TOWN OF MIDDLETOWN
RETIREMENT PLAN
INVESTMENT POLICY STATEMENT

Approved: March 17, 2014

MAR 17 2014

READ AND PASSED IN COUNCIL

Wendy J.W. Marshall

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TOWN CLERK

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I. REFERENCES

a) Town of Middletown Charter

b) Town of Middletown Code of Ordinances

II. INTRODUCTION

This Investment Policy Statement is the basic guidance and control document for investments of the Town of Middletown Retirement Plan. This Policy Statement defines the membership and responsibilities of the Investment Committee, the goals to be achieved and Investment Committee reporting responsibilities.

Changes to this Policy Statement recommended by the Investment Committee are subject to approval of the Middletown Town Council.

III. DEFINITIONS

For the purposes of this Investment Policy Statement, the terms below shall have the following meaning:

Terminology	**Definition**
Investment Policy Statement (IPS) for Town of Middletown Retirement Plan	The controlling policy document for Middletown investments which support the Town of Middletown Retirement Plan
Pension Investment Committee	The committee appointed by the Middletown Town Council with membership as shown in **Table 2 Investment Committee Membership**
The Plan	Town of Middletown Defined Benefit Retirement Plan
Portfolio	Assets of the Town of Middletown Retirement Plan
Investment Advisor	Provides investment recommendations and analysis of the Portfolio to The Committee in accordance with the IPS
Investment Manager	The Investment Manager(s) invests the assets of The Plan in accordance with the IPS. The Investment Manager also provides Advisor services to The Committee, under the supervision of The Committee.
Fund Manager	Provides overall investment management and strategy for the separately managed sub accounts in the Portfolio. The Fund Manager is the manager of a mutual fund or other managed investment vehicle.

Terminology	Definition
Trustee/Custodian	Financial institution that has custody of The Plan assets and provides monthly, quarterly, and annual statements detailing the transactions in the Portfolio
Fiduciary	One who occupies a position of confidence or trust and who exercises any power of control, management, or disposition with respect to monies or other property of an employee benefit fund or who has the authority or responsibility to do so.
IPG	Immediate Participation Guarantee
CPI U – NSA	Consumer Price Index – All Urban Consumers – Not Seasonally Adjusted
BETA	A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. A beta above 1 is more volatile than the specified index or market, while a beta below 1 is less volatile.

IV. STATEMENT of FIDUCIARY RESPONSIBILITIES

The assets of the Plan shall be invested solely in the interests of Plan participants and beneficiaries, and for the exclusive purpose of providing their benefits, in accordance with the fiduciary responsibility for the management of the assets of The Plan. Plan assets shall be invested with the care, skill, prudence and diligence under the circumstances prevailing from time to time that a prudent man acting in a like capacity and familiar with such matters would use in the investment of a fund of like character and with like goals and objectives.

V. PURPOSE

1. Establish objectives and a framework for the investment of the Plan's assets
2. Establish permissible asset classes and strategic asset allocation guidelines
3. Guide the Committee, the Advisor and the Investment Manager in the investment and oversight of the Plan
4. Define the responsibilities of the Committee, the Trustee, the Advisor, and the Manager

VI. GOALS AND OBJECTIVES

While always sensitive to the impact of the Plan's investment performance on the benefit security of plan participants and the Town's annual funding cost, the Plan's investment objectives, consistent with the nature of its obligations, are primarily long-term in nature. In addition to performance objectives that may apply to separate asset classes, separately managed accounts, and commingled or mutual funds, the investment objectives for the total fund include the following:

1. Increase the value of assets to equal or exceed the present value of the liabilities, while minimizing volatility within asset allocation guidelines specified by the Investment Committee.
2. Provide sufficient liquidity to meet anticipated cash needs.

VII. ASSET ALLOCATION

As the Plan's strategic asset allocation represents a target, the actual allocation of assets may from time to time vary from the target as a result of performance differentials between asset classes, the liquidity requirements of the Plan, or tactical considerations such as current capital market conditions, including the relative valuation among asset classes.

The Town Council, upon the recommendation of the Investment Committee will periodically review and may, upon the recommendation of the Investment Committee, modify the strategic asset allocation as conditions warrant. These conditions may include changes in applicable laws and regulations, the financial condition of the Plan, the financial condition of the Town of Middletown, or developments in the capital markets. On the basis of quarterly reports, the Investment Committee will also monitor the Plan's actual asset allocation for compliance with these guidelines and, within its discretion and subject to these guidelines, may periodically direct assets among asset classes.

