

# **The Clinton School System Non-Certified Personnel Defined Benefit Plan**

## **Investment Policy Statement**

This document is the Investment Policy Statement (the “Policy” or “IPS”) for the defined benefit pension plan (the “Plan”) of The Clinton Public Schools Board of Education for the benefit of its non-certified personnel. This policy states the duties, responsibilities, and standards of practice to be employed in the investment of the Plan assets.

### **Role of the Board of Education**

The Clinton Board of Education has the overall responsibility for the prudent management of the Plan assets such that they are sufficient to meet the pension obligations of the Plan without incurring excessive risk or requiring excessive contributions from taxpayers. The Board of Education established the Plan and may amend the benefit provisions of the Plan.

### **Role of the *Budget & Finance-Pension Subcommittee***

The Board of Education has delegated the responsibility for oversight of the Plan investments to the Budget & Finance-Pension Subcommittee which consist of the Board of Education members who are assigned to the Budget & Finance –Pension subcommittee annually, the Superintendent of Schools, the Business Manager and a representative of the Investment Manager holding the Plan assets. This subcommittee selects the investment manager and custodian (the “Manager”) for the Plan and reviews all investment reports pertaining to the Plan.

### **Role of the Manager and Custodian**

The Manager has been granted authority to manage the Plan’s assets and to make investment decisions, subject to the limitations imposed by this Policy.

As of [October 2018], the Budget & Finance-Pension Subcommittee has selected People’s United Advisors, a subsidiary of People’s United Bank, as the Manager.

## **1. General Investment Policy**

All plan investment activities shall be conducted in a prudent manner, and shall be consistent with this Policy, the Plan and applicable law and regulation.

Plan assets will be invested so as to result in a diversified investment portfolio consisting of a variety of asset classes and subclasses, as specified in Section 3 of this Policy. The primary investment implementation strategy employed will be the ownership of assets, based on a long-term time horizon, intended to meet the long-term liabilities of the plan.

Last revised: N/A

This revision: May 13, 2019

Approved: May 20, 2019 – Clinton Board of Education Minutes, Item #10 page 4

Plan assets will be invested in a manner intended to maximize expected total return (income and capital appreciation) for a given level of risk.

When making investment decisions, the Manager shall consider present and anticipated distribution requirements, desired expected total return and risk, and the general economic and capital market conditions prevailing at the time.

## **2. Asset Classification**

Plan assets will be invested in a diversified portfolio comprised of publicly-traded securities. Plan assets may be invested directly in individual securities or indirectly through the use of mutual funds, bank pooled accounts, commingled investment partnerships, common trust investment vehicles or exchange traded funds. Proprietary mutual funds of the Manager are allowable investment vehicles.

### **Equity Investments**

The Manager may purchase equities listed on the major national and regional exchanges, as well as the over-the-counter markets. Securities of foreign companies traded as American Depositary Receipts (ADRs) or on major foreign stock exchanges may also be purchased. Equity investments may be held directly or indirectly through mutual funds, trust company common funds, REIT's, investment partnerships, LLCs or exchange-traded funds.

The following direct equity investment activities are not permissible for Plan assets:

- Short selling
- Leverage and margin transactions
- Futures contracts
- Exchange traded or over-the-counter options

The plan shall not have any single equity holding with a market value that exceeds 3% of the total market value of Plan assets. In the event that this limit is exceeded due to market value fluctuations, the Manager will notify the Budget & Finance-Pension Subcommittee in writing within ten business days with an explanation and plan of action for bringing the position into compliance. As part of the next regularly scheduled report or meeting, the Manager provide the Budget & Finance-Pension Subcommittee with an explanation of any action taken.

### **Fixed Income Investments**

Investment in fixed income securities may include both actively and passively-managed positions. Fixed income security investments shall be subject to the following limitations:

- The Manager may choose from the universe of U.S. dollar-denominated debt securities and foreign dollar-denominated debt securities. These securities must be rated investment grade (BBB[-]/Baa3 or better) by Standard & Poor's or Moody's, respectively. Unrated short-term debt maturing in 364 days or less is

Last revised: N/A

This revision: May 13, 2019

Approved: May 20, 2019 – Clinton Board of Education Minutes, Item #10 page 4

also eligible as long as the issuing entity carries long-term investment grade ratings by either Standard & Poor's or Moody's.

- Investments in securities of a single issuer (with the exception of the U.S. Government and its agencies) shall not comprise more than 5.0% of the total market value of Plan assets.

For purposes of this Policy, investment grade debt may be held directly or indirectly. Non-investment grade debt may only be purchased and held indirectly through a mutual fund or exchange-traded fund. Non-investment grade debt will consist of U.S. dollar denominated bonds rated less than investment grade by both Standard & Poor's and Moody's.

- If an investment grade bond falls into a non-investment grade category by both Standard & Poor's and Moody's, the Manager shall liquidate the holding taking into consideration market price fluctuations or notify the Budget & Finance-Pension Subcommittee within ten business days of becoming aware of the downgrade with a recommendation as to why the bond should not be sold and maintained. The Budget & Finance-Pension Subcommittee Board, in consultation with the Manager, shall determine whether to continue to retain ownership of the bond as part of the next regularly scheduled report or meeting.
- For purposes of duration and liquidity management, the Manager, at its discretion, may vary the percentage of assets allocated to fixed income and cash equivalent investments, provided that the allocations shall be within the Ranges for fixed income and cash equivalent investments, as provided in Section 3 below. The duration of fixed income assets may not exceed 1.25 times the duration of the Bloomberg/Barclays U.S. Aggregate bond index.

