

Town of Cohasset

Cash and Investment Policy Statement

Approved by Board of Selectmen 05/27/2014

The Investment Policy Statement (IPS) is intended to provide a clear understanding between the Town of Cohasset, "Town", and its investment advisor(s), "Advisor", regarding the objectives, goals, risk tolerance and guidelines established by the Town for short and long term funds. The Norfolk County Retirement Board is responsible for the investment of pension funds entrusted to them and any related policies. The Treasurer is responsible for the investment of Other Post-Employment Benefits (OPEB) reserves and any related policies are covered in a separate document.

ALL FUNDS

A. 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.

B. Objectives

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.

State law further requires that invested funds are to be placed at the highest possible rate of interest 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.

C. 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.

D. RISK

- **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 other investments, the Treasurer will only purchase investment grade securities with a high concentration in securities rated A or better.

The Treasurer may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund.

The Treasurer may place funds in banking institutions as stated in the Investment Instruments Sections of this IPS.

- **Custodial Risk**

The "custodial credit risk" for *deposits* is the risk that, in the event of the failure of a depository financial institution, a municipality 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 municipality will not be able to recover the value of investment or 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 Advisor. 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 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.

- **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.

- **Foreign Currency Risk**

"Foreign currency risk" is the risk that changes in foreign monetary exchange rates will adversely affect the fair value of an investment or a deposit.

The Treasurer will not invest in any instrument exposed to foreign currency risk.

- **Liquidity Risk**

"Liquidity risk" is the risk that that an investment cannot be sold quickly enough to prevent or minimize a loss.

The Treasurer will manage liquidity risk by 1: monitoring short-term liabilities versus short term assets and 2: avoiding high liquidity risk investments entirely.

E. Diversification

Diversification should be interpreted in three 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 unsecured financial institution.

F. Ethics

The Treasurer/Collector, Deputy Treasurer/Collector and Assistant Treasurer/Collector 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 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.

G. Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to their financial soundness and stability. The Treasurer will refer to the rating services, certifications, designations, and memberships including but not limited to those listed below:

- Veribanc Rating Service is an independent company that provides bank ratings on all U.S. federally insured financial institutions.
- Financial Industry Regulatory Authority (FINRA) membership: FINRA an independent, not-for-profit organization authorized by Congress to protect America's investors by making sure the securities industry operates fairly and honestly.
- The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the federal government that insures deposits in banks and thrift institutions for at least \$250,000
- Depositors Insurance Fund (DIF) is a private, industry-sponsored insurance fund that insures all deposits above FDIC limits at Massachusetts-chartered savings banks.
- The Share Insurance Fund (SIF) is a private fund owned by the member co-operative banks, which insures all deposits at co-operative banks in Massachusetts above Federal Deposit Insurance Corporation (FDIC) limits
- Securities Investor Protection Corporation (SIPC) provides up to \$500,000 insurance against a failed member brokerage firm.
- Excess SIPC is additional account protection beyond SIPC's limits provided through private arrangements between securities firms and insurance companies.
- Accredited Investment Fiduciary (AIF) designation represents a thorough knowledge of and ability to apply fiduciary practices.
- Research disclosure reports for brokers, investment advisors, firms and individuals (BrokerCheck on www.FINRA.org)

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 on an annual basis:

- Audited financial statements
- If acting as a Registered Investment Advisor, copy of their Form ADV Part II
- Proof of FINRA membership
- A statement that the Advisor has read the municipality's IPS 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 500 million dollars)

H. Restrictions

Chapter 44, Section 55 sets forth 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 for such excess.
- The Treasurer shall not make a deposit in any bank, trust company or banking company with which (s)he is, or for any time during the three years immediately preceding the date of any such deposit was, associated as an officer or employee.
- 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. Reporting and Review Requirements

On a quarterly basis, a report containing the following information will be prepared by the Treasurer and distributed to the Town Manager. 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 IPS.
- A summary of the income earned on a year-to-date basis.
- A brief statement of general market and economic conditions and other factors that may affect the Town's cash position.
- A demonstration of the degree of compliance with the tenets set forth in the IPS.

This policy will be reviewed at least annually.

J. Legal References

- Massachusetts General Law, Chapter 29, Section 38A; Investment funds; establishment; sale of participation units
- Massachusetts General Law, Chapter 44, Section 54; Investment of trust funds
- Massachusetts General Law, Chapter 44, Section 55; Public funds on deposit; limitations; investments
- Massachusetts General Law, Chapter 44, Section 55A; Liability of depositor for losses due to bankruptcy
- Massachusetts General Law, Chapter 44, Section 55B; Investment of public funds
- Massachusetts General Law, Chapter 167, Section 15A; Annual list of legal investments

K. Definitions

General Funds – All funds of the town and its utilities and enterprises generated through normal operations and borrowing except for Special Revenue Funds, Permanent Trust Funds, Private Purpose Funds, Retirement Funds, and OPEB Funds.

Enterprise Funds – All funds generated through normal operations and borrowing of a municipal enterprise.

Special Revenue Funds – Trust funds where earnings must be used for governmental purposes, such as Stabilization Fund, Pension Reserve Funds, Law Enforcement Trust Funds, Conservation Fund, Unemployment Compensation Funds, Municipal Buildings Trust Fund, Ambulance Receipts Reserve Fund, Health Claims Trust Fund.

Permanent Trust Funds – an ongoing gift to support a specified purpose, program or activity of the municipality. Unless otherwise specified the original principal is non-expendable and the earnings are expendable in keeping with the instructions of the donor. Examples include scholarship, cemetery, and library funds.

