



Town of West Newbury

Investment Policy Statement

April 2020

I. The Investment of General Funds, Special Revenue Funds, and Enterprise Funds.

A. Scope

The first section of this policy applies to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. Section two will deal with funds set aside for longer term use by the Town such as trust funds, Community Preservation Act funds, stabilization funds and any other long-term funds managed by the Town. The third section will deal with the OPEB Investment Funds, which are also long term in nature. The Essex Regional Retirement Board and the Massachusetts Teachers' Retirement System are responsible for the investment of pension funds. The last section of the policy describes the operation and responsibilities of the Town Investment Policy Committee.

All investment activity by Town employees, Investment Policy Committee members and any other authorized persons shall be subject to the policies described in paragraphs C, E, and F below.

B. Authorization

The Treasurer has authority to invest municipality/district funds, subject to the statutes of the Commonwealth Massachusetts General Law Chapter 44 Section 55,55A, & 55B as amended.

C. Ethics

With respect to the investment of any Town funds, all Town Officers, employees and members of the Investment Policy Committee shall maintain compliance with MGL Part 1, Title IV, Chapter 32, Section 23B Requirements applicable to retirement board contracts for the procurement of investment, actuarial, legal and accounting services (see Addendum).

D. Diversification

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities as well as concentration in a specific institution. With the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies, and State pools (MMDT), no more than 25% of the Town's investments shall be invested in a single financial institution.

E. Standards of Care

The standard of prudence to be used by the Treasurer and Investment Policy Committee shall be the "Prudent Person" standard and shall be applied in the context of managing an overall portfolio. The Treasurer acting in accordance with written procedures, and this investment policy, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this policy.

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.

In addition, this section would also apply to M.G.L. Chapter 44 Section 55A which refers to the absence of liability of the Treasurer for losses due to bankruptcy by a depository institution.

F. Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to safety. The Town subscribes to the Veribanc Rating Service to evaluate the banking institutions that it currently has relationships with. Brokers should be recognized, reputable dealers and members of FINRA.

Veribanc, Inc. classifies banks into the following color categories based upon their financial stability:

- **GREEN:** The highest rating awarded to an institution, the equity of which exceeds 5% of its assets and it was profitable during the most recent reporting quarter.
- **YELLOW:** The institution's equity is between 3% - 5% of its assets or it incurred a net loss during the most recent reporting quarter. Both of these conditions may apply. If there was a net loss, the loss was not sufficient to erode a significant portion of the institution's equity. A yellow classification merits the investor's attention.
- **RED:** The institution's equity is less than 3% of its assets or it incurred a significant net loss during the most recent reporting quarter (or both). A red classification deserves close scrutiny.

The Treasurer may invest in such banks that earn a green rating in a particular quarter. If a rating is yellow, the Treasurer should contact the appropriate banking institution and request in writing an explanation of the change in rating and the expected time table for it to be upgraded back to green.

If for a second quarter such rating has not been corrected, the Treasurer should consider removing all funds that are not collateralized, or which do not carry some form of depositor's insurance.

If a rating moves to red, all funds should be immediately collateralized or covered by some form of depositors' insurance or be removed from the banking institution.

The Treasurer will require any brokerage houses and broker/dealers wishing to do business with the municipality to supply the following information to the Treasurer:

- Audited financial statements
- If acting as an Investment Advisor their updated Form ADV upon request.
- Proof of National Association of Security Dealers certification
- A statement that the dealer has read the municipality's investment policy and will comply with it on an annual basis.
- Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of \$10 million dollars)

G. Reporting Requirements

The Treasurer shall reconcile the Cash Account at the end of each month to both Bank Statements and General Ledger. All variances must be identified and resolved with either the bank or the Town Accountant. All reconciliations must be provided to the independent auditor for review on an annual basis.

The Massachusetts Department of Revenue requires that the Treasurer report on a quarterly basis, the Town's cash positions by instrument type, location by institution and current yield. The reports of the first three (3) quarters must be kept on file in the Office of the Town Treasurer and be made available upon request. The final quarterly report,

which includes balances at the fiscal year end, must be approved by both the Town Treasurer and the Town Accountant and submitted to the Department of Revenue prior to Free Cash Certification.

On a regular basis (quarterly, semi-annually, or annually), a report containing the following information will be prepared by the Treasurer and maintained on file as appropriate. The quarterly report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this Investment Policy.
- A summary of the income earned on a monthly basis and year to date basis shall be reported.
- The municipal treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the Town's cash position.
- The report should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.

H. Restrictions

Chapter 44, Section 55 sets forth the several restrictions that the Treasurer must be aware of when making investment selections.

- The Treasurer shall not at any one time have on deposit in a bank or trust company an amount exceeding 5% of the capital and surplus of such bank or trust company, or banking company, unless satisfactory security is given to it by such bank or trust company, or banking company for such excess.
- The Treasurer and the Investment Policy Committee will not make a deposit in any bank, trust company or banking company that he is associated as an officer or employee or has been the same for any time during the three years immediately preceding the date of any such deposit.
- All securities shall have a maturity from date of purchase of one year or less.
- Purchases under an agreement with a trust company, national bank or Banking Company to repurchase at not less than original purchase price of said securities on a fixed date shall not exceed ninety days.

I. Legal References

Massachusetts General Law Chapter 44, Section 55
Massachusetts General Law Chapter 44, Section 55A
Massachusetts General Law Chapter 44; Section 55BD. Short Term Investment Objectives

J. Objective

Massachusetts General Laws, Chapter 44, section 55B requires the municipal/district treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution. Modern banking systems enable the public treasurer to maintain even these funds in interest bearing form until the date a disbursement order clears through the banking system. Generally, short term municipal funds shall be invested in debt instruments, certificates of deposit, short term money market funds. Investment of short term funds in equity like securities is not permitted.

