

Town of Brunswick Investment Policy

I. Introduction

The intent of the Investment Policy of the Town of Brunswick (“Town”) is to define the parameters within which funds are to be managed. In methods, procedures and practices, the policy formalizes the framework for the Town’s investment activities that must be exercised to ensure effective and judicious fiscal and investment management of the Town’s funds. The guidelines are intended to be broad enough to allow the investment officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including the State of Maine Title 30-A M.R.S.A. section 5706, and 5711-5719.

III. Scope

This policy applies to activities of the Town of Brunswick with regard to investing the financial assets of all funds. Funds held by the Town as trustee or fiscal agent are excluded from these rules; however, all funds are subject to regulations established by the State of Maine. The covered funds, and any new funds created by the Town unless specifically exempted by the oversight board and this policy, are defined in the Town of Brunswick’s Comprehensive Annual Financial Report.

Proceeds from certain bond issues, and separate endowment assets are covered by separate policies. For bond proceeds, investment earnings are governed by arbitrage rules. Endowment assets, specifically the trust funds held by the Town both as permanent funds and private purpose funds, are invested in accordance with the policies and procedures developed by the Trust Fund Advisory Committee.

Except for funds in certain restricted and special funds, the Town commingles its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income may be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

IV. General Objectives

The primary objectives, in priority order, of investment activities shall be:

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The Town of Brunswick will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VIII of this Investment Policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Town will do business in accordance with Section VI, and

- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The Town of Brunswick will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see Section IX).

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. *Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

4. *Special Considerations*

Consistent with achieving the investment objectives set forth herein, the investment portfolio will incorporate environmental, social and corporate governance (ESG) factors as core components of decision-making and risk management, taking into account governance practices, environmental or social impact, and regulatory and reputational risks.

Where possible, funds may be invested for the betterment of the local economy or that of local entities within the State. The Town may accept a proposal from an eligible institution which provides for a reduced rate of interest provided that such institution documents the use of deposited funds for community and economic development projects.

V. Standards of Care

1. *Prudence*

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The "prudent person" standard states that,

“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.”

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the Town of Brunswick.

3. Delegation of Authority and Responsibilities

Authority to manage the investment program is granted to the Treasurer, hereinafter referred to as investment officer and derived from the following: Brunswick Town Charter, Article V, Section 507. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

VI. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. Authorized Financial Institutions, Depositories, and Broker/Dealers

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by conducting a process of due diligence. These may include ‘primary’ dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of FINRA certification
- Proof of state registration
- Certification of having read and understood and agreeing to comply with the Town of Brunswick’s investment policy.
- Evidence of adequate insurance coverage.

A periodic review, at least once every five years, of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

2. Minority, Emerging and Community Financial Institutions

From time to time, the investment officer may choose to invest in instruments offered by minority, emerging and community financial institutions. All terms and relationships will be fully disclosed prior to purchase, and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law.

VII. Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the Town of Brunswick's safekeeping institution prior to the release of funds.

2. Third-Party Safekeeping

Securities will be held by an independent third-party custodian selected by the Town. All securities will be evidenced by safekeeping receipts in the Town's name.

3. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in written procedures that shall be reviewed and updated annually.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Staff training and
- Review, maintenance and monitoring of security procedures both manual and automated.

The external auditor shall provide an annual independent review to assure compliance with state law, policies and procedures.

VIII. Suitable and Authorized Investments

1. Investment Types and Credit Guidelines

Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable. Typical types of securities include:

- U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest;
- Federal Agency or U.S. government sponsored enterprises (GSE) obligations, participations or other instruments;
- Certificates of Deposit;
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a

- nationally recognized rating agency;
- Investment-grade obligations of state, provincial and local governments and public authorities;
- Fully collateralized Repurchase agreements collateralized in compliance with this Policy, governed by a SIFMA Master Repurchase Agreement and with a maximum maturity;
- SEC registered money market mutual funds; and
- Local government investment pools.

2. *Collateralization*

Where allowed or required by state law and in accordance with the GFOA Recommended Practices on Collateralizing Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

IX. Investment Parameters

1. *Diversification*

It is the policy of the Town of Brunswick to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, assets in all Town funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the investment officer for all funds.

2. *Maximum Maturities*

To the extent possible, the Town of Brunswick shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. The Town shall adopt weighted average maturity limitations consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as collateralized deposit accounts, local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

X. Reporting

1. *Annual report*

The investment officer shall prepare an investment report at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last year. The report should be provided to the Town's Finance Committee. The report will include, at a minimum, the following:

- a. An asset listing showing cost and market value of each security, type of investment, issuer, and interest rate;
- b. Maturity distribution of the portfolio;
- c. Average portfolio credit quality; and,
- d. Distribution by type of investment.

2. *Annual audit*

The Town’s external auditor shall conduct an annual process of independent review to assure compliance with internal controls, and to verify the accuracy of management’s reporting. Such audit will include tests deemed appropriate by the auditor, and reports of any findings will be made as part of the auditor’s annual report to Council.

XI. Policy Considerations

1. *Exemption*

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

2. *Amendments*

This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

XII Approval of Investment Policy

The investment policy and any modifications to that policy shall be formally approved and adopted by the Town Council, and shall be reviewed annually by the Finance Committee

XIII. Attachments

The following documents, as applicable, are attached to this policy:

Glossary

State of Maine Title 30-A M.R.S.A. section 5706, and 5711-5719

GFOA Best Practices and Advisories: Collateralizing Public Deposits (2007 – GFOA TIM Committee)

Adopted by Town Council: October 3, 2016

Amendment by Town Council (ESG language added): September 20, 2021

Glossary

US Treasury Obligation

Direct obligations of the United States Treasury whose payment is guaranteed by the United States.

GSE – Agency Obligations

US Government Agencies, Government Sponsored Enterprises (*GSEs*), Corporations or Instrumentalities of the US Government – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (*FNMA*), the Federal Home Loan Mortgage Corporation (*FHLMC*), Federal Home Loan Banks (*FHLB*), and the Federal Farm Credit Bureau (FFCB).

Commercial Paper

Commercial Paper* that is rated A1/P1 and has long term bonds which have a minimum rating of AA- by Standard and Poor's and Aa3 by Moody's

Bankers' Acceptances

Bankers' acceptances, if the bankers' acceptances are: (i) Guaranteed by, and carried on the books of, a qualified financial institution; (ii) Eligible for discount by the Federal Reserve System; and (iii) Issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations. For the purposes of this paragraph, "qualified financial institution" means: (i) A financial institution that is located and licensed to do banking business in the State; or (ii) A financial institution that is wholly owned by a financial holding company or a bank holding company that owns a financial institution that is located and licensed to do banking business in the State of Maine.

Repurchase Agreements

An agreement with a approved broker/dealer that provides for sell and simultaneous purchase of a allowable collateral security. The difference in the sales and purchase price is the earning rate on the agreement. A master repurchase agreement must be in place with the approved broker/dealer or financial institution.

Local Government Investment Pool

State treasurer's local short-term investment fund, up to the statutory limit per state statute.

Certificates of Deposit/Bank Deposit/Savings Accounts

Time deposit open accounts, certificates of deposit and savings accounts in insured institutions as defined in State Statute, in credit unions as defined in State statute or in federal credit unions, if the institution or credit union maintains a head office or a branch in this State of Maine.

Municipal Obligations

Lawfully issued debt obligations of the agencies and instrumentalities of the State of Maine and its political subdivisions that have a long-term rating of A or an equivalent rating or better, or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.