Investment Policy
Clean Draft

CHEVY CHASE VILLAGE

INVESTMENT POLICY

1. INTRODUCTION:

The purpose of this document is to identify various policies that enhance opportunities for a prudent and systematic investment process. The initial step toward a prudent investment policy is to organize and formalize investment-related activities. Related activities include accurate cash projection, the expeditious collection of revenue, the control of disbursements and cost-effective banking relations.

The policies described in this document shall be collectively referred to as the Chevy Chase Village Investment Policy (the "Investment Policy") and will become effective upon approval by the Board of Managers. All modifications of this policy shall be in writing and approved by the Board of Managers. Amendments and changes shall be filed with the Maryland State Treasurer upon approval by the Board of Managers.

2. SCOPE:

This document applies to the investments of Chevy Chase Village (the "Village"), except for pension plan and Section 457 deferred compensation plan funds, which are administered by the Principal Finance Group and the Hartford Insurance Group, respectively. All financial assets of the Village shall be administered in accordance with the provisions of these policies and procedures, unless specifically exempted by the Board of Managers. For the purpose of this Investment Policy, the term "Investable Financial Assets" (sometimes referred to as "Funds") shall be defined as financial assets less receivables.

3. INVESTMENT OBJECTIVES:

The investment objectives of the Village include:

A. SAFETY:

Safety of principal is the foremost objective of the Village followed by liquidity and yield. Each investment transaction shall seek first to ensure that capital losses are avoided, whether the loss occurs from the default of a security, from erosion of market value, or from loss of purchasing power.

B. LIQUIDITY:

The Village's investment portfolio will remain sufficiently liquid to enable the Village to meet operating requirements that may be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

C. YIELD:

The Village's investment portfolio shall be designed with the objective of maximizing income while preserving and protecting capital and maintaining sufficient liquidity.

Funds held for future capital projects should be invested in securities that reasonably can be expected to produce enough income to offset inflation. However, such funds shall never be unduly exposed to market price risks that would jeopardize the assets available to accomplish their stated objective, or be invested in a manner inconsistent with applicable federal, state or Village restrictions.

D. DIVERSIFICATION:

The Village's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types or in individual financial institutions.

E. FIDUCIARY RESPONSIBILITY:

All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall avoid any transactions that might impair public confidence in the Village's ability to govern effectively. The Board of Managers recognizes that in a diversified portfolio, occasional measured losses due to market volatility and unanticipated circumstances may occur, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

F. ETHICS AND CONFLICTS OF INTEREST:

Officials and employees involved in the investment process shall refrain from personal business activities that could

conflict with the 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 Village's Ethics Commission any material financial interest in financial institutions that conduct business within the Village and they shall further disclose any material personal financial/investment positions that could be related to the performance of the Village, including purchase of or investment in business interests with which the Village engages or can be reasonably expected to engage in the future. Disclosure shall include the nature of such financial/investment positions and the time such positions were acquired or divested. In addition, all officials and employees who invest Village funds shall be subject to the conflicts of interest section of the Village Ethics Ordinance.

G. LEGAL AUTHORITY:

Investment of assets shall be in accordance with state and federal laws and regulations, and the Village Charter and Ordinances. Investment of municipal funds carry certain restrictions under Maryland law. As of the date this policy is adopted, state statute sections governing municipal investment are: Article 95, Sections 22, 22F, 22G, 22N and 22-O, and the State Finance and Procurement Article, Sections 6-202 and 6-222 of the Annotated Code of Maryland. (Copies are attached hereto as an appendix.)

4. DELEGATION OF AUTHORITY:

Management responsibility for the investment program is hereby delegated to the Village Treasurer, who, in consultation with the Investment Committee, shall establish written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall be designed to protect the Village from the loss of funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions, and may include express written delegation of authority to persons assuming responsibility for investment transactions.

Copies of such procedures shall be made available to the Board of Managers for their review and information.

5. PRUDENCE AND INDEMNIFICATION:

A. Standard of prudence.

The standard of prudence to be applied by the Treasurer shall be the "Prudent Investor Rule", as defined by the GFOA Committee on Cash Management, 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 Investor Rule shall be applied in the context of managing the overall portfolio.

B. Indemnification.

The Treasurer or the Treasurer's delegee acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that appropriate action is taken to control adverse developments.6. QUALIFIED INSTITUTIONS:

Funds may only be invested with financial institutions that have been approved by the Board of Managers. Brokers/dealers in government securities shall be primary government security dealers that report daily to the New York Federal Reserve Bank or have submitted applications to become primary dealers in government securities. Financial institutions (banks, savings and loans, security dealers) must be chartered or licensed to operate within the State of Maryland.

7. INVESTMENTS:

A. Permitted investments.

Village funds may be invested in:

1. The Maryland Local Government Investment Pool as established under Article 95, Section 22G of the Annotated Code of Maryland.

2. Repurchase agreements collateralized by U.S. Treasury securities under which the Village or its agents take possession of subject securities;

3. Securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, including those involved in mortgage pass-through issuance.

