1. PURPOSE

The purpose of this policy is to set guidelines for the investment of County funds in accordance with all Federal, State and Local governing statutes. The Montgomery County Treasurer is an elected Constitutional Officer charged with receiving, collecting, safeguarding, disbursing and general custody of county funds from all sources and will invest these funds in a manner, which will provide the highest investment return with maximum security while meeting the anticipated daily cash flow requirements of the County. The Treasurer serves as the investment officer for the County. While investment decisions rest with the Treasurer, advice from the Finance Director and Budget Manager should be considered as a viable part in making investment decisions. It is anticipated that the Treasurer shall invest all available cash in a common investment portfolio. However, funds segregated for specific purposes or that are not anticipated to be spent in the near term may be invested in separate portfolios.

The Treasurer is required to electronically file a statement of economic interest annually with the Virginia Conflict of Interest and Ethics Advisory Council by no later than February 1 (§2.2-3116). The Treasurer may require any employee of the Treasurer's office entrusted with the investment of County funds to file a similar statement with the Treasurer. In no event shall any employee involved in the investment process also be involved in personal business activity that could conflict with proper execution of the investment program.

2. SCOPE OF POLICY

This investment policy applies to all funds accounted for by the Montgomery County Treasurer and include, but are not limited to:

General Fund
Law Library Savings
Federal Asset Seizure Savings
MCPS – Café Prepay
Montgomery County Flex Account
Special Welfare
Volunteer Montgomery

Unless otherwise noted, all citations in this policy refer to the Code of Virginia Sections §2.2-4400 et seq., §2.2-4500 et seq., and §2.2-4700 et seq., as amended.

3. STANDARDS

In recognition of its fiduciary role in the management of all public funds entrusted to its care, it shall be the policy of the Montgomery County Treasurer that the standard of prudence to be applied shall be the "prudent investor rule", which states investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercised 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. Investments shall be made in accordance with Code of Virginia Public Deposits Act and Government Accounting Standards Board. Other standards include Government Finance Officers Association Policy Statements, Investment of Public Funds Act and Commonwealth of Virginia State Treasury Guidelines.

The Treasurer, acting in accordance with the written procedures of the Code of Virginia, Section 2.2-4516 and Section 58.1-3123 et seq. and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes provided that these deviations are reported by the Treasurer and that reasonable and prudent action is taken to control adverse developments. Furthermore, in accordance with Section 58.1-3163 of the Code of Virginia, the Treasurer shall not be liable for loss of public money due to the default, failure or insolvency of a depository.

4. OBJECTIVES

The primary objectives of Montgomery County's investment activities shall be:

- Legality – Funds shall be invested in accordance with Federal, State and Local law as it relates to public funds, as well as this written investment policy and any contractual agreements awarded by RFP.

- Safety – The safeguarding of principle shall be the foremost objective of the investment program by mitigating credit risk and interest rate risk.

- Liquidity – The investment portfolio will remain sufficiently liquid to enable Montgomery County to meet all operating requirements that might be reasonably anticipated.

- Yield – The Investment Portfolio shall be managed to maximize the return on investments within the context and parameters set forth by the safety and liquidity objectives above.

5. AUTHORIZED FINANCIAL INSTITUTIONS

All banks, financial institutions, investment managers and other depositories shall demonstrate an acceptable level of financial stability both before and after receiving/managing County funds. Annual reports will be provided to the County by the financial institution. For all financial institutions with investments above FDIC requirements and/or above collateralization levels as required by the Public Deposits Act, the County can demand documentation of the internal control environment. Primary banking institutions shall be selected through an RFP for banking services.

6. AUTHORIZED AND SUITABLE INVESTMENTS

The Treasurer may invest in the following securities that are in compliance with the Virginia Code. The Treasurer, however, may impose additional requirements and restrictions in order to ensure that the County's goals are met. Permitted Investments include:

- **U.S. Treasury Obligations.** Bills, notes and any other obligation or security issued by or backed by the full faith and credit of the United States Treasury as described by Code of Virginia §2.2-4501.

- **Municipal Obligations.** Bonds, notes and other general obligations of a state or municipal government, upon which there is no default, and which otherwise meets the requirements of Code of Virginia §2.2-4501.

- **Federal Agency/ Government Sponsored Enterprise Obligations.** Bonds, notes and other obligations of the United States, and securities issued by any federal government agency or instrumentality or government sponsored enterprise, as described by Code of Virginia §2.2-4501.

- **U.S. Dollar Denominated Supranational Agency Bonds.** Bonds and other obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development, by the Asian Development Bank or by the African Development Bank, as described by Code of Virginia §2.2-4501.

