

Prince George's County, Maryland**Investment Policy****1.1 Scope**

This policy applies to the investment of all unexpended or surplus funds of the County. These funds are accounted for in the County's Comprehensive Annual Financial Report and include:

- (a) General Fund;
- (b) Special Revenue Funds;
- (c) Capital Project Funds;
- (d) Enterprise Funds;
- (e) Debt Service Funds;
- (f) Internal Service Funds;
- (g) Trust And Agency Funds; and
- (h) Any new funds as provided by County legislation, unless specifically exempted.

This policy does not cover the investment activities of: Pension Funds, which are administered by separate trustees; certain Trust Funds, which are controlled by trust agreements; and certain separate corporate entities, which are considered to be component units of the County for financial reporting purposes; however, the Board of Education of Prince George's County and the Prince George's County Memorial Library System are required by Maryland law to comply with the County's adopted investment policy.

1.2 Definitions

- (a) ANNUAL FINANCIAL AUDIT - The annual audit performed by independent auditors on the financial statements of the County on which they express an opinion based on their audit.
- (b) BANKS - Institutions that are incorporated or authorized to operate under federal law as a bank or incorporated under the laws of the State of Maryland as a State bank, trust company, or savings bank.
- (c) FINANCIAL INSTITUTIONS - Any bank or any brokerage firm registered with the United States Securities and Exchange Commission (SEC).
- (d) INDEPENDENT AUDITOR - The certified public accounting firm retained by the County to perform the annual financial audit of the financial statements.

- (e) INVESTMENT OFFICIALS - The Director, Office of Finance, and the employees of the Office of Finance to whom the Director has in writing delegated the authority to conduct investment transactions including electronic transfers of funds.
- (f) MASTER REPURCHASE AGREEMENT - A legal agreement standardized by the Public Securities Association (PSA) with amendments developed by the County in order to further protect the County's interests and signed by both the County and the counterparty (broker or bank) to the transaction.
- (g) PURCHASING POWER - Retaining the purchasing ability of the County's funds by earning interest income at a rate that meets or exceeds the annual Consumer Price Index as published by the United States Bureau of Labor Statistics.

1.3 **Objectives**

The primary objectives of the County's investment activities, in order of priority shall be:

- (a) Safety: Safety of principal is the foremost objective of the investment program. To attain this objective, diversification, collateralization, third-party safekeeping, and delivery-versus-payment (DVP) will be required.
- (b) Liquidity: The County's investment portfolio will remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated, and should include a reasonable amount of additional liquidity for unanticipated needs.
- (c) Return on Investment: The County's investment portfolio shall be designed to maximize investment return, while minimizing risk and considering the County's cash flow requirements.

1.4 **Authority**

- (a) In accordance with the Annotated Code of Maryland, Article 95, Section 22 (now Maryland Code, Local Government Article, Section 17-205), and the Charter of Prince George's County, Maryland, Sections 101-103 and Section 2 Schedule of Legislation, the responsibility for conducting investment transactions rests with the Director, Office of Finance (the Director). The Director may delegate, in writing, to the investment officials of the Office of Finance the authority to conduct investment transactions.
- (b) The Director shall establish written procedures for the operation of the County's investment programs, consistent with this investment policy.

1.5 **Prudent Person Rule**

The standard of prudence to be applied by the investment officials shall be the "Prudent Person Rule", 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." The Prudent Person Rule shall be applied in the context of managing the overall portfolio.

Investment officials acting in accordance with written procedures and the investment policy and exercising due diligence shall not be held personally responsible for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

1.6 **Ethics and Conflicts of Interest**

Investment officials 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 their ability to make impartial investment decisions. Investment officials shall subordinate their personal investment transactions to those of the County, particularly with regard to the time of purchases and sales. Investment officials shall comply with the Code of Ethics requirements as specified in the Prince George's County Code, Sections 2-289 through 2-294.

1.7 **Investment Strategy**

The Director shall hold periodic investment strategy meetings with the other investment officials and document the resulting investment strategy approved to meet the objectives of this investment policy and to maintain the purchasing power of the investment portfolio.

