

**Investment Policy Statement  
For All Invested Funds  
Adopted 10/27/21**

**The Investment of General Funds (Including Stabilization and Capital Investment Funds), Special Revenue Funds (Including CPA Funds), Enterprise Funds and Capital Projects Funds.**

**A. Scope**

This section of the policy applies to most town funds such as general funds (including the town's stabilization and capital investment funds), special revenue funds (including the town's CPA funds), enterprise funds, bond proceeds and capital project funds. Section two will deal with trust funds. A separate contributory retirement board is responsible for the investment of the pension funds.

**B. Objectives**

Massachusetts General Laws Chapter 44 §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.

The state law further requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking account of 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.

## C. Investment Instruments

**Note:** Public investments in Massachusetts are not protected through provisions in state law. Therefore, they are largely uncollateralized. Many banking institutions are willing to put up collateral, albeit at a cost to the entity of 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)
  - o 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 (C.D.s), 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 \$100,000 limit. All bank accounts and C.D.'s in one institution are considered in the aggregate to receive the \$100,000 insurance coverage. In some cases banking institutions carry additional insurance, Depository Insurance Fund of Massachusetts (D.I.F.M).
- 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 percent of an institution's assets and no more than 10 percent of a municipality's cash. Their credit worthiness will be tracked by Veribanc, Sheshunoff, 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 three months 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 §55.

#### **D. Diversification**

Diversification shall be interpreted in two ways: in terms of maturity, as well as instrument type and issuer. The diversification concept shall 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 10 percent of the town's investments shall be invested in a single financial institution.

#### **E. Authorization**

The treasurer has authority to invest municipality/district funds, subject to the statutes of the Commonwealth of Massachusetts General Law Chapter 44 §§55,55A and 55B.

#### **F. Ethics**

The treasurer (and any assistant treasurers) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the chief executive officer any material financial interest in financial institutions that do business with the town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the town's investments.

#### **G. Relationship with Financial Institutions**

Financial institutions shall be selected first and foremost with regard to safety. Municipalities/districts shall subscribe to and use one or more of the recognized bank rating services, such as Veribanc or Sheshunoff. Brokers shall be recognized, reputable dealers.

When using the Veribanc rating service, the treasurer may invest in such banks that show a green rating in a particular quarter. If a rating is yellow, the treasurer shall 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 changed to green.

If for a second quarter such rating has not been corrected, the treasurer shall consider removing all funds that are not collateralized, or carries some form of depositors insurance.

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

The treasurer shall 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
- 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
- Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of 10 million dollars).

## **H. Reporting Requirements**

On an annual basis, a report containing the following information will be prepared by the treasurer and distributed to the Selectboard, town Selectboard, director of finance and finance committee. The annual 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 shall demonstrate the degree of compliance with the tenets set forth in the Investment Policy.

## **I. Restrictions**

MGL Chapter 44 §55 set forth the several restrictions that the treasurer must be aware of when making investment selections, as follows:

- A treasurer shall not at any one time have on deposit in a bank or trust company an amount exceeding 60 percent 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 shall 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.

## **J. Legal References**

Massachusetts General Law Chapter 44 §§ 55, 55A and 55B

## **K. Effective date**

This policy will become effective immediately upon passage by the Selectboard and will apply to all investments made after the adoption of this policy.