

TOWN OF YARMOUTH
Investment Policy
(See Separate OPEB Investment Policy)

The primary purpose of this Investment Policy Statement (IPS) is to provide a clear understanding between the Town of Yarmouth, (Town) and Rockland Trust Company (Investment Manager) regarding the objectives, goals, risk tolerance, and investment guidelines established for the Town's Trust Funds.

A. Introduction

Creating an investment policy is the most critical phase of the entire investment process. The effects of a properly drafted vs. ineffective investment policy statement can be more important than the effects of good or poor investment management. To be successful, an investment policy needs to be appropriate for its setting and intended purpose. The policy needs to match the needs of the anticipated requests or periodic disbursements from the financial assets most likely to meet those cash flow needs.

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 Trust Fund.

B. Objective

Massachusetts General Laws, Chapter 44, section 55B requires the Town Treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution.

This section also requires that invested funds are to be placed at the highest possible rate of return reasonably available, taking into account the acceptable levels of safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest reasonable return available 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 preserve 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 attempt to carry out investment activities in a manner that provides for meeting unusual or unexpected cash demands without requiring 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.

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C. Strategy

The Town has Five Categories of Funds to Invest:

- Current Year Appropriations: These are funds needed to meet the requirements of the current fiscal years appropriations. These funds are to be kept in short term cash or cash equivalents, which are highly safe and liquid. Requirements of safety and liquidity take precedence over yield.
- Unappropriated CPA or Affordable Housing Trust Funds (optional!!): The balance of funds if any not appropriated at Town Meeting for the upcoming fiscal year from the CPA and the Affordable Housing Trust can be invested for a period with a length no greater than six months for the first \$500,000 of the balance and up to 1 year for the remainder of the funds. This length takes into consideration the possibility of a Special Town meeting to expend the funds more quickly. While short-term safety of principal continues to be of utmost importance, the need for liquidity is reduced in favor of a better yield over a six-month period. Only the excess over funds required for current years appropriations will be treated as investable in safe instruments are cannot be liquidated in six months. If funds are required prior to the six-month period, funds may be borrowed from the Stabilization fund to be use for the intended purpose. The Stabilization funds will be made whole when appropriate.
- Stabilization Funds: Funds needed for emergency purposes. These funds also require safety and liquidity. Only funds over four million dollars may be invested in longer-term safe instruments to take advantage of better yields. The maturity of these instruments should be no longer than twelve months.
- Other Non OPEB Trust Funds: The bulk of the funds are longer term in nature, used for scholarships, cemetery perpetual care, etc. In the Town's current accounting system Trust funds are established in the "8000" fund code range.
- Escrow and other Accounts: Escrow accounts are being held and must be released when the purpose of the escrow has been concluded. These funds will be treated similar to current years appropriations and will be held in safe and liquid instruments.
- OPEB Trust Funds: Please see the separate OPEB investment policy.

The Investment Manager(s) will utilize the following investment guidelines in terms of asset allocation. This policy is subject to review and amendment at any time.

Cash and cash equivalents: 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.

Alternative Investments: 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.

Fixed Income: To ensure appropriate diversification and to minimize default risk, the trust fund will be invested primarily in high-quality taxable bonds, notes, and other credits through mutual funds,

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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.

Equities: To ensure appropriate diversification, the fund will be invested in high-quality domestic stocks, growth stocks of emerging companies and foreign issues. 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

Adequate diversification and risk controls must be maintained within each sub-category. An appropriate benchmark for the overall asset class of equities, as well as each sub-strategy, will be determined and agreed upon between the Town of Yarmouth and the Investment Manager(s).

