

## **FLINT PUBLIC LIBRARY TRUST FUND INVESTMENT POLICY**

### **I. Preamble**

*The Trustees of the Flint Public Library are legally responsible for the management of a number of trust funds, entrusted to the Library over the years by individual donors to enrich and enhance the services of the Library for this and future generations.*

*It is recognized that these funds were not intended - and will never be able - to replace the Town or State's annual appropriations. However, these funds are intended to enrich the Library's overall program. The Trustees concur with the Massachusetts Board of Library Commissioners Policy Statement that there exists "...the well-established principle that library funds must not be used to offset municipal budgetary shortfalls and that public libraries in Massachusetts must be supported by public funds allocated through local budgetary processes. Trust funds should be designated for the enhancement and enrichment of library services."*

*This policy was adopted by the Board of Trustees to explain the Board's viewpoint on managing the Flint Public Library's trust funds and to guide those making future investment decisions.*

### **II. Goals**

The board has three primary goals in managing trust funds:

- A. Carry out the wishes of past and future donors
- B. Preserve the value entrusted to the library
- C. Generate annual income to be spent in accordance with trust fund purposes and library needs

### **III. Investment Policy**

The Trustees of the Flint Public Library adopt the following investment principles for these funds, consistent with prudent standards.

- Maintain adequate reserves to meet financial emergencies
- Generate a stream of annual income that grows over time
- Reinvest a portion of returns for future inflation protection and asset growth.

Investments of the trust funds should balance the library's desire for returns and liquidity, achieved at an acceptable risk. The trust funds may be invested, in accordance with Massachusetts General Law, in a combination of individual stocks, bonds, low-cost mutual funds, CD's and cash. The trust funds may not invest directly in more risky or illiquid

instruments such as financial futures, stock options, derivatives, commodities, real estate or mortgages.

In order to maintain investment diversification, the value, when purchased, of any individual stock or bond may not exceed 10% of the total trust fund balance. The value of any individual mutual fund, when purchased, may be no more than 40% of the total trust fund balance.

Because of the modest current balance in the trust funds, attention to investment expenses is critical to good stewardship and to achieving acceptable returns. It is not believed that there are sufficient funds available to pay substantial commissions or investment advisory, brokerage or management fees. It is believed that the Treasurer, in consultation with other board members, unpaid advisors and published or online resources, can **select broad-based, diversified low-fee mutual funds, including index funds, for long-term investing.** If individual stocks are purchased, they will be chosen from the 500 largest public companies, as determined by the S&P 500 listing.

To simplify oversight and reduce costs, frequent trading of investments is discouraged. Once selected, few investment changes, if any, are expected each year. Short-term (relative to 50 years) fluctuations in investment values are to be expected.

#### IV. Disposition of Income

Money received from investments will be allocated between re-investment and spending, as follows. For each mutual fund, up to 100% of dividends will be available for spending. Any capital gains will be reinvested in the fund of origin, unless otherwise needed. For individual stocks, up to 100% of the dividends may be spent. For stocks that do not pay any dividends in a given year, shares valued at 50% of any annual appreciation may be sold for library spending. For individual bonds and CD's, 100% of the interest may be spent. It is recognized that the resulting income stream will not be highly predictable. However, that deficiency is thought to be outweighed by the potential for substantial income growth.

Income Category		Annual Disposition of Income, Gains or Appreciation
Equities	Mutual fund capital gain	Re-invest
	Mutual fund dividend	Up to 100% spent
	Individual stock dividend	Up to 100% spent
	Individual stock w/ no dividend	Sell and spend up to 50% of prior year's appreciation.
Loans	Bond interest	Up to 100% spent
	CD interest	Up to 100% spent
	Checking interest	Up to 100% spent

To respect the donors' intentions regarding a portion of the original principal, some of the annual income should be spent on library reference materials, and some portion should be used for academic scholarship(s) for Middleton student(s). Annual amounts for these purposes are at the trustees' discretion. For historical record, the Malone gift for reference materials was 6.5% of the original principal, and the Scholarship fund was 3.7% of the original principal.

#### V. Preservation of Principal

It is intended that the principal will not be spent, except with board approval or in the case of a stock not paying any dividend. **A withdrawal of principal is intended only for emergencies or significant library investments.** Consideration should be given to matching funds available to complement the spending of principal.

#### VI. Asset Allocation

Investment returns and risk are determined in part by portfolio asset allocation. In order to achieve a balance between risk (volatility) and return, the following guidelines are suggested for the total trust funds. Periodic rebalancing can be achieved through re-investment of income or through purchases with new monies.

Asset Class	Percentage of Total Trust Funds
Individual stocks or mutual funds invested in stocks (equities)	40-70%
Individual bonds or mutual funds invested in bonds (debt)	0-20%
Certificate of Deposit (debt)	0-30%
Cash	5-15%

#### VII. Integrity and Security

The security risks (*e.g.*, fire, theft, fraud, etc.) of owning stocks, bonds and mutual funds are similar to owning bank CDs. Securities owned by the Flint Trustee Funds will be held by a SIPC-member custodian. Auditing and oversight responsibilities need not differ from current requirements. Unless it is absolutely necessary, securities will not be issued, withdrawn or held in physical (paper) form. State, federal and Middleton town rules regarding conflicts-of-interest apply to investment decisions. By restricting stock purchases to shares of the largest companies (S&P 500), the chances of conflicts-of-interest are substantially reduced.

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