

TOWN OF SIMSBURY PENSION PLANS

Statement of Investment Policy and Investment Objectives

Submitted to the Board of Selectmen of the Town of Simsbury

By

*The Pension Sub-Committee of
The Town of Simsbury Insurance and Pension Advisory Committee*

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SECTION 1. Statement of General Investment Policy and Objectives.

(A) Responsibility:

The Town of Simsbury is responsible for the proper operation of the Simsbury Pension Plans. In order to comply with this responsibility the Board of Selectmen sets investment policy and establishes objectives for the investment manager(s) of the Pension Investment Funds, and approves the selection and terms of the contract with the investment manager(s).

The Board of Selectmen direct the First Selectman and Director of Finance to:

- (1) oversee compliance by the investment manager(s) with the investment policy;
- (2) evaluate the performance of the investment manager(s) against specific investment objectives;
- (3) approve fee schedules of the investment manager(s) based on contractual agreements;
- (4) select the investment custodian; and,
- (5) approve the continuation of business relationships with investment manager(s) and custodian(s).

(B) Policy Rationale:

The Board of Selectmen believes that prudent investment management requires a statement of investment policies and objectives to be used as a guide by all investment managers responsible for directing the investment of Pension Plan assets. This Statement of Investment Policies and Objectives must reflect the long term nature of the Town of Simsbury's obligation to provide adequate funding for its pension liabilities on an ongoing basis. It must also reflect the Town's responsibility to its taxpayers to minimize the cost of its pension obligations through prudent planning and investment management.

(C) Management and Responsibility for Reduction of Portfolio Risk through Diversification and Asset Allocation:

The Board of Selectmen believes that any and all investment strategies employed should reflect a prudent investor's tolerance for risk. Furthermore, the Board of Selectmen believes that adequate diversification of Pension Funds among asset classes is fundamental to the achievement of tolerable risk. Assets of the Pension Plans shall be divided among several specific asset classes including Cash, and Cash Equivalents (such as Money Market Funds, Certificates of Deposit and

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Short Term Obligations), Fixed Income Obligations, Equity Investments, and Real Estate Investments as follows:

Cash, and Cash Equivalents (including Money Market Funds, Certificates of Deposit and Short Term Obligations with maturities of less than one year):	0%-20%
Fixed Income Obligations:	30%-60%
Equity Investments (Domestic and International):	40%-70%
Real Estate Investments:	0%-10%

The Board of Selectmen accepts responsibility for all asset allocation decisions but may delegate this responsibility as a whole or in part to its designated investment manager(s) subject to certain restrictions. In doing so the Board of Selectmen will strive to give its investment manager(s) the broadest possible mandate to exploit their expertise.

(D) Overall Investment Objectives and Performance Measurement Criteria:

The overall objective of this investment policy is to produce a superior total rate of return (income plus changes in market value) for the Simsbury Pension Plan(s) through prudent allocation of assets and superior investment performance within designated asset classes. Superior investment performance is defined in a specific statement of investment objectives for each asset class and will be measured relative to various appropriate and widely accepted market indices as follows:

Cash Reserve Funds:	Ibbotson Treasury Bill Index
Money Market Funds:	Ibbotson Treasury Bill Index
Short Term Securities:	Ibbotson Treasury Bill Index
Domestic Equities:	Standard and Poor's 500 Stock Index
Fixed Income:	Lehman Aggregate Bond Index
International Equities:	Salomon Brothers BMI (EX U.S.)
Real Estate:	Russell NCREIF Property Index

Investment managers selected by the Board of Selectmen will be retained based on their ability to meet or exceed the standards of performance (as detailed above) over a complete market cycle. The Board of Selectmen will not rely solely on these standards but will also make use of other competitive information when assessing the performance of its investment managers. In addition, Simsbury funds for each particular asset class, when ranked by performance within an appropriate universe of competing investment funds with similar investment styles, will be expected to rank in the top half of all managers in that universe.

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The Board of Selectmen reserves the right to monitor performance over a term shorter than a normal market cycle and to change investment managers at any time if such a change is in the best interests of the Pension Plans.

