

# *Stoughton Redevelopment Authority*



## Investment Policy Statement

**March 20, 2014**

*Please note that this Investment Policy Statement is intended to serve as a sample and should not be considered legal advice. Please consult with your counsel or compliance consultant on the appropriateness of using this document for your Plan.*

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## Introduction

This document establishes the Investment Policy Statement (the "Investment Policy") for the Stoughton Redevelopment Authority portfolio (the "Fund"). The Stoughton Redevelopment Authority (the "SRA") is responsible for managing the investment process of the Fund in a prudent manner with regard to preserving principal while providing reasonable returns.

The SRA has arrived at this Investment Policy through careful study of the returns and risks associated with alternative investment strategies in relation to the current and projected liabilities of the Fund, after consulting with such outside Investment Advisor (as defined below) as is deemed appropriate. This Investment Policy has been chosen as the most appropriate policy for achieving the financial objectives of the Fund which are described in the "Statement of Objectives" section of this document; however, the SRA shall be free to deviate from this Investment Policy when it concludes that it is prudent and in the interest of the Fund to do so and may amend the Investment Policy at any time.

The SRA has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long term potential for appreciation of assets.

In addition to the Investment Policy defined herein, the management of the Fund will be in compliance with all applicable laws, including but not limited to MGL Chapter 121B which enables the establishment of and outlines the powers of Redevelopment Authorities.

## Duties and Responsibilities

The SRA is responsible for managing the investment process in a prudent manner with regard to preserving principal while providing reasonable returns. In carrying out these duties, the SRA may retain an Investment Advisor, (the "Investment Advisor"), to assist in managing the assets of the Fund. The Investment Advisor's role is to provide guidance to the SRA on matters pertaining to the investment of Fund assets including Investment Policy, investment selection, monitoring the Fund's performance and compliance with the Investment Policy. All decisions pertaining to the Investment Policy and guidelines for the Investment Policy's implementation will be made by the SRA. The Investment Advisor, in carrying out the Investment Policy defined in this document, has authority and responsibility to select appropriate investments in the specific asset classes mandated by this Investment Policy, in accordance with (and subject to) the terms of the Investment Advisory Agreement executed between the Investment Advisor and the SRA.

Duties and responsibilities are described in detail below.

### **The SRA**

The SRA will retain a qualified Investment Advisor to assist in the development and implementation of the Investment Policy and guidelines.

The SRA will establish the Investment Policy of the Fund. This includes, but is not limited to, allocation between equity and fixed income assets, selection of acceptable asset classes and investment performance expectations.

The SRA will regularly review the investment performance of the Fund including the performance of the Investment Advisor to assure the Investment Policy is being followed and progress is being made toward achieving the objectives. The SRA Treasurer will provide regular reporting (minimum of once per calendar quarter) outlining investment performance and balance.

### **Investment Advisor**

The Investment Advisor retained by the SRA will assist in establishing the Investment Policy and guidelines contained in this Investment Policy.

In accordance with the terms of the Investment Advisory Agreement, the Investment Advisor will be responsible for managing the asset allocation and determining investment strategy. The Investment Advisor will monitor asset allocation across and among asset classes.

The Investment Advisor will monitor investment performance of the Fund. Performance reports will be provided to the SRA quarterly. The Investment Advisor will report in a timely manner any substantive developments that may affect the management of Fund assets.

## Statement of Objectives

### **Fund Financial Objectives**

The primary financial objective is to preserve the purchasing power of the investments after withdrawals are taken.

While there cannot be complete assurance that this objective will be realized, it is believed that the likelihood of its realization is reasonably high based upon this Investment Policy and historical performance of the asset classes discussed herein. The objective is based on a ten-year investment horizon, so that interim fluctuations should be viewed with appropriate perspective

The desired investment objective is a long-term real rate of return on assets that is approximately 5% greater than the assumed rate of inflation as measured by the Consumer Price Index. The target rate of return for the Fund has been based upon an analysis of historical returns supplemented with an economic and structural review for each asset class. The SRA realizes that market performance varies and that a 5% real rate of return may not be meaningful during some periods. The SRA also realizes and agrees that historical performance is no guarantee of future performance.

