Town of Redding
OPEB Trust Fund

INVESTMENT POLICY STATEMENT

Adopted: April 12, 2021

Introduction & Purpose

The Town of Redding Other Post-Employment Benefit ("OPEB") Trust Fund (the "Trust") has been established to provide post employment retirement benefits to those individuals eligible to receive them. This policy statement outlines the goals and investment objectives for the Trust. This document is also intended to provide guidelines for managing the Trust, and to outline specific investment policies that will govern how those goals are to be achieved. This statement:
• Describes the investment objectives of the Trust;
• Describes an appropriate risk posture for the investment of the Trust’s assets;
• Defines the responsibilities of the Board of Finance acting in its capacity as the OPEB Trust Board (the “Board”) and other parties responsible for the management of the Trust;
• Establishes investment guidelines regarding the selection of investment managers and diversification of assets;
• Specify the authority of the Board to determine funding.
• Specifies the criteria for evaluating the performance of the investment managers and of the Trust as a whole.

**Investment Objectives**

The Trust’s assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Trust, the Board has taken into account the financial needs and circumstances of the Trust, the time horizon available for investment, the nature of the Trust’s cash flows and liabilities, and other factors that effect their risk tolerance. Consistent with these attributes, the Board has determined that the investment of these assets shall be guided by the following underlying goals:

• To attain by 2031 or beyond, in the discretion of the Board, the level of assets that would enable the Trust to begin paying benefits on a sustainable basis;
• To sustain the stated actuarial target of the Trust once that level of assets has been attained;
• To maintain sufficient liquidity to meet the obligations of the Trust;
• To diversify the assets of the Trust in order to reduce the risk of wide swings in market value from year-to-year, or of incurring large losses that could occur from concentrated positions;
• To contribute to the Trust, ideally each year, recognizing that the Board has discretion as to whether to contribute and how much to contribute;
• In those years when the Board chooses to make an annual contribution, the normal investment schedule should ordinarily be monthly;
• To achieve investment results over the long-term that compare favorably with those of other municipal investment pools, professionally managed portfolios and appropriate market indexes;
• To appropriately manage potential risks against returns.

**Volatility Objectives**

• Diversification will be employed to reduce risk. The Trust’s assets will be diversified by incorporating distinct asset classes and investment styles into the portfolio. Volatility will also be addressed by the use of frequent investments, ideally at least one per month, (commonly known as “dollar-cost averaging”) when the Board chooses to contribute.
The volatility of the total portfolio, in aggregate, should be reasonably close to the volatility of a weighted composite of market indices of the target portfolio, which the Board shall review and revise from time to time.

Assignment of Responsibilities

OPEB Trust Board - The Board is charged with the responsibility of managing the assets of the Trust. To that end, the Board’s responsibilities include: obtaining external advice from an Investment Consultant, as appropriate, in order to ensure prudent balancing of long-term risks/rewards, establishing and maintaining the Trust’s investment policy, approving the asset allocation, and periodically monitoring the performance of the investments. The Board shall discharge its duties with the care, skill, prudence and diligence appropriate to the circumstances then prevailing.

Investment Consultant - At the outset of the creation of an OPEB Trust the Board shall engage the services of an investment consultant; once the Trust is established the Board may at its discretion continue to engage in the services of the investment consultant. The investment consultant’s role is to advise the Board to make investments within the guidelines set by the Board and this Policy. The investment consultant will advise the Board on the development and periodic review, at least annually, of the Trust’s asset allocation, address administrative needs of the fund, monitor the performance of the managers/funds, and communicate on other financial matters of relevance to the oversight of the Trust.

Custodian - The Custodian is responsible for the safekeeping and custody of assets. The Custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Trust, collect dividends and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The Custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Trust (for example, to accommodate payments to eligible Trust participants).

Asset Allocation

After consulting with its financial advisor, the Board shall consider (i) what categories of assets to consider, (ii) whether to seek managed or unmanaged funds, and (iii) what target percentage of total assets should be deployed in each category. The asset allocation target ranges set be forth in Schedule A, as it may be amended from time to time. The asset allocation shall represent a long-term view in the initial years of the trust, as the principal goal will be the accumulation of assets. The Board shall reconsider the asset allocation when deciding to begin paying benefits. Short-term market volatility may cause the asset mix to fall outside the targeted range.
(1) Specific reporting benchmarks may change depending on the specific funds utilized in the portfolio.

