

**INVESTMENT POLICY STATEMENT**  
**FOR**  
**THE TOWN OF PORTSMOUTH, RI**  
**PENSION PLAN**

Updated  
January 10, 2023

## I. PURPOSE OF THIS STATEMENT

The Investment Policy Statement (hereinafter referred to as "Statement") sets forth the investment objectives and guidelines that will be applied within the investment program to help ensure the Town of Portsmouth, RI's pension plan (hereinafter referred to as "the Plan") is managed in a manner consistent with this Statement and applicable statutory requirements.

The Named Fiduciary, The Town of Portsmouth Town Council, reserves the right to amend this Statement at any time as deemed prudent or necessary, with reasonable notice to the Investment Advisor. Should any amendment to this Statement be required due to changes in the Plan document or a change in applicable law, the Named Fiduciary shall have due time to review such changes and prepare and implement an appropriate amendment. Because of the dynamic nature of the economic environment, developments in financial theories, and advances in technology, this Statement will be examined by the Named Fiduciary from time to time on a formal or informal basis and may, as a result of such examination, be revised by the Named Fiduciary.

Principal Global Advisors (PGA), a specialized investment management group within Principal Global Investors® (PGI), has been hired as the Investment Adviser to the stated Plan assets. The Named Fiduciary has delegated to PGI the tasks of: establishing the asset allocation, implementing the investment strategy and monitoring the investment options. In its capacity as an Investment Adviser, PGI has assumed the role of a fiduciary as defined in Section 3(38) of ERISA for the asset allocation services provided to its clients.<sup>1</sup> The Named Fiduciary has the responsibility to notify PGI of any restrictions that would impact its ability to provide asset allocation advice to the Plan.

## II. INVESTMENT OBJECTIVES

The overall objective of this Statement is to provide guidance for the investment of contributions and other Plan assets to help maintain adequate funding for Plan liabilities. The primary investment objectives of the Plan are as follows:

- **RETURN** – Obtain a reasonable long-term return on assets consistent with the level of risk assumed. Specific return objectives include asset returns that track the growth of liabilities within a reasonable range, and/or exceed the return of a plan specified benchmark index over a market cycle. The plan's current target for its long-term rate of return is 6.75%.
- **COST** – Seek to control the cost of funding the Plan within prudent levels of risk through the investment of Plan assets.
- **DIVERSIFICATION** – Provide diversification of assets to minimize the risk of large losses and align the expected investment return to the Plan's objective consistent with market and economic risk.

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<sup>1</sup> The Plan Sponsor remains the Named Fiduciary of the Plan, but Principal Global Investors is selected as the Plan's Investment Adviser.

### III. INVESTMENT GUIDELINES

The following guidelines have been established for administering the Plan's investment program:

#### ASSET ALLOCATION POLICY

The Investment Adviser shall adopt and implement an asset allocation strategy that is based on several factors which may include:

- The projected liability stream of benefits and the costs of funding to both covered employees and employer(s)
- The Plan's funding level
- The sensitivity of Plan liabilities to interest rate changes
- The relationship between the current and projected assets of the Plan and the projected future liability stream
- Capital market assumptions
- The expectation of future economic conditions, including inflation and interest rate assumptions
- The ability of the Plan to withstand funding fluctuations.

The Asset Allocation Policy shall identify target allocations to eligible asset classes and, suitable ranges within each asset class. Each asset class is to remain invested in either cash (or cash equivalents) or separate accounts established by Principal Life Insurance Company® (Principal Life) as investment options available under the Principal Life group annuity contract purchased by the Plan within each asset class. The asset classes may be rebalanced to align the current asset mix with desired targets. Refer to Appendix A for a list of allowable asset classes, investments that require approval before use, or restrictions to investments.

#### INVESTMENT CATEGORIES

The following asset classes are permitted for Plan asset allocation strategies:

1. STABLE – Co-mingled investment portfolios comprised primarily of short-term, high quality debt securities including money market investment options and short-term bonds. May also invest in guaranteed interest rate products (GIC's) provided by U.S.-domiciled insurance companies with appropriate ratings, such as AM Best rating of A+ or better.

Strategic Purpose: Stable returns, income, and diversification

2. FIXED INCOME – Co-mingled investment portfolios comprised primarily of debt securities issued by the U.S. government, U.S. government sponsored/related agencies, and U.S. domiciled corporations or if international bonds, debt securities issued by foreign governments, foreign government sponsored/related agencies, and foreign corporations. Investment options may include all quality ranges (high, medium and low), all durations (short, intermediate, long and extended), be broadly diversified or concentrated (sector funds), and be either actively or passively managed (indexed).

