

**City of Franklin
Trustees of Trust Funds
Investment Policy Statement
Adopted October 18, 2012**

SCOPE: Pursuant to the guidelines of the “Handbook for Trustees of Trust Funds: 2000” and with reference to Chapter 328, City of Franklin Code 1991, the Trustees of Trust Funds of the City of Franklin, NH adopt this investment policy statement for the prudent investment of the funds under their jurisdiction. Sources: Endowments: Yale and Georgetown University and Investment Policy Statements: Town of Hanover, NH and City of Aurora, CO.

I. Public Funds

- A. Trust Funds Created by Towns pursuant to RSA 31:19-a. Funds raised from public monies for the maintenance and operation of the town and other public purposes shall be invested in the New Hampshire Public Deposit Investment Pool (PDIP) established pursuant to RSA 383:22. Each fund shall be kept in a separate account and not intermingled with other funds of the city.
- B. Reserve Funds. Capital and other reserve funds appropriated pursuant to the provisions of Chapters 34 and 35 RSA shall be invested in the PDIP. Each fund shall be kept in a separate account and not intermingled with other funds of the city.

II. Private Funds

- A. Non-expendable (endowment type) funds raised for private sources pursuant to RSA 1:19, 31:20 and 31:21, such as privately donated gifts, legacies, and devises made to the town or school district, and accepted by it, for the establishment, maintenance, and care of libraries, reading rooms, schools, and other educational facilities, parks, cemeteries, and burial lots, the planting and care of shade and ornamental trees upon their highways, and other public places, and for any other public purpose not foreign to or incompatible with the objectives of the City of Franklin.

Goals and Objectives

Consistent with the purpose outlined above, the Portfolio strives to achieve the following objectives:

- I. To maximize total return within reasonable and prudent levels of risk in order to maintain sufficient liquidity to meet disbursement needs.
- II. The primary objective of the account is to maintain a balanced approach to investments, utilizing both equity and fixed income securities in varying amounts over time. The fixed investments are to be utilized to generate a stable flow of taxable income and act as a hedge against deflation. The purpose of the common stock investments is to generate long term growth of capital and to act as a hedge against inflation.

Investment Strategy

All such non-expendable funds shall be invested on a total return basis, that is, the aggregate return from capital appreciation and dividend and interest income. Such funds may be invested in a common trust fund. The specific investment objective is to exceed the long-term rate of inflation (as measured by the CPI) by 3.0%. The goal of the trustees is to construct a diversified portfolio of investment assets with returns that will be evaluated over three to five year periods i.e. “full market cycle” against the benchmarks set forth below, net of fees.

<u>Traditional Asset Class¹</u>	<u>Benchmark²</u>
U.S. Public Equity	Russell 3000, S&P 500
Non-U.S. Public Equity	MSCI ACWI ex-U.S.
Fixed Income	
Investment Grade	Lehman Aggregate Intermediate
High Yield	Gov't./Credit Index
	Merrill Lynch High Bond Index
Cash	3-month Treasury bills

Alternative Asset Classes

Real Assets

Index fund and exchange traded funds will also be evaluated by how closely they track the relevant index net of fees.

Qualitative factors as well as quantitative factors will be considered with reference to the monitoring of the money manager's performance, particularly over periods of time which encompass less than a complete market cycle.

Asset Allocation Guidelines

Trustees shall follow RSA 31:27 which states. “Notwithstanding any statute or rule of law to the contrary, town and city trustees of trust funds may establish, maintain and operate one or more common trust funds, in which may be combined money and property belonging to the various trusts in their care, for the purpose of facilitating investments, providing diversification and obtaining reasonable income; provided however, that said common trust funds shall be limited to the investments authorized in RSA 31:25; provided further, that not more than \$10,000, or more than 10 percent of the fund whichever is greater, of any town or city common trust funds shall be invested under RSA 31:25 in the obligations of any one corporation or organization, excepting deposits in any federally or state-chartered bank or association authorized to engage in a banking business in this state, in credit unions in this state, or in obligations of the United States and of the state of New Hampshire and its subdivisions; or in participation units in the public deposit investment pool established pursuant to RSA 383:22, or in shares of open ended mutual funds selected by the trustees for investment under RSA 31:25, and provided further, that the participating contributory interests of said trusts are properly evidenced by appropriate bookkeeping entries showing on an annual basis the capital contribution of and the profits and income allocable to each trust.”.

In addition, investment management of the Fund shall be in accordance with the following broad asset allocation guidelines at market value. The primary objective of the Asset Allocation is to

¹ See Addendum for description

² See Market Benchmarks 9/30/2004

provide a strategic mix of asset classes that produces the highest expected investment return while controlling risk.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
U.S. Public Equity	35%	55%	75%
Non-U.S. Public Equity	5%	20%	25%
Fixed Income	20%	35%	50%
Investment Grade			
High Yield			
Cash	0%	0%	20%
<u>Alternative Asset Class</u>			
Real Assets	5%	7%	15%

Risk

The portfolio shall display an overall level of risk which is consistent with the risk associated with the above stated benchmarks. Risk will be measured by standard deviation of return.

Time Horizon

The fund has a perpetual time horizon.

