

# **NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY INVESTMENT POLICY FOR RETIREES BENEFIT TRUST**

## **POLICY**

This Investment Policy ("Policy") addresses the methods, procedures, and practices which must be exercised to ensure effective and judicious fiscal and investment management of New Jersey Economic Development Authority ("NJEDA") Retirees Benefit Trust (the "Trust") funds.

This Policy, as amended from time to time, shall be effective August 9, 2018.

## **SCOPE/PURPOSE**

The purpose of this Policy is to achieve the following:

1. Document investment objectives and performance expectations for Trust assets.
2. Establish an appropriate investment strategy for managing all Trust assets, including an investment time horizon, risk tolerance ranges and asset allocation targets to provide sufficient diversification and return over the long-term time horizon of the Trust.
3. Establish investment guidelines to control overall risk and liquidity.
4. Establish periodic performance reporting requirements to monitor investment results and compliance with the Policy
5. Comply with fiduciary, prudence, due diligence and legal requirements for Trust assets.

## **INVESTMENT OBJECTIVES**

The investment objectives of the Trust are as follows:

1. To invest assets of the Trust in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of Trust beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
2. To provide for funding and anticipated withdrawals on a continuing basis for payment of benefits and reasonable expenses of operation of the Trust.
3. To enhance the value of Trust assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.

4. Subject to performance expectations over the long-term, to minimize principal fluctuations over the Time Horizon (as defined below).
5. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objective set forth in this Policy under the section labeled "Performance Expectations".

## **DELEGATION OF AUTHORITY**

The Controller of the NJEDA, is vested with responsibility for managing the Trust's investment program and for implementing this Policy. The Controller may delegate the authority to conduct investment transactions and to manage the investment portfolio to other specifically authorized NJEDA staff members. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

The Controller or his/her designee shall establish procedures and internal controls for the operation of the Trust's investment program, designed to prevent loss due to fraud, error, misrepresentation, and imprudent actions.

The Trust may engage the services of outside investment advisor(s) with respect to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the Trust's financial resources. In implementing this Policy Statement, the Controller may delegate certain functions to:

1. An investment advisor ("Advisor") to assist the Controller in the investment process and to maintain compliance with this Policy. The Advisor may assist the Controller in establishing investment policy objectives and guidelines. The Advisor will adjust asset allocation for the Trust subject to the guidelines and limitations set forth in this Policy. The Advisor will also select investment managers ("Managers") and strategies consistent with its role as a fiduciary for the Trust. The investment vehicles allowed may include mutual funds. The Advisor is also responsible for monitoring and reviewing investment managers; measuring and evaluating performance; and other tasks as deemed appropriate in its role as Advisor for Trust assets. The Advisor may also select investments with discretion to purchase, sell, or hold specific securities, such as Exchange Traded Funds (ETFs), that will be used to meet the Trust's investment objectives. The Advisor shall never take possession of securities, cash or other assets of the Trust, all of which shall be held by the custodian. The Advisor must be registered with the Securities and Exchange Commission (SEC).
2. A custodian selected by the NJEDA to maintain possession of physical securities and records of street name securities owned by the Trust, collect dividend 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.
3. A trustee appointed by the NJEDA, such as a bank trust department, if the Trust does not have its own Trustees, to assume fiduciary responsibility for the administration of Trust assets; provided, however, that if the Controller shall have appointed an investment advisor, then any trustee appointed under this paragraph shall have no authority with respect to selection of investments.

## **PRUDENCE**

The standard of prudence to be used for managing the Trust's investment program is the "prudent investor" standard applicable to a fiduciary, which states that a prudent investor "shall exercise the judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital."

The Trust's investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Trust recognizes that no investment is totally without risk and that its investment activities are a matter of public record. Accordingly, the Trust recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented. An investment should only be sold at a loss after it has been reviewed with the Controller and determined that the sale is in the best interest of the Trust.

All authorized persons acting in accordance with established procedures and exercising due diligence shall be relieved of personal responsibility for any singular security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the Trust governing body and appropriate action is taken to control adverse developments.

## **ETHICS AND CONFLICTS OF INTEREST**

NJEDA employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the Trust's investment program or that could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees involved in the investment process shall disclose to the Controller and the NJEDA Ethics Officer any material financial interest they have in financial institutions that conduct business with the Trust, and they shall subordinate their personal investment transactions to those of the Trust.

