

Memorandum

To: CRA Board

From: Tom Evans, Executive Director

RE: Investment Account Transition to a Third-Party Custodian Account

Date: February 13, 2019

The CRA has held its long-term investment funds with Morgan Stanley for over three years. The CRA sought out Morgan Stanley for this account based on advice from the City of Cambridge (City) administration which also has its investment account with Morgan Stanley. Morgan Stanley has helped guide the CRA with implementation of an Environmental Social and Governance (ESG) policy while also delivering productive returns on our principle investment.

Morgan Stanley's legal and outside legal counsel have thoroughly reviewed Massachusetts General Law for public funds (MGL), the Division of Banks Legal List of Investments, and the CRA Investment Policy. Nationally, Morgan Stanley is changing the way they think about Government business in Massachusetts due to the restrictive nature of MGL as it applies to cities and towns, and is closing many of their local government accounts. However, Morgan Stanley is repositioning several of its government accounts to provide a higher level of oversight to meet their legal and fiduciary concerns.

The repositioning requires the CRA to open an account with U.S. Bank to serve as a 3rd Party custodian of its investment funds. The most compelling component of this transition is that the CRA account will receive additional services and ongoing oversight. Morgan Stanley will conduct annual reviews of MGL and CRA Investment Policies. Morgan Stanley will also provide ongoing Investment Policy Statement (IPS) monitoring in conjunction with investment purchases/sales (daily/monthly).

Therefore, the CRA needs to open up a new bank account with U.S. Bank to serve as the custodian of the investment account. The account will still be managed by Morgan Stanley, consistent with prudent investment principles and the CRA investment policy. We are evaluating options for transitioning the OPEB account to another financial institution. CRA staff, the Treasurer, and the Assistant Treasurer met with Morgan Stanley to discuss this transition in January. Morgan Stanley will provide the Board an update on the transition process with the CRA's annual investment report in April.