

TOWN OF STERLING  
CAPITAL ACCOUNT  
INVESTMENT POLICY STATEMENT

The primary purpose of this Investment Policy Statement (the "IPS") is to provide a clear understanding regarding the Town of Sterling's (the "Town") Capital Account's investment objectives, performance goals, risk tolerance, and investment guidelines established for the long-term Prudent Investor funds.

A. Scope

This IPS applies to all funds that are separately designated as Capital funds. These funds can be invested as a pooled investment portfolio unless otherwise stated. Any additional contributions of these types of funds will also be maintained in the same manner.

B. Authority

The Town of Sterling's Capital Funds shall be invested pursuant to M.G.L. Ch. 203C (The Massachusetts Prudent Investor Act) according to M.G.L. Ch. 86 of the Acts of 2013.

C. Investment Objectives

The investment objectives, in order of priority, are as follows: Income and Capital Appreciation. The long-term target rate of return that has been determined to be appropriate given the stated investment objectives and coupled with the Trust's relative risk tolerance is inflation plus a nominal rate of return as represented by the Consumer Price Index (CPI) + 3.0%. This long-term rate of return represents the desire to grow purchasing power overtime, net of fees and withdrawals.

D. Diversification

The following asset classes can be included in the Capital Account in order to construct a diversified investment portfolio that is both prudent and appropriate given the Capital Account's target rate of return, investment objective, and risk tolerance. The investment parameters and asset allocation definitions that will govern the Investment Manager of the diversified portfolio are included in the addendums to this IPS.

**Equities**

The primary objective of the Capital Account's equity allocation is to provide long-term total returns that are, at a minimum, consistent with appropriate broad market indexes through full market cycles.

The Investment Manager of the diversified portfolio can purchase and manage the equity allocation using individual equities, such as domestic common stocks, preferred stocks, and/or American-Depository Receipts (ADRs).

The Investment Manager can also utilize other investment such as, mutual funds, exchange traded funds, closed-end funds, etc. Total equity exposure is able to include, both domestic and international equities, both

developed and emerging countries and geographic regions, as well as large-, mid-, and small-market capitalization weighted companies. Direct holdings of common stock, preferred stock, and/or ADRs in any one company should not exceed 5% of the market value of the invested portfolio.

Investing directly in real estate, private placements, letter stock, or initial public offerings is strictly prohibited. The Investment Manager of the diversified portfolio shall not engage directly in margin transactions, short sales, or any other leveraged or inverse investment vehicles. Mutual funds, exchange-traded funds, and closed-end funds, however, may engage in margin, leverage, and/or short sales. Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

### **Fixed Income**

The primary objectives of the Capital Account's fixed income allocation are to preserve capital and generate a reasonable level of cash flow. The secondary objective is to provide price returns that exhibit lower correlation to the broad global equity markets in order to reduce the overall risk of the portfolio.

The Investment Manager of the diversified portfolio can purchase and manage the fixed income allocation using individual bonds that are United States Dollar denominated only. Issuer selection can include domestic corporate bonds and any obligations of the United States Government and/or its agencies.

The Investment Manager can also utilize other investment vehicles such as, mutual funds, exchange traded funds, closed-end funds, etc. Total fixed income exposure is able to include, both domestic and international bonds, both developed and emerging countries and geographic regions. Direct holdings of individual corporate bonds in any one company should not exceed 5% of the market value of the invested portfolio; however, this is not applicable to the United States Government and/or its agencies. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds.

Investing directly in real estate, mortgages, collateral or non-collateral loans, private placements, fixed income or interest rate futures, or any other specialized fixed income ventures is strictly prohibited. Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

### **Alternative Investments**

The primary objective of the Capital Account's alternative allocation is to provide long-term capital appreciation that is less correlated to broad global equity and fixed income indexes.

The Investment Manager of the diversified portfolio can only purchase those strategies that are deemed to be alternative through daily-liquid diversified investment vehicles such as, mutual funds, exchange-traded funds, closed-end funds, etc.

Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

### **Cash and Cash Equivalents**

Cash will be maintained to provide periodic cash distributions, if and when necessary. 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.

## 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 Town 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 Town 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.

### *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 Town will review the financial institution'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 of Sterling'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. 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 Town will manage interest rate risk by managing duration, as a measure of interest rate sensitivity, in the Trust.

### *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 Town will, as much as feasible, mitigate foreign currency risk.

### 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. 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 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). If a banking institution is selected as manager, the Town will subscribe to Veribanc<sup>®</sup>, a recognized bank rating service.

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:

- Annual financial statements
- If acting as a Registered Investment Adviser, Form ADV Part II report
- Errors & Omissions insurance amounting to, at a minimum, the total fair market value of the Trust Funds Portfolio.

- A statement that the Advisor has read the Town's IPS and will comply with it on an annual basis
- Annual review all advisors through [www.finra.org](http://www.finra.org): Broker Check

#### I. Reporting Requirements

On a quarterly basis, a report containing the following information will be prepared by the Treasurer and distributed to the Town Manager, 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 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's cash position.
- The report should demonstrate the degree of compliance with the tenets set forth in the IPS.

#### J. Performance Measurement and Evaluation

- The individual and custom benchmarks that will be monitored for performance reporting and analysis of the Trust's portfolio are stated and described in the addendums to this IPS.
- It is expected that the respective asset classes of the Trust's diversified portfolio will outperform their respective benchmarks, net of fees and expenses, on a long term (market cycle) basis.

