

Saving Reserve Fund Policy of Moretown, VT-2012

I. Scope and Purpose:

The **Savings Reserve Fund** was established as a hedge against the eventual closure of the Moretown Land Fill (MLF). The MLF has provided substantial revenue to the town to lower the tax burden and improve infrastructure. However, its eventual closure and the loss of its revenue will severely impact property taxes and town operation. The Saving Reserve Fund receives a yearly contribution as a percentage of the total MLF receipts. With this continuing contribution and a properly structured investment policy, the Savings Reserve Fund can potentially replace a substantial portion of MLF's receipts following its closure. The Savings Reserve Fund will provide distribution from investment income for the mid and long term future of Moretown. A portion of the Fund's assets may become available prior to the closing of MLF. Another portion of the assets will reside in a trust fund to maximize long term growth and provide for an infinite source of revenue. As **Fund** balance objectives, "**Core Value**", are met or exceeded expectations are for early distribution. The size and type of distributions will be at the unanimous discretion of the Select Board. It is incumbent on town leadership and residents to plan for MLF's closure and to maximize the potential revenue stream for the benefit of present and future residents. The objective of this policy statement is to provide the structure necessary to insure continuity in the management of the fund and the fulfillment of its long term intent. The Savings Reserve Fund shall be structured with two defined sub-funds, the **Distribution Fund** and the **Perpetual Trust Fund**. These two Funds have similarities and differences in objectives and governance which are described in this policy statement.

II. Policy Objectives Overview:

- To maintain a minimum annual contribution of 25% of MLF's total revenue into the Saving Reserve Fund.
- The establishment of a portion of the Savings Reserve Fund as a **Distribution Fund** which shall provide conditional annual access to income and principal.
- The establishment of a portion the Saving Reserve Fund as a **Perpetual Trust Fund** for defined distributions to present and future generations of Moretown residents in perpetuity.
- To establish policies for both the Distribution Fund and the Perpetual Trust Fund that define:
 - a. Methodology for fund growth, fund size, inflation adjustment, risks, distribution formulas and limits.
 - b. A comprehensive **Investment Policy** with objectives, procedures, rules and governance.
- Establish a Saving Reserve Fund **Investment Counsel** whose responsibility it is to oversee, recommend, execute, and report on investment activity in accordance with **Fund** and Investment policy.
- Maximize investment returns through a managed "Risk Allocation" philosophy.
- Define procedures to evaluate, appoint, terminate and conduct business with investment institutions.
- Establish review and amendment procedure for the policies described herein.

III. Policy Statements:

The Savings Reserve Fund shall be subdivided into two funds, the **Distribution Fund** and the **Perpetual Trust Fund**. Although these two sub-funds may have some common objectives, structure and governance each **Fund** shall have its own define policy statement described herein. The Savings Reserve Fund will be the general reference and accounting hub through which inflows, distributions and reporting are processed. Any allocations from the MLF will be distributed by the Treasurer to the Savings Reserve Fund and held in escrow, awaiting distribution instruction from the Select Board, designating dispersal to the Distribution Fund and /or the Perpetual Trust Fund. Any distributions from the Distribution Fund and/or the Perpetual Trust Fund to the Savings Reserve Fund and subsequently to the Operations Budget shall be at the discretion and instruction of the Select Board to the Treasurer.

A. The Distribution Fund:

The Distribution Fund's objective is to provide growth of principle and return on investment thru prudent investment as governed by the **Investment Policy** described in **Appendix 2** and governed by the Select Board and **Investment Council** described in **Appendix 1**. In principle, as a subdivision, the Distribution Fund, is subservient to the broader scope, purpose and objectives of the Savings Reserve Fund. The Distribution Fund's primary function however, is to permit, via executive decision, access to all or part of earned income, cash and principle within the **Fund** for contributions from or distributions to the Savings Reserve Fund. Function of the **Fund** shall be subject to the methodology and policy structure stated herein.

