



**Town of Arlington
Office of the Town Manager**

**James Feeney
Town Manager**

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To: Arlington Finance Committee

Cc: Steve DeCoursey, Chair, Select Board

Alex Magee, Deputy Town Manager/Finance Director

Julie Wayman, Treasurer/Collector

Augusta Haydock, Chair, Board of Commissioners of Trust Funds

From: James Feeney, Town Manager

Date: April 18, 2024

**Re: Annual Town Meeting Article 56 – Local Option/Acceptance of M.G.L. Chapter 203C
the Prudent Investor Rule**

I write to provide members of the Finance Committee with additional information regarding Article 56. As members may recall, this matter was discussed at the Finance Committee meeting on March 13, 2024 and resulted in a vote of “No Action” being recommended to Town Meeting. This vote contradicted the vote and main motion of Favorable Action already taken by the Select Board on March 4, 2024. As a result, there was further discussion of the Article during the Select Board meeting on April 8, 2024, which was attended by Chair of the Finance Committee Christine Deshler.

This correspondence sets aside any discussion on the merits of Article 56, or analysis of potential returns should the equity portfolio move from the G.L. c.167 §15 “Legal List” (Attachment A) and seeks only to codify a proposed process that I offered at the April 8th meeting in response to a question about the potential timeline for implementing this local option *should* it be approved at Town Meeting. For the benefit of the Committee, and in an effort to build consensus in advance of Town Meeting, the proposed actions and timeline for the implementation of G.L. c.203C (Attachment B) with respect to the Town’s trust funds are formally documented below. At present, the Town delegates investment management responsibilities to Rockland Trust in a fiduciary capacity.

If the local option were to be adopted, it would necessitate an amendment of the Town’s Investment Policy Statement to officially incorporate the Prudent Investor Rule. Currently, there are two distinct Investment Policy Statements, both enclosed herewith. The first, which pertains directly to Trust Funds, was last updated in December 2016 (Attachment C), and incorporates c. 203C as appendix B. The latter discusses the investment of other funds on deposit more generally and was issued in May 2020 (Attachment D).

As soon as practicable, these policies would be integrated into a single policy that would be updated by the Treasurer in consultation with the Board of Commissioners of Trust Funds, and in accordance with any best practices offered by the Massachusetts Collectors and Treasurers Association (Attachment E). The revised draft policy would be circulated to both the Finance Committee and Select Board for review and comment. Following any necessary edits, the Treasurer, again in consultation with the Board of Commissioners of Trust Funds, would finalize a policy for presentation to the Town Manager and Deputy Town Manager/Finance Director.

Upon adoption of the finalized Investment Policy Statement, the Town would conduct a Chapter 30B procurement for Investment Management Services via a Request for Proposals (RFP) at the end of this calendar year (once final approval of the Warrant Article by the Attorney General’s Office is received). Designees from both the Finance Committee and Select Board would be invited to participate in the selection process and score the various proposals received in connection with the RFP. The Investment Policy Statement would be included with the RFP materials, but also transmitted to the chosen Investment Manager upon issuance of a one-year contract with two one-year options to renew. It is only at this point that the change sought by Article 56 would be effectuated for Arlington’s trust funds, likely in early 2025.

It should be noted the Prudent Investor Rule had long governed the investment of Arlington's OPEB Trust Fund monies until they were transferred to the Pension Reserves Investment Trust (PRIT) fund following the 2023 Annual Town Meeting. Moreover, prior to passage of the local option legislation last year, several communities adopted the Prudent Investor Rule through special legislation (See, e.g., Brookline (Chapter 34 of the Acts of 2006); Newton (Chapter 75 of the Acts of 2007); and Peabody (Chapter 467 of the Acts of 2014).

Finally, no issue is expected with approval by the Attorney General's Office as the following non-exhaustive list of communities have already approved the Prudent Investor Rule local option via Town Meeting, some last fall and others earlier this year: Natick (OPEB), Wrentham, Norton, Orange, Avon, Princeton, Kingston, Mendon, Duxbury, Seekonk. A number of other Towns will also be seeking approval at their upcoming spring Town meetings, while cities were able to move more expeditiously through council votes.

Common and Preferred Stocks

Statutory Requirements: (G.L. c. 167, s. 15B(b)(iii))

Pursuant to G.L. c. 167, s. 15B(g), not more than 10% of the assets of the entity shall be invested in investments authorized under this section.*

- Abbott Laboratories
- Altria Group (formerly Philip Morris Companies)
- American International Group, Inc.
- Bank of America Corporation
- Bristol Myers Squibb Company
- Coca-Cola Company
- Consolidated Edison
- Eli Lilly & Company
- Emerson Electric Company
- General Electric Company
- General Mills, Inc.
- Hewlett-Packard Company
- Johnson & Johnson
- Kimberly-Clark Corporation
- McDonald's Corporation
- Merck & Co., Inc. (merged with Schering-Plough Corporation)
- PepsiCo, Inc.
- Pfizer, Inc.
- Procter & Gamble Company
- Rockwell Automation (formerly Rockwell International Corporation)
- Southern Company
- Unilever plc

* Please note that this 10% limitation contained in subsection 15B(g) is an aggregate amount applying to *all* investments made pursuant to G.L. c. 167, s. 15B(a)-(f).

Attachment B

Chapter 203C: PRUDENT INVESTMENT

- [Section 1](#)Citation
- [Section 2](#)Trustees managing trust assets; duty to comply with prudent investor rule
- [Section 3](#)Investment and management decisions
- [Section 4](#)Diversification
- [Section 5](#)Review of assets
- [Section 6](#)Beneficiaries' interests
- [Section 7](#)Two or more beneficiaries
- [Section 8](#)Costs incurred
- [Section 9](#)Determination of compliance with prudent investor rule
- [Section 10](#)Delegation of investment and management functions
- [Section 11](#)Trust provisions; terms

Section 1: Citation

Section 1. This chapter shall be known as and may be cited as the Massachusetts Prudent Investor Act.

Section 2: Trustees managing trust assets; duty to comply with prudent investor rule

Section 2. (a) Except as provided in subsection (b), a trustee who invests and manages trust assets shall owe a duty to the beneficiaries of a trust to comply with the prudent investor rule set forth in this chapter.

(b) The prudent investor rule may be expanded, restricted, eliminated or otherwise altered by the provisions of a trust. A trustee shall not be liable to a beneficiary to the extent that the trustee acted in reasonable reliance on the provisions of the trust.

Section 3: Investment and management decisions

Section 3. (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 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 the 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.

(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 chapter.

(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.

Section 4: Diversification

Section 4. A trustee shall reasonably diversify the investments of the trust unless, under the circumstances, it is prudent not to do so.

Section 5: Review of assets

Section 5. Within a reasonable time after accepting a trusteeship or receiving trust assets, a trustee shall review the trust assets and make and implement decisions concerning the retention and disposition of assets, in order to bring the trust portfolio into compliance with the purposes, terms, and the other circumstances of the trust, and with the requirements of this chapter.

Section 6: Beneficiaries' interests

Section 6. A trustee shall invest and manage the trust assets solely in the interest of the beneficiaries.

Section 7: Two or more beneficiaries

Section 7. If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

Section 8: Costs incurred

Section 8. In investing and managing trust assets, a trustee shall incur only costs that are appropriate and reasonable in relation to the assets, the purpose of the trust, and the skills of the trustee.

Section 9: Determination of compliance with prudent investor rule

Section 9. Compliance with the prudent investor rule shall be determined in light of the facts and circumstances existing at the time of a trustee's decision or action.

Section 10: Delegation of investment and management functions

Section 10. (a) A trustee may delegate investment and management functions if it is prudent to do so. A trustee shall exercise reasonable care, skill and caution in:

- (1) selecting an agent;
- (2) establishing the scope and terms of the delegation, consistent with the purposes and terms of the trust; and
- (3) periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the terms of the delegation.

(b) In performing a delegated function, an agent shall owe a duty to the trust to exercise reasonable care to comply with the terms of the delegation.

(c) A trustee who complies with the requirements of subsection (a) shall not be liable to the beneficiaries or to the trust for the decisions or actions of the agent to whom the function was delegated.

