



**TOWN OF WESTFORD
FINANCE DEPARTMENT**

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MEMORANDUM

To: Select Board
Finance Committee

From: Kristen Las, Town Manager
Hannah Moller, Treasurer/Collector

Subject: Article 8, Adopt the Prudent Investor Rule
March 28, 2026 Annual Town Meeting

Date: February 10, 2025

Article 8 proposes that the Town vote to accept the provisions of Massachusetts General Law Chapter 44, Section 54(b), which would allow Town trust funds to be invested in accordance with Massachusetts General Law Chapter 203C, commonly known as the “Prudent Investor Rule.”

What the Article Does

If approved, this article would give the Town greater flexibility in how it invests municipal trust funds. Currently, many municipal trust funds must follow a narrow and restrictive “legal list” of allowable investments, largely limited to certain bank deposits and conservative bond instruments. The Prudent Investor Rule would allow a broader range of investment options, including diversified mutual funds, exchange-traded funds (ETFs), and other professionally managed diversified portfolios.

Why This Change is Being Proposed

The authority for this article stems from a change enacted in the FY24 State Budget (Chapter 28 of the Acts of 2023). This legislation amended MGL c.44 §54 to insert a local acceptance provision permitting municipalities to invest trust funds under the standards of MGL c.203C instead of the traditional restrictions in §54(a). The law took effect immediately as part of the FY24 budget, and municipalities may adopt it through a Town Meeting vote.

Funds Affected

The change applies only to trust funds held in the custody of the Town Treasurer. These include municipal trust funds such as cemetery perpetual care funds, and may include other similar trust accounts.

Importantly, the law explicitly provides that this local option:

- Applies only to trust funds
- Does not apply to general operating funds, stabilization funds, bond proceeds, or other municipal accounts

Donor Restrictions Still Control

The law also protects donor intent. If a bequest, trust document, or other donor instrument includes clear restrictions on how funds must be invested, the Town must continue to follow those restrictions. The Prudent Investor Rule only applies when donor documents do not prohibit it.

Key Benefit: Diversification and Modern Portfolio Options

The primary benefit of adopting the Prudent Investor Rule is investment diversification. Diversification reduces concentration risk and allows the Town to manage trust fund assets using more balanced strategies rather than being limited to a small set of allowable securities. This approach does not inherently require taking more risk; instead, it provides access to a wider set of investment tools that can be used prudently depending on the fund's purpose and time horizon.

Practical Impact

If adopted, the Town would be able to manage eligible trust funds under its existing investment policy and potentially achieve improved long-term performance through prudent diversification. The change aligns trust fund investing more closely with modern best practices for fiduciary fund management.

If you have any questions or concerns, please do not hesitate to contact us.

List of Attachments includes:
Prudent Investor Performance FY22-FY25