

Cambridge Redevelopment Authority Investment Policy

A. Scope

This document shall establish the policies and guidelines for the prudent and productive management the Cambridge Redevelopment Authority's (CRA) investments of cash, depository-related funds, and other investment instruments generally available for future administrative and programmatic uses. Banking and investment accounts covered under this investment policy shall include, but not be limited to, all operating, capital, debt service, and long-term obligation reserve accounts of the CRA. These policies shall not apply when funds made available through grants, loans, or contractual payments are provided to the CRA under regulations or agreements that conflict with this policy. All investments will be judged by the standards of this policy. Activities that violate the spirit and intent of the policy will be deemed to be contrary to the policy.

B. Objectives

Massachusetts General Laws, Chapter 44, section 55B requires ~~the~~ municipalities to invest all public funds except those required to be kept un-invested for the purpose of immediate distribution. The state law further requires that invested funds be placed at the highest possible rate of interest reasonably available, taking into account safety, liquidity and yield. Officials who control the investment of funds are to invest them "prudently," consistent with the requirements of Sections 54-55.

While not specifically held to the regulations of M.G.L. c. 44, the CRA shall follow these guidelines to secure the highest rate of return consistent with safety of principal while meeting the daily cash requirements for the operation of the CRA's business:

Safety

Safety of principal is the primary objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. Diversification and prudent selection of investment instruments, and choice of bank or brokerage house shall lessen these risks. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.

Liquidity

The CRA investment portfolio should remain sufficiently liquid to enable the CRA to meet all payment requirements, including but not limited to payroll, accounts payable, contractor services, capital projects, redevelopment programs, debt service and other.

Yield

CRA's investment portfolio shall be designed with the objective of maximizing return commensurate with this policy's investment risk constraints and the cash flow characteristics of the portfolio. Investments shall be made so as to achieve the best rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

C. Investment Instruments

Public investments in Massachusetts are not protected through provisions in State law. As a result, they are largely uncollateralized unless covered by other insurance mechanisms. Therefore, the CRA shall make investments to negotiate the highest rates possible, while remaining consistent with the objective of investment principal safety.

Utilizing prudent person investment principles, the CRA may invest in the following instruments:

1. Massachusetts State pooled fund: Unlimited amounts (the pool is liquid). The Massachusetts Municipal Depository Trust (MMDT) is an investment pool for state, local, county and other independent governmental authorities, under the auspices of the State Treasurer. The MMDT invests in Banker's Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit (CDs), Repurchase Agreements, and U.S. Treasury Obligations. It has Federal Deposit Insurance Corporation (FDIC) pass-through insurance on the CDs and takes delivery on the Repos and Treasuries. Under Government Accounting Standards Board Regulation (GASB 3), it is not considered an uncollateralized product.
2. U.S. Treasuries that will be held to maturity.
3. U.S. Agency obligations that will be held to maturity amounts (up to one year maturity from date of purchase).
4. Money market mutual funds that are regulated by the Securities and Exchange Commission, whose portfolios consist only of dollar-denominated securities.
5. Bank accounts or Certificates of Deposit, (CD's) which are fully collateralized through a third party agreement or fully insured by the Federal Deposit Insurance Corporation (FDIC), the Depository Insurance Fund of Massachusetts (DIF), the Share Insurance Fund (SIF) or the National Credit Union Share Insurance Fund (NCUSIF). All bank checking and depository accounts and CD's in one institution are generally considered in the aggregate to receive the \$250,000 FDIC insurance coverage. If the FDIC elects to change the total amount of insurance coverage, to an amount other than \$250,000, the CRA shall adapt its investment strategy.
6. Unsecured bank deposits of any kind such as other checking, savings, money market, or CD accounts at financial institutions that do not fit the above categories. These investments are subject to the following limitations: These investments will be limited to no more than 10% of the CRA's cash. Unsecured bank accounts will be diversified as much as possible. As a general rule, unsecured CD's will be purchased for no more than three months and will be reviewed frequently. These limits do not apply to fully insured deposits.
7. Repurchase Agreements, not to exceed ninety days.
8. Certain mutual funds, stocks, bonds, notes, railroad trust certificates and other interest-bearing obligations, that have met Environmental Social and corporate Governance screening criteria (ESG), or are listed as legal investments by the Division of Banks under M.G.L. c. 167, § 15A, as amended by Chapter ~~314-343~~ of the Acts of ~~1996~~2014.
9. Managed investment accounts or pooled funds utilizing the suitable and approved investment instruments listed above.

No investments may be made in "derivative" securities such as futures, swaps, options, interest-only or principal-only mortgage- backed securities, inverse floaters, CMT floaters, leveraged floaters, dual index floaters, COFI floaters and range floaters. These restrictions apply to direct investments as well as to investments through custodial arrangements, pools or money market funds discussed

above. If a custodial arrangement, pool or fund includes securities listed in this paragraph, the CRA may not invest in shares or other interest in such custodial arrangement, pool or fund.