(d) By accepting the delegation of trust functions from the trustee of a trust that is subject to the laws of the commonwealth, an agent submits to the jurisdiction of the courts of the commonwealth.

Section 11: Trust provisions; terms

Section 11. The following terms or comparable language in the provisions of a trust, unless otherwise limited or modified, authorize any investment or strategy permitted under this chapter and shall not be interpreted to be a restriction, elimination, or other alteration of the prudent investor rule for purposes of subsection (b) of section 2: "investments permissible by law for investment of trust funds", "legal investments", "authorized investments", "using the judgment and care under the circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital", "prudent man rule", "prudent trustee rule", "prudent person rule", and "prudent investor rule".

Attachment C



TOWN OF ARLINGTON, MA

Trust Funds Investment Policy Statement

Established October 2007. Amended Appendices August 2008. Amended July 2009. Amended October 2009.
Reviewed October 2010. Amended Appendices October 2011. Reviewed October 2012. Reviewed October 2013.
Amended October 2014. Reviewed & Edited October 2015. Amended Appendices July 2016. Amended December 2016.

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TOWN OF ARLINGTON, MA

Trust Funds Investment Policy Statement

Established October 2007, Amended Appendices August 2008, Amended July 2009, Amended October 2009,
Reviewed October 2010, Amended Appendices October 2011, Reviewed October 2012, Reviewed October 2013,
Amended October 2014, Reviewed & Edited October 2015. Amended Appendices July 2016. Amended December 2016.

INTRODUCTION

The principal purpose of this Statement is to provide long-term direction for the investments of the Town of Arlington. A secondary purpose is to describe for the Office of Treasurer & Collector of Taxes, the public, and staff the underlying logic and philosophy supporting this Statement.

Setting investment policy is the most critical phase of the entire investment process. The effects of a good or bad investment policy 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 institutional setting and intended purpose. This policy needs to match the needs of the Operating Funds, Regular and/or General Funds, and Trust Funds future anticipated requests or periodic disbursements to the financial assets most likely to meet those cash flow needs. The best way to minimize investment risk is to match, as closely as possible, the timing of future liabilities with the timing of future cash flows from the portfolio assets.

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 Funds.

PRINCIPLES

Outlined below are principles, which shall serve as a guide in establishing this Investment Policy Statement.

The Town Treasurer/Custodian of Funds shall meet and review periodically with the Board of Trust Fund Commissioners, the Library Board of Trustees, and the Board of Cemetery Commissioners to review the Town's policy, investment position, asset allocation, yield, and long-term direction. This Investment Policy shall be reviewed annually, delivered to each board cited above, the Town Comptroller, and submitted to the Town's auditors.

All investments shall be made in accordance with Chapter 44, Sections 54 and 55 of the Massachusetts General Laws (See appendix A), and/or M.G.L. Chapter 203C Sections 1 – 11 (See Appendix B), and/or M.G.L. Chapter 180A (See Appendix C), and/or M.G.L. Chapter 41 Section 46 (See Appendix D), and/or Chapter 114 Section 25 (See Appendix E), and/or Chapter 40 Section 5B, 5D (See Appendix F), and/or Chapter 44 Section 53F1/2 (See Appendix G), and/or Chapter 167 Section(s) 15A & 15B (See Appendix H).

The guiding tenet, in order of priority, for the investing of all Town funds is:

- Safety
- Liquidity
- Yield

The Town of Arlington is both a short-term and long-term investor.

Short-term Investing

For short-term investing, the Treasurer shall continually review and investigate banking and financial institution rates sheets for the best yield available for short term deposits in certificates of deposit (CDs), money market accounts (MMAs), and government obligations (such as Treasury bonds/notes).

The Treasurer shall, at least semi-annually, investigate the viability, solvency, and “rating” of banks and any other financial institution via generally accepted rating mechanisms or institutions, such as “VeriBank”.

The primary depository shall be the General Account of the Town’s Banking Institution, when favorable to the Town, followed by the Massachusetts Municipal Depository Trust (MMDT), if and when favorable. Moving funds from depositories shall be based on a positive benefit to the Town. Movement of funds for short-term investment should equate to a gain of ten to fifteen basis points (0.10% to 0.15%), or other considerations that equal this. Short term investing shall not carry a term-length longer than nine to twelve months. Any short-term investment product carrying a term of more than three months shall not carry a deposited balance exceeding one million dollars. Any depository account exceeding a balance of five-hundred-thousand dollars shall be collateralized, or protected in some other way such as a bond issued by the depository institution, or insurance such as the DIF (Depositors Insurance Fund).

Long-term Investing

The Town purchases 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 our long-term focus in mind at all times, we hope to weather the periodic bad times.

We expect this long term view to provide us with better results than will be earned by those who pick short term investments or who abandon ship during turbulent times. We also expect that equities will serve as a hedge against eroding trust fund values due to long-term inflationary trends.

We expect the stock market to provide greater total returns than the bond market does. We say this in a long-term sense, knowing that both economies and markets suffer periodic (but normally brief) declines, and knowing that there have been periods when cash and bonds outperform stocks.

We expect the relationship between the economy, the stock market, and inflation that has been in existence for the past 40 years to continue. We expect the American economy to show modest real growth over full business cycles, after allowance for occasional recessions. We expect stock prices to grow slightly faster than inflation, although the naturally volatile nature of the stock market will make such growth invisible except when observed over longer periods of time. We expect cash dividends from stocks also to grow slightly faster than inflation, and to fluctuate much less than stock prices do.

We expect continued inflation. Its timing and severity we cannot predict, but we believe it will be of sufficient magnitude that to ignore it would threaten our ability to meet our long-term objectives.

Our definition of risk is not always the common one. Most investors define investment risk in terms of the volatility of short-term total returns. This definition is appropriate for funds with a very short-term time horizon, but inappropriate for perpetual funds such as Trust Funds and/or Stabilization Funds, and Scholarship Funds. Our managed funds bear three potential kinds of risk. One comes from any mismatch between the natural cash flows out of the Trusts (the amount requisitioned from the Trusts) and the cash flows coming in (from dividends and interest). A second source of risk is the possibility that the assets in the funds do not perform the way the investment manager(s), or we, expect them to. The third form of risk is that of reacting inappropriately at a volatile period, most likely after a severe market decline. We hope to minimize these risks to as great a degree as is possible without harming Town Funds’ long-term objectives. Given our intention of not spending principal, we define its risk in terms of threats to its income stream. Market value fluctuations are of secondary importance unless individual assets have permanently impaired values and must be liquidated to preserve remaining value.

STRATEGY

The contracted Investment Manager(s) will utilize the following investment guidelines in terms of asset allocation. This policy is subject to review and amendment at any time.

The Investment Manager(s) may use separately managed accounts, co-mingled trusts and mutual funds, as appropriate, with the approval of the Town Treasurer. Rating agency inquiries should be utilized on a regular basis.

The portfolio asset allocation investment guidelines are:

Asset Class	Minimum	Target	Maximum
Cash & Equivalents	0%	0%	5%
US Large Cap Core Equity	25%	35%	45%
US Small Cap Core Equity	0%	10%	20%
International Equity	0%	10%	20%
Fixed Income	25%	35%	45%
Liquid Alternatives	0%	10%	20%

Cash

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

US Large Cap Core Equity

The primary objective of the U.S. large cap equity portfolio is inflation protection and long term growth. The portfolio will invest in companies traded on U.S. exchanges, including those domiciled in the U.S., cross registered on U.S. exchanges and foreign shares trading in the U.S. via American Depository Receipts. The portfolio will be fully diversified based on market cap, economic sector, company and number of holdings. The portfolio will be benchmarked to the S&P 500 Index for performance, risk control and portfolio construction purposes.

US Small Cap Core Equity

The primary objective of the U.S. small cap equity portfolio is long term growth. The portfolio will invest in companies with a market capitalization commensurate with the small cap benchmark and traded on U.S. exchanges. The portfolio will be fully diversified based on market cap, economic sector, company and number of holdings. The portfolio will be benchmarked to the Russell 2000 Index for performance, risk control and portfolio construction purposes.

