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| Old Saybrook Seal small | TOWN OF OLD SAYBROOK |
| 302 Main Street • Old Saybrook, Connecticut 06475Telephone (860) 395-3123 • FAX (860) 395-3125 |

**The Defined Benefit Plans**

**Investment Policy Statement**

**Town of Old Saybrook Retirement Plan**

*and*

**Town of Old Saybrook Fire Company No. 1 Retirement Plan**

**Updated and Approved on April 25, 2019**

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# Introduction

Information about the Plan and the Purpose of the Funds

Town of Old Saybrook

302 Main Street

Old Saybrook, CT 06475-2384

(860) 395-3127

Primary Contact: The Plan Administrator of the Old Saybrook Pension and Benefits Board

## About Town of Old Saybrook

The Town of Old Saybrook maintains two Defined Benefit Plans. The Plans’ sponsor is a municipality. Both plans shall be similarly managed, unless otherwise stated in this Investment Policy Statement (“IPS”). The original plan for the Town was founded 1/1/1969 and the Fire Plan in 1993. These plans were originally co-mingled and separated into two plans during Fiscal Year 2017. The fiduciary of the Town’s retirement plans is the Town of Old Saybrook Board of Selectmen, which is advised by the Town’s Pension and Benefits Board (“the PBB”). The PBB may hire an actuary and investment advisor to provide consultation and make investment decisions on the management of the Plans’ assets as outlined in this IPS.

## Purpose of this Investment Policy Statement

The IPS outlines the goals and investment objectives of Town of Old Saybrook Defined Benefit Plans (“the Plans”). Since this IPS is intended to provide guidance for the PBB and the investment managers responsible for managing the Plans’ assets, it outlines certain specific investment policies which will govern how to seek to achieve those goals and objectives. This IPS, upon the review and approval of the PBB:

* Describes a risk posture for the investment of the Plans’ assets;
* Specifies the target asset allocation policy for those assets;
* Establishes investment guidelines regarding the selection of investment manager(s), permissible securities and diversification of assets;
* Specifies the criteria for evaluating the performance of the Plan’s investment manager(s) and of the Plans’ investment portfolio as a whole; and
* Defines certain responsibilities of the PBB, the investment advisor, the investment managers, and other specified parties.

The PBB believes that the investment policies described in this IPS should be dynamic. These policies should reflect the Plans’ current financial status, and the PBB’s philosophy regarding the investment of assets. These policies should be reviewed by the PBB periodically and revised as necessary to ensure that they continue to reflect the current financial situation of the Defined Benefit Plan and the capital markets.

The IPS is approved by the Board of Selectmen. It is the responsibility of the PBB to oversee and ensure that it is properly implemented.

# Responsibilities of the Plan Fiduciary

The Town of Old Saybrook Board of Selectmen is the fiduciary of the Town’s retirement plans. Specifically, the Town of Old Saybrook Board of Selectmen receives advice and recommendations from the PBB. The Board of Selectmen is ultimately responsible for actions of the PBB as a result of acceptance or denial of the PBB defined benefit plans recommendations.

## The Town of Old Saybrook Pension and Benefits Board

The primary responsibilities of the PBB with respect to the oversight of the investment portfolio culminate in recommendations to the Board of Selectmen. The responsibilities of the Pension and Benefit Board are:

* Establish and recommend an IPS and periodically review that statement for continued accuracy and completeness;
* Prudently diversify, or oversee the diversification of, the portfolio assets to meet an agreed upon risk/return profile as outlined in this IPS;
* Monitor the investment advisor, the investment managers and the performance of the accounts under management;
* Oversee all investment, record keeping and administrative expenses associated with the accounts; and
* Review and deal prudently with conflicts of interest.

## The Investment Advisor

The PBB may retain an investment advisor.

