ANNE ARUNDEL COUNTY
SELF INSURANCE FUND
INVESTMENT POLICY

I. PURPOSE

It is the policy of Anne Arundel County, Maryland (“the County”) to invest Self Insurance Fund reserves (the “Fund”) in a manner which will provide the highest investment return with the maximum safety, while meeting actuarial funding goals and conforming to all state and local statutes governing the investments.

II. SCOPE

The investment policy applies to all funds held by or for the benefit of the Fund. These funds are accounted for in the County's Comprehensive Annual Financial Report.

III. PRUDENCE

A. The County's policy follows 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.

B. Persons responsible for investment transactions acting 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 changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. OBJECTIVE

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

A. Liquidity: The Fund’s investment portfolio will remain sufficiently liquid to enable it to meet all operating obligations of the Fund and to provide a reasonable reserve of cash or cash equivalents to meet cash needs.

B. Return on Investment: The investment portfolio shall be designed with the objective of meeting actuarial funding goals throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Liquidity needs will not be compromised in order to earn higher rates of return on investments. Competitive purchasing practices will be used except when impractical.

V. DELEGATION OF AUTHORITY

A. In accordance with Section 17-101 of the Local Government Article of the Annotated Code of Maryland and Section 513 of the Anne Arundel County Charter, the Controller is authorized to invest, redeem, sell, exchange or reinvest all unexpended or surplus moneys in any fund or account which he has custody.

B. Written procedures shall be established for operation of the County's investment programs, including this Fund, consistent with the policy.

1. The procedures shall 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 Controller.
2. The procedures shall include reference to PSA (Public Securities Association) repurchase agreements, wire transfer agreements, collateral/depository agreements, banking service agreements, and custodial agreements.
3. The procedures shall include specific exposure limits for security types; ratings sources and requirements; and maturity requirements.
4. The procedures shall provide that the Controller 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 proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Officers and employees shall disclose to the Controller any material financial interests in financial institutions that conduct business within the County, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the County's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the County, particularly with regard to the timing of purchases and sales.

VII. AUTHORIZED INSTITUTIONS AND BROKER/DEALERS

The Controller or their designee will maintain a list of financial institutions authorized to provide investment services. In addition, a list shall also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services to the County for this Fund. Those may include "primary", regional, or local dealers that qualify under Securities and Exchange Commission Rule 15c3-1 (uniform net capital rule). The approved list will be reviewed and approved annually by the Controller.

VIII. AUTHORIZED AND SUITABLE INVESTMENTS

A. The County is empowered to invest the Fund's assets in the following types of securities:

1. U.S. Government Treasury Securities;
2. U.S. Government Agency & Instrumentalities Securities;
3. Repurchase Agreements ("Repo");

4. Money Market Mutual Funds;
5. Maryland Local Government Investment Pool ("MLGIP") (§§ 17-301, et seq. of the Local Government Article of the State Code);
6. Supranational Sovereign Issues;
7. Commercial Paper ;
8. Domestic Corporate Bonds ;
9. Mutual Funds;
10. Exchange Traded Funds;
11. Tax Exempt and Taxable Municipal Securities;
12. Mortgage-Backed Securities;
13. Asset Backed Securities;
14. Foreign Sovereign Debt;
15. Certificates of Deposit ("CD"); and
16. Any other investment vehicles allowed by § 6-222 of the State Finance and Procurement Article of the State Code.

IX. PROHIBITED INVESTMENTS

The County is prohibited from borrowing of funds for the express purpose of investing those funds.

X. DIVERSIFICATION

The County will diversify its investments by security type and institution to ensure reduction of overall portfolio risk. Limitations shall apply at time of purchase.

XI. MATURITIES

Self-Insurance Funds can be invested with maturities up to 5 years.

XII. COLLATERALIZATION

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements ("repo"). To ensure that at all times the pledged securities equal or exceed the amount of the repo, including accrued interest, the initial collateral received must be 102%. Collateral will be monitored daily thereafter. Margin calls are initiated when repo collateral falls under 101% or is $100,000 less than the required 102% level.

The County establishes the following guidelines for collateral:

A. Acceptable Collateral:

1. Direct Federal Obligations;
2. Direct Federal Agency and Instrumentality Obligations -Fixed Rate Mortgage-Backed Securities; and
3. A letter of credit issued by the Federal Home Loan Bank if the letter of credit meets the conditions under the guidelines issued by the State Treasurer's office.

B. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement, or in an account at the Federal Reserve.

C. A monthly statement will be provided by the custodial agent listing the collateral and its market value.

XIII. CUSTODY

All security transactions including collateral for repurchase agreements entered into by the County shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Controller and evidenced by a statement from the custodial agent.

XIV. INTERNAL CONTROLS

The Controller shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and investment officers of the County. A review of the internal controls of the investment operation is part of the annual financial audit conducted by an outside independent audit company.

The internal controls shall address the following points:

A. Control of collusion;
B. Separation of transaction authority from accounting and record keeping;
C. Address custodial safekeeping;
D. Avoidance where possible of physical delivery securities;
E. Clear delegation of authority to subordinate staff members;
F. Written confirmation of telephone transactions for investments and wire transfers; and
G. Development of a wire transfer agreement with the lead bank or third-party custodian.

XV. PERFORMANCE STANDARDS

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to appropriate benchmarks on a regular basis.

XVI. REPORTING REQUIREMENTS

The Controller will present investment reports to the Self Insurance Committee periodically as directed by the Committee; but no less than quarterly.

XVII. INVESTMENT POLICY ADOPTION

The Fund's investment policy shall be adopted by resolution of the County Council. The policy shall be reviewed annually by the Controller and any modifications made thereto must be approved by the County Council.