1. Accounting Structure:

The Treasurer shall establish and maintain the Distribution Fund account. Contribution to and distributions from the **Fund** will be executed, recorded, tracked and reported in accordance with standard and proper accounting procedure. Contributions received from the Savings Reserve Fund will be recorded and held in escrow awaiting investment dispersal instruction from the Select Board. Distributions received from an investment firm, as instructed by the Select Board, will be recorded, transferred to the Savings Reserve Fund and held in escrow awaiting distribution instructions from the Select Board. Distributions to an investment firm will be made upon receipt of instruction from the Select Board. Cash balances not earmarked for distribution shall be reported by the Treasure to the Select Board monthly. A summary report of all account activity will be reported quarterly and a year end report issued.

2. Contributions:

At the discretion of the Select Board the Distribution Fund shall receive an annual minimum of 50% and a maximum of 65% contribution from the Savings Reserve Fund's MLF allocation. Other contributions may be made at the discretion of the Select Board. Distribution from any investments shall be transferred to the Savings Reserve Fund for allocation.

3: "Core Value" Thresholds:

"Core Value" for the Distribution Fund shall be defined as the minimum threshold "only" above which distributions can be transferred to the Savings Reserve Fund for the life of MLF's contributions. The base "Core Value" shall be \$1,000,000 plus the CPI inflations rate compounded each year thereafter. Since the value of investment classes fluctuates with market forces, the base "Core Value" will be calculated from the original "purchase price" of each asset plus the compounded CPI inflation value. As liquidations are executed, profit and loss balances will be applied to rectify "Core Value" at any time. Any distribution of assets from above the "Core Value" will be at the discretion of the Sect Board. Such distributions will be made annually and transferred to the Savings Reserve Fund. Upon closure of the MLF or an end of contributions, the Distribution Fund balance will become available for distribution, of both investment income and principle to mitigate the loss of MLF's contributions to the town's operating budget. At the discretion of the Select Board with consultation of the Treasurer, Investment Council and a public hearing, the Distribution Fund will be distributed and potentially liquidated. Prior to the distribution of any assets the Select Board shall prepare a multiyear plan for such distribution or liquidations and be responsible for decisions and the allocations of such funds.

4: Distributions:

The Distribution Fund shall provide a revenue stream from investment income and/or principle upon reaching and maintaining "Core Value" thresholds or upon the closure of the MLF. Distributions made upon reaching the "Core Value" threshold shall be made from investment income that has been converted to liquid assets. In the course and nature of some investments, decisions may be made to reinvest income. The Select Board and Investment Council shall be mindful and plan in advance of distribution requirement by opportunistically converting to or maintaining sufficient liquid assets. Prudent planning will minimize potential timing losses due to forced asset sales. Distributions will be made annually to coincide with the Town budget. All distributions shall be made to the Savings Reserve Fund Account as cash for allocation.

5: Investments:

The investment objective of the Distribution Fund is to maximize income and growth through the “prudent person” allocation of resources, defined in the Investment Policy, with minimum to moderate risk. The fund will adhere to a “Risk Allocation” investment philosophy, whereby asset class allocations will be proportional to the overall portfolio risk. Moderate and high risk allocations will be acceptable only if they are of short duration and are not disproportional to portfolio risk. All investments will be governed by the **Investment Policy** described in **Appendix 2**. Any investment shall be made solely at the direction of the Select Board. The Select Board’s investment decisions will be executed only after review and recommendation from the appointed **Investment Council** whose structure, duties, responsibilities and authority is described in **Appendix 1**. Reinvestment and /or reallocations of earned income will be made at the direction of the Select Board through the Investment Council and Treasurer.

6. Policy Amendment:

The Distribution Fund policy statement is intended to be a living document. Its relationship to the Savings Reserve Fund, however, should not be altered. The **Fund’s** structure, objectives, and statements are and will remain open to review, additions and changes on the 1st anniversary and every 3rd year thereafter. Any additions and or changes to the Distribution Fund Policy Statement shall require a unanimous decision of the Select Board after consultation with the Investment Council, Treasurer and public hearing.

