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State Treasurer

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LOCAL GOVERNMENT INVESTMENT POLICY

MARYLAND STATE TREASURER'S OFFICE

I. POLICY

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

Pooling of Funds. In accordance with §6–226 of the State Finance and Procurement Article of the Annotated Code of Maryland ("SF&P"), the Treasurer may invest funds separately or in commingled pools by law or regulation for State agencies. Except for cash in certain restricted and special funds, the Treasurer shall consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration.

II. SCOPE

This investment policy applies to unexpended or surplus money over which the Treasurer has custody as authorized by SF&P §6-222, including without limitation, (1) the State's General Fund, (2) funds invested on behalf of other State agencies and other outside parties; and (3) bond sale proceeds.

In accordance with the provisions of COMAR 25.03.03.05, the governing body of each local government unit is required to adopt a written investment policy that complies with COMAR 25.03.04. COMAR 25.03.04.05 permits the State Treasurer to adopt additional requirements for the state investment portfolio. Certain additional requirements are set forth in Section VIII of this Policy and are also applicable to local government units.

III. PRUDENCE

Employees of the State Treasurer's Office that have been delegated investment authority (each an "Investment Officer") shall employ the "prudent person" standard when making investments. Specifically, Investment Officers shall:

- (1) act with the care, skill, and diligence that a prudent investor acting in a like capacity and familiar with such matters would use considering the circumstances then prevailing;
- (2) make investments in a manner designed to reasonably match anticipated cash flow needs so that sufficient funds are available to pay obligations upon proper presentation for payment;
- (3) make investments so that a reasonable amount of cash or cash equivalents is available for unanticipated cash needs;
- (4) consider the context of the assets in the Treasurer's custody as a whole and as part of an overall investment strategy that incorporates reasonably suitable risk and return objectives;
- (5) have due regard for minimizing risk while maximizing return;
- (6) use competitive purchasing practices except when impractical;
- (7) make investments so that the securities and collateral may continue to be priced on a marked to market basis;
- (8) in a manner designed to diversify investments unless, under the circumstances, it is reasonably determined to be in the best interests of the State not to do so;
- (9) act with prudence in deciding whether and how to delegate authority and in the selection and supervision of agents;
- (10) incur only costs that are appropriate and reasonable in amount; and
- (11) to avoid the enhancement of the personal financial position of the investment officer or any employee of the State Treasurer or local government unit who has responsibilities for such investments.

Investment Officers shall have the discretion to direct or make investments that conform with this Investment Policy while exercising due diligence and employing the "prudent person" standards set forth in this Section. Deviations from expectations and maximum allocations due to portfolio or

market movements are to be reported to the Treasurer or his designee 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:

Safety: Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification, collateralization, third party safekeeping and delivery versus payment (DVP) is required.

Investment officers shall minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

1. Limiting investments to the types of securities listed in Section VIII (Permitted Investments) of this Policy;
2. Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the State will do business in accordance with Section VII (Authorized Financial Dealers and Institutions) of this Policy;
3. Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized; and
4. Minimizing interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

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

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 investment portfolio.

V. DELEGATION OF AUTHORITY

Authority to invest moneys in the Treasurer's custody is delegated to the State Treasurer in SF&P § 6-222. Specific operational direction with respect to investments can be found in Title 25, Subtitle 03, Chapter 04 of the Code of Maryland Regulations ("COMAR").

Management responsibility for investment of moneys in the custody of the Treasurer is hereby delegated to the Chief Investment Officer who shall report to the Director of Treasury Management and the Chief Deputy Treasurer to provide regular updates on the investment of moneys in the custody of the Treasurer. The Chief Investment Officer shall maintain written procedures for the operation of the investment program consistent with this investment policy.

These written procedures shall include reference to authorized signatories, 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 written procedures shall also include the manner and circumstances in which investment authority may be delegated to Investment Officers. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Chief Investment Officer. The Chief Investment Officer 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 and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and Investment Officers 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 personal financial/investment positions that could be related to the performance of the investment of moneys in the custody of the Treasurer. Employees and Investment Officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the State.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Treasurer shall maintain a list of financial institutions and depositories 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.