International Equity

The primary objective of the international equity portfolio is long term growth and diversification. The portfolio will invest in foreign companies from developed and emerging economies trading in the U.S. via American Depository Receipts, foreign shares traded on foreign exchanges and exchange traded funds investing in the same. The portfolio will be fully diversified based on market cap, economic sector, company, country, currency and number of holdings. The portfolio will be benchmarked to the FTSE All-World ex-US Index for performance, risk control and portfolio construction purposes.

US Fixed Income

To ensure appropriate diversification and minimize sector risk, investing primarily in high-quality taxable bonds, notes, and other credits. The goal is to provide returns competitive with, and price volatility similar to, Barclays Capital Government/Credit Index.

Liquid Alternative Investments

The primary objective of the liquid alternatives allocation is inflation protection, long term moderate growth and diversification. Strategies can be implemented via separately managed accounts or publicly traded co-mingled vehicles (such as mutual funds). The liquid alternatives allocation will be benchmarked to three month US Treasury Bills plus 3%.

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 Treasurer and the Investment Manager(s).

PERFORMANCE MEASUREMENT & 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). The blended benchmark is as follows:

<i>Benchmark</i>	<i>Target</i>
S&P 500 Index	35%
Russell 2000 Index	10%
FTSE All-World ex-US Index (USD)	10%
Barclays Intermediate Government/Credit Index	35%
US Treasury Bills plus 3%	10%

Rebalancing of the portfolios should happen at least annually, if appropriate, and approved by the Treasurer.

It is expected that the performance returns of the Trust Funds, and any sub-strategy, will outperform their respective benchmarks, net of fees, on a long-term (business cycle) basis.

SUPERVISION

(1) 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 quarterly.

(2) The Treasurer will review this Investment Policy Statement at least once a year to ensure that it remains appropriate and complete. The Treasurer will review the performance of investments annually with the Board of Trust Fund Commissioners, the Board of Library Trustees, and the Cemetery Commission.

(3) 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. The Town Treasurer, in exercising said option, shall issue either a Request for Information and/or Request for Proposal to include one or all of: an Investment Consultant, an Investment Manager, and an Institutional Custodian.

Adopted by the Town Treasurer & Collector of Taxes

Signed and Dated:

Signature: _____
Treasurer & Collector of Taxes

Date: _____ (Treasurer Seal)

Investment Policy Statement APPENDIX A

CHAPTER 44. MUNICIPAL FINANCE

MISCELLANEOUS PROVISIONS

Chapter 44: Section 54. Investment of trust funds

Section 54. Trust funds, including cemetery perpetual care funds, unless otherwise provided or directed by the donor thereof, shall be placed at interest in savings banks, trust companies incorporated under the laws of the commonwealth, banking companies incorporated under the laws of the commonwealth which are members of the Federal Deposit Insurance Corporation, or national banks, or invested by cities or towns in participation units in a combined investment fund under section thirty-eight A of chapter twenty-nine, or in paid-up shares and accounts of and in co-operative banks, or in shares of savings and loan associations or in shares or savings deposits of federal savings and loan associations doing business in the commonwealth to an amount not exceeding one hundred thousand dollars, or in bonds or notes which are legal investments for savings banks. Cities and towns having such funds in the custody of the treasurer in an aggregate amount in excess of two hundred and fifty thousand dollars may also 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 not more than fifteen per cent of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half per cent of such funds be invested in the stock of any one bank or insurance company. This section shall not apply to the city of Boston.

Chapter 44: Section 55. Public funds on deposit; limitations; investments

Section 55. A city, town, or district or regional school district shall not at any one time have on deposit in a bank or trust company or banking company an amount exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess. The treasurer of any city, town, district or regional school district shall not deposit funds for which he is accountable in any bank, trust company or banking company with which such treasurer is associated as an officer or employee or has been associated as an officer or employee at any time during the three years immediately preceding the date of any such deposit. For the purpose of paying the principal or interest due on any bond, note or other obligation of the city of Boston, which is payable or requested to be paid in the city of New York, the city of Boston may keep on deposit in any national bank or trust company in the city of New York a sum not exceeding in the aggregate twenty-five thousand dollars; provided, that for a period of two weeks prior to the date of any such payment or payments, said amount may be increased by a sum or sums sufficient to cover the same. A treasurer of a city, town, district or regional school district may invest such portion of revenue cash as he shall deem not required to pay expenses until such cash is available and all or any part of the proceeds from the issue of bonds or notes, prior to their application to the payment of liabilities incurred for the purposes for which the bonds or notes were authorized, in term deposits or certificates of deposit, in trust companies, national banks, savings banks, banking companies or cooperative banks, or in obligations issued or unconditionally guaranteed by the United States government or any agency thereof and having a maturity from date of purchase of one year or less, or in United States government securities or securities of United States government agencies purchased under an agreement with a trust company, national bank or banking company to repurchase at not less than the original purchase price of said securities on a fixed date, not to exceed ninety days or in shares of beneficial interest issued by 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 and the purchase price of shares of beneficial interest purchased pursuant to this section shall not include any commission that these companies may charge, or in participation units in a combined investment fund under section thirty-eight A of chapter twenty-nine; provided, however, that no temporary notes in anticipation of revenue shall be issued under section four as long as any revenue cash, exclusive of revenue sharing or other revenue cash the use of which is restricted to purposes other than current maintenance expenses, remain so invested.

Investment Policy Statement APPENDIX B.

CHAPTER 203C. PRUDENT INVESTMENT

Chapter 203C: Section 1. Citation

Section 1. This chapter shall be known as and may be cited as the Massachusetts Prudent Investor Act.

Chapter 203C: Section 2. Trustees managing trust assets; duty to comply with prudent investor rule

Section 2. (a) Except as provided in subsection (b), a trustee who invests and manages trust assets shall owe a duty to the beneficiaries of a trust to comply with the prudent investor rule set forth in this chapter.

(b) The prudent investor rule may be expanded, restricted, eliminated or otherwise altered by the provisions of a trust. A trustee shall not be liable to a beneficiary to the extent that the trustee acted in reasonable reliance on the provisions of the trust.

Chapter 203C: Section 3. Investment and management decisions

Section 3. (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 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 the 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.

(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 chapter.

(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.

Chapter 203C: Section 4. Diversification

Section 4. A trustee shall reasonably diversify the investments of the trust unless, under the circumstances, it is prudent not to do so.

Chapter 203C: Section 5. Review of assets

Section 5. Within a reasonable time after accepting a trusteeship or receiving trust assets, a trustee shall review the trust assets and make and implement decisions concerning the retention and disposition of assets, in order to bring the trust portfolio into compliance with the purposes, terms, and the other circumstances of the trust, and with the requirements of this chapter.

Chapter 203C: Section 6. Beneficiaries' interests

Section 6. A trustee shall invest and manage the trust assets solely in the interest of the beneficiaries.

Chapter 203C: Section 7. Two or more beneficiaries

Section 7. If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

Chapter 203C: Section 8. Costs incurred

Section 8. In investing and managing trust assets, a trustee shall incur only costs that are appropriate and reasonable in relation to the assets, the purpose of the trust, and the skills of the trustee.

Chapter 203C: Section 9. Determination of compliance with prudent investor rule

Section 9. Compliance with the prudent investor rule shall be determined in light of the facts and circumstances existing at the time of a trustee's decision or action.

Chapter 203C: Section 10. Delegation of investment and management functions

Section 10. (a) A trustee may delegate investment and management functions if it is prudent to do so. A trustee shall exercise reasonable care, skill and caution in:

- (1) selecting an agent;
- (2) establishing the scope and terms of the delegation, consistent with the purposes and terms of the trust; and
- (3) periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the terms of the delegation.

(b) In performing a delegated function, an agent shall owe a duty to the trust to exercise reasonable care to comply with the terms of the delegation.

(c) A trustee who complies with the requirements of subsection (a) shall not be liable to the beneficiaries or to the trust for the decisions or actions of the agent to whom the function was delegated.

(d) By accepting the delegation of trust functions from the trustee of a trust that is subject to the laws of the commonwealth, an agent submits to the jurisdiction of the courts of the commonwealth.

