



# SELECT BOARD POLICY

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## POLICY NAME: **FINANCIAL POLICIES**

### Introduction

The Select Board sets forth the following financial principles consistent with its responsibilities in Groton's Home Rule Charter. These principles provide a broad framework for overall fiscal planning and management of the Town of Groton's resources. In addition, these principles address both current activities and long-term planning. The principles are intended to be advisory in nature and serve as a point of reference for all policy-makers, administrators and advisors. It is fully understood that Town Meeting retains the full right to appropriate funds and incur debt at levels it deems appropriate, subject, of course, to statutory limits such as Proposition 2 1/2.

The principles outlined in this policy are designed to ensure the Town's sound financial condition, and seek to be in the best economic interest of the Town now and in the future. Sound Financial Condition may be defined as:

- Cash Solvency - the ability to pay bills in a timely fashion.
- Budgetary Solvency - the ability to balance the budget annually.
- Long-Term Solvency - the ability to pay future costs.
- Service Level Solvency - the ability to provide needed and desired services.
- Public Confidence - the ability to garner public support for decisions that promote financial stability.

It is equally important that the Town maintain flexibility in its finances to ensure that the Town is in a position to react and respond to changes in the economy and new service challenges without measurable financial stress.



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## General Financial Guidelines

1. Financial discussions shall be open and inclusive. The Town is committed to regular financial forecasting, independent audit, and periodic public review of financial details and ratification of decisions by Town Meeting.
2. The Town will avoid budgetary procedures that balance current obligations at the expense of meeting future years' needs, such as postponing expenditures or accruing future years' revenues. Long and short-term debt will be scheduled with careful attention to the Town's capital needs plan and managed in such a way as to avoid excessive issuance costs.
3. Ongoing operating costs will be funded by ongoing operating revenue sources. This protects the Town from fluctuating service levels and avoids concern when one-time revenues are reduced or removed. The Town Manager and the Department of Finance shall collaborate with the Finance Committee to prepare, maintain and present to the Select Board and Town Meeting a five-year financial plan for the Town.
4. The Town will maintain a Stabilization Fund as one of its two primary financial reserves. It shall be the goal of the Town to achieve and maintain a balance of at least 5% of the Town's current line item budget.
5. The Town will maintain a Municipal Capital Stabilization Fund to defray the cost of new equipment, building maintenance, and capital improvements to town land and buildings to the extent that these costs may be funded by the Fund's balance. (See Debt Management Policies for costs exceeding the Fund's balance, which may be funded by borrowing.) It shall be the goal of the Town to maintain a balance in this fund of a minimum of 1.5% of the Town's current line item budget, with the objective to grow the fund to support near term and cover longer term needs.
6. The Town will continue to maintain a Conservation Fund to be used in part for the purchase of land, or conservation restrictions or agricultural preservation restrictions on lands that exhibit high value for protection because they contain important natural resources. The Conservation Commission is responsible for formulating and prioritizing a list of such parcels so that a plan may be established for future purchases. It shall be the goal to maintain a balance in the Conservation Fund of at least 2% of the Town's current line item budget, exclusive of Enterprises and the Community Preservation Fund; and to the extent possible, deposits to the Conservation Fund should come from the Community Preservation Surtax.



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7. The Town shall maintain a Community Preservation Fund in accordance with the current law. The fund will be managed in a manner that will guarantee payment of current debt service prior to approving new capital costs. Borrowing shall be managed in order to assure that no more than a total 75% of CPA receipts, not including annual contributions to the fund by the Commonwealth, are dedicated to debt service in compliance with Massachusetts Department of Revenue IGR 00-209 and File #2004-464.

8. The Town shall monitor its Special Revenue Funds (Gifts, Grants, and Trusts) and its Enterprise Funds to assure the solvency of these funds and avoid undue stress on the general fund. To this end, a) Enterprise policies shall require that rates be set to ensure revenues are sufficient to fund all operating costs and debt service and fund retained earnings, unless there is an explicit policy implemented by the Town to provide General Fund support to the Enterprise. In addition, b) Enterprise policies shall include a goal for the targeted amount of retained earnings. The goal shall include amounts considered appropriate to fund unexpected occurrences and emergencies and expenditures necessary to meet change in law requirements, to fund capital and operating reserves, and to serve as a rate stabilization reserve. The policies shall also include a goal for debt limitations consistent with the Town's general goals. In addition, c) the Town shall not enter into contracts for reimbursable and/or matching grant liabilities whose aggregate total exceeds 1.5% of the Town's current line item budget, unless the Town Manager receives prior approval from the Select Board and Finance Committee.

9. The Select Board and the Finance Committee shall review the financial policies annually, seeking input from financial staff and advisors. This review should take place by October 1st of each year.

10. Investment practices will be in accordance with the Town's "Investment Policy".



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## TOWN OF GROTON FREE CASH POLICY

### I. PURPOSE AND SCOPE

The Town's Excess and Deficiency (E&D) Fund "Free Cash" is the result of the calculation, as of July 1, of Groton's remaining, unrestricted funds from its operations of the previous fiscal year based on the balance sheet as of June 30. It typically includes receipts in excess of revenue estimates and unspent amounts in departmental budget line items for the year just ended, plus unexpended free cash from previous years. Free Cash plays an important role in allowing Groton to sustain a strong credit rating. The purpose of this policy is to provide guidance on the use of Free Cash to fund certain expenditures

### II. POLICY

1. As a nonrecurring revenue source, spending from the E&D account is allowed for any lawful municipal purpose, however, it should be restricted to paying one-time expenditures, funding capital projects, or replenishing other reserves.
2. The Town should strive to maintain an E&D account balance in an amount equal to one (1%) percent of its current Town's current line item budget. This amount is in addition to the policy of having the Stabilization Fund equal five (5%) percent of the Town's current line item budget.
3. The Town should strive to maintain a Municipal Capital Stabilization Fund (excluding the Town created GDRSD Capital Stabilization Fund) balance at 1.5% of the Town's current line item budget with the goal to grow the fund to support near term and cover longer term needs.
4. The E&D account balance shall be maintained through the use of fiscally responsible revenue projections and departmental spending.
5. The E&D account balance can be expended at the discretion of Town Meeting for the following purposes:
  - a. To Replenish the Stabilization Fund, replenish and grow the Capital Stabilization Fund and fund the Town created Groton-Dunstable Regional School District's Capital Stabilization Fund.
  - b. To pay employee incentives (i.e. health savings accounts, health reimbursement accounts, merit increases) contingent on the availability of a sufficient E&D account balance.



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- c. To fund an annual contribution to the Other Post-Employment Benefits (OPEB) liability trust fund.
- d. To fund one-time projects proposed by the Select Board and Finance Committee.
- e. Offset the Tax Rate.



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## TOWN OF GROTON DEBT MANAGEMENT POLICY

### Introduction

The use of long-term debt is a common and often necessary way for a community to address major infrastructure and equipment needs. It is also a means of spreading the cost of large capital projects over a larger, changing population base. However, when a local government incurs long-term debt, it establishes a fixed obligation for many years. Accumulation of such fixed burdens can become so great that a local government finds it difficult to pay both its operational costs and debt service charges. Great care and planning must therefore be taken when incurring long-term debt to avoid placing a strain on future revenues. The purpose of this policy is to establish guidelines governing the use of long-term debt. Massachusetts General Laws, Chapter 44, Sections 7 & 8 regulate the purposes for which municipalities may incur debt and the maximum maturity for bonds issued for each purpose. Massachusetts General Laws, Chapter 44, Section 10, specifies that the debt limit for towns is 5% of Equalized Valuation.

### Capital Funding Guidelines

The Town's long-term debt strategies will be structured to reflect its capital needs and ability to pay. The Capital Stabilization Fund (see "Overall Financial Policies", #5) will be used in conjunction with regular financial forecasting to maintain overall borrowing costs at a reasonable level (see Debt Limitations below). The Town will not, in general, bond projects or aggregate funding of multiple projects/purchases that fall within the funding ability of the Capital Stabilization Fund. Except for emergency needs, the Town will plan its funding for major capital purchases or improvements by utilizing both the timing of debt acquisition and the length of term for debt repayment in a manner which allows the Town to remain within the guidelines for annual debt service (see Debt Limitations below).

### Bond Rating

The community's bond rating is important because it determines the rate of interest it pays when selling bonds and notes. Other things being equal, the higher the bond rating, the lower the interest rate. Bond analysts (Moody's, Standard & Poor's, Fitch) typically look at four sets of factors in assigning a credit rating:

- Debt Factors: debt per capita, debt as a percentage of equalized valuation and rate debt amortization.
- Financial Factors: operating surpluses or deficits, free cash as a percent of revenue, state aid reliance, property tax collection rates, and unfunded pension liability.
- Economic Factors: property values, personal income levels, tax base growth, tax and economic base diversity, unemployment rates and population growth.



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- Management Factors: governmental structure, the existence of a capital improvement plan, the quality of accounting and financial reporting, etc.

The Town will continually strive to improve its bond rating through sound financial management, improved receivables management, accounting and financial reporting and increased reserves, such as the Stabilization Fund.

