
INVESTMENT POLICY STATEMENT
DECEMBER 2023

CITY OF DERBY, CONNECTICUT
PENSION BOARD

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By Marc J. Garofalo, MPA, MCC, MCTC at 9:10 am, Jan 28, 2026

Purpose

The purpose of this Investment Policy Statement (“IPS”) is to establish a clear understanding between The City of Derby, Connecticut Pension Board (the “Board”) and the Investment Manager as to the investment goals and management policies applicable to The City of Derby, Connecticut Pension Plan Fund (the “Fund”). This Investment Policy Statement will:

- Establish reasonable expectations, objectives and guidelines in the investment of the Fund’s assets.
- Create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable to the City of Derby, Connecticut Pension Board, including:
 - Specifying the target asset allocation policy;
 - Establishing investment guidelines regarding the selection of permissible securities and diversification of assets;
 - Describing an appropriate risk posture for the investment of the Town of Coventry Retirement Fund;
- Define the responsibilities of the City of Derby, Connecticut Pension Board and the Investment Manager.
- Encourage effective communication between the Investment Manager and the City of Derby, Connecticut Pension Board.

This IPS is intended to be a summary of the investment objectives and investment management procedures that provide guidance for the City of Derby, Connecticut Pension Board and the Investment Manager. These policies will be reviewed and revised periodically to ensure they adequately reflect any changes related to the Fund, to the City of Derby, Connecticut Pension Board and/or to the capital markets.

Note

This Investment Policy Statement will address the entire portfolio of investments of the City of Derby, Connecticut Pension Board including any assets held with or managed by parties other than the Investment Manager.

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Investment Objectives

The specific objectives for these assets shall be to achieve an annual rate of return, net of all fees and expenses for the aggregate investments under this Investment Policy Statement, in excess of the actuarial assumption currently in force with the Fund. The net target rate of return shall match the actuarial assumption assigned to the Fund. The net target rate as of July 1, 2022 is 6.50% per the FY2022 GASB 67 and 68 Report.

Time Horizon

The Board's investment objective assumes a 6- to 12-year holding period while the actual liabilities horizon is long term due to the nature of the Fund. Performance will be tracked monthly and reported to the Board quarterly, or more frequently as the Board may request.

Risk Tolerance

The goal is to achieve a total return that is in the top 33% of a representative universe of professionally managed assets, in good and in bad markets.

The Board may expect that during periods of extended adverse market conditions, total Fund returns will remain predictable and consistent with a loss exposure limited to negative 4% to negative 8%.

The Board is expected to enforce the goals outlined above, exercising reasonable patience. The Board does not expect to be reactive to short-term investment developments, recognizing that a complete market cycle must be considered before concluding quantitatively on management capabilities. The Board considers a 3 to 5-year period to be normal for such assessment but anticipates making interim qualitative judgments.

Asset Allocation

The Fund will employ a global asset allocation methodology, incorporating both traditional public market asset classes as well as alternative strategies invested in private market or illiquid assets, to manage unsystematic risk and will benchmark Fund composition and performance to appropriate global indexes such as the MSCI All Country World Index for equities and the Bloomberg Barclays US Aggregate Bond Index for fixed income. Therefore, asset allocations for the public-market equities and fixed income segments of the Fund are based on the makeup of these indexes with drift tolerances above and below specific asset class to allow the Investment Manager room to take advantage of certain valuation and/or opportunistic dislocations identified within markets. The alternative investment portion will be evaluated on a risk-adjusted basis such as a Sharpe Ratio above cash proxies such as Treasury Bills. The illustration below serves as a guideline for the Fund's asset allocation.

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Asset Class	Index Weight	Allowable Drift
Equities*	55%	From 45% to 65% of Fund
US	34%	25% to 37%
Developed Foreign	14%	11% to 17%
Emerging Markets	7%	5% to 9%
Fixed Income	20%	15% to 25% of Fund
Alternative Investments	20%	15% to 25% of Fund
Cash Reserves	5%	3% to 8% of Fund

* Includes REITs and Liquid (Publicly-Traded) Alternatives (Updated as of December 2023)

Updated Allocations

From time to time, it may be desirable to amend the target allocation policy or calculations. When the Board makes such changes, updates will be attached to this Investment Policy Statement as an *Appendix* and will be considered part of this Investment Policy Statement or this Investment Policy Statement may be superseded by a replacement IPS and recorded in the Board’s meeting minutes.

Fund Rebalancing Procedures and Guidelines

From time to time, market conditions may cause the Fund’s investment in various asset classes and overall stock and bond mix to vary from the established target allocation. To remain consistent with the asset allocation guidelines established by this Investment Policy Statement, the Investment Manager should continuously monitor the Fund and each asset class in which the Fund is invested.

On an ongoing basis the Investment Manager shall review the Fund’s actual allocation against the IPS target allocations of 55% stocks, 20% bonds, 20% alternatives, and 5% cash. Should the general asset allocation guidelines of the Fund exceed a variance greater than 10% from the IPS target allocation, the Investment Manager will rebalance the Fund back to the IPS target allocation. Liquidity considerations of non-traditional, alternative investment allocations should be taken into consideration with respect to rebalancing or changes to the long-term asset allocation.