The state law further requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking into account safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the daily cash requirements for the operation of the entity's business.

- **Safety** of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository. Credit risk is the risk of loss due to the failure of the security issuer

or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.

- **Liquidity** is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.
- **Yield** is the third, and last, objective. Investments shall be undertaken so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

K. Risk Tolerance

Risk Tolerance of the Town's short- and long-term funds (non-OPEB) is defined and will be managed as follows:

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.
- The Town will manage credit risk several ways. There will be no limit to the amount of United States Treasury and agency obligations which both of these types of investments carry a AAA rating. In regards to other investments, the Town will only purchase investment grade securities with a high concentration in securities rated A and above.
- The Town may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund.
- The Town may place funds in banking institutions as stated in the Section C of this policy.

Custodial Risk

- The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- The Town will review the firm's financial statements and the background of the sales representative. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, Capital adequacy of the firm, and overall affirmative reputation in the municipal industry.
- Further all securities not held directly by the Town, will be held in the Town's name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

Concentration of Credit Risk

- Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- The town will minimize Concentration of Credit Risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.
- The town will manage interest rate risk by managing duration in the account.

Foreign Currency Risk

- Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment or a deposit. The Town will not invest in any instrument exposed to foreign currency risk.

L. Short Term Investment Instruments

Note: Public investments in Massachusetts are not protected through provisions in State law. Therefore, they are largely uncollateralized. However, many banking institutions are willing to provide collateral, albeit at a cost to the Town of receiving a lower interest rate. The Treasurer negotiates for the highest rates possible, consistent with safety principles.

The Treasurer may invest in the following instruments:

- Massachusetts State pooled fund: **Unlimited amounts** (Pool is liquid)
 - The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer and currently managed by Fidelity Investments. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos), and U. S. Treasury Obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass-through insurance on the C.D.'s and takes delivery on the Repos and Treasuries. Under Government Accounting Standards Board Regulation (GASB III), it is not considered an uncollateralized product.
- U. S. Treasuries that will be held to maturity: **Unlimited amounts** (Up to one year maturity from date of purchase)
- U.S. Agency obligations that will be held to maturity. **Unlimited amounts** (Up to one year maturity from date of purchase)
- Bank accounts or Certificates of Deposit, hitherto termed C.D.'s. (**Up to one year**) which are fully collateralized through a third party agreement: **Unlimited Amounts**
- Bank accounts and C.D.'s (**Up to one year**) insured by F.D.I.C. up to the maximum insurable limit. All bank accounts and C.D.'s in one institution are considered in the aggregate to receive the maximum allowed insurance coverage. In some cases Banking Institutions carry additional insurance, Depository Insurance Fund (D.I.F.): Contact banking representative for amounts of coverage.
- **Unsecured bank deposits** of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: These investments **will be limited to no more than 5% of an institution's assets and no more than 25% of the Town's cash**. This percentage may be increase for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. These payments may be for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness reporting systems. They will be diversified as much as possible. C.D.'s will be purchased for no more than one year and will be reviewed frequently.

- **Money Market Mutual Funds** that are registered with the Securities and Exchange Commission that have received the highest possible rating from at least one nationally recognized statistical rating organization and as otherwise referenced in the Massachusetts General Law Chapter 44 Section 55.

II. The Investment of Trust Funds, Stabilization Funds and Community Preservation Act Funds

This section of the policy applies only to funds that could be invested long term, i.e. trust funds, stabilization funds, community preservation act funds and other funds the Town may set aside for long term use.

A. Scope

This policy applies to all accounts that are designated as Trust Funds, Stabilization Funds, and Community Preservation Funds and any other funds designated by the Town as long term in nature.

All accounts will be maintained separately receiving their proportionate interest and any realized and unrealized gains or losses. The account will be established as a pooled investment portfolio unless otherwise stated. Any additional accounts will be maintained in this same manner.

B. Investment Instruments

MGL Chapter 44 Section 54 provides as follows: “Trust funds, including cemetery perpetual care funds, unless otherwise provided or directed by the donor of the funds, shall be deposited in: a trust company, co-operative bank or savings bank, if the trust company or bank is organized or exists under the laws of the commonwealth or any other state or may transact business in the commonwealth and has its main office or a branch office in the commonwealth; a national bank, federal savings bank or federal savings and loan association, if the bank or association may transact business and has its main office or a branch office in the commonwealth; provided, however, that a state-chartered or federally-chartered bank shall be insured by the Federal Deposit Insurance Corporation or its successor or invested by cities and towns in participation units in a combined investment fund under section 38A of chapter 29 or in bonds or notes which are legal investments for savings banks. Cities and towns having such funds in the custody of the treasurer in an aggregate amount in excess of two hundred and fifty thousand dollars may also invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the commonwealth; provided, that not more than fifteen per cent of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half per cent of such funds be invested in the stock of any one bank or insurance company.”

The Investment Advisory Committee recommends that the Town avoid direct investments of Town CPA, stabilization funds or long term trust funds in the equity securities of savings and loans, savings banks or insurance companies. See attached the Commonwealth of Massachusetts **List of Legal Investments**.

