

City of Boston
Cash Investment Policy
Adopted February 22, 2019



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1. Introduction

The City of Boston (the “City”) is a political sub-division of the Commonwealth of Massachusetts, whose affairs are governed by an elected City Council (the “Council”) with a mayor acting as chief executive. In accordance with City of Boston Code, Ordinance 6, Section 3, the cash management and investment functions of the City are to be administered by the City’s Collector-Treasurer. The purpose of this Investment Policy (the “Policy”) is to establish guidelines and parameters for the investment of the City’s funds governed by the Policy. The guidelines are intended to allow the Collector-Treasurer to function properly within the parameters of responsibility and authority and to adequately safeguard investments.

2. Governing Authority

The City’s Collector-Treasurer may designate the authority to assist with the management of the City’s cash and investments to the First Assistant Collector-Treasurer and the Second Assistant Collector-Treasurer (the “Designees”). The Collector-Treasurer and her Designees shall act in accordance with established written procedures and internal controls for the operation of the City’s cash management and investment functions consistent with this Policy. All participants in the cash management and investment process shall seek to act responsibly as custodians of the public trust. Neither the Collector-Treasurer nor any Designee may engage in an investment transaction except as provided under the terms of this Policy and supporting procedures.

The permitted investments for the funds governed by this Policy are limited to investments authorized by the following statutes:

- Massachusetts General Law Chapter 44, Section 55, and
- Massachusetts General Law, Chapters 29 and 32 (as authorized by the 1983 Massachusetts Acts 643 § 14, and 1991 Massachusetts Acts 107 § 5)

3. Scope

This Policy shall cover all funds under the direct purview of the Collector-Treasurer, and shall exclude funds maintained in trust or escrow, pension or retirement funds, and funds governed by a trust indenture or other bond covenants. The specific funds governed by this Policy include the City’s General Funds, Special Funds, and Non-Revenue Funds, as further described below:

- **General Funds** are generally made up revenues derived primarily from property taxes, excise taxes, local sales taxes, and local aid amounts received from the Commonwealth, fines, and permit fees. Such revenues are used for the general operations of the City.

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- **Special Funds** are generally made up of revenues originating from federal or state grants. Such revenues are accounted for separately and used for the specific purposes as determined by various agreements between the City and the grantors.
- **Non-Revenue Funds** are generally made up of amounts generated from the sale of bonds and notes. Such amounts are generally used for capital investment.

4. General Objectives

The City's primary investment objectives in order of priority shall be:

- a. ***Safety*** - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital.
- b. ***Liquidity*** - The investment portfolio shall remain sufficiently liquid to meet all cash flow requirements that may be reasonably anticipated.
- c. ***Return*** - The investment portfolio shall be designed with the objective of attaining a reasonable market rate of return throughout budgetary and economic cycles, taking into account the nature of funds being invested and the previously stated priorities of safety and liquidity.
- d. ***Sustainability*** – Wherever possible, investment decisions shall take into account environmental, social and governance (“ESG”) factors.

5. Standards of Care

Prudence

The standard of prudence to be used by the Collector-Treasurer and her Designees shall be the “prudent person” standard and shall be applied in the context of managing the City's overall portfolio. 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 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.”

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The Collector-Treasurer and her Designees, acting in accordance with written procedures and this Investment Policy and whom exercise due diligence, shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest

The Collector-Treasurer and her Designees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. The Collector-Treasurer and her Designees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio and they shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City.

Investment Advisor

The City may engage the services of an external investment advisor to assist in the management of the City's investment portfolio. Such external advisors may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such advisors must be registered under the Investment Advisors Act of 1940.

All investment advisors shall verify in writing that they have received a copy of this Policy. Such written statement shall indicate that they have read and understand this Policy and all applicable statutes related to the City's investments, along with their intent to comply fully with these requirements.

The City shall require all investment advisors to submit any or all of the following prior to engagement by the City and upon request:

- a. Audited financial statements.
- b. Proof of Financial Industry Regulatory National Association (FINRA) certification.
- c. Proof of Commonwealth of Massachusetts registration.
- d. SEC Form ADV Part II.

