

TOWN OF WATERBURY, VERMONT INVESTMENT POLICY

I. OBJECTIVES

- A. To protect and safeguard all funds of the Town of Waterbury.
- B. To obtain maximum return on investments for the Town of Waterbury.
- C. To provide a steady cash flow to assure efficient day to day operations of the Town of Waterbury.
- D. To provide a rate of growth for all funds, which meets or exceeds the rate of inflation?
- E. Assets in perpetual reserve funds and/or trust funds shall be managed to provide a rate of growth to insure reasonable payments to the general fund, capital fund, or trust funds. These funds exist to help pay for general operating expenses, capital expenses, to allow property tax reductions, and to meet the goals of the particular trust or trusts.

II. RESPONSIBILITIES

- A. The Treasurer, Assistant Treasurer or designees of the Treasurer shall be responsible for investment, daily cash management and proper cash flow of and to and from these funds. These duties shall be undertaken with the general guidance and supervision of the Treasurer. The Treasurer, with the concurrence of the Select Board, may consult with the municipal manager to develop strategies for investing and cash management. If agreed to by the Treasurer, the Select Board may authorize the hiring of a third party administrator or a financial consultant to invest funds, which may be held in a brokerage account or held by the town. The Select Board shall establish overall investment policies and guidelines for all town money and town funds.

III. CASH MANAGEMENT and INVESTMENT GUIDELINES

- A. Investments for each fund shall be considered and accounted for separately.
- B. When new or additional cash, defined to include cash, cash equivalents, checks, securities or other financial instruments are made available for investment, it shall be deposited into the appropriate fund on the day it becomes available.
- C. All checks issued from any town fund shall be approved by the Select Board in accord with the town policy for approval of warrants and orders.
- D. All federal and state laws and regulations regarding investments are to be followed.

E. Allowable Asset Classes

1. Cash and cash equivalents denominated in U.S. dollars.
2. Fixed income securities issued by the U.S. government, U.S. government agencies, or political subdivisions of the United States of America.
3. Fixed income securities issued by U.S. or foreign companies.
4. Preferred equity securities of U.S. companies may be purchased as mutual funds or unit trusts. Purchases of preferred equity shares of individual companies or corporations are specifically prohibited.
5. Common equity securities of U.S. and foreign companies may be purchased as mutual funds or unit trusts. Purchases of common equity shares of individual corporations are specifically prohibited.
6. Fixed income securities issued by non-U.S. governments and non-U.S. government agencies.
7. U.S. or foreign Real Estate Investment Trusts (REITs).
8. Mortgage backed securities.

F. Risk Tolerance

1. Risk is the expected relationship between Risk and Reward.
2. A "moderate" risk tolerance is defined as investments with a risk equal to or slightly below that of the Standard & Poor's Five Hundred Index. All other risk tolerances appearing in this policy are measured in relationship to this definition of "moderate" risk tolerance. Finance and investment industry graphs, matrixes, and tables adequately describe risk/reward relationships when evaluating investment options. The Treasurer shall have the authority to determine whether a portfolio conforms to the "Risk Tolerance" guideline for that particular fund.

The objectives and guidelines listed above are general in nature and apply to all funds and accounts belonging to the Town of Waterbury. Each of the funds listed below shall be administered by more specific guidelines which have been developed for those funds. In all cases where a security receives a split rating, the lower rate will apply.

IV. General and Highway Fund, Proprietary Funds, and Dedicated Operating Funds

A. Allowable Asset Classes

1. Cash and cash equivalents denominated in U.S. dollars.
2. Fixed income securities issued by the U.S. government, U.S. government agencies, or political subdivisions of the U.S.A.

B. Time Horizon

1. The general fund and highway fund will exist in perpetuity. Proprietary funds and dedicated operating funds shall have an expected life of no more than five years.
2. In general investments shall be made for 12 months or less. Allowed fixed income securities may be purchased with maturity dates of 60 months or less if approved by the Select Board.

C. Risk Tolerance-LOW

1. All cash accounts shall be insured or properly collateralized.
2. Fixed income securities must be rated at least A3 by Moody's or A- by Standard & Poor's.

V. CAPITAL IMPROVEMENT FUND

A. Allowable Asset Classes

1. Cash and cash equivalents denominated in U.S. dollars.
2. Fixed income securities issued by the U.S. government, U.S. government agencies, or political subdivisions of the United States of America.
3. Fixed income securities issued by U.S. companies.
4. Preferred and common equity securities of U.S. companies purchased as mutual funds.

