

Town of Truro Investment Policy Statement:

- Dated: June 19, 2019
- Strategy:
 - Determined by the Treasurer in consultation with the Investment Manager and the Trustees of the OPEB Trust and pursuant to the most recently executed Investment Portfolio Strategy form (Balanced)
 - Per M.G.L 203C, Prudent Investor Act (full diversification, not subject to MA Legal List)
- Performance Measurement and Evaluation
 - Meet at least annually
 - Measured by comparison to stated objective and appropriate benchmarks
- Addendum: OPEB Trust Funding Policy
 - Not less than \$400,000 annually
 - Additional Strategies include but are not limited to:
 - Unexpended funds from insurance line item
 - Appropriate amounts equal to any Medicare Part D reimbursement
 - Appropriate amounts equivalent to pension funding once pension is fully funded
 - Increase annual contribution to an amount to be determined for each new employee

TOWN OF TRURO
OPEB Liability Trust
Investment Policy Statement

The purpose of this Investment Policy Statement (IPS) is to provide a clear understanding between the Town of Truro, and Rockland Trust Company (Investment Manager) regarding the objectives, goals, risk tolerance, and investment guidelines established for the OPEB (Other Post-Employment Benefits) Liability Trust Fund.

A. Scope

This IPS applies to all funds that are separately designated as long-term OPEB funds. The account will be established as a pooled investment portfolio unless otherwise stated. Any additional contributions to the account will be maintained in the same manner.

B. Introduction

Creating an investment policy is the most critical phase of the entire investment process. The effects of a properly drafted vs. ineffective investment policy statement can be more important than the effects of good or poor investment management. To be successful, an investment policy needs to be appropriate for its setting and intended purpose.

Under GASB 75, the discount rate is based on many factors including but not limited to the Trust's Investment Policy, Funding Policy, expected benefit payments and the rates on long-term municipal bonds. For a well-funded plan, the discount rate should be the long-term expected yield on the investments to be used to pay benefits as they come due. For a lesser funded plan, the discount rate is a blend of the long-term expected yield on plan investments and the 20-year municipal high-grade bond index rate. Investments within an OPEB Trust will closely approximate pension fund-type investment securities.

The policy statement is also designed to withstand "trustee risk" - the possibility that, at some stress point (most frequently an extreme decline in the stock or bond markets), those who oversee the funds may react in a manner detrimental to the long-term health of the Trust Fund.

C. Authority

Massachusetts General Law Chapter 32B, section 20 allows a Government Unit, defined as any political subdivision of the commonwealth, including a municipal lighting plant, local housing or redevelopment authority, regional council of government established pursuant to section 20 of chapter 34B and educational collaborative, as defined in section 4E of chapter 40. The treasurer

of the governmental unit shall be the custodian of the OPEB Fund and shall be bonded in any additional amounts necessary to protect fund assets.

D. Objective

OPEB funds are long-term investments. Given a stated discount rate target, this long-term approach enables the Governmental Unit to invest in long-term assets, such as equities, which tend to have high returns over many years but whose price volatility precludes their use by those with shorter time horizons. By keeping a long-term focus in mind at all times, we hope to weather the periodic bad times.

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

E. Strategy

The investment allocation will be determined by the Treasurer in consultation with the Investment Manager, Trustees of the OPEB Trust, and pursuant to the most recently executed Investment Portfolio Strategy form to be retained with this IPS.

M.G.L. Chapter 203C, known as the Massachusetts Prudent Investor Act, generally states that a trustee shall invest and manage trust assets as a prudent investor would, considering the purposes, terms, and other circumstances of the trust, including those set forth in subsection c. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. A trustee's investment and management decisions respecting individual assets shall be considered in the context of the trust portfolio as a part of an overall investment strategy reasonably suited to the trust.

As stated in Section 3, "among circumstances that a trustee shall consider in investing and managing trust assets are such of the following as are relevant to the trust or its beneficiaries: 1) general economic conditions; 2) the possible effect of inflation or deflation; 3) the expected tax consequences of investment decisions or strategies; 4) the role that each investment or course of action plays within the overall trust portfolio; 5) the expected total return from income and appreciation of capital; 6) other resources of the beneficiaries; 7) needs for liquidity, regularity of income, and preservation or appreciation of capital; and 8) an asset's special relationship or special value, if any, to the purposes of the trust or to one of the beneficiaries".