Primary Government Dealers: The Federal Reserve Bank of New York designates primary government dealers in government securities. Except for securities the investment in which is authorized pursuant to COMAR 25.03.04.04(A)(8), the State may conduct transactions authorized pursuant to this Policy with primary government dealers without meeting the requirements of the next paragraph.

Other Security Dealers: The State may conduct transactions authorized pursuant to this Policy with non-primary dealers that market the permitted securities. Any dealer not identified as a primary government dealer by the Federal Reserve Bank of New York will need to apply to STO to be accepted as a counterparty, have acceptable capital, market access and appropriate approvals from the STO prior to conducting transactions. The Treasurer's policy is to encourage and ensure that local, regional, and minority firms have an opportunity to participate in transactions conducted for the State's investable funds.

All dealers must agree to the State's policy of delivery versus payment as described in Section XI (Safekeeping and Custody) of this Policy. Firms must have adequate capital to fulfill their commitments under adverse market conditions. All non-primary government dealers must provide STO with 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. PERMITTED INVESTMENTS

Authority to invest moneys in the Treasurer's custody is delegated to the State Treasurer in SF&P § 6-222 and specific authorized investment asset classes and thresholds can be found in COMAR 25.03.04.04 and pursuant to COMAR 25.03.03.05 the governing body of each local government unit is required to adopt a written investment policy that complies with COMAR 25.03.04. COMAR 25.03.04.05 permits the State Treasurer to adopt additional requirements for the state investment portfolio. The additional requirements are set forth below and are also applicable to local government units.

Please note that it is the intent of this Policy to insure the safety, liquidity and appropriate use of public moneys by the State and other governmental entities within the State of Maryland. While this Policy establishes the permitted investments for these entities, it is important to recognize that the sophistication, resources, and risk tolerances of individual governmental entities may vary.

Accordingly, each governmental entity should carefully evaluate the appropriateness of specific investments within the context of its own financial circumstances and objectives to ensure the preservation of capital and the safety of public funds. It is highly recommended that smaller and less sophisticated governmental entities strive for maximum safety for their investments primarily utilizing the Maryland Local Government Investment Pool, U.S. Government and Agency Obligations, Money Market Mutual Funds, and Collateralized Certificates of Deposit. In conducting the review of a governmental entity's investment policy as required by § 17-205 of the Local Government Article of the Maryland Annotated Code, the Treasurer will evaluate the suitability of the policy's permitted investments for that specific entity.

An Investment Officer is authorized to invest in the securities listed in and meeting the requirements of this Section and meeting any requirements under the following Sections of this Policy:

- Section IX (Credit Ratings);
- Section X (Collateralization);
- Section XI (Safekeeping and Custody);
- Section XII (Diversification); and
- Section XIII (Maximum Maturities)

The State shall diversify its investments by security type and counterparty institutions, as discussed in this Section.

Section XIII (Maximum Maturities) of this Policy provides more information regarding the State's overall policies related to the maturities of investments permitted under this Section.

The Maximum % of Portfolio amounts in this Section reflect the maximum permitted allocations as a percentage of the assets in the Treasurer's custody, rather than an indication or reflection of the actual percentage of the portfolio that will be allocated to the various security types.