* “Investment advisor” is a legal term that appears in the Investment Advisers Act of 1940, the federal law that governs investment advisors. Generally, this law defines an investment advisor as someone who, for pay, is in the business of advising others on investing in stocks, bonds, and other securities.
* It is the intention of the PBB to utilize an investment advisor to provide professional advice to the Town regarding the investment of the pension plan assets. Further, the investment advisor will have discretionary authority to make investment decisions on behalf of the PBB when managing the assets of the defined benefit plans. This authority includes determining, which investment managers or individual securities, if applicable, to purchase.
* An investment manager is a firm that manages securities portfolios for institutional investors and may specialize in various fixed income, equity or other financial asset class mandates.
* The investment advisor will:
	+ Assist the PBB in strategic investment planning for the Plans by providing assistance in developing an IPS, an asset allocation strategy, and portfolio structure;
	+ Provide written performance measurement reports on a quarterly basis;
	+ Manage the retirement plan portfolios as outlined in the IPS;
	+ Review investment performance on a quarterly basis, discuss asset allocation, deviation from asset allocation, contributions of tactical asset allocation decisions and performance based on benchmark and assumed rate of return.
	+ Discuss risk versus benchmark and downside protections and inform the PBB of any modification of manager line up or asset allocation, within the confines of the IPS, which have been made during the last quarter.

## The Custodian

The custodian is responsible for the safekeeping of the Plans’ investment assets. The specific duties and responsibilities of the custodian include:

* Maintain separate accounts by legal registration;
* Value the holdings;
* Collect all income and dividends owed to the Plans in its custody;
* Settle all transactions initiated by the investment manager; and
* Provide quarterly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.
* The Town may utilize its investment advisor as a custodian, provided they have adequate resources to do so.
* The Town may utilize a financial institution to hold its liquid funds for pension payroll purposes.

# Objectives

## Risk Tolerance

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (*i.e.* volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the IPS for the Plans is the determination of an appropriate risk tolerance. The PBB examined its willingness to take risk and the Plans’ financial ability to take risk based upon relevant factors, including:

1. The Plans’ longtime horizon;
2. The Plans’ financial strength.

Offsetting these factors are:

1. The Plans must be able to meet any unexpected expenses or liabilities.
2. The Plans may rely on annual employer and employee cash flows, as well as income generation from its assets to meet current needs or replenish any losses;

To determine the level of risk, the PBB will, from time to time, perform an asset allocation study to determine which asset allocation will most closely achieve the assumed rate of return within the confines of the risk profile of that asset allocation.

## Investment Objectives

The Plans’ assets should be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. The objectives of the Plans are to maximize long-term returns consistent with prudent levels of risk. Investment returns are expected to provide adequate funds to sufficiently support designated needs and preserve or enhance the real value of the Plan. In establishing the investment objectives of the Plan, the PBB has taken into account the time horizon available for investment, the nature of the Plans’ cash flows and liabilities, and other factors that affect the Plans’ risk tolerance as part of the asset allocation study. Accordingly, the investment objective of the Plans is growth and income. This investment objective is a balanced investment approach that is expected to achieve a positive rate of return over the long-term that would contribute to the portfolio’s income needs.

## Return Objectives

The return objective is an actuarially determined assumed rate of return net of fees. The assumption for this rate of return will be set on an annual basis as part of the actuarial valuation process.

 Town Plan Assumed Rate: 7.25% Approved on: February 2019

 Fire Plan Assumed Rate: 7.50% Approved on: February 2018

# Asset Allocation Strategy

In line with the Plans’ return objectives and risk parameters, and asset allocation study, the overall target mix of assets is 60% equities, 40% fixed income (inclusive of cash) and should be maintained as follows (percentages are of the market value of the Plans’ investments):