The Treasurer may invest in the following instruments:

- U. S. Treasuries that maybe sold prior to maturity: **Unlimited amounts** (With no limit to the length of maturity from date of purchase)
- U.S. Agency obligations that may be sold prior to maturity. **Unlimited amounts** (With no limit to the length of maturity from date of purchase)
- Bank accounts or Certificates of Deposit, hitherto termed C.D.'s. **Unlimited amounts** (With no limit to the length of maturity from date of purchase), which is fully collateralized through a third-party agreement:

- Bank accounts and C.D.'s (**With no limit to the length of maturity from date of purchase**), fully insured by F.D.I.C. and in some cases also Depository Insurance Fund of Massachusetts (D.I.F.): the maximum allowable insurable amount all bank accounts and C.D.'s in one institution are considered in the aggregate to receive the maximum allowable insurance coverage.
- **Unsecured bank deposits** of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: These investments **will be limited to no more than 5% of an institution's assets and no more than 25% of a municipality's cash**. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness reporting systems. They will be diversified as much as possible. C.D.'s will be purchased with no limit to the length of maturity from the date of purchase and will be reviewed frequently.

Common and preferred stock that are listed in the **List of Legal Investments other than direct investments in the stock of savings and loans, savings banks and insurance companies**

Investment Funds that are listed in the **List of Legal Investments**.

- All other items not separately identified here that are listed in the **List of Legal Investments**. Each trust fund must be accounted for separately. Chapter 44 Section 54 sets forth that Treasurers may invest in instruments that are legal for savings banks. This list of investments is included in the Commonwealth of Massachusetts List of Legal Investments, Chapter 167 Section 15A.

III. The Investment of OPEB Funds

A Purpose

The primary purpose of this Investment Policy Statement (IPS) is to provide a clear presentation of the objectives, goals, risk tolerance, and investment guidelines established for the OPEB (Other Post-Employment Benefits) fund. The secondary purpose is to describe for the Office of Treasurer & Collector of Taxes, the public, and staff the underlying logic and philosophy supporting this Statement.

B. Scope

This IPS applies to all funds that are separately designated as long-term OPEB funds. The account will be established as a pooled investment portfolio unless otherwise stated. Any additional contributions to the account will be maintained in the same manner.

C. Authority

Massachusetts General Law Chapter 32B, section 20 allows a city, town, district, county or municipal lighting plant to set up a special trust fund, the Other Post Employment Benefits (OPEB) Liability Trust Fund. The Town of West Newbury's treasurer is the custodian of the fund. Investment of fund monies by the custodian must be consistent with the prudent person standard set forth in Massachusetts General Law Chapter 203C for private trust funds. Interest, dividends and capital gains and losses earned on the investment of fund monies belongs to the fund.

D. Introduction

OPEB liabilities represent long term future payments to retired Town employees to help defray the cost of health care insurance. Investment of the funds is based on an actuarial estimate of the future cost of health care for the retiree pool, and the estimated long term returns to be earned by the OPEB account. Investment policy needs to identify those permitted investments most likely, over the long term, to approximate the rate of return targeted by the Town's actuarial study. Under GASB 45, the target return should be the long term expected rate of return on the

investments that are expected to be used to pay benefits as they come due. Investments within an OPEB Fund will closely approximate pension fund-type investments securities.

The policy statement is also designed to withstand "trustee risk" — the possibility that, at some stress point (most frequently an extreme decline in the stock or bond markets), those who oversee the funds may react in a manner detrimental to the long-term health of the Funds.

E. Objective

OPEB funds are long-term investments. Given an assumed rate of return target, a long-term investment approach enables the Town to purchase a balanced portfolio of investment assets such as equities and longer-term fixed income securities, which tend to have high returns over many years but whose price volatility precludes their use by those with shorter time horizons.

Historically, equities have served as a hedge against eroding fund values due to long term inflationary trends. We expect the stock market to provide greater total returns than the bond market does. We make this statement in a long-term sense, knowing that both economies and markets suffer periodic (but normally brief) declines, and knowing that there have been periods when cash and bonds outperform stocks.

We expect the relationship between the economy, the stock market, and inflation that has been in existence for the past 70 years to continue. We expect the American economy to show modest real growth over full business cycles, after allowance for occasional recessions. We expect stock prices to grow slightly faster than inflation. We expect cash dividends from stocks also to grow slightly faster than inflation, and to fluctuate much less than stock prices do.

We expect continued inflation. Its timing and severity we cannot predict, but we believe it will be of sufficient magnitude that to ignore it would threaten our ability to meet our long-term objectives.

Our definition of risk is not always the common one. Most investors define investment risk in terms of the volatility of short-term total returns. This definition is appropriate for funds with a very short-term time horizon, but inappropriate for quasi-perpetual funds such as this OPEB Fund. Our managed funds bear three potential kinds of risk. One comes from any mismatch between the natural cash flows out of the Fund (the amount requisitioned from the Funds) and the cash flows coming in (from contributions, dividends and interest). A second source of risk is the possibility that the assets in the funds do not perform the way the investment manager(s) or we expect them to. The third form of risk is that of reacting inappropriately at a volatile period, most likely after a severe market decline. We hope to minimize these risks to as great a degree as is possible without harming the Fund's long-term objectives. Market value fluctuations are of secondary importance unless individual assets have permanently impaired values and must be liquidated to preserve remaining value.

F. Strategy

It is expected that the Investment Policy Committee shall utilize the services of a contracted qualified Investment Manager. The contracted Investment Manager(s) will utilize the following investment guidelines in terms of asset allocation. This policy is subject to review by the Investment Policy Committee and can be amended at any time.