**Rebalancing**

Given the inherent volatility of the capital markets, strategic adjustments in various asset classes may be required to rebalance asset allocation back to its target allocation. The necessity to rebalance will be reviewed periodically, at least annually, and rebalanced at the direction of the Board. Such adjustments should be executed so as to minimize excessive turnover, transaction costs, and realized losses over the long term.

**Selection Criteria for Investments Managers / Mutual Funds / Co-Mingled Pools**

Investment managers retained by the Trust shall be chosen using the following criteria:

- Past performance, considered relative to other investments having similar investment objectives with consideration granted to both consistency of performance and the level of risk taken to achieve results;
- The investment style and discipline of the investment manager/fund;
- How well the manager/fund’s investment style or approach complements other assets in the Trust;
- Level of experience, personnel turnover, financial resources, and staffing levels of the investment management firm/fund;
- An assessment of the likelihood of future investment success, relative to other opportunities;
- Cost, as compared to compared to competitive entities;
- Access to low-cost funds, especially index funds and Exchange Traded Funds (ETFs).

The Trust will generally utilize a structure of complementary investment styles and asset classes to invest its assets. The Trust may use a combination of index funds, ETFs, and/or active managers/funds as the Board deems appropriate.

Should additional contributions and/or market value growth permit, the Board may retain additional investment managers/funds to invest the assets of the Trust. Additional managers/funds would be expected to diversify the Trust by investment style, asset class, and management structure and thereby enhance the probability of the Trust achieving its’ long-term investment objectives.

**Securities Guidelines**

The Trust’s investments may include separately managed accounts and/or mutual funds/co-mingled funds (including exchange-traded funds “ETFs”). The Board
understands that managers have full responsibility for security selection, diversification, turnover and allocation of holdings among selected securities and industry groups, as particularly detailed in the investment policy statement of each of the Trust’s separately managed accounts or in the prospectus/offering memorandum for each mutual fund/co-mingled fund in the portfolio, but the final decision about asset allocation and individual investments remains with the Board.

With respect to separately managed accounts, any securities and transactions that are not permitted in the Trust without prior written Board approval will be detailed in the investment policy statement of each separate account manager and will be included as an attachment to this policy.

With respect to mutual /co-mingled funds and ETFs, the Board will consider the following to insure proper diversification and function for each of the funds:

1. The mutual fund/co-mingled pool organizations and ETFs selected should demonstrate: (a) a clearly defined investment philosophy; (b) a consistent investment process; (c) an experienced and stable organization; (d) cost-effectiveness; and (e) responsiveness to evolving investor requirements.

2. The mutual fund/co-mingled pool and ETFs used will generally have at least a full three-year track record, or its equivalent, and the individual fund/pool or ETF will generally have at least $25 million under management (or, as an organization, $100 million in the same strategy) at the time of selection.

3. Each mutual fund/co-mingled, or ETF will be regularly evaluated based on timely information provided by the fund/ETF and such other information and research provided by the investment consultant.

Proxy Voting

Each investment manager is responsible for and empowered to exercise all rights, including voting rights, as are acquired through the purchase of securities, where practical. Each investment manager shall vote proxies according to their established proxy voting guidelines. A copy of those guidelines, and/or summary of proxy votes shall be provided to the Board upon request.

Investment Monitoring and Reporting

The Board will periodically, at least annually, review performance of the investments in the Trust. Performance monitoring is the mechanism for revisiting the investment selection process and confirming that the criteria originally satisfied remain in tact and that an investment continues to be appropriate for the Trust. While frequent change is neither expected nor desirable, the process
of monitoring investment performance relative to specified guidelines is an on-going process.

Monitoring should occur on a periodic basis. The monitoring process will utilize the same criteria that formed the basis of the investment selection decision. In addition, a set of “watch list criteria” may be employed to track important quantitative and qualitative elements, assist in the evaluation process, and focus the Board on potential areas of concern.