(E) Meetings to Monitor and Review the Investment Program:

Investment results will be reviewed by the First Selectman and the Director of Finance on a quarterly basis. Review meetings with each investment manager and appropriate officials of the Town of Simsbury will be held sufficiently after the close of the Plan year to have performance measurement results available for review. The material to be covered at each meeting should be available in summary written form for review prior to the meeting if specifically requested. The material should cover the following:

1. A quarterly statement of the total value of all assets held, together with quarterly and Year to Date comparisons.
2. A statement of Portfolio transactions, a record of their individual cost, and identification of the broker/dealer(s) employed.
3. A listing of all assets held in the Portfolio indicating cost, market value, yield, and realized and unrealized gains and losses.
4. A statement in accordance with AIMR standards of portfolio performance relative to the appropriate market indices and stated investment objectives together with a calculation of portfolio risk expressed in terms of standard deviation, beta, and R² for period of 1, 3 and 5 years.
5. A brief recap and forecast of economic and market conditions as they relate to the Portfolio.
6. Administrative and procedural matters.
7. Other information relating to organizational changes, investment philosophy, and recommended changes in investment policy or objectives, etc.

For making calculations of percentages, market prices will be used.

(F) Miscellaneous Items of Policy:

- 1) The following investment restrictions apply to all investment managers:

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- * No securities may be purchased which are not readily marketable, except in the General Account - (see section III, paragraph (G) on Page 8, "Special Conditions Relating to the General Account").
- * No short sales.
- * No use of leverage or margin purchasing.
- * Futures and options may not be used for speculative investment purposes.

2) In executing any transactions with Broker/Dealers, an investment manager shall use its best judgment relating to the quality of the firm, its execution capability and the cost of the transactions.

3) In executing any proxies on behalf of the Town of Simsbury investment managers will have full authority and must vote in the best interests of the pension plan participants.

SECTION 2. Investment Objectives for Domestic Equity Investment Funds.

(A) Primary Investment Objective:

The primary objective of the Town of Simsbury Pension Plan Domestic Equity Fund is to maximize long-term total return through a combination of income and capital appreciation, consistent with sound investment practices and risks associated with an equity investment fund of this type.

(B) Measurement of Performance of "Active" Investment Manager:

An "active" (non-indexing style) investment manager will be expected to earn at least 100 basis points in excess of the Standard and Poor's 500 Stock Index, after expenses, over a complete market cycle which is customarily three to five years. It is understood that there may be interim periods of time during which this numerical objective cannot be met because of factors unrelated to investment judgment. The Board of Selectmen does not wish to have its investment manager(s) modify its investment discipline or take undo risk in order to meet this objective on an annual basis.

Since good relative performance is important in achieving the desired investment objective the investment manager will be expected to be ranked by performance within the top half of a suitable universe of equity oriented pension funds. While the time horizon will, as stated earlier, be related to a market cycle, results will be monitored on a continuously moving four quarter basis.

(C) Measurement of Performance of "Passive" Investment Manager:

A "passive" (indexing style) investment manager will be expected to duplicate the performance of an agreed upon index prior to expenses. As with "active" investment managers, performance results will be monitored on a continuously moving four quarter basis.

(D) Definition of "Total Return":

Total return is understood to mean dividends or interest together with realized and unrealized capital gains and losses. Gains or losses are not to be realized simply for accounting or actuarial appearances.

(E) Reduction of Risk through Diversification by Investment Discipline:

The Board of Selectmen recognizes that diversification by investment discipline (management style) is instrumental in reducing risk and achieving the Pension Plan's overall performance goals.

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Each investment manager is hired to render a professional investment management service. Therefore it is crucial that each manager's investment discipline remain consistent throughout the market cycle. For this reason the Board of Selectmen is to be notified in advance of any change in investment style or discipline.

(F) "Fully Invested" Policy:

Since the Board of Selectmen is relying on appropriate asset allocation to achieve its overall investment goals and objectives, equity oriented investment managers are encouraged to be "fully invested" at all times rather than to attempt to achieve results through market timing. Therefore, the Equity Portfolio's assets should be distributed as follows:

Common Stocks:	90 - 100%	Short Term Assets:	0 - 10%
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(G) Portfolio Diversification for Reduced Risk:

Portfolio assets are to be diversified to minimize the risk of large losses. Except for securities issued or guaranteed by the United States of America, the investment manager shall use sound judgment in the purchase of equities or commercial paper of any issuer with a purchase guideline of not more than 5% of the assets of the total Equity Portfolio, valued at market, to be invested in the securities of said issuer.