In addition to reviewing the overall general asset allocation, the Investment Manager will also review the Fund’s actual percentage allocation of each asset class against the IPS target allocation. Should the asset class allocations exceed a variance greater than those indicated above, the Investment Manager will rebalance back to the IPS target allocation.

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Diversification

With respect to the public market asset classes, investment of the Fund shall be limited to individual marketable securities or packaged products (for example, mutual funds or exchange traded funds) in the following categories.

Permitted Public Market Asset Classes

1. Cash and cash equivalents
2. Fixed Income-Domestic Bonds
3. Fixed Income-Non-U.S. Bonds
4. Equities-U.S.
5. Equities-Developed, Non-U.S.
6. Equities-Emerging Markets
7. Equities-REITS
8. Liquid (Publicly-Traded) Alternatives

With respect to the alternative strategies investing in non-public market asset classes or non-traditional strategies (e.g. hedge funds), investment of the Fund shall be allocated to alternative investment managers (“Alternative Managers”), either through direct co-investments or limited partnership funds or 1940 Investment Company Act registered investment vehicles such as interval funds. Fund allocations to Alternative Managers will be subject to due diligence conducted by the Plan’s Investment Manager. Eligibility for consideration, subject to evaluation by the Plan’s Investment Manager, would include, but not limited to the following:

1. SEC registration as a regulated investment advisor.
2. Audited financial statements of the investment vehicles being considered.
3. Demonstrable capabilities to manage the underlying strategies, with considerations for firm history, investment personnel experience, operational infrastructure, and applicable performance track records.
4. Transparency around performance reporting and firm / strategy updates.
5. Terms of liquidity for capital commitments and withdrawal windows (if any).

Alternative investments of the Fund may encompass, but not limited to the following categories, either as co-direct investments, limited partnerships, or 1940 Investment Company Act registered investment vehicles such as interval funds:

1. Venture Capital
2. Direct Real Estate & Leasing
3. Purchases of Lettered Stock, Private Placements, or Direct Payments
4. Leveraged Transactions
5. Commodities Transactions
6. Structured Financial Products
7. Derivatives Transactions (Publicly Listed and Over the Counter)
8. Short Transactions
9. Non-Traditional Infrastructure Investments
10. Private Credit / Private Lending

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Investment Reviews and Communication

Meetings and Communication Between the Board and the Investment Manager

As a matter of course, the Investment Manager shall keep the City of Derby, Connecticut Pension Board apprised of any material changes in the Investment Managers' outlook, recommended investment policy, and tactics. In addition, the Investment Manager shall meet with the City of Derby, Connecticut Pension Board, either in person, virtually, or a hybrid of both, no less than semi-annually to review and explain the Fund's investment results and any related issues. The Investment Manager shall attend the meetings of the City of Derby, Connecticut Pension Board as requested by the Board. The Investment Manager shall also be available on a reasonable basis for telephone communication when needed.

Any material event that affects the ownership of the Investment Manager or the management of the Fund must be reported immediately to the City of Derby, Connecticut Pension Board.

Duties and Responsibilities

The Investment Manager

The Investment Manager is expected to manage the Fund in a manner consistent with this Investment Policy Statement and in accordance with State and Federal law and the Uniform Management of Public Employee Retirement Systems Act. The Investment Manager is a Registered Investment Advisor ("RIA") who shall act as the investment advisor and fiduciary to the City of Derby, Connecticut Pension Board until the City of Derby, Connecticut Pension Board decides otherwise.

The Board

The City of Derby, Connecticut Pension Board shall be responsible for:

1. Defining the investment objectives and policies of the Fund.
2. Directing the Investment Manager to make changes in investment policy and to oversee and to approve or disapprove of the Investment Manager's recommendations with regards to policy, guidelines, objectives and specific investments on a timely basis.
3. The City of Derby, Connecticut Pension Board shall provide the Investment Manager with all relevant information on its financial conditions and risk tolerances and shall notify the Investment Manager promptly of any changes to this information.
4. The Board recognizes that their role is advisory as to investment strategy and policy. Both determination and selection of specific investments and securities must be delegated to the Investment Manager. However, the Board may determine that certain specific investments and securities are unacceptable as assets of the Fund.
5. The Investment Policy objectives, goals and guidelines represent the Board's philosophy regarding the investment of the Fund. The Investment Policy Statement will need to be reviewed at least bi-annually following election of officers to ensure that the Investment Policy Statement continues to reflect the Board's attitudes, expectations, and objectives.

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6. The Board retains the right to assign or change parties responsible for the following services, either in part or in whole, at any time: Actuarial, Investment Management and the Custodian.

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Adoption Agreement

Adopted by the below signed:

This Investment Policy Statement was adopted by The City of Derby, Connecticut Pension Board on the ___ day of _____, 201__.

Signature Date

Signature Date

The undersigned Investment Manager hereby accepts the responsibility to manage assets of City of Derby, Connecticut Pension Plan in accordance with the terms of this Investment Policy Statement.

John O'Connor, President
Freedom Investment Management
Signature Date

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