# THE TOWN OF STRATFORD
# PENSION FUND

## STATEMENT OF
## INVESTMENT POLICY AND GUIDELINES

JUNE 2018

### A. Pension Board

The Pension Board (the "Board") has the responsibility of establishing and maintaining policies for all aspects of the Trust including:

- Setting of investment policy;
- Performing asset allocation for the Trust;
- Selecting, evaluating, and replacing investment professionals.

The Board may select other professionals to assist in its duties.

### B. Trust Administrator

The Town has delegated the responsibility to the Director of Finance to plan, organize, and administer the operations of the Trust under broad policy guidance from the Board. These operations include but are not limited to accounting; administration of investments, attorneys, accountants, actuaries, consulting and other contracts; and select investment oversight.

### C. Actuary

The Board will select an actuary to perform a valuation of the plan as often as needed.

### D. Investment Consultant

The Board may engage an investment consultant. If the Board engages an investment consultant, the investment consultant will report directly to the Board.

The investment consultant will give an independent perspective on the Trust, help select record keepers and investment managers, review asset allocation, and provide investment performance measurement.

The investment consultant is expected to attend meetings of the Board as needed and to perform asset allocation studies as needed.

The investment consultant will acknowledge in writing that he is a fiduciary of the plan relative to the provided services.

### E. Custodian

The Custodian will hold all cash and securities or evidence thereof. The Custodian will be responsible for maintaining records, providing fund accounting on a trade date basis, performance reporting, and other services as defined in its contract.

The Custodian may not engage in financial transactions related to the Trust that are based on written or oral instructions from any person other than the Board, or the Administrator acting on the Board's behalf.

### F. Investment Managers

In managing assets for the Trust, the Board may engage the services of investment managers. Investment managers buy and sell securities according to guidelines established for their particular asset class.

Investment managers are to acknowledge in writing that they are fiduciaries of the plan relative to provided services.

between risk and return given the projected needs of the Trust, always attempting to minimize risk of the overall portfolio for any given level of return.

5. Asset Allocation

The Board shall conduct an asset allocation study at least once every five years; or more frequently if there are significant benefit or investment changes. The asset allocation study requires a projection of cash flows, which are dependent on contributions made into the Fund and disbursements made from the Fund in the form of benefits and expenses. The purpose of the asset allocation study is to understand the trade off between risk and return, and to aid in the construction of a portfolio that has a high probability of earning the actuarial rate of return but achieves this goal with a minimum of volatility.

6. Rebalancing

Once policy targets for asset allocation are set in the asset allocation study, the Board should instruct the Administrator to rebalance in an effort to keep asset allocation as close to the policy target as possible while at the same time minimizing transactions costs.

### C. Investment Alternatives

Investment alternatives are divided into four broad categories: fixed income, domestic equity, international equity and alternative investments.

Fixed income investments shall be used primarily to provide stability of principle. Domestic equity and international equity may be added to enhance return. Alternative investments may be added to enhance return, and to provide diversification that will reduce volatility as well.

### D. Performance Standards

Each manager hired will be assigned a benchmark. Active managers are expected to exceed their benchmark net of fees, and to perform in the upper half of a universe of managers in a similar style over a market cycle. Passive managers are expected to track their respective benchmarks with minimal tracking error. Guidelines for each of the asset classes are outlined in the next section.

## IV. Manager Guidelines

### A. Fixed Income Managers

1. Investment objective. Active bond managers are expected to beat a benchmark appropriate to their style, and to perform in the top half of a universe of similar portfolios. The benchmark used for comparison should be assigned to the manager as part of the selection process.

2. Permissible securities. Fixed income managers may invest in U.S. Government and agency bonds, U.S. domestic corporate bonds, asset-backed and mortgage-backed securities, and convertible bonds.

3. Non-permissible securities. Fixed income managers are prohibited from investing in equity securities (except for term trusts). Fixed income managers are also prohibited from investing in commodities, unregistered letter stock, foreign securities (other than those evidenced by American Depository Receipts which are listed on the New York Stock Exchange (NYSE), warrants, loans of portfolio securities, venture capital issues and private placements.

4. Non-permissible transactions. Fixed income managers are prohibited from purchasing securities on margin or selling short.

5. Cash balances. Managers are expected to remain fully invested. However, the decision to

### C. International Equity Managers

1. Investment objective. Active international equity managers are expected to outperform a benchmark appropriate to their style. In addition, active international equity managers should be ranked in the upper half of a universe of similar portfolios.

2. Permissible securities. International equity managers must invest in securities of companies not domiciled in the United States, including common stocks traded on any major stock exchange or ADRs traded in the United States, global depository receipts (GDRs) and preferred stocks traded on any major stock exchange. International equities include equities of both developed countries and emerging markets. International managers may hold no more than 30% of their portfolio in emerging markets unless they are hired expressly for an emerging markets mandate.

