



**The City of Hartford Deferred Compensation Plan**  
**Investment Policy Statement**

**Amended and restated April 29, 2016**

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# **I. GENERAL**

## **1. POLICY**

It is the policy of the Pension Commission of the City of Hartford (the "Commission") and the Treasurer of the City of Hartford (the "City Treasurer" or "Treasurer"), in making available the City of Hartford Deferred Compensation Plan (the "Plan") to eligible City employees, pursuant to the authorization of the Court of Common Council in 1983, 1998 and 1999, to provide those employees who elect to participate in the Plan (the "Plan participants" or "participants") with sufficient investment options to accommodate a broad range of individual investment objectives for the participants to use as they plan for retirement. The Plan is a voluntary defined contribution retirement planning option offered by the City of Hartford.

The Plan assets shall be held for the exclusive purpose of providing benefits to the participants and their beneficiaries under applicable federal laws, and administered with the care, skill, and diligence expected under the prudent person rule and applicable fiduciary law.

Each investment option will be reviewed by the City Treasurer and staff, and then by the Pension Commission, with the objective of identifying and controlling risk at a level that is appropriate for the expected return of each option. Individual participants will select their choice(s) from the investment options within the plan.

By ordinance of the Court of Common Council in 1998, as amended in 1999, the City of Hartford's Pension Commission is the administrator of the Deferred Compensation Program, as it is for all other retirement plans.

This Investment Policy Statement "IPS" sets forth both:

- A. The responsibilities of the Deferred Compensation Committee (the "Committee"), and
- B. The investment styles, objectives and benchmarks of each investment option offered under the Plan.

It should be noted that the IPS guidelines contained herein are not intended to be a legal document or to be construed as legal advice, but are intended to be a guide. The Plan Document and Plan Trust executed by the City Treasurer (most recently on December 31, 2004, as well as any subsequent amendments and restatements) supersede all matters contained herein.

## **2. PURPOSE AND SCOPE**

The purpose of this IPS is to:

- A. Articulate the Plan's objectives for providing investment options that can be used by participants to structure a retirement-oriented investment portfolio suitable to the needs and risk tolerances of each of them.
- B. Formulate policies for selecting appropriate mutual funds or other suitable investment options within the framework of that structure.
- C. Establish objectives for the prudent monitoring and evaluation of the performance of investment options available within the Plan.

- D. Formulate policies for maintaining, selecting and de-selecting investment options within the Plan.

Overall, the goal of the IPS is to assure that the Plan is administered in the best interest of City of Hartford participants and is compatible with the overall mission and philosophy of the City of Hartford Deferred Compensation Plan Committee and Pension Commission.

The scope of this IPS is limited specifically to the City of Hartford's Deferred Compensation Program.

### **3. DEFERRED COMPENSATION COMMITTEE**

#### **A. AUTHORITY AND COMPOSITION**

The Deferred Compensation Committee (the "Committee") shall be authorized by Resolution of the Pension Commission.

The Deferred Compensation Committee shall consist of one member of the Pension Commission, to be selected by the Commission from among their number, the City Treasurer (as the Plan Administrator), the Director of Investments, and such other members as the Pension Commission deems appropriate.

#### **B. RESPONSIBILITIES**

It shall be the responsibility of the Deferred Compensation Committee to:

1. Review the Deferred Compensation Program and make recommendations to the City of Hartford Pension Commission as necessary.
2. Pursuant to ongoing monitoring of the marketplace, consider potential investment options, as well as the need for major amendments to approved plans pertaining to investment options and related operational issues, consistent with federal law.
3. Evaluate existing investment options and make determinations on adding, deleting or amending fund options.
4. Review third-party plan provider and administrator performance and develop recommendations on selecting or changing third-party administrator(s).
5. Retain the right to delegate any of the above duties to staff.
6. The Committee may retain the consulting services of a Registered Investment Advisor (RIA) with specific expertise in public sector retirement plans to assist them in meeting the objectives of the IPS and the Plan, subject to Pension Commission approval
7. Frequent Trading Policy – The Plan will rely on the recordkeeper and/or the Investment Fund manager for their frequent trading policy. In the event that this is not providing enough support to prevent frequent trading, the policy should be amended to meet the needs of the plan.

