

TOWN OF STERLING
GENERAL FUNDS AND LONG-TERM FUNDS
INVESTMENT POLICY STATEMENT

The primary purpose of this Investment Policy Statement (IPS) is to provide a clear understanding regarding the Town of Sterling's (the "Town") General Funds and Long Term Funds objectives, goals, risk tolerance, and investment guidelines established for the investment of town funds.

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

A. Scope

This section of the IPS applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. A separate Contributory Retirement Board, either local or county, is responsible for the investment of the pension funds.

B. Investment Instruments

Note: Public investments in Massachusetts are not protected through provisions in State law.

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. 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, 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: 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 entity in the near future. For example, 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. 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.

C. 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 25% of the Community's investments shall be invested in a single financial institution.

D. Authorization

The Treasurer has authority to invest entity funds, subject to the statutes of the Commonwealth Massachusetts General Law Chapter 44 Section 55,55A, & 55B.

E. Restrictions

Chapter 44, Section 55 set 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, or banking company for such excess.
- The treasurer shall not make a deposit in any bank, trust company or banking company with which 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.

F. 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 Long Term Funds

A. Scope

This section of the IPS applies only to funds that are designated as long term, i.e. trust funds, stabilization funds, cemetery perpetual care, community preservation act and other funds the town may have set aside for long term use.

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. Authority

Massachusetts General Law Chapter 44, section 54 pertains to the investment of Trust Funds, Chapter 40 Section 5B pertains to the investment of Stabilization Funds and, Chapter 44B section 7 pertains to the investments of Community Preservation Funds. All trust funds shall fall under the control of the entity's Treasurer unless otherwise provided or directed by the donor.

If the trust fund results from a gift, grant or bequest from a private donor, and the private donor specifies how the trust shall be invested; the trust fund shall be invested in accordance with the terms of the gift, grant or bequest. If there is a conflict between such donor terms and this Section II, the donor terms shall govern, subject to the general principles of prudence set forth in the Policy.

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 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 Community 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.

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 (“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: 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 Community 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 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.

D. 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 and the associated Massachusetts General Laws.

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.

E. 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.

F. Legal References

Massachusetts General Law Chapter 40, Section 5B
 Massachusetts General Law Chapter 44, Section 54
 Massachusetts General Law Chapter 44, Section 55A

Massachusetts General Law Chapter 44, Section 55B
Massachusetts General Law Chapter 44B, Section 7

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.

III. General Provisions

A. Objective

Massachusetts General Laws, Chapter 44, section 55B requires the Entity's 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 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.

B. Risk Tolerance

- Credit Risk

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

The Community 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 Community will only purchase investment grade securities with a high concentration in securities rated A or better. The Community may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund. The Community may place funds in banking institutions as stated in Section C 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 Community will review the financial institution’s financial statements and the background of the Advisor. The intent of this qualification is to limit the Community’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 Community, will be held in the Community’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 Community 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 Community 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 Community will limit investment in any instrument exposed to foreign currency risk.

C. 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 Town Manager any material financial interest in financial institutions that do business with the Community. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Community's investments.

D. Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to their financial soundness and stability. The Community may subscribe to the Veribanc Rating Service to evaluate the banking institutions with which it chooses to establish relationships. Brokers should be recognized, reputable dealers and members of the Financial Industry Regulatory Authority (FINRA).

In instances where the Community does not purchase the Veribanc Rating Service, the Treasurer should request the banking institution's Veribanc rating from all of the banking institutions that are working with the Community on a quarterly basis.

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 is not green, the Treasurer should consider removing all funds that are not collateralized, or carries some form of depositor's insurance. If a rating moves to red, all money should be immediately collateralized or covered by some form of depositor's 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 on an annual basis:

- Annual Financial statements
- If acting as a Registered Investment Advisor, copy of their most recent Form ADV Part II report
- Errors & Omissions insurance amounting to, at a minimum, the total fair market value of the Trust Fund Portfolio
- A statement that the Advisor has read the municipality's IPS and will comply with it on an annual basis
- Annual review all advisors through www.finra.org: Broker Check

E. 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 entity's cash position.
- The report should demonstrate the degree of compliance with the tenets set forth in the IPS.

I Anne M. Cervantes, Treasurer of the Town of Sterling have reviewed this IPS and will manage the Town's funds 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

[Signature]
Board of Selectmen Chairperson Signature

JOHN HILCOX
Board of Selectmen Chairperson Printed Name

11/2/16
Date

[Signature]
Finance Committee Chairperson Signature

JOSEPH G. SOVA
Finance Committee Chairperson Printed Name

10/24/16
Date