INVESTMENT POLICY & GUIDELINES

for

TOWN OF FAIRFIELD, CT JOINT RETIREMENT INVESTMENT BOARD

TABLE OF CONTENTS

Page

Introduction 3

Statement of Objectives 4

Duties and Responsibilities 4

Statement of Investment Policy 7

Control Procedures 10

INTRODUCTION

The Town of Fairfield Joint Retirement Investment Board (the "Board") is the body charged with investing the assets of the Employees Retirement System, Employees OPEB Trust Fund, the Police and Fire Retirement Funds Fund and the Police and Fire OPEB Trust Fund (the "Funds"). The Board members are the Board of each of such Funds. The Town of Fairfield Employees Retirement System and the Police and Fire Retirement System are each defined benefit pension Funds, providing retirement benefits to participants in accordance with the various benefit structures adopted by the Town of Fairfield, CT. The Town of Fairfield Employees OPEB Trust Fund and the Police and Fire OPEB Trust Fund were created to provide post employment benefits other than pensions to their respective beneficiaries. The Funds operate under the Connecticut Uniform Prudent Investor Act, Connecticut General Statutes, sections 45a-541 to 45a-541l, inclusive, and the Town Charter.

The Board shall exercise reasonable care, skill and caution and invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the Funds. Investments of the Funds shall be made in full accordance with any and all applicable Connecticut statutes, as well as any other applicable legislation or regulation, state, federal or otherwise.

This document contains the Investment Policy and Guidelines for the Funds (referred to in this document as "Investment Policy" or "IPS"); the purpose of this Investment Policy is to assist the Board in effectively supervising, monitoring and evaluating the investment of the Funds' assets. The Funds' investment program is defined in the various sections of this IPS by:

- Stating in a written document the Board's expectations, objectives and guidelines with regard to the Funds;
- Encouraging effective communications between the Board and the Funds' service providers by stating the responsibilities of the Board, the investment managers, and the investment consultants; and
- Establishing procedures for selecting, monitoring, and replacing investments and consultants.

STATEMENT OF OBJECTIVES

The investment policy has been established to consider both the current and projected financial requirements of the Funds. The desired investment objective is a long-term rate of return on assets that will meet the Funds' actuarial assumed long-term nominal return and limiting the possibility of experiencing losses. The Funds' real and actuarial return objectives provide long-term measures for monitoring the Funds' investment performance against changes in the Funds' liabilities. These objectives will be communicated to Consultants and Managers, as appropriate, for consideration when determining an investment strategy.

The assets of the Funds shall be invested in accordance with the objectives summarized below:

1. Maximize return within reasonable and prudent levels of risk of loss of principal.
2. Maintain sufficient liquidity to meet benefit payment obligations on a timely basis.

Relative performance benchmarks for the Funds' Investment Managers are set forth in the Control Procedures section of this document.

DUTIES AND RESPONSIBILITIES

The Board

Chapter 37, Article III of the Town Code delegates to the Board the responsibility for ensuring that the assets of the Funds are invested effectively and prudently, in full compliance with all applicable laws for the exclusive benefit of Funds' participants and their beneficiaries. The responsibilities of the Board include:

- Recommending and reviewing investment policies and objectives;
- Selecting or removing, from time to time, the investment managers (the "Investment Managers"), Investment Advisor, custodians and consultants;
- Reallocating the assets among Investment Managers if the overall asset allocation policy limits have been exceeded, within the guidelines stated herein;
- Periodically evaluating, with the assistance of its Investment Advisor and other consultants (the "Consultants"), the performance of the Investment Mangers;
- Requiring that the Investment Advisor, custodian, and all Investment Managers maintain errors and omissions insurance and fidelity bonds meeting standards established by the Board and that evidence of such insurance shall be presented to the Board annually that such insurance and bonds are in effect and comply with this IPS;
- Requiring that all other Consultants maintain errors and omissions insurance meeting standards established by the Board and that evidence of such insurance shall be presented to the Board annually that such insurance and bonds are in effect and comply with this IPS;

- Establishing credit and custodial risk policies in the IPS;
- Reporting investment results to the Board of Selectmen, Board of Finance and RTM as required by the Town Code;
- Reviewing the IPS for potential changes given potential changes with the return objective, risk tolerances, time horizon, and changes in the investment or economic climate;
- Obtaining evidence that all investment managers carry errors and omissions insurance and fidelity bonds, as required by the Town Code; and
- Board may authorize the Chief Fiscal Officer to redeem assets as needed to pay benefit obligations.

