

## **INVESTMENT POLICY STATEMENT**

**Prepared on: 8/27/2021  
Prepared for: Town Of Old Lyme**

This Investment Policy Statement ("IPS" or "the Statement") is not a contract. This IPS is intended to be a summary of an investment philosophy and the procedures that may provide guidance for the plan fiduciary. The investment policies described in this IPS should be considered dynamic and reflect the plan's current investment philosophy regarding the investment of the Plan assets. These policies will be reviewed and revised periodically to reflect any changes in the plan assets, to the plan or the capital markets. Any material change to these policies should be communicated in writing and on a timely basis to investment fiduciaries associated with the plan and others who are associated with the plan and use the IPS to meet their responsibilities. If any term or condition of this Investment Policy Statement conflicts with any trust and/or other governing document of the plan, the trust and/or plan governing document shall control, as long as such term or condition is consistent with the law.

It is understood that there can be no guarantee about the attainment of the goals, investment performance or investment objectives outlined herein.

## Purpose

The purpose of this IPS is to assist the Plan Sponsor ("you" or "your" hereafter) in effectively discharging certain fiduciary responsibilities by supervising, monitoring and evaluating the management of the Retirement Plan (the "Plan"). The Plan Sponsor has the authority to oversee the investment of the Plan's assets. The Plan Sponsor will discharge its responsibilities under the Plan solely in the interests of Plan participants and their beneficiaries.

Your investment policy is intended to provide a prudent framework from which sound investment decisions can be made. The Plan's investment program is defined in the various sections of this IPS by:

- i. Clearly stating the attitudes, expectations, objectives and guidelines for the investment of the Plan's assets;
- ii. Setting forth an investment structure for managing all Plan assets. This process includes offering various asset classes and investment management styles that, in total, are expected to offer participants the opportunity to diversify their investments in a manner appropriate to their retirement objectives and risk/return requirements;
- iii. Defining certain duties and responsibilities to be performed by the various parties involved in the management and operation of the Plan; and
- iv. Facilitating compliance with all ERISA, fiduciary, prudence and due diligence requirements that experienced investment professionals utilize, and consistent with all applicable laws, rules and regulations from various local, state, and federal entities that may affect Plan assets.

## Statement of Objectives

The Plan was established for the sole benefit of its employees. The Plan is intended to provide eligible employees with a vehicle to save for or receive benefits for their retirement. The objectives of the Plan are:

- i. To provide a wide range of investment opportunities in various asset classes, so as to allow for diversification, cover a wide risk/return spectrum and to mitigate the risk to which these accounts are subject to.
- ii. To provide participants with the opportunity to realize competitive returns within reasonable and prudent levels of risk.
- iii. To ensure the availability of funds to pay all benefit and expense obligations when due.
- iv. To control and account for reasonable costs in managing the investments.

In accordance with ERISA Section 405(c), the Plan intends to facilitate the ability of each participant to control the assets in that participant's account and to fulfill its fiduciary duties by:

- i. Ensuring that the Plan provides appropriate procedures for allocating fiduciary responsibility.
- ii. Ensuring that the Plan's procedures for allocating and delegating responsibilities are established or implemented in a prudent fashion.
- iii. Retaining (i) a registered investment adviser; (ii) a broker-dealer, (iii) a bank; or (iv) an insurance company (a "Prudent Expert") to make the investment decisions that fall within their purview under this IPS or other governing documents. (These experts may provide investment advice directly, through a separate account, or through a pooled investment vehicle, such as a collective fund or a registered investment company (including both mutual funds and exchange-traded funds).)
- iv. Selecting each prudent expert by a demonstrable due diligence process.
- v. Requiring other service providers to acknowledge or disclaim fiduciary status in writing
- vi. Monitoring the activities of the prudent experts to ensure they are performing the agreed-upon tasks using the agreed-upon criteria.

