POLICY Board of Trustees - Montgomery College	61004

Chapter:	Fiscal and Administrative Affairs	Modification No. 007
Subject:	**College Investment Program**	

I. Policy

It is the policy of Montgomery Community College (hereinafter referred to as "the College") to invest its funds in a manner which will conform to all State of Maryland investment statutes while meeting the daily cash flow demands of the College. The Vice President of Finance/Chief Financial Officer (or designee) is authorized to invest such funds, until the time they will be needed, in such securities as are indicated in these guidelines.

II. Scope

This investment policy applies to all financial assets of the College. These funds are accounted for in the College's Annual Financial Report and include:

A. General Funds
B. Enterprise Funds
C. Federal Loan Funds
D. Plant Renewal & Replacement Funds
E. Agency Funds
F. Emergency Plant Maintenance Funds
G. Any Approved New Fund(s)

This policy does not cover the financial assets of the Montgomery College Foundation. There is a separate investment policy and Investment Committee that governs these assets. The specific investment guidelines for the Aetna Retirement Plan are included as schedule A of this policy and a glossary of terms at Appendix I is also made part of this policy.

III. Committee on College Investments and Bank Selection

A. A Committee on College Investments and Bank Selection will be established which will have the responsibility of reviewing the performance of the investment portfolio, establishing overall investment procedures and reviewing recommendations and actions of the College staff in making investments. The committee will be advisory to the Senior Vice president for Administrative and Fiscal Services in order to assist in assuring that investments are made competitively and objectivity, using technical criteria consistent with College policy, and that banks are selected in a manner that best serves the College and public interest.

B. The committee will also provide the Senior Vice President with advice concerning investments related to the Aetna Retirement Plan.

C. The committee will consist of the Senior Vice President for Administrative and Fiscal Services (who will serve a s secretary of the committee), a representative of the Montgomery County Government Finance office, and two or more members of the community having no conflict of interest in College investments, and selected by the Senior Vice President for Administrative and Fiscal Services in consultation with the College President. The committee will select its own chairperson. The term of office for the members from outside the College shall be two years, but an individual may be appointed to successive terms. The College's Vice President of Finance/Chief Financial Officer will serve as an ex-officio resource member of the committee.

D. The Committee will meet at least twice a year to review the investment portfolio report. A periodic report on investments will be presented to the Board through the Senior Vice President for Administrative and Fiscal Services and the College President.

E. The President is authorized to establish procedures to implement this policy

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Board Approval: May 21, 1984; March 24,1986; July 17, 1989, effective July 1, 1989; July 19, 1993; October 16, 1995; January 22, 2002; June 18, 2012**.**

Chapter:	Fiscal and Administrative Affairs	Modification No. 003
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I. Derivatives and Leverage

It is the policy of the College not to invest in Derivatives, a financial contract whose value derives from the value of underlying stocks, bonds, currencies, commodities, etc. The College may not borrow funds for the express purpose of reinvesting these funds, otherwise known as leveraging.

II. Prudence

Investments shall be made with judgement 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 standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment Officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility 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.

III. Objectives

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

A. Safety: Safety of principal is the foremost objective of the investment program. Investments of the College shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification, third party collateralization and safekeeping, and delivery versus payment will be required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

B. Liquidity: The College's investment portfolio will remain sufficiently liquid to enable the College to meet all operating requirements which might be reasonably anticipated.

C. Return on Investment: The College's investment program shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles commensurate with the College's investment risk constraints and the cash flow characteristics of the portfolio.

IV. Delegation of Authority

A. Authority to manage the College's investment program is granted to the Vice President of Finance/Chief Financial Officer or designee as derived from the following: Article 95, 22F, Annotated Code of Maryland and State Finance and Procurement Article, 6-222, Annotated Code of Maryland.

B. The Vice President of Finance/Chief Financial Officer shall develop and maintain written administrative procedures for the operation of this investment program, consistent with this investment policy. Such procedures shall include:

1. 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 Vice President of Finance/Chief Financial Officer.

2. Procedures should include reference to safekeeping, master repurchase agreements, wire transfer agreements, collateral/depository agreements, and banking service contracts.

3. The Vice President of Finance/Chief Financial Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. Ethics and Conflicts of Interest

Officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. The Vice President of Finance/Chief Financial Officer or designee shall disclose any material financial interests in financial institutions with which they conduct personal business. They shall further disclose any large personal financial investment positions that could be related to the performance of the College's investment portfolio, particularly with regard to the timing of purchases and sales. The Vice President of Finance/Chief Financial Officer or designee shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the College.

On an annual basis College officials and employees involved in the investment process shall submit to the Senior Vice President for Administrative and Fiscal Services a certification that they are in compliance with Section VIII of this procedure.