#### **4. INVESTMENT POLICY REVIEW**

The Committee will periodically, but no less frequently than annually, evaluate the plan investment options and reserves the right to recommend the elimination or addition of investment options to the Pension Commission. For funds without comparable indices or peer groups, such as general account products, the Committee will compare the performance to other comparable investment instruments available in the market.

#### **5. INVESTMENT POLICY STATEMENT UPDATES**

This IPS is to be reviewed annually for appropriate updates by the Committee. Recommended updates will be submitted to the Pension Commission for approval. In the case of any inconsistency between the IPS and the Plan Document and/or Trust, the Plan Document and Trust, as well as any subsequent amendments and restatements, shall supersede.

## **II. PLAN INVESTMENT OPTIONS - SELECTION & MONITORING**

### **1. INVESTMENT OBJECTIVES**

Any and all investment options provided to the Plan participants shall seek to achieve the following investment objectives:

- A. A long-term competitive rate of return on investments, net of expenses, that is equal to or exceeds corresponding benchmark returns as stated in the underlying fund's prospectus on rolling three-year and five-year periods.
- B. Provide a broad range of investment options representing the best possible array of choices along the risk/return spectrum.

### **2. INVESTMENT GUIDELINES**

The Committee recognizes that there is investment risk inherent in all investment options and that each of the Plan participants may have his or her own risk tolerance. The Committee seeks to provide participants with a broad array of investment choices so that participants will have alternatives that provide different levels of risk and return.

The Committee also recognizes the need to evaluate both long-term performance and risk-adjusted performance of investment options available within the Plan on an ongoing basis. The following represents the specific guidelines that will be followed by the Committee in order to comply with these responsibilities:

#### **A. INVESTMENT MENU DESIGN**

- 1. Funds offered as options to plan participants will represent asset classes that are generally recognized as major asset classes. For purposes of this Investment Policy Statement, the following major asset classes as defined by Morningstar® (an independent fund evaluation company) will be considered for use:
  - a. International Equity
  - b. U.S. Small Cap Equity
  - c. U.S. Mid Cap Equity
  - d. U.S. Large Cap Equity
  - e. Domestic Fixed Income
  - f. International Fixed Income
  - g. Stable Value
  - h. Balanced/Domestic Hybrid

- i. Life Style/Target Date funds
  - j. Self Directed Brokerage Account – if warranted
2. From among funds in the domestic equity asset classes as identified above in 1(b), (c) and (d), the Committee will attempt to choose funds with complementary stock selection styles by choosing funds that both tend to purchase "value" stocks (stocks that are purchased because the fund manager believes the stock is undervalued) and funds that tend to purchase "growth" stocks (stocks of companies that have shown accelerated earnings).
  3. The Committee may from time to time expand or reduce the investment menu's asset class representation based on developments in the defined contribution marketplace and industry best practices.

B. SELECTION CRITERIA:

1. The Committee will select funds based upon fund performance and ratings available from a recognized rating organization (such as Lipper or Morningstar<sup>®</sup>), administrative, pricing and other criteria as agreed to in conjunction with the Plan's third-party administrator and record keeper.
2. The expense ratio of the funds should be competitive with funds that have similar management styles (e.g., active versus passive) and objectives, as measured by a recognized rating organization (such as Lipper or Morningstar<sup>®</sup>) category average.
3. Whenever practical, the Committee will seek funds that are offered by companies that have a reputation as being among the industry leaders in the fund styles they are offering, as indicated in such metrics as Morningstar<sup>®</sup> performance ratings and peer performance rankings.
4. A fund must have at least three years of performance history. Furthermore, the Committee will attempt to recommend funds for inclusion in the fund option menu where the investment manager exhibits style (i.e., growth or value, large cap or small cap) consistency over a three-year period. Where appropriate, the Committee will seek funds with a manager tenure of at least two years.
5. The Committee will consider, to the extent it is aware of same, any business, legal or regulatory issues that may affect the organization sponsoring the funds or the management team that manages the funds.
6. Minimum Standards of Investment Performance – Selection:
  - a. Rate of return in the top quartile of funds within its asset class two out of three periods during the previous 1-, 3-, and 5-year rankings.
  - b. Rate of return in the top half of funds within its asset class for each of the prior 1-, 3-, and 5-year rankings.

