

TOWN OF SHERBORN  
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 Sherborn (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-Depository 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 an Annual basis, a report containing the following information will be prepared by the Treasurer and distributed to the Town Manager and Select Board, as appropriate. The 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 Heidi Doyle, Treasurer of the Town of Sherborn have reviewed this IPS and will manage the Town's OPEB Trust under my control in accordance with this IPS and any attached Addendums.

Heidi Doyle

Treasurer's Signature

Heidi Doyle

Treasurer's Printed Name

9/13/21

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	42%	52%	62%
Domestic Equity	21%	31%	41%
International Equity	11%	21%	31%
Balanced	0%	0%	10%
Fixed Income	18%	28%	38%
Domestic Bonds	12%	22%	32%
International Bonds	0%	6%	16%
Alternatives	10%	20%	30%
Private Equity	0%	0%	10%
Real Estate	0%	0%	10%
Cash	0%	0%	10%
Total	---	100%	---

  
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 Treasurer's Signature

9/17/21  
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 Date

## ADDENDUM #2

### ASSET ALLOCATION DEFINITIONS

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

*Herdi Day*

Treasurer's Signature

9/17/21

Date

# ADDENDUM #3

## PERFORMANCE REPORTING

### Portfolio Level Comparative Benchmarks

#### Policy Benchmarks

Broad Asset Class	Benchmark Name	Percentage
Equity	MSCI ACWI IMI	52%
Fixed Income	Bloomberg Barclays US Universal Bond	28%
Alternatives	HFRX Global Hedge Fund (USD)	20%
Total		100%


#### Risk Profile Benchmarks

Broad Asset Class	Benchmark Name	Percentage
Equity	MSCI ACWI IMI	65%
Fixed Income	Bloomberg Barclays US Universal Bond	35%
Alternatives	---	---
Total		100%

### Asset Class Level Comparative Benchmarks

Asset Class	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

9/17/21

Date