VI. Authorized Financial Dealers and Institutions

The College shall establish and maintain a listing of financial institutions and broker/dealers which are authorized and approved by the Vice President of Finance/Chief Financial Officer to provide investment services to the College for the purchase of short term investments. Also, the Committee on College Investments and Bank Selection, through oversight and review will provide guidance and advice on the approved list. The following is a breakdown of the types of institutions authorized by this policy to handle investment transactions with the College:

A. Primary Government Dealers:

The Federal Reserve Bank of New York designates primary government dealers in government securities. The College can purchase all authorized and suitable investments as listed in Section VII of this procedure, except for certificates of deposit, from primary government dealers who qualify under Securities and Exchange Commission Rule 15C3-1. Repurchase agreements (repos) entered into by the College will be with primary government dealers with the exception of any repos executed with the College's lead depository bank.

B. Other Security Dealers:

The College may purchase U.S. Government securities, U.S. Government agency securities and Bankers Acceptances from dealers other than primary government dealers and from dealer banks which market these securities.

1. All dealers must agree to the College's policy of delivery versus payment as described in Section X of this procedure.

2. The firm, including primary dealers, will be reviewed at least annually to assure that the firm(s) remain on sound financial footing.

3. All dealers and financial institutions will be sent a copy of the College's current investment policy and a list of employees authorized to transact investment trades on behalf of the College. Each dealer and financial institution will be required to respond in writing, that the policy was received, understood and will be adhered to.

C. Commercial Banks

The College can only invest in banks with commercial bank offices located in the State of Maryland (Certificates of Deposit) with the exception of Bankers Acceptances which are discussed in Section VII of this procedure. Commercial banks must have a short term rating of the highest grade from at least two of the National Recognized Statistical Rating Organizations (NRSRO) as designated by the Securities and Exchange Commission (SEC).

D. Money Market Treasury Funds

The fund must be registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940, 15 U.S.C., 80(A) as amended and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, 17 C. F. R., 270.2A-7 and have received the highest possible rating from at least two NRSROs as designated by the SEC.

The College is also authorized to invest in the Maryland Local Government Investment Pool which functions as a U.S. Treasury Money Market Fund.

VII. Authorized Investment Securities

A. Any obligation for which the United States pledges its full faith and credit for the payment of principal and interest.

B. Any obligation that a federal agency or a federal instrumentality issues in accordance with an act of Congress.

C. Bankers' Acceptances (BA's) of domestic and foreign banks that maintain the highest short term debt rating from one of the NSRSROs as designated by either the SEC or the State Treasurer.

D. Repurchase Agreements (repos) collateralized in an amount not less than 102%

of the principal amount by an obligation of the United States, its agencies or instrumentalities provided a custodian, other than the seller, holds the collateral.

E. Certificates of Deposits or Time Deposits of financial institutions that are chartered in the State of Maryland. The deposit must be interest bearing, collateralized at 102% of the market value and held by a custodian, other than the seller.

F. Money Market Mutual Funds must maintain a net asset value (NAV) of $1.00 at all times and must provide investors with daily liquidity. The fund must be registered with the SEC and operating under the Investment Company Act of 1940, 15 U.S.C. § 80a-1 et seq., as amended; operated in accordance with Rule 2a-7, of the Investment Company Act of 1940, 17 C.F.R. § 270.2A-7, as amended; and have received the highest possible rating from at least one NRSRO.

G. Commercial Paper that received the highest letter and numerical rating by at least two NRSROs as designated by the SEC. Split rated commercial paper is not permitted.

H. Any investment portfolio created under the Maryland Local Government Investment Pool defined under Article 95; Section 22G that is administered by the Office of the State Treasurer.

VIII. Diversification in Authorized and Suitable Investments

The College must diversify to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

A. Investment Types and Allowable Portfolio Percentages

Diversification by Investment Type	Maximum % of Portfolio*
1. U.S. Treasury Obligations	100%
2. U.S. Government Agencies	50%
3. Repurchase Agreements	50%
4. Collateralized Certificates of Deposits	25%
5. Bankers Acceptances	50%
6. Maryland Local Government Investment Pool	50%
7. Commercial Paper	5%
8. Money Market Funds	25%

*at time of purchase

B. Institutional Types and Allowable Portfolio Percentages

Diversification by Institution	Maximum % of Portfolio*
1. Approved Security Dealers	25%
2. Maryland Local Investment Pool	50%
3. Bankers’ Acceptances by Issuing Institution	10%

4.	Commercial Banks (Certificates of Deposit)	10%
5.	Money Market Funds by Fund	25%
6.	Commercial Paper	5%
7.	U.S. Government Agencies by Agency	20%

*at time of purchase

C. Diversification of Maturities

In order to meet the objectives of the College's investment activities, as listed above in Section V of this policy, the majority of the investments of the College must be on a short-term basis, (up to 12 months). However, a portion of the portfolio may be invested in investments with longer maturities (up to two years) without jeopardizing adequate safety and liquidity standards of the portfolio and at the same time increasing the overall yield of the portfolio. Any investment with a maturity of over 12 months must be approved by the Vice President of Finance/Chief Financial Officer prior to execution.

