



## INVESTMENTS

### PURPOSE

To ensure the Town's public funds achieve the highest possible, reasonably available rates of return while following prudent standards associated with safety, liquidity, and yield, this policy establishes investment guidelines and responsibilities. It is further designed to comply with the Governmental Accounting Standards Board's recommendation that each community disclose its key policies affecting cash deposits and other long-term investments to ensure they are managed prudently and not subject to extraordinary risk.

### APPLICABILITY

This policy pertains to short-term operating funds, including general funds, special revenue funds, bond proceeds, capital project funds, and to all accounts designated as long-term (e.g., trusts, stabilization fund, other postemployment benefits trust fund (OPEB), and others the Town may set aside for long-term use, including scholarship and perpetual care funds) It does not pertain to the Town's retirement fund, which is managed by the Middlesex County Retirement Board. This policy applies to the Treasurer/Collector, his or her designee(s), and any advisors or other professionals in their responsibilities for investing and managing Town funds.

### POLICY

The Treasurer/Collector shall invest funds in a manner that meets the Town's daily operating cash flow requirements and conforms to state statutes governing public funds while also adhering to generally accepted diversification, collateralization, and the prudent investment principles regarding safety, liquidity, and yield. The Treasurer/Collector shall separately maintain all long-term accounts so as to individually receive their proportionate interest and any realized and unrealized gains or losses. All trust funds shall fall under the Treasurer/Collector's control unless otherwise directed by the donor.

Through this policy, the Town accepts the allowable investment instruments, diversification principles, and investment restrictions regarding short- and long-term funds allowed by state statutes, updated by [Chapter 218 of the Acts of 2016](#) (Municipal Modernization Act), and as published by the Massachusetts Collectors and Treasurers Association (MCTA). The latest MCTA guidance is included in the Appendix of this policy manual. (Note: Section 94 of Chapter 218 of the Acts of 2016 amends current law to permit investment in certificates of deposit (CDs) for up to 3 years. The MCTA guidance was printed prior to this change and does not reflect the updated law.)

### A. Investment Objectives

To secure the highest return consistent with safety of principal while meeting the Town's daily cash needs, the Treasurer/Collector shall adhere to the following guidelines on safety, liquidity and yield:

- Investments shall be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit and interest rate risks. The Treasurer/Collector will mitigate these risks by prudently selecting and diversifying investment instruments and depository choices.
- The Treasurer/Collector shall ensure the overall investment portfolio remains sufficiently liquid to meet all reasonably anticipated operating requirements. Since all possible cash demands cannot be anticipated, the Treasurer/Collector shall carry out investment activities in a manner that provides for meeting unusual cash demands without liquidating investments and thereby potentially forfeiting accrued interest earnings and losing principal.
- The Treasurer/Collector 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.

### B. Risk Tolerance

The Treasurer/Collector will employ the following strategies to mitigate the range of investment risks:

- The Treasurer/Collector will manage **credit risk** by following the guidelines on investment instruments published by the MCTA and incorporated here by reference. This mitigates the risk that an insurer or other counterparty to an investment will not fulfill its obligations.
- To mitigate **custodial risks** when investing with any financial institution, the Treasurer/Collector will review its financial statements and advisor's background to limit the Town's exposure only to institutions with proven financial strength, capital adequacy, and overall affirmative reputations in the municipal investment industry. The Treasurer/Collector will further ensure that all securities not held directly by the Town will be held in the Town's name and tax identification number by third-party custodians approved by the Treasurer/Collector and evidenced by safekeeping receipts showing individual CUSIP (Committee on Uniform Security Identification Procedures) numbers for each.

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

possession of an outside party.

- The Treasurer/Collector will minimize **the 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. This mitigates the risk associated with the magnitude of a Town's investment in a single issuer.
- The Treasurer/Collector will carefully manage the duration of each investment account to mitigate **interest rate risk**, which is the risk that changes in interest rates will adversely affect an investment's fair market value.
- The Treasurer/Collector will mitigate **foreign currency risk** by limiting investments in any instruments with foreign currency exposures. This minimizes risk that changes in foreign exchange rates will adversely affect an investment deposit or its fair market value.

### C. Ethics

The Treasurer/Collector (and Assistant Treasurer) shall refrain from any personal activity that may conflict with the proper execution of the investment program or that could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Town Administrator 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.

### D. Relationship with Financial Institutions

The Treasurer/Collector shall consider soundness and stability when selecting financial institutions. To do so, the Treasurer/Collector shall subscribe to and use one or more of the recognized bank rating services, such as Veribanc or Sheshunoff, and will work with only recognized, reputable brokers/dealers.

When using the Veribanc rating service, the Treasurer/Collector may invest in banks that show green ratings and will subsequently monitor the ratings quarterly. If a banking institution's rating turns yellow, the Treasurer/Collector will contact the appropriate banking institution and request a written explanation for the rating change and the expected timetable for changing back to green. If the rating is still yellow for a second quarter, the Treasurer/Collector should consider removing all funds that are not collateralized or do not carry 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/Collector shall require any brokerage houses and broker/dealers wishing to do business with the Town to supply the following information:

- Audited financial statements
- Proof of National Association of Security Dealers certification
- Statement that the broker/dealer has read and will comply with this policy
- Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of 10 million dollars)

### E. Reporting Requirements

The Treasurer/Collector will assess investment activity and keep the Select Board, Town Administrator, and Finance Committee apprised of any major changes by providing a report of investment activity annually or more often as needed.

The investment activity report should include the following information at a minimum:

- List of all the individual accounts and securities held at the end of the period
- List of short-term investment portfolios by security type and maturity to ensure compliance with the diversification and maturity guidelines
- Summary of income earned on monthly and year-to-date basis
- Brief statement of general market and economic conditions and other factors that may affect the Town's cash position
- Statement on the degree of compliance with the tenets set forth in this policy

### **REFERENCES**

[M.G.L. c. 44, §54, 55, 55A, 55B](#)

[M.G.L. c. 29 §38A](#)

[M.G.L. c. 167 §15A](#)

[Chapter 218 of the Acts of 2016](#)

Office of the Commissioner of Banks, [List of Legal Investments](#)

MCTA Investment Policy Statements (Appendix)

GASB Statement No. 40, as amended by Statement No. 3, March 2003, [Deposit and Investment Risk Disclosures](#)

Government Finance Officers Association Best Practice, October 2010, [Creating an Investment Policy](#)

### **EFFECTIVE DATE**

This policy was adopted November 2023