#### Cash Equivalents

Cash investments may include commercial paper, repurchase agreements, U.S. Treasury Bills, Certificates of Deposit, and money market funds. All such Assets must represent maturities of less than one year at the time of purchase. Standard & Poor's and Moody's must rate commercial paper assets A-1 or P-1, respectively.

#### Real and Alternative Assets

Real assets may include real estate, infrastructure assets, and precious or industrial metals provided that the ownership interests are in highly liquid, publicly traded vehicles. Real assets may also include investments in commodities through fully collateralized indexed exchange traded funds or through actively managed mutual funds.

Alternative assets include hedge-fund type strategies provided they are available in mutual fund format.

The following direct investment activities are not permissible for Plan assets:

- Individual hedge funds

Last revised: N/A

This revision: May 13, 2019

Approved: May 20, 2019 – Clinton Board of Education Minutes, Item #10 page 4

- Private equity funds
- Any non-publicly traded, special purpose, private investment fund.

### **3. Asset Allocation Ranges and Norms**

Allowable asset allocation ranges for the Plan are as follows:

<b>Asset Allocation</b>	<b>Strategic Range</b>
<b>Equity (% of total assets)</b>	<b>50 - 75</b>
Domestic (% of total equity)	50 - 90
International (% of total equity)	10 - 50
Developed markets	5 - 40
Emerging markets	5 - 25
<b>Fixed Income (% of total assets)</b>	<b>20 - 50</b>
Investment Grade	70 - 100
Non-Investment Grade	0 - 30
<b>Cash (% of total assets)</b>	<b>0 - 20</b>
<b>Real or Alternative assets</b>	<b>0 - 10</b>

#### **Rebalancing the Portfolio**

- Only the Budget & Finance-Pension Subcommittee may authorize a change in the Asset Allocation Ranges. The Manager's input is welcome and expected but the Manager is required to manage the portfolio in full compliance with this Policy.
- The Manager may determine that it is appropriate based upon current tactical considerations, to temporarily allocate assets outside of the ranges specified above. In these events, the Manager will provide written justification and explanation to the Budget & Finance-Pension Subcommittee outlining the specific recommended temporary adjustments to the stated asset allocation ranges prior to initiating the asset allocation. Upon approval, the Manager will implement the adjustments and report these actions as part of the next regularly scheduled report or meeting.
- The Manager will notify the Budget & Finance-Pension Subcommittee within five business days of becoming aware if any of the Plan asset classes fall outside the asset allocation ranges specified in this Policy, unless the non-conformity is immediately corrected.

### **4. Measurement of Return & Risk Performance**

Last revised: N/A

This revision: May 13, 2019

Approved: May 20, 2019 – Clinton Board of Education Minutes, Item #10 page 4

Overall Plan portfolio return and risk performance will be evaluated by measurement against a blended index comprised of a variety of benchmark market indices (the “Blended Index”) as well as benchmarks for equity and fixed income. Each market index within the Blended Index will be weighted according to the asset class it represents at a strategic norm. The following table indicates the designated benchmarks.

Blended equity benchmark		
U.S. large-cap	49%	S&P 500 index
U.S. mid-cap	14%	S&P 400 mid-cap index
U.S. small cap	7%	Russell 2000 small-cap index
International developed market	15%	MSCI EAFE (net) index
International emerging market	15%	MSCI EM (net) index
Total	100%	

Blended real asset benchmark		
Real estate	33.3%	FTSE NAREIT equity REIT index
Commodities	33.3%	Bloomberg Commodities total return index
Precious metals	33.3%	Gold spot price index
Total	100%	

Blended portfolio benchmark		
Equities	61%	Blended equity benchmark
Fixed-income	28%	Bloomberg/Barclays aggregate index
Cash	5%	3 month T-bill
Real and alternative assets	6%	Blended real asset benchmark

## 5. Reporting

The Manager will provide the Budget & Finance-Pension Subcommittee with a quarterly report detailing the allocation of the Plan’s investment portfolio.

The Manager shall provide the Budget & Finance-Pension Subcommittee with such additional information and analysis as they deem necessary to fulfill their fiduciary responsibilities.

The Manager shall meet with the Budget & Finance-Pension Subcommittee semi-annually (May & Oct), or more often at the Budget & Finance-Pension Subcommittee request, to review the status of the Plan’s investments. Such review shall include a review of the following topics:

- Investment performance

Last revised: N/A

This revision: May 13, 2019

Approved: May 20, 2019 – Clinton Board of Education Minutes, Item #10 page 4

- Compliance with this Policy
- The current Asset Allocation and recommended changes/rebalancing
- Recommendations for any changes in the overall strategy of the Plan's asset management, its asset allocation or delegated management

The Manager will be meet with the Board of Education annually (February), or as requested.

Last revised: N/A

This revision: May 13, 2019

Approved: May 20, 2019 – Clinton Board of Education Minutes, Item #10 page 4