Chapter 203C: Section 11. Trust provisions; terms

Section 11. The following terms or comparable language in the provisions of a trust, unless otherwise limited or modified, authorize any investment or strategy permitted under this chapter and shall not be interpreted to be a restriction, elimination, or other alteration of the prudent investor rule for purposes of subsection (b) of section 2: "investments permissible by law for investment of trust funds", "legal investments", "authorized investments", "using the judgment and care under the circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital", "prudent man rule", "prudent trustee rule", "prudent person rule", and "prudent investor rule".

Investment Policy Statement Appendix C

M.G.L. CHAPTER 180A. MANAGEMENT OF INSTITUTIONAL FUNDS

Chapter 180A: Section 1. Definitions

Section 1. The following words as used in this chapter shall have the following meanings, unless a different meaning is clearly apparent from the language or context:—

- (1) “Institution”, an incorporated or unincorporated organization organized and operated exclusively for educational, religious, charitable, or other eleemosynary purposes, or a governmental organization to the extent that it holds funds exclusively for any of these purposes;
- (2) “Institutional fund”, a fund held by an institution for its exclusive use, benefit, or purposes, but does not include (i) a fund held for an institution by a trustee that is not an institution or (ii) a fund in which a beneficiary that is not an institution has an interest, other than possible rights that could arise upon violation or failure of the purposes of the fund;
- (3) “Endowment fund”, an institutional fund, or any part thereof, not wholly expendable by the institution on a current basis under the terms of the applicable gift instrument;
- (4) “Governing board”, the body responsible for the management of an institution or of an institutional fund;
- (5) “Historic dollar value”, the aggregate fair value in dollars of (i) an endowment fund at the time it became an endowment fund, (ii) each subsequent donation to the fund at the time it is made, and (iii) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. The determination of historic dollar value made in good faith by the institution is conclusive.
- (6) “Gift instrument”, a will, deed, grant, conveyance, agreement, memorandum, writing, or other governing document, including the terms of any institutional solicitations from which an institutional fund resulted, under which property is transferred to or held by an institution as an institutional fund.

Chapter 180A: Section 2. Appropriations for expenditures from endowment funds authorized; presumption of imprudence

Section 2. The governing board may appropriate for expenditure for the uses and purposes for which an endowment fund is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of the endowment fund over the historic dollar value of the fund as is prudent under the standard established by section eight; provided, however, the appropriation of net appreciation for expenditure in any year in an amount greater than seven per cent of the fair market value of the institution’s endowment funds, calculated on the basis of market values determined at least quarterly and averaged over a period of three or more years, shall create a rebuttable presumption of imprudence on the part of the governing board. This section does not limit the authority of the governing board to expend funds as permitted under other law, the terms of the applicable gift instrument, or the charter of the institution.

Chapter 180A: Section 3. Restrictions in gift instruments upon expenditure of net appreciation

Section 3. Section two does not apply if the applicable gift instrument indicates the donor’s intention that net appreciation shall not be expended. A restriction upon the expenditure of net appreciation may not be implied from a designation of a gift as an endowment, or from a direction or authorization in the applicable gift instrument to use only “income”, “interest”, “dividends”, or “rents, issues or profits”, or “to preserve the principal intact”, or a direction which contains other words of similar import. This rule of construction applies to gift instruments executed or in effect before or after the effective date of this section.

Chapter 180A: Section 4. Accumulation of annual net income; reserve

Section 4. The governing board may accumulate so much of the annual net income of an institutional fund as is prudent under the standard established by section eight, and may hold any or all of such accumulated income in an income reserve for subsequent expenditure for the uses and purposes for which such institutional fund is established or may add any or all of such accumulated income to the principal of such institutional fund, as is prudent under said standard. This section does not limit the authority of the governing board to accumulate income or to add the same to principal of an institutional fund as permitted under other law, the terms of the applicable gift instrument, or the charter of the institution.

Chapter 180A: Section 5. Restrictions in gift instruments against accumulation of income or addition to principal

Section 5. Section four does not apply if and to the extent that the applicable gift instrument indicates the donor's intention that income of an institutional fund shall not be accumulated or shall not be added to the principal of the fund. A restriction against accumulation or addition to principal may not be implied from a designation of a gift as an endowment fund, or from a direction or authorization in the applicable gift instrument to apply to the uses and purposes of the fund the "income", "interest", "dividends", "currently expendable income", or "rent, issues or profits", or a direction which contains other words of similar import. This rule of construction applies to gift instruments executed or in effect before or after the effective date of this section.

Chapter 180A: Section 6. Investments

Section 6. In addition to an investment otherwise authorized by law or by the applicable gift instrument, and without restriction to investments a fiduciary may make, the governing board, subject to any specific limitations set forth in the applicable gift instrument or in the applicable law other than law relating to investments by a fiduciary, may:

- (1) invest and reinvest an institutional fund in any real or personal property deemed advisable by the governing board, whether or not it produces a current return, including mortgages, stocks, bonds, debentures, and other securities of profit or non-profit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government or subdivision or instrumentality thereof;
- (2) retain property contributed by a donor to an institutional fund for as long as the governing board deems advisable;
- (3) include all or any part of an institutional fund in any pooled or common fund maintained by the institution; and
- (4) invest all or any part of an institutional fund in any other pooled or common fund available for investment, including shares or interests in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investment trusts, or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board.

Chapter 180A: Section 7. Delegation of authority of board

Section 7. Except as otherwise provided by the applicable gift instrument or by applicable law relating to governmental institutions or funds, the governing board may (1) delegate to its committees, officers or employees of the institution or the fund, or agents, including investment counsel, the authority to act in place of the board in investment and reinvestment of institutional funds, (2) contract with independent investment advisors, investment counsel or managers, banks, or trust companies, so to act, and (3) authorize the payment of compensation for investment advisory or management services.

Chapter 180A: Section 8. Administration of powers of board; liability of members

Section 8. In the administration of the powers to appropriate appreciation, to accumulate income, to make and retain investments, and to delegate investment management of institutional funds, members of a governing board shall consider long and short term needs of the institution in carrying out its educational, religious, charitable or other eleemosynary purposes, the problems peculiar to the institution, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

No member of the governing board shall be liable for any action taken or omitted with respect to such appropriation or accumulation or with respect to the investment of institutional funds, including endowment funds, under the authority granted in this chapter, if such member shall have discharged the duties of his position in good faith and with that degree of diligence, care and skill which prudent men would ordinarily exercise under similar circumstances in a like position.

Chapter 180A: Section 9. Release of restrictions imposed by gift instruments; limitations

Section 9. With the written consent of the donor, the governing board may release, in whole or in part, a restriction imposed by the applicable gift instrument on the use or investment of an institutional fund.

If written consent of the donor cannot be obtained by reason of his death, disability, unavailability, or impossibility of identification, the governing board may apply in the name of the institution to a court of competent jurisdiction for release of a restriction imposed by the applicable gift instrument on the use or investment of an institutional fund. The Attorney General shall be notified of the application and shall be given an opportunity to be heard. If the court finds that the restriction is obsolete, inappropriate, or impracticable, it may by order release the restriction in whole or in part. A release under this subsection may not change an endowment fund to a fund that is not an endowment fund.

A release under this section may not allow a fund to be used for purposes other than the educational, religious, charitable, or other eleemosynary purposes of the institution affected.

This section does not limit the application of the doctrine of cy pres.

Chapter 180A: Section 10. Application and construction

Section 10. This chapter shall be so applied and construed as to effectuate its general purpose to make uniform the law with respect to the subject of this chapter among those states which enact it.

Chapter 180A: Section 11. Citation

Section 11. This chapter may be cited as the “Uniform Management of Institutional Funds Law”.

Investment Policy Statement Appendix D.

COMMISSIONERS OF TRUST FUNDS

Chapter 41: Section 46. Town treasurer; duties; bond

Section 46. The town treasurer shall be the custodian of all funds and securities of such trust funds, shall invest and reinvest them and expend therefrom moneys as directed by the commissioners. The treasurer shall furnish a bond satisfactory to them for the faithful performance of his duties.

Investment Policy Statement Appendix E.