### Debt Limitations

**General Fund Debt Service:** A limit on debt service costs as a percent of the Town's total budget is especially important because of Proposition 2½ constraints on town's budget. At the same time, the community's regular and well-structured use of long-term debt symbolizes the municipality's commitment to maintaining and improving its infrastructure. The Town of Groton is committed to a debt service budget equal to 5% of the Town's current line item budget, exclusive of Enterprise funded debt, Community Preservation funded debt and debt service excluded from Proposition 2 1/2. The Town will also, by policy, establish a debt service "floor" of 3% of the Town's current line item budget, as an expression of support for continued investment in the town's roads, utilities, public facilities and other capital assets. In order to maintain these benchmarks, the Town should schedule future debt service to coincide with maturing debt service. To maintain this floor, if debt service is projected to fall below 3% of the Town's current line item budget, that amount below shall be expended on one-time pay-as-you-go capital or shall be appropriated to the Capital Stabilization Fund.

**Debt Maturity Schedule:** As previously stated, Chapter 44 of the General Laws specifies the maximum maturity for bonds issued for various purposes. However, a town may choose to borrow for periods less than the statutory limit. The Town of Groton is committed to establishing an average debt maturity goal of 10 years. This can be accomplished through more aggressive amortization of new debt service and shortening terms for existing debt when the option to refinance a bond becomes available. (It should be noted that revenue supported debt service for water and sewer projects will not be subject to this objective.)

### Debt Strategies

**Alternative Financing Strategies:** The Town will continually pursue opportunities to acquire capital by means other than conventional borrowing; such as grants and low- or zero-interest loans from state agencies, such as the Mass Water Pollution Abatement trust (MWPAT) or the MWRA.

**Debt Issuance:** The Town will work closely with the Town's Financial Advisor and Bond Counsel to ensure that all legal requirements are met and that the lowest possible interest rate can be obtained.



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**Enterprises:** Any debt issued for the benefit of the Town's enterprise funds is to be paid from service revenues, unless there is an explicit direction from Town Meeting to contribute General Fund support of the debt service.

**Capital Planning:** No projects are to be funded by debt authorized by Town Meeting unless those projects have been incorporated in to and vetted by the Town's capital planning process.

**Lease-Purchase Financings** - any lease purchase agreements, financings, etc., utilized by the Town shall be considered debt for the purposes of this policy and shall be subject to all the constraints cited herein.





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## TOWN OF GROTON POLICY FOR THE FUNDING OF OTHER OBLIGATIONS

### Introduction

Under Massachusetts General Laws, the Town is currently funding its unfunded pension liability through its participation in the Middlesex County Regional Retirement System. The Town also has the responsibility to fund its Other Post-Employment Benefits (OPEB) liability.

The Town will utilize the following policy towards that end:

### Policy Guidelines

**Independent Evaluation of Liability:** The Town will have its liability measured by an outside consultant every second year; with interim evaluations done yearly for the purposes of updating the total liability.

**Limitation of Retiree Health Care Costs:** The Town has adopted the requirements of Section 18A of Chapter 32B, which serves to limit liability for retiree health insurance by utilizing the benefits of Medicare and thereby shifting some of the cost away from local funding.

### OPEB Funding Plan:

### PURPOSE

To provide the basis for a responsible plan for meeting the Town's obligation to provide other post-employment benefits (OPEB) to current and future retirees, this policy provides guidelines designed to ensure OPEB sustainability and achieve generational equity among those called upon to financially support OPEB, thereby avoiding transferring costs into the future. This policy is adopted in compliance with Governmental Accounting Standards Board (GASB 74/75) and Massachusetts General Law, Chapter 203C, §3 and Massachusetts General Law, Chapter 32B, §20.

### APPLICABILITY

This policy encompasses OPEB-related budget decisions, accounting, financial reporting, and investment. It applies to the Select Board, Finance Committee and Town Manager in their budget decision making responsibilities. This Policy also applies to the OPEB related duties of the Finance Team members, including the Town Accountant, Town Treasurer-Tax Collector, Principal Assistant Assessor, Human Resources Director and Executive Assistant to the Town Manager.



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## BACKGROUND

In addition to salaries, the Town of Groton compensates employees in a variety of other forms. Many earn benefits over their years of service that they will not receive until after retirement. A pension is one such earned benefit. Another is a set of retirement insurance plans for health and life. These are collectively referred to as other post-employment benefits or OPEB.

OPEB represents a significant liability for the Town that must be properly measured, reported, and planned for financially. As part of the long-range plan to fund this obligation, the Town established an OPEB Trust Fund, which allows for long term asset investment at higher rates of return than those realized by general operating funds. This fund is managed by the Town Treasurer.

## POLICY

The Town of Groton is committed to funding the long-term cost of the benefits promised its employees. To do so, the Town will accumulate resources for future benefit payments in a disciplined, methodical manner during the active service life of employees. The Town will also periodically assess strategies to mitigate its OPEB liability. This involves evaluating the structure of offered benefits and their cost drivers while at the same time avoiding benefit reductions that would place undue burdens on employees or risk making the Town an uncompetitive employer.

### A. Accounting and Reporting

The Town Treasurer, responsible for oversight of the investment portfolio, has designated Morgan Stanley as investment manager of the trust assets. The Treasurer will manage the fund's contributions and disbursements and monitor the account and investment activity reports. On an annual basis, the Finance Team will meet to review the Trust's investment policy to ensure conformance with the State's prudent investor laws, and to review investment strategy, performance and fees.

The Town Accountant will obtain actuarial analyses of the Town's OPEB liability every two years and will annually report the Town's OPEB obligations in financial statements that comply with the current guidelines of the Governmental Accounting Standards Board.

The Town Manager shall ensure that the Town's independent audit firm reviews compliance with the accounting and reporting provisions of this policy as part of its annual audits and will report on these to the Select Board.



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### B. Mitigation

On an ongoing basis, the Town will assess healthcare cost containment measures and evaluate strategies to mitigate its OPEB liability. The Treasurer shall monitor proposed laws affecting OPEB and Medicare and analyze their impacts. The Treasurer shall also regularly audit the group insurance and retiree rolls and drop any participants found to be ineligible based on work hours, active Medicare status, or other factors.

### C. Funding

To address the OPEB liability, decision makers shall analyze a variety of funding strategies and subsequently implement them as appropriate with the intention of fully funding the obligation. The Town shall derive funding to invest in the OPEB Trust from taxation, free cash, retained earnings, and any other legal form. Among strategies to consider for funding the obligation:

- Determine and commit to appropriating an annual portion of Free Cash and available Tax Capacity.
- Determine and appropriate annually the amount necessary to prevent the net present value OPEB Liability from increasing.
- When a new position is created, determine the OPEB liability for the position and appropriate annually the anticipated OPEB liability of the position, in addition to the annual cost of the position.
- When the Town's Unfunded Pension Liability is fully funded in 2035, the Town will appropriate such savings to the Town's OPEB Trust to reduce its OPEB Liability.



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## TOWN OF GROTON POLICY FOR THE REVIEW OF BUDGET PERFORMANCE

### Introduction

The Town Charter requires the Town Manager to present a balanced budget to the Select Board and the Finance Committee six months prior to the beginning of each fiscal year; in effect by January 1st. Prior to the formulation of the Budget, the Select Board, Finance Committee and Town Manager shall meet prior to October 1st to determine budgetary goals for the ensuing Fiscal Year. The initial budget is developed in conjunction with the Town's Department Managers and reviewed in several public meetings as well as formal public hearings, culminating in ratification by Town Meeting. The Town utilizes specific line items for its budget, each line considered a separate and distinct appropriation. In order to monitor expenditures and assure the integrity of the overall budget, regular review and management direction is required, as outlined in the policy guidelines below.

### Policy Guidelines

**Line Item Appropriation Review:** Each Department Manager or elected/appointed Board/Commission is required to monitor expenditures, and local receipts revenue if applicable, relevant to that governmental area's operation. The Accounting Department will provide budget variance reports at least monthly as a management tool to aid periodic monitoring.

**Total Budget Review:** The Town Manager will review the monthly variance reports for all departments/cost centers; and the Town Accountant will provide ongoing oversight. There will be periodic presentation of the budget status to the Select Board and Finance Committee; this presentation to occur at least quarterly.

**Reserve Fund:** The Town will include a budgetary reserve fund equal to approximately 1% of the total general fund appropriations less the assessments to the district schools which will be under the management of the Finance Committee to account for extraordinary or unforeseen expenses.

**Line Item Transfer:** The budget will be reviewed twice each year by the Town Manager in conjunction with the Town Accountant and the Finance Committee for opportunities to re-balance the original budget. Such reviews will take place prior to the fall and spring annual town meetings and any transfers will be publicly debated and subsequently ratified by Town Meeting.



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## TOWN OF GROTON POST ISSUANCE COMPLIANCE POLICY

### OBJECTIVE OF THE POLICY

The objective of this policy is to ensure compliance with federal tax law and regulations pertaining to the use of tax-exempt governmental purpose bonds and to the use of property, projects and equipment funded with tax-exempt governmental purpose bonds.

This document is to encompass the following:

- The use of bond proceeds (and the term "bond", except as otherwise indicated, includes notes, bonds and tax-exempt lease purchases issued by the Town);
- The use of property, projects, equipment, etc. funded with tax-exempt bond proceeds;
- The timely expenditure of bond proceeds;
- Compliance with arbitrage yield restriction rules and with the calculation and timely payment of arbitrage rebate payments, as required;
- Filing requirements;
- The reserve of funds in anticipation of a rebate payment requirement;
- Collection and retention of necessary documentation; and
- Resolution of problems.