D. Bond Proceeds

Investment of bond proceeds is governed by the same restrictions applicable to the Short-term Investment Instruments, with the additional caveat of arbitrage regulations.

E. Real Estate

The CRA may from time to time make real property investments as part of or separate from established urban renewal plans. Such investments shall balance the Safety and Yield objectives described in Section B above, alongside the economic development or other public purpose goals of such real estate development projects. To the extent that significant public interest aligned with the CRA's mission is served by such investments, greater risk or reduced yield may be deemed appropriate by the Board. Property investments shall follow all appropriate CRA and state procurement policies and procedures, including the approval of the CRA Board.

F. Other Post Pension Employment Benefits (OPEB) Trust Fund

Under M.G.L. c. 32B, § 20, public entities may establish an OPEB Trust Fund in order to cover future liabilities of postemployment benefits of past employees. Per GASB No. 45, the CRA conducts actuarial estimates of future liabilities every three years. Utilizing these GASB 45 Reports, the CRA will seek to fund this future obligation to reduce annual operating expenses and avoid a future liability balance. Notwithstanding limitations elsewhere in this policy, the OPEB Trust fund may pursue an investment strategy with a higher risk profile to accelerate fund growth than other investments of the CRA. This allows the CRA, under the discretion of the Treasurer to allocate up to 60% of the OPEB fund toward non-collateralized investment products such as equities.

G. Diversification

Diversification of investments is interpreted in terms of maturity, variety of instrument type and issuer. Regarding maturity, the CRA's investments shall be 'laddered' such that maturity dates provide ready access to funds for programmatic needs and alternative investment opportunities.

The CRA shall seek strong returns from some instruments but must also seek diversity for investments to protect assets from excessive market risk. The CRA shall ensure that it maintains a balanced portfolio with at least seventy percent (70%) of its investments fully collateralized. Other funds may be invested in available legal instruments under the prudent investment principle in order to seek strong returns from its assets.

The diversification of issuer protects investments from over-concentration in a specific institution. With the exception of U.S. Treasuries or agencies, State pools (MMDT), CD accounts and managed investment accounts, no more than 10% of the CRA's investments should be invested in a single financial institution.

H. Authorization

The CRA Board through the Treasurer, or his/her designee, has the authorization to invest the CRA's funds, subject to this policy and the statutes of the Commonwealth cited above. Transactions within managed investment accounts or other investment instruments, not related to managing the operating cash needs of the CRA, require the authorization of at least two signatories on accounts.

Included amongst the types of investments made by the Treasurer are accounts created for the specific purpose of holding funds dedicated to a particular project or projects or received from a particular source or source and which may be segregated from other funds of the CRA. Any such

account shall be publicly disclosed at the time of its creation and shall be exclusively used for the purpose(s) for which it was created.

The Executive Director shall receive, receipt for, and have the care, and custody of, the current funds of the CRA from the time the same shall come into his possession, and also of all money, property, and securities which may come into the CRA's possession by virtue of any real estate transactions, or as a gift, grant, devise, bequest, or deposit. The Executive Director, under the direction of the Treasurer and in conformance with the guidelines within this document, may deposit any portion of such current funds in the instruments described above.

I. Prudence

The standard of care to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The "prudent person" standard as described in the City of Cambridge Investment Policy states 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."

J. Ethics

The Treasurer, Assistant Treasurer, and Executive Director shall refrain from any personal or professional activity that may conflict with the proper execution of the investment program or which could impair ability to make impartial investment decisions.

K. Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to safety. Brokers should be recognized, reputable dealers selected with references from other municipal or governmental organizations.

The Treasurer shall require any brokerage houses and broker/dealers wishing to do business with the ~~municipality~~ CRA to supply the following information to the Treasurer:

1. Service Organization Controls (SOC) Report: SOC Reports are issued by certified public accounting firms and represent their evaluation of the internal controls employed by a company in their act of servicing their customers.
2. Proof of National Association of Security Dealers certification. Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of 10 million dollars)

L. Annual Investment Reporting Requirements

An annual report containing the following information shall be prepared by all investment brokerage companies utilized by the CRA to act as investment advisors and managers and such reports shall be presented by them to the CRA Board.

The report shall include, at a minimum, the following information:

1. A listing of the individual accounts and individual securities held by the CRA at the end of the reporting period.
2. A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this Investment Policy.

3. A brief statement of general market and economic conditions and other factors that may affect the CRA's cash position.

The report should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.

M. Regular Financial Reporting

The CRA shall report all cash, depository, and investment-related accounts comprising all of the monies owned, held on-deposit, or held in-trust by the CRA, within the official general ledger of the CRA. All amounts reported within the general ledger shall be done so in compliance with GASB standards, which presently require the use of the fair value-basis methodology (generally known in most instances as market value), not the cost-basis methodology, when reporting the asset value of such accounts. Necessary accounting adjustments to report at fair value should be made when the information is provided to the CRA by the financial institutions, but never less than annually and always as of the fiscal year end date.