1.8 **Authorized Investments**

The Director may invest County funds in the following investments:

- (a) U.S. Government Securities - These securities include obligations for which the United States has pledged its full faith and credit for the payment of principal and interest.
- (b) U.S. Agency Securities - Obligations that a federal agency or a federal instrumentality issues in accordance with an Act of Congress.
- (c) Repurchase Agreements - Entered into with financial institutions that sign master repurchase agreements, and that maintain collateralization of at least 102% of the principal amount, and comply with other safekeeping and collateral requirements.
- (d) Certificates of Deposit and Time Deposits - Deposits in federally insured banks and savings and loan associations that are chartered to operate in the State of Maryland, and that maintain collateralization that equals or exceeds the amount of the deposit not federally insured and comply with other safekeeping and collateral requirements.

Certificate of Deposit Account Registry Service (CDARS) and Insured Cash Sweep (ICS) Deposits placed in banks or savings and loan associations in which the bank or savings and loan association arranges for further deposit into Certificates of Deposit, demand deposit accounts, or money market deposit accounts at other FDIC-insured member institutions in amounts less than or equal to the FDIC-insured limit. At the same time the money is deposited into Certificates of Deposit, demand deposit accounts, or money market deposit accounts the bank or savings and loan association selected by the County would then receive a reciprocal deposit equal to the initial deposit. One hundred percent (100%) of each Certificate of Deposit, demand deposit account, or money market deposit account shall be insured by the Federal Deposit Insurance Corporation (FDIC).

- (e) Commercial Paper - Commercial paper issued by a company with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the SEC.
- (f) Pooled Investments
 - (i) Any investment portfolio created under the Maryland Local Government Investment Pool (MLGIP) defined under Article 95, Section 22G of the Annotated Code of Maryland (now Maryland Code, Local Government Article, Section 17-205) that is administered by the State Treasurer.
 - (ii) Money Market Mutual Funds registered with the SEC under the Investment Company Act of 1940, 15 U.S.C. Section 80(a), as amended, and operated in accordance with Rule 2A-7 of the Investment Company Act of 1940, 17 C.F.R. Section 270.2A-7, as amended, and that contain only securities described in 1.8 (a), (b), and (c).
 - (iii) Any open-end or closed-end management type investment company or investment trust registered under the provisions of the Federal Investment Company Act of 1940, 15 U.S.C. Section 80a-1, as amended, the portfolio of which is limited to direct obligations of the United States government and to repurchased agreements fully collateralized by United States government obligations; and takes delivery of that collateral, either directly or through an authorized custodian.
- (g) Municipal Bonds and Municipal Mutual Funds - The Director may invest unexpended bond sale proceeds and other funds subject to arbitrage rebate in tax-exempt bonds, notes, or other obligations of investment grade quality, as established by at least one nationally recognized statistical rating organization as designated by the SEC, issued by or on the behalf of any state or political subdivision or through a trust or fund that restricts investments of the trust or fund to obligations of investment grade quality.

- (h) Supranational Securities - Obligations issued and unconditionally guaranteed by a supranational issuer denominated in United States dollars and eligible to be sold in the United States. Supranational issuer means an international development institution that:
 - (i) Provides financing, advisory services, or other financial services to the institution's member countries to achieve the overall goal of improving living standards through sustainable economic growth; and
 - (ii) Is rated in the highest credit rating category by a nationally recognized statistical rating organization. Supranational issuer includes:
 - a. The World Bank;
 - b. The International Finance Corporation;
 - c. The Inter-American Development Bank;
 - d. The African Development Bank; and
 - e. The Asian Development Bank

1.9 **Authorized Dealers and Financial Institutions**

The Director shall develop and maintain a listing of financial institutions which are approved for investment purposes based on the following criteria:

- (a) Repurchase Agreements - The County may purchase repurchase agreements from primary government dealers, other securities dealers, and dealer banks which are on the approved list of financial institutions. Approval for the list will be based on having a short-term or long-term debt rating of investment grade by at least one nationally recognized statistical rating organization as designated by the SEC.
- (b) Certificates of Deposit (including CDARS and ICS Accounts) and Time Deposits - The County may purchase certificates of deposit and time deposits from national or state-chartered banks and savings and loan associations (including banks and savings and loans chartered by the District of Columbia) located in Maryland that meet Federal Deposit Insurance Corporation (FDIC) and other capital regulatory guidelines for adequate capitalization.
- (c) Pooled Investments - The County may invest in any pooled investment that qualifies under Section 1.8 (g).

