

# Town of Old Lyme

## Pension Plan Investment Policy Statement

Adopted by Pension Committee on December 3, 2014

### Executive Summary:

Type of Plan:	Defined Contribution (401(a))
Plan Sponsor:	Town of Old Lyme
Plan IRS Tax Identification:	Plan ID # 689636
Participant-Directed Investment Options:	Yes
Frequency to Change Investment Options:	Daily (certain investments have trading restrictions)
Recordkeeper:	T. Rowe Price Retirement Plan Services, Inc.

### Introduction:

The Town of Old Lyme ("the Town"), sponsors the Pension Plan (the "Plan") for the benefit of its employees and Regional School District #18 employees. The Plan is intended to provide eligible employees with long-term accumulation of retirement savings through a combination of employee and employer contributions to individual participant accounts. To facilitate this goal for employees who fail to affirmatively sign-up to participate in the Plan, the Town has adopted an automatic enrollment program for the Plan and, pursuant to the Plan.

The Plan is intended to satisfy the requirements of Section 401(a) of the Internal Revenue Code (the "Code").

Plan participants have different investment objectives, time horizons, and risk tolerances. To meet these varying investment needs, participants and beneficiaries will be able to direct their account balances among a range of investment options, which span the risk/return spectrum. Plan participants and beneficiaries alone bear the risk of investment results from the investment options and allocations that they select.

### Purpose:

This Investment Policy Statement ("IPS") is intended to assist the Pension Committee in making decisions about the Plan's investments. The IPS outlines the underlying philosophies and processes for the selection, monitoring, and evaluation of investment options and investment managers utilized in the Plan. Specifically, this IPS:

- \* defines the roles of those responsible for the Plan's investments;
- \* describes the criteria and procedures for selecting and monitoring investment managers/options; and
- \* describes the manner in which investment options and investment managers that fail to satisfy established objectives will be managed.

The IPS will be reviewed at least annually and, if appropriate, can be amended to reflect changes in markets, Plan participants' objectives, or other factors relevant to the Plan.

### Investment Objectives:

The Plan's investment options will be selected so as to:

- \* provide those participants who are automatically enrolled with a qualified default investment alternative, which will be a targeted retirement date investment designed to provide varying degrees of long term appreciation and capital preservation through a mix of equity and fixed-income exposure based on the participant's age and target retirement date and which will otherwise meet the requirements of a "qualified default investment alternative," pursuant to regulations issued by the U.S. Department of Labor.
- \* provide those participants who wish to direct their own investments with a diverse set of investment options in

various asset classes so as to encourage and facilitate participant diversification while also offering a program that is understandable to participants;

- \* provide a long-term, competitive rate of return for similar investment options; and
- \* control administrative and management costs.

### **Roles and Responsibilities:**

- \* *Custodian:* The custodian(s) of the Plan is responsible for holding and investing Plan assets in accordance with the terms of the Trust Agreement.
- \* *Recordkeeper:* The recordkeeper is responsible for maintaining and updating individual account balances—including information regarding plan contributions, withdrawals, and distributions—and otherwise acting on the directions of the Town of Old Lyme Pension Committee ("Pension Committee").

Pension Committee: The Pension Committee is responsible for managing all matters relating to the investment of the Plan's assets. The primary responsibilities of the Pension Committee are to:

- \* make sufficient asset classes with different and distinct risk/return profiles available under the Plan so that each Plan participant has the opportunity to prudently diversify his/her account given his/her investment circumstances;
- \* prudently select investment options;
- \* establish and maintain the Investment Policy Statement;
- \* control and account for all investment, recordkeeping, and administrative expenses associated with the Plan;
- \* monitor investment options as to fund levels, returns, manager performance to established benchmarks, and manager tenure;
- \* remove/terminate options/managers not performing at acceptable levels, and
- \* avoid prohibited transactions and conflicts of interest.