Private Purpose Funds – Funds entrusted to the Town where principal and income benefits individuals, private organizations and other government, such as scholarship, cemetery, and library funds. The full principal and income amount is expendable.

Retirement Funds – Assets of the Norfolk County Contributory Retirement System held separately from Town funds and managed under MGL Chapter 32 Retirement Systems and Pensions. Such funds are not subject to this Investment Policy Statement.

Other Post Employment Benefit (OPEB) Funds – Retiree benefit funds held separately pursuant to MGL Chapter 32B Section 20; Other Post-Employment Benefits Liability Trust fund; local option funding schedule. Such funds are not subject to this Investment Policy Statement.

Short Term Funds – Funds that will or may be disbursed within the next twelve (12) months.

Long Term Funds – Funds that are expected to remain invested for at least the next twelve (12) months.

GENERAL FUNDS

A. Scope

This section of the IPS applies only to General Funds, and other short term funds such as Student Activity Funds.

B. Strategy

The Treasurer will invest in accordance with Investment Instrument Section below primarily focusing on safety, then liquidity, then yield.

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 resulting in 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 CD's up to the standard limits 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 (“CDs”)** (Up to one year) which are fully collateralized through a third party agreement: Unlimited Amounts
- **Bank accounts and CDs** (Up to one year) insured by F.D.I.C. up to the coverage limit. All bank accounts and CDs in one institution are considered in the aggregate for the insurance coverage limit. In some cases banking institutions carry additional insurance, such as Depository Insurance Fund (D.I.F.): Amount of excess coverage varies per bank.
- **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: No more than 5% of an institution's assets and no more than 25% of a municipality's cash may be comprised of unsecured bank deposits. 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, i.e. debt service payments. 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 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.

EXPENDABLE TRUST FUNDS

A. Scope

This section of the IPS applies only to Expendable Trust funds including Special Revenue Funds (i.e. Stabilization, Pension Reserve, and Community Preservation) and Private Purpose Funds.

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

B. Strategy

The Investment Manager will utilize the following investment guidelines in terms of asset allocation. This **Income and Growth** allocation, over the long-term, is meant to provide lower volatility and enhance the growth of the portfolio. This policy and allocation is subject to review and amendment at any time. All assets will be invested in accordance with Investment Instrument Section. The portfolio will be reviewed quarterly and rebalanced based on cash flow and market volatility.

0 - 10%

Cash and cash equivalents - normalized at 2%. 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.

60 - 80%

Fixed Income - normalized at 68%. To ensure appropriate diversification and to minimize default risk, the trust fund will be invested primarily in high-quality taxable bonds, notes, and mutual funds. The fixed income allocation exists to provide income and to dampen the volatility from the fund's equity holdings.

20 - 40%

Equities - normalized at 30%. Within the constraints of the MA Legal List, equities will be selected based on company quality and industry diversification. Equity allocation exists to enhance the long term return of the portfolio and lower risk during periods of increasing interest rates.

An appropriate benchmark for the overall asset class of equities, as well as each sub-strategy, will be determined and agreed upon between the Client and the Investment Manager.

C. 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 38 A of Chapter 29, 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 (15%) of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent (1 ½%) 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](#).

In addition to all instruments listed under the GENERAL FUNDS sections, the Treasurer may invest in any of 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** ("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.
- **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.

PERMANENT TRUST FUNDS

A. Scope

This section of the IPS applies only to funds that could be invested long term such as Permanent Trust Funds. The principal amount of Permanent Trust Funds is non-expendable. Income can be expended in accordance with the donor's instructions.

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

B. Strategy

The Investment Manager will utilize the following investment guidelines in terms of asset allocation. This **BALANCED** allocation, over the long-term, is meant to provide lower volatility and enhance the growth of the portfolio. This policy and allocation is subject to review and amendment at any time. All assets will be invested in accordance with the Investment Instruments section. The portfolio will be reviewed quarterly and rebalanced based on cash flow and market volatility.

0 - 10%

Cash and cash equivalents - normalized at 2%. 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.

30 - 50%

Fixed Income - normalized at 43%. To ensure appropriate diversification and to minimize default risk, the trust fund will be invested primarily in high-quality taxable bonds, notes, and mutual funds. The fixed income allocation exists to provide income and to dampen the volatility from the fund's equity holdings.

40 - 70%

Equities - normalized at 55%. Within the constraints of the MA Legal List, equities will be selected based on company quality and industry diversification. Equity allocation exists to enhance the long term return of the portfolio and lower risk during periods of increasing interest rates.

An appropriate benchmark for the overall asset class of equities, as well as each sub-strategy, will be determined and agreed upon between the Client and the Investment Manager.

C. 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 38 A of Chapter 29, 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 (15%) of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent (1 ½%) 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 same instruments listed under EXPENDABLE TRUST FUNDS:

I, Paula M. Linhares, Treasurer of the Town of Cohasset have reviewed this IPS and will manage the Town's funds under my control in accordance with this IPS.

I, Christopher Senior, Town Manager of the Town of Cohasset have reviewed this IPS and have endorsed the tenets set forth therein.

I, _____, as Representative of _____, have reviewed this IPS and will manage the Town's funds under my control in accordance with this IPS.

Paula M. Linhares
Treasurer's Signature

8/18/2014
Date

Paula M. Linhares
Treasurer's Printed Name

Christopher Senior
Town Manager's Signature

8/18/14
Date

Christopher Senior
Town Manager's Printed Name