

**TOWN OF ANDOVER
CONTRIBUTORY RETIREMENT SYSTEM
INVESTMENT POLICY STATEMENT
With revisions adopted: January, 2018
Effective April 1, 2018**

I. PURPOSE OF INVESTMENT GUIDELINE STATEMENT

The Andover Contributory Retirement System (the "System") has been created under the laws of the Commonwealth of Massachusetts and funded to provide retirement benefits for those employees who through their years of service have earned a right to a pension benefit. The purpose of the System is to provide for the accumulation, investment and distribution of money in a prudent and actuarially sound fashion over the years of the employees' service and subsequent retirement. This document is designed to set forth the policies and guidelines for those who administer and invest the System's funds in the portfolio.

The Andover Contributory Retirement Board (the "Board") maintains that an important determinant of future investment returns is the expression and periodic review of the System's investment objectives. To that end, the Board has adopted this Investment Policy Statement.

In fulfilling its fiduciary responsibility, the Board recognizes that the System is an essential vehicle for providing income and benefits to retired participants and/or their beneficiaries. The Board also recognizes that the obligations of the System are long-term and that the investment policy should be made with a view toward performance return over a number of years. The general investment objective, then, is to obtain a reasonable total rate of return, defined as interest and dividend income plus realized and unrealized gains or losses, commensurate with the Prudent Investor Rule and any other applicable statute or requirement.

A reasonably consistent and adequate return, protection of the assets against the inroads of inflation, and absolute safety of the assets are paramount. However, the volatility of interest rates and securities markets make it necessary to judge results within the context of many years rather than over short periods of three or five years. Performance will be measured quarterly.

II. MASSACHUSETTS LAWS

Since the System is a defined benefit plan created by Massachusetts laws, Chapter 32 (the "Plan") and further regulated by Investment Regulations (840 CMR) of the Public Employee Retirement Administration Commission has promulgated, certain investment procedures and restrictions set forth under these regulations must be followed. If at any time this document is found to be in conflict with Massachusetts laws, the statute shall prevail.

Although this System is not subject to the Employee Retirement Income Security Act (ERISA), the Board and all of its agents should comply with the standards set forth in ERISA. Therefore, all of the individuals associated with the plan should act within the confines of that statute. Where not specifically indicated, the actions or decisions of the individuals are to be governed by the prudent investor rule.

Additionally:

EVERY FIDUCIARY SHALL:

- Discharge his or her duties for the exclusive purpose of providing benefits to the System members and their beneficiaries and defraying reasonable expenses of administering the Plan;
- Act with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims;
- Diversify investments of the System so as to minimize the risk of large losses unless under the circumstances it is clearly not prudent to do so, and;
- Operate in accordance with the System procedures, documents and instruments.

NO FIDUCIARY SHALL:

- Deal with the System assets for his or her own account or his or her own interest, or;
- Act in any matter affecting the retirement system on behalf of any person or organization whose interests are adverse to the interests of the System, its members or beneficiaries.

III. INVESTMENT PERFORMANCE OBJECTIVES

Based upon the System's latest actuarial report (2016), the Board has established long-term goals for the overall investment portfolio consistent with the liabilities of the System. At a minimum, the System currently in aggregate needs to earn a compound annualized rate of return over time of 7.25%.

Total System Performance:

The performance of the System will be measured each quarter for rolling three and five year periods. These periods are considered sufficient to accommodate the different market cycles commonly experienced with investments. In addition to achieving the required actuarial rate of return, the total return of this portfolio is expected to exceed the return of the calculated model index as provided by the consultant. The model index is defined as a composite of passive indices whose composition is determined each quarter based on the plan's actual allocation mix.

Domestic Equity Performance:

The equity portion of the portfolio is expected to perform at a rate at greater than the Russell 3000 Index and/or in the top 40% of an appropriate broad market equity universe.

International Equity Performance:

The international equity portion of the portfolio is expected to perform at a rate greater than the MSCI All-Country World ex US Index and/or in the top 40% of an appropriate international equity universe.

Fixed Income Performance

The fixed income portion of the portfolio is expected to perform at a rate greater than the Bloomberg/Barclay's Capital Aggregate Index and/or in the top 40% of an appropriate broad market fixed income universe.