### RESPONSIBILITIES OF THE PARTIES INVOLVED

The Town Treasurer shall be responsible for implementing this policy. The Treasurer will be assisted by:

- The Town Accountant, who is responsible for recording expenditures and interest earnings and for reviewing and approving contracts entered into by the Town;
- The Town Manager, who is the Chief Procurement Officer, or a designated subordinate has ultimate responsibility for the implementation of Town capital projects and disposition of Town property; and



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- The Chief Procurement Officer, if other than the Town Manager, who has the responsibility for procuring service and management contracts and overseeing the acquisition and disposition of Town property.

It is the Treasurer's responsibility to convey to each party the Treasurer's expectations as to their performance relating to project implementation, project expenditures, documentation, and information required by the Treasurer to remain in compliance with applicable tax law. Since all the responsible parties participate in the issuance of Town bonds, the Treasurer will provide direction to those responsible parties during the process of issuing bonds, at the time of the delivery of bond proceeds, and after the delivery of bond proceeds but prior to the final maturity of the bonds,

### SCOPE OF THE POLICY AND PROCEDURES

The following sections outline the scope of the policy and procedures for which the Treasurer is responsible:

#### Use of bond proceeds and bond funded property -

It is the Treasurer's responsibility to monitor and ensure the proper use of bond proceeds and bond funded property.

The proper use of tax-exempt bond proceeds and the proper use of bond-funded property, projects, equipment, etc., (hereafter "property"), will be confirmed and documented through Bond Counsel's review prior to the issuance of tax-exempt bonds and will be addressed in the legal opinion issued by Bond Counsel and in the Tax Certificate (or Non-Arbitrage Certificate) prepared by Bond Counsel as part of the final bond transcript.

There are further requirements associated with the proper use of bond financed projects and of the use of bond proceeds included in the Massachusetts General Laws and in the regulations imposed by the Department of Revenue regulations. Although these requirements are not part of federal tax law, the requirements do dictate how bond funded property is to be disposed of or how it might be used in a manner other than originally contemplated.

The continued proper use of property funded with tax-exempt bond proceeds will be monitored by the Treasurer through an annual reminder of such to appropriate Town officials and through the review of any Town proposals considering the change in use of the property or Town procurements relating to such property. The procurement of service contracts, management contracts and leases for the limited use of Town property should also be reviewed by the Treasurer. The Treasurer will be responsible for managing any remedial actions, if required,



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### Timely expenditure of bond proceeds -

The Federal Tax Code sets explicit expectations relating to the expenditure of bond proceeds. There are certain "safe harbors" for small issuers. If expenditure expectations for small issuers are not met, the unexpended bond proceeds must be yield restricted. There are also expenditure thresholds to be satisfied for bonds issued where the Town cannot use the "small issuer" exemption. If these thresholds are not met, the Town may be required to rebate its positive arbitrage earnings to the Federal Treasury.

It is the responsibility of the Treasurer to review the expenditure requirements cited in the Tax Certificate and to monitor the expenditure of bond proceeds until all funds are expended.

### Arbitrage yield restriction and rebate -

It is the responsibility of the Treasurer to manage yield restricted investments. It is the responsibility of the Treasurer to determine rebate exposure; to procure arbitrage calculation services; to make rebate payments, as required, to the Federal Treasury; and to prepare 8038-T forms for such purposes. It is also the responsibility of the Treasurer to reserve funds for such rebate payments, as appropriate, and to report the rebate liability to the Town's Independent Financial Auditor.

### Filing requirements -

The proper filings of forms 8038-G and 8038-GC are essential with every tax-exempt financing. All 8038-G's and 8038-GC's are to be signed by the Town Treasurer. No other official in the Town is authorized to execute these forms.

It is the responsibility of the Treasurer to ensure rebate payments, if required, are made on a timely basis. Such payments must be made within 60 days of the maturity of a note; within 60 days of the fifth anniversary, and multiples thereof, of the issue of a bond; and within 60 days of the final maturity of a bond. The payment of a rebate is to be accompanied by and documented on the form 8038-T.

### Documentation -

It is the responsibility of the Treasurer to ensure all proper documentation is produced and retained as required. Such documentation will include, but not necessarily be limited to, the following:

- Tax Certificates or Non-Arbitrage Certificates.



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- Note and Bond transcripts.
- Form 8038-G's and 8038-GC's.
- Projected expenditure cash flows prepared for each financing prior to issue.
- The record of the expenditure of funds.
- The record of the investment earnings on unexpended bond proceeds prior to full expenditure.
- Yield restricted investments, as required.
- Rebate calculations, rebate payments, and Form 8038-T, as required.
- The list of projected tax-exempt financings during each calendar-year.
- Management contracts.

If a problem occurs -

It is the responsibility of the Treasurer to address violations associated with any tax-exempt financing when violations are discovered. The violation may be addressed through the Voluntary Compliance Agreement Program (VCAP). Alternatively, remedial action may be required under Section 1.141-12 of the Internal Revenue Service regulations. The Treasurer shall consult with the Town's Bond Counsel and/or Financial Advisor as appropriate.

### PROCEDURES TO BE FOLLOWED BY THE TREASURER

The following procedures are to be followed by the Treasurer. Procedures to ensure proper use of tax-exempt funds:

In the process of preparing for a bond or note sale, the Treasurer will provide information to Bond Counsel pertaining to the proper use of the property being acquired with tax-exempt funds. Prior to the distribution of the Preliminary Official Statement, the Treasurer shall meet with appropriate Town officials, including at minimum the Town Manager and the Select Board, to review the information provided to Bond Counsel, to review the intended use of the bond proceeds and the property funded and to determine whether there are any contemplated uses of the property that might be inconsistent with the use of tax-exempt funds. The Treasurer shall document this meeting in a memorandum to file.





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Procedures to ensure compliance with the use and expenditure of note and bond proceeds at the time of sale:

At the time of the sale of notes and bonds, it is assumed that the projected use of proceeds and the use of the property being funded are in compliance with the Federal tax code. It is reasonable to rely on the scrutiny of Bond Counsel and the documentation that accompanies each financing, based on the information provided to Bond Counsel.

With the completion of a financing, the Treasurer is to compile and maintain a separate file associated with the financing. This documentation will typically include the following:

- The bids results, the final numbers, and the quantitative rationale for the use of credit enhancement.
- The transcript for the financing, which, at minimum, should include the tax certificate (non-arbitrage certificate). The tax certificate should include a description of use of funds, the identification of the expenditure test to which the bonds are subject, and the arbitrage yield.
- The form 8038-G or 8038-GC.
- The projected expenditure cash flow by purpose, as provided to Bond Counsel prior to the issuance of the bonds. The cash flow is to be for each purpose, projecting the expenditure of funds on at least a semi-annual basis, until all funds are expended. If the bonds are subject to certain expenditure thresholds, the cash flow should present the amount of proceeds that should be expended at each threshold. The cash flow should be adjusted to reflect an issue amount that might be in excess of the amount originally included in the cash flow (for example, a large original issue premium).
- Any other notes prepared by the Treasurer, as applicable, relating to the monitoring of the expenditure of funds and use of the property.

The Treasurer shall establish one or more bank accounts for the purposes funded to allow for the tracking of the expenditure of fund so it is necessary that the account documentation be able to show every payment made by amount and date and every credit of interest earnings by amount and date. If all the purposes are co-mingled in one account, there should be a separate recording of expenditures and investment earnings by purpose by the Town Accountant.

As required under the Massachusetts General Laws, all interest earnings shall be credited and released to the General Fund when earned.

All such account documentation should be maintained for six years after final maturity of bonds.



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Procedures to monitor the rate of expenditure of bonds -

To monitor the expenditure of bond proceeds, the Treasurer shall perform the following review:

- At the end of each fiscal year, and within thirty days of the final maturity of any note or bond, the Treasurer shall review the expenditure account and check for compliance with the required expenditure thresholds.
- The Treasurer shall assess the likelihood of continued compliance with the expenditure thresholds, or if a threshold has not been met, assess the likelihood of positive arbitrage.
- If the Treasurer believes the expenditure thresholds have not been met and/or will not be met, and also expects there will be investment earnings in excess of the arbitrage yield, then the Treasurer is to reserve an amount estimated to represent a future rebate payment or, as applicable, to request an appropriation of Town Meeting for the rebate payment.
- The Treasurer is to continue to monitor expenditures at the end of each fiscal year, or at the maturity of an issue, until all funds are expended.
- If after the maturity of a note or bond, the Treasurer determines that a rebate is likely payable to the Federal Treasury, the Treasurer shall procure the services of a firm to calculate the rebate and thereafter make payment in a timely fashion.

Thus, in addition to the documentation compiled at the closing of the bond, the Treasurer shall add the following additional documentation:

- The record documenting expenditures until the next time a review is performed.
  - As applicable, any rebate calculations performed.
  - As applicable, any Forms 8038-T prepared.
- When all the funds are expended, the Treasurer shall accumulate all appropriate documentation and retain it until six years after the final maturity of the financings that funded the property.