- (d) Other Investments Listed in Section 1.8 of this Policy - The County may purchase all other investments, excluding repurchase agreements, certificates of deposit, time deposits, and pooled investments, from the financial institutions approved in Section 1.9 (a) or which qualify under SEC Rule 15C3-1 (uniform net capital rule) or meet FDIC and other regulatory capital guidelines for adequate capitalization. If they do not have an investment grade rating as required by Section 1.9 (a), they must meet FDIC and other capital regulatory guidelines for adequate capitalization. Banks are also required to have equity as a percentage of assets in excess of 3.0%, and other financial institutions must have equity as a percentage of assets in excess of 1.5%. Investments may be purchased directly from the issuer of the investment if the investment meets credit quality standards and is included on the approved list of investments.

1.10 **Competitive Bidding**

Investments shall be awarded on a competitive bid basis to the institution whose percentage yield produces the greatest investment income to the County and complies with safekeeping requirements and investment limitations. Investments can be awarded on a non-competitive basis when the investment security is a new issue that can only be purchased from one source or can be purchased at the same yield from any source. Competitive bidding is not required for pooled investments. Market information systems may be used to assess the market and determine that an offering is above the market for a comparable maturity and investment type when a situation makes competitive bidding impractical.

1.11 **Investment Limitations**

- (a) Maturity - Investment maturities shall be adequate to cover anticipated cash flow requirements. The majority of the investments shall be for a maximum maturity of one (1) year except for the investment of bond proceeds which may be invested up to three (3) years. However, a portion of the portfolio may contain investments with longer maturities without jeopardizing adequate safety and liquidity standards of the portfolio and at the same time increasing the overall yield of the portfolio. These investments will be limited to U. S. Government, U. S. Agency securities and Supranationals.

The method for determining the portion of the portfolio that can be invested in long-term investments will be to analyze the investment portfolio for the last three years, determine the investment balance low point for each of those years, and then compute the average for those three years. The maximum level of long-term investments will be approximately 50% of this average. This will be a rolling process to be performed at the end of each fiscal year. If the amount of long-term investments exceeds the 50% maximum, then no new investments can be purchased in the coming fiscal year.

In addition, funds may be invested for periods longer than the limitations listed above, provided that the investment of specific funds are made to not exceed the date in which it is reasonably expected that such funds will be disbursed and the investments are limited to U. S. Government, U. S. Agency securities and Supranationals.

- (b) Security Type - Based on credit quality risks of investment instrument classes maximum percentages of the portfolio have been established. These percentages may be overridden to satisfy the liquidity requirement in Section 1.11 (g). These percentages apply at the time the investment is purchased.
- (c) Fossil Fuel - The County may not make, direct investments in Fossil Fuel companies, or invest in funds which hold shares in Fossil Fuel companies, except MLGIP. Fossil Fuel companies are defined by the Fossil Free Index as the Carbon Underground 200 (CU200). The CU200 lists the top 200 publicly traded Fossil Fuel companies globally, ranked by the potential carbon emissions content of their proven reserves.

For any existing investments in Fossil Fuel companies, the County will divest 100% of its investments in these holdings by 2025. The Director will include in his annual reporting any negative fiscal impact this policy has on the County.

Maximum

U. S. Government Securities - 100%

U. S. Agency Securities - 90%

Repurchase Agreements - 80%

Certificates of Deposit and Time Deposits - 80%

Supranationals - 70%

Commercial Paper - 10%

Pooled Investments - 100%

Municipal Securities and Municipal Money Market Funds (bond proceeds) - 100%

- (d) Type of institution (Individual institution's maximum percent limitation of the portfolio at time of investment purchase):
 - (i) U.S. banks and savings and loan associations for Certificates of Deposit (including CDARS and ICS Accounts), Time Deposits and Repurchase Agreements are limited to a maximum dollar value of 30% of the total investment portfolio. This limit may be overridden for the overnight investment of funds remaining at the end of the day with the primary collection and disbursement banks.
 - (ii) Brokers/dealers for Repurchase Agreements are limited to a maximum dollar value of 30% of the total investment portfolio.
 - (iii) Commercial paper issuers are limited to a maximum dollar value of 10% of the total investment portfolio.