The Plan intends to comply with ERISA Section 404(c) and the regulations thereunder, in order that participants and beneficiaries alone bear the risk of the investment results from their investment decisions

and Plan fiduciaries have no liability for losses resulting from participants' and beneficiaries' investment decisions. To accomplish this compliance, the Plan Sponsor will ensure that the following actions are taken:

- i. Plan participants will be notified that the Plan Sponsor intends to constitute a 404(c) Plan.
- ii. Plan participants will be provided at least three investment options that have a different risk/return profile.
- iii. Plan participants will have the opportunity to give investment directions.
- iv. Plan participants will have the right to diversify their investments.
- v. Plan participants will be provided with sufficient information and/or education on the different investment options.
- vi. Plan participants will be provided with annual and quarterly "404a-5" disclosures which contain certain information and instructions pertaining to the Plan.

A fiduciary adviser has been designated to provide participants with personal investment advice regarding the allocation of their assets among the Plan's investment options. The Plan intends to comply with the fiduciary adviser safe harbor requirements as defined in the Pension Protection Act of 2006 and the regulations thereunder, in order that the Plan sponsor shall not be liable under ERISA's fiduciary provisions solely by reason of the investment advice provided by the fiduciary adviser to participants or beneficiaries. As such, selection of the fiduciary adviser includes: (1) Requiring that the Plan fiduciary authorize the advice arrangement; (2) Imposing recordkeeping requirements for investment advisers relying on the exemption; (3) Requiring disclosures by advisors to Plan participants.

### **Default Investment Option**

The Plan has selected an age-based life cycle or target-date fund or account to serve as the Qualified Default Investment Alternative (QDIA) for Plan participants who do not make their own investment choices. This investment alternative is intended to qualify as a QDIA for purposes of ERISA Section 404(c) (5) and the regulations thereunder.

## **Duties and Responsibilities**

### **Plan Sponsor**

The primary duties of the Plan sponsor include;

- i. Establish the Plan
- ii. Perform any duties described in the Plan documents that are not otherwise delegated to a third party
- iii. Monitor the performance of those to whom responsibilities are delegated

### **Investment Advisor**

The Investment Manager has been hired to assist in the operation of the Plan. Their primary duties are described below. The Investment Advisor will acknowledge fiduciary responsibility, as defined under section 3(38) of ERISA, for the purposes of providing discretionary investment management to the plan fiduciaries. In accordance with the Plan's investment policies and objectives, the primary duties under this role include;

- i. Provide ongoing and continuous discretionary investment management with respect to the selection of asset classes, investment options, and Investment Managers;
- ii. Select a broad range of investment options, consistent with ERISA section 404(c) and the regulations thereunder, to enable participants to appropriately and effectively diversify their assets
- iii. Select and monitor the investment options for conformance to the guidelines set forth on Appendix C to this IPS
- iv. Determine whether to maintain, remove or replace the investment options

- v. Review at least annually all costs (direct and indirect) associated with the Plan to determine if they are fair and reasonable. These include:
  - i. Investment option fees and the selection of appropriate share classes
  - ii. If share classes with revenue sharing are used, how expenses are to be leveled between participants

The Investment Advisor is paid via a direct fee for services and is not paid by commissions or revenue sharing. The Investment Advisor understands that some plan sponsors may choose to use revenue sharing credits from the investment options to defray the costs of running the plan.

### **Custodian**

The Custodian is responsible for the safekeeping of the plan's assets. The primary responsibilities of the Custodian are to:

- i. Value the holdings on a periodic basis.
- ii. Collect and credit all income and dividends owed to the Plan.
- iii. Settle all transactions (buy/sell orders).
- iv. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall Plan since the previous report.
- v. Maintain separate accounts by legal registration.

### **Record Keeper**

The Record Keeper is responsible for maintaining the records for each participant account and managing the inflows and outflows of money into the plan.

### **Third Party Administrator (TPA)**

The TPA is responsible for keeping the plan in compliance with applicable rules and regulations and ensuring that it continues to run smoothly. These duties include periodic and required communications to plan participants and their beneficiaries along with ensuring that participants receive adequate and timely fee disclosure information.

