

# Town of East Lyme Pension Plan Investment Policy Statement

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TOWN CLERK

## **Adoption**

This Investment Policy Statement (“IPS”) was adopted by the Pension Board of the Town of East Lyme (“Plan Sponsor”) for the Town of East Lyme Pension Plan (“Plan”) on June 2nd, 2022.

If any terms of this IPS conflict with the Plan documents, the terms and conditions of the plan documents shall prevail.

## **Purpose of Plan and IPS**

The Plan’s purpose is to provide retirement benefits to employees who are eligible to receive benefits under the Plan.

The purpose of the IPS is to outline the following general provisions affecting the Plan by:

- Assisting the Pension Board to fulfill its fiduciary responsibilities;
- Conveying the Plan’s purpose, investment objective, investment strategy and constraints;
- Establishing a decision-making framework to promote the effectiveness of the Plan;
- Intending for the Plan to be maintained in compliance with applicable laws and the Internal Revenue Code;
- Setting forth the roles and responsibilities of the Board, Investment Consultant (“Consultant”) and other relevant parties.

## **Statement of Goals & Objectives**

The primary objective of the Plan is to meet the retirement benefit obligations to covered employees who are entitled to receive benefits under the Plan.

When endeavoring to meet this objective, the Plan will seek to assume an appropriate amount of risk to ensure enough assets are available over the life of the Plan to satisfy current and future liabilities. The Plan will seek to achieve and maintain a fully funded status while mitigating the funded status volatility. The strategy for achieving and maintaining this status may vary based on the current funded status, the duration of the Plan’s liabilities, the demographics of plan participants and other factors.

In addition to achieving primary objective, the goal of the overall investment strategy is to meet or exceed (a risk-appropriate) benchmark over full market cycles.

## **Roles and Responsibilities**

The following is a summary of roles and responsibilities of various parties involved in overseeing or safeguarding the Plan’s assets:

### Selectman

- Select members to serve on the Pension Board
- Provide guidance to the Pension Board on the Fund’s objectives

- Review and approve Investment Policy Statement
- Periodically receive performance updates from Board

#### Pension Board ("Board")

- Oversee the management of assets.
- Act solely in the best interest of the Plan beneficiaries and the Plan's objectives.
- Determine investment objectives and constraints. Immediately communicate any revision in objectives or constraints to the Investment Consultant.
- Set and revise the investment policies (including asset allocation) and receive Selectman approval as necessary.
- Select Consultants, investment managers, custodians and any other vendors required to administer and manage the Plan's investments.
- Periodically review Plan-related investment expenses to ensure they are competitive and appropriate.
- Review and evaluate investment results and make changes as needed.
- Avoid prohibited transactions and conflicts of interest.

#### Actuary

- Provide actuarial information for the Plan to the Plan Sponsor as requested.
- On a timely basis, notify the Board if there are pertinent regulatory developments that would impact the Plan.

#### Consultant

- Assist in the development and periodic review of the investment policy.
- Proactively recommend changes to enhance the effectiveness of the investment policy, investment strategy or asset allocation.
- Make proactive investment manager hire and fire recommendations.
- Monitor aggregate and manager-level performance to ensure compliance with stated objectives.
- Provide the Board with performance-related information on a regular basis, no less than quarterly.
- On a timely basis, notify the Board if there are pertinent developments with any of the Plan's investment managers.

### Investment Managers

- Manage assets in accordance with the guidelines and objectives outlined in prospectuses (mutual funds), investment agreements (commingled funds, private partnerships, etc.), or manager-specific investment guidelines (separate accounts).
- Exercise investment discretion to buy, manage and sell assets held in the portfolios.
- Promptly vote proxies and related actions in a manner consistent with the long-term interest of the Plan as an investor.
- Communicate all organizational changes in a timely manner, including but not limited to ownership, organizational structure, financial condition and professional staff.
- Seek “best price and execution” for transactions. Both explicit and implicit transactions costs should be considered.
- Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like portfolios with like aims.

### Custodian(s)/Benefit Payor

- Safeguard portfolio assets.
- Facilitate recurring and non-recurring benefit payments to participants as instructed by the Plan Sponsor.
- Accurately value portfolio holdings.
- Execute buy/sell orders and cash transfers in a timely manner as directed by the Board.
- Collect all income and dividends owed to the Plan.
- Settle all transactions (buy/sell orders) initiated by separate account investment managers.
- Provide monthly reports that detail transactions, cash flows, securities values and changes in the value of each security and the overall portfolio since the previous report.
- Provide all requested portfolio information to the Consultant and Board in a timely manner.

### **Investment Strategy and Rebalancing**

Asset allocation decisions will be based on seeking to optimize long-term surplus risk-adjusted performance.

The Plan Sponsor plans to maintain the Plan. It is currently open to town employees, police, and firefighters. The Plan Sponsor reserves the right to amend the Plan, but the optimal investment strategy will be determined based on the plan provisions as they exist at any point in time.

The Board acknowledges that the Plan's asset allocation strategy is likely to be its primary determinant of performance. The Plan's investment strategy involves diversifying among various

asset classes, investment strategies and investment managers in order to pursue the Plan's investment objective(s) while complying with its constraints.

While reserving the right to take timely advantage of long-term investment opportunities as they present themselves, the Board intends to refrain from making dramatic shifts to the Plan's investment strategy based solely on short-term capital market expectations.

With the assistance of its Consultant, the Board intends to review or revise the target allocation to asset classes periodically to ensure the investment strategy remains consistent with the Plan's investment objectives, as those objectives may evolve over time given the plan's funding status and other factors.

