MACKENSEN & COMPANY, INC.
Fee-Only Financial Planners

MEREDITH PUBLIC LIBRARY
INVESTMENT POLICY

Library Adopting this Investment Policy

Trustees of Meredith Public Library (the "Trustees") who are duly elected officials in the **Town of Meredith, New Hampshire**.

Purpose of the Investment Policy

The *Investment Policy* provides a blueprint for the investment management process by:

1. Establishing the criteria for matching financial objectives to an appropriate investment plan by reviewing the goals, risk tolerance, and various constraints to be applied in investing a particular fund;
2. Providing a framework that will help keep the investment plan focused on long-term objectives. which is especially valuable during periods of market volatility when there may be a temptation to react to short-term factors; and
3. Establishing the criteria against which progress may be measured.

Investment Principles

General Philosophy

Investment portfolios are used to meet financial objectives. Since inflation is an overriding concern to investors, the primary goal of a portfolio is to produce a long-term annual return in excess of inflation. Investment portfolios are also used to generate spendable income in accordance with the purpose of a particular fund.

An investment portfolio's mix of assets must be determined by the specific purpose or use of a fund. In general, stock ownership brings higher risks with potentially higher returns. Over time, however, portfolio volatility can be dampened through ownership of a diversified group of investments.

There is no single investment suitable for every type of trust fund, or one that guarantees a return, remains liquid, has no risk and earns enough to keep ahead of inflation. An investment portfolio must be tailored to the fund's objectives, with revisions over time as these objectives change.

Navigating a clear course toward your financial security.

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Investment Risk

Risk drives returns. Theoretically, the greater the risk, the greater the potential for a higher return over time. All investment decisions involve calculated risks. The challenge is to maximize a portfolio's return while minimizing its downside risk. There are several types of risks inherent in portfolio management:

Systematic Risks: Risks affecting the entire market that cannot be diversified.

<u>Market Risk</u>: The price of a security, bond, mutual fund, or market may drop rapidly and stay low for a long period of time. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.

<u>Interest-rate Risk</u>: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds may become less attractive, causing their market values to decline.

<u>Inflation Risk</u>: A dollar today will not buy as much next year, because purchasing power is eroding at the rate of inflation. Inflation, as measured by the Consumer Price Index, has averaged roughly 4% over the last twenty years.

Non-systematic Risks: Risks unique to a specific asset that can be reduced through diversification.

<u>Business and Credit Risk</u>: These risks are associated with a particular industry or company within an industry. For example, oil-drilling companies depend on finding oil and then refining it. Their profits can be less stable than an electric utility which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like. During periods of financial stress, a company's inability to meet loan obligations may result in bankruptcy and/or a declining stock market value.

<u>Liquidity Risk</u>: Liquidity is the ability to readily convert an investment into cash. If there is no buyer immediately available for your investment when you want to sell it, the investment is illiquid. Real estate is relatively illiquid. Blue-chip stocks are traded on major stock exchanges and are liquid. Mutual funds are similarly liquid.

<u>Country/Currency Risk</u>: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment in a particular country. For example, when the value of the dollar falls relative to a foreign currency, an investment in that country increases in value per dollar.

<u>Reinvestment Risk</u>: This is the risk that future proceeds paid from investments may have to be reinvested at a different rate of return (i.e., interest rate). This risk primarily relates to fixed income securities.

Diversification

Diversification is the holding of multiple investments to reduce the impact of any one investment.

Diversification reduces the impact of business and financial risks. However, it does not lower market risk. By owning multiple stocks within several different industries, the impact of any one stock can be reduced.

Mutual funds (including index funds and exchange-traded funds (ETFs)) are the easiest way to diversify a portfolio. A mutual fund is a basket of stocks or bonds. One of the many benefits of this type of investment is that investors can own hundreds of companies with low initial capital outlay. This allows investors to more easily diversify equity holdings by company size (large, mid and small capitalization) and style type (growth and value). For bond holdings, mutual funds enable investors to diversify across government, corporate, and agency bonds as generally held in the Barclays Capital Aggregate Bond Index, as well as foreign and municipal bond markets.

Mutual Funds vs. Individual Securities

Generally, mutual funds and exchange-traded funds are preferred over individual securities in library portfolios for the following reasons:

1. Mutual funds provide instant diversification because they own a basket of securities.
2. A mutual fund can represent an asset class in a portfolio based on its strategy, making it easier to build an appropriate asset allocation.
3. No-load mutual funds generally have a lower cost of trading than individual securities.
4. It is more efficient to rebalance a portfolio by trading one or two mutual funds instead of multiple stocks and bonds.
5. Mutual funds are generally more liquid than individual securities.