6. Suitable and Authorized Investments

The Collector-Treasurer and her Designees are permitted to invest City funds in the following instruments:

1. **U.S. Treasury/U.S. Government Guaranteed Obligations** – U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government with a remaining maturity not exceeding 397 days from the date of purchase.
2. **Federal Agency or U.S. government sponsored enterprises (GSE) obligations** – Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal Agency, Instrumentality, or Government Sponsored Enterprise with a remaining maturity not exceeding 397 days from the date of purchase.
3. **Repurchase agreements** provided the following conditions are satisfied:
 - a. The maximum maturity is 1-year;
 - b. The agreement is fully collateralized by U.S. Treasury obligations or obligations issued by U.S. Federal Agencies or GSE's having a market value at all times of at least one hundred and two percent (102%) of the amount of the contract;
 - c. A Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
 - d. The securities are free and clear of any lien and held by an independent third party custodian acting solely as agent for the City, provided such third party is not the seller under the repurchase agreement;
 - e. A perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the City;
 - f. For repurchase agreements with terms to maturity of greater than one (1) day, the collateral securities will be valued daily. If additional collateral is required, then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);
 - g. The counterparty is a:

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- i. primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
 - ii. a bank, savings and loan association, or diversified securities broker-dealer having at least \$5 billion in assets and \$500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
- h. The counterparty meets the following criteria:
 - i. a short-term credit rating of at least A-1 from Standard & Poor's or P-1 from Moody's or the equivalent from a nationally recognized statistical rating organization (NRSRO), and
 - ii. Has been in operation for at least 5 years.
- 4. **Supranationals** – United States dollar denominated debt obligations of a multilateral organization of governments with a minimum credit rating of AA- from Standard & Poor's or Aa3 from Moody's, or the equivalent from a NRSRO, with a remaining maturity not exceeding 397 days from the date of purchase.
- 5. **Commercial Paper** – U.S. dollar denominated commercial paper issued or guaranteed by a domestic or foreign corporation, company, financial institution, trust or other entity, including both unsecured debt and asset-backed programs with a minimum credit rating of A-1 from Standard & Poor's or P-1 from Moody's, or the equivalent from a NRSRO, and with a maximum maturity of 270 days.
- 6. **Corporates Notes and Other Debt Obligations** – U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a domestic or foreign corporation, financial institution, non-profit, or other entity with a minimum credit rating of A- from Standard & Poor's or A3 from Moody's, or the equivalent from a NRSRO, and with a remaining maturity not exceeding 397 days from the date of purchase.
- 7. **Negotiable Bank Deposit Obligations**, deposit notes or other deposit obligations issued by a nationally or state chartered bank, credit union or savings association, or by a federally or state-licensed branch of a foreign bank or financial institution with a minimum short-term credit rating of A-1 from Standard & Poor's or P-1 from Moody's, or the equivalent from a NRSRO, or a minimum long-term credit rating of A- from Standard & Poor's or A3 from Moody's, or the equivalent from a NRSRO, with a maximum maturity of 397 days.
- 8. **Asset-Backed Securities** (ABS) whose underlying collateral consists of loans, leases or receivables, including but not limited to auto loans/leases, credit card receivables, student loans, equipment loans/leases, or home-equity loans with a minimum short-term credit rating of A-1 from Standard & Poor's or P-1 from Moody's, or the equivalent from a

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NRSRO, or a minimum long-term credit rating of AAA from Standard & Poor's or Aaa from Moody's, or the equivalent from a NRSRO, with a maximum maturity of 397 days.

9. **Bankers' acceptances** and bills of exchange with a minimum credit rating of A-1 from Standard & Poor's or P-1 from Moody's, or the equivalent from a NRSRO, and with a maximum maturity of 180 days that are eligible for purchase by federal reserve banks and that have been accepted by a bank, a trust company, a private banker or an investment company, or by a banking corporation which is organized under the laws of the United States or of any state thereof and which is a member of the federal reserve system.
10. **Demand deposits in trust companies, savings banks, national banks, banking companies, and cooperative banks** provided that any such deposits are federally insured, fully collateralized by a FHLB letter of credit, or fully collateralized by open-market securities having a market value at all times of at least one hundred and two percent (102%) of the amount invested. Eligible collateral securities are limited to U.S. Treasury obligations, obligations issued by U.S. Federal Agencies, or obligations issued by GSE's.
11. **Term deposits or certificates of deposit** with a maximum maturity of 3-years that are federally insured, fully collateralized by a FHLB letter of credit, or fully collateralized by open-market securities having a market value at all times of at least one hundred and two percent (102%) of the amount invested. Eligible collateral securities are limited to U.S. Treasury obligations, obligations issued by U.S. Federal Agencies, or obligations issued by GSE's.
12. **Money Market Funds** – Shares in open-end and no-load money market mutual funds provided such funds are registered under the Investment Company Act of 1940, operate in accordance with Securities and Exchange Commission Rule 2a-7, and maintain the highest rating at the time of investment from Standard & Poor's or Moody's, or the equivalent from a NRSRO.
13. **Participation units of the Massachusetts Municipal Depository Trust Cash Portfolio and the Massachusetts Municipal Depository Trust Short-Term Bond Fund** established under General Laws, Chapter 29, Section 38A.
14. **Municipal Bonds**
 - a. **Municipal bonds issued by the District of Columbia, the Commonwealth of Massachusetts, or any other state of the United States** with a minimum credit rating of A- or better from Standard & Poor's or A3 from Moody's, or the equivalent from a NRSRO, a remaining maturity not exceeding 5-years from the date of purchase, and which has not within 20 years prior to making such investment defaulted in the payment of principal or interest.

