



## Town of Littleton/Littleton Light Department Other Post Employment Benefits (OPEB) Trust – Joint Investment Policy

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### **Purpose**

This investment policy is intended to provide guidelines for the management and investment of all Town funds deposited into the Other Post Employment Benefits Trust (OPEB) under the control of the Town Treasurer and Assistant Treasurer.

### **Scope**

This policy statement applies to all funds that are separately designated as long-term OPEB funds. The account will be established as a separate investment portfolio, unless otherwise stated, due to the differences in investment objectives between this portfolio and those covered in the Town's Investment Policy or the Trust Investment Policy. Any additional contributions to the account will be maintained in the same manner.

### **Background**

Funds deposited to this Trust are held and invested for the purpose of meeting the Town's obligations under its OPEB defined benefit program, currently consisting of postemployment health and life insurance benefits. The obligation is calculated by an actuarial study performed in accordance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45). Investments held in this Trust should approximate the rate of return, or discount rate, targeted by the actuarial study over the long-term. Under GASB 45, the discount rate should be the long term expected yield on the investments set aside in the Trust to be used to pay future benefits as they come due. Given the long term nature of the OPEB, investments in the Trust will closely approximate pension fund-type investment securities, defined later in this policy.

### **Authorization**

Massachusetts General Law Chapter 32B, section 20 allows the Town and the Municipal Light Department to set up a special trust fund, the OPEB Liability Trust Fund. The Treasurer is the custodian of the fund for the Town and in the case of the Municipal Light Department has been designated as the custodian by the Board of Light Commissioners.

Investment of fund monies by the Treasurer 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.

As custodian, all funds deposited into the OPEB shall be maintained in the name of the "Town of Littleton" and shall list the Town Treasurer as the primary signatory and the Assistant Treasurer as a secondary

signatory. These two signatories shall be the only officers authorized to withdraw funds from any such account.

The Town Treasurer may appoint an Investment Advisor who will manage the portfolio according to the provisions of this policy.

## **Objectives**

Massachusetts General Laws, Chapter 203C, section 3 describes the circumstances that the custodian shall consider when investing funds under the prudent investment rule. The applicable items are as follows:

- (a) 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.
- (b) 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.
- (c) 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 role that each investment or course of action plays within the overall trust portfolio;
  - (4) the expected total return from income and the appreciation of capital;
  - (5) needs for liquidity, regularity of income, and preservation or appreciation of capital;
  - and
  - (6) an asset's special relationship or special value, if any, to the purposes of the trust or to one of the beneficiaries.
- (d) A trustee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets.
- (e) A trustee may invest in any kind of property or type of investment consistent with the standards of this policy statement.
- (f) A trustee who has special skills or expertise, or is named trustee in reliance upon the trustee's representation that the trustee has such special skills or expertise, shall have a duty to use such special skills or expertise.

## **Strategy**

Funds held in the OPEB Trust will be invested using the following guidelines in terms of asset allocation. This policy section is subject to review and amendment at any time by the Treasurer who may approve

short-term variations to the stated percentages below. Permanent changes to these percentages must be ratified by the Board of Selectmen.

0 – 10% Cash and cash equivalents – normalized at 5%. Cash will be maintained to provide periodic cash distributions. Cash will not normally be held as a strategic investment asset, although cash may be allowed to build to the maximum level in times of market uncertainty.

0 – 20% Alternative Investments – normalized at 10%. Alternative investment strategies may only be utilized via open-end mutual funds (see Investment Company Act of 1940). Alternative investments are intended to provide return characteristics separate and distinct from both equity and fixed income securities. Historically, alternative investments have shown low to moderate correlation to equity and fixed income investment returns. Consequently, alternative investments would be utilized in an effort to reduce the overall volatility of returns within the portfolio without increasing overall portfolio risk. Only the following strategies are permitted: market-neutral, absolute return, global macro, long/short, commodity, managed futures and arbitrage.

30% – 50% Fixed Income - normalized at 35%. To ensure appropriate diversification and to minimize default risk, the Trust Fund will invest primarily in high-quality taxable bonds, notes, and other credits through mutual funds, exchange-traded funds (ETFs) or individual bonds. Lower-quality bonds may be held through mutual fund or ETF ownership. The overall goal of the fixed-income portion of the portfolio is to provide returns competitive with, and price volatility similar to, the Barclays (Lehman Brothers) Aggregate Bond Index. The fixed income allocation exists to provide income and to dampen the volatility from the fund's equity holdings.

30% – 70% Equities – normalized at 50%. The sub-categories and their respective allocation ranges are as follows:

- 1) 40%-60% - normalized at 50% (of the equity allocation) in U.S. Large Cap;
- 2) 15%-25% - normalized at 20% - in International Developed Countries (all markets caps);
- 3) 10%-15% - normalized at 12.5% - in U.S. Mid Cap;
- 4) 5%-15% - normalized at 10% - in U.S. Small Cap;
- 5) 5%-10% - normalized at 7.5% - in International Emerging Markets.

Adequate diversification and risk controls must be maintained within each sub-category. An appropriate benchmark for the overall asset class of equities, as well as each sub-strategy, will be determined and agreed upon between the Town and the Investment Manager(s), if utilized.

### **Investment Instruments**

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.
- Money market mutual funds.
- Fixed-income mutual funds and exchange-traded funds (ETFs).
- Preferred stock: securities must be investment grade at the time of purchase.
- Common stock.
- Equity mutual funds and exchange-traded funds (ETFs).
- Alternative investment-oriented mutual funds. Leveraged (i.e. 2x or 3x) investment strategies are not permitted.

