



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

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 the OPEB portfolio (the 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.

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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 asset allocation guidelines outlined in Addendum #1. The asset allocation addendum is subject to review and amendment at any time by the Treasurer who may approve short-term variations to the stated portfolio allocations. Permanent changes to these percentages must be ratified by the Board of Selectmen and Board of Light Commissioners.

Diversification

The following asset classes can be included in the Trust in order to construct a diversified investment portfolio that is both prudent and appropriate given the Town's actuarial assumed discount rate, target rate of return, investment objective and risk tolerance. The investment parameters and asset allocation definitions are included in the addendums of this policy.

Equities

The primary objective of the Trust's equity allocation is to provide long-term total returns that are, at a minimum, consistent with appropriate broad market indexes through full market cycles.

The Trust can purchase and manage the equity allocation using individual equities, such as domestic common stocks, preferred stocks, and/or American-Depository Receipts (ADRs). The Trust may also utilize other investments such as, mutual funds, exchange traded funds and closed-end funds or similar investment vehicles.

Total equity exposure may include, both domestic and international equities, both developed and emerging countries and geographic regions, as well as large, mid, and small-market capitalization weighted companies. Direct holdings of common stock, preferred stock, and/or ADRs in any one company should not exceed 5% of the market value of the invested portfolio.

Investing directly in real estate, private placements, letter stock, or initial public offerings is strictly prohibited. The Trust shall not engage directly in margin transactions, short sales, or any other leveraged or inverse investment vehicles. Mutual funds, exchange-traded funds, and closed-end funds, however, may engage in margin, leverage, and/or short sales. Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

Fixed Income

The primary objectives of the Trust's fixed income allocation are to preserve capital and generate income. The fixed income portfolio also provides price returns that exhibit a lower correlation to the broad equity markets in order to reduce the overall risk of the portfolio.

The Trust can purchase the fixed income allocation using individual bonds that are United States Dollar denominated only. Issuer selection can include domestic corporate bonds and any obligations of the United States Government and/or its agencies.

The Trust can also utilize other investment vehicles such as, mutual funds, exchange traded funds, closed-end funds or similar investment vehicles. Total fixed income exposure is able to include, both domestic and international bonds, both developed and emerging countries and geographic regions. Direct holdings of individual corporate bonds in any one company should not exceed 5% of the market value of the invested portfolio; however, this is not applicable to the United States Government and/or its agencies. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds.

Investing directly in real estate, mortgages, collateral or non-collateral loans, private placements, fixed income or interest rate futures, or any other specialized fixed income ventures is strictly prohibited, as are direct investments in unit-investment trusts (UITs) and business development companies (BDCs).

Alternative Investments

The primary objective of the Trust's alternative allocation is to provide long-term capital appreciation that is less correlated to broad global equity and fixed income indexes.

The Trust can only purchase those strategies that are deemed to be alternative through daily-liquid diversified investment vehicles such as, mutual funds, exchange-traded funds, closed-end funds or similar investment vehicles.

Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

Cash and Cash Equivalents

Cash will be maintained to provide periodic cash distributions, if and when necessary. Cash will not normally be held as a strategic investment asset, although the Trust may seek to allow cash to build to the maximum level in times of market uncertainty.

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. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, capital adequacy and overall affirmative reputation in the municipal industry.

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. There will be no limit to the amount of United States Treasury and United States Government Agency obligations that may be held in the portfolio. The Town will only purchase investment grade fixed income securities. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds. Investments in fixed income securities will be made primarily for income and capital preservation.

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. As stated above, 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.

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

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business with the Town as well as any material personal financial investment positions or loans with these same institutions.

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
- Review of all advisors through broker check (www.finra.org) as applicable

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

- To monitor the intermediate term performance of the Funds, the Treasurer will compare the Trust's results to a blended benchmark detailed in Addendum #3.
- Rebalancing of the portfolios should occur as necessary based on allocation guidelines in Addendum #1.

