

TOWN OF WELLESLEY INVESTMENT POLICY

(revised 5/14/12)

Background

The Town of Wellesley is responsible for the management of various Town funds for the liquidity needs for Town operations and for the maintenance of reserves for future uses.

Policy Statement

The Town's Investment Policy is intended to set forth investment objectives, establish guidelines and define responsibilities for the investment of the Town Funds. The Town Funds are to be invested in a manner which will meet the daily cash flow demands of the Town, conform to state statutes and Town Bylaws governing the investment of public funds and provide maximum security of such funds, taking into account the three principles of municipal investment policy: safety, liquidity and yield. This investment policy will be shared with all financial institutions that the Town utilizes for non-retirement banking and investment activities.

Definitions

- A. **Operating Funds:** All funds of the Town and its utilities generated through normal operations and borrowing except for the Funds set forth below;
- B. **Reserve Funds:** All Town funds held separately in accounts for future uses, such as the Stabilization, Unemployment, Workers' Compensation, and Liability Insurance Accounts as well as any new account established by the appropriate public authority and designated as a Reserve Fund.
- C. **Trust Funds:** Gifts and bequests made to the Town for a specific long term purpose. The gift or bequest must be accepted by the appropriate public authority pursuant to Town Bylaw Article 5.6 and specifically identified as a Trust Fund.
- D. **Retirement Funds:** Assets of the Wellesley Contributory Retirement System held separately from Town funds and managed under MGL c. 32. Such funds are not subject to this Investment Policy.
- E. **OPEB Funds:** Retiree Healthcare funds ("OPEB") held separately pursuant to Acts of 2004, c. 88, which are invested under the guidance of the Town's Retirement Board. Such Funds are not subject to this Investment Policy.
- F. **Treasurer:** The person appointed under the provisions of Town Bylaw Article 19.43 and, in his/her absence, the person designated by the Treasurer to serve as the Assistant Treasurer/Collector.
- G. **Fixed Income Securities:** Bonds, Notes and Certificates of Deposit (CD's), with a maturity of greater than one year but not to exceed ten years and are legal for investment by Massachusetts municipalities. This can include Equity Linked Certificates of Deposit, as long as all CD's carry current applicable FDIC limits and are represented by an FDIC number. The average maturity for the Fixed Income portfolio at any time shall not exceed five years

Objective

The objective of this Investment Policy is to set general guidelines for the investment of the Town of Wellesley's available Operating, Reserve and Trust Funds in a manner that ensures the following:

- A. **Operating Funds:** First and foremost, preserving capital of the overall portfolio through diversification and prudent selection of investment instruments; maintaining sufficient liquidity to meet all operating and debt

service requirements; and attaining a market average rate of return comparable to portfolios of similar investment mix and maturities, throughout budgetary and economic cycles taking into account the legal requirements detailed below and the cash flow characteristics of the portfolio

- B. **Reserve Funds:** Continued emphasis on preserving capital and maintaining liquidity, while attaining a slightly better rate of return than that of Operating Funds as a result of more flexible investment opportunities provided by state law
- C. **Trust Funds:** Although the emphasis on safety remains, Trust Funds have a longer investment horizon which provides for more flexible investment opportunities through the possible use of Fixed Income Securities and equities provided by state law.

Responsibilities

- The Board of Selectmen has the responsibility to set the guidelines and criteria for investments of Town Funds and to establish adequate procedures for issuing reports on investment activities. (Town Bylaw Article 19.5.3.)
- The Treasurer has responsibility for the investment of Town Funds (Town Bylaw Article 19.43).
- The Treasurer shall make all decisions regarding the management of the investment program; however, if the Treasurer wishes to make a decision to deviate from the terms of this policy, the Treasurer shall obtain prior written approval from the Board of Selectmen.
- The Treasurer and those responsible to the Treasurer shall be bonded as required by law, and insured for their fiduciary responsibilities to limits set by the Board of Selectmen on the advice of the Town's insurance consultant.
- The Treasurer shall be responsible for monitoring changes to the General Laws governing the type and method of investing Town funds referred to in this Investment Policy.