The Investment Managers

Investment managers are responsible for making all investment decisions on a discretionary basis regarding assets placed under their jurisdiction, and will be accountable for achieving their investment objectives. Such discretion shall include decisions to buy, hold, and sell securities in amounts and proportions that are reflective of the investment funds stated investment strategy.

Notwithstanding anything herein, these policies and guidelines shall be implemented to the extent consistent with, and in compliance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (including any rulings, regulations and exemptions from the prohibited transaction rules issued thereunder), and all other applicable laws.

The Board may, from time to time, seek from managers a representation that they will act as a fiduciary as defined by ERISA.

The Board encourages the Investment Managers to have open communications with it and its Consultants on all significant matters pertaining to investment policies and the management of the Funds' assets entrusted to them. The duties and responsibilities of the Investment Managers shall be set forth in a written agreement between the parties and shall include, but are not limited to, the following:

- Investing the Funds' assets solely in the interests of participants and beneficiaries of the Funds and with the care, skill, prudence, and diligence that a prudent expert professional investment manager, familiar with such matters and acting in like capacity, would use in the investment of such assets;
- Adhering to the investment policies and guidelines prescribed by the Board;
- Informing the Board and Consultants regarding all significant matters pertaining to the investment of the Funds' assets. These matters include:
    - substantive changes in investment strategy or portfolio structure; and
    - significant changes in the ownership, affiliations, organizational structure, financial condition and professional staffing of the Investment Manager's organization;

- Submitting reports, at least quarterly, describing its performance results (gross and net of management fees) of portfolio holdings;
- Meeting with the Board as requested; and
- Maintain errors and omissions insurance and fidelity bonds, as required by the Town Code.

The Consultants

The Board shall retain Consultants to assist the Board in the overall strategic investment direction of the Funds. The duties and responsibilities of Consultants include, but are not limited to, the following:

- Assisting the Board in the overall and/or specific strategic investment direction of the Funds;
- Making recommendations to the Board from time to time concerning asset allocation among Investment Managers and the structure of the Investment Mangers;
- Assisting in the periodic evaluation of the financial condition of the Funds;
- Suggesting appropriate investment strategies based on the financial condition of the Funds and the economic and investment climate;
- Initiating written communication with the Board whenever Consultants believe the guidelines should be changed;
- Monitoring and evaluating the performance of the Investment Managers and the ongoing progress of the Funds towards, and in their compliance with, stated investment goals and objectives;
- Suggesting corrective action if an investment strategy or an Investment Manager fails to meet expectations;
- Suggesting strategy changes in response to material changes in either financial conditions of the Funds or the capital market environment;
- Submitting, at least quarterly, reports outlining the performance results of the Investment Managers, and the current condition of the capital market environment;
- Obtaining and reviewing audited financial statements of all investments, excluding separately managed accounts;
- Assisting the Board, as needed, in the selection of new Investment Managers, including, without limitation, compiling a selection of possible candidates, screening such candidates for recommendation to the Board and assisting the Board with candidate interviews;
- Attending the regular meetings of the Board, and at other times as reasonably requested by the Board; and
- Maintain errors and omissions insurance and fidelity bonds, as required by the Town Code.