## **Asset Class Guidelines**

Long-term investment performance is, in large part, a function of asset class mix. The Investment Advisor will review the long-term performance characteristics of broad asset classes, focusing on the balance of risks and rewards, and determine the asset classes that are appropriate for the Plan.

In making this review and determination of asset classes, the Investment Advisor should consider the following factors:

- i. Demographic population profile of the participants
- ii. Appropriate investment time horizons, taking into account the participant demographics
- iii. Appropriate risk levels, taking into account the participant demographics
- iv. Appropriate modeled returns, taking into account the participant demographics
- v. The total number of asset classes to be offered under the Plan
- vi. The apportionment of asset classes among the following features
  - i. Equity, fixed income, balanced, and stable value investments,
  - ii. Domestic and international investments,
  - iii. Target date investments,
  - iv. Active and passive management styles, and
  - v. Such other features as the Investment Advisor shall deem appropriate to consider.

Any other factors that the Investment Advisor believes to be appropriate or desirable in the review and determination of assets classes may also be taken into consideration.

The individual asset classes selected by the Investment Advisor are outlined in APPENDIX A of this IPS.

The Plan will also offer an asset allocation service that allows a participant to allocate his or her account among the Plan's designated investment alternatives according to a pre-defined set of allocations.

## **Investment Selection**

Each investment shall be managed by a Prudent Expert. When selecting a new investment, the Investment Advisor will evaluate the possible alternatives against the due diligence criteria set forth in Appendix C of this IPS. When warranted due to unique potential benefits relative to other available investments, options for which the due diligence criteria set forth in APPENDIX C of this IPS are not available may be considered. In those instances, alternative prudent selection criteria to those set forth in APPENDIX C of this IPS will be used to evaluate the appropriateness of each investment. After any selection of investments for which alternative prudent selection criteria were used, those alternative criteria will be added to APPENDIX C of this IPS.

## **Investment Monitoring**

### **Benchmarks**

Performance benchmarks will be established for each investment. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large cap domestic equity manager) and the relevant peer group (e.g. the large cap growth mutual fund universe for a large cap growth mutual fund). The performance benchmarks will be set forth in Appendix B of this IPS.

### **Performance Objectives**

The Plan Sponsor acknowledges fluctuating rates of return characterize the securities markets, particularly during short term time periods. Recognizing that short term fluctuations may cause variations in performance, the Investment Advisor intends to evaluate investment performance from a long term perspective. The Plan Sponsor is aware the ongoing review and analysis of the investment options is just as important as the due diligence and selection process. The performance of the investment options will be monitored on an ongoing basis by the Investment Advisor who will take corrective action by replacing an investment option as he/she deems it appropriate at any time.

Annually, the Investment Advisor will review whether each investment option continues to be an appropriate representative of the applicable asset class. Specifically, but without limitation, the Investment Advisor will consider:

- i. The investment option's adherence to the Watch List Criteria identified below;
- ii. Material changes in the investment option's organization, investment philosophy and/or personnel; and,
- iii. Any legal, SEC and/or other regulatory agency proceedings actually or potentially affecting the investment option's future performance or suitability

### **Watch List Criteria**

The decision to retain or terminate an investment option cannot be made by a formula. It is the Investment Advisors' confidence in an investment option's ability to perform in the future that ultimately determines the retention of an investment option. To assist the Investment Advisor in determining when an investment option should be considered for termination, the Investment Advisor has adopted the due diligence criteria set forth in Appendix C of this IPS.

The Investment Advisor shall be responsible for monitoring the Watch List Criteria for each investment option annually. In the event that any investment option fails to satisfy the Watch List Criteria and the Investment Manager decides to replace the manager, he/she should bring this to the attention of the Plan Sponsor at the next regularly-scheduled meeting or through immediate communication with the Plan Sponsor, whichever they shall deem appropriate.

### **Replacement of an Investment**

Should the Investment Advisor determine that an investment option should be replaced, the investment will be removed as soon as practical and a replacement investment made available into which all assets will be moved.

