

# Name **Investment Policy Statement**

The following investment policy is hereby adopted by the Board of Directors.

The Finance Committee will authorize the amount of funds to be invested. These funds may be invested in various diversified asset classes in accordance with established portfolio allocation guidelines

The primary purpose of this Investment Policy Statement (IPS) is to provide a clear understanding between the \_\_\_\_\_ (Client) and Rockland Trust Company, Investment Manager, regarding the objectives, goals, risk tolerance, and investment guidelines. The secondary purpose is to describe the underlying logic and philosophy supporting this Statement.

## **Introduction**

Creating an investment policy is the most critical phase of the entire investment process. The effects from a properly drafted vs. ineffective investment policy statement can be more important than the effects of good or poor investment management. To be successful, an investment policy needs to be appropriate for its setting and intended purpose. The policy needs to match the needs of any anticipated disbursements. The best way to minimize investment risk is to match, as closely as possible, the timing of future liabilities with the timing of future cash flows.

The policy statement is also designed to withstand "trustee risk" - the possibility that at some stress point, most frequently during an extreme decline in the stock or bond markets, those who oversee the funds may react in a manner detrimental to the long-term health of the fund.

## **Objective**

Safety of Principal - Preservation of principal always takes priority over maximizing returns. Preservation shall be measured in terms of real spending power after adjustments for additions to and withdrawals from the investment account.

Competitive Rates of Return - An investment strategy will be utilized to maximize return potential within the risk parameters. Through maturity and market sector analysis, a portfolio will be constructed that maximizes investment return while minimizing risk. Both fixed income and equity portions of the portfolio are expected to be competitive against two respective benchmarks as predetermined by the Finance Committee and the Investment Manager.

Liquidity - Liquidity may be necessary from time to time and periodic withdrawals may be required by the Committee. The Finance Committee may, at any time, direct the Investment Manager to maintain a portion of the investments in a suitable money market fund to facilitate transfers to the checking accounts.

It is the goal of the client is to maintain the fund for the long-term. We expect this long term view to provide better results than will be earned by those who pick short term investments or liquidate certain asset classes during turbulent times. We also expect that equities will serve as a hedge against eroding trust fund values due to long term inflationary trends.

We expect the stock market to provide greater total returns than the bond market. We make this statement in a long-term sense, knowing that both economies and markets suffer periodic - but normally brief - declines, and knowing that there have been periods when cash and bonds outperform stocks.

We expect the relationship between the economy, the stock market, and inflation that has been in existence for the past 70 years to continue. We expect the American economy to show modest real growth over full business cycles after allowance for occasional recessions. We expect stock prices to grow slightly faster than inflation, although the naturally volatile nature of the stock market will make such growth invisible except when observed over longer periods of time. We expect cash dividends from stocks to also grow slightly faster than inflation and to fluctuate much less than stock prices do.

We expect continued inflation. Its timing and severity we cannot predict, but we believe it will be of sufficient magnitude that to ignore it would threaten our ability to meet our long-term objectives.

Our managed funds bear three potential kinds of risk. One comes from any mismatch between the natural cash flows out of the fund and the cash flows coming in from contributions, dividends and interest. A second source of risk is the possibility that the assets in the funds do not perform the way the investment manager(s) or we expect. The third form of risk is that of reacting inappropriately during a volatile period - most likely after a severe market decline. We hope to minimize these risks to as great a degree as possible without harming the fund's long-term objectives. Market value fluctuations are of secondary importance unless individual assets have permanently impaired values and must be liquidated to preserve any remaining value.

## **Strategy**

The Investment Manager(s) will utilize the following investment guidelines in terms of asset allocation. This policy is subject to review and amendment at any time.

0 - 10%

Cash and cash equivalents - normalized at 2%. Cash will be maintained to provide periodic cash distributions. Cash will not normally be held as a strategic investment asset, although the Investment Manager may seek to allow cash to build to the maximum level in times of market uncertainty.

35 - 55%

Fixed Income - normalized at 43%. To ensure appropriate diversification and to minimize default risk, the trust fund will be invested 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.

40 - 65%

Equities - normalized at 55%. To ensure appropriate diversification, the fund will be invested in high-quality domestic stocks, growth stocks of emerging companies and foreign issues. Investments also include the following strategies: market-neutral, absolute return, global macro, long/short, commodities and managed futures. The equity portion of the portfolio should consist of a diversified mix of investments (individual equities, mutual funds and exchange-traded funds) suitable to achieve the objective of capital appreciation and downside protection. Individual equity holdings in any one company should not exceed 5% of the market value of the portfolio

Adequate diversification and risk controls must be maintained within each sub-category. An appropriate benchmark for the overall asset class of equities, as well as each sub-strategy, will be determined and agreed upon between the Client and the Investment Manager(s).