Also, as stated in Section 4, "a trustee shall reasonably diversify the investments of the trust unless, under the circumstances, it is prudent not to do so".

G. 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 purchase investment grade securities with a high concentration in securities rated A or better at time of purchase. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds. There will be no limit to the amount of United States Treasury and United States Government Agency obligations.

- **Custodial Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Town 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 Treasurer will engage only those institutions with proven financial strength, capital adequacy, and overall affirmative reputation in the municipal industry.

- **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a town's investment in a single issuer. The Investment Manager will diversify the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. 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 in the account.

H. Standards of Care

The standard of prudence to be used shall be the "Prudent Person" standard and shall be applied in the context of managing an overall portfolio. 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.

I. Diversification

Equity

The equity portion of the portfolio should consist of a diversified mix of investments (individual equities, mutual funds and exchange-traded funds) suitable to achieve the objective of capital appreciation. Individual equity holdings in any one company should not exceed 5% of the market value of the portfolio.

Fixed Income

Investments in fixed income securities will be made principally for income and capital preservation. Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. Selection should be made from liquid, investment grade corporate debt, convertible debt and obligations of the United States Government and its agencies. Lower-quality investments may only be held through diversified vehicles such as mutual funds or exchange-traded funds. Securities of a single corporate issuer (excluding the United States Government and its Agencies) will not exceed 5% of the portfolio market value.

Individual corporate debt and preferred stock issues must be rated BBB or better – at the time of purchase –, as defined by Moody's and/or Standard & Poor's Rating Agency.

J. Performance Measurement and Evaluation

- The Treasurer, together with the Trustees, will meet with the Investment Manager at least annually to monitor the performance of the Fund and the compliance with these guidelines.
- The Fund's performance will be measured by comparison with the stated objectives in comparison to respective benchmarks. To monitor the intermediate term performance of the Fund, the Treasurer will compare the Investment Manager's results to a blended benchmark to be determined in conjunction with the Investment Manager.
- Rebalancing of the portfolios should happen at least annually or more frequently if appropriate.

- The Investment Policy Statement will be reviewed at least every 3 years to ensure that it remains appropriate and complete

I, Cynthia A. Slade, Treasurer of the Town of Truro, Massachusetts, have reviewed this IPS and will manage the OPEB Liability Trust Fund under my control in accordance with this IPS.


 , Treasurer

June 14, 2019
 Date


I, Brian Callow, Senior Vice President and as Representative of Rockland Trust Company, have reviewed this IPS and confirm that Rockland Trust will manage the OPEB Liability Trust Fund under our control in accordance with this IPS.

Rockland Trust Company


 By:

6/20/2019
 Date

Confirmed: (if applicable)


 (Town Clerk, Selectman, Town Council)

June 14, 2019
 Date



Portfolio Investment Strategy

For the Account of Town of Truro, Other Post Employment Benefits (OPEB) Trust Fund

Account #: _____

The investment objective for this account should be broadly defined as:

☐ **Capital Preservation** - (0%-30% cash, 70%-100% fixed income, 0% equities)

For municipalities seeking a steady stream of income, with no exposure to the equity markets. They seek safety for their investments and are willing to accept fluctuations in price due to interest rate changes. Fixed income securities provide competitive levels of returns as well as liquidity.

☐ **Conservative Income** - (0%-10% cash, 75%-100% fixed income, 0-25% equities)

For municipalities willing to accept a minimal exposure to the equity markets. They are conservative and willing to accept minimal fluctuations in equity prices to offset fixed income interest rate risk and provide diversification.

☐ **Income & Growth** - (0%-10% cash, 60%-80% fixed income, 20%-40% equities)

For municipalities requiring above-average current income both now and in the future. They are willing to accept modest volatility with the exposure to the equity markets in exchange for their long term growth potential.

☐ **Moderate** - (0%-10% cash, 50%-70% fixed income, 30%-50% equities)

For municipalities who seek growth through equity investment and are also concerned about market volatility. This objective skews more towards bonds and is designed to deliver a higher amount of current income from the portfolio.

