

Lewes Board of Public Works Defined Benefit Plan

Investment Policy Statement

Version [1.0]

Statement of Objectives and Guidelines for the Investment of
Board of Public Works Defined Benefit Plan

PRELIMINARY BOARD DOCUMENTS

Table of Contents

| | |
|---|-------------------------------------|
| TABLE OF CONTENTS | 2 |
| INVESTMENT POLICY STATEMENT VERSION CONTROL | ERROR! BOOKMARK NOT DEFINED. |
| DEFINITIONS | 3 |
| SUMMARY | 4 |
| <i>Basic Information</i> | 4 |
| <i>Board and Committee Logistics</i> | 4 |
| <i>Investment Policy Statement Baseline</i> | 4 |
| GENERAL PRINCIPLES..... | 5 |
| PURPOSE..... | 5 |
| <i>Statement of Purpose</i> | 5 |
| GOALS AND OBJECTIVES | 5 |
| STANDARDS OF CARE | ERROR! BOOKMARK NOT DEFINED. |
| <i>Prudence</i> | Error! Bookmark not defined. |
| <i>Ethics and Conflicts of Interest</i> | Error! Bookmark not defined. |
| <i>Control</i> | Error! Bookmark not defined. |
| ROLES AND RESPONSIBILITIES..... | 5 |
| <i>Investment Committee Functions (or Board of Directors if elected to oversee directly; replace Investment Committee in this document where appropriate)</i> | 5 |
| <i>Consultant</i> | Error! Bookmark not defined. |
| <i>Money/Investment Manager</i> | Error! Bookmark not defined. |
| <i>Custodian</i> | Error! Bookmark not defined. |
| <i>[(optional section) Co-Trustee</i> | Error! Bookmark not defined. |
| <i>Additional Specialists</i> | Error! Bookmark not defined. |
| ADMINISTRATION | ERROR! BOOKMARK NOT DEFINED. |
| <i>Policy Review</i> | Error! Bookmark not defined. |
| INVESTMENT POLICIES & PROCEDURES..... | 6 |
| INVESTMENT PHILOSOPHY | 6 |
| INVESTMENT GUIDELINES | 6 |
| <i>Professional Management</i> | Error! Bookmark not defined. |
| OPERATING GUIDELINES | ERROR! BOOKMARK NOT DEFINED. |
| <i>Risk & Liquidity</i> | Error! Bookmark not defined. |
| INVESTMENT STRATEGY AND PERFORMANCE | 6 |
| <i>Asset Allocation</i> | 7 |
| <i>Rule Parameters</i> | 7 |
| <i>Restrictions</i> | 8 |

Definitions

1. **Board of Directors** is a body of individuals appointed by the [Plan / Organization] to oversee all interests of the [Plan / Organization], including the creation of the Investment Policy Statement.
2. **CPI** shall mean the Consumer Price Index or rate of inflation.
3. **ERISA** shall mean the Employee Retirement Income Security Act of 1974, any amendments thereto, and any regulations issued pertaining to the Act.
4. **Fiduciary** undertaking an obligation to exercise prudence, responsibility and authority in making decisions in connection with managing the assets of the [Plan / Organization] (or as further defined by applicable law).
5. **Consultant** employed to assist in the development of investment objectives, analysis of asset allocation, manager searches and portfolio evaluation and review. An investment portfolio service may include the identification of managed investments including investment managers, mutual funds, ETFs, alternative investment, collective trusts.
6. **Investment Committee** group appointed by the board that oversees the Investment Policy portion of the Investment Policy Statement.
7. **Investment Policy Statement** shall mean this document (hereinafter "IPS"); see 'Statement of Purpose'.
8. **Money Manager / Investment Manager** an individual or organization employed to manage the investments of all or part of the Portfolio assets. A Money Manager / Investment Manager can provide services in a variety of ways including separately managed funds, ETFs, etc...
9. **Investment Risk** (as defined by the [Plan / Organization]) the probability of not meeting target investment returns.