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- b. **Bonds or notes of a county, city, or town of the Commonwealth of Massachusetts** with a minimum credit rating of A- from Standard & Poor’s or A3 from Moody’s or the equivalent from a NRSRO, and a remaining maturity not exceeding 5-years from the date of purchase.
 - c. **Obligations issued or guaranteed by any state, territory or possession of the United States, political subdivision, public corporation, authority, agency, board, instrumentality or other unit of local government of any U.S. state or territory** with a minimum credit rating of A- from Standard & Poor’s or A3 from Moody’s or the equivalent from a NRSRO, and a remaining maturity not exceeding 397 days from the date of purchase.
15. **Investment agreements or guaranteed investment contracts** with a financial institution with a minimum credit rating of AA- from Standard & Poor’s or Aa3 from Moody’s, or the equivalent from a NRSRO, and a maximum maturity of 1-year, or in the case of bond proceeds, a maximum maturity of 3-years.
16. **Any other investments expressly permitted** by Commonwealth statute.

Community Bank Investment Initiative

It is the City’s objective to foster relationships with, and to support, community banks and local financial institutions (collectively, the “Community Banks”). To achieve this objective, the City shall designate at least \$100 million of funds governed by this Policy to be eligible for investment in the obligations defined in Section 6, paragraphs (10) and (11) that are offered by Community Banks with at least one branch located in the City of Boston and with no more than \$10 billion in assets as of the date of deposit. Any amounts invested with such Community Banks must satisfy the requirements set forth in this Policy.

Environmental, Social, Governance (ESG) Investment Initiative

ESG investing is the process of incorporating analyses of non-financial environmental, social, and governance factors into investment decisions alongside more traditional financial criteria. Examples of ESG factors are provided in the table below:

Environmental	Social	Governance
Green Building/Smart Growth	Human Rights	Board Independence
Climate change / Carbon	Avoidance of tobacco or other harmful products	Anti-Corruption Policies
Clean Technology	Community Development	Board Diversity
Pollution / Toxics	Diversity & Anti-bias issues	Executive Compensation
Sustainable Natural Resources /	Workplace Benefits & Safety	Corporate Political

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Environmental	Social	Governance
Agriculture		Contributions
Water Use & Conservation	Labor Relations	

The City shall encourage the adoption of ESG factors by organizations that offer the City Suitable and Authorized Investments, as defined in this Policy. To achieve this objective, the City will invest up to \$150 million of funds governed by this Policy in Suitable and Authorized Investments that meet the City’s ESG ratings criteria and that satisfy all other requirements set forth in this Policy.

The City’s ESG ratings criteria will be established and reviewed periodically by the Collector-Treasurer and her Designees. ESG ratings will be determined and provided by a reputable third-party ESG ratings provider, such as Bloomberg, MSCI, Reuters, Standard & Poor’s, or Sustainalytics. To the extent possible, the purchase and sale of investments that satisfy the City’s ESG ratings requirements will be done on a competitive basis to achieve the best possible price. The City’s ESG ratings criteria and requirements shall not apply to organizations or investments with no ESG rating.

7. Investment Diversification Parameters

It is the policy of the City to diversify its investment portfolio to minimize risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities. The following diversification parameters have been established and will be reviewed periodically:

Sector	Sector Maximum	Per Issuer Maximum
U.S. Treasury Obligations	100%	100%
Federal Agencies / GSEs	75%	40%
Repurchase Agreements	40%	20%
Supranationals	25%	10%
Commercial Paper	50%*	5%
Corporate Notes / Obligations	50%*	5%
Negotiable Certificates of Deposit	50%*	5%
Asset-Backed Securities	25%	5%
Bankers’ Acceptances	10%	5%
Demand Deposits / Term Deposits / CDs	50%	25%
Money Market Funds	50%	25%
MMDT-Cash Portfolio	75%	75%
MMDT-Short-Term Bond Fund	10%	10%
Municipal Bonds	25%	5%
Investment Agreements / GICs	5%	5%

*Maximum allocation to all uncollateralized corporate and bank credit instruments is 50% combined.