## Statement of Investment Policy

### **Asset Allocation Targets**

It will be the policy of the Fund to invest assets with an allocation as shown below.

| <u>Asset Class</u>  | <u>Target Allocation</u> |
|---------------------|--------------------------|
| Equity              | 30-60%                   |
| Fixed Income        | 30-60%                   |
| Cash & Alternatives | 5-10%                    |

Within each asset class, assets will be invested in accordance with the Guidelines set out below. The investments selected by the Investment Advisor in accordance with this Investment Policy may include a small portion of total assets in cash reserves when deemed appropriate. However, the investments will be evaluated against their appropriate benchmarks on the performance of the total funds under management.

### **Adherence to Policy Targets and Rebalancing**

The asset allocation established by this Investment Policy represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. Generally, these divergences should be of a short-term nature.

From time-to-time, market conditions may cause the Fund's investment in various assets to vary from the established allocation. To remain consistent with the asset allocation guidelines established by this Statement, each mutual fund in which the Portfolio invests will be reviewed on a quarterly basis and rebalanced back to the normal weighting if the actual weighting varies by 2% or more from the recommended weighting.

In addition, the allocation of assets in the Portfolio may deviate from the normal allocation within the permitted range when market conditions warrant. Such deviations are designed primarily to reduce overall investment risk in the long term.

### **Investment Securities and Diversification**

The Investment Advisor will be subject to an investment advisory agreement to implement this Investment Policy through investments in mutual funds and other pooled asset portfolios. It is the responsibility of the Advisor to provide a prospectus (or other offering documents) for each investment and the responsibility of the SRA to understand the information contained in the prospectus.

Mutual funds may use shorting strategies as outlined in the prospectus. Further, certain mutual funds may participate in securities lending as determined by the prospectus (or other offering documents). Such investments are acceptable investments provided they conform to the diversification restrictions set forth below.

Investments will be diversified within asset classes with the intent to minimize the risk of large losses to the Fund. The portfolio includes mutual funds that are managed in accordance with the diversification and industry concentration restrictions set forth in the Investment Company Act of 1940, as amended (the "1940

Act"). Pursuant to the provisions of the 1940 Act, a mutual fund may not, with respect to 75% of its assets, (i) purchase securities of any issuer (except securities issued or guaranteed by the United States Government, its agencies or instrumentalities) if, as a result, more than 5% of its total assets would be invested in the securities of such issuer; or (ii) acquire more than 10% of the outstanding voting securities of any one issuer. This restriction does not apply to the International Fixed Income Fund or the Emerging Markets Debt Fund.

In addition, no mutual fund may purchase any securities which would cause more than 25% of its total assets to be invested in the securities of one or more issuers conducting their principal business activities in the same industry, provided that this limitation does not apply to investments in securities issued or guaranteed by the United States Government, its agencies or instrumentalities.

## **Guidelines for Portfolio Holdings**

### **EQUITY**

#### **Domestic Equity:**

The Domestic Equity portion of the portfolio will consist primarily of equity securities of companies that are listed on registered exchanges or actively traded in the over the counter market. The equity portion may also be invested in securities that are not readily marketable (illiquid and restricted securities), receipts, securities issued by investment companies, warrants, repurchase agreements, convertible securities and US dollar denominated securities of foreign issuers that are traded on registered exchanges or listed on NASDAQ. A portion of the equity portfolio may also be invested in fixed income securities that are rated investment grade or better, i.e., rated in one of the four highest rating categories by a nationally recognized statistical rating organization ("NRSRO"), or, if not rated, determined to be of comparable quality by the Investment Advisor or a mutual fund sub-adviser. The Investment Advisor will equitize cash to remain as fully invested as possible.

#### **Non-U.S. Equity:**

The non-U.S. equity portion of the portfolio will consist primarily of equity securities (common stocks, securities that are convertible into common stocks, preferred stocks, warrants and rights to subscribe to common stocks) of non-U.S. issuers purchased in foreign markets, on U.S. or foreign registered exchanges, or the over-the-counter markets. The issuers of the securities are located in countries other than the United States, including emerging market countries. Additionally, the portfolio may seek to enhance returns by active management of currency exposure. This strategy may involve taking long and short positions using futures, foreign currency forward contracts, foreign currencies and other derivatives. The portfolio may also engage in currency transactions in an attempt to take advantage of certain inefficiencies in the currency exchange market, to increase the exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one currency to another. Any remaining assets may be invested in fixed income securities of emerging market governments and companies. Certain securities issued by governments of emerging market countries are, or may be, eligible for conversion into investments in emerging market companies under debt conversion programs sponsored by such governments.