B. The Perpetual Trust Fund

The **Fund’s** objective is to provide long term growth of principle and return on investment thru prudent investment as governed by the **Investment Policy** described in **Appendix 2** and governed by the Select Board and the **Investment Council** described in **Appendix 1**. As a subdivision of the Savings Reserve Fund, the Perpetual Trust Fund, in principle, is subservient to broader scope, function and objectives of the Savings Reserve Fund. The Perpetual Trust Fund’s primary function is to provide a benefit trust fund in perpetuity for generations of Moretown’s residents. The **Fund** shall have a “Core Value”, established herein, beneath which no investment returns will be withdrawn under any conditions or any authority for the tenure of Moretown’s Incorporation. Distribution of any investment income above the “Core Value” will be via executive decision. Function of the **Fund** shall be subject to the methodology and policy structure stated herein.

1. Accounting Structure:

The Treasurer shall establish and maintain the Perpetual Trust Fund account. Contribution to and distributions from the **Fund** will be executed, recorded, tracked and reported in accordance with standard and proper accounting procedure. Contributions received from the Savings Reserve Fund will be recorded and held in escrow awaiting investment dispersal instruction from the Select Board. Distributions received from an investment firm, as instructed by the Select Board, will be recorded, transferred to the Savings Reserve Fund and held in escrow awaiting dispersion instructions from the Select Board. Distributions to an investment firm will be made upon receipt of instruction from the Select Board. Cash balances not earmarked for dispersal shall be reported by the Treasurer to the Select Board monthly. A summary report of all account activity will be reported quarterly and a year end report issued.

2. Contributions:

At the discretion of the Select Board the Perpetual Trust Fund shall receive an annual minimum of 35% and a maximum of 50% contribution from the Savings Reserve Fund’s MLF allocation. Other contributions can be made at the discretion of the Select Board. Distribution from any investments shall be transferred to the Savings Reserve Fund for allocation.

3. “Core Value”:

“Core Value” for the Perpetual Trust Fund shall be defined as the minimum threshold “only” above which distributions can be transferred to the Savings Reserve Fund. The base “Core Value” shall be \$2,000,000 plus the CPI inflations rate compounded each year thereafter. Any distribution of funds

above the “Core Value” will be at the discretion of the Sect Board. Such distributions shall be made annually and transferred to the Savings Reserve Fund. Upon closure of the MLF and/or the end of contributions to the Perpetual Trust Fund only the balance above the “Core Value will be available for distribution. The Fund’s “Core Value” shall remain perpetual. Since the value of investment classes fluctuates with market forces, the “Core Value” will be calculated as the original “purchase price” of each asset plus the compounded CPI value. As liquidations are executed, profit and loss balances will be applied to rectify “Core Value” at that time. Prior to the distribution of any assets the Select Board shall prepare a multiyear plan for such distribution and be responsible for decisions and the allocations of such funds.

4. Distributions:

The Perpetual Trust Fund shall provide a revenue stream from investment income upon reaching and maintaining “Core Value” thresholds or upon the closure of the MLF. Distributions from base “Core Value” are prohibited. Distributions made upon reaching the “Core Value” threshold shall be made from investment income that has been converted to liquid assets. In the course and nature of some investments, decisions may be made to reinvest income. The Select Board and Investment Council shall be mindful and plan in advance of distribution requirement by opportunistically converting to or maintaining sufficient liquid assets. Prudent planning will minimize potential timing losses due to forced asset sales. Distributions will be made annually to coincide with the Town budget. All distributions shall be made to the Savings Reserve Fund Account as cash for allocation.

5. Investment:

The investment objective of the Perpetual Trust Fund is to maximize income and growth through the “prudent person” allocation of resources, defined in the Investment Policy, with minimum to moderate risk. The fund will adhere to a “Risk Allocation” investment philosophy, whereby asset class allocations will be proportional to the overall portfolio risk. High risk allocations will be acceptable only if they are of short duration and are not disproportional to portfolio risk. All investments will be governed by the **Investment Policy** described in **Appendix 2**. Any investment shall be made solely at the direction of the Select Board. The Select Board’s investment decisions will be executed only after review and recommendation from the appointed **Investment Council** whose structure, duties, responsibilities and authority is described in **Appendix 1**. Reinvestment and /or reallocations of earned income will be made at the direction of the Select Board through the Investment Council and Treasure.