BOARDS OF CEMETERY COMMISSIONERS

Chapter 114: Section 25. Gifts or bequests for cemeteries; investment of funds; disposition of proceeds of sales of lots or burial rights

Section 25. A town in which cemetery commissioners are chosen may receive gifts or bequests for maintaining cemeteries or cemetery lots, which shall be paid into the town treasury and, with the accounts thereof, shall be kept separate from the other money and accounts of said town. The town treasurer shall invest all such funds in accordance with the stipulations, if any, accompanying them; otherwise he shall invest them as ordered by said commissioners and pay the income therefrom upon their order or with their approval. The proceeds of sales of lots or rights of burial in such cemeteries shall be paid into the town treasury and be appropriated to reimburse the town for the cost of the land, its care, improvement and embellishment, or the enlargement of the cemetery.

Investment Policy Statement Appendix F.

PURPOSES FOR WHICH TOWNS MAY APPROPRIATE MONEY

Chapter 40: Section 5B. Stabilization funds; establishment

Section 5B. For the purpose of creating 1 or more stabilization funds, cities, towns and districts may appropriate in any year an amount not exceeding, in the aggregate, 10 per cent of the amount raised in the preceding fiscal year by taxation of real estate and tangible personal property or such larger amount as may be approved by the director of accounts. The aggregate amount in such funds at any time shall not exceed 10 per cent of the equalized valuation of the city or town as defined in section 1 of chapter 44. Any interest shall be added to and become part of the fund.

The treasurer shall be the custodian of all such funds and may deposit the proceeds in national banks or invest the proceeds by deposit in savings banks, co-operative banks or trust companies organized under the laws of the commonwealth, or invest the same in such securities as 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.

At the time of creating any such fund the city, town or district shall specify, and at any later time may alter, the purpose of the fund, which may be for any lawful purpose, including without limitation an approved school project under chapter 70B or any other purpose for which the city, town or district may lawfully borrow money. Such specification and any such alteration of purpose, and any appropriation of funds into or out of any such fund, shall be approved by two-thirds vote, except as provided in paragraph (g) of section 21C of chapter 59 for a majority referendum vote. Subject to said section 21C, in a town or district any such vote shall be taken at an annual or special town meeting, and in a city any such vote shall be taken by city council.

Chapter 40: Section 5B. Stabilization funds; establishment

Section 5B. For the purpose of creating 1 or more stabilization funds, cities, towns and districts may appropriate in any year an amount not exceeding, in the aggregate, 10 per cent of the amount raised in the preceding fiscal year by taxation of real estate and tangible personal property or such larger amount as may be approved by the director of accounts. The aggregate amount in such funds at any time shall not exceed 10 per cent of the equalized valuation of the city or town as defined in section 1 of chapter 44. Any interest shall be added to and become part of the fund.

The treasurer shall be the custodian of all such funds and may deposit the proceeds in national banks or invest the proceeds by deposit in savings banks, co-operative banks or trust companies organized under the laws of the commonwealth, or invest the same in such securities as 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.

At the time of creating any such fund the city, town or district shall specify, and at any later time may alter, the purpose of the fund, which may be for any lawful purpose, including without limitation an approved school project under chapter 70B or any other purpose for which the city, town or district may lawfully borrow money. Such specification and any such alteration of purpose, and any appropriation of funds into or out of any such fund, shall be approved by two-thirds vote, except as provided in paragraph (g) of section 21C of chapter 59 for a majority referendum vote. Subject to said section 21C, in a town or district any such vote shall be taken at an annual or special town meeting, and in a city any such vote shall be taken by city council.

Investment Policy Statement APPENDIX G.

MISCELLANEOUS PROVISIONS

Chapter 44: Section 53F 1/2. Enterprise funds

Section 53F1/2. Notwithstanding the provisions of section fifty-three or any other provision of law to the contrary, a city or town which accepts the provisions of this section may establish a separate account classified as an “Enterprise Fund”, for a utility, health care, recreational or transportation facility, and its operation, as the city or town may designate, hereinafter referred to as the enterprise. Such account shall be maintained by the treasurer, and all receipts, revenues and funds from any source derived from all activities of the enterprise shall be deposited in such separate account. The treasurer may invest the funds in such separate account in the manner authorized by sections fifty-five and fifty-five A of chapter forty-four. Any interest earned thereon shall be credited to and become part of such separate account. The books and records of the enterprise shall be maintained in accordance with generally accepted accounting principles and in accordance with the requirements of section thirty-eight.

No later than one hundred and twenty days prior to the beginning of each fiscal year, an estimate of the income for the ensuing fiscal year and a proposed line item budget of the enterprise shall be submitted to the mayor, board of selectmen or other executive authority of the city or town by the appropriate local entity responsible for operations of the enterprise. Said board, mayor or other executive authority shall submit its recommendation to the town meeting, town council or city council, as the case may be, which shall act upon the budget in the same manner as all other budgets.

The city or town shall include in its tax levy for the fiscal year the amount appropriated for the total expenses of the enterprise and an estimate of the income to be derived by the operations of the enterprise. If the estimated income is less than the total appropriation, the difference shall be added to the tax levy and raised by taxation. If the estimated income is more than the total appropriation, the excess shall be appropriated to a separate reserve fund and used for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges if authorized by the appropriate entity responsible for operations of the enterprise. If during a fiscal year the enterprise incurs a loss, such loss shall be included in the succeeding fiscal year’s budget.

If during a fiscal year the enterprise produces a surplus, such surplus shall be kept in such separate reserve fund and used for the purposes provided therefor in this section.

For the purposes of this section, acceptance in a city shall be by vote of the city council and approval of the mayor, in a town, by vote of a special or annual town meeting and in any other municipality by vote of the legislative body.

A city or town which has accepted the provisions of this section with respect to a designated enterprise may, in like manner, revoke its acceptance.

Investment Policy Statement APPENDIX H.

LEGAL INVESTMENTS

Chapter 167 Supervision Of Banks Sections 15A Through 15K

Section 15A: Annual List of Legal Investments

Section 15A. (a) As used in this section and in sections 15B to 15K, inclusive, "legal list" or "legal investments" shall mean the list of securities approved for investment by the commissioner.

(b) On or before July 1 of each year, the commissioner shall prepare a list of all stocks, bonds, notes and other interest-bearing obligations which are then legal investments under said sections 15B to 15K, inclusive; provided, however, that all privately placed or held issues may in the discretion of the commissioner be omitted. An entity issuing such an instrument shall identify itself directly to the commissioner as being eligible to be included on the list under sections 15E to 15K, inclusive; provided, however, that the commissioner shall have the discretion to add any entity and instrument to the list. The list shall include the name of any investment fund approved by the commissioner which invests only in such stocks, bonds, notes and other interest bearing obligations. The shares of any such investment fund so approved shall be legal investments pursuant to this section to the same extent as any such stocks, bonds, notes and other interest bearing obligations. The list shall at all times be public. In the preparation of any such list which the commissioner shall prepare or furnish, the commissioner may employ expert assistance as the commissioner believes proper or may rely upon information contained in publications which the commissioner believes authoritative in reference to such matters and the commissioner shall not be held responsible or liable for the omission from the list of the name of any state or political subdivision or authority of the state or of any corporation or association the stocks, bonds, notes or other interest bearing obligations which so conform or any investment fund which conforms to this chapter or for the omission of any investment funds, stocks, bonds, notes or other interest bearing obligations which so conform. The commissioner shall not be held responsible or liable for inclusion in the list of any such names or of nonconforming investment funds, stocks, bonds, notes or other interest-bearing obligations.

(c) Officers and members of a board of a bank or credit union may rely upon the legal list as representing an accurate listing of investment funds, stocks, bonds, notes and other interest bearing obligations eligible for investment by the bank or credit union and no officer or member shall be personally liable for any loss incurred by the bank or credit

union arising from the purchase in good faith of any shares in an investment fund or security appearing on the list at the time of the purchase.

(d) Subsequent to the annual preparation of the list, the commissioner may add the name of any investment fund which meets the requirements of this section.