Constraints

The Fund shall comply with the provisions of RSA 31:25. Exchange Traded Funds shall be used as the investment for a relatively small pool of assets.

Distributions

It is recognized, based on the target distribution, that dividend and interest income generated in this Fund may not always be sufficient to satisfy the required withdrawals from the Fund. Consequently, during those periods of time, partial and/or total security positions may be sold at the discretion of Trustees in order to raise the required funds to meet disbursements and obligations.

Professional Banking and Brokerage Assistance

The Trustees may retain a professional Investment Advisor(s) pursuant to the provisions of RSA 31:38 to assist the trustees in the prudent management and investment of trust fund assets and to provide ancillary bookkeeping services. The investment advisory agreement shall be put out to bid no less frequently than every five years, and preferably, every three years. The investment manager shall supply the Trustees with performance reports on a quarterly basis. The investment performance of the total portfolios, as well as asset class components, will be measured against

commonly accepted performance benchmarks. Trustees shall review investment advisor(s) at least annually regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact its ability to achieve the desired investment results.

Investment Policy Review

The trustees will review this investment policy statement periodically to determine if modifications are necessary or desirable.

The subsequent provisions are extracts from Franklin Code as adopted by the City Council of the City of Franklin, NH 3-3-1991, modified to our purpose.

Delegation of Authority 328-3

Responsibility for conducting investment transactions shall reside with the Chairman, subject to the approval trustees (2).

Internal Controls 328-6

- A. The Administrative Assistant shall establish a system of internal controls, which shall be documented in writing.
- B. The internal controls shall be reviewed by the external auditor. The controls shall be designed to prevent loss through fraud, employee error, misrepresentation by third parties, market changes or imprudent action by trustees.

Quarterly Investment Report 328-7

The Administrative Assistant or a representative from Independence Trust Company shall submit a quarterly investment report which summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the quarter's total investment return and compare return with revenue expectations. The report shall include an appendix that discloses all transactions during the past quarter. Each quarterly report shall indicate any areas of policy concern and suggested or planned revision of investment strategies. Copies shall be transmitted to the external auditors and to each trustee of the trust.

Banking and Dealer Relationships 328-19

It is the goal of the city to induce competition both in the depository as well as bidding for investment funds. Lacking such competition the city will negotiate an acceptable agreement to be signed by both parties. Where competition is available it is the intent of the city to have all institutions or dealers cognizant of the city's investment policies. In order to achieve this end, all persons or firms receiving city investment funds shall certify that they have received a copy of these policies and agree to disclose potential conflicts or

risks to public funds that might arise out of business transactions between the firm and the City of Franklin.

Safekeeping and Custody of City Assets 328-14

To protect against potential fraud and embezzlement, the assets of the Trust shall be secured through third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Authorized investment personnel shall be bonded to protect the public against possible embezzlement and malfeasance. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure. Unless prevailing practices or economic circumstances dictate otherwise, ownership shall be protected through third-party custodial safekeeping. Safekeeping procedures shall be reviewed annually by the external auditor. The external auditor shall conduct periodic surprise audits of safekeeping and custodial systems.

ADDENDUM

Traditional Asset Classes

U.S. Public Equity These assets are very liquid ownership claims on the growth Equity opportunities provided by U.S. public corporations. These securities provide a long-term hedge against inflation and have historically outperformed Fixed Income over long periods of time. However, this risk premium over Fixed Income is needed to compensate investors for the greater risk or volatility of these assets over short to intermediate periods of time.

Non-U.S. Public Equity These assets are liquid ownership claims on the growth opportunities provided by non-U.S. public corporations. These securities provide diversification benefits due to the lack of perfect correlation between U.S. and non-U.S. corporate profits. These securities also provide non –US Dollar exposure, which helps provide a hedge against US Dollar inflation. These securities can outperform and under perform U.S. Public Equity over extended periods of time but also historically have outperformed Fixed Income assets. Like U.S. Public Equity, this risk premium over Fixed Income is needed to compensate investors for the greater risk or volatility of these assets over short to intermediate periods of time. This asset class also includes equity and debt investments in emerging markets. Emerging market debt has a risk-return profile that more closely resembles equity. The emerging market investments have the lowest correlations with all developed market equities

Fixed Income Investment Grade Intermediate to long-term grade bonds offer the best protection against the risk of deflation, by providing a more predictable stream of cash flows that will hold up during bad economic times. Historically the return has been higher than cash due to the usual upward slope of the yield curve. However, these securities are subject to the risk of higher interest rates reducing the value of these investments over short periods of time.

Fixed Income for High Yield Fixed Income securities with higher credit risk can provide the opportunity higher returns than Investment Grade Fixed Income securities. Historically the returns and risk for such securities has averaged between that realized for Public Equity and Investment Grade Fixed Income. Sometimes the risk premium for investing in such securities is wide enough to compensate for the extra risk.

Cash Cash and cash equivalents (i.e., high credit and low duration Fixed Income securities) provide the lowest risk and most liquid investment option, but also, historically, the lowest returning asset over long periods of time.

Alternative Asset Classes

Real Assets This asset class provides the best hedge against inflation risk. The largest portion of this asset class is real estate, but it also includes inflation-indexed bonds.