



Town of Maynard
Treasurer/Collector's Office
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Investment Policy Statement
General Fund & Trust Funds

I The Investment of General Funds, Special Revenue Funds, Enterprise Funds and Capital Project Funds

A. Scope

This section of the policy applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. Section two deals with trust funds and any other funds with special circumstances such as stabilization funds. A separate Contributory Retirement Board is responsible for the investment of the pension funds.

B. Objectives

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

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 of the town'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.
- **Liquidity** is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirement that may be reasonably anticipated.
- **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)
 - 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 **\$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 (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 a municipality'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.
- **Risk Tolerance**
 - **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 an 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.

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 10% 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 Massachusetts General Law Chapter 44 Section 55,55A, & 55B.

F. Ethics

The Treasurer (and 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. 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 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.

If the Town does not purchase this service the Treasurer should request on a quarterly basis from all of the banking institutions that are working with the Town that institutions Veribanc rating.

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 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 changed 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 carries some form of depositors insurance.

If a rating moves to red all money should 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
- 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)

H. Reporting Requirements

On a regular basis (quarterly, semi-annually, or annually), a report containing the following information will be prepared by the Treasurer and distributed to the Chief Executive Officer, Town Manager, and/or Finance Committee, 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.

I. Restrictions

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

- A Treasurer shall not at any one time have on deposit in a bank or trust company an amount exceeding 60% 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, Section 55
 Massachusetts General Law Chapter 44, Section 55A
 Massachusetts General Law Chapter 44; Section 55B

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 and community preservation act funds.

A. Scope

This policy applies to all accounts that are designated as Trust Funds, Stabilization Funds, and Community Preservation Funds. These funds include all accounts that are received as scholarships and perpetual care receipts. In addition the Town has placed both the Capital Stabilization and regular Stabilization money in this account along with their workers compensation and unemployment compensation accounts.

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. Authority

Massachusetts General Law Chapter 44, section 54 pertains to the investment of Trust Funds. All trust funds shall fall under the control of the Town Treasurer unless otherwise provided or directed by the donor.

C. 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 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.

D. Investment Instruments

M.G.L. Chapter 44 section 54 states that money should be deposited into savings bank, trust companies incorporated under the laws of the commonwealth, banking companies incorporated under the laws of the Commonwealth which are members of the Federal Deposit Insurance Corporation, or national banks, or invested in participation units in a combined investment fund under section thirty-eight A of chapter twenty-nine, or in a paid-up shares and accounts of and in co-operative banks, or in shares of savings and loan associations or in share or savings deposits of federal savings and loan associations doing business in the commonwealth.

Additionally the Town may 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 percent of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent of such funds be invested in the stock of any one bank or insurance company. 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 maybe 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.): **\$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.
- **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**. 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 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. 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.**
- 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.**
- **Risk Tolerance**

- **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 an 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.

E. 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 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 liability of the Treasurer for losses due to bankruptcy.

F. 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.

G. Ethics

The Treasurer and 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. The Treasurer shall disclose to the Town Manager 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.

H. Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to safety. The Town subscribes Veribanc a recognized bank rating service. Brokers should be recognized, reputable dealers.

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

- Audited financial statements
- If acting as an Investment Advisor, provide yearly Form ADV
- 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

I. Reporting Requirements

On a regular basis (quarterly, semi-annually, or annually), a report containing the following information will be prepared by the Treasurer and distributed to the Town Manager, and/or Finance Committee, 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 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.

J. Legal References

Massachusetts General Law Chapter 44, Section 54
Massachusetts General Law Chapter 44, Section 55A
Massachusetts General Law Chapter 44, Section 55B

Trust Funds may be co-mingled and invested in any instruments allowed by the Commonwealth of Massachusetts list of Legal Investments Legal issued by the Banking Commissioner each July. 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.

I, Cheryl Kane, Treasurer of the Town of Maynard have reviewed this investment policy and will manage the Towns funds under my control in accordance of this policy.

Cheryl Kane
Treasurer

3/26/14
Date