(e) Before making an investment under this section, an entity shall conduct an appropriate level of due diligence to determine if an investment is both permissible and appropriate. This may include both internal and external analysis. For debt instruments, the analysis shall not rely solely on 1 or more credit rating agencies and the entity shall determine that the instrument has both a low risk of default by the obligor and the full and timely repayment is expected over the expected life of the investment.

Section 15B: Inclusion of certain investments in list of legal investment upon approval by commissioner; application by credit union; refunding of bonds.

Section 15B. (a) The legal list prepared pursuant to section 15A may include securities that are approved for investment in accordance with this section.

(b) The securities eligible for approval for investment under this section may include: (i) interest-bearing obligations of any state, county, city, town or district or any subdivision or instrumentality thereof and any authority established under the laws of the United States or any state, county, town or district, including obligations of any of the foregoing payable from specified revenues; (ii) interest-bearing obligations of any corporation organized under the laws of the United States or any state and of any association, the business of which is conducted or transacted by trustees under a written instrument or declaration of trust, having its principal place of business in the commonwealth; and (iii) preferred and common stock of any corporation described in clause (ii). Obligations eligible pursuant to clauses (i) and (ii) shall have an initial offering of at least \$50,000,000 and be rated at least a single A.

(c) Upon application by 3 credit unions which have been chartered pursuant to chapter 171, which have submitted in the form and under the conditions as the commissioner may require, requesting authority to invest their deposits and the income derived from their deposits in any of the interest-bearing obligations or stocks referred to in subsection (b), the credit unions may request that the commissioner, in the form and under the conditions as the commissioner may require, authorize, notwithstanding any general or special law to the contrary, the investment in the interest bearing obligations or stock.

(d) If the commissioner grants the authority, the commissioner shall immediately add the name of the investment to the legal list. At any time after adding the name of the investment to the legal list, the commissioner may on the commissioner's own initiative revoke that authority.

(e) If the commissioner authorized investment in an issue of bonds in accordance with this section and, if after the authorization but before the authorization is revoked the issuer shall issue bonds, the proceeds of which shall be used solely to refund the issue previously authorized for investment or another issue of equal or shorter maturity and of equal or prior security and, if the new bonds shall be of equal security with the previously authorized issue and of equal or shorter maturity, the commissioner may authorize investment in the refunding bonds and after the authorization may revoke the authority on the commissioner's own initiative. If the commissioner authorized investment in an issue of bonds in accordance with this section and, if after the authorization but before the authorization is revoked, the issuer shall issue bonds of which at least 90 per cent of the proceeds shall be used to refund the issue previously authorized for investment or another issue of equal or prior security, the security for the new bonds is not less than that for the previously authorized issue and the commissioner may authorize investment in the new bonds and after the authorization may revoke the authority on the commissioner's own initiative.

(f) In determining that any investments authorized under this section shall be included in the legal list or deleted from the list, the commissioner may employ such expert assistance as the commissioner believes proper or may rely upon information contained in publications which the commissioner believes authoritative.

(g) Not more than 10 per cent of the assets of the entity shall be invested in investments authorized under this section.

Section 15C: Classes of bonds, notes or other interest-bearing federal, state, and international obligations in which entity may invest.

Section 15C. An entity that may invest pursuant to section 15A or the legal list may invest in bonds, notes or other interest-bearing obligations of the following classes:

(i) direct obligations of the United States or in obligations that are unconditionally guaranteed as to the payment of principal and interest by the United States;

(ii) legally issued, assumed or unconditionally guaranteed bonds, notes or other interest-bearing obligations of the commonwealth, including legally issued bonds, notes or other indebtedness of an entity established as a public instrumentality by general or special law;

(iii) legally issued, assumed or unconditionally guaranteed bonds, notes or other interest-bearing obligations of any state other than the commonwealth which has, not within the 20 years prior to making the investment, defaulted for a period of more than 120 days in the payment of any part of either principal or interest of any legally issued or assumed obligation; provided, however, that the full faith and credit of the state shall be pledged for the payment of the principal and interest of the obligations;

(iv) bonds, notes or other obligations issued or guaranteed as to both principal and interest by the Dominion of Canada or any of its provinces; provided, however, that (A) the bonds, notes or obligations shall be payable in United States funds either unconditionally or at the option of the holder of the bonds, notes or other obligations; and (B) at the date of investment the Dominion of Canada or the applicable province shall not have been in default in the payment of interest or principal of any of its obligations for a period in excess of 31 days at any time within the 20 years preceding such date of investment. Not more than 5 per cent of the assets of an entity authorized to invest pursuant to section 15A or the legal list may be invested in obligations authorized under this paragraph;

(v) bonds, notes or obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank or the Asian Development Bank containing an unconditional promise to pay or an unconditional guarantee of the payment of the interest on the bonds, notes or obligations regularly and the principal of the bonds, notes or obligations by a specified date in United States currency; provided, however, that not more than 3 per cent of the assets of an entity authorized to invest pursuant to section 15A or the legal list shall be invested in the bonds, notes or obligations; and provided further, that the commissioner may at any time on the commissioner's own initiative suspend the authorization granted by this clause for periods as the commissioner may determine;

(vi) obligations of or instruments issued by and fully guaranteed as to principal and interest by the Federal National Mortgage Association established under the federal National Housing Act, 12 U.S.C. 1715 et seq.;

(vii) debentures, bonds or other obligations issued by any federal home loan bank or consolidated federal home loan bank debentures or bonds issued by the federal home loan bank board under the Federal Home Loan Bank Act, 12 U.S.C. 1421 et seq.;

- (viii) debentures issued by the Central Bank for Cooperatives or consolidated debentures issued by the Central Bank for Cooperatives and the 12 Regional Banks for Cooperatives under the federal Farm Credit Act of 1933, 12 U.S.C. 1131 et seq.;
- (ix) collateral trust debentures or other similar obligations issued by any federal intermediate credit bank or consolidated debentures or other similar obligations issued by the federal intermediate credit banks under the Federal Farm Loan Act, 12 U.S.C. 742 et seq.;
- (x) farm loan bonds issued by any federal land bank under said Federal Farm Loan Act;
- (xi) promissory notes representing domestic farm labor housing loans authorized under federal law when the notes are fully guaranteed as to principal and interest by the Farmers Home Administration of the United States Department of Agriculture;
- (xii) bonds, notes or obligations issued, assumed or guaranteed by the Export-import Bank of the United States;
- (xiii) obligations of any person, including any form of mortgage-backed security, as to which the payment of principal and interest according to the terms of the obligations shall be guaranteed by the Government National Mortgage Association under said federal National Housing Act;
- (xiv) certificates issued by the Federal Home Loan Mortgage Corporation representing interests in mortgage loans made, acquired or participated in by the Federal Home Loan Mortgage Corporation; and
- (xv) system-wide obligations issued under the Farm Credit Act of 1971, 12 U.S.C. 2001 et seq., by institutions included in the federal farm credit system.

Section 15D: Classes of bonds, notes or other interest-bearing municipal obligations in which entity may invest.

Section 15D. An entity authorized to invest pursuant to section 15A or the legal list may invest in bond, notes or other interest-bearing obligations of the following classes:

- (i) legally issued or assumed bonds, notes or other interest-bearing obligations of a county, city, town or legally established district of the commonwealth; and

(ii) legally issued or assumed bonds, notes or other interest-bearing obligations of a county, city, town or legally established district outside of the commonwealth; provided, however, that this clause shall not authorize investments in obligations of any city or town outside of the commonwealth which have been in default for more than 120 days in the payment of any part of principal and interest of all bonds, notes or other interest-bearing obligations legal for investment under this section.

The full faith and credit of the county, city, town or district shall be pledged for the full payment of principal and interest of all bonds, notes or other interest bearing obligations legal for investment under this section.

Section 15E: Investment in bonds, notes or other interest-bearing obligations of railroad corporations.

Section 15E. (a) An entity that may invest pursuant to section 15A or the legal list may invest in bonds, notes or other interest-bearing obligations of railroad corporations subject to the conditions, limitations and requirements of this section.

(b) With respect to bonds, the obligations shall be those of a railroad incorporated in the United States or any state doing business principally within the United States and shall contain an unconditional promise to pay the interest on the bonds regularly and to pay the principal at a specified date. This promise may be modified, if at all, only by a vote of holders of at least 75 per cent in amount of the bonds.