- **Repurchase Agreements.** Repurchase agreements meeting the requirements of Code of Virginia §2.2-4507 and the conditions stated below:
    - the contract is fully secured by deliverable U.S. Treasury and Federal Agency obligations as described in paragraph 1 above (with a maximum maturity of 5 years), having a market value at all times of at least one hundred and two percent (102%) of the amount of the contract;
    - a Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
    - the securities are free and clear of any lien and held by an independent third party custodian acting solely as agent for the

County, provided such third party is not the seller under the repurchase agreement;

- a perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the County;
- for repurchase agreements with terms to maturity of greater than one (1) day, the County will value the collateral securities daily and require that if additional collateral is required then that collateral must be delivered within one (1) business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);

- the counterparty is a:
  - primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
  - a bank, savings and loan association, or diversified securities broker-dealer having at least $5 billion in assets and $500 billion in capital and subject to regulation of capital standards by any state or federal regulatory agency; and

- the counterparty meets the following criteria:
  - a long-term credit rating of at least ‘AA’ or the equivalent from an Nationally Recognized Statistical Rating Organization (“NRSROs”)
  - has been in operation for at least 5 years, and
  - is reputable among market participants.

- **Bankers’ Acceptances.** Issued by domestic banks or a federally chartered office of a foreign bank, which are eligible for purchase by the Federal Reserve System as described by Code of Virginia §2.2-4504.

- **Commercial Paper.** “Prime quality” commercial paper, issued by corporations operating under the laws of the United States or any state thereof, and otherwise meeting the requirements of Code of Virginia §2.2-4502.

- **Corporate Notes.** Unsecured promissory notes issued by corporations, and otherwise meeting the requirements of Code of Virginia §2.2-4510.

- **Pools.** Pooled investment programs provided that the underlying investments by such funds are restricted to investments otherwise permitted by the Code of

Virginia for political sub-divisions, as described by Code of Virginia §2.2-4513.1. The County can invest in two (2) different types of Pools:

a. **Principal Stability Pools** that operate in compliance with the Government Accounting Standards Board's Statement 79 ("GASB 79"), which maintain a weighted average maturity of less than 60 days and whose primary objective is to maintain a stable net asset value; and
b. **Sort-Term Bond Pools** that may have a longer average maturity than Principal Stability Pools and a fluctuating net asset value. Bond Pools are designed to generate a higher rate of return than Principal Stability Pools.

- **Money Market Mutual Funds (Open-Ended Investment Funds).** Shares in open-end, no-load investment funds meeting the requirements of Code of Virginia §2.2-4508 provided that such funds are registered under the Federal Investment Company Act of 1940. The mutual fund must comply with the diversification, quality and maturity requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission, provided the investments by such funds are restricted to investments otherwise permitted by the Code of Virginia §2.2-4500 et seq.

- **Negotiable Certificates of Deposit and Bank Deposit Notes.** Negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks and otherwise meeting the requirements of Code of Virginia §2.2-4509.

- **Bank Deposits and Non-Negotiable Certificates of Deposit.** Demand deposits, time deposits, and other deposits that comply with all aspects of the Security for Public Deposits Act and with Code of Virginia §2.2-4518.

7. DIVERSIFICATION

The following diversification parameters have been established and will be reviewed periodically by the Treasurer for all funds. The Treasurer may choose to implement limitations that are more restrictive than these parameters if he or she deems it prudent to do so. The diversification parameters will be applied across all of the County's investments governed by this policy, not at the individual fund level. The investment portfolios shall be diversified by security type and institution. The maximum percentage of the portfolio permitted in each eligible security is as follows:

Permitted Investment	Sector Limit	Issuer Limit	Ratings Requirement[1,2]	Max Maturity[3]
U.S. Treasury Obligations	100%	100%	N/A	5 Years
Municipal Obligations	10%	5%	AA (S&P) and Aa (Moody's)	3 Years
Federal Agency/ GSE	100%	35%	"AA" or equivalent to U.S. Federal	5 Years (5 year max

Obligations			Government	WAL for MBS)
Supranationals	35%	10%	Same as or higher than the U.S. Federal Government	5 Years
Repurchase Agreements	35%	35%	N/A	5 Years
Bankers' Acceptances	35%	5%	A-1 or equivalent by an NRSRO	
Commercial Paper	35%	5%	At least two of the following: A-1 (S&P), P-1(Moody's), F-1(Fitch), and D-1 (Duff & Phelps)	270 Days
Corporate Notes	35%	5%	AA (S&P) and Aa (Moody's)	5 Years
Principle Stability Pools	100%	100%	AAAm or equivalent by an NRSRO	N/A
Short-Term Bond Pools	100%	100%	AAf or equivalent by an NRSRO	Maximum duration of 3 years
Money Market Mutual Funds	100%	50%	AAAm or equivalent by an NRSRO	N/A
Negotiable Certificates of Deposit and Bank Deposit Notes	35%	5%	A-1 (S&P) & P-1 (Moody's) if less than one year to maturity; AA (S&P) and Aa (Moody's) if greater than one year to maturity	5 Years
Bank Deposits and Non-Negotiable Certificates of Deposit	100%	100%	Collateralized in accordance with the Security for Public Deposits Act	N/A

1. *Ratings by NRSROs as designated by the SEC*
2. *At time of purchase*
3. *From transaction settlement date*

The Sector Limit and Issuer Limit shall be applied to the County's total cash and investments asset value at the date of acquisition.