Statutory Authority

- A. **Operating Funds:** MGL c. 44, § 55B requires that all funds of the Town which are not required to be kept liquid for purposes of immediate distribution, shall be invested at the highest possible interest rate reasonably available, taking into account the three principles of municipal investment policy: safety; liquidity; and yield. MGL c. 44, § 55 limits the investment options which are legal for municipal Treasurers to the following:
 1. Certificates of Deposit with a maximum maturity of one year or less as defined in MGL c. § 55 issued by commercial banks, mutual savings banks, savings and loans and cooperative banks;
 2. Money Market Deposit Accounts with commercial banks, mutual savings banks, savings and loans and cooperative banks;
 3. Repurchase Agreements with a maturity of less than 90 days, issued by a bank and secured by U.S. Government or Agency obligations;
 4. Pooled Investment Funds operated under the authority of the State Treasurer;
 5. U.S. Treasury instruments or U.S. Government Agency obligations with a maximum maturity as defined in MGL C. 44, § 55;
 6. Money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended, operated in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulations, that have received the highest possible rating from at least one nationally recognized statistical rating organization.
- B. **Reserve Funds:** The following are the legal requirements for investment of the Reserve Funds:

1. Stabilization Fund: MGL c. 40, § 5B provides for investment in savings banks, co-operative banks or trust companies organized under the laws of the Commonwealth, or invest in securities which are legal for the investment of funds of savings banks under the laws of the Commonwealth or in federal savings and loans associations situated in the Commonwealth.
2. Unemployment Compensation Fund: MGL c. 40, § 5E provides for investment in such manner as may be legal for other city, town or district funds under the laws of the Commonwealth including, without limitation, the Massachusetts Municipal Depository Trust.
3. Workers Compensation Fund: MGL c. 40, § 13A provides that the Fund shall be under the management of the "commissioners of trust funds" but there is no statutory investment requirement set forth.
4. Liability Insurance Fund: The Town of Wellesley's special act, creating the Liability Insurance Fund (Acts of 1987, c. 751), provides that the investment of such Fund shall be in such a manner as may be legal for the investment of municipal trust funds (see C. below).

C. **Trust Funds**: MGL c. 44, § 54 provides that the funds shall be deposited into savings banks, trust companies incorporated under the laws of the Commonwealth which are members of the Federal Deposit Insurance Corporation ("FDIC"); national banks; or invested in participation units in a combined investment fund under MGL c. 29, § 38A, in paid-up shares and accounts of and in co-operative banks; in shares of savings and loan associations; or in shares of savings deposits of federal savings and loan associations doing business in the Commonwealth. In addition, such funds may be invested 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 (1.5%) of such funds be invested in the stock of any one bank or insurance company.

Investment Guidelines

A. **Operating Funds**

1. Diversification: The Town of Wellesley will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and the State Treasurer's investment pools, no more than 25% of the Town's total investment portfolio may be invested in a single security type referenced in the following Sections 2 through 7 or with a single financial institution, unless that investment category carries full FDIC insurance or that single financial institution's investments are fully collateralized.
2. Selection of Banks for Investments: It is the responsibility of the Treasurer to assess the financial condition of the banks in which the Town of Wellesley invests by reviewing bank rating guides and banks' Reports of Financial Condition and by periodic discussions with the institutions about their financial condition. Primary emphasis will be placed on a bank's capital adequacy, loan quality and profitability before determining suitability for Town investments. MGL c. 44, § 55 specifies that a municipality may not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of that institution and a total of all the municipality's accounts must not exceed 60% of the bank's net equity. For purposes of this policy, the Town of Wellesley will not have on deposit amounts exceeding 10% of capital and surplus and 10% of net equity, unless those deposit carry full FDIC insurance or are fully collateralized. In addition, it is the Town's policy that at no time shall any single bank or bank holding company hold in excess of 25% of the cash balance under the control of the Treasurer for more than three consecutive days.