0 – 10% Cash and cash equivalents – normalized at 5%. Cash will be maintained to provide periodic cash distributions. Cash will not normally be held as a strategic investment asset, although the Investment Manager may seek to allow cash to build to the maximum level in times of market uncertainty.

0 – 20% Alternative Investments – normalized at 0%. Alternative Investment strategies include, but are not limited to, investment vehicles with the following objectives: market-neutral, absolute return, global macro, long/short, commodities, managed futures and arbitrage. To the extent that alternative investments are utilized an appropriate benchmark will be determined.

30 – 50% Fixed Income - normalized at 40%. To ensure appropriate diversification and to minimize default risk, the Trust Fund will invest primarily in high-quality taxable bonds, notes, and other credits through mutual funds,

exchange-traded funds (ETFs) or individual bonds. Lower-quality bonds may be held through mutual fund or ETF ownership. The overall goal of the fixed-income portion of the portfolio is to provide returns competitive with, and price volatility similar to, the Barclays Aggregate Bond Index. The fixed income allocation exists to provide income and to dampen the volatility from the fund's equity holdings.

30 – 70% Equities – normalized at 60%.

To ensure appropriate diversification the trust fund will invest primarily in American Depositary Receipts, common stock, mutual funds, exchange traded funds and preferred stock. The overall goal of the public equity portion of the portfolio is to provide returns and price volatility similar to the MSCI-ACW Index. The equity allocation exists to provide growth. Adequate diversification and risk controls must be maintained. An appropriate benchmark for the overall asset class of equities will be determined and agreed upon between the Town and the Investment Manager(s).

G. Investment Instruments

M.G.L. Chapter 203C: section 1 known as the Massachusetts Prudent Investor Act, states that a custodian shall invest and manage trust assets as a prudent investor would, considering the purposes, terms, and other circumstances of the trust, including those set forth in subsection c. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. A custodian's investment and management decisions respecting individual assets shall be considered in the context of the trust portfolio as a part of an overall investment strategy reasonably suited to the funds.

Among circumstances that a custodian shall consider in investing and managing fund assets are such of the following as are relevant to the fund or its beneficiaries: 1) general economic conditions; 2) the possible effect of inflation or deflation; 3) the role that each investment or course of action plays within the overall portfolio; 4) the expected total return from income and appreciation of capital; 5) other resources of the beneficiaries; 6) needs for liquidity, regularity of income, and preservation or appreciation of capital.

A custodian shall make a reasonable effort to verify facts relevant to the investment and management of fund assets. A custodian may invest in any kind of property or type of investment consistent with the standards of this chapter. A custodian who has special skills or expertise, shall have a duty to use such special skills or expertise.

Section 4: A custodian shall reasonably diversify the investments of the Funds unless, under the circumstances, it is prudent not to do so.

With respect to the OPEB account the Investment Policy Committee can authorize the contract Investment Manager to invest in the following instruments:

- U. S. Treasuries that may be sold prior to maturity: **Unlimited amounts** (With no limit to the length of maturity from date of purchase)
- U.S. Agency obligations that may be sold prior to maturity: **Unlimited amounts** (With no limit to the length of maturity from date of purchase)
- **U.S. Government Mortgage-Backed securities**
- **Corporate bonds**
- Bank accounts or Certificates of Deposit ("CDs"): **Unlimited amounts** (With no limit to the length of maturity from date of purchase), which is fully collateralized through a third party agreement.
- Bank accounts and CDs: (With no limit to the length of maturity from date of purchase) fully insured by F.D.I.C. and in some cases also Depository Insurance Fund of Massachusetts (D.I.F.): All bank accounts and CDs in one institution are considered in the aggregate to receive the insurance coverage limit.

- Money market mutual funds.
- Fixed-income mutual funds and exchange-traded funds (ETFs).
- Preferred stock: securities must be investment grade at the time of purchase.
- Common stock.
- Equity mutual funds and exchange-traded funds (ETFs).
- Alternative investment-oriented mutual funds. Leveraged (i.e. 2x or 3x) investment strategies are not permitted.

H. Specific Risks

The Investment Policy Committee will instruct the Investment Manager to invest OPEB funds while minimizing the following risks:

- **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Town will manage credit risk several ways. There will be no limit to the amount of United States Treasury and United States Government Agency obligations, as they carry an AA rating.

In regards to fixed-income investments, the Town will only purchase investment grade securities with a high concentration in securities rated A or better. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds. Investments in fixed income securities will be made primarily for income and capital preservation. The Town may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund.

- **Custodial Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Town will review the financial institution's financial statements and the background of the sales representative. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, Capital adequacy of the firm, and overall affirmative reputation in the municipal industry.

Further, all securities not held directly by the Town, will be held in the Town's name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

- **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The Town of West Newbury will minimize Concentration of Credit Risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As stated above, securities of a single corporate issuer (with the exception of the United States Government and its Agencies) will not exceed 5% of the portfolio value.

- **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The town will manage interest rate risk by managing duration in the account.- Duration to be +/- 1 year of benchmark

Diversification

- **Equity**

The equity portion of the portfolio should consist of a diversified mix of investments (individual equities, mutual funds and exchange-traded funds) suitable to achieve the objective of capital appreciation. Individual equity holdings in any one company should not exceed 5% of the market value of the portfolio.

Equity holdings may be selected from the New York and American Stock Exchange or the NASDAQ markets. Securities may be in U.S. companies, or foreign companies purchased as American Depositary Receipts (ADR's). Funds may be invested in securities convertible into equities or preferred stock.