Not more than 20 per cent of the assets of the entity shall be invested in the railroad obligations.

(c) Investments in railroad equipment obligations shall be those of, or guaranteed by, a railroad incorporated in the United States or any state and which is doing business principally within the United States.

Section 15F: Investment in bonds of a company in the business of furnishing telephone service.

Section 15F. (a) As used in sections 15F and 15G, "bond" shall include a note or debenture.

(b) An entity that may invest pursuant to section 15A or the legal list may invest in the bonds of any company which at the time of the investment is incorporated under the laws of the United States or any state and may engage and is engaging in the business of furnishing telephone service in the United States, subject to the following: (i) the bonds shall be part of an original issue of not less than \$25,000,000 in principal amount when the company is not

incorporated in the commonwealth; and (ii) not more than 20 per cent of the assets of the entity shall be invested in the bonds of telephone companies.

Section 15G: Investment in bonds, notes or other interest-bearing obligations of gas, electric light or water company or bonds of company supplying electrical energy or artificial gas purchased from another company.

Section 15G. (a) An entity that may invest pursuant to section 15A or the legal list may invest in bonds, notes or other interest-bearing obligations of a gas, electric light or water company incorporated or doing business in the commonwealth and subject to the control and supervision of the commonwealth.

(b) An entity that may invest pursuant to section 15A or the legal list may invest in the bonds of any company which at the time of the investment is incorporated under the laws of the United States or any state and transacting the business of supplying electrical energy or artificial gas or natural gas purchased from another company and supplied in substitution for or in mixture with artificial gas for light, heat, power and other purposes or transacting any or all of the business. The bonds shall be part of an original issue of not less than \$25,000,000 in principal amount.

(c) Not more than 25 per cent of the assets of the entity shall be invested in obligations under this section and no more than 4 per cent shall be invested in the obligations of any 1 company.

Section 15H: Investment in common stock of banking corporations and bank holding companies.

Section 15H. An entity that may invest pursuant to section 15A or the legal list may invest in the common stock of banking corporations and bank holding companies subject to the following conditions, limitations and requirements:

(i) in the common stock of a bank in stock form incorporated under the laws of and doing business within the commonwealth; provided, however, that there shall be no preferred stock outstanding; or, in the common stock of a federally chartered bank in stock form doing business within the commonwealth; provided, however, that there shall be no preferred stock outstanding; provided further, that state-chartered or federally-chartered bank shall be well capitalized under bank regulatory criteria;

(ii) in the common stock of a state-chartered bank or federally chartered bank doing business anywhere within the United States, which is a member of the federal reserve system and is well capitalized under bank regulatory criteria;

(iii) in the common stock of a bank holding company as defined in chapter 167A; provided, however, that the stock shall be received pursuant to an offer made by the bank holding company to exchange shares of its common stock for

shares of a bank in stock form incorporated under the laws of the commonwealth or for shares of a federally-chartered bank doing business in the commonwealth; or provided, however, that the stock shall be received pursuant to a plan for the merger or consolidation of the bank with or into or the transfer, sale or exchange of property or of assets of the bank or with a bank in stock form incorporated under the laws of the commonwealth or a federally-chartered bank doing business in the commonwealth the stock of the bank, as the case may be, shall be at the time owned by the bank holding company;

(iv) in the common stock of a bank holding company as defined in said chapter 167A acquired otherwise than as set forth in the first paragraph or in the common stock of a bank holding company as defined in the federal Bank Holding Company Act of 1956, 12 U.S.C. 1841 et seq.; provided, however, that the holding company shall own 80 per cent or more of the voting stock of the qualifying bank; provided further, that if at any time after an investment in the common stock of the bank holding company, no bank of the holding company shall meet the requirements of clauses (iii) or (iv), the holding company's stock shall be disposed of within the reasonable time as the commissioner shall determine; and

(v) in the common stock of a company as defined in chapter 167A or in said federal Bank Holding Company Act of 1956; provided, however, that the banking institution or bank shall be the kind referred to in clauses (iii) or (iv) and the stock of the banking institution or bank represents at least 50 per cent of the company's assets at book value at the end of its fiscal year immediately preceding the date of investment or at the date of investment in the case of a newly formed company.

Section 15I: Purchase of stock of savings or co-operative bank, federal savings and loan association or federal saving bank.

Section 15I. Subject to applicable banking laws, an entity that may invest pursuant to section 15A or the legal list may purchase the whole or any part of the stock of a savings bank, co-operative bank, federal savings and loan association or federal savings bank; provided, however, that the bank or association shall be well capitalized under bank regulatory criteria.

Section 15J: Investment in capital stock of insurance company conducting fire and casualty insurance business.

Section 15J. An entity that may invest pursuant to section 15A or the legal list may invest in the capital stock of any insurance company that may conduct a fire and casualty insurance business; provided, however, that no insurance

stock shall be purchased if the cost of the insurance stock added to the cost of insurance stocks and bank stocks already owned shall exceed 662/3 per cent of the total of the assets of the entity.

Section 15K: Classes of securities in which entity may invest.

Section 15K. An entity that may invest pursuant to section 15A or the legal list may invest in securities of any of the following classes: debentures, convertible debentures, notes or other evidences of indebtedness of: (i) a banking corporation in the common stock of which the corporation may invest pursuant to paragraph 1 of section 15H; provided, however, that the entity that may invest pursuant to said section 15A or the legal list shall be well capitalized under regulatory criteria; or (ii) a banking corporation in the common stock of which the corporation may invest pursuant to paragraph 2 of said section 15H shall be well capitalized under regulatory criteria.

Attachment D

Town of Arlington Investment Policy Statement

I. PURPOSE

The purpose of this document is to specify the policies and guidelines that provide for the prudent and productive investment of Town funds. The Town of Arlington investment program is operated by the Town Treasurer in conformance with all applicable federal and state requirements, including MGL c.44, §§ 54 and 55, 55A, 55B and MGL c.40, §5B.

II. SCOPE

This policy applies to the investment of all of the Town's funds, excluding the investment of employees' retirement funds and Other Post Employment Benefit fund. Except for cash in certain restricted and special funds, the Town will consolidate cash and reserve balances from all funds to maximize earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with GAAP.

III. INVESTMENT OBJECTIVES

The Town shall seek as high a level of investment income as is consistent with, first: the safety of principal and, second: the provision of liquidity to meet daily cash flow requirements.

A. Safety of Principal

Safety of principal, the primary objective, shall be pursued in a number of ways.

1. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by protecting against credit risks.
2. Investments shall be made in conformance with prudent guidelines for allowable instruments, credit quality, and maturities.
3. Adequate diversification of instruments, issuers, and maturities shall be maintained.
4. All deliverable securities shall be held by a third-party custodian on the basis of delivery vs. payment to a custodian bank.
5. All repurchase agreements shall be fully collateralized, with a custodian bank receiving delivery of the collateral.

B. Liquidity

The investment portfolio shall be structured to meet all of the Town's cash requirements that may reasonably be anticipated. Furthermore, since all cash requirements cannot be anticipated, the portfolio should consist mainly of custodial arrangements, investment pools or money market funds specified below, securities or deposits with very short maturities, or securities with active secondary or resale markets.

C. Yield

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the Town's liquidity requirements.

The portfolio shall be managed with the objective of exceeding the average of three-month U.S. Treasury Bill rates for the equivalent period. This index is considered a benchmark for near-riskless investment transactions and, therefore, comprises a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with stated risk limitations and prudent investment principles.

While investments shall not be made for the purpose of trading or speculating as the dominant criterion, the Town may seek to enhance total portfolio return through active portfolio management. The prohibition on speculative investments precludes pursuit of gain or profit through unusual risk. Trading in response to changes in market value or market direction, however, is warranted under active portfolio management.

IV. STANDARDS OF CARE

A. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The "prudent person" standard states that "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."

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion in writing and appropriate action is taken to control adverse developments.

