

# ***Town of Bethel***



**January 2024**

## **Statement of Investment Policy Objectives & Guidelines**

## **Statement of Investment Policy, Objectives, and Guidelines**

### **SCOPE OF THIS INVESTMENT POLICY**

This statement of investment policy reflects the investment policy, objectives, and constraints of the entire Town of Bethel Employee, LOSAP and Police Defined Benefit Pension Plan.

### **PURPOSE OF THIS INVESTMENT POLICY STATEMENT**

This statement of investment policy is set forth by the Insurance and Pension Commission of the Town of Bethel in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding of the investment goals and objectives of Investment Account assets for all involved parties.
3. Offer guidance and limitations to all Investment Mangers regarding the investment of Investment Account assets.
4. Establish a basis for evaluating investment results.
5. Manage Investment Account assets according to prudent standards as established in common trust law.
6. Establish the relevant investment horizon for which the Investment Account assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

### **DELEGATION OF AUTHORITY**

The Insurance and Pension Commission of the Town of Bethel is an advisory board, responsible for directing and monitoring the investment management of Investment Account assets. The Board of Selectmen of the Town of Bethel are fiduciaries. As such, the Insurance and Pension Commission is authorized to delegate certain responsibilities to professional experts in various fields. Delegations include, but are not limited to:

1. W. Michael Forte, Executive Director – Wealth Management/Corporate Client Group Director at Morgan Stanley Wealth Management, as the Insurance and Pensions Investment Management Consultant. The consultant may assist the Insurance and Pension Commission in: Establishing investment policy, objectives, and guidelines; selecting investment managers, reviewing such managers over time; measuring and evaluating investment performance; and other tasks deemed appropriate.
2. Investment Managers. The investment managers have discretion to purchase, sell, or hold specific securities that will be used to meet the Investment Account's investment objectives.
3. Morgan Stanley Wealth Management or the custodian will physically (or through agreement with a sub-division) maintain possession of securities owned by the Investment Account, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Investment Account accounts.
4. Milliman as Third Party Administrator and Scott Lindberg as actuary to assist in meeting its responsibilities and obligations to administer Investment Account assets prudently.

The Insurance and Pension Commission will not reserve any control over investment decisions, with the exception of specific limitations described in these statements. Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate.

## **DEFINITIONS**

1. "Investment Account" shall mean the Town of Bethel.
2. "Insurance and Pension Commission" shall refer to the governing board established to administer the Investment Account as specified by applicable ordinance.
3. "Fiduciary" shall mean the Board of Selectmen of the Town of Bethel, that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Investment Account assets.
4. "Investment Manager" shall mean any individual, or group of individuals, employed to manager the investments of all or part of the Investment Account assets.
5. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.

6. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
7. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met.

## **ASSIGNMENT OF RESPONSIBILITY**

### **Responsibility of the Investment Manager(s)**

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment processes, or the investment objectives progress of the Investment Account's investment management.
4. Informing the Insurance and Pension Commission of any qualitative change to the investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

### **Responsibility of the Investment Management Consultant(s)**

The Investment Management Consultant's role is that of a non-discretionary advisor to the Insurance and Pension Commission of the Town of Bethel. Advice concerning the management of Account assets will be offered by the Investment Management Consultant, and will be consistent with the investment objectives, guidelines, and constraints as established in this statement. Specific responsibilities of the Investment Management Consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Conducting investment manager searches when requested by the Insurance and Pension Commission.
3. Monitoring the performance of the Investment Manager(s) to provide the Pension Committee with the ability to determine the progress toward the investment objectives.

4. Communicating matters of policy, manager research, and the manager performance to the Pension Committee.
5. Reviewing Investment Account investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Insurance and Pension Commission.

## **GENERAL INVESTMENT PRINCIPALS**

1. Investment shall be made solely in the interest of the participants and beneficiaries of the Investment Account and for the exclusive purpose of providing benefits accrued.
2. The Investment Account shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in the capacity and familiar with such matters would use in the investment of a fund or like character and with like aims.
3. Investment of the Investment Account shall be diversified to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. The Insurance and Pension Commission may employ one or more investment managers of varying styles and philosophies to attain the Investment Account's objectives.
5. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

## **INVESTMENT MANAGEMENT POLICY**

1. Preservation of Capital – Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
2. Risk Aversion – Understanding that risk is present in all types of securities and investment styles, the Insurance and Pension Commission recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Investment Account's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline – Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

## **INVESTMENT OBJECTIVES**

In order to meet its needs, the primary investment strategy of the Town of Bethel is to emphasize total return; that is, the aggregate return from capital appreciation plus dividend and interest income. Within the stated total return objective, the plan will monitor and strive to preserve capital while understanding that risk of loss to capital is always present.

Specifically, the primary objective of the investment management for Investment Account assets shall be:

Achieve realistic returns based on our asset allocation and capital market conditions over the life of the plan, while monitoring and mitigating where possible any loss of capital.