When investing in a Pool, the County shall limit its investment to ten (10) percent of the total assets of the Pool.

8. MATURITY RESTRICTIONS

- It is recognized that, prior to maturity date, the fair value of securities in the County's portfolio may fluctuate due to changes in market conditions.

- In view of this and the County's investment objectives, every effort shall be made to manage investment maturity to precede or coincide with the expected need of funds.

- No investment will be sold prior to maturity unless more attractive investment opportunities exist or the County needs to liquidate investments to meet unanticipated obligations.

- Funds shall be invested at all times in keeping with the seasonal pattern of the County's cash balances, as well as any other special factors or needs, in order to assure the availability of funds in a timely and liquid basis.

- Cash flow projections will be monitored and updated on an ongoing basis by the Treasurer's Office and communicated regularly to the investment managers if applicable.

9. SECURITY DOWNGRADE

In the event that any security held in the Investment Portfolio is downgraded below "AA-" or equivalent rating by Standard & Poor's or Moody's Investor Services, the Treasurer shall be notified immediately in order to determine any actions to be taken in relation to the downgrade.

10. PURCHASE OF INVESTMENTS

Generally, investment offers must be compared to real-time market data. The Treasurer may use discretion in selecting the bidders, taking into consideration an institution's reputation, past success rate, timeliness in providing bids and any other factors which the Treasurer believes to have bearing. The Treasurer may purchase or sell investments at his or her discretion without competition provided that the securities involved meet all the criteria for allowed investments.

In general, the highest yielding instrument offered will be the investment selected. The Treasurer may reject an investment, even if it yields the highest rate, if he or she feels it carries an element of risk which may not be reflected in the published credit rating or if it is not in the County's interest to hold such an investment in its portfolio.

Banks and broker/dealers shall be instructed to mail trade confirmations or similar documentation to the Treasurer.

Investments shall be made with the judgment and care which persons of discretion, prudence and intelligence exercise in the management of their own affairs, not for speculation, but for investment for the protection of principal. Consideration for the safety of capital shall be paramount over the probable income to be derived. Individuals responsible for investing County funds shall in no way benefit personally as a result of investment decisions.

The County has established the following procedures:

1. The Treasurer or designee shall seek to obtain competitive bid information on all purchases of investment instruments purchased on the secondary market.

2. If the County is offered a security for which there is no readily available competitive offering on the same specific issue, then the Treasurer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price.

11. INVESTMENT OF BOND PROCEEDS

The Treasurer intends to comply with all applicable sections of the Internal Revenue Code as it related to Arbitrage Rebate and the investment of bond proceeds. All investment records will be maintained to ensure compliance with all regulations.

12. COLLATERALIZATION OF BANK DEPOSITS

Cash balance accounts should be in interest earning accounts. All bank deposits of the County should be considered Public Deposits as defined by Code of Virginia Security for Public Deposits Act (Section 2.2-4400 et seq.) and all deposits must be made with Qualified Pubic Depositories.

13. CUSTODIAL REQUIREMENTS

- All securities purchased for the County shall be held by the Treasurer or by the Treasurer's designated custodian and will be free and clear of any liens.
- If held by a custodian, the securities must be in the County's or in the custodian's nominee name and identifiable on the custodian's books as belonging to the County and the custodian must be a third party, not a counter-party (buyer or seller)
- This requirement does not apply to excess checking account funds invested overnight in a bank "sweep" repurchase agreement or similar vehicle.
- All trades where applicable will be executed by deliver vs. payment to ensure that securities are deposited in the eligible financial institution prior to the release of funds.
- The physical delivery of securities will not be permitted.

Bond proceeds

- Proceeds placed with a trustee shall be subject to this investment policy.
- Cash flow requirements for the bond proceeds shall be prepared by the project financial manager and shall be used as a guide in structuring the maturity of the bond proceeds portfolio.

- Debt covenants and arbitrage requirements will be designed to maintain compliance with both debt and investment policies with any arbitrage liability adjusting net investment income in the year in which the liability was incurred.

