**Massachusetts Other Post Employment Benefits**

**Liability Trust Investment Policy**

**Purpose**

This investment policy is intended to provide guidelines for the management and investment of all funds deposited into the Massachusetts Other Post Employment Benefits Liability Trust ("Trust") under the control of MOPEB as Trustee

("Trustee").

**Background**

Funds deposited to this Trust are held and invested for the purpose of meeting the obligations of the Grantor municipalities under respective Other Post Employment Benefits ("OPEB") defined benefit programs, currently consisting of post employment benefits such as health and life insurance coverage. Under GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, the discount rate should be the long term expected yield on the investments set aside in the Trust to be used to pay future benefits as they come due. Given the long term nature of the OPEB defined benefit programs, investments in the Trust will closely approximate pension fund-type investment securities, defined later in this policy.

**Objectives**

Massachusetts General Laws, Chapter 203C, section 3 describes the circumstances that the Trustee shall consider and the standard to which the Trustee must adhere, when investing funds under the prudent investment rule. The applicable standard is as follows:

(a) The 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.

(b) The 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.

(c) Among circumstances that the 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 role that each investment or course of action plays within the overall Trust portfolio;

(4) the expected total return from income and the appreciation of capital;

(5) needs for liquidity, regularity of income, and preservation or appreciation of capital.

(d) The Trustee shall make a reasonable effort to verify facts relevant to the investment and management of Trust assets.

(e) The Trustee may invest in any kind of property or type of investment consistent with the standards of General Laws, Chapter 203C, §3 and this policy statement.

**Strategy**

Funds held in the Trust will be invested using the following guidelines in terms of asset allocation. This policy section is subject to review and amendment at any time by the Trustee.

**Cash and cash equivalents** -Target allocation of 5% (0%-10%). Cash will be maintained to provide periodic cash distributions. Cash will not normally be held as a strategic investment asset, although cash may be allowed to build to the maximum level in times of market uncertainty.

**Fixed Income** -Target allocation of 50% (35% -65%). To ensure appropriate diversification and to minimize default risk, the Trust will invest primarily in high-quality taxable bonds, notes, and other credits through mutual funds, exchange-traded funds (ETFs) or individual bonds. Lower-quality bonds may be held through mutual fund or ETF ownership. The overall goal of the fixed-income portion of the portfolio is to provide returns competitive with, and price volatility similar to, the Barclays Aggregate Bond Index. The fixed income allocation exists to provide income and to dampen the volatility from the fund's equity holdings. The sub-categories and their respective allocation ranges are as follows:

* target of 60% (45%-75%) (of the fixed income allocation) in U.S. listed fixed income;
* target of 40% (25%-55%) in International Developed Countries;

**Equities** -Target allocation of 45% (30% -70%). The sub-categories and their respective allocation ranges are as follows:

* target of 60% (40%-75%) (of the equity allocation) in U.S. Large Cap;
* target of 20% (0%-30%) in International Developed Countries (all markets caps);
* target of 10% (0%-25%) in U.S. Mid Cap;
* target of 10% (0%-20%) in U.S. Small Cap;

**Investment Instruments**

The Trustee may invest in the following instruments:

* U. S. Treasuries securities that may be sold prior to maturity -unlimited amounts (with no limit to the length of maturity from date of purchase)
* U.S. Agency obligations that maybe sold prior to maturity -unlimited amounts (with no limit to the length of maturity from date of purchase)
* Foreign Sovereign debt
* Investment Grade Corporate debt
* Money market mutual funds.
* Fixed-income mutual funds and ETFs.
* Equity mutual funds and ETFs.
* Alternative investment-oriented mutual funds.

**Diversification Equities**

The equity portion of the Trust portfolio should consist of a diversified mix of investments (mutual funds and EFTs) suitable to achieve the objective of capital appreciation.

**Fixed Income**

Investments in fixed income securities will be made principally for income and capital preservation and diversification. Selection should be made from liquid, investment grade corporate 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 EFTs. 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 must be rated BBB or better, as defined by Moody's and/or Standard & Poor's Rating Agency.

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against (1) over concentration of maturities, (2) over concentration in a specific institution, with the exception of U.S. Treasury obligations and its Agencies.

**Risk**

The Trustee will adhere to the following risk guidelines for all investments of funds:

**Custodial Credit Risk -**The custodial credit risk for deposits is the risk that, in the event of a failure of a depository institution, the Trust would not be able to recover deposits or the securities used to collateralize the deposits from the institution or a third party. For investments, the risk occurs if the Trust is unable to recover the value of an investment or collateral in possession of a third party.

**Interest Rate Risk -**Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Trust investments are long-term investments. Given a stated discount rate target, this long-term approach enables the Trustee to purchase long-term assets which tend to have high returns over many years but whose price volatility precludes their use by those with shorter time horizons. This price volatility and resulting market value fluctuations are of secondary importance unless individual assets have permanently impaired values and must be liquidated to preserve remaining value. Varying the duration of investments within the portfolio will help manage the effects of interest rate risk, however, the Trustee understands the longer-term nature of these funds and will design a portfolio consistent with the long term health of the Trust.

**Credit Risk-**Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Trustee will minimize credit risk by diversifying the investment portfolio so that the impact of potential losses from anyone issuer will be minimized.

**Concentration of Credit Risk-**Concentration of credit risk is the risk of loss attributed to the magnitude of the Trust's investment in a single issuer.

The Trustee will minimize any concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from anyone type of security or issuer will be minimized.

**Foreign Currency Risk -**Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or deposit.

The Trust will not directly invest in any instrument exposed to foreign currency risk. This risk, however, may be inherent in some securities contained within the portfolio such as international mutual funds or ETFs.

**Standards of Care**

The standard of prudence to be used by the Trustee 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, all consistent with M.G.L. c.203C, §3.

**Performance Measurement and Evaluation**

* The performance of the mutual funds in which the Trustee invests will be measured by comparison with their stated objectives in comparison to their respective benchmarks.
* To monitor the intermediate term performance of such Funds, the Trustee will compare the investment results to a blended benchmark.
* Rebalancing of the portfolios should happen at least annually or more frequently if appropriate.

**Policy Review**

This policy will be reviewed annually by the Trustee to ensure that it remains appropriate and complete.