## **DEFINITION OF RISK**

The Insurance and Pension Commission realizes that there are many ways to define risk, it believes that any person or organization involved in the process of managing the Town of Bethel assets understands how it defines risk so that the assets are managed in a manner consistent with the Investment Account's objectives and investment strategy as designed in this statement of investment policy. The Insurance and Pension commission defines risk as:

The probability of not meeting the Investment Account's objectives.

## **LIQUIDITY**

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the investment Management Consultant will be managing an estimate of expected net cash flow.

To maintain the ability to deal with unplanned cash requirements that might arise, the Pension Committee requires that a minimum of 2% of Investment Account assets shall be maintained in cash or cash equivalents, including money market funds or short-term U.S. Treasury bills.

## **MARKETABILITY OF ASSETS**

The Pension Committee requires that all Investment Account assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Investment Account, with minimal impact on market price.

## **INVESTMENT GUIDELINES**

### **Allowable Assets**

1. Cash Equivalents
  - Treasury Bills
  - Money Market Funds

- Commercial Paper
  - Banker's Acceptances
  - Repurchase Agreements
  - Certificates of Deposit
2. Fixed Income Securities
- U.S. Government and Agency Securities
  - Corporate Notes and Bonds
  - Mortgage Backed Bonds
  - Fixed Income Securities of Foreign Governments and Corporations
  - Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other "early tranche" CMOs
3. Equity Securities
- Common Stocks
  - Convertible Notes, Bonds, and Preferred Stocks
  - Convertible Preferred Stocks
  - American Depository Receipts (ADRs) of Non-U.S. Companies
  - Stocks of Non-U.S. Companies (Ordinary Shares)
  - Master Limited Partnerships (MLPs)
  - REITs
4. Mutual Funds
- Mutual Funds which investment in securities as allowed in this statement
  - Investment Manager(s) can use option strategies to reduce risk.

### **Stock Exchanges**

To ensure marketability and liquidity, investment advisors will execute equity transactions through the following exchanges: New York Stock Exchange; American Stock Exchange; and NASDAQ over-the-counter market. In the event that an Investment Manager determines that there is a benefit or a need to execute transactions in exchanges other than those listed in this statement, written approval is required from the Insurance and Pension Commission.

### **Prohibited Assets**

Prohibited investments include, but are not limited to the following:

1. Commodities and Futures Contracts
2. Private Placements
3. Limited Partnerships
4. Venture-Capital Investments
5. Real Estate Properties
6. Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs

### **Prohibited Transactions**

Prohibited transactions include, but are not limited to the following:

1. Short Selling
2. Margin Transactions

### **Asset Allocation Guidelines**

Investment management of the assets of the Town of Bethel shall be in accordance with the following asset allocation guidelines:

1. Aggregate Investment Account Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equities	20%	65%	50%
Fixed Income	30%	80%	40%
Alternatives	0%	20%	10%
Cash and Equivalents	0%	20%	N/A

2. The Insurance and Pension Commission may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Investment Account, such disciplines must fit within the overall asset allocation guidelines established in this statement.
3. In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Insurance and Pension Commission will instruct the Investment Manager(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible. In the event that any individual Investment Manager's portfolio is in violation with its specific guidelines, for reasons including but not limited to market price fluctuations, the Insurance and Pension Commission expects that the Investment Manager will bring the portfolio into compliance with these guidelines and promptly and prudently as possible without instruction from the Pension Committee.

### **Diversification for Investment Managers**

In order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 5% of the total fund, and no more than 25% of the total fund should be invested in any one industry. Individual treasury securities may represent 20% of the total fund, while the total allocation to treasury bonds and notes may represent up to 80% of the Investment Account's aggregate bond position.

### **Guidelines for Fixed Income Investments and Cash Equivalents**



1. Investment Account fixed income securities may be invested no more than 20% in bonds that are below investment grade or bonds rated below bbb. The remaining fixed income will all be bbb or higher.
2. Investment Account assets may be invested only in commercial paper rated A1 (or equivalent) or better.
3. Fixed income maturity restrictions are as follows:
  - Maximum maturity for any single security is 30 years.
  - Weighted average portfolio maturity may not exceed 15 years.
4. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

## **SELECTION OF INVESTMENT MANAGERS**

The Insurance and Pension Commission's selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company.

## **INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION**

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Insurance and Pension Commission for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Insurance and Pension Commission intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

## **INVESTMENT POLICY REVIEW**

To assure continued relevance of the guidelines, objectives, and financial status and capital markets expectations as established in this statement of investment policy, the Insurance and Pension Commission plans to review investment policy at least annually.

This statement of investment policy is adopted by the Insurance and Pension Commission of the Town of Bethel with authorization from the First Selectman, whose signature appears below.

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Daniel Carter

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Date