6. Policy Amendment:

Exclusive of the perpetual structure of the “Core Value” the Perpetual Trust Fund policy statement is intended to be a living document. Its relationship to the Savings Reserve Fund, however, should not be altered. All other **Fund** structure, objectives, and statements are and will remain open to review, additions and changes on the 1st anniversary and every 3rd year thereafter. Any additions and or changes to the Perpetual Trust Fund policy statement shall require a unanimous decision of the Select Board after consultation with the Investment Council, Treasurer and a public hearing.

Appendices

Appendix 1: Investment Council

A. Scope and Objectives:

The Investment Council serve as the investment advisory group for the Select Board, functioning as their research, recommendation and management arm. The council is appointed by and serves solely at the direction of the Board. The council is the liaison between the Select Board, Treasurer, Investment Firms and Residents.

B. Membership:

1. **Size:** The Council shall consist of 3 or 5 members.
2. **Application:** Prospective members must submit their desire and reasons, in writing.
3. **Appointment:** Shall be by unanimous Select Board vote.
4. **Termination:** Shall be by unanimous Select Board vote.
5. **Composition:** Council membership shall consist of 1 Select Board member and the balance of Moretown residents.
6. **Tenure:** Upon appointment the first term shall be 1 year. A second 4 year term is open for application to the Select Board. With deference to the inclusion clause reappointment thereafter shall be cyclical at 1 then 4 year terms.
7. **Inclusiveness:** To foster participation, new ideas and talent the Select Board shall give preference to new applications verses continued reappointment.
8. **Qualifications:** Must be a Moretown resident
9. Any appointee shall be subject to Moretown's "Conflict of Interest" Policy dated adopted 3/30/2009.

C. Duties and Responsibilities:

The investment Council shall:

1. Elect a Chairperson with a maximum 4 year tenure.
2. Convene quarterly at a minimum.
3. Conduct meeting under Roberts Rules of Order.
4. Report and be responsible only to the Select Board.
5. Assemble, review, quantify, prioritize, and debate investment choices, risk and asset allocation.
6. Adhere to the tenants of the Investment Policy of any fund.
7. Recommend asset allocations and investment choices to the Select Board.
8. Execute any directive from the Select Board.
9. Establish criteria for Investment Firm review, appointment and termination.
10. Be the liaison to all Investment Firms, the Treasurer, Select Board and Residents.
11. Prepare all necessary and pertinent information and reports, including quarterly and year end to the Select Board and Treasurer.

D. Authority:

1. The council's quorum shall be 2 persons for a 3 member board and 3 for a 5 member board
2. A motion shall be carried by a voting majority.
3. The Council receives any and all authority from the Select Board and has authority to act on directives

Appendix 2: Investment Policy of Moretown Vermont-2012

I. Scope and Purpose:

This Investment Policy defines the guidelines, methods, procedures and practices governing all **Funds** of the town of Moretown Vermont, unless specifically excluded herein. This policy has **General Investment Policy** guidelines and objectives which apply to all **Funds**. **Specific Investment Policy** guidelines and objectives which apply to each specific **Fund** are tailored to meet that specific **Fund's** objectives and will be described in **Section IX** of that **Fund's** investment policy statement. This Investment Policy provides the framework that shall be used to ensure effective and judicious investment management.

Policy authority is granted by Vermont Statute 24V.S.A. 1571(b) to the Moretown Vermont Select Board and the Moretown Vermont Treasurer.

II. General Investment Policy Objectives:

A. The Pursuit of Safety:

The preservation of capital and the protection of investment principle is the foremost objective. Investment principle is defined as initial value plus the year end compounded CPI index.

B. Prudent Risk Management and Tolerance:

Mindful of safety, potential investment reward has a certain proportionality to risk. Safety risks include credit risk (the risk due to the failure of a security or institution) and the interest/dividend risk (which may be cut or terminated). Individual investment risk shall be measured against a **Fund's** overall portfolio "risk allocation." Any **Fund's** "risk allocation" shall be no greater than Moderate. Moderate risk tolerance shall be defined as an investment risk equal to or slightly below that of the Standard and Poor's Five Hundred Index. Risk may also be defined as "beta coefficient". Beta is a measure of investments volatility relative to the markets neutral beta of 1.0. A moderate beta will be no greater than 1.2 or 20% above neutral. Specific **Fund** investment policy should limit the amount, as a portfolio percentage, of investment in any one asset or asset class.

