

Town of Sykesville, Maryland Investment Policy and Procedures

I. Purpose and Scope

The purpose of this statement of investment policy is to establish guidelines for the safeguarding and efficient management of all short-term investment balances of the Town. This investment policy applies to all short term, operating and reserve funds of the Town but does not apply to the financial assets of the Town retirement plan(s).

II. Investment Objectives

The primary investment objectives for all funds covered by this investment policy shall be, in order of priority, as follows:

1. Safety

The safeguarding of principal shall be the foremost objective of the investment program, and other objectives shall be subordinated to the attainment of this objective.

2. Liquidity

The investment portfolio shall be managed at all times with sufficient liquidity to meet all daily and seasonal needs, as well as special projects and other operational requirements either known or which might be reasonably anticipated.

3. Return on Investment

The investment portfolio shall be managed with the objective of obtaining no less than a market rate of return over the course of budgetary and economic cycles, taking into account the constraints contained herein and the cash flow patterns of the Town.

III. Standards of Care

1. Prudence

In recognition of its fiduciary role in the management of all public funds entrusted to its care, it shall be the policy of the Town that all investment balances be invested with the same care, skill, prudence and diligence, under circumstances then prevailing, that a prudent and knowledgeable person would exercise when undertaking an enterprise of like character and aims, not for speculation, but for investment, considering the probable safety of the capital as well as the probable income derived.

Further, it shall be the policy of the Town that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in Maryland, including the Annotated Code of Maryland and guidelines established by the State Treasurer.

2. Ethics

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall attempt to refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

3. Responsibility

Authority to manage the Town's investment program is granted under state law (Article 95 and Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland). The Town Clerk/Treasurer, under the supervision of the Town Manager, shall be responsible for the operation and investment of all short term, operating and reserve funds of the Town and shall establish and maintain written administrative procedures and internal controls for the operation of the investment program, consistent with this investment policy.

IV. Allowable Investments

The following investments are approved for use by the Town in the investment of public funds:

1. Obligations for which the United States has pledged its faith and credit, including U.S. Treasury Bills, Notes, Bonds and other direct obligations of the U.S. Government.
2. Obligations that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, including but not limited to the Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Mortgage Corporation and Student Loan Marketing Association.
3. Repurchase Agreements collateralized in an amount not less than 102% of the principal amount by an obligation of the United States or its agencies or instrumentalities if the collateral is held by a custodian other than the seller designated by the buyer.
4. Banker's acceptances guaranteed by a financial institution 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 either the SEC or the Treasurer.
5. Certificates of deposit or other interest bearing time deposits or savings accounts in any bank in the State of Maryland or savings and loan association or building and loan association provided such deposits are insured or the bank or association has collateralized the deposit by:
 1. depositing a like amount of bonds in escrow covering the deposits;
 2. or given as security for the deposits any of the following collateral:
 - Obligations of or guaranteed by the United States or any of its agencies, or
 - An obligation insured by the United States Commercial Banks must have a short-term rating of at least investment grade from the appropriate bank-rating agency. All banks shall provide their most recent Consolidated Report of Financial Condition at the request of the Town.
6. Money Market Mutual Funds registered under the Investment Company Act of 1940, 15USC § 80(A) as amended, 17CFR § 270.2A-7 as amended, operated in accordance with Rule 2A-7 and having the highest possible rating from at least one statistical rating organization designated by the SEC. The management company of the fund must take delivery of the collateral either directly or through an authorized custodian.

7. Any investment portfolio created under the Maryland Local Government Investment Pool defined under Article 95, § 22G of the Annotated Code of Maryland that is administered by the Office of the State Treasurer.