- (e) Pooled Investment Size - The total investment in a pooled investment shall not exceed more than 25% of the fund's net assets.
- (f) Liquidity - A minimum of \$25 million of the County's portfolio excluding bond proceeds shall be in liquid investments consisting of any of the following:
 - (i) U.S. Government & Agency Securities
 - (ii) Pooled Investments allowing same day withdrawals
 - (iii) Overnight Repurchase Agreements
 - (iv) Other authorized investments maturing in one day.

Other entities conforming to this policy should determine an appropriate liquidity level based on the size of the portfolio and the anticipated cash flow requirements of the entity.

- (g) Reverse Repurchase Agreements - The County shall not leverage (borrow money for the sole purpose of investment) the portfolio through the use of reverse repurchase agreements. The County may enter into reverse repurchase agreements for the purpose of providing liquidity for unanticipated cash requirements provided that a Master Repurchase Agreement has been signed with a financial institution which has been authorized under Section 1.9(a).
- (h) Derivatives - The County shall not invest in derivative securities that have high price volatility, lack liquidity and are speculative in nature. The County shall not use derivatives to hedge the investment portfolio. Any derivative that is purchased shall have its interest rate derived from indexes or instruments based upon U.S. Government or U.S. agency securities that are applicable to the conservative investment activities of the County.

1.12 Collateralization

- (a) Collateral shall be maintained in excess of Federal insurance coverage for all County bank accounts, certificates of deposit and time deposits. Acceptable collateral is specified under Section 6-202 of Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland.
- (b) Collateralization is required for all repurchase agreements of at least 102% of the principal amount. Acceptable collateral shall consist of obligations of the United States, its agencies or instrumentalities as specified under Sections 1.8 (a) and (b).
- (c) The collateral shall be held by an independent third party as specified under Section 1.13.

1.13 **Safekeeping and Custody**

- (a) The Director will appoint independent third-party custodians. A current custodial agreement is required between the County and the Custodian. All security transactions, including collateral for repurchase agreements, shall be executed on a delivery-versus-payment basis except pooled investments, certificates of deposit and time deposits.
- (b) The Custodian may not be a counterparty to the transaction; unless the custodian is the County's primary bank and the securities purchased from the bank, including collateral for repurchase agreements, certificates of deposit and time deposits, are held in the County's name and account.
- (c) The Federal Reserve Bank of Richmond functioning under the rules in Operating Circular Nos. 16 and 19, may be used as a custodian for pledged collateral on deposits and certificates of deposit.
- (d) After careful review of reinvestment guidelines, practices, procedures, and agreements of the Custodian, the County may participate in a security lending program.

1.14 **Reporting**

- (a) Monthly Investment Policy Compliance Reports reflective of the investment activity will be submitted by the investment officials to the Director for review and approval.
- (b) On a semiannual basis, on or before January 15 and July 15 of each year, the investment officials shall complete and the Director shall certify investment activity of the County on the form adopted by the State Treasurer to report all investments of the County on the close of the final day of the immediately preceding half of the fiscal year. The form shall be submitted to the County Executive. He shall review and certify the form on or before January 30 and July 30 of each year and promptly mail a copy of the completed certified form to the State Treasurer.
- (c) The County shall mark-to-market the portfolio semiannually for reporting purposes and portfolio evaluation. The market values shall be obtained from a reputable and independent source.

1.15 **Internal Controls**

The Director shall establish a system of internal controls, which shall be documented in writing. An independent auditor, as part of the annual financial audit will review the investment program.

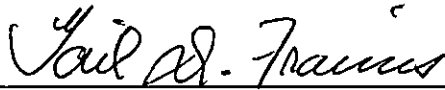
1.16 **Performance Standards**

Based on this conservative investment policy concerning the authorized investments and the maturity and liquidity constraints, the County will measure performance against an appropriate benchmark that corresponds to the composition of the investment portfolio.

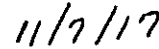
1.17 **Investment Policy Adoption**

The investment policy is approved by the Director, Office of Finance and adopted by resolution by the County Council and filed with the State Treasurer's Office. The Director may institute changes in these policies at any time as long as the changes are in compliance with the Annotated Code of Maryland and the Prince George's County, Maryland Code and are adopted by the County Council and filed with the State Treasurer's Office. These changes should be distributed to the investment officials assigned the investment responsibilities. Any legislative changes will supersede this document.

APPROVED BY:



Gail D. Francis
Director, Office of Finance
Prince George's County, Maryland



Date