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PERMITTED INVESTMENTS

U.S. GOVERNMENT OBLIGATIONS		1
Description: An obligation for which the United States has pledged its faith and credit for the payment of the principal and interest.		
Required Ratings:	N/A	
Required Collateralization:	None	
Maximum Maturity:	5 years from date of settlement	
Maximum % of Portfolio:	100%	
Additional Restrictions:	None	
OBLIGATIONS OF U.S. AGENCIES, INSTRUMENTALITIES AND GSES		2
Description: An obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, including (without limitation) obligations of the Export-Import Bank of the United States, the Federal Housing Administration, the Government National Mortgage Association, the Farmers Home Administration, the Federal Financing Bank, the Department of Housing and Urban Development, the Federal Home Loan Bank System, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and the Student Loan Marketing Association.		
Required Ratings:	N/A	
Required Collateralization:	None	
Maximum Maturity:	5 years from date of settlement	
Maximum % of Portfolio:	100%	
Additional Restrictions:	Limit 33% any single issuer	
SUPRANATIONALS		3
Description: Obligations issued and unconditionally guaranteed by a supranational issuer denominated in United States dollars and eligible to be sold in the United States. Supranational issuers include but are not limited to the World Bank, the International Finance Corporation, the Inter-American Development Bank, the European Investment Bank, the European Union, the International Bank for Reconstruction & Development, and the African Development Bank.		
Required Ratings:	AAA/Aaa/AAA	
Required Collateralization:	None	
Maximum Maturity:	5 years from date of settlement	
Maximum % of Portfolio:	40%	
Additional Restrictions:	Limit 20% any single issuer	
REPURCHASE AGREEMENTS		4
Description: Repurchase agreements (contracts in which the vendor of a security agrees to repurchase it from the buyer at an agreed price).		
Required Ratings:	N/A	
Required Collateralization:	At least 102% of the market value of the principal and accrued interest for Repurchase Agreements by an obligation of the United States, its agencies or instrumentalities, provided the collateral is held by a custodian other than the seller designated by the buyer.	
Maximum Maturity:	None	
Maximum % of Portfolio:	75%	
Additional Restrictions:	Term repurchase agreements are limited to 30% per single counterparty. Execution of standard Master Repurchase Agreement required.	

BANKER'S ACCEPTANCES		5
Description: Bankers' acceptances guaranteed by a financial institution (a short-term issuance by a bank that guarantees payment at a later time).		
Required Ratings:	For maturities of one year or less: At least two ratings of A-1/P1/F-1 or higher by S&P, Moody's, or Fitch respectively. For maturities greater than one year and not exceeding five years: At least two ratings of AA/Aa/AA or higher by S&P, Moody's, or Fitch respectively.	
Required Collateralization:	None	
Maximum Maturity:	5 years from date of settlement	
Maximum % of Portfolio:	20%	
Additional Restrictions:	Limit 25% any single issuer	
COMMERCIAL PAPER		6
Description: Short-term promissory notes issued by companies or financial institutions to meet their short-term funding obligations. Commercial Paper may be unsecured with repayment based solely on the credit of the issuing institution or may be secured by collateral.		
Required Ratings:	At least two ratings of A-1/P-1/F-1 or higher by S&P, Moody's, or Fitch respectively.	
Required Collateralization:	None	
Maximum Maturity:	365 days from date of settlement	
Maximum % of Portfolio:	35%	
Additional Restrictions:	Limit 10% any single issuer	
MONEY MARKET MUTUAL FUNDS		7
Description: Money market mutual funds that: (i) are registered with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940, as amended; and (ii) are operated in accordance with Rule 2A-7 of the Investment Company Act of 1940, as amended.		
Required Ratings:	At least one rating of AAA/Aaa/AAA or its equivalent from at least one NRSRO (as defined below in Section IX (Credit Ratings) of this Policy).	
Required Collateralization:	None	
Maximum Maturity:	N/A	
Maximum % of Portfolio:	50%	
Additional Restrictions:	None	
MARYLAND LOCAL GOVERNMENT INVESTMENT POOL		8
Description: Any investment portfolio created under the Maryland Local Government Investment Pool (MLGIP) as established by §§ 17-301 <i>et. seq.</i> of the Local Government Article of the Annotated Code of Maryland that is administered by STO.		
Required Ratings:	N/A	
Required Collateralization:	None	
Maximum Maturity:	N/A	
Maximum % of Portfolio:	100%	
Additional Restrictions:	No more than \$2.5 billion of General Fund moneys may be invested	