While the Trustees acknowledge that market conditions can produce periods where such returns are difficult to achieve, the advisor is expected to contribute to meeting the long term objectives of the plan as well as others set forth in this document.

IV. BROKERAGE

Investment managers shall use their best efforts to ensure that portfolio transactions are placed on a "best execution" basis. Brokerage transactions should not be directed to any firm if in doing so, taking all factors into consideration, the System will incur a disadvantage with respect to the market price of the security. Further, irrespective of any obligations to pay for services engaged by either the investment managers or the Board, only transactions that would normally be made for the System in the absence of such obligations should be executed.

V. PROXY VOTING

Responsibility for the exercise of ownership through proxy solicitation shall rest solely with the investment managers. Guidelines for voting proxies will be listed in individual manager guidelines.

VI. ASSET ALLOCATION

The Board has currently adopted the following asset allocation at market value:

	<u>% allocated</u>	<u>Corresponding Index</u>
Diversified Investments	50.0%	Custom Index
Domestic Equity	28.0%	Russell 3000 Index
International Equity	5.0%	MSCI ACWI ex-US Index
Fixed Income	9.0%	Bloomberg/Barclay's AGGR Index
Real Estate	8.0%	NCREIF ODCE Index

Although cash is not included in the asset allocation of the System, the Board realizes the need to provide liquidity to pay obligations as the come due. Surplus cash flows, additional contributions, and investment manager cash will be utilized to pay obligations of the System and periodic re-balancing of the assets. The System's investment manager(s) shall be kept informed of the liquidity requirements of the System, and to the extent possible, avoid untimely sales of assets which could be detrimental to the performance of the Plan.

VII. MANAGEMENT STRUCTURE

To diversify Plan assets so as to minimize the risk associated with dependence on the success on one enterprise, the Board has decided to utilize a multi-manager team approach to investing plan assets as provided by the Massachusetts PRIM Board (the PRIT Fund), PRIT investment sleeves and outside managers.

Should investment managers will be employed to utilize individual expertise within their assigned area of responsibility. Each manager will be governed by individual investment guidelines. Separate manager guidelines for each investment manager shall serve as addenda to this Policy. Commingled investments will be governed by the guidelines adopted by said Board and reviewed during the contract negotiation process.

The asset management structure at market value is currently as follows:

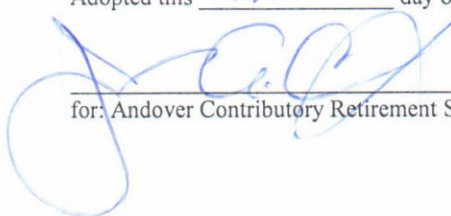
	<u>Target</u>	<u>MINimum</u>	<u>MAXimum</u>
<u>Diversified Investments</u>	<u>50.0%</u>	<u>n/a</u>	<u>100.0%</u>
<i>PRIT Core *</i>	50.0	n/a	100.0
<u>Domestic Equity</u>	<u>28.0%</u>	<u>n/a</u>	<u>40.0%</u>
<i>PRIT Domestic Equity Sleeve *</i>	10.0	n/a	40.0
<i>Rhumbline Passive Mid Cap (S&P400) *</i>	10.0	n/a	12.5
<i>Rhumbline Passive Small Cap (S&P600)*</i>	8.0	n/a	10.0
<u>International Equity</u>	<u>5.0%</u>	<u>n/a</u>	<u>10.0%</u>
<i>PRIT International Equity Sleeve *</i>	2.0	n/a	5.0
<i>PRIT Emerging Markets Sleeve *</i>	3.0	n/a	5.0
<u>Fixed Income</u>	<u>9.0%</u>	<u>n/a</u>	<u>20.0%</u>
<i>PRIT Fixed Income Sleeve *</i>	4.0	n/a	10.0
<i>PRIT Value-Added FI Sleeve *</i>	5.0	n/a	10.0
<u>Real Estate</u>	<u>8.0%</u>	<u>n/a</u>	<u>15.0%</u>
<i>PRIT Real Estate Sleeve</i>	8.0	n/a	15.0

* Denotes commingled investment.

VIII. IMPLEMENTATION

All monies invested for the Plan/System by the investment managers after the adoption of these Investment Guidelines shall conform to this statement.

Adopted this 25th day of January, 2018



 for: Andover Contributory Retirement System