Procedures associated with the investment of bond proceeds -

Unless funds are subject to yield restriction, the Treasurer shall be responsible for the investment of bond proceeds as deemed appropriate. If investment contracts are purchased at the time of the delivery of bond proceeds, such contracts shall be procured under the scrutiny of Bond Counsel.



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Procedures associated with procurement of investments associated with a bond issue -

It is the responsibility of the Treasurer to ensure other investments made relating to a bond issue (such as investments purchased to fund an escrow for a current or advance refunding) are procured in accordance with applicable tax regulations.

Procedures to ensure compliance with the use of service contracts and management contracts -

The Chief Procurement Officer shall forward all Requests for Proposals for service and/or management contracts for review by the Treasurer. The Treasurer shall provide appropriate direction to the Chief Procurement Officer relating to private activity issues associated with service and management contracts. As required, the Treasurer shall request advice from the Town's Bond Counsel and/or Financial Advisor.

Procedures to ensure compliance with lease purchases -

At the beginning of each fiscal year, the Treasurer shall inform all Town Department Heads and other Town officials that no lease purchase contracts are to be entered into without the approval of the Treasurer. In addition, the Treasurer shall inform them that the forms 8038-G and 8038-GC are only to be signed by the Treasurer.

Procedures to ensure compliance with the change of use of tax-exempt bond funded property -

At the beginning of each fiscal year, the Treasurer shall present a memorandum to the Town Manager, to the Town Accountant, and to Town Department Heads reviewing the expected proper use of bond funded property and requesting any information as to the possible change in use or disposition of property. At any time during the fiscal year, if there is a change in use or disposition of property contemplated, the Town Manager shall inform the Treasurer of the proposal. As needed, the Treasurer shall consult with Bond Counsel and/or the Town's financial advisor relating to such proposal.

In the case where change in use is subject to Town Meeting approval, the Town Manager shall forward all Town Meeting articles relating to the change in use or sale of Town tax-exempt bond funded property for review by the Treasurer. The Treasurer shall provide appropriate direction to the Chief Procurement Officer relating to issues associated with the change in use of tax-exempt bond funded property. As required, the Treasurer shall request advice from the Town's Bond Counsel and/or Financial Advisor.



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Procedures to project calendar year schedule of note and bond issues -

At the beginning of each calendar year, the Treasurer shall prepare and/or update a list of all projected tax-exempt financings issued and expected to be issued during the then current calendar year. This record shall document representations made by the Town relating to the small issuer safe harbor status and/or the Bank Qualification of tax-exempt issues of the Town. At the beginning of the following fiscal year, the Treasurer shall review the list of financings and shall revise it accordingly.

Documentation attached hereto -

The following documentation is attached to assist in the direction, training, etc., of those parties identified with responsibilities:

- IRS Publication 4078, Tax-exempt Private Activity Bonds
- IRS Publication 4079, Tax-exempt Governmental Bonds



# SELECT BOARD POLICY

## Town of Groton Investment Policy

### Introduction

Massachusetts General Laws, Chapter 44, Section 55B requires the municipal treasurer to invest all public funds except those required to be kept uninvested for the purpose of immediate distribution. These guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the daily cash requirements for the operation of Town's business, according to the following objectives:

Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be lessened by diversification and prudent selection of investment of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates. Liquidity is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases. Yield is the third, and last, objective. Investments shall be made so as to achieve the best rate of return, taking into account safety and liquidity constraints, as well as all legal requirements.

### Investment Instruments

The Treasurer shall negotiate for the highest rates possible, consistent with safety principles, avoiding uncollateralized investment products. Unsecured bank deposits of any kind will be limited to no more than 1% of an institution's assets and no more than 10% of the Town's cash.

### Diversification

Diversification should be interpreted in two ways: In terms of maturity, as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as concentration in a specific institution. With the exception of U.S. Treasuries or agencies, no more than 10% of the Town's investments should be invested in a single financial institution, except with the prior approval of the Town Manager and Select Board.

### Authorization



## SELECT BOARD POLICY

The Treasurer has authority to invest the Town's funds, subject to the statutes of the Commonwealth cited above.

### Ethics

The Town Treasurer (and Assistant Treasurer) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair ability to make impartial investment decisions. Said individuals shall disclose to the Town Manager, and file in writing with the Town Clerk, any material financial interest in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town's investments.

### Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to safety. The Town should subscribe to and use one or more of the recognized bank rating services, such as Veribanc or Sheshunoff. Brokers should be recognized, reputable dealers. The Town shall require any brokerage houses and broker/dealers, wishing to do business with the municipality, to supply information and references sufficient to assure entering into a banking relationship.

### The Investment of Trust Funds, Bond Proceeds, Stabilization Funds and OPEB Trust Funds

#### Scope

This section of the policy applies only to funds that could be invested long-term (i.e. bond proceeds, trust funds and stabilization funds and OPEB trust funds).

#### Investment Policy Statements (IPS)

The Town of Groton must maintain separate Investment Policy Statements for General Fund & Long-Term Funds, Trust Funds and OPEB Trust Funds, the primary purpose of which is to provide a clear understanding regarding the Town's objectives, goals, risk tolerance and investment guidelines for the investment of each category of funds. Each IPS should be reviewed annually by the Town Treasurer in consultation with the Town's respective portfolio managers, and any revisions, if deemed appropriate, should be updated accordingly.

- Attached:
- Town of Groton Investment Policy Statements (IPS)
  - General Fund & Long-Term Funds IPS
  - Trust Funds IPS
  - OPEB Trust IPS



## SELECT BOARD POLICY

### Bond Proceeds

Investment of Bond proceeds is governed by the same restrictions as general funds, with the additional caveat of arbitrage regulations.

### Trust Funds

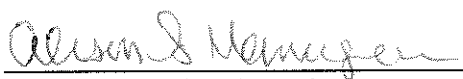
Trust Funds may be co-mingled and invested in any instruments allowed by Legal List issued by the Banking Commissioner. Each trust fund must be accounted for separately.

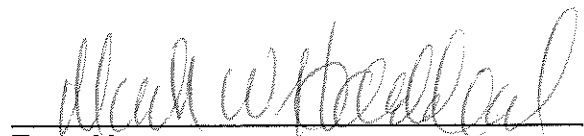
Effective October 3, 2020, the Town approved a petition of Special Legislation to the Senate and House of Representatives of the Commonwealth of Massachusetts to enact special legislation authorizing the Treasurer of the Town of Groton to invest the Town's Trust funds notwithstanding section 54 of chapter 44 of the General Laws or any other general or specific law to the contrary with the Massachusetts Prudent Investor Act, codified in Chapter 203C of the General Laws. With respect to the Town of Groton, the Massachusetts Prudent Investor Act shall take effect upon its passage and will supersede any previous Trust Funds investment parameters (i.e., Legal List).

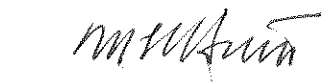
### Stabilization Funds

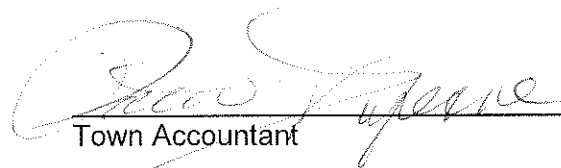
The Stabilization Fund shall not exceed ten percent of the equalized valuation of the Town, and any interest shall be added to and become a part of the fund.

### POLICY ENDORSEMENT:

  
Chairman, Select Board

  
Town Manager

  
Town Treasurer

  
Town Accountant

  
Chairman, Finance Committee

COPY

TOWN OF GROTON  
GENERAL FUNDS & LONG-TERM FUNDS  
INVESTMENT POLICY STATEMENT

The primary purpose of this Investment Policy Statement (IPS) is to provide a clear understanding regarding the Town of Groton (the "Town") Long Term Funds and General Fund objectives, goals, risk tolerance, and investment guidelines established for the investment of town funds.

I. The Investment of General Funds, Special Revenue Funds, Enterprise Funds, and Capital Projects Funds

A. Scope

This section of the IPS applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. A separate Contributory Retirement Board, either local or county, is responsible for the investment of the pension funds.

B. Investment Instruments

Note: Public investments in Massachusetts are not protected through provisions in State law.

The Treasurer may invest in the following instruments:

- Massachusetts State pooled fund: Unlimited amounts (Pool is liquid) The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos), and U. S. Treasury Obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass-through insurance on the CD's up to the standard limits and takes delivery on the Repos and Treasuries. Under Government Accounting Standards Board Regulation (GASB III), it is not considered an uncollateralized product.
- U. S. Treasuries that will be held to maturity: Unlimited amounts (Up to one-year maturity from date of purchase)
- U.S. Agency obligations that will be held to maturity. Unlimited amounts (Up to one-year maturity from date of purchase)
- Bank accounts or Certificates of Deposit ("CDs") (Up to three years' maturities from the date of purchase) which are fully collateralized through a third-party agreement: Unlimited Amounts
- Bank accounts and CDs (Up to three years' maturities from the date of purchase) insured by F.D.I.C. up to the coverage limit. All bank accounts and CDs in one institution are considered in the aggregate for the insurance coverage limit. In some cases, Banking Institutions carry additional insurance, Depository Insurance Fund (D.I.F.); Contact banking representative for amounts of coverage.
- Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: No more than 5% of an institution's assets and no more than 25% of a municipality's cash may be comprised of unsecured bank deposits. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the town in the near future. For example, these payments may be for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness



reporting systems. They will be diversified as much as possible. CDs will be purchased for no more than three years and will be reviewed frequently.

