

The Maryland-National Capital Park & Planning Commission



INVESTMENT POLICY

**Prepared by the Office of Secretary-Treasurer
Department of Finance**

**Gavin Cohen, Secretary-Treasurer
Abbey Rodman, Corporate Accounting Director
Tanya Hankton, Corporate Treasury & Investment Manager**

Updated September 20, 2023

INVESTMENT POLICY

I. SCOPE

This policy applies to the investment of all unexpended or surplus funds of The Maryland-National Capital Park and Planning Commission ("Commission"). Funds not required for immediate expenditure will be invested in a manner that will preserve capital while conforming to all State of Maryland statutes governing the investment of public funds and in accordance with best investment practices of public funds as promulgated by industry trade associations.

The Secretary-Treasurer and/or designee is authorized to invest such funds until such time that the Commission requires liquid funds for ongoing operating needs.

Except for cash in certain restricted and special funds, the entity consolidates cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration.

Investment income is allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. These funds are reported in the Commission's Annual Comprehensive Financial Report and include:

- (a) General Fund
- (b) Capital Project Funds
- (c) Enterprise Funds
- (d) Special Revenue Funds
- (e) Debt Service Funds
- (f) Internal Service Funds
- (g) New funds authorized by the Commission unless specifically exempted.

This Investment Policy (Policy) does not cover the investment activities of: Pension Funds or certain Trust or Agency Funds, which are administered by separate trustees; and certain indentured funds and certain escrow funds, which are controlled by the respective indenture and escrow agreements.

This Policy represents the financial boundaries within which the Commission's cash and investment management process will operate.

II. INVESTMENT OBJECTIVES

The Commission's primary objectives for the investment and management of public funds are as follows:

- (a) **Safety of principle:** The protection of investment principal is the foremost objective in the overall portfolio. Investments of the Commission shall be undertaken in a manner that seeks to ensure the preservation of capital. To attain this objective, the Commission will mitigate both credit risk and interest rate risk. Credit Risk is defined as the risk of loss due to the failure of the security issuer or backer and this risk will be mitigated by:
- (1) limiting investments to the safest types of securities listed in Section VII of this investment policy;
 - (2) pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers with which the Commission will do business in accordance with Section VIII;
 - (3) diversifying the investment portfolio such that the impact of potential losses from any one type of security or from any one individual issuer will be minimized;
 - (4) requiring third-party collateralization and safekeeping, and delivery-versus-payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
 - (5) monitoring the portfolio regularly to anticipate and respond appropriately to a reduction in the credit worthiness of any of the issuers.

Market or interest rate risk is defined as the risk that the market value of portfolio securities will fall due to an increase in general interest rates and this risk will be mitigated by:

- (1) structuring the Commission's portfolio so that securities mature to meet the Commission's working capital requirements for ongoing operations;
 - (2) avoiding the need to sell securities on the open market prior to their maturation to meet those specific needs;
 - (3) periodically restructuring the portfolio to minimize the loss of market value and/or maximize cash flows subject to the constraints described in Section X of this Policy.
- (b) **Liquidity:** The Commission's investment portfolio will remain sufficiently liquid to enable the Commission to meet all operating and capital spending requirements which might be reasonably anticipated

It is the full intent of the Commission to hold all investments until maturity to ensure the return of all invested principal. However, securities may be sold prior to maturity as needed to comply with this Policy. This Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates.

- (c) **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, with consideration of investment risk constraints and liquidity needs. Return on investment is of secondary importance to the safety and liquidity objectives described above, and consistent with the risk limitations and prudent investment guidelines described in this policy.