3. Non-permissible securities. Foreign equity managers may not invest in equities of U.S.-domiciled companies, fixed income securities, commodities, unregistered letter stock, warrants, real estate mortgages, all options and futures, real or personal property, oil and gas property, loans of portfolio securities, venture capital issues, private placements, securities of a contributing employer, and derivatives. Derivatives include collateralized mortgage obligations, interest-only and principal-only strips, and currency swaps or other specialized investment activities.

4. Non-permissible transactions. Except with the written consent of the Board, equity managers may not purchase securities on margin or sell short.

5. Cash Balances. Managers are expected to remain fully invested. However, the decision to maintain cash balances is left to the manager's discretion, keeping in mind that the benchmark will be applied to the manager's total portfolio and not just to the non-cash portion. Managers should inform the Board within 10 business days if cash balances exceed 10%. Cash and equivalents may be invested in commercial paper rated A1 or P1, repurchase agreements, U.S. Treasury Bills and money market fund.

6. Marketability. Securities should be marketable. It is understood that international equity securities, especially in emerging markets, offer less liquidity than more widely held securities.

7. Diversification. Equity investments by a Manager in any single corporation shall be limited to no more than 5% of the manager's total portfolio based on the fair market value of the portfolio at the time of purchase, and no more than 10% at any quarterly valuation. The portfolio should also be appropriately diversified by industry sector. The Manager should inform the Board in writing of any violation within 10 business days.

8. Income. There are no minimum yield or dividend requirements.

### D. Alternative Investments

Alternative investments should be considered with the goal of increasing the return of the portfolio without increasing risk, or lowering risk of the overall portfolio without lowering return. Alternative assets include (but are not limited to) real estate, private equity, global tactical asset allocation, and timber.

Given the size of the allocation to alternatives in the Trust and the nature of alternative assets, it is understood by the Board that investments in alternative assets will likely be made in a commingled structure for which a detailed Investment Policy is not applicable, as the documents of the structure govern those investments. Should a separate account be employed, an addendum to this Investment Policy will be included to address the investment.

## V. Manager Guidelines

- Confirmation that all votes cast were consistent with policy;
- Explanation of any violation of the previous requirements.

**D. Cost Management**

1. Turnover. The Board acknowledges that in the course of a year, investment conditions and opportunities will require managers to buy and sell securities on the Board's behalf. While the Board does not wish to inhibit the normal transactions executed by the managers, it does wish to be made aware of the need for any high levels of turnover to avoid churning the portfolio. The following reporting requirements are therefore for control purposes and are not necessarily intended to limit portfolio turnover to the stated limits.

    - Turnover is defined as the lesser of total purchases or sales divided by opening balance. Convertible bonds are considered equity surrogates and are subject to the discussions for common stocks. Preferred stocks are considered perpetual bond surrogates and are subject to the discussions for corporate bonds.

    - Equity turnover. Within five business days of the time in any calendar quarter in which the cumulative equity turnover during the quarter exceeds 30%, or within any calendar year in which the cumulative equity turnover exceeds 100%, the manager must submit a report to the Administrator stating the reason for the turnover as well as a list of any brokerage firms whose fees during the quarter or year exceeded $10,000.

    - Fixed income turnover. Within five business days of the time in any calendar quarter in which the cumulative fixed income turnover during the quarter exceeds 100% or within any calendar year in which the cumulative fixed income turnover exceeds 200%, the manager must submit a report stating the reason for the turnover as well as a list of any brokerage firms handling more than 20% of the subject trades. U.S. government securities, used as collateral as part of the repurchase agreements, are exempt from this requirement.

    - Turnover may be considered as one factor in the money manager selection and retention process.

2. Broker Relations. The manager is free to execute trades whenever it is in the best interests of the Trust, and will have the discretion to execute transactions with brokerage firms of his or her choosing.

    - The selection of a broker should be based on the quality of executions. Factors affecting the quality of executions include the financial health of the brokerage firm, the business integrity of the brokerage firm, commission costs and overall efficiency.

    - Commission dollars are a Trust asset and should not be used for purposes other than those that directly benefit Trust participants. The investment manager is required to provide reports and descriptions of all soft dollar arrangements involving the use of commission dollars to acquire resources of any type.

# ADDENDUM

## ASSET ALLOCATION

The Pension Board has currently adopted the following asset allocation at market value:

| | Allocation | Range |
|---|---|---|
| Large Cap Equity | 22.5% | +/- 7.5% |
| Small/Mid Cap Growth Equity | 10% | +/- 5% |
| Small/Mid Cap Value Equity | 10% | +/- 5% |
| International Equity | 10% | +/- 5% |
| Fixed Income | 30% | +/- 15% |
| Timber | 2.5% | +/- 5% |
| Real Estate | 15% | +/- 7.5% |