TRADEABLE CERTIFICATES OF DEPOSIT AND YANKEE CERTIFICATES OF DEPOSIT (see below for non-tradeable Certificates of Deposit and Yankee Certificates of Deposit)		9
Description: Tradeable time deposits denominated in U.S. dollars and issued or endorsed by either (i) a bank or a savings and loan association organized and supervised under federal law or the laws of any state and regulated by the Federal Reserve or a trust company which is a member of the Federal Reserve system or (ii) a bank organized and supervised under the laws of a foreign country that is rated AA/Aa/AA or higher by at least two NRSROs. Institutional Certificate of Deposits and Yankee Certificate of Deposits (YCD) are Time Deposits and shall be negotiable and tradeable in the secondary markets.		
Required Ratings:	For maturities of one year or less: At least two ratings of A-1/P1/F-1 or higher by S&P, Moody's, or Fitch respectively. For maturities greater than one year and not exceeding five years: At least two ratings of AA/Aa/AA or higher by S&P, Moody's, or Fitch respectively.	
Required Collateralization:	None	
Maximum Maturity:	Five years from date of settlement	
Maximum % of Portfolio:	35%	
Additional Restrictions:	Limit 10% any single issuer	
CORPORATE OBLIGATIONS		10
Description:	Obligations of domestic corporations.	
Required Ratings:	At least two ratings of A-/A3/A- or higher by S&P, Moody's, or Fitch respectively.	
Required Collateralization:	None	
Maximum Maturity:	5 years from date of settlement	
Maximum % of Portfolio:	25%	
Additional Restrictions:	Limit 10% any single issuer	
MUNICIPAL OBLIGATIONS		11
Description: Bonds, notes, or other obligations issued by or on behalf of any 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 issued by these entities.		
Required Ratings:	At least two ratings of A-/A3/A- (or their equivalent) or higher by two NRSROs (as defined below under "Credit Ratings"), one of which must be either Moody's or S&P.	
Required Collateralization:	None	
Maximum Maturity:	Five years from date of settlement	
Maximum % of Portfolio:	25%	
Additional Restrictions:	Limit 10% any single issuer	
FOREIGN SOVEREIGN DEBT		12
Description: Bonds, notes, or other obligations denominated in U.S. dollars, issued by and subject to the laws of a foreign country that is rated AA/Aa/AA or higher by at least two NRSROs.		
Required Ratings:	At least two of the following ratings: at least AA/Aa/AA by Standard & Poor's, Moody's, or Fitch respectively.	
Required Collateralization:	None	
Maximum Maturity:	Five years from date of settlement	
Maximum % of Portfolio:	20%	
Additional Restrictions:	Limit 20% any single issuer. Must be cleared through Cedel, DTC or other international clearing organization acceptable to the State Treasurer's Office.	

MORTGAGE-BACKED SECURITIES		13
Description: Mortgage-backed obligations guaranteed by the United States or a federal agency or a federal instrumentality such as Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation.		
Required Ratings:	At least AAA or Aaa by two rating agencies one of which must be S&P, Moody's, or Fitch.	
Required Collateralization:	None	
Maximum Maturity:	Average life not to exceed two years from the date of settlement (unless such securities are subject to periodic reset of coupon or interest rate, in which case the average life may not exceed three years from the date of settlement, with a final maturity date not to exceed five years from the date of settlement.	
Maximum % of Portfolio:	25%	
Additional Restrictions:	None	
ASSET-BACKED SECURITIES		14
Description: Obligations secured by pools of receivables.		
Required Ratings:	At least AAA or Aaa by two rating agencies one of which must be S&P, Moody's or Fitch.	
Required Collateralization:	None	
Maximum Maturity:	Average life not to exceed two years from the date of settlement (unless such securities are subject to periodic reset of coupon or interest rate, in which case the average life may not exceed three years from the date of settlement, with a final maturity date not to exceed five years from the date of settlement.	
Maximum % of Portfolio:	25%	
Additional Restrictions:	Limit 10% any single issuer	
NON-TRADEABLE CERTIFICATES OF DEPOSIT AND YANKEE CERTIFICATES OF DEPOSIT		15
Description:	Non-tradeable time deposits denominated in U.S. dollars and issued or endorsed by either (i) a bank or a savings and loan association organized and supervised under Federal or any State laws and regulated by the Federal Reserve or a trust company which is a member of the Federal Reserve system or (ii) a bank organized and supervised under the laws of a foreign country that is rated AA/Aa/AA or higher by at least two nationally recognized statistical rating organizations..	
Required Ratings:	For maturities of one year or less: At least two ratings of A-1/P1/F-1 or higher by S&P, Moody's, or Fitch respectively. For maturities greater than one year and not exceeding five years: At least two ratings of AA/Aa/AA by S&P, Moody's, or Fitch respectively.	
Required Collateralization:	Collateralization as required by SF&P §6-209.	
Maximum Maturity:	Five years from date of settlement	
Maximum % of Portfolio:	35%	
Additional Restrictions:	None	