The Asset Allocation for the Different Categories of Funds will be as Follows:

Asset Allocation	Stabilization Range Above \$4 Million	Stabilization Target Above \$4 Million	Trust Fund (Non OPEB) Range	Trust Fund (Non OPEB) Target	Operating Funds, Uninvested OPEB & Stabilization Below \$4 Million Range	Operating Funds & Stabilization Below \$4 Million Target
Cash and Cash Equivalents	0- 100%	70%	15-50%	20%	100%	100%
Alternative Investments	0%	0%	0-15%	3%	0%	0%
Fixed Income	0- 40%	30%	35-55%	39%	0%	0%
Equities	0%	0%	40-65%	39%	0%	0%
Total		100%		100%		100%

Ninety percent (90%) of cash and cash equivalents held for the Town of Yarmouth all amounts must either be insured or collateralized.

D. Investment Instruments (for Trust Funds)

Investments shall be limited to those set forth by both MGL Chapter 167 Section 15A through Section 15K, including Chapter 167F Section 3, investments for savings banks, that dictates the allowable investments for municipalities (MA Legal List), and any amendments thereto and shall include:

- 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 maybe sold prior to maturity. **Unlimited amounts (With no limit to the length of maturity from date of purchase)**

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- 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.
- **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: **Unsecured bank deposits at any one bank may not comprise more than 5% of that institution’s assets and no more than 20% of a municipality’s cash.** This percentage may be increased 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 maybe 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. CDs will be purchased with no limit to the length of maturity from the date of purchase and will be reviewed frequently.
- Common and preferred stocks *which are legal for the investment of funds of savings banks under the laws of the commonwealth* (Massachusetts Legal List)
- Investment funds *which are legal for the investment of funds of savings banks under the laws of the commonwealth* (Massachusetts Legal List)
- All other items not separately identified here that are listed in securities *which are legal for the investment of funds of savings banks under the laws of the commonwealth* (Massachusetts Legal List)

E. Specific Risks

- **Credit Risk**

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

The Treasurer will manage credit risk several ways. There will be no limit to the amount of United States Treasury and United States Government Agency obligations.

In regards to fixed-income investments, the Treasurer will only purchase investment grade securities. 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 Treasurer may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund.

- **Custodial Risk**

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

Further, all securities not held directly by the Treasurer, will be held in the Town/City's name and tax identification number by a third party custodian approved by the Treasurer and evidenced by statements 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 Treasurer 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 Treasurer will manage interest rate risk by managing duration in the account.

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F. Standards of Care

The standard of prudence to be used by the Treasurer 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 IPS, and exercising reasonable 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 IPS.

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 liability of the Treasurer for losses due to bankruptcy.

G. 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 Depository Receipts (ADR’s). Funds may be invested in securities convertible into equities or preferred stock.

No funds may be invested in real estate, 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.

- **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.

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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 investments in real estate, private placements, fixed income or interest rate futures, and no engagement in any other specialized fixed income ventures. 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.

The selection of individual fixed income securities shall be at the discretion of the Investment Manager.

H. Ethics

The Treasurer and/or the Assistant Treasurer 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. They shall disclose any material financial interest in financial institutions that do business with the town/city. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the town/city's investments.

I. Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to their financial soundness and stability. Brokers should be recognized, reputable dealers. All cash and securities shall be held in either a bank that is allowable for the deposit of public funds, provided funds on deposit are insured by the Federal Deposit Insurance Corporation (FDIC), or in an Investment Brokerage Account that is insured by the Securities Investor Protection Corporation (SIPC).

The Treasurer shall require any brokerage houses and broker/dealers, wishing to do business with the Town/City, to supply the following information to the Treasurer:

- Audited financial statements
- If acting as a Registered Investment Adviser, Form ADV Part II report
- Proof of FINRA membership
- Errors & Omissions insurance amounting to, at a minimum, the total fair market value of the trust fund's portfolio.
- A statement that the Investment Manager has read the municipality's IPS and will comply with it on an annual basis

J. Reporting Requirements

On a semiannual basis, a report containing the following information will be prepared by the Treasurer and presented to the Town Administrator, Comptroller, and others as appropriate. The report will include the following information, as a minimum requirement:

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- 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 IPS.
- A summary of the income earned on a monthly basis and year-to-date basis shall be reported.
- The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the Town/City's cash position. The report should demonstrate the degree of compliance with the tenets set forth in the IPS.