

Town of Exeter	Policy Number 3.1.e	Adopted by Selectboard
Subject: Investment Policy	Adoption Date: 10/7/13 Revision Date(s): 12/23/24, 11/14/22 Effective Date: 10/7/13	Supersedes: None

I. Purpose of the Policy

The purpose of this policy is to provide guidelines for the investment of public funds of the Town of Exeter, New Hampshire (the “Town”) that are not otherwise immediately required for expenditure.

II. Governing Authority

The investment program shall be operated in conformance with New Hampshire RSA 41:9 VII, which requires the Selectboard to annually review and adopt an investment policy for the investment of public funds.

III. Scope

This policy applies to the investment of all public funds in custody of the treasurer of the Town of Exeter. These funds are accounted for in the Town’s annual audited financial reports and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Agency and Escrow Funds
- Any new funds created by the Town, unless specifically exempted by the governing body, in accordance with law, or by law

Furthermore, the investment policy applies to all transactions involving the financial assets and related activity of all the foregoing funds. This investment policy does not apply to the Town of Exeter Trust Funds, or the investment of employees’ retirement funds.

Except for cash in certain restricted and special funds, the Town will consolidate cash and reserve balances from all funds noted above to maximize investment earnings and to increase efficiency with regard to investment pricing, safekeeping and administration. Investment income will 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 of the Town’s investment activities shall be safety, liquidity, and return:

1. Safety

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The Town will minimize credit risk, which is the risk of loss of all or part of the investment 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 and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the Town will do business in accordance with Section VI.
 - 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 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 security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
 - 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).

3. *Return*

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 and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
- Unanticipated liquidity needs of the portfolio require that the security be sold.

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 the overall portfolio. The standard requires 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.

Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported to the Town Manager and Selectboard in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose to the Town Manager and Selectboard any material interests in financial institutions with which they conduct business, in accordance with applicable laws. 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 personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

3. Delegation of Authority

Authority to manage the investment program is granted to the Town of Exeter Treasurer, hereinafter referred to as investment officer, such authority being derived from New Hampshire RSA 41:29. 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.

In accordance with RSA 41:29 VI, the Treasurer may delegate investment functions to other town officials or employees provided such delegation is in writing and includes written procedures acceptable to the Selectboard and is agreeable to all parties involved. Any such delegation shall only be made to a town official or employee bonded in accordance with RSA 41:6 and rules adopted by the Commissioner of Revenue Administration under RSA 541-A. Such delegation shall not eliminate the responsibility of the Treasurer to comply with all statutory duties required by law.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

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

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

The investment officer shall deposit all funds under this policy with financial institutions described under NH RSA 41:29 II. Unless otherwise in the best interest of the Town, the Town shall solicit cash management and banking services at least every five years. Proposals will be accepted through a competitive bidding process.

All financial institutions and 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 Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Certification of having read and understood and agreeing to comply with the Town's investment policy.
- Evidence of adequate insurance coverage.

VII. Safekeeping and Custody

1. Collateralization

All securities must be fully backed by third party collateral with the delivery of US government obligations, US government agency obligations, or obligations of the State of New Hampshire in market value at least equal to 102% of the cash deposit in each case. Collateral shall be wired to the municipality's joint custody account at the Federal Reserve Bank of Boston or Federal Reserve Bank of New York no later than the day cash deposits and/or investments are wired/transferred. Reserve banks shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

2. Internal Controls

The investment officer shall be responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, imprudent actions by employees and officers of the Town, loss, theft or misuse. 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 be reviewed annually with the Town's independent auditor. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record-keeping
- Custodial safekeeping of assets
- Written confirmation of transactions for investments and wire transfers
- Dual authorization of wire transfers

VIII. Suitable and Authorized Investments

1. Investment Types

Funds shall be invested in accordance with the provisions of RSA 41:29 IV and V, including the following investment types:

- United States Treasury securities maturing in less than one year; or
- Savings bank deposits of banks incorporated under the laws of the State of New Hampshire; or
- Fully insured or collateralized certificates of deposits of banks incorporated under the laws of the State of New Hampshire; or
- Fully insured or collateralized certificates of deposits of national banks located within the State of New Hampshire, or in banks recognized by the State Treasurer; or
- New Hampshire Public Deposit Investment Pool established pursuant to RSA 383:22; or
- Short-term obligations of United States Government agencies; or
- Repurchase agreements with banks chartered by the State of New Hampshire and fully collateralized by United States Treasury Bills and such other instruments as may be specifically authorized by the Revised Statutes of the State of New Hampshire.

Investment in derivatives of the above instruments shall require authorization by the Selectboard.

IX. Investment Diversification & Guidelines

1. Diversification

It is the intention of the Town to diversify the funds invested under this policy. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, cash and cash equivalent assets shall be diversified according to the table below.

	<u>Maximum Percent of Portfolio Permitted</u>
• Overnight Investments	100%
• U.S. Treasury Obligations	90%
• NH Public Deposit Investment Pool	50%
• Certificates of Deposit	75%

2. *Guidelines*

Diversification strategies shall be reviewed periodically by the investment officer. In establishing diversification strategies, the following general guidance shall apply:

- Investment maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.
- Risks of market price volatility shall be controlled through maturity diversification and duration management.
- To the extent possible, the Town shall 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 one (1) year from the date of purchase.
- Liquidity shall be assured through practices ensuring that large routine expenditures of the Town (i.e. accounts payable and payroll disbursements) are covered through maturing investments or marketable U.S. Treasury bills.

X. Reporting

1. Method

The investment officer shall prepare an investment report semi-annually that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the previous six months. The report will be prepared in a manner which will allow the Town to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Selectboard and Town Manager and include the following:

- Listing of individual securities held at the end of the reporting period including type, acquisition cost, book cost, and market value, if applicable.
- Total investment return for the period, with a comparison of the return to budgetary expectations.
- Percentage of the total portfolio which each type of investment represents.
- A detail of all transactions during the previous six months.
- A statement that the investment portfolio is in compliance with the investment policy and is meeting the investment policy objectives.

2. Performance Evaluation

The Town shall require, from any institution in which investing activity is conducted, sufficient routine reports/documentation to enable an accurate evaluation to be made as to the results of the Town's investment program as it relates to the Town's stated objectives, guidelines and policies, and to assist in revealing areas for potential improvement.

XI. Policy Considerations

1. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the Selectboard. The policy shall be reviewed and readopted annually.

2. Amendment

Any changes to the policy must be submitted to, and approved by, the Selectboard. The Selectboard

reserves the right to implement changes to this policy without prior notice if it is deemed in the Town's best interest.

3. Availability

This policy is available for public review and inspection. A copy may be obtained by contacting the Town's Finance Director.

XII. Severability

To the extent this policy conflicts with laws of the State of New Hampshire, State law will prevail.

Policy updated by the Selectboard at the meeting of December 23, 2024.

The original Investment Policy was adopted by the Board of Selectmen at the meeting of October 7, 2013.