(H) Restrictions as to Type of Securities:

Securities should be chosen from the "Recommended List" of the investment manager. The Portfolio shall include only those securities of domestic (USA) companies considered by the investment manager to be of investment grade and appropriate for a pension program of this type. All assets must be denominated in U.S. Dollars. Investment managers may not use fixed income securities or "hybrid" securities such as convertible bonds as substitutes for equities.

Furthermore, investments shall be made only in marketable securities traded over the New York, American, and NASDAQ exchanges. This precludes all private placements, restricted issues and all nominally traded public issues for which the market is severely restricted.

SECTION 3. Investment Objectives for Fixed Income Investment Funds.

(A) Primary Investment Objective:

The primary objective of the Town of Simsbury Pension Plan Fixed Income Fund is to maximize long-term total return through an "active" investment process based on a portfolio of high quality fixed income securities.

(B) Measurement of Performance of Investment Manager:

An "active" investment manager will be expected to earn at least 75 basis points in excess of the Lehman Brothers Aggregate Bond Index after expenses, over a complete market cycle which is customarily three to five years. It is understood that there may be interim periods of time during which this numerical objective cannot be met because of factors unrelated to investment judgment. The Board of Selectmen does not wish to have a designated investment manager modify its investment discipline or take undo risk in order to meet this objective on an annual basis.

Since good relative performance is important in achieving the desired investment objective the "active" investment manager will be expected to be ranked by performance within the top half of a suitable universe of Fixed Income oriented pension funds. While the time horizon will, as stated earlier, be related to a market cycle, results will be monitored on a continuously moving four quarter basis.

(C) Definition of "Total Return":

The total return is understood to mean interest together with realized and unrealized capital gains and losses. Gains or losses are not to be realized simply for accounting or actuarial appearances.

(D) Reduction of Risk through Diversification by Investment Discipline:

It must be emphasized that each "active" investment manager is hired to render a professional investment management service and it is expected that each manager's investment discipline will remain consistent throughout the market cycle. For this reason the Board of Selectmen is to be notified in advance of any change in investment style or discipline.

(E) Portfolio Diversification for Reduced Risk:

Portfolio assets are to be diversified by industrial sector to minimize the risk of large losses. Except for securities issued or guaranteed by the United States of America, the investment manager

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shall use should judgment in the purchase of equities or commercial paper of any issuer with a purchase guideline of not more than 5% of the assets of the total Fixed Income Portfolio, valued at market, to be invested in the securities of said issuer.

(F) Restrictions as to Types of Securities:

The following restrictions apply to all Fixed Income assets except those held in the General Account:

1. The Portfolio shall be made up of securities which are considered to be of high quality. The average portfolio quality shall never be lower than "AA", as rated by Standard and Poor or Moody's Bond Service, and no issue can have a rating below "BBB".
2. In general, investments shall be made only in marketable securities; this precludes all private placements, restricted issues and all nominally traded public issues for which the market is severely restricted.

SECTION 4. Investment Objectives for International Equity Investment Funds.

(A) Primary Investment Objective:

The primary objective of the Town of Simsbury Pension Plan International Equity Fund is to participate in the globalization of the world economy through the ownership of International equities, and to reduce the overall volatility of the total Pension Plan portfolio through greater diversification. The goal of the Fund is to achieve a satisfactory total return on assets through a combination of income and capital appreciation, consistent with sound investment practices and risks associated with an equity fund of this type.

(B) Measurement of Performance:

An investment manager will be expected to earn an average annual return of at least 100 basis points in excess of the Salomon Brothers BMI (EX U.S.) valued in US Currency (Dollars) after expenses. Results will be reviewed over a three to five year period. It is understood that there may be interim periods of time during which this numerical objective cannot be met because of factors unrelated to investment judgment. The Board of Selectmen does not wish to have its investment manager(s) modify its own investment discipline or take undo risk in order to meet this objective on an annual basis.

Since good relative performance is important in achieving the desired investment objective the investment manager will be expected to be ranked by performance within the top half of a suitable universe of International equity oriented investment managers. While the time horizon will, as stated earlier, be related to a market cycle, results will be monitored on a continuously moving four quarter basis.

(C) Definition of "Total Return":

Total return is understood to mean dividends or interest together with realized and unrealized capital gains and losses. Gains or losses are not to be realized simply for accounting or actuarial appearances.