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- 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 memo to the Board of Selectmen, Board of Light Commissioners, Finance Committee and Finance Director of any policy exceptions, as they occur, noting the reason for the exception and the actions to be taken to correct the exception, if any.
- The Treasurer will provide a report to the Finance Director and Finance Committee semi-annually 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.

Addendum - #1
OPEB Portfolio Allocation Targets

The information contained herein shall dictate the long-term asset allocation targets as well as minimum and maximum parameters, when applicable, that will govern the management of the investable portion of the Trust. The methodology for determining specific security and investment strategy definitions is detailed in Addendum #2.

<u>Category</u>	<u>Minimum %</u>	<u>Target %</u>	<u>Maximum %</u>
Equities	45%	55%	65%
Domestic Equities	25%	35%	45%
International Equities	10%	20%	30%
Preferred Equities	0%	0%	10%

Balanced	0%	0%	10%
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Fixed Income	15%	25%	35%
Domestic Bonds	10%	20%	30%
International Bonds	0%	5%	15%
Alternatives	10%	20%	30%
Cash	0%	0%	10%
Total	-	100%	-

Addendum - #2
OPEB Portfolio Allocation Definitions

Asset Class	Asset Category	Morningstar Category		
Domestic Equity	Large Cap	Large Cap Blend	Energy	
		Large Cap Growth	Financial	
		Large Cap Value	Healthcare	
		Communications	Industrials	
		Consumer Cyclical	Technology	
		Consumer Defensive	Utilities	
		Consumer Staples	Miscellaneous Sector	
International Equity	Mid Cap	Mid Cap Blend	Mid Cap Value	
		Mid Cap Growth		
	Small Cap	Small Cap Blend	Small Cap Value	
		Small Cap Growth		
Balanced	Preferred Equity	Preferred Stock		
	Developed	Foreign Large Cap Blend	Foreign Small/Mid Blend	
		Foreign Large Cap Growth	Foreign Small/Mid Growth	
		Foreign Large Cap Value	Foreign/Mid Value	
	Emerging Markets	World Stock	Japan	
		Europe		
		Emerging Markets	Pacific/Asia	
		India	Pacific/Asia ex-Japan	
Domestic Bond	Investment Grade	Latin America	Miscellaneous Region	
		China		
		Aggressive Allocation	World Allocation	
		Moderate Allocation	Target Date	
		Conservative Allocation	Retirement Income	
		Tactical Allocation		
		Corporate Bond	Muni National Intermediate	
International Bond		Inflation Protection Bond	Muni National Long Term	
		Intermediate Gov't Bond	Muni National Short term	
		Intermediate Term Bond	Muni Single State	
		Long term Bond	Short-Term Bond	
		Long Term Gov't	Short Term Gov't Bond	
Alternatives		Stable Value	Ultrashort Bond	
		Multisector bond		
		High Yield	High Yield Bond	
			Bank loans	
		High Yield mini		
World Bond	World Bond	World Bond		
		Emerging Markets Bond	Emerging Markets Bond	
Equity Alternatives	Equity Alternatives	Long/Short Equity	Market Neutral	
		Private Equity		
	Bond Alternatives	Nontraditional Bond		
	Real Estate	Real Estate	Global Real Estate	
		Direct Property		
Managed Futures	Managed Futures	Managed Futures		
	Other Alternatives	Arbitrage	Precious Metals	
		Hedge Funds	Commodities	
Arbitrage		Multi-Alternative	Natural Resources	
		Trading/Tactical	Bear Market	

Addendum - #3
OPEB Portfolio Performance Reporting

The information contained herein shall dictate the individual and blended benchmark(s), when applicable, to be utilized in monitoring the performance of the investable assets of the Trust.

Category	Index	Percentage
Equity	MSCI AC World Index	55%
Balanced	—	0%
Fixed Income	Barclays Capital Global Aggregate Bond	25%
Alternatives	HFRI Fund of Funds Composite	20%
Cash	—	0%
Total		100%