B. Time Horizon-Five Years

C. Risk Tolerance-Low/Moderate

1. Tax payments are expected to be made into this fund each year to help cash flow.
2. All cash or cash equivalents shall be insured or properly collateralized, unless the Treasurer and Select Board, by unanimous vote, agree to waive the requirement for such insurance or collateralization.
3. Fixed income and preferred or common equity securities of U.S. companies may be purchased if there is a reasonable expectation that the year end balance of the fund will exceed \$75,000 for five consecutive years, or with approval of the Select Board.

4. Fixed income securities shall be rated at least Baa3 by Moody's or BBB- by Standard & Poor's. These ratings and those higher, are considered to be "investment grade" ratings. If the rating of a fixed income security within the portfolio falls below investment grade, the Treasurer and Select Board shall be notified. The "Prudent Person" approach shall be used to sell the security when appropriate.

VI. TAX STABILIZATION FUND

A. Allowable Asset Classes

1. All asset classes allowed in the general guidelines (Sec. III E).

B. Time Horizon-In Perpetuity

C. Risk Tolerance-Moderate to Moderately Aggressive

1. All cash or cash equivalents shall be insured or properly collateralized, unless the Treasurer and Select Board, by unanimous vote, agree to waive the requirement for such insurance or collateralization.
2. When purchased, fixed income securities shall be rated at least Baa3 by Moody's or BBB- by Standard & Poor's. These ratings and those higher, are considered to be "investment grade" ratings. If the rating of a fixed income security within the portfolio falls below investment grade, the Treasurer and Select Board shall be notified. The "Prudent Person" approach shall be used to sell the security when appropriate. However, the Treasurer and Select Board, by unanimous vote, may agree to keep that security in the portfolio, if that is deemed to be in the interest of the public.
3. The maximum maturity of any single issue fixed income security shall not exceed 30 years unless there is a put option within 10 years.
4. The average duration of the fixed income portfolio shall not exceed 20 years.
5. Up to fifty percent (50%) of the fund may be invested in common equity securities purchased as mutual funds. The fund must be re-balanced at least once each year.
6. No more than 20 percent of the portfolio of common equity securities may be invested in one mutual fund.

Specific Limitations for Tax Stabilization Fund

- On average cash holdings shall be no greater than 25 percent of the portfolio.
- Futures, options, warrants, and other derivative instruments are prohibited.
- Non-U.S. dollar denominated securities are prohibited.
- Commodities are prohibited.
- Convertible bonds are prohibited.

- Margin purchases or other use of lending or borrowings of money are prohibited, except when specifically authorized by the Select Board.
- Direct loans or extension of credit to any interested party, except the Town or Village of Waterbury are prohibited.
- Regarding lending of funds, only loans in anticipation of taxes or other revenues are permitted and may be made to the Town or Village of Waterbury if authorized by the Town Treasurer.
- No more than 10 percent of the total market value of all investments (measured at the time of the purchase) shall be invested in debt obligations of any one fixed income issuer, except for securities issued or guaranteed by the United States Government or its agencies, which may be held without limitation.

VII. CAULKINS FUND

A. Allowable Asset Classes

1. All asset classes allowed in the general guidelines (Sec. III E).

B. Time Horizon-In Perpetuity

C. Risk Tolerance-Moderate to Moderately Aggressive

1. All cash or cash equivalents shall be insured or properly collateralized, unless the Treasurer and Select Board, by unanimous vote, agree to waive the requirement for such insurance or collateralization.
2. When purchased, fixed income securities shall be rated at least Baa3 by Moody's or BBB- by Standard & Poor's. These ratings and those higher, are considered to be "investment grade" ratings. If the rating of a fixed income security within the portfolio falls below investment grade, the Treasurer and Select Board shall be notified. The "Prudent Person" approach shall be used to sell the security when appropriate. However, the Treasurer and Select Board, by unanimous vote, may agree to keep that security in the portfolio, if that is deemed to be in the interest of the public.
3. The maximum maturity of any single issue fixed income security shall not exceed 30 years unless there is a put option within 10 years.
4. The average duration of the fixed income portfolio shall not exceed 20 years.
5. Up to one hundred percent (100%) of the fund may be invested in common equity securities purchased as mutual funds until the value of the fund reaches \$30,000. At that time the Select Board will re-evaluate this provision of this policy.

This Investment Policy of the Town of Waterbury, originally adopted by the Select Board on August 3, 1998, is hereby amended, this 5th Day of June, 2006.

Attest: _____

Donna Centonze, Town Clerk