III. DELEGATION OF AUTHORITY

- (a) In accordance with the Annotated Code of Maryland, Article 95, Section 22F, State Finance & Procurement Article Section 6-222, the responsibility for conducting investment transactions rests with the Secretary-Treasurer, Department of Finance.
- (b) The Secretary-Treasurer or designee (Investment Officials) are authorized to invest surplus Commission funds, until such time as they will be needed in such investments as outlined in this Policy.
- (c) Investment Officials shall have sole authority to buy and sell securities on behalf of the Commission. Investment Officials may utilize qualified outside financial consultants or investment advisory firms to provide the necessary technical expertise, tools, and resources that are required to buy and sell securities, and to analyze the Commission's cash flow requirements or other investment needs.
- (d) The Secretary-Treasurer shall establish written procedures for the operation of the Commission's investment programs consistent with this Policy. Such procedures must include:
 - 1. Explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under terms of this Policy and the procedures approved by the Secretary-Treasurer.
 - 2. Procedures should include reference to safekeeping, master repurchase agreements, tri-party custodial agreements, delivery vs. payment, wire transfers, collateral depository agreements, accounting, and banking service contracts.
- (e) Responsibility for the operation of the Commission's investment program is hereby delegated to the Corporate Treasury and Investment Manager, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this Policy.

IV. 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 making a good faith effort to act 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 change, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

V. ETHICS AND CONFLICTS OF INTEREST

Commission employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions.

Commission employees shall disclose to the Secretary-Treasurer any material interests in financial institutions with which they conduct personal business. They shall further disclose to the Secretary-Treasurer any personal financial /investment positions that could be related to the performance of the investment portfolio, and refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Commission.

Investment Officials shall subordinate their personal investment transactions to those of the Commission, particularly with regard to the time of purchases and sales. Investment Officials shall comply with the Commission's Ethics Practice 2-24.

VI. INVESTMENT STRATEGY

The Secretary-Treasurer shall hold periodic investment strategy meetings with the delegated Investment Officials and/or outside professional consultants and shall document the resulting investment strategies approved to meet the objectives of this Investment Policy.

VII. AUTHORIZED, SUITABLE AND PROHIBITED INVESTMENTS

In accordance with the State Finance and Procurement Article Section 6-222, Investment Officials may invest Commission funds in the following investments:

- (a) Any obligation for which the United States has pledged its full faith and credit for the payment of principal and interest, with the exception of certificates representing only the interest portion of such securities (IOs).
- (b) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an Act of Congress. Callable agency or federal instrumentality securities may be purchased provided the securities are not subject to call more often than four times per year.
- (c) Repurchase agreements collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities, provided the collateral is held by a custodian other than the seller, as designated by the Commission. Margin requirements will be calculated daily by the third-party custodian. Substitution of collateral is permitted without express approval by the Commission, provided the substituted collateral conforms with all margin and structure requirements of the Commission.

The Commission may purchase repurchase agreements overnight and up to seven days' duration with its primary collection and disbursement bank, provided that collateral securities are held separately in the Commission's name, and a statement is submitted monthly reflecting these transactions.

- (d) Certificates of Deposit and Time Deposits - Deposits in federally insured banks chartered to operate in the State of Maryland or in any federally insured savings and loan association or savings bank in the State of Maryland which maintain collateralization at 102% of the market value and held by a custodian, designated by the Commission and other than the seller.
- (e) Brokered Certificates of Deposits: Pursuant to Article 95, Treasurer-In General, Annotated Code of Maryland, Section 22-O, the Commission is authorized to invest in Certificates of Deposit Account Registry Program (CDARS).
- (f) Bankers' acceptances (BA's), including those of non-U.S. banks, guaranteed by a financial institution with a short-term debt rating in the highest letter and numerical rating by at least one of the National Recognized Statistical Rating Organizations (NRSRO) as designated by either the SEC or the State Treasurer.
- (g) Commercial paper that has received a minimum rating of A1/P1 by at least two NRSRO as designated by the SEC.

- (h) Money market mutual funds that maintain a net asset value (NAV) of \$1.00 at all times and provide investors with daily liquidity. The funds must be registered with the SEC and operate 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 in accordance with Maryland State Code. The funds must have received the highest possible rating from at least one NRSRO, and may only include the following:
 - (1) obligations for which the United States has pledged its full faith and credit for the payment of the principal and interest,
 - (2) obligations of federal agencies or federal instrumentalities issued pursuant to an act of Congress, and
 - (3) repurchase agreements collateralized by obligations of the United States, its agencies or instrumentalities.
- (i) Any investment portfolio created under the Maryland Local Government Investment Pool defined under Article 95, Section 22G of the Annotated Code of Maryland that is administered by the State Treasurer.