## Town Plan Asset Allocation

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Asset Class** | **Minimum** | **Target** | **Maximum** | **Preferred Strategy** | **Benchmark** |
| US Large Cap | 21% | 30% | 39% | Passive | S&P 500 |
| Mid Cap | 5% | 7% | 9% | Passive | Russell Mid Cap |
| Small Cap | 2% | 3% | 4% | Passive | Russell 2000 |
| Dev Market International Equity | 7% | 10% | 13% | Active | MSCI EAFE (net total return) |
| Emerging Market Equity | 7% | 10% | 13% | Active | MSCI Emerging Markets (net) |
| Sub Total Equity | 50% | 60% | 70% |  |  |
| Investment Grade Bonds\* | 12% | 17% | 22% | Active | Barclays Aggregate |
| Ultra-Short-Term Bonds\* | 4% | 6% | 8% |  | Barclays Credit 1-5 years |
| High Yield | 7% | 10% | 13% | Active | Barclays US Corporate High Yield |
| Cash | 2% | 7% | 10% |  | 90 day UST bill |
| Subtotal Fixed Income | 30% | 40% | 50% |  |  |
| Total Portfolio |  | 100% |  |  |  |

\* The total of Ultra-Short-Term Bonds and Investment Grade Bonds may equate to a maximum of 30%.

The above asset allocation will be managed within the minimum and maximum IPS ranges by the investment advisor. The benchmark for the portfolio will be the weighted average benchmark of the target asset allocation. The preferred strategy of active or passive is meant only to provide for direction to the investment advisor. It is expected that allocations with passive preferred strategies will perform very close to the benchmark. Active strategies may deviate from the benchmark, but be equal to or outperform over the longer term 5- to 7-year time horizon unless the PBB is following a lower risk strategy. As the portfolio is close to fully funded, the PBB is willing to take on the risk of market volatility that comes with returns that closely track the benchmark. The allocations that have active managers as the preferred strategy reflect empirical evidence that active management has a high probability of adding value to the portfolio either through enhanced return or risk reduction.

## Fire Department Asset Allocation

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Asset Class** | **Minimum** | **Target** | **Maximum** | **Preferred Strategy** | **Benchmark** |
| US Large Cap | 21% | 30% | 39% | Passive | S&P 500 |
| Mid Cap | 5% | 7% | 9% | Passive | Russell Mid Cap |
| Small Cap | 2% | 3% | 4% | Passive | Russell 2000 |
| Dev Market International Equity | 7% | 10% | 13% | Active | MSCI EAFE (net total return) |
| Emerging Market Equity | 7% | 10% | 13% | Active | MSCI Emerging Markets (net) |
| Sub Total Equity | 50% | 60% | 70% |  |  |
| Investment Grade Bonds\* | 12% | 17% | 22% | Active | Barclays Aggregate |
| Ultra-Short-Term Bonds\* | 4% | 6% | 8% |  | Barclays Credit 1-5 years |
| High Yield | 7% | 10% | 13% | Active | Barclays US Corporate High Yield |
| Cash | 2% | 7% | 10% |  | 90 day UST bill |
| Subtotal Fixed Income | 30% | 40% | 50% |  |  |
| Total Portfolio |  | 100% |  |  |  |

\* The total of Ultra-Short-Term Bonds and Investment Grade Bonds may equate to a maximum of 30%.

## Overall Asset Allocation

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset Class Totals** | **Minimum** | **Target** | **Maximum** |
| Total Equity | 50% | 60% | 70% |
| Total Fixed Income | 30% | 40% | 50% |
| Total Cash Equivalents | 0.0% | 0.0% | 10% |
| Total Alternative | 0.0% | 0.0% | 10% |

## Rebalancing Procedures

The allocations to each asset class and to investment styles within asset classes are expected to remain stable over most market cycles.

Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the overall Plans’ asset allocation, the aggregate asset allocation should be monitored; and the investment advisor should regularly rebalance the Plans’ assets to the target allocation or to a tactical reposition of the Plans’ assets within the asset allocation band on a periodic basis.

