BEARING POINT
WEALTH PARTNERS
Fiduciary Financial Planners

TRUSTEES OF TRUST FUNDS
INVESTMENT POLICY

Municipality Adopting this Investment Policy

Trustees of Trust Funds (the "Trustees") who are duly elected officials in the **Town of Chester**, 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 capital reserve 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.

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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.

Market Risk: 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.

Interest-rate Risk: 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.

Inflation Risk: 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.

Business and Credit Risk: 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.

Liquidity Risk: 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.

Country/Currency Risk: 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.

Reinvestment Risk: 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 municipal 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. Capital reserve funds, which may be expensed in the near-term, have shorter time horizons and, therefore, higher safety requirements, calling for a heavier allocation to income-producing investments.

A prudent approach to investing attempts to balance demands for income with the need for longer-term portfolio growth.

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.

Capital Reserve Funds Portfolio

The diversified capital reserve funds portfolio is for taxpayer-funded capital reserve funds created under RSA 34:5 (cities) and RSA 35:9 (towns), and for expendable trust funds created under RSA 31:19-a.

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.

Capital Reserve Funds Portfolio Benchmark

Performance of the municipal capital reserve fund portfolio shall be measured against a blended benchmark consisting of the following components:

Asset Class	Benchmark Representative	Allocation
Larger Capitalized U.S. Stocks	Vanguard S&P 500 Index Fund (Ticker:VFINX)	15%
Bonds	iShares 1-3 Year Treasury ETF (SHY)	85%

Investment Plan for the Capital Reserve Funds Portfolio

The municipal capital reserve fund portfolio may invest in US government bonds, corporate bonds, equities and cash. The target asset allocation for the portfolio is as follows:

Portfolio Name	US Gov't Treasuries	US Gov't-Backed Entities	Corporate Bonds	Corporate Stocks
CRF - Diversified	Up to 30%	Up to 30%	Up to 50%	Up to 15%

Investments in corporate bonds shall be limited to those with a rating of investment grade. A mutual fund or exchange-traded fund with an investment objective consistent with holding investment grade bonds may be used.

Corporate equities shall be limited to exchange-listed U. S. issuers with large market capitalizations and included in widely recognized market indexes such as the Dow Jones Industrial Average or Standard & Poor's 500 Index.

To provide for sufficient diversification, investments shall be made through mutual funds and/or exchange-traded funds.

Trust Funds – Income Portfolio

Trust funds are invested on a total-return basis in one or more trust fund common portfolios according to the Prudent Investor Rule (RSA 564-B:9-901-906) as allowed under RSA 31:25-d. Typically, these funds have a long or perpetual time horizon. The portfolio investment objective is to provide a total return (income plus capital appreciation) consistent with the purpose of that fund that exceeds the long-term rate of inflation.

Under the Prudent Investor Rule, the suitability of the overall portfolio, given the fund's objectives, takes precedence over judgments regarding each individual security's quality or risk to principal. For municipal trust funds, an income objective will be applied.

Trust Funds Income Portfolio Benchmark

With an income orientation, the goal of the portfolio is to achieve long-term total returns in excess of average returns for a passive income benchmark. The Trust Funds Income Portfolio Benchmark consists of allocations to the following broad asset classes:

Asset Class	Benchmark Representative	Allocation
Larger Capitalized U.S. Stocks	Vanguard S&P 500 Index Fund (Ticker:VFINX)	15%
Smaller Capitalized U.S. Stocks	iShares Russell 2000 (Ticker:IWM)	5%
International Stocks	Vanguard Total International Stock Index (Ticker: VGTSX)	5%
Bonds and Cash	Vanguard Total Bond Market Index (Ticker: VBMFX)	75%

Investment Plan for the Trust Funds Income Portfolio

Objectives

To invest in a portfolio of mutual funds and exchange-traded funds to obtain an average annual total rate of return in excess of the Income Benchmark over the long term. Performance over shorter periods may deviate from this objective due to risks associated with being invested in the markets.

Income Portfolio Asset Allocation

Asset Class	Target	Range
Larger Capitalized US Stocks	15%	5 – 25%
Smaller Capitalized US Stocks	5%	0 – 15%
International Stocks	5%	0 – 15%
Bonds and Cash	75%	65 – 85%

Cash is included in the fixed income component of the asset allocation. Portfolios may invest in high-yield bonds, real estate securities, inflation-protected securities, commodities or other investment vehicles. Some mutual fund managers may sell stock short, use futures and options to manage portfolio risk.

For smaller trust fund accounts, a single mutual fund or exchange-traded fund may be used to implement the portfolio investment strategy. The fund chosen shall have an asset allocation generally consistent with the parameters above. However, the fund may deviate periodically from the broad asset allocation targets and ranges specified in this investment policy. Such deviations shall be monitored at least annually and the fund selection re-affirmed or changed to maintain consistency with the portfolio investment objective.

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.

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Leslie G. Packard	LESLIE G. PACKARD
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