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.

With respect to amounts treated by the Internal Revenue Service as bond sale proceeds only:

- (1) Bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one NRSRO, issued by or on behalf of this or any other state or any agency, department, county, municipal or public corporation, special district, authority, or political subdivision thereof, or in any fund or trust that invests only in securities of the type described in this paragraph.
- (2) 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 in accordance with Maryland State Code. The investments should include those referenced in Section VII (h) and municipal money market mutual funds of the highest possible rating from at least one NRSRO. Up to 10% may be invested in money market mutual funds that have not received the highest rating but are still recognized as investment grade.
- (3) The Commission is required under the U.S. Tax Reform Act of 1986 to

perform periodic arbitrage calculations and to rebate excess earnings to the United States Treasury from the investment of gross proceeds of tax-exempt bonds. The Commission may contract with qualified outside financial consultants to provide the necessary technical expertise that is required to comply with this law.

- (j) All investments purchased must be denominated in U.S. Dollars.
- (k) Investment Officials are prohibited from borrowing money for the express purpose of reinvesting these funds, otherwise known as leveraging.
- (l) It is the policy of the Commission not to invest in derivative securities; these are financial contracts whose values are derived from the value of underlying securities such as stocks, bonds, currencies, and commodities.

VIII. AUTHORIZED DEALERS AND FINANCIAL INSTITUTIONS

- (a) The Secretary-Treasurer shall establish and maintain a listing of financial institutions and broker/dealers authorized to provide investment services to the Commission's Finance Department. All authorized securities dealers and financial institutions must:
 - (1) be on the published "List of the Primary Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York", and qualified under SEC Rule 15c3-1: or,
 - (2) be a financial institution (including securities dealers and commercial banks) having a local office within the State of Maryland; or,
 - (3) be a Securities and Exchange Commission registered Government Securities Dealer; and,
 - (4) have been incorporated as a financial institution for a period of at least five years; and,
 - (5) maintain at least \$100 million in net capital per current financial statements and have a short-term or long-term debt rating of investment grade by at least one NRSRO if acting as principal (e.g., for Repurchase Agreements), or at least \$4 million in net capital for allowed securities if acting as agent,
 - i. carry adequate insurance coverage including liability, errors and omissions, and worker's compensation (if applicable),
 - ii. be licensed and registered by the Financial Industry Regulatory Authority (FINRA).

- (b) All dealers, including primary dealers, are required to send annually to the Secretary-Treasurer their most recent audited financial statements and FOCUS reports, if applicable.
- (c) All dealers and financial institutions with which the Commission conducts business will be sent a copy of the Commission's current Investment Policy by the Finance Department, and a list of employees authorized by the Secretary-Treasurer to undertake investment transactions on behalf of the Commission. Each dealer and financial institution will be required to provide written certification that it will conform with the Policy.
- (d) The Commission may purchase repurchase agreements from dealers as defined in VIII (a) (5) above and with which the Commission has executed a master repurchase agreement. The master repurchase agreement is the industry standard as developed by the Bond Market Association/International Securities Market Association.
- (e) The Secretary-Treasurer is authorized to execute agreements on behalf of the Commission where an agreement and/or contract is required under this Section.

This list must be reviewed periodically, but no less often than annually to determine that approved dealers continue to fulfill the above requirements and whether they should remain on the approved list.

The Commission may choose to work with an external investment advisor in the review and/or selection of broker/dealers or in the purchase of investment instruments. If used, the selection of an investment advisor will be based on a competitive procurement process.

IX. COMPETITIVE BIDDING

Investments shall be awarded on a competitive bid basis to the institution whose percentage yield produces the greatest interest income to the Commission and complies with safekeeping requirements, investment diversification objectives and investment limitations. In the event multiple dealers offer identical desired investments and prices, the investment will be purchased from the dealer submitting the earliest response to the investment solicitation.