## **Diversification**

### **Equities**

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.

Equity holdings may be selected from the New York and American Stock Exchange or the NASDAQ markets. Securities may be in U.S. companies, or foreign companies purchased as American Depository Receipts (ADR’s). Funds may be invested in securities convertible into equities or preferred stock.

No funds may be invested in real estate, private placements or letter stock, the Investment Advisor 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. The selection of individual equities will be at the discretion of the Investment Advisor.

### **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. Investments in U.S. Government debt will not include agencies

that are not permitted under Massachusetts General Laws (i.e. Sallie Mae (SLMA) or Ginnie Mae (GNMA) obligations).

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, as defined by Moody's and/or Standard & Poor's Rating Agency.

There shall be no investments in real estate, mortgages, collateral or non-collateral loans, private placements, 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. The selection of individual fixed income securities shall be at the discretion of the Investment Advisor

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.

## **Risk**

The Treasurer will adhere to the following risk guidelines for all investments of Town funds:

***Custodial Credit Risk*** - The custodial credit risk for deposits is the risk that, in the event of a failure of a depository institution, the Town would not be able to recover deposits or the securities used to collateralize the deposits from the institution or a third party. For investments, the risk occurs if the Town is unable to recover the value of an investment or collateral in possession of a third party.

The Treasurer will review each financial institution conducting business with the Town on a quarterly basis (*see Diversification section of policy*).

All securities not held directly by the Town will be held in the Town's name and tax identification number by a third-party custodian approved by the Treasurer. The Treasurer will receive monthly safekeeping reports from the custodian as well as safekeeping receipts detailing each transaction from the account.

***Interest Rate Risk*** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. OPEB funds are long-term investments. Given a stated discount rate target, this long-term approach enables the Town to purchase long-term assets which tend to have high returns over many years but whose price volatility precludes their use by those with shorter time horizons. This price volatility and resulting market value fluctuations are of secondary importance unless individual assets have permanently impaired values and must be liquidated to preserve remaining value. Varying the duration of investments within the portfolio

will help manage the effects of interest rate risk, however, the Town understands the longer-term nature of these funds and will design a portfolio consistent with the long term health of the Trust.

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

The Town will minimize credit risk by diversifying the investment portfolio so that the impact of potential losses from any one issuer will be minimized. Specific investment ratings and/or issuer limitations are addressed in the *Investment Instrument* sections of this policy.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer.

The Town will minimize any 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. Specific investment amounts and/or issuer limitations are addressed in the *Investment Instrument* sections of this policy.

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or deposit.

The Town will not directly invest in any instrument exposed to foreign currency risk. This risk, however, may be inherent in some securities contained within the portfolio such as mutual funds or ETFs.

## **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 their ability to make impartial investment decisions. The Treasurer and Assistant Treasurer shall disclose, at least annually, to the Town Clerk any material personal depository relationship in financial institutions that do business with the Town as well as any material personal financial investment positions or loans with these same institutions. (*see Exhibit A*)

## **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®, 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:

- Audited financial statements
- If acting as a Registered Investment Adviser, Form ADV Part II report
- Proof of FINRA membership
- 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 municipality's IPS and will comply with it on an annual basis

### **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 investment policy and exercising 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 policy.

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 Massachusetts General Laws Chapter 44 Section 55A which refers to the liability of the Treasurer for losses due to bankruptcy.

### **Performance Measurement and Evaluation**

- The Funds performance will be measured by comparison with their stated objectives in comparison to their respective benchmarks.
- To monitor the intermediate term performance of the Funds, the Treasurer will compare the investment manager's results to a blended benchmark, to be determined in conjunction with the Investment Manager(s).
- Rebalancing of the portfolios should happen at least annually or more frequently if appropriate and approved by the Treasurer.
- It is expected that the performance figures of the Trust Fund, and any sub-strategy, will outperform their respective benchmarks, net of fees, on a long term (business cycle) basis.

### **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 monthly.
- The Treasurer will provide a report to the Finance Director and Finance Committee on a quarterly basis detailing any exceptions to this policy which may exist within the portfolio noting the reason for the exception and the actions to be taken to correct the exception, if any.

- The Treasurer has the option to put the management of funds out for bid periodically, and shall consider such option not less frequently than every five years, through a request for information, request for proposal, or similar process as required by law or town policy.

**Policy Review**

This policy will be reviewed annually by the Treasurer to ensure that it remains appropriate and complete. Any changes to this policy must be approved by vote of the Board of Selectmen and Board of Light Commissioners.



*Treasurer and Assistant Treasurer  
Annual Disclosure to Town Clerk*

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This annual report to the Town Clerk is intended to disclose any personal investments or lending relationships with financial institutions doing business with the Town of Littleton. For this purpose, significant relationships are defined as stock holdings with a market value greater than \$100,000 or lending or deposit relationships greater than \$250,000.

Employee Name: \_\_\_\_\_

I currently hold an equity interest in the following institutions doing business with the Town with a total market value greater than \$100,000.

\_\_\_\_\_  
\_\_\_\_\_

I currently have a lending relationship with the following institutions doing business with the Town with an outstanding balance greater than \$250,000.

\_\_\_\_\_  
\_\_\_\_\_

I currently have a deposit relationship with the following institutions doing business with the Town with a total balance greater than \$250,000.

\_\_\_\_\_  
\_\_\_\_\_

Signed: \_\_\_\_\_

Dated: \_\_\_\_\_