4. Deposits in any Federal Deposit Insurance Corporation (FDIC)-insured bank(s), or savings and loan or building and loan association(s) authorized to receive local government deposits in the State of Maryland (referred to in this subsection as an "institution"). To the extent interest-bearing time deposits (i.e., certificates of deposit and accrued interest) and/or savings accounts exceed the amounts insured by the FDIC (e.g., over the $100,000 insured limit), such deposits in institutions shall be made only if the institution has deposited securities in escrow as provided in Section 11.

5. Securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the provisions of the Investment Company Act of 1940 if:

   (a) the portfolio of the open-end or closed-end management type investment company or investment trust is limited to direct obligations of the United States government and to repurchase agreements fully collateralized by United States government obligations, its agencies or instrumentalities; and

   (b) the open-end or closed-end management type investment company or investment trust takes delivery of that collateral, either directly or through its authorized custodian.

B. Limitations

1. Limitations as to the maximum direct investment of the Village's portfolio by type of institution will be periodically determined by the Treasurer.

2. All investments are to be denominated in U.S. dollars.

3. No investment shall be for a duration in excess of 2 years, except as outlined in Section 10.

4. Village assets raised from the proceeds of any tax exempt financing are subject to the arbitrage and rebate rules of the Internal Revenue Code of 1986. Investment of these funds shall be by investment agreement with domestic bank or trust companies rated AA or higher by Standard & Poor's Corporation, or Moody's Investors Service, Inc. Such investment agreements must be collateralized in the event the long term debt rating of the obligor under the investment agreement falls below A. Such collateral must consist of securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

5. Except for obligations of the United States of America, its agencies or instrumentalities, which are held directly in the Village's name and not in "street name" for the Village's account, where no restriction as to amount exists, the amount of Village funds in any one institution shall not exceed the lesser of (a) one million dollars ($1,000,000.00), or (b) one-half of the total Village funds as defined in Section 2 above, except that up to one million, five hundred thousand dollars ($1,500,000.00), may be held in the Maryland Local Government Investment Pool.

6. Since liquidity is an important consideration in the investment program, non-marketable securities shall not be purchased.

8. BORROWING:

The Village may not borrow any funds for the sole purpose of investment.

9. CONTINGENCY PLANNING:

The Village as a matter of policy seeks to designate funds for income and expense contingencies. Such funds shall be maintained in an amount sufficient to meet contingencies as determined by the Board of Managers.

At least annually the Board of Managers shall review the Village's financial position in order to identify that portion of its funds which are required to support current operations, that portion that should be set aside to meet costs to which the Board has committed in future years, and that portion that should be set aside to protect against income and expense contingencies. Other designations may also from time to time be identified by the Board to assist it in the management of Village resources.

10. MATURITY SCHEDULING:

Investment maturities shall be scheduled in a manner which reflects cash flows anticipated in support of budgets for annual operations as approved by the Board of Managers, as well as in support of any future year anticipated requirements for funding capital projects or obligations, taking into account interest rate and liquidity considerations.

Maturities for investment of funds designated for current operations should not be for more than one year. Longer maturities may be appropriate for the investment of funds designated for capital projects (including the proceeds of any assessments or borrowing undertaken to finance capital projects pending application of such funds to a project's costs), depending on the anticipated timing of those outlays and the exposure to interest rate risk as well as current interest yield. Investment of funds held for contingencies may also be in instruments with longer maturities but must recognize the possibility that all or much of those funds might need to be accessed on short notice. Such funds may be invested in a manner which recognizes opportunities for increased yields consequent to longer maturities so long as (1) there is an assured, active market for these investments in the event their liquidation prior to maturity should be required and (2) penalties for early liquidation, including possible loss of principal, are defined or can be reasonably estimated.

11. INSURANCE OR COLLATERAL:

All deposits, certificates of deposit, and repurchase agreements shall be secured by pledged collateral with a market value equal to no less than 102% of the market value of principal and accrued interest, less an amount insured by the FDIC.

12. COLLATERAL DEFINED:

The Village shall accept only the following securities as collateral for cash deposits, certificates of deposit, and repurchase agreements:

A. FDIC insurance coverage.

B. Obligations of the United States of America, its agencies and instrumentalities, including agency and instrumentality issued mortgage backed collateral.

C. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Maryland or the United States of America or its agencies and instrumentalities.

D. Obligations of states, agencies thereof, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of no less than A or its equivalent with remaining maturity of ten (10) years or less.

E. Other securities as approved by the Board of Managers.

13. INVESTMENT COMMITTEE:

The Chairperson of the Board of Managers will appoint an Investment Committee for the purpose of overseeing the implementation of the Village's investment program and assuring it is consistent with this Investment Policy. The committee shall consist of the Village Manager, the Treasurer, the Budget Committee Chairperson, and the Audit Committee Chairperson. Village Counsel may be asked to participate to provide legal advice.

The Investment Committee shall meet at least two times per year to determine general strategies and to monitor results. The committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the Village's funds, approval of authorized financial institutions, and the target rate of return on the investment portfolio.

14. EXCLUSIONS:

Excluded from this policy are funds that, due to the funding sources, have special restrictions on the investment of the funds.

The foregoing amended Investment Policy was Approved and Adopted by the Chevy Chase Village Board of Managers this 13th day of October, 2008.

Susie Eig, Secretary Douglas Kamerow, Chairman

Underline indicates material added
~~Strikethrough~~ indicates material deleted or transferred to "Investment Procedures".

Current as of September 8, 2008

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