# Responsibilities of the Investment Managers

It is the PBB’s responsibility to select prudent investment managers to manage the assets. Such managers can include regulated banks or insurance companies; mutual funds registered under the Investment Company Act of 1940, or registered investment advisors. With respect to any mutual or other commingled funds that have been purchased by the Plans, the prospectus or Declaration of Trust documents of the fund(s) will govern the investment policies of those assets.

## Fiduciary Responsibilities

When advantageous, each investment manager must be a fiduciary and is expected to prudently manage the Plans’ assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this IPS and in accordance with applicable laws. The Town’s investment advisor must be a fiduciary.

Each investment manager shall:

* Be a bank, insurance company or be registered as an investment advisor under the Investment Advisers Act of 1940 (where applicable); and
* Maintain adequate fiduciary liability insurance and bonding for the management of this account.

## Proxy Voting

Absent delegation to another service provider, each investment manager is responsible and empowered to exercise all rights, including voting rights, as are acquired through the purchase of securities, where practical. The investment manager(s) shall vote proxies according to their established Proxy Voting Guidelines. A copy of those guidelines, and/or summary of proxy votes shall be provided to the PBB upon request.

# Investment Strategy

## Selection Criteria for Investment Managers

The investment advisor will recommend new investment managers for the PBB to consider and vote upon for their inclusion to be used in the management of plan assets. Once an investment manager is chosen, the investment advisor may invest funds with that manager, increase or decrease total assets, or recommend termination. Investment managers retained by the PBB should be chosen using the following criteria:

* The investment style and discipline of the investment manager;
* How well the investment manager’s investment style or approach complements other investment managers in the portfolio;
* Level of experience, financial resources, and staffing levels of the investment manager;
* How consistent an investment manager is to the style for which they were hired;
* Reasonableness of expense ratios/fees;
* Past performance, considered relative to other investments having the same investment objective. Consideration should be given to both consistency of performance and the level of risk taken to achieve results; and
* Stability of the organization.

## Security Selection / Asset Allocation

* Except as noted below, each investment manager shall have the discretion to determine its portfolios’ individual securities selection.
* The Plans’ portfolio is expected to operate within an overall asset allocation strategy defining the portfolios’ mix of asset classes. This strategy sets a long-term percentage target for the amount of the portfolios’ market value that is to be invested in any one asset class. The allocation strategy also defines the allowable investment shifts between the asset classes, above and below the target allocations.

## Diversification Requirements

The primary method to reduce risk for the Plans’ portfolio is diversification through asset allocation. By allocating assets in different asset classes, the portfolios can reduce risk by avoiding concentration as well as reduce risk through the low-correlation between different asset classes.

Each investment manager has discretion with regard to security selection and allocation within its respective portfolio. Unless otherwise noted, under normal market conditions, each investment manager is expected to be invested consistent with its investment style as described in its relevant documentation. During an initial three-month period after being retained, the investment manager may hold cash and cash equivalents in larger proportions in order to invest their portfolio on an orderly basis.

To maximize the risk of large losses, each investment manager shall maintain adequate diversification in their portfolio subject to the constraints outlined in this IPS, and in their investment management agreement with the Plans.

## Derivatives and Structured Products

Derivatives and structured products can be used to efficiently reduce the risk of the portfolio and to expand the return opportunities. However, when used improperly, they can also increase the risk of the portfolio. Before an investment manager uses any security other than standard securities (such as: exchange-traded common stock; interest-bearing bonds and cash equivalents), the security, derivative or structured product must be explained to and approved by the PBB. Derivatives are allowed to hedge an underlying position and may be used to take a long position in anticipation of a cash inflow. Once the cash is used to open a position in the underlying security, the derivative position should be closed out. No derivative or structured product is allowed that will increase the potential for loss greater than that of a long position in the underlying security. This paragraph does not apply to investments in mutual funds or ETFs.