C. Maintaining Liquidity:

Fund portfolios shall remain sufficiently liquid to meet planned or reasonably anticipated cash needs. Liquid assets are defined as cash or investments convertible to cash with little or no loss of principle.

D. Maximizing Yield:

In deference to safety and risk, yield objective is to provide a rate of return which meets or exceeds the average three year CPI rate of inflation. A balance must be struck between risk and yield. Diversification of investments and routine comparison of portfolio performance with market asset class indexes are key to proper "risk allocation."

E. Fund Costs:

Cost management of each **Fund** shall be a key goal. All available strategies, tactics and cooperative agreements shall be pursued to minimize investment costs. These will include portfolio pooling, large lot purchases, seeking lower cost similar investment, and negotiate investment costs with investment institutions.

F. Proper Standards of Care:

1. Prudence:

The "Prudent Person" standard shall apply in the context of investment management. Investment officers acting in accordance with written policies and the exercise of due diligence shall be relieved of personal liability for an individual security risk or market price change, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to mitigate adverse effects.

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 manner of their own affairs, not for

speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived.”

2. Ethics and Conflict of Interest:

Officers, employees and appointees involved in the investment process shall refrain from personal activities that could or may appear to conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions or recommendations. Moretown’s “Conflict of Interest Policy” adopted 3/30/2009 shall be the governing document.

III. Authority and Responsibilities:

Authority to manage and execute investments is granted solely to the Moretown Select Board. The Board shall seek advice from available sources including appointed councils, professional financial firms, government agencies, other elected officials and citizenry to build consensus on any difficult or controversial investments. The Select Board and the Treasurer will establish a system of internal controls, which shall be documented in writing to prevent the loss of invested funds arising from fraud, employee error, misrepresentation, unanticipated changes in financial markets, or imprudent actions by employees, appointees or Town officials.

The Select Board’s responsibilities include the following:

1. Prepare, review and update the Investment Policies.
2. Prepare, review and update all **Fund** investment Policies.
3. Assume all decision making authority.
4. Direct the Treasure to:
 - a. Consummate, record and track financial transaction between Town and investment institutions.
 - b. Manage cash flows between **Funds**, accounts and investment institutions.
 - c. Prepare and provide quarterly and annual reports.
 - d. Adhere to all **Fund** and investment policy.
 - e. Work in concert with the appointed investment committees and investment institutions to facilitate the accurate and prompt flow of information.
 - f. Promptly report any irregularity in inter-departmental or inter-institutional transactions, real or perceived.
5. Interview, appoint and terminate committees, employees and investment firms.
6. Assure that all state and federal regulations regarding investments are followed.
7. Hold all necessary public hearing and forums to inform and consult with the Public.

IV. Reporting:

The Treasurer with advice from the appropriate committees, councils, boards and investment institutions will prepare a quarterly investment report that analyzes the status of the current investments and transactions executed within the period. Similarly a year end report will be issued. The Select Board shall review and approve the reports prior to publication. The report will include, at minimum, a listing of individual securities held at the end of the reporting period, realized and unrealized gain or loss by listing cost and market value, average weighted yield to maturity, maturity date of each investment and the percentage of total portfolio that each type investment represents.

V. Authorized Financial Institutions, Depositories and Broker /Dealers:

A. Depositors:

Deposits shall only be made in qualified public depositories as established by Vermont Law. All financial institutions who desire to be depositories must supply the following as appropriate:

1. Audited financial statements demonstrating compliance with state and federal adequacy guidelines.
2. Proof of state registration.

3. Certification of having read, understood and agreed to complying with Moretown's Investment Policy dated __/__/__ and the appropriate **Fund** policy
4. Evidence of adequate insurance coverage.

B. Broker/Dealers

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

1. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.
2. Proof of National Association of Securities Dealers (NADS) certification.
3. Proof of state registration.
4. Certification of having read, understood and agreed to complying with Moretown's Investment Policy dated __/__/__.
5. Evidence of adequate insurance coverage.

The Treasurer and Select board will conduct an annual review of the financial condition and registration of all qualified and appointed depositors, institutions and broker/dealers.

