

# **THE DUKES COUNTY POOLED OPEB TRUST**

## **STATEMENT OF INVESTMENT POLICY AND GUIDELINES**

In accordance with Massachusetts General Law c. 32B, Section 20 and Chapter 149 of the Acts of 2010, the Trustees of the Dukes County Pooled Other Post Employment Benefits (OPEB) Trust (Trust) hereby states the investment policy and guidelines for investment managers (managers). If at any time this document is found to be in conflict with Massachusetts laws, the statute shall prevail.

Although this Trust is not subject to the Employee Retirement Income Security Act (ERISA), the Trustees and all of its agents will comply with the standards set forth in ERISA. Therefore, all of the individuals associated with the Trust should act within the confines of that statute. Where not specifically indicated, the actions or decisions of the individuals are to be governed by the prudent investor rule.

The Trustees of the Dukes County Pooled OPEB Trust, as fiduciaries, are charged by Massachusetts General Law Chapter 203C with the responsibility for the prudent investment of assets. To assist the Trustees in this function, they are authorized to engage the services of professional managers, who will accept full fiduciary responsibility, who possess the skills to manage investment assets. The Trustees, having delegated investment responsibility, have empowered the managers with the power to acquire and dispose of assets, subject to the policies, guidelines, and limitations set forth in this document. The Trustees are also authorized to engage the services of an investment consultant (consultant) to assist in: establishing investment objectives and guidelines, selecting and reviewing managers, measuring and evaluating investment performance and providing other tasks as deemed as appropriate.

This Investment Policy and Guideline Statement shall be reviewed annually by the Trustees in order to keep it responsive to the needs of the Dukes County Pooled OPEB Trust. All modifications shall be in writing and approved by the Trustees.

### **OVERALL GOAL**

Assets of the Dukes County Pooled OPEB Trust, following M.G.L. Chapter 203C, shall be invested in a manner consistent with fiduciary standards, namely: 1) assets are to be diversified in order to minimize the impact of large losses in individual investments, and 2) all transactions undertaken must be in the sole interest of the participants (and their beneficiaries) of the Dukes County Pooled OPEB Trust.

All contributions to an OPEB Trust are irrevocable and it is understood that funds held in the Trust are not subject to the claims of any general credit of any member units.

### **INVESTMENT OBJECTIVES**

Based upon the Trust's latest actuarial report, the Trustees have established long-term goals for the overall portfolio consistent with the liabilities of the Trust. The target net return for the Trust, in aggregate, is expected to average approximately 8.0% over full market cycles. The Trustees recognize there is a wide range in annual returns and that an exact 8% return in any specific year is unlikely.

#### **1. Total Trust Performance:**

The performance of the Trust will be measured each quarter for rolling three and five year periods. These periods are usually considered sufficient to accommodate the different market cycles commonly experienced with investments. In addition to achieving the required actuarial rate of return, the total return of this portfolio is expected to exceed the return of the calculated shadow index of the Trust. The shadow index is defined as a composite of passive indices whose composition is determined each quarter based on the Trust's actual allocation mix.

2. Domestic Equity Performance:

The large cap equity portion of the portfolio is expected to perform at a rate equal to the CRSP US Large Cap index and/or in the top 50% of an appropriate large cap equity universe.

The mid cap equity portion of the portfolio is expected to perform at a rate equal to the CRSP US Mid Cap index and/or in the top 50% of an appropriate equity universe.

The small cap equity portion of the portfolio is expected to perform at a rate equal to the CRSP US Small Cap index and/or in the top 50% of an appropriate equity universe.

3. International Equity Performance:

The equity portion of the portfolio is expected to perform at a rate equal to the FTSE Global All Cap ex US Index and/or in the top 50% of an appropriate international equity universe.

4. Fixed Income Performance:

The fixed income portion of the portfolio is expected to perform at a rate greater than the Bloomberg Barclays Capital Aggregate Index and/or in the top 50% of an appropriate broad market fixed income universe.

5. Real Estate Performance:

The real estate portion of the portfolio is expected to perform at a rate greater than the NCREIF ODCE.

While the Trustees acknowledge that market conditions can produce periods where such returns are difficult to achieve, the manager is expected to contribute to meeting the long term objectives of the Trust as well as others set forth in this document.

