

**City of South Burlington**

**South Burlington Retirement Income Plan**

***INVESTMENT POLICY STATEMENT***  
***January 2014 September 2015***

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## **INTRODUCTION**

This document establishes the Investment Policy Statement (“Investment Policy”) for the City of South Burlington Retirement Income Plan (the “Plan”). The City of South Burlington Pension Advisory Committee (“Committee”) is responsible for managing the investment process of the Plan in a prudent manner on behalf of the City Council with regard to preserving principal while providing reasonable returns.

The City of South Burlington Pension Advisory Committee 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 Plan, after consulting with such outside Investment Manager (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 Plan which are described in the “Statement of Objectives” section of this document; however, the City of South Burlington Pension Advisory Committee shall be free to deviate from this Investment Policy when it concludes that it is prudent and in the interest of the Plan to do so and may amend the Investment Policy at any time, with approval from the City Council.

The City of South Burlington Pension Advisory Committee 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 Plan will be in compliance with all provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), the Investment Managers Act of 1940 and other applicable laws.

## **DUTIES AND RESPONSIBILITIES**

The City of South Burlington Pension Advisory Committee 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 City of South Burlington has retained an Investment Manager, SEI Investments Management Corporation (the “Investment Manager”), to assist in managing the assets of the Plan. The Investment Manager’s role is to provide guidance to the City of South Burlington on matters pertaining to the investment of Plan assets including Investment Policy, investment selection, monitoring the Plan’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 City of South Burlington Pension Advisory Committee, with approval from the City Council. The Investment Manager, 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 an investment management agreement dated July 2, 2013 executed between the Investment Manager and the Plan (the “Investment Management Agreement”).

Duties and responsibilities are described in detail below.

### **City of South Burlington Pension Advisory Committee**

The City of South Burlington will retain a qualified Investment Manager to assist in the development and implementation of the Investment Policy and guidelines.

The City of South Burlington Pension Advisory Committee will establish the Investment Policy of the Plan, with approval from the City Council. This includes, but is not limited to, allocation between equity and fixed income assets, selection of acceptable asset classes and investment performance expectations. The committee will periodically review the Investment Policy.

The City of South Burlington Pension Advisory Committee will regularly review the investment performance of the Plan including the performance of the Investment Manager to assure the Investment Policy is being followed and progress is being made toward achieving the objectives.

**Investment Manager**

The Investment Manager retained by the City of South Burlington will assist the City of South Burlington Pension Advisory Committee in establishing the Investment Policy and guidelines contained in this Investment Policy.

In accordance with the terms of the Investment Management Agreement, the Investment Manager will be responsible for managing the asset allocation, determining investment strategy and implementing security selection decisions through the investment sub-advisers for the mutual funds managed by the Investment Manager, within the Investment Policy and as otherwise provided by the City of South Burlington Pension Advisory Committee. The Investment Manager will monitor asset allocation across and among asset classes.

The Investment Manager will monitor investment performance of the Plan. Performance reports will be provided to the City of South Burlington Pension Advisory Committee quarterly, and additionally, an annual presentation and review with the City Council at a regular public meeting. The Investment Manager will report in a timely manner any substantive developments that may affect the management of Plan assets.

**STATEMENT OF OBJECTIVES**

**ERISA Compliance**

The assets of the Plan will be invested in accordance with all applicable laws in a manner consistent with fiduciary standards including ERISA (if applicable). Specifically:

1. The safeguards and diversity that a prudent investor would adhere to must be present in the investment program.
2. All transactions undertaken on behalf of the Plan must be in the best interest of plan participants and their beneficiaries.

**Primary Plan Objective**

The primary objective of the Plan is to provide a source of retirement income for its participants and beneficiaries. The financial objectives of the Plan have been established in conjunction with a comprehensive review of the current and projected financial requirements.

**Plan Financial Objectives**

The primary financial objective of the Plan is to improve the funded status of the Plan. A secondary financial objective is, where possible, to minimize pension expense volatility. The objective is based on a long-term investment horizon, so that interim fluctuations should be viewed with appropriate perspective.

There can be no assurance that these objectives will be met. The City of South Burlington and the Pension Advisory Committee also realize and agree that historical performance is no guarantee of future performance.

**STATEMENT OF INVESTMENT POLICY**

**Asset Allocation Targets**

It will be the policy of the Plan to invest assets with an allocation as shown below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Permitted Variance</u>
Equity	60%	+/- 5%
Fixed Income	35%	+/- 5%
Alternatives	5%	+/- 5%

Within each asset class, assets will be invested in accordance with the Guidelines set out below.

