

City of Dover, NH
Board of Trustees of the Trust Funds
Investment Policy

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GENERAL SCOPE

The purpose of this policy is to outline general guidelines for the accomplishment of City objectives while ensuring compliance with state and federal laws for the investment of funds managed and administered by the Dover Board of Trustees of Trust Funds. This investment policy is designed to outline internal controls over the safeguarding of trust fund assets. The investment policy retains management control of the trust fund's investment portfolio in the Trustees, subject to the guidelines of this policy.

The Board of Trustees of Trust Funds are responsible for managing the investment process of the City's trust funds and capital reserve funds in a prudent manner to preserve principal while providing reasonable returns.

The Board of Trustees of Trust Funds' standard for investing trust funds is the Prudent Investor Rule in accordance with RSA 31:25- d Application of Prudent Investor Rule, as defined in RSA 31:25-b. A prudent investment is one in which a prudent man would purchase for his own investment having primarily in view the preservation of the principal and the amount and regularity of the income to be derived there from.

In carrying out these duties, the Board may retain an Investment Advisor to assist in managing the assets of the Fund. The Investment Advisor's role is to provide guidance to the Board on matters pertaining to the investment of Fund assets including investment policy, monitoring Fund performance and compliance with the Investment Policy. The Board shall make all decisions pertaining to the Investment Policy and guidelines for the Policy's implementation.

This policy applies to all financial assets of the Trust Funds. These funds are accounted for in the City's annual financial report and include:

- Common Trust Funds
- Capital Reserves Funds
- ICMA 457 Deferred Compensation Plan and Trust
- Other such trusts established or accepted by the City Council and placed under the responsibility of the Board of Trustees of the Trust Funds

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The policy applies to all transactions involving the financial assets and related activity of all the foregoing funds.

OBJECTIVES

Although risk is an inherent factor to any investment, there shall be performed the necessary reviews to insure that principal is protected. Investment review will encompass, but not be limited to, the parameters set in this policy of the relevant variables and ratios for the various types of investments allowed.

The Board seeks to attain a rate of return on its investments consistent with constraints imposed by this policy, cash flow considerations and state laws that restrict the placement of trust funds. The Board shall act responsibly as custodians of the public trust. They shall avoid any transaction that might impair public confidence in the Board's ability to administer the trust funds effectively. In the process of meeting the above, investment decisions shall be made for each category of trust based on the following objectives:

Common Trusts

In the case of common trusts the portfolio of investments shall be operated on a collective basis (all common trusts sharing in common investments) in order to maximize the investment potential and

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efficiency. The investment objectives of the Board are two fold. The first objective is to seek growth in the portfolio in order to keep pace with or exceed economic inflation. As most common trusts are non-expendable in nature (only the interest may be spent), this will allow the trust funds to support higher future costs. The second objective is to seek income so the designated purposes of the trusts can be carried out. The allocation of Common Trust Investments is further referenced in subsection "Allocation" as noted below.

Capital Reserve Funds

Due to the expendable nature and less predictability of the funds, the holding period is shorter, resulting in the investment objectives of the Board to maintain the principal and provide liquidity. Meeting these objectives will sacrifice the level of yield attainable.

ICMA 457 Deferred Compensation Plan and Trust

The individual plan participants make the investment decisions for the Plan. The Board will pass on to participants any information forwarded by ICMA relating to changes in available investments and investment performance.

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STATUTORY AUTHORITY

This policy complies with the requirements of RSA 31:27 - Collective Investments for trust funds and RSA 34:5 - Investment of capital reserve funds for cities. It also complies with the use of a brokerage account as governed by RSA 31:38-a.

INVESTMENT AUTHORITY

Management responsibility for the investment program is hereby held by the Board. Investment authority is delegated by the Board to the Investment Advisor for Common Trusts. The Board may delegate to the Treasurer of the Board investment authority for Capital Reserve Funds.

TRANSACTION AUTHORITY

The Board has delegated to the Treasurer of the Board authority to conduct necessary transactions as directed by the Board and in accordance with this policy. The Treasurer shall establish such procedures necessary to implement this policy. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of reviews to insure compliance with this policy.

ETHICS AND CONFLICT OF INTEREST

All Trustees shall administer, invest and manage the Trust Funds and distribute the trust property solely in the interests of the beneficiaries. The Board shall refrain from personal business activity that could conflict or have the appearance of conflicting with proper execution of the investment program. Any Trustee shall disclose to the Board of Trustees any material financial interests of any matter that could be related to the performance of the trust portfolio. The Board members shall subordinate their personal investment transactions to those of the trust funds, particularly with regard to the timing of purchases and sales.

INTERNAL CONTROLS

The Treasurer shall establish a system of internal controls, which shall be documented in writing. The Board of Trustees and the city's independent auditor shall review the internal controls. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, and misrepresentation by third parties or imprudent actions by employees and officers of the City.

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REPORTING

The Treasurer shall submit quarterly to the Board of Trustees an investment report that summarizes portfolio cost and market value and performance of investments. The Treasurer shall prepare and submit the necessary investment reports annually to the NH Attorney General's Office, Charitable Trust Division.

INVESTMENT INSTRUMENTS

Collective investment assets and capital reserve fund assets of the trust funds may be invested in:

- a) Deposits in savings banks or the savings department of a national bank or trust company in this state or in the NH Public Deposit Investment Pool.
- b) Shares of a building and loan association or cooperative bank, incorporated and doing business under the laws of this state.
- c) Shares of any federal savings and loan association, located and doing business in this state.
- d) Certificates of Deposit (CDs) within this state.
- e) Bonds, notes or other obligations of the U.S. government or of the state, county, town, city, school district, or water and sewer district.
- f) Stocks and bonds as are legal for investment by NH savings banks.
- g) Shares of mutual funds or money market mutual funds.