Safety Requirements

Trustees must evaluate their willingness to accept volatility and, more specifically, negative returns within their portfolio over various periods of time. Funds with longer time horizons typically have lower safety requirements, and, as such, can have heavier allocations to growth-oriented investments.

Time Horizon and Liquidity

Investment time horizon is a major factor in developing a suitable portfolio.

The need for higher liquidity (i.e., cash) generally has an adverse effect on long-term portfolio performance.

Over longer time horizons, inflation is the primary investment concern. If inflation is greater than investment growth, purchasing power is lost. Fixed income investments are more susceptible to inflation risk than stocks due to their general inability to capture higher levels of price appreciation.

Over shorter time horizons, market risk is the primary obstacle to liquidity. When equities decline, sufficient time must be allowed for them to recover.

Asset Allocation and Rebalancing

Asset allocation is the proportional mix of investments that includes, but is not limited to, bonds and stocks. Since investors cannot predict market cycles, the practice of asset allocation is used to apportion investments among various asset classes on a long-term basis.

Asset allocation is a critical component of investment planning. There are two different major approaches to asset allocation.

1. Strategic Asset Allocation: Assets are apportioned on a long-term basis and no attempt is made to time the market.

2. Tactical Asset Allocation: Investors attempt to beat the market with timing, relying on perceived shifts in the market as the basis of their decisions.

Since investors cannot consistently predict market cycles, Strategic Asset Allocation is better suited to a long-term investing approach. The portfolio will periodically need to be rebalanced to keep in line with the appropriate allocation.

Meredith Public Library: Trust Funds Portfolio

NH Public Library Trust Funds are monies specified by the trust fund donor to be managed by the Library Trustees as opposed to the municipality's Trustees of Trust Funds. The NH Public Library Trustees are governed by the Revised Statutes Annotated, or RSAs. Library Trust Funds are to be invested according to RSA 31:25 per RSA 202-A:23.

The portfolio is invested according to the Prudent Man Rule (RSA 31:25). The portfolio's investment objectives are to maintain principal while generating income in excess of certificates of deposit, traditional savings accounts, and money market funds. Investments are made through mutual funds and exchange-traded funds in a common fund in the name of the municipality.

The Meredith Public Library Trust Funds portfolio consists of US government bonds, corporate bonds and equities.

The portfolio comprises such stocks and bonds as are legal for investment by NH savings banks per RSA 387. Securities legal for investment by New Hampshire savings banks include:

- Public obligations under RSA 387:6, such as U.S. Treasuries, U.S. government agency bonds and Federal Government Sponsored Enterprises
- Corporate securities under RSA 387:6-a, including corporate bonds, preferred stocks and common stocks

Corporate investments are limited by RSA 387:3 V., as follows:

- Corporate securities (stocks and bonds) are limited to 65% of the portfolio (in the aggregate)
- Preferred and common stocks are limited to 15% of the portfolio

The asset allocation for the portfolio is as follows:

Portfolio Name	US Gov't Treasuries	US Gov't-Backed Entities	Corporate Bonds	Corporate Stocks
Meredith Library - TF	Up to 30%	Up to 30%	Up to 50%*	Up to 15%*

* Maximum allowed by RSA 387:3 V.

Selection of individual issues, mutual funds and exchange-traded funds

Investments shall be selected based on both fundamental and technical factors. Investments are reviewed and evaluated on a monthly basis. Individual investments will be monitored monthly based upon performance and other portfolio characteristics. In general, the selection of individual mutual funds is based upon how the specific investment fits into the overall characteristics of the entire portfolio. Individual investments are not solely judged on past performance.

Unless specifically authorized, no single company will comprise more than 5% of the portfolio at the time of purchase. When a portfolio position has grown to 10% of the target balance, the position will be reduced to prevent if from growing further, unless the Trustees have specifically authorized the continued holding of the position.

Portfolio Rebalancing

The portfolio shall be reviewed annually for consistency with the asset allocation targets. Rebalancing will be recommended when an asset class has moved outside the prescribed asset allocation range, or when it is necessary to replace a particular investment.

ACKNOWLEDGMENT:

This *Investment Policy* has been read. Questions regarding the *Policy* have been answered satisfactorily and understood.

J Duncan McWeish Trustee Signature	J. DUNCAN MCWEISH Printed Name
[signature] Trustee Signature	ANN BUTLER Printed Name
Rhetta L. Colon, Chair Trustee Signature	Rhetta L. Colon, Chair Printed Name
Warren J Mackensen Mackensen & Company, Inc.	WARREN J. MACKENSEN Printed Name

7/17/2013
Date