



# Town of Poland

# Investment Policy

**ENACTED** 8/5/2014  
*Judith A. Akers*  
Town Clerk of Poland

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**TOWN OF POLAND INVESTMENT POLICY**

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1. **POLICY:** It is the policy of the Town of Poland to invest public funds in a manner that will provide safety of principal, obtain a market rate of return, meet the daily cash flow demands of the Town and conform to all State and local laws governing the investment of public funds.

2. **SCOPE:** This investment policy applies to all financial assets of the Town. These funds include but are not limited to:

- Accounts Payable
- Payroll Accounts
- Capital project funds
- Enterprise funds including TIF Accounts
- Trust and agency funds
- Cemetery accounts
- Endowments and trusts
- CDBG Accounts
- Custodial or Escrow Accounts
- Reserve Funds
- Bond Proceeds

3. **PRUDENCE:** All Town investments must be made with the judgment and care that persons of prudence, discretion and intelligence, under circumstances then prevailing, exercise in the management of their own affairs, not for speculation but for investment, considering:

- a. **Safety:** The safety of principal and preservation of capital in the overall portfolio;
- b. **Maintenance of liquidity:** Maintenance of sufficient liquidity to meet all operating and other cash requirements with which a fund is charged that are reasonably anticipated; and
- c. **Income.** The income to be derived throughout budgetary and economic cycles, taking into account prudent investment risk constraints and the cash-flow characteristics of the portfolio.

This standard shall be applied to the Town's overall investment portfolio and not to individual items within the Town's diversified portfolio.

4. **OBJECTIVE:** The primary objectives, in priority order, of the Town's investment activities shall be:

- a. **SAFETY:** Safety of principal is the foremost objective of the investment program. Investments shall be made by the Treasurer in a manner that seeks to ensure preservation of capital in the overall portfolio. To obtain this objective, the Treasurer shall use basic techniques to diversify the investment portfolio. The Treasurer shall utilize FDIC insured bank deposits and/or obtain collateralized investments that guarantee the Town a perfected security interest in the underlying security.

Further the Treasurer shall invest Town funds only in highly capitalized and highly rated financial institutions.

## Town of Poland - Investment Policy

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b. LIQUIDITY: The Town's investment portfolio will remain sufficiently liquid to enable the Town to meet all operating requirements that might be reasonably anticipated through cash flow analysis.

c. RETURN ON INVESTMENT: The Town's investment portfolio shall be designated with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the Town's investment risk constraints and the cash flow characteristics of the portfolio.

5. STATUTORY COMPLIANCE: Authority to manage the Town's investment program is derived from State law, 30-A M.R.S.A. Sections 5706 through 5719, and the Town Charter. The Town shall not make any investments other than those permitted by Maine law as set forth in 30-A M.R.S.A. sections 5706-5719. Upon approval of this policy, the Treasurer shall provide written procedures for the operation of the investment program consistent with the investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all investment or cash management transactions undertaken and shall keep the Board of Selectmen fully apprised of the same.

6. ETHICS AND CONFLICTS OF INTEREST: Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Treasurer and the Board of Selectmen any material financial interests in financial institutions that conduct business within Poland, and they shall further disclose any personal financial/investment positions that could be related to the performance of the Town's investment portfolio.

7. PROHIBITED INTEREST: No Town employee shall invest Town funds in any instrument or institution in which he or she has a direct or indirect financial interest, nor shall he or she accept any gift, free service or payment of any kind for performing their duties under this policy.

8. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS: The Treasurer shall maintain a list of financial institutions authorized to provide investment services. No public deposit shall be made except in a qualified public depository as established by State law. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer with the results provided to the Board of Selectmen.

9. SAFEKEEPING AND CUSTODY: All security transactions, including collateral for repurchase agreements, entered into by the Town shall be conducted on a delivery vs. payment basis. Securities will be held by a third party custodian agreed to by the Treasurer provided it meets or exceeds the minimum risk category classification of GASB (Governmental Accounting Standards Board.)

10. MAXIMUM MATURITIES: To the extent possible, the Treasurer will match investments with anticipated cash requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than one year from date of purchase. At least annually, the Treasurer will present a cash flow analysis showing the past year's performance and the projected next year's performance using submitted budget figures. At this time, the Treasurer shall also recommend what amount of surplus revenue should be used to offset the next year's tax rate.

Trust and endowment funds may be invested in securities exceeding one year if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

11. INTERNAL CONTROLS: The Treasurer shall establish an annual process of independent review by an external auditor, selected by the Board of Selectmen during the annual Town audit. This review will enhance internal control by assessing compliance with policies and procedures.

12. ACCOUNTING METHOD: Investments shall be carried on the Town's books at cost. Interest on securities will be credited to investment income at the time of sale. The values of investment securities will be accrued as of June 30 (fiscal year end).