Comparative rates must be documented by the Investment Official for each competitive trade executed.

Investments may 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 or investments managed by contracted outside managers. Market information systems may be used to assess the market and determine that an offering is at or above the market for a comparable maturity and investment type when a situation makes competitive bidding impractical.

X. DIVERSIFICATION AND INVESTMENT LIMITATIONS INCLUDING MAXIMUM MATURITIES

The Commission must diversify its investment portfolio to avoid incurring unacceptable risks inherent in over-investing in specific investments, individual financial institutions, or maturities.

If the balance of the Commission's investment portfolio drops below a level determined appropriate by the Secretary-Treasurer such that adequate diversification becomes difficult to obtain, or that the daily cash needs of the Commission requires the Commission to invest in daily liquidity, these maximum percentages may be temporary suspended by the Secretary-Treasurer. To further protect the Commission, increasing maximum percentages should be directed at traditionally diversified investments such as Money Market Mutual Funds and/or the Maryland Local Government Investment Pool.

- (a) ***Diversification of Maturities*** – Investment maturities shall be adequate to cover anticipated cash flow requirements.

The majority of the investments shall be for a short-term basis of maximum maturity of up to 18 months. However, a portion of the portfolio may be invested in instruments with longer maturities, up to 3 years (36 months) as long as such action does not jeopardize the adequate safety and liquidity standards of the portfolio and at the same time increases the overall yield of the portfolio. These longer-term investments will be limited to U.S. Government and U.S. Agency securities.

| | |
|-------------|------------------|
| 0 – 1.5 yr. | 1.5 yr. - 3 yrs. |
| 60% | 40% |

- (b) ***Bankers' Acceptances*** shall not exceed a twelve (12) month maturity and shall meet the eligibility requirements of the Federal Reserve System.
- (c) ***Diversification by Investment Type*** - In order to minimize market, maturity and counterparty risk, maximum percentages of the portfolio have been established for individual investment instrument classes and dealers. These percentages apply at the time the investment is purchased. These percentages may be modified to satisfy liquidity requirements if approved by the Secretary-Treasurer prior to execution.

| | <u>Maximum % of Portfolio</u> <u>At Time of Investment</u> |
|---------------------------------------------------|---------------------------------------------------------------|
| U.S. Government Securities | 100% |
| U.S. Agency Securities | 75% |
| Repurchase Agreements | 50% |
| Certificates of Deposit (Including Time Deposits) | 50% |
| Bankers' Acceptances | 25% |
| Bankers' Acceptances – Non-U.S. | 5% |
| Commercial Paper | 10% |
| Pooled Investments (MLGIP) | 50% |
| Money Market Mutual Funds (25%/fund) | 50% |
| Bond Proceeds: | |
| Municipal Securities | 100% |
| Money Market Mutual Funds – Highest Rating | 100% |
| Money Market Mutual Funds – Investment Grade | 10% |

- (d) ***Diversification by Institution*** – Purchases from individual institutions are limited to a maximum percentage of the Commission's total investment portfolio at the time of investment. The maximum percent limitation of the portfolio at the time of investment purchase is shown for each.
- (1) Approved Broker/Dealers and Financial Institutions are limited to a maximum value of 30% of the Commission's 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.
 - (2) Bankers Acceptances by Institution are limited to a maximum dollar value of 15% of the Commission's total investment portfolio.
 - (3) Commercial Banks for CD's and Time Deposits are limited to a maximum dollar value of 10% of the Commission's total investment portfolio.
 - (4) U.S. Government Agencies by Agency are limited to a maximum dollar value of 20% of the Commission's total investment portfolio.
- (e) ***Pooled Investment Fund Size*** - The total investment in a pooled investment fund shall not exceed more than 25% of that fund's net assets.
- (f) ***Reverse Repurchase Agreements*** - The Commission shall not leverage (borrow money for the sole purpose of investment) the portfolio through the use of reverse repurchase agreements.