## ASSET ALLOCATION

Assets of the Dukes County Pooled OPEB Trust shall be allocated as follows:

Asset Class	Target Percentage	Range
Domestic Large Cap Equity	35%	+/- 10%
Domestic Mid Cap Equity	10%	+/- 5%
Domestic Small Cap Equity	10%	+/- 5%
International Equities	15%	+/- 5%
Real Estate	10%	+/- 5%
Domestic Fixed Income	20%	+/- 10%

The Trustees shall monitor, on a periodic basis, the percentage allocation of each asset class, which from time to time may change due to market conditions.

Surplus cash flows, additional contributions, and manager cash will be utilized to pay obligations of the Trust and periodic re-balancing of the assets.

## **TYPES OF ACCOUNTS**

### **Commingled Vehicles**

The use of commingled funds or trusts has been deemed permissible for this Trust. The Trustees acknowledge that acceptance of any commingled fund or trust document will dictate the investment policy and guidelines of an investment program. Adherence to a fund or trust document constitutes the granting of any exceptions as contained in that document.

The conduct of the investment program when in a separate account with a Registered Investment Advisor will be dictated by the Statement of Investment Policy and Guidelines of the Dukes County Pooled OPEB Trust. Any exceptions in compliance with this document must be brought to the attention of the Trustees.

## **INVESTMENTS**

The Trustees understand that a certain level of risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values) and the possibility of loss in purchasing power (due to inflation), are present to some degree in all types of investment vehicles. While high levels of risk are to be avoided, the assumption of some risk is warranted in order to allow the managers the opportunity to achieve satisfactory long-term results consistent with the objectives of the Dukes County Pooled OPEB Trust.

### **Investment Instruments**

1. Appropriate equity securities may include: common stocks, convertible securities, including American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs) of Foreign Companies, and may be selected from the New York, American and Regional Stock Exchanges and Over-the-Counter markets. The equity portfolio should be diversified to avoid undue exposure to any single economic sector, industry group, or individual security. If held, ADRs and GDRs shall not exceed 10% of each manager's total equity investment, at market;
2. Equity investments by a manager in any single corporation shall be limited to no more than ten percent (10%) of such manager's total portfolio (based on the fair market value of the portfolio). In the event that the manager currently maintains a portfolio more heavily invested in equities than the foregoing limitations permit, or if price fluctuations of the portfolio cause such limitations to be exceeded, the Trustees will permit such manager to reduce such equity exposure as promptly and prudently as possible in order to comply with such limitations;
3. Fixed income securities may include: obligations of the United States and its fully guaranteed agencies, corporate bonds and notes and convertible bonds. Fixed income investments shall have a minimum quality rating of 'BAA' or equivalent as rated by one or more recognized bond rating service at the time of purchase. Fixed income investments, which are downgraded below 'BAA' or equivalent must be liquidated within a reasonable period of time not to exceed three (3) months. Should the manager choose to retain the instrument, the manager will provide the Trustees a written rationale for its holding. The average maturity and duration of the portfolio should be less than or equal to 125% of the Bloomberg Barclays Aggregate Bond Index.
4. Fixed income securities of any single issuer, other than securities subject to guarantee of the United State Government (or any of its agencies), should represent no more than five percent (5%) of the aggregate fair market value of a manager's portfolio.

5. Cash and equivalents may be invested in commercial paper rated A1 or P1, repurchase agreements, U.S. Treasury Bills, money market funds and certificates of deposit. Certificates of deposit should be no more than \$100,000 per bank;
6. Un-invested cash balances should be maintained at an absolute minimum at all times through the immediate investment of available funds in short-term security holdings, or other appropriate and prudent money market instruments.
7. Except with the written consent of the Trustees, the manager is prohibited from:
  - purchasing securities on margin;
  - selling short;
  - investing in commodities, unregistered letter stock, foreign securities which trade only on non-US exchanges (other than those evidenced by ADR's, GDR's or mandated to manage an international portfolio), warrants (unless received through a current holding), real estate mortgages, all options and futures, real or personal property, private oil and gas property, loans of portfolio securities, venture capital issues, private placements, securities of a contributing employer and, derivatives, including collateralized mortgage obligations, interest only and principal only strips, and currency swaps or other specialized investment activities.

Investments not specifically addressed are forbidden without the Trustees' written consent.

## **RESPONSIBILITIES OF THE MANAGER**

### **Discretionary Authority**

1. The manager is given full discretion to act in accordance with the statement of investment policy and guidelines. It is the responsibility of the manager to recommend any appropriate changes to the investment policy and guidelines to the Trustees for their further consideration;
2. In placing portfolio transaction orders on behalf of the Dukes County Pooled OPEB Trust, the manager shall obtain execution of orders through responsible broker/dealers at the most favorable prices and at competitive commission rates, taking into consideration the efficiency of execution of the transaction.