13. EXTERNAL MANAGEMENT: The Board of Selectmen may contract with a qualified external money management company in order to benefit from portfolio diversification, credit research, full-time portfolio management and economies of scale that are unavailable from the Town's staff. Any such contract will define and control the risks of the portfolio and establish performance criteria for monitoring and evaluating results.

14. TRUST AND RESERVE FUNDS: Unless otherwise specified by the terms of the trust or by Court order, trust funds shall be invested in accordance with the terms of this policy. In addition, all reserve funds shall be invested in accordance with the terms of this policy. Subject to compliance with the other terms and provisions of this policy, the Town's Trust and Reserve funds shall be managed/invested consistent with the addendum attached hereto as Exhibit I. Further, distributions under the Jane J. Ricker Trust are governed by an Order of the Cumberland County Probate Court (Docket No. 2011-1061) dated Dec. 7, 2011 whereby the Town, as Trustee, shall distribute for library purposes, four percent (4.0%) of the "net fair market value of the Trust's assets, whether such assets would be considered income or principal, averaged over the (3) preceding years."

15. INVESTMENT POLICY ADOPTION: The Town's investment policy shall be adopted by the Board of Selectmen. The policy and the investments of the Town pursuant to this policy shall be reviewed by the Treasurer with the Board of Selectmen no less frequently than once a year.

**EXHIBIT I**

**Spending Guidelines- Reserve and Endowment/Trust Funds**

The policy recognizes the creative tension between the need for current income to meet operations today and the deleterious, long-term effects high current spending levels might have on the portfolios' ability to meet future spending needs.

This Policy adopts a maximum long-term annual spending rate goal of 4.0% of the average market value of the portfolio, calculated over a three year trailing period, using semi-annual portfolio market values as of the last business day of June and December. This results in six portfolio market values being used in the calculation of the average market value for spending purposes under this guideline. Where new Funds are established, the nearest target date upon which future calculations may be based (whether the last business day of June or December) shall act as the starting point for the purpose of calculating future distributions consistent with the terms of this section.

The Board of Selectmen recognizes there may be market or budget circumstances that would, on occasion, make full compliance with this spending guideline difficult, pressuring the Town to exceed the spending level prescribed under this policy. However, over time and to every extent practical, the Selectmen shall make every effort to manage distributions in accordance with these spending guidelines in an effort to properly balance current and future spending needs.

*n.b. Distributions under the Jane J. Ricker Trust are governed by an Order of the Cumberland County Probate Court (Docket No. 2011-1061) dated Dec. 7, 2011 whereby the Town, as Trustee, shall distribute for library purposes, four percent (4%) of the "net fair market value of the Trust's assets...averaged over the (3) preceding years."*

**Asset Allocation Guidelines**

Consistent with the liabilities confronting the Reserve and Endowment/Trust funds, the portfolios should provide the right balance of liquidity, income and real return. Generally, equities and hybrid securities (certain equity securities that produce high income (REITS, etc.) or bonds that are priced to yield equity like total returns (i.e. high-yield bonds) and/or "equity like" convertible instruments) are the best asset classes for total return, i.e. growth and income. Bonds and hybrid securities are most suitable for the production of current income in the form of high dividend yields or interest. Money market funds and very short term bonds are best for providing for short term liquidity needs.

The policy establishes the following Asset Allocation Guidelines within which the policy seeks to achieve the investment objectives while prudently addressing the timing and nature of current and future liabilities. For the most part, achieving the investment objectives will require the portfolios adopt and maintain a long-term investment horizon reflected in the following equity-oriented allocations, and that neither the Manager(s) nor the Town be swayed by short-term market experience to deviate from these guidelines.

Asset Allocation Guidelines

Objectives: Growing Income & Real Capital Preservation

	Strategic Weight	Maximum	Minimum
Equities			
Core	60%	80%	40%
US Small Cap	0%	10%	0%
International			
Developed	10%	20%	5%
Emerging Markets	5%	15%	0%
REITs	0%	10%	0%
	75%	85%	60%
Fixed Income			
High Yield Bonds	5%	15%	0%
Investment Grade	15%	25%	5%
Government	5%	30%	0%
	25%	40%	15%
Cash	0%	10%	0%

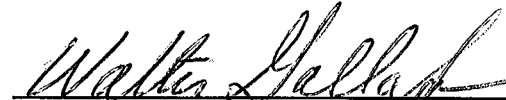
Diversification must play a role in formulating asset allocation and portfolio construction. However, on balance the policy views diversification as a way to increase returns as much as to reduce market risk (volatility). The portfolios' long-term perspective makes diversification a lower policy and portfolio priority since real returns matter most – and portfolio volatility is something the Selectmen recognize as a risk the policy bears for the opportunity to earn higher real returns in the long-run.

Adopted this 5<sup>th</sup> day of August, 2014.

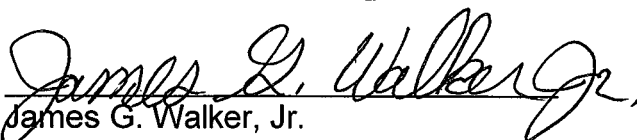
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