In accordance with the terms of the Investment Management Agreement, Manager will retain discretion with respect to the SEI mutual funds utilized by Manager to implement the Strategy. Additionally, Investment Manager will retain discretion with respect to modifications required to the asset allocation identified above. In the event the Investment Manager exercises its discretion as noted in this paragraph, Investment Manager will develop and adopt a revised draft Investment Policy Statement on behalf of the Plan. Investment Manager shall notify the Pension Advisory Committee, and likewise, the City Council as soon as practicable after implementing any change to the asset allocation or the SEI Funds used to implement the asset allocation as soon as practicable.

#### **Adherence to Policy Targets**

The asset allocation established by this Investment Policy Statement 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. These divergences should be of a short-term nature.

To ensure divergence from the target policy is within acceptable limits, rebalancing of assets may be necessary. Rebalancing procedures are authorized in accordance with the Investment Management Agreement and are implemented by the Investment Manager.

Notwithstanding the foregoing, under certain circumstances, the Investment Manager may (i) make active investment decisions for the Plan in accordance with the terms of the target variance noted above, (ii) modify the target variance(s) applicable to the strategy, (iii) modify its standard rebalancing operating procedures, and/or (iv) suspend some or all of the rebalancing procedures affecting the strategy. Investment Manager shall only modify or suspend its rebalancing procedures as outlined in this paragraph if it has prudently determined that such suspension is in the best interest of the Plan, its participants and beneficiaries in its reasonable sole discretion. If the Investment Manager has suspended its rebalancing procedures applicable to the Plan, the Investment Manager shall seek to notify City of South Burlington as promptly as possible of such decision.

#### **Investment Securities, Strategies and Diversification**

As described in the Investment Management Agreement, the Investment Manager implements this Investment Policy through investments in mutual funds and other pooled asset portfolios. It is the responsibility of the Investment Manager to provide a prospectus for each investment and the responsibility of the committee and the City to read and understand the information contained in the prospectus.

Mutual funds may utilize shorting strategies as outlined in the prospectus. Further, certain mutual funds may participate in securities lending as determined by the prospectus. Such investments are acceptable investments provided they conform to the diversification restrictions set forth by the Investment Company Act of 1940, as amended (the "1940 Act") below.

Additionally, the funds may invest in derivative instruments within a portion of their portfolios. Portfolios may purchase derivatives, generally using only a fraction of the assets that would be needed to purchase equity or fixed income securities directly. As a result the derivatives could be backed by a wide range of asset classes including but not limited to: U.S. and foreign equities, U.S. and foreign fixed income securities of different types and maturities, mortgage-backed or other asset-backed securities, securities rated below investment grade, non-U.S. equities, limited partnerships, currencies, commodities, and repurchase or reverse repurchase agreements. The investment goal of such a strategy would be to add diversifying alpha sources within that fund, while maintaining the beta exposure to the asset class.

Investments will be diversified within asset classes with the intent to minimize the risk of large losses to the Plan. The portfolio is comprised of 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.

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.

#### **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 Management Agreement.

#### **Execution of Security Trades**

The Plan 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 City of South Burlington Pension Advisory Committee 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 Liabilities**

All major liability assumptions regarding number of participants, compensation, benefit levels and actuarial assumptions will be subject to an annual review by the City of South Burlington and its Pension Advisory Committee. This review will focus on an analysis of major differences between the Plan's assumptions and actual experience.

##### **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 Manager and Investments**

The Investment Manager will report on a quarterly basis to review the total Plan investment performance, and annually before the City Council at a regularly scheduled public meeting.

The Investment Manager will be responsible for keeping the City of South Burlington and the Pension Advisory Committee 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.

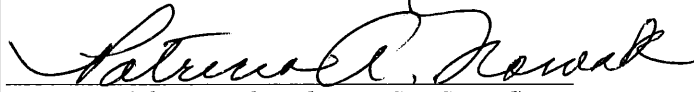
**Performance Expectations**

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

The City of South Burlington and its Pension Advisory Committee recognize 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 City of South Burlington Pension Advisory Committee and City Council has reviewed, approved and adopted this Investment Policy Statement, prepared with the assistance of SEI Investments Management Corporation.*



*Signature (Chair, South Burlington City Council)*

*8/18/2015*

*Date*