- Money Market Mutual Funds that are registered with the Securities and Exchange Commission that have received the highest possible rating from at least one nationally recognized statistical rating organization and as otherwise referenced in the Massachusetts General Law Chapter 44 Section 55.

#### C. Diversification

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as concentration in a specific institution. Except for U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies, and State pools (MMDT), no more than 25% of the Town's investments shall be invested in a single financial institution.

#### D. Authorization

The Treasurer has authority to invest town funds, subject to the statutes of the Commonwealth Massachusetts General Law Chapter 44 Section 55, 55A, & 55B.

#### E. Restrictions

Chapter 44, Section 55 set forth several restrictions that the Treasurer must be aware of when making investment selections.

- A Treasurer shall not at any one time have on deposit in a bank or trust company an amount exceeding 60% 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 shall not make a deposit in any bank, trust company or banking company with which he is, or for any time during the three years immediately preceding the date of any such deposit was, associated as an officer or employee.
- All securities shall have a maturity from date of purchase of one year or less, with the exception of bank certificates of deposits that have a three-year limit from the date of purchase.
- Purchases under an agreement with a trust company, national bank or Banking Company to repurchase at not less than original purchase price of said securities on a fixed date shall not exceed ninety days.

#### F. Legal References

Massachusetts General Law Chapter 44, Section 55  
Massachusetts General Law Chapter 44, Section 55A  
Massachusetts General Law Chapter 44; Section 55B

## II. The Investment of Long Term Funds

### A. Scope

This section of the IPS applies only to funds that are designated as long term, i.e. trust funds, stabilization funds, cemetery perpetual care, Town preservation act and other funds the town may have set aside for long term use.

All accounts will be maintained separately receiving their proportionate interest and any realized and unrealized gains or losses. The account may be established as a pooled investment portfolio unless otherwise stated. Any additional accounts will be maintained in this same manner.

### B. Authority

Massachusetts General Law Chapter 44, section 54 pertains to the investment of Trust Funds, Chapter 40 Section 5B pertains to the investment of Stabilization Funds and, Chapter 44B section 7 pertains to the investments of Town Preservation Funds. All trust funds shall fall under the control of the town's Treasurer unless otherwise provided or directed by the donor.

If the trust fund results from a gift, grant or bequest from a private donor, and the private donor specifies how the trust shall be invested; the trust fund shall be invested in accordance with the terms of the gift, grant or bequest. If there is a conflict between such donor terms and this Section II, the donor terms shall govern, subject to the general principles of prudence set forth in the Policy.

### C. Investment Instruments

M.G.L. Chapter 44 section 54 states that money should be deposited into savings bank, 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 in participation units in a combined investment fund under section thirty-eight A of chapter twenty-nine, or in a paid-up shares and accounts of and in co-operative banks, or in shares of savings and loan associations or in share or savings deposits of federal savings and loan associations doing business in the commonwealth.

Additionally, the Town may 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 percent (15%) of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent (1 ½%) of such funds be invested in the stock of any one bank or insurance company.

The Treasurer may invest in the following instruments:

- U. S. Treasuries that maybe sold prior to maturity: Unlimited amounts (With no limit to the length of maturity from date of purchase)

- U.S. Agency obligations that maybe sold prior to maturity. Unlimited amounts (With no limit to the length of maturity from date of purchase)
- Bank accounts or Certificates of Deposit ("CDs") Unlimited amounts (With no limit to the length of maturity from date of purchase), which is fully collateralized through a third-party agreement:
- Bank accounts and CDs (With no limit to the length of maturity from date of purchase) fully insured by F.D.I.C. and in some cases also Depository Insurance Fund of Massachusetts (D.I.F.): All bank accounts and CDs in one institution are considered in the aggregate to receive the insurance coverage limit.
- Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: These investments will be limited to no more than 5% of an institution's assets and no more than 25% of a municipality's cash. This percentage may be increase for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. These payments maybe for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness reporting systems. They will be diversified as much as possible. CDs will be purchased with no limit to the length of maturity from the date of purchase and will be reviewed frequently.
- Common and preferred stock that are listed in the List of Legal Investments.
- Investment Funds that are listed in the List of Legal Investments.
- All other items not separately identified here that are listed in the List of Legal Investments.

#### D. Standards of Care

The standard of prudence to be used by the Treasurer shall be the "Prudent Person" standard and shall be applied in the context of managing an overall portfolio. The Treasurer acting in accordance with written procedures and this IPS, and exercising reasonable due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this IPS and the associated Massachusetts General Laws.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs; not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived.

In addition, this section would also apply to M.G.L. Chapter 44 Section 55A which refers to the liability of the Treasurer for losses due to bankruptcy.

#### E. Diversification

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as concentration in a specific institution, except for U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies.

#### F. Legal References

Massachusetts General Law Chapter 40, Section 5B  
 Massachusetts General Law Chapter 44, Section 54  
 Massachusetts General Law Chapter 44, Section 55A  
 Massachusetts General Law Chapter 44, Section 55B

## Massachusetts General Law Chapter 44B, Section 7

Trust Funds may be co-mingled and invested in any instruments allowed by the Commonwealth of Massachusetts list of Legal Investments Legal issued by the Banking Commissioner each July. Each trust fund must be accounted for separately. Chapter 44 Section 54 sets forth that Treasurers may invest in instruments that are legal for savings banks. This list of investments is included in the Commonwealth of Massachusetts List of Legal Investments, Chapter 167 Section 15A.

### III. General Provisions

#### A. Objective

Massachusetts General Laws, Chapter 44, section 55B requires the Town's Treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution.

This section also requires that invested funds are to be placed at the highest possible rate of interest reasonably available, considering the acceptable levels of safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest reasonable return available that is consistent with safety of principal while meeting the daily cash requirements for the operation of the town's business.

- Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to preserve capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
- Liquidity is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the treasurer shall attempt to carry out investment activities in a manner that provides for meeting unusual or unexpected cash demands without requiring the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.
- Yield is the third, and last, objective. Investments shall be undertaken to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

#### B. Risk Tolerance

- Credit Risk

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

The Town will manage credit risk several ways. There will be no limit to the amount of United States Treasury and United States Government Agency obligations. In regard to other investments, the Town will only purchase investment grade securities with a high concentration in securities rated A or better. The Town may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund. The Town may place funds in banking institutions as stated in Section C of this IPS.

- Custodial Risk

The "custodial credit risk" for deposits is the risk that, in the event of the failure of a depository financial institution, a municipality will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a municipality will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Town will review the financial institution's financial statements and the background of the Advisor. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, Capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town, will be held in the Town's name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

- Concentration of Credit Risk

"Concentration of credit risk" is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The Town will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

- Interest Rate Risk

"Interest rate risk" is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Town will manage interest rate risk by managing duration in the account.

- Foreign Currency Risk

"Foreign currency risk" is the risk that changes in foreign monetary exchange rates will adversely affect the fair value of an investment or a deposit.

The Town will limit investment in any instrument exposed to foreign currency risk.

## C. Ethics

The Treasurer (and Assistant Treasurer) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Finance Director any material financial interest in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town's investments.

#### D. Relationship with Financial Institutions

Financial institutions should be selected first and foremost about their financial soundness and stability. The Town may subscribe to the Veribanc Rating Service to evaluate the banking institutions with which it chooses to establish relationships. Brokers should be recognized, reputable dealers and members of the Financial Industry Regulatory Authority (FINRA).

In instances where the Town does not purchase the Veribanc Rating Service, the Treasurer should request the banking institution's Veribanc rating from all the banking institutions that are working with the Town on a quarterly basis.

When using the Veribanc Rating Service the Treasurer may invest in such banks that show a green rating in a quarter. If a rating is yellow the Treasurer should contact the appropriate banking institution and request in writing an explanation of the change in rating and the expected time table for it to be changed to green. If for a second quarter such rating is not green, the Treasurer should consider removing all funds that are not collateralized, or carries some form of depositor's insurance. If a rating moves to red, all money should be immediately collateralized or covered by some form of depositor's insurance or be removed from the banking institution.

The Treasurer shall require any brokerage houses and broker/dealers wishing to do business with the municipality to supply the following information to the Treasurer on an annual basis:

- Annual Financial statements
- If acting as a Registered Investment Advisor, copy of their most recent Form ADV Part II report
- Errors & Omissions insurance amounting to, at a minimum, the total fair market value of the Trust Fund Portfolio
- A statement that the Advisor has read the municipality's IPS and will comply with it on an annual basis
- Annual review all advisors through [www.finra.org](http://www.finra.org): Broker Check

#### E. Reporting Requirements

On a semi-annual basis, a report containing the following information will be prepared by the Treasurer and distributed to the Finance Director, as appropriate. The semi-annual report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this IPS.
- A summary of the income earned monthly and year-to-date basis shall be reported.
- The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the town's cash position.
- The report should demonstrate the degree of compliance with the tenets set forth in the IPS.