VI. Suitable and Authorized Investments:

Consistent with state and federal laws concerning investment practices, the following investments will be permitted under this policy. Other investment definitions shall be defined within the specific objectives and guidelines of individual Moretown **Funds**. If additional types of securities are approved by state statute, they will not be eligible for investment by the Moretown Select Board until this Policy has been amended and adopted:

1. Cash and Cash equivalents dominated in US dollars.
2. United States Treasury and other government obligations that carry the full faith and credit guarantee of the United States for payment of principal and interest.
3. Fixed income securities issued by the U.S. government, U.S. government agencies, or political subdivisions of the United States of America.
4. Federally insured time deposits (non-negotiable certificates of deposit - CD) in state or federally chartered banks, savings and loans, or credit unions, provided the amount per institution is limited to the maximum covered under federal insurance.
5. Time deposits in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with state law.
6. Negotiable certificates of deposit (NCD).
7. SEC registered Money Market Mutual Funds.
8. Local government investment pools.
9. Preferred equity securities of U.S. Corporations.
10. Common equity securities of U.S. Corporations.

VII. Safekeeping and Custody:

All trades of marketable securities will be executed by delivery vs. payment (DVP) to insure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by an independent third party custodian selected by the Select Board as evidenced by safekeeping receipts in Moretown's name. The safekeeping institution shall annually provide a copy of its most recent report on annual controls (Statement of Auditing Standards No.70 or SAS 70).prepared in accordance with the Statement of Standards of Attestation Engagements (SSAE) No. 16 effective June 15, 2011.

VIII. Exclusions:

At this writing the following **Funds** are excluded from this investment policy:

- A.** Capital Reserve Fund
- B.** Garage Land Reserve Fund
- C.** Town Hall Reserve Fund

- D. Bridge and Culvert Fund
- E. Deer Yard Fund
- F. Reappraisal Fund
- G. Cemetery Fund

XI. Specific Investment Policies:

A. The Distribution Fund:

This **Fund's** investment objective is to maximize income and where prudent, growth of principle for appropriate future distributions and eventual liquidation as defined in the **Distribution Fund Policy**. In addition to the **General Investment Policy** guidelines described in **Section II** the following are specific to the Distribution Fund:

1. Investment Objective:

The **Fund's** minimum income objective is to invest in assets that have demonstrated a consistent yield or total return equal to or greater than the average prior three quarters reported CPI.

2. "Core Value" Objective:

The "Core Value" of this **Fund** is \$1,000,000 plus the compounded CPI rate. The time horizon of the **Fund** is coupled to the cessation of MLF's financial contribution. Therefore the **Fund** may eventually be liquidated.

3. Risk Tolerance:

The **Fund's** overall "risk allocation" shall be moderate. Risk shall not exceed an overall threshold above the Standard and Poor's Five Hundred Index or an overall beta of 1.2 for no more than 3 months without rebalance. No single investment shall have a beta exceeding 1.3 and shall be limited to 5% of the total portfolio value, at investment, with a time horizon of no greater than 2 years.

4. Cash:

Cash or cash equivalents shall be denominated in U.S. dollars and shall be insured or properly collateralized. Cash may be held in savings accounts, money market accounts, or short term U.S. government securities or secured bond funds. No cash shall be held in hard asset commodities or foreign currencies.

5. Liquidation and Distribution:

Distributions from the **Fund** are to augment and eventually replace a portion of MLF's contributions to Moretown. There will be no liquidation requirements for the **Fund** until an announcement of cessations of MLF's contributions. Any liquidity requirements shall be based on a long or short term "distribution plan" established by the Select Board. The plan will provide, at minimum, the date, the amount, and the earmarking of such distributions. A **Fund** "liquidation plan" will be submitted at least 2 years in advance of the **Fund's** complete liquidation.

6. Yield:

Yield is defined as anticipated or realized returns from interest, dividends or other distributions of any investment. Fixed income assets, including government or corporate bonds, bond funds, preferred equities, etc. will be measured by their yield only. Other investment asset classes such as mutual funds or common stock will be measured by their total return defined as yield plus share value growth.

