavering figure. I completely understand that the dollar amount is something not in the Township's best interest from a financial standpoint, despite the desire to have Morgan Stanley commit as a fiduciary.

Provided the township is comfortable recognizing the loss on the investments, I think the most prudent course of action is to liquidate the long dated securities and anything that matures in 2014 or earlier remains invested to maturity. At this stage in the market, I fear the only real catalyst for a decrease in interest rates is an extreme shock to the market (think 2008 or 9/11) that would cause investors to flee for quality and drive interest rates lower. Absent this type of event, we expect rates to remain where they currently stand, if not grind slowly higher.

I would also recommend the best course of action is to invest the proceeds from the sale of the bonds into a laddered CD portfolio, with a maximum maturity of either 3 or 6 months. This would allow the township to determine their comfort level in extending the maximum maturity further (say to a max of 3 years, but not any longer) and still earn some interest on the funds as opposed to sitting in cash. Within our Morgan Stanley network, we have the ability to access CDs from a variety of banks around the country. This access would allow us to invest all of the funds into CDs with 100% of the invested assets being covered by FDIC insurance, providing the safety and security that I know is desired.

I feel we have two options to proceed if the Township desires to engage Morgan Stanley to assist:

1. Engage Morgan Stanley / Graystone as a broker. We would custody investment assets at no charge. Compensation for services rendered and advice granted comes in the form of commissions / sales credit on any bond or CD purchases. Any commission received would be disclosed in advance of purchase, and disclosed / summarized on an annual basis. No contract is signed, outside of account opening paperwork. Morgan Stanley would not commit to being a fiduciary in writing. We will assist in the drafting of an Investment Policy Statement and provide performance reporting on a quarterly basis to update all parties on performance of invested funds.
2. Engage Morgan Stanley / Graystone Consulting under our Advisory contract . We would custody investment assets at no charge. Minimum fee is 0.40% per year, which would equate to roughly \$10,400 per year in fees assuming \$2,600,000 in invested assets. No commissions would be charged on any purchases or sales. Assuming a laddered CD portfolio of short and intermediate term CDs (out to 3 years), income generated annually would be about 0.70% or \$18,200 per year. Yield/Income after fees would be about 0.30% or \$7,800 per year. Morgan Stanley contract is silent on fiduciary status unless ERISA applies. In this case, we are neither acknowledging or denying our fiduciary status. The minimum annual fee equating to \$10,000 is similar to the minimum fee you would expect from a bank like PNC or Comerica. We will assist in the drafting of an Investment Policy Statement and provide performance reporting on a quarterly basis to update all parties on performance of invested funds.

I am unfortunately in client meetings the remainder of this evening and all day tomorrow. If you have additional questions, email is best for me to respond quickly.

RESOLUTION NO. 13-
A RESOLUTION OF THE NORTHFIELD TOWNSHIP BOARD OF TRUSTEES
ESTABLISHING A POLICY ON TOWNSHIP INVESTMENT AND DEPOSITORY
DESIGNATIONS

WHEREAS, The Board of Trustees of Northfield Township, Washtenaw County, in exercising its fiduciary responsibilities, desires to safeguard the funds of the Township that may be invested from time to time; and

WHEREAS, Public Act 77 of 1989, MCL 41.77, requires that the Township Board of Trustees designate the banks or depositories for the money belonging to the Township, including the time for which the deposits shall be made and all details for carrying into effect the authority given in this act; and

WHEREAS, Public Act 196 of 1997, MCL 129.91, et seq., requires Township Boards, in consultation with the Township Treasurer, to adopt an investment policy;

NOW, THEREFORE, BE IT RESOLVED BY THE NORTHFIELD TOWNSHIP BOARD OF TRUSTEES, That the following Resolution represents the Township's policy on Township investment and depository designations.

Section 1: Policy

This policy is applicable to all public funds belonging to Northfield Township and in the custody of the Township Treasurer, except for the employee pension funds and the employee deferred compensation funds.

The Board of Trustees approves the following financial institutions as depositories of Township funds:

- PNC Bank
- JP Morgan Chase
- Morgan Stanley/ Graystone Consulting

The Northfield Township Treasurer may invest Township funds in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all of the criteria as a depository of public funds contained in state law. The standard of prudence to be used shall be the "fiduciary" standard and shall be applied in the context of managing an overall portfolio.

The prior approval of the Township Board of Trustees shall be required for the Treasurer to invest in any other lawful investment instruments. The Township Board of Trustees' standard of prudence shall be the "fiduciary" standard, which shall be applied in the context of managing an overall portfolio. The Township Board of Trustees may authorize the Treasurer to invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States that matures not more than 24 months after the date of purchase.
- (b) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- (c) Repurchase agreements consisting of instruments listed in subdivision (a).
- (d) Bankers' acceptances of United States banks.
- (e) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- (f) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) 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.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- (g) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, Public Act 7 of 1967 (Ex Sess), MCL 124.501, et seq.
- (h) Investment pools organized under the Surplus Funds Investment Pool Act, Public Act 367 of 1982, MCL 129.111, et seq.
- (i) The investment pools organized under the Local Government Investment Pool Act, Public Act 121 of 1985, MCL 129.141, et seq.

Decisions and actions involving the Township's investment portfolio shall meet the following criteria:

Safety: Safety of principle is the foremost objective of Northfield Township's investment practices.

Diversification: The investments shall be diversified by avoiding over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities and insured certificates of deposit).

Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

Return on Investment: Return on investment is of secondary importance compared to safety and liquidity objectives. Investments shall be selected to obtain a market average rate of return. The core of investments is limited to relatively low risk securities.

The Treasurer may elect to have certificates and other evidence of investments held by a financial institution, provided that the financial institution presents to the Township Treasurer, on

a quarterly basis, sufficient documentation and acknowledgment of the investment instruments held on behalf of the Township.

The Township Treasurer shall provide a written report to the Township Board of Trustees, on a quarterly basis, concerning the investment of Township funds.

All financial institutions with which the Township conducts business shall certify that they have received the Township's Investment Policy, have read and fully understand the Investment Policy, and will comply with Public Act 20 of 1943, as amended, and the Investment Policy.

Section 2: Miscellaneous

The Township will comply with all applicable statutes related to public fund investments. If any portion of this Resolution shall be held to be invalid or unconstitutional by any court of competent jurisdiction, such decision shall not affect the validity of any other portion of this Resolution.

All prior Investment Policy Resolutions, or parts of Resolutions inconsistent with this Resolution, are hereby repealed and replaced with this Resolution.

PASSED AND Resolved by the Northfield Township Board of Trustees, Northfield, Michigan, on this _____ day of _____, 2013.

Marilyn Engstrom, Supervisor

ATTEST:

Michele K. Manning, Clerk