

VILLAGE OF FRIENDSHIP HEIGHTS

4433 SOUTH PARK AVENUE
CHEVY CHASE, MARYLAND 20815
(301) 656-2797

VILLAGE COUNCIL
ALFRED MULLER, M.D., *Mayor*
FRANK VALEO, *Chairman*
ERIC J. ELLMAN, *Vice Chairman*
MELANIE ROSE WHITE, *Secretary*
SAUL GOLDBERG, *Treasurer*
PATRICIA FORKAN, *Parliamentarian*
MARTIN KUHN
LESLIE STRATHMANN, *Village Manager*



Resolution

WHEREAS the State of Maryland approved House Bill 913 and Senate Bill 86 to strengthen Maryland's investment statutes while insuring that control and responsibility for local governmental investment activities remain with the local governments; and

WHEREAS the Village of Friendship Heights, as a local government in the state of Maryland, is required to adopt by resolution an investment policy for Village funds and must file said policy with the Maryland State Treasurer by September 1, 1995, and thereafter must file a report twice a year certifying its compliance with its established investment policy;

NOW, THEREFORE Be it hereby resolved by the Friendship Heights Village Council, that the investment policy for the Village of Friendship Heights is established as set forth in the attached document.

Resolved this 14th day of August, 1995

Introduced by Mayor Muller

Melanie Rose White

Melanie Rose White, Secretary

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Village of Friendship Heights Investment Policy

1.0 Policy

It is the policy of the Village of Friendship Heights to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

2.0 Scope

This investment policy applies to all financial assets of the Village of Friendship Heights. These funds are accounted for in the Village of Friendship Heights' Comprehensive Annual Financial Report and include all Village funds.

3.0 Prudence

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 standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility 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.

4.0 Objective

The primary objectives, in priority order, of the Village of Friendship Heights' investment activities shall be:

Safety: Safety of principal is the foremost objective of the investment program. Investments of the Village of Friendship Heights shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity: The Village of Friendship Heights' investment portfolio will remain sufficiently liquid to enable the Village of Friendship Heights to meet all operating requirements which might be reasonably anticipated.

Return on Investments: The Village of Friendship Heights' investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the Village of Friendship Heights' investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority

Management responsibility for the investment program is hereby delegated to the Village Council, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, PSA repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include 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 Village Council. The Village Council shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

6.0 Ethics and Conflicts of Interest

Officers 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 Mayor 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 Village of Friendship Heights, particularly with regard to the time of purchases and sales.

7.0 Authorized & Suitable Investments

The Village of Friendship Heights is empowered by statute to invest in the following types of securities:

I. ANY UNEXPENDED OR SURPLUS MONEYS

- A. an obligation for which the United States has pledged its faith and credit. Art. 95, §22; State Finance and Procurement Art., §6-222.
- B. an obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress. Art. 95, §22; State Finance and Procurement Art., §6-222.
- C. a repurchase agreement 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. Art. 95, §22; State Finance and Procurement Art., §6-222.
- D. bankers' 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. Art. 95, §22; State Finance and Procurement Art., §6-222.
- E. commercial paper that has received the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the SEC up to 5% of total investments. Art. 95, §22; State Finance and Procurement Art., §6-222.
- F. money market mutual funds registered under the Investment Company Act of 1940, operated in accordance with Rule 2A-7, and having the highest possible rating from at least one statistical rating organization designated by the SEC. Art. 95, §22; State Finance and Procurement Art., §6-222.
- G. an obligation or security of, or other interest in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940 if the portfolio thereof is limited to direct obligations of the United States government and repurchase agreements fully collateralized thereby and the investment company or trust or its custodian holds the collateral. Art. 95, §22N.
- H. local government investment pool administered by the State Treasurer. Art. 95, §22; Art. 95, §22G.

II. BOND SALE PROCEEDS ONLY

- A. bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical rating organization designated by the SEC issued by or on behalf of a state or local government. Art. 95, §22; State Finance and Procurement Art., §6-222.
- B. any fund or trust that invests only in bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical rating organization designated by the SEC issued by or on behalf of a state or local government. Art. 95, §22; State Finance and Procurement Art., §6-222.

8.0 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 102% of market value of principal and accrued interest.

The entity chooses to limit collateral to the following:

1. an obligation of the United States or any of its agencies;
2. an obligation guaranteed by the United States or by any of its agencies;
3. an obligation insured by the United States;
4. an obligation of the State or any of its units or instrumentalities;
5. an obligation of a county of the State or any of its agencies;
6. an obligation of a municipal corporation in the State or any of its agencies;
7. an obligation of any other governmental authority in the State;
8. an obligation of the Inter-America Development Bank;
9. an obligation of the World Bank;
10. an irrevocable and absolute surety bond issued by an insurance company that is authorized to do business in this State, does not provide surety bonds for any financial institution in an amount that exceeds 10% of its

policyholders' surplus and contingency reserve, net of reinsurance, and is rated in the highest category by at least two nationally recognized rating agencies; or

11. an obligation or security of, or other interest in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940 if the portfolio thereof is limited to direct obligations of the United States government and repurchase agreements fully collateralized thereby and the investment company or trust or its custodian holds the collateral. Art. 95, §22; State Finance and Procurement Art., §6-202.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

The right of collateral substitution is granted.

9.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the Village of Friendship Heights shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

10.0 Diversification

The Village of Friendship Heights will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the Village of Friendship Heights' total investment portfolio will be invested in a single security type or with a single financial institution.

11.0 Maximum Maturities

To the extent possible, the Village of Friendship Heights will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village of Friendship Heights will not directly invest in securities maturing more than 18 to 24 months from the date of purchase. However, the Village of Friendship Heights may collateralize its repurchase agreements using longer-dated investments not to exceed 30 years to maturity.

Reserve funds may be invested in securities exceeding 18-24 months if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

12.0 Internal Control

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

13.0 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

14.0 Reporting

The Treasurer is charged with the responsibility of including a market report on investment activity and returns in the Village of Friendship Heights' Financial Report.

15.0 Investment Policy Adoption

The Village of Friendship Heights' investment policy shall be adopted by resolution of the Friendship Heights Village Council. The policy shall be reviewed annually by the Friendship Heights Village Council Finance Committee and any modifications made thereto must be approved by the Friendship Heights Village Council.

16.0 State Law Requirements

The Village of Friendship Heights is prohibited from borrowing money for the sole purpose of investment.

All investments made by the Village of Friendship Heights will comply with the standards of Article 6-222(d), the State Finance and Procurement Article of the Annotated Code of Maryland.