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I MICHAEL L. HARTNETT, Treasurer of the Town of Groton have reviewed this IPS and will manage the Town's funds under my control in accordance with this IPS.

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Treasurer's Signature

MICHAEL L. HARTNETT

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Treasurer's Printed Name

11/12/2019

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Date

TOWN OF GROTON  
TRUST FUNDS  
INVESTMENT POLICY STATEMENT

The primary purpose of this Investment Policy Statement (the “IPS”) is to provide a clear understanding regarding the Town of Groton’s (the “Town”) Trust Fund’s investment objectives, performance goals, risk tolerance, and investment guidelines established for the long-term Prudent Investor funds.

A. Scope

This IPS applies to all funds that are separately designated as Trust Funds. These funds can be invested as a pooled investment portfolio unless otherwise stated. Any additional contributions of these types of funds will also be maintained in the same manner.

B. Authority

The funds shall be invested pursuant to Massachusetts General Laws 203C (The Massachusetts Prudent Investor Act) unless otherwise stipulated.

C. Diversification

The following asset classes can be included in the Trust Funds in order to construct a diversified investment portfolio that is both prudent and appropriate given the Trust Fund’s target rate of return, investment objective, and risk tolerance. The investment parameters and asset allocation definitions that will govern the Investment Manager of the diversified portfolio are included in the addendums to this IPS.

*Equities*

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

The Investment Manager of the diversified portfolio can purchase and manage the equity allocation using individual equities, such as domestic common stocks, preferred stocks, and/or American-Depository Receipts (ADRs).

The Investment Manager can also utilize other investment vehicles such as, mutual funds, exchange traded funds, closed-end funds, etc. Total equity exposure is able to include, both domestic and international equities, both developed and emerging countries and geographic regions, as well as large-, mid-, and small-market capitalization weighted companies. Direct holdings of common stock, preferred stock, and/or ADRs in any one company should not exceed 5% of the market value of the invested portfolio.

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



### **Fixed Income**

The primary objectives of the Trust Funds fixed income allocation are to preserve capital and generate a reasonable level of cash flow. The secondary objective is to provide price returns that exhibit lower correlation to the broad global equity markets in order to reduce the overall risk of the portfolio.

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

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

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

### **Alternative Investments**

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

The Investment Manager of the diversified portfolio can only purchase those strategies that are deemed to be alternative through daily-liquid diversified investment vehicles such as, mutual funds, exchange-traded funds, closed-end funds, etc. The only exception to the daily liquidity rule is private equity exposure and investment strategies. Private equity vehicles may also hold private debt as part of a diversified strategy.

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

### **Cash and Cash Equivalents**

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

#### D. Specific Risks

##### **Credit Risk**

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

The Investment Manager will manage credit risk several ways. There will be no limit to the amount of United States Treasury and United States Government Agency obligations.

In regards to fixed-income investments, the Investment Manager will only purchase investment grade securities. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds. Investments in fixed income securities will be made primarily for income and capital preservation.

##### **Custodial Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The Town will review the financial institution's financial statements and the background of the sales representative. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, Capital adequacy of the firm, and overall affirmative reputation.

Further, all securities not held directly by the Town, will be held in the Town of Groton's name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

##### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The Investment Manager will minimize Concentration of Credit Risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As stated above, securities of a single corporate issuer (with the exception of the United States Government and its Agencies) will not exceed 5% of the portfolio value.

##### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Investment Manager will manage interest rate risk by managing duration, as a measure of interest rate sensitivity, in the funds.

### **Foreign Currency Risk**

Foreign currency risk is the risk that changes in foreign monetary exchange rates will adversely affect the fair value of an investment or a deposit.

The Investment Manager will, as much as feasible, mitigate foreign currency risk.

### **E. Standards of Care**

The standard of prudence to be used by the Treasurer and/or other authorized person, shall be the “Prudent Person” standard and shall be applied in the context of managing an overall portfolio. The Treasurer and/or other authorized person, acting in accordance with written procedures and this IPS, and exercising reasonable due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this IPS.

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.

### **F. Ethics**

The Treasurer and/or all other authorized persons shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. The Treasurer and/or all other authorized persons shall disclose to the Town any material financial interest in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town's investments.

### **G. Relationship with Financial Institutions**

Financial institutions should be selected first and foremost with regard to their financial soundness and stability. Brokers should be recognized, reputable dealers. All cash and securities shall be held in either a bank that is allowable for the deposit of public funds, provided funds on deposit are insured by the Federal Deposit Insurance Corporation (FDIC), or in an Investment Brokerage Account that is insured by the Securities Investor Protection Corporation (SIPC). If a banking institution is selected as manager, the Town will subscribe to Veribanc®, a recognized bank rating service.

The Treasurer and/or all other authorized persons shall require any brokerage houses and broker/dealers, wishing to do business with the Town, to supply the following information to the Treasurer and/or all other authorized persons:

- Annual financial statements
- If acting as a Registered Investment Adviser, Form ADV Part II report
- Errors & Omissions insurance amounting to, at a minimum, the total fair market value of the Trust Funds Portfolio.
- A statement that the Advisor has read the Town’s IPS and will comply with it on an annual basis
- Annual review all advisors through [www.finra.org](http://www.finra.org): Broker Check

## H. Reporting Requirements

On a Semi-Annual basis, a report containing the following information will be prepared by the Treasurer and/or other authorized persons and distributed to the Town, as appropriate. The Semi-Annual report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this IPS.
- A summary of the income earned on a monthly basis and year-to-date basis shall be reported.
- The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the Town's cash position.
- The report should demonstrate the degree of compliance with the tenets set forth in the IPS.

## I. Performance Measurement and Evaluation

- The individual and custom benchmarks that will be monitored for performance reporting and analysis of the fund's portfolio are stated and described in the addendums to this IPS.
- It is expected that the respective asset classes of the fund's diversified portfolio will outperform their respective benchmarks, net of fees and expenses, on a long term (market cycle) basis.

## J. Supervision

- The Treasurer will meet with the investment manager(s) as frequently as semi-annually to monitor the performance of the funds and the investment manager(s) compliance with these guidelines. The Treasurer will receive and review portfolio management reports semi-annually.
- The Treasurer will review this Investment Policy Statement at least once a year to ensure that it remains appropriate and complete.
- The Treasurer has the option to review the management of funds to consider going out to bid periodically.

## K. Legal References

- Massachusetts General Law Chapter 203C, Section 1 through 11

The below signed Treasurer and/or other authorized persons of the Town of Groton have reviewed this IPS and will manage the Town's Trust Funds under my control in accordance with this IPS.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature

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Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

ADDENDUM #1  
INVESTMENT PARAMETERS

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

| <i>Category</i>      | <i>Min</i> | <i>Target</i> | <i>Max</i> |
|----------------------|------------|---------------|------------|
| Equity               | 54%        | 64%           | 74%        |
| Domestic Equity      | 32%        | 42%           | 52%        |
| International Equity | 12%        | 22%           | 32%        |
| Balanced             | 0%         | 0%            | 10%        |
| Fixed Income         | 6%         | 16%           | 26%        |
| Domestic Bonds       | 3%         | 13%           | 23%        |
| International Bonds  | 0%         | 3%            | 13%        |
| Alternatives         | 10%        | 20%           | 30%        |
| Liquid Alternatives  | 0%         | 14%           | 20%        |
| Private Equity       | 0%         | 6%            | 10%        |
| Real Estate          | 0%         | 0%            | 10%        |
| Cash                 | 0%         | 0%            | 10%        |
| Total                | ---        | 100%          | ---        |

\_\_\_\_\_  
Treasurer's Signature

\_\_\_\_\_  
Date

ADDENDUM #2  
ASSET ALLOCATION DEFINITIONS

| <i>Asset Class</i>   | <i>Morningstar Category</i>     |                              |
|----------------------|---------------------------------|------------------------------|
| Domestic Equity      | Allocation 85% Equity           | Mid-Cap Blend                |
|                      | Communications                  | Mid-Cap Growth               |
|                      | Consumer Cyclical               | Mid-Cap Value                |
|                      | Consumer Defensive              | Natural Resources            |
|                      | Convertibles                    | Real Estate                  |
|                      | Energy                          | Sector Fund                  |
|                      | Financial                       | Small-Cap Blend              |
|                      | Health                          | Small-Cap Growth             |
|                      | Industrials                     | Small-Cap Value              |
|                      | Large-Cap Blend                 | Technology                   |
|                      | Large-Cap Growth                | Utilities                    |
|                      | Large-Cap Value                 |                              |
| International Equity | Emerging Markets                | India                        |
|                      | Europe                          | Infrastructure               |
|                      | Foreign Large-Cap Blend         | Japan                        |
|                      | Foreign Large-Cap Growth        | Latin America                |
|                      | Foreign Large-Cap Value         | Pacific/Asia                 |
|                      | Foreign Small/Mid Blend         | Pacific/Asia ex-Japan        |
|                      | Foreign Small/Mid Growth        | World Large Stock            |
|                      | Foreign Small/Mid Value         | World Small/Mid Stock        |
| Balanced             | Allocation 15% to 30% Equity    | Retirement Income            |
|                      | Allocation 30% to 50% Equity    | Tactical Allocation          |
|                      | Allocation 50% to 70% Equity    | Target Date                  |
|                      | Allocation 70% to 85% Equity    | World Allocation             |
| Domestic Bond        | Bank Loans                      | Muni National Intermediate   |
|                      | Convertibles                    | Muni National Long-Term      |
|                      | High-Yield Bond                 | Muni National Short-Term     |
|                      | High-Yield Muni                 | Muni Single State            |
|                      | Inflation Protected Bond        | Nontraditional Bond          |
|                      | Intermediate Gov't Bond         | Preferred Stock              |
|                      | Intermediate Term Bond          | Short-Term Bond              |
|                      | Long-Term Bond                  | Short-Term Gov't Bond        |
|                      | Long-Term Gov't Bond            | Stable Value                 |
|                      | Multisector Bond                | Ultrashort Bond              |
| International Bond   | Emerging Markets Bond           | World Bond                   |
|                      | Emerging Markets Local Currency |                              |
| Alternatives         | Bear Market                     | Market Neutral               |
|                      | Business Development Company    | Multi-Alternative            |
|                      | Commodities                     | Options Based                |
|                      | Currency                        | Precious Metals              |
|                      | Direct Real Estate              | Private Debt                 |
|                      | Hedge Funds                     | Private Equity               |
|                      | Long/Short Credit               | Structured Notes & Annuities |
|                      | Long/Short Equity               | Trading/Tactical             |
|                      | Managed Futures                 |                              |