Summary

Basic Information

Name of Organization / Plan Sponsor

- Lewes Board of Public Works Defined Benefit Plan

Plan Type

- Defined Benefit Plan

Plan Status

- Active [or: Frozen, Terminating, Converting]

Location

Lewes BPW
107 Franklin Avenue • Lewes DE, 19958
Office: (302) 645-6228
Fax: (302) 645-6358

Board and Committee Logistics

Meetings

- One Annual Meeting
 - [To be held during the new fiscal year quarterly meeting]
- Quarterly Meetings
 - [Held at the location above each first Wednesday of the new quarter]

Primary Contact

- Darrin Gordon, General Manager Lewes Board of Public Works

Investment Policy Statement Baseline

Portfolio Time Horizon

- Long-term -- 15 years or greater

Primary Investment Objective

- Produce a combination of income and capital appreciation

Primary Risk Tolerance

- Moderate

Actuarial Return Assumptions

- 3.5% above CPI

Targeted Total Rate of Return

- Over a 3 year should exceed the median return of a universe of managers with similar investment objectives and styles.

General Principles

Purpose

Statement of Purpose

The purpose of this Investment Policy Statement is to set forth the policies and procedures that shall guide the Board of Directors of the Lewes Board of Public Works in supervising and monitoring the management of Lewes Board of Public Works investable assets. This document will be used as the basis for investment decisions, delegations and evaluation.

The intent of this policy is to be both sufficiently specific to be meaningful and flexible enough to be practical and endure both time and change.

Goals and Objectives

Assets are to have a long-term investment horizon.

The primary investment objectives of the assets are to:

- Meet or exceed the market index (or blended market index) selected and agreed upon by the LBPW that most closely corresponds to the style of investment management.
- Provide exposure to a wide range of investment opportunities in various markets, thus reducing the risk exposure through prudent diversification.
- Display an overall reasonable and prudent level of risk in the portfolio which is consistent with the risk associated with the benchmarks specified above. Risk will be measured by the standard deviation of quarterly returns.
- Control costs of administering and managing the investments.

Specific investment goals and constraints for each investment manager, if any, shall be incorporated as part of this IPS. For actively managed investment, each manager shall receive a written statement outlining his specific goals and constraints as they differ from those objectives of the entire plan.

Roles and Responsibilities

The Investment Committee shall implement the management process and monitor the assets in accordance with this IPS. The Chair of the Committee shall be the General Manager of the Lewes Board of Public Works. Other investment committee members may include the Assistant General Manager and the Treasurer.

Investment Committee Functions

The Investment Committee, acting pursuant to this IPS, shall have direct responsibility for the oversight and management of the assets and for the establishment of investment policies and procedures.

The Investment Committee will:

- Adhere to the guidelines as defined in ERISA and all other applicable regulations.
- Determine risk tolerance and investment horizon, in turn, establishing reasonable and consistent investment objectives, policies and guidelines which will direct the investment of the assets as reflected in the IPS.

- Project financial needs of the Lewes Board of Public Works and communicating such needs to the Investment Managers on a timely basis.
- Determine the Asset Allocation of the assets, acting within the parameters of the IPS.
- Provide specific guidelines for the investment of assets.
- Oversee the assets and review Investment Performance.
- Review and, where possible, control investment expenses. All expenses must be customary and reasonable, and will be borne by the portfolio as deemed appropriate and necessary.
- Review this policy, along with those retained to assist the committee, at least annually.

Investment Policies & Procedures

Investment Philosophy

While acknowledging the importance of preserving capital, the Lewes Board of Public Works also recognizes the necessity of accepting risk if the assets are to be able to meet their long-term investment goals. The Investment Committee shall seek to ensure that the risks taken are appropriate and commensurate with the asset's goals.