Reserve funds may be invested in securities exceeding one year if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

IX. Collateralization

A. Collateralization will be required on three types of investments: Certificates of Deposit, Time Deposits and Repurchase Agreements. In order to mitigate market changes and provide an additional level of security for all funds, the collateralization level will be at least 102% of market value of principal and accrued interest.

B. Collateral will always be held by an independent third party with whom the College has a current custodial agreement or with the Federal Reserve Bank in a segregated account. A clearly marked evidence of ownership (safekeeping receipt) must be supplied and retained by the college.

C. Acceptable collateral is specified under Section 6-202 of Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland.

D. The right of collateral substitution is granted, and all associated costs will be paid by the seller (financial institution).

X. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the College shall be conducted on a delivery-verses-payment (DVP basis). Securities will be held by a third party custodian designated by the Vice President of Finance/Chief Financial Officer and evidenced by safekeeping receipts. All repurchase agreements will be governed by a Master Repurchase Agreement signed by the appropriate officials of the College and the appropriate official of the approved broker/dealer or financial institution.

XI. Internal Control

The Vice President of Finance/Chief Financial Officer shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of college funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees. The investment operation is also part of the annual financial audit conducted by the College's external audit firm. This review will provide external control by assuring compliance with this policy. The College's internal auditor will periodically review the internal controls to ensure compliance with this investment policy.

XII. Performance Standards

The College's investment strategy is active and the investment portfolio will be designed with the objective of obtaining a market average rate of return during budgetary and economic cycles, taking into account the College's investment risk constraints as noted in Section VI of this procedure and cash flow needs. The basis used to determine whether market yields have been achieved shall be the 3-month U.S. Treasury bill, the average Federal Funds rate, or other recognized indices.

XIII. Reporting Requirements

The periodic investment report presented to the Board of Trustees shall include a market report on investment activity and investment returns.

XIV. Investment Policy Adoption

The College's investment policy shall be adopted by resolution by the Board of Trustees and a certified copy sent to the Maryland State Treasurer. The policy shall be reviewed on an annual basis by the Committee on College Investments and Bank Selection. Any modifications made to this investment policy must be approved by the Board of Trustees (by resolution).

Presidential Approval: June 18, 2012; November 5, 2012; April 19, 2013.

Schedule A

MONTGOMERY COLLEGE RETIREMENT PLAN

(AETNA SUPPLEMENTAL)

GENERAL:	The College has a single employer, defined benefit pension plan with Aetna. The plan provides for benefits to be paid to eligible employees at retirement, in conjunction with the other college retirement and pension plans. Full-time employees who have been employed by the college prior to 1980, and contribute to the Maryland State Retirement system plan are eligible to participate in this plan established under the authority of the College's Board of Trustees
GOALS AND OBJECTIVES:	Consistent with the purpose outlined above, the portfolio strives to achieve the following objectives: 1. To maintain fully funded status with regard to the Accumulated Benefit Obligation(ABO); 2. To maintain flexibility in determining the future level of contributions; and 3. To maximize total returns within a framework that maintains sufficient liquidity to fund required outflows.
PORTFOLIO COMPOSITION:	
Asset Allocation:	As the plan begins to wind down, the composition of the portfolio has been altered to reflect the need to maintain a fully funded status at ever increasing frequency, all assets are now 100% Domestic Fixed Income.

PERFORMANCE GOALS:

Asset Class	Goal
Domestic Fixed Income	Lehman aggregate bond index

DISTRIBUTIONS:	Distributions will be made as necessary to fund claims and administrative costs related to the purpose of the portfolio.

Appendix I

Montgomery College Investment Program

Glossary of Terms

Agencies: Federal agency securities and/or government sponsored enterprise.

Banker's 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.

Broker: A Broker brings buyers and sellers together for a commission.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate.

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.

Delivery Versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

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

Liquidity: a liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

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 agreement that establish each parties rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender 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 payable.

Local Government Investment Pool (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investments and reinvestments.

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

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange

Commission (SEC) – registered Securities Broker Dealers, banks and a few unregulated firms.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price.

Repurchase Agreement (RP or REPO): A holder of 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: Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as agent and, where control is delegated by the customer, also as a custodian.

Treasury Obligations: Negotiable debt obligations of the U.S. Government, secured by full, faith and credit and issued at various schedules and maturities.

Yield: The rate of annual return on an investment, expressed as a percentage.