

## OTHER POST-EMPLOYMENT BENEFITS TRUST INVESTMENT POLICY STATEMENT

### Introduction

Other Post-Employment Benefits (OPEB) consist of healthcare and life insurance benefits for Town of Greenwich (TOG) retirees. In 2004, the Governmental Accounting Standards Board issued Statements requiring municipal governments to account for Other Post-Employment Benefits in a manner similar to that of pension benefits. Accordingly, the Board of Estimate and Taxation (BET) decided to appropriate money to fund OPEB payments, and thereby established the OPEB Trust (Trust). The Trust was established and is governed in accordance with the Declaration of Trust effective January 1, 2008. The Trustee of the Trust is the Town's Treasurer. A three-member board (Board) appointed by the BET is responsible for making investment recommendations. All investment recommendations require the review and approval by the BET's Investment Advisory Committee (IAC) before the Trustee may execute the Board's recommended investment actions.

For administrative ease, the TOG makes OPEB payments directly from its General Fund to the Plan participants. Shortly after the end of each fiscal year, a payment is made between the General Fund and the Trust reconciling any difference between the General Fund's OPEB payments on behalf of Plan participants and the Actuarially Determined Employer Contribution for OPEB.

### Investment Objective

The investment objective of the Trust is to earn a blended rate of return consistent with the long-term Rate of Return assumption used for the annual Actuarial Valuation. The OPEB Trust has an annualized return assumption of 7.00%.

The assets of the Trust shall be invested to ensure that principal is preserved and enhanced over the long-term. The assets shall be managed and invested in accordance with the Connecticut Uniform Prudent Investor Act (General Statutes Section 45a-541 to Section 45a-541l, inclusive).

### Liquidity

The Trust shall maintain a cash or near-cash position in accordance with the Trustee's need to meet obligations of the Trust. It is anticipated that the need to raise cash in the normal course of events will be once a year soon after the end of the fiscal year to reconcile with the General Fund. Otherwise, cash will be held only if market conditions warrant.

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**Benchmark for the Portfolio**

The Benchmark weighting for the OPEB Trust Portfolio (Portfolio) shall be 75% Domestic Equity, as represented by the S&P 500 Index and 25% Domestic Fixed Income, as represented by the Bloomberg Barclays U.S. Aggregate Bond Index.

**Investment Guidelines**

Given the long-term nature of the obligation to be funded and the low liquidity needs of the Trust, the BET is willing to accept a higher portfolio volatility (standard deviation of monthly returns) to achieve the Trust’s investment objectives. Higher portfolio volatility can be a function of a larger equity allocation and/or greater concentration of investable strategies. Furthermore, the BET has a preference for passive investment vehicles and actively managed vehicles will be subject to limits.

The Trust’s assets may be invested in the following asset classes and within the ranges specified. The Board is charged with recommending the asset allocation (Asset Allocation) and investments (Investments), consistent with the Investment Objective and after taking into consideration the economic and market outlook for each asset class.

On a quarterly basis, the Board shall review and may recommend to the IAC a change in Asset Allocation for one or more of the Asset Classes or Sub-Classes. Should the Board wish to change the minimum – maximum range, or add additional Sub-Classes, however, it must recommend such change(s) to the IAC for BET approval.

<u>ASSET CLASS</u>	<u>Minimum</u>	<u>Maximum</u>
Equities	30%	90%
Fixed Income *	10%	70%

\* Inclusive of cash or near-term investments, U. S. Treasury Bills and U.S. Government Agencies, and FDIC insured Certificates of Deposit and Money Market Funds.

Further, in considering allocations to the above specified broad Asset Classes, the Board should consider the following guidelines for the respective Sub-Classes (note Minimum and Maximum limits are expressed as percentages of the market value of the Portfolio):

<u>EQUITIES</u>	<u>Minimum</u>	<u>Maximum</u>
Domestic	30%	90%
Other:	0%	20%

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<u>FIXED INCOME</u>	<u>Minimum</u>	<u>Maximum</u>
Domestic *	10%	50%
Other **	0%	20%

\* Includes cash and equivalents in money market funds.

\*\* Other includes high yield bonds, International bonds, and emerging market debt.

### **Preferred Investment Vehicles**

The OPEB Trust can only invest in the following investment vehicles:

- Passively managed Exchange Traded Funds (ETF) and mutual funds, defined as those with a correlation greater than 0.9 to their corresponding broad market index/benchmark
- U.S. Treasury Bills, Notes and Bonds and U.S. Government Agencies
- FDIC Insured Certificates of Deposit and Money Market Funds
- Actively managed mutual funds and ETFs limited to 20% of the total Portfolio to an individual mutual fund or ETF and 30% in aggregate across all actively managed mutual funds and ETFs

Furthermore, in determining which investment vehicles to recommend, the Board should also consider, but not be limited to, the following characteristics:

- Low management fees in comparison to other similar vehicles
- Sufficient trading liquidity as defined by complete liquidation of the investment within one trading day
- No explicit leverage as part of its investment strategy

### **Rebalancing**

As soon as practical after meetings in which the IAC accepts investment transactions recommended by the Board, the Trustee should execute investment actions approved by the IAC for the Portfolio.

During months in which there is no meeting of the IAC with the Board, the Trustee shall rebalance the Portfolio to the Asset Allocation as approved by the IAC on the third business day of the month. Rebalancing should only occur if the current Portfolio Asset Allocation has deviated 2% or more from the approved targeted Asset Allocation. No explicit approval is needed to execute monthly rebalancing trades by the Trustee. If market conditions warrant, the Board may seek to rebalance intra-month subject to prior IAC approval.

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### Meetings

The Board shall meet no less frequently than quarterly to consider investment actions it might consider recommending to the IAC.

The Board's meetings should immediately precede its appearance at the IAC meeting scheduled immediately prior to the regularly scheduled BET meeting for the first month of the quarter. In these meetings the Board shall report to the IAC as to the asset allocation, performance of the Portfolio versus its Benchmark and performance attribution by Investment vehicle of the Trust.

When market conditions warrant, the Board may seek to meet with the IAC in between its regularly scheduled quarterly appearances at IAC meetings. When a physical meeting is neither practical nor possible, meetings may be conducted virtually.

In addition, in the IAC's July meeting, the Board shall report to the IAC as to their outlook and expectations for asset class performance (expected returns) for the near term. Any recommended changes in the Investment Guidelines should be made at this time.

### Management Reports

The IAC expects the following reports:

- Monthly Performance Report
  - Portfolio performance versus the Benchmark which includes monthly, quarterly, calendar year-to-date, fiscal year-to-date, 1 year rolling, annualized 3 year and 5 year, as applicable
  - Portfolio Allocation
  - To be sent by the 5th business day
- Quarterly Attribution Report
  - Portfolio performance attribution by Sub-Asset Class for quarter, 1 year rolling, 3 year and 5 year, as applicable
  - Proposed changes in Asset Allocation
  - To be presented at the quarterly IAC meetings
- Annual Review
  - Review of Markets
  - Market Outlook and changes in Asset Class expected returns
  - Recommended changes to the Investment Guidelines and Investment
  - Policy Statement, if applicable
  - To be presented at the July IAC meeting

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**Review**

This document shall be reviewed by the IAC, Trustee and OPEB Trust Board on an annual basis and discussed at the July IAC meeting.

*Approved at the June 14, 2021 BET Regular Meeting*