## **INVESTMENT GUIDELINES**

Please refer to the "Guidelines for Portfolio Holdings" section in this Policy for details on permitted investments.

Within this section of the Policy, several terms will be used to articulate various investment concepts. The descriptions are meant to be general and depending on the Manager's strategy, may share investments otherwise considered to be in the same asset class. They are:

"Growth Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on capital appreciation. Investments within the

Growth Assets category can include income and risk mitigating characteristics, so long as the predominant investment risk and return characteristic is capital appreciation. Examples of such investments or asset classes are: domestic equities or domestic equity funds.

"Income Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on income generation. Investments within the Income Assets category can include capital appreciation and risk mitigating characteristics, so long as the primary investment risk and return characteristic is income generation.

#### Time Horizon

The Trust's investment objectives are based on a long-term investment horizon ("Time Horizon") of five years or longer. Interim fluctuations should be viewed with appropriate perspective. The Trust has adopted a long-term investment horizon such that the risks and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

#### Liquidity and Diversification

In general, the Trust may hold some cash, cash equivalents, and/or money market funds for near-term Trust benefits and expenses (the "Trust Distributions"). Remaining assets will be invested in longer-term investments and shall be diversified with the intent to minimize the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, governments or industries.

#### Asset Allocation

The Trust believes that to achieve the greatest likelihood of meeting its investment objectives and the best balance between risk and return, assets will be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than the Trust's target rate of return over the long-term, as described in the section titled "Performance Expectations".

<u>Asset Classes</u>	<u>Asset Weightings</u>	
	<u>Range</u>	<u>Target</u>
<b>Growth Assets</b>		
Domestic Equity	10% - 50%	30%
<b>Income Assets</b>		
Fixed Income	50% - 90%	70%
<b>Cash Equivalents</b>	0% - 20%	0%

The Advisor and each Manager will be evaluated against their peers on the performance of the total funds under their direct management.

### Rebalancing Philosophy

The asset allocation range established by this Policy represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside Policy ranges. When allocations breach the specified ranges, the Advisor will work with the Controller to rebalance the assets within the specified ranges. The Advisor may also rebalance based on market conditions.

### Risk Tolerance

Subject to investment objectives and performance expectations, the Trust will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon.

### Performance Expectations

Over the long-term, five years or longer, the performance objective for the Trust will be to achieve an average total annual rate of return that is equal to or greater than the Trust's actuarial discount rate. Additionally, it is expected that the annual rate of return on Trust assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual Trust investments and blended benchmark comparisons for the Trust in its entirety.

### **Selection of Investment Managers**

The Advisor shall prudently select appropriate Managers to invest the assets of the Trust. Managers must meet the following criteria:

- The Manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS®), Securities & Exchange Commission ("SEC"), Financial Industry Regulatory Agency ("FINRA") or industry recognized standards, as appropriate.
- The Manager must provide detailed information on the history of the firm, key personnel, support personnel, key clients, and fee schedule. This information can be a copy of a recent Request for Proposal ("RFP") completed by the Manager or regulatory disclosure.
- The Manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- The investment professionals making the investment decisions must have a minimum of three (3) years of experience managing similar strategies either at their current firm or at previous firms.
- Where other than common funds such as mutual funds are utilized, the Manager must confirm receipt, understanding and adherence to this Policy and any investment specific policies by signing a consent form provided to the Manager prior to investment of Trust assets.

## Guidelines for Portfolio Holdings

### Direct Investments by Advisor

Every effort shall be made, to the extent practical, to select investments that have investment objectives and policies that are consistent with this Policy Statement (as outlined in the following sub-sections of the “Guidelines for Portfolio Holdings”). However, given the nature of the investments, it is recognized that there may be deviations between this Policy and the objectives of these investments.

All investments must be made in publicly traded funds.

### Limitations on Managers’ Portfolios

#### EQUITIES

No more than the greater of 5% or weighting in the relevant index (Russell 3000 Index for U.S. issues) of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and no more than the greater of 30% or weighting in the relevant index of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

Domestic Equities. Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Manager.

#### FIXED INCOME

Fixed Income Securities, in the form of mutual funds and/or individual securities of the sectors described below. The weighted average duration of the Trust’s fixed income portfolio shall not exceed 10 years.