Strategic Purpose: Income, diversification, deflation hedge (international only)

3. REAL ASSETS – Co-mingled investment portfolios that hold securities linked to tangible assets with the goal of providing diversification and mitigation of inflation risk. Examples may include but are not limited to: portfolios consisting of owned real estate, real estate investment trusts and/or other commingled real estate equity investment options, natural resources stock, timber and agriculture, master limited partnerships, inflation-protected bonds, infrastructure, floating rate debt, commodities, water, metals, mining and currency. Exposure to real assets may be considered as a stand-alone investment option or within Balanced/Asset allocation investment options.

Strategic Purpose: Income, diversification, inflation hedge

4. U.S. EQUITIES – Co-mingled investment portfolios comprised primarily of the common stocks of U.S. domiciled corporations. Investment options may include different sizes (large-cap, mid-cap and small-cap) and styles (value, growth and blend). Such options may be broadly diversified or concentrated (sector funds), and may be either actively or passively managed (indexed).

Strategic Purpose: Long-term growth, diversification

5. NON-U.S. EQUITIES – Co-mingled investment portfolios comprised primarily of the common stocks of corporations domiciled outside of the U.S. Investment options may include different regional and emerging markets funds, a variety of sizes (large-cap, mid-cap and small-cap) and styles (value, growth and blend), be broadly diversified or concentrated (sector funds), and be either actively or passively managed (indexed).

Strategic Purpose: Long-term growth, diversification

6. ALTERNATIVES – Co-mingled investment portfolios that do not align with the more traditional asset types (e.g. stocks and fixed income) and are designed to help provide additional return and decrease correlation to traditional asset classes with the goal of managing volatility. Examples may include but are not limited to portfolios consisting of the following strategies: equity long/short; credit long/short; global macro; fixed-income arbitrage; event-driven; and market neutral. Alternative Strategies may be considered as a standalone investment option or within other Balanced/Asset Allocation investment options, or in investment options that seek to allocate to a variety of different alternative strategies, including combinations of the above.

Strategic Purpose: Managing downside volatility, diversification

## SELECTION OF INVESTMENT OPTIONS

Investment options are made available through the group annuity contract issued by Principal Life. The Investment Adviser shall utilize appropriate investment options for implementing the asset allocation strategy based on the evaluation of qualitative and quantitative factors. The Investment Adviser will select from separate accounts established by Principal Life, focusing on the following six key aspects of the investment management firms managing such separate accounts:

1. ORGANIZATION – Evaluate the key elements of an efficient and successful investment management organization such as stable firm ownership, clear business objectives, industry reputation, and experienced and talented investment staff.
2. INVESTMENT PHILOSOPHY AND PROCESS – Evaluate the key elements of a valid and well-defined investment approach such as unique sources of information, disciplined buy/sell decisions, systematic portfolio construction, and adequate risk controls.
3. RESOURCES – Evaluate the state of current and proposed resources supporting the investment process including the quality and depth of research and the adequacy of information management, compliance, and trading systems.
4. PERFORMANCE – Evaluate investment options' historical returns and risks relative to passive indexes, and peer groups over market cycles.
5. DIVERSIFICATION BENEFIT – Evaluate the diversification benefit of each investment option when analyzing the total portfolio.
6. INVESTMENT MANAGEMENT FEES – Evaluate the proposed fee structure relative to the industry and other competing candidates to help ensure fees are appropriate.

These factors are chosen to help ensure that separate account selections are made with a prudent degree of care, and that excessive risk is avoided. Notwithstanding the above, the Investment Adviser may also include other factors that they believe are appropriate to a specific manager/investment option selection exercise.

### **MONITORING OF INVESTMENT OPTIONS**

PGI, as the Investment Adviser utilizes a due diligence process when monitoring each investment option in our target asset allocation. PGI may at any time recommend the addition or removal of an investment option from the target asset allocation due to an unfavorable change in the management, philosophy, process, performance, or diversification benefit of any investment option.

The objective of the investment monitoring process is to identify on a timely basis any adverse changes to the investment manager's organization or investment process by periodically evaluating a number of qualitative and quantitative factors.

### **ELIMINATION AND ADDITION OF INVESTMENT OPTIONS**

The Investment Adviser may recommend the addition or removal of an investment option, made available through the group annuity contract of Principal Life, from the asset allocation any time it deems this action is in the best interests of the Plan.

Corporate Legal Name:

Town of Portsmouth

Signature:



Printed Name:

Kevin Aguiar

Title:

Portsmouth Town Council President

Date Signed:

1/31/2023

# Appendix A

## Asset Allocation Policy

The following describes investment parameters available to the Plan, including allowable investments, those that require approval prior to implementation, and restrictions, if any.

### Asset Allocation Guidelines

Asset Class	Lower Limit	Upper Limit	Normal Range Target
Fixed Income/Stable	25%	50%	20% - 50%
U.S. Equities	30%	50%	30% - 50%
Non-U.S. Equities	10%	25%	10% - 25%
Real Assets	0%	10%	0% - 10%
Alternatives	0%	5%	0%- 5%