## Alternative Investments

Alternative investments represent investments in investment vehicles that seek to provide diversification through innovative and flexible strategies (such as the ability to short, add leverage and hedge). Investments in such vehicles are expected to provide diversification and the opportunity for capital appreciation. Diversification standards within each investment vehicle shall be according to the prospectus or trust document. Investments in these investment vehicles carry special risks. The fund(s) may utilize speculative investment strategies, trade in volatile securities, and use leverage in an attempt to generate superior investment returns. The fund(s) may invest in illiquid securities for which there is not ready market and place restrictions on investors as to when funds may be withdrawn. Only investments in fund or fund vehicles that are diversified by investment style and typically utilize multiple investment managers within a fund are allowed. Before an alternative investment strategy is utilized, the strategy must be explained to, and approved by, the PBB.

## Cash and Equivalents

It is generally expected that the investment manager will remain fully invested in securities; however, it is recognized that cash reserves may be utilized from time to time to provide liquidity or to implement some types of investment strategies. Cash reserves should be held in the custodian’s money market fund, short-term maturity Treasury securities, and insured savings instruments of commercial banks and savings and loans.

Actions that may cause a significant deviation from these investment guidelines should be brought to the attention of the investment advisor by the investment manager prior to execution. Such actions may be authorized by the PBB if it determines they do not constitute an inappropriate departure from the spirit of this IPS. Similarly, unanticipated market action should also be brought to the attention of the PBB by the investment advisor.

## Exclusions

The Plans’ assets should not be invested in the following unless agreed to by the PBB pursuant to an approved strategy or specifically approved in writing by the PBB:

* Purchases of letter stock, private placements, or direct payments;
* Private placement convertible issues, also known as “144A” convertible securities;
* Commodities transactions unless by managers approved for that strategy;
* Purchases of real estate, oil and gas properties, or other natural resources–related properties with the exception of Real Estate Investment Trusts or securities of real estate operating companies;
* Investments by the investment manager in their own securities or of their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the PBB); and
* Any other security transaction not specifically authorized in this IPS.

# Constraints

## Time Horizon

The Town of Old Saybrook is a long-term investor. The risk and return of the portfolio should be judged over the 3- to 5-year horizon.

## Liquidity Requirements and Spending

On at least an annual basis, the investment advisor will provide a cash flow and liquid asset report to the PBB. This report will show the annual pension payroll outflow, employee and employer contributions and income generated from dividends and interest. Should the cash flows not be sufficient to cover the pension payroll, a review and restatement of the cash asset allocation should be considered and approved.

## Tax, Legal / Regulatory and Unique Considerations

The Plans are not subject to federal or state income taxes.

The Plans are subject to the following regulation(s):

State laws and regulations.

# Performance Evaluation

The investment advisor will be retained to provide quarterly performance measurement reports and the PBB should monitor the Plans’ performance on a quarterly basis. The PBB will evaluate the Plans’ success in achieving the investment objectives outlined in this IPS over a three- to five-year time horizon and a full market cycle.

The Plans’ (and investment managers’) performance should be reported in terms of rate of return (time-weighted and dollar-weighted) and changes in dollar value at the time of retention. When selecting an investment manager, the investment advisor will choose the appropriate benchmark(s). The investment managers will manage toward those benchmarks. While the benchmarks are not required to be the same as those outlined in the IPS, the performance of the combined investment managers should closely track the IPS benchmark. The returns should be compared to these appropriate market indexes for the most recent quarter and for annual and cumulative prior time periods. The Plans’ asset allocation should also be reported on a quarterly basis.

Risk as measured by volatility, or standard deviation, should be evaluated after twelve months of performance history have accumulated. An attribution analysis should also be performed by the investment advisor to evaluate how much of the Plans’ investment results are due to the investment managers’ investment decisions, as compared to the effect of the financial markets. This analysis will use the IPS index as the performance benchmark for evaluating both the returns achieved and the level of risk taken for the total portfolio and the individual investment managers.

