

INVESTMENT POLICY
MARYLAND STATE TREASURER'S OFFICE

I. POLICY

It is the policy of the Maryland State Treasurer's Office (hereinafter referred to as "the STO") to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the anticipated daily cash flow requirements of the State. The STO will not borrow funds for the express purpose of investing those funds. The policy will conform to all State laws governing the investment of public funds.

II. SCOPE

This investment policy applies to unexpended or surplus money over which the Treasurer has custody as authorized by State Finance and Procurement Article §6-222.

- A. General Fund.
- B. Funds invested on behalf of other State agencies and other outside parties.
- C. Bond Sale Proceeds.

III. PRUDENCE

Investment 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" standard shall be applied in the context of managing an overall portfolio. Investment officers shall act in accordance with written procedures and the investment policy and while exercising due diligence. Deviations from expectations are to be reported in a timely fashion and appropriate action should be taken to control adverse developments.

IV. OBJECTIVE

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

- A. **Safety:** Safety of principal is the foremost objective of the investment program. To attain this objective, diversification, collateralization, third party safekeeping and delivery versus payment (DVP) will be required.
- B. **Liquidity:** The State's investment portfolio will remain sufficiently liquid to enable the State to meet all operating requirements which might be reasonably anticipated plus a reasonable amount for unanticipated needs.
- C. **Return of Investment:** The State's investment portfolio shall be designed with the objective of attaining a market rate of return at least equal to the three month U.S. Treasury bill yield, with due regard for minimizing risk while maximizing return and considering the cash flow characteristics of the portfolio.

V. DELEGATION OF AUTHORITY

Authority over the State's investment program is delegated to the State treasurer in the Annotated Code of Maryland – State Finance & Procurement - Section §6-222. Management responsibility for the investments is delegated to the Director of Treasury Management who shall establish written procedures for the operation of the investment program consistent with this investment policy.

Procedures should include reference to cash flow requirements, competitive bidding procedures, broker/dealer relationships, safekeeping, Master Repurchase Agreements, security, collateral and mark-to-market requirements as well as oversight for the Local Government Investment Pool.

The procedures shall also 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 Director of Treasury Management. The Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

VI. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment officials shall disclose to the State Ethics Commission any material financial interest in financial institutions that conduct business within the jurisdiction, and they shall further disclose any large personal financial/ investment positions that could be related to the performance of the State's portfolio. Employees and officers shall subordinate their personal

investment transactions to those of the State, particularly regarding the time of purchases and sales.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Treasurer shall maintain a list of financial institutions authorized to provide investment services. The following is a breakdown of the types of institutions used by the State 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 State can purchase all authorized and suitable investments as listed in Section VIII of this policy, except for certificates of deposit and the Maryland Local Government Investment Pool, from primary dealers.

B. Other Security Dealers:

The State may purchase repurchase agreements, 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. The Treasurer's policy is to make sure that local, regional and minority firms have an opportunity to bid on a portion of the State's investable funds.

All dealers must agree to the State's policy of delivery versus payment as described in Section X 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.

VIII. PERMISSABLE INVESTMENTS

The State Treasurer is authorized by statute to invest in the following types of securities subject to the restrictions in the statute, State Finance and Procurement Article §6-222. Last updated July 2021.

1. Obligations for which the United States has pledged its faith and credit for the payment of the principal and interest;
2. Obligations that a Federal Agency or Federal instrumentality has issued in accordance with an act of Congress;
3. Obligations issued and unconditionally guaranteed by a Supranational issuer denominated in United States dollars and eligible to be sold in the United States;
4. 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 that the collateral is held by a custodian other than the seller designated by the buyer;

5. Banker's Acceptances guaranteed by a financial institution with a short-term debt rating at the highest letter or numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States Securities and Exchange Commission or the Treasurer;
6. Bonds, Notes, or other obligations of investment grade in the highest quality letter or numerical rating by at least one nationally recognized statistical rating organization as designated by the United States Securities and Exchange Commission issued by or on the 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 item;
7. Commercial Paper that has received the highest letter or numerical ratings by at least two nationally recognized statistical ratings organizations as designated by the United States Securities and Exchange Commission, provided that commercial paper may not exceed 10% of the total investments made by the Treasurer under this subsection;
8. Money Market Mutual Funds that:
 - a. Are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, 15 U.S.C. – 80a-1 et seq., as amended;
 - b. Are operated in accordance with Rule 2A-7 of the Investment Company Act of 1940, 17 C.F.R. – 270.2A-7 as amended, and
 - c. Have received the highest possible rating from at least one nationally recognized statistical rating organization as designated by the United States Securities and Exchange Commission; and
9. Any investment portfolio created under the Maryland Local Government Investment Pool (MLGIP) defined under – 17-301 through 17-309 of the Local Government Article of the Code that is administered by the Office of the State Treasurer.

IX. COLLATERALIZATION

Collateralization will be required on two types of permitted 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 at least 102% of the market value of the principal and accrued interest for Repurchase Agreements and 100% of the market value of the principal and accrued interest for Certificates of Deposit. State law limits acceptable collateral to U.S. Government Treasuries, Agencies and

instrumentalities as defined in the statute, State Finance and Procurement Article §6-222. An independent third party with whom the State has a current custodial agreement will always hold the collateral. Clearly marked evidence of ownership must be supplied to the State and retained.

The right of collateral substitution is granted, and the seller will pay all associated costs. Collateral will be priced on a mark-to-market basis when the investment is initiated and daily for the term of the investment.

X. SAFE KEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered by the State shall be conducted on a delivery versus payment (DVP) basis. A third-party custodian designated by the Treasurer and evidenced by safe keeping receipts will hold securities.

XI. DIVERSIFICATION

The state will diversify its investments by security type and institution in the following manner as measured at the time of purchase:

Diversification by Security Type		Maximum % of Portfolio
1. U.S. Treasury Obligations		100%
2. Agencies & Instrumentalities		80%
3. Repurchase Agreements		75%
4. Supranational Issuers	40%	
5. Banker's Acceptances	20%	
6. Municipal Bonds, Funds, Public Corps	20%	
7. Commercial Paper	10%	
8. Money Market Funds	30%	
9. Local Government Investment Pool		
Less than 25% of total LGIP Assets		25%
Diversification by Institution		
1. Term Repurchase Agreements		30%

XII. MAXIMUM MATURITIES

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

XIII. INTERNAL CONTROL

The Treasurer's Office and the Investment Division are audited annually by an independent auditor and approximately every 3 years by the Office of Legislative Audits. These reviews assess internal controls by examining compliance with

written policies and procedures.

XIV. PERFORMANCE STANDARDS

The investment portfolio is designed to obtain an average market rate of return during budgetary and economic cycles, considering the State's investment risk constraints and cash flow needs. The State's investment strategy is passive, and the benchmark yield comparison shall be the yield on the three-month U.S. Treasury Bill.

XV. REPORTING

Section §6-222 of the State Finance and Procurement Article requires the Treasurer to file a report with the General Assembly on General Fund investments and all other investments by January 3rd of each year. At a minimum, the report shall specify the

- inventory of investments as of June 30.
- net income earned for the fiscal year.
- percentage share of each type of security in the portfolio.
- any sale of investments prior to maturity.

XVI. INVESTMENT POLICY ADOPTION

The Treasurer shall approve the State's investment policy. The policy shall be reviewed on an annual basis.

DATE: February 17, 2022



Dereck E. Davis, State Treasurer