A portion of the portfolio's assets may be invested in securities that are rated below investment grade, U.S. or non-U.S. cash reserves and money market instruments, repurchase agreements, securities that are not readily marketable, obligations of supranational entities, American Depository Receipts, European Depository Receipts and investment company securities including securities issued by foreign investment companies.

**Non-U.S. Equity (Terrorism Screen):**

This portfolio will seek to avoid investing in companies whose activities directly or indirectly benefit the governments of countries that support terrorism, genocide or human rights abuses. This includes companies that pay royalties, such as those on oil or mining, to these governments, and companies that help provide a stable economic environment that supports the government in its oppressive policies by having substantial operations or customers in the country. The Sub-Advisers will rely on a list of issuers that have been identified by an independent compliance support organization when determining whether a company's activities directly or indirectly benefit the governments of countries that support terrorism, genocide or human rights abuses.

**Global Managed Volatility:**

The global managed volatility portion of the portfolio will typically consist of securities of U.S. and foreign companies of all capitalization ranges. These securities may include common stocks, preferred stocks, warrants, ETFs, depositary receipts and equity options. The portfolio will invest primarily in companies located in developed countries, but may also invest in companies located in emerging markets. The portfolio seeks to achieve lower volatility by constructing a portfolio of securities that are expected to produce a less volatile return stream to the market. The securities are weighed based on their total expected risk and return, without regard to market capitalization and industry.

**FIXED INCOME**

**Domestic Fixed Income:**

The investment grade portion of the domestic fixed income portfolio will consist primarily of fixed income securities that are rated investment grade or better, i.e., rated in one of the four highest rating categories by an NRSRO at the time of purchase, or, if not rated are determined to be of comparable quality by the Investment Advisor or a mutual fund sub-adviser. The portfolio may invest in traditional fixed income securities, such as bonds and debentures, issued by domestic and foreign private and governmental issuers, including mortgage-backed and asset-backed securities. In addition, the portfolio may also contain structured securities that make interest and principal payments based upon the performance of specified assets or indices. Structured securities include mortgage-backed securities such as pass-through certificates, collateralized mortgage obligations and interest and principal only components of mortgage-backed securities. Other investments include mortgage dollar roll transactions, Yankee obligations and obligations of supranational entities.

The high yield portion of the domestic fixed income portfolio will consist primarily of fixed income securities that are rated below investment grade, i.e., rated below the top four rating categories by a NRSRO at the time of purchase, or, if not rated, determined to be of comparable quality by the Investment Advisor or a mutual fund sub-adviser. There is no bottom limit on the ratings of high yield

securities that may be purchased and held in the portfolio. Any remaining assets may be invested in equity, investment grade fixed income and money market securities.

**Short Duration Fixed Income:**

This portion of the portfolio is primarily invested in investment grade and non-investment grade fixed-income securities. The average portfolio duration will typically vary between zero and two years. In an effort to enhance the portfolios return, foreign currency exposure will be actively managed. The portfolio may buy and sell currencies for hedging or for speculative purposes. A portion of the portfolio assets may be invested in bank loans, which are, generally, non-investment grade (junk bond) floating rate instruments. The bank loans in the form of participations in the loans (participations) and assignments of all or a portion of the loans from third parties (assignments). The portfolio may also invest in other financial instruments or use other investment techniques (such as reverse repurchase agreements) to seek to obtain market exposure to the securities in which the portfolio primarily invests.

**Real Return:**

This portion of the portfolio will typically invest in fixed income securities, primarily inflation-indexed bonds of varying maturities issued by the U.S. Treasury, by other U.S. government Agencies and instrumentalities, and by other, non-U.S. government entities such as corporations. The strategy may also invest assets in traditional U.S. Treasury, U.S. government agency or other non-U.S. government securities that is not inflation-indexed.

**Long Duration U.S. Fixed Income**

The long duration portion of the fixed income portfolio will invest primarily in fixed income securities and synthetic instruments or derivatives having economic characteristics similar to fixed income securities. The portfolio will invest in a broad array of high quality fixed income instruments, primarily in government and corporate fixed income. The fund will use derivative instruments, including interest rate swap agreements and treasury future contracts for the purpose of managing overall duration and yield curve exposure. The portfolio can maintain a dollar-weighted average duration between ten and thirteen years.