STATEMENT OF INVESTMENT POLICY

Funds Asset Allocation Targets and Ranges

The Board is guided by the philosophy that asset allocation is the most significant determinant of long-term investment return. The Board examined the relationship between risk and return in formulating its strategic asset allocation policy and considered factors such as business and financial characteristics, demographic characteristics and actuarial funding characteristics. As a result of such examination, it shall be the policy of the Pension Funds to invest in each asset class ranging between a minimum and a maximum of total Funds assets as depicted in Schedule A and the OPEB Funds as depicted in Schedule B. The asset allocation targets will be reviewed periodically for reasonableness in relation to significant economic and market changes or to changes in the long-term goals and objectives of the Funds. Formal asset allocation studies may be conducted periodically at the discretion of the Board to verify or provide a basis for revising the targets of the Funds. As such, these Schedules will be modified from time to time, including adjusting ranges and adding or deleting asset classes. OPEB assets will be invested conforming to state statutes.

Adherence to Policy Targets and Ranges

The Board, with the assistance of the Consultants, will review the Funds' asset mix on a regular basis. Rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. These divergences should be of a short-term nature. If the asset allocation cannot be maintained within the above policy range through the ordinary course of fund additions to, and withdrawals from, the Funds, the Board and Consultants will formulate a plan to rebalance the portfolio back to target allocation levels, at the direction of the Board.

Maintaining a disciplined rebalancing policy to normal policy weights is an important component of managing the fund structure, controlling unintended risk and not reacting to short-term trends in the marketplace. Since portfolios move away from normal exposures naturally as a result of market movements and assets being added to or withdrawn from the fund, rebalancing should occur through a regular process. With the assistance of Consultants, the Board will review the Fund's asset mix on a regular basis.

The Investment Managers have full discretion to operate within the scope of the mutually agreed upon investment guidelines.

Investment Manager Selection

The Board will apply the following due diligence criteria in selecting each individual investment manager:

- **Regulatory oversight**: Each investment manager must be a bank, an insurance company, a mutual fund organization, or a registered investment adviser as defined by the Investment Advisor's Act of 1940, as amended.
- **Correlation to style or peer group**: The investment option must be representative of the asset classes identified in this IPS or to a style within the asset class deemed appropriate by the Board. This is important as due diligence involves comparisons of the manager to an appropriate peer group.
- **Performance relative to a peer group**: Performance numbers will be compared to the applicable peer group and broad index on annual and rolling

three- and five-year periods. If a separate account manager has just started a mutual fund or a commingled product based on the exact process followed for the separate account, consideration will be given to using the manager's separate account track record, adjusted downward for the additional expenses of the mutual fund.

- **Performance relative to assumed risk**: The investment manager should demonstrate above median risk-adjusted performance measured against the manager's peer group - also taking into consideration the fund's Alpha and Sharpe and information ratio calculations - over rolling three- and five-year periods.
- **Minimum track record**: The same portfolio management team should be in place at least three years. An individual portfolio manager that has just left one firm and has started another fund should not be screened solely on the previous firm's track record. (Will require subjective analysis as to portability of track record.)
- **Assets under management**: The investment manager should have at least $100 million under management within the screened product - combination of separate account and mutual fund assets, assuming the manager is using the same process for both vehicles.
- **Holdings consistent with style**: Funds that have met the aforementioned criteria will be further analyzed to determine if more than 25% of the fund is invested in securities that are not consistent with the style. For example, a growth fund holding more than 25% in cash or international securities.

  Stability of the organization: The final criterion provides for an examination of perceived organizational problems - personnel turnover; regulatory issues; assets coming in faster than the investment manager can handle; inability to demonstrate "best price and execution" in trading.

Investment Manager Benchmarks

One of the primary objectives of each actively managed fund segment is to outperform a representative broad market index (i.e., the Russell 3000 Index for U.S. equities and the Barclays Capital Aggregate Index for U.S. fixed-income) over periods of three to five years. Specific benchmarks for each asset class should be determined when an allocation is made to any investment category.

Over a three- to five-year period, the nominal rate of return earned by each Investment Manager is expected to: exceed the nominal rate of return of an index composed of the types of securities that typically comprise the Investment Manger's universe; and be sufficient to place the account for which the Investment Manager is responsible in a competitive ranking (above median) relative to a peer group of managers.

Diversification

Investments shall be diversified with the intent to minimize the risk of large losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, corporations, or industries.