No funds may be invested in real estate (other than publicly traded Real Estate Investment Trusts), Reg D private placements or letter stock. The Investment Advisor shall not engage in margin transactions, short sales or any other such specialized investment vehicles. The manager of a specific mutual fund and exchange-traded fund, however, may engage in short sales as part of an overall investment strategy. The selection of individual equities will be at the discretion of the Investment Advisor. OPEB funds may be invested in the State Retiree Benefits Trust Fund (SRBTF) and are therefore exempt from having to comply with the activity described in the beginning of this paragraph.

- **Fixed Income**

Investments in fixed income securities will be made principally for income and capital preservation. Selection should be made from liquid, investment grade corporate debt, convertible debt and obligations of the United States Government and its agencies. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds.

Securities of a single corporate issuer (excluding the United States Government and its Agencies) will not exceed 5% of the portfolio market value. Investments in U.S. Government debt will not include agencies that are not permitted under Massachusetts General Laws (i.e. Sallie Mae (SLMA) or Ginnie Mae (GNMA) obligations).

No more than 20% of the portfolio's total market value will be invested in convertible securities.

Individual corporate debt and preferred stock issues must be rated BBB or better, as defined by Moody's and/or Standard & Poor's Rating Agency.

There shall be no direct investments in real estate, mortgages, collateral or non-collateral loans, Reg D private placements, fixed income or interest rate futures, and no engagement in any other specialized fixed income ventures, such as interest rate swaps. The investment manager or the manager of a specific mutual fund and exchange-traded fund, however, may engage in fixed income and interest rate futures as part of an overall investment strategy.

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as concentration in a specific institution, with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies.

I. Performance Measurement and Evaluation

- The Funds' performance will be measured by comparison with their stated objectives in comparison to their respective benchmarks.
- To monitor the intermediate term performance of the Funds, the Treasurer will compare the investment manager's results to a blended benchmark, to be determined in conjunction with the Investment Manager(s).
- Rebalancing of the portfolios should happen at least annually or more frequently if appropriate and approved by the Treasurer and the Investment Policy Committee.
- It is the objective that the performance figures of the Fund, and any sub-strategy, will outperform their respective benchmarks, net of fees, on a long term (business cycle) basis.

J. Supervision

- The Treasurer will meet with the Investment Policy Committee and the investment manager(s) as frequently as semi-annually to monitor the performance of the funds and the investment manager(s) compliance with these guidelines. The Treasurer will receive and review portfolio management reports quarterly.
- The Treasurer and the Investment Policy Committee will review this Investment Policy Statement at least once a year to ensure that it remains appropriate and complete.
- The Treasurer and the Investment Policy Committee have the option to put the management of funds out for bid periodically, and shall consider such option not less frequently than every five years, through a request for information, request for proposal, or similar process as required by law or town policy.

K. Legal References

- Massachusetts General Law Chapter 32B, Section 20
- Massachusetts General Law Chapter 203C, Section 1 through 11

IV. The Investment Policy Committee

ARTICLE I PURPOSE

- 1.1. The Investment Policy Committee is created for the sole purpose of providing advisory and oversight of the Town's Investments, or as determined by the Town.

ARTICLE 2 Members

- 2.1. The Investment Policy Committee shall consist of six (6) members, who shall include the Town Treasurer; a member of the Board of Selectmen voted annually by that Board; a member of the Finance Committee voted annually by that Committee; and three members of the community appointed to a 3-year term by the Board of Selectmen. Upon expiration of the term or sooner resignation or removal of the Town Treasurer the position shall be deemed vacant. In case of a tie vote the representative of the Selectmen shall cast the deciding vote.
- 2.2. The Board of Selectmen shall call for the first meeting of the Investment Policy Committee and the member of the Board of Selectmen shall serve as the initial Chairperson of the Investment Policy Committee to facilitate the organization of the Committee. Thereafter, the Investment Policy Committee will annually elect a chairperson and a secretary.
- 2.3. In the event an Investment Policy Committee member resigns, is removed or is otherwise unable to serve, the Board of Selectmen shall appoint an at large or Board of Selectmen to fill the vacancy.
- 2.4. Upon leaving office, a member of the Investment Policy Committee shall promptly and without unreasonable delay, deliver to the Treasurer's office any and all records, documents, or other documents in his possession or under his control belonging to the Funds.
- 2.5. The members of the Investment Policy Committee shall be special municipal employees for purposes of G.L. c.268A and shall be subject to the restrictions and prohibitions set forth therein.
See:
<http://www.mass.gov/ethics/education-and-training-resources/educational-materials/explanations-of-the-conflict-of-interest-law/special-municipal-employees-summary.html>
and
<https://malegislature.gov/Laws/GeneralLaws/PartIV/TitleI/Chapter268A>

ARTICLE 3 LIABILITY OF THE INVESTMENT POLICY COMMITTEE

- 3.1. A member of the Investment Policy Committee shall not be liable for any mistake of judgment or other action made, taken or omitted by a Committee member in good faith, nor for any action taken or omitted by any other member or any agent or employee selected with reasonable care, and the duties and obligations of the Investment Policy Committee member hereunder shall be expressly limited to those imposed upon them by this Investment Policy Statement.
- 3.2. No successor member of the Investment Policy Committee shall be held responsible for an act or failure of a predecessor member of the Investment Policy Committee.
- 3.3. Member of the Investment Policy Committee are public employees for purposes of G.L. c.258, and shall be indemnified by the Town against any civil claim, action, award, compromise, settlement or judgment by reason of an intentional tort to the same extent and under the same condition as other public employees of the Town.
- 3.4. A member of the Investment Policy Committee shall not be indemnified for violation of the civil rights of any person if he acted in a grossly negligent, willful or malicious manner, or in connection with any matter

where it is shown to be a breach of fiduciary duty, an act of willful dishonesty or an intentional violation of law by the member of the Investment Policy Committee.