**Non U.S. Fixed Income:**

The non-U.S. investment grade portion of the fixed income portfolio will consist primarily of securities of non-U.S. issuers located in at least three countries other than the United States. Any remaining assets may be invested in obligations issued or guaranteed as to principal and interest by the U.S. Government, its agencies or instrumentalities and preferred stocks. The non-U.S. investment grade portion will concentrate its investments in developed countries.

Non-U.S. investment grade fixed income securities will be traditional fixed income securities, such as bonds and debentures, and will be issued by foreign private and governmental issuers and may include mortgage-backed and asset-backed securities. The portfolio may also contain structured securities that derive interest and principal payments from specified assets or indices. The portfolio will be comprised primarily of investment grade securities denominated in various currencies, including the European Currency Unit. Investment grade securities are rated in one of the highest

four rating categories by an NRSRO, or, if not rated, determined to be of comparable quality as determined by the Investment Advisor or a mutual fund sub-adviser.

The emerging debt portion of the portfolio will consist primarily of debt securities of government, government -related and corporate issuers in emerging market countries and of entities organized to restructure outstanding debt of such issuers. Investments will be made in emerging debt securities which are primarily rated below investment grade by internationally recognized credit rating organizations, or, if not rated, determined to be of comparable quality as determined by the Investment Advisor or a mutual fund sub-adviser. While there is no limit on the percentage invested in non-US dollar denominated assets, it is expected that the majority of the emerging debt assets will be denominated in U.S. dollars or hedged back to the U.S. dollar.

### **Cash Equivalent Reserves**

The investments selected by the Investment Advisor in accordance with this Investment Policy Statement may include a small portion of total assets in cash reserves when deemed appropriate.

Cash equivalent reserves will consist of money market securities such as high quality, short-term debt instruments. They include: (i) bankers' acceptances, certificates of deposits, notes and time deposits of highly-rated U.S. and foreign banks; (ii) U.S. Treasury obligations and obligations issued or guaranteed by the agencies and instrumentalities of the U.S. Government; (iii) high-quality commercial paper issued by U.S. and foreign corporations; (iv) debt obligations with a maturity of one year or less issued by corporations with outstanding high-quality commercial paper; (v) repurchase agreements involving any of the foregoing obligations entered into with highly-rated banks and broker-dealers; and (vi) foreign government obligations.

### **Volatility**

Consistent with the desire for adequate diversification, the investment policy is based on the assumption that the volatility of the combined equity investment will be similar to that of the market opportunity available to institutional investors with similar return objectives. The volatility of fixed income portfolios may be greater than the market during periods when the portfolio duration exceeds that of the market.

### **Proxy Statements**

Proxies, tender offers and the like will be voted in accordance with the terms of the Investment Advisory Agreement.

### **Execution of Security Trades**

The Fund expects the purchase and sale of its securities to be made in a manner designed to receive the combination of best price and execution. The SRA recognizes that mutual fund shares are purchased and sold at the net asset value next determined after receipt of the order and that accordingly, best price and execution may not be applicable to such transactions.

## Control Procedures

### **Review of Investment Objectives**

Investment performance will be reviewed annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy for achieving these objectives. In addition, the validity of the stated objective will be reviewed annually.

It is not expected that the Investment Policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment to the Investment Policy.

### **Review of Investment Advisor and Investments**

The Investment Advisor will report on a regular basis to review the total Fund investment performance.

The Investment Advisor will be responsible for keeping the SRA advised of any material change in its personnel, the investment strategy, or other pertinent information potentially affecting performance of all investments.

Performance reviews will focus on:

- Comparison of investment results to appropriate benchmarks, as well as market index returns in both equity and debt markets.
- Investment adherence to this Investment Policy and guidelines.
- Material changes in the investment organizations, such as in investment philosophy and personnel, etc.

### **Performance Expectations**

The most important performance expectation is the achievement of long-term investment results that are consistent with the Fund's Investment Policy. Implementation of the policy will be directed toward achieving this return and not toward maximizing return without regard to risk.

The SRA recognizes that this real return objective may not be meaningful during some time periods. In order to ensure that investment opportunities available over a specific time period are fairly evaluated, comparative performance statistics (including benchmark indices) will be used to evaluate investment results.

## **Adoption of Investment Policy Statement**

The SRA reviewed and approved this Investment Policy Statement during an executive session on October 1, 2013.