V. Maturity Restrictions

It is recognized that, prior to maturity date, the market value of securities in the Town's portfolio may fluctuate due to changes in market conditions. In view of this and the Town's primary investment objectives of preservation of principal and liquidity, every effort shall be made to manage investment maturities so that they precede or coincide with the expected need for funds. Accordingly, the requirements established by the Annotated Code of Maryland and State Treasury guidelines are further restricted as follows:

1. Funds shall be invested at all times in keeping with the daily and seasonal pattern of the Town's cash balances, as well as any other special factors or needs, in order to assure the availability of funds on a timely and liquid basis.
2. Unless matched to a specific cash flow, the Town will not invest in securities maturing more than three (3) years from the date of purchase.
3. Reserve funds may be invested in securities exceeding three (3) years but not more than five (5) years if the maturity of such instruments is made to precede or coincide with the expected need for funds and only with the prior approval of the Town Manager.

VI. Prohibited Securities, Transactions and Activities

1. CMO's, inverse floating rate securities, floating rate securities tied to a non-money market instrument, IO's, PO's, Z-tranche securities, residuals, and other securities having unusual features are expressly prohibited.
2. Transactions in options, futures, options on futures, margin buying and commodities are prohibited.
3. Any other security not specifically authorized in this document is expressly prohibited.
4. Borrowing funds for the sole purpose of investing is strictly forbidden.

VII. Diversification

The Town will diversify its holdings by security type and institution to avoid incurring unreasonable risks due to excessive concentration in specific instruments, financial institutions or issuers. Diversification standards are as follows:

<u>A. Investment Instrument</u>	<u>Maximum Percent of Portfolio</u>
1. U.S. Government Obligations	100%
2. U.S. Government Agencies and Instrumentalities	90%
3. Repurchase Agreements (primary dealers only)	90%
4. Certificates of Deposit	90%
5. Money Market Mutual Funds	50%
6. Maryland Local Government Investment Pool	100%

VIII. Safekeeping, Custody and Additional Requirements

1. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the Town shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by the Town or by the Town's designated custodian. If held by a custodian, the securities must be in the Town's name or in the custodian's nominee name and identifiable on the custodian's books as belonging to the Town. Further, if held by a custodian, the custodian must be a third party, not a counterparty (buyer or seller) to the transaction.

All repurchase agreements will be governed by a Master Repurchase Agreement signed by the appropriate officials of the Town and the primary government dealer.

2. Collateralization

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 102% of market value of principal and accrued interest. Collateral will always be held by an independent third party with whom the Town has a current custodial agreement.

3. Authorized Financial Dealers and Institution

The Town shall maintain a list from time to time of financial institutions, which are approved for investment purposes. Approved security broker/dealers shall be selected on the basis of creditworthiness, with minimum capital of \$1,000,000 and at least five years of operation required. All repurchase agreements entered into by the Town will be with primary government dealers with the exception of those executed with the Town's depository bank. Additionally, the following applies to all approved firms:

a. The firm must provide copies of its audited financial statements and/or a copy of its annual report. If requested by the Town, the firm will send resume information on the salesperson with whom the Town will be dealing and a list of other Government entities that buy and sell securities through the firm.

b. The firm must be registered in the State of Maryland with a record of responsible business practices and professional integrity.

4. Internal Controls

An audit of the investment operation will be completed as part of the annual financial audit and will be conducted by an outside independent audit company.

5. Reporting

A review of all investments and investment results shall be presented to the Town Clerk/Treasurer, or such parties as he/she may designate, on a semi-annual basis or as required. Said report shall provide a clear picture of the status of the current investment portfolio and transactions made over the last quarter, including a statement of the market value of the portfolio and of each security in the portfolio.

6. Performance Standards

The portfolio should obtain at least a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to an appropriate benchmark, as determined by the Town Clerk/Treasurer or his/her designated appointee, on a regular basis, but at least quarterly.

IX. Investment Policy Adoption and Review

The Town's investment policy shall be adopted by the Town Council, effective October 1, 1995. It shall be the

practice of the Town Council to periodically review the policy to ensure that it continues to meet the requirements of the Town.

Adopted October 23, 1995

Signature on File

Jonathan S. Herman, Mayor

Town of Sykesville, Maryland
7547 Main Street
Sykesville, Maryland 21784

Accepted March 12, 1996

Signature on File

Mark A. Reger

Deputy Treasurer

Maryland State Treasurer's Office