

Retirement System of the Town of Greenwich

Investment Allocation Process

Overview

The Board's primary role is determining the asset allocation of the investments of the Retirement Plan ("Fund") and the selection of investment managers within these asset classes. The Board does not have the time, necessary talent, or infrastructure to select specific investments and deliberately delegates that function to the investment professionals it vets and hires for that purpose. The Board relies on those selected managers to adhere to their own investment processes and to abide by the guidelines and restrictions that have been set forth and agreed to in writing at the time of their selection.

Equities

The Board believes in the efficient market theory when it comes to well-developed equity markets such as the United States, Europe, and Japan. The ability of a portfolio manager to consistently outperform a broad market index has proven elusive over time; for that reason that the Board has decided to utilize index funds or their equivalent for this portion of the Fund's assets. The Board believes that active management in the emerging markets offers the opportunity for enhanced returns versus indexing because of the disparate nature of the underlying factors affecting those individual markets, most particularly in the area of currencies. All equity managers, both passive and active, are measured against their appropriate index for performance purposes.

Fixed Income

The Board believes that active management in the fixed income market can add value by utilizing tools that focus on duration and credit quality relative to a stated benchmark. The Board's principal focus revolves around an ongoing analysis of the economic cycle, the disposition of the Federal Reserve, the demand and availability of credit around the world, the trend in inflation, the relative strength and weakness of the dollar, and fiscal and monetary policy. Bond managers are selected based on their demonstrated ability to add value through active management. While current income is a consideration, absolute total return is the primary measure of performance for the fixed income portion of the Fund.

Real Estate

The Board believes that the Fund can reap the benefits of diversity and reduced volatility through an exposure to core real estate. The Board's approach is to engage an outside active manager with a well-diversified approach to this part of the real estate sector.

Commodities

The Board believes that commodities have the potential to act as a diversifying factor in asset management. Performance of individual commodities is heavily influenced by government policies, the weather, global economic activity, international anxieties, and herd mentalities.

Private Equity and Private Debt

The Board believes that private investments can offer higher returns which more than compensate for their illiquidity. Further, they serve as a means to dampen volatility.

Approach

In the first calendar quarter of each year, the Board reviews the Retirement Fund's Investment Policy Statement and makes any changes which are necessary. An integral part of this process is the determination of the Asset Allocation Range and the Current Policy Target for each asset class. Initial focus is on the assumed rate of return of the Plan and defining a long term asset allocation which will achieve that return objective with an acceptable level of risk. The Board looks to its investment advisor for guidance by providing long term rates of return by asset classes, the standard deviation of these returns, and a variety of asset mixes which meet the return of objective along with a calculation of the overall risk.

On a monthly basis, the Board reviews the current asset allocation against the Interim Policy Target and the established allocation ranges. Changes to the portfolio, but not necessarily the targets, are made as:

- a. The annual contribution is received from the Town.
- b. The need for funds to pay benefits or fund commitments for existing investments.
- c. An investment exceeds its allocation range
- d. A new investment has to be funded.
- e. The perceived outlook for an investment changes for better or worse.
- f. A current investment manager has encountered problems as described in the Investment Policy Statement Section II, C.

Concurrently, the Board considers the progress being made toward attaining the assumed rate-of-return objective and whether targets need to be altered to reach this goal. The Board, also, reviews the current pacing schedule to assure the availability of funds in the months ahead.

Quarterly, the Board reviews the Plan's gross investment performance versus its peers. While the Board realizes there are significant limitations to the usefulness of this comparison, it does serve to highlight the Plan's asset allocation strategy compared to other municipal retirement plans. Quarterly as well, the Board reviews the net investment performance of its investment managers against their approved benchmarks and peers. Serious deviations from these standards are a cause for placing a manager on the watch list and requiring them to meet with the Board (See the Investment Policy Statement).

This process is deliberative and documented.