### **Identifying, Evaluating, and Containing Costs**

The Investment Advisor will review at least annually all costs (direct and indirect) associated with the investment options of the Plan to determine if they are reasonable. The cost considerations to be reviewed will include (although not necessarily be limited to):

- i. Expense ratios of each investment option and the use of appropriate share classes
  - i. If share classes with revenue sharing are used, how expenses are to be leveled between participants
- ii. Investment management fees, soft dollar and other special fee arrangements when utilizing separate account managers.
- iii. Brokerage commissions and trading costs of separate accounts.
- iv. Cost per participant for recordkeeping and administration and how these fees are paid (e.g. by direct charge to the company, participants' accounts or through revenue sharing)

All parties receiving revenue sharing payments such as 12b-1 fees, sub-transfer agency fees, shareholder servicing and finder's fees will be identified and such costs shall be quantified and evaluated.

Unless otherwise established by the Plan, the responsibilities of the Investment Advisor with respect to costs shall be to (1) maintain expenses deriving from the investment process, including investment advisory fees, brokerage fees, and investment service fees, at a reasonable level and (2) advise the Plan of other expenses, such as administrative fees and educational expenses, if it appears that such other expenses are unreasonably excessive.

### **Investment Policy Review**

This IPS will be reviewed at least annually to determine whether stated investment objectives are still relevant and feasible. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Any change to these policies should be communicated in writing and on a timely basis to all interested parties. If any term or condition of this Investment Policy Statement conflicts with any trust and/or Plan document, the document shall control, as long as such term or condition is consistent with the law.

## Adoption

Adopted by the below signed:

Date: 24 SEP 2021

Plan Sponsor:

T. Griswold

Timothy Griswold, First Selectman

Investment Advisor:

Thomas Richard

Thomas Richard

## Appendix A: Asset Classes

PEER GROUP
<b>U.S. Equity</b>
Large Blend
Large Growth
Mid-Cap Growth
Mid-Cap Value
Small Blend
Small Growth
Small Value
<b>International Equity</b>
Diversified Emerging Mkts
Foreign Large Blend
Foreign Large Growth
Foreign Large Value
Foreign Small/Md Blend
World Large-Stock Blend
<b>Sector Equity</b>
Real Estate
<b>Allocation</b>
Allocation—30% to 50% Equity
Allocation—50% to 70% Equity
Target-Date 2000-2010
Target-Date 2015
Target-Date 2020
Target-Date 2025
Target-Date 2030
Target-Date 2035
Target-Date 2040
Target-Date 2045

**PEER GROUP**

Target-Date 2050

Target-Date 2055

Target-Date 2060

Target-Date 2065+

**Taxable Bond**

Emerging Markets Bond

High Yield Bond

Intermediate Core-Plus Bond

Intermediate Government

Multisector Bond

**Money Market**

Money Market Taxable

**Stable Value**

Stable Value

## Appendix B: Asset class benchmarks

PEER GROUP	BENCHMARK INDEX
<b>U.S. Equity</b>	
Large Blend	Russell 1000 TR USD
Large Growth	Russell 1000 Growth TR USD
Mid-Cap Growth	Russell Md Cap Growth TR USD
Mid-Cap Value	Russell Md Cap Value TR USD
Small Blend	Russell 2000 TR USD
Small Growth	Russell 2000 Growth TR USD
Small Value	Russell 2000 Value TR USD
<b>International Equity</b>	
Diversified Emerging Mkts	MSCI EMNR USD
Foreign Large Blend	MSCI ACWI Ex USANR USD
Foreign Large Growth	MSCI ACWI Ex USA Growth NR USD
Foreign Large Value	MSCI ACWI Ex USA Value NR USD
Foreign Small/Md Blend	MSCI World Ex USA SMID NR USD
World Large-Stock Blend	MSCI ACWI NR USD
<b>Sector Equity</b>	
Real Estate	S&P United States REIT TR USD
<b>Allocation</b>	
Allocation—30% to 50% Equity	Morningstar Mod Con Tgt Risk TR USD
Allocation—50% to 70% Equity	Morningstar Mod Tgt Risk TR USD
Target-Date 2000-2010	Morningstar Lifetime Mod 2010 TR USD
Target-Date 2015	Morningstar Lifetime Mod 2015 TR USD
Target-Date 2020	Morningstar Lifetime Mod 2020 TR USD
Target-Date 2025	Morningstar Lifetime Mod 2025 TR USD
Target-Date 2030	Morningstar Lifetime Mod 2030 TR USD
Target-Date 2035	Morningstar Lifetime Mod 2035 TR USD
Target-Date 2040	Morningstar Lifetime Mod 2040 TR USD
Target-Date 2045	Morningstar Lifetime Mod 2045 TR USD