Treasurer's Signature \_\_\_\_\_

Date \_\_\_\_\_

# ADDENDUM #3 PERFORMANCE REPORTING

## Portfolio Level Comparative Benchmarks

### Policy Benchmarks

| <i>Broad Asset Class</i> | <i>Benchmark Name</i>                | <i>Percentage</i> |
|--------------------------|--------------------------------------|-------------------|
| Equity                   | MSCI ACWI IMI                        | 64%               |
| Fixed Income             | Bloomberg Barclays US Universal Bond | 16%               |
| Alternatives             | HFRX Global Hedge Fund (USD)         | 20%               |
| Total                    |                                      | 100%              |

### Risk Profile Benchmarks

| <i>Broad Asset Class</i> | <i>Benchmark Name</i>                | <i>Percentage</i> |
|--------------------------|--------------------------------------|-------------------|
| Equity                   | MSCI ACWI IMI                        | 80%               |
| Fixed Income             | Bloomberg Barclays US Universal Bond | 20%               |
| Alternatives             | ---                                  | ---               |
| Total                    |                                      | 100%              |

## Asset Class Level Comparative Benchmarks

| <i>Asset Class</i>   | <i>Benchmark Name</i>                                    |
|----------------------|----------------------------------------------------------|
| Domestic Equity      | MSCI USA IMI                                             |
| International Equity | MSCI ACWI ex USA IMI                                     |
| Domestic Bond        | Bloomberg Barclays US Universal Bond                     |
| International Bond   | Bloomberg Barclays Global Aggregate Bond ex USD (Hedged) |
| Alternatives         | HFRX Global Hedge Fund (USD)                             |
| Cash                 | US Treasury Bills                                        |

| <i>Benchmark Name</i>                                    | <i>Description</i>                                                                                                                                                                                                                                                                                                                                                                                                                    |
|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MSCI ACWI IMI                                            | captures large, mid, and small cap representation across Developed and Emerging Markets countries. The index covers approximately 99% of the global investable equity market.                                                                                                                                                                                                                                                         |
| MSCI USA IMI                                             | captures large, mid, and small cap representation of the United States. The index covers approximately 99% of the free float-adjusted US investable equity market.                                                                                                                                                                                                                                                                    |
| MSCI ACWI ex USA IMI                                     | captures large, mid, and small representation across Developed (excluding the US) and Emerging Markets countries. The index covers approximately 99% of the global investable equity market outside of the United States.                                                                                                                                                                                                             |
| Bloomberg Barclays US Universal Bond                     | consists of income securities issued in US Dollars, including US government and investment grade debt, non-investment grade debt, asset-backed and mortgage-backed securities, Eurobonds, 144A securities and emerging market debt with maturities of at least one year.                                                                                                                                                              |
| Bloomberg Barclays Global Aggregate Bond ex USD (Hedged) | a measure of global investment grade debt from local currency markets (excluding the US). This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.                                                                                                                                                                           |
| HFRX Global Hedge Fund (USD)                             | is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry. |
| US Treasury Bills                                        | represents the monthly return equivalents of yield averages, which are not marked to market; this index is an average of the last three three-month Treasury Bill issues.                                                                                                                                                                                                                                                             |

Treasurer's Signature

Date



TOWN OF GROTON  
OPEB TRUST  
INVESTMENT POLICY STATEMENT

The primary purpose of this Investment Policy Statement (the "IPS") is to provide a clear understanding regarding the Town of Groton's (the "Town") OPEB Trust's (the "Trust") investment objectives, performance goals, and risk tolerance.

A. Scope

This IPS applies to all funds that are separately designated as long-term OPEB funds for the Town or any of its separately identified enterprises. Any additional contributions to the Trust will be maintained in the same manner.

B. Authority

Massachusetts General Law Chapter 32B, Section 20 allows a city, town, district, county or municipal lighting plant to set up a special trust fund, the Other Post-Employment Benefits (OPEB) Liability Trust Fund. The governmental unit's treasurer is the custodian of the fund or in the case of a light plant, an officer designated by the board. Investment of fund monies by the custodian must be consistent with the prudent person standard set forth in Massachusetts General Law Chapter 203C for private trust funds. Interest earned on the investment of fund monies belongs to the fund.

C. Diversification

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

Equities

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

The Investment Manager of the diversified portfolio can purchase and manage the equity allocation using individual equities, such as domestic common stocks, preferred stocks, and/or American Depositary Receipts (ADRs).

The Investment Manager can also utilize other investments such as, mutual funds, exchange traded funds, closed-end funds, etc. Total equity exposure is able to include, both domestic and international equities, both developed and emerging countries and geographic regions, as well as large-, mid-, and small-market capitalization weighted companies. Direct holdings of common stock, preferred stock, and/or ADRs in any one company should not exceed 5% of the market value of the invested portfolio.

Investing directly in real estate, private placements, letter stock, or initial public offerings is strictly prohibited. The Investment Manager of the diversified portfolio shall not engage directly in margin transactions,

short sales, or any other leveraged or inverse investment vehicles. Mutual funds, exchange-traded funds, and closed-end funds, however, may engage in margin, leverage, and/or short sales. Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

### Fixed Income

The primary objectives of the Trust's fixed income allocation are to preserve capital and generate a reasonable level of cash flow. The secondary objective is to provide price returns that exhibit lower correlation to the broad global equity markets in order to reduce the overall risk of the portfolio.

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

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

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

### Alternative Investments

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

The Investment Manager of the diversified portfolio can only purchase those strategies that are deemed to be alternative through daily-liquid diversified investment vehicles such as, mutual funds, exchange-traded funds, closed-end funds, etc. The only exceptions to the daily liquidity rule are private equity and real estate exposures and investment strategies. Private equity vehicles may also hold private debt as part of a diversified strategy.

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

### Cash and Cash Equivalents

Cash will be maintained to provide periodic cash distributions, when necessary. 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.

#### D. Specific Risks

##### Credit Risk

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

The Town will manage credit risk several ways. There will be no limit to the amount of United States Treasury and United States Government Agency obligations.

In regard to fixed-income investments, the Town will only purchase investment grade securities. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds. Investments in fixed income securities will be made primarily for income and capital preservation.

##### Custodial Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Town will review the financial institution's financial statements and the background of the sales representative. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, Capital adequacy of the firm, and overall affirmative reputation in the municipal industry.

Further, all securities not held directly by the Town, will be held in the Town's name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

##### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The Town will minimize Concentration of Credit Risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As stated above, securities of a single corporate issuer (with the exception of the United States Government and its Agencies) will not exceed 5% of the portfolio value.

##### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Town will manage interest rate risk by managing duration, as a measure of interest rate sensitivity, in the Trust.

### Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign monetary exchange rates will adversely affect the fair value of an investment or a deposit.

The Town will, as much as feasible, mitigate foreign currency risk.

### E. Standards of Care

The standard of prudence to be used by the Treasurer shall be the "Prudent Person" standard and shall be applied in the context of managing an overall portfolio. The Treasurer acting in accordance with written procedures and this IPS, and exercising reasonable due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this IPS.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs; not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived.

In addition, this section would also apply to M.G.L. Chapter 44 Section 55A which refers to the liability of the Treasurer for losses due to bankruptcy.

### F. Ethics

The Treasurer and Assistant Treasurer shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. The Treasurer shall disclose to the Town Manager any material financial interest in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town's investments.

### G. Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to their financial soundness and stability. Brokers should be recognized, reputable dealers. All cash and securities shall be held in either a bank that is allowable for the deposit of public funds, provided funds on deposit are insured by the Federal Deposit Insurance Corporation (FDIC), or in an Investment Brokerage Account that is insured by the Securities Investor Protection Corporation (SIPC). If a banking institution is selected as manager, the Town will subscribe to Veribanc®, a recognized bank rating service.