### **Investment Manager/Option Selection:**

The Pension Committee will apply the following due diligence criteria in selecting each individual investment option that will be made available under the terms of the Plan:

*(The below criteria represent examples of the types of items often cited in articles and the press as those that are important from a fiduciary perspective)*

- \* *Regulatory oversight:* Each investment manager shall be a regulated bank, an insurance company, a registered mutual fund company, or a registered investment manager/advisor.
- \* *Correlation to style or peer group:* The investment manager/option must be highly correlated to the asset class of the investment option. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the manager to the appropriate peer group.
- \* *Performance relative to a custom benchmark:* The investment manager's/option's performance for the targeted retirement date investments shall be evaluated against a custom benchmark representing the asset classes contained in the glide path for each of the investments for one-, three-, and five-year cumulative periods.
- \* *Performance relative to a peer group:* The investment manager's/option's performance shall be evaluated against the peer group's median manager's return for one-, three-, and five-year cumulative periods.
- \* *Performance relative to assumed risk:* The investment manager's/option's risk-adjusted net performance (Alpha and/or Sharpe Ratio) shall be evaluated against the peer group's median manager's risk-adjusted performance.
- \* *Minimum track record:* The investment manager/option under consideration shall have an inception date that is greater than three years.
- \* *Assets under management:* The investment manager/option shall have at least \$75 million under management.
- \* *Expense ratios/fees:* The investment manager/option's fees shall be in the top two quartiles (least

expensive) of their peer group.

- \* *Stability of the organization:* There shall be no perceived organizational problems—the same portfolio management team should be in place for at least two years.

Notwithstanding the foregoing, the Pension Committee may select an investment manager/option that does not meet one or more of the criteria defined above if the Pension Committee concludes that the investment manager/option is in the best interests of Plan participants, and with a 75% approval of the full Pension Committee.

### **Investment Monitoring and Reporting:**

The Plan is intended to provide an appropriate range of investment options that span the risk/return spectrum. Further, the Plan's investment managers/options will allow Plan participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons, and tolerance for risk.

The Pension Committee will monitor the performance of each investment manager/option on a periodic basis. Not less frequently than annually, the Pension Committee will meet to review whether each investment manager/option continues to conform to the criteria outlined in the previous section. The data for review will be issued by Custodian. Specifically, the Investment Committee will review the investment manager/option to confirm that the manager/option continues to adhere to the Plan's investment guidelines and to determine whether there have been any material changes in the investment manager's/option's organization or investment philosophy.

Further, the Pension Committee generally has determined that it is in the best interest of the Plan's participants that performance objectives be established for each investment manager/option. To the extent one exists, these performance objectives will be based upon the appropriate market index (e.g., the Russell or Lipper 1000 Value for large-cap value domestic equity manager) and the relevant peer group (e.g., the large-cap value investment universe for a large-cap value investment) for each investment manager/option, and, in the case of the targeted retirement date investment options, a custom benchmark comprised of the weighted market indices based on each such targeted date investment's corresponding point on the glide path.

The Pension Committee may place an investment manager/option on a "Watch List" and conduct a thorough review and analysis of the investment if and when any of the following occurs:  
*(The below listed items represent those that T. Rowe Price often sees used by consultants or clients)*

- \* an investment option's net performance falls below the median of their peer groups one-, three-, and five-year cumulative returns;
- \* a manager's three-year risk-adjusted return (Alpha and/or Sharpe) falls below that of the peer group's median risk-adjusted return;
- \* there is a change in the professionals managing the portfolio;
- \* there is a significant decrease in the investment manager's/option's assets;
- \* there is an indication that the investment manager/option is deviating from his/her stated style and/or strategy;
- \* an extraordinary event occurs that may interfere with the investment manager's/option's ability to fulfill their role in the future; or
- \* there is instability of the organization managing the investment manager/option.

Notwithstanding the foregoing, the ultimate decision to retain or terminate an investment manager/option cannot be made by a formula. It is the Pension Committee's confidence in the investment manager/option's ability to accomplish its stated objectives and the extent to which such objectives are consistent with the investment goals and philosophy of the Plan that will determine whether an investment manager/option will be retained.

In addition to reviewing the performance of the Plan's investment managers/options, the Pension Committee will

periodically review all costs associated with the management of the Plan's investment program, including:

- \* expense ratios of each investment option against the appropriate peer group; and
- \* costs to administer the Plan, including recordkeeping, account settlement (participant balance with that of investment), allocation of assets and earnings, and (when applicable) the proper use of 12b-1 fees to offset these fees.

**Approval of Investment Policy Statement**

Voted on by the Town of Old Lyme Pension Committee at the meeting held on December 4, 2014