PEER GROUP	BENCHMARK INDEX
Target-Date 2050	Morningstar Lifetime Mbd 2050 TR USD
Target-Date 2055	Morningstar Lifetime Mbd 2055 TR USD
Target-Date 2060	Morningstar Lifetime Mbd 2060 TR USD
Target-Date 2065+	Morningstar Lifetime Mbd 2060 TR USD
<b>Taxable Bond</b>	
Emerging Markets Bond	BBgBarc EM USD Aggregate TR USD
High Yield Bond	ICE BofAML US High Yield TR USD
Intermediate Core-Plus Bond	BBgBarc US Universal TR USD
Intermediate Government	BBgBarc US Government TR USD
Multisector Bond	BBgBarc US Universal TR USD
<b>Money Market</b>	
Money Market Taxable	ICE BofAML USD 3M Dep QR CMTR USD
<b>Stable Value</b>	
Stable Value	USTREAS T-Bill Cnst Mat Rate 3 Yr

## Appendix C: Due Diligence Criteria

The following criteria will be used to evaluate Active, Passive and Target Date Investments:

**1 of these 3** data points are required for the investment to pass.

DATA POINT
<b>Performance</b>
1-Year Return - %rank is in the top 50 percent of peer group; Must Pass 1 of the Last 3 Periods
3-Year Return - %rank is in the top 50 percent of peer group; Must Pass 1 of the Last 2 Periods
5-Year Return - %rank is in the top 50 percent of peer group; Must Pass 1 of the Last 1 Periods

**4 of these 6** data points are required for the investment to pass.

DATA POINT
<b>Expenses</b>
Prospectus Net Exp Ratio - %rank is in the top 50 percent of peer group; Must Pass 1 of the Last 1 Periods
<b>Risk</b>
Standard Deviation (3 Yr) - %rank is in the top 50 percent of peer group; Must Pass 1 of the Last 3 Periods
Standard Deviation (5 Yr) - %rank is in the top 50 percent of peer group; Must Pass 1 of the Last 1 Periods
Sortino Ratio (3 Yr) - %rank is in the top 50 percent of peer group; Must Pass 1 of the Last 3 Periods
Sortino Ratio (5 Yr) - %rank is in the top 50 percent of peer group; Must Pass 1 of the Last 1 Periods
<b>fi360 Fiduciary Score®</b>
fi360 Fiduciary Score® is in the top 50 percent of peer group; Must Pass 1 of the Last 3 Periods

The investment manager will monitor and periodically evaluate the plan's target date fund (TDF) investments.

- i. Perform generally accepted due diligence, taking factors such as the following into account:
  - 1) Alignment of the TDF's glide path (i.e., pre-planned changes in asset allocation over the course of time before and after the target retirement date) with the demographic profile of plan participants;
  - 2) Rigor and efficacy of asset allocation strategies and processes used to manage the TDF's risk/return profile;
  - 3) Rigor and efficacy of strategies and processes used to select, monitor, and make changes in underlying investments (e.g. mutual funds, collective trusts, separately managed account); and
  - 4) Reasonableness of the TDF's investment fees and expenses, including fees and expenses for the TDF and underlying investments.
- ii. Assess whether circumstances relating to the plan, or investments available to the plan, merit reevaluation of the use of the current TDF investment (e.g. relative to other TDF investments or other Qualified Default Investment Alternatives).