ARTICLE 4
MEETINGS OF THE INVESTMENT POLICY COMMITTEE

- 4.1. The Investment Policy Committee may meet at least semi-annually.
- 4.2. The Investment Policy Committee shall comply with the Open Meeting Law, G.L. c.30A, §§18-25 and its implementing regulations.
- 4.2. A quorum at any meeting shall be a majority of the Investment Policy Committee then in office.

ARTICLE 5
TAXES, EXPENSES, AND COMPENSATION

ARTICLE 6
ACCOUNTS

- 6.1. The books and records of the funds shall be audited annually by an independent auditor in accordance with accepted accounting practices. The results of the audit shall be provided to the Town at the same time as it is presented to the Investment Policy Committee.

ARTICLE 7
INVESTMENT OF FUNDS

- 7.1. *The Investment Policy Committee hereby advises the Town Treasurer to contract with an outside manager invest and reinvest the amounts in a Fund not needed for current disbursement, consistent with the prudent investor rule, and as provided in the Investment Policy which is attached to this instrument and hereby incorporated.*

ARTICLE 8
LIMITATION OF MEMBERS OF THE INVESTMENT POLICY COMMITTEE POWERS, DUTIES AND RESPONSIBILITIES

- 8.1. Nothing contained in this Investment Policy Statement, either expressly or by implication, shall be deemed to impose any powers, duties or responsibilities on the members other than those set forth in this Investment Policy Statement.
- 8.2. The members of the Investment Policy Committee shall not be liable for the making, retention or sale of any investment or reinvestment made by the Committee as herein provided or for any loss to or diminution of the any Funds or for anything done or admitted to be done by the Committee with respect to the Investment Policy Statement or the any Funds except as and only to the extent that such action constitutes a violation of the law or gross negligence.
- 8.3. The Town, in its discretion, may also purchase liability insurance for the Investment Policy Committee members, and as the Town may select, for any person or persons who serve in a fiduciary capacity with respect to the Committee.
- 8.4. The Town shall not assume any obligation or responsibility to any person for any act or failure to act of the members of the Investment Policy Committee, any insurance company, or any beneficiary of the any Funds. The Investment Policy Committee shall have no obligation or responsibility with respect to any action

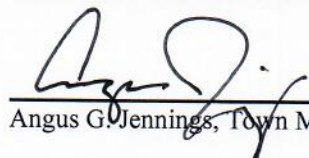
April 2020

required by this Investment Policy Statement to be taken by the Town, any insurance company, or any other person, or for the result or the failure of any of the above to act or make any payment or contribution, or to otherwise provide any benefit contemplated by this Investment Policy Statement.

- 8.5. Neither the Investment Policy Committee nor the Town shall be obliged to inquire into or be responsible for any action or failure to act on the part of the other. No insurance company shall be a party to this Policy Statement, for any purpose, or be responsible for the validity of this Policy Statement, it being intended that such insurance company shall be liable only for the obligations set forth in the policy or contract issued by it.
- 8.6. The Investment Policy Committee shall advise and monitor the investment assets as a prudent investor would, using the judgment and care under the circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital, pursuant to G.L. c.203C. Investment advice will be consistent with the other foregoing investment instruments as prescribed by law.

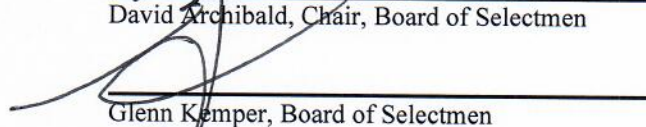
Investment Policy Endorsement:


Adopted: April 13, 2020


Angus G. Jennings, Town Manager


David Archibald, Chair, Board of Selectmen


Gary Roberts, Chair, Finance Committee

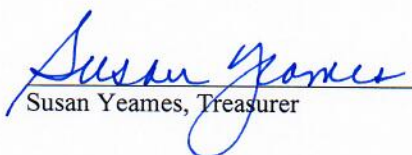

Glenn Kemper, Board of Selectmen


Rick Parker, Board of Selectmen

Agreement to Abide by the Terms of the Investment Policy of the Town of West Newbury

The Investment Policy Committee and Susan Yeames, Treasurer of the Town of West Newbury, have reviewed this investment policy and will manage the Town's funds under our control in accordance with this policy.

I, Susan Yeames, as Representative of the Town of West Newbury, have reviewed this investment policy and will manage the Town's funds under my control in accordance with this policy.


Susan Yeames, Treasurer

4/14/20
Date

Addendum – MGL Chapter 32, Section 23 B

Section 23B: Requirements applicable to retirement board contracts for the procurement of investment, actuarial, legal and accounting services

- a) This section shall apply to every retirement board contract for the procurement of investment, actuarial, legal and accounting services.
- b) As used in this section the following words shall, unless the context requires otherwise, have the following meanings:—

"Contract", an agreement for the procurement of services, regardless of what the parties may call the agreement.

"Contractor", a person having a contract with a retirement board.

"Majority vote", as to any action by or on behalf of a retirement board, a simple majority of the board.

"Minor informalities", minor deviations, insignificant mistakes and matters of form rather than substance of the proposal or contract document which can be waived or corrected without prejudice to other offerors, potential offerors or the retirement board.

"Person", a natural person, business, partnership, corporation, union, committee, club or other organization, entity or group of individuals.