Employee contributions to the City's ICMA 457 Deferred Compensation Plan & Trust shall be invested in the Plan's fund or funds so chosen by the participating employee.

INVESTMENT CRITERIA

The following investment criteria reflect the variables needed to be met for each category of investment in order for purchases to be made of the specific investment.

Depositories

Deposits in savings banks or in the savings department of a national bank or trust company or shares of a building and loan association, cooperative bank, a federal savings and loan association or Certificates of Deposits (CDs) shall be made only if the following criteria are met by the financial institution:

- a) Minimum total assets of \$100 million.
- b) Minimum ratio of equity capital to total assets of 6%.
- c) Maximum ratio of non-performing assets to equity of 35%.
- d) Minimum of an average rating by a bank rating service.

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Government Bonds and Other Obligations

The purchase of bonds, notes or other obligations of the U.S. government or of the state, county, town, city, school district, or water and sewer district shall be made within the following restrictions:

- a) Bonds shall have maturities of 10 years or less after the purchase date.
- b) Bonds shall have a minimum credit rating of Aa (Moody's) or equivalent.

Corporate Stocks and Bonds

The purchase of the stocks and bonds shall be made only if the company meets the following criteria:

- a) The company is listed on the legal list of investments published by the NH Banking Department.

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- b) The company has a minimum of \$500 million in assets.
- c) The company has been in business for over 10 years.
- d) The review shall include, but not be limited to the following financial ratios. The majority of ratios for the company involved should be strong in comparison to other companies in the industry to which it belongs.
 - Current ratio.
 - Quick ratio.
 - Debt/Equity.
 - Price/Earnings ratio (equities only).
 - Price/Book ratio (equities only).
 - Price/Earnings to growth ratio (PEG) (equities only).
 - Return on equity.
 - Gross profit margin.
 - Earnings per share (equities only).
 - Cash flow per share (equities only).
 - Dividends per share (equities only).
 - Five-year trends for earnings, sales and debt growth are positive.
- d) Bonds shall have maturities of 10 years or less after the purchase date.
- e) Bonds shall have a minimum credit rating of Aa (Moody's) or equivalent.
- f) No more than 5% of the portfolio (cost basis) shall be invested in the stock and/or bonds of any one corporation.

Shares in Mutual Funds

The purchase of shares in a mutual fund shall be made only if the fund meets the following criteria:

- a) The fund is a no load, open-ended fund, and does not charge 12b-1 expenses.
- b) The fund is qualified for sale in the State of New Hampshire with the Securities Regulations Bureau of the NH Secretary of State.
- c) The fund is registered with the SEC.
- d) A prospectus is available to the trustees outlining the investment philosophy of the fund and the major holdings in the fund.
- e) The fund has a Morningstar rating of four stars or better.
- f) The fund can invest in equities or bonds or both.
- g) Price/Earnings & Price/Book ratios should be reasonable within the given market conditions and sectors.
- h) If the fund invests mainly in fixed income securities or is mixed with equities, the average credit quality of the fixed income securities should be A or higher.
- i) No investment shall be made into high yield bond funds.

HOLDING PERIOD

There shall be no set policy for the holding period for specific securities. The Treasurer shall determine, based on the quarterly review, whether any holdings have appreciated to highs that overprice the security, providing an advantageous opportunity for the sale of the security. The other reason for selling should be based on the belief that a security that has fallen in price will not recover to higher levels over the long term, if ever, and may continue to drop.

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ALLOCATION

It is the policy of the Board to select an allocation model based on its desired degree of risk and growth potential for Common Trust assets held in common investments. Allocation models are presented in Appendix A. The Board will adopt an allocation model annually. The Board adopts the Balanced allocation model for 2010.

DIVERSIFICATION

Common Trust assets held in common investments shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, industry or specific issuer.

- a) No more than 10% of the portfolio (cost basis) shall be invested in the obligations of any one entity, corporation or organization exclusive of U.S. government or agency obligations. A mutual fund will be considered one entity.
- b) No more than 20% (cost basis) shall be invested in any one sector.

RISKS

The Board recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary loss of liquidity. Portfolio diversification is to be employed as a way to control risk. The Treasurer is expected to use prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the specific issuer. The Treasurer shall review and, if appropriate, proceed to liquidate any securities having comparable credit risks.

INELIGIBLE TRADING TECHNIQUES

The Treasurer shall refrain from purchasing investments using the following techniques:

- a) No investments will be purchased on margin and no trust securities shall be used as security to acquire additional investments.
- b) No trading shall occur involving selling short.

SAFEKEEPING AND CUSTODY

To protect against potential fraud and embezzlement and to provide central accounting and efficiency, all investment assets of the trust shall be held in a brokerage account for safekeeping, or other financial institutions that meet or exceed industry guidelines for insurance protection standards. The Treasurer shall review the security procedures of the brokerage firm to assure safety of trust assets. The Treasurer is authorized to take advantage of computerized purchase and sale methods in order to realize any discounts offered.

CAPITAL GAINS, DIVIDENDS AND INTEREST

Both short and long term capital gains or losses shall be accounted for as increases or decreases, respectively, of the principal of the trusts and shall be distributed to the individual trust at least quarterly, prorated based on the beginning principal position of the trusts.

All dividends and interest shall be considered an increase to the accumulated income of the trusts and shall be distributed to the individual trusts at least quarterly, prorated based on the beginning principal and accumulated interest position of the trusts.

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