7. Asset Class Allocations and Ratings:

The following allocation guidelines are suggested to maximize diversity and minimize risk. Due to market fluctuation and condition, existing or anticipated, these allocations may be altered to preserve portfolio principle upon unanimous consent of the Select Board. The **Fund** shall be reviewed and rebalanced periodically as a result of or in anticipation of market dynamics:

- a. Cash:** No more than 25% of the **Fund's** assets shall be in cash for a period not exceeding three months without unanimous consent of the Select Board. The Treasurer and Investment Council will monitor cash assets and advise the Board accordingly.

- b. Fixed Income Securities:** No more than 50% of the **Fund** may be invested in a combination of individual or mutual fund fixed income securities. No single investment shall be greater than 10% of this asset class allocation.
- c. Mutual Funds and Equities:** No more than 35% of the **Fund** may be invested in a combination of common stock, preferred stock, or mutual fund.

8. Maturity and Rating:

Asset classes shall conform to the following:

- a. Cash:** All cash or cash equivalents shall be insured or collateralized by the full faith of the U.S. government. CD or NCD maturity shall not exceed a 3 year maturity unless the yield is equal to or more than the previous 3 years CPI average and is subject to rebalancing.
- b. U.S. Government Securities:** The maximum maturity of any single security shall not exceed 10 years.
- c. Fixed Income Securities:** Maturity of corporate or private fixed income securities shall not exceed 5 years. Fixed income securities shall be rated investment grade of at least Aa by Moody's or AA by Standard & Poor's. If a rating falls below these levels the Select Board shall reevaluate the investments viability and rebalancing. No more than 10% of the fixed income allocation shall be invested in any one security.
- d. Preferred and Common Equities:** Non-maturing equity yield is measured by total return. Equities without a historic dividend yield component shall not be purchased. Any equity that does not maintain a year over year total return equal to or greater than the CPI will be reevaluated and rebalanced. Equity holdings must be reviewed annually and rebalanced in accordance with the "Investment Policy". No single equity shall represent more than 5% of the 40% portfolio's asset allocation.
- e. Bond and Equity Mutual Funds:** **Bond Fund** selection will be measured by yield only. A Bond Fund must have demonstrated at least a three year average yield equal to or greater than the CPI. No more than 20% of the Bond fund allocation may be invested in any one Bond fund. **Mutual Fund** selection will be based on total return. A Mutual funds total return must have demonstrated a 2 year average yield component equal to the 3 year average CPI. No more than 20% of the Mutual Fund and Equity allocation may be invested in any one Mutual fund.

9. Prohibitions:

The following prohibitions apply to the Distribution Fund:

- a.** Futures, options, warrants and other derivative investment.
- b.** Commodities.
- c.** Convertible bonds.
- d.** Non-U.S. dollar denominated securities.
- e.** Lending to or borrowing from the **Fund**.
- f.** Index funds.
- g.** Annuities.
- h.** Common or Preferred equities of foreign countries unless part of a mutual fund.
- i.** Exchange Traded Funds.

B. The Perpetual Trust Fund:

This **Fund's** minimum income objective is to maximize income and where prudent, growth of principle for appropriate future sustained distributions as defined in the **Perpetual Trust Fund Policy**. In addition to the **General Investment Policy** guidelines described in **Section II** the following are specific to the Perpetual Trust Fund. Since the **Fund** has an indefinite time horizon longer term higher yielding fixed income and total return growth oriented investments should be considered:

1. Investment Objective:

The **Fund's** income objective is to invest in assets that have demonstrated a consistent yield or total return equal to or greater than the average prior three quarters reported CPI.

2. "Core Value" Objective:

The "Core Value" of this **Fund** is \$2,000,000 plus the compounded CPI rate. The time horizon of the **Fund** is in perpetuity. Therefore the **Fund** may never be liquidated.

3. Risk Tolerance:

The **Fund's** overall "risk allocation" shall be moderate. Risk shall not exceed an overall threshold above the Standard and Poor's Five Hundred Index or an overall beta of 1.2. No single investment shall have a beta exceeding 1.3 and shall be limited to 5% of the total portfolio value, at investment, with a time horizon of no greater than 10 years.