Volatility

Consistent with the desire for adequate diversification, the investment policy is based on the assumption that the volatility of the portfolio will be similar to that of the market opportunity available to institutional investors with similar return objectives. The volatility of each Investment Manager's portfolio will be compared to the volatility of appropriate market indices and peer groups over annual and rolling periods.

Voting of Proxies

Voting of proxy ballots shall be for the exclusive benefit of the participants and beneficiaries of the Funds. Therefore, the Investment Managers shall review each proxy ballot and vote them in a manner that preserves and enhances shareholder value.

Each Investment Manager shall keep accurate written records of all proxy votes and, upon request, provide a detailed report to the Board documenting all votes.

Execution of Security Trades

The Board expects the purchase and sale of securities to be made through responsible brokers in a manner designed to receive the best combination of realized prices and commission rates.

CONTROL PROCEDURES

Review of Investment Policy and Objectives

This Statement of Investment Policy and Guidelines will be reevaluated from time to time to determine its continued appropriateness.

Monitoring Investment Managers

The Board, with the assistance of Consultants, will review the Funds' and individual Investment Manager's performance from a long-term perspective, utilizing the same criteria that were the basis of the initial investment selection decision.

The ongoing monitoring of investment managers should be a regular and disciplined process. It is the mechanism for revisiting the investment selection process and confirming that the criteria originally satisfied remain so and that an investment manager continues to be appropriate for the Funds. While frequent change is neither expected nor desirable, the process of monitoring investment performance relative to specified guidelines is an on-going process.

Performance reviews will focus on:

- Comparison of Investment Managers' results to funds using similar policies (in terms of diversification, volatility, style, etc.) and the Investment Manager's appropriate benchmarks;
- The opportunities available in both equity and debt markets including the Standard & Poor's 500 Stock Index for large cap equities, and the Barclays Capital Aggregate Bond Index for fixed income securities or other comparable indices appropriate for monitoring individual portfolio investment strategies;
- Total Funds and Investment Manager adherence to the policy guidelines; and
- Material changes in the Investment Managers' organizations, such as in investment philosophy, personnel, acquisitions or losses of major accounts, etc.

Terminating Managers

An investment manager will be terminated when the Board has identified other managers with more attractive risk/reward characteristics and/or has lost confidence in the manager's ability to:

- Achieve performance and risk objectives;
- Comply with investment guidelines;
- Comply with reporting requirements; or
- Maintain a stable organization and retain key relevant investment professionals.

Any recommendation to terminate an investment manager will be treated on an individual basis, and will not be made solely based on quantitative data. In addition to those above, other factors may include professional or client turnover, or material change to investment processes. Considerable judgment must be exercised in the termination decision process.

There are no hard and fast rules for manager termination. However, if the investment manager has consistently failed to meet its performance objectives, it is reasonable for the Board to seek an alternative. Failure to remedy the circumstances of unsatisfactory performance by the investment manager, within a reasonable time, shall be grounds for termination.

Replacement of a terminated investment manager will follow the criteria set forth above in the section entitled, "Investment Manager Selection."

INVESTMENT GUIDELINES

It is the philosophy of the Board that the general asset mix of the total portfolio should be as indicated in **Schedule A** based upon the needs of the participants and the degree of risk that can be tolerated by the Town. **Schedule A** is subject to change when Funds characteristics, fund liquidity, or capital markets dictate the need. Any changes initiated by the Board will be to provide for the proper safety and investment return of the funds.

All of the important financial characteristics necessary to determine the asset allocation between equity and fixed income managers and between stocks, bonds, cash equivalents and real estate are detailed in quarterly reports from the Fund's investment consultant.

Each Investment Manager must adhere to the Guidelines established by the Board. Any Investment Manager seeking exemption from any of the guideline restrictions must obtain a special agreement.