# Guidelines for Corrective Action

The investment advisor shall monitor and evaluate the actions of the investment managers. As part of the process for hiring investment managers, it is recognized that there is the potential for performance over short-term periods to deviate from the performance of representative market indexes. As a general rule, an investment manager will not be terminated on the basis of short-term performance if the investment manager is sound and is adhering to its investment style and approach. A sufficient interval of time shall be allowed to evaluate performance, keeping in mind at all times the Plans’ diversification strategy as well as the overall quality of the relationship. The investment manager will be overseen by the investment advisor and may require an extra level of scrutiny, or consideration of termination, based on factors such as:

* Any material event that affects the ownership or capital structure of the investment management firm, or the management of this account;
* Any legal or regulatory action taken against the manager;
* Any material servicing deficiencies, including a failure to communicate significant changes in a timely fashion;
* Violation of the terms of the contract or changes to agreed upon services without prior written approval of the PBB;
* Significant style drift from the intended investment style that the manager was engaged to implement;
* Lack of diversification.

The investment manager may be replaced at any time as part of an overall restructuring of the portfolio or any other reason whatsoever.

## Investment Manager Watch List

As part of the ongoing monitoring noted in “Guidelines for Corrective Actions,” it may be necessary to place a manager on “Watch.” This will give PBB members notice that an investment manager is not performing as expected and corrective action will be mandated. The horizon for reviewing the performance of an investment manager is long-term – defined as three to five years. Periodically, it may be necessary to place an investment manager on the “Watch List.” Should any of the following conditions occur the investment advisor shall place a manger on the Watch List and notify the PBB at the next regularly scheduled board meeting:

* The investment manager significantly under-performs its benchmark;
* The investment manager experiences turnover of key members of its investment professional staff;
* The Investment Advisor becomes aware of a significant event affecting the investment manager (such as, but not limited to, a change of control, significant negative underperformance relative to its benchmark during any quarter, significant loss of assets under management, the disclosure of SEC or other federal investigations or inquiries into the money manager’s operations); or
* Any other event that could affect the investment manger’s ability to perform its investment management responsibilities for the PBB.

Once a manager is on the Watch List an update shall be given by the investment advisor on a quarterly basis. An investment manager shall be taken off of the Watch List if the matter that originally placed them on watch has been remedied or through termination of the relationship.

# Meetings and Communications

* As a matter of course, each investment manager should promptly communicate to the Plans’ investment advisor any material changes in the investment manager’s outlook, investment policy, and tactics.
* Each investment manager should be available on a reasonable basis for telephone communication when needed.
* Any material event that affects the ownership of each investment management firm, any brokerage affiliation of such firm, its key investment personnel, or its management must be reported promptly to the Plans’ investment advisor and reported to the PBB by the investment advisor.
* The PBB should obtain and review written performance measurement reports not less than quarterly.
* The investment advisor should meet with the PBB in person every three months.

*This IPS is intended to be a summary of an investment philosophy that provides guidance for the PBB and other parties responsible for the management of these assets. It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined here.*

# Approval

*Prior to the approval of the IPS, the PBB should review the IPS, request the Town’s investment advisor and any other professional review the PBB deems necessary to provide feedback prior to the consideration and approval of the IPS.*

*These professionals should be called upon by the PBB to check relevant documentation, particularly in the case of trusts or retirement plans or where there are legal constraints or prohibitions that impact the Plans’ investment portfolio. The review and approval of the IPS is the ultimate responsibility of the PBB. Once approved by the PBB, the IPS should be forwarded to the Board of Selectmen for final approval and authorization.*

*Upon final approval by the Board of Selectmen, the IPS should be sent to the Plans’ investment managers. It is the investment advisors’ responsibility to confirm the investment manager’s acceptance of the IPS, and it is the investment manger’s responsibility to adhere to the IPS in managing the Plans’ assets.*

*It is understood that the IPS is to be reviewed periodically by the Plans to determine if any revisions are warranted for any reasons including changing circumstances such as, but not limited to, changes in financial status, risk tolerance, or changes involving the investment managers.*

*By:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_*

 *Chairperson of the PBB Date*