4. Cash:

Cash or cash equivalents shall be denominated in U.S. dollars and shall be insured or properly collateralized. Cash may be held in savings accounts, money market accounts, or short term U.S. government securities or secured bond funds. No cash shall be held in hard asset commodities or foreign currencies.

5. Liquidation and Distributions:

Distributions from the **Fund** are to augment and eventually replace a portion of MLF's contributions to Moretown. There will be no liquidation requirements for the **Fund**. Any liquidity requirements shall be based on a long or short term "distribution plan" established by the Select Board. The "distribution plan" will provide, at minimum, the date, the amount, and the earmarking of such distributions.

6. Yield:

Yield is defined as anticipated or realized returns from interest, dividends or other distributions of any investment. Fixed income assets, including government or corporate bonds, bond funds, preferred equities, etc. will be measured by their yield only. Other investment asset classes such as mutual funds or common stock will be measured by their total return defined as yield plus share value growth.

7. Asset Class Allocations and Ratings:

The following allocation guidelines are suggested to maximize diversity and minimize risk. Due to market fluctuation and condition, existing or anticipated, these allocations may be altered to preserve portfolio principle upon unanimous consent of the Select Board. The **Fund** shall be reviewed and rebalanced annually as a result of or in anticipation of market dynamics:

- a. Cash:** No more than 25% of the **Fund's** assets shall be in cash for a period not exceeding three months without unanimous consent of the Select Board. The Treasurer and Investment Council will monitor cash assets and advise the Board accordingly.
- b. Fixed Income Securities:** No more than 50% of the **Fund** may be invested in a combination of individual or mutual fund fixed income securities. No single investment shall be greater than 20% of this asset class allocation.
- c. Mutual Funds and Equities:** No more than 40% of the **Fund** may be invested in a combination of common stock, preferred stock, or mutual fund.

8. Maturity and Rating:

Asset classes shall conform to the following:

- a. Cash:** All cash or cash equivalents shall be insured or collateralized by the full faith of the U.S. government. CD or NCD maturity shall not exceed a 5 year maturity unless the yield is equal to or more than the previous 3 year average CPI and is subject to rebalance.
- b. U.S. Government Securities:** The maximum maturity of any single security shall not exceed 10 years.
- c. Fixed Income Securities:** Maturity of corporate or private fixed income securities shall not exceed 10 years. Fixed income securities shall be rated investment grade of at least Aa by Moody's or AA by Standard & Poor's. If a rating falls below these levels the Select

Board shall reevaluate the investments viability and rebalance. No more than 10% of the fixed income allocation shall be invested in any one security.

d. Preferred and Common Equities: Non-maturing equity yield is measured by total return. Equities without a historic dividend yield component shall not be purchased. Any equity that does not maintain a year over year total return equal to or greater then the CPI will be reevaluated and rebalanced. Equity holdings must be reviewed annually and rebalanced in accordance with the "Investment Policy". No single equity shall represent more the 5% of the 40% portfolio's asset allocation.

e. Bond and Equity Mutual Funds: **Bond Fund** selection will be measured by yield only. A Bond Fund must have demonstrated at least a three year average yield equal to or greater then the CPI. No more than 20% of the fixed income allocation may be invested in any one Bond fund. **Mutual Fund** selection will be based on total return. A Mutual fund's total return must have demonstrated a 2 year average yield component equal to the CPI. No more than 20% of the Mutual Fund and Equity allocation may be invested in any one Mutual fund.

9. Prohibitions:

The following prohibitions apply to the Distribution Fund:

- a. Futures, options, warrants and other derivative investment.
- b. Commodities.
- c. Convertible bonds.
- d. Non-U.S. dollar denominated securities.
- e. Lending to or borrowing from the **Fund**.
- f. Index funds.
- g. Annuities.
- h. Common or Preferred equities of foreign countries unless part of a mutual fund.
- i. Exchange Traded Funds

X. Adoption:

Having **read, understood and agreed** to this **Savings Reserve Fund Policy** the Select Board and the Treasurer of the Town of Moretown Vermont this ___ day of _____ adopt and place this policy in effective until amended. This policy shall be reviewed and readopted by annually elected Select Board members.

Chairperson: _____

Treasurer : _____