With the assistance of its Consultant, the Plan's allocation will be monitored on a periodic basis to determine whether rebalancing back to its target allocation is warranted. This rebalancing process is likely to result in withdrawing from investments that have recently outperformed and/or adding to investments that have recently underperformed. With regards to periodic withdrawals (or contributions) that may be made to (or from) the Plan, partial rebalancing will generally have the objective of bringing the Plan closer to its target asset allocation.

The Plan's target allocation and ranges are set forth in Appendix A. Short-term market volatility may cause the asset mix to deviate from stated targets; however it is expected that deviation outside the allocation ranges will be rebalanced back into tolerance when the Board deems it appropriate to do so.

The benchmark will constitute underlying market indices appropriate for the strategy, and its components will be illustrated in the periodic performance report provided by the Consultant. The Board will also evaluate the Plan performance versus the actuarial assumed rate of return and additional performance benchmarks including, but not limited to, broader and/or more specific benchmarks made up of multiple underlying indices, or any other benchmark the Board believes will further its evaluation of the Plan's relative risk-adjusted performance.

### **Investment Manager Selection**

The Plan may select investment managers through a variety of investment vehicles including, but not limited to, separate accounts, mutual funds, commingled funds or private partnerships. The Board understands that managers have full responsibility for security selection, diversification, turnover, and allocation of holdings among selected securities and industry groups, as particularly detailed in the Investment Guidelines of each of the Fund's separately managed accounts or in the prospectus or offering memorandum for each mutual fund/commingled fund/private partnership.

The underlying investment managers selected for the Plan are intended to be selected with the care, skill and diligence that would be applied by a prudent person acting in a like capacity and knowledgeable about investing.

With the assistance of its Consultant, the Board will examine investment managers' investment objectives and processes; historical adherence to stated objectives and processes; depth of resources; quality of personnel; historical performance (including risk) versus various appropriate benchmarks; appropriateness of diversification; reasonableness of fees; and any other metric that may be material when evaluating investment managers' capabilities. The Board will use all available information and its best judgment when seeking to hire skillful

investment managers. The Board may also select low cost, passively managed investment products where appropriate.

### **Investment Manager Evaluation and Oversight**

With the assistance of its Consultant, the Board intends to periodically review the performance of the underlying investment managers. Performance monitoring is the mechanism for revisiting the investment selection process and confirming that the criteria originally satisfied remain intact and that an investment continues to be appropriate for the Fund. While frequent change is neither expected nor desirable, the process of monitoring investment performance relative to specified guidelines is an on-going process.

Events that may trigger termination of a manager include, but are not limited to, illegal or unethical behavior on the part of the manager; failure to follow investment guidelines; turnover among key personnel; a change in investment style or strategy; insufficient infrastructure to keep pace with asset growth; significant increase in expenses or fees; performance-related concerns; and any other observation the Board deems may prevent the manager from carrying out its duties effectively. Since several studies have demonstrated that the vast majority of strong long-term performing investment managers suffer multi-year periods of underperformance, failure to meet performance or other qualitative guidelines will not automatically trigger a manager termination. The Board intends to use all known information and their best judgment to determine if and when terminating a manager is warranted. In addition, managers may be terminated at any time for any reason at the discretion of the Board.

### **Evaluating and Selecting Service Providers**

Plan assets are intended to be used for the exclusive purpose of providing benefits to participants and beneficiaries and defraying reasonable costs of administering the Plan.

In carrying out the policies of this IPS, the Board may rely on various service providers including, but not limited to, the Consultant, trustee/custodian, administrative services provider(s) and investment managers. Such service providers generally shall be evaluated and selected based on the following:

- Furthering the Purpose of the Plan in Cost-Effective Manner. Each service provider is intended to advance the purpose of the Plan, which is to meet the objectives previously stated in this IPS. The service providers shall be expected to deliver administratively efficient services and charge fees that are reasonable given the service(s) provided.
- Core Business Commitment and Expertise. Each service provider is intended to have a history of providing services to other similar Plans and demonstrate an ongoing commitment to such business. Its employees should have a reputation among its clients for the quality of its services. The firm should show an appropriate knowledge of applicable statutes and regulation.
- Fiduciary Status and Conflicts of Interest. To the extent required based on the services being provided to the Plan, the service provider shall acknowledge its role as a fiduciary to the Plan. Service providers are expected to disclose any potential conflicts of interest to the Board.

### Appendix A

<b>Asset Allocation Guidelines:</b>	<b>Lower Limit</b>	<b>Target</b>	<b>Upper Limit</b>	<b>Benchmark</b>
Cash or Cash Equivalents	0%	1%	5%	90-Day T-Bill
Fixed Income	30%	40%	55%	Blmbg. U.S. Aggregate Blmbg. U.S. Corp High Yield Blmbg. Global Aggregate
Publicly Traded Global Equity	33%	54%	73%	
<i>Domestic Equity</i>	23%	33.5%	43%	S&P 500 Index Russel 2000 Index
<i>International Equity</i>	10%	20.5%	30%	MSCI ACWI ex USA Index MSCI Emerging Markets Index
Real Assets	0%	5%	10%	DWS Real Assets Index

## **Voting of Proxies**

For separately managed accounts, if applicable, investment managers will be expected to vote proxies in the best interest of the Plan as an investor. When applicable, mutual fund proxies are intended to be voted in the best interest of the Plan.

## **Approval**

*It is understood that this investment policy is to be reviewed periodically by the Pension Board to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, or changes involving the investment managers.*