B. Ethics and Conflicts of Interest

The Town Treasurer and Assistant Town Treasurer shall refrain from any personal activity or business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose to the Town Manager any material interests in financial institutions with which they conduct business with the Town. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

V. FINANCIAL DEALERS AND INSTITUTIONS

The Town shall conduct business only with qualified financial institutions. An annual review of the financial condition and registration of qualified bidders will be conducted. The Town will refer to and use one or more recognized bank rating services including but not limited to those listed below:

- Veribanc Rating Service is an independent company that provides bank ratings on all U.S. federally insured financial institutions.
- Federal Deposit Insurance Corporation (FDIC) is an independent agency of the federal government that insures deposits in banks and thrift institutions for at least \$250,000.
- Financial Industry Regulatory Authority (FINRA) an independent, not-for-profit organization authorized by Congress to protect America's investors by making sure the securities industry operates fairly and honestly.
- Securities Investor Protection Corporation (SIPC) provides up to \$500,000 insurance against a failed member brokerage firm.

The Treasurer shall require any brokerage house and broker/dealers, wishing to do business with the town to supply audited financial statements and proof of credit worthiness with minimum of five years in operation and minimum capital of \$100 million dollars.

All repurchase agreement transactions will be conducted through primary dealers of the Federal Reserve Bank of New York or applicable state agencies with short-term debt ratings of at least A-1, P-1, or F-1, or qualified depositories as described in the appropriate Section, which have executed master repurchase agreements with the Town.

VI. INVESTMENT GUIDELINES

All investments must be made in securities authorized by MGL c.44, §§ 54 and 55, 55A, 55B and MGL c.40, §5B and this investment policy statement.

A. Suitable and Authorized Investments

The Town may invest in the following securities or deposits:

- In term deposits or certificates of deposit with maturity of less than two years in trust companies, national banks, savings banks, banking companies, or cooperative banks.
- In obligations issued or unconditionally guaranteed by the United States government or one of its agencies.
- In United States government securities or securities of United States government agencies. All securities shall have a maturity from date of purchase of one year or less.
- Money market mutual funds regulated by the Securities and Exchange Commission, whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools such as the Massachusetts Municipal Depository Trust and Massachusetts Municipal Depository Short Term Bond Fund.

No investments may be made in “derivative” securities such as futures, swaps, options, interest-only or principal-only mortgage-backed securities, inverse floaters, CMT floaters, leveraged floaters, dual index floaters, COFI floaters, and range floaters. These restrictions apply to direct investments as well as to investments through custodial arrangements, pools, or money market funds discussed in applicable Sections. Thus, if a custodial arrangement, pool, or fund includes securities listed in this paragraph, the Town may not invest in shares or other interest in such custodial arrangement, pool, or fund.

The Town requires full collateralization on all demand deposit accounts including checking accounts, certificates of deposit, and money market accounts.

The Town shall not at any one time have on deposit in a bank, trust company, or banking company an amount exceeding 60% of the capital surplus of such bank, trust company, or banking company unless satisfactory security is given to it by such bank, trust company, or banking company for such excess.

PERMISSIBLE MUNICIPAL INVESTMENTS

<u>Type of Funds</u>	<u>Statutory Section</u>	<u>Permissible Investments</u>
Trust Funds, Cemetery Perpetual Care Funds	G.L. c. 44, § 54	Savings banks, MA trust cos., FDIC/MA banking cos., cooperative bank shares/accounts, S&L shares, bonds or notes on Commissioner of Banks “Legal List” (G.L. c. 167, §§ 15A, 15B) <u>if \$250K+</u> : also “securities, other than mortgages or collateral loans, which are legal for investment of funds of savings banks” (w/amount limits)
Public Funds/Deposited	G.L. c. 44, § 55	Limits on amount of deposits w/o security; no conflict of interest for Treasurer
Public Funds/Limitation of Liability	G.L. c. 44, § 55A	No personal liability for Treasurer for failure of specified investments: savings bank, MA trust co., cooperative banks, FDIC/MA banking co.
Public Funds/Invested	G.L. c. 44, § 55B	Public funds “shall be invested in such a manner as to require the payment of interest on the money at the highest amount reasonably available, taking account of <u>safety, liquidity, and yield</u> ”; “prudently”; in accordance with G.L. c. 44, §§ 54, 55
Stabilization Funds	G.L. c. 40, § 5B	National banks, savings banks, MA co-operative banks or trust companies; “securities as are legal for the investment of funds of savings banks” [Legal List]; federal S&Ls in MA

Any investment held at the time of this policy's adoption that does not conform to the policy shall be exempt from the requirements of the policy so long as such investment is a permitted Town investment under state statutes. At maturity or liquidation of such investment, all proceeds shall be reinvested only as provided by this policy.

The Town may invest or reinvest in an authorized custodial arrangement, pool, or money market fund specified in the appropriate Section of this policy that currently contains in its portfolio securities that do not meet the criteria set forth in appropriate Section ("Non-Conforming Securities") only if (1) the custodial arrangement, pool, or money market fund is a permitted Town investment under state statutes, (2) the custodial arrangement, pool, or money market fund has adopted a written investment policy that precludes future purchases of Non-Conforming Securities for its portfolio, and (3) the custodial arrangement, pool, or money market fund has adopted a written investment policy of liquidating such Non-Conforming Securities as soon as practicable after market conditions permit such liquidation at par.

B. Diversification

It is the policy of the Town to diversify its investment portfolio. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets shall be diversified by maturity, issuer, and class of security. Diversification strategies shall include:

1. At the time of acquisition, no more than 10% of the overall portfolio may be invested in deposits with a single bank, unless the deposits are fully-insured or fully-collateralized, or in repurchase arrangements for a period longer than two business days conducted through a single dealer.
2. There is no limitation on the percentage of the overall portfolio that may be invested in: (1) U.S. government and agency obligations and in repurchase agreements fully collateralized by such securities, appropriate state pools, or an authorized custodial arrangement, pool, or money market fund, if permitted by state statute, specified in the appropriate Section.
3. Investments in securities that are not readily marketable, other than securities or deposits that mature within seven days, may not exceed 10% of the portfolio's net assets at the time of purchase.

This section does not apply to bank accounts used for the temporary deposit of receipts and deposits needed to cover disbursements that are expected to clear over the next seven days.

Investment decisions shall be based on the relative and varying yields and risks of individual securities and the Town's liquidity requirements.

VII. REPORTS

Quarterly and annual reports summarizing the investment portfolio by security types and maturities, and describing the portfolio's performance relative to standard benchmarks (e.g., 90-day Treasury bills), shall be provided by the Treasurer to the Board of Commissioners for Trust Funds, Board of Library Trustees, the Cemetery Commission, and the Town Manager. A detailed portfolio listing, including cost, market valuations, maturities, and commentary on economic conditions, shall be provided with each report.

VIII. PORTFOLIO VALUATION

The market value of the investment portfolio shall be determined on at least a monthly basis. Significant deviations of market values to amortized costs shall be reported promptly to the Town Treasurer.

IX. ADOPTION

This policy shall be reviewed during the Town's Annual Budget process.

This policy shall be adopted by the Town Treasurer and presented to the Town Manager and Finance Director.

Adopted by the Town Treasurer and Collector of Taxes
May 26, 2020

Attachment E

Massachusetts Collectors and Treasurers Association



Kat Forte - Executive Director
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August 21, 2023

Good afternoon,

On August 9, 2023, the Governor signed the FY '24 budget and section 26 which provides the use of the Prudent Investor Rule for trust funds. This section enables Municipal Treasurers to apply the Prudent Investor Rule to optimize returns on trust fund monies, as defined in MGL Ch. 203C. The use of this new law is a local option and requires local approval by the local Executive and City Council or Town Meeting before implementation.

Municipal Treasurers are charged to balance safety, liquidity, and yield when investing public funds. This bill now allows Treasurers to broaden the options available to meet those three goals for trust fund monies. This is a great win for the association. I would like to thank our advisor John V. Fernandes as well as the current and past Legislative Committees.

Sincerely,

A handwritten signature in blue ink, appearing to read "C.P.", is positioned above the typed name.

Christopher C. Pilla
1st Vice President, Legislative Chair
Massachusetts Collectors and Treasurers Association