

West Springfield Retirement Board
Investment Objectives and Policies
April 27, 2010

1. OBJECTIVES

- A. To invest the assets in an efficient and cost effective manner.
- B. To seek a total return equal to or greater than the actuarial investment rate of return adopted by the Board in its actuarially determined funding schedule. Such returns are to be measured over five year time intervals.
- C. To provide cash flow for the monthly operations of the system.
- D. To increase the market value of the System's assets such that they meet or exceed the funding schedule.

2. INVESTMENT PHILOSOPHY

- A. In order to meet the stated objectives the Board shall invest with a long term horizon in keeping with the nature of the funds.
- B. The Board believes that its objectives can best be met by:
 - i. employing a qualified investment manager or managers, whose terms of employment and compensation are included by reference;
 - ii. investing in a diversified portfolio of stocks, bonds, and money market instruments and other instruments described in the Investment Policy, *i.e.* to invest in a balanced portfolio;
 - iii. managing risk through diversification of assets within the asset classes; and
 - iv. maintaining an asset allocation with a bias towards equities that stays within the Board's stated ranges.

3. INVESTMENT POLICY

- A. **The assets shall be diversified** among fixed income, equity, and short term investments and may include:
 - i. up to 15% of the total market value of the portfolio in alternative investments defined as timber lands, real estate, private equity, and venture capital.
 - ii. up to 10% of the total equity market value of the portfolio in international investments.
- B. **The asset allocation** of the portfolio shall be 40%- 70% in equity instruments and 20%- 55% in fixed income instruments. The appropriate mix shall be determined by the investment manager in accordance with meeting the goals stated in Section 1.
- C. **Equity investments** shall comply with the following policies as well as relevant PERAC regulations including any modifications permitted by an exemption issued to the Board.
 - i. At least 75% of the market value of equity investments shall be in companies for which the market value of the outstanding shares is at least \$500 million at time of purchase.
 - ii. The investment in any one holding shall not exceed 5% of the total book value of equity investments at the time of purchase.
 - iii. All equity investments, including ADRs, must be in securities traded on a major exchange or on the NASDAQ.

- iv. Beta (a measure of volatility) shall average no more than 1.15 annually.
 - v. No investment shall be made in a company with less than a five year operating history.
 - vi. The holdings within the equity portfolio shall be diversified such that:
 - a. the equity portfolio shall consist of no fewer than 25 holdings;
 - b. no single industry shall account for more than 20% of the total market value;
 - c. at no time shall small capitalization stocks represent less than 10% of the total equity market value nor more than 50%.
 - vii. Recognizing that equity turnover may vary with market conditions and the specific characteristics of individual issues, turnover shall be targeted at no more than 150% per year.
- D. **Fixed income investments** shall comply with the following policies as well as relevant PERAC regulations including any modifications permitted by an exemption issued to the Board.
- i. No bond that is rated below investment grade shall be purchased.
 - ii. No more than 5% of the total market value of the portfolio shall be invested in the direct (as opposed to asset-backed or mortgage-backed) debt obligations of any one fixed income issuer except that issues of the U.S. government or agencies that have the full faith and credit of the U.S. government may be held without limit. The Investment Manager may exceed that level, up to a maximum of 10%, however, if he or she feels it is prudent to do so as long as the Investment Manager promptly advises the Chairman of the Board of the situation so that the Board may review the investment at its next meeting.
 - iii. Fixed income holdings which are downgraded below BBB or Baa shall be sold within one year of the downgrading unless the exemption issued by the Board permits retention.
 - iv. The adjusted modified duration of the fixed income portfolio shall be within the range of 75% to 125% of the duration of the Index.
 - v. Excluding purchases and sales of issues of the U.S. government or agencies that have the full faith and credit of the U.S. government, the turnover of the fixed income portfolio shall not exceed 150% per year.
 - vi. The holdings within the fixed income portfolio shall be diversified such that:
 - a. the holdings shall be diversified across sectors and industries with no single industry representing more than one third the market value except that issues of the U.S. government or agencies that have the full faith and credit of the U.S. government may be held without limit.
 - b. the fixed income portfolio will consist of no fewer than 20 holdings.
- E. **Cash balances** should be zero or maintained at an absolute minimum at all times.
- i. Uninvested cash should immediately be invested in short term security holdings or other appropriate and prudent money market instruments.
 - ii. Cash shall be invested in any or all of the following instruments: money market funds, repurchase agreements, short term instruments issued by the Treasury and other agencies of the U.S. government, commercial paper rated P1 and corporate debt maturing within one year at date of purchase.

- F. **Selection of brokers** shall be based upon:
- i. cost and quality of trade execution;
 - ii. quality of service, including settlement, research capabilities, and ability to serve as a broker/dealer for NASDAQ trades;
 - iii. sufficient financial strength, competence and integrity.
 - iv. Where competitive bidding is applicable and feasible, no fewer than three brokers will be selected to bid/offer.
- G. **Proxies** shall be voted when and if there are significant issues raised in the proxy statement.
- i. Voting decisions will be based upon the investment manager's judgment as to how the interests of the System will best be served.
 - ii. The investment manager shall review all tender offers relevant to holdings and vote according to the manager's judgment as to how the interests of the System will best be served. The investment manager may recommend the purchase of additional shares, or the full or partial sale of securities involved with a tender offer in addition to or in place of tendering.