3. Investment Size and Collateralization: The size of the Town's investment portfolio precludes the use of only FDIC insured products. Efforts will be made to maximize FDIC insurance protection and periodic modifications to this policy may be made to take advantage of changing FDIC regulations. Massachusetts has no legal requirement for collateralizing public deposits. Until adoption of collateralization legislation, the Treasurer will provide as much security as possible for the Town of Wellesley's bank investments through the prudent selection process described above.
4. Utilization of State Treasurer's Investment Pools: The Massachusetts Municipal Depository Trust (MMDT) combines the funds of Massachusetts public units and invests on their behalf in short-term instruments of U.S. Treasury and Government Agencies and large corporations and financial institutions, thus offering investors, such as the Town of Wellesley, the opportunity to earn higher yields through a professionally managed fund. Investments in these pools are not a deposit in a bank and are neither insured nor guaranteed by the Commonwealth of Massachusetts, the FDIC, or the U.S. Government or any of its agencies. Although the Cash Portfolio is managed to seek to maintain a stable \$1.00 unit price, there is no guarantee it will be able to do so and a loss of principal is possible with these pools. Assets will be invested only in "tier 1" and "tier 2" credit quality securities as defined by the guidelines in SEC rule 2a-7. This degree of safety is recognized by the Government Accounting Standards Board in its qualification of state investment pools in financial statements.
The Town of Wellesley will continue to utilize this highly liquid, comparatively safe pool as an integral part of its overall investment strategy.
5. Third Party Custody: For administrative ease, custody accounts may be established in the name of the Town of Wellesley in order to receive and hold book entry U.S. Treasury and Government Agency securities purchased by the Town from commercial banks, collateral for any repurchase agreements to which the Town is party, and collateral against any bank investments the Town may require.
6. U.S. Treasury and Government Agency Securities: The Town will utilize these securities, with a maturity of one year or less, for reasons of diversification and security. Treasury securities will be purchased either at auction or through the secondary market. Agency securities will only be purchased through registered dealers.
7. Repurchase Agreements: Repurchase agreements may be used on a limited basis for durations of 90 days or less. Except in the case of overnight repurchase agreements used for the investment of available float in one of the Town's operating accounts, any agreement entered into by the Town will be on a delivery versus payment basis and in the format of the Public Securities Association Master Repurchase Agreement. Collateral will be in the form of U.S. Treasury or Government Agency securities delivered to the Town's third party custodian.

B. Reserve Funds

1. The Investment Guidelines and Options for Operating Funds also are applicable to the investment of Reserve Funds.
2. The investment options available for Reserve Funds also will include such securities as are legal for the investment of funds of savings banks under the laws of the Commonwealth. However, unlike trust funds, Reserve Funds have a much higher liquidity requirement and a greater need for preservation of principal thus precluding the use of equities that would normally be permitted under statutory authority. The investment portfolio for Reserve Funds shall not consist of more than 75% in Fixed Income Securities. All securities must maintain active secondary markets, and hence be able to liquidate within five business days.

C. **Trust Funds**

1. The Investment Guidelines and Options for Reserve Funds are also applicable to the investment of Trust Funds.
2. The investment options available for Trust Funds also will include those options set forth in MGL c. 44, §54, allowing a municipality to 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 no more than fifteen percent (15%) of such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent (1.5%) of such funds be invested in the stock of any one bank or insurance company.

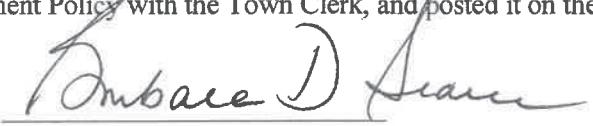
Review And Reporting

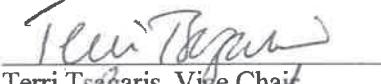
A. **Review:** To comply with Town Bylaw Article 19.5.3 this policy shall be reviewed by the Board of Selectmen every three years.

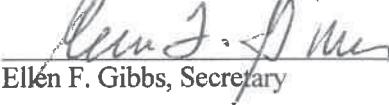
B. **Reporting by the Treasurer:**

1. Cash Analysis: The Treasurer shall prepare a Cash Analysis report monthly for the Finance Director and Executive Director in a form substantially as attached hereto and the Treasurer will submit it to the Board of Selectmen on a quarterly basis for its review.
2. Trust/Reserve Fund Report: The Treasurer shall prepare quarterly for the Finance Director and Executive Director the Trust/Reserve Fund Report in a form substantially as attached hereto and the Treasurer will submit it to the Board of Selectmen on an annual basis for its review.

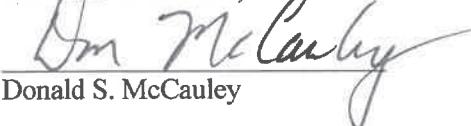
The Board of Selectmen voted to adopt the within Investment Policy Statement at its meeting held on May 1, 2012. The Board of Selectmen filed the within Investment Policy with the Town Clerk, and posted it on the Town website on May 15, 2012.


Barbara D. Searle, Chair


Terri Tsagaris, Vice Chair


Ellen F. Gibbs, Secretary


Katherine L. Babson, Jr.


Donald S. McCauley