The Treasurer shall require any brokerage houses and broker/dealers, wishing to do business with the Town, to supply the following information to the Treasurer:

- Annual financial statements
- If acting as a Registered Investment Adviser, Form ADV Part II report
- Errors & Omissions insurance amounting to, at a minimum, the total fair market value of the Trust Funds Portfolio.
- A statement that the Advisor has read the Town's IPS and will comply with it on an annual basis

- Annual review all advisors through [www.finra.org](http://www.finra.org): Broker Check

#### H. Reporting Requirements

On a Semi-Annual basis, a report containing the following information will be prepared by the Treasurer and distributed to the Town Manager, as appropriate. The semi-annual report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this IPS.
- A summary of the income earned on a monthly basis and year-to-date basis shall be reported.
- The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the Town's cash position.
- The report should demonstrate the degree of compliance with the tenets set forth in the IPS.

#### I. Performance Measurement and Evaluation

- The individual and custom benchmarks that will be monitored for performance reporting and analysis of the Trust's portfolio are stated and described in the addendums to this IPS.
- It is expected that the respective asset classes of the Trust's diversified portfolio will outperform their respective benchmarks, net of fees and expenses, on a long term (market cycle) basis.

#### K. Supervision

- The Treasurer will meet with the investment manager(s) as frequently as semi-annually to monitor the performance of the funds and the investment manager(s) compliance with these guidelines. The Treasurer will receive and review portfolio management reports semi-annually.
- The Treasurer will review this Investment Policy Statement at least once a year to ensure that it remains appropriate and complete.
- The Treasurer has the option to review the management of funds to consider going out to bid periodically.

#### L. Legal References

- Massachusetts General Law Chapter 32B, Section 20
- Massachusetts General Law Chapter 203C, Section 1 through 11

I MICHAEL L. HARTNETT, Treasurer of the Town of Groton have reviewed this IPS and will manage the Town's OPEB Trust under my control in accordance with this IPS and any attached Addendums.



Treasurer's Signature

MICHAEL L. HARTNETT

Treasurer's Printed Name

8/12/2020

Date

ADDENDUM #1  
INVESTMENT PARAMETERS

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

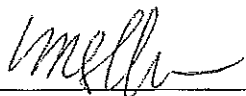
| <i>Category</i>      | <i>Min</i> | <i>Target</i> | <i>Max</i> |
|----------------------|------------|---------------|------------|
| Equity               | 46%        | 56%           | 66%        |
| Domestic Equity      | 24%        | 34%           | 44%        |
| International Equity | 12%        | 22%           | 32%        |
| Balanced             | 0%         | 0%            | 10%        |
| Fixed Income         | 14%        | 24%           | 34%        |
| Domestic Bonds       | 10%        | 20%           | 30%        |
| International Bonds  | 0%         | 4%            | 14%        |
| Alternatives         | 10%        | 20%           | 30%        |
| Liquid Alternatives  | 0%         | 15%           | 20%        |
| Private Equity       | 0%         | 5%            | 10%        |
| Real Estate          | 0%         | 0%            | 10%        |
| Cash                 | 0%         | 0%            | 10%        |
| Total                | ---        | 100%          | ---        |

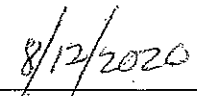
Treasurer's Signature \_\_\_\_\_

Date \_\_\_\_\_

**ADDENDUM #2  
ASSET ALLOCATION DEFINITIONS**

| <i>Asset Class</i>   | <i>Morningstar Category</i>     |                              |
|----------------------|---------------------------------|------------------------------|
| Domestic Equity      | Allocation 85%+ Equity          | Mid-Cap Blend                |
|                      | Communications                  | Mid-Cap Growth               |
|                      | Consumer Cyclical               | Mid-Cap Value                |
|                      | Consumer Defensive              | Natural Resources            |
|                      | Convertibles                    | Real Estate                  |
|                      | Energy                          | Sector Fund                  |
|                      | Financial                       | Small-Cap Blend              |
|                      | Health                          | Small-Cap Growth             |
|                      | Industrials                     | Small-Cap Value              |
|                      | Large-Cap Blend                 | Technology                   |
|                      | Large-Cap Growth                | Utilities                    |
|                      | Large-Cap Value                 |                              |
| International Equity | Emerging Markets                | India                        |
|                      | Europe                          | Infrastructure               |
|                      | Foreign Large-Cap Blend         | Japan                        |
|                      | Foreign Large-Cap Growth        | Latin America                |
|                      | Foreign Large-Cap Value         | Pacific/Asia                 |
|                      | Foreign Small/Mid Blend         | Pacific/Asia ex-Japan        |
|                      | Foreign Small/Mid Growth        | World Large Stock            |
|                      | Foreign Small/Mid Value         | World Small/Mid Stock        |
|                      | Global Real Estate              |                              |
| Balanced             | Allocation 15% to 30% Equity    | Retirement Income            |
|                      | Allocation 30% to 50% Equity    | Tactical Allocation          |
|                      | Allocation 50% to 70% Equity    | Target Date                  |
|                      | Allocation 70% to 85% Equity    | World Allocation             |
| Domestic Bond        | Bank Loans                      | Muni National Long-Term      |
|                      | Convertibles                    | Muni National Short-Term     |
|                      | High-Yield Bond                 | Muni Single State            |
|                      | High-Yield Muni                 | Muni Target Maturity         |
|                      | Inflation Protected Bond        | Nontraditional Bond          |
|                      | Intermediate Core Bond          | Preferred Stock              |
|                      | Intermediate Core-Plus Bond     | Short-Term Bond              |
|                      | Intermediate Gov't Bond         | Short-Term Gov't Bond        |
|                      | Long-Term Bond                  | Stable Value                 |
|                      | Long-Term Gov't Bond            | Ultrasort Bond               |
|                      | Multisector Bond                | Target Maturity              |
|                      | Muni National Intermediate      |                              |
| International Bond   | Emerging Markets Bond           | World Bond                   |
|                      | Emerging Markets Local Currency | World Bond-USD Hedged        |
| Alternatives         | Bear Market                     | Market Neutral               |
|                      | Business Development Company    | Multi-Alternative            |
|                      | Commodities                     | Options Based                |
|                      | Currency                        | Precious Metals              |
|                      | Direct Real Estate              | Private Debt                 |
|                      | Hedge Funds                     | Private Equity               |
|                      | Long/Short Credit               | Structured Notes & Annuities |
|                      | Long/Short Equity               | Trading/Tactical             |
|                      | Managed Futures                 |                              |

  
Treasurer's Signature

  
Date



# ADDENDUM #3 PERFORMANCE REPORTING

## Portfolio Level Comparative Benchmarks

### Policy Benchmarks

| Broad Asset Class | Benchmark Name                       | Percentage |
|-------------------|--------------------------------------|------------|
| Equity            | MSCI ACWI IMI                        | 56%        |
| Fixed Income      | Bloomberg Barclays US Universal Bond | 24%        |
| Alternatives      | HFRX Global Hedge Fund (USD)         | 20%        |
| Total             |                                      | 100%       |

### Risk Profile Benchmarks

| Broad Asset Class | Benchmark Name                       | Percentage |
|-------------------|--------------------------------------|------------|
| Equity            | MSCI ACWI IMI                        | 70%        |
| Fixed Income      | Bloomberg Barclays US Universal Bond | 30%        |
| Alternatives      | ---                                  | ---        |
| Total             |                                      | 100%       |

## Asset Class Level Comparative Benchmarks

| Asset Category       | Benchmark Name                                           |
|----------------------|----------------------------------------------------------|
| Domestic Equity      | MSCI USA IMI                                             |
| International Equity | MSCI ACWI ex USA IMI                                     |
| Domestic Bond        | Bloomberg Barclays US Universal Bond                     |
| International Bond   | Bloomberg Barclays Global Aggregate Bond ex USD (Hedged) |
| Alternatives         | HFRX Global Hedge Fund (USD)                             |
| Cash                 | US Treasury Bills                                        |

| Benchmark Name                                           | Description                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MSCI ACWI IMI                                            | captures large, mid, and small cap representation across Developed and Emerging Markets countries. The index covers approximately 99% of the global investable equity market.                                                                                                                                                                                                                                                         |
| MSCI USA IMI                                             | captures large, mid, and small cap representation of the United States. The index covers approximately 99% of the free float-adjusted US investable equity market.                                                                                                                                                                                                                                                                    |
| MSCI ACWI ex USA IMI                                     | captures large, mid, and small representation across Developed (excluding the US) and Emerging Markets countries. The index covers approximately 99% of the global investable equity market outside of the United States.                                                                                                                                                                                                             |
| Bloomberg Barclays US Universal Bond                     | consists of income securities issued in US Dollars, including US government and investment grade debt, non-investment grade debt, asset-backed and mortgage-backed securities, Eurobonds, 144A securities and emerging market debt with maturities of at least one year.                                                                                                                                                              |
| Bloomberg Barclays Global Aggregate Bond ex USD (Hedged) | a measure of global investment grade debt from local currency markets (excluding the US). This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.                                                                                                                                                                           |
| HFRX Global Hedge Fund (USD)                             | is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset-weighted based on the distribution of assets in the hedge fund industry. |
| US Treasury Bills                                        | represents the monthly return equivalents of yield averages, which are not marked to market; this index is an average of the last three three-month Treasury Bill issues.                                                                                                                                                                                                                                                             |

  
Treasurer's Signature

8/12/2020  
Date