

Town of Chevy Chase

Investment Policy

1.0 Policy

It is the policy of the Town of Chevy Chase to invest public funds in a manner which will provide a competitive rate of return with maximum security while meeting the daily cash flow demands of the Town 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 for the Town of Chevy Chase. These funds are accounted for in the Town's Annual Report.

3.0 Prudence

Investments will be made with care under the circumstances then prevailing that persons acting with 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.

3.1

The standard of care 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 shall act in accordance with written procedures and this Investment Policy and exercise due diligence. Deviations from expectations shall be reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objective

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

4.1 Safety: Safety of principal is the foremost objective in the investment program. Investments 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 will be required.

4.2 Liquidity: The Town's investment portfolio will remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably anticipated plus a reasonable amount for unanticipated needs.

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

5.0 Delegation of Authority

Authority to manage the Town's investment program is derived from State law (Title 17 of the Local Government Article and Title 6 of the Finance and Procurement Article of the Annotated Code of Maryland) and the Town's Charter Section 205(b). Management responsibility for the investment program is hereby delegated to the Treasurer of the Town Council, who shall establish procedures for the operation of the investment program consistent with this Investment Policy. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls.

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 Council any material financial interest in financial institutions that conduct business with the Town and also disclose any large personal financial/investment positions that could relate to the performance of the Town's portfolio, particularly with regard to the time of purchases and sales.

7.0 Authorized Financial Dealers and Institutions

The Treasurer may maintain a list of all financial institutions authorized to provide investment services. The following is a summary of the types of institutions that may be used by the Town along with the type of investment transactions handled by those institutions.

- A. Primary Government Dealers: The Federal Reserve Bank of New York designates primary government dealers in government securities. The Town can purchase authorized and suitable investments from such primary dealers.
- B. Other Security Dealers: The Town may purchase repurchase agreements, U.S. Government securities, U.S. Government agency securities, commercial paper and banker's acceptances from dealers other than primary government dealers and from dealer banks that market these securities. Local, regional, and minority firms shall have an opportunity to bid on a portion of the Town's investable funds.

7.1 All dealers must agree to the Town's policy of delivery versus payment as described in Section 11.0 of this policy. Firms must have adequate capital to fulfill their commitments under adverse market conditions. All non-primary firms must provide copies of their audited financial statements and Financial and Operational Combined Uniform Single

Report (FOCUS Report) for review and approval before initiating any transactions and annually thereafter.

8.0 Authorized and Suitable Investments

The Town of Chevy Chase is empowered by State law to invest in securities described in Local Government Article, Title 17 and State Finance and Procurement Article, Section 6-222 and 6-223 of the Annotated Code of Maryland, as amended. The Town is empowered by said statutes to invest in the following types of securities, subject to certain restrictions as set forth therein:

- U.S. Treasury Obligations
- Certificates of Deposit
- Federal Agency or Instrumentality Obligations
- Banker's Acceptances
- Money Market Mutual Funds
- Municipal Securities and Municipal Mutual Funds for bond sale proceeds only
- Prime Commercial Paper
- Investment pools as authorized by the State of Maryland
- Repurchase agreements collateralized with U.S. Treasury Bills, Notes or Bonds

If repurchase agreements are included in the portfolio, a Master Repurchase Agreement must be signed by the financial institution or dealer.

9.0 Borrowing

The Town will not borrow solely for the purpose of investment and may not invest in a manner inconsistent with this Investment Policy.

10.0 Collateralization

Collateralization will be required on two types of investments: certificates of deposit and repurchase 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.

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 must be supplied to the Town and retained. The right of collateral substitution is granted and the seller will pay all associated costs.

11.0 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 a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

12.0 Diversification

The Town 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 Town's total investment portfolio will be invested in a single security type or with a single financial institution.

13.0 Maximum Maturities

To the extent possible, the Town of Chevy Chase will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than five years from the date of purchase.

14.0 Internal Control

If investments are made, 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.

15.0 Performance Standards

In general, the Town's investment policy is passive. Given this, the basis used by the Treasurer to determine whether market yields are being achieved shall be the six-month U.S. Treasury Bill and average Federal Funds rate.

16.0 Reporting

The Treasurer shall include a report on investment activity and returns in the Town's Financial Report. Reports will include performance, market sector breakdown, number of trades, interest, earnings and other material information.

17.0 Investment Policy Adoption

The Town's investment policy shall be adopted by resolution of the Town Council. The policy shall be reviewed annually by the Council and any modifications made thereto must be approved by the Town Council.

Approved November 12, 2014