VIII. RETURN AND ALLOCATION GUIDELINES

1. Strategic Asset Allocation

The investment portfolio is divided into two parts:

a) Lower Risk Fixed Income, inclusive of the Hancock IPG Contract

The Investment Manager shall seek to achieve 30% of Pension assets invested in lower risk fixed income assets, inclusive of the Hancock IPG Contract.

b) Return Seeking portfolio

The Investment Manager shall seek to achieve 70% of Pension assets invested in the Return Seeking Portfolio which may include equity, fixed income and other return seeking assets.

The Investment Committee will be informed on at least a quarterly basis, and shall decide the appropriate course of action with regard to rebalancing the investments. The following conditions shall apply.

Should the Lower Risk Fixed Income, inclusive of the Hancock IPG Contract portfolio:

- Grow above 35% of overall plan assets or;
- Fall below 25% of overall plan assets.

Should the Return-Seeking portfolio

- Grow above75% of overall plan assets or;
- Fall below 65% of overall plan assets.

The Investment Committee will decide, from time to time, whether the Plan funding level, risk tolerance, or other material considerations have changed sufficiently to necessitate revising the Strategic Asset Allocation.

2. Tactical Asset Allocation

The Investment Manager will have discretionary authority to construct and manage the Lower Risk Fixed Income, inclusive of the Hancock IPG Contract Portfolio and the Return-Seeking Portfolio based on the limits and restrictions in this IPS and as described below and shown in Table 1. Each Quarterly Investment Report delivered to the Investment Committee will include a detailed review of the Investment Manager's compliance with these terms.

a) Lower Risk **Fixed** *Income inclusive of the Hancock IPG Contract*

For the purposes of this statement, the Plan's investment in the General Account assets of the John Hancock Mutual Life Insurance Company shall be considered a domestic fixed income investment. For diversification purposes, the Lower Risk Fixed Income inclusive of the Hancock IPG Contract allocation may also invest in other types of investment grade fixed income investments.

The benchmark for the Lower Risk Fixed Income, inclusive of the Hancock IPG Contract portfolio will be the Barclays Capital Intermediate Government/Credit index.

b) Return-Seeking Assets

This portion of the portfolio is designed to provide returns of inflation + 3.5% (CPI U – NSA) over a 3-5 year horizon with the objective of improving the Plan's funding level. Within the Return-Seeking Portfolio, **Table 1 – Return Seeking Asset Allocation Guidelines**, will be used to guide the Investment Manager. The asset allocation shall fall within the Minimum/Maximum below unless expressly authorized by the Investment Committee.

Table 1 – Return Seeking Asset Allocation Guidelines

Asset Class	Minimum (%)	Target (%)	Maximum (%)
Global Developed Equity	15	45	80
Emerging Market Equity	0	10	20
Investment Grade Bonds / Cash	0	2	65
High Yield / Convertible Bonds	0	15	25
Emerging Market Bonds	0	3	20
Dynamic Asset Allocation / Alternatives	0	25	50
Total		100	

The allocation between the Return-Seeking asset classes will change over time based on the discretion of the Investment Manager. Any changes in the Return-Seeking Portfolio will be documented and reported in the Quarterly Investment Report to the Committee..

The benchmark for the Return-Seeking Portfolio will be a blended benchmark consisting of the following market indices:

- Barclays Capital Universal (20%);
- Morgan Stanley Capital International All Country World Index Net Dividends (MSCIACWI ND) (40%);
- Russell 3000 (15%), and;
- CPI + 3% (CPI U – NSA) (25%).

It is expected that the portfolio beta will not exceed 1.0, using the S&P 500 as a proxy for the market. Should the portfolio beta exceed 1.0, the Committee shall be notified.

IX. PERMISSIBLE INVESTMENT VEHICLES

1. Mutual Funds, Commingled Portfolios, Exchange Traded Funds & Notes

These funds must have assets in excess of $100 million at the time of purchase, or be a member of a mutual fund company with assets totaling over $1 billion. Money market mutual funds may invest only in US government securities or in other short-term instruments rated at least A-1/P-1 by a major rating agency. No leveraged vehicles (such as leveraged Exchange Traded Funds) are permitted.