#### K. Supervision

- The Treasurer will meet with the investment manager(s) as frequently as semi-annually to monitor the performance of the funds and the investment manager(s) compliance with these guidelines. The Treasurer will receive and review portfolio management reports quarterly.
- The Treasurer will review this Investment Policy Statement at least once a year to ensure that it remains appropriate and complete.
- The Treasurer has the option to review the management of funds to consider going out to bid periodically.

#### L. Legal References

- M.G.L. Ch. 6 of the Acts of 1998
- M.G.L. Ch. 86 of the Acts of 2013
- M.G.L. Ch. 203C, Sections 1 through 11

I Anne M. Cervantes Treasurer of the Town of Sterling have reviewed this IPS and will manage the Town's Capital Account under my control in accordance with this IPS.

Anne M Cervantes  
Treasurer Signature

Anne M. Cervantes  
Treasurer Printed Name

10/20/16  
Date

Anne M. Cervantes  
Town Administrator Signature  
*Interim*

Anne M. Cervantes  
Town Administrator Printed Name  
*Interim*

10/20/16  
Date

Gerald Kokernak  
Capital Board Chairperson Signature

Gerald Kokernak  
Capital Board Chairperson Printed Name

Oct 24, 2016  
Date

[Signature]  
Board of Selectmen Chairperson Signature

JOHN KILGOME  
Board of Selectmen Chairperson Printed Name

11/2/16  
Date

[Signature]  
Finance Committee Chairperson Signature

JOSEPH G. SOVA  
Finance Committee Chairperson Printed Name

10/24/2016  
Date

ADDENDUM #1  
INVESTMENT PARAMETERS

The information contained herein shall dictate the long-term asset allocation targets as well as minimum and maximum parameters, when applicable, that will govern the management of the investable portion of the Trust. The methodology for determining specific security and investment strategy definitions is detailed in Addendum #2.

<i>Category</i>	<i>Min</i>	<i>Target</i>	<i>Max</i>
Equity	40%	50%	60%
Domestic Equity	25%	35%	45%
International Equity	5%	15%	25%
Preferred Equity	0%	0%	10%
Fixed Income	25%	35%	45%
Domestic Bonds	15%	25%	35%
International Bonds	0%	10%	20%
Alternatives	5%	15%	25%
Cash	0%	0%	10%
Total	---	100%	---

          Anne M. Cervantes            
Treasurer's Signature

  10/20/16    
Date

ADDENDUM #2  
ASSET ALLOCATION DEFINITIONS

<i>Asset Class</i>	<i>Asset Category</i>	<i>Morningstar Category</i>	
Domestic Equity	Large Cap	Large-Cap Blend	Energy
		Large-Cap Growth	Financial
		Large-Cap Value	Healthcare
		Communications	Industrials
Domestic Equity	Mid Cap	Consumer Cyclical	Technology
		Consumer Defensive	Utilities
		Consumer Staples	Miscellaneous Sector
		Mid-Cap Blend	Mid-Cap Value
Domestic Equity	Small Cap	Mid-Cap Growth	
		Small-Cap Blend	Small-Cap Value
Domestic Equity	Preferred Equity	Small-Cap Growth	
		Preferred Stock	
International Equity	Developed	Foreign Large-Cap Blend	Foreign Small/Mid Blend
		Foreign Large-Cap Growth	Foreign Small/Mid Growth
International Equity	Developed	Foreign Large-Cap Value	Foreign Small/Mid Value
		World Stock	Japan
International Equity	Emerging Markets	Europe	
		Emerging Markets	Pacific/Asia
International Equity	Emerging Markets	India	Pacific/Asia ex-Japan
		Latin America	Miscellaneous Region
International Equity	Emerging Markets	China	
Balanced	Balanced	Aggressive Allocation	World Allocation
		Moderate Allocation	Target Date
		Conservative Allocation	Retirement Income
		Tactical Allocation	
Domestic Bond	Investment Grade	Corporate Bond	Muni National Intermediate
		Inflation Protected Bond	Muni National Long-Term
		Intermediate Gov't Bond	Muni National Short-Term
		Intermediate Term Bond	Muni Single State
Domestic Bond	Investment Grade	Long-Term Bond	Short-Term Bond
		Long-Term Gov't	Short-Term Gov't Bond
		Stable Value	Ultrashort Bond
		Multisector	Multisector Bond
Domestic Bond	High Yield	High-Yield Bond	Bank Loans
		High-Yield Muni	
International Bond	World Bond	World Bond	
	Emerging Markets Bond	Emerging Markets Bond	
Alternatives	Equity Alternatives	Long/Short Equity	Market Neutral
	Bond Alternatives	Private Equity	
	Real Estate	Nontraditional Bond	
		Real Estate	Global Real Estate
	Managed Futures	Real Estate	
Other Alternatives	Managed Futures	Direct Property	
	Other Alternatives	Arbitrage	Currency
		Hedge Funds	Precious Metals
		Multi-Alternative	Commodities
Trading/Tactical		Natural Resources	
		Bear Market	

*Anne M. Cervantes*  
Treasurer's Signature

10/20/16  
Date



ADDENDUM #3  
PERFORMANCE REPORTING

The information contained herein shall dictate the individual and blended benchmark(s), when applicable, to be utilized in monitoring the performance of the investable assets of the Trust.

<i>Category</i>	<i>Index</i>	<i>Percentage</i>
Equity	MSCI AC World Index	50%
Domestic Equity	---	
International Equity	---	
Preferred Equity	---	
Fixed Income	Barclays Capital US Aggregate Bond	35%
Domestic Bonds	---	
International Bonds	---	
Alternatives	HFRI Fund of Funds Composite	15%
Cash	---	0%
Total		100%

Anne M. Cervantes  
Treasurer's Signature

10/20/16  
Date