XI. COLLATERALIZATION

- (a) Collateral shall be maintained in excess of Federal insurance coverage for all Commission 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 and Certificates of deposit, including time deposits, of at least 102% of the market value of principal and accrued interest. Acceptable collateral shall consist of obligations of the United States, its agencies or instrumentalities as specified under Section VII (d).
- (c) The collateral shall be held by an independent third party with whom the Commission has a custodial agreement as specified under Section XII.
- (d) Securities pledged as collateral are subject to substitution, provided the substituted collateral conforms with all margin and security type restrictions and all associated costs are paid by the pledging entity.

XII. SAFEKEEPING AND CUSTODY

- (a) All security transactions, including collateral for repurchase agreements, entered into by the Commission shall be conducted on a delivery-versus payment (DVP) basis except pooled investments, certificates of deposit and time deposits. Securities will be held by a third-party custodian designated by the Secretary-Treasurer and pursuant to signed tri-party agreements among all participants. All repurchase agreements will be governed by a Master Repurchase Agreement signed by the Secretary-Treasurer of the Commission and the appropriate official of the approved broker/dealer or financial institution.
- (b) The Custodian may not be a counterparty to the transaction, unless the custodian is one of the Commission's primary banks and the securities purchased from the bank, including collateral for repurchase agreements, certificates of deposit and time deposits, are held in the Commission's name and account.
- (c) A Federal Reserve Bank may serve as custodian for pledged collateral.

XIII. REPORTING REQUIREMENTS

- (a) A monthly investment report of investment activities will be submitted by the Investment Manager to the Secretary-Treasurer for review. This report will include information such as type of investments held, the rate of return on the portfolio and each investment type, value of securities held by broker-dealers, and that all transactions are in compliance with the Commission Investment Policy.

- (b) The monthly Investment Report will be posted to the Commission's website.
- (c) A statement of the market value of the portfolio shall be issued at least annually as part of the Commissions' Annual Comprehensive Financial Report. This disclosure shall comply with all current applicable accounting standards consistent with statements issued by the Government Accounting Standards Board (GASB).
- (d) The Investment Manager shall maintain a complete record of all investment transactions.

XIV. INTERNAL CONTROLS

The Secretary-Treasurer shall establish and maintain a system of internal controls. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties or imprudent actions by employees of the Commission. Accordingly, the Secretary-Treasurer shall establish written procedures for the operation of the Commissions' investment program that are consistent with the provisions of this Investment Policy.

The internal control structure shall address the following points:

- (a) Avoidance of collusion
- (b) Custodial safekeeping
- (c) Separation of transaction authority from accounting controls
- (d) Avoidance of physical delivery securities
- (e) Clear delegation of authority to subordinate staff members
- (f) Written confirmation of transactions for investments and wire transfers
- (g) Wire transfer agreement with the lead bank and third-party custodian(s)
- (h) Documentation of investment transactions
- (i) Monitoring and reporting of compliance and results

An Independent Auditor, as part of the Annual Financial Audit, will review the internal controls of the investment program.

XV. INVESTMENT POLICY ADOPTION

The investment policy is approved by the Corporate Treasury & Investment Manager and the Secretary Treasurer and adopted by resolution by the Commission. The Secretary-Treasurer may institute changes in these policies from time to time. Such changes shall be approved by the Commission and distributed to all those assigned investment responsibilities.

Statement of Investment Policy
Maryland-National Capital Park and Planning Commission

ADOPTED BY: The Maryland-National Capital Park and Planning Commission approved this Investment Policy on September 20, 2023.

APPROVED BY: Tanya Hankton DATE: 10/4/2023
Tanya Hankton, Corporate Treasury & Investment Manager

APPROVED BY: [Signature] DATE: 10/9/2023
Gavin Cohen, Secretary-Treasurer

APPROVED BY: Asuntha Chiang-Smith DATE: 4 OCT 2023
Asuntha Chiang-Smith, Executive Director