8. Investment of Federally Tax-Exempt Bond Proceeds

The City intends to comply with all applicable sections of the Internal Revenue Code as it relates to Arbitrage Rebate and the investment of bond proceeds. All investment records will be maintained to ensure compliance with all applicable regulations.

9. Safekeeping and Custody

Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution. All securities will be evidenced by safekeeping receipts in the City's name. On a monthly basis, the safekeeping institution will provide the City with reports that list all securities held for the City and the value of such securities as of the report date.

The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16.

Internal Controls

The City shall establish and maintain a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Boston.

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

The Collector-Treasurer will maintain a list of financial institutions and depositories authorized to provide investment services. In addition, the Collector-Treasurer will maintain a list of approved security broker/dealers selected by conducting a process of due diligence. For the purpose of this section, the term "broker" means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity. These may include primary dealers or regional dealers that qualify under Securities and Exchange

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Commission (SEC) Rule 15c3-1 (uniform net capital rule). The list of approved security broker/dealers shall be reviewed and updated every two years, if not more frequently.

Authorized Financial Institutions and Depositories

- (i) The Collector-Treasurer shall determine which financial institutions are authorized to provide investment services to the City. Institutions eligible to transact investment business with the City may include:
 - a. Primary government dealers as designated by the Federal Reserve Bank;
 - b. Nationally or state-chartered banks or credit unions;
 - c. The Federal Reserve Bank; and
 - d. Direct issuers of securities eligible for purchase.
- (ii) All financial institutions who desire to become depositories must supply the following (as appropriate):
 - a. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines;
 - b. Proof of state registration; and
 - c. Evidence of adequate insurance coverage.

Broker/Dealers

- (i) All broker/dealers who desire to become qualified for investment transactions must supply the following (as appropriate):
 - a. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines;
 - b. Proof of FINRA certification;
 - c. Proof of Commonwealth of Massachusetts Registration;

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- d. Evidence of adequate insurance coverage; and
 - e. Certification of having read and understood the City's Investment Policy.
- (ii) If the City hires an investment adviser to provide investment management services, the investment adviser may use any brokers that it deems prudent.

Competitive Transactions

The City has established the following procedures related to the acquisition and sale of authorized investments. The provisions below are not applicable to the authorized investments defined under Section 6, paragraphs (10), (11), (12), and (13). The provisions below are not applicable to the authorized investments defined under Section 6, paragraph (14) if such investments are purchased in a primary offering.

- a. The Collector-Treasurer and her Designees or the Investment Advisor shall seek to obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or by using a nationally recognized trading platform. The Collector-Treasurer and her Designees or the Investment Advisor will accept the bid that offers the highest rate of return within the maturity required. When selling a security, the City will select the bid that generates the highest sale price.
- b. If the City is offered a security for which there is no readily available competitive offering on the same specific issue, then the Collector-Treasurer and her Designees or the Investment Advisor shall document quotations for comparable or alternative securities. When purchasing original issue securities, no competitive offerings will be required if all dealers in the selling group offer those securities at the same original issue price.

10. Performance Standards/ Evaluation

The City's investments shall be managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the City's investment portfolio. Investment performance shall be compared to an index of U.S. Treasury securities having a similar duration, or other appropriate benchmarks.

11. Investment Reporting

Investment reports shall be created and published annually by the Collector-Treasurer for the preceding fiscal year. The published investment reports must include acknowledgement that investments are in compliance with this Policy.

If the City engages an investment advisor to manage the City's funds, the investment advisor shall provide monthly reports to the Collector-Treasurer for all funds under the management of the investment advisor.

12. Security Downgrades

In the event that any City investment is downgraded below the minimum required rating by any Nationally Recognized Statistical Rating Organization (NRSRO), the Collector-Treasurer shall be notified immediately and shall make a determination on the security's disposition.

13. Policy Exceptions

Situations may arise, where strict adherence to this Policy may potentially have an adverse impact on the City's investment portfolio. In such an extreme situation, the Collector-Treasurer shall have the authority to waive any of the provisions of this Investment Policy, provided such waiver shall not result in making an investment not authorized under applicable state laws.

14. Amendments and Effective Date

This Investment Policy shall be updated on a continuing basis by incorporation of substantive changes made to applicable state laws. Any changes shall be made as soon as practicable, in writing, and submitted for approval by the City Council.

The foregoing Investment Policy is declared to be a policy of the City of Boston on this 22nd day of February, 2019.