"Procurement", buying, purchasing, renting, leasing, or otherwise acquiring a supply or service, and all functions that pertain to the obtaining of a supply or service, including description of requirements, selection and solicitation of sources, preparation and award of contract, and all phases of contract administration.

"Procurement officer", an individual duly authorized by the retirement board to assist in a procurement.

"Proposal", a written offer to provide a service at a stated price submitted in response to a request for proposals.

"Purchase description", the words used in a solicitation to describe the services to be purchased, including specifications attached to or incorporated by reference into the solicitation.

"Request for proposals", the documents utilized for soliciting proposals, including documents attached or incorporated by reference.

"Responsible bidder or offeror", a person who has the capability to perform fully the contract requirements and the integrity and reliability which assures good faith performance.

"Responsive bidder or offeror", a person who has submitted a bid or proposal which conforms in all respects to the request for proposals.

"Retirement board", a board established under this chapter, chapter 34B or the retirement board of the Massachusetts Water Resources Authority excluding the pension reserves investment management board.

"Services", the furnishing of labor, time or effort by a contractor, not involving the furnishing of a specific end product other than reports; provided, however, that the term shall not include employment agreements, collective bargaining agreements or grant agreements.

- c) A retirement board shall enter into procurement contracts for investment, actuarial, legal and accounting services utilizing competitive sealed proposals, in accordance with this section.
- d) A retirement board that awards a contract shall maintain a file on each contract and shall include in the file a copy of all written documents required by this section. Written documents required by this section shall be retained by the retirement board for at least 6 years from the date of final payment under the contract.
- e) The retirement board or its procurement officer shall give public notice of the request for proposals and a reasonable time prior to the date for the opening of proposals. The notice shall:
 - (1) indicate where, when and for how long the request for proposal may be obtained;
 - (2) describe the service desired and reserve the right of the retirement board to reject any or all bids;
 - (3) remain posted, for at least 2 weeks, in a conspicuous place in or near the offices of the retirement board until the time specified in the request for proposals; and
 - (4) be published at least once, not less than 2 weeks prior to the time specified for the receipt of proposals, in a newspaper of general circulation within the area served by the retirement board and in the case of a procurement for investment, accounting, actuarial or legal services in a publication of interest to those engaged in providing such services.

The retirement board or its procurement officer shall also place the notice in a publication established by the state secretary for the advertisement of such procurements.

The retirement board or its procurement officer may distribute copies of the notice to prospective bidders and may compile and maintain lists of prospective bidders to which notices may be sent.

- f) The retirement board shall unconditionally accept a proposal without alteration or correction, except as provided in this section. A bidder may correct, modify or withdraw a proposal by written notice received in the office designated in the request for proposals prior to the time and date set for the proposal opening. After proposal opening, a bidder may not change the price or any other provision of the proposal in a manner prejudicial to the interests of the retirement board or fair competition. The retirement board shall waive minor informalities or allow the bidder to correct them. If a mistake and the intended proposal are clearly evident on the face of the proposal document, the procurement officer shall correct the mistake to reflect the intended correct proposal and so notify the bidder in writing and the bidder may not withdraw the proposal. A bidder may withdraw a proposal if a mistake is clearly evident on the face of the proposal document but the intended correct proposal is not similarly evident.
- g) The retirement board shall solicit proposals through a request for proposals. The request for proposals shall include:
 - (1) the time and date for receipt of proposals, the address of the office to which the proposals are to be delivered and the maximum time for proposal acceptance by the retirement board;
 - (2) the purchase description and all evaluation criteria that may be utilized under subsection (h); and
 - (3) all contractual terms and conditions applicable to the procurement; provided, however, that the contract may incorporate by reference a plan submitted by the selected offeror for providing the required services.

The request for proposals may incorporate documents by reference; provided, however, that the request for proposals specifies where prospective offerors may obtain the documents. The retirement board or its procurement officer shall make copies of the request for proposals available to all persons on an equal basis.

- h) The retirement board or its procurement officer shall not open the proposals publicly, but shall open them in the presence of 1 or more witnesses at the time specified in the request for proposals. Notwithstanding section 7 of chapter 4, until the completion of the evaluations or until the time for acceptance specified in the request for proposals, whichever occurs earlier, the contents of the proposals shall remain confidential and shall not

be disclosed to competing offerors. At the opening of proposals the retirement board or its procurement officer shall prepare a register of proposals which shall include the name of each offeror and the number of modifications, if any, received. The register of proposals shall be open for public inspection.

- i) The retirement board or its consultant retained under this chapter shall be responsible for the initial evaluation of the proposals. The retirement board or its consultant retained under this chapter shall prepare initial evaluations based solely on the criteria set forth in the request for proposals. The evaluations shall specify in writing:
 - (1) a rating of each proposal evaluation criteria as highly advantageous, advantageous, not advantageous or unacceptable, and the reasons for the rating;
 - (2) a composite rating for each proposal and the reasons for the rating; and
 - (3) revisions, if any, to each proposed plan for providing the required services which should be obtained by negotiation prior to awarding the contract to the offeror of the proposal.

If the initial evaluation is conducted by a consultant retained under this chapter the consultant shall review all initial evaluations with the retirement board and provide to each member of the retirement board the initial evaluation of each proposal.