2. Investment Grade Debt Instruments

Individual bonds are permissible and must be guaranteed by the US Treasury or a US Government Agency.

3. Other Assets

Assets other than those listed above are not permissible without the written consent of the Investment Committee. Direct investments in contracts of financial futures, commodities, and currency exchange; mortgage-backed securities and all over-the-counter derivative instruments are expressly prohibited unless approved in writing by the Town Council.

X. SUPERVISORY RESPONSIBILITIES

1. Investment Committee Membership

A six member Investment Committee shall consist of members as shown in **Table 2 Investment Committee Membership**. Appointed members will serve a term of 3 years, originally staggered.

Table 2 Investment Committee Membership

	Member	Type	Term	Conditions and Restrictions
1	Town Council Member	Voting	2 Years	
2	Bargaining Unit Representative	Voting	2 Years	Rotation-IAFF/IBPO/Teamsters active pension participant
3	Town Council Appointee	Voting	3 Years	Shall not be a Town Council member
4	Town Council Appointee	Voting	3 Years	Shall not be a Town Council member
5	Town Council Appointee	Voting	3 Years	Shall not be a Town Council member
6	Finance Director	Non-Voting	Continuous	Ex officio member

2. Investment Committee Responsibilities and Reporting

a) General Responsibilities and Reporting

The Investment Committee is responsible for evaluating and measuring the performance of the Investment Advisor and the Investment Manager(s). As part of its responsibility, the Investment Committee will meet annually by February 15 with the Town Council and report on the operation and results of the Plan's investment program.

b) Burial Fund

The Investment Committee will monitor and oversee the Burial Fund.

c) Town 401(a) Defined Contribution Plan

The Investment Committee will periodically review the investments of the Town 401(a) Defined Contribution Plan.

d) Funds Custodian

The Investment Committee will engage the services of a corporate trustee/custodian to retain control of the assets of the Plan, and to prepare quarterly financial statements summarizing the Plan's investment transactions, investment results, and portfolio holdings.

e) Investment Advisor

The Investment Committee will retain an investment Advisor to measure and evaluate the investment performance of the Plan and its fund managers on a quarterly basis.

f) Investment Managersand Establishment of Separate Accounts

The Investment Committee may retain the services of one or more Investment Managers to manage and invest the assets of the Plan in accordance with the IPS. The Investment Manager will provide each Fund Manager of a separately managed sub-account with written documentation indicating the specific benchmark index or indices against which their performance will be evaluated.

3. Investment Committee Meeting Schedule

The Investment Committee will meet on a quarterly basis at a minimum to review the information prepared by the Trustee and Investment Advisor.

APPENDIX A – ASSET DEFINITIONS AND ALTERNATE STRATEGIES

I. Asset Class Definitions

A. Global Developed Equity

Equity (stock) investments in countries that have sound, well-established economies and are therefore thought to offer safer, more stable investment opportunities than developing (emerging) markets. Developed markets exist in high income economies and offer regulated, fair and non-prejudicial investment conditions, competitive markets, efficient trading and settlement and high quality investment information. The United States, Western Europe and Japan are among the worlds developed equity markets.

B. Emerging Market Equity

Emerging markets are nations with social or business activity in the process of rapid growth and industrialization. These markets are expected to provide greater potential for profit, but also more risk from various factors such as less regulation, weaker reporting and accounting requirements. Emerging markets are generally more volatile as well. There is no guarantee that a country will move from "emerging" to "developed"; although that is the general trend in the world.

The seven largest emerging and developing economies by nominal GDP or GDP are China, Brazil, Russia, India, Mexico, Indonesia, and Turkey. The ASEAN–China Free Trade Area, launched on January 1, 2010, is the largest regional emerging market in the world.

C. Investment Grade Bonds

Bonds are often divided into different categories based on tax status, credit rating, issuer type, and maturity (and there are several other ways to classify bonds as well). The credit rating is a financial indicator to potential investors of debt securities such as bonds. These are assigned by credit rating agencies such as Moody's, Standard & Poor's, and Fitch Ratings to have letter designations (such as AAA, B, CC) which represent the quality of a bond.