- United States Government Securities
  - Treasury bills, Treasury notes, Treasury bonds, and Treasury STRIPS.
    - Sector limit: up to 100% of NJEDA’s portfolio may be invested in this sector.
- Government Agency Securities
  - Debentures, discount notes, callable securities, step-up securities and stripped principal or coupons.
    - Sector limit: shall not exceed 30% of the portfolio
    - Issuer limit: no more than 10% of the portfolio may be invested in the obligations of any one issuer
- Corporate Notes and Bonds and Negotiable Bank Deposit Obligations:
  - Instruments including corporate notes and negotiable bank deposits issued by any corporation or bank organized and operating within the United States.
    - Issuer limit: no more than 5% of the portfolio may be invested in the obligations of any one issuer
- Commercial Paper:

- Issued by domestic corporations.
  - Issuer limit: no more than 5% of the portfolio may be invested in the obligations of any one issuer
  - Maturity limit: with an original maturity of 270 days or less

**The aggregate investment in corporate debt, commercial paper and negotiable CDs shall not exceed 50% of NJEDA's investment portfolio. The investment in commercial paper shall not exceed 10% of NJEDA's investment portfolio.**

- Certificates of Deposit and Bank Deposit Notes:
  - In a Public Depository as defined in New Jersey Statutes C.17:9-41.
- Taxable and Tax-Exempt Municipal Bonds:
  - Issued by any state of the United States or any political subdivision, institution, department, agency, instrumentality, or authority of any state. General obligation bonds, revenue bonds, or other debt securities issued by or guaranteed wholly, partially or morally by the State of New Jersey, or its departments.
    - Sector limit: shall not exceed 10% of the portfolio
    - Issuer limit: no more than 5% of the portfolio may be invested in the obligations of any one issuer
- Money Market Mutual Funds
  - registered under the Investment Company Act of 1940 that: 1) are "no-load" (no commission or fee shall be charged on purchases or sales of shares); 2) have a constant net asset value of \$1.00 per share; 3) limit assets of the fund to those authorized in this Investment Policy; and 4) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940
- Local Government Investment Pools
  - Are "no-load" (no commission or fee shall be charged on purchases or sales of shares).
  - Have a constant net asset value of \$1.00 per share.
  - Limit assets of the pool to those securities authorized in this Policy.
  - Have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940,
- Deposits with the State of New Jersey Cash Management Fund
  - Established pursuant to section 1 of P.L.1977, c.281 (C.52:18A-90.4).

## CASH EQUIVALENTS

Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

## Prohibited Investments

Except for purchase within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, or private placements (with the exception of Rule 144A securities). Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of real estate, natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited. Additionally, investment in below investment grade debt,

federal agency mortgage-backed securities, asset-backed securities, foreign bonds, or mutual funds dedicated to investment in real estate investment trusts are prohibited.

## **SAFEKEEPING AND CUSTODY**

All assets of the Trust shall be held by a custodian approved by the Controller for safekeeping of Trust assets. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the Trust Agreement. Investments of the Trust not held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts. Investments and portfolio securities may not be loaned.

### **Control Procedures**

#### Review of Investment Objectives

The Advisor shall review annually and report to the Controller the appropriateness of this Policy for achieving the Trust's stated objectives. It is not expected that this Policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in this Policy.

#### Review of Investment Performance

The Advisor shall report on a quarterly basis to the Controller to review the investment performance of the Trust. In addition, the Advisor will be responsible for keeping the Controller advised of any material change in investment strategy, Managers, and other pertinent information potentially affecting performance of the Trust.

The Advisor shall compare the investment results on a quarterly basis to appropriate peer universe benchmarks, as well as market indices in both equity and fixed income markets. The Russell 3000 Index will be used to benchmark the U.S. equities portfolio; the ICE Bank of America Merrill Lynch 1-10 year US Corporate and Government Index will be used to benchmark the fixed income portfolio. These benchmarks will be weighted based on the current investment strategy

#### Voting of Proxies

The Controller recognizes that proxies are a significant and valuable tool in corporate governance. The voting rights of individual stocks held in separate accounts or collective, common, or pooled funds will be exercised by the investment managers in accordance with their own proxy voting policies. The voting rights of funds will be exercised by the Advisor.