Watch list criteria may include the following:
- Behind benchmark performance over a specified period of time;
- Deterioration of risk-adjusted performance;
- Notable style drift / change in investment objective;
- Investment management fees not competitive in marketplace;
- Significant organizational or manager change.

Approval

It is understood that this investment policy is to be reviewed periodically, at least annually, by the Board to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, or changes involving the investment managers/funds.

The signature below affirms that this statement has been read, understood, accepted, and approved by the Board.

Town of Redding OPEB Trust

Name: Jenifer Wyss,
Chairperson

Signature: [Signature] Date: April 12, 2021
# Schedule A

### Appendix: Asset Allocations
*(reprinted from materials discussed during November 23, 2020 BOF meeting)*

<table>
<thead>
<tr>
<th>Manager/Fund Name</th>
<th>Ticker</th>
<th>Mandate/Style</th>
<th>Conservative Allocation</th>
<th>Moderate Allocation</th>
<th>Aggressive Allocation</th>
<th>Estimated Net Expense (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FIXED INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fidelity® Short-Term Bond Index Fund</td>
<td>FNSOX</td>
<td>Short Term</td>
<td>10.0%</td>
<td>7.0%</td>
<td>4.0%</td>
<td>0.030%</td>
</tr>
<tr>
<td>Fidelity® US Bond Index Fund</td>
<td>FXNAX</td>
<td>Core Bonds</td>
<td>40.0%</td>
<td>28.0%</td>
<td>16.0%</td>
<td>0.025%</td>
</tr>
<tr>
<td><strong>DOMESTIC EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fidelity® 500 Index Fund</td>
<td>FXAIX</td>
<td>Large Cap Blend</td>
<td>19.0%</td>
<td>24.5%</td>
<td>30.0%</td>
<td>0.015%</td>
</tr>
<tr>
<td>Fidelity® Extended Market Index Fund</td>
<td>FSMAX</td>
<td>SMID Cap</td>
<td>6.0%</td>
<td>8.0%</td>
<td>10.0%</td>
<td>0.036%</td>
</tr>
<tr>
<td><strong>INTERNATIONAL EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fidelity® International Index Fund</td>
<td>FSPSX</td>
<td>Developed Markets</td>
<td>14.0%</td>
<td>18.5%</td>
<td>23.0%</td>
<td>0.035%</td>
</tr>
<tr>
<td>Fidelity® Emerging Markets Index Fund</td>
<td>FPADX</td>
<td>Emerging Markets</td>
<td>7.0%</td>
<td>9.5%</td>
<td>12.0%</td>
<td>0.076%</td>
</tr>
<tr>
<td><strong>REAL ESTATE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vanguard Real Estate Index</td>
<td>VGSLX</td>
<td>Real Estate</td>
<td>4.0%</td>
<td>4.5%</td>
<td>5.0%</td>
<td>0.120%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td><strong>Weighted Average Net Expense Ratio</strong></td>
<td></td>
<td></td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.04%</td>
<td></td>
</tr>
</tbody>
</table>

**Expected Annual Return**

- 4.5%
- 5.4%
- 6.1%

**Expected Volatility**

- 10.0%
- 12.2%
- 14.6%

**100 Year Flood**

- -24.2%
- -30.9%
- -37.5%

---

*Source: Morningstar.

The expected one in a hundred worst case calendar year return based on non-normally distributed capital market assumptions (factoring in skewness & kurtosis). Greater losses are possible (1% expected likelihood).

Historical Returns and Risk Metrics for each Mix represent back-tested calculations developed with the benefit of hindsight. Return calculations use an asset-weighted methodology based on the target asset allocation of each mix and the total return of index proxies used to represent each asset class and are gross of fees. Historical returns are hypothetical and do not represent returns earned by a client. It is not possible to invest in an index. Please see disclosures at the end of this presentation for additional important information, including index proxies used to represent each asset class. Please ask for a copy of DiMeo Schneider’s white paper titled 10-Year Capital Market Forecasts. Past performance does not indicate future performance and it is possible to lose money when investing.

www.FiducientAdvisors.com