- Reimbursement requests to the trustee for bond proceeds will be prepared by project financial manager within a timely manner so as to parallel project-related disbursements.

- Debt service reserve funds shall be maintained and invested, as applicable, in compliance with debt agreements and can be invested in Treasury Bonds/Notes for up to ten (10) years.

- Trustees, third party financial institution agents, shall be utilized in compliance with debt agreements.

14. INTERNAL CONTROL

- The Treasurer's Office is audited annually by an independent audit firm and the State Auditor of Public Accounts. Accurate and adequate records will be maintained by the Treasurer's Office. Reporting and disclosure requirements will comply with all applicable regulations including the requirements of GASB.

- These controls shall be designed to provide reasonable assurance to prevent losses of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefit likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

- There shall be a separation of transaction authority from accounting and record keeping with all transaction activity properly documented in the Treasurer's cash receipts system and bank reconciliation to the general ledger performed monthly.

- Treasurer and County officials 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 decisions.

- All portfolios will be reviewed monthly be the Treasurer's Office and as part of the year-end audit to determine compliance with investment policy.

- All financial institutions utilized by the Treasurer will have written instructions regarding authorizations for wire transfers, restrictions on how accounts funds can be wired and other procedures that will mitigate unauthorized movement of funds (e.g., security code, call-back to independent person, written confirmations, etc.).

15. DISCLOSURE

- All investment income shall be recorded monthly on an accrual basis net of investment management fees to the appropriate fund that earned the investment income.

- Investment portfolios will be adjusted to the fair value of investments quarterly with any net increase (decrease) in fair value recorded as investment income with fair value defined as the amount at which an investment could be exchanged in a current transaction between willing parities, other than in a forced or liquidation sale with the following exceptions:

    1. Non-participating contracts, such as non-negotiable certificates of deposits with redemption terms that do not consider market rates, should be reported using a cost-based measure.

    2. May report at amortized cost, money market investments and participating interest-earning investment contracts that have a remaining maturity at a time of purchase of one year or less (unless credit standing of issuer has not affected value).

- Year-end financial statements will contain all required disclosures.

16. INVESTMENT POLICY ADOPTION

- The Treasurer can elect to select one or more investment managers through a request for proposal process at least every five years if applicable.

- A review of all investments and investment results shall be presented to the Treasurer on a quarterly basis or as required.

- Mutually agreed upon investment benchmarks shall be established for each investment portfolio which best reflects the goals and liquidity of each portfolio and to evaluate the performance of an investment portfolio and its investment manager.

- A list of individuals authorized to transfer funds or otherwise conduct investment transactions on behalf of the County shall be maintained and communicated to all affected parties.

- All investment advisors and financial institutions shall be required to sign an agreement ensuring compliance with investment policy.

- Changes (additions or deletions) to the Code of Virginia and the Securities for Public Deposits Act are automatically incorporated in this policy immediately upon legal implementation by the Commonwealth of Virginia.

This policy is adopted by the Treasurer of Montgomery County, Virginia, on this 1st day of January, 2024.

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Mary M. Weaver, Treasurer

Glossary

Bankers' Acceptance (BA) – A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark – A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bid – The price offered by a buyer of securities.

Broker – Brings buyers and sellers together for a commission.

Certificate of Deposit (CD) – A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

Collateral – Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper – An unsecured promissory note with a fixed maturity no longer than 270 days. Public offerings are exempt from SEC regulation.

Corporate Notes – Unsecured promissory note issued by corporations to raise capital.

Dealer – A dealer, as opposed to broker, acts as a principal in all transactions, buying and selling for his own account.

Delivery versus Payment – A delivery of securities with an exchange of money for the securities.

Discount – The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Diversification – Dividing investment funds among a variety of securities offering independent returns.

Federal Agency – Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets, also referred to as Government Sponsored Enterprises or GSEs. The largest are Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, and Federal Farm Credit Bank.

Federal Reserve System – The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Liquidity – The ability of ease with which an asset can be converted into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable.

Market Value – The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement – A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right the buyer-lender has to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity – The date upon which the principal or stated value of an investment becomes due and payable.

Money Market – The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Nationally Recognized Statistical Rating Organization ("NRSRO") – A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. Several examples include Moody's Investor Services, Standard & Poor's and Fitch Ratings.

Offer – The price asked by a seller of securities.

Portfolio – Collection of securities held by an investor.

Qualified Public Depositories – A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of Virginia, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Rate of Return – The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreements (RP or REPO) – A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.
Safekeeping – A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market – A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities & Exchange Commission ("SEC") – Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Uniform Net Capital Rule (SEC Rule 15C3-1) – Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield – The rate of annual income return on an investment, expressed as a percentage. Income/Current yield is obtained by dividing the current dollar income by the current market price for the security. Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.