

The following guidelines will be utilized:

PRUDENCE

- A. The standard of prudence to be applied by the investment officer shall be the “prudent person” rule, which states, “investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretions 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.

- B. Investment officers 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.

OBJECTIVE

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

- A. **Safety**: Safety of principal is the foremost objective of the investment program. Investments of the BOE shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification, third party collateralization and safekeeping, and delivery versus payment will be required.
- B. **Liquidity**: The BOE's investment portfolio will remain sufficiently liquid to enable the BOE to meet all operating requirements, which might be reasonable anticipated.
- C. **Return on investment**: The BOE's investment portfolio shall be designed with the objective of providing a reasonable return on investment throughout budgetary and economic cycles after considering the BOE's investment risk constraints and the cash flow characteristics of the portfolio.

DELEGATION OF AUTHORITY

- A. Authority to manage the BOE's investment program is derived from state law (Article 95 and Title 6 of the Finance and Procurement Article of the Annotated Code of Maryland).
- B. The Chief Financial Officer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include:
 - 1. Explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer.
 - 2. Procedures should include reference to safekeeping, master-repurchase agreements, and wire transfer agreements, collateral/depository agreements and banking service agreements.
 - 3. The Chief Financial Officer and his designee(s) shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials (investment officers).

ETHICS AND CONFLICTS OF INTEREST

Officials and employees 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. Employees and investment officials shall disclose to the Chief Financial Officer any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the BOE's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the BOE, particularly with regard to the time of purchases and sales.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Chief Financial Officer shall maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the State or have access to an approved list. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1. No deposit shall be made except in an institution, which is a qualified public depository as established by the State of Maryland. All financial institutions and broker/dealers who desire to become qualified brokers for investment transactions must supply the Investment Officer with the following: audited financial statements, proof of National Association of Security Dealers certification, trading certification of having read the BOE's Investment Policy and depository contracts. If brokers are utilized, an annual review of the financial condition and registrations of qualified bidders will be conducted by the Chief Financial Officer. A current audited financial statement is required to be on file for each financial institution or broker/dealer through which the BOE invests.

1. All dealers must agree to the BOE's policy of delivery-versus-payment as described in the section on **SAFEKEEPING AND CUSTODY** in this policy.
2. The firm must provide copies of its audited financial statements, which are reviewed to assure that the firm is on sound financial footing. The firm must also have adequate capital to fulfill its commitments under adverse market conditions.

DIVERSIFICATION IN AUTHORIZED & SUITABLE INVESTMENTS

The BOE will diversify to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities.

	Maximum Percent of Portfolio
A. <u>Diversification by Instrument</u>	
1. U.S. Treasury Obligations	100%
2. U.S. Government Agency and U.S. Government-sponsored instrumentalities (no one issue can exceed 15% of portfolio)	100%
3. Repurchase Agreements (Master Repurchase Agreement required)	100%
4. Collateralized Certificates of Deposit (Only Qualified Depositories)	100%
5. Bankers' Acceptances BA's from domestic banks, which also include the United State affiliates of large international banks. Short term rating of A1 from Standard and Poor's Corporation and P1 from Moody's Investor Service	5%

REVENUE FROM INVESTMENTS

FILE: DFA-R3

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| 6. Money Market Mutual Funds Highest rating by at least one recognized rating agency | 5% |
| 7. Commercial Paper. Paper must have a minimum of an A1/P1 rating by at least two recognized agencies | 5% |

B. Diversification by Institution

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| 1. Government Dealers (Repurchase Agreements) | 100% |
| 2. Banking Institutions (Certificates of Deposit-Repo) | 100% |
| 3. Money Market Treasury funds | 40% |
| 4. Banker's Acceptances by institution | 25% |

C. Maximum Maturities

To the extent possible, the BOE will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the BOE will not directly invest in securities maturing more than 2 years from the date of purchase. However, the BOE may collateralize its repurchase agreements using longer-dated investments not to exceed 2 years to maturity.

Reserve funds may be invested in securities exceeding 2 years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

BORROWING

The BOE is precluded by law from borrowing funds.

COLLATERALIZATION

- A. Collateralization will be required on two types of investments: certificates of deposit and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at least 100% of market value of principal and accrued interest.
- B. Collateral will always be held by an independent third party with whom the BOE has a current custodial agreement.
- C. Acceptable collateral is specified under Section 6-202 of Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland. However, the third party trust custodian, who holds the collateral, has the right to reject otherwise acceptable collateral based on their discretion concerning market conditions.
- D. The right of collateral substitution is granted, and all associated costs will be paid by the seller (Financial Institution).

SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the BOE shall be conducted on a deliver-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Chief Financial Officer. All repurchase agreements will be governed by a Master Repurchase Agreement signed by the appropriate officials of the BOE and the government dealer.

REVENUE FROM INVESTMENTS

FILE: DFA-R4

INTERNAL CONTROLS

The Chief Financial Officer 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 investment officers of the BOE. An audit of the internal controls of the investment operation is part of the annual financial audit conducted by an outside independent audit company.

INVESTMENT POLICY ADOPTION

The Chief Financial Officer may institute changes in these policies at any time as long as the changes are in compliance with the Annotated Code of Maryland. These changes should be written.

Exceptions to these policies may be made by securing the approval of the Chief Financial Officer and documented in writing.

Board Reviewed 05/17/2022	Superintendent Approved 05/17/2022
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