Investment Restrictions

- No more than 2/3 of the market value of the target allocation for that asset class or 15%, whichever is greater, to be invested with one manager. Index funds are exempt from this restriction.
- No more than 20% of the portfolio at market value in one general industry. Index funds are exempt from this restriction.
- There are no limits on the use of U.S. government, agency or guaranteed issues.
- The Funds hold the investment managers responsible for voting proxies.
- No direct investment will be made in commodities or development programs nor will managers engage in short sales, margin buying hedges, covered or uncovered call options, puts, straddles or other speculative trading devices, structured notes; short-term securities of investment managers or affiliated companies, and private or direct placements (including 144A securities deemed illiquid by the investment manager) except to those managers where the Board has authorized permission.
- No manager may invest in direct ownership of real estate or mortgages or private equities, without the prior written authorization from the Board.

Common Stocks, Preferred & Convertibles (U.S.)

- All securities must be listed on NYSE, Amex or OTC Exchanges.
- No more than 5% of the portfolio at market value in any one security.
- No more than 3% of the outstanding shares of any one corporation.
- Minimum acceptable capitalization of companies considered for investment is $100 million.

Common Stocks, Preferred & Convertibles (Non-U.S.)

- All securities must be listed on national exchanges; also securities that trade in the U.S. markets as American Depository Receipts.
- At any time, no more than 5% of the portfolio at market value in any one security.
- At any time, no more than 1% of the outstanding shares of any one corporation.
- The maximum weighting of any country in the portfolio should not exceed 40%.

- Minimum acceptable capitalization of companies considered for investment is $500 million.
- Forward purchases or sales of currencies, including cross currency hedges are permitted to protect or enhance the U.S. dollar value of the account. The use of derivative instruments such as currency futures or options for currency shall also be permitted upon completion of any necessary disclosure or other documentation. However, no speculative hedging will be permitted.

<u>Fixed Income Securities (U.S.)</u>

- There are no limits on the use of U.S. Government, agency or government guaranteed issues.
- No more than 20% of a manager's portfolio at market value may be invested in securities rated below investment grade. In the event of a split rating, the higher rating will apply.
- No more than 50% of a manager's portfolio at market value may be invested in non-agency mortgages.
- No more than 5% at market value in a single issue, 10% in an issuer.
- No more than 10% of the portfolio at market value may be invested in IOs, POs, inverse floaters or residual tranches of CMOs, including those in closed-end bond funds. No one position in any of these securities should exceed 2% of the market value.
- No more than 20% at market value in 144A securities.

<u>Fixed Income Securities (non-U.S., as it applies to core plus strategies)</u>

- No more than 20% of the portfolio at market value in total foreign securities, including a maximum of 5% at market in issues other than Canadian, U.K., Japanese, Australian, Scandinavian or European monetary systems (EMS) bloc governments and their agencies and supra-national borrowers in local currency or ECU. Emerging market debt denominated in US dollars is permissible within the 5% limit, with a maximum 2% position.
- The use of forwards, futures and options for interest rate and currency hedging is permitted but not for speculative purposes or to the extent that a leveraged position is established.

<u>Fixed Income Securities (Global)</u>

- The portfolio will include capital exposures to at least three different countries, of which the U.S. may be one. The objective is to maintain an adequate level of diversification by region, country, sectors, issuers and issues.
- At least 75% of the assets will be invested in investment-grade issues. In the event of a split rating, the higher rating will apply.
- The portfolio may invest up to 25% of the assets in issues rated B- and BB-. The minimum credit quality applicable to this strategy is B-.
- Up to 25% of the assets may be invested in emerging markets countries. Exposure to any single emerging market country cannot exceed 7%.
- Short sales are limited to 5% of the value of the fund's assets.

Cash Equivalents (maturity of one year or less)

- No more than 5% of the portfolio at market value in one issue, no more than 10% in one issuer.
- Certificates of deposit and bankers acceptances with major money center banks that are members of the Federal Reserve System and insured by FDIC.
- Repurchase agreements with major money center banks and broker/dealer that are members of the Federal Reserve System, must be collateralized to at least 102%.
- Commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's.
- Money market funds or similar investment vehicle in existence for at least 3 years with restricted investments in short-term instruments rated A-1 by Standard & Poor's and P-1 by Moody's, if outside of Board's STIF

Commingled Vehicles

The Funds may invest in commingled vehicles. It is acknowledged that the investment policy of the respective commingled vehicle and/or mutual fund will effectively be the Funds' guidelines for that investment. This recognizes that individual participants in collective vehicles are not able to impose their own unique set of guidelines upon the investment. The guidelines governing commingled vehicle investments will override any and all guidelines contained herein. At the time of selection, the Fund will seek to identify those commingled vehicle investments that most closely resemble the spirit of the guidelines summarized herein.