(D) Reduction of Risk through Diversification by Investment Discipline:

The Board of Selectmen recognizes that diversification by investment discipline (management style) is instrumental in reducing risk and achieving The Pension Plans' overall performance goals. Each investment manager is hired to render a professional investment management service. Therefore it is crucial that each manager's investment discipline remain consistent throughout the

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market cycle. For this reason the Board of Selectmen is to be notified in advance of any change in investment style or discipline.

(E) "Fully Invested" Policy:

Since the Board of Selectmen is relying on appropriate asset allocation to achieve its overall investment goals and objectives, International Equity managers are encouraged to be "fully invested" at all times rather than to attempt to achieve results through market timing. This Portfolio's assets should be distributed as follows:

International Equities:	90 - 100%	Short Term Assets:	0 - 10%
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(F) Portfolio Diversification for Reduced Risk:

Portfolio assets are to be diversified by country, currency and industry in order to minimize risk.

(G) Restrictions as to Types of Securities:

Securities should be chosen from the "Recommended List" of the investment manager and should not be speculative in nature. The Portfolio shall not include any securities which the investment manager considers to be below investment grade or not appropriate for a pension fund of this type.

The investment manager shall use sound judgment with the purchase of equities of any issuer with a purchase guideline of not more than 5% of the assets of the Portfolio to be invested in the securities of said issuer.

Portfolios may not employ fixed-income securities or "hybrid" securities such as convertible bonds as substitutes for equities.

In general, investment shall be made only in marketable securities publicly traded on recognized securities exchanges. This precludes all private placements, restricted issues and all nominally traded public issues for which the market is severely restricted.

SECTION 5. Investment Objectives for Cash and Cash Equivalents, Money Market Funds, Certificates of Deposit and Short Term Investment Funds

(A) Primary Investment Objective:

The primary objective of the Town of Simsbury Pension Plan Cash Reserve Accounts, Money Market Funds, and Short Term Investment Funds is to maximize total return through an investment process based on a portfolio of high quality, highly liquid money market instruments and short term securities with a maximum maturity of no more than one year. The funds must maintain a degree of liquidity sufficient to fund all authorized withdrawals and must maintain a value close to cost.

(B) Measurement of Performance of Investment Manager:

An investment manager will be expected to earn a return equal to or greater than the Ibbotson Treasury Bill Index, after expenses. It is understood that there may be interim periods of time during which this numerical objective cannot be met because of factors unrelated to investment judgment. The Board of Selectmen does not wish to have its investment manager(s) modify its investment discipline or take undo risk in order to meet this objective on an annual basis.

(C) Definition of "Total Return":

Total return is understood to mean dividends or interest together with any realized and unrealized capital gains and losses. Gains or losses are not to be realized simply for accounting or actuarial appearances.

(D) Reduction of Risk through Diversification by Management Style:

It must be emphasized that each investment manager is hired to render a professional investment management service and it is expected that each manager's investment discipline will remain consistent throughout the market cycle. For this reason the Board of Selectmen is to be notified in advance of any change in investment style or discipline.

(E) Portfolio Diversification for Reduced Risk:

Assets are to be diversified in such a way as to eliminate the risk of large losses. Except for securities issued or guaranteed by the United States of America, the investment manager shall use sound judgment with the purchase of equities or commercial paper of any issuer with a purchase

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guideline of not more than 5% of the assets of the Portfolio, valued at cost to be invested in the securities of said issuer.

(F) Restrictions as to Types of Securities:

Investment shall be made only in the following securities:

1. U.S. Government and Federal Agency Securities;
2. Certificates of Deposit or Commercial Banks ranking among the 50 largest in the United States in order of deposits;
3. Bankers Acceptances of those banks meeting the criteria in No. 2 above;
4. Repurchase Agreements with primary dealers as designated by the Federal Reserve or qualified Connecticut Banks;
5. Commercial Paper of companies that meet one or both of the following:
 - a) Short-Term Debt rated either P-1 by Moody's or A-1 by Standard & Poor;
 - b) Long-Term Debt rated not less than AA by Moody's or AA by Standard & Poor;
6. Asset backed or insured securities rated either P-1 by Moody's, A-1 by Standard & Poor
7. Qualified Institutional Money Market Funds.

The purchase of foreign securities, whether denominated in domestic or foreign currency, is specifically prohibited.