U.S. Treasury bonds are generally considered the safest unsecured bonds, since the possibility of the Treasury defaulting on payments is almost zero. Investment Grade bonds carry a rating of 'BBB' or greater from S&P, and 'Baa' or above from Moody's. As the investment grade declines from AAA to AA to A to BBB, the risk of default increases and investors typically require a higher yield to compensate for the increase in risk.

D. High Yield Bonds

High yield bonds maintain a lower credit rating than investment-grade corporate bonds, Treasury bonds and municipal bonds. Because of the higher risk of default, these bonds pay a higher yield than investment grade bonds. Based on the main credit rating agencies, high-yield bonds carry a rating below 'BBB' from S&P, and below 'Baa' from Moody's. Bonds with ratings at or above these levels are considered investment grade. Credit ratings of bonds that fall below BBB carry a higher risk of default; to compensate for this risk, yields will typically be higher.Also known as "junk bonds".

High-yield bonds are widely held by investors worldwide, although most participate through the use of mutual funds or exchange-traded funds for their diversification benefits. Generally, investors in high-yield bonds can expect at least 150 to 300 basis points greater yield compared to investment-grade bonds at any given time. Currently, the default rate is running at about 2% of outstanding issues, very low by historical standards.

E. Convertible Bonds

A convertible bond is a bond that can be converted into a predetermined amount of a company's equity at certain times during its life, usually at the discretion of the bondholder.

Convertibles are useful for investors demanding greater potential for appreciation than bonds provide, and higher income than common stocks offer. Convertible bonds, for instance, will typically offer a lower coupon than a standard bond. However, the option to convert the bond to common stock adds value for the bond holder.

F. Emerging Market Bonds

Emerging market debt (EMD) is primarily issued by sovereign issuers. Corporate debt does exist in this category, but corporations in developing countries generally tend to borrow from banks and other sources, as public debt issuance requires both sufficiently developed markets and large borrowing needs. Sovereign issuance has historically been issued in foreign currencies, US Dollars or Euros. In recent years, the development of pension systems in certain countries has led to increasing issuance in local currencies.

EMD tends to have a lower credit rating than other sovereign debt because of the increased economic and political risks - where most developed countries are either AAA or AA-rated, most EMD issuance is rated below investment grade, though a few countries that have seen significant improvements have been upgraded to BBB or A ratings. In the wake of the credit crunch and the 2010 European sovereign debt crisis, certain emerging market countries have emerged as possibly less prone to default than developed markets.

EMD was historically a small part of bond markets, as primary issuance was limited, data quality was poor, markets were illiquid and crises were a regular occurrence. Since the advent of the Brady Plan in the early 1990s, issuance has increased dramatically. The market has continued to be more prone to crises than other debt markets.

Investors tend to use mutual funds or Exchange Traded Funds (ETF's) to invest in EMD, as many individual securities become more illiquid in secondary markets and bid/offer spreads are too wide to actively trade.

II. Dynamic Asset Allocation / Alternative Strategies

Dynamic Asset Allocation (DAA) strategies seek to take advantage of economic and market conditions by investing across a range of asset classes in a tactical and robust fashion. DAA allows for broader investment parameters than traditional investments such as balanced funds and is expected to move across asset classes and sectors more quickly than traditional funds.

DAA allows for investment in asset classes that normally would not warrant a dedicated allocation (i.e. commodities or high yield) as there is a manager making ongoing assessments of the risks and potential rewards of varying market exposures. As asset classes and sectors fall in and out of favor, top DAA managers have a proven track record of actively investing in a manner that outperforms a balanced or static portfolio. DAA can be a valuable component of a portfolio as its diversification across asset classes can reduce volatility, enhance return and provide timely, managed exposure to asset classes and sectors that otherwise may not be represented in a portfolio.

THE TOWN OF MIDDLETOWN

RESOLUTION

OF THE

COUNCIL

No.............................

RESOLUTION
TOWN OF MIDDLETOWN

WHEREAS:

The Town Pension Investment Committee has prepared an update to the Town of Middletown Retirement Plan Investment Policy Statement, attached hereto,

and,

NOW THEREFORE BE IT RESOLVED:

The Town Council of the Town of Middletown hereby approves the DRAFT Investment Policy Statement, attached, for the Town of Middletown Retirement Plan.

This resolution shall take effect upon its passage.

MAR 1 7 2014

READ AND PASSED IN COUNCIL

Wendy J.W. Marshall
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