- c. Preferably a minimum three-star Morningstar<sup>®</sup> (or comparable) rating. If another rating system is used, it should have a rating that ranks the fund in the top half of its asset class.
- d. Fall within the top quartile for the prior 3- or 5-year periods of risk adjusted return rankings, as measured by the Sharpe Ratio<sup>1</sup>.
- e. The style analysis shall be assessed relative to its Morningstar<sup>®</sup> (or comparable) peer group universe.
- f. The Committee may use other recognized statistical measures in lieu of or in addition to those outlined above to assist in its evaluation.

### C. INVESTMENT PERFORMANCE REVIEW AND EVALUATION

1. The Committee will review and evaluate the funds periodically (but no less frequently than annually). Performance of a given fund will be evaluated relative to its peer group (defined by its Morningstar<sup>®</sup>/Lipper or comparable category). Other factors as deemed advisable by the Committee will also be considered. Criteria for the ongoing evaluation of funds will be as follows:
  - a. Minimum standards of investment performance for existing funds will require that a fund be ranked in the top half of its Morningstar<sup>®</sup> or other comparable peer group two out of three periods over the most recent one-, three- and five-year periods.
  - b. Fall within the top half for the prior 3- or 5-year periods of risk-adjusted return rankings as measured by the Sharpe Ratio.
  - c. Fund characteristics will be monitored closely to identify company, fund manager tenure, or personnel changes; style drift (defined as a change in the Morningstar<sup>®</sup> [or equivalent] style category assignment); and fund disciplines and other important items that may affect long-term performance.
  - d. Fund's investment objectives, goals and guidelines, considered as set forth in this Investment Policy Statement.
  - e. Any business, legal or regulatory issues that may affect the organization sponsoring the funds or the management team that manages the funds.
  - f. The Committee may use other recognized statistical measures in lieu of or in addition to those outlined above to assist in their evaluation.
2. If overall performance of the investment option is acceptable, the fund maintains its

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<sup>1</sup> Sharpe Ratio is a risk-adjusted measure developed by Nobel Laureate William Sharpe. It is calculated by using standard deviation (risk) and excess return to determine reward per unit of risk. Positive Sharpe Ratios are considered favorable. The higher the Sharpe Ratio, the better the portfolio's historical risk-adjusted performance.



open status and no further action is required. Investment options failing to meet the above criteria will be placed on Watch. Additionally, a fund may be placed on watch or closed as a result of negligible use by participants. While the Committee intends to fairly evaluate long-term performance, it reserves the right to eliminate, exclude or discontinue investment options as necessary, pursuant to the final approval of the Pension Commission, on the recommendation of the Treasurer in his capacity as Secretary of the Pension Commission.

3. Watch - When an investment option is placed on watch, the Committee or its advisor shall monitor the fund, its operations and performance for a period of not less than six months and not more than three years (36 months). The Committee recognizes that even though its investments are subject to short-term volatility, it is critical that a long-term investment focus be maintained.
4. Closed and Deselected Investment Options
  - a. While on watch, the Committee will continue to monitor the fund's performance with the intention of making a determination on whether to maintain the fund as an active option in the Plan, close the fund or deselect the fund.
  - b. If a fund fails to meet the criteria in Section C.1. a-f, the Committee may:
    - i. Close the fund to new participants and allow existing participants with a balance to continue to invest in that fund, or
    - ii. Deselect the fund from the Plan's investment menu, giving participants reasonable notice (not less than 90 days) to transfer balances and future contributions to a different option. If a participant does not act within the allotted time frame, all remaining assets will be transferred and future contributions will be directed to the successor fund selected by the Committee as outlined in the notice.
  - c. Closing, deselecting and placing an investment option on watch is pursuant to the final approval of the Pension Commission, on the recommendation of the Treasurer in his capacity as Secretary of the Pension Commission.