Investment Guidelines

In managing and investing the assets, the Investment Committee shall set forth guidelines for managing investment assets according to prudent standards. As fiduciaries, Lewes Board of Public Works will manage the investment of all funds with the care, skill, prudence and diligence under the circumstances that a prudent investor acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims. In particular, the Investment Committee must:

- Make investments for the sole interest and exclusive purpose of providing benefits to Lewes Board of Public Works;
- Incur only costs that are appropriate and reasonable in relation to the assets, the purposes of Lewes Board of Public Works and the skills available to Lewes Board of Public Works
- Other factors to consider
 - General economic conditions,
 - Possible effect of in/deflation,
 - Expected tax consequences, if any, of investment decisions or strategies,
 - Role of each investment and its impact to the overall portfolio,
 - Expected total return from income and the appreciation of investments,
 - Other capital resources of Lewes Board of Public Works,
 - Needs of Lewes Board of Public Works in perspective with distribution requirements and ability to preserve capital, and

Investment Strategy and Performance

The Investment Committee will monitor the overall asset allocation within the parameters detailed herein and adjust the strategic (long-term) and tactical (short/mid-term) allocations accordingly. The Benchmarks identified, consisting of one or more securities index, provide the comparison point for periodic performance review.

Asset Allocation

The asset allocation shall be implemented using a policy portfolio, with target allocations and ranges for each investment strategy. It is expected that market value fluctuations will cause deviations from the target allocations to occur.

Periodic rebalancing will maintain the Lewes Board of Public Works Defined Benefit Plan asset allocation policy within the targeted ranges, thereby ensuring that the Plan does not incur additional risks as a result of having deviated from the policy portfolio for an extended period of time.

The following Asset Allocation strategy has been established based on the strategic objectives, spending policy and risk tolerance of Lewes Board of Public Works Defined Benefit Plan.

| Strategy | Minimum Range | Maximum Range | Benchmark |
|----------------------------|---------------|---------------|----------------------------|
| Equity (US) | 0 % | 60 % | Russell 3000 |
| Equity (International) | 0 % | 10 % | ACWI ex US IMI |
| Fixed Income US | 25 % | 75 % | Barclays Aggregate |
| Fixed Income International | 0 % | 10 % | Bar Cap GI Agg ex US |
| Cash and Equivalents | 3 % | 50 % | Barclays US T-Bill (1-3 M) |

Rule Parameters

Portfolio Investment Rules

Certain rules and strategies span the entire portfolio.

Equity Securities

The purpose of equity investments, both domestic and international, is to provide capital appreciation, growth of income and current income. This asset class has historically experienced greater market volatility and increased risk of loss than Fixed Income investments, but also has historically provided relatively higher returns which would help meet the portfolio's total return goals.

- Securities may cover capitalization ranges (large, mid, and small) and style ranges (value, core, and growth) within domestic and international markets and may be accessed via individual securities, mutual funds, and/or exchange-traded funds.

Fixed Income Securities

Domestic and international fixed income investments are intended to provide diversification and a dependable source of current income. Fixed income investments have historically experienced less market volatility and decreased risk of loss than equities and should reduce the overall volatility of the assets and provide a deflation or inflation hedge, as needed.

- Securities may cover a broad spectrum of fixed income sectors (including, but not limited to, government, asset-backed, corporate, high yield, and municipals) within both the domestic and international markets and may be accessed via individual securities, mutual funds, and/or exchange-traded funds.

Cash and Equivalents

Investments may be made in cash or cash equivalent vehicles to help ensure income, liquidity (for payments and expense) and preservation of the asset's principal value:

Restrictions

Since the Lewes Board of Public Works Defined Benefit Plan is invested in Comingled Funds which include Mutual Funds, Exchange Traded Funds or other Comingled Fund investments, these vehicles are subject to fund specific guidelines that are not altered for individual investors. As such, the acceptable investment categories will be the guideline for the investment selection process.

The Investment Committee may, on a case-by-case basis, determine to waive or modify any of the following restrictions. Any such waiver or modification shall be made only after a thorough review of the investment manager and investment strategy involved and a record of the basis for the waiver or modification shall be maintained by the Investment Committee.

PRELIMINARY BOARD DOCUMENTS