## **Diversification**

### **Equity**

The equity portion of the portfolio should consist of a diversified mix of investments (individual equities, mutual funds and exchange-traded funds) suitable to achieve the objective of capital appreciation. Individual equity holdings in any one company should not exceed 5% of the market value of the portfolio.

Equity holdings may be selected from the New York and American Stock Exchange or the NASDAQ markets. Securities may be in U.S. companies or foreign companies purchased as American Depositary Receipts (ADR's). Funds may be invested in securities convertible into equities or preferred stock.

No funds may be invested in real estate, private placements or letter stock. The Investment Manager shall not engage in margin transactions, short sales or any other such specialized investment vehicles. The manager of a specific mutual fund and exchange-traded fund, however, may engage in short sales as part of an overall investment strategy.

The selection of individual equities will be at the discretion of the Investment Manager.

## **Fixed Income**

Investments in fixed income securities will be made principally for income and capital preservation. Selection should be made from liquid, investment grade corporate debt, convertible 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 exchange-traded funds.

Securities of a single corporate issuer (excluding the United States Government and its Agencies) will not exceed 5% of the portfolio market value. Investments in U.S. Government debt will not include agencies that are not permitted under Massachusetts General Laws (i.e. Sallie Mae (SLMA) or Ginnie Mae (GNMA) obligations).

No more than 20% of the portfolio's total market value will be invested in convertible securities.

Individual corporate debt and preferred stock issues must be rated BBB or better, as defined by Moody's and/or Standard & Poor's Rating Agency.

There shall be no investments in real estate, private placements, fixed income or interest rate futures, and no engagement in any other specialized fixed income ventures. The manager of a specific mutual fund and exchange-traded fund, however, may engage in fixed income and interest rate futures as part of an overall investment strategy.

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 over concentration of maturities, as well as concentration in a specific institution with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies.

The selection of individual fixed income securities shall be at the discretion of the Investment Manager.

## **Specific Risks**

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Investment Manager will manage credit risk several ways. There will be no limit to the amount of United States Treasury and United States Government Agency obligations, as they carry an AAA rating.

In regards to fixed-income investments, the Investment Manager will only purchase investment grade securities with a high concentration in securities rated investment grade by Moody's or S&P rating agencies.. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds. Investments in fixed income securities will be made primarily for income and capital preservation. Should a high grade income issue fall below investment grade, the Investment Manager will contact the Committee to discuss the procedures they intend to follow.

**Custodial Risk** - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Client will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Client will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Finance Committee will review the financial institution's financial statements and the background of the Investment Manager. The intent of this qualification is to limit the fund's exposure to only those institutions with a proven financial strength, capital adequacy, and overall affirmative reputation in the investment industry.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of a fund's investment in a single issuer. The Investment Manager will minimize 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. As stated above, securities of a single corporate issuer (with the exception of the United States Government and its Agencies) will not exceed 5% of the portfolio value.

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Investment Manager will manage interest rate risk by managing duration in the account.

## **INVESTMENT MANAGEMENT RESPONSIBILITIES**

1. The Investment Manager may buy and sell securities that meet the above criteria without prior approval.
2. Proposed actions to the contrary of the foregoing guidelines may only be taken with the written approval of the Client.
3. The Investment Manager will provide statements including all investment transactions and security listings on a monthly basis.
4. The Investment Manager is encouraged to recommend changes to the Finance Committee that may better permit the achievement of objectives.
5. The Investment Manager will make every attempt to obtain the best possible execution on all trades.
6. This Investment Policy is an expression of investment direction and intent. The Investment Manager will not be held liable for any investment action taken, or not taken, in good faith.

7. The Investment Manager will provide annual performance reports, in person, to the Finance Committee at dates and times to be determined by the Committee. Reporting will include:

- a. The continuing appropriateness of the existing objectives and guidelines.
- b. Investment performance relative to predetermined benchmarks
- c. Economic and market considerations.

**FINANCE COMMITTEE RESPONSIBILITIES**

- 1. The Finance Committee is to act as liaison between the Investment Manager and the Board of Directors.
- 2. The Finance Committee, with the approval of the Board, has the right to remove funds and assets from the control of the Investment Manager.
- 3. The Finance Committee will adopt, review, and revise the Investment Policy as circumstances require.
- 4. The Finance Committee will provide written instructions to the Investment Manager of any exception to the aforementioned.

Approved by:

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Chairman of the Board

\_\_\_\_\_  
Date

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Chairman of the Finance Committee

\_\_\_\_\_  
Date

Accepted:  
Investment Manager:  
Rockland Trust Company

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By:

\_\_\_\_\_  
Date