## **RESPONSIBILITIES OF THE CONSULTANT**

1. The consultant will act in a non-discretionary advisory role to the Trustees. Investment advice concerning the management of the Trust will be in accordance with the statement of investment policy and guidelines.
2. Specific responsibilities of the consultant include: establishing investment objectives and guidelines, selecting and reviewing managers, measuring and evaluating investment performance, providing assets/disbursements/expenses apportioned by member units of the Dukes County Pooled OPEB Trust and providing other tasks as deemed as appropriate.

## **REPORTING**

1. On a quarterly basis, the manager is expected to submit a brief letter or report on the status of and outlook for his/her portfolio. At the least, the report should contain the following:
  - Statement of current portfolio deployment;

- Economic and investment outlook;
  - Investment strategy (short and intermediate term);
  - Explanation of any high concentrations in any one sector or security.
2. In addition to the required written and statistical presentation, the manager will personally meet with the Board of Trustees at least annually and more often, as required.

## **COMMUNICATION**

1. The manager will keep the Trustees informed within fifteen business days of all significant changes including, but not limited to, the following areas: investment outlook, investment strategy, asset allocation, securities held and other matters affecting their investment policies or philosophy;
2. The manager will keep the Trustees informed of any significant changes in the ownership, organizational structure, financial condition, or senior staffing of the manager's firm.

## **PORTFOLIO TURNOVER**

The Trustees acknowledge that in the course of a year, investment conditions and opportunities will require the manager to buy and sell securities on the Trust's behalf. While the Trustees do not wish to inhibit the normal transactions executed by the managers, they do wish to be made aware of the need for any high levels of turnover and to avoid any "churning" of the portfolio. The following reporting requirements are therefore for control purposes and are not necessarily intended to limit portfolio turnover to the stated limits.

1. The definition of turnover shall be considered the lesser of total purchases or sales;
2. Equity Turnover: Within fifteen business days of the time in any calendar quarter in which the cumulative equity turnover during that quarter exceeds 30% or within any calendar year in which the cumulative equity turnover exceeds 100%, the manager must submit a report stating the reason(s) for the turnover as well as a list of any brokerage firms whose fees during that quarter or year exceeded \$10,000. The Trustees understand that rebalancing is an effective way to produce better long term risk adjusted returns and in volatile markets more frequent rebalancing could be appropriate.
3. Fixed Income Turnover: Within fifteen business days of the time in any calendar quarter in which the cumulative fixed income turnover during that quarter exceeds 100% or within any calendar year in which the cumulative fixed income turnover exceeds 300%, the manager must submit a report stating the reason(s) for the turnover as well as a list of any brokerage firms handling over 20% of the subject trades. U.S. government securities, used as collateral as part of repurchase agreements, are exempt from this requirement.

## **PROXY VOTING**

1. Each proxy should be reviewed on a case-by-case basis and voted on in keeping with the best interest of the Dukes County Pooled OPEB Trust and its participants;
2. A record of all proxy decisions, along with the manager's rationale for voting, should be retained and available for inspection by the Trustees, or upon request, may be sent to the Trustees.

## **PORTFOLIO REVIEW**

The Dukes County Pooled OPEB Trust, will monitor the performance of the assets on a quarterly basis. The Trustees will review the investment results achieved by the managers. The review is to cover:

1. Investment performance relative to a benchmark and a universe of similarly managed funds. Performance shall mean the total rate of return and will be computed on a time-weighted basis;
2. Investment strategy in relation to achieving fund objectives;
3. Review of the performance in context of the economic environment;
4. Review of asset allocation with rebalancing recommendations as needed.

## **REASONS TO CONSIDER A CHANGE OF MANAGERS**

The manager should be given the opportunity to manage assets for a market cycle (3 to 5 years) unless there is:

1. A breach of contract;
2. A change in investment style;
3. A change in the organizational structure of the investment management firm which will impede the ability of the current team responsible for the investment strategy to operate;
4. Investments considered to be illegal or not in conformity with the Investment Program, MGL Chapter 203C;
5. A change in key personnel directly responsible for the implementation of the investment strategy;
6. Significant underperformance in relation to an established benchmark and peer comparison. It is understood that an investment management style that is out of favor is not grounds to consider termination.

## **IMPLEMENTATION**

All monies invested for the Trust by the managers after the adoption of these Investment Guidelines shall conform to this statement.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_

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for: Dukes County Pooled OPEB Trust