IX. CREDIT RATINGS

The State Treasurer shall in all cases prioritize securities of high credit quality and marketability. Investments are required to bear the credit ratings set forth under Section VIII (Permitted Investments) of this Policy at the time of purchase.

All credit ratings will be determined using the numeric and letter grading of the entities determined to be nationally recognized statistical rating organizations (“NRSROs”) by the SEC.

X. COLLATERALIZATION

Where collateral is required as set forth under Section VIII (Permitted Investments) of this Policy, an independent third party with whom the State has a current custodial agreement is required to hold the collateral. Clearly marked evidence of ownership must be supplied to the State and retained.

The right of collateral substitution is granted on the condition that the seller pay all associated costs.

Sufficiency of collateral shall be determined by pricing both on a mark-to-market basis when the investment is initiated and daily for the term of the investment.

XI. SAFEKEEPING 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 safekeeping receipts shall hold securities.

XII. DIVERSIFICATION

The Treasurer’s Office shall conduct, at minimum, an annual review of the portfolio structure and revise the “Maximum % of Portfolio” criteria set forth in Section VIII (Permitted Investments) of this Policy to reflect changes in the need and usage of the State’s resources.

XIII. MAXIMUM MATURITIES

To the extent possible, the State shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow or highlighted in specified asset classes above, the State may not directly invest in securities maturing more than five years from the date

of purchase. The State shall adopt weighted average maturity limitations consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be segregated into a long-term “core” investment portfolio and invested in securities exceeding five years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds.

As the priority for the portfolio is safety and liquidity, to ensure ample funds are available to cover all cash flow needs, at least 30% of the overall portfolio shall have a maturity of less than one year and at least 50% of the overall portfolio shall have a maturity of less than two and a half years on a rolling basis.

XIV. INTERNAL CONTROL

The Treasurer’s Office and the Investment Division shall be audited annually by an independent auditor and approximately every three years by the Office of Legislative Audits. These reviews assess internal controls by examining compliance with written policies and procedures.

XV. 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.

XVI. REPORTING

SF&P §6-222 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 (1) the inventory of investments with maturity dates and the book and market value as of June 30; (2) the net income earned for the fiscal year ended June 30; (3) the percentage share of each category of investment in the portfolio; and (4) any sale of investments prior to maturity.

The Chief Investment Officer shall ensure that an inventory of the portfolio, including all assets managed in summary, graphic and detailed form, is posted on the STO’s website on a monthly basis. The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least monthly.

XVII. EXCEPTION FOR EMERGENCIES AND CATASTROPHIC EVENTS

The State Treasurer may make investment decisions inconsistent with this chapter if either:

1. The Governor of the State of Maryland has declared a state of emergency in accordance with § 14-107 of the Public Safety Article of the Annotated Code of Maryland, or a catastrophic event occurs that the State Treasurer determines could dramatically shift credit ratings on any of the assets in the portfolio; and
2. The State Treasurer determines the investment decisions are in the best interest of the State.

XVIII. ADOPTION AND REVIEW OF INVESTMENT POLICY

The Treasurer hereby adopts this, Policy. This Policy shall be reviewed on an annual basis.

By: _____
Dereck E. Davis
State Treasurer

Dated: _____, 2025