



TOWN OF MARSHFIELD FINANCIAL OFFICIALS
870 MORaine STREET
MARSHFIELD MA 02050

RE: To provide an update on the Town's Investment Portfolio

Michael,

The points below describe the performance of the securities that comprise the MA Legal List in investments which the Stabilization Portfolio invests in. There are also comparisons made versus the OPEB Portfolio.

OPEB:

- The OPEB Portfolio is 55% stock / 45% bonds or invested to a Balanced Objective. By legal statute, the portfolio can be invested to the Prudent Investor rule or the full investment universe.
- The OPEB portfolio contains more stock than Bond given the long term investment horizon and lack of any potential withdrawals for decades. As discussed, this Portfolio has performed in line with expectations. (I.E. The likelihood of the Town drawing down on the OPEB reserve to pay down Health insurance cost for operational purposes is unlikely

STABILIZATION:

- The Stabilization funds are invested in 70% bonds / 30% stocks. The plan is to grow these assets in a more conservative manner.
- Due to Massachusetts General Law this Portfolio is to be invested in compliance with that MA Legal List of Investments. The MA Legal List essentially allows investment in 22 listed stocks, US government securities and a limited number of corporate bonds.
- A short term risk to conservative bond portfolios is rising interest rates. The important point is that it is short term. The bond prices dip as the yields increase and the Portfolio then compounds at the higher rates. It is the definition of "short term pain for long term gain."
- Over the fiscal year interest rates for bonds from 1 to 5 years in maturity rose over a full percent. Bond prices and interest rates move inversely, so the bond values declined.

- The remaining 30% of the Stabilization Portfolio is held in the MA Legal List compliant stocks. Unfortunately, the stocks on the MA Legal List stocks underperformed the S&P 500 or stock market fairly dramatically over the fiscal year.
- The S&P 500 or stock market performed well over the period lead by technology, energy, financials and consumer discretionary stocks. These four sectors have little exposure in the MA Legal List. Thus, the Legal List & Portfolio did not participate in much of the market's upside.
- Technology makes up 26% of the S&P 500 and the MA LL has only one tech stock - Hewlett-Packard. If the tech sector slows, the MA Legal List stocks should perform quite well relative to that market.
- The MA LL has zero energy exposure. This was a tremendous help when oil prices dropped to \$27 a barrel in 2016, but problematic as it has risen back to the \$70 range.
- Another important point is that consumer staple stocks make up the largest portion of the MA Legal List and normally help protect this MA LL portfolios when the market drop. This sector has languished versus the S&P index. As have utility stocks.
- Thus, the very sectors that normally cause outperformance during down markets / concerning times has acted as a large drag on performance.
- The portfolio is constructed with high quality assets in compliance with the MA Legal List of Investments. The bonds will continue to produce income and the higher rates will help over the longer term. As previously stated, the short term pain experienced by the portfolio due to interest rate movements now will increase the value of the portfolio over the longer terms

The purpose of proposed policy is to invest the liquid assets of the Town in the market place in accordance with MGL CH. 44 §55b.

- The Treasurer should always have diversified interest bearing accounts
- This policy sets forth a guideline that declares we do not over react to market volatility.
- This policy is one that is supportive of the Town Achieving it's goal of a AAA bond rating

Patrick D. Dello Russo Jr.

Treasurer-Collector