

Town of Marshfield **OPEB Liability Trust** **Investment Policy Statement**

The purpose of this Investment Policy Statement (IPS) is to provide a clear understanding between the Town of Marshfield, Marshfield and Rockland Trust Company (Investment Manager) regarding the objectives, goals, risk tolerance, and investment guidelines established for the OPEB (Other Post-Employment Benefits) Liability Trust Fund.

A. Scope

This IPS applies to all funds that are separately designated as long-term OPEB funds. The account will be established as a pooled investment portfolio unless otherwise stated. Any additional contributions to the account will be maintained in the same manner.

B. Introduction

Creating an investment policy is the most critical phase of the entire investment process. The effects of a properly drafted vs. ineffective investment policy statement can be more important than the effects of good or poor investment management. To be successful, an investment policy needs to be appropriate for its setting and intended purpose.

Under GASB rules, the discount rate should be the long-term expected yield on the investments to be used to pay benefits as they come due. These would be plan investments for a funded plan or a weighted average of expected plan and employer investments for a plan that is partially funded. Investments within an OPEB Trust will closely approximate pension fund-type investment securities.

The policy statement is also designed to withstand "trustee risk" - the possibility that, at some stress point (most frequently an extreme decline in the stock or bond markets), those who oversee the funds may react in a manner detrimental to the long-term health of the Trust Fund.

C. Authority

Massachusetts General Law Chapter 32B, section 20 allows a city, town, district, county or municipal lighting plant to set up a special trust fund, the Other Post Employment Benefits (OPEB) Liability Trust Fund. The governmental unit's treasurer is the custodian of the fund or in the case of a light plant, an officer designated by the board. Investment of fund monies by the custodian must be consistent with the prudent person standard set forth in Massachusetts General Law Chapter 203C for private trust funds. Interest earned on the investment of fund monies belongs to the fund.

D. Objective

OPEB funds are long-term investments. Given a stated discount rate target, this long-term approach enables the City/Town to invest in long-term assets, such as equities, which tend to have high returns over many years but whose price volatility precludes their use by those with

shorter time horizons. By keeping a long-term focus in mind at all times, we hope to weather the periodic bad times.

The City/Town expects this long-term view to provide better results than will be earned by those who pick short-term investments or who liquidate securities during turbulent times. We also expect that equities will serve as a hedge against eroding trust fund values due to long-term inflationary trends.

E. Strategy

The investment allocation will be to appropriate, at The Special Fall Town meeting, after certification and availability of free cash by DOR that the Town places, with Approval of The Town Administrator and recommendation of The Treasurer that 25% of The Local option Meals Tax as stated of the Tax Recapulation sheet, or no amount greater than \$100,000 of the Certified Fiscal year be turned over to the to the OPEB investment fund.

M.G.L. Chapter 203C: Section 1 known as the Massachusetts Prudent Investor Act, states that a trustee shall invest and manage trust assets as a prudent investor would, considering the purposes, terms, and other circumstances of the trust, including those set forth in subsection c. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. A trustee's investment and management decisions respecting individual assets shall be considered in the context of the trust portfolio as a part of an overall investment strategy reasonably suited to the trust.

Section 3:

Among circumstances that a trustee shall consider in investing and managing trust assets are such of the following as are relevant to the trust or its beneficiaries: 1) general economic conditions; 2) the possible effect of inflation or deflation; 3) the expected tax consequences of investment decisions or strategies; 4) the role that each investment or course of action plays within the overall trust portfolio; 5) the expected total return from income and appreciation of capital; 6) other resources of the beneficiaries; 7) needs for liquidity, regularity of income, and preservation or appreciation of capital; and 8) an asset's special relationship or special value, if any, to the purposes of the trust or to one of the beneficiaries.

A trustee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets. A trustee may invest in any kind of property or type of investment consistent with the standards of this chapter. A trustee, who has special skills or expertise, shall have a duty to use such special skills or expertise.

Section 4:

A trustee shall reasonably diversify the investments of the trust unless, under the circumstances, it is prudent not to do so.

G. Specific Risks

- **Credit Risk**

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

The Investment Manager will purchase investment grade securities with a high concentration in securities rated A or better at time of purchase. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds. There will be no limit to the amount of United States Treasury and United States Government Agency obligations.

- **Custodial Risk**

The custodial credit 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 will not be able to recover collateral securities that are in the possession of an outside party.

The Treasurer will engage only those institutions with proven financial strength, capital adequacy, and overall affirmative reputation in the municipal industry.

- **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a town's investment in a single issuer. The Investment Manager will diversify the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. 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 Investment Manager will manage interest rate risk by managing duration in the account.

H. Standards of Care

The standard of prudence to be used shall be the "Prudent Person" standard and shall be applied in the context of managing an overall portfolio. 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.

I. Diversification

Equity

The equity portion of the portfolio should consist of a diversified mix of investments (individual equities, mutual funds and exchange-traded funds) suitable to achieve the objective of capital appreciation. Individual equity holdings in any one company should not exceed 5% of the market value of the portfolio.

No funds may be invested in direct real estate, private placements or letter stock. The Investment Manager shall not engage in margin transactions, short sales or any other such

specialized investment vehicles. The manager of a specific mutual fund and exchange-traded fund, however, may engage in short sales as part of an overall investment strategy.

Fixed Income

Investments in fixed income securities will be made principally for income and capital preservation. Selection should be made from liquid, investment grade corporate debt, convertible debt and obligations of the United States Government and its agencies. Lower-quality investments may only be held through diversified vehicles such as mutual funds or exchange-traded funds.

Securities of a single corporate issuer (excluding the United States Government and its Agencies) will not exceed 5% of the portfolio market value.

No more than 20% of the portfolio's total market value will be invested in convertible securities.

Individual corporate debt and preferred stock issues must be rated BBB or better – at the time of purchase -, as defined by Moody's and/or Standard & Poor's Rating Agency.

There shall be no investments in fixed income or interest rate futures, and no engagement in any other specialized fixed income ventures. The manager of a specific mutual fund and exchange-traded fund, however, may engage in fixed income and interest rate futures as part of an overall investment strategy.

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.

J. Performance Measurement and Evaluation

- The Treasurer will meet with the Investment Manager at least annually to monitor the performance of the Fund and the compliance with these guidelines.
- The Fund's performance will be measured by comparison with the stated objectives in comparison to respective benchmarks. To monitor the intermediate term performance of the Fund, the Treasurer will compare the Investment Manager's results to a blended benchmark to be determined in conjunction with the Investment Manager.
- Rebalancing of the portfolios should happen at least annually or more frequently if appropriate.
- The Investment Policy Statement will be reviewed at least every 3 years to ensure that it remains appropriate and complete

I, Patrick D. Dello Russo Jr, Treasurer of the Town of Marshfield, have reviewed this IPS and will manage the Town of Marshfield OPEB Liability Trust Fund under my control in accordance with this IPS.

, Treasurer

Date

I, Brian Callow, Vice President and as Representative of Rockland Trust Company, have reviewed this IPS and will manage the Town of Marshfield's OPEB Liability Trust Fund under my control in accordance with this IPS.

Rockland Trust Company

By:

Date

Confirmed: *(if applicable)*

(Town Clerk, Selectman, Town Council)

Date