☒ **Balanced** - (0%-10% cash, 35%-55% fixed income, 45%-65% equities)

For municipalities seeking capital appreciation. This strategy uses fixed income securities to reduce risk and equities to provide diversification. They are comfortable with a portfolio that consists of both stocks and bonds and are willing to accept moderate volatility.

☐ **Growth** - (0%-10% cash, 15%-35% fixed income, 65%-85% equities)

For municipalities seeking growth of their investments to pursue long term goals and are willing to accept reasonable volatility in pursuit of this goal. Equity markets offer the best opportunity for growth while fixed income securities are included to provide stability and diversification.

Additional Strategy Details:

☐ MA Legal List

☐ MA Legal List with 15% diversification

☒ Prudent Man pursuant to MA G.L. Chapter 203C

Other: _____

The investment portfolio strategy is subject to change at the discretion of the principal.


Principal

JUNE 14 2019
Date

Addendum 1. OPEB Trust Funding Policy

PURPOSE

To provide the basis for a responsible plan for meeting the Town's obligation to provide other postemployment benefits (OPEBs) to eligible current and future retirees. This policy provides guidelines designed to ensure OPEB sustainability and achieve generational equity among those called upon to financially support OPEBs, thereby avoiding transferring costs into the future.

BACKGROUND

In addition to salaries, the Town 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 postemployment benefits or OPEBs.

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

The Town adopted MGL c.32B, sec 20 with the passage of Article 14 of the Annual Town Meeting held April 11, 2011 (FY 2012) which also authorized the transfer of Fifty thousand dollars (\$50,000) of Free Cash as an initial deposit into the Trust. Subsequent Free Cash Transfers of \$600,000 for FY 2015, \$300,000 for FY 2016 and \$400,000 for each of the fiscal years 2017 through 2019 have established the preferred funding policy of not less than \$300,000 and not more than \$600,000 of annual free cash transfers into the Trust.

POLICY

The Town 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 the employees. The Town will also periodically assess strategies to mitigate its OPEB liability. This involves evaluating the structure of offered benefits and their cost drives 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, Reporting and Investment

The Town will obtain actuarial analyses of the its OPEB liability every two years and will annually report the Town's OPEB obligations in financial statement that comply with the current guidelines of the Government Accounting Standards Board (GASB).

As custodian, the Treasurer will be responsible for investing the fund's assets; management of the investment portfolio will be provided by the selected Investment Management Firm, presently Rockland Trust. The Trustees will be responsible for providing guidance that insures conformity with the long-term Goals and Objectives established for the Town by the Board of Selectmen, with the state's prudent investor laws and with any Investment Policy adopted by the Town. (Note: Section 238 of Chapter 218 of the Acts of 2016 – Municipal Modernization Act) specifically provides that OPEB funds established before the effective date of the Act, November 7, 2016, will continue as originally established, unless the community "reaccepts said section 20 of chapter 32B after the effective date of this act")

It shall be the responsibility of the Town Accountant to ensure that the Town's independent audit firm reviews compliance with the accounting, reporting, and investment provisions of this policy as part of its annual audits and will report on these to the Town Manager and the Board of Selectmen.

B. Mitigation

On an ongoing basis, the Town will assess healthcare costs and options to analyze strategies to mitigate its OPEB liability. Proposed laws affecting OPEBs and Medicare will be monitored to analyze their impacts. The CCMHC will be encouraged to regularly audit 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, and in addition to the previously mentioned commitment to annual Free Cash transfers into the Trust, 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 Trust from taxation, free cash and any other legal form.

Achieving full funding of the liability requires the Town to commit to funding its annual required contribution (ARC) each year, which is calculated based on actuarial projections. Along with Truro's commitment of an annual OPEB Trust contribution of not less than \$400,000.00, the Town will seek additional and/or expanded financing sources for funding the ARC. Strategies to be considered include, but are not limited to:

- Transfer unexpended funds from insurance line items to the OPEB Trust
- Appropriate amounts equal to any Medicare Part D reimbursements received by the Town.
- Appropriate a percentage of any new revenue stream(s) identified and adopted after the establishment of the Trust.
- Once the pension system (Barnstable County Retirement System) is fully funded, on a subsequent annual basis, appropriate to the OPEB Trust amounts equivalent to the former pension-funding payment
- Increase the annual contribution to the Trust, by an amount to be determined, for each new, permanent, full-time employment position created and staffed.