Foreign Currency Exposure

Forward purchases or sales of currencies, including cross currency hedges by the Fund's global and international managers, are permitted to protect or enhance the U.S. dollar value of the account or to reduce the volatility of the fund's U.S. dollar returns from investments in non-dollar securities. The use of derivative instruments such as currency futures or options for currency shall also be permitted with written authorization from the Board. Asset allocation managers may use foreign currencies as a separate investment strategy, consistent with their guidelines. Without the explicit authorization of the Board, no manager will utilize currency futures or forwards if their effect is to leverage the Fund's assets, circumvent any investment guidelines, or introduce additional risk into the portfolio. No speculative hedging will be permitted.

Use of Derivatives

The Fund's managers may use options and futures solely in order to reduce risk in the portfolio or to implement a market strategy more rapidly or at lower cost. Asset allocation managers may use derivatives, including swaps, to establish, hedge, or short market exposure as an investment strategy consistent with their guidelines. Without the explicit authorization of the Board, no manager will use derivatives (including, without limitation, swaps, structured notes, and collateralized mortgage derivatives) if their effect is to leverage the Fund's assets, circumvent any investment guidelines, introduce additional risk into the portfolio or put more than the principal amount of the account at risk.

Securities Lending

The Funds, at the direction of the Board, may enter into securities lending agreements with custodian banks for separately managed accounts. The required cash collateral pool must meet the quality guidelines of a Tier 1 money market fund. The custodian will be required to provide a review, not less than quarterly, of the amount of securities on loan (in dollar and percentage of portfolio terms), income generated from such loans, and the net income accrued to the Pension Fund by account and as a whole.

Amendments and Review

The Board will review this Statement of Investment Policy at least bi-annually and shall vote to modify or ratify the IPS at such times as it deems prudent to ensure it continues to reflect the Funds' needs and the Board's market expectations. The Board shall review the statement of Current Investment Guidelines and Asset Allocation on a regular basis. Revisions will be voted on by the Board.

Investment Policy Reviews and Approvals:

September 2009
April 7, 2011
April 16, 2013
August 20, 2013
February 25, 2015
September 24, 2015

Schedule A

Employees Retirement System, and the Police & Fire Retirement Funds Fund

Asset Class as a Percent of Total Assets

Asset Class	Minimum	Target	Maximum
Total Equity	45%	**50%**	55%
Domestic Equities	20%	**25%**	34%
Non-U.S. Equities	10%	**15%**	20%
Emerging Markets	3%	**5%**	7%
Private Equity	1%	**5%**	7%
Domestic Fixed Income	15%	**20%**	25%
Global Fixed Income	5%	**10%**	15%
Hedge Funds - Directional	5%	**10%**	15%
Real Estate	3%	**5%**	7%
Commodities	1%	**3%**	5%
Cash	0%	**2%**	2%

The Domestic Equity maximum was adjusted in August 2013 to 34% from 30% and the Private Equity minimum reduced to 1% from 3% in recognition of the long term funding path to reach the target allocation in Private Equity. The Board will review the allocation ranges annually until it reaches its 5 % target in Private Equity and then it will revert to the previous maximum of 30% Domestic Equity.

Schedule B

Employees OPEB Trust Fund, and the Police and Fire OPEB Trust Fund

Asset Class as a Percent of Total Assets

Asset Class	Minimum	Target	Maximum
Domestic Equities	37%	**42%**	47%
Non-US Equities	23%	**28%**	33%
Domestic Fixed Income	25%	**30%**	35%