- j) The retirement board shall determine the most advantageous proposal from a responsible and responsive offeror taking into consideration price and the evaluation criteria set forth in the request for proposals. The retirement board shall award the contract by written notice to the selected offeror within the time for acceptance specified in the request for proposals. The parties may extend the time for acceptance by mutual agreement. The retirement board may condition an award on successful negotiation of the revisions specified in the evaluation and shall explain in writing the reasons for omitting any revision from a plan incorporated by reference in the contract.
- k)
 - (1) In the event of a competitive process to select an investment service provider the request for proposals shall include mandatory contractual terms and conditions to be incorporated into the contract including provisions:
 - (a) stating that the contractor is a fiduciary with respect to the funds which the contractor invests on behalf of the retirement board;
 - (b) stating that the contractor shall not be indemnified by the retirement board;
 - (c) requiring the contractor to annually inform the commission and the board of any arrangements in oral or in writing, for compensation or other benefit received or expected to be received by the contractor or a related person from others in connection with the contractors services to the retirement board or any other client;
 - (d) requiring the contractor to annually disclose to the commission and the retirement board compensation, in whatever form, paid or expected to be paid, directly or indirectly, by the contractor or a related person to others in relation to the contractors services to the retirement board or any other client; and
 - (e) requiring the contractor to annually disclose to the commission and the retirement board in writing any conflict of interest the contractor may have that could reasonably be expected to impair the contractor's ability to render unbiased and objective services to the retirement board. Other mandatory contractual terms and conditions shall address investment objectives, brokerage practices, proxy voting and tender offer exercise procedures, terms of employment and termination provisions.

The retirement board shall make a preliminary determination of the most advantageous proposal from a responsible and responsive offeror taking into consideration price and the evaluation criteria set forth in the request for proposals.

The retirement board or its duly designated agent, subject to the approval of the retirement board, may negotiate all terms of the contract not deemed mandatory or non-negotiable with the offeror. If, after negotiation with the offeror, the retirement board, in consultation with its duly designated agent and its consultant retained under this chapter, determines that it is in the best interests of the retirement board to not award the contract to that offeror, the retirement board may determine the proposal which is the next most advantageous proposal from a responsible and responsive offeror taking into consideration price and the evaluation criteria set forth in the request for proposals and may negotiate all terms of the contract with the offeror.

The retirement board shall award the contract to the most advantageous proposal from a responsible and responsive offeror taking into consideration price, the evaluated criteria set forth in the request for proposals, and the terms of the negotiated contract. The retirement board shall award the contract by written notice to the selected offeror within the time for acceptance specified in the request for proposals. The time for acceptance may be extended for up to 45 days by mutual agreement between the retirement board and the responsible and responsive offeror offering the most advantageous proposal as determined by the retirement board.

On or before January 1 of each year the contractor shall file the disclosures required with the board and the commission. Failure to file disclosures or the filing of inaccurate disclosures shall subject the contractor to proceedings under section 21A.

- (2) The retirement board may cancel a request for proposals or may reject in whole or in part any and all proposals when the retirement board determines that cancellation or rejection serves the best interests of the system. The retirement board shall state in writing the reason for a cancellation or rejection.
- (3) A person submitting a proposal for the procurement or disposal of services to a retirement board shall certify in writing on the proposal as follows:

The undersigned certifies under penalties of perjury that this proposal has been made and submitted in good faith and without collusion or fraud with any other person. As used in this certification, the word "person" shall mean a natural person, business, partnership, corporation, union, committee, club or other organization, entity or group of individuals.

(Signature of individual submitting bid or proposal)

(Name of business)

- (4) Each retirement board member shall certify to the commission in writing with respect to a procurement subject to this section, as follows:

The undersigned certifies under penalties of perjury that, to the best of the members knowledge and belief, this proposal has been made and submitted in good faith and without collusion or fraud with any other person. As used in this certification, the word "person" shall mean any natural person, business, partnership, corporation, union, committee, club or other organization, entity or group of individuals.

(Signature of individual retirement board member)

—

(Name of retirement board)

- (5) No person shall cause or conspire to cause the splitting or division of a request for proposals, proposal, solicitation or quotation for the purpose of evading a requirement of this section.
- (6) Unless otherwise provided by law and subject to clause (i), a retirement board may enter into a contract for a period of time which serves the best interests of the retirement board; provided, however, that the retirement board shall include in the solicitation the term of the contract and conditions of renewal, extension or purchase, if any.
 - (i) A retirement board shall not award a contract for a term exceeding 7 years, including any renewal, extension or option; provided, however, that a retirement board may participate in a limited partnership, trust or other entity with a term for a period longer than 7 years as part of an investment of system assets.

When a contract is to contain an option for renewal, extension or purchase, the solicitation shall include notice of the provision. The retirement board shall retain sole discretion in exercising the option and no exercise of an option shall be subject to agreement or acceptance by the contractor.

- (ii) The retirement board shall not exercise an option for renewal, extension or purchase unless the retirement board, after reasonable investigation of costs and benefits, has determined in writing that the exercise of the option is more advantageous than alternate means of procuring comparable services.
- (7) All specifications shall be written in a manner which describes the requirements to be met without having the effect of exclusively requiring a proprietary service or procurement from a sole source.
- (8) All contracts shall be in writing and the retirement board shall make no payment for a service rendered prior to the execution of the contract.
 - (i) A contract made in violation of this section shall not be valid and the retirement board shall make no payment under such contract. Minor informalities shall not require invalidation of a contract.
 - (ii) A person who causes or conspires with another to cause a contract to be solicited or awarded in violation this section shall forfeit and pay to the appropriate retirement board not more than \$2,000 for each violation. In addition, the person shall pay double the amount of damages sustained by the retirement board by reason of the violation, together with the costs of any action. If more than 1 person participates in the violation, the damages and costs may be apportioned among them.
 - (iii) The commission or the retirement board may file a civil action in the superior court to enforce clause (ii).